Speaker 1 (00:00):

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Oscar Stephens (00:15):

Hello, and welcome to another installment of Greenberg Traurig's Big Law Redefined podcast. I'm your host, Oscar Stevens, [inaudible 00:00:23] shareholder in GT's Latin America Group in New York.

(00:27):

Until the beginning of 2022, there was a sense that a new unicorn was coming out of Latin America every week. New companies in FinTech and technology, among others, were perceived as the new darlings, having already attracted initial funding from multiple seed investors, and having gone through few rounds of funding with major players in the VC space in California, Miami, Boston, and New York.

(00:52):

Today, it seems like there is a pause in the market, and it has become harder for up and coming Latin American companies seeking financing from VCs in the United States. To discuss this and other topics, our guests today are Ivan Vera, founder and president of Innspiral. Ivan is an expert in venture capital who has collaborated with directors and senior executives from over a 100 large companies, from Chile and Latin America, and the establishment and development of corporate innovation capabilities.

(01:24):

In 2012, he founded Magical, a VC fund manager and digital startup accelerator, through which he has mentored and invested VC capital and founders of over 70 technology startups. Since 2018, he has been developing Turingo, a wide level software as a service for accelerating the evolution of various thematic and territorial innovation ecosystems. Welcome Ivan.

Ivan Vera (01:50):

Hi, Oscar. Thank you for the invitation, and glad to be here with you.

Oscar Stephens (01:56):

Also, GT shareholder, Arnaldo Rego join us from Miami. Arnaldo advises startup early stage and well-established technology companies in a broad range of matters such as mergers and acquisitions, private equity financing, venture capital investment, joint ventures and partnership structuring. Arnaldo has worked in Sao Paolo, New York and Miami and is both fluent in Spanish and Portuguese. Welcome, Arnaldo

Arnaldo Rego (02:22):

Hi, Oscar. Thank you so much. And Ivan, it's a pleasure to meet you, and it's an honor to participate in such a great podcast.

Oscar Stephens (02:32):

So, let's start with Ivan. Over the last year and a half, we have had a period with high inflation and historically high interest rates. This has resulted in Latin America venture capital funding at 600 million the first quarter of 2023, a 54% drop compared to the same period in 2022, and following below the one billion mark for the first time since first quarter of 2020, according to CB Insights. Has the music completely stopped in the VC space? Or this is just a pause from the activity we saw over the last two to three years? Ivan, your thoughts?

Ivan Vera ([03:10]):

Well, Oscar, I think we are just in a VC winter. It's a period, after winter we will see some blossoming. And I think this is a period of purification. That I really think that during the last three years after pandemia, we saw a spot of sweet money, very easy money, that was investing in many, many startups I think they shouldn't have invested in. And so we will see many startups dying and not surviving this winter, but those that are really creating value for their customers, they will survive. And they are transforming themselves, because you know that startups, of course, like any other company, need money to pay to their employees, not money for the investors in the first years, but they need to pay to their employees every month.

([04:41]):

But the startups are developing certain technologies, certain innovations, and certain business models, and it takes time to get to the market fit, to make a perfect fit with the market with certain industries and customers. So it takes time and it takes money, so they need investors for the first months or even years. No? But this VC winter is pushing them to get money from their clients and to monetize their business models, and this push, or this lack of money from investors is a very good news for technology, because it will prove that the real value is coming from the startups that are really fast in connecting the markets, and getting to the product market fit.

([05:49]):

So it's just a period, it will take some months, perhaps a couple of years, but technology, dear Oscar, is unstoppable. Unstoppable.

Oscar Stephens ([06:03]):

So Ivan, just as a follow-up on your point, so is your perception that valuations going forward, or at this time, are really based upon actual results of company, as you said, companies that are actually making money, as opposed to an idea, or an expectation, or a potential, and those valuations and those companies are probably going to be measured, well, I will say in a much stringent, or less optimistic fashion. as they were when there was a time of easy money.

Ivan Vera ([06:40]):

I think we are getting a new balance on the promise of huge growth, and the reality of having your feet right on the ground. And this new balance, it's a very good news.

Arnaldo Rego ([07:01]):

I actually have a question for Ivan, because we saw a lot of activity, and I guess this leads into the next question a little bit, but I wanted to get your take, we've seen a lot of activity before, from 2020 to the end of 2022, where we saw a lot of VC activity, a lot of investment. Do you attribute that, because now, as you've mentioned, investors are being much more discerning and really putting the issuer's feet to the fire when it comes to agreeing to invest. And what would you attribute the less stringent, less conservative approach that was taken by VC funds investing during the 2020 to 2022 period?

([07:58]):

Was it more related to the IPO markets are booming, and so, for investing whatever, we're going to get some sort of return, so let's just do it before someone else jumps the line in front of us? Or do you think you attribute that to something else? Was it more market conditions, or something different?

Ivan Vera (08:17):

No. I think it was market conditions, but with certainly more than one origin. No? I think definitely the money was very available. It was very cheap money to invest. And the second situation was the pandemia because you know that I've been working for 34 years in innovation with large companies, and perhaps you won't believe it, but I knew about Zoom in March, 2020. And Zoom was created in 2011, so nine years before. But the situation obliged us to adopt digital communication ways to keep on working, because we were in our houses working from home, and we had to create new tools to keep on working, and keep on making money. No? And I think the pandemic, that was, I would say, a horrible situation for all the world. Many, many people died from pandemic, but pandemic left us a quite nice gift, and it was digital mindset.

(10:00):

So when this digital mindset emerged during the pandemic, it was a boom for technology, and it was a huge pusher of VC industry. You know that in 2020, the world invested 300,000 million dollars, so 300 billions would be for me. I don't know if for you it's the same. 300 billions. And in 2021 it came up to 620 billions, that's twice as much. And was impressive. And Chile, we were in 160 millions in 2020, and in 2021 it was 1.02 billion. So six times, not twice, six times, and it was a boom.

(11:10):

So after the boom, we used to return to normality, but this new normality, it was something like 30% worldwide, 30% less in 2022. In Chile was 0.6% less that in 2022. So I am very optimistic about the future, but not for the next five weeks, but for the next five years. And I think you have to be prepared for this crisis, and have a strong vision about the future.

(12:05):

People used to underscore, or underestimate, what they can create in 10 years, and they used to overestimate what they can create in one year. So, I think as Jack Welch, I don't know if you remember that guy, but was a rockstar in the 20th century, the CEO of General Electric, used to say, "You have to go around in management with a long-term vision, but with short-term results." But don't miss and don't quit for your vision. And it's very important, because your convictions will convince investors.

Oscar Stephens (12:57):

So, Arnaldo, since you're based in Miami, we've seen that over the last two years and a little more perhaps, Miami's been at the center of tremendous growth in innovation, new capital, and the expansion of Latin American companies into the US, and the hub from which US capital is deployed into Latin America. What are you seeing today in terms of inbound and outbound activity in the VC sector out of Miami?

Arnaldo Rego (13:28):

No, what I've been seeing it's similar to what Ivan mentioned. In inbound, as we were discussing, the period from 2020 to 2022, venture capital benefited tremendously from a very bullish US stock market. And we had record setting IPO and [inaudible 00:13:52] transactions that all those broke all records during that period, as we were discussing before. And as we had mentioned, a booming capital markets with rich valuations favored a lot of influx of venture capital investments into the US from Latin America, particularly into the industries that, we briefly touched upon, technology clear. Also green energy, I saw a lot of VC investment in green energy type investments here in the US from foreign investors.

(14:35):

And before, my experience was that Latin America and investors traditionally have been more focused on M&A opportunities and real estate investments, but VC investments became much more attractive as investors wanted to get in earlier into these companies, and take advantage of potentially huge gains in the future, when these targets that they're investing in would go public.

(15:01):

However, one thing that's very important to keep in mind, and what I found that a lot of investors are having issues with now, is the fact that these investments are highly liquid. You have a lot of restrictions on transferability, and it really can affect the investment horizon that a lot of these funds that invest in these investments have, because they're investing in it thinking of a very bullish market, but once the market starts to go bad, and there's much less IPO activity, we think they're kind of stuck with those investments for a longer period of time than anticipated, and then oftentimes they try to find some sort of liquidity exit, but it's very difficult in these times. Which actually, I believe, influences new investments because they have these investments in the book. So now they're like, "Okay, well, let's hold back because we haven't materialized. We haven't realized on these existing investments."

(15:54):

What I've seen is that the negative impact that we've seen in the market over the last six to 12 months, due to some of the factors we talked about being high inflation, also the Russia, Ukraine conflict, and one thing we did mention before was the increase in the cost of capital with higher interest rates, has been very detrimental to the capital markets. And that has lowered valuations and impacted IPO activities, which in turn really restrict exit potentials for these investments.

(16:35):

Certain of the Latin American investors that I've worked with in the past who were very active between 2020 and 2022, have stopped investing in the US, because they're looking for liquidity to exit out of their current investments, and others have found more investment opportunities actually within Latin America, and have shifted their focus a little bit. And some of this, I think, has to do with also exchange rate devaluations. A lot of more investment opportunities have become much more, I would say, much more viable or much more potentially lucrative within Latin America, than outside of Latin America, for someone who's already in Latin America, and the cost of investment is less. So I think all of these things have contributed to a slowdown of inbound investment.

(17:25):

As for outbound investment from the US into Latin America, I know the numbers show a steep decline, and have shown a steep decline in Q1, but I'm still seeing some activity due to the slowdown in the US venture capital markets. The VC investors still generally have a lot of dry powder to invest, and given the issues and the slowdown in the US markets, which we've been discussing, I've seen VC investors look at opportunities in Latin America where they normally would not. Not so much in Q1, but actually starting in Q2, I have been involved in a few new investment deals where US funds are investing in tech companies, primarily FinTech in Latin America.

(18:16):

However, one thing that has been very interesting is that I think because of the additional cost of funding, we're not seeing a lot of the jumbo size, really large rounds of a 100 million plus investment. Most of what I've been seeing in Q1, and primarily Q2, has been more smaller raises in the 15 to 45 million dollar range. And as I mentioned, although Q1 we saw a steep decline, I'm actually curious to see what the numbers are going to show in quarter two, because I've seen increased activity in Q2. Nothing substantial, but much better than Q1, so I'm actually very curious to see how the numbers come out with regards to these investments.

Ivan Vera (19:03):

And you know that what I'm seeing is that the VC winter is much colder in the late investment stages, than in the early investment stages. And you know that in the last five months, we have seen a tremendous thrill on artificial intelligence. And you know that I've been investing in startups that are pushing digital technology and AI into mining operations. And this is huge, because mining in Chile, you know the last year, Chile exported 97 billion dollars, 97, and from that 57 billion dollars, 60%, was mining. 43 billion dollars was copper mining.

(20:00):

But lithium and nitrates and iodine, and so on, are increasing their prices, and if you can come in to the operations of mining industry with AI, and be successful in the pilot projects, keeping a better record on performance of the mining operation, safety, productivity, and sustainability, this is huge money.

(20:37):

But it's not very clear from the United States, because United States is not, I would say, a mining country. There are mines in the United States for certain, in Canada also. But Australia for example, or South Africa, or Chile, we are mining countries and it's very important to use digital technology to have a better performance on brick and mortar industries.

Speaker 1 (21:13):

You've been listening to episode one. Tune in for episode two to finish the podcast.