AMEXCAP®

MEXICO AS AN INVESTMENT OPPORTUNITY

A Strategic Destination

INDEX

02 About AMEXCAP

04 Why invest in Mexico?

05 Mexico’s Internal Strengths

08 Recent Developments in the International Stage

11 The Mexican PE and VC Industry

12 Huge Opportunities for Future Growth of the Industry

ABOUT AMEXCAP

The Mexican Association of Private Equity and Venture Capital Funds (AMEXCAP) is a non-profit association whose mission is to promote the development of the PE industry in Mexico. The Association currently represents more than 120 PE, VC, Real Estate, Infrastructure and Energy funds that actively invest in Mexico, and more than 65 advisory services institutions.

“The private equity industry in Mexico has raised a sum of more than US $61 billion in the last twenty years.”

// MEXICO AT A GLANCE

2ND
Largest economy in LATAM

15TH
Largest economy in the world

9TH
Place among exporters worldwide in 2019

1.26 Trillion USD in GDP 2019

8.5 Days to open a business

127M Population

48 In WEF's 2019 Competitiveness Index

13 Free Trade Agreements with 50 countries

33 Bilateral Investment Treaties

// MEXICO MACROECONOMIC INDICATORS

Inflation: despite the pandemic, Mexico's inflation rate was one of the most stable worldwide. In 2020, the figure was 3.15%

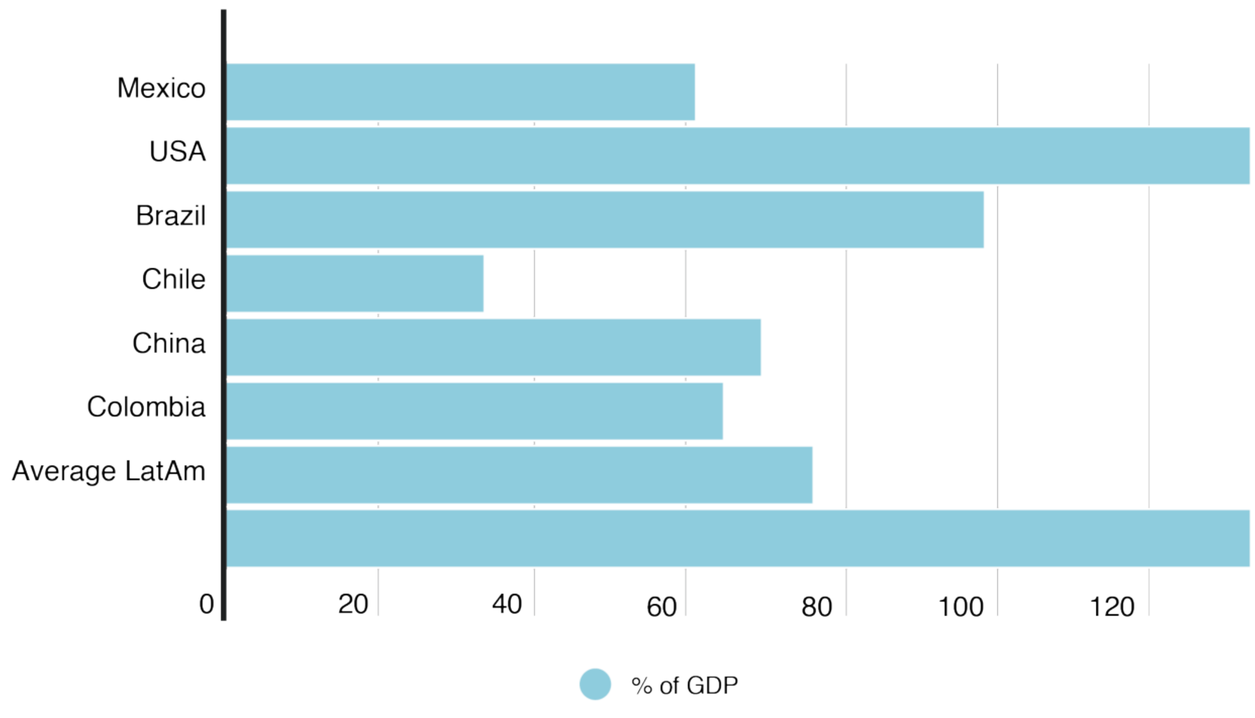
Currency performance: the Mexican peso has appreciated against the US dollar. Also, it has outperformed all of its LatAm peers, most of its non-LatAm EM peers, and many DM currencies.

Balance of trade (BOT): In 2020, Mexico's BOT showed a trade surplus of $34,476.4 Million USD.

Fiscal deficit: in 2020 the primary balance (the difference between income and expenses without considering the payment of interest on the public debt) presented a surplus of 31.7 billion pesos. As a percentage of GDP, the primary surplus was 0.1%.

External debt: during and after the pandemic, Mexico's external debt kept stable compared with other countries. As of December 2020, the net debt amounted to 52.2% of the GDP.

Mexico's debt comparison with other countries. 2021 perspective, IMF



Source: International Monetary Fund (IMF)

WHY INVEST IN MEXICO?

Mexico is more than its stunning landscapes, excellent cuisine, and vibrant culture; it is a great investment destination.

Amid these turbulent times, there are a number of reasons that are worth considering when it comes to doing business and diversifying investment portfolios in Mexico this year.

These can be grouped into the following categories:

A. Mexico’s internal strengths

B. Recent developments on the international stage

A. MEXICO'S INTERNAL STRENGHTS

In 1986, Mexico signed the General Agreement on Tariffs and Trade (GATT), and since then it has signed several Free Trade Agreements with 50 countries. This has helped transform Mexico's economy to become one of the world's top export powers of today.

1

Access to the largest markets in the world

Mexico shares its northern border with the United States, the world's largest market, which extends for a length of 3,141 kilometers (1,952 mi). This proximity, along with the Free Trade Agreement, help explain why **Mexico sells to the US more than Japan, Germany and South Korea combined[1],** which amounted to $361 Billion USD in 2019.

2

Mexico is one of the largest economies (and with highest potential)

Mexico's economy is placed 15th in the world, and 2nd largest in LATAM just after Brazil.

According to certain projections[2], **Mexico is set to become one of the 7 largest global economies by 2050, bigger than Germany and the UK,** thanks to its strong manufacturing industry and extensive foreign trade.

[1] https://oec.world/en/profile/country/usa
[2] https://www.pwc.com/world2050

3

Open economy

Mexico shines when it comes to international trade. It has signed 13 Free Trade Agreements covering 50 countries, which gives it access to more than 1 billion consumers throughout the world. In that sense, **Mexico is an ideal export platform to access 60% of the world's GDP.**

Nowadays, **Mexico exports more than all other LATAM combined,** including Brazil. In 2019, Mexico sold $480 Billion USD worth of goods to the world, making it the 9th top exporter worldwide.

4

Modern economy

Over the last 15 years, Mexico has further developed its manufacturing base and as a result has become a leader in many different sectors, including tech.

- In 2018, **Mexico became the fourth largest exporter of vehicles** in the world in terms of value, just behind Germany, and Japan, and very close behind the United States.

- Mexico exports more than 78 USD billion in high-tech electronics to the world, including television screens, computers and telecommunications equipment, among others.

- Mexico is the **largest exporter of two-door refrigerators with freezers** in the world, the fifth largest exporter of computers, and the tenth largest exporter of mobile phones.

- In the medical device industry, Mexico is the largest exporter in Latin America and the largest supplier to the United States.

5

Top-tier human resources

Mexico has a highly trained and specialized workforce and boasts the 8th best record for engineers graduating per year domestically.[3]

6

Sound macroeconomic fundamentals

Mexico's macroeconomic fundamentals are solid. In 2019, domestic inflation was less than 3%, and less than 3.15% in 2020. Also, the economic growth in the past 10 years has been 2.1% on average.

The Governor (Alejandro Díaz de León) of the well reputed Central Bank, an institution that oversees all of the macroeconomic variables of the country and whose independent body gives security to investors and the economy in general, was just recently awarded "Governor of the year" by Central Banking.[4]

7

Infrastructure

Mexico is privileged with its geographical location and modern infrastructure. According to the WEF, Mexico is among the 30% of countries with the best transport infrastructure, with 172,000 km of roads, 27,000 km of railways, 117 ports, and 76 airports (64 international and 12 national).[5]

[3] https://www.embibe.com/exams/top-10-countries-that-produce-the-most-engineers/
[4] https://www.centralbanking.com/awards/7804566/governor-of-the-year-alejandro-diaz-de-leon
[5] https://www.proyectosmexico.gob.mx/en/why_mexican_infrastructure/attractive-destination-for-investment-in-infrastructure/ds_rankings-of-mexico-in-the-global-competitiveness-report/

B. RECENT DEVELOPMENTS IN THE INTERNATIONAL STAGE

There are at least three external reasons why it is wise to consider Mexico as a great investment destination in 2021, especially when compared with other emerging markets.

The USMCA

The US-Mexico-Canada Trade Agreement (USMCA), the replacement to the North American Free Trade Agreement (NAFTA), went into effect on July 1st, 2020. With this, the three countries are bringing their economic relations to the 21st Century.

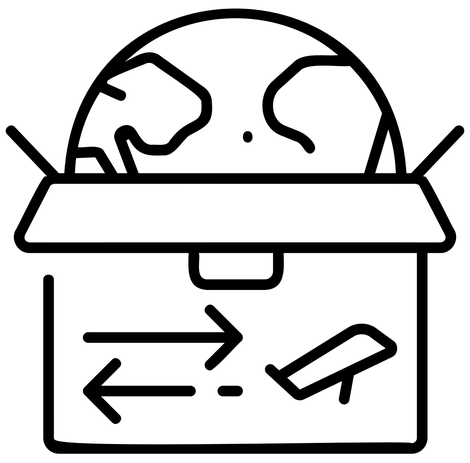
The FTA now includes additional chapters that regulate trade in services (trade in goods was already tariff-free almost entirely) and other relevant trade disciplines, such as intellectual property.

The new chapter on digital trade contains the strongest provisions of any international agreement, supporting internet-enabled small businesses and e-commerce exports. For example, it prohibits customs duties on digital products distributed electronically (e-books, videos, music, software, games, etc.).[6]

[6] https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/fact-sheets/modernizing

USA-China competition

The technological and commercial war between the United States and China has opened a window of opportunity for Mexico because it is driving and facilitating both the relocation and attraction of industries and powering the growth of existing industries on Mexico's soil. Goods that used to come from China can now be provided by Mexico. This policy towards China, started by the Trump's administration, is set to continue during the Biden presidency.



In Mexico there are great opportunities to be discovered

and several big, global players are already taking advantage of the myriad of opportunities that Mexico presents.

Reshoring, nearshoring and Covid-19

According to UNCTAD[7], Global Value Chains are changing to become even more regional and this will be accelerated due to the Covid-19 pandemic. This is where Mexico's strategic location plays a key role.

Chinese companies are seeking to increase the quantity of automotive parts they make in Mexico. Auto parts manufacturers that have already established operations here are:

- Minth, which supplies Nissan, Ford, Honda, Mazda, Audi, Fiat Chrysler and General Motors.
- Hangzhou XZB Tech, which in 2019 opened a new factory in Nuevo León.
- Minghua started operations in San Luis Potosí, a supplier of a range of parts to Audi, Ford and General Motors .

Impro Precision, a Hong Kong-based manufacturer, announced in late 2020 that it is building a North American production based in the city of San Luis Potosí in central Mexico. Also, Taiwan-based electronics manufacturers Foxconn and Pegatron are among companies eyeing new factories in Mexico.

Recent investments have been announced in multiple sectors, such as the automotive, pharmaceutical, and aerospace.

BMW – USD 1 billion

Toyota – USD 600 M

AB-InBev – USD 700 M

IKEA – USD 500 M

Hisense – USD 260 M

[7] https://unctad.org/news/how-covid-19-changing-global-value-chains

THE MEXICAN PE AND VC INDUSTRY

- In the last 20 years, the accumulated committed capital has reached more than USD **$63.5 BN.**

- That represents a compound **annual growth rate of 15.6%,** with a total of 605 funds that have fundraised.

- More than **$41.6 billion** (66% of the accumulated capital) **has already been invested.**

- In 2020 at least USD $1.3 Billion were raised, from which 98% belonged to Growth & LBO, and I&E.

- There are about 465 investment funds operating in Mexico, managed by 274 GPs (62% of them are Mexican).

- Startups with growth potential in the country raised USD $1.3 Billion per year. This figure is important because it signals the tremendous opportunity of the Mexican ecosystem.

HUGE OPPORTUNITIES FOR FUTURE GROWTH OF THE INDUSTRY

The industry has reached a good level of maturity: from 297 GP's that have operated in Mexico, 113 GPs have raised more than one investment vehicle (over a third of GPs), and from those who have a fund operating (274 GP's), 92 GP's have more than one fund.

The ongoing creation of a broad base of early-stage companies to receive financing from late-stage funds.

An increasing base of potential medium-sized companies with broad financing needs.

Implementation of Best Practices in management and standard businesses that improve the performance of a company boosting its competitiveness within the economy.

Remarkable position for Mexico to take advantage of the geopolitical rift. Noting that Mexico is a manufacturer leader and top exporter, it has a strategic geographic location to produce for the USA, China, and Europe.

AMEXCAP®

WWW.AMEXCAP.COM

Av. Insurgentes Sur 863, 1, Nápoles, 03810 Ciudad de México. Tel. 01 55 5083 5090