

## Mexican IPO market catching up

Activity in the Mexican IPO market is catching up. This is good news for local markets, as IPO's tend to broaden the financial market landscape due to its implications. Local Private Equity players are favored by this development.

On May 1<sup>st</sup>, 2013 we mulled over the opportunities in the Mexican Private Equity space (see Thinking Man's Approach #6). One of the main points of attraction for investing in Mexican PE opportunities was the impact that local pensions funds have on them, as a source of inelastic demand for the space. New developments in the local markets are giving a further positive backdrop for the space. A renewed interest in the Mexican IPO market has surfaced in the last couple of years. Not only is this a function of improvements in the Mexican economy, which has attracted much foreign interest, but also as a result of changes in the investment rules for local pension funds (Afores). These changes are very important, for they allow the Afores to allocate exposure to a more diversified pool of investments, of which IPO's are a part of. The Mexican financial services industry is making up for lost time. Mexico's pension funds play a crucial role in today's Mexican financial landscape. They manage nearly \$160 billion in assets, a figure that is expected to double over the next six years, according to the government's pension fund regulator.

Mexico's stock market is still relatively small compared to Brazil's. The Mexican stock market is worth just about 46% of gross domestic product, compared with about 150% in the case of Brazil. Nonetheless the IPO market is picking up dramatically, particularly in the last couple of years. Chart 1 on next page shows how the IPO market in Mexico has recovered from the 2007-2011 issuance dry patch. It also shows the relative size of its IPO market when compared to that of a well developed market (the USA). To date, the Mexican IPO market has experienced a +13.2% increase from the 2012 calendar year and it stands at \$10.3bn, compared to \$16.9bn of the USA.

This is positive news not only for the local financial markets. Participants such as private equity funds are celebrating these developments and taking advantage of the opportunity. Just as an example, Evercore Mexico (one of Mexico's premier Private Equity firms) just helped float a simultaneous IPO in Mexico and in the USA for Volaris (Concesionaria Vuela Compañía de Aviación, S.A. de C.V., operates as Volaris. Volaris is a Mexican low-cost airline and the country's second largest airline after Aeroméxico, with a market share of around 13-14% of domestic traffic).

## The Thinking Man's Approach



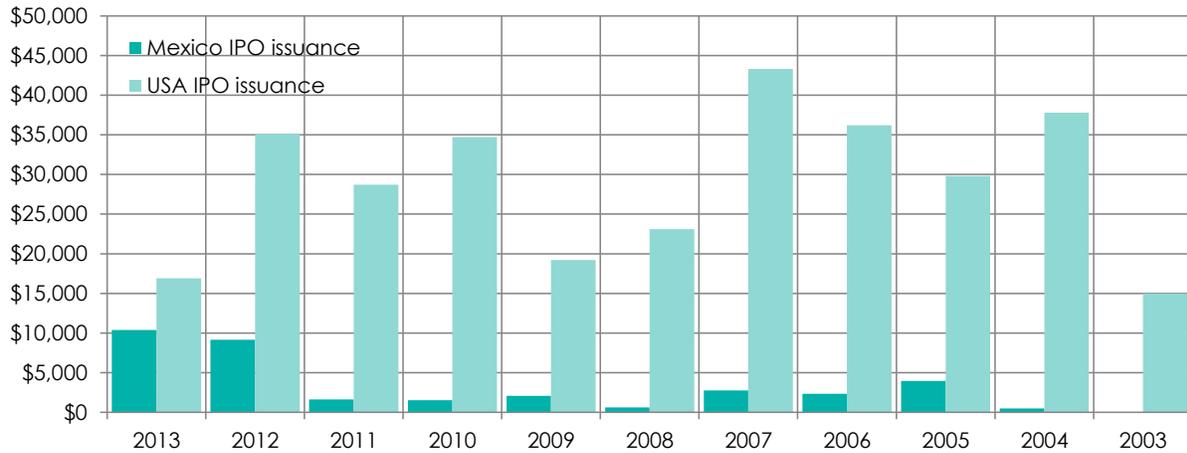
October 2013 | Series #13  
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The IPO market in Mexico has historically been very inactive. Nonetheless in recent years there has been a pick up in activity. This is important as it represents a very significant exit strategy alternative for the booming Private Equity market. Going public is a monumental decision for any company. It forever changes how a company goes about doing business. A public company has access to more, and often deeper, sources of capital than a private company. This development has important implications, particularly for Private Equity local funds, as IPO's represent a logical exit strategy for this type of pooled investment vehicles, which traditionally were dependant on a very large private local deal market as ways of exit strategy.

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Chart 1. IPO issuance in the Mexico and the USA (in USD\$ million).



Source: Banamex, SEC filings

The implications and impact of the local pension funds being able to participate through more diverse financial alternatives in the local market is extremely positive and important as it is a natural source for demand. Earlier in the year we spoke about how we thought that there were attractive entry multiples and a liquid equity market that would make IPOs a realistic exit. The latest trend in the IPO market seems to be in line with our initial thoughts. Whereas gyrations in the global financial markets will continue to post short term challenges and sometimes even make thesis be put to question, we believe that the Mexican financials markets are catching up - and fast - to the ways of “developed” financial markets. Mexico, seems to be turning the corner. It has become one of the darlings within the Emerging Markets spectrum, in a time when selectiveness within the asset type is of utmost importance and where opportunities are still to be found.



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