M&A AND VENTURE CAPITAL
IN URUGUAY

JULY 2024

Uruguay XXI
INVESTMENT, EXPORT AND COUNTRY BRAND PROMOTION AGENCY

Uruguay XXI
INVESTMENT, EXPORT AND COUNTRY BRAND PROMOTION AGENCY

CONTENT

EXECUTIVE SUMMARY

2023 was a very challenging year for merging and acquisitions activities both at a global and a regional level. Compared to 2022, the pace of transactions was reduced, due to the global economic slowdown, high levels of inflation and interest rates, among other factors. Based on LAVCA data, in 2023 the invested capital and the number of agreements for mergers and acquisitions decreased in Latin America.

Even though Uruguay is no stranger to that trend, in 2023 the number of operations remained constant, compared to last year. In fact, 20 M&A transactions were recorded, of which 16 corresponded to the trade and services hub platform, which includes global services, fintech, technology and trade-related services companies[1]. Moreover, there were some operations in the agro-industrial sector. The main acquirers were American, Mexican, Brazilian and Argentinean companies.

The outlook for 2024 is favorable, with an expected increase in the number of transactions in the country. The technology and mass consumption sectors have shown the most dynamism in recent years.

Uruguay will continue to be a reliable, stable, and sustainable option for both foreign and local investors. In fact, according to the latest Foreign Investors' Survey (2023), 84% of foreign investors are satisfied or very satisfied with the business climate in Uruguay. Economic, political, and social stability, legal security, tax incentives, currency exchange freedom, and the ease for the repatriation of profits are the main reasons why they invest in Uruguay[2].

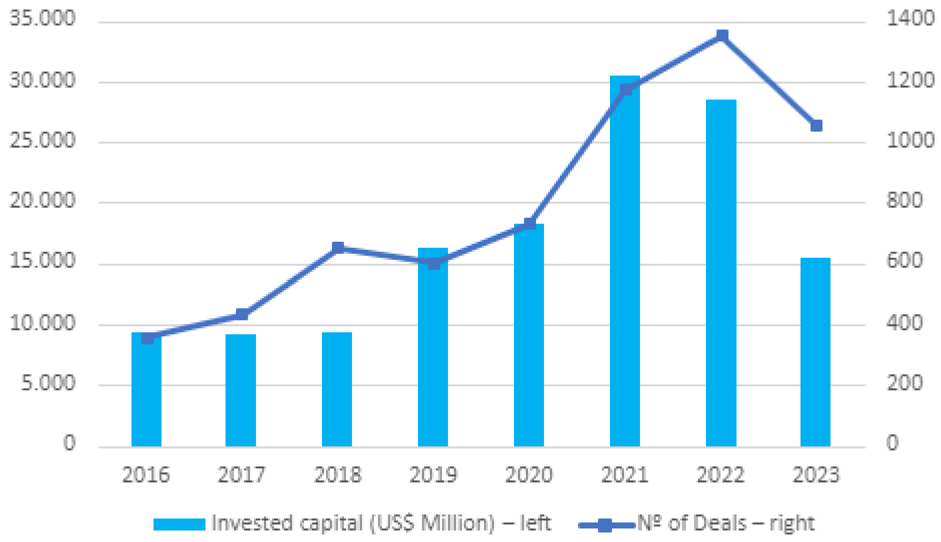
[1] Uruguay XXI classifies foreign investments according to the business model or platform that the company develops in Uruguay. Four platforms were defined: global services and logistics, which are grouped under the concept of trade and services hub, logistics, industrial production, agricultural production and others, and domestic market. For more information, please refer to the Announcements and Investment Opportunities Report.
[2] Please, refer to: Third edition of the Foreign Investors' Survey

M&A IN LATIN AMERICA

Foreign Direct Investment (FDI) is defined as the expansion of a company into another country. The most common forms of FDI are either through the development of an operation from scratch (greenfield investment) or through mergers and acquisitions (M&A). This chapter examines M&A transactions in Latin America and in Uruguay. These transactions consist of various types of capital flows: they can involve foreign companies investing in businesses in Uruguay, usually in the same sector or in a different sector where they add value through acquisition or investment. They can also be private equity (PE) funds investing in mature companies or venture capital (VC) funds investing in startups.

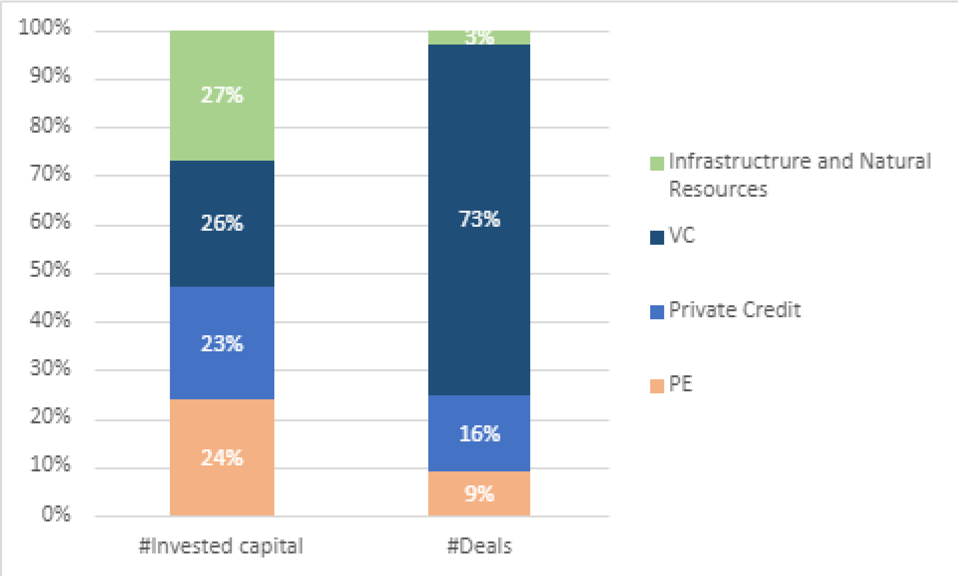
Based on information gathered by LAVCA, in 2023 it was possible to observe a decline in both invested capital and the number of deals, dropping from US$ 28.5 billion to US$ 15.6 billion and from 1424 to 1056 deals in 2023. This highlights a return to pre-pandemic levels after two exceptional years, during which investment in the region approached US$ 30 billion.

Graph N°1
Private equity investment in Latin America



Source: LAVCA (2024).

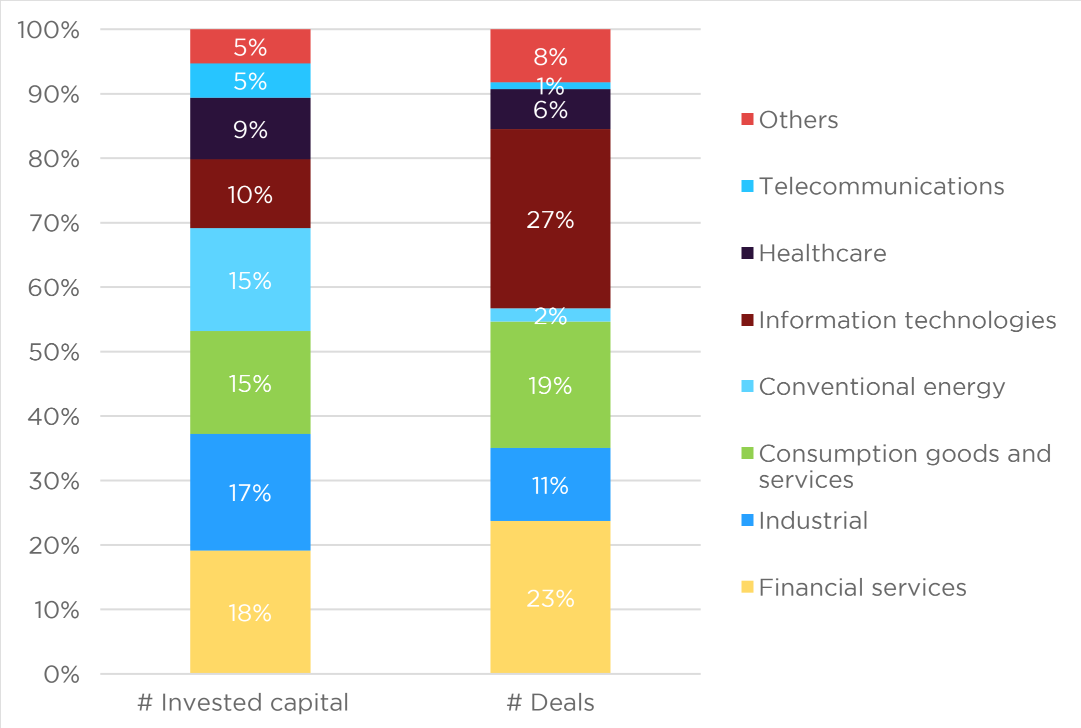
Graph N°2
Private equity investment in Latin America by asset type (2023)



Source: LAVCA (2024).

VC deals represented 73% of the total closed in 2023 and accounted for 26% of the total transaction value, while private equity (PE) investments in the region accounted for 9% of the number of deals and 24% of the total value. Private credits continued to gain relevance, becoming a significant alternative that reached 23% of the capital invested.

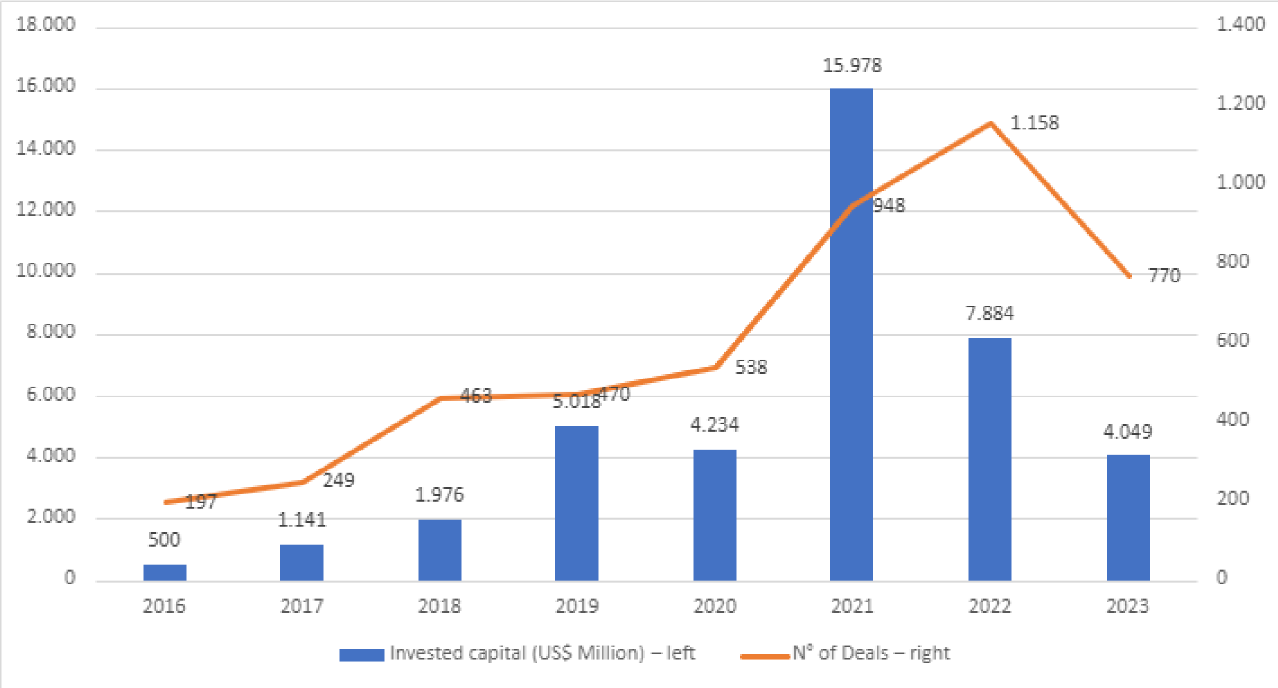
Graph N°3
Private equity investment in Latin America by sector
(2023)



Source: LAVCA (2024).

At the sector level, it is noted that financial services received the highest percentage of capital invested (18%), while the highest number of deals occurred in information technologies (27%). This shows a significant diversity of invested sectors.

Graph N°4
VC investments in LATAM - US$ million and number of deals

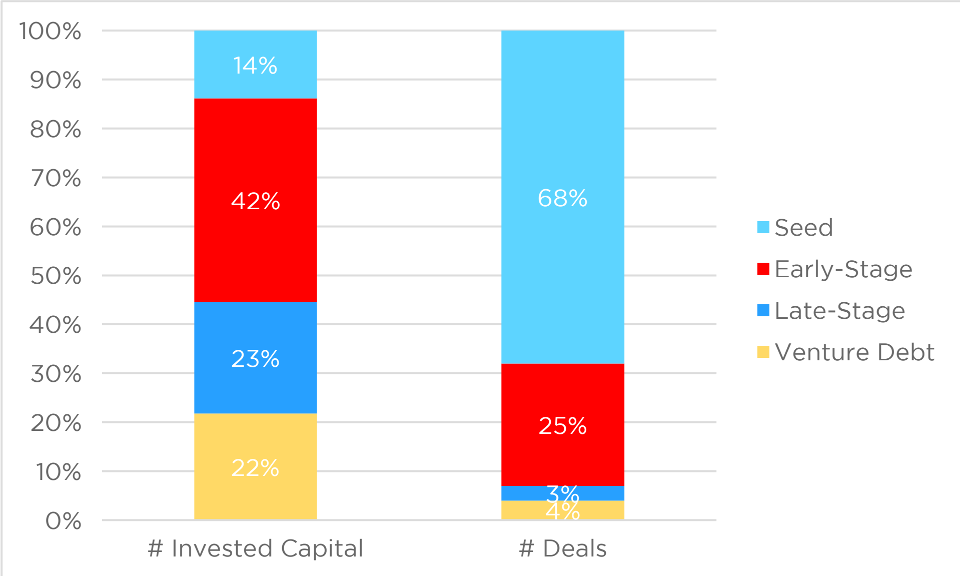


Source: LAVCA (2024).

Specifically, regarding VC investment in Latin America, after a period of exceptional growth, it stabilized at pre-pandemic levels around US$ 400 million. Meanwhile, the number of deals remained higher than pre-pandemic levels (63% more than in 2019). Therefore, the average investment ticket was lower than those observed before the pandemic.

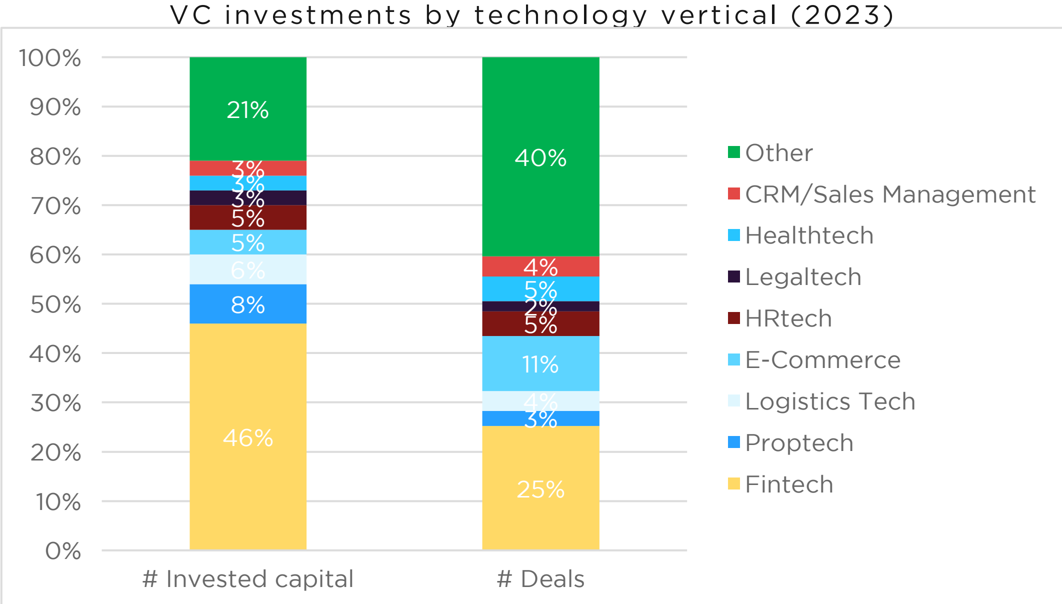
If we analyze VC investment in Latin America by phase, it is observed that venture capital investors were more willing to provide smaller investment tickets for startups. Early-stage rounds represented 42% of the venture capital invested. On the other hand, venture debt represented 22%, although it was highly concentrated in only five companies.

Graph N°5
VC investments by phase (2023)



Source: LAVCA (2024).

Graph N°6
VC investments by technology vertical (2023)



Source: LAVCA (2024).

When analyzing VC investment by technology vertical, it is noticeable that the fintech sector was the most successful, attracting 46% of the capital invested in 2023.

For 2024, a recovery in M&A activity is expected. After a challenging 2023, an improvement in these operations is expected due to the rebound in stock markets, lower inflation levels and interest rates, as well as the need for many companies to adapt and transform their business models. It is also expected that in 2024, the Federal Reserve will reduce its benchmark rate, potentially leading to greater availability of funds for business transactions, with increased investments both globally and regionally.

At the sector level, the most dynamic will be those related to technology, particularly fintech, as the trend towards banking—or at least digitalization—triggered by the pandemic in emerging markets will continue, along with the expansion of platforms requiring a digital ecosystem.

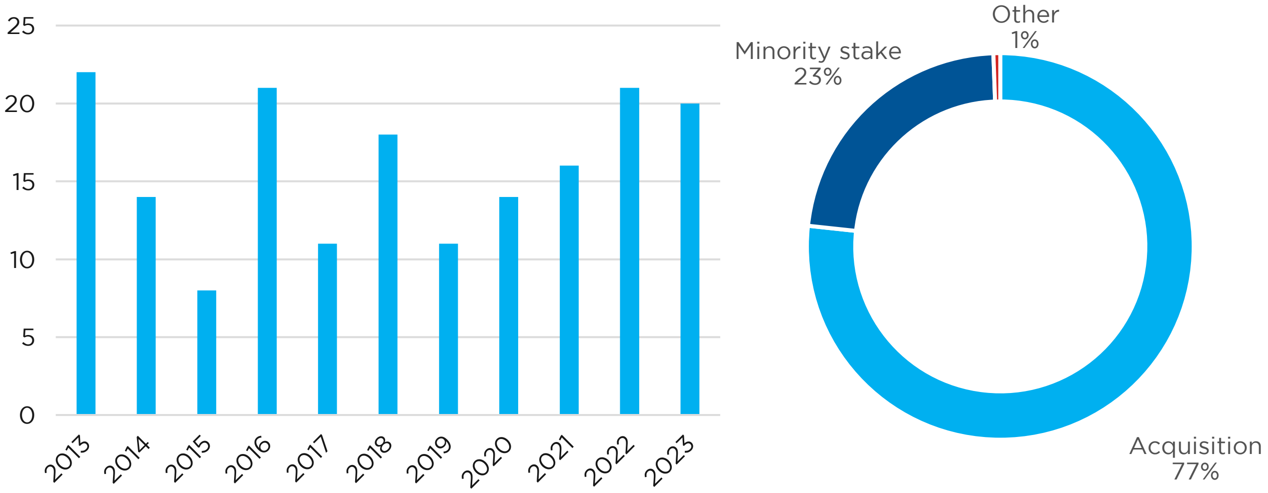
1. M&A IN URUGUAY

1.1.1. FOREIGN ACQUIRERS

This section presents the mergers and acquisitions (M&A) that have taken place in recent years, through which foreign companies have bought Uruguayan companies. This reflects the continued interest in Uruguay as an investment location.

Graph N° 7 shows the number of mergers and acquisitions carried out by foreign companies towards Uruguayan companies, considering total and partial purchases. Operations from the last 10 years are being taken into account.

Graph N°7
M&A of Uruguayan companies that have been acquired by foreign companies
(# transactions per year)



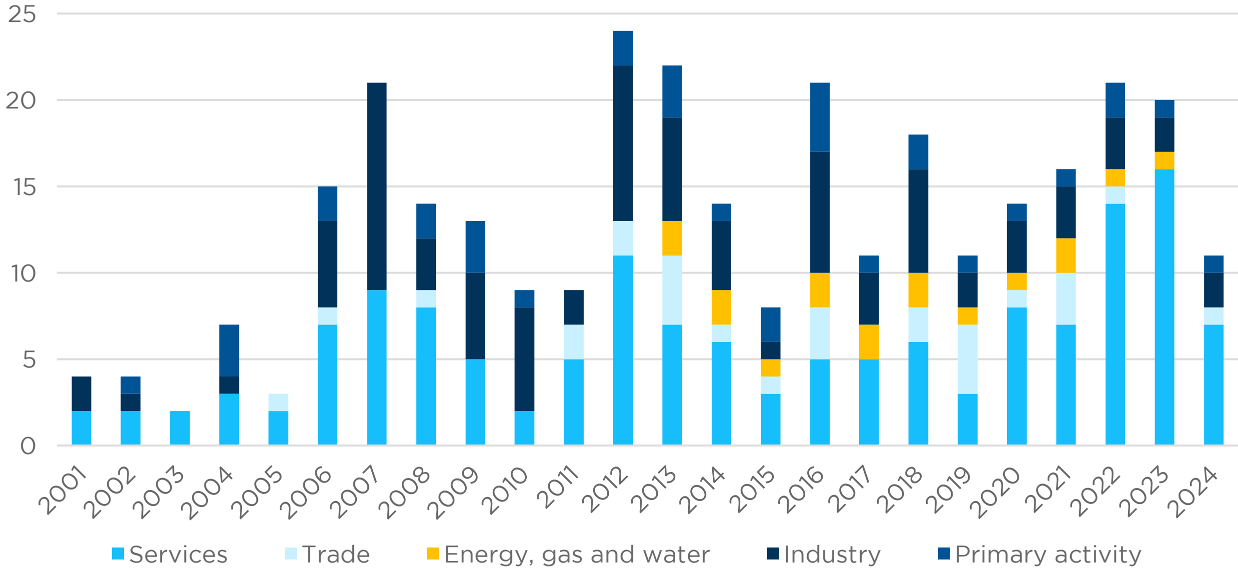
Source: compiled by Uruguay XXI based on data from EMIS, ORBIS, LAVCA and the press.

Of the 176 transactions reported during this period, the majority corresponded to company acquisition agreements (77%), followed by partial acquisitions (23%) and a single joint venture operation (1%).

At the beginning of the period, a considerable number of deals were observed in manufacturing sector companies, such as slaughterhouses, laboratories, forestry companies, and dairy products companies, as well as global services companies, mainly in software and financial services. In 2016, after a slight decline, the deals' dynamic was resumed, with notable activity in agricultural, retail, and energy companies. In 2019, before the pandemic, there was a decrease followed by sustained recovery in the following years, with deals primarily involving retail companies. During 2020 and 2021, global services companies led most of the operations.

M&A deals in 2022 were mostly concentrated in the services sector. The highest number of transactions within this sector in this decade totaled 13 deals. In 2023, the transactions were concentrated in the global services sector.

Graph N°8
M&A of Uruguayan companies acquired by foreign companies, by sector
(# of transactions)



Source: compiled by Uruguay XXI based on data from EMIS and ORBIS.

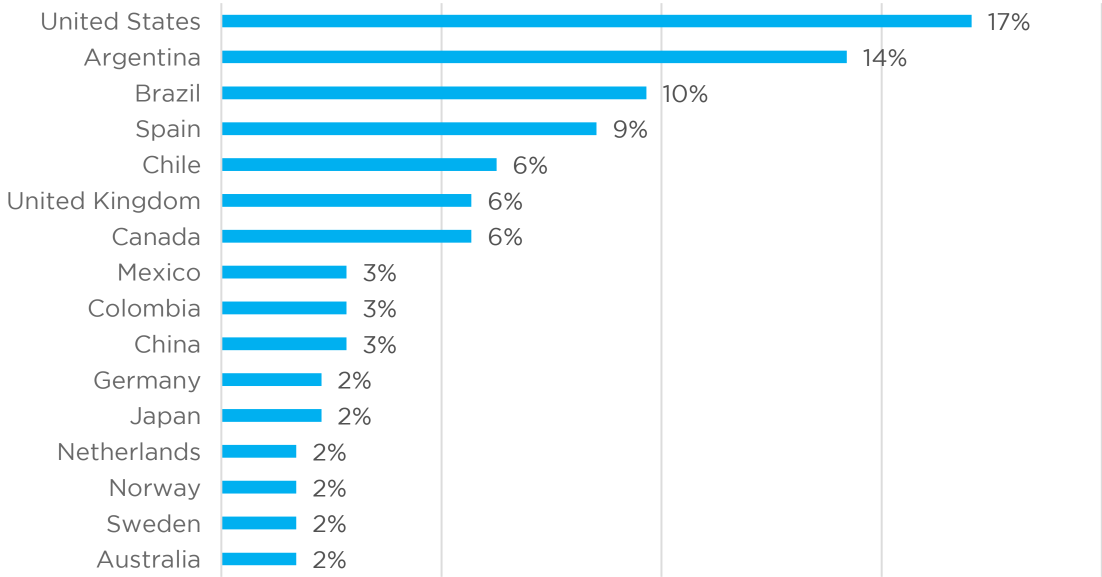
Between 2013 and 2023, most transactions occurred in the industrial sector or in the services sectors, with a smaller share of primary activities. This is in line with the rest of the region, where many M&A transactions were recorded within the services sector.

Within the industrial sector, operations focused on the agricultural and livestock industries, mainly in slaughterhouses, stood out - followed to a lesser extent by dairy and processed food companies, and later by companies in the pharmaceutical sector. Services also played an important role, especially in recent years. The agreements related to retail companies and global services companies were particularly noteworthy. Global services companies have been the main recipients of foreign investment in terms of mergers and acquisitions in recent years. Among these, those dedicated to financial services and information technologies, especially software, played a prominent role.

The pandemic accelerated the digital development of businesses and particularly benefited the technology sector, increasing the attractiveness of these companies. Thus, global services companies accounted for more than 50% of deals in 2021, as they did in 2022 when deals within global services reached their peak for the period. In 2023, out of the 20 closed deals, 16 were in the services sector. This trend was also reflected in the rest of Latin America regarding mergers and acquisitions, with 54% occurring in the global services sector.

In the past two decades, the United States and Argentina have emerged as the main acquirers of Uruguayan companies. Together, these two countries account for 30% of all transactions. In second place in terms of relevance are investments from Brazil, followed by acquisitions by Spanish companies. Thus, these four main countries accounted for more than half of the acquisitions, while the other half of the deals came from various sources such as Chile, Canada and France.

Graph N°9
Top 15 acquirers' countries of Uruguayan companies
(% of the transactions - 2001-2023)

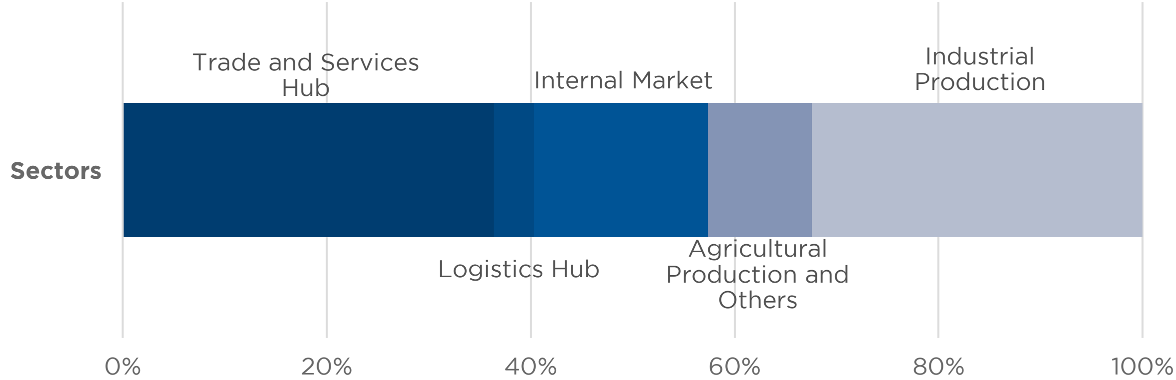


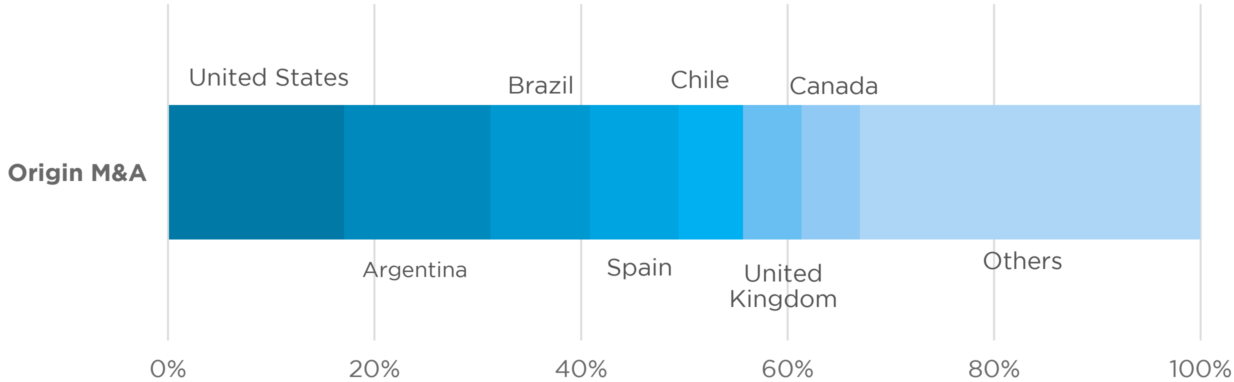
Source: compiled by Uruguay XXI based on data from EMIS and ORBIS.

US companies acquired Uruguayan companies specialized in global services (mainly information technology and business services), followed by companies in the manufacturing industry and the energy sector. On the other hand, both Argentinean and Brazilian investors focused on acquiring companies in the industrial sector. Companies from both countries also invested heavily in global services. Spanish companies have shown a greater dynamism, as they acquired companies in financial services, information technology and renewable energies sectors.

Uruguay presents itself as an attractive market for this type of business transaction. The global services, retail, and industrial sectors are particularly interesting to foreign companies.

Graph Nº 10
Uruguayan companies acquired by foreign companies: main origins and sectors – (2013 – 2023).





Source: compiled by Uruguay XXI based on data from EMIS and ORBIS.

The outlook for Uruguay in 2024 is encouraging. According to local advisors, there will be a higher number of transactions this year compared to 2023. The technology and mass consumption sectors have shown the most dynamism in recent years. Even though 2024 is an electoral year, this does not affect decisions of this type of investment, as Uruguay is a stable country where legal security and investors protection are not questioned.

1.1.2. M&A OPERATIONS OF URUGUAYAN COMPANIES BY FOREIGN COMPANIES

For a more detailed analysis of the available information, Table 1 shows the 20 operations carried out in 2023[3]. The main acquirers were American, Mexican, Brazilian, and Argentinean companies.

Most of the transactions correspond to the trade and services hub platform, which includes 16 global services, fintech, technology, and trade-related services companies. In the case of technology companies, several deals were made in the fintech sector. The Brazilian bank Itaú concluded the acquisition of Handy, a digital payments company. Additionally, the Spanish company Indra acquired the Uruguayan payment company TotalNet.

Funding rounds among fintech companies represented a significant portion of the total operations recorded this year. Fintech company Bankingly, focused on online banking development, received a new injection of foreign capital, amounting to US$ 2.5 million. Prometeo also secured a total of US$ 13 million from international investors such as PayPal and Samsung. Similarly, Brinta, a platform simplifying corporate tax compliance, raised US$ 5 million in capital.

The software production and related services sector also presented outstanding operations: Montevideo Labs was acquired by Blend360, an American company, while Hexacta, specializing in digital engineering, was bought by GlobalLogic, a company under the Hitachi group.

In the agribusiness sector, two companies stood out: Minerva Foods completed the acquisition of Breeders & Packers (BPU Meat), and Bimbo announced the acquisition of Pagnifique, owned by Linzor Capital.

[3] Since Uruguay does not have an official registry of M&A transactions, Uruguay XXI maintains a registry based on the institution's contact with foreign investors, contracted databases, and press information.

Table 1
M&A of Uruguayan companies by foreign companies (2023)

Date	Objective	Platform in Uruguay	Sector	Type of Deal	Investor	Country (countries) of the Investor
Jan-23	Data4Sales Inc	Trade and Services Hub	Services	Minority Stake	emBlue Latam; DGF Investimentos Holding SA; IC Ventures; Private investor(s)	Argentina Brazil Uruguay
Jan-23	Hexacta Inc	Trade and Services Hub	Services	Acquisition	Hitachi Ltd	Japan
Feb-23	Exa Labs (Exactly Protocol)	Trade and Services Hub	Services	Minority Stake	NXTP Labs; Kaszek Ventures; Newtopia; Bodhi Ventures	Argentina United States International
Mar-23	Scanntech Uruguay Hosting SA	Trade and Services Hub	Services	Minority Stake	Warburg Pincus LLC	United States
May-23	Moove IT & December Labs	Trade and Services Hub	Services	Acquisition	Recognize	United States
Jun-23	The Climate Box	Trade and Services Hub	Services	Minority Stake	Label Investments; The Yield Lab; Angel investors	Spain United States
Jun-23	Bankingly	Trade and Services Hub	Services	Minority Stake	Dalus Capital, Elevar Equity, Oikocredit, Puerto Asis, Sonen Capital	Mexico United States Netherlands
Jul-23	Breeders & Packers Uruguay SA (BPU Meat)	Industrial Production	Manufacturing Industry	Acquisition	Minerva SA	Brazil
Aug-23	BrainLogic AI	Trade and Services Hub	Services	Minority Stake	Factory HQ, Kalei Ventures	United States
Sept-23	Circuito Vial Tres SA	Domestic Market	Services	Acquisition	Acciona SA; Aberdeen Asset Management PLC	Spain United Kingdom
Oct-23	Nocnoc Group LLC (nocnoc)	Trade and Services Hub	Services	Minority Stake	Caravela Capital; Mouro Capital; Broadhaven Capital Partners LLC; PayPal Holdings Inc; Quona Capital Management Ltd; IGNIA Partners	Brazil United Kingdom United States Mexico
Oct-23	Skyblue Analytics	Trade and Services Hub	Services	Minority Stake	Techstars Ventures	United States
Oct-23	Infinia Web	Trade and Services Hub	Services	Minority Stake	G2 Momentum Capital	Mexico
Oct-23	Montevideo Labs	Trade and Services Hub	Services	Acquisition	Blend360	United States

Oct-23	Nodum	Trade and Services Hub	Primary Activities	Acquisition	Constellation Software Inc	United Kingdom
Nov-23	Axamer LLC (Habitue)	Trade and Services Hub	Services	Acquisition	Directo Group	Mexico
Dec-23	N. Goddard Seguros (NGS Seguros)	Trade and Services Hub	Services	Acquisition	Aon Plc	United Kingdom
Dec-23	Carape I; Carape II; Alto Cielo solar power project	Industrial Production	Energy, Gas and Water	Acquisition	Cubico Sustainable Investments Ltd	United Kingdom
Dec-23	Saint Gobain PPC	Industrial Production	Manufacturing Industry	Acquisition	Inversiones Volcan Internacional SpA	Chile
Dec-23	Data4Sales INC	Trade and Services Hub	Services	Minority Stake	DGF Investimentos Holding SA; IC Ventures; Private investor(s)	Brazil, Uruguay

Source: compiled by Uruguay XXI based on data from EMIS and ORBIS.

2. PRIVATE EQUITY AND M&A ECOSYSTEM IN URUGUAY

In Uruguay there are boutique M&A consulting firms with a long track record, which provide services for the purchase and sale of companies, due diligence, valuations, investment projects, financial modeling, among others[4]. Historically, those firms have worked with agribusiness, industrial, trade and services sector and so on. In recent years, many of the consulting firms have started to also work with startups.

In the specific case of companies that have filed for bankruptcy and are governed by the Uruguayan Bankruptcy Law, the various entities appointed as trustees by the Judicial Power play a relevant role in administrating the assets and in managing the open calls for the acquisition of the assets.

The private capital industry in the region and in Uruguay is experiencing a significant growth, with an increased interest in startups as an investment option. In 2022, the Uruguayan Private Equity Association (URUCAP, for its acronym in Spanish)[5]was created, which brings together VC funds, CVC, PE, angel investors, and accelerators. URUCAP organizes a wide variety of events, including talks and networking activities, so that the members can share knowledge on regulations, technologies and investments. Besides, they host sessions with local and international experts on topics such as Corporate Law and foreign markets investment. Currently, URUCAP has 100 active members, of which 10% are services providers, 40% are investment funds and 50% are angel investors. Most of the investment funds belong to the region (Argentina, Brazil, Chile and Paraguay)[6].

Likewise, there are other institutions that offer support during the first stages. The National Development Agency (ANDE, for its acronym in Spanish) provides technical assistance, mentoring and financing, in addition to managing the *"Uruguay Emprendedor"* portal. The National Agency for Research and Innovation (ANII, for its acronym in Spanish) has several tools to support entrepreneurship, such as idea validation (together with ANDE), innovative entrepreneurs, expansion fund for internationalization, financing, among others, and Endeavor Uruguay supports entrepreneurs through advice, mentorships, capital, events and alliances.

[4] https://www.uruguayxxi.gub.uy/en/services-directory/
[5] Please, refer to: https://urucap.org/
[6] Please, refer to: https://infonegocios.biz/enfoque/impulsar-el-desarrollo-del-ecosistema-inversor-y-emprendedor-en-uruguay-mano-a-mano-con-sylvia-chebi-presidenta-de-urucap

Uruguay XXI offers an Investments Projects Portfolio, an online[7] portfolio including opportunities for the investors to access through a free registration. There are investment opportunities both in existent companies and in new projects that are looking for foreign investors (as a minority or majority stake), apart from companies that are for sale. To be part of that portal, startups and recent entrepreneurship must be looking for investments higher than US$ 200.000. On the other hand, companies with a long track record must be looking for investments higher than US$ 500.000. In the portfolio there are companies with various characteristics: some are looking for investors to grow while others are facing financial issues or are looking to sell for family reasons; there are early-stage startups looking for a VC fund, mature companies and companies that have gone bankrupt. There are companies from several different sectors as well: technology, biotechnology, agribusiness, non-food industry, tourism, real estate, among others. If the company's information is confidential, they must sign a non-disclosure agreement (NDA).

Uruguay Innovation Hub (UIH) is a program created in 2022 as part of a national strategy that seeks to propel Uruguay to the forefront of the knowledge economy. It is a joint initiative of the Ministry of Industry, Energy and Mining, the Ministry of Economy and Finance, the Ministry of Education and Culture, the Office of Planning and Budget, the National Agency for Research and Innovation, and the Innovation Park of LATU, as well as Uruguay XXI. The program's goal is to consolidate the local innovation ecosystem through the implementation of instruments and the development of initiatives that foster collaboration and synergies among the various actors in the ecosystem. By implementing this strategy, Uruguay seeks to promote and accelerate entrepreneurship in high-growth sectors, such as deeptech, greentech and biotechnology.

In order to reach its goal, UIH has deployed instruments and specific programs to support the growth and expansion of startups and innovative companies in the country. These instruments are:

- Startup accelerator: this initiative provides financial resources, strategic guidance and access to global networks so that the Uruguayan startups can be consolidate in the national market and expand to the world, enhancing their competitiveness in the international arena[8].

[7] Please, refer to: https://proyectosinversion.uruguayxxi.gub.uy/login

[8] After an international call for proposals, the consortium comprised of OurCrowd, Manatech, CIE of ORT University and LATU's incubator Ingenio was selected to implement a startups accelerator program.

- Company Builder Bio: through this instrument, the UIH seeks to create the right conditions for the creation and development of new biotechnology ventures in Uruguay, attracting both talents and investments to this key sector[9].
- Matching Funds: it is a co-investment program to co-invest in technological and scientific-technological early-stage startups, with venture capital organizations and angel investors.
- Dynamic spaces: within the framework of this program, an Innovation Campus was inaugurated in 2024, in the Innovation Park of LATU in Montevideo.
- Platforms to test and prototype: promotes the installation of spaces that foster open innovation by facilitating access to diverse technologies that enable the generation of prototypes and proofs of concept in controlled environments[10].

2.1.INCUBATORS AND ENTREPRENEURSHIP CENTERS

Incubators and entrepreneurship centers also play a key role in Uruguay's entrepreneurial and innovative ecosystem for early-stage business ideas and startups to mature and prosper. Thus, support institutions are joined by entrepreneurship centers of public and private universities, as well as incubators from which some of Uruguay's most successful startups and unicorns have emerged.

[9] UIH selected the consortium formed by GridX and ATGen to be in charge of implementing the Company Builder Program focused on biotechnology.
[10] Among other laboratories, some stand out, like Antel ODL to test and prototype with 5G technology; Microsoft Co-Innovation Lab, which facilitates access to Artificial Intelligence tools; and Newlab, an open innovation platform that connects enterprises with startups to address specific challenges.

Figure 1

Innovation ecosystem

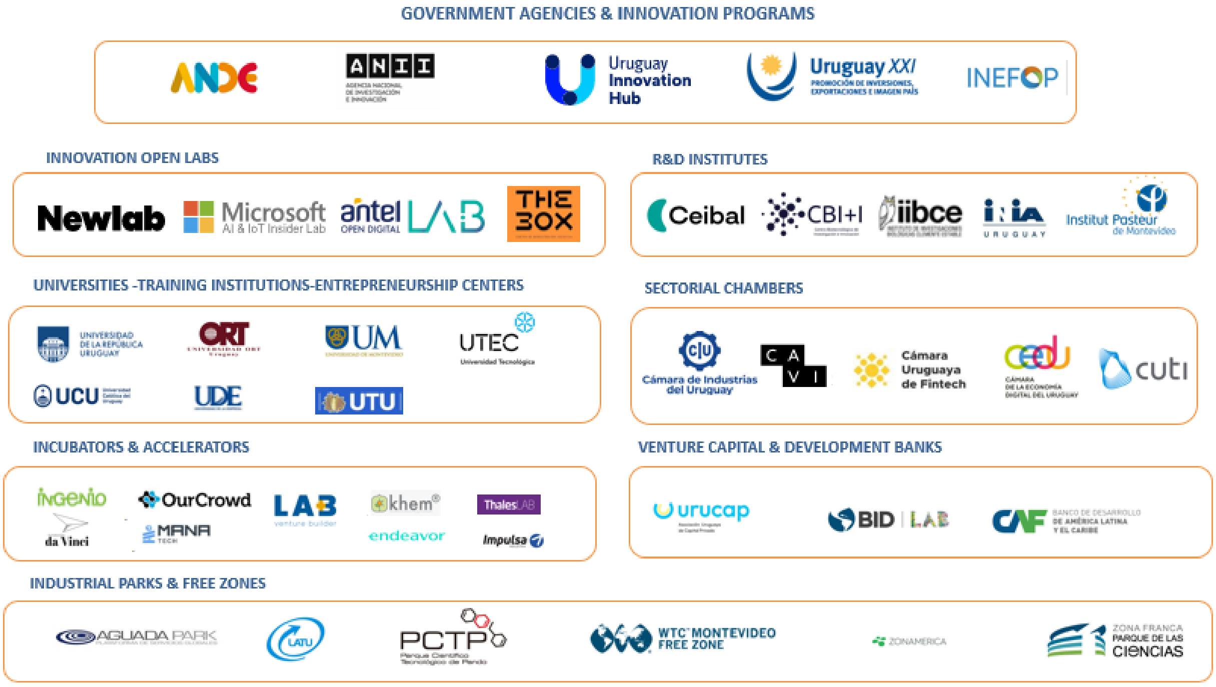


Figure 2
Private Equity Ecosystem in Uruguay

3. REGULATIONS IN URUGUAY

3.1.1. FUND REGULATIONS AND CENTRAL BANK OF URUGUAY

Law 16.774 establishes that investment funds "are independent assets, made up of contributions from individuals or legal entities under the regime of the present law, for investment in securities and other assets". Investment fund management companies will require authorization from the Central Bank of Uruguay (BCU, for its acronym in Spanish).

Law 16.774

Superintendency of Financial Services: Circular 2393 and Circular 2394 .

Credit Risk Center: https://www.bcu.gub.uy/Acerca-de-BCU/Paginas/Central-Riesgos.aspx

3.1.2. DEFENSE OF COMPETITION:

Defense of Free Competition in Commerce. Law 18.159, Law 19.833 and Decree 404/007 modified by Decree 194/020.

The Commission for the Promotion and Defense of Competition is the institution in charge of overseeing competition overall. Its purpose is to control and sanction anticompetitive practices in Uruguay. Its duties include receiving information on company mergers and authorizing them in due time. Participants in acts of economic concentration must request authorization from the commission in cases where the gross annual turnover (in any of the last three accounting years) in the national territory of the set of participants in the operation is equal to or exceeds 600 million UI (Indexed units).

3.1.3. MERGER REGULATIONS

Legally, mergers are regulated by Law 16.060 (Commercial Companies Law), which regulates mergers by creation and incorporation. Regarding mergers, it is possible to benefit from certain tax exceptions, which represent an advantage compared to other alternatives, such as the sale of a commercial establishment.

Tax exemptions in the case of mergers and spin-offs are determined by Article 26 of Law 16.906 (Investment Law), Article 68 of Heading 4, Orderly Text 1998 as amended by Law 18.083 and Regulatory Decree 150/007 as amended. In the first case, the Executive Power is authorized to exempt mergers, spin-offs and transformations of companies from the Income

Tax on Industry and Commerce, Value Added Tax and Transfer Tax, if they allow the expansion or strengthening of the applicant company.

Although the granting of the exemption is optional for the Executive Power, it is generally granted if it is justified that the merger strengthens the absorbing company.

As of January 1st, 2024, companies' mergers or spin-offs do not account for goodwill for tax purposes when the transaction is carried out at book value, the ultimate owners are entirely the same (retaining at least 95% of their equity proportions), and the business activities registered with the National Internal Audit Office are maintained.

Law 16.906, Law 16.060, Orderly Text, Heading 4, Article 68 and Decree 150/007.

3.1.4. RELEVANT REGULATIONS FOR THE ACQUISITION OF COMPANIES

The acquisition of companies may be carried out by different means, such as the purchase and sale of the controlling shareholding of the company (the most frequent option) or the purchase and sale of its assets and liabilities, which constitutes a sale of a commercial establishment.

The disposal of a commercial establishment is mainly regulated by Laws 2.904 and 14.433, which are limited to establishing the formalities that the buyer should observe to limit its liability with respect to the creditors of the seller of said commercial establishment. These rules do not provide a definition of commercial establishment, nor of the assets that comprise it, and so we must resort to the concepts that have been developed by the doctrine and jurisprudence to determine when the acquisition of certain assets is or is not a disposal of a commercial establishment.

When the acquisition of stock packages and equity holdings occurs, Laws 16.060 and 19.820 are relevant, because they establish the formalities to be observed for the transfer of stocks and equity holdings in the different commercial companies, as well as Laws 18.930, 19.288 and 19.484, which regulate the obligation to inform the Register of Equity Interest Holders of the Central Bank of Uruguay of any change made in the shareholding chain of the acquired companies.

From a tax point of view, the sales of shares will be taxed by the IRPF (Personal Income Tax) at a rate of 2.4% of the sale price (12% on a fictitious income of 20%), unless double taxation avoidance agreements apply, in which case it could be exempted, or a lower rate could be applied. In the opinion of the tax authorities, for tax payment purposes, the sale price must be a market price, regardless of the value included in the contract. On the other hand, the sale of shares is exempt from VAT.

The result of the sale of commercial establishments constitutes gross income and is taxed by Income Tax on Economic Activities (IRAE, for its acronym in Spanish) if applicable.

Law 2.904, Law 14.433, Orderly Text.

3.1.5. LABOR REGULATIONS FOR M&A

There are two laws that expressly establish the liability of the acquirer with respect to the employees of the transferred company on the items of severance pay and unused leave owed:

a) Law 10.570 for severance pay.

b) Law 12.590 for annual leave.

Law 10.570 and Law 12.590.

There is no express regulation with respect to other labor credits (vacation salary, 13th month pay, overtime, special dismissals, bonuses, awards, etc.), so that in each case it will be necessary to resort to the jurisprudential tendencies and the most widely received doctrine to determine any eventual liability of the acquirer for these items.

4. ANNEX: VENTURE CAPITAL AND PRIVATE EQUITY

VC funds invest in and contribute knowledge to early-stage companies that show potential (startups). PE funds, on the other hand, invest in and contribute knowledge to mature companies, in turn attracting investments from other funds. The difference lies not only in the type of companies, but also in the fact that PE funds invest through debt or capital, while VCs invest primarily in capital.

An investment fund is a group of fund managers that gathers all the investors funds to invest in companies. These investors, called Limited Partners (LPs), provide financing, but not knowledge and are not involved in management. These may be institutional funds, pension funds, family offices, individual investors, among other options. These types of investors do not need immediate liquidity and therefore can dispose of the funds in the long term. LPs sign a Limited Partner Agreement stipulating the terms and conditions of the investments (exit term, sectors to be invested in, etc.).

PE funds usually concentrate on companies with growth potential, since they receive capital, management and strategy support. There are also PE funds that focus on companies with financial problems and even those in financial distress. The most common sectors are retail, energy, agriculture, agribusiness and raw materials production, among others. VC funds tend to invest in technology and biotechnology startups, with the goal of quickly escalating their operation and obtaining more profits. Given that the investment is directed to the early stages of the companies, it tends to be a high-risk investment.

The most common forms of financing are investment rounds, although debt instruments are also used. Startups tend to resort to these funds to "raise" capital. In this sense, there are seed capital rounds, the first investment raising that, in certain opportunities, is linked to the presence of an angel investor (an experienced entrepreneur with capital). This initial round is followed by investment rounds A, B and C, which are accessed progressively according to the level of development of the company receiving the investment.

Although VC funds are increasingly investing in earlier stages of companies, it is important to mention seed capital. In this case, they invest in very early stages (pre-series A), with tickets of less than US$ 0.5 million.

PE and VC fund managers are responsible for three main tasks: to search, evaluate and make the decision to invest in a mature company or startup; to execute the legal and financial operations to invest in the funds; and to manage their investment portfolio in companies or startups.

Figure 3

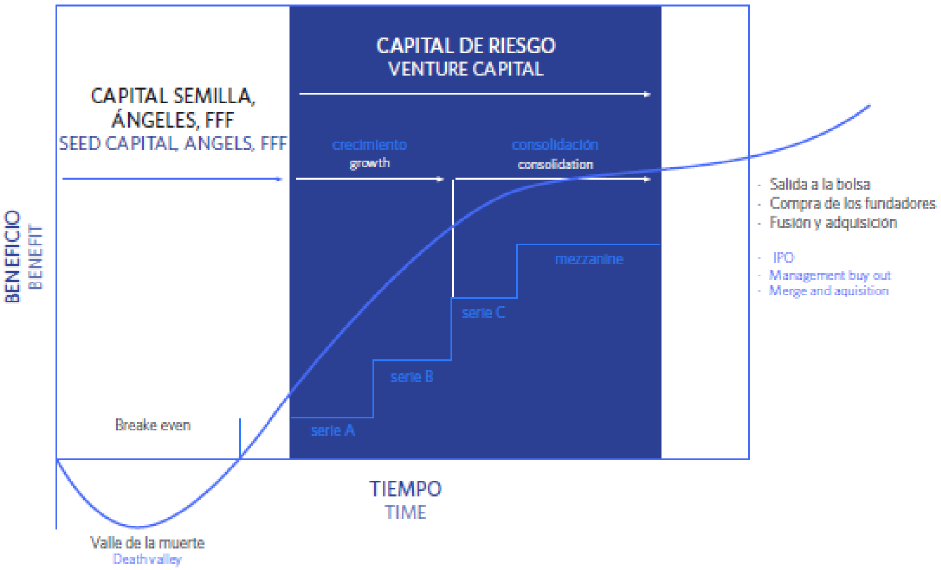
Funding rounds.

-	Pre seed	Seed	Post Seed / Pre Series A	Series A	Series B	Seres C+
When to raise capital?	Pre Revenue MVP Idea	Launch MVP MVP with revenue	Early Product Market Fit	Proven Product Market Fit	Unit Economics LTV:CAC>3:1 Close to Profitability	Clear Path to Exit / Growth through Proven Channels
Traction (monthly income)	Insignificant	USD$ 5-30k	USD$ 10-50k	USD$ 60-100k	USD $ 200k+	USD $ 500k+
From who?	Family and Friends/ Angels/ Accelerators/	Angel investors / Seed Funds	Seed Funds /Series A Funds	Series A&B Funds	Series A&B Funds	Growth Stage VC Funds
For what?	Build the MVP and team	Invest in growing and polishing MVP	Achieve early scalability	Scalability	Aggressive scalability and profitability	Expansion/ Prepare for Exit
Average size of the round	<USD $500k	USD$ 1-2M	USD$ 2-4M	USD$ 5-16M	USD$ 20-80M	USD$ 40-100M+
Pre money valuation	USD$ 1-3M	USD$4-6M	USD$10-15M	USD$25-50M	USD $ 90-330M	USD$ 300M+

Source: Startupeable.

Figure 4

Funding cycle and stages of a startup



Source: Impact Report ACVC 2022.

Uruguay XXI
PROMOCIÓN DE INVERSIONES, EXPORTACIONES E IMAGEN PAÍS

www.uruguayxxi.gub.uy

info@uruguayxxi.gub.uy

UruguayXXI