LAC Markets 2018 Forecast

Webinar – 2017.10.17
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More than two decades of seeking to understand the region

- **1993**: InfoMex is founded in Mexico City
- **1995**: First studies conducted in South America, name changed to InfoAmericas
- **1997**: Office opened in São Paulo
- **1999**: Tendencias launched, the most widely read regional intelligence newsletter
- **2000**: Office opened in Miami
- **2002**: Five industry practices are introduced
- **2003**: InfoAmericas joins the Global Intelligence Alliance (GIA) as its Latin American member
- **2006**: AMI consultants complete their 1,000th client engagement in Latin America
- **2007**: AMI launches São Paulo affiliate office
- **2011**: 2,000th client engagement completed
- **2015**: Key members of the former InfoAmericas team form AMI, with offices in Miami and Mexico City
- **2017**: AMI Perspectiva launched. Chile affiliate office launched.

InfoAmericas is sold to Kroll, forming Kroll’s first market intelligence division
We deliver the intelligence
You need to make smart business decisions

Growth
- Opportunity Benchmarking
- Market Assessment
- Customer Research
- Investment Viability
- Partnering
- Strategic Planning

Risk
- Competition
- Unethical competitors
- Political
- Reputational
- Economic

Performance
- Market Share
- Best Practices
- Brand Awareness
- Customer Satisfaction
**Broad industry experience, Latin American focus**

<table>
<thead>
<tr>
<th>Payments</th>
<th>Healthcare</th>
<th>Logistics</th>
</tr>
</thead>
</table>
| - 310 projects  
  - Consumer & corporate cards, pre-paid cards, digital wallets, mobile payments, POS technology | - 225 projects  
  - Medical equipment, devices, hospital services, health policy, pharmaceuticals, supplements, vaccines | - 170 projects  
  - 3PL, air cargo, FTL, LTL, rail, ocean, port management, warehousing, distribution, equipment, software |
| ![Credit Card Icon](card.png) | ![Medical Cross Icon](medical.png) | ![Forklift Icon](forklift.png) |

<table>
<thead>
<tr>
<th>Industrial</th>
<th>Consumer &amp; retail</th>
<th>Natural Resources</th>
</tr>
</thead>
</table>
| - 470 projects  
  - Transportation, manufacturing, chemicals, lubricants, metals, plastics, paper, packaging, safety | - 480 projects  
  - Food, beverage, snacks, appliances, beauty products, toys, entertainment | - 175 projects  
  - Mining – exploration, equipment  
  - Energy – oil & gas, alternatives, petrochems  
  - Agriculture – commodities, fertilizers, technology |
| ![Gear Icon](gear.png) | ![Shopping Cart Icon](cart.png) | ![dumpster icon](dumpster.png) |

<table>
<thead>
<tr>
<th>Automotive</th>
<th>Insurance</th>
<th>Telco, IT, Media</th>
</tr>
</thead>
</table>
| - 145 projects  
  - Cars, trucks, buses, OEM parts, aftermarket, service, finance | - 55 projects  
  - Accident & Health, E&O/professional liability Insurance, general liability insurance, political risks, property insurance, re-insurance | - 150 projects  
  - Telco – wireless, ISP, services, equipment; IT – ERP, computers & accessories, AMT; Media – gaming, pictures, print, TV, radio |
| ![Car Icon](car.png) | ![Umbrella Icon](umbrella.png) | ![Cell Tower Icon](tower.png) |
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Insights drawn from over 3,500 consulting engagements across Latin American and Caribbean markets

Economic and political analysis

Sector-specific analysis: Logistics, Payments, Natural Resources, Infrastructure, Healthcare, Consumer Goods and Services

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Mauricio Cárdenas
Consumer & Retail Practice Director

Diego Rodríguez
Logistics Practice Director

Lindsay Lehr
Payments Practice Director
Trends shaping the region
Diverging resource prices – metals are rising, energy is flat

**Advantaged**
Peru, Chile, Brazil
Energy importers – Caribbean, Central America

**Disadvantaged**
Venezuela, Ecuador, Colombia, Trinidad & Tobago

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**Divergent Prices of Natural Resources**

Rising global investment into infrastructure

Expansion of the U.S. energy sector (shale)

Source: *The Economist*
Energy importers continue to prosper; exporters are catching up

### Net energy imports as a % of GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Caribbean states</td>
<td>86</td>
<td>78</td>
<td>64</td>
</tr>
<tr>
<td>Chile</td>
<td>53</td>
<td>49</td>
<td>48</td>
</tr>
<tr>
<td>Cuba</td>
<td>27</td>
<td>18</td>
<td>13</td>
</tr>
<tr>
<td>Costa Rica</td>
<td></td>
<td></td>
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<tr>
<td>El Salvador</td>
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<td>Guatemala</td>
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<td>Peru</td>
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<td>Trin &amp; Tob</td>
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<td>Ecuador</td>
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<td>Venezuela</td>
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<td>Colombia</td>
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</tbody>
</table>

### Real GDP Growth

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy IMPORTERS</td>
<td>3.3%</td>
<td>2.8%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Energy EXPORTERS</td>
<td>-4.0%</td>
<td>-0.6%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Difference</td>
<td>7.2%</td>
<td>3.4%</td>
<td>1.9%</td>
</tr>
</tbody>
</table>

Source: IMF
U.S. growth will peak in 2018, but the dollar and wages will remain strong for the medium term.

The U.S. labor pool is shrinking – immigrants are needed.

Full employment is driving up wages.

The dollar will further strengthen.

The Fed plans to raise rates steadily (2% inflation target).

### U.S. GDP and Fed Rate Forecasts (2017-2022)

- **GDP**: 2.2%, 2.5%, 2.1%, 2.25%, 2.5%, 2.5%, 2.0%, 1.7%, 1.7%, 1.0%, 1.5%, 2.0%, 2.1%, 2.25%, 2.5%, 2.5%, 2.0%, 1.7%, 1.7%, 1.0%, 1.5%, 2.0%, 2.1%, 2.25%, 2.5%, 2.5%, 2.0%, 1.7%, 1.7%, 1.0%, 1.5%, 2.0%

- **Interest Rates**: 2.0%, 2.25%, 2.5%, 2.5%, 2.0%, 1.7%, 1.7%, 1.0%, 1.5%, 2.0%, 2.1%, 2.25%, 2.5%, 2.5%, 2.0%, 1.7%, 1.7%, 1.0%, 1.5%, 2.0%, 2.1%, 2.25%, 2.5%, 2.5%, 2.0%, 1.7%, 1.7%, 1.0%, 1.5%, 2.0%

### Business Cycle Co-Movement with U.S. Economy

- **Mexico and Central America**: 2014-16
- **South America**: 2014-16

Sources: IMF, Kiplinger report
Chinese engagement strategy

- Chinese bilateral loans to LatAm since 2005 are > $150bn, ranked 1\textsuperscript{st}
- China – LAC trade will reach $300bn in 2017, ranked 2\textsuperscript{nd}
- Chinese FDI stock in Latin America estimated at $150+bn USD, ranked 3\textsuperscript{rd}

1. Secure long-term natural resources
2. Employ Chinese construction companies via infrastructure projects
3. Sell higher-value Chinese goods
4. Satisfy Chinese tourists

Source: Brookings Institute
Business confidence is on the rise

Recent rebound in business investor confidence in LatAm

Source: World Economic Outlook Database
Scarcity breeds pragmatism; corruption breeds populism
Latin American voters reject the status quo — but will they embrace populism?

Examples of LAC political pragmatism

- Argentines elected a pro-business president
- Peruvians elected a proven technocrat
- Venezuelans elected an opposition party-dominated congress
- Bolivians denied Evo Morales the chance to run a 4th time
- Leftist president Lenín Moreno has proven to be pragmatic

Will some countries turn populist?

- Corruption hurts support for the establishment
- Temer (Brazil) – 9% support
- Peña Nieto (Mexico) – 11% support
- Santos (Colombia) – 14% support
- PPK (Peru) – 19% support
- Latin Barometer measures the lowest support for “Democracy as the best system of government” in its history (below 50%)
Fiscal austerity is ongoing in Brazil, Mexico and Venezuela
Chile & Peru have some latitude for fiscal expansion

Fiscal balance as a % of GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>2012</th>
<th>2015</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td></td>
<td></td>
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<tr>
<td>Mexico</td>
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<td>Argentina</td>
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<tr>
<td>Venezuela</td>
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</tbody>
</table>

Source: World Bank
Regional Forecast for 2018
Latin America is on the mend
FX volatility exacerbates growth cycles in LatAm — 2018 will pleasantly surprise

Latin America’s Nominal GDP (USD Billions)

Sources: IMF, AMI analysis
The Caribbean + Central America enjoy more consistent growth

<table>
<thead>
<tr>
<th>Country</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tbody>
<tr>
<td>Cuba</td>
<td>$83</td>
<td>$88</td>
<td>$93</td>
<td>$95</td>
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<td>DR</td>
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<td>Guatemala</td>
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<td>$27</td>
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<td>$5</td>
<td>$5</td>
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<td>Panama</td>
<td>$50</td>
<td>$51</td>
<td>$52</td>
<td>$54</td>
<td>$57</td>
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<tr>
<td>Costa Rica</td>
<td>$53</td>
<td>$57</td>
<td>$61</td>
<td>$65</td>
<td>$69</td>
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<tr>
<td>El Salvador</td>
<td>$56</td>
<td>$64</td>
<td>$69</td>
<td>$72</td>
<td>$76.20</td>
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<td>T&amp;T</td>
<td>$69</td>
<td>$72</td>
<td>$77</td>
<td>$77</td>
<td>$83</td>
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<tr>
<td>Honduras</td>
<td>$64</td>
<td>$67</td>
<td>$72</td>
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<td>$72</td>
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<tr>
<td>Jamaica</td>
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<td>$95</td>
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<td>Nicaragua</td>
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<td>$15</td>
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<td>Aruba</td>
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<td>$28</td>
<td>$29</td>
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<tr>
<td>Bermuda</td>
<td>$50</td>
<td>$51</td>
<td>$52</td>
<td>$54</td>
<td>$57</td>
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<tr>
<td>Barbados</td>
<td>$53</td>
<td>$57</td>
<td>$61</td>
<td>$65</td>
<td>$69</td>
</tr>
</tbody>
</table>

Sources: Business Monitor (London), AMI analysis
Brazil 2018
Private sector is on the mend; public sector still problematic

- SELIC cut rates dramatically over the last 12 months, but cuts will slow as inflation returns.
- Consumer credit growing again after banks reigned it in.
- Investment, consumption, FDI, and imports are all growing.
- Pro-reform block controls Congress but Temer’s weakened political capital is limiting a rare opportunity for deep reforms.
- Political field in 2018 is wide-open. Lula will likely lose his appeal and not run. The left may unify behind Marina Silva.
- João Doria (Mayor of São Paulo) and multimillionaire is the new outsider to Brazilian politics.

Sources: Business Monitor (London), AMI analysis
Mexico 2018
Tensions over NAFTA may define Mexican politics over the next few years.

- Mexican politics and economic future will be heavily influenced by the ongoing NAFTA negotiations.
- NAFTA can be suspended by presidential order but not cancelled or dramatically reformed without congressional support.
- US 4th round position puts the negotiations in jeopardy. Mexico may leave the accord, gambling that the U.S. will elect a different president in 2020.
- Mexico will try to re-align as best as it can with European, Asian and hemispheric trade partners.
- Palpable anti-American sentiment will impact outbound tourism, possibly also government bid selections.

Sources: Business Monitor (London), AMI analysis
2018 LAC Healthcare Outlook
2018: LAC Healthcare sector trends

01 Turnaround of the Brazilian market

- Brazilian market turnaround
- Volume growth of 3% in 2018 – up from 1% in 2017 – driven by Brazil + Southern Cone.
- Mexico rebound expected in as government spend increases at end of sexenio.
- Smaller markets gain appeal amongst large players.

- Medical equipment manufacturers struggle to sell high-value product.
- Opportunity for cost control mechanisms within hospitals, notably on procurement elements.

02 Tech solutions still limited to specific markets

- EMR Penetration: 38%
- Most advanced countries: Puerto Rico and Chile
- Primary market: Private

03 Cost considerations lead purchase decisions

- Opportunity for cost control mechanisms within hospitals, notably on procurement elements.

Source: Global Health Intelligence proprietary data and analysis
2018: LAC Healthcare market opportunities

01 Growth into the middle market consumer

Public sector cutbacks leave an underserved middle market for private healthcare to penetrate with specialized, low-cost institutions.

Primary target clients: SES C / C-.

02 Penetration of low-cost (primarily Asian) products will continue to rise

Low prices find a welcoming market. Maintaining share will require investment in distribution, servicing and after-market.

Target clients: Independent practices, clinics, smaller hospitals.

<table>
<thead>
<tr>
<th>SES</th>
<th>% POP.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A/B</td>
<td>7%</td>
</tr>
<tr>
<td>C+</td>
<td>14%</td>
</tr>
<tr>
<td>C</td>
<td>18%</td>
</tr>
<tr>
<td>C-</td>
<td>16%</td>
</tr>
<tr>
<td>D+</td>
<td>20%</td>
</tr>
<tr>
<td>D</td>
<td>18%</td>
</tr>
<tr>
<td>E</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: Global Health Intelligence proprietary data and analysis
2018 LAC Payments Outlook
2018: LAC Payments sector trends

01 Favorable demographics for growth of mobile and technology-driven payments

80% of Latin Americans live in cities

<table>
<thead>
<tr>
<th>Country</th>
<th>% of population aged 20-35</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peru</td>
<td>50%</td>
</tr>
<tr>
<td>Mexico</td>
<td>50%</td>
</tr>
<tr>
<td>Colombia</td>
<td>50%</td>
</tr>
<tr>
<td>Brazil</td>
<td>49%</td>
</tr>
<tr>
<td>Chile</td>
<td>47%</td>
</tr>
<tr>
<td>Argentina</td>
<td>46%</td>
</tr>
</tbody>
</table>

02 Growth of cash-based and prepaid payment methods

- OXXO
- Banamex Sedex
- Visa
- Cash-on-delivery
- PaysafeCard

03 The acquiring landscape will continue to open up and become more competitive

- PRISMA
- VisaNet Perú
- Pago-é

Insights

- Fertile conditions for adoption of e-commerce/mobile payments
- Young urbanites should be the target for digital payment products
- Banks and others struggle to find the correct incentives to promote adoption
- Unbanked continue to prefer cash-based payment methods or card-based prepaid accounts
- Persistence of brick and mortar stores
- Very little traction in digital solutions for the underbanked
- A more flexible acquiring landscape in Argentina, Peru and Colombia creates new opportunities for payment technology players

Sources: World Bank, AMI analysis
2018: Payments sector key events

**Expansion of Amazon & Alibaba**

1) Threaten traditional retail
2) Present partnering opportunities for the payment sector, though both firms may become payment service providers in LAC

**Regulatory changes in Mexico and Argentina**

A potential fintech law in Mexico could:
- Create a legal framework and customer protections that encourage consumer adoption
- Add costs to fintechs and stifle growth

The imminent sale of near-monopoly acquirer Prisma will:
- Enable new acquirers to enter the market
- Create a more competitive cost structure
- Present opportunities to new fintech companies

Source: AMI analysis
2018 LAC Logistics Outlook
2018: LAC Logistics sector trends

01 Increased use of technology tools

- Predictive analytics, data gathering and WMS help anticipate warehousing needs and optimize inventory positioning.

Impact
- Reduce express air freight and warehousing costs
- 3PLs and 4PLs use proprietary IT platforms to differentiate their offerings

02 Expansion of cash on delivery in the e-commerce space

<table>
<thead>
<tr>
<th>Country</th>
<th>E-commerce volume, $ bn 2016 (captured by payment processors)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>$25</td>
</tr>
<tr>
<td>Mexico</td>
<td>$15</td>
</tr>
<tr>
<td>Argentina</td>
<td>$7</td>
</tr>
<tr>
<td>Colombia</td>
<td>$6</td>
</tr>
<tr>
<td>Rest of the region</td>
<td>$10</td>
</tr>
<tr>
<td>Total</td>
<td>$63</td>
</tr>
<tr>
<td>plus COD</td>
<td>Total = c. $100+</td>
</tr>
</tbody>
</table>

E-tailers interested in COD
- Selling to unbanked customers
- Enlarges the e-commerce pie
- New source of revenue for logistics firms

Risks of COD to logistics players
- Security risks associated with cash
- Low fulfillment rates

Source: AMI analysis
2018: LAC Logistics sector disruption opportunities

01

**Uberization** of first and last mile freight transportation:

The UBER model leverages:
- Underutilized drivers and vehicles
- Cost savings on empty back-haul with spot pricing

02

**Marketplaces for legacy carriers:**

- Shopping for logistics is tedious and slow. New marketplaces allow customers to quickly compare pricing across carriers.
- 3PLs will soon begin licensing such technology to manage a fleet of subcontractors and divest out of vehicle assets.

Disruptive players gain traction

Source: AMI analysis
2018 LAC Mining Outlook
2018: LAC Mining sector trends
Investor risk is shifting from the presidential palace to the local community

01 National governments re-embracing mining investment

Argentina
Ecuador
Peru
Guyana
Brazil

02 Investor risk shifts to local communities

Short-changed by national governments
Emancipated by smartphones
Weakened national governments cannot control local communities
2018: LAC Infrastructure sector trends
Project boom on hold

01 Project boom on hold

- Public sector financing will remain soft until new political order is established in 2019
- PPPs will gain in popularity as institutional money returns to LatAm
- Greater due diligence applied to future projects

02 Which do you expect to be the main obstacle to developing infrastructure projects in 2017?

Source: BNamericas.com, AMI analysis
2018 LAC Consumer/Retail Outlook
2018: LAC Consumer Packaged Goods (CPG) trends

01 E-Mobility & Connectivity

By 2020 there will be close to 7 times the number of connected devices as people on the planet.

By 2020:

- World population 7.6 B
- Connected Dev. 50 B
- Dev/person 6.6

Sources: Cisco

02 Health & Well-Being

Insights

- Always “ON” generation
- Changing behaviors
- E-commerce growth
- On-time data
- Experiential Retail
  - Bricks and clicks

- “Better for you”
- Re-formulations & packages
- Changing preferences
- Trade & government responding to Globesity

03 Individualism & Premiumization

- “Me First”
- Reject mega-brands
- Tailor-made products & personalized brand-building
- Functional benefits
- Premium price

Sources: Cisco, Nielsen, AMI analysis
2018: LAC CPG sector key events
Headline for 2018: “Growth with volatility”

Presidential elections in: Brazil, Chile, Colombia, Mexico and Paraguay:
- Cash on the street
- FX volatility
- Hedging and delayed Capex

E-commerce giants expand in LatAm:
- Amazon, Alibaba, Wal-Mart
- Mercado Libre sells for $11+ bn
- Barriers will fall

NAFTA (TLC); 50/50:
- Supply sources disrupted
- New businesses

Russia soccer World Cup:
- Largest LatAm markets qualified
- Increased sponsorships
- Spillover

Sugar tax levies could spread in LatAm:
- Formulations
- Labelling
- Format sizing
- Promotion
LAC Strategic Planning
Best Practices
Traditional planning methods may not work
Annual plans miss strategic shifts in the market

1. Forecasting tools

- GDP
- Political events
- Intelligence
- FX
- Syndicated data
- Category trends

2. Planning challenges

- Volatility
- Instability
- Limited information

3. Annual plan deficiencies

- Too tactical
- Too political
- Difficult to upsell
- Constantly adjusted

4. Planning modelling challenges

- Staffing
- GM underrepresented — no buy-in
- Lack of reliable data available
Strategic planning best practices

Best Practices

- Follow trends, not headlines
- Macrotrends & LatAm adaptation
- Disrupt competition
- 5-year Strategy
- Metrics
- Align
- 360 buy in/consensus
- Commit resources

Benefits

- Leadership
- Shared vision
- Alignment
- Easier sell to HQ
- Prioritization
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About AMI

01 AMI is Latin America’s leading independent market intelligence consultancy

02 Our founding partners helped pioneer the field of market intelligence in Latin America

03 Our consultants have advised a third of the region’s 100 largest strategic investors over a span of two decades

04 AMI consultants have conducted over 2,000 client engagements in Latin America since 1993

05 Our holistic approach to market intelligence is unique. We combine market research, competitive intelligence, political analysis and economic forecasting in our studies. Few others do the same in Latin America

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