Webinar agenda

- Introduction
- Latin America in a global context
- Drivers of Latin America’s economy
- Forecasting leading markets
- Industry Practice Forecasts
  - Healthcare
  - Payments
  - Logistics
  - Consumer goods & Retail
  - Natural Resources
- Q&A
Introductions
AMI is the leading independent Market Intelligence provider in Latin America.

AMI is Latin America’s leading Market Intelligence and Advisory group.

AMI’s founding partners are pioneers in the field of Market Intelligence in Latin America, with over a quarter century of experience in the region.

AMI has experience in over 30 Latin American and Caribbean markets.

AMI is a member of SCIP Strategic and Competitive Intelligence Professionals.
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Latin America in the global context
A slow but steady recovery
By 2021, the region will regain the $1trn USD GDP lost in 2015/16
LAC is rebounding but will underperform other EMs
Modest commodity prices, rising Fed rate, small productivity gains all weigh on LatAm’s future growth

GDP real growth

Sources: IMF
Drivers of Latin America’s economy
Commodities drive the F/X of LatAm economies

Energy is making a comeback but trails industrial metals

Advantaged
Perú, Chile, Brazil
Energy importers - Central America, Caribbean

- Latin Americans keep $4trn in savings off-shore, leaving the region chronically short of capital. LAC economies rely on foreign debt to fuel growth and service that debt primarily with surplus commodity exports.

- Bra, Mex, Arg, Chi, Col, Per, Ven currencies are 97% correlated to the movement of their respective top three commodity exports.

Disadvantaged
Venezuela, Ecuador, Colombia, Trinidad & Tobago

Source - The Economist
Data is updated through May 2018
The 2nd longest bull-run in US history will slow in 2019

However, the dollar, employment and wage growth will remain strong, buoying closely linked LAC economies.

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

The dollar will further strengthen

Full employment is driving up wages

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

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

Business Cycle Co-Movement with U.S. Economy

Sources: IMF, Kiplinger report
Taper tantrum 2.0?
Is the market over-reacting to the Fed’s rising rates?

Target Federal Funds Rate

2018 currency movement (January - September)
- Argentina: (45%)
- Brazil: (17%)
- Mexico: (11%)
Thrown out
Voters are rejecting the status quo, not shifting right or left

Leading Candidate
Jair Bolsonaro

Mexican Pres.
Candidate AMLO

Brazilian Ex-President
Dilma Rousseff

Brazilian President
Michel Temer

Peruvian President
Kuczynski

Peru Opposition leader
Keiko Fujimori

Mexican President
Peña Nieto

Chilean President Bachelet
LatAm governments face a fiscal crisis
LAC governments still need to catch up with cost cutting. None can afford expanded infrastructure. Growth over the next two years will come from a rebounding private sector, not public spending.

Fiscal Deficit/Surplus as % of GDP

Source - World Bank, BMI
Business confidence is on the rise, with caveats

Recovering debt levels, mineral prices and declining fear of Trump policies underpins rising confidence

Recent rebound in business investor confidence in LatAm

Source: World Economic Outlook Database
Forecasting Leading Markets
**Did Mexico dodge a bullet?**

AMLO has managed to build a positive relationship with Trump, helping create an alternate NAFTA agreement

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP (US$ bn)</th>
<th>GDP growth</th>
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<tbody>
<tr>
<td>2014</td>
<td>2.3%</td>
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<tr>
<td>2015</td>
<td>2.6%</td>
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<td>2016</td>
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<td>2.8%</td>
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<td>2020f</td>
<td>3.0%</td>
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**Upside & downside risks**

- AMLO gov’t more centrist than anticipated.
- NAFTA put back on track after US mid-terms
  - USMCA ratification complicated by new congress
  - Oil prices remain soft
  - Lack of fiscal discipline punishes the Peso

**Foreign direct investment (US$ bn)**

Some data estimated since many of the official sources in the region are still finalizing last year’s data.

Sources: BMI, additional sources listed in final slide.
President Bolsonaro will aid recovery, for a while
Households and the corporate sector have paid down debt. Will the government get its act together?

GDP (US$ bn) and Growth

Upside & downside risks

✓ Temer reforms remain intact with the next gov’t (most likely Bolsonaro)
✓ Further reforms achieved with next government
✓ Brazilian currency strengthens
✓ Corporate sector raises equity financing

- Taper tantrum 2.0 continues to punish Real
- Lava Jato case continues to disrupt Brazil’s political process
- Haddad manages to win the Presidency
52% YTD depreciation lessens support for Macri
With few foreign reserves, Argentina was targeted by financial traders and forced to petition a line from the IMF.

GDP (US$ bn) and Growth

Upside & downside risks

- IMF strategy settles markets, currency strengthens
- Investors continue with plans
- Macri hangs on and is re-elected in 2019

- Unions negotiate hard, pushing up inflation
- Domestic investment stifled by high interest rates
- Peronists win the election and turn the clock back on reforms

Inflation and Interest rates

Some data estimated since many of the official sources in the region are still finalizing last year’s data.
Sources: BMI, additional sources listed in final slide.
Ivan Duque’s election should aid Colombia’s recovery

Colombia’s economic recovery stalled due to election uncertainty. Duque’s pro-investment policies should entice more investment.

GDP (US$ bn) and Growth

Upside & downside risks

- Duque administration will continue much needed reforms and loosen regulations
- Investor appetite for infrastructure projects should return
  - Renegotiating FARC peace accord ignites violence from FARC dissidents and frightens investors (e.g. mining sector)
  - Venezuelan immigration grows into refugee crisis

Some data estimated since many of the official sources in the region are still finalizing last year’s data.

Sources: BMI, additional sources listed in final slide.
Chile: prepared for a challenging 2019

Falling copper prices and a high USD debt levels will be off-set by rising FDI in mining and infrastructure.

Upside and downside invitation:

- Copper prices strengthen due to Asian demand
- Reform agenda can move forward, particularly tax and pension reforms
- China-US trade war hurts copper demand

Consumption & industrial growth:

Some data estimated since many of the official sources in the region are still finalizing last year’s data.

Sources: BMI, additional sources listed in final slide.
Peru: Are the *Fujimoristas* down and out?  
Billions sit on the sidelines waiting for a political clarity in Peru. Will Keiko’s arrest enhance or further disrupt governability in Peru?

GDP (US$ bn) and Growth

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<tbody>
<tr>
<td>GDP (USD)</td>
<td>2.4%</td>
<td>3.3%</td>
<td>2.5%</td>
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<td>3.9%</td>
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<td>GDP growth</td>
<td>0%</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
<td>2%</td>
<td>3%</td>
<td>4%</td>
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Upside & downside risks

- Mining investment plans continue unabated
- Political alignment paves the way for new infrastructure and energy projects
  - Investigation of Fujimori provokes more political antagonism
LatAm disruption 2.0
LAC relied on demographics to grow. That will change.

Contribution of labor input and productivity increases to GDP growth, 2000-15 %

- LAC growth relies disproportionately on an expanding labor pool. For the next 10-15 years, the region can sustain >2.5% annual growth but by 2035, the region must begin to rely in productivity boosting innovation to enhance growth.

- Very low patent registration volumes in Latin America are the result of a weak rule of law that discourages risk capital from investing in start-ups. Instead, many Latin American inventors leave the region to launch their ideas.

- As we enter an époque of digital disruption, the world’s technology divide may further exacerbate Latin America’s growth disadvantage.

Source - McKinsey
LAC technology needs will be serviced from abroad
China publishes 50 times more patents PER CAPITA than Latin America

- Latin America is one of the fastest growing IT markets in the world with CAGR of 5.5% through 2021
  - Cloud computing demand is growing at CAGR above 10% (through 2021)
  - Brazil (#2), Mexico (#6), and Argentina (#8) are top 10 global markets for total hours per week spent on the internet.
- 450 million mobile internet subscriptions by 2020
- Brazil (#2), Argentina (#3) and Mexico (#4) are among the highest users of Social Media worldwide
- Close to 200 million smart phone users today
- Latin America has an abysmal track record of developing its own technology, responsible for less than 1% of the world’s patents. Therefore, Latin America relies on international sources for almost all of its high-tech needs.
- High tech products will continue to be a cross-border logistics opportunity for consumers and businesses inside Latin America.

Patents per capita

Source - World Bank
2017-2027: Latin America’s decade of disruption
Latin America’s inefficient domestic service sectors are ripe for disruption

Retail
• E-comm growing at 20% CAGR. Presently 2.5% of retail versus 10% in US, 20+% in China.
• Amazon in Mexico, entering Brazil; Alibaba in Brazil, Mexico soon.

Logistics
• Uberization of the first and last mile freight transportation - e.g. Chazki
• New marketplaces for established carriers - e.g. Gurucargo
• Productivity tools - e.g. Logiety

Healthcare
• Government austerity is leading to investment in cost saving software, and tighter procurement
• New mobile private clinics servicing underfunded segments

Transport
• Uber’s fastest growing market region in the world in Latin America
• Mexico City is Uber’s 3rd largest market on the planet, commanding prices 2 x conventional taxis.

Education
• Self-paced e-Learning valued at $2.5bn, 10+% CAGR
• 10% of EdX rev from LatAm; 30% of Coursera LatAm via phone
• LatAm stars: Descomplica, EduK, Tareas Plus, Platzki, veDuca

Banking
• P2P lending is still nascent but growing quickly (e.g. Kubo Financiero)
• Alternative payment players beating banks & networks at: digital wallets (PayPal, Samsung Pay); remittances (Xoom, WorldRemit);
  • New players to come: Apple, Facebook, Google, Alibaba
Healthcare Outlook 2019

Presented by:
Guillaume Corpart
Harnessing emerging markets is key to growth

Number of hospitals by economy

- Developed economies: 25,000
- Emerging markets: 75,000

Number of hospitals by country

- China
- India
- Japan
- Brazil
- Russia
- United States
- Mexico
- Korea
- Germany
- Nigeria
- France
- Colombia
- Argentina

- There are 3x as many hospitals in emerging markets as there are in developed economies.
- Out of the top 10 emerging markets, 4 are in Latin America.
- Access is still the biggest challenge across the region.
Forces of change reshape LatAm healthcare

3 MAJOR TRENDS
- Ageing population
- Obesity epidemic
- Lack of efficiency

MICRO (PATIENT)
- Patient participation
- Mobile disruption
- Dependency ratios
- Private insurance
- Private care
- Value based care
- Provider consolidation

MACRO (SYSTEM)
- Obesity epidemic
- Ageing population
- Lack of efficiency
- Tight budgets

LOWER IMPACT
HIGHER IMPACT
Forces of change reshape LatAm healthcare

MICRO (PATIENT)  MACRO (SYSTEM)

HIGHER IMPACT

Patient participation  Mobile disruption

Dependency ratios  Private insurance

Private care  Lack of efficiency

Tight budgets  Obesity epidemic

Ageing pop.

LOWER IMPACT

Value based care  Provider consolidation

EFFECTS

• Household structure and dependency ratios
• Financial strain on public systems
  - Longer wait times, Lower quality of care
• Migration to private care
• Growth of private insurance
• Provider consolidation (vertical integration, conglomerates)
• Rise in value-based-care
Forces of change reshape LatAm healthcare

MICRO (PATIENT)  
- Patient participation
- Mobile disruption
  
MACRO (SYSTEM)  
- Dependency ratios
- Private insurance
- Private care
- Lack of efficiency
- Tight budgets
- Obesity epidemic
- Ageing pop.

EFFECTS
- Financial strain on public systems
  - Longer wait times, lower quality of care
- Migration to private care
  - Private care growing at >10% per year
- People wanting to take a more proactive stance in health management
- Use of mobile apps to do so
Forces of change reshape LatAm healthcare

MICRO (PATIENT)  
\[ \text{Patient participation} \rightarrow \text{Mobile disruption} \rightarrow \text{Dependency ratios} \rightarrow \text{Private insurance} \rightarrow \text{Private care} \rightarrow \text{Value based care} \rightarrow \text{Lack of efficiency} \]

MACRO (SYSTEM)  
\[ \text{Obesity epidemic} \rightarrow \text{Tight budgets} \rightarrow \text{Provider consolidation} \]

EFFECTS
- Shift in paradigm, moving away from caring for the ill and looking to population health
- Increase in value-based care
- Use of mobile technologies and Patient participation in order to reduce costs and achieve outcomes
Payments Outlook 2019

Presented by:
Lindsay Lehr
The technology battle for in-store payments

Contactless card mandates from networks
- VISA: January 2019
- Mastercard: April 2019
- American Express: April 2019

QR codes from closed-loop networks
- QR codes in Argentina
- Cobro SPEI in Mexico w/ QR
- P2P & QR merchant payments in Peru
- Tencent investment in Nubank

Contactless today
- LatAm <5%
- Australia >90%

Winners
- Card networks
- Banks
- Modern merchants
- Traditional merchants
- QR code network

Winners
- Card networks
- Modern merchants
- Traditional merchants
- Banks
- QR code network
Commerce moving toward an open platform model

Digital natives obscuring brands
- Rappi
- Glovo
- Cornershop
- CABIFY
- 99 Taxis
- recargapay
- Amazon

On-demand delivery
Restaurant delivery
Supermarket delivery
Mass success in ride hailing
Digital goods top-ups
Planning LatAm expansion

Traditional merchants under pressure
- Falabella
- Walmart
- OXXO

- purchase of LINIO
- acquisition of Cornershop
- launching delivery app

As marketplaces grow:
- Merchant brands lose relevance
- Card-on-file and recurring payments prevail
- Blurred lines between the physical and digital
- Mobile phone grows as transactional channel
Logistics Outlook 2019

Presented by: Diego Rodríguez
Maturing e-commerce generates more returns

- Product returns is a profit-killing operation in Latin America.
- Online retailers have begun to prioritize and evaluate the reverse logistics capabilities and flexibility of their 3PL suppliers.
- Today retailers prefer to ship a new product to a cross-border customers to avoid the hassles of returning the faulty or mistaken product.

Impact

Source: AMI internal analysis
The e-commerce boom is forcing change upon where and how warehousing and big data is managed by logistics customers.

Big Data is catching on among big firms in LAC as it gives them insights from the information that they already have to deliver a better customer experience and improve the efficiency of the business operations.
Logistics customers strive to cut costs

- Logistics buyers are under tremendous cost pressures. Logistics spend is one of the largest cost items of any manufacturer in LatAm.
- According to AMI surveys, the most important trigger of change to a customer’s choice of logistics vendor is the pursuit of lower costs.

Impact

Source: AMI internal analysis
Consumer Goods & Retail Outlook 2019

Presented by:
Mauricio Cárdenas
A volatile region with optimistic consumer sentiment

LatAm Consumer Sentiment Index

Source: The conference board in collaboration with Nielsen, AMI
Consumer/Shopper at the center of strategy

- Always on
- Healthy lifestyle
- Simplicity
- Authenticity

DISRUPTORS

- Omnishopper
- e-commerce
- Changed shopper route
- Big Data Price/Promo

Consumer

Shopper
Effective strategies to drive growth in 2019 and beyond

**Consumer Goods**
- Boost Productivity
- Innovation
- Targeted marketing
- Corporate & Social responsibility
- Agility!

**Retail**
- Hybrid strategy (on/off)
- Personalize experience
- Clear value proposition
- Promote healthy lifestyle
- Test new products/models
Natural Resources & Infrastructure Outlook 2019

Presented by:
Remi Piet & John Price
2019: LAC Mining sector trends
Positive mining reforms throughout the continent but local community opposition continues to strengthen

01 National governments re-embracing mining investment
- In Colombia, Ivan Duque reformed the disbursement of royalties and strengthened answers to illegal mining
- In Ecuador, Lenin Moreno adopts a more constructive attitude towards the private sector
- In Peru, Martin Vizcarra issues favourable regulations for lithium and uranium mining.
- Conservative governments in Chile, Argentina and most likely Brazil favour mining investments.

02 Investor risk shifts to local communities
- Local consultations and referendum against extractive industries will continue spreading throughout the continent.
- Rise in local insecurity and criminal activity in particular in Mexico, Colombia or Brazil will impact mining operations
- Unclear frameworks of “consulta previa” in several jurisdictions and ILO 169 convention will fuel litigation from indigenous communities and NGOs
2019: LAC Energy sector trends
The rise of global energy prices will lead to regulatory reforms and new investment opportunities.

01 Energy reforms debates will dominate the agenda in several key jurisdictions
- AMLO will give preferential treatment to Pemex over private players, allowing the state company to regain its leading position in Mexico’s energy landscape with an exploration and production budget of $11 billion in 2019.
- Bolsonaro plans to privatize non-core units of Petrobras and Eletrobras but will limit foreign investments in “strategic businesses” in the energy sector.
- Macri phased out energy subsidies and increased tariffs but also capped the price at which companies producing oil in Argentina can sell to refineries.

02 Guyana, Chile, Colombia will offer the strongest investment opportunities
- Large offshore oil finds, supportive business regulations place Guyana at the top of the ranking of investment opportunities.
- Chile, already one of the world’s 10 leading producers of clean energy, wants 90% of electricity from renewables by 2050, up from 17% in 2017.
- Duque’s solution to dwindling oil reserves is to encourage investment in exploration. He promised tax cuts to facilitate the industry’s investment needs ($7 billion a year).
2019: LAC Infrastructure sector trends

Project boom delayed by fiscal deficits. Increased scrutiny after Lava Jato scandal means higher need for comprehensive due diligence

01 Project boom on hold and increased local opposition

- Public sector financing reduced by macroeconomic and fiscal imbalances
- Odebrecht scandals and corruption concerns led to sounder PPP frameworks
- Greater due diligence and intelligence reports needed for future projects

02 What jurisdiction will be the most promising for infrastructure projects in 2019?

- The renewed legal framework (2012) makes Colombia one of the most attractive countries in Latin America for PPP and private investment. Over the last 5 years, Colombia has developed 37 PPP projects. The country is finalizing the settlement of the fourth generation (4G) of road licenses, the most ambitious road infrastructure project in its history.
- Chile approved more than 70 PPP projects in the last 5 years. Airports, generation of electric power projects, road licenses, railroads, water and sanitation and hospitals
- Half of the PPP projects in Latin America are developed in Brazil, mostly for public lighting, penitentiary, health and education establishments. A Bolsonaro administration is likely to diversify the type of infrastructure and multiply opportunities
- The public-private participation system in Argentina is modern and solid but still very recent. The Macri Administration passed a new PPP law in 2016 and designed the Belgrano Plan that involves a road, railway and commercial air project to boost the development of northern provinces.
Summary

• LatAm is entering its 3rd year of gradual recovery with plenty of runway ahead

• 2018 elections should lead to pro-investor policies

• LatAm will largely escape the ill-effects of US protectionism

• An era of disruption has begun in all service sectors in LatAm

• Cost cutting, not revenue growth will drive corporate strategies
Questions/Answers