Latin America
2020 forecast and key vertical trends analysis

2019.10.24
Webinar agenda

• Introduction
• A pause in LatAm growth
• Global trends impacting LatAm
• AMI corporate survey results
  • Q&A
• Country level analysis
  • Q&A
• AMI industry practice trends
  • Payments
  • Healthcare
  • Logistics
  • Consumer Services
• 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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A pause in top line growth in Latin America
When will the rebound come?
LAC has lost a half decade of growth

Sources: BMI, World Bank, UN, IMF
LAC may rebound but will underperform other EMs
Modest commodity prices, a strong USD, and small productivity gains all weigh on LatAm’s future growth

Sources: IMF
LatAm’s boom was driven by labor expansion, not productivity gains

<table>
<thead>
<tr>
<th>Region</th>
<th>Avg. GDP growth per capita, CAGR %</th>
<th>Avg. top line GDP growth CAGR %</th>
<th>Contribution of labor input and productivity increases to GDP growth, 2000-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>0.6</td>
<td>2.9</td>
<td>78</td>
</tr>
<tr>
<td>Middle East</td>
<td>1.1</td>
<td>4.2</td>
<td>73</td>
</tr>
<tr>
<td>Oceania</td>
<td>0.9</td>
<td>3.0</td>
<td>70</td>
</tr>
<tr>
<td>Africa</td>
<td>1.8</td>
<td>5.1</td>
<td>63</td>
</tr>
<tr>
<td>Western Europe</td>
<td>0.6</td>
<td>1.2</td>
<td>49</td>
</tr>
<tr>
<td>North America</td>
<td>1.4</td>
<td>2.2</td>
<td>31</td>
</tr>
<tr>
<td>Eastern Europe and Central Asia</td>
<td>3.2</td>
<td>3.5</td>
<td>17</td>
</tr>
<tr>
<td>Asia</td>
<td>6.1</td>
<td>6.4</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: McKinsey
Latin America has the fastest-aging population in the world

The demographic dividends will begin to diminish in 2025

Source – Center for Strategic & International Studies
Global trends impacting LatAm
Political hyper-transparency is hyper-disruptive

Recent headlines in leading newspapers

“Chile President Pinera declares emergency as capital rocked by riots”
“Ecuador moves government out of capital as violent protests rage”
“Why is AMLO treating tax evaders like drug dealers?”
“Jair Bolsonaro pictured with 2nd accused in Marielle Franco murder case”
“Democracy in Bolivia has two faces”: ambivalence as Evo Morales seeks a 4th term
“Polls in Argentina nowhere to be found two weeks ahead of elections”
“A Peruvian political dynasty reels as President dissolves Congress”
“The President of Peru stages a coup”
“President AMLO criticism sparks death threats to newspaper”
“Why Colombia doesn’t go to the police or trust statistics”

Worrisome trends

• Weakening institutions
• Less support for democracy
• Voters and investors want more certainty
• Collapse of traditional parties
• Return of caudillo politics
• Populist campaigning becoming populist policies
No one really knows what happens next to the global economy

Trump-led trade conflict
• Scheduled tariff increases will reduce global GDP by $700bn (0.8%) - IMF Oct 2019

Gold prices elevated
• Gold mining investment rising across LAC

Strong US dollar hurts commodity exporters
• Most South American economies thrive when the dollar weakens

Strong US dollar helps manufacturing and service exporters
• The business case for outsourcing to Mexico and Central America is better than ever
• Caribbean tourism and service receipts at record levels

Sources of 2020 Global GDP growth (USD bn)

<table>
<thead>
<tr>
<th>Region</th>
<th>GDP (USD bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rest of world (199 countries)</td>
<td>$1,242</td>
</tr>
<tr>
<td>China</td>
<td>$839</td>
</tr>
<tr>
<td>US</td>
<td>$514</td>
</tr>
<tr>
<td>India</td>
<td>$221</td>
</tr>
</tbody>
</table>

Sources: IMF, OECD
Commodities (and major LatAm currencies) continue to weaken
AMI survey of LatAm divisional presidents
September 2019
What is the anticipated growth rate (in USD) for your LatAm division in 2019?

Average = 9.3%
How do you expect your LatAm division to perform (in USD) in 2020 versus 2019?
In which (up to three) markets are you expecting the most upside / downside risk in 2020?

**Positive growth**
- Brazil
- Colombia
- Chile
- Mexico
- Peru

**Negative growth**
- Argentina
- Mexico
Which do you consider to be the top risks to your LatAm business in 2020? (pick up to five)

<table>
<thead>
<tr>
<th>Risk</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Local (LatAm) currency depreciations versus the USD</td>
<td>50%</td>
</tr>
<tr>
<td>Local (LatAm) elections</td>
<td>40%</td>
</tr>
<tr>
<td>Weak or falling demand</td>
<td>30%</td>
</tr>
<tr>
<td>Onerous and/or worsening local business regulations</td>
<td>20%</td>
</tr>
<tr>
<td>Disruptive new competitors</td>
<td></td>
</tr>
<tr>
<td>Traditional competitors</td>
<td></td>
</tr>
<tr>
<td>US - China trade war</td>
<td></td>
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<tr>
<td>Inadequate local (LatAm) partners including suppliers, distributors, etc.</td>
<td></td>
</tr>
<tr>
<td>Informal/illegal competitors</td>
<td></td>
</tr>
<tr>
<td>Security (physical, cyber, intellectual property)</td>
<td></td>
</tr>
<tr>
<td>Inadequately experienced/talented local (LatAm) management</td>
<td></td>
</tr>
<tr>
<td>Your firm lacks the right mix of products/services for the LatAm market</td>
<td></td>
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<tr>
<td>Lack of HQ support</td>
<td></td>
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<tr>
<td>LatAm trade protectionism</td>
<td>10%</td>
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</tbody>
</table>
Questions/Answers
Country-level analysis
Brazil: pinch your nose and enjoy the animal spirits
The likeness to Trump is uncanny – ridiculed & hated by some, adored by others – including investors

GDP (US$ bn) and Growth

Upside & downside risks

✓ Pension reforms keep capital parked in Brazil
✓ Tax reform (simplification) achieved in 2020
✓ In-flow of capital strengthens currency and prevents need to raise interest rates
✓ Privatizations spur investment in infrastructure
✓ Mining & energy investment to soar

○ Chinese & US trade war continues, hurting demand for industrial metals
○ EU-Mercosur free trade derailed by Austria, France & Ireland over Brazil’s ambivalence to Amazon fires

Sources: BMI, AMI

President Jair Bolsonaro (left) and Super Minister Paulo Guedes
Can they make Brazil great again?
Mexico: a tale of two economies
The USMCA will further boost the export economy. AMLO’s policies will continue to demoralize investors

Exports are booming

- Exports (US billions)
- Export growth

Death by a thousand 50 cuts

1. Cancellation of the Texcoco airport
2. Slashing central bank salaries to push out hawks and legislation to weaken Banxico.
3. Decision to spend $6-14bn on refineries
4. Finance minister Carlos Urzúa quits in disgust over the appointments of unqualified cronies and ideologues.
5. Cancellation of energy production and exploration bids.
6. Recreate a “super-union” organization under Napoleón Gómez Urrutia.
7. Attacking the integrity and autonomy of the CRE (Energy Regulatory Commission)
8. Openly criticizing ratings agencies who question management of Pemex.
9. New legislation to go after tax evaders with same authority applied against organized crime.
10. Consumer protection laws eliminate several fees that banks can no longer charge their customers.

Sources: BMI, AMI
Argentina: Just when we thought it couldn’t get any worse…

GDP (US$ bn) and Growth

Upside & downside risks

✓ Regardless of political choices in October elections, investments to continue in energy and mining

- IMF refuses to extend more credit, currency controls fail to stem capital flight, leading to default
- Peronists win October elections, further eroding investor confidence, accelerating timetable of default
- Peronists refuse to sign EU-Mercosur agreement

2019 GDP per capita

Argentina - $7,018
Peru - $7,272

Sources: BMI, AMI
Colombia: Ivan Duque sounds good, but can he govern?
Duque looks and sounds like a competent technocrat but his ability to legislate is doubted

GDP (US$ bn) and Growth

Upside & downside risks

- Investor appetite for infrastructure projects and the retail economy returns
- Re-industrialization of Colombia spurs job creation

- Mid-term elections further weaken Duque and the central government
- Odebrecht investigation blows up and weakens government
- Venezuelan immigration grows into refugee crisis (another 3-4 million refugees)
- Oil prices remain low, hurting the peso and growth
- Income inequality keeps leftist messaging relevant

Sources: BMI, AMI
Chile: 2nd world income, 3rd world inequality

Chile’s latent economic divide is putting to test its leader’s policy resolve

Upside and downside risks

✓ Reform agenda can move forward, particularly tax and pension reforms
○ China-US trade war continues to hurt copper demand
○ Reform agenda is delayed by protests and political fallout

Consumption & industrial growth

Sources: WEF, BMI, AMI

More equal                   Gini Coefficient of national income distribution     More unequal

Peru

Honduras

Argentina

Costa Rica

Uruguay

Chile

Sources: WEF, BMI, AMI
Peru: Strong growth in spite of political tumult

Mining investment remains strong but many exporters are worried over the US-China trade dispute.

**GDP (US$ bn) and Growth**

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP (USD)</th>
<th>GDP Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>200</td>
<td>2.4%</td>
</tr>
<tr>
<td>2015</td>
<td>220</td>
<td>3.3%</td>
</tr>
<tr>
<td>2016</td>
<td>240</td>
<td>3.9%</td>
</tr>
<tr>
<td>2017</td>
<td>250</td>
<td>2.5%</td>
</tr>
<tr>
<td>2018e</td>
<td>260</td>
<td>4.0%</td>
</tr>
<tr>
<td>2019f</td>
<td>280</td>
<td>3.0%</td>
</tr>
<tr>
<td>2020f</td>
<td>300</td>
<td>3.5%</td>
</tr>
<tr>
<td>2021f</td>
<td>320</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

**Upside & downside risks**

- High precious metal prices spur additional investment and royalties
- US-China trade dispute lowers demand for copper and other industrial metals
- Political tumult slows and complicates infrastructure spending and spooks foreign investors
- A political vacuum in Lima encourages local community opposition

Sources: BMI, AMI
Questions/Answers
Industry practice outlooks
Healthcare Trends 2020

Presented by:
Guillaume Corpart
Five key facts about healthcare in Latin America

**Megatrends**
- Ageing population
- Obesity epidemic
- Lack of efficiency

**Infrastructure**
- Home to 24% of the world’s hospitals
- Average hospital size 45 beds (vs 160 in US)

**Efficiency gains may appear...**
- Public systems working with one another (e.g.: Mexico)
- Public + private systems working toward a common objective (e.g.: Mexico vs. Brazil)
- Common metrics must be used and measured (e.g.: procedure codes Colombia ICD-9 vs Brazil TISS/TUSS)
- Technical staff
- Supply chain

**Budgets**
- Tightening government budgets

It is a question of access ... to quality care in a timely manner.
Three innovative approaches to client targeting

Case studies from clients in the medical equipment and device field

I. Pre-Launch Decisions

No market data for innovative products. Decision-making is almost impossible.

Use of statistical modeling on similar equipment types.
Multi-linear regression.
Decide countries in which to launch first.
Identify potential clients in each country.

II. Size & Sell

Market data is unreliable, inconsistent, asymmetrical and estimated, at best. Planning is difficult.

Get verified data.
Adjust it to your needs, if necessary.
Conduct sales modeling.
Incorporate AI elements if needed.

III. Eliminate the blind spot

Always looking at the same accounts.
Limited sales team.
Not considering full market potential.

Get verified data.
Compare and contrast to internal sales (CRM).
Identify untapped opportunities.
Deliver qualified leads to the sales team.
Payments Trends 2020

Presented by:
Lindsay Lehr
LAC has become digitized — well, sort of...

67% average smartphone penetration

36 million people use ride hailing apps

260 million MercadoPago users

15 million Rappi users

10 million Nubank customers

But somehow, cash still reigns

2018 split of retail spend, cash vs. cards

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>Mexico</th>
<th>Colombia</th>
<th>US</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>63%</td>
<td>89%</td>
<td>93%</td>
<td>33%</td>
<td>82%</td>
</tr>
<tr>
<td>Cards</td>
<td>37%</td>
<td>11%</td>
<td>7%</td>
<td>67%</td>
<td>18%</td>
</tr>
</tbody>
</table>

$1.5 trillion in cash retail spend

Sources: Local press, local banking and commerce associations, AMI analysis
Six mega-trends in Payments

- Payment cards to payment credentials
- Terminal-less acceptance
- Acquiring & acceptance revolution
- Race for the superapp
- Bank accounts becoming a payment method
- Fees trending toward 0
Going plastic-less and terminal-less

Estimated number of merchants accepting QR codes
- MercadoPago: 500,000
- Rappi: 20,000

2019 total card transactions, LAC
- 2% QR codes
- 98% POS terminal

Sources: BCRA, MercadoPago 2019 Financial report, interviews, AMI analysis

Wallet to wallet transactions are equal to 2% of card transactions
Logistics Trends 2020

Presented by:
Diego Rodríguez
Five noteworthy trends impacting LatAm logistics

1. Evolving logistics marketplaces
2. Reduction of environmental impact
3. Logistics regulations
4. IT and Digitization
5. Tsunami of cross border e-commerce packages
Consumer Services Outlook 2020

Presented by:
Ricardo Álvarez
Trend #1: Serving a segment of ONE

**20th Century Market Segmentation**

- **Demographic Segmentation**
  - People with Internet access
  - Age group of 25 to 50 years, as 45% of online buyers belong to the 35-49 age group
  - Focusing on a younger audience

- **Psychographic Segmentation**
  - Customers segmented by loyalty
  - Customers who like innovations and changes to the website
  - Those who value customer care first
  - People who click on recommended and suggested products the most

- **Situational Segmentation**
  - Convenience as a major reason for online purchases
  - Interest in new categories
  - New lucrative deals every day, every hour
  - Low pricing as a major factor for purchasing online

- **Geographic Segmentation**
  - International appeal
  - Digital sales over ‘real-world’ sales
  - Focuses on developed areas
  - For rural areas - smartphone use crucial

**21st Century Market Segmentation**

- Internet client communication
- Digital products
Companies effectively marketing to the segment of ONE

Amazon, the “everyone” store

Rappi wants to hyper-personalize

Customization of every pair

Customer data mining & AI driven individual marketing campaigns
Trend #2: Copycats — the 2nd wave of disruptors leading growth

Imported disruptors (1995 onwards)
- Ebay
- Expedia
- Uber
- Craigslist
- Airbnb
- Netflix
- Coursera
- PayPal

Copycats (2000 onwards)
- Mercadolibre
- Despegar
- Easytaxi, Cabify, 99taxis
- OLX
- Rappi
- CargoX
- Properati

Originales (2020 onwards)
- Satellogic
- BovControl
Questions/Answers