

Excerpts from  
**Impact of Early Stage Equity  
Funds in Latin America**

> **Nxtp.Labs**

Josh Lerner <sup>†</sup>  
James Tighe  
Steve Dew  
Vladimir Bosiljevac <sup>‡</sup>  
Ann Leamon  
Sandro Díez-Amigo <sup>§</sup>

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With assistance from  
Susana Garcia-Robles <sup>§</sup>



<sup>†</sup> Harvard Business School

<sup>‡</sup> Harvard Law School

<sup>§</sup> Multilateral Investment Fund  
of the Inter-American  
Development Bank

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## ABOUT THE MULTILATERAL INVESTMENT FUND

### Our Vision

The Multilateral Investment Fund is the innovation lab for the Inter-American Development Bank Group. It conducts high-risk experiments to test new models for engaging and inspiring the private sector to solve economic development problems in Latin America and the Caribbean. The MIF addresses poverty and vulnerability by focusing on emerging businesses and smallholder farmers with the capacity to grow and create economic opportunities.

### What we do

The Multilateral Investment Fund (MIF), a member of the Inter-American Development Bank (IDB) Group, is the largest provider of technical assistance for private-sector development in Latin America and the Caribbean. Our core beneficiaries include micro and small businesses, small farms, and poor and vulnerable households.

We design and finance pilot projects to test pioneering approaches to building economic opportunity and decreasing poverty. We evaluate the results and the impact of our projects to identify replicable solutions that can be scaled up by the public and private sectors.

We are committed to sharing the lessons learned from our work so that others can benefit.

Using small projects, we have achieved sustainable transformation in the thinking and behavior of people, policymakers, organizations, and businesses in areas such as microfinance, remittances, venture capital, and training for youth.

### Who we are

The MIF was created in 1993 by 21 donor countries. Sixty-five percent of the financing we provide is in the form of grants, 25 percent is equity, and 10 percent is loans. We provide the loan and equity alone or in combination with grants—as well as expert advice. With this wide variety of tools and more than 20 years of experience in the field, we have the flexibility required to tailor solutions to the unique challenges in Latin America and the Caribbean.

We have financed more than \$2 billion in grants and investments for private sector development projects. In all, we have funded more than 1,800 MIF projects with various partners.

Funds for our activities come from contributions made by our member countries—now totaling 39—in Latin America and the Caribbean, North America, Europe, and Asia.

Where and how we operate.

We work on the ground and in partnership—with local, mostly private partners—to help fund and carry out pilot projects. Altogether, we have worked with more than 2,000 local partners, most of which had never previously worked with a development bank. Our partners contribute both a significant portion of the project costs and on-the-ground resources to implement operations.

We also work with global partners that share our goals, such as corporations, foundations, and other multilateral organizations. They pool their financial and other resources with ours to jointly solve development challenges.

In addition, we invest in private financial institutions, which lend the resources to micro and small businesses, and in the rapidly developing venture capital and impact investment industries in Latin America and the Caribbean. Nearly half our staff works out of IDB Group offices in 26 countries in the region. We monitor each project throughout its active stages, perform a thorough evaluation once it is complete, and share lessons learned. Once each pilot is completed, we provide knowledge and tools for the IDB Group or others to scale it up, or to adapt and replicate it for different communities and sectors.

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### MULTILATERAL INVESTMENT FUND

1300 New York Avenue, N.W., Washington, D.C. 20577

[mifcontact@iadb.org](mailto:mifcontact@iadb.org)

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## I. Summary

In 2011, NXTP Labs, Latin America's first regional accelerator, was founded by four Argentines—all successful entrepreneurs in their own right—as a way of supporting other ambitious would-be entrepreneurs who were just starting out. The firm makes \$25,000 investments (and larger follow-on investments) in the region's promising start-ups, and provides mentoring and advice to their entrepreneurs, as well as connections to a strong regional network.

The founders raised the fund's first \$2.5 million from their extensive personal networks, which also provided 80 mentors to support the program's entrepreneurs. In its first 18 months, NXTP Labs graduated 50 start-ups from its program and achieved its first exit. The firm leveraged this early experience to raise additional capital for the fund in 2013, anchored by a \$5 million investment from the Inter-American Development Bank's Multilateral Investment Fund (MIF). By September 2015, NXTP had closed the fund at approximately \$38.5 million.

By mid-2015, NXTP Labs had invested over \$13.7 million of capital<sup>4</sup> in 164 companies across eight editions of its accelerator. In October 2015, it achieved its ninth exit when Tutum, a cloud service provider for developers and system administrators, was acquired by Docker, a U.S.-based tech company, generating a 60x return on invested capital. Considering all nine exited investments, NXTP had produced a combined multiple of invested capital (MOIC) of 4.74x by November 2015. Furthermore, the performance of its portfolio of start-ups had exceeded the firm's performance projections, as less than 20% of its companies were written-off or deemed “walking dead,”<sup>5</sup> a proportion far lower than the anticipated 60%. In fact, high-potential<sup>6</sup> and growing companies comprised more than half of the portfolio. Through and alongside this work, the firm spurred increased entrepreneurship in Latin America, particularly among women, and contributed to strengthening the region's start-up ecosystem and enhancing its innovativeness. Yet this success poses challenges, as NXTP faces the complicated task of effectively monitoring its large portfolio and helping its start-ups achieve lucrative exits. In addition, NXTP's founders must carefully implement recent changes to its accelerator model, consider how to structure and raise capital for a new VC fund, and manage the firm's evolution as it finishes investing its seed fund.

This case study describes first the background of Latin America's economy and PEVC ecosystem, along with the background of NXTP Labs. Thereafter, the direct and indirect impacts of its investments are described, and a conclusion section discusses NXTP Lab's relationship with the MIF and considerations for its future.

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<sup>4</sup> NXTP's accelerator model invests both capital and services (i.e., mentoring, business training, and access to NXTP's network) in exchange for equity in the portfolio companies. The \$13.7 million figure includes only the capital invested directly in portfolio companies and not the cost of NXTP's acceleration services.

<sup>5</sup> Walking dead are companies that have not overtly failed, but that are expected to generate negative or very low returns.

<sup>6</sup> NXTP defined high-potential companies as those that had validated their business model by the regionalization/internationalization of their products/services and had completed at least one round of fundraising with well-known VCs or super-angel investors.

## II. Background & Fund Formation

Although NXTTP Labs is headquartered in Argentina, its operations now stretch to Brazil, Chile, Colombia, Mexico, Uruguay, and the United States. In fact, from its inception, it was envisioned as a regional accelerator. Thus, a brief introduction of the guiding forces behind the economy and demographics of the entire Latin American region is included below, along with the region's overall PEVC ecosystem. However, it is important to note that this overview, perforce, cannot take into account the differences—often stark—between the countries that make up Latin America.

### **The Economy and Demographics of Latin America**

As of mid-2015, Latin America (LatAm) boasted a population of approximately 587 million people across 21 countries.<sup>7</sup> Between 2004 and 2011, the region's annual growth rate had exceeded 4%, with four years of growth over 5%.<sup>8</sup> Yet by 2014 annual growth rates had declined to 1.3%, and LatAm's growth continued to cool off during 2015.<sup>9</sup> Falling commodity prices, the "rebalancing" of the Chinese economy, and decreasing investment in the region were among the factors that contributed to this economic deceleration.

LatAm's economic growth in the 2000s was accompanied by major socio-economic shifts. In the decade before 2015, over 70 million people escaped poverty, and the middle class expanded by 50%.<sup>10</sup> The growing middle class drove strong regional consumption growth. Additionally, by 2014 Internet penetration in the region had climbed to 51%, creating new opportunities for tech and ecommerce companies.<sup>11</sup> Mobile phone adoption was similarly on the rise; over half of the population had mobile phones by 2014, with over 718 million mobile connections, including 154 million smartphones.<sup>12</sup> By 2020, the number of smartphones was expected to rise to over 600 million.<sup>13</sup>

Simultaneously, the business environment in many Latin American and Caribbean countries was improving. For example, according to the World Bank Group's Doing Business database, the average time to start a business in the region fell from over 70 days in 2005, to less than 34 days in 2015.<sup>14</sup> Similarly, the region's average scores improved across a number of categories, including getting credit (improved 8.1 points), and resolving insolvency (improved 14.5 points).<sup>15</sup>

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<sup>7</sup> World Population Bureau, [http://www.prb.org/pdf15/2015-world-population-data-sheet\\_eng.pdf](http://www.prb.org/pdf15/2015-world-population-data-sheet_eng.pdf).

<sup>8</sup> The World Bank's World Development Indicators, accessed September 27, 2015.

<sup>9</sup> The World Bank's World Development Indicators, accessed September 27, 2015.

<sup>10</sup> The World Bank, "Latin America and the Caribbean: Overview," The World Bank, accessed September 28, 2015. <http://www.worldbank.org/en/region/lac/overview>

<sup>11</sup> "Latin American Internet Audience Nears 310 Million," *eMarketer*, December 4, 2014.

<http://www.emarketer.com/Article/Latin-American-Internet-Audience-Nears-310-Million/1011667>

<sup>12</sup> GSMA Intelligence, *The Mobile Economy: Latin America 2014*, GSMA, 2014.

[http://www.gsmamobileeconomylatinamerica.com/GSMA\\_Mobile\\_Economy\\_LatinAmerica\\_2014.pdf](http://www.gsmamobileeconomylatinamerica.com/GSMA_Mobile_Economy_LatinAmerica_2014.pdf)

<sup>13</sup> GSMA Intelligence, *The Mobile Economy: Latin America 2014*, GSMA, 2014.

[http://www.gsmamobileeconomylatinamerica.com/GSMA\\_Mobile\\_Economy\\_LatinAmerica\\_2014.pdf](http://www.gsmamobileeconomylatinamerica.com/GSMA_Mobile_Economy_LatinAmerica_2014.pdf)

<sup>14</sup> The World Bank's Doing Business Database, accessed September 27, 2015.

<sup>15</sup> The averages were calculated using only countries with scores for both 2005 and 2015.

## Latin America's PEVC Ecosystem

Latin America's PEVC ecosystem improved alongside its general business environment. The 13-indicator PEVC scorecards developed by the Latin American Private Equity and Venture Capital Association (LAVCA) showed average scores among countries in both the original (2006) and 2015/16 versions of the assessment increasing by over seven points.

Accordingly, LatAm's PEVC fundraising and investment activity has grown in recent years. Fundraising rose from \$3.6 billion in 2009 to a record \$10.3 billion in 2011, only to be topped again when the region's PEVC funds raised a collective \$10.4 billion of capital in 2014.<sup>16</sup> Over \$7.8 billion was invested in 2014, and the industry realized \$4.6 billion in exits. In the first half of 2015, PEVC funds raised almost \$4.3 billion, over \$3.5 billion was invested, and over \$1.7 billion was realized in exits.<sup>17</sup> While Brazil regularly received the largest share of the region's PEVC capital (for instance, more than half of PEVC investments flowed to Brazilian companies in 2014), the rest of the region was garnering increased attention from limited partners (LPs). According to the Emerging Markets Private Equity Association's (EMPEA) 2015 Global Limited Partners Survey, Latin America excluding Brazil ranked as the most attractive emerging market for GP investment for the second year in a row.<sup>18</sup>

Turning specifically to VC, despite a recent slump in activity, the industry still showed strong growth since 2010. In 2014 the region's VC funds raised \$458 million, down from \$714 million the previous year, but up 47% from 2011's total of \$312 million. The number of deals and total amount of capital deployed in venture deals rose steadily from 2010, when only \$63 million was invested.<sup>19</sup> In 2014, VC funds invested \$526 million across 186 deals, with 50% of the deals and 75% of the total capital invested in Brazil. That year, Mexico and Argentina followed behind Brazil in the VC space, with \$45 million invested across 31 deals, and \$35 million invested across 26 deals, respectively. In 2014, the region's VC funds realized \$99 million in 18 exits.<sup>20</sup>

In the first half of 2015, over \$260 million was invested in VC deals, approximately keeping pace with 2014.<sup>21</sup> Venture capital fundraising and exits, however, were considerably lower, with only \$9 million raised for four Latin American VC funds and \$20 million realized in three VC exits.

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<http://data.worldbank.org/data-catalog/doing-business-database>. The scores reported are the Doing Business "Distance to Frontier" (DTF) scores. This measure shows the distance of each economy to the "frontier," which represents the best performance observed on each of the indicators across all economies in the *Doing Business* sample since 2005, on a scale of 0 to 100. For more detail on the methodology of the Doing Business survey, please see "Doing Business 2015: Regional Profile Latin America and Caribbean".

<http://www.doingbusiness.org/reports/~media/GIAWB/Doing%20Business/Documents/Profiles/Regional/DB2015/DB15-Latin-America-and-Caribbean.pdf>

<sup>16</sup> 2015 LAVCA Industry Data.

<sup>17</sup> 1H2015 LAVCA Industry Data.

<sup>18</sup> EMPEA, *2015 Global Limited Partners Survey*, Washington, D.C.: EMPEA, 2015.

<sup>19</sup> LAVCA, *2015 LAVCA Industry Data & Analysis*, LAVCA, 2015.

<sup>20</sup> 2015 LAVCA Industry Data.

<sup>21</sup> 1H2015 LAVCA Industry Data.

## Accelerators

Accelerators represent the modern version of the incubators from the U.S. Tech Bubble of the 1990s. These programs help early-stage companies, often comprising only the founding team and an idea or prototype, establish and grow their businesses. Typically such programs accelerate start-ups in batches, and for a fixed period of time offer shared workspace, mentoring, and educational workshops, before culminating in a public pitch event where entrepreneurs can present their businesses to potential investors. Many programs also provide a small seed investment into the companies in exchange for a small equity percentage.

The first modern start-up accelerator was the U.S.-based Y Combinator.<sup>22</sup> Founded in 2005 and widely considered the industry's gold standard, Y Combinator's notable graduates include Dropbox, Airbnb, and Reddit.<sup>23</sup> Due in part to Y Combinator's success, the model quickly proliferated throughout the United States and the rest of the world. Estimates of the number of accelerators vary, but even conservative estimates place it over 300 by the end of 2014.<sup>24</sup>

Start-Up Chile, a seed accelerator sponsored by the Chilean Government's Corporación de Fomento de la Producción de Chile (CORFO), was one of the first notable accelerator programs in Latin America. By the end of 2014, it had provided over \$8 million to over 239 companies, making it one of the region's largest funders of start-ups.<sup>25</sup> It was quickly followed by a number of new programs, including 21212 located in Rio de Janeiro and Wayra, Telefónica's accelerator based in Latin America and Spain, —as well as NXTP Labs in Buenos Aires—all of which started in 2011. By the end of 2014, the number of accelerators and accelerator-backed companies had grown tremendously in the region. One 2014 report identified 53 Latin American start-up accelerators that had collectively invested over \$35 million in almost 900 startups.<sup>26</sup>

Little research has been done to examine the effectiveness of accelerators, due in part to their relative youth. One 2013 study found evidence that start-ups that graduated from top accelerator programs were quicker to receive VC funding, to exit by acquisition, and to achieve customer traction than peers that had not been accelerated.<sup>27</sup> But accelerators appeared to play a role not just in the growth of individual companies but also in the overall expansion of a region's entrepreneurial ecosystem. A 2014 study conducted by Daniel Fehder and Yael Hochberg

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<sup>22</sup> NBIA, *2012 State of the Business Incubation Industry*, National Business Incubator Association, 2012. And Daniel C. Fehder and Yael V. Hochberg, *Accelerators and the Regional Supply of Venture Capital Investment* (September 19, 2014). Available at SSRN: <http://ssrn.com/abstract=2518668> or <http://dx.doi.org/10.2139/ssrn.2518668>.

<sup>23</sup> <http://techcrunch.com/2014/03/10/these-are-the-15-best-accelerators-in-the-u-s/>

<sup>24</sup> *2012 State of the Business Incubation Industry*, National Business Incubator Association, [www.nbia.org](http://www.nbia.org). And Daniel C. Fehder and Yael V. Hochberg, "Accelerators and the Regional Supply of Venture Capital Investment," September 19, 2014.

Available at SSRN: <http://ssrn.com/abstract=2518668> or <http://dx.doi.org/10.2139/ssrn.2518668>.

<sup>25</sup> Fundacity.com, *Latam Accelerator Report 2014*, Fundacity, 2014.

<http://www.fundacity.com/latam-accelerator-report-2014>

<sup>26</sup> Fundacity.com, *Latam Accelerator Report 2014*, Fundacity, 2014.

<http://www.fundacity.com/latam-accelerator-report-2014>.

<sup>27</sup> Benjamin Hallen, Christopher Bingham, and Susan L. Cohen, "Do Accelerators Accelerate? A Study of Venture Accelerators as a Path to Success," Working paper, 2014.

examined 59 U.S. accelerators founded between 2005 and 2012.<sup>28</sup> Its findings suggested that accelerators attracted more seed and early-stage entrepreneurial financing activity to the area, benefiting not only the accelerated start-ups, but also other start-ups in the region that did not participate in the program. Such findings indicate that accelerators can be both directly beneficial to a region's start-ups and also indirectly beneficial to the region's overall entrepreneurial environment.

### **NXTP Labs' Origins**

Unlike Start-Up Chile and 21212, NXTP Labs was Latin America's first regional-focused accelerator program. Inspired by Y Combinator, NXTP Labs provides financing, mentoring, and support to early-stage, web-enabled technology companies in industries like big data, financial technology, ecommerce, security, agricultural technology, and gaming.

The accelerator was created in 2011 by four founders, each of whom were successful entrepreneurs in their own right:

**Ariel Arrieta** was a serial entrepreneur who had founded several online advertising companies that were acquired by Fox International Channels, 21<sup>st</sup> Century Fox's international multimedia business, in 2007. He was an active angel investor and had graduated from Harvard Business School's Owners & Presidents Management Program. (In 2015, Ariel also graduated from the Kauffman Fellows Program, a highly competitive program aimed at supporting emerging leaders in the VC industry.)<sup>29</sup>

**Francisco Coronel** founded an architectural software firm in 2005. He also earned a master's degree in corporate finance from the University of California at Berkeley and had served on the advisory boards of a number of leading technology companies, such as Metrix and Cuponica. He has been an Endeavor Entrepreneur since 2007.<sup>30</sup> (In 2015, Francisco was also chosen to participate in the Kauffman Fellows Program.)

**Marta Cruz** founded her first company, a men's apparel operation, with her husband in 1979. She then gained extensive experience in digital marketing while working for MRM, McCann Erickson Group's digital agency, where she served clients such as HP, Intel, Coca-Cola, GM, Hilton, Nortel, and MasterCard.

**Gonzalo Costa** earned an MBA from Duke University and had extensive experience in strategic consulting, PE, and VC. He founded Intelgia Management Partners, a financial and strategic consulting firm, and was on the investment committee of Santander Bank in

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<sup>28</sup> 2012 *State of the Business Incubation Industry*, National Business Incubator Association, [www.nbia.org](http://www.nbia.org). And Daniel C. Fehder and Yael V. Hochberg, "Accelerators and the Regional Supply of Venture Capital Investment," September 19, 2014.

Available at SSRN: <http://ssrn.com/abstract=2518668> or <http://dx.doi.org/10.2139/ssrn.2518668>.

<sup>29</sup> The Kauffman Fellows website can be found at <http://www.kauffmanfellows.org/>.

<sup>30</sup> Endeavor is non-profit organization with a mission "to catalyze long-term economic growth by selecting, mentoring, and accelerating the best high-impact entrepreneurs worldwide." The Endeavor website can be found at <http://endeavor.org/>.

Argentina's VC initiative, Nexo Emprendedor. He also served as the General Director of Endeavor Argentina from 2001 to 2004.

In 2009, Mr. Arrieta, Mr. Coronel, and Ms. Cruz cofounded Nextperience, a digital marketing firm, in Buenos Aires. With their collective expertise in building companies, they quickly amassed a clientele of start-ups that required marketing help in areas like online media campaigns and social media strategies. The three founders began investing in some of these start-ups and providing the entrepreneurs with guidance in other areas of their businesses. When they learned about Y Combinator and its model, they decided to emulate it by raising a dedicated fund to begin formally accelerating Latin American tech start-ups. Mr. Costa, with his entrepreneurial background and experience in consulting and PEVC, was the logical fourth partner to round out the founding team.

From the very beginning, NXTP Labs had a regional focus. Their own entrepreneurial endeavors had taught the NXTP founders that Latin American companies needed to develop a strong regional footprint if they wished to achieve a successful exit (likely via acquisition) or expand globally. As one entrepreneur stated, "Argentina is not the market; Latin America is the market. The globe is the market." Inspiring its entrepreneurs to think globally was thus a key focus for NXTP. In that sense, Argentina was an ideal location for a regional tech accelerator.

By 2011, the country, most notably Buenos Aires, had become a hotbed for tech development in the region, with notable success stories like MercadoLibre (Latin America's largest ecommerce site) and Globant (an Argentine IT and software development company which since 2014 is listed on the New York Stock Exchange under ticker GLOB). Its highly skilled, largely multi-lingual workforce coupled with favorable exchange rates, has helped the country become a prime destination for technology development outsourcing.<sup>31</sup> While Argentina's challenging political macroeconomic conditions, driven by factors like high inflation rates and artificially maintained exchange rates, make growing a business difficult, they have also given birth to a generation of highly resilient entrepreneurs.<sup>32</sup> The country's economic challenges also benefitted NXTP because entrepreneurs were forced to look beyond the country's borders when growing their businesses.

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<sup>31</sup> Camila Russo and Cristiane Lucchesi, "Citi, Accenture Hire Hundreds for Buenos Aires Tech Hub," *Bloomberg Business*, August 8, 2014.

<http://www.bloomberg.com/news/articles/2014-08-08/citi-accenture-hire-hundreds-for-buenos-aires-tech-hub>.

<sup>32</sup> For instance, the Global Entrepreneurship Monitor found that Argentina's rate of start-ups increased over 40% between 2001 and 2013, and that times of economic and political crisis have correlated with increased total entrepreneurial activity in the country. GEM, "Argentina Country Profile," Global Entrepreneurship Monitor, accessed September 28, 2015, <http://www.gemconsortium.org/country-profile/36>.

### III. The Acceleration Program

The NXTP Labs model revolved around a four-month acceleration program that accepted batches of 20 to 30 start-ups at a time. NXTP Labs sought to invest in web-enabled technology start-ups that fulfilled the following criteria:

- Investee companies needed at least two founders dedicated to the project full-time.
- The businesses needed to focus on one of NXTP's target sectors, which included B2B, social media, online marketing and advertising, media and entertainment, e-commerce and marketplaces, internet consumer, and mobile games.<sup>33</sup>
- The team must have developed a prototype of the product or service to demonstrate its ability to execute the business plan.

In addition to these three objective criteria, the NXTP team also evaluated the complementarity of the team's skills, the strength of the business model, the reasonableness of the financial projections, and the quality of the team's references. NXTP's team also sought start-ups that aligned economic and social impact, although this was not a determining factor in its choice.

NXTP originally planned to invest its first fund in 300 start-ups. With such a high number of investees, the firm would mobilize the region's entrepreneurial ecosystem, allowing (and requiring) NXTP to reach many more entrepreneurs, mentors, and angel investors than if it set a more modest target. The large portfolio would also reduce the fund's exposure to idiosyncratic risk, which it would be able to diversify away more effectively than had it invested in fewer companies.

To reach this target, start-ups were sourced through referrals from NXTP's contacts, applications submitted online, and the various ecosystem-building events that NXTP's founders attended throughout the region. While NXTP's initial investees were drawn to the accelerator by the reputations of its founders, the accelerator quickly developed a positive reputation in its own right.

The screening process was carefully defined. The Program Director, a senior staff member, served as the initial filter for applicants, confirming that the start-ups were an appropriate fit with NXTP's investment criteria. Applicants that passed the Program Director's initial diligence were then presented to the Investment Committee, composed of NXTP's four founders and the Program Director, for more in-depth consideration and final approval. The investment committee considered the quality and scalability of applicants' proposed business models, and placed particular emphasis on examining the skills, experience, and team dynamic of each start-up's founding partners. Accepted start-ups were then accelerated in a specific batch of the program.

During the accelerator program, companies' founders were invited to work out of NXTP's offices in the Palermo Soho neighborhood of Buenos Aires. There, the entrepreneurs received access to training workshops, mentorship, and business advice from the NXTP team. The entrepreneurs also had access to office hours with the Nextperience team for advice on digital ads and marketing campaigns. The start-ups normally received investments of \$25,000, usually structured as a

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<sup>33</sup> NXTP Labs, "About," NXTP Labs, accessed September 28, 2015, <http://www.nxtplabs.com/about/>.

convertible note, in addition to access to a number of “perks”: free or discounted services such as web-hosting and email marketing from various vendors. NXTP took a small equity percentage, typically 2-10%, in exchange for the capital, services, and training that it provided. After the initial \$25,000 investment, NXTP might make follow-on investments of up to \$1 million, typically co-investing alongside other investors. “We do not lead second rounds,” described Mr. Coronel. “We would like for other investment firms to validate companies’ performance and business models.”<sup>34</sup> Entrepreneurs often utilized NXTP’s network to find investors to lead these later rounds. When describing the firm’s model, the NXTP team often used the metaphor of driving a car. During the four-month program, NXTP wanted to be the founders’ co-pilot, offering directions and guidance. After the program, however, NXTP needed to move to the backseat and let the entrepreneurs and new investors steer. This is discussed further in the After Acceleration section below.

### **The Three Phases of Acceleration**

As co-pilot during the accelerator program, NXTP had two goals: to help entrepreneurs develop and validate their business models; and to get the companies to a level of investment readiness that would allow them to attract additional financing after leaving the program. To accomplish this, the program was divided into three general phases. The first phase focused on business model validation. It began with one of the program’s key events, Mentors Day. This event, analogous to speed-dating for business mentors, gave the entrepreneurs a chance to speak with dozens of knowledgeable business professionals, many of them successful entrepreneurs, in a number of different fields. At the end of the event, entrepreneurs and mentors were matched based on their mutual interest in embarking on the program together.

During the second phase of the accelerator, entrepreneurs worked on scaling their businesses and executing their business plans. In addition to ramping up marketing and sales, the companies often began to plan expansion into new countries or geographies. They were aided in this task by NXTP’s expansive network of regional and global business connections.

The final phase of the program involved readying the entrepreneurs and their businesses for future investment. NXTP organized workshops around topics like pitch preparation, the different types of investors, and how to structure investment rounds. The four months culminated in NXTP’s Demo Day, when entrepreneurs presented their businesses in front of a large audience of potential investors and industry leaders, in hopes of making contacts that would result in further investments or strategic partnerships.

### **After Acceleration**

NXTP takes a passive role with the accelerator’s graduates. Founders are expected to send monthly reports to the NXTP team and typically maintain ongoing relationships with their NXTP mentors. Additionally, NXTP organizes events, like its monthly First Thursday lunches, that bring together its start-up founders, investors, mentors, and other industry players across all of NXTP’s country

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<sup>34</sup> “NXTP Labs is Raising US \$60M,” *NXTP Labs*, May 5, 2015, <http://www.nxtplabs.com/nxtp-labs-is-raising-us-60m-to-strengthen-its-leading-position-in-early-stage-tech-investment-in-latin-america/>.

offices.<sup>35</sup> While NXTP's staff, mentors, and founders remain available to entrepreneurs long after the accelerator program ends, the entrepreneurs must be proactive in requesting their support. "Anytime we needed somebody or something," explained one entrepreneur, "we knew it was just an email or a call away." As NXTP's portfolio companies encounter new challenges and opportunities, the management teams often reach out to NXTP for guidance and assistance. With such a large portfolio, this entrepreneur-initiated support process has proven to be crucial to the sustainability of the NXTP model. At a basic level, NXTP relies on the self-selection of entrepreneurs to prioritize its support resources to the most proactive and determined graduates, characteristics that are likely to help their start-ups succeed. Similarly, NXTP's decision to rely on third-party investors in follow-on rounds allows it to more efficiently allocate capital to companies whose models and value are validated by other investors.

Comparisons were often drawn between NXTP and Wayra, the international accelerator organized by Telefónica, a Spanish multinational telecommunications provider. As of October 2015, the Spanish accelerator operated in twelve countries across Europe and Latin America, and had accelerated 438 start-ups since its founding in 2011.<sup>36</sup> Over the same period, NXTP established a presence in seven countries and invested in 164 companies.

While some considered Wayra and NXTP to be competitors, others found them complementary in their support of the Latin American start-up ecosystem. A major difference between the two was the company stage they targeted. Both accelerators invested in companies with innovative, technology-enabled products and services, but Wayra typically invested in more developed companies than did NXTP. In fact, a number of start-ups participated in both programs, typically completing NXTP's program first. According to these entrepreneurs, Wayra's program was more corporate and structured; it helped to professionalize companies and prepare them to work with Telefónica in the future. Wayra was also more likely to actively steer the start-ups to implement new practices. NXTP Labs, on the other hand, was more entrepreneurial; it helped start-ups develop their products and business models and customized its approach to the needs of each entrepreneur. This relationship, in which NXTP accelerated fledgling entrepreneurs and Wayra later helped them professionalize their companies, reflects NXTP's reliance (by design) on third parties after acceleration. As with NXTP's entrepreneur-initiated support process and co-investor-led follow-on strategy, the program's dependence on other players in the start-up ecosystem to support its graduates allows the firm to more efficiently manage its large portfolio. This is one of the reasons that NXTP purposefully develops and maintains its strong regional and global network.

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<sup>35</sup> By 2015, NXTP had a presence in seven countries. The firm's headquarters was in Argentina (founded 2011), and it had operations managers in Chile (since January 2013), Colombia (June 2014), and Mexico (June 2014). It also had venture partners in Uruguay (December 2012), Brazil (June 2014), and the United States (November 2014). Venture partners are local contacts that link NXTP to promising deals and potential investors, while operations managers typically play a greater role, which includes fundraising, managing relationships with key investors, scouting new start-ups, developing NXTP's brand, and supporting local portfolio companies.

<sup>36</sup> Wayra, "Dashboard," Wayra, accessed October 14, 2015, <http://wayra.co/dashboard>.

## Raising Capital

To raise the initial funding and create the mentor network, the founders turned to private individual investors. From 2011 to 2013, the NXTP founders convinced 80 members of their expansive personal networks to each contribute \$25,000 to the fund. The founders themselves contributed an additional \$500,000, bringing the fund's total to \$2.5 million. Seeking a high number of investors at a low ticket price was a strategic decision for NXTP; the 80 initial investors also became NXTP's first mentors. Additionally, the mentors could invest in the portfolio companies that they found most promising, further aligning their interests with the success of NXTP's entrepreneurs and reducing the advisory load on the NXTP founders. For many of NXTP's investors, the opportunity to meet and invest in promising entrepreneurs was seen as more valuable than the potential returns from their investments in the accelerator.

With its initial round of capital and roster of mentors, NXTP graduated 50 companies from its program in the first three editions of its accelerator (mid-2011 through 2012). In July 2012, NXTP achieved its first exit, when Bixti, an online market place for handicrafts, was acquired by a Brazilian firm, Elo7, generating a 5x return.

In July 2013, NXTP started raising additional capital for its accelerator fund, this time accepting commitments from government and multinational investors, family offices, and individual investors, which could invest above the original \$25,000 amount. The goal here was more ambitious: to increase the size of the fund to at least \$25 million, allowing the company to invest in 300 start-ups.<sup>37</sup> The fund was organized in a traditional way, with a 2.5% fee and a 20% carry. After the investment period, the management fee would become budget-based, an industry best practice recommended by the Institutional Limited Partners Association (ILPA), albeit rarely seen, even in developed markets.<sup>38</sup> (This policy was adopted by NXTP at the MIF's suggestion.) Additionally, if the fund produced returns in excess of three times the invested capital, the carried interest could reach as high as 30%.<sup>39</sup>

For this second round of investment, NXTP's founders specifically targeted the MIF as a key investor. One reason for this was the MIF's experience—its 20+ years of investing in the region's venture capital industry made the MIF perhaps Latin America's most experienced limited partner. The MIF would not only be able to share its knowledge and best practices with NXTP, but would also signal to other institutional investors that NXTP was a reputable investor in the region. NXTP hoped that this “certification” effect would help encourage other institutions to invest in the fund.

Additionally, NXTP's founders knew that the MIF had been proactive in supporting a number of the region's first-time fund managers. One of the MIF's core missions “is to act as a development laboratory - experimenting, pioneering, and taking risks in order to build and support successful

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<sup>37</sup> This number included the 53 companies already in the NXTP portfolio at that time, implying investments in 247 additional companies. This number was chosen because the founders believed it was the largest portfolio the firm could manage over the life of the fund.

<sup>38</sup> Institutional Limited Partners Association, *Private Equity Principles*, Vol. 2, Toronto, Ontario: ILPA, 2011.

<sup>39</sup> Multilateral Investment Fund, NXTP Labs - A Framework to Consolidate a Seed-Accelerator Model for Technology Start-Ups: Donors Memorandum, Multilateral Investment Fund, 2013.

micro and SME business models.”<sup>40</sup> Fundraising can often be challenging and time-consuming even for experienced VC fund managers. For first-time fund managers in emerging markets this can be particularly difficult—according to Preqin, only 7% of the capital committed to PEVC funds globally in 2013 was managed by first time teams.<sup>41</sup> Considering its ambitious goals and the still-nascent state of the accelerator model in Latin America, the MIF was a logical partner and anchor investor in the fund. NXTP offered the MIF an opportunity to help pioneer a model that could support hundreds of Latin America’s entrepreneurs.

Recognizing both the high risks and high potential rewards of NXTP’s model, the MIF invested \$5 million in its fund. The MIF’s motives for investing included supporting the innovative, high-growth companies in Latin America, contributing to the development of a strong entrepreneurial culture and ecosystem in the region (in part, by dispelling the strong cultural fear of failure), and supporting the region’s female entrepreneurs. “With this project,” explained MIF Principal Investment Officer Susana Garcia-Robles, “we hope to encourage the creation of a more dynamic entrepreneurial culture in which entrepreneurs can take risks without being stigmatized if their first attempts fail.”<sup>42</sup> In addition to its investment, the MIF also granted the firm \$750,000 in technical assistance funding, the majority of which was earmarked to help finance the creation and dissemination of innovative value-added knowledge products<sup>43</sup>, and to support NXTP’s activities related to promoting female entrepreneurship. The rest helped cover legal costs and costs associated with evaluation and supervision of the fund.

By early 2015, NXTP had raised a total of \$31 million for its accelerator fund (including the \$2.5 million raised in the first round), anchored by the MIF’s \$5 million investment. Other investors included the city of Buenos Aires, Chile’s Corporación de Fomento de la Producción (CORFO), and Mexico’s Instituto Nacional del Emprendedor (INADEM).

## **Expanding Operations**

Even while it was raising its fund, NXTP was expanding its regional presence. Although the actual acceleration program operates only out of the Buenos Aires office, NXTP established a presence in six additional countries through either venture partners or operations managers. Venture partners link NXTP to promising deals and potential investors. Operations managers typically play a greater role, which includes fundraising, managing relationships with key investors, scouting new start-ups, developing NXTP’s brand, and supporting the NXTP portfolio companies located in or entering that country. By 2015, NXTP had venture partners in Uruguay (since December 2012),

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<sup>40</sup> Multilateral Investment Fund, "Our Mission," Multilateral Investment Fund, accessed October 15, 2015.

<http://www.fomin.org/en-us/home/aboutmif/ourmission.aspx>

<sup>41</sup> Preqin, *Fundraising for First-Time Private Equity Funds at Lowest Level Post Financial Crisis*, Preqin, April 10, 2014, [https://www.preqin.com/docs/press/First\\_Time\\_Funds\\_14.pdf](https://www.preqin.com/docs/press/First_Time_Funds_14.pdf); And Preqin, *2014 Global Private Equity Report*, London: Preqin, 2014.

<sup>42</sup> Inter-American Development Bank, "MIF and NXTP Labs Increase Support for Technology Companies in Latin America," *Inter-American Development Bank*, April 11, 2013, <http://www.iadb.org/en/news/news-releases/2013-04-11/mif-and-nxtp-labs-increase-support-for-tech-start-ups.10420.html>.

<sup>43</sup> The knowledge product component includes participation at international events that would create awareness of the accelerator model, and help connect NXTP with similar global initiatives.

Brazil (June 2014), and the United States (November 2014), and operations managers in Chile (January 2013), Colombia (June 2014), and Mexico (June 2014).

NXTP's managers and partners continue to expand the firm's regional presence and by 2015 the firm had strong deal flow from several of these countries. The founders of NXTP, for instance, said that they have access to and receive applications from a considerable proportion of Colombia's most promising start-ups. On the other hand, NXTP's deal flow from Brazil is less promising, largely because promising Brazilian entrepreneurs have access to more early stage financing options than entrepreneurs in the rest of the region.

NXTP has also nurtured partnerships with other accelerators. It is a member of the Global Accelerators Network (GAN), a community of over 70 accelerators across six continents.<sup>44</sup> NXTP's Gonzalo Costa is a member of GAN's leadership team. Through GAN, NXTP and its investee start-ups have access to a global network of fund managers, investors, and entrepreneurs and also receive a number of discounts to various service providers.

NXTP also partners directly with some Latin American accelerators, one of which is the Acelera Partners, a Brazilian operation. The two firms share investment opportunities with one another when their entrepreneurs can benefit from the other firm's support—for example if an NXTP entrepreneur wants to expand to Brazil. In such instances, the entrepreneurs benefit from working with a local partner in the new market, and the firms benefit from access to each other's promising deals. NXTP Labs also collaborated closely with 21212, a Brazilian accelerator for digital start-ups, until 21212 announced in July 2015 that it would freeze its acceleration activities to focus its attention on supporting its current portfolio of accelerated companies.<sup>45</sup> While NXTP rarely collaborates directly with Wayra, Telefónica's accelerator program, the two accelerators appear to have a mutually beneficial relationship as Wayra continues support for some of NXTP's graduates.

NXTP's presence in the United States was recently established through a platform called Puente Labs.<sup>46</sup> Puente Labs helps high potential Latin American companies connect with investors and professionals in Silicon Valley to scale their businesses in the U.S. and globally. NXTP is a sponsor of this Silicon Valley-based program, alongside the Samsung Global Innovation Center, technology-focused Silicon Valley Bank, Valor Capital Group, and VC-focused law firm Gunderson Dettmer. Additionally Ariel Arrieta sits on its board, which also includes Alex Mendez, founder of Storm Ventures, a U.S.-based seed and early-stage VC firm, and Santi Subotovsky, partner at Emergence Capital Partners, a U.S.-based VC firm that targets enterprise cloud companies. In addition to providing NXTP's portfolio companies with a launching pad into Silicon Valley, Puente Labs has also provided helpful deal flow to NXTP through, for instance, an introduction to a particularly promising Colombian start-up.

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<sup>44</sup> Global Accelerator Network, "The Network," Global Accelerator Network, accessed October 15, 2015, <http://gan.co/the-network>

<sup>45</sup> 21212, "21212 - New Positioning," 21212, July 1, 2015, <http://21212.com/blog/21212-new-positioning/>.

<sup>46</sup> Puente Labs, "Puente Labs," accessed October 15, 2015, <http://puentelabs.com/>.

## IV. Portfolio Overview and Financial Results

NXTP's team of 19 professionals (including its four founding partners) aimed to invest in 300 companies over the 10-14 year life of the accelerator fund.<sup>47</sup> The firm's investment strategy projected a series of outcomes in line with the early-stage focus. Among the 300 anticipated portfolio companies, 2% were expected to achieve returns between 8x and 12x the invested capital and IRRs over 50%; 11% to generate healthy returns of 5x – 8x; 27% to produce moderate returns of 1x – 5x; and 60% to break even or be written off.<sup>48</sup>

By June 2015, NXTP had made initial investments in 164 firms and follow-on investments in 58 firms, and the total value of NXTP's portfolio, including exited companies and then-current investments, was approximately \$20 million. (For an overview of NXTP's portfolio, see Table IV-1 below.) As of September 2015, NXTP had produced a ratio of portfolio value to capital invested (TVPI) of approximately 1.5x.<sup>49</sup>

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<sup>47</sup> NXTP's team consisted of 19 professionals as of October 2015.

<sup>48</sup> Josh Lerner, Maria Fernanda Miguel, and Laura Urdapilleta, "NXTP Labs: An Innovative Accelerator Model," *Harvard Business School Case 815-110*, 2015. U.S.-based VC investors have a rule of thumb that 30% of their early stage companies will fail completely, 30% will produce "venture returns" with IRRs in the high teens or higher, and the balance will essentially break even or produce small returns.

<sup>49</sup> NXTP's accelerator model invests both capital and services (i.e., mentoring, business training, and access to NXTP's network) in exchange for equity in the portfolio companies. The TVPI of 1.5x as of September 2015 considers only the capital that NXTP invested. The TVPI considering both capital and the value of acceleration services was 1.3x.

Table IV-1: Summary of NXTP's Portfolio as of September 2015<sup>50</sup>

<i>Edition</i>	<i>Date</i>	<i>Investee Firms</i>	<i>Firms that received NXTP follow-ons</i>	<i>Exits</i>	<i>High Potential Firms</i>	<i>Growing Firms</i>	<i>Moderate Potential Firms</i>	<i>Walking Dead Firms</i>	<i>Write-offs</i>
1	H2 2011	15	7	3	2	3	4	1	2
2	H1 2012	16	8	0	7	1	3	1	4
3	H2 2012	22	9	0	6	7	4	4	1
4	H1 2013	20	8	3	5	2	5	1	4
5	H2 2013	26	4	1	3	8	7	4	3
6	H1 2014	35	5	1	6	8	17	3	0
7	H2 2014	21	11	1	8	10	2	0	0
8 <sup>51</sup>	H1 2015	9	6	0	3	6	0	0	0
<i>Total</i>		<b>164</b>	<b>58</b>	<b>9</b>	<b>40</b>	<b>45</b>	<b>42</b>	<b>14</b>	<b>14</b>

## Exits

By November 2015, NXTP had also completed nine exits. Table IV-2 below provides a summary of NXTP's exited investments. Exits are important to any risk capital fund, because they provide the financial returns that motivate limited partners to invest, and give liquidity to the general partners and entrepreneurs. Exits are particularly significant in Latin America where much capital has been invested in recent years, but exits have been relatively rare. (LatAm VC funds invested over \$2 billion from 2011 through the first half of 2015 and returned only \$292 million over the same period.<sup>52</sup>) NXTP's nine exits are important indicators of the fund's ability to generate returns. Additionally, the exits illustrate the value that NXTP has generated in its portfolio, supporting its portfolio companies to grow in value and become attractive to global and regional buyers.

<sup>50</sup> The data in Table IV-1 describes NXTP's portfolio as of September 2015 with one exception. NXTP exited Tutum (part of the fifth edition of the accelerator) in October 2015. We have included Tutum as an exited firm in this table. Before it was exited, Tutum was categorized as a high potential firm.

<sup>51</sup> Please note that determining portfolio companies' potential, especially early in an investment, is an inexact science. Thus, the performance categories that companies have been assigned to, especially in the two most recent editions of the accelerator, are indicative rather than conclusive.

<sup>52</sup> 2015 LAVCA Industry Data

Collectively, the nine exits generated approximately \$2.6 million on \$615,000 of invested capital, achieving a multiple of invested capital of 4.74x.<sup>53</sup>

Table IV-2: Summary of NXTP's Exits as of June 2015

<i>Company</i>	<i>Edition</i>	<i>Investment Date</i>	<i>Total Capital Invested</i>	<i>Exit Date</i>	<i>Acquirer</i>	<i>Return Multiple</i>
<b><i>Bixti</i></b>	1	Nov-11	\$20,000	Jul-12	Elo7	5.0x
<b><i>WeHostels</i></b>	1	Nov-11	\$25,000	Oct-13	StudentUniverse	4.5x
<b><i>ComentaTV</i></b>	1	Nov-11	\$100,000	Dec-13	Wayin	3.4x
<b><i>TheFanLeague</i></b>	4	Mar-13	\$25,000	Feb-14	BeGood	3.5x
<b><i>Taleместories</i></b>	4	Mar-13	\$25,000	Jan-14	Kidloom	2.2x
<b><i>Sinimanes</i></b>	4	Mar-13	\$145,000	Jun-14	Kinboy	1.6x
<b><i>Aventones</i></b>	6	Mar-14	\$225,000	Apr-15	BlaBlaCar	< 2x
<b><i>Sparkflow</i></b>	7	Sep-14	\$25,000	Jun-15	Undertone	~ 4x
<b><i>Tutum</i></b>	5	Oct-13	\$25,000	Oct-15	Docker	~60x

NXTP's most recent exit, Tutum's acquisition by Docker in October 2015, was also the firm's most profitable, returning approximately \$1.5 million and generating a 60x return. The exit, however, also sheds light on one of NXTP's biggest challenges: capital constraints that limit its ability to make follow-on investments in its promising portfolio companies. The firm made its initial investment in Tutum when the company was founded in October 2013. Over the two years that followed, Azure Capital Partners, RTP Ventures, and Techstars all invested in Tutum.<sup>54</sup> Over this period, NXTP, forced to ration its capital, never made a follow-on investment in the company. Thus, when Tutum was acquired by Docker, NXTP received a very high multiple on its low initial investment, but missed an opportunity to generate much higher returns in terms of absolute value.

### **The Rest of the Portfolio and the Happy Problem**

While the first four editions of the accelerator accounted for over 75% of the portfolio's write-offs as of June 2015, as shown in Table IV-1, the earlier investments were not necessarily worse than the more recent investments. A popular adage in the venture capital industry states that "lemons ripen faster than plums." The low performers in a portfolio typically become evident and/or fail more quickly than the most promising companies mature and generate returns. Thus, the early editions have simply had more time to generate write-offs than their more recent comparisons.

In fact, NXTP had far fewer write-offs in its portfolio than expected, contributing to what the team called its "happy problem": over 50% of its portfolio comprised high potential or growing companies, much higher than NXTP's original projections. To make follow-on investments in these promising companies and continue accelerating new start-ups, NXTP estimated it would

<sup>53</sup> As explained in footnote 49, NXTP invests both capital and services (i.e., mentoring, business training, and access to NXTP's network) in its portfolio companies. Please note that the 4.74x figure represents the returns relative only to the capital invested. It does not consider the value of the acceleration services provided.

<sup>54</sup> We further discuss the investors that have invested in NXTP's portfolio companies in the Impact section below.

need an additional \$30 million in funding. Without additional capital to make follow-on investments in promising companies, NXTP and its investors would miss the opportunity to reap the value it had helped to create, as illustrated in the Tutum exit described above.

In March 2015, the firm tried to address this capital shortfall by creating a new investment vehicle called NXTP Labs Emerging Market High Impact Tech Start-ups (EMHITS) Flex Notes. EMHITS were exchange-traded bonds or notes listed on the Vienna Stock Exchange.<sup>55</sup> The notes were marketed by private banks and incorporated an equity stake in NXTP as an underlying asset, with the price of the notes corresponding to NXTP's portfolio valuation. The vehicle allowed small investors to invest as little as \$1,000 in the fund. The NXTP team expected the EMHITS vehicle to generate up to \$10 million, but the program greatly underperformed these expectations, ultimately raising less than \$1 million in additional capital. In combination with more usual fundraising efforts at the time, however, NXTP was able to increase the fund's total size to \$38.5 million by September 2015.

## **Impact**

In addition to generating financial results, NXTP Labs and its portfolio of tech startups has had a strong impact in the region. While NXTP Labs is not formally defined as an impact investor,<sup>56</sup> its founders do acknowledge important social goals in their work. One such goal is to create a thriving entrepreneurial and early-stage investment ecosystem in Latin America. As noted in the recent research by Daniel Fehder and Yael Hochberg, accelerators like NXTP can play an important role in attracting additional early-stage financing to a region, helping not only start-ups that participate in the accelerators, but also other entrepreneurs in the area.<sup>57</sup> NXTP's hypothesis was that a healthy community of entrepreneurs, investors, and mentors would help the fund achieve strong economic returns.<sup>58</sup> In addition, such a community would likely contribute to the region's economy more broadly, improving quality of life and producing important social returns such as a more innovative and entrepreneurial business climate, higher taxes for the government, and a higher rate of job creation. Related to this goal, NXTP also strove to empower the region's female entrepreneurs. In this mission, it partnered with a number of important regional and global organizations to create opportunities for women with innovative ideas throughout Latin America.

NXTP partnered with the MIF, for example, to advance this goal. NXTP runs the annual pitch competition for WeXchange, a MIF-founded platform that brings together women entrepreneurs, investors, and mentors. NXTP also cofounded the Day of the LAC Woman Entrepreneur and wrote

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<sup>55</sup> The NXTP team chose to list the EMHITS Flex Notes on the Vienna Stock Exchange to minimize costs and regulatory burdens. (The cost and regulatory hurdles of listing on that exchange were low relative to other exchanges.)

<sup>56</sup> According to the Global Impact Investing Network, impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.

<sup>57</sup> Daniel C. Fehder and Yael V. Hochberg, "Accelerators and the Regional Supply of Venture Capital Investment," *Working Paper*, September 19, 2014. Available at SSRN: <http://ssrn.com/abstract=2518668> or <http://dx.doi.org/10.2139/ssrn.2518668>.

<sup>58</sup> For example, research has found that VC firms with stronger networks experience significantly better fund performance. (Yael V. Hochberg, Alexander Ljungqvist, and Yang Lu, "Whom You Know Matters: Venture Capital Networks and Investment Performance," *Journal of Finance* 62, no. 1 (2007): 251-301.)

its founding manifesto.<sup>59</sup> The firm hosts and speaks at events in different countries in the region in support of female entrepreneurship initiatives. NXTP’s Marta Cruz has also worked alongside other organizations that enable female business leaders and entrepreneurs, such as Ellas2.0 and Vital Voices.

In making its investment decisions, NXTP considered not only the quality of entrepreneurs and the scalability of their business models, but also the startups’ potential impact on the region. Ariel Arrieta described NXTP’s approach as, “We believe that all of the companies in which we invest need to have social impact aligned with economic impact. We believe that right now if you want to create a company you have to align those two interests.” A number of companies in the NXTP portfolio exemplified this alignment of interests by demonstrating strong financial performance while creating high quality jobs, building new markets, or providing new goods and services to populations that could not previously access them.

Table IV-3 below offers a brief snapshot of NXTP Labs’ contributions to the region. The NXTP team created a network of over 200 professionals across 14 countries to serve as mentors to their entrepreneurs. With the help of this network, the firm supported nearly 400 Latin American entrepreneurs as they developed their business models. Those companies, in turn, generated over \$35.5 million in revenue and employed 1,164 people. Arguably, NXTP’s companies also had an impact on many of their customers and suppliers, indirectly contributing to growth and job creation within those companies. While it is challenging to estimate the total number of indirect jobs created by NXTP’s portfolio companies, NXTP collected data from a group of 16 start-ups that the firm believes to be particularly impactful in terms of generating indirect jobs, and estimated that these 16 companies contributed to the creation of nearly 84,000 jobs as of September 2015.<sup>60</sup>

*Table IV-3: NXTP Portfolio Impact as of March 30, 2015*

Entrepreneurs Graduated	Female Entrepreneurs Graduated	Portfolio Mentors	Portfolio Company Revenue Growth <sup>61</sup>	Direct Jobs Supported	Cumulative Capital Raised by Companies <sup>62</sup>
<b>397</b>	<b>38</b>	<b>210</b>	<b>\$35.5 million</b>	<b>1,164</b>	<b>\$120+ million</b>

<sup>59</sup> See <http://manifiesto.martacruz.com.ar/>, accessed February 29, 2016.

<sup>60</sup> As of September 2015, NXTP identified 30 portfolio companies that it estimates have had the highest impact in terms of indirect job creation. NXTP was able to collect indirect job creation data from 16 of these companies, which in aggregate indirectly supported 83,843 jobs. While one cannot reasonably assume that each of NXTP’s 164 portfolio companies generated on average over 5,000 indirect jobs as demonstrated by this sample, this figure provides an important snapshot of the indirect job creation that NXTP has helped support.

<sup>61</sup> The figure for NXTP’s portfolio company revenue growth is as of June 30, 2015.

<sup>62</sup> The figure for cumulative capital raised by NXTP’s portfolio companies is as of June 30, 2015.

As of mid-2015, NXTP's portfolio companies had raised over \$120 million from a variety of sources, including reputable angel investors, accelerators, and VC firms from around the globe. The quality of many investors attracted by NXTP's portfolio companies is noteworthy, as few Latin American start-ups successfully secure funding from investors of such high caliber. One company, Auth0, an identity-as-a-service platform for app developers that NXTP accelerated in early 2014, raised a \$9.3 million round in June 2015 led by Bessemer Venture Partners, with participation by other investors such as K9 Ventures.<sup>63</sup> In October 2014, Properati, an online real estate marketplace that graduated from the accelerator in 2013, raised a \$2 million Series A round led by NEVEQ, a European seed- and early-stage VC firm.<sup>64</sup> Of the 14 investments made by Cygnus Capital, a Buenos Aires-based VC firm, 12 are in NXTP portfolio companies.<sup>65</sup> One such investment was in Gone!, an app that enables users to easily sell, recycle, and discard their possessions. Gone! also participated in the Techstars accelerator, and received an angel investment from Techstars' founder David Cohen and his personal investment fund, Bullet Time Ventures. Tienda Nube, an ecommerce platform for small retailers that graduated in NXTP's first class, has similarly attracted attention from investors. In 2013 it received a \$1 million investment from Trindade Investimentos,<sup>66</sup> a Brazilian VC firm, and in 2015 it raised a Series A round led by Kaszek Ventures, an Argentina-based VC firm.<sup>67</sup>

Accurately determining an investment fund's developmental impact is very difficult. Impact data is often sparse and difficult to obtain, and even when such data is available it is often based on small samples and best estimates, as illustrated in the indirect jobs figure above. Moreover, should good descriptive data be available, the structure of the PEVC industry (among other factors) generally makes it very difficult to implement research methodologies which can rigorously address the question of attribution of any observed impact, i.e., whether the fund manager truly caused the observed impact.

The discussion below reflects insights gathered through interviewing NXTP's team, portfolio company entrepreneurs, mentors, and investors, as well as from numerical data when such data was available. The research team examined both the direct impact that NXTP has had on its portfolio companies, as well as the impact that the portfolio companies have had on the region.

Please note that due to the size of NXTP's portfolio, the impact discussion is focused around the 23 portfolio companies that were interviewed. A brief description of each of the interviewed firms can be found in Appendix I: Individual Company Thumbnails of Interviewed Firms. A diverse

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<sup>63</sup> "Auth0 Raises Series A Led by Bessemer to Take the Pain Out of Identity Security," *Business Wire*, June 24, 2015, <http://www.businesswire.com/news/home/20150624005699/en/Auth0-Raises-Series-Led-Bessemer-Pain-Identity>.

<sup>64</sup> LAVCA, "Properati Receives New Round of Investments (Em Português)," *LAVCA*, October 17, 2014, <http://lavca.org/2014/10/17/portal-receives-new-round-of-real-estate-investments-em-portugues>.

<sup>65</sup> Cygnus Capital, "Portfolio," accessed November 23, 2015, <http://www.cygnusvc.com/portfolio.html>.

<sup>66</sup> Emily Stewart, "Trindade Investimentos Invests US\$1 Million in Tienda Nube," *PulsoSocial*, May 17, 2013, <http://pulsosocial.com/en/2013/05/17/trindade-investimentos-invests-us1-million-in-tienda-nube/>.

<sup>67</sup> Maximiliano Fanelli, "Tienda Nube Mostró Sus Novedades En Argentina," *Tecnopymes*, November 17, 2015, <http://www.tecnopymes.com.ar/2015/11/17/tienda-nube-mostro-sus-novedades-en-argentina/>.

group of companies was selected, representing different industries, stages of business development, and levels of performance across various editions of NXTTP's accelerator program.<sup>68</sup>

### Direct Impact

NXTTP's financing and guidance had a direct impact on its portfolio companies in a number of ways. The research team evaluated the NXTTP Labs' direct impact using four criteria, the first and most basic of which was the commitment of capital to promising young companies operating in equity- and credit-constrained environments. In addition to financing, the fund was evaluated on its effectiveness in assisting portfolio companies with networking opportunities and the provision of business training—often with financial assistance from the MIF. Finally, the fund was also evaluated on its effectiveness in improving investees' environmental, social, and governance (ESG) practices. The research team rated NXTTP's investments across these four criteria on a scale of 0 (little to no impact) to 4 (considerable impact).

NXTTP Labs' accelerator model centers on providing intensive training and networking support to its portfolio companies alongside modest initial investments, with larger follow-on investments in the most promising companies. Accordingly, NXTTP scored strongest in the networking and business training categories. Interviewees said that NXTTP's founding partners were particularly helpful in this regard, providing invaluable advice and helpful contacts. The partners' prior entrepreneurial experience allowed them to speak with authority when offering guidance to entrepreneurs. NXTTP's scores in the committed capital category were somewhat lower, reflecting the small size of its \$25,000 initial investments and the smaller number of companies that received more sizable follow-on investments. (It should be noted that the small initial investments are integral to NXTTP's model and have allowed it to support 160+ companies in its relatively short history.) These investments, however, were often still important to NXTTP's portfolio, due to the early stage of its investee start-ups and the difficulty finding alternate channels of early stage financing in Latin America. Many of NXTTP's graduates also received capital from other investors including notable investors such as Bessemer Venture Partners, Kaszek Ventures, Techstars, Cygnus Capital, Krillion Ventures, NEXEQ, Trindade Investimentos, Kima Ventures, South Ventures Enzyme Venture Capital, and others. Because these investments reflect, in part, the power of NXTTP's network rather than the importance of the capital directly provided by NXTTP Labs, they are reflected in NXTTP's networking score rather than its committed capital score. NXTTP received modest ESG scores, again reflecting the early stage of its typical portfolio companies and the fact that complex corporate social responsibility and/or hiring policies, for example, are inappropriate for early stage companies, which must focus their efforts and resources on rapid

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<sup>68</sup> The 23 portfolio company interviews were scheduled by the NXTTP team, in communication with the MIF and the authors of this report. The primary goal, as stated in the text of the report, was to select a diverse group of companies across different editions of the accelerator, different levels of performance, and different industries. While the researchers initially planned to interview three companies from each edition of the accelerator (a high-performer, mid-performer, and low-performer), the final sample did not perfectly reflect this distribution due to scheduling dynamics. Ultimately, the interviewee firms represent a diverse group of companies, within the constrained group of founders who were available to speak with the researchers at the time of the interviews.

growth. NXTP nevertheless supported the work of female entrepreneurs and created other important socially beneficial impacts.

#### Indirect Impact

In addition to the direct impact that NXTP had on its portfolio companies, the fund also had indirect impacts, i.e. the impacts on the wider region realized through the portfolio companies. The research team examined NXTP's indirect impact along three criteria: ancillary economic growth and job creation, promotion of innovation, and improvement of the entrepreneurial and start-up ecosystem. In an analogous manner to the other research questions discussed above, the research team rated the impact of each investment on a scale of 0 (little to no impact) to 4 (considerable impact).

In terms of ancillary growth and job creation, the research team found great variety across NXTP's portfolio. Some companies seemed to have a sizable indirect impact and spurred great economic activity in the region, while others appeared to have smaller impact. The latter occurs, for instance, when portfolio companies serve large corporate clients. While the services that these portfolio companies provide are useful to their clients, it is unlikely that those clients generated significantly more revenue or created more jobs as a result. Other portfolio companies, such as the household services firm Zolvers and the credit card payment analytics company IncreaseCard, had greater impact in terms of indirect job creation and ancillary growth, respectively. NXTP's portfolio companies also varied greatly in terms of innovation. iBillionaire, a financial products company, and Satellogic, a provider of Earth surface imagery data, are among the portfolio's most innovative companies. Both companies create scalable products meant to compete in the global marketplace. Such companies are important in Latin America, not only for the direct and indirect economic growth they spur in the region, but also as role models and examples of the region's success in conceiving and operating global companies. Finally, the research team found evidence that NXTP Labs, which graduated a total of 164 companies across eight editions of its accelerator and had achieved nine exits by November 2015, has markedly broadened and deepened the entrepreneurial ecosystem in Latin America.

## V. The Future

Recently, NXTP has embarked upon a number of new initiatives. It is implementing a new model for the accelerator that involves corporations more closely and exploring the feasibility of raising a traditional VC fund. These changes invariably present questions that the team must confront. In this section, the future for NXTP is discussed, and a description of the overall impact to date of its operations in Latin America is provided.

### **The New Accelerator Model**

In 2015, NXTP significantly redesigned its accelerator. Instead of accelerating technology companies across numerous different subindustries, NXTP began accelerating companies in batches that focused on specific subsectors. The first such batch was its ninth edition, announced in October 2015, which will accelerate 11 financial technology (fintech) start-ups, culminating with a pitch competition in December of that year.<sup>69</sup>

NXTP implemented this strategy shift to attract greater corporate participation in its accelerator program. The firm appears to have been successful in that regard, as sponsorship for the ninth edition includes Microsoft, Fibercorp, Banco Ciudad, Banco Galicia, CAF, and Softlayer, along with new mentors from companies such as Deloitte, Silicon Valley Bank, Citi, Xapo, Afluenta, MasterCard Labs, PwC, and PayPal.<sup>70</sup> The involvement of these corporate partners provides the start-ups with an expanded pool of potential investors, as well as potential acquirers. According to Pablo Ruiz, NXTP's Program Director, "We hope that the program generates awareness about the opportunities that exist when entrepreneurs and corporations come together for the development of their industry."<sup>71</sup>

With the new strategy came a fundamental shift in NXTP's accelerator model: entrepreneurs will not receive NXTP's initial \$25,000 investment until *after* they graduate from the accelerator. Moreover, NXTP will only invest in companies it deems promising at that time. According to NXTP's founders, this change occurred because the firm had to ensure a certain number of companies in each edition of the accelerator to attract corporate participation. To achieve this while limiting its focus to a particular subindustry, the NXTP team realized that it might need to lower its relatively high standard for program acceptance. By investing at the end of the program in only those companies that have validated their business models, NXTP can accept more companies to its accelerator without degrading the high level of performance it expects from its portfolio—or excessively depleting its funds.

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<sup>69</sup> NXTP Labs, "NXTP Labs Presents 11 Startups Selected for the Fintech Accelerator Program 2015," *NXTP Labs*, October 7, 2015, <http://www.nxtplabs.com/nxtp-labs-presents-12-startups-selected-for-the-fintech-accelerator-program-2015/>.

<sup>70</sup> NXTP Labs, "NXTP Labs Presents 11 Startups Selected for the Fintech Accelerator Program 2015," *NXTP Labs*, October 7, 2015, <http://www.nxtplabs.com/nxtp-labs-presents-12-startups-selected-for-the-fintech-accelerator-program-2015/>.

<sup>71</sup> LAVCA, "NXTP Labs Selects 12 Startups for Fintech Accelerator Program (En Español)," *LAVCA*, October 7, 2015, <http://lavca.org/2015/10/07/nxtp-labs-selects-12-startups-for-its-pioneer-fintech-accelerator-program/>.

## Potential Challenges of the New Model

By departing from some elements of its previous model, and introducing changes to its accelerator program, NXTP may face several challenges. Its previous model had been refined over eight editions to produce apparently strong results. The recent changes to the program add a level of uncertainty to NXTP's operation. The team must proceed carefully to ensure that the new model is properly executed to maintain a high level of performance.

One possibility is that the new model may fundamentally shift the relationship between entrepreneurs and the NXTP team. Founders may be less willing to approach the NXTP team for help with business challenges if they feel that doing so will draw attention to weaknesses that might dissuade NXTP from investing in their start-ups. Additionally, the start-ups may be less willing to collaborate if they feel that they are competing against one another for NXTP's limited investment resources. As of November 2015, NXTP's founders report that they have not seen evidence of any such negative effects from this change. It is still too early, however, to conclude how the new model will affect NXTP's acceleration program.

Furthermore, making initial capital investments only in select firms at the end of the program could threaten the integrity of the accelerator. It is unclear the extent to which investors will be willing to capitalize graduates that were not selected for NXTP's portfolio. NXTP's decision not to invest in an accelerator graduate might send a red flag to other would-be investors, and negatively affect that start-up. This signal could hurt the accelerator's reputation as a helpful ally to LatAm's entrepreneurs and negatively affect the quality and quantity of applications to the program. Yet this situation could have different outcomes. The involvement of the corporate partners will expand the pool of potential investors, and these investors may choose to invest in some of the graduates that did not meet NXTP's investment criteria. VC investors routinely decline investments in companies that then succeed with other groups.<sup>72</sup> Additionally, graduates that do not receive investment at the end of the program may still benefit from the training and mentoring the accelerator provided, allowing the entrepreneur to improve, and then return to the market in the future.<sup>73</sup> Such scenarios must be considered and actively managed to ensure that the new acceleration model is beneficial to NXTP, its seed fund, and its investors.

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<sup>72</sup> An entertaining example of such mis-identification is found in the Bessemer Venture Partners' Anti-portfolio (<https://www.bvp.com/portfolio/anti-portfolio>); academic studies provide theoretical basis for the difficulty of judging future outcomes (the top 10% of VC investments yield 5x their cost basis or more; all other return less, according to William R. Kerr, Ramana Nanda, and Matthew Rhodes-Kropf, "Entrepreneurship as Experimentation," *The Journal of Economic Perspectives* 28, no. 3 (2014): 25-48.)

<sup>73</sup> A similar approach was used by INOVAR, the Brazilian group backed by MIF and the innovation agency FINEP, in which GPs who were not chosen for investment were provided a letter of feedback, and could demonstrate their passion for improvement by addressing the concerns therein. These letters became highly prized as an indicator of the group's dedication to improvement. (For more detail, see Ann Leamon and Josh Lerner, "Creating a Venture Ecosystem in Brazil: FINEP's INOVAR Project," *HBS Working Paper 12-099* (May 8, 2012).)

## The Venture Capital Fund

As illustrated by the firm's recent exit of Tutum, which generated a 60x return on its \$25,000 investment, the capital constraints of NXTP's seed fund may be preventing it from reaping the full value of its portfolio. Without sufficient capital to make sizable follow-on investments in its promising companies, NXTP could be said to be "leaving money on the table." To better capture some of this value, NXTP's founders are planning to raise a larger second fund that would make more traditional, later stage VC investments. Approximately 70% of this fund's capital would be invested in companies from NXTP's seed portfolio. The idea was first presented in a recently published Harvard Business School case on the accelerator firm.<sup>74</sup> Initially, the founders planned to structure the fund as a VC partnership, targeting a \$200 million pool to fund 20 early-stage, primarily Latin American, technology companies, with an average investment of \$10 million per company. The firm has since decided to reduce its fund target to \$120 million, with an average investment size of approximately \$3 million to better fit the average Series A VC investment in Latin America, which typically ranges from \$500,000 to \$3 million. The revised target investment size reflects the opportunity presented by the firm's promising pipeline of companies in its accelerator portfolio. As of late 2015, NXTP's four founders were enthusiastic about the prospective VC fund and were beginning to speak with potential investors about the opportunity.

The firm's proposed expansion into the later stage investment space mirrors a recently announced move by Y Combinator, which raised a \$700 million VC fund in September 2015.<sup>75</sup> The new fund, called the Y Combinator Continuity Fund I, will invest in each round raised by all of the companies that participate in the accelerator and are valued below \$300 million. It will only invest selectively in the later rounds of accelerated companies valued above \$300 million.<sup>76</sup> Other accelerators, such as Techstars, and AngelList, have also raised similar, but smaller, follow-on funds.<sup>77</sup> While some believe these funds allow Y Combinator and the other accelerators to reap the gains of their early risk-taking, others worry about potential conflicts of interest.<sup>78</sup> These would include competition with the independent VC firms, which can provide wider networks and greater credentialing power for those that receive funding, and the possible negative signaling effect if an accelerator were to decline the opportunity to invest in one of its graduates.

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<sup>74</sup> Josh Lerner, Maria Fernanda Miguel, and Laura Urdapilleta, "NXTP Labs: An Innovative Accelerator Model," *Harvard Business School Case 815-110*, 2015.

<sup>75</sup> Douglas Macmillan "Tech Incubator Y Combinator Takes New Tack with Venture Capital Fund," *The Wall Street Journal*, October 15, 2015, <http://www.wsj.com/articles/tech-incubator-y-combinator-takes-new-tack-with-venture-capital-fund-1444938590>.

<sup>76</sup> Jeff Engel, "Y Combinator, AngelList, Techstars Shake Up VC World with Big Funds," *Xconomy*, October 19, 2015, <http://www.xconomy.com/san-francisco/2015/10/19/y-combinator-angellist-techstars-shake-up-vc-world-with-big-funds/>.

<sup>77</sup> Jeff Engel, "Y Combinator, AngelList, Techstars Shake Up VC World with Big Funds," *Xconomy*, October 19, 2015, <http://www.xconomy.com/san-francisco/2015/10/19/y-combinator-angellist-techstars-shake-up-vc-world-with-big-funds/>.

<sup>78</sup> Jeff Engel, "Y Combinator, AngelList, Techstars Shake Up VC World with Big Funds," *Xconomy*, October 19, 2015, <http://www.xconomy.com/san-francisco/2015/10/19/y-combinator-angellist-techstars-shake-up-vc-world-with-big-funds/>.

## Potential Challenges of the VC Fund

Along with the possible conflicts of interest, launching a VC fund will present other challenges for NXTP. Fundraising is a difficult process, and while NXTP has a strong track record and a promising pipeline of companies, the new strategy represents a major shift from its seed investment model. To raise the capital it has targeted, the firm will need to address new types of investors, such as large institutions and funds-of-funds. It remains unclear whether the firm has the contacts and track record to reach large, global institutional investors.

If the firm is able to meet with such investors, it must also convince them that its team is capable of executing a more traditional VC strategy. NXTP has begun to establish a strong track record in the seed investment space, with nine exits producing a combined multiple of invested capital of 4.74x, but the new fund represents a later stage of financing that calls for a different investment strategy and set of skills. It is yet unknown whether global investors will consider NXTP a first-time VC fund manager despite its four years of experience. Institutional investors are often less willing to invest in first-time fund managers, posing a challenge for NXTP.

At the same time, despite the travel and distraction of fund raising, NXTP cannot ignore the seed fund. It must continue realizing strong exits to bolster its promising track record and win the confidence of potential future investors, and it will need to maintain the accelerator. Its relatively small team of 19 people, including the founding partners, is already monitoring a portfolio of over 160 companies, and actively accelerating new companies that require attention and guidance. It is unclear how the founding partners' time will be divided between the two efforts. A two-fund model also raises questions regarding the division of compensation, especially carried interest. If two partners manage the seed fund while the others manage the VC fund, they must decide if carry will be shared across the funds, since it can be argued that the accelerator plays a large role in generating the valuable pipeline for the later-stage fund. The firm will also need to manage conflicts of interest, since the valuations determined by the VC fund will have financial repercussions for the seed fund as well.

## **NXTP's Challenges**

In addition to the challenges posed by its new accelerator model and potential VC fund (discussed above), NXTP faces several other challenges as it moves forward, including:

- Investing the rest of the seed fund under capital constraints;
- Defining the identity of the firm;
- Monitoring its portfolio and achieving exits.

### Investing the rest of the seed fund under capital constraints

As of October 2015, NXTP had only \$13 million available for new and follow-on investments. In light of the fund's "Happy Problem"<sup>79</sup>, it is unlikely that this sum will be sufficient to both accelerate as many new start-ups as the firm originally planned and also make meaningful follow-on investments in its most promising companies. Based on NXTP's estimates, the fund is \$22.5 million short of the capital required to achieve its goal of accelerating 300 start-ups and making appropriate follow-on investments.<sup>80</sup>

NXTP's ninth exit, in which Tutum was acquired by Docker generating a 60x return on NXTP's \$25,000 investment, illustrates one of the problems caused by this constraint. Without sufficient capital to make sizable follow-on investments in all of its high-potential companies, NXTP must be very selective in deploying its funds. As a result, NXTP and its investors missed an opportunity to reap the full value from the support and mentoring they provided Tutum and its team. Had NXTP made a follow-on investment in Tutum, its ninth exit could have generated far larger absolute returns. Although the NXTP team is aware that it will not be able to participate in later financing rounds for *all* of its high-performing portfolio companies, it would like to minimize the number of promising follow-on opportunities that it must forego.

NXTP must balance its desire to invest in later rounds with the need to support its accelerator and invest in new start-ups (since both new and follow-on investments draw from its pool of remaining capital). The accelerator is one of the foundations upon which NXTP built its reputation, and in many ways, it is still the center of NXTP's operations and network. If NXTP were to abandon the accelerator, it risks losing its defining characteristic—direct access to LatAm's most promising entrepreneurs and to an impressive network of mentors and investors that want to support them.

Given the small amount of capital left in its fund, NXTP must determine how best to support new start-ups while also capturing the value of its maturing portfolio. NXTP's founders will need to decide how to prioritize new investments versus high-potential follow-on opportunities. They are considering several approaches to this issue. For instance, the team will likely reduce its 300-start-up target for this fund. Additionally, the NXTP team plans to limit follow-on investments to \$500,000 rather than the previous cap of \$1 million. The new accelerator model may also help preserve capital by allowing the NXTP team to observe start-up teams throughout the entire accelerator program before committing their initial capital, allowing the firm to better screen companies that might have otherwise received capital before failing. Finally, the firm hopes that it will be able to raise a VC fund from which to make larger investments in the most successful companies from its accelerator, allowing it to better realize the value it created in its portfolio of accelerated companies.

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<sup>79</sup> The Happy Problem—that is, the fact that NXTP's portfolio is doing better than anticipated—is discussed in The Rest of the Portfolio and the Happy Problem subsection on page 16.

<sup>80</sup> Josh Lerner, Maria Fernanda Miguel, and Laura Urdapilleta, "NXTP Labs: An Innovative Accelerator Model," *Harvard Business School Case 815-110*, (Boston: HBS Press, 2015).

## Defining the identity of the firm

NXTP is now at a crossroads in terms of the firm's identity. As of the time this report was prepared, NXTP appears to have successfully branded itself as an innovative regional tech accelerator, a useful ally to entrepreneurs, and a gatekeeper to some of the region's most promising start-ups. With the firm's proposed shift to later-stage VC investment, it is not even clear whether NXTP will continue to accelerate new companies after its seed fund is fully invested, and if so, how it will accommodate both strategies simultaneously. Should the firm abandon its seed investment and acceleration program, it might disconnect NXTP from the region's innovative start-up founders, yet such access is arguably a profound competitive advantage in NXTP's regional presence. As it charts a path for the future, NXTP will need to carefully manage its evolution to maintain its brand and its competitive advantages.

## Monitoring its portfolio and achieving exits

Perhaps the most important challenge facing NXTP, and the region's early-stage and VC ecosystem at large, is to realize profitable exits from its portfolio companies. The region has benefited from large inflows of venture capital, and it is important that investors begin to see financial returns. As of November 2015, NXTP had exited nine companies and written-off 14. Of its remaining 141 companies, the team considers 40 to be "high-potential." While NXTP may be able to sell some of its equity stakes to other fund managers, the VC industry in Latin America does not yet lend itself to a robust secondaries market, making it unlikely that NXTP will achieve many exits through that route.<sup>81</sup> Similarly, IPOs are likely not possible for the majority of NXTP's portfolio.<sup>82</sup> Generally prized by entrepreneurs and fund managers alike, IPOs are infrequent even among top VC firms in markets with well-developed public exchanges.<sup>83</sup> Thus, NXTP will need to find acquirers for its portfolio companies.<sup>84</sup> Additionally, to achieve healthy returns for its seed fund investors, NXTP needs to encourage its most promising entrepreneurs to continue growing their companies rather than accepting early acquisition offers. Thus, guiding its portfolio companies to lucrative exits is vital to NXTP's future and must remain at the heart of its mission, even in the midst of its current phase of evolution and growth.

## **NXTP's Impact**

As NXTP Labs confronts the challenges before it, its founders will need to consider the accomplishments the firm has already achieved and how to leverage these to chart a course for the future. One such accomplishment is the strong portfolio of companies the firm has supported in its less than five years of existence. The 164 companies have thus far exceeded the firm's initial

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<sup>81</sup> In 2014, for example, there were only five Latin American PEVC exits through sales to financial buyers. (LAVCA, *2015 LAVCA Industry Data & Analysis*, LAVCA, 2015, pg. vii.)

<sup>82</sup> In 2014, for example, there were only five Latin American PEVC exits that took place on stock exchanges: one IPO and four secondary offerings. (LAVCA, *2015 LAVCA Industry Data & Analysis*, LAVCA, 2015, pg. vii.)

<sup>83</sup> Using data from VentureXpert's database, we found that only 10% of PEVC exits in developed markets from 2005-2014 were achieved via IPO, based on a sample of 16,312 PEVC exits in developed markets.

<sup>84</sup> In 2014, over three quarters of PEVC exits were through sales to strategic acquirers. (LAVCA, *2015 LAVCA Industry Data & Analysis*, LAVCA, 2015, pg. vii.)

performance expectations, with fewer write-offs and a greater number of high-potential and growing companies. Furthermore, the portfolio includes a number of important role models and examples of LatAm's ability to innovate, including companies, like iBillionaire, that would likely not exist if not for NXTP. Furthermore, the NXTP team and its investee companies have arguably impacted the region in important ways, such as directly generating over 1,100 jobs, and contributing to what seems like considerable ancillary growth and job creation in their clients and suppliers.

The research team also has found what is considered to be strong evidence of NXTP Labs' important role in mobilizing Latin America's entrepreneurial and start-up ecosystem. Importantly, NXTP's team has not focused on only one aspect of the ecosystem, but on many facets simultaneously. The accelerator program directly teaches and supports entrepreneurs, and, through the demonstration effect, inspires other would-be entrepreneurs to pursue their business ideas. At the same time, NXTP has activated numerous stakeholders in the region to support early-stage enterprises by becoming mentors and investors, and even attracted large global players like Bessemer Venture Partners to invest in its portfolio companies. From its initial fundraising scheme that helped generate NXTP's first group of mentors, to the numerous demo days and network-building events that bring together local investors, mentors, entrepreneurs, and business professionals, NXTP has helped foster a strong, collaborative community within the early-stage ecosystem. This vibrant entrepreneurial network provides a pipeline for the region's growth investors, who can support the young enterprises as they grow and contribute to Latin America's entrepreneurial future. The magnitude of this impact could likely become increasingly evident as its portfolio continues to mature in the following years.

## VI. Acknowledgements

A study such as the one presented in this report requires the willing participation of many actors across the Latin American VC landscape. Numerous individuals generously volunteered their time, stories, data, and insights to contribute to this endeavor. Without their support, the research team could not have investigated the many aspects of VC investments and their developmental impacts that are explored in this study.

The research team is particularly grateful to the teams of the three featured funds—Vox, Progresá, and NXTP Labs—for their willingness to participate in this research, as well as their invaluable assistance over the course of the eight-month project. We would also like to thank all of the interviewees who kindly shared their experiences with us. Finally, we extend heartfelt thanks to the team of the Multilateral Investment Fund (MIF) for their support throughout this project. We hope that this report will contribute to the continued strengthening of Latin America’s VC industry, and thus, to the growth of the region’s many promising small and medium enterprises.

The risk of thanking people by name is that we may miss some. We apologize in advance to any individuals inadvertently omitted, and extend our heartfelt thanks to them—and to the many people listed below:

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## Appendix I: Individual Company Thumbnails of Interviewed Firms

This Appendix briefly describes each of the NXTP portfolio companies interviewed for this report, providing short descriptions of each company's products or services, the relevant investment dates, and the current status of the investment.

### **ComentaTV**

NXTP invested in ComentaTV, a company that linked social media with live television broadcasts and events, in September 2011. The company participated in the first edition of the NXTP accelerator, and later in CORFO's Start-Up Chile and Telefónica's Wayra accelerator. It also received investment from Enzyme Venture Capital, a Buenos Aires-based seed and early stage VC firm. ComentaTV was acquired by Wayin, a Denver-based social media platform, in January 2014, achieving NXTP's fourth exit and a return of 3.4x.

### **Cookapp**

Cookapp, founded in 2013, is a company that allows users to eat dinner in pop-up restaurants in the homes of professional and hobby chefs. NXTP invested in the company in March 2014, and the company participated in the sixth edition of the accelerator program. As of August 2015, NXTP had made one follow-on investment in Cookapp, and the company remained in NXTP's portfolio.

### **Emporio Compras**

NXTP Labs invested in Emporio Compras in September 2013. Emporio Compras, founded in early 2013, is an ecommerce firm that operates two business units: an online sales platform ([www.emporiocompras.com](http://www.emporiocompras.com)) that offers a variety of home and consumer goods, and Emporio Commerce Solutions, which operates brands' online sales across multiple channels by managing integrated warehousing, logistics, customer service, and IT services. It operates in Argentina, Chile, Colombia, and Uruguay, and serves many regional and international brands, including Lenovo, Epson, Bianchi, and Proctor & Gamble. Its shareholders include MercadoLibre and Andreani, a major Argentine logistics company. As of September 2015, NXTP had invested over half a million dollars in Emporio Compras, the company had successfully raised a Series A round, and it remained in NXTP's portfolio.

### **EveryPost**

NXTP invested in EveryPost, a social media platform that allows users to create content on multiple social networks in one place, in October 2012. The company has since raised two additional rounds from angel investors and Krillion Ventures, a Miami-based seed fund. As of August 2015, NXTP had made one follow-on investment, and the company remained in the NXTP portfolio.

### **GroovinAds**

NXTP invested in GroovinAds, a digital ad campaign optimization company, in September 2011, as part of the accelerator's first edition. Since then, the company has pursued an organic growth strategy. It now boasts large clients such as MercadoLibre and Despagar.com. As of August 2015, the company was finalizing an angel financing round, and remained in the NXTP portfolio.

### **GuiaLocal**

GuiaLocal, founded in 2010, is an online guide for local businesses. NXTP invested in the company in February 2013. As of August 2015, it operated in 21 Spanish- and Portuguese-speaking countries in the Americas and Europe, averaged over 8 million visitors to its site each month, and remained in NXTP's portfolio.

### **iBillionaire**

iBillionaire was founded in 2013 after NXTP introduced its two founders: one of NXTP's investee entrepreneurs and one of its investor/mentors. The company tracks the investment strategies of Wall Street billionaires who consistently outperform the market in order to provide technology and financial products, including a mobile app, web platform, and market index (NYSE:BILLION). As of August 2015, NXTP had invested over \$242,000 in iBillionaire, and the company remained in NXTP's portfolio.

### **IncreaseCard**

NXTP invested in IncreaseCard in September 2013. The company's credit card payment analytics platform improves merchants' ability to track receivable payments, and, for example, manage charge-backs and tax benefits more effectively. The company estimates that merchants lose approximately 8% of their revenues due to mismanagement of receivable credit card payments and that its platform can reduce this to as little as 2%. The company also participated in Start-up Chile and Wayra. NXTP made one follow-on investment in IncreaseCard, and the company remained in the NXTP portfolio as of August 2015.

### **Jampp**

Jampp is an app marketing platform that helps generate and engage users for mobile apps. It serves clients around the world, such as Uber, eBay, and MercadoLibre. NXTP invested in the company in April 2012, and later participated in Jampp's \$7 million Series A round, led by Highland Capital Partners Europe. As of August 2015, the company remained in NXTP's portfolio.

### **Las Partes**

NXTP invested in Las Partes, an online marketplace for auto parts, in March 2014. The company was accelerated as part of the seventh edition of NXTP's accelerator. As of August 2015, the company operated in Colombia, was planning to launch in Mexico by the end of the year, and remained in the NXTP portfolio.

### **LookUp**

LookUp is a company that helps users choose the best mobile plan and phone for their specific needs. NXTP invested in LookUp in March 2012, and the company participated in the second edition of the accelerator. As of August 2015, the company's website was still active, but the investment was listed as a write-off in NXTP's portfolio. One of the company's founders, David Alvo, now manages NXTP's operations in Chile.

### **MiCarga**

MiCarga was an online broker of commercial cargo transportation. NXTP invested in the company in February 2013 as part of the accelerator's fourth edition. The company has since ceased operations and has been written-off from NXTP's portfolio.

### **Mural.ly**

Mural.ly is a company based in Buenos Aires that develops an innovative digital platform that allows creative teams to collaborate and work remotely. Its customers include global companies such as IBM, Disney, Globant, and PayPal. NXTP Labs invested in Mural.ly in March 2012. As of August 2015, NXTP Labs had made one follow-on investment in the firm, and it remains in the NXTP Labs portfolio.

### **Pactanda**

NXTP invested in Pactanda, a company that develops online dispute resolution software for ecommerce, in September 2014 as part of the accelerator's seventh edition. In addition to the NXTP accelerator, Pactanda has participated in Start-Up Chile and Chrysalis, a Chilean incubator. The company remained in the NXTP portfolio as of August 2015.

### **Pago Rural**

Pago Rural (formerly DTA LatAm) offers a technology solution to provide financial services to agricultural businesses. Founded in 2009, the company received investment from NXTP in September 2014 when it switched its original model to a more technology-driven model. As of September 2015, the company remained in the NXTP portfolio.

### **Properati**

NXTP invested in Properati, an online real estate marketplace, in January 2013. Since participating in the fourth edition of NXTP's accelerator, the company has raised a Series A round, in which NXTP made a follow-on investment, led by Neveq Ventures, a Bulgarian VC fund. As of August 2015, Properati had over 40 employees across four offices, listed over a million Latin American properties on its site, and remained in the NXTP portfolio.

## **Real Trends**

Real Trends, founded in 2014, provides a suite of tools to help online sellers manage their accounts and track their competitors. It currently serves sellers on MercadoLibre, but will soon expand to serve sellers on eBay as well. NXTTP invested in Real Trends in March 2014. The company participated in the sixth round of the accelerator, and remained in the NXTTP portfolio as of August 2015.

## **Satellogic**

Satellogic, a company developing a constellation of nano-satellites to provide real-time imaging of the Earth's surface, was founded in 2010. NXTTP invested in the company in October 2013 and has since made two follow-on investments. As of August 2015, the company remained in the NXTTP portfolio, had launched its first three satellites, and scheduled launch dates for a 16-satellite constellation in 2016.

## **Sinimanes**

NXTTP invested in Sinimanes, an online food delivery company that connects users with local restaurants, in May 2013. The company had previously participated in the Start-Up Chile program. In September 2013, the company merged with SeMeAntoja, a Mexican food delivery company backed by 500 Startups. NXTTP made a follow-on investment in November 2013, and exited the company in June 2014 when it was acquired by Delivery Hero for \$2.4 million, achieving a return multiple of 1.6 and IRR of 324%.

## **Tienda Nube**

Tienda Nube, a platform that helps users launch ecommerce sites, was launched in 2011. NXTTP invested in Tienda Nube in September 2011, and the company participated in the first edition of the accelerator program. As of August 2015, the company had closed two additional rounds of financing, and remained in the NXTTP portfolio.

## **Widow Games**

NXTTP invested in Widow Games, an Argentine videogame developer that specializes in bringing classic tabletop games to digital platforms, in February 2013 as part of the fourth edition of the accelerator. Widow Games' first two titles both achieved #1 rankings in their respective categories in local app stores. NXTTP made a follow-on investment in the company, alongside Wayra and Cygnus Capital, a Buenos Aires-based VC firm that invests in digital companies. As of August 2015, the company remained in NXTTP's portfolio, and was planning to raise a Series A round of investment.

## **WinAd**

NXTTP invested in WinAd, a social network that connects users and brands through advertising contests, in March 2014. The company participated in the sixth edition of NXTTP's accelerator. As of August 2015, the company remained in the NXTTP portfolio.

## **Zolvers**

NXTP invested in Zolvers, an online marketplace for hiring home cleaning and home repair professionals, in October 2013. Zolvers' business model (in which it charges a one-time fee for connecting customers and service providers) allows it to potentially avoid some of the labor regulation issues that have plagued similar firms. After graduating from the sixth edition of NXTP's accelerator, Zolvers participated in 500 Startups in Mexico, and Start-Up Chile. In late 2014, the company closed a \$500,000 seed round, in which NXTP participated, led by Jaguar Ventures, a Mexican early-stage VC firm. As of August 2015, Zolvers worked with 10,000 service providers and 40,000 customers, operated in Argentina, Chile, Mexico, and Colombia, and remained in the NXTP portfolio.

## MULTILATERAL INVESTMENT FUND

1300 New York Avenue, N.W., Washington, D.C. 20577

 [mifcontact@iadb.org](mailto:mifcontact@iadb.org)

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