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## An Interview with Alejandro Quentin, Pampa Capital

Lavca on October 12th, 2009

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LAVCA spoke with Alejandro Quentin, Founder & CEO of Latin America-based private equity firm Pampa Capital. Founded in 2005, Pampa Capital invests in companies in the agribusiness value chain through its fund Pampa Agribusiness Fund LP. With \$365 million in assets under management, Pampa focuses on companies primarily in Argentina and Brazil, and selectively in Chile, Peru and Uruguay.

*LAVCA: Can you talk about what led you to become involved with an agribusiness-focused private equity firm?*

**Quentin:** My family has a centennial tradition in the agricultural sector. My great grandfather founded Estancias Argentinas SARIyC (“Estarar”), a farming and cattle company that has evolved to a farming company and then a services company, which is still family owned today.

My professional career started at McKinsey & Co, and then I moved on to start a venture capital firm, which would eventually become Pampa Capital. Here I acquired significant experience in the retail sector, before turning back to my farming roots where I had a clear competitive advantage due to my family’s deep experience and human capital in the agricultural sector. In 2002, together with Soros Fund Management we founded Adeco Agropecuaria (also known as International Farmland Holdings). I oversaw and managed IFH for three years. Pampa was later responsible for the turnaround of the first strategic acquisition Pecom Agropecuaria and in three years of operations completed eight acquisitions investing approximately US\$140 million, reaching over 297,000 acres of farmland. We diversified regionally into Brazil and Uruguay with a very balanced portfolio of primary goods.

*LAVCA: What factors do you believe are driving growth in Latin America’s agribusiness sector? Is the growth sustainable?*

**Quentin:** I believe there are four main drivers. The first two are rainfall and vast extensions of fertile land. It is not a mystery why the firm’s name is Pampa... the pampas are the fertile lowlands of South America which include central Argentina, Uruguay, and the southernmost end of Brazil covering more than 289,000 square miles. Third, the huge leaps in biotechnology make many investments compelling. Fourth, we’re seeing better farming practices in the region.

The growth is sustainable because there is constant innovation and the adoption curve is very high. Farmers are the first in experimenting with new genetic materials, new farming practices, and once they are proven there is no turning back. Examples of this are the adoption of no-till technology and the use of round-up ready soybeans and corn. By 2020 we will be able to produce over 350 million tons of crops in this region.

*LAVCA: In which types of companies do you look to invest within the agribusiness sector?*

**Quentin:** Argentina is the Silicon Valley of farming technology. It was the first farming economy to use GMO soybeans extensively and the first to have the highest penetration of no-till technology in the world (currently 80%). So Pampa looks to take this innovation and export this know-how into Brazil and other neighboring countries. We look for companies that need growth capital, geographical expansion, and industries which need to consolidate. The vast majority of these are mom and pops that need to be professionalized.

*LAVCA: How much of your portfolio is driven by agricultural exports? How vulnerable is your portfolio to exchange rates, foreign subsidies, and other international trade agreements affecting access to foreign markets? How closely do you monitor this type of risk?*

**Quentin:** Our current portfolio is basically export driven for various reasons. First, the companies we have in our portfolio are exporting or about to export. Sursem sells soybean seeds to Paraguay, and Campo Austral, an integrated hog operation, will export by December. The ideal situation is to have income in local currency to cover your local costs and hard currency income to cover your costs of feed— corn and soybeans. Second, the end users of many of our products are farmers whose grains will eventually be sold abroad. The agricultural chain in Latin America is basically all export driven.

When talking about vulnerability of our portfolio to exchange rates, we have to divide Pampa's portfolio in two. In Argentina, everything that is commodity related is sold and collected in dollars so there is a built-in natural hedge to the local peso. Brazil, on the other hand, is a completely different story... everything is based in reais. Government agencies such as BNDES created a stimulus package for the agricultural sector worth \$53BN.

At Pampa we don't leverage portfolio companies with dollar denominated debt. It is safer to pay a higher interest rate in local currency rather than try to outsmart the local markets.

*LAVCA: Pampa has been successful in raising money from international institutional investors, correct? Which ones? Did any international investors that you approached perceive your fund as too niche for their emerging markets exposure? How did you deal with this?*

**Quentin:** Yes, we were very fortunate in terms of finalizing our fund raising efforts before the crisis of last year. We don't give out the names of our LP's but the breakdown of investor by class is as follows:

- High-net worth 37%
- Institutional investors 31%
- Endowments 16%
- Multilateral 12%
- General partner 4%

We did come across some investors which perceived us as too niche, but there were very few cases. Our LP's understood the fundamentals of scarcity in the food chain and its implications to food security. World population doubles every 25 years while grain production grows in single digits annually.

The fundraising environment in the agribusiness sector changed drastically over the past seven years. Back in 2003, when I was raising money for Adeco Agro (IFH), both placement agents and investors listened with interest but were very timid about the idea of investing in agribusiness. The appetite for agriculture has increased significantly since then. I believe that over the next five years we will see a meaningful number of agribusiness companies going public in Brazil because there is a huge gap between the limited number of publicly traded vehicles in agribusiness in comparison to agricultural GDP.

*LAVCA: Agricultural labor productivity and transportation infrastructure, both lacking in much of Latin America, seem like two key elements to profitability in the agribusiness sector. Do these factors fit into your strategy at all?*

**Quentin:** You are absolutely correct on the transportation and infrastructure side. Even though we don't invest in infrastructure we are looking at investments in logistics and technology. Storage is one of the areas that Brazil has to address. With the biotechnological pipeline coming to market in the next three to five years, yield will increase significantly. Brazil should increase production from 135 million tons to 170 million within the next decade. Furthermore, being profitable on the farming side has much to do with the costs incurred in moving, drying and storing cereals. Large farming operators need to be very efficient logistics companies in order to have attractive returns.

*LAVCA: Can you tell us about a recent investment that Pampa made? What unique actions are you taking to add value to the company from an operational standpoint?*

**Quentin:** I would like to give two examples. At Campo Austral we preformed a very important turnaround from a managerial point of view. It took us a good amount of time to put people, processes, systems, and the necessary controls in place. These are many of the issues one has to tackle when acquiring family owned businesses.

The second example is our seed platform in Brazil and Argentina. We have consolidated 3 companies in the region to-date. We found top quality genetics in these companies but had to – once again – bring in professional management. The breeding budgets increased and we are now using molecular markers to accelerate the introduction of biotechnology to our germoplasm. We have introduced many new lines from Europe and the US. Furthermore, we have reinforced the sales and marketing staff. Our goal is to build the largest independent seed company in the region.

*LAVCA: Is it the case that Pampa began by focusing on Argentina and Brazil and then more recently added to its focus countries such as Chile, Peru and Uruguay? Isn't there more than enough opportunity in Brazil and Argentina? Why the broadened geographical focus?*

**Quentin:** Given the vast opportunities in Brazil and Argentina, these are the two countries we focus on and the geographies where we have local presence. We opened our Brazilian office a year ago and today our pipeline is overweighed in Brazil. Pampa looks at the rest of the region in a very opportunistic way from a "add on" perspective. For example, we are buying distribution for our Argentine/Brazilian products in the Andean region. However, our focus remains Brazil and Argentina, in this order.

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