

EXECUTIVE SUMMARY
500 LUCHADORES III FUND (RG-Q0061)

This project is one of IDB Lab's regional initiatives to help the venture capital industry in Latin America navigate the COVID-19 crisis, while seeking to expand the connection between one of the region's main venture capital hubs, Mexico, and novel or emerging startup ecosystems, such as Central America, Bolivia, Ecuador, Paraguay, Peru, and others. By playing a countercyclical role and reaching less mature ecosystems, the project aims to support entrepreneurs developing innovative solutions to mitigate the socioeconomic impact of the pandemic, especially those with the potential to improve conditions for the vulnerable populations of the region.

The project will approach this challenge in a synergistic and complementary manner with IDB Lab's equity investment in DILA Capital (operation RG-Q0062), a regional venture capital fund that provides post-seed up to Series B financing to startups with a sound socioeconomic impact profile. The two funds, 500 Luchadores III and DILA Capital, are expected to drive innovation for inclusion across the region's young ecosystems, spanning the financing spectrum from preseed to Series B capital. The project should also be highly complementary with IDB Lab technical cooperation projects that seek to develop innovation ecosystems and local business ventures.

The region is seeing more and more of a rising trend of entrepreneurs with a dual motivation: social purpose and financial gain. According to a survey by the Latin American Private Equity and Venture Capital Association (LAVCA), 40% of the region's startups put as much importance on social and environmental impact as on earnings, and 59% are measuring their impact.

The COVID-19 situation has, in turn, created significant momentum in the startup community. By leveraging technology, numerous entrepreneurs are developing innovative products and services to mitigate the impact of the pandemic in areas including health, remote education, logistics, mobility, fintech, and digital solutions for small and medium sized enterprises (SMEs). According to a recent survey by the IDB and PRODEM, startups with a strong technology component seem to be impacted less by the pandemic: whereas, on average, 53% of the startups surveyed have stopped recording sales, just 29% of tech startups reported this problem.

Although Latin America received US\$4.6 billion in venture capital in 2019, more than twice as much as the previous year, a significant part of this can be attributed mainly to a small number of large transactions. One of the startup segments facing the greatest challenges raising capital is seed stage firms seeking initial market validation for their products: (i) while sources of preseed and seed capital have expanded in the last decade, in recent years, there has been a growing trend of seed capital funds shifting their focus to Series A and B rounds, leaving a larger financing gap in early stages; (ii) seed capital is even more scarce in novel and emerging ecosystems, such as Central America, Bolivia, Ecuador, Paraguay, Peru, and others, because there are practically no local fund managers and investors to provide early stage startups with smart capital; (iii) in the context of COVID-19, funds and investors are focusing the use of their capital and time on companies in their portfolios, so, at least in the short and medium term, investment in new companies is expected to be significantly lower and far more selective than before; and (iv) due to the pandemic, it will be twice as challenging for fund managers in the process of establishing new funds to raise equity, which will also dramatically reduce the volume of available capital for new companies seeking investment.

With its investment in the 500 Luchadores III Fund, IDB Lab will help drive the growth, internationalization, and social and/or environmental impact of approximately 130 tech startups in Spanish-speaking Latin America (more than 50% of the fund's capital will be invested in ecosystems of the region outside Mexico), which will receive seed capital investment and comprehensive support during the process of testing viability and growing the business. The fund will primarily target sectors such as financial services, education, basic services, health, agribusiness, mobility, logistics, SME solutions, and e-commerce. The fund manager, 500 Luchadores, LLC, believes that the main investment opportunities will be in companies that, with a strong sense of purpose, deliver solutions that help mitigate health, economic, and social consequences in the region in the post-COVID-19 scenario.

500 Luchadores, LLC was created in 2012 by 500 Mothership Ops, LP ("500 Startups"), to establish a new fund targeting Spanish-speaking Latin America. Since then, it has accelerated and invested in 155 companies in Mexico, Colombia, Argentina, Chile, and Peru through two funds: 500 Luchadores I and 500 Luchadores II. 500 Startups is one of the world's most active venture capital fund networks. Since 2010, it has invested over US\$450 million in more than 2,200 companies through 4 global funds and 14 thematic funds dedicated to specific geographic or vertical markets.

IDB Lab has been following the evolution of 500 Luchadores closely from the beginning. Bearing in mind the management team's accumulated experience identifying, making, monitoring, and exiting investments in early stage companies, as well as its large networks of contacts inside and outside the region, and the recognition it has achieved in the regional ecosystem, IDB Lab believes that 500 Luchadores is well positioned to scale up its investments through a new fund of US\$30 million focused on addressing Spanish-speaking Latin America's seed capital deficiencies with special attention to expanding the connection between one of its main venture capital hubs, Mexico, and the region's novel or emerging startup ecosystems. More than 50% of the fund resources will be invested outside Mexico. IDB Lab proposes to make an equity investment of up to US\$3 million in the 500 Luchadores III Fund.