Gerardo Legorreta of Altum Capital

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall Martin and the host of the show in which we interview angel investors, venture capital, family offices, private equity, many other investors for early stage and growth companies. I hope you enjoy this episode. The. Investor Connect is a 501 C three non-profit dedicated to the education of investors and startups for fundraising. Please consider donating $100 to the program to help others in their investor and entrepreneur journey. You can find the Donate button on the Investor Connect org website.

Speaker2: [00:00:38] Well, hello, this is Hall Martin with Investor Connect. They were here with Gerardo Legorreta of Altum Capital. Altum Capital is a senior secured private debt asset management firm based in Mexico. The currently managed three private debt funds have structured credit to Mexican mid-sized companies and non-bank financial institutions. Giraudeau, thank you for joining us.

Speaker3: [00:00:59] My pleasure, Paul.

Speaker2: [00:01:01] Great. So tell us more about your background. What were you doing before investing in early stage companies?

Speaker3: [00:01:08] And I started off right after law school, practicing law for five years in Mexico City and three level wells and New York, Skadden Arps. And after that, I realized that I wanted to move on to finance and I. I went to London London Business School and immediately thereafter joined Oppenheimer, the investment bank at Oppenheimer, and spent 16 years at UBS and until 2013, mainly in the investment banking area as well.

Speaker2: [00:01:51] Right, so what excites you right now?

Speaker3: [00:01:54] Over the last 10 years, the ecosystem for venture and funding small and mid-sized companies in Mexico has evolved very nicely, with new investors coming into the scene. Investors like SoftBank and a few others. And that has provided a ecosystem that allows the new ventures and mid-sized companies to grow faster. And we come in through out through our products in order to facilitate and accelerate that growth. So we view ourselves as a complement in that ecosystem that allows our companies to reach the next level.

Speaker2: [00:02:55] That's great. So what's your advice for people investing in startups? What do you tell them to do before they write that check?

Speaker3: [00:03:04] So since the ecosystem is not fully developed in Mexico, I believe that the the the investor, the new ventures in Mexico has to realize that there won't be necessarily the same funding alternatives as you will find in the US or in Europe. And as a result of that, you have to look at sectors that are where investors are active. You have to also consider that the mentoring of Mexican entrepreneurs is also in development, is working progress, and some of them do require significant support from their investors and their boards. And and that is usually part of the challenges that investors in Mexican ventures face. In addition to that, it is challenging to fund Mexican ventures through the stock exchange. So it is always ideal to plan for a longer period of growth and of reaching the point where you can take ventures public and where you can access public markets. It's not as easy in Mexico as in other countries, more developed countries to access the public markets, right?

Speaker2: [00:04:46] What's your advice for people running startups? What do you tell founders to do before they go out to raise funding?

Speaker3: [00:04:52] Number one, they have to recognize that corporate governance plays a key role in ensuring that the structure of debentures has the adequate support from members of of the different governing bodies that the board and the shareholders, et cetera. So number one is to get their their corporate governance in order and number two, I also believe that many of the of the entrepreneurs don't give enough thought as to later as to getting ready for a later stage growth. And and they focus too much on the immediate funding requirements of their business plans and not enough on when they are ready to to reach the next stage. And as a result of that, some of them start plateauing the growth early on instead of continuing with their growth. So I believe that many of the of the ventures in Mexico need to realize that it's never it's never a straight line up, but you have to plan for that. You have to plan as if it were going to be a straight line up instead of going and spending too much alongside too much time going sideways because you are not ready for the next stage.

Speaker2: [00:06:41] So let's talk about the state of startup investing. How do you see the industry evolving from here?

Speaker3: [00:06:47] Since we started investing in startups and medium sized companies in Mexico, I believe that a few other funds have come into play, and that's obviously good news. It's good news for us and it's good news for the companies. But I believe that going forward, we need to have more players coming to the in our space that will allow us to do bigger deals and work together with other funds in funding the startups. Because we do find a lot of players in the mezzanine in that area and a lot of players in the equity and not enough players that are able to fund the with senior debt, the the some of these startups and it is mostly an area where banks stay away. So I honestly think that I would welcome a little bit more competition for autumn in the senior space because it will allow us to be more to support more ventures and and the ones that we do support be able to give them more financial support when needed.

Speaker2: [00:08:21] Right, and so what do you think is the biggest change we'll see in the next 12 to 24 months?

Speaker3: [00:08:26] The biggest change in the sea and in the next 20 to twenty four months, I think that the most important challenges that some of the ventures will will face going forward is that some of those unicorns or companies that have the potential of becoming unicorns have to access the public markets so that we can close the financing loop and allow straight to the investing in Mexico that you can take a venture from seed capital and angel investing all the way to the public markets and through the early development stages. And that is something that we are that we're missing. So I would really like to see some of those very promising companies in Mexico go public and demonstrate that we do have a full funding support for the venture companies in Mexico.

Speaker2: [00:09:41] And so let's talk about your investment thesis. What exactly is your investment thesis and what are your criteria for funding a deal?

Speaker3: [00:09:49] From the investor side, what we provide to to the investor is that we create diversified loan portfolios that our senior and secure and that will have a self amortizing

mechanism built into the structure, meaning that all our financings are structured and that we have from the day we fund until the day we finish collecting the last dollar on the loan, a collection mechanism built into the structure, into the loan structure. So what we believe that differentiates us from other funds is that by creating a diversified senior secured loan portfolio, we have the ability to give investors risk adjusted returns that average around 15 percent in pesos and that with the with the additional returns that we can achieve through equity, kicker's warrants and fees that we charge our borrowers we can reach on a risk adjusted basis returns that are superior to what they can achieve in the mezzanine space and obviously in the mezzanine space. They will be taking a lot more risk and our loans are usually have a duration of between 20 and 24 four months. And that allows us also to provide a hedge against inflation and and changes in interest rates that obviously in this scenario where interest rates and inflation might be or are likely to go up in the next 12 to twenty four months, we all have to be very, very much aware of those risks.
So that is the the investment thesis that we that we have for the investors. And when we play a key role for the and for the borrowers is that we do add a lot of value in the space of between five and 10 million dollars because that's usually a space that banks have a lot of challenges covering. And as a result of that, we have very, very little competition and and our we are usually able to structure the loans with the covenants and with the security interests that that allow us to have a very, very small default rate and a high recovery ratio. And if there are trouble, there's trouble in the in the loan. So hopefully that that allows both investors and the companies we invest in to create value and to create value for the investors, obviously with superior returns and for our borrowers and by having access to capital that doesn't dilute their their equity holders in a stage where they have where entrepreneurs have to be super, super careful of not getting over diluted because they will be raising the issue seriously, et cetera, in the next.

Speaker2: [00:14:01] Right, so let's talk about the challenges in this space. What's the challenge that started space today in your area?

Speaker3: [00:14:09] Yes, I believe that these startups face many challenges, obviously throughout the life of of of their companies, but many of the startups are too focused on raising financing and too focused on having a fully funded business plan, which is obviously important. But they frequently tend to have an easier time raising equity than that. And as a result, the biggest challenge they face is dilution. And we believe that we provide through our loans an alternative to that dilution.

Speaker2: [00:14:57] Right, and then what is the challenge investors face in your area?

Speaker3: [00:15:02] Many of the companies that we fund need a lot of support in structuring the financing and the covenants and structuring the the the loans so that investors will find the company and the ready for for the investment.

Speaker2: [00:15:31] Great. And there are many applications and sectors out there, if you had to pick one or two that are really good opportunities for investors to pursue today. What would you put at the top of the list?

Speaker3: [00:15:45] That don't have the experience, the sophistication to provide investors with with that level of confidence so that they can come in and invest in many of these companies and a little bit, it's a little bit more work because in addition to that, sometimes we also help them structure the some of the corporate governance aspects that are necessary for investors to come in, including putting in place independent directors with experience in their sectors or, for example, in providing external advisors that can assist with a particular challenge that that company might be facing and that additional work we do because we that's the way we manage our investments. But sometimes investors, when they are investing directly into these companies, don't have the ability, the time for the experience to put all those safeguards in place.

Speaker2: [00:17:05] Great. Well, in the last minutes that we have here, what else should we covered that we haven't?

Speaker3: [00:17:10] And I I think that I want to emphasize the role that our team is playing right now in the adventure environment and and that is that if you look at the investing space, we do have funds that can come in into the public markets. We do have a lot of funds that can provide financing equity financing, whether it be private equity or venture equity growth equity. But the one space where we find that there is little, there are little players or no players. And that we are trying to develop is the senior secured space as it relates to venture or mid-sized companies and where we will lead banks in the in the sizes that we in the loan size that we provide, which are generally between five and 10 million and don't have enough resources dedicated to structuring those loans in order to accommodate the needs of of the venture firms that we're investing in. So I really want to emphasize that point because that is a space where we believe we add a lot of value to the ecosystem here in Mexico because there aren't any players developing that space. And it's a key space that allows companies to fund and to put an additional layer into their balance sheet that will allow them to avoid being diluted too early in the too early when the company is raising funds. So hopefully, that summarizes our role in an intervention space, right?

Speaker2: [00:19:38] So how best for listeners to get back in touch with you?

Speaker3: [00:19:42] The easiest way to get in touch with us is through my email, which is G Marotta, G L e g o r r E.T.A. at Alstom Capital Dot Max.

Speaker2: [00:20:01] Rates will include that in the show notes, we want to thank you for joining us today. Ok, have you back for a follow up soon?

Speaker3: [00:20:08] Thank you so much for your time and and we're here for any other questions that might be or somebody that might be interested in learning more about all. We.

Speaker1: [00:20:22] Investor Connect helps investors interested in startup funding. In this podcast series, experience, investors share their experience and advice. You can learn more at Investor Connect. Paul T. Martin is the director of Investor Connect, which is a 501c3 nonprofit dedicated to the education of investors for early stage funding. All opinions expressed by hall and podcast guests are solely their own opinions and do not reflect the opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.