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NXTP Labs: An Innovative Accelerator Model

As they were about to meet with important investors, NXTP Labs founders Ariel Arrieta, Francisco Coronel, Gonzalo Costa, and Marta Cruz waited in their Malabia Street office in Buenos Aires. It had been four years since they had embarked on what they perceived to be a novel accelerator model for Latin America, which was innovative in that it combined early-stage financing with business support services. The accelerator program had attracted some 130 investors and selected more than 150 companies, more than one-third of which had received follow-on investments. NXTP had become a unique accelerator in the region.

It was March 2015, and fundraising had become a critical issue. Aiming to minimize risk, NXTP set an objective of having a portfolio of 300 start-ups. This was the largest number of companies that the founders believed they could manage over the 10-year life of the fund. Anticipating that its start-ups would have an initial success rate of no more than 4 out of 10 and an average of $250,000 in investment (including follow-on investment) per company that had initial success, NXTP raised $31 million. But NXTP Labs faced an unexpected situation: its companies' initial success rate looked closer to 8 out of 10. This new success ratio, which the NXTP founders named the "Happy Problem," demanded that the fund have at least $60 million to invest. The founders needed to consider their options for raising the additional funds.

The founders had recently teamed up with a number of brokerage funds to raise capital in increments as small as $1,000. The success of this strategy was still uncertain. An alternative would be to raise a second, much larger fund. The second fund would differ from NXTP's current approach in several ways. First, it would be structured as a traditional venture capital (VC) partnership, rather than the diverse mixture of instruments that had been employed to date. Second, it would aim to raise $200 million, with most of the investments coming from governmental agencies, pension funds, and family offices. The second fund would have a target portfolio of 20 companies already in the expansion phase, with a goal of an average investment per company of $10 million. These companies would come both from NXTP's existing portfolio and from outside.

The decision raised a host of questions that needed to be answered.

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Start-ups in Latin America

The gross domestic product (GDP) in Latin America's 20 sovereign states (see **Exhibit 1**) was expected to grow by only 1.0%–1.5% in 2014, compared with 2.5% in 2013 and 2.9% in 2012. Higher costs of international financing and lower commodity prices were among the reasons cited for this slowdown.[1] GDP growth was expected to recover in 2015 to between 2.0% and 2.5%.

As for innovation, Latin America exhibited aggressive growth in smartphone adoption and migration to mobile broadband networks. Francisco Coronel, one of the NXTP founders, observed, "[T]he increasing adoption of smartphones is unlocking new business opportunities for all players as well as enabling millions of people to connect to the mobile Internet." Latin America had 718 million mobile connections at the end of 2014, with 956 million forecasted for 2020. If this forecast held, Latin America would have the second-highest installed base of smartphones in the world, behind only the Asia-Pacific region. Internet user growth in 2014 was 17% in Latin America, compared with 2% in the United States,[2] and broadband growth was 20% and 2.4%, respectively.[3] (**Exhibit 2** compares Internet demand trends in Latin America and the United States.)

By 2014, Latin American entrepreneurial ecosystems were on the global map. Multilateral institutions and individual country governments had played an important role in the development of that ecosystem. The Inter-American Development Bank (IDB) Group, for example, had established the Multilateral Investment Fund (MIF) in 1993 to promote economic growth and reduce poverty by improving the business environment and supporting micro- and small enterprises. With $2.2 billion in assets, by 2015, the MIF had approved investments for more than $276 million in over 73 venture capital and seed funds. From those, $200 million had been disbursed to funds and invested in more than 600 companies in 21 countries. The MIF had also made an important contribution to developing local human capital in the industry, supporting more than 58 new venture capital and seed fund managers.[4]

As Susana Garcia-Robles, the principal specialist in charge of the early-stage financing group and access to finance, explained:

> When we started our activities in 1993, many of our efforts were focused on understanding what makes a region more productive and competitive in relation to others. What seemed to be the recurring aspect to the dynamism of developed countries was that all of them had built ecosystems in which entrepreneurial talent could flourish, and that there was sufficient access to funds for start-ups in the form of angel, seed, and venture capital.[5]

A study conducted by the Latin American Venture Capital Association (LAVCA), which compared the main countries in the region, found Argentina to be one of the strongest entrepreneurial communities there. (See **Exhibit 3**, which lists scores for Argentina, Brazil, Chile, Colombia, and Mexico.) Despite the challenges of doing business in the country, Argentina had among the highest accounting standards, and three of four recent initial public offerings on the New York Stock Exchange by firms in Latin America were by Argentine companies. From a fund managers' perspective,[6] Argentina had good managerial talent and an open entrepreneurial culture compared with the other countries in the region.

Brazil, because of innovative fund frameworks and a tax and regulatory environment favorable to private equity (PE) investment, performed well on such indicators as capital market development and exit feasibility. Nor was attracting capital a problem: the strength and high turnover rate of the Brazilian stock market offered investors superior exit options relative to those in other regional markets. Cate Ambrose, the president and executive director of LAVCA, said, "You have by far the deepest pool of fund managers in Brazil and the longest track record of raising and investing multiple funds and returning money to investors."[7] A Ministry of Science and Technology agency called FINEP and the MIF launched a program called INOVAR, which invested in new and a few existing fund managers in order to support venture capitalists. Another program, Start-Up Brazil, supported start-ups through government-authorized accelerators.

Chile, benefiting from an improving entrepreneurial environment underpinned by active government support of small enterprises and start-ups, had the best systemic conditions for entrepreneurship in the region, and excelled with respect to the protection of intellectual property and legal transparency.

Increasing government financial support for small and medium-size enterprises (SME) and start-ups was provided by the Chilean Economic Development Agency (CORFO), in the form of incentives for developing financing systems (e.g., seed capital subsidies, angel investment networks, and investment funds for early stages and expansion) as well as technical assistance from incubators and support for internationalization. Start-Up Chile, another government program, encouraged foreign entrepreneurs to establish start-ups in the country.

Mexico raised its ranking from 74th to 36th in terms of indicators for "Starting a Business," according to the World Bank's 2012 *Doing Business* report. Fund managers cited better business-university links and a growing number of government incubator and accelerator programs as major contributors to the country's improved entrepreneurial climate. In 2013, the government funded the National Institute for Entrepreneurs (INADEM) to provide financial support for, and promote the growth and competitiveness of, entrepreneurial and SME projects.

Colombia also inaugurated programs aimed at fostering start-ups. In 2012, as part of an IDB initiative, the country initiated INNpulsa Colombia, a government agency designed to promote entrepreneurship. But Esteban Mancuso, the Managing Partner at Velum Ventures, a seed venture fund based there, noted, "Colombia is 10 years behind Argentina, which started having success with start-ups in 1998." (See **Exhibit 4** for a list of PE/VC investments in Latin America.)

Successes notwithstanding, many aspects of Latin America's entrepreneurial ecosystem needed improvement. Access to finance remained difficult mainly because of weak institutions and lack of transparency, and the cost of doing business was higher in Latin America than in many countries in the Organization for Economic Cooperation and Development (OECD).[a] For instance, the procedures required to open a new company typically took 36 days to complete, three times longer than the OECD country average. Closing a business in Latin America, moreover, typically took three years and cost 16% of a company's net worth, almost double the OECD figure.[8] As an OECD report stated: "The creation and expansion of start-ups face higher barriers in Latin America than in OECD countries. This is due to a lack of appropriate financing mechanisms, scant dynamism of national innovation systems, and a less business-friendly regulatory framework."[9]

[a] The 35 member countries of the OECD came from North and South America, Europe, and the Asia-Pacific region, and included many of the world's most advanced countries and emerging countries, such as Chile, Mexico, and Turkey.

NXTP Labs

The Founders

In creating NXTP Labs, Arrieta, Coronel, Costa, and Cruz had embarked on what would be one of the most important and demanding experiences of their lives.

- Ariel Arrieta, managing partner and an experienced entrepreneur and the president of the board of directors, had founded Digital Ventures, Directa Network, Performa Network, Afiliados Hispanos, and InZearch, all online advertising companies acquired by FOX in July 2007. He completed the Owner/President Management Leadership Program (OPM) at Harvard Business School in 2011.

- Francisco Coronel, the chief financial officer and managing partner, had expertise in corporate finance, managerial reporting, and tax planning. He had served on the advisory boards of a number of leading companies, had majored in economics at Buenos Aires University, and held a master's degree in corporate finance from the University of California at Berkeley.

- Gonzalo Costa, managing partner, had experience in private equity and venture capital. He was managing director at Endeavor Argentina and worked in Santander Investment and GE Capital. He had participated as an angel investor in a number of projects and held an MBA from Duke University and a degree in industrial engineering from Universidad Católica Argentina.

- Marta Cruz, managing partner, was a consultant for United Nations Development Programme, and had worked for more than eight years at MRM Worldwide, the McCann Worldgroup digital agency, as regional director for Latin America, where she had been responsible for managing key accounts, including HP, Intel, Coca-Cola, GM, Hilton Hotels and Resorts, and MasterCard. She had earned a bachelor's degree from the Universidad de Buenos Aires and a postgraduate specialization in management from Universidad Austral in Argentina.

"NXTP founders had profiles similar to many of our successful first-time managers in other countries," Garcia-Robles observed. "Francisco and Gonzalo used to be part of Endeavor.[b] Ariel had founded several companies and sold some of them shortly thereafter and made quite a bit of money. And Marta has a strong commitment in promoting the idea of having more female participation in the entrepreneurial sector."

The management team was supported by Pablo Garfinkel in Uruguay[10] and Magnus Arantes in Brazil, as well as by associate partners, who supported such areas as social media, business development, information technology, and human resources. (See **Exhibit 5** for an organization chart of NXTP.) In January 2015, an experienced VC and PE expert, Pablo Salazar Rojo, left the accelerator Naranya[c] to join NXTP as a managing partner in Mexico.

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[b] The Endeavor network of nonprofit agencies, which operated in Africa, Asia, and Latin America, identified individuals with great entrepreneurial potential whose businesses it attempted to transform into world-class enterprises through the provision of training, guidance, and contacts.

[c] Naranya was a mobile commerce start-up accelerator that provided funding, support, and resources to start-ups based in Mexico; see http://naranya.com/en/.

The Business Model

NXTP's accelerator model was inspired by Y Combinator, a novel approach to seed funding created by Paul Graham that contributed a small initial investment, as well as assistance in idea development and in dealing with investors. The stated goal of Y Combinator,[11] which funded two rounds of start-ups a year with an acceleration period of 13 weeks, was "to create an environment where you can focus exclusively on getting an initial version built."

Y Combinator was based in Silicon Valley and had funded 800 start-ups since 2005. Its companies had a combined valuation of over $30 billion. Y Combinator invested an initial $120,000 in return for 7% of the company's equity,[12] with average funding per company of $3.4 million. Some examples of Y Combinator's success stories were Airbnb, Dropbox, and Heroku.[13]

Y Combinator and NXTP differed in that the aim of the former was to create unicorn[d] companies but the goal of the latter was to nurture the entrepreneurial ecosystem. Mancuso explained:

> In Silicon Valley, investment funds have 10% to 20% equity in potential unicorn companies, so with just one of those companies doing well, they would have considerable positive returns. On the other hand, there aren't $1 billion companies in Latin America, and it's difficult to find people willing to invest big amounts of money. Moreover, if a potential unicorn company is built, investment funds have problems finding the necessary money for 20% equity follow-on.

NXTP was founded in 2011 as an investment fund with a four-month acceleration program focused on early-stage technology companies in sectors such as the Internet, mobile, gaming, software, media and entertainment, and e-commerce. NXTP also provided coaching-, training-, and mentoring-based entrepreneurial support. Headquartered in Buenos Aires, Argentina, the company had approximately 200 mentors and offices or partners, or both, in São Paulo (Brazil), Mexico City (Mexico), Buenos Aires (Argentina), Santiago (Chile), Medellín (Colombia), Montevideo (Uruguay), and San Francisco.[14]

NXTP's funding model consisted of a fixed initial investment of $25,000[e] per company in return for a minority equity stake of 2%–10%. Best-performing companies ("high potentials") received follow-on investment of as much as $1 million per company. Invested capital was intended to help start-ups with market validation, ramp-up, and geographical business expansion. By December 2014, NXTP had invested $10 million in more than 150 companies throughout the region. (NXTP's performance is reported in **Exhibit 6**.)

Applications to NXTP could be made either online or at one of the fund's events. (**Exhibit 7** describes NXTP's application process.) To be selected, a company had to satisfy four fundamental requirements: (1) the founding team had to have at least two members, (2) the founders had to make a full-time commitment, (3) the company had to have developed a prototype product or service, and (4) the company had to demonstrate scalable Internet-based distribution or a proven ability to scale sales. Profiles of the founders were also considered. NXTP looked for a cross-functional team with design, engineering, and marketing experience (what it called a "dream team") and a business model for a product or service to solve a problem for a specific target customer. The selection process began with a lead from the NXTP network, continued with the advisory committee's review of the opportunity

[d] Companies valued at $1 billion or more by VC firms.

[e] If the company raised more than $500,000 from third-party investors, NXTP reserved the right to increase their initial investment up to $100,000.

and a legal assessment, and concluded with the closing negotiation and board approval. The NXTP advisory committee, formed by some of NXTP's investors and entrepreneurship experts, participated in two annual meetings where they reviewed the fund's portfolio and upcoming investments. The board of directors, formed by NXTP founders and one representative from a major investor in NXTP, was responsible for making final decisions on investments, fundraising, and overall strategy.

Selected teams transitioned through a four-month, four-phase acceleration program. (See **Exhibit 8** for NXTP's program time frame.) The first phase involved a preliminary analysis of the opportunity and concluded with a "Mentors Day." The second phase supported, with coaching and training, the incubation of entrepreneurs' business models. Commercial viability was demonstrated in the third phase. The fourth and final phase, which focused on defining start-ups' investment readiness, concluded with a "Demo Day," during which entrepreneurs made presentations explaining their business models and financials. Each group was allotted three minutes, and, at the conclusion of the last presentation, investors were invited to ask questions. Coronel explained:

> The idea is to have control through collaboration. We made the mistake of taking some entrepreneurs to a Demo Day in Silicon Valley, but the truth is that they weren't ready yet. Silicon Valley is very competitive and they are looking for high-global-impact projects, while our entrepreneurs are still in the market validation phase.

Entrepreneurs who completed the four phases "graduated" from the NXTP program. Start-ups deemed to have potential received follow-on investment from NXTP, focused on promoting growth and financial returns. By end of 2014, NXTP had completed its seventh acceleration program, for which it screened more than 300 proposals, with an acceptance rate of 5%.

NXTP's follow-on financing was capped at 20% of the total size of the round, including all other investors. NXTP's financial contribution ranged from $100,000 to $1 million, in companies with post-financing (post-money) enterprise values between $250,000 and $1.25 million.

The events organized by NXTP to strengthen community, networking, and deal-flow generation included:

- The IAE[f] program, which brought 27 MBA students from IMED in Brazil to visit its headquarters,
- The "Technology Entrepreneurs" program conducted jointly with Junior Achievement Buenos Aires and the Motorola Solutions Foundation, and
- WeXchange, founded by MIF in 2013 and sponsored by NXTP, was the first Latin American and the Caribbean forum focused on connecting and empowering female entrepreneurs with high-growth businesses. As part of WeXchange, Marta Cruz helped with the creation of the "Day of the Latin American and Caribbean Woman Entrepreneur" program, in which Cruz worked with the Colombian Ministry of Production and the government of the city of Buenos Aires to promote increasing participation by women in Latin America's entrepreneurial ecosystem.

NXTP had expanded its media presence worldwide, including coverage on The Next Web (TNW), CNN, and TechCrunch.

[f] IAE business school was the business school of Austral University in Argentina, recognized as being among the top 30 business schools in the world, as ranked by Financial Times Executive Education; www.iae.edu.ar.

Although NXTP's business model was unique in the region, some considered Wayra its main competitor. Telefónica—the giant Spain-based global broadband and telecommunications provider—created the Wayra business accelerator to provide financial, technical, and logistical support to start-ups in the information and communications technologies (ICT) sector.[15] By 2014, Wayra was operating in several countries in Latin America and Europe. As Francisco Coronel explained:

> [A]s an accelerator it's difficult for us to find something equivalent to NXTP Labs. . . . [T]he closest competitor could be Wayra because they do similar activities and provide similar services, but their mind-set is different. Wayra belongs to Telefónica Group, so they think as a corporation; they are run by managers, not entrepreneurs.

Mancuso added, "If things go bad in Wayra, the managers would be fired or relocated, but in NXTP, the founders are risking everything."

Alvaro Casas, a young entrepreneur working at the start-up Increase, maintained that "Wayra and NXTP couldn't be considered rivals; if anything, they are complementary. Wayra invests in most of the start-ups that had first experienced NXTP's acceleration program. It is not common for Wayra to choose companies from the very early stage, as NXTP does." Casas had experienced both programs while working at Increase, which had received support from NXTP and was now part of Wayra. Casas added: "Wayra is a bit more structured as a program and is a great point of entry for working with Telefónica, while NXTP Labs feels more like a self-service program, and provides founders with a world-class network of contacts."

NXTP and the Entrepreneurial Ecosystem

The entrepreneurial ecosystem formed by entrepreneurs, mentors, and investors formed one of the main pillars of NXTP's business model. The ecosystem encompassed early-stage financing, support services and technology, human capital, and coaching. (See **Exhibit 9** for an illustration of the NXTP Labs community.)

The concept behind the ecosystem was the idea of community. Casas claimed that "NXTP has something different from other accelerator programs, which is the high level of collaboration that is actively encouraged among entrepreneurs, mentors, and investors. This creates a feeling of being all in one big team and all in the same boat." A monthly community-building event, a luncheon called "First Thursday" arranged to gather the NXTP family together, was held simultaneously in Argentina, Chile, Colombia, and Brazil.

NXTP valued its network of mentors, who had deep expertise in starting, growing, scaling, and selling companies. It rolled out a platform that enabled mentors to co-invest in fund companies and provide them with coaching. Co-investing, although not required, was common among mentors. Interaction between mentors and entrepreneurs commenced during the first month of the acceleration program as part of the phase 1 event called "Mentors Day." (**Exhibit 10** provides an overview of NXTP Labs' mentors.) During Mentors Day, companies and mentors approached each other (as in speed dating) and matches were made. Before Mentors Day, a list with the bios of each mentor was sent to the companies and mentors got the one pager on the companies. Mentors were recruited mainly through the founders' network, which included investors, people they knew through events, and friends of friends. The success of NXTP did not change the process, but it made it much easier. The founders' goal was to encourage all investors to become mentors. Mentors' involvement with their respective companies varied, from providing general guidance and networking to getting deeply involved in operations, even becoming part of the company's advisory board and/or having equity offered up to 3%. The NXTP founders were like coaches, having a role similar to the mentors, but due to their many other responsibilities they were spread thin across the companies.

In November 2014, NXTP introduced another platform, called Puente Labs, aimed at helping Latin American companies migrate to Silicon Valley. It sought to educate entrepreneurs in best practices for building companies in the United States, to connect them with people who could help them make the most of their business opportunities, and to help start-ups launch in Silicon Valley. Puente Labs' statement of purpose described it as

> [A] hybrid network comprised of corporations, investors, non-profits, sponsors, founders, mentors, VCs, and governments all focused on helping Latin American entrepreneurs. Puente Labs will have an introductory track for those looking to learn about the start-up ecosystem, a referral track, and a development and scaling track, which will include helping raise funds for a first institutional round.

Arrieta served on the board of Puente Labs.[16]

Fundraising

According to NXTP, the cost of starting a technology business had declined dramatically over the past decade, a consequence of the development of open-source software[g] and cloud computing.[h] Moreover, the formation of a critical mass on social networks had fostered rapid user acquisition, enabling companies to advance further and acquire more users with less capital. Collectively, these factors enabled the creation and validation of digital businesses without large amounts of capital. Accelerators and micro venture capital (micro VC) firms took advantage of this trend.

The NXTP investment strategy was premised on the following assumptions: 2% of portfolio companies would realize outstanding returns of 8 to 12 times the invested capital (an internal rate of return, or IRR, of over 50%); 11% of portfolio companies would yield healthy returns, from 5 to 8 times the invested capital (an IRR of about 40%); 27% of portfolio companies would yield moderate returns, from 1 to 5 times the invested capital; and 60% of portfolio companies would break even or be written off. NXTP's initial investments would form a small part of a diversified portfolio of 300 companies, called a "small bet," and it would then invest heavily in high-impact technology companies that it believed had high potential.

Fundraising was conducted in rounds. The first round, from 2011 to July 2013, had 80 private individual investors with initial investments of $25,000 each, plus $500,000 from the founders, for a total of $2.5 million. The initial investment size of $25,000 was meant to attract a large number of investors or mentors. The small ticket size was seen by many investors as an option to further invest in companies that they perceived to be most attractive. In other words, the incentive to invest in NXTP was for some investors not the fund's return on investment per se, but the option to invest at an early stage in specific companies.

The second round, from July 2013 to early 2015, comprised investment by government and multinational investors at $18.5 million (including a $9 million credit line from CORFO), five family

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[g] Open-source described software that was freely available for modification or enhancement by anyone. Source code was programming that could be manipulated to change how a piece of software, a program or application, operated.

[h] Cloud computing referred to the deployment of remote servers and software networks that offered centralized data storage and online access to computer services or resources. It exploited shared resources to achieve coherence and realize economies of scale.

offices at $4 million, and private individual investors at $6 million. For this round, individual investors were allowed to invest more than $25,000 and family offices invested from $500,000 to $1.2 million. In 2013 when NXTP obtained an equity commitment of $5 million from one of those investors, the MIF, Garcia-Robles remarked: "If people did the same due diligence and analysis I did, they would realize that NXTP is a gold mine for Latin America. It's what the region and the ecosystem needs." Other government investors in NXTP included CORFO (in Chile), INADEM (in Mexico), and the city of Buenos Aires.

Although the MIF investment was structured as equity with conditions similar to those for private investors, INADEM's investments were structured more like a loan: NXTP was given the option to buy back its stock from the government development agency after five years, for the initial amount plus interest of 8%. CORFO and the city of Buenos Aires also extended loans. They also required NXTP to open a branch in their respective countries. NXTP's founders commented: "These government investors manage the funds as debt on a fixed effort basis, which allows NXTP to increase its financial leverage, improving significantly the return on investment."

Performance and the "Happy Problem"

By December 2014, NXTP had completed its seventh program, with a Demo Day for investors, journalists, mentors, and fellow entrepreneurs. It had thus far selected 159 of its target portfolio of 300 companies, 49 of which had received follow-on investment, and 6 of which had exited. NXTP had 9 write-offs and identified 38 high-potential companies.[i] NXTP had invested almost $10 million, $5.7 million of which consisted of follow-on investment, with average funding per company of $250,000. NXTP's ratio of portfolio value to capital invested (TVPI) was 1.3. High-potential and growing companies represented more than 50% of its total portfolio. This figure, being higher than anticipated, was termed by NXTP managers the "Happy Problem." Having this "Happy Problem" implied that NXTP needed an additional $30 million in funding, on top of the current $31 million that NXTP had already secured. (See **Exhibit 11** for an analysis of NXTP's "Happy Problem," **Exhibit 12** for NXTP's portfolio value, and **Exhibit 13** for a summary of financial statements.)

The EMHITS Notes

As part of a new fundraising strategy to raise an additional $30 million, in March 2015 NXTP launched an investment vehicle oriented toward the private banking sector called an NXTP Labs Emerging Market High Impact Tech Start-ups (EMHITS) Flex Note. EMHITS notes were bonds or notes (an exchange-traded product) that incorporated an equity stake in NXTP as an underlying asset. The notes could be acquired through Bloomberg and were listed on the Vienna Stock Exchange. Their price was based on NXTP's net asset value (NAV) as determined by its current auditor, Morrison International, which was the sum of the valuation of all NXTP portfolio companies. The auditor determined the value of each company by looking at investments by qualified financial investors—that is, a third party that invested more than $250,000 in a firm. Three private banking brokerage firms assisted the fund with the promotion and distribution of EMHITS notes, which were denominated in U.S. dollars and would reach maturity in 2023. EMHITS notes were intended to comprise up to $10 million of the total $30 million that NXTP was targeting to raise, with the remainder coming from their usual investors, including family offices, individual and public institutions.

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[i] 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 superangel investors.

For NXTP, the notes represented an efficient investment vehicle that facilitated access to small investors because they allowed a minimum investment of $1,000, compared with the $25,000 that was previously NXTP's minimum ticket. The notes were marketed by private banks. In addition, for NXTP founders, management of the notes was simple and low in cost.

EMHITS notes carried some risks for investors, because no secondary market existed for the notes at the time, so prospective purchasers had to be aware that they might not be able to transfer or resell them. Moreover, because the notes were invested in NXTP's Uruguayan subsidiary, the investment was susceptible to risks from adverse economic events there as well as NXTP's overall performance.

The Potential Fund

Initially, the founders had anticipated raising a second fund only after NXTP had been in business for a decade. However, their initial success in raising $31 million validated NXTP's business model to the founders and suggested the desirability of accelerating fundraising. Thus, in addition to the recent EMHITS initiative, they began to actively consider opening a second fund.

The structure of the second fund would differ from the original one. A VC partnership structure with a minimum investment of $1 million would be adopted. Investment would be limited to 20 early-stage technology companies, primarily in Latin America. The profile of targeted investors (limited partners) would also differ, with most money coming from family offices in Latin America, the United States, and government bodies. They envisioned that this fund would total $200 million, with an average investment per company of $10 million.

Yet pursuing the second fund presented challenges as well. NXTP's founders had to consider the advantages and the potential risks. On the one hand, having a second fund would allow NXTP to leverage its high-potential companies and knowledge to truly enter into the VC industry. On the other hand, it would probably create the perception for NXTP's investors that the founders were thinly spread between the two funds, with very different structures and expectations. Garcia-Robles remarked, "I'm worried about the founders' focusing in to too many tasks at the same time, from executing the acceleration process to managing fundraising." Moreover, waiting a few years to initiate the second fund would likely allow more success stories. Other concerns included how the transition should be managed and what skills would be needed to run the larger fund.

As the founders deliberated over this proposal, a number of questions arose. What about the prior investors in NXTP—would they be invited to join the second fund and, if so, under what conditions? If NXTP founders ran both funds in parallel, how would they avoid potential conflicts of interest?

The founders couldn't help thinking: If they had to do it all over again, what they might have done differently?

Exhibit 1 Map of Latin America

Source: "Latin America," http://www.lib.utexas.edu/maps/americas/latin_america_1990.jpg, accessed June 4, 2015.

Exhibit 2 Latin America Technology Indicators and Benchmarks with the United States

	Argentina	Brazil	Chile	Colombia	Mexico	Average	U.S.
Video uploads on YouTube/pop. 15–69	77.4	75.4	78.8	67.3	70.9	74.0	100.0
Comm., computer & info. services exp., % total trade	2.3	0.3	0.4	0.5	0.1	0.8	1.2
High- & medium-high-tech manufactures, % of total manufactures	n/a	39.6	21.7	22.1	40.3	34.0	43.3
Computer software spending, % GDP	0.2	0.3	0.3	0.2	0.2	0.2	1.0
E-participation	0.3	0.5	0.7	0.7	0.6	0.5	0.9
ICT use	3.2	3.4	3.7	2.3	2.2	2.8	6.8
Gross expenditure on R&D, % GDP.	0.6	1.2	0.4	0.2	0.4	0.6	2.8
Graduates in science & engineering, % of total tertiary graduates	13.5	12.0	19.2	21.5	26.8	18.5	15.5

Source: "The Global Innovation Index 2014: The Human Factor in Innovation," by Cornell University, INSEAD, and the World Intellectual Property Organization (WIPO).

Notes: Communication, computer, and information services included postal, courier, and telecommunications services; computer data; news-related service transactions between residents and nonresidents; construction services; and royalties and license fees.

High-technology industries included aircraft and spacecraft, pharmaceuticals, office, accounting and computing machinery, radio, TV and communication equipment and medical, precision and optical instruments. Medium- and high-technology industries included electrical machinery and apparatus, motor vehicles, trailers and semitrailers, chemicals excluding pharmaceuticals, railroad equipment and transport equipment and machinery.

Computer software spending included the total value of purchased or leased packaged software, such as operating systems, database systems, programming tools, utilities, and applications.

The E-Participation Index was based on the survey used for the United Nations Online Service Index. The survey was expanded, with questions focusing on the use of the Internet to facilitate the provision of information by governments to citizens, interaction with stakeholders, and engagement in decision-making processes. The index ranged from 0 to 1, with 1 showing greater e-participation.

The ICT (information, communications, and technology) use index was a composite index that weighted three ICT indicators (33% each): (1) percentage of individuals using the Internet; (2) fixed (wired)-broadband Internet subscriptions per 100 inhabitants; and (3) active mobile-broadband subscriptions per 100 inhabitants.

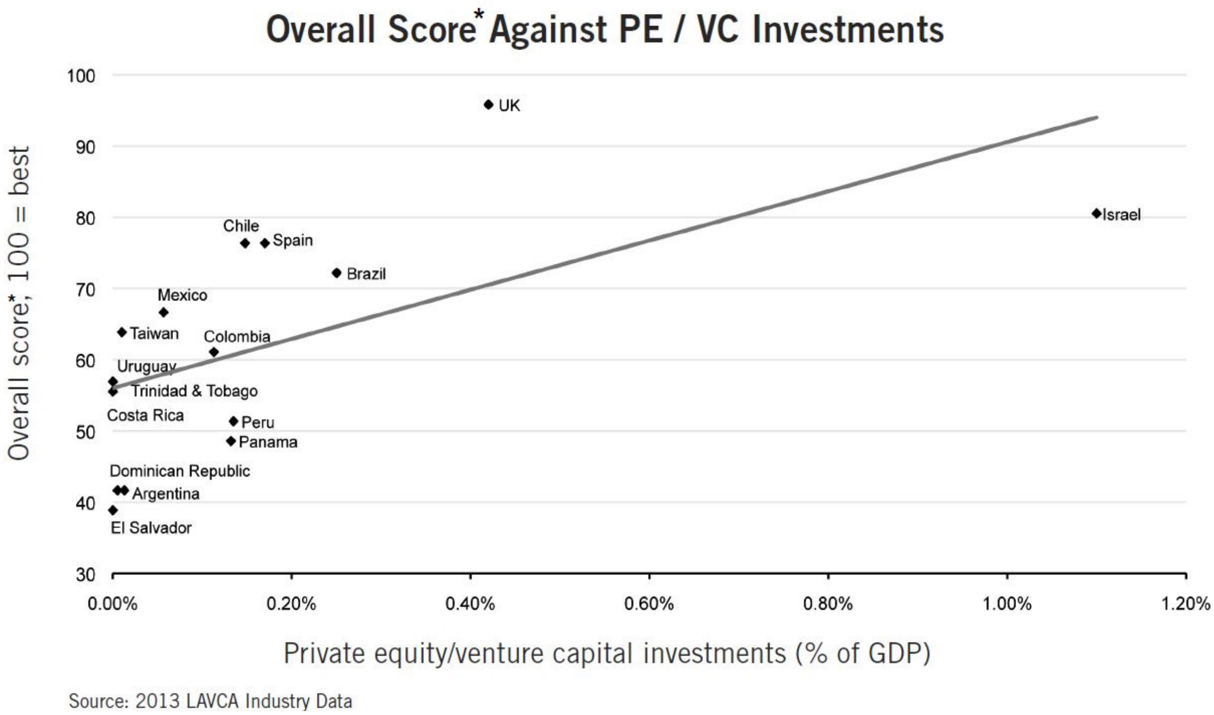
Exhibit 3 Overall Score Breakdown for Argentina, Brazil, Chile, Mexico, and Colombia Relating to Venture Capital and Private Equity

	Argentina	Brazil	Chile	Colombia	Mexico
Overall score	42	72	76	61	67
Laws on PE/VC fund formation and operation	1	4	3	3	2
Tax treatment of PE/VC funds & investments	1	3	3	2	3
Protection of minority shareholder rights	2	3	3	3	3
Restrictions on local institutional investors investing in PE/VC	0	3	3	3	3
Protection of intellectual property rights	2	2	3	2	2
Bankruptcy procedures/creditors' rights/partner liability	2	3	3	2	2
Capital markets development and feasibility of exit	2	3	3	2	3
Registration/reserve requirements on inward investment	1	3	3	3	3
Corporate governance requirements	2	3	3	3	3
Strength of the judicial system	2	2	3	2	2
Perceived corruption	1	1	3	1	1
Quality of local accounting/use of international standards	4	4	4	2	3
Entrepreneurship	3	3	3	3	3

Source: Latin American Private Equity & Venture Capital Association—2013 Scorecard, 2014 Update, "The Private Equity and Venture Capital Environment in Latin America," by FOMIN.

Note: Indicators are scored from 0 to 4 with 4 = best score. Thus, Chile is perceived as the least corrupt of the five nations. The overall score is the weighted total of all scorecard indicators, ranging from 0 to 100, where 100 = best/most favorable environment. Five of the criteria—tax treatment, minority shareholder rights, restrictions on institutional investors, capital market development, and corporate governance requirements—received double weighting within the 100-point score to reflect their central prominence in investment decisions made by PE/VC funds.

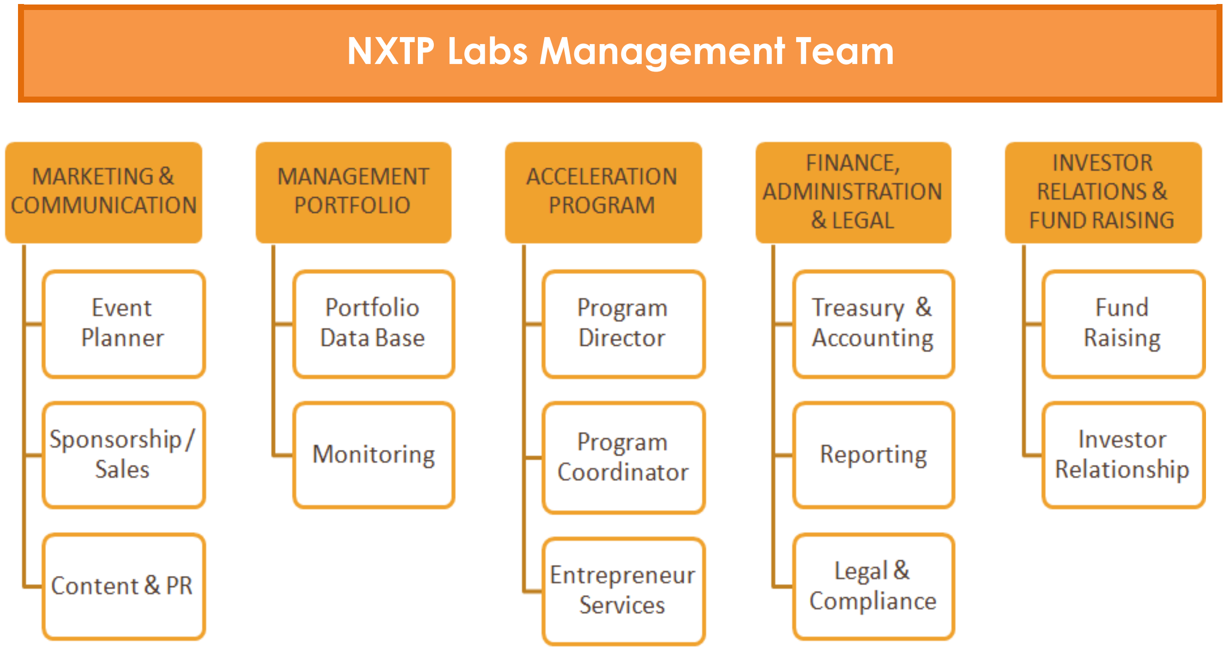
Exhibit 4 Relationship between Overall Score and PE/VC Investments



Scoring criteria: Laws on PE/VC fund formation and operation, tax treatments on PE/VC funds and investments, protection of minority shareholder rights, restrictions on local institutional investors investing in PE/VC, protection of intellectual property rights, bankruptcy regulation (encompassing bankruptcy procedures/creditor rights/partner liability in cases of bankruptcy), capital market development and feasibility of local exit, registration/reserve requirements on inward investment, corporate governance requirements, strength of the judicial system, perceived corruption, use of international accounting standards and quality of the local accounting industry, and entrepreneurship.

Source: Latin American Private Equity & Venture Capital Association, http://lavca.org/research-and-tools-2/scorecard/, accessed March 14, 2015.

Exhibit 5 NXTP Labs' Management Team



Source: Company documents.

Exhibit 6 Overview of NXTP Labs' Performance

	2011	2012	2013	2014	Total as of Dec 2014	2015e	Total as of Dec 2015e
Number of new companies	15	40	45	59	159	56	215
Early exits	0	1	2	3	6	4	10
Write-off investments	0	0	4	5	9	8	17
Cumulative funding raised by companies, $ K	0	13,500	32,000	80,000	80,000	220,000	220,000

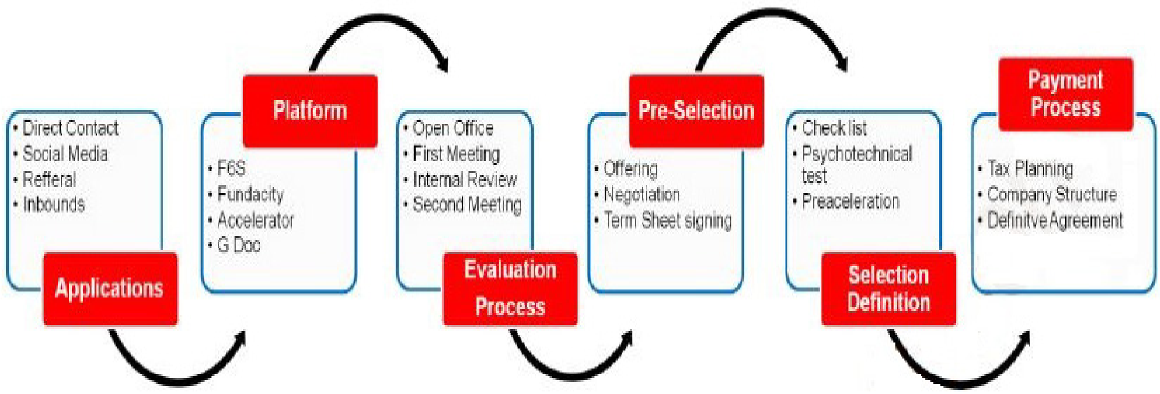
Source: Company documents.

Note: All calendar years; e stands for estimated. Cumulative funding includes capital from NXTP and other financiers.

Early exits performance						
Company name	Bixti	WeHostels	ComentaTV	TheFunLeague	Talemestories	Sinimanes
Return on cash investment	5x (cash)	2x (cash + equity)	3.5x (cash + equity)	3.5x (cash)	2.5x (cash)	3.5x (cash)
Holding Period (months)	8	24	28	12	9	11
IRR	400%	112%	146%	252%	120%	324%

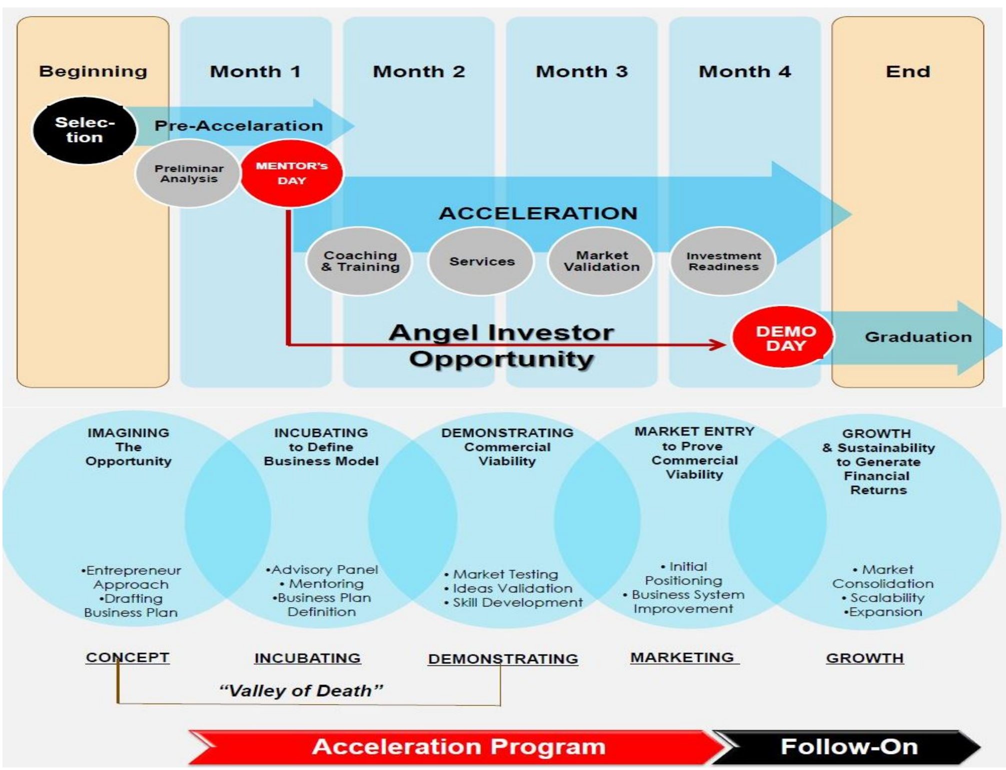
Source: Company documents.

Exhibit 7 NXTP Labs' Application Process



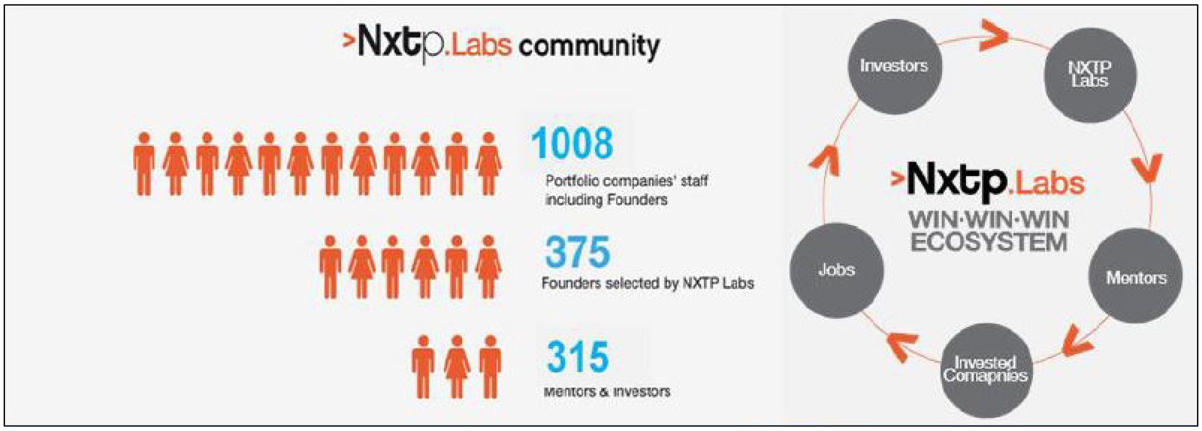
Source: Company documents.

Exhibit 8 NXTP Labs' Program Time Frame



Source: Company documents.

Exhibit 9 NXTP Labs Community



Country	Office	Mentors	Investors	Alliances
Argentina	●	●		
Brazil	●	●		
Chile	●	●		
Colombia	●	●		
Mexico	●	●		
Peru		●		
Uruguay	●	●		
United States	●	●		

Source: Company documents.

Exhibit 10 NXTP Labs: Mentors Overview[a]

Source: Company documents.

[a]**Additional mentors/investors:** Altschuler Laura, Arantes Magnus, Arébalos Alberto, Aristizábal Pablo, Ausley Paul D., Bachrach Estanislao, Basch Diego, Bearzi Mariano, Berardi Nicolás, Bercovich Rafael, Bernal Andrés, Botero Gaviría Camilo, Caballero Hernán, Campiani Matías, Cappello Juan, Casas Zubiría Alvaro, Cattàn Alfredo, Cavallero Alejandro, Civale Rodolfo, D'Alessandro Enrique, D'Alessandro Gustavo, D'Alessandro Javier, Dams Carolina, Diaz Faquiry, Dundas Eduardo, Fabbri Cristián, Fendelman Carolyn, Fernández Diego, Fernández Dutto Matías, Fioravantti Reinaldo, Flood Bernardo, Franqui Annette, Galperin Marcos, Garcia Robles Susana, Garfinkel Pablo, George Devon, Giberti Marco, Giraldo Luis, Gjud Alejandro, Gober Robert D., Goldstoff Pablo, Göldy Juan, González Bravo Diego, Gonzalez Giancarlo, González Mariano, Haggman Matt, Haiek Ralph, Hazán Martín, Hennessey Michael, Herrero Gustavo, Hirmas Boris, Hjertonsson Oskar, Hulian Héctor, Iglesias Martín, ImprintCap, Jack Federico, Jutard Patricio, Ketterer Gwyneth, Kleinman Andrés, Kong Víctor, Kozek Edward, Lauría Andrés, Lawson Andrés, Levy José , Lucena, Marra Paula, Mazalán Carlos, Mazovetzky Moisés , Mc Clure Dave, McGinnis Patrick, Mendez Alex, Mesik Román, Micele Juan, Miguez Daniel, Mirabito Jonathan, Montoya Gabriel, Nofal Daniel, O'Kelley Charles Brian, Orlando Pablo, Ortega Sebastián, Oxenford Alec, Pace Diego, Paz Alberto, Peña Ignacio, Peña Tomás, Perversi Eduardo, Piccioli Leonardo, Plaza Ignacio, Potente Pablo, Rabán Luis, Ramondt Mark, Rivera Lozano Aníbal, Rivero Mario, Rodriguez Mentasti Lucas, Rodríguez Prieto Eric Iván, Roldán, Ropu Bruno, Ruggeri Gabriela, Sainz José, Sampedro Miguel, San Martin Fabricio, Sanchez de Bustamante Miguel, Schuvaks Alejandro, Seclen Luciana, Segal Susan, Serebrinsky Diego, Sierra Fernando, Sorop Pedro, Starkman Damián, Subotovski Santiago, Tanoira Manuel, Taylor Allen, Torres Arturo, Torres Carbonel Silvia, Tremblay Martin, Turri Julien, Undurraga Daniel, Valencia Felipe, Valenzuela Diego, Valenzuela Felipe, Vazquéz Mario, Velasquez Cruz, Velázquez Esteban, Wenrich Thomas, Woods Staton , Yeatts Guillermo, Zan Bisignani Daniel.

Exhibit 11 NXTP Labs' "Happy Problem"

	2011	2012	2013	2014	Total as of Dec 2014	2015e	Total as of Dec 2015e
Follow-on Investment, $	0	0	949,528	4,822,990	5,772,518	29,750,000	35,522,518
Follow-on Investment, #	0	0	12	37	49	85	134
High potential, #	3	11	12	12	38	22	60

Source: Company documents.

Note: All calendar years.

	Portfolio Status as of Dec 2014
High potential	24%
Growing	32%
Moderate	28%
Walking Dead	6%
Write-offs	6%
Sold	4%
Total	100%

Source: Company documents.

Exhibit 12 NXTP Labs' Portfolio Value

	2011	2012	2013	2014	Total as of Dec 2014	2015e	Total as of Dec 2015e
Portfolio Value (PV), $ K	370	2,084	4,641	14,047	14,047	69,300	69,300
Initial Investments, $K	370	975	1,150	1,350	3,845	1,400	5,245
Follow-on Investments, $K	0	0	950	4,823	5,773	29,750	35,523
Capital Invested (CI), $K	370	975	2,100	6,173	9,618	31,150*a*	40,768
Cumulative Capital Invested (CCI), $ K	370	1,345	3,445	9,618	9,618	40,768	40,768
Acceleration costs (AC), $K	270	624	644	621	2,159	644	2,803
Early Exits (EE), $K	0	0	190	762	952	1,400	2,352
CI + AC, $K	640	1,599	2,744	6,794	11,777	31,794	43,571
CCI + Cumulative AC, $K	640	2,239	4,983	11,777	11,777	43,571	43,571
TVPI 1: (PV + EE) / CCI	1.0	1.	1.4	1.5	1.5	1.8	1.8
TVPI 2: (PV+EE) / (CCI+CAC)	0.6	0.9	1.0	1.3	1.3	1.6	1.6

Source: Company documents.

Note: Total value to paid-in capital; TVPI 2: Total value to paid-in capital (including acceleration costs). All calendar years.

Exhibit 13 NXTP Labs' Summary Financial Statements, 2011–2014

Balance Sheet

Balance Sheet Statement	Dec 31, 2014 (U$S K)	Dec 31, 2013 (U$S K)	Dec 31, 2012 (U$S K)	Dec 31, 2011 (U$S K)
Assets:				
Investments at fair value:				
Program 1	1,602	852	745	370
Program 2	2,523	722	596	-
Program 3	2,134	1,004	743	-
Program 4	2,835	713	-	-
Program 5	2,064	950	-	-
Program 6	1,540	400	-	-
Program 7	1,350			
Total Investments	**14,047**	**4,641**	**2,084**	**370**
Cash and cash equivalents	1,231	916	130	274
Capital contribution receivable	10,452	4,015	154	63
Other Assets	91	101	47	25
Total Assets	**25,822**	**9,672**	**2,415**	**731**
Liabilities:				
Initial Investment Payable	1,991	671	218	233
CORFO & GCBA	1,490	-	-	-
Accrued liabilities & others	324	105	88	27
Total Liabilities	**3,804**	**776**	**306**	**259**
Net Assets	**22,017**	**8,896**	**2,109**	**472**

Exhibit 13 (continued)

Income Statement

Income Statement	Dec 31, 2014 (U$S K)	Dec 31, 2013 (U$S K)	Dec 31, 2012 (U$S K)	Dec 31, 2011 (U$S K)
Investment Income	**431**	**65**	**80**	**-**
Expenses:				
Marketing & Promotion	152	135	93	37
Office Set-Up	-	-	16	54
Operating Expenses	181	193	80	22
Legal & Administrative	82	73	52	29
Staff & Professional Services	222	148	62	26
Travels	125	99	65	28
Operating Grant	-71	-	-	-
Total Expenses	**691**	**647**	**369**	**195**
Management fee & others	562	252	452	121
Net operating loss	**823**	**834**	**740**	**316**
Net unrealized appreciation on investments	3,628	816	759	-
Net increase in net assets from operations	**2,806**	**-18**	**20**	**-316**

Source: Company documents.

Endnotes

1 Latam Economy, http://www.latameconomy.org/en/outlook/, accessed March 16, 2015.

2 NXTP Labs data.

3 Ibid.

4 Ibid.

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7 Josh Lerner and Ann Leamon, "Creating a Venture Ecosystem in Brazil: FINEP's INOVAR Project," Working Paper 12-099, 2012.

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9 "Start-up Latin America," OECD Report, http://www.oecd.org/dev/americas/Eng_complete%20Start%20Up%20Latin%20America%20pocket%20edition.pdf, accessed March 16, 2015.

10 "NXTP Labs Partners," http://www.nxtplabs.com/team/, accessed March 13, 2015.

11 "Y Combinator," http://www.ycombinator.com/about/#morethanmoney/, accessed March 16, 2015.

12 "Y Combinator Created a New Model for Funding Early Stage Startups," http://www.ycombinator.com/, accessed April 5, 2015.

13 NXTP Labs data.

14 Team Azimuth: Mike Boston, Samantha Johnson, Brendan Mullen, Gary Niederpruem, Julie Talbot, and Brad Ziemba, "Venture Capital Fund Creation," NXTP Labs Project, University of Notre Dame, August 8, 2014.

15 Kantis et al., "Index of Systemic Conditions."

16 "Puente Labs," http://puentelabs.com, accessed March 16, 2015.