



BRAZIL-BASED DXA INVESTMENTS' GAINS BIG BY INVESTING SMALL

By the National Association of Investment Companies

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Oscar Decotelli, CEO and Founding Partner of Brazil-based DXA Investments, looks to deliver oversized returns by looking under the radar. DXA, which currently manages approximately \$200 million from its offices in Rio de Janeiro, focuses on opportunities in small and medium-sized enterprises (SMEs) primarily within emerging markets in South America – a strategy often overlooked by larger firms.

With \$50 million in LP capital (97% of which originated in the U.S.), DXA was founded in 2012 for the purpose of finding unique and high-return opportunities in Latin America's emerging markets that weren't on the screens of the larger asset management firms. "I was seeing funds invest in big companies, and they would end up generating returns in the mid-teens or high single digits, which I don't think is a sufficient return on your capital for it to take emerging market risk," Decotelli recalls. "I think when you're investing into South America or EM in general, you should be getting like at least 15-20% IRR in dollar terms to make sense for the kind of risk we're taking."

DXA's strategy is to look for SMEs in emerging markets that will impact the world and Latin America in the coming years and provide venture or growth equity to help fuel their expansion. This could mean a company that stands to benefit from millennial growth, consumption and spending patterns, or fills the gaps in the region with regards to products that are in demand or expected to become in demand in the near future. "So, every single company that fits into something like this. It could be a real estate related company. It could be a consumer product company. It could be a financial company that fits into this kind of a new pattern of what the millennials want," Decotelli explains.

With an investment time horizon of 5-7 years, the DXA team typically deploys \$5-10 million into these companies for a majority or near-majority stake and applies their methodology to build and grow the business. Past investments have included SMEs engaged in financial technology, a consumer retail franchise, and a one-stop shop logistics company. Despite sluggish GDP growth in Brazil and most of the BRICs, Decotelli says DXA companies grew on average 67% per year and created 450 jobs – 71% of which went to women – despite rising unemployment in the region.

The firm's first fund, Excelsior I, deployed capital from 2012-2015 and completed its first exit last year – pet accessories company, Zee Dog SA. And it was a home run.

Zee Dog SA (operating as Zee.Dog) fit DXA's investment criteria. A pre-revenue startup based in Rio de Janeiro, the company was founded by three 20-something entrepreneurs as a lifestyle brand for pets and their owners. "The majority of millennials are putting off having kids, are moving into small apartments with their pets. The growth of home pets is probably the No. 1 trend that hasn't been affected by any economic cycle in the last 10 years," says Decotelli, adding that he is the first person of African descent to launch an investment management firm in Brazil. "What we saw was an opportunity and when we find an opportunity, we run a macro kind of a thesis, and then find the underlying companies that fit into those theses."

Following the investment, the DXA team ran their analysis and helped the entrepreneurs create an expansion plan. Offices were moved to New York City where they opened a store in trendy, upscale SoHo. By the time DXA was seeking a buyer for its stake, Zee Dog was operating two stores (the second in Las Vegas) and was selling accessories in more than 3,000 outlets in 20 countries.

DXA agreed in January to sell the stake to another private equity firm and began the process of identifying potential acquirers. However, Zee Dog's founders raised enough capital to exercise their right to acquire the interest and matched the other suitor's offer. The sale, which closed in March 2018, resulted in a return on invested capital of 12.4X, according to Decotelli.

DXA is currently raising its second fund, and through the NAIC, Decotelli is meeting allocators in hopes of reaching the fund's target of \$150 million, which includes co-investments. Looking ahead, Decotelli is bullish on the outlook for much of South America – particularly Brazil, which he says will become the world's fifth largest economy in a couple of decades. "It's very wealthy but hard to do business there. That's where we come in," he says. "The opportunity is there, but you need to have a local operational team with the ability to develop it. That's how we play."