



PODCAST TRANSCRIPTION SESSION NO. 273-MANUEL SILVA

Welcome to the Lend Academy Podcast, Episode No. 273. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt Fintech.

(music)

Today's episode is sponsored by LendIt Fintech LatAm, the region's largest fintech event dedicated to lending and digital banking is going virtual. It's happening online on December 8th and 9th. Pandemic or not, LatAm is still the hottest region for fintech in the world and LendIt Fintech LatAm features all the leading players in the region. So, join the LatAm fintech community online this year where you will meet the people who matter, learn from the experts and get business done. LendIt Fintech, lending and banking connected. Sign up today at lendit.com/latam

Peter Renton: Today on the show, I am delighted to welcome Manuel Silva, he is the General Partner at Mouro Capital. Now, Mouro Capital, you may know them as their former name, Santander InnoVentures. Well, they've not just re-branded, but they've done a spin out of this which we talk about on the show, but the primary reason I wanted to get Manuel on was to really talk about the Latin American fintech space.

He has deep experience here, been doing investments for many years, has one of the most successful companies in the region. We talk about the Latin American region, why it's so interesting, why there's been such a surge in fintech in recent years, we talk about some of the biggest companies in the region, we talk about how some of the big platforms like Mercado Libre are coming in, we talk about the different regions where there's entrepreneurial activity and the future of Latin American fintech. It was a fascinating interview, I hope you enjoy the show.

Welcome to the podcast, Manuel!

Manuel Silva: Thanks for having me.

Peter: My pleasure. So, I'd like to get this thing started by giving the listeners a little bit of background about yourself. Why don't you give us some of the career highlights, tell us where you're from, that sort of thing.

Manuel: Yes, of course. So, I am Manuel Silva, General Partner of Mouro Capital, before that Santander InnoVentures, before that BBVA Ventures. As you imagine, I'm Spanish, highly indexed in the kind of corporate VC world and Spanish banks, California and now leading Mouro Capital which is VC-focused on fintech.

Peter: Okay. Where are you from, originally?



Manuel: The easy answer is Madrid. (Peter laughs) Nobody is really from Madrid so there's a longer answer that involves.....

Peter: Okay. We'll leave it at that, that's good. So, you know, people...we've known Santander InnoVentures for many years, it has been very active in fintech and then from what I understand you spun out the corporate VC from the bank and re-branded. What was the thinking behind that move?

Manuel: That's right and, yeah, I would say the re-brand is kind of the least of the changes. I think the more important one, as you referenced it, is the spinning out. The reason for the thinking was really about alignment and about being competitive in the market that's increasingly competitive, right.

At the end of the day....now, in our current format we make our own decisions on the investment side and we have a much more aligned incentives with our portfolio which, effectively, what that means is that entrepreneurs feel that we're much more on their side and nobody can question that. Maximizing return is our main activity which helps be more competitive, faster, etc. etc.

Peter: Right, right. So, entrepreneurs will feel comfortable, more comfortable that you're not just doing this because the bank wants to get the tech.

Manuel: That's exactly it and I think over time, I mean, we're working on that...the value proposition for entrepreneurs are going to be much more focused on them, not only on the relationship that it cannot establish with Santander as it was in the past.

Peter: Right, right. So, are you....from my understanding, Santander InnoVentures, Santander was the sole investor, one LP, is that still the same or are you taking on more investors?

Manuel: No, that is still the same, but now Santander is an LP, meaning they behave as such so...before, we were basically a subsidiary of the bank.

Peter: Right, right, got it, okay. So, maybe you can talk about the investment focus. I mean, what are the regions you're focused on, what are the types of companies, that sort of thing.

Manuel: Yeah, of course. You know, over the years, both personally and with this project here, we built a fintech specialism and I think that's really what we want to stake a. So, you know, we're providing fintech investors, enterprise, direct to consumers on both sides a....you know, we really think about the whole value chain so within fintech, we'll touch pretty much anything. We think it's important to be specialized to be able to A-understand businesses early and B-help entrepreneurs with that, you know, extra piece of knowledge and connections and network that is oftentimes the most complicated one in such a regulated industry.

In addition to that, we're expanding our investment mandate and kind of our thesis to try and not only cover kind of where the industry is at now, we're also kind of what's coming next, right. The result of that...I mean, we're big believers in reinventing fintech infrastructure, we're big



believers in new financial products that may emerge as a result of, you know, societal changes. We're very kind of, you know, looking at things that are more fundamental and probably you can see us invest a little bit outside of fintech, not for the sake of it, but mostly because we think there's a strong connection between finance and many other industries, utility, logistics, education, maybe health as well and we want to explore the financial services angle. So, very much relevant to the future of the industry, but maybe a little bit expanded to what people may have been used to in the past.

Peter: Right, that makes sense. You know, Zach from Plaid said at our LendIt event a few weeks ago that, you know, really every company is a fintech. He clarified what he meant was that everybody uses fintech in their business because every single company has a finance operation and they want to make it more efficient, they want to make it more high tech so, whether it's just a, you know, a banking app or payroll app or something like that, there's often a fintech component now to every business.

Manuel: And just on that, it's interesting because that resonates very well with our thesis. I mean, at the end of the day, I think we're going back a lot to utility of finance and financial resources as opposed to the product per se.

Peter: Right.

Manuel: You know, I've always thought that...I mean, nothing very novel, but that people won't really wake up in the morning wanting a new card or a mortgage. What they want is what does that enable me to do, right. At the end of the day if you look at everything from that perspective, you know, 100% agree with Zach, but also it opens up.....you know, as the economy changes and as new industries emerge and that's, you know, COVID changes the way people behave. If you look at things from that lens, we'll try and spot also kind of what are those emerging spaces where utility can be brought through the lens of financial services.

Peter: Right, right. And then, so what geographic regions are you interested in, what are some of the regions that you have investments in right now?

Manuel: Yeah. So, on that front we'll stick also to what we used to in the past which is pretty broad, as you would imagine. So, we've traditionally invested across the Americas, LatAm, North America and Europe with a strong focus, of course, in London. Then we have a few investments in Israel, I mean, we'll stick to that. I mean, theoretically, we could invest elsewhere and we'll look at things that we know or maybe elsewhere, but we would probably stick to that.

You know, most of our current portfolio is in the US, I mean, I think a slight majority and then as I was saying, in Europe, it's mostly London. We're looking at all the ecosystems in Europe that are creating companies that are really interesting, that maybe are better priced than in London. And then LatAm which.....you know its part of this conversation, LatAm is fascinating throughout the world that we've known for a long time. We have a couple of investments in Brazil, a couple of investments in Mexico and we're excited about the region.



Peter: Right, right. I do you want to talk about LatAm here in some depth so let'smaybe we can kick it off just by giving your thoughts on, you know, Latin American fintech. Obviously, it's been a challenging year for many companies, but also others have done quite well, how have you seen the pandemic impacting the fintech companies in the region.

Manuel: Well, I would say probably it's quite similar to what you've seen elsewhere. At the end of the day, so much of the real economy have been stressed, digital economy has gone up, you know, access to the capital markets has been maybe a bit more challenging, lenders have seen a little bit more of non-performing loans. All that is pretty common to all the geographies we invest in and LatAm is no different.

I think, nevertheless, LatAm really comes from very, very strong fundamentals when it comes to, you know, the opportunity that was kind of evolving even before COVID and through COVID so my hope is that things will continue to be like that. So, if you think about LatAm from a fundamentals perspective, it's a deeply underserved region from a digital financial products perspective and that's why.....also the large companies that people would know in LatAm are actually going to direct to consumer propositions that are not really super far away from what banks should be offering, but just better it in a much more kind of, you know, contemporary way, if you will, right.

I mean, the interest rates across the region are still very high, it has allowed these models to be much more resilient which is good so you are actually....all our companies that are lenders in our portfolio, they have performed actually extremely well just because they have a lot of cushion given the interest rates situation to cover more losses. So, models are quite resilient and then, similarly, we're excited about our latest investment there, a company called a55 which lends to the digital economy. You know, that is living proof that digital is booming over there and that the shift to e-commerce and mobile experience is booming and that the opportunities are really shifting towards that. So, it's a very positive development about everything else in the region despite COVID.

Peter: Right, right, yeah. So, you know, I've talked to a few of the CEOs in the region in recent weeks and there is concern that some investors, particularly outside investors, are kind of putting a wait and see as far as new investments go in the new companies, have you noticed a decrease in outside VC investment in the region.

Manuel: I would say, yes and no so maybe there's a different way of responding to that. So, if you look at the recent years in LatAm, I feel there has been a lot of very, you know, uneducated kind of capital coming in, right, for lack of a better word and by an uneducated I mean, the dynamics of the markets in LatAm, especially the two big markets where most of the foreign capital has come, Brazil and Mexico, the dynamics of those two countries are very, very specific and you need to really have a thesis and understand how the market works, otherwise, you may just fall into a bit of a cookie cutter type of strategy, right.



So, I feel that in the past few years there has been a lot of capital that didn't really fit in much about the region, they were just trying to find commonality between things that worked elsewhere and things that were emerging then have invested like that way. I think some of that capital, naturally, because they may be less, you know, less versed in the region, they are the ones who withdraw so on a statistical basis it is true that there is less inflow of capital. But, on a quality basis, that means other people who really get and understand the market are the ones staying there, right, which I think for the entrepreneurs that's actually good news.

That means that there's probably way less they need to explain to whoever is interested to invest in the region because they have a strong thesis and they believe in it. I think the other thing, just to answer your question, is I feel there has been a concentration and a flight to quality in that foreign capital coming through.

So, we've seen the likes of Cava in Mexico, rich in great valuations, you know, we've seen Klar, a new bank in Mexico that we invested in just a couple of money from Naspers. That was, you know, one of the largest, I guess, Series B rounds in Mexico this year. So, there's still foreign capital coming, but I think they are very picky and they are just somehow investing in less opportunities as opposed to be more of an equalizer, maybe super opportunities.

Peter: Right. We certainly have seen some large funding rounds this year, but I've wondered about like the...you know, one of the things that we noticed, there's a lot of entrepreneurial activities, a lot of new companies that are still pretty small, do you think they're going to find it harder to attract capital now that some of the other players have left, or not left, put there investments on hold.

Manuel: Honestly, I don't know, what I would say is the local early stage ecosystem has sophisticated over the years.

Peter: Okay.

Manuel: They reached a point where some of the local funds that are naturally more resilient because A-they're local, B-you know, oftentimes in their own investment policy they can only invest locally so, you know, there's nothing else they can do. So, some of those guys have raised much larger funds that they used to have, they've professionalized, etc. so I guess the availability of early stage capital, that's what you're referring to, is much higher than it used to be like six or seven years ago. So, I feel maybe, you know, there's going to be less of a shortage of that just because bigger funds have natural ways from international LPs.

Peter: Right, right.

Manuel: So, and then also, you know, it's still true that....I mean, interestingly enough, it's less true now that it used to be, but it's still much cheaper to build a company in LatAm than in many other places of the world.

Peter: Right.



Manuel: So, you can get business up and running with \$3 or 4 Million where you may need, you know, ten times that in Silicon Valley just to get to the same thing, right.

Peter: Right.

Manuel: Capital goes a much longer way.

Peter: Right, right, okay. What about exits, we haven't seen a lot of exits in LatAm yet. Obviously, you're an investor yourself, do you think that we're going to see exits soon or what's your thoughts on that?

Manuel: Yeah. That has been the pending question on the region and, you know, in other regions of the world. Don't think it's unique for LatAm, but it's true that each time I pitch LatAm to, you know, outside LPs or to people who are just more interested in institutional, they always say, you know, where are the exits. I'm positive on that for now as well for a number of reasons, but I think that there's a few companies that have reached a point where it could be candidates for more of a public markets exit and I think, hopefully, that's going to create a little bit of those noble effects in a positive way to, you know, make markets more receptive and also investors in the public market more receptive to this kind of, you know, as a thrust.

In particular, I think, in Brazil you don't need to educate the market about, you know, debt companies. You know, there's a few examples, Stone and a few others that have been successful there. But, you know, interestingly enough, I think there may be a little more of a consolidation play as well where some of the larger fintechs may be starting or, you know, other platforms may be starting to buy so the exit may not be through public markets, but more from a platform and consideration perspective. So, I think it's still early days, but I think that can drive an interesting movement where.....you know, that can actually impact the competitive landscape in the region quite interestingly, I would say.

Peter: Right, right, okay. So, when you look at the region itself now, not just Mexico and Brazil, but across the other countries in the region, what do you see as some of the most interesting trends that you're watching?

Manuel: From a geographic perspective or from a.....

Peter: Just from a fintech perspective, what's happening in fintech that you think is really interesting.

Manuel: Maybe a couple of things that I think are interesting. The first one that I think I would say is really interesting is that, finally, companies are trying to have more of a regional ambition than they used to have. Not that long ago, the story of LatAm was really the story of Brazil for Brazil and Mexico for Mexico and then the rest was kind of non-existent then. I've always had the theory that smaller countries which have, you know, very good talents and that don't have large markets, they would start creating regional companies and we're starting to see that and

also we're starting to see the larger companies in Brazil, you know, Argentina, Mexico, Chile to a lesser extent start being more regional and expanding.

I think the regionalization of fintech is a trend that we'll see over the next two, three, four years and I think I'm really excited about because that's when you're really going to start seeing well-run companies have a very, very large critical mass and can really change competitive dynamics. A couple of things that I...well, there's one thing I'm interested in and one thing I'm inquisitive about, I am a big SME finance or SME fintechs supporter and I think LatAm is moving little by little towards that piece of the market which I think is really interesting because the data play may be a bit more interesting, the economics are better, etc. etc.

I think the next thing to watch for is probably, you know, SME fintech and mid-cap fintech which is a little bit new. I think the part that I'm a little bit inquisitive about is whether there's going to be or not an emergence of enterprise fintech in LatAm, right, meaning, most of the companies we know over there are companies that agree that adapting a foreign business model, adapted locally, make it work.

But, a lot of the building blocks from the technology perspective are imported building blocks, right. I think at some point, that needs to shift and it needs to be infrastructure fintech being built for the region and I hope that's the case, but, you know, I think it's still early to see, but, definitely, if anyone listening to the podcast is innovating there, they should reach out to us because we're really interested in that and we believe that local players will do it locally.

Peter: Right. So, do you think it's more going to come locally than from say the Plaids of the world, Marqetas of the world coming into LatAm and doing things there.

Manuel: I think so. I mean, you know, if I've learned something about LatAm over the 15 years I've been traveling and doing business there and a lot of it is in venture investing is that on designing the market dynamics, having access to regulators, etc., etc. that makes a big difference and I think it's really tough. I need to take a plane and travel 12 hours, that's really tough.

Peter: Right, right, yeah, yeah. So, you talked about scale, I want to talk about the fintech that probably has....one of the largest in the region, Nubank, and it's interesting that they're acquiring companies now, they're expanding, their offerings, they're almost sort of becoming a platform. I just read they've got 30 million customers now which is staggering more than any other fintech in the US or Europe. So, what are your thoughts on digital banking, Nubank being obviously the clear leader there and their play, it seems to me, to become like a banking platform almost.

Manuel: Yeah. I mean, to respond to that, I would go back to what I was talking about, you know, the utility of finance. At the end of the day, I think the natural evolution of neo banks is to really be an ecosystem where the user can find a digital solution to their needs. So, whether you call it platform or the ecosystem, at the end of the day, it's really about having a high share of wallet with a particular customer and, you know, creating data synergies and creating to rich



data environment so that the products are made better and more kind of relevant to the time. It's about capturing that entire relationship to the extent possible.

So, what they're doing is makes total sense, because at the end of the day, there are things out there A-why would you read them and B-if you can pick them up and kind of erase a piece of the competition then you may as well...thankfully, the levels of valuation and levels of cash generation that make them very healthy and very capable of actually doing this so why not, right. But, I think that's kind of where the market is going, you know, if you look at it from the utility perspective, how can you be around the clients' experience and how can you help them holistically as opposed to just offer very narrow vertical product.

Peter: Right, right. Speaking of, you know, platforms, one of the companies that invested in is Creditas and I had Sergio on the podcast earlier this year, the CEO, and they're really interesting to me because they started off as a consumer lender, they've done really well, they've got decent scale now and now, they're the company thatthey're going off into other areas really unrelated to lending. I'd love to get your take on how you see that, I mean, it's a slightly different approach with what Nubank's doing, but still sort of this, you know, broadening of their offering.

Manuel: At the end of the day, I think it's exactly that, it's exactly the same rationale of increasing shared wallet and, you know, even from an economics perspective making your customer acquisition cost more efficient because it can basically, sell more products or get more revenue lines from the same interaction or relationship. I think the logic is the same even if as you say the angle they're taking which is more credit first, longer term credit, secure credit first angle is a little bit different. You know, the great thing about Brazil and the region, I mean, Brazil in this case, but the region at large, is that there's enough market for a number of players to be successful.

Peter: Right, right, yeah. It's interesting to me because you have, particularly, Creditas, I don't see anybody in the US or Europe doing what they're doing, It seems like it's fairly unique. Is that because something specific about Brazil or is it more about Creditas?

Manuel: I think it's the....without putting words in Sergio's mouth, but I think, you know, what's interesting about both companies is that they both started in a niche that was really underserved and, you know, they became winners there and then expanded, right. So, one thing that we were interested when we invested in Creditas three and a half years ago is the product that they were launching, which could be the equivalent in the US to a HELOC, that product per se was just non-existent. And Sergio, who's a Spaniard as well, but he had a lot of experience in the US when he was at BCG over there, he just saw how that product works in a country like the US and landed in Brazil.

Well, you know, there's nothing like that because at the end of the day, what he went for is.....what he's trying to do, his strategy was just going to dominate this which he did and then I'm going to expand from that. Oftentimes, what drives this model is the uniqueness, just kind of



extrapolating, is the uniqueness of the fact that....you know, in the US and Europe, the upcoming fintechs are kind of born in a hyper-saturated market where every single product is very highly served. Whereas, in LatAm you still have those niches where you can start to dominate the market being a great business and then expand from there using the early success as a funder for your own growth.

Peter: Right.

Manuel: I think that dynamic is unique to the region.

Peter: It's one of the really exciting things about the region because you've got companies that can reach decents scale pretty quickly with a lower cost, as you say, than you could do that in the US.

I want to talk some of the bigger players in the region like companies that traditionally weren't in financial services that are entering....you've got Mercado Libre which is the Amazon really of Latin America have multiple offerings now in financial services.

You've got Rappi which sort of started as a delivery app and now they're doing a whole range of different things in finance, you've, obviously, got big banks that are starting to kind of innovate as well. What's the biggest challenge for fintechs do you think, is it the Rappis and Mercado Libres, is it the big banks or is it something else?

Manuel: I kind the challenge is kind of all of the above, right. It's reeling through a very fast moving market, a market that's changing very quickly and, you know, through the magic of embedded finance, infrastructure, if you will, anybody who has a large customer base and an installed customer base can get into your industry, right. So, I think if you look at fintech five/ten years ago, the rules of the game in each vertical work here, right, so you know you're a lender and you compete other lenders and that's what you do or you're a transactional company, parents company that's what you do. Whereas now, the issue is you have all these platforms that have massive customer bases and the barrier of entry from them to jump from the industry into Euros is actually lowered through and the kind of infrastructure that powers fintech these days.

So, I think, you know, there's a lot of things happening and probably if I was a new entrepreneur trying to build my next fintech in LatAm, what I would be worried about is spending a lot of time on is trying to refine my read of the market to see how these tectonic changes may apply to me and where my niche today seems like a great opportunity, how resilient that is in the future and where other opportunities on the other side may emerge, right.

Peter: Right, right. Speaking of that, I mean, are you seeing lots of new startups still happening and new opportunities coming in across your desk from the region pretty regularly and if so, what countries? Is it still Mexico and Brazil or where is the entrepreneurial activity happening?



Manuel: So, there's really like three things that we're seeing recently. So, we're seeing of the smaller market versions of things that have worked in Mexico and Brazil so the Peruvian Neo banks, the Colombia lenders, the Chilean whatever. So, we're seeing that version which, again, may or may not be that interesting, depending on how regional, how big the market they want to address is so that's still in existence. I think that in the bigger markets, what we're seeing that I think is interesting is, you know, aside from a little bit more of a SME flavor to the market, which I particularly appreciate, there is also more sophistication on the infrastructure side of things, right.

And, it's a little bit like what we have seen maybe in Silicon Valley or to some extent in Europe which has....you know, everything starts with direct to consumer propositions where the entrepreneur needs to build everything end-to-end because nobody was able to service them or give them the technology or the processes they need. And then, as you start having niches or dens, you start having the ability to create backend services, backend infrastructure that helps you and helps all these different lenders, neo banks, etc., etc. be more efficient. And so, what we're seeing is more and more of drive to that kind of backend infrastructure that I think is going to be interesting.

Peter: We're almost out of time, but a couple of other things. You talked about SME lending, you said there's something that you find personally really interesting and I do as well. I feel like it's something that fintech has really served the world, served the small business owner very, very well by providing easier access to capital.

I mean, what are the things you're looking at there that..... I mean, we've seen small businesses just decimated here in the US, across Europe, there's been so many challenges, I mean, are fintech lenders in the SME space...I mean, are they're stepping up in the region because obviously there's not as much government support as there has been in say in Europe or in the US.

Manuel: Yeah. I mean, there has been a little bit, but I think that is still a temporary matter. I think if you want to build a company that's going to be big in the long term, you need to think more about fundamentals and I think the fundamentals in SME lending around integration to processes and it's about data, right.

So, for example, the a55 our latest investment in Brazil, they do a kind of a revenue-based lending to SMEs in the digital economy so it's all about understanding recurrence, it's about understanding payments, it's about integrating the flow, it's about speed of delivery, speed of underwriting, etc., etc. I think in things like that there is an opportunity because you get the best of lending and a good team that knows how to access capital markets and then on the other side you get the best of technology, right. As long as you keep those two things in check, you can build interesting businesses. If you lose any of the two then you're probably more in trouble or you become irrelevant.



LEND ACADEMY

Peter: Right, right, right, okay. So last question then, as we close out this year, it's been obviously a challenging year across the world, how do you feel that.....are you optimistic about LatAm in 2021 and beyond, I mean, how do you feel the region is going to...is it going to continue to develop like it has been?

Manuel: I would say, I am optimistic about the region because I guess the fundamentals are there and, you know, it will last as long as the fundamentals are there. I'm definitely optimistic about investing in LatAm because I think that if you spend the time to do your homework, to understand the market and if you're an investor like we are who like to spend time with entrepreneurs helping them, sharing the knowledge that you may have gathered from other markets and just spending time building companies with them, I think it's a great moment to come in, identify talent and work with that talent to build a very strong company when things pick up again. So, I am positive on both those fronts and I think it's going to be a good year from that perspective.

Peter: Okay, we'll have to leave it there, Manuel, I really appreciate you coming on the show today.

Manuel: Thanks for having me.

Peter: See you.

Manuel: Alright, bye.

Peter: You know, it's one of the reasons I find Latin America so interesting. It is how Manuel kind of described there where there are still niches that are untapped where companies can come in and really make a sizable company. Obviously, that's going to be slowly changing here as more and more companies come in and get scale, but there is such an opportunity there still, I think, for homegrown players that will become..you've seen Nubank. Nubank is the largest digital bank in the world outside of China, potentially, but it really has been an amazing success story there and we're going to see more like that. Obviously, many of these companies, pretty much older companies that we talked about here on the show, will be speaking at LendIt Fintech LatAm coming up here in December 8th and 9th.

Anyway on that note, I will sign off. I very much appreciate you listening and I'll catch you next time. Bye.

Today's episode was sponsored by LendIt Fintech LatAm, the region's largest fintech event dedicated to lending and digital banking is going virtual. It's happening online on December 8th and 9th. Pandemic or not, LatAm is still the hottest region for fintech in the world and LendIt Fintech LatAm features all the leading players in the region. So, join the LatAm fintech community online this year where you will meet the people who matter, learn from the experts and get business done. LendIt Fintech, lending and banking connected. Sign up today at lendit.com/latam



(closing music)