
California and Mexico

Economic Integration and Outlook



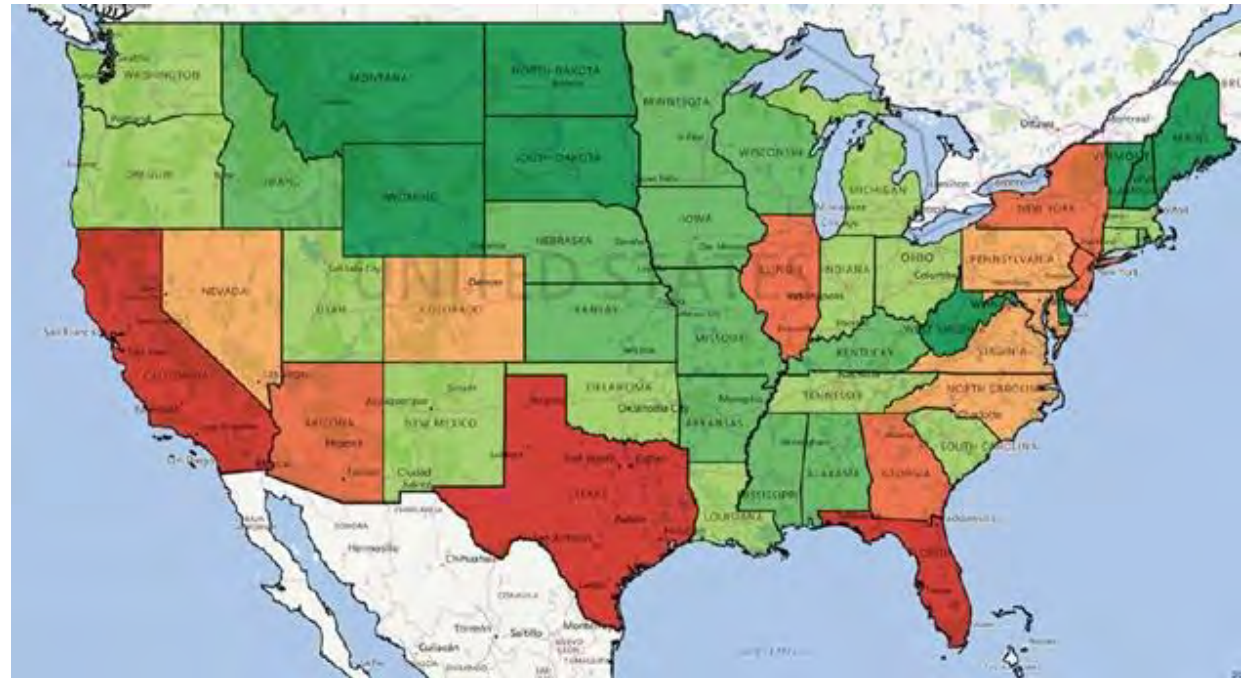
The Consulate General of Mexico in Sacramento

Senator Marcela Guerra

February 15, 2017

US Hispanic Business Trends

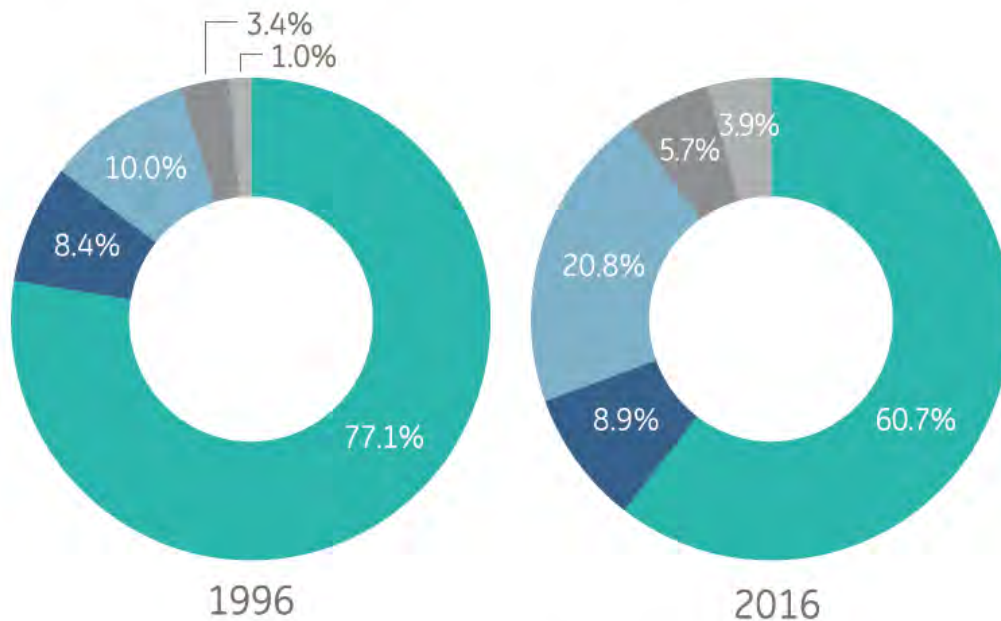
- Hispanic businesses ownership grew in every US State from 2012 to 2016.
- US Hispanic business growth centralized in U.S. Southwest, with California generating between 184k and 221k new Hispanic owned firms.



Source: Geoscape – “4th Annual Report: Hispanic Businesses & Entrepreneurs Drive Growth in the New Economy”

US Hispanic Business Trends

CHANGES IN COMPOSITIONS OF NEW ENTREPRENEURS BY RACE (1996, 2016)



SOURCE: Kauffman Index Startup Activity National Trends
Robert Fairlie, Arnobio Morelix, E.J. Reedy and Joshua Russell, 2015

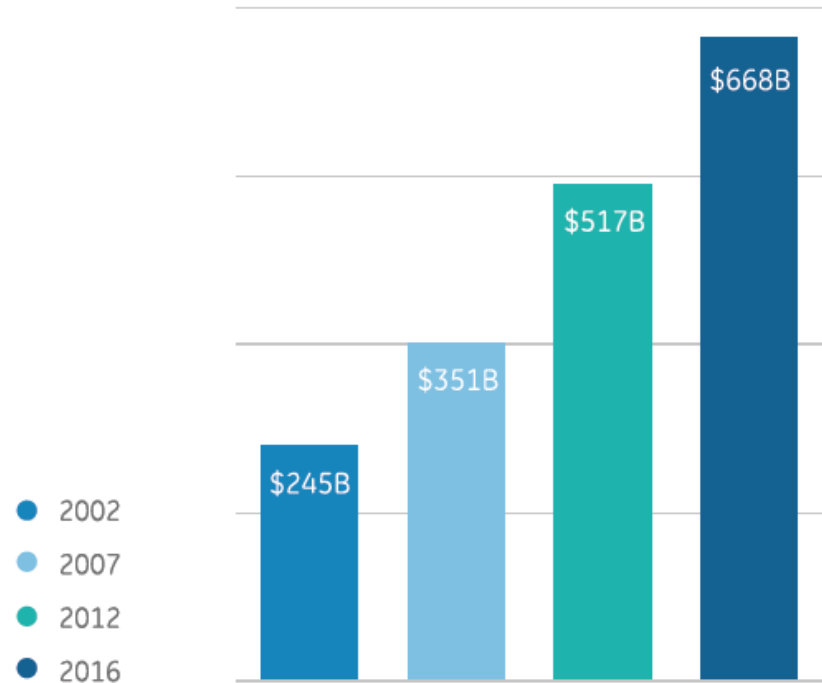
- Hispanics are the second largest ethnic group among US Entrepreneurs, representing 4.23 million owners.
- The number of Hispanic Entrepreneurs has increased 27.5% since 2012, double the average US rate.

Source: Geoscape – “4th Annual Report: Hispanic Businesses & Entrepreneurs Drive Growth in the New Economy”

US Hispanic Business Trends

- US Hispanic-owned business sales receipts are projected to top \$668 billion in 2016, representing a 29% growth rate since 2012.
- Hispanic-owned sales receipts now represent roughly 3.61% of US GDP, up from just 2.23% of US GDP in 2002.

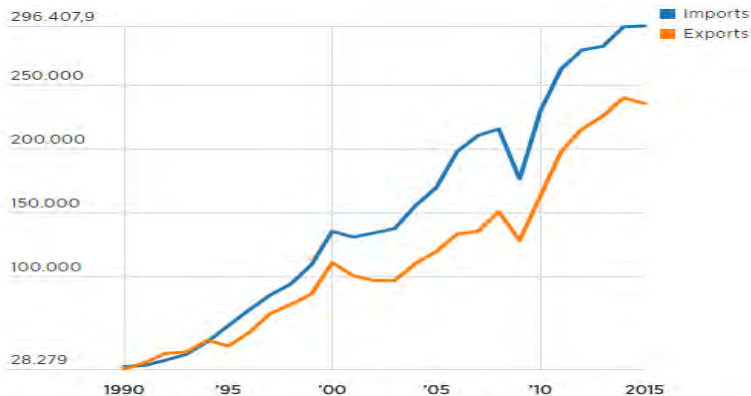
> TOTAL SALES RECEIPTS FOR HISPANIC-OWNED BUSINESSES PERCENT



Source: Geoscape – “4th Annual Report: Hispanic Businesses & Entrepreneurs Drive Growth in the New Economy”
The World Bank – US GDP (current U\$)

California and Mexico – Growing Economic Integration

- Unique competitive position to support cross-border investments
 - México is the second largest market for exported US goods and services (1)
 - \$236 billion in 2015 ~ 16% of total exports



Top 10 US exports to México in 2015

- 1 Machinery: \$42.1 billion
- 2 Electronic equipment: \$41.1 billion
- 3 Vehicles: \$22.4 billion
- 4 Oil: \$18.6 billion
- 5 Plastics: \$16.5 billion
- 6 Medical, technical equipment: \$6.7 billion
- 7 Iron or steel products: \$5.2 billion
- 8 Organic chemicals: \$4.8 billion
- 9 Aircraft, spacecraft: \$4.3 billion
- 10 Iron and steel: \$4.1 billion

Top 10 US imports from México in 2015

- 1 Vehicles: \$74.9 billion
- 2 Electronic equipment: \$62.9 billion
- 3 Machinery: \$49 billion
- 4 Oil: \$14 billion
- 5 Medical, technical equipment: \$12.2 billion
- 6 Furniture, lighting, signs: \$10.8 billion
- 7 Vegetables: \$5.5 billion
- 8 Fruits, nuts: \$5.4 billion
- 9 Gems, precious metals: \$5.1 billion
- 10 Plastics: \$4.8 billion

Sources: (1) www.cnn.com/2016/06/23/heres-how-a-trump-trade-war-would-hit-your-state.html;
www.worldsrichestcountries.com/top_us_exports.html; www.census.gov/foreign-trade/balance/c2010.html

California and Mexico – Trade and Related Employment in California

- Industries for California Exports to Mexico (2015 figures)
 - Computer and Electronic Products - \$6.7B
 - Transportation Equipment – \$2.9B
 - Machinery - \$2.1B
 - Food Manufacturers - \$1.4B
 - Agricultural Products - \$0.6B

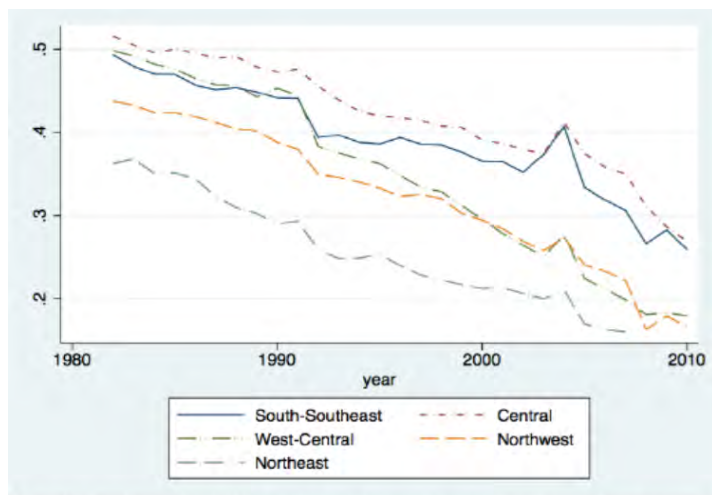
- 692,240 jobs in California rely on trade with Mexico



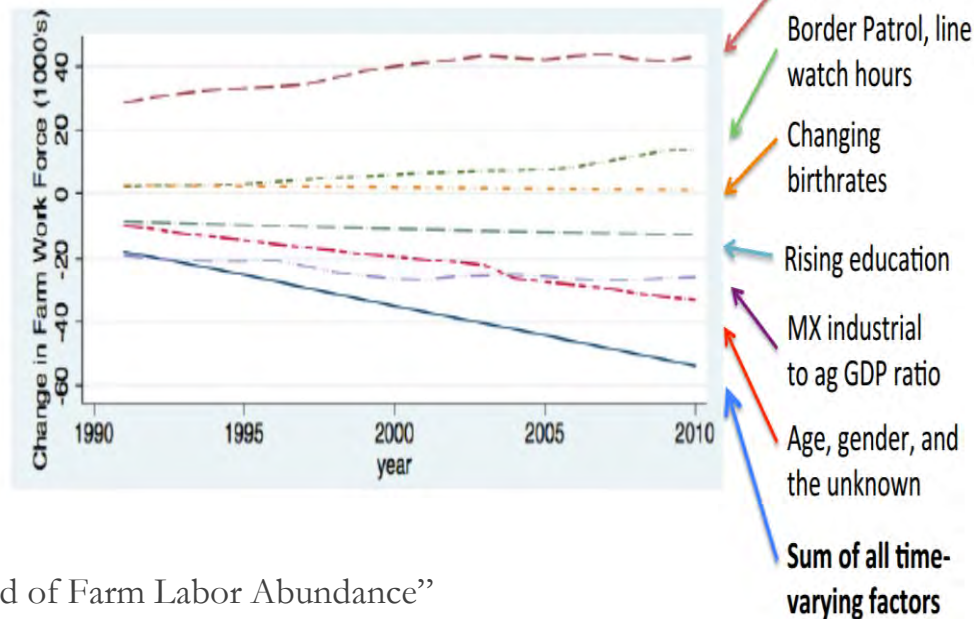
Source: TradeStat Express – International Trade Administration; Secretaría de Economía de México

California and Mexico – Changes in MX Labor

- Economic advances and educational improvements have pushed labor toward higher value-added manufacturing and services.
- US farm labor supply from Mexico is decreasing by 150,000 people each year (0.97%) and economic development shifts employment preferences in Mexico.



Predicted probability of working in agriculture by region



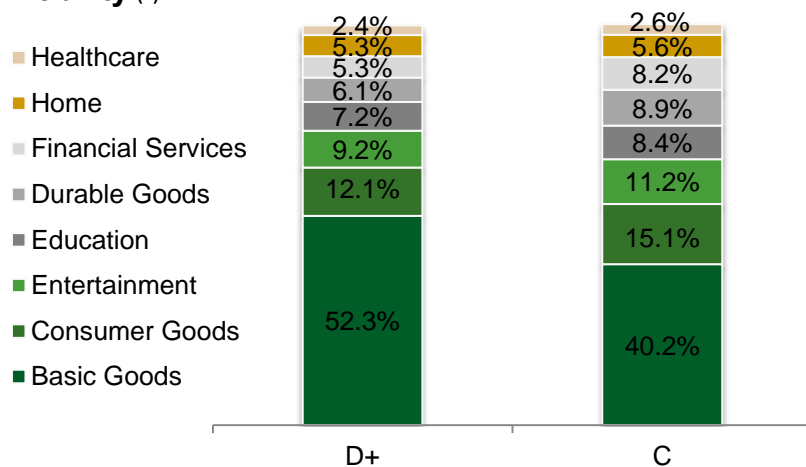
Source: Taylor and Charlton – UC Davis - "The End of Farm Labor Abundance"

California and Mexico – Changes in MX

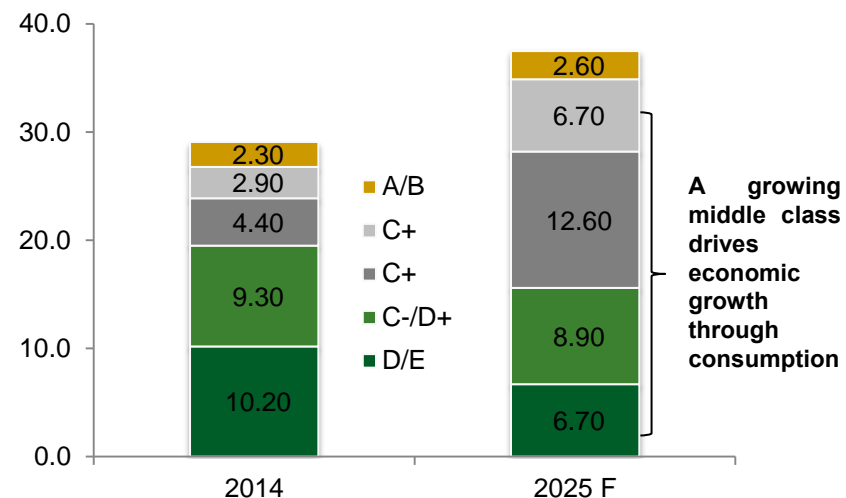
Consumption

- A growing middle class fuels the Mexican economy's growth and opens investment opportunities
- Domestic demand in Mexico continues to grow, reducing the dependency on commodity exports

Change in consumption with socioeconomic mobility (1)



Number of households per socioeconomic segment (1) (Millions of households, 2014-2025F)



- Socioeconomic mobility creates a change in consumption habits and opens investment opportunities:
 - Durable goods
 - Education
 - Consumer goods
 - Financial services
 - Entertainment

Sources: (1) Bain Consulting, 2016 PE México Industry Overview

California and Mexico – MX Economic Comparative Advantage and Outlook

- Improving “Ease of Doing Business”
 - Ranked 38th Globally, improved 4 positions in 2016 ranking by the World Bank Group
- Competitive Labor Costs (in USD wages per hour)
 - Mexico = \$6.36, Brazil = \$11.20, Argentina = \$18.87, USA = \$ 38.00
- Free Trade Agreements
 - Mexico has 42 Free Trade Agreements, more than double the US (20) and China (18)
- Uncertain Global Economic Environment
 - The recent US election and US Presidency have strained the political and economic relationship while increasing uncertainty across markets

Source: World Bank Group – “Doing Business 2016” and Deloitte – “2016 Global Manufacturing Competitiveness Index”

CVF Capital Partners – Hispanic Relationships

CVF has developed extensive relationships in the U.S. Hispanic Market and México



- Fondo de Fondos (FdeF) is México's leading Private Equity fund of funds investor with US\$1Billion in capital commitments through 62 funds
- CVF II is the only U.S.-based fund with FdeF capital commitments
- The relation with FdeF has opened the door to other México-based Private Equity funds and capital providers



- ProMéxico, part of México's Secretariat of Economy, was created to promote trade and investment into México
- Jose Blanco, CVF Managing Partners, sits on the Business Advisory Board of ProMéxico in the U.S.



- Cien Amigos, a Sacramento, CA based advocacy group, was established to encourage the mutual prosperity of México and California.
- Jose Blanco, CVF Managing Partner, was invited to join Cien Amigos in 2015.



ASOCIACIÓN DE EMPRESARIOS MEXICANOS
A BRIDGE TO SUCCESS

- Asociación de Empresarios Mexicanos, or AEM, was established to help Mexican businesses and professionals achieve success in the United States, and to assist American businesses interested in doing business in México



- Mexican Association of PE and VC Funds (AMEXCAP)
- CVF has been an active member for several years and has established a strong relationship with the association and its CEO



- Through the years and through México's local team, CVF has developed a number of local relationships with companies, family offices, boutique investment banks, commercial banks and local PE firms.