

Case Study: Genomma Lab (Mexico)

Genomma Lab's Story

The company that is now Genomma Lab was originally founded in 1996 by a group of three close friends as a consumer marketing company focused on television infomercials: Producciones Infovisión. Shortly after beginning operations, Producciones Infovisión developed its own television production capability to produce infomercials for beauty care products. In doing so, the founding team recognized an opportunity to develop and market its own line of products, and in 1999 the company was reorganized into a vertically integrated product development and marketing platform.

Changing its name to Genomma Lab, the company began building a network of distributors and mass merchandisers. A few years later, Genomma Lab expanded its product portfolio to include over-the-counter (OTC) pharmaceuticals and began selling through drug wholesalers.

In 2004, Genomma Lab looked to raise capital to support its growth. The management team sought an investor that would not only provide financing, but would also help Genomma Lab strengthen its relationship with financial



institutions and build its management capabilities. After considering a sale to a strategic buyer, the team agreed to partner with Mexico-focused private equity firm Nexxus Capital.

As a result of its relationship with Nexxus Capital, the company revised its organizational structure in 2005 and expanded its management team to include seasoned professionals from other pharmaceutical and personal care products companies. Genomma Lab then began an aggressive growth plan based on advertising, new brand launches, line extensions and brand acquisitions.

The Role Played by Private Equity

Genomma Lab's relationship with Nexxus began in the early 1990's through a personal relationship between the companies' partners. In 1999, Genomma Lab hired Nexxus Capital as an advisor when an international media group approached the company for potential purchase. The offer was eventually rejected, but a few years later, Genomma Lab again sought Nexxus Capital's help in analyzing a second acquisition proposal from a strategic buyer. While Nexxus Capital engaged with Genomma Lab on the deal, both sides recognized the potential value of a Genomma Lab-Nexxus Capital partnership.

For Genomma Lab, forming a relationship with a financial sponsor promised the company growth capital financing while allowing the founders to maintain control. In addition, Nexxus Capital's capital market experience was important as the company looked forward to an eventual public offering.

From the Nexxus Capital perspective, Genomma Lab fit well into the fund's investment focus: driven operating partners managing a mid-sized company in a fragmented market, which primarily served the Mexican middle class and that could benefit from both organic and inorganic growth. In Genomma Lab, Nexxus Capital found these features, but it also found a firm whose business model was flexible and asset-light. Moreover, with no pharmaceutical company listed on the BMV at the time, the team recognized the opportunity for Genomma Lab to serve as a "consolidation platform" that had the potential to become an industry leader in Mexico.

By 2004, Genomma Lab had agreed to sell a 30 percent stake to Nexxus Capital. Over the next seven years, Nexxus Capital supported Genomma Lab's founders in transforming the company from a mid-sized company managed by a group of friends into a large, professionally managed public company. ▶

The Company



Essentials

Company: Genomma Lab Internacional
(www.genommalab.com)

Country: Mexico

Sector: Pharmaceuticals and Consumer Products

Business focus: Over the counter (OTC) medicines, cosmetics and personal care products

Size: MXN8.07 billion revenue (US\$596 million in 2011); 1,127 employees in Mexico and 278 employees internationally

GP: Nexxus Capital, a private equity firm specializing in investments in Mexico

Date of investment: 2004

Investment: Nexxus Capital invested US\$17.75 million for a 30% stake and exited with an investment IRR of 72.9% and a cost multiple of 18.5x

Impact Highlights

Nexxus Capital helped Genomma Lab grow from a mid-sized company managed by a group of friends into a large, strategically focused and professionally managed public company

Nexxus Capital supported Genomma Lab in becoming the first Mexican pharmaceutical company to list on Mexico's stock exchange in 2008; since its IPO, Genomma Lab's shares have appreciated over 350%

Genomma Lab completed more than 20 acquisitions during its partnership with Nexxus Capital, expanding into 12 countries and achieving market share leadership in many of its target product categories

With Nexxus Capital as a partner, Genomma Lab has received recognition for its social responsibility and inclusiveness; the company has also been an active donor of relief funds and supplies when natural disasters have occurred in Mexico and Latin America

The Company View

“Nexus Capital is a very different private equity fund manager when compared to others. It is characterized by its ‘hands-on’ approach and total involvement in the day-to-day operations of the company without losing its medium- to long-term vision.”

“Nexus Capital helped Genomma Lab evolve from a family-owned business to an institutionalized public company. The partnership has surpassed our expectations. Not only did Nexus Capital achieve the original goals set by both partners, but it has continued to be a key stakeholder in the decision-making process of the company.”

Oscar Villalobos Torres,
Chief Financial Officer,
Genomma Lab
Internacional



Genomma Lab's Shareprice has Increased Over 350% Since the Company's IPO in 2008



Genomma Lab's Brands are Market Leaders

Brand	Product category	Market share (Mexico)	Market ranking
Asepxia	Anti-acne	76.40%	1
Cicatricure	Scar removal	57.60%	1
Nikzon	Hemorrhoid treatment	39.70%	2
Genoprazol	Anti-ulcer medication	26.20%	2
Goicoechea	Topical varicose vein treatments	94.20%	1
X-Ray	Joint and muscle pain relief	94.40%	1

“Nexus Capital’s focus on earnings instead of sales ensured that we’ve focused our efforts on becoming leaders in high growth, profitable product categories.”
Oscar Villalobos, Chief Financial Officer, Genomma Lab Internacional

▶ Through its participation on the Genomma Lab board and with its Directors, Associates and Analysts working closely with company management; Nexus Capital helped professionalize Genomma Lab’s management culture. This included strengthening the board’s role in corporate governance; recruiting top managers for key posts; institutionalizing management committees; and implementing enterprise resource planning, customer relationship management and business intelligence systems.

Nexus Capital also played a central role in focusing Genomma Lab’s strategy around its core business lines: pharmaceuticals and beauty products. In addition to helping the company with strategy, Nexus Capital supported management in formalizing an investment analysis process for new initiatives and product launches, moving the company from an intuition to analysis-driven management model.

One of Nexus Capital’s most important contributions to this growth was in its capacity as an M&A advisor. During its seven years as an investor in the company, Nexus Capital guided Genomma Lab through more than 20

acquisitions. Overall, with Nexus Capital as an investor, Genomma Lab’s sales grew at a CAGR of 37% and the company expanded into 12 countries throughout North and South America.

When the business sought to access the public markets in 2008, Nexus Capital supported it in becoming the first pharmaceutical company to undertake an initial public offering in Mexico. Genomma Lab’s IPO raised MXN2.4 billion (US\$233.7 million) and valued the company’s equity at MXN8.8 billion (US\$834.6 million).

Despite the success of the offering, Nexus Capital did not use the opportunity of the IPO to exit the business. Instead, it retained approximately 90% of its ownership in the company, exiting slowly over the following three years. This approach created a favorable trading volume for the stock and allowed Nexus Capital to continue to support the company with guidance on managing investor relations and advice for deploying the newly raised capital for continued growth and business improvement. In the four years since Genomma Lab’s IPO, the company’s stock (LABB.MX) has increased in value over 350%.

Beyond the Bottom Line

With Nexus Capital as a partner, Genomma Lab reinforced its focus on social responsibility. The company created the Genomma Lab Foundation, which has been one of the largest donors supporting victims of natural disasters in Mexico and Latin America. Additionally, the company’s employees have committed to plant 1,000,000 trees during weekend events with their families; a goal which they are quickly approaching.

During its partnership with Nexus Capital, the company has consistently been recognized for its



commitment to social responsibility and inclusiveness and for its efforts in creating family-friendly working conditions for its employees.

The Emerging Markets Private Equity Association (EMPEA) is an independent, global membership association whose mission is to catalyze private equity and venture capital investment in emerging markets. EMPEA’s 300 members include the leading institutional investors and private equity and venture capital fund managers across developing and developed markets.

Contact us at www.empea.org Email: empea@empea.net Phone: +1 202 333 8171

EMPEA 
Emerging Markets Private Equity Association