Venture Capital in Chile: An overview of the Chilean start-up ecosystem and what investors should know before accessing the market

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Introduction

Venture capital in Chile is relatively new but has grown exponentially in the last 15 years.

Economic and political stability, easiness to incorporate business, very significant internet and smartphones penetration, one of the worlds' most extensive networks of Free Trade and Double Taxation Agreements, government support for start-ups, together with an increasingly sophisticated venture capital ecosystem, have placed the Chilean entrepreneurship market in a prominent position within Latin America and the developing world.

This article briefly describes the venture capital industry in Chile, illustrating the main features investors need to know before entering the market.

1. **The Early Ages**

Entrepreneurship in Chile dates to 1989, when a new regulation allowed the creation of public funds. Then, in 1997, Chile's Economic Development Agency (CORFO), the government body in charge of promoting the development of the country's economy, launched a long-term credit lines program offered to the referred public funds.

Initially, these loans were not necessarily allocated to innovation endeavors, but to consolidated companies. The entrepreneurial networks were limited.

However, over the years, the industry developed. The international experience showed that putting money into venture capital could generate higher returns than the average investments. Investors spotted an opportunity, which, coupled with a reliable institutional framework and a growing spirit of innovation, led the industry to reach a size of US$409.9 million, by 2010.

From that point on, a new regulation of funds was enacted, promoting investment, and generating more incentives, even creating in 2007 a new type of corporate form (*Sociedades por Acciones*) to foster entrepreneurship. CORFO launched "Start-Up Chile," a world class seed accelerator which provides equity-free investment for global qualified startups. Also, several innovation centers were created, mainly in partnership with universities, financing exciting business ideas.

1. **A Mature VC Ecosystem**

Today, the venture capital industry in Chile deserves worldwide attention. If in 2010 all the venture capital funds were financed through CORFO programs, nowadays private financing has become much more important, and along CORFO's initial goal of creating a naturally growing ecosystem, many private funds have "graduated" and are now investing only private capital, with GPs having the third or fourth Fund not only with a more local but with a regional or a cross regional focus.

This success was made possible, largely, by action of the venture capital main actors. To name some, founders, VC firms, angel investors, accelerators, incubators and family offices. They shaped the rules, "know-how," and market standards necessary to take these ideas to become successful businesses.

Being Chile a small and highly competitive market, Chilean entrepreneurs learned that for an idea to gain traction, they must test, pivot and scale rapidly. To grow a business, it has become key to connect with the appropriate strategic partnerships, constantly track growth metrics and KPIs, develop the product, asses the right market and to put together high-impact teams. Also, startups associated with high prestige first local, then regional and global VC firms will increase their chances of being financed. On the other hand, the professionalization of startups has led investors to be more willing to take on more risk, also recognizing VC investments as part of their alternative assets investment strategy.

Furthermore, venture capital firms define what type of investors they want to attract by offering largely diversified portfolios within different industries and stages of development. These firms have also launched their own accelerators, incubators, and angel investor networks, giving them their unique stamp and a special imprint.

1. **How and when to invest?**

In Chile, anyone can invest in a startup. In general, investments in Chilean startups, like everywhere else, have certain standards depending on their maturity (early stage or growth stage). Likewise, the rights of investors vary.

Entry tickets for very early stages startups may be as small as US$10,000. In these first rounds (or "*family and friends*" series) investments hardly will exceed US$1 million, either through equity or convertible instruments.

Further, indirect investments can be made through expert platforms and venture capital funds that select startups, thus reducing the risk and having a more diversified portfolio. This stage is known as *pre seed* or *seed* rounds, and larger tickets are required. These higher investments may require the execution of a more developed shareholders agreement securing investors' preferential rights, as well as SAFEs or convertible notes.

Then comes the "growth stage," where tickets may reach within $2,5-10 million. These series require more backing and involvement from venture capital firms, high net-worth investors, and family offices.

Additionally, the depth of the due diligence depends on the stage of progress of a company and the profile of the investor. For example, the due diligence of an angel investor or accelerator may only consist of an analysis of the company's business plan, while a venture capital firm will typically undertake a more thorough due diligence.

1. **Prevalent Market and Investors**

Following the Latin American trend, the Fintech industry has been the vertical that raised the most capital during last few years in Chile. The low banking rate, which coexists with a high penetration of mobile applications and internet use, has benefited innovative business models that use disruptive technologies with great scalability potential.

A landmark fintech case is our client Fintual, who raised US$39 million from Sequoia Capital in 2021 to accelerate the expansion of the company in Mexico. Fintual was the first Chilean startup to be selected by YCombinator accelerator and counts with investments from well-known regional firms such as Kaszek Ventures and ALLVP.

Furthermore, other non-fintech noteworthy cases are the unicorns Cornershop and Notco.

Cornershop, the first supermarket delivery startup in Latin America, was acquired in 2021 by Uber through an operation worth more than $3.1 billion, being the biggest exit in the region in a deal also advised by DLA Piper. The acquisition positioned Uber as a leader in the region, as well as the only app that offers both delivery and ride-hailing services in LatAm.

The Not Company (NotCo), a foodtech company that utilizes plant ingredients to replicate various food tastes, textures and cooking behaviors, has raised Series A of $30 million, Series C of $85 million and Series D1 for $70 million, during the last 5 years. In these financing rounds tickets were acquired by investors such as Kaszek Ventures, Bezos Expeditions, Future Positive, the investment vehicle of Fred Blackford and Biz Stone, and L Catterton, one of the largest and most global consumer-focused private equity firm.

1. **Challenges**

Although venture capital investments in Chile reached the historical figure of US$1.025 billion in 2021, there is still a long way to go. However, there are many reasons to predict a bright future.

Chile has welcomed foreign investment for many decades. The country has promoted business opportunities within its territory, offering a robust institutional framework and reasonable tax regimes, which have survived natural disasters and major political crisis. Thus, for venture capital there is only room to grow.

In October 2022, the Fintech Law was approved, representing a significant step forward in promoting financial innovation and greater competition in the financial system, as well as the development of new financial products and services for consumers.

Also, the Chile's Financial Market Commission has recently greenlighted "ScaleX", launched in cooperation with the Santiago Stock Exchange and CORFO, which enables access to capital markets at lower costs to companies that would otherwise not meet the requirements for listing.

Moreover, the country is implementing a public-private model, in which investment in venture capital does not depend entirely on the government, facilitating the entry of new players into the venture capital industry, such as family offices and institutional investors (pension funds or large foreign sovereign wealth funds).

Last, the decades long economical and political stability and its global outreach places Chile as an ideal place to start, test and grow a business, before going to multiple markets to scale it.

This new scenario will keep allowing another qualitative leap forward to convert the country into one of Latin America's main hubs of venture capital.

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