

M&A AND VENTURE CAPITAL IN URUGUAY



SEPTEMBER 2023



Uruguay XXI
INVESTMENT, EXPORT AND COUNTRY
BRAND PROMOTION AGENCY

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EXECUTIVE SUMMARY

This report aims to characterize the Venture Capital (VC) and Private Equity (PE) ecosystems in Uruguay, as well as trends in mergers and acquisitions.

In recent years, investment funds have turned their attention to emerging Latin American countries, including Uruguay. Despite the complex economic context worldwide and in the region, which set a decline from the 2021 record, in 2022 Latin American countries reached new investment milestones.

Uruguay stands out in Latin America for attracting foreign direct investment (FDI). While companies commonly develop a business from scratch, they have also opted into merger and acquisitions (M&A), through which foreign companies buy all or part of Uruguayan companies. This reflects the continued interest in Uruguay as an investment location.

Of the 185 recorded transactions in Uruguay over the last 10 years, the majority were company acquisition deals (79%), followed by partial acquisitions (20%) and a single joint venture transaction (1%).

Throughout 2022 and during the first half of 2023, the main foreign purchasing companies were from Brazil, Argentina and the United States. Most of the transactions fall under the trade and services hub platform, which includes global services and trade-related services companies.

M&A IN LATIN AMERICA

FDI is defined as the expansion of a company into another country. The most common forms of FDI are either through developing an operation from scratch (greenfield investment) or through mergers and acquisitions (M&A). This chapter examines M&A transactions in Latin America and in Uruguay. These transactions are composed of several types of capital flows. They may be foreign companies that invest in Uruguayan companies generally within the same industry or in another sector that will add value just by acquiring or investing in a company. They can also be PE funds that invest in mature companies or VC funds that invest in startups.

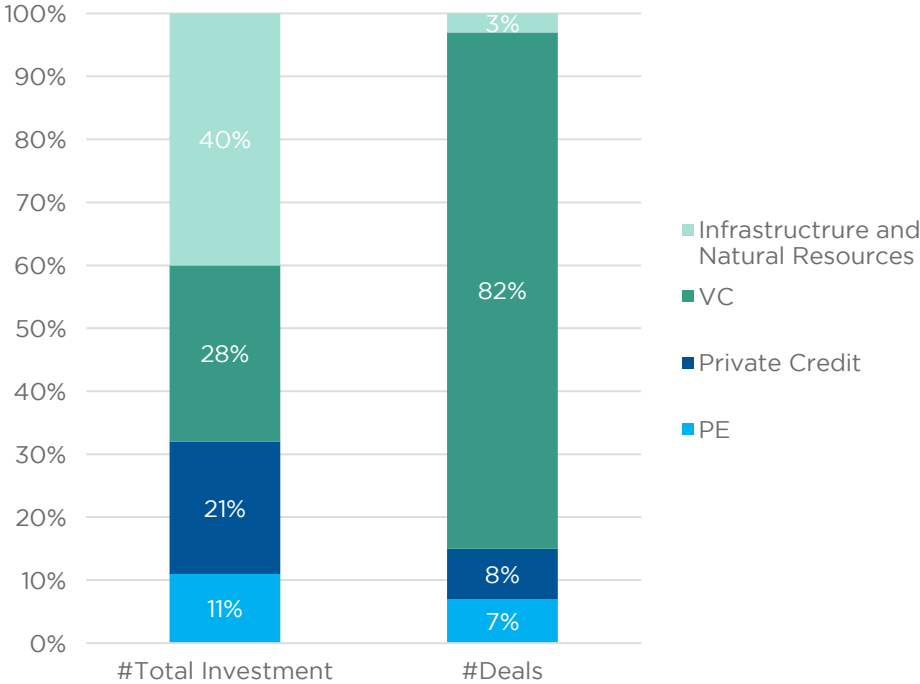
Despite the complex global and regional economic contexts, which marked a decline with respect to the 2021 record, in 2022 Latin American countries reached new investment milestones. Based on the information surveyed by LAVCA¹, in 2022 operations associated with private equity in Latin America broke records and reached US\$ 28.2 billion, which resulted from 1,352 operations.



Source: LAVCA (2023).

¹ Latin America Venture Capital Association <https://lavca.org>

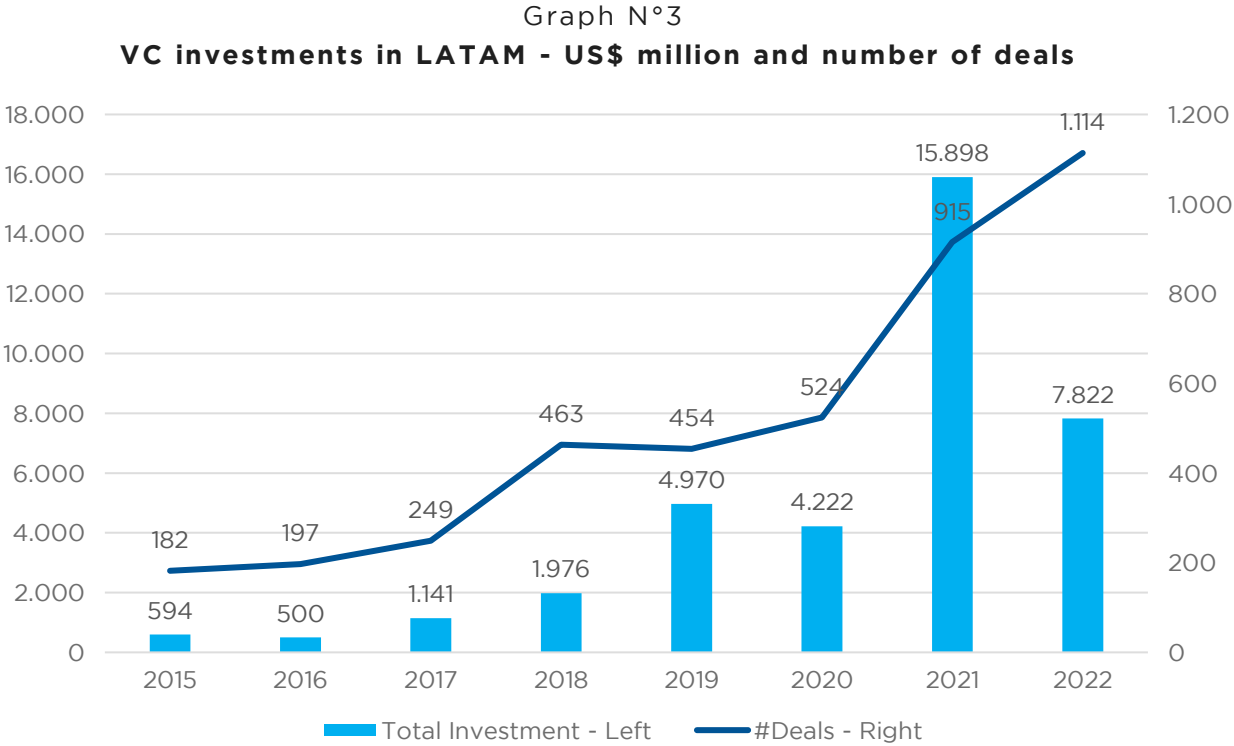
Graph N°2
Private equity investment in Latin America by asset type (2022)



Source: LAVCA (2023).

In fact, VC transactions accounted for 82% of the total number of deals closed in 2022. In terms of total deal value, VCs accounted for 28%. Private equity (PE) investments in the region accounted for 7% of the number of deals and 11% of the total value. Driven by infrastructure debt, private loans continue to gain significance, becoming a relevant alternative, accounting for 21% of the capital invested.

At industry level, telecommunications (driven by investment in digital infrastructure) stands out, followed by consumer goods and services and financial services. Capital invested in renewable energies stands out for its growth compared to 2021.



Source: LAVCA (2023).

In 2021, a record US\$ 16 billion in capital was invested in 915 deals. In 2022, while the number of deals was high, the amount of capital invested dropped by almost half due to a correction in the average valuations of startups that received investments.

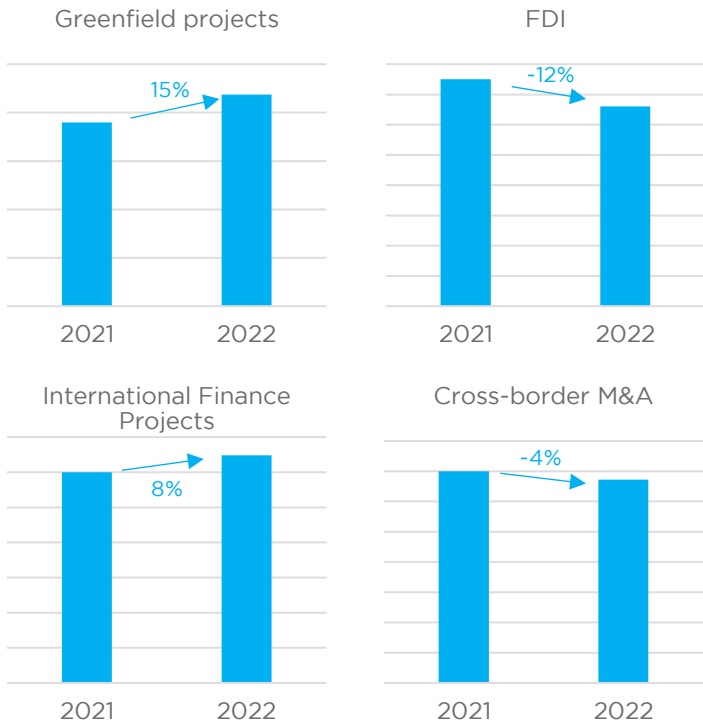
1.1. M&A OUTLOOK FOR 2023

According to UNCTAD, the downward trend in global FDI - which declined 12% in 2022 - is expected to continue in 2023, with first quarter indicators showing weak trends in international project finance and cross-border mergers and acquisitions. These deals were affected by tighter financing conditions, rising interest rates and uncertainty in capital markets.

The value of project finance deals decreased by 25% and cross-border mergers and acquisitions by 4%. The number of net cross-border M&A deals also declined by 9%, while the number of finance transactions projects increased by 8%. In contrast, announced greenfield projects increased by 15%. The value of projects increased 64% due to several megaprojects.

Companies continue to leverage M&A to achieve agility and resilience in the face of obstacles and uncertainties.

Graph N°4
Types of deals and investments - 2021 and 2022



Source: UNCTAD (2023).

It is worth noting the growing importance of sustainable investment. Environmental, social and corporate governance (ESG) dimensions are increasingly considered in decision-making and M&A strategies. Investors apply these criteria to assess risks and identify opportunities to create value². Companies and PE funds are committed to reducing carbon emissions, so more capital will be mobilized to drive the transition to environmentally friendly energy sources, creating M&A opportunities, not only in the sectors that are the biggest carbon emitters, but also in those that are innovating to develop the new technologies of the future. More deals are also expected in sectors that are transitioning to new business models, such as major oil and gas companies - to invest in renewables and hydrogen - or in the technology sector, where companies are innovating around energy storage as well as solutions to create a more sustainable circular economy.

² In the Global Private Equity Responsible Investment Survey 2021 report, it is noted that more than half of the respondents had refused to sign a deal with a partner or had rejected a potential investment for ESG-related reasons.

According to information from Crunchbase³, investments in Latin American startups dropped significantly in the first quarter of 2023. The region went from being one of the fastest growing to one of the regions with the steepest drop in funding. Notably, some players that had been very active in investments in recent years withdrew or significantly decreased their participation, for instance, SoftBank Latin America Ventures and Tiger Global Management.

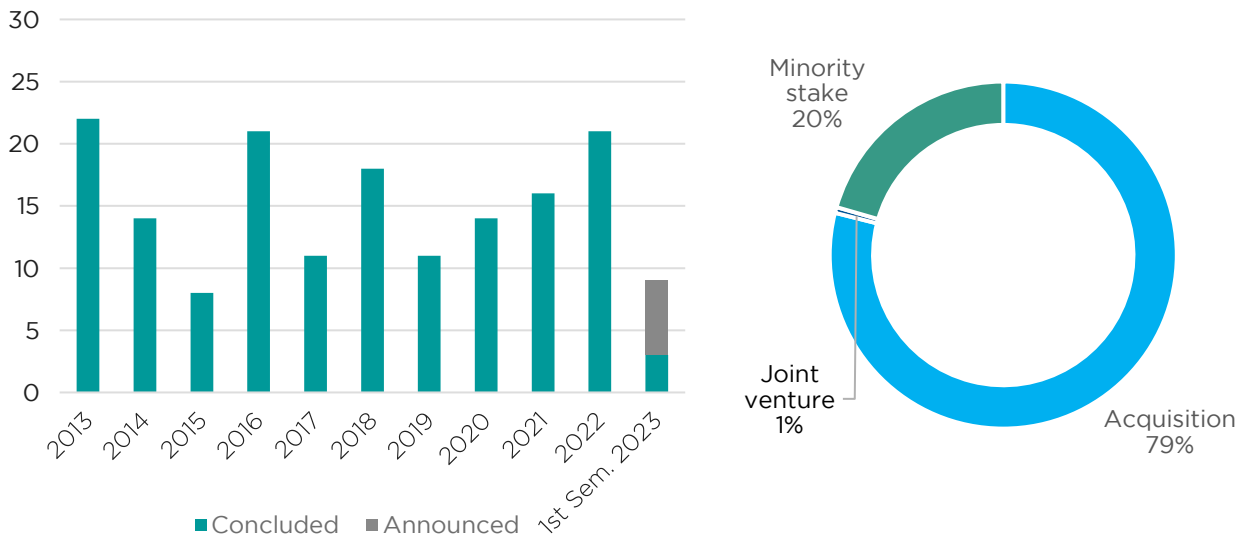
³ <https://news.crunchbase.com/venture/latin-america-vc-funding-q1-2023/>

M&A IN URUGUAY FOREIGN BUYERS

This section presents the mergers and acquisitions (M&A) that have taken place in recent years, through which foreign companies have bought Uruguayan companies. This reflects the continued interest in Uruguay as an investment location.

Graph N° 4 shows the number of mergers and acquisitions carried out by foreign companies towards Uruguayan companies, considering total and partial purchases. These transactions cover the last ten years (from 2012 to the first half of 2023).

Graph N°5
M&A of Uruguayan companies acquired by foreigners
(N° transactions per year)



Source: compiled by Uruguay XXI based on data from EMIS and ORBIS.

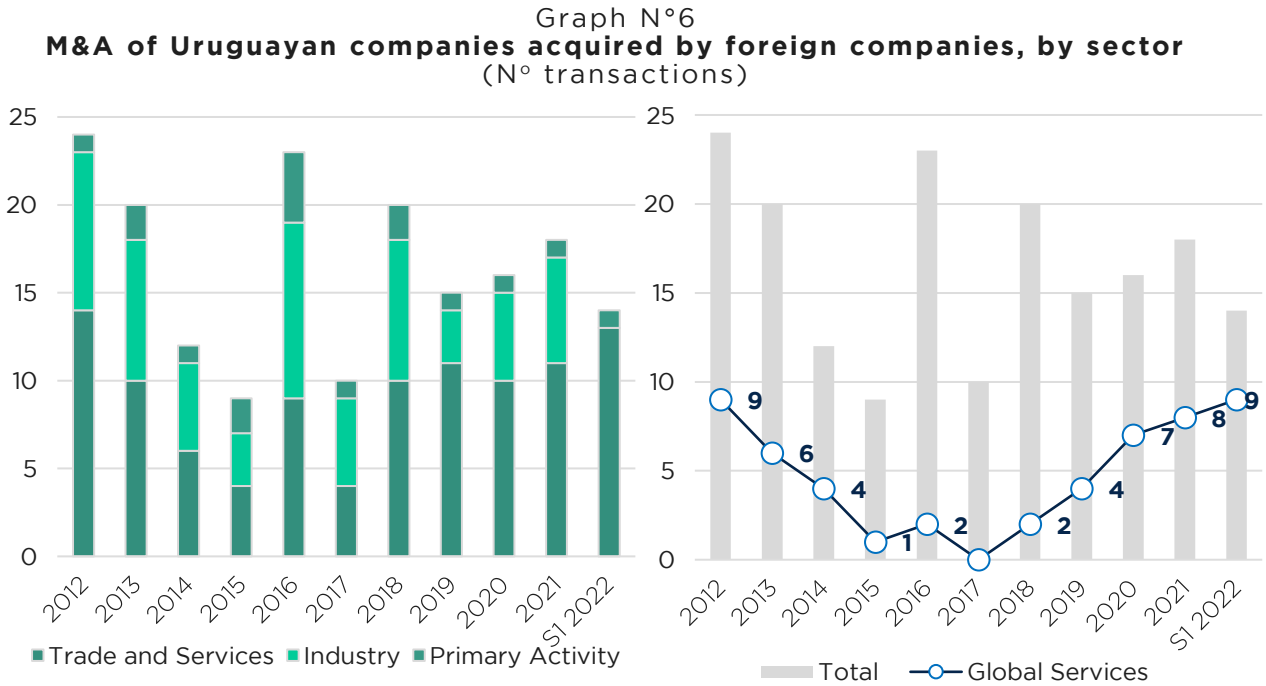
Of the 185 transactions reported during this period, the majority corresponded to company acquisition agreements (79%), followed by partial acquisitions (20%) and a single joint venture⁴ operation (1%). At the beginning of the studied period, there were many deals with companies in the manufacturing industry (such as meat packing plants, laboratories, companies in the forestry sector and the dairy industry) and global services (mainly in

⁴ A business partnership in which the partners share capital risks and profits at agreed rates.

software and financial services). In 2016, the dynamic in agreements was resumed, after a slight decline, highlighting companies in the agricultural, retail and energy industries.

In 2019, in the pre-pandemic, there was an initial decline followed by a sustained recovery in the following years, in which deals were concluded in retail companies, while in 2020 and 2021 global services companies led most deals.

M&A deals in 2022 were mostly concentrated in the services sector. In that year, the largest number of deals in this sector in the last decade took place, a total of 13 deals. In the first half of 2023, the number of M&A deals declined, and in the first half of this year, only four minority equity capitalization deals were recorded, concentrated in the global services sector, although six other deals have been announced and are in the process of being finalized.



Source: compiled by Uruguay XXI based on data from EMIS and ORBIS.

In the period between 2012 and the first half of 2023, most transactions occurred in the industry or services sectors, with a smaller share of primary activities. This is in line with the rest of the region, where many M&A transactions were recorded within the services sector⁵.

Within industry, operations focused on the agricultural and livestock industries, mainly in meatpacking plants, stood out - followed to a lesser extent by dairy and processed food

⁵ [Foreign Direct Investment in Latin America and the Caribbean 2023 - page 34](#)

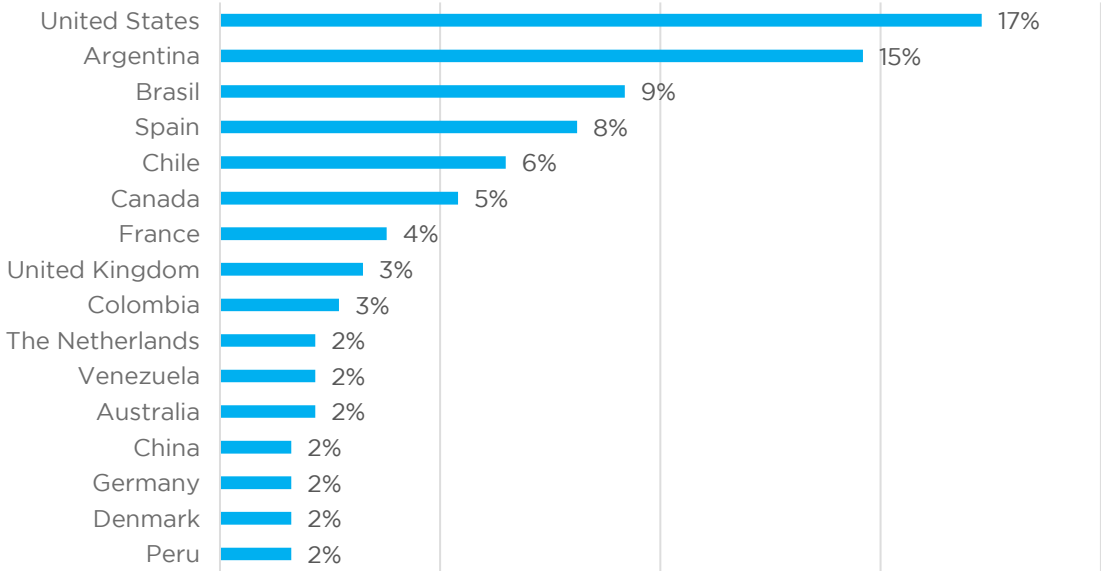
companies, and later by companies in the pharmaceutical sector. Services also played an important role, especially in recent years. The agreements related to retail companies and global service companies were particularly noteworthy. Global services companies have been the main recipients of foreign investment in terms of mergers and acquisitions in recent years. Among these, those dedicated to financial services and information technologies, especially software, played a prominent role.

The pandemic accelerated the digital development of businesses and particularly benefited the technology sector, increasing the attractiveness of these companies. Thus, global services companies accounted for more than 50% of deals in 2021, as they did in 2022 when deals within global services reached their peak for the period. The same happened in the rest of Latin America in terms of M&A deals: 54% of all M&A deals were in global services.⁶

In the past two decades, the United States and Argentina have emerged as the main buyers of Uruguayan companies. Together, these two countries account for 33% of all transactions. In second place in terms of relevance are investments from Brazil, followed by acquisitions by Spanish companies. Thus, these four main destinations accounted for more than half of the acquisitions, while the other half of the deals came from various sources such as Chile, Canada and France.

⁶ [Foreign Direct Investment in Latin America and the Caribbean 2023 - ECLAC](#)

Graph N°7
Top 15 purchasing countries of Uruguayan companies
 (% of transactions -2001 and first half year 2023)

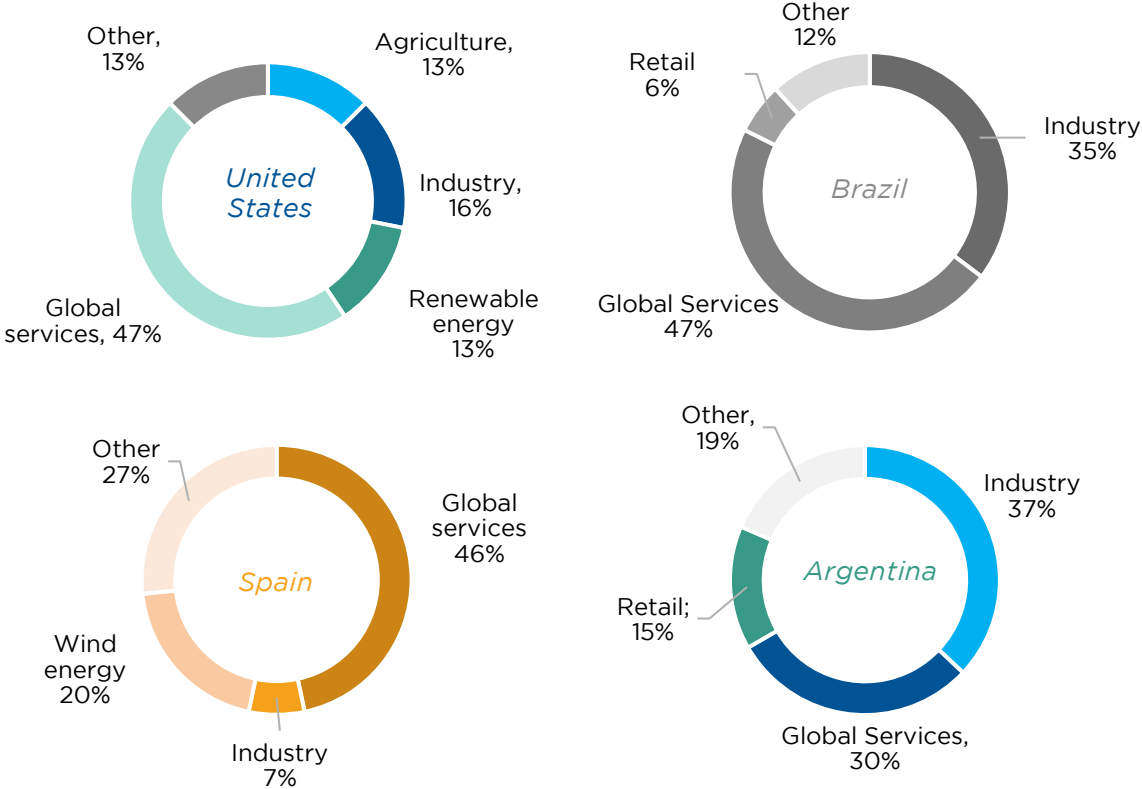


Source: compiled by Uruguay XXI based on data from EMIS and ORBIS.

U.S. companies acquired Uruguayan companies specialized in global services (mainly information technology and business services), followed by companies in the manufacturing industry and the energy sector. On the other hand, Argentine investors focused primarily on acquiring various industrial companies, while Brazilian investors had their focus on agribusiness. Companies from both countries also invested heavily in global services. Spanish companies were more dynamic as they acquired companies in financial services, information technology and renewable energies.

Uruguay is an ideal market for attracting this type of business-to-business transactions. Foreign companies are particularly interested in the global services, retail, and industrial sectors.

Graph N°8
Uruguayan companies acquired by foreigners: main origins and sectors - (2013 -First half 2023)



Source: compiled by Uruguay XXI based on data from EMIS and ORBIS.

1.2. M&A TRANSACTIONS FROM FOREIGN COMPANIES TO URUGUAYAN COMPANIES

To examine the available information in more detail, Table 1 presents the 24 transactions carried out between 2022 and the first half of 2023. The main buyers were companies from Brazil, Argentina and the United States.

Most of the transactions correspond to the trade and services hub platform⁷, which includes global services and trade-related services companies.

In the case of technology companies, several deals were made in the fintech sector. The Brazilian bank Itaú finalized the purchase of shares in Prex and Paigo. Prex provides financial services through a digital account and its App, while Paigo developed an innovative financial

⁷ Uruguay XXI classifies foreign investments according to the business model or platform that the company develops in Uruguay. Four platforms were defined: global services and logistics, which are grouped under the concept of trade and services hub, logistics, industrial production, agricultural production and others, and domestic market. For more information, please refer to the [Announcements and Investment Opportunities Report](#).

services platform for the unbanked. Fintech Bankingly, dedicated to the development of online banking, received US\$ 11 million in foreign capitalization.

In the digital commerce sector, the Nocnoc group raised equity funds from Brazilian, British and U.S. investment groups. In April 2022, GeneXus, a leading software developer founded in Uruguay, was acquired by Globant, an Argentinean company.

In the retail sector, Argentina's Farmacity acquired the branches of FarmaGlobal (FarmaGroup) to open its own branch in Uruguay.

Regarding agreements in the industrial sector⁸, in 2022 the assets of Caputto (Citrícola Salteña), a citrus fruit producer, were acquired by the U.S. company Frutura. Argentina's Lequio Group acquired Frigorífico Florida's facilities in December 2022, with the goal of reopening in 2023.

The prediction is that in the second half of 2023 there will be a greater number of transactions in the technology, retail, mass consumption and industry sectors⁹. The same is expected for 2024, as these exchanges take a prudent time, both to be announced and to be concluded.

A recent report prepared by CPA Ferrere for URUCAP¹⁰ and based on data from LAVCA, points out that between 2022 and the first quarter of 2023, 12 investments were made in Uruguayan ventures for an amount of US\$ 90 million. Of these, eight were made at the seed stage (US\$ 20 million), three at early stage (US\$ 30 million) and one at late stage (US\$ 40 million). In terms of sectors, Fintech, food, e-commerce platforms and marketplaces stand out. The report also conducted a survey among URUCAP's partner investors, and results showed that most invest at seed stage as VCs. Investors also responded that in 2022 they participated in 28 investment rounds for Uruguayan ventures, investing approximately US\$ 16.5 million in Uruguayan ventures. The average ticket was US\$ 300,000 and few investments were above US\$ 1 million.

⁸ Includes processing of primary goods.

⁹ [Expertos analizan cómo la situación de Argentina puede favorecer a Uruguay para la llegada de inversiones - El País](#)

¹⁰ <https://urucap.org/estudios/informe-capital-privado-uruguay-2023/>

Table 1
M&A of foreign companies to Uruguayan companies
 (2022- First semester 2023)

Date	Acquired Company	Platform in Uruguay	Sector	Type of Deal	Purchasing Company or Fund	Country	US\$ Mill.
Jan-22	Avanza	Trade and Services Hub	Services	Acquisition	SkyTel Telecomunicaciones Argentina SA	Argentina	NA
Mar-22	Integra CCS	Trade and Services Hub	Services	Acquisition	IDT Corp	United States	NA
Mar-22	DIF Markets Agente de Valores SA	Trade and Services Hub	Services	Acquisition	Saks Consultoría, Assessoria, Vida e Previdência Ltda.	Brazil	NA
Mar-22	Citrícola Salteña SA (Caputto)	Agro and other production	Primary Activities	Acquisition	Frutura LLC	United States	36,5
Mar-22	Econstar SA (Prex); Floder SA (Paigo)	Trade and Services Hub	Services	Minority Stake	Itaú Unibanco Holding SA	Brazil	NA
Mar-22	Resonance Uruguay SA	Trade and Services Hub	Services	Acquisition	Itaú Unibanco Holding SA	Brazil	NA
Mar-22	Nocnoc Group LLC (nocnoc)	Trade and Services Hub	Services	Minority Stake	Caravela Capital; Olist Servicios Digitais Ltda; Mouro Capital; Broadhaven Capital Partners LLC; Quona Capital Management Ltd; Angel investors	Brazil United Kingdom United States	7
Apr-22	GeneXus	Trade and Services Hub	Services	Acquisition	Globant SA	Argentina	NA
Apr-22	Strike Security LLC	Trade and Services Hub	Services	Minority Stake	NXTP Labs; Latitud; Canary; Magma Partners; VentureFriends; Greyhound Capital; Orok Ventures; FJ Labs; Angel investors	Argentina Brazil Chile Greece United Kingdom United States	5,4

Apr-22	ICM SA	Domestic Market	Services	Acquisition	Boldt SA	Argentina	4,41
May-22	CUALIT	Trade and Services Hub	Services	Acquisition	THE SANDBOX	Hong Kong	NA
May-22	Polo Logístico de Frio (PLF)	Logistical Hub	Services	Acquisition	Emergent Cold Latin America (Emergent LatAm)	Brazil	NA
May-22	Bankingly	Trade and Services Hub	Services	Minority Stake	Athos Service; IDC Ventures; Dalus Capital; Finacess Capital; iThink VC; Kube Ventures; Sonen Capital; Inter-American Development Bank (IDB); Oikocredit Ecumenical Development Cooperative Society UA	Germany Spain Mexico Paraguay United States Holland	11
May-22	El Observador	Trade and Services Hub	Services	Acquisition	Group of private investors	Argentina	NA
Jul-22	Kiyu and Pastoral wind farms	Industrial Production	Energy, Gas and Water	Acquisition	Cubico Sustainable Investments Ltd	United Kingdom	NA
Sept-22	Cabaña La Constancia - Pig Uruguay SA	Agro and other production	Primary Activities	Acquisition	Vall Companys SAU	Spain	NA
Oct-22	FarmaGlobal	Domestic Market	Trade	Acquisition	Farmacity SA	Argentina	NA
Oct-22	Darcel SA; Cacama SA	Industrial Production	Manufacturing Industry	Acquisition	M Dias Branco SA Industria e Comercio de Alimentos	Brazil	NA
Nov-22	Hosemill Holding SA	Agro and other production	Primary Activities	Minority Stake	ADVANTA SEEDS UK LTD	Hong Kong	NA
Dec-22	Algamur SA	Industrial Production	Manufacturing Industry	Acquisition	VERTICAN GROWTH INC.	Canada	NA

Dec-22	Frigorífico Florida	Industrial Production	Manufacturing Industry	Acquisition	Lequio Group	Argentina	8
Jan-23	Scanntech Uruguay Hosting SA	Trade and Services Hub	Services	Minority Stake	Warburg Pincus LLC	United States	40
Jan-23	The Climate Box	Trade and Services Hub	Services	Minority Stake	Label Investments; The Yield Lab; Angel investors	Spain United States	NA
Jun-23	Nocnoc Group LLC (nocnoc)	Trade and Services Hub	Services	Minority Stake	Caravela Capital; Mouro Capital; Broadhaven Capital Partners LLC; PayPal Holdings Inc; Quona Capital Management Ltd; IGNIA Partners	Brazil United Kingdom United States Mexico	14

Source: compiled by Uruguay XXI based on data from EMIS and ORBIS.

URUGUAYAN UNICORNS

Uruguay has key qualities that serve as a launching pad for many startups with unicorn potential. Legal, political and social stability is one of the main strengths in attracting investors from other larger countries such as Argentina and Brazil. One of the distinguishing characteristics of startups in Uruguay is that they emerge as global companies due to the "need to open up to the world", since the local market is limited. Uruguay has a great potential in its entrepreneurial ecosystem, which means that it is not only a fertile economy to generate startups, but it is expected that in the short term the country will give birth to new unicorn companies¹¹.

In this regard, it is worth mentioning the success stories of the first Uruguayan unicorns that have emerged in recent years (unicorn is the qualification that emerging companies receive when they exceed a valuation of US\$ 1 billion).

The Uruguayan company [dLocal](#) develops digital payment solutions in emerging countries, with clients such as Uber, Spotify and Amazon, among others. This fintech became the first Uruguayan unicorn in October 2020 when it obtained a valuation of US\$ 1.2 billion and in June 2021 it began to list its shares on the New York Stock Exchange.

In mid-2022 it was joined by [Nowports](#), a company that provides users with the exact location of their merchandise in real time as it is moved from port to port. So, Uruguay has incubated two unicorns in the last two years. For Nowports, the seed investment meant a capital injection of US\$ 8.6 million. In Series A it raised US\$ 23 million, in Series B US\$ 60 million and in Series C US\$ 250 million with a valuation of US\$ 1.1 billion, which led it to become a unicorn.

[Pedidos Ya](#)¹² could also be considered a unicorn because it surpassed the US\$ 1 billion valuation, although not in an investment round. This Uruguayan startup, considered a success story in Uruguay's IT ecosystem, was acquired by a publicly traded economic group called Delivery Hero. This group joined Pedidos Ya in 2014 and in 2017 conducted an IPO on the Frankfurt stock exchange.

In the recent report "Deep Tech, the new wave"¹³, Uruguay is highlighted for its deep tech innovative ecosystem, with a ratio of 3.2 startups per million inhabitants linked to deep tech.

¹¹ Taken from statements made by Eduardo Mangarelli and Pablo Brenner in an article published by [El Observador](#).

¹² <https://www.elobservador.com.uy/nota/pedidosya-la-fuerza-arrolladora-del-unicornio-oculto--20201117121543>

¹³ <https://publications.iadb.org/es/deep-tech-la-nueva-ola>

Although most of these Uruguayan startups are in early stages, it shows the potential they present due to their innovative solutions.

PRIVATE EQUITY AND M&A ECOSYSTEM IN URUGUAY

In Uruguay there are boutique M&A consulting firms with a long track record, which provide services for the purchase and sale of companies, due diligence, valuations, investment projects, financial modeling, among others¹⁴. In the specific case of companies that have filed for bankruptcy and are governed by the Uruguayan Bankruptcy Law¹⁵, the various entities appointed as trustees by the Judicial Power play a relevant role in administrating the assets and in managing the open calls for the acquisition of the assets¹⁶.

In 2022, the Uruguayan Private Equity Association (URUCAP, for its acronym in Spanish) was created, which brings together VC funds, CVC, PE, angel investors, and accelerators. In September 2023, a report was submitted by CPA Ferrere and financed by URUCAP, providing relevant information for the sector, including a survey to members. To access the full report, click on this [link](#).

Regarding entrepreneurship, there are several institutions that provide support in the early stages. The National Development Agency (ANDE, for its acronym in Spanish)¹⁷ provides technical assistance, mentoring and financing, in addition to managing the *Uruguay Emprendedor* portal¹⁸. The National Agency for Research and Innovation (ANII, for its acronym in Spanish)¹⁹ has several tools to support entrepreneurship, such as idea validation (together with ANDE), innovative entrepreneurs, expansion fund for internationalization, financing, among others, and Endeavor Uruguay supports entrepreneurs through advice and mentorships, capital, events and alliances.

Uruguay XXI²⁰ has a portfolio of investment opportunities for both established companies and new projects that are looking for foreign investors (as a minority or majority partner), or even to sell the company outright. In the portfolio there are companies with various characteristics: some are looking for investors to grow while others are facing financial problems or are

¹⁴ For further information, go to: [Services Directory from Uruguay XXI](#)

¹⁵ <https://www.impo.com.uy/bases/leyes/18387-2008>

¹⁶ <https://www.poderjudicial.gub.uy/tramites/registro-de-sindicatos/download/9593/3230/19.html>

¹⁷ <https://www.ande.org.uy/>

¹⁸ <https://www.uruguayemprendedor.uy/>

¹⁹ <https://www.anii.org.uy/>

²⁰ [I want to invest - Sector: Investment Portfolio: Uruguay XXI](#)

looking to sell for family reasons; there are early-stage startups looking for a VC fund, mature companies and companies that have gone bankrupt. There are companies from several different sectors as well: technology, biotechnology, agribusiness, non-food industry, tourism, real estate, among others. In September 2023, a web page²¹ was launched to present investors with these opportunities, and they can access them by registering. If the company's information is confidential, they must sign a confidentiality agreement (NDA).

The Uruguay Innovation Hub program²² was launched in 2022, an initiative by the Ministry of Industry, Energy and Mining (MIEM), ANII and Uruguay XXI. It is a national program that seeks to position the country as an innovation hub through the implementation of various instruments and the development of initiatives that foster and strengthen the Uruguayan innovation ecosystem. It seeks to promote agreements between the public and private sectors for the development of investment opportunities, innovation and the acceleration of ventures and projects in key strategic sectors: biotechnology, green technologies and deep technologies. The program promotes the following initiatives to support the innovative ecosystem:

- **Development of an acceleration program for technology-based ventures that provides methodology and capital for the "post-seed" stage.**
- **Development of a company building program for biotechnology ventures, providing methodology and capital for the "post-seed" stage.**
- **Attracting regional investors and venture capital funds that will support investment in startups.**
- **Promoting the establishment of open labs where entrepreneurs can create prototypes and accelerate commercialization processes.**

²¹ [Portal \(uruguayxxi.gub.uy\)](http://portal.uruguayxxi.gub.uy)

²² <https://uruguayinnovationhub.uy/>

1.3. INCUBATORS AND ENTREPRENEURSHIP CENTERS

Incubators and entrepreneurship centers also play a key role in Uruguay’s entrepreneurial and innovative ecosystem for early-stage business ideas and startups to mature and prosper.

Thus, support institutions are joined by entrepreneurship centers of public and private universities, as well as incubators from which some of Uruguay’s most successful startups and unicorns have emerged.

Figure 1
Entrepreneurship ecosystem in Uruguay²³



²³ Non-exhaustive list

Figure 2
Private Equity Ecosystem in Uruguay²⁴



²⁴ Non-exhaustive list. For more information, go to [Informe Sector Financiero Uruguay XXI](#).

REGULATIONS IN URUGUAY AND USEFUL LINKS

- **Fund Regulations**

Law 16.774 establishes that investment funds "are independent assets, made up of contributions from individuals or legal entities under the regime of the present law, for investment in securities and other assets". Investment fund management companies will require authorization from the Central Bank of Uruguay (BCU, for its acronym in Spanish).

[Ley 16774](#)

- **Central Bank of Uruguay:**

Superintendency of Financial Services: [Circular 2393](#) and [Circular 2394](#) .

Credit Risk Center: <https://www.bcu.gub.uy/Acerca-de-BCU/Paginas/Central-Riesgos.aspx>

- **Defense of Competition:**

Defense of Free Competition in Commerce. [Law 18159, Law 19833 and Decree 404/007](#) as modified by Decree 194/020.

The Commission for the Promotion and Defense of Competition is the institution in charge of overseeing competition overall. Its purpose is to control and sanction anticompetitive practices in Uruguay. Its duties include receiving information on company mergers and authorizing them in due time. Participants in acts of economic concentration must request authorization from the commission in cases where the gross annual turnover (in any of the last three accounting years) in the national territory of the set of participants in the operation is equal to or exceeds 600 million UI²⁵.

- **Merger Regulations**

Legally, mergers are regulated by Law 16.060 (Commercial Companies Law), which regulates mergers by creation and incorporation. In the case of a merger, it is possible to obtain certain tax exemptions, which poses an advantage over other alternatives such as the sale of the commercial establishment.

²⁵ Translator's note: UI is a unit of value of reference, which varies daily.

Tax exemptions in the case of mergers and spin-offs are determined by Article 26 of Law 16,906 (Investment Law), Article 68 of Heading 4, Orderly Text 1998 as amended by Law 18,083 and Regulatory Decree 150/007 as amended. In the first case, the Executive Power is authorized to exempt mergers, spin-offs and transformations of companies from the Income Tax on Industry and Commerce, Value Added Tax and Transfer Tax, if they allow the expansion or strengthening of the applicant company.

Although the granting of the exemption is optional for the Executive Power, it is generally granted if it is justified that the merger strengthens the absorbing company.

[Law 16.906](#) , [Law 16.060](#) , **Orderly Text Heading 4 article 68 and Decree 150/007**

- **Relevant regulations for the purchase of companies**

The acquisition of companies may be carried out by different means, such as the purchase and sale of the controlling shareholding of the company or the purchase and sale of its assets and liabilities, which constitutes a sale of a commercial establishment.

The disposal of a commercial establishment is mainly regulated by Laws 2,904 and 14,433, which are limited to establishing the formalities that the buyer should observe to limit its liability with respect to the creditors of the seller of said commercial establishment. These rules do not provide a definition of commercial establishment, nor of the assets that comprise it, and so we must resort to the concepts that have been developed by the doctrine and jurisprudence to determine when the acquisition of certain assets is or is not a disposal of a commercial establishment.

When the acquisition of shares and partnership interests occurs, Laws 16,060 and 19,820 are relevant, because they establish the formalities to be observed for the transfer of shares and partnership interests in the different commercial companies, as well as Laws 18,930, 19,288 and 19,484, which regulate the obligation to inform the Register of Equity Interest Holders of the Central Bank of Uruguay of any change made in the shareholding chain of the acquired companies.

From a tax point of view, the sales of shares will be taxed by the IRPF (personal income tax) at a rate of 2.4% of the sale price (12% on a fictitious income of 20%), unless double taxation avoidance agreements apply, in which case it could be exempted, or a lower rate could be applied. In the opinion of the tax authorities, for tax payment purposes, the sale price must be a market price, regardless of the value included in the contract. On the other hand, the sale of shares is exempt from VAT.

The result of the sale of commercial establishments constitutes gross income and is taxed by income tax on economic activities (IRAE for its acronym in Spanish) if applicable.

[Law 2.904](#) , [Law 14.433](#) , [Orderly Text](#)

- **Labor Regulations for M&A**

There are two laws that expressly establish the liability of the acquirer with respect to the employees of the transferred company on the items of severance pay and unused leave owed:

- a) Law 10.570 for severance pay.**
- b) Law 12.590 for annual leave.**

[Law 10.570](#) and [Law 12.590](#)

There is no express regulation with respect to other labor credits (vacation salary, Christmas bonus, overtime, special dismissals, bonuses, awards, etc.), so that in each case it will be necessary to resort to the jurisprudential tendencies and the most widely received doctrine to determine any eventual liability of the acquirer for these items.

ANNEX: VENTURE CAPITAL AND PRIVATE EQUITY

VC funds invest in and contribute knowledge to early-stage companies that show potential (startups). PE funds, on the other hand, invest in and contribute knowledge to mature companies, in turn attracting investments from other funds. The difference lies not only in the type of companies, but also in the fact that PE funds invest through debt or capital, while VCs invest primarily in capital.

An investment fund is a group of managers whose role is to raise funds from investors to invest in companies. These investors, called Limited Partners (LPs), provide financing, but no knowledge and are not involved in management. These may be institutional funds, pension funds, family offices, individual investors, among other options. These types of investors do not need immediate liquidity and therefore can dispose of the funds in the long term. LPs sign a Limited Partner Agreement stipulating the terms and conditions of the investments (exit term, sectors to be invested in, etc.).

PE funds favor companies with growth potential to the extent that they receive capital, and support with management and strategy. There are also PE funds that focus on companies with financial problems and even those in financial distress. The most common sectors are retail, energy, agriculture, agribusiness and raw materials production, among others. VC funds usually invest in technology and biotechnology startups with the idea of quickly scaling up the operation and obtaining higher profits. Given that the investment is directed to the early stages of the companies, it tends to be high risk.

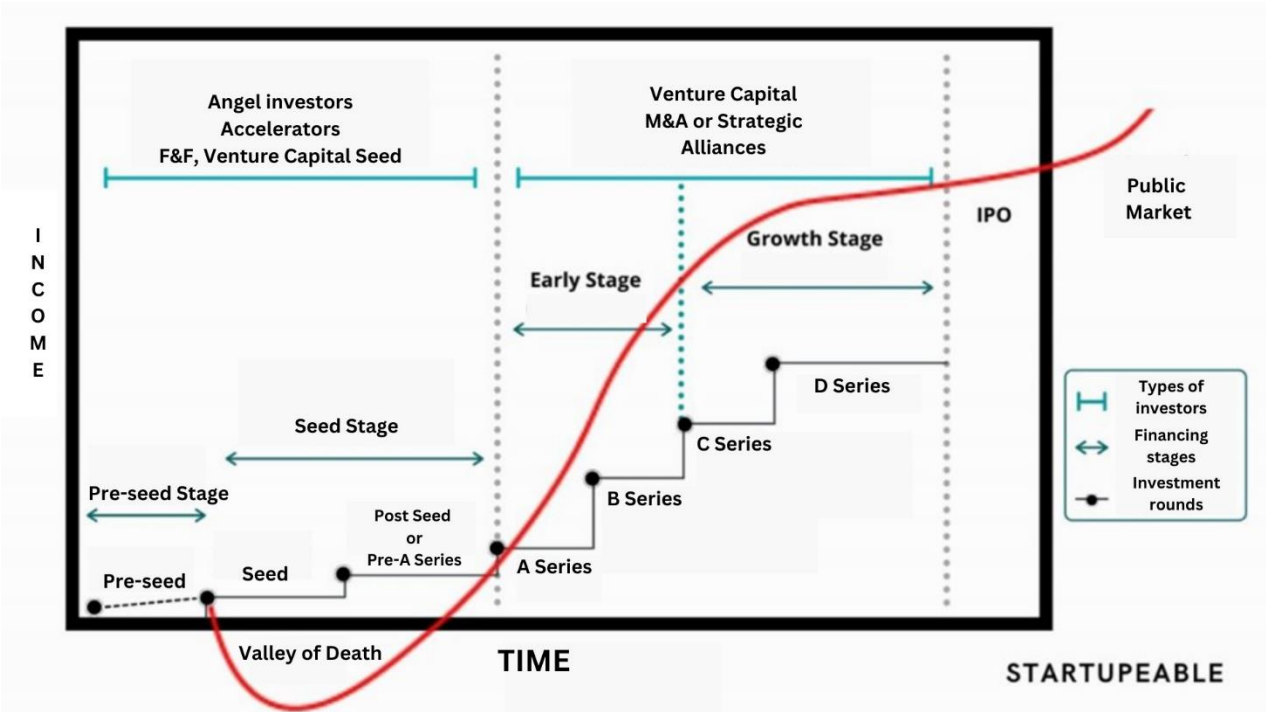
The most common forms of financing are investment rounds, although debt instruments are also used. Startups tend to resort to these funds to "raise" capital. In this sense, there are seed capital rounds, the first investment raising that, in certain opportunities, is linked to the presence of an angel investor (an experienced entrepreneur with capital). This initial round is followed by investment rounds A, B and C, which are accessed progressively according to the level of development of the company receiving the investment.

Although VC funds are increasingly investing in earlier stages of companies, it is important to mention Seed capital. In this case, they invest in very early stages (pre-series A), with tickets of less than US\$ 0.5 million. PE and VC fund managers are responsible for three main tasks: i) to search, evaluate and make the decision to invest in a mature company or startup; ii) execute

the legal and financial operations to invest in the funds and iii) manage their investment portfolio in companies or startups.

Figure 3 & 4
Financing Rounds and Financing Cycle of a Startup

	Pre-seed	Seed	Post-seed	A-Series	B-Series	C-Series +
When to raise capital?	MVP Idea before income	MVP launch MVP with income	Early product market fit	Proven product market fit	Unit Economics LTV:CAC>3:1 Near profitability	Clear path to Exit. Growth through proven channels
Traction (monthly income)	Insignificant	USD 5-30k	USD 10-50k	USD 60-100K	USD 200K	USD 500K+
From whom?	Family and friends Angels Accelerators Seed Funds	Angel Investors Seed Funds	Seed Funds A-Series Funds	A Series &	B Series	VC Funds of growth stage
For what?	MVP and team-building	Growth investment and MVP polishing	Reaching early scalability	Scalability	Aggressive scalability and profitability	Expansion or exit preparations
Average round size	< USD 500k	USD 1-2M	USD 2-4M	USD 5-16M	USD 20-80M	USD 40-100M
Valuation Pre-Money	USD 1-3M	USD 4-6M	USD 10-15M	USD 25-50M	USD 90-300M	USD 300+



Source: STARTUPEABLE.



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