Los Grobo
Agribusiness Value Systems for the Future

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A Creator of Business Ecosystems

On May 15, 2013, the first pampero of the season sweeps through Buenos Aires. Pamperos are southwest winds carrying fresh, crispy air and the clearest of blue skies, announcing to Argentinians that winter is beginning. On this morning Gustavo Grobocopatel is visiting the office of a public notary to close a deal that will likewise announce a new season in the history of Los Grobo, the company he co-founded and has led together with his father and sisters since 1984. As he enters the office, a person unbeknown to him approaches and remarks: "Oh, so nice to walk into you here, I just want to express how thankful I am for all you do for Argentinian business." Though Grobocopatel deeply dislikes it, he is acclaimed as the "King of Soybeans" in Argentinian newspapers, and Los Grobo has become renowned as a globally leading agribusiness company.

On this morning he signs the contract for Los Grobo to purchase an agrochemical business in Argentina, called Agrofina. A second deal which he will sign two weeks later is the sale of all Los Grobo operations in Brazil to the Japanese trading house Mitsubishi Corporation – amounting to 30% of Los Grobo activities overall. Analysts of the "Argentinian super farmers" had expected that Los Grobo and its three core Argentinian competitors would expand their way of farming to the far corners of the world. One of them, El Tejar, farmed 1.1 million hectares (ha) of land in Argentina, Uruguay, Brazil, and Bolivia in 2010, making it the second largest farming operations in the world after the 1.5 million hectares of land owned by Ivolga in Russia and Kazakhstan.¹

Contrary to those expectations, Grobocopatel has reduced the Los Grobo farming area from a high of around 270,000 ha in 2011/2012 to little over 150,000 ha for the planting season 2013/2014. Where international investors are roaring into Brazil, while escaping Argentina if they can (for instance El Tejar quit all Argentinian farming in the 2013 season), he is doing exactly the opposite: Los Grobo is selling out of Brazil, and buying deeper into Argentina. Gustavo Grobocopatel even seems to be reversing the hallmarks of success of the very business model he is credited to have created: farming operations in an "asset light" mode. All of the peak 270,000 hectares were managed by around 200 employees. Los Grobo did not own this land, did not own any tractors or other machinery, and squeezed working capital in the business to a bare minimum. Now with Agrofina, Los Grobo fully owns a USD 15 million fixed asset chemical company. Furthermore, with the sale of the Brazilian operations, Grobocopatel has also de facto pulled the plug on the long announced and awaited plans of an IPO in the foreseeable future. In the estimation of Los Grobo shareholders, South American

¹ Some analysts give the title of largest farmer to Libero Commodities started in 2010 and controlled by Geneva-based Adrian Moguel, whose shareholders are collectively planting 5 million hectares in the Brazilian Cerrado.
capital markets would not offer a climate favourable enough for an IPO. In contrast to most of its competitors, Los Grobo’s asset-light model avoids land ownership and sole dependence on grain production. This way the Los Grobo business model is flexible enough to surf the volatility and uncertainties of the market by managing several business units (grain production, trading, services, and input sales) with different levels of intensity and in different crops.

Investing in Argentina in May 2013 requires a solidly contrarian attitude. The country is repeating a cycle of economic sins that plagued the country for most of the 20th century: the black market foreign exchange rate for the Argentinian peso (ARS) is half of the official rate, inflation is approaching 30% pa and rising further, the poverty rate is around 10% of the population, and there is persistently high unemployment or underemployment despite average macroeconomic growth rates of 9% per year since the financial crisis in 2001. The populist-oriented Kirchner government is facing midterm elections on October 27, 2013. It needs to secure a two-thirds majority to change the constitution in order to allow President Christina Fernandez de Kirchner the possibility of a third term in 2015 – though disgruntlement with the government is widespread. On past political performance, the government will further redistribute societal resources from long-term competitiveness towards short-term handouts to maintain power – and the chances for a pro-business, reformist political agenda are slim. Some Latin America observers fear that a situation like that of Venezuela may be unfolding in Argentina, so they recommend a wait-and-see approach. They are waiting to see whether politics in Argentina can turn the corner towards reinforcing institutions rather than undermining them, and whether the government can become more business friendly, which would unleash the full potential of this well-educated, middle class structured society.

On April 23, 2013, the Argentinian think tank of leading economists, Fundación de Investigaciones Económicas Latinoamericanas (FIEL), concluded in a conference:

"Argentina has the greatest amount of state participation in the economy of any country in the region. It also has high taxes, which are spent on pensions and wages rather than infrastructure. In addition, the current government has reversed many economic reforms. The economists express concern that Argentina’s future performance will predominantly depend on luck."

Yet, Grobocopatel is unfazed by the decisions Los Grobo has taken:

"I do not see a reversal of strategy for Los Grobo in these two deals of buying Argentinian Agrofina and selling our Brazilian operations. On the contrary, we are reinforcing what we have been doing in all these past years. We operate as a network of professionals for farmers, offering services that create value for all sides. This network is based on the pillars of trust, transparency and value creation, and we continue to work hard to create the micro-institutionalism that makes these principles tangible for our partners. At Los Grobo we consider ourselves a cooperative of the knowledge society. The two deals we closed this May propel our business model to a new level of performance. We are evolving into an even more active creator of business ecosystems, with global reach and even more professionalized systems and structures."
As he says these words, he is also listing the business ecosystems that Los Grobo is considering for the next steps they may take:

1. Joint venture with a food group from India to sell pulses grown in Argentina;
2. Joint venture with the high technology company INVAP for precision farming;
3. A global consulting company on farming know-how;
4. High value-added items from wheat mill products (e.g. flour and pasta) or soybean crushing, and other downstream assets;
5. New farming platforms in South America, which may be in Brazil again, though there are possibilities in Colombia and Central America as well.

The day after having signed the agrochemical company deal, Mr Grobocopatel is on a flight to Bogota, Colombia, where he will have dinner with a minister in the government. There is a region of possibly 20 million hectares of undeveloped land in that country, and the government is seeking investors like Los Grobo, to make it productive. Settling into the 7-hour flight to Bogota on this fifth visit of his to Colombia, Grobocopatel runs through the talking points in his mind. They are the same in all of the business propositions on his desk, be it Colombian land, flour and pasta, consulting know-how, precision agriculture, Indian pulses, or agrochemicals, the deals have to be shaped to fit the Los Grobo vision: "Being a world leader in products, services and know-how in the agribusiness network focused on the development and welfare of people and their environment." At this point, Grobocopatel sums up:

"For the first time in my life, I could delegate all operational control in the business to professionals who do a much better job at this than I can. Furthermore, we could consolidate Los Grobo finances and streamline governance. So, where should I spend my energy in the future?"

The Los Grobo Business Model

The company’s leitmotif "Juntos Agregamos Valor", i.e. "Together we build value", is at the heart of its network. Its focus on association with the best technicians and farm service suppliers to run all farming related activities – thus avoiding any investment in land, machinery, equipment, or warehouses – is the core competitive advantage for Los Grobo. The company benefits from highly specialized services at competitive cost instead of increasing its own fixed costs, preferring to build a unique network of professional farm services rather than a heavy fixed-cost structure of its own.

Own production

Farming operations are one of the pillars of Los Grobo, not only as the historical origin and most visible feature of the company’s growth story during the past two decades: Los Grobo revolves around the practice of growing food (Exhibits 1 to 3 on key figures for Los Grobo). While the operations in Brazil and Uruguay differ from those in Argentina in some critical adaptations to local conditions, the basic model remains the same.
For the 2012/2013 campaign, Los Grobo leased 56,000 hectares of land in Argentina and operated them locally. They have 15 managers in the field, who are rewarded with a strong entrepreneurial component in their salaries. While the decisions which crops to plant are made centrally, the managers decide each agronomical operation locally: when to sow, spray, harvest, and bag. For each of these basic operations the manager contracts with local operators of machinery, respectively 3–5 specialized sowers, 3–5 sprayers, 3–5 harvesters, and 3–5 baggers in the course of the crop season. Each of these will in turn typically employ 2–4 operators of that equipment. Thus, the indirectly employed work force that farms these 56,000 ha of land averages around 60 farming persons per manager over the seasonal cycle, or a full-time equivalent (FTE) of 15 when divided by the four operational seasons. The average head count of 15 FTE farm workers for each of the 15 field managers works out to 225 FTE (15x15) total employment on the 56,000 ha of land.

The managers are supported in their decisions by the farming headquarters in Carlos Casares, situated 300 km southwest of Buenos Aires. More critically, the managers and the contractors document each farming operation in Grobosoft – a farming production software developed in-house – and in turn, they are supported by this sophisticated IT environment. Grobosoft was implemented in 1998 and has been upgraded continuously. It connects all operations in the field with headquarters and the corporate management information system, and thus it circulates knowledge around the company in real-time. Grobosoft was also the basis for Los Grobo’s ISO 9001 certification in 2001, as the first farming company in the world.

Today Grobosoft is also integrated with further applications such as the customer relationship management software SugarCRM, the enterprise resource planning software Softcereal, the precision agricultural management tools of ArcGIS, and access tools such as QlikView and the Microsoft Exchange Server 2000. Besides ISO 9001, Los Grobo is capable of providing RTRS certifications (Round Table on Responsible Soy Association), of which it is an early and current board member (Exhibit 6 on RTRS). The company also subscribes to ISCC (International Sustainability & Carbon Certification), they have signed the United Nations Global Compact to achieve the Millennium Development Goals, and they participate in GRI, the Global Reporting Initiative for reporting the triple bottom line. Various ethics codes, and corporate governance models of the Argentinian IAGO and Brazilian IBGC have been implemented furthermore and are monitored as part of the Los Grobo operating procedures.

In 2012/2013 around 40% of the land leased by Los Grobo in Argentina was farmed with precision agricultural methods, and the aim is to reach 100% soon. The limiting factor to reaching 100% is a successive upgrade of all machinery of the contractors with the respective equipment.

Though the average tenure of leases signed by Los Grobo is around five years, the legal system as well as traditional custom in Argentina only allow the negotiation of land leases for one
year at a time. This practice, of course, hampers structural incentives for long-term land improvements and crop rotation, impeding further increases in productivity.

For the time being, Los Grobo expects its own production in Argentina to stagnate or even to decrease further. However, thousands of small-scale competitors have assimilated the sophistication level of operating skills at Los Grobo, without needing to bear the costs of Los Grobo overheads, and they are satisfied with lower returns on capital. Structurally, Los Grobo management therefore believes that farming as its own production has become a mature business with little growth potential.

**Partners’ production**

Parallel to its own production, Los Grobo offers services to local farmers in individually negotiated partnerships. These farmers will typically lease land on their own account and operate their farms similarly to the Los Grobo field managers. In 2012/2013, Los Grobo has worked in close cooperation with 15 such farmers, who collectively operate another 50,000 ha of land in Argentina. In principle those partner farmers have access to the complete know-how and systems of Los Grobo, and in return they agree to purchase input items from Los Grobo and to sell their harvests to Los Grobo. These services may be invoiced and paid on an itemized basis, or they may be priced into the cost of inputs (seeds, fertilizers) or prices obtained for the harvest, or a combination of both.

In 2012/2013 the absolute EBITDA returns on partner farming crops were lower than for the company’s own production. However, this structure requires less operating capital (not having to pay leases, which are typically due upfront), so the returns on capital are higher than for the company’s own production. Furthermore, these returns are less risky, because Los Grobo is not exposed to the price and yield fluctuations of the harvest in this structure.

The penetration rate of precision agriculture on the partner farms is around 5%.

**Services and inputs**

Harvest purchases and the sale of input items as well as logistic and operational services are transactions enacted with other local farmers on an individual basis outside of the partnerships. This part of the business is conducted by a separate unit at the Los Grobo headquarters, aiming to bundle input sales with harvest purchases to secure the origination of harvest⁵.

Around 70% of all input and harvest handling income for Los Grobo is derived from these transaction services provided to local farming communities, while 10% of the input and harvest income derives from partnership farms, and 20% comes from the company’s own production. In the 2012/2013 crop season, Los Grobo earned EBITDA of around USD 4.00 per metric ton (MT) of crops in a total quantity of around one million tons they originated in Argentina.

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⁵ *Origination of harvest is the purchase of a crop, thus transforming the crop harvest into the first step of a process chain.*
Trading

Los Grobo owns and operates numerous storage silos throughout the core farmlands of Argentina. This storage capacity and large crop volumes allow Los Grobo to arbitrage local prices between the three local shipping ports of Santa Fe, Buenos Aires and Bahia Blanca, the logistics services, the Buenos Aires futures exchange, and Chicago exchanges.

Los Grobo restricts the daily maximum of exposure to USD 10 million worth of open positions in total, and 10,000 MT per major crop, which is sufficient for the arbitrage function without engaging in speculative trading.

In 2012/2013, trading activities provided an additional USD 4.00 EBITDA per metric ton of crops. Trading involves ownership of storage facilities and margin money at the exchanges, so Los Grobo allocates a total capital of about USD 25 million for this activity. The activities from services/inputs and trading are strongly linked, so taken together they earn the company USD 8.00 for every ton of produce they originate in Argentina, amounting to roughly USD 8 million EBITDA, or around 30% return on capital in 2012/2013.

Financing

In 2004, Los Grobo S.G.R. (Sociedad de Guarantía Reciproca) was established, a mutual guarantee society for financing small scale agricultural operators. SGR collects deposits from protector partners, who can be individuals or corporations. These deposits can be invested pre-tax, which is an attractive way of investing income in high tax Argentina. The invested deposits are used to finance a risk fund, which guarantees loans arranged by 18 financial institutions in Argentina (basically all major financial institutions in the country, including HSBC, Itaú, and Santander) for small and medium scale farmers, machinery operators, or other service providers. Since SGR knows the farming operations of their credit clients very well, the risk fund can operate with below-market default rates, which in turn makes it possible to offer competitive credit terms.

SGR is the largest privately owned guarantor, and the second largest in Argentina overall. Its operations have grown since 2004 to include 45 protector partners in 2012, with 741 credit partners and a total guarantee volume of outstanding USD 350 million. (Exhibit 7 on the SGR credit guarantee scheme)

Logistics and operational services

Los Grobo manages and coordinates a network of logistics partners for transporting inputs and harvests. Also in logistics, Los Grobo owns no assets and contracts all services. Doing so efficiently and utilizing its scale of operations is a key advantage for the company in the chronically underinvested infrastructural environments of Argentina, Brazil, and Uruguay. In Brazil, their logistics know-how is a key factor of success for their operations.
Technology (precision agriculture, seed technology, inputs)

Los Grobo was a founding partner of Bioceres in 2002, an organization of 250 shareholders from Argentinian farming companies today, which focuses on developing seeds and seed technologies for the farmers of the country. Based on their accumulated database on planting operations over the years and their widespread geographies, plus their agronomic expertise, Los Grobo can combine this know-how to optimize seeds, inputs and precision agriculture for the company’s own farming and its partner farming operations. This expertise has thus far been used in the background to provide decision-making support to the farm managers and the partner farmers. Looking into the future, the people at Los Grobo believe that this know-how will become a key value driver of agricultural productivity, as the recipes for seeds and chemicals become ever more fine-tuned to the application areas and timing. From its early beginnings, Los Grobo has been a technology leader achieving higher farmland productivity than any of its competitors. In the early days this was, for instance, due to introduction of the no-till system and the application of evidence-based agronomical insights. By now these practices have become the operational norm all across Argentina. The new technology frontier is not so much on the field, but in the laboratories and factories that prepare the recipes for the fields, and the detailed proprietary knowledge behind them.

Taken altogether, the above described activities form what Mr Grobocopatel calls Los Grobo’s network of farming. (Exhibits 8, 9 and 14 on the core strategy and the network model)

Origins and Development of Los Grobo

The Jewish Grobocopatel family emigrated from Imperial Russia to Argentina in 1915, when Gustavo’s great-grandfather Abraham was granted a 15 ha plot of Argentinian land by the benefactor Baron Maurice de Hirsch, who was helping Jewish families flee from Czarist religious persecution. Though the family had no farming background, Gustavo’s grandfather Bernardo began working in 1920 at the age of 15 years on a neighbouring farm of 2000 ha, where with diligence and intelligence he quickly rose in the hierarchy. Eventually he founded his own operations, which he farmed with his three sons. Bernardo died in 1967; but his sons continued to operate the business jointly until 1979, when they decided to divide the estate of then 4500 hectares.

By 1984, only five years later, Adolfo (the middle son of Bernardo and father of Gustavo) had grown his share of the estate back to 4500 ha. He had four children, Gustavo (22), Andrea (20), Gabriela (18) and Matilde (15). Gustavo graduated that year from the School of Agronomy at the University of Buenos Aires as the first in the family to hold a professional degree.

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6 These systems consist of fertilizer and planting operations in narrow strips or slots that involve disturbance of less than one third of the inter row area. The remaining soil and residue are undisturbed. These systems also include harvest, fertilizer, and pesticide applications. Source: USDA website
Setting the foundations for modern Los Grobo

While Gustavo Grobocopatel continued the family tradition of working on the family farm, he also retained an academic position at the University of Buenos Aires, pursuing what became a lifelong scientific passion of his – trying to understand the deeper mechanisms underneath the operational reality he observed and practiced. He describes what happened next in the following words:

"Leasing land has been common practice in Argentina as much as anywhere in the world, if not more so. My father also leased land, and he has kept on reinvesting the profits from working own and leased land into buying even more land. For me the lightning moment was in 1986. Large tracts of land in the whole province of Buenos Aires were flooded since two years, including my family's land, and the consensus among farmers was that the land needed to rest in order to prevent saltification. But I had studied the process of dynamics of salt in the soil and knew better. So I rented flooded land from the farmers. In that first year of 1987, I leased 1,000 ha for free, and promised to return it to the owners as grassland meadows. It worked, and we made a lot of money. In 1988 we rented 4000 ha, and it worked again. I had also toured the United States for one month, and became convinced that no-tilling was the right path for Argentinian soils, and implemented the technology on our leased lands. This became the first foundation stone of what Los Grobo has been ever since: knowledge-driven value creation.

In 1989 we discovered the second foundation stone of Los Grobo. We wanted to lease 10,000 ha, but did not have the machinery and people to operate this much land. So we leased those as well. Ever since that day, Los Grobo is a network – a network of knowledge."

A mere seven years later, in the 1996/1997 campaign, Los Grobo was farming almost 70,000 hectares of land – an unprecedented dimension – when Gustavo hit on the third foundation stone of Los Grobo:

"We were running around the fields, my three sisters, my wife, my father, my brothers-in-law – we were running ourselves mad. This was before the day of cell phones. I would call from public phones somewhere in the middle of nowhere, ordering a truck of fertilizer here, or a harvester there – we had hit a limit: the limit was ourselves. We could not continue like this. That is when we started to professionalize the company. From then on Los Grobo became a network of knowledge professionals."

In 1996 Los Grobo hired the first external professionals, they introduced the Grobosoft software in 1998, and in 2001 they became ISO 9001 certified. Throughout this period, the company farmed "only" around 45,000 ha. The focus was on “improving the quality of the company and productivity”. The plan to successively extract the family from the business was also laid already during those early days, and it was completed by 2011, when Gustavo became chairman and Horacio Busanello, formerly the head of Syngenta Argentina, became the CEO. "There is no interest on behalf of our three children (aged 15, 18 and 20) to enter the business, and we do not have that interest either," states Paula Grobocopatel, Gustavo’s wife, whom he met at the Agronomy School. She had started the sales supplies unit, and she ran the talent management for Los Grobo until 2011.
Explosive growth and external investors

Spending the second half of the 1990s on professionalizing the company instead of growing it caused them to miss some opportunities, as Argentina during the 90s was the global poster child of supposedly wise economic policy – with resultant strong economic growth, foreign investments streaming into the country, and political optimism. That was so until things reversed in 2001, and Argentina had to default on its international debts amidst a chaotic currency devaluation which plunged half of the Argentinian population into poverty and created political havoc. Los Grobo debts were “pesified”, however, and as per market agreement the cost of the devaluation was divided between debtors and lenders, which meant a de facto partial debt write-down for the company. This was the moment when the professionalization of the network of knowledge paid off. With knowledge-driven competitiveness and few assets burdening the balance sheet, Los Grobo exploded in size between 2001 and 2008, when the company operated with 260,000 ha of farmed land. Early on during those years, typical net profit margins were 25% on revenue, with lease costs amounting to 25% and operating costs to 50% of revenue. In effect the land owners and the land operators split the profits in half.8

However, between 2001 and 2011 the cost of leases for prime land for instance close to the Santa Fe port rose from USD 150 to USD 650 per hectare. The export tax on soybeans rose from 13.5% to 35%. International prices for soybean and productivity improvements did not rise as fast as leases and the export tax, so the bonanza came to a halt by 2011, and the returns on capital for farm leasing are no longer attractive. Average purchase prices for soybean land rose from USD 3,000 per ha in 2001 to about USD 15,000 per ha in 2011, making purchase similarly unattractive.9 (Exhibit 10 for fair land prices by province in Argentina, Uruguay, and Brazil)

In 2008, Pactual Capital Partners (PCP), a Brazilian private equity company succeeded by Vinci Partners, purchased 22% of the shares in Los Grobo (Exhibit 4 on shareholder structure). These funds were used to invest in the operations in Brazil, to invest in further capacities and technologies, and to ride through some bad weather between 2009 and 2012 – both in terms of the global economic crisis which sparked heavy volatility in the global markets, and spells of drought in geographic areas farmed by Los Grobo, as well as the mentioned margin squeeze in leasing values.

In 2009, Molinos Rio de la Plata, an Argentinian food company, purchased 25% of the mutual guarantee society Los Grobo S.G.R., led by Andrea Grobocopatel.

Through all this time, neither explosive growth, nor outside investors, nor economic and political upheaval have altered the three ambitions which have been the foundation stones of Los Grobo since the founding days in the 1980s: to be professional, to be knowledgeable, and to be a network. Los Grobo claims three corporate values: passion for doing, intelligence to realize, generosity to share. (Exhibit 14 on the network model)

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7 In abandonment of the 11-year peg to the US dollar, all US dollar or foreign currency denominated debt that existed as of January 6, 2002, were converted into peso-denominated debt (widely described as “pesification”).
9 Rabobank: New Models of Farming in Argentina, Industry Note #291, November 2011
Farming and Society in Argentina

Surrounding the Buenos Aires metropolitan area and its 13 million population, the treasure and at the same time the curse of Argentinian society extends for a distance of 500 kilometers in every direction: the Pampas. These are seemingly endless areas of flat land with well rain-fed, fertile soil, which are easily accessible with natural water ways and tempered by mild, neither tropical nor frosty seasons (Exhibit 5 with map of Argentina and the Pampas). After the industrial revolution of the late 19th century created hungry cities around the world, Argentina became the supplier of high quality grains and meats to them. In 2013, Argentina farms 24 million hectares of land (compared to 63 million ha in Brazil and 174 ha in the United States). Half of Argentinian exports are agricultural goods, the majority of which are grown on the Pampas, in particular soybeans, maize, wheat, and derivative products from them like vegetable oils and animal feed. Of the global soybean harvest, 22% is grown in Argentina. The country with five times the land area of France is populated by no more than 41 million inhabitants.

The sociopolitical and economical context

Argentinians began to strive for independence from their colonial owners in 1810. After a period of violence and disorder, they enacted a constitution in 1853 that formed Argentina as a federal democracy and included a bill of rights for all individuals. With amendments and reforms and despite some annulments, that constitution is still in force today. Universal and obligatory male suffrage was granted in 1912, female suffrage in 1947. The country experienced its first economic boom based on agriculture from around 1880. In the period from 1880 to 1915, GDP per capita increased from 35% of United States levels to 80% – on par with Western Europe until the 1950s. Between 1880 and 1953 Argentina welcomed large numbers of European immigrants, while immigration from other regions was practically excluded. With roots in the African American communities of the 19th century, the tango is perhaps Argentina’s most iconic contribution to global culture from that period.

Economic and cultural testimony to the country’s achievements in its turn-of-the-century economic boom is Teatro Colón, the opera house of Buenos Aires. Finished in 1908, it is still considered to be the one opera house in the world with the best symphonic sounds. With 2,500 seats and standing room for another 1,000 persons, it remains one of the largest operas in the world, and it certainly is the grandest, as it is fully clad in expensive marbles from the world’s finest quarries.

The economic core foundation of modern Argentina rests on the rich land of the Pampas, which – through a system of exceptionally strong property rights, skill-oriented immigration policies, and sophisticated agricultural institutions of finance, logistics and education – made Argentina the richest country of the southern hemisphere for the better part of the 20th century. Argentina exported agricultural goods around the world and imported every best blessing of products and services the world had to offer in return.

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10 Suffrage = the right or privilege of voting
11 Wikipedia entry: Afro-Argentine
However, the distribution of these riches has also caused Argentinian politics to vacillate violently between extremist political positions of all shades. The unending succession of dictatorships, quasi-dictatorships, populist democracy, and cronyist institutionalism for which the country became known in the 20th century feeds on a societal paradigm that economic welfare must be achieved through the equitable distribution of the benefits of Argentina’s natural bounty. Compared to Australia or Canada to which it is typically compared, Argentinian society has evolved more slowly in its capitalistic features and the premise that economic success is the result of investment in physical and human capital. Under the resultant, often short-term governance of society, investments in those capitals are too weak and come too seldom to support the degree of industrialization and sophistication that would be required to afford the top-of-the-world lifestyles to which the people of Argentina aspire.

Nonetheless, by Latin American standards and despite the volatile politics, Argentina has fared comparatively well. In the decades since World War II, a well-educated labor force and broad middle class have emerged. The International Monetary Fund assesses the country to have the highest purchasing power parity adjusted GDP per capita in South America in 2012 (its position for most of the 20th century), which is on par with Chile at USD 18,000 (similar also to Russia and Croatia), while Mexico has 15,000, and Brazil has 12,000. (For comparison: Germany has 39,000, the EU has 32,000, and the USA have USD 50,000 GDP per capita based on purchasing power parity.) Measured by the Gini coefficient, wealth distribution across the levels of society in Argentina (0.46) is close to that of the United States (0.45).

From 1990 to 2012 and outlook

Following a military dictatorship that lasted from 1976 to 1983 and not only brutalized civil society, but also pursued disastrous economic policies, the Argentinian economy spiraled into strong stagflation during the 1980s, until experiencing a hyperinflation of 4000 percent in 1989. Politically and economically on the brink of collapse, Argentina’s middle class accomplished a task difficult to imagine: they set the course for the country to embark on radical political and economic reforms. The Argentine peso was now pegged to the US dollar one to one, thus stopping inflation and reintroducing a functioning monetary system. Widespread privatization, deregulation, and trade liberalization unleashed the full forces of markets once more. Under the government of President Carlos Menem, which included the Harvard-trained economist Domingo Cavallo as minister of the economy, Argentina became the show case of success for what was known as the Washington Consensus of socioeconomic development: liberalize, deregulate, privatize, and let the markets do their job. For some years it worked, and despite heavy allegations of deep-rooted corruption in the government, Argentina has experienced strong inflows of capital. The economy grew by an accumulated 30% up to the year 2000, and there was a rapid increase of productivity.

12 The Gini coefficient, also known as Gini index or Gini ratio, measures the degree of inequality in the distribution of family income in a country. The more nearly equal a country's income distribution, the lower its Gini index. Source: https://www.cia.gov
13 Source: The World Factbook 2011, prepared by the Central Intelligence Agency (CIA) for the U.S. Government
14 Washington Consensus: The term was coined in 1989 by the economist John Williamson to describe a set of ten relatively specific economic policy prescriptions that he considered constituted the "standard" reform package promoted for crisis-wracked developing countries by Washington, D.C. based institutions such as the International Monetary Fund (IMF), World Bank, and the U.S. Treasury Department. The prescriptions encompassed policies in such areas as macroeconomic stabilization, economic opening with respect to both trade and investment, and the expansion of market forces within the domestic economy. Source: Wikipedia
In 2001, however, Argentina experienced in many ways a forerunner to the sovereign debt crises gripping many South European economies since 2009. The massive flow of financial capital in the form of both debt and equity into the country during the 1990s overwhelmed the Argentinian institutions and the productivity of Argentinian human capital did not increase fast enough to satisfy the return on capital expectations of the investors. Reinforced by the global economic crisis in the aftermath of 9/11 and the resultant retrenchment of the capital markets, Argentina’s increasingly debt-driven hypergrowth ran out of fuel: the country could no longer service its total debt balance, and nobody was willing to lend further. The country had little choice but to decouple its currency from the USD, devalue the peso ultimately by 70%, and default on its international debt obligations.

The economic recession that followed impoverished large sections of the population, around half of the Argentinian people fell below the poverty line, unemployment reached 25–30%, and politics became fractured. If the results of the trust placed in open markets during the 1990s were a more sudden and deeper shock of impoverishment of the middle class than any of the many trials of economic policy of the six decades before, then it is understandable that market orientation quickly lost appeal for the majority of Argentinians.

Despite being ostracized from global capital markets, Argentina has managed to stage a strong economic recovery with average economic growth rates of 9% per year since 2002 (with the exception of 2% in both 2009 and 2012) on the back of rising global commodity prices for its agricultural products. In 2004, a populist political dynasty of neo-Peronist Kirchner governments began to entrench itself (first President Nestor Kirchner, who was succeeded in two elections by his widow Christina Fernandez de Kirchner). Their governments have continued to implement economic policies of import avoidance to promote domestic industry, at the same time taxing agricultural exports heavily (soy at 35%, wheat at 23%, and corn at 20%)\(^\text{16}\). In this way the governments have been able to keep the trade balance somewhat positive, to keep government debt low, and to create employment in the domestic economy. Nestor Kirchner made a point of paying back the IMF in full as early as 2005, and those investors who agreed to the terms of their debt renegotiation in 2002 have meanwhile seen their values recovered up to 90%. But domestically, the old scourge of inflation has come back, as money creation outpaces the production of economic goods. Reaching 30% in 2013, inflation rates in Argentina are now among the highest in the world. Capital controls are widespread, which makes life for the business community erratic and cumbersome, while at the same time undermining trust in the domestic currency.

Government respect for the rule of law, for decades one of the strong points of Argentina, is eroding. The internationally best known examples are the apparent manipulation of statistical figures on inflation or the expropriation of the Spanish-owned company Repsol S.A. in 2012. While export taxes on agricultural goods are an effective way to channel economic surplus from agricultural riches into the national treasury and from there to society at large, they also tend to support governmental cronyism and outright corruption. More importantly, export taxes

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15 Peronism: The pillars of the Peronist ideal, known as the “three flags”, are social justice, economic independence, and political sovereignty. Peronism can be described as a third position ideology, as it rejects the extremes of capitalism and communism. Peronism espouses corporatism and thus aims to mediate tensions between the classes of society, with the state responsible for negotiating compromise in conflicts between managers and workers. Source: Wikipedia

16 Julio J. Nogués: Agricultural Export Barriers and Domestic Prices in Argentina during the last Decade, June 2011, page 15
prevent the adoption of innovations to enhance agricultural productivity and to make better use of agricultural lands that are losing competitiveness in the global markets due to these measures. They are also less redistributional in the sense of relieving destitution in the country than could be expected. In an FAO-supported analysis, the Argentinian economist Julio Nogués has concluded, for instance, that of the total export taxes levied on wheat from 2006 to 2010 in the amount of USD 4.6 billion, only 19% benefited the poor, while 42% benefited the non-poor.\footnote{Julio J. Nogués: Agricultural Export Barriers and Domestic Prices in Argentina during the last Decade, June 2011, page 40.}

Before the earlier quoted summary of Argentinian economists in April 2013, fearing that the future of the Argentina will be mostly up to luck, the British news magazine The Economist commented in 2006:

> "Few countries are as blessed by nature as Argentina. Plant wheat or soybeans in the fertile Pampas and they will produce bounteous crops. Turn a cow loose and you will have some of the world’s best beef. So at least goes the stereotype. In fact, Argentine farmers are among the world’s most nimble and efficient. They need to be: few countries have been as badly governed as Argentina. Over the past 70 years it has often been the farmers and their exports that have rescued the economy only to see populist governments in Buenos Aires plunder the Pampas to placate their urban voters."

Direct Competitors of Los Grobo

Besides Los Grobo, three other originally Argentinian enterprises also rode the stormy conditions of Argentinian politics and economics over the past two decades to become super-large farming operations. Each of them are different from the Los Grobo model, and also sport different outcomes. To some degree these are competitors, and to some degree they are customers. El Tejar, for instance, has been a customer of Los Grobo logistic and trading services for more than a decade.

**El Tejar**

In 1987, the young Oscar Alvarado went together with his father and uncle to start up El Tejar, a farming company similar to Los Grobo: they leased land and farmed it at their own risk. At its peak in 2010, the company operated on 1.1 million hectares in Argentina, Bolivia, Brazil, Paraguay, and Uruguay. Contrary to Los Grobo, El Tejar’s business model also includes purchase of their own land, and for that purpose the company has raised over USD 500 million from foreign investors. In August 2011 Alvarado died of heart complications at the age of only 50 years; and the founding families have since lost control of the company, though they are still minority shareholders. In April 2013, the company announced that their headquarters had moved from Buenos Aires to São Paulo, Brazil. The various hedge fund groups and private equity investors who are the owners have also shifted strategy towards predominantly owning land rather than leasing. El Tejar will not lease any land in Argentina in the 2013/2014 growing season.
Adecoagro

Adecoagro operated an own-the-land model from the very beginning. In 2010 it owned 75% of the 350,000 hectares of land that it farms in Argentina, Brazil, and Uruguay. Adecoagro was born out of a contrarian investment drive by Soros Fund Management, who bought into Argentinian agriculture and land directly after the financial collapse in 2001. In 2011 this company conducted a successful IPO on the New York Stock Exchange.

Cresud

Cresud represents a third variation on the theme. This company acquires marginal frontier lands in Argentina, Uruguay, Paraguay, and Brazil and develops them into farming operations. Its portfolio currently stands at one million hectares, of which 215,000 ha are farmed. The business model is to gain from the value appreciation of making marginal frontier lands productive. The company is listed on the NASDAQ and the Buenos Aires Stock Exchange. (Exhibit 12 on the Cresud profile)

Libero Commodities

Not much is known about Libero Commodities. The company was initialized by Adrian Moguel, a former commodities trader. It is majority owned by farmers from the Brazilian Cerrado, who claim they are collectively farming 5 million hectares of land in Brazil. The company operates out of Geneva, Switzerland, and markets and trades the produce from Brazil on the international markets.

Los Grobo Business Ecosystems

The business foundations of professionalism, knowledge and the Los Grobo network have done more than just to grow the company by a factor of 20 in terms of revenue between 2002 and 2012 (from USD 55 million to USD 1,131 million on a corporate consolidated basis, i.e. incorporating pro rata the business shares of the different holdings). They also spawned what Grobocopatel calls business ecosystems. He firmly believes that the future of agriculture cannot be managed anymore in terms of value chains, but must be understood in terms of value systems:

“In these systems, as I see it, the farmer assembles products and services from a network of suppliers, much like an automotive company assembles a car that it designed, from products and services delivered by a far flung network of independently operating suppliers. These suppliers have expertise and sophistication far beyond what the farmer can personally achieve or even needs to understand. Los Grobo is and shall be the creator of such value systems, or business ecosystems, through which farmers can be supplied as comprehensively as possible with products and services that help these farmers grow the food products they have decided on.”
Grobocopatel lists four such business ecosystems which Los Grobo has created over the past years, in parallel to growing and supporting its original Argentinian farming network business.

1. The ADP case in Uruguay
   In 2004, Los Grobo entered a 55/45% farming joint venture with Marcos Guigou in Uruguay, forming the company Agronegocios del Plata (ADP). At the start, ADP had revenues of USD 20 million and farmed 11,000 hectares of land. After entering into the joint venture, Los Grobo implemented its business systems and network philosophy, and by 2010 ADP had increased its revenues to USD 163 million, farming 87,000 ha. Since then, the company has shrunk slightly to USD 144 million and 69,000 hectares, respectively.

2. The UPJ case
   In 2008, Los Grobo purchased 51% of an Argentina-based farming and trading operation owned by the two partners Carlos Juliarena and Juan Gargiulo, who afterwards held 44% and 5% respectively, forming the company UPJ. At the time of purchase by Los Grobo, the company had just suffered from the departure of some key managers. Its trading volume was 150,000 metric tons and net revenue USD 43 million. After implementation of the Los Grobo business model and network philosophy, the company has increased trading volumes within four years to 361,000 MT, and they have tripled the net revenues to USD 121 million.

3. The SGR case
   In 2004 Los Grobo founded the mutual guarantee society Sociedad de Garantía Recíproca, which provides financial guarantees for small and medium scale farmers, the operators of farming equipment or logistics services, and agricultural service providers for their operations. In 2009, 25% of the shares were sold to Molinos Rio de La Plata, which enabled the amount of authorized funds to be raised from USD 37 million to USD 200 million (50% are owned by further investors). From a starting number of 170 guarantee partners requesting guarantees of USD 8 million, SGR had evolved to include 741 guarantee partners requesting USD 350 million in guarantees in 2012.

4. The Ceagro case
   In 2008 Los Grobo purchased two companies in subtropical areas in the state of Goiás and the MaPiTo region18 of Brazil. In the resultant joint venture, Los Grobo owned 59.5% and the original founder in Brazil, Paulo Fachin, owned 40.5%. In 2011, the Japanese trading house Mitsubishi Corporation purchased 20% of the JV, and in May 2013, they acquired full ownership of the Ceagro operations. Between 2008 and 2013, the company increased its net revenues from USD 173 million to USD 515 million, and they increased the amount of grains traded from 359,000 metric tons to 895,000 MT.

The common element in each of these four joint venture participations is that Los Grobo business systems were implemented on an operational level, and that Los Grobo network

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18 MaPiTo = an adjoining area in the states Maranhão, Piauí, and Tocantins
orientation was pursued on a strategic level. Additionally, Gustavo Grobocopatel explains the importance of culture management:

"You can deal with culture in three different ways when entering into a new context: a) you can kill the current culture and put a new one in by replacing the people, b) you can assimilate the old culture by keeping the people and transforming them with change agents towards a new culture, or c) you can integrate the old culture with your own culture. Integration is the Los Grobo way. In agribusiness, current culture knows a lot about local problems. If you kill or assimilate this culture, you lose the local know-how and experience, which we consider essential for success. I work more on culture and talent, than on finance and commerce in any of the companies."

The Purchase of Agrofina and the Sale of Ceagro

Agrofina supplies a wide range of off-patent, specialty agrochemical products, mostly in Argentina. The product portfolio represents one of the largest in Argentina with a presence in each sub-segment of herbicides, fungicides, insecticides, growth regulators, seed treatment and coadjuvants. The herbicides for soybean crops comprise 22% of this segment, those for sunflowers 20%, those for rice 13%, with chemical fallows, plus herbicides for peanuts, beans, and corn totaling 39%, and others accounting for 6%. Fungicides comprise 7% of the revenue, 83% of which is supplied for application to soybean crops (Exhibit 13 on Agrofina fact sheet). The company offers a total of 130 finished products formulated with 51 active ingredients, and currently they have 14 more ingredients under development. Many of those new ingredients will be the first generic products to be registered in Argentina upon the expiration of patents.

Agrofina sales are expected to reach USD 69.7 million in 2013, rising from 23.6 million in 2009. EBITDA has also increased to USD 16 million from 4 million during that period, with the EBITDA margin increasing to 22.9% from 16.8%.

The total market for high value agrochemicals in Argentina is USD 1.6 billion, of which Agrofina has a market share close to 5%. The market has grown by a compound annual growth rate of 12% over the past ten years. The leading competitors are Syngenta (24% market share), Bayer Crop Science (20%), Dow Chemical (11%), BASF (9%), DuPont (7%), and Magan (6%). Agrofina is the only Argentinian company that, in addition to having a proprietary sales network, develops, manufactures and completes the registration process for its complex molecules. The company is involved in each stage of the production process while competitors only serve as local distributors. The remaining 20% of the market are shared by a myriad of small local players.

Brazil is by far the largest market for agrochemicals in South America with USD 7.1 billion, followed by Argentina's USD 1.6 billion, then Colombia with 0.4 billion, and the remaining South American markets at around USD 0.2 billion each in 2013.

Agrofina was started in 1978 by a dynamic Argentinian entrepreneur who lost control of finances during the growth intensive years of the early 2000s. In 2007 the company was taken
over by the New York based MatlinPatterson private equity fund specialized in distressed assets. With 278 employees currently, the fund replaced almost all of the top management team. In May 2013, Los Grobo took over 100% of the company for an undisclosed amount of cash, financing the purchase 100% out of Argentinian bank loans.

Los Grobo has a procurement size of its own which is valued around USD 20 million for chemicals in the Agrofina portfolio, and very little of that was purchased from Agrofina up to now. Los Grobo expects further synergies in the logistics and the sales network of its farming operations.

Apart from the immediate synergies with Agrofina, CEO Horacio Busanello explains the strategic future of Agrofina for Los Grobo:

"There is a finite cake of profits to be made from the agribusiness value chain. So we look at how this cake of profits is being divided up between the land owners, the farmers, the processors, and the inputs. Our analysis tells us that inputs are where the next money will be made, both volume-growth wise and margin-wise. It is in the provision of the right recipes of seeds, seed treatments and soil treatments where the next stage of productivity improvement lies, and where the proprietary knowledge is. As a knowledge-driven network of professionals, we want to have this capacity in our network."

Selling Brazilian Ceagro

The sale of Ceagro in Brazil occurred only coincidentally at the same time as the purchase of Agrofina. Mitsubishi Corporation had already been a 20% owner of Ceagro do Brazil in 2011, and after getting to know this business company, Mitsubishi liked it so much that they offered to take over 100% for an undisclosed amount of cash. (Without naming sources, the Japanese newspaper Nippon Keizai wrote that Mitsubishi paid the shareholders JPY 10 billion (USD 99 million, EUR 77 million) and provided a loan of JPY 30+ billion to Ceagro). This was the first time that Los Grobo has sold a major piece of its operations, something which so far had not been on the radar screen of the Grobocopatel family. But the Brazilian joint venture partner Paulo Fachin and the Vinci private equity fund were fond of the prospect of cashing in on the business success of the Ceagro operations, and the Grobocopatel family learned to like the idea as well. Compound annual revenue growth of 40% per year at Los Grobo over the past twelve years had outpaced an average cash return on capital of around 25%, thinning out the capital cover of the company.

As for the strategic rationale of the portfolio development, CEO Horacio Brusanello explains:

"Selling to Mitsubishi 100% of the operations is not the end of our story in Brazil. It is more about opening a new chapter in our relationship with Mitsubishi. The Japanese trading houses are doing a better job in agricultural sourcing than the American ABCDs19 – and we believe in new opportunities arising from this relationship."

19 ‘The ABCDs’ is common lingo for the four largest American agricultural trading houses, which are the companies ADM, Bunge, Cargill, Dreyfus.
What will be the Next Business Ecosystem that Los Grobo Launches?

Mr Grobocopatel is looking forward to the coming years of corporate evolution at Los Grobo. Relieved of operational responsibilities, and with a majority shareholder voting control over the company, he will be able to focus entirely on strategic development and deal-making – free to further pursue his vision of 21st century agriculture. Not only does he have plenty of ideas and sees opportunities, his success over the past years makes the world beat a path to him. He frequently receives requests and ideas for investments and cooperation agreements from all corners of the world. His current short list of opportunities to consider are the following:

1. A letter of intent has been signed for a joint venture with a food group from India, to originate pulses in Argentina for sale in India. Grobocopatel believes that Argentina can supply 5% of India’s import needs for pulses, or one million metric tons, in the near future.
2. A joint venture with INVAP for large scale precision agriculture farming, in which Los Grobo is a recognized operational leader. INVAP is an Argentinian high technology company active in the field of aerospace, nuclear, and medical technologies, employing more than 800 engineers.
3. A consulting company to provide farming know-how to clients around the world. The former Argentinean head of an important global consultancy company is already on board to start up this unit.
4. High value added products from vertically integrated supply chains are of interest, beginning with differentiated wheat products from Los Grobo owned flour mills and pasta factories. Soybean crushing and other downstream assets are also being considered.
5. New farming platforms can be started up in South America. Brazil is again a candidate for such an undertaking by Los Grobo, after currently selling their base in Brazil to Mitsubishi. Colombia can also be considered, where the government wants to make a whole region of possibly 20 million hectares of undeveloped land productive, seeking investors like Los Grobo for this mission.

Beyond South America, agriculture in Africa is in dire need of development, and the Los Grobo asset light model fits perfectly there, since it avoids one of the main problems of the developing world, where there are plenty of disputes over ownership of the land.

At first cut, Grobocopatel sorts the opportunities by way of classical strategy: they need to be either different ecosystems in the customary Los Grobo geographies, or they need to be customary Los Grobo ecosystems in new geographies. And then he asks himself, which pieces of the network can Los Grobo provide to each of these propositions, and which need to be provided by others? How can the local knowledge be integrated and become a part of the solution? Where can Los Grobo add the most benefit and unlock agricultural potential and productivity with its business ecosystem approach?
### Exhibit 1

**Key figures for Los Grobo**

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*E = estimated*

<sup>1</sup> International Financial Reporting Standards (IFRS) data for 08/09, 09/10, 10/11 and 11/12

<sup>2</sup> Includes own farming operations (LGA) and proportional areas of joint venture farms (ADP, UPJ, LGAB)

<sup>3</sup> Input revenues achieved from provision of inputs and services to third parties and all business unit farming

<sup>4</sup> LGAB is also known as Ceagro

*Source: Company material*
### Exhibit 2

**Historical performance of Los Grobo**

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<th>Season</th>
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<th>Land²</th>
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<tr>
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<td>63</td>
<td>297</td>
<td></td>
<td></td>
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<tr>
<td>1997/98</td>
<td>70</td>
<td>42</td>
<td>288</td>
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<td>1998/99</td>
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<td>43</td>
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<td>1999/00</td>
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<td>48</td>
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<tr>
<td>2000/01</td>
<td>60</td>
<td>44</td>
<td>382</td>
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<td>2001/02</td>
<td>51</td>
<td>64</td>
<td>368</td>
<td>3</td>
<td>91</td>
</tr>
<tr>
<td>2002/03</td>
<td>55</td>
<td>65</td>
<td>486</td>
<td>5</td>
<td>113</td>
</tr>
<tr>
<td>2003/04</td>
<td>97</td>
<td>79</td>
<td>653</td>
<td>13</td>
<td>217</td>
</tr>
<tr>
<td>2004/05</td>
<td>138</td>
<td>104</td>
<td>916</td>
<td>20</td>
<td>311</td>
</tr>
<tr>
<td>2005/06</td>
<td>172</td>
<td>116</td>
<td>1087</td>
<td>28</td>
<td>453</td>
</tr>
<tr>
<td>2006/07</td>
<td>267</td>
<td>154</td>
<td>1496</td>
<td>37</td>
<td>507</td>
</tr>
<tr>
<td>2007/08</td>
<td>442</td>
<td>179</td>
<td>1704</td>
<td>77</td>
<td>621</td>
</tr>
<tr>
<td>2008/09</td>
<td>642</td>
<td>245</td>
<td>1936</td>
<td>142</td>
<td>1040</td>
</tr>
<tr>
<td>2009/10</td>
<td>713</td>
<td>260</td>
<td>2478</td>
<td>158</td>
<td>1037</td>
</tr>
<tr>
<td>2010/11</td>
<td>966</td>
<td>263</td>
<td>2861</td>
<td>190</td>
<td>1058</td>
</tr>
<tr>
<td>2011/12</td>
<td>1056</td>
<td>267</td>
<td>2701</td>
<td>218</td>
<td>990</td>
</tr>
<tr>
<td>2012/13E</td>
<td>1131</td>
<td>196</td>
<td>2573</td>
<td>254</td>
<td>1079</td>
</tr>
</tbody>
</table>

**MT** = metric ton

1. International Financial Reporting Standards (IFRS) data for 08/09, 09/10, 10/11 and 11/12
2. Includes own farming operations (LGA) and proportional areas of joint venture farms (ADP, UPJ, LGAB)
3. Input revenues achieved from provision of inputs and services to third parties and all business unit farming

### Business Foundations

- Business scale, high fixed costs, new opportunities in neighboring areas, direct seeding, soybean, biotechnology

### First Steps into New Activities

- Increase in grain prices, investment in Uruguay, milling business, professional board of directors

### Regional Growth

- Vinci Partners to develop Brazil, local brands - UPJ case, pasta business, transition to professional management

---

**Source:** Company material
Exhibit 3  Key performance indicators for Los Grobo

**Production agriculture**

- Planted area (thousand ha)
  - 2009/10: 249
  - 2010/11: 246
  - 2011/12: 248
  - 2012/13: 190

**Origination (purchase of third party grains)**

- Quantities (thousand MT)
  - 2009/10: 2,467
  - 2010/11: 2,534
  - 2011/12: 2,893
  - 2012/13: 2,528

**Input (fertilizers, seeds)**

- Sales (million USD)
  - 2009/10: 63
  - 2010/11: 148
  - 2011/12: 175
  - 2012/13: 217

**Margin per hectare**

- 2009/10: $30
- 2010/11: $58
- 2011/12: $118
- 2012/13: $112

**Margin per metric ton**

- 2009/10: $5
- 2010/11: $6
- 2011/12: $11
- 2012/13: $10

**Margin as % of sales**

- 2009/10: 10%
- 2010/11: 8%
- 2011/12: 10%
- 2012/13: 12%

*Source: Company material*
Mitsubishi Corporation took over 100% of Grupo Los Grobo Agroindustrial do Brazil (Ceagro) in May 2013.

Source: Company material

The Pampas, also called the Pampa, Spanish La Pampa, are vast, fertile plains extending westward across central Argentina from the Atlantic coast to the Andean foothills, bounded by the barren regions Gran Chaco (north) and Patagonia (south).

The region occupies some 760,000 square km in the countries of Argentina, Uruguay, and Southeast Brazil.
Exhibit 6  Round Table on Responsible Soy Association (RTRS)

**RTRS at a glance**

The Round Table on Responsible Soy Association (RTRS) is an international multi-stakeholder initiative which aims to facilitate a global dialogue on soy production that is economically viable, socially equitable, and environmentally sound. It provides stakeholders and interested parties – producers, social organizations, and business and industry – with the opportunity to jointly develop global solutions leading to responsible soy production.

The iconic "RTRS Standard for Responsible Soy Production Version 1.0" was developed on the basis of a consensus between producers, industry, trade & finance, and civil society actors involved in the soy value chain.

The document, approved in June 2010, includes requirements to halt the conversion of areas with high conservation value, to promote best management practices, to ensure fair working conditions, and to respect land tenure claims. RTRS certification schemes were also implemented for Production and for the Chain of Custody. Already early in June 2011, the first farm was RTRS certified and the Certificate Trading Platform was facilitating transactions between certified producers and market stakeholders.

The RTRS Standard consists of twenty-one criteria, including relevant indicators, which fall under the following five principles:

- Principle 1: Legal compliance and Good Business Practice
- Principle 2: Responsible labor conditions
- Principle 3: Responsible community relations
- Principle 4: Environmental responsibility
- Principle 5: Good Agricultural Practice

The objectives of the RTRS are to promote the growth and use of responsible soy through cooperation within the soy value chain in an open dialogue with stakeholders.

Responsible soy is economically viable, socially beneficial, and environmentally appropriate. RTRS aims in particular to facilitate a global dialogue on responsible soy:

- as a forum for reaching consensus on the key social and environmental impacts of soy among the various stakeholders
- by communicating issues regarding responsible soy production, processing, and trading to a wide range of global stakeholders
- as a forum for developing and promoting principles, criteria, indicators, and verification tools for responsible soy production, processing, and trading
- by mobilizing participants to the multi-stakeholder process
- by organizing roundtable conferences and technical workshops.

As a recognized international forum monitoring the status of responsible production, processing and trading of soy, the objectives of the RTRS are without any profit purpose.

RTRS has two categories of membership: Participating Members with voting rights and Observing Members without voting rights.

Participating Members agree to contribute to the objectives of RTRS, either as actors in the soy value chain or as civil society organizations with environmental, social development, or work safety and consumer protection goals.
Each Participating Member belongs to one of the following three constituencies:
- Producers
- Industry, trade and finance (excluding producers, including supply chain partners such as crushers, traders, food and feed manufacturers, and financial institutions)
- Civil society organizations.

Other organizations and individuals demonstrating agreement with the objectives of RTRS, such as regulatory authorities, governmental agencies, academia and major donors, may request membership only as Observing Members.

The RTRS Secretariat is located in the city of Buenos Aires, Argentina. The executive director is Agustin Mascotena of Argentina.

Certification process

**STEP 1**
The producer sends an application to the Certification Body (CB)

**STEP 2**
A pre-audit may be carried out (not mandatory)

**STEP 3**
One month prior to the audit, interested parties are informed of audit through public consultation

**STEP 4**
Certification audit

**STEP 5**
Audit report revision process and certification decision

**PROCESS RESULT**
Issuance of compliance certificate, valid for 5 years

Supply flow and RTRS credit trading

- Two options for chain of custody
  - mass balance per EU-RED
  - segregation of GM and non-GM crops
- IT support ready to be used
- Certificate accompanies the produce
- The soy quantity is converted into credits
- Credit offers and requests are anonymous
- 1 credit = 1 ton of soy products (seeds, edible oil, etc.)
- Both parts complete the transaction

1 Certification body
3 GM = genetically modified

Source: RTRS material from www.responsiblesoy.org (edited)
Certified farming areas and crop quantities

<table>
<thead>
<tr>
<th>Year</th>
<th>Hectares</th>
<th>Metric tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>157,264</td>
<td>420,349</td>
</tr>
<tr>
<td>2012</td>
<td>349,386</td>
<td>999,354</td>
</tr>
<tr>
<td>2013</td>
<td>279,676</td>
<td>573,087</td>
</tr>
</tbody>
</table>

More than 90% of all RTRS soy is grown in Argentina and Brazil

Published July 19, 2013

Source: RTRS material from www.responsiblesoy.org (edited)

Exhibit 7

Sociedad de Garantía Reciproca (SGR)
credit guarantee scheme

Los Grobo SGR (Sociedad de Garantía Reciproca), a mutual guarantee society, leverages the network through cooperative financial instruments.

Source: Company material
Los Grobo: A knowledge-intensive model, management capacity, and local presence

- State-of-the-art land operator
- Relevant additional revenues through services
- Leveraging the company’s market knowledge

- Second largest in Latin America, with planted area of 190,000 hectares (2012)
- Operations in three countries, diversifying crop risks

- Strict policies designed at board level
- Price and foreign exchange hedging
- Climate risk control
- Credit limits

- Quality management model
- Intensive technology use
- State-of-the-art planting techniques
- Continuous innovation

- Asset light (100% leased land and machinery)
- Focus on services and production
- Active interaction with local producers
- Creation of ecosystem in the region

- Partnerships with local agribusiness leaders
- Local management
- Decentralized micro decision taking
- Deep insights on clients

Source: Company material
Los Grobo’s core strategy is to become the preferred business partner to farmers along the value chain.

Lock-in farmers with a unique value proposition and with high impact to their business.

Value created for the farmer / Farmer loyalty

- Offer a comprehensive product and services portfolio
  - Product portfolio (seeds, agrochemicals, fertilizers)
  - Financing services
  - Logistics – grain storage and transport
  - Grain trading services

- Establish a close and long-term relationship with farmers
  - Higher prices with export opportunities
  - Production software
  - Agriculture by ambience
  - Sustainability grain production
  - Technical support services

Become a Preferred Business Partner

- Premium prices for quality and grain segregation
- Exploit niche opportunities (e.g. pulses, barley)
- Articulate partners along the value chain through differentiated offerings (e.g. responsible biodiesel, soft wheat)

Value created for the farmer / Farmer loyalty

+ Complexity / Difficult to imitate

Source: Company material
### Exhibit 10

**Fair land prices by province in Argentina, Uruguay, and Brazil**

- **Argentina**
- **Uruguay**
- **Brazil**

- Return on capital expectation 4% (range 4.5% and 3.5%)

**Source:** Company material

### Exhibit 11

**Redistributive effects of subsidies and trade barriers on wheat produced in Argentina**

<table>
<thead>
<tr>
<th>Time period 2006–2010</th>
<th>Transfers (million USD)</th>
<th>Effects per MT (USD)</th>
<th>Distribution of transfers (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trade restrictions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export taxes*</td>
<td>3,339</td>
<td>62</td>
<td>72</td>
</tr>
<tr>
<td>Quantitative restrictions</td>
<td>1,269</td>
<td>24</td>
<td>28</td>
</tr>
<tr>
<td><strong>Total value of transfers</strong></td>
<td><strong>4,608</strong></td>
<td><strong>86</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**Beneficiaries**

<table>
<thead>
<tr>
<th></th>
<th>Transfers (USD)</th>
<th>Benefits (USD)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Government treasury</strong></td>
<td>796</td>
<td>15</td>
<td>17</td>
</tr>
<tr>
<td><strong>Poor population</strong></td>
<td>854</td>
<td>16</td>
<td>19</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>1,650</strong></td>
<td><strong>31</strong></td>
<td><strong>36</strong></td>
</tr>
<tr>
<td><strong>Non-poor population</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Wheat exporters</strong></td>
<td>1,954</td>
<td>36</td>
<td>42</td>
</tr>
<tr>
<td><strong>Flour exporters</strong></td>
<td>463</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td><strong>Foreign competitors</strong></td>
<td>152</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>2,958</strong></td>
<td><strong>55</strong></td>
<td><strong>64</strong></td>
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<tr>
<td><strong>Total value of benefits</strong></td>
<td><strong>4,608</strong></td>
<td><strong>86</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

* MT = metric ton
* 23% on wheat since 2008

*The effects of subsidies and trade barriers on wheat produced in Argentina were compared among selected sectors during the four campaigns 2006/07, 2007/08, 2009/10, and 2010/2011.*

**Source:** Nogués, J.J., Agricultural export barriers and domestic prices: Argentina during the last Decade, June 2011 (adapted by case author)
**Exhibit 12**
Competitor profile Cresud

### Financial results

- **Revenues:** 1,611.2 million ARS* in fiscal year ending December 2012 (increased 10.7% compared to same period in previous year)
- **Operating income:** 556.9 million ARS in fiscal year ending December 2012 (increased 53% compared to same period in previous year)
- **Net profit:** 176.7 million versus 23.3 million during 6 months in 2012
- **Operating results:** Planted area increased 7% compared to same period 2012

*ARS = international currency abbreviation for Argentine pesos
Average exchange rate in 2012: USD 1 = ARS 4.55, ARS 1 = USD 0.22

### Evolution of planted areas (thousand hectares) and transformed areas (thousand hectares)

### Company indebtedness

<table>
<thead>
<tr>
<th>Description</th>
<th>Debt / loan currency</th>
<th>Equivalent (million USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term debt</td>
<td>ARS</td>
<td>16.3</td>
</tr>
<tr>
<td>Short-term debt</td>
<td>USD</td>
<td>14.0</td>
</tr>
<tr>
<td>Local short-term notes</td>
<td>USD</td>
<td>72.3</td>
</tr>
<tr>
<td>Local short-term notes</td>
<td>ARS</td>
<td>49.2</td>
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<tr>
<td>Global note</td>
<td>USD</td>
<td>60.0</td>
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<tr>
<td>Other loans</td>
<td>USD</td>
<td>19.9</td>
</tr>
<tr>
<td>Other loans</td>
<td>ARS</td>
<td>9.0</td>
</tr>
<tr>
<td><strong>Total debt Cresud</strong></td>
<td></td>
<td><strong>240.7</strong></td>
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<tr>
<td>Total debt IRSA1</td>
<td></td>
<td>480.5</td>
</tr>
<tr>
<td>Total debt APSA2</td>
<td></td>
<td>187.5</td>
</tr>
<tr>
<td>Total debt BrasilAgro</td>
<td></td>
<td>41.7</td>
</tr>
<tr>
<td><strong>Total consolidated debt</strong></td>
<td></td>
<td><strong>950.4</strong></td>
</tr>
<tr>
<td>Consolidated cash</td>
<td></td>
<td>106.7</td>
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<tr>
<td>Debt repurchase</td>
<td></td>
<td>23.2</td>
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<tr>
<td><strong>Net consolidated debt</strong></td>
<td></td>
<td><strong>820.5</strong></td>
</tr>
</tbody>
</table>

1 Cresud owns 64.5% of IRSA, Inversiones y Representaciones Sociedad Anónima (Investments and Brokerage Inc.)
2 APSA, Alto Palermo S.A., is a subsidiary of IRSA

Source: Cresud Fact Sheet 2nd Quarter 2013
Competitor profile Cresud, continued

Farm portfolio in South America

Profile of agricultural assets

Crop production

Source: Cresud Fact Sheet 2nd Quarter 2013
Agrofina product portfolio

<table>
<thead>
<tr>
<th></th>
<th>Herbicides</th>
<th>Fungicides</th>
<th>Insecticides</th>
<th>Growth regulators</th>
<th>Seed treatment</th>
<th>Coadjuvants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue (million USD)</td>
<td>39.8</td>
<td>3.6</td>
<td>1.6</td>
<td>2.0</td>
<td>0.8</td>
<td>0.2</td>
</tr>
<tr>
<td>Total revenue (%)</td>
<td>82.9</td>
<td>7.4</td>
<td>3.4</td>
<td>4.2</td>
<td>1.7</td>
<td>0.4</td>
</tr>
<tr>
<td>Gross profit (million USD)</td>
<td>20.7</td>
<td>1.6</td>
<td>0.8</td>
<td>1.3</td>
<td>0.7</td>
<td>0.1</td>
</tr>
<tr>
<td>Gross margin (%)</td>
<td>52.1</td>
<td>45.4</td>
<td>48.5</td>
<td>65.5</td>
<td>81.1</td>
<td>42.1</td>
</tr>
<tr>
<td>Gross margin contribution (%)</td>
<td>82.3</td>
<td>6.4</td>
<td>3.1</td>
<td>5.2</td>
<td>2.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Products in top 3 of market</td>
<td>17</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Number of products
(registrations, in process)
- 80 registered
- 23 registered
- 9 registered
- 5 registered
- 9 registered
- 4 registered
- 13 in process
- 7 in process
- 1 in process
- 3 in process

- Founded in 1978, Agrofina is the leading independent producer of off-patent, specialty agrochemical products in Argentina.
- The company has a well diversified portfolio of herbicides, fungicides, and insecticides, and a strong pipeline that includes the launch of 45 new active ingredients and formulations during the next 24 months.
- Agrofina is uniquely positioned to develop, synthesize, and formulate its own products, while operating a proprietary distribution network that covers all significant Argentinean territory plus relevant commercial markets throughout Latin America.

Profile of revenues

Agricultural input products

Agricultural application

Source: Company material
Exhibit 13  
Agrofina fact sheet, continued

Key financials

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross revenue</td>
<td>23.6</td>
<td>32.1</td>
<td>47.8</td>
<td>60.6</td>
<td>69.7</td>
</tr>
<tr>
<td>Synthesis products</td>
<td>23.6</td>
<td>28.4</td>
<td>38.0</td>
<td>49.6</td>
<td>57.0</td>
</tr>
<tr>
<td>Formulations</td>
<td>0.0</td>
<td>3.7</td>
<td>9.9</td>
<td>11.1</td>
<td>12.7</td>
</tr>
<tr>
<td>Revenue growth yoy (%)</td>
<td>-30.2</td>
<td>35.9</td>
<td>48.8</td>
<td>26.7</td>
<td>13</td>
</tr>
<tr>
<td>Gross margin (%)</td>
<td>60.4</td>
<td>48.0</td>
<td>45.1</td>
<td>47.3</td>
<td>48.0</td>
</tr>
<tr>
<td>Adjusted EBITDA</td>
<td>4.0</td>
<td>4.8</td>
<td>7.6</td>
<td>12.8</td>
<td>16.0</td>
</tr>
<tr>
<td>Adjusted EBITDA margin (%)</td>
<td>16.8</td>
<td>15</td>
<td>15.9</td>
<td>21.1</td>
<td>22.9</td>
</tr>
<tr>
<td>Income from continuing operations</td>
<td>3.3</td>
<td>1.7</td>
<td>3.0</td>
<td>8.0</td>
<td>10.6</td>
</tr>
<tr>
<td>Income from continuing operations margin (%)</td>
<td>14.0</td>
<td>5.2</td>
<td>6.2</td>
<td>13.1</td>
<td>15.2</td>
</tr>
<tr>
<td>Total assets</td>
<td>52.3</td>
<td>64.1</td>
<td>71.9</td>
<td>74.8</td>
<td>82.2</td>
</tr>
<tr>
<td>Financial debt</td>
<td>5.6</td>
<td>13.6</td>
<td>13.9</td>
<td>13.7</td>
<td>17.4</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>38.1</td>
<td>35.5</td>
<td>40.3</td>
<td>41.3</td>
<td>44.3</td>
</tr>
<tr>
<td>Working capital</td>
<td>20.4</td>
<td>26.7</td>
<td>30.5</td>
<td>34.4</td>
<td>39.3</td>
</tr>
<tr>
<td>Working capital/revenue (%)</td>
<td>86.3</td>
<td>83.1</td>
<td>63.8</td>
<td>56.8</td>
<td>56.5</td>
</tr>
</tbody>
</table>

A = Adjusted  
E = Estimated

Revenue and EBITDA 2009–2013

Source: Company material
The network model is built on commitments which translate into a complex collective process, building social capital and reducing risk by sharing it.

What is the network model?
- The network is a Grupo Los Grobo (GLG) management approach based on a series of contracts and incentives that allow a small number of employees to provide services to a large number of entrepreneurs.
- This also allows for fast daily local decisions with a high level of governance.

Main advantages
- Stimulates diversity and innovation
- Provides flexibility, being adaptive and capable of anticipating changes
- Promotes entrepreneurship and delegation of authority (high empowerment)
- Enables the creation of more extensive support networks within and between the network, which
  - requires consensus among different interest groups
  - generates commitment and shared responsibilities among members
  - evolves into a collective process
  - develops results-oriented action
- Allows specialization
- Facilitates the transfer of knowledge and technology

Source: Company material
Exhibit 15  Impressions

Source: Company material