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DEALS

H.I.G. Capital Leads \$65 Million Investment in Brazil's Modern Logistics

The Miami-based private-equity firm makes a convertible-debt investment alongside a group of family offices



Fishing boats tied up at docks outside Recife, on the northeast coast of Brazil.

PHOTO: NELSON ALMEIDA/AGENCE FRANCE-PRESSE/GETTY IMAGES

By **Luis Garcia**

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H.I.G. Capital led a \$65 million convertible-debt investment in Modern Logistics, providing the Brazilian carrier with the capital it was seeking to expand.

The Miami-based private-equity firm made the investment alongside a group of family offices from the U.S. and Europe.

Modern, which is also backed by Brazilian private-equity firm DXA Investments, began searching more than a year ago for fresh capital to expand its reach in Latin America's largest economy. Based in Jundiaí, in São Paulo state, the company today operates five cargo planes

and eight warehouses across the country, said Gerald Lee, Modern's co-founder and chief executive. It also works with a network of about 14,000 trucking contractors.

After talking to many potential investors, including transportation-focused private-equity firms, Modern focused on H.I.G. because it had a presence in Brazil and was aligned with the company's strategy, Mr. Lee said. He added that, more than simply transporting goods from point A to point B, Modern seeks to connect suppliers directly to consumers and cut out the middlemen that permeate the Brazilian economy.

"We look at the Brazilian market in general with its lack of infrastructure and so many intermediaries," Mr. Lee said. "We could start cutting that and making it much more efficient with this model, with [Modern's] platform."

For example, he mentioned how a combination of Modern's air-cargo and trucking services enable small fishing businesses in Brazil's Northeast to sell their produce directly to restaurants in São Paulo, nearly 1,500 miles away.

Even as restaurants and other businesses are temporarily closed due to the coronavirus outbreak, Modern continues to operate, as it is considered essential amid efforts to contain the pandemic.

"We're as busy as ever," Mr. Lee said.

Modern started its search for capital with equity investments in mind, but shifted to convertible debt due to the difficulty of determining the value of a company in Brazil's evolving logistics market, said DXA Chief Executive Oscar Decotelli, who helped negotiate the deal. He cited SoftBank Group Corp. 's investment in Loggi, which valued the Brazilian delivery startup at \$1 billion, as an example of "disruption" in the industry.

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Convertible debt is "a more adequate investment model at the moment," he said. "You push valuation discussions to the future, to new [funding] rounds when the company will be at another stage" and Brazil's logistics sector will be more mature. He added that the \$65 million investment could be converted into equity during the next five years and that Modern plans to raise up to \$85 million more in future funding rounds.

DXA initially backed Modern in 2014 with a \$30 million equity commitment and later made a \$30 million debt investment in the company. The Rio de Janeiro-based private-equity firm is Modern's largest investor.

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