

MEXICO



Law and Practice

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Ritch Mueller

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Ritch Mueller is a top-tier multidisciplinary transactional firm committed to offering high value-added legal advice to national and international clients in the structuring, development and financing of their private businesses and public sector projects in Mexico. Ritch Mueller's work encompasses transactions within the

financial, industrial, infrastructure, energy, retail and services sectors, among others. The firm is staffed by more than 100 professionals who seek to provide added value to clients by means of an efficient and in-depth service combined with high levels of expertise and experience.

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1. Trends

1.1 VC Market

The most sizeable/landmark venture capital-related transactions during the past 12 months include the following:

- QED Investors led a USD25 million Series A+ for Zubale, a Mexican fulfilment services marketplace connecting independent contractors with retailers;
- Third Prime led a USD6.5 million round for Finerio Connect, a Mexican fintech offering businesses an Application Programming Interface (API) for enterprise account management, with participation from Alaya Capital, Visa and Bancolombia Ventures;
- NAZCA and IDB Invest led a USD15.5 million Series A for Wonder Brands, a Mexico- and Argentina-based e-commerce aggregator looking to acquire independent brands selling on platforms such as Amazon and Mercado Libre, with participation from CoVenture, SilverCircle, Korify Capital, Infinitas Capital and GBM Mexico;
- Mexico-based personal finance management and lending platform Klar secured a USD100 million credit line from Victory Park Capital;
- Dalus Capital and Foundation Capital led a USD10 million seed round for Clivi, a Mexican diabetes healthcare delivery platform, with participation from FEMSA Ventures, Cathay Innovation, Quiet Capital, 500 Global, Next Billion Ventures and Conexo;
- IDB Invest provided a USD15 million structured loan to Habi, a Colombian residential real estate platform, to launch operations in Mexico;
- Community Investment Management provided a USD50 million credit line to Stori, a Mexico-based credit card issuer for the underbanked;
- Niya Partners and Tribe Capital led a USD20 million Series A for Kapital, a Mexican finance management platform for SMEs, with participation from Broom Ventures, FoundersX, True Capital Management, Pioneer Fund, Kube VC, MyAsia VC and angel Arash Ferdowshi (Dropbox);
- Mexico-based embedded lending infrastructure company R2 closed a USD100 million

warehouse facility from Community Investment Management;

- L Catterton made an undisclosed follow-on investment in Ben & Frank, a Mexico-based D2C eyewear brand; and
- GGV led a USD60 million Series B+ for Clara, a Mexican corporate expense management platform, with participation from Endeavor Catalyst, Citi Ventures, Acrew Capital, Ethos, Commerce Ventures, Goanna Capital, Bayhouse Capital and Fluente Ventures, and follow-on from Monashees, Coatue and others.

1.2 Key Trends

In 2025, the venture capital ecosystem in Mexico is poised to enter an exciting new phase, with expectations of increased dynamism and a broader range of investment opportunities. During the next few years, the country's start-up ecosystem is anticipated to grow in both size and sophistication, driven by a combination of entrepreneurial spirit, technological innovation, and favourable macroeconomic conditions.

1.3 Key Industries

In 2025, several sectors in Mexico will see significant benefits from the influx of venture capital investments. The most notable sectors include AI, fintech, healthtech and wellness, renewable energy, and sustainability. Also, agrotech and cleantech are demonstrating their ability to address structural challenges. These emerging industries are attracting venture capital investors in Mexico who seek to have a significant impact on global issues while generating attractive returns.

2. Venture Capital Funds

2.1 Fund Structure

Venture capital funds are typically organised as trusts or *asociaciones de participación*, which are the two Mexican vehicles that are deemed transparent for tax purposes. Venture capital funds typically have a general partner or manager that makes all or most of the decisions. The corporate documentation that will govern the affairs of the fund is the trust agreement or the *asociación en participación* agreement, together with the professional services agreement with the manager of the fund.

Decisions are typically adopted by the manager or general partner, and by an investment committee. In some cases, certain major key decisions need to be approved by a majority or special majority of investors.

2.2 Fund Economics

Venture capital principals typically assist by identifying investment opportunities for the fund, conducting due diligence on target companies, helping to manage portfolio companies, and performing a variety of other duties. In exchange, they are entitled to receive a management fee and a carried interest. They also generally co-invest in the fund, with other investors. As in other jurisdictions, venture capital funds in Mexico typically include customary investor protections, such as key man provisions, manager removal events, dedication of time by key managers, conflict of interest provisions, and non-compete and non-solicitation clauses.

2.3 Fund Regulation

Venture capital funds are not regulated in Mexico.

2.4 Particularities

The venture capital ecosystem has accelerated in Mexico in recent years, especially in 2021 when venture capital investment boomed. Venture capital fund investments are generally made in start-ups and SMEs, which are important engines of employment creation and economic growth. There are certain impact funds whose investment thesis opportunity is to drive a positive social, technological and environmental impact upon its investments, whereas funds-of-funds hold the dual mandate of generating attractive risk-adjusted returns while promoting the private equity ecosystem in Mexico. As of October 2024, Mexico was home to nine unicorns (Kavak, Bitso, Clip, Confio, Merama, Incode, Clara, Nowports and Stori), with Plata joining the ranks as the tenth unicorn in March 2025. The growing number of high-value start-ups signals a shift in the Mexican economy, positioning the country as a rising player in the global venture capital ecosystem.

3. Investments in Venture Capital Portfolio Companies

3.1 Due Diligence

In-depth due diligence usually focuses on corporate, material contracts, IP, employment matters, tax, litigation, and regulatory matters. Generally, counsel is asked to provide a report on red flags only, limited to identifying material contingencies of the target.

3.2 Process

A new financing round would generally take between one and two months as of the date legal and tax due diligence begins. Negotiations of the term sheet and commercial due diligence are carried out before legal and tax due diligence begins, and the investment agreements are

negotiated while the legal and tax due diligence is being carried out. Venture capital counsel will take the lead in preparing the investment agreements; if more than one venture capital fund is participating in the financing round, the leading venture capital fund will take the lead in negotiating the agreements, but all of the venture capital funds participating in the financing round will have to agree upon the agreements.

3.3 Investment Structure

Preferred shares grant the corresponding shareholder preferred rights, which may include preferred dividends, a certain number of board seats, anti-dilution protections, and a liquidity or liquidation preference. A complementary or alternative structure is venture debt, which is expected to grow during 2025, providing flexible capital structures less dilutive to founders.

3.4 Documentation

The typical key documents comprising a financing round in a growth company in Mexico are a subscription agreement and a shareholders' agreement (which are incorporated into the by-laws of the company), together with the ancillary documents related thereto, such as shareholder resolutions and other closing corporate documents. Simple agreements for future equity (SAFEs) are commonly used in the USA but lack certain terms and conditions, which may prevent investors subscribing and paying for the corresponding shares.

As opposed to the USA, where existing templates from the National Venture Capital Association are available, there are no templates that the market relies upon in Mexico. However, there are certain US practices that have been taken into consideration and imported and tailored to Mexico.

3.5 Investor Safeguards

Venture capital investors are typically able to include weighted average (as opposed to full ratchet) anti-dilution provisions, liquidation preference provisions and pre-emptive rights for the subscription of new shares. Anti-dilution and liquidation preference provisions are generally effective for a certain period of time. Pre-emptive rights are typically granted to all investors, including founders, but excluding employees.

3.6 Corporate Governance

Venture capital investors typically have the right to appoint a board member and the right to call shareholders' meetings. They do not generally have veto rights, unless they hold approximately 15% or more of the voting shares. Venture capital investors typically do not have drag-along or similar liquidity rights, unless they hold approximately 50% or more of the voting shares. Redemption rights (or similar put rights against the company) are not typically granted to venture capital investors.

3.7 Contractual Protection

Customary representations and warranties include fundamental representations (ownership of shares, due organisation, capacity, and legal authority), operational representations related to the company's business, tax representations, and AML, anti-corruption and data privacy laws. Covenants are related to interim operating provisions that affect or restrict how the company operates from the date of the agreement and until closing – ie, operating in the ordinary course of business. Post-closing, founders are also bound by non-compete provisions, and investors have access to financial information, among other things.

Indemnity provisions are limited to fraud or wilful misconduct.

4. Government Inducements

4.1 Subsidy Programmes

There are no government/quasi-government programmes to incentivise (equity) financings in growth companies in Mexico.

4.2 Tax Treatment

Mexican Tax Treatment

There are no particular tax incentives geared towards investment in growth/start-up/venture capital fund portfolio companies, so all these Mexican entities receive the same tax treatment as any other Mexican resident entity. They are required to determine their Mexican income tax on an annual basis, applying a flat 30% corporate income tax rate to their “*taxable result*”, which is determined by subtracting the following from their annual gross taxable income:

- authorised deductions;
- the employees' profit-sharing amount paid in the corresponding fiscal year; and
- the net operating losses (NOLs) from previous years.

Implications for Non-Mexican Investors

Investing in Growth/Start-Ups/Venture Capital Funds in Mexico

Pursuant to Mexican tax provisions, Mexican-source income earned by non-Mexican residents is generally subject to Mexican withholding tax. Capital gains derived from the transfer of shares are considered to be from a Mexican source if the issuer of the shares is a Mexican resident entity or if more than 50% of the accounting value of the shares is represented, directly or indirectly, by immovable property located in Mexico.

As a general rule, transfers of Mexican shares by non-Mexican residents are subject to tax at a rate of 25% on the gross proceeds of the trans-

action (ie, sale price, fair market value), without any deduction. Alternatively, upon election by the seller, the transfer of shares may be subject to tax on the net gain. Under this election, the gain (if any) realised upon the transfer of Mexican shares should be subject to a 35% tax rate, before consideration of applicable treaty rates, to the extent that certain requirements are met, including appointing a legal representative in Mexico. In addition, non-Mexican residents may be subject to a 10% withholding tax when the entity distributes dividends. The 10% tax rate can be reduced by claiming the benefits of a tax treaty.

Tax Treatment for Common Investment Structures

There is a growing trend of investing in Mexican growth/start-ups/venture capital fund portfolio companies using Cayman Islands entities or US limited liability companies (LLCs) that are not subject to US taxes. In principle, this investment structure seems to be tax-efficient, given that only the direct transfer of shares issued by Mexican-resident entities or the indirect transfer of shares in Mexican land-rich assets are subject to taxes in Mexico. This trend has led to increased transfers of Mexican investments, assuming that there will be no capital gains taxes if investors sell the Cayman Islands entity or the US LLC.

However, Mexican tax residency is determined based on factors such as the main place of business administration or effective management, rather than merely the location of incorporation. Under these structures, many holding companies – where operations and management remain in Mexico – are likely to be considered Mexican tax residents, making the sale of their shares subject to Mexican income tax.

Implications for Mexican Investors

Mexican residents (entities and individuals) are subject to income tax on income from worldwide sources. Consequently, Mexican entities are taxed in Mexico at a rate of 30% on income earned from this type of investment (except for dividends distributed by Mexican legal entities, which qualify as non-taxable income), and Mexican individuals are subject to a progressive tax rate of up to 35%. Mexican individuals who receive dividends from non-Mexican resident companies should be subject to an additional 10% tax rate.

4.3 Government Endorsement

A systematic issue for venture capital funds in Mexico is identifying exit strategies that maximise the value of their investments. Mexico's securities market is a natural exit strategy for many investors, such as venture capital funds, but is relatively illiquid and has shrunk during the past few years. In December 2023, a series of structural amendments to the Mexican Securities Market Law, supported by Mexico, were enacted to:

- incorporate a new simplified procedure for the registration of securities in the Mexican National Securities Registry; and
- make amendments to the issuers' corporate regime aimed at revitalising the Mexican securities market, including the removal of the ceiling for non-voting stock.

5. Employment Incentives

5.1 General

Long-term commitment is often sought by offering equity (or equity-linked incentives) to employees, which provides them with a sense of

ownership and aligns the incentives for employees with those for equity holders.

5.2 Securities

Incentive plans are typically structured as stock options, phantom shares, performance bonuses or profit-sharing mechanisms. In Mexico, companies tend to prefer to grant stock options, which are typically the most burdensome to implement. Employee Stock Ownership Plan shares are typically kept in the treasury of the company and are given (assigned) to the employees for subscription and payment upon certain conditions provided for in their employment agreements being met. Such shares are typically non-voting shares and are subject to special transfer provisions. These incentives usually create corporate, labour and tax concerns, and should be structured carefully.

5.3 Taxation of Instruments

The tax considerations that determine the structure of an incentive pool are diverse. Firstly, it is important to consider the type of incentive offered – ie, whether it is in the form of stock options, phantom shares, performance bonuses or profit sharing, among others. Each of these incentives may have different tax implications for both the company and the beneficiaries.

Secondly, it is relevant to consider the applicable tax treatment for each type of income or benefit. By way of example, stock options may be subject to tax at the time of subscription of the shares, whereas phantom shares or performance bonuses may be taxed at the time of payment of the economic benefits.

In addition, the applicable tax rate may vary depending on the type and amount of income. However, most such benefits (when paid either

in cash or in shares) are deemed salary payments for Mexican tax purposes.

In summary, when structuring an incentive pool, it is crucial to consider not only the type of incentive offered but also the tax implications for both the company and the beneficiaries, including the applicable tax rate and the timing of taxable events.

5.4 Implementation

How the implementation of an investment round and the set-up/installation of an employee incentive programme typically inter-relate depends on whether stock options have vested or not, and whether the investment of such stock options may dilute the share participation of the investor as a result. Owing to the formalities involved in issuing new shares in Mexico, determining the number of shares that would correspond to the investor can be a complex issue.

6. Exits

6.1 Investor Exit Rights

The exit-related provisions that typically govern the shareholders' rights among one another in relation to a sale or IPO of the venture or another liquidity event include a right of first offer, a tag-along right and a drag-along right, as well as piggyback and registration rights. A right of first offer provision is often included to give certain major venture capital investors the first option to purchase the shares of the company in a potential sale before they are offered to other third parties. A tag-along right is granted to the venture capital investors for any transfer by a key holder for which the rights of first offer are not exercised. A drag-along right is typically granted to shareholders representing more than 50% of the share ownership, who will then generally be

able to force the other shareholders to co-sell their shares to a prospective buyer who wishes to acquire the entire company. Documentation may also include lock-ups (especially for founders, for a certain period of time) and customary exemptions thereto for permitted transfers.

The decision of which exit strategy to pursue is typically made by the company's board of directors, with input from the company's management team and advisers. The decision is based on a number of factors, including the stage of the company's development, the market conditions at the time, and the preferences of the shareholders.

6.2 IPO Exits

Mexico's securities market is relatively illiquid. The lack of penetration of financial services in the general population, coupled with a limited number of institutional and qualified investors, low valuations and significant delays in the review process by Mexican regulators, has relegated the Mexican securities market as a viable exit strategy or even an attractive alternative for venture capital funds. No primary IPOs from Mexican issuers have taken place since 2020, and the most recent IPO by a Mexican company was registered in the USA exclusively, not in Mexico.

6.3 Pre-IPO Liquidity

There is very limited liquidity and the few options would be among venture capital funds or private equity funds that have begun to do venture capital investments and are looking to obtain control. Although it is not very common, employees sometimes have the option to participate in buybacks. The main challenge is that all distributions, including buybacks, are made pro rata; if

there is the intention to distribute them non-pro rata, different series of shares would need to be created so that such non-pro rata distributions are a special right of a particular series.

7. Regulation

7.1 Securities Offerings

Any public offering of securities in Mexico requires the prior registration of the securities with the National Securities Registry maintained by the Mexican Banking and Securities Commission (*Comision Nacional Bancaria y de Valores*, or CNBV). However, the recently enacted reform to the Mexican Securities Market Law enables a company to conduct a public offer pursuant to an expedited process, known as a simplified registration process – in which case, the CNBV's review and approval are not required. However, only institutional and qualified investors are entitled to purchase stock issued pursuant to a simplified registration process, which may limit the liquidity. Both traditional and simplified registration processes require the preparation of a prospectus or supplement and filing for registration with the CNBV or the corresponding Mexican stock exchange, respectively.

7.2 Restrictions

Foreign (and national) venture capital investors may be restricted from investing in certain sectors of the Mexican economy, which are regulated. There may be foreign investment restrictions, as is the case in transportation, mining and telecommunications, and/or the need to obtain prior approval to invest, as is the case in insurance companies, fintech or banking. Depending on the sector in which the target company operates, applicable restrictions may apply.

Trends and Developments

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MEXICO TRENDS AND DEVELOPMENTS

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How Mexico's Booming Start-Up Scene Is Shaping Its Venture Capital Landscape

The future of Mexican venture capital looks incredibly promising, given that – as a country – Mexico has firmly established itself as a leading destination for venture capital funds in Latin America, defined by a dynamic and rapidly evolving start-up ecosystem, a thriving fintech sector, and a favourable regulatory framework that encourages investment. Mexico's robust entrepreneurial landscape and lifestyle have attracted a growing number of venture capital funds keen to capitalise on the opportunities presented by a diverse and emerging market. As Mexico's start-up scene grows and matures, it continues to draw attention from local and international investors alike who are eager to tap into Mexico's innovation potential.

The number of venture capital funds operating in Mexico has been steadily increasing as more start-ups secure funding and scale their operations. According to the Mexican Association of Private Equity (*Asociación Mexicana de Capital Privado*, or "AMEXCAP"), 581 start-ups operating in Mexico have benefited from venture capital support. Notably, 455 of these start-ups are still operational five years after their launch, thereby evidencing a strong survival rate of 78%. Such an impressive survival rate underscores the resilience of Mexican start-ups and their ability to flourish in a competitive market, even in the face of economic and political challenges.

AMEXCAP reports that, in 2024, venture capital investments allocated over USD900 million specifically for Mexico – representing not only an important increase but also a significant recovery compared to previous years. This surge both in transactions and the size thereof reinforces a renewed confidence in Mexico's entrepreneurial

landscape and its potential to generate high-impact businesses.

Furthermore, TTR Data – a leading provider of information on M&A, venture capital and private equity transactions across Latin America – reports that the total value of venture capital investments in Mexico saw an impressive 59.38% growth in 2024 compared to 2023, which is a clear indicator of the increasing trust investors have in Mexico's innovative sectors, such as AI, fintech, healthtech and wellness, renewable energy and sustainability. The expansion of venture capital funds in Mexico focuses its emerging role as a central investment hub in Latin America. One of the key drivers of this expansion is the favourable regulatory environment that the Mexican government has created to support venture capital investments. Policies and regulations have been implemented to encourage the formation of venture capital funds and to provide tax incentives for investors. These measures have made it easier for venture capital funds to operate in Mexico. The influx of investment not only strengthens the Mexican economy but also accelerates the development of new technologies and industries, driving long-term innovation and sustainable growth both within Mexico and on a global scale.

2025 is set to be a crucial year for the consolidation of venture capital funds in Mexico, as more and more start-ups are reaching the scale necessary to attract larger investors, positioning themselves to generate significant economic value and consequently increasing the volume of transactions.

According to data collected by Endeavor, a renowned global network of entrepreneurs and investors, Mexico has the potential to create 30 unicorns valued at over USD1 billion by

2025. The foregoing would represent a dramatic increase from the current number of unicorns in Mexico. As of October 2024, Mexico was home to nine unicorns (Kavak, Bitso, Clip, Confio, Merama, Incode, Clara, Nowports and Stori), while Plata joined the ranks as the tenth unicorn in March of 2025. The growing number of high-value start-ups signals a shift in the Mexican economy, positioning the country as a rising player in the global venture capital ecosystem.

Despite the growing number of unicorns, Mexico finds itself at a critical juncture in its pursuit of becoming a global leader in the venture capital ecosystem. Although obstacles such as limited access to capital, regulatory hurdles, and talent acquisition remain significant challenges, Mexico also faces tremendous opportunities, which include a rapidly expanding market, increasing government support and technological advancements. By tackling these challenges head-on and capitalising on its emerging opportunities, Mexico has the potential to further foster greater economic growth and drive innovation across the globe.

In 2025, several sectors in Mexico will see significant benefits from the influx of venture capital investments. The most notable sectors are discussed here.

AI

AI is leading a revolution in the world and the venture capital ecosystem is not estranged to it. The handling and use of AI – as well as the ability to maximise it – have become the main challenges for 2025, but also the main target for venture capital funds. Endeavor reports that in 2024 AI accounted for 34% of the investment rounds closed in Latin America, showing an increasing interest in technologies such as chatbots, adaptive AI, and start-ups with in-house AI

development. The increase in such percentage for 2025 is just a matter of time, as technology continues to develop and the solutions it provides are becoming paramount for all industries. This focus not only responds to a need for innovation but also to the growing competitiveness in global markets, where Mexican start-ups are gaining relevance.

The rapid advancements in AI are transforming various sectors, by providing more efficient, accurate and scalable solutions. Investors are particularly drawn to AI's potential to disrupt traditional business models and create new market opportunities. As AI continues to evolve, it is expected to play a crucial role in propelling the venture capital development and technological expansion in Mexico.

Fintech

The fintech sector has proven to be an essential support in the venture capital ecosystem in Latin America, consolidating as one of the safest and most strategic bets for investors. As reported by Endeavor, in the first half of 2024, the fintech sector captured 37% of the total amount of investment in Latin America – highlighting the return of start-ups that achieved important milestones and seek to continue their expansion. The flexibility and adaptability of fintech companies have been key factors in their recovery. These start-ups are leveraging advanced technologies such as blockchain, AI and machine learning to deliver innovative financial services that meet the evolving needs of consumers and businesses alike. The fintech sector's ability to provide inclusive financial solutions, particularly in underserved markets, has further solidified its position as a vital driver of economic progress in Mexico.

Healthtech and wellness

The healthtech sector remains a top priority for venture capital investors in Mexico, with start-ups harnessing the power of AI and big data to revolutionise healthcare, telemedicine, and biotechnology. From predictive analytics to personalised treatments, these companies are reshaping the way healthcare services are delivered and accessed across the region, including exclusively through mobile apps. AI in healthtech is enhancing diagnostic accuracy, streamlining treatment plans and improving patient outcomes.

Additionally, the integration of big data is facilitating better decision-making and resource allocation in healthcare systems. Likewise, wellness continues to consolidate as a key industry. The innovative proposals in this sector address integral well-being, from mental health to personalised fitness, creating a diversified offer that is attracting the interest of consumers and investors alike. The growing awareness of the importance of mental and physical health is driving demand for wellness solutions, making this a lucrative market for start-ups and established companies.

Renewable energy and sustainability

The renewable energy and sustainability sector will gain ground as one of the main priorities for venture capital investors in Latin America. The growing need for decarbonisation to meet global sustainability goals has boosted the interest in clean technologies such as green hydrogen, renewable energy generation, and energy efficiency solutions. These investments not only seek to respond to climate challenges but also to take advantage of the potential of the region as a leader in natural resources and innovation capacity.

In addition, digitalisation and the development of data centres are generating an exponential demand for clean energy. This context opens opportunities for start-ups and established companies to lead projects that transform the energy matrix of the region and promote sustainable economic growth. The renewable energy sector is also benefiting from supportive government policies and international collaborations aimed at reducing carbon emissions and promoting sustainable practices. In Mexico, the private sector has been permitted to generate electricity and sell it in a wholesale electricity market for more than a decade – during which time, the installed capacity of renewable energy has been doubled, as reported by the International Renewable Energy Agency in 2024.

In March 2025, various reforms were enacted in the sector that continue to promote a more socially and environmentally responsible energy sector in Mexico, while also recognising the State's prevalence in the sector through the state-owned public companies (ie, Pemex and CFE). Industry participants are still awaiting the impact of these reforms on national energy policies and the broader energy sector. However, sustainable growth in the coming years is anticipated due to Mexico's ongoing need for infrastructure to satisfy its population's needs and fulfil international commitments.

Finally, agrotech and cleantech are demonstrating their ability to address structural challenges. These emerging industries are attracting venture capital investors in Mexico who seek to have a significant ameliorative impact on global problems while generating attractive returns.

Outlook

As of 2025, the venture capital ecosystem in Mexico is poised to enter an exciting new phase,

MEXICO TRENDS AND DEVELOPMENTS

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with expectations of increased dynamism and a broader range of investment opportunities. During the next few years, the country's start-up ecosystem is anticipated to grow both in size and sophistication, driven by a combination of entrepreneurial spirit, technological innovation, and favourable macroeconomic conditions.

As more start-ups reach the scale-up phase, the country's venture capital scene is expected to become more vibrant, with a diverse array of sectors receiving attention. Venture debt is also expected to grow as a complementary or alternative financing tool.