

LATIN AMERICA: CULTURE AS AN EDGE

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Overview

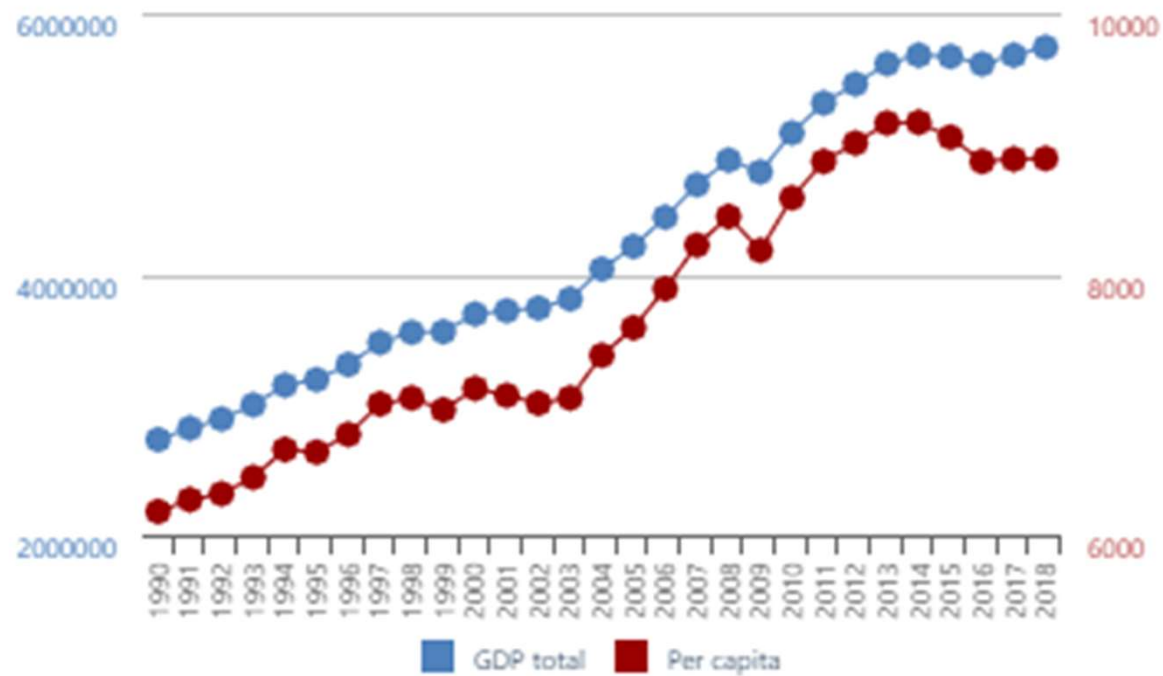
- Introduction
- Latam at a glance
- Culture
 - Building businesses
 - Investing framework
- COPA Airlines
- Appendices

About Zumacon and Me

- Grew up in Peru and Venezuela, Argentine mom, wife born in Brazil. Blended family with four kids.
- Education: B.S. and Masters/Engineering, University of Florida. Advanced Valuation, NYU. Multidisciplinary lifelong learner.
- Work Experience: 30 years at Aecom. Manager Latin America (2010 – early 2017, URS/AECOM).
- Founded Zumacon, 2018. Management, valuation and employee development consulting firm
- Private investor

LATAM AT A GLANCE

Latin America emerging.... (source: ECLAC)



Commodities lead exports (source: ECLAC)

Exports of leading products as percentage of Total

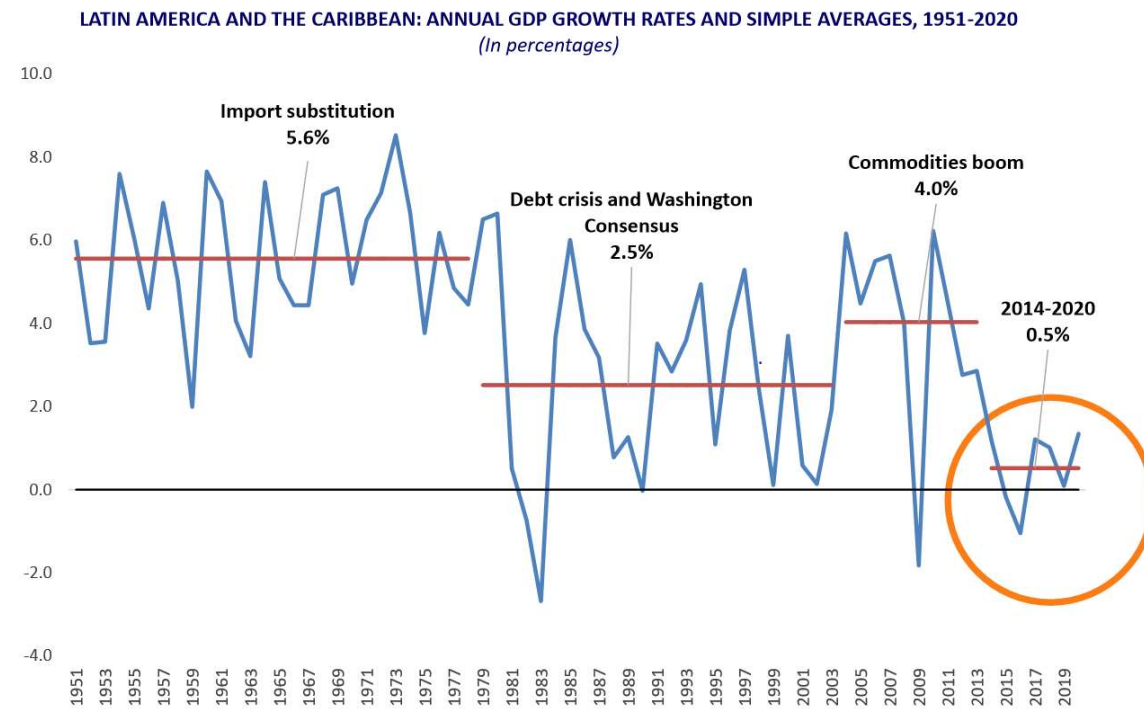
Crude petroleum	7.8	%
Passenger motor cars, other than buses	5.8	%
Soya beans	3.9	%
Ores and concentrates of copper	3.9	%
Other parts for motor vehicles	3.4	%
Lorries and trucks (including ambulances, etc.)	3.2	%
Statistical machines cards or tapes	3.1	%
Iron ore and concentrates (excluding roasted iron pyrites)	2.3	%
Refined copper including remelted	2.2	%
Oil seed cake and meal and other vegetable oil residues	1.8	%

LATAM – GDP GROWTH (%) TRENDING UP FROM 0 *

	Crecimiento del PIB	
	2019	2020
América Latina y el Caribe	0.1	1.3
Argentina	-3.0	-1.3
Bolivia (Estado Plurinacional de)	3.0	3.0
Brasil	1.0	1.7
Chile	0.8	1.0
Colombia	3.2	3.5
Ecuador	-0.2	0.1
Paraguay	0.2	3.0
Perú	2.3	3.2
Uruguay	0.3	1.5
Venezuela (República Bolivariana de)	-25.5	-14.0
América del Sur	-0.1	1.2
Costa Rica	1.8	1.9
Cuba	0.5	0.5
El Salvador	2.2	2.3
Guatemala	3.3	3.2
Haití	-0.7	0.3
Honduras	2.9	2.9
México	0.0	1.3
Nicaragua	-5.3	-1.4
Panamá	3.5	3.8
República Dominicana	4.8	4.7
América Central y México	0.5	1.6
América Central	2.4	2.6
América Latina	0.1	1.3

Source: ECLAC,
Dec, 2019

China fuel missing, 0.5% GDP growth (2014-2020)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.

CULTURE

Our proposition:

Culture as a key edge growing businesses, allocating capital, and investing in Latin America

“Not everything that counts can be counted,
and not everything that can be counted counts.”

Albert Einstein

Defining culture

The way things are done (when no one is looking)

Culture as a Moat

e.g. Berkshire Hathaway

Latin America Cultural Roots

1492

- Population Americas: 75 million (Empires located south of current USA)
- Population Europe: 60 million

1500 – 1800

2.5 million Europeans move to the Americas

Source: Jill Lepore, These Truths

Concentration of power and property

Latin America in Colonial times

- Lot's of available labor from the former local empires
 - We tell you what to do
 - You depend on me
- Crown owns lands, then distributed to small groups of families

Source: Jill Lepore, These Truths

Concentration of Wealth and Authority

- “...**North America was better off than South America** purely and simply because the **British model of widely distributed private property rights and democracy worked better** than the Spanish model of concentrated wealth and authoritarianism...”

Neill Ferguson

North versus South in the Americas

- Individual property rights
- Rule of law
- Representative government

Native culture and local religion issues

Latin America after independence: Cultural Roots remain in place

- Concentration of power
 - Brazil monarchy (most of the 19th century)
 - Property (e.g. Argentina): 1914, 38% of agricultural land owned by 29 families
 - Authoritarian leaders (e.g. Venezuela): Gomez, (1908-1935)

US and UK influence on Latin America

Case study: Panama

- Independence
- Panama Canal
- Capitalism
- US Dollar
- Trade in DNA

It is not easy doing business in Latam

Economy	globalRank
Chile	59
Mexico	60
Puerto Rico	65
Colombia	67
Costa Rica	74
Peru	76
Panama	86
Uruguay	101
Brazil	124
Paraguay	125
Argentina	126
Ecuador	129
Bolivia	150
Venezuela	188

Source: Ease of Doing Business, World Bank Rankings

Latin America Cultural Issues Today

- 1) Concentration of power
- 2) Time
- 3) Creativity

Latin America Cultural Issues Today

- 4) Paternalism
- 5) Corruption
- 6) Bureaucracy

Latin America Cultural Issues Today

7) The Courts

8) Tell me what I want to hear

9) Capitalism and the other Path

Latin America Cultural Issues Today

- 10) Free and millennials
- 11) Regional differences
- 12) Beyond words

1) Concentration of power

- Political
- Economic
 - Family controlled common
- Social
 - Networks

2) Measuring time

- Time is slower
- Election cycles
 - Continuity considerations
- Do it again

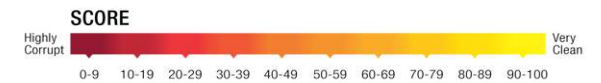
3) Creativity

- Do more with less
- Generalists

4) Paternalism

- Productivity
 - Tell me what to do
- “Patron”

5) Corruption: Pay attention



Source: Transparency
International

Corruption: Uruguay and Chile in the same neighborhood as the US

Country	CPI Score 2018	Rank
Canada	81	9
United States of America	71	22
Uruguay	70	23
Chile	67	27
Costa Rica	56	48
Argentina	40	85
Guyana	37	93
Panama	37	93
Colombia	36	99
Brazil	35	105
El Salvador	35	105
Peru	35	105
Ecuador	34	114
Bolivia	29	132
Honduras	29	132
Paraguay	29	132
Mexico	28	138
Guatemala	27	144
Nicaragua	25	152
Venezuela	18	168

Source: Transparency
International

6) Bureaucracy

- Seek and you shall find
- Standing in line

7) Courts as a challenge to growth

- Labor law
- Rule of law

8) Tell me what I want to hear

- Lying and fear
- Seven ways to say no without saying no
 - manana

9) Capitalism and the Other Path

Capitalism: top down/friction in the system

- Venezuela (1930-1980)
- Chile (1980s-)
- Real Plan+, Brazil (consumers)
- Mexico: NAFTA/USMCA

Peru and The Other Path (1980's-), bottom up

- Panama (top down/bottom up)

10) Free and millenials

- Why should I pay taxes when the government just takes the money?
 - VAT
- Speaking English: Cutting the cord

11) Regional differences

- Is Puerto Rico part of Latin America?
- Countries
 - Case study: paisas

12) Beyond words

- Mothers and family
- Body language
- Silence

CULTURE: BUILDING BUSINESSES IN LATAM

Building businesses in Latin America, Part 1

If you swim in Latin America waters, a cultural life jacket is required

- Think regional, act local
- Latin America time
- Harness the power of women

Think regional, act local

- Capital allocation on a regional basis
- Local operations
- Be nimble as weather may change
 - “renting” versus “buying”

Latin America time: add a factor of safety

- Understand impact from change in government
- Remember time is slower
- Murphy is Latin

Harness the power of women

- Untapped potential
- Family (and women) at work

Building businesses in Latin America, Part 2

- Pick your spots
- Beware of shiny objects

Pick your spots

- Moat
- How dependent is the company from the government?
- Focus

Beware of shiny objects

- Bigger country (Brazil) doesn't necessarily mean better opportunities
 - Mandatory raises (labor unions, e.g. professional services staff)
 - Employee benefits

CULTURE: AN INVESTING FRAMEWORK FOR LATAM

A Cultural Framework for Investing In Latin America

- The hybrids
- Regional and local perspective
- Renting vs. owning
- Management and family
- Government matters
- Boots on the ground know best
- Valuation

The hybrids

- Hybrid leaders and cultures
 - Copa Airlines
- Companies domiciled in Latin America with revenues outside the region
 - San Miguel
- Emerg....ency company list

Regional and Local Perspective

- Understand regional dynamics
 - e.g. Narco issue
- Underlying drivers
 - e.g. Global considerations
- Country specifics

Renting vs. Owning

- Volatility as a friend (telenovela)
- Capital flows
- Remember you are on Latin America time

Management and family

- Quality of management critical (even if business could be run by an idiot)
- If family controlled, is family fair?

Government matters

- Is it in the government interest that the business succeed?
- Business performance across governments

Boots on the ground know best

- Locals
- Proxies
- Local networks

Valuation

- Incorporate Latin America time
- Discretionary spending trends impact
- Family and government considerations
- Moat analysis
- Stress test for capital flows

COPA AIRLINES: THE STORY REMAINS THE SAME

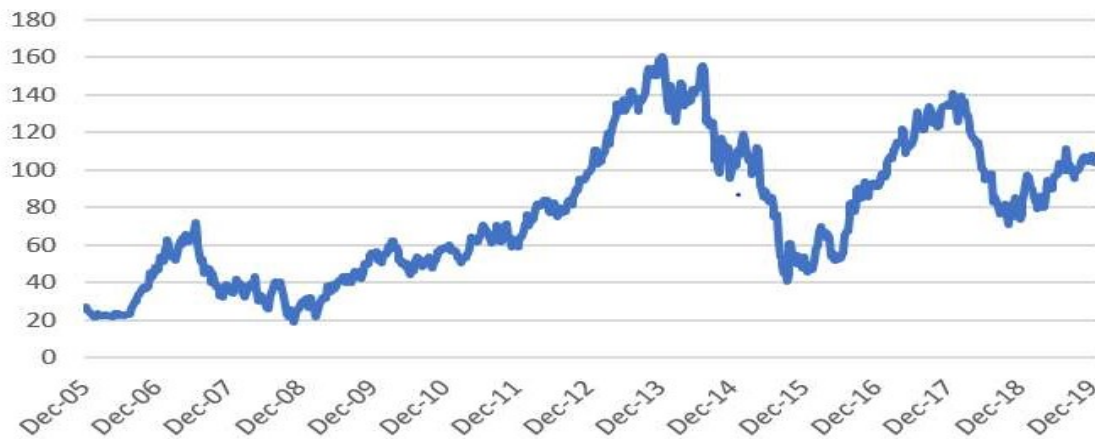
APPLYING THE LATAM CULTURE FRAMEWORK

COMPANY OVERVIEW

- Mature Panama based airline company that focuses primarily in the underserved intra Latin America market
- Hub (Panama) and spoke model
- Most profitable and well run airline in Latin America (operation and service)
- 80 destinations, 33 countries (intra Americas and the Caribbean)
- Fleet: 102 (Q3, 2019)
- 2018 revenues:
 - 47% (South America)
 - 27% (Central America and the Caribbean)
 - 26% (North America)

COMPANY OVERVIEW

CPA Stock Price 2005-2020



- Panama currency: US dollar
- IPO (Dec, 2005): \$24/share
- Current share price (1/25/20): \$102.2
- Revenue TTM: 2.7 B
- Current market cap: 4.3 B
- Operating margin, Q3, 2019: 18.8%; normalized 16% (2009-2019)
- **Paid 1 B in dividends over last 10 years**
- Cash, ST and LT investments: .7 B
- Debt: 1.1 B
- 2015 and 2016 Latin America recession and devaluation (lower commodity prices, led by Brazil)

A Cultural Framework for Investing In Latin America

- ✓ The hybrids
- ✓ Regional and local perspective
- ✓ Renting vs. owning
- ✓ Management and family
- ✓ Government matters
- ✓ Boots on the ground know best
- ✓ Valuation

APPLYING THE FRAMEWORK

- ✓ Serves niche market (intra Latin America and the Caribbean market) with unmatched geographic advantage (Panama)
- ✓ Regional low cost operator with best in class service
- ✓ Disciplined US trained management with a consistent long term track record of operational and capital allocation excellence. Leadership that run the business as owners (which they also are).

APPLYING THE FRAMEWORK

- ✓ Long term tailwind as the Latin America population continues to grow, incomes rise and flying becomes more affordable in the region
- ✓ From margin perspective, continued industry consolidation as tailwind neutralized by headwind from low cost carrier (LCC) competition.
- ✓ Panama is business friendly
- ✓ Stock currently fairly valued in our view (interesting under 80/share)

APPENDIX A – COPA AIRLINES DETAILS

PANAMA HUB OFFERS ADVANTAGES

- Geographic location halfway between South and North America
- Panama economy US dollar based
- Business friendly across governments
- Lower labor costs
- Panama Canal expansion improves the business moat for the country

CLASS B SHAREHOLDERS CONTROL: NO WORRIES

- As of December 2017, CPA has 31.1 M Class A shares; 10.9 M Class B shares; no Class C shares.
- CIASA owns 100% of Class B shares, representing 26% economic interest in CPA and 100% of the voting power
- CIASA is primarily controlled by the Motta, Heilbron and Arias families (approximately 90% of CIASA shares).
- These families have worked together for decades in a wide variety of businesses. Our experience seeing them doing business has been outstanding. For example, we have seen them go above and beyond environmental regulations because it was the right thing to do.

COPA HAS DISCIPLINED AND SHAREHOLDER FRIENDLY MANAGEMENT

- Focus on profitability: since IPO operating margin has always been positive, with normalized operating margin of 16% (2009-2019).
- COPA has paid 1 B in dividends in the last 10 years fiscal years
- COPA share count has been reduced from 44.1 M in 2012 to 42.5 M in Q3, 2019
- Prudent users of debt (Debt/cash 1.1B/.9B, FY2012; 1.1B/.9B, Q3, 2019)

DISCIPLINED COST CONTROL FOCUSED MANAGEMENT

- COPA has the lowest CASM ex fuel of all it's regional competitors (offers full service with CASM ex fuel comparable to Spirit, an LCC). The industry average is 9.6 cents (source: MIT Airline Data Project).
- COPA has been steadily reducing CASM ex fuel from 7.2 cents in 2009 to 6.2 cents (Q3, 2018). They have a sub 6 initiative underway

MANAGEMENT DELIVERING FOR MANY YEARS ON SAME BASIC PILLARS

2019 Investor Day (December, 2019)

Business Model – 4 Fundamental Strengths



BEST
GEOGRAPHIC
LOCATION

+80% OF
MARKETS SERVED
SMALLER THAN
20 PPDEWs

MARKETS
THAT NEED
A HUB



RIGHT
INFRASTRUCTURE



WORLD
CLASS
PRODUCT



MANAGEMENT DELIVERING FOR MANY YEARS ON SAME BASIC PILLARS

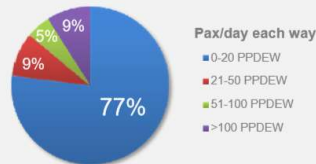
2017 Investor Day

Business Model – 4 Fundamental Strengths

Best Geographic Location



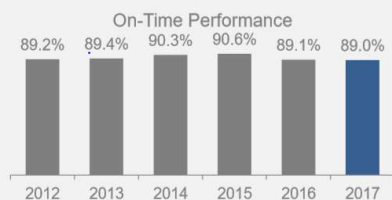
Markets that need a hub



Right Infrastructure



World Class Product



Note: On-time Performance measured within 14 minutes of scheduled arrival. Market sizes in pie chart based on 2016 figures. 2017 OTP figures are YTD Apr17.

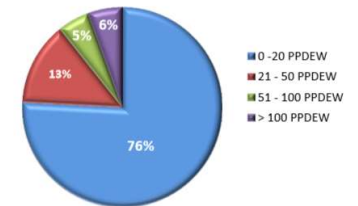
2013 Investor Day

Business Model - 4 Fundamental Strengths

Best Geographic Location



Markets that Need a Hub

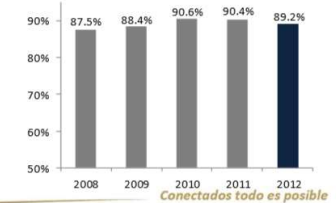


Pax/day each way

Right Infrastructure



World Class Product



Conectados todo es posible



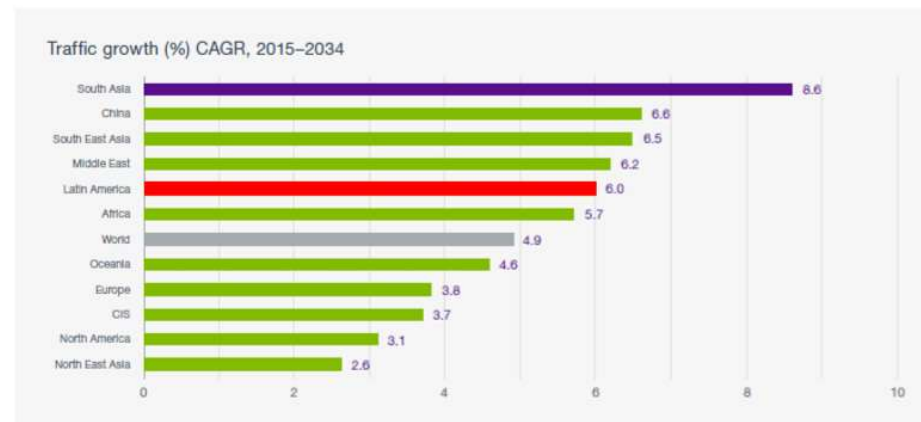
ON TIME PERFORMANCE LEADERSHIP

- In July, 2018, Copa Airlines was awarded “Best Airline” and “Best Airline Staff” in its region by the Skytrax World Airline Awards (source: COPA 2018, Q2 call)
- Second (2015, 2016) and fourth (2017) most in-time airline in the world (OAG)

ROBUST DEMAND AS LATIN AMERICA CONTINUES TO EMERGE

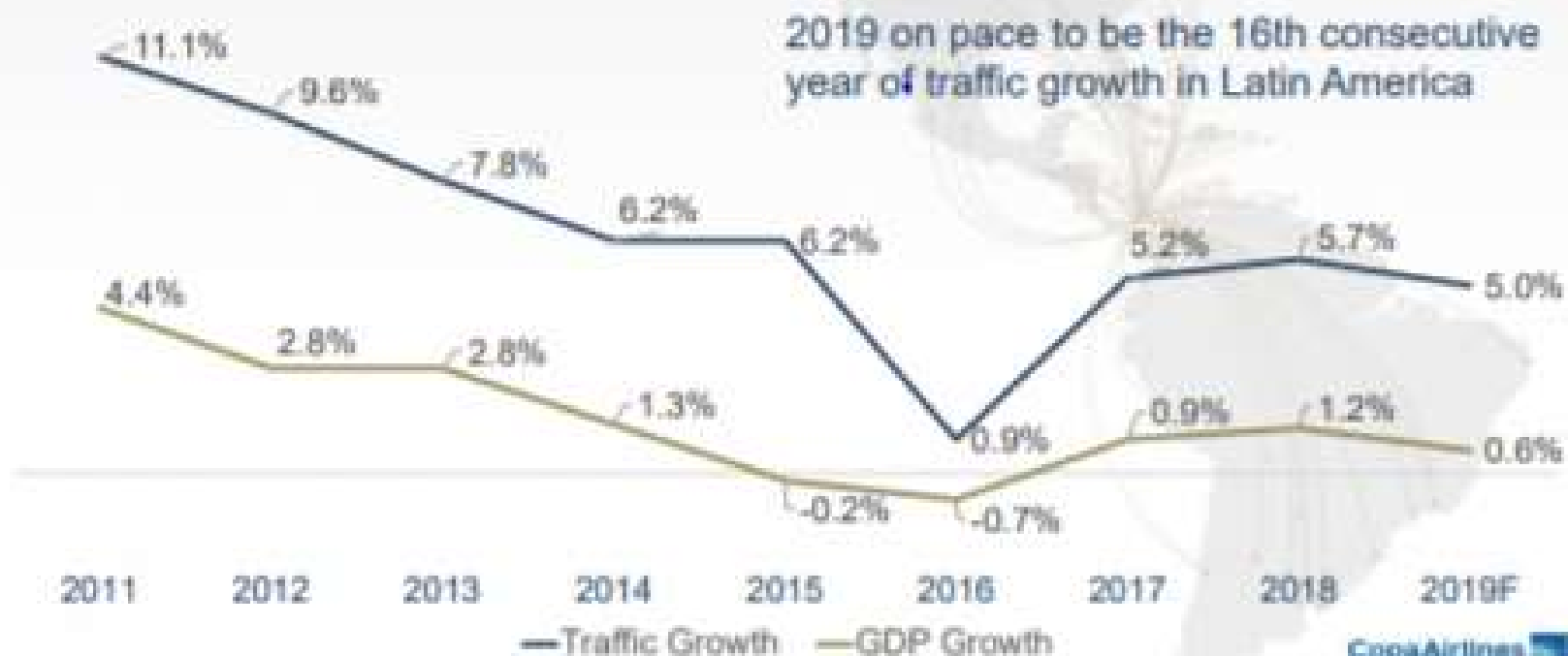
(source: COPA Investor Day, 2017, 1) average of Boeing and Airbus estimates)

Latin America: A bright future...



- Air Traffic in Latin America has historically expanded 2-3x GDP Growth
- Traffic within Latin America expected to grow ~6% per year for the next 20 years¹

Latin American traffic continues to outperform economic growth

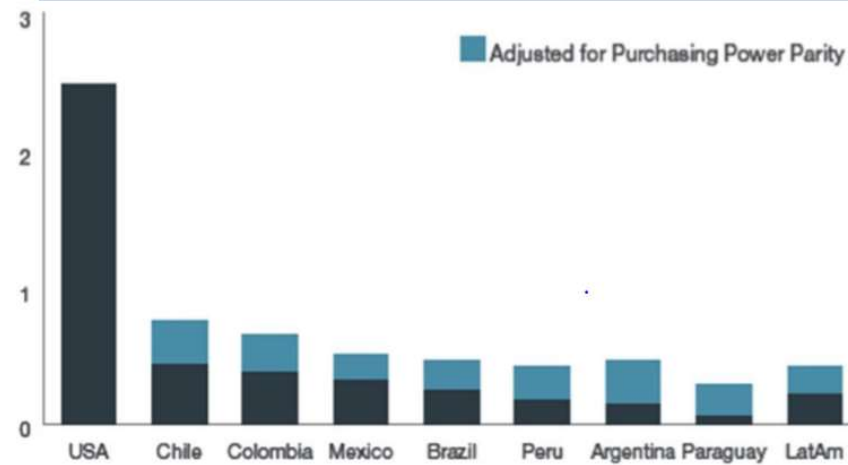


IN 2012, PLENTY OF ROOM TO GROW FOR TRIPS/CAPITA....

(source: Copa Airlines, Investor presentation, 2012)

Latin America Aviation - Still Underdeveloped

Annual enplanements per capita – USA vs. Selected Latin American countries



Source: Global Insight and DGACs

Conectados todo es posible

CopaAirlines 

AS PEOPLE GET RICHER, FREQUENCY OF TRIPS RISES DISPROPORTIONATELY.... (20K/PERSON TIPPING POINT)

Frequency of trips rises disproportionately

	Trips/ year/ person	Months before next trip
Low-income	0.04	300
Middle-income	0.29	41
High-income	1.48	8
Below US\$20K per person	0.27	44
Above US\$20K per person	1.80	7

Source: IATA/Tourism Economics 'Air Passenger Forecasts'

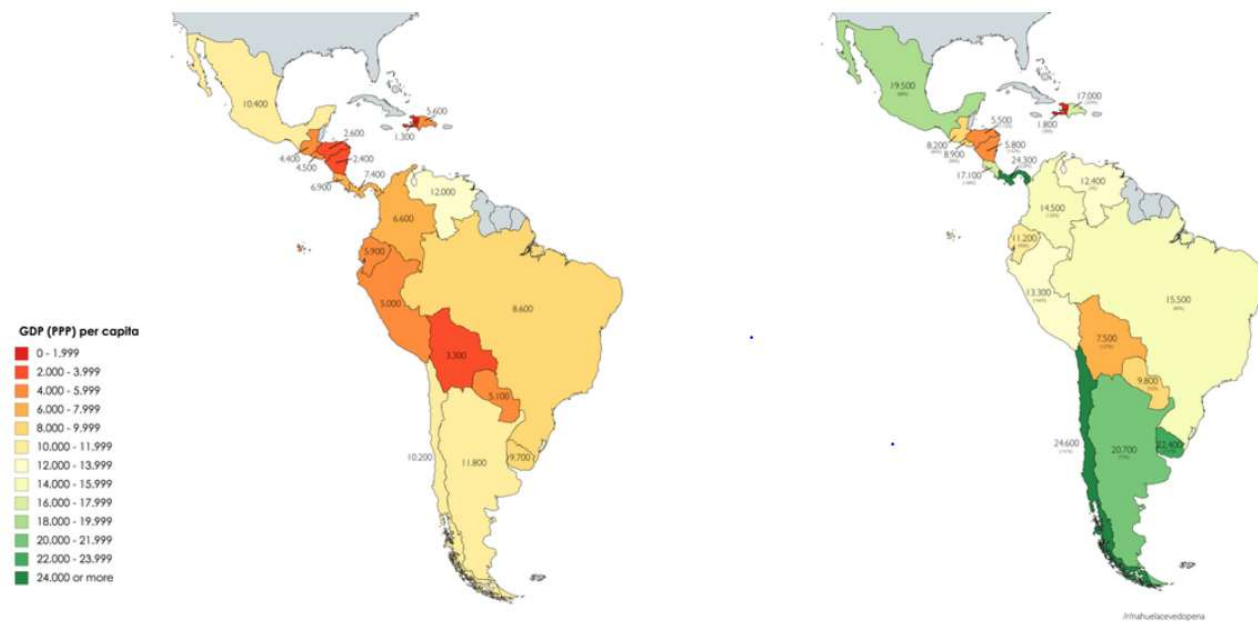
GDP PER CAPITA IN LATIN AMERICA MOVING TOWARDS DISCRETIONARY TERRITORY

Year	GDP/capita	Annual growth	Dates
2001	6937		
2005	7465	1.85%	2001-2005
2009	8157	2.05%	2001-2009
2013	9109	2.30%	2001-2013
2015	9886	2.60%	2001-2015

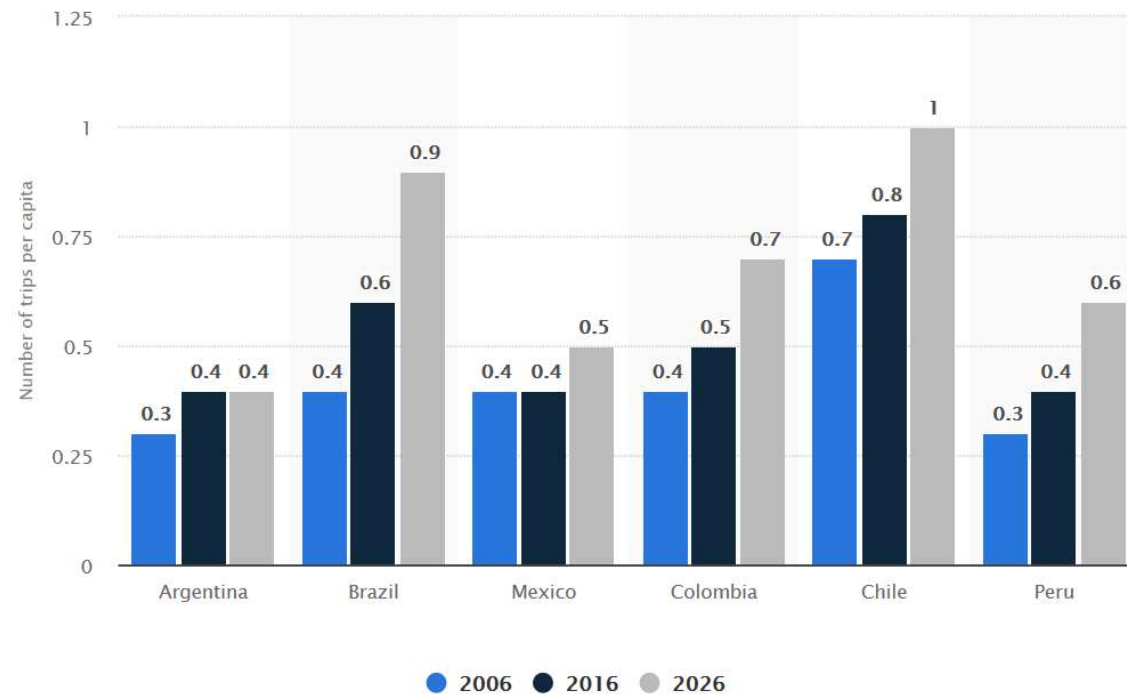
LATIN AMERICA MOVING TOWARDS 20k USD PER CAPITA INCOME TIPPING POINT

GDP (PPP) per capita in Latin America in 1997 and 2017 [OC][6596x3108] (i.redd.it)

submitted 6 months ago by [nahuelacevedopena](#)
 134 comments share save hide report

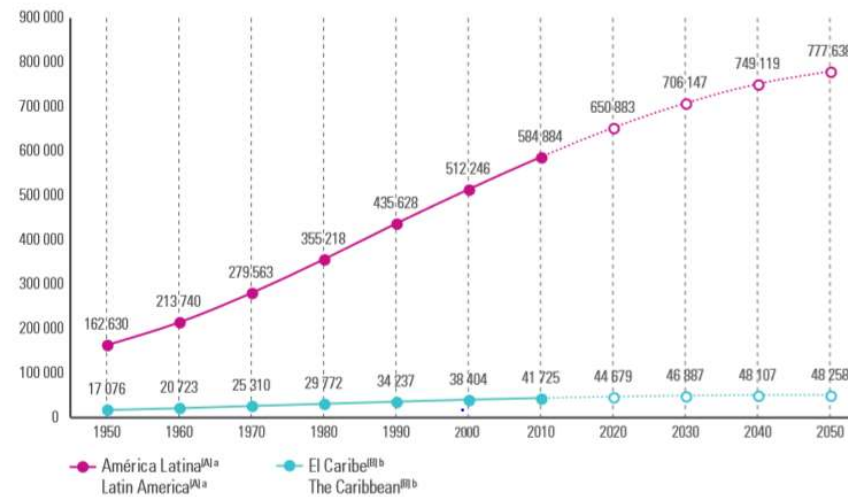


...BY 2016....TRIPS PER CAPITA GROWING... AND PLENTY OF ROOM TO GROW..... (Source: Statista)



LATIN AMERICA AND THE CARRIBBEAN POPULATION GROWTH TAILWIND (ALMOST 700 M BY 2020)

1.1.3 América Latina y el Caribe: proyecciones de la población total, por decenios, 1950-2050
Latin America and the Caribbean: projected total population, by ten-year period, 1950-2050
 (En miles de personas a mitad de cada año/Thousands of people at mid-year)



^{IA} CEPAL, Revisión 2016. Base de datos de población.

^{IB} DPNU, Panorama de la Población Mundial. Revisión 2017.

^a Incluye 20 países.

^b Incluye 26 países.

^{IA} ECLAC, The 2016 Revision. Population database.

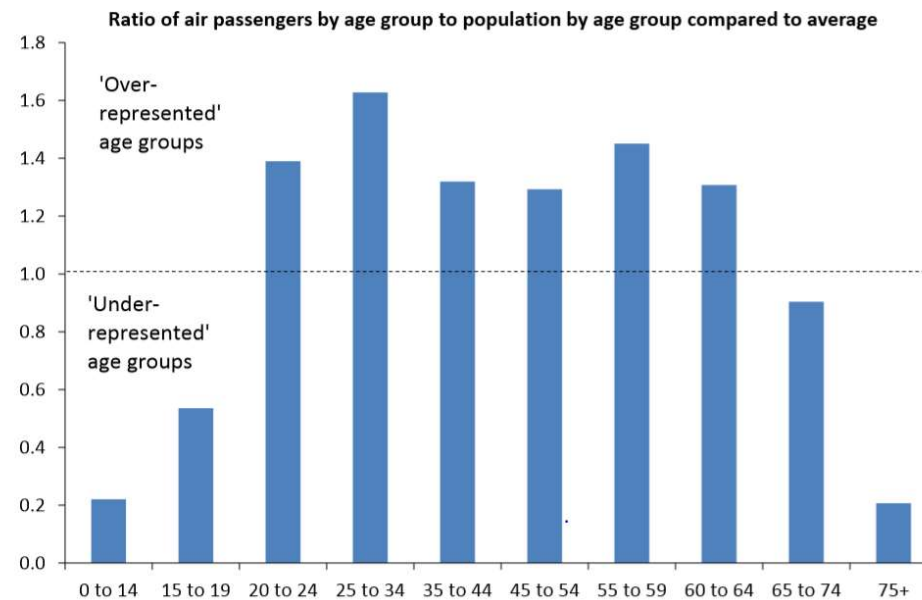
^{IB} UNPD, World Population Prospects. The 2017 Revision.

^a Includes 20 countries.

^b Includes 26 countries.

MEDIAN AGE IN LATIN AMERICA IS 31 YEARS, MORE WORKING AGE....MORE TRIPS

Working-age population makes more trips



Source: UK CAA

COPA IS CONSISTENTLY PROFITABLE...(IS THIS AN AIRLINE?)

2019 Investor Day, December, 2019

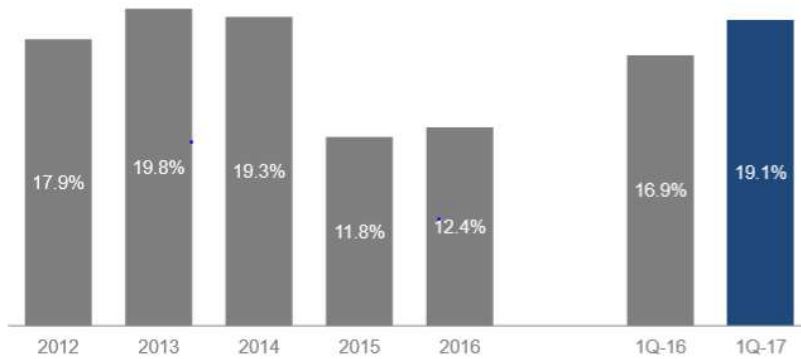


COPA IS CONSISTENTLY PROFITABLE...(IS THIS AN AIRLINE?)

2017 Investor

Profitability – Solid Track Record

OPERATING MARGIN



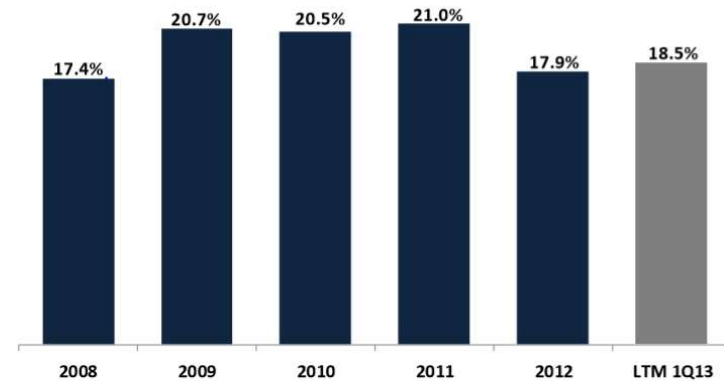
Note: Reported under IFRS. Excludes special items.



2012 Investor Day

Industry Leading Profitability

OPERATING MARGIN



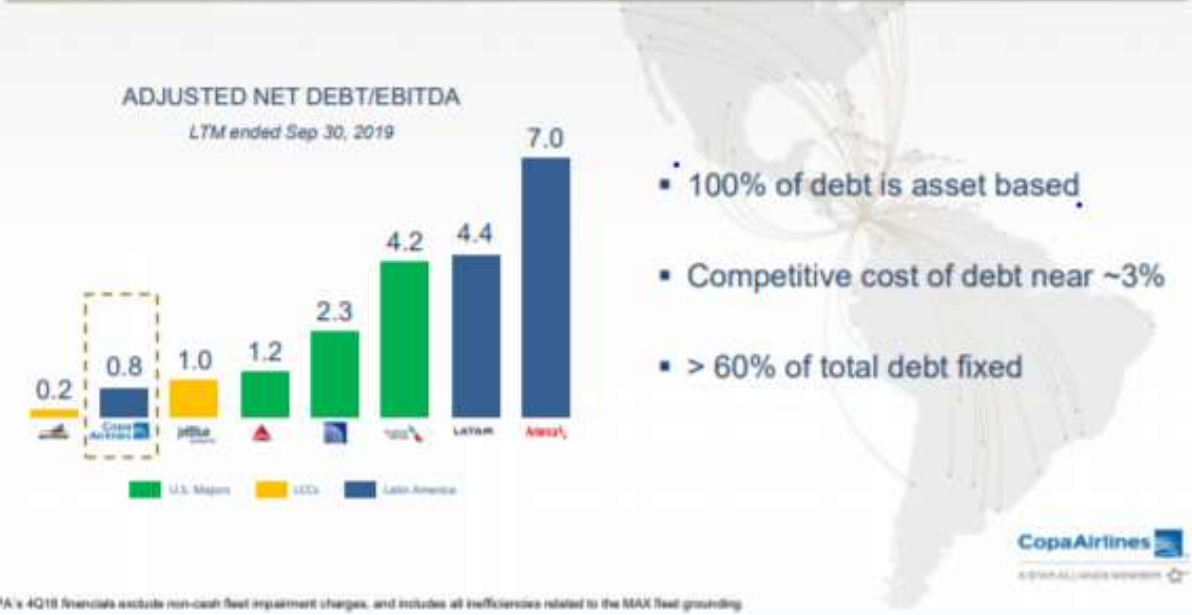
Conectados todo es posible

Note: 2008 reported under USGAAP/ 2009-2013 reported under IFRS. Excludes special items.³³



THE STORY REMAINS THE SAME: PRUDENT BALANCE SHEET MANAGEMENT (2019 Investor Day)

Solid Balance Sheet: Low leverage



THE STORY REMAINS THE SAME: PRUDENT BALANCE SHEET MANAGEMENT

2017 Investor Day

Solid Balance Sheet: Low Leverage

ADJUSTED NET DEBT/EBITDAR



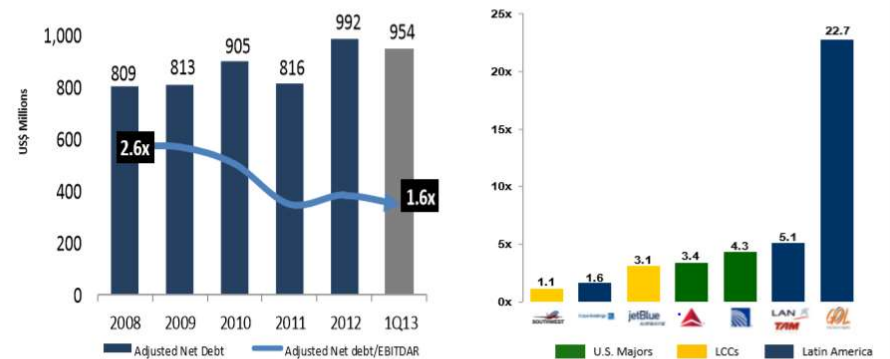
Note: Calculations excludes all cash in Venezuela. Excludes special items. Updated to LTM 3Q17.



2012 Investor Day

Solid Balance Sheet: Leverage

Adjusted Net Debt/EBITDAR

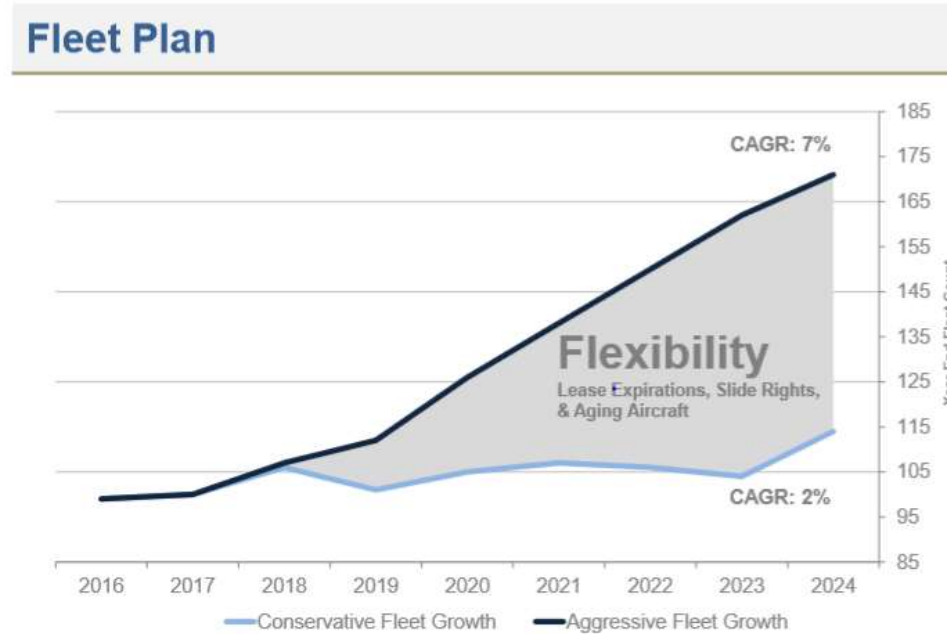


Note: 2008 reported under USGAAP/2009-2013 reported under IFRS. Excludes special items.

Conectados todo es posible



PRUDENT FLEXIBILITY IN FLEET PLAN (source: COPA investor day, 2017)



LCCs EXPANDING IN LATIN AMERICA REPRESENT A THREAT TO MARGINS....

- Spirit, Grupo Viva, Volaris, JetBlue, Azul
- COPA enters market with Wingo
- Need to continue monitoring issue

LCCs AS A THREAT: COPA ENTERS THE LCC MARKET

(graphic: source COPA)

wingo



9 countries,
15 cities, 17 routes
to the Caribbean and some
major Latin American cities



- **Copa Airlines'** Colombian **LCC** based in BOG
- **4 single cabin B737-700s** (142 leather seats, 28 of those with extra pitch)
- Majorly **point-2-point** service
- **9 initial ancillary products**, 2 free services (carry-on & water)
- Value proposition
The Way to Fly: **fly well, feel well, at low prices**
- In service since December 2016

APPENDIX B. OTHER

Protecting minority investors (ahead of Africa)

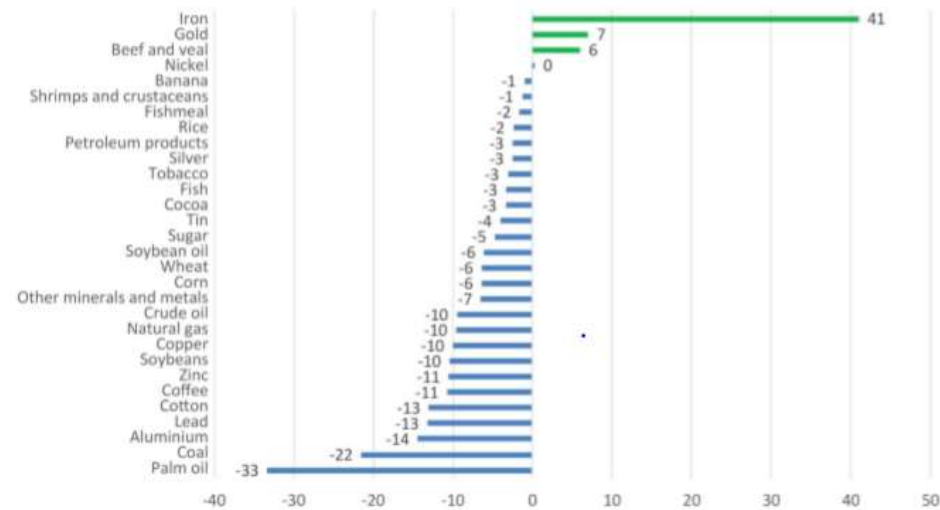
Source: World Bank

Economy ▼	DB 2019	DB 2020
▼ Region		
East Asia & Pacific	48.2	49.7
Europe & Central Asia	59.7	61
Latin America & Caribbean	47	47.3
Middle East & North Africa	50.7	51.9
OECD high income	67.9	68.2
South Asia	57	57
Sub-Saharan Africa	38.4	38.5

DROP IN COMMODITY PRICES NOT HELPFUL FOR LATAM

Across-the-board fall in commodity prices

Latin America and the Caribbean: projected variation in prices of major export commodities in 2019
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the United Nations Conference on Trade and Development (UNCTAD), the World Bank, the Economist Intelligence Unit, International Monetary Fund (IMF), and specialized websites.

Current Latin America issues

- Argentina after Macri
- Is AMLO the next Chavez?
- Narco impact
- Low growth/the Canary?