### Methodology

For this fifth edition of the Latin American M&A Spotlight, Mergermarket interviewed 50 investors and corporate executives who focus on the Latin American region. Respondents provided their perspectives on the region’s M&A environment, which help illuminate current and potential trends in Latin America’s M&A market over the next year. All respondents are anonymous and results are presented in aggregate.
Dear Reader,

Welcome to this year’s edition of the Latin American M&A Spotlight, brought to you by Mergermarket and Greenberg Traurig.

Latin America continued to endure subdued transaction activity during turbulent times in 2016. Low economic growth and weak oil and commodities markets negatively impacted M&A activity, especially in an economy that traditionally relies on the oil and gas and mining sectors for growth. High corruption levels deterred some would-be dealmakers, although currency depreciation, particularly in Brazil and Argentina, made these countries more attractive to foreign investors.

Intraregional deals gained more traction in 2016, with energy and resources; consumer; and technology, media and telecoms attracting the most investment. Reforms and initiatives driven by governments in Chile, Peru, Argentina and Mexico may pique the interest of private investment and drive further M&A activity in the region. Meanwhile, reforms in the mining sector also indicate a rise in activity over the next 12 months. The consumer and retail sector is also looking positive, with a growing middle class, the large domestic markets of Brazil and Mexico, and improved access to credit spurring M&A activity.

North America and Europe have led cross-border M&A activity in Latin America as companies from these economies look to capture investment opportunities in developing markets.

While respondents are optimistic about the prospects for dealmaking in the year ahead, they are also aware of the challenges that the coming 12 months may present. So while 2017-18 is ripe with opportunities, dealmakers should proceed with caution.

We hope that you find this report useful and, as always, we welcome your feedback.
FOREWORD

Fewer deals, more spending
The number of deals in Latin America in 2016 fell for the fourth consecutive year to 549, down 8.5% from the previous year. Yet market value stepped forward 9% year-on-year to US$84bn, thanks especially to select mammoth acquisitions by foreign players.

Home-grown renewal?
Respondents unanimously predict that Latin American firms will play a larger role in acquisitions going forward, both within the region and farther afield. In addition to highly developed markets, they’ll be hunting for deals in Eastern Europe and in Africa, respondents say.

Foreign interest
The value of deals led by bidders based outside Latin America in 2016 grew by 46% against the previous year to US$54.5bn as weaker currencies in Brazil and Argentina spurred outside interest from buyers based in Europe, Asia and North America. The figures suggest foreign buyers chose targets carefully in a negative growth environment however, with the number of inbound deals dropping 12%.

Brazil in focus
Powerhouse Brazil dominated 2016 with US$52.8bn worth of M&A activity, over half the entire value of Latin America and 64% more than the previous year. Yet activity in Argentina rose too as investors applauded President Mauricio Macri’s business-friendly reforms. Looking ahead, respondents say Chile, with its relative stability and diversity of exports, will tempt bidders and private equity (PE) players in 2017-18.

Energy and resources
The energy, mining and utilities sector’s US$43bn deal volume accounted for just over half of M&A market value in the region, rising in absolute and relative terms from 2015, when the sector’s US$24bn made up less than a third of activity. Survey results suggest consumer, infrastructure and telecommunications sectors will be more prominent going forward. Meanwhile, respondents say lower-for-longer oil prices would steer dealmaking away from Brazil and Argentina, towards Chile and Mexico.
Investors in Latin America took careful aim in 2016, targeting fewer deals but spending more than the previous year amid cautiously optimistic forecasts that the worst of the region’s economic woes may be over.

The overall number of deals declined for the fourth consecutive year to 549, although the total volume expressed in dollar terms recovered 9% to US$84bn. That higher value, however, still represents a stark decline from a recent relative peak in 2014, when 623 deals yielded a combined US$131.2bn.

Brazil, the region’s largest M&A market, singlehandedly accounted for the lion’s share of the value increase for 2016, rising 64% year-on-year to US$52.8bn as oil prices rebounded from early lows, energy firms divested assets and economists predicted the country’s punishing recession would give way to fragile growth in 2017.

That made Brazil solely responsible for more than half of the total M&A transactional value for Latin America in 2016. Yet the number of deals in Brazil declined by over 15% to 269, compared with 318 deals in 2015.

The impeachment of Brazilian President Dilma Rousseff in August began to reassure some investors that the country’s political storms were passing — until her successor, Michel Temer, became embroiled in a political scandal of his own, facing calls to resign amid bribery accusations and placing the country’s political future back on shaky ground.

Argentina was another achiever in 2016, witnessing an almost five-fold increase in deal volume to US$5.2bn, along with a bump in the number of deals to 41 compared to 29 the year before.

The increase suggests that the business-friendly reforms of Argentinian President Mauricio Macri, who loosened capital controls and settled a dispute with his country’s bondholders, are paying dividends.

Mexico, however, bucked the regional trend of fewer, larger deals, with a higher number of transactions (rising to 90 from 85 year-on-year) but a lower total value (US$6.1bn in 2016 versus US$17.8bn in 2015). That change alone accounted for the bulk of the overall reduction in the market value of deals in Central America to US$6.3bn from US$20bn the previous year.

Expectations for growth in Mexico deteriorated from mid-2016. This was due, in part, to slackening demand and significant policy uncertainty in the U.S., where businessman Donald Trump rode to the presidency on a pledge to reorder trade policy to America’s advantage.

The increase in market value of Latin American dealmaking reflected in the data is largely due to spending by acquirers from beyond Latin America’s borders, especially in Europe, Asia-Pacific and the U.S. Inbound interregional market volume rose to US$54.5bn in 2016 from US$37.3bn the year before, as currency depreciation in Brazil and Argentina attracted buyers.

Indeed, the region continued to suffer economically as Brazil, Argentina, Ecuador, Venezuela and Belize all endured painful recessions.

But looking forward, the World Bank and the International Monetary Fund (IMF) both predict that two years of economic contraction in Latin America will come to an end with a return to modest growth in 2017.

According to the World Bank’s January 2017 forecast, combined real Gross Domestic Product (GDP) in Latin America and the Caribbean could rise 1.2% over the following year, and that the pace of growth would accelerate to 2.6% annually by 2019. The region’s economy contracted by 0.6% in 2015 and by 1.4% in 2016.
RETURN TO GROWTH — AND MORE DEALS?
A majority of respondents (64%) expect overall Latin American M&A activity to increase over the next 12 months, a sentiment that dovetails with economists’ forecasts for a return to regional economic expansion in 2017.

Yet optimism is restrained. Only a slim fraction (6%) of respondents expect this increase to be significant, while 58% foresee a more moderate rise.

“Overall economic conditions across the Latin American region have improved,” says the head of corporate development at a firm based in Mexico. “This has increased public spending, which is a growth sign for the consumer sector as well as for the technology industry.”

RISKS: OIL AND POLITICS
Yet the region still faces risks from a potential deterioration of commodities prices and international political uncertainty.

The price of oil, an export vital to many Latin American economies, plunged in the opening days of 2016 before staging a recovery. Crude plummeted below US$30 per barrel but rebounded to US$40–US$50 per barrel for much of 2016.

“Inbound M&A from non-Latin American bidders is not likely to increase due to economic sluggishness and the worsening political climate.”
Managing director, investment bank

What do you expect to happen to the level of activity regarding the following types of deals over the next 12 months? (Choose one per deal type)

<table>
<thead>
<tr>
<th>Inbound cross-border M&amp;A with foreign (non-Latin American) bidders</th>
<th>Intraregional M&amp;A activity within Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Somewhat increase</td>
<td>60</td>
</tr>
<tr>
<td>Significantly increase</td>
<td>50</td>
</tr>
<tr>
<td>Somewhat increase</td>
<td>40</td>
</tr>
<tr>
<td>Remain the same</td>
<td>30</td>
</tr>
<tr>
<td>Somewhat decrease</td>
<td>20</td>
</tr>
<tr>
<td>Significantly increase</td>
<td>10</td>
</tr>
<tr>
<td>Significantly increase</td>
<td>0</td>
</tr>
</tbody>
</table>

What do you expect to happen to the level of overall Latin American M&A activity over the next 12 months?

- Somewhat increase: 6%
- Significantly increase: 2%
- Remain the same: 34%
- Somewhat decrease: 58%
Politics, at home and abroad, is another wild card, and may prompt potential buyers to wait for clarity.

U.S. President Trump’s protectionist rhetoric has caused ripples of uncertainty throughout the region, especially in Mexico, where news of Trump’s victory in November hammered the Mexican peso. Trump’s plans to increase spending on infrastructure and cut taxes have also heightened concerns about higher borrowing costs in the future.

Those factors, along with uncertainty about energy prices and the fragility of the economy, pose threats to the region’s financial recovery in the year ahead.

“Latin America too has been affected by the global crises,” says the managing director of a Brazilian investment bank. “All the major economies here are bracing for a slowdown and are not able to keep up to the growth expectations. We cannot expect M&A to increase at a time when this uncertainty is expected to continue.”

FOREIGN INTEREST, DOMESTIC INTEREST

In 2016, investors from outside Latin America spent US$54.5bn on regional assets, 46% more than the previous year, according to Mergermarket data.

But in 2017, respondents are more bullish about the prospects for home-grown acquirers than they are about interest from outside the region.

Respondents unanimously said intraregional M&A will rise over the next 12 months, and a majority (52%) predict the rise will be significant. The remainder (48%) said M&A activity by Latin American-based companies buying within the region will increase somewhat.

“Latin American countries will be more comfortable with doing M&A regionally,” the managing director of one investment bank says. “They understand the regional market better and are well aligned with each other. The chances of success in M&A are much higher for them. International players will reduce their outreach in Latin America because of the uncertain environment.”

Indeed, expectations are conservative for an expansion of inbound interregional activity.

In which Latin American countries/regions do you expect to see the highest levels of inbound M&A activity involving the following bidders over the next 12 months? (Select up to three countries/regions per bidder)
Only 2% of respondents believe cross-border M&A from non-Latin American bidders will significantly increase, although a majority (58%) say inbound, cross-border M&A activity will increase somewhat.

Some 28% said the inbound activity will remain the same, and a few (12%) expect a decrease.

“Inbound M&A from non-Latin American bidders is not likely to increase due to economic sluggishness and the worsening political climate,” says one managing director of an investment bank. “International bidders are afraid of getting into trouble, especially when it comes to political issues. Intraregional M&A will increase, but not significantly.”

CHILE RISING?

Respondents tapped Chile as the single country most likely to attract fresh inbound M&A activity from both regional and non-Latin American acquirers alike (although Central America, broadly, is seen as the top target for bidders from within Latin America). Indeed, in 2016, Chile saw Foreign Direct Investment (FDI) from the U.S. equal to more than a tenth of the value of its entire economy in 2016, according to World Bank figures.

While heavily reliant on copper, Chile’s relative diversity of commodity exports helped the country avoid a stark downturn in 2016, and has helped ensure several years of uninterrupted economic growth.

The number of deals in the country expanded to 54 in 2016 from 37 the year before, although the combined market value of those deals fell to US$10.2bn last year from US$17.5bn in 2015.

Along with Chile, Mexico is also seen as garnering high levels of inbound activity from bidders outside Latin America.

“Growing confidence in the Latin American region and the favorable valuations and regulatory reforms are the main attractions for acquirers from Western Europe.”

Head of corporate development, Latin American firm
“Brazil is rich in terms of resources, and the dipping value of the real is attracting U.S. acquirers,” says the managing director of a private equity firm. “They are able to target larger businesses which will increase their strength in the Latin American market.”

Acquirers from the developed regions of North America, Western Europe and Asia-Pacific are seen as dominating the field for incoming M&A interest from outside of Latin America.

Indeed, the largest deal tracked by Mergermarket in 2016 in Latin America was an agreement by State Grid Corporation of China, through its subsidiary State Grid International Development Co., to acquire a 23% stake in Brazilian energy generation and distribution firm CPFL Energia SA from Camargo Correa SA for US$12.4bn.

“As respondents predict rising interest from acquirers within Latin America, they also named Brazil, Mexico, Chile and Argentina as the most likely launch pads for intraregional activity.”

Which Latin American countries will have the most acquirers of other Latin American targets in the next 12 months? (Select up to three)

Brazil 92%  
Mexico 82%  
Chile 58%  
Argentina 40%  
Colombia 10%  
Venezuela 8%  
Peru 6%  
Bolivia 4%

What do you expect to happen to the level of cross-border M&A activity involving Latin American bidders and non-Latin American targets over the next 12 months?

Significantly increase 30%  
Somewhat increase 62%  
Remain the same 8%
energy sector, polled close behind Brazil, and was named by 82% of respondents.

"New regulatory reforms are attracting foreign acquisitions in the energy and telecom sectors in Mexico," says the director of corporate finance for a Latin American company. "Mexican businesses are proving to be very attractive targets thanks to these structural amendments."

Meanwhile, Latin American firms are seen as increasingly likely to seek acquisitions outside South and Central America.

An overwhelming 92% of survey respondents said outbound interregional acquisitions from Latin American firms is set to increase, with almost one-in-three saying the increase will be significant.

In 2016, however, outbound interregional deals by Latin American acquirers followed the overall regional trend of fewer deals for greater value, with 30 deals in 2016 versus 45 in 2015, and a total volume of US$10.7bn in 2016 up from US$6.8bn a year earlier.

"Acquiring assets outside of Latin America to get global exposure is a growing trend among Latin American companies," says a managing director of an investment bank who believes cross-border activity involving Latin American bidders is set to expand significantly.

In 2016 the largest glassmaker in Mexico, Vitro S.A.B. de C.V., spent more than US$1bn buying assets in the U.S. from PPG, the Pittsburgh, Pennsylvania-based supplier of paints and specialty materials.

In July 2016, Mexican baking products multinational Grupo Bimbo completed its US$206m acquisition of Panrico S.A.U., the Barcelona-based supplier of bakery and bread products, after finally receiving approval from the Spanish government for a deal that had been first announced a year earlier.

Which regions will offer the most attractive outbound M&A opportunities for Latin American bidders over the next 12 months? (Select up to three)

- 72% North America
- 72% Western Europe
- 34% Eastern Europe
- 48% Africa
- 2% Middle East
- 70% Asia-Pacific

"Acquiring assets outside of Latin America to get global exposure is a growing trend among Latin American companies."

Managing director, investment bank
North America, Western Europe and Asia-Pacific continue to be seen as the most attractive hunting grounds for Latin American bidders, with only 2% between the three regions.

“The European market is going to see the most outbound activity,” predicts the head of corporate development for one firm active in the region. “Developed businesses are always looking to take advantage of the high standards and significant demand environments there. The superior consumer market is very attractive to Latin American acquirers.”

Yet as global ambitions rise among Latin American firms, interest is percolating up in new markets — especially Africa and Eastern Europe.

Notably, almost half of the respondents named Africa as a region that will offer the most attractive outbound M&A opportunities for Latin American bidders over the next 12 months.

Interest in Eastern European targets spiked this year, too, according to the survey results.

Roughly a third of respondents said Eastern Europe would offer the most attractive outbound M&A opportunities for Latin American firms in the next 12 months. A year earlier, the corresponding share of respondents who called Eastern Europe an attractive locale for acquisitions was less than half that figure (16%).

Respondents agree that the hottest sectors for Latin American M&A in the near future will be consumer products and retail, infrastructure, and technology, media and telecommunications (TMT). Every respondent surveyed concurred that M&A activity would increase in each of those sectors over the next year.

“There is momentum in all these sectors,” one corporate executive says. “The potential growth in areas like consumer and TMT is higher because the market has changed. Companies doing deals here are able to expand their business and earn higher revenue and profit.”

An emerging regional middle class should create incentives for international players to tap into Latin American consumer goods markets, respondents said.

What do you expect to happen to the level of Latin American M&A activity in the following sectors over the next 12 months?

<table>
<thead>
<tr>
<th>Sector</th>
<th>Increase</th>
<th>Decrease</th>
<th>Remain the same</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Products/Retail</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TMT</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing, Industrials and Chemicals</td>
<td>78%</td>
<td>16%</td>
<td>6%</td>
</tr>
<tr>
<td>Commodities and Natural Resources</td>
<td>64%</td>
<td>34%</td>
<td>2%</td>
</tr>
<tr>
<td>Energy</td>
<td>62%</td>
<td>26%</td>
<td>12%</td>
</tr>
<tr>
<td>Financial Services</td>
<td>58%</td>
<td>30%</td>
<td>12%</td>
</tr>
<tr>
<td>Business Services/Managed Services</td>
<td>54%</td>
<td>36%</td>
<td>10%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>50%</td>
<td>20%</td>
<td>30%</td>
</tr>
<tr>
<td>Construction</td>
<td>48%</td>
<td>22%</td>
<td>30%</td>
</tr>
<tr>
<td>Pharma, Medical and Biotech</td>
<td>42%</td>
<td>52%</td>
<td>6%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>38%</td>
<td>26%</td>
<td>36%</td>
</tr>
<tr>
<td>Government</td>
<td>26%</td>
<td>20%</td>
<td>54%</td>
</tr>
<tr>
<td>Hotels, Travel and Leisure</td>
<td>24%</td>
<td>62%</td>
<td>14%</td>
</tr>
<tr>
<td>Defense</td>
<td>22%</td>
<td>30%</td>
<td>48%</td>
</tr>
<tr>
<td>Transportation</td>
<td>12%</td>
<td>50%</td>
<td>38%</td>
</tr>
</tbody>
</table>
That raises the likelihood of acquisitions by firms aiming to take advantage of a fragile economic recovery that could lift incomes and spending over the next few years.

“Disposable income has increased across the Latin American market as the public’s lifestyle and income has improved,” says a partner at a private equity firm. “This is creating growth opportunities in the region which foreign acquirers are likely to target through acquisitions, as they find it more effective to enter the market through an established operating and sales chain.”

In one 2016 transaction between firms based in Mexico, media group Grupo Televisa de S.A. de C.V. agreed to spend US$70m for a 50% stake of Mexico’s Television Internacional, S.A. de C.V. — the company that provides television, internet and telephone services — from Multimedios Estrellas de Oro S.A. de C.V.

Corporate restructuring is broadly seen as the primary driver of M&A in the region over the next 12 months, followed by strategic moves by corporations to tap high-growth markets as the region returns to growth.

“Companies are restructuring their business activities and adopting new technological changes to improve their performance,” one respondent says. “This process is creating new M&A opportunities.”

Indeed, lower energy prices sparked interest in divestiture programs in countries like Brazil, while Mexican reforms opened the door for oil acquisitions and partnerships with national oil champion Pemex.

Meanwhile, prospects for a return to regional growth may spur M&A activity as firms position themselves to reap the benefits. More than half of respondents said Latin American M&A in 2017 will be driven by attempts to tap high-growth markets.

The persistent difficulty of performing due diligence is seen as the biggest impediment to foreign bidders acquiring assets in Latin America, with 54% of respondents citing due diligence trouble as the top roadblock for incoming M&A interest to the region.

“Jurisdictions here are very different,” says one corporate official. “Different cultures make it challenging to conduct extensive due diligence, which can lead to several different

What will be the biggest deterrents for foreign bidders in Latin America in the next 12 months?

(Select up to three)
What will be the primary driver of M&A interest in Latin America over the next 12 months?

- Increase in corporate restructurings: 72%
- Tapping of high-growth markets: 54%
- Drive to expand market share: 44%
- Stabilizing political and economic environments: 36%
- Consolidation plays: 28%
- Legal/financial reforms: 24%
- More government privatization programs: 20%
- Increase in divestments and streamlining: 14%
- Demographic changes: 8%

What will be the primary driver of private equity interest in Latin America over the next 12 months?

- Opportunity to transform company business models: 38%
- Number of undermanaged businesses to take over: 36%
- Lack of financing options for small and mid-market companies: 14%
- Attractive company valuations in the region: 12%

Types of risk. As a result, foreign acquirers are hesitant to move here, even though they see the potential."

Close behind due diligence issues are concerns about political instability and abiding economic anxiety.

Government intervention and corruption are also seen as important deterrents.

"Government interventions are very likely to happen, and when they do, they can impact foreign acquirers’ objectives,” says a partner in a private equity firm. “Those interventions threaten investors’ strategies and cause some deals to be unsuccessful because investors are then unable to fully leverage their abilities to achieve their expected market share."

The opportunity to transform business models, as well as the sheer number of inadequately managed businesses available on the marketplace, are the main drivers for private equity firms seeking opportunities in Latin America this year, respondents say.

"Businesses here in Latin America are not well structured and there is plenty of scope for improvement,” says the head of corporate development of a Latin American corporation. “Businesses in the region are not that well versed in transformation strategies, and so are inviting private equity investments to help them improve their business approach and performance."

In 2016, Equity International, the U.S.-based private equity firm, agreed to pay US$126m for a 25% stake in Estapar Estacionamentos Participacoes e Servicos SA, a Brazil-based company that provides parking services.

Also in 2016, Southern Cross Group, the Argentina-based PE firm, agreed to acquire Chile-based Petrobras Chile Distribucion Ltda., an operator of fuel service stations and distribution terminals, from Brazilian energy giant Petroleo Brasileiro SA for US$464m. Deal sentiment is positive among respondents with 68% anticipating that PE activity in 2017 will increase, with 14% believing that increase will be significant.

“I would say that we will see a rise in the level of PE activity in the Latin American market,” says the managing partner of one private equity firm. “The region is currently attractive thanks to its rich resource base and favorable operational costs, which makes profit margins higher.”
What do you think will happen to the amount of private equity activity in Latin America over the next 12 months?

- Significantly increase: 14%
- Somewhat increase: 32%
- Remain the same: 54%

In which Latin American countries will the most private equity activity take place? (Select up to two)

- Brazil: 36%
- Mexico: 48%
- Chile: 68%
- Peru: 16%
- Venezuela: 2%
- Colombia: 24%
- Bolivia: 16%
- Argentina: 30%
- Chile: 68%
- Not recorded

With relative stability and a growing economy, Chile has overtaken the two big regional powerhouses, Brazil and Mexico, to become the most attractive country for private equity firms, according to our respondents.

Chile enjoys a reputation for sound economic policy and boasts the highest sovereign debt rating in South America. The country’s annual economic growth rates have bested the Latin American average for several years running, and policymakers have lately pursued an expansionary fiscal policy aimed at promoting growth.

Meanwhile, if predictions of stronger global economic growth going forward are realized, the price of Chile’s key export, copper, may stand to benefit.

Chile also enjoys a reputation for being relatively corruption-free. The country ranked 23rd out of 167 countries in Transparency International’s Corruption Perceptions Index 2015 — better than France or Spain, and better than any other country in Latin America with the exception of Uruguay.
After Chile, respondents are looking to Mexico for new private equity activity. 

“The lack of suitable targets in Brazil is driving private equity investments in Mexico,” says a group head of corporate strategy for a large international corporation active in Latin America.

For the region as a whole, respondents are generally optimistic about opportunities for private equity fundraising, although only 4% called the environment highly favorable.

“The fundraising environment is somewhat positive,” says a managing partner for a private equity firm. “Long-term investments have increased and investors are looking to contribute to the development of the region, which is likely to drive investments across the Latin American market.”

The prospect of lower oil prices for an extended period of time is seen as a potential impediment to dealmaking in Brazil and Argentina. Conversely, M&A activity would likely rise in Chile and Mexico if energy prices are subdued, respondents say.

Global oil prices collapsed from relative highs in late 2014 amid higher output volumes in the U.S. and slackening demand from China. While prices stabilized in the second half of 2016, the potential for another price collapse poses a challenge to economic growth throughout the region.

What is the outlook for private equity fundraising for Latin America-focused funds in the next 12 months?

If oil prices stay “lower for longer,” how will that impact Latin American M&A in these Latin American countries in the next 12 months?
Yet despite recent oil price weakness, a prolonged energy boom in the 2000s helped foster a growing middle class in Latin America and reduced poverty, opening opportunities for investment in consumer goods to meet popular demand.

“A fall in prices would reflect positively on consumer market investments, and more deals would be likely to be made in this sector as compared to the oil and gas sector,” says one group head of corporate strategy. “Investors will look to diversify their investment allocations into new business sectors.”

Despite turbulence across global stock markets, 48% of respondents believe that the number of initial public offerings (IPOs) of Latin American companies appears set to grow.

Indeed, Brazil’s benchmark Bovespa Index ranked among the hottest equity performers in the world in 2016, notching gains of 68.9% in U.S. dollar terms, according to FactSet. The rally gained momentum with rising certainty over the impeachment of Brazilian President Rousseff, who was replaced by Michel Temer.

Alongside Brazil, equity indices also notched gains in Argentina, Chile, Colombia, Mexico and Peru.

“There have been a lot of governmental changes across Latin America. We feel these changes will help stimulate markets and facilitate IPOs.”

Executive, Latin American firm

Yet some respondents felt opportunities for firms to tap equity capital markets will be diminished.

“The market is not right for an IPO and we expect the market conditions to become worse,” says one managing director at an international investment bank. “The stock market will not grow and will remain low. Investors will avoid investing in the stock market, making it difficult to carry out IPOs.”

Brazil-based medical imaging provider Centro de Imagem Diagnosticos S.A, commonly known as Alliar, and its shareholders raised US$243m in October 2016 in the country’s first IPO of the year.

In January 2016, Mexican homebuilder Javer raised US$100m from the IPO of a 34% stake. Most respondents believe that the election of Pedro Pablo Kuczynski Godard in Peru will have a positive effect on the country — although a fifth of respondents believe nothing will change.

Kuczynski Godard, seen as politically center-right, is a free-market advocate who has pledged to fight corruption, lower taxes on small businesses and expand access to credit.

“The newly elected president will impact the Peruvian economy in very positive ways,” one executive says. “There is talk that the government will open up different sectors and make investments easier, creating new opportunities for investors.”

When it comes to Cuba, a majority feel that the U.S. trade embargo continues to be the biggest stumbling block to investment. However, a third believe that the local regulatory environment could be a minefield for outside investors.

“U.S.—Cuba relations have historically been problematic,” one executive explains. “This has been the biggest issue for Cuba. The trade embargo limits the amount of business Cuba’s partners can do with the country.”

Few in the Latin American business community believe Cuba will become a hotbed of M&A activity any time soon, even if the U.S. embargo on the country were lifted immediately.

An overwhelming majority of respondents (52%) believe it will take at least two to four years for a more developed M&A market to be established on the island once the U.S. embargo is lifted. Over a third (36%) believe it would take more than four years.

[continued on page 18]
What do you think will happen to the number of IPOs of Latin American companies over the next 12 months?

- 22% Somewhat decrease
- 30% No change
- 48% Somewhat increase

What kind of effect will the newly elected Pedro Pablo Kuczynski Godard administration have on M&A activity in Peru and the wider Andean region?

- 20% No change
- 28% Significantly positive
- 52% Somewhat positive

What is the biggest stumbling block to Cuban investment at the moment?

- 44% US trade embargo
- 32% Local regulatory environment
- 10% Migration out of Cuba
- 8% Cuban bureaucracy
- 6% Lack of democratic government
If the current effort to lift the U.S. embargo on Cuba were to be ratified into law, how long would it take for a more developed cross-border M&A market to take shape in the country?

52% Two to four years

36% More than four years

12% Six months to two years

A majority of respondents (52%) believe it will take at least two to four years for a more developed M&A market to be established on the island of Cuba once the U.S. embargo is lifted.

“It will take time for the country to attract businesses into the marketplace,” a director of strategy for a Latin American corporation says. “There is a need for new laws, both to attract companies as well as investors. It will take more than just a couple of years for the government to make these necessary changes.”

A pull-back of the Cuban government from its grip over the country’s economic life — to an extent that would permit active M&A — is widely seen as no quick process.

“It will be a long and tedious process for businesses to find opportunities to take advantage of,” the head of M&A for an investment bank says. “There is a need for the government to let go of the control they have over the market, and this will be a lengthy process.”

What impact are the policies of Michel Temer’s presidential administration having on M&A activity in Brazil?

12% Significantly positive

4% Somewhat positive

10% No change

40% Somewhat negative

34% Significantly negative

What impact are the policies of Michel Temer’s presidential administration having on M&A activity in Brazil?

In the wake of Brazilian President Dilma Rousseff’s removal from office on 31, 2016, feelings were divided about the impact that her successor, Michel Temer, would have on the country’s M&A environment. At the time of survey, half of the respondents believed Temer’s policies were having a positive effect on M&A. But a third believed there had been no change. Meanwhile, 16% said Temer’s policies were having a negative impact. We have since seen Temer become subject to a high court investigation following accusations of bribery, which have spurred calls for his resignation.

“We expect changes from the president and expect the new administration to get inflation under control,” one executive says. “We also expect the market to begin..."
“Increased infrastructure spending would boost growth in the market,” says the managing director of an investment bank. “We also feel a change in interest rates would help ease the liquidity crunch companies are facing and help create a capital base to promote business.”

The resolution of Operation Car Wash, a far-reaching graft investigation into dozens of Brazilian politicians, is seen as less impactful for the country’s economy overall than more concrete economic factors like interest rate cuts or currency fluctuations.

Although the World Bank, IMF and others forecast that Brazil will return to weak growth in 2017, an overwhelming majority of respondents (98%) believe the country won’t be free from recession within a year.

More than a third of respondents think that the country won’t recover from its current recession for another two years.
How long do you think it will take Brazil to recover from its current recession?

- 42% Between one and two years
- 36% More than two years
- 2% Between six months and a year

What kind of impact has the new government led by Mauricio Macri had on the M&A market in Argentina?

- 4% Somewhat negative
- 10% Significantly positive
- 22% No change
- 64% Somewhat positive

Only 2% believe Brazil will recover from recession in a time frame of six months to a year from the end of 2016.

ARGENTINIAN PROMISE
The vast majority of respondents have a positive perception of the impact Argentinian President Mauricio Macri is having on the M&A market in his country.

"A change in regulations has been very favorable for companies," one executive says. "With the new administration in place, we expect conditions in the market to improve significantly. This will help boost the M&A market."

There are some vocal dissenters, however: "Capital — or, rather, the lack of capital — is a major problem in our market," says one director of strategy for a Latin American company. "We need the government to control inflation and interest rates. But neither of those is changing for the better. We are not very certain that the current government can effectively tackle the problems facing our economy."

Argentina’s moves to lift capital controls are seen by a plurality of respondents as the single-most important initiative of the country’s reform agenda led by President Macri, who has dismantled most of the country’s currency controls since taking office in December 2015.
The largest challenge facing the Argentinian business environment over the next year will be domestic resistance to austerity measures, according to two thirds of respondents. Respondents also named near-term economic contraction and stifling government regulation and 

The Argentinian government needs to remove capital controls to help the market grow,” one respondent says. “Capital markets are extremely regulated and this leads to a lot of difficult problems.”

Yet a significant minority of respondents say Macri’s key accomplishment has been resolving the country’s dispute with bondholders, allowing Argentina to regain access to global debt markets. Others point to the overhaul of state statistical agencies to provide better economic data to market players.

Macri has also packed his cabinet with businessmen and technocrats, cut taxes and announced new investments in shale oil — all in the name of kickstarting the country’s economy. The World Bank, which estimates Argentina’s economy contracted by 2.3% in 2016, also forecast growth of approximately 3% annually from 2017 to 2019.

The World Bank, which estimates Argentina’s economy contracted by 2.3% in 2016, also forecast growth of approximately 3% annually from 2017 to 2019.

Which of the following has been/will be the most important reform made by the new Argentine government?

- 34% Removal of capital controls
- 26% Deal struck for debt restructuring and repayment
- 26% Overhaul of government statistics agency
- 14% Appointment of technocratic cabinet
What will be the biggest challenges to Argentina’s business environment in the next 12 months? (Select up to two)

- Domestic resistance to austerity measures: 64%
- Anticipated economic contraction in the short term: 44%
- Excessive government regulation and bureaucracy: 30%
- Relative newness to the bond markets: 22%
- High inflation: 22%
- Drop in the value of the Argentine peso due to release of capital controls: 18%

bureaucracy as significant hurdles.” The biggest problems that Argentinian businesses will have to manage is to remain active in an environment where the rules and regulations are getting stricter,” one respondent says. “We expect there to be an increase in austerity measures as the country is expected to default. Inflation has also plagued the market.”

“The country is relatively new to the bond market and because of this investors are skeptical,” says a managing director overseeing M&A at an investment bank. “We also expect a period of austerity measures, which we expect to become stricter and more difficult going forward.”

“The biggest problem that Argentinian businesses will have to manage is to remain active in an environment where the rules and regulations are getting stricter.”

U.S.-based director of corporate strategy
The year 2016 brought economic pain and political turmoil in Latin America — not least to Brazil, the region’s biggest economy and top M&A market. But the seas may be calming in 2017 as new administrations chart courses ahead in Argentina and Peru, and the regional economy begins to expand.

Respondents say commodity price swings will help determine the type and geography of deals, with higher prices favoring Brazil and Argentina, and lower prices favoring Mexico and Chile. Consumer, infrastructure and telecommunications are seen as hot sectors of the future.

The results suggest Chile is a country to watch going forward, with potential for growth in M&A and private equity transactions.

Meanwhile, reform in Argentina seems to be showing results.

Mexico’s fortunes are tied up in yet-to-be-resolved questions about its changing relationship with the U.S.

Respondents hotly anticipate a rise in activity among Latin America-based bidders.
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LATIN AMERICAN M&A SPOTLIGHT

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