Mergers & Acquisitions

in Europe and Latin America 2016

Regional Overview

Introduction

European and Latin American dealmakers continue to weather economic and political challenges that are reshaping markets. In Europe, uncertainty surrounding the UK referendum as well as regulatory and tax concerns have dampened dealmaking. In Latin America, lower commodity prices, currency fluctuation, as well as recession and political developments in certain markets have affected M&A activity.

But Latin America as a region remains full of opportunities specially for investors with an eye for the long term. Lower exchange rates, a growing middle class with increased buying power and discretionary spending in Latin America continue to draw interest from European investors. Strategic investors have also been capitalizing on opportunities to acquire distressed assets at lower prices.

At the same time, Europe has been the target of a growing number of Latin American companies. Due to similarities in language and culture, Spain in particular has served as a gateway for so-called "multi-Latinas" exploring the continent. In fact, Latin American investors served as a shock absorber during Spain's economic downturn.

Despite challenges that have resulted in lower M&A activity between the two regions over the last five years, opportunities in the consumer staples, financials, energy, industrial, telecommunications, healthcare and other key sectors will drive deal activity as markets rebound.

In this report, we take a look at cross-border M&A in Europe and Latin America, as well as some of the drivers that have kept deals flowing. We hope you find this a useful resource as you explore M&A opportunities between the two regions. The last period assessed is FY16, which covers July 2015 to June 2016.

Liliana Espinosa
Head, Latin America
Mergers & Acquisitions
and Private Equity Group

Stéphane Davin
Head, Europe, the Middle East and
Africa Mergers & Acquisitions and
Private Equity Group

Latin America M&A snapshot, FY12-FY16

M&A activity in Latin America saw a decline in FY16. Deal volume totaled 1,217, down from 1,365 in FY15, representing an 11 percent drop. This can be attributed, in part, to an ongoing recession in Brazil and weak economic performance in Mexico — the region's two largest M&A markets.

Deal values, however, rose eight percent from USD91 billion in FY15 to USD98 billion in FY16. Lower exchange rates brought about by a stronger US dollar meant Latin American assets were cheaper to acquire. Other developments such as asset consolidation, restructuring in certain industries as well as corruption scandals have spurred local companies to sell off distressed assets at attractive prices.

Still, dealmaking is expected to pick up as key markets recover. Regulatory developments are in place to attract investment. In Mexico, President Enrique Peña Nieto's policy reforms empower regulators to take down monopolies in the communications sector, and open the energy sector to private investment for the first time in 75 years.

Meanwhile, in Peru, the government has launched a fiscal stimulus program to give the economy a much-needed boost following weak external demand and lower export metal prices. Global demand for Peru's commodity exports is expected to pick up, resulting in a positive outlook for equity prices and deal activity.

Europe M&A snapshot, FY12-FY16

Except for a dip in deal activity in FY13 — when investor concerns over recession in much of the continent resulted in a lackluster period for dealmaking — the last few fiscal years have been a busy period for cross-border M&A in Europe. In FY16, there were 4,184 inbound and outbound deals worth a total of USD673 billion. These represented an increase of 3 percent in volume and 40 percent in value over FY15.

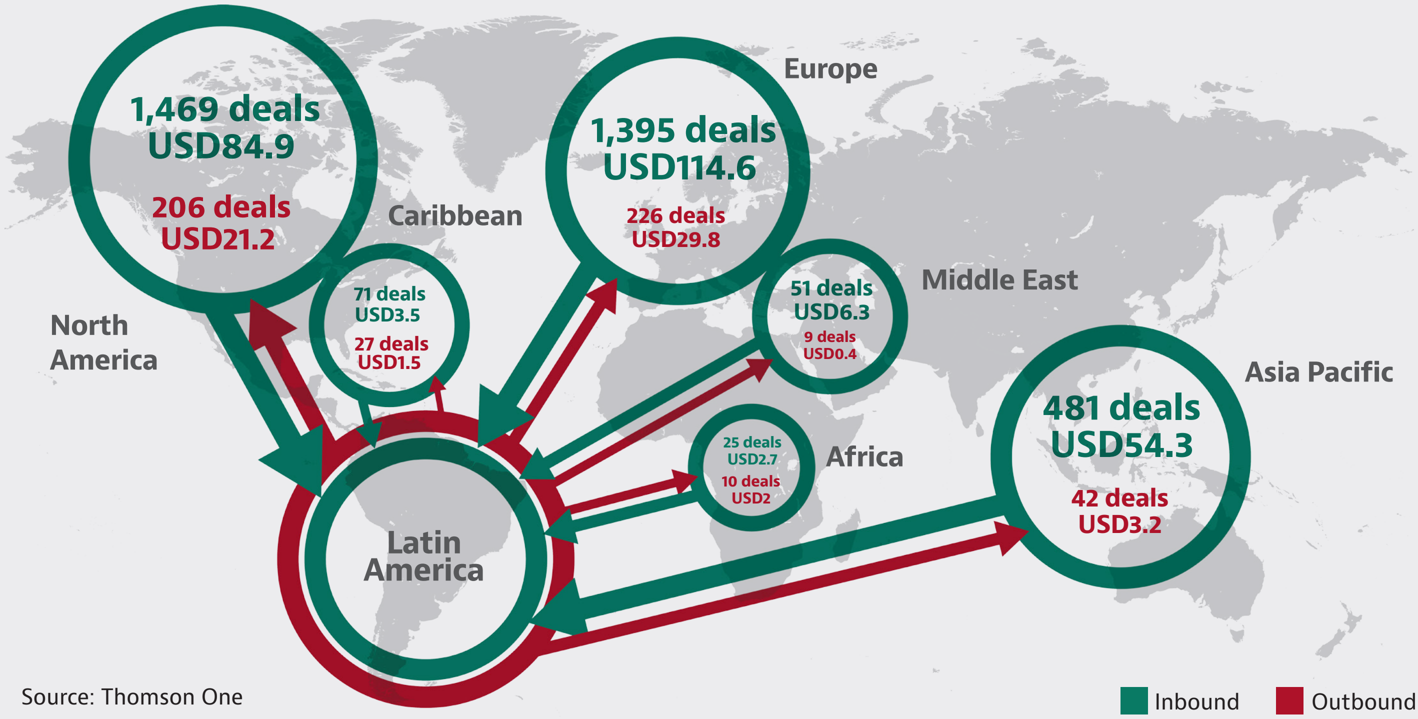
Global M&A activity in Europe has been driven largely by acquirers from the US and China. The US alone accounted for 57 percent of inbound activity over a five-year period. Uncertainty in the lead-up to Brexit, the continuing slowdown in China's economic growth, among others, have dampened deal activity in the latter part of FY16.

European investors such as Spain, the UK and France executed 637 deals worth a total of USD36 billion in Latin America. Notably, Brazil continued to be a top target of European investment despite its shrinking economy; the devaluation in the real may have contributed to M&A activity because potential targets were cheaper to acquire. Latin America's energy, consumer staples and products, industrial and raw materials sectors provided attractive opportunities for European companies.

A growing number of Latin American companies have begun exploring European markets. From FY15 to FY16, deal spending by Latin American acquirers in Europe has doubled. Spain has been a particularly attractive target due to cultural similarities, a robust infrastructure and a geostrategic position that make the country a natural gateway for Latin American companies expanding to Europe. Mexican and Brazilian companies were active in Spain's financial, food, construction and cement sectors.

All values in USDbn

NOTE: Latin America Total M&A includes inbound, outbound and intra-regional deals.
Latin America includes South America and Central America.

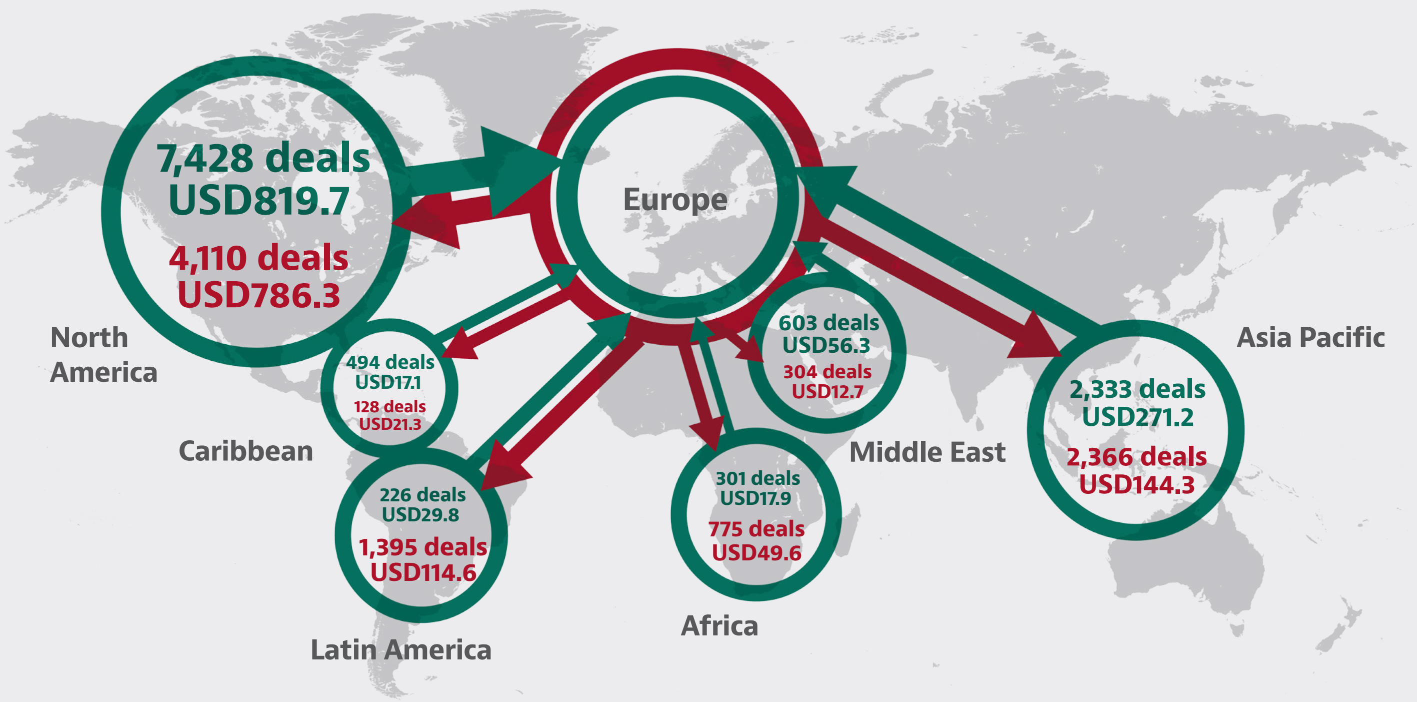


Source: Thomson One

Inbound Outbound

All values in USDbn

NOTE: Inbound includes targets in Europe and acquirer ultimate parents outside Europe.
Outbound includes acquirer ultimate parents in Europe and targets outside Europe.



Source: Thomson One

Inbound Outbound

Inbound Deal Activity

Global inbound M&A in Latin America

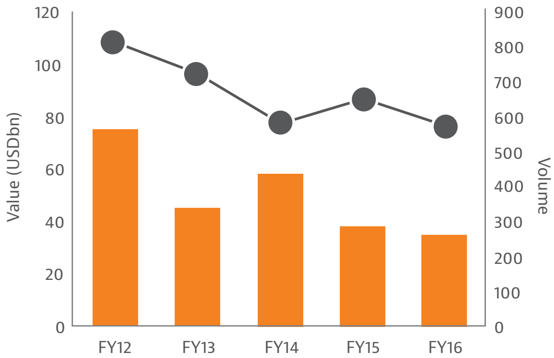
NOTE: Inbound includes targets in Latin America and acquirer ultimate parents outside Latin America. Latin America includes South America and Central America.

The number of inbound deals by overseas acquirers in Latin America declined by 30 percent since FY12. Deal volume rose slightly in FY15 but fell again in FY16. Inbound deal values in FY16 are half of FY12 totals.

Fewer megadeals in the region accounted for the steady decline in inbound deal activity. According to S&P Capital IQ data, there were 17 inbound deals valued at more than USD1 billion in 2014; in 2015, only nine deals were over USD1 billion. (Source: "Deal Trends in Latin America," S&P Global Market Intelligence, March 2016.)

The US was the biggest acquirer with a total of 991 deals valued at more than USD64 billion — more than double the number of inbound deals from Canada and three times the value of deals from Spain, the second most active acquirers by volume and value, respectively.

The raw materials sector was the most active acquirer of Latin American assets, accounting for nearly 40 percent of total inbound M&A at 839 deals worth a total of USD43 billion. Meanwhile, the energy and power sector accounted for the highest deal values at a total of USD60.9 billion.



Source: Thomson One

Value — Volume

Top 5 target industries (in USDbn) FY12-FY16

Energy and power	Materials	Consumer staples	Financials	Industrial
$60.9	$43	$36.8	$23.9	$22.3

Top 5 target industries (by volume) FY12-FY16

Materials	Industrials	Consumer products/ services	Energy and power	High technology
839	410	334	330	288

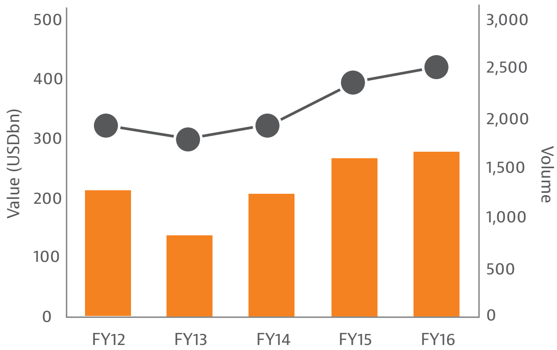
Global inbound M&A in Europe

NOTE: Inbound includes targets in Europe and acquirer ultimate parents outside Europe

Global inbound M&A in Europe has been steady over the last few years. However, fewer megadeals and the economic slowdown in China, the second largest acquirer of European assets, resulted in slower activity between FY15 and FY16 compared to the same period from FY14 to FY15. Meanwhile, US regulator intervention, fueled by antitrust and tax concerns, resulted in the termination of a number of megadeals. (Source: "2016 Is Turning Into a Record Year for Broken Deals in Global M&A," Fortune, 30 June 2016.)

Global bidders executed 2,499 deals in Europe in FY16, up 5.7 percent from the previous fiscal year, with a total value of USD277 billion, an increase of 4.2 percent from FY15. The US has been the biggest acquirer of European assets, accounting for 6,058 deals valued at a total of over USD625 billion over a five-year period.

The financials sector has been the most active in Europe, with global bidders executing 4,320 deals totaling over USD390 billion from FY12 to FY16. Factors such as banking regulatory pressures that have driven many banks to shed non-core assets, and the rise of financial technology which generated significant investments from financial institutions, contributed to activity in the sector.



Source: Thomson One

Value — Volume

Top 5 acquirer industries (in USDbn) FY12-FY16

Financials	Healthcare	Industrials	Materials	High technology	Others
$390	$112	$107	$100	$89	$300

Top 5 acquirer industries (by volume) FY12-FY16

Financials	High technology	Industrials	Consumer products/ services	Materials	Others
4,320	1,305	1,078	657	575	2,555

Outbound Deal Activity

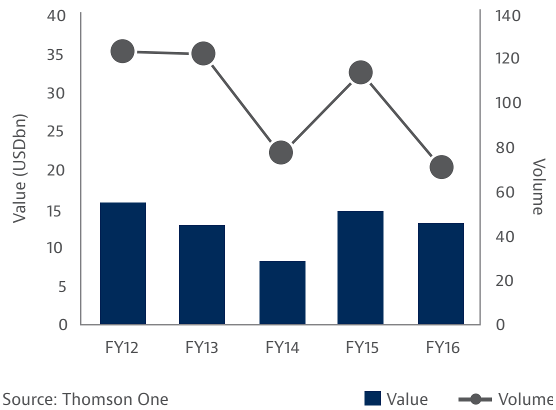
Outbound M&A by Latin American acquirers

NOTE: Outbound includes acquirer ultimate parents in Latin America and targets outside Latin America. Latin America includes South America and Central America.

The recent economic slowdown and commodity price slump meant more domestic companies were selling rather than buying. Latin American bidders executed 70 outbound deals in FY16, down 38 percent from 113 in FY15. Deal values for FY16 totaled USD13.2 billion, down from FY15 figures but higher compared to FY14.

Despite recent events, Brazil remains the region's top acquirer of overseas assets, but other countries are set to expand as the region recovers. "Mexico, Chile and Colombia are drawing a lot of attention from investors, but so is Argentina. We believe those markets will gain momentum in the next few years," says Anna Mello, an M&A partner in Trench, Rossi e Watanabe, a Brazilian firm with a cooperation agreement with Baker McKenzie.

The US has been the most attractive target for Latin American acquirers in the last five years, with 156 deals worth a total of USD16.7 billion. Latin America's financial sector has been the most active acquirers of overseas targets, with 187 deals worth a total of USD24 billion from FY12 to FY16.



Source: Thomson One

Top 5 acquirer industries (in USDbn) FY12-FY16

Financials	Consumer staples	Real estate	Materials	Telecoms
$24	$9.2	$9	$6.3	$6.2

Top 5 acquirer industries (by volume) FY12-FY16

Financials	Materials	Consumer staples	Industrials	Energy and power
187	80	62	35	31

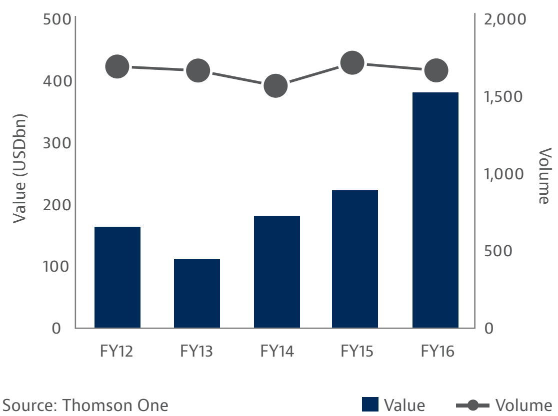
Outbound M&A by European acquirers

NOTE: Outbound includes acquiror ultimate parents in Europe and targets outside Europe.

European bidders executed fewer outbound deals but spent more on M&A in FY16 compared to previous fiscal years. Uncertainties surrounding the UK's relationship with the EU contributed to the slowdown in dealmaking.

On the other hand, M&A spending on overseas assets is up, as evidenced by German companies actively pursuing US targets. German acquirers announced 22 deals worth a total of USD12.3 billion in the latter half of FY16. (Source: Mergermarket global and regional M&A report, H1 2016.) Total outbound deal values in FY16 were more than USD395 billion, nearly double those of FY15.

The US has been the top target of European M&A in the last five fiscal years, with more than 3,000 deals totaling over USD713 billion. European acquirers have spent the most on healthcare assets, with deals amounting to over USD182 billion in total. The industrials sector has seen the highest volume of M&A at 1,325 deals over a five-year period.



Source: Thomson One

Top 5 target industries (in USDbn) FY12-FY16

Healthcare	Industrials	Materials	Consumer staples	Energy and power	Others
$182	$150	$149	$138	$95	$342

Top 5 target industries (by volume) FY12-FY16

Industrials	High technology	Consumer products/ services	Materials	Financials	Others
1,325	1,137	1,025	981	741	3,074

Europe-Latin America M&A

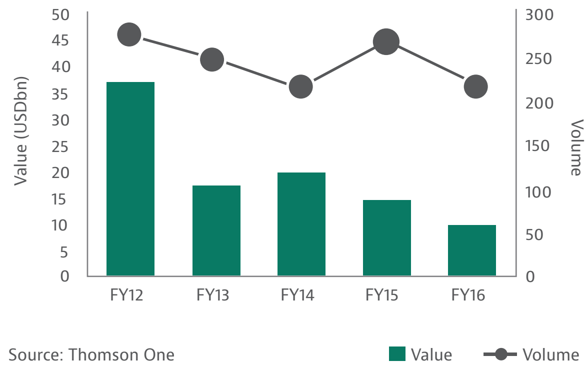
Europe M&A in Latin America

NOTE: Includes targets in Latin America and acquirer ultimate parents in Europe.
Latin America includes South America and Central America.

Deal activity from Europe to Latin America saw a decline from FY12 to FY16. The period of FY15 to FY16 saw the biggest drop in volume with only 219 deals by European acquirers in FY16.

FY16 saw the lowest activity in terms of deal value at just USD9.8 billion in total. A weaker euro and uncertainty leading up to Brexit contributed to the decline in deal activity, particularly from the UK, the biggest acquirer of Latin American assets by volume.

Still, investors remain hopeful. Alberto Alonso-Ureba, head of the Commercial Law and Markets practice in Baker McKenzie's Madrid office, observes, "Private equity is likely to boost M&A activity in a scenario where compliance and risk management still represent major challenges. Transactional markets will be strengthened as long as Latin America keeps innovating, diversifying and internationalizing."



Source: Thomson One

Top 5 target industries (in USDbn) FY12-FY16

Energy and power	Consumer staples	Financials	Industrials	Consumer products/ services
$28.6	**$24.4**	**$11.5**	**$10.5**	**$6.1**

Top 5 target industries (by volume) FY12-FY16

Industrials	Consumer products/ services	Energy and power	Materials	Financials
197	**166**	**142**	**137**	**129**

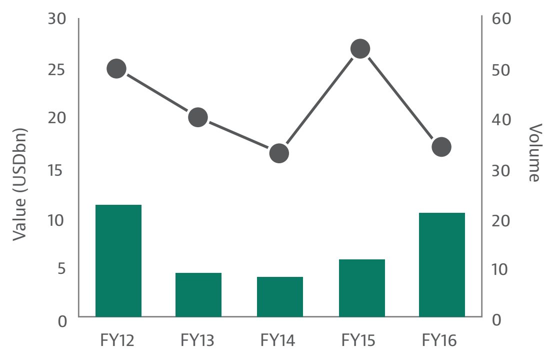
Latin America M&A in Europe

NOTE: Includes targets in Europe and acquirer ultimate parents in Latin America.
Latin America includes South America and Central America.

Deals from Latin America to Europe dropped 37 percent from 54 deals in FY15 to 34 deals in FY16 — the second lowest level over a five-year period. However, deal values rose to USD10.3 billion in FY16, a 45 percent increase from FY15.

The dramatic increase in deal value for FY16 is the result of two megadeals executed by Inversora Carso, the investment vehicle of Mexican business magnate Carlos Slim, in the first quarter of 2016: the USD7.4 billion acquisition of Spanish construction firm Fomento de Construcciones y Contratas and the USD1.45 billion acquisition of Spanish real estate firm Realia. Both were strategic acquisitions that took advantage of a weaker euro and low European real estate prices. (Source: Baker McKenzie Cross-Border M&A Index, Q2 2016.)

Spain has been the top European target of Latin American investors over the last five fiscal years, with 77 deals valued at a total of USD16.2 billion. The financials sector accounted for 60 percent of total volume and 41 percent of total value of outbound M&A to Europe from FY12 to FY16.



Top 5 acquirer industries (in USDbn) FY12-FY16

Financials	Real estate	Telecoms	Consumer staples	Materials
$13.7	**$8.8**	**$6.2**	**$2.4**	**$2.4**

Top 5 acquirer industries (by volume) FY12-FY16

Financials	Materials	Consumer staples	Telecoms	Industrials
101	**26**	**19**	**11**	**11**

Our Regional Presence

Latin America

Argentina
Brazil*
Chile
Colombia
Mexico
Peru
Venezuela

Europe, Middle East and Africa

Austria
Azerbaijan
Bahrain
Belgium
Czech Republic
Egypt
France
Germany
Hungary
Italy
Kazakhstan
Luxembourg
Morocco
Netherlands
Poland
Qatar
Russia
Saudi Arabia
South Africa
Spain
Sweden
Switzerland
Turkey
Ukraine
United Arab Emirates
United Kingdom

*In cooperation with Trench, Rossi e Watanabe Advogados

Baker McKenzie helps clients overcome the challenges of competing in the global economy.

We solve complex legal problems across borders and practice areas. Our unique culture, developed over 65 years, enables our 13,000 people to understand local markets and navigate multiple jurisdictions, working together as trusted colleagues and friends to instill confidence in our clients.

www.bakermckenzie.com