Baker McKenzie.

2018

A buyer's guide to M&A in Latin America

How to overcome obstacles and boost market share in the world's most urbanized region

Contents

Introduction

Although energy often gets the headlines in Latin America, the biggest M&A deal in the last six years was a play for Mexican beer: Belgian brewer Anheuser-Busch InBev's US$20.1 billion acquisition of Grupo Modelo in 2012. By the end of 2016, Brazil emerged as Uber's third-largest market after the US and India. And nearly 20% of Facebook users now reside in Latin America.

In fact, consumer goods and technology are among the top three fastest growing industries in the region along with energy, followed by industrials and financial services. Since 2012, the five largest foreign acquisitions included not only the Grupo Modelo deal, but a major transaction in the telecommunications sector: Spain-based Telefonica's US$9.9 billion acquisition of Global Village Telecom in Brazil.

As Latin America continues to find its place in the M&A world, Baker McKenzie commissioned this survey of 125 dealmakers from North America, Europe and Asia — the top foreign investors in Latin America from outside the region — to uncover the key drivers of their acquisitions, the M&A challenges they face during those transactions, and the strategies they use to mitigate those challenges.

The purpose of this report is to give both corporate and private equity investors a better sense of the forces shaping M&A trends in individual markets and to provide effective tactics for addressing issues that can stand in the way of capitalizing on Latin America's expanding consumer base, rapid market growth and low cost of doing business.

Our survey focuses specifically on foreign investors in the consumer goods, technology, healthcare and financial services sectors to paint a picture of market trends beyond the energy industry. All of our respondents have completed at least one transaction in the region in the past three years, with one-third closing two or more deals.

The key findings include:

- **Four in five dealmakers expect M&A activity in Latin America to rise over the next year** despite political and economic challenges in countries such as Argentina and Brazil. Of those dealmakers, 40% feel "highly confident" about investing in the region.

- Although Brazil was by far the most popular destination for past deals, Chile and Mexico emerged as front runners for future deals. **Chile was the top destination for future transactions, with 72% of respondents saying they plan to target investments there in the next year,** followed by Brazil with 66% and Mexico with 61%. Our respondents also rated Chile and Mexico the best business environments in Latin America (Chile 43%, Mexico 31%).

- **Increasing market share (37%) and acquiring strong local brands (24%) are the biggest drivers of deal activity for corporate and private equity investors,** representing a shift in M&A strategy. Foreign investors are no longer pursuing deals in Latin America primarily because they can't find good investment opportunities at home, but because rapid consumer growth, urbanization and digitization within the region are creating attractive assets all on their own.

- Although the deal drivers are strong, investors must find ways to push through potential barriers during due diligence, deal negotiation, and post-acquisition integration to realize their transactional goals. Our survey respondents ranked **regulatory hurdles (33%)** and **obtaining sufficient information from the target (25%)** as their greatest challenges during due diligence, **market volatility (35%)** and **closing valuation gaps (33%)** as the biggest barriers during deal negotiation, and **addressing cultural differences (33%)** as the top issue during post-acquisition integration.

- To address these M&A challenges, our respondents reported using strategies such as **engaging with outside advisors to help navigate regulatory hurdles** during due diligence (36%), **reaching compromises through negotiation** to close valuation gaps (25%), and **finding ways to retain local talent** (28%) when faced with cultural differences during the integration phase.

Trends and targets

Who's buying

The US has been the biggest foreign investor in Latin America since 2012, accounting for nearly one-third of all transactions by buyers from outside the region. US investors executed 609 deals worth US$87.5 billion from 2012 to 2017. Following the US was Spain with 127 deals totaling US$36.4 billion, Canada with 120 deals worth US$32.9 billion, and China with 40 acquisitions valued at US$28.6 billion.

The backdrop for this activity has been a recession that hit the region in 2015 amid a major decline in commodity prices and corruption scandals that have forced companies to divest assets at attractive prices. In Brazil, for example, the ongoing investigation of Petrobras has locked the oil company out of capital markets, forcing it to raise liquidity by selling off US$16 billion in assets.

"The economic and political volatility in our region has been a major force in creating good opportunities for investors," said Liliana Espinosa, chair of Baker McKenzie's Latin America M&A Practice. "The scandal in Brazil, for example, has forced many companies to sell off their concessions in Peru, which are very good assets that otherwise would have never been on the market."

Top 10 countries investing in Latin America, 2012-2017

Rank	Country	Deal value (in US$m)	Deal count
1	USA	$87,533	609
2	Spain	$36,391	127
3	Canada	$32,878	120
4	China	$28,562	40
5	Belgium	$20,922	20
6	Italy	$20,406	46
7	United Kingdom	$16,750	128
8	France	$10,386	149
9	Australia	$10,126	39
10	Switzerland	$7,267	60

Top 10 LA targets for cross-border M&A investment, 2012-2017

Rank	Country	Deal value (in US$m)	Deal count
1	Brazil	$148,388	908
2	Chile	$62,216	165
3	Mexico	$60,017	256
4	Peru	$18,569	94
5	Colombia	$13,279	138
6	Argentina	$7,104	91
7	Panama	$2,059	13
8	Dominican Republic	$1,866	16
9	Uruguay	$641	21
10	Guatemala	$588	9

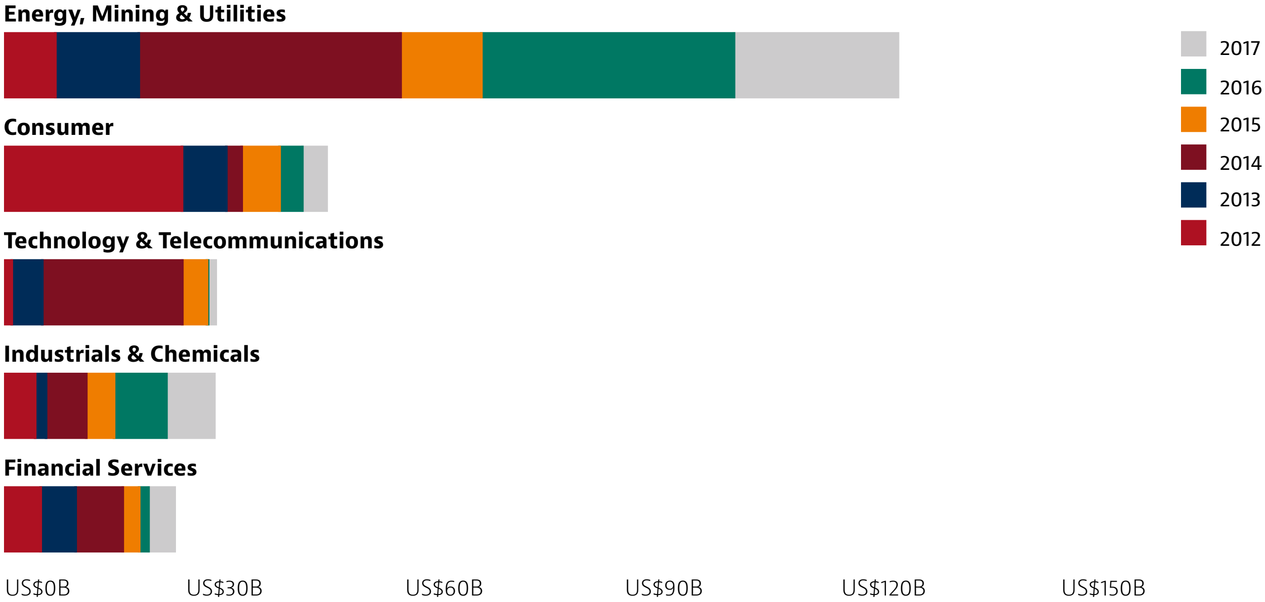
What they're buying

Rising digitization and changing demographics has also attracted investment. The World Bank estimates that close to half of Latin America's population will qualify as middle class by 2030, a shift that is already changing the focus of M&A activity. Buyers are not only targeting the region's energy and infrastructure sectors, but also consumer goods, technology, financial services and healthcare.

Across the region, government initiatives are underway to promote growth in these sectors. In Mexico, for example, telecommunications reforms enacted in 2013 have increased competition and lowered the price of mobile broadband services by as much as 75%. In Argentina, President Mauricio Macri unveiled a proposal to bring broadband internet service to 29 million people.

From 2012 to 2017, Brazil was by far the most popular destination for foreign investment, with 908 deals totaling US$148.4 billion, followed by Chile, Mexico and Peru in total deal values. This trend was reflected in our survey findings, with 70% of respondents reporting they had executed at least one acquisition in Brazil in the last three years, followed by Mexico with 20%, Colombia with 15% and Chile with 14%.

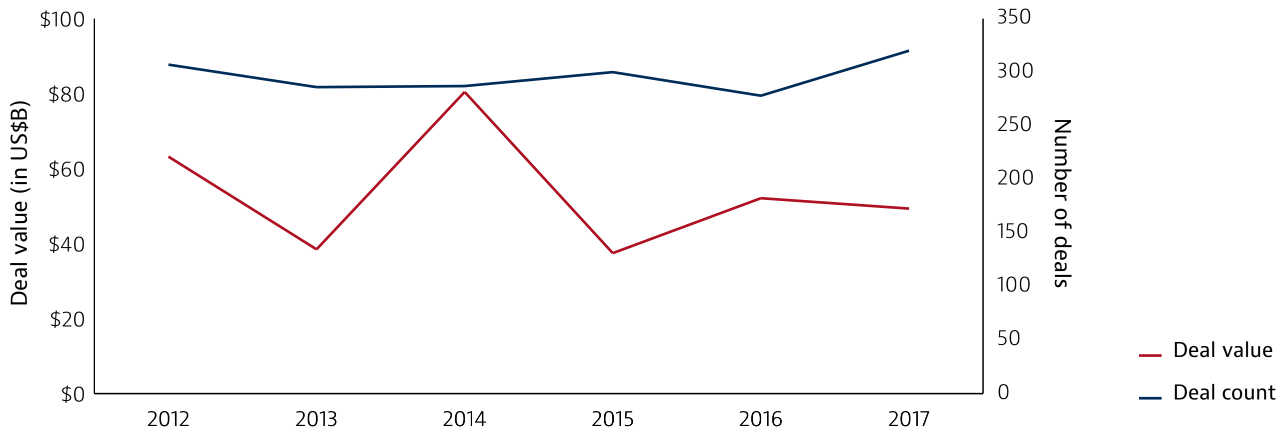
Top 5 sectors for inbound M&A by deal value, 2012-2017



Top 5 inbound deals in Latin America by value, 2012-2017							
Rank	**Deal value (in US$B)**	**Announcement date**	**Target company**	**Target country**	**Bidder company**	**Bidder country**	**Industry**
1	20.1	6/29/2012	Grupo Modelo SAB de CV	Mexico	Anheuser-Busch InBev NV	Belgium	Consumer
2	10.7	9/17/2014	Enersis S.A.	Chile	Enel Iberoamerica S.R.L.	Italy	Energy, Mining & Utilities
3	9.9	9/19/2014	Global Village Telecom S.A.	Brazil	Telefonica S.A.	Spain	Technology & Telecommunications
4	9	9/2/2016	CPFL Energia S.A.	Brazil	State Grid Corporation of China	China	Energy, Mining & Utilities
5	7.5	10/12/2014	Compania General de Electricidad S.A.	Chile	Gas Natural Fenosa	Spain	Energy, Mining & Utilities

Consumer   Energy, Mining & Utilities   Technology & Telecommunications

Inbound M&A to Latin America, 2012-2017



Future targets

Going forward, however, our survey results reveal a major shift in interest, with Chile emerging as the front runner for future deals. Among our respondents, 72% said they plan to target acquisitions in Chile in the next year, followed by Brazil with 66% and Mexico with 61%. Our survey also shows rising interest in Colombia, with 34% of respondents reporting plans to invest there next year.

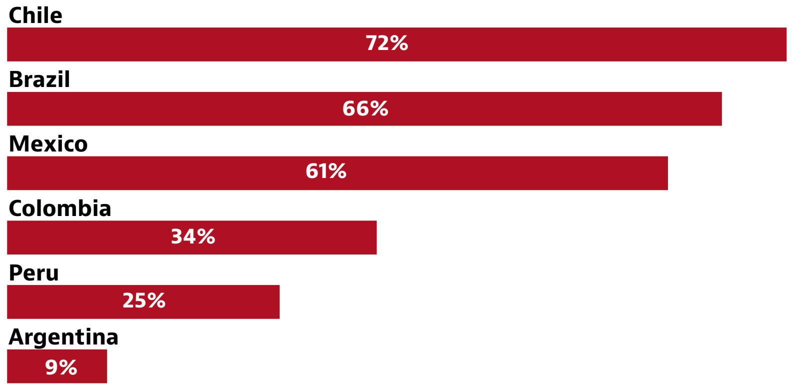
“The prime location for Latin American M&A is Chile,” said the CFO of a US-based technology firm. “The government continues to do its best to encourage foreign investment in large and mid-size companies, especially those perceived to be stagnant due to a lack of professional zeal or cash resources.”

Our respondents also rated Chile and Mexico the best business environments in Latin America, followed by Colombia and Brazil. Indeed, Chile is known for having a strong rule of law and low rates of corruption compared to its regional counterparts. Mexico scores highest among Latin American countries on the World Bank’s Doing Business ranking, receiving especially good marks for the ease of trading across borders, enforcement of contracts, and protections for minority investors.

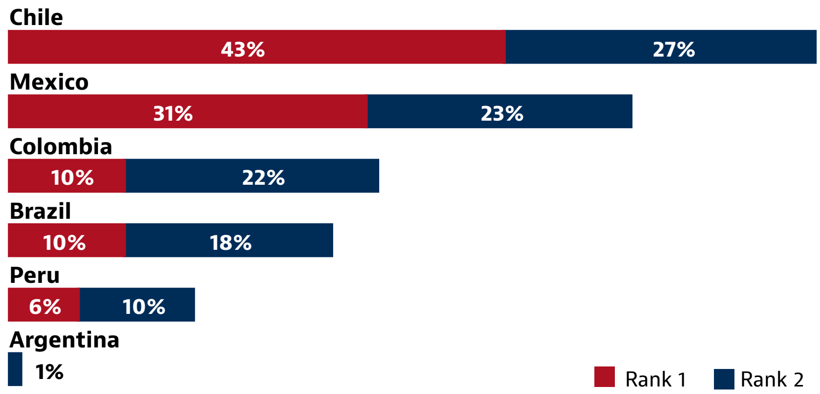
“Foreign investors also see macroeconomic stability and high-quality infrastructure for moving their goods and services," said Jorge Ruiz, an M&A partner in Baker McKenzie's Juarez office. "They see good support for industry and a lot of skilled and unskilled but willing labor.”

Chile emerged as the front runner for future deals in Latin America, followed by Brazil, Mexico and Colombia.

Which Latin American countries do you plan to target for acquisitions in the next 12 months?



Which of the following Latin American countries have the best business environments for executing acquisitions? (Rank top 2)



Could the Pacific Alliance become a game changer?

55% of our survey respondents say yes, but the impact on dealmaking remains unclear

There's a popular saying about the Pacific Alliance trade bloc formed between Chile, Colombia, Mexico and Peru in 2012. "The joke is that it's the most important alliance that nobody's ever heard of," said Jaime Trujillo, an M&A partner in Baker McKenzie's Bogota office.

Indeed, despite the impressive size of the member countries — together they comprise the eighth-largest economy in the world and account for half of Latin America's exports — M&A data suggests the bloc has had an impact on inbound investment but has yet to fulfill its potential.

Since 2012, inbound M&A in the four member countries has fluctuated from a combined high of US$48.5 billion in 2014 to a low of US$15.9 billion in 2016. Compared to Brazil, the region's largest economy, foreign investment has been slightly higher in the member countries over the last six years, with a combined total deal value of US$154 billion versus US$148.4 billion in Brazil.

"My experience is that investors view the Pacific Alliance positively but they're still unsure about how it can benefit them," says Liliana Espinosa, chair of Baker McKenzie's Latin America M&A Practice.

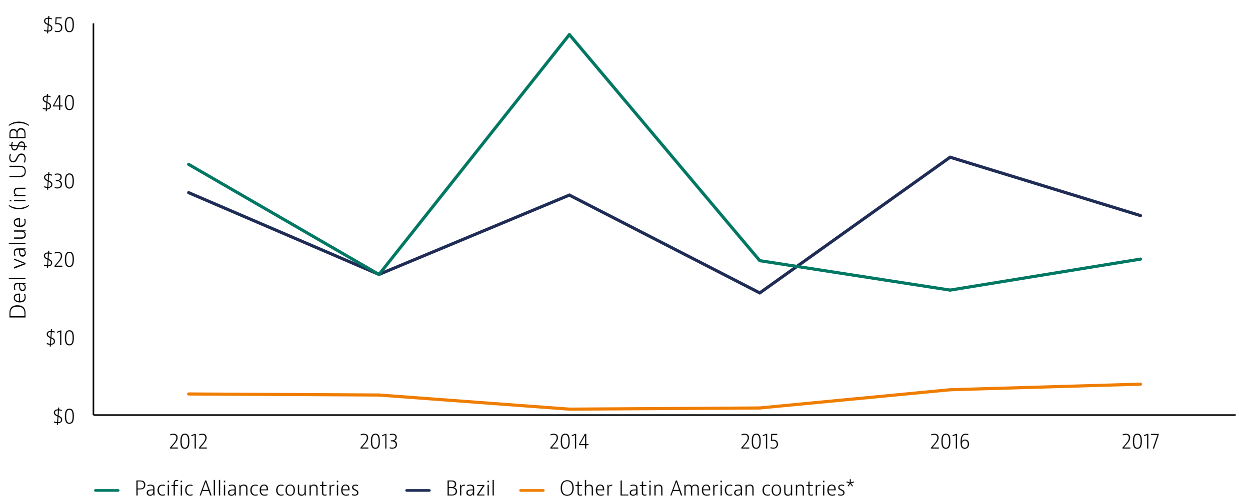
The goal of the alliance is to position itself as a stable, pro-business economic bloc with a consumer base large enough to attract foreign investors interested in Latin America, particularly Asian businesses. This goal is furthered by promoting the free movement of goods, services, capital and people among the four countries.

As part of that objective, the member countries have eliminated 92% of import tariffs among them and integrated their national stock markets into one trading platform called MILA — steps that have piqued some interest among foreign investors. In our survey, 55% said the creation of the Pacific Alliance has impacted their M&A strategy in Latin America.

"The uniformity brought about by the trade bloc reduced the limitations and entry costs that we would have faced trying to target the markets individually," said the director of strategy & business development at an Italian insurance group that has made recent acquisitions in Colombia and Mexico.

Although the Pacific Alliance has made it easier to move workers within the member countries by removing visa restrictions, more integration is needed to make it a true game changer. For example, it could take more than a decade to dispose of the remaining 8% of tariffs that weren't phased out in 2016 because certain industries such as agriculture and textiles are highly protected by the governments of the four member countries.

Inbound M&A investment into Pacific Alliance countries vs. other Latin American countries, 2012-2017



*Argentina, Belize, Bolivia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay, Suriname, Turks and Caicos Islands, Uruguay and Venezuela

And although MILA is now the largest stock market in Latin America by capitalization, it suffers from a lack of liquidity because of pending regulatory harmonization incentives and the fact that the exchange only features stocks and not government bonds that account for the majority of brokerage transactions.

One potential selling point for the bloc, however, is the discord surrounding other free trade deals, such as the US's efforts to renegotiate the North American Free Trade Agreement (NAFTA) and its withdrawal from the Trans-Pacific Partnership.

“Because of the uncertainty around other trade agreements, the Pacific Alliance is an attractive vehicle that can help build closer connections in Latin America,” said the director of corporate development at a US-based beverage company with over US$1 billion in revenue.

A key step toward increasing the alliance’s influence, aside from deeper financial integration and greater regulatory harmonization, is to continue educating foreign acquirers on how the trade bloc can serve as a gateway for their business aspirations in Latin America.

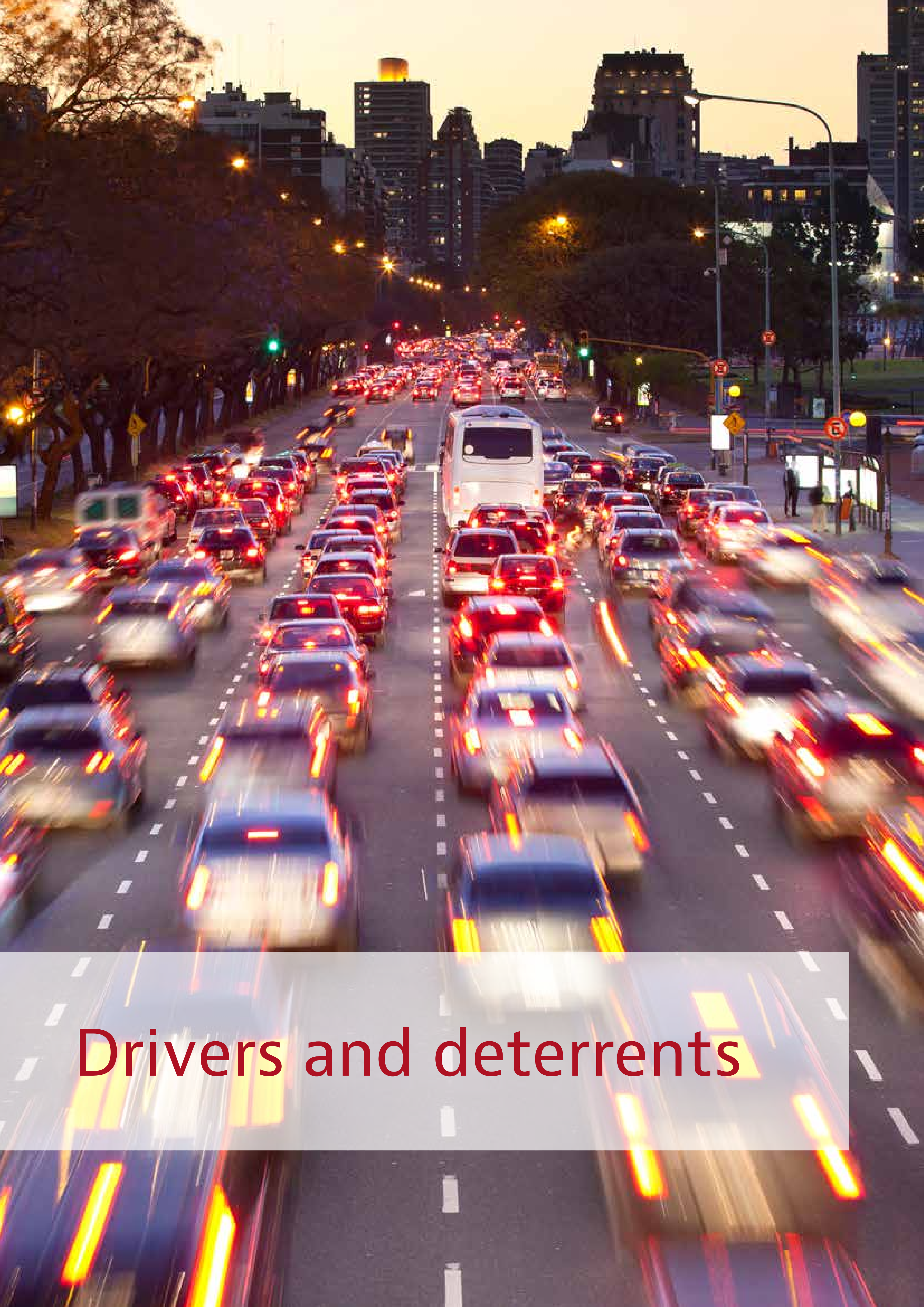
“When investors realize the bloc is creating an economy that could be equal to or larger than Brazil, they pay a lot more attention,” Trujillo said. “There’s a lot left to do, and raising awareness is perhaps the most urgent task among them.”

Inbound investment into Latin America by total deal value 2012-2017

Pacific Alliance countries	$154.0 billion
Brazil	$148.4 billion
Other Latin American countries	$14.1 billion

"The current situation in Latin America creates a positive environment for M&A activity as governments work on regulatory issues, consumer spending rises and digitization takes over. The markets offer reasonable growth prospects for investors that prefer to play it safe and those willing to take risks for speedy returns."

— CFO of a European insurance brokerage that made an acquisition in Brazil in 2014



Drivers and deterrents

Top three deal drivers

Despite the region's ongoing political and economic challenges, our survey findings reflect a positive outlook for future deal activity in Latin America, with 81% of respondents saying they expect M&A to rise over the next year, and 40% saying they're "highly confident" about investing in the region.

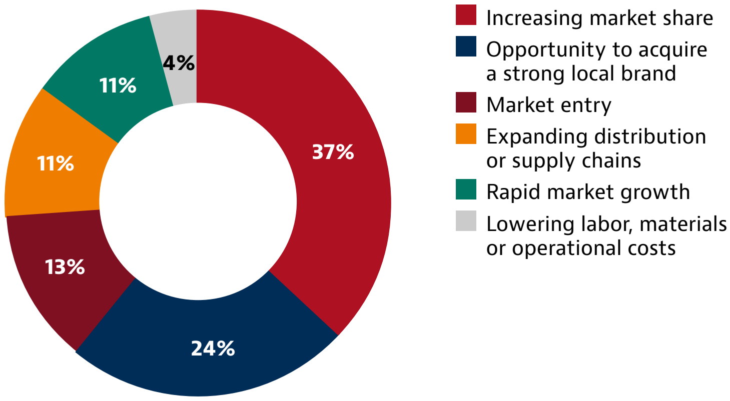
"Latin America is a growing market where industrialization is yet to happen on a large scale, so demand will pick up as advancements happen," said the director of M&A at a French consumer goods and services company. "I am confident about investing in Latin America. We will gain market share and expect good growth for the long term."

Indeed, **increasing market share** was the top reason for investment, cited by 37% of our corporate respondents, followed by **the opportunity to acquire strong local brands** (24%) and **market entry** (13%).

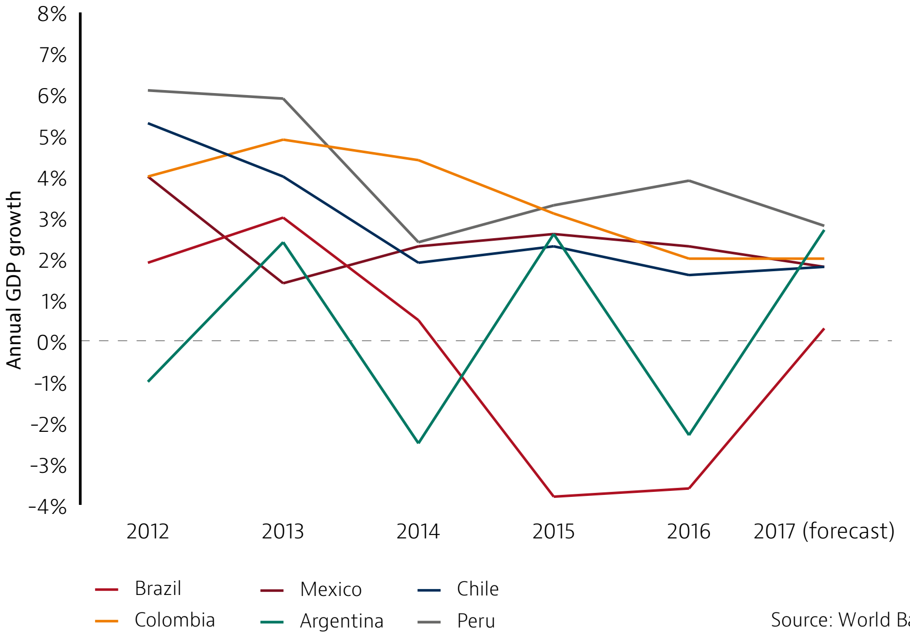
The pursuit of strong brands and increasing market share represents a shift in M&A strategy as foreign investors target the region not only because of slower growth at home, but because rapid consumer growth and digitization within the region are creating attractive assets all on their own.

"This acquisition meant we could speed up our pace of innovation and at the same time enhance the digital capabilities we offer to our partners," said the CFO of a US telecom company that acquired a digital marketing agency in Argentina.

In your most recent Latin American acquisition, what was the primary driver?



Annual GDP growth for select Latin American countries, 2012-2017



Source: World Bank

The director of corporate development at a UK technology firm reported similar gains. “Our acquisition of a digital communications company in Brazil meant rapid growth in the number of clients and the quality of our products," he said. "It allowed us to move right to the top, making us the leaders in the Brazilian market.”

Indeed, a single transaction in Latin America can turn an acquirer into one of the biggest players in the local market. In 2015, US beauty products maker Coty also rose to number one in the Brazilian market with its acquisition of Brazilian consumer company Hypermarcas, which had 14% market share in the sector.

"We see conditions in Latin America changing for the better," said the CFO of a US B2B specialty technology firm that acquired a Brazilian tech company. "The economy is growing again and asset prices remain reasonable."

Deterrents and strategies

Every transaction has its challenges, particularly in emerging markets. To uncover the biggest pain points in Latin America, we asked our survey respondents their greatest challenges during three stages of dealmaking: due diligence, financing and closing, and post-acquisition integration.

They identified **regulatory hurdles** (33%) and **obtaining sufficient information from the target** (25%) as the biggest issues during due diligence; **market volatility** (35%) and **closing valuation gaps** (33%) as the biggest barriers during deal negotiation; and addressing **cultural differences** (33%) as the top challenge during post-acquisition integration.

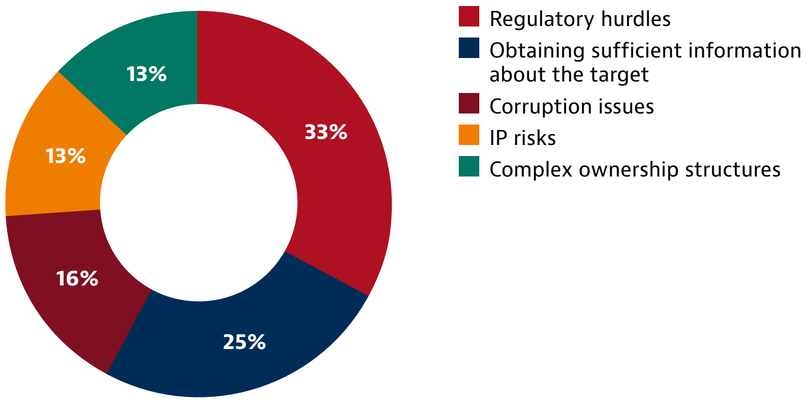
The following is a discussion of those issues and the strategies identified by our survey respondents and recommended by Baker McKenzie's Latin America M&A partners for mitigating those challenges.

DETERRENT 1 Regulatory hurdles

Many Latin American governments are known for their bureaucratic obstacles, even those with liberal foreign investment policies. Until recently in Peru, for example, the law required the new or surviving company in a merger, spinoff or reorganization to reapply for all licenses, permits and authorizations. In Brazil, Mexico and Chile, antitrust review can delay closing by three to nine months, depending on the transaction size and the industry. In Colombia, heightened scrutiny by the country’s Superintendencia de Industria y Comercio (SIC) competition agency has also increased delays.

"Antitrust clearance in Colombia is viewed not only as a regulatory hurdle but as a battleground,” said Jaime Trujillo, an M&A partner in Baker McKenzie’s Bogota office. “Sometimes the war for an asset is played out before the competition authority instead of in the boardroom. A competitor who opposes the acquisition will try to persuade the antitrust agency to stop the deal or put stringent conditions on the acquisition."

In your most recent Latin American acquisition, what was the greatest challenge related to due diligence?



Regulatory challenges are often unique to specific markets and require tailored solutions, but the tactics below can make the process easier:

STRATEGY 1 Find workarounds.

In some cases, overcoming regulatory hurdles takes time and you just need to accept a longer deal timeline. But other times workarounds can shorten delays. In an asset sale in Peru, for example, buyers still need to obtain a new operational license for each facility they acquire, which can take months. To avoid having to shut down operations while waiting for the new license, the buyer can have the seller assign its license to the buyer and then reapply for a new one immediately after closing.

"Then if the authority showed up before the new license is issued, the buyer would have the assigned license and the application for the new one, and hopefully they would not shut down your business," Baker McKenzie partner Liliana Espinosa said. "There is always some risk, but this method is typically effective."

STRATEGY 2 Get help keeping up with regulatory changes.

Political changes can have a big impact on the ease of doing business in Latin America. The Argentinian market, for example, became much more open to foreign investment after the election of President Mauricio Macri in 2015. Efforts to lower taxes and reduce labor costs are likely to accelerate after Macri's political coalition won mid-term elections in a majority of the country's provinces in October 2017.

In Brazil, the Senate passed the first major overhaul of labor rules in seven decades. The bill, approved in July 2017, gives businesses more flexibility to offer part-time work schedules and terminate employees without union negotiations. The government hopes the law will help reduce the unemployment rate, which hit a record high in Q1 2017.

Understanding the impact of regulatory changes like these can take time, and having local advisors to provide guidance can be critical. Over a third (36%) of all respondents said they hired outside help to manage due diligence challenges in their recent deals.

"The food and beverage industry involves dealing with labor on a large scale, and we had a tough time pacing ourselves," said the director of strategy at a UK-based beverage producer that acquired two Brazilian juice companies in 2015 and 2017. "Mutual understanding comes with time, and that's where local advisors came into the picture to help us."

STRATEGY 3 Work with experts who have good relationships with regulators.

Having strong personal relationships is crucial to all aspects of doing business in Latin America and navigating the regulatory environment is no exception. Establishing direct lines of communication with regulatory officials helps reduce back-and-forth and expedite approvals.

"Knowing the people at the regulatory agencies can really keep things moving," said Anna Mello, an M&A partner at Trench Rossi Watanabe Advogados, a Brazilian firm in cooperation with Baker McKenzie. "If they need clarification about any aspect of the deal, they can contact us directly instead of taking weeks to issue a request on paper. It's much easier to explain the transaction to them this way."

DETERRENT 2 Obtaining sufficient information during due diligence

Depending on the size of the target and whether it is family owned, getting the information you need to evaluate the details of its finances and business operations can be a challenge. The missing or incomplete documentation can range from stock certificates, real estate deeds, environmental permits and operational licenses to tax and accounting records.

"This is simply because the business culture in Latin America is not as developed as places like the US, Canada, Japan or Europe where there's a lot of order and compliance," Baker McKenzie partner Jorge Ruiz said.

In Chile, for example, obtaining information during due diligence is relatively easy because the country has strict laws requiring companies to keep detailed financial records and an empowered tax authority that enforces those requirements.

In other Latin American countries, however, some companies may have creative labor arrangements such as putting a large number of employees on service contracts rather than classifying them as full-time employees to avoid paying employment taxes. Other companies may engage in aggressive tax strategies or conceal the personal nature of their relationships with suppliers.

"The appetite for risk among privately held or family-owned companies can be considerably higher than your traditional multinationals or even private equity funds from the US or Europe," Baker McKenzie partner Jaime Trujillo said. "Those buyers would probably balk at continuing those practices."

Despite the challenges, the following techniques can help you obtain more information:

STRATEGY 1 Use a detailed due diligence checklist.

For sellers who may be unfamiliar with M&A due diligence or Western business standards, it's critical to provide them with a detailed checklist of the information you require and a process letter that lays out the time frames for submission and review.

Keep in mind when setting these time frames, however, that some companies may need to request the documents from government agencies and courts, which can take several weeks. They may also need to ask their third-party service providers for information, which can add even more time.

"Sometimes due diligence can be challenging not because the buyers are reluctant, but because they are not organized enough to provide the information immediately," Trench Rossi Watanabe partner Anna Mello said.

STRATEGY 2 Hold in-person meetings to discuss sensitive information.

Some Latin American sellers may not want to disclose certain information about their employment or financial practices in writing for fear that it will fall into the hands of competitors or government authorities. In those cases, requesting in-person meetings with the target's head of talent or tax department can be an effective way to fill in gaps in the documentation.

“In Peru, you can get a lot of information when you speak with management during presentations or in one-on-one meetings,” Baker McKenzie partner Liliana Espinosa said. “They’re often willing to tell you the risks, just not in writing. They prefer to talk to you.”

STRATEGY 3 Use deal protections.

When all else fails, contractual tools can be a useful way of safeguarding your investment. If a seller refuses to disclose certain information, establishing escrow accounts and other types of holdbacks can be valuable protective measures.

“If the parties acknowledge that the due diligence has not been as deep as the buyer wanted, you can negotiate some pretty considerable escrow or holdback amounts that will allow your client to be made whole for anything that is uncovered after the acquisition closes,” Baker McKenzie partner Jaime Trujillo said.

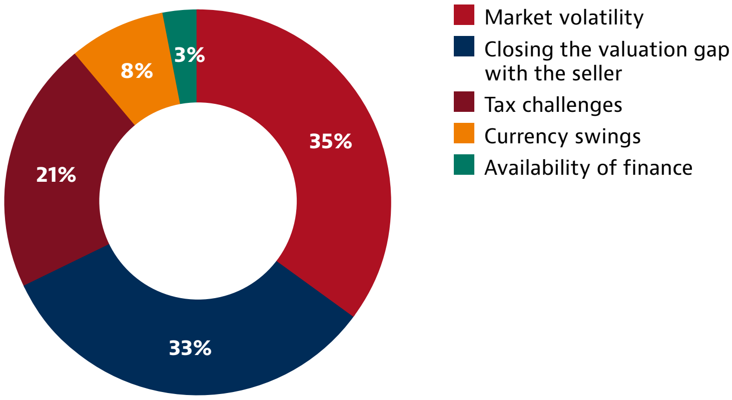
DETERRENT 3 Closing the valuation gap

Arriving at a purchase price that satisfies both the buyer and the seller can be a challenge in any market. But valuation gaps are more common when negotiating with family-owned companies because of the pride the owners take in the business. In those cases, valuations can be more "emotional than mathematical," said Gustavo Boruchowicz, an M&A partner in Baker McKenzie's Buenos Aires office.

"Valuation is not such an issue in big deals," he said. "But you may have a family-owned business that believes the value of their company is huge."

Currency depreciations and economic volatility also contribute to valuation gaps. "During deal discussions, the currency was fluctuating a lot and we were becoming hesitant," said the CFO of a Spanish consumer goods company about a recent transaction in Brazil. "The currency fluctuations meant that whatever profit we had assumed could be wiped out."

In your most recent Latin American acquisition, what were the greatest challenges related to financing and closing the deal?



The following strategies can help you weather market volatility and right-size the seller's pricing expectations:

STRATEGY 1 Be transparent about the basis of your valuation.

Explaining the factors underlying your valuation can help convince sellers of its accuracy and enable them to move past the personal connection they have to their businesses.

"To reduce the valuation gap that results from emotional reasons, foreign buyers need to be transparent with the seller about the exact reasons for their valuation," Trench Rossi Watanabe partner Anna Mello said. "They need to explain the specific aspects of the company that are affecting their offer price."

Providing details to the seller about the effects of taxes and indemnities, plus the additional costs you will assume during the transaction, can also help sellers understand why your offer is lower than what they were expecting.

STRATEGY 2 Have the seller retain a minority stake.

When the two sides can't reach a compromise on valuation, a technical solution may be in order. One such solution is to have the seller retain a stake in the target company, which they can sell back to the buyer in the future, presumably at a higher valuation. This allows both parties to get closer to the price they want while avoiding the contractual difficulties associated with earnouts.

"Earnouts are difficult to negotiate, tricky to implement and invariably give rise to disputes over whether the earnout was generated," Baker McKenzie partner Jaime Trujillo said. "A milder version that we think works better is to have the sellers keep a minority stake in the business, and receive a put option to sell their shares down the road with valuations that reflect the improved conditions under the new ownership."

One of our respondents, the CFO of a Spanish healthcare provider, said this very solution helped them execute a transaction in Peru. “The seller knew that our confidence in the deal was high, and they tried to use this confidence to obtain a better valuation,” the CFO said. “We explained to them how their value would be boosted in the future by our involvement.”

STRATEGY 3 Wait it out.

Political leaders can change quickly in Latin America and the rules and regulations along with them. As a result, it can pay off to put your acquisition plans on hold for a while to see what direction a country takes under a new administration.

In Argentina, for example, when former President Cristina Fernandez de Kirchner imposed capital controls and foreign exchange restrictions in 2011 to halt the depreciation of the peso, it became much more expensive for investors to move money in and out of the country. When President Mauricio Macri was elected in 2015, he eliminated those restrictions less than a week after taking office, allowing some stalled deals to be rekindled.

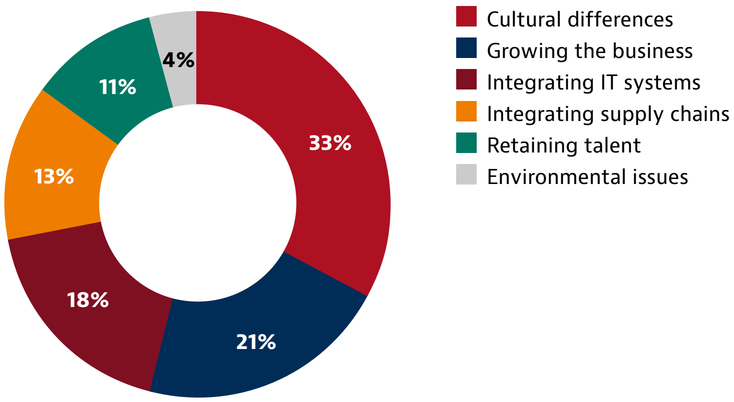
“We’re working on a deal in the chemical industry that the two sides first discussed in 2011, but the foreign exchange restrictions made it impossible to pursue because the seller wanted to receive payment in US dollars in a foreign account outside of Argentina,” Baker McKenzie partner Gustavo Boruchowicz said. "Now the exchange restrictions no longer exist, so they are back in discussions and have reached an agreement.”

DETERRENT 4 Cultural differences

After a transaction closes, buyers are left with a host of integration issues. Chief among those issues is addressing the cultural differences between their approach to business processes and those of the acquired workforce.

“Post-merger integrations are tough, and we faced problems with the culture of the target that affected operations,” said the finance director of a French insurance company that bought a Brazilian insurer. “Our lack of understanding of the way employees worked created issues between the management and employees that took time to resolve.”

In your most recent Latin American acquisition, what were the greatest challenges related to post-acquisition integration?



Differences in communication styles, compliance policies and reporting standards can cause tension during the integration phase, but the following approaches can help smooth the process:

STRATEGY 1 Identify and retain the best workers.

Losing good talent is one of the primary reasons acquisitions fail to achieve their financial objectives. Providing incentives to keep the most talented managers from leaving will help maintain effective channels of communication with the rank-and-file employees and retain critical relationships.

“Sometimes acquirers don’t do enough to entice management to stay on,” Baker McKenzie partner Jaime Trujillo said. “They realize when it’s too late that the value that these individuals are taking along with them is significant.”

One major oversight is failing to identify employees who have strong ties to regulators and other government agencies.

"Foreign investors may have good technical skills but they often do not have the local relationships," Trench Rossi Watanabe partner Anna Mello said. "Having good relationships with the government agencies and other third parties is critical to continue successfully running the company. You will not succeed without them."

STRATEGY 2 Invest in personal relationships.

A corollary to retaining the best talent is to prioritize establishing strong bonds with managers and employees at the acquired firm from the first day of ownership. This is an important aspect of post-merger integration in any geography, but especially critical in Latin America.

The first step is holding a meeting with all the personnel the day after the closing to explain what they can expect of the new owners and what is expected of them as workers. It's also a good idea to create an on-site integration team that continues to communicate new policies and procedures, and is available to answer employee questions.

“Sometimes the new owners are only on the ground for a week to install the new management and that’s it," Baker McKenzie partner Liliana Espinosa said. "This can cause distress among workers about the future of the company and what the culture will be.”

STRATEGY 3 Establish a grace period.

Sometimes the best way to ease a transition is to keep the current policies in place while slowly introducing new ones. Finding a way to balance the target's operations and management style and your corporate policies and procedures can go a long way in helping employees adjust to the new standards.

“The post-merger integration process was not easy,” said the senior vice president of a Canadian consumer goods firm that acquired a company in Brazil. “There were minor cultural differences that we contained before they blew out of proportion by making our systems and corporate culture more flexible.”

> "Sometimes acquirers don't do enough to entice management to stay on. They realize when it's too late that the value that these individuals are taking along with them is significant."
>
> — Jaime Trujillo, M&A partner, Baker McKenzie

A deeper dive
Country profiles

Argentina

The election of President Mauricio Macri in 2015 has been a good start to helping Argentina shed its protectionist image. Within a week of taking office, Macri lifted capital controls and foreign exchange restrictions that were stifling investment. He also resolved past debts and announced plans to invest billions in infrastructure, including a proposal to bring broadband internet service to 29 million people.

Macri's plans to simplify the tax code and reduce labor costs are likely to accelerate after his political coalition won mid-term elections in a majority of the country's provinces in October 2017. Many of the reforms he has made thus far have not required congressional approval, but he will need their support to make deeper structural changes.

"If we look at Brazil, they are moving fast in changing certain aspects viewed as critical by investors, such as tax and labor reforms," said Gustavo Boruchowicz, an M&A partner in Baker McKenzie's Buenos Aires office. "Argentina needs to address these matters to be at the same level and to attract investments and remain competitive."

Since 2012, the US, UK and China have been the top foreign investors in Argentina by deal value. Energy, consumer goods and mining have been the most targeted industries. Argentina has lagged behind its neighbors in attracting foreign investment, capturing only 91 deals worth US$7.1 billion. But four out of five of the largest of those transactions occurred in the last two years.

"The new government has already been much more responsive to investors, and that's a very important change," Boruchowicz said. "These next two years will be very important. Since the new government took office, there has been a wait-and-see period for companies that are considering investing in the country."

Top 10 Latin American countries for cross-border M&A investment 2012-2017

Rank	Country	Deal value (in US$m)	Deal count
1	Brazil	$148,388	908
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9	Uruguay	$641	21
10	Guatemala	$588	9

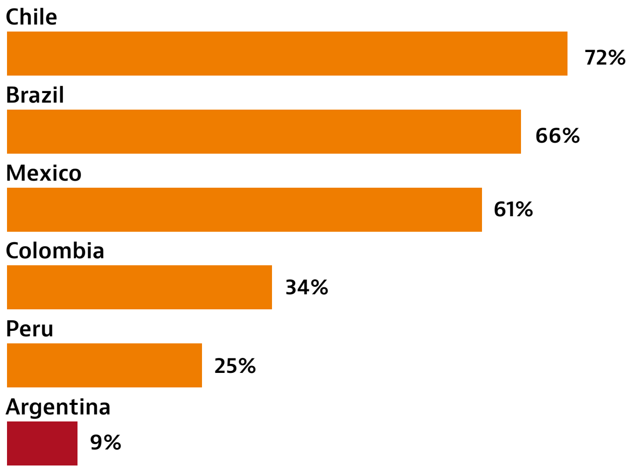
Five pros and cons to investing in Argentina

Deal drivers	Deal deterrents
Recent lifting of currency controls and foreign investment restrictions	Fourth most protectionist economy among G20 countries
Plans to cut the corporate tax rate to 25% (from 35%)	Recent corruption scandals
Reduced export taxes and import restrictions	Economic slowdown
Most highly educated workforce in Latin America	High inflation
Low asset prices	Long history of political instability

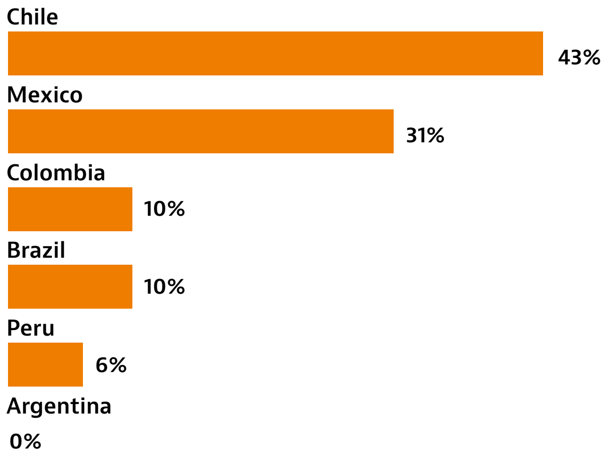
"The new government has already been much more responsive to investors, and that's a very important change."

Gustavo Boruchowicz, M&A partner, Baker McKenzie

Which Latin American countries do you plan to target for acquisitions in the next 12 months?



Which of the following Latin American countries have the best business environments for executing acquisitions?



Top 5 inbound deals in Argentina since 2012

Rank	Deal value	Announcement date	Target company	Bidder country	Bidder company	Sector
1	$1.2 billion	10/10/2016	Orazul Energy Corporation	USA	ISQ Global Infrastructure Fund	Energy, Mining & Utilities
2	$960 million	4/6/2017	Barrick Gold Corp. (50% stake)	China	Shandong Gold Mining Co.	Energy, Mining & Utilities
3	$849 million	7/24/2017	Petrolera El Trebol	United Kingdom	Phoenix Global Resources	Energy, Mining & Utilities
4	$575 million	6/1/2016	Unilever Plc (AdeS soy-based beverage business)	USA	The Coca-Cola Company	Consumer
5	$420 million	3/7/2012	Hang Seng Insurance Company + HSBC-La Buenos Aires Seguros	Australia	QBE Insurance Group	Financial Services

Energy, Mining & Utilities   Consumer   Financial Services

Brazil

Brazil has been by far the top destination for cross-border M&A activity in the last five years, attracting more than double the foreign investment of Mexico, the second-largest economy in the region. Since 2012, the US, China and Spain have been the top foreign investors in Brazil by deal value. Energy, consumer goods and telecommunications have been the most targeted industries.

But Brazil's allure has weakened in the wake of Operation Car Wash, a spiraling corruption scandal involving billions of dollars in alleged bribes that has led to the arrests of dozens of executives at state-owned oil company Petrobras and some of Brazil's largest engineering and construction firms. The investigation, initiated by Brazilian regulators in 2014, has engulfed those at the highest level of government. Meanwhile, the global drop in oil prices plunged Brazil into one of the worst recessions in its history in 2015-2016.

Yet these troubled times have meant a rise in distressed assets, presenting good opportunities at low prices for buyers willing to take on some risk. Two-thirds of our survey respondents said they plan to target transactions in Brazil in the next year, a reflection of the undeniable strength of the country's large consumer base and vast natural resources.

Brazil's federal budget crisis is also pushing government officials to reform labor laws for the first time in 70 years and privatize 57 state-owned assets, including Eletrobras, the country's largest power company. Operation Car Wash may also have a silver lining in the years ahead.

"Foreign investors are seeing that Brazil is addressing the issue of corruption, not sweeping it under the rug like in the past," said Anna Mello, an M&A partner at Trench Rossi Watanabe Advogados, a Brazilian firm in cooperation with Baker McKenzie. "People are seeing that this way of doing business is no longer acceptable. Ultimately, this will create a more stable environment for investors."

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Five pros and cons to investing in Brazil

Deal drivers	Deal deterrents
Largest economy in Latin America	Highly bureaucratic
Below average asset prices	Complex tax regime
New anti-corruption laws and practices	Certain sector restrictions on foreign investment
Labor law reform	Low GDP growth
Undergoing social security reform	Political instability

"Foreign investors are seeing that Brazil is addressing the issue of corruption, not sweeping it under the rug like in the past."

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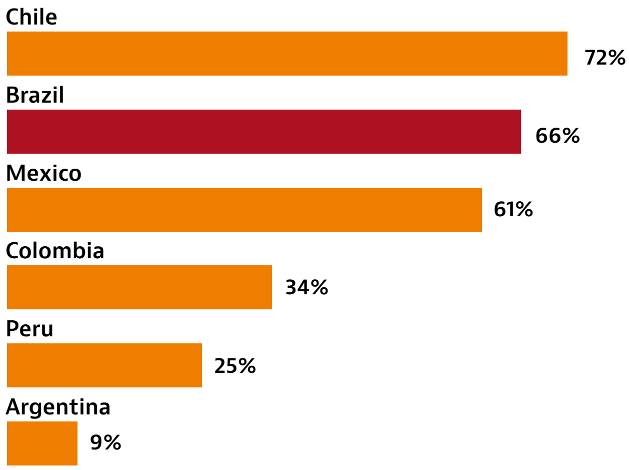

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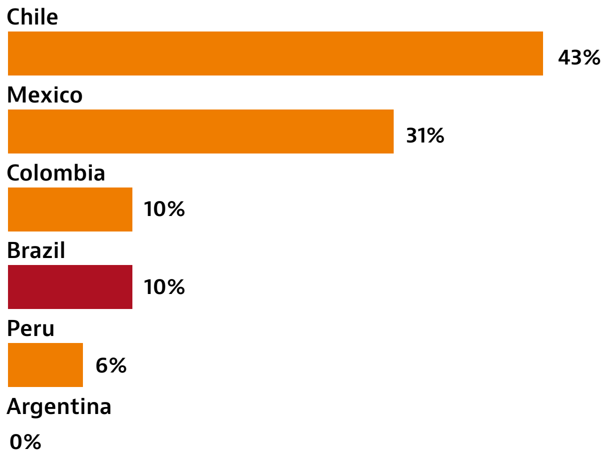

Top 5 inbound deals in Brazil since 2012

Rank	Deal value	Announcement date	Target company	Bidder country	Bidder company	Sector
1	$9.9 billion	9/19/2014	Global Village Telecom	Spain	Telefonica	Technology & Telecommunications
2	$9 billion	9/2/2016	CPFL Energia	China	State Grid Corporation of China	Energy, Mining & Utilities
3	$5 billion	9/23/2016	Nova Transportadora do Sudeste (90% stake)	Canada	Nova Infraestrutura Fundo de Investimentos em Participacoes	Energy, Mining & Utilities
4	$4.9 billion	10/8/2012	Amil Participacoes (90% stake)	USA	UnitedHealth Group	Healthcare
5	$4.3 billion	9/2/2017	Eldorado Brasil Celulose (81% stake)	Canada	Paper Excellence Canada Holdings	Manufacturing

Energy, Mining & Utilities   Technology & Telecommunications   Healthcare   Manufacturing

Chile

Chile has been one of Latin America's brightest development stories, having reduced the poverty rate from 26% in 2000 to 8% in 2015. With average GDP growth of 4.6% from 2010 to 2014, the country attracted two of the five largest foreign acquisitions in Latin America in the past six years.

Since 2012, the US, Italy and Spain have been the top foreign investors in Chile by deal value. Energy, financial services, and healthcare have been the most targeted industries. In more recent years, however, Chile's economic growth dropped to 1.5% in 2016 and foreign investment has slowed amid a decline in global demand for copper, which accounts for more than half of the country's exports.

After taking office in 2014, outgoing President Michelle Bachelet enacted landmark labor laws that strengthened the power of unions and passed tax reform that raised the corporate rate from 20% to 27%, which also discouraged business investment.

"The corporate tax rate used to be rather low compared to the marginal personal income tax rate, which was a big incentive for company leaders and shareholders to keep their money in the company," said Leon Larrain, an M&A partner in Baker McKenzie's Santiago office. "The increased corporate tax burden has discouraged companies from reinvesting in new projects."

Despite these challenges, our survey respondents ranked Chile the number one country they plan to target for acquisitions in the next year. This outlook is made even brighter by the fact that as of October 2017, copper prices had rebounded to a three-year high and many of the pro-union provisions in the new labor law have been struck down by the courts. Political change is also on the horizon, as billionaire center-right former President Sebastian Pinera retook the country's highest office in a December 2017 election.

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Five pros and cons to investing in Chile

Deal drivers	Deal deterrents
Open market economy	Corporate tax rate hike to 27%
Strong rule of law	Labor reforms that make it harder to replace striking workers
Low levels of corruption	Smaller consumer market compared to Brazil and Mexico
Transparent regulatory system	Frequent changes in government policy
Well-developed capital markets	New merger control law that requires government approval of larger number of deals

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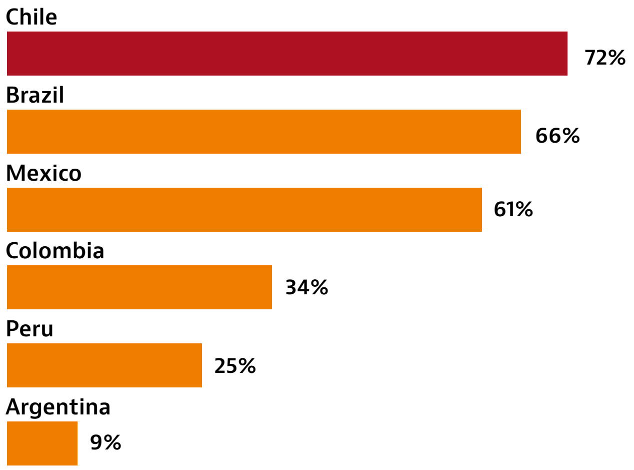

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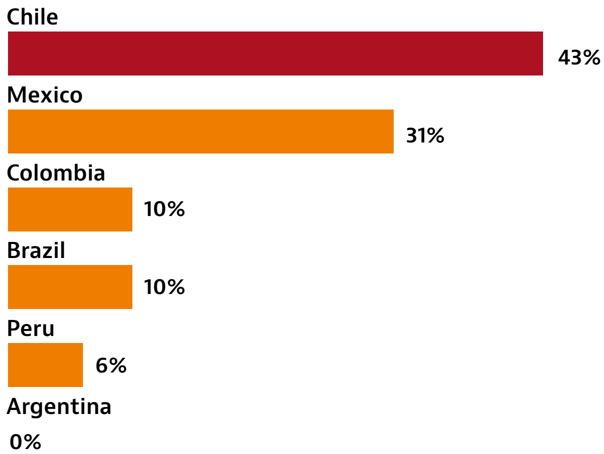

Top 5 inbound deals in Chile since 2012

Rank	Deal value	Announcement date	Target company	Bidder country	Bidder company	Sector
1	$10.7 billion	9/17/2014	Enersis (61% stake)	Italy	Enel Iberoamerica	Energy, Mining & Utilities
2	$7.5 billion	10/12/2014	Compania General de Electricidad	Spain	Gas Natural Fenosa	Energy, Mining & Utilities
3	$5.3 billion	12/19/2015	Enersis Americas	Italy	Enel	Energy, Mining & Utilities
4	$3.3 billion	12/22/2017	Banmedica	USA	UnitedHealth Group	Healthcare
5	$3.3 billion	5/16/2014	CFR Pharmaceuticals	USA	Abbott Investments Luxembourg	Healthcare

Energy, Mining & Utilities   Healthcare

Colombia

In December 2016, the Colombian government passed long-awaited tax reform that provided clarity to anxious dealmakers. The legislation lowers the corporate tax rate to 33% from 43% by 2019 while increasing the value-added tax to 19% from 16% and eliminating some deductions.

"A lot of deals were put on hold because of the uncertainty surrounding tax reform," said Jaime Trujillo, an M&A partner in Baker McKenzie's Bogota office. "Since it was resolved in late 2016, activity has been picking up. We've yet to recover from that hit, but it's steadily improving."

Since 2012, Canada, the US and France have been the top foreign investors in Colombia by deal value. Energy, business services and utilities have been the most targeted industries. Colombia ranks fifth among the top 10 Latin American countries targeted by foreign investors, although interest is rising. In our survey, 34% of corporate executives said they plan to target Colombia for acquisitions in the next year.

A peace deal signed by the government in December 2016 that ended 50 years of conflict with the Revolutionary Armed Forces of Colombia (FARC) has also raised hopes of newfound stability and economic growth. It has opened entire industries such as agribusiness and tourism to greater foreign investment in areas of the country previously off-limits to development because of security issues. But the transition has been bumpy as the two sides face the realities of what it will take to fulfill the terms of the agreement.

"Those opposed to the peace process have tried to block many of the government's initiatives," Trujillo said. "That, of course, has been felt by business, and certain projects have been put on hold pending implementation of the peace agreement."

The success of the peace agreement hinges largely on the outcome of the presidential election in May 2018, when dozens of candidates will vie to replace outgoing President Juan Manuel Santos.

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Five pros and cons to investing in Colombia

Deal drivers	Deal deterrents
Resolution of tax rate uncertainty	One of the highest corporate tax rates in LA (43%)
Infrastructure improvements including 1,400 km of new roads and 200 new bridges	Heightened antitrust scrutiny in the consumer goods, healthcare and tech sectors
Highly skilled workforce	Lower consumer demand amid economic slump
Low asset prices, particularly in the oil and gas sector	Corruption and weak government institutions
Peace agreement with FARC that has opened sectors like agribusiness and tourism to foreign investors	Efforts to sabotage the government's 2016 peace deal with FARC

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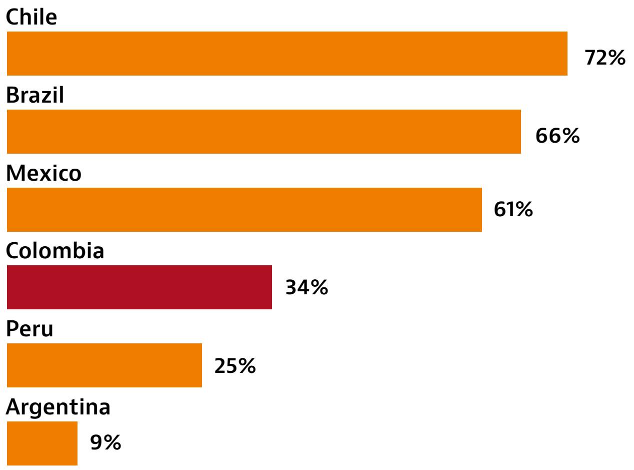

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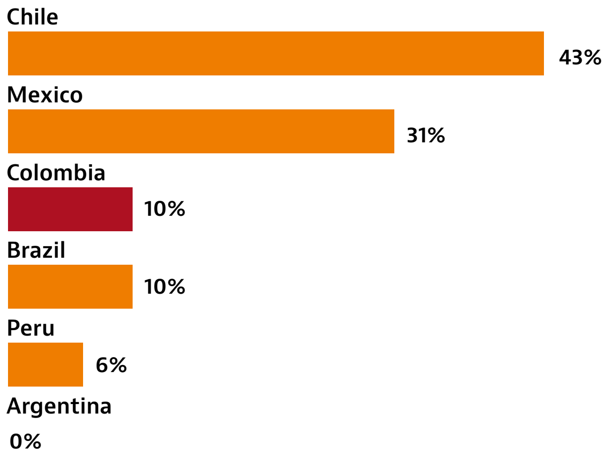

Top 5 inbound deals in Colombia since 2012

Rank	Deal value	Announcement date	Target company	Bidder country	Bidder company	Sector
1	$4.6 billion	1/13/2016	Isagen	Canada	Brookfield Renewable Energy Partners	Energy, Mining & Utilities
2	$1.1 billion	12/9/2013	Oleoducto Central (22% stake)	USA	Advent International	Energy, Mining & Utilities
3	$763 million	5/14/2015	Termocandelaria Power (61% stake)	USA	SCL Energia Activa-led consortium	Energy, Mining & Utilities
4	$631 million	11/17/2017	Gas Natural (59% stake)	Canada	Brookfield Infrastructure Partners	Energy, Mining & Utilities
5	$598 million	7/26/2013	Vetra Energia	USA	ACON Investments-led consortium	Energy, Mining & Utilities

Energy, Mining & Utilities

Mexico

In recent years Mexico has transformed into a manufacturing powerhouse, with factories rolling out everything from cars and appliances to computers and medical equipment for export, primarily to the US, its biggest trading partner.

"Manufacturing is the largest sector in Mexico and it's located everywhere," said Jorge Ruiz, an M&A partner in Baker McKenzie's Juarez office.

As the second-largest economy in Latin America, Mexico has attracted its fair share of cross-border interest. Since 2012, the US, Belgium and Israel have been the top foreign investors in Mexico by deal value. Consumer goods, energy and telecommunications have been the most targeted industries. Mexico's popularity was reflected in our survey, with 61% of foreign investors saying they plan to target the country for acquisitions in the next year. They also rated Mexico the second-best business environment in Latin America after Chile.

The dark cloud hanging over this picture is uncertainty about the future of NAFTA, the catalyst for much of Mexico's manufacturing boom. The prospect that Mexico could lose its duty-free access to American consumers is threatening foreign investment, particularly investment by companies that establish Mexican factories to make products for the US market.

"The Trump factor is still making a lot of noise," Ruiz said. "It's slowed deals that are in the pipeline and influenced the way investors make decisions."

Despite this more recent challenge, the Mexican government has instituted structural reforms aimed at stimulating economic growth and boosting investment, including opening its energy sector to private oil companies in 2013 and making it easier for foreign operators to compete in its telecommunications market.

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Five pros and cons to investing in Mexico

Deal drivers	Deal deterrents
Second-largest economy in Latin America	Uncertainty about NAFTA
Openness to foreign direct investment	Slower economic growth
Well-developed infrastructure	Security issues related to drug cartel violence
Energy and telecom reform	Corruption
Proximity to US	57% informality rate

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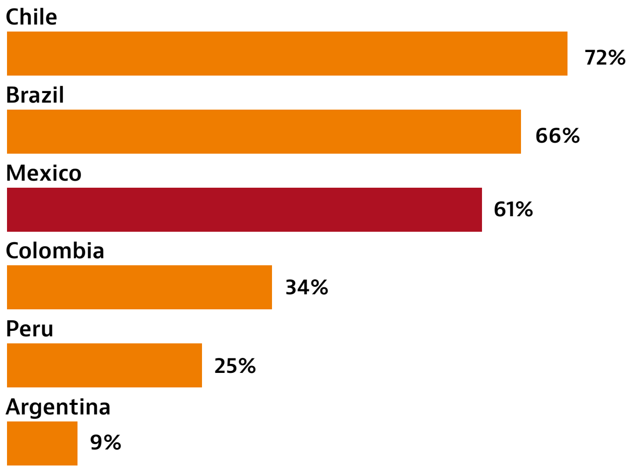

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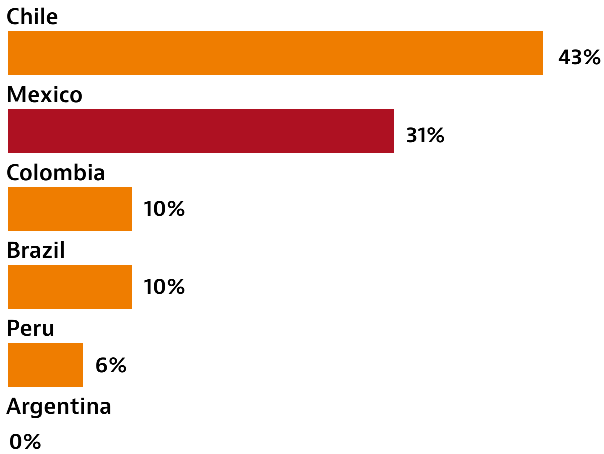

Top 5 inbound deals in Mexico since 2012

Rank	Deal value	Announcement date	Target company	Bidder country	Bidder company	Sector
1	$20.1 billion	6/29/2012	Grupo Modelo (49.7% stake)	Belgium	Anheuser-Busch InBev	Consumer
2	$2.9 billion	2/14/2013	Compania Cervecera de Coahuila	USA	Constellation Brands	Consumer
3	$2.5 billion	11/7/2014	Grupo Iusacell	USA	AT&T	Technology & Telecommunications
4	$2.3 billion	10/1/2015	Representaciones e Investigaciones Medicas	Israel	Teva Pharmaceutical Industries	Healthcare
5	$2.3 billion	6/30/2014	Comex	USA	PPG Industries	Industrials & Chemicals

Consumer   Technology & Telecommunications   Healthcare   Industrials & Chemicals

Peru

Peru has been one of the fastest growing economies in Latin America for many years, with an average GDP growth rate of 6% from 2004 to 2013. Even during the region's economic slowdown, Peru's GDP remained higher than the average at 3.9%.

Since 2012, Australia, China, and the US have been the top foreign investors in Peru by deal value. Mining, energy and business services have been the most targeted industries. Peru ranks fourth among the top 10 Latin American countries targeted by foreign investors, and despite its dependence on commodity prices, has one of the region's most stable economies.

The election of President Pedro Pablo Kuczynski, a former Wall Street banker and World Bank economist, in 2016 raised hopes that economic reform and infrastructure projects would spur even more growth. Yet his plans to cut taxes were delayed earlier this year by flash floods that deluged half the country and a corruption scandal involving bribery of regional governors.

Yet corruption scandals have also created opportunities for investors in Peru. One of the country's largest inbound deals – the US$1.3 billion acquisition of the Chaglla hydroelectric plant by a consortium of Chinese buyers in 2017 – came as the result of Brazilian construction giant Odebrecht having to divest its assets across the region.

"The economic and political volatility in our region has been a major force in creating good opportunities for investors," said Liliana Espinosa, an M&A partner in Baker & McKenzie's Lima office. "The scandal in Brazil has forced many companies to sell off their concessions in Peru, which are very good assets that otherwise would never have been on the market."

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Five pros and cons to investing in Peru

Deal drivers	Deal deterrents
High GDP growth	Highly bureaucratic
Drop in poverty rate to 23% (previously 56%)	Government corruption
Attractive assets	Civil unrest related to mining projects
Plans for tax reform and infrastructure projects	Lack of infrastructure
Openness to foreign investment	Regulatory delays

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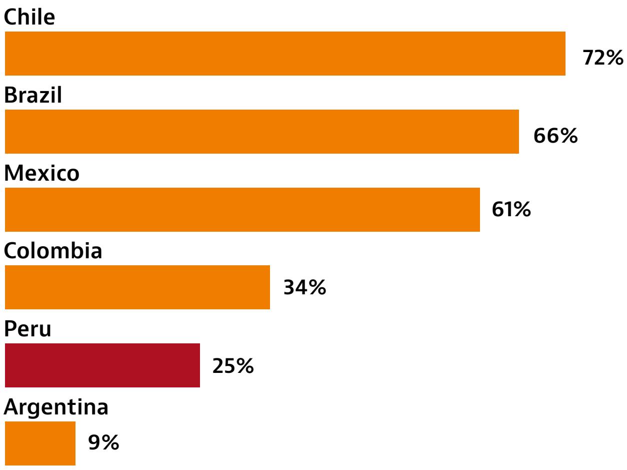

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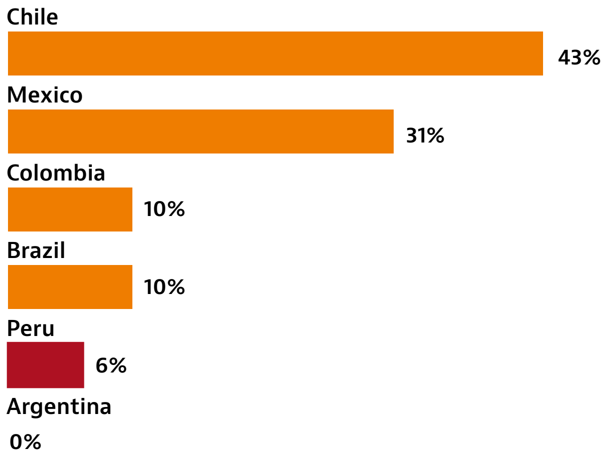

Top 5 inbound deals in Peru since 2012

Rank	Deal value	Announcement date	Target company	Bidder country	Bidder company	Sector
1	$7 billion	4/13/2014	Xstrata Las Bambas	Australia	MMG South America Management Company	Energy, Mining & Utilities
2	$2.6 billion	11/13/2013	Petrobras Energia Peru	China	PetroChina Company	Energy, Mining & Utilities
3	$1.6 billion	8/8/2016	Lamsac	France	Vinci	Business Services
4	$1.3 billion	8/25/2017	Empresa de Generacion Huallaga	China	China Three Gorges Corporation-led consortium	Energy, Mining & Utilities
5	$971 million	2/26/2013	Copeinca	Hong Kong	Pacific Andes International Holdings	Consumer

Energy, Mining & Utilities Business Services Consumer

Conclusion

"Latin America is very fond of the word, 'hope,'" Chilean poet Pablo Neruda once wrote. "We like to be called the 'continent of hope.' Candidates for deputy, senator, president, call themselves 'candidates of hope.' This hope is really something like a promise of heaven, an IOU whose payment is always being put off. It is put off until the next legislative campaign, until next year, until the next century."

Despite Latin America's ongoing political and economic challenges, it continues to be the continent of hope for foreign investors. More than 80% of the dealmakers in our survey said they expect M&A activity in Latin America to rise over the next year. Nearly half feel "highly confident" about investing in the region.

As the recession of 2015-2016 fades from view, investors anticipate making even more acquisitions in Latin America in the coming year, particularly in Chile, Brazil, Mexico and Colombia. Governments throughout the region are taking meaningful steps to implement tax and labor reform and to fund infrastructure development. Amid a rising middle class and widespread digitization, foreign investors are increasingly targeting knowledge-based sectors such as consumer goods, financial services, healthcare and technology.

To maximize the value of these transactions, however, dealmakers will need to push through barriers such as regulatory hurdles, valuation gaps and cultural differences. These challenges are indeed surmountable, and our survey respondents and Baker McKenzie partners offer strategies that can make the road much smoother. Given the rich prospects Latin America offers foreign investors, optimism about its future continues.

“We’re aiming to expand within Latin America now,” said the director of corporate and strategic development at a US hospitality company that acquired an Argentinian hotel franchise in 2016. “When another opportunity presents itself, we will pursue it.”

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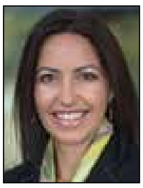

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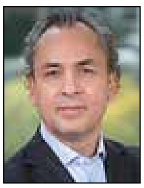

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Methodology

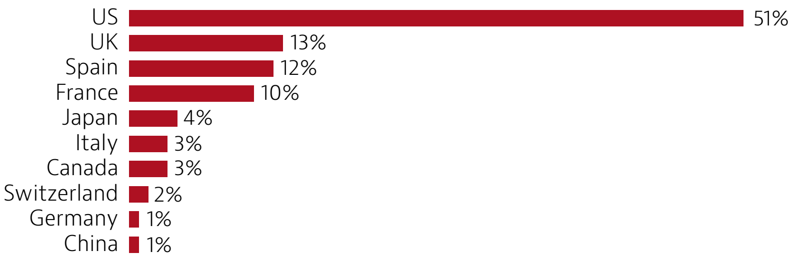
In late 2017, Baker McKenzie commissioned Mergermarket to conduct a survey of 125 senior corporate and private equity executives to investigate their experiences conducting M&A deals in Latin America. To qualify, respondents must have completed at least one M&A deal in the last three years in Argentina, Brazil, Chile, Colombia, Mexico, Peru, or Venezuela. The survey focused on transactions in four sectors: consumer goods and services, technology, healthcare, and financial services.

Based on these criteria, the majority of eligible companies were headquartered in North America and Europe with a few from Asia Pacific. Half were based in the US, the leading foreign investor from outside the region in the past five years. Most respondents worked for corporate entities (82%) while 18% were from private equity firms.

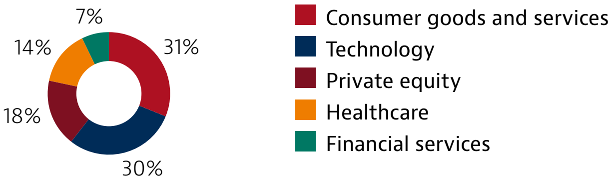
The survey focused on the experiences of serial acquirers, companies that have completed two or more deals in the region in the last three years, and could offer critical insights into the M&A process in Latin America. More than a third (34%) of our respondents were from such companies.

Two-thirds of our respondents came from large-cap companies with annual revenue of US$3 billion or more, a reflection of the fact that multinationals are the most active foreign buyers in the region. The average value of the majority of the acquisitions made by our respondents were on the lower end, with 89% valued at US$250 million or less.

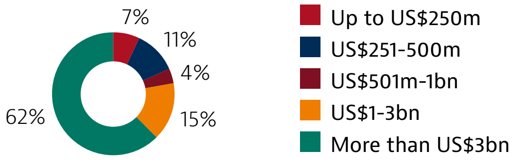
Where is your company headquartered?



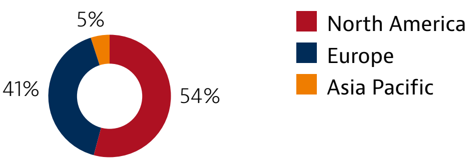
In what sector is your company?



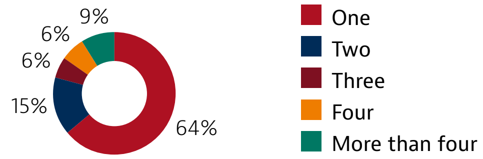
What is your company's annual revenue?



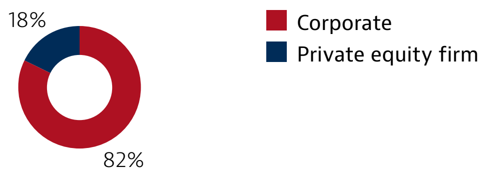
Breakdown of respondents by region



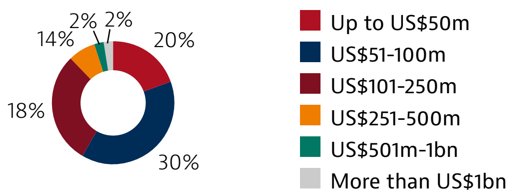
How many deals have you done in Latin America in the past three years?



Which describes your company?



What was the average value of the deals you have done in Latin America in the last three years?



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