

Navigating 2022: Challenges & Opportunities

LATIN AMERICA TRENDS AND M&A CONSIDERATIONS

Sig Huber, Aurelio Garcia-Miro

OVERVIEW

Originally presented by Riveron experts Sig Huber and Aurelio Garcia-Miro at the AASA Global Summit in February 2022.

In Latin America, investors face an increasingly complex landscape as the region continues to see a high activity across mergers and acquisitions (M&A) and evolving political and economic trends which will cause impacts across multiple sectors, including energy, technology, healthcare, manufacturing, and more.

CONTENTS

Latin America: trends and M&A considerations

- ▶ Regional update
- ▶ Latest trends across automotive manufacturing in the region
- ▶ M&A trends
- ▶ M&A considerations in the region

Presenter bios and learn more

REGIONAL UPDATE

TREND TOWARD SOCIALIST GOVERNMENTS

Increased political, regulatory, environmental, and financial instability

Local consumption remains strong despite supply chain issues

Low productivity, poor infrastructure, corruption, political instability

Peru & Chile elected hard left-wing governments – Socialist candidates leading polls in Brazil & Colombia

Chile is historically conservative and also elected a hard left President

CURRENCY DEVALUATION IS A MAJOR CONCERN

In 2021

- ▶ Chilean currency lost 17% vs the US dollar
- ▶ Colombian peso lost 16%
- ▶ Peruvian sol lost 9%, Brazilian real lost 7% (5th consecutive year)
- ▶ Failing to take advantage of rising commodity prices – copper up 25% in 2021
- ▶ Expect only a mediocre economic recovery because of debt taken on during pandemic, rapid inflation, and greater political risk as voters swing toward populist outsiders
- ▶ Flight of capital out of **Chile** (\$50B) and **Peru** (\$15B)
- ▶ **Mexico** has been the exception - Leftwing populist President has also balanced populist agenda with focus on internal trade and fiscal discipline
- ▶ **Brazil** uncertainty is rising -Bolsonaro losing credibility and the leftist “Lula” da Silva leading polls

OPPORTUNITIES FOR LATIN AMERICA

- ▶ Abundant natural resources such as lithium & copper
- ▶ Broad sunny and windy areas to produce low-cost energy for export
- ▶ Unprecedented tech boom – attracted more private capital than South-east Asia
 - ▶ Largest standalone digital bank is Brazilian
 - ▶ Uruguay is a leading software exporter
 - ▶ Companies “nearshoring” manufacturing away from China will provide opportunities for Mexico and other Central American countries
- ▶ Latin America needs support and investment from foreign investors

LATEST TRENDS IN THE AUTOMOTIVE INDUSTRY IN LATIN AMERICA



- ▶ **Lockdowns and fewer miles driven** have decreased demand. Owners have delayed servicing their vehicles. This has negatively impacted service part and aftermarket manufacturers
- ▶ **Chip shortage** affecting manufacturing in major countries such as Brazil & Mexico. Brazil was 300,000 units below initial forecasts in 2021
- ▶ **Brazil** - production expected to increase 9.4% and sales expected to increase 8.5% in 2022. Volume expected to be 2.46 million units

- ▶ **Mexico** – production and sales both at 10-year lows
 - ▶ Chip shortages impact small vehicle production as OEMs prioritize higher margin truck & SUV
 - ▶ Supply chain bottlenecks impacting production
- ▶ **US-Mexico** High Level Economic Dialogue (HLED) aims to strengthen supply chain for chips
- ▶ **Increased interest in HEV and PHEV.** Currently strong preference over BEV due to lack of charging infrastructure. Nine leading electric vehicle markets are Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, and Paraguay. Expect market to be 158,300 units

M&A TRENDS IN REGION

- ▶ Totaled \$100+B in first 9 months of 2021
 - ▶ \$9.5B takeover of NotreDame Intermedica by rival Hapvida SA
 - ▶ \$5B Univision acquisition of Grupo Televisa assets
 - ▶ \$5B spinoff of Brazilian retailer GPA SA's wholesale division Asai
 - ▶ Most active industries are healthcare and fintech. Privatization and infrastructure deals also active
 - ▶ **Deals:** Brazil 60%, followed by Mexico, Chile, Peru and Colombia
 - ▶ Brazil's privatization agenda, devaluation of currencies and low interest rates in some countries were key drivers
 - ▶ **Specifically in the automotive industry:**
 - ▶ 29 transactions (16 Brazil, 6 Mexico, 5 Argentina, 1 Chile, 1 Colombia)
 - ▶ Bovespa index down 5% last year and more than 50 companies delayed or canceled their IPOs. Equity offerings remained stable and capital issuance was increased
 - ▶ In 2022 we expect the trend to continue with growth of the consumer base fueled by expansionary populist policies – will attract investment in the short term
- ▶ **Mexico** - less friendly approach toward foreign investors and pursuing a more nationalistic agenda in its energy sector – slowed down foreign investment since 2020
 - ▶ **Peru** – good macro fundamentals and history of M&A. Investors hesitant after election of far-left President in 2021. Substantial investment on hold
 - ▶ Sustainable energy is a key growth area with Brazil & Chile leading the way
 - ▶ Venture Capital investment in Latin America has tripled from previous high - \$15B in 2021. 650 VC deals was greater than preceding 7 years combined
 - ▶ Global VC funds increasingly looking at the region, setting up local teams and hiring analysts and investors. Last year the Japanese tech conglomerate Softbank, launched a new \$3B fund bringing its total invest in the region to \$8B
 - ▶ Fintech is perhaps the hottest sector with key players like Brazil's Nubank to Mexico's used car platform Kavak

CONSIDERATIONS FOR M&A IN LATIN AMERICA

Great number of cross-border transactions – both incoming and by Latin American bidders from other regional markets

- ▶ Important consideration because it requires knowledge of multiple local regulatory, market and operational aspects when structuring a transaction
- ▶ Brazil had over \$85B in cross border acquisitions over the last two years, twice as much as the U.S. Other international cross-border investments include acquirers from France, China, Spain, Canada, Japan, Italy, Chile & Colombia

Regional inconsistencies and volatile economic and socio-political landscapes require careful assessment of political, social, cultural and regulatory risk of the target's host country

- ▶ In addition to standard Quality of Earnings (Q of E), ROI and other common value analysis diligence, M&A in Latin America must also include:
 - ▶ Particular local nuances
 - ▶ Efficacy of host country's legal system
 - ▶ Multilateral investment treaties to protect investment
 - ▶ Political stability of host country and their sovereign credit rating – impacts credit ratings of local issuers
 - ▶ Public policy and likely trends
 - ▶ Tax laws
 - ▶ Governmental approvals process
 - ▶ Legislative and regulatory requirements
 - ▶ Enforcement and safeguards on contractual terms with government counterparties
 - ▶ Foreign exchange
 - ▶ Capital repatriation rules

LEARN MORE

Additional thought leadership resources available at riveron.com/insights.



SIGMUND HUBER

Senior Managing Director

sig.huber@riveron.com

Sig Huber has over 20 years experience in automotive OEM global leadership roles involving turnaround, reorganization, bankruptcy, M&A, purchasing and supply chain, supplier diversity, labor relations, government affairs, and corporate communications.

Find his [bio at riveron.com](#)



AURELIO GARCIA-MIRO

Senior Managing Director

aurelio.garcia-miro@riveron.com

Aurelio leads Riveron's Latin American practice and has been a trusted advisor to equity sponsors, boards of directors, senior management, heads of government, and creditors on cash management and restructuring in several countries and has advised stakeholders in numerous reorganizations.

Find his [bio at riveron.com](#)