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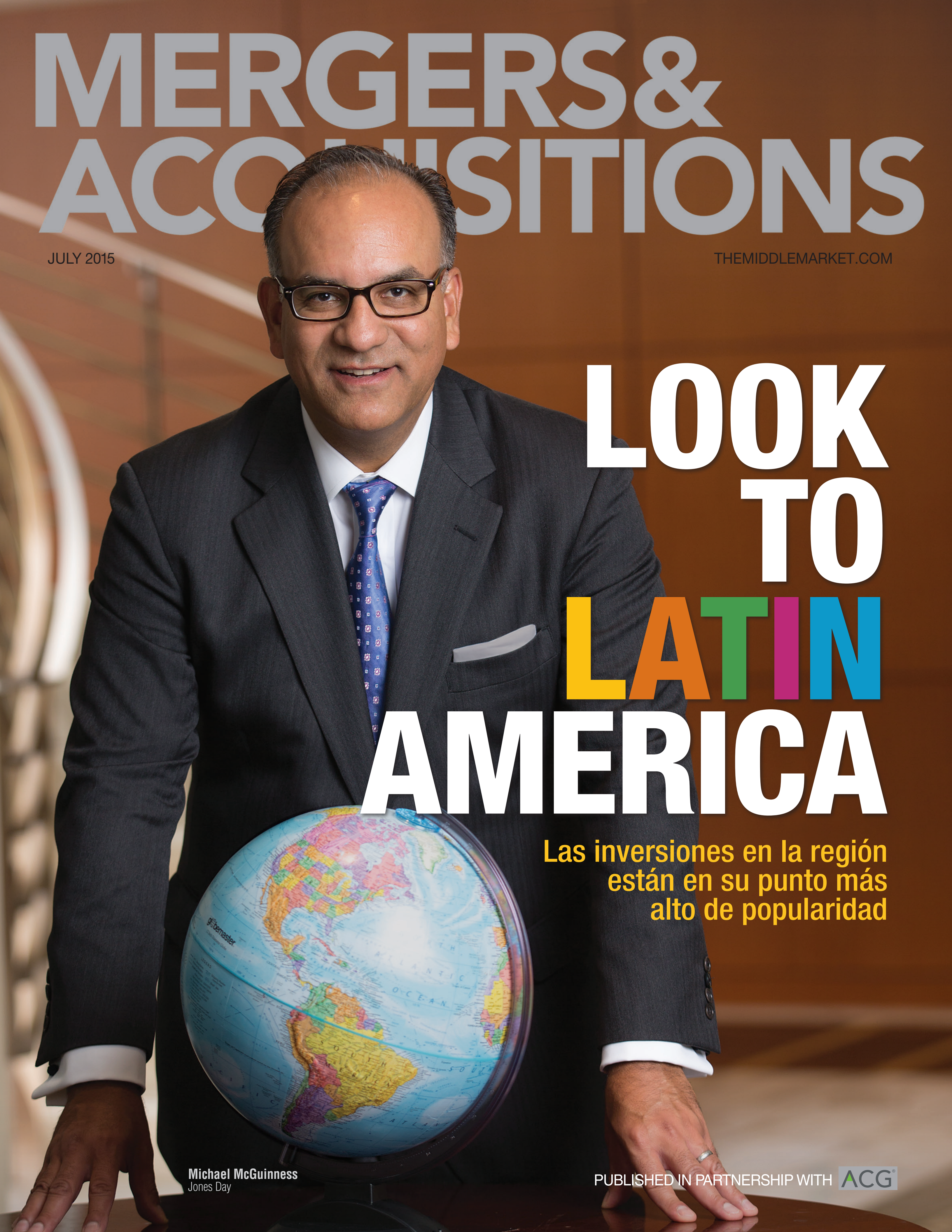

LOOK TO LATIN AMERICA

Las inversiones en la región están en su punto más alto de popularidad

Michael McGuinness
Jones Day

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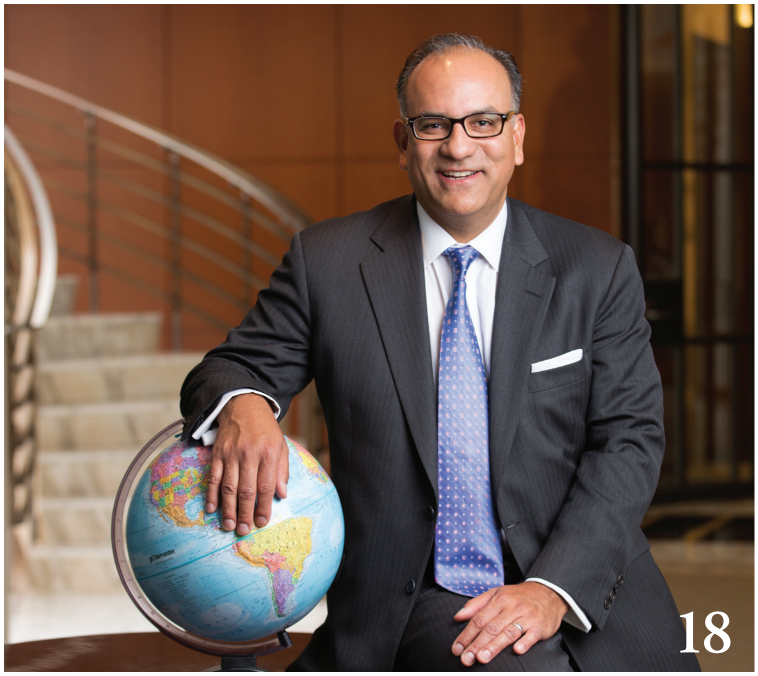

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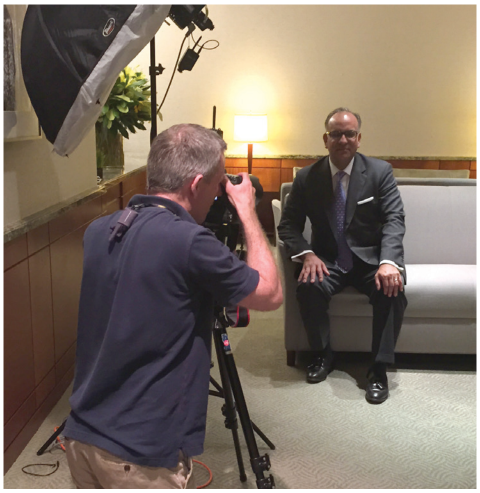

Investment in Latin America by U.S. private equity and venture capital firms has been growing for a decade and is at an all-time high, as contributing editor Danielle Fugazy writes in this issue's cover story, with photographs by Matt Greenslade. Investors are attracted to the region for various reasons, but mainly economic growth opportunities coupled with investor-friendly policies. Private equity and venture capital firms committed $10.39 billion to investments in Latin America in 2014, exceeding the previous record of $10.27 billion in 2011, according to the Latin American Private Equity and Venture Capital Association.

Companies all over the middle market have been expanding to conduct transactions in countries including Brazil, Colombia and Mexico. Jones Day serves as a great example. The firm recently brought aboard seasoned adviser Michael McGuinness as partner. The firm's expansion into high-growth areas, including Latin America, is one of the reasons Mergers & Acquisitions gave it our M&A Mid-Market Award for Law Firm of the Year for 2014.

McGuinness brings a wealth of experience in the region. Some of the notable deals he has advised on over the years include: General Electric's (NYSE: GE) $4.3 billion acquisition of the aviation business of Avio S.p.A.; GrupoSura's $3.6 billion purchase of ING's (NYSE: ING) Latin America pensions, life insurance and investment operations; and Anglo American plc's (LON: AAL) sale of a 24.5 percent stake in Anglo American Sur, a Chilean copper mining company worth $5.4 billion, to Mitsubishi. Just prior to joining Jones Day, McGuinness headed up the Latin America practice at Shearman & Sterling.

"Latin America is an important region from a long-term perspective, and it will continue to grow in importance," McGuinness says.

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Michael McGuinness
Jones Day

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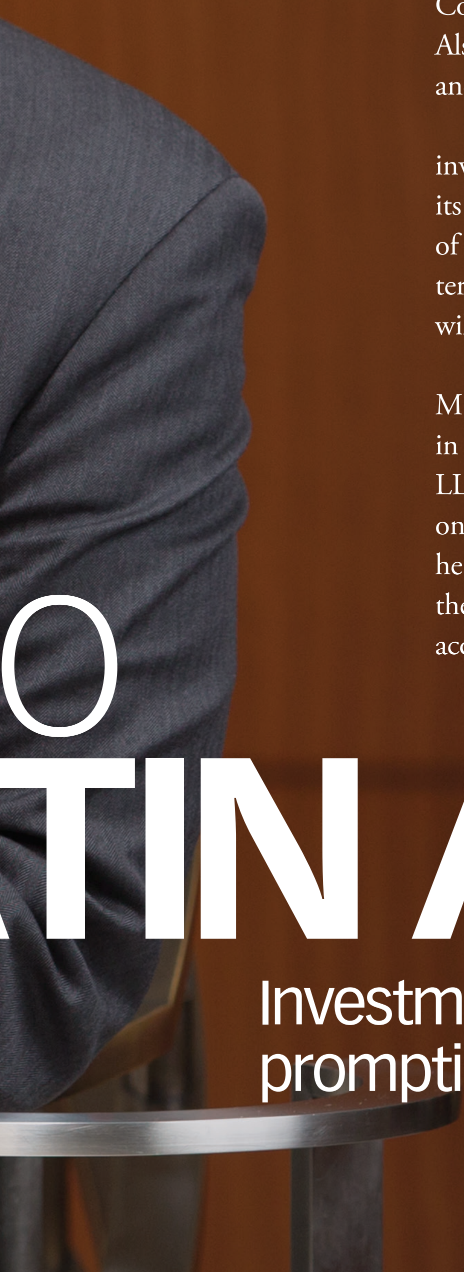

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TIN AMERICA

Investment in the region hits all-time high, prompting advisers to expand

By Danielle Fugazy

During the past 10 years, M&A activity in Latin America has pushed into the forefront. The region has seen the emergence of Latin American multinationals, home-grown private equity firms and U.S.-based private equity firms all vying for deals. Investors are attracted to the region for various reasons, but mainly economic growth opportunities coupled with investor-friendly policies. Private equity and venture capital firms committed $10.39 billion to investments in Latin America in 2014, exceeding the previous record of $10.27 billion in 2011, according to the Latin American Private Equity and Venture Capital Association.

Most M&A investors in Latin America are building businesses across the region rather than in a single country. But some countries, such as Brazil, Colombia and Mexico, are garnering more interest from investors than others. Also, some specific industries, including energy, financial services, health care and telecommunications, are stealing the spotlight.

"The M&A market is heating up in Latin America, and U.S. and European investors are warming up to Latin America, which is adding to the growth of its M&A market," says Michael McGuinness, a partner in the M&A practice of Jones Day who focuses on Latin America. "It's not the number one region in terms of M&A, but it's an important region from a long-term perspective and it will continue to grow in importance."

Because of the impending growth of the region, Jones Day, which won the M&A Mid-Market Award for Law Firm of the Year for 2014, deepened its bench in Latin America by bringing McGuinness aboard from Shearman & Sterling LLP, where he headed up the Latin America practice. McGuinness has advised on some very significant deals in Latin America. Before Shearman & Sterling, he represented General Electric (NYSE: GE) in its $4.3 billion acquisition of the aviation business of Avio SpA; GrupoSura in its approximately $3.6 billion acquisition of ING's (NYSE: ING) Latin America pensions, life insurance and investment operations; and Anglo American plc (LON: AAL) in its sale of a 24.5 percent stake in Anglo American Sur, a Chilean copper mining company worth $5.4 billion to Mitsubishi.

Jones Day isn't the only law firm that has seen room to grow its practices in Latin America. As a result of the increase in M&A activity, Willkie Farr & Gallagher has also expanded its Latin America presence. In 2014, the New York-based law firm placed partner Maria Ossa-Daza at the helm of the Latin American unit. She had previously represented Teva Pharmaceutical Industries Ltd. (NYSE:TEVA) in a joint venture with Proctor & Gamble Co. (NYSE: PG) to combine their over-the-counter consumer health care businesses in Latin America.

> "We expect to do more energy deals between U.S. investors and Mexico."

Willkie Farr & Gallagher began taking Latin America more seriously when it noticed more private equity deals springing up in 2011, 2012 and 2013. The firm remains committed to the region today. "We are still very bullish on Latin America. We have opened a Houston office for our growing energy practice and we expect to do more energy deals from this office between U.S. investors and Mexico," says Ossa-Daza. "And we continue to grow our Latin American team."

In 2015, Willkie Farr hired Andres Ordonez, a senior associate from Colombia, who will focus on M&A in Bolivia, Colombia, Ecuador and Peru. At the end of 2014, the firm added Pablo Gonzalez, a junior associate from Mexico who will work on M&A transactions in the country.

Latin American companies that are trying to build their presence in the entire region, not just one country, are known as multinationals or multilatinas, and they are eagerly using M&A as a growth strategy.

For proof, look no further than transactions completed by multilatinas, including Brazil's AB InBev's acquisition of the remaining 49 percent stake in Mexico's Modelo for $20 billion in 2013 and Brazil's Oi's acquisition of Portugal Telecom for $15 billion the same year.

"The multilatinas are more important than ever before. They are active and doing deals across Latin America. They will continue to drive activity in the region," says McGuinness. "You will continue to see this, especially in financial services as the middle class in the region emerges."

In 2011, McGuinness worked on the landmark transaction completed by multilatina Grupo de Inversiones Suramericana. Columbia-based Grupo Sura purchased ING Grope NV's pensions, life insurance and investment management operations in multiple countries including Chile, Colombia, Mexico, Uruguay and Peru for $3.6 billion.

U.S. private equity firms are also interested in taking part in the growth the region is experiencing. Bain Capital has completed two deals in Brazil. The U.S. firm, which usually looks at deals globally, became actively interested in Latin America over the last decade. "When entering new markets, we usually start by drawing upon our existing resources. Once we are familiar and confident in the deal market, we transfer people to the area, and we supplement with local talent," says Chris Gordon, a managing director with Bain Capital. "It's a successful model of blending."

For its first deal in Latin America, Bain Capital bought Spanish phone company Telefonica SA Atento's call center business for $1.34 billion in 2012. Atento is the largest provider of outsourced call-center services to businesses in Latin America.

In March 2014, the venerable firm made its second foray into the Latin American market. The firm purchased Brazilian health insurance operator Intermedica from its founder for approximately $851 million.

"We are not flying blind there. When we enter a new market, we focus on sectors we know well from other experience we've accumulated. For example, we previously owned call centers in the U.S. and Japan, and health care companies all over the world," says Gordon. Both deals were completed with equity from Bain Capital's existing funds. "We are looking to deploy at least $200 million, and ideally more, per transaction. A number of Latin American markets are not at that scale but Brazil is. We currently have employees in Brazil working with our portfolio companies." An office in the country is most likely the next step for the firm, although that is not yet in the works.

Many of the larger U.S.-based private equity firms are expecting to be active in the region. Boston-based Advent International closed on $2.1 billion for investment in Latin America at the end of 2014. Advent Latin American Private Equity Fund VI is the largest such fund ever raised for Latin America, topping JPMorgan (NYSE: JPM) Asset Management's Gávea Investments' $1.9 billion fund, which was raised in 2011. More than 60 institutional investors participated in LAPEF VI, including public and corporate pension funds, endowments and foundations, funds of funds, sovereign wealth funds, family offices and other financial institutions. About half the capital was raised from North American investors, one-quarter from European investors and the remainder from institutions in Latin America, the Middle East and Asia.

Advent plans to use capital to invest in all of Latin America, but primarily Brazil, Mexico and Colombia. The firm will be looking for deals in the $150 million to $250 million range. Advent has a long history in Latin America, having invested in more than 50 companies across the region and fully exited 34 of those businesses in the past 18 years.

"Latin America is an important region for Advent because it is a large, growing market with attractive dynamics including favorable demographics, opportunities for productivity enhancement, fragmented industries and a high degree of family ownership. We believe these dynamics create interesting investment opportunities, particularly for private equity. The market is also characterized by limited competition from other financial sponsors relative to the size of the markets," says Patrice Etlin, a managing partner of Advent International in Sao Paulo, Brazil.

Sao Paulo-based Patria Investments, which is 40 percent-owned by Blackstone Group, closed on a $1.8 billion fund in 2015 as well.

However, it's important to note that it's not easy for private equity firms, especially middle-market private equity firms, to complete deals in Latin America because of the strong local private equity industry.

"There's a local private equity industry usually playing in middle market transactions, but there is definitely room for scale foreign investors willing to put resources on the ground and learn the market," says Gordon.

In addition to local competition, U.S. strategic acquirers are also looking to grow market share by purchasing companies in Latin America. In May, PPG Industries (NYSE: PPG) bought paint store operator Consorcio Latinoamericano for an undisclosed amount. Consorcio operates a network of 57 paint stores in Central America, which after the deal closes will allow PPG to expand its operations in the area. After the transaction is completed, PPG will have 87 company-owned stores in Belize, El Salvador, Guatemala, Honduras, Costa Rica, Nicaragua and Panama. Pittsburgh-based PPG won Mergers & Acquisitions M&A Mid-Market Strategic Buyer of the Year Award after making a handful of middle-market acquisitions in 2014, in addition to Comex, a $2.3 billion paint purchase.

Earlier this year, Owens-Illinois Inc. agreed to buy a Vitro SAB unit that makes glass containers for food and beverages for $2.15 billion to expand in the growing market for food packaging in Mexico.

"This transaction marks an important strategic step," said Owens-Illinois Chairman and Chief Executive Officer Al Stroucken. "Vitro's leading position, long-term customer relationships and proven record of innovation and new product development will enable us to capitalize on commercial opportunities in Mexico."

Certain sectors and countries are clearly more attractive than others. Brazil, Colombia and Mexico have the most activity, but the Pacific Alliance—Chile, Colombia, Mexico and Peru—is increasingly important. Founded in 2011, the initial goal of the alliance was to further free trade and economic integration. The four founding nations of the Pacific Alliance represent nearly 36 percent of Latin American Gross Domestic Product.

"Brazil is going through a hard time and things have cooled a little bit. There are a lot of questions around Brazil with low growth and growing inflation, not to mention a very significant drop in commodity prices, and concern about the government's interventionist approach," says McGuinness. "Lots of people are wondering what the future holds, but still if you look at the numbers, 48 percent of M&A deals over $100 million were in Brazil so it's still very important. That said, the Pacific Alliance countries are growing in importance as well."

Colombia is getting significant inbound M&A activity as well. Experts expect GDP growth to average a robust 4.4 percent from 2015 through 2019, which is creating a buzz. Additionally, the country has a good appetite for foreign investment, a sophisticated M&A investment banking market and many traditional family-owned companies that are looking for buyers. As a result, 2014 saw several transactions completed.

"Colombia's strong GDP growth and rising middle class are attracting greater attention from international investors, though the private equity market there is still developing," says Etlin.

Advent International acquired a minority stake in Colombian brokerage Alianza Valores, while financial services company Encore Capital Group financial services acquired a majority stake in another financial services company, Refinancia. Also, Luxembourg-based telecom company Millicom closed its $4.4 billion merger with local counterpart UNE EPM, which amounted to Colombia's largest-ever telecom deal. Latin American-based private equity firms Altra, Mercantil Colpatria and SCL Energía Activa acquired a Colombian power plant from El Dorado Group, a U.S.-based infrastructure and project developer for $241 million.

And despite some of the headline-making issues in Mexico, the country is becoming increasingly important to the M&A community. "Mexico has its issues. There are legal issues and growth issues, but this economy is fundamentally governed by law and we are very bullish on Mexico because there's a lot of change that's allowing for M&A activity," says Bob Profusek, head of M&A at Jones Day.

Mexico has done a healthy volume of M&A deals throughout 2014, but there are challenges, including lack of GDP growth. "Mexico remains highly correlated to the U.S. market and is a more concentrated economy, but we believe private equity penetration is limited and the country's expanding middle class and structural reforms are creating investment opportunities," says Etlin.

The telecom industry is seeing lots of activity in the country these days. The Mexican government's crackdown on billionaire Carlos Slim's América Móvil telecom monopoly has left room for companies to gain market share. Movil is ready to divest assets in an unprecedented step to cut its market share in Mexican telecoms to below 50 percent and escape the burden of tougher regulations. Today, the company controls about 70 percent of Mexico's mobile market and 80 percent of the fixed-line business.

Reducing Slim's market share below 50 percent would be a win for President Enrique Peña Nieto, who pledged to boost competition in Mexico, where massive wealth is concentrated in a few hands.

With all this in play, AT&T has been invading Mexico. In May 2015, the company purchased Nextel Mexico from NII Holdings for $1.9 billion. Jones Day advised NII Holdings on the sale. In January 2015 AT&T then paid $2.5 billion for Mexican mobile operator Iusacell. "The Mexican government has made it clear that it wants to promote more competition in the country and AT&T has already done two large deals there in the last six months," says Profusek. "The reform is historic and will drive lots of M&A activity."

Energy reform is also creating M&A opportunities in Mexico. In December 2013, Mexico's Congress approved a series of constitutional amendments that open oil and gas exploration and production to foreign investment for the first time in 75 years. By doing so, the government hopes that private investors will assist the state-owned petroleum company PEMEX to exploit future fields. The U.S. Energy Information Administration estimates that the reform could yield a potential increase of 75 percent in Mexico's long-term oil production and open opportunities for investors in the sector.

"U.S. companies are eager to do business there with this change, and a buy strategy is much more reliable than a build strategy, which will push M&A activity. I am not sure, given oil prices, that they will reap the benefits, but you will see activity. Overall, these changes let people know the country is open for business. This is good," says McGuinness.