In an uncertain world, Latam M&A is on the rise

KPMG 2023 M&A in Latam Survey

June 2023

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Executive summary

The opportunities have likely never been greater when it comes to M&A in Latin America.

The region has long been considered with caution due to political, social and economic complexities in key markets. But against a backdrop of global turmoil and disruption in other major regions, Latin America's star is rising.

"When you start to think about where investors can actually put their money and make new deals, Latin America is becoming very interesting," says Daniel Kerner, Managing Director of Latin America at risk consultancy Eurasia Group.

A new study from KPMG[1] shows that 45 percent of companies and investors believe the opportunity for M&A in the region has never been greater. But they are not blind to the risks: 35 percent believe it has never been riskier.

The risk-reward dynamic is clear when it comes to M&A in Latin America. But how can companies and investors successfully navigate it? This report examines the M&A landscape in Latin America and recommends ways for investors and companies to take advantage of the growing opportunity.

M&A in Latin America is full of opportunities — but there are some risks. How can investors and corporations win in this environment?

45%

of companies and investors believe the opportunity to do M&A in Latin America has never been greater

[1] Throughout this document, "we", "KPMG", "us" and "our" refers to the global organization or to one or more of the member firms of KPMG International Limited ("KPMG International"), each of which is a separate legal entity

> **When you start to think about where investors can actually put their money and make new deals, Latin America is becoming very interesting**

Daniel Kerner
Managing Director of Latin America at risk consultancy Eurasia Group

Deals are succeeding

Deals of all types are expected to increase in Latin America. The majority of investors and companies expect the number of acquisitions to go up in the next two years, as well as deals from within and outside of the region. The highest numbers of investors and companies expect increases in private equity buyouts (60 percent), private equity sales (57 percent) and sales of corporate carve-outs (56 percent).

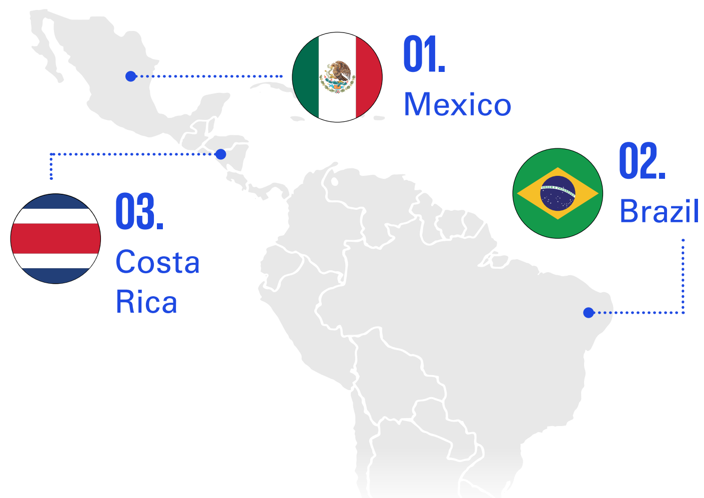
This sort of activity has already started. In March 2023, leading global steel producer ArcelorMittal acquired Brazil's Companhia Siderúrgica do Pecém (CSP)[2] for US$2.2 billion. Its aim is to increase capacity in order to meet rising demand. And at the end of last year, Mexican beverage and retail conglomerate FEMSA acquired NetPay, a fintech firm also based in Mexico, in order to expand its digital payments portfolio.[3]

[2] https://corporate.arcelormittal.com/media/press-releases/arcelormittal-completes-acquisition-of-csp-in-brazil

[3] https://www.reuters.com/markets/deals/mexicos-femsa-purchase-financial-services-netpay-b2b-fintech-bid-2022-11-07/

Key insights

Most attractive countries for M&A

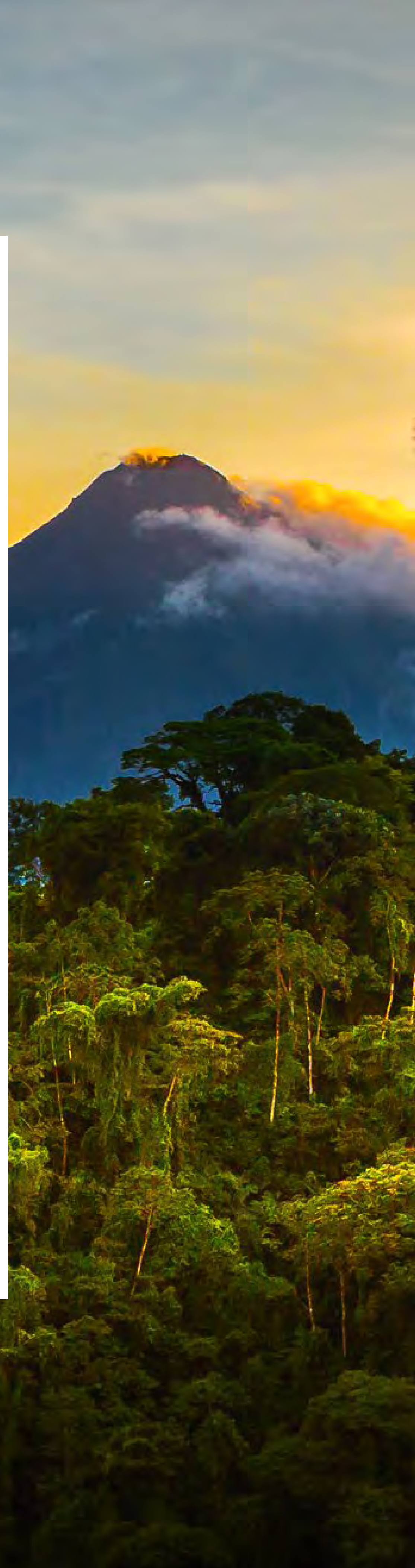


Most attractive sectors for M&A

- 01 Technology
- 02 Financial services
- 03 Energy

Most attractive types of companies for M&A

- 01 Multi-jurisdiction corporates
- 02 Venture capital or private equity sell-offs
- 03 Large family-owned businesses



Importance of due diligence

M&A opportunities are abundant in Latin America, and companies and investors are satisfied with how these have gone: four out of five companies and investors rate their most recent large M&A deal in the region as a success on the whole. This is significant: widely referenced data from the Harvard Business Review suggests that the failure rate of M&A deals across the board is between 70 percent and 90 percent.[4]

21%

of companies and investors say the biggest lesson they learned from their last major M&A deal in Latin America was insufficient due diligence

But there are challenges, and these continue throughout the life of the deal. More than a third of companies and investors rate themselves as mediocre at best across key areas of the deal, such as target identification, strategy and integration.

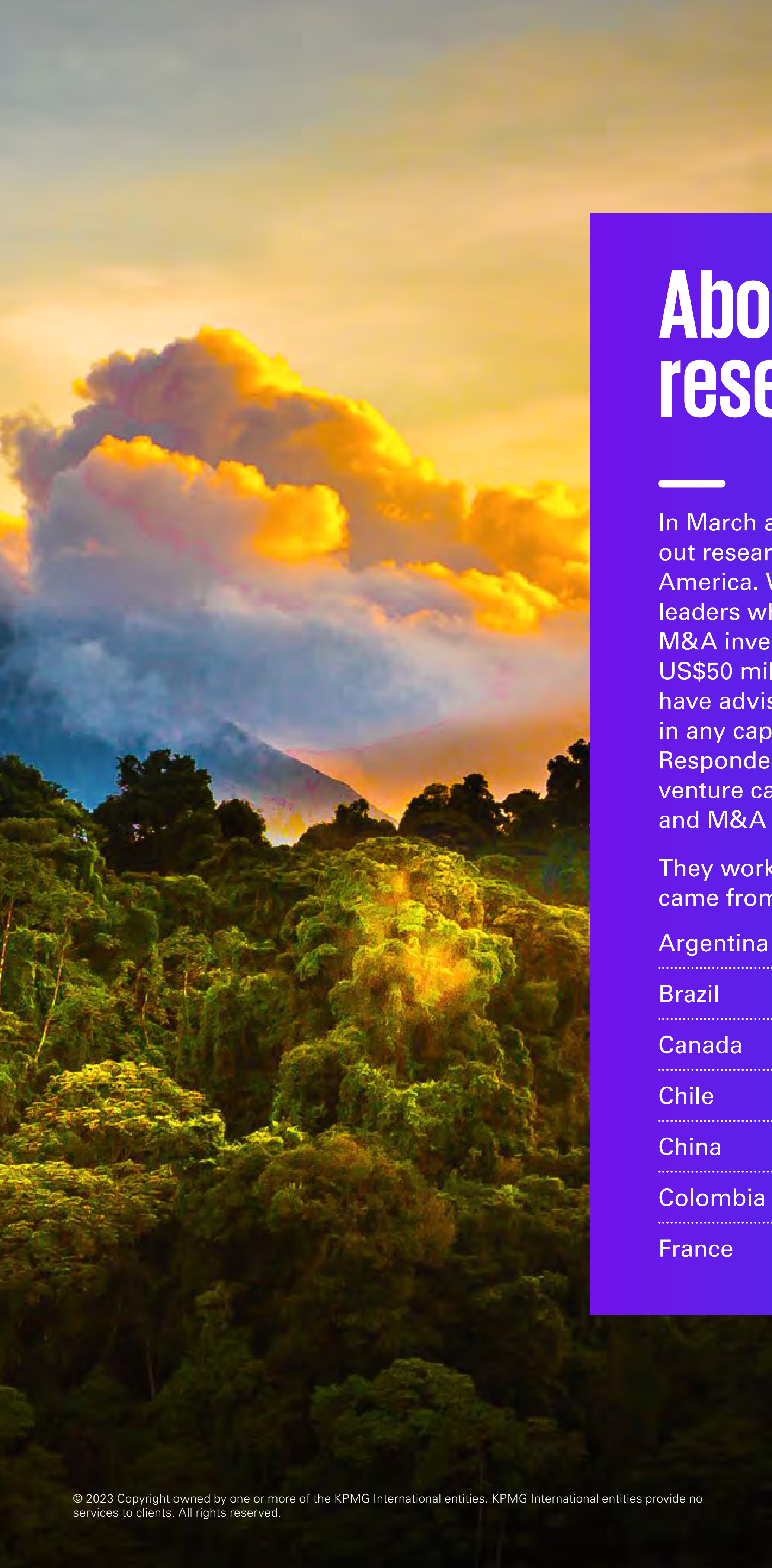
A particular struggle is due diligence: 43 percent of companies and investors say they are not good at this — partly because the required information is so difficult to track down in Latin America. A fifth (21 percent) say insufficient due diligence was the biggest lesson they learned from their last major M&A deal in the region.

M&A in Latin America is challenging but rewarding

M&A activity in Latin America can be something of a learning curve, and investors' and companies' top regret is underestimating people and culture challenges involved in the deal. Success comes from embracing local ways of working.

"The opportunities for M&A in Latin America are plentiful, but successful execution of these relies heavily on having deep expertise within the region: local cultures, customs and regulations can take investors by surprise," says Jean-Pierre Trouillot, Partner, Latin America Deal Advisory and Strategy Leader, KPMG US. "This is a risk but, overcome it and the rewards can be significant."

[4] https://hbr.org/2011/03/the-big-idea-the-new-ma-playbook



About the research

In March and April 2023, KPMG[5] carried out research into M&A trends in Latin America. We surveyed 400 business leaders who have been involved in M&A investments worth more than US$50 million in the past five years, or have advised on such an investment in any capacity over the same period. Respondents included private equity and venture capitalists, corporate executives and M&A advisors.

They worked in a range of sectors and came from 14 countries:

Argentina	Germany
Brazil	Mexico
Canada	Peru
Chile	Spain
China	Switzerland
Colombia	UK
France	US

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Latin American M&A is a risk-reward balancing act

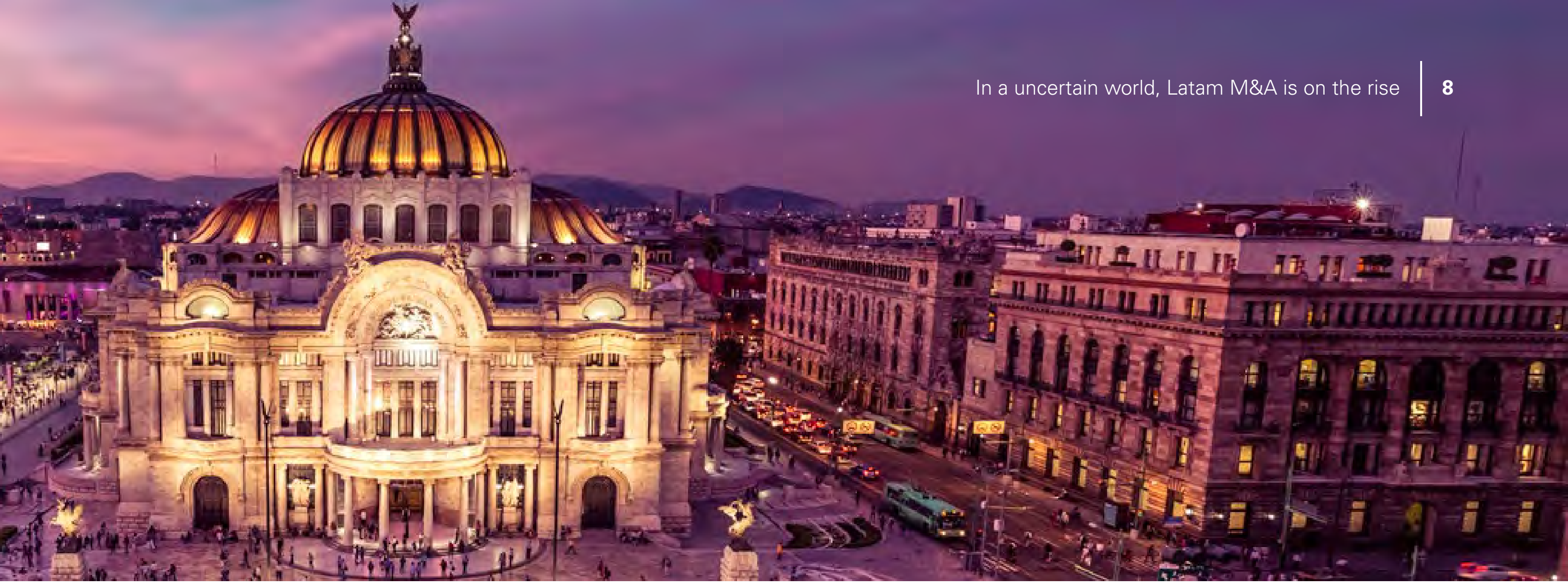
Political instability along with strict and complex regulations have at times been associated with countries in Latin America, giving it a reputation for being a risky place to do business.

M&A is no exception. About three-quarters (73 percent) of companies and investors surveyed by KPMG believe that the region is a risky place to make deals, and about a third (35 percent) even say that the prospect of doing so has never been riskier.

“There are significant challenges,” says Daniel Kerner, Managing Director of Latin America for risk consultancy Eurasia Group. “The political outlook in most of the region is dire, there are weak governments and high levels of public discontentment, and governments are struggling to make reforms, maintain economic stability and boost growth. And this is happening in a very challenging global environment. So there is caution from investors.”

40%

of companies and investors expect the second political ‘pink tide’ in Latin America to make M&A in the region less attractive



Todd Crider, Head of the Latin American Practice at law firm Simpson Thacher & Bartlett, agrees.

"It's been choppy in the region," he says. "Latin America has the opportunity to be seen as somewhat of a safe, stable haven. But it's not always playing out, because it has its own political dynamic and the shift to the left has raised uncertainty."

These concerns are echoed by the companies and investors in the survey: 40 percent believe the second political 'pink tide' in the region will make it less attractive for investment, and 44 percent say that serious macroeconomic risks, such as recession and high inflation, mean their companies prefer other global regions for investment.

A risk worth taking?

So Latin America has its risks, but many investors believe they are worth taking. Following a sharp drop in deals in the region in 2022, bankers expect a slow recovery this year — led by M&A.[6]

"Despite the risks, there is starting to be a lot of interest from foreign investors entering Latin America," says Kerner. "Why? In various countries across the globe, there are prominent challenges and risks to consider. So when you start to think about where people can actually put their money, where they can grow or make new deals, Latin America becomes very interesting."[7]

Thais Garcia, a partner at law firm Clifford Chance who specializes in Latin America, agrees. She says that the region's ongoing challenges have started to work to its advantage.

"Latin American governments have learned from past experience and previous crises, and this has really given them a head start," she explains. "Take inflation, for instance. Inflation began to slow last year, and this has given policymakers a bit more runway to potentially slow monetary tightening, which is not something you're seeing in other developed markets."

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>
> **Thais Garcia,**
> Partner at law firm Clifford Chance

44%

of companies and investors say that serious macroeconomic risks in Latin America mean their companies prefer other global regions for M&A investments

[6]https://www.reuters.com/markets/deals/latam-ma-expected-recover-2023-ipos-may-take-longer-2022-12-27/

[7]The views and opinions expressed herein are those of the third-party and do not necessarily represent the views and opinions of KPMG LLP

48%

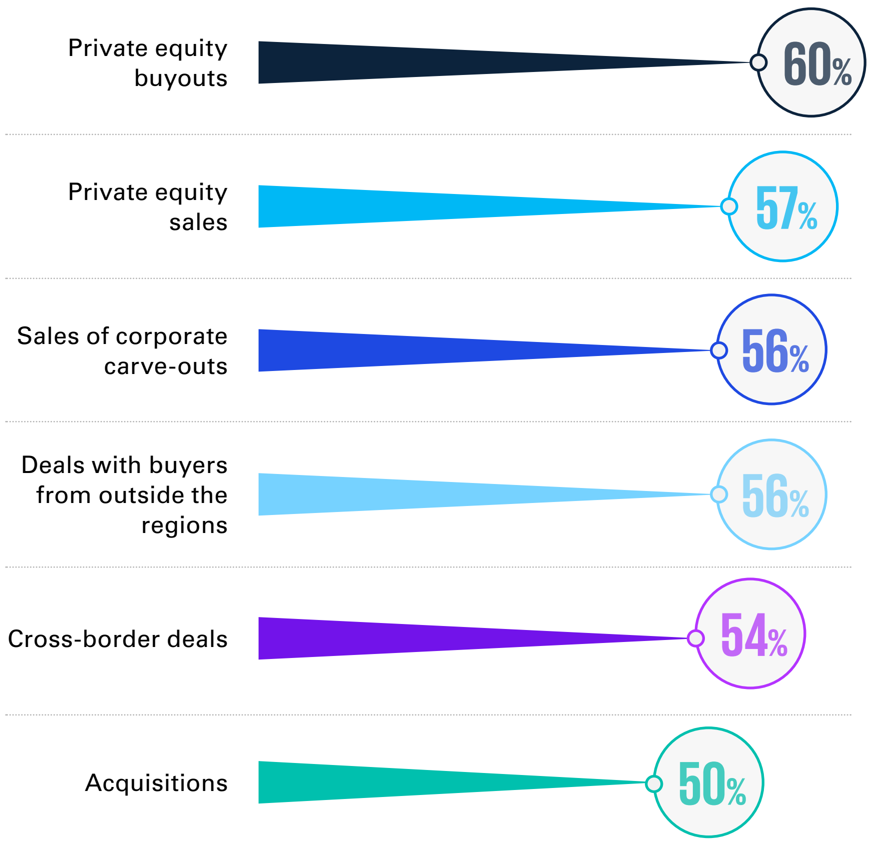
of companies and investors expect deal values to increase in the next two years

Companies and investors are also optimistic about a recovery. Only 31 percent made four or more deals in the past two years, but 51 percent expect to within the next two years. And it is not just deal numbers that are rising in the next two years: 48 percent of investors and companies expect deal values to increase.

Growth and diversification are driving M&A

Deals of all kinds are on the rise in Latin America. The majority of companies and investors expect a range of deal types to increase in number in the next two years, including acquisitions and deals within the region and outside it.

Private equity buyouts are the M&A deals most expected to increase over the next two years



Marco André Almeida, KPMG Brazil Head of Deal Advisory and Strategy in Brazil and South America* says that Brazil may have led the way for these types of deals.

“Private equity funds had a very strong year in 2022 in terms of total investments in Brazil,” he says. “This was led by a range of factors, including a more stable political and economic outlook, a devalued currency and investors moving away from other emerging markets, with financial services and information technology being the main investment targets.”

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Why are the investors and companies from this research making deals in Latin America?

01 Opportunity to enter new markets

02 Growth opportunities in specific sectors

03 Opportunities arising from general economic growth

04 An opportunity to diversify exposure to risk

05 Quality and value of the workforce

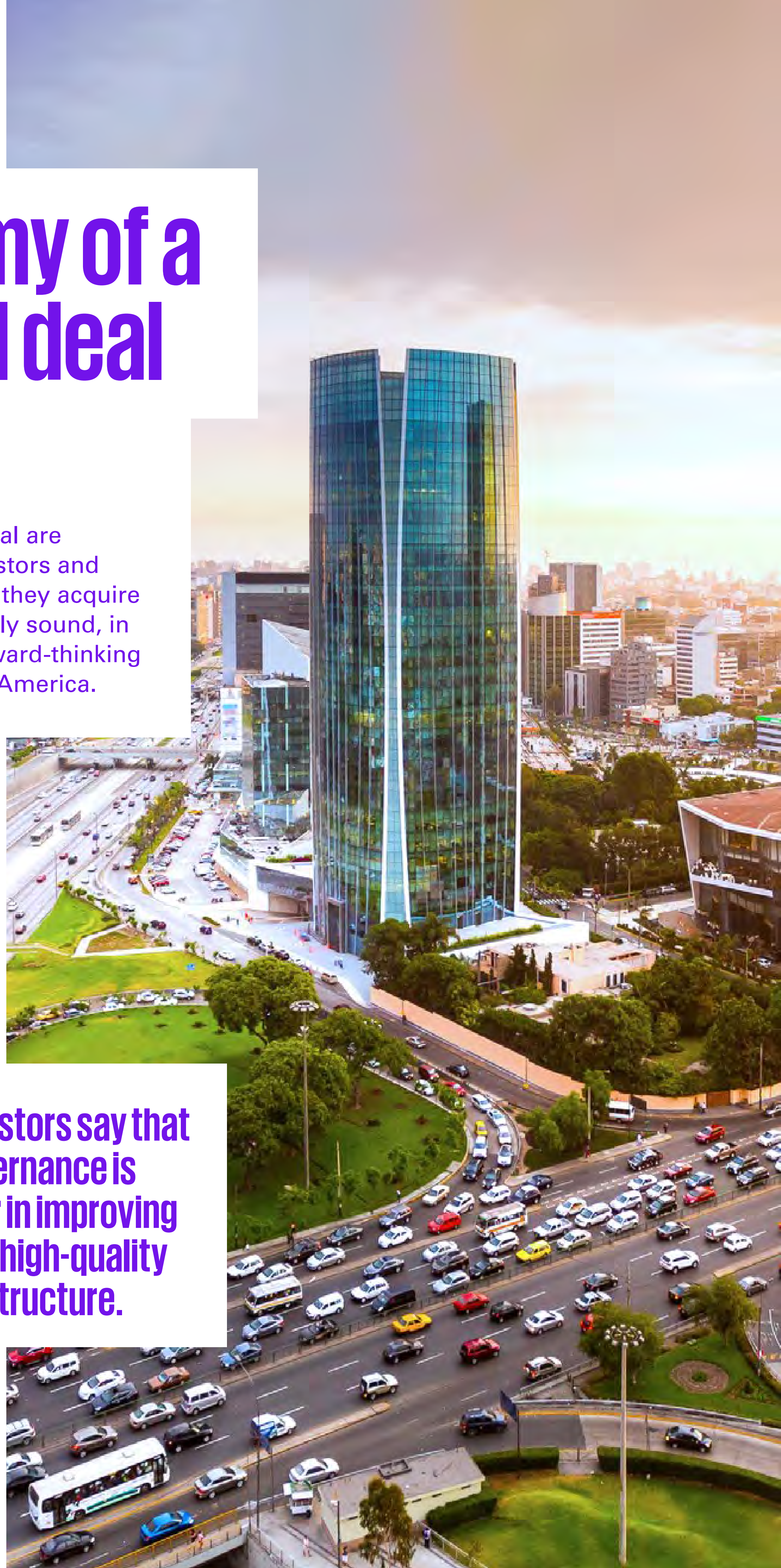
"Most countries in Latin America are friendly to foreign investors and have strong institutions" continues Almeida. "It is a large region with a rapidly increasing population, a diversified culture that originated mainly from Europe, Asia and Africa, and is also highly influenced by the US and Canada. This diverse nature makes the workforce highly valued by global organizations."

> **Most countries in Latin America are friendly to foreign investors and have strong institutions**
>
> **Marco André Almeida**
> KPMG Brazil, Partner
> Head of Deal Advisory and Strategy

"In addition to the opportunities in terms of new markets, consumption, diversification and workforce," adds Almeida, "Latin America has a clean energy matrix and is a strategic market in the global decarbonization efforts."

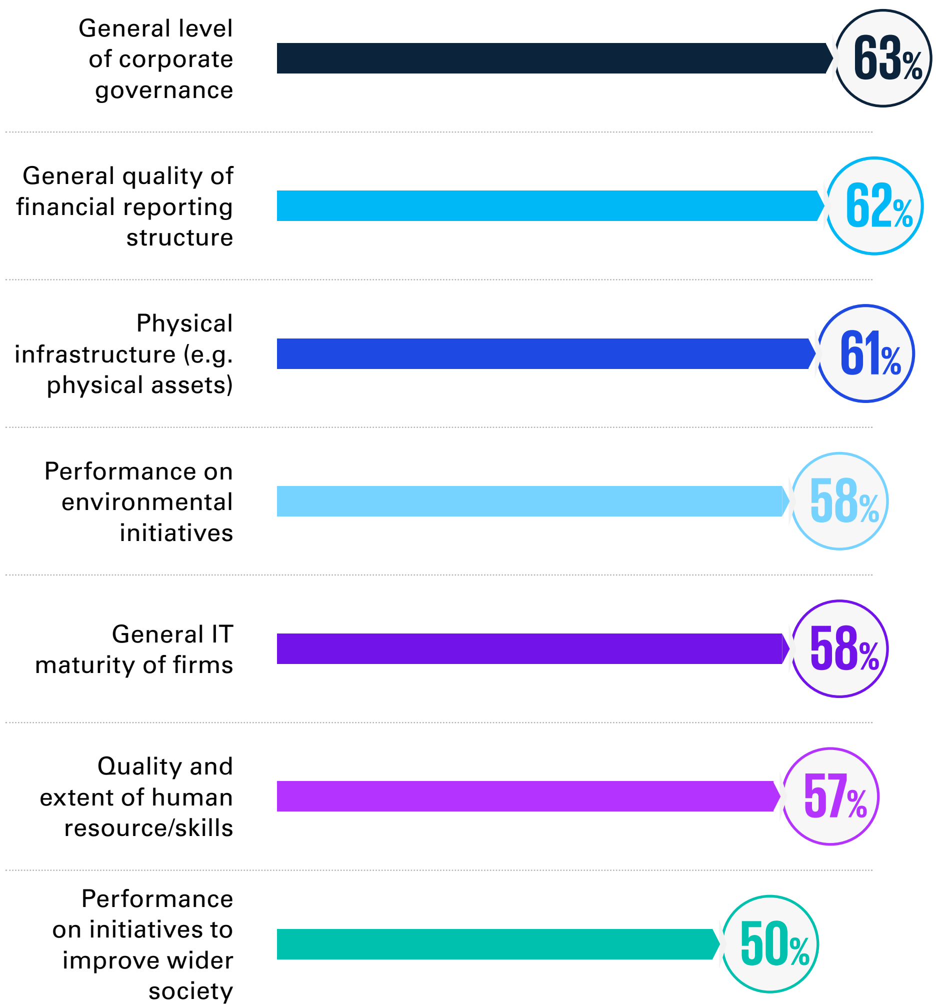
The anatomy of a successful deal

The elements of a successful deal are universal across the world: investors and companies want the companies they acquire to be financially and operationally sound, in a strong market, and led by forward-thinking teams. It is no different in Latin America.



Companies and investors say that good corporate governance is the strongest factor in improving a deal, followed by a high-quality financial reporting structure.

Corporate governance is the company trait most likely to improve deal value



> **Latin America's corporate culture is shaped by a shareholder-oriented corporate governance model.**
>
> **Jean-Pierre Trouillot**
>
> KPMG US, Partner
> Latin America Deal Advisory Desk*

From KPMG US, Trouillot explains why governance and reporting are so essential. "Latin America's corporate culture is shaped by a shareholder-oriented corporate governance model," he says. "Although more and more information is being disclosed by many companies across the main markets in the region, the level of comparability and the quality of data remains uncertain, and there is an absence of uniform international reporting standards. Therefore, effective governance processes, such as having an audit committee and maintaining independent members on this committee, promote trust among the shareholders and other stakeholders."

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Learning from leaders:

Lessons in M&A from Brazilian payments firm Ebanx

Otavio Furlan, Head of M&A for Brazilian payments firm Ebanx, has worked in this field for more than a decade. Here, he explains how he does deals in the region.

Why is Latin America becoming such a good place to conduct deals?

Latin America is definitely a great place to do deals. Generally speaking, countries in the region have good economic growth rates, and there is a young population and a strong penetration of digital technologies. There are political issues, but generally the markets are becoming much more professional and there are good local investors, entrepreneurs and companies.

What are the first steps corporations need to take when they consider M&A in Latin America?

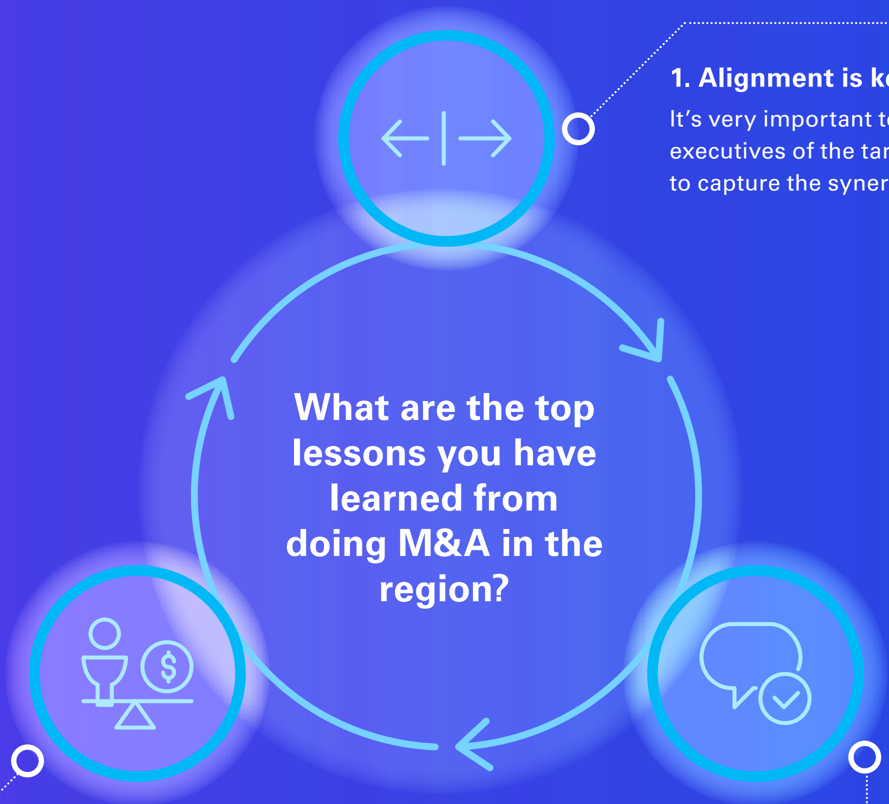
First, companies need to define an investment thesis: they need to evaluate the market size, potential companies to be acquired and products and services that could complement their portfolios. Companies also need to be aware of the profitability of target companies, to reduce the risk of diluting their own profits.

Next, companies must carefully evaluate the potential synergies between their current business and a prospect. This is a fundamental step.

What support do corporations need when they are conducting deals in Latin America?

Once they have defined their investment thesis and examined the market, they need to build relationships with advisors, investment bankers, founders and other executives. A deep dive of due diligence is done by accountants and advisors, and this step is crucial.

It's essential that advisors have experience within the same regions and industries the target is operating in. For example, in Brazil, we have a complex tax regime and the rules are complicated for foreign investors. So they need local experts with local expertise and global connections to work through these issues.



1. Alignment is key.

It's very important to align with the executives of the target company and to capture the synergies together.

2. Get the right advice.

If you try to save money in the due diligence process, you will pay for it further down the line. You must have experts who really know the market and the companies you're working with, or you may get caught out. This is a very important lesson.

3. Be sensible about deal values.

At the initial stage of a non-binding offer, you will have the terms and conditions and the price laid out. But when you discover issues in the due diligence process, this may change. The conditions and price may need to be adjusted accordingly. You must take a lot of care when dealing with this when it comes to your counterpart, because it could damage the relationship. It's much more of an art than a science. You need to continue that good relationship with your target company's executive team.

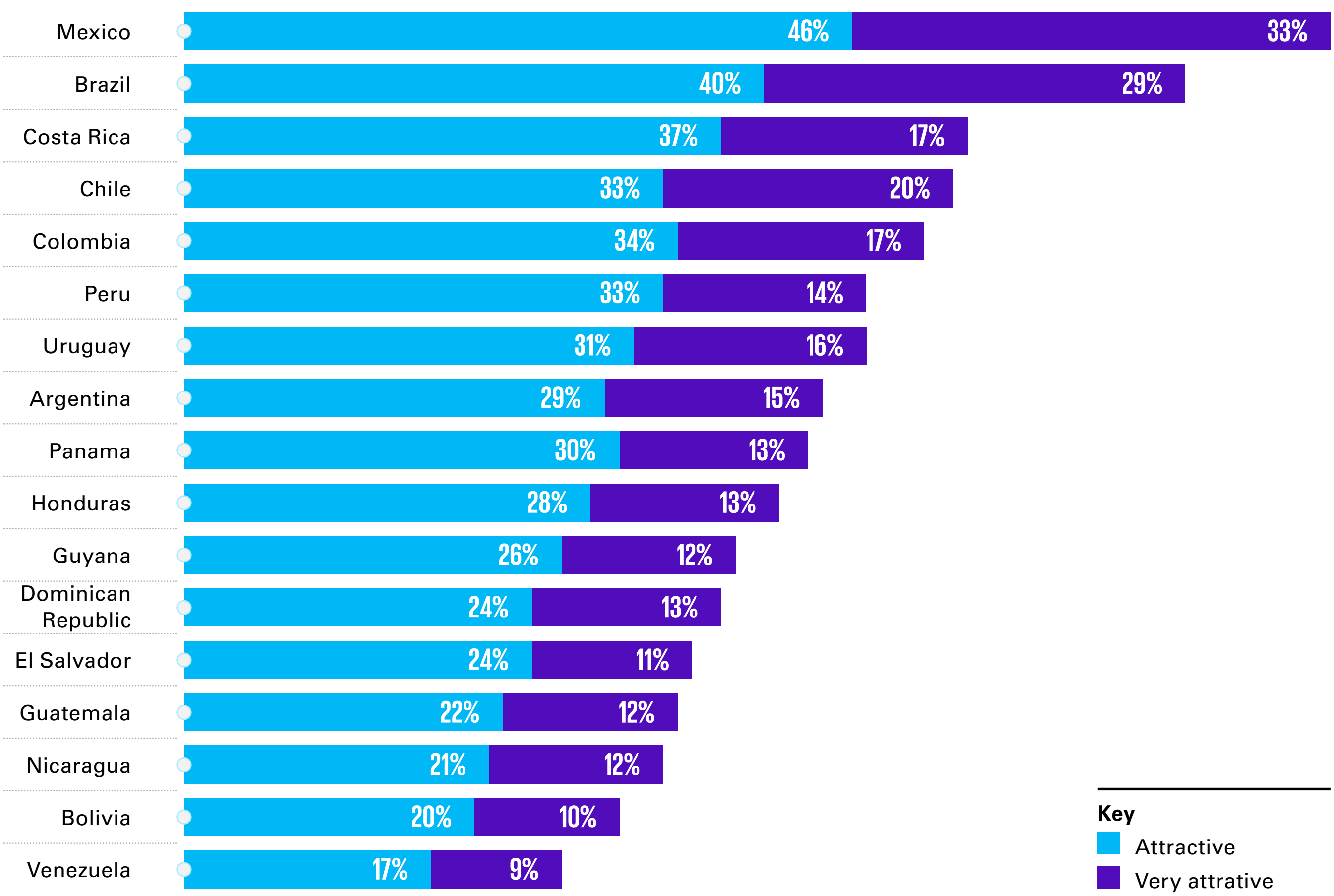
Mexico takes the top spot

Traditionally, Brazil has been the most attractive country for M&A activity in Latin America because of the size and stability of the market, its natural resources and its strategic location.

According to data from S&P Global, the number of M&A deals in Brazil far outstripped the number in other Latin American countries in 2022: 390 deals were conducted in Brazil, compared with only 104 in Mexico and 66 in Colombia, and far fewer in other countries.[8]

But our survey suggests that a shift could be under way: 79 percent of companies and investors rate Mexico as an attractive place to do business, ahead of 69 percent for Brazil.

Latin America countries in terms of attractiveness for M&A in the next two years



[8]2022 Deal Trends in Latin America | S&P Global Market Intelligence (spglobal.com)/

Is the COVID-19 pandemic one reason for this shift? A survey conducted by McKinsey at the height of the pandemic in May 2020 showed that 93 percent of supply chain executives were making plans to increase supply chain resilience by nearshoring and regionalizing. McKinsey estimates that up to a quarter of exports could be affected by a return to domestic production, nearshoring or offshoring to new locations.

From KPMG Mexico, Head of Deal Advisory and Strategy Mexico and Central America*, Ignacio Garcia de Presno, agrees that nearshoring has helped. “Mexico’s nearshoring trend has favorably impacted foreign investment in Mexico, along with trade conflict between the US and China and higher energy prices in the European Union,” he says. “For example, Mexico is experiencing a surge in exports to the US in the electronics, metals, auto and machinery sectors.”

Costa Rica:
The hidden gem of Latin America?

Mexico’s position as the most attractive country in the region for M&A activity is not the only surprise of the research. Costa Rica ranked in third place, with 54 percent of respondents saying it is an attractive place to make deals — ahead of much larger economies such as Chile, Colombia and Peru.

Costa Rica has long been considered a strong, stable country. The World Bank describes it as “a success story of its own development,”[10] thanks to the steady economic growth that is based partly on the country’s openness to foreign investment. And Costa Rica is known as a global leader on environmental issues because it promotes conservation and is reversing deforestation.[11] This foundation makes it appealing to investors — particularly those with a renewed focus on ESG.

In addition to this stable base, Costa Rica is actively trying to attract investors. In February 2023 the government launched a range of new incentives to promote foreign direct investment.[12] These focus on enhancing the country’s competitiveness by reducing bureaucracy and opening sectors, including tourism, manufacturing and services to further development.

Clifford Chance’s Thais Garcia agrees that Costa Rica is a rising star in the region. “It is a very sophisticated country,” she explains. “Many international companies have big operations there because it offers legal certainty, has a highly educated labor force and it’s also very safe. This is all helping to attract investment there. We always talk about the usual suspects as being Brazil, Chile, Colombia and Peru, but now Costa Rica is on the list of emerging countries where we see an uptick in interest.”

[9]https://www.mckinsey.com/capabilities/operations/our-insights/risk-resilience-and-rebalancing-in-global-value-chains

[10]https://www.worldbank.org/en/country/costarica/overview

[11]https://earth.org/how-costa-rica-reversed-deforestation/

[12]https://www.cinde.org/en/essential-news/costa-rica-takes-another-step-to-bring-foreign-investment-to-the-countrys-rising-cities

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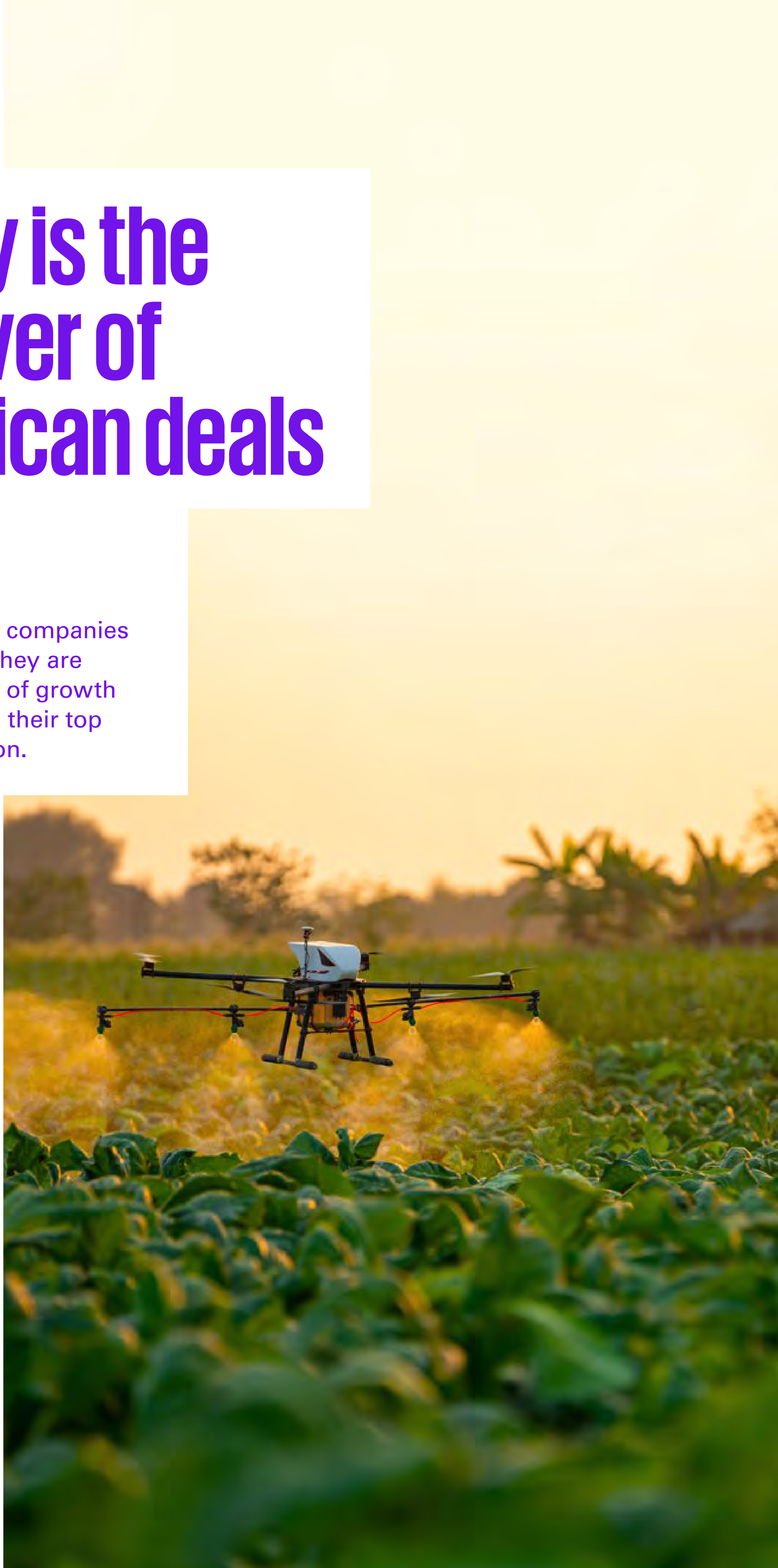
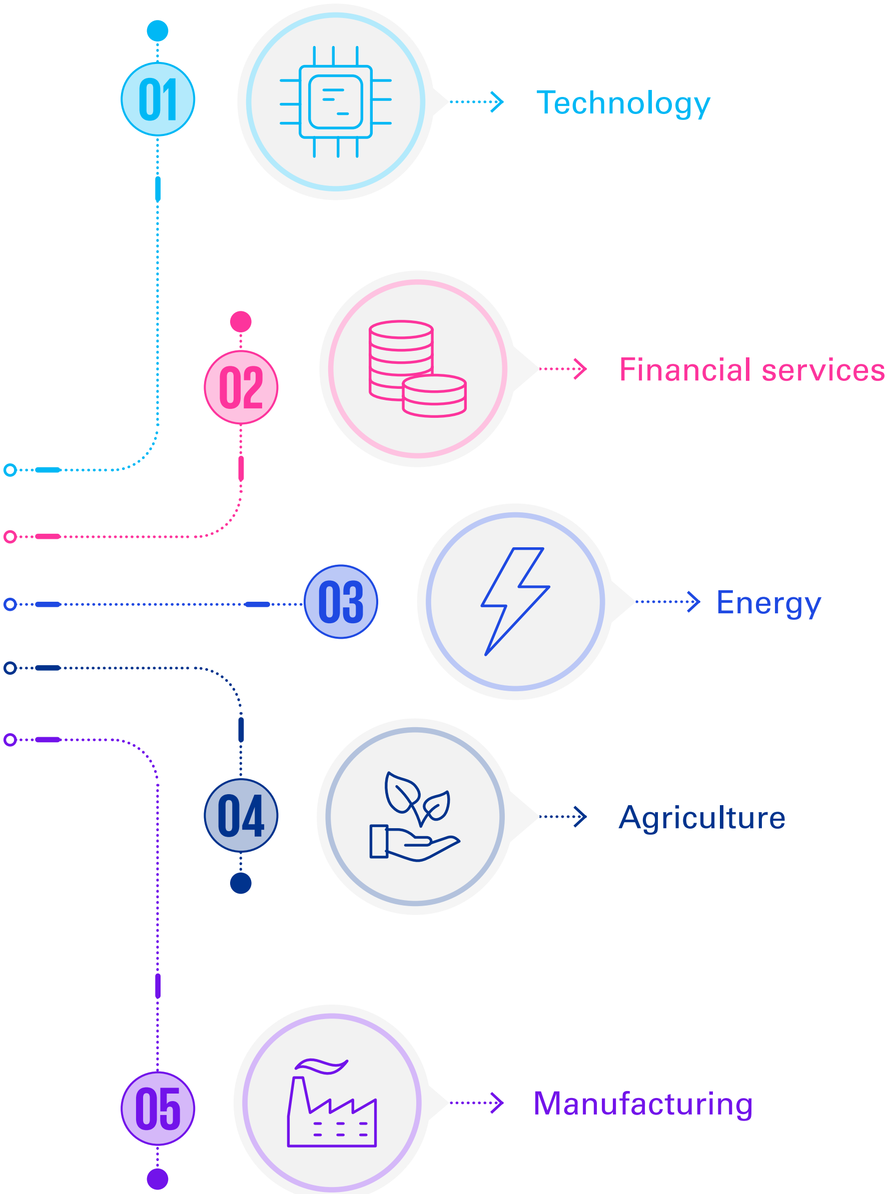
Technology is the high achiever of Latin American deals

More than a third (36 percent) of companies and investors in the survey say they are drawn to Latin America because of growth in specific sectors; this is among their top reasons for investing in the region.



Tech is the sector expected to see the most M&A activity in the next two years

The sectors companies and investors expect to see the most M&A activity in Latin America in the next two years



Latin America's tech sector is beginning to stabilize after it surged during the pandemic. Data shows that M&A transaction activity in Latin America overall fell by 11 percent annually in 2022.[13]

"When COVID hit and in-person interactions were restricted, there was significant business disruption in pretty much every industry," says Federico Storani, an Executive Director at Riverwood Capital who specializes in the technology space. "For business continuity, technology adoption accelerated, pivoting to more remote engagement and virtual operations. At the same time, central banks were injecting cash into the global economy, ending with historically low interest rates for a long period of time. That excess liquidity, combined with accelerated tech adoption, made tech an even more attractive asset class and resulted in massive inflows of capital and record levels of fundraising and M&A activity."

Post-COVID, says Storani, there was a normalization. "The number of financing rounds and M&A activity declined from the peak period," he says. "And there was an adjustment of share prices in the tech space for some of the high-flyer, high-momentum companies."

Despite the fluctuations in the technology sector in Latin America, Storani says it is a solid and attractive sector for investment: "For high-quality tech businesses, we continue to see stable valuations in today's market environment."

[13] https://www.bnamericas.com/en/interviews/the-latam-ma-landscape-gradual-rise-in-deals-on-the-horizon#:~:text=There%20were%203%2C452%20M%26A%20transactions,Aon%2C%20Datasite%20and%20TTR%20Data.

Overcoming challenges

Four in five investors and companies say that their most recent M&A deal in Latin America was a success, which is a major endorsement for deals in the region.

Clifford Chance's Thais Garcia explains that this success is due to an increase in predictability for companies and investors. "One of the reasons why returns are so good is that the markets and deal-making in Latin America have become much more sophisticated," she explains. "The more sophisticated a market becomes, the easier it is for an investor to lock down the expected returns."

"Most players these days do very detailed and exhaustive due diligence on potential targets and have a team on the ground that knows the market and the key players before locking in an investment," says Garcia. "The assumptions that are getting baked into financial models these days are much more detailed and accurate than they used to be, so there is a lot more predictability on what your returns will be."

61%

of non-Latin American respondents expect deal numbers in the region to increase in the next two years, compared with only 43 percent of those in the region

53%

of non-Latin American companies and investors expect values to go up over the same period, compared with only 40 percent of those in the region

The view from outside:

Global investors are excited by the Latin American opportunity

Latin America's reputation on the global stage is growing rapidly, with investors outside the region more optimistic about deals than local companies and investors:

61 percent of non-Latin American companies and investors expect deal numbers to increase, compared with only 43 percent of those in the region

53 percent of non-Latin American companies and investors expect values to go up over the same period, compared with only 40 percent of those in the region

Companies and investors outside the region are motivated by the opportunity to enter new markets and take advantage of new trade deals, and by the chance to make deals in specific sectors. And 59 percent of non-Latin American companies and investors say that making deals in the region is an opportunity to diversify the company's risk exposure; this compares with only 37 percent of Latin American companies and investors.

Non-Latin American companies and investors are getting better results: 88 percent say that their deals in the region have been a success, compared with 68 percent of those from within the region.

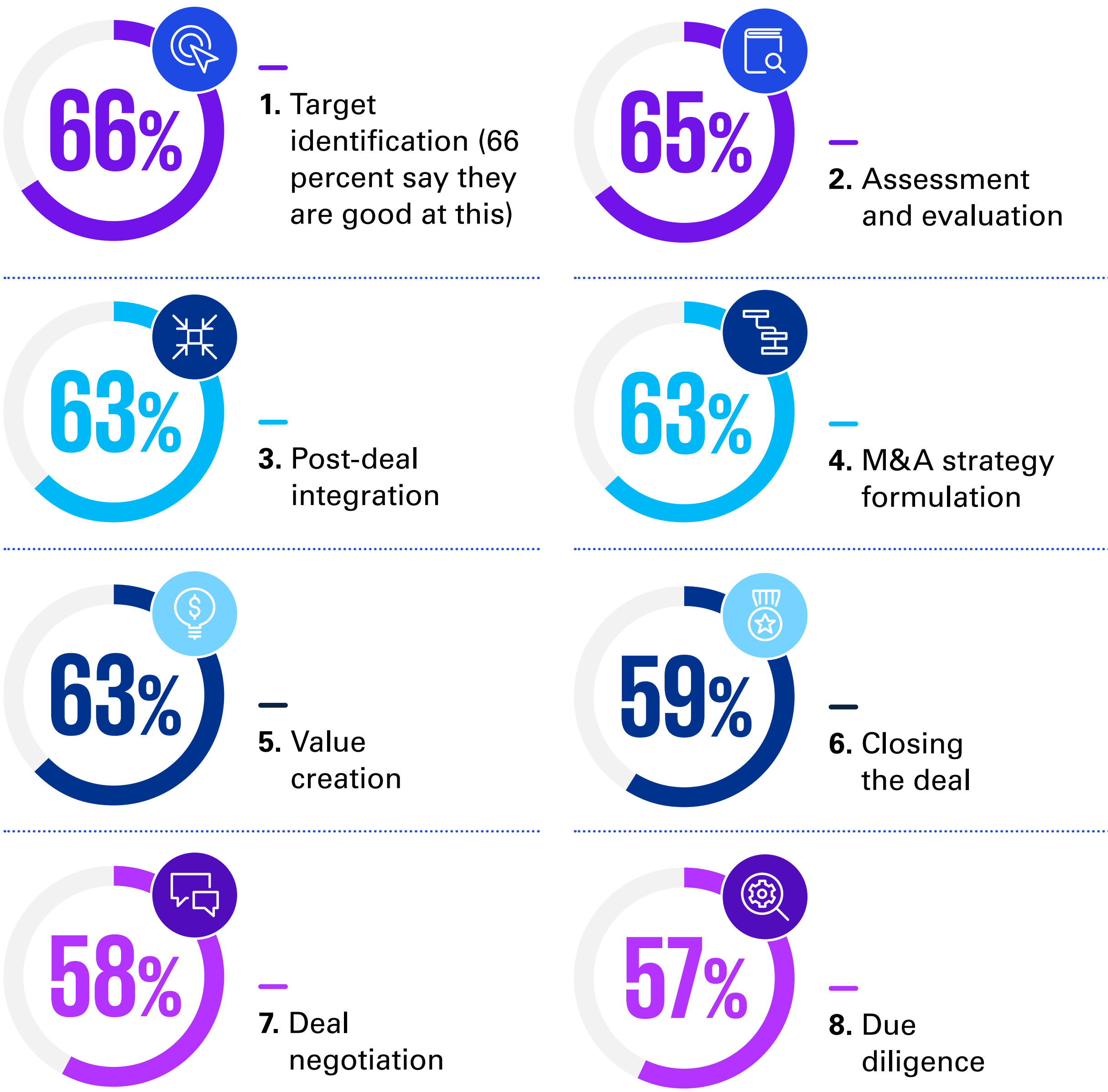
Inside out

And it works both ways, according to Todd Crider from Simpson Thacher & Bartlett. He says as well as many non-Latin American companies looking to invest into the region, many local companies are looking outside of the region.

"A lot of companies within Latin America are looking to diversify outside of the region, because many are overly invested in their home countries, which leaves them more exposed to political or sovereign risk," he explains. "These shifts have made them wake up, pay attention to that, and explore potential changes to their strategy."

Deals overall might be successful, but companies and investors say that the process of deal-making is not always easy. For instance, a third of all investors and companies claim to be mediocre at best when it comes to all aspects of the deal lifecycle.

Due diligence and negotiation are where companies struggle most



Companies and investors find due diligence difficult: 43 percent say they do not rate themselves as ‘good’ for this aspect of M&A deals. This is concerning when you consider its importance.

Why is due diligence in Latin America so hard? Companies and investors indicate that obtaining reliable financial information such as details behind historical revenues and financial projections is very difficult. Performing business due diligence (such as understanding the target’s position in the market) and assessing the adequacy of a target’s accounting policies and internal controls are also very difficult.

“When it comes to due diligence, there’s the rule of law issue that can be a problem. Corruption and politicized judiciaries are an issue too. And it’s the same when it comes to contract sanctity,” says Eurasia Group’s Daniel Kerner. “It may be better than in some regions, comparatively, but it’s not as good as it is in advanced industrial countries in the EU or the US.”

> **When it comes to due diligence, obviously there’s the rule of law issue that is a problem.**
>
> **Daniel Kerner**
> Managing Director of Latin America at risk consultancy Eurasia Group

This helps to explain why companies and investors say they would benefit from additional support throughout the deal lifecycle. The top areas they say they need help with are due diligence, support to form an overall M&A strategy, deal assessment and evaluation, and post-deal integration.

Three ways to make Latin American M&A more rewarding than risky

Do not underestimate the challenges — or the opportunities — of Latin America. That is the message that comes through from the investors and companies in our survey. Here are their top three lessons from conducting M&A in the region.

1. Do not ignore people and culture

Companies and investors are keen to stress the importance of understanding the culture, languages and ways of working in Latin America. For many, this is the key to success in the region.

"People and their ways of working must be evaluated in advance [of a deal]," explains one respondent. Another says that completing successful M&A in the region "requires good people management," and another urges companies to "listen completely to what people are saying to you."

One respondent, meanwhile, says it is important to overcome any language barriers: "Global integrations can often face communication complexities."

2. Never misjudge how long it can take to close the deal

M&A activity can be a slow process, and doing deals in new territories and sectors only adds to the time it takes to complete.

"The M&A process can take a very long time," explains one respondent, adding that this does not have to be the case if there is a strong driving force behind the deal. Another warns that slow timeframes have "had a negative impact on the outcome." Finally, one respondent warns others considering doing deals in Latin America to "listen to [their] advisors carefully" in order to keep the process moving as quickly as possible.

3. Plan the integration process properly

Integration-planning is crucial to deal success, according to the companies and investors in the survey.

"Aligning business goals and values [at the start] can make integration easier," explains one respondent. Another says that developing a comprehensive integration plan is "critical to a successful integration."

One respondent, meanwhile, says that integration planning "should start early" in the process to ensure a smooth transition.

Conclusion:
In an uncertain world, Latin America is on the rise

We should not ignore the potential risks of doing M&A deals in Latin America. Long-standing issues with corruption and weak governments have been compounded by recent political and macroeconomic developments. But in a world where change and risk are the new normal, the case against the region is weakening.

In fact, pockets of opportunities in emerging countries and sectors have changed many companies' and investors' opinions, and they consider the region's potential rewards to be worth its risks.

Most companies and investors are now confident that they can find the opportunities among the challenges in the risky M&A environment of Latin America. Are you?

How can we help?

Through all M&A cycles, KPMG firms can help companies and investors to enhance value and returns. Our wide-ranging M&A services start with deal strategy (market intelligence, target identification and portfolio analysis) and continue through evaluation, negotiation, due diligence, post-close integration and value creation and exit.

The combination of our significant investments in advanced data analytics and our team of experienced professionals at firms across the Americas with local, regional and technical acumen allows us to serve clients with fully integrated, multi-disciplinary teams that operate as a single, cohesive deal advisor.

This enables smooth orchestration of deal activities across multiple functions generating unique insights into companies and markets.

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MADE. | MDE148287 | May 2023