DEALPULSE

1H15 M&A FORECAST

LATIN AMERICA

TTR
Transactional Track Record

LATIN AMERICA OVERVIEW

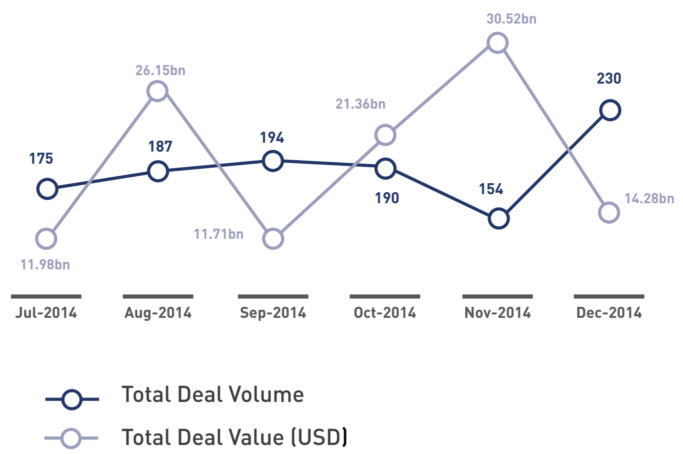
The year is off to an upbeat start with brisk M&A activity in the region's largest and fastest growing markets. Despite sluggish growth in Brazil and delays in planned energy tenders in Mexico, the region is set to attract strong deal flow through the remainder of 1H15.

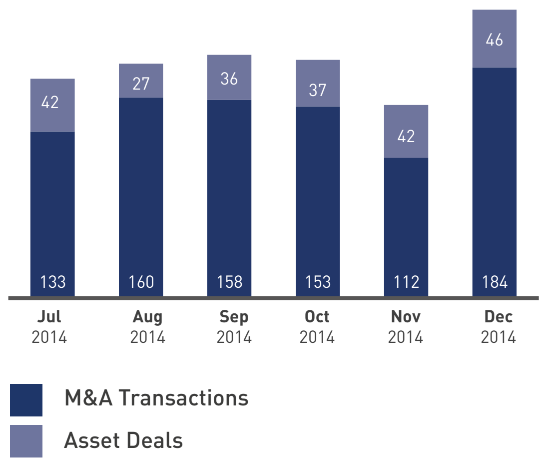
Consumer and retail, real estate, telecom, technology, financial services and energy top the sectors attracting attention across the region, industry sources tell TTR.

China continues to invest regionally, and can be expected to compete for a variety of assets, especially in natural resources, food/agriculture, financial services, energy and telecom auctions. The Asian giant's buying spree in Latin America is unlikely to end anytime soon.

The rewards Spanish firms are reaping as they look outward for growth has encouraged increased Iberian investment in Latin America, especially in real estate, renewable energy, infrastructure, financial services and engineering. Pharmaceutical giants from the EU, the US and UK also have the region's leading markets in their sights.

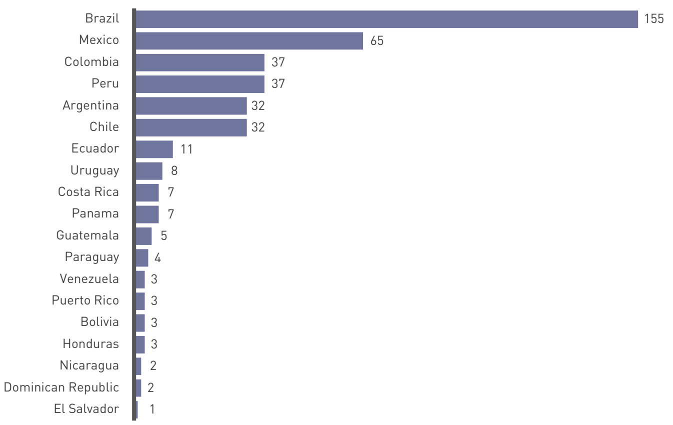
Total Deal Volume and Value in Latin America 2H14





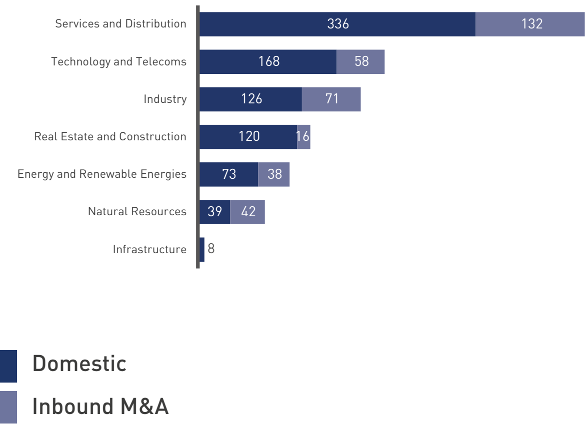
Inbound M&A Transactions (Includes PE)

2H14



Most Active Sectors (Includes PE)

2H14



PRIVATE EQUITY INSIGHTS

"As a destination for private equity, I'm not sure things are looking up yet – which means it might be a great time to invest," said Scott Swensen, Chairman of energy-focused Conduit Capital Partners in reference to Brazil. In a matter of a few years, valuations can double, he noted.

Charges of corruption at Petrobras have made investors cautious about Brazil, he said, but regardless, it's a very strong industrial economy and creative people who know how to manage risk shouldn't be deterred.

Swensen said he expects a rebound in Brazil's ethanol market, despite low oil prices currently. "Long-term, ethanol makes a lot of sense. It's a less capital-intensive conversion process and regardless of what you think is the cause of global warming, burning ethanol doesn't add carbon to the atmosphere that wasn't fixed in the growing process. Long-term it will come back, the price of gasoline will go up again."

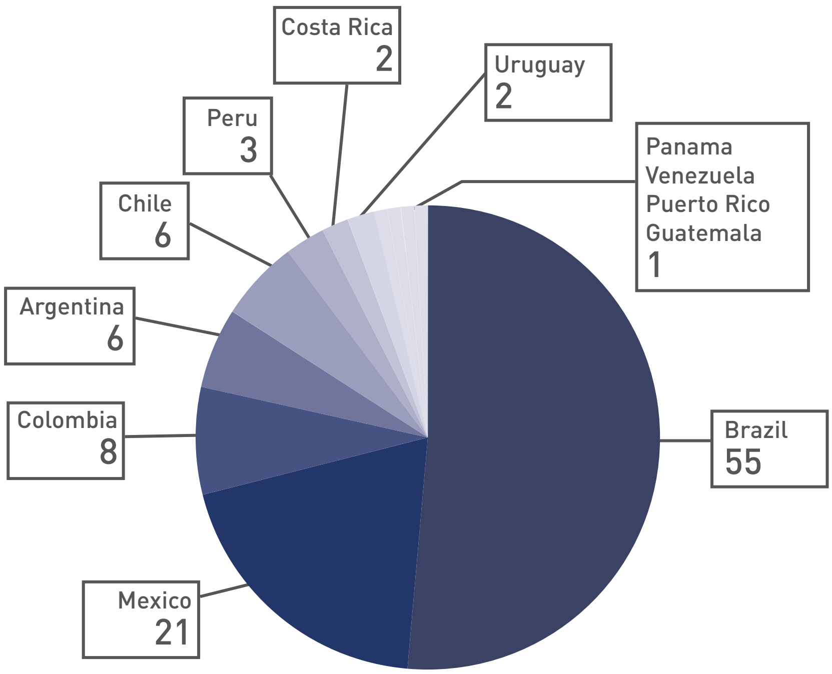
Recent reforms in Brazil's power sector were still somewhat of a sour point, he said, but shouldn't sway investors taking a long-term view.

Peru is an oft-overlooked market in the region that's very favorable to foreign investment, said Swensen. The country recognizes that without foreign direct investment it can't maintain its growth rate, and the administration is increasingly dealing with social inequity. "There are fabulous resources in that country, it's impossible to not be bullish in the long term," Swensen said.

In terms of private equity exits, Swensen said strategic sales are the most viable option in the short term. The region's capital equity markets are not expected to rebound in 1H15 and will likely require a rosier macroeconomic picture to gain momentum again, he said.

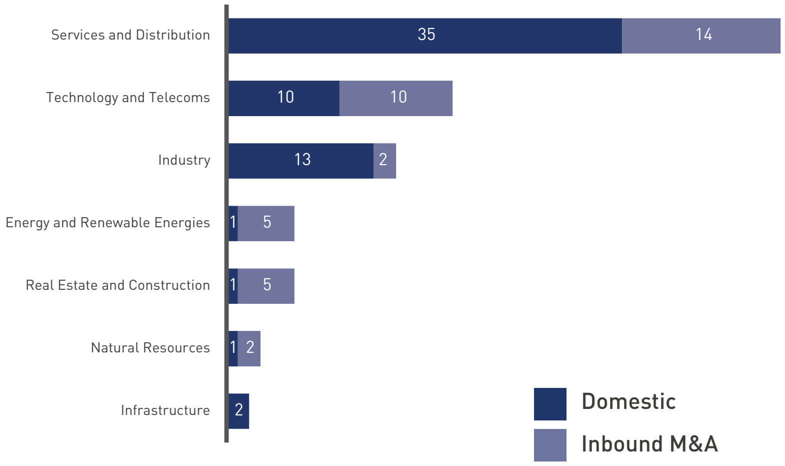
Private Equity Deal Volume by Country

2H14



Private Equity Most Active Sectors

2H14



TTR INTEL VOLUME INDICATIVE OF DEAL FLOW IN 2H14

Country	Intel Volume
Brazil	199
Mexico	86
Chile	34
Peru	23
Colombia	22
Argentina	16

Country	Intel Volume
Honduras	3
Panama	3
Paraguay	3
Dominican Republic	3
Bolivia	2
Costa Rica	2

Country	Intel Volume
El Salvador	2
Nicaragua	2
Venezuela	2
Cuba	1
Haiti	1
Uruguay	1

BRAZIL & THE SOUTHERN CONE

Economic excesses of recent years will require structural adjustments over the next two years to resolve, but after biting the bullet, Brazil's economy is expected to resume strong growth.

Brazil still needs significant infrastructure, not just to prepare for the Rio 2016 Summer Olympics, but to support sustained growth for the medium term, and port and road projects will stimulate linked sectors like agriculture, manufacturing and natural resources.

Despite last year's presidential elections, World Cup Football and tepid growth, 2014 was a record year by number of transactions and 2015 is looking to be very good as well, according to Nestor Casado, Managing Director of Capital Invest M&A Advisors in São Paulo.

"At the moment there are more big businesses for sale than a year ago. The market is rather pessimistic; there are many good companies on the block that weren't for sale a year ago," he said, adding, "of course you have to work harder to find the good ones." A gloomy outlook in Brazil could spell opportunity for buyers committed to Latin America's biggest economy in the long run, he said, noting pessimism could actually bring about more deals. "There will always be opportunities in Brazil, and when there's a crisis, the best acquisitions are available, like now," he said.

Casado pointed to confidence indicators at a 10-year low, but said he sees the glass half full. Opportunities abound in energy, healthcare, IT, distribution, manufacturing and industrial products and services, he said, noting a spike in industrial deal making.

In the energy sector more investment is needed in both generation and distribution. In addition to more hydroelectric deals, he said additional renewable energy tenders could be expected.

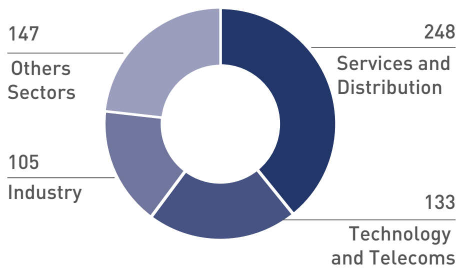
Brazil is squarely in the sites of buyers from China, and sources tell TTR of likely deals in telecom, natural resources and agriculture. "We believe this year we will see more opportunities closing with Chinese investors," Casado said, adding, "they really see Brazil in the long-term." Investors from the EU, US and Canada are also bullish on Brazil, Casado noted. We'll see more deals in which international companies make small, tentative acquisitions before aiming at market leaders, said Casado. CVS made a relatively small acquisition in 2013 when it bought Drogaria Onofre and now has larger players on its radar, he said for example.

Deal flow in Argentina has remained surprisingly resilient for transactions valued under USD 50m, especially in technology, media, energy, industrial products, agriculture and real estate. Many domestic deals closing in the country reflect the appetite of the leading firms that have no other choice under currency and capital flight controls but to look at national peers, while the cross border deals are representative of foreign investors taking a long view of the market to position for the future. Nonetheless, the country is still dogged by its debt obligations and state control over the market, which continue to put a damper on big-ticket transactions. Local dealmakers tell TTR they hope to see conditions improve by the end of 1H15, but in all likelihood, 2016 will be the earliest a real turnaround takes hold.

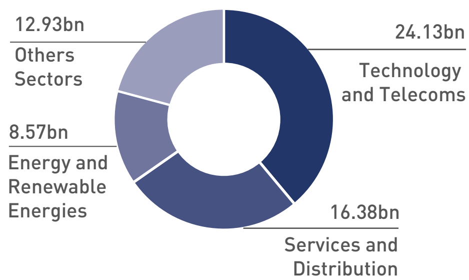
Brazil - Most Active Sectors (includes PE)

2H14

BY NUMBER OF DEALS



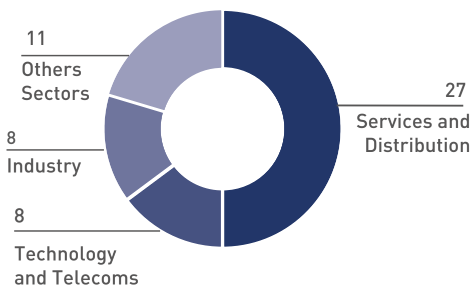
BY TOTAL DEAL VALUE (USD)



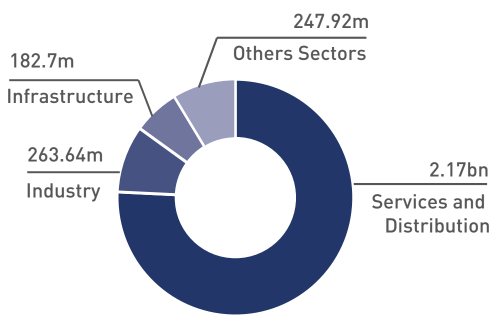
Brazil- Private Equity Deal Volume and Value by Sector

2H14

BY NUMBER OF DEALS



BY TOTAL DEAL VALUE (USD)



MEXICO & THE PACIFIC ALLIANCE

Mexico has put itself in the spotlight following overdue reforms in energy and telecom, and both sectors are expected to drive deals over the next several months with positive spillover effects for financial services, retail, construction and infrastructure.

AT&T moved fast to acquire Iusacell and Nextel, shaky competitors in Mexico's mobile market, to face up to the big dog, Telcel. Carlos Slim's days as THE Mexican telecom magnate may be numbered as he's forced to sell assets rather than subsidize infrastructure for his competitors under new competition laws.

Cautious optimism is returning in Mexico's real estate and hospitality sectors and several important investments in auto manufacturing will help further cement the country's position as a critical link in the automotive supply chain for the NAFTA region.

Within months of Mexico finally passing its much anticipated energy reform, oil prices fell and internal spending planned for 2015 had to be cut, noted Gabriel Millán, partner at IMAP's Mexico affiliate Serficor.

Nonetheless, Millán noted there's significant liquidity among large Mexican firms as well as at many international companies looking to enter the market or make bolt-on acquisitions in the country. On the other hand, sellers who typically convert proposed sale multiples to dollars, have been reluctant to close after the peso fell from 13.5 to 15 to the dollar in recent months and have postponed deals. Mexico's peso is unlikely to strengthen before 2H15, Millan said.

Mexican REITs have been very active acquiring hard assets in a trend likely to continue, Millán said, noting commercial and industrial real estate deals have picked up. The residential market is still slow but expected to recover in the next 12 months, he noted. Infrastructure has benefited under the current environment, he added, and the firm is seeing liquidity directed into road, water and waste management assets.

Mexico's most aggressive international buyers, companies like Mexichem and Grupo Bimbo, have benefited from low interest rates to leverage recent buyouts, said Millán. These players will continue expanding aggressively provided they continue to have access to cheap financing, he said.

"We've seen a lot of Mexicans looking north and south, more than before," said Orlando Chiossone, managing director of Miami-based Broadspan Capital which specializes in cross-border deals in markets across the region. Consumer, especially, as well as construction and engineering firms are actively looking for deals, he said. Mexico's microfinance players are also sniffing around for opportunities in Central America, Peru and Colombia, he noted.

While Pemex tenders have been delayed, appetite hasn't subsided for the country's oil and gas assets. Major international exploration and production companies are elbowing into the market, despite the muted enthusiasm accompanying USD 50 a barrel oil. "We're seeing a lot of interest in the energy play in Mexico," said Chiossone, "a lot of clients want to get in."

Mexico's energy sector reform already had Colombia in jitters before global oil prices plummeted, and the country is under pressure. State-owned Ecopetrol reported a 4Q14 loss as the company's long-time president Javier Gutierrez steps down. His replacement, former finance minister Juan Carlos Echeverry, faces the challenge of growing reserves, boosting output to the evasive goal of 1m bpd and stemming losses, not an easy task in the current pricing environment. Oil and gas services have suffered in the country alongside the slump in exploration and production, creating some distressed opportunities, said Chiossone.

Unsurprisingly, the Colombian government has restarted the sale process of hydroelectric generator Isagen, now that it is actually producing at capacity and the administration's budgetary needs allow little room for further political debate. The voices of opponents to the sale are likely to be drowned out this time around as the country moves forward with its costly infrastructure development program. Unabated by the current climate, Colombia's oil and gas infrastructure continues to consolidate, a process that could see additional deals in the months ahead as producers sell their remaining mid-stream assets to raise cash.

Peru continues to attract foreign investment thanks to its market-oriented policies and stable political climate. Natural resources, financial services, consumer/retail and agriculture top the sectors of interest to US, EU and Chinese buyers, as well as Andean neighbors from Colombia and Chile.

Among the Spanish-speaking markets, Peru, Colombia, Mexico and Central America, in that order, are where Broadspan clients are looking to invest most, Chiossone said. Regionally, consumer/retail, pharmaceuticals and energy are bringing Broadspan new mandates, Chiossone added, noting the firm was also representing multinational companies based in Latin America as they initiate buying sprees in the US. There's a steady interest in IT deals across the region; that space will continue to expand, Chiossone predicted.

In Chile, arguably the region's most mature and consolidated market, a few deals in financial services can be expected in the coming months, among them the sale of Banco Penta. Domestic agricultural groups continue to look beyond the country's borders, especially at Peru, which is also attracting Chilean investments in retail and natural resources.

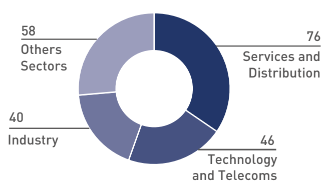
Cheap oil will continue to dampen the macro picture for the coming months, especially for those markets heavily reliant on energy exports, like Colombia. In some cases weaker local currencies can help exports, but the oil and gas business is such an important part of the central government budget for many of these countries, especially Colombia, it has to have an impact, Chiossone said.

The threat of increasing interest rates in the short term could significantly impact M&A activity, he added, but interest rates remain relatively low and the availability of financing, along with strong cash positions at many Latin American companies that haven't exceeded their leverage limits, bode well for deal flow.

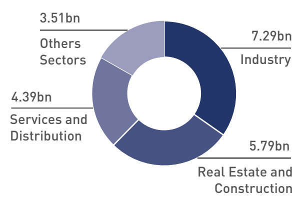
Mexico - Most Active Sectors (includes PE)

2H14

BY NUMBER OF DEALS



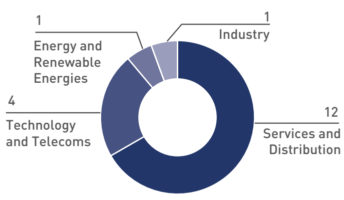
BY TOTAL DEAL VALUE (USD)



Mexico - Private Equity Deal Volume and Value by Sector

2H14

BY NUMBER OF DEALS



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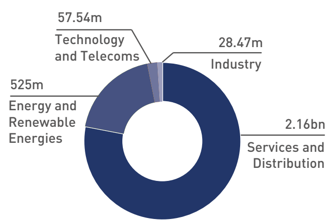


CENTRAL AMERICA & THE CARIBBEAN

Nicaragua is a surprising bright spot in Central America, Chiossone noted, followed by Costa Rica, Panama and the entire region as a whole, with the exception of El Salvador. Nicaragua is highly competitive and relatively safe in terms of personal security and its commitment to build its own transoceanic canal will only increase capital flows into the country. Like many of its neighbors in the Caribbean Basin, it is also a beneficiary of favorable Venezuelan oil pacts, but it has kept this an economic rather than political issue to its credit, Chiossone said, and low energy prices in the country are a strong draw.

Ongoing work on widening the Panama Canal, along with other infrastructure projects underway like Panama City's subway system and expansion at Tocumen International Airport, continue to keep the economy chugging. Energy could be the country's biggest bottleneck in the months ahead as it looks to avert future rationing. An initial photovoltaic tender in 2014 will be followed by others in the coming months alongside the imminent sale of conventional generation assets. Colombia's incursion into the country's energy distribution and consumer goods sectors will be an ongoing theme.

In the Caribbean, hospitality assets have been moving and will continue to do so. The Dominican Republic is getting a lot of attention, especially in financial services, energy and consumer segments, though closings have been sparse. A number of groups from the Dominican Republic are investing externally as well as internally, and a strong industrial sector, with excess capacity in the country's free zones, make it a very good place for foreign companies to have a presence, despite ongoing structural issues impacting energy distribution, Chiossone noted. There's also an untapped opportunity for near shoring in the Domincan Republic, he said.

The sale of PDVSA's stake in the island's petroleum refinery, Refidomsa, will play out in the coming months and rearrange the energy market dynamics locally in 2015.

Energy will continue to be a challenge across the region as Venezuela's Petrocaribe pact comes under increasing pressure as PDVSA's dwindling liquidity is stretched. Renewable energy initiatives and the appetite for natural gas have yet to manifest in a new energy matrix for the oil-dependent islands, despite the need for this critical issue to be addressed.

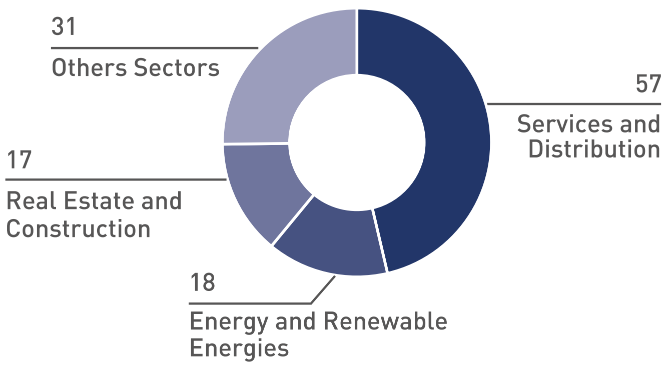
Cuba is getting widespread attention too, beyond the tourism sector that has garnered most of the limited foreign investment into the country over the past few decades. However, potential investors are mostly just inquiring at this stage, Chiossone said, or doing trade deals with little-to-no sunken costs. Most potential investors are waiting to see how relations develop with the US, he said, noting there were still unresolved issues surrounding expropriations decades ago that would need to be addressed before the country becomes a significant destination for foreign capital.

In the English-speaking Caribbean, energy assets will be center stage in Jamaica, where a sales process is underway for one of the country's independent power producers, Jamaica Energy Partners. Energy remains the biggest challenge for Jamaica's competitiveness, and the biggest advantage for the island's energy rich rival Trinidad & Tobago. Jamaica's main international airports in Montego Bay and Kingston will find buyers in the coming months, and we're likely to see more deals in financial services as Canadian banks adjust their regional distribution of assets.

Most Active Sectors (includes PE)

2H14

BY NUMBER OF DEALS



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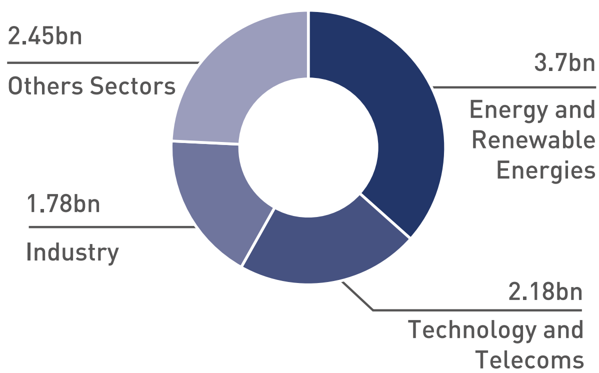

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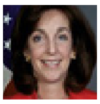
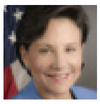
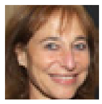


Roberta Jacobson (invited)
United States Assistant Secretary of State
Western Hemisphere Affairs
United States Department of State



Penny Pritzker (invited)
Secretary of Commerce
United States Department of Commerce



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