Latam, 2022.
Dealmaking in turbulent times

M&A COMMUNITY

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Content

Introduction

In 2022, Latin America slightly rebounded from the pandemic-induced economic contraction of the previous years, as a result, dealmaking activity remains moderate. The less favorable base effect and an unending series of domestic and international challenges resulted in a 34% decrease in YTD aggregate value compared to 2021 (Jan to Aug).

High commodity prices forced the region's central banks to accelerate the upward trend of interest rate hikes; consequently, response to high prices makes financing more expensive, and economic recovery remains timid, although existent.

Still, regional economies vary in growth forecast, and the prevailing economic environment presents an opportunity for major commodities exporters. Most of the big players are taking advantage of local currency devaluation and investing the additional incoming dollars in productivity-increasing capabilities and, in the process, laying the groundwork for long-term economic development.

Looking at Argentina, Chile, Uruguay, and Colombia, four of the top twenty Latin American and Caribbean countries ranked by GDP per capita, we see forecast GDP Growth Rates ranging from 6.1% (Colombia) to 1.6% (Chile), with Argentina and Uruguay both forecasting a 3.6% growth in GDP. Chile has the highest forecast inflation rate (11%), but the economy of the whole region is subject to inflationary pressures triggered mainly by the increase in the cost of energy and general commodities. The war in Ukraine and unresolved problems in the global supply chain all add to the uncertainty.*

To get an inside perspective of how the M&A has played out these past three years and the dealmaker's sentiment for the future, the M&A Community, in partnership with iDeals, surveyed more than three hundred M&A professionals in Europe and South America, separating the results per market region.

34%

Of the total respondents identified themselves as corporate finance advisors.

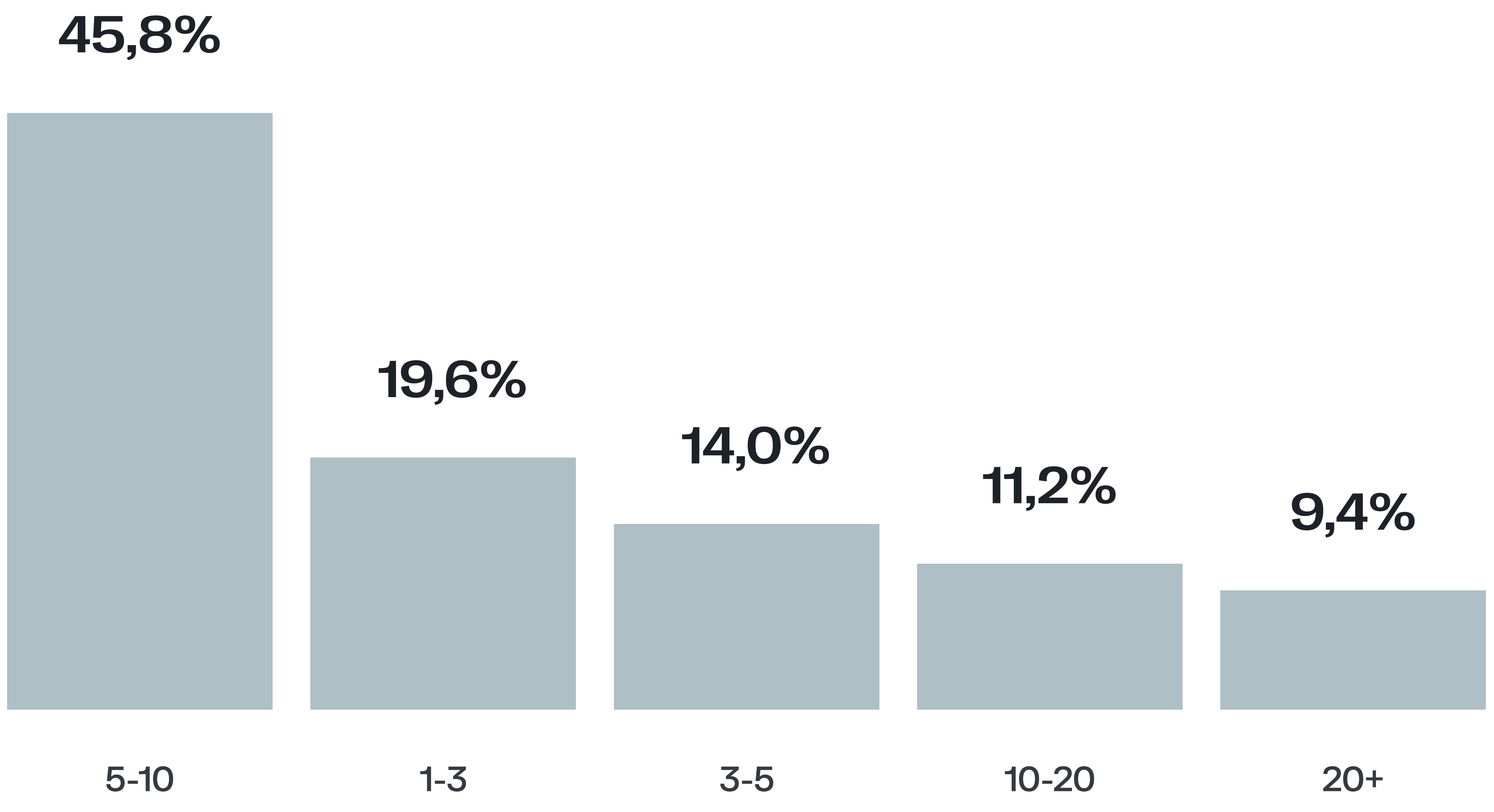
*Source of all data is the OECD June 2022 Economic forecasts for each country

About the survey

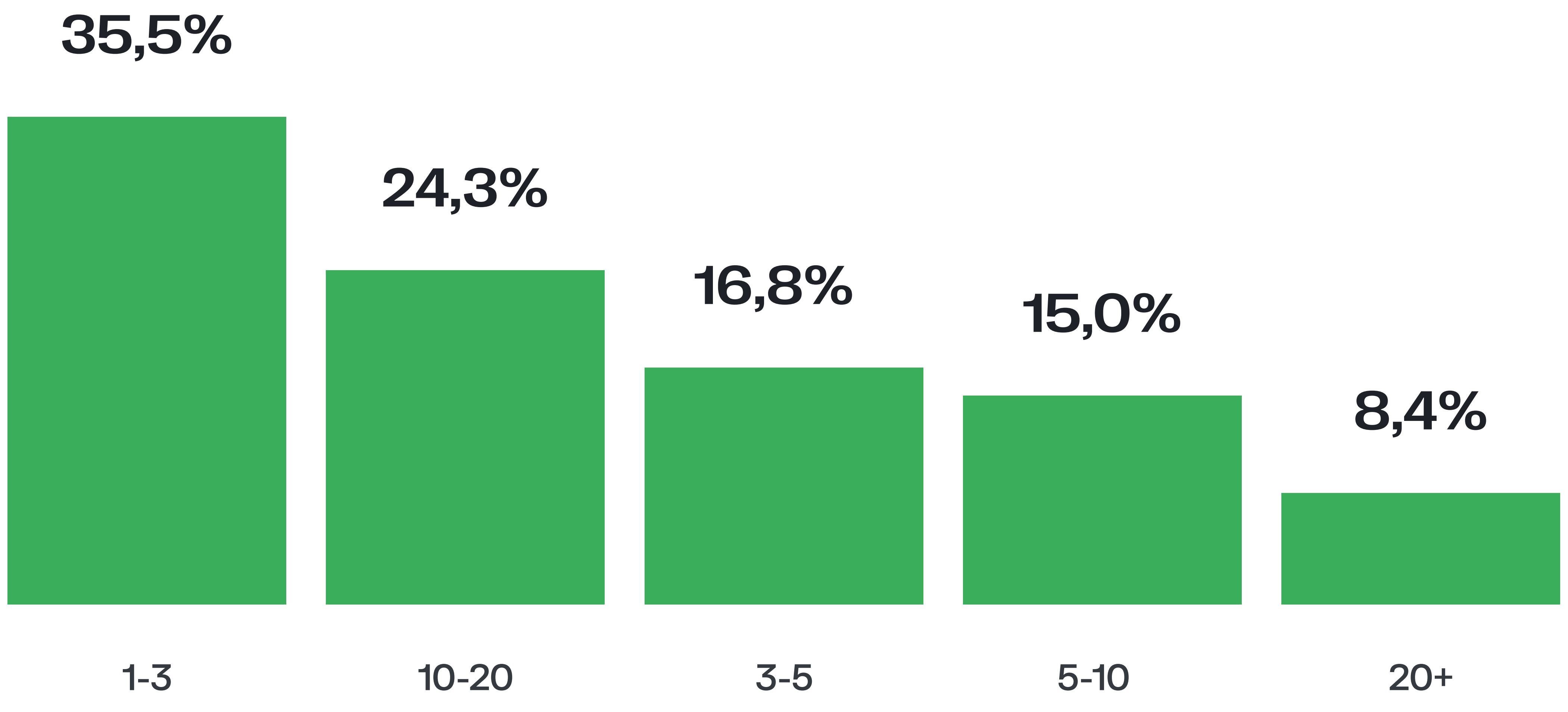
The M&A professionals were asked about the current impacts on their business, whether they had made any adjustments to their approach, and the plans for the year's second half.

We believe that the sample is of sufficient size and breadth to provide a reliable assessment and exceptional insights into current M&A trends in Latin America.

Years of experience



Number of employees working in the respondents' department

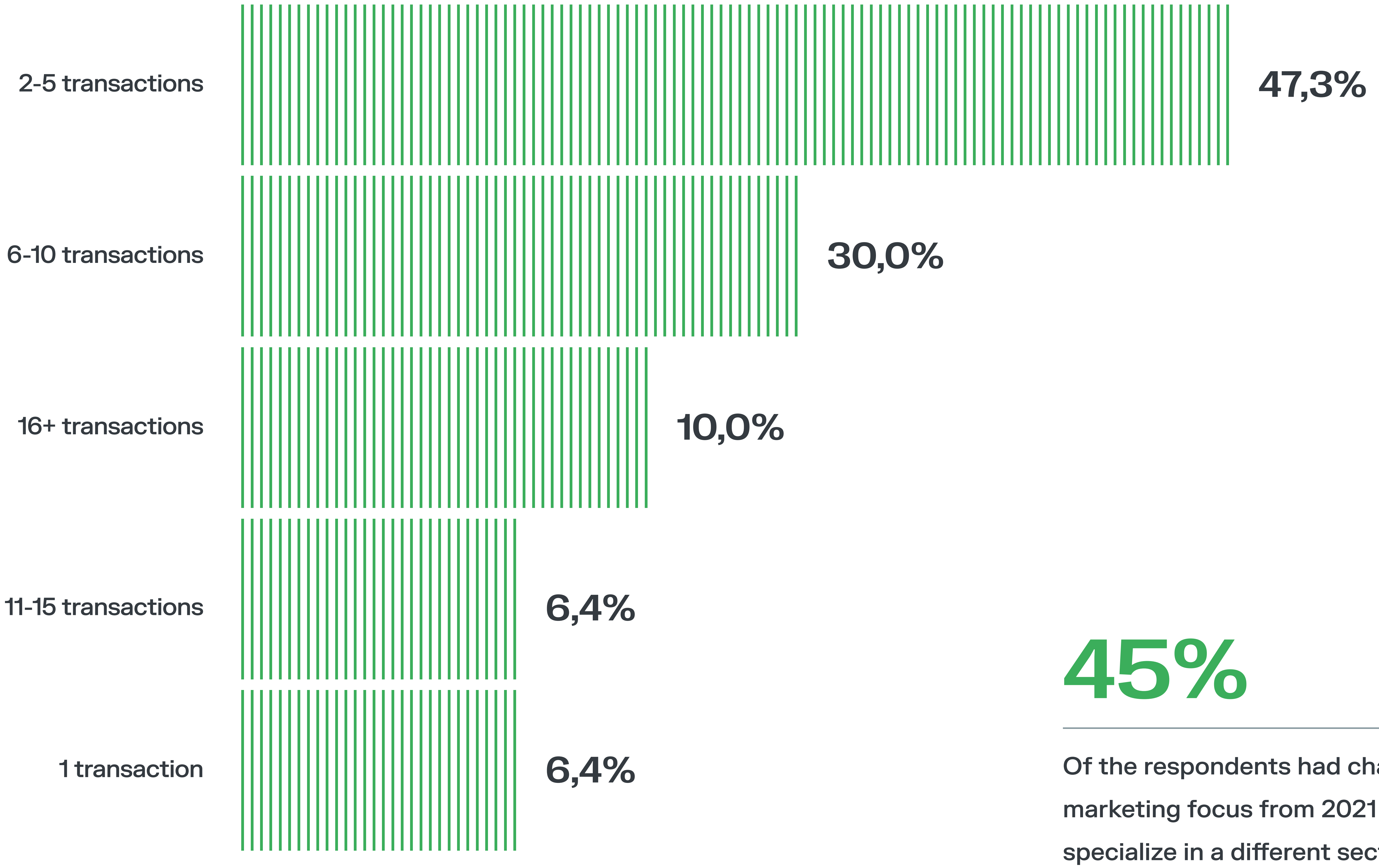


M&A Community and iDeals surveyed 111 M&A professionals in Latam looking for insights on how they and their firms react to the pandemic and other challenges and what they see as the key trends for 2022.

About a third of the responses (34%) came from Corporate Finance advisors, followed by Corporate development advisors (24%) and Legal Advisors (11%). Strategic advisors made up 9% of the respondents and CFOs 6.5%.

46% of the respondents had 5 to 10 years of M&A experience. 45% of their clients had a turnover between USD 10M and USD 50M a year, less than 4% had clients with a turnover above USD 150M a year, and the rest were almost evenly distributed among the other two main bands (below USD 10M and between USD 59 and 150M a year).

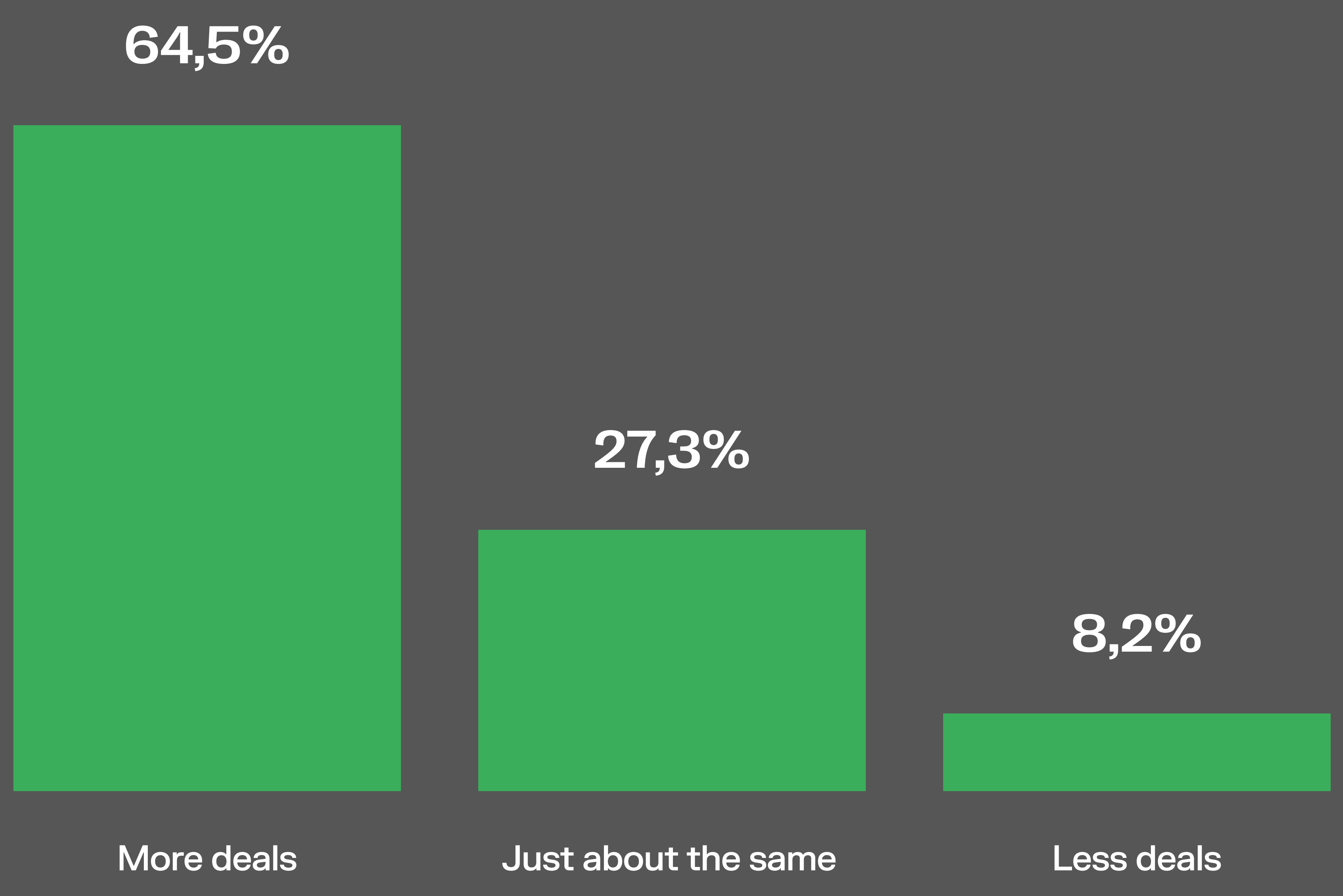
How many transactions does your firm expect to work on this year?



45%

Of the respondents had changed their marketing focus from 2021 to 2022 to specialize in a different sector.

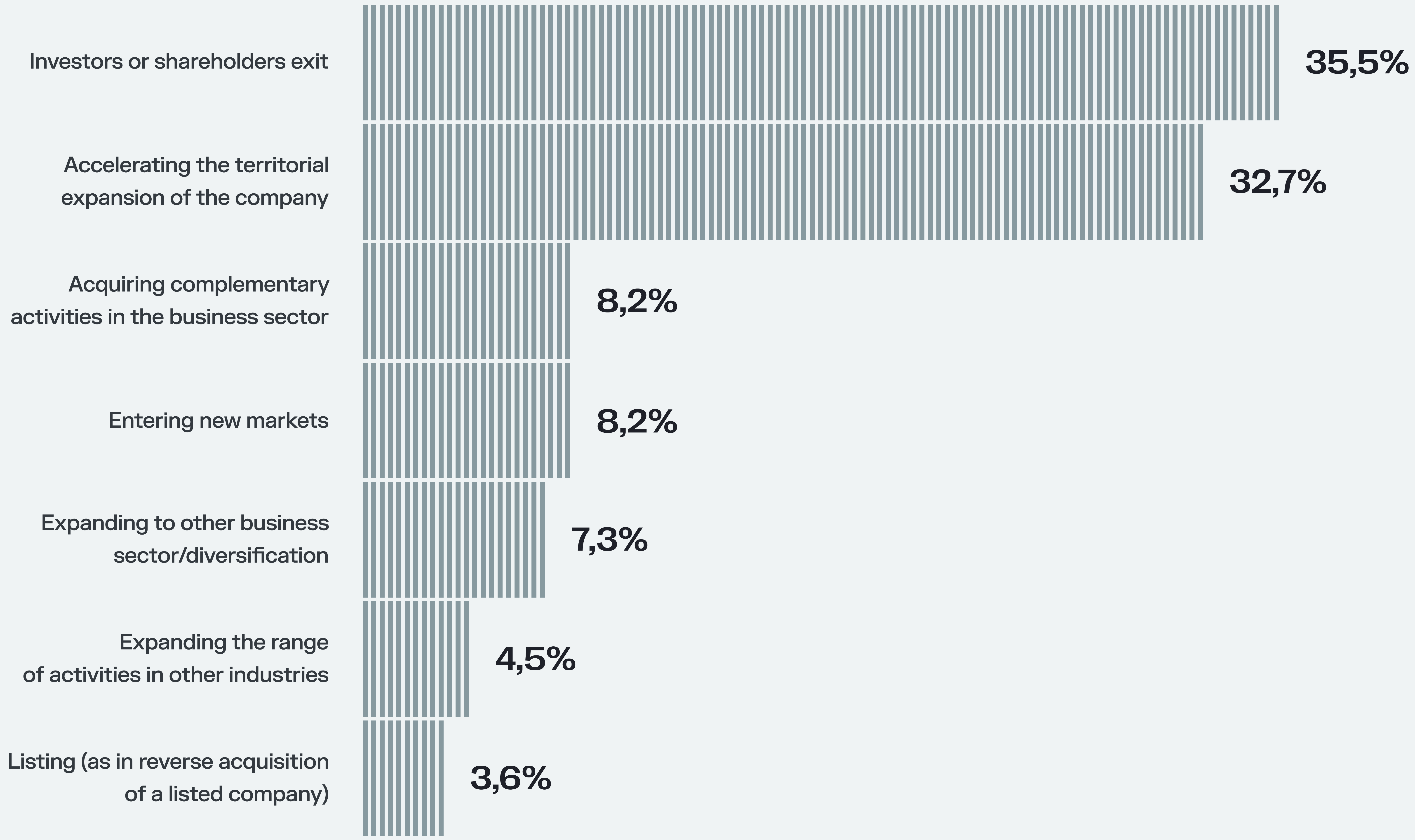
To you, how did the deals' volume in the last years compare with 2020



Key highlights

- 43% of the respondents thought that remote working during the pandemic made no difference, 32% stated it made business easier, while only 25% thought that dealmaking was more difficult.
- In response to COVID and economic challenges, 47% of firms did not adjust their fees in 2021 or set a minimum transaction value.
- Investors and shareholders exiting the business (35%) and accelerating territorial expansion of the company (33%) prompted two-thirds of M&A transactions.

The main reason for M&A in the last year



The picture for 2021

2021 was an impressive improvement over 2020. The region saw a 176% increase in aggregated value and a 36% increase in deal volumes - most surveyed dealmakers were involved in more deals, and only 8% had done fewer.

In cases where their clients decided not to go through with a deal, they mostly blamed the complexity of the process (38%), almost 21% of respondents said that dealing with M&A just took too much time away from everyday management, 17% blamed the fees in general, and 16% specifically blamed the advisers' fees.

The most common reason to embark on a merger or acquisition was to help investors or shareholders to leave the business (35%).

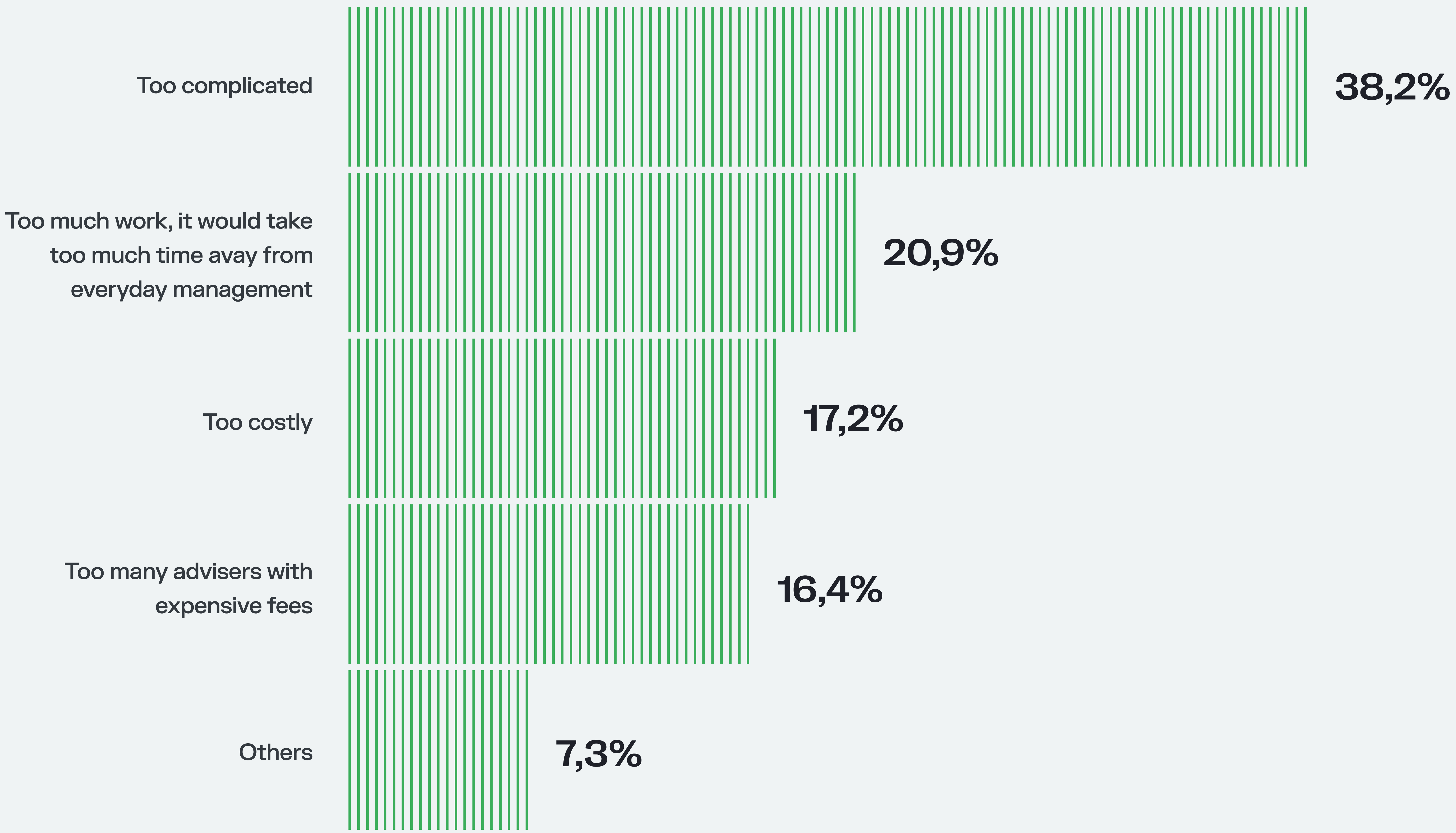
Companies wanting to expand their territory quickly made up the next most significant tranche (32%), which goes in line with the regional boom in cross-border transactions.

Breaking down this percentage, acquiring complementary activities, or entering new markets were both mentioned by 8% of the respondents. Diversification was mentioned by 7% of them, and expansion of their range of activities at 4.5%. The reverse acquisition of listed companies accounted for just above 3.5% of transactions.

45%

Of the espondents affirmed that the sell-side normally initiates the deals with their firms.

Most common clients' explanation for not going through with a deal after the initial exploratory meetings

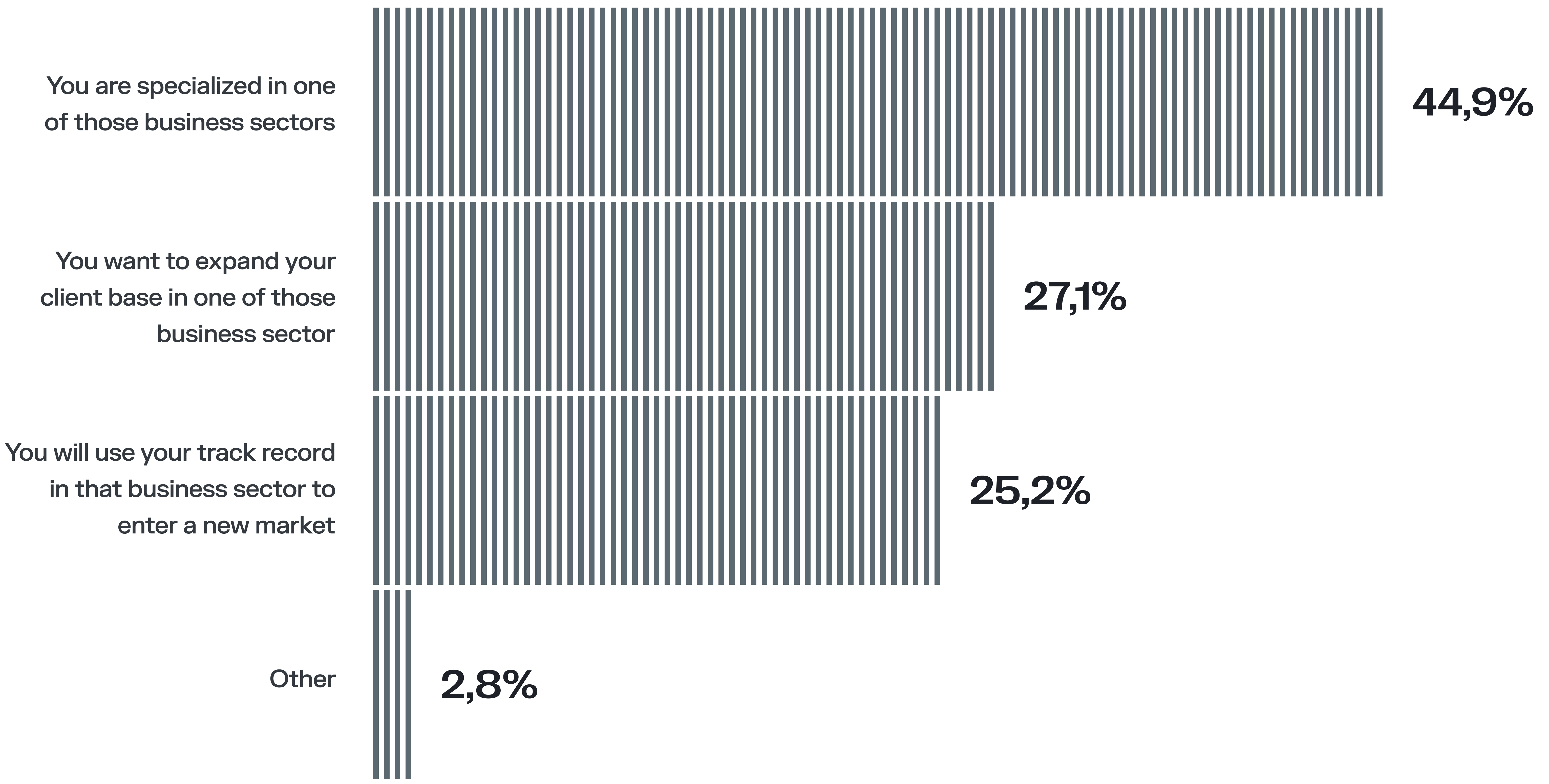


Sector distribution 2021 vs 2022

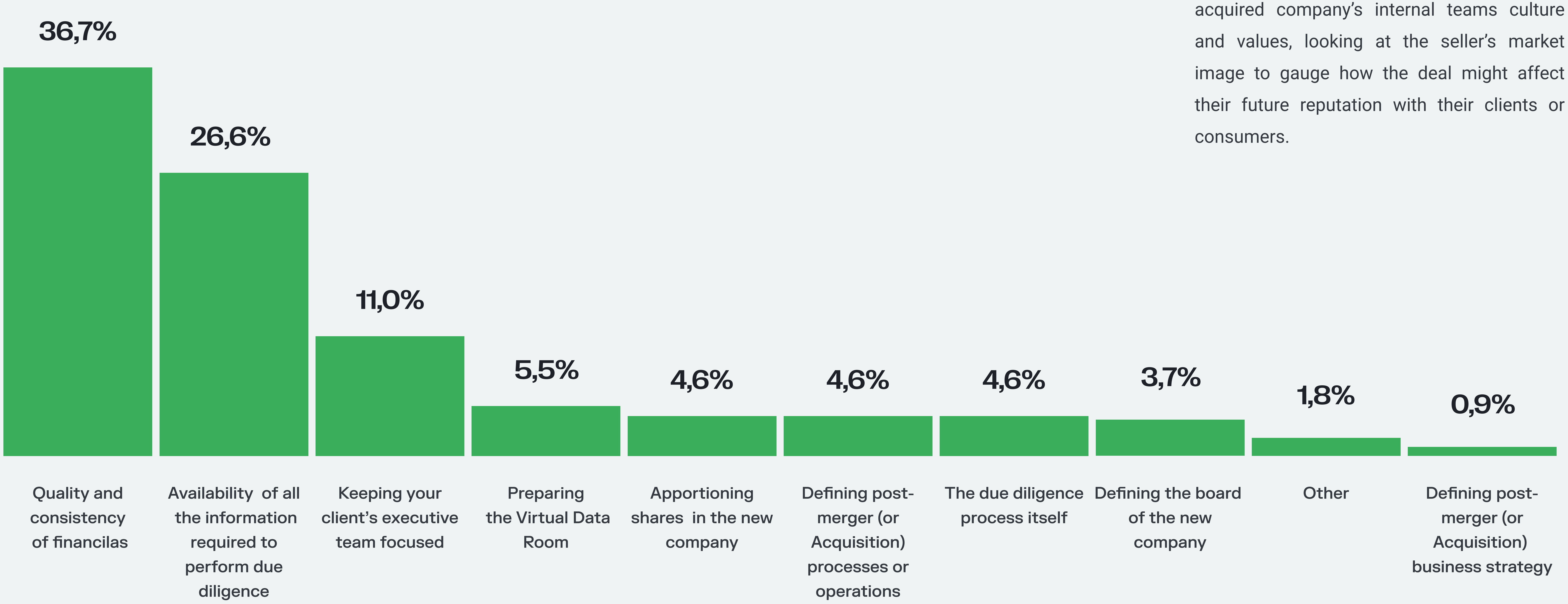
The two most active business sectors for our respondents in 2021 were energy (32%), and technology (software but not hardware) was mentioned by 27% of the respondents, with healthcare (13%) some way behind, followed by transport and hospitality, financial services, technology (hardware), education, food, agribusiness, and a small number in retail.

45% of companies decided to focus on sectors where they have the expertise. Others (27%) were keen to expand their client base or move into different industries where their experience would stand them in good stead (26%). Overall, the focus of the respondent 2022 marketing effort will still be concentrated on Energy, Software, and Financial Services.

If the most active industry in 2021 differs from that in 2022, please explain why



What was the most complicated part of the deal



Setting up the deal

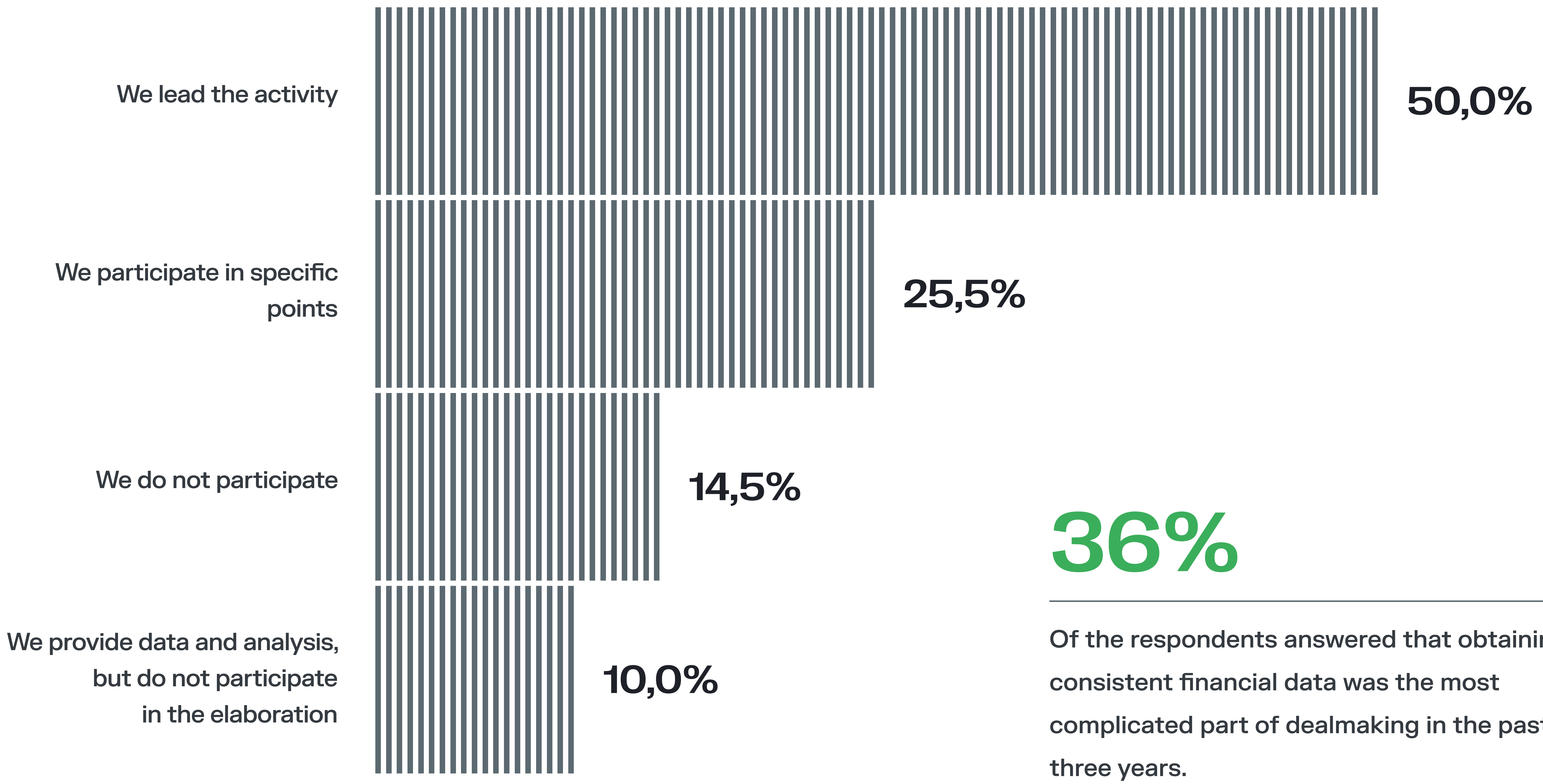
About 60% of the companies vetted other aspects of the deal besides the valuation itself, with half of them deeply assessing the acquired company's internal teams culture and values, looking at the seller's market image to gauge how the deal might affect their future reputation with their clients or consumers.

13% looked at other aspects, including evaluating the technology used by each party to identify synergies, risks, and integration costs. 61% of the surveyed companies do any post-integration follow-up and mostly use the KPIs in the business plan, though some have specific KPIs set out in a post-integration plan.

Only 14.45% of the companies did not engage at all in the valuation stage. Over half led the activity, with others either participating at certain key stages or providing data and analysis but leaving the actual process to others.

24% of the firms in our survey carry out due diligence entirely, 48% use a third party rather than their internal team, and approximately 8% prefer to mix contractors and in-house staff. 20% of the respondents do not do any due diligence and are focused mainly on target and deal strategy.

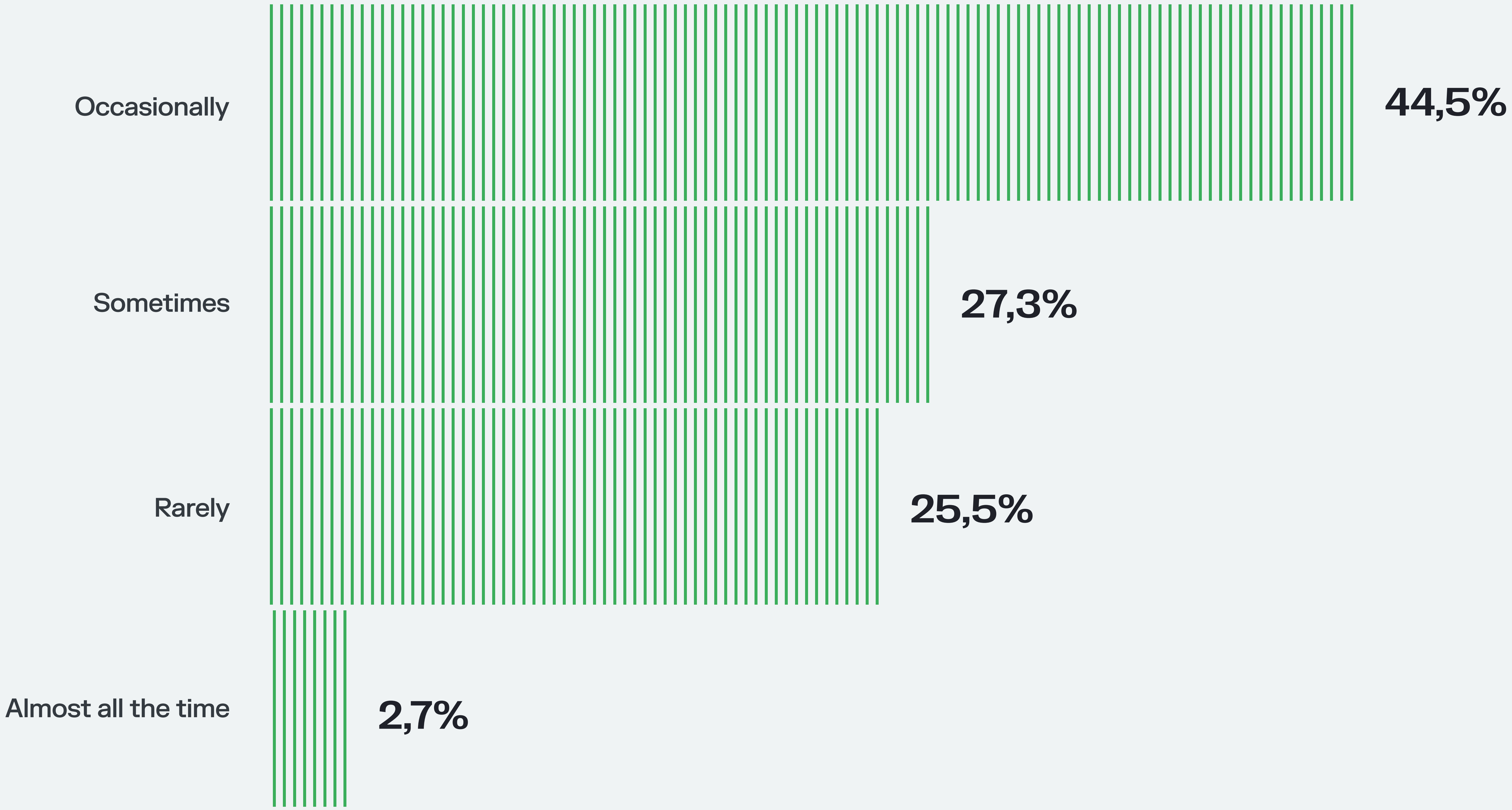
What is your company's participation in the Valuation stage?



36%

Of the respondents answered that obtaining consistent financial data was the most complicated part of dealmaking in the past three years.

Were you ever faced with data that did not give a complete representation of the company's activities?



To our respondents, the most challenging aspect of the transaction was dealing with the poor quality and consistency of the financial data (37%). Followed by the lack of adequate information (outside of financial data) made the due diligence difficult (27%). In the region, keeping the client's executive team focused on the deal was the third most problematic area of the deal flow (11%).

Preparing the virtual data room, the diligence process itself, and apportioning the shares in the new company were considered a problem only by about 5% of the respondents. And defining the future strategy of the merged entity was considered a walk in the park; less than 1% of the respondents highlighted it as a problem.

Poor quality of data (32%) and uncooperative client staff (27%) made up more than half the reasons behind the difficulties the respondents found during the M&A process; 19% selected "major disagreement over future corporate strategy" as one of the problems they encountered.

Although this apparently contradicts the previous set of responses, where less than 1% mentioned "defining the future strategy of the merged entity" as the most complicated part of the deal flow, it shows that defining the strategy may be easy but getting everybody to agree to it is a big challenge to dealmakers.

Lack of documentation was also a significant problem for 10% of the respondents, and only 8% mentioned a lack of shared priorities as an issue.

42% of the respondents stated that keeping the client's executive team focused was the most straightforward part of the process.

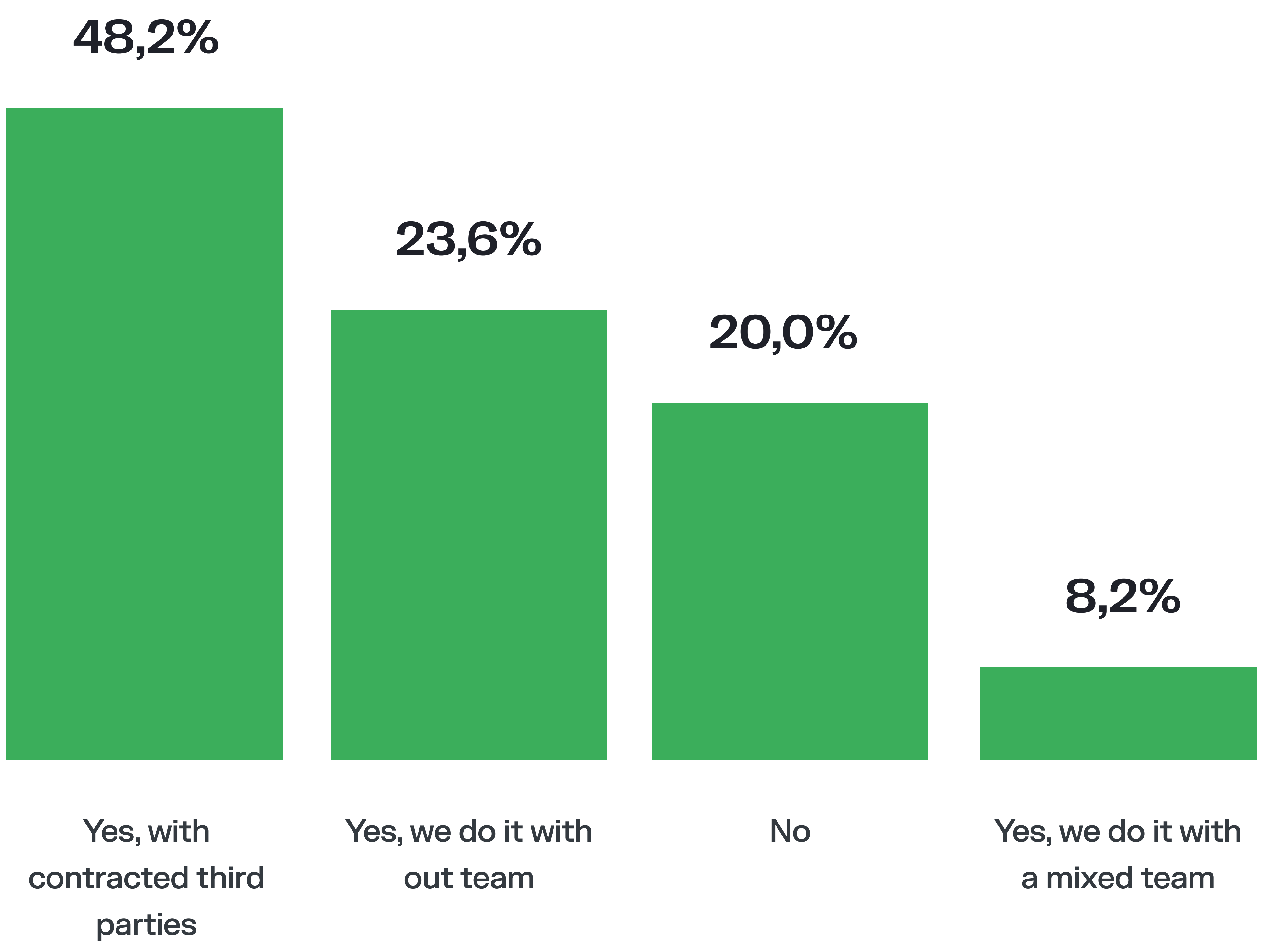
Availability of information (15%) and the due diligence process (13%) were the second and third most direct aspects of an M&A transaction.

Curiously, preparing the VDR was considered the most straightforward part of the process by almost the same percentage of respondents that felt it was the most complicated part. Less than 2% of the firms found it very difficult, 38% said it did not involve much work, and 45% declared it easy.

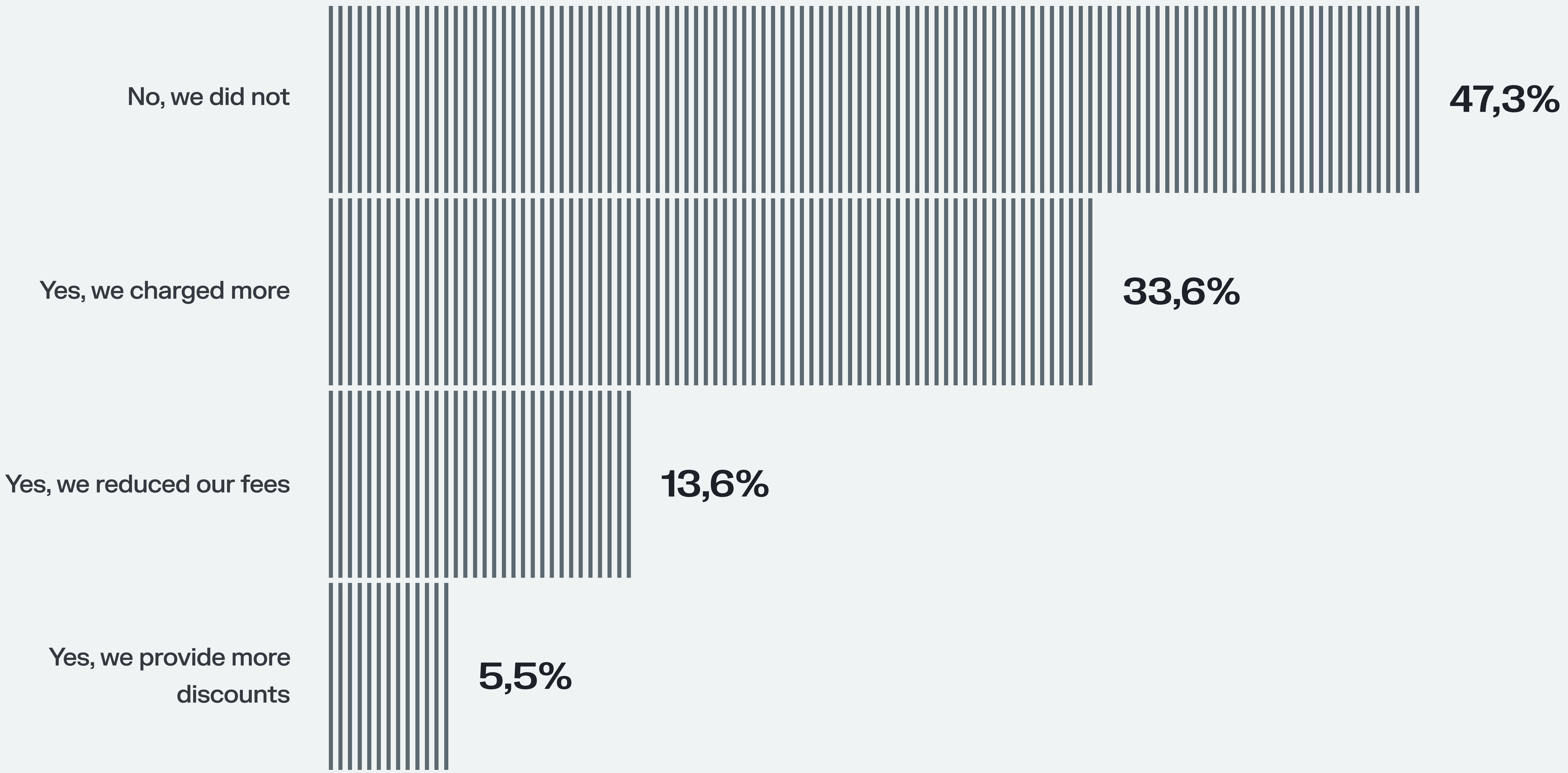
43%

Of respondents answered that collaborative client staff was the most straightforward part of the transactions.

Does your company perform Due Diligence?



In 2021, did you change your fees?



Fees

47% of companies had not adjusted their fees at all in 2021; 33% raised their fees; and among them, 47% raised them by 5% or less, and around 25%s raised fees by more than 10%.

41% of companies did not set a minimum transaction value, 19% went for over $10mm, and 78% of dealmakers charged a success fee. Among them, 26% charged a set success fee, and 52% varied their success fee based on the deal size.

47%

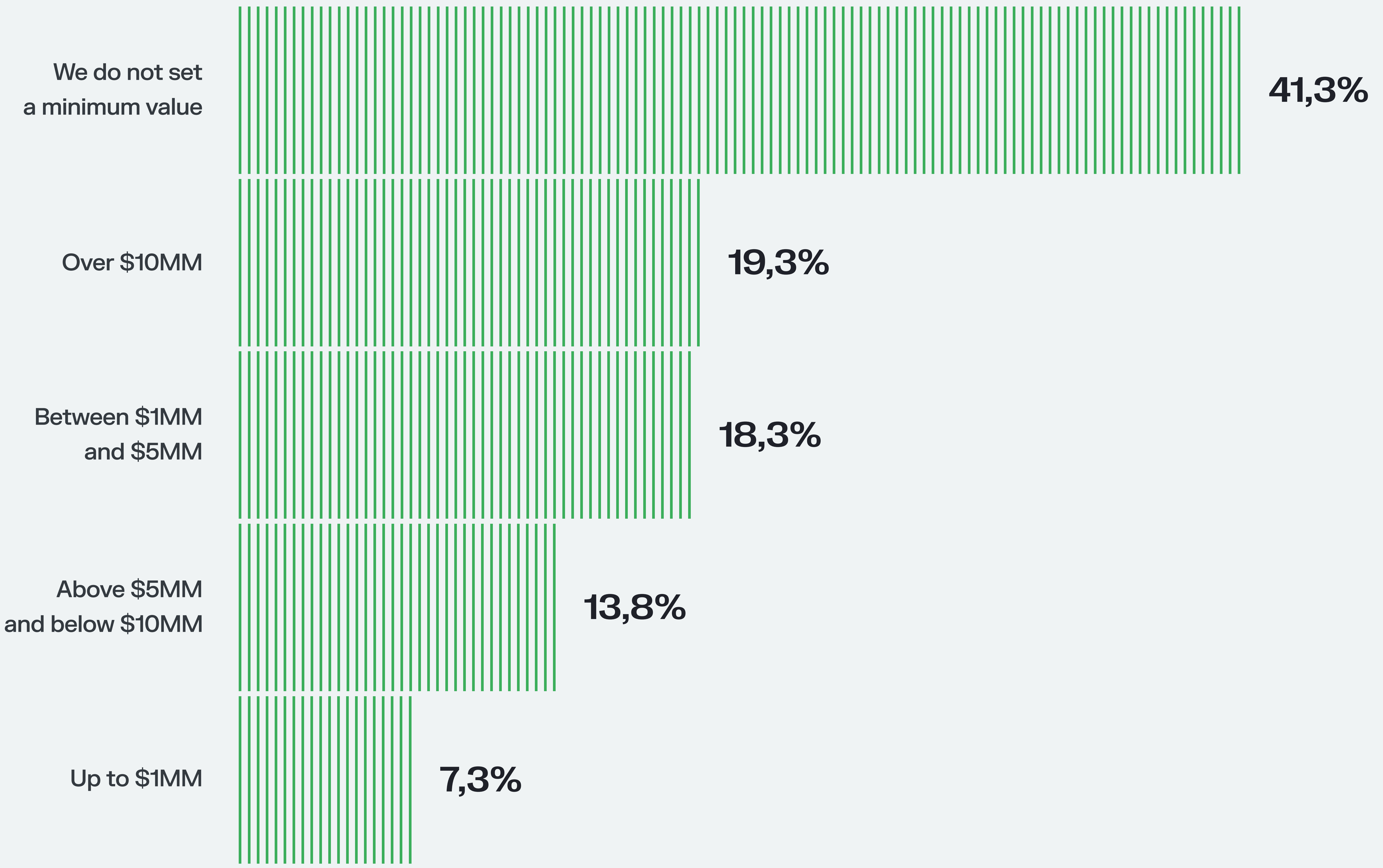
From the respondents that affirmed increasing their fees in 2021 46,67% commented it was less than 5%.

14% reduced their fees in 2021; half reduced them by 5% or less, another 27% by 5-10%, and 23% by more than 10%. Six dealmakers said they had offered more discounts than 10%. This result reflects the overall economics of the region. The growth in 2021 and the first half of 2022 has not yet brought the region's economy near its pre-pandemic levels.

49%

From the 10,71% respondents that affirmed decreasing their fees in 2021. 50% commented it was less than 5%.

Minimum transaction value

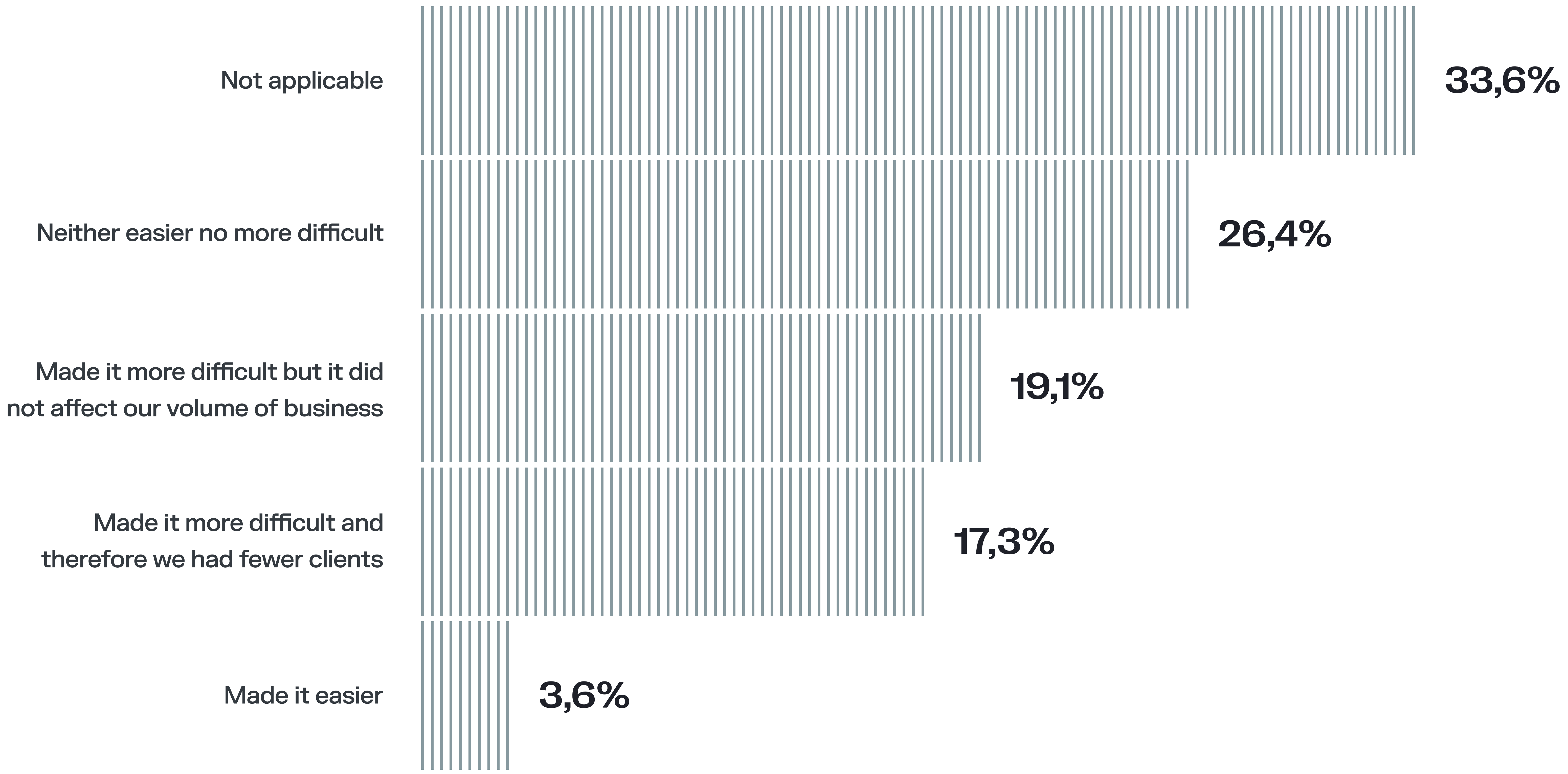


COVID-19

It is no surprise that the biggest challenge of the past two years has been the evolving global pandemic. We asked if the shift to home-working had had any impact on dealmaking, and 43% of the companies claimed it had made very little difference, 32% thought it made dealmaking easier, and 25% more difficult.

The picture was also mixed for companies handling cross-border deals. Some had seen fewer cross-border clients while others had not noticed much difference, or at least their volume had not been affected, leaving almost 4% who thought working from home had made it easier to engage with foreign buyers and sellers.

How did COVID affect your cross-border business?



Conclusion

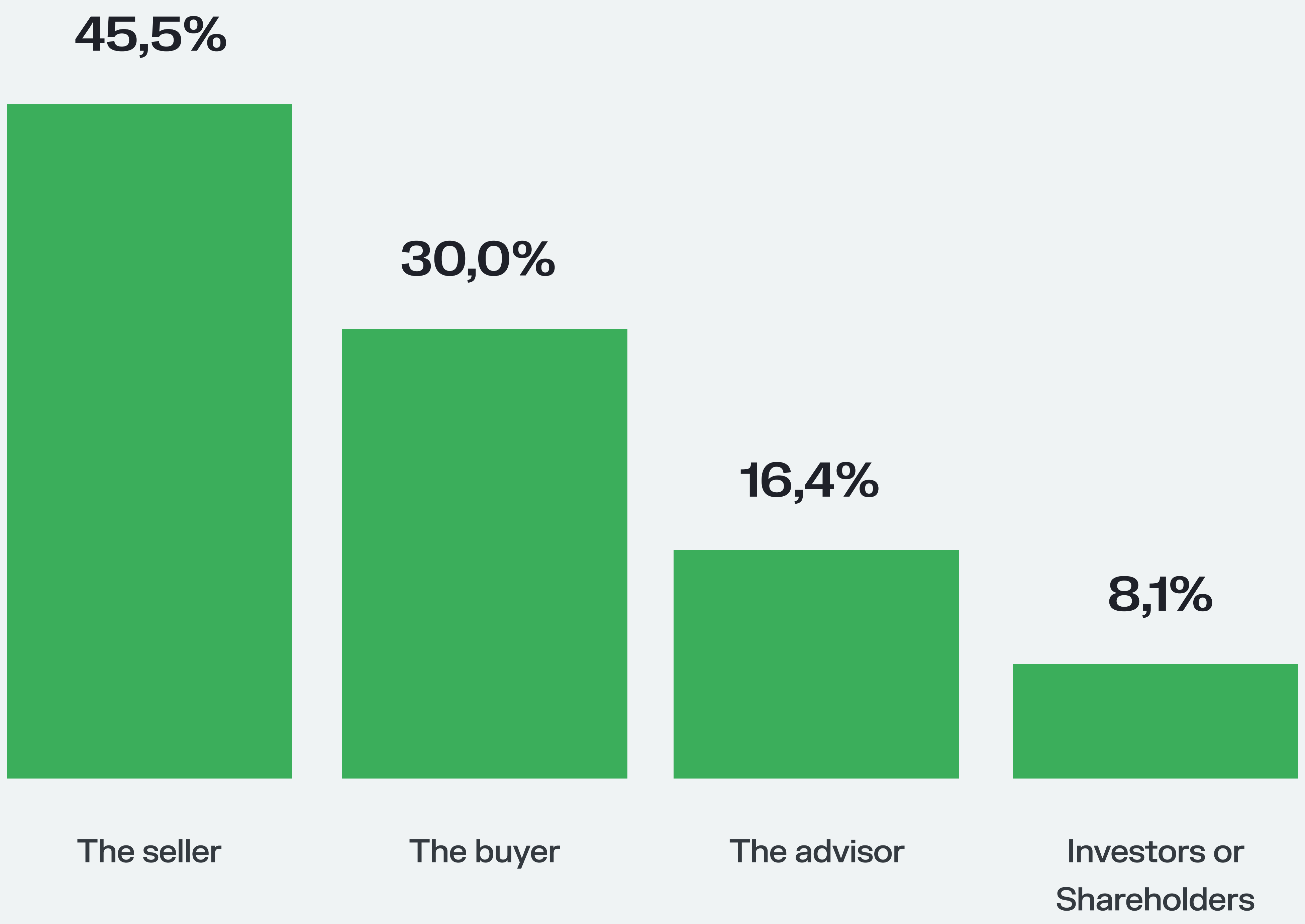
The overall economic forecast for the region by year-end and into 2023 is very timid. For dealmakers, there is still a long way to go to recover the pre-pandemic levels. 54% of the respondents expect to work at five deals or less in 2022 (Aug to Dec). About 30% of respondents expect to work at 6-10 deals, and only 16% forecast working at more than ten deals.

The expectation for cross-border targets is consistent with our survey results in the Iberian region. It looks like favorable economic conditions and currency devaluation prompted Spanish companies to expand to the LATAM region. The forecast for cross-border trade between the two regions is remarkably consistent.

The region suffered a substantial economic downturn in 2020 due to the adverse impact of COVID-19. The economy started bouncing back in 2021, and the growth pattern continues in 2022, with a forecast of 0.8% growth in 2023. Despite the challenges faced by the region, mainly inflation, political uncertainties, and the impact of global events, the war in Ukraine, amongst others, those who responded to the survey have a relatively optimistic view of 2023.

Despite the expectations of a drop below 2022 levels in both domestic demand and commodities export, dealmakers' prospects for the rest of the year look good (86%), and their firms are ready to create the most value possible during the 2023 turbulency.

Who normally initiates the merger or acquisition among your firm's clients?



"The whole process of working with iDeals VDR went very smoothly. It's pretty intuitive to work with the framework provided, the team is great, ready to help fast.

David Strycek,
Senior Consultant, EY

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