DEALPULSE

M&A FORECAST

LATIN AMERICA 1H17

TTR
Transactional Track Record

LATIN AMERICA OVERVIEW

After a tense presidential campaign in the US, Latin American observers have shaken off the post election jitters as they get on with business, while remaining tuned in to the season's latest reality shows with concerned amusement.

With Michel Temer under investigation and protests in the streets of Brazil, near political and financial collapse pushing Venezuela ever closer to the brink and elections around the corner in Mexico and Chile, the US hardly takes center stage. To say there may be speed bumps ahead, in the words of Nexxus Capital Senior Manager Arturo Saval, may be an understatement.

Oil continues to hover around USD 50 a barrel and hasn't recovered significantly compared to 2014 peaks, but Brazil and Mexico are pushing ahead with major exploration and production plans nonetheless. Notwithstanding its shaky political situation, Brazil kicked off its first oil and gas auction in years in May. Mexico will also lure international E&Ps to upcoming oil block auctions in the months ahead.

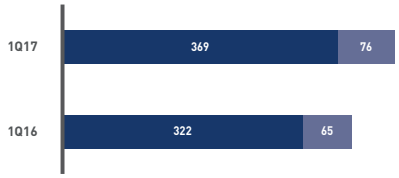
The energy landscape has changed irreversibly as renewable tenders carve out an ever-larger share of the market for green energy across the region, bringing greater competition and disruption to the conventional power market. Mexico's successful energy reform has cemented a new paradigm that will invariably influence norms adopted in the months and years ahead by its neighbors to the south.

M&A is picking up across Latin America at a modest pace, tempered by sluggish GDP growth in most markets and political headwinds facing many. Deal volume and aggregate transaction value were up 13% and 301%, respectively, in the first three months of 2017 across the region, relative to the corresponding period in 2016. Growing deal volume in the first three months of 2017 followed a steady upward trend throughout 2H16. In 2H17, deal volume can be expected to build on gains realized in the previous year, and based on 1Q17, regional aggregate value will exceed last year's.

Clearly seasoned investors are accustomed to Latin America's political and economic hiccups and can't be easily dissuaded from targeting the region's most compelling industries. Services, technology, media and telecom, industrials, real estate, construction, energy, natural resources and infrastructure assets are on the radar of strategic and private equity buyers from North America, the EU and Asia.

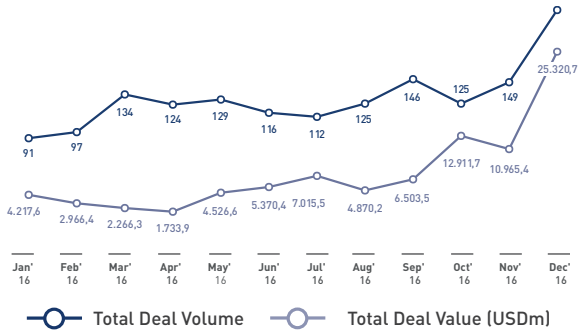
Services and distribution represented 571 of a total of 1,291 deals, or 44%, of all announced and closed transactions in 2H16 region wide, suggesting the demographic basis for a bullish Latin America outlook is well justified.

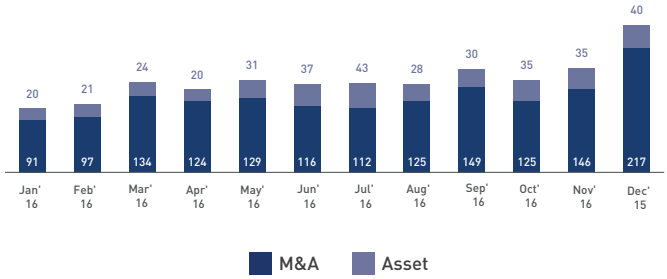
Total Deal Volume and Value in Latin America 1Q16 and 1Q17



	Deal Volume	Change relative to same period in 2016 (%)	Total Aggregate value	Change relative to same period in 2016 (%)
1Q17	436	▲ 12,70	USD 37.925,3bn	▲ 301,31
1Q16	387	▲ 12,70	USD 9.450,3bn	

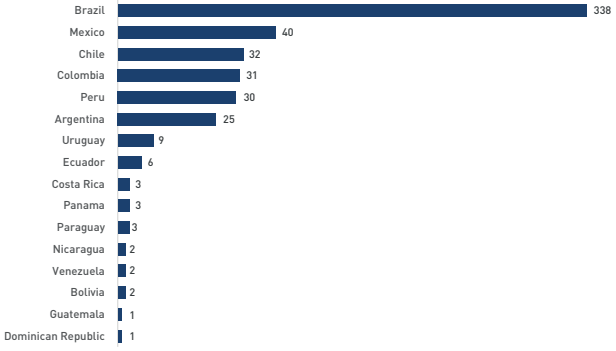
Deal Volume and Aggregate Value in Latin America in 2016





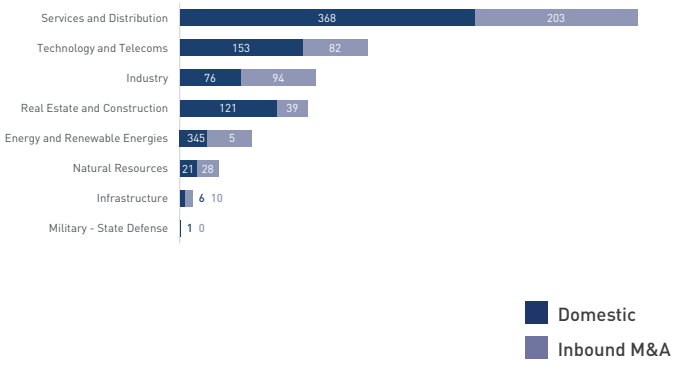
Inbound M&A Transactions (Includes PE)

2H16



Most Active Sectors (Includes PE)

2H16



PRIVATE EQUITY INSIGHTS

Latin America's demographic makeup, with its median age of 27, its infrastructure deficit and relative stability compared to the escalating extremism affecting much of the world, make it an attractive haven for private equity investors.

The region's capital markets have failed to lure equities issuers in the volumes of years past, but a handful of successful offerings have inspired a modest pipeline of IPO candidates coming to market in the months ahead. Dependable appetite from strategic buyers over the last several years through swings in the economic cycle from within the region and beyond has emboldened general partners to continue deploying capital in Latin America, mostly in the largest markets.

Brazil accounted for 41 of the 89 transactions led by private equity funds in 2H16, followed by Mexico with 15, Chile with 10 and Peru, seven. There were five PE-backed deals in Colombia, four in Argentina and four in Costa Rica, with one each in Panama, Uruguay and Paraguay.

Private equity investment will remain heavily concentrated in Brazil, Mexico and the Pacific Alliance markets for the foreseeable future, with Argentina likely to attract a growing share of capital as confidence in the country continues to be restored internationally.

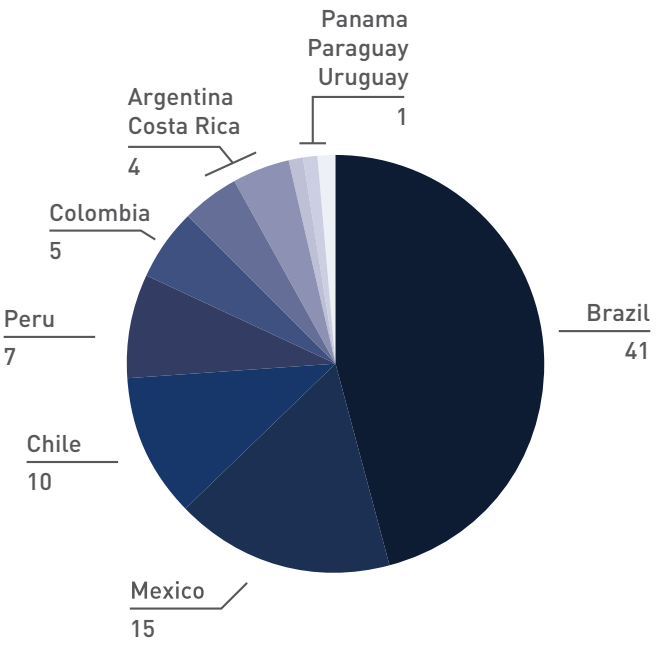
The sector distribution of PE-backed transactions remained consistent with previous half-year periods, led by services and distribution, industrials, technology, real estate, energy, natural resources and infrastructure, in descending volume. The sectorial focus is unlikely to vary considerably in 2H17 and into 2018, though a few key segments can be expected to demand increasing attention from fund managers.

Looking forward, financial technology and e-commerce will attract a growing share of investment from private equity, according to Arturo Saval, Senior Manager at Nexxus Capital in Mexico City.

The highly concentrated banking sector, combined with large under banked populations in Mexico and across the region, spells opportunity for technology firms poised to bridge the gap and capitalize on an emerging digital generation, said Saval. He pointed to the Chinese example, where young people have all but skipped brick and mortar retail in favor of e-commerce. In Mexico, where the average age of the population is 26, mobile penetration is over 90% and smart phone penetration around 40%, the prospects in e-commerce are immense, he said.

Private Equity Deal Volume by Country

1H17



PRIVATE EQUITY INSIGHTS

There may be storms ahead to contend with, however, Saval noted. "Last year's activity was characterized by volatility," he said, adding, "Things are starting to get back to normal after a period of tremendous anxiety." Mexico's upcoming state and federal elections could slow things down or create another round of volatility over the next 12 months, Saval cautioned.

Nexxus has a diversified portfolio concentrated in sectors that benefit from the growing disposable income within of the Mexican population, including quick service restaurants, logistics, consumer products and hospitality. "We have focused on the increasing spending capacity of the Mexican family," Saval noted.

Political uncertainty makes buyers and sellers more guarded, Saval noted, and the looming threat of higher interest rates from the US Department of Treasury is cause for concern. Irrespective, opportunities abound for Nexxus in Mexico, regionally through portfolio companies, and in Spain, he said.

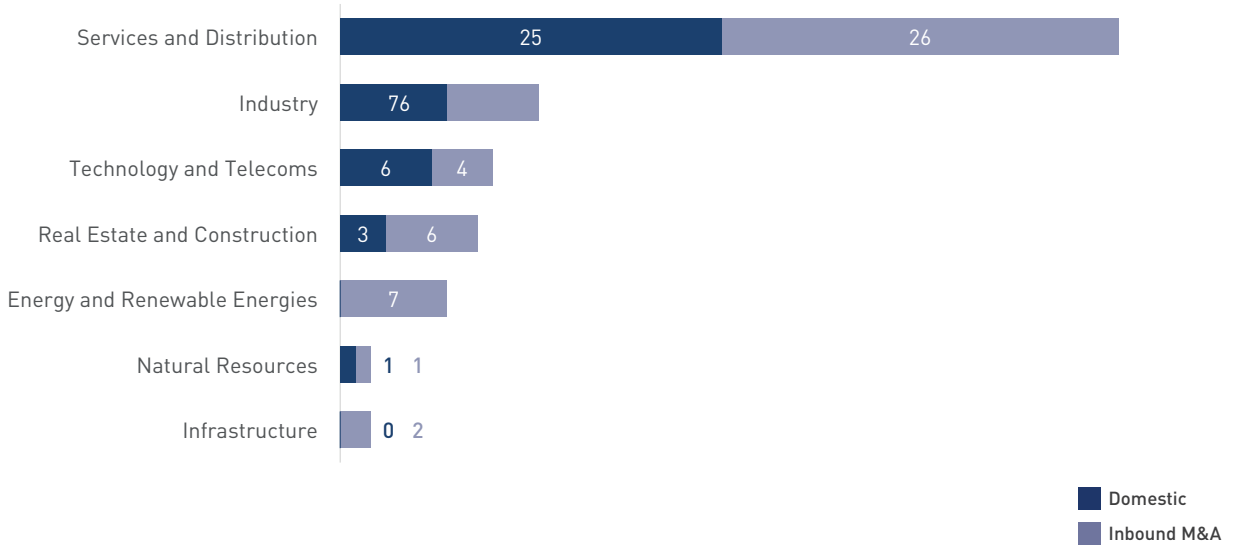
Nexxus Capital VI, a USD 550m fund, is about 83-84% invested, and in the coming months the firm will begin to fundraise anew, Saval said. Nexxus has also created a mezzanine fund to serve the pent up demand for debt that the banking sector neglects, he noted. Between 30% and 40% of the deals Nexxus evaluates could be done with a mezzanine debt structure, he said. Nexxus is raising USD 200m to 300m to make such investments with a dedicated team, Saval said.

Nexxus also recently began fundraising for Nexxus Iberia after putting together what Saval called a "best in class" team in Spain. Nexxus Iberia will invest between EUR 20m and EUR 40m acquiring undervalued assets in Spain and Portugal. Nexxus Iberia is aiming to raise EUR 200m with a first closing scheduled for July and final closing by year-end. It has a EUR 40m commitment from Spain's Instituto de Credito Oficial, Saval noted.

"Spain is underpenetrated in private equity," Saval said. It's the fastest growing economy in Western Europe and there are endless opportunities for private equity investors to play a supporting role to "tremendously good players" in the wake of Spain's economic crisis, he added.

Most Active Sectors for Private Equity

1H17



TTR INTEL VOLUME INDICATIVE OF DEAL FLOW 2H16 - 1Q17

BRAZIL & THE SOUTHERN CONE

Brazil continues to be the region's uncontested leader by deal volume and aggregate value, despite its own tired telenovela delivering new jarring episodes as each layer is unearthed in the endless Lava Jato saga. Those wishing to get back to business as usual wonder if the country has hit bottom yet and grasp for green shoots.

Acquisitive multinationals continue to favor Brazil over other Latin American geographies, with 119 inbound deals in 2H16 compared to just 40 in Mexico in the same half-year period. Chile, Colombia and Peru followed, with Argentina rounding out the top five, at 32, 31, 30 and 25 deals, respectively.

M&A activity was up in 1Q17 in Brazil over 1Q16, following six months of steadily increasing deal flow throughout 2H16. The region's largest market will continue to command the lion's share of capital from private equity managers investing in the region, as well as from international strategic buyers and firms taking advantage of an opportune moment to consolidate promising industries.

Attractiveness in Brazil is still more determined by prices and the domestic market size than the overall macro picture, according to K&L Gates partner Felipe Creazzo. The currency devaluation created by Brazil's economic crisis was the primary driver of M&A transactions in 2016, Creazzo said. Inflation and declining interest rates should reduce corporate indebtedness, foster job creation and promote private long-term investments looking ahead, he said, while reforms under discussion within the country's legislative bodies bode well for improved confidence and more effective checks and balances.

The services industry in Brazil led M&A volume and outperformed all other sectors combined by aggregate value in 1Q17, with 130 transactions together worth USD 23.6bn. Technology and telecoms followed by transaction volume, in a trend unlikely to change in the months ahead, Creazzo said.

"Brazil has always been very tech savvy," Creazzo noted, and the adoption of financial services technology will continue to drive deal making. "Since the IT and fintech sectors are surfing a global wave of attractiveness and investments, I believe these two sectors should continue to experience high transaction volume in 2017," he noted.

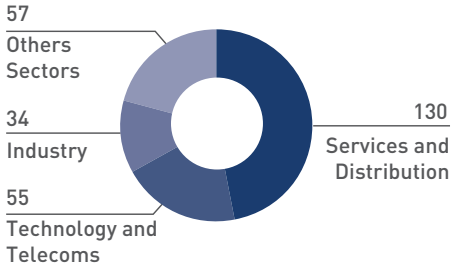
While the energy industry ranked fifth by deal flow and sixth by aggregate value in 1Q17 after leading by value in 2H16 with nearly USD 20bn in transactions, upcoming tenders will spur investments in the sector and boost volume as oil blocks are traded and exploration and production companies partner up to develop awarded assets.

Another sector likely to garner a growing share of domestic and cross-border investment in Brazil is Infrastructure, as concession rounds

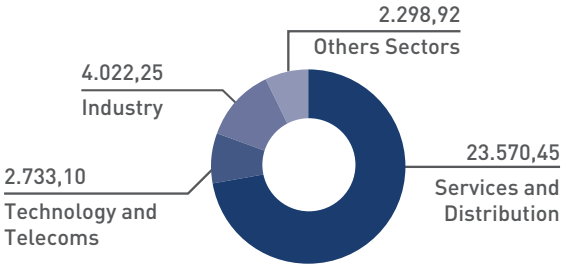
Brazil - Most Active Sectors (includes PE)

1Q17

BY DEAL VOLUME

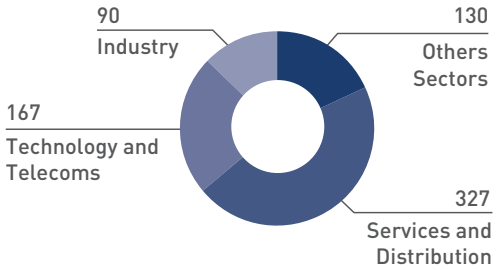


BY TOTAL DEAL VALUE (USDm)



2H16

BY DEAL VOLUME



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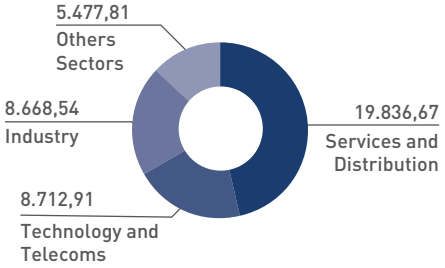


BRAZIL & THE SOUTHERN CONE

award railroads, highways, airports and ports, Creazzo noted. Energy infrastructure tied to oil and gas and power transmission will also attract capital, he said.

Record output from Brazilian agribusiness will also be an important driver of cross-border transactions, Creazzo said, noting Chinese, Canadian and European investors were among the most important foreign investors in 2016 and can be expected to continue investing in the country in view of the opportunities in these sectors.

While Brazil continues to be plagued by the fallout of corruption scandals that have shaken some of the country's largest conglomerates, as well as the political establishment, the next election cycle presents an opportunity for a clean slate. The educational value of the irregularities coming to light, especially for those enterprises that deal with the public sector, is positive, Creazzo said.

"The Brazilian economy is robust enough to carry on with reasonable independence from the political scenario and, at this point, the implementation of structural reforms seems to be irreversible despite the political instability. These factors, combined with the reduction of the basic interest rate and a lower cost of credit should be viewed as decisive factors supporting confidence in Brazil," Creazzo said.

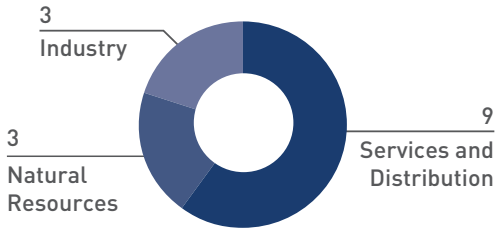
"This is the time to invest. All our assets are cheaper now," said Yuri Varella, Head of M&A at metallurgical products manufacturer, Vamtec Vitoria. "What is happening politically is a huge change for the better; we are cleaning our political environmental of all the corruption. It's a turning point in history. People are being arrested. We will have elections in one year and I really believe the country will stop losing hundreds of millions to corruption and we will have a new country," Varella said. "It's the best crisis. We are taking out the oligarchy that had the country locked for the past 50 years," he added.

Argentina has made significant progress in restoring investor confidence and is attracting growing investment as the reforms of Mauricio Macri's administration begin to pay dividends. The volume of TTR intelligence highlighting opportunities in the country is on par with Mexico, Colombia and Chile, while deal volume continues to edge up, placing it among the top six markets regionally in 1Q17. The country's energy sector, long resilient amid political crises, has a new dynamism following recent renewable tenders, meanwhile, with more auctions on the horizon. The same appetite for agribusiness that is driving deal making in Brazil will keep transaction volume high in Argentina as well

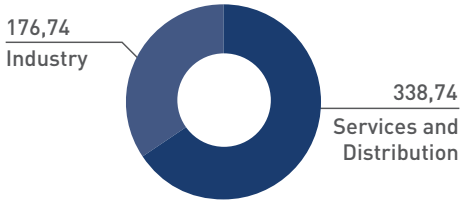
Brazil- Private Equity Deal Volume and Value by Sector

1Q17

BY DEAL VOLUME

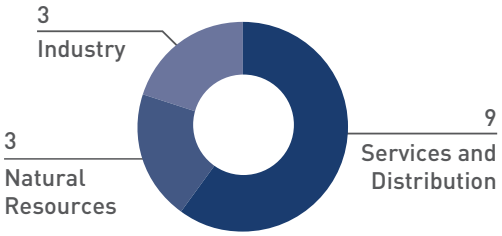


BY TOTAL DEAL VALUE (USDm)

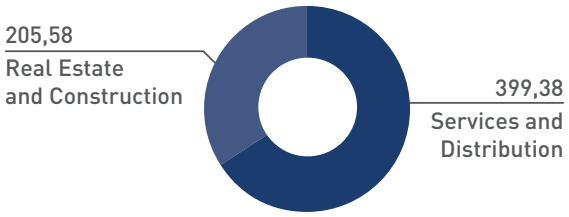


2H16

BY DEAL VOLUME



BY TOTAL DEAL VALUE (USDm)



MEXICO & THE PACIFIC ALLIANCE

Mexico's peso has stabilized following a tumultuous few months in late 2016, recovering by more than 20% since the US presidential inauguration, restoring confidence in a market some fear too closely tied to the US. The country's strong trade ties with the EU and growing links to Asia will keep Mexico resilient, however, and if there's a hope in common with Brazil, it's that political whirlwinds can be contained without hindering business as usual.

Notwithstanding the fiery rhetoric that's engulfed and polarized US politics more than ever, corporate strategy related to Latin America has hardly changed. "We're not seeing any difference in US companies investing in LatAm," said Andersen Tax CEO Mark Vorsatz, who continues to strike up new partnerships with firms across the region as part of the company's global expansion.

M&A in Mexico's services and distribution industry is brisk, accounting for 73 transactions in 2H16 valued at USD 5.6bn combined and 35 in 1Q17 together worth USD 3.2bn. Tourism, consumer products and manufacturing are also growing at a healthy clip, despite the impending renegotiation of NAFTA scheduled to begin in August.

Technology and telecom, industrials and real estate followed services as the most active sectors in Mexico in 1Q17, the same sectors accounting for most of Mexico's deal volume in 2H16. Infrastructure spending needs to catch up to keep pace with growth in several key sectors, including energy and transport, and can be expected to pick up steam in 2H17.

Notwithstanding the possibility that a successful left-leaning candidate could attempt to roll back the structural economic reforms of recent years, there's little potential for significant unraveling, Nexxus Capital Senior Manager Arturo Saval said. The independence of Mexico's central bank, along with constitutional energy, telecom, broadcasting and financial sector reforms have set the stage for a more competitive economy, Saval said, and there's little momentum to roll back the tide.

While it'd be hard to find a soul in Mexico who sees eye-to-eye with the US president, the sentiment that NAFTA needs to be updated is shared widely.

The agreement needs to be updated to cover a broader range of industries with consideration for the monumental changes in the energy, broadcasting, technology and telecom sectors over the past 20 years, said Saval.

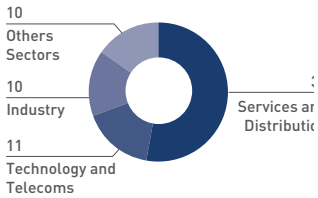
Mexico and Canada will remain a key trading partners for the US, regardless of political rhetoric, Saval contended. The country still has much to offer US companies based on its competitive advantages, rooted in lower transport and labor costs, and its role in NAFTA is still supported by this basic logic, Saval pointed out.

Within the lower labor, lower transport equation, it's US companies like Ford and GM that are benefitting, and ultimately the US consumer receiving more competitively priced goods, Saval said. "In my view, they may rename it, somebody may claim a victory, but it will remain largely intact," he predicted.

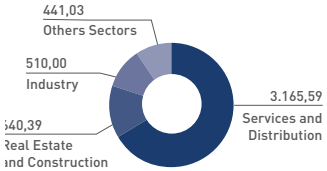
Mexico - Most Active Sectors (includes PE)

1Q17

BY DEAL VOLUME

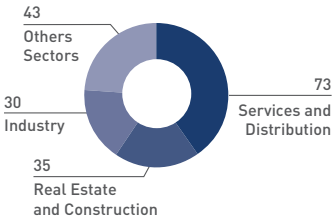


BY TOTAL DEAL VALUE (USDm)



2H16

BY DEAL VOLUME



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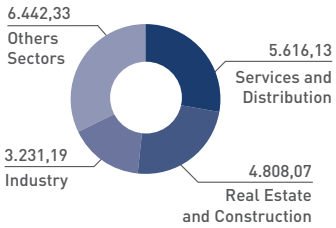
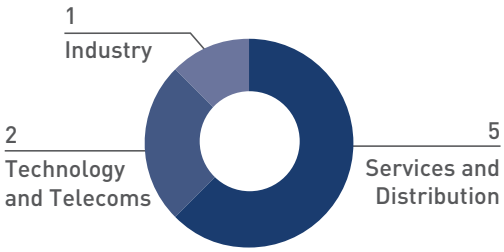


Mexico - Private Equity Deal Volume and Value by Sector

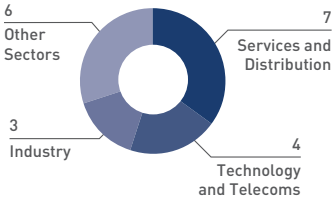
1Q17

BY DEAL VOLUME



2H16

BY DEAL VOLUME



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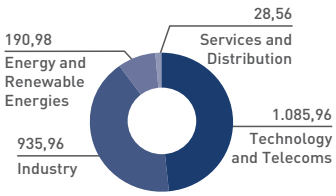


MEXICO & THE PACIFIC ALLIANCE - ANDEAN REGION

Chile, Colombia and Peru were virtually tied by transaction volume in 2H16, as each navigated its own set of economic and political challenges. Deal making in the Andean Region as a whole was relatively stable throughout 2H16, the volume chart in Peru displaying the most volatility month-to-month as the political process put investments on hold and fallout from Brazil's carwash scandal prompted the Peruvian government to review its own anti-corruption apparatus to prevent the same fate.

In Chile, President Michelle Bachelet's final year in office brings hope for a more business-oriented successor while a recovery in copper prices is encouraging the country's miners to make much needed investments to secure the industry's future. Cheap energy and water infrastructure are a necessity, not just for the mining sector, but for the country's rural population competing for the same dwindling hydrological resources.

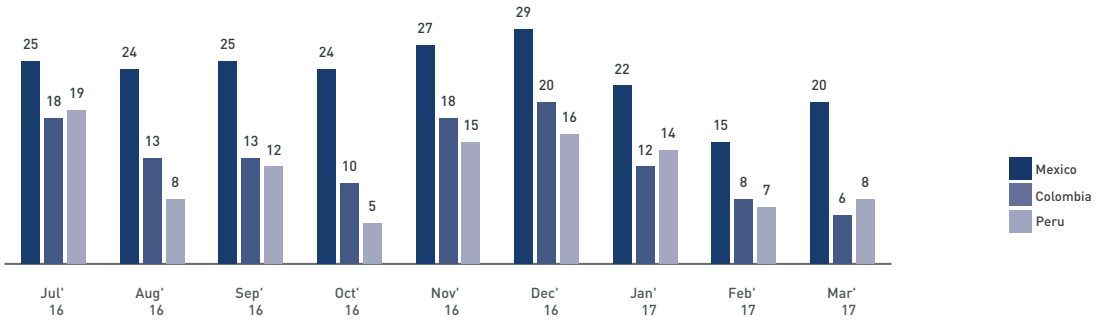
Chile's renewable tender in 2016 set a regional record for the lowest power at USD 0.028 per kWh, and those awarded capacity now face the challenge of delivering power to the grid at a profit over the next few years. Many will likely do so by forming consortia or partnering with manufacturers of solar and wind power technologies.

Colombia continues to face budgetary constraints as Ecopetrol struggles to up production and independent E&Ps contemplate capital expenditures to drive down production costs in the rugged Llanos. Extractive industries have yet to rid themselves of security challenges, despite the country's peace process having been resurrected from the ashes of a surprising public referendum in late 2016. Infrastructure remains Colombia's biggest challenge and its greatest opportunity.

Average monthly transaction values in Colombia were punctuated with a few megadeals in 2H16, but overall, the country is still very much on the radar of acquisitive "multilatinas" and international buyers headquartered in the EU and Canada, especially. As oil edges up, we can expect to see more undeveloped and brown field Colombian exploration assets on the block. The country's healthcare and construction industries will remain strong draws for strategic investors, as will hospitality, consumer products, industrials and infrastructure assets.

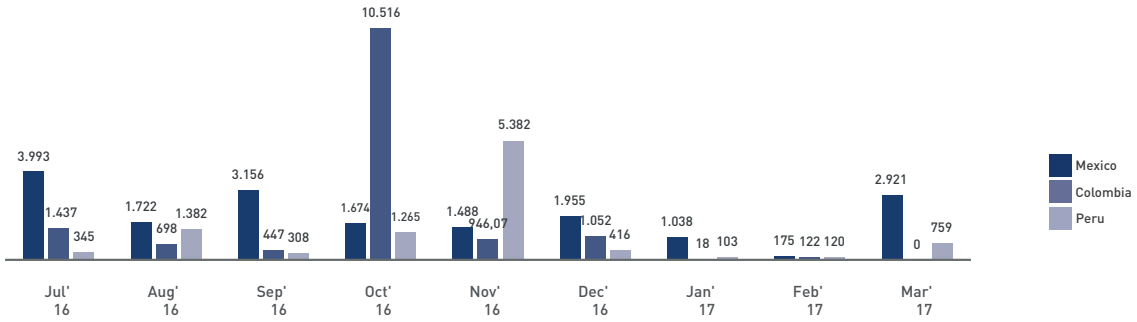
Andean Region - Total Deal Volume

1H16



Andean Region - Total Deal Value (USDm)

1H16



CENTRAL AMERICA & THE CARIBBEAN

Tourism and services will continue to drive deal making in Central America and the Caribbean, where 22 of the 43 deals registered in 1Q17 represented these segments.

News wire reports in 1H17 indicating the Caribbean's largest all-inclusive resort chain, Sandals, had hired Deutsche Bank to explore strategic options confirmed a TTR report to the same effect published a year prior. TTR sources had tipped Marriott as the likely buyer in a deal that could be worth as much as USD 2bn. The US hotel group is now looking to repeat the success it's had with the Courtyard by Marriott in Kingston by adding another in Montego Bay and construction is underway on the AC by Marriott in Kingston, which will be managed by Sandals.

With few exceptions, travel and hospitality operators from the EU and Canada have been the most aggressive in securing real estate and developing assets across Central America and the Caribbean, leaving major international brands with few options but to play catch up with acquisitions to establish a significant foothold in the region.

Tourism is booming across the largest island markets, with Dominican Republic and Cuba adding hotel room inventory at a frantic pace. While most of the airlines that jumped on the Cuba bandwagon by announcing flights to the island as soon as it was permitted following Obama's executive action have scaled back service, visitor arrivals continue to grow and the US senate looks prepared to lift travel restrictions entirely. Attempts by the executive to roll back important advances made by the previous administration could slow progress, but the trend of growing ties and increasing cross-border business with the US will continue.

Cuba's need for capital to rehabilitate and expand its telecom, energy and hospitality infrastructure will be met by investors from Canada, the EU and Latin America at the cost of US competitors should the normalization process with the US stall.

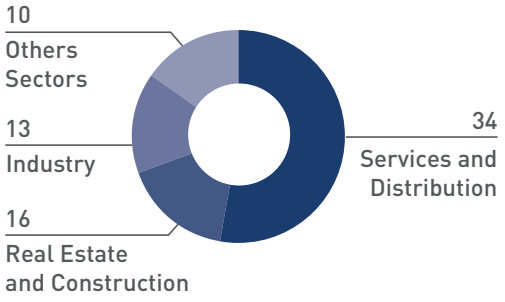
Transasctions in 2H17 and beyond will be concentrated around critical services that support the internal economies of the region and the tourism markets alike, namely banking, insurance, consumer products, telecom, infrastructure, logistics and energy. These sectors will attract bidder interest from regional conglomerates in competition with adventurous extra regional players like US-based Liberty Global, which has all but consolidated the provision of broadband infrastructure in the Caribbean Basin and is poised to extend its reach further into Central and South America.

Venezuela's precarious situation presents the most risk for the Caribbean region. Beneficiaries of the Petrocaribe Accord depend heavily on the indebted South American nation, and while many have made important strides in diversifying their energy matrices, Venezuelan oil still meets an overwhelming share of their energy needs. With an oil glut across the globe and US natural gas producers seeking nearby markets, there may be no better time to kick the addiction to black gold flowing from the Bolivarian Republic.

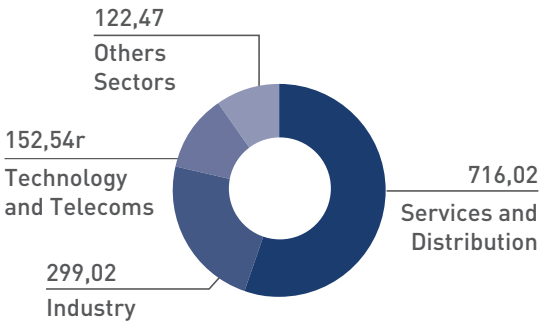
Most Active Sectors (includes PE)

1H16

BY DEAL VOLUME



BY TOTAL DEAL VALUE (USDm)



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