

Latin American Middle Market M&A – Prominent Investment Hub

By B.A.M&A Translink

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Introduction

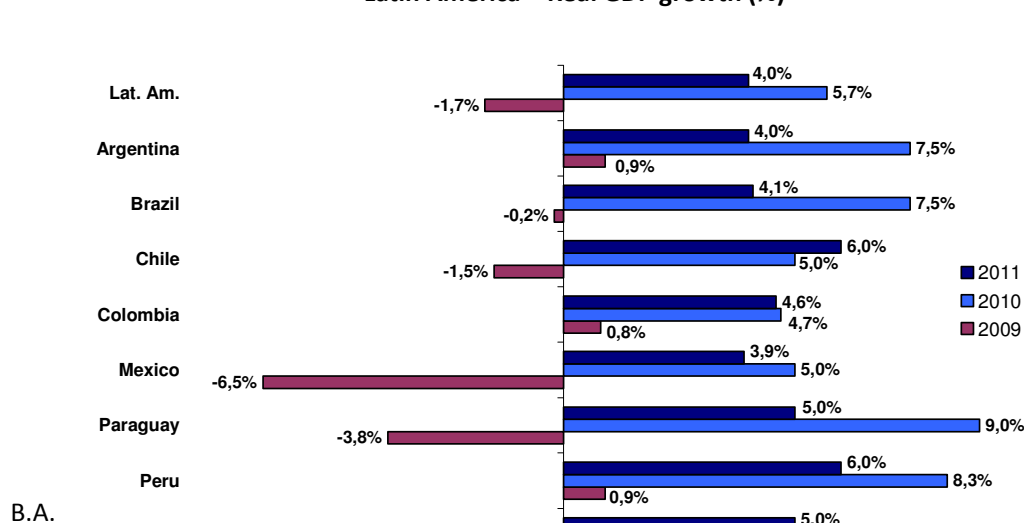
Although there does not seem to be a current consensus about the near-term prospects of world economy, there is wide agreement that the Latin American economy as well as the regional market for Mergers and Acquisitions are showing solid growth.

Latin American Economic Outlook

The undisputed fact is that the Latin American region has been exiting the global crisis at a fast pace. Impressive improvements in macroeconomic policy frameworks over the past two decades, combined with an increase in internal markets consumption power and strong commodity prices, are driving a robust recovery in South American countries as Brazil, Chile, Colombia, Peru, Uruguay. According to the International Monetary Fund (IMF), on top of the current dynamism in domestic demand, high commodity prices due to continued vitality in Asia are expected to sustain exports. Moreover, Argentina and Paraguay are set to experience high growth, supported in large part by strong trade ties vis-à-vis Brazil and a sharp rebound in agricultural production following 2009's severe drought.

As for Northern America, Mexico, second to Brazil economy in Latin America, is also staging a steady recovery, despite its 2009 hard landing and the drag from the U.S. economy. Although this recovery has been underpinned by strong policy frameworks in the run-up to the crisis, a weaker-than-projected recovery in the U.S. economy could threaten the fast pace observed.

Latin America – Real GDP growth (%)



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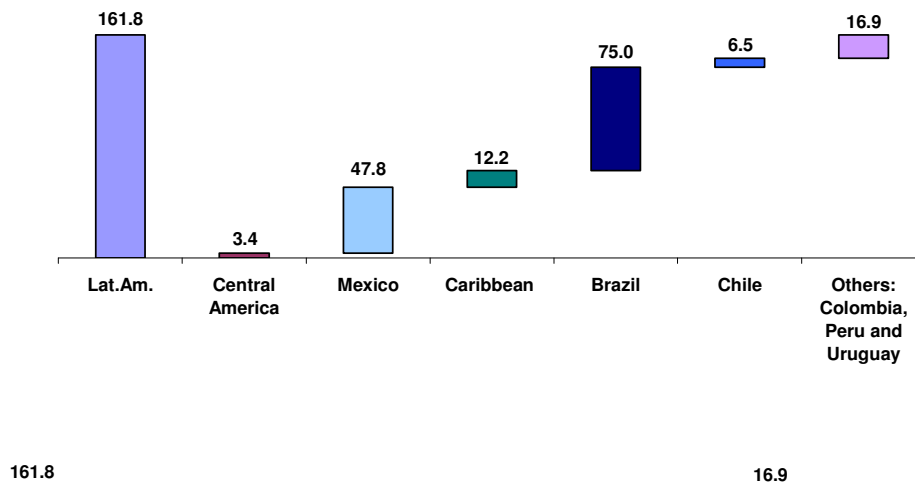
Latin America - M&A Activity

The reflection of the economic dynamism in the Latin American region can be seen by the increase of the M&A activity, which has been setting new records in number (and sizes) of transactions announced.

According to Thomson Reuters, the total value for announced M&A transactions is expected to peak in 2010. Within the first nine months of 2010, there were 1,380 deals announced in the Latin American region amounting to US\$ 161.8 billion, a 122% increase compared to the US\$ 73 billion total value announced for the same period in 2009.

The spotlight in terms of deal volume is focused on Brazil, Mexico and Chile as shown in the chart below. But although these three countries together represent 80% of the total volume of deals announced in the first nine months of 2010, it should be taken into account that these figures are strongly influenced by a small number of very large transactions, in particular in Mexico. As for the mid market segment, in which **B.A.M&A-TRANSLINK** is specialized, this ranking does adequately reflect the reality. Colombia for instance is ahead of Mexico in terms of the number of mid-market transactions.

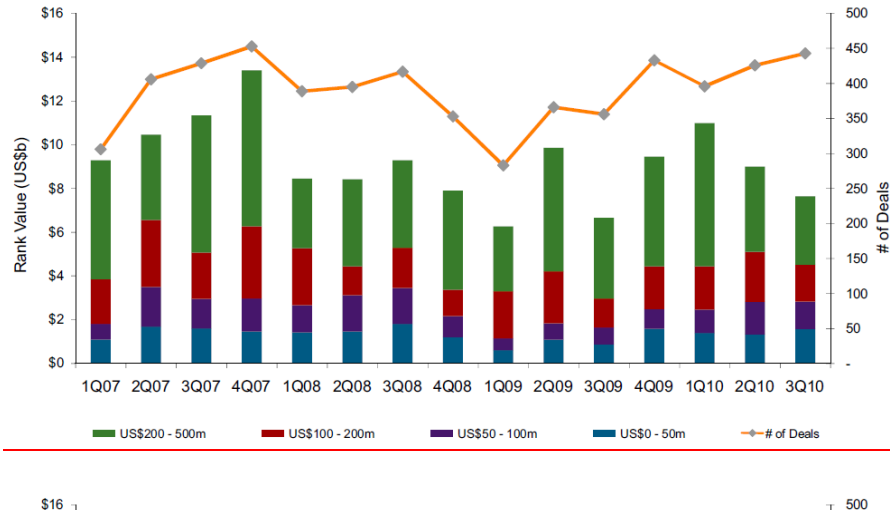
Latin American M&A Activity – Total Value of Announced Deals
(In US\$ billion – Jan/2010 to Sep/2010)



Latin America Mid-Market M&A

Closer inspection of the Mid-Market M&A Latin American activity shows a record number of announced transactions. Furthermore, the trend is back towards larger transactions size, similar to the levels seen in 2007, as shown on in the chart below.

Latin America Mid-Market M&A Activity

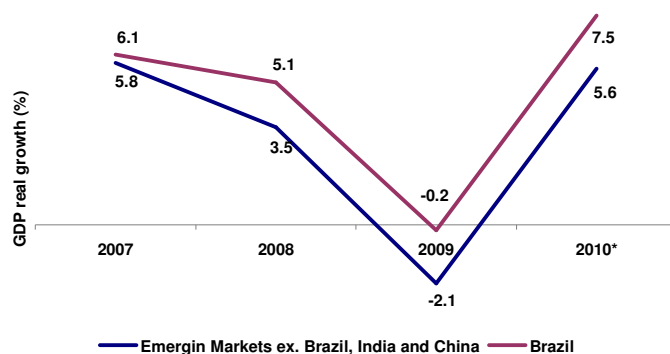


Brazil – The Brightest Star

According to a study by UNCTAD, Brazil ranks third in the preference of international future investments. This is clearly the BRIC country which is deemed most attractive today by strategic and financial investors.

The uncertainties due to both the Euro area and China seem to have had no major effect on the Brazilian economy, highlighting the country as one of the least affected by the crisis which started in the U.S. in the sub-prime segment. Political, economic and financial stability, the recent discovery of large reserves of oil at the “pre-salt” off shore areas, as well as the proximity of major events such as the World Cup in 2014 and the Olympics in 2016 all contribute to a very favorable and promising scenario for Brazil.

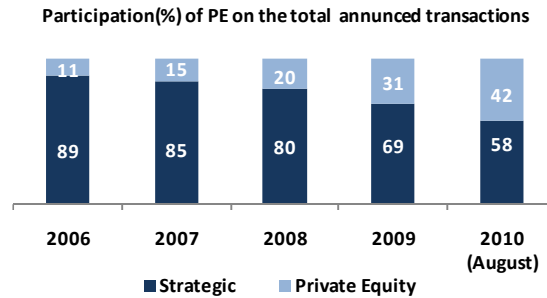
Brazil: Performance Before and After the Crisis Compared to Other Emerging Markets



The number of M&A transactions in Brazil has peaked in September 2010 (year to date), with US\$ 75 billion in announced deals, exceeding the US\$ 71.2 billion registered in the same period of 2008, according to Thomson Reuters research. In relation to the same first nine months of 2009, when US\$ 46 billion in M&A deals were announced, this translates into a 63% volume increase.

The “anticipation and tendency marking” private equity funds have been lately working in a frenzy mode at the M&A market in Brazil; their activity represents currently 40% of overall transactions, out of which roughly 2/3 were on the buy-side corresponding to acquisitions of new companies to their portfolio.

According to PricewaterhouseCoopers, these funds have invested mainly in small and mid-sized companies, which have less access to the capital market. Despite the good economic scenario, many believe the small and medium size companies are still undervalued due to the consequences of the world crisis. Private Equity funds and Strategic investors thus are focusing on this potentially profitable market segment.



Source: Pricewaterhousecoopers

Although Brazil had one of the best performances after the 2008 crisis, and has one of the most optimistic economic projections, the country is expected to be hampered by infrastructure bottlenecks. For the country to achieve its potential, a large investment in infrastructure will be required, including construction of roads, ports and power plants. This presents huge opportunities for investors.

Despite the increased participation of small and medium companies in the arena of local and cross-border M&A, certain management shortcomings have slowed down further expansion. Many medium sized Brazilian companies are inadequately managed in the field of corporate finance, in particular as it relates to reliable and up-to-date financial information, informalities, and double book-keeping, which require expert analysis by advisors to the M&A transaction.

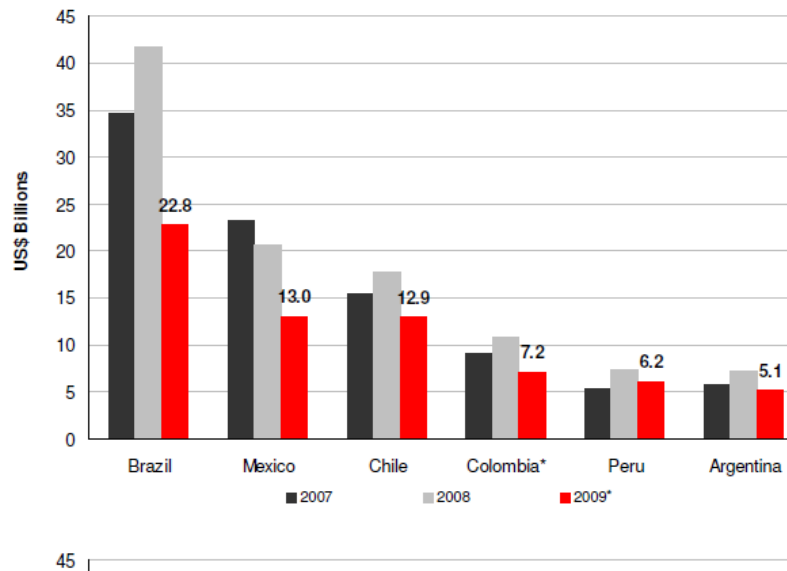
Colombia and Peru – New starlets in the Latin American Scene

Economic perspectives look favorable for Peru in the coming years, based primarily on the announcement of important investment projects, plus the high expectations for domestic consumption. We should add also the trust generated in the economic agents as a result of the responsible institutional management shown by the economic authorities during the last years, despite political changes. Peru was given the Investment Grade rate for its sovereign debt in April 2008, even before rating upgrading of Brazil. This makes it the third country in the region to get that coveted credit rating.

Colombia, with the third largest population in Latin America and the fifth biggest economy, is now an outstanding emerging country in the region, which experienced a sound change in its security standards in the last 3 years as consequence of a firm political decision successfully executed by Mr. Alvaro Uribe, its former President. Bogota is now among the safer cities around the region, where a stroll at midnight is no more stressful than at noon. As for its economy, during the past five years, the growth was a sustainable 4% per year. In 2009, in spite of the world crisis, Colombia's GDP still registered an increase of 0.4%, a positive growth during the global recession, as the result of several economic reforms and stabilization policies. The market expects that Colombia will obtain investment-grade rating in 2011 should its recently elected and posted President Mr. Juan Manuel Santos continues with Mr. Uribe's policies. This is evidenced by the fact that Colombia's sovereign bonds are rated just one level below investment grade.

As a result, both Colombia and Peru have been recognized as important targets for Foreign Direct Investment inflows. As shown in the chart below, between 2005 and 2009, Colombia and Peru were the fourth and the fifth largest recipient of Foreign Direct Investment in Latin America, respectively.

FDI in Latin America (2007 – 2009)



Business Case – A successful acquisition in Latin America by an European multinational

Following its global strategy of pursuing global leadership by increasing market share and dominating niche markets, the French veterinary laboratory *Virbac*, world’s 8th largest veterinarian pharmaceutical group with a turnover close to € 600 million in 2010, concluded in January 2010 the acquisition of a progressive stake in the vaccine specialist *Laboratorios Santa Elena* in Uruguay, adding an important portfolio of products and clients for its Latin American operations. *B.A.M&A Translink* acted locally as financial adviser to Virbac. “We are very pleased with *B.A.M&A Translink’s* contribution which with no doubt was very helpful for better communication and installation of a climate of trust with the sellers and their advisors” expressed Mr. Christian Karst, *Virbac’s* Executive Vice-President for Corporate Development. Regarding the relationship with *B.A.M&A Translink* Mr. Karst stated: ‘Our common success in Uruguay has certainly helped us to learn each other and to build a reciprocal respect’.

Conclusion

The M&A market has reached record numbers in the recent years. Most of the increase is explained by the strong participation of Private Equity in the acquisitions, mainly of small and medium size companies.

Ironically, the recent global crisis gave the region the opportunity to recover earlier than most developed countries, which undoubtedly shows that several countries in Latin America not only

enjoy now an economic and financial stability, but are also a major hub of current foreign investment attraction, as well as a top of mind reference for business opportunities.

B.A.M&A-TRANSLINK is TRANSLINK's exclusive partner/member for Latin America. Established in 1997, B.A.M&A TRANSLINK as a boutique investment bank and M&A advisor attends mostly European and US clients out of its offices in São Paulo (Brazil), Buenos Aires (Argentina), Mexico City (Mexico), Bogota (Colombia), Montevideo (Uruguay), Lima (Peru) and Miami (USA), and from there the whole Latin American region.