May 2012

The Global Corporate Advisor

The Corporate Finance newsletter of Crowe Horwath International

Welcome to the May edition of the Global Corporate Advisor (GCA) newsletter

In this month's issue, we put the spotlight on South America. We've included a series of articles that look at the current state of the M&A markets in the region's top five countries for transactions: Argentina, Brazil, Chile, Colombia and Peru.

In recent years, Latin America has become an interesting investment destination. Globally, a large percentage of M&A activity is occurring in emerging economies and this trend looks set to continue. With growth slow in Europe, investors in Asia, Europe and North America are increasingly looking for opportunities in Latin America, where there is considerable potential for growth.

Our team members from South America have summarized some recent significant M&A deals, including transactions in which Crowe Horwath has been involved.

Please don't hesitate to contact me or the team to discuss anything in this issue, or if you have any needs relating to M&A transaction support, valuations, M&A advisory and related services.

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Inside This Issue:

Mergers and Acquisitions Steady in Latin America

Over the past eight years, Latin America's steady economic growth has turned the region into an investment destination. However, according to M&A intelligence service provider S&P Capital IQ, after a strong 2011, M&A transactions decreased by 14.8% from Q1 2011 to Q1 2012.

According the S&P Capital IQ, Brazil maintained its role as the region's forerunner in Q1 2012, representing greater than 85% of total, disclosed deal value in Latin America. Mexico and Colombia saw 45 deals (24 had a disclosed value of US$2.9 billion) which represented 6.3% of total, disclosed deal value. In addition, Argentina, Chile and Peru had deals of 16, 23, and 15, respectively, representing a combined 1.9% of total, disclosed deal value.

Brazil-based Itau Unibanco Holding SA's announced acquisition of a 49.99% stake in Brazil-based Redecard SA was the region's largest deal of the quarter, with a value of US$6.9 billion.

Foreign investors driving M&A activity

We are in the midst of a global phenomenon in which emerging economies are capturing a large percentage of global M&A activity and we expect this trend to continue. According to some prognosticators, by mid-century nearly half of the world's total production is expected to be provided by today's emerging markets, and deal-making activity is likely to follow.

Many of the investments in Latin America come from outside the region. The financial crisis in Europe has led investors in Asia, Europe and North America to increasingly look for opportunities in Latin America, where there is greater potential for growth.

Many financial institutions, particularly European ones, are selling their assets in the region to raise capital. American institutions wanting to realize their growth ambitions have been actively looking for investment opportunities.

Traditional European and American investors are now being joined by Asian players such as China, India, Japan and South Korea. Asian companies made 12 acquisitions in Latin America in the last quarter of 2011. In contrast, only one Latin American company made an acquisition in Asia, when Laboratorios Recalcine (Chile) acquired a 41.9% stake in Domesco (Vietnam).

Domestic players and private equity step up

An increasingly higher percentage of M&A transactions in the region are being driven by Latin American buyers. Argentina, Chile, Colombia and Peru all saw increased levels of domestic investment.

Private equity is also increasingly funding M&A activity in Latin America. The Brazilian Government offers tax-free benefits for foreign investors (subject to compliance). Colombia's amendments to private equity regulations have boosted the incorporation of local funds and encouraged foreign funds to open local offices.

Argentinian M&A Activity Slows

By Norberto Rosemberg, Argentina

Formerly the second largest destination for mergers and acquisitions in Latin America, Argentina has now fallen behind Brazil, Chile and Colombia. From 2010 to 2011, there was a significant drop in M&A transactions in the country. The composition, source of investments and destination of funds have also changed.

Between January and October 2011, M&A transactions totaled around US$10.4 billion, nearly half the total value of transactions in the same period in 2010.

During the second half of 2011, the Argentinian M&A market showed a small decrease in the number of transactions. Around 89% of transactions were completed privately.

Figure 1 shows 45% of transactions with a known value were between US$100 million to US$500 million, and 33% were around US$10 million to US$20 million. In both cases, the value of transactions increased compared to the same period in the previous year. Last year, there were no transactions between US$20 million to US$100 million or over US$500 million.

In 2010, Argentinian funds represented only 7% of total value of M&A transactions, but in 2011 local investors provided 50% of total M&A funds. China's contribution to M&A transactions dropped from 27% in 2010 to 7% in 2011.

During the second half of 2011, Argentinian investors accounted for 32% of M&A transactions in the country, followed by the United States (21%) and Brazil (16%). Colombia, Holland, Mexico, Switzerland, the United Kingdom and Venezuela were each responsible for 5% of M&A activity.

The industrial, food and drink, and energy sectors each attracted a 16% share of the total number of all M&A transactions completed in Argentina in the second half of 2011.

Figure 1: M&A transactions in Argentina, second semester 2011 (by size)

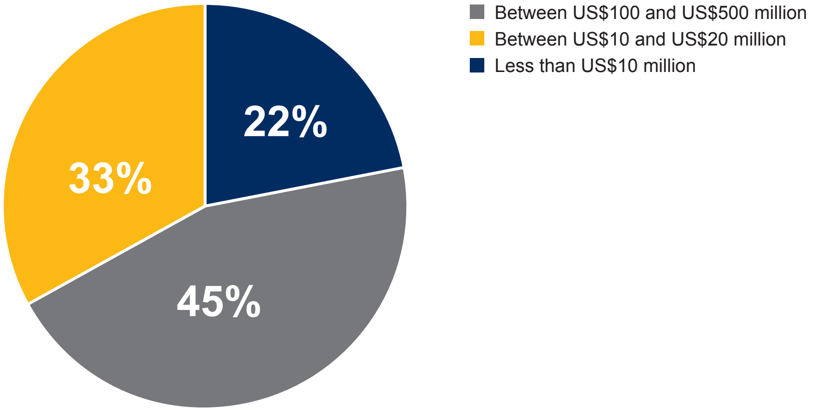


Figure 2: M&A transactions in Argentina, second semester 2011 (by country)

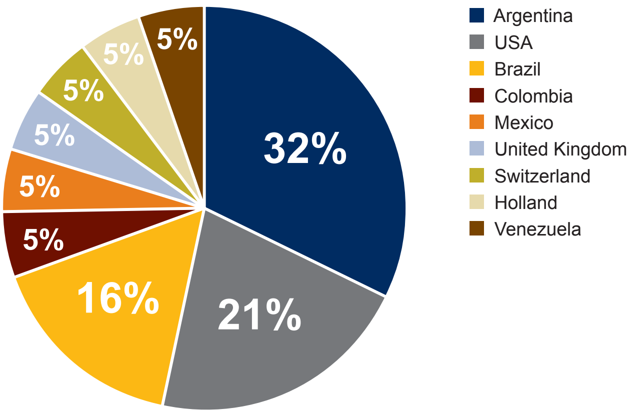
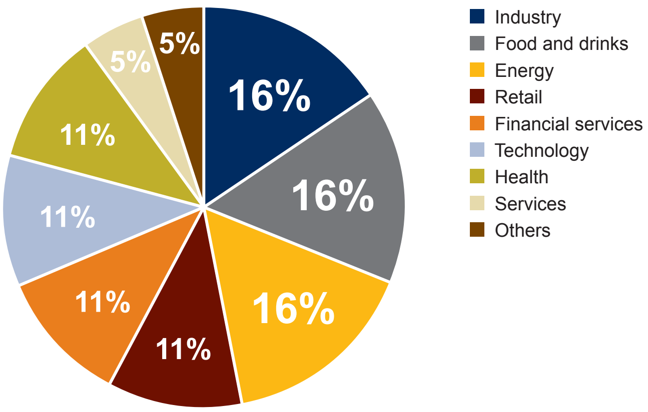


Figure 3: M&A transactions in Argentina, second semester 2011 (by sector)



Major transactions in Argentina for the second semester of 2011

The largest M&A transaction in the second semester of 2011 was the purchase of Interbaires S.A. by the Swiss group Dufry for US$285 million. The second largest transaction was Midea Electrics Netherlands B.V.'s US$223 million payment for a 51% share of Carrier Latin America Holding Company. In third place was the US$150 million paid by BRF Brasil Foods S.A. for a 69% stake in Avex S.A.

Another significant transaction was completed by prominent Argentine businessman Marcelo Mindlin, who retained control of Edelap, the company responsible for electricity distribution in the Buenos Aires areas of La Plata, Berisso, Ensenada, Brandesburton, Magdalena and Punta India.

2012 M&A transactions to date

Important transactions in the first three months of 2012 included the following:

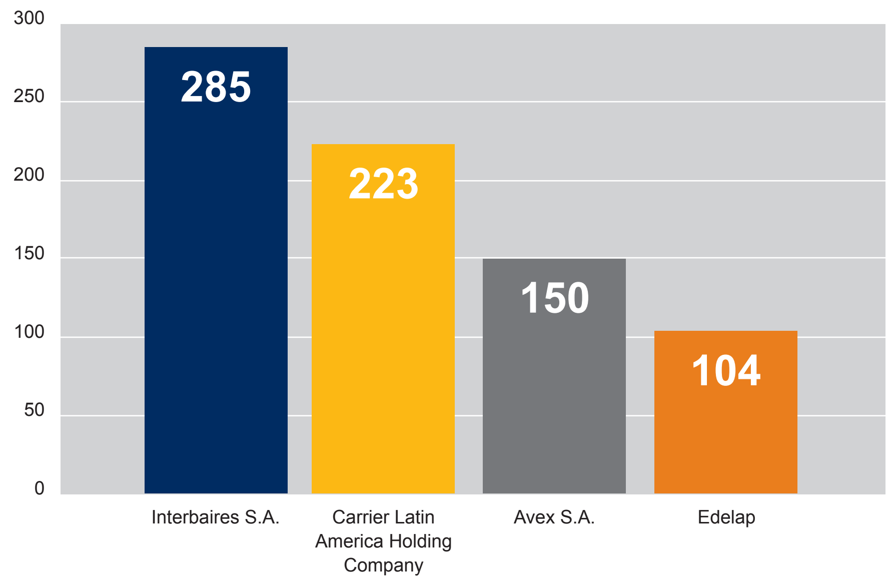
- Swiss Medical Group (SMG) S.A. acquired Buenos Aires insurance company Liberty ART S.A., making SMG the ninth largest insurance group in the Argentinian market.
- 3M acquired a division of Avery Dennison for US$550 million.
- Molinos Río de la Plata, a company of the Perez Companc family, bought 49.83% of Chilean company Compañía Alimenticia Los Andes for around US$8.8 million.
- Japanese technology company NEC Corporation acquired an 85% stake in Global View for US$30 million, to install security cameras in Argentinian cities; the remaining 15% of the company is owned by entrepreneur Mario Montoto and his Israeli partners.
- IRSA Inversions and Representations increased its investment in Supertel Hospitality, an American company that owns 100 hotels in 23 US states, to $30 million.

Crowe Horwath Argentina's M&A activities

Crowe Horwath Argentina has facilitated a number of M&A transactions over the last three years. The table below lists the major transactions. Highlights include:

- Two-third involved services firms or related companies.
- 60% of transactions involved local companies (external buyers or redistribution among shareholders).
- One-third of all transactions were fulfilled and in half of these cases, Crowe Horwath received a success fee.

Figure 4: Four largest M&A transactions in Argentina, second semester 2011 (US$ millions)



Date	Industry	Firm	Called buyer	Performance
08/01/2009	Retail	Hendel Hogar	Split shareholders	–
16/02/2009	Transportation	El Maipuense S.A.	Shareholders	–
23/04/2009	Factory – retail	Sachi S.A. (Grupo Montecarlo)	Local player	Not successful
01/09/2009	Plastic	Policentro San Luis S.A.	Forensic	–
19/08/2010	Fire detection services	Fuego Red S.A. (Security Firm)	Securitas Seguridad Holding S.L	Successfully completed on 18/11/2011
07/04/2010 21/11/2011	Chemical	Sililabel S.A.	Klöckner Pentaplast	Not successful
24/09/2010	Electrical wires	Nexans Indelqui S.A.	Headquarters Nexans	–
25/11/2010 06/12/2010	Hotel	Regente Palace Hotel (Grupo Ferrucci)	Meliá Hotels	Not successful
26/01/2011	Manufacturer of pasta/ retail	Siempre Sur S.A.	Local player	Successful
01/04/2011	Insurance	Alico Company (Life Insurance)	Met Life	Alico was absorbed by Met Life
31/10/2011	Special substances transportation		Marken Limited & LTD	In progress
31/10/2011	Medical services		Split shareholders	In progress
16/12/2011	Real estate services		Shareholders	In progress
16/12/2011	Chemical	Fabriquímica S.R.L.	Dow Chemical	Not successful
06/02/2012 29/02/2012	Education		Confidential	In progress

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M&A Booming in Brazil

By José Bendoraytes Filho, Brazil

Boosted by strong exports and a soaring domestic market, Brazil's economy has grown in leaps and bounds, providing a good environment for various industry consolidations.

The M&A transactions registered and published were performed by publicly held companies, large corporations and the major private equity funds, but there was plenty of undisclosed activity at the middle-market level, involving mostly private companies and smaller private equity funds.

2011 M&A activity levels

According to the ABVCAP 2012 conference presentation, the number of M&A transactions in Brazil reached 817 in 2011, breaking the 2010 record of 726 transactions. The sector with the largest number of transactions was information technology (IT), which attracted 90 deals, an increase of 5.9% on 2010.

In 2011, there were 410 deals involving exclusively Brazilian companies, surpassing the previous record of 379 deals established in 2008. The 2011 figure was 23% higher than 2010, when 333 transactions were completed.

Despite financial strains, foreign investors continued to do business in Brazil during 2011. The volume of transactions between foreign and domestic companies rose 19% to 208 deals. Transactions between foreign companies involving a Brazilian operation remained steady at 108 deals, on par with 2010.

The volume of transactions for the top five sectors involved in M&A deals in 2010 and 2011 is shown in Figure 1.

Figure 1: Top five M&A sectors in 2010 and 2011

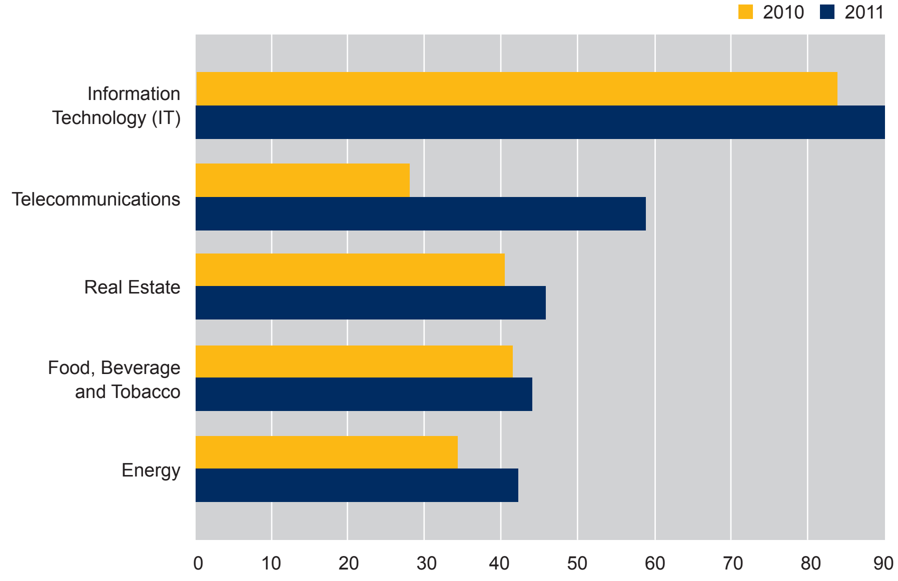
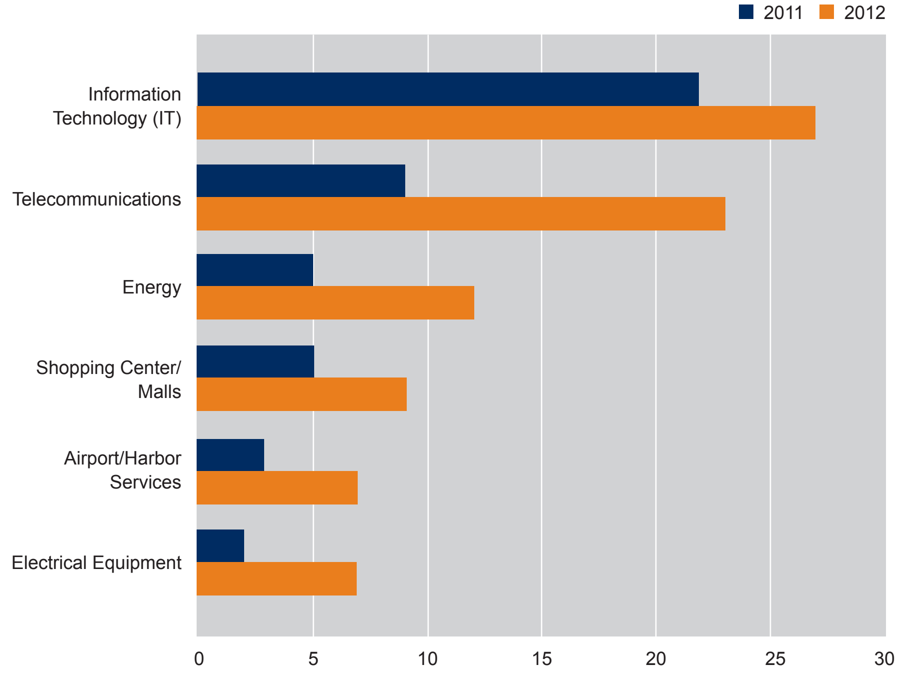


Figure 2: Top six M&A sectors in Q1 2011 and Q1 2012



First quarter activity and expectations for 2012

M&A activity in Brazil started strongly in 2012, when 204 deals were performed in the first quarter (Q1), the best result in the history of M&A activities in Brazil.

The volume of Q1 2012 transactions grew 22% in comparison with Q1 2011 when 167 deals were closed.

Foreign investors, mainly represented by private equity funds and corporations, were responsible for 99 M&A transactions in Q1 2012. Transactions between domestic companies were at the same level as 2011, accounting for 82 deals.

According to a market research M&A activity in 2012 is expected to grow and reach record levels, if the increasing transaction volumes seen in the first quarter of 2012 can be sustained.

The volume of transactions for the top six sectors involved in M&A deals in Q1 2011 and Q1 2012 are shown in Figure 2.

Who are the buyers?

Sixty-five percent of M&A deals were undertaken by strategic buyers (companies). Of these, domestic investors accounted for 55% of transactions and foreign investors for 45%.

Private equity funds were involved in 17% of M&A transactions. Of these, 86% were foreign funds and 14% were domestic funds.

Nearly a third of foreign investors were from the United States, followed by France, Germany and the United Kingdom.

The Brazilian capital market has been considered one of the most attractive by global investors, due in part to the country's sophisticated regulatory system and stability, and its resilience throughout the recent global financial crisis.

Brazil offers several benefits for foreign investors, including:

- a growing market – although the world economy has been retracting, the Brazilian economy continues to expand;
- transparent transactions – funds and investee companies must adopt a basic governance structure and be audited; and
- tax-effective investment – investors do not have to pay income tax (when in compliance with legal requirements).

Various industry sectors are still under development and continue to expand. The middle market, represented by medium-sized companies, has significant potential to grow. Public and private companies in this segment have attracted private equity funds from foreign investors.

FIP funds

In Brazil, investment funds must be registered with the CVM (the Brazilian Securities and Exchange Commission), and be overseen and managed by registered investment advisors.

Fundo de Investimento em Participação (FIP) funds are the most used form of private equity in Brazil. To benefit from tax advantages, foreign investors must comply with the following requirements:

- They must be registered as a capital market investor, called 'Investor 2.689', as defined by Resolução CMN 2.689.
- They must not have an address in a tax-free area.
- They must not hold more than 40% of the total investment, or receive more than 40% of its returns. The remaining 60% of the investment can be held by other foreign or domestic investors.

The FIP fund cannot comprise more than 5% in bonds or debt securities, except for convertible debentures, subscription bonuses and government bonds.

However, even if foreign investors possess more than 40% of shares in a company, there are still some advantages:

- The FIP fund portfolio is free of taxation.
- The FIP fund is not required to distribute profits, so it can be treated as a 'holding company'. The amount earned from the sale of the portfolio is free from tax, as long as the money is kept in the fund for new transactions. A normal sales transaction would be subject to 15% withholding tax.
- The FIP quota can be listed at BM&FBovespa (Brazilian Stock Exchange).

When listed shares are sold, investors registered as 'Investor 2.689' are not subject to income tax.

When dividends are distributed from the investee to the FIP fund, the amount transferred from the FIP fund to its quota holders are not subject to tax. In the case of own capital interest (ISE), the fund and 'Investor 2.689' are free from taxation, but other investors in the FIP fund quotas will be subject to 15% withholding income tax.

FIP facts:

- The FIP is ruled by Instrução CVM 391 and its amendments.
- It is a closed-end investment fund that is suitable only for qualified investors, and has a minimum subscription of R$100,000.
- The portfolio can be made up of stocks, debentures, subscription bonds or other securities that can be converted into or exchanged for shares in publicly held or private companies.
- Investors participate in decision-making processes for private companies, and for public companies if the fund acquires controlling interest. A Board of Directors must be established and the company must be audited annually, among other requirements.
- The fund's investment policy and other rules must be clearly detailed in the fund's prospectus and bylaws.

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Chile: The Hot Destination for M&A

By Roberto Pérez

Chile is making a name for itself as the economic star of Latin America. According to the World Bank, the country is one of South America's most stable and prosperous nations, with a low-risk business environment and strong domestic demand.

A report prepared by the World Economic Forum said Chile has strong institutional pillars, a robust business environment and stable banking systems, good access to commercial loans and a low risk of sovereign debt crisis. It also benefits from development in areas such as tax and contract fulfillment. In 2010, Chile became the first South American country to join the Organisation for Economic Co-operation and Development (OECD).

Chile's GDP grew 5.2% in 2010 and 6% in 2011, and is expected to continue expanding. The high price of copper, one of Chile's most important exports, is a major factor in the country's positive outlook, with prices expected to continue rising in 2012. Top industries include mining, foodstuffs and light manufacturing.

The financial services, telecommunications and retail sectors have expanded in recent years, joining the mining industry as important contributors to the country's economy. The diversification of the Chilean economy creates many opportunities for mergers and acquisitions.

M&A transactions in 2011

According to Mergermarket, M&A activity in Chile reached historic heights in the last quarter of 2011, with 17 deals worth US$6.1 billion. The full year 2011 was a record-breaking year for Chile, which saw 52 deals worth an aggregate US$14.1 billion.

Following is a list of the most significant M&A deals in Chile in 2011.

- Public service: Interconexion Electrica SA ESP (ISA) acquired 40% of Intervial Chile SA for US$215.4 million, and now owns 100% of capital in the company.
- Public service: the Chilean Government raised US$984.4 million by selling a 29.98% stake in Aguas SA, a drinking water company held by CORFO.
- Mining: Mitsubishi Corporation acquired 24.5% of Chilean mining company Anglo American Sur SA from British company Anglo American for US$5.4 billion.
- Information technology: Chile's Sonda S.A. acquired 89.43% of Quintec S.A. through an IPO for US$60.8 million.
- Metallurgy: Chilean industrial group Sigdo Koppers SA acquired Belgian firm Magotteaux Group for US$790 million.
- Electrolux will acquire 100% ownership of white goods manufacturer Compania Tecno Industrial SA (CTI), of which 64.4% belongs to Sigdo Koppers and related companies, for US$626.9 million. With this purchase, Electrolux became the largest manufacturer of appliances in Chile and Argentina.
- Entertainment and recreation: Latin Gaming SA Panamanian acquired 100% ownership of Pacific Casino SA in the city of Valparaiso for US$10.5 million, which previously belonged to Argentine company Impresora Internacional de Valores S.A. (Ivisa).
- Pet food: Chile's leading food company Empresas Carozzi SA entered the pet-food market through its acquisition of market leader Nutripo SA for US$82.4 million.
- Fishing: the salmon company Australis Seafoods SA – owned by Isidoro Quiroga – raised US$71.3 million through an IPO on the Stock Exchange of Santiago de Chile. The float represented 12.77% of the company's capital.
- Fishing: AquaChile Business SA, the leading salmon farm in the country, raised US$374.6 million through an IPO on the Santiago Stock Exchange. The float represented 32.25% of the company's capital. This was the largest issue of the past five years and one of the most important in Chile's history.
- Fishing: Pesquera Itata SA, owned by the Sarquis family, and Pesquera El Golfo SA, controlled by Yaconi groups and Santa Cruz, combined their operations.
- Pharmaceuticals: CFR Pharmaceuticals issued 2,032 million shares at $0.18 per share, raising US$369.9 million.
- Fuel: Quiñenco SA, which holds the investments of the Luksic family, acquired Royal Dutch Shell Plc's local fuel distribution business, including Shell Chile SA, Inversiones Shell SA and Shell Trading Chile SA, for US$523 million.
- Mining: Chilean mining company Sociedad Punta del Cobre SA (Pucobre) acquired an 82.4% stake in Canadian Explorator Resources Inc. for US$56.1 million. It now owns 100% of Explorator SCM, whose main asset is a copper mine in El Espino in the Coquimbo region of Chile.
- Maritime: Luksic, Chile's industrial and services conglomerate, purchased 10% of maritime services company Compañía Sudamericana de Valores (CSAV) for US$120.2 million.

- Beverage: Coca-Cola sold a 45.492% stake in Coca-Cola Embonor SA to the Vicuña family-owned Revenue Libra Holding and three investment funds managed by the brokerage Larrain Vial SA for US$383.6 million.
- Beverage: Vina Concha y Toro SA acquired 40% of Southern Brewing Company SA.
- Mining: Mining company Codelco completed a public auction of 40% of its shareholding in the utility E-CL (formerly Edelnor) for US$1.04 billion.

Outlook for 2012

In the first quarter of 2012, Chile saw 14 deals worth US$0.9 billion. Activity declined 12% compared to Q1 2011 and 85% compared to Q4 2011 to its lowest level since Q3 2010.

One sector that has seen strong interest from investors is mining, specifically the junior mining companies. There is also much interest in the salmon industry, because the market is expected to consolidate to just five to eight companies.

A number of major M&A transactions took place in early 2012. These were:

- the separation of Saam from Compañía Sudamericana de Vapores in February;
- a merger between Andina and Polar in January; and
- the acquisition of Celfin by Brazilian bank BTG in February.

The latter transaction is an example of an international company looking to Chile as a platform for investment in the region. In addition, Chilean companies are investing overseas: Cencosud and Sonda are making acquisitions in Brazil, and Andrómaco Laboratories, Socofar and Corpbanca in Colombia.

It is likely that mergers and acquisitions will continue to grow in South America, due to the ongoing economic uncertainty in Europe and the United States.

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Colombia Steps Up M&A Activity

By Roberto Pérez

The M&A market in Colombia has improved significantly in the past couple of years. Good investment opportunities, a wealth of natural resources, and solid business and economic policies have enabled Colombia to emerge as a leading destination for deals.

The country is attracting investors seeking to inject capital outside unsettled markets such as the United States or Europe. Throughout 2011 we saw significant M&A deals and several strategic acquisitions by regional investors, mainly from Brazil and Chile.

The M&A market in Colombia is expected to be highly active in 2012. In recent years, despite the global financial crisis, the country's economic activity has shown sustained growth. This has contributed to increased M&A activity over the past year and we expect this trend to continue in 2012.

M&A activity in 2011

In 2011, M&A activity was concentrated in the financial services, energy and mining industries. There were two significant transactions, including Colpatria Bank repurchasing 49% of its stock from GE Capital in June 2011. A 51% stake in the bank was subsequently sold to Scotiabank for US$1 billion in October 2011. The second transaction involved Japanese trading company Itochu International Corporation purchasing a 20% stake in mining company Drummond for US$1.5 billion.

In the second half of 2011, 15 M&A transactions totaling approximately US$2.3 billion were completed in Colombia. The country is ranked sixth in Latin America in terms of the number of transactions, but is fourth in terms of the amount traded. Approximately two-thirds of transactions were in the US$10 million to US$100 million range.

Local businesses were responsible for the majority of transactions (33%). The second largest group of investors was from the United States (20%). Chile, Mexico and the United Kingdom each accounted for 13% of transactions, and Japan for 7%. The Japanese Itochu transaction represented 65% of the total value of transactions in the second half of 2011.

Other significant transactions during the period included Experian Plc. (UK) acquiring Computec Inc. (Services) for US$410.41 million; and Empresas Copec SA purchasing a 14% share of Sociedad de Inversiones SA Energy for US$181 million.

The sector with the highest value transaction was mining, due to the Itochu deal. However, it was the only transaction in the mining sector for the second half of 2011. There were numerous, smaller transactions in the agriculture, energy, health, industrial and real estate sectors.

2012 outlook

During the first quarter of 2012, the total value of transactions in Colombia was US$1.56 billion, placing it third in the region behind Brazil and Chile.

The current growth of the market suggests we will see all kinds of deals in 2012. However, the economic situation calls for strategic investments (whether minority investments, majority interest acquisitions or total acquisitions), as well as joint ventures, as companies must prepare for growth under the United States–Colombia Trade Promotion Agreement, which recently came into effect.

This year, the energy and mining sector is expected to be highly active. The Santos administration's National Development Plan has established energy and mining as one of the five 'locomotives' of Colombian economic growth and aims to attract more national and international investment to this sector. We also expect the financial services sector to continue its growth trend, and we anticipate the infrastructure, tourism and pharmaceutical industries to take off in 2012.

In 2011, the most common M&A deal involved a foreign investor merging with or acquiring a domestic company. However, due to the outstanding recovery of the Colombian economy over the past couple of years, pure domestic deals have increased and are now the second most common type of transaction. We saw domestic acquirers investing in offshore markets, mainly in Central and South America.

For 2012, we expect to see different types of deals, although the most common will continue to involve a domestic target and a foreign acquirer. We believe domestic deals will increase as local companies are showing more optimism in the internal market.

We also recommend keeping a close eye on intraregional deals. Transactions involving a Colombian target and a foreign acquirer from Latin America, or a Colombian acquirer and foreign target in Latin America will rapidly increase.

This trend was reflected in several deals in 2011, including:

- the acquisition of Banco Santander in Colombia by the Chilean group CorpBanca;
- the acquisition of 51% of Colombian stockbroker Correval by Peru's Banco de Crédito;
- the purchase of a majority stake in Colombia's PracoDidacol by the Chilean company Indumotora;
- the acquisition of HSBC's operations in Costa Rica, El Salvador and Honduras by the Colombian bank Davivienda;

- the acquisition of ING's assets in Colombia, Mexico, Chile, Peru and Uruguay for US$3.7 billion by Colombia's Grupo Sura; and
- the acquisition of Brazilian firm Finabank for US$12 million by Colombian stockbroking firm Interbolsa.

Private equity activity

Private equity has continued to increase in Colombia in recent years, thanks to the government's commitment to encourage private equity and the country's wide range of investment opportunities. Private equity regulation, which has been developing since 2007, has boosted the incorporation of local funds and the opening of local offices by foreign funds. Regional equity funds are also becoming increasingly important in the M&A market.

Some of 2011's biggest deals involved foreign private equity funds, such as Ashmore Energy International (AEI) selling its 52% stake in Colombia's biggest gas transportation company Promigas to Corficolombiana, Empresa de Energía de Bogotá and a private equity fund for US$790 million. Another was the acquisition of Aseo Urbano SA, one of Colombia's leading waste management companies, by ACON Latin America Opportunities Fund.

Local and foreign private equity funds are investing mainly in infrastructure, services, energy and mining, and natural resources.

Acquisition financing available for deals

Acquisition financing continues to be available for all types of deals and acquirers. In particular, Law No. 1328 enacted in 2009 eliminated legal restrictions for local financing of M&A transactions. This law modified the Financial System Statute and allowed banks to grant loans to buy shares of any company. Previously, local banks were prohibited from granting loans for the acquisition of shares.

Despite this change in regulation, financing for deals is not yet common. Leveraged buyouts (LBOs) are rare in deals involving domestic players. In 2011, there were only two deals involving LBOs. One was the aforementioned Colpatria Bank repurchase of 49% of its stock from GE Capital in June 2011 and the subsequent sale of 51% of its equity to Scotiabank, with a syndicated loan arranged by UBS.

The second transaction involved Grupo Sura's acquisition of ING's assets in Latin America. This could be considered an LBO since Grupo Sura financed the acquisition by issuing bonds in international markets and listing shares in local markets through the Mercado Integrado Latinoamericano. UBS (Grupos Sura's financial advisor in the deal) also took a considerable stake. In addition, Grupo Sura received contributions from four co-investors – General Atlantic, Grupo Bolívar, IFC and Bancolombia.

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Peru's Resilient M&A Marketplace

By Roberto Pérez

Over the past three years, Peru's M&A market has remained solid with local targets in strong demand from domestic and international buyers. This has been the case despite a number of challenges, including the global economic crisis and its effect on Peru's economy, 2011 elections and dip in domestic growth. Investors have looked through these short-term uncertainties and moved in with confidence to take advantage of robust domestic demand and improving economic factors.

During the second half of 2011, 18 M&A transactions took place in Peru – the fourth highest number of transactions in Latin America after Brazil, Mexico and Argentina. The majority of transactions occurred in the services, agriculture and industrial sectors.

However, the total value of these transactions totaled only US$146 million, as the average price of deals was much lower than in other countries. More than three-quarters of the transactions had a value below US$10 million.

Almost 40% of Peru's M&A deals were domestic transactions undertaken by local investors. Chilean companies accounted for 22% of the transactions, while buyers from France and China each made up 11% of the total M&A activity. Businesses from Colombia, Japan and Spain each made up 6% of the number of M&A transactions.

Emerging M&A trends

From our work in the field, we've identified two trends that are increasingly driving activity in Peru's M&A marketplace: diversification and the rise of local buyers.

Diversification

Over the last two years, M&A activity in Peru has expanded across a wide range of industries. While mining and fishing remain a key focus for M&A transactions, other sectors have increased in prominence. For instance, retail, real estate and health services have experienced a wave of M&A activity as part of broader moves by companies to consolidate their operations and increase market share.

Local buyers

Peru's 2011 election stirred up some uncertainty among foreign investors. Mutual funds and sources of international capital have decided to remain on the sidelines until Peru's internal political situation becomes clearer. Local companies, however, have quickly stepped into the breach. Accustomed to political swings, domestic operators are actively hunting out deals to take advantage of current opportunities.

Major transactions in Peru for 2011

The largest M&A transaction during 2011 was Canadian miner HudBay Minerals's US$525 million acquisition of fellow North American company Noresmont mining, which gave HudBay access to the Constancia copper mine in Peru.

The second largest transaction was Dia Bras Exploration's US$285.5 million purchase of an 82% stake in Sociedad Minera Corona SA. The stake was acquired from the Granger Gubbins family.

In third place, Brazil's Votorantim Group paid US$54.2 million for a 19.51% stake in Compania Minera Atacocha SAA.

In another significant transaction, Spanish company Endesa SA, through its subsidiary Generalima SA, paid US$39.1 million to acquire 36.5% of energy company Empresa Electrica de Piura Peru SA.

In addition, Banco Financiero del Peru, which is owned by Grupo Financiero Pichincha in Ecuador, acquired the entire share capital of Amerika Financiera – an institution that specializes in providing leasing and factoring in Peru – for US$36.8 million.

2012 M&A transactions to date

The strength of Peru's M&A market has continued in 2012. Among the major transactions in the first quarter of this year, Cementos Pacasmayo SA raised US$230 million with a share offer on the New York Stock Exchange (NYSE) of 20 million American depositary shares, equivalent to 100 million common shares, at a price of US$2.30. The move resulted in the company increasing capital by 17.5% and boosted total market capitalization to over US$1.3 billion. The IPO transaction resulted in the Hochschild Group reducing its controlling interest of the cement company from 64% to 53%.

On the Lima Stock Exchange, Peruvian infrastructure company Andina Investment Holding Ltd raised US$42.7 million through a fresh issue of shares. And Peru Credicorp Ltd, through its subsidiary Grupo Crédito, acquired a 49.9% stake in Willis Corredores de Seguros SA of Peru.

For more information:

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