



Latin American M&A Activity

Deal Activity Plummets in the First Three Quarters of 2023

EXECUTIVE SUMMARY

Transaction volume declined by 49.5% in the year-to-date period ended September 2023 (“YTD-23”) compared to the same prior-year period (“YTD-22”).¹ The driving forces behind the slowdown in M&A activity include macroeconomic trends that are affecting growth, investment and trade in both the United States and Latin America (“LATAM”).² Listed below are some of the overarching factors impacting transactions across the LATAM region:

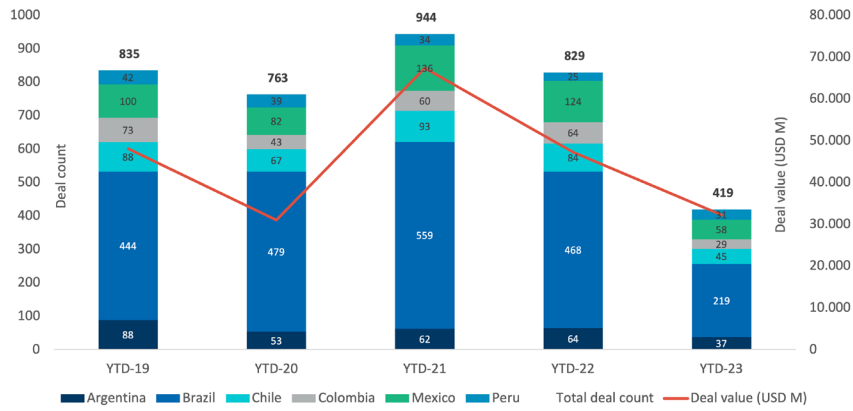
- **Inflation, monetary policy and recessionary concerns** — Tighter monetary policies to combat inflation in both the United States and Latin America, combined with recessionary concerns across much of the globe, have put pressure on liquidity sources and deal funding in the region.³ Many central banks worldwide, including in Mexico, Brazil and the United States, have been increasing interest rates since 1Q22.⁴
- **Lower commodity prices** — Many Latin American economies rely heavily on exports of commodities, such as coffee from Colombia and Brazil, oil from Mexico and Colombia, and soybeans from Brazil and Argentina.⁵ Commodity prices have decreased from their peaks in 2Q22.⁶
- **Geopolitical tensions** — The ongoing war in Ukraine and tensions between Beijing and Washington have created a polarizing environment and some Latin American countries, including Brazil and Argentina, are under increasing pressure to carefully balance economic allegiances between Russia, China and the United States, as Russia and China may be looking to weaken U.S. partnerships in the Americas.⁷ Tensions with China are a main cause of “near-shoring,” the transferring of business operations to a nearby country or region, specifically from Asia to Mexico.⁸ This could translate into growing M&A activity in the coming periods as companies increasingly seek to acquire established operations in nearby regions.
- **Decreased private investment activity** — The high interest rate environment throughout the Americas has reduced the attractiveness of leveraged private equity investments. The region has also been affected by a reduction in

venture capital activity as investors focus more on managing cash flows. This is a significant shift from the recent past, when venture capital activity flourished across the region.⁹ Private investment deal count fell 77%, from 149 in YTD-22 to 34 in YTD-23.¹⁰

- **Currency fluctuations** — All else being equal, an appreciating currency increases returns for foreign investors, and a depreciating currency decreases returns. Favorable foreign exchange (F/X) dynamics in Mexico and Brazil translated into currency appreciation against the USD of 11.8% and 5.2%, respectively, in YTD-23, whereas inflation in Argentina resulted in currency depreciation of 49.3% relative to the USD in the same period.¹¹ While there are many factors that drive foreign investment attractiveness, foreign exchange fluctuations have been relatively favorable to the two largest economies in the LATAM region.

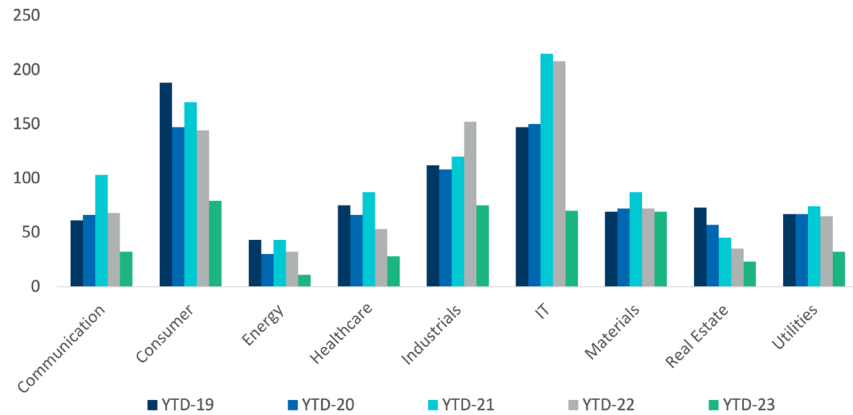
Total M&A activity decreased from 829 deals in YTD-22 to 419 deals in YTD-23, mainly led by Brazil, which saw 468 deals last period (YTD-22) but just 219 deals this period (YTD-23).

Figure 1.1 - Total deals by country



Source: S&P Capital IQ, FTI Consulting analysis

Figure 1.2 - Total deals by industry



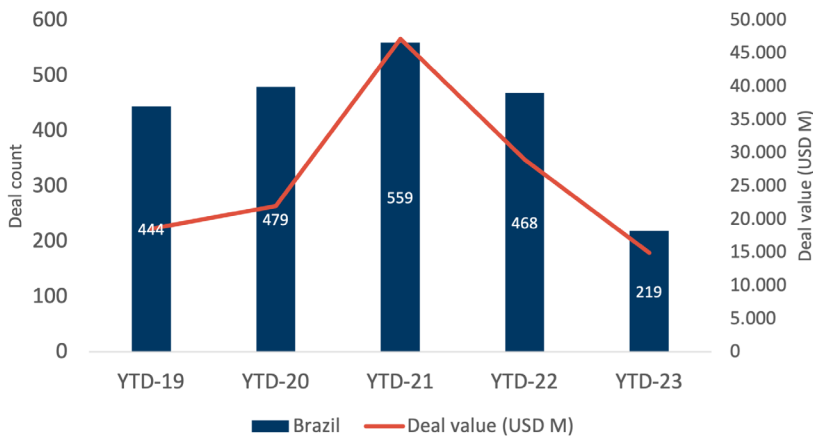
Source: S&P Capital IQ, FTI Consulting analysis

Transaction Activity by Country

Brazil

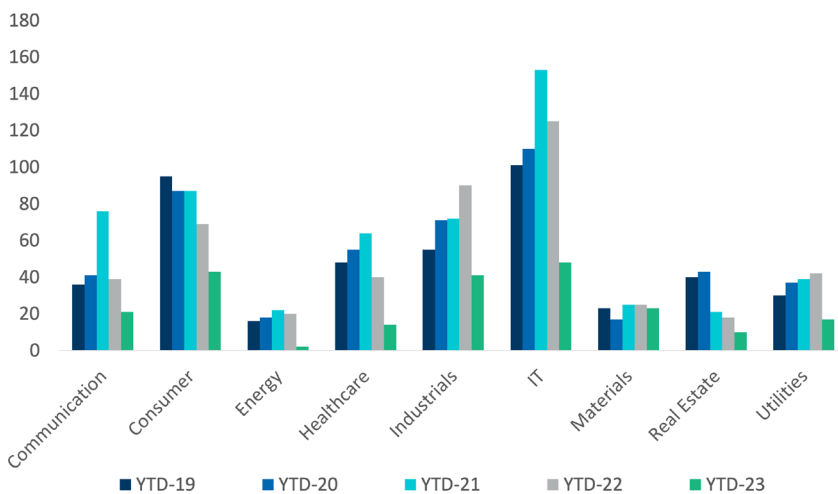
Deal volume in Brazil decreased from 468 deals in YTD-22 to 219 deals in YTD-23 (53% decline), which represented 52.3% of the transaction volume in Latin America in YTD-23, compared to 56.5% in YTD-22. Most industries saw a decline in deal volume, with the materials sector falling only slightly lower in comparison to the prior period. The top industries for M&A activity in Brazil were information technology (IT), consumer and industrial, accounting for 21.9%, 19.6% and 18.7% of total deals, respectively. Brazil ranks tenth in the world in the IT market, and the sector is expected to grow in the coming years, as the country is heavily investing in its telecom infrastructure while possessing a mature policy and regulatory environment for the sector.¹² The overall decline in activity in YTD-23 is to some extent attributable to financial restraints and high borrowing costs, which are expected to continue to cause headwinds in the foreseeable future until central banks begin to lower interest rates.¹³

Figure 2.1 - Deals in Brazil



Source: S&P Capital IQ, FTI Consulting analysis

Figure 2.2 - Deals by industry in Brazil

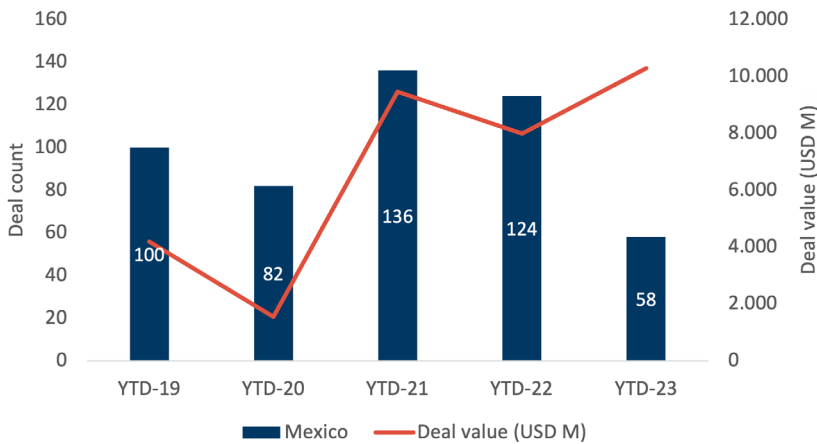


Source: S&P Capital IQ, FTI Consulting analysis

Mexico

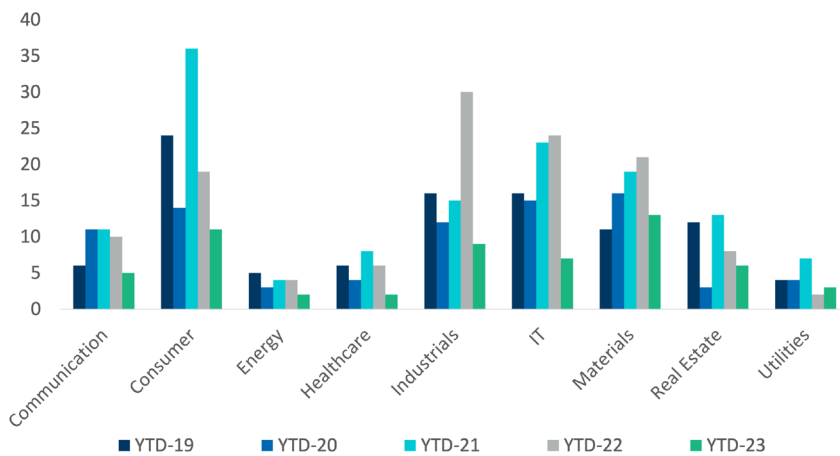
Deal activity in Mexico decreased from 124 deals in YTD-22 to 58 deals in YTD-23 (down 53.2%). Materials, consumer and industrials industries represented the largest share of deals in the period. The materials and consumer industries maintaining their deal strength could be a result of nearshoring. It was recently announced that Tesla will build a \$10 billion gigafactory in the northern region of Mexico.¹⁴ An investment of this magnitude could encourage M&A activity in the coming periods as other companies seek to upgrade production facilities or relocate to Mexico. For the time being, the slowdown in deals appears to be driven by tighter financial conditions and reduced private investment activity,¹⁵ which accounted for only eight deals in YTD-23, the lowest level in the first three quarters of the last five years.¹⁶ While deal count is down, deal value is propped up by a few large deals, including a \$6 billion sale of gas assets by Spanish power company Iberdrola, in which the acquirer was the Mexican government, an atypical M&A transaction.¹⁷

Figure 3.1 - Deals in Mexico



Source: S&P Capital IQ, FTI Consulting analysis

Figure 3.2 - Deals by industry in Mexico

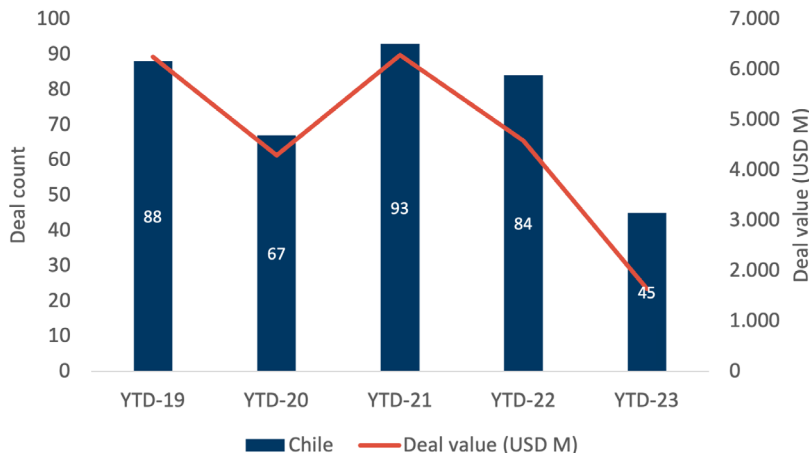


Source: S&P Capital IQ, FTI Consulting analysis

Chile

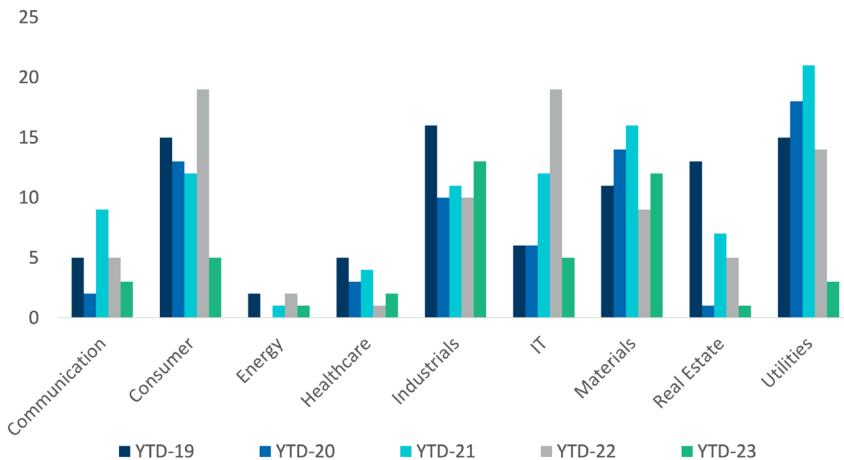
Deals in Chile totaled 45 in YTD-23, down 46.4% from 84 in YTD-22. The only two industries that saw increasing deal volume were industrials and materials, representing 55.6% of total transactions. The industrials and materials segments are likely propped up by the increase in demand for copper, of which Chile is the largest producer worldwide.¹⁸ This demand is driven by the global move toward electrification and decarbonization,¹⁹ including the production of electric vehicles, which has ramped up and is expected to increase by 35% in 2023 compared to 2022.²⁰ Conversely, Chile’s overall economic activity decreased in the first half of 2023, explaining the sharp downturn in M&A deals in other industry sectors.²¹

Figure 4.1 - Deals in Chile



Source: S&P Capital IQ, FTI Consulting analysis

Figure 4.2 - Deals by industry in Chile



Source: S&P Capital IQ, FTI Consulting analysis

Argentina

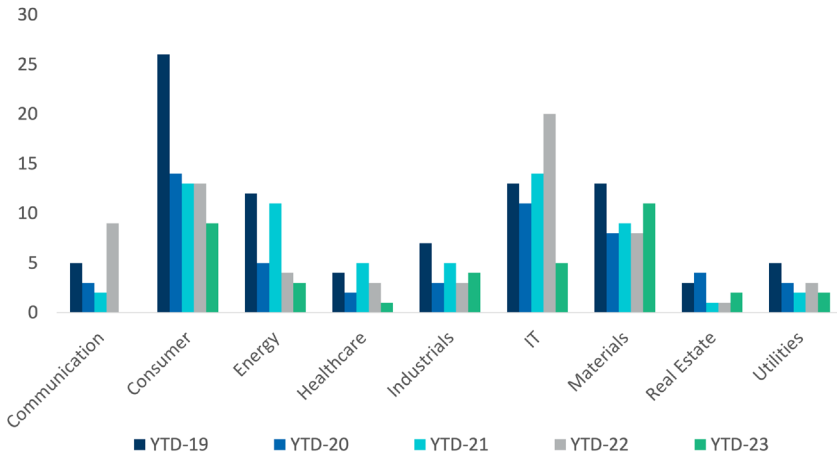
Deals in Argentina fell from 64 in YTD-22 to 37 in YTD-23 (42.2% decrease). While deal volume in materials and consumer industries (specifically, metals & mining and packaged foods & meats) increased by 38% and 33%, respectively, in YTD-23 compared to YTD-22, the values of these deals were relatively small. Transaction volume and deal value in other industries, including communications, IT and energy, declined in YTD-23. Argentina is currently facing high inflation levels of ~124%,²² which has caused unrest among its citizens²³ and uncertainty among investors. Additionally, with an upcoming election, the economy will likely face uncertainty, which may be contributing to transaction volume slowdown.

Figure 5.1 - Deals in Argentina



Source: S&P Capital IQ, FTI Consulting analysis

Figure 5.2 - Deals by industry in Argentina

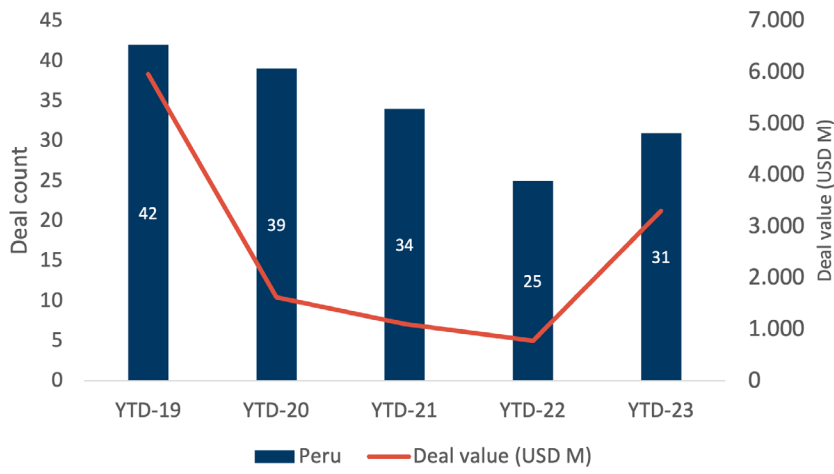


Source: S&P Capital IQ, FTI Consulting analysis

Peru

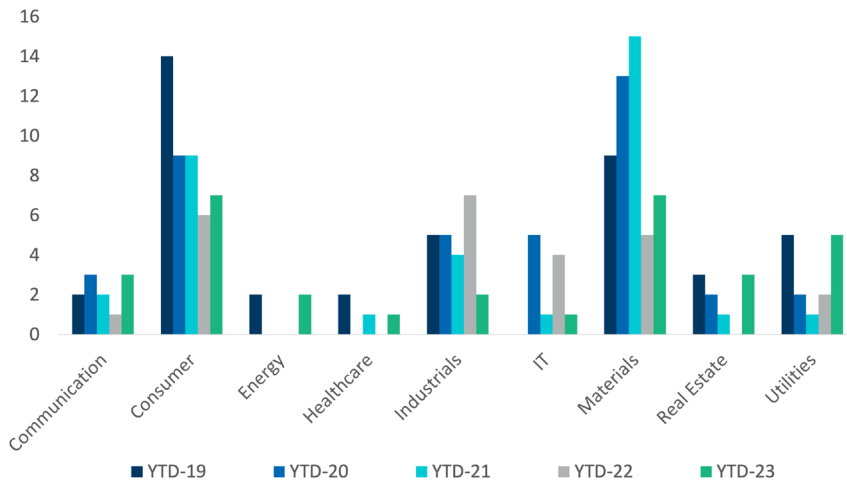
Peru is the only country in our scope that did not see a decline in deal volume: the country saw a 24% increase in transactions in YTD-23 compared to YTD-22. Materials and consumer made up nearly half of total deal volume. Similar to Chile, much of Peru’s economy is linked to mining as one of the world’s largest producers of minerals and precious metals.²⁴ With recent increasing trends in the electric vehicles and artificial intelligence markets, Peru’s mining companies have seen interest from investors and may see increased investment interest in coming periods.

Figure 6.1 - Deals in Peru



Source: S&P Capital IQ, FTI Consulting analysis

Figure 6.2 - Deals by industry in Peru

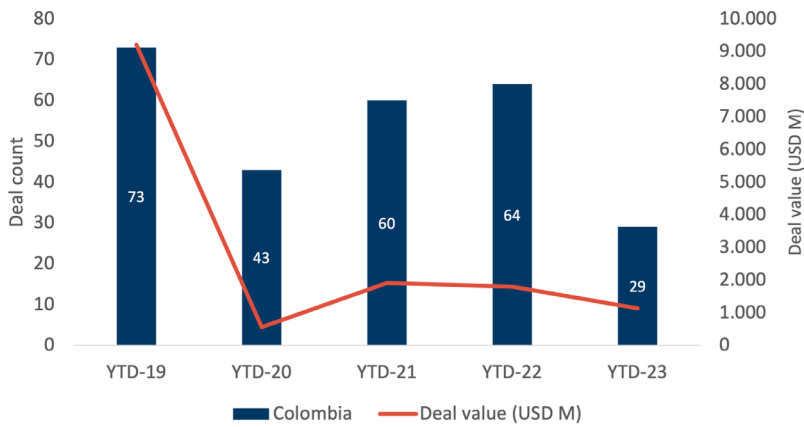


Source: S&P Capital IQ, FTI Consulting analysis

Colombia

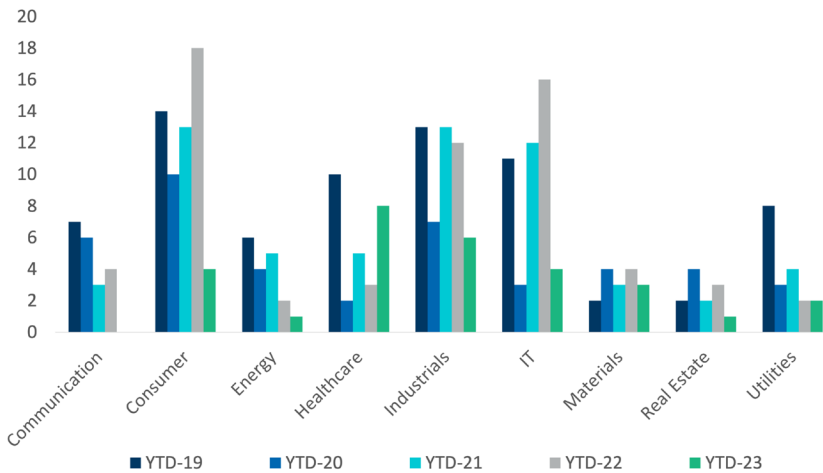
Colombia’s deal volume fell from 64 transactions in YTD-22 to 29 transactions in YTD-23 (54.7% decrease). All industries under our analysis saw a decline in volume except for healthcare, which accounted for eight deals in YTD-23 compared to three deals in YTD-22, and the highest amount since YTD-19. President Gustavo Petro’s commitment to increasing national healthcare expenditure is a positive driver for healthcare businesses and could be one of the drivers behind the increase in healthcare activity.²⁵ Healthcare and industrials, combined, accounted for 48.3% of total deal volume in YTD-23. Decrease in deal volume is partially explained by inflation and tighter monetary policy. While deal count was down in YTD-23, deal value remained relatively flat due to a few large transactions, including a \$586 million deal involving VINCI Highways and the upgrade of the Bogotá-Girardot Motorway,²⁶ and a \$316 million transaction involving Eurofarma Laboratórios S.A. and Sanofi.²⁷

Figure 7.1 - Deals in Colombia



Source: S&P Capital IQ, FTI Consulting analysis

Figure 7.2 - Deals by industry in Colombia

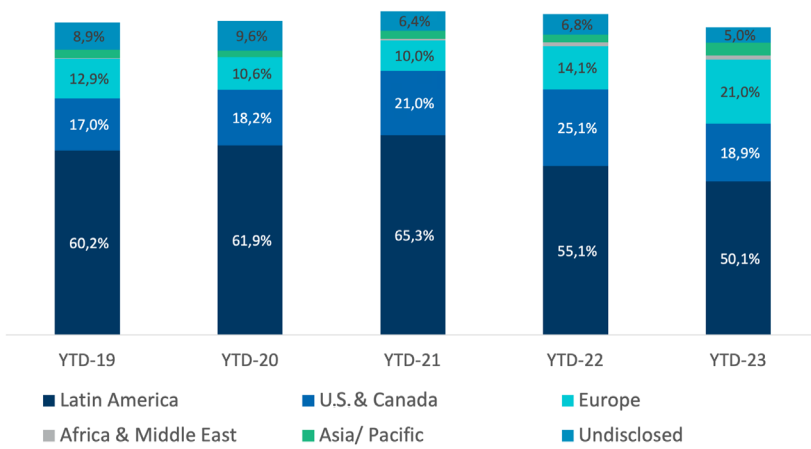


Source: S&P Capital IQ, FTI Consulting analysis

Transaction Activity by Type of Buyers

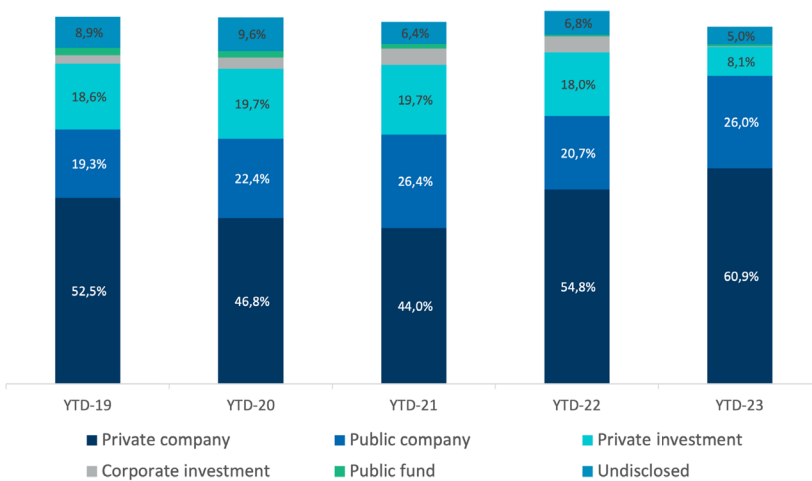
Deal volume executed by private equity and venture capital investors declined from 149 deals in YTD-22 to only 34 deals in YTD-23, representing a 77% decrease and making up only 8.1% of total deal volume compared to 18.0% in YTD-22. This is likely a result of the high interest rate environment throughout the Americas, as private equity firms typically rely on leverage to execute transactions. Until borrowing rates ease, transactions executed by private equity firms may continue to face headwinds.²⁸ On the venture capital side, the region’s economic uncertainty is likely causing more risk aversion among investors, who appear to have shifted to more value-oriented opportunities rather than potential high-growth investments. Venture capital investments have plunged globally, with Latin America suffering a significant decrease.²⁹

Figure 8.1 - Buyers by region



Source: S&P Capital IQ, FTI Consulting analysis

Figure 8.2 - Buyers by type



Note: Total exceeds 100% as some transactions have multiple acquirers

Source: S&P Capital IQ, FTI Consulting analysis

Endnotes

1. S&P Capital IQ Database, [Link](#).
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7. David Vergun, "Generals Say China, Russia Persist in Western Hemisphere Meddling," U.S. Department of Defense (March 24, 2022), [Link](#).
8. "Mexico Is Poised to Ride the Nearshoring Wave," Morgan Stanley (June 21, 2023), [Link](#).
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23. "Argentina: Economic Crisis Leads to Recurrent Protests," Monitor Civicus (December 30, 2022), [Link](#).
24. "Peru – Country Commercial Guide," International Trade Administration (August 17, 2022), [Link](#).
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27. "Eurofarma Laboratórios S.A. agreed to acquire Genfar S.A. from Sanofi (ENXTPA:SAN) for approximately €300 million," MarketScreener, Surperformance SAS (March 7, 2023), [Link](#).
28. Adam Le, "PE Battles the Higher Interest Rate environment: Story of the Year," Private Equity International (December 26, 2022), [Link](#).
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