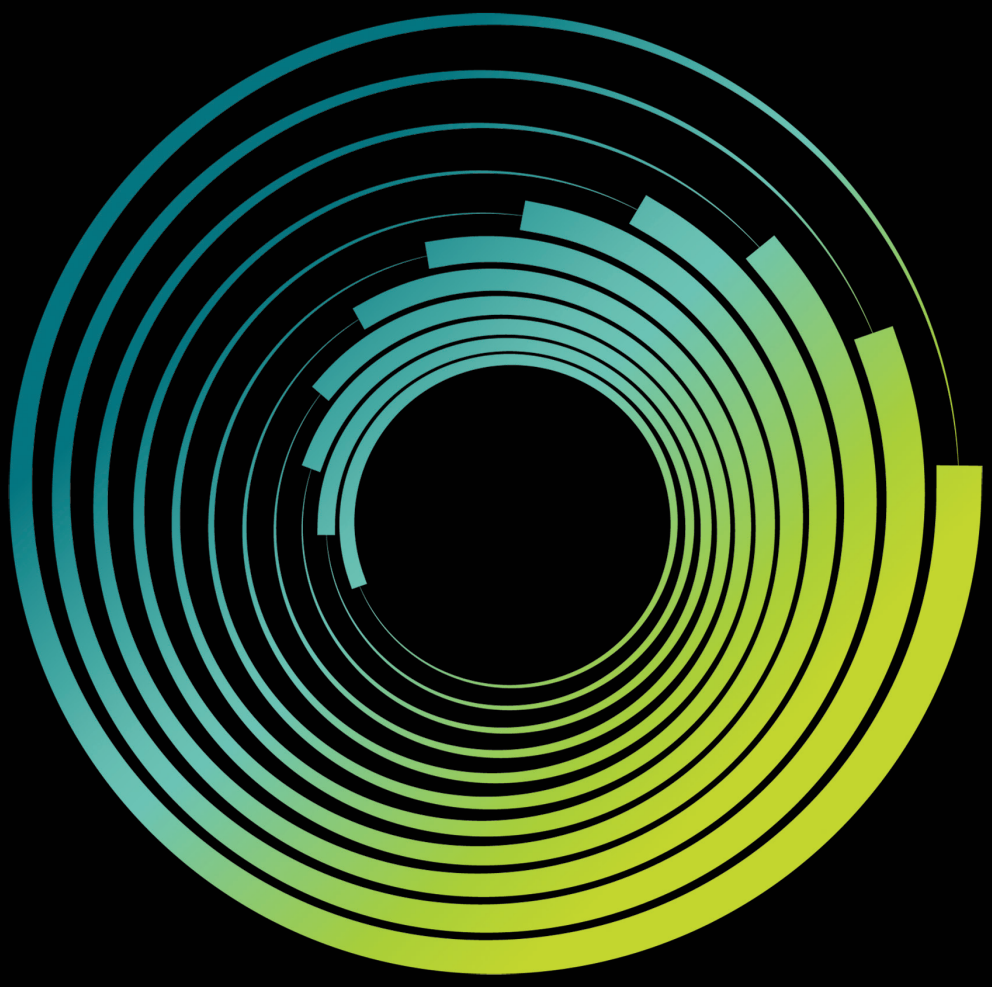
Deloitte.



Latin America Mergers & Acquisitions Study

Integration and divestiture best practices throughout the region

The evolving M&A market of Latin America

The last few years have been exciting times across Latin America from a Mergers & Acquisitions (M&A) perspective, seeing an increase in divestitures as a result of some of the economic instability in region and more recently a return to acquisitions as depreciation of local currency has made assets in these countries more attractive.

As a result, we have refreshed a study about the main M&A activity in Latin America, covering deals from 2014 to 2017. Our first study, "Brazil 2015 Integration Survey" was used as a base to support the findings of the new research conducted in 2017.

Our objective was to gain insight into the minds of Latin America executives, focusing on the pain points and lessons learned in integration or divestitures, and capture knowledge from local specialists around the particularities within each Latin American country.

In Latin America strong due diligence, effective integration planning and attention to change management (for buyers) remains some of the most important considerations while preparing for your next deal. As many of our respondents reinforced their interest to continue to invest in the region, our hope is some of these best practices and lessons learned can be leveraged by your executive team in the near future.

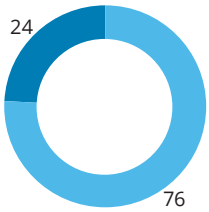
Venus Kennedy
Deloitte LatAm Integration & Divestiture Consulting practice leader

About the respondents of the poll

Respondents work in companies with average revenues of US$ 500 million

Who has taken part in the poll?
67 respondents

Capital control (in %)[1]



Privately-held companies
Public companies

In the last three years ...[1]

40% *OF RESPONDENTS WERE INVOLVED IN INTEGRATIONS*

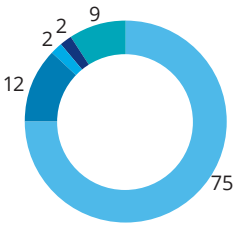
24% *WERE INVOLVED IN DIVESTITURES*

36% *DID NOT HAVE ANY M&A EXPERIENCE IN THIS PERIOD*

Industry of respondents (in %)[1]	
Manufacturing	28
Technology	13
Professional services	10
Financial services	9
Consumer business	7
Life science & health care	7
Energy & resources	6
Real estate	5
Other[7]	15

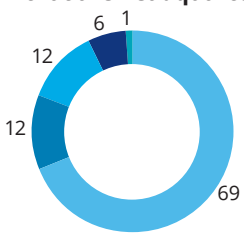
[7] Media, Agribusiness, Travel, hospitality & leisure, Public sector, Concession of highways, Ship & offshore construction, NGO and Recycling

In the last three years, the deals occured in ... (in %)[1, 2]



Latin America
Global
North America
Asia
Not informed

The respondents represent companies that are headquartered in ... (in %)[1]



Latin America
Europe
North America
Asia
Not informed

[1] Among the respondents of each question
[2] Among the companies that were involved in deals

Key takeaways from the Latin America Study

Our experience in supporting deals within different countries such as Argentina, Brazil, Chile, and Mexico, shows that there are some common challenges in the region:

- Limited access to qualified information to support decision-making and risk mitigation;
- In the case of integrations, there is a low level of maturity of the target's processes, governance, and controls. Processes are often heavily manual and rely on local resources, rather than automation;
- There are ongoing difficulties to maintain compliance with all government requirements, mainly in respect to tax, regulatory, environmental, and legal matters;
- Safeguarding against the strong influence of local labor unions;
- Target company employees sometimes have difficulty to communicate effectively in other languages, meaning global integrations often face additional communication complexities;
- Adaptation to cultural differences, which influence the effectiveness of co-working and communication during critical M&A program milestones.

There are some enablers to effective integration & divestiture in the region:

- The financial services industry is highly developed within the region, and boasts profound capabilities;
- Highly competent regulatory institutions;
- Attractive risk levels for the investment market with a good balance of risk and return.

Experiences in local markets

Brazil

In Brazil, due to the disconnect of all involved regulatory bodies needed in an integration or divestiture, the update or issuance of new regulatory licenses must start 3-6 months in advance of Day One, in order to ensure new entities are operational, and avoid potential disruption.

Argentina

In Argentina, our clients have faced continued challenges with regard to capturing expected synergies as estimated in business cases, due to the high influence of trade & labor unions, who are required to validate proposed business process redesign, and any role responsibility redistribution.

Best practice for your next deal

- Organize the required information to support the deal analysis and integration planning;
- Build a comprehensive plan, including the regulatory aspects in order to keep them synchronized and consider the required time to address them;
- Engage the functional leaders early in the process to validate potential synergies that would impact your decision-making process.

Integration: challenges and best practices

Integration experience in the region does not increase odds of a successful deal. The results of the poll show that although 85% of the integration respondents had previous experience making deals in the region before, only 30% of the same group considered the deal to have been successful. This indicates that even with an understanding of the local key risks and issues, having previous experience in the region is not sufficient to achieve success.

"I always thought that companies were focusing too much effort and energy before acquiring and that many times the integration success depends on the strategy execution, which was drawn before the acquisition. To be able to execute, the integration process is key, but many times neglected, putting the acquisition at risk of not achieving its goals."

Andre Aronchi, executive from Thomson Reuters

Main areas included in the due diligence work[1, 3]

1. Accounting/ Finance
2. Tax
3. Labor
4. Human resources
5. Operations
6. IT
7. Commercial

Due diligence results are not only a critical factor to decide to proceed or not with the deal, but also an important factor to the planning and success of the integration.

70% *OF INTEGRATION INCLUDED OPERATIONAL DUE DILIGENCE IN SCOPE[1, 3]*

70% *OF RESPONDENTS THAT MADE INTEGRATION BELIEVE OPERATIONAL DUE DILIGENCE TO BE EFFECTIVE / VERY EFFECTIVE IN ACHIEVING A SUCCESSFUL INTEGRATION[1, 3]*

60% *OF EXECUTIVES INVOLVED WITH INTEGRATION ALSO BELIEVE THAT IT IS DURING THE DUE DILIGENCE PHASE THAT ONE SHOULD START PLANNING THE INTEGRATION[1, 3]*

67% *OF THE INTEGRATION RESPONDENTS INDICATED THAT THE THESE TRANSACTIONS WERE VALUED BETWEEN US$ 1 MILLION AND US$ 499.9 MILLION[1, 3]*

59% *OF THE INTEGRATION RESPONDENTS IDENTIFIED NO IMPACT OF DUE DILIGENCE WORK IN THEIR DEAL PRICE[1, 3]*

41% *OF RESPONDENTS THAT MADE INTEGRATION CONSIDERED THAT THE TRANSACTION VALUE DECREASED BY 10% OR MORE[1, 3]*

[1] Among the respondents of each question
[3] Among the companies that were involved in integration deals

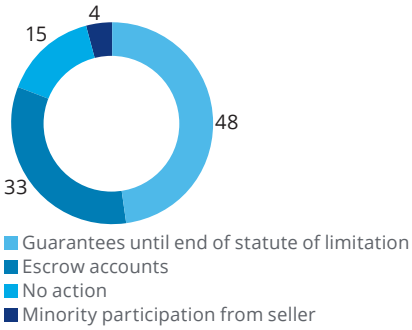
Best practice for your next deal

In the region, there is a significant volume of family managed business that become targets in M&A deals, and these companies often lack governance, internal controls and accurate information. Conduct a robust due diligence process, to help with effective decision-making, and take advantage of the discussions and findings of this phase to accelerate your integration planning.

Tax requirements in the Latin America countries, although different in each, are generally complex. For this reason, tax is often one of the most common due diligence topics and one of the most critical workstreams in an integration. Focus is required to confirm not only that the current tax requirements are being adhered to by the target and ensure continued adherence post-integration, but also in identification of contingencies in place. The fact that lawsuits in the region typically take a long time to reach conclusion, companies involved in M&A look for alternatives that allow them to proceed with the deal.

Almost half of the poll respondents who were involved with integrations use guarantees until end of statute of limitation to mitigate tax risks. Escrow accounts was used by one third of this group.

What were the actions taken to mitigate tax risks? (in %)[1, 3]



Best practice for your next deal

Because of its differentiated complexity, in Integration & Divestiture projects in the Latin America, involve tax specialists to support tax planning and risks mitigation.

Comparing the results of our previous Brazil poll with the current data collected, we identified that executives continue agreeing on the most important factor for a successful integration. Respondents affirm that "having strong sponsorship from business leaders" is the most effective way of managing an integration to success. The second most noted success factor is the "development of a comprehensive project plan with a risk governance", followed by "communicating transparently and consistently with employees".

Factors that were important in achieving a successful integration[1, 3]	Position in 2015[4]	Position in 2017[5]	Change
Having strong executive sponsorship	1	1	=
Developing a comprehensive project plan with a risk governance, optimizing the use of resources, budget and timing	4	2	↑
Communicating transparently and consistently with employees	5	3	↑
Involving management from both sides (the acquirer and the acquire)	2	4	↓
Assigning a dedicated integration team	3	5	↓
Performing operational due diligence	6	5	↑
Developing a robust synergy plan	7	6	↑
Assessing and addressing the cultural fit between the two organizations	9	7	↑
Allocating an adequate budget for the integration	10	7	↑
Starting integration planning during due diligence phase	8	8	=
Hiring an external firm to assist with integration	11	9	↑

[1] Among the respondents of each question
[3] Among the companies that were involved in integration deals
[4] Among the respondents of that edition of the poll
[5] Among the respondents of this edition of the poll

Staffing the right team is a key success factor for M&A. In our experience, an additional critical success factor for executing deals is to staff the right team. Integrations and divestitures are complex initiatives and in most cases trying to execute a deal with part time resources results in an impact to both the deal and normal business operations.

Over 74% of respondents that made integrations consider it to be 'effective' to involve the managerial level of both companies during the planning phase to ensure success of the deal for both target and buyer sides. Additionally, 70% of these executives think assigning a dedicated integration team is a priority.

Best practice for your next deal

Have at least part of your integration team with full time employees managing the process and identify your critical workstreams that might also require full time support (in our experience this is typically HR, Finance, and IT). Put your best performers on the integration and backfill for business as usual operations. This ensures your best minds are developing the new strategic priorities and often can be a growth opportunity for the replacement.

Focus areas for their next deal. When asked about the factors they would focus on a next integration, respondents that conducted integrations ranked **"having the right team and/or external help to aid the integration"** as the most important factor, followed by the **"more planning ahead of the deal announcement"** and **"more focus on the cultural fit or better cultural alignment"** as the third most important factor.

Respondents are beginning to agree on the increased importance of "more planning ahead of the deal's announcement" within an integration, as shown by the increase of the position of this factor in the table below. This indicates that leaders will now be placing similar emphasis on the planning phase as they put on the deal itself.

Factors respondents would focus on a next integration[1, 3]	Position in 2015[4]	Position in 2017[5]	Change
Having the right team and/or external help to aid the integration	3	1	↑
More planning ahead of the deal's announcement	6	2	↑
More focus on cultural fit or better cultural alignment	2	3	↓
More planning for the "go live" date – the day the deal closed and the new organization became operational	8	4	↑
A phased approach to integration	4	5	↓
Better change management program	1	6	↓
Better communication strategy	7	7	↑
A faster pace of integration	5	8	↓

[1] Among the respondents of each question
[3] Among the companies that were involved in integration deals
[4] Among the respondents of that edition of the poll
[5] Among the respondents of this edition of the poll

In a separate question, 67% of the integration respondents judged "alignment of culture between the two companies to the overall success of the integration" as very important, and most of them (63%) managed the alignment of cultures using timely and transparent communications to employees from both companies.

Case Argentina

The Deloitte M&A consulting team has been providing professional services in the integration process between an International Media group and one of the most important channel of Argentina's open TV, a deal worth US$ 345 million. Cultural differences between companies were addressed by a strong project governance, that engaged employees from both companies through communications, workshops and alignment meetings.

Best practice for your next deal

When conducting deals with both the buyer and target companies within Latin America region, do not underestimate cultural difference and respect the local cultural to create engagement is a good practice.

Synergies. 67% of the respondents that made integration deals continue to list "developing a robust synergy plan" as effective or very effective in an integration. In their last deals, over 80% of these executives have set synergy targets, and of the same group, 52% set targets representing up to 20% of the deal values (in 2015, 43% of respondents). A slight increase from the results of our previous poll.

In our study, we have confirmed that, in Latin America, the majority of those who set synergy targets took between six months to two years to reach their targets, whereas in the US for instance, the majority of synergies are achieved in the first six months after close.

Planned synergy targets up to 20% (as a proportion of the total deal value)[1, 3]

43% *2015*[4]

52% *2016*[5]

[1] Among the respondents of each question
[3] Among the companies that were involved in integration deals
[4] Among the respondents of that edition of the poll
[5] Among the respondents of this edition of the poll

Best practice for your next deal

In addition to defining a robust synergy plan, establish a cadence to follow up the synergy results and include them in the next budget. This will keep people dedicated and engaged on pursuing the targets.

Divestiture: challenges and best practices

Focus on core business and opportunity to leverage capital. Most of the respondents involved with divestiture deals (69% of them) divested because those were non-core business units, or because of financial needs. 70% of our divestiture respondents indicated that the these transactions were valued between US$ 1 million and US$ 499.9 million and most of respondents considered that the value was as expected. For these respondents, the most important factors when choosing a partner in a divestiture are:

- Highest price;
- Speed and certainty to close;
- Ability of buyer in exploring current customer or supplier relationship;
- Ease of transition.

These factors demonstrate that respondents put a high focus on conducting a rapid and smooth business transition. This supports the fact that the majority of the executives we interviewed in the region agree in the importance of hiring legal expertise, investment banking and Project Management Office advisory / consulting services, in order to have access to local knowledge (regulatory, tax, legal, market, labor, and others) to assess risks and issues on the negotiation process and terms.

In addition to the internal team, most of the divestiture respondents (69% of them) indicated that they hired external help.

When preparing to divest, the executives understand that it is very important to assign a dedicated team to conduct the carve-out. Top five activities mentioned by executives that made divestiture deals as key tasks when bringing a deal to the market are:

1. Perform detailed pre-sale due diligence: preparation of qualified information for potential buyers
2. Perform detail business valuation
3. Perform a detailed financial projection
4. Analyze potential deal structures and related costs/benefits
5. Assign a dedicated team of internal resources to prepare the business for sale

Our experience shows that additional important factors in a carve-out are "an analysis of the stranded costs within the transaction", in order for the seller to avoid a disproportionate cost structure relative to its new size, and "the creation of a carve-out plan".

Also on the divestiture side, 50% of the respondents that made this kind of deal informed that the divestiture took longer than expected and that the buyer diligence was a principal component of the delay.

Case Brazil

In the last quarter of 2016, Deloitte M&A Consulting team supported a consumer health company to accomplish the integration of over-the-counter brands into their portfolio, as well as divesting one of its brands (as per local regulatory requirements). During this study, we interviewed client's sponsors to investigate their general impressions of that divestiture. "Having someone to conduct buyer due diligence is key, as well as having a strong Project Management Office (internal or external) set in place. Regulatory constraints will definitely frame the whole deal structure; in our case we were practically forced to sell this brand within the determined timeframe, with no ability at all to track stranded costs or negotiate broadly", said an executive of the company.

Key success factors for them were negotiating the Transaction Service Agreements thoroughly, pursuing the best case within the regulatory approval, and negotiating the best terms with the buyer, supported by strong legal and commercial sponsorship. As lessons learned, two of the client sponsors noted: "governance and structure (having dedicated resources) have proven to be vital for a process like this one. The ability to create financial information is definitely important as well; so either you grow that capacity internally or ensure you are hiring an external advisor to help you with that".

70% *OF THE DIVESTITURES OF OUR RESPONDENTS WERE VALUED BETWEEN US$ 1 MILLION AND US$ 499.9 MILLION*[1, 6]

[1] Among the respondents of each question
[6] Among the companies that were involved in divestiture deals

Best practice for your next deal

Build in the appropriate timelines for your deal execution, including more realistic schedules for due diligence. Engage the right subject matter experts to minimize common integration and divestiture risks. If you are new to the region, ensure that you identify resources that can help you with the Latin America particularities.

Seller should always minimize the number of Transition Service Agreements (TSAs). Most divestiture respondents informed that TSA creation is a common practice and that it helps to facilitate divestiture and manage costs. In addition, the majority of respondents indicated that the average duration of TSAs was less than one year.

Main challenges mentioned by respondents when trying to divest [1, 6]

1. Sensitivities with employee morale of the for-sale business
2. Complexity of executing carve-outs
3. Concerns with customer and supplier relationships
4. Lack of communication with the organization on future plans for the business for sale
5. Confidentiality requirements of the transaction restrict resources that can be involved in the business
6. Diverse views on divestitures within the business
7. Lack of internal resources
8. Inability to generate required carve-out financial information

[1] Among the respondents of each question
[6] Among the companies that were involved in divestiture deals

Case Chile

Another project Deloitte conducted was an US$ 640 million divestiture in the Consumer Business industry. The client was aiming to focus on its core business and divest its remaining portfolio. All of the stranded costs were integrated in the financial model to include them in the non-binding offer. "The level of complexity of carving-out the divested business was definitely not expected, as many diligence issues appeared through the initial process." The executives named this factor and the negotiation of Transaction Agreements as the most challenging part of the deal experience in Chile.

Best practice for your next deal

In our experience, sellers should always minimize the number of TSAs – focused specifically on negotiating as few TSAs as possible, with fast exit times. Besides being costly, management of service level agreements for TSAs can be time consuming and create unnecessary friction in the post deal environment.

"Based on our results, M&A deals in Latin America region – integrations or divestitures – take a longer time to accomplish the expected outcomes and synergies when compared to global statistics.

As any deal involves a lot of investment of capital, time and resources, it is critical to dedicate part of the budget to conduct the transaction and post-merger process in a structured way with the proper support of local SMEs (subject matter experts).

The more qualified information you are able to obtain and assess, the higher the chances to make the right choices and decisions to move forward and achieve success."

Renata Muramoto, Deloitte Consulting partner with experience in M&A deals in Latin America

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