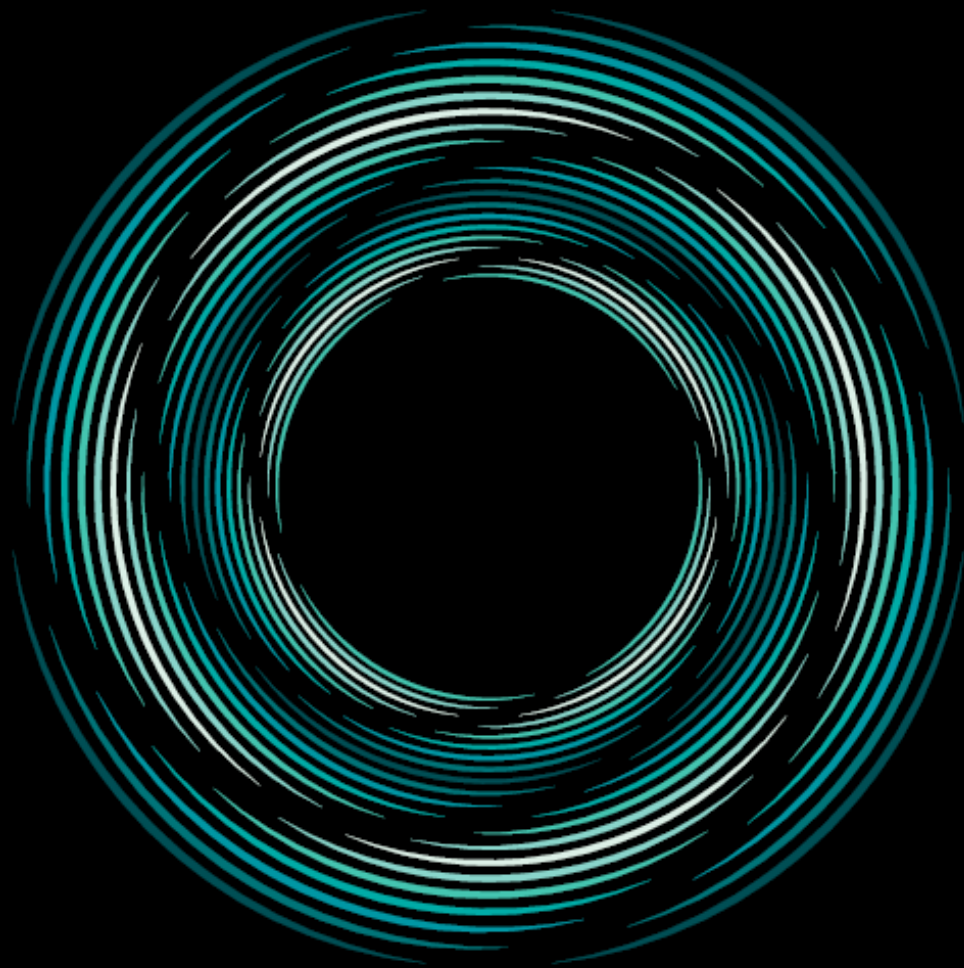


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Valuing performance

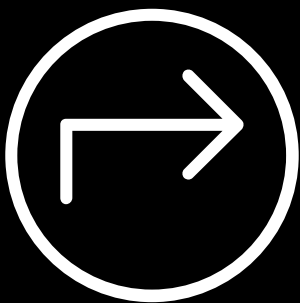
Mexico M&A Market 2017

August, 2017

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Introduction



The objective of Deloitte's M&A 2017 paper is to analyze the performance of the M&A market in Mexico in the first half of the year and observe the flow of the transactions to identify important trends in the different industries and look ahead for the impact that these could have in the future.

This document focuses on the transactions completed between January 1st, 2017 and June 30th, 2017 where Mexican companies were involved. The information was based on internal Deloitte analysis, data published by companies in the Mexican Stock Exchange, information published by the media, and private sources of information such as TTR.

The document discusses the performance in the M&A market of each industry reviewing the foreign firms participating in Mexican firm deals (Inbound), local market deals (Domestic), and Mexican firms that participated in foreign firm deals (Outbound).

This period's analysis shows stability in the Mexican M&A Market since the total number of deals had only a minimal decrease from last year's figures and our experts expect a possible increase for the remaining of 2017, if the Mexican economy's performance continues to improve.

Economic Overview

The triggering of Article 50 of the Treaty on European Union which led to BREXIT and worldwide uncertainty around the new US administration were some of 2016 factors that are still driving pressure over the M&A global market.

According to Thomson Reuters data, several of these pressures derived in a **general reduction of transactions** (in value and volume) that can be evidenced when YTD June 2017 transactions are compared to those of YTD June 2016.

A number of these external issues, along with local governance and economic factors, explain the low levels in the Mexican M&A transactions.

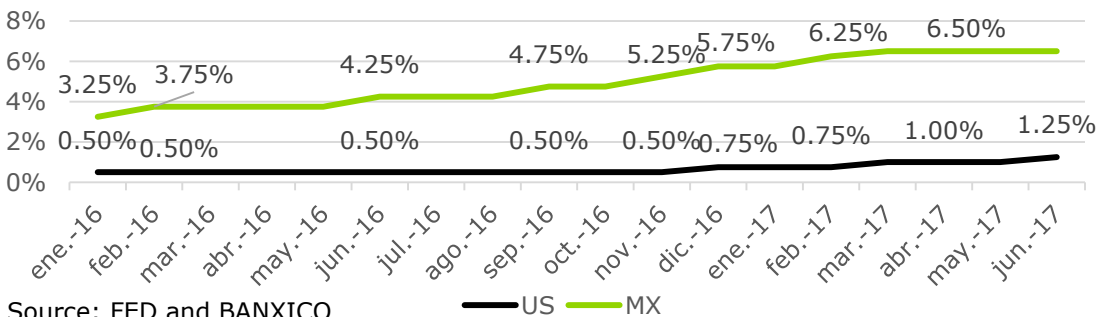
To provide a comprehensive analysis of the M&A market in Mexico it is important to understand some drivers of the economy: The Interest Rates and the Mexican Currency. Prior to the start of 2017, the forecast for interest rates and the Mexican currency were not favorable driven mainly by the political uncertainty in the US and economical predictions which pointed that the Mexican economy would be impacted.

| Global M&A Summary | | | |
|---------------------|---------------|---------------|-----------|
| | YTD June 2016 | YTD June 2017 | |
| Total Value | \$1,573.9B | \$1,471.8B | 6% |
| Total Volume | 23,645 | 22,502 | 5% |

Interest Rates

On January, the US Federal Reserve anticipated that it will rise its interest rates three times on **25 base points during 2017¹** still remaining it at historically low levels allowing companies to continue acquiring loans at accessible rates; as of today two of these rises have already been performed. The Mexican government had to respond as its economy has a direct impact from US monetary policy decisions, from this perspective, it is important to mention that the US has been rising its interest rates due to good economic performance while **Mexico** raised it over five times during the past months².

México and US (FED) Interest Rates



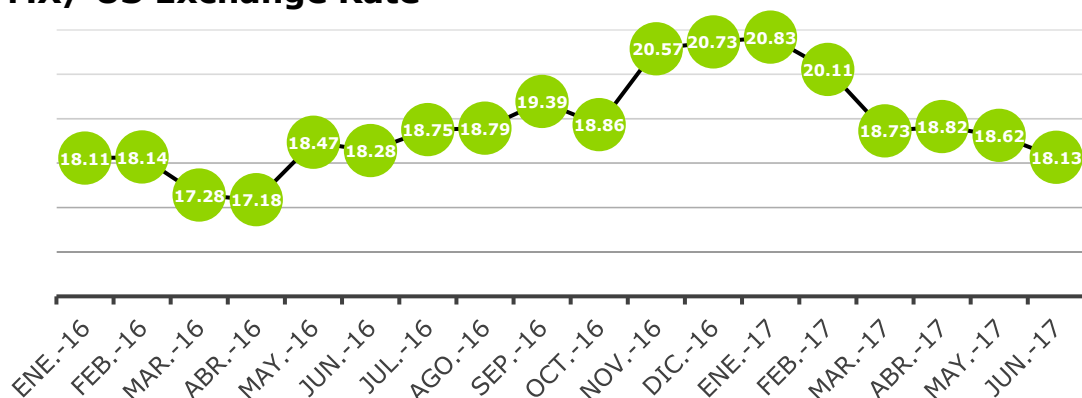
Source: FED and BANXICO

Economic Overview

Currency exchange

As a result of the US presidential election on November 2016 the Mexican Peso (MXP) **lost 10%** of its value in less than 1 day and reached values close to **21 MXP per 1 USD** in the following months.

MX/ US Exchange Rate



Source: Investing

In the last 4 months, the Mexican Peso has recovered significantly reaching a **14 month high mark value**³. According to multiple sources, some of the reasons that MXP has strengthen are:

- Positive outlook on important Mexican structural reforms including NAFTA⁴ which started being negotiated on August 16; US trade guidelines were shared
- Weakness of the USD due to uncertainty on the new administration governance⁴
- Mexico internal elections results⁴
- Mexican government rise on interest rates⁴ and aggressive incentives to re-patriate foreign capitals⁵
- Improvement on Mexico's outlook from negative to stable by S&P⁶

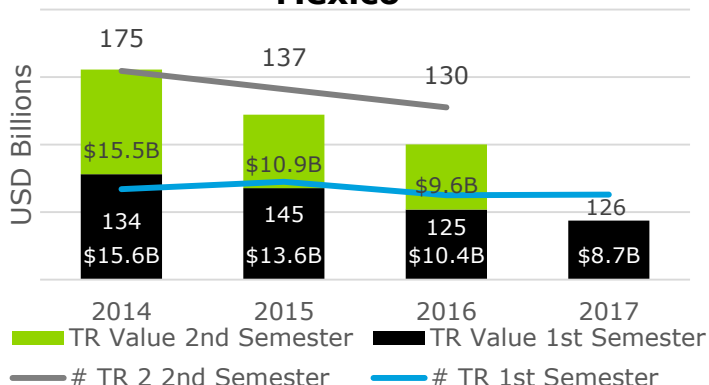
If this trend continues, it is likely that investors will regain confidence in the country, leading to a potential increase the M&A transactions volume in the upcoming months.

These economic and political factors, could explain the results of the Mexican M&A market results for the first half of 2017, showing that it followed similar patterns of the global M&A market: stability on volume of transactions and decrease on total deal values.

M&A Transactions 2017⁷

M&A landscape in Mexico showed stability compared to 2016, but still it hasn't been able to recover 2015 transaction level, showing a **volume and value decrease of 14% and 36%, respectively** where political and economical uncertainty may be the main drivers for a slow first semester.

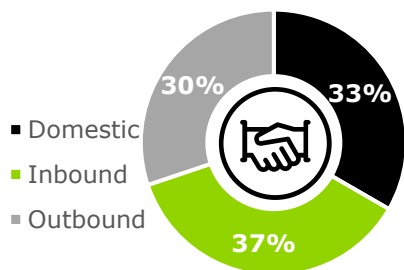
2014-2017 Transaction evolution in Mexico



As pointed out earlier, a volatile currency, increasing interest rates, slow GDP growth, uncertainty about the new US administration & its relationship with Mexico and the pending NAFTA re negotiation are all factors that hinder the M&A activity that has been mainly fueled in recent years by offshore investments.

However, global M&A activity has shown a slowdown too, **with 6% value decrease** against 2016. In America, deal value fell **12.0% to \$663.4 billion** in YTD June 2017 from \$754 billion in YTD June 2016 due to decreased strategic deal value. The US alone decrease its deal **value 20.3%.**

Type of Investment



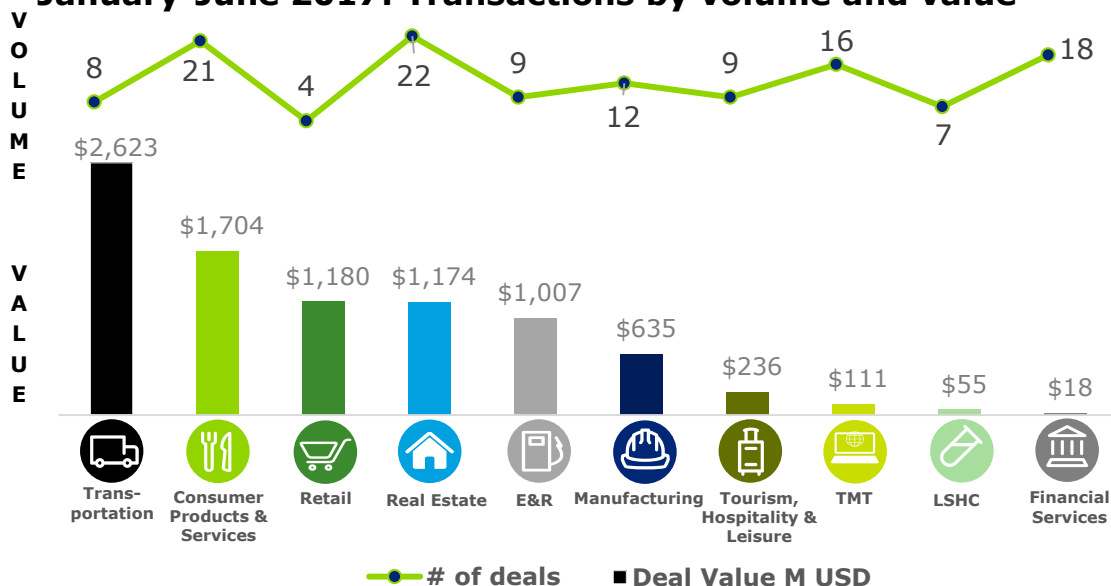
Analyzing investment types we can observe that so far it has been a balanced year with a slight dominance in the **Inbound** transactions with **45 completed deals (37%)** followed by **42 completed Domestic transactions (33%)** and **39 completed Outbound deals (30%)**.

From our previous studies we observe a decrease in domestic deals proportion as this represented a percentage above **44% in 2016**. This decrease (-13 transactions) has been balanced by a **58% increase** in outbound deals (+12 transactions); demonstrating a shift in appetite by Mexican companies that could mainly be attributed as a way to reduce domestic market risk due to the economic landscape uncertainty.

Industry M&A Highlights

On the industry side, Real Estate has stood out in **deal volume with 17%**. Not far behind, other industries leading this semester are the Consumer **Products & Services with 16%** and the **Financial Services with 14%**.

January-June 2017: Transactions by volume and value



For third year in a row, the **Real Estate industry** has dominated with the largest volume of deals.

The **CP&S industry** had a strong first half this year, specifically within the Food & Beverage subsector, which accounted for **61% of the total deals** during this period.

Private equity and venture capital firms participated in **29% of the total deals** in this semester with the largest investment recorded for **\$250M in the Energy & Resources industry**.

Nevertheless, in terms of deal value, the largest transactions took place mostly within industries that had the least number of transactions:

| # | Buyer | Target Country | Target Company | Deal Value | Industry |
|---|---------------------|----------------|----------------------------|--------------|-----------------------|
| 1 | Ferromex | USA | Florida East Coast Railway | \$2 B | Transportation |
| 2 | Puerto de Liverpool | Mexico | Suburbia | \$1 B | Retail |
| 3 | AC Bebidas | Peru | Corporación Lindley | \$759 M | CP&S |

The transportation industry had significant activity after **Ferromex** made the top value deal this period. The acquisition of **Florida East Coast Railway** at the very end of this 1st semester helped picked up the M&A landscape in terms of deal value for this period.

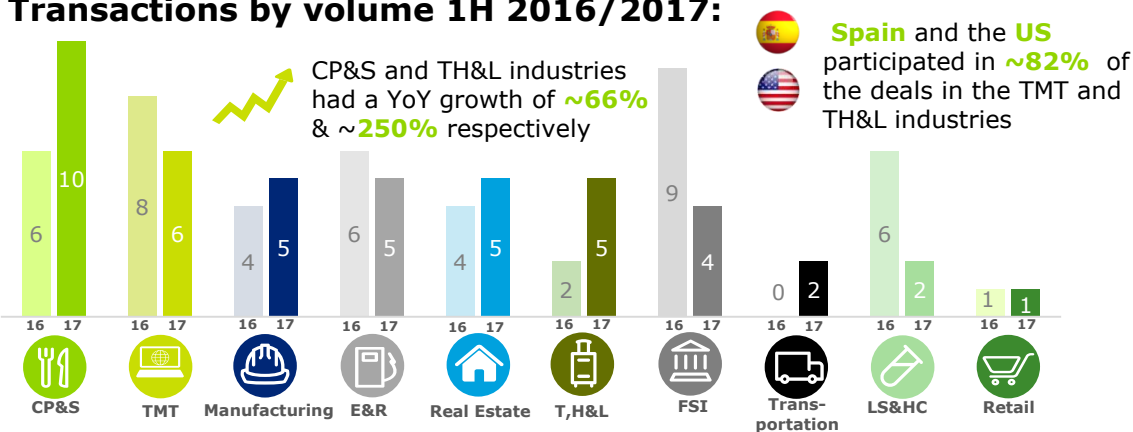
Inbound transactions

Distribution and growth

The first semester of 2017 has shown a decrease of **~2.2% YoY** in terms of the number of deals closed (45) in Mexico by foreign investors.

Foreign investors attention focused on **CP&S and TMT** industries which consolidated **~35%** of the total number of transactions. This implies a **strong transaction diversification** amongst other industries.

Transactions by volume 1H 2016/2017:



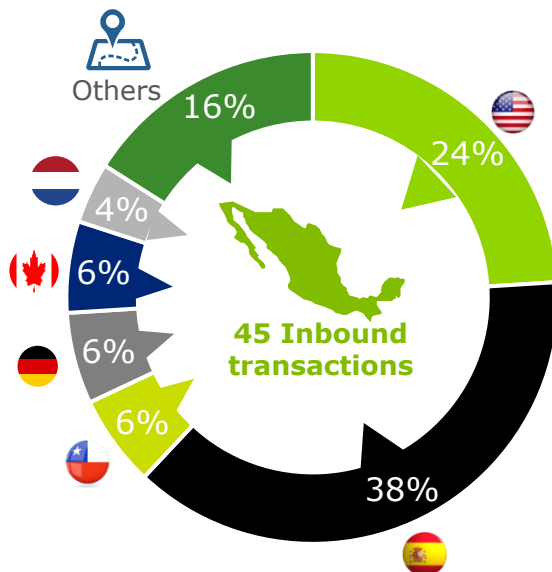
The largest foreign investment this semester was made in the Transportation industry, with the acquisition of **32% of the total shares** in **Grupo Aeromexico** by **Delta Air Lines**. This investment leaves Delta Air Lines with 39.8% stake in the Mexican Airline.

Investments in the **Consumer Products & Services** industry showed significant growth and attributed to **over \$345 M USD**.

Geographies

Regarding the origin of foreign investments in Mexico, the trend observed these last few years continues. **Spain** and the **United States** combined have taken part in **62%** of the total transactions, therefore being the two largest investors in companies in Mexico.

In terms of value, total foreign investments accounted to over **+1,759 M USD** in **14 countries** including investments from Denmark, Hong Kong and Switzerland (JV Margaritas Carlsberg, ComparaGuru, Condair México).



Key Inbound transactions

Consumer Products & Services



Foreign investments in the CP&S industry has been in majority within the **Food & Beverage subsector**. **European investors** showed the most activity within this industry, accounting to **64%** of the total inbound deals during this period.

| Buyer | Investor Country | Target Company |
|------------------|------------------|---------------------------|
| Grupo Gepp | Spain | Polmex |
| Bodega Las Copas | Spain | Domecq & Pedro Domecq |
| Bain Capital | USA | Food Care Division México |

Technology, Media and Telecommunications



Companies in every industry sector are **looking up to technology to facilitate** their own transformations. Aware of the promising opportunities, Venture firms from the **USA** and **Spain** have continued to invest in early and growth stage internet and technology-enabled companies in Mexico⁸.

| Buyer | Investor country | Target |
|---|-----------------------|-------------|
| Seaya Ventures, QED Investors, Nova Founders, Private Shareholders I, Struck Capital | USA, Spain, Hong Kong | ComparaGuru |
| Seaya Ventures, VARIV Capital, Endeavor Catalyst | USA, Spain | Yogome |
| SeedRocket 4Founders Capital, Private Shareholders USA I, Private Shareholders Mexico I | USA | Pulpomatic |

Manufacturing



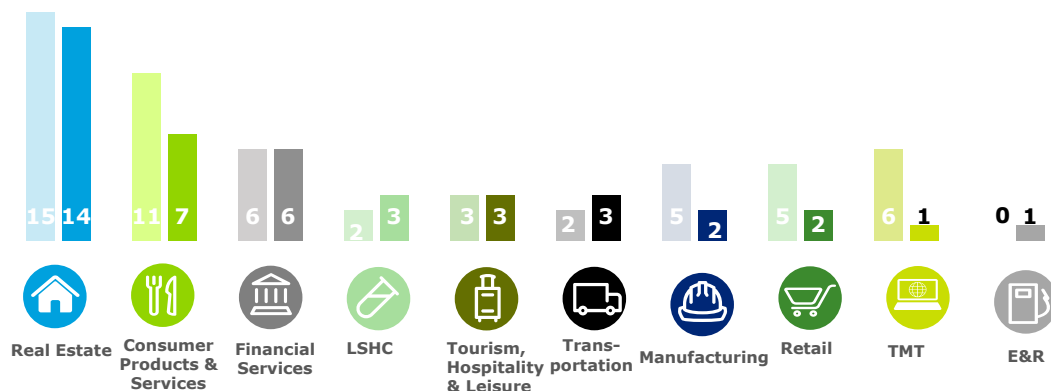
For second year in a row, **CEMEX** was the company with most activity in the manufacturing sector after closing the sale of a package of pre-mixed concrete pumping assets in Mexico to **Spain-based Pumping Team** for **\$120 M USD**.

| Buyer | Investor Country | Target Company |
|-------------------------------|------------------|--------------------------|
| Pumping Team | Spain | CEMEX Concretos |
| Securitas Electronic Security | USA | Central de Alarmas Adler |
| PPG Industries | USA | Plaka Comex |

Domestic transactions

Domestic transactions have seen consistently the **highest activity in Mexico**, however, during the first half of the year, domestic M&A activity has shown **decrease of 24% YoY** from **55 to 42 transactions**. Decrease is predominantly due to a change in appetite of Mexican companies, which seek for investment opportunities overseas.

Domestic transactions by volume 1H 2016/2017:



Real Estate



For 3rd straight year, **Real Estate** has been the most **relevant industry** for domestic M&A activity with **33% of the transaction volume**. Transactions made by “Fibras” have shown a slowdown in the last 3 years from **14 in 2015 to 4 in 2017**. Real Estate fund investment *Walton Street Capital México* (3) and *Invex* bank (2) have stepped up to keep being the most relevant M&A industry for domestic transactions. Currently undervalued, “Fibras” will depend significantly in the outcome of the US Trade policy and a beneficial renegotiation for Mexico would benefit them particularly in helping them recover their expansion.

| Buyer | Investment Value (USD M) | Target Company | Seller |
|------------------------------|--------------------------|---|------------|
| Terrafina | \$ 422.0 | 51 industrial asset portfolio | Particular |
| Grupo Hotelero Santa Fe | \$ 119.8 | Hotel Nuevo Vallarta Hotel Los Cabos | ICD Sitra |
| Finsa, Walton Street Capital | \$ 84.0 | Portfolio Industrial MIA | Grupo IGS |
| Fibra MTY | \$ 61.07 | Portafolio Inmobiliario Huesteco | Particular |
| Fibra Uno | \$ 37.0 | Office Building in San Pedro Garza García, NL | Particular |

Key Domestic transactions

Consumer Products and Services



Retail sales have slowed since the US election victory of Donald Trump in November 2016 (**2% growth decrease** 2016 growth), but remain reasonably firm, despite a drop in consumer confidence. Nevertheless, the most important transaction was **Liverpool's** acquisition of **Wal-Mart's retail chain Suburbia**.

Although **e-commerce** is currently small, accounting for an **estimated 2% of retail sales**, it's expected to expand rapidly in 2017-21 possibly generating M&A activity.

| Buyer | Investment Value (USD M) | Target | Seller |
|--|--------------------------|------------------|-----------------|
| Puerto de Liverpool | \$ 1,006.69 | Suburbia | Wal Mart México |
| Codere México | \$ 26.0 | Grupo Caliente | ELDSA |
| Coca-Cola FEMSA | ND | POA Eagle | ND |
| Gerbera Capital Venture Equity Fund II | ND | Green Gold Farms | ND |
| GIN Group | ND | Exus México | Particular |

Financial Services



Financial sector remains small for a country at Mexico's level of economic development. However, a sharp increase in branches, ATMs and PoS terminals, as well as the impact of a **financial reform** implemented in January 2014, sets the scene for continued growth of the financial sector during 2017-21.

Fintech startups now reach 33% of financial services transactions. This represents **100% growth** vs 2015 transactions. M&A transactions for Fintech are expected to grow as Financial institutions closely track their progress.

| Buyer | Investment Value (USD M) | Target | Seller |
|--|--------------------------|-----------------------------|--------------------------|
| BBVA Bancomer | ND | Openpay | Particular |
| Grupo Financiero Ve por Más (BX+) | ND | Seguros Multiva | Grupo Financiero Multiva |
| Grupo Bursamétrica | ND | Dumbarton Securities Mexico | InvestaBank |
| ProActive Capital | ND | Neuco, Médica Sur | Particular |
| Nexus Capital VI, Nexus Capital VI Trust | ND | Translatum Holding | ND |

Domestic transactions- Highlights in Mexican Reforms

In 2013, Mexico passed a series of “**structural reforms**” in search to promote economic growth. For M&A activity, **energy** and **telecommunications** reforms were two of the most relevant reforms mainly due to increased openness in industries that were either state owned or protected by current laws. Both industries were expected to see increased activity, we now analyze how they have developed since the reforms promulgation.

Energy Reform:

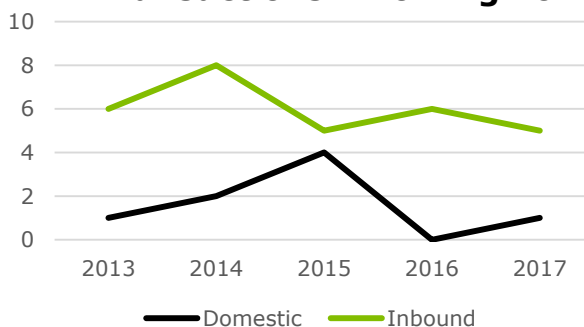
Promulgation of the energetic reform in **December 2013** seek to attract foreign investment and **boost** local market.

Since then, different bidding rounds have taken place in 2015 and 2017; one year before, inbound transactions have shown to increase their

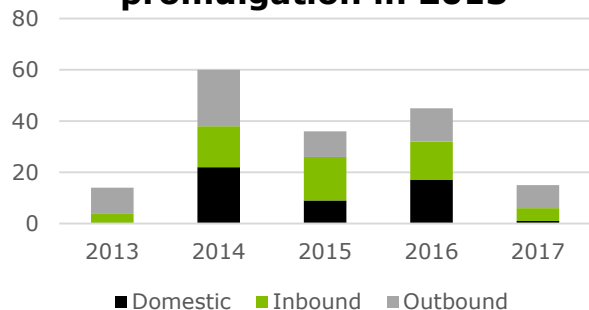
activity; while domestic market peaked during the year of the first bidding rounds were 3 of the 4 transactions recorded where closed in the 2nd semester 2015.

First bidding of the second round of investments took place in March earlier this year with 10 of 15 “blocks” were awarded involving an investment estimated in **\$8.2B USD** and **82,000 direct and indirect jobs** created. With more investments rounds yet to come we can expect M&A activity to increase for the second half of the year.

Inbound & Domestic Transactions involving E&R



TMT Transaction activity since Telecommunications promulgation in 2013



Telecom Reform:

Telecommunication’s M&A activity peaked one year later of its promulgation in **2013** with 60 and has seen **YoY CAGR of 48%** were half of the industry’s growth has come through domestic transactions. Companies like Televisa, Grupo Salinas and Axtel have boost investment in the industry through their acquisitions of Cablecom,

Iusacell and Alestra respectively. Meanwhile venture capitalist firms have been acquiring minority stakes in technology startups.

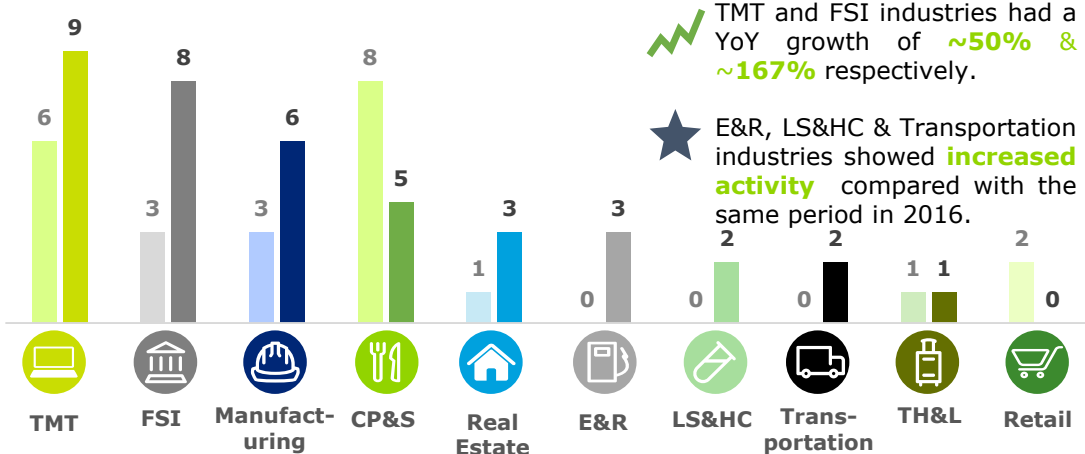
Mexico Outbound Transactions

Distribution and growth

The first semester of 2017 has shown a growth of **~37% YoY** in terms of the number of deals closed offshore (39).

Mexican investors attention focused on **TMT and FSI** industries which consolidated **~45%** of the total number of transactions. This implies a **strong transaction diversification** amongst other industries.

YoY Offshore transactions (2016/2017)



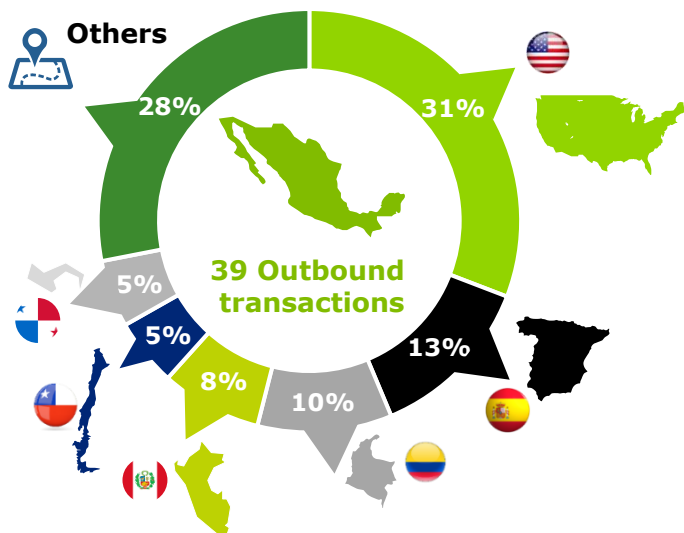
Particularly, TMT outbound transactions have been oriented to acquire participation in **Start up companies** which are developing apps disruptive to the Mexican market (i.e. Parking solutions, Goods delivery, etc.).

FSI investors focused on closing deals that could improve their portfolio, paying special attention to methods to serve the **unbanked population**.

Geographies

Mexican investors found in the **USA, Spain and Colombia** great stages to diversify their portfolios, concentrating **56%** of the total number of transactions.

In terms of value, it meant investments over **+4,918 M USD** in **15 geographies** including transactions overseas in Israel and UK (Lightticks and Ades).



Key outbound transactions

Technology, Media and Telecommunications



Recent changes in the regulatory landscape allowed enterprises to find **new ways to compete**. Mexican investors found offshore innovative ways that could disrupt the market materialized through investments. Most of them through “alliances” based mainly on digital solutions.

| Buyer | Target country | Target |
|--|----------------|---------------------|
| Multiple (i.e. B4Motion, Avianta Capital, Stella Maris Partners, etc.) | Spain | Ilollo |
| Jus | Spain | Biblioteca Nueva |
| IGNIA Fund I | USA | Abra |
| Deutsche Bank México | USA | AirTM |
| ALLVP | Israel | Lightricks, Enlight |

Financial Services Industry



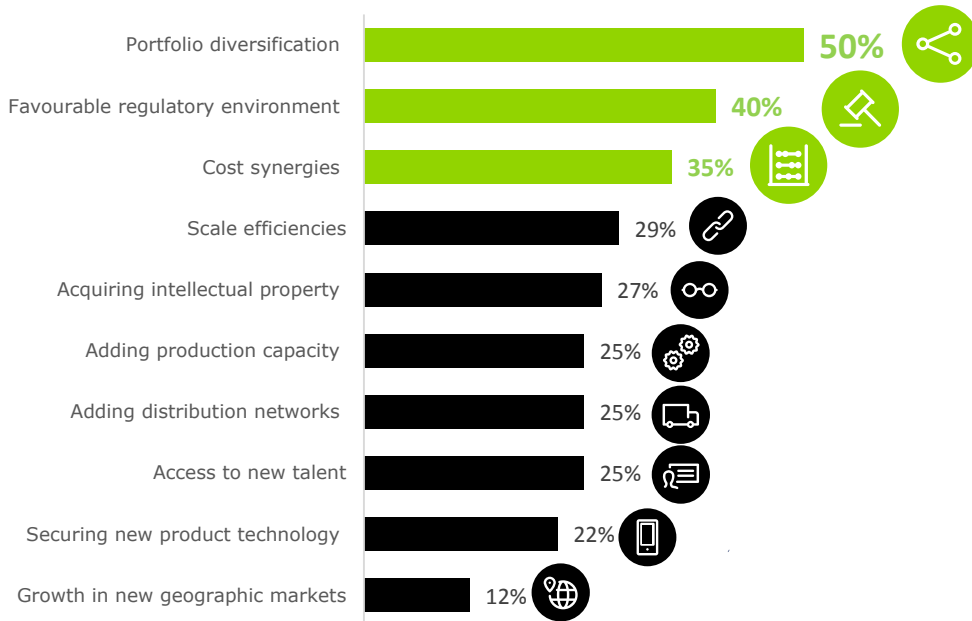
Mexican economy is based on cash. Almost **92%** of the economic active population prefers cash over formal payment methods. Finding new ways to serve these incumbents is crucial to compete. Thus, through acquiring the know how developed mainly in the US, companies may leverage this capabilities to be applied in Mexico.

| Buyer | Target country | Target |
|----------------------------------|----------------|---------------------|
| Ideas & Capital | USA | Dvdendo |
| Accionistas Particulares I | USA | Inter National Bank |
| VARIV Capital, Chilango Ventures | USA | MPOWER Financing |
| Nexus Capital (Global) | USA | Transnetwork |






Deloitte's perspective on Outbound transactions

Key value drivers

Engaging an Offshore deal could be challenging for Mexican companies. Nevertheless, Outbound transactions represent a great opportunity for **growth and to generate exponential value**. According to our experience⁹, most investors look forward to increase revenue through the **portfolio diversification**.



A **seamless execution** is vital to ensure the benefits coming from an Outbound transaction. Based on our M&A experience, we have identified **leading practices** that executives and deal members must consider while closing an offshore deal:

-  Align all M&A lifecycle phases, from target selection to integration, to the strategic objectives.
-  Integrate pre-deal due diligence with pre-close planning activities to prevent handoff misses.
-  Structure the deal so it has the best chance of meeting its objectives— knowing that full integration may not always be the right choice.
-  Define the integration scope and plan for achieving Day 1 and future state goals.
-  Focus efforts on effectively planning and executing the integration critical route, ensuring the deal objectives.

Conclusion

Reactive global and domestic markets

Political and economic factors have affected both the number and value of M&A transactions across the globe, decreasing it in 5% and 6% respectively compared to last year. Adding to this conditions, Mexico's own economy and political climate have resulted in lower levels of transactions in comparison to the last two years.

The beginning of the year was difficult for the domestic market, due to Mexico's dependencies to factors such as inflation, increments in interest rates and an initial lose of value in currency exchange during the first two quarters of 2017, which contributed to slow the inversion in the Mexican market.

Nonetheless, data shows that in the last months, changes in regulations, structural reforms, political confidence, a notable recovery in the exchange rate for the Mexican peso value and an improvement in S&P's rating is improving market confidence and could very well bring investment back and increase the volume of transactions in next quarters.

Improvements due to reforms in Mexico

Although the local market still has not recovered the level of transactions shown during 2015, government's reforms will play an important role to improve investors attraction and increase the number of deals. Given that NAFTA does not include the energy and TMT segments, global factors have less negative impacts in the number of potential deals and investments in the next year.

Even if the benefits were not as high as expected during 2016, Mexico's reforms in energy will contribute to attract investment from both private enterprises and countries, since it will provide positioning opportunities and increase competition, which could lead the way during the next year to increasing alliances, merges, acquisitions and joined ventures.

Technology, Media and Telecommunications segment has already attracted foreign companies into a broader market since the telecommunications reform in 2013, which has facilitated new levels of competition and transactions and a YoY CAGR of 48%. Half of the growth has come from domestic transactions and acquisitions of startups. This growth will attract even more international players to the domestic market such as phone and cable providers which will help keep the tendency steady.

Also of note is the financial reform, which was implemented during 2014 to make adjustments to the regulatory banking framework, and help promote greater competition within the banking system.

Conclusion

Key strong industries

During 2017, three industries have maintained an important number of deals and volume: Real Estate, Consumer Products & Services, and Financial Services.

Since 2015, Real Estate has remained the most relevant domestic industry for M&A transactions. During 2017, it owns 33% of the total volume with value of \$1,174 M USD.

Investments made by "Fibras", the Mexican real estate investment trust focused on office spaces and commercial buildings, position them as the third most important bidder of this year, while Terrafina has gained the trust of many financial advisors due to their focus on industrial spaces. There is no indication that this trend will stop in the coming years.

In regards of Consumer Products & Services, although it showed a 2% growth decrease compared with last year, it is second place in volume and value of deals (\$1,704 M USD) of all industries. It retains a steady growth thanks to significant acquisitions like Suburbia by Liverpool.

Food & Beverage presented the bulk of the transactions and European investors (mainly from Spain) contributed to 64% of the total inbound deals during 2017, while USA also participated in full acquisitions. As for retail, as the big Mexican chains continue with major expansion plans, this will present more M&A opportunities for international investors. Retailers will continue to invest in Mexico because such transactions are a result of a continued demand for assets which offer and enhance sustainable growth.

Finally, Financial Services has a high number of deals (18) and will continue with this growth for the next five years. This is still due to global players such as BBVA Bancomer, HSBC, Citibanamex and Santander looking to keep expanding their customer base and thus maintain investing in locations, better processes and capabilities.

The incrementing use of technology to improve financial transactions in banking, from ATMs, PoS terminals to apps focused on user experience and data security systems, will bring more volume of merges and acquisitions deals between Financial Services and TMT.

Startups also maintain a continued growth in their services and probably will be the focus of acquisitions in the next two years.

Conclusion

Outbound opportunities

In spite of the current political climate and the degree of uncertainty felt towards USA investments, for the first half of 2017 it still represented a growing market for Mexican investors with a 31% of total volume of transaction in this year.

This isn't, however, the only region to look forward in the future, since Mexican investors are presented with an opportunity to continue portfolio expansion and/or diversification in European and Latin-American markets, as proved by the 25% of transactions occurred in those regions in the first two quarters of 2017.

In terms of deals closed offshore, the industries of TMT and FSI grew approximately 50% and 167%, respectively compared with last year with an increased interest in Startups. As we mentioned before, this two industries work in tandem from a merge or acquisition point of view, and will bring plenty of transactional opportunities in the coming years for diversification and growth.

For further information visit:
www.deloitte.com.mx

Contacts

Salvador Hernández

Partner
M&A Leader Mexico
shernandez@deloittemx.com

Gabriel Gosalvez

Senior Manager
ggosalvez@deloittemx.com

Manuel Huerta

Manager
manhuerta@deloittemx.com

Miguel Hernández

Manager
mhernandezcabrera@deloittemx.com

Rubén Morfín

Senior Consultant
rmorfin@deloittemx.com

María José Espinosa

Consultant
marespinosa@deloittemx.com

Diego Aguilar

Consultant
dieaguilar@deloittemx.com

Eli Rapaport

Consultant
erapaport@deloittemx.com

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Methodology

The data shown in this analysis includes all transactions recorded as completed in the Transactional Track Record (TTR) in the period between 01/01/2013 to 06/30/2017 and information contained in Mergermarket.

If the transactions recorded as completed did not report value, they were still included in the analysis. Approximately ~ 50% of total transactions reported the value of the amount.

The completed transactions refer to mergers and acquisitions, venture capital and private equity transactions carried out by local or foreign entities in Mexico or by Mexican investors abroad.

For cases where more than one country or more than one sector were involved, we took the country or sector reported by TTR that dominated the transaction.

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