Latin America as a Potential Hotspot for M&A

By Marcelo G. Sada

Recently, there has been a spike in U.S. private equity and venture capital firm investment involving Latin American middle market companies. Generally speaking, conditions in Latin America have finally begun to stabilize after decades of volatility. This presents great merger and acquisition (M&A) opportunities for the region. In particular, M&A activity in Latin American countries such as Brazil, Columbia, and Mexico is approaching an all-time high.

After a decade of solid economic performance, markets are getting the chance to develop as more companies realize the opportunities that await virtually every industry in Latin America. Once dormant markets are developing, and we're seeing venture capital and private equity firms investing in regions where they were noticeably absent just a decade ago. The numbers speak for themselves—private equity and venture capital firms committed $10.39 billion towards Latin American investments in 2014, according to the Latin America Private Equity & Venture Capital Association.

What's attracting investors to Latin American countries is that they now have relatively stable governments, a growing middle class, and healthy and growing economies. In addition, they have opened new markets and engaged in free trade agreements with countries all over the world. All of these factors provide safe opportunities for foreign investment.

Granted, it's not universal. Brazil is a complicated market, along with Argentina, due to its political issues and currency devaluation. The spike is most noticeable in countries like Mexico, Colombia, and Chile. A lot of sovereign wealth funds are exiting Asia and seeing Mexico and South America as better bets.

Industries such as manufacturing, aerospace, automotive, oil and gas, telecommunications, and e-commerce were historically the most attractive when it came to Latin American M&A activity. This trend continues today, particularly in the telecommunications space, which recently saw AT&T invest approximately $4.4 billion towards its acquisitions of Grupo Iusacell and Nextel Mexico with additional growth planned for high speed mobile internet. The activity involving these blue-chip companies has naturally created a ripple effect across the industries, generating opportunities for middle market players in these regions.

Growth is not limited to just these industries. Because there's an abundance of skilled, cheap labor in close proximity to the U.S., the aerospace and manufacturing industries in Mexico are also growing significantly due to a substantial number of qualified engineers and specialty workers. Oil and gas exploration and services, specialty manufacturing, and automotive are also industries in Mexico witnessing significant growth.

Moreover, the e-commerce industry in Mexico is also expected to grow dramatically because the Mexican market jumped a phase in technology adoption. A population that only a decade ago had little access to computers suddenly has access to smart phones. Consequently, e-commerce has evolved with more and more Mexicans using their credit cards to make online purchases and pay bills. The industry grew over 41 percent last year, and this growth is occurring across Latin America in general, not just Mexico.

Even with all of these positive indicators for M&A activity in Latin America, there are still some challenges to overcome. One of the biggest impediments to successful investing arises from getting to know the laws and regulations of the particular countries. Additionally, understanding the culture and consumer behavior associated with each country can be challenging. Frequently, international companies attempt to implement what has worked for them in their home countries and end up failing in these areas.

Understanding industry-specific regulations, particularly as they relate to permitting, is also a challenge to M&A in Latin America. Companies have commonly experienced difficulty obtaining all the permits that need to be in place to conduct business and don't know how to navigate Latin American governments. Currency risk, as well as finding trustworthy partners and executives to work with, presents additional challenges in Latin America.

Nonetheless, investment naturally involves risk. Those with the capital to deploy and know-how to navigate the foreign markets will be rewarded for their efforts. The opportunities are there for those willing to step up to the challenge. N

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