

[Email](#)

[Proprietary](#)

Latin America to see surge in M&A activity as region rebounds from COVID-19

Analysis

13:14 EST, January 12 2021

[Email](#)

Dealmaking in Latin America is expected to pick up in 2021 as investors, companies and entrepreneurs learn how to reinvent themselves for a post COVID-19 era with many countries initiating or gearing up for vaccination campaigns.

Political and economic uncertainties brought about by the novel coronavirus led to a 34% year-on-year decline in regional dealmaking, with total deal value falling to USD 56.8bn (557 deals) in 2020 from USD 85.7bn (735 deals) in 2019, according to [Mergermarket data](#).

Brazil: Distressed assets and financial investors to play key role

Distressed M&A is poised to remain a key driver for deal activity in the region's biggest economy as many companies are still struggling with fiscal and financial burdens created by COVID-19, said Ricardo Chamon, partner at legal firm CSA Advogados.

The high liquidity of local financial investors paired with the appetite of foreign investment funds for assets in emerging economies like Brazil should steal the thunder of foreign strategic bidders in local dealmaking, noted Clovis Torres, partner at law firm Souza, Mello e Torres. "These assets will be highly sought-after and foreign strategic investors do not like that," he said.

Well-capitalized local strategic bidders are likely to continue carrying out acquisitions and raising money in the equity capital market through IPOs or follow-on offerings, said Cassio Spina, lead partner at M&A boutique Altivia Ventures.

According to *Dealogic*, Brazil's equity capital markets reported in 2020 the highest annual volume in a decade with USD 30.6bn, a continuation of the growth of 2019, which stood at USD 30.3bn

Some of the sectors expected to see strong M&A activity in 2021 include healthcare, education, agribusiness, food & beverage, and infrastructure, Chamon said. He noted, however, that "premature politicking" over Brazil's 2022 presidential elections could become a big challenge for dealmaking.

The technology sector should also play a key role this year with software companies like Linx [NYSE:LINX] and Totvs [B3:TOTS3], as well as IT services providers like Locaweb [B3:LWSA3], Neogrid [B3:NGRD3] and Stefanini advancing with their acquisition strategies, Chamon noted. Tech startups should also benefit from the recent launch of new corporate venture funds and the strengthening of the local startup ecosystem, he added.

Hot niches within the startup industry include fintechs and health techs, Torres said. Spina, of Altivia Ventures, pointed edtechs as another interesting target.

Mexico: Agriculture and logistics to drive dealmaking

As the country continues to wrestle with the novel coronavirus, dealmaking in Mexico this year is expected to start slow, before picking up in 2H21, said Sergio Garcia, managing director at Arlington, Virginia-based investment bank Seale & Associates.

June's midterm elections, in which 15 state governors and the lower house of Congress will be elected, will add to the uncertainty during the first half of the year, he added.

In the wake of the disruption to global trade caused by the pandemic, international agriculture producers will seek to strengthen their Mexican supply chain through M&A, said Garcia.

While total buyouts are unlikely, poultry, pork and cattle producers will try to bolster their product security by acquiring minority stakes or setting up 50/50 joint ventures with Mexican suppliers, said Garcia.

Mexican leaders in industries that have been heavily impacted by the pandemic, like consumer products, could also become targets for large foreign strategic buyers, Garcia noted.

Mexico's geographic proximity to the US, coupled with its skilled labor force and competitive operating costs, make it an attractive investment destination for international firms looking to establish new manufacturing hubs, said Garcia.

The pandemic is also expected to spur further dealmaking in the technology space as it accelerates the growth of e-commerce platforms, where there are 100m smartphone users, said Eric Perez-Grovas, Managing Partner at Mexico City-based venture capital firm Jaguar Ventures.

As large conglomerates seek to bolster their online sales channels through M&A, tech-enabled logistics companies, including those offering last mile and warehousing solutions, could become targets, Perez-Grovas said, Large companies in this segment could also draw interest from local private equity firms, he added.

Long-winded competition reviews, however, might provide a potential roadblock for deals, said Perez-Grovas. Last month, Mexico's antitrust regulator COFECE approved the USD 225m acquisition of Santiago, Chile-based online grocery provider Cornershop by Uber Technologies [NYSE:UBER], more than a year after the deal was announced, [as reported](#).

There will also be some consolidation in the fintech space as the country's key players start building digital wallets and expanding their services by acquiring smaller peers, said Perez-Grovas.

Colombia: Govt divestments and BPO sector to drive M&A activity

A big portion of Colombia's M&A activity in 2021 will be driven by the divestment of government-owned assets, said Victor Rivera, an independent M&A advisor who advised the local government of Bogota in asset management and privatizations.

The South American country plans to raise the equivalent to 1.1% of gross domestic product (GDP) through privatizations in an effort to reduce its fiscal deficit following the roll out of stimulus packages to combat the COVID-19 economic downturn. The Colombian state owns stakes in 105 companies worth a combined USD 45.4bn.

On 5 January, [Bloomberg](#) reported that Colombia plans to sell its 51.4% stake in local energy company Interconexion Electrica [BVC:ISA], worth about USD 4.3bn. State-controlled oil company Ecopetrol [BVC:ECOPETROL; NYSE:EC], and Grupo Energia Bogota and Empresas Publicas de Medellin (EPM), two energy companies controlled by local governments, are said to be interested in the government's stake in ISA, the report added.

EPM is currently ISA's second-largest investor.

Ecopetrol, for its part, launched in September a process to divest nine onshore oil fields, [as reported](#).

Colombia's M&A activity is also expected to be driven by deals in the business process outsourcing (BPO) sector, another M&A advisor said.

Multinational BPOs and call centers may be seeking to divest assets, including some in Colombia, said the advisor, who works with a number of local firms.

This news service reported [in October](#) that private equity firm Aksia Group launched the sale process of Italian call-center operator Covisian. The company operates in Colombia through its Spanish subsidiary GSS, which in November acquired Avanza Group's BPO business in the South American country, [as reported](#).

The arrival of new BPO companies to Colombia will also heat up dealmaking in the sector, the advisor said. Minnetonka, Minnesota-based UnitedHealth [NYSE:UNH], which operates in Colombia through Banmedica, is looking to open an office of its BPO-related unit Optum in Bogota to serve its US Hispanic customers plus those in Chile and Colombia, noted the advisor.

Blackstone-backed TaskUs is also looking to open offices in Colombia, said the advisor.

Additionally, two undisclosed US-based BPO companies are seeking a roll up strategy in the country and at least two Indian firms are seeking acquisitions in Latin America, including in Colombia, said the advisor.

Smaller BPO outfits are also looking for targets in Colombia. This news service reported [in October](#) that Coral Springs, Florida-based Lean Staffing Solutions wants to acquire a small Colombia-based BPO firm.

Chile: Economic rebound and demand for metals to encourage M&A deals

The progressive recovery of the Chilean economy, which is expected to reach pre-pandemic levels in late 2022, alongside the growing demand for copper from China and other countries, will likely lead to an uptick in deal activity this year, according to M&A sources.

Sergio Diez, partner at law firm Cariola Díez Pérez-Cotapos, noted that sectors like energy, mining, infrastructure, agribusiness, salmon, and wine are expected to continue drawing attention from both financial and strategic investors in 2021.

Diez noted that the rewriting of the country's dictatorship-era Constitution, which was overwhelmingly approved by Chileans in a referendum in October, should not change "the rules of the game" for key sectors like energy and mining, giving legal certainties for players to continue investing in both industries.

The global demand for copper, which is expected to grow 3.4% year-on-year according to Singaporean financial services group [DBS Bank](#), is also likely to lead to the reactivation of many mining projects and, consequently, spur investments from foreign bidders, a local M&A advisor noted.

E-commerce, logistics and payment-related fintechs, which reported strong deal activity last year, will continue to be on investors' radar, the M&A advisor said.

On the other hand, companies in the restaurant, hotel, tourism, and transport industries that have been heavily impacted by the pandemic could draw investments from private equity firms to stay afloat, the source added.

by Max Gonzales in Sao Paulo, Dominic Pasteiner in Mexico City, Carlos Martinez in Bogota, and Ana Toral in Santiago

Grade

Confirmed

TARGET

[Interconexion Electrica SA](#)



BIDDERS

[Uber Technologies, Inc.](#)



[Lean Staffing Solutions](#)



OTHERS

[Linx S.A.](#)



[TOTVS Brasilia Software](#)



Countries

Brazil

Chile

Colombia

Mexico

Sectors

Agriculture

Computer services

Computer software

Consumer: Foods

Consumer: Other

Locaweb Servicos de Internet S.A.		Consumer: Retail
Neogrid Participacoes S.A.		Energy
Stefanini Consultoria e Assessoria em Informatica S.A.		Financial Services
Cornershop (Mexican and Central American business)		Internet / ecommerce
Ecopetrol SA		Medical
Grupo Energia Bogota SA ESP		Mining
Empresas Publicas de Medellin E.S.P.		Other
Covisian S.p.A.		Services (other)
Private Equity House		Transportation
Aksia Group SGR S.p.A.		Utilities (other)
Avanza Spain S.A.		<hr/>
Global Sales Solutions Line S.L.		Sub-Sectors
UnitedHealth Group, Inc.		Alternative energy
Banmedica		Animal husbandry
Optum, Inc.		Application software products
TaskUs LLC		Business support services
Private Equity House		Conglomerates
Blackstone Group L.P.		Consulting services (excl. IT consulting)
		Data processing
		Electrical power generation
		Electrical power transmission
		Fish/ meat/ poultry
		Fishing
		Food-others
		Freight and other transportation services
		Health institutions
		Hospital management
		ISPs
		IT consulting
		Insurance related
		Integrated utilities
		Mail and package shipment
		Medical equipment & services
		Metal ore
		Oil and gas exploration and production
		Operating systems and systems-related software
		Other mining activities
		Other services
		Portals
		Search engines and other internet enabling technol
		Soft beverages
		Software development
		Supermarkets (food chains)

Systems integration
Trading / procurement systems
Water, sewage and other systems
e-retailing

Topics

Analysis
Companies for sale
Infrastructure

Intelligence ID: intelcms-cj27mn

© 2021 MERGERMARKET LIMITED. ALL RIGHTS RESERVED

To be used for the internal business of the assigned users only. Sharing, distributing or forwarding the entirety or any part of this article in any form to anyone that does not have access under your agreement is strictly prohibited and doing so violates your contract and is considered a breach of copyright. Any unauthorised recipient or distributor of this article is liable to Mergermarket for unauthorised use and copyright breach.