Speaker 1 (00:00):

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Oscar Stevens (00:14):

Hello and welcome to another installment of Greenberg Traurig's mini series, the Big Law Redefined podcast. I'm your host Oscar Stevens, corporate shareholder in GT's Latin America Group in New York. We're currently facing a number of headwinds in corporate activity, and perhaps we are at the very early stages of a new recessive cycle. There seems to be a general sense of global instability driven by the continuous war in Ukraine, the collapse of Silicon Valley Bank and Credit Suisse, and volatility in the stock market, together with an environment where interest rates have been at the highest level since before the 2007, 2008 financial crisis. There is a perception that global markets have lost predictability, which affects both investment and consumption.

(01:04):

Today, we will discuss the state of M&A in Latin America, a focus on Indian countries, with our guests, Todd Huckabee, co-founding partner of Hudson Bankers, and Carol Barnhart, corporate shareholder of Greenberg Traurig in Miami, where we will cover general trends in M&A activity in the region, what opportunities exist today, and what is the outlook for the Indian market region in the near term.

(01:32):

Todd Huckabee has broad experience in advising multinationals and Latin American companies in capital market transactions, as well as mergers and acquisitions, including over 500 transactions with multinational clients in the US and Latin America, with a combined value of over $5 billion. In 2011, he co-founded Hudson Bankers, a leading M&A and corporate finance mid-market advisory firm, with a greater focus on the Indian countries and Central America, where he has led transactions in Chile, Peru, Mexico, Costa Rica, Brazil, Colombia, Argentina, and Ecuador. He's admitted to the New York Bar, and holds a JD from Columbia University and a BA from Samford University. Todd is a US citizen and has lived in Chile for over 20 years. Todd, welcome to our podcast.

Todd Huckabee (02:25):

Anna, thank you very much for the introduction. It's a pleasure to be with you here today. Thank you, Oscar and Carol, for inviting me to this conversation regarding M&A in the region. These are really challenging times for investors looking at Latin America, and for the owners as well. We expect significant deal flow in the mid-market in next 24 months, despite all this, and somehow, driven by the uncertainty caused by the financial turmoil. Owners of the companies are seriously evaluating exit or partial exit strategies, while buyers, both financial and strategic, are flush with cash, ready to invest to obtain returns above market.

(03:13):

At the end of the day, M&A is just the confluence of the curves between the sellers and the buyers at the right price. We get more deal flow when those two come together. In this case, with all this going on, you have more flexible sellers and you still have enough capital looking for investments, not only financial, but there are a lot of strategic groups also looking at expanding their platforms in a moment that is very attractive if you look at it from a foreign exchange or just availability point of view.

Oscar Stevens (04:00):

Thanks, Todd. And welcome. Next, Carol Barnhart. Carol Barnhart's a corporate shareholder of the Greenberg Traurig Latin America Group, based out of Miami office, where she focuses on mergers and acquisitions and complex transactions, together with compliance, financing, and corporate governance matters. She has led legal teams and operations both in North America and throughout Latin America, in both private practice and as a chief legal officer, chief compliance officer, and head of M&A for Grupo Phoenix, GlobeNet Cabos Submarinos, and Diageo. Carol, thanks for joining us today.

Carol Barnhart (04:39):

Thank you, Oscar. And thank you, Todd, for those words and for inviting me to this podcast. It's a pleasure really to share insights on where we see the market going, what our experiences are, and to discuss the most relevant trends that are ongoing both in the US and LATAM, and see how the economic global concerns that face us all have the ability to impact the various deals and deal flow into and outbound from Latin America. So thanks for having me. I'm looking forward to a very good and frank discussion.

Oscar Stevens (05:15):

Thanks, Carol. Let's start with our guest, Todd Huckabee. Todd, given this context and the current environment, tell us, from your perspective, what does it all mean for the M&A activity in general?

Todd Huckabee (05:32):

Well, I think that it's an interesting time because the current financial noise has a very profound effect, because on the one hand, owners of businesses are nervous. They're considering exit strategies to diversify their risk and reduce market exposure. This is coming from a region that, in many of these countries, they grew for 30 years constantly. They didn't know what it was like not to grow, and sometimes growing at double digit. And then all of a sudden, things change, maybe a little bit politically, maybe a little bit the global markets, and a combination of both. And then COVID, it just created an environment where now there is downside, there is ... there's the hockey stick projection that we always do that basically drives deals to say, "Look, you've got to pay me a huge amount of money because this business grows at 10% a year and is a stable foreign exchange rate." That scenario is no longer and I don't think it is coming back, because it already got messed up. We don't have 30 year track record.

(06:50):

With the interest rate hikes and inflation, they hit much harder in Latin America, because of many factors. But one of them that is just a very big item that affects M&A deals is that the debt that the companies have, local companies have in the region, is mostly local currency debt. This debt is indexed to inflation and a lot of it is short term. So that means that within the next few ... next 12 months, a lot of the debt will have to be renegotiated. Given the aversion to risk, there are going to be people that cannot do that rollover. So that creates ... We're already seeing it. I mean, we're seeing people that are at the table talking now that were not at the table a year ago. So that's very interesting. This comes right after COVID, which basically wakes everybody up to extraordinary events, that things can happen. That maybe I do need to have a percentage of my family wealth in a jurisdiction that's not just the local market I'm in. That drives a lot of the conversations that are going on now, that people are seeing that.

(08:17):

The other thing is the investor side of M&A has also been affected because financial sponsors probably have raised less money. A lot of the ones that were very active in the last five years are not as active now because they haven't been able to raise the money, or with COVID and everything else, they've had failures. Significant failures. So that leaves that there's probably a new group of investors that will be looking for opportunities, and we're already seeing a bigger percentage of the transactions occurring with what we call strategic, which is people that are in the business and not from the financial sector. With that, one way of addressing it is now that we have motivated sellers and you have a group of investors that are looking to invest, they're also looking at the foreign exchange rate. The foreign exchange rates have changed dramatically. I mean, you could have done amazingly well in the last five years, double digit growth, so forth, and then all of a sudden takes all your gains away in dollars. This has been a huge problem and is probably going to affect how well P firms can raise new money.

(09:46):

Now, the other side of that is that we're seeing strategics come in and become a much more relevant player because ... Strategic players that were in these countries, particularly the Indian countries, that were never available to be bought, because they were the leader of the market and they were never willing to sit down at the table, now they're saying, "Maybe I'll sell you a piece of the company. Or maybe I'll start a path to exit." That's what we're seeing a good bit of.

(10:18):

With these devalued exchange rates, it also sets the stage for a very interesting vintage of financial sponsor investments, because if they invest at, say, double the exchange rate there was ... In Columbia, we're talking double the exchange rate there was not too long ago. Then you're more likely to do well in dollars when you make that investment. I think these are all the ... They dynamic is interesting. I think COVID also created a lot of debt that will ... People are starting to realize they have too much debt on their balance sheets, and if it's indexed to inflation, we're going to hear more of that, probably.

Oscar Stevens (11:13):

Despite all that, there seems to be a perception, at least, that many companies are in a very strong cash situation in any event. But Carol, given all these considerations and context, where do you see or what have you been seeing in terms of opportunities? There's a down cycle that may not be good for some people, but is good for others looking for a bargain. So what do you see those opportunities coming up right now?

Carol Barnhart (11:42):

Yeah. Very much in line with what Todd's saying, it has created ... the market has essentially evolved and created an opportunity to innovate. There are indeed a lot of strategics looking at opportunities, just because they're cautious, but they understand the business. What that has created is, notwithstanding the rising costs of capital and the recession fears and inflation woes and political uncertainty in some of these countries, there are opportunities throughout Latin America, Chile. Brazil is a big country that's coming up after a significant period of time of turmoil. In Mexico, in particular, I have some big clients who have decided, for example, to stay away from China. De-invest in China, given the concerns, and put their monies in, for example, supply chain, especially after COVID, and reinvest in, let's say, Mexico, for example.

(12:46):

So whilst we've experienced a shift ... You're right, Todd, a lot of IPOs are sort of slowed down, exits are slower. The whole scenario and where we are with debt and refinancing of debt in Latin America, and the fact that most people just don't have the ability ... they're at the table, they don't have the ability to refinance. If they refinance, some of them are facing default or increased interest rates because of the refinancing and a high level of debt in their financials. Strategics have come in. I've seen, personally, clients who've come in from Europe and the United States and filled those gaps with those, whether it's conglomerates in Latin America or wealthy families in Latin America, who now are willing to sell part of their private wealth, part of their share holdings, that five years ago they wouldn't have even thought of actually selling or putting it ... or even doing any type of business combination.

(14:00):

The people with the cash are king right now. So they will come in, into our local markets in Latin America, with cash and the ability to infuse capital infusions in these companies. That's where I've seen a lot of opportunity in Latin America. So a lot of investors, a lot of clients from ... including strategics, from Latin America, from Europe, from the United States come in with the opportunity to invest. Even though it's an emerging market, they can see cautiously that, actually, the infrastructure is there to invest in a relatively stable world. Especially when they're looking at opportunities in the past, where they're de-investing from, whether it's China, Russia, the Ukraine region, et cetera, and they're bringing their funds into Latin America.

(14:45):

So definitely, to answer your question, Oscar, long way about answering your question is there are opportunities and there is significant activity. I would go further and say that I've seen, in terms of deal flow, the deal flow has remained relatively constant. I think what I have seen, personally, in my deals is the value of the deals has become slightly smaller than it was a few years ago.

Oscar Stevens (15:18):

Carol, you touched on something with respect to Mexico on this concept of nearshoring.

Carol Barnhart (15:23):

Yeah.

Oscar Stevens (15:25):

I wanted to get your thoughts whether this trend on moving a lot of the supply chain and manufacturing to Mexico, first of all, would they be a spillover of that into some of the Indian countries or the rest of Latin America? Central America could be [inaudible 00:15:44] that. What other industries do you think will be also ripe for a good opportunity right now?

Carol Barnhart (15:55):

I'll answer your last question first. I think healthcare ... Besides, obviously, energy, which remains quite an opportunistic area in Latin America, I think healthcare has seen an uptick. Some clients of ours, both in the US and European clients in the healthcare arena have gone in and approved significant investments in Central and South America in the healthcare world. I expect that to continue. In the food arena, there's a few conglomerates that are interested, or at least have shown interest. I don't know whether the deal is actually ... deals are going to actually happen, but they've seen ... Because it's a traditionally stable market or segment, I think that area will continue. Tech is another area that although there was a huge boom in 2020, 2021, it was insane in terms of how high it was. I think tech's still there and there's some opportunity there. That's sort of where I am.

(17:00):

With respect to your first question on Mexico and whether there's a spillover. Absolutely, I'm already seeing it. You have Panama and a lot of countries throughout Central America that actually have taken on the opportunity to do free zones, the ports and port authorities, where they have capitalized on the fact that ... After COVID and the supply chain crisis that we had in the United States, they have used the opportunity to offer and fill the gap where the United States simply couldn't do it. It was in a financial backlog with supply chain and the ports here. So they have, not only in the supply chain area and, specifically, logistics, but also, the cost of labor and the China impact. And the fact that a lot of people just don't want ... A lot of corporations in the United States have made it their business, and they have it in their imperatives, in their business plans to de-activate and become less reliant on Asia, generally, for their, not only imports, but for people.

(18:12):

So one of the cheapest and closest, and probably safest places to see, to fill in this gap, is Mexico. They've done and they will continue to do so. Most of the US big corporations, I would say top 25, Fortune 50, let's say, all have financial imperatives in their business plans to move part of their production and part of their overdependence in Asia into LATAM. Mexico is obviously at the forefront, but they have also considered places in Central America given the close proximity, and the availability of labor.

Oscar Stevens (18:54):

Todd, any thoughts?

Todd Huckabee (19:00):

Yeah. I'll go in the inverse order. On the last point of nearshoring, I think ... Which is a big thing in Mexico, and it's a global trend, which is highlighted by the political tensions. But what we're seeing in addition to all the things that Carol said, that I agreed completely, is that Mexico has a series of free trade agreements with the rest of the region, which are very relevant. So what is occurring is that many participants in that logistic chain that could provide raw materials or different components are coming in through the back door through these free trade agreements with Mexico, and then that goes back into the US. So we're seeing that, as well as just a ... Mexico Central America, a lot of groups are seeing it as one, in a way. That they can use different points of presence, and interchangeably, more on several transactions that involve multi-jurisdiction, including Central America and Mexico. But yeah, I agree with what's going on there. I think there'll be more and more of it as countries prove that they have the ability of being a stable environment to add to that logistics chain.

(20:40):

On the specific industries, I agree that there are industries that have been more resilient. I would add, other than to the ones mentioned, right, Carol? I think that also one big drive we've seen is in renewable energy. We're seeing that attracting very large amounts of capital. We're on, I don't know, four or five transactions at the time. It's one of the areas we do more work in. There's a lot of solar going on, wind and green hydrogen. Now, Chile, in a way, has optimal conditions, some of the heaviest winds in the world and more continuous and steady, what you need, in the extreme south. And then they have the best solar radiation in the desert in the north. So it's a great place to do business.

(21:46):

But it also has been helped by some of the regulatory changes in Mexico. There are several funds that had geared up to do energy deals in Mexico. There were changes on the regulatory front. All that money said, "Okay, where are we going in Latin America?" They ended up ... We've sold things to groups that had the money earmarked for Mexico and now they're doing ... These are hundreds of millions of dollars. In the case of green hydrogen, several B. There's a lot going on in the renewable. I mean, when we do M&A processes normally, you might have 30 people you invite, or 40. I think we had 150, and I think we had 70 participate in the last one we did. It's just people from all over the world are looking at this and there's plenty of money to go there.

(22:40):

And then other areas not mentioned are mining. I think we got to remember these countries, particularly Peru, Chile, Columbia to a certain extent, but Peru and Chile are very mining oriented. Despite everything going on, investments have continued occurring in the ... Big numbers in terms of investment. That's because the players that usually participate there in M&A are players that are used to being in very complicated geographies. So, "What are the problems in Chile?" Well, what are the problems in Peru? I mean, compared to other places in the world, they're not that strong.

(23:25):

In technology, we have also seen a lot of activity. It's a little bit different now with all the ... About, I would say, six, seven months ago the difficulties began in the rounds of financing in DC, and in other types of technology deals. But there have been some large INFRA deals that are also technology that have occurred. It's just a little bit more difficult on the fundraising, on the VC front in technology, but there are other areas of technology that have continued very, very well. So I think it's a mixed bag. And then logistics is also something that we see a lot in. Just the supply chain. Different parts of the supply chain. We've done some work there.

(24:16):

Picking up on the food component, I think food has been seen as ... Agri-industry has been seen, and food, has been seen globally as something people want to invest in. There's a lot of money there. So we're doing transactions in Peru and in Chile. Columbia's a little bit less active right now in that area just because of other issues, but there's a good deal flow in that area. Lastly, I would mention the financial sector because there've been several financial sector deals. Those have occurred at good prices in everything despite the conditions in COVID and everything. That's roughly the sectors we see most active.

Speaker 1 (25:09):

You've been listening to episode one. Tune in for episode two to finish the podcast.