ANDEAN REGION

COLOMBIA
CHILE
PERU

TRANSACTIONAL IMPACT MONITOR

Special Report

15 April 2020

TTR
Transactional Track Record
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TTR's Transactional Impact Monitor is a Special Report combining local knowledge and market visibility from top dealmakers developed to address extraordinary situations affecting the macroeconomic stability and M&A outlook in core markets

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Transactional Impact Monitor: CHILE

15 April 2020

Summer vacation was just coming to an end in Chile when the government ordered the closing of non-essential businesses and told citizens to stay inside their homes for an indefinite period of self-isolation on Sunday 15 March. Schools remained closed the next day and Chileans remained homebound until the quarantine began lifting in certain areas on 13 April. Outings required citizens obtain a permit online wherever stay-at-home orders were in place.

Chile faced the business lockdown from the unique perspective of having hosted a destabilizing social upheaval in late 2019, which Carey Partner Francsico Guzmán likened to the "yellow vest" movement in France, in that it had no apparent leader or organized structure.

The social upheaval led to a plethora of tangible demands, including a review of Chile's constitution, with labor and water rights among the politically sensitive issues surfacing, Guzmán said.

Investors were cautious in the face of the economic and political uncertainty in 4Q19, he noted. Nonetheless, a strong dollar and cross-border prospects gave Carey a lot of work at the outset of 2020, he said. "That's when coronavirus hit, and with it a global change."

"The political focus changed from addressing the demands of the social movement to surviving this as best we can"

FRANCISCO GUZMÁN
CAREY

DEALMAKER CONFIDENCE (Next 12 Months)
(0-10 lowest-highest):

- Crisis Management: ●●●●●●●●●○ 9
- Economic Outlook: ●●●●●○○○○○ 5
- Private Equity Forecast: ●●●●●●●●○○ 8
- M&A Outlook: ●●●●●●●○○○ 7
- Equity Capital Markets: ●●●●○○○○○○ 4

Chile was paralyzed by the social movement, and then by the threat of a pandemic, said Guzmán. "The political focus changed from addressing the demands of the social movement to surviving this as best we can," he said.

Deal Volume and Aggregate Value in Chile
April 2019 - April 2020

Aggregate Value (USDm)

Deal Volume

Source: *TTR - Transactional Track Record*

"Fortunately in our case, what we've seen is that there's still work to be done, only the nature of the work is different; it's more strategic," Guzmán said. Clients are calling to consult on how best to proceed and to explore restructuring business units, he said.

Renewable energy transactions Carey was working on have continued and even closed in the midst of travel restrictions, Guzmán said, noting this segment had proved particularly resilient to the impacts the crisis was having on Chile.

Retail transactions were held up though, he said. "It's not as if they've fallen apart, but if there was an MOU, the two parties have said, 'let's see what happens.'" Retail and infrastructure deals are still being negotiated, but the pace has slowed, he said. "Nobody wants to make a mistake by committing." More attention is being paid to MAC and force majeure clauses to protect buyers, he noted.

PRIVATE EQUITY

Private equity funds are watching what's happening very keenly, Guzmán said. Those that raised funds recently and have cash, they are in an especially favorable position, he said. Private equity, and even venture capital funds, are in a better position to negotiate their terms now after the slide in equities on the Bolsa de Santiago, Guzmán said, and they've been calling Carey to note their appetite for deals in a range of sectors, including infrastructure and energy. Many firms in Chile will find themselves in a precarious position, he said, while noting, "Those that survive will emerge stronger."

The deceleration is already a fact, said Guzman. "We haven't seen a recession like this since World War II," he said, adding, "When I say there are going to be many transactions, I'm talking about private equity deals more than anything," he said pointing to a likely uptick in activity in 2H20 thanks to low valuations and a strong dollar. "Private equity funds with capital are already analyzing which assets they like best."

When the coronavirus passes, there will be opportunities, he said. "There's going to be a significant reactivation, and that's where I dare be more optimistic," Guzmán said.

Private Equity
1Q HISTORICAL REVIEW

2017	Number of transactions:	4	▲ 0,00%
	Total aggregate value (USDm):	0	-
2018	Number of transactions:	2	▼ -50,00%
	Total aggregate value (USDm):	40	-
2019	Number of transactions:	3	▲ 50,00%
	Total aggregate value (USDm):	90	▲ 127,85%
2020	Number of transactions:	0	▼ -100,00%
	Total aggregate value (USDm):	0	▼ -100,00%

▲▼ % All the percentages represent a variation relative to the same period the previous year.

Source: *TTR - Transactional Track Record*

EQUITY CAPITAL MARKETS

It would be difficult to imagine an IPO in the current climate, but things could change quickly, said Guzmán. "I do believe the economy is very dynamic and I'm optimistic about the second half," he noted. "It's brutal what's happening, but the cause is more specific than in past crises. With all the damage that will be done, those that survive will emerge favorably. In the meantime, there are many who can't even make payroll."

The stock market will be very volatile, but there will be movement, Guzmán said. "I wouldn't be surprised if companies that have historically low stock prices are subject to takeovers," he said, noting share prices had fallen to levels not seen since 2004.

"There are companies that are extremely cheap, beyond what their fundamentals and the economics would dictate," he said, adding, "are there buyers ready to acquire cheap companies? Most definitely."

Carey has a restructuring practice that is going to see an increasing workload, Guzmán said.

HANDLING THE CRISIS

The government of President Sebastián Piñera is enjoying broad support amid calls for national unity in the face of the threat to public health, Guzmán noted. Many reforms were already underway in Chile in response to the social upheaval of 2019, and a new labor law was passed in late March, which includes regulations governing remote work.

The government is very much focused on balancing the risk to public health with the economic fallout, Guzmán said, noting there was a general sense that the authorities were doing a good job and had taken the necessary steps early on to avert a crisis. Chileans are proud of the degree to which testing has been available with measures taken based on the numbers, Guzmán said. "The focus here will be on total transparency."

Part of the government's response has included nearly USD 14bn in economic support, including resources for small and medium-size enterprises (SMEs). "The social movement allowed the government to take rapid action to help informal workers and SMEs and is playing a vital role to protect the most vulnerable sectors," Guzmán said. The government established a fund that is paying 70% of the salary of those unable to reach work to avoid mass layoffs, for example, he noted.

Given that the lockdown was imposed at the end of Chile's summer, the tourism sector didn't suffer to the degree it has elsewhere, though it had already been hit by fallout from the social movement, Guzmán noted. There's no getting around the damage done to restaurants, gyms, movie theaters, and of course airlines, Guzmán said. LATAM and regional carrier Sky Airlines are virtually grounded, he noted.

Chile's mining sector has also been affected by the lockdown, said Guzmán. Teck Resources, for instance, suspended operations for six weeks, he noted.

Transactional Impact Monitor: COLOMBIA

15 April 2020

In Colombia, 2019 was a strong year for M&A with growth in deal volume in all but the second quarter and significant growth in aggregate value in all but the fourth quarter. The first two months of 2020 began at a similar pace with several transactions underway and a strong pipeline, said Brigard Urrutia Partner Darío Laguado. The energy and health sectors were particularly active, he noted, and in mid-February, the outlook was still good, despite indications of a pandemic on the horizon. Now, there's absolute uncertainty about the implications of the economic shutdown, and most of all, about the duration of the crisis it has produced, Laguado said.

On 17 March, the government of Colombia declared a state of emergency and announced a countrywide quarantine beginning on 24 March and extended through 27 April. In Bogotá, the quarantine began on 20 March. "Companies aren't thinking short-term, they're thinking immediate-term," Laguado said.

Deal Volume and Aggregate Value in Colombia
April 2019 - April 2020

Source: *TTR - Transactional Track Record*

Some sectors will take an especially hard hit; in others there will be opportunities, Laguado said. Everything that adapts everyday activities for the virtual world will do well, like food delivery app companies, he noted. On a whole, M&A transactions have been difficult to advance working remotely, however, he said.

There are already cases of airlines filing for bankruptcy protection, with entertainment, hospitality, and restaurants taking the brunt of the impact, and the suppliers to those sectors next in line, Laguado said. Textiles, consumer goods and manufacturing companies are also suffering, while the financial structure of major infrastructure projects has been thrown into question, he added. Roadway and airport infrastructure depends on traffic, and projects could be impacted by such a momentous slowdown, Laguado noted. Other segments haven't felt such a significant impact yet, but everyone is concerned, he said.

"This caught everybody with their pants down. It's a very new situation, very unique, and there were no protocols in place," Laguado said, adding, "The major lesson here is to conserve liquidity."

A few of Brigard Urrutia's deals that were at an advanced stage were signed, including the sale of Electricaribe assets on 30 March. Others have required finessing to protect buyers, Laguado said. A few other deals in industries that were not very affected have also closed, he said, noting transactions that are countercyclical are still moving forward.

The energy sector was hit simultaneously by the oil price war, Laguado noted, which has strained Colombia's finances. This crisis hits Colombia at a precarious moment in terms of fiscal stability, he noted, which will limit the resources made available for emergency measures. "Everything is in the air with a lot of uncertainty. Clients are putting things on hold," he said.

"We do see that there will be large M&A deals, but they will be more strategic," he said, noting the firm was optimistic for a revitalization of the market in 2H20 if the downtime is limited.

"Companies aren't thinking short-term, they're thinking immediate-term"

DARÍO LAGUADO
BRIGARD URRUTIA

DEALMAKER CONFIDENCE (Next 12 Months)
(0-10 lowest-highest):

- Crisis Management: ●●●●●●●●○○ 8
- Economic Outlook: ●●●●●○○○○○ 5
- Private Equity Forecast: ●●●●●○○○○○ 5
- M&A Outlook: ●●●●●●○○○○ 6
- Equity Capital Markets: ●●●●○○○○○○ 4

PRIVATE EQUITY

The private equity market had already lost steam in recent years in Colombia and the current situation is unlikely to result in a boon for fund managers who had grown wary of exchange rate issues and other challenges facing asset management, Laguado said.

Colombia has a particularity in that there's no tradition of distressed M&A, he added. There's no deep financing for this type of transaction, and no private equity funds dedicated to distressed assets. This could now change in light of the current crisis, he said.

Private Equity - 1Q HISTORICAL REVIEW

Year	Number of transactions:	Variation	Total aggregate value (USDm):	Variation
2017	1	▼ -87,50%	0	▼ -100,00%
2018	2	▲ 100,00%	0	-
2019	5	▲ 150,00%	354	-
2020	1	▼ -80,00%	0	▼ -100,00%

▲▼ % All the percentages represent a variation relative to the same period the previous year.

Source: *TTR - Transactional Track Record*

EQUITY CAPITAL MARKETS

Colombia hadn't experienced the kind of stock market boom Brazil enjoyed in 2019, and with the liquidity crunch now facing the market, prospects are unlikely to brighten for equities in the short term, Laguado said. Investors and banks are protecting their cash and will be more hesitant to invest, he said.

Just like in the 2009 crisis, legal advisors are quickly shifting resources to restructuring, Laguado said, noting Brigard Urrutia was making similar adjustments.

All the airlines are going to need a process, or a rescue, the attorney said. "If Luftansa is restructuring, imagine all the others," he said.

HANDLING THE CRISIS

The government of Colombia has extended tax deadlines and increased support for pensioners and unemployed persons, in addition to specific rescue measures for the tourism and hospitality sector as part of a package worth some USD 4bn in announced spending, Laguado said.

Colombia has a relatively good health service, with capable medical personnel, but it's a fragile health system, Laguado said, especially outside the big cities. The country acted promptly with strong measures, said Laguado, noting the country couldn't afford to respond slowly as its capacity to deal with a surge in hospitalizations was limited. Colombia moved quickly to impose strict controls, which obviously comes at the cost of freezing contact, which is hoped to be effective, but not sustainable in the long-term, Laguado said.

The great political challenge in a country like Colombia where there's a large percentage of the population under the poverty line is to balance the need to protect public health while allowing people to go out and earn their daily bread, he noted. "There are many people with no savings who work every day for their subsistence."

Transactional Impact Monitor: PERU

15 April 2020

Peru had a very active M&A market over the past 12 months; deal volume grew by 8% in 2Q19 and by 20% in 4Q19 with some very large transactions contributing to a 417% increase in aggregate transaction value in 3Q19, according to TTR data.

Rubio Leguía Normand was working on about six deals of various sizes in sectors ranging from construction to agribusiness to technology, some worth more than USD 100m, with prospective closings between May and August, Partner Carlos Arata told TTR.

"I don't expect to see any large deals wrapping up in the next six months, except those that were already very close to closing"

CARLOS ARATA
RUBIO LEGUÍA NORMAND

DEALMAKER CONFIDENCE (Next 12 Months) (0-10 lowest-highest):

- Crisis Management: ●●●●●●●○○○ 7
- Economic Outlook: ●●●●●●○○○○ 6
- Private Equity Forecast: ●●●●●●○○○○ 6
- M&A Outlook: ●●●●●○○○○○ 5
- Equity Capital Markets: ○○○○○○○○○○ 0

The measures imposed in the face of the public health threat have put all those deals on hold, he said. "I don't expect to see any large deals wrapping up in the next six months, except those that were already very close to closing."

Buyers are saying that the funds they had allocated for acquisitions need to be reserved for contingencies

Deal Volume and Aggregate Value in Peru

April 2019 - April 2020

Aggregate Value (USDm)

Deal Volume

Source: *TTR - Transactional Track Record*

while sellers are saying that their numbers have fallen. People on both sides are taking a "wait-and-see" approach, Arata said. The agribusiness and health sectors will remain the most active in M&A, he noted.

"The year started out very well; we had a really strong pipeline of deals built from last year," said Ian Fry Cisneros, Founder and CEO of boutique investment bank UNE Asesores Financieros

Antitrust regulation that was to go into effect in August 2020 was encouraging companies to get deals done beforehand, Fry said. This had accelerated deal flow, with many transactions being finalized in the first two months of the year and many more scheduled to conclude in 1H20 or early 2H20, he noted.

Like Chile and much of the world, Peru has been under mandatory lockdown since 15 March, with outings outside the home permitted only to restock essentials.

The quarantine interrupted the entire chain of payments throughout the economy, and whereas some companies may have sufficient capital to survive for a few months, many Peruvians live day-to-day, Arata pointed out. "The situation over the next six months is going to be complicated."

Of the eight deals UNE had in its pipeline, one was a sell-side mandate for food and beverage retailer that operated in airports, Fry noted. It was in the eye of the storm and it came as no surprise when the bidder backed out, he said. "They're still interested, but they'll want to have another look once the storm has passed." The firm has been fortunate to put its other deals on ice rather than have them called off, to be reactivated as soon as possible, Fry said.

Depending on the sector, negotiations are more or less impacted, he said. "It's probable that there will be adjustments; it's only natural that the buyer would say that the situation has changed, even if they are still interested," he said.

Tourism, aviation and entertainment are suffering the greatest impact, he said, whereas agro exporters are still attracting interest. Suppliers to the food manufacturing and pharmaceutical industries need to be kept productive to ensure the supply of essential goods, he said, and these segments will continue to garner interest as they have been permitted to carry on with minimal interruption.

In general, M&A will slow down as buyers wait out the crisis, Arata said, unless they're sitting on a large pile of cash. Deals could continue to close in the most resilient and stable sectors, like energy and construction, he said, but most sectors will face a sharp downturn.

The government of Peru is expected to invest heavily in public infrastructure to help the economy recover over the coming months, and many firms that were impacted by the scandals in the construction industry will be looking for strategic partners in the months ahead, Arata said.

PRIVATE EQUITY

Two of eight transactions UNE had underway when the lockdown was imposed involved private equity funds, Fry said, one of them being the sale of the airport food and beverage retailer that was put on hold.

If private equity funds are well capitalized and can hold out and renegotiate pricing, they're going to do it, Fry said, noting,

Private Equity
1Q HISTORICAL REVIEW

2017		
Number of transactions:	3	▲ 0,00%
Total aggregate value (USDm):	114	▼ -62,04%
2018		
Number of transactions:	3	▲ 0,00%
Total aggregate value (USDm):	1.050	▲ 823,48%
2019		
Number of transactions:	4	▲ 33,33%
Total aggregate value (USDm):	354	▼ -66,31%
2020		
Number of transactions:	4	▲ 0,00%
Total aggregate value (USDm):	277	▼ -21,66%

▲▼ % All the percentages represent a variation relative to the same period the previous year.

Source: *TTR - Transactional Track Record*

"I don't see that there's going to be a strategic change in the industry."

As always, buyers should make every attempt to close deals quickly, maintain sufficient liquidity, minimize leverage and focus on undervalued assets. "The most audacious are the ones who capitalize most in times like these," Fry said. "There are those who wait, but prices will recover. The time to invest is when the situation is most critical."

More aggressive private equity funds could be more active at a time like this, Arata agreed. "In turbulent rivers, the fisherman wins," Fry said, noting that companies that entered this situation with high levels of liquidity would clearly have many opportunities at hand.

"The most audacious are the ones who capitalize most in times like these. There are those who wait, but prices will recover. The time to invest is when the situation is most critical."

IAN FRY CISNEROS
UNE ASESORES FINANCIEROS

DEALMAKER CONFIDENCE (Next 12 Months)
(0-10 lowest-highest):

- Crisis Management: ●●●●●●●●●○ 9
- Economic Outlook: ●●●●○○○○○○ 4
- Private Equity Forecast: ●●●●●●●○○○ 7
- M&A Outlook: ●●●●●○○○○○ 5
- Equity Capital Markets: ●○○○○○○○○○ 1

EQUITY CAPITAL MARKETS

The capital market in Peru could attract companies seeking to refinance bank debt by issuing bonds or commercial paper, Arata said. Peru has never been a very active market where equities are concerned, and that's not likely to change in the current climate, he said.

Many companies will seek to refinance their debt via private transactions, however, Arata said. "It's a market we will have to pay close attention to."

The Lima Stock Exchange is less developed than other capital markets of the region, but that doesn't mean it won't be impacted, agreed Fry. The risk and uncertainty will depress activity, he said. Debt restructuring transactions, meanwhile, will be increasing, he agreed.

Financial institutions and investment funds are prepared to review good restructuring plans, and the banks have been coordinating closely to attend to the needs of the market by being flexible and restructuring their credit portfolios, he said, noting the capital market could play a role in this.

"We have to stay calm with our eyes open. There will be a recovery," Fry concluded.

HANDLING THE CRISIS

With very few detected cases of SARS-CoV-2, the government of Peru closed the airport and made an announcement on 15 March that went into effect the following day to restrict movement, initially for a two-week period, then for another two.

The consensus among the business community is that the president responded quickly and as he should have, said Fry. "At the same time, that doesn't change the fact that many companies are facing a month with practically no revenues."

Peru implemented many of he same measures taken in other countries, lowering interest rates and preparing a massive public stimulus package worth some USD 25bn, or about 12% of GDP. Some USD 8.5bn will be disbursed in the first phase of containment, with a package of loan guarantees of a similar sum disbursed in a subsequent phase and another USD 8.5bn allocated to the recovery phase, according to the central bank.

The Peruvian government implemented several short-term measures to assist the most vulnerable and avoid mass layoffs, including assuming 35% of salary payments for those earning less than PEN 1,500 (USD 443) per month as a support to employers. The government is also allowing companies to suspend their matching pension contributions so these payments can be paid directly to employees.

From a governance standpoint, Rubio Leguía Normand had many clients that were unable to make important decisions remotely because their bylaws didn't allow that, Arata said. These statutes need to be modified to allow decision-making to go on, even in a situation like this of mandatory confinement, he noted.

Companies should review their contracts, especially financing arrangements, and renegotiate terms whenever force majeure applies, he said. As a financial exercise, companies should always be cognizant of their billing cycle and maintain sufficient cash reserves to cover their obligations over extended periods without revenue. ■

THE VIEW FROM MILAN

Milan-based Linklaters Partner Claudia Parzani spoke with TTR on 30 March to share a firsthand account of the challenges Italy has faced in its efforts to contain the SARs-CoV-2 virus.

"This is our sixth week at home. National economic activity has been suspended unless it relates to infrastructure, or basic needs such as food, healthcare, or pharmaceuticals"

Claudia Parzani
Linklaters
Western Europe Managing Partner and Global Business Development & Marketing Partner

A Promising Start to 2020

"We were busy, with a balanced portfolio of deals. We were super-active in the private equity sector, in structured finance deals and in real estate. Our outlook was also very good in capital markets with a mix of debt and equity, some IPOs, and some capital increases. On the debt side, banking was very strong. At that time, I saw the lowest number of restructurings since 2008."

The Impact

Since the onslaught of the SARS-CoV-2 outbreak in February, lingering restrictions have been imposed in Italy. "The restrictions have developed through different phases, the current one is the most restrictive. For the first two weeks, we were still allowed to go to the office. Then we were not allowed to go to the office unless strictly necessary. Now for three weeks there is no access to the office at all, and everyone has to work from home."

Economic Crisis

"The crisis will be a monster, both in terms of the effect on our GDP and the impact it is having on our small and medium companies. There are sectors that will of course come out almost destroyed - look at all that is related to tourism."

Uncertainty

"We have yet to touch bottom, and we are not sure when that will happen. I understand there is already some interest from China where they are recovering now and are already starting to look at potential acquisitions. Nevertheless, for the time being, there is no way to enter China or to have any kind of business negotiation."

Lessons Learned

"The only thing you can do is to try to make the right decisions businesswise: Don't destroy value. The real heroes are not machines, but people. The people that are starting to invent new ways to make masks, or create ventilators. For every industry the mantra is 'Take Care of Your People', try to save jobs as much as you can, because everyone is impacted. It is the time to help all participants in the job chain."

DEALMAKER PROFILES*

Carlos Arata
Rubio Leguía Normand
Partner

Carlos Arata's practice focuses on both domestic and cross-border project finance, banking, M&A and capital markets transactions, among other corporate matterss, especially in the retail, energy, mining and infrastructure sectors.

Darío Laguado
Brigard Urrutia
Partner

Darío Laguado's practice focuses on cross-border M&A, corporate law, JVs, shareholder agreements and privatizations across a range of industries. Before joining Brigard Urrutia he focused on M&A and capital markets at Sidley Austin.

Francisco Guzmán
Carey
Partner

Francisco Guzmán's practice focuses on M&A, asset acquisitions, fund formation, structuring, registration and management of funds, and investment in portfolio companies, private equity and venture capital, JVs, corporate governance and securities regulation.

Ian Fry Cisneros
UNE Asesores Financieros
Founding Partner and CEO

Prior to establishing UNE Asesores Financieros in 2012, Ian Fry was commercial strategy manager at BCP. He previously worked as an associate at Bank of America and as senior analyst at Citibank.

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Transactional Track Record

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