LATIN LAWYER
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Deal reports 2019

M&A league table 2019: Mexico

Emily Darby 29 June 2020

Latin Lawyer collected data on M&A activity across Latin America during 2019. Here we present who won the most work in Mexico according to our findings.

Of those deals that closed in 2019, Latin Lawyer finds Creel, García-Cuéllar, Aiza y Enriquez SC was the busiest firm, landing a place on a total of 20 transactions that were finalised last year. Mijares, Angoitia, Cortés y Fuentes SC was second busiest and worked on 11 deals. González Calvillo, SC followed shortly after and closed a total of nine transactions, while Ritch, Mueller, Heather y Nicolau, SC worked on six. Nader, Hayaux & Goebel closed five.

During 2019, 30 Mexican firms closed 55 M&A deals, according to Latin Lawyer's findings.

Creel García-Cuéllar also led the way on deals that were signed or announced in 2019, featuring on a total of 10 transactions. Ritch Mueller worked on three M&A deals that were signed or announced, whilst Mijares Angoitia, Nader Hayaux, and Mayer Brown LLP Mexico's office all worked on two deals each.

Many M&A deals submitted to Latin Lawyer have confidential values, but of those deals where the value is public Latin Lawyer recorded Creel, García-Cuellar on the highest combined value of deals, helping to close transactions worth US$19.8 billion in total. Ritch, Mueller followed, working on a total of US$1.8 billion worth of closed deals in 2019. It was just ahead of Mijares Angoitia, which worked on closed transactions to the sum of US$1.6 billion.

Considering only signed or announced deals with a public value, Ritch Mueller had the highest combined value at US$2.9 billion. Creel, García-Cuellar did well too, working on US$1.9 billion worth of transactions that were signed or announced in 2019. Mijares Angoitia was next in the running and participated in signed or announced deals worth a combined value of US$1.2 billion.

Activity in Mexico's M&A market remained consistent in 2019. The infrastructure and renewable energy sectors occupied a key portion of the market, points out González Calvillo partner José Ignacio Rivero Andere, but corporate deals "continued to flow in the different sectors of the economy." One of the most talked about deals involved British energy group ContourGlobal, which acquired two cogeneration plants from Mexican petrochemical company Alpek for just over US$800 million. Mijares Angoitia advised Alpek's parent company Alfa, while Galicia Abogados advised the seller. Ritch, Mueller helped lenders Scotiabank provide a US$570 million loan for the transaction. Among the complexities of the deal was the sale of portfolio assets that had yet to begin commercial operation, as well as the placement of Alpek as sole off-taker of the project's potential income, explains Mijares partner Igancio Armida. Mexican firms also featured on Uber's US$459 million acquisition of Latin American start-up Cornershop. The finance sector also saw Santander Spain's US$1.4 billion exchange offer to increase its shares in its Mexican subsidiary.

Fintech deals and M&As in the finance sector were also popular with investors last year. Lawyers point to fintech company Resuelva Tu Deuda's (RTD) sale of equity shares to local fund managers DILA Capital in a deal worth US$24 million as a show of investor confidence in Mexican fintech.

Interest in fintech was likely spurred by recent, innovative legislation designed to regulate the financial start-ups market. Ritch Mueller partner Luis Nicolau says the new regulation "has made inroads in benefitting the under-banked Mexican population." Start-ups are "spearheading transactions in Mexico," says González Calvillo partner Hernando Becerra de Cima, who says that buyers are looking to acquire IP, data and engineering prowess from fintech start-ups. "Experts forecast that this will be key in years to come," he says.

Mexico's deal-making got off to a shaky start in 2019 after polarising leftist leader President Andrés Manuel López Obrador (AMLO) was sworn in as president in December 2018. AMLO's radical criticisms of energy reforms and controversial shut-down of infrastructure projects – including the cancellation of Mexico City's US$13 billion proposed airport – dampened relations with foreign investors. AMLO also made U-turns on several key investment opportunities, such as energy reforms set to open Mexico's oil sector to private competition. This would open the sector up to private companies in the sector, which is dominated by state-owned oil company Pemex, which has seen its profits plummet in recent times. Many fear that backpedalling on key reforms is damaging to the market. "Trust in Mexico as a safe port for investments across sectors has been severely damaged, obviously with a harming effect on M&A activity," explains Creel García partner Iker Arriola.

In spite of political uncertainty, 2019 "ended up being a good year for M&A activity in Mexico," says Mijares, Angoitia partner Carlos Orcí. "To the surprise of many, interest in Mexican targets by foreign investors, both strategic and financial, remained strong," he remarks, adding that some of this success can be owed to the signing of a new free trade agreement between Mexico, the US and Canada.

The free trade agreement between Mexico, the United States and Canada (UMSCA) replaced NAFTA (North American Free Trade Agreement) and promises smoother cross-border transactions and support for small-to-medium-sized businesses (SMEs). Regardless of new political conditions, there has been a consistent output of M&A transactions in Mexico over the past year, agrees Nader Hayaux partner Julian Garza.

One important cross-border deal that took place in spite of uncertainty last year was Chinese construction company Tianjin Zhonghuan Semiconductor (TZS)'s acquisition of a 28% stake in a Mexican subsidiary of US solar power company SunPower. The deal was announced in November and involved a slew of other jurisdictions, including Singapore, France and Malaysia. SunPower enlisted local counsel from Mijares, Angoitia while Simpson Thacher & Bartlett LLP and Latham & Watkins LLP are among some of the international firms working on the deal.

Also relevant was Canadian fund manager CDPQ's US$500 million purchase of a stake in Mexican laboratory Sanfer, which was one of the largest minority private capital buys in Mexico's history. "Private equity and venture capital funds had substantial liquidity, which was used to complete transactions that were either ongoing or desirable strategically," explains Ritch Mueller partner Carlos Obregón, who describes how investors backed sectors that might benefit from the new government's "bottom of the pyramid" spending on essential services such as healthcare, education and other commodities.

As well as political tensions, M&A dealmakers in Mexico must also contend with the country's antitrust regulator, the Federal Economic Competition Commission (COFECE). Timing is increasingly relevant in the clearance process and, with the gap between signing and closing ever-growing, it is becoming more common for M&A agreements to include interim clauses that establish certain conditions to be met by either party during this period. Some particularly complex deals can take more than a year to close after signing. Not all deals are guaranteed clearance and COFECE has the power to block deals that threaten to create an unfair competitive environment. This was the case when the watchdog blocked Walmart's proposed US$225 million acquisition of start-up Cornershop's assets in Chile and Mexico. While the deal was given the green light by Chile's antitrust watchdog, COFECE's decision to block the deal in Mexico caused the sale to fall through in both jurisdictions (opening the door for Uber to snap up the start-up company). The regulator "has been very important in shaping deal activity in Mexico," says González Calvillo partner Rivero Andere.

But COFECE is not favoured by AMLO's administration, which prefers regulators outside of the scope of central government such as energy authorities CENAGAS (Centro Nacional de Control del Gas Natural) and CRE (Commission on Energy Regulation) over independent bodies, says Creel partner Arriola. Government-led agencies can override or undermine clearance decisions made by independent regulator COFECE, which can lead to tension and delays. This friction caused a "step-back for regulatory policies, institutionalisation, independence and professionalisation of regulators in Mexico, particularly in the energy sector in 2019," explains Arriola.

Looking ahead, the covid-19 pandemic presents unprecedented obstacles for all industries in 2020. Mexico's central bank has predicted the country's GDP will contract by 8.8% in 2020 due to the financial crisis triggered by the pandemic, having already shrunk by 0.3% in 2019 under AMLO's economic reforms. "The covid-19 pandemic has halted everything," says González Calvillo partner Becerra de Cima, who explains that while analysts were previously divided on whether 2020 would be positive for Mexico's M&A market, there is a lot more uncertainty after covid-19.

Increased financial uncertainty is likely to cause an increase in distressed M&As and companies looking to reorganise finances. As a result, "speculative and opportunistic M&A deals are likely to occur during 2020 and 2021," predicts Nader, Hayaux partner Hans Goebel. Private equity companies may also take advantage of investment opportunities arising from divestments or shedding assets at lower prices.

"The recent covid-19 pandemic will undoubtedly bring attractive opportunities in a myriad of sectors as valuations go down," forecasts Mijares, Angoitia associate Francisco Glennie. The devaluation of the Mexican *peso* will make investments in the country more attractive to foreign buyers, while growing tensions between the US and China could also benefit the market. Low interest rates are already getting the attention of international investors.

“Industries that have shown resilience during the pandemic are likely to continue to be active,” explains Ritch Mueller partner Eduardo Triulzi. Education, pharmaceuticals, technology and fintech are among those industries expected to continue to do well in 2020.

But M&A activity is expected to drop overall, with the covid-19 and financial crisis creating uncertainty about what lies ahead. “The only certainty is that things will change for the rest of 2020 and beyond,” acknowledges Mijares, Angoitia partner Carlos Orcí.

“Beyond 2020, predictions are difficult,” says Creel partner Jean Michel Enríquez, who adds that with the global health crisis, economic and political uncertainty and the devaluation of local currency, the future of the country’s M&A market “will all depend on Mexico recovering what has been severely damaged: trust and legal certainty.”

A full list of all M&A deals that took place in Mexico between March and December 2019 is available here. To view transactions that took place in January-February, click here.

A round-up of multijurisdictional deals that took place in Latin America between March and December can be found through the following links for closed deals and for signed and announced transactions.

Follow links here to view M&A deals that took place between March and December in smaller markets in Latin America, including Central America, Panama and the Dominican Republic, Ecuador and Paraguay.

To find out more about our methodology – including what types of deals we have included in our analysis and how we collect information on deals – click here.

Latin Lawyer has already reported its findings for M&A deals in Argentina, Brazil and Peru. We will continue reporting on 2019 M&A activity in Latin America in upcoming briefings.

Top Mexican firms for closed M&A deals:

LAW FIRM	NUMBER OF DEALS	TOTAL VALUE IN US$ MILLION
Creel, García-Cuéllar, Aiza y Enriquez, SC	20	19,839
Mijares, Angoitia, Cortés y Fuentes SC	11	16,165
González Calvillo, SC	9	636
Ritch, Mueller, Heather y Nicolau, SC	6	1,768
Nader, Hayaux & Goebel	5	11
SOLCARGO (Solórzano, Carvajal, González y Pérez-Correa SC)	5	12
Basham, Ringe y Correa SC	4	394
Deloitte Legal Mexico	3	56
Galicia Abogados	3	0
Kuri Breña, Sánchez Ugarte y Aznar, S.C.	3	84

Top Mexican firms for signed and announced M&A deals:

LAW FIRM	NUMBER OF DEALS	TOTAL VALUE IN US$ MILLION
Creel, García-Cuéllar, Aiza y Enriquez, SC	10	1,949
Ritch, Mueller, Heather y Nicolau, SC	3	2,926
Mijares, Angoitia, Cortés y Fuentes SC	2	1,241
Basham, Ringe y Correa SC	2	203
Nader, Hayaux & Goebel	2	0
Mayer Brown Mexico, SC	2	24
Holland & Knight (Mexico)	1	616
White & Case (Mexico)	1	26
Santos Elizondo Abogados	1	0