

SMARTER PERSPECTIVE: M&A

The Art of Conducting Effective M&A Efforts in Mexico

By Jan René Aguirre

This is the second in a series of articles addressing the numerous benefits and distinct challenges associated with conducting business operations within the country of Mexico.

Many companies that nearshore in Mexico and/or conduct business at various levels with companies that have operations and assets located in that country, have found that undertaking these types of efforts can be fraught with unexpected, and in many cases, costly roadblocks and landmines. M&A activities can be particularly precarious.

A BLEND OF COMPLICATING FACTORS

There are a number of factors that we have seen frustrate, delay and hinder the M&A efforts of companies, their legal, accounting and financial advisors. These frequently include the minimal understanding that these parties possess in regard to Mexico's unique and intricate regulatory environment and legal process, how best to navigate those complexities, and a lack of insight into the cultural differences, pace of transactions and accepted negotiation norms that characterize business dealings in the market. A range of other factors unique to business



dealings in the country further complicate and can derail many transactions.

AREAS OF CRITICAL FOCUS

The Importance of Holistic Valuations

Ensuring a meticulous and holistic assessment of a target or acquiring company and its holdings in Mexico is absolutely essential and involves diligence aimed at exploring well beneath the surface to fully understand a business' true financial condition and determine the value of both the enterprise and its tangible and intangible asset holdings. While such efforts are important when

conducting business in any geography, they are perhaps even more critical in Mexico where accurate, historical documentation and financial information may be more difficult to obtain than in some other markets around the world. For these reasons, we advise our M&A clients doing business in Mexico that Holistic Valuations, including thorough valuation and diligence best practices, are absolutely integral to optimizing the outcome of those transactions. A truly holistic approach goes well beyond financial metrics to evaluate supplemental factors such as brand value, customer relationships and



staffing/talent considerations. It provides not only a deep, multi-dimensional understanding of a company's worth, but also informs the risk assessment, strategic decision-making, and ultimately contributes to the success and sustainability of the transaction for all parties involved.

Driving Strategic Decision Making

Holistic evaluations enable alignment on the suitability of acquisitions and mergers based on a business's own strategic objectives by objectively evaluating how well the other party's resources, capabilities, and market positions complement its own. For sellers, understanding the full spectrum of their value propositions can help in positioning their company more attractively. On the other side of a transaction equation, holistic valuation can help facilitate financing and provides investor confidence. It provides lenders and investors with a clear understanding of a deal's true potential to level-set their confidence in a proposed investment. Whether divesting assets



or acquiring and integrating them into existing operations as part of an M&A transaction, the impact to ongoing operations must be carefully considered, planned for and managed to maintain business continuity, particularly when those assets are integral to current business processes.

Understanding as much about a target or acquiring company, its operations, financial condition and reputation also aids greatly in ensuring a smooth integration post acquisition, particularly in cross-border transactions which involve varying cultural factors. The ability to efficiently align cultures, systems and processes reduces the costs associated with integration, accelerating the realization of important synergies. Lastly, in a competitive bidding scenario, a holistic evaluation approach can provide a distinctive advantage by enabling identification of unique value drivers that others might overlook, potentially leading to a more compelling and successful vision and a validated rationale for outbidding others.

Well Informed Asset Disposition

We referenced Mexico's regulatory environment earlier in this article and it is essential to note here that it can be particularly intricate to navigate, especially in regard to asset sales and transfers. When engaging in these types of transactions it is essential for companies, or their agents, to possess a comprehensive understanding of all local regulations, tax implications and bureaucratic procedures. Importantly, these can be significantly different from one jurisdiction to another.

The legal dynamics of the Mexican market are also quite different than in many other countries and regions, and may impact the valuation and liquidation of certain assets. This often makes it challenging for companies to find buyers or achieve an expected return. Mexican civil law often presents complexities involving the transfer of assets and ensuring a clear title, particularly in real-state and intellectual property transactions. Additionally, disposition of assets in Mexico can have significant tax



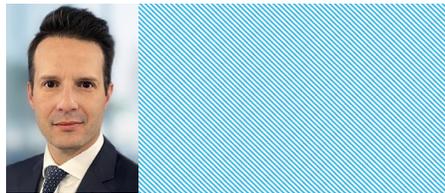
implications, including capital gains and value added tax (VAT), so understanding and planning for these liabilities is crucial when forecasting financial outcomes.

CONCLUDING THOUGHTS

From the key factors touched on above to a range of other considerations including the need to anticipate and remain nimble when navigating through a more corrupt business environment fraught with security-related issues that simply do not exist in the U.S. or in many other countries, the various components of a given M&A transaction become infinitely more complex and therefore demand a high degree of local knowledge, insight and strong business and government relationships when conducted within the Mexico market.

Identifying and tapping into a qualified and established local resource within the Mexico market that can provide the needed expertise to successfully guide these transactions can mean the difference between effectively qualifying truly beneficial opportunities, meeting critical milestones and closing transactions in a timely manner, or falling short, closing on an ill-advised deal or derailing a transaction that would have delivered substantial upside.

We often refer to our work in serving as such a resource and addressing the factors above for companies involved in the Mexico market as engaging in the “tropicalization” of their business operations for the purposes of guiding a path toward the most optimal M&A outcomes. We will discuss more aspects of this process in our next article which focuses on best practices for effective asset management when conducting business in the Mexico market. In the meantime, if our Mexico-based team can assist you with any current efforts or help answer questions on any of the topics raised in this article, we encourage you to reach out to us today. We are here to help. *Estamos aquí para ayudar.*



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As a seasoned executive, he excels in driving business growth and developing innovative solutions for clients and their distressed investments. In doing so, he leverages extensive experience in strategic marketing, deal execution and cross-border negotiations to enhance global business relationships and outcomes.

Jan René’s dynamic 15+ year trajectory in Investment Banking, Strategic Management, and Entrepreneurship, is marked by significant roles at Citi, VACE Partners, and Hilco Global Mexico. Starting his career at Citi as a Financial Analyst, Jan René played a crucial role

in landmark transactions, including the OMA IPO, mastering financial valuation and deal structuring. As Vice President at VACE Partners, he led high-stakes M&A deals, notably the Grupo Financiero Interacciones/Banorte Merger, showcasing his strategic acumen and contributing to the firm’s recognition with the 2017 “Global M&A Network Deal of the Year award.”

Jan René’s entrepreneurial spirit is evidenced by his founding of Aceros Impulso, where he spearheaded sales strategies to achieve impressive growth despite market challenges. He also founded Proambi, a pioneer in e-waste recycling in Mexico, where he showcased his ability to lead, innovate, and expand business horizons. With an MBA from Instituto de Empresa, where he graduated with Honors, and a Bachelor’s from Universidad Iberoamericana, Jan René combines strategic vision, financial expertise, and leadership to impact the financial sector and beyond, continually striving for excellence in every endeavor.