CREATING VALUE

AN IMAP MAGAZINE DEDICATED TO CREATING VALUE IN THE M&A MID-MARKET GLOBALLY

No. 13 / JULY 2022

Successfully Navigating the Turning Tides

ESG REPORTING
The Real Implications for Mid-sized Companies

ENTERPRISING ALONE
Guidance on Mitigating the Risks

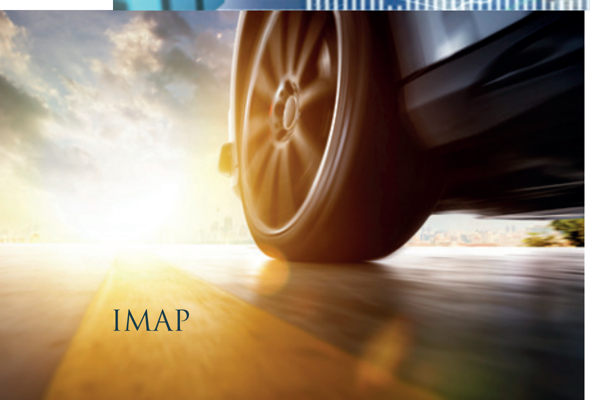
VENTURE CAPITAL FUNDING
Fintech & Digitization Driving Activity in LATAM

INDUSTRIALS THRIVING
Strategic Buyers Pursuing Accretive Targets

IMAP
International M&A Partners





In This Issue

Insights

ESG Investing Special Focus

Sector Focus

Cross-Border Focus & Case Studies

Business Focus

IMAP in Focus

Editor in Chief: Claire Smedley
IMAP Editorial Team: Carsten Lehmann, Gabor Szendroi, Megan Bestic and Carl Kelly

The Character Edge

At the last meeting of the IMAP Board, we went through an exercise to try and distill the essence of IMAP down to three words that we could use on our new website – we were not very successful. The problem was, as with so many Company "mission statements", that many of them sound pretty much the same. Everyone is "diligent", "capable", "intelligent" "collaborative" and "caring about clients". So many people think "outside of the box", that you begin to wonder who's left thinking "inside of the box". Every person is unique, but why is it that when we try to find the unique qualities of an organization, which, after all, is just a collection of unique individuals, we find it so difficult? Maybe it's because we tend to focus on the average, rather than on the exceptional. But it is the exceptional that always defines who we are. And it becomes even harder within an organization like IMAP, which is spread among diverse teams in forty-one countries.

I am sure that what makes "good" organizations "great" is not any one thing, like financial savvy, or wealth of experience, or sector expertise, or any one of many other similar characteristics. It is, of course, also all these things. But most importantly, it is almost always about character

Recently, I finished a book about character by a former Superintendent of the US Military Academy at West Point, and a Professor of Psychology from the same institution[1] that blends the experience of a military leader with the scientific perspective of a trained psychologist, to give us a practical handbook on the values that lead to character. In our societies that mostly measure success by the amount of money earned, the size of house and car, and where winning is everything, "values" seems like a quaint, even old-fashioned word. Even worse, these days "values" are sometimes used as weapons against political opponents that supposedly don't have the same "values" or are used in some perverted or cynical context. And yet, it is precisely "values" that make each person unique. And it is "values" that lead individuals and organizations to greatness.... or to mediocrity.

Many years of research[2] have led to a list of 24 universal values, classified into any number of categories. But the easiest way to think about values, as Caslen and Matthews do, is to classify them as values of the gut, the head, and the heart: a "Wizard of Oz" scenario where the lion wanted courage, the scarecrow wanted a brain, and the tin man wanted a heart. Let us consider each one in turn.

First, Strengths of the Gut

Many of the descriptions proposed by our Board Members were related to the strengths of the gut. We used words like "perseverance", or "grit"[3], which is defined as the "passionate pursuit of long-term goals". "Relentless" was also a word often mentioned, or "resilient". These terms refer to an essential characteristic of our profession - following through on processes that can take months or even years to complete, in the face of an oftentimes volatile, uncertain, complex, and ambiguous environment, or VUCA, for short. And if we think that that we have been in a VUCA environment for the past few years, I can safely predict that the next few years will require an extraordinary level of strength and resilience.

Next, Consider the Strengths of the Head

Obviously, intelligence is one of the most important pre-requisites in our field. But there are different types of intelligence[4]. Let's break them down into three types: analytic, or being able to analyze, compare, and evaluate a problem; creative, or being able to use innovation and inventiveness to design solutions to problems; and practical, or being able to apply the components of intelligence to follow through and implement a solution, rather than just talk about it. To be successful you need all three.

---

[1] The Character Edge: Leading and Winning With Integrity, Caslen, Robert L. Jr. and Matthews, Michael D., Pan Books, 2022
[2] Character Strengths and Virtues: A Handbook and Classification, Seligman, Martin and Peterson, Christopher, OUP USA, 2004
[3] Grit, Duckworth, Angela, Vermillion, 2017
[4] Successful Intelligence: How Practical and Creative Intelligence Determine Success in Life, Sternberg, Robert J., Simon and Schuster, 1996

But how do you develop these different types of intelligence? One way is to develop a high level of curiosity about different subjects; being open-minded to various solutions, approaches, and outcomes; and, maybe most importantly, having a genuine love of learning, being excited about new discoveries, new trends, and new market dynamics. And IMAP people are curious about the world, about new opportunities and new ways of approaching old problems.

Finally, we consider the Strengths of the Heart

This category is probably least associated with investment bankers, and yet, in every "having a beer" discussion about M&A war stories, we talk about how it is always more about understanding psychology than understanding finance. Deals fall through at the last minute, usually not because of a flaw in the financial model, but because of a change of heart by the buyer or seller. Being empathetic and completely aware of the needs of your client, your co-workers, and team-mates, is an essential ingredient of success. Being fair, loyal, kind, and polite are not weaknesses, as sometimes portrayed by popular media, but essential strengths, and, I hope, characteristics of all IMAP team members.

Finally, it is the combination of these three types of values, both at the personal and organizational level, especially when combined with a high dose humor and big slices of humility, that leads to character and integrity, and ultimately builds trust. And trust is, after all, our most important asset - the trust of our clients, our team-members, and of our co-workers. So, it is these values that we look for in new IMAP members, it is these values to which we hold all our members accountable, and it is these values against which we measure our success.

Today, as we begin thinking about 50 years of IMAP in 2023, we remember the accomplishments – the deals, the tombstones, the growth. But we also remember the setbacks and disappointments, and the resilience that was needed to survive those times. Most of all, we remember the people who did the hard work, and made the sacrifices to build one of the leading M&A organizations in the world.

So, can we reduce IMAP to three simple words that will resonate in people's hearts and minds and guts and convey all that is unique about IMAP? Maybe, but I'm not as sure as I was when we started this exercise. What I am sure about is that the IMAP family, old and young, will continue to serve our clients well into the future with vision, integrity, and, above all, character.

JURGIS V. ONIUNAS
IMAP Chairman
jurgis.oniunas@imap.com

IMAP's 2022 H1 Results

IMAP closes 109 M&A transactions worth over $18 billion in H1 2022

109
M&A transactions

$18bn+
transaction value

26%
cross-border deals

IMAP closed 109 M&A transactions valued at over $18 billion in the first half of 2022. Compared to the past few quarters in which the market experienced a notable post-COVID rebound and IMAP record high deal closings (111 in Q4 2021 and 65 in Q1 of this year), the pace of dealmaking activity in Q2 was notably slower. IMAP partners are now operating in a market that is transitioning away from a phase of cheap financing, pent-up demand and high valuations to one of surging inflation, rising interest rates, more selective investor appetite, and widespread domino effects from the war in Ukraine.

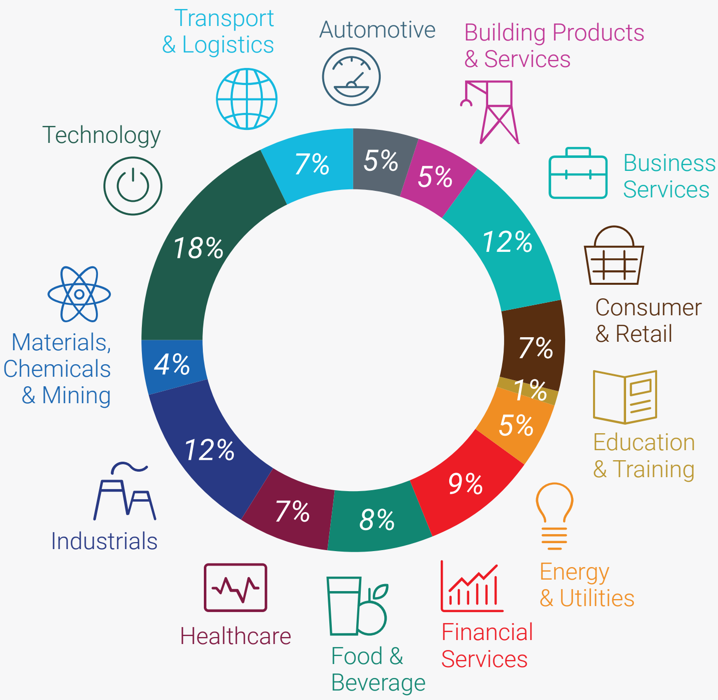
Despite the general downturn in M&A activity observed in Q2, the market is by no means frozen; buyers are still out there and looking for high quality opportunities. Companies with proven resilient business models in the face of challenging macroeconomic conditions are prime targets for acquisition. Moreover, even though PE investors are not immune to instability, their presence in the M&A market is expected to remain strong.

Technology, Business Services, Industrials, Financial Services, and Food & Beverage were the most active sectors for IMAP in H1, accounting for 59% of total deal volume. Ongoing digital transformation and evolving business models are driving convergence and deal opportunities across many of these sectors. Going forward, specialized companies in the IT, Healthcare and Financial Services sectors are expected to continue attracting significant investor attention. Roughly 26% of IMAP's transactions in H1 were cross-border, which is somewhat lower than previous periods and likely reflects growing investor uncertainty surrounding the international landscape. The majority of IMAP's H1 deals involved a target in Europe or North America, while difficult market dynamics continue to weigh on activity throughout other regions of the world.

JURGIS V. ONIUNAS
IMAP Chairman

"The M&A boom recorded in the past few quarters has been suddenly overshadowed by record high inflation, rising interest rates, and fears of recession. Energy and food price increases are a danger to the stability of developing markets. Global stock market valuations are off 20-30% from their cycle highs and are showing no signs of an imminent recovery. Yet despite this difficult environment, IMAP advisors continue to close successful deals for clients around the world!"

Deal Distribution by Sector



Global Performance

Rank	Advisor
1	PwC
2	KPMG
3	Rothschild
4	Houlihan Lokey
5	Deloitte
6	EY
7	**IMAP**
8	Grant Thornton
9	Lincoln International
10	Goldman Sachs

Ranking based on number of transactions closed in H1 2022.
Undisclosed values and values up to $500 million.
Source: Refinitiv and IMAP internal data.

Local Market M&A Insights

GERMANY

IMAP Germany experienced a strong first half of the year with 4 signings in May alone and we are on track to achieve our ambitious plans for the current year. We are focusing on sell-side projects with companies whose business models are proving to be resilient with respect to the various current economic challenges, as a few projects have been put on hold due to investor concerns.

We are focusing on sell-side projects with companies whose business models are proving to be resilient

Our deal flow for new sell-side projects remains strong which we attribute to our business model and sound market positioning, as overall transaction numbers are down quite a bit in Germany according to Refinitiv numbers with further bumpy conditions expected over the next 12-18 months.

Carsten Lehmann
IMAP Germany

NETHERLANDS

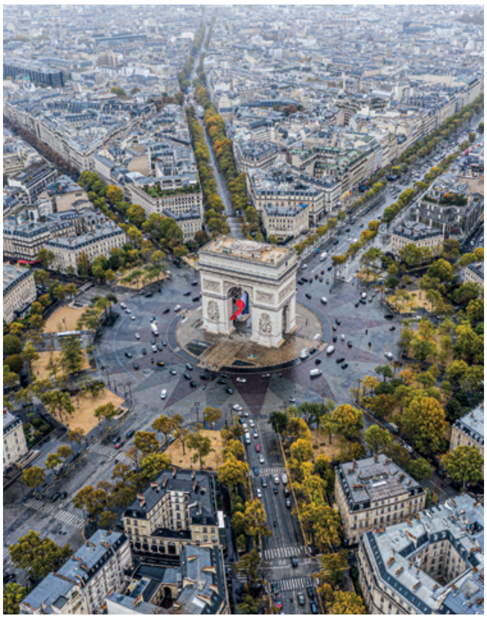
Our current portfolio of mandates is still very good and we are busy trying to convince potential clients to be prepared to start sales processes after the summer period. However, in the last couple of months, we have noticed that it is taking longer to close deals.

Business risks are increasing and organic growth is becoming more and more difficult because of the lack of qualified employees

Both strategic buyers and financial buyers are more critical regarding the outlook of target companies which is likely to slow down the number of deals, even though there are still many sellers on the market. Business risks are increasing and organic growth is becoming more and more difficult because of the lack of qualified employees.

Jan-Pieter Borst
IMAP Netherlands

FRANCE



In H1 2022, M&A transactions in France fell by 42% in value, to €37.5 billion. The decline was driven by rising interest rates, inflation, increased market volatility and high economic uncertainty stemming from the war in Ukraine. The French situation is not an exception in Europe. The entire European market is disrupted but the decline in France is the second largest in the region after Germany. This atmosphere of uncertainty has led to suspended auctions, reluctancy from financing banks, tension among sellers and a wait-and-see attitude among buyers.

This atmosphere of uncertainty has led to suspended auctions, reluctancy from financing banks, tension among sellers and a wait-and-see attitude among buyers

As a result, some fundraising and financial operations are struggling (IQera backed by BC Partners, Havear backed by 3i Infra, Infopro owned by Towerbrook). And yet, the French market is not completely frozen (the optical wire provider ETC was sold to Cinven for €2 billion) and Degroof Petercam - IMAP France and Belgium closed 10 deals and signed 44 new mandates in the first half.

Cyril Kammoun
Degroof Petercam - IMAP France

IRELAND & UK

M&A remains high on the agenda for boards and senior management teams across the UK & Ireland markets. The pace of deal-making has continued to hold strong despite the various economic challenges, with a particular focus on bolt-ons and operational acquisitions. We are seeing private equity interest across a range of sectors, from enterprise software through to logistics and distribution. Investor interest in the Irish market has strengthened and we are continually engaging with international investors attracted to the country's leading companies and highly promising growth opportunities.

The pace of deal-making has continued to hold strong, with a particular focus on bolt-ons and operational acquisitions

We are cautiously optimistic on the outlook for the rest of the year: although there are challenges that need to be navigated in each deal, we feel confident that buyers and investors are out there and continue to seek out high quality opportunities.

Saif Shubana
Key Capital - IMAP Ireland

POLAND

We did not see a slowdown in M&A activity in Q2 despite the impact of the war in Ukraine. All processes launched prior to 24 February are progressing and in May we closed the €90 million sale of Krynicki Recykling, Poland's #1 glass recycler, to SIBELCO, the leading European industrial minerals miner and processor. However, the IPO market did come to a halt in Q2 with all IPOs in the pipeline postponed until after the summer due to the impact of worsening global and local equity capital markets and the war in Ukraine affecting investor sentiment regarding the CEE and Europe region in particular.

We did not see a slowdown in M&A activity in Q2 despite the impact of the war in Ukraine, the IPO market, however, did come to a halt

Moreover, investors are focusing on picking up already listed stocks which have dropped significantly in value since the beginning of 2022 and IPO pricings are not competitive at present. We hope the markets will re-open following the summer holidays, but this depends on macroeconomic and geopolitical headwinds.

Piotr Chudzik
Trigon - IMAP Poland

SWEDEN

Overall, the Swedish M&A market was still very active in Q2 2022 despite the ongoing war, and both higher inflation and interest rates. Following the pandemic, companies are better at adapting to new macro environments, something that we observe with several of our clients. IMAP Sweden had a busy Q2. We closed four deals, including the sale of a drug test provider to a listed industrial conglomerate and the sale of a hydraulic service provided to a larger group in the same industry.

We think there will be a continued strong appetite for tech and healthcare companies, and greater focus on sustainability issues

We are optimistic going into H2 2022. There is still good access to capital and many funds that have just closed are looking to invest. We think there will continue to be a strong appetite for tech and healthcare companies, and greater focus on sustainability issues.

Andreas Anderberg
IMAP Sweden

HUNGARY

Hungary is suffering the consequences of the deadly ongoing conflict in neighbouring Ukraine. Moreover, inflation is rising, the Forint has weakened, and interest rates are also up. The government has imposed extra levies on certain sectors trying to make up for the skyrocketing budget deficit. All these factors have a negative impact on both capital market transactions and acquisition processes.

A mid-term uptick in the market can be expected amid the government's attempt to support SMEs and a new wave of near-shoring

However, we have had a great year thus far, with nine closed deals and two additional transactions signed, though we have noticed certain cooling across industries, mostly due to the falling valuation expectations of buyers. Unless sellers adjust their expectations in line with market trends, transaction activity is likely to decrease in the second half of the year. A mid-term uptick in the market can be expected amid the government's attempt to support SMEs with subsidized loans and a new wave of near-shoring in the industrial production segment.

Gábor Szendröi
CMBP - IMAP Hungary

USA

The US M&A market is becoming more cautious, especially in the Consumer Products industry. We are seeing the volume of buyers and valuations coming off their 2021 peak.

Quality companies with high gross margins and proven resilience in uncertain economic times are doing very well

However, they are still at historic highs. Food, household essentials, personal care and quality companies with high gross margins and proven resilience in uncertain economic times are doing very well.

Kenneth Wasik
Capstone Partners - IMAP USA

BRAZIL

M&A activity remains strong at roughly the same level as last year. We continue to see a very large number of leads and new mandates which will eventually reflect positively on 2023 deal closings.

We have not yet seen any signs of reduced interest from foreign buyers despite the upcoming presidential elections

For the second half of this year, we have not yet seen any signs of reduced interest from foreign buyers despite the upcoming presidential elections.

Marcio Fiuza
Brasilpar - IMAP Brazil

JAPAN

The total value of M&A transactions involving Japanese companies dropped 13% during the first half of 2022 and volume declined by 17%. While the world appears to be approaching the end of the COVID-19 challenge, Japanese corporates are now facing the plunge of the yen to a 20-year low against the US dollar and geopolitical risks caused by the war in Ukraine, which is discouraging outbound M&A activities.

Easing of entry restrictions on business travelers, along with the favorable exchange rate for foreign buyers, could drive inbound M&A

The recent easing of entry restrictions on business travelers, along with the favorable exchange rate for foreign buyers, should provide sufficient tailwind for what could be a beneficial surge of inbound M&A in Japan.

Tomoyuki Izumi
Pinnacle - IMAP Japan

CHINA

In the course of 2022, China has experienced slower growth but low inflation. Cross-border M&A deals are expected to remain at the current subdued level, while pent-up demand could be unleashed if travel restrictions are lifted. The Zero COVID Strategy has had a strong impact on the economy. Local firms are putting effort into change management initiatives, revealing M&A opportunities during strategic reorientation and organizational restructuring.

Geopolitics and supply-chain disruptions are driving Chinese companies with strong export exposure to optimize their overseas footprint

Geopolitics and supply-chain disruptions are driving Chinese companies with strong export exposure to optimize their overseas footprint and find new growth potential. The most demanded targets for outbound transactions are companies with unique technologies, leading market positions and sustainable profitability.

Tinglian Jiang
IMAP Germany

INDIA

Rising inflation and higher interest rates have impacted the growth outlook, the state of public markets and bank's credit appetite. There is not yet clarity on the longevity of this situation, but the biggest and most immediate impact is on primary issuances in equity capital markets. Overall M&A activity is still volatile across sectors and mergers among equals to survive or face markets together is a new trend.

Mergers among equals to survive or face markets together is a new trend

Start-ups and new companies are definitely rationalising their cost structures and customer mix to increase the runway to the next fund raise. We continue to build on our distressed M&A and credit resolution business. At the same time, integrated large players in traditional cement, steel and polymers businesses have preferred to buy downstream processors impacted by volatility in recent years which has proven relevant for us in terms of consolidation deals this year.

Ashutosh Maheshvari
IMAP India

Short-and Medium-term ESG Liabilities for Medium-sized Companies

GÁBOR SZENDRŐI
Managing Partner
Concorde MB Partners
IMAP Hungary
gabor.szendroi@imap.com

JUDIT PÓKOS
Organizational Development Manager
Concorde MB Partners
IMAP Hungary
judit.pokos@imap.com

Everybody is talking about Environmental, Social and Governance (ESG) nowadays, however, it's not immediately apparent what the real implications are for medium-sized companies. Gábor Szendrői, Managing Partner, and Judit Pókos, Organizational Development Manager, at Concorde MB Partners – IMAP Hungary took a deep dive into the current regulations, as well as conducted a series of interviews with SPAR Hungary, a large food retailer and MOL, an international oil group, along with the Hungarian National Bank, Hungarian Stock Exchange and other several key players in the Hungarian economy, in order to better understand what ESG really means in terms of obligations and repercussions for medium-sized companies. They share their findings on the indirect, yet highly important aspects of ESG regulations with Creating Value.

Following our research, it turns out that while ESG may not directly impose obligations on medium-sized companies for the time being, because they come into contact with stakeholders who are subject to strict reporting regulations, indirectly ESG will in fact have ramifications and impose occasional obligations on medium-sized companies, as well as their customers, bankers, and subsidies.

European Union (EU) Targets & ESG Reporting

One milestone in the fight against climate change was the acceptance of the Paris Climate Convention in 2015, which was signed by 195 countries. The objectives of the Convention are to keep the global average temperature increase below 2°C compared to pre-industrialization levels, to achieve adaptability and low emissions, and to provide the necessary financial resources. In conjunction with this, separate goals have been set for the EU. There, the goal is to reduce greenhouse gas emissions by 55% by 2030, and to achieve climate neutrality by 2050. To achieve these goals, a considerable change is required, which will also significantly affect how companies operate. In some sectors this means specific numerical intervention (think of the carbon quotas of the largest emitters or standards for fleet-based emissions for car manufacturers), however, from a company's point of view, this takes the form of sustainability and ESG reporting, as well as compliance criteria. ESG's three pillars aim to identify the non-financial risks inherent in companies and present opportunities for development. More and more ESG reporting obligations are emerging, and investors and financiers are already applying filters in their decisions. Therefore, it is important for companies to prepare for change to avoid potential problems ahead.

Current EU Regulation

The most important element of the EU's ESG regulation is related to corporate reporting. Currently, the EU requirement for non-financial reporting is the Non-Financial Reporting Directive (NFRD); in each EU Member State, accounting laws govern the publication of sustainability reports. These are only mandatory for companies with public interests and more than 500 employees. At an EU level, a total of approximately 11,000 companies are currently affected, including all banks and insurance companies.

The mandatory report must briefly present the company's environmental, social, human rights and anti-corruption policies and activities. Of course, there are companies, large and SMEs, that provide much more detailed reports on their environmental impact and actions to reduce it. The number and format of the so-called sustainability reports are also numerous, but there are no mandatory requirements for their content yet. Many companies are following non-mandatory but standardized frameworks, e.g., Global Reporting Initiative (GRI), as these are widely recognized by the markets with the intention and expectation that uniform regulation in this area will emerge over time.

Change in Regulation - Taxonomy Decree & Corporate Sustainability Reporting Directive (CSRD)

There is a lot of talk about the EU's Taxonomy Regulation. This regulation (and its technical details, six in total, two of which are currently in force) is set out in a thematic breakdown in line with EU climate and other environmental targets, along with which economical activities can be considered compatible with environmentally sustainable goals (more simply: green activities) and which can't. Taxonomy Regulation and its technical ancillary regulations are not simple legislation intended for everyday use, but worth knowing for those who are affected or have an interest in the subject, as they are the basis for all EU sustainable policy. The EU Taxonomy Regulation provides for a much more detailed reporting obligation than at present but does not extend the reporting obligation to further companies yet. Those currently affected already face related tasks this year and from 2023 onwards must present what percentage of net sales, OPEX and CAPEX comes from sustainable activities and demonstrate how their activities support the EU's sustainability goals. In addition, the Taxonomy Regulation will require financial institutions to disclose the proportion of their green loans and to draw up a detailed plan for greening their loan portfolios. As green lending will increasingly be a monitored performance indicator (KPI) therefore, increasingly stringent sustainability conditions for bank loans are expected.

The Corporate Sustainability Reporting Directive (CSRD), the new European Commission proposal issued last year but still under negotiation, makes an even bigger change, introducing yet more detailed reporting requirements according to uniform EU standards, and greatly expands the number of companies concerned by reporting obligations. All companies listed on a regulated market (except micro-enterprises) and all large companies identified with a much broader definition[1] will be required to prepare a report. Hence, the European Commission estimates that this will affect almost 50,000 EU companies. In addition to the standards for large companies, separate, proportionate (presently voluntary) standards will be developed for SMEs, which will be adapted to the capacities and resources of such companies. According to the original plans, EU Member states should implement the directives by December 2022 and should ensure that they are applied from January 2023 (i.e., from the 2024 report onwards). However, some delays can be expected due to its very quick introduction.

[1] At least two are exceeded on the balance sheet data (DIRECTIVE 2013/34 / EU): Balance sheet total: EUR 20,000,000, Net sales: EUR 40,000,000, Average number of employees: 250

Bad news for SMEs as new regulations will affect all companies in some indirect form

Report Requirements Based on the CSRD

Companies covered by the CSRD must publish a standardized sustainability report along with the financial statements issued starting from 2024. The impact of the company's operations on the environment must be presented in accordance with: international standards; the impacts of climate change; the resulting risks; and the steps taken to address them. The exact standards are being developed by the European Financial Reporting Advisory Group (EFRAG) and are expected to be available in October 2022. An audit of the standardized sustainability report will also be mandatory. These companies will henceforth be covered by the Taxonomy Regulation as well. As a consequence, ESG reporting obligations will increase significantly and more compliance criteria can be requested from the companies.

Impact on Companies not yet Required to Report

So, based on the above, can medium-sized companies be reassured that they have nothing to do? Since large companies do not operate in a vacuum, but in cooperation with medium-sized companies, the bad news is the answer is no. Indeed, although regulation will not yet be mandatory for a significant proportion of SMEs, experts say the new regulation will affect all companies in some indirect form, including through the following channels:

- **Value chain:** Larger companies will have expectations of their suppliers
- **Banking system:** Banks apply sustainability filters when granting loans and prefer green investments, they can also offer more favourable conditions to those who comply with the new regulations
- **Investors:** Sustainability will become increasingly important to investors who will prefer sustainable companies
- **Financing through the Stock Exchange:** A sustainability report is required for all companies listed on the stock exchanges. Also, in the case of bond issuance, ESG considerations are becoming increasingly important
- **Government/ EU grants:** ESG aspects may appear in the application scoring and sustainable investments will be preferred
- **Consumer and employee pressure:** With the emergence of younger generations of consumers and employees, environmental awareness, i.e., the search for ESG qualities, is increasing

The most significant impact is expected to be in the case of value chains, as sustainability becomes increasingly important and emphasized in large companies. It already has been in many places, but the new regulations unify the thinking and attitudes of large companies. Large companies want to see their environmental and social impact in more detail, for example, not just their direct greenhouse gas emissions (scope 1) but their indirect emissions too (scope 2 and 3) and a significant portion of this is accounted for by their suppliers. Accordingly, SMEs supplying large companies will also need ESG information on their operations. Sooner or later, value chain screening will be mandatory, but even without an obligation, there will be a need for them. A draft EU directive on Corporate Sustainability Due Diligence (CSDD) already exists for ESG due diligence of suppliers. Thus, there is a growing demand from large companies for ESG data to be provided for midcaps, as well as for suppliers to become sustainable.

Companies not adequately prepared for new ESG regulations will clearly be at a disadvantage

Practical Implications in the Value Chain

As the need for more detailed reporting or stricter compliance by large companies grows, so must SMEs adapt. To get a better understanding of this, we talked to two large Hungarian companies (SPAR Hungary, a large food retailer and MOL, an international oil Group) to find out how ESG principles are applied in their case. At SPAR, for the past five years, the issue has been taken very seriously at the request of the Austrian parent company. They now have a dedicated team and a detailed ESG strategy, and the reduction of plastic packaging and support of the circular economy has become very important for them. No specific ESG criteria have yet been formulated for their suppliers, however, they have regulations on packaging and other ESG-related requirements. Moreover, they invest into raising SME's awareness and support their upgrade in this sense through training programs and recommendations.

MOL has been producing sustainability reports for a long time, and its situation is special in that its operation is considered as a non-environmentally friendly industry. The experts interviewed explained that this is why they need to pay special attention to ESG and sustainability. Part of their everyday work is to consider and develop these aspects, among other things, and their goals include decarbonisation, ending the flaring of waste gases, and using more hydrogen-based solutions. In addition, they want to participate in the development of the circular economy in Hungary, with the development of waste processing and related industries. Furthermore, in accordance with the group's business strategy, MOL 2030, they launched a responsible procurement program. As part of this, potential suppliers for example, must fill in a sustainability questionnaire asking them about CO_2 emissions.

The results of the questionnaire will be taken into account in the selection process and there will be a sustainability clause in the supplier contracts. The list of expectations for suppliers is expected to expand in the future. Based on this, SMEs emerging as suppliers must also be prepared for sustainability if they do not want to be at a disadvantage.

Impact of ESG Requirements in Bank Financing

Banks will play a significant role in the sustainable transformation of the economy, as they provide the financial resources needed for investment. Under the Taxonomy Regulation, banks are required to disclose in detail what polluting and sustainable activities they are financing. In addition, for risk management reasons, funding for polluting activities should be gradually reduced. Therefore, companies requiring funding need to be able to demonstrate their environmental and ESG impact for evaluation at some level. Failing this, they may lose their loans.

ESG Regulation Considerations for Investors

ESG considerations are becoming increasingly important to investors. Investment funds and fund managers are required to demonstrate compliance with ESG principles in their fund raising and in the

use of funds. Shareholders can "vote" on the ESG compatibility of certain investments by buying certain shares or by explicitly avoiding or selling other shares.

As transaction advisors, we want to comply with this by highlighting ESG in the Information Memoranda (IM) we prepare for the sale of a company, or if we support investors on the buy side, we also bring the issue to their attention.

Ramifications of ESG Requirements in Stock Market Financing

As per the above, companies that want to use some form of stock exchange financing are strongly affected by the regulation. In the case of a planned share issue, the strict reporting requirements already described must be met. In the case of entering a less regulated market, the reporting obligations are not yet complete, but it is still worth preparing for them. The issuance of green bonds is also becoming more and more popular, for which various international standards already need to be met and the sustainable use of the resource must be reported in detail.

How ESG Requirements Impact Government or EU Subsidies for Medium-sized Enterprises

Experts and participants of the tenders have found that more and more aspects of sustainability are emerging in various government or EU tenders. In addition, more and more grant tenders are expected to be issued specifically related to sustainability, including for example energy efficiency. At the same time, the support framework is being transformed on an activity basis: it is becoming increasingly difficult or completely impossible to get grants for polluting activities.

Consumer and Employee Attitudes to ESG Requirements

A trend is emerging, both concerning sustainability and environmental awareness, among customers and employees. For the younger generations, this may be even more significant. As large companies are required to do ESG-related tasks anyway, they also try to advertise from a customer and HR marketing perspective that they are already addressing the issue. However, medium-sized companies must not be left behind in this competition, as they may suffer a long-term disadvantage. Even if they do less on the subject for now, it is important to communicate the requirements so that those involved are aware of them.

Our Advice for Medium-sized Companies

As can be seen from the above analysis, although medium-sized companies will not directly face ESG obligations for some time, it is important to prepare and be ready. Reducing the burden on the environment and improving their own environment and economic ecosystem is a very complex task, for which they will have no time to prepare when finally required by law. If they can position themselves well on this issue, it might even give them a competitive advantage in front of their customers and their financing bank. At the same time, the future is not so far away, when it will be a real disadvantage for those not dealing with sustainability and ESG.

It is worth considering what steps mid-market companies can take to make ESG a fundamental part of their corporate strategy and, as a first practical step, they could start with the help of experts to assess their company's environmental impact and identify their real greenhouse gas (GHG) emissions. ■

A Sustainable and Green Future for OMR Moerdijk Biomass Fermentation Plant

DAAN ZANDBERGEN
Senior Consultant
IMAP Netherlands
dzandbergen@imap.nl

REMCO SCHOUTEN
Partner
IMAP Netherlands
rschouten@imap.nl

FRANK RUIJGROK
Director
IMAP Netherlands
fruijgrok@imap.nl

IMAP Netherlands talks to Creating Value about their recent client, who was looking to retire from the family-owned sustainable energy business and wanted to ensure his legacy. The team explains the process for securing the best buyer and company valuation, unexpected obstacles along the way and what's new for the recently acquired OMR Moerdijk biomass fermentation plant.

From Humble Leftovers to Cutting-edge Renewable Energy Creation

Our client BNM Holding BV's origins date back to the 50's-60's, when Van Benten Ophaaldienst, a farmer with just three pigs at the time, began collecting leftover food to feed his livestock who in turn, provided fertilizer. Fast forward several years and Bewa (Van Benten Waddinxveen) had become a thriving business, which besides leftover food, now also collected fats, which were melted down into animal feed.

During the 90's, H.F. van Benten, son of the company founder, became CEO of Bewa. Deciding to leave the Agricultural sector and with a vision to move the company in a new direction, he sold over 1,000 of the company's pigs and used the funds to build a biomass fermentation plant in the industrial area of Moerdijk and hence OMR (Organic Material Recycling) Moerdijk was established.

Using organic materials (food waste), OMR Moerdijk now generates biogas which is used as fuel for its two power stations, generating heat and power. Over the years, the installations and business model have been continuously innovated and optimized to become fully circular, with the objective of reducing the amount of residual product. A water purification plant has also been built on site. Today, the only residual products are non-recyclable materials, mainly plastic wrappings. All other materials are processed into energy, fertilizer, and water.

OMR Moerdijk's Business Model

Organic materials are delivered to OMR: (un)packed, in wheelie bins or in bulk containers
The materials are divided into four categories:

Wheelie bins are emptied and cleaned, bulk containers are emptied
Materials are processed: non-recyclable materials are separated from organic materials
A mix of processed dry and liquid organic materials is used as fuel for the biomass fermentation plant

Biogas generated with the biomass fermentation plant is used as fuel for two CHPs, that generate heat and power

Water is extracted from the digestate (residual product from biomass fermentation plant) and purified by its water purification plant
OMR has three types of outgoing materials:

+ **1.** Expired products: packed products from supermarket distribution centers

+ **2.** Swill: unpacked catering waste from the hospitality industry

+ **3.** Liquids: wastewater fats ("WWF")

4. Dry products: residual products or mis-production

+ **1.** Power and heat are used by the company

+ **2.** Heat is used by neighboring parties and residual heat is transferred back to the company premises to heat tank containers

+ **3.** Remaining power is inserted into the grid

1. Dry fertilizer pellets: residual product after water is extracted from digestate (can be disposed for free or small fee)

2. Wastewater: purified water that is discharged into the sewer system

\- **3.** Non-recyclable materials: mainly plastic wrappings

* + indicates the activity generates a positive income, - indicates the activity results in costs or negative income

"I see the biomass fermentation plant very much like a pig's stomach: digesting the food, which then becomes fertilizer."

H.F. van Benten

Handing Over the Reins of the Company

H.F. van Benten came to us as a referral from a former client, Renes Recycling, which recycles primarily paper & cardboard, plastic, fresh products ("AGF"), and business waste. Like many of our clients who run family-owned businesses that have been carefully nurtured and developed over the years, he was looking to retire from the daily operations, yet wanted to ensure the company's legacy. Therefore, finding the right buyer was crucial. His objective was that we find him a buyer that understood the processes involved and would be able to ensure the future success of the business.

Determining the Appropriate Buyer for the Business

Having closed several transactions and financings in the recycling sector, we have considerable experience, contacts, and access to both international, as well as national buyers. We approached a limited number of strategic buyers, (around 20) including companies in Ireland and the UK, all focusing on Environmental, Social, and Governance (ESG) and with knowledge of organic waste. OMR Moerdijk's circular business model is unique, whereby food residues are processed into sustainable energy, so potential buyers were interested not only in the plant itself, but also the opportunity to use its technology for other existing plants or greenfield projects.

Following a competitive process, during which we received bids from several international players, Perpetual Next, a climate technology company in the Netherlands was selected as the best fit. Due to it being a relatively small market, the buyer and seller already knew each other. Perpetual Next had considerable knowledge regarding organic waste conversion and understood the business and its potential, which was reflected in their valuation. The company has three divisions: Technologies, Conversions (where OMR Moerdijk now resides) and Trading. It recycles a wide range of local organic residual waste, reducing the use of raw fossil materials and enabling large polluting industries to go green, thus contributing to achieving the international climate objectives.

Securing the Optimal Valuation

While OMR Moerdijk was attractive to buyers that were familiar with the processes, the plant itself had been developed and optimized over the years by our client in such a way that it is unique. This made it relatively difficult to assess the installations, without prior knowledge of biomass plants.

Furthermore, it operates two combined heat and power stations (CHPs) for which subsidies were granted for a limited period only. Currently, a substantial portion of income is generated through these subsidies, therefore, many interested parties struggled to evaluate the business following the end of the subsidies. Our objective was to demonstrate the businesses future potential and our buyer not only saw the value potential but believed in the company's long-term and underlying driver of securing green energy, gas, and electricity.

Overcoming the Obstacles Along the way

The M&A process began back in 2018, while our client was waiting to receive all the required permits to operate the plant. These were expected to be granted in the summer of 2019, but in fact didn't come through until the summer of 2021, which slowed down the process significantly. At the same time, COVID also had a knock-on effect on our client's business, as less swill, or unpacked catering waste, was coming in from the hospitality industry which was hit heavily by the pandemic. Recent events in Ukraine have also resulted in highly volatile energy prices, so there were many challenges faced by our client along the way. However, we had trust in the underlying market and the fact that in the long-term we are moving toward a circular world/economy.

A Sustainable and Green Future for OMR Moerdijk

Following the sale of OMR Moerdijk, H.F. van Benten will step down from the daily operations and will hold an advisory role, in which he can continue to share his knowledge and expertise of biomass fermentation plants to not only improve the current plant and build new plants, but also help Perpetual Next to improve and grow existing businesses. Perpetual Next's next objective is to upgrade biogas to green gas and replace fossil natural gas, as well as to upgrade organic residual and/or waste flows.

"I am convinced that we have found a suitable buyer, Perpetual Next, and that OMR Moerdijk's future is secured. My experience cooperating with the IMAP team has been very pleasant. We all had to have a lot of patience during this process, but thanks to the continuous good cooperation with all parties, we were able to achieve a good result."

ESG Reporting a Driving Force in M&A Activity

New regulations and legislative proposals relating to ESG reporting and responsible business conduct will require companies to focus more heavily on ESG. We see an increasing number of institutions that require ESG reporting measures for their investment companies and public companies. Not only this, but both buyers and sellers are becoming more aware of the impact of ESG factors on the company's long-term value.

This increased emphasis on ESG is also driving M&A activity and has shown to have a positive impact on shareholder value of businesses involved in ESG-related activities. In addition, strategic premiums partially explain the higher multiples paid for companies with strong ESG scores, which is a means for buyers to strengthen their positioning and reputation through the acquisition of targets with a strong score. ■

Bewa Premises

M&A Thriving in the Industrials Industry in the U.S. and Canada

CAPSTONE PARTNERS

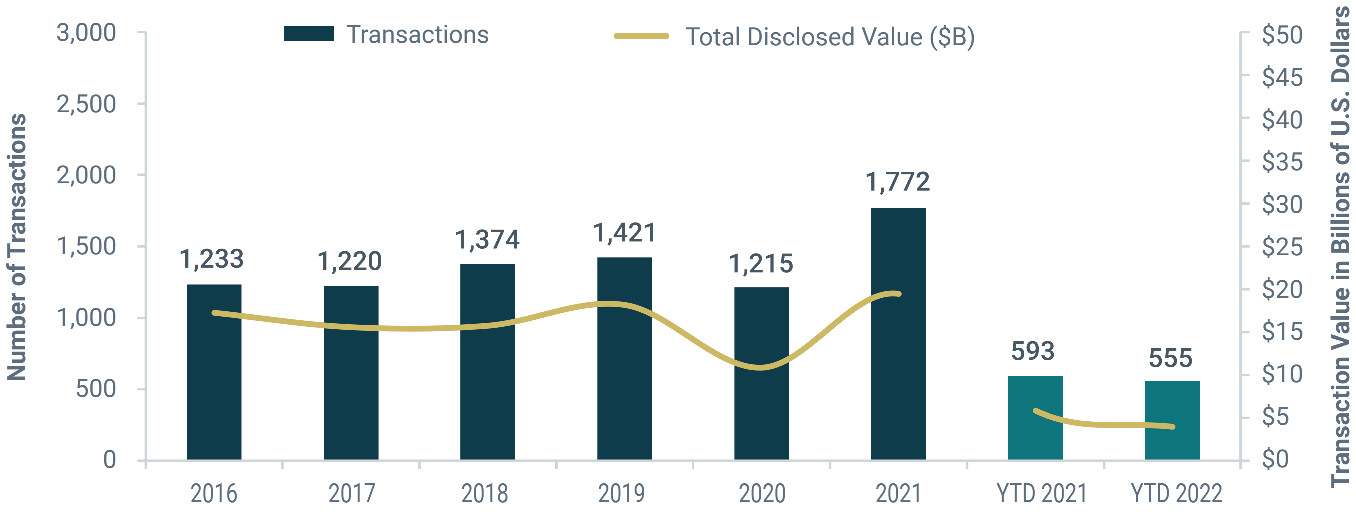
CAPSTONE PARTNERS - IMAP USA
INDUSTRIALS INVESTMENT
BANKING TEAM

In 2021, M&A volume in the Industrials industry in the U.S. and Canada proliferated, making a significant recovery from the COVID-impacted deal activity recorded in 2020. The Industrials Investment Banking Team from Capstone Partners – IMAP USA share insights from the firms recent "Annual Industrials Industry Report – Middle Market Deal Activity & Outlook", looking at current valuations and outlining the key trends forecast to drive M&A activity in the industry over the upcoming year.

The Industrials industry moved at a record pace in 2021, rising 45.8% year-over-year (YOY), as business owners were encouraged to go to market by the reopening of the economy, pent-up M&A demand, prospect of a capital gains tax increase, and frothy M&A purchase multiples.

Moving into 2022, year-to-date (YTD) transaction volume has remained healthy, declining a modest 6.4% from the same period last year as many of the elements that drove M&A volume in 2021 remain intact, including record levels of capital overhang and an elevated backlog of companies looking to engage in a sales process. Amid economic uncertainty, acquirers continue to pursue well-established businesses in defensible spaces.

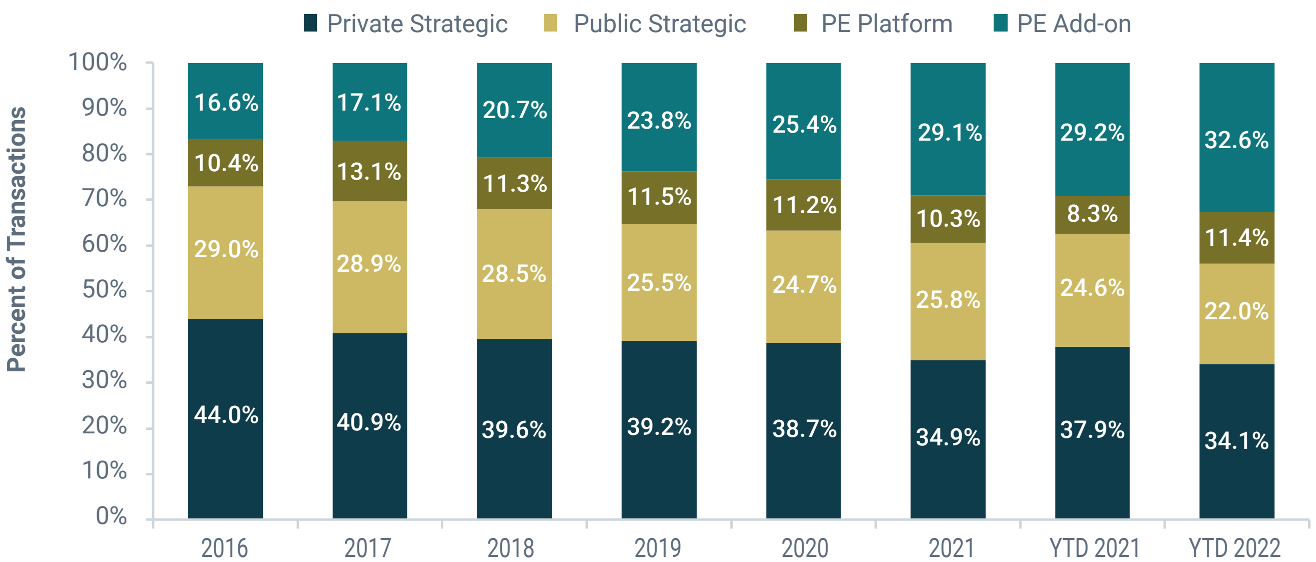
M&A Volume Modestly Declines Year-over-Year - U.S. & Canada



Strategic Buyers Driving Most Activity

Leading deal activity YTD 2022 (56.1% of deals announced or completed) are the strategics, with buyers pursuing accretive targets with complementary offerings and exposure to lucrative end markets. Financial buyers also remain active, with private equity (PE) add-on acquisitions accounting for a growing share of the deals, comprising a notable 32.6% as portfolio companies leverage PE backing to consolidate competitors. PE direct investments totaled 11.4% of deal activity as sponsors look to put capital to work and spend-down record levels of dry powder by building platforms utilizing buy-and-build strategies in promising and growing sectors.

Private Strategic Buyers Comprise Majority of Transactions - U.S. & Canada



Year-to-date (YTD) ended May 4, 2022
Source: Capital IQ and Capstone Partners Research

Interest rate increases remain top-of-mind for business owners as the Federal Reserve and other central banks aim to curb inflation while minimizing the adverse economic effects, though it is not entirely clear whether interest rate increases could hinder deal activity.

Due to the abundance of assets that went to market in 2021, "story deals," or deals with complications were not popular last year. However, the current market has provided a better environment for "story deals" involving target companies that may have weaker sales growth, customer concentration, tight margins, or require additional positioning during the sales process.

Key Themes Driving Industry Activity & M&A Volume

Buyers will be attracted to segments performing well during the pandemic, as well as those related to e-commerce as consumer behavior shifts. Improved balance sheets and record levels of capital overhang will bolster carveout activity, meanwhile industrial companies aligning long-term strategies will drive divestiture activity.

Manufacturers are increasingly under pressure. Consumers are pushing back on increasing prices driven by input price inflation, forcing manufacturers to take measures to improve margins through horizontal or vertical integration.

The pandemic caused their supply chains to be pushed to the limit, as a result obliging them to look at new options, including reshoring their production and integrating operations through M&A. Add to this labor shortages and for some, consolidating competitors is the only solution to gain the skills or technology required for long term sustainability of the business.

Ever more stringent Environmental, Social, and Corporate Governance (ESG) regulations will increase demand for sustainable solutions and as a result, industrial companies supporting the expansion of sustainable products and practices will be in higher demand.

1 Capitalizing on Pandemic Tailwinds

The pandemic has impacted consumer behavior as increased time at home has shifted consumer preferences towards goods and away from services. Exposure to growing end markets is expected to drive industrials M&A activity as companies aim to establish platforms in market segments that have performed well amid the economic downturn.

Means of consumption also shifted as consumers utilized e-commerce platforms as an alternative to in-person shopping. Acquirers are expected to pursue target companies with exposure to online shopping activity.

2 Strengthening Supply Chains & Reshoring

COVID-19 has tested global supply chains, with government-imposed shutdowns resulting in dislocations and decreased visibility. In addition, manufacturers in sectors such as Disinfectants and Personal Protective Equipment (PPE) were unable to meet the unprecedented demand.

As the economic impacts of the pandemic subside, manufacturers are expected to fortify supply chains and enhance visibility by investing in advanced automation technology, moving production closer to headquarters, and leveraging M&A to integrate operations and create a competitive advantage in their markets.

3 Shedding Non-core Assets & Businesses

Divestiture activity is expected to continue at a healthy pace as industrials companies continuously reassess their portfolios in order to ensure that all assets align with their long-term growth strategy. In addition, carveout activity is expected to be bolstered by a favorable deal environment with strategics leveraging improved balance sheets and financial buyers, with record levels of capital overhang, looking to put their money to use.

In addition, sellers are expected to continue to expedite their exit timelines to maximize up-front consideration ahead of any potential capital gains tax increases.

4 Bolstering Sustainable Offerings

Elevated consumer awareness of sustainability practices, rising Environmental, Social, and Corporate Governance (ESG) interest, and the prospect of more stringent environmental regulations under the Biden administration are expected to continue to increase demand for sustainable solutions.

Industrials companies that support the expansion of sustainable products and practices, both organically and through M&A, are expected to experience elevated demand in the foreseeable future. We also expect that companies in higher-polluting sectors will be increasingly pushed to pivot investment towards sustainable solutions that align with growing calls for green production methods.

5 Improving Margins Amid Rising Prices

Across nearly all segments, industrials businesses are experiencing input price inflation, putting downward pressure on the profit margins for intermediate and final goods. Due to the high demand backdrop, some companies have been able to pass elevated input costs onto the consumer by increasing the price of the good. However, input prices often rise faster than adjustments to the price of the end-good, resulting in immediate margin leakage. In addition, consumers are expected to pushback on manufacturers for non-essential goods if prices for such items continue to increase.

Companies can reduce input costs through horizontal integration, leveraging economies of scale to increase profit margins; or through vertical integration, acquiring material suppliers to reduce overhead and streamline processes.

6 Meeting Labor Force Needs

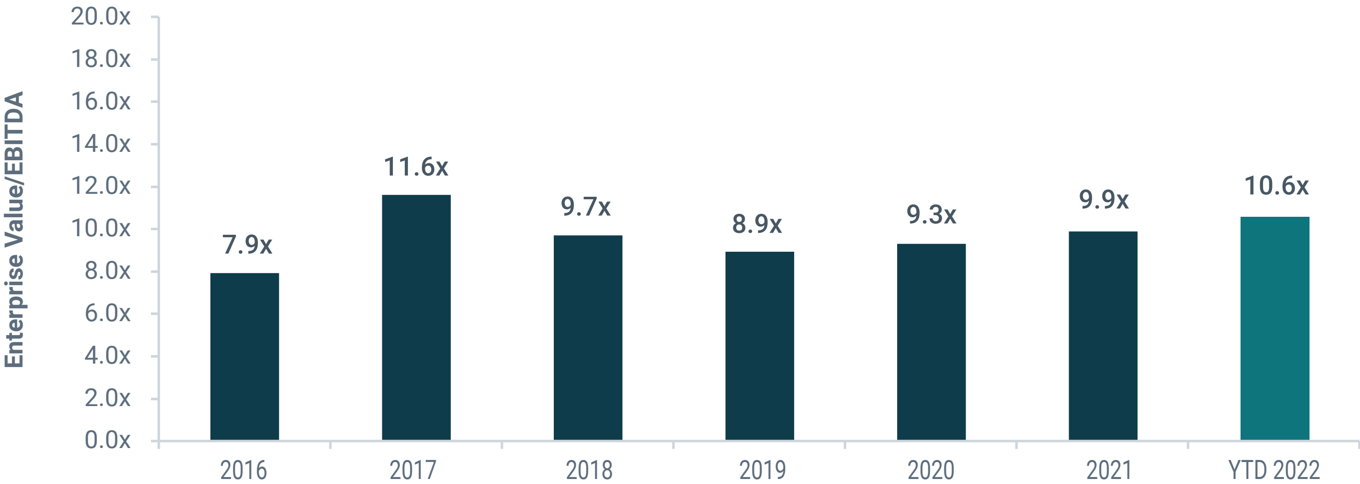
Federal stimulus checks exacerbated labor force challenges as many workers opted to collect unemployment rather than work. While the unemployment rate has returned to pre-pandemic levels, many employers continue to struggle to find workers amid the Great Reshuffle.

Rising demand and lower production due to labor force shortages have resulted in supply/demand imbalances among manufacturers. In addition to paying higher wages, industrials companies are expected to address labor challenges by consolidating competitors to gain skilled workers and adding automation technology that reduces the number of employees necessary for production.

Transaction Valuations Remain Elevated

In 2020, Industrials transaction EBITDA multiples averaged 9.3x with buyers hesitant to pay premiums amid economic uncertainty, manufacturing shutdowns, supply chain disruptions, and volatile profit margins due to input price inflation. Fast forward to today and following a strong valuation environment in 2021, the average EBITDA multiple for Industrials transactions stands at 10.6x YTD 2022, outperforming historical levels. Both strategics and PE buyers are demonstrating a willingness to pay premiums for high-quality targets, businesses with healthy financials that demonstrated defensibility amid the pandemic-induced downturn.

Average Industrials M&A EBITDA Purchase Multiples - U.S. & Canada



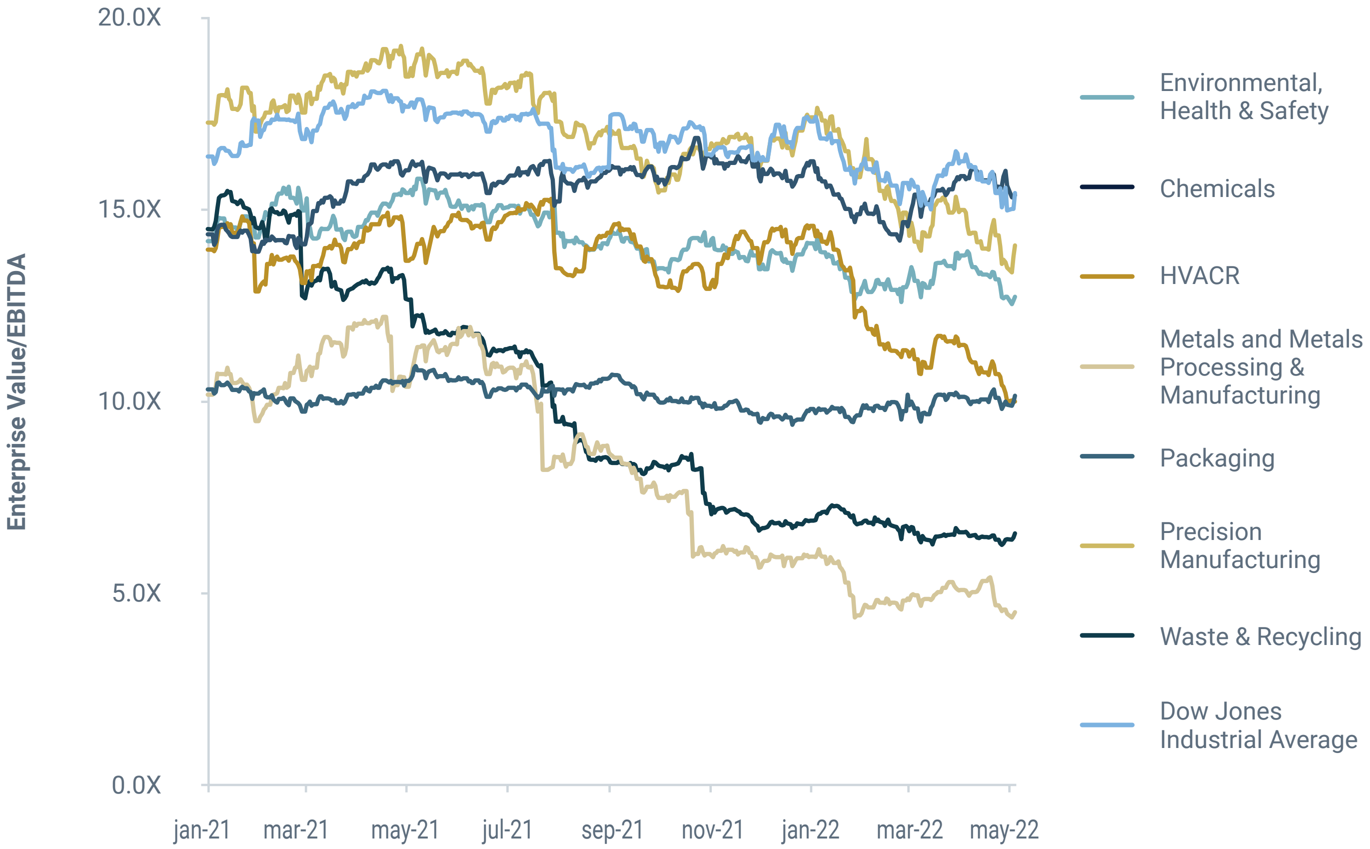
Year-to-date (YTD) ended May 4, 2022
Source: Capital IQ and Capstone Partners Research
Includes Multiples 3x-15x

Premium Prices Amid Economic Uncertainty

Historically, strategic buyers have sought businesses that diversify offerings, enhance end market exposure, establish economies of scale, create synergies, and strengthen supply chains. PE buyers have demonstrated a willingness to pay more for businesses that align with their investment theses, penetrate growing segments, or enhance the market share of portfolio companies. Acquisition multiples are expected to remain strong in the near-term as buyers pay premiums for defensible assets amid economic uncertainty.

Due to the surplus of coveted assets and record levels of capital overhang, lenders increased leverage to win deals in 2021, as evidenced by the rise in Manufacturing industry debt multiples which reached 4.0x in Q4 2021, compared to 3.6x in Q3 2021, according to GF Data®. While the market for quality deals remains competitive as bidders continue to utilize leverage to win deals in the near-term, interest rate increases could result in a normalization of debt multiples throughout 2022.

EBITDA Multiples by Sector



Chemicals: AKZA, AKE, 3407, BAS, DOW, DD, EMN, 1301, A051910, LYB, PPG, 2010, 338; Environmental, Health & Safety: ALQ, CLH, ALDLT, 6745, ITRK, MSA, NVEE; HVACR: AOS, CARR, 6367, DOV, FIX, HSC, IR, JCI, A066570, LII, MOD, NTK, TT, WSO; Metals and Metals Processing & Manufacturing: B, CMC, KALU, MLI, NUE, RS, RYI, SCHN, STLD, TMST, WOR, ZEUS; Packaging: AMC, AVY, BLL, BERY, CCK, GPK, IP, MNDI, OI, PKG, SEE, SK3, SON, WRK; Precision Manufacturing: ATCO A, AME, ENOV, CLS, CMI, GWW, ITW, LECO, SAND; Waste & Recycling: CHRA, CLH, CVA, CWST, DAR, ECOL, GFL, RSG, SRCL, WCN, WM
Source: Capital IQ and Capstone Partners Research

While cost inflation has undoubtedly impacted industrials companies, with the Chemicals and Metals and Metals Processing & Manufacturing sectors experiencing substantial declines in EBITDA trading multiples, transaction valuations have remained strong across the Industrials industry, demonstrating substantial acquirer competition for quality businesses serving resilient end markets. The ability to pass input costs onto the consumer will continue to be a key factor in preventing margin leakage and preserving financing strength. Due to persistent buyer appetite and a backlog of businesses looking to go to market, Capstone Partners – IMAP USA expects acquisition activity to continue at a healthy pace through 2022 despite economic uncertainty, supply chain disruptions, and interest rate increases. ■

The full report, entitled “Annual Industrials Industry Report – Middle Market Deal Activity & Outlook” and lead-authored by Lucas LaCroce, Market Intelligence Analyst at Capstone Partners - IMAP USA, is available **here:**

Trends in VC Funding and the Entrepreneurial Ecosystem in Mexico and Latin America

HANS CASTILLO
Associate
Serficor IMAP
IMAP Mexico
hans.castillo@imap.com

Development in the venture capital (VC) ecosystem has accelerated throughout Latin America in recent years. Both the size of funding rounds and the number of funds providing capital in the region have increased, while more startups have developed innovative business models that show signs of scalability and expansion potential. Hans Castillo, Associate at Serficor IMAP – IMAP Mexico sat down with the partners of White Beard Ventures, a Mexican VC fund, to discuss the current VC environment in Latin America and find out why it holds such great potential for international investors.

In Mexico, VC investment boomed in 2021. Investments made by VC funds in the country reached US $4.8 billion, representing a 294% increase compared to 2020 (US $1.2 billion). The number of transactions also increased 60.5%, with 167 transactions compared to 104 in 2020, and 92 in 2019.

Last year was also a record year for VC in Latin America, which ranked as the fastest-growing region for venture funding globally. It is estimated that venture investments reached US $19.4 billion in the region in 2021, more than triple than in 2020.

We've seen an increase in both VC transaction volume and round size throughout Latin America in the last few years. What do you think are the main factors driving this growth?
The original boom transpired a couple of years ago, driven by the changes in the behavior of consumer and bank clients. Since there is an infrastructure and inefficiency problem in the traditional banking system, the region began adopting fintech and other banking and payment technologies.

Digitization has also played a cornerstone role in the development of the VC ecosystem. As changes in consumer habits started shifting more towards e-Commerce and the use of food delivery platforms, this created a growing need for digital banking solutions, payment software, last mile delivery and integrated logistic platforms.

Cheaper valuations compared to developed markets have also made the region attractive, providing the perfect opportunity to match foreign capital with the need for companies to prop up fintech and digital solutions to meet growing ecommerce operations. Furthermore, many start-ups that originate in one country have the potential to grow in the region, especially in Spanish speaking countries.

White Beard Ventures Founders

GABRIEL MILLÁN

GILBERTO ESCOBEDO

JAVIER ESCOBEDO

Why do you think the region is so attractive to international investors, particularly those in the US, Europe, and Asia?
The untapped user base in Latin America largely expands the investors' home markets and has higher growth potential compared to other regions with more funds and capital.

International funds have also been attracted by cheaper prices in terms of multiples, less expensive talent, and the expansion opportunities that the region offers.

At the same time, the current valuation inflation in Silicon Valley and other startup hubs in developed markets has also played a role in the increase of funds to the region. Eventually, investors from developed markets began to realize that there are more attractive opportunities in developing countries, especially in Latin America.

Compared to other parts of the world with a similar population and GDP as Latin America, it took longer for the region's VC ecosystem to develop. What do you think was restraining VC?
There was simply no need for capital to flow outside the US, in fact, there were many opportunities there, so international funds did not need to diversify and come to Mexico or Latin America because of the amount of capital being demanded by US startups.

Another factor is that risk is probably higher in Latin America compared to developed countries.

> Cheaper multiples, less expensive talent, and expansion opportunities make Latin America attractive to investors

Therefore, foreign capital only really started flowing into the region, since rewards are higher, when attractive investments opportunities started to dry up in the US and other developed countries.

What is the main difference, if any, between the profiles of local company founders compared to their US and European counterparts?
There are two well defined types of founders in Latin America. On the one hand, you have those coming from elite US schools, with which there are more similarities than differences compared to US founders. On the other, there are the local university graduates who are entirely different from US founders, as they are more used to working with limited budgets, bootstrapping, and are just beginning to explore the VC environment.

Also, traditional business culture has changed slightly with this generation of founders. Entrepreneurship was not very well thought of some 15-20 years ago, but it has become more fashionable and is considered an attractive option now. We have also seen a shift in business culture with younger generations within the business community, which have gone from aiming to take over the family business into venturing out to start their own. This culture has been seen for decades in countries like the US.

How does the future for VC look in the region?

We expect there to be less transactions, larger round sizes, and better and more developed companies. We also anticipate a reduction in the number of companies, as more sophisticated technology starts to be developed, more companies will struggle with their path to profitability, unit economics and higher barriers to entry. It will be a case of survival of the fittest.

At the same time, things are changing compared to what happened in private equity (PE) in the 1990s and 2000s, when there were just a few local funds with local money. Today there is a lot of interest from local family offices and high net worth individuals to explore this asset class and the returns it generates, so there will be more local capital being invested in the region over the coming years.

In terms of companies, we believe regional expansion is a key factor for startups' survival and to secure more funding going into their later rounds. We have already started seeing companies operating in more than one country, taking advantage of the cultural and language similarities between them, which has allowed them to further develop their product/service offerings and improve their overall operations.

When it comes to countries, Brazil and Mexico will continue to be huge - nowadays these two countries account for 25% of the unicorns in the region. Colombia is also developing fast, and Ecuador and Peru have an interesting ratio of number of ventures per capita.

Why should international funds back Latin American startups?

For a start, because of its demographic, and population. The region has an attractive user base that is only going to continue growing and will start looking for more innovative products and services, which will allow the region's startup scene to thrive.

The banking and digital payment systems are also still very underdeveloped, which is ideal for groundbreaking companies, especially the more innovative fintechs.

What's your advice for an international fund commencing operations in the region?

It is hard to navigate. This is a very dynamic ecosystem, with regional challenges and a lot of companies looking for money, so you will need local advice and local talent to guide your operation. However, once you grasp the dynamics and get to know the people, there will be a wealth of attractive opportunities to seize upon.

Can you give us a flavor of some of the projects you are currently advising on?

Obviously, due to confidentiality, we can't reveal our client's names, however we can tell you that we are currently advising a Logistics Tech company on a cap table restructuring, along with a "classic" employee benefits company on developing business areas for hypergrowth. Also, one of the first companies that we advised in the payments space has just sold to a larger company for an increased multiple." ■

White Beard Ventures

VC fund, White Beard Ventures (WBV), was founded by Gabriel Millán, and Gilberto Escobedo from Serficor IMAP – IMAP Mexico, alongside Javier Escobedo. All experts in raising funds from private and VC, the team has an extensive track record in digital transformation, strategic financial advisory, capital raising for VC funds, as well as the scaling of startups.

WBV invests its experience, acting as a strategic partner to grant startups access to top-notch financial and strategic advisory that is generally reserved for the traditional investment banking and private equity ecosystems. The equity acquired is directly linked to the increase in valuation generated by WBV´s advisory.

Automotive Aftersales Market Booming in Germany

KATJA SCHULT
Director
IMAP Germany
katja.schult@imap.de

Despite challenging times, the German Automotive M&A market remains active. Katja Schult, Director at IMAP Germany decribes to Creating Value how the number of transactions in the Automotive sector in Germany already bounced back to pre-COVID levels in 2021, and why the boom in the Aftersales market looks set to continue. She also shares their top three tips for sellers looking to successfully close M&A transactions in the Automotive Supply industry.

In the early days of the COVID pandemic, IMAP Germany was already reporting on the challenges facing M&A in the German Automotive Supply industry. Fast forward to today and the question of whether the sector has lost its attractiveness for corporate takeovers over the last couple of years remains valid. Market shaping events including structural changes in the Automotive industry, the still unforeseeable long-term consequences of the Ukraine war, along with the persisting shortage of semiconductors and supply chain difficulties since the pandemic, have created uncertainties and associated challenges for market participants.

Signs of Optimism as Buyer Interest Continues

At the same time, however, there are also opportunities for new and existing business models in the Automotive industry, which allow us to look optimistically into the future. Take the Aftersales market for example, not only is it growing, but due to supply chain disruptions and delayed deliveries of new vehicle models, it is even showing signs of a real boom with an expected global growth of approx. ~6% p.a. in the mid to long-term.

Currently its the strategic investors predominantly acquiring companies in the Automotive market

In 2021, the German automotive M&A market had already returned to pre-crisis levels in terms of the number of transactions, with 52 closed deals compared to 53 in 2019. Despite difficult macroeconomic conditions, investors remained active in 2020 and took the opportunity to acquire companies in the Automotive market as well. In 2022, 16 acquisitions have taken place in Germany to date, 13 of which following the outbreak of the Ukraine war, mainly dominated by strategic investors.

Valuable Advice for Owners Looking to Sell

The targeted sale of a company is a venture that is conducted outside the operative business and poses a particular challenge to the shareholders and management. Below, we summarize what we consider to be three essential factors to ensure a successful completion and generate value in an M&A transaction.

A Clear Equity Story - What Distinguishes the Company From its Competitors?

The preparation of a compelling equity story is an integral component for potential investors in the M&A process. While essential information on the business model, market, strategy, and future direction of the company, as well as past and expected financial development are briefly presented in the information memorandum (IM), the true "value" of the equity story is in fact, so much more than this.

To underpin the credibility of the corporate strategy, it is important to show concrete measures for further organic growth on the revenue, earnings, as well as liquidity levels, e.g., through product innovations and measures to increase profitability.

Inorganic growth through acquisitions along the value chain is also playing an increasingly important role. M&A as an instrument for external company growth enables rapid changes in established structures and swifter realization of market opportunities. With the help of a buy & build strategy and a pipeline of potential acquisition candidates, investors gain additional comfort regarding the company's credibility and further growth.

For medium-sized enterprises, developing the equity story or the unique selling proposition (USP) is often a challenge since not every company can shine against the competition through market leadership or patent-protected technology. On the other hand, businesses can oftentimes distinguish themselves as solution providers that are partly involved in the development phases of OEMs or larger tier 1 suppliers, as well as draw on many years of production experience, a loyal customer base and established supplier networks. Due to their organizational structures and flat hierarchies, companies can also stand out because of their flexibility and quick response to customer requests.

A Structured M&A Process - Why it Makes Sense to Mandate an M&A Advisor?

Selling a company is a time-consuming and complex process. Leading this process as an entrepreneur or management on your own brings with it many new challenges. Furthermore, it raises key questions for the seller, who needs to make difficult decisions, such as whether they want to stay at the company following the sale, or how much they want to sell the company for and whether the type of investor or their strategic vision is an important factor when choosing a buyer. Hence, it is essential to define official goals (e.g., valuation ideas or buyer preferences) before an M&A process.

A structured M&A process goes hand in hand with extensive preparation, which is often underestimated and takes place in parallel to the business operations. In addition to the analysis and preparation of the company for the sale, it entails a company valuation with a derived purchase price range, as well as preparation of a marketing strategy and professional marketing documents (teaser, information memorandum), comprehensive market research to identify potential buyers, extending to the anonymous market approach based on the marketing strategy (number of potential buyers to be approached), conducting due diligence and contract negotiations up to the closing.

M&A advisors can look back on many years of industry-specific transaction experience, contributing to the assessment of potential transaction risks and their mitigation through a structured project management approach and coordination of the company's management and other stakeholders on the client side. The M&A advisor represents a great relief from the strain related to the transaction and offers a comprehensive range of services along the M&A process to its clients, following the maxim of achieving the best possible results and positioning the target company in a way that secures maximizes profits.

The Right Timing - Why Speed Plays a Significant Role in an M&A Process?

As previously mentioned, an M&A process is always associated with a high degree of time commitment required on top of the operational activities and day-to-day business. M&A processes usually take between six and nine months, where all parties work towards one goal from day one - the successful completion of a transaction. Building up speed and maintaining the momentum presents both opportunities and risks at the same time, with success and speed being mutually dependent.

The opportunities are thereby clear: through speed, competition can be built up and cultivated. All parties strive for an accelerated closing of the transaction, the avoidance of long discussions and a prompt return to the day-to-day business, which also helps when trying to maintain the confidentiality of the transaction.

Yet the opportunities also entail risks that can jeopardize a successful deal completion. Too much pressure on the shareholders and the management can lead to wrong decisions and have a negative impact on the speed of the process. However, overburdening the management team, is a risk that neither party should take. A rushed process can ultimately lead to investors bailing out, as well as to a loss of credibility in the company and the process.

After all, it is the credibility and enthusiasm during or for the process that leads to success. This requires a concrete and feasible timetable with milestones to be reached, subject to prior consultation and assessment of available resources, in order to realize an efficient process and a successful deal for all parties involved. Therefore, it is important that the process is transparent for all participants concerned.

Ultimately, all three of the above factors are interrelated in an M&A process and should not be viewed separately, but rather as symbiotic complements to each other.

Select IMAP Germany Automotive Transactions

AUTOMOTIVE

Knoll AUTOMOTIVE

Has been acquired by

Alliance Automotive Group

A part of

GPC

IMAP

ADVISED ON SALE OF COMPANY

AUTOMOTIVE

ESSVP IV Funds

Private Equity
(Advised by Orlando Management)
GERMANY

Acquired Minority Stake in

BOS

Global leading tier 1 automotive supplier
GERMANY

IMAP

ADVISED ON SALE OF COMPANY

AUTOMOTIVE

Accursia Capital | Navigator Capital

Financial investors for special situations
GERMANY

Acquired 'Body Panel Göppingen' Business Unit from

SCHULER

Leading specialist for the design and manufacturing of body tools and dies
GERMANY

IMAP

ADVISED ON SALE OF COMPANY

AUTOMOTIVE

CALLISTA PRIVATE EQUITY

Special situations investor
GERMANY

Acquired 100% of Business Operations

etm engineering technologie marketing gmbh

Design and manufactured of innovative plastic and elastomer systems for OEMs
GERMANY

IMAP

ADVISED ON SALE OF COMPANY

New Funding Pumped into French Artificial Heart Manufacturer

BERTRAND DUFOURNIER
Managing Director
Degroof Petercam France
IMAP France
bertrand.dufournier@imap.com

OLIVIER DE VOS
Managing Partner
Degroof Petercam Belgium
IMAP Belgium
olivier.devos@imap.com

RAYMOND DE WOLFF
Managing Director & Co-Head of Corporate Brokerage & Syndication
Bank Degroof Petercam
Netherlands
r.dewolff@degroofpetercam.com

Located in France, CARMAT is a commercial stage medical device company designing and developing the world's most advanced totally artificial heart. Formed in 2008, the company's aim is to become the primary alternative to heart transplants. By providing cardiologists with innovative technologies and therapeutic alternatives, its mission is to save lives, as well as improve the quality of life for patients with advanced heart failure.

CARMAT was looking for funding to consolidate its financial structure and ensure the pursuit of its industrial and commercial developments. This new capital injection will support the restart of production of its Aeson® artificial heart and ensure the resumption – scheduled for October 2022 – of its implants, both from a commercial standpoint and within the framework of its clinical trials.

CARMAT began marketing its total artificial heart (TAH) in mid-2021, following CE mark approval in late 2020. In the main European countries, the company is using a direct commercialization approach and in 2021, activated and trained 13 centers. Germany and France, together accounting for ~55% of the EU mechanical circulatory support device market, are its first targets, with commercialization in Germany already underway since July 2021.

Degroof Petercam – IMAP France & Belgium, acted as joint global coordinator, joint lead manager and joint bookrunner in the fundraising round. Both the French and the Belgian corporate finance teams, as well as the Equity Capital Markets (ECM) and Syndication team collaborated on the transaction.

The successful €40.6 million capital raise includes €36.5 million by institutional and strategic investors along with €4.1 million by retail investors (via the PrimaryBid platform). ■

Bridging the gap in Tech Skills in Sweden


JÖRGEN LARSSON
Partner & CEO
IMAP Sweden
jorgen.larsson@imap.se


PER DEMUTH
Associate
IMAP Sweden
per.demuth@imap.se

Digitalization and tech development are driving an increasing demand for tech skills. However, according to a recent report by TechSverige, it is predicted there will be a deficit of 70,000 IT/Tech professionals in Sweden by 2024, confirming that the gap between supply and demand is greater than ever.

Swedish company, Telescope Services AB ("Telescope") has been successfully recruiting highly skilled IT engineers, primarily in software development, IT security and R&A, for more than 10 years. Through its established recruitment, relocation, and onboarding model, it sources IT engineers from around the world and brings them to Sweden, providing talented engineers with a future in Sweden and bridging the gap for skills by supplying clients with business-critical skills.

Looking to develop and drive forward its business, Telescope was searching for a partner that would help it achieve its long-term business goals.

Following a competitive process, Nexer, an international tech company that has been providing innovative technology solutions for over 30 years and is part of the Danir Group (a privately held Swedish company with 10,000 employees in 16 countries), was selected as the ideal acquirer for Telescope. With over 2,000 experts in 13 countries, the company has expertise in digital transformation, IT, tech, and R&D.

Together, Telescope and Nexer will be able to offer existing and new clients world-class expertise in digital transformation, as well as highly skilled IT engineers the opportunity to move to Sweden and work in exciting assignments for Nordic companies. Thus, strengthening the Nordic market contributing to innovative, sustainable tech solutions and driving digital transformation forward.

IMAP Sweden advised Telescope throughout the sales process. ■

Research Shows Enterprising Alone Brings Higher Risks

CSABA BURGER
Data Science Advisor
Hungarian National Bank (MNB)

Small and medium enterprises (SMEs) with a single owner are twice as likely to credit default than SMEs with more than one owner, according to a research paper published in 2022 by the Hungarian National Bank (MNB). Dr. Csaba Burger, Data Science Advisor at MNB and author of the paper, shares highlights of the paper with Creating Value. Explaining the shift over recent years from multiple to single-owner SMEs, he outlines the increased risks involved, and provides guidance to SMEs on how to mitigate these risks and reduce the probability of falling behind on credit loans.

According to the new research paper, the number of owners at an average Hungarian SME fell from four in 1991, following the fall of communism, to two in 2019, just before the COVID-crisis. Since this transition cannot be explained by industry, size, or taxation structural changes, it appears we are facing a fundamental societal transition. Starting a business has become easier: often partners are not required, and the availability of credit makes buying out co-investors simpler. However, owning and managing a business alone means that the SME takes on more risks without the expectation of higher returns and will fail to make debt payments on time more often than SMEs with multiple owners. The new findings may help transform management decision making and avoid the additional risks a single-owner company may bring.

Average Number of Owners at Hungarian SMEs on Downward Trend

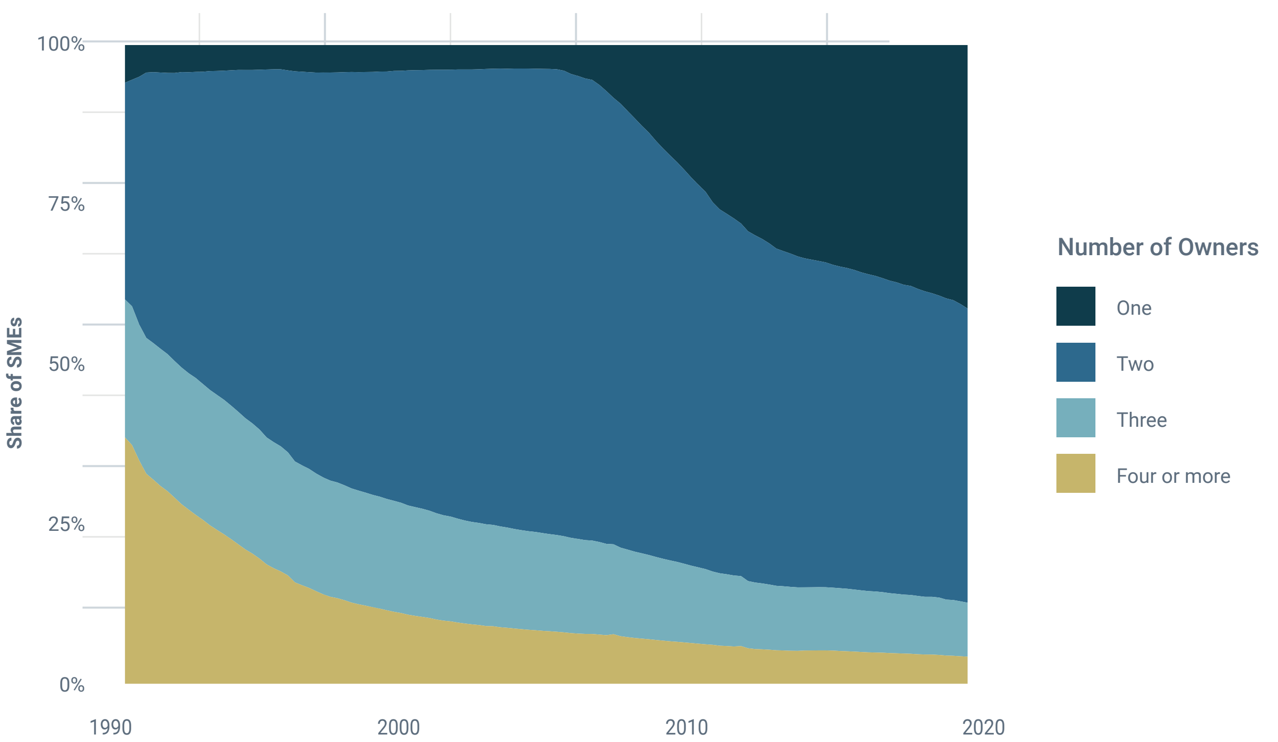
Despite the dominance of state ownership in Central Europe before 1990, Poland and Hungary had permissive rules for low-profile private ("household") companies. In 1990, the GDP-share of the private sector in Hungary was 25 percent only. Following the fall of the Iron Curtain it swelled to 80 percent by 2000. While the main driver behind the growth was the influx of foreign direct investment, domestic investors lacked access to funds, creating a situation where entrepreneurs needed to unite and start a "joint-stock" company.

The funding winter was gradually thawing after the turn of the century. In 1999, SMEs, representing 99 percent of all corporations, held one-third of all corporate bank loans. This figure gradually grew to 54 percent in 2006, a sign of the increasing availability of loans. At the same time, enterprising became easier, as data published on the "Ease of Doing Business" and "Costs of Business Start-Up Procedures" by the World Bank can attest. Finally, after the financial crisis of 2008, public policy change brought targeted, new SME-specific measures, including MNB's NHP loan program and government- and EU-subsidized funding programs. Together, these processes made starting a business alone simple and buying out co-investors possible.

As figure 1 illustrates, during the nineties, the average number of owners at Hungarian SMEs dropped from four to two. From 2010 onwards, a shift to single-owned companies reduced the average further. And because the research excludes companies with simplified taxation formats, as well as sole entrepreneurs, it is not the gig-economy that has been driving this change.

Agricultural farming enterprises illustrates the relationship between owner numbers and the availability of funding well. In the 1980s, all land belonged to large (state) agricultural cooperatives. In 1994, legislation introduced private ownership but limited the amount of land that could belong to a person. Corporate land ownership remained prohibited and lending out fields was capped both in terms of area and contract duration (20 years tenancy). Foreign ownership was not permitted until 2011, when the seven-years EU-derogation expired, and several limitations were eliminated. Before that, farmers had limited opportunity to grow their enterprises, as returns were capped by a maximized land size, and companies were (and still are) unable to legally acquire fields. Any new investments, however, required capital, and land could serve as collateral only in a limited number of cases. Hence, the need to combine funds and start SMEs with colleagues was strong. However, the relaxation of certain limitations after 2011 and the better availability of credit to buy out peers contributed to a drop in owner numbers.

Figure 1. Distribution of Hungarian SMEs by the Number of Their Owners

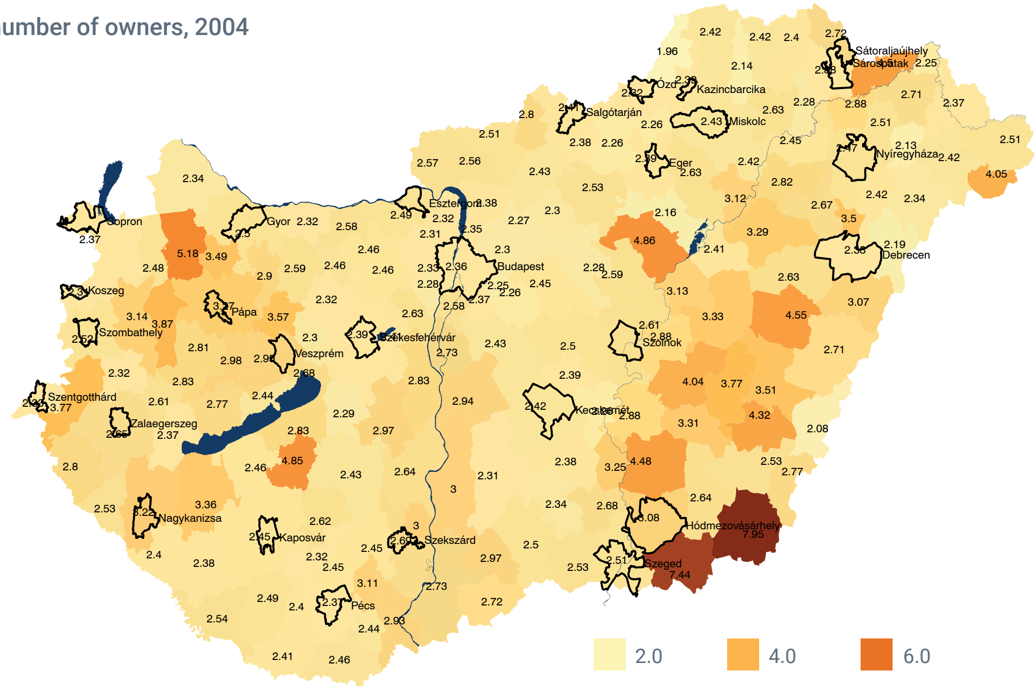


The map in figure 2 showing the average number of owners in Hungary is convincing evidence of this change: from 2004 to 2019, the color of regions with predominantly agricultural enterprises faded, indicating a rapid reduction in average owner numbers.

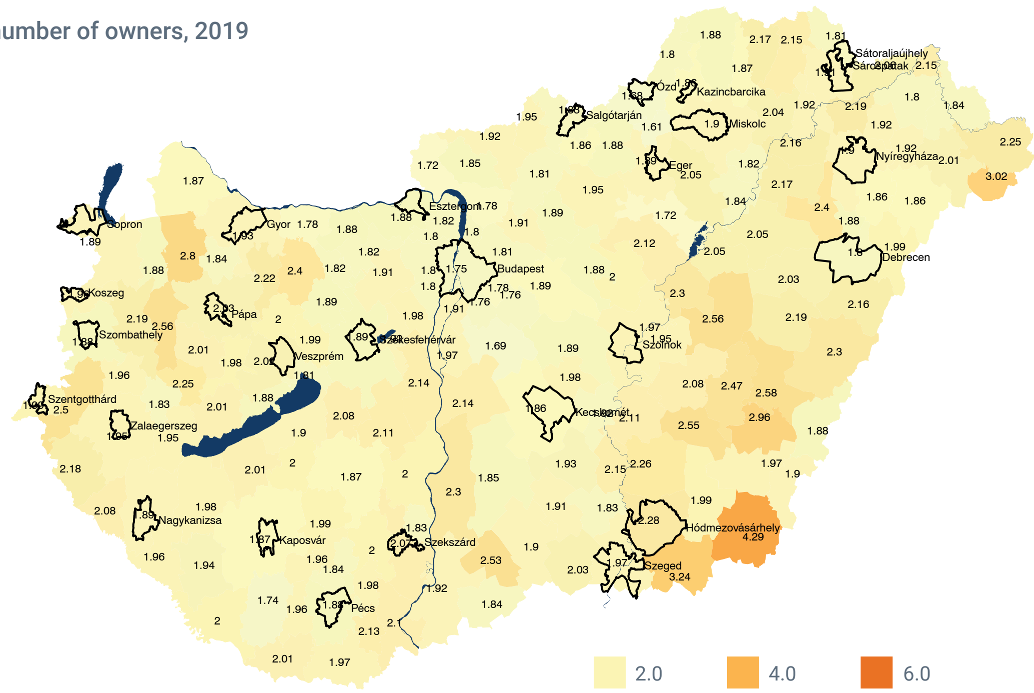
These statistics demonstrate that several characteristics move together with the number of owners, such as annual revenues, number of employees or if any of the owners is another corporation.

Figure 2. Average Number of SME Owners by District

Average number of owners, 2004



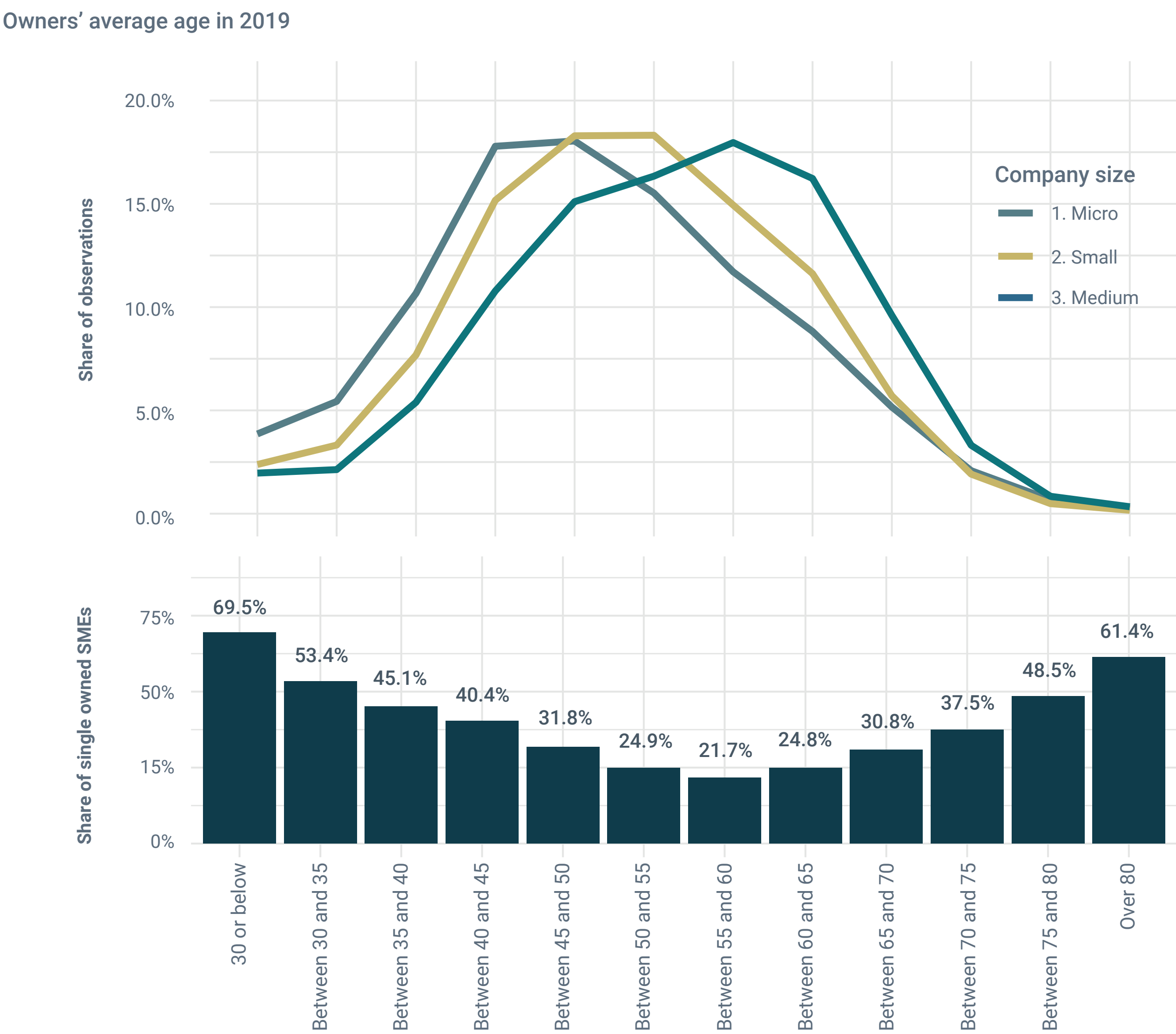
Average number of owners, 2019



The average age of the owners, see figure 3, also tells a particularly interesting story: young, as well as older entrepreneurs are more likely to own their company alone.

The young are more likely to have micro-enterprises, while the older owners possess larger companies. On average, owners have partners most often between the ages of 50-65.

3. Figure. Share of Single-owned SMEs by Average age of the Owners



Finally, the analysis also demonstrates that the decrease in the average number of owners is not a result of a change in the composition of active firms. In other words, it is clearly visible that the average number of owners has been decreasing in the last thirty years, and we are seeing a fundamental transformation of business life.

SMEs With a Single Owner do Default More Often on Loans

Both microfinance institutions and researchers have demonstrated that borrower groups are less risky than individual borrowers and are generally preferred by lenders. Moreover, female creditors are associated with lower credit risk, fewer write-offs, and fewer bank provisions. As a result, at Grameen Bank, one of the most famous representatives of microfinance, 97 percent of all borrowers are women, or groups led by women.

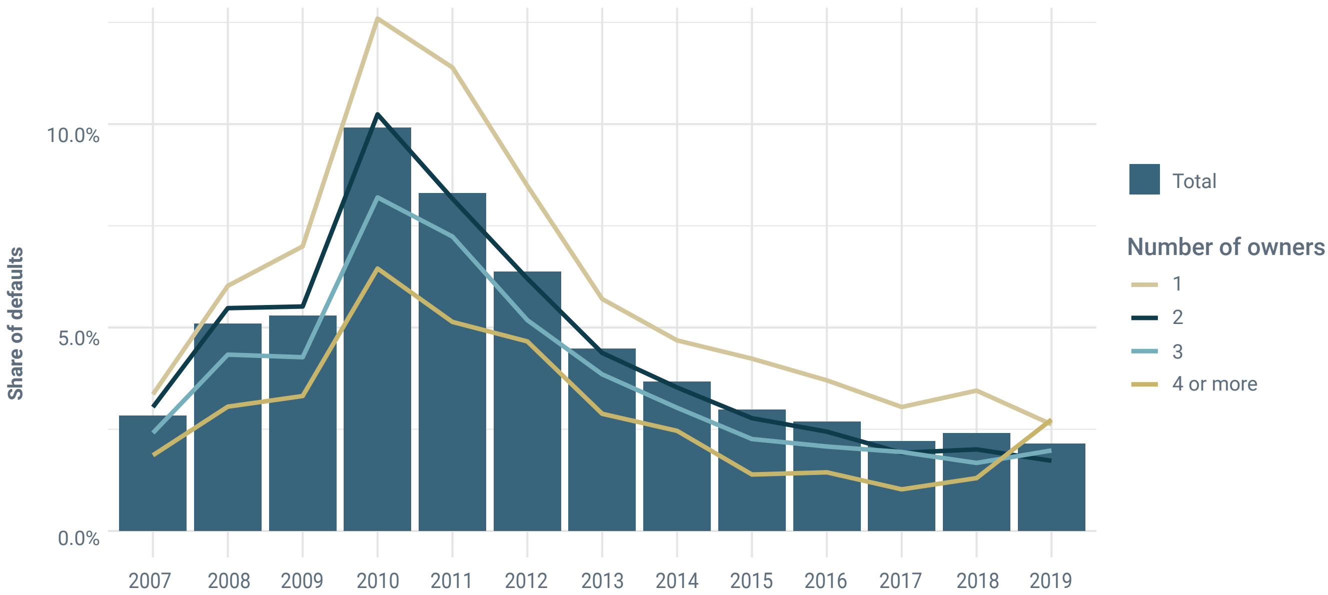
SME owner(s) are more often personally involved in managing their companies, which entails risk planning and execution. However, planning and execution often offset each other, meaning that a careful planner may in fact have a riskier approach to running the business. Furthermore, risk aversion typically increases as years go by, and there may be a threshold age above which execution capabilities decline, meaning credit risk could rise once more. Given the ageing population of owners at SMEs founded in the 1990s, a company owner's age is a particularly important factor in determining the potential risk for loan default.

The data in figure 4, showing the share of companies which were late with their instalments for 90 days or longer after the due date, strongly supports the previous assertions regarding Hungarian SME's.

The graph, besides showing the prolonged effect of the financial crisis of 2008, demonstrates that single-owner SMEs had the highest share of defaults across all years, whereas SMEs with multiple owners have a lower probability of credit default. This also holds true if we look at industry, company size, location, legal form (or business structure), and financial metrics.

To some extent, SMEs with less owners exhibit higher leverage and lower liquidity values, which are placeholders for financial risk, meaning the number of owners is indeed directly related to financial and thus credit risk. There is, however, a residual part of credit risk related to owner numbers which cannot be directly explained by financial metrics and is responsible for the additional risk of enterprising alone.

Figure 4. Share of Default Events Over Time by the Number of Owners.
(The graph shows the share of 12-months forward-looking defaults using quarterly data)



Key Measures to Mitigate the Risks

The increasing prevalence of SME companies with only a single owner is a result of a societal transformation in the economy. While this change may bring with it so far unidentified benefits, there are clearly negative consequences: owning and managing a company alone entails additional risks, as the above research on credit risk has proven.

However, the good news is these risks could be mitigated with the help of several targeted measures:

- Young owners in particularly may benefit from educational corporate finance programs by industry chambers or other institutions.
- SME managers could benefit from having equity investors -or even lenders- at the table to provide support and guidance when taking important decisions.
- Growing enterprises should be encouraged to introduce good corporate governance practices.

Such companies implementing the above measures could not only improve the fortunes of all stakeholders, but also contribute to the stability of the financial system. ■

Disclaimer: The views expressed are of the author and do not necessarily reflect the official view of the Central Bank of Hungary (Magyar Nemzeti Bank). Only the author should be held responsible for any errors, omissions or opinions expressed herein.

Original Research Paper

Csaba Burger (2022) Defaulting Alone: The Geography of SME Owner Numbers and Credit Risk in Hungary. MNB Occasional Papers, 144.

IMAP Expands its Footprint in LATAM with new Partner in Paraguay

ÁLVARO ACOSTA
Founding Partner
Investor Finance
IMAP Paraguay
alvaro.acosta@imap.com

MANUEL GARCÍA
Corporate Finance Manager
Investor Finance
IMAP Paraguay
manuel.garcia@imap.com

IMAP welcomes Investor Finance as its exclusive corporate finance partner for M&A activities in Paraguay, further expanding its reach in the LATAM region. Founding Partner, Álvaro Acosta and Corporate Finance Manager, Manuel García talk to Creating Value about the firm's history and activities and explains why intense competition in several key industries is driving M&A activity and opportunities in Paraguay.

Leading Financial Institution in the Paraguayan Capital Markets

Headquartered in Asunción, the capital and largest city of Paraguay, Investor Finance was established in 2010. Over the last 12 years we have worked hard to secure our position and become recognized as a leading financial institution in the capital markets in Paraguay, and a trusted partner.

Since starting out, we have expanded our operations considerably, and now have a team of over 200 professionals. We provide eight key service offerings and have served over 3,000 clients - and our business just keeps on growing.

Trading & Sales	Brokerage services for HNW individuals and corporate treasury management
Asset Management	Management of mutual/investment funds (five registered funds are most profitable in Paraguay)
Corporate Finance	Financial advisory and debt structuring
Financial & Economics Platform	Business information center, financial markets data, executive education programs

Business Incubator	Business Incubator targeting experienced managers in high value generating potential industries
Cattle & Agriculture Management	Land Management for agriculture and cattle raising. (20k+ livestock and 36k+Ha under management)
Real Estate & Construction Management	Real Estate project management and land bank investments (eight projects in 21,6k sqm plus 100+ Ha in land for urban development)
Software Factory	First AWS select partner in Paraguay, exporting services to 10+ countries

With over $200 million in debt placements, and having executed 18 project finance and valuations, as we speak, we have approximately $700 million of assets under management.

Paraguay – A Rising Star for Investment

We see numerous key factors that together, create favorable market conditions which have led to Paraguay not only becoming a strong economy, but also an increasingly attractive option for investors.

- Urban population stands at just under two thirds and projections are that this will continue to increase – contributing to sustainable growth
- Over 60% of population is aged 0-34 years – young dynamic labor force in terms of both professional skills, as well as openness to development
- Of 870,000 companies in the country, 833,420 are SMBs according to the Paraguayan Ministry of Industry & Commerce (MIC) – SMBs contribute significantly to economies
- According to the DPMF, Ministry of Finance, foreign direct investment (FDI) has increased 94% over the last 10 years (2010-2020), mainly in the Service sector (especially in credit unions)
- To the contrary of several other LATAM countries, Paraguay risk ratings have remained “stable” (as stated by three well-known risk rating agencies)
- Recognized for historical stability in prices of the basket of consumer goods, as well as the exchange rate. Furthermore, following the pandemic, GDP in Paraguay drop was only a negative variation of 0.6%
- Simplest taxation system in the region and benefits for international companies to encourage multinationals – large well-known companies including Nestlé, citi, EY, Cargill, Uniliver and Shell operating in Paraguay for decades
- Production & Export capacity – No. 1 exporter clean energy, No. 1 producer Stevia, No. 4 exporter Soybean, No. 5 exporter Soybean Oil, No. 6 exporter Corn and No. 7 exporter Meat

Mergers & Acquisitions - Paraguayan Key Sectorial Trends & Opportunities

In 2021, our top performing sectors in terms of profitability in the country were: Technology, Financial Services, Pharma, Telecommunications, Food, Real Estate, Energy, and Education. Most of these sectors present themselves as opportunities for higher M&A activity as concentration ratios remain very low. Recent transactions in the market include Credit union Ueno buying a SaaS company, J Fleischman, and a software development company, Itti. Shell also reentered the Paraguayan market after 15 years, with the purchase of 50% of local group Barcos y Rodados.

Opportunities for M&A as concentration ratios remain very low in many sectors

We have identified the following industries to have strong growth potential. These have not only been growing in importance in relative GDP terms but are also facing intense competition, thus needing to generate efficiencies primarily by making greater investments.

M&A Trends & Opportunities in Paraguay

Agricultural & Livestock	• **Agriculture:** Extensive land with high productivity levels for commodities. Potential for developing more sophisticated crops for export. • **Livestock:** Highly competitive meat quality with growing demand worldwide and opportunities for vertical integration.
Insurance & Banking	• **Insurance:** Low concentrated market with high number of players (36). Opportunities for improving technical and investment efficiencies and new product development. • **Banking:** Mainly composed of commercial banks with high profitability, opportunities for developing microfinance products and corporate banking sector.
Education	• Growing market due to rising competition in the labor force. The academic rigor of undergraduate programs is still behind regional comparable as universities offer almost only traditional majors. • Space to grow in technical careers and increased undergraduate offers.
Healthcare	• Good plans and coverage are only available for middle-high and high-income individuals. Only 8% of the Paraguayan population has healthcare cover. • Opportunity for potential acquisitions of new competitors that have been covering the low-income bridge without strong financial support.
Real Estate & Infrastructure	• Underexplored real estate market (high-quality industrial and commercial assets). • Paraguayan real estate investments have been focused on the upper-middle-class sector –huge percentage of the market untouched. • Underdeveloped real estate financial market. • **Infrastructure:** Important deficit in national infrastructure and industrial projects.
Consumer	• Paraguay typically been a net importer of consumer goods. In recent years more local industries are developing, targeting consumer goods substitution and increasing export capacity. • Paraguayan consumer goods (food in particular) have the potential to reach worldwide consumers due to competitive infrastructure and labor costs.

Exponential Increase in M&A Deals Since the 1990s

The number of M&A deals in Paraguay has increased importantly since the 1990s in both volume and complexity and our projections moving forward are very positive as more regional investment is coming in and the country's macro-outlook remains positive:

Key fundamentals for prospective local M&A activity growth:

- **Financial market development:**

Over the last 10 years, institutional investors have increasingly start to take on financial instruments other than CDs as investment vehicles. This has led to a larger local capital market and built more trust and a better regulatory framework for investments in general while also driving investors into considering alternative investments and mergers and acquisitions opportunities.

- **Intergenerational change:**
Most middle-market companies in Paraguay are primarily family owned, and led by a generation of very conservative executives, which have traditionally seen mergers and acquisitions as a declaration of weakness rather than a means of creating value.

As Paraguay is a small country, traditionally owners have not wanted the market to know that their company was "for sale", afraid this status would put in jeopardy potential new commercial contracts or their relationships with suppliers. As a new generation of leaders take charge, they bring a new perspective and more awareness of the value creation opportunities this tool can bring to both buyers and sellers.

M&A Outlook for Paraguay

Overall M&A activity will increase at a higher pace.

FDD will continue to take a long time to complete due to low financial reporting quality.

Strategically motivated transactions, due to lack of financial investors or local PEs.

Valuation multiples will remain close to fair value as a result of high interest environment.

Quality of target companies in terms of profitability and competitiveness will further improve.

Banking, Insurance, Food Industrials and Consumer Staples will remain the hottest sectors.

Increase in volume of international strategic buyers entering the country with high growth strategies.

A larger volume of international strategic buyers entering the country with high growth strategies.

Cross border transactions will further increase.

Most transactions range in value from USDm 5 to 200, while Venture foreign investments over USDm 200 are expected to continue.

The current geopolitical situation regarding the Ukraine and Russia has already led to its fair share of effects on the Paraguayan economy. The rise of oil prices and agrochemicals led to a YoY inflation rate of 9.3% in February 2022. Meat export in Paraguay, one of the main economic industries in the country, decreased by about $330 million, representing 20% of total meat exports. In the local M&A market, the Agrochemicals and Energy Distribution sectors appear to be the most sought-after industries for vertical integration.

Joining IMAP – Expanding our M&A Capabilities & Reaching new Markets

Our objective over the next five years is to be the leading partner in investment banking services in Paraguay. To achieve this, we are looking to develop our corporate finance business and specifically our M&A capabilities. At the same time, as we look beyond Paraguay, it is important for us to find the right partner to enable us to expand our international reach.

With IMAP, we have joined one of the top global mid-market advisory partnerships, which has well established relationships with key market players globally, access to debt and equity capital and will allow us to connect with over 450 highly experienced dealmakers around the world.

IMAP can help us reach new geographies and markets and we bring to the table our proven track record, experience, and connections, as well as our expertise and knowledge of the local market. At the same time, we, like many other IMAP partners around the globe, offer additional financial services, so this opens the door to collaborating in other areas, as well as M&A.

Since joining IMAP we have already connected and engaged with partners in Latin America and Europe on several sell side leads and will continue to actively contribute and collaborate further as our bond with the organization deepens. We truly believe that active collaboration, communication, and joint deal origination will help our IMAP clients consistently create value. Furthermore, as digitalization and globalization deepen, investing in multiple geographies no longer represents an obstacle. ■

IMAP Partners Join Forces to Expand Investment Banking Activities in the Netherlands

JAN-PIETER BORST
Partner
IMAP Netherlands
jborst@imap.nl

FRANÇOIS WOHRER
Head of Degroof Petercam
Investment Banking
Degroof Petercam
IMAP France & Belgium

In March 2022, Degroof Petercam – IMAP France & Belgium and IMAP Netherlands signed an exclusive partnership agreement in which both firms, while remaining independent, will leverage their respective strengths to further develop their capital market activities in the Netherlands.

Degroof Petercam, ranked 4th Benelux Broker in the latest Extel Survey, has long-standing expertise and experience in capital market solutions and as a BENELUX broker. Meanwhile, IMAP Netherlands, ranked 3rd by number of deals in the 2021 Dutch Mergers & Acquisitions (M&A) league tables, is a well-recognized M&A advisory practice and has a deep-rooted network with Dutch midcaps. Therefore, its origination capacity will enable Degroof Petercam to leverage its capital expertise to an extended network of Dutch mid-cap corporates by offering tailor-made equity and debt capital market solutions fueled by its trading desk and in-house research capability. At the same time, IMAP Netherlands strengthens its solutions offering for mid-market clients with equity and debt capital market solutions.

Since signing the agreement, the two firms have intensified their collaboration with the IMAP Netherlands Amsterdam team now operating out of Degroof Petercam's Amsterdam office while one of its bankers, specialized in equity and debt capital markets, will operate from IMAP Netherlands' office in Rotterdam.

Following the announcement, Jan-Pieter Borst, Partner at IMAP Netherlands said: *"We look forward to working closely together, bringing a broader and distinctive service-offering to our clients, and driving value creation. We are convinced that bringing Degroof Petercam's debt and equity advisory solutions to our existing clients will prove highly complementary to our strategic M&A capabilities."*

François Wohrer, Head of Degroof Petercam Investment Banking commented: *"We are delighted to partner with IMAP Netherlands. This partnership ensures an optimal combined presence from start to finish of the deal process, from origination through financing, closing and integration. By sharing our respective skills and expertise, we can offer our respective clients tailored solutions that best address their needs and expectations."*

Selected IMAP Transactions

HEALTHCARE

Indutrade

SWEDEN

Acquired 100% of Business Operations

PRODIAGNOSTICS

SWEDEN

IMAP

ADVISED ON SALE OF COMPANY

FOOD & BEVERAGE

ALERE ADVISORS

DOMINICAN REPUBLIC

Acquired an Indirect Stake in Agropecuaria Aliar (La Fazenda)

aliar S.A. fazenda

COLOMBIA

IMAP

ADVISED ON ACQUISITION

HEALTHCARE

Provectus Capital

CROATIA

Acquired Majority Control of Business Operations

RIDENT Dentalne poliklinike

CROATIA

IMAP

ADVISED ON SALE OF COMPANY

FOOD & BEVERAGE

Advent International GLOBAL PRIVATE EQUITY

UNITED STATES

Acquired 100% of Business Operations

irca SINCE 1919

ITALY

IMAP

ADVISED ON PURCHASE OF COMPANY

TECHNOLOGY

UPM RAFLATAC | UPM BIOFORE

FINLAND

Acquired 100% of Business Operations

AMC

GERMANY

IMAP

ADVISED ON SALE OF COMPANY

FOOD & BEVERAGE

scheuten

NETHERLANDS

Acquired 100% of Business Operations

NIJLAND

NETHERLANDS

IMAP

ADVISED ON PURCHASE OF COMPANY

INDUSTRIALS

Gemba asset management

SPAIN

Acquired 100% of Business Operations

Vitrispan Arquitectura en acero esmaltado

SPAIN

IMAP

ADVISED ON SALE OF COMPANY

FINANCIAL SERVICES

Porch Group

UNITED STATES

Acquired 100% of Business Operations

RESIDENTIAL WARRANTY SERVICES, INC.

UNITED STATES

IMAP

ADVISED ON SALE OF COMPANY

TRANSPORT & LOGISTICS

day1 day one capital

HUNGARY

Acquired Investment Interest in Seller's Business

webshippy

HUNGARY

IMAP

ADVISED ON PURCHASE OF COMPANY

ABOUT IMAP

INTERNATIONAL MERGERS & ACQUISITION PARTNERS

Consistently ranked among the Top 10 middle market M&A advisors worldwide

450+	49	60+	$120bn
TEAM OF IMAP PROFESSIONALS WORLDWIDE	YEARS OF M&A EXPERIENCE IN THE MIDDLE MARKET	OFFICES IN 40 COUNTRIES	TRANSACTION VALUE LAST 10 YEARS

ENTREPRENEURIAL SPIRIT

- IMAP is a partner-driven, client-focused and independent M&A advisory.
- Senior experience and hands on involvement in deals – 230 Senior Transaction/ Transaction Advisors.
- Worldwide IMAP team comprising 450+ professionals.

MIDDLE MARKET FOCUS

- Sell-side advisory for primarily privately held companies and spin-offs from large groups.
- Strategic acquisitions for international corporates.
- “Sweet –spot” Transaction Values $20 – 250 million.
- Strong PE and Family Office Coverage.

GLOBAL REACH

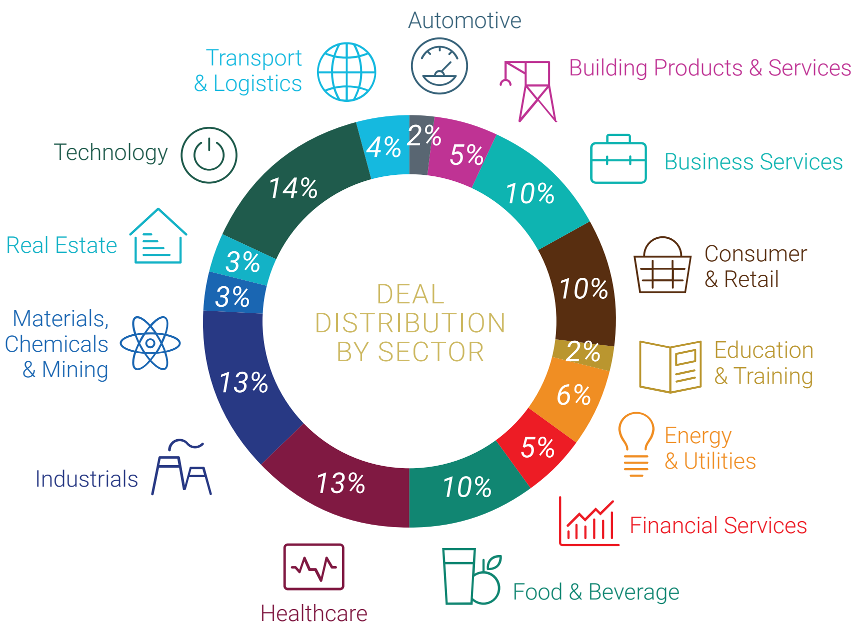
- Proven cross-border advisory practice.
- Global sector & project teams across 15 sector groups.
- Leveraging local knowledge and corporate access in all relevant international markets.

EXECUTION EXPERIENCE

- IMAP has closed over 2,200 transactions valued at $120 billion in the last 10 years.

GLOBAL PERFORMANCE 2021

294	$27bn	30%	7th
M&A TRANSACTIONS	TRANSACTION VALUE	CROSS-BORDER DEALS	IN THE WORLD



GLOBAL PERFORMANCE

1. PwC
2. KPMG
3. Houlihan Lokey
4. Deloitte
5. Rothschild
6. EY
7. **IMAP**
8. Oaklins
9. JP Morgan
10. BDO

Ranking based on number of transactions closed between January and December 2021. Undisclosed values and values up to $500 million.
Source: Refinitiv and IMAP internal data.

GLOBAL REACH

Our cross-border experience extends across Europe, the Americas, Asia and Africa

North America

U.S.A.

Boston
Chicago
Dallas
Denver
Detroit
Greenville
Los Angeles
Naples
Orange County
Philadelphia
Richmond
San Diego
Tampa

Canada

Toronto
Vancouver

Latin America

Argentina
Brazil
Chile
Colombia
Mexico
Paraguay
Peru
Panama

Africa

Congo
Egypt
Ghana
Mauritius
Morocco
Senegal
South Africa

Asia

China
India
Japan
Thailand

Europe

Belgium
Bosnia & Herzegovina
Croatia
Czech Republic
Finland
France
Germany
Hungary
Ireland
Italy
Netherlands
Poland
Portugal
Serbia
Slovakia
Slovenia
Spain
Sweden
United Kingdom


IMAP
The world’s leading M&A partnership since 1973
www.imap.com