ANDEAN REGION

COLOMBIA
CHILE
PERU

Vol. 2

TRANSACTIONAL IMPACT MONITOR

Special Report

9 June 2020

TTR
Transactional Track Record
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TTR SPECIAL REPORT

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

Index

Transactional Impact Monitor: CHILE

9 June 2020

Nearly a month after Chile tightened the initial restrictions on movement and business activities imposed in mid-March in Santiago, the minister of health announced on 2 June revised figures for the number of active cases under treatment for SARS-CoV-2, resulting in a decrease from 59,100 to 21,325 and an increase in reported recoveries from some 46,000 to just under 86,000. At the same time, health officials announced the deadliest day with 75 deaths attributed to the virus, bringing the total official death toll to just over 1,200 and 114,000 confirmed cases.

The country avoided a total lockdown from the outset by isolating specific districts with tight quarantines based on an aggressive testing program. This strategy allowed much economic activity to carry on uninterrupted, noted DLA Piper Partner Paulo Larrain.

Notwithstanding, there are industries that have been severely affected, Larrain said. "It's a very bloody process for many."

The country was still reeling from the social disruption in October 2019, when protests took over the capital calling for a greater focus on programs geared towards reducing persistent income inequality. "These demands are still pending," Larrain said, noting the plebiscite on social and constitutional reforms has been relegated to October.

M&A OUTLOOK

Deal volume is down 39% in Chile, YTD, while the aggregate value of announced and closed deals has fallen 67%, according to TTR data. Notwithstanding the overall decline in transaction volume, led by a 58% drop in real estate deals, technology M&A is up 120%, Internet and e-commerce deals have increased by 100% and consultancy transactions are up 350%, TTR data show. Inbound acquisitions out of the US are on par with the first five months of 2019.

M&A DEAL VOLUME AND AGGREGATE VALUE · (YTD 1 January - 9 June)

2020		
Total aggregate value (USDm):	1,373.59	▼ 67.1%
Deal Volume	69	▼ 39.4%

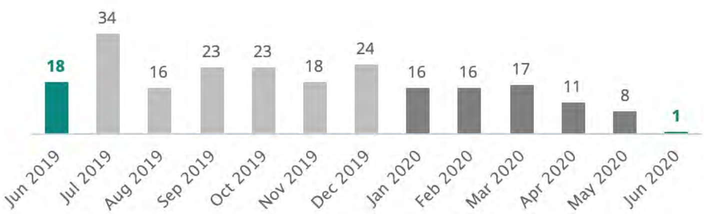
▲▼ % All the percentages represent a variation relative to the same period the previous year.

Source: *TTR - Transactional Track Record*

Deal Volume and Aggregate Value in Chile

1 Jan 2019 - 9 Jun 2020

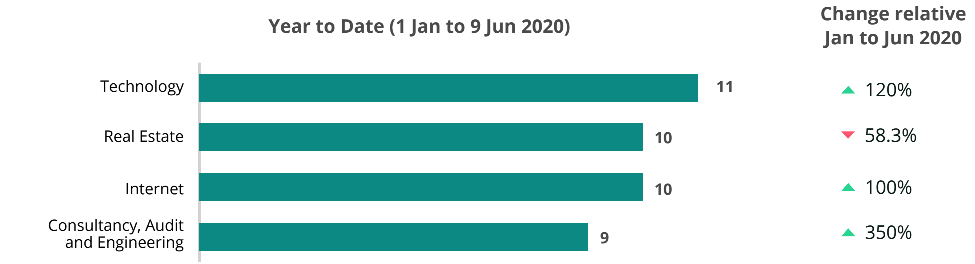
Deal Volume



Aggregate Value (USDm)

Source: *TTR - Transactional Track Record*

Leading Subsectors by Deal Volume



Source: *TTR - Transactional Track Record*

Tourism and hospitality in Chile will be among the industries most impacted by measures imposed to mitigate the threat of SARS-CoV-2, much like in other markets grappling with restrictions on travel and social interaction. Many hotels will need to incorporate new shareholders or sell, noted DLA Piper Partner Paulo Larrain, with a corresponding upswing in transactions likely in the space over the coming months.

International investors, both financial sponsors and strategic buyers, continue to eye investments in Chile, said Larrain, whose practice focuses almost exclusively on M&A and private equity.

There's a clear sense that the current predicament is temporary, he said, whether the restrictions last three months, six months, or longer. Investors are eyeing opportunities now that will come to fruition in 3Q20 or 4Q20, he said.

DLA Piper has remained busy advising clients on ongoing transactions despite the restrictions, Larrain said, closing the sale of ArchDaily to Architonic and Cornershop Chile to Uber, while also advising clients on new restructuring legislation and the renegotiation of debt. It's clear that certain segments will remain active, Larrain said.

Healthcare transactions will also remain buoyant, he said, and there will likely by changes in other sectors like retail that could lead to M&A activity. Real estate deal-making can be expected to reactivate quite a bit, he added, while the energy sector has retained its value through the crisis. "We see foreign investors analyzing possible investments in energy deals, in solar and geothermal," Larrain noted.

Chinese investors remain quite active looking at investment opportunities, not just in Chile, but across the region, Larrain said. "The Chinese are very important players in green field investments and M&A, with a lot of resources behind them; so much so that it's difficult to compete." China's presence in the region is here to stay, Larrain said.

Agriculture is probably one of the most resilient sectors in the current crisis, Larrain noted, and remains of great interest to investors.

Overall, there are fewer transactions than last year, and while some have stayed on track, others have been held up until things return to normal, Larrain said. There's still M&A activity, but less than in a typical year, with a weaker pipeline of deals, he said. "Many clients are playing wait-and-see, but others continue analyzing new opportunities," he added.

Private equity activity has been negligible in Chile YTD, with only one transaction led by a financial investor, according to TTR data, but there are funds looking at opportunities, including distressed assets, and trying to pick the winners, Larrain noted.

Overall, there will be limited M&A activity for the rest of the year, but 2021 will bring a strong recovery, Larrain said.

Clearly this isn't the time for new equity listings and there isn't much activity on the horizon, Larrain said, but there are many debt issuances in the pipeline, in Chile as well as internationally, with greater flexibility on the terms than the norm.

Listed airlines of the region, including Avianca and LATAM, have grabbed headlines in recent weeks after filing for bankruptcy protection, and there's been a good deal of debate about whether Chile's legacy carrier should be supported by the Chilean government, or by the government of Brazil, where the company has an extensive route network following its merger with TAM, Larrain noted.

HANDLING THE CRISIS

The Chilean government has been efficient in implementing economic measures to avert large-scale layoffs and protect employees, covering a portion of worker wages, which has served to stave off widespread bankruptcy, Larrain said.

"The country's finances are healthy, in general; we've had the resources and taken the steps to ameliorate the effects of the Covid crisis as the government

1 Jan - 9 Jun	*Inbound M&A Volume from the US*	
2020	11	-
2019	11	(▲ 175%)
2018	4	(▼ 55.5%)
2017	9	(▼ 10%)
2016	10	(▲ 11.11%)

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

Source: *TTR - Transactional Track Record*

Private Equity - YEAR TO DATE REVIEW
(YTD 1 January - 9 June)

2020

Total aggregate value (USDm):	ND	-
Deal Volume	1	▼ 66.6%

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

Source: *TTR - Transactional Track Record*

"The Chinese are very important players in green field investments and M&A, with a lot of resources behind them; so much so that it's difficult to competes"

PAULO LARRAIN
DLA PIPER

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

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

maintained its strategy of placing certain areas of Chile's cities under quarantine rather than locking them down completely," Larrain said.

The Chilean government has also beefed up the country's healthcare system, opening new hospitals ahead of schedule, he noted.

The banking system has been involved, to some extent, in the Chilean government's response to the SARS-CoV-2 threat, Larrain added, but that's only part of it. "They're also analyzing opportunities to refinance companies that have impending debt maturities," he said. Where financing acquisitions is concerned, Chile's financial institutions have been more cautious, he said, in term of the requirements, and offering more expensive credit.

Chile's road to recovery will depend largely on what happens globally, Larrain said, whether there's another wave of illness and whether a vaccine becomes available.

"There's also the uncertainty over what will happen with the social demands and the October plebiscite on amending the constitution," he added. "There are investors who will prefer to wait it out, as much because of the political situation as for Covid."

Being part of a global firm helped DLA's partners in Chile ride out the crisis, Larrain said, in terms of applying the firm's overarching strategy in the local market when it comes to the retention of talent, helping clients face the uncertainty and attending to their needs regionally and across the world. The firm's international reach also helps facilitate financing options, like 144A bonds, and M&A transactions, he added.

Clients have made retaining their employees a priority during this crisis, Larrain added, and put an emphasis on maintaining a good relationship with the unions, taking advantage of the crisis to generate good will.

The crisis has caused many to question globalization, but this trend won't be affected, Larrain contended. There may be changes in how certain strategic industries are structured and in geopolitics, with growing tension between the US and China, but globalization will continue, it's very necessary for the wellbeing of humanity on a whole, he said. To the extent that this crisis elicits a global solution, it will demonstrate the merit of having global strategies and strong international institutions, he added. "Those who try to face it on their own will fail."

"There are investors who will prefer to wait it out, as much because of the political situation as for Covid" - PAULO LARRAIN

At a micro level, the need to rely on telecommuting as the only option in the legal field, as well as in many other sectors, has demonstrated that it can work perfectly well, meanwhile, Larrain said. Despite the obvious need to maintain physical offices and common workspace in the legal field, as well as in many others, remote work will gain traction and become more of a common practice, he said.

The crisis has also demonstrated the need to make the functions of government more efficient, Larrain said, especially in the healthcare industry, where the public and private healthcare systems will become more integrated, as well as in the provision of social services to attend to the needs of the less fortunate.

Transactional Impact Monitor: COLOMBIA

9 June 2020

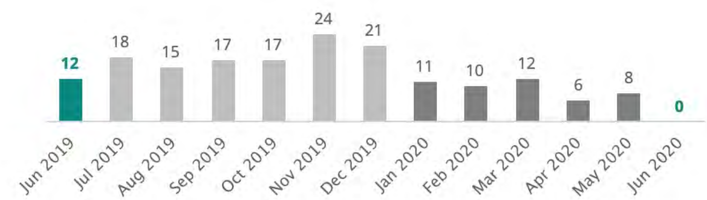
As May came to a close, hope for a swift return to a normal life was dashed for Colombians as President Iván Duque extended the period of mandatory self-quarantine through the end of June, while extending the public health emergency through to the end of August. The official death toll in the country attributed to Covid-19 stands at just over 1,000 with some 33,000 confirmed cases.

Under Colombia's new phase of restrictions imposed to face the SARS-CoV-2 threat, 43 exceptions were granted permitting the reopening of several non-essential businesses, including museums, libraries, malls and hair salons, while limiting those venues to 30% occupancy. Residents of Bogotá remain confined to their homes until 15 June.

Deal Volume and Aggregate Value in Colombia

1 Jan 2019 - 9 Jun 2020

Deal Volume



Aggregate Value (USDm)

Source: *TTR - Transactional Track Record*

The rosy prospects of 3.7% GDP growth projected at the beginning of 2020 have long since faded, replaced by apprehension over the health threat, and increasingly, an economic recession likely to persist for the next several years, Inverlink Managing Partner Mauricio Saldarriaga told TTR.

"It's a call to a simpler life," said Saldarriaga. Inverlink presciently began implementing an internationalization in 2015, joining global boutique investment bank network IMAP and establishing its own footprint across the region. The move paid off, Saldarriaga said, noting the firm grew through several tough years, including 2018, when the presidential election featured a leftist candidate and many investments in the country were put on hold.

Despite Iván Duque's victory, the following year was much slower than most thought it should be, Saldarriaga said. "People thought that within two months, things would be flying." When the country finally turned the corner in early 2020 with a robust start to the year such as hadn't been seen in a long time, with real estate and financial services deals booming, "the little meteor" of SARS-CoV-2 hit, he noted, and the situation changed entirely; many deals were put on hold, frozen. "Some will die, others are in the process of being reactivated, but everybody went into survival mode, to preserve cash." In general, companies began to focus on reducing costs, "trimming the fat", Saldarriaga said.

"Many companies will face difficulties, even those with healthy balance sheets," he said. Restaurants, hotels, retailers, all commerce has been hit hard, and there are few winners, Saldarriaga said, namely personal care products, household cleaning products and food retail. "That's about 10% of companies. Then there's the 60%

"These economies are facing a huge setback, with an enormous impact on the middle class and on spending power. This will be a marathon, not a sprint. Resilience and survival is the name of the game"

MAURICIO SALDARRIAGA
INVERLINK

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

- Crisis Management: 6
- Economic Outlook: 4
- M&A Forecast: 5
- Private Equity Outlook: 3
- Equity Capital Markets: 3

that have been heavily affected, and the rest that will have difficulty surviving."

Colombia will now enter a period of repositioning and restructuring, Saldarriaga said. "We're in discussions with a lot of providers of capital and getting started with the airlines, construction companies and industrial entities, which were already suffering. This was the final straw. We all know this is temporary, but with an undetermined duration, it's very difficult to make plans."

The crisis will cause great difficulty in Colombia and across Latin America over the next 24-to-36 months, he said, noting the region will face a slower recovery owing to the heavy dependence on commodities. "These economies are facing a huge setback, with an enormous impact on the middle class and on spending power. This will be a marathon, not a sprint. Resilience and survival is the name of the game."

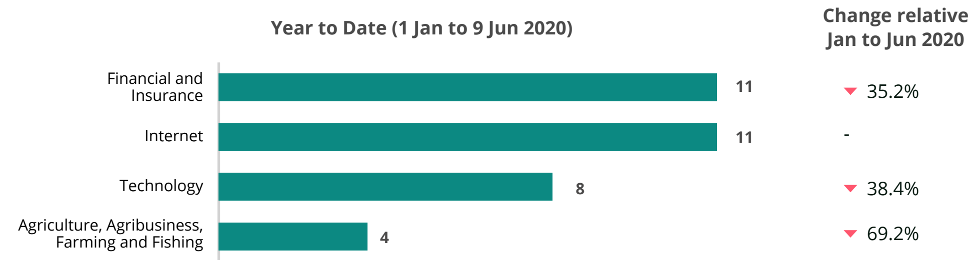
Colombia's ambitious 4G program designed to develop the country's airports, seaports, highways and social infrastructure, was already enduring growing pains Saldarriaga attributed to trying to go "from crawling to running from one day to the next". The government's capacity to keep these projects on track and make them a countercyclical engine of growth following this crisis is challenging in the context of the country's fiscal issues, he said.

"Infrastructure has become a great lesson in all of this," he said. The sector was seen as low risk, with low transaction costs, but the these assets are facing a grave impact as tolls evaporate along with traffic through airports, both previously considered predictably stable. It may be a hiccup, Saldarriaga said, and traffic will surely recover, but in the short term, the sector faces a liquidity crunch. "The materialization of risks in the sector will lead to much negotiation with the National Infrastructure Agency (ANI) and a lot of litigation, reclamations and negotiations between the government and concession holders as they hash out how to assign risks in the context force majeure, he said.

"This will be an opportunity for Canadian infrastructure funds, the Brookfields of the world, to recycle capital and keep companies afloat," Saldarriaga said. Pension funds that have liquidity now can also benefit from the tight situation over the next six-to-12 months in which there will undoubtedly be a lot of distressed M&A and assets that change hands by necessity, he added. "Institutional investors are watching to see how this will play out."

Colombia's dependence on oil revenue, which represents nearly 50% of the federal budget, has led to a simultaneous shock that amplifies the economic shock brought about by restrictions imposed to contain the spread of SARS-CoV-2, Saldarriaga noted. The oil market is distorted and manipulated, and this dependence will make the recovery more difficult, Saldarriaga said. "It obligates us to seek ways to depend less on raw materials and more on value-added products," he said. The falling value of the Colombian peso makes labor costs and many products more competitive, Saldarriaga added. "These are countries that don't just need to bounce back, they need to reinvent themselves and bounce back, and we better do it, because oil is surely not a stable bet for the future."

Leading Subsectors by Deal Volume



Source: *TTR - Transactional Track Record*

Diversifying its revenues beyond oil is an important goal for Colombia, but it's rightly a medium-term project, Saldarriaga said, given the country is still heavily dependent on extractive resources to improve the standard of living for its citizens. "If we have natural resource wealth, we need to develop it. In the end, it's what can bring us all prosperity." The important contribution of hydropower powering Colombia's electric grid makes the country unique, Saldarriaga pointed out, and balances out to an extent the dependence on oil for fiscal revenue. While the country has indeed put a growing emphasis on renewable energy development in recent years, incentivizing wind and solar, the debate underway in the US and the EU in which proponents are calling for de-carbonization as an engine of growth out of recession is more a first world dilemma at present, he said.

M&A OUTLOOK

Transaction volume in Colombia is down 57% YTD to 9 June relative to the same period last year, while the aggregate value of M&A deals in the country has fallen by 20%, according to TTR data. The financial services industry is tied with the Internet and e-commerce deals by volume, the former falling 35%, the latter pn par with the same period last year. Deals in the software development and IT solutions space are down 38% by volume, meanwhile, while transactions in the agriculture sector have fallen most precipitously, with a 69% decline YTD relative to the same period in 2019. Inbound M&A originating in the US is down 65% to levels seen in 2016-2018, after a 229% surge in 2019.

M&A DEAL VOLUME AND AGGREGATE VALUE
(YTD 1 January - 9 June)

2020		
Total aggregate value (USDm):	2,137.6	▼ 19.6%
Deal Volume	47	▼ 57.2%

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

Source: *TTR - Transactional Track Record*

1 Jan - 9 Jun	***Inbound M&A Volume from the US***	
2020	8	(▼ 65.2%)
2019	23	(▲ 228.5%)
2018	7	-
2017	7	(▼ 12.5%)
2016	8	-

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

Source: *TTR - Transactional Track Record*

Big-ticket deals emerging from the public sector won't provide reprieve from the lull of M&A activity that lies ahead, Inverlink Managing Partner Mauricio Saldarriaga said. Plans to divest Ecopetrol's midstream logistics subsidiary Cenit, and to list an 8% stake in Ecopetrol, or the state's interest in power distribution company ISA, have been postponed indefinitely, Saldarriaga said. This clearly wouldn't be the best time to come to market, and the government would only divest these assets if it had to under the circumstances, he said.

Inverlink is fielding calls related to restructuring more than ever, employing creative solutions and financial engineering to support defensive strategies for clients in aviation, energy, hospitality and industrials, Saldarriaga said.

"We're helping clients build a bridge to better times; everybody wants to have that bridge, to have a runway, the necessary oxygen for the next 24 months, beyond the health problem," he said.

There have been only two private equity-backed deals in Colombia YTD in Colombia, both of undisclosed consideration, according to TTR data. Private equity funds were already severely affected and skeptical of investing in the region, well before the health crisis hit, Saldarriaga noted.

Vintage private equity funds have had to face recurring crises in the region, while currencies across Latin America have depreciated significantly over the past decade, wiping out US dollar returns on a risk-adjusted basis, he said.

Nonetheless, there's an opportunity now to employ selective strategies and benefit from the recovery, though few international private equity funds have dry powder allocated to the region.

Local funds, like family office Grupo Santo Domingo, which invested heavily in hospitality in recent years, faces a complicated situation in the near term, but mass-market tourism will recover, Saldarriaga said.

Companies that have proven successful and consistently profitable in the mass-market bracket, and which are now in dire straights because of their leverage but can once again become successful, will attract the limited private equity investment allocated to the region, provided they have strong prospects to emerge from the health and economic crisis over the next seven years, Saldarriaga said.

Private Equity - YEAR TO DATE REVIEW
(YTD 1 January - 9 June)

2020		
Total aggregate value (USDm):	ND	-
Deal Volume	2	▼ 75%

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

Source: *TTR - Transactional Track Record*

ECM activity across the region will be very quiet in the months ahead, and Colombia is no exception, said Saldarriaga, with a very shallow market and a difficult environment in which to price assets, making it an inopportune time for issuers.

Fixed income will see more movement, he said, but this segment is not very developed and perhaps mostly an opportunity for banks that want to shore up their liquidity positions.

HANDLING THE CRISIS

Where the health threat is concerned, the Colombian government has been prudent, making data-driven decisions and judicious in leading the response and communicating to the public, Saldarriaga said. The objective of "leveling the curve" has been achieved, he added.

"The problem is, that's only part of it. The country can't just stop. People have to go out and earn a living."

The peak impact to public health is still projected to be several weeks off, and as people leave home to make their daily bread, the health crisis may worsen, Saldarriaga cautioned.

"Within the government's capacity, they've done a good job, but this is a country with limited capacity to extend big rescue packages, payroll support and the like," Saldarriaga said. "The economic vulnerability and the limited fiscal space make the issue more difficult. That's why the recovery in these countries is going to be more challenging."

Transactional Impact Monitor: PERU

9 June 2020

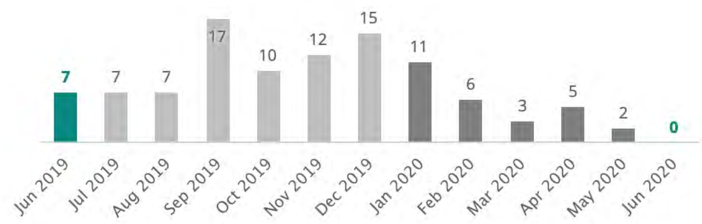
On 3 June, the government of Peru extended the country's health emergency for another three months in the face of the highest death toll in the Andean Region attributed to SARS-CoV-2. The official toll stood at nearly 5,000 with more than 178,000 reported cases. The extension of the declared health emergency is in addition to the state of emergency in place until 30 June.

Peru was among the first countries in the region to implement strict health protocols, ground air travel and impose quarantines and curfews, noted APOYO Finanzas Corporativas Partner Eduardo Campos, "but we were already in a precarious situation".

Deal Volume and Aggregate Value in Peru

1 Jan 2019 - 9 Jun 2020

Deal Volume



Aggregate Value (USDm)

Source: *TTR - Transactional Track Record*

M&A OUTLOOK

Transaction volume is down 63% YTD in Peru, while aggregate deal value is down 76% to 9 June, compared to the same period in 2019, according to TTR data. Internet and e-commerce deals lead M&A volume, with five deals in the sector representing a 67% increase relative to the same period last year. This doesn't compensate for the 50% decline in financial services transactions, the 57% decline in retail deals and the 50% drop in transportation and logistics M&A, however. Inbound M&A originating in the US is down 50%, meanwhile.

"Pre-covid we had a strong pipeline of mandates, with 12 active deals between sell-side and buy-side advisory," said Campos, only one of which was an international transaction and the remainder within Peru. APOYO is working on deals in the consumer products segment, service industry, healthcare, banking and agriculture sectors, the same as before the crisis descended on Peru, Campos said, with one new consumer deal kicking off in the midst of the crisis.

Deals involving investment funds continue apace, Campos said, while several other transactions are on ice. "Due diligence processes are taking longer than normal, with an added degree of complexity, but it's just what we have to deal with under the circumstances," Campos noted.

Transactions involving family-owned businesses, in which the shareholders had made a decision to sell, on the other hand, have been put on hold, with clients saying maybe they'll reinitiate the process in 2021, Campos said.

Other deals led by investors based in the EU and Asia were deactivated initially but are beginning to get underway again, he said. "We just received an NDA from a Chinese group that is ready to see the asset." Some deals that were put on hold

M&A DEAL VOLUME AND AGGREGATE VALUE

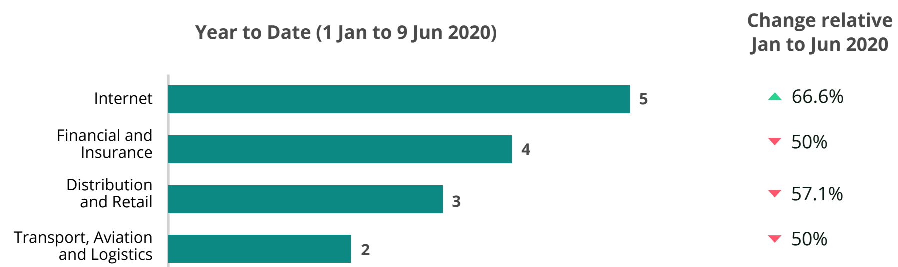
(YTD 1 January - 9 June)

2020		
Total aggregate value (USDm):	570.55	▼ 75.6%
Deal Volume	27	▼ 63%

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

Source: *TTR - Transactional Track Record*

Leading Subsectors by Deal Volume



Source: *TTR - Transactional Track Record*

1 Jan - 9 Jun	*Inbound M&A Volume from the US*	
2020	4	(▼ 50%)
2019	8	(▲ 33.3%)
2018	6	(▲ 50%)
2017	4	(▲ 33.3%)
2016	3	(▼ 50%)

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

Source: *TTR - Transactional Track Record*

will begin to move again in 2H20, while others will be delayed until 2021, he said.

The restructuring pipeline will also lead to M&A, not necessarily distressed, but non-core divestitures, or as part of the recovery, which will be very slow, Campos said. Mergers will also increase as the dust settles and companies look at ways to strengthen their balance sheets and boost their resilience, he said, noting these transactions will likely begin with an exchange of shares before a cash transfer in a subsequent phase.

Peru has a shallow capital market for equities, and ECM transactions were already few and far between; now it will be even slower, Campos said. "What we do see on the horizon is a lot of refinancing for past issuers to extend maturities."

Private equity funds have done four deals in Peru, YTD, the same volume as during the corresponding period last year, while the aggregate value of those transactions has fallen 22%, according to TTR data.

The same funds that typically look at Peru with a presence in the national market, or regionally, are still seeking opportunities and putting up their hands to say, 'We're here and we're flexible when it comes to valuations and earn outs', said Campos.

"We are starting to see funds seeking distressed assets become more active," he added, as well as infrastructure funds looking for opportunities to participate in operational concessions in Peru and across the region.

The Peruvian government's ambitious green field infrastructure projects, like in the case of Colombia, will take a while to develop and are unlikely to have any anti-cyclical impact that helps the country emerge from recession, Campos said.

HANDLING THE CRISIS

Peru is having a tough time facing the threat presented by SARS-CoV-2, said Campos, and reopening businesses will present many challenges given the level of bureaucracy and slow pace, which will heighten the economic impact.

"What we're seeing is that there are very good intentions, but the bureaucracy and poor management don't help," Campos said.

The Peruvian government has established a four-staged reopening plan, with each phase lasting a month. Businesses will need to demonstrate they are compliant

Private Equity - YEAR TO DATE REVIEW (YTD 1 January - 9 June)		
2020		
Total aggregate value (USDm):	277.15	▼ 21.6%
Number of transactions:	4	0%

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

Source: *TTR - Transactional Track Record*

"What we're seeing is that there are very good intentions, but the bureaucracy and poor management don't help"

EDUARDO CAMPOS
APOYO FINANZAS CORPORATIVAS

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

- Crisis Management: 4
- Economic Outlook: 0
- M&A Forecast: 4
- Private Equity Outlook: 5
- Equity Capital Markets: 2

with health protocols in order to be certified to reopen, Campos noted.

There are people who can get by working from home, but the informal workforce, which represents an important part of the economy, doesn't have that luxury and needs to get out of the house, Campos said.

"We need to protect the healthcare system from collapse, but the economy and the currency are suffering greatly," he noted. The impact on GDP will be brutal, he added, with estimates pointing to a decline of between 12% and 20% in 2020. The economy won't recover to 2019 levels until 2022 or 2023, Campos said.

Where the government's economic relief measures are concerned, liquidity support was provided, but the banks don't know who to lend to with loans covered 80% to 90% by state guarantees, Campos said. Credits worth PEN 8bn, representing 16% of GDP, have been made available to the market, Campos noted. "Probably only a third, or at best, half that money, has actually been effective, however," he said, noting that on paper, this package of support was meant to be allocated to the most vulnerable segments of the population.

Loans to companies at 1% to 2% interest effectively carry a negative interest rate, with limits set at USD 3m, or one month's sales. "That one month of sales proved insufficient," he added. While there have been companies that benefitted by accessing these resources, APOYO clients tend to be larger firms and not necessarily those under financial stress, he said. "But we do know that SMEs are suffering greatly," he said, noting that Peruvian companies, on average, only had sufficient cash on hand to pay their workers for 26 days at the time the lockdown was imposed in mid-March.

The micro, small and medium size businesses are the ones suffering most, he said, and they will continue to struggle in the context of a slow reopening with diminished consumer demand. Spending power has evaporated as people have lost their income, especially low-income people, Campos said, which will cripple the recovery. ■

TTR - Transactional Track Record

THE VIEW FROM MILAN

20 May 2020

“The near future is uncertain and to try to envisage a strategy for 2021 is really tough”

Stefania Radoccia
EY Italy · Managing Partner, Tax & Law and Mediterranean Region Accounts Leader

It’s a challenging time. We still don’t know when the lockdown will finish. The near future is uncertain and to try to envisage a strategy for 2021 is really tough.

There is some certainty about the impact of the pandemic on the Italian economy. The estimates now suggest a drop of between 6% and 15% in Italy’s GDP.

In the first two months of 2020, prior to the outbreak, we saw bullish M&A activity in Italy. In the subsequent two months we experienced a serious slowdown in deal closings and overall negotiations due to difficulties in managing transactions remotely. Human interaction, the chemistry between sellers and buyers, is a crucial aspect for the success of a deal, so managing deals remotely makes things very hard for our M&A lawyers and tax experts.

In the first month of the crisis, businesses were totally surprised by the virus. No one even dreamed that it would have such an impact on the market. So in the first instance, they reacted immediately to cover all the liquidity problems, the supply chain problems, the problems connected with the lockdown, the health and safety problems, and the privacy problems. We helped many companies on these fronts.

Then those companies were waiting, and they are still waiting, for the stimulus package from the EU and from the Italian Government. What has been announced so far is not enough. The liquidity stimulus, according the business owners, is inadequate. On top of this, the banks are not helping much. Since they are not covered from a criminal liability perspective, they could face charges in the event they provide money and liquidity to entrepreneurs who then declare bankruptcy in the short-term. They are trying to solve this challenge, but in the meantime, there is no financing for entrepreneurs. It’s a real problem for the middle market. We are facing a serious risk of an increase in bankruptcies and an increase in unemployment, which for now is temporarily covered by the state during the lockdown.

There are several sectors in which the impact of the crisis will surely accelerate market disruption or consolidation, including:

- Manufacturing and services have for the past two months been totally or partially closed;
- Industrial electricity consumption has fallen compared to 2019;
- Transportation is severely affected by the lockdown, both for cargo and mobility;
- The automotive industry has also been materially affected by the lockdown;
- We are very worried about tourism, which represents 20% of Italy’s GDP;
- Construction has been paralyzed and many projects have been put on hold, driven by safety concerns, a constrained supply of materials, and demand uncertainty;
- In the luxury segment, there is some expectancy of a long-term recovery, but the recovery depends on the return to a normal lifestyle.

There are other sectors with a clear long-term outlook and robust financial fundamentals, relatively unhampered by the crisis, namely:

- Food and beverage has grown as consumer spending in this segment increased;
- Pharmaceutical companies are seeing stable growth of their fundamentals;
- Digital infrastructure, including mobile towers, networks and datacenters have been virtually unscathed.

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Eduardo Campos
APOYO Finanzas Corporativas
Partner

Eduardo Campos has 25 years of experience leading the investment banking team at APOYO, while having served as independent director and board member at some of Peru’s leading financial institutions, service companies and engineering firms.

Mauricio Saldarriaga
Inverlink
Managing Partner

Mauricio Saldarriaga has over 20 years of investment banking experience. He joined the firm in 2002 after working with Salomon Smith Barney in London and New York and Deutsche Morgan Grenfell in Bogotá.

Paulo Larrain
DLA Piper
Partner

Paulo Larrain focuses his practice on corporate matters, M&A, project financing and capital markets. He has advised the Chilean government, private equity funds, multinationals and other strategic investors across a wide range of industries.

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