THE GOVERNMENT PROCUREMENT REVIEW
THE DOMINANCE AND MONOPOLIES REVIEW
THE AVIATION LAW REVIEW
THE FOREIGN INVESTMENT REGULATION REVIEW
THE ASSET TRACING AND RECOVERY REVIEW
THE INSOLVENCY REVIEW
THE OIL AND GAS LAW REVIEW
THE FRANCHISE LAW REVIEW
THE PRODUCT REGULATION AND LIABILITY REVIEW
THE SHIPPING LAW REVIEW
THE ACQUISITION AND LEVERAGED FINANCE REVIEW
THE PRIVACY, DATA PROTECTION AND CYBERSECURITY LAW REVIEW
THE PUBLIC–PRIVATE PARTNERSHIP LAW REVIEW
THE TRANSPORT FINANCE LAW REVIEW
THE SECURITIES LITIGATION REVIEW
THE LENDING AND SECURED FINANCE REVIEW
THE INTERNATIONAL TRADE LAW REVIEW
THE SPORTS LAW REVIEW
THE INVESTMENT TREATY ARBITRATION REVIEW
THE GAMBLING LAW REVIEW
THE INTELLECTUAL PROPERTY AND ANTITRUST REVIEW
THE REAL ESTATE M&A AND PRIVATE EQUITY REVIEW
THE SHAREHOLDER RIGHTS AND ACTIVISM REVIEW
THE ISLAMIC FINANCE AND MARKETS LAW REVIEW
THE ENVIRONMENT AND CLIMATE CHANGE LAW REVIEW
THE CONSUMER FINANCE LAW REVIEW
THE INITIAL PUBLIC OFFERINGS REVIEW
THE CLASS ACTIONS LAW REVIEW
THE TRANSFER PRICING LAW REVIEW
THE BANKING LITIGATION LAW REVIEW
THE HEALTHCARE LAW REVIEW

www.TheLawReviews.co.uk
ACKNOWLEDGEMENTS

The publisher acknowledges and thanks the following law firms for their learned assistance throughout the preparation of this book:

AABØ-EVENSEN & CO ADVOKATFIRMA
ÆLEX
AGUILAR CASTILLO LOVE
AKD NV
AL TAMIMI & CO
ALLEN & GLEDHILL LLP
ANDERSON MÔRI & TOMOTSUNE
ARIA, FÁBREGA & FÁBREGA
ASHURST LLP
AZMI & ASSOCIATES
BAKER McKENZIE
BHARUCHA & PARTNERS
BREDIN PRAT
CLEARY GOTTlieB STEEN & HAMILTON
CMS
CORONEL & PÉREZ
CORRS CHAMBERS WESTGARTH
CRAVATH, SWaine & MOORE LLP
CREEL, GARCÍA-CUÉLLAR, AIZA Y ENRÍQUEZ, SC
DEHENG LAW OFFICES
DITTMAR & INDRENIUS
DLA PIPER DENMARK LAW FIRM P/S
Acknowledgements

DRYLLERAKIS & ASSOCIATES
DUANE MORRIS & SELVAM LLP
ELVINGER HOSS PRUSSEN
EVERSHEDS SUTHERLAND BITĀNS
HENGELER MUELLER
HEUKING KÜHN LÜER WOJTEK
JONES DAY
LEGAL ATTORNEYS & COUNSELORS
MAKES & PARTNERS LAW FIRM
MAPLES AND CALDER
MATTOS FILHO, VEIGA FILHO, MARREY JR E QUIROGA ADVOGADOS
NISHIMURA & ASAHI
OPPENHEIM LAW FIRM
OSLER, HOSKIN & HARCOURT LLP
PEREZ ALATI, GRONDONA, BENITES, ARNTSEN & MARTINEZ DE HOZ (H)
ROJS, PELJHAN, PRELESNIK & PARTNERS
RUBIO LEGUÍA NORMAND
RUSSIN,VECCHI & HEREDIA BONETTI
S HOROWITZ & CO
SANTA MARIA LAW FIRM
SCHELLENBERG WITTMER LTD
SCHINDLER RECHTSANWÄLTE GMBH
SLAUGHTER AND MAY
TORRES, PLAZ & ARAUJO
TRIAY & TRIAY
Acknowledgements

URÍA MENÉNDEZ – PROENÇA DE CARVALHO

UTEEM CHAMBERS

WALKERS

WH PARTNERS

WHITE & CASE LLP
# CONTENTS

PREFACE.......................................................................................................................................................... xi
  Mark Zerdin

Chapter 1  EU OVERVIEW.......................................................................................................................... 1
  Mark Zerdin

Chapter 2  EUROPEAN PRIVATE EQUITY.................................................................................................. 10
  Benedikt von Schorlemer and Holger H Ebersberger

Chapter 3  M&A LITIGATION...................................................................................................................... 18
  Roger A Cooper, Meredith E Kotler and Vanessa C Richardson

Chapter 4  PRIVATE EQUITY: AN OFFSHORE PERSPECTIVE................................................................. 27
  Rolf Lindsay

Chapter 5  ARGENTINA.............................................................................................................................. 31
  Santiago Daireaux and Fernando S Zoppi

Chapter 6  AUSTRALIA............................................................................................................................... 39
  Sandy Mak

Chapter 7  AUSTRIA.................................................................................................................................... 50
  Clemens Philipp Schindler

Chapter 8  BRAZIL............................................................................................................................... 62
  Moacir Zilbovicius and Rodrigo Ferreira Figueiredo

Chapter 9  BRITISH VIRGIN ISLANDS.................................................................................................... 71
  Richard May and Richard Spooner

Chapter 10 CANADA.................................................................................................................................... 80
  Robert Yalden, Emmanuel Pressman and Jeremy Fraiberg
<table>
<thead>
<tr>
<th>Chapter</th>
<th>Country</th>
<th>Authors</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>CAYMAN ISLANDS</td>
<td>Suzanne Correy and Daniel Lee</td>
<td>95</td>
</tr>
<tr>
<td>12</td>
<td>CHINA</td>
<td>Wei (David) Chen, Yuan Wang and Kai Xue</td>
<td>103</td>
</tr>
<tr>
<td>13</td>
<td>COLOMBIA</td>
<td>Juan Manuel del la Rosa, Alexandra Montalegre and Lina Tellez</td>
<td>115</td>
</tr>
<tr>
<td>14</td>
<td>COSTA RICA</td>
<td>John Aguilar Jr and Marco Solano</td>
<td>127</td>
</tr>
<tr>
<td>15</td>
<td>DENMARK</td>
<td>Nicholas Lerche-Gredal and Sebastian Ingversen</td>
<td>133</td>
</tr>
<tr>
<td>16</td>
<td>DOMINICAN REPUBLIC</td>
<td>Maria Esther Fernández A de Pou, Mónica Villafaña Aquino and Laura Fernández-Peix Perez</td>
<td>144</td>
</tr>
<tr>
<td>17</td>
<td>ECUADOR</td>
<td>Xiomara Castro Pazmiño and Elena Donoso Peña</td>
<td>154</td>
</tr>
<tr>
<td>18</td>
<td>EGYPT</td>
<td>Mohamed Gabr, Ingy Darwish and Engy ElKady</td>
<td>162</td>
</tr>
<tr>
<td>19</td>
<td>FINLAND</td>
<td>Jan Ollila, Wilhelm Eklund and Jasper Kublefelt</td>
<td>171</td>
</tr>
<tr>
<td>20</td>
<td>FRANCE</td>
<td>Didier Martin</td>
<td>183</td>
</tr>
<tr>
<td>21</td>
<td>GERMANY</td>
<td>Heinrich Knepper</td>
<td>201</td>
</tr>
<tr>
<td>22</td>
<td>GIBRALTAR</td>
<td>Alan Buchanan and Christopher Davis</td>
<td>218</td>
</tr>
<tr>
<td>23</td>
<td>GREECE</td>
<td>Cleomenis G Yannikas, Sophia K Grigoriadou and Vassilis S Constantinidis</td>
<td>228</td>
</tr>
</tbody>
</table>
Chapter 24  HONG KONG .................................................................238
             Jason Webber

Chapter 25  HUNGARY ...............................................................247
             József Bulcsú Fenyvesi and Mihály Barcza

Chapter 26  ICELAND ...............................................................257
             Hans Henning Hoff

Chapter 27  INDIA .................................................................264
             Justin Bharucha

Chapter 28  INDONESIA .........................................................280
             Yozua Makes

Chapter 29  ISRAEL ..............................................................292
             Clifford Davis and Keith Shaw

Chapter 30  ITALY ..............................................................300
             Mario Santa Maria and Carlo Scaglioni

Chapter 31  JAPAN ..............................................................309
             Hiroki Kodate and Yuri Totsuka

Chapter 32  LATVIA ............................................................318
             Māris Vainovskis, Toms Purinš and Justīne Ignatavičute

Chapter 33  LUXEMBOURG ................................................329
             Philippe Hoss and Thierry Kauffman

Chapter 34  MALAYSIA .......................................................344
             Sharizan Bin Sarif and Lee Kin Hing

Chapter 35  MALTA ............................................................356
             James Scicluna, Ramona Azzopardi and Rachel Vella Baldacchino

Chapter 36  MAURITIUS .......................................................368
             Muhammad Reza Caasam Uteem and Basheema Farreedun

Chapter 37  MEXICO ..........................................................379
             Eduardo González, Jorge Montaño and Humberto Botti
<table>
<thead>
<tr>
<th>Chapter</th>
<th>Country</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>38</td>
<td>MYANMAR</td>
<td>Krishna Ramachandra and Rory Lang</td>
</tr>
<tr>
<td>39</td>
<td>NETHERLANDS</td>
<td>Carlos Pita Cao and François Koppenol</td>
</tr>
<tr>
<td>40</td>
<td>NIGERIA</td>
<td>Lawrence Fubara Anga and Maranatha Abraham</td>
</tr>
<tr>
<td>41</td>
<td>NORWAY</td>
<td>Ole K Aabø-Evensen</td>
</tr>
<tr>
<td>42</td>
<td>PANAMA</td>
<td>Andrés N Rubinoff</td>
</tr>
<tr>
<td>43</td>
<td>PERU</td>
<td>Carlos Arata</td>
</tr>
<tr>
<td>44</td>
<td>PORTUGAL</td>
<td>Francisco Brito e Abreu and Joana Torres Ereio</td>
</tr>
<tr>
<td>45</td>
<td>QATAR</td>
<td>Michiel Visser, Charbel Abou Charaf and Eugenia Greco</td>
</tr>
<tr>
<td>46</td>
<td>ROMANIA</td>
<td>Horea Popescu and Claudia Nagy</td>
</tr>
<tr>
<td>47</td>
<td>RUSSIA</td>
<td>Scott Senecal, Yulia Solomakhina and Ekaterina Abrossimova</td>
</tr>
<tr>
<td>48</td>
<td>SINGAPORE</td>
<td>Lim Mei and Lee Kee Yeng</td>
</tr>
<tr>
<td>49</td>
<td>SLOVENIA</td>
<td>David Premelč, Bojan Šporar and Jakob Ivančič</td>
</tr>
<tr>
<td>50</td>
<td>SWITZERLAND</td>
<td>Lorenzo Olgiati, Martin Weber, Jean Jacques Ah Choon, Harun Can and David Mamane</td>
</tr>
<tr>
<td>51</td>
<td>TAIWAN</td>
<td>Thomas T M Chen, John C Lin and Raymond H Wang</td>
</tr>
</tbody>
</table>
Chapter 52  TURKEY ............................................................................................................................573
  Emre Akin Sait

Chapter 53  UKRAINE ..........................................................................................................................581
  Viacheslav Yakymchuk and Olha Demianiuk

Chapter 54  UNITED ARAB EMIRATES ..........................................................................................594
  Mohammed Majid and John O'Connor

Chapter 55  UNITED KINGDOM .....................................................................................................604
  Mark Zerdin

Chapter 56  UNITED STATES ............................................................................................................625
  Richard Hall and Mark Greene

Chapter 57  VENEZUELA ....................................................................................................................660
  Guillermo de la Rosa Stolk, Juan Domingo Alfonzo Paradisi, Nelson Borjas Espinoza and
  Domingo Piscitelli Nevola

Chapter 58  VIETNAM ..........................................................................................................................672
  Hikaru Oguchi, Taro Hirosawa and Ha Hoang Loc

Appendix 1  ABOUT THE AUTHORS ...............................................................................................683

Appendix 2  CONTRIBUTING LAW FIRMS’ CONTACT DETAILS ...........................................723
Chapter 37

MEXICO

Eduardo González, Jorge Montaño and Humberto Botti

I OVERVIEW OF M&A ACTIVITY

The resiliency of the Mexican M&A market has proven to be stronger than expected, even when facing countless challenges posed by the uncertainty of the political and trade environment with the new Trump administration, whose messaging at the early part of the year had been adversarial and volatile at best, but whose recent rhetoric has been substantially moderated and has plateaued into a more stable outlook. Strong macroeconomic fundamentals, coupled with a weakened peso, have allowed investors to reap attractive investment return opportunities across several industries, including financial services, real estate, manufacturing and industrial. At the forefront of the M&A sector were the inbound acquisition of an additional stake in Aeroméxico by Delta, the outbound acquisition of Florida Eastcoast Railway Holdings by a subsidiary of Grupo Mexico and the inbound acquisition of Rosewood and Fairmont Mayakoba hotels in Mexico by RLH Properties.

According to Transactional Track Record, during the first quarter of 2017, a reported 64 transactions were completed or announced, totalling a reported value of around US$6.5 billion. Both transaction numbers and values have increased on a year-over-year basis when compared to the first quarter for 2016. The busiest sectors were the financial services and insurance sector with a reported 11 transactions, followed by real estate and healthcare with eight and six reported transactions each. While the private equity industry continues to be a key driver for M&A activity in Mexico (as it has continuously been for the past 10 years), led by several established international and local firms such as Blackstone, Kravis Kohlberg & Roberts, Advent International, General Atlantic, Glisco Partners (previously Evercore Partners), Nexus Capital and Southern Cross Group, recent trends evidence that the venture capital industry in Mexico is beginning to show signs of growth and development, driven by the institutionalisation of the publicly funded Mexican Fund of Funds and its willingness to anchor several early stage financing opportunities coupled with the fact that investors are feeling increasingly comfortable with exit opportunities (both public and private).

On the public exit front, although the Mexican IPO market has historically lagged behind other emerging market financial markets (according to the World Federation of Exchanges, as of February 2017, the Mexican Stock Exchange had 145 publicly traded companies listed and a total market capitalisation of approximately US$373 billion, while the Brazilian Stock Exchange and the Chilean Stock Exchange had 350 and 298 publicly traded companies, respectively, and a total market capitalisation of approximately US$881 billion

---

1 Eduardo González, Jorge Montaño and Humberto Botti are partners at Creel, García-Cuéllar, Aiza y Enríquez, SC.
and approximately US$225 billion, respectively), there is optimism that increasing exit opportunities through the public offering of securities will be available to investors in the near future as the Mexican Pension Fund investment regimes continue to become more sophisticated and diverse, thus freeing up capital to be allocated to public offerings.²

II GENERAL INTRODUCTION TO THE LEGAL FRAMEWORK FOR M&A

As may be the case for most legal markets, any M&A transaction in Mexico will probably be subject to several statutes depending on the target’s activities and the industry in which the target operates. For example, during the due diligence investigation of the target or during the structuring of the transaction, laws ranging from the broad mercantile, labour and employment, tax, environmental, insurance and anticorruption statutes, to the more industry specific ones such as those regulating, inter alia, the financial services, telecommunications, oil and gas, transportation and healthcare, will all provide guidelines and parameters within which all M&A transactions will have to be structured.

In an effort to increase Mexico’s attractiveness for investors, the federal government has steadily and successfully consummated several changes to statutes that were perceived to be outdated during the past few years. Starting in 2005, when certain commercial statutes (e.g., the Mexican Commercial Companies Statute and the Mexican Securities Market Statute) were amended to incentivise M&A activity by allowing parties to, inter alia, freely agree on customary governance and liquidity provisions required for investors (particularly of an institutional nature) to attain a higher level of certainty on governance and exit provisions. A key recent development has been the liberalisation effort led by President Peña Nieto’s administration, through which the Mexican Foreign Investment Law has been subject to several amendments to decrease (or remove) foreign investment restrictions in, inter alia, the telecommunications and oil and gas industries.

The telecommunications industry’s regulatory overhaul not only included the lifting of the foreign investment restriction,³ but also the creation of the Federal Telecommunications Institute, which is now a much more specialised regulatory governing body with broader authorities to regulate the market (particularly from a market competition perspective), and which is the entity in charge of evaluating every transaction within the telecommunications industry subject to antitrust approval (separate from the Mexican Federal Competition Commission). The Federal Telecommunications Institute has declared both Televisa and America Móvil preponderant agents,⁴ resulting in them being subject to several asymmetric provisions (e.g., mandatory interconnection, maximum interconnection rates, asset divestitures and changes in governance). These asymmetric provisions (particularly with respect to America Móvil in the mobile telephone sector) have resulted in a much more

---

² Additionally, there is a regulatory authorisation request in progress to establish a secondary stock exchange in Mexico with the aim of increasing the ability of small and mid-cap sized companies to seek equity financing from the public.
³ Foreign investors can now acquire up to 100 per cent of targets.
⁴ Defined as any agent that holds more than a 50 per cent national market share, whether measured by users, audience, band capacity or traffic.
competitive market, and have granted end users with lower costs and improved services. In
an effort to capitalise on these amendments and seek to compete with America Móvil, ATT
recently acquired Iusacell and Nextel Mexico, two of the largest carriers operating in Mexico.

More recently, in a highly anticipated development in the energy and hydrocarbons
sector, the Mexican Constitution was amended to allow private foreign investment in
extraction and production (E&P) projects to incentivise and grow Mexico’s refining,
natural gas processing, industrial transformation, transportation, distribution, storage and
retail of liquid fuels, natural gas and petrochemicals industries, thus ending the historical
state monopoly in the oil, gas and petrochemical sectors. Among the regulatory changes,
Petróleos Mexicanos was transformed into a state productive company in order to
efficiently compete in the oil and gas market by, enjoying budgetary autonomy
(subject to several limitations and Congressional oversight) and a specific public procurement
and public debt regime. The National Hydrocarbons Commission was restructured to
become the decentralised entity of the Ministry of Energy responsible for procurement, bids,
subscription and technical administration of awarded oil and gas E&P contracts. As a result
of the overhaul, several oil companies such as Statoil, British Petroleum, and Total have been
awarded offshore E&P contracts; BHP Billiton was awarded with the first joint operating
agreement to act as Pemex partner to undertake E&P activities on the Trion-1 ultra-deep
offshore block. According to the Ministry of Energy, these developments are expected to
result in investments of more than approximately US$20 billion, and are likely to spur an
uptick in M&A activity for this particular sector (as well as all ancillary servicing and supply
industries) in the near term.

Although the oil and gas sector reform drew most of the headlines resulting from the
energy reform, the electricity sector reform has proven to be just as vital. Such reform allows
open competition from private and public entities in the generation and commercialisation
of power, including in renewable sectors such as solar, wind and geothermal. Mexico’s Federal
Electricity Commission (CFE) (directly or indirectly through its newly created operating
subsidiaries) handles the transmission, distribution, construction and maintenance of the
grid; however, CFE may outsource such activities to private investors. Given the high amount
of capital needed to implement these projects, many sponsors will seek to raise capital, which
could result in a spark in the M&A and financing sectors in Mexico and all other cross-border
jurisdictions with allocable capital. According to government officials from the Energy
Ministry, expected investments for the first and second recently launched long-term power
auctions are around US$6.5 billion, in which private investors such as Enel Green Power,
Engie and Acciona have participated.

It is worth mentioning that the Mexican lower chamber recently passed a bill in April
that would modify the Foreign Investment Law in order to allow foreign investors to acquire
up to 49 per cent of Mexican airlines (up from a current limit of 25 per cent). At the time
of writing, such bill is still being discussed at the Mexican upper chamber, and the bill is
expected to increase Mexican airlines’ attractiveness and ability to raise capital by allowing
foreign investors to have more capital tied up and more active participation in the governance
of Mexican airlines, which was previously highly curtailed.

5 At the time of writing, there is ongoing litigation in respect of the imposition of asymmetric provisions.
6 The transformation intends to allow Pemex to operate more as a privately owned enterprise in order to seek
profitability improvements.
III DEVELOPMENTS IN CORPORATE AND TAKEOVER LAW AND THEIR IMPACT

While the statutes relating to corporate and takeover law have remained relatively untouched in past years, changes in respect of certain capital market products are sure to have a significant impact in the M&A landscape in Mexico.

By way of background, it is worth noting that the Mexican pension funds (AFORES) are still restricted in the investments that they are allowed to undertake in accordance with their investment regime, which is set forth by law. AFORES are not permitted to invest directly in privately held companies, but they are allowed to invest in publicly listed companies and other publicly listed investment vehicles. This spurred the creation of publicly traded vehicles that are managed by a general partner and that serve as platforms to carry out investments in various sectors (CKDs), including the private equity, infrastructure, renewable energy and real estate sector. In the past six years, 54 such CKDs have been issued in the public markets for an aggregate value (based on the maximum amount of commitments disclosed in their prospectus) of over US$14 billion, and there are still a number of CKDs that have made a public filing that have not yet gone to market. The existence of the CKD market in Mexico has bolted M&A transactions in various fields and sectors, as pension funds put their cash to work, through fund managers, in acquisitions and similar investments.

There are three new products that are worth discussing, and that have arrived to complement the CKD market in Mexico. The first product is the creation of a Mexican real estate investment trust (FIBRA), an investment vehicle that invests in or acquires a real estate asset portfolio, and which is created through the issuance of a public offering and ultimately listed in the Mexican Stock Exchange. The Mexican real estate market has historically been quite active; however, since the creation of FIBRAs, M&A activity in the real estate sector significantly increased given that the creation of the FIBRA itself typically entails the bundling or acquisition of real estate assets that will become part of the FIBRA; the sponsors that manage FIBRAs have additional firepower from the amounts raised in the public offering or in follow-on offerings to acquire additional assets for the FIBRA's portfolio; and FIBRAs present a great take-out opportunity for real estate developers and other stakeholders of real estate properties.

The second product created the equivalent of a Mexican master limited partnership: the FIBRA E, which is an investment vehicle intended for energy and infrastructure projects, and which is listed in the Mexican Stock Exchange. One of the key features of the FIBRA E is the tax benefits that it provides to investors in the FIBRA E, as the investment vehicle and the portfolio companies through which investments are held in such infrastructure and energy assets are deemed transparent from a tax perspective. The first FIBRA E, FVIA, a toll road asset transaction, successfully launched and closed last year, and there is now a robust pipeline of FIBRA E projects for 2017 and upcoming years. While the impact on M&A transactions is not evident yet, given that it is such a new product, there is an expectation that transactions in the energy and infrastructure space will continue to increase, fuelled in part by the FIBRA E.

The third product is the Mexican SPAC, or special purpose acquisition company, which is an investment vehicle listed on the Mexican Stock Exchange that obtains funds from the public offering through which it is created to invest and acquire a company, which may or may not be identified at the time of the public offering. Essentially, it provides a sponsor with
sufficient funds to conduct an M&A transaction within the 24 months following its creation. The first of its kind, Vista Oil & Gas, was successfully launched in August 2017, raising US$650 million in the public offering. This first offering seems to indicate a significant acceptance of these types of investment vehicles in the Mexican market, but only time will tell if that acceptance continues and the impact that they will have on the M&A market in Mexico.

Furthermore, changes to the laws applicable to pension funds are expected to be introduced in the future permitting AFORES to invest directly in privately held companies (including private equity funds) without requiring the listing of securities in public markets, which should provide further depth and growth to the M&A and private equity markets.

IV FOREIGN INVOLVEMENT IN M&A TRANSACTIONS

As noted in previous sections, the participation of international and global companies in the Mexican market continues to be attractive. The level of cross-border transactions continues to be significant; the country’s economic fundamentals are stable and reflect a solid economy. Since 2012, the amount of foreign direct investment (FDI) recorded by the Ministry of Economy is close to US$145 billion, across various sectors.

More recently, the Ministry of Economy reported that during 2016, FDI slowed slightly, by 5.8 per cent as compared to 2015, but still reached US$26,738 million. For the first quarter of 2017, the Ministry of Economy reported US$7,945.6 million in FDI, which represents a slight increase of 0.6 per cent with respect to the first quarter of 2016, but a significant increase of 39 per cent with respect to the last quarter of 2016. These figures reflect the impact of uncertainty brought about by the US election and the results of the forthcoming election in Mexico insofar as foreign investment is considered.

It is important to note that the United States continues to be the country that represents the most foreign investment activity in Mexico, with 38.9 per cent of investments coming from the United States. Other principal countries carrying out direct foreign investment in Mexico are Spain with 10.7 per cent, Germany with 9 per cent, Israel with 7.5 per cent and Canada with 6.3 per cent.

Given the manufacturing capabilities that Mexico has developed, and Mexico’s steady growing middle class and consumerism, industries such as the processed foods and beverages industry have also grown and attracted foreign investment.

Certain sectors are ripe for foreign investment, as has been evidenced through recent M&A transactions, and these are expected to continue to experience consolidation or otherwise attract foreign investment.

As can be seen from the examples in Section V, infra, and the trends that can be observed, we expect foreign investment to continue to drive a significant portion of the large and complex M&A transactions in Mexico.

V SIGNIFICANT TRANSACTIONS, KEY TRENDS AND HOT INDUSTRIES

As noted in the Section I, supra, Mexican M&A performed strongly in 2016 and continues to perform strongly in 2017. There is a trend of consolidation and a high volume of activity in certain sectors, such as the pharmaceutical industry, real estate, food and beverage, as well as distribution and retail.
The pharmaceutical sector’s activity was driven by, *inter alia*, the following significant transactions during 2016 and the first half of 2017:

- Advent’s announced acquisition of Grupo Farmaceutico Somar from Endo Pharmaceuticals;
- OneBioMune Pharmaceuticals’ acquisition of Vitel Laboratorios;
- Henkel’s announced acquisition of Nattura Laboratorios; and
- Medica Sur’s acquisition of Laboratorios Clinicos de Puebla.

Furthermore, as noted below, it has been fueled by foreign investment.

M&A activity in the real estate sector activity is driven in large part by FIBRAs, as discussed in Section III, *supra*. Transactions mainly involve the acquisition of real estate portfolios, such as the acquisition of the MRP portfolio by Fibra Uno a few years ago, which at the time was one of the largest M&A transactions in the real estate sector in Mexico’s history. The acquisition story driven by FIBRAs has not slowed since then, as evidenced by over 25 transactions that have closed in the first half of 2017.

The food and beverage industry has seen various transactions in recent years, including,* inter alia*:

- the acquisition by Diageo of the 50 per cent interest it did not already own of Tequila Don Julio;
- the acquisition by Polmex of Grupo Gepp;
- Arca Continental’s outbound acquisition of Corproacion Lindley; and
- Pernod Ricard’s announced acquisition of Del Maguey Single Village Mezcal.

In the distribution and retail sector, certain recent significant transactions have included General Atlantic’s announced investment in Grupo Axo, Puerto de Liverpool’s acquisition of Suburbia, and Grupo Axo’s acquisition of Promoda and its joint venture with PVH Mexico.

It is also important to note that according to Transaction Track Record, the number of US-based acquirers of Mexican companies increased by 35 per cent in the first semester of 2017, as compared to 2016, and the number of foreign private equity and venture capital funds investing in a Mexican company increased by 71 per cent in the same period. This trend denotes the fact that foreign investors have maintained their interest in Mexico and the impact it has had on the M&A market in Mexico.

The infrastructure (such as toll roads) and ‘soft’ infrastructure (such as government-concessioned hospitals, schools and prisons) space has attracted international investors such as Ontario Teachers Pension Plan and Canada Pension Plan Investment Board (in a recent acquisition of 49 per cent of the Arco Norte Toll Road for approximately US$950 million), and BlackRock (in an acquisition of an infrastructure platform and subsequent transactions involving a state hospital and a federal prison).

The pharmaceutical industry remains fragmented, and in recent years participants such as Endo Pharmaceuticals have entered the market through the acquisition of Grupo Farmaceutico Somar, Teva Pharmaceuticals acquired Rimisa and General Atlantic made an investment in Laboratorios Sanfer.

While the aerospace industry has not represented significant M&A activity in Mexico, a hub has been established in the state of Queretaro where most global companies have set up operations. In the past three years, exports have amounted to no less than US$6 billion per
year. There will certainly be M&A activity in the years to come, although mostly on the basis of cross-border transactions effected by global players, but in respect of which the Mexican operations will still play a significant role.

The airline industry has also endured developments that have led and may continue to lead to M&A activity. Recent amendments allowing a greater participation (up to 49 per cent) of foreign investment led Delta to acquire an additional stake in Aeroméxico.

Finally, it is also worth mentioning that there has also been a trend of a higher volume of small transactions in the venture capital space, which may not represent significant M&A volume at this stage, but should have an impact in the medium to long term as these ventures mature and investors need to effect exit transactions from their investments. Investments such as those by Northgate Capital in Natgas, Accel Partners, ALLVP and others in Cornershops, and DILA Capital in Urbvan, are just a sample of the myriad transactions that have been completed in the first half of 2017.

VI FINANCING OF M&A: MAIN SOURCES AND DEVELOPMENTS

Mexican corporate law does not impose restrictions on financial assistance, and thus a Mexican target company’s ability to secure acquisition financing with its own assets makes financing alternatives relatively more available for M&A and private equity transactions. Since the financial reform that was introduced in 2014, lending activity in the Mexican market has risen significantly. Mexican banks are actively participating in the market, and it has also opened the door to other types of lenders, such as credit opportunities funds created by global institutions (e.g., Credit Suisse).

There is no recent particular trend regarding bank and mezzanine debt on Mexican M&A and private equity transactions. As in other markets, the type of acquisition financing is decided upon several factors, including the target company’s sector and its growth plans and needs.

For example, a private equity fund acquired a controlling interest in Intellego, a software services company that was in distress, through a combination of mezzanine debt and subscription of newly issued shares; and Advent International acquired a non-controlling interest in Afore Invercap and also granted a convertible loan to Afore Invercap, through which it ultimately acquired control. Both of these structures revolved around sound corporate rights and convertibility features.

This past year also saw the use of acquisition finance in transactions such as the US$50 million acquisition by Alphacredit, one of Mexico’s largest payroll deduction lenders, of Prestaciones Finmart (Crediamigo), where a significant portion of the deal was paid with financing, collateralised with the target company’s assets and stock.

In those M&A and private equity transactions that include bank debt, Mexican banks are normally pressured to incorporate US terms in their loan documents, including material adverse change (MAC) provisions that match the acquirer’s right to withdraw from the potential acquisition and provisions that seek to limit the conditions to the financing as regards the conditions applicable to the closing of the acquisition. Due to the absence of financial assistance restrictions and Mexican banks’ conservative approach to lending, Mexican banks very rarely accept ‘covenant-lite’ loans, which thus turns the negotiation of the financing terms and conditions and the implementation of the relevant collateral packages into a substantial part of the legal work relating to the closing of a transaction.
When an M&A or private equity transaction involves financing, including a going-private transaction, one of the most controversial sections of loan documents is the section relating to the conditions to drawdown, and specifically the material adverse effect (MAE) or MAC condition that directly affects the certainty of funds. It is hardly ever the case that the definition of MAE or MAC in the purchase agreements matches the definition in the loan documents, and therefore the ‘gap’ is generally a risk that the acquirer or investor is asked to assume. In the context of a cross-border deal, the definition of MAE or MAC becomes even more complex when negotiating political or national risk language within the agreement. Having said that, we see that sponsors in private equity transactions are generally more comfortable with the legal and related risks involved. Increasingly, investors focus more on returns and less on country risk.

With respect to LBOs in Mexico, the main consideration in structuring such transactions depends on the ability of target companies to pay dividends and make distributions to their shareholders on an ongoing basis to service acquisition loans. Hence, when structuring LBOs in Mexico, it is paramount to incur the acquisition financing at the level of the operating target companies, or to somehow restructure the debt after the closing so that the operating entities can actually service the debt without having to deal with the tax and other timing restrictions applicable to dividends under Mexican law. In addition, in pricing acquisition financing, investors have to consider both the applicable withholding taxes on interest payments made to foreign lenders (and the potential incremental cost they represent in terms of gross-up provisions), and fraudulent conveyance issues under the Mexican Insolvency Law that are mitigated through due diligence, representations, warranties and, ultimately, indemnities.

VII EMPLOYMENT LAW

Employee subcontracting regimes are common in Mexico and, due to relatively recent amendments to tax and employment laws, a thorough diligence of such regimes is crucial to identify existing liabilities to avoid or reduce any labour or tax contingencies.

A subcontracting regime exists whenever employees of an entity (i.e., contractor) perform tasks or provide services to another entity (i.e., client). In view of the foregoing, whenever there is a subcontracting regime in place it is crucial to verify whether such complies with the following conditions set forth by the Mexican Federal Labor Law: it cannot cover all the activities or those activities, similar or alike as a whole, which are performed at the workplace; services to be rendered must be justified due to their specialised nature; and subcontracting may not involve similar or the same activities as those performed by the other employees of the contracting party. Failure to comply with the specific conditions will not only result joint and several liability between the contractor and the client, but also in the direct obligation for the client to pay employment and social security obligations, including profit sharing.

VIII TAX LAW

New transfer pricing reporting obligations contained in Mexican law have an impact on tax filings for pre-closing, post-closing and straddle periods, as the buyer and seller will have to agree on the terms and conditions under which these obligations will be complied with on behalf of the target. Compliance with these obligations is particularly sensitive as it provides
information related to the organisation and operation of the group worldwide, which needless to say, the seller will not be willing to share with the buyer; thus, strong confidentiality provisions would have to be negotiated as well.

The imminent approval by Mexico of the OECD’s Multilateral Instrument will limit Mexico’s access to certain tax treaties that Mexico is a party to. This is particularly important in light of the structuring work that needs to be performed prior to any M&A transaction taking place, because any structuring analysis will need to address additional limitations.

There are also new obligations under the Mexican legislation related to the issuance of digital invoices, which are now applicable for, inter alia, stock purchases and payments made to non-Mexican residents. Starting in 2014, but increasingly ever since, the tax authorities have continued to enhance all the regulations pertaining the issuance of digital invoices, which now apply to certain transactions that were not considered affected in the past. Accordingly, stock purchase agreements have to provide some detail in this regard to define which tax documents will be issued by whom at closing, thus avoiding any discussions, as these rules are numerous and detailed.

IX  COMPETITION LAW

Enforcement by Mexico’s antitrust agency has been particularly active during the past couple of years. Several ongoing investigations and the imposition of substantial fines in many sectors of the economy indicate the agency’s new more aggressive stance. On the antitrust clearance front, while the outcome of many M&A transactions can be predicted, there are also borderline cases, where pre-emptive planning for an intelligent approach with the agencies has become more important. Similarly, pre-closing integration efforts now need to be conducted with more sensitivity to antitrust requirements.

X  OUTLOOK

It is difficult not to remember that just a few months ago, at the beginning of 2017, the future of the US–Mexico bilateral relationship was up in the air, and some investors were preparing for disaster. Since then, the Trump administration has gradually scaled back attacks against Mexico, and investors once again paid attention to Mexico’s economic indicators, which have held up relatively well. Mexico’s regulatory framework and sound macroeconomic outlook has made most economic analysts maintain their view that the Mexican economy continues to be in a period of expansion. Mexico’s demographic trends show an economy less dependent on exports, a growing middle class and increased consumerism (with more access to consumer credit), which suggests investment opportunities in sectors serving domestic consumption, such as financial services, healthcare, retail, education, dwellings and agro-industry.

According to Dealogic, cross-border acquisitions have doubled in the past five years, and that has driven M&A activity across the globe. The M&A market in the US is looking positive, and that generally nourishes the Mexican market.

However, investors are aware that the Trump administration’s softer tone may not last forever, and Mexico’s 2018 presidential election looms near and large with a very tight race between the three main political parties in Mexico: Partido Revolucionario Institucional (PRI), Partido Acción Nacional (PAN) and Morena. The incumbent, PRI, has recently endured a rough stretch, as many of its leaders (including President Peña Nieto) have been involved in highly reported scandals and are the subject of several investigations and indictments. The
leadership of PAN is undergoing an internal scouring to select their presidential candidate, with no clear front runner in sight. The leader of Morena party, Mr Lopez Obrador (who has been the runner-up in the previous two presidential elections), is a deeply polarising figure within the country due to his extreme leftist and nationalistic rhetoric, therefore alienating most of the business community (both domestic and foreign). While some industries are indeed more sensitive to political factors than others, given the uncertain political landscape, many investors will probably be cautious in pulling the trigger on M&A transactions (more so in the period of time leading up to the presidential election); however, as mentioned at the beginning of this chapter, the fundamentals of the country are still strong and the demographics are solid with a large cohort of youth, which will hopefully persuade investors to continue earmarking Mexico as a very attractive market for investments.

In the end, forecasting M&A activity is difficult enough during periods of relative predictability, and predictability is not something we expect to be enjoying in Mexico during the last quarter of 2017 and the first half of 2018.
EDUARDO GONZÁLEZ
Creel, García-Cuéllar, Aiza y Enríquez, SC
Eduardo González is a partner in the Mexico City office. His practice focuses on M&A, representing buyers, sellers, boards of directors and financial advisers in connection with complex transactions, including M&A, private equity deals, spin-offs, joint ventures, strategic alliances, minority investments and asset sales. Among others, Mr González regularly advises large multinationals and global private equity investors and sponsors on acquisitions and investments in Mexico across multiple industries.

Mr Gonzalez has been repeatedly recognised as one of the country’s leading practitioners in mergers and acquisitions by specialised publications such as Chambers and Partners Latin America, Who’s Who Legal and The Legal 500.

Mr González has authored and co-authored multiple articles on M&A and private equity-related topics for prestigious publications, including The Chambers Legal Practice Guide and The Private Equity Review.

JORGE MONTAÑO
Creel, García-Cuéllar, Aiza y Enríquez, SC
Jorge Montaño is a partner in the Mexico City office. His practice focuses on mergers and acquisitions, private equity and capital markets transactions. He has actively represented domestic and international companies in cross-border transactions, including advising on the structuring and execution of joint ventures and private equity transactions. Mr Montaño also represents fund managers in the creation of their investment platforms, both in Mexico and abroad, in both the private equity and venture capital space. In the field of capital markets, he represents US and Mexican underwriters and Mexican issuers in equity capital market transactions, including IPOs, as well as in investment-grade and high-yield bond transactions.

Mr Montaño has been ranked in mergers and acquisitions and capital markets by many publications, including Chambers Latin America, The Legal 500 and Latin Lawyer 250.

HUMBERTO BOTTI  
*Creel, García-Cuéllar, Aiza y Enríquez, SC*

Humberto Botti is a partner in the Mexico City office. His practice focuses on M&A representing investment banks, private equity funds and corporate clients in connection with acquisitions, mergers, divestitures and joint ventures. He also advises underwriters, investors and issuers with respect to equity offerings.

Prior to re-joining the firm, Mr Botti worked as an investment banker for Goldman Sachs’ Mexico City office where he participated in the execution of several M&A and capital market transactions focused on Mexico and Latin America.

He has been professor of corporate and financial law at Universidad Iberoamericana.

CREEL, GARCÍA-CUÉLLAR, AIZA Y ENRÍQUEZ, SC  
Torre Virreyes  
Pedregal 24, Piso 24  
Col Molino del Rey  
Mexico City 11040  
Mexico  
Tel:+52 55 4748 0600  
Fax:+52 55 4748 0690  
eduardo.gonzález@creel.mx  
jorge.montano@creel.mx  
humberto.botti@creel.mx  
www.creel.mx