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Mergers and Acquisitions: In a New Economic Environment

Faced with the changing economic environment imposed by the pandemic, mergers and acquisitions face new challenges in the face of economic recovery.

Our economic environment is full of mergers and acquisitions. Wherever we look, there is a company whose company name, logo or was modified and updated as a result of a strategic business decision that involved its absorption, sale or merger with another company or conglomerate. In the case of Panama, the activity has been particularly strong in the banking, energy, retail and telecommunications sectors.

Mergers and acquisitions are known as “M&A” (Mergers and Acquisitions) and they tend to occur as opportunities at crucial moments either due to the need for growth of a buyer, the opportunity to take advantage of synergies, or in cases of distressed assets, as a solution to an adverse economic environment.

To carry out a mergers and / or acquisition process, it is essential that the financial, legal and commercial situation of the company is thoroughly examined through a detailed due diligence process, a detailed due diligence process, which includes lawyers, financiers, commercial tems and accountants. Further, it is crucial to assess whether the company to be acquired complies with applicable regulations (national, municipal or cross border), since this is an essential element for potential investors to have the necessary elements for decision-making and be able to assess the risk of the operation.

It should be noted that mergers and acquisitions transactions in Panama are mainly covered by the provisions of the Commercial Code, the Civil Code and, depending on the nature of the target company, by Law 32 of 1927, as amended (Corporations Law), Limited Liability Company, laws and regulations specific to the industry (banking, securities, mining, energy, etc.).

In Panama, mergers and acquisitions or M&A were regularly stable before the start of the COVID-19 pandemic. Multiple transactions had to be paused or terminated given the current global economic uncertainty, while others were renegotiated and in some cases, others even accelerated.

After more a year of this health crisis and in view of the notable signs of economic recovery, the Comptroller General's Office estimates that Panama's economic growth at the end of 2021 will register an inter-annual growth of 12.5%, which in absolute monetary terms places the country's Gross Domestic Product (GDP) at some $40 billion.

This recovery economic environment also favors an increase in M&A activities and anticipates an acceleration of M&A for 2022, after the economy recovered consistently from a fall of almost 17% of its GDP in 2020. We believe this increase is likely particularly because companies in certain sectors enjoy significant liquidity at this time.

Additionally, the Panamanian Government has arranged a series of measures to motivate economic recovery through public investment programs, which according to the International Monetary Fund (IMF) would have an impact on the behavior of the country's GDP. Likewise, Panama has solid companies that are attractive targets for potential buyers in Panama and abroad.

The IMF's growth estimate with respect to Panama is 11%, almost triple that of the Central American region, which stands at 4% this year.

An active five-year period in mergers and acquisitions

Among some notable acquisitions in 2019, 2020 and 2021 were those of the technology and logistics sector, such as the acquisition of Glovo by Appetito 24 and PedidosYa and the investment of one of the main local economic groups in the local messaging service ASAP, transactions that involved the two main delivery apps in the country. Likewise, the incorporation of the Mays / Siem group as a strategic shareholder in the Machetazo Group was an extremely important transaction in 2020.

In addition to the merger between J. Cain & Co. and Colon Import & Export, two leaders in logistics services for multinational companies, in telecommunications there was the purchase of Telefónica and Cable Onda by the company Millicom and, more recently, the acquisition agreement of Claro Panamá SA by Cable & Wireless Panamá, SA, a subsidiary of Liberty Latin America Ltd., whose closing is subject to obtaining customary regulatory approvals.

In banking, acquisitions have been extensive in the last five years, including the merger to consolidate Banco Panamá and Banco Aliado, the acquisition of Banvivienda by Global Bank and the purchase of a majority stake of Multibank by a subsidiary of Grupo Aval.

During the last decade, the Panamanian banking sector has undergone an era of consolidation and the figures suggest that the trend will continue in the coming years, as it tends to occur in more mature economies.

In 2000, there were 57 general license banks in Panama. In 2017, that number dropped to 44 and in 2021 to 39, which is the result of both consolidation and certain banks leaving the Panamanian Banking Sector.

This level of consolidation among small and medium-sized banks is expected to recover as banks come under pressure from local regulatory burdens and increased compliance standards.

In addition, banks were subject - until September 30, 2021 - to a moratorium imposed by the Government in favor of debtors who have been affected by the COVID-19 outbreak. This mandate encouraged banks to enter into renegotiated loan agreements with their clients but has ultimately prevented such banks from executing and collecting loans in the normal course of business.

Such restrictions may further drive mergers and acquisitions in this sector, as banking operations continue to face additional challenges, especially, as mentioned, in small and medium-sized banks.

DURING THE LAST DECADE, THE PANAMANIAN BANKING SECTOR HAS UNDERGONE AN ERA OF CONSOLIDATION

A new outlook for recovery

According to estimates from the Ministry of Economy and Finance (MEF), the Panamanian economy "is positioned so that we can point out the strategic advantages that correspond to international trade services activities to reactivate the economy."

This high level of activity, and excess liquidity in the market, stimulate purely national M&A deals, as local companies seek strategic alliances to compete with new market conditions and new market participants, which are usually large multinationals, or to better position themselves as viable targets for future acquisitions.

Panama has also proven to be an attractive environment for foreign investors in technology companies and industries, and it is expected to rapidly increase strategic alliances and M&A activity in this sector.

Many startups in Panama have seen substantial cash injections from private equity groups, regional players, and international buyers looking to enter the Latin American market.

Expectations are moderate

The government now faces the challenge of leading the economic recovery of a country that before the pandemic was known to be a stable investment-grade economy that welcomes foreign investment.

However, challenges related to the pandemic - such as rising unemployment, lower consumer demand, and the effects of the 2020-21 lockdowns on the broader economy - cannot be ignored.

In addition, other country-specific factors can affect business valuations and may adversely affect M&A activity, such as downgrading the credit rating of the country and certain local financial institutions, which can increase the cost of funds for companies. national transactions.

Therefore, although an economic recovery is observed, the flow of M&A transactions may continue to stall.

The most active sectors for M&A activity in 2021 and in the coming years will likely continue to be the logistics sector, followed by the banking, securities (financial) industry, as further consolidation is expected in the market. We cannot discount the weight of private investment funds in investments in Panama and Latin America.

A weaker-than-expected recovery in tourism and consumer spending is also likely to drive distressed asset acquisitions in the real estate, hospitality and retail sectors.The structuring of acquisitions of distressed assets, either as a sale of shares or assets, we see that it will be used more frequently.

The Covid-19 pandemic has taught us that it is very difficult to predict M&A deal activity, since there are various factors beyond purely economic growth which can impact M&A activity.

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