



Integration & Separation Advisory

**How to unlock the maximum
value of your deal**



Deal Advisory

KPMG in Mexico



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KPMG Deal Advisory in Mexico

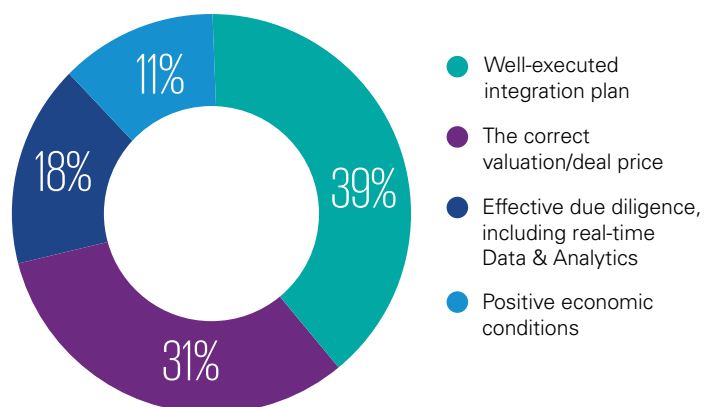
How to achieve success?

Integration & Separation processes are paramount to unlock the full value of a deal. Both processes are complicated to perform, generally occurring under tight timelines running alongside the day-to-day business. Hence, there are hardly any most demanding action that the executive board and the proper employees might ever embrace.

According to our respondents in the U.S. executives on M&A: full speed ahead in 2016 Survey, the most important factor for deal success is a well-executed integration plan, as shown below.

“An inexperienced acquirer will launch every single work stream on day one, and it just crushes the organization,” warns Steve Miller, leader of Integration & Separation practice of KPMG United States. “The experienced integrator will say, ‘Here’s the stuff we absolutely have to launch now and (from there we will) continuously manage the integration and people’s workloads.’”

Which is the most important factor for the deal success?



Source: U.S. executives on M&A: full speed ahead in 2016 Survey. KPMG, 2016.

Our surveys confirm for many years that most deals still fail to create value.

“Only 31% of corporate buyers managed to increase value from their deals,” expressed John Kelly, KPMG Global leader of the Integration & Separation Advisory practice (ISA), pointing out the lack of focus address towards the integration as the major component of the failure.

Attending to the perception of all the executives asked in the aforementioned surveys, respondents concurred on the key drivers for successful integration:

- Executive leadership support
- Involvement of management from both sides
- Development of a project plan that often includes creating a dedicated integration team
- Seamlessly interrupted communication among all the stakeholders

Many of the important post-close issues will be revealed during the due diligence phase, which has been the sustaining element of KPMG Deal Advisory services since its inception. Whereas companies tend to emphasize valuation issues during the due diligence phase, by also focusing on integration risks and post-close opportunities, acquirers can gain relevant information in order to enhance deal results.

Management needs to set the direction of the Integration & Separation process by methodology for understanding exactly where and how the acquired company makes money. Senior Management must be able to track and prioritize the key profit drivers in the organization as soon as possible.

Senior Management must be able to track and prioritize the key profit drivers in the organization



Key barriers to successful integration

Despite the fact that a considerable number of executives believed that the deal strategy largely aligned with the overall strategy and goals of the transaction, there are several recurrent drivers which may lead deals to stumble.

Insufficient focus on value delivery



- Poor quality of synergy assessment input into valuation and bid
- Only 31% of corporate buyers managed to increase value from their deals
- Insufficient or lack of cascade of initial synergy targets into deliverable synergy projects
- 44% are still performing none to very little synergy analysis prior to completion
- Lack of discipline in tracking benefits post-completion
- Missed opportunities in identifying further value enhancement initiatives

Process break between deal making and Integration



- Deal team and integration team/operational management responsible for implementation do not work closely enough with limited or no handover between the two
- Loss of the link between deal strategy and operational implementation – no cascading of the deal strategy into implementation targets and plans
- Different advisors do little 'bits and pieces' – no advisor has a 'big picture' of the deal and can provide sufficient support throughout the whole deal up to implementation

Under estimation of complexity and effort required



- Underestimation of people issues – getting right 'management team' and translating cultural differences into operational implications
- Loss of focus due to high complexity – Integration teams often concentrate on everything instead of applying 80/20 principle and focus on key initiatives linked to initial deal strategy
- Too optimistic assessment of effort, cost and timelines for implementing integration

Source: KPMG ISA Global Center of Excellence

Mexico at a glance

Mexico, the second most populous country in Latin America and the eleventh in the world, has a significant potential regarding growth of integration and separation operations, as a result of Mexican companies' sophistication in their merger and acquisition processes with foreign organizations, the new scenario of structural reforms promoted by the executive, as well as the exchange rate, which boosts foreign investments. These elements will stimulate the investment environment in Mexico in the coming —years.



Source: World Bank and INEGI

Notes:(1) 2015 figures

(2) 2016 figures

Some recent reforms in Mexico

A set of structural reforms were approved in Mexico, establishing an unprecedented change in its recent history. The sweeping legislative program, founded on a broadly-based political consensus regarding the need for change was successful in altering the constitution as well as multiple secondary laws. These reforms aimed to boost national productivity and competitiveness, hold the potential to strengthen Mexican economic growth in the mid-term future. The reform agenda represents a consolidated attempt to modernize the economic system.



Energy^{1,2}

After this reform, the market was liberalized for the generation and supply of electricity; the CFE (Comisión Federal de Electricidad) became a competitor in the marketplace to operate under a competitive environment and private investors will be able to install new power plants.



Tax³

The fiscal reform aimed at increasing tax revenue by an additional 2.5% of Gross Domestic Product (GDP). Mexico is shifting from having a regressive taxation system to a progressive one. Additionally, Mexico wished to eliminate loopholes and offered incentives to informal workers to stimulate formal economy.



Political –Electoral⁴

This reform was composed by key elements such as a new national electoral body, reelection, election annulment, sanction of electoral offenses, coalition governments and other checks and balances, voting abroad and gender parity, just to name a few.



Telecommunication⁵

Approved in 2013, this reform is addressed to promoting greater competition, more and better conditions, better coverage and service quality, as well as lower prices and costs.



Economic competition⁶

The economic competition reform regulates the relationship between companies, ensuring a greater variety of products and services at better prices.



Transparency⁷

The transparency reform promotes an open government, where people have more access to public information.



Finance⁸

The reform aimed at strengthening the country's banking and securities regulator to increase competition and lower the cost of borrowing. Government development banks would be given more scope for lending to small and medium-size businesses.



Labor⁹

The labor reform has added flexibility to the job market, stimulating the formal economy and improving conditions for the professional development of women and the young.



Education¹⁰

The education reform was aimed at improving the quality of education, implementing a new professional teaching service, updating the curricula and modernizing school infrastructure.

¹ KPMG in Mexico. Reforma Energética, la nueva realidad de México, January 2015.

² KPMG Global. Opportunities in the Mexican Electricity Sector, February 2017.

³ KPMG in Mexico. Estudio sobre la Reforma Fiscal: Retención del IVA por ventas en México, January 2015.

⁴ Gobierno de México - Segob. Explicación ampliada "Reforma Política Electoral" February, 2014.

⁵ Instituto Federal de Comunicaciones. Explicación sobre los principales beneficios de la Reforma Constitucional y la Ley Federal de Telecomunicación y Radiodifusión, January 2017.

⁶ Diario Oficial - Secretaría de Economía. Decreto por el que se expide la Ley Federal de Competencia Económica y se reforman y adicionan diversos artículos del Código Penal Federal. May 2014

⁷ Secretaría de la Función Pública. Explicación sobre la Reforma en Materia de Transparencia, Diario Oficial de la Federación. February 2014.

⁸ Secretaría de Hacienda y Crédito Público. Decreto por el que se reforman, adicionan y derogan diversas disposiciones en materia financiera y se expide la Ley para Regular las Agrupaciones Financieras. January 2014.

⁹ Presidencia de Gobierno. Explicación ampliada de la Reforma Laboral. November 2012.

¹⁰ Presidencia de Gobierno. Explicación ampliada ¿Qué es la Reforma educativa? February 2013.

Deals in Mexico- Top Sectors and Key Trends 2017



Mexico's Top Sectors by M&A Activity

Retail, Food & Beverage

Value: USD 11,826.49m
Volume: 150

Industrial

Value: USD 8,590.68m
Volume: 63

Real Estate

Value: USD 5,332.45m
Volume: 58

Energy, Oil & Gas

Value: USD 3,659.78m
Volume: 18

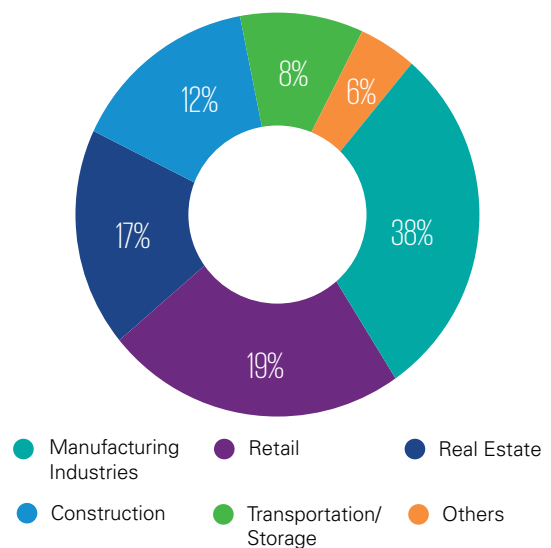
Infrastructure

Value: USD 448.03m
Volume: 2

Telecom & Tech

Value: USD 277.42m
Volume: 47

Mexico's Top Sectors by participation in GDP



Source: Transactional Track Record, 2016 figures.

Source: INEGI, 2017

Key Trends in Mexico

- Merger & Acquisitions (M&A) transactions in Mexico have experienced a slight drop over the last two years. The United States continue ranking first for M&A investments in Mexico, amounting to more than 15% of foreign investments
- Outbound acquisitions by Mexican companies are gaining momentum again, especially investing in countries like the US, Chile and Spain. The key driver for overseas acquisitions is the need to expand their presence in markets all over the region
- Recent reforms in Mexico, such as energy and telecommunications, opened the opportunity to foreign investors to enter in these sectors in the Mexican market. As a result an increase in M&A activity is expected to happen from 2018 onwards
- In particular telecommunications is a sector which has stayed outside NAFTA and US companies have expressed their interest to raise their presence in the Mexican market. On the opposite, the manufacturing sector, traditionally Mexico's exporting spearhead is subjected to facing possible protectionist measures by the US Administration, which could represent a challenge for Mexican economy
- Notwithstanding the latter, massive opportunities in the financial, energy, telecommunications and healthcare and pharmaceutical sectors are awaiting to be materialized in the shape of both acquisitions and/or divestitures. It is expected the efforts and responses by Mexican administration to US administration trading threats will curb the impact of those actions



How can we help you?_◆

KPMG's Deal Advisory Integration & Separation (ISA) team advises clients on executing the operational integrations of acquisitions or joint ventures and separations of businesses, in the case of divestitures. ISA does this by taking an enterprise wide view of M&A deals, across all corporate functions, to deliver value to our clients in the form of the following services:

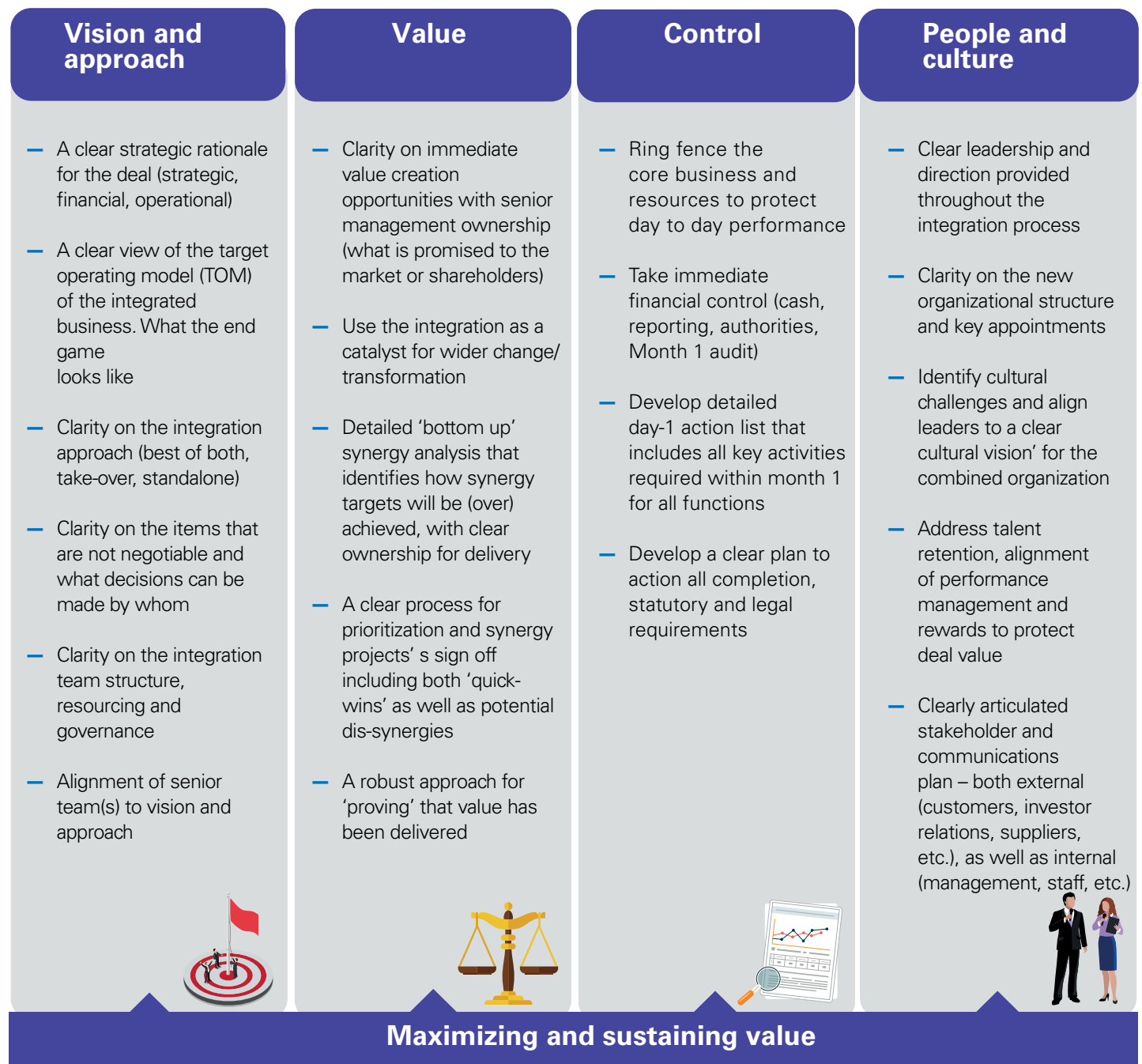
- M&A Integration and Separation Due Diligence
- Synergy and Cost Assessments
- Transition Services Agreement (TSA) Development and Management
- Day 1 Planning and Deal Execution
- Post Close Implementation and Transformation
- Change Management and Performance Tracking

An integration or a separation process will never be performed using a standardize approach. Every post deal is different to each other, there is not a prescribed rule which could lead you to success.

However, KPMG ISA's team expertise, with the largest advised record in the Post Deal M&A industry, can drive you across all type of deals: from multi-billion dollars project with global scale, to local mid-size acquisitions while ensuring the maximum value out of the deal.

What to expect from KPMG Integration & Separation Advisory

Global Methodology



More than 500 KPMG ISA professionals dedicated to post-deal worldwide



1	Canada	7	France	13	China	19	China
2	United State of America	8	Spain	14	Saudi Arabi	20	Korea
3	México	9	Germany	15	United Arab Emirates	21	Singapore
4	Brazil	10	Switzerland	16	South Africa	22	Australia
5	Argentina	11	Italy	17	India		
6	United Kindom	12	Poland	18	Hong Kong		

KPMG Deal Advisory in Mexico

KPMG Deal Advisory Mexico professionals provide a range of financial advisory services for mergers, acquisitions and financings, helping organizations plan and complete major business transactions according to their strategic growth goals. We have presence in 18 states in the country and a strong experience in different sectors and industries.



- | | |
|-------------------|---------------------|
| 1. Aguascalientes | 10. Mexicali |
| 2. Cancun | 11. Mexico City |
| 3. Juarez City | 12. Monterrey |
| 4. Chihuahua | 13. Puebla |
| 5. Culiacan | 14. Queretaro |
| 6. Guadalajara | 15. Reynosa |
| 7. Hermosillo | 16. Saltillo |
| 8. Leon | 17. San Luis Potosi |
| 9. Merida | 18. Tijuana |

Sector Expertise



Pharmaceuticals



Energy



Retail, Food
& Beverages



Telecom



Financial Services



Industrial



Infrastructure



Automotive



Real Estate

Our services

KPMG Deal Advisory Mexico holds the following capabilities:

Corporate Buy Side: Maximizing acquisition value requires a focused, strategic approach that helps you stay ahead of the competition.

Corporate Sell Side: Executing a divestitures involves carefully tailored processes to reduce time and costs, avoiding surprises.

Private Equity: Creating value and growth across your portfolio calls for deep insights and a foresight that comes with experience.

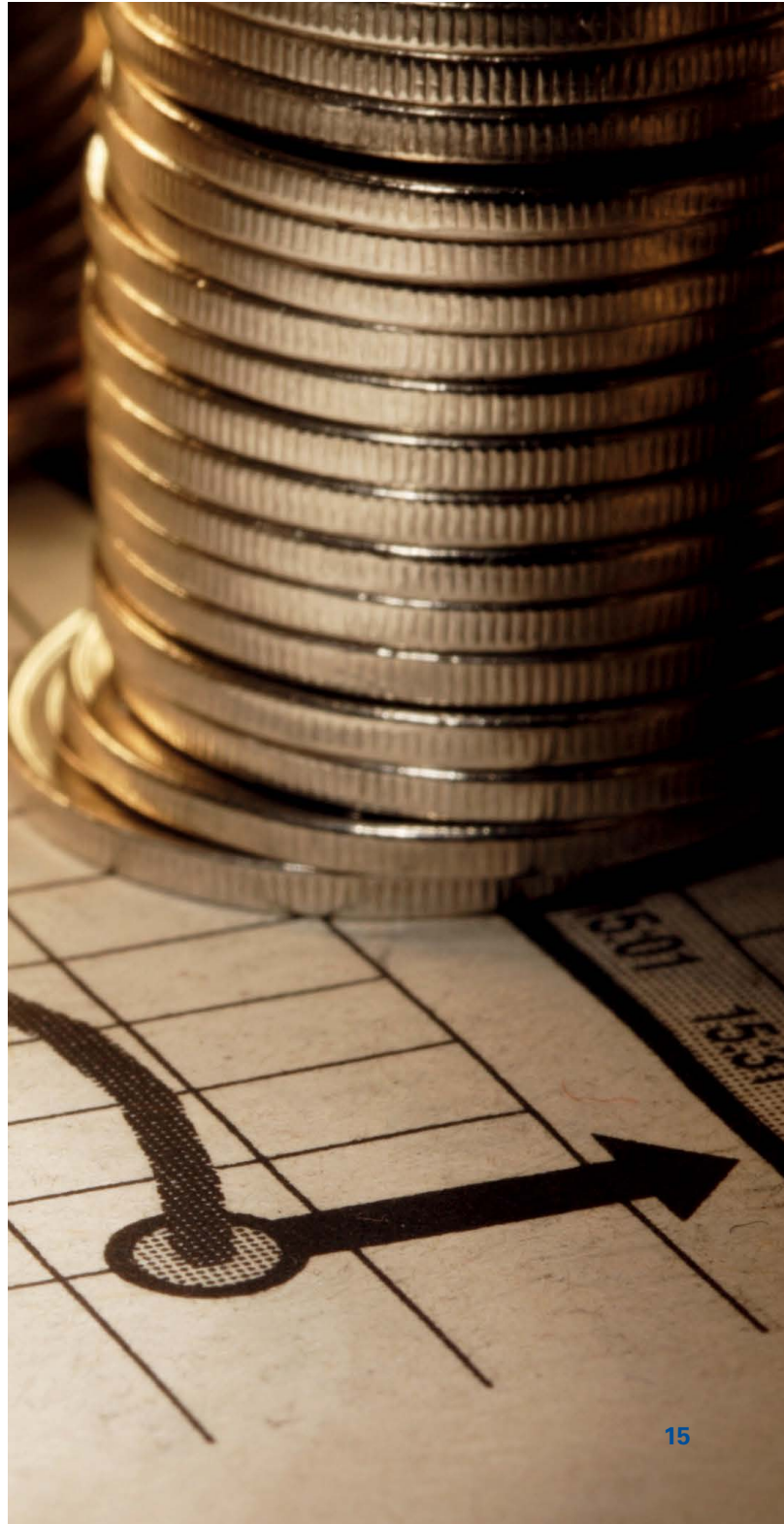
Accounting Advisory Services: No matter how direct your transaction may seem, the accounting implications are likely complex.

Infrastructure: What it takes to finance, to build a strategy, develop and execute an effective infrastructure project.

Corporate Finance: To help you in what you need at every step of the transaction process.

Restructuring: Developing and implementing solutions that improve earnings, stabilize cash flow, and right-size the balance sheet.

Transaction services: Creating, enhancing or preserving value expected from buying or selling a business or asset.



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