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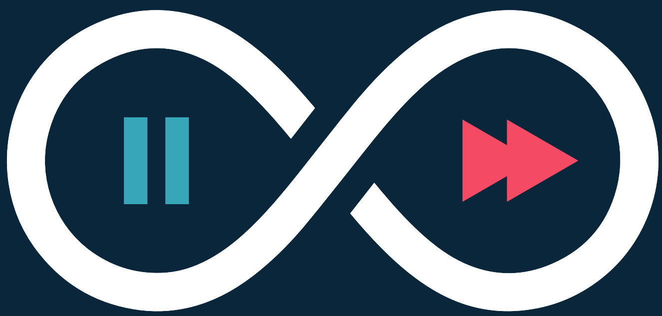


REPORT

FROM STANDBY TO INFINITY:

M&A MARKET TRENDS

July 2023

INTRODUCTION

Mergers and acquisitions in Spain and most of Latin America had an outstanding first half of 2022. Momentum in most of these markets helped maintain year-to-date record highs. However the pace in all markets gradually tapered off and ground to a halt at some point between July and December 2022. At the time it was considered a temporary and even positive pause, however apprehension has increased as the months proceed.

Some in the market expect the paralysis to continue until macroeconomic transparency is restored and rate hikes come to an end. Major funds have not wasted time during this holding pattern. They have invested and updated their portfolios, including their most recent acquisitions, and are waiting for the sign to go because no one wants to be left behind. Most industry players and experts are already anticipating that 2024 could be another record year for investment.

There is consensus that recovery will not start simultaneously in all countries, nor will it progress at the same pace in different sectors and market segments. There is also consensus that a significant chunk of the current investment slowdown can be attributed to significantly gloomier forecasts than what we've seen over the past twelve months. Looking back over the last six months, growth in most European countries has been significantly higher than expected and energy prices have significantly improved.

Among experts and analysts, there is a growing sense that the economy is beginning to approach the last inflection point. Beyond this point there is not expected to be another increase, but instead a broad growth outlook where each fund will be able to seek its best opportunities. Most private equity firms already acknowledge having entered this new environment, although they also agree that they will have to continue being extremely selective, at least for the remainder of 2023.

A SELECTIVE SURVEY TO CHECK THE PULSE OF THE MARKET

To gain a deeper understanding of the scope and intensity of this recovery, over the past 30 days, LLYC's Financial Communication area has gathered the opinions and viewpoints of the sector's key players.

We also conducted in-depth interviews with fifteen relevant members of the sector, who are cited in the report. In addition, we launched a digital survey in collaboration with iDeals and M&A Community to a highly qualified sample of industry professionals. Conducted from May 12 to June 12, 2023, we surveyed 110 professionals from Spain, Brazil, Chile, Argentina, Colombia, Panama, Mexico and the United States.

Based on the participants' responses, we identified the following eight major trends for reactivation of the mergers and acquisitions market. We also added a final chapter on the role that communications will play in the reactivation of these processes.

"Most industry players and experts are already anticipating that 2024 could be another record year for investment"

1. BIG EXPECTATIONS FOR 2024

Roughly half of the agents surveyed expect investment through mergers and acquisitions to recover in 2024. The remaining half are more optimistic, expecting improvement later in the year, either in the third or fourth quarter. Respondents in Spain are one percentage point more optimistic than their counterparts in Latin America, particularly in Brazil, where participants predict a more gradual upturn.

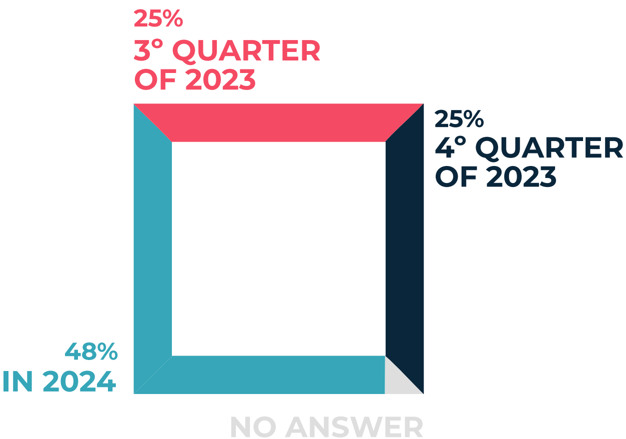
There seems to be a general sense that forecasts had been more pessimistic than what we've experienced in reality. In fact, the stock market's rally since late May and through June was considered to be an early indicator that the market was emerging from its slumber.

Of course, there has clearly been a slowdown and its causes are well defined: geopolitical uncertainty and as a consequence, macroeconomic uncertainty. These doubts have affected financing in particular, intensifying in Q1 2023 when banks were very reluctant to lend capital to private equity. With rising interest rates and a slowdown in financing, the cost of capital has risen while asset values have slumped. This inevitable discrepancy in prices has been considered the principal reason for the evident halt in such transactions, although it may not have been as pronounced as what has been seen in recent months.

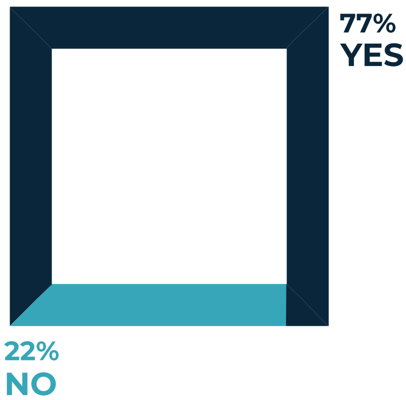
According to the survey results, 78 % of participants report closing at least one M&A deal in the last twelve months. Some interpret this figure as a demonstration of latent interest in the sector, which could carry over to the future given the right conditions. A business banker summarized it vividly, saying "In the first half of the year, the first 15 billion euros were easier to raise than the last 1.5 billion. Once this final investment is also achieved, it is assumed that activity could recover fairly quickly."

However, as mentioned earlier, other markets are even more cautious in their expectations of recovery. Brazil had a particularly complicated start to 2023, as global tensions were aggravated by several local challenges. A change of government generated considerable uncertainty among investors, followed by several events related to access to credit, shaking the market considerably and reducing access to financing for many companies. This generated a sharp contraction in growth that forced corporations to focus on protecting their capital. Aníbal Wadih, partner at GEF Capital in Brazil, points out that "all of this made the halt in activity in Brazil greater than expected. We expected some kind of slowdown, but not as dramatic."

WHEN DO YOU THINK THE RECOVERY OF OF M&A ACTIVITY WILL BE CONSOLIDATED?



HAS YOUR COMPANY BEEN INVOLVED IN ANY M&A TRANSACTIONS IN THE LAST 12 MONTHS?



More and more experts are reminding us that if you are willing to take a chance, times of increased risk also bring great opportunities. Gonzalo de Rivera, CEO of Alantra rivate Equity states that if the private equity sector were a vineyard, the best vintages have always been achieved in situations of uncertainty and lack of transparency, as we are currently experiencing. This is not only because prices will adjust in this landscape, but also because the quality of the different assets can then be better analyzed. “I believe that the current context is not at all easy right now, due to uncertainty, there is little certainty. Today, although the uncertainties exogenous to our own businesses, private equity is clearing up, our activity is less active and this is due to a lack of visibility. This slows down decision making, which is why there are fewer transactions. However, I do believe that it is a good time to invest. In times of more convulsive macro scenarios, private equity gets better returns than those funds that were raised in more buoyant times”.

In fact, the market has been extremely selective so far this year. Virtually everyone believes that this trend will continue over the next eighteen months. There is an abundance of liquidity and many investment alternatives, with industrial companies also well-prepared to make the leap. There is only one relative exception regarding selection: the so-called middle market. The middle market has continued to attract the focus and interest of almost all funds. It’s certain that this segment has large underlying value, which can easily be profitable through good management.

Gerard Garcia, founder and CEO of Deale, points out that the sub-segment of small and medium-sized companies is an additional focus of investment interest. “Almost all transactions now closing in Europe are under €15 million. The interest in SMEs lies in the fact that funds remain focused on generating value in their most recent acquisitions”.

Additionally, there is also a generational handover in many family businesses, which until now have been managed by baby-boomers and the next generation are not overly passionate about assuming control. Private capital allows business owners to institutionalize the company and to consider a promising step forward with a high probability of success.

It is a significant sub-segment. In the overall context of Spain and Latin America, small companies account for 28 % of all companies, but around 68 % of M&A transactions. Most investment is concentrated in the middle market, with the exception of Brazil, where large companies account for most of the M&A market.

The Deale platform specializes in operating with small and medium-sized enterprises. It has attracted numerous private investors, including Latin American investors, family investment firms and European companies interested in entering Spain. The SMEs that aim to receive funding are primarily looking toward growth, one of the most repeated mantras after the pandemic.

In 2022, the number of large companies in Spain peaked at 600, a new all-time high. We expect the number of large companies to continue to increase, as smaller companies move further along the cash injection cycle. The average size of Spanish companies is trending toward growth, and short and medium-term opportunities will continue this trend.

“In the overall context of Spain and Latin America, small companies account for 28 % of all companies, but around 68 % of M&A transactions”

2. THE FINANCING BARRIER

When speaking to lawyers, investment bankers or fund managers face-to-face, we find that the rising cost of financing is almost always seen as the key reason for the current drought in M&A deals. However, according to the survey conducted by iDeals and M&A Community, 40 % of the surveyed companies believe that the main reason for pulling back on transactions was the difference in prices expected by buyer and seller. Only 20 % mentioned the increased cost of financing. Volatility and gloomier macroeconomic expectations were more relevant than the cost of financing, mentioned in 23 % of responses compared to 20 % that cited more expensive financing due to the sharp rise in interest rates.

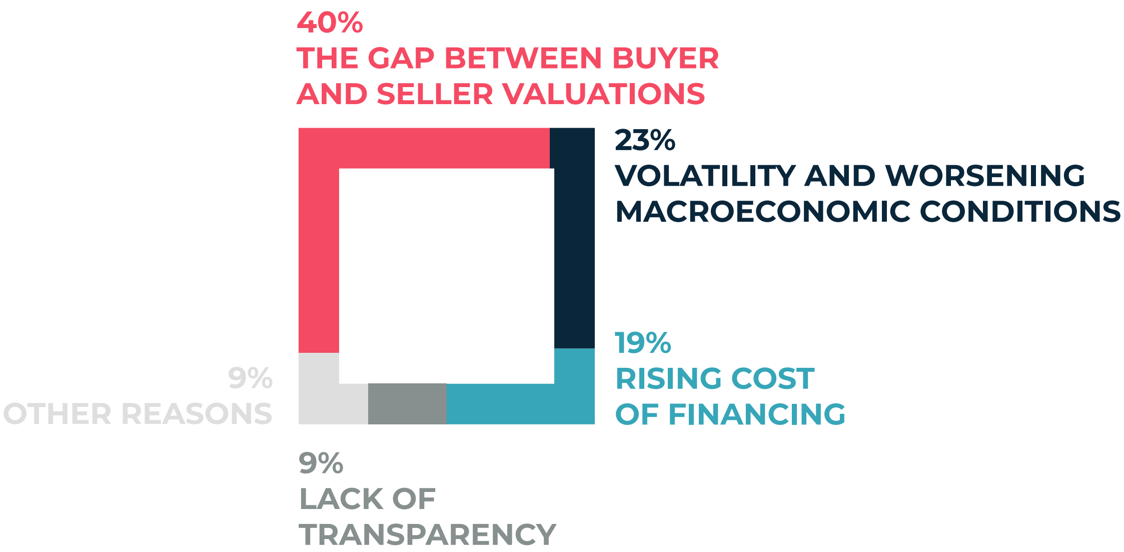
However, it would not be accurate to speak of an outright paradox, since all three factors play a part in most of the cancelled transactions. For example, Xavier Foz, Corporate M&A and Finance partner at Roca&Junyent, argues that the slowdown in M&A activity has been greater than expected, both in terms of intensity and persistence over time. According to Pedro Pasquín, Vice-Chairman of Investment Banking and Head of Investment Banking de Lazard in Spain, this intensity is due to a confluence of factors. “The first important issue is financing. Banks, in general, are very cautious when it comes to lending, particularly to private equity, which has been a very big driver of M&A activity and is now seeing its activity slowing down. Finally, with rising interest rates, the cost of capital is increasing and asset values are falling. Asset owners have a hard time accepting that downgrade and buyers want the new price. This makes it harder to close deals, although it is a temporary element.”

As of the middle of 2023, the prevailing sentiment is that the overall context is not providing much support. Geopolitical and macroeconomic uncertainty persists, and the horizon for further rate hikes is nearing its end. However, there are still some who think that another hike could occur, in addition to those scheduled for September or October 2023. Several industry professionals express caution regarding the possibility banking regulators could go too far with the rate hike, which could delay the significant recovery of the investment market for another six months.

Even amid this caution, other sources acknowledge that there have been many attractive investment opportunities. These sources do not believe that the market has experienced significant disruption in recent months, but rather assert that we have seen a reasonable and positive correction of the previous excesses. Some still respond "portfolio, portfolio and more portfolio," as the only answer to uncertainty, but attractive investment opportunities are beginning to emerge. As Norberto Arrate, partner at Portobello, says, "I would say that there has been some improvement in the last six months. Simply the fact that time passes and that we market operators have become accustomed to operating in a somewhat different environment means that we are forced to look for solutions to structure deals, and it makes it easier for everything to get back on track."

The passage of time itself tends to make the pieces fit together. For example, economic performance in the last six months has surpassed expectations. There is consensus that Spain will grow more than 2 % this year, as will Germany and the rest of the Europe. Only Brazil maintains a higher level of skepticism than Europe, perhaps because the Brazilian investment culture favors larger and more complex operations. At the same time, inflation is beginning to show signs of containment, so companies that have been able to successfully adapt their business model in this downward trend are in a good position to make the leap.

WHAT HAS BEEN THE MAIN STOPPER OF M&A ACTIVITY IN THE LAST 12 MONTHS?



In any case, the market continues to deeply scrutinize any opportunity before daring to take a risk. While there were sectors capable of attracting attention at the beginning of 2022, it has not been the case since the mid-2022. We've seen that the overall sector is of less interest than the evolution of individual companies, a trend we've seen particularly prevalent since the pandemic, as well as the key attributes of a hypothetical investment in the company. Many sources believe that the gap is about to close for family-owned companies in the middle-market range.

There is general consensus that alignment between buyers and sellers will only be achieved when interest rates and financing costs are predictable. "The essential issue is to see when inflation will curve, first in the United States, where there is beginning to be an atmosphere of greater optimism. In Europe we are somewhat behind, but in general we are beginning to see good signs," points out Pedro Pasquín.

September 2023 could be a crucial moment, otherwise, the window of opportunity would be delayed until at least December. Conversely, with the stock market regaining some degree of strength in most markets, few companies will be willing to accept a downgraded valuation due to rising discount rates. There are exceptional cases, in trending sectors such as energy, infrastructure, food or healthcare, where expected growth outweighs the implied risks. In general, it is necessary to complete the last curve before starting the final sprint for the recovery of large transactions.

"The passage of time itself tends to make the pieces fit together"

3. GOOD OPPORTUNITIES WILL ALWAYS EXIST

The rise of the Spanish stock market in recent weeks has suddenly awakened the M&A sector from its slumber, and many private equity funds have become curious. Some are starting to fear missing out on a more strategic move than was anticipated. Nevertheless, it appears inevitable that the first half of 2023 will turn out to be one of the periods of lowest investment activity in recent years.

Banks and funds have succumbed to the allure of 'standby.' Between January and March of this year, financial institutions have been particularly cautious with providing financing to funds. Financial institutions have ample liquidity and improved margins from the rate hike. Until they foresee the end of the of the increase in the yield curve, they will prefer to wait and see.

A stock market's surge has triggered this process. Additionally, there is good news in the United States, where the reversal of inflation seems to be consolidating. If this price cooling reaches Europe, investor interest would increase somewhat. The situation in Spain would be particularly favorable because of the high level of investor interest--even during the driest months. Spain's economy has remained particularly open, with dynamic sectors such as energy transition and infrastructure. The middle market segment remains highly competitive, many funds have put their holdings on the market and, in general, everyone seems to be waiting for the starting gun to fire.

Practically all funds are considering a very similar pipeline. They are particularly interested in countercyclical companies capable of growing without the need for heavy CapEx investments and are capable of leading their sector. It is likely that going forward we will invest less in specific sectors and more in specific opportunities, which would allow for better selection and risk reduction.

"Reading portfolio trends today is difficult with so many disruptions. The things we are looking at are companies that are growing, not capex intensive, product or cost leaders and at fairly cautious leverage levels," says Norberto de Portobello.

"Betting on companies with internationalized and scalable business models is essential, because you diversify the risk and because the dynamics are never exact from one market to another," emphasizes Gonzalo de Rivera of Alantra.

"I think this is all about buying good assets with good management teams," adds Leopoldo Reaño, Managing Director of DeA Capital.

Additional positive factors include having sufficiently diversified corporate sales, the use of technology in a differentiated way (with respect to end customers or competitors), and a mandatory, proven potential to generate new lines of business through innovation. On a country level, airport infrastructure and healthcare remain the most in demand in Brazil, while energy and technology startups remain attractive in Spain and much of Latin America. The top performers in Spain so far have been sectors such as biotech and healthcare, fintech (in terms of B2B business models), technology linked to artificial intelligence development and energy (particularly renewables).

Mexico seems to be the most unique case of all. Jorge León Orantes, partner of Santamarina + Steta, notes that since COVID, the main catalyst for mergers and acquisitions has been nearshoring (locating factories in neighboring countries), especially in northern regions such as Chihuahua, León and Tamaulipas, or Baja California. "Strategic acquisitions of U.S. companies are the most frequent, ahead of private equity. The Mexican government is attempting to encourage the emergence of industrial complexes by extending the radius to Oaxaca and Veracruz through the Isthmus train project and various business incentives. Chinese investors are also flourishing. There is obvious interest in the automotive industry, around the Tesla ecosystem, alongside electric mobility, medical services, transportation and aerospace industries, real estate investment, logistics, warehousing and fintech companies."

This is a vision that Orantes shares with Alejandro Carreño, partner at the law firm Chávez Vargas Minutti Abogados. “While the M&A slowdown has had a knock-on effect across the board, there are industries where other factors, such as nearshoring, have led to increased activity. Mexico has thus been able to leverage the advantages of its geographic position, along with the lessons learned from the COVID-19 pandemic,” Carreño states.

4. THE APPEAL OF SMALL BUSINESS

The strength and investment agility of SMEs have been major findings in the M&A sector since the pandemic. Some believe that these companies have benefited from caution in large transactions, as funds have focused on managing companies and channel their growth before considering possible divestments. This sought-after delay has meant that many investments are close to their ideal exit date, which may be an additional factor in the acceleration of the market in the short to medium term.

Of course, investments in small and medium-sized companies have many other inherent advantages. Among these advantages is the ease with which the specialization and skilled fund management can apply different operational levers, such as cash generation, to make the investment company more competitive. A similar effect can be seen with the digitization or modernization of companies. Private equity is adept at removing bottlenecks to ensure smooth transformation. With their involvement, it is easier to attract experts who can boost transformation and management capacity, or simply speed up decision-making.

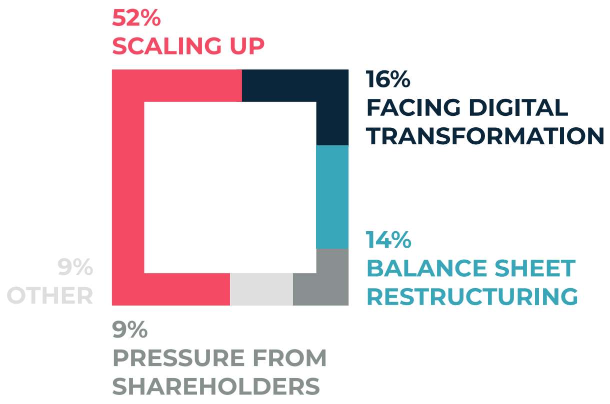
Mid-cap companies are experiencing their own golden age in attracting capital. However small companies are not far behind, even though their activities often go unnoticed. Gerard Garcia believes that despite its limited outlook, the small business sector holds the highest percentage of transactions, and he is convinced that its significance will continue to grow. He pointed out that in Europe there are 30 million SMEs, of which 3 million are located in Spain. They constitute an essential industrial fabric, and their capacity for growth means that their potential is attracting attention from more and more funds.

Among these investors, those of Latin American and Chinese origin stand out. By sector, they are particularly interested in industries and industrial assets, agriculture and everything related to technology, public relations or the Internet, such as companies specialized in digitizing processes, chip manufacturing or network operations. To all this, we must also add any fragmented sector in which there are opportunities for consolidation. The range of opportunities is endless.

5. THE NEED FOR GROWTH

Fifty percent of respondents to the iDeals survey are convinced that growth will always be priority in an M&A deal. Other classic factors include technological or sustainable transformation, the balance sheet or hypothetical problems among shareholders, but it seems clear that in any merger or acquisition the primary objective is to climb at least one step higher.

IN YOUR OPINION, WHAT IS THE BIGGEST DRIVER TO COMPLETE AN OPERATION?



In fact, almost everyone agrees that the pursuit of size will be one of the major catalysts as operations reactivate. During this period of impasse, funds have sought to improve the management and profitability of companies they had invested in during the previous boom. Funds also maintain a high volume of liquidity, and industrial companies are also willing to bid in order to further growth and refocus on new or complementary areas. With so much competition, recovery may happen when least expected, in what has come to be known as the champagne effect.

Most experts believe that funds will focus heavily on implementing these processes through consolidations and acquisitions. In a challenging landscape for companies, funds will concentrate on assigning value to their portfolios with consolidation one of the key strategies to achieve this. Buy & build will be simultaneously maintained, which will be strongly supported by streamlining processes, professionalization, and a focus on talent that has become widespread in most sectors after the pandemic. These processes are likely to continue to be much more selective, focusing on leading companies with good cash flow and in less cyclical sectors.

“In a challenging landscape for companies, funds will concentrate on assigning value to their portfolios with consolidation one of the key strategies to achieve this”

6. THE WEIGHT OF PRIVATE CAPITAL

If gaining size is the primary motivation, private equity transactions to gain a majority stake in a company remain the most common. As mentioned above, the iDeals survey finds that 78 % of respondents had closed a deal in the last 18 months, six out of ten maintained a private equity format in which private capital took control, and in two others it was limited to acquiring minority stakes. The remaining transactions were structured through IPOs or different types of takeover bids, from voluntary to delisting, to which we will delve into below.

If we look at a medium-term projection, almost eight out of ten respondents believe that private companies will continue to be the primary focus of investment. Regarding a hypothetical increase on further privatization of public companies, there is no clear consensus. Forty-nine of the experts consulted by iDeals believe that there will be no increase, 50 % think there will be, and only 1 % of undecided people prevent a tie between the two positions.

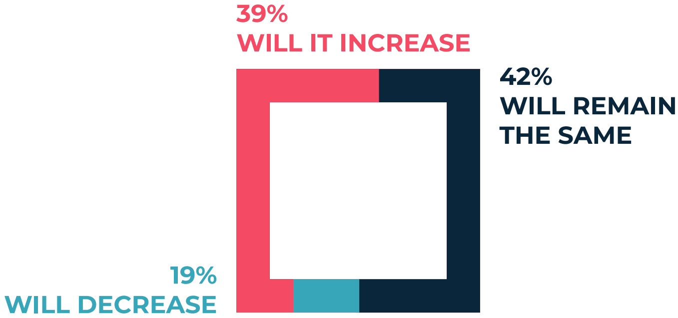
Similarly, eight out of ten respondents believe that private equity is poised to maintain or increase its prominence in the short to medium term. This is a significant finding, as it shows that the funds are able to keep up with the large industrial companies, which have also gained liquidity and have made it part of their roadmap to advance in growth and leadership in the sector.

In recent years, private equity funds have established themselves as the ideal partners to accompany and drive the transformation that companies are forced to face in order to adapt to an increasingly volatile and uncertain environment, and to the requirements of increasingly demanding stakeholders. This is acknowledged by executives who in recent years have worked closely with private equity funds. "From my point of view, private equity funds have gone from being EBITDA multipliers to generators of future value for the company, and for this it has been essential to achieve a good symbiosis between the owners of the companies and the executive teams," says Ignacio Silva, CEO of Deoleo, a Spanish company that operates in the olive oil sector.

In Brazil, the situation has proven to be slightly more challenging for private equity. According to GEF's partner in Brazil, "the last two years have been very hard for private equity managers, there has been little capital raising due to all the intrinsic noises in the country, so there are few funds with 'dry powder'. Those that have, have also been cautious waiting for a light at the end of the tunnel." Nonetheless, he is optimistic and points out that, "as soon as some of the positive indicators that are beginning to emerge, including higher interest in the mid-market, lower interest rates, and the greater weight of Brazil as an investment destination in the face of the doubts that others such as Russia and China are generating, are confirmed, there will be a rebound in private equity in this market."

Overall, very few people believe that this hypothetical upturn will bring about a greater significance of initial public offerings (IPOs). Going public is still considered a risk and a decision for the very brave or the very needy. The step generates suspicion from the outset, and any hiccups in the process could become a heavy burden for the months to follow. Experts continue to consider meticulous preparation of any public offering or underwriting as crucial. It is recommended to start at least six months in advance and to carefully choose the window of opportunity.

WHAT WILL BE THE WEIGHT OF PRIVATE EQUITY IN THE FUTURE M&A MARKET?



Not all companies have been able to maintain such a demanding pace for much time. An investment banker often insists on staying vigilant at all times, especially in the last week before the bell ringing, as much of the success or failure of the entire transaction will be decided in that time period. With these conditions, and assuming that things improve in September, it seems clear that an IPO with guarantees could only begin to take place around March or April 2024.

However, the industry currently seems to be more inclined toward delisting than going public. It may sound discouraging, but even the market itself recognizes the penalty of a high discount in share prices for remaining on the trading floor. This is because the price range is compressed somewhat exaggeratedly with respect to comparable companies not listed. In recent weeks there have been several examples of delisting on everyone's mind, and new rumors emerge about other possible candidates every week.

There are experts who have begun to draw attention to IPOs in other markets. The temptation to go public in the United States seems to have spread, although some experts assert should qualified. It is true that U.S. multipliers are higher than European multipliers, however being successfully listed in the United States means the company must always be focused primarily on the U.S. marketing. Otherwise, the chances of falling by the wayside increase dramatically.

"Eight out of ten respondents believe that private equity is poised to maintain or increase its prominence in the short to medium term"

7. CONTROL OF FOREIGN INVESTMENT

Since the pandemic, various governments have established mechanisms to defend their most strategic companies against possible opportunistic foreign investments. These mechanisms have generated some suspicion in the markets. On occasions, the suspicion of legal uncertainty has been used to suggest a hypothetical succession of divestments, or even to suggest that international investors would hesitate to engage in such additional uncertainty.

Xavier Foz is not convinced that the regulation of foreign investments has been a determining factor in the slowdown of M&A activity in Spain. Foz states that, "obviously, it introduces one more element of uncertainty that does not help in an already delicate market moment. In any case, given the generalization of FDI regulations at a global level, it is something that customers have already internalized. As for Spain, the interpretative ambiguity in some aspects of the regulation is not the best letter of introduction, but I would say that its positioning as an attractive market for foreign investment has not been particularly damaged for this reason." It remains to be seen how the market reacts to the reformulation of the so-called anti-takeover shield announced by the Spanish government in early July.

Armando Albarrán, partner at Freshfields in Spain, agrees with this approach, saying that, "in the last three years, the FDI regulations have generated a lot of work and a certain impact on operations, especially at the calendar level, although when we look at the data and analyze the transactions, the reality is that only one operation has been prohibited, while in other markets there are more cases of prohibition".

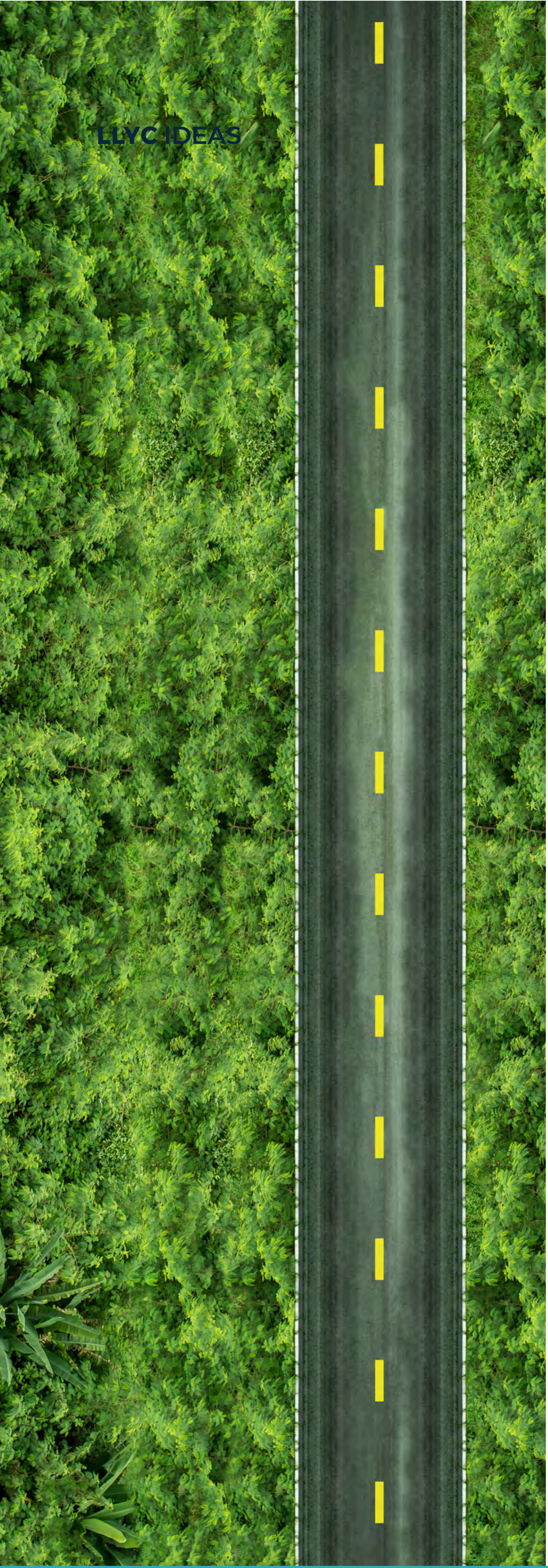
Experts agreed on the need to continue attracting foreign investment and the need for a favorable legal ecosystem. "Spain's challenge is to continue attracting foreign investors because, historically, there has not been enough local capital and we depend a lot on foreign investment to continue developing," concluded Albarrán.

According to Sebastián Albella, partner at Linklaters, the country's good direction depends on maintaining four characteristics inherent in the Spanish economy: stability, seriousness, openness and private nature. "This is what we must protect in order to send out a positive signal to foreign investment". He recognizes that, given the complicated world we are in, we must protect our economy and our companies, "but it is important that the regime is clear and predictable and that when necessary, as a rule, authorizations are granted diligently and without delays," says Albella.

Mónica Martín de Vidales, partner at Garrigues, agrees, stating that, "we must comply with the instructions and the implications of participating in the European Union, but we should move towards practical, realistic and efficient protection systems, not hyper-regulated ones, preventing decisions from being discretionary".

Mexico might be the most relevant case in this regard. According to Jorge León Orantes, the country does not have strong federal legislation, which hinders genuinely effective public policies that promote things such as renewable energies. "The Mexican market is probably the most complex in Latin America. Financing problems have depressed the capital markets. There is a national reform proposal to incentivize stock exchange listings, and some added attempt to promote public financing for M&A transactions. As they arrive, our market maintains opportunities associated with the demographic bonus or insurance. It is advisable to promote more global and multinational transactions, but also purely Mexican transactions".

"Experts agreed on the need to continue attracting foreign investment and the need for a favorable legal ecosystem"



8. NEWCOMERS: TRANSPARENCY AND SUSTAINABILITY

It is likely that the most significant finding of the iDeals survey is the high level of significance respondents assign to reputation. This can be seen as an additional step to the prominence of the ESG criteria, and even as a cross-cutting attitude that should extend to all corporate actions. Forty-three percent of those surveyed considered corporate reputation to be of paramount importance when it comes to successfully closing a deal. When adding the 39 % who attach some importance to it, we seem to be facing a key issue once the market is reactivated.

The industry recognizes the importance of sustainability, which often becomes the deciding factor in whether or not to complete a transaction. Transparent behavior toward the market, social partners and end customers could be become just as important as environmental, social and corporate governance. Compliance issues and anti-corruption measures will become mandatory in the Spanish and Latin American markets.

“Sustainability in some markets and for some products can be the difference between selling and not selling. It has a regulatory point but also a point of necessity,” confirms Leopoldo Reaño of DeA Capital.

WHAT ROLE DOES REPUTATION PLAY IN ASSESSING A TARGET IN AN M&A PROCESS?

CONCLUSIONS: THE OUTCOME OF COMMUNICATION

If we take the sector recovery expected at some point at the end of this year or throughout 2024 for granted, two major issues emerge from the opinions gathered for this report. The first is to select the optimal deal for each rational investor, and second is to communicate the deal to the markets in a well-reasoned and transparent manner. Both require an adequate period of study that established the objectives of the transaction, and what momentum is needed to carry it out. These are issues that each fund will have to articulate and resolve in either the short or medium term and require listening to the market in advance.

From the buyer's perspective, transparency and reputation management will be two essential intangibles. In fact, they are now considered by most people as being as tangible and measurable as a company's production or cash flow. If anyone thought that small-cap companies could relax in terms of communication and compliance, they should let go of that illusion as soon as possible and adopt well-argued compliance practices and an equity story capable of supporting corporate rationale once the investment has been made.

Having good partners is crucial in both personal and corporate journey. As recovery takes hold, very large, large, medium and small companies will enter the scene. Some experts suggest that we will not have to wait much longer to get back to past records.

In this expanding environment, private equity and industrial investors may find opportunities. At the same time, however, growing competition means that they are also faced with making the right choices and generating additional value from day one. This report has highlighted that digital transformation, energy transition and consolidations will be determining factors to breaking the inertia. Good communication can help in understanding and qualifying the underlying rationale, elevating a transaction to one of the best in the respective industry.

For the same reason, the three components of the ESG formula will continue to gain prominence. Going forward, no one will dare to ignore the environmental, social and governance implications of any transaction. Transparency and compliance with criteria for sustainability contribute as much, if not more, to reputation than corporate fundamentals. It is important not to forget that if there is one factor capable of transcending balance sheets and preventing potential corporate risks, it is typically good communication.

"Transparency and compliance with criteria for sustainability contribute as much, if not more, to reputation than corporate fundamentals"

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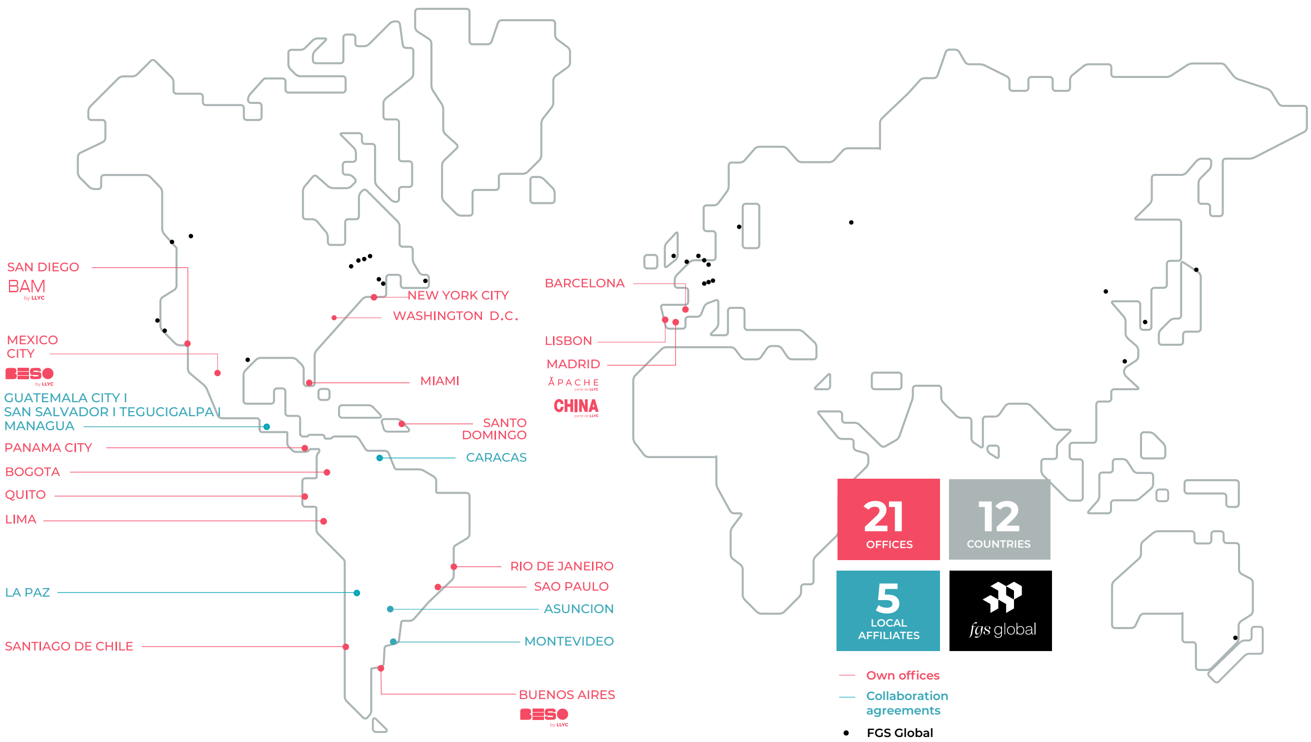

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