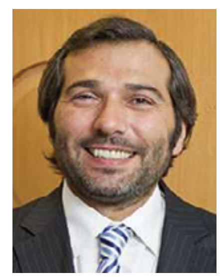
BDO KNOWS INTERNATIONAL PRIVATE EQUITY:
SPOTLIGHT ON ARGENTINA

Argentina's economy has struggled significantly in recent years, facing staggering inflation, anemic growth and crushing debt. But the 2015 ascension of the Macri government has brightened the country's outlook with the promise of economic reform, enhanced transparency and renewed international engagement. This optimism has spread to the international private equity community, with many PE firms eyeing investment opportunities in Argentina. **BDO USA's Fred Campos, managing director with the firm's Transaction Advisory Services group**, sat down with F**ernando Garabato, Corporate Finance partner with BDO Argentina**, to discuss their expectations for PE investment in Argentina. Here are some highlights from their conversation.

Fred Campos



Fernando Garabato

Campos: What investment trends are you seeing right now in Argentina?

Garabato: Argentina is becoming an attractive investment prospect, with many investors viewing the country with a new, optimistic perspective as a result of the arrival of the Macri government in December 2015.

The international community perceives Argentina's new government as more market-friendly, and that attitude will foster a business environment ripe with investment opportunities. The government has already taken steps to open up the economy and to improve its relationship with the United States. For example, President Obama visited Argentina in March 2016, the first visit by an American president in over two decades, which coincided with a conference of more than 800 CEOs from both countries.

Macri's government has also made economic strides, including settling long-standing conflicts with holdout creditors. Exchange rate restrictions have been lifted and capital can now flow freely following years of restrictive taxes implemented under the former administration that hampered both inflows and outflows. The government also eliminated all export taxes (other than those on soybeans), which is expected to improve the country's competitiveness globally, but will also add to the country's 2016 deficit.

All of these activities are generating confidence in the future of Argentina's markets. This new business-friendly environment opens up the possibility for increased investments originating from both the U.S. and China, as well as from other Latin American countries, including economic powerhouse Brazil.

In the automotive industry, investments in Argentina are already taking off. In April, Fiat announced it would spend $500 million in Argentina to kick off production of a new vehicle. Renault also stated it would invest around $100 million to add new models manufactured in Argentina. Mercedes-Benz is centralizing its Latin American office for van sales in the country, as well. Volkswagen, too, plans to spend about $100 million to upgrade its production plants in Buenos Aires province and Córdoba. Similar announcements from Ford, General Motors and Peugeot have also been publicized in recent months.

The massive consumer goods sector is also seeing increasing investment in Argentina, with Unilever planning to spend $320 million over the next three years in order to increase production capacity in all of its business lines: food & beverages, cleaning products

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and personal care. The energy sector has also experienced notable moves, with Axion Energy announcing a massive investment plan totaling $1.5 billion to increase the production capacity of its refinery plant in Campana, Buenos Aires province.

Which industries do you think will be most attractive to investors looking into Argentina?

Argentina has a lot of untapped potential for investment across a wide array of industries, especially now that foreign currency market restrictions and general distrust of the previous administration are no longer issues.

In the short term, it's likely that industries that can rapidly capitalize on current economic conditions will prove attractive to investors. This includes the agribusiness sector, which will benefit from the current devaluation of the peso relative to the U.S. dollar, as well as the reduction in export taxes. Following the elimination of energy subsidies that have been in place for over a decade, another potential investment target could be utilities. These investments are largely focused on the need to increase energy supply capacity, as well as the share of renewable energy in the power generation matrix.

In the medium term, telecommunications, transportation and logistics, and the auto industry may also entice investors. Infrastructure is likely to attract capital investment given that Argentina is in dire need of a number of revamped roads and bridges. More capital-intensive industries, such as energy and mining, require a significant amount of long-term committed capital, so investments in these industries may not materialize in the short term. However, the government is continuing to pass measures, including a recent reduction in taxes on the energy and mining sectors, in order to make such industries attractive to foreign investments.

What types of capital flows are you seeing coming into Argentina right now?

While capital flows have not begun to arrive in earnest, multinational companies are already indicating they are likely to invest in the near future. Recent investment announcements for large multinationals like Fiat, Telefónica and others could be precursors to the start of a large influx of capital. Regionally, we are working with companies from Brazil to explore opportunities in the chemical sector, as well as with local family offices interested in the pharmaceutical and construction industries. We expect these types of activities to continue as investors grow increasingly confident in the Argentinian economy.

What is the untapped market in Argentina or the next hot opportunity for PE investment locally?

As we discussed earlier, since Argentina´s economy has been closed for the last decade, a wide breadth of industries will benefit from a revived business environment. The electrical utilities sector has huge growth potential. Investments in this space have been postponed for years, and, depending on the risk appetite of investors, M&A activity here could skyrocket.

Local family offices are also beginning to increase their investments in our newly opened markets. In addition to pharmaceuticals and construction, we're seeing them invest in other businesses with long-term projections, including chemicals, agribusiness, banking and utilities. This type of investor has a lot of growth potential in Argentina, since most of the small family offices lack technical knowledge and work in an informal way—meaning there's quite a bit of untapped purchasing power we can expect to see more of as they grow more sophisticated as investors.

Anything else?

Overall, we believe the drastic changes in economic conditions and the business-friendly environment propagated by the new federal government will result in a more active M&A market. This recovery will be driven by the opening economy as well as by declining discount rates through a lower country risk premium. Until recently, high discount rates drove the valuations so low that sellers did not want to sell and buyers were not willing to take on the high risk. The improvement in the weighted average cost of capital will contribute to the increase in M&A activity. Furthermore, the current exchange rate makes it more attractive for foreign investors to acquire companies at attractive multiples.

Visits from international leaders like President Obama, Italy´s Matteo Rizo and France's Francois Hollande are signaling to the world that Argentina is implementing positive changes and is ready to step into the international investment spotlight.

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For more information about private equity in Latin America please see our BDO Spotlight with Bernardo Soto of BDO Mexico or our BDO Spotlight with Romina Lima and Vinicius Evangelinos of BDO Brazil, or contact:

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