Latinvex
Latin America Business News & Analysis

Vista Oil & Gas was the first SPAC (special purpose acquisition company) to go public in Latin America and the first oil and gas exploration and production (E&P) company to list in Mexico. (Photo: Cofemer)

Latham & Watkins partner Roderick Branch advised on the Vista Oil & Gas IPO. (Photo: Latham & Watkins)

October 11, 2017

Latin America Sees IPO Boom

The value of Latin American IPOs jumps fourfold so far this year.

BY JOACHIM BAMRUD

After two years of declines, initial public offers in Latin America are seeing a comeback.

So far this year, 16 Latin American IPOs have raised $6.8 billion, more than four times as much as all of last year, when the combined value of nine IPOs reached $1.5 billion, according to ***Latinvex*** research.

And there's still a pipeline of more than $8 billion.

The results this year stand in contrast to the 23 percent decline last year and 42 percent fall in 2015 following the record IPO year of 2014, when Latin American IPOs reached $16.3 billion.

Brazil accounted for nine of the IPOs, with a combined value of $3.9 billion, while Mexico accounted for five IPOs, worth a total of $2.3 billion. Argentina and Chile and accounted for two IPOs, while a Colombian company went public in Brazil.

The contrast with last year has been particularly clear in Brazil, which only saw one IPO in 2016 – the $243 million offer by medical services firm Alliar.

The increase in Mexico has also been impressive. Last year, five IPOs there raised a combined $820, or nearly three times less than so far this year.

Meanwhile, despite much expectations, Argentina has failed to generate any IPO boom so far. Only Despegar's $332 million offer last month, compared with two IPOs last year.

The top five initial public offers so far include the $1.5 billion offer from the Brazilian unit of French retailer Carrefour in July (the largest IPO in Brazil in four years), the $914 million IPO by Mexican tequila maker Jose Cuervo in February, the $650 million offer by Mexican private energy company Vista Oil & Gas in August, the $645 million offer by Brazilian low-cost airline Azul in April (after repeated delays) and the $485 million IPO by Mexico's Banco de Bajio in June.

VISTA MAKES HISTORY

The Vista IPO was particularly unique since the company didn't have business operations when it launched its offer, points out **Roderick Branch**, a partner with Latham & Watkins, which advised on the issue.

"Vista was a landmark, precedent-setting deal," he says.

It was the first SPAC (special purpose acquisition company) to go public in Latin America. "SPAC IPOs are common in the United States, and we've also seen a handful in Europe, but until Vista, there had been none in Latin America," Branch points out.

Meanwhile, Vista was also the first oil and gas exploration and production (E&P) company to list in Mexico. Latham & Watkins also represented the first Mexican energy company to go public, energy infrastructure venture IEnova, in its 2013 IPO. But before Vista, no stand-alone E&P-focused company had previously listed on the Mexican Stock Exchange -- although some Mexican conglomerates, such as Alfa, do conduct E&P activities within their umbrella, Branch points out.

SPACs are companies that raise funds through an IPO before they have any operations or assets. Typically, they are backed by a private equity firm and involve an experienced management team. In Vista's case, that was Riverstone, one of the world's largest energy-focused private equity firms, and a management team lead by **Miguel Galuccio**, the former chief of Argentina's YPF and an independent director of Schlumberger. IPO investors, then, are betting on the ability of the management team to conduct an initial business combination and steer the resulting operating business, with an aim to participate in the upside of the company's future growth.

"Vista was likely one of the most complex IPOs in the region," Branch says.

The typical IPO involves an offering of common stock. Here, the offering involved units consisting of Series A common stock and Series A warrants exercisable for Series A common stock to public investors. At the same time, Vista placed Series B common stock and Series B warrants with Riverstone and management, and agreed to sell a future tranche of Series A common stock and Series A warrants to a private investor to support the future initial business combination.

As in most SPACs, public investors also have the right to vote to approve the initial business combination, at the time it occurs, and to choose to have their Class A common stock redeemed, if they wish. And there were provisions governing the timing and other conditions for the exercise of the Series A warrants, and the conversion of the Class B common stock.

At the same time, there was a whole set of operating and management agreements between the company, the Sponsor and the management team relating to the operation of the company prior to and through the initial business combination.

“Most of these agreements were drafted without precedent in Latin America, and it was all done in 8 months, a short timeline for any initial offering,” Branch says.

The distribution structure was typical, with private placements in the United States and elsewhere around the world outside Mexico and a simultaneous public offering registered in Mexico.

“But the company’s status as a SPAC added extra complexity,” he says. “For example, the company and Mexican counsel had to seek a special status from the Mexican securities regulator, since it was not able to fulfill certain financial and other requirements given that it had no operations at the time of the IPO. And because, as in most Mexican offerings, a large part of the Mexican investors were Mexican pension funds, the company and Mexican counsel sought an interpretive ruling permitting the IPO to move forward, which would normally have been impossible given that Mexican pension funds have been prohibited, historically, from holding warrants.”

But Branch points out that the Vista IPO is another example of the success of Mexico’s recent energy liberalization.

“Vista’s IPO proves that Mexico’s energy reforms are working,” he says. “It set a precedent for other energy companies focused on E&P and demonstrated that there is great investor appetite in the sector.”

PIPELINE

A major IPO will be the one planned by Brazilian investment broker XP Investimentos, which could raise as much as $1.9 billion, according to a projection earlier this year.

And in August, Neoenergia SA’s shareholders voted to take Brazil’s No.1 power utility public, setting the stage for what could be Brazil’s largest initial public offering (IPO) this year, Reuters reports.

Meanwhile, there are several IPOs in the pipeline in Argentina, including Loma Negra, Genneia, Cañuelas Mill, Central Puerto, Corporacion America and TGLT.

According to Bloomberg, five companies alone plan to raise as much as $2.8 billion.

There are also several technology companies that are planning IPOs as a result of the success of offers by Despegar, Globant and MercadoLibre, according to **Dan Green**, Co-Chair of the Latin America practice at Silicon Valley law firm Gunderson Dettmer, which advised Despegar.

“Argentina's technology company ecosystem is arguably the most mature in Latin America and we expect to see a number of later stage technology companies based in Argentina -- many of which have regional or global operations -- consider an IPO in their strategic planning in the coming year,” he says. “U.S. investor appetite for Latin America has grown and there are now a handful of U.S. publicly traded technology companies based in Argentina -- MercadoLibre, Globant and Despegar -- that will serve as reference points for other IPO candidates in Argentina. Argentina's current government under President **Mauricio Macri** is supportive of the technology and VC ecosystem and has passed legislation to facilitate startup formation and promote greater VC activity which will result in longer term growth in technology companies.”

Also in Brazil, there are a growing number of technology companies that want to pursue an IPO, Green says. “They include a number of companies in the financial technology sector, which is currently the most active area of VC investment, as well as consumer Internet and mobile services companies,” he says. Encouraged by the recent public offerings of Netshoes and Despegar, most of them have ambitions to list their companies on U.S. stock markets which are perceived as having greater liquidity, higher trading multiples and more prestige. Brazilian companies are also helped by the increasing political and economic stability in Brazil, which helps to make investors more comfortable. Inflation is down this year, and GDP growth is expected to be modestly positive for 2017, following several years of GDP decline. Interest rates are also down in Brazil, which is motivating many local investors to seek greater returns in the stock markets.”

In Mexico, Green doesn’t see any technology IPOs until the next two or three years.

CANCELLED IPOs

However, there have also been cancelled IPOs this year worth more than $4 billion in combined value.

Mexico-based Alfa announced late last month that it had scrapped its planned IPO for its Sigma food unit. It originally had aimed at raising as much as 8.53 billion pesos ($1.04 billion), according to an earlier report from Reuters.

Early this year – in February -- Caixa Econômica Federal announced that its plans to list insurance and annuity unit Caixa Seguridade Participações were suspended for an indefinite period to help the state-controlled bank focus on a turnaround at the subsidiary. One projection estimated it could have raised $2.3 billion.

Other IPO cancellations include Peru-based IC Power ($350 million), Brazil-based Intermedica ($322 million), Brazil-based Tenda ($192 million) and Argentina-based Bioceres ($81 million).

OUTLOOK

While investor appetite is growing in Argentina, Brazil and Mexico due to recent economic reforms in the first two countries and energy reforms in the latter, the outlook remains uncertain in both Brazil and Mexico, which are facing presidential elections in October and July next year, respectively.

In Brazil, the race remains wide open, according to Bloomberg, although some analysts tell Forbes they expect a market-friendly candidate to win.

In Mexico, the frontrunner is leftist **Andres Manuel Lopez Obrador**, who has threatened to undo the historic energy reforms. The ruling PRI Party, however, has yet to nominate a candidate – although there is growing speculation that the party may choose Finance Minister **Jose Antonio Meade**, a widely respected official who has served in governments of both PRI and the opposition PAN party.

Mexico is also concerned about the impact of a US exit from the North American Free Trade Agreement, as President **Donald Trump** repeatedly threatens.

"Generally, the outlook is positive," Branch says about IPOs in Mexico. "There are some question marks, of course. Will NAFTA be renegotiated? What will be the effect of the upcoming presidential election? Nevertheless, we continue to see a great deal of activity and growth, not only in Mexico, but in the region generally."