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FEATURED Q&A

Are Latin American Assets Selling at 'Fire Sale' Prices?

Q As economic growth continues to lag and costs of borrowing increase, Latin American businesses are operating under increased pressure to generate cash flow needed to meet debt payments, ratings agencies have warned. More companies are launching debt restructuring initiatives, asset sales and mergers as a result. What is the outlook for mergers and acquisitions in Latin America over the next year or two? What sorts of new funding mechanisms and trends are emerging from this latest economic phase in Latin America's development? How much appetite do investors have for risk in assets of Latin American countries, as compared to other parts of the world this year? Which of the "multilatinas" will come out of the current economic cycle in best shape?

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Excerpt from pp. 3-4

A Steven T. Kargman, Founder and president of Kargman Associates in New York:
"From a restructuring and insolvency standpoint, there is likely to be a continued rise in out-of-court and judicially supervised

restructuring activity as businesses throughout the region face cash flow challenges in servicing outstanding debt. For Latin American corporations whose debt is denominated

"Tried-and-true distressed debt strategies in the United States can be much more daunting to execute in emerging market economies."
— Steven T. Kargman

in dollars, a strengthening dollar will only exacerbate these challenges. The challenges Latin American corporations face may present opportunities for foreign investors looking to purchase relatively cheap assets, although investors in commodity-based businesses will need to have a certain level of comfort as to whether commodity prices have bottomed out. Nevertheless, while corporate distress typically provides attractive opportunities for investors in distressed debt, investors targeting opportunities in the debt of financially troubled Latin American corporations must proceed with caution since the restructuring/insolvency landscape in Latin America can pose greater challenges than in the United States and other developed economies. Tried-and-true distressed debt strategies in the United States can be much more daunting to execute in emerging market economies. In Latin America, insolvency laws are less developed and less tested, and judicial systems can be much less hospitable than in developed economies. This is particularly true if an insolvency case ends up in a court located in an outlying area as opposed to a major city where there may be more judges with expertise in commercial law and insolvency law who are better equipped to handle complex cases. Furthermore, strategies carried out in insolvency proceedings that do not have the blessing of the debtor—and especially its controlling shareholders—may well face serious obstacles, since the debtor and controlling shareholders may be able to exert significant control over how insolvency proceedings will proceed and how they are resolved. Investors must have a detailed understanding of the specific insolvency laws of individual jurisdictions—and particularly how those laws are applied in practice—so that they can decide whether their favored investing strategies, which may work in more developed jurisdictions, will also work in Latin America."