Growing beyond Latin America

Global Mining & Metals

Profile of respondents

Time to tune in draws upon a survey of 600 business executives based in Argentina, Brazil, Chile, Colombia, Mexico and Peru. Among the respondents, 29% were from Brazil; 24% from Mexico; 13% each from Argentina, Chile and Colombia; and 10% from Peru. Among the companies surveyed, the reported minimum annual revenues were: 25%, US$1b or more; 20%, US$500m to US$999m; 9%, US$250m to US$500m; and 46%, under US$250m.

About this survey

In this report, we explore key elements for successful expansion by international companies into the region, and by Latin American companies expanding beyond their borders. We look at the areas identified for expansion, the need to find the right partner, and ensuring you have the right people in place to enable successful expansion. The report contains challenging and thought-provoking insights for all businesses that are developing Latin American growth strategies.

Time to tune in is also based on qualitative interviews conducted between January and March 2013 with several EY sector and country leaders, leading economists, and senior executives of companies based in Latin America’s six most important markets. Oxford Economics provided analysis of current and predicted trade flows between Latin American markets and the rest of the world.

Mining and metals companies growth trends

This fast-growing region is now moving into the spotlight – and it’s not the Latin America you used to know. Increasingly, the region is being targeted for inbound investment, this is partly due to the scale of opportunity where much of the region is yet to be subjected to vast exploration and partly a result of the relative attractive legislative and regulatory environment of countries such as Chile, Peru, Colombia and Mexico that are well positioned to supply the North American market.

Historically, Latin American mining and metals companies’ expansion beyond the region itself has been muted and global companies have not perceived Latin America as a global player. However, this is changing rapidly, and companies need to get ahead of the curve to best position themselves to respond to this.

Despite the strong growth prospects in Latin America, the region has not been immune to the general slowdown in overall mining and metals M&A activity. However, activity with companies seeking opportunities outside of their borders has increased substantially, with inter-regional activity strongly demonstrating this trend.

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Key trends

- The United States, Canada, China and Argentina are the most attractive outbound investment destinations, according to survey respondents. Apart from these countries, other Latin American countries predominated.
- A critical challenge to expansion was identified as finding the right investment partner, which is often critical to the success of an investment.
- As companies expanded over the border, they saw a growing need to seek senior management that was more representative of their new strategic and operational model.

As an investment destination, Latin America offers huge opportunities for mining and metals companies although local and regional regulation and legislation can be challenging, together with sizeable infrastructure needs. Also, anti-mining sentiment continues to proliferate against a backdrop of community, climate change and natural environment concerns. This makes achieving and maintaining a social license to operate (SLTO) a challenge. The key to both is communicating the value through the concept of shared value. The sector’s understanding of the potential of shared value is encouragingly in its infancy, suggesting a real opportunity for addressing SLTO. Overall, the opportunities in Latin America are vast, and often finding the right local partner can best position companies looking to invest to navigate these challenges.

Source: ThomsonONE

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**Recommendations for global companies**

Companies that understand where, how and why companies from Latin America are expanding can prepare to seize opportunities rather than risk falling behind. To prepare, we recommend the following actions for global companies:

| Seize strategic partnership opportunities | ▶ Beyond direct exports, forging partnerships will be the preferred mode of entry  
▶ Identifying reliable business partners with local knowledge of the market is seen as key  
▶ For a domestic company, a strategic partnership will bring an international perspective they seek to become global players  
▶ A strategic partnership can offer infrastructure support that is, at times, lacking in emerging markets  
For those with complementary offerings, partnerships could also serve as a way to gain a foothold in Latin America without the risks of an acquisition. |
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| Watch for a possible shift in methods of sourcing talent | ▶ Corporate boards that are more representative of global markets will be needed, as well as, the need to recruit talent locally  
This could present opportunities for global and mature-market companies to provide the international outlook and diverse leadership perspectives essential to take an international expansion strategy forward. |
| Understand the importance of corporate culture | ▶ Ensuring cultural compatibility is important as many companies tend to replicate their corporate culture when expanding into new markets  
▶ Understanding cultural differences between Latin America and mature markets will be critical for effectively partnering or doing business with companies from these regions  
▶ Understanding and building top management’s knowledge of global markets, local culture and ways of doing business is key  
Global businesses will need to familiarize themselves with the varying ways of doing business across Latin America and understand how this relates to their own corporate culture or the integration of potential partnerships. |
| Prepare for Latin America’s entrance into several markets | ▶ Large Latin American global companies will forge strong connections with Asia and Africa  
▶ Latin American companies recognize the importance of China and India where these nations drive demand and act as economic and business partners  
Global companies with operations in one or more of these regions of the world could have the most to lose or gain from the entrance of Latin American companies. |
| Consider tax and regulatory challenges | ▶ International expansion can lead to significant regulatory and tax complexity, being prepared to manage higher levels of complexity is important  
▶ Mining and metal companies will need to negotiate with governments to secure mining tax stability agreements to protect their investments  
▶ There will be a need for understanding various jurisdictions and navigating possible local, regional, state and federal tax codes, as well as understanding special tax incentives and grants that may exist  
A non-Latin American global company with a strong grasp on varying tax and regulatory rules of the developed world may have a lot to gain by partnering with Latin American companies entering into new mature markets.  
The reverse also holds true; while most non-Latin American companies still fear to tread in Venezuela and Argentina, some Latin American companies have entered these uncertain markets and could be valuable partners. |
Where growth opportunities reside

The top two markets where the best growth opportunities exist for Latin American companies are in North America and Asia. However, 7 of the top 10 markets identified as growth opportunities are within Latin American itself, primarily because most companies would prefer to follow the opportunities in their home region where the cost and way of doing business is well understood. In 2012, intra-regional M&A deals in the mining and metals sector accounted for the largest by value at US$7,092m or nearly 50% of total Latin American deal value. Mexico was the most targeted by deal value, followed by Chile, Argentina and Colombia. By volume, inbound deals (105 in 2012) still outnumbered intra-regional deals (23 in 2012), indicating that Latin American miners are up against stiff international competition for key assets in their own backyard.\(^1\)

Finding the right partner

Identifying reliable business partners can be a challenge for mining and metals companies, however, if achieved this can add significant value to an investment decision.

Working with partners is becoming an increasingly popular business model for managing risk across a portfolio in a climate of lower returns and a contracting capital raising environment. Bringing in a partner enables mining and metals companies to reduce the amount of capital allocated to projects, especially those with large infrastructure needs, while maintaining their involvement. Furthermore, partnering allows capital constrained project owners to share the associated risks of new development projects, including scale and complexity.\(^2\)

The right joint venture can optimize these to shape a dynamic, long-term growth strategy for a project. And with new accounting standards for joint arrangements, it’s important to ensure the same level of transparency and compliance. Finding the right partner is very important when so much is at stake – such as an organization’s financial contribution, growth prospects and social license to operate.

Changing for success

As the mining and metals business environment changes, so does the need for different skill-sets within the sector. In the current market, management are focused on cost optimization, productivity improvement, capital planning. In a climate where managing stakeholders, including governments, is increasingly important, companies are seeking management with the skills and strategic thinking to meet these challenges. This starts at the very top with the makeup of the board, as well as C-suite and middle management.

Identifying and appointing senior management with an international skill-set and business environment understanding will enable Latin American organizations to set expansion strategies in line with the markets into which they are entering. This includes filtering an evolving corporate culture through all ranks of the organization.

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About EY’s Global Mining & Metals Center
With a volatile outlook for mining and metals, the global sector is focused on cost optimization and productivity improvement, while poised for value-based growth opportunities as they arise. The sector also faces the increased challenges of changing expectations in the maintenance of its social license to operate, skills shortages, effectively executing capital projects and meeting government revenue expectations. EY’s Global Mining & Metals Center brings together a worldwide team of professionals to help you succeed – a team with deep technical experience in providing assurance, tax, transactions and advisory services to the mining and metals sector. The Center is where people and ideas come together to help mining and metals companies meet the issues of today and anticipate those of tomorrow. Ultimately it enables us to help you meet your goals and compete more effectively.

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