



Investing in Latin America:
Packaging executives share insights,
opportunities, and challenges





For decades, Latin American countries have been a promising venue for global companies seeking to leverage the region's rich natural resources, low-cost labor markets, and, more recently, expanding consumer markets. In the wake of the global recession, consumer goods companies have been investing in Latin America. They are attracted to the growth potential that is largely driven by the emerging middle classes, who are becoming major consumers of prepared foods, personal care goods, and electronics.

Packaging company executives who are considering following their customers, or see advantages to expanding their own Latin American presence, can benefit from the experiences of businesses already operating there. In this point of view, executives from four companies that are capitalizing on opportunities in the region today share their insights about the reasons they have invested in Latin America, challenges they have encountered, and their views on the future of packaging industry opportunities in the region.

Owens-Illinois, Inc.



Joe Juarez
Global Director of Corporate Development

Owens-Illinois, Inc (O-I)

Information for the year ending December 31, 2012

Description	Owens-Illinois Group, Inc., through its subsidiaries, manufactures and sells glass containers primarily in South America, Europe, North America, and Asia Pacific. As a leading glass-packaging maker, O-I creates recyclable glass containers for many of the world's best-loved brands.
Year Founded	1903
First Investment in Latin America	1958
Global Locations	79
Locations in Latin America	13
Total Revenue (Dollars in millions)	\$7,000
Revenue in Latin America (Dollars in millions)	\$1,252

Owens-Illinois (O-I) entered the Latin American market in 1958 through a joint venture in Brazil and subsequently expanded its presence in the region through a mixture of organic growth and acquisitions. Today, the company operates 13 plants in the region producing distinctive glass containers.

O-I has a very long-term investment time frame in Latin America. "We've been here so long we're considered locals," said Joe Juarez, the company's global director of corporate development. The region continues to be an attractive, high-growth market for O-I, with favorable consumer trends. "In particular," Juarez highlighted, "returnable glass is the most economical packaging available relative to plastics or cans."

A key to the company's Latin American success is strong relationships with local partners. "A lot of our investments have started off as joint ventures," he said. "The partners help us learn the landscape, and we are then able to develop our own networks, relationships, and reputation. We have local management and use local advisors who help us address cultural, legal, and operating issues that a multinational which hasn't been in a country can encounter."



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— Joe Juarez

Brazil has been the focus of the company’s Latin American M&A activity in recent years. With strong bases in Rio de Janeiro and São Paulo, O-I expanded its footprint in 2010 by purchasing CIV, the leading glass container producer in the country’s fast-growing northeastern region.

Juarez stresses the importance of a company understanding the assets it’s buying in a merger or acquisition. “You can get something like CIV with the most modern technology,” he said. “Or, you can acquire a less sophisticated operation, which may have machines that are not as advanced and in which labor is a big component of the costs.”

Companies exploring Latin American expansion will need to consider a variety of tax, regulatory, and operational issues that may arise. For example, Brazil regulates capital flows such that companies starting from scratch must bring money in, which is subject to taxation.

M&A transactions can also be affected by nuances in Brazil’s legal system. While companies acquiring assets in the U.S. only take on the assets they choose, in Brazil certain liabilities often follow the assets, regardless of whether the shares actually change hands. “Potential acquirers in Latin America should be aware that if they buy a business with certain contingent liabilities, particularly tax, environmental, and social security liabilities, they won’t be able to structure around them,” Juarez said.

Acquirers also will encounter differences in U.S. and Brazilian regulatory environments. For example, until recently, it was customary for antitrust review to continue after a transaction had closed. Brazil recently streamlined the review process to allow approvals to occur prior to closing, often enabling the buyer to no longer assume full risk. Factors

such as these make it critical to have advisors who know the lay of the land and can understand, define, and size the risk, especially in middle-market transactions. “If you’re dealing with a middle-market company in Brazil, I highly recommend you advise the sellers to not only obtain counsel, but also secure M&A advisors to help them understand that the requests you’re making are not out of the norm,” Juarez said.



Pactiv LLC



John McGrath
Chief Executive Officer

Pactiv LLC

Information for the year ending December 31, 2012

Description	Pactiv LLC focuses on producing and distributing high-quality foodservice packaging products. Their product lines today include custom and stock foam, plastic, aluminum, pressed-paperboard, PE coated board, and molded-fiber packaging.
Year Founded	1999
First Investment in Latin America	2002
Global Locations	54
Locations in Latin America	3
Total Revenue (Dollars in millions)	\$3,851
Revenue in Latin America (Dollars in millions)	\$136

Pactiv LLC, a leading global manufacturer and supplier of food service disposables and food packaging, took majority ownership of Mexico-based Central de Bolsas, S.A. de C.V. (Jaguar Corporation) in 2002.

Pactiv acquired Jaguar, a leading thermoformer of high impact polystyrene (HIPS) for cold cups and plates and polystyrene foam for foodservice and food packaging, with the aim of achieving long-term benefits in two key areas. First, Jaguar could serve as a low-cost manufacturing source for products to supply its U.S. customer base. Second, it could offer a solid foundation for taking Pactiv's U.S.-manufactured disposable food packaging products into the fast-growing Mexican market.

"We had participated in Mexico through exports from our regional mixing center in Texas," said John McGrath, chief executive officer, Pactiv LLC. "With Jaguar, we recognized an opportunity to continue making certain products there and exporting them back to the U.S. for sale by our consumer group. With the emergence of the middle class and the growth of supermarket chains in Mexico, we also saw the demand for packaging products expanding there, so Jaguar could be an asset in Mexico through which we service those growing accounts.

"This two-phased approach amounted to seeding the Mexico market with product exports," McGrath continued, "then, when that operation achieved a certain size, investing in the country. We had talked to Jaguar over the years, so they were on our radar. The addition of Jaguar's HIPS product line expanded Pactiv's already broad array of offerings."

McGrath notes several challenges for Pactiv in the Jaguar acquisition. "Initially, the deal was structured as a joint venture with Pactiv having majority ownership. Later, we bought out the former owner," he said. "Had we the opportunity to do this over, we probably would have looked to buy the asset all at once. But this was our first venture into Mexico, so we proceeded a bit cautiously."

“The advice I’d offer is to truly understand why going into Mexico or any other foreign country makes sense for your business.”

– John McGrath

Like other companies entering a foreign market, Pactiv faced language issues. These issues were addressed by placing Spanish-speaking personnel in key positions from the outset. Beyond language, differences in distribution approaches in Mexico and stateside also had to be addressed. “In the U.S., packaging products move into the market pretty efficiently, either on a direct basis or through a distribution network,” McGrath said. “Mexico doesn’t have big food service distribution companies like the U.S. It’s a fragmented market with a lot of redistribution. You may sell to one large wholesaler, who then sells to a distributor, who sells to another smaller distributor before the product actually gets to the end user.”

McGrath credits careful due diligence as an important factor in the success of its Jaguar acquisition. As for what the company might have done differently in hindsight, “We could have expanded capacity a bit quicker,” he said. “Initially we ran the business out of one facility, so we might have looked to broaden our geographic reach sooner with assets elsewhere.”

“The advice I’d offer is to truly understand why going into Mexico or any other foreign country makes sense for your business,” McGrath concludes. “Is it just about

growth, or is there a strategic endgame? We’ve had exceptional growth in Mexico, and it continues to be very strategic to us. The middle class, which ten years ago was a very small portion of the overall population, continues to grow and emerge. Those people have started dining out more frequently and are shopping for prepared meals and prepackaged foods in the supermarkets as opposed to buying their food fresh in the market every day. As a result, the need for packaging is growing at a much faster rate than the overall economy. We’d like to continue to grow our business there, whether it be getting into new categories and products or just expanding on the base we’ve already developed.”



MeadWestvaco Corporation (MWV)



Bob Beckler
Senior Vice President
of MWV and
President MWV Rigesa

MeadWestvaco (MWV)

Information for the year ending December 31, 2012

Description	MeadWestvaco (MWV) is a global packaging solutions company serving the world's premier consumer products brands in the healthcare, beauty and personal care, home and garden, food, food service, beverage, electronics, tobacco, and commercial print industries.
Year Founded	Mead Corp: 1846 Westvaco Corp: 1888 2002: Mead Corp. merged with Westvaco Corp.
First Investment in Latin America	1953
Global Locations	125
Locations in Latin America	15
Total Revenue (Dollars in millions)	\$5,459
Revenue in Latin America (Dollars in millions)	\$655

MWV entered the Latin American market in 1953 with the purchase of Rigesa, a Brazilian packaging company founded in 1942. Today, MWV Rigesa operates as an integrated platform with four corrugated packaging plants, a paper mill, and a productive forestry division.

MWV bought Rigesa as part of a long-term strategy to build a broader paper and packaging business. During the mid-1950s, the company established a forestry division in Brazil and began conducting R&D around forestry, as well as acquiring land and planting productive forests. These early moves created a platform for growth in paper and other types of packaging and provided a major growth engine in Latin America.

MWV's Latin American expansion over time has been primarily organic and focused on corrugated packaging. Today, market trends — notably the outsized growth of Brazil's middle class — are expanding the company's view of its business.

“It’s risky to dive into manufacturing without a good understanding of the market, so investing upfront in a strategy to get your foot in the door is a smart approach.”

— Bob Beckler

"Along with having a clear growth strategy for our corrugated business, we see tremendous upside in food and beverage and home, health, and beauty," said Bob Beckler, senior vice president of MWV and president, MWV Rigesa. "The expanding middle class in Brazil is increasing demand for product quality and convenience. That translates directly into premium packaging, which plays into our strategy of providing sophisticated solutions that support our customers' branded offerings."

MWV is focusing on products offering the highest return to help boost margins in its home, health, and beauty business. To that end, the company is exiting the beauty and personal care folding carton business in Brazil and repurposing operations to manufacture high-value, differentiated dispensing products. "Our goal is not to be the largest packaging provider in Latin America," Beckler said, "but to be the leading provider of packaging that helps our customers be distinctive on the store shelves."

Beckler notes that MWV continues to look at the Brazilian market across a long-term horizon, focusing on the trajectory of the business rather than short-term ups and downs of the market. "You have to operate with a long-term perspective," he said. "Like other South American countries, Brazil can present complex tax and labor regulatory environments and competitive challenges as it matures."

Productivity can also be an issue. While unemployment is low in Brazil, transportation infrastructure, industry automation, and workforce education and training are potential constraints to growth. With such constraints in mind, Beckler offers this advice to companies considering entry into Latin America: "It's risky to dive into manufacturing without a good understanding of the market, so investing upfront in a strategy to get your foot

in the door is a smart approach," he said. "Entry options can include forming partnerships or importing products into the region to shake up the markets and build critical mass. Whether a company enters the market through an organic development project or an acquisition, it's a good idea to overweight human resources at the outset, rather than realize halfway in that you're behind and have to catch up."

On the future of the region, Beckler is confident. "Latin America is an interesting place in which to operate," he said. "I think you won't see the kinds of growth rates that China and India have today. It's likely to be a little more tempered because the markets are more mature in some cases. But there are still very rich opportunities overall if you look at the dynamics, the upside, and have a long-term perspective."



Tredegar Corporation



Tredegar Corporation
Kevin O'Leary
Chief Financial Officer,
Vice President, and Treasurer

Tredegar Corporation

Information for the year ending December 31, 2012

Description	Tredegar Corporation is a global manufacturer of plastic films and aluminum extrusions and employs over 2,000 people at more than 15 locations throughout North America, Europe, Asia, and Latin America.
Year Founded	1988
First Investment in Latin America	1992
Global Locations	18
Locations in Latin America	2
Total Revenue (Dollars in millions)	\$882
Revenue in Latin America (Dollars in millions)	\$123

Tredegar Corporation has had a presence in the Latin American market for several decades, with film products operations in Brazil. In 2011, the company significantly expanded its operations through the acquisition of Terphane Holdings LLC, a leading manufacturer of specialty polyester films with facilities in Brazil and the U.S.

Tredegar, a global manufacturer of plastic films and aluminum extrusions, was looking for market and geographic diversification when the opportunity to acquire Terphane Holdings arose. "It was a timely coincidence," said Kevin O'Leary, Tredegar chief financial officer, vice president, and treasurer. "It had characteristics that fit well with our acquisition criteria, including strong long-term growth potential and an attractive level of profitability as well as giving us a much larger presence in Latin America."

Like other companies entering Latin America, Tredegar saw the region's expanding middle class as an important growth driver. "As flexible packaging becomes more prevalent and a more attractive, upscale product set, we believe people will continue to move up the value chain," said O'Leary.

"It's critically important to build relationships with the local team, spend time where the company operates, get to know the people, and gain their confidence and trust."

– Kevin O'Leary

Part of Tredegar's approach to evaluating the deal's potential was to determine if there was a cultural match with Terphane. "We did a good assessment of that, and are comfortable with the fit," said O'Leary. "In addition, it was critical for us to integrate Terphane without interfering with its successful business model."

According to O'Leary, having talented local counsel and advisors was vital to the transaction's success. "It was important for us to have feet on the ground not only in Brasilia, the nation's capital, but also in Recife and Cabo de Santo Agostinho where the Terphane plant is located," he said. "The regulatory environment in Brazil, including the interplay between local and national regulations, can be difficult to navigate. Regulations are nuanced, which can create opportunities as well as challenges. One of the biggest pluses for us in the transaction was focusing on the local aspect of the regulatory environment and securing significant potential benefits."

O'Leary suggests that companies considering similar investments spend a meaningful amount of time on the ground. "It's critically important to build relationships with the local team, spend time where the company operates, get to know the people, and gain their confidence and trust."

And, O'Leary says, so is a view of the long term. "It can be a challenge for countries in developing regions to effectively manage rapid growth, which can lead to economic upsets along the way. We are very focused on driving our business through growth in emerging markets, particularly Latin America. Our view is that the long-term growth opportunity in Brazil is significant and this is where we need to be."





Closing considerations

The conversations with these four executives reinforced several consistent themes that Deloitte has encountered while advising clients on investments in Latin America. Here's a list of best practices that may be helpful for packaging companies that are considering entering the Latin American market:

Remember that relationships matter — a lot. Particularly in dealing with family-owned companies, building relationships is often an essential precursor to any transaction. Spend time getting to know the owners and provide them with a good perspective on plans for the business. This may be especially important in Mexico, where business owners may not think of selling until overtures have been made by several potential suitors.

Recognize that similarities exist, but each country is very different. Nuances between countries can have a sizeable impact on a company's approach — for example, Portuguese being spoken in Brazil rather than the Spanish that is spoken elsewhere in the region. It is important to understand where customer growth is occurring, the specific types of packaging products that are prevalent in that market, and other factors that may influence how a company strategically positions itself to enter the market. Furthermore, while Mexico and Brazil represent the largest population centers, don't overlook the solid growth potential in other attractive markets, such as Colombia, Peru, and Chile.

Have the right people on the ground. Whether enlisting an internal team from established operations in the country, leveraging a joint venture partner, or engaging an advisor, a vital step is to understand the market in advance of a deal. Many companies that have enjoyed success in the region consistently invest a significant amount of time upfront in these activities.

Prepare for incomplete information. Latin American companies may lack sophisticated management practices, information systems, and internal controls when compared to businesses in more developed countries. In such cases, due diligence is especially crucial.



Understand the difference in accounting treatments.

Local standards are typically more open to interpretation than U.S. GAAP or IFRS. Don't be surprised to find inconsistencies in the treatment of revenue recognition, contingent liabilities, accruals, and other areas that may result in significant diligence adjustments.

Get the integration right. Whether it's an organic investment or an M&A process, six months to a year or longer of preparation will likely be needed ahead of day one. Starting the integration process early is important in any deal, but it's especially vital when crossing borders, cultures, and legal environments.

Beware of overvalued deals. Many companies in Brazil have enjoyed exceptional growth because of the 2014 World Cup Soccer and 2016 Olympics events. As a result, they may be priced at a premium compared to other businesses in the region. The question is whether that growth, and therefore, the value of such deals, are sustainable after those events conclude. Similarly, in Mexico, the demand for solid, growth-oriented companies that foreign multinationals seek is often far greater than the available supply. Therefore the companies that are available may be priced at a premium relative to other areas of the region or to the U.S. and European markets.



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