Latin America: Mobile Deals Spur M&A Activity

The Latin American telecommunications market has witnessed several substantial developments in the past twelve months, particularly in the areas of wireless and 4G. In particular, rising demand for more widespread access to 4G and other wireless services has driven consolidation activity in the Latin telecoms market. This article briefly describes some developments and representative transactions of the past 12 months in Brazil, Columbia, Mexico, and Haiti.

As the economy of **Brazil** continues to expand, internet use and access continues to be a significant focus of activity. Online commerce in Brazil has increased 21% since 2011 (to approximately US$18.7 billion), and the forecast is for internet penetration to increase by the end of 2012 to over 86 million people, or 42% of the population. As the demand for internet access grows, the government is focusing increasing efforts and resources on infrastructure projects, particularly wireless 4G access. In June, Brazil's telecom regulator Anatel raised US$1.4 billion in an auction for 4G wireless frequencies. The goal of the auction was to attract new investors to the industry, and another auction is planned for early 2013. **Telefônica Brasil** and Claro (a subsidiary of **América Móvil**) were the largest bidders, while **Tim Participações** (a unit of **Telecom Italia**) and **Oi SA** also bid for large portions of the spectrum. The winning bidders will be required to provide 4G services to the six cities hosting the Confederations Cup by April of 2013, and to the twelve host cities of the World Cup in 2014. In addition, the winning bidders from the auction will be required to supply all state capitals and cities with populations over 500,000 people with 4G wireless services by 2014.

Sunrise Telecomunicações and **Sky Brasil** also acquired spectrum in the June auction, and will compete with the larger Brazilian providers in certain regional markets. Each of these companies was involved in a substantial investment transaction in connection with the spectrum auction. In late May, entrepreneur **George Soros** acquired Sunrise Telecomunicações, a Brazilian pay-TV provider that is now expanding into mobile services, in order to participate in the June auction as well as the 2013 spectrum auction. Soros promised to initially invest US$251 million in Sunrise Telecomunicações. In the June auction, Sunrise Telecomunicações spent US$9.3 million to acquire two 4G spectrum licenses covering 134 cities in the state of São Paulo.

In December 2011, Sky Brasil (a Brazil-based subsidiary of DirecTV), announced the purchase of **Acom Comunicações**, a Brazilian television and internet company, for US$55 million. Completion of the acquisition is still pending, subject to antitrust and communications regulatory approvals. This deal is part of Sky Brasil's overall strategy to enhance its new 4G operations and to expand its services to other parts of Brazil. By acquiring Acom Comunicações, Sky Brasil will acquire new 4G wireless spectrum in ten states covering fifty major municipalities, to complement the airwaves it acquired in the June auction.

Outside of Brazil, other recent investments have demonstrated a trend towards greater industry consolidation. In **Mexico, Televisa** recently completed a deal to acquire a 50% stake in **Grupo Iusacell**, a Mexican mobile operator. Publicly-traded Televisa is the largest media company in the Spanish-speaking world, and its US$1.6 billion dollar investment in Iusacell will create significant competition for Mexico's leading cellphone operator, **Telcel** (also a subsidiary of **América Móvil**). Mexico's Federal Competition Commission (CoFeCo), while supportive of the new competition in wireless, has expressed concern about the monopoly that the merger would create in the Mexican TV market, as **Grupo Salinas** (Iusacell's parent company) and Televisa control almost 100% of the Mexican TV broadcasting market. As a condition to its approval of the transaction, CoFeCo required various restrictive conditions to create and maintain some level of competition in the TV broadcasting market.

Similar consolidation M&A activity has taken place in **Colombia**, where **Colombia Telecomunicaciones**, a Colombian fixed-line operator, announced its merger with mobile operator **Telefónica Móviles**, the Colombian unit of the Spanish publicly-traded telecommunications operator **Telefónica, S.A.** The deal closed in July, and Telefonica now holds 70% of the combined company, while the other 30% is held by the Colombian government. Under the terms of the merger, the Colombian government will take over 48% of the combined company's pension payment obligations, helping to reduce Telefonica's debt by about US$1.7 billion. The merger has created the second largest telecommunications group in Colombia, and may help boost competition in the wireless market, as it will now offer a full range of telecommunications services.

Finally, it bears noting that not all recent M&A activity in the region has been driven solely by consolidation considerations, as there is still room for substantial expansion of basic services and technological development. In **Haiti**, privately owned **Digicel Group**, a Caribbean, Central America, and Pacific mobile phone company, and the largest mobile operator in Haiti, announced the closing of its acquisition of **Voilà**, a Haitian mobile operator, on March 30, 2012 for an undisclosed sum. The companies will continue to be run separately because Voilà's operating frequencies are not compatible with Digicel's networks, but Digicel's strategy is for the acquisition to drive new investments in increased mobile service and new technology.

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We are pleased to announce that we are opening a new office in Rio De Janeiro in late 2012.

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