

Dispatch from Mexico

Autumn 2015



Dear Friends,

From the patio of a spotless Starbucks in the La Condesa neighborhood of Mexico City, as the luxury cars pass by on the street outside, modern Mexico seems to be thriving. The third largest nation in the Western Hemisphere has one of the fastest growing economies in the region.

When President Enrique Peña Nieto assumed office in December 2012, he was seen as a reformer who would boost Mexico's economic growth and lessen the country's economic dependence of the oil industry. After recent political scandals involving the disappearance of a group of 43 students during a shootout in Guerrero last year, the circumstances surrounding how the president and first lady acquired a house from a government contractor at a below-market rate, and the escape of drug lord Joaquin "El Chapo" Guzman from Mexico's highest security prison, Peña Nieto's approval rating has declined 20 percentage points, from a high of 55% in 2014. In his third annual presidential report (*Informe de Gobierno*) in September, Peña Nieto addressed many of these issues citing that these "unfortunate events had caused worry and indignation in Mexican society."

However, despite these setbacks, he has been praised by business and union leaders for passing a program of eleven structural changes to the constitution that are designed to put Mexico on a path to economic growth. Peña Nieto has been credited for allowing foreign private investment into Mexico's oil industry for the first time in over a century and breaking up private monopolies in the telecommunications industry, increasing competition in a space long dominated by Carlos Slim's América Móvil.



The five largest Mexican states represent 45% of the national gross domestic product. Mexico City alone represents nearly 17% of the national economy.

Source: National Institute of Statistics and Geography

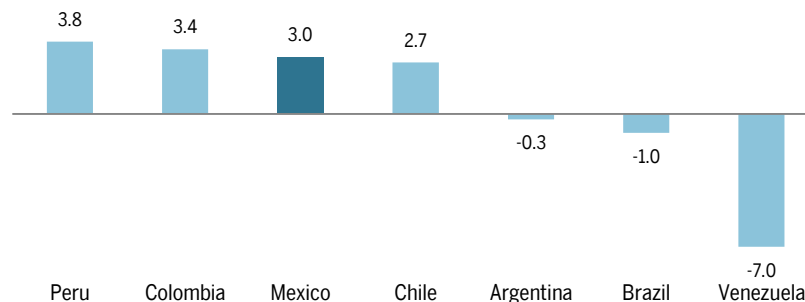
Similar to other Latin America countries where economic activity is largely concentrated in major metropolitan areas, the five largest Mexican states represent 45% of the nation's \$1.2 trillion GDP with Mexico City representing 17% of the national economy. Mexico also ranks as one of the most free and fastest growing economies in Latin America, with an expected 2015 growth rate of 3.0%.

Although urbanization of a country, historically, provides economic benefits, half of Mexico's 122 million people remain under the poverty level due to lack of investment over the last decade in the proper power systems, sanitation and security that would allow cities to fulfil their economic potential.

Mexico's healthcare system is dominated by two main social security systems IMSS, which covers costs for private sector employees, and ISSSTE, which covers costs for public sector employees in Mexico. The state oil company, the armed forces and the navy each have their own system. Others, including the self-employed, unemployed, non-salaried and informal-sector workers, are covered under one of the Ministry of Health programs, such as the Seguro Popular program or IMSS-Oportunidades, which combined cover approximately 55 million people. Each system has its own independent network of doctors, hospitals, pharmacies, and unions. Healthcare in Mexico makes up 6.2% of GDP, which represents a \$77 billion healthcare market.

President Peña Nieto's plan is to consolidate the fragmented health systems and invest more resources in the system to address problems, such as the lack of portability across the all health systems, the inefficient procurement of pharmaceutical drugs, and gaps in health coverage.

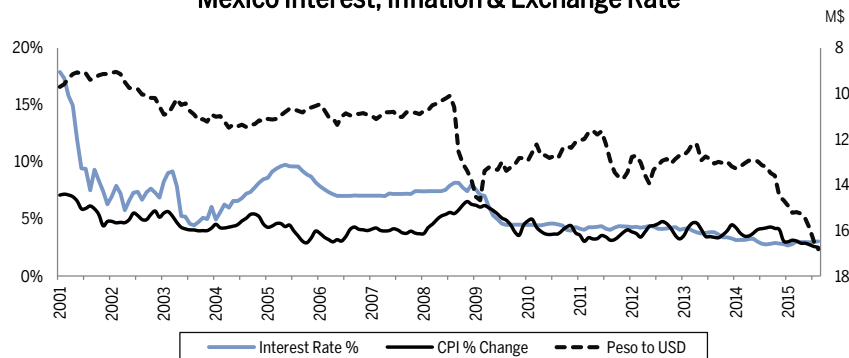
2015 Expected GDP Growth Rate (%)



Mexico has one of the fastest growing economies in Latin America.

Source: International Monetary Fund, World Economic Outlook Database, January 2015

Mexico Interest, Inflation & Exchange Rate



Interest rates are at their lowest level in the past 15 years, and the depreciation of the peso against the U.S. dollar has made manufacturers more competitive.

Source: Banco de Mexico

Currently, Mexico's underfunded public healthcare system has caused a strain on lower and middle class citizens, especially those with long-term illnesses. In most cases, citizens have to pay approximately 45% of healthcare expenditures out of pocket.

There is significant upside to the \$17.6 billion private Mexican healthcare market, especially in Mexico's pharmaceutical and medical device industries. The private healthcare market is expected to grow to an overall value of \$27.9 billion market by 2020, representing a 6.8% annualized growth rate. Growth will be driven by an increasing elderly population, and the government's initiative to provide universal healthcare. These market trends are expected to generate abundant opportunities in the Mexico healthcare space over the next five years.

Brocair has long-standing relationships in Mexico and has developed a strong understanding of the healthcare industry in the country.

Please give us a call to talk about how we can help with your M&A efforts in this dynamic economy.

Managing Partner
Brocair Partners, LLC
212-500-5020



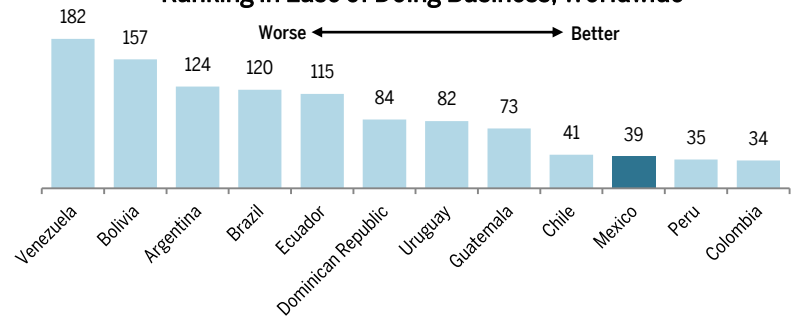
GDP Growth vs. Unemployment Rate



While not included in the chart, in 2015, unemployment in Mexico is at its lowest level since 2008. Q3 2015 GDP grew 2.4% up from 2.1% in 2014.

Source: The World Bank - 2015

Ranking in Ease of Doing Business, Worldwide



Last year Mexico moved up 13 spots to become the 39th most free economy in the world (out of 189 countries).

Source: Doing Business 2015, World Bank

- Most Mexican healthcare companies are privately-held, so there are a limited number of publicly-traded businesses in the industry.

Publicly Traded Mexican Healthcare Companies

(Figures in \$ Millions, except per share data)

Company	Ticker	City	Price*	52-Week		EV*	Net Debt	Market Cap	EV/Sales			EV/EBITDA		
				High	Low				FY2013	FY2014	LTM	FY2013	FY2014	LTM
Genomma Lab Internacional SAB de CV	BMV: LAB B	Mexico City	\$ 0.75	\$ 2.06	\$ 0.53	\$ 1,154.0	\$ 341.4	\$ 798.6	3.6x	3.0x	1.5x	13.7x	13.5x	7.0x
Industrias Bachoco S.A.B. de C.V.	NYSE: IBA	Celaya	\$ 57.27	\$ 64.30	\$ 47.65	\$ 2,281.9	\$ (609.1)	\$ 2,888.0	0.5x	0.7x	0.8x	3.9x	3.8x	4.8x
Fomento Económico Mexicano, S.A.B de C.V	BMV:FEMSA UBD	Monterrey	\$ 10.01	\$ 10.20	\$ 7.17	\$ 38,805.9	\$ 3,453.1	\$ 35,352.8	1.9x	2.1x	2.4x	12.7x	13.9x	16.2x
Médica Sur, SAB de CV	BMV: MEDICA B	Mexico City	\$ 3.01	\$ 3.60	\$ 2.98	\$ 348.1	\$ (23.9)	\$ 372.0	1.9x	2.9x	2.4x	7.0x	11.7x	10.5x

	EV/Sales			EV/EBITDA		
	FY2013	FY2014	LTM	FY2013	FY2014	LTM
Max	3.6x	3.0x	2.4x	13.7x	13.9x	16.2x
Mean	2.0x	2.2x	1.8x	9.4x	10.7x	9.6x
Median	1.9x	2.5x	2.0x	9.9x	12.6x	8.7x
Min	0.5x	0.7x	0.8x	3.9x	3.8x	4.8x

*EV = Market capitalization + net debt + minority interest

Market Cap and Enterprise Value as of 11/03/2015

Source: Capital IQ

Representative Mexican Transactions (last 3 years)

(Figures in \$ Millions, except per share data)

Date Closed	Target	Acquirer	Transaction Value	Target Financial Information			Multiples	
				Enterprise Value*	Sales	EBITDA	EV/Sales	EV/EBITDA
10/1/2015 (Announced)	Representaciones e Investigaciones Medicas, S.A. de C.V.	Teva Pharmaceutical Industries Limited (NYSE: TEVA)	2,300.0	2,300.0	227.7	N/A	10.1x	N/A
9/29/2015	Casa Marzam S.A. de C.V. (50% acquired)	Moench Cooperatief UA	88.2	N/A	N/A	N/A	N/A	N/A
9/23/2015	Grupo Socofar (60% acquired)	Fomento Económico Mexicano, S.A.B de C.V. (BMV:FEMSA UBD)	598.8	998.0	1,836.0	N/A	0.5x	N/A
9/21/2015	Laboratorios Clínicos Azteca, S.A. de C.V.	Grupo Diagnóstico Aries	N/A	N/A	N/A	N/A	N/A	N/A
9/19/2015	Estudios Clínico Azteca, S.A. de C.V.	Grupo Diagnóstico Aries	N/A	N/A	N/A	N/A	N/A	N/A
7/7/2015	Advanced Pharmaceuticals and Nutritionals	Hi-Tech Pharmaceuticals, Inc.	N/A	N/A	N/A	N/A	N/A	N/A
7/1/2015	Olympus Managed Health Care Inc. and Three Associated Companies	Global Excel Management	N/A	N/A	N/A	N/A	N/A	N/A
6/18/2015	Farmacías FarmaCon, S.A. de C.V.	Fomento Económico Mexicano, S.A.B de C.V. (BMV:FEMSA UBD)	N/A	N/A	N/A	N/A	N/A	N/A
5/12/2015	Patheon Inc., Mexican Operations	Perrigo Company Public Limited Company (NYSE:PRGO)	38.0	38.0	N/A	N/A	N/A	N/A
1/6/2015	More Pharma Corporation	Invekra S.A.P.I. de C.V.	N/A	N/A	N/A	N/A	N/A	N/A
12/4/2014	Grupo Casa Saba SAB de CV, 22 Distribution Centers	Fibra UNO (BMV:FUNO 11)	N/A	N/A	N/A	N/A	N/A	N/A
7/24/2014	Grupo Farmacéutico Somar, Sociedad Anónima Promotora de Inversión de Capital Variable	Endo Netherlands B.V.	268.8	268.8	99.5	N/A	2.7x	N/A
8/31/2013	Omni Manufacturing Services SA de CV and Adval Tech Medical Co. Ltd.	Phillips-Medisize Corporation	N/A	N/A	N/A	N/A	N/A	N/A
1/17/2013	Grupo Nutrisa SAB de CV	Grupo Herdez, S.A.B. de C.V. (BMV:HERDEZ)	158.1	228.2	88.3	13.0	2.6x	17.5x
10/16/2012	Pfizer Inc. Plant in Caguas	Neolpharma S.A. de C.V.	N/A	N/A	N/A	N/A	N/A	N/A

*Enterprise Value (EV) = market capitalization + net debt + noncontrolling interest

Representative transactions only include closed deals with publicly available transaction data

Bolded companies headquartered in Mexico

Source: Capital IQ, public filings, press releases and other public media sources

Brocair Partners LLC, based in New York, was formed in 2004 to provide mergers & acquisitions advisory services, equity and debt placement services, and strategic advice to healthcare companies. Brocair Partners has advised a range of public and private companies across healthcare segments that include pharmaceuticals, medical devices, patient care, consumer health and nutrition, healthcare business services and information technology, and pharmaceutical ingredients and intermediates, both in the United States and worldwide. Outside North America, Brocair Partners collaborates on cross-border healthcare transactions with a constellation of key affiliates worldwide.

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