Introductions
Speakers

Carlos Lopez Cervantes
Partner
Consulting

Sergio Meneses
Partner
Strategy

Carlos Orel Martinez
Partner
Tax and Regulations

David Wijeratne
Leader
Growth Markets Centre
Agenda

1. Mexico overview
2. Key growth sectors
3. Convenience matters: Serving the new Mexican consumer
4. Mexico reforms - Tax and regulations
5. PwC in Mexico
6. PwC's Growth Markets Centre
Mexico Overview

Key Indicators (2015)

- Population size: 120 M
- GNI per capita: US $9.9 k
- Inflation: 2.7%
- Growing middle class
- 45% of Mexicans are internet users
Mexico’s performance stands out against uneven growth in other emerging markets

Annual GDP growth of selected growth markets

Source: International Monetary Fund (IMF) – April 2016
The country stands out vis-à-vis other emerging markets with robust GDP growth over the past two years

- In terms GDP growth, Mexico has outperformed other Latin America and Caribbean countries
- This may result in a sizable pockets of opportunity in businesses such as retail, consumer goods, telecom, education and other segments

Source: International Monetary Fund (IMF) GDP Forecast
Going forward, this positive trend is expected to continue, with the GDP forecasted to increase over the next 5 years.

Mexico Outlook

- The Mexican market is recovering, expecting a steady growth of GDP.
- GDP growth and its positive correlation with population growth, make Mexico an attractive market for new business opportunities.
- Other factors favoring investment in Mexico are its geographical location, higher education levels and population growth.

GDP Per Capita
(Projections for 2021)*

Total Population
(Projections for 2021)*

*Millions of inhabitants divided by gender

**Mexico overview**

*Mexico is in a good position to enjoy demographic dividend, with a 20% increase in population in the age group between 15 - 59*

### Population by age group (millions)

**2015**  | **2050 forecast**
---|---
**Brazil**  |  |  |
60+ | 70 | 24 |  |
**Mexico**  |  |  |
60+ | 40 | 12 |  |
**China**  |  |  |
60+ | 492 | 209 |  |

**Change in population from 2015 to 2050**

**15 - 59**

36 | 133 | 136 | -2%
96 | 96 | 80 | 20%
674 | 674 | 930 | -28%

**0 - 14**

36 | 48 |  |
28 | 35 |  |
182 | 182 | 237 |  |

Source: UN Economic Commission for Latin America and the Caribbean (ECLAC)
PwC México
The growth in Mexico’s middle class is among the greatest in LatAm, which translates into an increase household consumption.

Change in middle class as a percentage of population in LatAm (percentage points), 1995 - 2010

As disposable income continues to grow, household consumption will increase.

Household consumption in Mexico (2012-2020f)

Source: World Bank, PwC Analysis

PwC México
Moreover, a robust tax system and numerous exchange treaties make Mexico one of the most open economies in the world.

**Industry**
- Private investments is dominant in the manufacturing, constructions and hospitality industries, as in wholesale and retail trade operations.

**Economy**
- Mexico has a mixed economy, with the government, its agencies and government-owned or controlled companies expected to reduce their traditionally dominant position in the areas of telecommunications, public utilities and petroleum.

**Inflation**
- The inflation rate dropped to one digit and may be considered comparable with Mexico’s commercial partners (i.e. US and Canada).

**Government**
- Mexico is a federal democratic republic divided into 32 states. The chief executive is the President, who is elected for a period of six years and may not be re-elected. There is a bicameral legislature as well as a judicial branch.

**Population**
- The population estimated at approximately 120 million inhabitants, reflecting a net annual increase in recent years of about 1.4%. Mexico is the most populous country in Latin America after Brazil. The total population has more than tripled since 1940.

**GDP Growth**
- GDP growth of 2.5% in 2015.
In the coming years, major trends will reshape the Mexican market towards a more connected and digital economy.

**Demographic shifts**
- Growing middle class
- Demographic dividend: Informal and Formal sectors
- Better educated workforce

**Accelerating urbanization**
- 78% of the population lived in urban areas in 2012
- GHG Emissions are becoming an issue in major cities
- In Mexico City, productive life of 40 years, Mexicans spend 3 years stuck in traffic

**Improved access to investors and capital**
- Investor-friendly environment
- Increased FDI for renewable energy

**Technological breakthroughs**
- Improving access to mobile and internet network
- Growth of entrepreneur-ship sector

**Resource scarcity and climate change**
- Increasing investments in renewable energy
- CO2 emissions expected to decrease clean energy sources increase

Source: PwC Analysis
Key growth sectors

Retail and Consumer

Telecom

Financial Services

Energy
More pesos in the consumer’s pockets translate into increased appetites for more goods and services

60% of Mexico’s economic output is household spending

12% was the middle class growth from 1995 to 2010

18 million households are estimated to be in the middle class by 2030

Success Stories

OXXO - Outlets

• Strong logistics
• Network as a key capability
• Real state as a main growth engine
• “Rent” don’t buy

Starbucks - Stores

• Industry know how
• Supply Chain Excellence
• Marketing plan
• Identity creation
• Consumer knowledge

Source: World Bank, PwC Analysis
PwC México
E-Commerce in Mexico is booming, bringing new growth opportunities for the consumer goods and retail industries

E-commerce is a growing trend

- 54 M Internet users
- 22 M e-shoppers (37%)
- US $31-$77 is the average order
- 97% of e-shoppers want to buy again

International E-Commerce Purchases

1 out of 3 online shoppers make purchases related to travel

International E-Commerce Volume and Growth in Mexico

MM MXN and CAGR (2010-2013)

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>36.5</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>54.5</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>85.7</td>
<td>+45.2%</td>
</tr>
<tr>
<td>2013</td>
<td>121.6</td>
<td>+33%</td>
</tr>
<tr>
<td>2014</td>
<td>162.1</td>
<td></td>
</tr>
</tbody>
</table>

Purchase Incidence

- Clothing and accessories: 53%
- Digital downloads: 49%
- Event tickets: 35%
- Video games: 23%
- Books and Magazines: 21%

Source: Consumer Barometer, Amipci 2015, Internetlivestats, Strategy & Analysis
PwC México
Banking services, credit, and mobile banking are increasing in Mexico as the middle class continues to grow

91% of the payment transactions are made in cash

73% of the population is unbanked (older 15 years old)

49 ATM per 100,000 adults (2014)

828 thousands of POS terminals in Mexico vs. +2.5 million formal, informal and food service outlets

Growth potential:
Significant growth opportunity due to low penetration of banking services and government focus on improving financial access

• Mobile: Government campaigns promoting the use new mobile banking to expand access to financial services

Limited public trust: Lack of trust in bank system

• Financial Literacy: Lack of financial education causes the decapitalization of households

• Security: Significant concern in the consumer finance industry as fraud techniques become more sophisticated

Major Developments

• In 2014, Grupo Bimbo, Visa and Banamex partnered with Blue Label to help facilitate access to card payment technology for small businesses

• Co-branded store cards remain very popular (3.6 M users), Liverpool (retail) has more card holders than any other bank (except Banamex, BBVA)

• Parliament passed New Banking and Financial Institution Law in 2014 to strengthen the financial system and increase tax collection

Source: Forbes, Euromonitor, World Bank, PwC Analysis
PwC México
June 2016
In recent years, telecom has shown an accelerated growth, with revenue representing an estimated 3.0-3.5% of total GDP.

12.7% is the expected increase of users of satellite and cable television.

5.7% is the expected growth for the mobile market in the coming years.

61.9% is the Smartphone penetration estimate for 2020.

US 132 B in Foreign Direct Investment from 1999 to 2014.

In June 2013 the Telecom reform came into effect to ensure a sustainable and efficient development of the Telecom market that will benefit consumers, including those in rural areas.

Structural Reform: Telecom

- Broadband connections at home are still expensive.
- Mexican internet services are highly priced.

Source: PwC Analysis, GSMA Intelligence
Ambitious reforms in the energy sector are driving opportunities to provide cleaner and affordable services for all

- Mexico accounts for 20% of all the energy use in Latin America
- Mexico is the 10th largest oil and gas producer
- By 2050 Mexico aims to reach a share of 50% in power generation to zero or low emission energy types
- **Renewable energy** accounted for 22% of installed capacity in the power system in 2013 (14 GW).
- Within the next decade, the Mexican government aims to provide electricity to the 40-50% of rural communities that lack power access today

### Total final energy consumption in Mexico
(breakdown by energy carrier, 2013)

- Coal and Cokes: 6%
- Gasoline: 29%
- Other oil derivatives: 12%
- Natural gas: 13%
- Power: 16%
- Diesel: 17%
- Renewables: 7%

**Structural Reform: Energy**

To boost oil and gas exploration and production which has been in decline for the past 10 years, Mexico ended the 75-year state oil monopoly by opening the sector to foreign investment in 2013. It was envisaged that this move would increase long-term oil production by 75% and attract US$50 billion in investments by 2018.
Convenience matters: Serving the new Mexican consumer
Companies can target Mexico’s large informal segment by providing access to credit while managing risks effectively

### Identifying new consumers
- Using staff from local stores to approach potential new consumers at their homes

### Sales approach
- Credit assessment
  - Assess credit worthiness with key questions on mobile device
  - Evaluation within 72 hours

### Access to wide range to products
- Products which match credit levels are marketed to consumers

### Credit assessment approach
- Establish credit worthiness
- Review testimonials from borrower’s employer, family and friends
- Facilitate financial management
- Arrange for weekly payments instead of monthly payments

Source: PwC Report on ‘Convenience matters: Serving the new Mexican consumer’

PwC México

June 2016
Convenience matters: Serving the new Mexican consumer

**Delivering customer convenience by serving varying needs is a critical differentiator in the retail and consumer sector**

### Varying needs of a Mexican consumer

<table>
<thead>
<tr>
<th>Time</th>
<th>MOTIVATIONS</th>
<th>EXAMPE</th>
<th>Needs to deliver the value of convenience</th>
</tr>
</thead>
<tbody>
<tr>
<td>MORNING</td>
<td><strong>Buying quick breakfast before work</strong></td>
<td></td>
<td><strong>Focus on buyer’s motivation, not consumer groups</strong></td>
</tr>
<tr>
<td>NOON TIME</td>
<td><strong>Buying quick lunch in between meetings</strong></td>
<td></td>
<td>• Understand different drivers</td>
</tr>
<tr>
<td>AFTERNOON</td>
<td><strong>Taking a break</strong></td>
<td><strong>Grocery shopping</strong></td>
<td>• Customizing the product categories and size of the product to carry by motivations at each trip</td>
</tr>
<tr>
<td>EVENING</td>
<td><strong>Picking up daily household items</strong></td>
<td><strong>Preparation for gathering</strong></td>
<td><strong>Partnerships beyond the R&amp;C industries</strong></td>
</tr>
</tbody>
</table>

**MORNING**
- Craving
- Thirst
- Hunger
- Gathering
- Daily needs

**NOON TIME**
- Craving
- Thirst
- Hunger
- Gathering
- Daily needs

**AFTERNOON**
- Craving
- Thirst
- Hunger
- Gathering
- Daily needs

**EVENING**
- Craving
- Thirst
- Hunger
- Gathering
- Daily needs

Source: PwC Report on ‘Convenience matters: Serving the new Mexican consumer’
PwC México
Convenience matters: Serving the new Mexican consumer

**Mexican companies need to innovate and adopt flexible business models to address changing consumer needs**

<table>
<thead>
<tr>
<th>1</th>
<th>Gain insights on customer motivation and innovate through partnerships to address the need for convenience</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Tap into opportunities in the informal market, which can be potentially through providing access to credit</td>
</tr>
<tr>
<td>3</td>
<td>Understand the different motivations of a consumer at different times to better address their needs</td>
</tr>
<tr>
<td>4</td>
<td>Develop a flexible operating model that adapts to the Mexican market</td>
</tr>
<tr>
<td>5</td>
<td>Foreign companies need to be prepared to invest in capability enhancement in local partnerships to succeed in the market</td>
</tr>
</tbody>
</table>

Source: PwC Report on ‘Convenience matters: Serving the new Mexican consumer’
Mexico reforms - Tax and regulatory environment
Current and potential investors in the Mexico should consider a relevant topics in the tax system (1/2)

Overview of the Mexican tax legislation

- **Mexico follows a management approach to tax residency** rather than solely based on country of incorporation.

- Companies are required to **pay income tax** (federal tax) on **worldwide income**, regardless of location or source.

- Income is generally **recognized on an accrual basis** and the corporate income tax rate is 30%.

- The main difference between the calculation of net income for book and tax purposes is that the procedure to **recognize inflation is different** (e.g. tax adjustments for inflation).

- **Deductible expenses** must comply with several general and specific requirements, e.g. to be “strictly indispensable” for the business activities of the taxpayer.

- Tax losses are **subject to inflationary adjustment** and may be carried forward for a ten-year period. No carry backs are allowed.

- Payments made to **overseas** group entities may be **subject to withholding tax** (ranging from 4.9 to 40%), or may be entitled to tax treaty relief.
Overview of the Mexican tax legislation

- **Thin capitalization rules** must be followed for interest paid to foreign related parties, with a 3-to-1 debt to equity ratio limit.

- **Interest payments** considered as non-deductible dividends, when such interest derives from back-to-back loans.

- **VAT** is administered by most entities that sell goods or render services and is calculated on a monthly basis, at 16% on a cash basis.

- The 3 most relevant local taxes in Mexico are: payroll tax, annual property tax and real estate transfer tax.

---

### Employees

- Employers and employees are required to make contributions to the **social security system**.
- A company with employees is required to **distribute a portion of its annual profits** among all its employees. The amount distributable to the employees is 10% of the taxable income.

### Imports/Exports

- Mexican customs law establishes that all **imports and exports** to and from Mexico are subject to pay **custom duties**, VAT and compensatory tariffs.
- **Goods** can be imported **on a temporary** or on a permanent basis. A temporary importation may provide access to tax and customs benefits.
The Mexican Tax System provides tax incentives, special regimes and advantages for foreign companies

- Research and development cash grant
- Zero rated VAT for exports
- Customs and VAT waived on temporary import programs to produce exports
- Maquila regime
- FIBRA (Real Estate Investment Trust “REIT”), FIBRA-E
- Special Economic Zones (currently in process)
- Mexico has more than fifty tax treaties
- Energy reform (analyze tax consequences)

Source: PwC Analysis
PwC México

June 2016
There are a few trending topics in the Mexican Tax System that are relevant for investors:

**Electronic invoices**
- Mexican firms are allowed to use electronic accounting and issue electronic invoices

**Restrictions on related party transactions**
- **Base Erosion and Profit Shifting “BEPS”**
  - Tax treaty limitations on double non-taxation results
  - Limitation on certain payments to non-Mexican residents
  - Identification of relevant transactions

**Transfer information**
- New information is required by Mexican tax authorities: Master file, local file and country by country report.

**Corporate Audit Program**
- SAT has designated a Corporate Audit Program (Auditoría de Proyectos Especiales) to implement the OECD recommendations and discourage aggressive tax planning strategies
- The Mexican tax authority is not hesitant to attack structures if considered abusive, and the legislation and court cases are more recently weighted toward substance

Source: PwC Analysis
PwC in Mexico
Overview of PwC Mexico

3,511 people
18 offices
15 states

1. Mexico City
2. Chihuahua
3. Ciudad Juarez
4. Guadalajara
5. Hermosillo
6. León
7. Monterrey
8. Puebla
9. Villahermosa
### Key service offerings in advisory and tax

<table>
<thead>
<tr>
<th>Advisory</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PwC Mexico’s Advisory team has more than 400 professionals across different specializations, such as:</strong></td>
<td><strong>PwC Mexico’s Tax and Legal Services team is one of the largest in Mexico with approximately 600 colleagues that provide the clients a broad range of tax specialized services including:</strong></td>
</tr>
<tr>
<td>• Strategy Consulting</td>
<td>• Corporate tax</td>
</tr>
<tr>
<td>• Technology Consulting</td>
<td>• International tax consultancy</td>
</tr>
<tr>
<td>• Risk Consulting</td>
<td>• Transfer Pricing</td>
</tr>
<tr>
<td>• Management Consulting</td>
<td>• Corporate legal and tax legal services</td>
</tr>
<tr>
<td>• Corporate Finance</td>
<td>• International trade</td>
</tr>
<tr>
<td>• Deals</td>
<td>• International assignment services</td>
</tr>
<tr>
<td>• Government &amp; Public sector</td>
<td>• Tax compliance</td>
</tr>
<tr>
<td>• Digital Services</td>
<td>• Human resources (payroll and social security contributions)</td>
</tr>
<tr>
<td>• Data &amp; Analytics</td>
<td>• Dispute Resolutions, etc.</td>
</tr>
<tr>
<td>• Cybersecurity</td>
<td>• Merger and acquisitions</td>
</tr>
</tbody>
</table>

**PwC (including Strategy&) is best positioned to support clients on entry and expansion in Mexico, across a range of areas – from strategy to execution**
PwC México

**Highlights of our recent experience**

- Developing a comprehensive 3-year digital strategy for a retail pharmacy by designing a seamless digital Omni channel experience
- Strategy for establishing a holding company to centralize operations and manage tax consequences for the shareholders, for a telecom group
- Developing a Target Operating Model for the Ministry in charge of Communications
- Implementation of a financing transaction, tax planning around the Mexican special mining duty, creation of a shared service center for LatAm, and setting up an offshore trading company, for a mining client
- Business process transformation for one of the predominant Financial Institutions
- Assistance in establishing a new business, including incorporation of an entity in Mexico, for a power generation company. Also provided insights into the obligations from a tax and labor perspective
- Business transformation for a state owned Oil & Gas company
- Assistance in business acquisition, including redesign and optimization of corporate structure, for retail and consumer companies
- Assessment of the healthcare ecosystem to detail potential market entry plays for a leading health services provider
PwC’s Growth Markets Centre
About PwC’s Growth Market Centre

PwC’s Growth Markets’ teams are supported by the Growth Markets Centre (GMC), which is a global team bringing PwC’s global expertise to help clients grow profitably in complex new markets.

How the GMC can help

- **Access to global expertise**: ensures clients receive the full benefit of PwC’s global expertise and access to bespoke teams.

- **Sector focused insights**: thought leadership on how the Growth Markets are evolving and what clients can do to ensure profitable growth.

- **Growth Markets Framework**: our framework enables our clients to assess and prioritize their entry and expansion needs by helping to:
  - Navigate the business environment
  - Enter the right market(s) with effective value proposition(s)
  - Build effective partnerships and teams
  - Develop operating model capabilities for growth

[pwc.com/gmc](http://pwc.com/gmc)

growth.markets.centre.sg@sg.pwc.com

June 2016
PwC’s Growth Markets Centre

**Accessing our growth markets’ point of view**

### Annual GMC event:

**Emerging Markets Conference “Growing in the age of volatility”:** The GMC has partners with INSEAD to host an annual conference focused on key Growth Markets issues.

This year’s Emerging Markets Conference is scheduled for **October 20th, 2016** at INSEAD Asia Campus, Singapore.

### Sector deep-dive analysis:

**Insights on up and coming sectors across Growth Markets,** e.g. “**Convenience matters: Serving the new Mexican consumer**”

### GMC thought leadership:

Addressing key Growth Markets issues whilst highlighting PwC’s expertise in the region.

### GMC blogs:

Regular updates on growth opportunities and challenges in emerging markets.

---

**pwc.com/gmc**

**growth.markets.centre.sg@sg.pwc.com**

---

PwC México