BUYING A BUSINESS IN MEXICO

Revised Edition for 2026

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INTRODUCTION

This handbook is designed for new investors or entrepreneurs who are considering making significant life decisions. Experienced investors or entrepreneurs typically depend on their extensive knowledge and intuition, rather than a handbook, when determining whether to buy or invest in a business. As a result, the language used in this text is straightforward and clear. Whenever suitable, we use bullet points to clarify and expand on challenging concepts. Additionally, definitions of accounting, finance, and legal terms are provided for a better understanding.

The author brings 42 years of expertise as both a lawyer and a serial businessperson, having started and acquired businesses across borders—including twelve years in Mexico.

The suggestions, comments, and advice provided in this book are relevant to acquiring an ongoing business in any market. References to the Mexican market are included to highlight differences found in Mexico.

We often refer to the Spanish version of the legal, tax an accounting terms so that the reader becomes familiar with them when they are used by others that they will need to connect with for the transaction. For future reference, a Lexicon is found in the annex to this book.

HOW TO USE THIS BOOK EFFICIENTLY

If you are in a hurry and have already decided what you want, we suggest that you read the section titled ***BUYING AN EXISTING BUSINESS: A PRACTICAL GUIDE.*** This section serves as an Executive Summary of the entire book, providing a concise overview of the essential steps and considerations involved in purchasing a business. For those seeking a deeper analysis and more detailed recommendations, you can refer to the specific sections that are most relevant to your interests or needs throughout the book.

1- GET READY TO MAKE THE MOVE

STARTING A BUSINESS VS BUYING ONE

Deciding whether to establish a new enterprise or acquire an existing business is a foundational choice that shapes strategy, risk exposure, capital needs, and regulatory obligations. Starting a business allows full control over concept, structure, culture, and systems, but requires time, market validation, and investment to reach stable cash flow. In Mexico, founders must also navigate specific corporate, tax, labor and permit regimes that affect timelines and costs.

On the other hand, acquiring an existing company or a franchise often accelerates market entry, reduces initial commercial risk and can provide immediate cash flow. Buyers gain access to an operating infrastructure, customer base, supplier relationships, and trained staff. In Mexico, acquisitions require careful structuring to manage tax outcomes, labor continuity, regulatory transfers, and potential legacy liabilities.

Spoiler alert: statistics and the experience of the author indicate that you have a better chance of succeeding by purchasing and operating business compared to starting one[1]. This book leads you through the entire process of buying a business, from self-assessment to searching, making offers, and integrating operations. The principal focus is Mexico. However, unless otherwise indicated, the information and advice given applies to any market.

Purchasing an established business is a practical route to entrepreneurship for many because it transfers proven operations, customers and cash flow to the buyer. In this book we restate these points in a more formal tone, expand on key considerations, and add Mexico-specific legal, tax and regulatory guidance that buyers should factor into acquisition planning.

Why buying an existing business often makes more sense than launching a startup:

- *Immediate operations and cash flow*: An acquisition typically brings an operating workforce, customers, supplier relationships and tested marketing channels—reducing time-to-revenue and execution risk.
- *Demonstrable performance*: Historical financial statements, KPIs and vendor/customer references increase lender/investor confidence and simplify valuation and financing.
- *Operational continuity*: Existing systems (*supply chain, HR, POS*), brand recognition and trained staff reduce the cost and time of market entry.

COMMON CHALLENGES FOR STARTUPS (AND HOW ACQUISITION MITIGATES THEM)

1. Financing

Startup financing is often harder to obtain because of absent historical cash flow. In contrast, lenders/investors evaluate an acquisition on historical earnings, collateral and business stability.

Traditional lenders (*banks)* and development finance institutions consider audited financials and collateral. Expect banks to require at least 1–2 years of reliable historical cash flow, personal guarantees,

[1] Buying an existing profitable business can carry a 2–5x higher probability of long-term survival compared to starting one from scratch. This aligns with the fact that: Startups have only a 10% success rate. Existing businesses have already passed the high-risk early years where 70% of startups fail (ff.co; codeless.co/startup-statistics/)

and collateral (*machinery, receivables, real estate*). Tax authority compliance (*SAT*[2]) and clear *RFC*[3] good standing materially influences credit decisions.

2. Talent

Startups must recruit and train employees and key staff as compared with acquisitions that typically include a trained, experienced workforce.

On the other hand, buying a business typically provides access to a skilled and experienced workforce, which helps maintain ongoing operations. However, when it comes to the Mexican labor market, it is important to pay close attention to retaining and terminating employees—a topic that will be addressed later in this book.

3. *Customer trust and brand recognition*

Establishing a business often demands extensive time and effort to develop a robust client base and foster goodwill. A single misstep can significantly affect the company's reputation, particularly given the widespread use of social media to assess business reliability and quality. Conversely, acquisitions offer an established customer base and brand recognition, which would otherwise require substantial investment and time to build from scratch.

4. Marketing and time to profitability

Buying an established business reduces the marketing ramp-up and shortens the path to profitability compared with starting from zero.

Acquiring an established business can mitigate many of the operational and market-entry risks commonly associated with startups; however, it presents complex legal, tax, and regulatory challenges—particularly in Mexico, where federal, state, and municipal requirements converge. Attaining a successful acquisition in Mexico requires thorough and multidisciplinary due diligence spanning tax, corporate, labor, environmental, and regulatory matters, alongside careful transaction structuring and the implementation of strong contractual protections.

ADVANTAGES OF BUYING IN MEXICO[4]

- Immediate revenue and established operations: Faster path to cash flow than a greenfield start[5].

- Transfer of operating knowhow: Vendor collaboration during transition can preserve customer relationships and institutional knowledge.

- Ease of contracting and permits (*sale of share deals*): A share purchase often preserves existing permits, contracts and registrations in the corporate vehicle, avoiding some assignment consents.

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[2] *Servicio de Administración Tributaria*, which is the federal tax authority of Mexico.

[3] Registro Federal de *Contribuyentes,* which is the Federal Taxpayer Registry—Mexico's official tax identification number (TIN**)**

[4] Each of the following topics is addressed in detail throughout this book.

[5] A greenfield start (*often called a greenfield project*) means starting something completely from scratch, with no existing infrastructure, systems, customers, buildings, or legacy constraints.

Risks and Mexico-specific pitfalls

- Hidden tax and social-security liabilities: IMSS[6] liabilities, unpaid payroll taxes and unreported income are frequent contingent liabilities. IMSS audits can produce retroactive assessments.

- Labor succession and claims: Mexican labor law protects employees strongly; if the economic unit continues, courts may treat the buyer as successor and hold it liable for accrued rights. Collective bargaining agreements, union risks, and pending labor claims must be investigated.

- Regulatory transfers and non-assignable permits: Some municipal or federal authorizations are non-assignable and require new applications; failing to plan transferability can disrupt business continuity.

- Customs and trade regimes: For exporters, verify IMMEX[7]/maquila authorizations and correct customs compliance; issues here can generate duties and fines.

Financing and valuation considerations

- Lenders in Mexico favor asset-rich manufacturing and service firms with tangible collateral; working capital constraints often arise from VAT refund timing — consider financing solutions that bridge VAT credit cycles.

The structure of a deal, whether asset or share, determines tax implications: asset purchases typically allow for a tax depreciation step-up but can trigger IVA[8] and involve several transfers, whereas share deals avoid IVA but result in the buyer assuming corporate liabilities. Consult counsel to balance tax considerations, liability, and operational continuity.

Conclusion

Entrepreneurs in Mexico can choose to start a new business or purchase an existing one, depending on their goals, risk appetite, and industry regulations. Success also depends on how well they handle local tax, labor, and permit requirements. Working with experienced local advisors early on helps lower risks and speeds up the process of integrating into the market.

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[6] Instituto Mexicano del Seguro Social — the Mexican Social Security Institute.

[7] IMMEX stands for Industria Manufacturera, Maquiladora y de Servicios de Exportación. It is a Mexican federal program that allows companies to temporarily import goods tax-free—as long as those goods are used in production or processing for export.

[8] IVA stands for Impuesto al Valor Agregado, Mexico's Value-Added Tax (VAT)

BUYING AN EXISTING BUSINESS: A PRACTICAL GUIDE[9]

Acquiring an established company can accelerate your transition to ownership by delivering customers, revenue, employees and operating systems at closing. It is not, however, a shortcut: acquisition requires disciplined strategy, rigorous due diligence, careful structuring and clear post-close integration planning. The following refines the practical guidance and adds targeted considerations for buyers wanting to operate in Mexico.

When you acquire an existing business in Mexico, the transaction involves not only the purchase of assets and revenue streams, but also the transfer of several types of risks. These risks include legal, tax, labor, regulatory, and reputational exposures. In Mexico, risk is influenced by unique local rules and enforcement practices. Key considerations include fiscal withholding regimes, IMSS/INFONAVIT liabilities, labor law doctrines of succession, customs regimes for exporters, and sectoral permit regimes.

Before making any financial commitment, it is wise to approach the acquisition using a disciplined framework. This framework should balance your strategic objectives with your risk tolerance, considering the complexities of Mexico's legal and tax environment. Careful planning helps ensure that you understand and manage the risks associated with the transaction.

DECIDE WHETHER ACQUISITION FITS YOUR OBJECTIVES AND PROFILE

Before pursuing the acquisition of a business, it is essential to clarify your motivation and the role you intend to play following the purchase. Are you planning to act as an active operator, a passive investor, a strategic or industry buyer, or a financial investor? Your choice will influence the scale of the deal, the level of risk you are willing to accept, the necessity of retaining existing management, and the complexity of integrating the business after closing.

When considering an acquisition in Mexico, you should also evaluate the practical implications such as commute and residency requirements. Determine whether state-level permits or reporting obligations necessitate local representation. Additionally, confirm if key licenses and regulatory approvals require an on-site responsible party.

Seek businesses that allow you to leverage your strengths, whether in marketing, operations, procurement, or technology—to create immediate value and drive improvements.

DEFINE YOUR ACQUISITION OBJECTIVES

A clear understanding of your acquisition objectives is essential for identifying the right business opportunity and structuring a successful deal. The type of buyer you are, whether cash-flow, strategic, financial, or lifestyle—directly shapes your priorities, risk tolerance, and approach to due diligence.

CASH-FLOW BUYERS

If your primary goal is to generate consistent cash flow, focus on businesses with stable EBITDA, predictable working capital requirements, and reasonable valuation multiples. These factors help ensure ongoing financial health and minimize exposure to volatility.

STRATEGIC OR INDUSTRY BUYERS

[9] This section constitutes an executive summary and summarizes the buying process in Mexico. Each topic is developed at length later in this book.

Strategic or industry buyers should seek businesses that offer opportunities for synergy. This may include leveraging existing customer relationships for cross-selling, achieving procurement savings, or expanding through technological advancements or geographic growth. The goal is to create added value beyond the business's current operations.

FINANCIAL BUYERS AND INVESTORS

For financial buyers and investors, the emphasis should be on companies with scalable operations, clear and transparent financial statements, and well-defined exit strategies. These elements are critical for maximizing investment returns and providing flexibility for future divestment.

LIFESTYLE OR PASSION BUYERS

Lifestyle or passion buyers should select businesses that match their personal interests and skills. It is important to prioritize manageable operational complexity and avoid ventures that require excessive use of debt, ensuring the business remains enjoyable and sustainable.

IMPLICATIONS FOR DEAL STRUCTURE AND DUE DILIGENCE

The type of buyer you will influence the appropriate deal structure—such as asset versus share purchase—your acceptable level of inherited liabilities, and the extent and focus of your due diligence. Aligning your acquisition strategy with your profile ensures a more targeted search and a smoother transaction process.

CORE COMMERCIAL AND OPERATIONAL CONSIDERATIONS

A thorough assessment of commercial and operational fundamentals is crucial to understanding the strengths and risks inherent in any business acquisition. The following elements should be systematically evaluated as part of due diligence:

REVENUE QUALITY

It is essential to differentiate between recurring and one-off revenues, as recurring revenue streams provide greater predictability and stability. Attention should also be paid to revenue seasonality patterns and the degree of customer concentration. If a single customer accounts for more than 20–30% of total revenue, this concentration presents a material risk to the business's financial health.

SUPPLIER DEPENDENCE AND INPUT SOURCING

Evaluate the presence of sole-source suppliers, as overreliance on a single supplier can disrupt operations. It is also important to analyze the business's exposure to foreign exchange or import timing risks. For companies involved in exports, verify IMMEX/maquila program status and confirm that customs compliance requirements are being met.

OWNER DEPENDENCE AND TACIT KNOWLEDGE

Assess whether critical business processes and important customer relationships are concentrated solely with the owner. To mitigate risk, require documented Standard Operating Procedures (SOPs) and ensure that a defined transition period is included in the sale agreement. [1]

FACILITIES AND EQUIPMENT

Obtain maintenance logs for all equipment and verify the business's compliance with environmental regulations, especially for manufacturing operations. Clarify which assets are owned and which are leased to fully understand the company's capital commitments and flexibility.

QUALITY AND CERTIFICATION

Confirm that the company holds all required ISO, NOM, or sectoral approvals. Assess whether these certifications are transferable or if re-certification is necessary, particularly for regulated products such as medical devices or food. In these cases, verify compliance with COFEPRIS approvals. [1]

LOCAL REPRESENTATION AND REGULATORY REQUIREMENTS

In the context of Mexico, certain municipal or sectoral permits may require the presence of a local representative or responsible party. Prospective absentee owners should confirm whether key licenses and regulatory notifications allow for remote management or if an on-site legal representative is mandatory.

WEIGH THE PRINCIPAL ADVANTAGES AND TRADEOFFS

KEY ADVANTAGES OF ACQUISITION

Acquiring an existing business offers several notable benefits. First, there is immediate access to established cash flow, which can provide greater financial stability and predictability from the outset. Buyers also benefit from ongoing supplier relationships, which can ensure continuity in operations and facilitate procurement processes. The presence of a tested product or service reduces uncertainty surrounding market acceptance, as the business model has already demonstrated viability. In addition, inheriting a workforce of trained staff streamlines the transition and minimizes initial training requirements. Finally, a verifiable track record of historical performance makes the business more attractive to lenders, thereby improving the likelihood of securing financing.

POTENTIAL TRADEOFFS AND INHERITED RISKS

Despite these advantages, buyers should carefully consider the possible trade-offs. Acquiring a business may mean taking on inherited liabilities, which could include existing debts or unresolved obligations. There is also the risk of outdated systems, whether technological or operational, that may require significant updates or investment. Cultural mismatches between the existing team and new ownership can present challenges to effective integration and ongoing management. Additionally, there may be exposures that are not immediately apparent, such as undisclosed tax, labor, or regulatory issues, all of which could impact the business's future performance.

SPECIAL CONSIDERATIONS FOR MEXICO

In the context of Mexico, the fiscal and labor enforcement environment can amplify legacy risks. Purchasers should be particularly vigilant regarding unpaid social security contributions, informal payroll practices, or noncompliant subcontracting (outsourcing) arrangements. Such issues can result in significant successor liabilities, making thorough due diligence in these areas essential.

CLASSIFY YOUR BUYER TYPE AND PRIORITIZE EVALUATION CRITERIA

INDIVIDUAL BUYERS

Individual buyers should focus on acquiring businesses with straightforward operations and minimal complexity. The ease of managing day-to-day activities is paramount, as is the existence of robust transition plans from the current owner. These factors help ensure a smooth handover and reduce the risk of operational disruption after acquisition.

INDUSTRY/STRATEGIC BUYERS

Buyers from within the industry, or those with strategic interest, should prioritize opportunities that enable meaningful synergies. Key areas of evaluation include the strength and protection of intellectual property, as well as the ability to retain existing customers. These elements can facilitate integration and maximize the value of the acquisition through operational or market advantages.

FINANCIAL BUYERS

Financial buyers are primarily interested in the quality and sustainability of the business' earnings. It is important to place emphasis on historic EBITDA[1], the efficiency of cash conversion, and the potential for management replacement. These criteria help gauge the financial health of the business and the ability to maintain or improve performance after the acquisition.

[1] EBITDA stands for Earnings Before Interest, Taxes, Depreciation, and Amortization. It's a common measure of a business's operating performance and cash-flow-like earning power.

Mexico-Specific Guidance

For cross-border or foreign buyers seeking to acquire businesses in Mexico, it is critical to assess any limitations on foreign investment and registration requirements with the Ministry of Economy. Additionally, large or market-concentrating transactions may trigger antitrust reviews or obligations with COFECE[1]. These regulatory factors should be carefully considered during the evaluation process.

[1] COFECE stands for *Comisión Federal de Competencia Económica* (Federal Economic Competition Commission). It is Mexico's antitrust / competition authority.

DUE DILIGENCE: FOCUS AREAS AND MEXICO-SPECIFIC ITEMS

FINANCIAL DUE DILIGENCE

Begin by obtaining three to five years of audited or reviewed financial statements, along with bank reconciliations. Request Point of Sale (POS) and *Comprobante Fiscal Digital* por Internet (CFDI) exports, as well as adjusted EBITDA schedules. It is crucial to reconcile CFDI files to reported revenue, review tax returns, assess receivables aging, inventory methods and valuation, and identify any contingent liabilities.

CORPORATE DUE DILIGENCE

Examine the articles of incorporation, shareholders' minutes, capitalization table, and bylaws. Review shareholder agreements and conduct public registry searches for any liens attached to the business.

TAX DUE DILIGENCE

Request ISR (income tax) and IVA (value-added tax) returns, along with SAT correspondence and VAT credit history. Review withholding records and transfer pricing policies and documentation. Check for any pending SAT audits or payment agreements, and verify withholding compliance for royalties, dividends, services, and payments to nonresidents.

CUSTOMS AND TRADE DUE DILIGENCE

Confirm the status of the IMMEX program, review *Pedimentos* (official customs declarations), and examine origin documentation for USMCA claims. Investigate any outstanding customs audits.

LABOR AND SOCIAL SECURITY DUE DILIGENCE

Obtain payroll registers, IMSS and INFONAVIT payment histories, employment contracts, and records of labor claims or union activity.

Be aware that successor liability under the Ley Federal del Trabajo can make buyers responsible for certain pre-closing labor obligations if the business continues operations. Subcontracting reforms increase risks associated with noncompliant outsourced labor.

CONTRACTS AND CUSTOMERS DUE DILIGENCE

Review top customer concentration, assignment clauses, change-of-control provisions, and exclusivity arrangements. Examine key customer and supplier contracts, lease agreements, landlord consents, and any franchise or distributor agreements.

OPERATIONAL DUE DILIGENCE

Assess equipment condition reports, maintenance logs, inventory counts, product liability history, and insurance policies.

REGULATORY AND PERMITS DUE DILIGENCE

Map out all municipal, state, and federal permits, including *licencia de funcionamiento*, COFEPRIS, SEMARNAT, CRE, CNBV, and IFT. Determine which permits are transferable and typical regulator timelines, including transport or sectoral licenses, and verify their assignability.

ENVIRONMENTAL AND SAFETY DUE DILIGENCE

For industrial, hospitality, and real estate assets, obtain environmental impact assessments (MIAs), remediation records, and NOM compliance certificates.

INTELLECTUAL PROPERTY AND INFORMATION TECHNOLOGY DUE DILIGENCE

Verify IMPI registrations, review software licensing, evaluate data privacy practices according to the Federal Law on Protection of Personal Data Held by Private Parties, and assess the cybersecurity posture.

LITIGATION DUE DILIGENCE

Obtain schedules of civil, administrative, tax, and labor cases, as well as insurer correspondence.

VALUATION AND DEAL STRUCTURE: ASSET SALE VS. SHARE SALE[10]

ADVANTAGES OF ASSET SALES

Asset sales allow the buyer to selectively assume liabilities, providing greater control over which obligations are carried forward. This selective approach enables buyers to avoid undesired liabilities associated with the business. Additionally, asset sales make it possible to allocate the purchase price among the acquired assets, which can offer a tax step-up. This tax advantage may result in accelerated depreciation for the buyer, improving the financial outcome of the transaction.

DISADVANTAGES OF ASSET SALES

On the other hand, asset sales typically involve the transfer of multiple individual assets, which can complicate the transaction process. The transfer of these assets may create exposure to value-added tax (IVA) for certain items, increasing the transaction's cost and administrative burden. Furthermore, asset sales often require the reassignment of permits and contracts related to each asset. This reassignment

[10] See detailed analysis later in this book.

adds further complexity to the closing procedure, making asset sales more demanding in terms of documentation and regulatory compliance.

ADVANTAGES OF SHARE SALES

Share sales offer continuity for contracts, permits, and workforce, streamlining the transition for ongoing business operations. This continuity ensures that the day-to-day activities of the business are not disrupted during the sale process. Typically, share sales avoid IVA on the sale of shares, making these transactions more straightforward from a tax perspective and reducing the administrative hurdles associated with indirect taxes.

DISADVANTAGES OF SHARE SALES

GENERAL CONSIDERATIONS

While share sales can offer various advantages, they also present significant drawbacks for buyers. One of the main disadvantages is that the buyer inherits all the company's existing and historical tax, labor, and regulatory liabilities. This means that any unresolved issues or obligations from the past become the responsibility of the new owner, potentially increasing post-acquisition risk.

Additionally, share sales typically provide fewer opportunities for the buyer to achieve a step-up on the tax basis of the company's assets. This limitation can affect the buyer's ability to optimize future tax benefits and deductions related to depreciation and amortization.

Foreign buyers must also consider specific requirements, such as filings with foreign investment registries and compliance with sectoral restrictions. These regulatory obligations can further complicate the transaction process and may restrict the buyer's ability to complete the purchase as intended. Therefore, before proceeding with a share sale, it is crucial to conduct a thorough quantification of tax and labor risks to ensure that potential liabilities are properly assessed and managed.

MEXICO-SPECIFIC CONSIDERATIONS

In Mexico, there are additional factors to consider in share sale transactions. Value-added tax (VAT, or IVA) generally applies to the transfer of physical goods in asset sales; however, share transfers are typically exempt from VAT. Despite this exemption, the sale of shares may trigger *Impuesto Sobre la Renta (ISR),* which is essentially income tax imposed on capital gains realized by the seller.

Impuesto Sobre la Renta — basically income tax.

Moreover, many municipal and federal permits in Mexico are either non-transferable or require regulatory notification or approval following a change of control. It is essential to identify and map out all necessary permits early in the transaction process to avoid delays or compliance issues after closing.

FINANCING OPTIONS IN MEXICO

Traditional bank lending in Mexico is generally characterized by stringent requirements. Banks typically demand audited financial statements, sufficient collateral, and, in many cases, personal guarantees from borrowers. These factors can make access to bank financing challenging, especially for businesses that may not meet all the necessary criteria.

Aside from conventional bank loans, several alternative financing options are available in Mexico. These include seller financing arrangements, where the seller provides credit to facilitate the transaction, and private equity investments that can supply capital for growth or acquisition. Development banks, such as

Nafin and Bancomext, offer targeted financial support for certain sectors; while leasing and factoring solutions provide additional avenues for businesses to secure funding without traditional loans.

When seeking financing in Mexico, it is important to note that lenders will evaluate the borrower's SAT (tax authority) status and may require evidence of consistent CFDI (digital tax invoice) usage, as well as compliance with IMSS (social security) and INFONAVIT (housing fund) obligations. Mexican lenders typically favor transactions backed by tangible assets, such as machinery, inventory, or real estate, and prefer borrowers with steady cash flow. Banks in Mexico maintain very strict requirements and generally do not offer certain products, like lines of credit. As a result, seller financing or earnout structures may be considered as viable alternatives in situations where traditional bank financing is not attainable.

EMPLOYEE TRANSITION, RETENTION, AND LABOR RISK MITIGATION

To ensure a smooth transition and minimize disruption among key personnel during a transaction, it is important to negotiate retention agreements and implement incentive plans for essential managers. Transitional Services Agreements (TSAs) can also be used to help preserve business continuity throughout the integration period.

Mexico-Specific Considerations

When completing a transaction in Mexico, it is essential to conduct focused labor audits to identify any existing or potential employment-related claims. Buyers should also request seller indemnities or establish escrow arrangements to cover known claims, thereby protecting against unexpected liabilities.

Additionally, it is critical to confirm that any outsourced workforce complies with current Mexican subcontracting regulations. Failure to comply with these requirements can result in retroactive employer liabilities, creating significant financial risk for the buyer.

PERMITS, SECTOR APPROVALS, AND TIMELINES

For transactions that require regulatory approvals in Mexico, it is important to identify those with long lead times at the outset. These should be treated as conditions precedent to where feasible, especially for approvals from agencies such as the National Banking and Securities Commission (CNBV), the Federal Telecommunications Institute (IFT), the Federal Commission for Protection against Sanitary Risk (COFEPRIS), the Ministry of Environment and Natural Resources (SEMARNAT), and the Energy Regulatory Commission (CRE).

Typical Timing Indicators

- Municipal licenses and fire or sanitary inspections usually take weeks, though timing can vary based on locality.
- Registrations and sanitary approvals from COFEPRIS typically require several months, often between 8 and 24 weeks or more.
- Environmental Impact Authorizations (MIAs) and clearances from SEMARNAT may take months to a year, especially for significant projects.
- Authorizations from CNBV, IFT, and CRE also generally require several months and should be considered long lead items.

In transactions involving these regulatory steps, it is recommended to include clear responsibilities for filings, allocation of fees, and milestone dates for approvals in the Letter of Intent (LOI) or the Share Purchase Agreement (SPA)[1].

[1] **Letter of Intent** is a **non-binding** (usually) document that outlines the **main business terms** of a proposed transaction before the full contract is drafted. SPA — Share Purchase Agreement is the definitive, legally binding contract that sets out the final terms for the purchase and sale of shares in a company.

MEXICO - SPECIFIC LEGAL, TAX, AND REGULATORY RISKS

TAX CONSIDERATIONS

It is essential to obtain authenticated tax returns and official certificates of tax compliance from the Mexican tax authority (SAT). Careful review of VAT (IVA) credit histories and any outstanding tax assessments should be performed. It is important to note that delays in VAT refunds can create working capital constraints. Additionally, asset transactions can trigger IVA on certain asset transfers. For transactions involving nonresident sellers, the buyer should review any withholding obligations on sale proceeds and ensure there is proper documentation for treaty relief if applicable.

SOCIAL SECURITY AND PAYROLL (IMSS / INFONAVIT)

Audits by the Mexican Social Security Institute (IMSS) frequently result in retroactive assessments for employer contributions and the imposition of fines. To mitigate these risks, it is necessary to obtain IMSS and INFONAVIT payment records, employer registration numbers, and, where available, a certificate of no outstanding debts (*constancia* [1]). Under Mexican law, a buyer may be held jointly liable for employer obligations if the economic unit is continued after the transaction. Therefore, appropriate indemnities and escrow arrangements should be considered to address these exposures.

LABOR LAW (LEY FEDERAL DEL TRABAJO)

Mexican labor courts give priority to the protection of employees, and economic continuity can lead to labor succession claims against the buyer. It is important to investigate any collective bargaining agreements, pending mandatory pre-trial settlement procedures (*conciliación* [1]), and ongoing labor lawsuits (*juicios laborales* [2]). Recent reforms, including the judicialization of labor disputes and stricter regulations on outsourcing (*subcontratación* [3]), have increased scrutiny of contractor payroll arrangements.

CORPORATE AND COMMERCIAL MATTERS

It is necessary to review the target company's corporate books, board and shareholder meeting minutes, shareholder agreements, and any pre-emptive rights. All filings with the *Registro Público de Comercio* [1] should be inspected for accuracy and completeness. It is also important to confirm that any share transfers comply with the company's bylaws and that any required change of control consent is identified and obtained.

FOREIGN INVESTMENT RULES

Under the *Ley de Inversión Extranjera*, buyers should confirm whether the target operates in a sector subject to foreign ownership limits or if there are notification or authorization requirements. If necessary, the investment must be registered with the *Secretaría de Economía*.

CUSTOMS AND TRADE REGIMES

If the target company participates in the IMMEX program or uses PROSEC [1], the buyer must verify program authorizations and *pedimentos* (customs import/export documents), as well as compliance with origin rules to qualify for USMCA preferential treatment. Noncompliance in these areas can result in substantial duties and penalties.

ENVIRONMENTAL AND MUNICIPAL PERMITS

Manufacturing and retail operations often require environmental authorizations, waste disposal registrations, and municipal operating licenses (*licencia de funcionamiento*). These permits may be non-assignable or require environmental audits before transfer. Due diligence should confirm the validity, assignability, and compliance status of all such permits.

ALLOCATION OF RISK: WARRANTIES, INDEMNITY, AND ESCROWS

In the context of mergers and acquisitions, allocating risk between buyer and seller is essential to address potential exposures. Risk allocation is typically achieved through a combination of seller representations and warranties, tailored indemnities, and escrow arrangements.

Seller representations and warranties should cover corporate, tax, labor, and regulatory compliance. These provisions help ensure that the buyer receives accurate disclosures and can seek recourse if material facts are misrepresented or omitted. For critical exposures identified during due diligence, tailored indemnities and escrow accounts may be negotiated to provide specific protection for the buyer and ensure funds are available if claims arise.

In situations where there may be gaps in coverage or to limit disputes after closing, parties should consider obtaining Representations & Warranties (R&W) insurance. R&W insurance is an M&A insurance policy that covers certain losses if the seller's representations and warranties in the purchase agreement—often a Share Purchase Agreement (SPA)—turn out to be untrue and cause damage after closing.

It is also important to define appropriate survival periods and caps for representations, warranties, and indemnities based on the size and type of risk involved in the transaction. Standard practice is to include carveouts for fraud and willful misrepresentation, which are not subject to the general caps or survival limits.

INTEGRATION AND POST-CLOSING COMPLIANCE

Effective integration and post-closing compliance are critical steps following the completion of an acquisition. The following measures should be prioritized to ensure a smooth transition and continued regulatory adherence:

UPDATE AND NOTIFICATION OF PUBLIC REGISTRIES AND TAX AUTHORITIES

It is essential to promptly update the *Registro Público de Comercio* and notify the *Servicio de Administración Tributaria* (SAT) where required. Transitioning IMSS/INFONAVIT registrations is also necessary, and payroll and tax reporting systems must be aligned to remain fully compliant from day one.

SECTOR-SPECIFIC REGULATORY MANAGEMENT

For businesses operating in regulated sectors, it is important to manage permit renewals, submit required notifications, and actively maintain relationships with relevant regulators to avoid operational disruptions.

RETENTION, TRAINING, AND CULTURAL INTEGRATION

Implement retention strategies, comprehensive training, and cultural integration plans to safeguard the continuity of critical staff and customer relationships. These efforts help unify teams and maintain key operational knowledge within the organization.

TRANSITION PERIOD AND OWNER SUPPORT

Negotiate a transition period of 60 to 180 days—or longer if the operations are complex—to ensure stability. During this period, secure owner support, develop documented Standard Operating Procedures (SOPs), and organize training schedules for key personnel. These practices are designed to protect customer relationships and facilitate knowledge transfer.

[1] Standard Operating Procedures, written step-by-step instructions that explain how a recurring task should be done so results are consistent, compliant, and easy to train/scale.

LABOR TRANSITION AND COMPLIANCE

Proactive communication with employees is vital during the labor transition. Confirm payroll continuity, and, where necessary, negotiate individual separation agreements or union negotiations in accordance with the *Ley Federal del Trabajo*. Ensure that new employers register IMSS contributions immediately to prevent any contribution gaps.

SYSTEMS INTEGRATION AND TAX COMPLIANCE

Integrate accounting systems to ensure compliance with SAT electronic invoicing (CFDI) and digital accounting requirements. Reconcile VAT ledgers and strategically plan for VAT refund timing to support cash flow needs.

RED FLAGS THAT REQUIRE WALK-AWAY OR HEAVY DISCOUNT

Proceed only if all the following conditions are met:

- The projected cash flows are sufficient to justify the purchase price after accounting for identified tax, labor, and regulatory contingencies.
- Key permits and registrations can be successfully transferred to the buyer or reinstated without undue delay or uncertainty.
- There is a credible and well-budgeted integration plan in place, covering people, suppliers, customers, and compliance requirements.

To mitigate unknown risks, use mechanisms such as escrows and indemnities, and obtain pre-closing audits in situations where potential exposures could be significant.

WALK AWAY OR DEMAND A HEAVY DISCOUNT IF YOU FIND:

- Inability to reconcile CFDI/XML data, bank statements, and reported revenue, indicating possible discrepancies in financial reporting.
- Significant unpaid IMSS/INFONAVIT contributions, ongoing tax audits with major exposures, or widespread use of informal cash operations.
- Critical permits that are non-transferable cannot be re-issued, or require an extended reapproval process, jeopardizing business continuity.

- High customer concentration without contractual renewal certainty, or the presence of major pending labor tribunal cases.
- Large exposure to a single customer, material unresolved labor claims, or systemic use of informal cash operations.
- Inconsistent cash flows, significant one-off revenues, heavy customer concentration (more than 25–30% of revenue from a single client), substantial contingent liabilities, or noncompliance with tax or labor regulations.

Conclusion

Purchasing an established business offers a significant opportunity to accelerate wealth creation. However, achieving this success requires much more than simply acquiring a going concern. It demands a disciplined approach—beginning with careful target selection, followed by thorough due diligence and thoughtful transaction structuring that considers Mexico-specific legal, tax, and regulatory considerations.

To minimize risks and ensure a smooth transition, it is crucial to engage experienced Mexican legal counsel, tax advisors, and labor specialists early in the process. Mapping out permit transferability and understanding regulatory timelines are essential steps in identifying potential challenges before they become obstacles. Additionally, using contractual protections such as escrows, indemnities, and conditional closings can help allocate historic risks to the seller, providing greater confidence and security for the buyer as the transaction moves forward.

BEFORE YOU BUY — RECOGNIZING SMALL BUSINESS VALUE DRIVERS

If you've decided that acquiring a business is your path to entrepreneurship and have chosen a particular industry, the next step is to pinpoint the key value drivers to evaluate before making an offer. Assessing a small business means looking at both its financial performance and the qualitative factors that support lasting value. Simply buying a functioning company with the intention of keeping things unchanged isn't productive—consider where you can lead the business moving forward. This section outlines essential value drivers, practical evaluation questions, and Mexico-specific considerations around legal, tax, and regulatory matters that buyers should review before advancing.

Business value drivers are the essential factors that increase the worth of a business by enhancing revenue, reducing costs, strengthening competitive advantages, and lowering risk. They help leaders focus on what truly influences performance and long-term sustainability.

These drivers generally fall into three categories.

- Growth drivers support expansion by identifying and pursuing opportunities in new markets or through new products.
- Operational efficiency drivers improve how the business runs by reducing waste, optimizing processes, and leveraging technology.
- Financial drivers influence profitability and stability through revenue growth, margin improvement, access to capital, and disciplined financial management.

Understanding what drives value allows a company to align strategy, operations, and investment decisions with the activities that matter most. This alignment strengthens competitive positioning, enhances customer relationships, and builds a foundation for sustainable growth.

A clear focus on value drivers helps organizations improve cash flow, manage risk more effectively, and increase overall business valuation. Whether preparing for growth, investment, or future exit, identifying and optimizing these drivers is central to building a stronger, more resilient business.

CORE VALUE DRIVERS (WHAT TO PRIORITIZE)

PROVEN, PREDICTABLE INCOME STREAM

WHAT TO LOOK FOR

When assessing a small business, it is essential to look for a minimum of three to five years of consistent revenue and positive Seller's Discretionary Earnings (SDE)[1] or adjusted EBITDA[2]. Recurring revenue streams and stable gross margins also indicate a reliable and sustainable income base.

Definitions

- [1] **Seller's Discretionary Earnings (SDE):** The normalized, total financial benefit a small business provides to a single full-time owner. SDE is calculated by adding back the owner's compensation, discretionary expenses, non-cash charges, interest, taxes, and non-recurring items to the business's pre-tax profit.
- [2] **EBITDA:** A measure of a company's core operating profitability, calculated as earnings before interest, taxes, depreciation, and amortization.

MEXICO CONSIDERATIONS

Verify Fiscal Records: Review fiscal documentation filed with SAT (*Declaraciones ISR/IVA*) and ensure CFDI issuance. Discrepancies between cash receipts and reported sales are common; therefore, request bank statements, POS reports, and CFDI XML files for reconciliation.

Unreported Cash Sales: Be aware of informal economic risks, particularly in retail and hospitality sectors. Check for unreported cash sales and require reconciliations and third-party confirmations to validate reported revenue.

GROWTH POTENTIAL AND SCALABILITY

WHAT TO LOOK FOR

When evaluating a business for growth potential, it is important to identify opportunities for market expansion and assess the repeatability of existing processes. Scalability of products or services is a key factor, as well as the business's ability to transfer owner-dependent tasks into established systems. These elements signal a company's capacity to grow beyond its current state, efficiently increase output, and reduce reliance on individual owners.

MEXICO CONSIDERATIONS

MARKET GROWTH DRIVERS

In the Mexican context, several local factors can influence growth potential. Regional economic trends at the state level, tourism flows—especially for hospitality businesses—growth in maquiladora or manufacturing clusters, and proximity to key trade corridors such as U.S. border ports and Pacific ports, are critical drivers of market expansion.

REGULATORY CONSTRAINTS

Physical expansion may be limited by regulatory restrictions, including zoning laws, municipal licenses (*licencia de funcionamiento*), and local permitting requirements. It is essential to review municipal records early to identify any constraints that could impact business growth.

BRAND STRENGTH AND CUSTOMER LOYALTY

When assessing brand strength and customer loyalty, it is important to evaluate the business's reputation in its market, the extent of repeat customers, and whether the client base is diversified. A well-defended brand position, supported by a broad range of customers and a positive reputation, helps protect the business against competitive threats and market fluctuations.

MEXICO CONSIDERATIONS

As part of due diligence in Mexico, it is essential to obtain a customer concentration analysis, such as the proportion of revenue generated by the top 10 customers. If a business relies heavily on a small number of customers (typically more than 25–30% of total revenue), this can present significant revenue risk and give those customers greater leverage in contract negotiations.

Additionally, any franchise agreements or brand licenses should be reviewed for their transferability and compliance with IMPI-registered trademarks, where applicable. Ensuring proper registration and transfer of intellectual property rights is critical to maintaining brand value and securing ongoing business operations.

QUALITY OF EMPLOYEES AND MANAGEMENT CONTINUITY

KEY FACTORS IN ASSESSING EMPLOYEE AND MANAGEMENT QUALITY

When evaluating the quality of employees and the continuity of management, it is important to consider several core factors. A competent management team is essential for effective leadership and execution of business strategy. Low employee attrition rates indicate organizational stability and help preserve institutional knowledge. The existence of documented procedures supports consistency in operations and facilitates onboarding and training. Additionally, delegation of critical functions ensures that key responsibilities are not concentrated among a few individuals, reducing risk in case of turnover.

MEXICO-SPECIFIC CONSIDERATIONS

In the Mexican context, due diligence should pay particular attention to labor law and regulatory risks. Mexico's Federal Labor Law (LFT) provides strong protections for employees, making it essential to understand potential successor liability, which may arise depending on the transaction structure and whether operations continue under new ownership. Reviewing employment contracts, union agreements, and any pending labor claims is critical to identifying potential risks.

Verifying payment histories and social security filings for IMSS (Mexican Social Security Institute) and INFONAVIT (National Workers' Housing Fund Institute) contributions can help uncover hidden liabilities. Recent reforms regarding subcontracting and outsourcing require a thorough review of third-party provider structures to ensure compliance and avoid unexpected obligations.

REPEATABLE AND DEFENSIBLE REVENUE MODEL

KEY INDICATORS OF A SUSTAINABLE REVENUE MODEL

When evaluating the strength of a company's revenue model, it is important to focus on sources of recurring income, such as maintenance agreements and subscription-based contracts. These types of contracts provide predictable cash flow and help mitigate the risk of revenue fluctuations. In addition, effective management of predictable seasonality is crucial to maintaining steady performance throughout the year. Margin resilience—the ability of the business to maintain profitability despite shifts in costs or market conditions—further supports the sustainability and defensibility of the revenue model.

MEXICO CONSIDERATIONS

For businesses operating in Mexico, it is essential to confirm that all key customer and supplier contracts are properly formalized. Contracts should include clear assignment provisions to ensure that rights and obligations can be transferred if necessary, and they must comply with local consumer protection regulations when applicable. This helps to ensure that revenue streams are protected and that contractual relationships remain enforceable under Mexican law.

COMPETITIVE POSITION AND BARRIERS TO ENTRY

KEY FACTORS FOR EVALUATION

When assessing a company's competitive position, it is critical to examine what differentiates the business from others in its market. Factors such as unique product features, strong supplier relationships, exclusive distribution agreements, and the strength and protection of intellectual property are all indicators of a sustainable competitive advantage. Each of these elements can contribute to a company's ability to defend its market share against new entrants and competitors.

MEXICO-SPECIFIC CONSIDERATIONS

In the context of Mexico, there are important additional considerations for evaluating competitive position and market barriers.

Antitrust and Competition: For larger acquisitions or transactions involving concentrated local markets, it is necessary to consider whether the transaction meets the notification thresholds of COFECE, Mexico's antitrust authority. Transactions that meet these thresholds may be subject to review to ensure compliance with competition laws.

Supplier Dependence: It is also essential to assess the level of dependence on specific suppliers, as high supplier concentration could increase operational risks. For companies relying on cross-border supply chains, it is important to review customs compliance and confirm the company's status in the *Padrón de Importadores*[1], which is required for importing goods into Mexico.

[1] *Padrón de Importadores* is the official registry administered by SAT (Mexico's tax authority) that individuals and companies must be enrolled in before they can import goods into Mexico.

PRACTICAL ASSESSMENT FRAMEWORK (30/70 RULE)

A practical approach to evaluating acquisition opportunities involves applying the 30/70 heuristic. This means allocating approximately 30% of the assessment effort to analyzing the seller's historical performance, including financial results, customer and supplier relationships, and operational track record. The remaining 70% of the evaluation should focus on the improvements and value creation initiatives that can be realistically achieved after the acquisition is completed. When considering targets in Mexico, it is especially important to direct the bulk of this forward-looking assessment toward understanding regulatory, tax, labor, and permit constraints, as these factors may present significant hurdles to realizing post-acquisition value.

MEXICO-SPECIFIC LEGAL, TAX AND REGULATORY GUIDANCE

OVERVIEW OF THE ACQUISITION PROCESS

Whether the goal is to operate the acquired company directly or to obtain it for strategic purposes, the acquisition process typically follows a well-defined sequence. This sequence begins with the search and screening of potential targets, proceeds to initial contact, and is followed by an exchange of information under confidentiality agreements. Due diligence is then conducted to thoroughly evaluate the business, leading to negotiation and, ultimately, closing of the transaction.

BENEFITS AND CHALLENGES OF ACQUIRING ESTABLISHED BUSINESS

Acquiring an established business offers several advantages over starting a new venture. It can significantly reduce many of the risks associated with startups by providing immediate cash flow, established relationships with vendors and customers, a trained workforce, and proven operating processes. However, purchasing a business also introduces legal, tax, and regulatory complexities. These issues vary depending on the jurisdiction in which the acquisition takes place and must be carefully managed throughout the process.

PREPARATION AND MARKET APPROACH

Define Acquisition Objectives and Deal Parameters: Clearly establish the objectives for the acquisition and specify the parameters that will guide the search for suitable targets. These parameters should include the industry sector, the desired size of the business, the preferred geographic locations (such as specific states or municipalities within Mexico), the target EBITDA, acceptable valuation multiples, and the most suitable deal structures (whether asset or share purchases). It is also essential to consider any restrictions related to foreign investment.

Market Scan and Comparative Evaluation: Conduct a comprehensive review of multiple potential acquisition targets. This process involves benchmarking the valuations of different companies, assessing levels of customer concentration, evaluating supplier-related risks, and identifying growth corridors within the market.

Prioritization and Outreach: Leverage available platform metrics and introductory plans to determine which targets should be prioritized for outreach. Prepare to enter into non-disclosure agreements (NDAs) to receive confidential information, such as Confidential Information Memoranda (CIM), detailed financial statements, and lists of key vendors and customers.

INITIAL ASSESSMENT (PRELIMINARY DILIGENCE)

VALIDATE LEGITIMACY AND BUSINESS MODEL

Begin the assessment by confirming the legitimacy of the business. This involves verifying its legal registration, principal business activities, and sources of revenue to ensure the company is operating as represented.

REQUEST AND REVIEW AN INFORMATION PACKAGE

Request a comprehensive information package from the target company. This package should include three years of financial statements (preferably audited if available), interim management accounts, lists of customers and suppliers, copies of material contracts, an employee roster, and details of property leases. Reviewing these documents provides insight into the company's financial health, key relationships, and operational commitments.

IDENTIFY RED FLAGS

During the preliminary diligence stage, pay close attention to potential red flags. Issues that may warrant an early exit from the process or require deeper review include inconsistent cash flows, significant one-off revenues, heavy customer concentration (where more than 25–30% of revenue is derived from a single client), large contingent liabilities, and noncompliance with tax or labor obligations. Identifying these factors early helps to avoid unnecessary risks in the acquisition process.

DUE DILIGENCE AREAS AND MEXICO-SPECIFIC CONSIDERATIONS

CORPORATE AND GOVERNANCE

Documents for Review

The due diligence process should include a thorough review of key corporate documents. These include the *Acta Constitutiva*[1] and any amendments, bylaws (*estatutos*[2]), the shareholder register, minutes of shareholders' and board meetings, powers of attorney, and extracts from the Registro Público de Comercio.

[1] The foundational legal document that creates and gives legal existence (*personalidad jurídica*) to a company, civil organization, or other business entity in Mexico. It is drafted before a notary public or commercial notary (*corredor público*) and must be registered in the Registro Público de Comercio (RPC) to take legal effect.

[2] *Estatutos sociales*—commonly translated as bylaws—are the set of internal rules that govern how a company is organized, operated, and managed. They define the structure of the company, the rights and obligations of partners or shareholders, and the procedures for decision-making.

MEXICO-SPECIFIC CONSIDERATIONS:

During due diligence, it is important to verify ownership and any preemptive rights related to share transfers. Additionally, confirm that all authorized signatories are consistent with the information recorded in corporate minutes and public registry extracts.

TAX & FISCAL COMPLIANCE (SAT)

Documents for Review

As part of tax and fiscal due diligence, it is essential to collect and review the company's RFC registration, income tax (ISR) and value-added tax (IVA) returns for the past three to five years, records of electronic invoice (CFDI) issuance, proof of VAT payments and credits, withholding tax records, and transfer pricing studies. These documents provide a comprehensive view of the company's compliance with its tax obligations.

Mexico-Specific Considerations

Verify that the company follows CFDI and PAC requirements. Improper invoicing practices can result in denied VAT credits and the possibility of tax reassessments by the authorities.

Assess the VAT treatment for the specific transaction structure under consideration. Typically, asset transfers may trigger VAT on goods, while share transfers are generally exempt from VAT but may result in capital gains subject to ISR.

Investigate whether the company has been subject to SAT audits, if there are any pending tax assessments, or if administrative fines have been imposed. Unresolved tax liabilities pose a risk to buyers, especially in asset purchase transactions where liabilities may attach to the assets acquired.

Determine the existence and transferability of tax attributes such as loss carryforwards and tax bases, as well as any limitations on their use after the transaction.

LABOR AND SOCIAL SECURITY (IMSS/INFONAVIT)

DOCUMENTS FOR REVIEW

- Employment contracts
- Payroll records
- IMSS and INFONAVIT payment histories
- Collective bargaining agreements
- Records of labor claims and settlements

MEXICO-SPECIFIC CONSIDERATIONS

Mexican labor law generally favors employees. Depending on the transaction structure and the continuity of business operations, successor liability may be imposed on the buyer.

Recent reforms to outsourcing (subcontracting) regulations require careful review of all third-party service arrangements. If subcontracting practices are not compliant, the buyer may inherit significant retroactive liabilities.

It is advisable to obtain certificates confirming the absence of labor claims or to conduct targeted labor audits. Additionally, anticipated costs related to potential severance obligations or union negotiations should be considered in the company's valuation.

CONTRACTS, LEASES, AND THIRD-PARTY RELATIONSHIPS

DOCUMENTS FOR REVIEW

When conducting due diligence, it is important to collect and analyze all relevant agreements and legal documents that affect the company's operations and obligations. These include supplier and customer agreements, distribution or franchise contracts, leases, loan agreements, guarantees, and security interests. Comprehensive review of these documents helps identify ongoing commitments, risks, and any restrictions that may impact the transaction.

MEXICO-SPECIFIC CONSIDERATIONS

Assignment and Consent Clauses: It is essential to verify the existence of assignment or consent clauses in contracts and to ensure that any transfer of leases has the necessary municipal approvals. Failure to do so may prevent the transfer or enforceability of certain agreements.

Registry Searches: Due diligence should include searches of public registries for both real estate (*Registro Público de la Propiedad* [1]) and, when applicable, movable property collateral (*Registro de Bienes Muebles* [2]) to identify any existing liens or encumbrances that may affect the assets being acquired.

REGULATORY, PERMITS, AND SECTOR COMPLIANCE

DOCUMENTS FOR REVIEW

When performing due diligence, it is critical to collect and examine all documents related to regulatory compliance and permits. These include municipal operating licenses (*licencia de funcionamiento*), sanitary registrations issued by COFEPRIS, environmental permits from SEMARNAT, and any sector-specific authorizations such as those granted by CNBV, CRE, or SCT. Additionally, it is important to review records of any prior administrative proceedings to ensure comprehensive understanding of the company's regulatory status.

MEXICO-SPECIFIC CONSIDERATIONS

Many permits in Mexico are not transferable and may require notification or reapproval in the event of a change of control. It is important to assess the transferability of permits early in the transaction process to avoid delays or complications.

For companies operating in regulated sectors such as pharmaceuticals, food, transport, financial services, and energy, it is necessary to confirm the transfer or renewal procedures and timelines with the relevant authorities. Obtaining regulatory consent in these areas can significantly impact the timing of transaction closing.

ENVIRONMENTAL, HEALTH & SAFETY

During due diligence, it is important to review all documents relating to a company's environmental, health, and safety obligations. Key documents include environmental impact studies, permits, inspection reports, remediation records, and incident logs. These materials provide insight into the company's compliance history and identify potential risks related to environmental or safety issues.

MEXICO-SPECIFIC CONSIDERATIONS

In Mexico, environmental liabilities are enforced at the federal, state, and municipal levels. Therefore, environmental due diligence should thoroughly address historical contamination and verify compliance with NOMs (official Mexican standards). This ensures that any legacy issues or ongoing obligations are properly understood and managed.

INTELLECTUAL PROPERTY & DATA PROTECTION

As part of the due diligence process, it is essential to gather and assess all intellectual property and data protection documents. Relevant materials include trademark and patent registrations, domain names, licensing agreements, software and source-code ownership records, data privacy policies, and processing records. These documents help confirm the scope of the company's intellectual property assets and compliance with data protection requirements.

MEXICO-SPECIFIC CONSIDERATIONS

For Mexican operations, special attention should be paid to IMPI (*Instituto Mexicano de la Propiedad Industrial*) records for trademarks and patents. It is important to verify that IP assignments are complete and enforceable. Additionally, compliance with data protection obligations must be reviewed under the Federal Law on Protection of Personal Data Held by Private Parties, as well as any sector-specific privacy regulations.

LITIGATION, CONTINGENT LIABILITIES & INSURANCE

Due diligence must also include a comprehensive review of documents related to litigation, contingent liabilities, and insurance. This involves compiling a list of pending or threatened litigation, arbitration, and administrative proceedings, as well as judgments and insurance policies or claim history. Such documentation is vital for assessing potential exposures and understanding the company's risk profile.

MEXICO-SPECIFIC CONSIDERATIONS

In Mexico, it is necessary to verify court dockets and cases before labor tribunals (*Juntas de Conciliación y Arbitraje / tribunales laborales*), as labor claims are common and may present significant liabilities. Insurance availability in Mexico can vary according to risk type; due diligence should confirm the scope of existing policies, any exclusions, and whether insurer consent is required for assignment.

TRANSACTION STRUCTURING AND TAX PLANNING

ASSET SALE VS. SHARE SALE

When structuring a transaction, it is essential to compare asset sales and share sales. This analysis should focus on the tax consequences of each approach, the transferability of permits, and the exposure to historical liabilities. Understanding these factors helps guide the selection of the most advantageous transaction structure.

ASSET PURCHASE CONSIDERATIONS

Opting for an asset purchase allows the buyer to benefit from a step-up on the tax basis and enables selective assumption of liabilities. However, this structure may trigger value-added tax (VAT) and often requires consents to transfer existing contracts. These considerations should be carefully weighed during planning.

SHARE PURCHASE CONSIDERATIONS

A share purchase typically preserves existing contractual relationships and supports operational continuity. This structure may be exempt from VAT, but it results in the transfer of all historical liabilities to the buyer, which must be factored into risk assessment.

RISK MITIGATION TOOLS

To address Mexican tax, labor, and environmental risks, the transaction should incorporate escrows, indemnity caps, holdbacks, and seller warranties tailored to the specific exposures identified in due diligence.

TAX-EFFICIENT STRUCTURING

Tax planning should consider the use of Mexican holding companies, the availability of rollover relief where applicable, and the timing of payments to manage the impacts of income tax (ISR) and VAT.

FINANCING ARRANGEMENTS

Financing for the transaction may involve local banks, which typically require audited financial statements, personal guarantees, and collateral. Alternatives such as development banking or seller financing should also be considered, depending on the circumstances.

CLOSING MECHANICS AND POST-CLOSING STEPS

REGISTRATIONS

After closing, it is necessary to update the Registro Público de Comercio, property deeds (*escrituras*), and register security interests as required to reflect the changes resulting from the transaction.

NOTIFICATIONS

Notifications should be sent to the SAT, IMSS/INFONAVIT, municipal authorities, and relevant regulatory agencies to inform them of any changes in control, as applicable to the transaction.

TRANSITIONAL MATTERS

Transitional services agreements should be implemented, and key employees may be retained through new contracts. It is also important to ensure an orderly transfer of customer and supplier relationships to maintain business continuity.

PRE-CLOSING TAX AND LABOR AUDITS

Conduct tax and labor audits prior to closing and negotiate seller-provided indemnities for tax and labor matters. Sufficient escrows should be arranged to cover both known and unknown exposures.

CONDITIONAL CLOSINGS

The closing of the transaction may be made conditional on the transfer of key permits, satisfactory escrow funding, and the clearance of major liens.

INSURANCE AND REPRESENTATIONS

Where appropriate, representation and warranty insurance should be secured to reduce exposure to seller indemnity claims.

LOCAL ADVISORS

Engaging Mexican legal counsel, tax advisors, and labor specialists who are familiar with federal, state, and municipal nuances is essential. For sector-regulated businesses, the involvement of experienced regulatory counsel is critical.

ANTICORRUPTION & AML/KYC COMPLIANCE IN MEXICO

When purchasing a business in Mexico, buyers must assess two primary areas of compliance: anti-corruption measures and anti-money laundering/Know-Your-Customer (AML/KYC) requirements. Both domains have a significant impact on risk assessment, deal valuation, the scope of due diligence, and the integration process after closing.

In Mexican M&A transactions, due diligence requires a thorough review of anti-corruption practices. This includes investigating potential issues such as bribery, kickbacks, and workplace fraud. These risks can result in increased post-closing costs, affect the company’s valuation, and may necessitate price adjustments or indemnity provisions.

Key points for buyers include:

- Antibribery review is a standard part of due diligence. Buyers must verify the target's internal controls, ethics policies, any political exposure risks, and look for evidence of improper payments.
- Corporate records and filings must be carefully examined, as any gaps could conceal corruption risks.
- Mexico's enforcement environment is closely connected to AML controls. Compliance includes addressing politically exposed persons (PEPs), ensuring beneficial ownership transparency, and fulfilling suspicious activity reporting obligations.

In Mexico, AML/KYC compliance is primarily governed by the Federal Law for the Prevention and Identification of Operations with Illicit Proceeds (*LFPIORPI*) and related CNBV and SAT regulations. The following requirements are especially relevant for acquisitions:

- Mandatory KYC applies to both financial and non-financial entities.
- Beneficial ownership disclosure has been strengthened by recent reforms, now requiring:
- Registration of beneficial owners with the Ministry of Economy
- Enhanced due diligence for high-risk parties is required. Targets must identify PEPs, assess corruption or country risk exposure, and apply risk-based KYC procedures.
- Reporting and monitoring obligations include:
- Filing AML reports for "vulnerable activities"
- Adhering to transaction monitoring rules
- Maintaining documentation for 10 years (recently increased from 5 years)
- Acquired entities must have internal systems for AML compliance in place.

PRACTICAL IMPLICATIONS FOR A BUSINESS PURCHASE IN MEXICO

DUE DILIGENCE

Buyers must conduct enhanced due diligence that focuses on several critical areas. First, they should thoroughly evaluate the beneficial ownership chain and fulfill Ultimate Beneficial Owner (UBO) obligations.[1] This process ensures transparency regarding who ultimately controls or benefits from the company. Additionally, buyers need to assess the target company's historical Anti-Money Laundering (AML) and Know Your Customer (KYC) compliance, including any instances of missing or late reports, as these may indicate potential risks or liabilities. It is also important to identify any exposure to Politically Exposed Persons (PEPs), high-risk jurisdictions, or cash-intensive operations, since these factors can increase the risk profile of the acquisition. Finally, the robustness of anti-bribery measures and internal ethics controls should be carefully reviewed to confirm that adequate safeguards against corruption are in place.

[1]UBO (Ultimate Beneficial Owner) refers to the natural person who ultimately owns, controls, or benefits from a company or legal entity—even if that control is exercised indirectly through other companies, trusts, nominees, or contractual arrangements.

TRANSACTION STRUCTURE & CLOSING CONDITIONS

Because exposure to AML or anticorruption issues can significantly affect potential liabilities, buyers often negotiate specific mechanisms within the transaction structure. Price adjustments, holdbacks, or indemnities may be included to address any discovered compliance weaknesses. These contractual protections help manage risks associated with any deficiencies identified during due diligence. In addition, both pre-closing and post-closing KYC procedures are required, particularly when new shareholders or administrators are being onboarded. This ensures ongoing compliance with applicable regulations throughout the transaction process.

POST-CLOSING INTEGRATION

Following the completion of the acquisition, acquirers must focus on integrating the target company's compliance framework with their own. This includes harmonizing AML manuals, reporting mechanisms, and internal controls to create a unified and effective compliance structure. It is also necessary to update KYC files and register any new beneficial owners with the relevant authorities to maintain regulatory compliance. Furthermore, implementing mandatory training and conducting periodic audits will help ensure that employees understand and adhere to all AML and anticorruption requirements.

TAKEAWAY

Anticorruption and AML/KYC compliance are essential components of legal due diligence and post-acquisition risk management in Mexico. Buyers should review the target company's anti-bribery protocols, verify beneficial ownership, assess AML requirements, examine historical reporting practices, and confirm that required monitoring, training, and internal controls are in place. Where deficiencies are identified, it is often necessary to build legal safeguards and corrective measures into the acquisition agreement to adequately address these risks.

RECOMMENDED NEXT STEPS FOR BUYERS USING A PLATFORM

SHORTLISTING AND INITIAL SCREENING

Begin by leveraging the platform to create a shortlist of potential acquisition targets that align with your strategic objectives. Once promising targets are identified, execute non-disclosure agreements (NDAs) to secure access to confidential information memoranda (CIMs) and financial statements. With this information in hand, commission a focused due diligence process that prioritizes tax, labor, corporate, and regulatory matters based on their risk profile.

PRELIMINARY DEAL TERMS AND RISK ALLOCATION

After initial due diligence, obtain a letter of intent (LOI) outlining preliminary deal terms. The LOI should clearly allocate key pre-closing responsibilities between parties and establish the framework for escrow arrangements and indemnity provisions, ensuring that both parties understand how certain risks will be managed prior to closing.

ENGAGEMENT OF LOCAL EXPERTS

Engage qualified Mexican legal counsel and professional advisers at an early stage. Their expertise is essential for identifying issues such as the transferability of permits, potential tax exposures, and labor liabilities, all of which can significantly impact the deal's economics and timing.

THE BENEFITS AND RISKS OF ACQUIRING A BUSINESS IN A DIFFERENT LOCATION (MEXICO FOCUS)

Acquiring a business outside your current operating territory offers significant opportunities for growth, market diversification, and accessing new resources. Such cross-border or interstate acquisitions provide buyers with rapid entry into new customer segments, supplier networks, technologies, and distribution channels, which may be more time-consuming to develop through organic expansion. However, these transactions also bring about operational, legal, tax, regulatory, and cultural complexities that demand careful advance planning—especially when the acquisition target is in Mexico. The following guidance expands on the commercial checklist and highlights Mexico-specific legal, tax, and regulatory considerations that must be addressed prior to moving forward.

Commercial and Strategic Benefits

- Market access and scale: Acquiring an established business in Mexico grants an immediate presence in a new market, complete with an existing customer base and local brand recognition.

- Cost and factor advantages: Certain Mexican states offer lower labor, real estate, or input costs. There is also the potential to benefit from duty-preferential supply chains under the USMCA, enhancing export competitiveness to North America.

- Talent and capabilities: The Mexican market features a skilled local workforce in areas such as manufacturing, logistics, hospitality, and tourism, along with specialized suppliers. Regional clusters, for example, the automotive sector in Nuevo León, Bajío, and Querétaro, or aerospace in Querétaro, provide deep pools of talent.

- Regulatory and incentive benefits: Buyers can access programs like IMMEX and PROSEC, state investment incentives, and export finance facilities from NAFIN or BANCOMEXT, all of which can improve working capital and the overall economics of the investment.

- Diversification and risk management: Expanding geographically reduces reliance on a single market, mitigating the risks associated with market cycles or regulatory changes in the home country.

Operational and Logistical Challenges

- Distance and oversight: Managing operations from afar introduces challenges related to travel, time zone differences, and local management capabilities. Effective oversight requires establishing clear reporting lines, defining key performance indicators (KPIs), and appointing an on-site manager or securing a reliable local partner.

- Supply chain reconfiguration: It is essential to confirm the reliability of suppliers, assess local lead times, and determine whether necessary inputs are sourced domestically or imported. For exporters, verifying IMMEX compliance and maintaining proper origin documentation for USMCA preferential treatment is critical.

- Facilities, utilities, and infrastructure: Evaluating the suitability of sites involves considering zoning regulations, utilities capacity, and environmental constraints. For manufacturing operations, it is also important to assess the benefits and any restrictions associated with industrial parks.

CULTURAL AND HUMAN CAPITAL INTEGRATION

CORPORATE CULTURE

It is essential to evaluate the compatibility between the target company's corporate culture and management style and those of the acquiring organization. To facilitate a smooth transition, plan for a structured period during which the seller remains involved, enabling effective knowledge transfer. Retention bonuses should be considered for key personnel to encourage their continued participation and preserve institutional knowledge.

LANGUAGE AND LOCAL PRACTICES

Appoint bilingual managers to bridge communication gaps and ensure that human resources policies align with local laws, specifically the *Ley Federal del Trabajo*. All employee communications and contracts must be translated into Spanish, and statutory benefits and social security registrations—including IMSS and INFONAVIT—must be maintained for compliance.

LEGAL, TAX, AND REGULATORY CONSIDERATIONS (MEXICO-SPECIFIC)

ENTITY AND CORPORATE LAW

Foreign investors commonly acquire Mexican entities structured as either S.A. (*sociedad anónima*) or S. de R.L. (*sociedad de responsabilidad limitada*). It is important to verify the accuracy and completeness of the target's corporate books, bylaws, shareholder approvals, and entries in the Registro Público de Comercio. Note that certain transfers may require notarized legal instruments, known as *escritura pública*, to ensure full legal validity.

FOREIGN INVESTMENT RULES

Review the *Ley de Inversión Extranjera* to identify any sector-specific limits on foreign ownership. Be aware of required notifications or authorizations to the Secretaría de Economía. Non-compliance may result in invalidated rights and potential fines for investors.

TAXATION

Understand the distinctions between asset and share purchases, particularly regarding ISR and VAT (ISR/IVA). Asset sales allow for a tax basis "step-up," which can be beneficial for depreciation, but may trigger VAT on transferred goods. In contrast, share sales typically do not incur VAT but transfer company liabilities to the buyer. Confirm current tax rates and SAT guidance relevant to the transaction.

Be mindful that Mexican VAT recovery can be delayed, impacting cash flow. Incorporate VAT credit cycles into working capital planning and consider solutions such as VAT financing or factoring.

Mexican withholding obligations may apply to payments made to nonresident sellers; secure treaty documentation and consult tax professionals to optimize withholding and treaty relief. For cross-border group structures, verify transfer pricing policies and ensure compliance with SAT documentation requirements to avoid penalties.

EMPLOYMENT AND SOCIAL SECURITY

IMSS audits can result in significant retroactive liabilities. Collect payroll records, IMSS employer registration (*Registro Patronal*) histories, and proof of timely contributions. Consider indemnities or escrow arrangements to cover potential assessments.

Registro Patronal is the unique employer registration number assigned by IMSS to every employer in Mexico. Mexican labor law provides substantial protections to employees. If the same economic unit operates after acquisition, buyers may be held jointly liable for accrued employee rights. Investigate any pending conciliations (*conciliaciones*) and labor lawsuits (*juicios laborales*) and carefully plan any workforce terminations or rehires. Recent reforms in subcontracting (*subcontratación*) have increased enforcement risks, making it crucial to review contractor arrangements closely.

CUSTOMS, TRADE REGIMES, AND EXPORT PROGRAMS

If the target company participates in IMMEX (*maquila/export program*) or PROSEC, confirm its program status, review *Pedimento* histories, and ensure compliance with customs valuation and origin requirements. Noncompliance may result in back duties and penalties. For USMCA preferential claims, verify certificate of origin practices and documentation.

PERMITS, ENVIRONMENTAL, AND SECTORAL REGULATORS

Obtain all necessary municipal operating licenses (*licencia de funcionamiento*), health permits (*COFEPRIS*), environmental authorizations (SEMARNAT), and any transport or energy permits required. Many of these permits may not be assignable, so plan for the necessary lead time to reapply for new authorization.

Conduct environmental due diligence for manufacturing, waste, or emissions activities to identify remediation obligations as stipulated by SEMARNAT regulations.

INTELLECTUAL PROPERTY AND QUALITY STANDARDS

Verify registrations of trademarks, patents, and designs with IMPI, and confirm evidence of enforcement. Review ISO, NOM, and sector-specific certifications, as well as the necessary process and timeline for re-certification following a change in ownership.

ANTICORRUPTION AND AML / KYC COMPLIANCE

Mexican banks and regulatory authorities require robust KYC documentation. Ensure that seller disclosures are complete and perform anti-corruption checks, especially in regulated sectors, to comply with Mexican standards.

DUE - DILIGENCE CHECKLIST (MEXICO - TAILORED)

CORPORATE DOCUMENTATION

Gather and review the company's articles of incorporation, board and shareholder meeting minutes, an extract from the Registro Público de Comercio, the shareholder register, and any records relating to pre-emptive rights. These documents provide the legal and ownership structure necessary to evaluate the company.

TAX MATTERS

Collect SAT certificates, ISR and IVA tax returns for the last three to five years, transfer pricing files, VAT credit ledgers, and any documents related to existing audits or rulings. These items will help assess the company's tax compliance and identify any outstanding obligations.

LABOR AND SOCIAL SECURITY

Review payroll registers, IMSS and INFONAVIT payment histories, employment contracts, union agreements, and any pending labor claims. This information is essential for understanding employee rights, social security obligations, and potential labor liabilities.

REGULATORY COMPLIANCE

Compile all IMMEX and PROSEC program records, customs Pedimentos, permits from COFEPRIS, SEMARNAT, and municipal authorities, as well as concession documents. These documents confirm the company’s adherence to relevant regulatory frameworks.

COMMERCIAL AND OPERATIONAL AGREEMENTS

Examine major customer and supplier contracts, lease agreements with landlord consents, equipment condition reports, and inventory counts. These agreements provide insight into the company's ongoing operations and obligations.

INTELLECTUAL PROPERTY AND CERTIFICATIONS

Verify IMPI records for trademarks, patents, and designs, as well as ISO and NOM certificates and product approvals. These items confirm the company's intellectual property holdings and compliance with quality standards.

ENVIRONMENTAL MATTERS

Collect environmental audits, permits, and waste management records. These materials are vital for assessing the company’s compliance with environmental regulations and identifying any remediation responsibilities.

LITIGATION AND LIENS

Conduct public registry searches for encumbrances and judicial proceedings that may affect assets or operations. This step is essential for uncovering existing litigation risks and identifying any liens on company property.

DEAL STRUCTURING AND PROTECTIONS

STRUCTURE CHOICE: ASSET VS. SHARE SALE

When structuring a transaction, it is critical to carefully weigh an asset sale against a share sale. In Mexico, these options differ significantly in terms of tax implications, the transferability of permits, and the allocation of liabilities. The chosen structure will directly affect regulatory compliance and post-acquisition risk profile.

CONTRACT PROTECTIONS

Transaction agreements should include specific representations and warranties addressing tax matters, IMSS/INFONAVIT obligations, customs compliance, environmental issues, and the validity of permits. To mitigate risk, parties should negotiate escrows, holdbacks, and indemnity periods that are sized according to the exposures identified during due diligence.

CLOSING DELIVERABLES

At closing, buyers should require SAT and IMSS clearance documents (when available), notarized corporate resolutions, updated public registry filings, IMMEX notifications or transfers, IMPI assignments, and deeds of transfer for real estate (*escritura pública*). These deliverables ensure that all regulatory, legal, and operational requirements are met for a smooth transition of ownership.

DISPUTE RESOLUTION

Considering recent judicial reforms in Mexico—including the election of all federal and state judges, reduced merit-based selection, and ongoing concerns about judicial independence and predictability—it is essential to include a robust dispute-resolution clause in business sale agreements. Arbitration offers a neutral, enforceable, and expert forum, protecting the transaction from the uncertainties of the reconstituted Mexican court system. Without such a clause, complex commercial disputes may be exposed to inexperienced or politically influenced courts, which can jeopardize contract enforcement and business certainty. Arbitration ensures professionalism, continuity, and adherence to the rule of law, safeguarding the economic integrity of the transaction.

Additionally, parties should specify the governing law and dispute resolution forum. Mexican buyers often prefer local jurisdiction, while foreign buyers commonly opt for international arbitration. It is important to confirm enforceability and be aware of any sectoral restrictions that may apply.

INTEGRATION PLAN

A well-developed integration plan is crucial for post-acquisition success. Appoint a local integration lead, document standard operating procedures, schedule training, and prioritize continuity in payroll and IMSS registration to avoid enforcement actions. Employ bilingual communications and culturally sensitive change management strategies to facilitate a smooth transition and maintain operational stability.

PRACTICAL NEXT STEPS

ENGAGE LOCAL ADVISORS

The first step is to retain experienced Mexican legal counsel and a *contador público certificado* (certified public accountant). These professionals should conduct parallel tax and labor audits to identify and address any potential risks early in the process.

CONDUCT TARGETED DUE DILIGENCE

Prepare a due diligence request list that is focused on Mexican requirements. This list should include SAT (tax authority) matters, IMSS (social security) obligations, IMMEX program participation, relevant municipal permits, and abstracts from the Public Registry. Targeted due diligence ensures that all critical regulatory and operational areas are thoroughly reviewed.

ASSESS AND MITIGATE CONTINGENT LIABILITIES

Quantify all contingent liabilities related to tax and labor issues. Based on these findings, calibrate the size and structure of escrows, holdbacks, or insurance policies to provide adequate financial protection against identified risks.

PLAN FOR PERMIT TRANSFERS

Map out the transferability of key permits and the timelines required for any necessary reapplications. Understanding these requirements up-front helps avoid regulatory delays and ensures a smoother transition of operational control.

DEVELOP AN INTEGRATION PLAN

Build a 90-day integration plan that prioritizes essential items such as payroll continuity, IMSS registration, maintaining relationships with suppliers, and clear communication with customers. A well-structured integration plan supports operational stability and helps maintain business momentum after closing.

CONCLUSION

Acquiring a business in another state or country can offer significant strategic benefits. However, the key to a successful transaction lies in effectively managing the additional operational and regulatory complexities that arise—particularly in Mexico. In this context, careful attention must be paid to critical areas such as tax compliance, customs procedures, social security obligations, labor requirements, and sectoral permits.

Achieving a positive outcome requires a disciplined diligence and structuring process that is specifically tailored to the Mexican environment. Working closely with local legal, tax, and operational advisors is essential. Their expertise helps navigate the unique challenges of cross-location acquisitions and supports the transformation of these opportunities into sustainable, value-creating investments.

2- MAKE THE MOVE

HOW LONG DOES IT TAKE TO BUY A BUSINESS? (MEXICO FOCUS)

Acquiring a business in Mexico generally follows the same major phases as in other jurisdictions, namely: opportunity search, offer and Letter of Intent (LOI), due diligence, securing financing, negotiation of definitive agreements, closing, and post-closing integration. However, specific Mexican legal, tax, and administrative requirements introduce additional steps and potential delays that buyers should anticipate. For straightforward small-to-medium transactions, the entire process—from initial contact to full operational control—typically ranges from four to nine months. More complex transactions, such as those involving multiple sites, highly regulated industries, substantial labor or tax exposures, or foreign investment filings, frequently require nine to eighteen months to complete.

HIGH-LEVEL TRANSACTION TIMELINE

- Opportunity Search / Preliminary Contact: This initial phase varies widely in duration and may take anywhere from several weeks to multiple months as suitable targets are identified and initial discussions commence.

- Letter of Intent (LOI) and Exclusivity: Once a target is identified, parties typically negotiate and sign a LOI, establishing exclusivity and outlining key terms. This stage usually lasts one to three weeks.

- Due Diligence: The core due diligence period typically takes between thirty and ninety days. If extended audits are required, particularly for tax, labor, or customs matters, this phase can be prolonged by an additional thirty to one hundred twenty days.

- Financing Approvals: Securing financing may take thirty to ninety days, depending on whether local or development banks are involved. Seller financing arrangements can often be finalized more quickly.

- Negotiation and Drafting of Definitive Agreements: This process usually occurs concurrently with due diligence and takes approximately two to six weeks. If agreements require complex indemnities or escrow arrangements, this timeline may be extended.

- Closing Mechanics**:** The closing stage, which includes legal formalities, registrations, and notarizations, generally spans one to six weeks. The process may take longer if real estate deeds (*escritura*), Public Registry filings, or sector-specific permits are necessary.

- Post-Closing Transition and Integration**:** After closing, the transition and integration period ranges from thirty to one hundred eighty days, during which operational control is fully transferred, and business continuity is ensured.

KEY MEXICO - SPECIFIC STAGES AND TIME DRIVERS

PRE-CONTRACT STAGE — LOI AND EXCLUSIVITY (1–3 WEEKS)

A Letter of Intent (LOI) typically defines the purchase price, transaction structure (asset versus share), exclusivity period for due diligence, and key conditions. In Mexico, it is important to outline clear timelines for obtaining SAT, IMSS, and municipal permit documentation, as these are often critical milestones in the transaction process.

DUE DILIGENCE (30–90 DAYS FOR CORE WORK; OFTEN LONGER IN PRACTICE)

- Financial Due Diligence: Review audited financial statements and tax returns (ISR/IVA) for the past three to five years. SAT tax audits and ongoing tax disputes can extend the due diligence period if historical exposures are identified.

- Tax Due Diligence: Obtain the SAT "*Opinión de Cumplimiento*" and request digitized tax filings (CFDI) and VAT ledgers. VAT refund and credit histories are especially important, as lengthy VAT cycles can influence working capital.

  [1] Opinión de Cumplimiento is an official compliance certificate issued in Mexico by: SAT or IMSS indicating whether an individual or a company is up to date with their tax or social security obligations at the moment the opinion is generated

- Labor & Social Security Due Diligence: Obtain payroll registers, IMSS (Registro Patronal) contribution records, and check for pending *conciliaciones/juicios laborales*. IMSS audits are frequent and retroactive liabilities may be significant; if issues arise, specialized labor counsel may require an additional 30–90 days for extended review.

- Regulatory Due Diligence**:** For regulated industries such as food, pharmaceuticals, medical devices, transport, and energy, verify COFEPRIS, SEMARNAT, SCT, or other sector permits. Many permits are non-assignable and require re-application, potentially adding weeks or months for reissuance or transfer approvals.

- Customs / Trade Due Diligence**:** For exporters, review IMMEX/PROSEC authorizations, *Pedimentos*, and origin documentation (USMCA claims). Customs liabilities may call for a forensic review with customs brokers.

- Real Property & Environmental Due Diligence**:** Review *escrituras públicas*, mortgages, cadastral, and predial status; environmental site assessments can further extend the timeline.

FINANCING (14–90+ DAYS)

- Mexican commercial bank loans often require 30–120 days. Development bank (NAFIN/BANCOMEXT) support, export finance, or structured asset financing may take longer (60–180 days) but may offer improved terms.

- Seller financing and private investor arrangements are faster, typically finalized within 14–30 days.

- Lenders will require tax and IMSS clearances, audited financials, appraisals (machinery, inventory, real estate), and KYC documentation. Bank approvals are a common factor influencing the overall timeline.

CONTRACT NEGOTIATION AND PROTECTIONS (2–4 WEEKS OR MORE)

- Drafting purchase agreements in Mexico requires attention to detail; Spanish is generally recommended as the governing language. Notarial requirements apply to certain corporate actions and real estate transfers, which may add time.

- Negotiations often address representations and warranties, indemnity caps, escrows/holdbacks (with holdback periods commonly ranging from 6 to 12 months for tax or labor exposures), and earnouts.

CLOSING MECHANICS (1–6 WEEKS)

- Corporate Formalities: Shareholder approvals, notarized instruments, and updated *Registro Público de Comercio* filings are required. Scheduling notarization appointments and obtaining necessary certificates (such as SAT *constancias* and IMSS) can add days or weeks to the process.

- Real Estate Transfers: Execution of *escritura pública* and registration in the Public Registry of Property depend on municipal office throughput; allow several weeks for completion.

- Permits and Licenses: Some municipal or federal permits can be assigned quickly, while others (such as COFEPRIS, environmental authorizations) may require new applications and can delay operational continuity. Temporary operational contingency plans should be considered if permits cannot be transferred immediately.

- IMMEX / Customs: Changes to IMMEX programs often require notification to customs authorities. Reconciling *Pedimento* histories and duty deferrals may delay final accounting and necessitate escrow protections.

POST-CLOSING INTEGRATION (30–180 DAYS)

- Payroll and IMSS Registration Continuity: Register new employer relationships and ensure uninterrupted contributions to prevent retroactive IMSS liabilities.

- Tax Reporting: Update RFC registration and ensure proper CFDI invoicing and electronic accounting settings with SAT.

- Permits and Supplier/Customer Notifications: Notify authorities and counterparties as necessary; certify approvals where required.

PRACTICAL TIMING EXAMPLES

- Simple small retail or services business, domestic only (clean books, few employees, no property): 2–4 months.

- Manufacturing or IMMEX exporter (moderate size, equipment, customs): 4–9 months (due diligence on customs and VAT cycles, potential IMMEX transfer/notification).

- Regulated sector (healthcare, food, environmental permits) or deals with significant labor/tax disputes: 9–18+ months (permit re-applications, labor audits, negotiated settlements).

Common bottlenecks and how to mitigate them

- IMSS/INFONAVIT liabilities: obtain detailed payroll histories early; request seller to fund escrow or indemnity for outstanding contributions. Use labor counsel to triage potential *juicios laborales* quickly.

- VAT (IVA) cash-flow: model VAT timing; secure short-term working-capital financing or VAT-refund bridging lines. Confirm whether asset sale would trigger IVA on goods transfers.

- Permits that are non-assignable: identify early and build contingency operating plans (temporary permits, transitional approvals) and timeline buffers.

- Public Registry / notarial delays: begin notarization and public registry filings as early as possible; secure appointments and confirm costs and timing with notary (*notario público*) in advance.

- Financing KYC: provide complete buyer KYC and source-of-funds documentation early to avoid bank slowdowns.

COMMON BOTTLENECKS AND MITIGATION STRATEGIES

IMSS/INFONAVIT LIABILITIES

Delays and risks associated with IMSS/INFONAVIT liabilities can be minimized by obtaining comprehensive payroll histories early in the process. It is advisable to request that the seller fund an escrow account or provide indemnity to cover any outstanding contributions. Additionally, engaging labor counsel promptly will help to triage and address potential *juicios laborales* (labor disputes) efficiently.

VAT (IVA) CASH FLOW MANAGEMENT

To mitigate VAT (IVA) cash flow issues, it is important to accurately model the timing of VAT payments and refunds. Securing short-term working capital financing or arranging VAT refund bridging lines can help manage liquidity needs during the transition. Confirming whether the asset sale will trigger IVA obligations on the transfer of goods is also essential to avoid unexpected liabilities.

NON-ASSIGNABLE PERMITS

Identifying permits that cannot be assigned early in the process is crucial. Building contingency operating plans, such as obtaining temporary permits or transitional approvals, helps ensure operational continuity. Including timeline buffers for these steps will further reduce the risk of delays.

PUBLIC REGISTRY AND NOTARIAL DELAYS

Delays in the public registry and notarial processes can be mitigated by starting notarization and registry filings as soon as possible. Securing appointments and confirming related costs and timing with the *notario público* in advance ensures a smoother transfer and registration process.

FINANCING KYC REQUIREMENTS

To prevent bank-related slowdowns, it is important to provide complete buyer Know Your Customer (KYC) and source-of-funds documentation early in the transaction. This proactive approach facilitates timely financing approvals and avoids unnecessary delays.

PRACTICAL CHECKLIST AND RECOMMENDED MILESTONES (FIRST 60 DAYS)

INITIAL WEEK: DAYS 0–7

During the first seven days, the buyer should focus on executing a Non-Disclosure Agreement (NDA) and a Letter of Intent (LOI) that clearly outline the due diligence timetable and establish an exclusivity period. At this stage, it is essential to request initial legal, tax, and IMSS documentation from the seller.

DUE DILIGENCE KICKOFF: DAYS 7–30

Between days seven and thirty, core due diligence activities should begin. These include reviews of financial, tax, labor, and regulatory matters. The buyer should request the SAT "*Opinión de Cumplimiento*" and IMSS payment records. Engaging qualified Mexican legal counsel and a certified public accountant (CPA) is critical during this phase.

NEGOTIATION AND STRUCTURING: DAYS 30–60

From day thirty to sixty, the buyer should work to complete core due diligence findings. This period is also when negotiations regarding the main terms of the purchase agreement take place. The buyer should obtain an initial financing term sheet, identify permit transferability issues, and begin drafting the escrow or indemnity structure to address potential risks.

FINALIZING TRANSACTION: DAY 60 AND BEYOND

After sixty days, the focus shifts to extended due diligence covering areas such as customs, environmental concerns, and labor litigation. The buyer should finalize financing arrangements and schedule closing logistics, which include coordinating with the notary, registry office, and handling permit notifications.

ACTION ITEMS FOR BUYERS

1. Engage Mexican legal, tax (*contador público certificado*), and labor advisors immediately to ensure compliance and proper guidance throughout the transaction.

2. Develop a comprehensive timeline that accounts for regulatory reapplication lead times, especially for sector-specific permits.

3. Request IMSS, property tax (predial), and SAT documents early to identify major contingent liabilities that could affect the transaction.

4. Incorporate VAT and IMSS timing into cash flow projections and include escrow or insurance arrangements to address any contingent exposures.

5. Work to secure financing approvals in parallel with the due diligence process by providing complete Know Your Customer (KYC) documentation to banks as early as possible.

CONCLUSION

Acquiring a business in Mexico is typically more efficient and quicker when the target is a small, straightforward, and domestically focused company. Nevertheless, buyers must recognize that the country’s regulatory environment, especially requirements related to tax, social security, notarial processes, and permit transfer, can frequently introduce delays into the transaction timeline.

To keep the acquisition process on schedule and minimize the risk of unexpected complications, it is essential to engage local experts early in the process. Special attention should be given to resolving issues involving the Mexican Social Security Institute (IMSS), the Tax Administration Service (SAT), and any necessary permits. Additionally, arranging escrow or indemnity structures is recommended to address known risks and protect the buyer’s interests.

CHOOSING AND FINDING THE RIGHT BUSINESS TO BUY

Buying an existing business is widely recognized as one of the most effective ways to become an entrepreneur. Rather than starting from the ground up, purchasers benefit from an established business model, an existing customer base, and consistent cash flow, advantages that are key to reducing risk and accelerating growth.

However, before seeking out the ideal business to acquire, it is essential that buyers first clarify what type of business is the best fit for their goals and circumstances.

This section combines both the rationale for buying an existing business and the importance of self-assessment into a strategic, investor-grade framework. It further incorporates Mexico-specific due diligence steps, regulatory requirements, and critical points to consider during the acquisition process.

You must define lifestyle needs, skills, industry preferences, location, and budget before choosing a business. Below is a deeper, more actionable version adapted to Mexico's regulatory and operational realities.

Lifestyle and Operational Involvement

Your level of involvement in the business is a critical factor when determining the most suitable business model to acquire. The degree to which you participate in daily operations will shape your responsibilities, influence management requirements, and affect compliance obligations.

ASSESSING YOUR ROLE

Consider the following questions to clarify your desired operational involvement:

- Will you be an active owner, directly managing daily operations, or do you plan to hire managers to oversee the business?
- Is it your goal for the business to act as a side-hustle, serve as a family income source, or grow into a scalable enterprise?
- Does the potential acquisition complement a business you already own, or will it require entirely new expertise?

MEXICO-SPECIFIC CONSIDERATIONS FOR ACTIVE OWNERS

If you intend to be an active owner, it is important to understand the unique operational and legal requirements in Mexico:

- **IMSS Employer Obligations:** Active owners must comply with labor laws, which include registering employees with IMSS (Mexican Social Security Institute) and maintaining proper payroll systems.
- **Profit-Sharing (PTU):** Mexican law mandates that employers distribute 10% of annual profits to employees.
- **Local Operating Permits:** Regulations regarding operating permits can vary significantly by municipality and must be researched and obtained accordingly.

MEXICO-SPECIFIC CONSIDERATIONS FOR PASSIVE OWNERS

Passive owners must plan for additional operational support and compliance budgeting:

- A local *administrador* or general manager to oversee daily operations and ensure regulatory compliance.
- A payroll processor experienced with SAT (*Tax Administration Service*) and IMSS requirements to maintain accurate payroll and filings.
- An in-country accountant (*contador público*) to handle financial reporting and ensure adherence to Mexican accounting standards.

YOUR SKILLS, STRENGTHS & VALUE-ADD POTENTIAL

The file recommends choosing a business where you can enhance operations. Example: Turning around weak record-keeping systems or marketing.

When evaluating your skill add-on:

- Digital modernization (Mexican SMBs often lack CRM, online advertising, automation)
- Financial controls (cash-intensive businesses may lack transparent accounting)
- Customer retention strategies (common gap across Mexican retail and service sectors)
- Compliance structuring (many small Mexican businesses struggle to maintain SAT filings)

Your operational expertise can directly increase valuation and reduce compliance risks.

YOUR SKILLS, STRENGTHS & VALUE-ADD POTENTIAL

Selecting a business where you can directly improve operations is essential. By leveraging your unique skills and experience, you are better equipped to identify opportunities for streamlining processes, implementing best practices, and driving overall performance. Focusing on these strengths allows you to maximize your contribution and ensure that the business benefits from targeted improvements.

MEXICO-SPECIFIC OVERLAY

When assessing how your skills can enhance the value of a business in Mexico, consider the following areas where your contributions may have the greatest impact:

- **Digital modernization:** Many small and medium-sized Mexican businesses do not utilize tools such as CRM systems, online advertising, or automation. Introducing these technologies can significantly improve efficiency and customer engagement by streamlining processes and enhancing communication with clients.
- **Financial controls:** Cash-intensive operations often lack transparent accounting practices. Strengthening financial oversight can enhance the reliability of records and support better decision-making, providing a more stable foundation for growth and compliance.
- **Customer retention strategies:** Retaining customers is a common challenge across retail and service businesses in Mexico. Implementing structured retention initiatives can foster loyalty, encourage repeat business, and ultimately contribute to sustained profitability.

Selecting the right industry is critical for success. The file emphasizes the importance of choosing sectors that match your personal strengths as well as the specific demands of the local market. By aligning your experience and skills with areas of proven demand, you can create a stronger foundation for operational improvements and long-term growth. This strategic approach ensures your efforts are focused on industries where you can generate the greatest impact.

MEXICO-SPECIFIC CONSIDERATIONS

- Certain regulated industries require specific licenses to operate. For example:
- Restaurants: Obtaining approvals from *COFEPRIS*, *Protección Civil*, and securing alcohol permits is necessary.
- Gyms: These typically need municipal licenses and appropriate zoning clearance.
- Tourist activities: Operations in this sector require permits from SECTUR.
- Cash-heavy sectors, such as restaurants and laundromats, demand rigorous verification of SAT filings and CFDI invoices. Ensuring compliance in these industries is crucial to avoid regulatory issues and maintain financial transparency.
- Neighborhood dynamics can present unique opportunities. For instance, gentrifying areas like Mérida, CDMX, and Tulum may offer significant potential for growth. Understanding and responding to these local shifts can help you position your business advantageously within the market.

SELECTING LOCATION

Choosing the right location is a fundamental aspect of establishing a successful business in Mexico. The importance of location is emphasized in your file, as it directly affects both operational performance and market access.

MEXICO-SPECIFIC CONSIDERATIONS

Mexico's business environment is highly regional, with significant variations depending on the area:

- Yucatán: This region is experiencing rapid growth, is known for its safety, and is benefiting from a tourism boom.
- Quintana Roo: Characterized by high levels of tourism, business owners should be aware of complex local permitting requirements.
- CDMX (Mexico City): The area features dense markets and high competition, along with strict municipal inspection standards (AHMs).
- Northern states: Known for their manufacturing and logistics hubs, these areas also exhibit higher labor mobility.

SETTING BUDGET, TERMS, AND AFFORDABILITY

When considering a business acquisition, it is essential to evaluate the asking price and the proposed terms in the context of your actual financial capabilities. Aligning your budget with the seller's expectations and available financing options will help ensure a sustainable investment. In Mexico, it is common for transactions to involve some form of seller financing, reflecting the realities of the local lending environment.

MEXICO-SPECIFIC FINANCING FACTORS

Seller financing is more prevalent in Mexico than in some other markets, as there are limited acquisition loan products available from financial institutions. As a result, buyers and sellers often negotiate financing arrangements directly.

- Seller financing is often more common due to limited acquisition lending options in Mexico.
- Seller notes should be formalized using:
- *Pagaré* (promissory note)
- Guarantees registered in (Registro Único de Garantías), RUG
- Notarial ratification

To protect both parties, seller-financed agreements should be properly documented. This typically involves the use of a *Pagaré* (promissory note), registering guarantees in the RUG (*Registro Único de Garantías*), and obtaining notarial ratification to provide legal certainty and enforceability.

Banks in Mexico rarely offer acquisition loans to foreign buyers unless there is significant collateral or the buyer already holds Mexican residency status. For this reason, structuring the purchase with seller-provided financing is a practical approach for many foreign investors.

WHERE TO FIND THE RIGHT BUSINESS TO BUY

ONLINE BUSINESS-FOR-SALE MARKETPLACES

Large online platforms offer thousands of business listings, providing buyers with a wide range of options and access to detailed information about businesses for sale.

Mexico-Specific Marketplaces

- Inmuebles24 and *Vivanuncios* often feature businesses with associated real estate, making them useful for buyers seeking properties alongside business opportunities.
- Platforms such as BizBuySell.com, CorporatePoint.com.mx, BusinessforSale.com, DealStream.com, Smergers.com, LoopNet.com, and ElNegocioDeLosNegocios.com host a variety of business listings relevant to the Mexican market.
- Informal channels, like Facebook Marketplace and WhatsApp groups, are commonly used in Mexico to advertise businesses for sale.
- *MercadoLibre Empresas* offers a dedicated space for business listings, expanding the options available to buyers.
- Local expat groups in cities such as Mérida, Playa del Carmen, and Puerto Vallarta serve as valuable resources for finding businesses, particularly those catering to foreign buyers.
- Specialized foreign-buyer sites, including those operated by brokers focused on international clients, provide listings tailored to the needs of non-Mexican investors.

DUE DILIGENCE

Conducting thorough due diligence is essential, as many Mexican business listings may lack complete documentation or verified financials. Buyers should carefully review all available information to ensure a successful acquisition.

PROFESSIONAL BUSINESS BROKERS

Business brokers typically represent sellers; however, they can also play a valuable role for buyers by helping them navigate the acquisition process. Their expertise and guidance can simplify complex transactions and ensure buyers are well-informed throughout each stage.

MEXICO-SPECIFIC INSIGHT

When looking for a business broker in Mexico, it is important to select professionals who possess in-depth knowledge of local requirements and regulations. Choose brokers who understand:

- SAT compliance documentation
- Legal entity structures, such as S.A. de C.V. and S. de R.L. de C.V.
- Local permitting complexities
- Environmental and zoning restrictions (*Uso de Suelo*)
- Labor liabilities, including the transfer of IMSS debts in stock deals

It is also essential to verify that brokers have experience working with foreign buyers and can negotiate bilingual contracts. This ensures smoother communication and helps address the unique needs of international clients.

LEVERAGING PROFESSIONAL NETWORKS

Business brokers often draw on their network of *Notarios Públicos* and certified public accountants (CPAs) to support clients during transactions. These professionals play a critical role in the business acquisition process, offering valuable insights into legal documentation and financial due diligence. Collaborating with *Notarios Públicos* ensures compliance with local legal requirements, while CPAs help verify financial records and assess fiscal obligations. By utilizing these connections, brokers help buyers and sellers address important regulatory and financial considerations, streamlining the transfer and increasing the likelihood of a successful outcome.

YOUR PERSONAL & PROFESSIONAL NETWORK

Leveraging your personal and professional relationship, including friends, colleagues, accountants, and attorneys, can be a valuable strategy for identifying business acquisition opportunities.

MEXICO-ENHANCED STRATEGY

In Mexico, the strength of “network deal flow” often surpasses that of marketplace listings. The country’s business environment is deeply rooted in relationships, making personal connections especially important for uncovering opportunities.

Consider reaching out to:

- Local chambers of commerce

- *Notarios Públicos*, who are aware of owners planning to exit their businesses
- *Contadores Públicos* (certified public accountants)
- Expat communities
- Industry associations, such as CANACO and CANIRAC

Many of the best small and medium-sized businesses (SMBs) in Mexico are not publicly listed for sale. Instead, these transactions frequently take place privately and discreetly through trusted networks.

DIRECT OUTREACH TO BUSINESS OWNERS

When you have identified a specific business, you wish to acquire, it is advisable to approach the owners directly. This strategy is especially effective in Mexico, where transactions are often driven by personal relationships and many business owners may be cautious about using public listings.

Approach Strategy

- Observe the local area to identify businesses with owners who appear to be reaching retirement age or may be considering a transition. This can help you pinpoint potential acquisition targets.
- Send inquiry letters in both Spanish and English. This ensures clear communication and shows respect for the owner's language preference, which can help build trust and rapport.
- Reach out to suppliers who may have valuable information about which business owners are planning to retire or exit. Suppliers often have close relationships with business owners and can provide useful insights.
- Connect with *Notarios Públicos*, as they are frequently aware of forthcoming ownership transitions or corporate dissolutions. Their insights can help you identify businesses that may soon be available for acquisition.

Many Mexican business owners are hesitant to use public listings or online marketplaces due to concerns about privacy and trust. By initiating direct outreach and building personal connections, you can uncover acquisition opportunities that are not accessible through traditional channels. Establishing trust through personalized contact allows you to access deals that would otherwise remain hidden from the wider market.

STAYING ORGANIZED AND CONDUCTING STRUCTURED OUTREACH

TRACKING INTERACTIONS

To effectively manage your acquisition efforts, it is important to track every interaction you have with business owners, suppliers, and other stakeholders throughout the outreach process. Maintaining detailed records allows you to monitor progress, follow up consistently, and ensure that no opportunity is overlooked.

MEXICO-SPECIFIC ENHANCEMENTS

In addition to general tracking practices, there are several Mexico-specific factors that should be documented to assess the legal and financial viability of a potential acquisition:

- Confirm whether the business maintains complete CFDI (*Comprobante Fiscal Digital por Internet*) records.
- Review the business's SAT (*Servicio de Administración Tributaria*) compliance history.
- Identify any outstanding IMSS (*Instituto Mexicano del Seguro Social*) liabilities.
- Verify the status of permits and their renewals.
- Determine whether the business operates under the *Régimen* General or the RIF tax regime.
- Check if employees are registered at correct salary levels, as this is a common issue in Mexico.

ASSESSING LEGAL TRANSFERABILITY

Proper documentation and thorough record-keeping for each of the areas outlined above are critical in determining whether a business can be legally transferred. It is essential to verify that all compliance and accuracy requirements are met in these categories to ensure the acquisition process is both successful and legitimate.

FINAL INTEGRATED FRAMEWORK

The following framework outlines the essential steps to successfully purchase a business in Mexico:

Step 1 — Define Your Objectives

Begin by clarifying your goals regarding lifestyle, skills, industry, budget, and preferred location. This foundational step ensures your search is focused and aligned with your personal and professional requirements.

Step 2 — Search Intelligently

Utilize a combination of marketplaces, brokers, professional networks, and direct outreach to identify suitable businesses for acquisition. A strategic approach to searching increases your chances of finding the right opportunity.

Step 3 — Conduct Mexico-Specific Due Diligence

Incorporate due diligence measures specific to Mexico, including a review of SAT compliance, IMSS liabilities, permits, corporate structure, and a thorough evaluation by a Notario Público. This step is vital for uncovering any legal or financial risks unique to the Mexican context.

Step 4 — Negotiate Price and Terms

Negotiate the purchase price and terms, considering options such as seller financing, earn-outs, or asset purchases when available. Careful negotiation can help structure the deal in your favor and mitigate risks.

Step 5 — Formalize the Transaction Correctly

Finalize the acquisition by working with a Notario Público to ensure the legal transfer of the business. Proper legal formalization safeguards your investment and completes the transaction according to all regulatory requirements.

BUYING A FRANCHISE VS. AN INDEPENDENT BUSINESS

Choosing between purchasing a franchise or acquiring an independent business is a strategic decision with material operational, financial, legal and regulatory consequences. Both routes can produce profitable outcomes, but they require different skill sets, different tolerance for constraints, and different compliance efforts — and in Mexico these differences have important legal and tax implications. The discussion below deepens the commercial evaluation and adds Mexico-specific legal, tax and regulatory guidance to help a buyer make an informed choice.

CORE DISTINCTIONS (COMMERCIAL AND OPERATIONAL)

OPERATING MODEL AND CONTROL

- Franchise: you operate under the franchisor's system, brand standards, operating manual, purchasing rules and marketing programs. This reduces start-up risk and provides a tested model but limits operational autonomy and often requires ongoing fees and strict compliance with franchisor directives.

- Independent business: you have full decision rights. You can change products, supplier mix, pricing and branding, but you assume all marketing risk, build brand recognition from existing reputation, and must develop operational systems yourself.

SPEED TO REVENUE AND FINANCING

- Franchise: established brand and standardized operations typically make revenue forecasts more predictable and can improve access to finance from Mexican banks or development institutions; some franchisors also help with site selection and lender introductions.

- Independent: financing often depends on historical performance and collateral; lenders may require stronger local-market evidence and more detailed business plans.

SUPPORT, TRAINING AND SUPPLIER NETWORKS

- Franchise: franchisor support (training, proprietary systems, national purchasing) is often a major value driver.

- Independent: you must source training and build supplier relationships, unless seller remains for a transition period.

MEXICO-SPECIFIC LEGAL, TAX AND REGULATORY GUIDANCE

FRANCHISE LEGAL FRAMEWORK AND REGISTRATION CONSIDERATIONS

- Contracts and disclosure: In Mexico franchises are governed primarily by contract law and related corporate, IP and consumer-protection statutes; franchisors typically provide a franchise agreement (*contrato de franquicia*[11]) and an operations manual. Carefully review the franchising contract for: initial fee, royalty calculation, marketing fund contributions, territory and exclusivity, duration and renewal

[11] contrato de franquicia a franchise agreement—a legally binding contract through which a franchisor grants a franchisee the right to use its trademark, business model, know-how, and operating system to produce or sell goods or services under uniform standards.

terms, conditions for termination, post-term restrictions, training obligations, quality audits and dispute resolution.

- Intellectual property: ensure the franchisor's trademarks, trade dress, and any registered industrial designs are validly registered with IMPI and that assignment or license rights required for the franchise are properly documented and transferable.

- Consumer protection and advertising: verify compliance with PROFECO [12] and relevant advertising/consumer-information rules; franchised services and products must meet consumer-protection and labeling norms (NOMs) where applicable.

- Local registrations and permits: confirm required municipal licenses (*licencia de funcionamiento*), sanitary permits (COFEPRIS for health/food), environmental authorizations (SEMARNAT) and any sectoral concession are obtainable under a franchise structure and whether transfers or new applications are required on change of ownership.

LABOR LAW AND FRANCHISING: JOINT-EMPLOYER RISK

- Mexican labor authorities and courts scrutinize the real exercise of control. If the franchisor exerts operational control (*sets schedules, supervises staff directly, controls hiring/firing*), there is a risk the franchisor may be treated as a joint employer or that the buyer could inherit previous labor liabilities. Structure operating relationships to minimize direct control by the franchisor over local staff and obtain contractual protection and indemnities where appropriate.

- Payroll and benefits: ensure correct payroll registration with IMSS and INFONAVIT and compliance with mandatory contributions and benefits. Confirm continuity of employment terms in any transfer and document any agreed changes with employee consent where legally required.

TAX IMPLICATIONS (FRANCHISE FEES, ROYALTIES, TRANSFERS)

- VAT (IVA): services and certain royalties are subject to VAT in Mexico; the VAT treatment can vary depending on whether royalties are characterized as payments for services or for the transfer/use of intangibles. For cross-border royalty flows, determine whether VAT, local consumption taxes or special treatments apply.

- Withholding and income tax (ISR): payments to nonresidents (royalties, technical services, management fees) may trigger Mexican withholding tax; the applicable rate depends on the nature of the payment and any tax treaty benefits. Buyers must confirm whether franchise royalty streams will be subject to withholding and ensure contracts allocate responsibility for gross-up where needed.

REGULATORY AND SECTORAL ISSUES

- Sensitive sectors: franchising in regulated sectors (*pharmacy/medicines, medical services, food production, financial services, telecommunications, energy, transport*) may require sectoral approvals or have limits on foreign participation. Confirm whether the franchise model and any foreign purchaser must register or obtain prior authorization with *Secretaría de Economía* or other sector regulators.

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[12] Procuraduría Federal del Consumidor, the Federal Consumer Protection Agency or Office, the federal government agency responsible for protecting consumer rights, ensuring fair business practices, and mediating disputes between consumers and businesses.

- Municipal compliance: many franchise locations require municipal operating permits, health/food handling authorizations and local zoning compliance. Some permits are non-assignable and require the buyer to apply anew, which can delay opening under the brand.

COMPETITION AND TERRITORIAL RIGHTS

- Competition law: evaluate any exclusive territorial grants against competition law and practical enforceability. Franchisor territorial protection is a commercial negotiation — ensure clarity in the agreement on protected zones, non-compete scope and remedies for breach.

DUE DILIGENCE CHECKLIST (MEXICO-TAILORED)

- Franchise agreement and addenda: fees, royalties, marketing fund rules, audit rights, termination, renewal, territory, IP license scope and assignment restrictions.

- IMPI searches: active trademark registrations, ownership history, pending oppositions or cancellations.

- Financial: historical royalty calculations, marketing fund reconciliations, P&L, tax returns (ISR, IVA) for last 3–5 years; verify treatment of royalty revenues and VAT filing history.

- Tax: SAT compliance certificates, VAT credit history, withholding on cross-border payments and any tax rulings.

- Labor / social security: payroll records, IMSS/INFONAVIT payments, employment contracts and pending labor claims.

- Permits & sectoral approvals: municipal licenses, COFEPRIS/SEMARNAT or sector regulators' approvals and whether they are assignable.

- Franchise disclosure & transfer requirements: any franchisor pre-transfer disclosure obligations, transfer approval timelines and transfer fees; confirm whether franchise offers a pre-emptive right to franchisor or corporate approvals required by the brand.

- Litigation: pending suits involving franchisor or local master franchisee, consumer complaints filed with PROFECO, class actions or enforcement actions.

STRUCTURING, NEGOTIATION AND PROTECTION

- Pre-contract negotiation: obtain a draft franchise agreement and operations manual early. Negotiate transition assistance, training obligations, advertising contribution caps, audit scope and cure periods for compliance breaches.

- Transfer conditions: obtain written franchisor consent and confirm timeframes and costs to transfer the franchise to a new owner. Negotiate a seller obligation to cooperate in obtaining local municipal permits and to remain for an agreed transition period.

- Taxes and indemnities: require seller reps on tax and VAT compliance and negotiated indemnities or escrow amounts to cover tax, labor or social-security contingencies. For cross-border payments, require clear gross-up language if the seller claims treaty relief that the buyer must secure documentation for.

- Dispute resolution and governing law: specify governing law (*Spanish language contract recommended for enforceability in Mexico*), dispute resolution forum (*Mexican courts vs. arbitration*) and mechanisms for interim relief. Foreign buyers commonly prefer international arbitration but check enforceability and franchisor acceptance; consider hybrid approaches (*local interim measures + arbitration for damages*).

PRACTICAL OPERATIONAL POINTS FOR FRANCHISE BUYERS IN MEXICO

- Localization: adapt the offer to meet NOMs, labeling and health standards where applicable; confirm franchisor support for local adaptations.

- Training and quality control: negotiate a robust training program and phased audit schedule to avoid early termination for non-compliance.

- Leasing and premises: ensure lease assignment or landlord consent is obtainable before transfer; many commercial leases in Mexico contain change-of-control clauses that require landlord approval.

- Currency and price setting: manage exchange-rate exposure for royalties and supplier agreements; specify invoicing currency and payment mechanics in the contract.

ACTION ITEMS AND RECOMMENDED NEXT STEPS

1. Obtain and Review Key Documents

   Secure the draft franchise agreement, operations manual, and all related policy documents before signing a Letter of Intent (LOI). Carefully review these materials to understand the obligations, operational standards, and compliance requirements associated with the franchise.

2. Engage Professional Advisors

   Retain Mexican legal counsel and a *contador público certificado* (certified public accountant) at an early stage. Their expertise is essential for assessing intellectual property registrations, identifying exposures related to Value Added Tax (VAT) and Income Tax (ISR) on royalties, understanding withholding tax implications, and verifying the transferability of municipal permits.

3. Conduct Labor and Social Security Due Diligence

   Perform focused due diligence on labor matters and IMSS (Mexican Social Security Institute) contributions. This should include reviewing for any historical shortfalls in contributions and investigating any outstanding or pending labor claims.

4. Confirm Franchisor Consent and Transfer Procedures

   Clarify the franchisor's requirements and procedures for granting consent to transfer the franchise. Confirm the expected timeline and budget for transfer fees and anticipate the possibility of needing to reapply for permits.

5. Negotiate Indemnities and Dispute Resolution Terms

   Discuss and secure seller indemnities, escrow arrangements, or warranty holdbacks that are appropriately sized to cover identified tax, labor, or permit-related risks. Ensure the contract contains clear dispute resolution provisions and specifies the applicable governing law, with a recommendation to use Spanish-language governing text for contracts executed in Mexico.

MEXICO-SPECIFIC FRANCHISE DUE-DILIGENCE CHECKLIST

Use this checklist to guide legal, tax, regulatory and commercial due diligence when acquiring a franchise in Mexico. Request original documents, certified copies and electronic records where available. Work with Mexican counsel, a *contador público certificado* (CPC) and a labor specialist to verify items.

1. Transaction documents & corporate records

- Draft franchise agreement, operations manual, brand standards, technical guides and all ancillary policy documents (audit, quality, advertising).

- Copies of any master-franchise, sub-franchise or territorial agreements affecting the unit.

- Seller's purchase agreement (if seller acquired franchise recently) and any prior assignment consents.

- Corporate documents: articles/bylaws, shareholder register, minutes of shareholders' and directors' meetings, and Registro Público de Comercio extract.

- Power of attorney(s) and notarized signatures; proof of corporate authorization for sale.

2. Intellectual property & brand rights

- IMPI trademark searches and certified copies of registrations (domestic and international filings validated in Mexico).

- Evidence of trademark maintenance (renewals, oppositions, cancellations, pending litigation).

- Licenses/royalty calculations and IP assignment or license contracts.

- Domain names and social-media account controls.

3. Franchise fees, royalties & financials

- Historical P&L, balance sheets and cash-flow statements (3–5 years).

- Royalty and marketing-fund invoices, reconciliations, and payment records.

- Initial franchise fee invoices and any deferred payment schedules.

- Seller's tax returns (ISR and IVA) and SAT certificates of tax compliance for the last 3–5 years.

- Evidence of VAT (IVA) treatment on royalties and any VAT filings/refund history.

4. Tax & fiscal compliance

- SAT certificates (opiniones de cumplimiento, electronic accounting, *contabilidad electrónica*) records and CFDI invoicing history.

- VAT (IVA) ledger and credit history; documentation of VAT refunds or outstanding claims.

- Withholding tax compliance for payments to nonresidents (royalties, technical services) and supporting tax treaty documentation if used.

- Transfer-pricing documentation (if seller is part of a multinational group).

5. Labor & social-security

- Payroll registers, individual payroll folios, employment contracts and job descriptions.

- IMSS (Registro Patronal) contribution history, CFDI-nomina records and INFONAVIT filings; certificates of no debt if available.

- Records of past *conciliaciones* and *juicios laborales* (labor lawsuits), severance payments, and union/collective-bargaining terms.

- List of key employees, retention agreements, non-compete and confidentiality measures (note enforceability limits under Ley Federal del Trabajo).

6. Permits, municipal licenses & sectoral authorizations

- Municipal *licencia de funcionamiento* (operating license) and *comprobante de uso de suelo* (zoning use).

- Health/sanitary permits (COFEPRIS) for food, medical or pharma franchises; food handler permits and NOM compliance records.

- Environmental authorizations (SEMARNAT) and waste/discharge permits where applicable.

- Any sectoral permits (SCT, CNBV, CRE, *Secretaría de Economía*) and whether permits are assignable or require re-application upon ownership change.

7. Real estate & leases

- Lease agreements, landlord consents for assignment/change of control, rent history and renewal terms; confirm any change-of-control clauses.

- If seller owns property: *escritura pública*, cadastral extract, predial (property tax) statements and mortgage/encumbrance searches.

- Verify compliance with local building and fire codes and any pending municipal fines.

8. Consumer & competition compliance

- PROFECO complaint history, administrative actions and recall records.

- Any antitrust or competition filings, exclusivity/territorial restrictions and enforceability analysis.

9. Commercial contracts & supply chain

- Key supplier agreements, purchasing terms, supplier concentration analysis and assignment/consent requirements.

- Major customer contracts, warranty obligations and any long-term purchase commitments.

- Franchisor-mandated suppliers (approved vendors) and terms of mandatory purchasing programs.

10. Quality, safety & certification

- ISO/NOM certifications, quality-control records, hygiene inspections and product-testing documentation.

- Food safety (HACCP) or sectoral quality approvals where relevant.

11. Insurance & risk transfer

- Current insurance policies (general liability, product liability, property, business interruption) and claim history.

- Coverage limits, named insureds and assignment or endorsement procedures.

12. Franchise transfer mechanics & franchisor consents

- Franchisor transfer/assignment policy, transfer fees, approval timeline and required documents.

- Pre-transfer audit reports or compliance punch lists the franchisor requires.

- Conditions for termination or early repossession by franchisor on transfer.

13. Regulatory & foreign-investment filings

- Foreign investment registry filings (Registro de Inversiones) or *Secretaría de Economía* notifications if applicable.

- Any sectoral foreign-ownership limits or special registration requirements.

14. AML / KYC / anti-corruption

- Source-of-funds documentation for buyer and seller; proof of identity and beneficial-owner records.

- Any prior investigations, sanctions or public corruption allegations involving franchisors or local operators.

15. Litigation, encumbrances & liens

- Civil, administrative or criminal litigation searches; public-registry searches for liens, pledges or judicial freezes.

- List of guaranties, credits or factoring agreements that could survive transfer.

16. Post-closing & transition requirements

- Seller transition period agreement, training schedule, SOP handover, and support scope.

- IT and POS system transition plan, access credentials, data-privacy compliance (local data rules).

- Employee transfer/notification checklist and timeline for IMSS/INFONAVIT registration continuity.

17. Documents to request (practical)

- Certified extracts from Registro Público de Comercio and IMPI registration certificates.

- SAT *constancias/opiniones, comprobantes* CFDI and contabilidad electrónica exports.

- IMSS/INFONAVIT employer contribution statements and payroll CFDI nomina exports.

- Copies of municipal licenses, COFEPRIS/SEMARNAT permits, lease, insurance certificates, supplier and customer contracts, and minutes authorizing the sale.

18. Red flags (require escalation)

- Incomplete or untaxed royalty/marketing-fund records; unexplained VAT credit balances.

- Repeated IMSS assessments, unpaid contributions or pending labor judgments.

- Franchisor refusals to permit transfer or excessive unilateral termination rights.

- Non-assignable municipal/sectoral permits that are essential for operation.

- High customer or supplier concentration (>25–30% of revenue from a single counterparty).

- Significant undisclosed litigation, environmental liabilities or liens.

19. Recommended timing & deliverables

- Initial tiered DD: Phase I (30 days): core commercial, tax (SAT), IMSS, corporate and franchise agreement review. Phase II (30–60 days): deeper tax, labor, customs (if applicable), permits and environmental audits.

- Obtain escrow/holdback proposals sized to identified exposures and negotiate indemnities for tax/IMSS/labor claims.

- Require franchisor consent and conditional closing depending on receipt of key municipal/sectoral permits or agreed escrow arrangements.

20. Who to engage

- Mexican corporate counsel (franchise experience), tax advisor / *contador público certificado*, labor lawyer, customs broker (if imports/IMMEX), environmental consultant (if manufacturing), and a local broker or commercial real-estate advisor.

HOW TO RESEARCH FRANCHISE OPPORTUNITIES (MEXICO FOCUS)

INTRODUCTION

Franchise ownership requires disciplined research, financial preparation, and careful legal and regulatory review. In Mexico, the rewards of joining an established brand can be substantial, but buyers must also navigate country-specific requirements—intellectual property registration, SAT tax rules, IMSS/INFONAVIT obligations, municipal permits, and sectoral regulators (COFEPRIS, SEMARNAT, SCT, Secretaría de Economía). The process below deepens the standard discovery workflow and integrates Mexico-specific due diligence and compliance steps.

PREPARING FOR FRANCHISE INVESTMENT IN MEXICO

CONDUCT A STRUCTURED SELF-ASSESSMENT

Begin by clearly identifying your personal skills and business objectives. Consider your risk tolerance, how much time you are willing to commit, and the role you want to play within the franchise—whether you plan to be an active owner-operator or prefer a passive investor position. Additionally, determine your preferred geographic focus, such as specific cities or states within Mexico.

Evaluate the capabilities that are particularly important in the Mexican market. This includes assessing your proficiency in bilingual management, your understanding of local labor practices, and your experience with municipal authorities or import/export procedures. These qualifications are especially valuable if you are considering opportunities in IMMEX or maquiladora regions.

Utilize available tools to support your self-assessment. These may include personality or work-style assessments, as well as financial pre-qualification with a lender. It is also crucial to establish a clear investment range that accounts for the initial franchise fee, working capital requirements, and all local compliance costs.

FINANCIAL READINESS AND LENDER ENGAGEMENT

Gather all documentation required by Mexican lenders. This typically involves preparing personal financial statements (in Spanish or with certified translation), providing declarations regarding the source of your funds, supplying proof of address and identity, and having a Mexican tax ID (RFC) if available.

It is advisable to pre-qualify with potential lenders early in the process. This may include commercial banks, government-backed institutions such as NAFIN and BANCOMEXT, or other development lenders. Early engagement helps clarify expectations regarding down payments, collateral, and required documentation. If your franchise has an export component, investigate specific programs available through NAFIN or BANCOMEXT, as well as supply chain finance options.

Lastly, ensure your financial plan accounts for the timing of VAT (IVA) obligations. In Mexico, VAT credit refunds can take several months to process, so it is important to include working capital bridges to cover VAT requirements during this period.

BUILDING A DISCIPLINED DISCOVERY AND DUE DILIGENCE PLAN

PLAN A DISCIPLINED DISCOVERY TIMETABLE (8–12 WEEKS TYPICAL)

A carefully structured discovery process typically spans 8 to 12 weeks. This period is divided into three distinct phases to ensure thorough evaluation and adherence to both general and Mexico-specific franchise requirements.

- Phase I (Weeks 1–2): Begin by reviewing the franchise disclosure documents, initial financial statements, and the operations manual. It is essential to request the franchisor's audited unit economics and data on average unit performance for Mexican operations to assess the business's financial sustainability.

- Phase II (Weeks 3–6): Conduct validation calls with existing franchisees to gather firsthand operational insights. Carry out market research focused on your chosen locality and initiate consultations with Mexican legal counsel and a *contador público certificado* (CPC) to understand local regulatory and tax considerations.

- Phase III (Weeks 6–10): Undertake in-depth legal, tax, and regulatory due diligence, ensuring you address the Mexico-specific checklist outlined earlier. This includes reviewing legal documentation, compliance status, and potential liabilities.

Be prepared for additional time if the process requires franchisor consent, the acquisition of municipal permits, IMPI (Mexican Institute of Industrial Property) registrations, or approvals from sectoral authorities.

VALIDATION CALLS AND FIELD DUE DILIGENCE

Speak with a range of Mexican franchisees—ideally between two and six in different regions—to evaluate variations in profit margins, rental and labor costs, and compliance obligations. Inquire specifically about the franchisor's support for obtaining municipal licenses, COFEPRIS or health permits, IMSS audits, and the availability of local suppliers.

Whenever possible, visit representative franchise units to verify adherence to brand standards, observe actual customer volumes, and assess the competitive landscape in the local market. For food or health-related franchises, review hygiene inspection reports and compliance with NOM (*Norma Oficial Mexicana*) standards.

LEGAL, TAX, AND REGULATORY DUE DILIGENCE (MEXICO SPECIFICS)

- Franchise Documentation: Obtain the full franchise agreement (*contrato de franquicia*), operations manual, brand standards, and any master or sub-franchise agreements. Confirm the governing language of the contract (Spanish is recommended) and review critical provisions such as fees, royalties, advertising fund requirements, audit rights, termination clauses, territory definitions, and transfer or assignment conditions.

- Intellectual Property (IMPI): Verify the franchisor's trademark registrations with the IMPI and confirm their status—active, opposed, or renewed. Ensure the franchise license provides the necessary usage rights and that the franchisor will support the registration or assignment process if required.

- Tax (SAT, LISR, IVA): Assess VAT (IVA) implications for royalties and fees and confirm proper VAT filings and invoicing (CFDI). Review the withholding tax treatment for payments to foreign franchisors and confirm the documentation needed to claim treaty benefits. Examine the franchisor's historical handling of royalties for ISR and IVA, and request SAT compliance records where available.

- Labor & Social Security (IMSS/INFONAVIT): Request payroll records, IMSS employer registration history, and proof of timely social security contributions. Identify previous labor settlements (*conciliaciones*) or labor lawsuits (*juicios laborales*). Pay special attention to the structure of the franchise model to avoid creating joint-employer risk with the franchisor under Mexican labor law.

- Permits & Municipal Compliance: Verify all necessary municipal operating licenses (*licencia de funcionamiento*), land use designations (*uso de suelo*), and sanitary permits (COFEPRIS for food/health franchises). Determine whether permits are assignable or if reapplication is required. For outlets in restricted zones, secure landlord consent and review lease clauses related to change of control.

- Consumer Protection & Advertising (PROFECO): Investigate any history of consumer complaints and product recalls. Ensure product labeling meets NOM requirements and, for food franchises, that HACCP and sanitary norms are followed.

- Environmental & Sectoral Rules (SEMARNAT, SCT, CNBV, CRE): For franchises involving manufacturing, waste management, transportation, or regulated financial services, confirm all necessary sectoral authorizations and evaluate whether foreign ownership restrictions apply.

- Competition & Territorial Rights: Assess the enforceability of territorial exclusivity clauses under Mexican competition law and consider the practical realities of the local market.

WARNING SIGNS REQUIRING IMMEDIATE ESCALATION

- Franchisor refusal to permit franchisee validation calls or to provide audited Mexican unit economics raises significant transparency concerns and may obscure financial or operational risks.

- Unresolved IMSS assessments, substantial VAT (IVA) arrears, or ongoing tax audits by SAT indicate potential liabilities and compliance gaps that could impact the business's financial standing and operational continuity.

- Trademark disputes or weak IMPI registrations held by the franchisor in Mexico threaten the security of brand rights and may complicate ongoing operations or expansion.
- Municipal permits that are non-assignable yet essential for continued operation pose risks for legal compliance and business continuity, especially during ownership transitions.
- Excessive unilateral termination rights or broad audit/search powers in the franchise agreement, particularly when no clear cure periods are specified, expose the franchisee to abrupt disruptions or unfavorable contractual enforcement.

NEGOTIATION, STRUCTURE, AND PROTECTION

- Require the franchise agreement to be governed by Spanish-language text and establish clear dispute resolution procedures—such as local courts for interim relief and arbitration for final resolution—ensuring enforceability under Mexican law.
- Allocate tax and labor representations and warranties appropriately; negotiate escrow or holdback arrangements sized to the identified Mexican tax and IMSS exposures, with common retention durations ranging from 12 to 24 months.
- Confirm the franchisor's obligations, including transfer assistance, initial training provided in Mexico, localized marketing support, and assistance in securing municipal and sector-specific permits. Obtain written commitments for transition responsibilities, specifying training periods and post-transfer non-compete limitations.
- Clearly specify the invoicing currency and VAT treatment in the agreement. Include gross-up clauses to address withholding tax obligations on cross-border payments, ensuring proper handling of international financial transactions.

OPERATIONAL READINESS AND LOCALIZATION

- Localize menus, product labeling, and advertising to comply with Mexican Official Standards (NOMs) and COFEPRIS regulations as applicable. Secure IMPI clearance for packaging and verify ownership of relevant domains and social media accounts.
- Confirm the supply chain by identifying franchisor-mandated approved vendors, assessing local sourcing capacity, import requirements, and customs compliance. For franchises dependent on imports, consider IMMEX participation and the involvement of a customs broker.
- For HR and payroll, translate employment contracts into Spanish, integrate CFDI payroll processes, and ensure all employees are registered with IMSS and INFONAVIT starting on their first payroll day. Budget for statutory benefits and employer contributions to maintain compliance with Mexican labor law.

POST-CLOSING ACTION PLAN

FIRST 90 DAYS: IMMEDIATE POST-CLOSING TASKS

Upon closing, promptly register any ownership or entity changes with the SAT, ensuring that RFC updates are completed if required. Confirm that the CFDI invoicing system is properly set up to comply with Mexican electronic invoicing requirements. Maintain continuity in IMSS employer registration to avoid interruptions in social security coverage for employees. Secure all necessary municipal licenses or, where applicable, obtain temporary operating permits to ensure uninterrupted business operations. Additionally, notify franchisors of the ownership change in strict accordance with the terms stipulated in the franchise agreement.

OPERATIONAL INTEGRATION AND TRANSITION

Complete all required franchisor training programs to ensure a smooth transition and operational consistency. Implement the franchisor's operations manual to standardize procedures and maintain brand quality. Restock inventory to meet franchisor-approved levels, ensuring product availability and compliance with brand standards. Initiate local marketing campaigns that adhere to PROFECO regulations and NOM labeling requirements, supporting a compliant and effective market presence.

ADVISORS AND PROFESSIONAL RESOURCES

Engage specialized advisors to support the transition. Retain Mexican franchise counsel with expertise in franchise agreements and IMPI matters to ensure legal compliance. Hire a *contador público certificado* to manage tax and VAT reviews. Secure a labor attorney who is knowledgeable about IMSS regulations and *juicios laborales* to address labor law obligations. If imports are an operational necessity, involve a customs broker for regulatory and logistical support. Additionally, consult a local broker familiar with municipal permitting to facilitate the acquisition of required licenses.

KEY MEXICAN AUTHORITIES AND REFERENCE SOURCES

Consult relevant Mexican authorities and official sources for up-to-date regulatory guidance and compliance. These include IMPI for trademark registration, SAT for tax and CFDI rules, IMSS and INFONAVIT for social security record management, *Secretaría de Economía* for foreign investment regulations, COFEPRIS for health permits, SEMARNAT for environmental compliance, and PROFECO for consumer complaint procedures. For municipal compliance, refer to local cadastres regarding *uso de suelo* and *licencia de funcionamiento* requirements.

CONCLUSION

Franchises offer reduced operational uncertainty and enable faster market entry by leveraging established systems and recognized brands. In contrast, independent acquisitions provide flexibility to tailor operations and allow greater strategic control over business direction.

In Mexico, any acquisition decision requires careful attention to several critical areas of compliance and risk:

- Intellectual Property Registration (IMPI): Protect and manage trademarks and other IP assets to secure brand value.
- Tax and VAT Treatment (SAT, LISR/IVA): Address the specific tax implications related to royalties and asset transfers to avoid unforeseen liabilities.
- Labor and Social Security Risks (IMSS/INFONAVIT, Ley Federal del Trabajo): Ensure compliance with employment regulations and obligations to safeguard employee rights and benefits.
- Municipal and Sectoral Permits (COFEPRIS, SEMARNAT, Municipal *Licencias*): Obtain all necessary permits and licenses required for business operations, including health, environmental, and local approvals.

Engage local legal and tax advisors early in the process to navigate Mexico-specific regulations and to design robust contract protections. Develop a precise due diligence plan that addresses all relevant compliance areas. Tailor contractual agreements to the requirements of Mexican law to ensure a secure and sustainable acquisition.

Conduct a disciplined, country-specific discovery process to reduce unexpected issues and strengthen negotiation leverage. Follow a structured timeline, validate franchisor representations by consulting local franchisees, and secure early legal and tax counsel. Build operational plans that prioritize compliance with IMSS, SAT, and municipal authorities to support long-term business success.

ASSET SALE VS. STOCK SALE: WHAT'S THE DIFFERENCE?

When purchasing a business in Mexico, buyers and sellers must choose between an asset sale (*venta de activos*) and a share or membership interest sale (*venta de acciones/participaciones*). This decision impacts taxation, liability transfer, labor matters, required regulatory approvals, and how the post-closing integration is handled. The following provides a comprehensive, Mexico-specific analysis of each option, practical considerations, and a step-by-step checklist for both parties. Before concluding any deal, make sure to consult a Mexican corporate and tax attorney as well as a *contador público certificado* (CPA).

WHAT IS AN ASSET SALE?

An asset sale in Mexico involves the buyer acquiring specified business assets — equipment, inventory, trademarks, client contracts, leasehold improvements, goodwill, and, where applicable, real estate — and (optionally) assuming selected liabilities. The seller typically remains the owner of the legal entity and is responsible for extinguishing or retaining other obligations.

MEXICO-SPECIFIC LEGAL AND TAX CONSIDERATIONS

- Transfer mechanics: Each asset class requires appropriate transfer documentation and registration where applicable (e.g., *Escritura pública and registration in the Public Property Registry for real estate; assignment contracts for leases and commercial contracts; transfer of intellectual property recorded at IMPI*).

- Value-added tax (IVA): Transfers of goods and most business assets are typically subject to IVA at the prevailing rate unless a specific exemption is applicable. The sale of a business as a going concern may be eligible for alternative tax treatment; it is advisable to consult with a tax advisor to determine whether the transaction can be structured to mitigate unforeseen IVA implications.

- Income tax (ISR): The seller recognizes capital gain on the sale of assets; calculation depends on tax bases and allowable deductions. Buyers typically cannot carry over the seller's tax basis in assets (*no "step-up" to the extent allowed under the tax regime unless structured and documented to obtain fiscal benefit*). For some assets, purchase price allocation among asset classes affects depreciation/amortization for tax purposes.

- Withholding and nonresident sellers: If the seller is nonresident, Mexican withholding rules may apply to the proceeds; consult cross-border tax counsel to determine applicable withholding rates and documentation to claim treaty benefits (if any).

- Employment and social security: In a straightforward asset purchase, employees are not automatically transferred unless the parties agree. However, where the economic continuity of the enterprise is preserved and employees continue performing the same duties for the same productive unit, Mexican labor law and courts may treat the transaction as a transfer of undertaking (*sucesión*), which can preserve employee seniority and liabilities. Buyers should plan for employee terminations/re-hirings carefully and coordinate with STPS[13]/IMSS obligations (*contributions, registration*).

- Contracts and consents: Many commercial contracts (*leases, supplier contracts, government contracts, permits and licenses*) either require counterparty consent for assignment or are non-assignable. Obtain landlord consent for lease assignments or negotiate a new lease agreement in the buyer's name.

- Regulatory licenses and permits: Certain activities (*food service, import/export, transportation, regulated professions*) require administrative authorizations that may not be assignable; buyers should apply for new permits or obtain transfer authorizations from the competent authority (*municipal, state, federal*).

- Liabilities: Unless expressly assumed, pre-closing liabilities remain with the seller. Nevertheless, buyers should seek indemnities, escrows, and representations & warranties for hidden liabilities (*tax, labor, environmental, product liability*).

ADVANTAGES OF AN ASSET SALE (MEXICO)

In the context of an asset sale in Mexico, several advantages make this structure appealing for buyers.

SELECTIVE ACQUISITION

One of the primary benefits is the ability for the buyer to selectively acquire only the assets and liabilities they wish to take on. This targeted approach allows the buyer to avoid exposure to unknown corporate or tax liabilities, as they are not obligated to assume all obligations or historical issues associated with the seller's legal entity.

TAX DEPRECIATION STEP-UP

Another advantage lies in the tax treatment of acquired assets. The buyer can allocate the purchase price among individual asset classes. This allocation enables the buyer to recover the cost through Mexican tax depreciation and amortization rules, subject to the limitations established by the tax code. This step-up in tax basis can enhance the buyer's ability to deduct depreciation or amortization on the newly acquired assets.

CLEANER SEPARATION FROM SELLER'S CORPORATE OBLIGATIONS

Asset sales also offer a clearer separation from the seller's ongoing corporate obligations. By acquiring specified assets and not the corporate entity itself, the buyer generally avoids inheriting issues related to the seller's business history, including legacy liabilities or disputes that remain with the seller's legal entity.

DISADVANTAGES OF AN ASSET SALE (MEXICO)

COMPLEXITY AND TRANSACTION COSTS

Asset sales in Mexico can be complicated due to the need for numerous transfer documents and registrations. Transactions involving real estate may require notarizations, known as *escritura pública*, and can be subject to administrative timelines for registrations as well as public notices. These requirements often contribute to increased transaction costs and extended timelines.

[13] STPS Secretaría del Trabajo y Previsión Social, Mexico's federal Ministry of Labor and Social Welfare is responsible for enforcing labor laws, workplace safety regulations, and workers' rights across the country.

EMPLOYMENT CONTINUITY RISKS

Maintaining employment continuity during an asset sale presents legal challenges. Buyers must comply with labor regulations, and strategies that involve abrupt termination and re-hiring of employees carry significant legal risks. Such approaches may result in potential labor claims, making it crucial to address employment matters carefully during the transaction.

THIRD-PARTY CONSENTS

Obtaining necessary third-party consents, such as municipal permits or concession transfers, is a critical aspect of asset sales. Delays or failures in securing these consents can jeopardize the entire transaction, highlighting the importance of thorough due diligence and proactive planning.

IVA AND TRANSACTIONAL TAXES

Asset sales may trigger unintended value-added tax (VAT, known as IVA) or local transfer taxes on specific asset components. To avoid unexpected tax liabilities, careful and structured planning is required to manage these potential tax consequences effectively.

WHAT IS THE SALE OF SHARES (EQUITY SALE)?

A share sale refers to a transaction where the ownership of a company is transferred by selling its equity instruments. In this arrangement, the purchaser acquires the shares, thereby becoming the legal owner of the corporate entity. This means the buyer now owns the business in its entirety, including all its assets and liabilities.

MEXICO - SPECIFIC LEGAL AND TAX CONSIDERATIONS

LEGAL REQUIREMENTS FOR SHARE TRANSFERS

The transfer of shares in Mexico is governed by the company's bylaws and the General Law of Commercial Companies (*Ley General de Sociedades Mercantiles*). Completing a share sale may require several formalities, including the execution of notarized instruments, obtaining board or shareholder approvals, complying with pre-emptive rights, and recording the transaction in the Public Registry of Commerce.

TAX TREATMENT OF SHARE SALES

In Mexico, the sale of shares is treated differently than asset sales for tax purposes. Generally, value-added tax (IVA) does not apply to the sale of corporate equity. However, capital gains realized from share transfers are taxable under Mexican income tax regulations (ISR), with special rules for residents and non-residents. Sellers should carefully review the calculation of income tax, potential adjustments to the tax basis, and whether preferential regimes, exemptions, or treaty relief may be available.

ASSUMPTION OF HISTORICAL LIABILITIES

When a buyer acquires the shares of a company, they also assume all historical tax, labor, environmental, and civil liabilities associated with the entity. To address these risks, it is essential for the transaction to include appropriate indemnities, warranties, and escrow arrangements.

CONTINUITY OF CONTRACTS AND PERMITS

One major advantage of a share sale is that the legal entity continues to exist post-sale. Many contracts, permits, concessions, and licenses remain in force without requiring assignment, which often eliminates the need for third-party consents—particularly valuable when contracts are not assignable.

LABOR LAW IMPLICATIONS

The transfer of shares typically does not trigger "transfer of undertaking" issues, as the employer remains the same legal entity. Nevertheless, Mexican labor authorities and courts will examine the actual continuity of employment, not merely the corporate structure, to determine compliance with labor regulations.

FOREIGN INVESTMENT RULES

The acquisition of shares in certain regulated industries—such as land near coasts, airlines, and telecommunications—may be subject to foreign investment limitations. Such transactions might require notifications or approvals from the Foreign Investment Commission (*Comisión Nacional de Inversiones Extranjeras*) or filings with the Ministry of Economy.

ADVANTAGES OF A STOCK SALE IN MEXICO

SIMPLER OPERATIONAL TRANSITION

When a company is sold through a stock sale, the transition of operations is typically straightforward and unobtrusive. All existing contracts, permits, customer relationships, and employee arrangements generally remain in force without the need for assignment consent or rehiring. This seamless continuity helps prevent disruptions to the business and maintains ongoing stability.

SELLERS TAX ADVANTAGES

Sellers—particularly individuals—may experience favorable tax treatment on capital gains resulting from the sale of shares. The extent of these benefits often depends on factors such as the length of time the shares have been held and the seller's eligibility under applicable tax treaties. This can make a stock sale an appealing option for sellers seeking advantageous tax outcomes.

REDUCED ADMINISTRATIVE TRANSFERS

A stock sale generally requires fewer administrative steps compared to an asset sale. There are typically less requirements for registrations and retitling of assets, which streamlines the process for both buyer and seller. It is important to note, however, that if the company owns real estate and the form of property ownership changes, a deed transfer will still be required to update the property title.

DISADVANTAGES OF A STOCK SALE IN MEXICO

ASSUMPTION OF LIABILITIES

When acquiring a company through a stock sale, the buyer steps into the shoes of the existing corporate entity. This means the buyer inherits all historical liabilities, including those arising from prior business operations. To mitigate risk, it is essential for buyers to conduct thorough due diligence and negotiate robust indemnity provisions in the purchase agreement.

LIMITED TAX STEP-UP

Unlike asset sales, buyers in a stock transaction generally cannot easily "step up" the tax basis of the company's assets. This limitation restricts the buyer's ability to maximize future depreciation and related tax benefits, potentially making the transaction less advantageous from a tax perspective.

CORPORATE APPROVALS AND PRE-EMPTIVE RIGHTS

Local law and company bylaws may require obtaining approval from existing shareholders or honoring pre-emptive rights. These requirements can complicate the timing and certainty of the share transfer, so buyers must carefully review corporate governance documents and statutory requirements.

LABOR CONTINUITY AND EMPLOYEE PROTECTIONS

Mexican labor law places significant emphasis on protecting employees. If the company's economic activities continue and employees remain in their roles after the stock sale, courts may hold the new owner jointly liable for accrued employee rights and obligations. To address these risks, parties should draft clear agreements, secure labor law opinions, and communicate with employees. Where appropriate, negotiating collective agreements or termination settlements with employee participation and oversight from the Ministry of Labor and Social Welfare (STPS) is advisable.

SOCIAL SECURITY OBLIGATIONS

Buyers must verify the company's affiliation status with the Mexican Social Security Institute (IMSS), as well as its contribution history and any outstanding employer liabilities. Failure to comply with social security obligations can result in significant retroactive charges if authorities determine that the buyer is responsible for past noncompliance.

MUNICIPAL PERMITS AND REGULATORY APPROVALS

Various municipal permits—including sanitation, land use, operating licenses, health certificates, food service permits, and environmental authorizations—often require transfer or new applications when a stock sale occurs. Buyers should plan for these administrative processes and account for potential lead times.

CUSTOMS AND SECTORAL REGISTRATIONS

For businesses engaged in import or export activities, it is crucial to verify customs registrations (*Pedimento*), agent authorizations, and any sector-specific licenses, such as those required by COFEPRIS, SAGARPA (now SADER), or the National Banking and Securities Commission (CNBV) for financial institutions.

FOREIGN OWNERSHIP RESTRICTIONS

Foreign buyers should confirm whether there are restrictions on foreign ownership in regulated sectors and ensure that all required filings are made with the *Secretaría de Economía (*Ministry of Economy).

TAX PLANNING AND STRUCTURING TIPS

PRE-CLOSING TAX AUDIT AND PURCHASE PRICE ALLOCATION

Before finalizing the transaction, it is crucial to conduct a comprehensive tax due diligence. This process helps identify any existing tax contingencies and available tax credits. Additionally, careful allocation of the purchase price among various asset categories can optimize Mexican tax depreciation, making the transaction more tax-efficient for the buyer.

WITHHOLDING COMPLIANCE FOR NONRESIDENT SELLERS

For transactions involving nonresident sellers, determining the correct withholding rates is essential. Buyers should gather the necessary documentation and certificates to avoid excessive withholding, including those required to support treaty-based claims. Proper compliance ensures both parties avoid unnecessary tax costs and administrative hurdles.

Use of Escrow and Retention Schedules

To safeguard against potential tax, labor, and product liabilities, buyers and sellers may utilize escrows, holdbacks, and phased payments. These mechanisms are tied to post-closing indemnity claims and ensure that any liabilities identified after the transaction are properly addressed, providing greater security for both parties.

CONSIDERATION OF HYBRID APPROACHES

In some cases, parties may consider a hybrid approach to the transaction structure. This could involve a quasi-asset purchase, such as a share deal combined with asset carve-outs or post-closing distributions. Such strategies can help balance tax optimization with liability management and should be analyzed with legal counsel to ensure they meet the specific needs of the transaction.

DUE DILIGENCE – KEY MEXICO-SPECIFIC AREAS

THIRD-PARTY APPROVALS AND CONSENTS

Begin with preparing a consent matrix that lists all necessary approvals required from third parties. This should include consents from landlords, suppliers, licensors, and municipal authorities, as applicable. Identifying and documenting these requirements early in the process helps prevent delays and ensures compliance with contractual and regulatory obligations.

INTELLECTUAL PROPERTY REGISTRATION

Confirm the status of all intellectual property registrations. Ensure that assignments and registrations are properly recorded with the Mexican Institute of Industrial Property (IMPI). This step safeguards the buyer's rights and prevents future disputes regarding intellectual property ownership.

REAL PROPERTY TRANSFERS

Register any transfer of real property through an *escritura pública* (public deed) and update both municipal and state cadastral and tax records. Additionally, assess the local transfer taxes that may apply, such as the *impuesto sobre adquisición de inmuebles* or similar taxes, to ensure full compliance and accurate budgeting for transactional costs.

CORPORATE HOUSEKEEPING

Keep corporate documents current, including shareholder resolutions and bylaws. For foreign buyers, ensure KYC requirements are met, comply with anti-money laundering regulations, and complete filings with the Public Registry of Commerce.

TAX REVIEW

Conduct a thorough examination of tax matters, including income tax (ISR), value-added tax (IVA), and payroll tax compliance. Review records of past audits, the treatment of tax losses, and any previous fiscal consolidations to identify potential exposures or opportunities.

LABOR MATTERS

Review all labor-related documentation, such as payroll records, collective bargaining agreements, and records of terminations and employee seniority. Determine whether there are any outstanding liabilities and check for debts with the Mexican Social Security Institute (IMSS) or the National Workers' Housing Fund Institute (INFONAVIT).

REGULATORY COMPLIANCE

Assess the status of municipal permits, federal permissions (such as those issued by COFEPRIS, SENER, SCT, SADER, and other agencies), and verify the foreign investment registry status. Ensuring all regulatory requirements are met is essential for smooth transaction and uninterrupted business operations.

ENVIRONMENTAL CONSIDERATIONS

If applicable, verify compliance with environmental regulations, including obtaining and maintaining all necessary permits from SEMARNAT and municipal authorities. Environmental due diligence helps to prevent future liabilities and ensures ongoing regulatory compliance.

REAL ESTATE REVIEW

Examine the title to all real estate involved in the transaction, check for liens, confirm zoning compliance, and verify that all property taxes (*predial*) are current. Addressing these matters helps avoid legal complications after closing.

CORPORATE LEGAL MATTERS

Finally, review corporate records, including minutes of meetings, capitalization, outstanding shareholder obligations, and any pending litigation. This evaluation ensures that there are no hidden risks or unresolved issues that could impact the transaction.

KEY CONSIDERATIONS: ASSET SALE VS. STOCK SALE IN MEXICO

When deciding between an asset sale and a stock sale in Mexico, buyers must carefully weigh several factors to ensure an optimal outcome. These factors include tax efficiency, exposure to liabilities, administrative complexity, and labor and regulatory requirements.

ASSET SALES: SELECTIVE CONTROL AND TAX BENEFITS

An asset sale allows buyers to selectively acquire specific assets, providing greater control over what is purchased. This structure may offer potential tax benefits, such as a step-up in the value of assets for tax depreciation purposes. However, asset sales often require the transfer of multiple individual assets, which can be administratively complex. Additionally, buyers should be aware of the possibility of triggering value-added tax (VAT) or local transfer taxes during the transaction.

STOCK SALES: OPERATIONAL CONTINUITY AND LIABILITY TRANSFER

A stock (equity) sale can simplify the continuation of business operations, as the legal entity remains the same and all contracts, permits, and relationships are preserved. However, this approach also means that the buyer assumes responsibility for all historical liabilities of the company, including those that may not be immediately apparent.

CRITICAL ROLE OF LOCAL RULES AND ADVISORS

Mexican corporate, tax, labor, and notarial regulations have a significant impact on the outcome of both asset and stock sales. To navigate these complexities, it is essential for buyers to engage experienced

Mexican legal and tax advisors early in the process. These professionals can assist in structuring the transaction, allocating the purchase price, obtaining necessary consents, and addressing labor and tax matters to help mitigate risks.

HOW TO BUY A FAMILY-OWNED BUSINESS

Purchasing a family-owned business can provide entrepreneurs with the chance to acquire a well-established enterprise that is deeply connected to the local community, boasts a loyal customer base, and has a history of proven performance. Despite these advantages, it is important to recognize that family businesses often operate in ways that differ from non-family companies. This is particularly evident in Mexico, where cultural factors, informality in business practices, the roles played by various family members, and local customs significantly shape day-to-day operations and overall management

FAMILY BUSINESS DYNAMICS IN MEXICO

Family-owned businesses in Mexico often embody the legacy, values, and history of their founding families. The involvement of multiple generations is especially common and significantly influences each organization's distinctive structure and culture.

KEY MEXICO-SPECIFIC TRAITS

- Informal structures: Many Mexican family businesses operate with informal decision-making processes, may lack formalized procedures, and frequently use non-standard accounting practices.
- Intermingled finances: Personal expenses are often paid through the business (*gastos no deducibles*). It is important to identify and normalize these practices during the valuation process.
- Multi-family involvement: Several family members typically participate actively in the business, sometimes without formal contracts or with compensation that does not align with market standards.
- Reputation and relationships: The business's reputation and relationships with key suppliers and customers are closely linked to the family's name and standing in the community. In Mexico, these relationships are often based on personal trust.
- Emotional attachment: For many families, the business represents more than just a source of income, it is a legacy. The sale of the business can therefore be an emotional event, influencing pricing and negotiations and reflecting both sentimental and commercial considerations.

[1] Gastos no deducibles are expenses that the SAT does *not* allow taxpayers to deduct from their taxable income when calculating the Income Tax (ISR).

IMPLICATIONS FOR BUYERS

For prospective buyers, the process of acquiring a Mexican family-owned business involves unique challenges that extend beyond standard commercial negotiations. These transactions are typically sensitive, as they are deeply intertwined with family relationships and personal legacies. As a result, negotiations tend to be driven by personal connections and trust, often requiring more time and patience than would be necessary with non-family businesses. To achieve success, buyers must approach the process with respect and a genuine understanding of the cultural nuances at play. Demonstrating patience and a considerate attitude toward the family's values and emotional ties can be critical for building rapport and reaching a mutually satisfactory agreement.

IMPORTANCE OF PROFESSIONAL SUPPORT

Engaging professional advisors is essential when evaluating a Mexican family-owned business. These transactions involve navigating intricate regulatory requirements, effectively managing tax exposure, and resolving potential labor complications. Without the specialized knowledge that professionals provide, overcoming these challenges can be exceptionally difficult. Relying on expert guidance is therefore critical for ensuring a successful and compliant transaction process.

RECOMMENDED ADVISORS

- Business Broker (Corredor de Negocios): Responsible for sourcing opportunities, facilitating negotiations, and ensuring that both parties reach agreement on the business's value.
- Corporate Attorney: Provides advice on legal structures, clarifies asset versus stock sales, manages the transfer of permits, and oversees the formalization of contracts.
- Mexican Tax Accountant (Contador Público / CPA): Reviews electronic invoices (CFDIs), checks filings with SAT, verifies IVA compliance, and evaluates payroll tax obligations. Their expertise is vital for complete risk assessment.
- Labor Attorney: Examines employee liabilities, determines seniority (*antigüeda*[14]), and identifies risks connected to employer substitution.
- HR Consultant: Assists with formalizing employment contracts, managing employee integration, and ensuring compliance with Mexico's Federal Labor Law (*Ley Federal del Trabajo*).
- Notario Público: Required for certain corporate actions, share transfers, real estate transactions, and for the official recording (protocolization) of agreements.

Why this matters in Mexico: In Mexico, strict adherence to regulatory requirements is essential for maintaining a compliant business environment. This relies heavily on thorough and accurate documentation. Failure to properly identify, document, and resolve historical liabilities—particularly those involving the Mexican Tax Authority (SAT), the Mexican Social Security Institute (IMSS), or employment and labor matters—can result in these obligations being inherited by the new owner after a business acquisition. Such inherited liabilities can create significant financial and legal risks for buyers. Therefore, enlisting the support of experienced professional advisors is crucial. Their expertise helps ensure that all potential risks are identified and addressed, which minimizes the chances of post-acquisition complications and supports a seamless transition to new ownership.

DUE DILIGENCE CONSIDERATIONS

Family-owned businesses typically require a more rigorous and investigative due diligence process. In Mexico, it is especially important for buyers to scrutinize the business's tax compliance, labor documentation, and regulatory records. This careful review ensures that there are no hidden risks or liabilities that could affect the transaction.

FINANCIAL DUE DILIGENCE

[14] Antigüedad refers to the continuous time a worker has been employed by the same employer. It is the period counted from the date of entry into the company until the present day or until the employment relationship ends.

When conducting financial due diligence, several key areas must be closely analyzed to obtain an accurate understanding of the business's true status:

- **Normalization of financial statements:** It is essential to identify and remove personal expenses that may have been recorded as business costs. This adjustment ensures that the financial statements accurately reflect the business's actual financial position.

- **CFDI (electronic invoice) review:** Verify that all electronic invoices (CFDIs) are properly issued and correspond to supporting documentation. Additionally, it is important to check for warnings in the SAT's system, such as any connections to EFOS[1]/EDO[2] suppliers, as involvement with these can result in criminal charges.

[1] EFOS Empresas que Facturan Operaciones Simulad are companies that issue invoices (CFDI) for operations that never actually occurred. They simulate sales or services to help other taxpayers illegitimately generate deductible expenses or credit IVA.

[2] EDO = Empresas que Deducen Operaciones Simuladas are companies that buy fake invoices and use them to deduct nonexistent expenses or lower their taxable income.

- **Tax compliance:** Review ISR, IVA, and DIOT[15] filings, payroll taxes, and correspondence with SAT to confirm the business is up to date with its tax obligations.

- **Real estate:** If the business or family owns property, confirm ownership, check zoning status (*uso de suelo*), and verify municipal tax payments.

- **Family salaries:** Assess whether family members are compensated appropriately and adjust their salaries in line with market standards if necessary.

CRITICAL MEXICO-SPECIFIC REVIEW

A crucial aspect of due diligence in Mexican family-owned businesses is ensuring there are no outstanding issues with the Mexican tax authority (SAT). It is essential to confirm that the business is not currently subject to any pending tax audits by SAT, as these could reveal hidden liabilities or financial exposures. Additionally, buyers must verify that there are no unresolved "*créditos fiscales*"—outstanding tax debts or obligations that could transfer to the new owner in the event of an acquisition. Finally, a thorough review of the company's electronic accounting records (*contabilidad electrónica*) is necessary to identify and address any inconsistencies, ensuring that all reported financial information aligns with regulatory requirements and that the business is in good standing with tax authorities.

OPERATIONAL DUE DILIGENCE

Family businesses in Mexico often operate with informal practices that may lack proper documentation. After an acquisition, it is generally necessary to formalize these processes to ensure smooth operations and effective oversight. Buyers should carefully review the following operational elements to identify potential risks and areas requiring improvement:

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[15] DIOT Declaración Informativa de Operaciones con Terceros is a mandatory monthly (or sometimes semestral) information return that taxpayers submit to the SAT to report all operations carried out with suppliers, specifically those related to IVA (VAT).

- **Undocumented processes:** Many standard operating procedures, workflows, quality control mechanisms, and staff roles may exist only as verbal agreements rather than formal, written policies. This lack of documentation can lead to inconsistent practices and misunderstandings, making it essential for buyers to clarify and formalize all critical operational processes.

- **Customer relationships:** A significant number of Mexican businesses rely on personal relationships, referred to as "*trato personal*," to retain and serve their customers. These relationships may not automatically transfer to new ownership, potentially impacting revenue and client loyalty. Buyers should assess the strength and transferability of these relationships during due diligence.

- **Vendor and distributor arrangements:** Agreements with vendors and distributors are often informal and based on trust rather than written contracts. Buyers must determine whether these arrangements can be assigned to a new owner or if they will require renegotiation. Clarifying the terms of these relationships is essential to avoid operational disruptions.

- **Licenses and permits:** It is critical to verify that all required municipal, state, and federal licenses and permits are valid and up to date. Important permits and compliance documents include:

- Operating license (Licencia de Funcionamiento)

- Civil Protection compliance (*Protección Civil*)

- COFEPRIS permits (*for businesses in food, health, and manufacturing sectors*)

- Alcohol license (*subject to strict regulation*)

- Environmental permits (SEMARNAT, CONAGUA , if relevant)

[1] CONAGUA Comisión Nacional del Agua, Mexico's National Water Commission is the federal authority responsible for administering, regulating, controlling, and protecting Mexico's national water resources.

LABOR DUE DILIGENCE

Mexico's labor regulations provide robust protections for employees, making it essential for buyers to conduct thorough due diligence regarding labor obligations. If these obligations are not properly evaluated, the buyer may face significant liabilities after the transaction. The following are key considerations to guide labor due diligence in Mexico:

- **Employee contracts or absence thereof:** Buyers should review whether formal employment contracts exist for all staff. The presence or absence of written agreements can impact compliance and liability exposure.

- **Accrued benefits:** It is important to assess employee entitlements, including vacation, *aguinaldo,*[16] PTU (profit sharing), and seniority bonuses. These benefits must be accounted for and settled as required by law.

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[16] Aguinaldo is a mandatory year-end bonus that every employer in Mexico must pay to their employees. Protected by the Federal Labor Law (LFT), Article 87, it is a cash bonus equal to at least 15 days of salary, paid no later than December 20. This obligation applies to all employees, including permanent, temporary, part-time, and domestic workers.

- **IMSS and INFONAVIT compliance:** The buyer should verify that the business adheres to Mexico's requirements for social security (IMSS) and housing fund contributions (INFONAVIT). Non-compliance may result in financial penalties or obligations.

- **Union presence:** Determine whether there is union involvement, which is particularly common in the manufacturing and logistics sectors. Union relationships may affect labor costs and operational flexibility.

- **Risks of employer substitution (*sustitución patronal*):** Consider potential liabilities that may arise if employer substitution occurs during or after the transaction. This process can trigger additional obligations for the buyer.

Buyer tip: Asset sales are frequently preferred in Mexico, as they help prevent the automatic transfer of labor liabilities to the buyer.

COMMON CHALLENGES WHEN BUYING A FAMILY-OWNED BUSINESS

MEXICO-RELATED CHALLENGES

When acquiring a family-owned business in Mexico, buyers often encounter several unique challenges. Sellers may place a sentimental value on their companies, especially those passed down through generations, resulting in inflated asking prices and influencing negotiations. In many cases, these businesses lack formal governance frameworks, comprehensive corporate records, or current tax documentation, creating obstacles for due diligence and increasing the risk associated with the transaction.

- **Emotional valuation:** Sellers often attach sentimental value to their businesses, particularly those that have been in the family for generations. This emotional component can lead to higher asking prices and influence negotiations.

- **Incomplete documentation:** Many family-owned businesses may lack formal governance structure, comprehensive corporate books, or current tax records. This absence of documentation can complicate due diligence and increase transaction risks.

- **Legacy vs. modernization:** Efforts to modernize business processes and operations may initially conflict with established traditions and practices. This clash can lead to resistance from family members and slow the implementation of necessary changes.

- **Family disputes:** Conflicts among siblings or between parents and children can delay negotiations or complicated decision-making. Disagreements over business direction, valuation, or management roles are common and can hinder progress.

MITIGATION TOOLS

To address these challenges, buyers can utilize several strategies to facilitate successful transactions. Engaging an independent expert for third-party valuation helps establish a fair price and reduces emotional bias during negotiations. Professional mediators can assist in resolving family disputes and fostering productive dialogue throughout the sale process. Creating and following a clear timeline, along with a transparent communication plan, keeps negotiations organized and minimizes misunderstandings. Finally, transitional consulting agreements with key family members who possess critical knowledge or relationships can support a smooth transition and maintain business continuity.

- Third-party valuation: Engaging an independent expert to assess the business's value can help establish a fair price and reduce emotional bias in negotiations.

- Mediation support: Utilizing professional mediators can facilitate resolution of family disputes and foster productive dialogue during the sale process.

- Clear timeline and communication plan: Developing and adhering to a structured timeline, along with a transparent communication strategy, can help keep negotiations on track and minimize misunderstandings.

- Transitional consulting agreements with key family members: Arranging consulting agreements with family members who hold critical knowledge or relationships can support a smooth transition and preserve business continuity.

VALUATION CONSIDERATIONS WITH MEXICO-SPECIFIC ADJUSTMENTS

When evaluating a business in Mexico, it is essential for buyers to normalize the company's earnings to accurately capture its true economic reality. This normalization process ensures that the valuation relies on sound, representative financial information rather than figures that might be distorted due to local practices or informal arrangements.

KEY FOCUS AREAS FOR EARNINGS NORMALIZATION

- **Correcting for unreported cash sales ("*ventas en efectivo*"):** In Mexico, it is not uncommon for some businesses to conduct sales in cash that may not be fully reported. Buyers must adjust for these unreported transactions to gain a complete and accurate understanding of the company's actual revenue.

- **Removing non-deductible personal expenses:** Family-owned businesses may include personal expenses that are not deductible for tax purposes in their financial records. These costs should be excluded from the business's earnings to avoid overstating profitability.

- **Adjusting payroll for informal salaries paid off books:** Payroll records might not reflect all compensation if some salaries are paid informally. Buyers should account for these off-book payments to ensure that total labor costs are properly recognized in the valuation.

- **Evaluating real estate-related-party leases:** Real estate arrangements with related parties can impact operating costs and reported earnings. It is important to determine whether lease rates are set at market value and, if necessary, adjust earnings to reflect fair market terms.

- **Assessing goodwill tied to the family name:** In Mexico, the reputation and goodwill associated with the family name often represent a significant intangible asset. Buyers should consider how much of the business's value depends on these relationships and adjust valuation models accordingly.

CUSTOMER CONCENTRATION RISK

Customer concentration risk is especially important in the Mexican context, where a business may rely heavily on one or two major clients who have personal ties to the family. Such dependence can make the business vulnerable if those relationships change or end, so this risk should be closely examined during the valuation process.

STRUCTURING THE PURCHASE (MEXICO-FOCUSED)

FINANCIAL STRUCTURE OPTIONS

- Seller financing (*pagos diferidos*[17]) enables buyers to pay a portion of the acquisition price over an agreed period, rather than in a single upfront payment. This approach can help facilitate a smooth transition and demonstrate the seller's ongoing confidence in the business.

- Bank loans are another financing avenue in Mexico; however, access to such loans is often contingent upon the buyer's ability to provide sufficient collateral to secure the borrowing.

- Vendor's earn-outs can be structured based on specific performance indicators. In this arrangement, part of the purchase price is linked to the achievement of predefined targets, ensuring alignment of interests between buyer and seller.

- Retaining a minority interest in the family allows the sellers to maintain involvement in the company. This can help preserve critical relationships and continuity throughout the transition process.

- Real estate purchase or leaseback arrangements may also form part of the transaction. These options enable the buyer to acquire or lease the business premises directly from the seller as an integrated component of the deal.

TRANSITION PLANNING

A well-structured transition plan is essential for ensuring a seamless handover and maintaining operational stability after acquiring a family-owned business in Mexico. By carefully preparing for the transition, new owners can facilitate business continuity, build trust among employees and customers, and help retain the unique qualities that define the company's identity.

MEXICO-SPECIFIC CONSIDERATIONS

To address the unique aspects of transitioning a business in Mexico, it is important to follow several key steps:

- After closing, formalize employee contracts to clearly outline roles, responsibilities, and the terms of employment moving forward.

- Establish comprehensive compliance systems for SAT (tax authority), IMSS (social security), and payroll to ensure all regulatory requirements are consistently met.

- Handle introductions to key customers with sensitivity, particularly in sectors where personal relationships are essential to ongoing business success.

- Define the family's continued involvement, if any, to set clear expectations and support continuity for both the sellers and the buyers.

- Honor the local cultural traditions and practices associated with the business, which helps maintain goodwill and loyalty within the community.

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[17] *pagos diferidos* refers to payments that are postponed to a future date, rather than paid when the good or service is delivered, also known as deferred payments.

POST-PURCHASE INTEGRATION

Successfully integrating into a newly acquired business requires a careful balance between modernizing operations and maintaining the cultural foundation that has shaped the company's reputation. New owners should approach integration by respecting the established practices and values that are meaningful to employees, customers, and the community. Any changes should be introduced thoughtfully, ensuring that the business's core identity and trusted relationships are preserved throughout the process.

KEY STRATEGIES FOR INTEGRATION

- Retaining key employees and providing reassurance about their job stability is essential. Open and transparent communication with staff addresses concerns, minimizes turnover, and protects the operational expertise that is vital to the business's ongoing success.

- Maintaining proactive communication with customers throughout the transition is equally important. Sharing timely and clear updates helps sustain customer trust and loyalty, reducing uncertainty during periods of change and demonstrating a continued commitment to customer service.

- Remaining actively involved in the local community reinforces long-standing relationships and strengthens the company's reputation as a valued and responsible business partner. Supporting community events and initiatives plays a critical role in this process.

- Implementing changes gradually ensures that suppliers, staff, and customers are not alienated. A measured and considerate approach allows all stakeholders to adapt, ensuring that improvements contribute positively to the business without disrupting established operations or relationships.

3- KEY CONSIDERATIONS

EVALUATING CUSTOMER CONCENTRATION RISK

Customer concentration refers to the extent to which a company's revenue depends on a small group of clients. When customer concentration is elevated, it can increase operational volatility, reduce negotiation leverage, and negatively affect both the company's valuation and its ability to obtain financing. The guidance below outlines practical legal, tax, and regulatory considerations specific to Mexico that buyers should review.

KEY CONCEPTS AND MEASUREMENT

Customer concentration is measured as the percentage of total revenue generated by a company's largest clients, typically the top one, three, and ten customers. Risk thresholds are used to assess the level of concern: when a single customer contributes more than 10% of revenue, this is considered material; a concentration of more than 20–30% is seen as high risk; and if over 50% of revenue comes from one customer, this is classified as critical.

To thoroughly evaluate customer concentration, it is important to calculate several metrics. These include the revenue contributed by each customer over the past three to five years, the length and renewal frequency of customer contracts, the profit margin associated with each customer, annual customer churn rates, and the payment terms and days sales outstanding (DSO).

In addition, scenario analysis should be performed to assess how sensitive revenue is to the potential loss of any key customer. This analysis should factor in the immediate revenue impact, the estimated time needed to replace lost business, and the possible reduction in profit margins as a result.

INDUSTRY-SPECIFIC OBSERVATIONS

B2C Retail and Hospitality

In business-to-consumer (B2C) retail and hospitality sectors, customer concentration is typically less pronounced. Businesses in these industries tend to serve a broad base of individual consumers, which reduces the risk associated with relying on a small number of customers. Therefore, the evaluation process should focus on analyzing customer loyalty metrics and the transferability of brand equity. Understanding these factors provides insight into the resilience and sustained value of the business, as strong customer loyalty and robust brand equity can help ensure long-term stability and performance.

Manufacturing and Wholesale

Manufacturing and wholesale businesses often display higher degrees of customer concentration. In these sectors, it is essential to protect operational continuity by maintaining relationships with key suppliers, verifying that contracts can be assigned to new owners, and confirming the status of important registrations such as the *Padrón de Importadores*. These elements are crucial for ensuring uninterrupted operations and reducing risks associated with dependency on a limited number of customers.

Regulated Sectors

Regulated industries, including pharmaceuticals, government contracting, and energy—often experience customer concentration due to the prevalence of long-term contractual relationships. In these cases, it is important to verify dependencies on permits and registrations granted by relevant authorities such as COFEPRIS, CNBV, CRE, or IFT. Additionally, buyers should determine whether the loss of a significant customer would require regulatory requalification, as this could affect the company's ability to continue operations without interruption.

VALUATION AND FINANCING IMPLICATIONS

Customer concentration has significant effects on both the valuation and financing of a business. When a company relies heavily on a small number of customers for its revenue, this elevated risk is reflected in its market value and impacts on how potential lenders view its financial stability.

VALUATION EFFECTS

Companies with high customer concentration typically command lower valuation multiples compared to more diversified businesses. Investors and buyers require a higher rate of return to compensate for the increased risk that comes with dependency on a handful of customers. When performing discounted cash flow (DCF) analysis, it is essential to adjust assumptions to account for the greater likelihood of customer churn and to apply an appropriate discount reflecting the risk inherent in this concentration.

LENDER PERSPECTIVE

Banks and development lenders, such as *Nafin and Bancomext*, closely scrutinize projected cash flows for businesses with high customer concentration. These institutions often apply reductions to projected revenues and may require stronger loan covenants to mitigate their risk. Additional measures could include demanding higher down payments or personal guarantees from borrowers.

FINANCING STRUCTURE CONSIDERATIONS

Buyers should be prepared for the prospect of paying higher interest rates and facing tighter loan covenants when seeking financing for businesses with concentrated customer bases. Furthermore, lenders may offer shorter amortization periods, reflecting their cautious approach to credit risk in such scenarios.

COMMERCIAL AND CONTRACTUAL DUE DILIGENCE

REVIEW OF MATERIAL AGREEMENTS

Begin by obtaining copies of all significant contracts with major customers. These agreements should be carefully reviewed for critical clauses such as termination rights, change of control provisions, assignability, exclusivity arrangements, notice requirements, penalty terms, and auto-renewal features. Ensuring that all terms are clearly documented helps assess the security and flexibility of customer relationships.

ASSESSMENT OF CONTRACT STABILITY

It is important to confirm the ongoing stability of key contracts. This involves requesting proof of performance, reviewing any recent amendments or written renewals, and examining supplier or customer scorecards. For top clients, direct confirmation calls or written references should be sought to verify the reliability and continuity of these relationships.

REVENUE QUALITY TESTING

To ensure the accuracy and consistency of reported revenue, customer invoices (CFDI XML), bank receipts, and accounting records should be reconciled over a three- to five-year period. This process helps detect one-off transactions or instances of related party revenue, providing a clearer picture of the business' revenue quality and sustainability.

RISK MITIGATION AND DEAL STRUCTURING TECHNIQUES

EARNOUTS AND CONTINGENT PAYMENTS

One effective strategy for mitigating risk in transactions involving significant customer concentration is to structure earnouts and contingent payments. This approach ties a portion of the purchase price to the retention of top customers or the achievement of specific revenue milestones over a defined period. By doing so, buyers can ensure that the value they are paying reflects the actual performance and continuity of key customer relationships.

HOLDBACKS AND ESCROWS

Holdbacks and escrows are commonly used to address the risks associated with customer attrition, disputed accounts receivable, or breaches of contract that may be discovered after closing. Funds are retained in escrow and sized to match the quantified risks related to working capital and customer concentration. This arrangement provides buyers with financial recourse should post-closing issues arise.

REPRESENTATIONS, WARRANTIES, AND INDEMNITIES

To further protect the buyer, it is essential to require the seller to provide robust representations and warranties regarding contract validity, absence of breaches, and the lack of change of control triggers. Additionally, sellers should confirm the accuracy of CFDI/SAT reporting. Tax and labor indemnities should be included to cover any liabilities that pertain to the period before closing.

CUSTOMER RETENTION COVENANTS

Customer retention covenants can help preserve the value of key customer relationships through the transition. These covenants may include negotiated transition services, seller consulting or introductions, and non-solicitation and non-compete provisions. It is important to ensure that these provisions are enforceable under applicable Mexican competition and labor law to maximize their effectiveness.

PRACTICAL DUE DILIGENCE CHECKLIST: HIGH-IMPACT ITEMS

Conducting thorough due diligence is critical when evaluating businesses with notable customer concentration. The following checklist outlines essential items to review, ensuring a comprehensive assessment of revenue quality, contractual security, and operational continuity:

- **Top Customer Revenue Schedules (3–5 Years):** Review detailed revenue schedules for the company's leading customers over the past three to five years. Collect and examine copies of invoices and their corresponding CFDI XML files to verify transaction legitimacy and revenue consistency.

- **Material Customer Contracts, Amendments, and Correspondence:** Analyze all significant customer contracts, including any amendments and official correspondence. Pay particular attention to documents that indicate renewal and termination histories to understand the durability of key customer relationships.

- **Customer Confirmations and References:** Obtain confirmations and references from the top five to ten customer accounts. This step helps to validate the business relationship and assess ongoing customer satisfaction and commitment.

- **Working Capital and Accounts Receivable Aging:** Assess working capital metrics and aging schedules for accounts receivable. Review credit memos and dispute logs to identify potential collection risks or unresolved customer issues that could impact cash flow.

- **CFDI/PAC Export and Bank Reconciliations; SAT Correspondence and VAT Reconciliations:** Reconcile CFDI/PAC exports with bank statements and review relevant SAT correspondence along with VAT reconciliations. This process helps ensure that accounting records align with tax filings and government reporting requirements.

- **Employee Retention Plans and Employment Contracts for Client-Facing Staff:** Evaluate retention plans and employment agreements for personnel directly interfacing with clients. Review IMSS and INFONAVIT payment histories to confirm compliance with labor regulations and assess workforce stability.

- **Public Procurement Files and Permit/Authorization Dependencies:** For businesses serving government clients, examine public procurement documentation and identify any critical permits or authorizations. Understanding these dependencies is vital for assessing regulatory risk and contract continuity.

DECISION RULES AND NEGOTIATING POSTURE

When evaluating businesses with significant customer concentration, it is essential to establish clear decision rules and adopt a negotiating posture that accurately addresses the inherent risks and potential opportunities. The following approaches outline how to navigate these scenarios effectively.

WALK-AWAY OR DEMAND STEEP DISCOUNT

If a single customer is responsible for more than half of the company's total revenue and there is neither contractual protection nor a strong likelihood of retaining that customer, buyers should consider walking away from the transaction or negotiating a significant discount. Such concentration without adequate safeguards presents a high risk to future revenue stability.

Additionally, major unresolved invoicing or SAT (Mexican tax authority) discrepancies should raise immediate red flags. These issues can suggest potential financial irregularities or compliance risks that could jeopardize the integrity of the transaction.

In cases where critical permits or public sector approvals are non-transferable, buyers face substantial operational risk. This type of exposure may justify either abandoning the deal or adjusting the purchase price to reflect the uncertainty and potential disruption to business operations.

NEGOTIATE PROTECTIONS FOR MANAGEABLE CONCENTRATION RISK

When customer concentration presents a material but manageable risk, buyers should focus on negotiating protections that safeguard their interests throughout and beyond the transaction.

- Secure escrow amounts to cover potential risks that may arise during the transition period, ensuring that there are funds available to address any issues.

- Structure earnouts are linked directly to customer retention so that future payments to the seller are contingent on the ongoing performance and stability of key customer relationships.

- Require the seller's active participation during the transition phase to help facilitate customer retention and strengthen operational continuity.

- Negotiate strong indemnities that specifically address exposures related to tax and labor compliance, thereby mitigating potential liabilities that could surface after the transaction is completed.

CONCLUSION

Customer concentration is a quantifiable commercial risk that can significantly influence a business's valuation, access to financing, and the legal structure of a transaction. In Mexico, this risk is especially pertinent, requiring buyers to undertake comprehensive commercial due diligence as well as focused reviews of regulatory compliance. By carefully evaluating these factors, buyers can better anticipate and manage the challenges associated with concentrated customer exposure.

KEY RISK FACTORS IN MEXICO

- In addition to performing a standard customer concentration analysis, buyers should ensure that electronic invoices (CFDI) are properly reconciled and that SAT compliance is verified to maintain financial transparency.

- It is important to consider liabilities related to social security (IMSS) and housing funds (INFONAVIT) obligations, as these can create additional exposures.

- Dependence on permits should be thoroughly assessed, with attention paid to public procurement regulations that may impact a company's ability to operate without interruption.

STRUCTURING THE TRANSACTION

- Transactions should be structured using mechanisms such as earnouts, escrow arrangements, specific representations, and targeted indemnities. These tools help ensure that the purchase price is aligned with the actual risk of customer retention.

- It is advisable to involve experienced Mexican legal, tax, and labor advisors early in the transaction process. Their guidance is critical to validating contractual rights and regulatory continuity, thereby reducing risks and paving the way for a successful acquisition.

WHY NOW IS A GOOD TIME TO OWN A SMALL MANUFACTURING COMPANY (MEXICO)

CONTEXT AND MARKET OPPORTUNITY

Mexico is currently witnessing a favorable environment for small manufacturing companies. Global supply chain dynamics are shifting, creating new opportunities for businesses in the region. As companies reconsider their sourcing strategies, Mexico stands out for its combination of geographic proximity to North America, established manufacturing infrastructure, and advantageous trade arrangements. These factors enhance the attractiveness of owning and operating a small manufacturing enterprise within the country.

NEARSHORING AND SUPPLY CHAIN SHIFTS

Since the mid-2010s, Mexico has experienced a significant increase in investment flows driven by nearshoring and supply chain re-shoring trends. These trends have accelerated following the COVID-19 pandemic and growing concerns over geopolitical risks. Mexico's proximity to North America, combined with its competitive labor costs and deep integration under the USMCA, positions it as a compelling location for companies aiming to diversify their supply chains away from Asia.

GEOGRAPHIC PROXIMITY GIVES MEXICO AN IRREPLACEABLE STRUCTURAL ADVANTAGE

Mexico stands as the United States' closest large-scale manufacturing platform, offering a unique structural benefit for American businesses. This proximity enables companies to streamline their supply chains with faster and more flexible logistics. As a result, transportation costs are reduced, and delivery times are significantly shorter than those associated with other international manufacturing centers.

Even when global trade has been disrupted by tariff changes, Mexico continues to serve as the United States' top trade partner, surpassing both China and Canada. This ongoing collaboration demonstrates the resilience and strategic importance of Mexico's role within North American supply chains.

USMCA STILL COVERS MOST OF THE TRADE—TARIFFS TOUCH ONLY THE MARGINS

The United States–Mexico–Canada Agreement (USMCA) continues to serve as a strong foundation for trade between the United States and Mexico. Despite ongoing discussions and frequent media coverage about potential trade disputes or the risk of renegotiation, the core framework of the agreement remains stable and effective. This enduring structure reassures businesses that cross-border trade retains a high degree of predictability and security.

An impressive 84% of all trade between the United States and Mexico takes place without the imposition of tariffs, thanks to the provisions established by the USMCA. Although headlines may sometimes suggest instability, this significant percentage demonstrates the ongoing value and benefit the agreement provides to both countries' supply chains. Most goods continue to move freely, supporting efficient and cost-effective logistics for manufacturers.

Even when analysts express caution or raise concerns about possible renegotiation, they consistently acknowledge the deep level of integration that exists between the U.S. and Mexico. This interconnectedness reinforces Mexico's position as a trusted and reliable manufacturing base for U.S. companies. Businesses continue to rely on Mexico for its compliance with USMCA regulations, viewing it as their closest and most dependable partner for manufacturing and supply chain needs.

GLOBAL SUPPLY-CHAIN DIVERSIFICATION AWAY FROM CHINA POSITIONS MEXICO AS THE TOP ALTERNATIVE

As U.S. companies continue to shift production out of China, Mexico has become the leading alternative supplier for a wide range of strategic industries. Mexico now holds the top backup position in 68 different categories, more than any other country in the global supply network. This shift highlights Mexico's growing importance as companies seek to diversify their supply chains and reduce risks associated with overreliance on a single region.

Major sectors such as electronics, automotive, aerospace, and electronics manufacturing services (EMS) are seeing rapid expansion in Mexico. This growth is directly linked to companies relocating their operations from Asia to North America. As a result, Mexico's role as a key hub for diversified and resilient supply chains is being strengthened, ensuring greater stability and flexibility for manufacturers facing an ever-changing global environment.

RISING U.S. PROTECTIONISM ACCELERATES NEARSHORING

The imposition of tariffs on imports from China, Eastern Europe, and even Mexico has introduced short-term disruptions to global trade. However, for U.S. manufacturers, these measures have ultimately served as a long-term incentive to shorten supply chains, increase the use of regional content, and ensure compliance with USMCA rules.

As global supply chains fractured under the pressure of new trade barriers, Mexico emerged as one of the largest beneficiaries. Its proximity and integration with the U.S. market positioned it as a natural alternative for companies seeking greater resilience and regional alignment.

U.S. companies continue to invest in Mexico, even during periods of tariff disputes. This ongoing commitment is evidenced by continuous expansions in key sectors such as automotive and aerospace manufacturing.

MEXICO MAINTAINS UNMATCHED LABOR SCALE AND INDUSTRIAL CAPACITY IN THE REGION

Mexico distinguishes itself as the regional frontrunner in terms of labor force size and industrial capability. The country boasts the largest industrial workforce in Latin America, a distinction made possible by a favorable demographic profile and a continual supply of young workers entering the job market. This dynamic labor pool is complemented by Mexico's competitive wage structure, which further enhances the nation's attractiveness for manufacturing and production investments. As a result, companies are drawn to Mexico not only for its workforce scale but also for the cost efficiencies that support robust industrial growth.

Mexico's industrial ecosystem has been carefully developed over more than three decades, shaped by ongoing integration with the United States and Canada through agreements such as NAFTA and USMCA. This sustained period of economic cooperation has fostered a deeply interconnected and highly capable manufacturing base. The strength of this industrial foundation sets Mexico apart from other countries in the region, including Canada and those in Central America, making it a unique and irreplaceable hub for industrial activity and supply chain operations.

SUPPLY-CHAIN RESILIENCE MATTERS MORE THAN TARIFF PERCENTAGES

In the current global trade environment, business leaders are prioritizing long-term resilience and control of their supply chains over the fluctuations in tariff rates. Executives consistently emphasize that maintaining reliable and adaptable supply networks is significantly more important than the temporary impacts of changes in tariff policies. This evolving perspective highlights the necessity for companies to develop robust supply chain strategies that can absorb disruptions and ensure operational continuity.

Ultimately, the capacity to withstand unexpected challenges and maintain consistent performance is valued above the short-term effects of trade regulation adjustments or cost variations.

MEXICO: THE STRATEGIC NEARSHORING HUB FOR NORTH AMERICA

Despite persistent uncertainties related to tariffs and ongoing negotiations surrounding the USMCA agreement, Mexico remains the essential center for nearshoring activities within North America. Its proximity to the United States, unmatched labor scale, and deeply integrated manufacturing ecosystem make Mexico the most resilient and cost-effective option for companies aiming to diversify supply chains away from Asia. By combining competitive costs with established regional trade agreements, Mexico enables businesses to respond quickly to changes in economic and regulatory conditions while maintaining operational efficiency and reliability.

KEY DEMAND DRIVERS AND ACQUISITION TARGETS

Sectors including automotive, aerospace, electronics, medical devices, plastics and molding, and metal fabrication are primary drivers of demand in Mexico. Smaller manufacturers that supply larger original equipment manufacturers (OEMs)—such as those specializing in precision stamping, CNC machining, heat treatment, or molding—are particularly attractive acquisition targets. Buyers are interested in these businesses for bolt-on consolidation strategies or for establishing agile contract manufacturing partnerships.

MEXICO'S COMPARATIVE ADVANTAGES

Mexico provides several distinct comparative advantages, such as reduced logistics costs for shipments to the United States, Canada, and the European Union. The country also benefits from mature maquiladora and IMMEX ecosystems, along with an expanding network of near-shore suppliers. These elements further strengthen Mexico's position as a leading manufacturing hub.

MEXICO-SPECIFIC INCENTIVES AND PROGRAMS

The IMMEX program provides substantial advantages for exporters and manufacturers operating maquiladora facilities in Mexico. Through IMMEX, companies benefit from favorable VAT treatment, which helps reduce the tax burden connected to exporting goods. The program also simplifies customs procedures, resulting in more efficient and cost-effective cross-border shipments. These features are especially valuable for manufacturers serving international customers, as they enhance competitiveness and operational efficiency.

PROSEC AND SECTORAL PROGRAMS

PROSEC and related sectoral initiatives offer duty reductions and exemptions on imported inputs for companies in key industries, such as automotive and aerospace. By lowering operational costs and streamlining import procedures, these programs help manufacturers sustain a competitive global position in their respective sectors.

NATIONAL AND REGIONAL FINANCIAL SUPPORT

Mexican manufacturers have access to financing, guarantees, and export promotion services through both national and regional institutions. Entities such as Nacional Financiera (NAFIN), Banco Nacional de Comercio Exterior (BANCOMEXT), and various state-level industrial promotion funds provide resources designed to facilitate business expansion, new investments, and export activities.

SPECIAL ECONOMIC ZONES AND STATE INCENTIVES

Certain Mexican states offer additional incentives to attract manufacturing investment. These incentives may include tax rebates, infrastructure support, and streamlined permitting processes. Such measures are intended to foster industrial development and make it easier for businesses to establish and operate in targeted regions.

KEY CONSIDERATIONS FOR MEXICAN ACQUISITIONS

CUSTOMER CONCENTRATION AND CONTRACT CONTINUITY

When evaluating an acquisition in Mexico, it is crucial to determine how much the target company depends on a small group of export customers. Many smaller manufacturers in Mexico are highly reliant on just a few clients, which can present significant risks if those contracts are not secure or stable. A thorough review of all original equipment manufacturer (OEM) agreements is recommended, including analysis of pricing formulas, minimum order requirements, and contract termination provisions to ensure that business continuity is maintained. For companies operating under the IMMEX program, it is also particularly important to verify transfer pricing arrangements and review the company's customs compliance history to help prevent potential regulatory concerns.

OWNER DEPENDENCE AND TECHNICAL KNOW-HOW

Another consideration is whether the company's core processes and key customer relationships are dependent on the current owner. Businesses that are significantly owner-dependent may experience higher risks during the transition period after an acquisition. It is advisable to look for evidence of documented standard operating procedures (SOPs) and to confirm that intellectual property is properly protected and registered, such as with the Mexican Institute of Industrial Property (IMPI). These steps are essential to enable a smooth handover and to ensure the ongoing stability of operations.

WORKFORCE AVAILABILITY AND LABOR QUALITY

Assessing the availability and quality of the workforce is also vital, with particular emphasis on the presence of skilled operators such as those proficient in CNC machinery and toolmaking. Labor shortages can differ significantly between regions, making it important to evaluate the quality of local training institutions, the influence and presence of unions, and wage trends within the specific state where the target company operates. These workforce factors play a critical role in determining production capacity and maintaining labor stability.

SUPPLIER RESILIENCE AND INPUT SOURCING

It is also important to assess the reliability of the company's upstream suppliers and its dependence on imported input. Considerations should include lead times for inputs and whether the company is able to take advantage of programs like PROSEC or IMMEX, which may provide preferential duty treatment. Maintaining robust supplier relationships and securing favorable sourcing arrangements are essential for supporting uninterrupted production and ensuring cost competitiveness.

MEXICO-SPECIFIC LEGAL, TAX, AND REGULATORY GUIDANCE

CORPORATE STRUCTURE AND CONTRACTS

Acquisitions in Mexico are typically executed either through the purchase of shares or by acquiring assets. A share purchase allows the buyer to maintain continuity of the target company's existing permits and contracts. In contrast, an asset purchase provides flexibility for buyers to select which liabilities they assume. It is standard practice to use Mexican corporate forms such as S.A. (*Sociedad Anónima*) or S. de R.L. (*Sociedad de Responsabilidad Limitada*). In all cases, the company's bylaws should permit the transfer of ownership, and any changes in ownership must be properly recorded at the Registro Público de Comercio.

KEY CONTRACTUAL PROVISIONS

Contracts should be drafted in Spanish. While bilingual versions are acceptable, the Spanish text will prevail in the event of discrepancies between versions. Important contractual provisions include representations and warranties, tax and labor indemnities, escrows or holdbacks, and post-closing covenants. These provisions are designed to protect both parties and ensure a smooth transaction process.

IMMEX REGISTRATION AND COMPLIANCE

It is essential to confirm the target company's IMMEX authorization and ongoing compliance with program requirements. Due diligence should include verifying customs duty deferral processes, reviewing *pedimentos* (*customs import/export documents*), and assessing domestic content calculations. Additionally, it is important to examine maquila billing practices to ensure they align with all regulatory requirements.

ORIGIN DOCUMENTATION AND USMCA COMPLIANCE

Proper management of origin documentation is essential for companies seeking to benefit from tariff preferences under the United States-Mexico-Canada Agreement (USMCA). All relevant documents, including *Certificados de Origen*[18], must be thoroughly reviewed to confirm accuracy and completeness. In addition, companies should carefully evaluate their traceability systems to ensure they comply with the specific USMCA rules of origin. Failing to meet these requirements can expose the company to the risk of retroactive duties, emphasizing the importance of maintaining comprehensive documentation and conducting diligent compliance verification.

FEDERAL TAX CONSIDERATIONS

IVA (VALUE ADDED TAX)

Manufacturing sales that are intended for export and conducted under the IMMEX program may be eligible for special Value Added Tax (IVA) treatment. On the other hand, sales made to the domestic market are generally subject to the standard IVA rate, which is 16% as of 2025 unless updated. It is important to consider the timing and flow of VAT credits, as delays in receiving credit can create working capital pressures for the company.

ISR (CORPORATE INCOME TAX)

The standard corporate income tax rate applies to the company, and it is essential to verify the applicable rate at the time of closing. The structure of the transaction—whether it is an asset purchase or a share purchase—has significant tax implications. Asset deals allow the buyer to increase the tax basis for depreciation purposes, whereas share deals typically do not provide this benefit. However, share deals may avoid the application of VAT for the sale of shares.

[18] Certificado de Origen is an official document that certifies the country where a product was manufactured.

PAYROLL TAXES AND LOCAL CONTRIBUTIONS

It is necessary to review the company's employer payroll obligations and confirm that any applicable local payroll taxes have been properly paid.

WITH HOLDING FOR NONRESIDENTS

If the sellers involved in the transaction are nonresidents, there may be Mexican withholding tax obligations on the transaction proceeds. It is crucial to ensure that all necessary treaty relief documentation is available and correctly filed, if applicable.

LABOR, SOCIAL SECURITY, AND EMPLOYMENT RISKS

IMSS AND INFONAVIT COMPLIANCE

It is essential to validate the company's registrations with IMSS (*Mexican Social Security Institute*) and INFONAVIT (*National Workers' Housing Fund Institute*). This process includes reviewing contribution histories and identifying any outstanding employer liabilities. Labor audits conducted by IMSS and retroactive assessments are frequent areas of risk, so these require close attention to ensure compliance and avoid unexpected liabilities.

LABOR LAW PROTECTIONS AND EMPLOYER SUCCESSION

Mexican labor law is generally favorable to employees. If the business continues operating as an economic unit after a transaction, courts may determine that an employer succession has occurred, making the buyer liable for employees' accrued rights. Therefore, it is important to carefully manage any employee terminations, transfers, and collective bargaining issues, particularly in unionized environments, to mitigate risks associated with employer succession.

OUTSOURCING REFORM (SUBCONTRATACIÓN)

Recent outsourcing reforms have placed significant restrictions on subcontracting core business activities. It is critical to ensure that all payroll and contractor arrangements are compliant with these rules to avoid the risk of fines and penalties.

ENVIRONMENTAL AND SAFETY COMPLIANCE

SEMARNAT AND MUNICIPAL PERMITS

Manufacturing operations in Mexico typically require a range of environmental authorizations, waste handling permits, and sanitary controls issued by SEMARNAT and local municipal authorities. Failure to secure or properly maintain these permits may result in halted operations and significant fines. It is essential to confirm that all necessary environmental documentation is current and compliant with applicable regulations.

WORKPLACE SAFETY

Workplace safety is subject to inspections by the STPS *(Secretaría del Trabajo)* and safety audits by IMSS/OSS. These audits can lead to mandatory corrective measures if deficiencies are identified. Therefore, it is important to thoroughly review safety records and ensure that any corrective action plans have been adequately addressed.

Intellectual Property and Quality Standards

IMPI REGISTRATIONS

It is important to verify that all relevant intellectual property assets, including trademarks, patents, and industrial designs, are properly registered with the Mexican Institute of Industrial Property (IMPI). Additionally, these registrations should be structured to allow for transferability in the event of a transaction.

QUALITY CERTIFICATIONS

The presence of quality certifications such as ISO, DIN, or sector-specific approvals (for example, Cofepris certification for medical devices) can serve as significant value drivers. These certifications not only enhance the company's reputation but also help reduce the risk of having to undergo costly and time-consuming re-certification processes when ownership changes.

REAL ESTATE AND UTILITIES

PROPERTY TITLE AND ZONING

It is essential to verify the property title, specifically the *escritura pública*, to ensure legal ownership. Additionally, confirm the absence of any liens that may affect the property. The status of the property tax (*predial*) must be up to date, and it is important to ensure that the property has the appropriate zoning for manufacturing use.

UTILITIES AND PERMITS

Confirm that all supply agreements for utilities, such as electricity and water, are in place and provide sufficient capacity for operational needs. It is also necessary to verify that environmental discharge authorizations have been obtained for the facility.

OPERATIONS AND INTEGRATION ADVICE

DOCUMENTING TACIT KNOWLEDGE

To minimize risks stemming from dependence on the current owner, it is essential to systematically capture the organization’s tacit knowledge. This process involves documenting all key operational processes and creating comprehensive standard operating procedures (SOPs). Additionally, preserving operator expertise through resources such as instructional videos or detailed manuals ensures that vital know-how remains accessible for ongoing operations.

RETENTION OF KEY STAFF

Retaining critical employees is a fundamental aspect of successful integration. Recommended strategies include offering retention bonuses, putting in place formal retention agreements, and providing clear definitions of each team member’s role. It is also important to ensure that any non-compete clauses are consistent with Mexican labor law; although enforceability may be limited, these clauses can still provide support for civil remedies.

QUALITY AND SUPPLIER AUDITS

Conducting supplier audits is crucial for maintaining the quality of products and services. Further, developing contingency plans with alternate suppliers helps mitigate the risks associated with relying on a single source.

LOCAL PARTNERSHIPS

Establishing local partnerships—such as hiring local management or forming joint ventures—can facilitate navigation of regulatory, labor, and cultural challenges within the region.

HOW CURRENCY EXCHANGE RATES AFFECT CROSS-BORDER ACQUISITIONS

IMPACT OF CURRENCY MOVEMENTS ON CROSS-BORDER ECONOMICS

Fluctuations in currency exchange rates can have a profound effect on the overall economics of cross-border transactions. These movements may directly alter the agreed-upon purchase price, which in turn influences the proceeds ultimately received by the seller. Additionally, currency shifts can impact how revenues are reported in consolidated financial statements and affect the accuracy of projected cash flows for both buyers and sellers. The significance of these effects is particularly pronounced in transactions involving Mexico, regardless of whether the transaction involves a foreign buyer acquiring a Mexican entity or a Mexican buyer expanding internationally.

Effectively managing these risks requires an integrated approach that combines established foreign exchange risk management techniques with a careful analysis of legal, tax, and regulatory factors specific to Mexico. Key tools include the use of clearly defined pricing clauses, implementation of hedging strategies, and application of forward contracts to reduce exposure to adverse currency movements. By addressing both financial and jurisdiction-specific considerations, parties can avoid unexpected translation, transaction, and tax complications during or after the completion of the deal.

KEY PRINCIPLES FOR MANAGING CURRENCY EXCHANGE RISKS

UNDERSTANDING TRANSLATION RISK AND TRANSACTION RISK

In the context of cross-border transactions, it is crucial to distinguish between translation risk and transaction risk. Translation risk affects the reported financial outcomes when consolidating foreign financial statements, which can potentially distort the company's financial position. On the other hand, transaction risk has a direct impact on cash flows and arises whenever obligations such as invoices, debt service, earnouts, or escrows are settled in a currency different from the company's functional currency.

VALUATION SENSITIVITY AND SCENARIO ANALYSIS

Company valuation is highly sensitive to changes in foreign exchange rates. Even small movements in currency values can significantly affect discounted cash flow (DCF) calculations, disrupt covenant ratios, and influence the company's ability to meet debt obligations. To effectively manage these risks, it is advisable to conduct scenario analyses using realistic currency fluctuation bands and to perform stress tests. These practices help evaluate the potential impact of sudden changes in exchange rates on financial outcomes.

CONTRACT MECHANICS FOR MANAGING CURRENCY RISK

The specific mechanisms outlined in contracts are essential for effectively managing currency risk. These mechanisms include the selection of the pricing currency, determination of payment timing, use of spot or fixed conversion rates, implementation of rate collars, and the inclusion of FX adjustment clauses. It is important that these elements are clearly defined in both the Letter of Intent (LOI) and the Share Purchase Agreement (SPA). Additionally, contracts should specify how the reference exchange rate will be determined, for example by using sources such as the Banco de México noon rate, Bloomberg, or Reuters.

SETTLEMENT LOGISTICS AND NET OUTCOMES

The logistics of settlement are critical in shaping the net proceeds ultimately received in a cross-border transaction. Several practical elements must be considered to ensure smooth and predictable closing. The selection of banks is important, as each institution may have different capabilities, cut-off times, and correspondent relationships that can impact the speed and reliability of international transfers. Transfer fees associated with these institutions, as well as any intermediary or correspondent banks involved, can reduce the net amount received and should be evaluated in advance. Payment timing is also a key consideration, as differences in time zones or banking holidays can affect when funds are credited and available for use.

It is essential to confirm all relevant cut-off dates and interbank settlement windows during the deal planning and closing process. Proper scheduling and clear agreement on these logistics help to avoid unexpected losses, delays, or complications at settlement, ensuring that both buyer and seller have a shared understanding of when and how proceeds will be delivered.

DEAL STRUCTURING AND NEGOTIATION TACTICS

One effective approach is to express the purchase price using a price range or dual currency offers. The parties may state a home currency equivalent with a permitted variance band, giving flexibility to accommodate currency fluctuations. Alternatively, the price can be expressed in the target currency, providing the buyer with the option to hedge the currency risk.

Contracts should incorporate specific currency clauses to manage exchange rate volatility. Examples include setting a fixed conversion date—such as taking the spot rate on the closing date—using an average rate over a defined period or including an automatic adjustment mechanism if the exchange rate moves beyond a specified percentage (*a material adverse currency movement clause*).

Escrow arrangements and earnouts can also be used to allocate foreign exchange risk between parties. For example, escrows may be held in the target currency, or earnouts can be denominated in the local currency with caps and floors tied to specific FX ranges, ensuring more predictable outcomes for both buyer and seller.

Hedging strategies may be implemented prior to closing to mitigate currency risk. The buyer might purchase forwards or options to lock in the closing exchange rate. It is important to record the cost of the hedge in the deal model and clarify its allocation in the Share Purchase Agreement (SPA), typically stipulating that the buyer bears the hedge cost unless otherwise negotiated.

The payment route should be clearly specified, including the payment mechanism (*such as wire routing, use of correspondent banks, and cut-off time*). The agreement must also establish which party is responsible for transfer fees, applicable taxes, or any conversion losses that may arise.

STRUCTURING THE PURCHASE PRICE AND MANAGING CURRENCY RISK

STRUCTURING THE PURCHASE PRICE

A flexible approach to expressing the purchase price is valuable in managing currency risk in cross-border transactions. One effective method is to define the price within a specified range or present dual currency offers, allowing both parties to reference a home currency equivalent with an agreed upon variance band. This provides the flexibility needed to accommodate currency value fluctuations as the transaction progresses. Alternatively, the purchase price may be stated in the target currency, which enables the buyer to implement currency hedging strategies to better manage their exposure to exchange rate movements.

INCORPORATING CURRENCY CLAUSES IN CONTRACTS

Contracts should include comprehensive clauses that specify how currency exchange volatility will be addressed. These clauses may set a fixed date for currency conversion, such as referencing the spot rate on the transaction's closing date, or they may call for the use of an average exchange rate calculated over a defined period. Additionally, automatic adjustment mechanisms can be established to protect both parties if the exchange rate moves beyond a predetermined percentage threshold, for example, by including a material adverse currency movement clause.

ESCROW ARRANGEMENTS AND EARNOUTS

Escrow accounts and earnout mechanisms provide further tools to allocate currency risk between the buyer and seller. For example, holding escrow funds in the target currency ensures that exchange rate fluctuations do not affect the transaction's value. Earnouts may also be denominated in the local currency, with caps and floors tied to specific FX ranges. This structure helps guarantee more stable and predictable financial outcomes for both parties involved in the deal.

HEDGING STRATEGIES

To further mitigate currency risk, hedging strategies may be employed prior to closing. Buyers can purchase financial instruments such as forwards or options to lock in the applicable exchange rate for closing. The cost of any hedging should be clearly reflected in the financial model for the deal, and the allocation of these costs should be clarified in the Share Purchase Agreement (SPA). Typically, the buyer is responsible for the hedge cost unless the parties negotiate a different arrangement.

PAYMENT ROUTE AND ASSOCIATED COSTS

The agreement must clearly specify the payment mechanism to be used for the transaction. This includes details such as wire routing procedures, whether correspondent banks will be used, and the applicable cut-off times for initiating payments. Additionally, the contract should identify which party will be responsible for transfer fees, any taxes that may be incurred, and any conversion losses resulting from currency exchange during the transaction process. Explicitly outlining these elements in the agreement helps ensure transparency and prevents misunderstandings between the parties regarding financial responsibilities.

MEXICO-SPECIFIC LEGAL, TAX, AND REGULATORY GUIDANCE

EXCHANGE CONTROLS AND CENTRAL BANK CONSIDERATIONS

Mexico does not impose general capital controls on foreign exchange transactions. The Banco de México (Banxico) acts as the official provider of market foreign exchange rates and is responsible for overseeing the operation of the country's foreign exchange markets. When drafting agreements, it is important to reference Banxico rates or other reputable financial market sources for specifying exchange rates, as this approach ensures both transparency and consistency in contractual arrangements.

For significant foreign exchange transactions, parties should be aware that Mexican banks may conduct compliance reviews. These reviews often require the parties to provide supporting documentation that demonstrates a legitimate economic purpose for the transaction. Preparing such documentation in advance is essential to avoid potential delays or complications when completing cross-border payments.

MEXICAN TAX TREATMENT OF EXCHANGE GAINS AND LOSSES

RECOGNITION OF FOREIGN EXCHANGE GAINS AND LOSSES FOR MEXICAN RESIDENT COMPANIES

For Mexican resident companies, foreign exchange gains and losses are generally recognized for federal income tax (ISR) purposes. The specific tax treatment depends on whether the foreign exchange effect is realized or unrealized, in addition to the applicable accounting policy adopted by the company. It is crucial to reconcile the projected impacts of foreign exchange with the relevant Mexican tax rules during deal financial modeling to ensure tax compliance and accurate financial projections.

TAXABILITY AND DEDUCTIBILITY OF REALIZED FX GAINS AND LOSSES

When foreign exchange gains are realized, they may be subject to income tax, whereas real foreign exchange losses can potentially be reduced, provided that the general tax rules are met. While value-added tax (VAT or IVA) does not typically apply to the conversion of currency itself, it is necessary to ensure that invoicing and VAT calculations accurately reflect the correct local currency amounts.

INVOICING AND CFDI RULES (ELECTRONIC INVOICE)

CFDI ISSUANCE REQUIREMENTS FOR MEXICAN SELLERS

Mexican sellers are required to issue CFDI (*Comprobante Fiscal Digital por Internet*) invoices for their transactions. When transactions are conducted in a foreign currency, the CFDI must clearly indicate that payment is being made in a foreign currency by using the relevant codes approved by the Mexican tax authority (SAT). Additionally, the CFDI should specify the exchange rate applied to the transaction. It is important to ensure that the CFDI issuance process is consistent with the currency conversion mechanics stipulated in the Share Purchase Agreement (SPA) to prevent challenges from the SAT or discrepancies in value-added tax (VAT/IVA) reporting.

EVIDENCE OF RECEIPT FOR CROSS-BORDER PAYMENTS

If the buyer makes payments from abroad, the seller needs to be able to demonstrate proper receipt of the funds in Mexico. This evidence is necessary for accurate CFDI issuance and for fulfilling SAT reporting obligations.

WITHHOLDING TAXES AND CROSS - BORDER PAYMENTS

WITHHOLDING TAX OBLIGATIONS ON CROSS-BORDER PAYMENTS

When making cross-border distributions—such as interest, royalties, or fees—Mexican withholding tax obligations may arise. The application of these taxes, or the potential for reverse-withholding rules, depends on the specific circumstances of the payer and recipient, as well as any relevant tax treaties. It is important to analyze and model the impact of withholding taxes on the net consideration to be received or paid. Additionally, proper procedures should be followed to ensure that any available treaty relief can be effectively demanded.

WITHHOLDING PURCHASE PRICE PAYMENTS

For payments that are considered part of the purchase price—such as deferred consideration payable to a foreign seller—it is necessary to confirm whether Mexican tax regulations require any withholding at source. Careful verification helps ensure compliance and prevents unexpected tax liabilities.

ANTI - MONEY - LAUNDERING AND BANKING COMPLIANCE

ANTI-MONEY LAUNDERING AND SOURCE OF FUNDS REPORTING

Mexican banks must adhere to anti-money laundering regulations established under the Ley UIF and comply with foreign-source funds reporting requirements. When handling significant inbound or outbound wire transfers, these institutions are obliged to carry out comprehensive Know Your Customer (KYC) procedures. This process involves verifying the identities of all parties to a transaction, documenting the stated purpose of the transfer, and, when necessary, obtaining notarized contracts or corporate resolutions to substantiate the legitimacy of the funds being moved.

DOCUMENTATION FOR REAL ESTATE RELATED PAYMENTS

For payments associated with real estate transactions or those involving an *escritura*, it is essential to coordinate proactively with both the Mexican *notario* and the banking institution. These types of payments typically require more rigorous documentation, and banks may request additional supporting materials to confirm compliance with relevant regulatory standards.

CUSTOMS AND TRADE CONSIDERATIONS

IMPACT OF IMPORTS AND EXPORTS ON THE ACQUIRED BUSINESS

If the acquired business is dependent on import or export activities, fluctuations in foreign exchange rates can have a substantial impact on both duty calculations and pricing strategies. It is therefore critical to evaluate the business's sensitivity to currency movements when structuring cross-border transactions. Ensuring that pricing models and customs payments consider potential foreign exchange risks helps align the transaction structure with the company's risk management objectives.

VERIFICATION OF IMPORTER REGISTRATION AND CUSTOMS COMPLIANCE

For Mexican importers, it is necessary to verify the ongoing validity of the *Padrón de Importadores* registration to prevent any interruptions in the ability to import goods following a transaction. Additionally, customs payments and duties should be carefully modeled and recorded in Mexican pesos (MXN) to ensure that any exposure to currency risk is understood and effectively managed as part of the broader transaction framework.

BANKING AND SETTLEMENT PRACTICALITIES IN MEXICO

CORRESPONDENT BANKING AND INTERNATIONAL TRANSFERS

Conducting banking activities in Mexico requires careful consideration of the mechanisms for international transfers. It is important to select reputable correspondent banks to facilitate cross-border transactions, as this helps ensure reliability and compliance with regulatory expectations. Before initiating any transfer, SWIFT/BIC codes should be meticulously checked to avoid errors that could delay or misdirect funds. Additionally, intermediary bank fees and expected processing times should be reviewed in advance. Mexican banks may also charge extra fees for domestic processing of international funds and often implement delayed availability periods for large incoming credits. Being aware of these requirements can help avoid unforeseen expenses and prevent delays during settlement.

LARGE DISBURSEMENTS IN MEXICAN PESOS (MXN)

For sizable payments or disbursements in Mexican pesos, it is recommended to use local currency accounts maintained with Mexican banks. Utilizing these accounts can reduce issues related to currency conversion and help make the settlement process more efficient. Adhering to this approach ensures that transactions align with established local banking practices and are executed promptly.

ACCOUNTING, REPORTING, AND CONSOLIDATED FINANCIALS

ACCOUNTING STANDARDS AND FOREIGN EXCHANGE RECOGNITION

It is crucial to verify whether Mexican GAAP or IFRS applies, especially in the context of recognizing foreign exchange gains and losses and handling currency translation matters. Careful alignment of accounting conventions specified in the Share Purchase Agreement (SPA) with local tax reporting practices is necessary. This coordination helps ensure consistency and avoids reconciliation issues between financial statements and tax filings.

POST-CLOSE ACCOUNTING POLICIES

Clear policies should be established for post-close accounting, including procedures for translating historical financial statements and for reporting earnouts or escrow amounts that are denominated in foreign currencies. These measures support transparent and accurate financial reporting following the transaction.

CHECKLIST FOR NEGOTIATING AND CLOSING (MEXICO FOCUS)

- **Letter of Intent (LOI):** Specify the transaction currency, identify the source of reference rates, establish the conversion mechanics, allocate responsibility for transfer fees, and define the treatment of foreign exchange variance.

- **Pre-Closing Steps:** Obtain bank confirmations, open local currency accounts as needed, secure CFDI and SAT guidance for invoicing in foreign currency and confirm any withholding obligations.

- **Hedging Plan:** Determine which party is responsible for hedging, the timing of hedges, and how hedging costs will be allocated.

- **Closing Mechanics:** Set a defined settlement window, clarify which party bears any exchange losses between the rate lock and the receipt of funds, and require documentation of net funds received.

- **Post-Closing:** Document actual foreign exchange gains and losses, reconcile these amounts with tax filings, and update treasury and hedging policies as needed.

WHEN TO SEEK MEXICAN ADVISORS

Engaging Mexican tax counsel and cross-border treasury advisors early in the transaction process is vital to ensure compliance and reduce risks. Their expertise is especially important in specific scenarios where the complexities of Mexican tax law, currency conversion, and regulatory environments can significantly affect the outcome of a cross-border deal.

KEY SITUATIONS REQUIRING ADVISOR INVOLVEMENT

- **Material Transaction Value Relative to FX Volatility:** When the transaction value is substantial compared to possible foreign exchange fluctuations, advisors play a critical role in analyzing currency risk. They can recommend strategies to mitigate exposure, helping ensure financial stability throughout the transaction.

- **Multiple Currency Consideration:** If the purchase price or consideration is denominated in more than one currency, advisors help structure the agreements to address exchange rate changes. Their guidance ensures proper currency conversion, reduces uncertainty, and supports accurate settlement mechanics.

- **Significant VAT, Customs, Withholding, or Public Sector Contract Exposure:** When the target company faces considerable exposure to Mexican value-added tax (IVA), customs duties, withholding tax, or government contracts, advisors provide necessary guidance. Their support ensures compliance with local tax obligations and proper handling of government contract requirements.

- **Transactions Involving Real Estate or Regulated Assets:** In deals involving real estate or assets regulated within sectors such as energy, pharmaceuticals, or financial services, advisors are essential in navigating regulatory approvals. Their involvement helps manage timing and settlement of currency, ensuring the transaction aligns with regulatory requirements.

By consulting Mexican tax counsel and treasury advisors in these situations, parties can proactively address potential pitfalls, maintain regulatory compliance, and facilitate a smoother transaction process.

CONCLUSION

Foreign exchange (FX) risk is a fundamental component of cross-border M&A transactions, particularly those involving Mexico. Buyers must utilize standard FX mitigation strategies, such as clear contract language and hedging mechanisms, to safeguard against volatility. Equally important is ensuring thorough compliance with Mexican regulations. This encompasses the management of CFDI and SAT invoicing requirements, understanding the withholding and tax treatment of FX gains and losses, and addressing the implications for IMSS and INFONAVIT when payroll crosses national boundaries. Careful attention must also be given to local banking protocols and Know Your Customer (KYC) procedures, alongside any permit dependencies that might impact the transaction.

Early coordination with Mexican tax counsel, local banking partners, and treasury specialists is critical. By planning in advance, parties can ensure the transaction structure aligns with both legal and regulatory requirements. This proactive approach minimizes unexpected issues at closing and helps preserve the overall value of the deal.

What Happens to Business Debt When Selling a Business

IMPACT OF EXISTING BUSINESS DEBT ON TRANSACTION STRUCTURE

Existing business indebtedness plays a significant role in determining the structure, pricing, and closing procedures of a business sale transaction. The approach to transferring liabilities to the buyer—and the way these debts are allocated, secured, or discharged—depends on several important factors. One primary consideration is the form of the transaction. If the deal is structured as an asset sale, buyers generally have the discretion to select which assets and liabilities they wish to assume. In contrast, in a share sale, the buyer typically succeeds to all assets and obligations of the target company. Thus, the chosen transaction structure directly impacts which liabilities are assumed, how they are treated, and the associated risk allocation.

Another critical consideration involves the terms outlined in creditor contracts. These agreements may contain clauses such as guarantees or change of control provisions, each of which can trigger specific requirements in connection with the transaction. For example, creditors may need to be notified or may be required to provide consent before the sale can proceed. In some cases, these provisions may also dictate that outstanding debts must be repaid at closing, or that new arrangements are put in place after the sale is completed. The presence and content of such contractual terms can therefore have a direct effect on the transaction's process and timeline.

Finally, the framework established by applicable Mexican corporate, tax, and insolvency laws plays a decisive role in how existing liabilities are treated. These regulations govern the transfer, allocation, and potential extinguishment of debt, making compliance essential for a smooth closing. Adhering to these rules helps avoid unforeseen obligations after the transaction and supports a successful sale outcome.

ASSET SALE VS. SHARE SALE — PRINCIPAL PRACTICAL DIFFERENCES

In an asset sale, the buyer can specifically choose which assets and liabilities to acquire from the target company. This flexibility is often appealing to buyers who wish to avoid taking on legacy liabilities that might be associated with the business. By selectively acquiring assets, buyers can structure the transaction to reduce their exposure to unwanted obligations.

In Mexico, asset transfers may trigger the imposition of Value Added Tax (VAT or IVA) on the sale of goods. Additionally, the assignment of contracts, permits, and certain registrations often necessitates the consent of third parties. These requirements can affect both the timing and execution of the transaction, making coordination and advance planning essential.

Secured creditors may have liens attached to specific assets included in the sale. As a result, buyers must undertake thorough lien searches in the *Registro Público de la Propiedad* for real estate and the relevant movable property registries. Any outstanding liens should be released or paid off at closing, ensuring that the buyer receives clear and unencumbered title to the assets.

In a share sale, the buyer acquires the target legal entity itself, which means assuming ownership of all assets and liabilities, whether they are known or unknown at the time of sale. This approach exposes the buyer to a broader range of risks, including historical liabilities that may not be immediately apparent.

Share sales in Mexico are generally exempt from VAT; however, sellers may incur income tax (ISR) consequences, particularly in relation to capital gains realized from the transaction.

Buyers in a share sale also take on contingent liabilities, including obligations related to tax, labor, and environmental compliance. Unless the parties negotiate specific protections, such as contractual indemnities or insurance arrangements, these liabilities transfer to the buyer along with the company.

CREDITOR CONSENTS, GUARANTEES, AND CHANGE-OF-CONTROL CLAUSES

In Mexican transactions, it is crucial to carefully review all loan agreements to identify and understand the terms related to assignment, prepayment, acceleration, and change-of-control covenants. Many lenders in Mexico include clauses that require the borrower to obtain prior consent from the lender or trigger mandatory prepayment if there is a change in the ownership structure of the borrowing entity.

As part of the due diligence process, all personal guarantees, pledges, fiduciary liens (*fideicomisos*[19]), and cross-collateralization arrangements should be identified and documented. Notably, personal guarantees often remain in force after a sale unless they are explicitly released by the guarantor or creditor.

From a practical standpoint, it is advisable to obtain lender payoff letters, required consent forms, and draft releases early in the transaction process. When necessary, obtaining lender consents should be made as a condition precedent to closing, ensuring a smooth transfer and minimizing the risk of post-closing complications.

SECURED LENDING, PUBLIC REGISTRIES, AND TITLE SEARCHES

In Mexican transactions involving secured lending or asset transfers, conducting comprehensive lien searches is a critical due diligence step. These searches are necessary to identify any existing encumbrances or security interests that may affect the assets being acquired. By thoroughly investigating all potential liens, parties can uncover relevant obstacles before closing, facilitating a smooth transfer of ownership and reducing the risk of future disputes.

- Lien searches should be conducted at the *Registro Público de la Propiedad* to identify real estate encumbrances or registered mortgages against the property. This registry contains information about liens and claims that may impact the transfer of real estate assets.

- It is also essential to review the *Registro Público de Comercio* for company charges and security interests that have been formally registered. This process helps reveal obligations or encumbrances tied to the company's assets.

- Additionally, examining registries for movable property or security interests, as well as customs or bonded warehouse records where applicable, is important to ensure that all relevant liens and encumbrances are identified. This comprehensive approach helps prevent unexpected claims after the transaction is completed.

When transferring real estate, the involvement of a *notario público* is required. The notary is responsible for ensuring that mortgage releases or payoff arrangements are properly documented and reflected in the *escritura* (deed). This process is necessary to confirm that the property is transferred free of outstanding liens, thereby safeguarding the interests of both buyer and seller.

TREATMENT OF GUARANTEES, FACTORING, AND SUPPLIER FINANCING

[19] Fideicomiso is a legal trust agreement in which a person (the trustor, or *fideicomitente*) transfers ownership of property or rights to a trustee (usually a Mexican bank), so the trustee can manage those assets for the benefit of a beneficiary (*fideicomisario*).

ACCOUNTS RECEIVABLE FINANCING AND FACTORING AGREEMENTS

When evaluating accounts receivable financing and factoring agreements in the context of a transaction, it is essential to determine whether these agreements contain recourse provisions or carveouts for assignment that may remain enforceable after closing. The presence of such provisions can impose ongoing obligations on the seller or buyer beyond the transaction. To manage these risks effectively, all relevant financing and factoring facilities should be thoroughly identified during due diligence. The parties should ensure that these agreements are either novated to the buyer or fully paid off before the transaction is finalized, thereby avoiding unintended liabilities.

LEASE LIABILITIES AND ASSIGNMENTS

Lease liabilities warrant scrutiny in Mexican commercial transactions. Typically, commercial leases include provisions requiring the landlord's consent prior to assigning the lease to a new party. It is crucial to confirm the procedures for obtaining the necessary pre-closing consents and to ensure these are secured in a timely manner. Additionally, verifying the status and proper transfer of any security deposits held under the leases is critical to ensure a smooth transition and ongoing compliance with lease terms following the transaction.

TAX AND SOCIAL SECURITY IMPLICATIONS IN MEXICO

TAX CONSEQUENCES

The allocation of proceeds between tangible and intangible assets directly impacts the seller's tax liabilities under Mexican law. In asset sales, how the proceeds are divided can significantly influence the resulting tax burden for the seller. Conversely, when shares are sold, the transaction is typically subject to capital gains tax treatment, which may lead to a different tax outcome compared to asset transactions.

With respect to value-added tax (IVA), the transfer of assets—particularly inventories or goods—may trigger an IVA obligation. It is important to note that share sales are generally exempt from VAT, but they still have income tax (ISR) implications for the parties involved.

Transactions involving the cancellation or restructuring of debt also deserve careful attention. Under Mexican tax regulations, these actions may result in taxable income for the debtor. Therefore, it is essential to model such scenarios and allocate the associated risks appropriately during the transaction process.

For cross-border payments, especially debt repayments to foreign creditors, it is necessary to determine whether Mexican withholding tax applies or whether specific documentation is required. Failure to comply with these obligations can expose the parties to unexpected tax liabilities.

SOCIAL SECURITY AND PAYROLL EXPOSURES

Statutory obligations to the Mexican Social Security Institute (IMSS) and the National Workers' Housing Fund Institute (INFONAVIT) are not regarded as traditional bank debt but should be carefully reviewed during due diligence. Any unpaid contributions can lead to enforcement actions and pose successor liability risks, particularly if business operations continue after the transaction closes.

As part of a proper due diligence process, parties should examine the payment histories and any existing payment agreements with IMSS and INFONAVIT. If there are outstanding obligations, it may be advisable to negotiate seller indemnities or establish escrow arrangements to mitigate potential exposures.

INSOLVENCY, RESTRUCTURING, AND CREDITOR HIERARCHY

When a target company is experiencing financial distress, it is necessary to consider the implications of Mexican insolvency proceedings, known as Concurso Mercantil. The process and outcome of a sale involving a distressed company are largely determined by the applicable insolvency regulations, with particular attention to the hierarchy of creditors. This ranking establishes which sale mechanics are permitted and identifies the consents required from creditors to proceed with the transaction.

In the case of distressed asset sales, it is essential to work closely with insolvency counsel and the appointed concurso trustee. Their involvement is crucial to coordinate all necessary procedural requirements, including providing the required notices to stakeholders, observing any stays on actions, and securing appropriate court approvals to ensure compliance with Mexican insolvency law.

DEAL MECHANICS, PROTECTIONS, AND ALLOCATION OF DEBT RISK

One of the most reliable methods for ensuring the buyer receives clear title to acquired assets is to require full repayment of all outstanding debt facilities at the closing of the transaction. In this structure, the seller takes on responsibility for settling and closing out all existing debt, providing certified payoff letters from the relevant lenders to support the process. This approach effectively guarantees that the assets are transferred free and clear of any liens or encumbrances.

Another mechanism to protect the buyer involves the use of escrow or holdback arrangements. Here, a portion of the purchase price is retained in escrow to address debts and liabilities that may be identified or contingent, including tax, labor, or supplier claims. The amount to be held back is generally determined based on the findings and quantification of risks during the due diligence process.

It is essential for buyers to negotiate comprehensive indemnities and representations from the seller. These should specifically address the completeness of all disclosed debt, the existence of guarantees, compliance with loan covenants, and confirmation that there are no existing defaults. The survival periods for these indemnities and any liability caps should be negotiated in accordance with the applicable Mexican statute of limitations for tax and labor-related claims.

The sale and purchase agreement (SPA) should include clear mechanisms for purchase price adjustments, with careful attention to working capital and net debt calculations. The SPA must define what constitutes permitted debt, establish thresholds for bank overdrafts, and specify which liabilities are to be excluded from these calculations.

If the buyer is to assume specific loans as part of the transaction, it is crucial to execute a formal debt novation or assignment. This process requires obtaining lender consent and preparing updated security documents to ensure the transfer of obligations is properly documented and legally effective.

PRACTICAL DUE DILIGENCE CHECKLIST (DEBT-FOCUSED)

LOAN DOCUMENTATION AND FACILITY OVERVIEW

Prepare a comprehensive loan register detailing the names of all lenders, the types of facilities, outstanding balances, interest rates, loan covenants, maturity dates, and repayment schedules. The register should also list security interests and identify all guarantors involved in the facilities.

Collect and review all original loan agreements, including any amendments, notices of default, waiver letters, and the most recent loan statements. This review provides a clear understanding of the status of each facility.

Assemble payoff letters and drafts of lender consent, which are critical for facilitating the closing process and confirming the terms under which debts will be settled.

GUARANTEES, COLLATERAL, AND SECURITY INTERESTS

Obtain records documenting all guarantees and collateral registrations. These records should include entries in the *Registro Público de la Propiedad*, public commerce registry, and details of any customs bonds, ensuring verification of the existence and enforceability of security interests.

OTHER FINANCING ARRANGEMENTS

Gather schedules and documentation related to factoring arrangements, receivables financing, supply chain finance, and leases. These documents clarify the company's exposure to alternative financing sources and any outstanding obligations.

SOCIAL SECURITY AND LABOR LIABILITIES

Review IMSS and INFONAVIT payment histories along with any social security audit reports. This review is necessary to confirm ongoing compliance and to identify any unresolved obligations or risks related to employee benefits.

TAX COMPLIANCE AND ADMINISTRATIVE PROCEEDINGS

Examine documentation relating to tax audits, correspondence from SAT, and any payment agreements or administrative fines. This assessment helps determine the company's tax position and highlights any outstanding or contingent liabilities.

Secure evidence of tax liens or administrative embargoes on corporate assets. These may affect the value or transferability of the company's assets in a transaction.

NEGOTIATION AND CLOSING RECOMMENDATIONS FOR MEXICO TRANSACTIONS

CONDITIONS PRECEDENT AND RISK ALLOCATION

In preparing for closing, it is crucial to establish material lender consents and permit approvals as conditions precedent. Ensuring that these requirements are met before the transaction is finalized minimizes the risk of unforeseen obstacles. If obtaining certain consents or approvals is not feasible, the implementation of escrow arrangements and indemnity provisions is recommended. These mechanisms serve to mitigate potential risks, offering protection to both buyers and sellers throughout the transaction process.

DEBT SETTLEMENT AND RELEASE OF CHARGES

At the time of closing, sellers should be required to deliver certified payoff receipts or official bank confirmations as proof that debts have been settled. Immediately following the completion of the transaction, it is important to ensure that all releases of mortgages and other charges are formally registered with the notary. These steps are necessary to confirm that all encumbrances have been properly discharged, safeguarding the interests of the buyer and facilitating a clear transfer of ownership.

LEGACY LIABILITIES AND INDEMNITY COVERAGE

In share purchase transactions, there is a risk that certain legacy liabilities, especially those related to tax, labor, and environmental issues, may remain with the company after closing. To address this, purchasers should secure specific indemnities from the seller that covers these areas. Additionally, the use of representations and warranties insurance may be considered to limit the purchaser's exposure to post-closing risks, providing an extra layer of protection against unforeseen liabilities.

REAL ESTATE AND REGULATED ASSETS

For transactions involving real estate or other regulated assets, it is essential to coordinate early with the notary, the Registro Público, and the relevant sector regulators such as COFEPRIS, SEMARNAT, CRE, CNBV, and IFT. Taking these proactive steps helps prevent delays at closing and ensures that releases of liens are both valid and enforceable, thereby supporting a smooth and compliant transaction process.

POST-CLOSING STEPS AND COMPLIANCE

REGISTRY UPDATES AND TITLE TRANSFERS

Immediately after the transaction closes, it is vital to file all necessary registry updates with the Registro Público de Comercio. For transactions involving the transfer of asset or property titles, these changes should also be recorded in the *Registro Público de la Propiedad* as applicable. Completing these registrations ensures that the transfer of ownership is legally valid, enforceable, and in compliance with Mexican law.

NOTIFICATIONS TO LENDERS, SUPPLIERS, AND COUNTERPARTIES

Where contractual obligations exist, all relevant lenders, suppliers, and key counterparties must be notified of the change in ownership. Written confirmation of receipts should be obtained from each party to document awareness and acceptance of the new ownership structure. Taking this step is crucial for maintaining transparency and effective business relationships after closing.

BANKING AND FINANCIAL ARRANGEMENTS

All bank accounts should be reconciled, and, where appropriate, banking facilities should be closed or transferred to the new owner. Updates to authorized signatories with Mexican banks must be completed, typically requiring compliance with Know Your Customer (KYC) procedures and the submission of updated corporate resolutions. These actions help to ensure that financial operations remain smooth and properly authorized under new ownership.

PAYROLL, SOCIAL SECURITY, AND TAX COMPLIANCE

It is essential to promptly update payroll systems, IMSS and INFONAVIT registrations, and all tax reporting obligations to reflect the change in ownership. Timely implementation of these updates supports compliance with Mexican labor and tax laws, helping to prevent administrative or regulatory issues following the transaction's completion.

CONCLUSION

In business transactions, debt allocation is a negotiable element that requires careful attention. It is essential for the parties to define the terms with clarity, ensure that all agreements are thoroughly documented, and secure lender consent or use other contractual mechanisms to support the allocation. These steps are fundamental to minimizing post-closing exposure and maintaining the integrity of the transaction.

For business transactions in Mexico, adopting comprehensive due diligence practices is highly recommended. These practices include conducting detailed corporate registry searches, engaging in *notario* and title processes, and performing SAT (tax authority) clearance checks. Additionally, carrying out

IMSS and INFONAVIT audits forms an essential part of the debt diligence process. Implementing these measures helps ensure legal and regulatory compliance and supports a secure transaction.

To effectively manage legacy risks and preserve the value of the transaction, parties should employ risk mitigation tools such as payoffs, escrows, indemnities, and, when appropriate, representations and warranties (R&W) insurance. These strategies are designed to secure the transaction against unforeseen liabilities and help ensure a seamless transition after closing.

FINANCING THE ACQUISITION OF A BUSINESS

Financing is one of the most decisive components of any business acquisition. Whether acting as a buyer looking to acquire a business or as a seller preparing for an exit, understanding the full range of financing options—including alternative lending solutions and seller financing—can greatly increase the likelihood of achieving a successful transaction.

The combined insight from the author points to a clear trend: buyers are increasingly seeking flexible financing arrangements, and sellers who are willing to provide such options tend to close deals more quickly and often secure higher valuations.

OVERVIEW OF FINANCING OPTIONS FOR BUYING A BUSINESS

When acquiring a business, both buyers and sellers can access a variety of financing options. Common sources include traditional bank loans, alternative lending platforms, investor capital, the use of retirement funds, and seller financing. Each financing method involves different considerations related to risk; cost, regulatory compliance, and the level of negotiation leverage available to each party involved.

Alternative lending has become more prominent, especially as banks have adopted stricter lending standards. This shift has introduced new avenues for acquisition financing that feature faster approval timelines, simpler documentation requirements, and fewer collateral demands compared to traditional bank loans.

In Mexico, the landscape for business acquisition financing is distinct from that of the United States or Canada. Commercial bank loans are much less common as a source of capital for acquisitions. Foreign buyers frequently encounter significant challenges, such as:

- A lack of established Mexican credit history
- Limited willingness from banks to finance small and medium-sized business (SMB) acquisitions
- Complex requirements for guarantees
- Longer and more cumbersome underwriting timelines

As a result, alternative financing solutions—particularly seller financing—play an especially important role in facilitating business acquisitions in Mexico.

SELLER FINANCING: HOW IT WORKS

Seller financing is a structure where the seller takes on the role of lender, allowing the buyer to pay a portion of the purchase price over an agreed period, typically with interest. This arrangement enables the buyer to acquire the business without the need for a full bank loan and creates a more flexible, collaborative atmosphere between the parties.

- Typical seller financing terms include a repayment period of 5–7 years, with an interest rate of 8–10% and usually require a down payment of 30–40%.
- Sellers frequently finance one-third or more of the total purchase price.
- The buyer generally starts making monthly payments about one month after closing, unless adjustments are needed for seasonal factors.

In structure, seller financing is like a bank loan but offers much greater flexibility and better alignment of interests between buyer and seller.

ADVANTAGES FOR BUYERS

- Lower upfront capital requirement, making it easier for buyers to access business acquisition opportunities.
- Higher likelihood of approval compared to traditional bank loans.
- Seller financing demonstrates the seller's confidence in both the business and the buyer's ability to succeed.
- Opportunity to acquire higher-value businesses that might be inaccessible through standard financing methods.

ADVANTAGES FOR SELLERS

- Potential to achieve a higher sale price—often 10–15% higher than in cash-only transactions.
- Faster sales process and access to a larger pool of prospective buyers.
- Ongoing interest income throughout the repayment period.
- Tax liabilities can be spread over several years, which may be beneficial from a tax perspective.

MEXICO-SPECIFIC CONSIDERATIONS FOR SELLER FINANCING

Seller financing in Mexico is particularly important, not only because it is more common, but also because it carries greater value, driven by the unique characteristics of Mexico's lending environment. These circumstances impact the legal, financial, and practical aspects of seller-financed deals, demanding precise attention to compliance, documentation, and tax requirements.

LEGAL DOCUMENTATION REQUIREMENTS

To be legally enforceable, seller financing contracts in Mexico must comply with the *Código de Comercio*. For full enforceability, these agreements should be formalized using recognized legal instruments. Common instruments include:

- *Pagaré* (promissory note)
- *Contrato de Mutuo con Interés* (Mutual Agreement with Interest)
- *Prenda sin transmisión de posesión* (collateral pledge)
- *Notario Público certification* for enforceability

If seller financing agreements are not formalized through the appropriate legal channels, their enforceability in Mexican courts is weakened, which can expose both parties to significant risk.

COLLATERAL IN MEXICO

Seller financing transactions in Mexico typically require collateral to secure the loan. Collateral may take the form of:

- Business assets
- Equipment
- Real estate
- Intellectual property
- Stock pledge (prenda de acciones)

Collateral interests must be registered in the *Registro Único de Garantías Mobiliarias* (RUG)[20] to guarantee legal protection and priority.

TAXATION

- Interest earned by the seller is taxable income and must be invoiced through **CFDI** (Mexican digital tax receipts).
- Depending on the structure of the transaction, buyers may be able to deduct interest payments as expenses, subject to Mexico's thin-capitalization rules.
- Sellers may defer capital gains through installation of sales structures.

CROSS-BORDER FUNDING

Foreign buyers face additional requirements when using cross-border financing for acquisitions in Mexico. These include:

- FATCA/CRS reporting obligations
- Potential currency exchange fluctuations
- AML/KYC verifications with Mexican banks
- SAT (Mexican tax authority) scrutiny of foreign-funded acquisitions

HOW TO STRUCTURE A FINANCING PACKAGE FOR MEXICAN ACQUISITIONS

OPTIMAL FINANCING MODEL FOR FOREIGN BUYERS

For foreign buyers seeking to acquire a business in Mexico, a blended financing structure offers the most practical and effective approach. This model incorporates several components to balance buyer commitment, seller protection, and overall transaction flexibility.

- **Down Payment:** It is recommended to allocate between 30% and 50% of the purchase price as an upfront down payment. This arrangement demonstrates the buyer's commitment to the transaction and provides essential protection for the seller.

[20] Registro Único de Garantías Mobiliarias (RUG) is Mexico's electronic public registry for creditors to record security interests over movable property, providing public notice and legal certainty for secured transactions.

- **Seller Financing:** Structuring 20% to 50% of the deal through seller financing can be advantageous for both parties. Seller financing adds flexibility, helps to bridge funding gaps left by traditional lenders, and supports a collaborative transaction environment.

- **Alternatives:** Supplementary funding options, such as peer-to-peer loans, lines of credit, retirement funds, or angel investors, should be considered to address any additional capital needs that may arise during the acquisition process.

- **Working Capital Facility:** Securing a working capital facility for 10% to 20% of the total transaction amount is recommended to ensure financial stability and operational continuity following the acquisition.

LEGAL & TAX LAYERING (MEXICO-SPECIFIC)

Establishing the appropriate legal and tax structures is essential for ensuring compliance and protecting all parties involved in the acquisition. The following steps are key for foreign buyers:

1. Set up a Mexican entity, such as a *Sociedad de Responsabilidad Limitada* (S. de R.L.), which is particularly suited for foreign ownership. This entity structure supports compliance with Mexican regulations and simplifies transaction processes.

2. Obtain an RFC (tax identification number) for the entity, which is necessary for tax filings and financial reporting within Mexico.

3. Document all sources of financing to ensure transparency for internal records and compliance with regulatory requirements.

4. Register all collateral and guarantees related to the financing arrangement. This step protects the interests of both buyer and seller throughout the transaction.

5. Execute promissory notes before a Notario Público. This formal process provides legal enforceability and ensures the terms of the financing are upheld.

6. Make certain that all financing inflows are traceable for anti-money laundering (AML) compliance, which is critical for meeting Mexican regulatory standards.

Conclusion

Seller financing is a highly effective and widely accepted method for structuring business acquisitions in Mexico. It offers notable benefits for both buyers and sellers, including a collaborative environment and solutions for funding gaps that might occur when bank loans are unavailable or insufficient.

When traditional financing does not fully meet the capital needs of an acquisition, alternative lending options—such as peer-to-peer loans, lines of credit, retirement funds, or angel investors—can provide the necessary flexibility to complete the transaction.

It is vital to engage professional advisors to properly structure the legal and tax aspects of the deal. Their expertise ensures regulatory compliance, protects all parties, and supports the long-term stability of the acquisition.

For acquisitions in Mexico, additional compliance layers must be integrated into the financing plan. These include the requirements of the Mexican tax authority (SAT), the social security institute (IMSS), the public registry of collateral (RUG), the Notario Público for legal enforceability, and anti-money laundering (AML) laws. Incorporating these compliance elements safeguards the transaction against regulatory risks and ensures transparency throughout the process.

When these steps are executed properly, a thoughtfully structured financing package not only facilitates smooth and successful acquisition but also provides protection for both the buyer and the seller throughout the transition and into the future.

Three Professionals to Have on Your Team When Buying a Business

Successfully acquiring a business demands specialized knowledge in legal, fiscal, and commercial areas. To navigate this complex process, it is important to assemble an experienced advisory team early on. The recommended core team includes:

- **Transactional Attorney:** Choose an attorney with expertise in Mexican corporate law and regulatory procedures to guide the structuring and legal aspects of the acquisition.

- **Senior Accountant or Tax Advisor:** Engage a professional who understands Mexican tax law and is adept at financial forensics to ensure compliance and accurate financial assessment.

- **Broker or M&A Adviser:** Select an adviser familiar with the local market to provide insights into valuation, negotiation, and industry trends.

The following sections offer a deeper look at the responsibilities of each advisor and highlight the Mexico-specific actions, documents, and risks to be addressed during the pre-closing phase and integration process.

LEAD COUNSEL — TRANSACTIONAL, REGULATORY, AND LABOR EXPERTISE

Core Responsibilities

- Structure the acquisition, determining whether an asset or share purchase is appropriate. Draft and negotiate key documents such as the Letter of Intent (LOI), Share Purchase Agreement (SPA) or Asset Purchase Agreement (APA), disclosure schedules, escrow and indemnity provisions, as well as closing mechanics and post-closing covenants.

- Coordinate title, permit, and corporate registry searches. Manage the assignment of contracts and obtain necessary consents.

- Oversee all regulatory filings and notifications required by federal, state, and municipal authorities.

Mexico-Specific Guidance

- **Corporate formalities:** Verify the *Acta Constitutiva*, company bylaws (*Estatutos*), and the extract from the *Registro Público de Comercio*. Confirm the identities of authorized signatories and check for any restrictions on shareholder transfers.

- **Permits and regulators:** Map all required municipal, state, and federal permits, such as operating licenses (*licencia de funcionamiento*), sanitary registrations (COFEPRIS), environmental authorizations (SEMARNAT), and specific sector approvals (CRE/IFT/CNBV) where relevant. Many permits are non-transferable counsel must identify which require reapplication, notification, or regulator consent, and incorporate these processes into closing conditions and timelines.

- **Labor law and successor liability:** Advise on the implications of the *Ley Federal del Trabajo*, including union or collective bargaining exposure and IMSS/INFONAVIT contribution histories. Recent reforms to outsourcing (*subcontratación*) laws increase the buyer's exposure to liabilities from noncompliant subcontractors, making it essential to require seller disclosure and indemnity protections.

- **Litigation and administrative risk:** Conduct searches of commercial, labor, and administrative dockets. Collaborate with local counsel to assess probable outcomes and available remedies.

- **Cross-border buyers:** Advise on foreign investment regulations, required registrations with the *Secretaría de Economía*, and assess whether COFECE (competition authority) notification thresholds are met.

Senior Accountant / Tax Advisor

CORE RESPONSIBILITIES

The senior accountant or tax advisor is an integral part of the transaction team, entrusted with validating the company's historical financial statements. Their primary role includes preparing normalized Seller's Discretionary Earnings (SDE) or EBITDA adjustments to accurately reflect the business's true financial performance. These professional conducts comprehensive analyses of cashflow and working capital, ensuring the transaction structure is informed by robust financial data. Additionally, they model the tax implications of various deal structures, supporting informed decision-making throughout the transaction process.

During due diligence, the advisor meticulously reconciles bank statements with point-of-sale (POS) and CFDI records, reviews VAT (IVA) positions and assesses payroll withholding histories. These steps are essential to confirming the accuracy and completeness of the target company's financial documentation.

The accountant also plays a critical role in identifying contingent liabilities. Based on their findings, they recommend the appropriate size of escrow accounts, indemnity caps, and tax holdbacks. These safeguards are designed to protect the buyer from unexpected financial exposures after the transaction closes.

MEXICO-SPECIFIC GUIDANCE

In Mexico, a crucial step for the accountant is to reconcile CFDI XML exports and PAC validation reports from the previous three to five years with the company's bank deposits and reported revenue. This detailed comparison often reveals discrepancies indicating underreported sales or VAT (IVA) exposure, which must be resolved before the transaction is completed.

The advisor's scope includes reviewing the company's VAT credit positions, pending refund claims, and historical Income Tax (ISR) payments. It is important to note that asset transfers of goods typically trigger VAT liabilities, while share transfers are generally VAT-exempt but may result in ISR on capital gains. The advisor must model the tax impact for both scenarios to ensure accurate transaction planning.

Another essential responsibility is to verify IMSS and INFONAVIT employer registration numbers, review contribution histories, and check for any audits or payment agreements with IMSS. Unpaid social security contributions can represent significant contingent liabilities, making it necessary for these issues to be thoroughly quantified and addressed.

Transfer pricing is also a key area of focus. The accountant should request and review transfer pricing studies and support documentation for any intercompany transactions. This diligence anticipates potential adjustments that may be required by tax authorities.

Finally, the accountant identifies any informal cash-based operational practices, which are relatively common among Mexican small and medium-sized enterprises (SMEs). It is vital to quantify the necessary reserve adjustments to reflect these practices and ensure that the financial statements present a true and fair view of the business.

ROLE OF THE BUY-SIDE BUSINESS BROKER IN MEXICO

A buy-side business broker, also known as an M&A adviser, plays a pivotal role in representing buyers throughout the acquisition process. Their responsibilities include identifying and sourcing acquisition targets, thoroughly vetting potential opportunities, coordinating with various advisory professionals, negotiating deal terms, and overseeing the logistics required to complete the closing.

For buyers who may not have substantial transaction experience or direct access to the local market, engaging a qualified broker is particularly advantageous. The broker's involvement not only accelerates the flow of potential deals but also reduces execution risk and helps preserve the buyer's negotiating leverage during discussions.

In the Mexican market, local expertise and regulatory proficiency are especially critical. Transactions often involve issues that are highly jurisdiction-specific—such as permits, tax exposures, labor risks, and registry formalities. These factors can significantly influence both the economics of the deal and its expected timeline, making an experienced local broker an invaluable asset during the acquisition process.

CORE BUY-SIDE BROKER RESPONSIBILITIES

The buy-side broker begins by defining the buyer's acquisition criteria and developing a prioritized list of potential targets. This targeted approach ensures that the search for suitable businesses is aligned with the buyer's strategic goals.

Once criteria are established, the broker sources and pre-screens acquisition opportunities. This process includes both businesses that are actively marketed and those available off-market, leveraging regional networks and industry contacts to uncover the most promising options.

The broker manages all communications with prospective sellers, including the execution of non-disclosure agreements (NDAs). They also coordinate introductions and organize site visits, providing buyers with direct access to target businesses while maintaining confidentiality throughout the process.

A key responsibility is assembling and liaising with legal, tax, and accounting professionals. The broker supervises the due diligence process, ensuring that all relevant financial, legal, and operational information is thoroughly reviewed by the advisory team.

The broker also provides valuation benchmarking, fairness commentary, and working capital analysis. These insights help the buyer assess whether the proposed transaction terms are reasonable and in line with market standards.

Additionally, the broker leads or supports negotiations, assists with identifying financing sources, and helps structure the terms of the deal. Their involvement ensures that the buyer's interests are represented and that the transaction proceeds smoothly.

Finally, the broker coordinates the closing mechanics, including escrow arrangements and funds flow. When agreed, they may also assist with post-close integration activities, helping the buyer transition into ownership and begin operations with minimal disruption.

WHY ENGAGE A BUY-SIDE BROKER IN MEXICO

ACCESS TO OFF-MARKET OPPORTUNITIES AND REGIONAL NETWORKS

Engaging a buy-side broker in Mexico provides buyers with access to off-market deals and established regional networks. This is especially valuable in the Mexican market, where a significant number of small and medium-sized enterprises (SMEs) are not publicly listed. Brokers leverage their local relationships and industry contacts to identify acquisition opportunities that might otherwise remain undiscovered.

EFFICIENT MANAGEMENT OF DOCUMENTATION AND DATA ROOMS

Brokers play a practical role in managing transaction documentation and data rooms. They oversee the organization and exchange of critical files, such as CFDI/XML invoices, SAT correspondence, and IMSS/INFONAVIT compliance documents. This ensures that all necessary information is properly handled and accessible throughout the deal process.

OBJECTIVE INTERMEDIATION IN NEGOTIATIONS

Acting as an objective intermediary, the broker helps preserve the rapport between buyer and seller during sensitive negotiations. This function is particularly important in Mexico, where business transactions are often relationship driven. The broker's neutrality fosters constructive dialogue and maintains trust among parties, supporting successful deal outcomes.

LOCAL EXPERTISE IN REGULATORY AND LEGAL PROCESSES

A buy-side broker brings essential local knowhow to the table, assisting buyers in navigating complex municipal, state, and federal permit transfer rules. This includes guidance on requirements such as *licencia de funcionamiento*, COFEPRIS, SEMARNAT, CRE, IFT, and CNBV. Additionally, brokers facilitate *notario* and *escritura* procedures in real estate transactions, ensuring compliance with local legal formalities.

BROKER COMPENSATION MODELS

Broker compensation in buy-side transactions typically follows several established models. The most common is the success fee, which is calculated as a percentage of the final purchase price. Alternatively, buyers may encounter flat fees, ongoing retainers, milestone-based payments, or fees for due diligence and consulting services. In practice, these structures are often blended to suit the specifics of the transaction and the scope of work required.

Globally, success fee percentages tend to range from 5% to 15%. It is essential for buyers and their advisers to negotiate these fees based on the deal size, the breadth of broker services provided, and whether the engagement is exclusive.

When engaging a broker in Mexico, it is important to agree upon the fee structure and address any potential conflicts of interest from the outset. Co-brokering is a common practice in the country; however, it may introduce agency conflicts, especially if the sell-side broker has influence over outcomes for the buy-side.

For deals involving real estate, buyers should ensure that commission arrangements are coordinated with the *notario*. It is also advisable to confirm whether local customs necessitate separate fees for real estate brokers.

A hybrid compensation approach can be effective in buying engagements. This model combines a modest retainer, a performance-based fee, and a capped success fee. Such an arrangement helps align the broker's incentives with the buyer's goals and encourages thorough sourcing of acquisition candidates.

It is also prudent to document the specific triggers for fee payment, clarify whether the buyer or seller will be the source of payment, and outline claw-back or repayment provisions should the transaction not be completed.

SCOPE OF SERVICES AND ENGAGEMENT TERMS (RECOMMENDED)

BROKER DELIVERABLES AND SUPPORT

The broker's scope of services should be clearly defined to ensure alignment with the buyer's objectives. Essential deliverables include introducing a specified number of acquisition targets, providing comprehensive research reports, preparing valuation memos, supporting negotiations, coordinating due diligence activities, and assisting with post-close integration. By outlining these deliverables in advance, both parties can set clear expectations and measure broker performance throughout the engagement.

ENGAGEMENT STRUCTURE AND PROTECTIONS

The engagement terms should address exclusivity, the length of the engagement period, and notice requirements for termination. Additionally, confidentiality clauses must be established to protect sensitive information, and non-circumvention provisions should be included to prevent the broker from bypassing the buyer in future dealings. These measures help safeguard the interests of all parties and maintain the integrity of the transaction process.

DISCLOSURE AND CONFLICT MANAGEMENT

It is critical to require the broker to disclose any prior relationships with sellers, potential conflicts of interest, and any referral arrangements with local advisors. Transparent disclosure allows buyers to identify possible agency conflicts and make informed decisions about the broker's impartiality and motivations.

BROKER DILIGENCE STANDARDS AND DELIVERABLES (RECOMMENDED)

Preliminary Report

The broker should prepare a preliminary report that compares the target to the buyer's criteria. This report must identify any high-level red flags, provide a valuation range, and suggest an appropriate deal structure, whether asset or share purchase.

Data Room Checklist

A standardized checklist should be created for the data room, specifying all required documents. This checklist typically includes CFDI XMLs, SAT notices, IMSS records, corporate documents, permits, contracts, leases, insurance policies, and litigation schedules.

Risk Heat Map

The broker should deliver a prioritized heat map of legal, tax, labor, regulatory, and commercial risks. For each identified risk, recommended mitigants such as escrows, indemnities, or holdbacks should be outlined.

Timeline

A projected timeline should be provided, detailing regulatory windows, milestone dates, and any recommended conditions precedent that must be satisfied before closing.

Financing Options Map

The broker should summarize available financing options, including local banks, development banks, leasing arrangements, and seller financing alternatives.

SELECTING THE RIGHT BUY - SIDE BROKER IN MEXICO

EXPERIENCE AND TRACK RECORD

It is important to assess the broker's experience and track record in your specific industry and market. Look for a broker who has handled a significant number of transactions like yours and can provide references from buyers, not only from sellers. This helps ensure that the broker understands the complexities and nuances of representing buyers in comparable deals.

LOCAL NETWORK

The broker should maintain strong relationships with key local professionals, including regional *notarios*, tax advisors, labor lawyers, regulators, and financing sources. A well-established local network enables the broker to effectively navigate the Mexican regulatory environment and facilitate smooth transaction processes.

TECHNICAL COMPETENCE

Ensure the broker demonstrates technical competence, particularly in coordinating CFDI and SAT reconciliation, conducting IMSS and INFONAVIT reviews, and managing permit transfer processes. These technical capabilities are essential for identifying risks and ensuring compliance throughout the transaction.

TRANSPARENCY AND ETHICS

The broker should operate with full transparency and adhere to high ethical standards. This includes providing clear disclosure of any potential conflicts of interest, outlining fee arrangements in detail, and being upfront about any co-broker relationships. Transparency helps foster trust and ensures alignment of interests.

PROFESSIONAL MEMBERSHIPS AND CREDENTIALS

The broker should hold relevant professional memberships and credentials, such as membership in M&A or brokerage associations and local certifications where required. These qualifications indicate a commitment to industry standards and ongoing professional development.

CONFLICTS, CO-BROKERING, AND GOVERNANCE

To ensure transparency and protect buyer interests, it is essential to require the broker to disclose any existing relationships with the target business or any sell-side broker. Full disclosure of these connections helps avoid potential conflicts of interest and ensures that negotiations remain fair and objective.

In situations where co-brokering cannot be avoided, it is important to establish separate written duties and clearly defined performance metrics for the buy-side broker. This approach ensures that the broker's responsibilities are distinct and that their efforts are focused on advancing the buyer's interests throughout the transaction.

The engagement letter should specifically outline the broker's fiduciary duties, expectations for confidentiality, non-circumvention provisions, and the deliverables to be provided. By clearly defining these governance elements in writing, both parties can align their expectations and establish a framework for accountability during the transaction process.

PRACTICAL CONTRACTING AND NEGOTIATION CLAUSES TO REQUEST FROM BROKER

SCOPE OF SERVICES AND EXCLUSIONS

The engagement letter should provide a clear and comprehensive description of the broker's scope of services. This means explicitly stating which actions and responsibilities are included within the broker's duties, as well as identifying any tasks or obligations that are excluded from the engagement. By defining these boundaries, both parties can set informed expectations and reduce the possibility of misunderstandings during the transaction.

FEE SCHEDULE AND PAYMENT TRIGGERS

The contract should include a detailed fee schedule, specifying the amounts and conditions under which payments are due. It is important to clarify whether the success fee is subject to a maximum cap or if a sliding scale applies, especially in situations involving post-closing adjustments. By setting out these payment triggers and structures, the agreement promotes transparency in compensation and ensures that financial interests are properly aligned.

TERM AND TERMINATION RIGHTS

The agreement should define the terms of the engagement, including the duration and any renewal provisions. It must also specify the rights of either party to terminate the contract, detailing the required notice periods and the procedures for refunding or crediting any retainers paid. These provisions help create a fair and predictable process for ending the relationship should circumstances change.

CONFIDENTIALITY AND DATA PROTECTION OBLIGATIONS

The broker is required to comply with strict confidentiality and data protection obligations, particularly regarding CFDI documents and employee information. All handling of sensitive data must adhere to Mexican data privacy laws, ensuring that confidential information is properly safeguarded throughout the transaction process.

NON-CIRCUMVENTION AND POST-ENGAGEMENT REFERRAL FEE DURATION

The contract should include non-circumvention clauses to prevent either party from bypassing the broker's role in the transaction. Additionally, it is important to specify the length of time during which referral fee obligations remain in effect after the initial engagement period has ended.

4 - TAKE CONTROL

INTEGRATED POST-ACQUISITION TRANSITION GUIDE

Acquiring a business, whether through an asset purchase or by acquiring all shares, signals the start of a pivotal transition period that will shape the overall success of your investment. The initial 90 days following acquisition are especially significant, as they establish the foundation for strong financial results, foster employee engagement, and ensure the smooth continuation of business operations.

The following guidance brings together proven best practices for managing this transition, while also highlighting key legal and regulatory considerations that are particularly relevant for investors in the Mexican marketplace.

MAINTAIN SELLER INVOLVEMENT DURING THE TRANSITION

Immediately after acquiring a business, one of the most valuable steps is to leverage the seller's institutional and operational knowledge. Maintaining a cooperative relationship with the seller throughout the handover period is essential for a smooth transition and the continued success of the business.

PRACTICAL STEPS FOR EFFECTIVE SELLER COLLABORATION

- Request a formal transition period, typically lasting between 30 and 90 days, to ensure knowledge transfer and support.
- Schedule structured sessions with the seller to cover key areas such as systems, customer relationships, supplier arrangements, and legacy processes.
- Shadow the seller during the first weeks to gain direct insight into daily workflows and operational routines.
- Seek the seller's candid assessment of employees, identify potential risks, and uncover new opportunities that may not be immediately apparent.

MEXICO-SPECIFIC GUIDANCE FOR SELLER INVOLVEMENT

- Ensure the seller assists with regulatory transfers, including:
- Updating RFC (Federal Tax Registry) information with SAT
- Transferring or reapplying for municipal permits (*Licencia de Funcionamiento*)
- Reviewing compliance with *COFEPRIS, Protección Civil*, and environmental authorities
- If acquiring assets rather than the entire corporate entity, the seller's help is crucial for:
- Closing their IMSS/INFONAVIT employer accounts
- Transferring inventory, machinery, or property titles through a Notario Público
- For share purchases (stock sales), the seller's involvement can help:
- Explain historical SAT filings
- Clarify any tax audits or outstanding obligations

- Assist with updates to the corporate registry

Successfully transferring a business in Mexico requires coordination with multiple government agencies. The seller's expertise and active participation can help reduce delays and facilitate a smoother transition process.

MEET EMPLOYEES EARLY AND MANAGE STABILITY

During an ownership transition, employees often feel uncertain and vulnerable. Concerns about job security can quickly lead to lower morale and decreased performance. Addressing these concerns promptly and effectively is critical for maintaining stability within the organization.

Best Practices for Employee Transitions

- Hold an all-staff meeting on the first day to introduce yourself and discuss the transition.
- Clearly communicate that there will be no immediate changes or layoffs, and that the mission and direction of the company will remain consistent.
- Provide employees with opportunities to share their suggestions, either anonymously or through structured reports, to encourage open communication and feedback.
- Be careful not to make promises that have not been fully analyzed, as maintaining your credibility with staff is essential.

Mexico-Specific Labor Obligations

Mexico's *Ley Federal del Trabajo (LFT)* imposes strict requirements during business transitions. The obligations you face will depend on the structure of the transaction.

If you purchased the company via stock sale (share acquisition):

- All employees retain their full seniority (*antigüedad*).
- The IMSS employer registration typically remains unchanged.
- Daily operations continue without disruption, helping to reduce compliance issues.

If you purchase assets and are hiring employees for a new entity:

- You may trigger *Sustitución Patronal* (employer substitution), which requires the following:
- Transferring employees while preserving their seniority
- Ensuring full IMSS/INFONAVIT continuity
- Providing written notice to employees and authorities
- You inherit labor liabilities only for the employees who are transferred.

Employee Files You Must Review

- Verify the accuracy of the IMSS salary base (SBC) for each employee.
- Ensure that all employment contracts are active and up to date.

- Check for any pending obligations, such as vacation, *aguinaldo* (year-end bonus), and PTU (profit-sharing).
- Review any union agreements, if applicable, to understand ongoing obligations.

Failure to comply with the LFT can result in costly lawsuits and fines. Careful attention to these requirements will help ensure a smooth transition and protect the business from unnecessary legal and financial risks.

ENGAGE SUPPLIERS AND KEY CUSTOMERS

Building strong relationships with suppliers and key customers is critical during a business transition in Mexico. Suppliers frequently extend credit based on personal trust rather than solely on contractual agreements, and many customer relationships are rooted in the rapport established with the previous owner. Successfully navigating these dynamics is essential to maintaining uninterrupted operations and commercial stability.

RECOMMENDED APPROACH

- Request that the seller formally introduce you to the business's major suppliers and key customers. These introductions help transfer trust and build credibility with essential partners.
- Take the time to understand the current credit terms you have with suppliers. If necessary, consider renegotiating these terms early, as changes in ownership may prompt suppliers to reassess credit arrangements.
- Review all client contracts to determine whether any require formal notification of a change of control. Addressing these requirements promptly will help avoid misunderstandings or disruptions in service.

MEXICO-SPECIFIC CONSIDERATIONS

- Recognize that many supplier relationships are informal and may not be fully documented. Personal engagement is crucial for successfully transitioning these relationships to your ownership.
- Be aware that lines of credit are often linked directly to the seller's name or tax registration (RFC). You should anticipate the need to renegotiate credit lines under your own business credentials.
- If your business operates in regulated sectors such as food, manufacturing, or logistics, ensure you notify the appropriate regulatory authorities if there are any changes to customer-facing processes. This step is essential for legal compliance and maintaining good standing with industry regulators.

MAKE THE BUSINESS YOUR OWN (*GRADUALLY*)

A gradual approach is recommended when taking ownership of a business, as both referenced documents emphasize the importance of stabilizing existing operations before implementing any major changes. By doing so, you help preserve continuity and avoid unnecessary disruptions to daily activities.

PRACTICAL STEPS

- Consider making modest updates to premises and workspaces. These small changes can help reinforce the presence of new leadership while maintaining the familiar environment for employees and customers.
- Remove outdated materials, old files, and broken equipment from the premises. Clearing out unused items makes the workplace more functional and signals a commitment to improvement.
- Introduce light automation or process improvements. Focus on incremental changes that enhance efficiency without overwhelming staff or disrupting established routines.

Mexico-Specific Notes

- Be aware that any physical changes to the business premises may require you to update civil protection compliance (*Protección Civil*).
- If you plan to change exterior signage, many municipalities will require revalidation of signs (*permisos de anuncio*).

CONDUCT DEEP OPERATIONAL ANALYSIS

Once the transition period concludes, it is essential to thoroughly evaluate the business through a systematic operational analysis. This process enables you to identify areas of strength and weakness, paving the way for informed decision-making and targeted improvements.

Key Areas of Analysis

- Assess customer expectations and service levels to ensure satisfaction and loyalty.
- Identify and address supplier bottlenecks to maintain a steady flow of goods and services.
- Evaluate employee productivity and clarify roles to optimize team performance.
- Analyze the competitive landscape to understand market positioning and potential threats.
- Review inventory cycles and losses to minimize waste and improve resource management.
- Detect mechanical, digital, or process inefficiencies that could be hindering overall productivity.

Mexico-Specific Operational Risks

- Verify compliance with electronic invoicing (CFDI) requirements for both sales and payroll.
- Review DIOT filings, which are necessary for proper IVA compliance.
- If the business involves imports, validate inventory against import documentation (*pedimentos*).
- Check for inconsistencies or pending audits with the SAT to avoid regulatory issues.

DISPOSE OF UNNECESSARY ASSETS

Eliminating non-productive assets is a practical measure to enhance operational efficiency. By removing items that no longer contribute to business objectives, companies can improve cash flow and make better use of available space. This streamline not only reduces clutter but also supports ongoing business growth by ensuring that resources are focused on assets that generate value.

Mexico-Specific Considerations for Asset Disposal

- The sale of fixed assets may generate ISR (income tax) taxable gains. It is essential to account for these gains appropriately to comply with tax regulations.
- When transferring ownership of vehicles, equipment, or machinery, update all official records through a *Notario* and the *Secretaria de Movilidad*/Transport. This step ensures that the transfer is legally recognized and compliant with local requirements.
- Verify that any assets removed from the business are properly reflected in depreciation schedules as recorded by the SAT. Maintaining accurate financial documentation during asset disposal is critical for regulatory compliance and audit readiness.

BUILD AND IMPLEMENT YOUR STRATEGY

Once you have completed a thorough review of your operations, the next step is to develop a clear, actionable plan that will drive business improvement. This plan should be comprehensive, addressing key areas that impact the organization's performance and future growth.

Your Strategic Plan Should Include:

- Revenue optimization strategies that help maximize income streams and drive profitability.
- Cost reduction opportunities to identify and eliminate unnecessary expenses, thereby improving overall financial health.
- Marketing repositioning to better align your brand and messaging with current market demands and customer preferences.
- Staff adjustments, ensuring that your workforce structure supports your business goals and operational needs.
- Development or introduction of new product lines to diversify offerings and attract new customer segments.
- Compliance upgrades, maintaining adherence to all applicable regulations and standards.

Mexico-Regulatory Needs

- Update documentation with SAT so that all new or revised processes are fully aligned with current regulatory requirements.
- Ensure that all marketing claims comply with **PROFECO** consumer protection rules, maintaining transparency and trust with consumers.
- If expanding operations, confirm that zoning (*uso de suelo*) and permit requirements are met before proceeding.

KEEP COMMUNICATION OPEN—INTERNALLY AND EXTERNALLY

Ongoing communication is crucial throughout the transition process. Both referenced documents consistently emphasize the need to maintain open lines of communication to ensure all parties remain informed and engaged during periods of change.

Internal Communication

- Hold regular team updates to keep employees informed about ongoing developments and next steps.
- Encourage employees to voice any concerns, creating an environment where feedback is welcomed and valued.
- Maintain a respectful and stable environment throughout organizational changes, supporting team cohesion and morale.

Mexico-Specific Guidance

- Clear communication is especially important in Mexico's relationship-driven culture, where personal connections facilitate trust and understanding.
- Whenever possible, use in-person meetings rather than relying solely on digital announcements, as face-to-face interaction is valued and digital communication alone may be perceived as impersonal.

30/60/90-DAY TRANSITION PLAN

The first three months following a business transition are pivotal in determining whether the company continues to advance or begins to decline. Establishing a clear plan for the initial 30, 60, and 90 days helps guide actions, maintain stability, and set the foundation for continued growth.

First 30 Days

- Observe all aspects of business operations to gain a comprehensive understanding of current processes and workflows.
- Meet with every stakeholder, including employees, suppliers, and key customers, to build relationships and gather insights.
- Conduct thorough compliance checks to ensure all legal, regulatory, and policy requirements are being met.
- Document existing processes to create a reliable reference for future improvements and standardization.

Next 60 Days

- Initiate incremental improvements based on observations and stakeholder feedback from the first month.
- Implement early wins to generate momentum and reinforce confidence among employees and partners.
- Strengthen ties with suppliers and customers to maintain continuity in operations and foster loyalty.

Final 90 Days

- Execute a structured business strategy to align efforts and drive progress towards identified goals.

- Standardize processes across departments to improve efficiency and consistency.
- Evaluate key performance indicators (KPIs) and make necessary adjustments to ensure objectives are met.
- Develop plans for future growth or expansion based on insights and results from the first three months.

MEXICO-SPECIFIC REGULATORY CHECKLIST

An integrated approach to regulatory compliance is essential for business transitions in Mexico. The following checklist provides guidance for meeting key requirements across tax, social security, municipal, state, and federal agencies.

SAT (Tax Authority)

- Update the RFC (Registro Federal de *Contribuyentes*) profile to reflect changes in ownership or business structure.
- Verify access to CFDI (Comprobante Fiscal Digital por Internet) and confirm the validity of the PAC (Proveedor Autorizado de Certificación) contract.
- Confirm that IVA (Value Added Tax) credit processes are complete and compliant.
- Review ISR (Income Tax) filings and ensure provisional payments are accurate and up to date.

IMSS / INFONAVIT

- Complete employer substitution procedures if the transition involves an asset sale.
- Validate employee salary bases to ensure correct social security contributions.
- Update and correct employee contribution history as needed.

Municipal & State Requirements

- Obtain or renew the Licencia de Funcionamiento (business operating license).
- Ensure Protección Civil (Civil Protection) compliance for workplace safety.
- Meet fire safety and occupancy requirements specific to municipal and state regulations.
- Register for payroll tax (ISN) as required by local tax authorities.

Federal Permits (if applicable)

- Secure COFEPRIS permits for businesses involved in health, food, cosmetics, or supplements.
- Obtain SEMARNAT approval for any activities with environmental impact.
- Register with SCT for transportation-related operations.
- Apply for permits from CRE/CENACE for energy sector activities.

Conclusion

Combining foundational transition practices with Mexico's unique legal and regulatory requirements enables new business owners to ensure operational continuity, foster personnel stability, and uphold compliance. This approach not only protects the organization's workforce but also lays the groundwork for sustained growth.

By integrating and building upon the guidance from both referenced documents, owners gain a comprehensive roadmap. This unified strategy is essential for confidently managing the initial months of ownership, providing clarity and strong operational control throughout the transition period.

EMPLOYEE COMMUNICATION & RETENTION DURING A BUSINESS SALE, MERGER, OR ACQUISITION

Employee communication and retention are central to the success of any business transition—whether it is a merger, acquisition, or sale. Employees carry institutional memories, customer trust, and operational stability. How and when you communicate a change in ownership, coupled with deliberate retention strategies, determines morale, performance, and ultimately the value of the business.

This integrated guide synthesizes best practices from both documents and expands them with Mexico's unique legal, labor, tax, and regulatory frameworks, which add important complexities to employee handling during ownership transitions.

WHY EMPLOYEE STABILITY MATTERS DURING A TRANSACTION

During a merger, acquisition, or sale, employees face uncertainty regarding job security, leadership changes, operational shifts, and cultural realignment. This uncertainty—if not proactively managed—can lead to:

- Premature resignations
- Decline in productivity
- Customer service disruptions
- Supplier relationship instability
- Loss of key talent
- Increased transition costs

The risk is amplified in Mexico, where employee tenure and benefits are legally protected and deeply valued. The *Ley Federal del Trabajo (LFT)* places strong emphasis on job stability, severance rights, seniority, and continuity of employment—even during ownership changes.

WHEN TO INFORM EMPLOYEES ABOUT A BUSINESS SALE

We strongly recommend informing employees after the transaction is finalized to minimize disruption, prevent rumors, and preserve valuation.

In practice, there are three possible approaches:

Approach 1 — Wait Until the Deal Is Finalized (Most Recommended)

Announcing too early can harm the transaction. Employees may panic, seek other jobs, or spread information prematurely. Customers, suppliers, competitors, and landlords may react negatively if they sense instability.

Ideal When:

- Negotiations are ongoing
- Buyer confidentiality is required
- Staffing stability is critical for valuation

- Industry is sensitive to uncertainty

Mexico-Specific Considerations

- Mexican employees often rely on informal communication networks; rumors spread quickly.
- Early disclosure may trigger IMSS or union concerns, even before any actual employer substitution occurs.
- If the deal falls through, employees may assume the company is failing—damaging morale and retention.
- Suppliers in Mexico frequently extend credit based on personal trust; premature news may lead them to reduce or withdraw such credit.

Approach 2 — Inform Key Employees Only

Some situations demand early involvement of select personnel, often the CFO, HR/head of payroll, operations leaders, or compliance managers.

Reasons to Inform Key Team Members

- They support due diligence
- They handle sensitive financial and regulatory data
- They ensure operational continuity

Mexico-Specific Requirements

- Anyone told early should sign a Non-Disclosure Agreement (NDA) compliant with Mexican contract law.
- If payroll or IMSS processes are reviewed, internal staff must assist with:
    - IMSS/INFONAVIT records
    - Salary base contributions (SBC)
    - CFDI *nómina* (payroll invoicing)
    - Labor files and contracts
- Some employees manage regulated processes (COFEPRIS, SEMARNAT, SCT); their expertise may be essential.

Approach 3 — Inform the Entire Workforce Early (Generally Not Recommended)

Although early transparency can build trust, it carries significant risk, especially in Mexico.

Risks Amplified in Mexico

- Strong job stability expectations may lead employees to assume layoffs are imminent.
- Labor boards (*conciliación*) may become involved prematurely.

- Competitors might try to recruit uncertain employees.
- If the sale collapses, morale may decline sharply.

This approach should only be chosen in unique circumstances!

HOW TO COMMUNICATE THE SALE ONCE IT IS FINAL

Once the transaction is officially completed, typically after Notario certification and regulatory updates, it is appropriate to hold a company-wide meeting to inform all employees.

Key Steps for Effective Communication

- The seller should lead the announcement and express gratitude to the workforce.
- Emphasize operational continuity by providing details about:
- Roles – clarify that job responsibilities will remain unchanged.
- Locations – confirm that work locations will not be affected.
- Schedules – assure employees that their schedules will stay the same.
- Benefits – explain that employee benefits will continue as before.
- Introduce the buyer, highlighting their experience and commitment to the team.
- Reassure employees that their jobs remain secure following the transaction.
- Outline the transition timeline and share information about any upcoming training or changes.
- Maintain openness to questions and offer opportunities for private conversations for those seeking more information or reassurance.

Mexico-Specific Communication Guidance

- Mexican workplace culture values respectful, personal communication. Whenever possible, make announcements in person rather than through digital messages.
- Reinforce the preservation of seniority (*antigüedad*), even in cases of employer substitution.
- Clearly explain how payroll, benefits, IMSS/INFONAVIT, and PTU (profit sharing) will continue without interruption.
- If the seller will remain involved temporarily (a common practice in Mexico), clarify both the expected duration and the purpose of their continued presence.

RETAINING EMPLOYEES DURING A MERGER OR ACQUISITION

Successfully retaining employees during a merger or acquisition requires more than clear communication. The following strategies are essential for maintaining talent and ensuring a smooth transition throughout the process.

Key Retention Principles

- Identify critical employees early to prioritize retention efforts and reduce the risk of losing key talent during transitional periods.
- Provide clarity about roles after integration so employees understand their responsibilities and future within the organization.
- Strengthen management and enhance HR presence to address concerns and support staff throughout the transition.
- Offer retention bonuses when appropriate to incentivize employees to remain with the company during critical phases.
- Invest in cross-team integration and cultural blending to foster collaboration and build a unified workplace culture.
- Create mentorship opportunities across both organizations to support professional growth and strengthen connections between teams.

Retention Bonuses in Mexico

Retention bonuses can be an effective tool to stabilize key talent, but they must be carefully structured to comply with legal and tax requirements.

- Bonuses may trigger ISR (income tax) withholding, impacting how employees receive these incentives.
- If paid regularly or repeatedly, bonuses may increase the IMSS salary base (SBC), affecting social security contributions.
- Bonuses must be documented via CFDI *nómina* to ensure proper reporting and compliance.
- Avoid promising bonuses that may be classified as implicit rights, which could create unintended legal obligations.

Non-Bonus Retention Strategies

- Offer career growth pathways to motivate employees and show long-term investment in their development.
- Provide cross-functional training to expand skill sets and increase opportunities for advancement.
- Encourage internal promotions to recognize high performers and retain ambitious talent.
- Implement flexible work arrangements to support work-life balance and boost employee satisfaction.
- Develop recognition and team inclusion initiatives to foster a sense of belonging and maintain morale throughout the transition.

HANDLING REDUNDANCIES ETHICALLY AND LEGALLY

Mexico stands apart from many other countries due to its strict legal framework governing workforce reductions. Employers must adhere to these regulations to ensure ethical and lawful handling of redundancies.

If Reductions Are Necessary

- Conduct a role-based redundancy analysis to objectively determine which positions are affected.
- Communicate with empathy and clarity to those affected, ensuring the process is transparent and respectful.
- Ensure that severance packages and procedures comply fully with the Mexican Federal Labor Law (LFT).

Mexican Severance Rules

When terminations happen for reasons unrelated to employee misconduct or cause, employers are required to provide specific severance benefits:

- Three months' wages as a base severance payment.
- Twenty days of pay for each year of service in certain scenarios.
- A seniority premium (*prima de antigüedad*) recognizing years of service.
- Payment for accrued vacation time, vacation premium, annual bonus (*aguinaldo*), and profit sharing (PTU).
- Formal conciliation through the *Centro Federal de Conciliación y Registro Laboral* to ensure compliance and resolve disputes.

Redundancy in Mergers

During mergers, eliminating overlapping roles is permitted, but employers must continue to respect the rights of employees under Mexican labor law. Mishandling layoffs can have serious consequences, including:

- Labor lawsuits from affected employees.
- Audits by the Mexican Social Security Institute (IMSS).
- Fines imposed for non-compliance.
- Forced reinstatement of terminated employees.

MEXICO-SPECIFIC REGULATORY ACTIONS DURING OWNERSHIP TRANSITIONS

Key Regulatory Notifications During Business Transitions in Mexico

A business transition in Mexico requires coordinated notifications and updates across several institutions. The following sections outline the main requirements for each regulatory body.

Tax Authority — SAT

- Update the company's RFC legal representative to reflect current leadership.
- Update the registered address and economic activity to ensure all records are accurate.
- Validate CFDI invoicing permissions to maintain compliance in electronic invoicing.

- Review DIOT and IVA compliance to prevent tax issues related to value-added tax and supplier operations.
- Ensure that prior liabilities are settled or disclosed as part of the transition process.

Social Security — IMSS

- Process employer substitution if applicable, to reflect changes in business ownership or structure.
- Update the employer registry number to maintain correct records with the IMSS.
- Validate SBC (salary base) calculations to ensure employee benefits are properly maintained.
- Confirm that no arrears exist, avoiding potential fines or interruptions in social security coverage.

Housing Fund — INFONAVIT

- Update employer records to reflect the new business status.
- Prevent lapses in contributions during the transition, ensuring employees retain their housing benefits.

State & Municipal Authorities

- Update the *Licencia de Funcionamiento* (Operating License) to reflect the new business information.
- Renew or revalidate *Protección Civil* compliance to meet local safety requirements.
- Maintain local tax (ISN) payments to remain in good standing with state and municipal authorities.
- Manage changes in signage or business name as required by local regulations.

Sector-Specific Regulators

Depending on the company's industry, the following regulators may require notification or updates:

- COFEPRIS for businesses in health, food, and supplements.
- SEMARNAT / CONAGUA for companies involved with the environment and water resources.
- SCT for those in the transportation sector.
- CRE / CENACE for energy-related businesses.

Failure to update permits with the appropriate regulatory authorities can result in business shutdowns or financial penalties.

BUILDING A UNIFIED CULTURE POST-TRANSACTION

Successfully integrating organizational cultures after a transaction is critical to retaining valuable employees and achieving sustainable long-term results. Culture integration should be addressed proactively to ensure that teams feel connected and aligned with the new direction.

Best Practices for Culture Integration

- Conduct cross-company workshops to facilitate collaboration and mutual understanding between team members from both organizations.
- Identify key culture advocates and early adopters who are positioned to facilitate the integration process and constructively influence their colleagues.
- Highlight shared values and goals to reinforce common purpose and foster unity throughout the organization.
- Encourage leadership visibility so that employees feel supported and guided during the transition.
- Celebrate milestones and quick wins to build momentum and maintain enthusiasm for the integration efforts.

Mexico-Specific Cultural Dynamics

- Respect for hierarchy and personal rapport is foundational in Mexican teams. Cultivating strong relationships and acknowledging organizational structure will help earn trust and cooperation.
- People respond strongly to stability, recognition, and clear guidance. Providing consistent communication and recognizing achievements will foster loyalty and engagement.
- Collective participation and inclusion activities are highly effective. Engaging employees in group initiatives and decision-making will support a unified and collaborative environment.

FINAL RECOMMENDATIONS

Successfully managing employee communication and retention during a sale, merger, or acquisition is critical to preserving business value and ensuring operational continuity. The following recommendations provide a structured approach to guide owners and leaders through this complex process:

Strategic Communication

Careful and deliberate communication is essential, particularly within Mexico's relationship-driven business culture. Leaders should prioritize clear messaging and timing to foster trust and avoid unnecessary uncertainty among employees.

Retention of Key Employees

Maintaining the commitment of crucial team members requires transparent leadership and the provision of structured incentives. Offering clear career advancement opportunities can help retain top talent and encourage their active participation in the transition.

Legal Compliance

It is imperative to ensure full compliance with all relevant Mexican labor and regulatory bodies, including the Ley Federal del Trabajo (LFT), IMSS, INFONAVIT, SAT, and other applicable authorities. Adhering to these requirements protects both the business and its workforce.

Process Standardization and Change Management

Standardizing processes and establishing clear timelines help maintain stability throughout the transition. However, leaders should avoid implementing abrupt operational changes that may disrupt daily activities or unsettle employees.

Confidentiality

Protecting the confidentiality of the transaction until it is finalized is crucial. Premature disclosure can create uncertainty and impact employee morale, supplier relationships, and overall operational effectiveness.

Empowering Employees as Champions of Change

When the transition is handled correctly, employees can become advocates for change, supporting the organization's long-term success and helping to maintain continuity during and after the transaction.

WHEN AND HOW TO TELL EMPLOYEES ABOUT A BUSINESS SALE

Communicating a Business Sale to Employees in Mexico

Effectively communicating a business sale to employees is a strategically sensitive process that can significantly impact the outcome of the transition. Both the timing and the method of disclosure play a crucial role in shaping employee stability, maintaining customer confidence, ensuring operational continuity, and ultimately, determining the overall success of the transaction. While the fundamental principles behind such communication are generally consistent across different regions, conducting this process in Mexico introduces additional considerations. The country's legal framework, robust labor protections, and unique cultural dynamics require sellers to take a proactive approach to manage these complexities and safeguard the interests of all parties involved.

The following guide offers a deeper and more comprehensive perspective, specifically tailored for owners and investors operating within the Mexican market. It addresses the key factors to consider and provides practical steps to help navigate the communication process effectively.

WHY TIMING MATTERS MORE IN MEXICO

Announcing a potential business sale prematurely can cause operational instability in any market. However, in Mexico, the consequences of early disclosure are heightened due to several distinct factors that shape the business environment and employee response.

- High labor protections under the Ley Federal del Trabajo (LFT): Mexico's labor laws offer robust protections for employees, making workforce management during transitions more complex and sensitive.
- Employer substitution rules (sustitución patronal): Regulatory requirements around employer transitions can impact how changes are communicated and implemented, further underscoring the need for careful timing.
- Strong cultural loyalty to the founder/owner: Employees in Mexico often feel a deep sense of loyalty to the business founder or owner, which can lead to emotional reactions and increased uncertainty if a sale is announced too soon.
- Informal communication networks that spread news quickly: Unofficial channels of communication can rapidly disseminate news of a potential sale, amplifying rumors and anxiety among staff.
- Supplier credit relationships based on personal trust, not contracts: Many supplier agreements in Mexico rely on personal trust rather than formal contracts. Early disclosure of a sale can erode these relationships, potentially impacting credit terms and supply chain stability.

Given these factors, it is advisable to wait until the transaction is fully finalized and secured before informing the broader workforce. Exceptions may be made only when there is a strategic need to involve specific key employees earlier in the process.

RECOMMENDED APPROACH: DISCLOSE AFTER THE DEAL IS FINALIZED

Waiting to announce the sale of a business until after the transaction is fully finalized is a strategy that directly addresses and mitigates the most prevalent risks associated with business transitions in Mexico.

By postponing disclosure, owners and investors can safeguard the interests of employees, customers, suppliers, and the business itself.

Protect Employee Morale and Prevents Premature Resignations

Job stability is highly valued among workers in Mexico. Premature rumors or announcements about an impending sale can create significant anxiety within the workforce, often resulting in increased turnover before any decisions have been firmly made. By finalizing the deal prior to disclosure, owners can provide clarity and reassurance, reducing uncertainty and the likelihood that employees will leave out of concern for their future.

Prevents Customer and Supplier Concern

In Mexico, many supplier relationships are built on personal trust rather than formal contracts. Early notification of a sale may generate unease among suppliers and customers, especially if they fear changes or disruption under new ownership. This apprehension can jeopardize credit terms and the overall stability of the supply chain. Delaying disclosure until the transaction is secure helps maintain these vital relationships throughout the process.

Maintains Confidentiality and Prevents Competitive Intelligence Leaks

Prematurely announcing the sale may prompt competitors to capitalize on perceived instability, potentially attempting to poach customers or key staff members. By keeping the transaction confidential until it has closed, owners reduce the risk of leaking sensitive information and avoid giving competitors an opportunity to undermine the business.

Protects Business Valuation

The loss of key staff, important suppliers, or major clients prior to closing can have a direct negative impact on the value of the business. Carefully timing the announcement ensures continuity, helping to preserve the company's operational strength and maintain its valuation until the transaction is complete.

MEXICO-SPECIFIC CONFIDENTIALITY RISKS AND HOW TO MITIGATE THEM

Maintaining confidentiality during a business sale is particularly challenging in Mexican small and medium-sized businesses (SMBs), where employees often have close relationships and informal communication channels are widespread. These factors can increase the risk of sensitive information circulating prematurely. To effectively protect the integrity of the deal, several practical steps should be considered.

Use Private Communication Channels

To minimize the risk of leaks, it is essential to handle all sale-related communications through secure and private means. Avoid using company email accounts, shared devices, WhatsApp groups, or office printers for documents and discussions pertaining to the transaction. Instead, rely on personal email accounts for sensitive correspondence and conduct important meetings at off-site locations whenever possible.

- Avoid company email, shared devices, WhatsApp groups, or office printers for sale-related documents.
- Use personal emails and conduct meetings off-site when possible.

Require NDAs for Any Pre-Close Employee Disclosures

If it becomes necessary to involve key employees—such as a CFO, operations leader, or comptroller—before the sale is finalized, it is crucial that they sign a Non-Disclosure Agreement (NDA) that complies with Mexican contract law. This legal measure helps ensure that any information they receive remains strictly confidential throughout the process.

- If you must bring in a CFO, operations leader, or comptroller, they should sign a Non-Disclosure Agreement (NDA) compliant with Mexican contract law.

Coordinate with a Professional Broker, Lawyer, and Notario

In Mexico, the involvement of a Notario Público is essential for major business transfers. A Notario works alongside professional brokers and lawyers to ensure that all corporate governance requirements are satisfied, share or asset transfers are accurately documented, and confidential documents remain protected until the sale is officially closed. This formal oversight helps maintain the confidentiality and legality of the transaction.

- Corporate governance requirements are met
- Share transfers or asset transfers are properly recorded
- Confidential documents remain secure until closing

Ensure Compliance With Mexican Data Privacy Laws (LFPDPPP)

Whenever employee or client data must be shared as part of due diligence, it is vital to adhere to Mexico's standards for personal data protection, as detailed in the LFPDPPP law. All parties should take care to ensure that any handling or transfer of such information is fully compliant with these legal requirements to avoid regulatory issues and safeguard individual privacy.

Any sharing of employee or client data during due diligence must follow Mexico's personal data protection standards.

WHEN YOU *SHOULD* INFORM KEY EMPLOYEES BEFORE CLOSING

In certain situations, it is necessary to inform key employees about a pending business sale prior to the official closing. This early notification is often required for operational reasons or to facilitate thorough due diligence during the transaction process.

Common Scenarios Requiring Early Disclosure

- The CFO or Contador Público may be needed to collect and organize documents such as SAT filings, payroll records, IMSS/INFONAVIT reports, and DIOT information, which are essential for financial and legal review.
- Operations managers might be asked to verify asset lists and confirm the accuracy of key business processes, ensuring that all assets and procedures are properly documented.
- HR or payroll administrators may need to participate in employer-substitution planning, helping to prepare for any necessary workforce transitions.

Best Practices When Involving Key Employees

If key employees are brought into the process before closing, certain steps should be taken to protect both the transaction and the individuals involved:

- Ensure that Non-Disclosure Agreements (NDAs) are in place to maintain confidentiality throughout the process.
- Clearly communicate the potential impact of the sale, so employees understand how the transaction may affect their roles and responsibilities.
- Establish clear expectations regarding confidentiality, emphasizing the importance of keeping transaction details private until the official announcement.
- Provide reassurance about labor protections, which is especially important in Mexico to maintain trust and security among staff.

WHY TELLING ALL EMPLOYEES BEFORE CLOSING IS RISKY — ESPECIALLY IN MEXICO

While transparency sometimes builds trust, informing all employees about a pending sale before the transaction closes can lead to significant risks—particularly in Mexico's business environment.

Potential Consequences of Early Disclosure

- Speculation and fear: Early knowledge of a prospective sale may foster uncertainty among staff, prompting rumors and anxiety about job security. This atmosphere of doubt can result in mass resignations, undermining the stability of the business.
- Union concerns: If the workforce is unionized, news of an upcoming sale might trigger union involvement or demands, complicating the transaction process and potentially delaying or derailing the deal.
- Rumors reaching suppliers, lenders, or clients: Information leaks can extend beyond the workforce, reaching critical business partners, suppliers, lenders, or clients. This undermines the company's perceived stability and can damage essential relationships.
- Unintended "notice of sale" interpretations**:** Announcing a sale prematurely may be misinterpreted as an official notice, potentially prompting compliance inspections or permit reevaluations by authorities.

Impact if the Deal Fails

If the transaction does not go through, employees who were made aware of the potential sale may interpret the failed deal as a sign that the business is in trouble. This perception can be damaging to morale, reduce employee retention, and harm the company's reputation in the market.

AFTER CLOSING: HOW TO COMMUNICATE THE SALE TO EMPLOYEES

Once the sale transaction has officially closed, which generally occurs after signing before the Notario and completing the SAT filings to update ownership—it is appropriate to inform employees about the change. The communication should be structured to provide clarity, reassurance, and transparency.

Begin with organizing an all-staff meeting where the outgoing owner personally announces the sale. This approach fosters trust and signals respect for the team's contributions.

Key Points to Communicate

A. Gratitude and Recognition

Acknowledge the team's pivotal role in building the company's success. Express appreciation for their dedication and hard work, reinforcing that the achievements leading to this transition were made possible through their efforts.

B. What Will Stay the Same

Emphasize continuity, which is highly valued among Mexican employees. Provide specific details to reassure staff that the core aspects of their professional lives will remain unchanged. Clarify the following:

- Roles and responsibilities will remain the same.
- Established workflows and processes will continue.
- The company's location and daily operations will not change.
- Contracts, IMSS registration, and employee benefits will remain consistent, unless legal requirements mandate modifications.

C. Job Security

Reassure employees that business operations will continue as usual and that their employment is secure. Clearly state that there are no anticipated job losses because of the ownership change.

D. Transition Plan

If the seller remains involved for a period of training or consultation, explain the duration and objectives of this arrangement. Clarify the earning structure if there is an earnout, as this often incentivizes the seller to support the business and contribute to its success under new ownership.

- Detail how long the seller will stay and the purpose of their continued involvement.
- Discuss the earnout arrangement, focusing on how it benefits the company and employees during the transition.

E. Who the New Owner Is

Introduce the new owner by sharing their professional background, core values, and dedication to both employees and customers. This helps build confidence and sets expectations for the future.

F. Expected Changes (if any)

Address any upcoming improvements or changes only after thoroughly establishing the message of continuity and stability. Employees should first feel reassured before learning about new initiatives or enhancements.

MEXICO-SPECIFIC REQUIREMENTS WHEN TRANSFERRING EMPLOYEES

The labor obligations that apply when transferring employees in Mexico depend on whether the transaction is structured as an asset sale or a stock sale.

A. Stock Sale (Venta de Acciones)

- In a stock sale, the legal entity remains unchanged. As a result, employees automatically retain their seniority (*antigüedad*).

- All IMSS, INFONAVIT, and payroll tax accounts stay the same, ensuring continuity in employee benefits and tax processes.
- It is necessary to update the company's corporate records and notify SAT (tax authority) of any changes in shareholder structure.

B. Asset Sale (Venta de Activos)

An asset sale may require a *Sustitución Patronal* (employer substitution), which involves the following:

- Employees are formally transferred to the new employer.
- The *seniority (antigüedad) must be maintained* for all employees.
- The IMSS employer registration (*patrón*) may change to reflect the new employing entity.
- All benefits, accrued vacation, and profit-sharing (PTU) obligations transfer with the employees.
- The transfer of employees must be properly recorded within IMSS systems.

Failure to comply with these requirements can result in substantial labor claims.

REGULATORY NOTIFICATIONS & COMPLIANCE AFTER THE SALE

In Mexico, once a business sale is completed, there are several regulatory agencies that require updates and ongoing compliance activities.

SAT (Tax Authority)

- Update the company's RFC (tax identification) information to reflect any changes resulting from the sale.
- Adjust permissions for issuing electronic invoices (CFDI) as necessary for the new business structure.
- Ensure continuity in the application of Value Added Tax (IVA) for ongoing operations.
- File all notices or supplemental filings required by the tax authority because of the sale.

IMSS

- If applicable, process the employer substitution to transfer employees to the new entity.
- Update employee salary bases (SBC) to reflect any changes in employment or compensation.
- Confirm there are no outstanding IMSS payments or obligations to ensure compliance.

INFONAVIT

- Update the employer account on record with INFONAVIT to reflect the new business details.
- Verify that there are no outstanding contributions or debts with INFONAVIT.

Municipal Authorities

- Update the *Licencia de Funcionamiento* (business operating license) with the city or municipal authorities.
- Submit updates related to fire safety compliance (*Protección Civil*), if required.
- Update health permits with COFEPRIS for any regulated business activities.

In addition to these regulatory requirements, it may be necessary to provide notices or update contracts with suppliers, landlords, and utility providers to ensure a smooth transition post-sale.

WHAT EMPLOYEES NEED TO HEAR — AND WHY IT MATTERS

Mexican employees expect clear, respectful communication rooted in trust and empathy.

Topics to Cover:

Reasons for the Sale

Employees should be informed that the reasons behind the sale are positive and strategic. These reasons may include the owner's retirement, a shift in the company's strategic direction, or a new opportunity for growth. It is essential to emphasize that the sale is not due to financial weakness.

What Stays the Same

It is important to reassure employees about the continuity of daily operations, company culture, job roles, and the standard of customer service. Highlighting stability in these key areas helps maintain employee confidence during the transition.

Seniority and Benefits

Employees in Mexico place significant value on their seniority (*antigüedad*) and social security rights. These aspects are central to their sense of security and well-being.

It is crucial to confirm explicitly that:

- Seniority will be preserved.
- Salaries will remain unchanged.
- All benefits will remain intact.
- Continuity of IMSS and INFONAVIT is ensured.

Introduction to the Buyer

Employees should be reassured that the new owner is committed to business continuity and prioritizes employee well-being.

RETAINING EMPLOYEES DURING A MERGER OR ACQUISITION

Employee retention is one of the most critical determinants of success in any merger or acquisition. While financial, operational, and strategic synergies matter, the ability to retain key employees, those who hold institutional knowledge, customer relationships, operational expertise, and leadership potential—can make or break the integration.

In Mexico, this process is even more sensitive due to strong labor protections, cultural dynamics, and the country's detailed social security and tax compliance frameworks. Ensuring a stable workforce during a merger requires a strategic blend of HR best practices, legal compliance, transparent communication, and cultural alignment.

Even organizations without a formal HR department must adopt structured HR methodologies during a merger or acquisition. This includes identifying key talents, evaluating their long-term roles, and designing retention plans aligned with the new organizational structure.

KEY BEST PRACTICES

- Identify critical personnel early. Determine who holds key operational knowledge, regulatory expertise, or customer relationships.
- Map talent to the post-merger structure. Clarify where each key employee fits in with the merged organization and what responsibilities they will assume.
- Communicate proactively. Transparent leadership communication reduces anxiety, rumors, and turnover.
- Develop leadership continuity. Cross-company management teams must understand cultural and operational differences between both merging entities.

MEXICAN CONSIDERATIONS

- Employees in Mexico place high value on job stability and personal rapport, making communication and reassurance especially important.
- Under the *Ley Federal del Trabajo* (LFT), employees have strong protection, so the merging company must be cautious in how changes are communicated to avoid misunderstandings or legal exposure.
- Roles involving fiscal compliance, customs operations, labor management, or supply chain may require immediate retention due to regulatory complexity in Mexico.

RETENTION BONUSES & INCENTIVE PROGRAMS

Retention bonuses play a critical role in stabilizing the workforce during periods of organizational change and uncertainty. While these bonuses offer immediate reassurance, it is important to recognize that they are most effective when integrated into a comprehensive strategy focused on both retention and employee engagement. Relying exclusively on financial incentives may not guarantee lasting commitment, so organizations should ensure that bonuses are part of a broader approach to support long-term workforce stability.

EFFECTIVE INCENTIVE APPROACHES

- Retention bonuses should be tied to specific milestones, such as remaining with the organization for six to twelve months following the merger. This approach incentivizes key employees to commit to the transition period and helps maintain continuity.

- Providing career development opportunities within the new organizational structure demonstrates a commitment to employees' professional growth. By mapping clear pathways for advancement, organizations can motivate staff to invest in the merged entity's future.

- Cross-company mentoring programs foster unity and help build a shared culture among employees from both organizations. These initiatives encourage knowledge exchange and strengthen connections within the new team.

- Flexible work improvement programs, such as performance pathways or opportunities for departmental mobility, offer employees additional incentives to remain engaged. By supporting individual needs and aspirations, these programs contribute to overall retention efforts.

MEXICO-SPECIFIC CONSIDERATIONS

- Retention bonuses in Mexico must comply with local payroll tax regulations. This includes mandatory withholding of Income Tax (ISR) on any bonuses awarded to employees, as well as proper reporting through CFDI payroll invoices (*Nómina CFDI*). Adhering to these requirements ensures legal compliance and avoids potential tax issues.

- Mandatory withholding of ISR on bonuses must be observed to remain compliant with Mexican tax laws.

- Bonuses must be correctly reported through CFDI payroll invoices (*Nómina* CFDI), ensuring transparency and accuracy in payroll documentation.

- Bonuses that are categorized as extraordinary income may require inclusion in the employee's IMSS salary base (SBC) if they are recurring. This step is crucial for proper calculation of social security contributions and compliance with employment regulations.
- Effective communication should be emphasized more than just the financial bonus. It is important to highlight long-term growth opportunities within the merged organization, as job security is a significant motivator in Mexican workplace culture. Reassuring employees about their prospects can help build trust and support retention during transitional periods.

LEGAL OBLIGATIONS AND LABOR PROTECTIONS IN MEXICO

Mergers in Mexico trigger several legal and labor-related obligations that directly affect employee retention efforts. Companies must be aware of these requirements to ensure compliance and protect both the organization and its workforce during the transition.

Key Labor Elements

- Employer Substitution (*Sustitución Patronal*): When a merger involves transferring employees from one employer to another, the process of employer substitution must be followed. This ensures that employees' rights are preserved and that they maintain their existing employment terms and conditions.

- IMSS & INFONAVIT Compliance: It is essential to remain compliant with mandatory social security and housing fund contributions. Merging companies must ensure all obligations to the Mexican

Social Security Institute (IMSS) and the National Workers' Housing Fund Institute (INFONAVIT) are met without interruption.

- PTU (Profit Sharing) Obligations: Companies must address their responsibilities regarding employee profit sharing (PTU). This includes ensuring that employees continue to receive the benefits to which they are entitled under Mexican law.

- Employment Contracts: All employment contracts should be reviewed and updated as needed to reflect the new organizational structure. It is important that each employee's contract is complete and legally sound to avoid future disputes or liabilities.

Risk Mitigation Actions

- Conduct a due diligence audit prior to closing. This process helps identify any existing issues or potential risks related to employment matters before the merger is finalized.

- Identify employees with irregular or incomplete contracts. Taking the time to review and correct any deficiencies in employment documentation reduces future legal risks.

- Validate IMSS salary bases to avoid retroactive liabilities. Ensuring that salary information reported to social security authorities is accurate can prevent costly penalties or back pay requirements.

- Ensure all employees are properly registered and receiving statutory benefits. Maintaining compliance with all statutory benefit requirements safeguards both employee rights and organizational interests.

MANAGING REDUNDANCIES ETHICALLY AND LEGALLY

Mergers often result in the need to evaluate overlapping roles, branches, or divisions between combining organizations. While some integrations lead to minimal personnel changes, redundancies are sometimes unavoidable when parallel positions exist. Responsible management of these changes is crucial to maintaining organizational integrity and employee trust.

Best Practices for Responsible Reductions

- Conduct a formal redundancy assessment based on documented role analysis. This approach ensures that decisions are made systematically and fairly, focusing on actual organizational needs.

- Communicate decisions compassionately and transparently. Open and empathetic communication helps employees understand the rationale behind changes and fosters trust throughout the transition.

- Provide competitive severance packages, even beyond statutory requirements. Offering generous severance supports affected employees and demonstrates the company's commitment to ethical practices.

Mexico-Specific Legal Requirements

When terminations occur in Mexico because of a merger, it is imperative to comply with the Federal Labor Law (LFT). The following requirements must be met to ensure legal compliance:

- *Indemnización constitucional*, which generally consists of three months' salary plus a seniority premium (*prima de antigüedad*).
- Mandatory payment of:
- Aguinaldo (Christmas bonus)
- Vacation and vacation premium
- Outstanding wages
- PTU shares (employee profit sharing)
- A prior conciliation hearing via the *Centro Federal de Conciliación* y *Registro Laboral* may be required before finalizing certain terminations. This step is crucial to ensure that all parties can resolve disputes amicably and in accordance with Mexican labor law.

Failure to adhere to these legal requirements can lead to significant consequences, such as lawsuits, fines, or intervention from the labor board. It is essential to approach redundancies with careful planning and legal diligence to avoid these risks.

COMMUNICATION STRATEGY DURING A MERGER

Poor communication is one of the biggest threats to employee morale during a merger. Employees may worry about layoffs, cultural shifts, or changes in leadership. When uncertainty prevails, it can lead to decreased engagement, lowered productivity, and the emergence of rumors that further erode trust within the organization.

Elements of an Effective Communication Strategy

- A unified message delivered by leadership: Consistency in messaging from leaders across both organizations is essential to avoid confusion and reinforce stability.
- Clear timeline of what will happen and when: Providing employees with a detailed schedule of upcoming events and milestones helps set expectations and reduces uncertainty.
- Honest acknowledgment of uncertainty: Leaders should address the unknowns directly, fostering trust by being transparent about what is still undecided or under discussion.
- Visibility from senior executives: Regular appearances and communications from top management reassure employees that their concerns are being heard and addressed at the highest levels.
- Clear FAQ addressing job security, benefits, and organizational goals: Providing direct answers to common questions helps allay fears related to employment, compensation, and the future direction of the company.

Mexico-Specific Cultural Considerations

Employees may rely heavily on informal communication networks. Senior management must address concerns quickly to prevent rumor-driven instability. When questions or doubts are left unanswered, informal channels can fill the gap with misinformation, making it critical for leaders to be proactive and visible in their communications.

In-person meetings and personal conversations are often more effective in Mexico's relationship-based work culture than email announcements. Taking the time for direct dialogue demonstrates respect, builds trust, and ensures that key messages are understood and accepted.

BUILDING A UNIFIED CULTURE AFTER THE MERGER

Integrating into organizational cultures is a critical factor in retaining employees following a merger. It is essential that employees feel valued and included within the new company structure. Fostering this sense of belonging can significantly impact morale and engagement, reduce the risk of turnover and support a smoother transition during the integration process.

KEY STRATEGIES

- Organize culture workshops that focus on aligning core values and harmonizing work styles across both organizations. These sessions help employees understand one another's perspectives and lay the foundation for a cohesive workplace environment.
- Form cross-functional teams composed of members from each company. This approach encourages collaboration, fosters knowledge sharing, and breaks down barriers between legacy groups.
- Leadership should actively model adaptability and inclusiveness. When leaders demonstrate these qualities, employees are more likely to embrace change and participate fully in the new organizational culture.
- Review and adjust compensation and benefits structures to ensure fairness and equity among all employees. Transparent and equitable policies reinforce trust and signal a commitment to valuing every team member.

MEXICO-SPECIFIC CONSIDERATIONS

- In Mexico, cultural identity is closely linked to employee loyalty and the quality of leadership relationships. Recognizing this dynamic is crucial when building a unified culture post-merger.
- Small gestures, such as celebrations, individual recognitions, and team-building events, play a significant role in reinforcing a sense of belonging among employees. These actions help strengthen bonds within teams and foster a more inclusive atmosphere.
- It is important to understand and respect regional differences, such as those between northern and central Mexico, when designing and implementing culture programs. Tailoring initiatives to reflect these variations ensures that all employees feel seen and supported throughout the integration process.

CONCLUSION

Retaining employees during a merger or acquisition in Mexico requires a tailored approach that goes beyond standard HR practices. Success in this context relies on several critical factors that address both regulatory and cultural considerations.

KEY REQUIREMENTS FOR EMPLOYEE RETENTION

- Nuanced Understanding of Mexican Labor Laws: It is essential to have a thorough grasp of Mexico's labor regulations to ensure that all employment decisions and actions remain compliant throughout the transition.
- Strategic Communication Tailored to Cultural Expectations: Communication should be adapted to reflect local customs and values. This helps foster trust and transparency, which are vital for employee engagement during times of change.
- Early Identification and Support of Key Talent: Proactively recognizing and supporting crucial employees helps maintain organizational knowledge and stability as integration progresses.
- Strong Compliance Across SAT, IMSS, INFONAVIT, and Labor Authorities: Adhering strictly to requirements from Mexican regulatory bodies is necessary to avoid legal complications and ensure a smooth transition.
- Balanced Use of Incentives and Growth Opportunities: Offering appropriate incentives and professional development options encourages employees to remain engaged and committed to the newly formed organization.
- Ethical and Legally Compliant Handling of Redundancies: Any workforce reductions should be managed with fairness, transparency, and full legal compliance to uphold trust and minimize disruption.

Impact of Effective Retention Strategies

When these practices are executed well, they do more than simply stabilize the workforce. They accelerate post-merger integration, safeguard organizational knowledge, and help drive long-term success for the combined entity.

5 – ASSUMING LEADERSHIP RESPONSIBILITIES

REBRANDING DURING A BUSINESS SALE OR ACQUISITION

Rebranding during a business sale or acquisition is one of the most strategically sensitive decisions a buyer or seller can make. A rebrand can reposition a company, modernize its identity, and support expansion—but it can also destroy hard-won goodwill, weaken digital visibility, and erode enterprise value if handled poorly.

In Mexico, the stakes are even higher. Branding decisions intersect with regulatory requirements, SAT tax registration, IMSS/INFONAVIT employer obligations, commercial permits, and cultural trust dynamics. This expanded guide helps buyers and sellers understand when a rebrand creates value—and when it damages it—while navigating Mexico's unique environment.

WHAT REBRANDING REALLY MEANS IN AN M&A CONTEXT

In the context of mergers and acquisitions, rebranding can take several forms, ranging from subtle updates to a company's visual identity to a complete transformation of its brand. The scope of a rebrand may include various elements:

- Introducing a new logo, updating the design system, or altering the color palette to reflect the new company direction or ownership.
- Refreshing messaging or the overall brand voice to ensure alignment with the merged entity's values and market positioning.
- Redesigning the company's website and changing its domain name to match the new brand identity.
- Renaming the company to signal changes in ownership, strategy, or market focus.
- Repositioning product or service lines so that they fit within the broader scope and vision of the combined organization.

Mexico-Specific Implications

For businesses operating in Mexico, rebranding involves additional regulatory and operational considerations:

- Any new name, logo, or slogan must be cleared and registered with IMPI (Mexican Institute of Industrial Property) to avoid trademark infringement.
- If the company's commercial name (*nombre comercial*) changes, the SAT (tax authority) must be notified to update all fiscal data, including invoices (CFDI) and certificates required for tax compliance.
- When public-facing signage changes, municipalities require updated permits, such as the *Permiso de Anuncio*, to ensure legal compliance for commercial signage.
- Companies operating in regulated industries—such as those overseen by COFEPRIS, CRE, SEMARNAT, or SCT—must update labeling, product packaging, or operating permits if branding on regulated materials changes.

- Mexico's digital landscape relies heavily on platforms like Google, Facebook, WhatsApp, and *MercadoLibre*. Changes to a business's domain or brand name carry significant visibility risks and must be managed carefully to maintain digital presence and customer recognition.

THE RISK SPECTRUM: WHY REBRANDS IMPACT VALUE

Rebranding initiatives, particularly those that are aggressive or introduced without sufficient notice, can disrupt the established familiarity that customers have with a business. This interruption in recognition can have far-reaching implications on several aspects of operational performance.

- Search Engine Visibility: Changing the brand or domain often leads to a drop in search rankings, making it harder for customers to find the business online.

- Referral Flow: Long-standing referral channels may become less effective as partners and customers adjust to the new identity.

- Customer Retention: Existing clients may become uncertain or confused, increasing the risk of attrition.

- Recurring Revenue: Disruption in customer relationships can lead to decreases in predictable, repeat income.

- Online Reviews and Reputation Signals: The continuity of positive reputation and reviews may be threatened if they cannot be clearly connected to the new brand.

MEXICO-SPECIFIC MARKET RISKS

- Word of Mouth Dominance: In Mexico, many businesses depend on word-of-mouth (*de boca en boca*) for their reputation. Changing an established name can break trust that has been built across generations.

- WhatsApp-Based Communication: For businesses whose clients communicate and save contacts by business name in platforms like WhatsApp, an abrupt change can lead to confusion and hinder recall.

- Invoice/CFDI Confusion: If a company changes the name on its invoices without informing customers, accounts payable departments may delay payments due to uncertainty.

- Marketplace Listings**:** Updating brand information on platforms like *MercadoLibre* requires re-verification, which may temporarily suspend listings and impact sales.

TIMING: WHY REBRANDING BEFORE A SALE USUALLY HURTS VALUE

When sellers choose to rebrand their business immediately before putting it on the market, it often results in a decline in revenue and weaker performance indicators. This loss of momentum creates uncertainty for potential buyers, who may respond by lowering their offers or discounting the business's value. Additionally, lenders observing this late-stage change may become more cautious, perceiving the business as a greater risk.

MEXICO-SPECIFIC TIMING CONSIDERATIONS

Mexico-Specific Timing Considerations

- SAT Audit Sensitivity: Sudden changes in a company's structure or branding can trigger risk flags within the SAT's audit algorithms, increasing the likelihood of scrutiny from tax authorities.
- Consumer Trust: In Mexico's business culture, loyalty plays a significant role. Abrupt changes to a company's brand may be interpreted by customers as a sign of instability, undermining their trust.
- Permit Renewal Cycles: Rebranding can require updates to municipal permits. This process may result in delays for ongoing operations or inspections, affecting business continuity.
- Banking Relationships: In Mexico, banks and suppliers often extend credit based on familiarity with an established brand. Disrupting this recognition through a sudden rebrand may lead to reduced credit lines or less favorable terms.

WHEN THE SELLER IS THE BRAND

Many businesses—particularly those in professional services, hospitality, and smaller Mexican enterprises—are closely linked to the founder's name or personal reputation. This direct association can present significant hurdles when transferring ownership, as the brand itself is deeply tied to the individual rather than the business entity.

Mexico-Specific Challenges

- Trust among Mexican consumers is often placed in individuals rather than organizations, making the transition of ownership more sensitive and complex.
- Licensing for operations, such as restaurants, clinics, or trade services, may be registered under the original owner's name, requiring additional steps for reassignment.
- Social media accounts and following platforms like *TikTok* and *Instagram*, are frequently personally owned, necessitating formal legal agreements to transfer control to the new owner.
- The value inherent in the personal brand must be formally conveyed through a combination of:
- Licensing agreements
- Image-use permissions
- Transitional collaboration agreements

Best Practice:

Use a phased rebranding strategy with a structured seller handoff.

STRATEGIC APPROACH: SLOW HANDOFFS PROTECT ENTERPRISE VALUE

Gradual transitions are recommended to protect and maximize enterprise value during a change in ownership or rebranding. A phased approach helps maintain consumer trust and ensures continuity throughout the process. The following strategies are effective in executing a slow handoff:

- Co-announcing the brand change to communicate the transition clearly to stakeholders and customers.

- Having the seller continue to create content for a set period, which maintains consistency and reinforces brand credibility as ownership transitions.
- Introducing new design systems while retaining familiar brand elements, so changes do not alienate the existing audience and allow for a smoother adaptation.

Mexico-Specific Best Practices

- Dual Branding: Retain the original brand name on official invoices (CFDI) for three to six months, labeling the business as "formerly known as..." to reassure customers and facilitate recognition during the transition.
- IMPI Trademark Coexistence: Maintain registration of both the old and new brand names with IMPI during the transitional phase to protect intellectual property and avoid confusion.
- Local Community Engagement: Announce changes through local chambers of commerce, events, and social groups ("*asociaciones de comerciantes*") to keep the community informed and involved, fostering local support.
- Regulatory Updates in Sequence:
- Update the SAT RFC (tax registration) first,
- Follow with IMSS/INFONAVIT employer records,
- Amend banking contracts,
- Adjust municipal permits, and
- Update COFEPRIS/SEMARNAT labeling as the final step. This sequence Ensures compliance and minimizes operational disruptions during the hand off .

WHEN REBRANDING HELPS VALUE

General Value-Creating Rebranding Approaches

Rebranding can be a powerful tool for increasing a company's value when approached strategically. Value-creating rebrands typically involve several key actions:

- Retaining the core brand name, which helps preserve brand equity and existing customer recognition.
- Refreshing visual elements—such as logos, color schemes, and design systems—to modernize the brand's appearance and increase relevance in the market.
- Undertaking rebranding efforts following an acquisition to unify the identity of merged businesses and present a cohesive image to stakeholders.
- Supporting expansion into multiple territories, which may require adapting branding for consistency and appeal across diverse markets.
- Implementing documented brand systems and processes that ensure consistent application of the brand across all touchpoints and teams.

Mexico-Specific Scenarios Where Rebranding Helps

- Expanding into multiple states with distinct consumer cultures, such as Yucatán, CDMX, and Jalisco, where tailored branding can help resonate with different regional audiences.
- Reducing reliance on the founder in preparation for franchising, making the business more scalable and appealing to potential franchisees.
- Modernizing outdated branding to remain competitive against national chains, ensuring the brand stays relevant to contemporary consumers.
- Standardizing branding across retail locations to comply with NOM-051 labeling requirements, which is particularly important for businesses in the food and beverage sector.
- Formalizing the brand to secure IMPI protection prior to international expansion, safeguarding intellectual property in new markets.

FINANCING AND LENDER CONSIDERATIONS

Lenders place significant emphasis on brand stability when assessing financing applications. If a business has recently undergone a rebranding or made aggressive changes to its brand, lenders may be concerned about the company's ability to retain customers and maintain predictable revenue streams. Such concerns can impact lending decisions and the terms offered to a business.

Mexico-Specific Financing Implications

Although Mexico does not offer SBA loans, local lenders utilize similar evaluation criteria to determine the risk and reliability of businesses seeking financing.

- Banks: Major institutions such as BBVA, Banorte, Santander, and HSBC assess brand consistency and stability during their lending process.
- Development Banks: Entities like NAFIN and Bancomext also consider the business's branding when evaluating financing applications, looking for clear and stable brand identity.
- Private Lenders: These lenders may apply comparable standards, focusing on whether the brand demonstrates longevity and reliability.
- SAT History**:** A company's fiscal history with Mexico's tax authority (SAT) is reviewed to ensure compliance and financial stability, which is often linked to the business's brand reputation.

PRACTICAL SCENARIOS FOR BRANDING DECISIONS IN MEXICO

Scenario 1: Retaining an Established Brand

Consider the example of a 40-year-old HVAC firm in Guadalajara with a strong reputation, as evidenced by excellent Google reviews. In this case, rebranding is not recommended. Instead, the business should focus on refreshing its visual identity and modernizing assets, such as updating vehicle branding, while retaining the trusted company name. Additionally, to secure the brand's value, it is important to protect it through IMPI registration.

- Refresh visuals
- Modernize vehicles

- Retain the trusted name
- Protect the brand via IMPI

Scenario 2: Rebranding After Seller Exit

For professional practices like dental or law firms that are named after the founder, a rebrand becomes necessary after acquisition. This is because the brand is closely tied to the founder's identity, and transitioning to a new name supports continuity and compliance following the change in ownership.

Scenario 3: Regulatory-Driven Rebranding

When a business expands into regulated sectors—such as food, medical, or export industries rebrand may be required to comply with new packaging, labeling, and operational standards. This regulatory transition provides an ideal opportunity for a strategic rebrand that aligns with sector requirements.

Strategic Importance of Rebranding Decisions

Rebranding during the sale or acquisition of a business is not just a creative exercise; it is a strategic, financial, operational, and regulatory decision. An effective rebrand can enhance market positioning and drive future growth. Conversely, a poorly timed or executed rebrand can decrease enterprise value, disrupt revenue streams, cause regulatory issues, and erode customer trust.

Key Takeaways

- Do not rebrand shortly before a sale unless there is sufficient time to stabilize results.
- Use phased transitions when the founder's identity is closely linked to the brand.
- Recognize that Mexican regulatory, tax, and cultural factors increase the complexity of rebranding.
- Ensure compliance by updating SAT, IMSS, IMPI, municipal, and sector-specific information as required.
- Prioritize business continuity over creative changes, especially when seeking financing.

In summary, a successful rebrand during the business sale process demands strategic pacing, attention to cultural nuances, regulatory compliance, and effective communication with all stakeholders.

CHECKLIST FOR TRANSITIONING A BUSINESS TO NEW OWNERSHIP

Transitioning a business to new ownership marks the final and crucial stage of the sale process. Once the purchase agreement has been signed and ownership has officially changed hands, attention shifts to carrying out a transfer that is not only orderly but also legally compliant and strategically sound. This phase is especially important in Mexico, where operational preparedness must be paired with strict compliance to federal, state, and municipal regulations.

This enhanced checklist addresses the legal, tax, and regulatory responsibilities unique to Mexico, helping ensure a smooth transition that safeguards the interests of both buyer and seller. For a deeper understanding of these requirements, refer to the sections later in this guide.

TRANSFER OF OPERATIONAL INFORMATION

Before the seller departs, it is essential that they provide the buyer with all the necessary information and tools to maintain uninterrupted business operations. This step ensures the continuity of daily activities and helps the new owner manage the transition seamlessly.

CORE OPERATIONAL HANDOVER ITEMS

- Physical keys for all premises, storage areas, company vehicles, and secured cabinets must be handed over to the buyer.
- All alarm codes and credentials to security systems should be transferred to ensure uninterrupted access and safety.
- Access to business software, including accounting systems, customer relationship management platforms (CRMs), and cloud services, should be provided.
- Administrative email accounts, user profiles, and password inventories need to be shared to facilitate communication and system access.
- Equipment manuals, warranties, and service contracts must be delivered to support ongoing maintenance and service needs.
- The buyer should receive comprehensive customer lists, details of loyalty programs, and historical service records to maintain relationships and ensure service continuity.
- Vendor, distributor, and supplier lists, along with purchase histories, are necessary for managing supply chains and procurement.
- Contact information for employees, service providers, and strategic partners should be provided to preserve internal and external business connections.

MEXICO-SPECIFIC ADDITIONS

- CFDI (Electronic invoicing) System Access: The buyer must obtain access to the electronic invoicing system, including the *Proveedor Autorizado de Certificación*, internal invoicing platforms, and XML data archives.
- SAT Portal Access (Clave CIEC / e.firma): The seller should provide credentials for accessing the SAT portal, which are critical for tax and regulatory compliance.

- IMSS, INFONAVIT, and Payroll Systems: Access to these systems must be transferred to ensure proper administration of social security, housing benefits, and payroll.
- Licenses and permits repository: The buyer should receive all relevant documents, including:
- Licencia de Funcionamiento (municipal operating license)
- Civil Protection compliance records
- COFEPRIS, SEMARNAT, or CONAGUA permits, as required by sector
- Alcohol license, noting that these are highly regulated and often non-transferable
- Supplier credit accounts: The buyer should obtain information and access to credit arrangements with local distributors, which are especially prevalent in food, wholesale, and industrial sectors.

DISSOLUTION OR WIND-DOWN OF SELLER'S LEGAL ENTITY

The process for dissolving or winding down the seller's legal entity depends on the structure of the sale. If the transaction is an asset purchase, the seller's entity must be legally wound down. In contrast, when the transaction is structured as a stock purchase, dissolution is generally not required unless it is explicitly negotiated to occur after closing.

General Requirements

- Obtain board or shareholder approval for dissolution of the entity.
- Draft and protocolize dissolution documents before a Notario Público.
- File termination notices with the relevant government agencies.

Mexico-Specific Requirements

- Notario-supervised dissolution process: This is mandatory for corporations, such as S.A. de C.V.
- Appointment of a Liquidator ("*Liquidador*"): A liquidator must be appointed to formally wind down the company's affairs.
- Publication of dissolution notice: The dissolution must be published in the electronic system of the Public Registry of Commerce.
- SAT notifications:
- RFC de-registration (*Aviso de suspensión o cancelación*).
- Submission of final annual and monthly tax declarations for ISR and IVA.
- IMSS employer deregistration: Proper deregistration from the social security system is required.
- INFONAVIT employer account closure: The employer's INFONAVIT account must be closed.
- Local and municipal deregistration: This includes payroll tax (ISN) deregistration and cancellation of municipal operating licenses.

Completing the dissolution process correctly is essential to avoid future liabilities, particularly related to tax audits, payroll obligations, and compliance reviews.

FINAL BUSINESS CLOSURE OR TRANSFER REQUIREMENTS

To ensure a smooth transition and avoid future penalties or unexpected liabilities, the seller must properly terminate or transfer all operational obligations associated with the business.

Standard Transition Actions

- Notify all parties whose contracts have been assigned or assumed, ensuring that all contractual relationships are properly transferred to the new owner.
- Inform creditors regarding outstanding obligations, clarifying whether these will be settled by the seller or the buyer to prevent any confusion or disputes.
- Cancel any licenses and permits that are not being transferred to the buyer, thereby avoiding unnecessary ongoing responsibilities.
- If required by the terms of any lease agreements, provide vacate notice to landlords to formally conclude tenancy obligations.

Mexico-Specific Actions

- Government Contract Notifications: File the necessary *cesión de derechos* to properly transfer government contracts.
- License Transfer Procedures:
- Alcohol permits often demand a full re-application process under the buyer's new corporate entity.
- Health permits (COFEPRIS) must be updated to reflect the new responsible operator, ensuring compliance with regulatory requirements.
- Municipal License Updates: Make sure that all municipal licenses are revised as needed during the transition.
- Tax-Related Finalizations:
- Settle any remaining SAT debts to avoid future tax complications.
- Ensure that all CFDIs issued during the closing period are aligned to the correct entity as part of the final tax reporting.
- Payroll and Labor Obligations:
- Pay all final wages and legally required benefits to employees.
- Address any accrued obligations, such as *aguinaldo,* vacation pay, PTU, and seniority benefits, to maintain compliance with labor laws.
- File final payroll tax (ISN) declarations as part of the closure process.

Proper handling of these closure and transfer tasks is critical. Mexican authorities may pursue sellers for years after the sale if the business closure is incomplete or obligations remain unresolved.

SELLER PARTICIPATION AFTER CLOSING

In many business transitions, especially those involving complex operations or relationship-driven industries, the seller often remains involved for a defined period after closing. This continued participation helps ensure a smooth transfer of knowledge, relationships, and operational expertise from the former owner to the new operator.

TYPICAL ARRANGEMENTS

- Training and operational support are commonly provided for a period ranging from 30 to 90 days. During this time, the seller assists the buyer in understanding business processes, key contacts, and critical workflows.
- Extended advisory agreements may be established, particularly in transactions that include seller financing. These agreements allow the seller to offer ongoing guidance beyond the initial training window.
- Consulting roles may be created to help facilitate the transition of customer relationships, ensuring continuity and minimizing disruption for clients.

MEXICO-SPECIFIC CONSIDERATIONS

- Seller participation after closing may require a formal service contract, known as a *Contrato de Prestación de Servicios*, outlining the scope and terms of the consulting arrangement.
- Consulting fees paid to the seller must be invoiced using SAT-compliant documentation, specifically through the issuance of CFDIs (*Comprobantes Fiscales Digitales por Internet*).
- Any non-compete or confidentiality agreements with the seller must comply with Mexican legal standards. Restrictions that are too broad may not be enforceable under local law.
- If the seller remains involved for more than 90 days, it is important to clarify whether the ongoing role could be classified as employment under Mexican labor law. Prolonged involvement may trigger labor law risks if the arrangement resembles an employer-employee relationship.

RETAINING AND MOTIVATING EMPLOYEES

Employee retention is crucial during the initial weeks following a change in ownership. This is especially true in Mexico, where personal loyalty and job stability are significant factors that shape workplace culture. Ensuring that employees feel secure and valued during this transition period can help maintain business continuity and operational effectiveness.

RETENTION STRATEGIES

- Meet with the team early on to build trust and establish open communication channels between new ownership and employees.
- Offer incentives such as retention bonuses, commissions, or profit-sharing programs targeted at key employees to encourage them to stay and perform at their best.

- Ensure there is clarity regarding roles and responsibilities and strive to maintain operational continuity, so employees experience minimal disruption.
- Reassure employees about their job security and provide transparent information about any upcoming changes, helping to alleviate uncertainty and anxiety.

Mexico-Specific Labor Considerations

- If the transaction involves *sustitución patronal* (employer substitutions, employees retain their:
    - Seniority (*antigüedad*)
    - Benefits
    - Rights as established under the Federal Labor Law
- As part of the transition, formal employment contracts will often need to be reissued to reflect on the new employer.
- Employee registration with IMSS (*Mexican Social Security Institute*) must be updated to show the new employer.
- Any significant changes to employment terms must comply with protections set forth in the LFT (*Ley Federal del Trabajo*).

Failure to properly address these requirements may result in costly labor disputes.

CUSTOMER AND COMMUNITY COMMUNICATIONS

Reinforcing Customer Confidence During Transition

The transition period is a crucial time for new business owners to reinforce customer confidence and capitalize on the trust and goodwill established by the previous owner. By communicating clearly and proactively, new owners can assure both customers and community members that the business remains steadfast in its commitment to quality and reliability.

Actions for New Owners

- Announce any new products, services, or changes to business hours to keep customers informed and engaged.
- Re-engage inactive customers by reaching out to them and inviting them to experience the renewed business.
- Launch marketing campaigns that emphasize “new management” to generate excitement and attract attention.
- Highlight improvements made to the business, while also showing respect for the legacy of the previous owner.

Best Practices in the Mexican Market

- Leverage community ties by participating in local events and forming partnerships, strengthening relationships with the surrounding community.

- Maintain long-standing relationships with vendors and distributors to ensure continuity and trust in supply chains.
- Use communication styles that are culturally attuned—warm, personal, and trust-based—to foster lasting connections with customers and partners.

COMPLETION AND PUBLIC ANNOUNCEMENTS

Once the business transition is structurally complete, it is essential to communicate these changes clearly and systematically to all relevant stakeholders. This ensures that employees, customers, suppliers, and the broader community are well-informed and confident in the stability and direction of the business under new ownership.

Post-Closing Communication Steps

- Engage employees in post-closing communication to ensure internal alignment and support for the transition.
- Inform customers, suppliers, and the broader community about the completion of the transition and any relevant updates.
- Align all outward messaging with formal legal changes to maintain consistency and accuracy in public communications.
- Ensure that all systems, taxes, and licenses are operationally aligned with the new ownership structure for seamless business operations.

Verification of Completion in Mexico

In Mexico, buyers should consult with their Notario, accountant, and legal team to confirm that every required filing and regulatory process is complete before fully operating under the new structure. This step is vital to safeguard compliance and facilitate a successful transition.

Conclusion

Transitioning a business to new ownership in Mexico demands careful coordination across multiple areas. It is essential to address operational procedures, legal requirements, tax regulations, and cultural considerations to ensure the process is both effective and sustainable.

Success in this transition comes from blending proven business practices with Mexico's unique legal and regulatory environment. This includes maintaining compliance with the SAT (*Servicio de Administración Tributaria*), securing all necessary municipal licenses, adhering to local labor law requirements, and fulfilling notarial obligations. Through this integrated approach, buyers can confidently navigate the complexities of business ownership transition in Mexico and mitigate risks throughout the process.

What Should Be Included in a Partnership[21] Agreement?

When developing your business plan, you may consider purchasing a business with partners, including employees in the project by issuing shares, or retaining the services of family members—especially if acquiring a family-owned business. No matter the motivation for involving others, it is crucial to address potential areas of conflict before they arise. To help ensure future harmony and operational efficiency, it is advisable to outline clear terms and expectations in a partnership agreement or unanimous shareholders agreement. By doing so, you provide a structured foundation for collaboration and minimize the risk of disputes among partners, employees, or family members involved in the business.

A well-structured partnership agreement is one of the most critical foundational documents for any business formed by two or more partners. Regardless of whether partners are close friends, family members, or long-term colleagues, formalizing expectations in a signed legal agreement reduces the risk of misunderstandings, operational disruption, and costly legal disputes.

In Mexico—where partnership structures must align with federal corporate law, tax requirements before the SAT, social security obligations, and civil-commercial frameworks—the importance of a detailed partnership agreement becomes even more pronounced.

KEY COMPONENTS AND MEXICO-SPECIFIC CONSIDERATIONS

The expanded guidance below outlines the key components every partnership agreement should contain, along with specialized considerations for Mexican legal and regulatory compliance.

Capital Contributions and Ownership Structure

A comprehensive partnership agreement must clearly document the details regarding each partner's capital contributions. These contributions can take various forms, including cash, physical assets, intellectual property, or services provided to the business. The agreement should specify the value of each partner's input and outline how ownership percentages are assigned based on these contributions. By formalizing these arrangements, the partnership can ensure transparency and avoid future disagreements over ownership rights.

Include:

- Initial capital contributions: List the amount or value each partner provides when the business is formed.
- Ongoing funding commitments (if any): Indicate any obligations for future contributions that partners may have to support the business's growth or operations.
- Valuation of non-cash contributions: Outline the agreed-upon method for determining the worth of assets, intellectual property, or services contributed instead of cash.
- Rules governing dilution or additional partner investments: Define how ownership percentages may change if new investments are made or if new partners join the business.

Mexico-Specific Considerations

[21] This advice applies to Shareholder Agreements as well.

- Capital contributions must be formally recorded in the company's *Acta Constitutiva* and registered with a Notario Público. This official documentation is necessary to establish the business legally and protect the interests of all partners.

- For entities such as S. de R.L. de C.V. or S.A. de C.V., share allocation must comply with the *Ley General de Sociedades Mercantiles* (LGSM). The partnership agreement must reflect the legal requirements for assigning shares and ownership structure according to Mexican corporate law.

- Contributions of all kinds may trigger valuation requirements and, in some cases, require tax recognition before the SAT. It is important to address how these contributions are assessed and to ensure that all tax obligations are met under Mexican regulations.

PROFIT DISTRIBUTION, LOSS ALLOCATION & PARTNER COMPENSATION

Profit sharing is a crucial and sensitive component of any partnership arrangement. To maintain fairness and prevent disputes, a strong partnership agreement should clearly define the methods and policies for distributing profits, allocating losses, and compensating partners.

General Profit Distribution & Compensation Policies

- The agreement must specify how profits will be distributed among the partners. This includes establishing whether distributions will be made regularly or on a periodic basis.

- It should clarify whether profit shares are based strictly on ownership percentages, on individual partner performance, or on some other criteria agreed by all parties.

- The agreement needs to address whether partners will receive a regular draw—such as monthly or quarterly advances against profits—or if distributions will only occur at specific intervals determined by the partnership.

- In addition, it is important to determine if partners will receive salaries. This is especially common in Mexico, where salaries may be used for tax purposes and operational compensation.

MEXICO-SPECIFIC CONSIDERATIONS

- Profit distributions in Mexico may be categorized as either *dividendos or utilidades*, each subject to distinct tax treatments.

- Dividends are subject to ISR withholding and must be properly documented through CFDI (*Comprobante Fiscal Digital por Internet*).

- If partners perform operational work within the business, additional requirements may apply, including:

- Establishing a payroll relationship and registering with IMSS (Instituto Mexicano del Seguro Social).

- Declaring taxable compensation under the applicable Mexican tax regime.

- The rules for profit and loss allocation must comply with the tax structures and regulations established for the chosen entity type.

DECISION-MAKING AUTHORITY AND CORPORATE GOVERNANCE

Effective corporate governance is essential for preventing power struggles and ensuring smooth daily operations within the partnership. The agreement should establish clear decision-making processes and define the scope of authority held by each partner or designated executive.

Key Governance Policies

- Specify whether decisions require unanimous approval from all partners or if majority consent is sufficient for certain actions.
- Identify which types of decisions require explicit partner consent, such as hiring key staff, making major expenditures, taking on new debt, or expanding the business.
- Define any delegated authorities, such as appointing a CEO, managing partner, or administrator único, including the scope and limitations of their powers.
- Outline procedures for resolving deadlocks in decision-making to prevent operational standstills.

Mexico-Specific Considerations

- Corporate governance rules must comply with the *Ley General de Sociedades Mercantiles* (LGSM) and be appropriate for the entity type chosen.
- If the company appoints a *Gerente General* or Administrador, their authority must be clearly defined in the partnership agreement, the *Acta Constitutiva*, and the *Registro Público de Comercio*.
- Certain major decisions—including amending bylaws, adding partners, or dissolving the partnership—require Notarial certification to be legally valid in Mexico.

ADDING OR REMOVING PARTNERS

Over time, partnerships may change as new opportunities arise or as business needs shift. To ensure stability and clarity, the partnership agreement should address how ownership can evolve and set clear guidelines for both adding and removing partners.

Include Policies For:

- Establish procedures for admitting new partners, ensuring transparency and consistency throughout the process.
- Specify buy-in valuation formulas so that all parties understand how new partners' financial contributions are assessed.
- Clearly define the rights and responsibilities that new partners will assume upon joining the partnership.
- Set voting thresholds required for the expansion of the partnership to safeguard existing interests and prevent unilateral decisions.

Mexico-Specific Considerations

- New partners must be formally registered before a Notario Público, and updated share certificates and bylaws must be prepared to reflect the change in ownership.

- Any modification to ownership requires filing amendments with SAT and the Registro Público to ensure compliance with Mexican corporate regulations.
- If foreign partners are admitted, this may trigger RFC registration requirements, anti-money laundering rules (PLD), and banking compliance obligations.

PARTNER ROLES, RESPONSIBILITIES & EXPECTATIONS

For a partnership to function effectively, each partner's operational, financial, and managerial duties must be explicitly defined. This clarity helps prevent misunderstandings and future conflicts by ensuring everyone understands their obligations and standards.

KEY AREAS:

- Outline each partner's functional roles, including responsibilities in operations, finance, sales, and compliance, so that duties are clearly allocated.
- Set performance expectations to guide partners' contributions and measure their effectiveness within the organization.
- Define time commitments required from each partner to ensure that business activities are adequately supported.
- Clarify reporting obligations so that accountability and transparency are maintained within the partnership.

MEXICO-SPECIFIC CONSIDERATIONS

- If partners also serve as employees, their employment status must be formalized under payroll to comply with IMSS and INFONAVIT regulations.
- Directors, such as those serving on the *Consejo de Administración*, are subject to legally defined fiduciary responsibilities under the LGSM, which must be observed.

DISPUTE RESOLUTION MECHANISMS

In the absence of clearly established rules for resolving disputes, disagreements between partners can rapidly escalate into expensive litigation. By setting out specific procedures in advance, partners can minimize the risk of conflict and ensure a smoother path to resolution.

Your Agreement Should Detail:

- Outline step-by-step procedures for resolving disputes, so that all parties understand the process and expectations at each stage.
- Specify whether mediation or arbitration is required before pursuing legal action, helping to avoid unnecessary court proceedings.
- Define the conditions under which disputes may be escalated to the courts, ensuring clarity on when litigation is appropriate.

Mexico-Specific Considerations

- Consider including *arbitraje privado* (private arbitration) provisions in the agreement to avoid extended civil court procedures.

- Ensure that dispute resolution clauses comply with the *Código de Comercio*, which governs commercial dispute procedures in Mexico.

- If partners choose arbitration through organizations such as AMECA or CANACO, clarify the jurisdiction and language to be used during proceedings.

EXIT, BUYOUT & DISSOLUTION PROVISIONS

Unforeseen events—such as death, disability, partner conflict, or major financial changes—can threaten the stability of a partnership. To address these risks, the agreement should establish clear guidelines for exit, buyout, and dissolution procedures.

Include:

- Define valuation methods for business or partnership interests, including options such as book value, market value, or external appraisal.

- Incorporate buy-sell agreements to govern the terms under which partners can exit or transfer their interests.

- Identify triggering events that may lead to a buyout or dissolution, such as voluntary withdrawal, misconduct, or non-performance by a partner.

- Detail the procedures for dissolving the partnership, including steps to wind down operations and distribute assets.

Mexico-Specific Considerations

- The dissolution of the partnership must be formalized before a Notario Público and officially filed with the Registro Público.

- SAT requirements during dissolution include:

- Submission of final tax filings

- RFC cancellation

- Issuance of liquidation notices

- Employee severance obligations, as stipulated by the LFT, must be met during the liquidation process.

- Be aware that assets transferred during dissolution may trigger tax recognition and related obligations.

CONTINUITY PLAN IN CASE OF DEATH OR INCAPACITY

A comprehensive partnership agreement should clearly outline the protocols to be followed if a partner passes away or becomes incapacitated. Addressing these situations in advance helps maintain the stability and continuity of the business, prevents disputes, and provides clarity for all parties involved.

Your agreement must specify:

- Successor rights: Define who is eligible to inherit the departing partner's interest in the partnership, ensuring that the process aligns with the partners' intentions and applicable law.
- Buyout of heirs: Establish clear procedures for buying out the heirs of a deceased or incapacitated partner, including valuation methods and payment terms.
- Continuity of operations: Detail how the partnership will continue its operations during the transition, minimizing disruptions and protecting business interests.

Mexico-Specific Considerations

- Heirs require formal inheritance documents (*testamentos)* validated in probate court, ensuring legal transfer of ownership interests.
- Shares or partnership interests cannot automatically transfer without compliance with the *Ley General de Sociedades Mercantiles* (LGSM). The agreement must reflect these legal requirements to ensure proper succession.
- Estate tax implications and capital gains recognition may apply, so it is important to consider the tax consequences of a partner's death or incapacity within the continuity plan.

COMPLIANCE WITH U.S. UPA VS. MEXICAN LEGAL FRAMEWORKS

The original article mentions the U.S. Uniform Partnership Act (UPA). Mexico does not use the UPA—instead, partnerships must comply with specific local laws and regulations to ensure legal validity and operational compliance.

- *Ley General de Sociedades Mercantiles* (LGSM): Governs the creation, operation, and dissolution of commercial partnerships in Mexico.
- Código de Comercio: Establishes general commercial regulations applicable to business activities and partnerships.
- SAT tax regulations: Outlines tax obligations, filings, and compliance requirements for partnerships.
- Anti-money-laundering laws (LFPIORPI): Imposes requirements to prevent illicit financial activities.
- Notarial public records laws: Require certain partnership actions to be formalized before a Notario Público and officially recorded.

Understanding these frameworks ensures enforceability and legal protection.

CONCLUSION

A robust partnership agreement serves as more than a simple formality; it provides a legally essential framework for any business partnership. This framework is crucial for maintaining operational clarity among partners, ensuring financial fairness, mitigating risks, and promoting long-term business stability. In Mexico, the necessity for a detailed and customized agreement is heightened due to the specific obligations imposed by corporate law, tax regulations, and labor requirements. Such an agreement helps partners navigate the complexities of the legal and regulatory landscape, reducing the potential for misunderstandings or disputes.

A well-drafted partnership agreement delivers several important advantages for business partners:

- Legal certainty
- Tax compliance
- Regulatory protection
- Governance clarity
- Conflict prevention
- Operational continuity

By establishing a professional and Mexico-enhanced partnership structure, business partners can ensure their collaboration begins—and continues—on solid legal and financial footing. This approach not only protects the interests of all parties involved but also supports the growth and stability of the partnership over time.

ANNEX

TEMPLATE GUIDANCE FOR TRANSACTIONAL DOCUMENTS

The following templates are provided to assist you in facilitating your transactions. These models are intended to serve as inspiration for drafting your own documents and are not a substitute for the advice or services of experienced professionals.

Practical step-by-step closing timetable

Includes typical regulatory approval windows and recommended actions for common industries in Mexico. Use this as a planning tool—actual timing varies by jurisdiction, complexity, and agency workload. Build in buffers and make key approvals closing conditions where practical.

SUMMARY TIMELINE CONVENTIONS

- Days = business days. Weeks = calendar weeks. Months = calendar months.

- Short = 1–4 weeks; Medium = 4–12 weeks; Long = 3–6 months; Very long = 6+ months.

- "Action window" = typical elapsed time from submission to approval/response.

- Flag items that commonly require consent, filings or third-party notices.

STANDARD PRE-CLOSING STEPS (APPLIES ACROSS INDUSTRIES)

1. LOI + exclusivity negotiated (1–2 weeks)

2. Seller provides data room and draft SPA/APA (1–2 weeks)

3. Scoped due diligence (tax, corporate, labor, regulatory, environmental) (2–6 weeks)

4. Drafting negotiation of definitive agreements and escrow/indemnity terms (2–4 weeks)

5. Prepare governmental filings/notifications required for closing (concurrent with above)

INDUSTRY-SPECIFIC REGULATORY APPROVAL WINDOWS AND STEPS

1) Retail / Food & Beverage (restaurants, stores)

- Key permits: municipal operating license *(licencia de funcionamiento*), health permits (COFEPRIS or municipal sanitary), food handling permits, fire & safety.

- Action window:

  - Municipal license transfer/renewal: Short to Medium (2–8 weeks) — often requires inspection.

  - COFEPRIS sanitary approval (for certain products/premises): Medium (4–12 weeks).

  - Fire & safety inspections: Short (1–4 weeks).

- Recommended: Make transfer/receipt of municipal licenses a pre-closing conditions where feasible; negotiate interim operations/TSA if approvals delayed.

2) Manufacturing (industrial facilities)

- Key permits: environmental authorizations (SEMARNAT / Estado), municipal operating permits, Dangerous Materials handling (if applicable), NOM compliance.

- Action window:

  - Environmental permits / MIA (if required): Medium to Long (8–24+ weeks).

  - Local municipal permits: Short to Medium (2–8 weeks).

  - NOM certifications and industry-specific registrations: Medium (4–12 weeks).

- Recommended: Conduct environmental due diligence early; consider escrow for latent environmental liabilities.

3) Pharmaceuticals / Medical Devices / Food Production

- Key permits: COFEPRIS registrations for products, sanitary registrations, GMP certifications.

- Action window:

  - Product and facility registrations: Medium to Long (8–24+ weeks; can be longer for new drug registrations).

  - COFEPRIS GMP inspections/approvals: Medium (8–16 weeks).

- Recommended: Treat COFEPRIS approvals as material; require seller warranties and specific escrows for regulatory noncompliance.

4) Energy / Power / Oil & Gas

- Key permits: CRE (energy regulator), *Secretaría de Energía*, permits for generation/distribution, environmental clearances.

- Action window:

  - CRE approvals / authorizations: Medium to Long (8–24 weeks).

  - Environmental permits (SEMARNAT): Medium to Long (12–36 weeks for significant projects).

  - Concession/contract assignments may require federal approvals: Medium to Long (12–24 weeks).

- Recommended: Start regulatory filings early; include termination/consent timelines in SPA and consider regulatory counsel.

5) Financial Services / Fintech / Insurance

- Key permits: CNBV registration/authorization, Comisión Nacional Bancaria y de Valores approvals, fintech sandbox registrations (if applicable).

- Action window:

  - CNBV authorization for financial institutions: Long to Very Long (3–12+ months).

  - Fintech/PSP authorization (Sandbox or full): Medium to Long (12–24+ weeks).

- Recommended: Expect protracted regulator review; consider share purchase vs asset carve-outs to avoid reauthorization; close subject to regulatory approval only when unavoidable.

6) Telecommunications & Broadcasting

- Key permits: IFT authorizations, spectrum assignments, concession transfers.

- Action window:

  - IFT approvals / concession transfers: Medium to Long (12–24+ weeks).

- Recommended: Engage telecom counsel early; validate whether contracts/rights are transferable.

7) Transport & Logistics (transport, freight, passenger)

- Key permits: SCT registrations, permits for hazardous transport, vehicle registrations, customs bonded facility approvals.

- Action window:

  - SCT and vehicle/operator permits: Short to Medium (2–8 weeks).

  - Customs bonded warehouse / bonded carrier approvals: Medium (6–12 weeks).

- Recommended: Confirm licenses for vehicle fleets and driver qualifications; require transfer consent for critical logistics contracts.

8) Real Estate / Hospitality (hotels, resorts)

- Key permits: land use/zoning, municipal licenses, environmental permits, tourism registrations (SECTUR), health/sanitary.

- Action window:

  - Zoning and land-use confirmations / cadastral updates: Short to Medium (2–12 weeks).

  - Environmental and coastal permits (if applicable): Medium to Long (8–24+ weeks).

  - SECTUR registration and tourism approvals: Short to Medium (2–8 weeks).

- Recommended: Verify title deeds (*escrituras)*, search public registries for liens, confirm transferability of leases and municipal permits.

9) Import/Export / Distribution & Customs-dependent businesses

- Key permits: Importer Taxpayer Registry (*Padrón de Importadores)*, customs broker authorizations, sanitary product import permits (COFEPRIS), NOM compliance.

- Action window:

  - Padrón de Importadores updates and customs authorizations: Short to Medium (2–8 weeks).

  - Sector-specific import permits: Medium (4–12 weeks).

- Recommended: Confirm continuity of customs brokerage arrangements and status in Padrón; address VAT and customs duty open exposures.

10) Mining & Natural Resources

- Key permits: concession titles, SEMARNAT environmental impact authorizations, mining title transfers require *Secretaría de Economía* notifications.

- Action window:

  - Mining title transfers and environmental authorizations: Long to Very Long (4–12+ months).

- Recommended: Early-stage regulatory mapping and community/ejido agreements; escrow for latent liabilities.

CROSS-INDUSTRY REGULATORY ACTIONS AND TIMING NOTES

- Municipal licenses (*licencia de funcionamiento*): usually processed fastest but vary by municipality — plan 2–8 weeks.

- Environmental authorizations (SEMARNAT): highly variable; minor permits short, full MIAs long (8–36+ weeks).

- COFEPRIS: critical for health/food/pharma — expect 8–24+ weeks depending on scope.

- Financial and telecom regulators (CNBV, IFT): lengthy, often months; factor into deal structure early.

- Public registries: Registro Público de Comercio and property registries typically 2–6 weeks for filings and searches.

- Labor claims and IMSS/INFONAVIT clearances: time depends on disputes; obtain records early and allow 4–12 weeks for deeper resolution or negotiation.

RECOMMENDED SEQUENCING AND RISK CONTROLS

1. Early regulatory mapping (week 0–1 post-LOI): identify required consents and non-transferable permits.

2. Prioritize long-lead approvals (CNBV, IFT, SEMARNAT, CRE, COFEPRIS) and engage regulators/counsel immediately (weeks 1–4).

3. Make the SPA conditional on receipt of critical approvals where possible; otherwise use robust escrow/indemnities and holdbacks.

4. Stagger closing: consummate share purchase for permitted items; close asset transfers as permits are obtained; use TSAs for operational continuity.

5. Include explicit timelines, notice obligations and termination rights in the LOI/SPA tied to regulatory milestones.

6. Budget contingency: add 10–25% time and 5–15% cost buffer for regulatory delays depending on sector complexity.

PRACTICAL CHECKLIST FOR DRAFTING REGULATORY WINDOWS INTO THE SPA

- List required filings/approvals with target submission and expected approval window.

- Allocate responsibilities (who files, who pays fees).

- Define material adverse regulatory events and remedies.

- Set out extension and termination mechanics if key approvals are delayed.

- Create escrow/indemnity holdbacks for unresolved regulatory exposures.

DUE DILIGENCE REQUEST LIST

INSTRUCTIONS

- Provide electronic copies (PDF/XLS/XML) and originals on request. Certified Spanish translations for non-Spanish documents.

- Timeframe: last 3–5 fiscal years plus year-to-date (YTD) interim statements.

- Identify sensitive items and provide redacted versions if necessary.

- For each item, indicate document owner/contact and date of most recent update.

A. Financial & Tax (priority)

1. Audited financial statements (ultimo 3 años) and latest interim management accounts.

2. General ledger and trial balance for requested period.

3. Bank statements and reconciliations (all operating accounts) for the same period.

4. Seller's Discretionary Earnings (SDE) or adjusted EBITDA schedule and working capital roll-forward.

5. Detailed accounts receivable aging and confirmations for top 10 customers.

6. Detailed accounts payable aging and major supplier confirmations.

7. Inventory listing, valuation method, last physical count and reconciliation.

8. Fixed asset register, recent appraisals and capex history.

9. Tax returns (ISR, IVA, local taxes) and proof of filings for last 3–5 years.

10. SAT correspondence: audits, assessments, rulings, payment agreements, and tax clearance certificates (if available).

11. CFDI exports (XML) for sales and purchases for the period and PAC validation reports.

12. VAT (IVA) reconciliation, credits history and pending refund claims.

13. Withholding tax records (payments & supporting documentation).

14. Transfer pricing studies and intercompany agreements (if applicable).

15. Deferred tax schedules, tax loss carryforwards and their supporting calculations.

B. Corporate & Governance

1. *Acta Constitutiva*, bylaws (estatutos) and all amendments.

2. Shareholder register (*registro de accionistas*) and capitalization table.

3. Minutes of shareholders' and board meetings (*últimos 3 años*).

4. Powers of attorney and list of authorized signatories; public registry extract (Registro Público de Comercio).

5. Ownership structure chart and list of related parties; copies of intercompany agreements.

6. Organizational chart and CVs of key managers.

C. Contracts & Commercial

1. Material customer contracts, service agreements and purchase orders; top customer list by revenue.

2. Supplier agreements, exclusive distribution contracts and pricing arrangements.

3. Franchise, licensing and royalty agreements (including IMPI registrations where relevant).

4. Loan agreements, credit facilities, guarantees and security documents; evidence of compliance with covenants.

5. Lease agreements (real estate and equipment), assignment clauses and landlord consents.

6. Sales pipeline, major pending orders and backlog.

D. Labor & Social Security

1. Employee roster with roles, start dates, salaries, benefits and contracts.

2. Payroll records, pay stubs and social security (IMSS) contribution records for last 3 years.

3. INFONAVIT payment records and employer registration evidence.

4. Collective bargaining agreements, union correspondence and list of unionized employees.

5. Record of labor claims, settlements, arbitration awards and ongoing disputes.

6. Details of outsourced/subcontracted services and supporting compliance documentation under current outsourcing rules.

E. Regulatory, Permits & Sectoral Approvals

1. Municipal operating licenses (*licencia de funcionamiento*) and certificate of zoning compliance.

2. Sectoral permits: COFEPRIS registrations (health/food/pharma), SEMARNAT environmental authorizations, CRE permits (energy), CNBV authorizations (financial), IFT concessions (telecom) as applicable.

3. Copies of filings and correspondence with relevant regulators; evidence of permit transferability or consents required on change of control.

4. SECTUR/tourism registrations for hospitality (if applicable).

5. Environmental impact studies (MIA), inspection reports and remediation records.

F. Environmental, Health & Safety

1. Environmental permits, compliance certificates and monitoring reports.

2. Health & safety policies, incident logs and inspector reports.

3. Waste handling and hazardous materials documentation.

G. Intellectual Property & IT

1. IMPI registrations for trademarks, patents and design rights; assignment records.

2. Domain registrations, software licenses, source code ownership and escrow agreements.

3. Data privacy policies, records of personal data processing and compliance with the Federal Law on Protection of Personal Data Held by Private Parties.

4. IT systems inventory, cybersecurity incidents and backup/disaster recovery plans.

H. Litigation & Contingent Liabilities

1. Schedule of current, pending or threatened litigation (civil, administrative, labor and tax) with case files and reserves.

2. Judgments, settlements and enforcement actions.

3. Insurance policies (D&O, property, liability) and claims history.

I. Real Estate & Property

1. Title deeds (*escrituras*), cadastral certificates, property appraisals and surveys.

2. Mortgages, liens, encumbrances and public registry searches.

3. Utilities, maintenance contracts and property tax receipts.

J. Customs, International Trade & Logistics (if applicable)

1. *Padrón de Importadores* registration and customs broker agreements.

2. Import/export authorizations, certificates of origin and customs compliance records.

3. Inventory held in bonded warehouses and customs duty reconciliations.

K. Commercial & Market

1. Customer list, top customer contracts, churn metrics and customer satisfaction data.

2. Supplier list with key terms, lead times and concentration metrics.

3. Competitor analysis and market research reports.

4. Marketing strategy, digital presence metrics and sales channel performance.

L. Insurance & Risk Management

1. Current insurance policies, coverage limits, exclusions and premium history.

2. Claims history and ongoing insurance disputes.

M. Transaction Documents & Closing Mechanics

1. Draft SPA/APA, CIM, LOI and proposed disclosure schedules.

2. Suggested escrow agreement, indemnity schedule and holdback mechanics.

3. Evidence of authority to sell, powers to sign and any required shareholder approvals.

4. Proposed transition services agreements and employment offers for key management.

N. Miscellaneous / Sector Specific

1. NOM compliance certificates and sector certifications (food safety, GMP, ISO).

2. Tourism/hotel operating metrics (ADR, RevPAR) for hospitality targets.

3. Manufacturing permits, certificates of origin, *maquiladora* program documentation (if applicable).

4. Any government grants, subsidies or special tax regime the business relies upon.

Request formatting suggestions

- Provide CFDI XML exports in chronological folders by year and a summary reconciliation to reported revenue.

- Provide bank statements in original format with reconciliations to general ledger.

- For IMSS/INFONAVIT, provide employer reference numbers, payment history and any audit correspondence.

- Flag items with material exceptions and provide explanatory memo.

BUYER & SELLER FINANCING CHECKLIST – MEXICO BUSINESS ACQUISITIONS

BUYER CHECKLIST

1. Pre-Financing Requirements

- Confirm **asset vs. stock purchase** structure.
- Prepare updated financial statements.
- Ensure all funds are **traceable** for Mexican AML/PLD rules.
- Set up (or plan for) Mexican entity: **S. de R.L.** or **S.A. de C.V.**
- Verify if the sector allows **100% foreign ownership**.
- Obtain or prepare to obtain **RFC tax ID**.
- Hire bilingual **Mexican legal and tax counsel**.

2. Seller Financing Readiness

- Validate buyer cash flow using **CFDI invoices** and bank records.
- Negotiate terms: **5–7 years**, **8–12% interest**, **30–50% down**.
- Review **pagaré** and payment schedule.
- Confirm collateral options: assets, IP, equipment, **stock pledge**.
- Ensure collateral registration through **RUG**.

3. Due Diligence Essentials

- Verify **SAT compliance**, pending audits, DIOT filings.
- Review IMSS/INFONAVIT liabilities and proper wage base (SBC).
- Confirm validity of:
    - *Licencia de Funcionamiento*
    - *Protección Civil*
    - COFEPRIS (*if applicable*)
    - Zoning (*uso de suelo*)
- Check supplier contracts, customer concentration, and financial consistency.

4. Alternative Financing

- Document foreign-sourced funds for AML review.

- If using retirement funds (ROBS/401k), ensure proper US–MX corporate structure.
- Validate compliance with Mexico's *Ley Fintech* if crowdfunding or equity raising.

5. Closing & Post-Closing

- Execute *pagaré* and contracts before a Notario Público.
- Register collateral in **RUG**.
- Ensure CFDI invoicing for interest payments.
- Update SAT, IMSS, municipality, and permits under new ownership.
- Complete *sustitución patronal* if employees transfer.

SELLER CHECKLIST

1. Pre-Sale Preparation

- Audit SAT, IMSS, INFONAVIT status (ensure NO liabilities).
- Confirm all municipal and sector-specific permits are current.
- Correct employee misclassification or wage-base inconsistencies.
- Prepare normalized, verifiable financials.

2. Structuring Seller Financing

- Set financing percentage (10–40%) and minimum down payment.
- Determine interest rate based on buyer risk.
- Create draft *pagaré* and collateral requirements.
- Require personal guarantees where needed.

3. Legal Protections

- Verify buyer identity and financial capability.
- Register collateral through *RUG*.
- Include default, repossession, and acceleration clauses.
- Ensure all documents are executed before a *Notario Público*.
- Prepare CFDI invoicing for interest income.

4. Risk Management

- Assess probability of buyer default.

- Keep seller financing limited unless strategic.
- Avoid waving down payment or agreeing to buyer-pressured terms.

SHARED CHECKLIST ITEMS

Required Documents

- *Pagaré* (promissory note)
- Notarized purchase agreement
- Collateral contracts (*prenda,* stock pledge)
- Corporate documents (*Acta Constitutiva*, powers of attorney)
- SAT compliance certificates
- IMSS/INFONAVIT compliance report
- Updated RFC data
- Permit list (municipal + sector-specific)

Cross-Border Compliance

- AML/PLD verification of funds
- Registering foreign capital with the Ministry of Economy
- Currency exchange compliance documentation
- FATCA/CRS considerations for U.S./Canadian buyers
- Document capital injection into Mexican entity

Deal Protections

- Use escrow for down payment.
- Include seller transition assistance terms.
- Add earn-outs if needed.
- Include mutual representations & warranties.
- Establish Mexico or neutral jurisdiction for dispute resolution.

BUYER ENGAGEMENT LETTER — BUY-SIDE ADVISORY (MEXICO)

[Date]

Parties

- Buyer: [Buyer name, RFC if Mexican, address]

- Advisor/Broker: [Advisor name, RFC if Mexican, address]

ENGAGEMENT

SCOPE OF ADVISORY SERVICES

The Advisor will be responsible for identifying, screening, and presenting acquisition targets that align with the Buyer's specified criteria. This includes managing introductions for non-disclosure agreements (NDAs) and coordinating preliminary valuations and market comparable analyses. Additionally, the Advisor will supervise the intake process for the data room, ensuring all relevant materials are collected and organized appropriately.

The Advisor will actively liaise with the Buyer's legal, tax, and accounting advisors throughout the transaction process, providing necessary support for negotiations and closing logistics. If mutually agreed upon, the Advisor may also assist with limited post-close integration activities to facilitate a smooth transition after the transaction is completed.

It is expressly understood that the Advisor will not provide legal or tax advice. The Buyer is required to retain licensed Mexican legal counsel and tax advisors to address all legal and tax matters related to the acquisition.

DELIVERABLES

Target Sourcing

The Advisor is expected to identify and present a minimum of [X] qualified acquisition targets within the agreed [term], subject to market availability. This ensures that the Buyer has a sufficient pool of potential candidates to evaluate in alignment with the defined investment criteria.

Preliminary Target Memoranda

For each target introduced to the Buyer, the Advisor will prepare a preliminary memorandum. This document will include a valuation range, key commercial and financial metrics, an initial assessment of regulatory and permit issues, and recommended next steps for further investigation or engagement.

Data Room Checklist and Coordination

The Advisor will oversee the preparation and coordination of the data room, ensuring all required materials are collected and organized. Priority items include CFDI XML exports with PAC validation, ISR and IVA tax returns, correspondence with SAT, IMSS and INFONAVIT histories, the *Acta Constitutiva* or Registro Público extract, and a comprehensive inventory of relevant permits.

Risk Heat Map for Shortlisted Targets

For all shortlisted targets, the Advisor will develop a risk heat map covering areas such as tax, labor, regulatory, environmental, intellectual property, and commercial considerations. This analysis will help the Buyer understand and manage potential risks associated with each opportunity.

Transaction Support

The Advisor will provide support throughout the transaction process, including assistance with negotiations, coordination of escrow arrangements, and introductions to potential sources of financing and local advisory referrals as necessary.

Timeline and Milestone Planning

Within [X] business days of the initial review of each target, the Advisor will provide estimated key milestones and regulatory approval windows. This timeline will help the Buyer anticipate and plan for critical steps in the transaction process.

ADVISOR RESPONSIBILITIES

PROPERTY TRANSFER VERIFICATION AND REGULATORY REVIEW

The Advisor will verify contacts within the public registry and relevant notarios to ensure property transfers are properly executed. Additionally, the Advisor will identify and flag any municipal permit issues, specifically those related to the *licencia de funcionamiento*. The Advisor is responsible for recognizing federal approvals that may require significant lead times, including those from COFEPRIS, SEMARNAT, CRE, IFT, and CNBV. Furthermore, the Advisor will determine whether there is a need for foreign investment or antitrust filings with the *Secretaría de Economía* or COFECE.

CORPORATE AND LABOR COMPLIANCE CHECKS

The Advisor will perform high-level checks of CFDI/SAT documentation and IMSS/INFONAVIT records to ensure completeness. Any discrepancies identified during this process will be highlighted for further forensic review by the Buyer's advisors.

DISCLOSURE OF RELATIONSHIPS AND CONFLICTS

The Advisor is required to promptly disclose any prior relationships or potential conflicts of interest with targets and sell-side brokers as soon as they become known.

FEES & EXPENSES

RETAINER

A retainer in the amount of MXN [amount] is payable upon signing of this agreement. This retainer will be credited against total fees due under this engagement.

SUCCESS FEE

A success fee of [X]% of the final enterprise value will be payable at closing. Alternatively, a sliding scale may be applied, such that X% is charged up to MXN Y, and Y% for any amount thereafter. It is important to specify whether the success fee is calculated gross or net of any assumed liabilities.

ADDITIONAL FEES AND EXPENSES

If applicable, additional fees may include a due diligence coordination fee of MXN [amount] and a milestone fee upon execution of a Letter of Intent (LOI) of MXN [amount]. Reimbursement for travel and third-party expenses will be capped and require prior approval from the Buyer.

PAYMENT MECHANICS

Payments are to be made via wire transfer to the Advisor's designated account. In cases where the seller pays a broker fee, the Buyer will remain responsible to the Advisor for payment of the agreed retainer and fees as outlined in the Appendix.

CLAW BACK PROVISIONS

The success fee will be repayable if the transaction is terminated due to fraud by the Advisor or in the event of a material undisclosed conflict.

TERM, EXCLUSIVITY, AND TERMINATION

TERM

The engagement between the Advisor and Buyer will remain in effect for a period of [e.g., 6] months starting from the date of this letter. During this term, both parties are expected to fulfill their respective obligations as outlined in this agreement.

EXCLUSIVITY

Exclusive terms are as follows: [None / Exclusive: Advisor is the sole buy-side advisor for the target scope during the agreement term]. If exclusivity is elected, the Advisor will serve as the exclusive buy-side advisor for the scope of targets identified in this engagement throughout the specified period.

TERMINATION

Either party may terminate this engagement by providing [X] days' written notice to the other party. Upon termination, the Buyer is responsible for payment of all accrued fees, reimbursable expenses, and any non-refundable third-party costs incurred up to the date of termination.

CONFIDENTIALITY, NON-CIRCUMVENTION, AND DATA PROTECTION

CONFIDENTIALITY

Both the Advisor and the Buyer are required to maintain strict confidentiality regarding all information related to identifying targets. This obligation will be consistent with the terms and provisions set forth in any executed non-disclosure agreements (NDAs) between the parties.

NON-CIRCUMVENTION

The Buyer agrees not to circumvent the Advisor by entering direct dealings with any target introduced by the Advisor. This non-circumvention obligation will remain in effect for a period of twelve (12) months following the introduction. Should the Buyer engage directly with any such target during this period, the Buyer will be responsible for payment of the agreed-upon fee to the Advisor.

DATA PROTECTION

The Advisor will process and safeguard any personal data in compliance with the Federal Law on Protection of Personal Data Held by Private Parties. The Buyer consents to the Advisor sharing personal data only with the Advisor's carefully selected service providers, and solely under circumstances where such providers are bound by a non-disclosure agreement (NDA).

CONFLICT DISCLOSURE & REFERRALS

CONFLICT DISCLOSURE

Prior to introducing any target to the Buyer, the Advisor will disclose any existing relationships with the identified targets or with any sell-side brokers involved. This ensures transparency and allows the Buyer to make informed decisions regarding potential conflicts of interest.

REFERRALS

The Advisor may suggest third-party professionals such as legal counsel, accountants, valuers, and lenders to support the Buyer during the engagement. While the Advisor may recommend these service providers, the Buyer retains the right to accept the suggested referrals or to engage alternative advisors at their discretion.

WARRANTIES & LIABILITY

The Advisor represents and warrants that they will perform their services with professional competence and diligence. However, the Advisor does not guarantee that a transaction will be completed, nor does the Advisor warrant the accuracy of any documents provided by third parties. The aggregate liability of the Advisor, whether arising from negligence or breach of this agreement, shall be limited to the greater of either (a) the retainer paid by the Buyer or (b) MXN [cap amount], except where such liability results from willful misconduct or fraud.

Governing Law & Dispute Resolution

Governing Law: This agreement shall be governed by and interpreted in accordance with the laws of the United Mexican States. The specific state jurisdiction applicable will be designated, for example, Ciudad de México or Estado de México, as mutually agreed by the parties.

Dispute Resolution: In the event of any dispute arising out of or in connection with this agreement, the parties will first attempt to resolve the matter through amicable negotiation. If the dispute cannot be resolved through negotiation, it shall be submitted to arbitration in accordance with the rules of the designated arbitration institution, such as the International Chamber of Commerce (ICC) or a local arbitration center, to be conducted in the agreed city within Mexico. The arbitration proceedings will be conducted in the Spanish language.

MISCELLANEOUS

AMENDMENTS

Any modifications or changes to this engagement must be documented in writing and signed by both parties. This ensures that all amendments are mutually agreed upon and formally incorporated into the agreement.

ASSIGNMENT

The Advisor is not permitted to assign their rights under this agreement without first obtaining the Buyer's prior written consent. This provision maintains the integrity of the engagement and ensures that both parties are aware of and approve any transfer of rights.

NOTICES

All notices under this agreement must be sent to the addresses provided above and will be considered effective upon receipt. This procedure ensures clear and timely communication between the parties.

ACCEPTANCE

This section confirms the acceptance of the terms and conditions set forth in this agreement by both parties. Each party shall indicate acceptance by signing below and providing the date of execution.

Buyer	**Date**
____________________________	__________
Advisor	**Date**
____________________________	__________

APPENDIX (OPTIONAL)

The appendix may include additional details to support the agreement. These may comprise the following:

- Fee schedule detail
- Expense policy
- Target criteria summary
- Exclusivities carve-outs by geographic area or industry
- Special reporting cadence requirements

Ready-to-use, Mexico-focused currency clauses — a concise LOI clause and a detailed SPA clause

CONTRACTUAL REFERENCE RATE GUIDANCE

When drafting transaction documents, the Banco de México (Banxico) or Bloomberg rates should be specified as the contractual reference rate for currency conversions. All monetary amounts, percentages, deadlines, and governing law provisions must be tailored to reflect the specifics of your transaction and the intentions of the parties involved. Before execution, it is essential to have Mexican legal counsel review the agreement to ensure compliance with applicable laws and the enforceability of the provisions.

LOI – CURRENCY REFERENCE

The Purchase Price for the transaction will be stated in the agreed contract currency, which may be U.S. dollars (USD), euros (EUR), or Mexican pesos (MXN), as specified by the parties.

To determine the Purchase Price in local currency at the time of closing, the parties agree that the applicable exchange rate will be the Banco de México (*Banxico)* FIX (*tipo de cambio* FIX) published on the Business Day immediately preceding the Closing Date. If, for any reason, the *Banxico FIX* is not published or available for that date, the Bloomberg USD/MXN spot rate at 12:00 PM (Mexico City time) on the Business Day immediately preceding Closing will be used instead.

Unless otherwise agreed in the definitive agreement, any bank transfer fees, currency conversion costs, and local taxes arising specifically from the conversion of the Purchase Price into local currency shall be borne by the Buyer.

COMPREHENSIVE CURRENCY CLAUSE FOR MEXICO-FOCUSED SPA

Article [X] — Currency, Reference Rate, and Settlement

(a) Contract Currency. The principal Purchase Price and all payments made pursuant to this Agreement shall be denominated in the currency designated by the parties—such as U.S. dollars (USD), euros (EUR), or another mutually agreed currency (the "Contract Currency"). For clarity, any references to a currency other than the Contract Currency will be converted according to the procedures described below.

(b) Reference Rate. When converting amounts to or from Mexican pesos (MXN), the parties agree to use a hierarchical approach to determine the applicable exchange rate:

- **(i) Primary Reference:** The Banco de México (Banxico) Tipo de Cambio FIX published for the relevant Business Day shall serve as the primary reference rate.

- **(ii) Fallback Reference:** If the Banxico FIX rate is not published for the specified Business Day, the Bloomberg spot rate for the USD/MXN currency pair at 12:00 PM (Mexico City time) on the same Business Day (the "Reference Rate") will be applied instead.

Conversion Calculation. All currency transactions using the Reference Rate shall be calculated to four decimal places unless otherwise agreed by the parties. For amounts expressed in pesos, the result shall be rounded half-up to two decimal places.

(c) Conversion Mechanics and Example. The Mexican peso (MXN) equivalent of any amount denominated in the Contract Currency will be determined by multiplying the specified Contract Currency amount by the applicable Reference Rate. For instance, if the Contract Currency amount is USD 1,000,000 and the Reference Rate is MXN 19.1234 per U.S. dollar, the calculation will be: USD 1,000,000 × MXN

19.1234, resulting in MXN 19,123,400. The final amount in pesos will be rounded according to the rounding provisions set forth in subsection (b).

(d) FX Adjustment Band. If, during the period between the Signing Date and the Closing Date, the Reference Rate changes by more than [±X%] compared to the Reference Rate published on the Signing Date (the "FX Trigger"), the parties agree to meet promptly to negotiate a fair adjustment to the Purchase Price—either upward or downward—or to establish a foreign exchange (FX) risk-sharing mechanism as follows: for any movement in the Reference Rate between [X%] and [Y%], the resulting impact will be shared equally between the parties (e.g., 50/50 split, or as otherwise negotiated). If the movement in the Reference Rate exceeds [Y%], the Buyer (or Seller) will be entitled to adjust a specifically designated portion of the Purchase Price by up to [Z%]. In cases where material adverse effect criteria are met due to such currency movements, either party may have the right to terminate the Agreement.

(e) Hedging and Allocation of Hedge Costs. The Buyer shall have the right, at its sole discretion, to implement hedging arrangements to manage currency risk exposure prior to the Closing Date. All costs, expenses, and fees associated with any hedging instruments or strategies entered by the Buyer shall be borne exclusively by the Buyer, unless the parties expressly agree otherwise in writing. In the event the Buyer chooses not to engage in hedging and there is a movement in the Reference Rate that exceeds the FX Trigger as defined in Section (d), the adjustment procedure described therein will apply.

(f) Payment, Fees and Taxes. All wire transfer fees, intermediary bank charges, and currency conversion costs incurred in connection with payments under this Agreement shall be the responsibility of the party designated as [Buyer / Seller as agreed]. Each party shall remain solely responsible for any taxes that may arise from currency conversions relating to their respective obligations, except where applicable law requires the deduction or withholding of taxes at source, in which case such taxes shall be borne by the party making the payment. For any payment subject to withholding tax, the payer shall gross up the payment so that the recipient receives the full net amount required, unaffected by such withholding.

PROOF OF FUNDS AND NET PROCEEDS CONFIRMATION

In the event of cross-border wire transfers into Mexico, the Buyer shall provide the Seller, as well as the Seller's Mexican legal counsel, with a bank confirmation verifying that the net funds have been received in the designated Mexican account. This confirmation must be delivered within [X] Business Days following the transfer. If the funds are initially received in an intermediary currency or through an intermediary account, the Buyer is required to promptly provide documentation evidencing the conversion of such funds to Mexican pesos (MXN), including details of any fees that were deducted during the process.

CFDI / SAT COMPLIANCE

Where payments under this Agreement are subject to Mexican invoicing requirements, the Seller shall issue a *Comprobante Fiscal* Digital por Internet (CFDI) invoice that reflects both the currency used and the Reference Rate applied, in accordance with the guidance provided by the Mexican tax authority (SAT). Both parties must cooperate fully to supply any documentation requested by Mexican banks or regulatory authorities to demonstrate the lawful receipt of funds.

DISPUTE RESOLUTION REGARDING CURRENCY CONVERSION

Any dispute arising with respect to the application of the Reference Rate, the rounding of currency amounts, or the conversion mechanics described herein shall be resolved by an independent treasury specialist mutually agreed upon by both parties and appointed by [institution] if the parties cannot agree. The determination made by such specialist shall be final and binding on the parties, except in cases of manifest error.

GOVERNING LAW AND CURRENCY RISK ACKNOWLEDGEMENT

This Article is governed by the laws of the United Mexican States, with the specific state jurisdiction to be specified (for example, Ciudad de México). The parties acknowledge and accept that fluctuations in currency values represent a commercial risk inherent to this transaction. Such risk has been addressed and allocated between the parties in accordance with the provisions set forth in this Agreement.

SURVIVAL

The provisions of this Article [X] shall remain in effect following the Closing. These terms will continue until the final settlement of any contingent payments—including earnouts, escrows, and holdbacks—and until all associated tax filings and reconciliations have been completed.

PRACTICAL CONSIDERATIONS FOR MEXICO TRANSACTIONS

REFERENCE RATE SELECTION

For Mexican agreements, it is standard practice to rely on the Banxico FIX rate as the primary reference for currency conversion. The Banxico FIX rate is widely recognized and accepted in local contracts, providing a consistent basis for converting foreign currency amounts to Mexican pesos (MXN). Should the Banxico FIX rate be unavailable, Bloomberg's published rates are commonly used as a reliable market alternative, ensuring that the parties have a clear and objective standard for currency conversion.

DEFINING BUSINESS DAYS

To avoid misunderstandings in transaction timelines, agreements should explicitly specify that a "Business Day" refers to a day observed in Mexico City. It is also important to clarify the relevant holiday calendar for Mexico, so that deadlines and performance periods are calculated accurately and consistently by all parties.

WITHHOLDING TAX ON CROSS-BORDER PAYMENTS

The parties must confirm whether any cross-border payments—such as those for royalties or interest—trigger Mexican withholding tax obligations. Contracts should include appropriate gross-up provisions to ensure that any tax liabilities arising from such payments are addressed and allocated as intended between the parties.

CFDI INVOICING AND VAT/IVA COMPLIANCE

It is crucial that invoices (CFDI) accurately reflect foreign currency transactions to comply with SAT regulations. Coordination with Mexican tax counsel or accountants is recommended to ensure that the correct exchange rate is reported and that invoice coding is handled properly. This helps to avoid mismatches in VAT/IVA calculations and ensures proper reporting to tax authorities.

BANKING REQUIREMENTS AND KYC DOCUMENTATION

Buyers should provide proof of funds received for payments into Mexican accounts. Acceptable documentation includes bank confirmations or SWIFT MT103 messages showing net amounts credited. For large transfers, Mexican banks may require additional compliance measures, such as notarized documents and supplementary tax paperwork, as part of their know-your-customer (KYC) procedures.

HEDGING AND CURRENCY RISK ALLOCATION

It is important for the parties to determine and document who will bear the costs associated with currency hedging under the agreement. The parties should also agree in advance on the allocation of basis risk if the outcome of hedge settlements differs from the currency conversion mechanics specified in the transaction agreement.

SIDE-BY-SIDE COMPARISON TABLE (U.S. VS. MEXICO) FOCUSED ON ASSET SALES VS. STOCK SALES

Asset Sale vs. Stock Sale: U.S. vs. Mexico Comparison Table

Category	United States	Mexico
Legal Entity Acquired?	**Asset Sale:** Buyer does *not* acquire the entity. Seller keeps the corporation/LLC. **Stock Sale:** Buyer acquires the full legal entity with all assets & liabilities.	**Asset Sale:** Buyer forms a new Mexican entity (S. de R.L. or S.A. de C.V.). Seller retains the original entity. **Stock Sale:** Buyer acquires the seller's entity, assuming all historic obligations, including tax and labor risks.
Liability Exposure	Asset sales shield buyers from historical liabilities (lawsuits, debts). Stock sales transfer all liabilities unless specifically excluded.	Asset sales protect buyers from historic tax liabilities (SAT audits), IMSS/INFONAVIT debts, labor claims, and vendor litigations. Stock sales transfer all obligations, making due diligence intensive.
Tax Basis Step-Up	Buyers can allocate purchase price to assets and depreciate them (major tax benefit). Stock sales do not allow step-up in most cases.	ISR allows buyers to allocate costs to equipment, IP, goodwill, and amortizable intangibles. Step-up creates favorable depreciation and amortization benefits not available in stock deals.
VAT / Sales Tax Treatment	Some assets may trigger sales tax (varies by state). Stock sales typically avoid sales tax.	IVA (VAT) is charged on many assets; buyers may claim IVA credit if properly invoiced via CFDI. Stock sales generally do not trigger IVA.
Labor Obligations	Employees typically must be rehired under the buyer's entity in an asset sale. Stock sales maintain employment continuity.	Asset sales avoid *sustitución patronal* unless specifically used. Stock sales transfer all accrued liabilities (PTU, severance, IMSS obligations), making stock purchases riskier.
Contract Transferability	Some contracts require consent to assign; asset deals often require heavy administrative work. Stock deals avoid assignment needs.	Many commercial and government contracts require written consent to transfer. Regulated sectors (health, logistics, telecom, energy) often require COFEPRIS, SCT, CRE, or municipal approvals.
Permits & Licenses	Regulated licenses may or may not transfer depending on state law.	Many permits do *not* transfer (alcohol, restaurant, health, trade, environmental). Often

Category	United States	Mexico
	Sometimes it is easier to maintain via stock sale.	requires reapplication under the buyer's newly formed Mexican entity.
Tax Compliance Risks	IRS audits can attach to historic issues in stock purchases. Asset sales minimize exposure.	High SAT enforcement means stock purchases can inherit unfiled taxes, IVA issues, CFDI inconsistencies, undeclared payroll, and multi-year audit exposure. Asset sales significantly reduce these risks.
Debt & Financing	Asset purchases help lenders collateralize assets. SBA loans often favor asset deals.	Mexican banks prefer asset-backed structures. Asset sales allow clean separation from seller's debts and bank lines.
Operational Continuity	Asset sales require new vendor accounts, payroll setup, bank accounts. Stock sales offer continuity.	Similar dynamic, but more friction: new RFC registration, IMSS registration, CFDI invoicing systems, SAT compliance setup is all required in asset deals.
Regulatory Complexity	Generally clearer processes. State law governs many specifics.	More complex regulatory environment with federal (SAT, IMSS, INFONAVIT), state, and municipal layers. Asset sales are often used to avoid inheriting compliance gaps.
When Preferred	Buyers prefer asset sales for risk control; sellers prefer stock sales for tax efficiency and simplicity.	Buyers overwhelmingly prefer asset sales due to SAT and labor risk. Stock sales used mainly for regulated industries or continuity-sensitive contracts.

Acta Constitutiva is the foundational legal document that creates and gives legal existence (personalidad jurídica) to a company, civil organization, or other business entity in Mexico. It is drafted before a notary public or commercial notary (corredor público) and must be registered in the Registro Público de Comercio (RPC) to take legal effect.

Antigüedad refers to the continuous time the same employer has employed a worker. It is the period counted from the date of entry into the company until the present day or until the employment relationship ends.

CNBV (Comisión Nacional Bancaria y de Valores): Mexico's banking and securities supervisory authority. It supervises banks, broker-dealers, investment funds, etc.

CONAGUA Comisión Nacional del Agua, Mexico's National Water Commission is the federal authority responsible for administering, regulating, controlling, and protecting Mexico's national water resources.

Conciliación a mandatory pre-trial settlement process in most labor disputes.

Consejo Nacional de Ciencia y Tecnología (CONACYT) is Mexico's federal agency responsible for promoting scientific research, technological development, and innovation.

Constancia de situación fiscal (SAT): proves your tax registration data (RFC, regime, address, obligations, etc.).

Contrato de franquicia a franchise agreement—a legally binding contract through which a franchisor grants a franchisee the right to use its trademark, business model, know-how, and operating system to produce or sell goods or services under uniform standards.

CPC Contador Público Certificado is a licensed public accountant (*contador público*) who has also obtained a professional certification from a recognized accounting body (most commonly through the IMCP / *Colegio de Contadores Públicos*) that verifies they meet competency, ethics, and continuing-education standards.

CRE (Comisión Reguladora de Energía): The federal energy regulatory responsible relevant energy regulatory framework (commonly tied to electricity and hydrocarbons market regulation and related permits/tariffs.

DIOT Declaración Informativa de Operaciones con Terceros is a mandatory monthly (or sometimes semestral) information return that taxpayers submit to the SAT to report all operations carried out with suppliers, specifically those related to IVA (VAT).

EBITDA Earnings Before Interest, Taxes, Depreciation, and Amortization. It is a common measure of a business's operating performance and cash-flow-like earning power.

EDO Empresas que Deducen Operaciones Simuladas are companies that buy fake invoices and use them to deduct nonexistent expenses or lower their taxable income.

EFOS Empresas que Facturan Operaciones Simulad are companies that issue invoices (CFDI) for operations that never actually occurred. They simulate sales or services to help other taxpayers illegitimately generate deductible expenses or credit IVA.

Escritura pública is a formal, notarized legal instrument used in Mexico to document and give full legal validity to important acts and contracts—most notably real estate transactions, mortgages, wills, corporate formations, and other high-value or legally significant agreements.

Fideicomiso is a legal trust agreement in which a person (the trustor, or *fideicomitente*) transfers ownership of property or rights to a trustee (usually a Mexican bank), so the trustee can manage those assets for the benefit of a beneficiary (fideicomisario).

Gastos no deducibles are expenses that the SAT does not allow taxpayers to deduct from their taxable income when calculating the Income Tax (ISR).

IFT (Instituto Federal de Telecomunicaciones): Mexico's telecom and broadcasting regulator, regulates, promotes, and supervises use of the radio spectrum, telecom networks, and the provision of telecom and broadcasting services.

IMMEX Industria Manufacturera, Maquiladora y de Servicios de Exportación Mexican federal program that allows companies to temporarily import goods tax-free—if those goods are used in production or processing for export.

IMPI, Instituto Mexicano de la Propiedad Industrial Mexican Institute of Industrial Property.

IMSS Instituto Mexicano del Seguro Social — the Mexican Social Security Institute.

INFONAVIT is Mexico's public institute that manages a mandatory housing savings and mortgage system for private-sector workers. Full name: Instituto del Fondo Nacional de la Vivienda para los Trabajadores.

ISR Impuesto Sobre la Renta — basically income tax.

IVA Impuesto al Valor Agregado, Mexico's Value-Added Tax (VAT).

Juicios laborales Labor lawsuits heard by the labor courts.

Licencia de funcionamiento (municipal): A municipal permit that authorizes a business establishment to operate at a specific address and serves as a registry entry for the local “padrón” (taxpayer/business register.

MIA Manifestación de Impacto Ambiental environmental impact statement you submit so SEMARNAT can evaluate a proposed project/work/activity and its significant potential environmental impacts.

Opinión de Cumplimiento is an official compliance certificate issued in Mexico by: SAT or IMSS indicating whether an individual or a company is up to date with their tax or social security obligations at the moment the opinion is generated.

Padrón de Importadores is the official registry administered by SAT (Mexico’s tax authority) that individuals and companies must be enrolled in before they can import goods into Mexico.

Pagos diferidos refers to payments that are postponed to a future date, rather than paid when the good or service is delivered, also known as deferred payments.

Pedimento (aduanal) is the official customs/tax declaration used for an import or export.

POS most commonly means Point of Sale. (checkout/cash desk) and/or the system used to take payments and record sales (POS terminal + software).

PROFECO Procuraduría Federal del Consumidor, translated as the Federal Consumer Protection Agency or Office of the Federal Prosecutor for the Consumer Mexican federal government agency responsible for protecting consumer rights, ensuring fair business practices, and mediating disputes between consumers and businesses.

PROSEC Programas de Promoción Sectorial a trade-promotion program administered by the Secretaría de Economía that allows authorized manufacturing companies that produce goods in certain sectors to import specific inputs.

Registro de Bienes Muebles (RBM)—often integrated into the Registro Público de la **Propiedad y del Comercio** (RPPyC)—is the public registry where legal acts involving movable property and certain movable property rights are recorded.

Registro Federal de Contribuyentes, which is the Federal Taxpayer Registry—Mexico’s official tax identification number (TIN).

Registro Público de Comercio (RPC) is the official public registry where commercial acts and legal acts related to merchants are recorded, when the law requires registration. Its purpose is to provide publicity, legal certainty, and “opposability” against third parties.

Registro Único de Garantías Mobiliarias (RUG) is Mexico’s electronic public registry where creditors can register security interests (garantías mobiliarias) over movable property, its purpose is to give public notice and legal certainty to secured transactions made with movable assets.

SCT Secretaría de Comunicaciones y Transportes, Mexico's former federal ministry responsible for national communications and transportation policy, including roads, airports, railways, maritime transport, and telecommunications.

SDE Seller's Discretionary Earnings is the normalized, total financial benefit a small business provides to a single full-time owner, calculated by adding back the owner's compensation, discretionary expenses, non-cash charges, interest, taxes, and non-recurring items to the business's pre-tax profit.

SEMARNAT (Secretaría de Medio Ambiente y Recursos Naturales): The federal Ministry of Environment and Natural Resources, responsible for environmental policy, including conservation, sustainable use of ecosystems, and pollution prevention.

SOP Standard Operating Procedures, written, step-by-step instructions that explain how to do a task the same way every time, so results are consistent and mistakes are minimized.

Subcontratación, Outsourcing / subcontracting of personnel. In Mexico, this term is especially associated with hiring workers through a third party.