



Strategic Solutions in Economics



ILPA

February 2012

- ▶ International Outlook
- ▶ Brazilian Outlook
- ▶ PE Market



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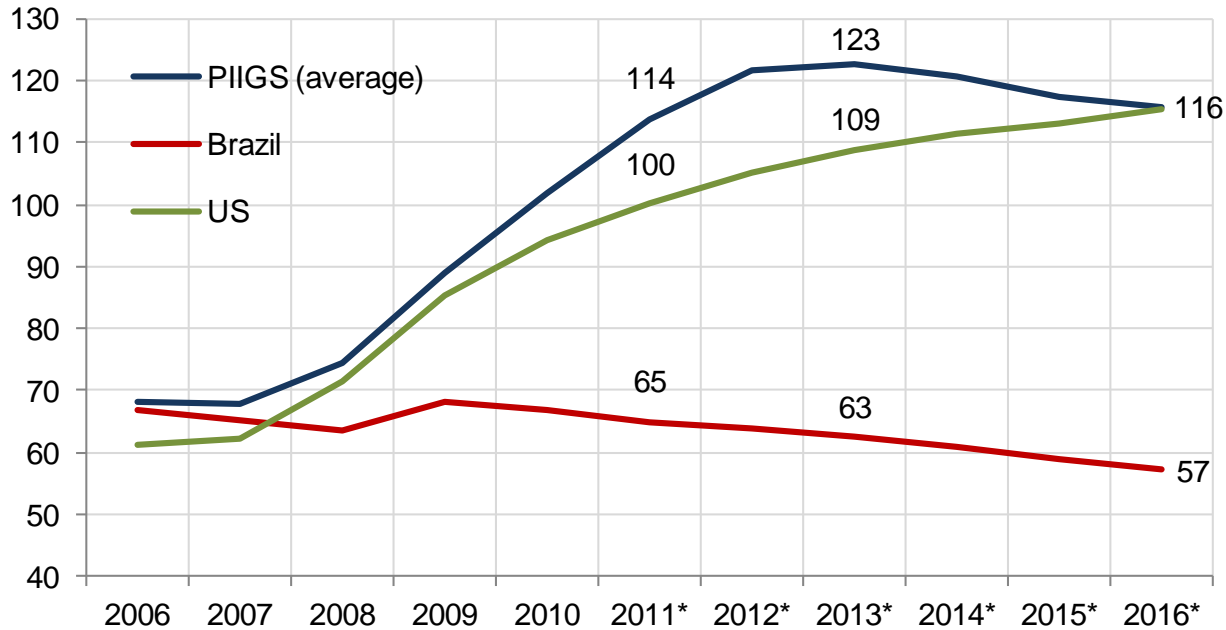
A new year fraught with risks.

- ▶ Europe's quagmire: risks of disruptive events are considerable; subpar growth for years is good scenario
 - Wrong diagnosis and pigheadedness of Germany and ECB
 - Why the UK pay so low interest rates?

- ▶ USA: surprisingly good economic data; risks stemming from unprecedented political divide
- ▶ China: can it continue to grow at rapid pace?
 - Far from middle income trap
 - Moderate risks in housing and shadow banking
 - Room for expansionary fiscal and monetary policy



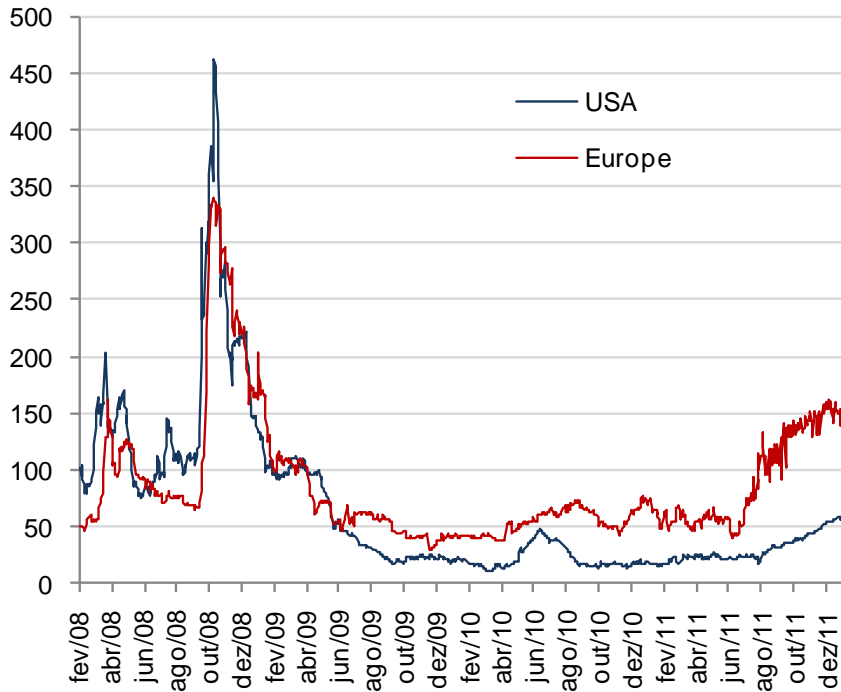
General Government Gross Debt
% of GDP. Source and Projections: IMF. Chart: LCA.



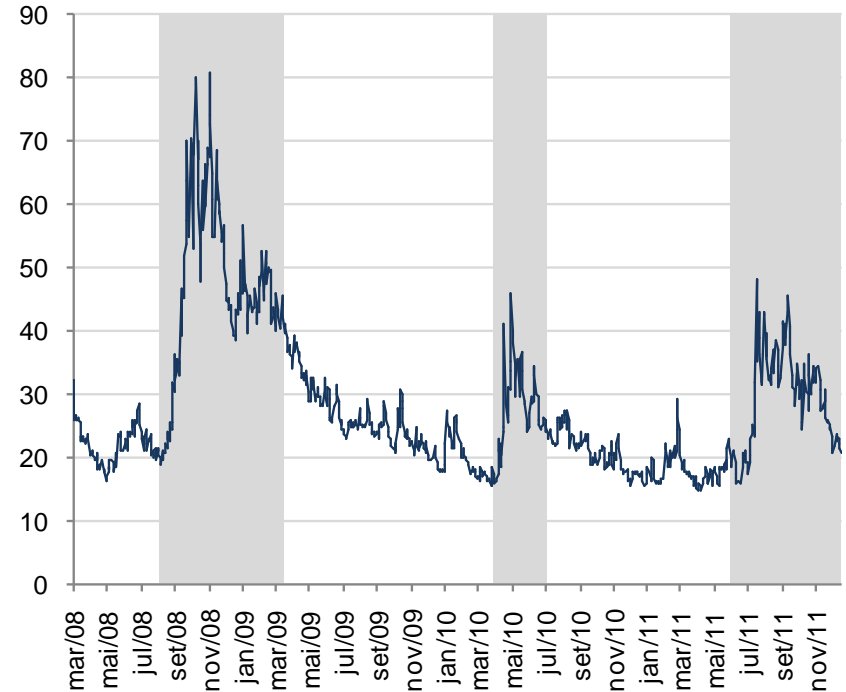
The PIIGS are
uncompetitive and
fiscally
unsustainable
economies



TED Spread: US x Europe
Source: Bloomberg. Chart: LCA.

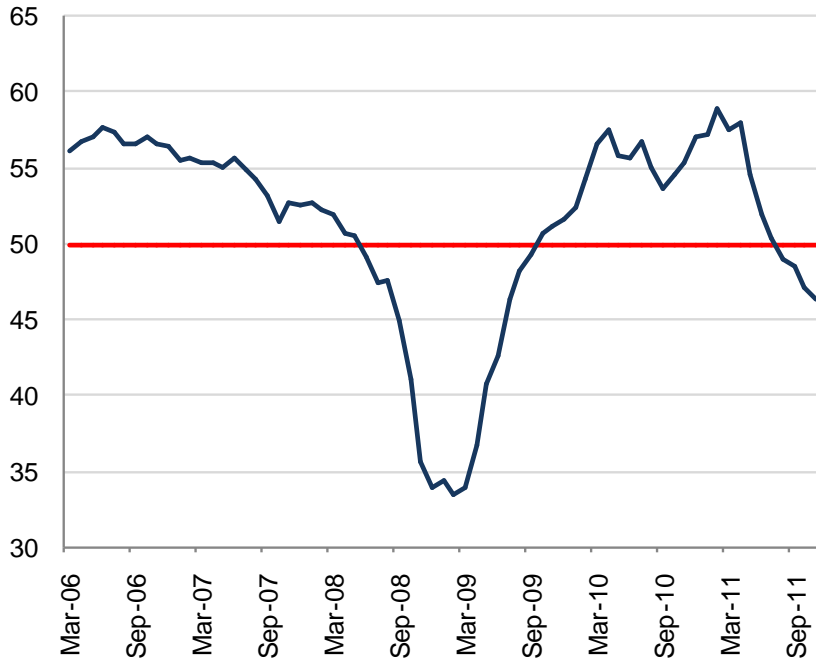


VIX: Volatility Index
Source: CBOE. Chart: LCA.

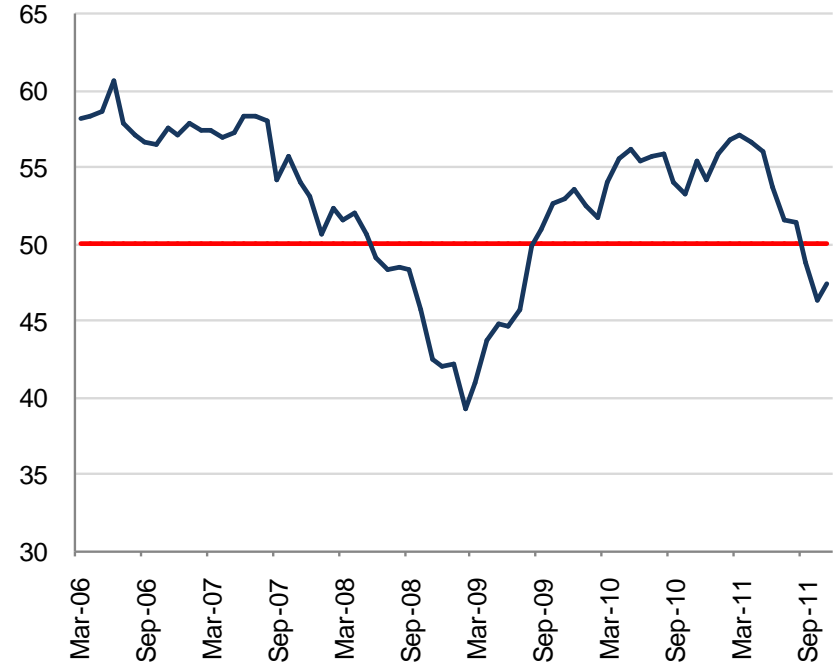


Higher risk aversion increases the volatility in the financial market.

Europe: PMI Manufacturing
>50 = growth. Source: Bloomberg.

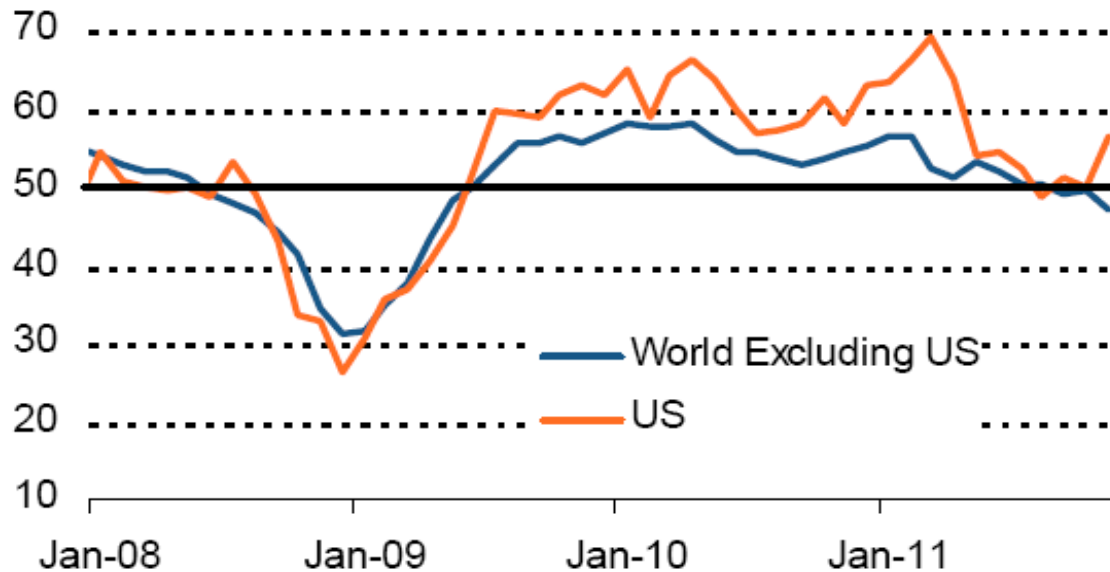


Europe: PMI Services
>50 = growth. Source: Bloomberg.



Activity data in the Eurozone has weakened in recent months.

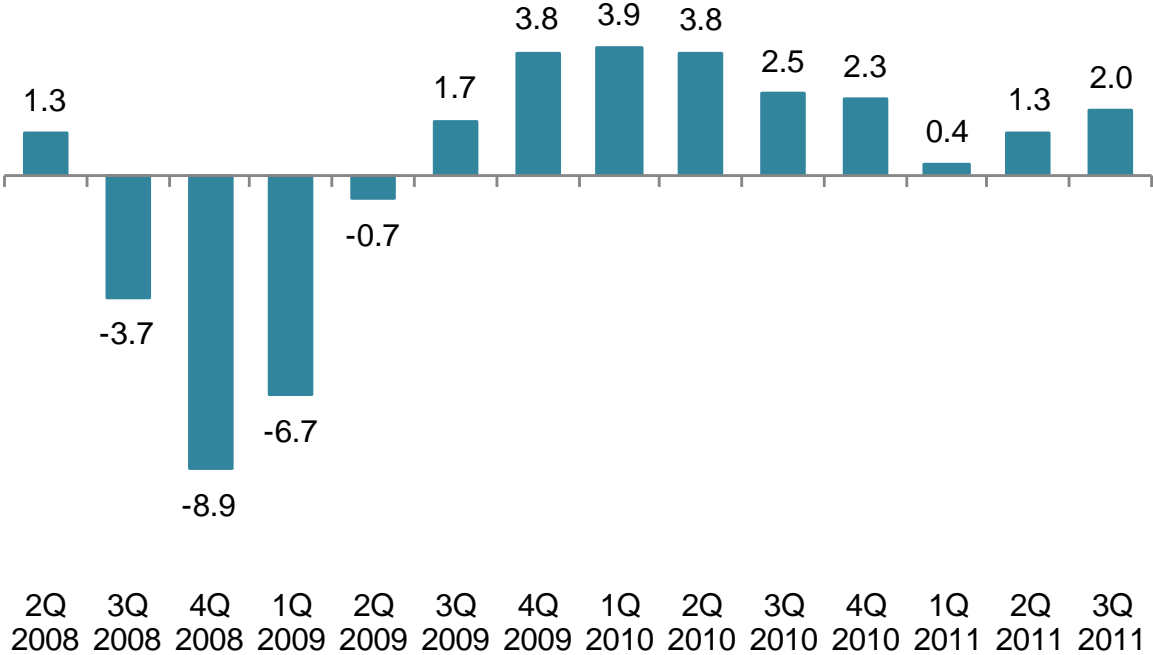
PMI, Manufacturing Output Index



The US economy recovery appears reasonably well established when compared with the rest of the world: recent economic prints on jobs, industrial production and confidence have posited positive surprises.

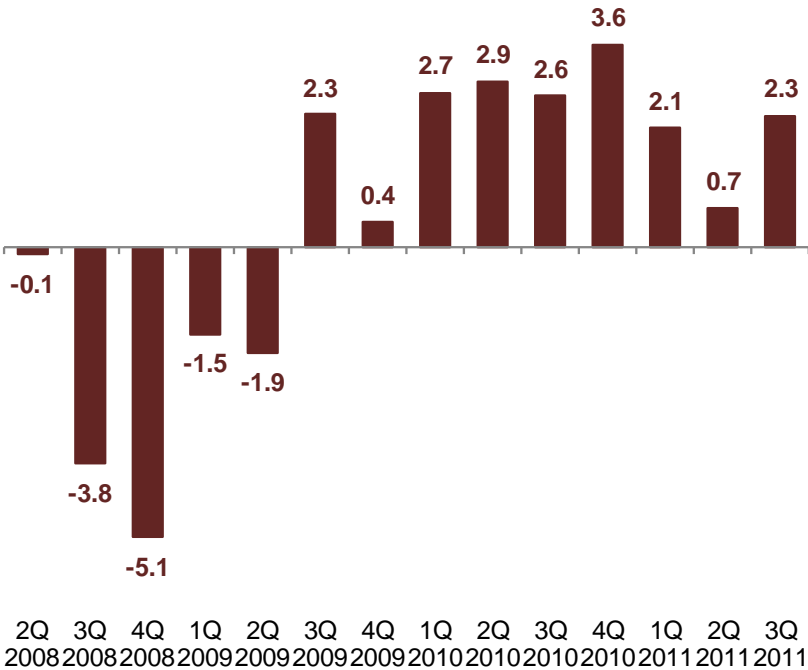


USA: Gross Domestic Product
% QoQ ann. Seasonally Adjusted. Source: BEA.



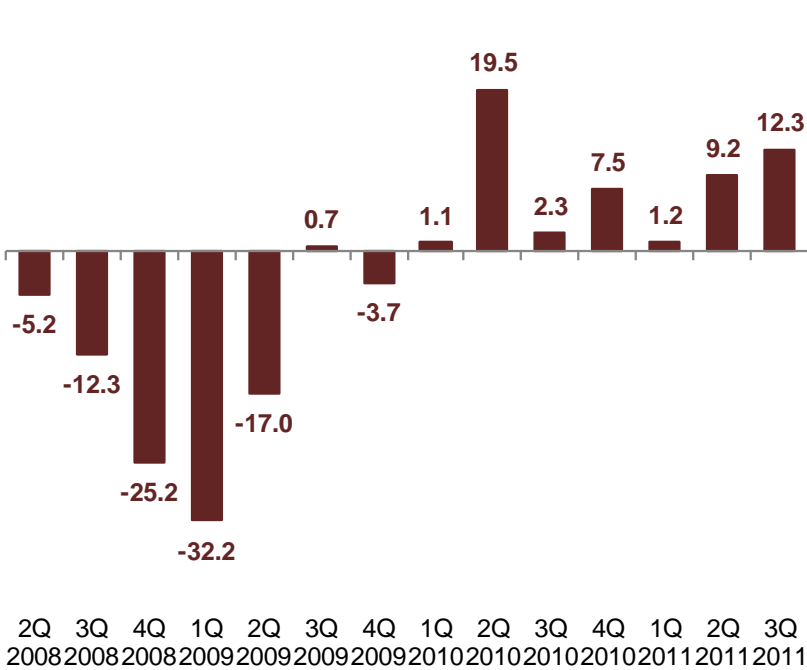
GDP: Household Consumption

% QoQ ann. Seasonally Adjusted. Source: BEA.



GDP: Fixed Investments

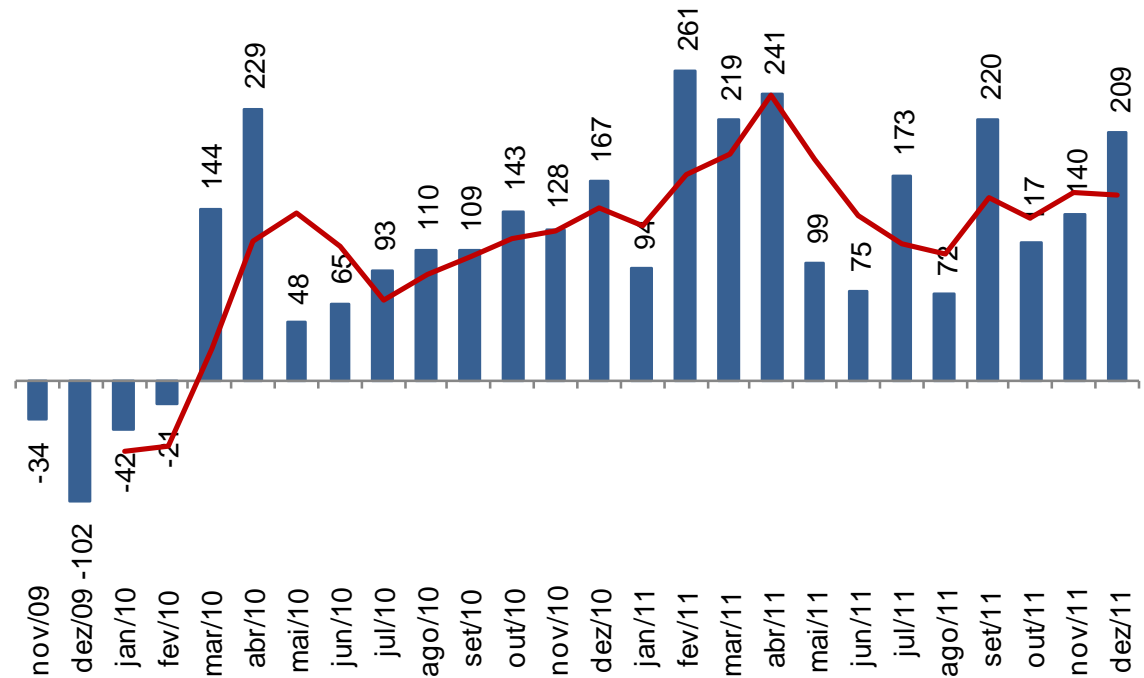
% QoQ ann. Seasonally Adjusted. Source: BEA.



Labor market finally displaying stronger than expected job creation.

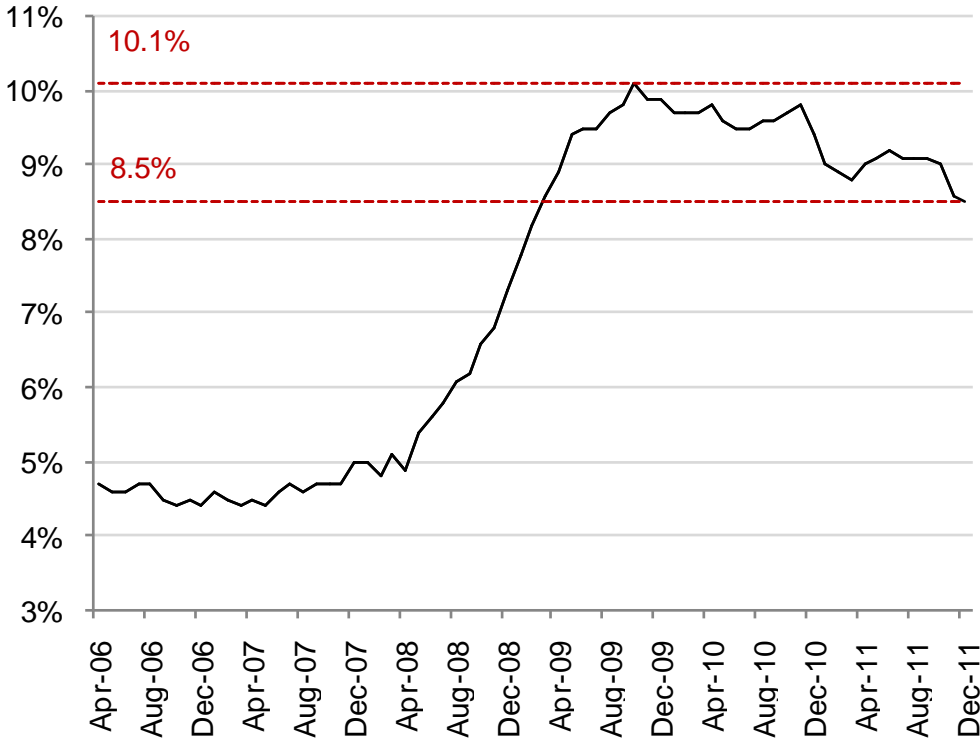


USA: Change in NonFarm Payroll
 Thousand workers (Private Sector). Source: BLS.



*Last data observed in December/11

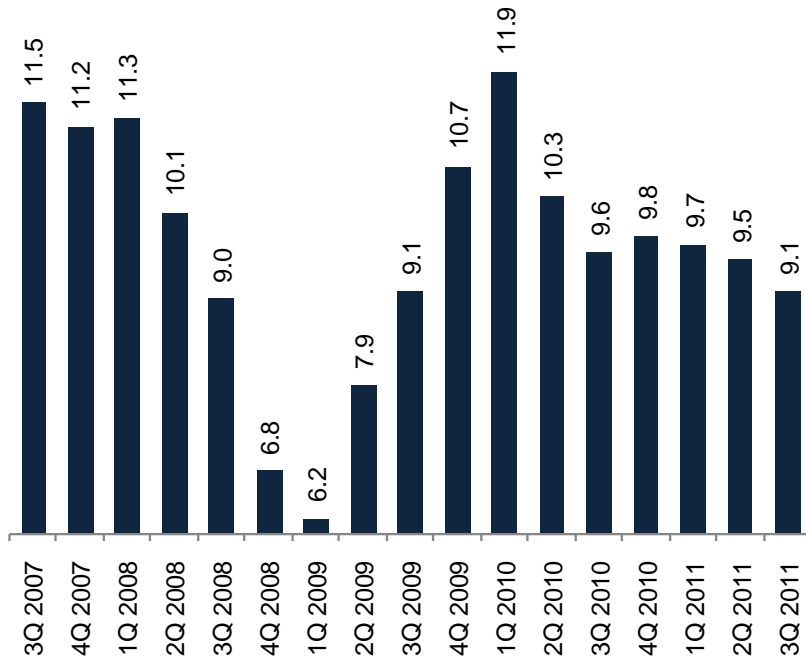
USA: Unemployment Rate
%. Seasonally Adjusted. Source: BLS.



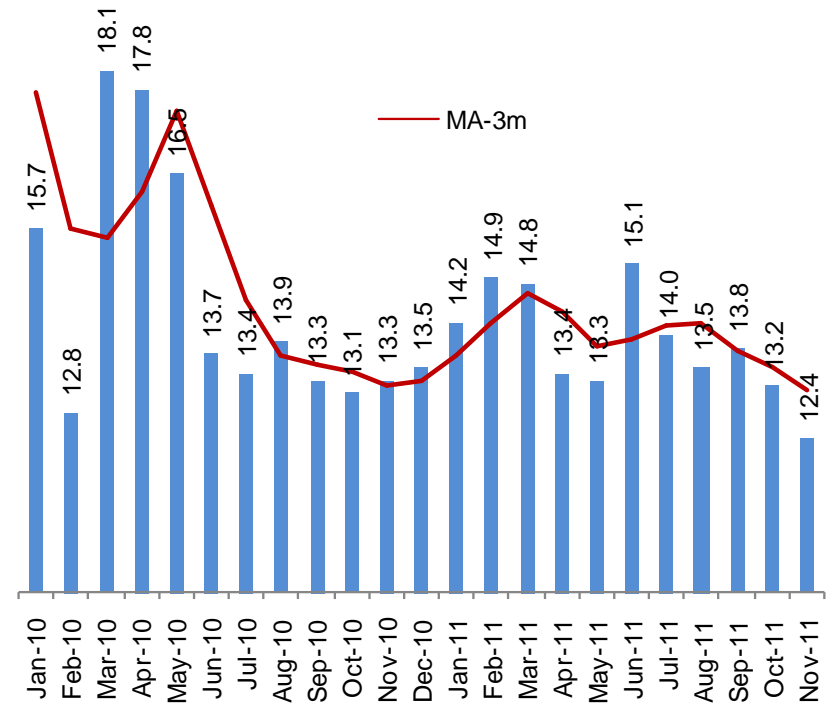
*Last data observed in December/11



China: Gross Domestic Product
% YoY. Source: NBSC.

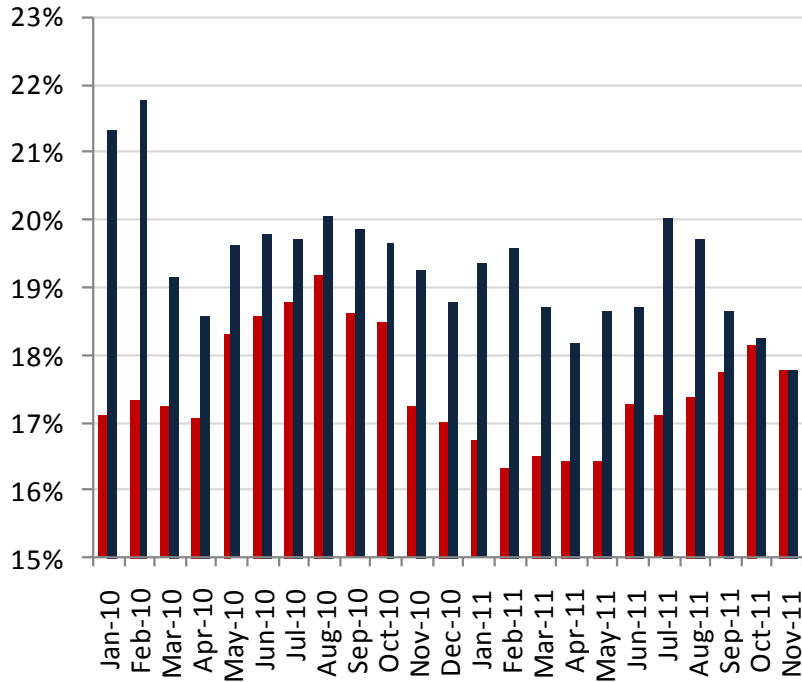


China: Industrial Production
% YoY. Source: NBSC

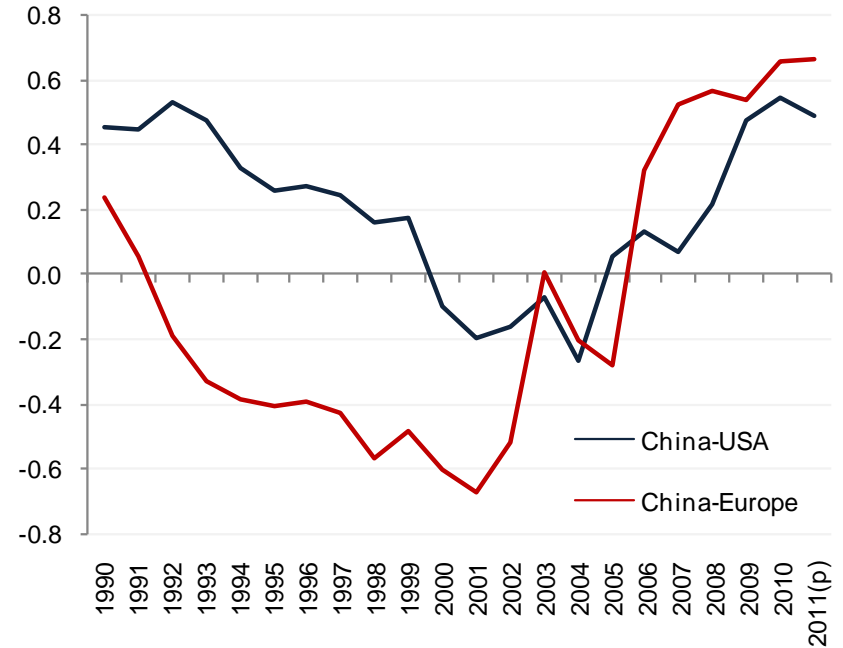


The Chinese economy has lost some steam, but it looks like a soft landing

Share of Exports from China
%. Source: Bloomberg. Chart: LCA.

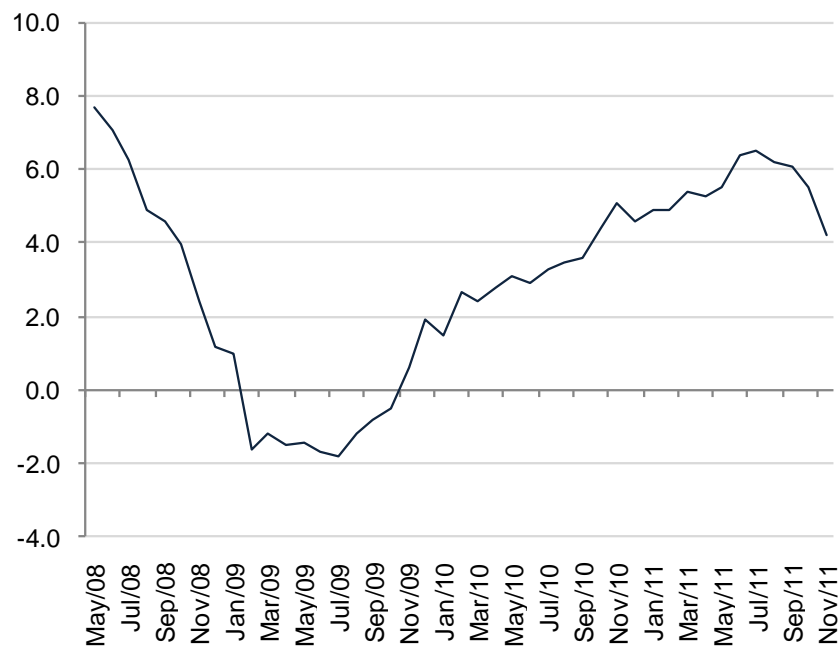


Correlation between GDP growth rates
Source: IMF. Chart: LCA.



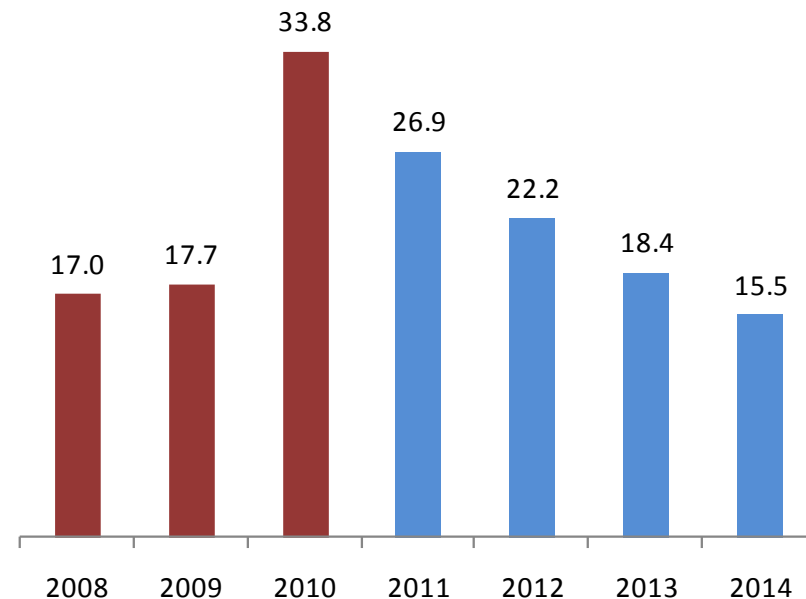
Point of concern: European markets account for a significant share of Chinese exports.

China: Consumer Price Index
% YoY. Source: NBSC



*Last data observed in November/11

China: General Government Gross Debt
% of GDP. Source: IMF.



(i) Deceleration in inflation rates and (ii) low public debt as percentage of GDP: there is scope for the government to stimulate economic activity.

- ▶ International Outlook
- ▶ **Brazilian Outlook**
- ▶ PE Market



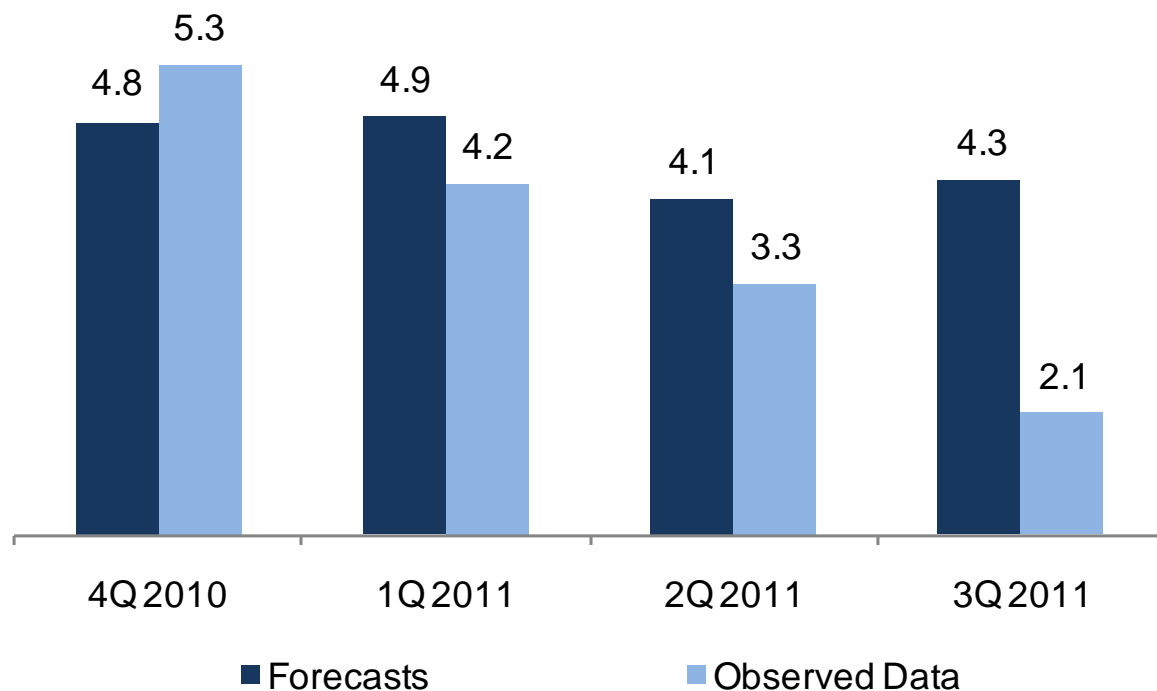
In the 2011 first semester, the economic policy focus was on inflation.

- Relevant storm at the end of 2010: commodities adverse shocks and excessive domestic demand growth: inflation rates spiked
- Fiscal and monetary and credit policy were tightened, economic activity decelerated in the second semester and in the final quarter inflation decelerated more markedly
- In the first semester of 2012 growth will be moderate, accelerating later in the year due to relaxation of monetary policy already in course and diminished international uncertainties
- Government is pledging toughness in fiscal policy in order to achieve lower interest rates without stoking inflation

Medium term prospects: there are hindrances, but we see reasons to be optimistic.

GDP: Market Forecasts* vs. Observed Data

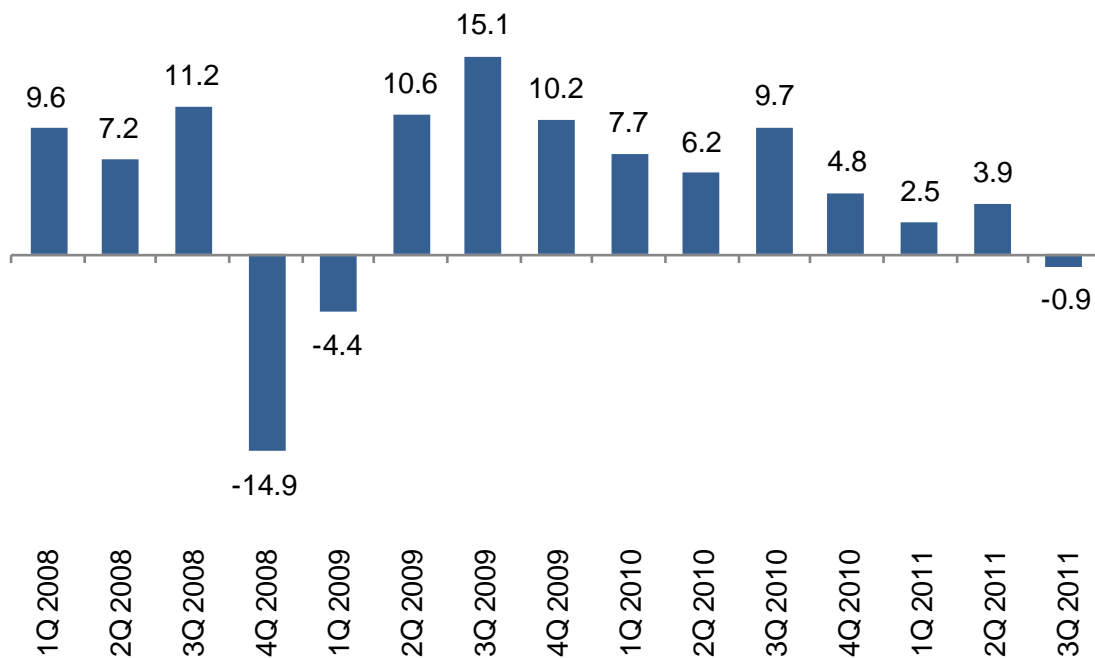
% YoY. Source: BCB & IBGE. Charts: LCA.



The slowdown of the Brazilian economy was stronger than expected: monetary and fiscal tightening in the first semester coupled with the worsening of the international outlook are the culprits.

*Market forecasts is represented by the median of market expectations collected by the Brazilian Central Bank with more than 90 banks and non-financial institutions six months before the data official release.

GDP: Quarterly Domestic Demand
(Household Consumption + Fixed Investments + Government Spending)
% QoQ annualized. Seasonally Adjusted. Source: IBGE. Chart: LCA.

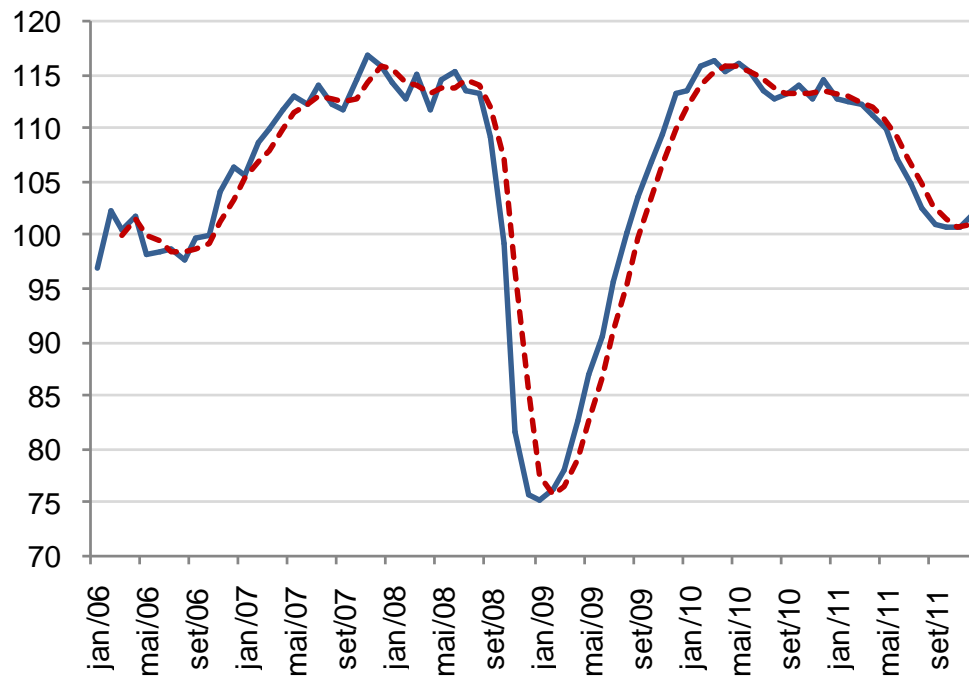


Monetary tightening and macroprudential measures contributed to moderate credit expansion. European crisis adversely affected expectations of consumers and businesses and also helped to slowdown the fixed investments.

Brazilian Outlook – GDP Lower than expected

Businesses Confidence (MA-3m)

Source: FGV. Chart: LCA.

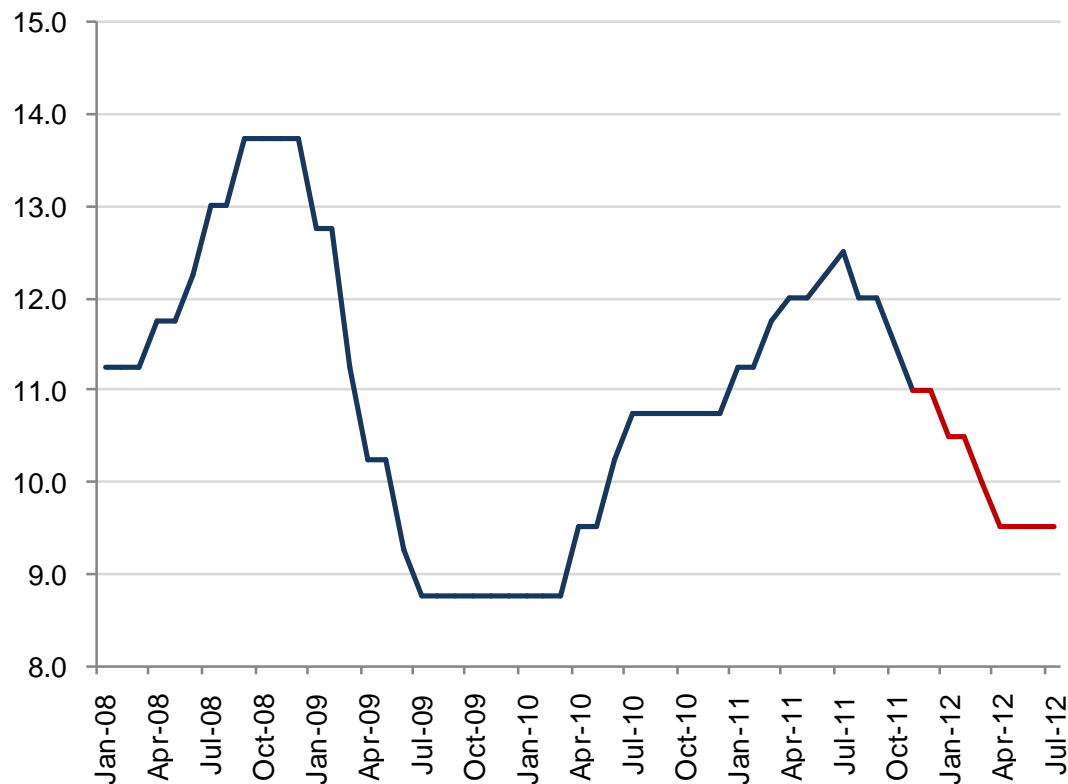


*Last data observed in December/11



BCB is likely to cut the Selic rate by 50 basis points per meeting (January, March and April) to reach 9,50%.

Selic target (% per year)
Source: BCB. Chart & Forecasts: LCA.

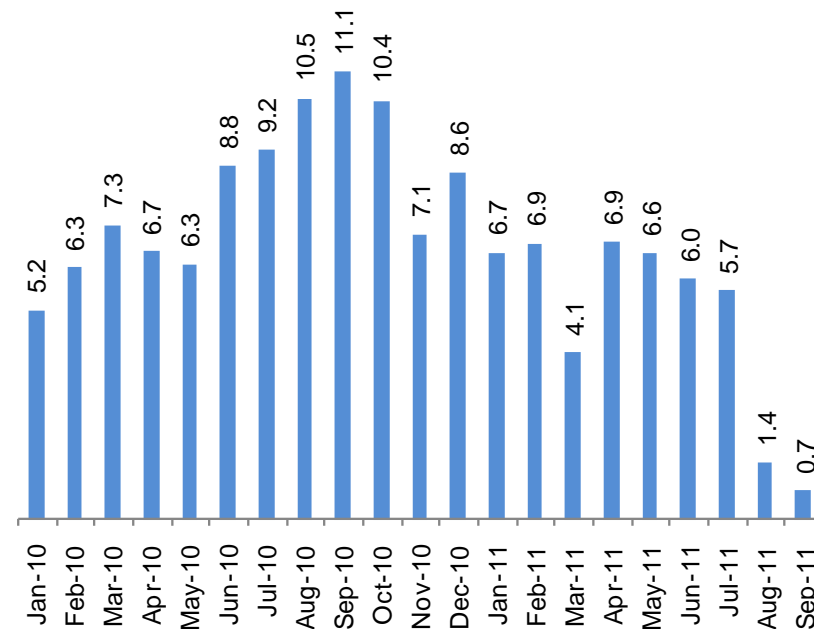


Unemployment Rate
 % Seasonally Adjusted. Source: IBGE.
 Forecasts: LCA



*Last data observed in November/11

Effective Real Income (all jobs)
 % YoY. Source: IBGE. Chart: LCA.

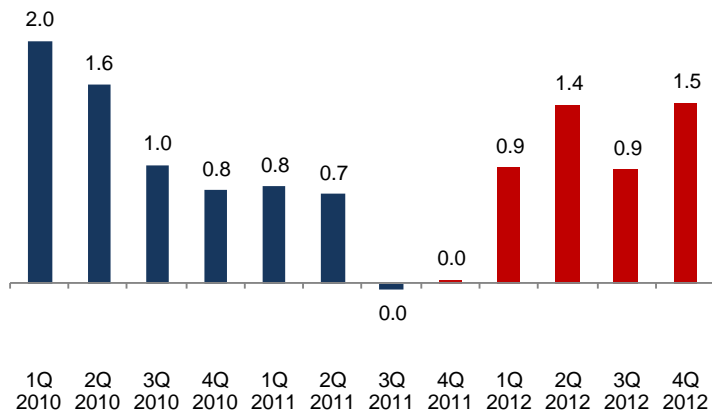


*Last data observed in November/11

Labor market: unemployment still very low, but real wages growth has declined sharply.

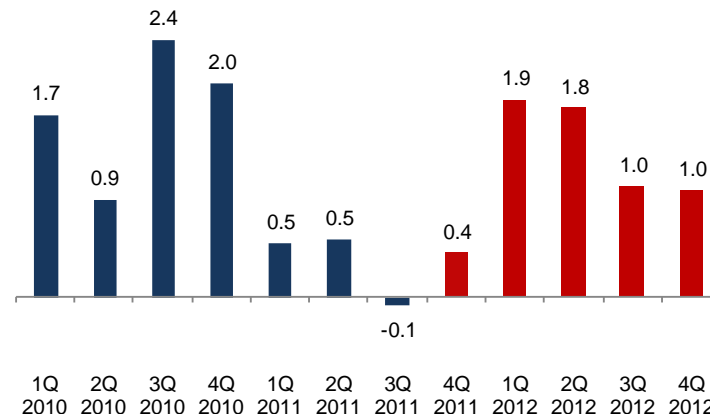
Forecast for 2012: 3,1%

Gross Domestic Product
% QoQ. Seasonally Adjusted.
Source: IBGE. Forecasts: LCA.



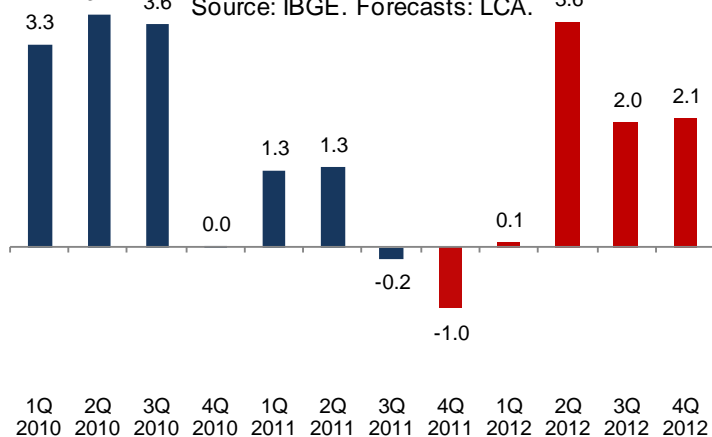
Forecast for 2012: 4,5%

GDP: Household Consumption
% QoQ. Seasonally Adjusted.
Source: IBGE. Forecasts: LCA.



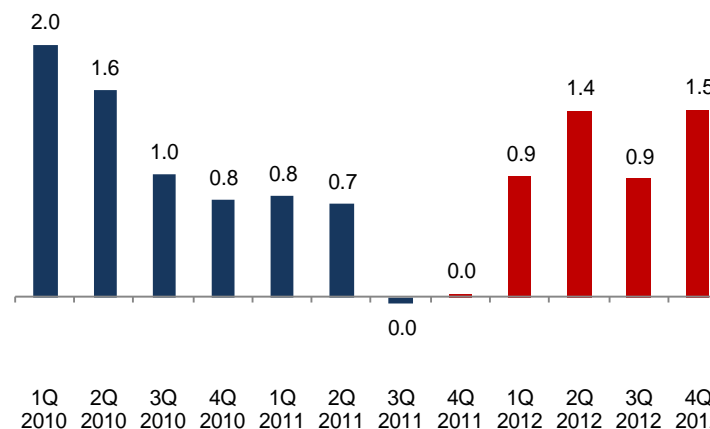
Forecast for 2012: 4,0%

GDP: Fixed Investments
% QoQ. Seasonally Adjusted.
Source: IBGE. Forecasts: LCA.



Forecast for 2012: 3,8%

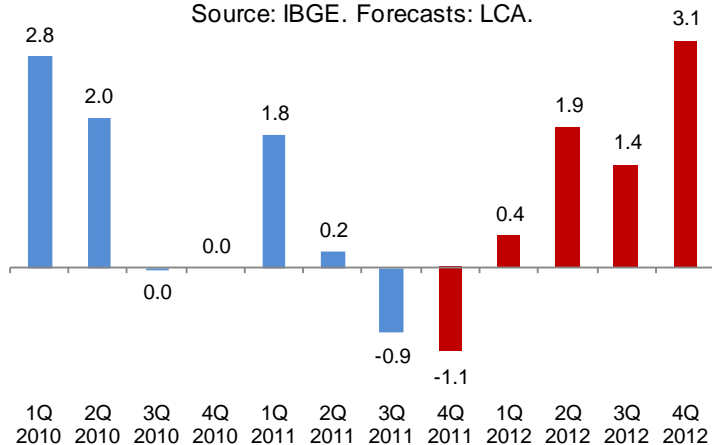
GDP: Government Spending
% QoQ. Seasonally Adjusted.
Source: IBGE. Forecasts: LCA.



Forecast for 2012: 2,2%

GDP: Industry

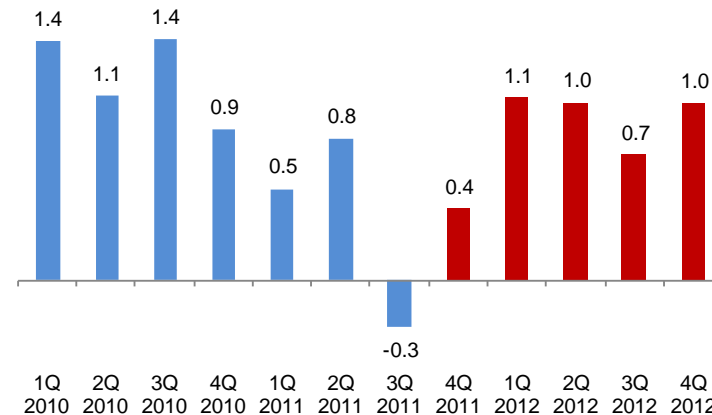
% QoQ. Seasonally Adjusted.
Source: IBGE. Forecasts: LCA.



Forecast for 2012: 2,9%

GDP: Services

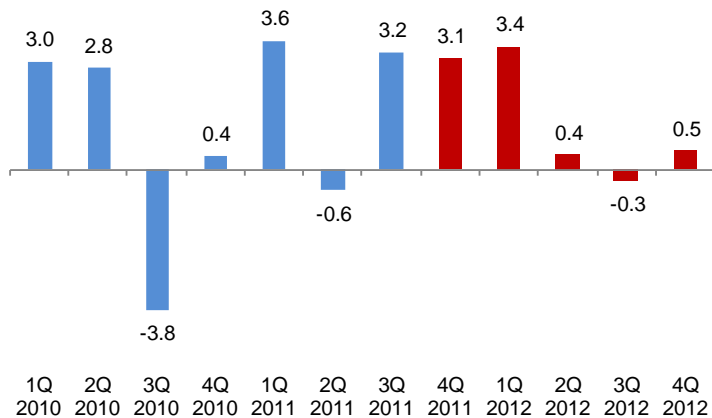
% QoQ. Seasonally Adjusted.
Source: IBGE. Forecasts: LCA.



Forecast for 2012: 8,0%

GDP: Agricultural

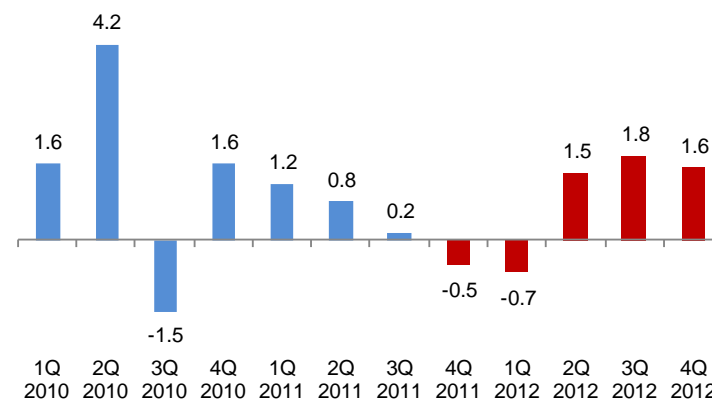
% QoQ. Seasonally Adjusted.
Source: IBGE. Forecasts: LCA.



Forecast for 2012: 1,5%

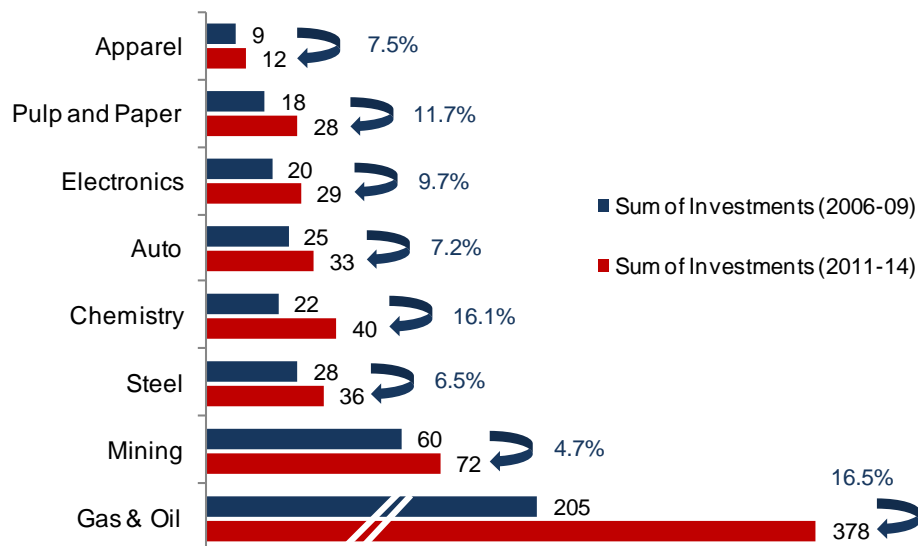
GDP: Construction

% QoQ. Seasonally Adjusted.
Source: IBGE. Forecasts: LCA.



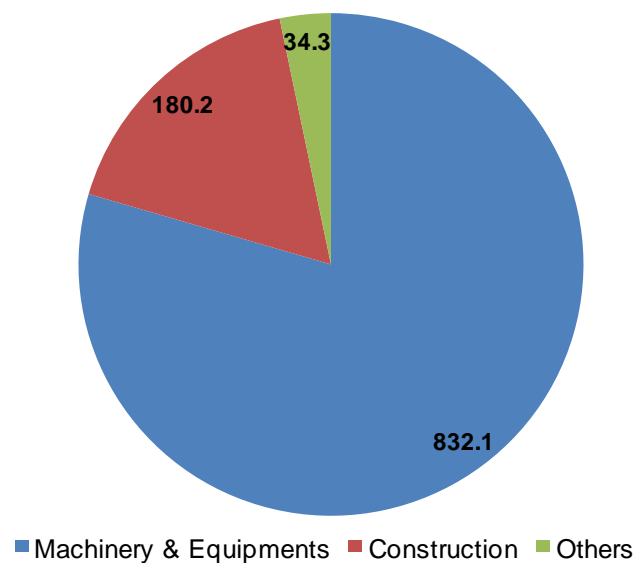
Perspectives of Investments: Industry

R\$ bi (constant). jun/11 Source: BNDES.



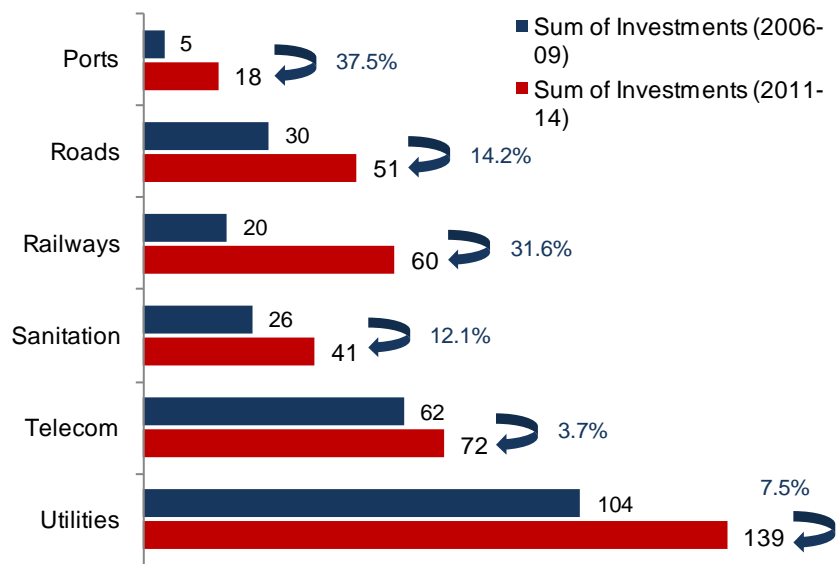
Composition of the Investments: Industry (2011 e 2014)

R\$ bi (constant). jun/11. : BNDES.



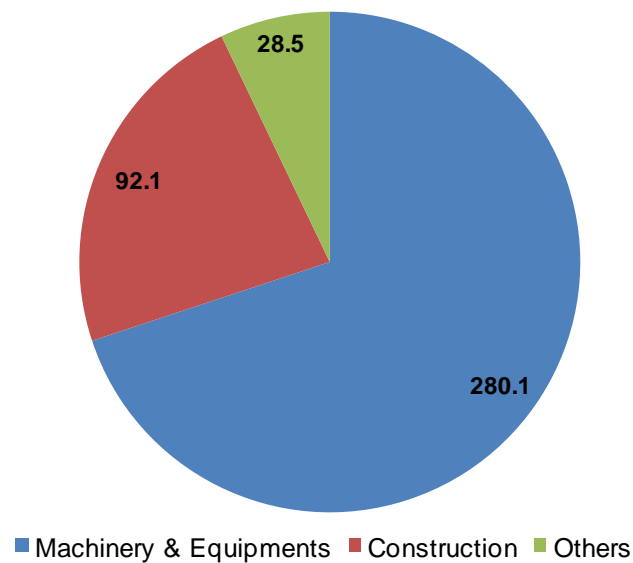
Perspectives of Investments: Infrastructure

R\$ bi (constant). jun/11. Source: BNDES.



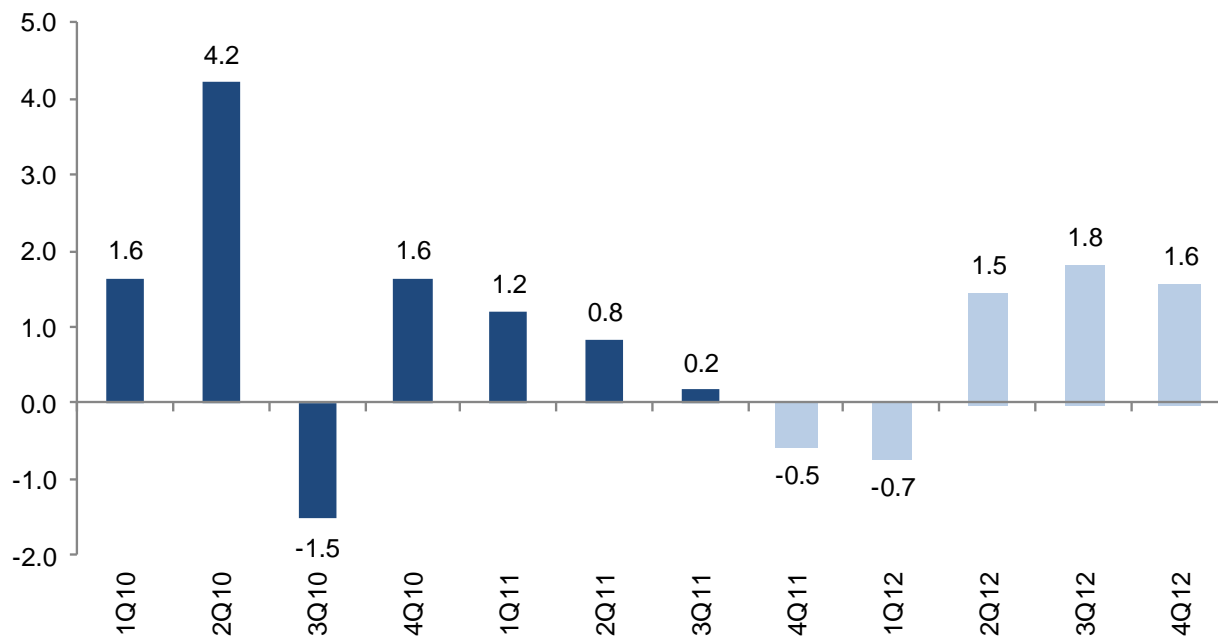
Composition of Investments: Infrastructure (2011 e 2014)

R\$ bi (constant). jun/11. Source: BNDES.



Construction GDP

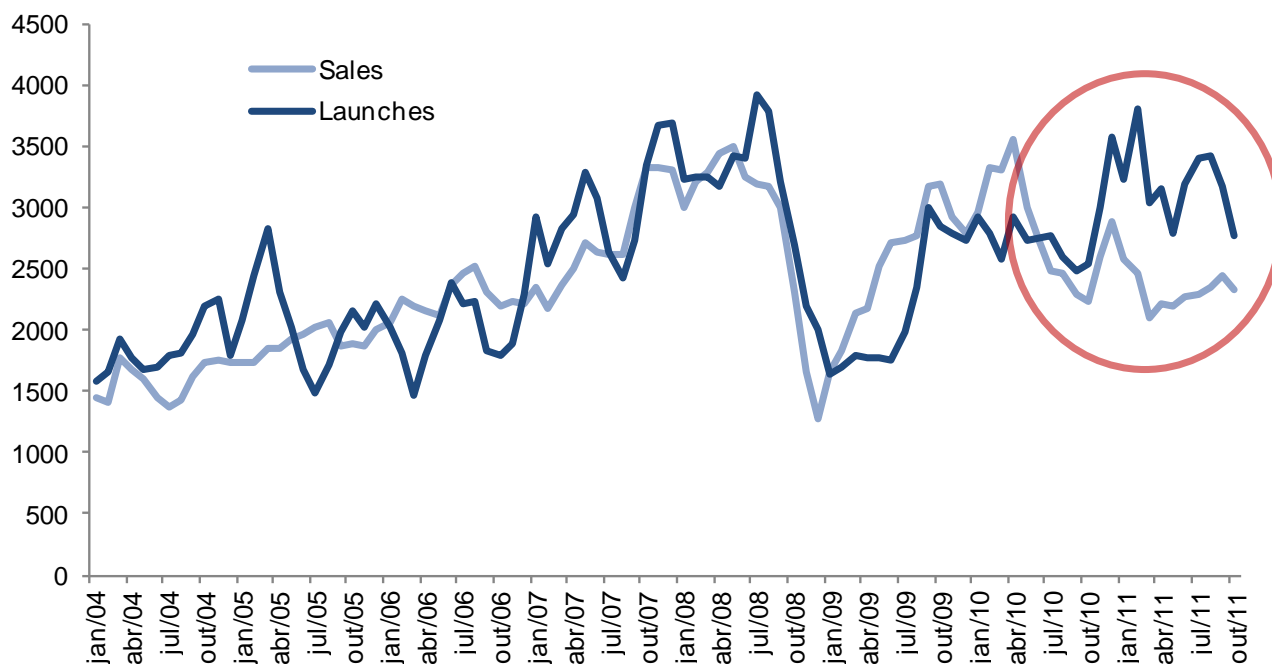
Var. % QoQ (s.a.). Source: IBGE and LCA Forecasts



Marked slowdown in the second semester of 2011.



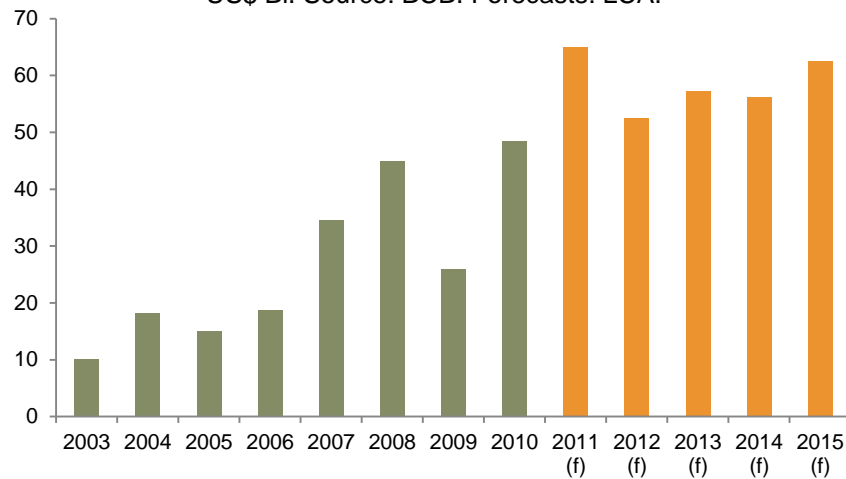
Housing Sales and launch (Sao Paulo) - 3MMA
In units. (s.a.) Source: Secovi-sp



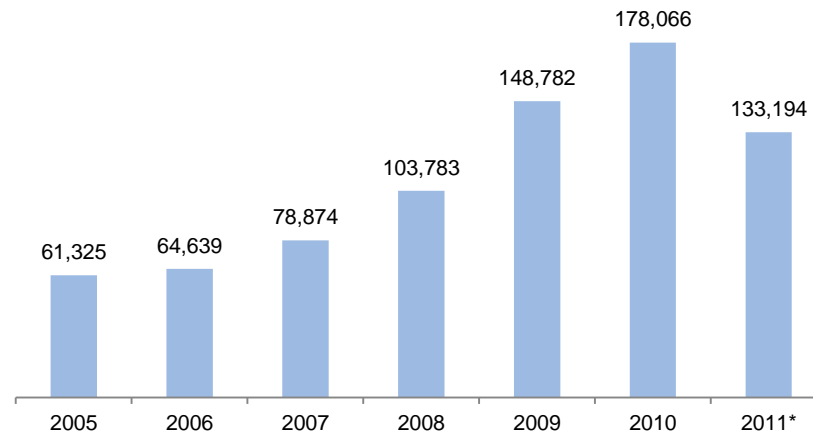
Real estate is experiencing a period of slowdown, after a prolonged period of strong expansion: since mid-2011 housing sales has grown at a weaker pace than launches.



BoP: Foreign Direct Investments
US\$ Bi. Source: BCB. Forecasts: LCA.



BNDES: Disbursements
R\$ Milhões constantes. Acum. em 12 Meses. Fonte: BNDES.



* Last data observed in October/11

Base Scenario (65%)

	Units	2008	2009	2010	2011	2012
GDP - World	(%)	3.0	-0.6	4.8	3.7	3.5
GDP - US	(%)	0.4	-2.6	3.0	1.7	2.0
GDP - Europe	(%)	0.3	-4.0	1.8	1.6	-0.6
GDP - Japan	(%)	-1.1	-5.5	4.5	-0.8	1.4
GDP - China	(%)	12.1	9.1	8.6	9.2	8.5
CPI - %YoY	(%)	0.1	2.7	1.5	3.1	2.4
FED Funds Rate: End of Period	(%)	0.25	0.25	0.25	0.25	0.25
Exchange Rate: End of Period	USD/EUR	1.41	1.43	1.34	1.30	1.30
Oil WTI: Annual Average	USD/Barrel	99.7	61.8	79.5	95.1	98.5

Adverse Scenario (35%)

	Units	2008	2009	2010	2011	2012
GDP - World	(%)	3.0	-0.6	4.8	3.7	1.6
GDP - US	(%)	0.4	-2.6	3.0	1.7	-0.6
GDP - Europe	(%)	0.3	-4.0	1.8	1.5	-3.0
GDP - Japan	(%)	-1.1	-5.5	4.5	-0.8	-0.1
GDP - China	(%)	12.1	9.1	8.6	8.9	7.0
CPI - %YoY	(%)	0.1	2.7	1.5	2.6	2.4
FED Funds Rate: End of Period	(%)	0.25	0.25	0.25	0.25	0.25
Exchange Rate: End of Period	USD/EUR	1.41	1.43	1.34	1.33	1.35
Oil WTI: Annual Average	USD/Barrel	99.7	61.8	79.5	95.1	85.3

Base Scenario (65%)

	Units	2008	2009	2010	2011	2012
EMBI Plus: Annual Average	Points	301	307	203.5	194.4	198.3
Exchange Rate: End of Period	R\$/USD	2.34	1.74	1.7	1.84	1.65
Exchange Rate: Annual Average	R\$/USD	1.83	2.00	1.8	1.67	1.68
Selic: Annual Average	% p.a.	12.54	9.92	10.0	11.71	9.71
Selic: End of Period	% p.a.	13.75	8.75	10.8	11.00	9.50
IPCA	% p.a.	5.9	4.3	5.9	6.5	4.9
IGP-M	% p.a.	9.8	-1.7	11.32	5.1	4.4

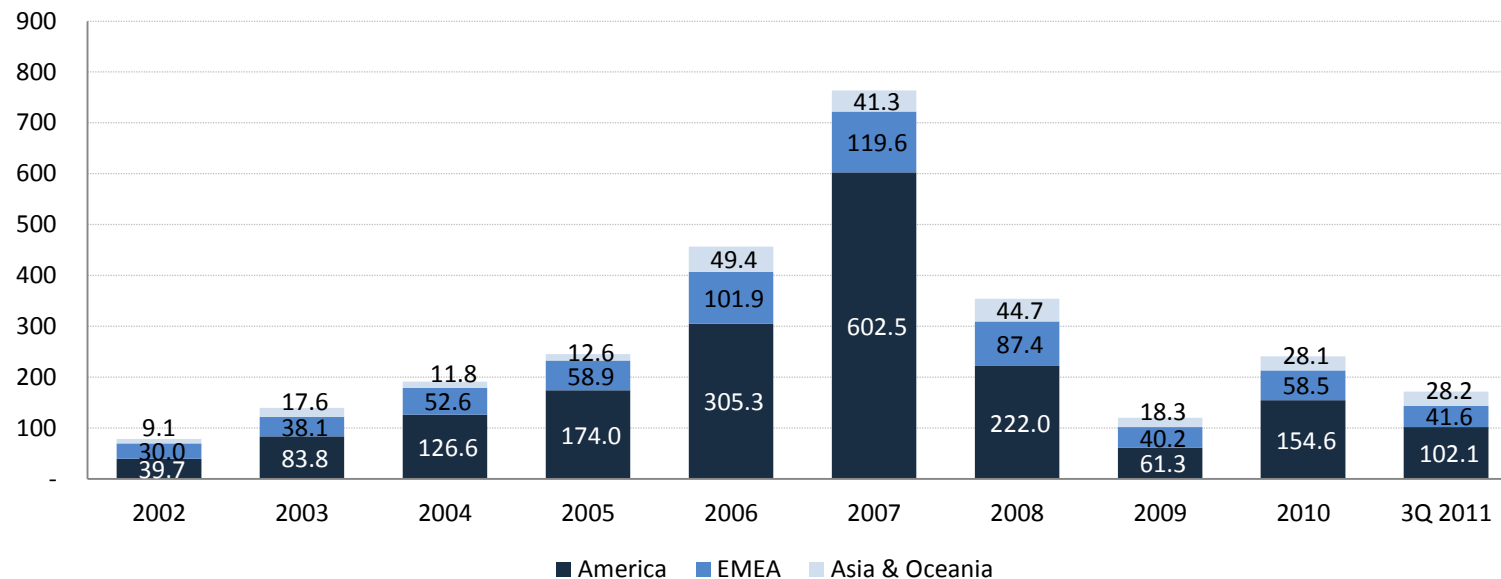
Adverse Scenario (35%)

	Units	2008	2009	2010	2011	2012
GDP	% p.a.	5.2	-0.3	7.5	2.7	0.9
Household consumption	% p.a.	5.7	4.4	6.9	3.8	3.2
Investment (GFCF)	% p.a.	13.6	-6.7	21.3	4.5	-1.1
Exchange rate (end of period)	R\$/US\$	2.34	1.74	1.67	1.88	1.78
Exchange rate (annual average)	R\$/US\$	1.83	2.00	1.76	1.67	1.89
Selic (annual average)	% p.a.	12.5	9.9	10.0	11.7	8.3
Real interest rates (IPCA)	% p.a.	6.3	5.4	3.9	4.9	4.0
Selic (end of period)	% p.a.	13.75	8.75	10.75	11.00	7.50
IPCA	% p.a.	5.9	4.3	5.9	6.5	4.1
IGP-M	% p.a.	9.8	-1.7	11.3	5.1	3.8

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PE investment by region: 2008-2010 (US\$ billion)



*EMEA (Europe/Middle East/Africa)

The global PE market resumed growth in 2010 after two years of stagnation.

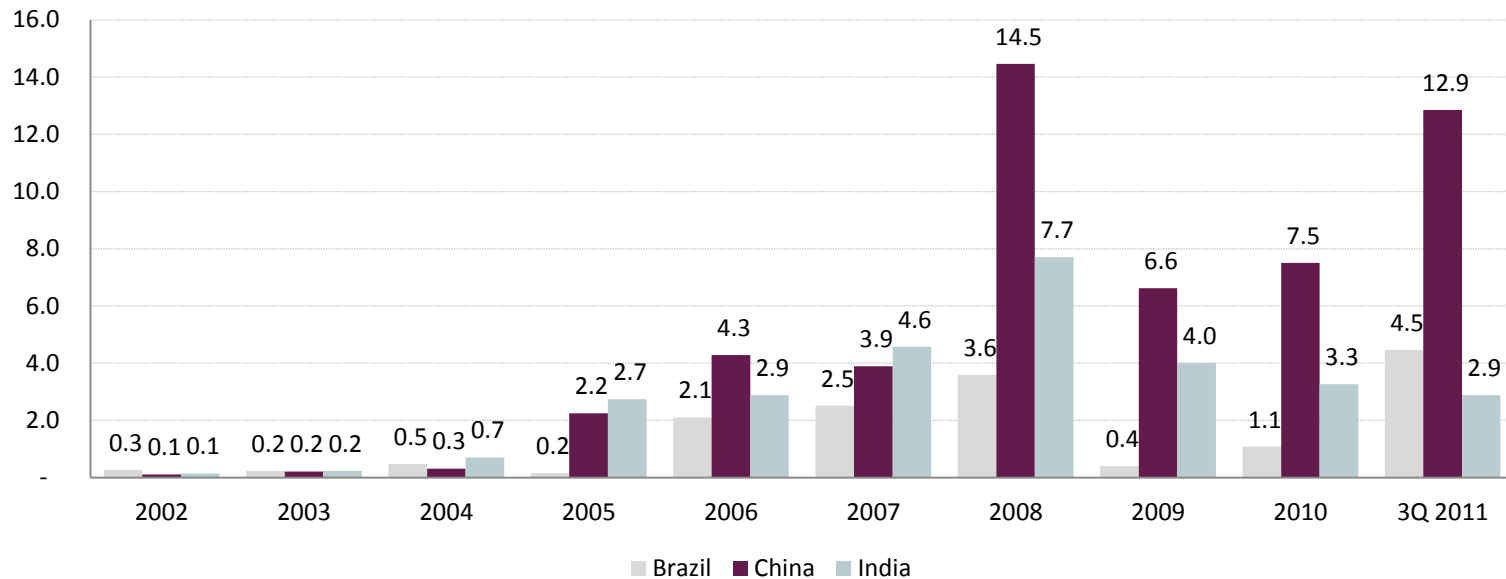
Transactions amounted to some US\$236 billion in 2010, for 74% growth in the year.

Investors began eyeing emerging markets after 2008 crisis broke out.

Key drivers:
possibility of sustainable and lasting growth based on **domestic consumption**

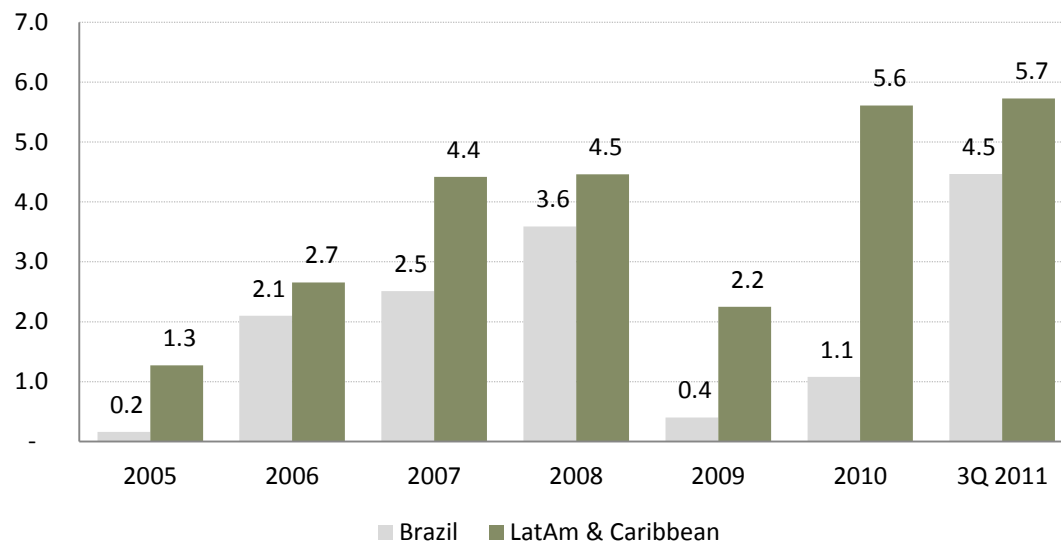


Capital dedicated to PE in emerging markets (US\$ billion)



Focus: established companies that increase operating margins and consolidate position as market leaders via management shock or access to new sources of capital.

PE investment funding in Brazil (US\$ billion)



Source: EMPEA, Published 15 November 2011

In 2011 Brazil took the lead in Latin America, receiving more PE investment than Mexico and Argentina combined.

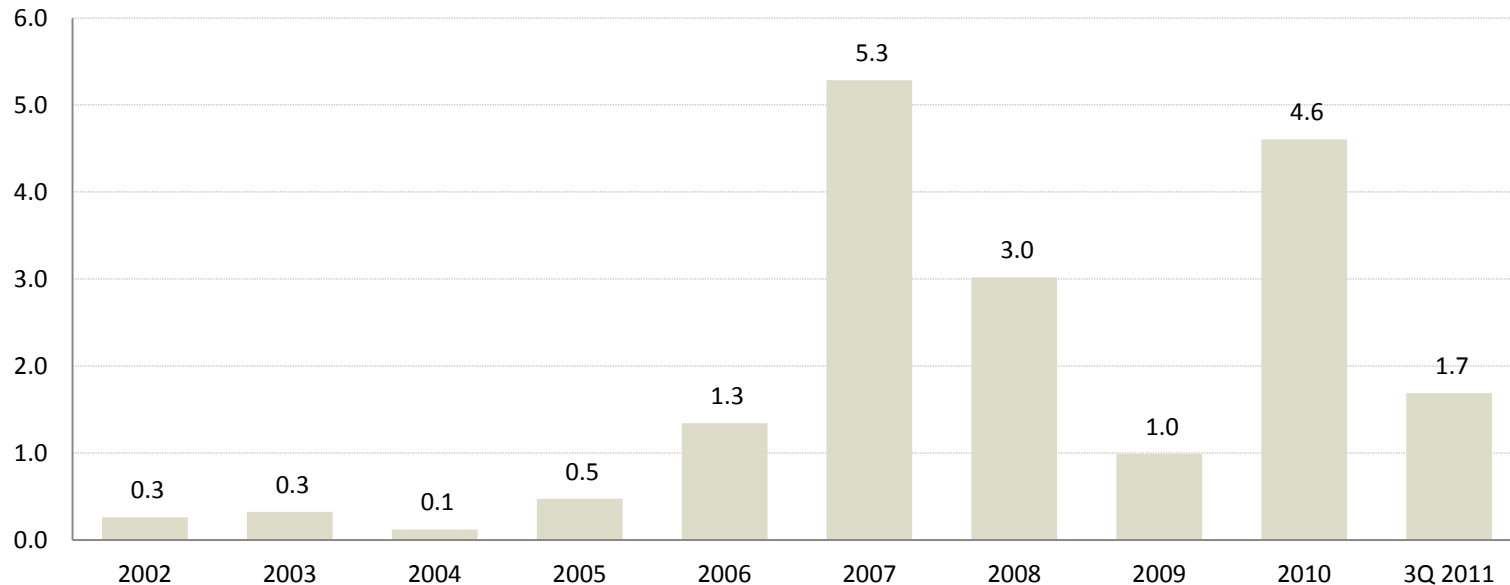
According to the Emerging Markets Private Equity Association (EMPEA), Brazil received US\$4.6 billion in 2011, accounting for 59% of total PE investment in Latin America.

According to a global survey conducted in April 2011 by EMPEA and Collier Capital, Brazil is the most attractive market for PE investment in the years ahead, followed by China.

International funds such as Blackstone, Actis, Carlyle, KKR, Apax Partners, PIMCO and Apollo have recently come to Brazil (Advent International is the main exception), especially after 2008, opening small local offices or acquiring interests in local funds.



PE investment in Brazil (in US\$ billion)

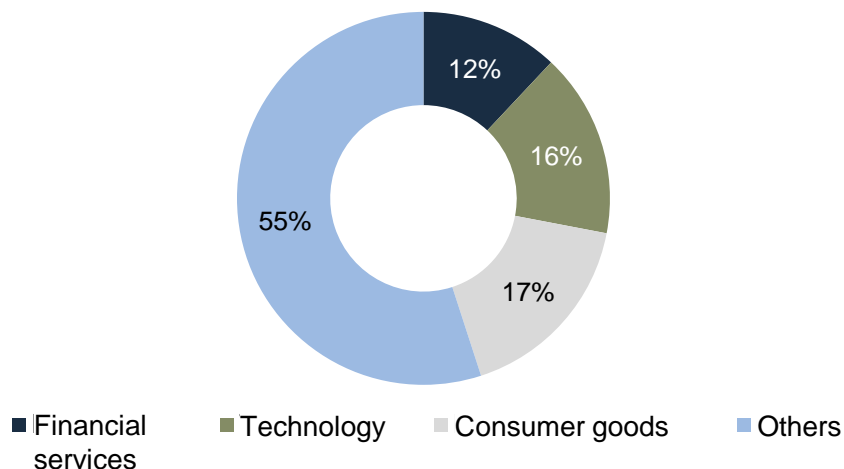


Source: EMPEA, Published 15 November 2011
 1 Fundação Getúlio Vargas/ GVcepe. Institutions may manage more than one fund.

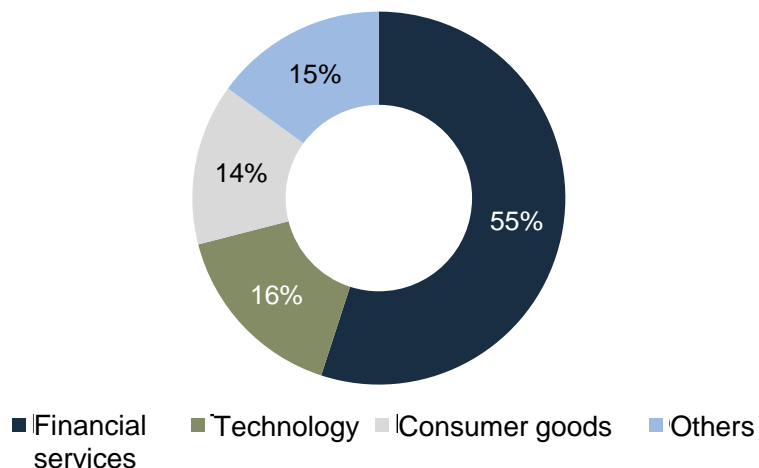
PE transactions have grown significantly in only four years, from about 11% of M&A in Brazil in 2006 to 42% in 2010¹

Source: Dealogic. Breakdown by value of investment. Sectors adjusted using Dow Jones/FTSE

World PE investment in 2010 by sector



Brazil PE investment in 2010 by sector



PE players in Brazil vary by average size of investment and type of ownership:

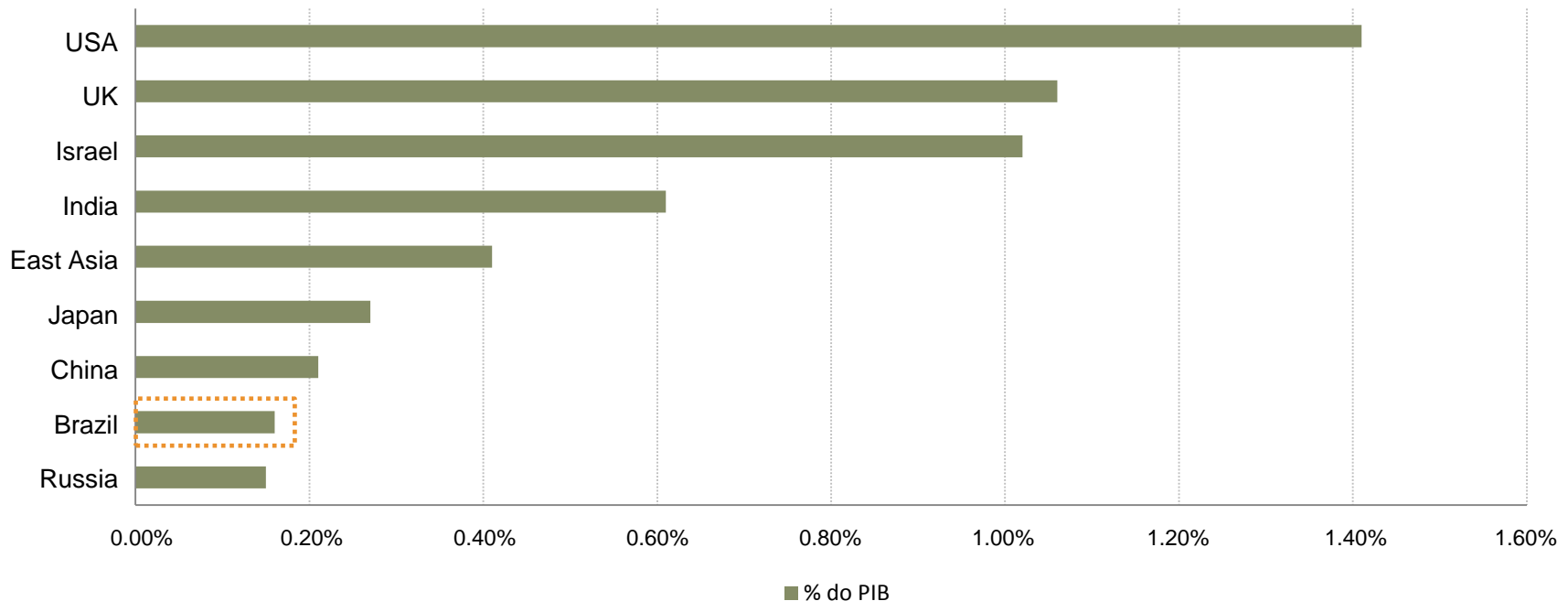
- (i) large transactions, including leveraged buyouts, with an average ticket in excess of US\$200 million;
- (ii) medium, with investments ranging from US\$200 mm to US\$50 mm (capital injection and/or 100% takeover);
- (iii) small, involving less than US\$50 mm (capital injection or acquisition of equity interest)

Growth in the Brazilian PE market can be explained mainly by a number of attractiveness drivers, such as:

(I) The size of the economy

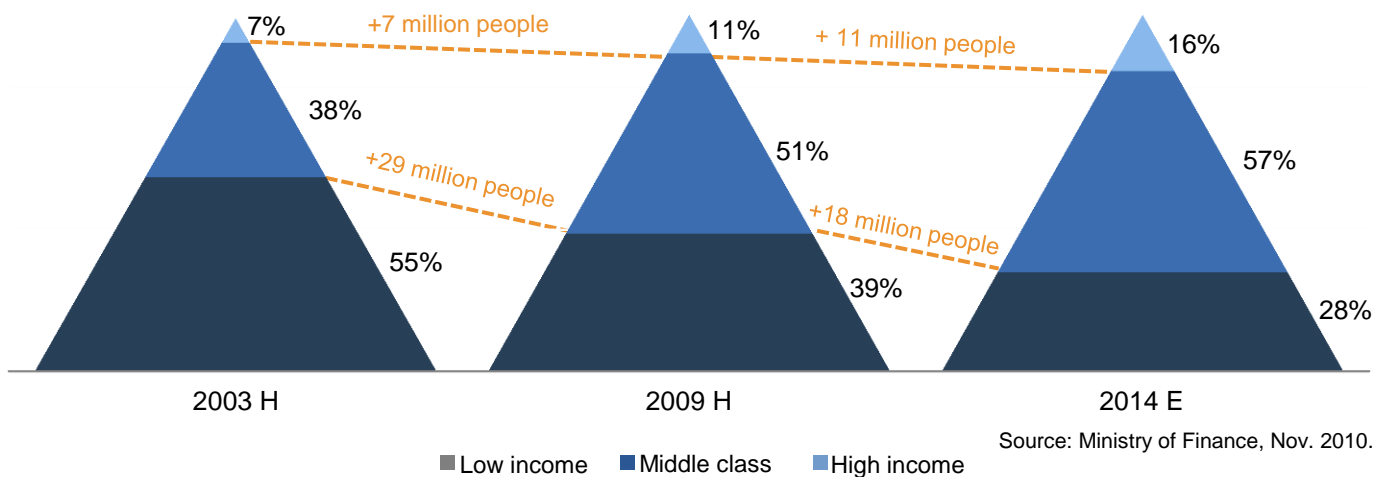
(II) Tax incentives

PE investment in proportion to GDP (%)



¹ Source: IBGE, 2011
Source: Emerging Markets Private Equity Association, 2010

(III) Growth of Brazilian middle class



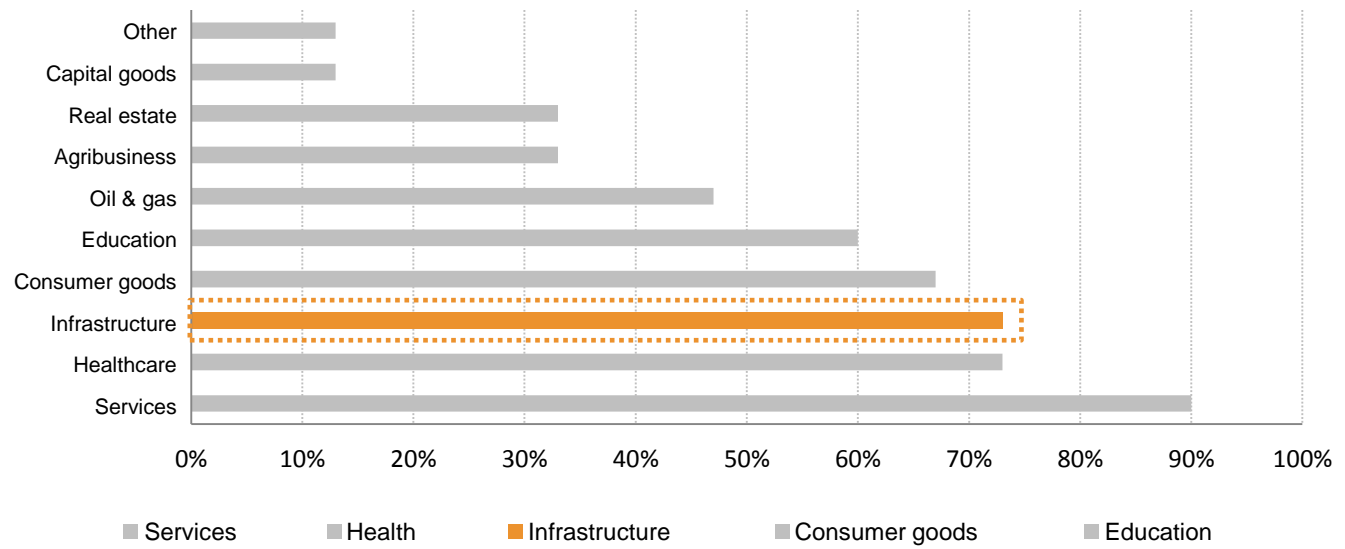
(IV) Fragmentation of Brazilian industry

(V) Need for significant investment in infrastructure

(VI) Development of capital markets

Survey by
BM&FBOVESPA
shows
services,
healthcare and
infrastructure
to be the most
attractive sectors
for investment in
Brazil.

Most attractive sectors for PE investment in Brazil



Source: BM&F, Apr. 2011

Specifically in infrastructure, specialists point to change of government strategy, basically due to improvements in fiscal arena.

Market is betting on investment via PPPs, new concessions and/or privatization. Projects for World Cup and Olympics will contribute to growth in spending on infrastructure, reaching US\$906.6 billion by 2018.



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