

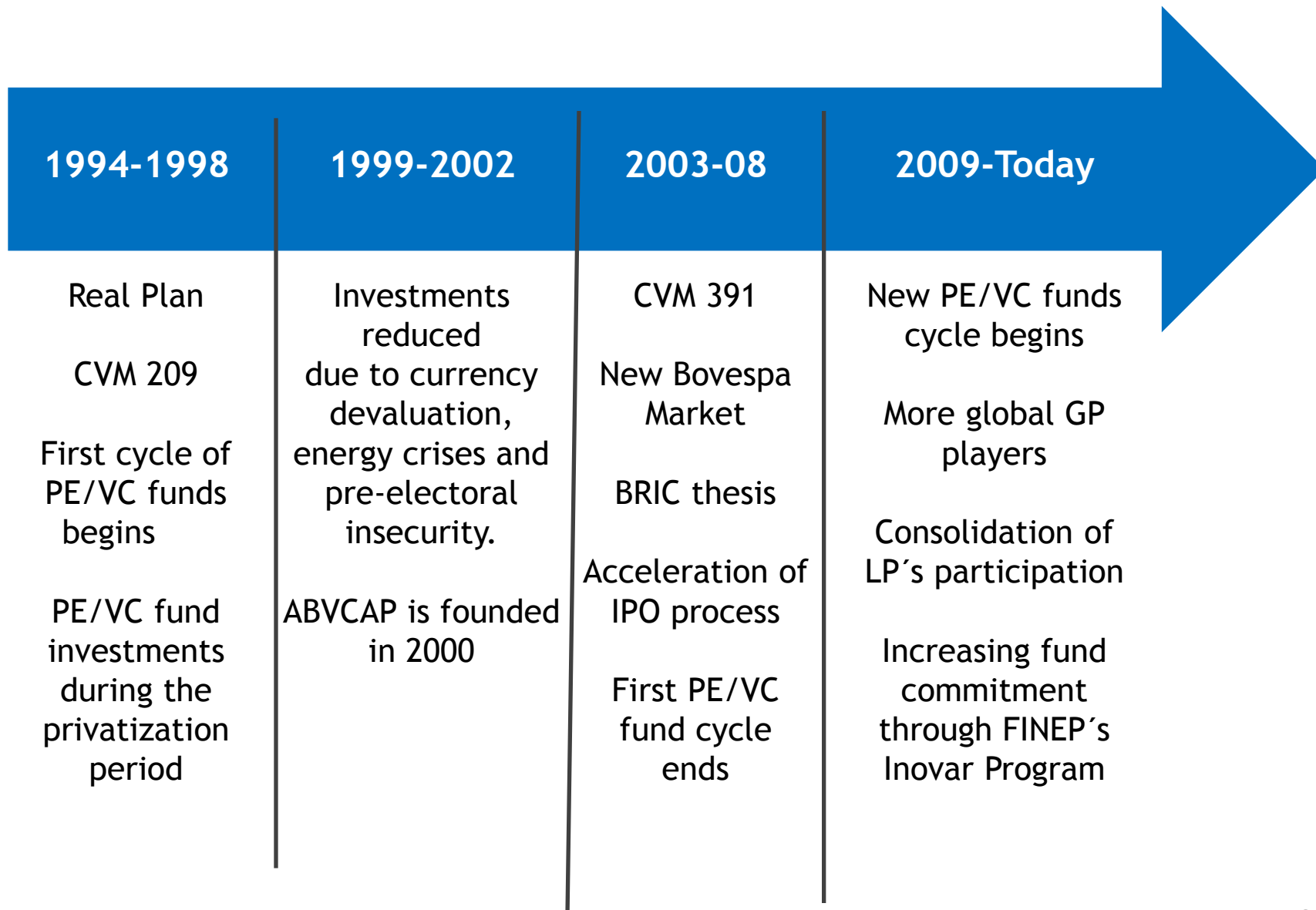
# Private Equity & Venture Capital inBrazil

## ILPA-CIMARRON INSTITUTIONAL INVESTOR DELEGATION TO LATIN AMERICA

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- **History and Evolution**
- The Association
- The Interest for Brazilian PE: Supply and Demand
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**100+** Private Equity / Venture Capital firms

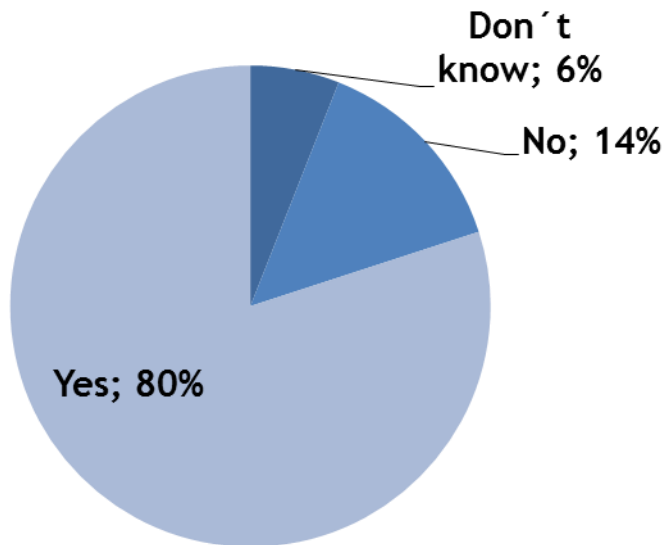
Diversified base of investors with **top 20 pension funds**, Brazilian Development Bank, Innovation agency, HNW Investors

**500+ portfolio companies** currently managed and from 2005 to 2009: 490 new / follow-on investments

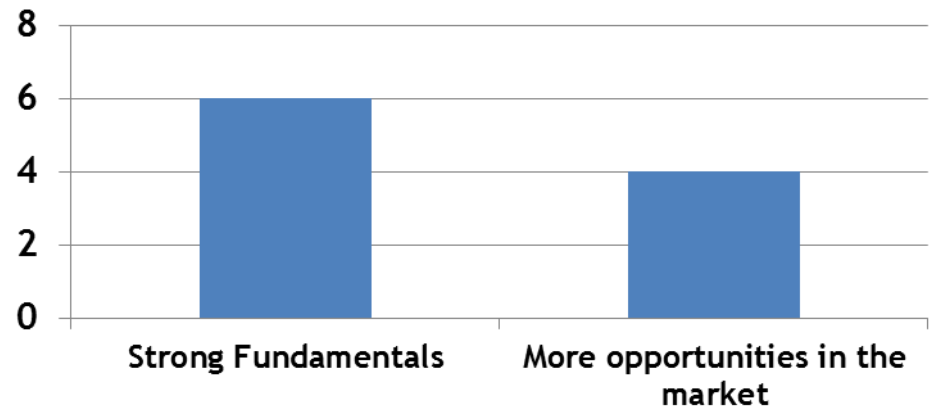
**41 backed IPO's** (approx R\$25.5B) from 2004-2010

## Poll conducted by FT's Brazil Confidential and ABVCAP with Local Players

Are you more optimistic about investment opportunities in Brazil than a year ago?



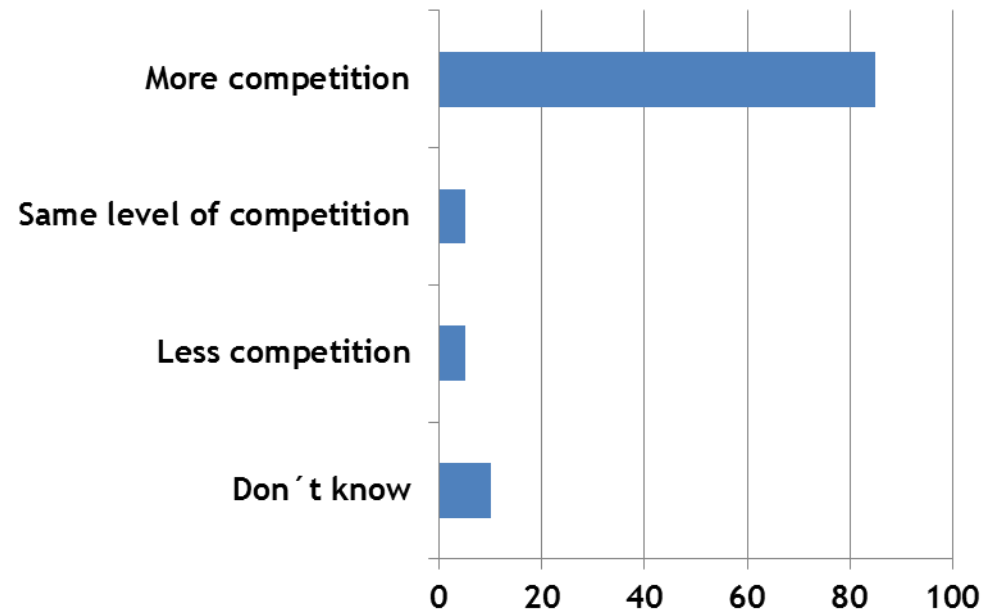
If yes, why?



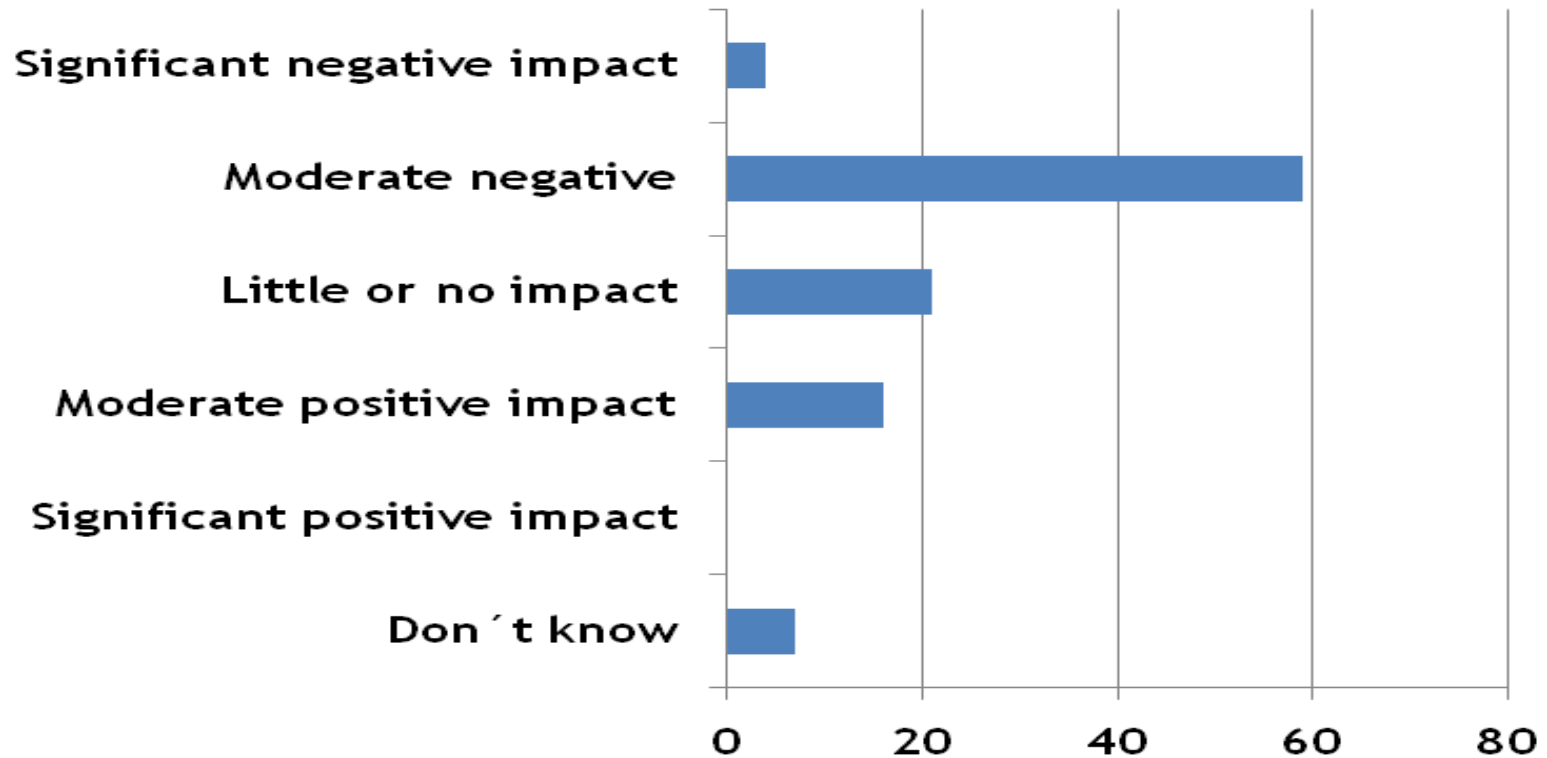
What do you see as the most challenging activities for 2012?



Do you expect more or less competition for investments in 2012 compared to 2011?



How will your activities in Brazil be affected by global economic uncertainty?



# Strengths and Challenges

| Strengths  | Challenges   |
|--|--|
| 5th economy of the world by GDP  | Large disparity of distribution                                      |
| Consistent growth  | Weaker international scenario  |
| 40 million new middle class added to the consumption group             | Not well educated  |
| Well-developed agricultural, mining, manufacturing and service sectors | Some sectors are highly guarded with protectionist taxes             |
| Demographic bonus - 70% of the population within labor age             | Productivity is sluggish   |
| Brazil's Government bond is now investment grade                       | Central Bank's prime rate is still one of the highest rates anywhere |
| Self-sufficient in terms of oil  | Strong currency challenging exports                                  |
| Consolidated democracy and solid financial discipline                  | Transparency is sometimes lacking and corruption more apparent       |
| More business friendly than other emerging markets                     | Complex tax and labor regulatory environment                         |
| Upcoming major sports events   | Infrastructure investment still lacking                              |



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- ▶ Founded in 2000 to promote and develop long-term investments in Brazil.
- ▶ More than 170 members, (90 Private Equity / Venture Capital firms including local and international managers), major institutional LP and service providers.
- ▶ Global Presence: ABVCAP has strong partnerships with sister-associations, such as BVCA, CVCA, NVCA, EVCA, EMPEA, LAVCA and others.
- ▶ Diversified base of investors with top 20 pension funds, Brazilian Development Bank, Innovation agency, HNW
- ▶ Advocacy: ABVCAP works closely with important global, regional and local entities to promote long-term investments in the Brazil. These include:
  - ApexBrasil, IDB (MIF), ABDI, MDIC, Finep and BMF&Bovespa.

## Pillars for Development

Advocacy &  
Institutional  
Positioning

Regulation &  
Development

Data Base &  
Knowledge

Compliance  
and Best  
Practices

Integration  
and  
Sustainability

Resources

Coordination



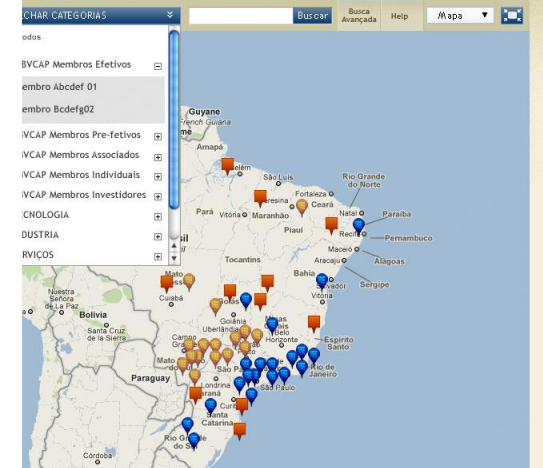
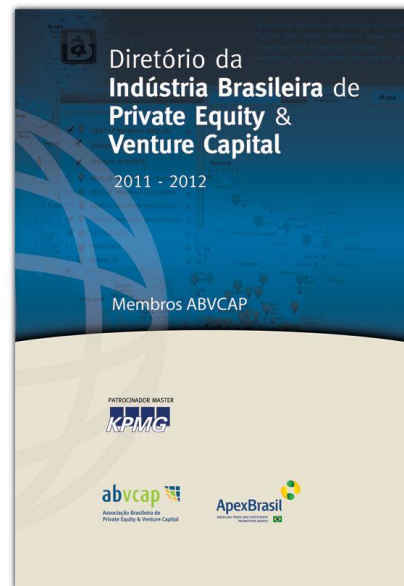
Brazilian PE industry strengthening

The ABVCAP Data is a new research platform that will provide data accuracy, transparency, enable quantification and monitoring within the industry, measure activity and performance and better “sell” the industry in terms of job creation, taxes and wealth.

As of January 2012, there are a total of 104 participating institutions and 259 funds registered.

## Directory

The directory is an easy way to get more information on Brazil’s PE/VC players. New this year, we are launching an interactive, online platform that provide users with in-depth details about the industry in real-time.



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International  
Fundraising  
Increasing...

2003 - 2009 (USD 5 B)

ADVENT, SOUTHERN CROSS, PATRIA, GP

2010 - 2011 (USD 5 B)

GAVEA - BTG PACTUAL - VINCI - AXXON - DLJ

Today -2012

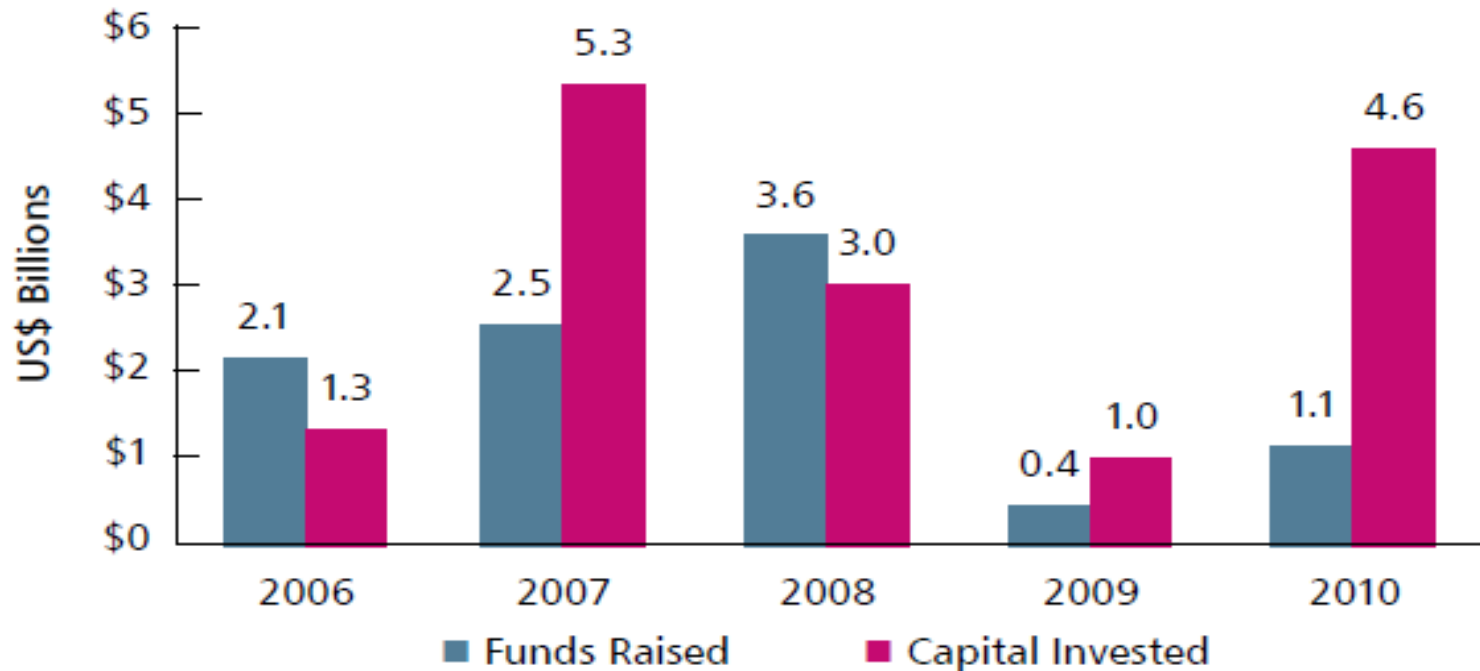
CURRENTLY MORE THAN 15 ESTABLISHED MANAGERS  
WITH ACTIVE INTEREST TO RAISE INTERNATIONAL  
INVESTOR CAPITAL

=> USD 10 - 15 B  
(estimated)

*“The average time for international fundraising has been seen at  
between 18-24 months, even for funds with previous returns”,  
Coller Capital Survey 2011*

## The “Underhang” Effect

### Brazil Fundraising & Investment, 2006-2010 (US\$B)



Note: Country-specific fundraising totals only capture single-country funds, not country allocations or targets from regional or global funds.

## LP Feedback on PE in Brazil today - Strengths

- **Productivity gap** as an opportunity for PE to address with increasing space for new logistic and infrastructure investments
- The “new” model for Global PE with **low leverage** and debt levels has always been part of the Brazilian investment DNA
- **Natural diversification** from over allocated and underperforming developed markets such as U.S/Europe - 90% > 50% allocation by GDP?
- More “**western**” in its business mannerisms than India or China and easier to understand. Solid local accounting and regulatory rules.
- **Low asset prices** in strategic industrial and agribusiness base providing opportunities for purchasing cheaper strategic assets vs. global levels



## LP Feedback on PE in Brazil today - Reality check

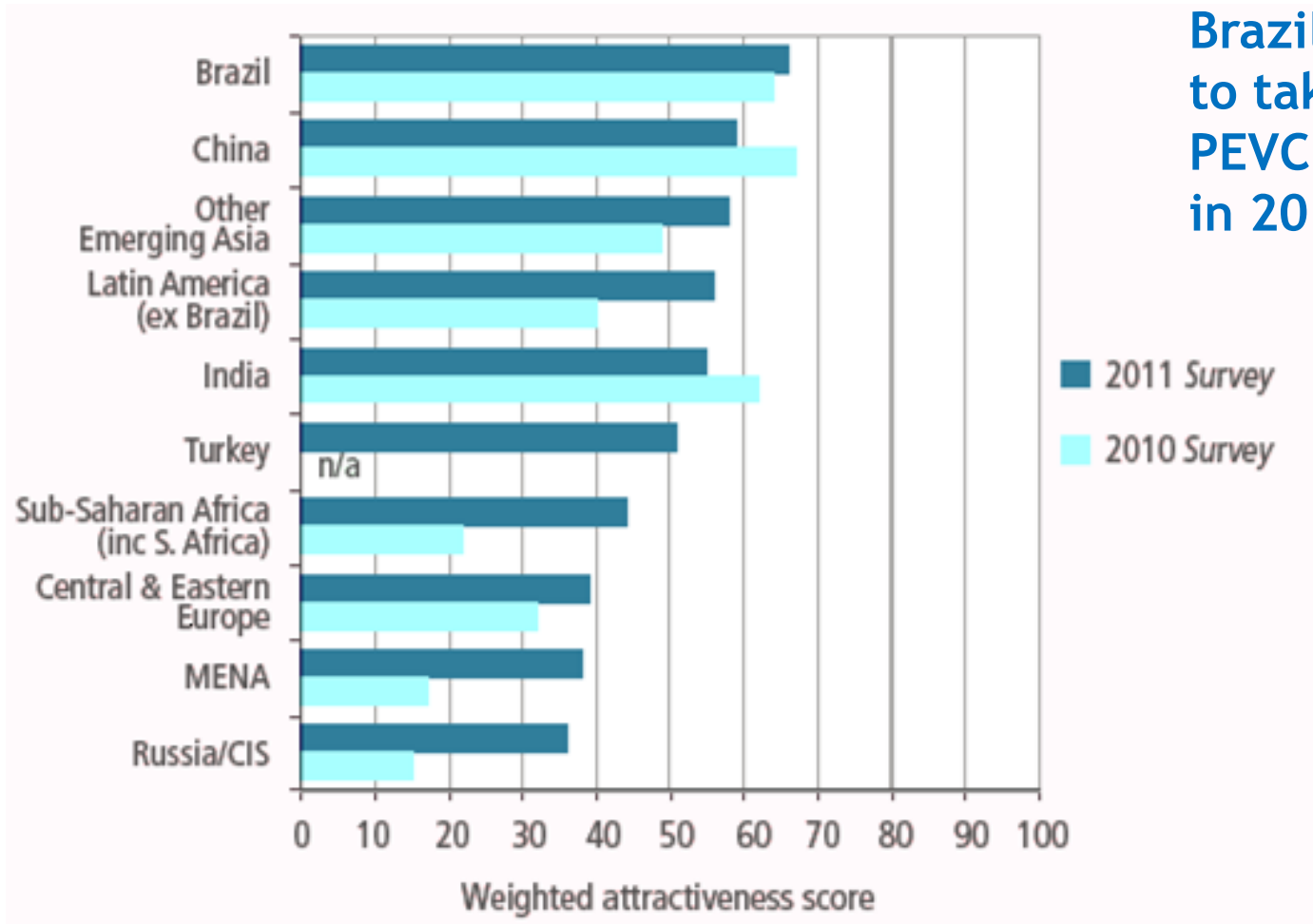
- Improving PE importance in economy but still very **low penetration relative to GDP (0.25%)** compared to developed economies.
- **Fewer exits** of note compared to other regions and fewer publicized success stories for funds in general over the last decade in Brazil.
- Improving but still **shallow depth of capital markets** makes for less IPO possibilities for all but the largest exit strategies.
- Continued **lack of leverage** due to lack of credit lines and high cost of local funding. **High FX hedging costs** for USD funds.
- Relatively shallow gene pool at the GP level with **few long term track records** with full cycle returns or long term consolidated teams.

.....and the CA Hangover Effect

## *The CA Hangover* - Comparative Returns by Region (4<sup>th</sup> qtr 09)

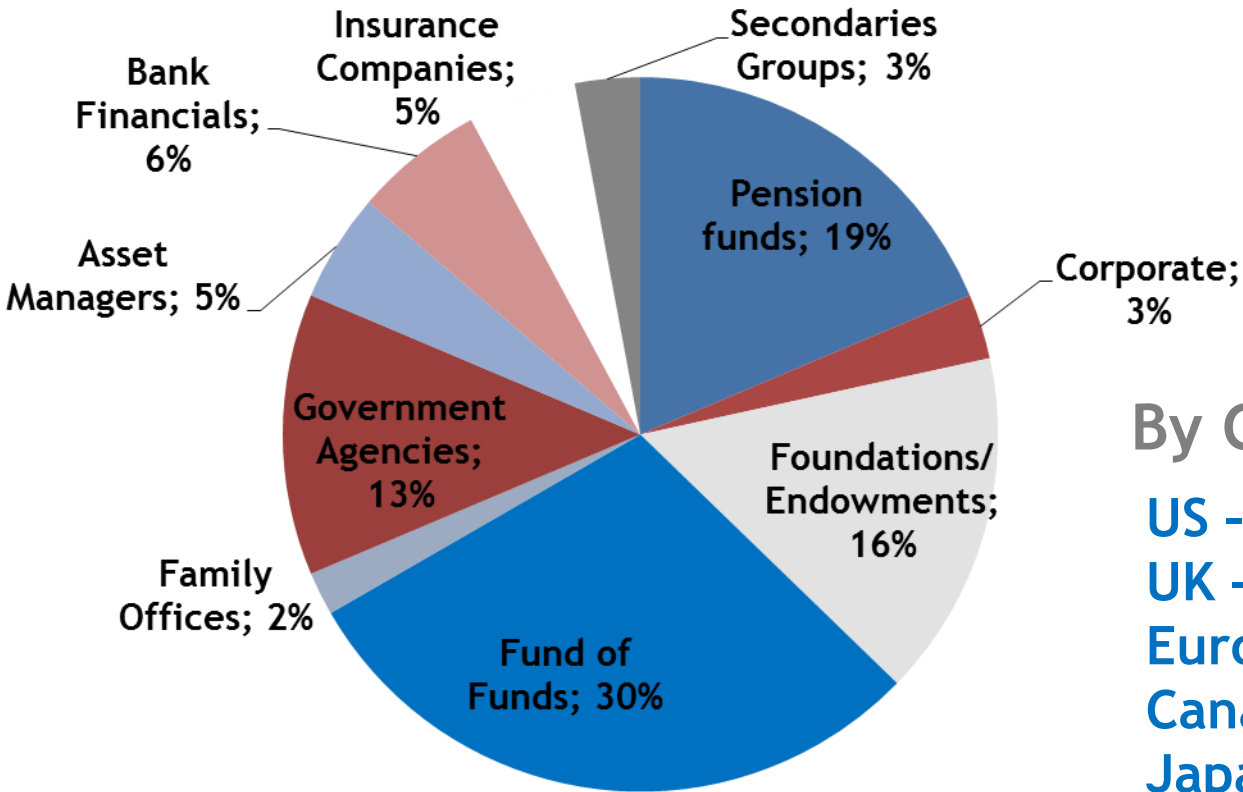
| <i>Index</i>                 | <i>One Year</i> | <i>Three Year</i> | <i>Five Year</i> | <i>Ten Year</i> |
|------------------------------|-----------------|-------------------|------------------|-----------------|
| Emerging Markets VC & PE     | 0.25            | 8.05              | 12.83            | 6.63            |
| Asia (ex Japan) PE           | 2.52            | 7.21              | 9.10             | 5.72            |
| CEE & Russia PE              | -16.87          | 7.24              | 24.09            | 15.61           |
| Latin America & Caribbean PE | 5.35            | 14.6              | 19.06            | 1.71            |
| MSCI Emerging Markets        | 19.44           | 8.27              | 17.68            | 11.71           |
| US VC                        | -12.44          | 1.33              | 4.85             | 8.41            |
| US PE                        | -8.94           | 2.29              | 11.10            | 8.26            |
| Western Europe PE            | -18.46          | 3.44              | 18.80            | 16.86           |
| S&P 500                      | -6.91           | -5.43             | 1.02             | -0.15           |

## Where are LPs looking...



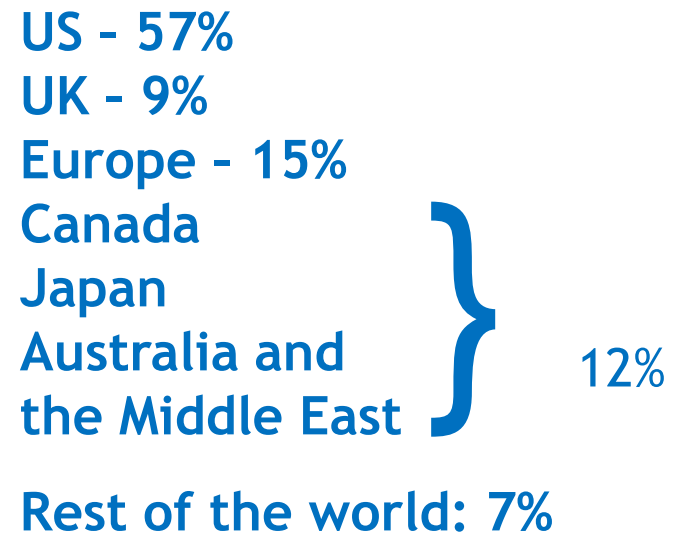
Brazil passed China to take top spot for PEVC attractiveness in 2011....

## By Type



The PE&VC inBrazil Program has mapped over 6.000 Global LP contacts to identify those who have or might have an interest in Brazil. The numbers are based on a universe of 180 contacts.

## By Geography




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## Global Private Equity Investment (2001-2010), US\$ m

| Region                               | 2001       | 2002       | 2003       | 2004       | 2005         | 2006         | 2007         | 2008         | 2009         | 2010         |
|--------------------------------------|------------|------------|------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Developed Asia<br>(JANZ)             | 9,200      | 8,869      | 13,072     | 7,483      | 4,892        | 26,907       | 10,971       | 16,432       | 4,700        | 9,748        |
| United States                        | 58,000     | 41,399     | 59,200     | 43,500     | 22,738       | 215,000      | 105,720      | 204,000      | 60,000       | 148,000      |
| Western Europe                       | 21,525     | 28,928     | 36,526     | 50,332     | 55,779       | 93,934       | 108,623      | 76,256       | 33,268       | 52,698       |
| Emerging Asia<br>(ex-JANZ)           | 2,000      | 250        | 4,528      | 4,316      | 7,692        | 22,468       | 30,370       | 28,270       | 13,597       | 18,397       |
| CEE / CIS                            | 317        | 377        | 676        | 986        | 842          | 4,903        | 8,345        | 6,344        | 3,323        | 2,398        |
| <b>Latin America /<br/>Caribbean</b> | <b>996</b> | <b>710</b> | <b>822</b> | <b>609</b> | <b>1,015</b> | <b>4,264</b> | <b>7,545</b> | <b>6,962</b> | <b>1,551</b> | <b>6,648</b> |
| MENA                                 | N/A        | 132        | 291        | 137        | 524          | 1,751        | 3,526        | 3,398        | 2,200        | 793          |
| Sub-Saharan<br>Africa                | 363        | 530        | 651        | 1,154      | 1,723        | 1,292        | 3,362        | 2,861        | 1,383        | 631          |
| Emerging<br>Markets                  | 3,676      | 1,999      | 6,968      | 7,202      | 11,796       | 34,678       | 53,148       | 47,835       | 22,043       | 28,778       |
| Global                               | 92,401     | 81,194     | 115,767    | 108,516    | 95,205       | 370,519      | 278,462      | 354,523      | 119,840      | 238,771      |

## Fundraising by Country (2004- 1st half 2011), US\$ M

| Country | 2004 | 2005  | 2006  | 2007  | 2008   | 2009  |
|---------|------|-------|-------|-------|--------|-------|
| Brazil  | 480  | 158   | 2,098 | 2,510 | 3,589  | 401   |
| China   | 311  | 2,243 | 4,279 | 3,890 | 14,461 | 6,617 |
| Russia  | 200  | 1,254 | 222   | 1,790 | 880    | 455   |
| India   | 706  | 2,741 | 2,884 | 4,569 | 7,710  | 3,999 |



| 2010  | 1/ 2011 |
|-------|---------|
| 1,078 | 3000    |
| 7,509 | 10,285  |
| 75    | 60      |
| 3,268 | 2,456   |

## Investing by Country (2004- 1st half 2011), US\$ M

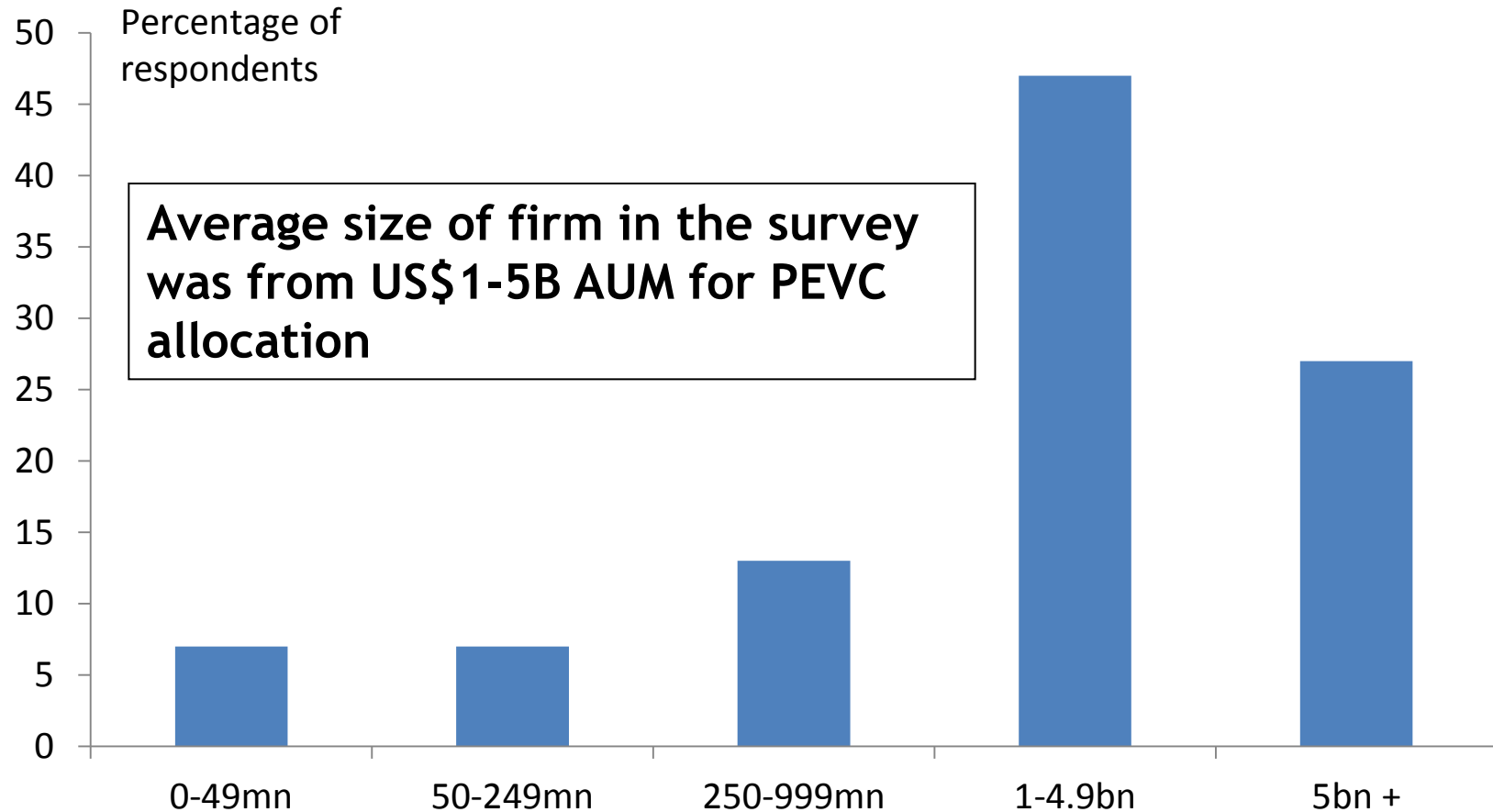
| Country | 2004  | 2005  | 2006  | 2007  | 2008  | 2009  |
|---------|-------|-------|-------|-------|-------|-------|
| Brazil  | 120   | 474   | 1,342 | 5,285 | 3,020 | 989   |
| China   | 1,389 | 2,991 | 8,200 | 9,458 | 8,994 | 6,228 |
| Russia  | 240   | 240   | 402   | 805   | 2,594 | 217   |
| India   | 1,272 | 1,377 | 5,687 | 9,905 | 7,598 | 4,011 |

| 2010  | 1/ 2011 |
|-------|---------|
| 4,604 | 977     |
| 9,190 | 5,831   |
| 1,516 | 383     |
| 6,222 | 3,754   |

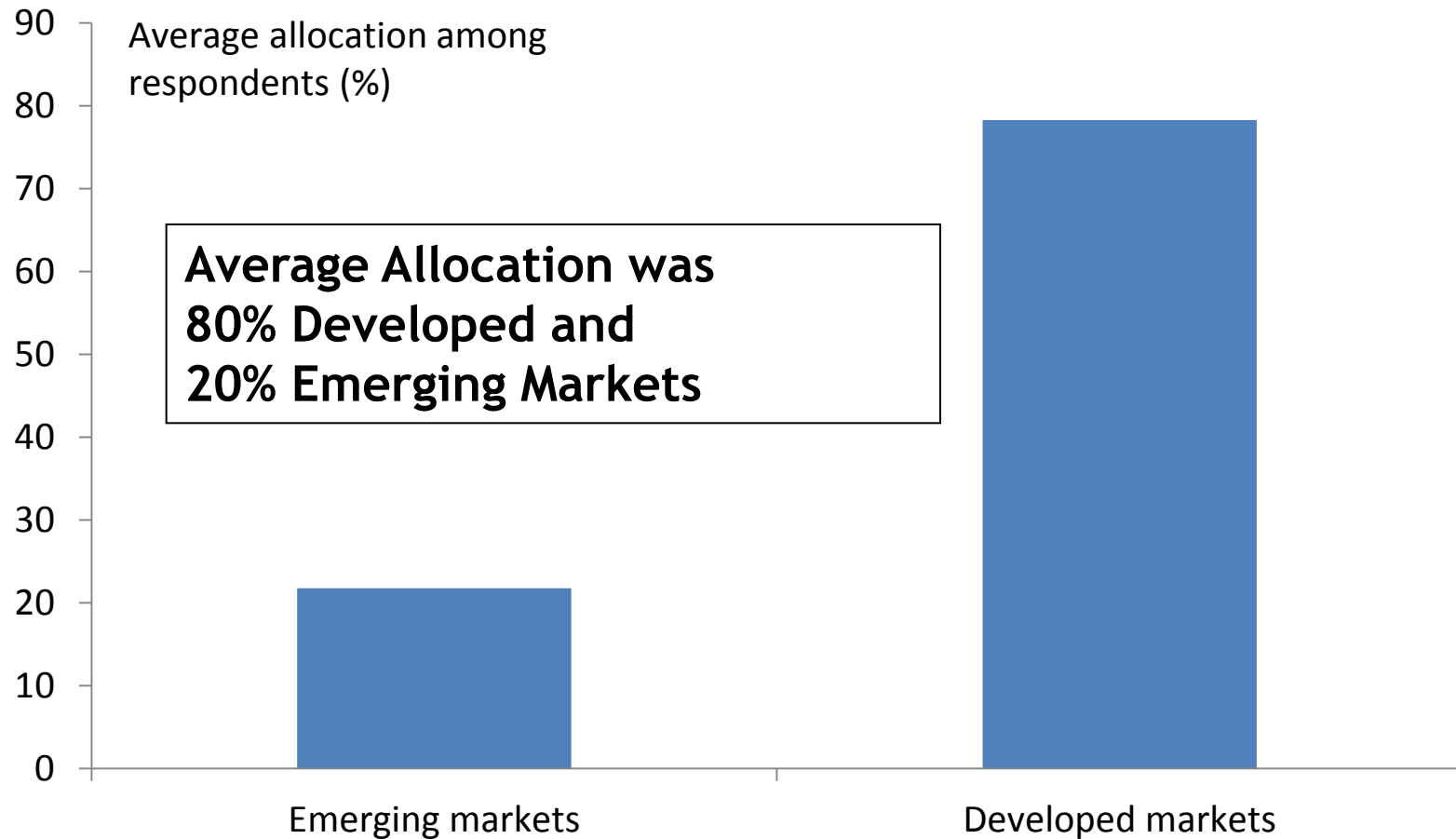
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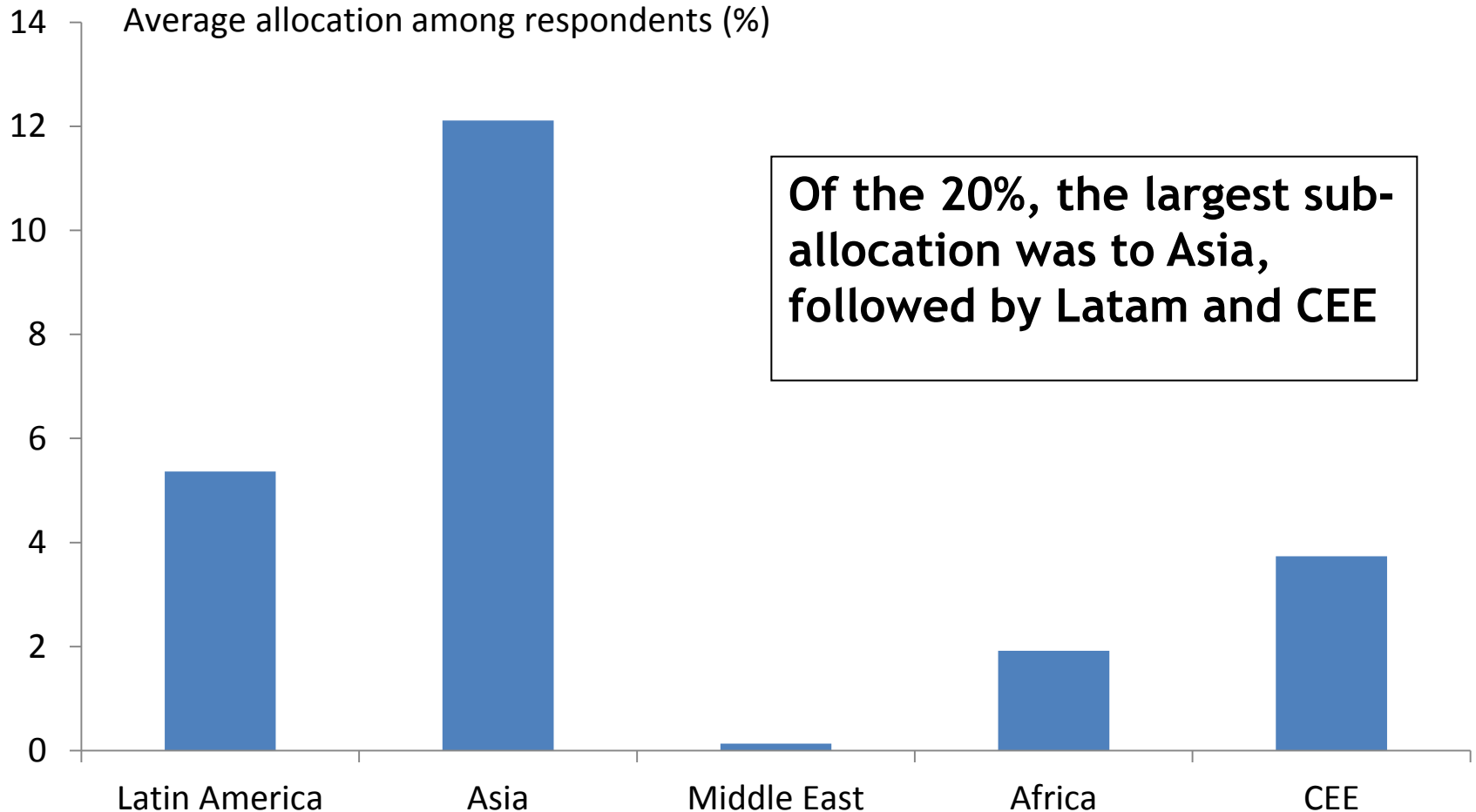
## Average PE/VC allocations in Survey



## Market allocations #1

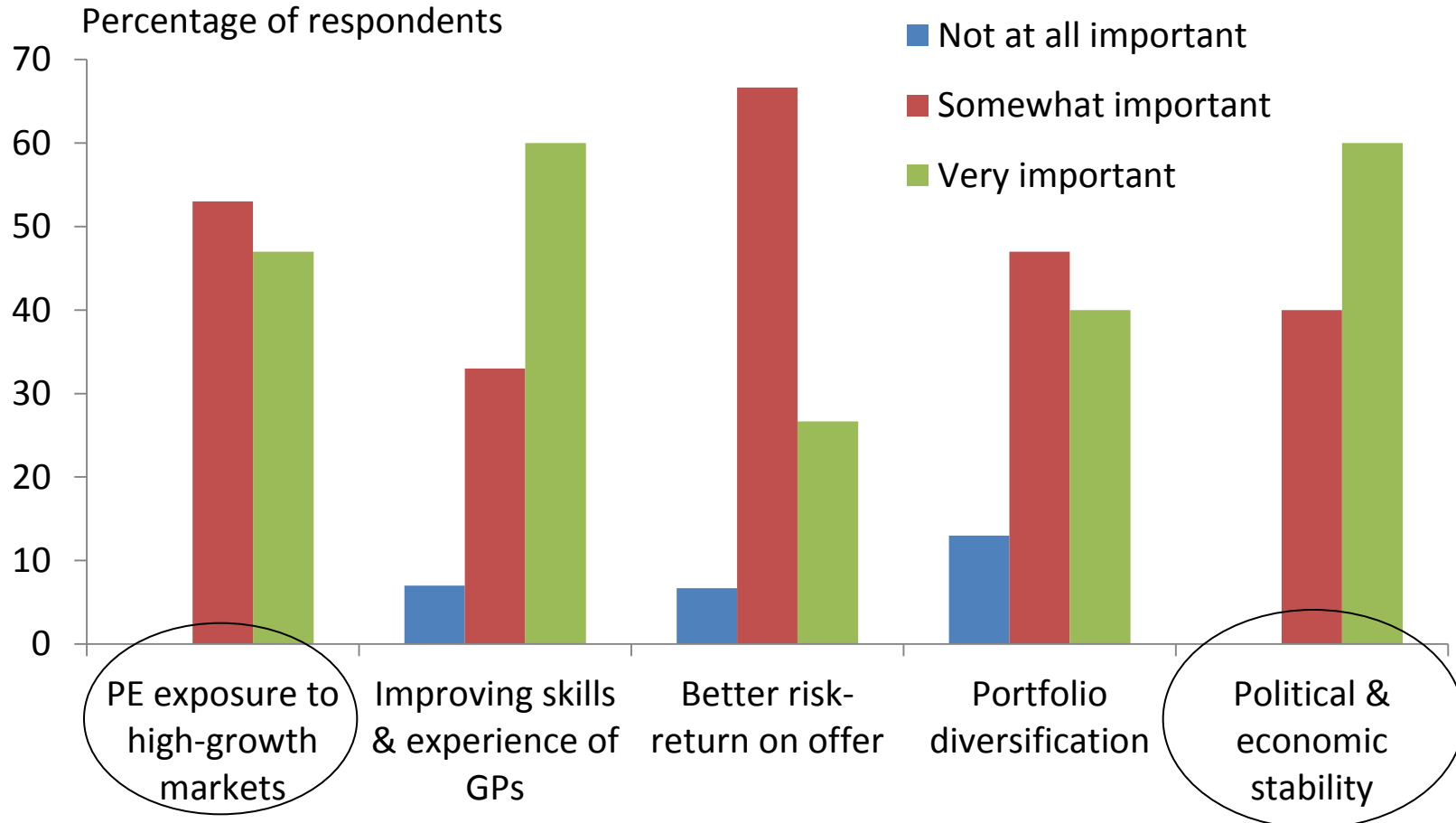


## Market allocations #2

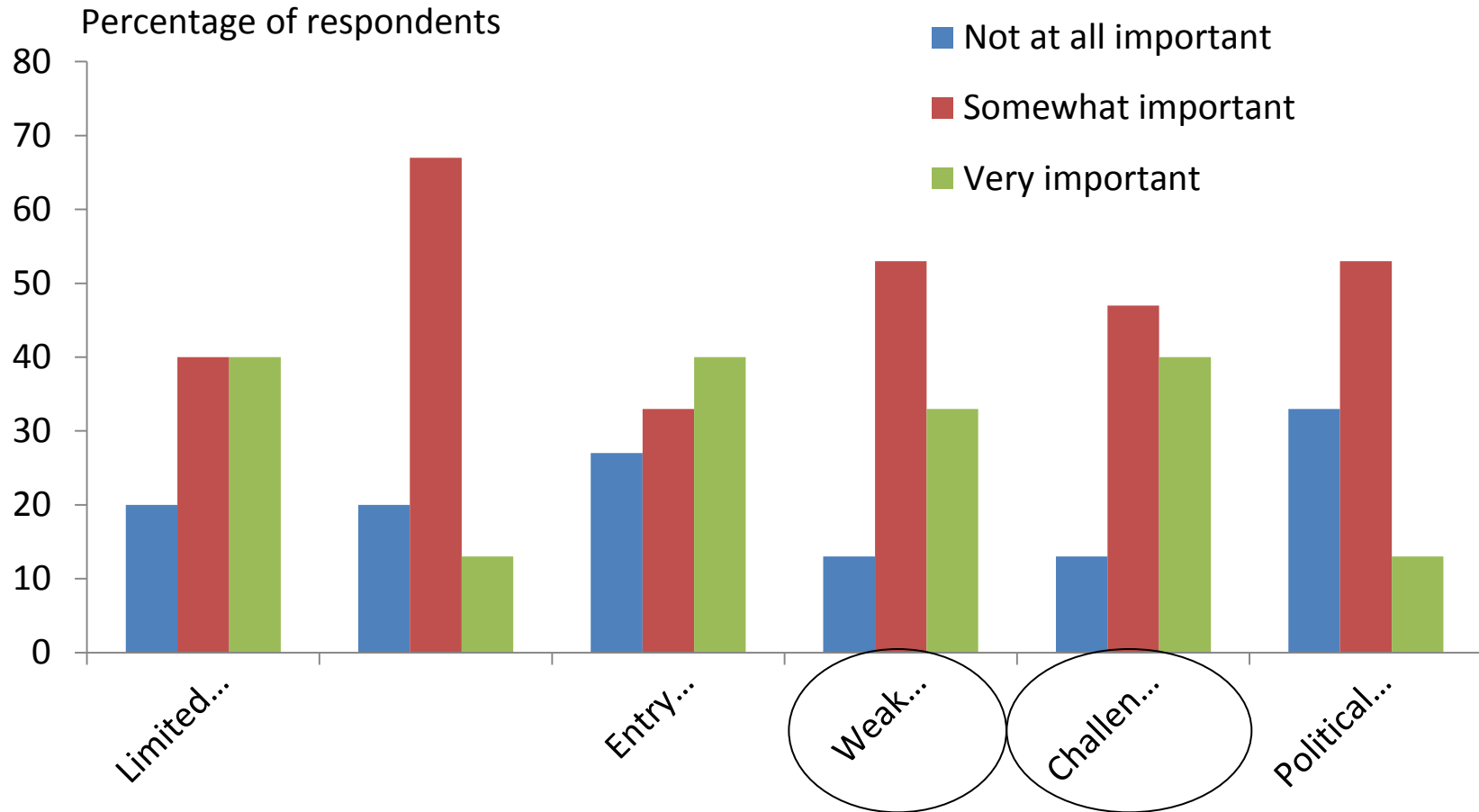


Source: ABVCAP/BVCA

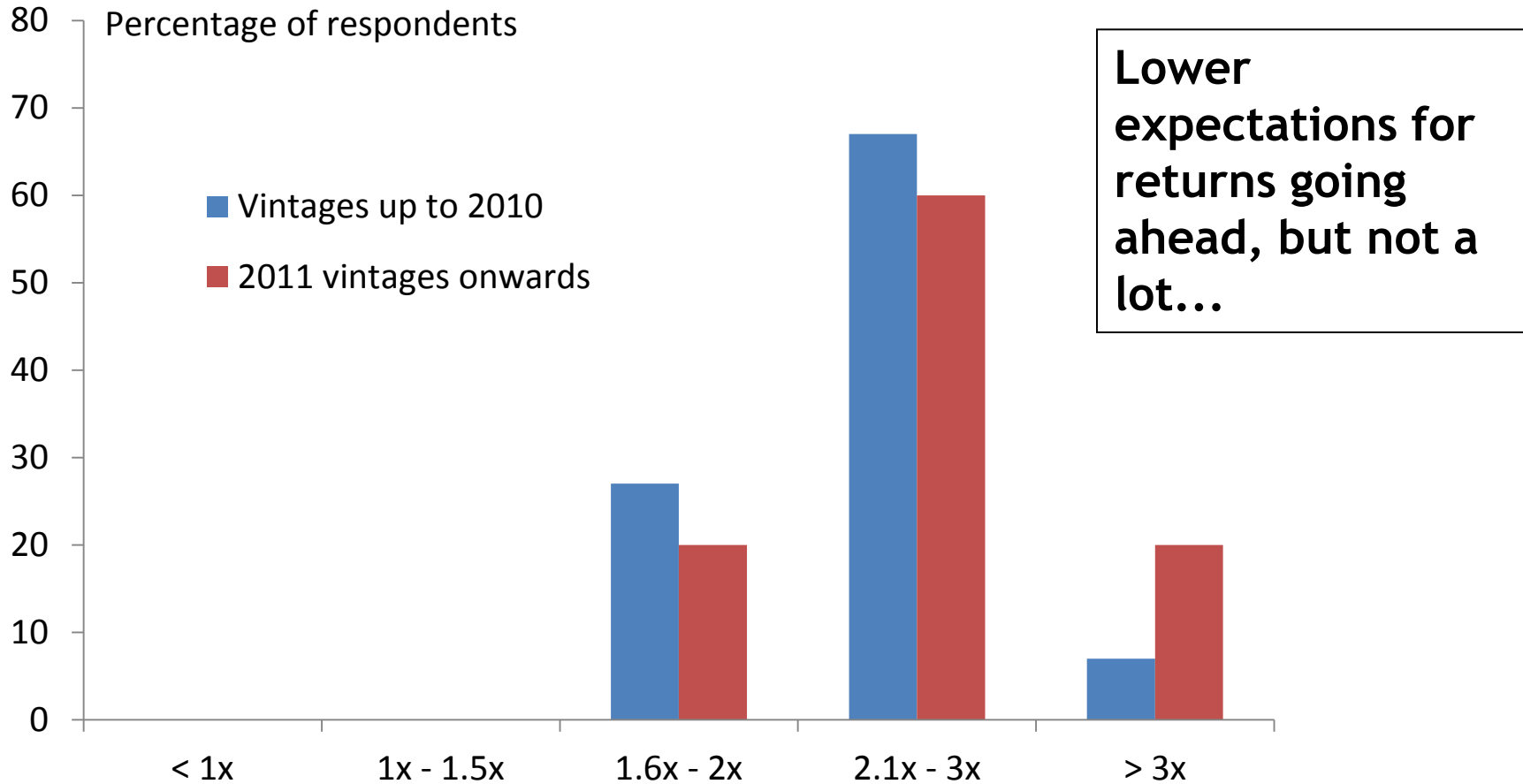
## Reasons to invest



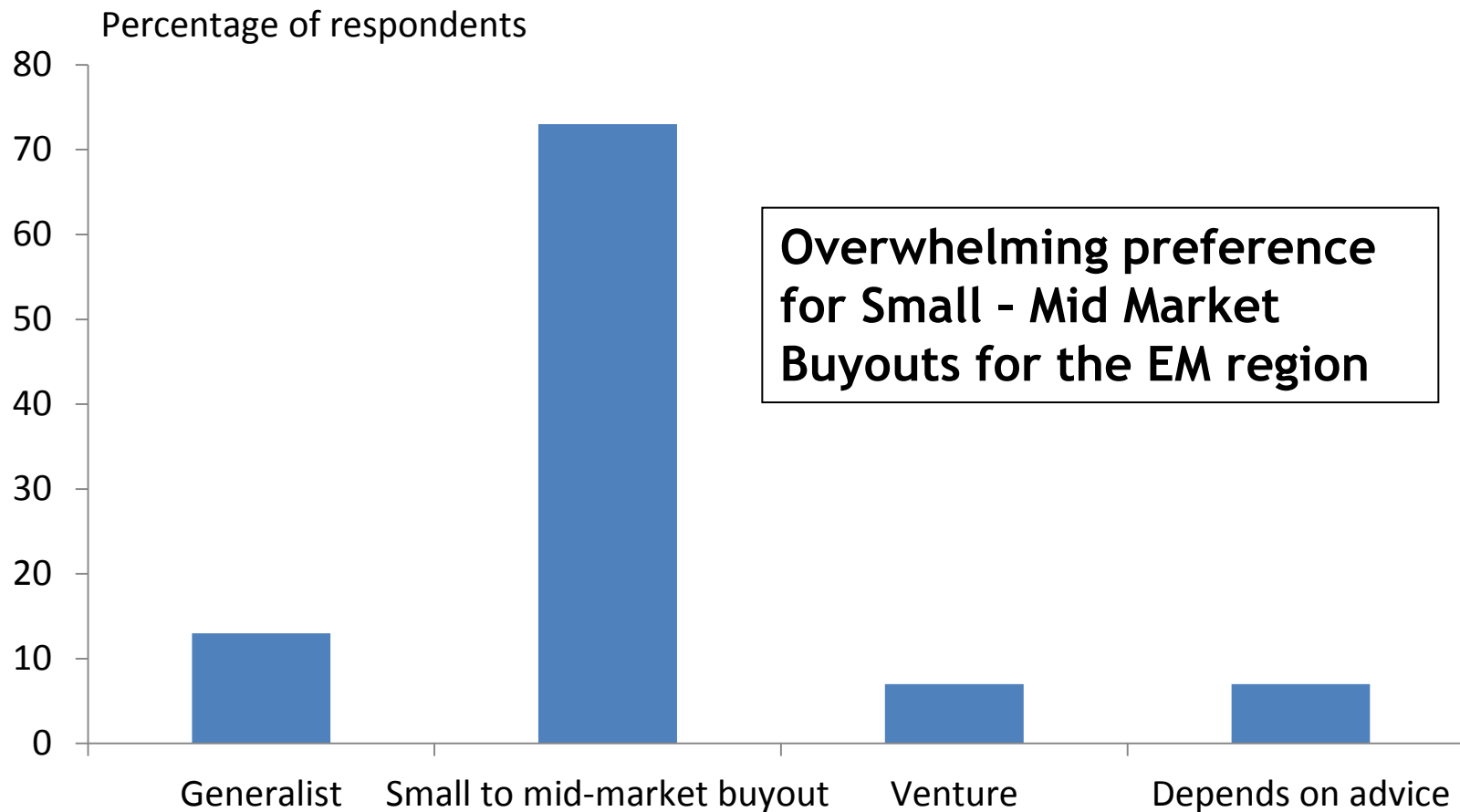
## Reasons not to invest



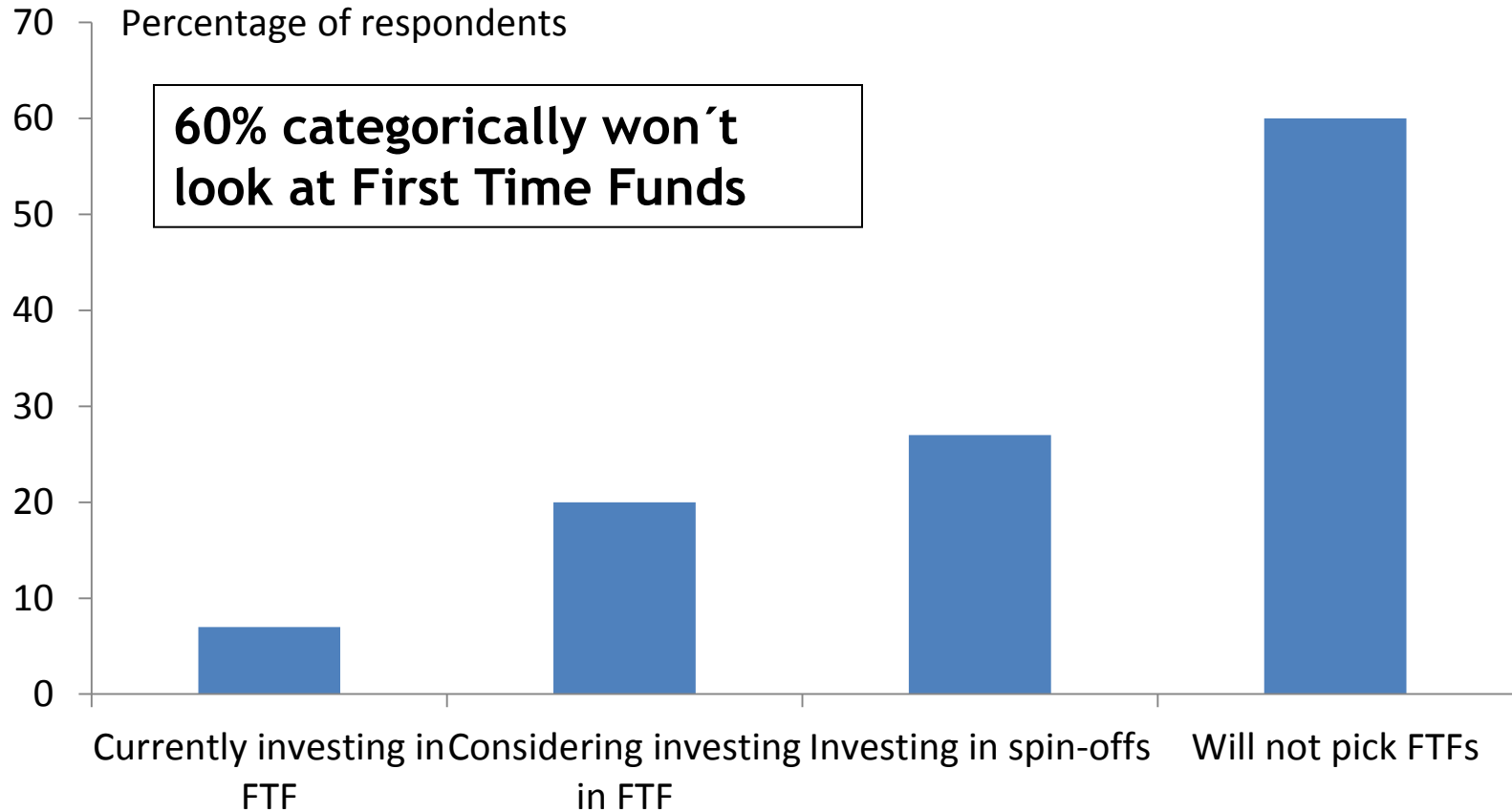
## Expected returns from EMkts PEVC



## Preferred fund types

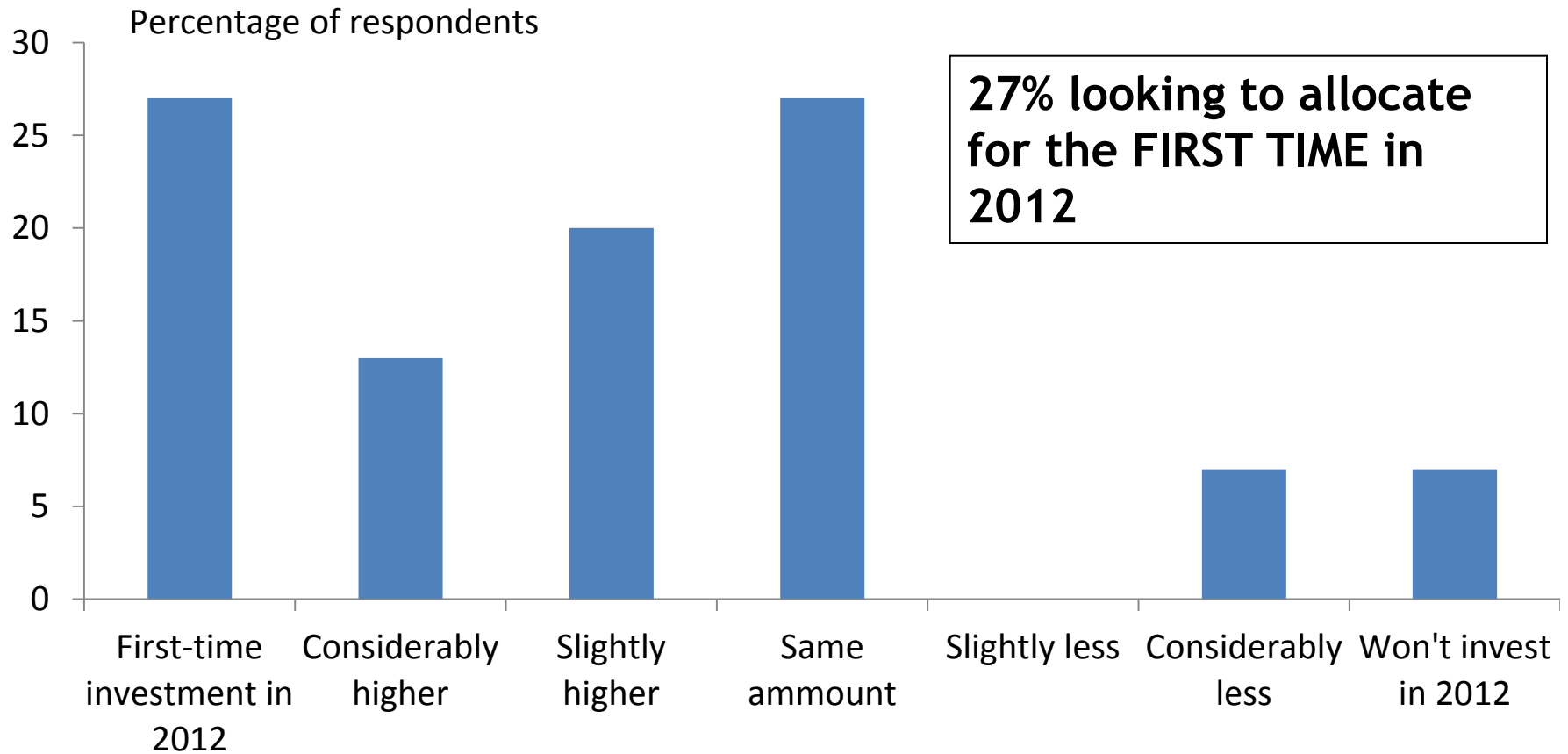


## First-time funds (FTFs) #1

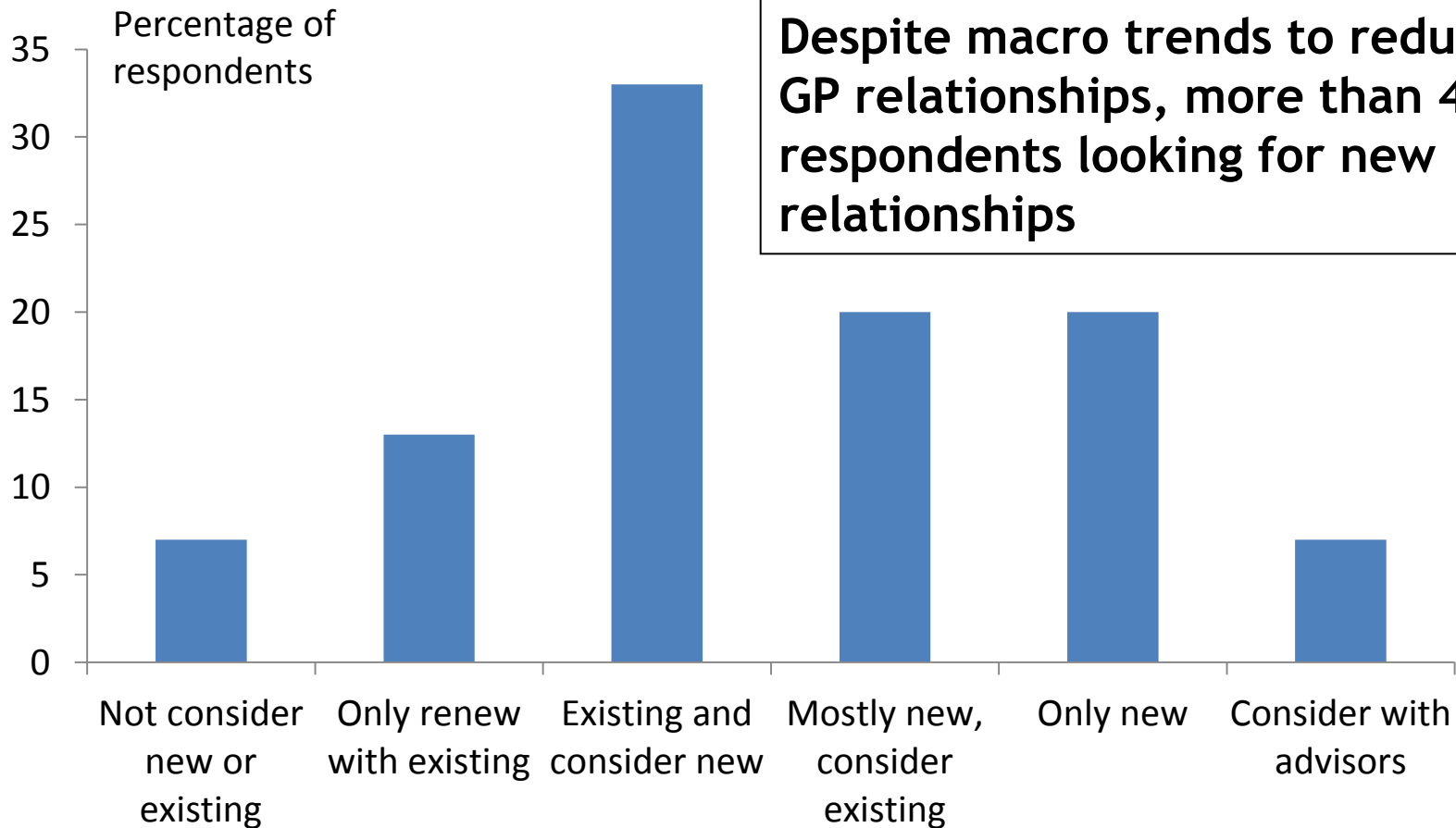




## Allocations: 2012 vs. 2011



## Plans for EMkts / GP relationships #1



Source: ABVCAP/BVCA

# Thank you!

For more information please visit us at  
[www.abvcap.com.br](http://www.abvcap.com.br) or  
[brazilprivateequity.com.br](http://brazilprivateequity.com.br)