

Private Equity & Venture Capital **in** Brazil



Brazilian Private Equity &
Venture Capital Association



AGENDA



- **The Role of ABVCAP**
- The Brazilian Private Equity Ecosystem
- Brazil from a Global Fundraising and Investing Perspective

Who We Are

Founded in 2000 to promote and develop long-term investments in Brazil.

PE&VC

Our Mission

To advocate and represent the industry in order to improve the regulatory scenario and promote best practices.



Our Members

More than 200 firms including fund managers, institutional investors such as pension funds and senior advisers.



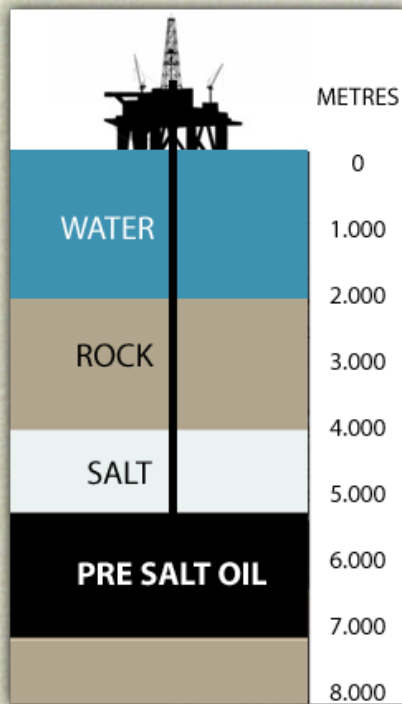
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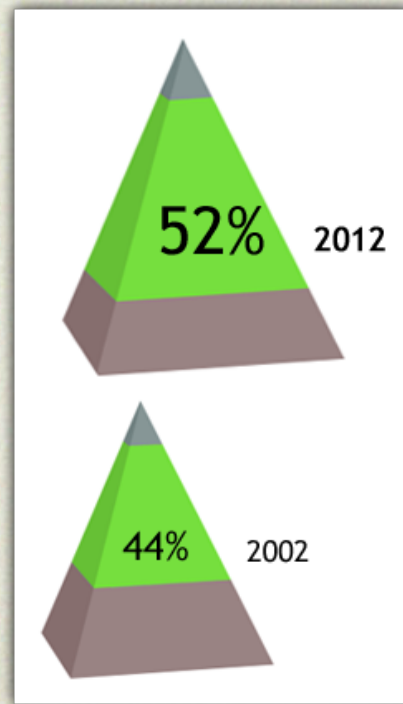
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Fundamentals

Pre-Salt Oil discoveries



Growing Middle Class



2014 World Cup



Olympic Games



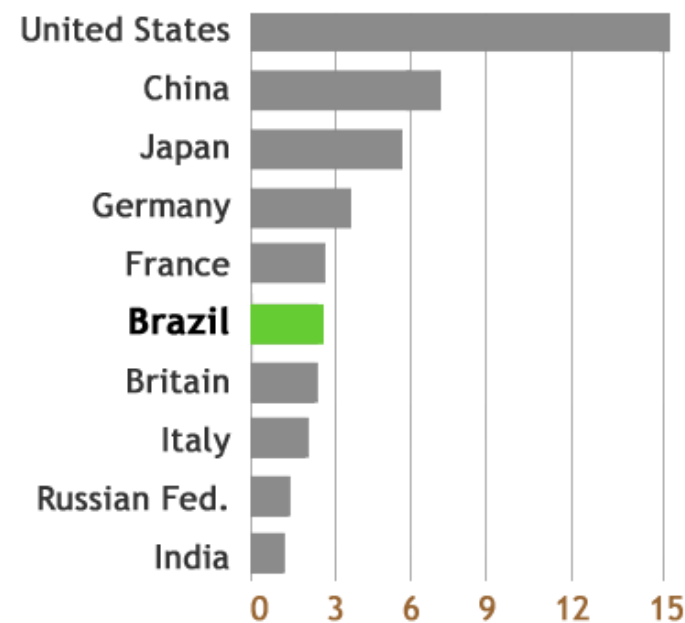
Since 2009, Brazil has hit the World Stage with a series of “victories” and has managed to sustain its prominent place in the global scenario...

Fundamentals

Macro elements for PE / VC success are solidly in place

Brazil Rising

Ranking Economy - US billion dollars



Source: The World bank

Growth: Brazil is currently the 6th largest economy in the world.

Consolidated Democracy: Political stability with +15 years of low inflation and growth.

Emerging middle class: Over this past decade, > 35m have become “middle class”.

Maturing capital markets: BMF Bovespa is the 4th largest listed exchange in the world.

Infrastructure needs: Surging demand for infrastructure improvements across all sectors, with investments expected to leap from US\$ 216 bi to US\$ 1 trillion by 2020.

Macro challenges going forward

- Infrastructure
- Education
- Fiscal deficit
- Social security
- Labor laws
- Tax system
- Red tape

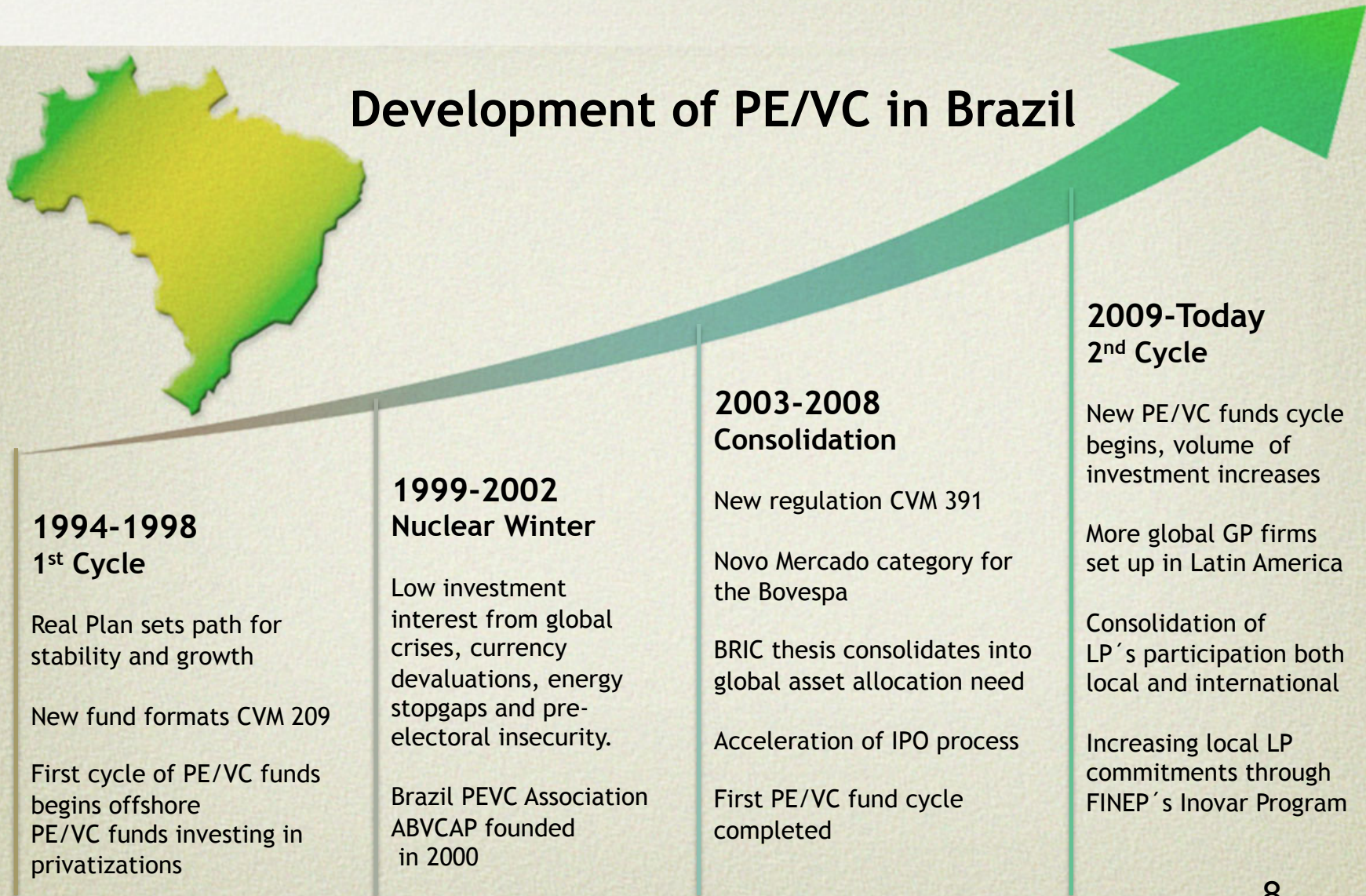


In spite of Brazil's favorable positioning in the current global scenario, there are still many bottlenecks and deficiencies that prevent the economy from expanding at a faster pace...

PE/VC Ecosystem



Development of PE/VC in Brazil





Industry snapshot today

More than **90** active PE/VC asset management firms

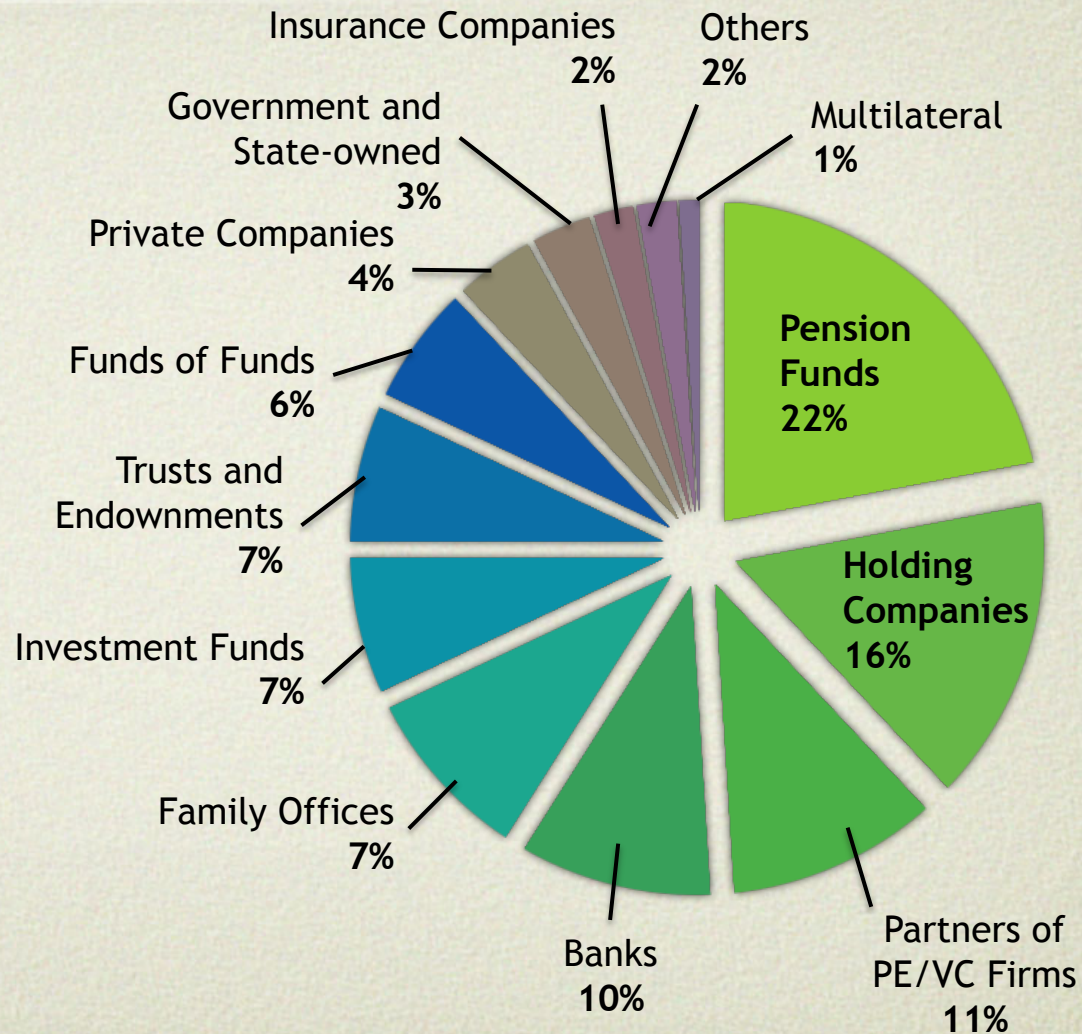
Diversified base of institutional investors **with top 20 pension funds investing**, Brazilian Development Bank, and HNW and Family Office activity

>500 portfolio companies currently managed and from 2005 to 2009 saw 490 new or follow-on investments made

41 PE backed IPO's of approx R\$ 25.5 B during the period 2004-2010

PE/VC Ecosystem

**Diversified base
of institutional
investors**



Source: FGV-CEPE

Deal Flow - what is the supply for PE / VC “demand”?



**“Investable”
companies**
40,000

High Growth Firms
~ 31,000 (2)

Emerging Firms
~ 9,000 (3)

- (1) Excluding subsidiaries or branches, considering just the head office
- (2) Companies with >10 employees, with employee growth greater than 20% over last 3 years
- (3) New and emerging companies (Incubators and Tech Parks), including those younger than 3 years

Source: IBGE, ABVCAP
(Survey from 38 Incubators and Tech Parks 2010).

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How does the Global LP “see” Brazil?

LP Feedback on PE in Brazil Today - Strengths



- **Productivity gap** as an opportunity for PE to address with increasing demand for new logistic and infrastructure investments.
- The “new model” for Global PE investment using **low leverage** has always been part of the Brazilian DNA with its operational focus.
- **Natural diversification** from over allocated and underperforming developed PEVC markets such as U.S/Europe - from 90% to 50%?
- **Brazil is more “western”** in its business mannerisms than India or China and easier to understand. Solid local accounting and regulatory rules for PE funds.
- **Continued FDI flow and lower asset prices** in the industrial and agribusiness base providing opportunities for purchasing strategic assets for exits to global players.

How does the Global LP “see” Brazil?

LP Feedback on PE in Brazil Today - Reality Check



- Improving PE importance in economy but still **very low penetration** (0.2% of GDP) compared to developed economies.
- **Fewer exits of note** compared to other regions and fewer 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.
- Shallow gene pool at the GP level with **few long term track records** with full cycle returns or long term consolidated teams.

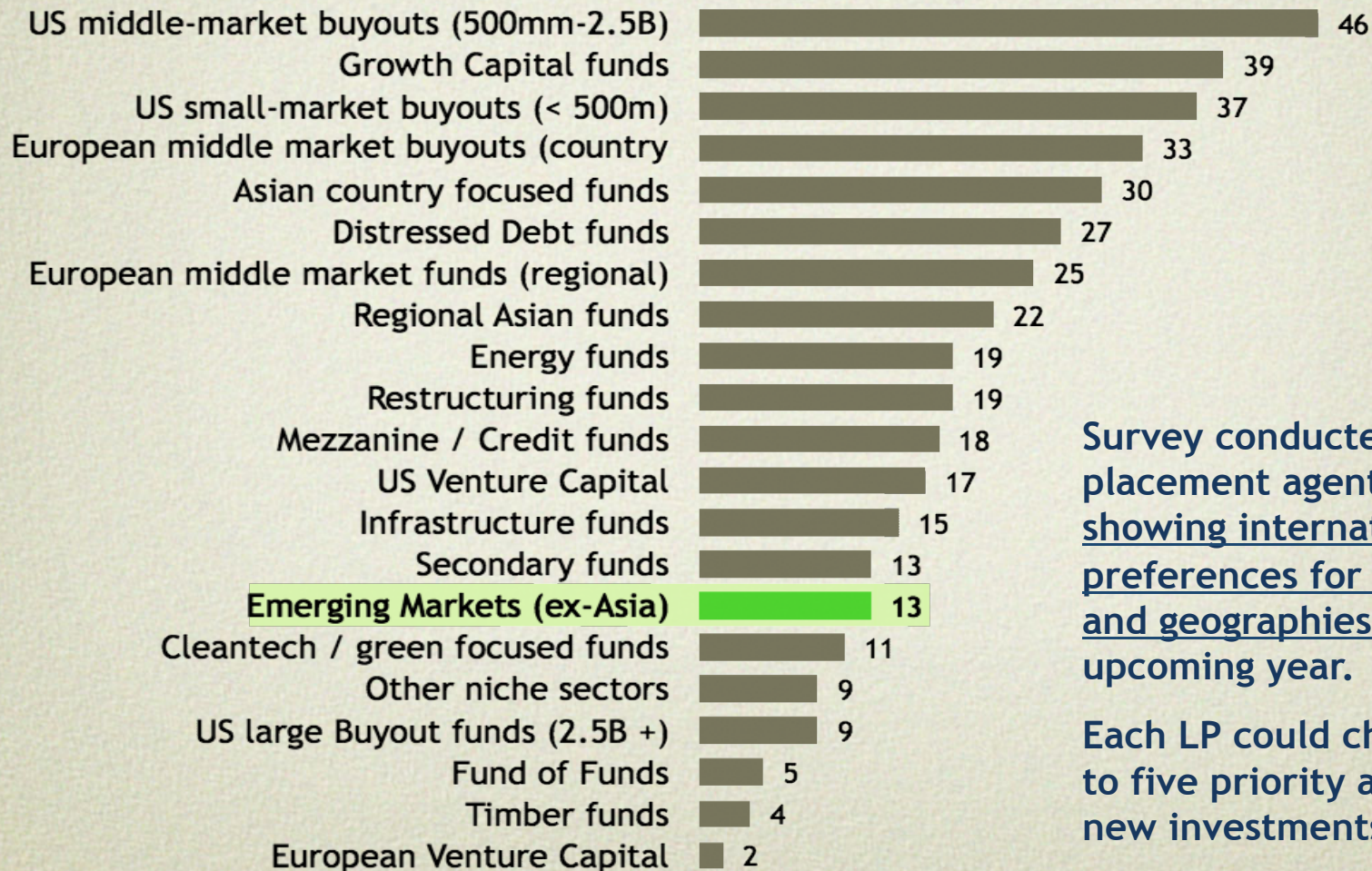


Brazil vs. Other Emerging Markets?

- Allocating more to emerging markets still makes sense based on the macro fundamentals (GDP distribution, FDI flows to EM).
- Still no EM managers in the top 20 Global managers according to AUM, so justification for more fundraising to reflect GDP weighting.
- Positive findings from recent surveys on emerging markets
 - 75% of LPs expect commitments to increase in the next 2 years
 - EM allocation for 2011 fundraising rose to 15%, from only 4% in 2004
 - Returns expectations favor EM over developed markets for 2012-13
- LATAM accounts for 9% of Global GDP but PE/VC still only <1% of the global total, reflecting “opportunistic” rather than “strategic” focus but with potential for increased allocations in the mid-term.

Global conditions for PEVC

Emerging Markets vs. other PEVC segments?

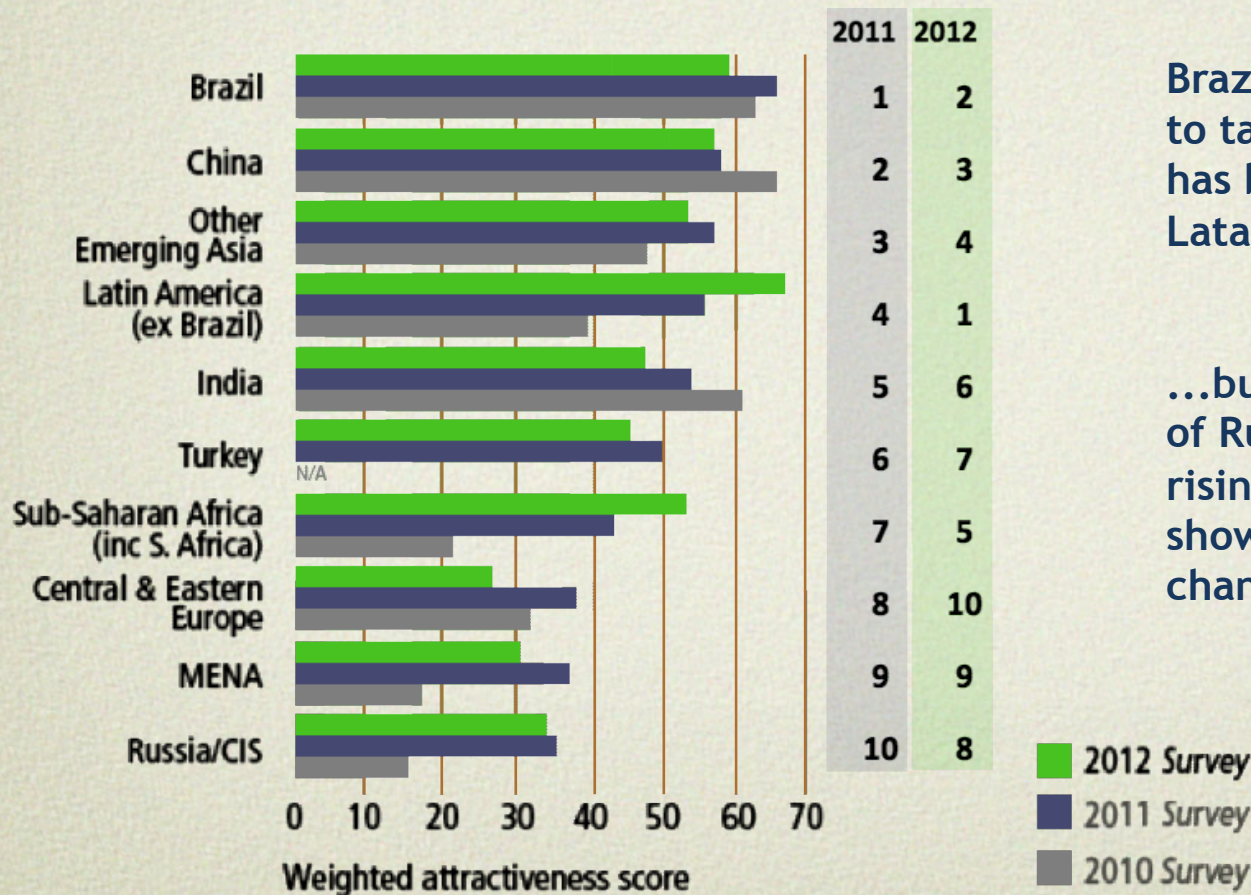


Survey conducted by a placement agent in 2011 showing international LP preferences for sectors and geographies for the upcoming year.

Each LP could choose up to five priority areas for new investments.

Global LP ranking of Brazil vs. EM

Brazil and LatAm still top of mind for LPs looking at EM



Brazil had passed China to take top spot but now has been passed by Latam ex-Brazil...

...but the ups and downs of Russia and India and rising Turkey / Africa show how markets can change quickly...

Fundraising in Latin America Still Small but Growing in %

Global Private Equity Fundraising (2001-2012), US\$ M

REGION	2001	2005	2007	2008	2009	2010	2011	2012
Developed Asia (JANZ)	1,872	2,902	8,100	7,149	1,752	2,893	2,477	2,549
United States	110,000	151,800	325,800	287,500	148,218	77,767	117,251	133,911
Western Europe	35,611	85,026	119,000	113,700	21,356	25,476	48,926	21,702
Emerging Asia (ex-JANZ)	5,192	15,446	28,668	39,660	15,275	14,206	26,251	25,502
CEE / CIS	575	2,711	14,629	5,559	1,586	1,192	1,752	4,903
Latin America / Caribbean	624	1,272	4,419	4,461	2,248	5,608	8,441	4,211
MENA	N/A	2,669	5,333	6,875	1,075	448	423	548
Sub-Saharan Africa	92	791	2,034	2,241	956	1,499	1,332	1,448
Multi-Region	N/A	3,630	4,077	7,721	801	524	350	3,726
Emerging Markets	6,483	26,519	59,160	66,517	22,607	23,478	38,549	40,338
Global	153,966	266,247	545,060	443,866	193,933	129,614	207,202	198,545

Evolution of BRIC PE/VC Totals

Fundraising and Investment by Country (2004-2012 in US\$M)

COUNTRY	2004	2005	2006	2007	2008	2009	2010	2011	2012	TOTAL POST 2008
Brazil Fundraised / Investment	480 120	158 474	2,098 1,342	2,510 5,285	3,589 3,020	401 989	1,078 4,604	7,079 2,461	2,617 4,384	-1,3 B
China	311 1,389	2,243 2,991	4,279 8,200	3,890 9,458	14,461 8,994	6,617 6,288	7,509 9,190	16,616 10,529	10,825 7,104	+ 8,5 B
Russia / CIS	200 240	1,254 240	222 402	1,790 805	880 2,647	455 217	75 1,516	135 1,579	357 1,239	- 3,5 B
India	706 1,272	2,741 1,377	2,884 5,687	4,569 9,905	7,710 7,483	3,999 4,011	3,368 6,222	2,737 6,172	2,084 2,676	- 6,9 B

Source : EMPEA 2012

Brazil's International Fundraising



International Fundraising is increasing in speed, size and depth...

2003/2009

U\$ 5 B

in 6 years

ADVENT

SOUTHERN CROSS

PATRIA

GP

2010/2011

U\$ 5 B

in 2 years

GAVEA

BTG PACTUAL

VINCI

AXXON

VICTORIA

(FORMER DLJ)

2012/2013

U\$ 5 - 8 B

(estimated supply)

Currently more than
15 local-based managers

with active interest to
raise international and
domestic investor capital

Want to know
who they are?
Log on to website
abvcap.com.br/atlas

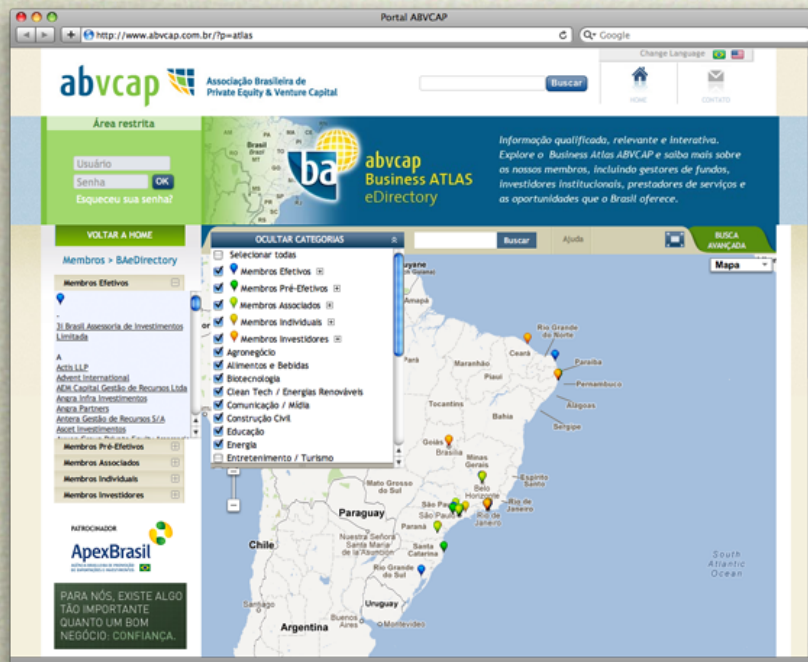
...but still competing in a very difficult global fundraising scenario

“The average time for international fundraising has been seen at
between 18-24 months, even for funds with previous returns,”
Coller Survey 2012

ABVCAP Atlas / e-Directory

The ABVCAP Business Atlas/E-directory is the definitive online platform to provide users with in-depth details about the Brazilian PE/VC industry.

www.abvcap.com.br/atlas



Qualified institutional investors have premium access for free!

PEVC inBrazil Program



Qualified international institutional investors have:

- **Free access to the Business Atlas/E-directory** - a new online tool for qualified information about the Brazilian PEVC industry and its players.

- **Complimentary invitations** for LP/GP gatherings held in Brazil and abroad.

- **Exclusive meetings with local fund managers** coordinated by our team but based on the investors' interests themselves.

- **Access to expert inputs**, online updates and video interviews about the local industry, leading players and relevant news for primary and secondary investments.

Thank you!



**Visit us at the 12th Annual ABVCAP Conference
Sao Paulo, April 15-16, 2013**

FOR MORE INFORMATION

www.abvcap.com.br/atlas

www.brazilprivateequity.com.br

Thank you!