

Round Table: Cimarron Partners

Private Equity in Brazil

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Agenda

Introduction

Macroeconomic and Political Stability

Brazil Private Equity: Challenges and Opportunities

Conclusions

I. Introduction

- ❑ There is a strong and growing culture of entrepreneurship in Brazil. It is estimated that young businessmen between the age of 18 and 34 created as many as 6 million companies in 2008, or 61% of the total (GEM, 2009).
- ❑ As many as 56% of new companies close their doors after the first year. Many promising businesses fail due to problems in management and administration. A vibrant private equity market in Brazil will help turn a greater number of opportunities into a profitable reality.
- ❑ Since 2004 private equity flows to Brazil have grown rapidly. Macroeconomic and political stability have underpinned this growth and will continue to do so in the future
- ❑ Other factors that explain the attractiveness of Brazil's market are
 - ✓ the size of its domestic market
 - ✓ its significant comparative advantage in some sectors such as the production of proteins, and
 - ✓ the significant investment needs in areas –such as infrastructure--where reliance on private sector is large and increasing.
- ❑ There is now an even greater alignment between the priorities in public policy and the opportunities in private equity investments.

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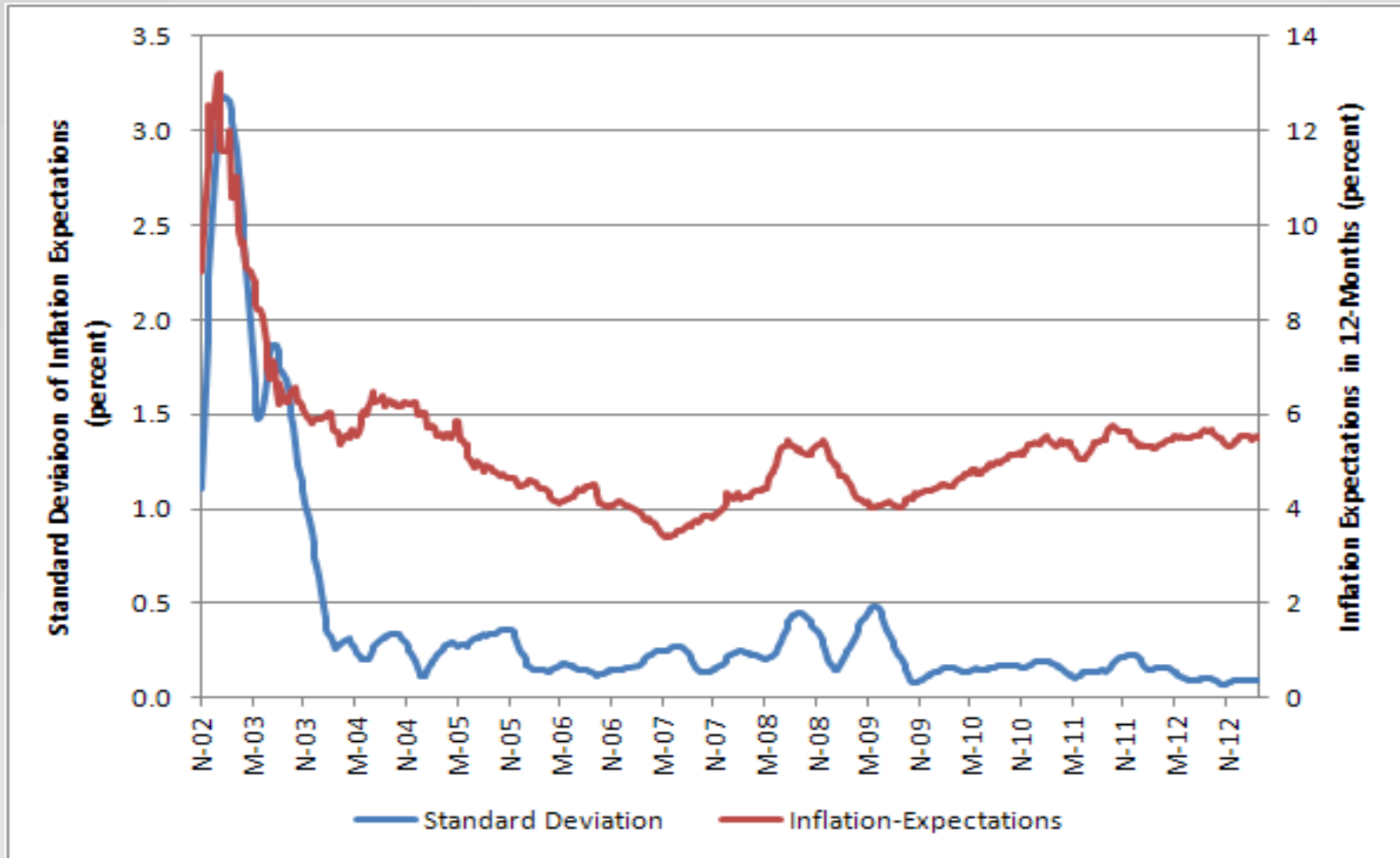
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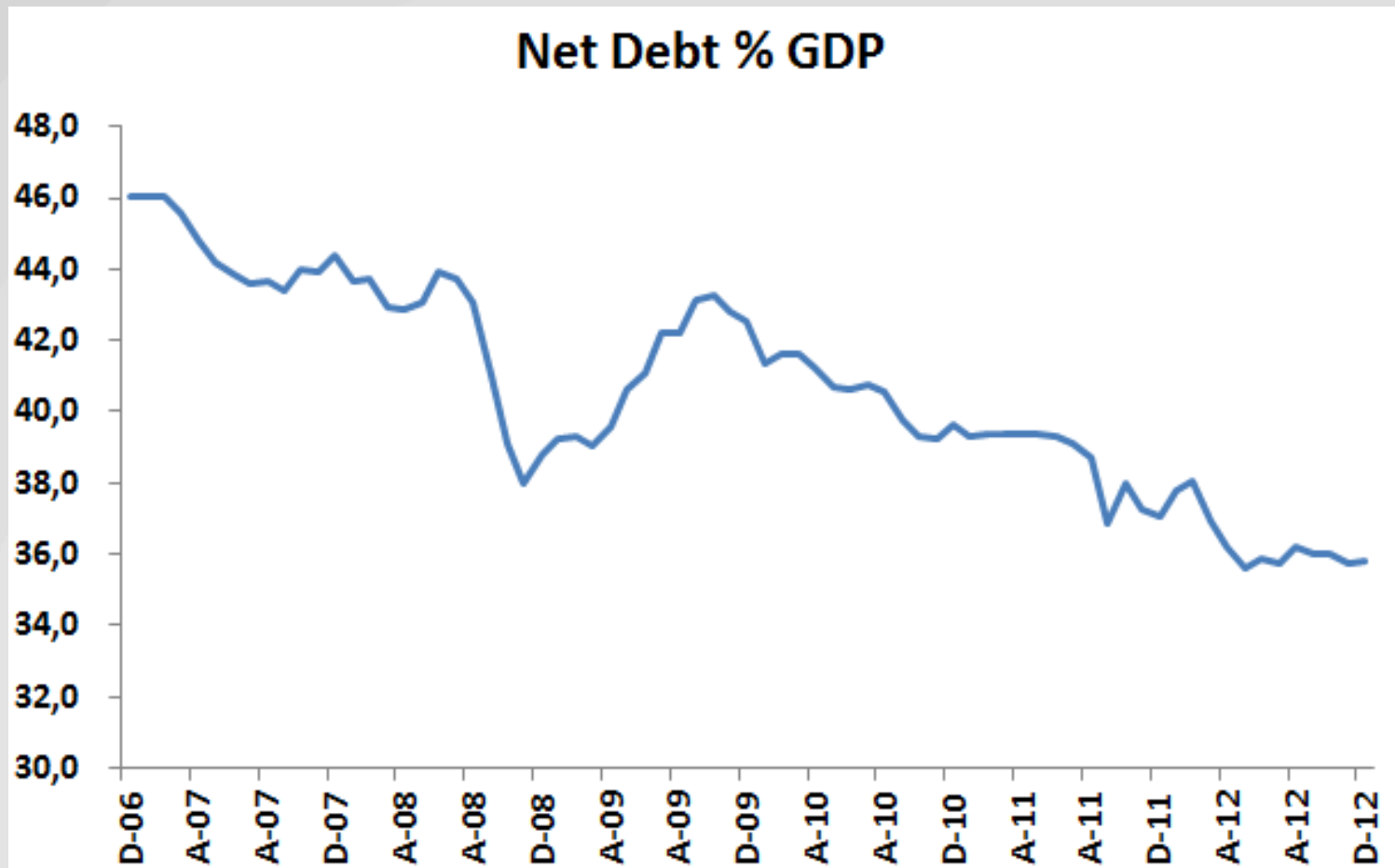
Perception of macro risks has declined

Volatility of inflation expectations has fallen and stabilized: less fear of surprises



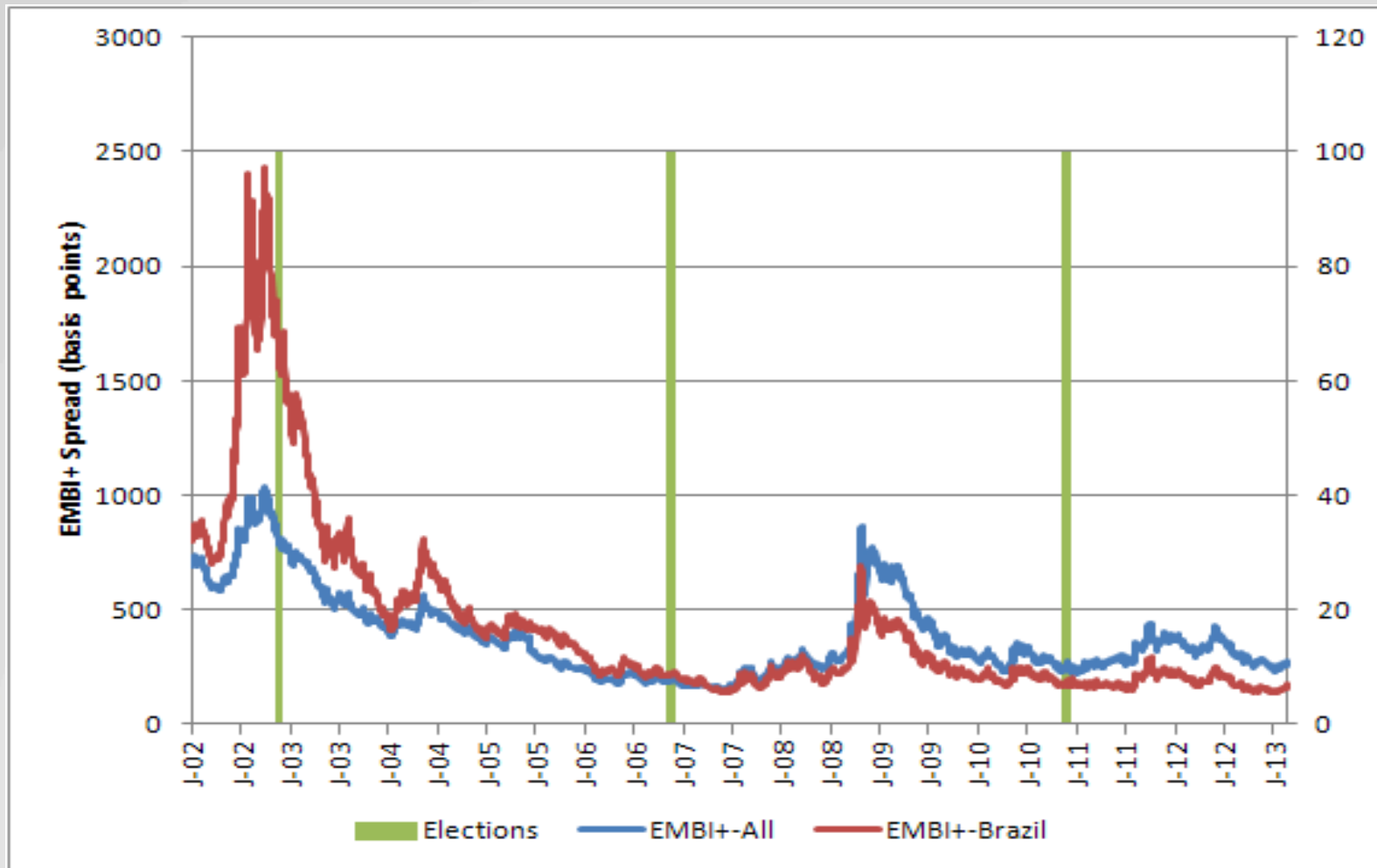
Brazil stability: Net debt as % of GDP sliding trajectory

Net debt in a declining trend unaffected by the financial crisis



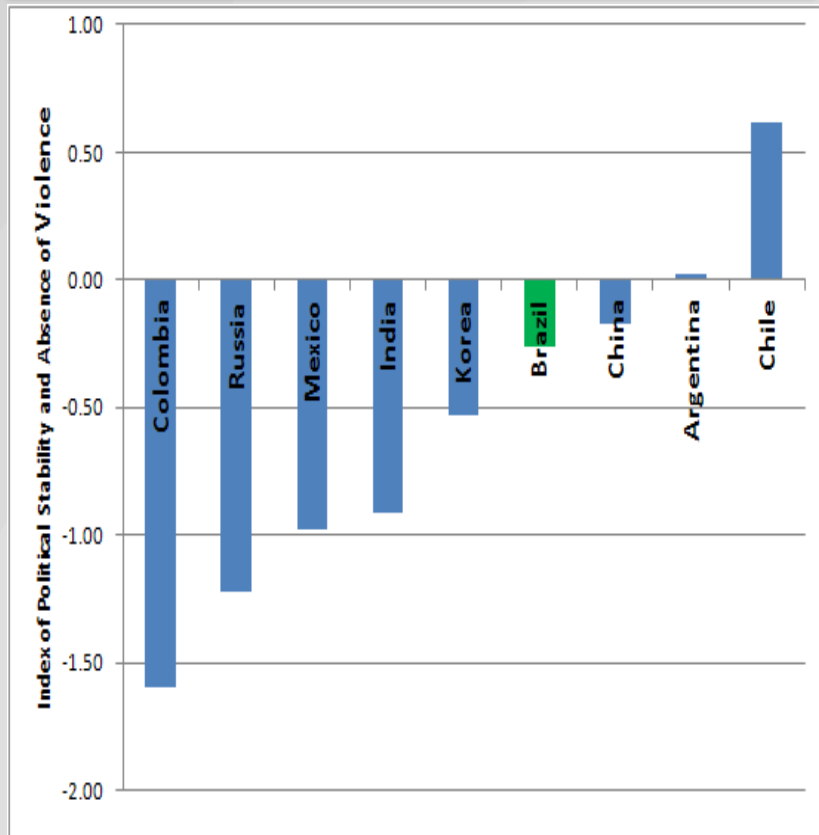
Country risk now immune to electoral cycle

Unlike in 2002, country risk no longer responds to Presidential Elections

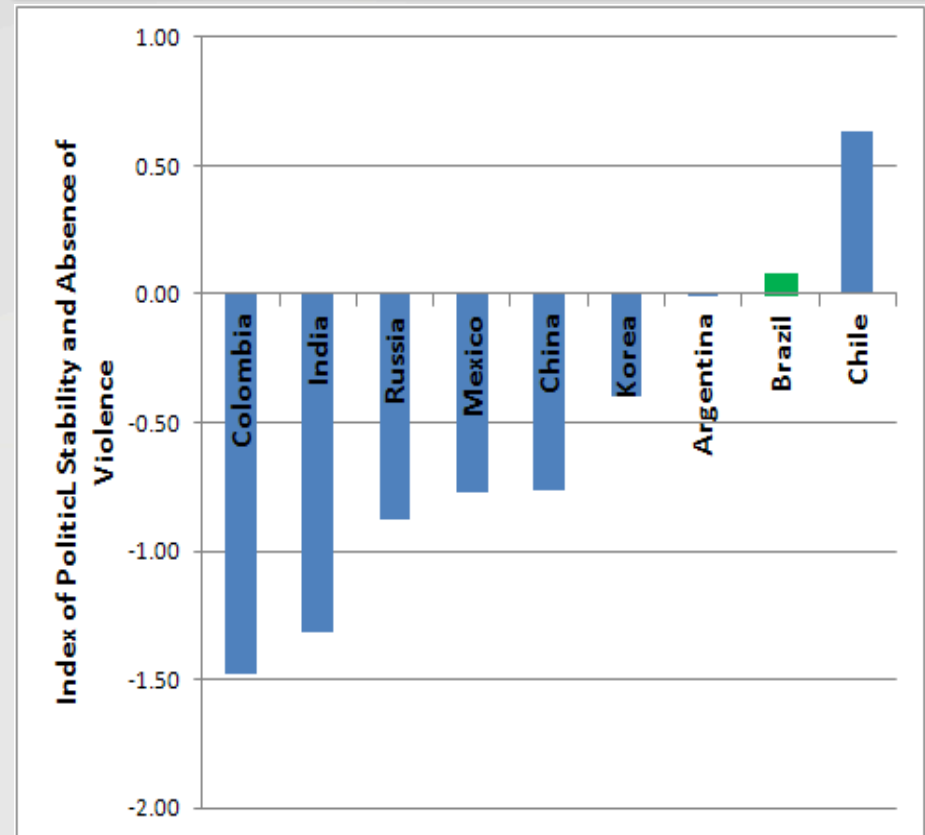


Indices of political stability better than most emerging markets

WGI Index of Political stability 1996



WGI Index of Political stability 2010



Source: Worldwide Governance Indicators, weak stability (-2.5) strong stability (+2.5)

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Brazil PE diferente phases

First Steps (1994-2000)

- **Plano Real (1994)**
Stable currency and inflation control.
- **Capital liberalization (1990s)**
Increased competition and requires improvements in productivity.
- **Government Privatizations (1990s)**

Shake-out (2001-2004)

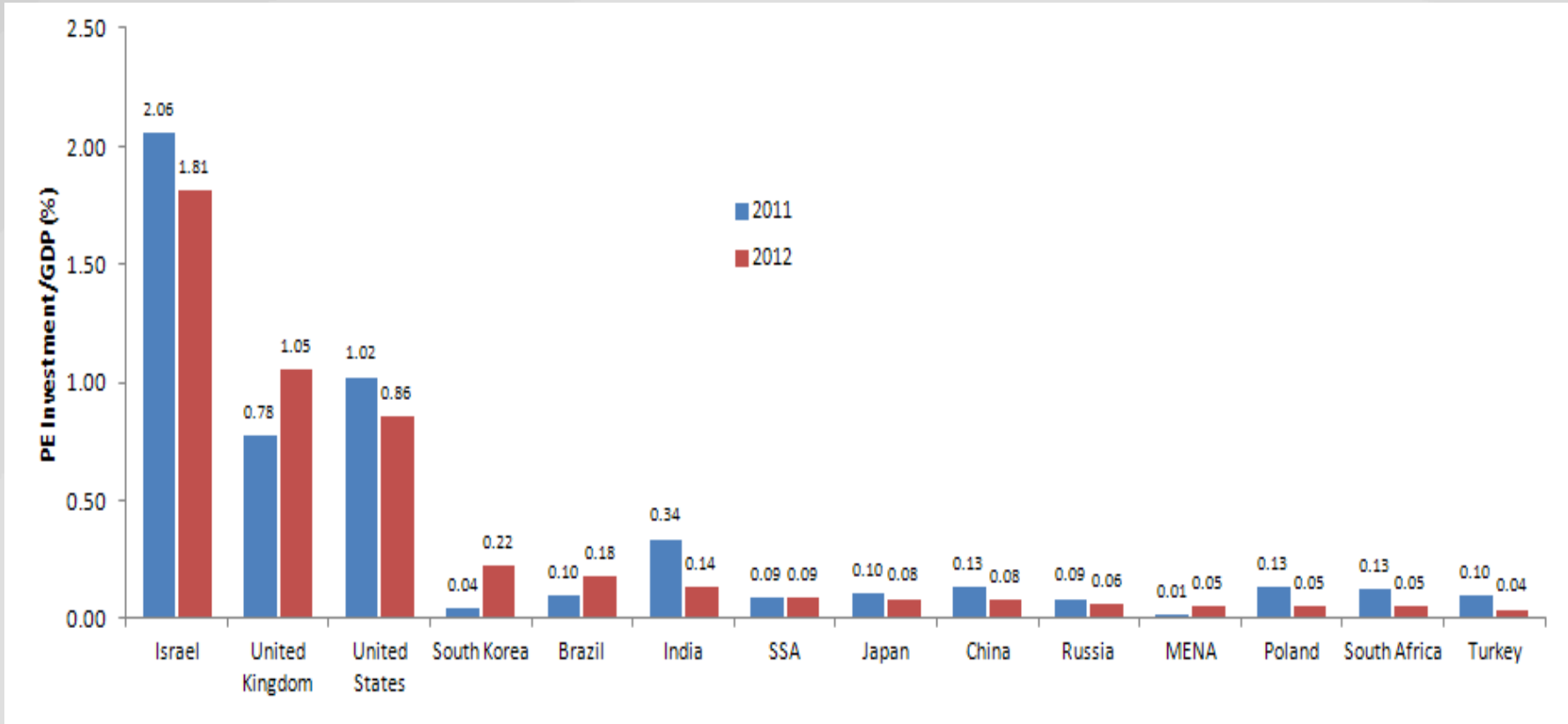
- **External tensions**
Asia Crisis effects against EM, Internet Bubble, September 11
- **Internal tension**
Election of Luis Inácio Lula da Silva
- **PE Regulatory stablished**
Local pension funds could invest in PE
Creation of FIP (Fundo de Investimentos em Participações)
Sas law's creation

Mature (2005-2010)

- **Macro-economic stability (2005)**
- **Brazil Investment Grade (08/2009)**
- **Middle Class emerging**
- **US House bubble and Euro debt crises.**
Crises turned Brazil into an alternative destination of funds because of attractive returns when compared to Euro and US

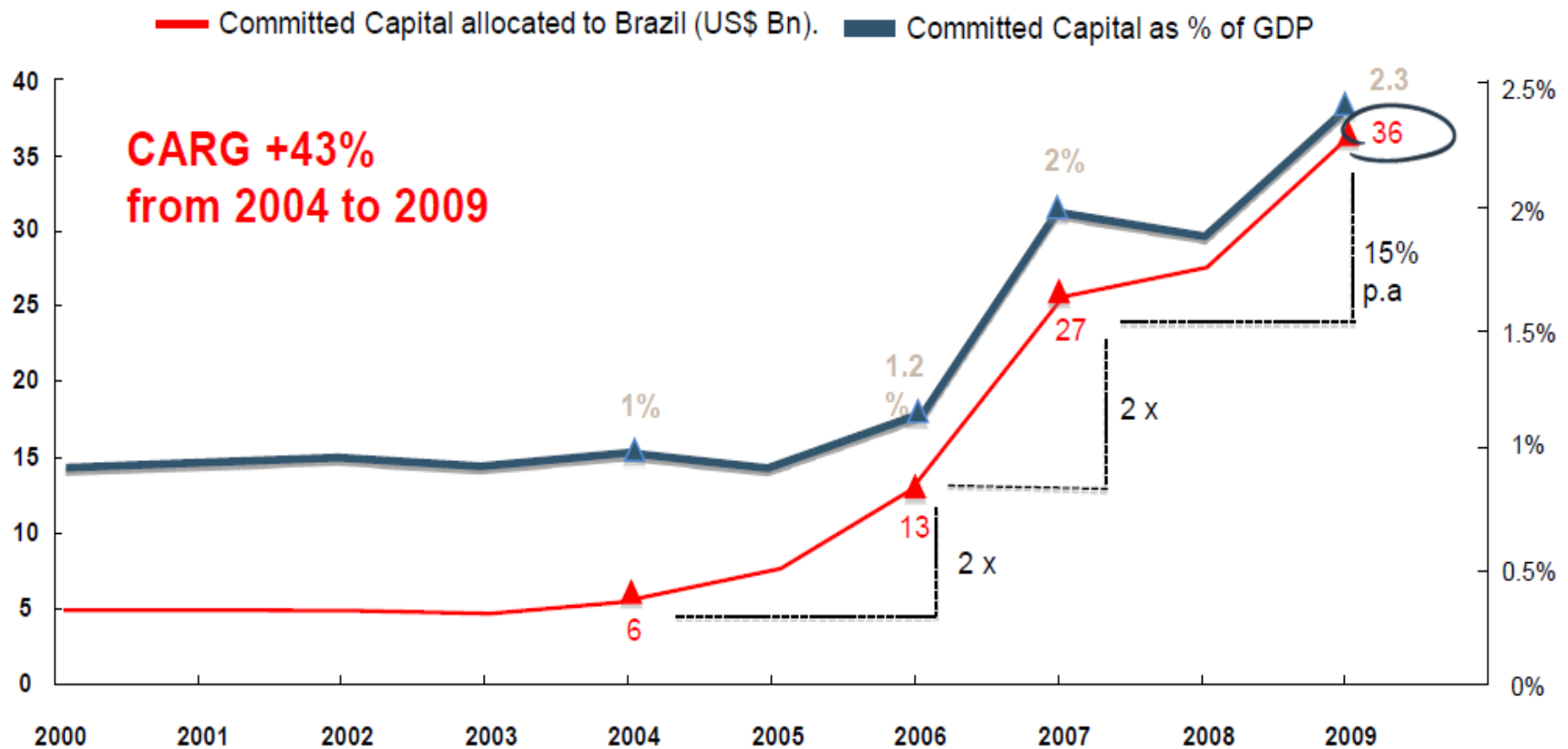
Private equity penetration in Brazil is among highest in Emerging Markets

Private equity penetration in Brazil is approaching South Korea level



Source: Emerging Markets Private Equity Association, February 4th, 2012

Brazil: Evolution of capital committed



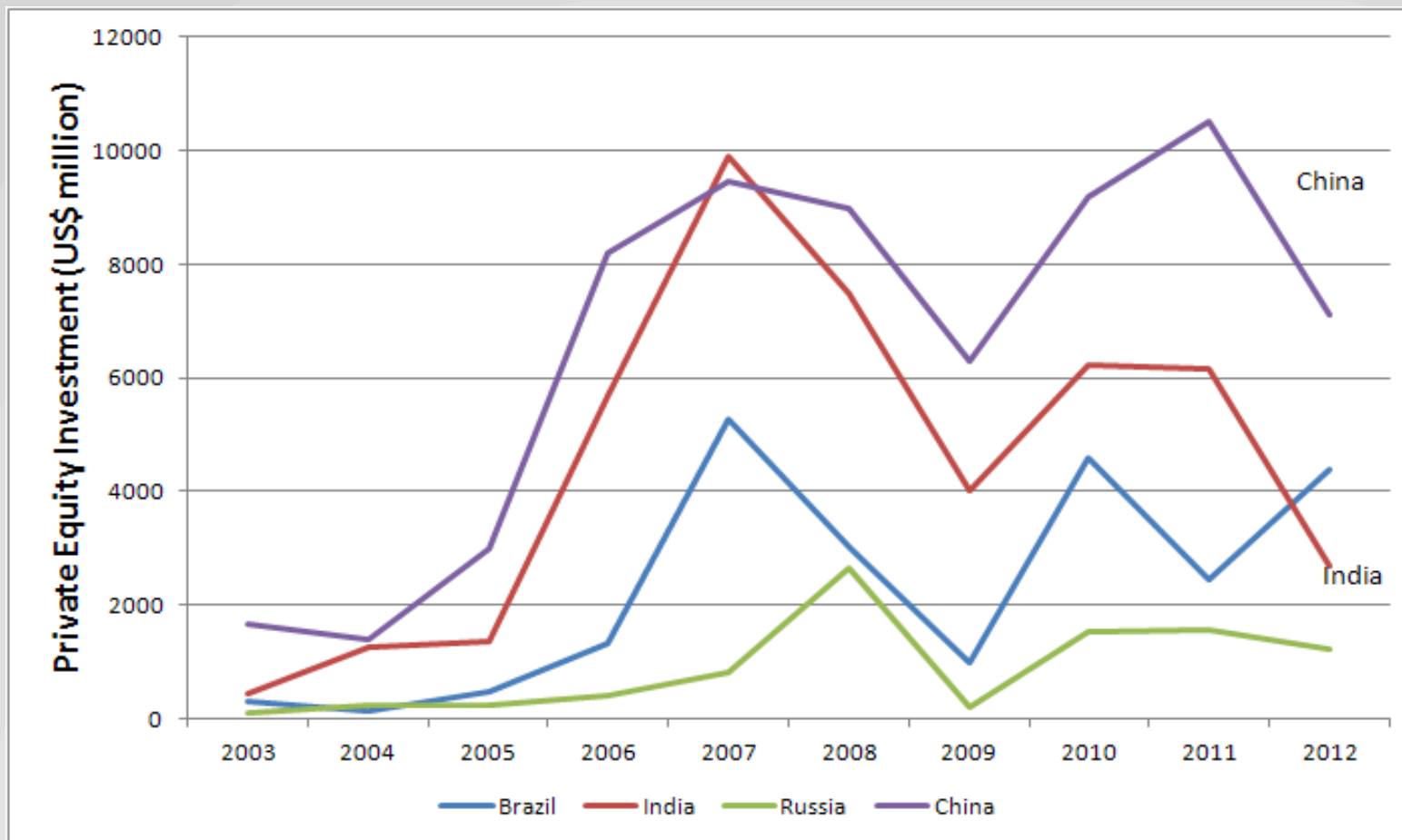
Source: Interim results 2010 Census, GVcepe research.

The evolution of committed capital is impressive, increasing more than 6 times since 2004 and 2 fold as percentage of GDP. In 2009, 37% of the committed capital in the Brazilian PE/VC industry was allocated to LP, CVM vehicles represented 36% of this capital and Equity Participation Funds (FIPs) represented 20% of the capital committed to Brazil.

Note: exchange rate USD/R\$ was 2.28 in Dec. 2009.

Brazil private equity investment has surpassed India

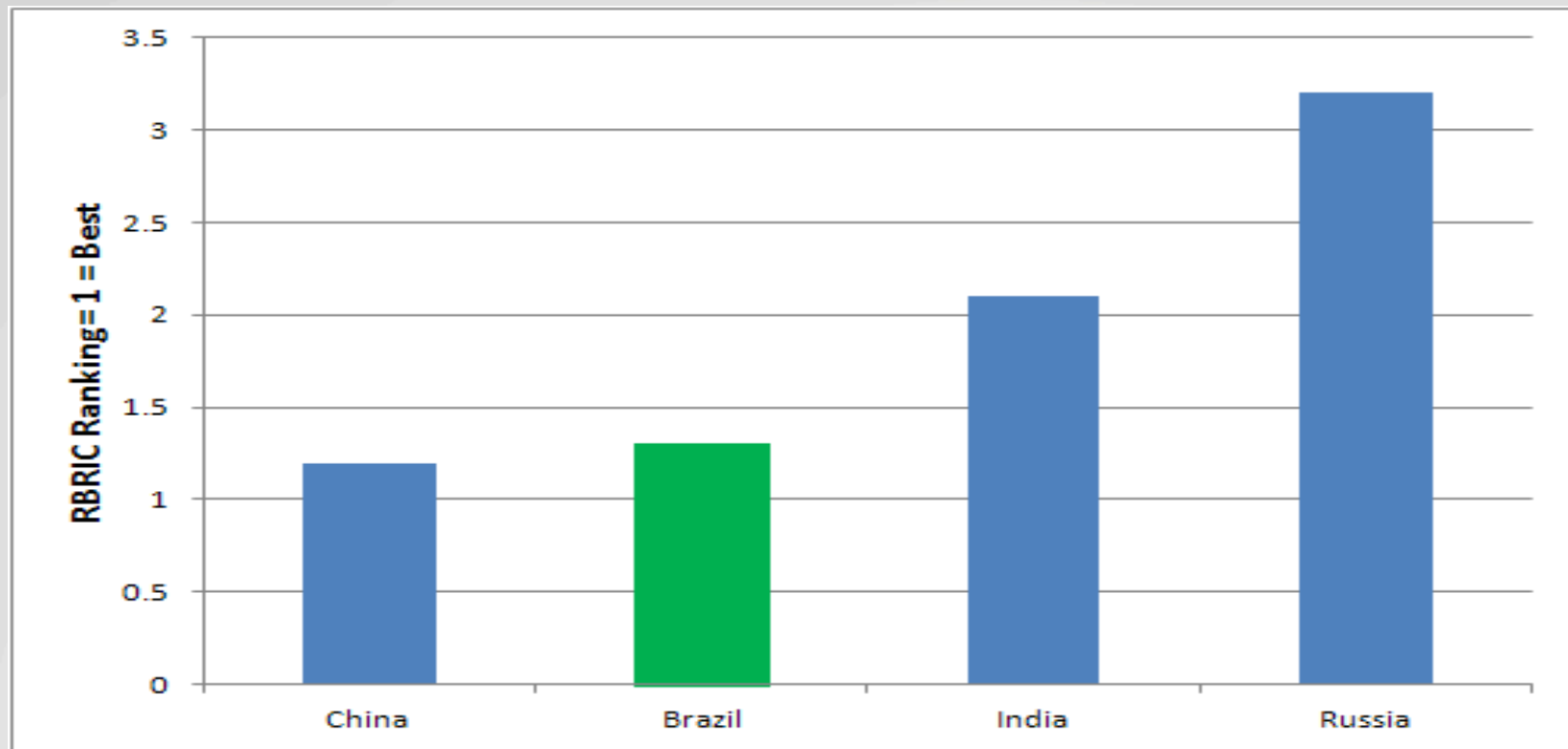
Private equity investment in Brazil has been resilient to the financial crisis



Source: Emerging Markets Private Equity Association

Survey of private investors suggest continued interest in Brazil market

Question: Rank BRIC countries according to their investment perspectives (1=best)

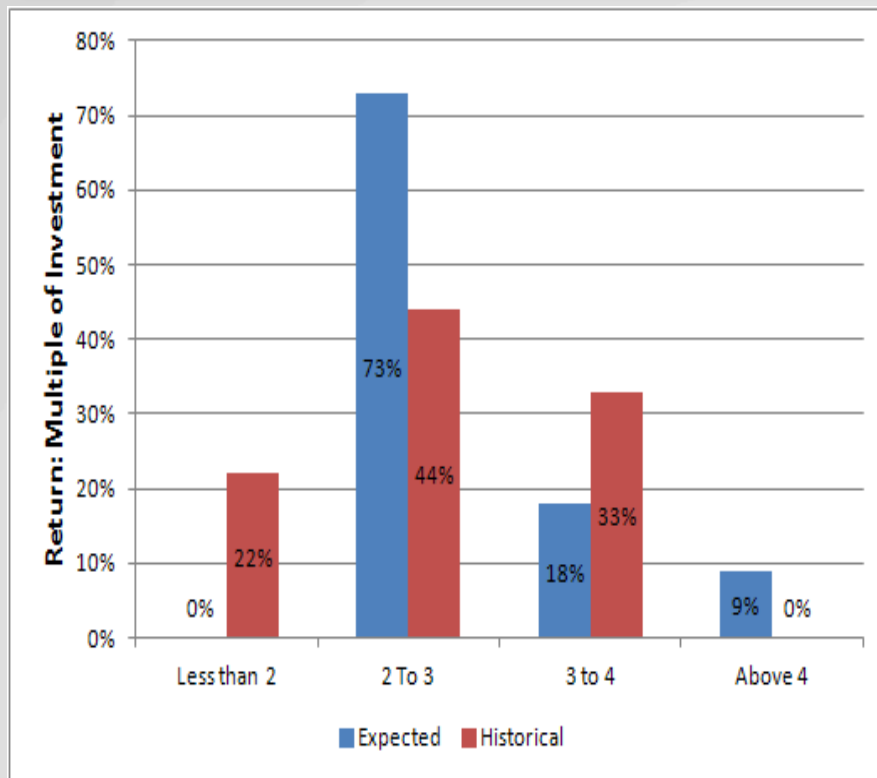


Source: INSEAD-PwC Survey, 2011

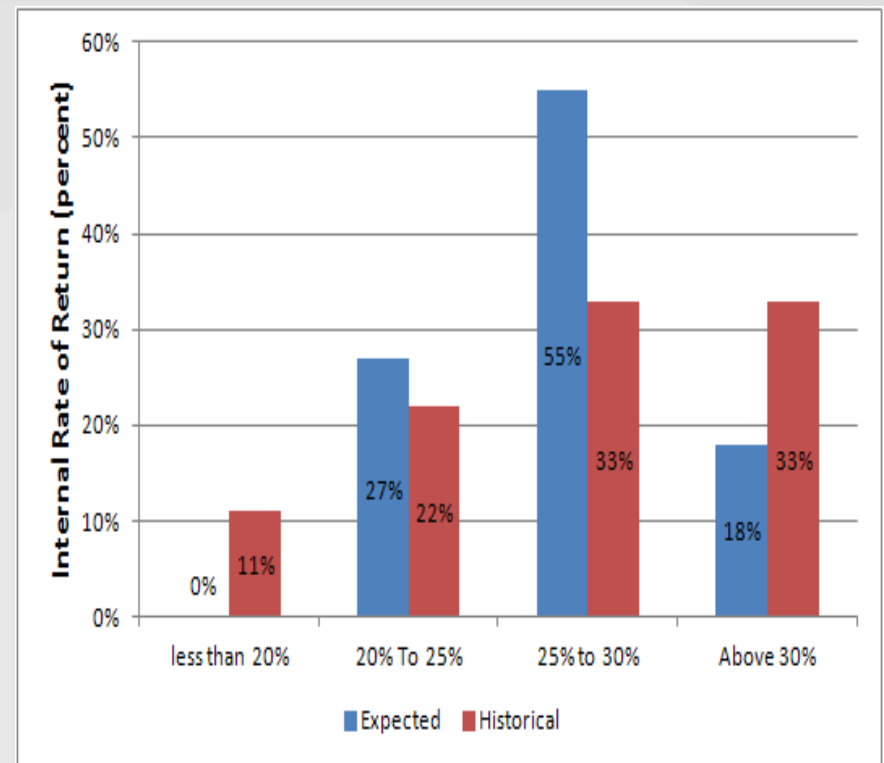
Interest in Brazil market consistent with return expectations

Question: What is your historical and expected return on PE investment in Brazil

Return: Multiple of Investment (% of respondents)



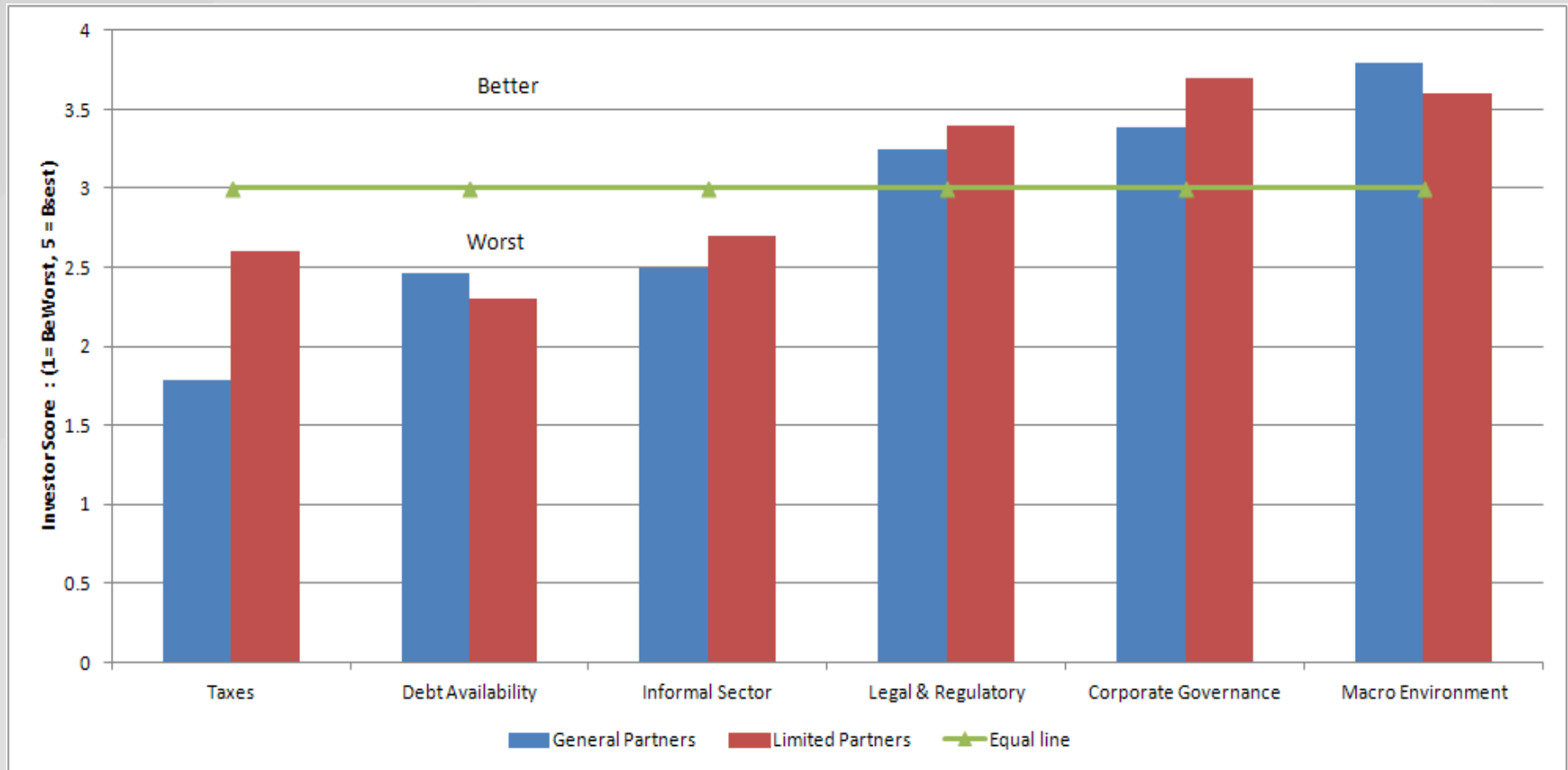
Return: Internal Rate of Return (% of respondents)



Source: INSEAD-PwC Survey, 2011

Where does Brazil beats and lags other BRIC countries ?

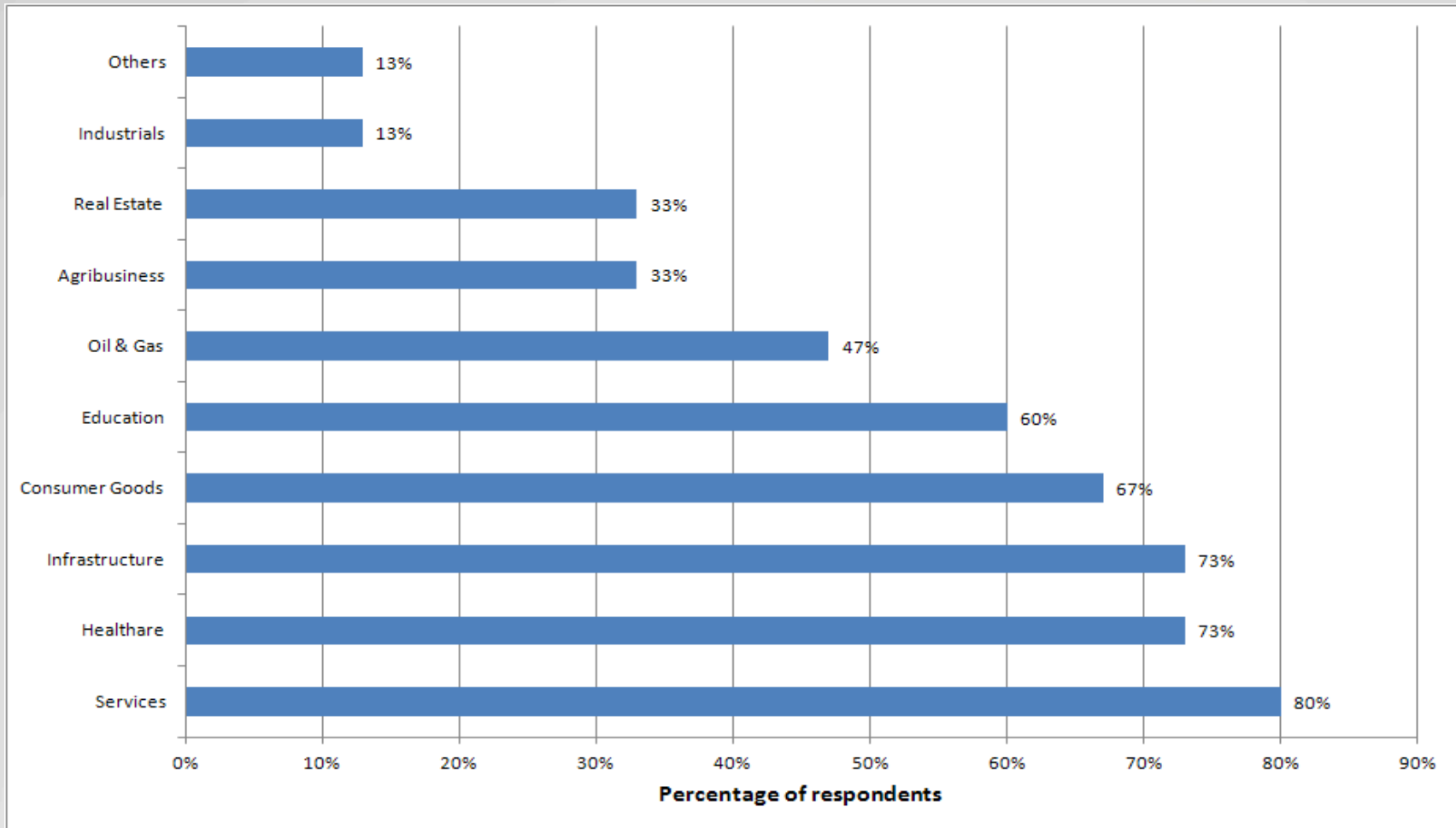
Question: How do you evaluate the following factors in Brazil compared to other BRIC countries : (1 being worst, 3 same, 5 best)



Source: INSEAD-PwC Survey, 2011

Private equity investors show greater interest in services, healthcare, and infrastructure

Question: Which are the most attractive industry sectors in Brazil?



Source: INSEAD-PwC Survey, 2011

BNDES Investment plans forecast also focus on infrastructure

	2008-2011		2013-2016		
	R\$ billion	% of total investment	R\$ billion	% of total investment	% change from 2008-11
Oil and gas	275,84	9,3%	404,93	10,6%	46,8%
Mining	67,17	2,3%	57,02	1,5%	-15,1%
Auto sector	41,92	1,4%	62,52	1,6%	49,1%
Paper and cellulose	20,93	0,7%	30,39	0,8%	45,2%
Sugar cane / ethanol	47,22	1,6%	4,62	0,1%	-90,2%
Chemical	23,21	0,8%	30,18	0,8%	30,0%
Steel	35,40	1,2%	27,81	0,7%	-21,4%
Electroelectronics	22,09	0,7%	28,06	0,7%	27,0%
Apparel and textiles	11,68	0,4%	14,10	0,4%	20,7%
Healthcare and pharma	10,43	0,4%	11,83	0,3%	13,4%
Air	3,15	0,1%	10,20	0,3%	223,8%
Other	287,99	9,8%	351,67	9,2%	22,1%
Total Industry	847,03	28,7%	1033,33	27,1%	22,0%
Electricity	160,33	5,4%	166,02	4,4%	3,5%
Telecommunications	84,76	2,9%	101,80	2,7%	20,1%
Water & waste treatment	33,96	1,2%	42,40	1,1%	24,9%
Roads	40,00	1,4%	68,72	1,8%	71,8%
Rail	27,22	0,9%	76,91	2,0%	182,5%
Ports	9,74	0,3%	24,36	0,6%	150,1%
Airports	3,41	0,1%	9,24	0,2%	171,0%
Total Infrastructure	359,42	12,2%	489,45	12,9%	36,2%
Transport services	158,58	5,4%	217,35	5,7%	37,1%
Residential Construction	596,30	20,2%	770,00	20,2%	29,1%
Other	989,67	33,5%	1296,41	34,1%	31,0%
Total Other	1744,55	59,1%	2283,76	60,0%	30,9%
TOTAL INVESTMENTS	2951,00	100%	3806,54	100%	29,0%

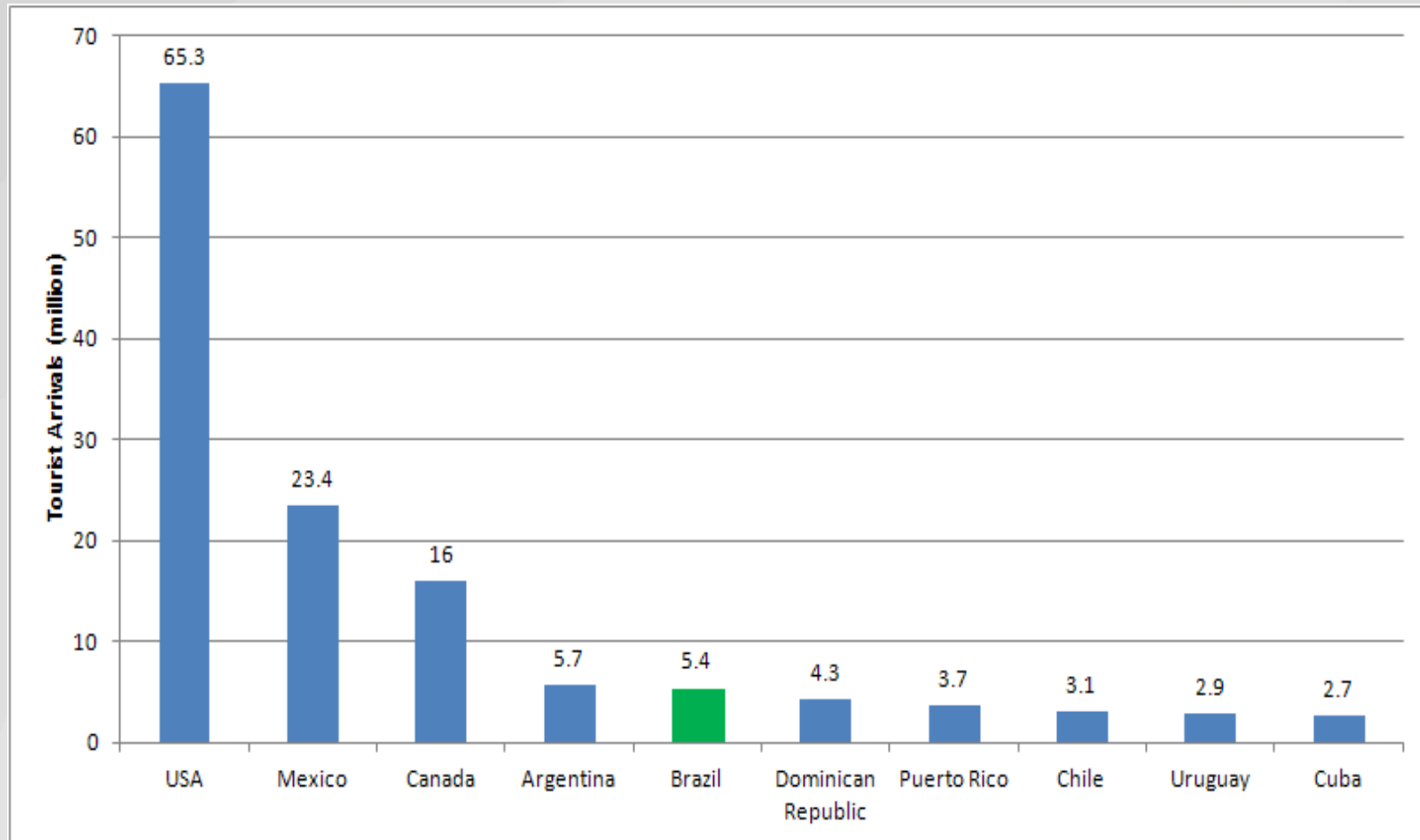
World ranking of consumer markets: Brazil 8th

Country	World Ranking	Country	World Ranking
USA	1	Russia	9
China	2	Italy	10
India	3	Mexico	11
Japan	4	Turkey	16
Germany	5	Argentina	22
United Kingdom	6	Colombia	28
France	7	Peru	42
<u>Brazil</u>	<u>8</u>	Chile	45

Source: World Economic Forum

There is ample room to expand tourism in Brazil

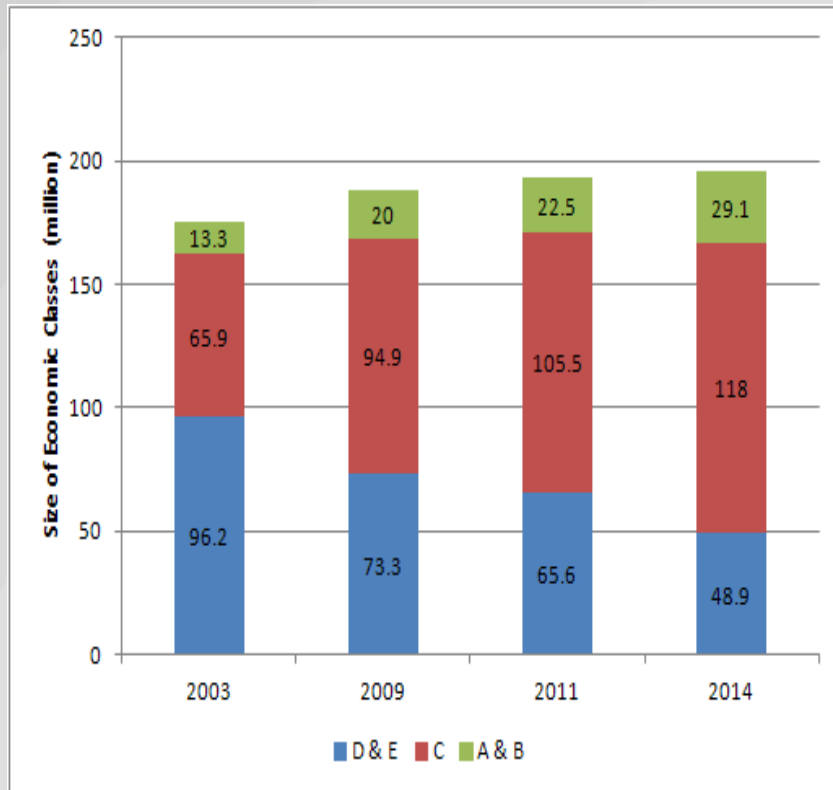
International tourist arrivals in the Americas (million)



Source: World United Nations Tourism Organization

Brazil: middle class will continue to grow

Relative size of economic classes (million)



Source: CPS-FGV

Economic Classes: household earnings per month

	Household Earning Per-Month (R\$)	
	Minimum	Maximum
Class E	0	1085
Class D	1085	1734
Class C	1734	7475
Class B	7475	9745
Class A	9745	

Note: Prices of July 2011

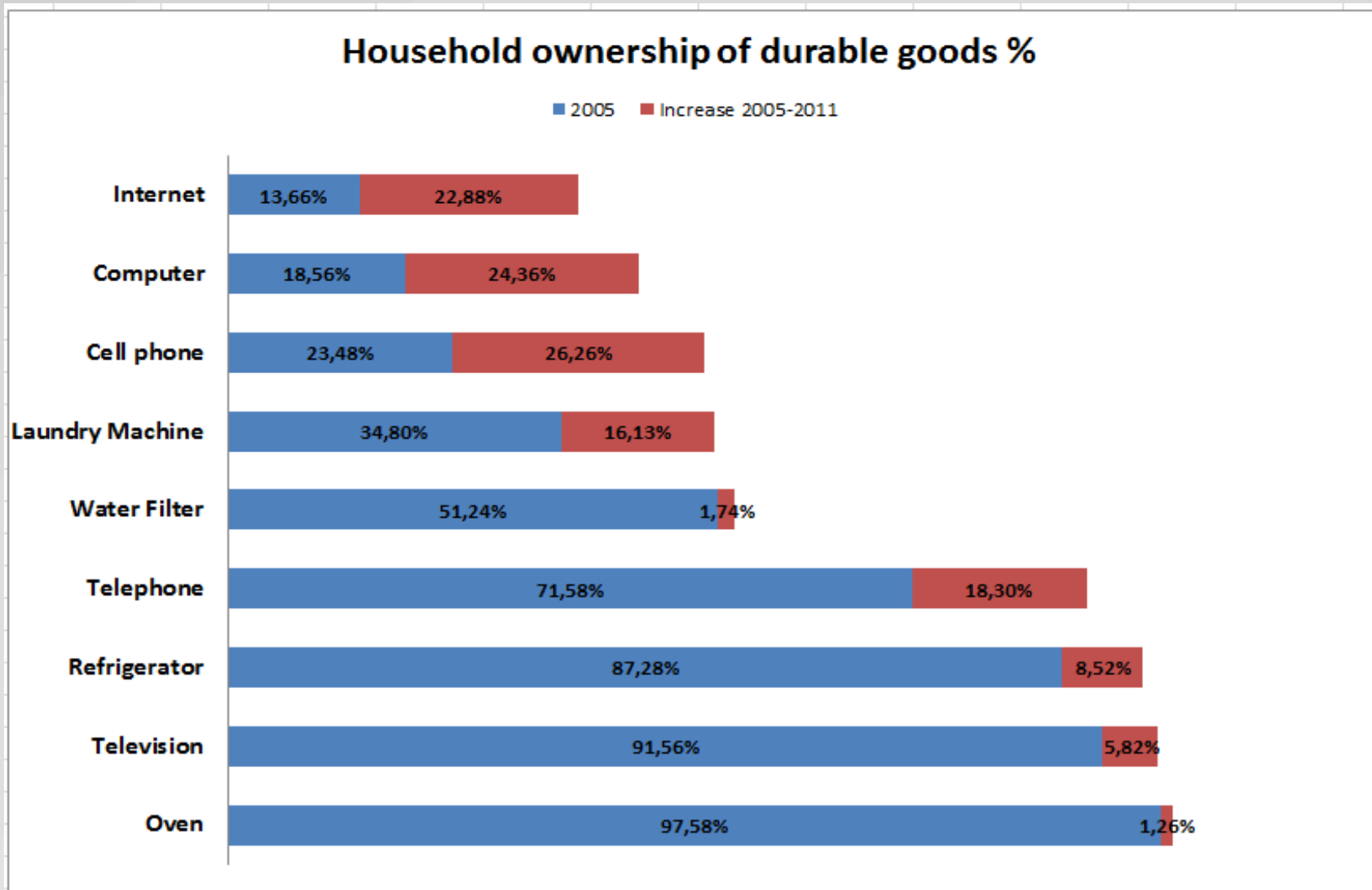
Brazil: access to products by income group

Unmet needs provide potential business opportunities

Product	Class A&B	Class C	Class D	Class E
Computer & Internet	76	<u>34</u>	10	7
Mobile phone	96	<u>86</u>	77	63
Average years of schooling	12	<u>7</u>	5	5
College Education	48	<u>10</u>	2	2
Sewage	72	<u>58</u>	40	31
Daily Garbage Collection	92	<u>87</u>	77	64
Laundry Machine	86	<u>53</u>	25	16
Refrigerator	100	<u>97</u>	93	80
Television	100	<u>98</u>	96	91
Freezer	36	<u>18</u>	8	6

Source: CPS-FGV, as of 2009

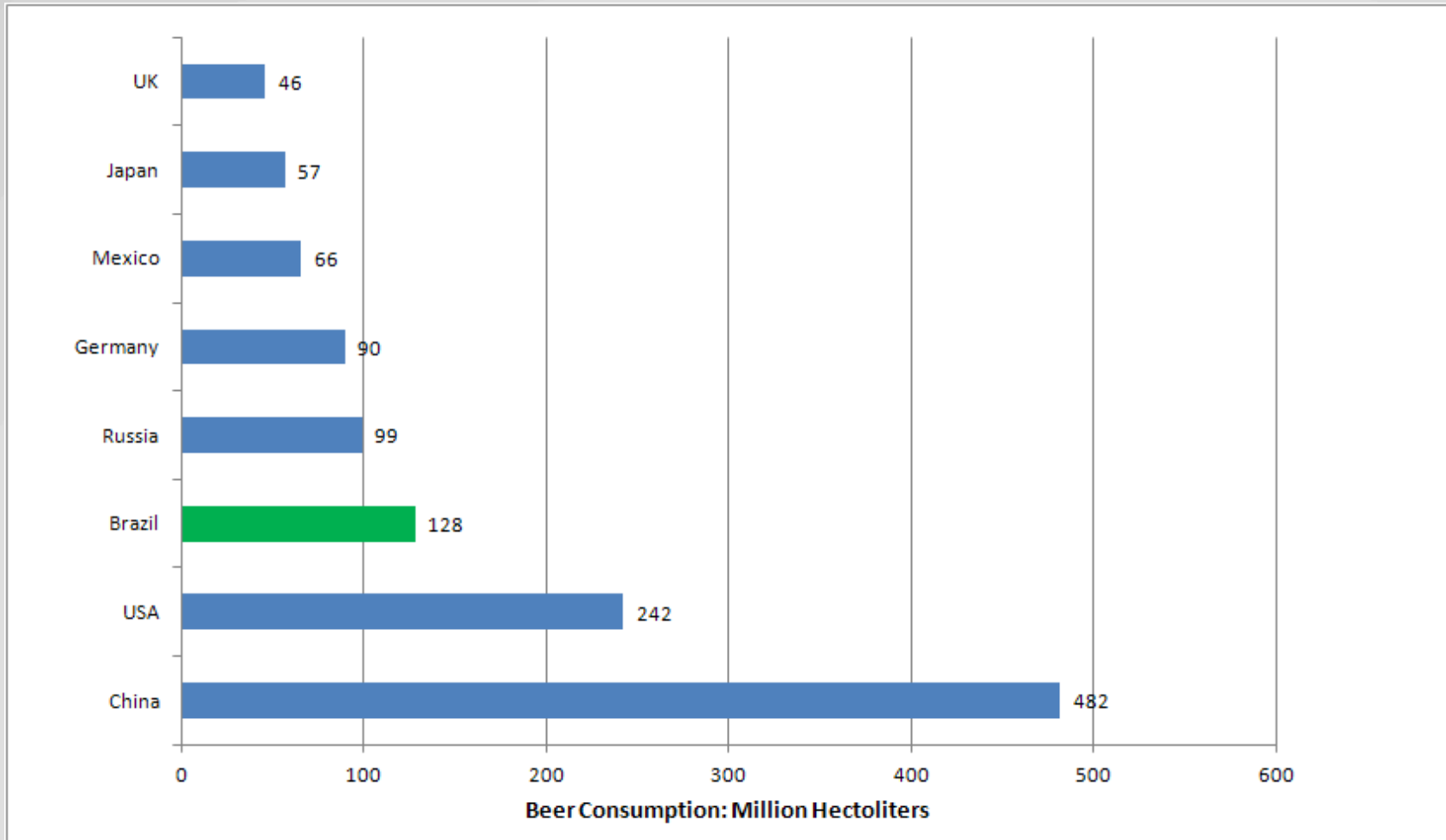
Brazil: household ownership of durables goods



Source: PNAD IBGE

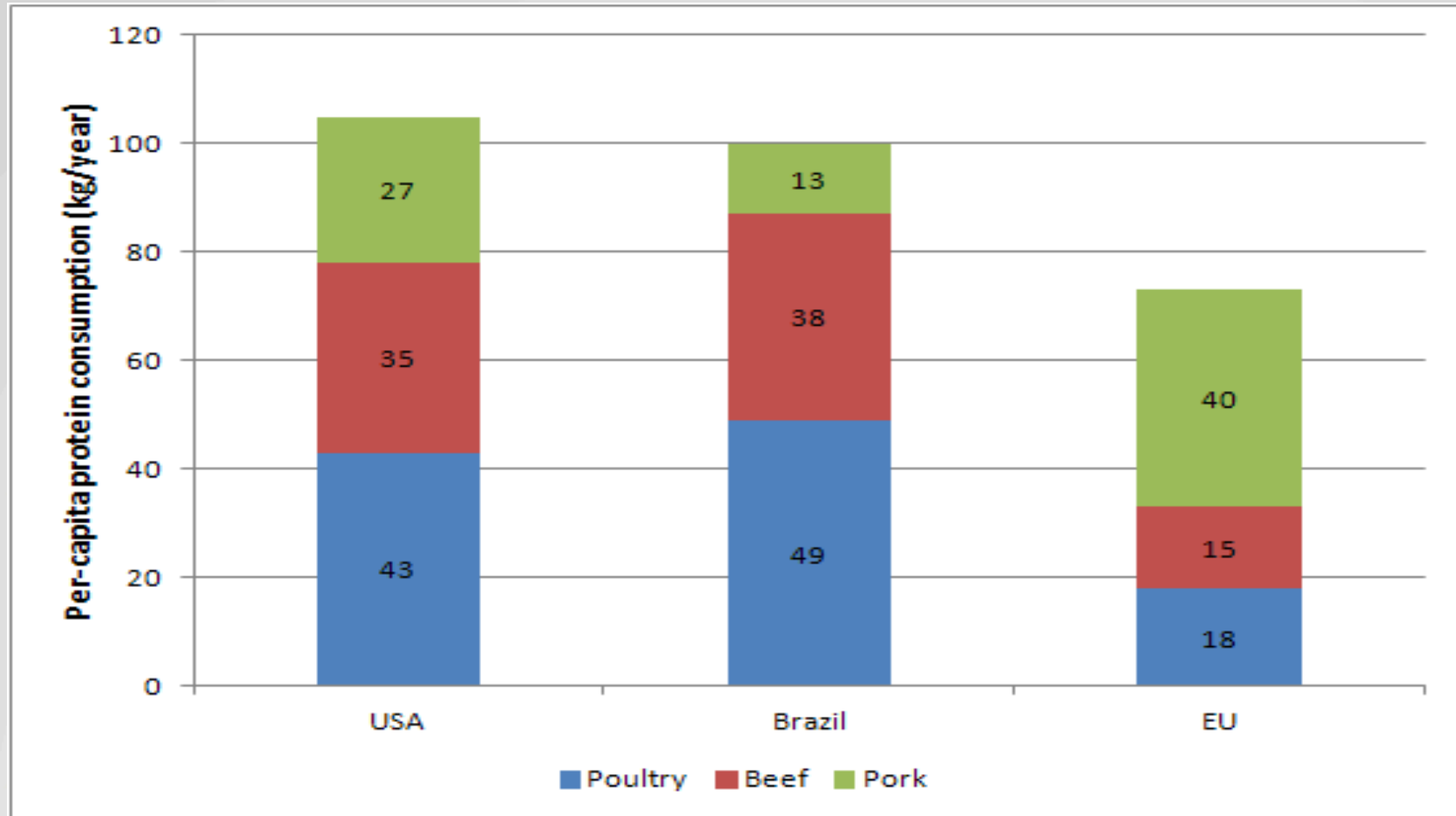
World beer market: Brazil 3rd

Top 8 World Beer Markets (million of hectoliters)



Brazil: protein consumption

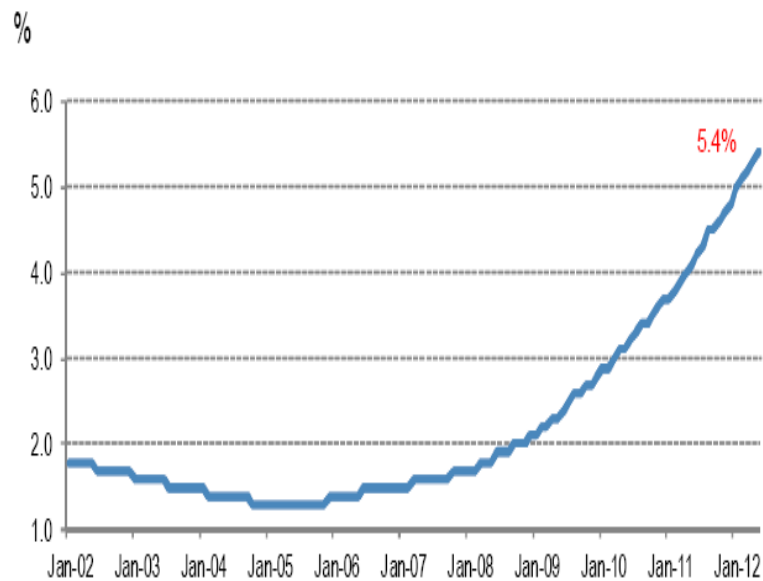
Brazil per-capita protein consumption above EU near par with US(kg/year)



Source: USDA

Brazil: room for mortgage to increase

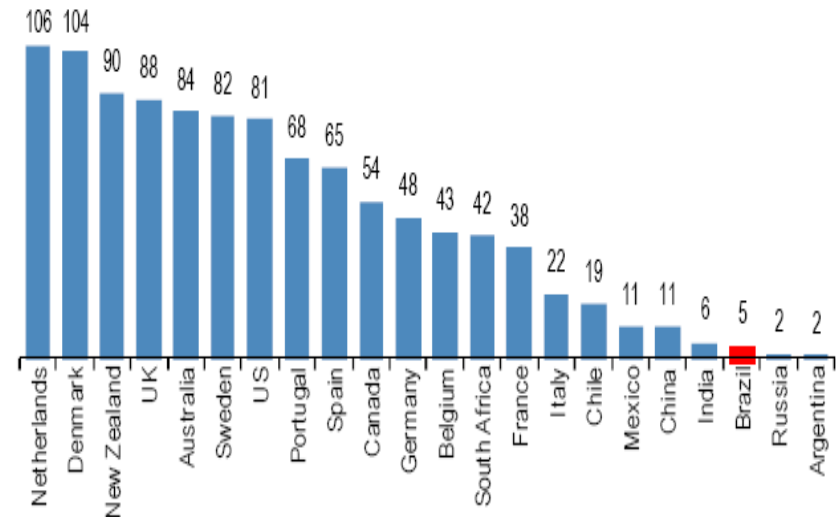
Figure 108: Mortgages as % of GDP



Source: J.P. Morgan, Banco Central do Brasil

Figure 109: Mortgages by Country

as a % of GDP



Source: ABECIP. All countries based on 2009 data, except Brazil (2011), Australia, Canada, South Africa, Chile and India (2008).

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IV. Conclusions

- ❑ Brazil has reaped the low hanging fruits of growth thanks to political and macroeconomic stability
- ❑ The next stage of growth that would allow the country to avoid the middle income trap depends heavily on private investment in strategic sectors.
- ❑ Going forward, growth in Brazil will have to rely much more on productivity gains and less on labor supply. Private equity can enhance this process by enabling technological and management efficiency gains
- ❑ The crisis around the world has forced countries to focus on improving their competitiveness and attract private capital
- ❑ Private equity has an opportunity to enter areas that will have the most positive externalities for the economy, increasing their returns in the process.