Private Equity in Brazil

September 2011

TresVista
FINANCIAL SERVICES

Private Equity in Brazil

Table of Contents

1. Executive Summary
2. Macroeconomic Overview
3. Private Equity Trends in Brazil
4. Expectations of Private Equity Investors
5. Risks and Mitigating Factors
6. Comparison of Brazil with Emerging Markets
7. Potential Sectors for Private Equity Investments
8. Outlook
9. Appendices

TresVista
FINANCIAL SERVICES

Executive Summary

TresVista
FINANCIAL SERVICES

Executive Summary

Unlocking Brazil's Latent Potential

- **Increasing Private Equity Investments**

  Private equity funds invested US$4.6 bn in Brazil in 2010, versus US$1.0 bn in 2009 & US$3.0 bn in 2008. PE investments in Brazil have increased at a CAGR of 36.1% over the past 4 years

- **Favorable Macro Environment**

  Brazil has experienced rapid economic growth in the last decade due to a confluence of many factors including increasing young population, rising wealth levels, rich natural resources, stable political climate, and significant infrastructure requirements

- **Fragmented industries dominated by family-owned businesses**

  Limited access to capital by family-owned businesses highlight the need for PE funding necessary for consolidation in fragmented sectors such as retail and education

- **Increasing Depth of Brazil's Capital Markets**

  Capital markets in Brazil have matured, driven by confidence of global investors, which has widened exit options for PE investors, making IPO's a preferred exit mode

- **Limited PE penetration**

  PE investments amount to only 0.16% of Brazil's GDP, compared to 1.41% for USA, 0.61% for India, and 0.21% for China, indicating that significant opportunity exists for PE firms to capitalize on Brazil's growth. Foreign funds have started increasing presence in Brazil, either alone or through local partners

Brazil Macroeconomic Overview

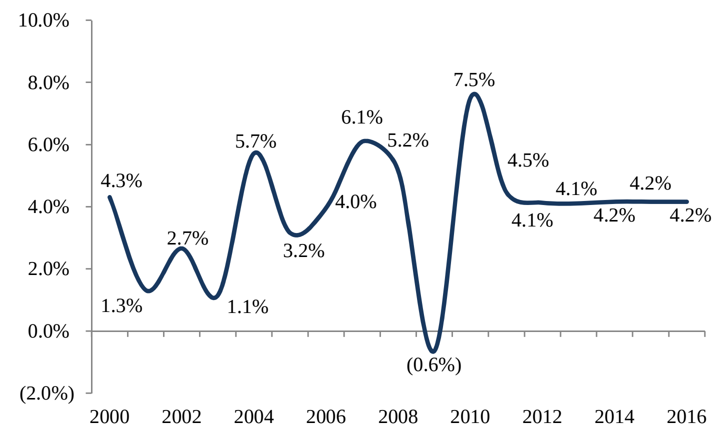
TresVista
FINANCIAL SERVICES

Brazil Macroeconomic Overview

Growth Factors

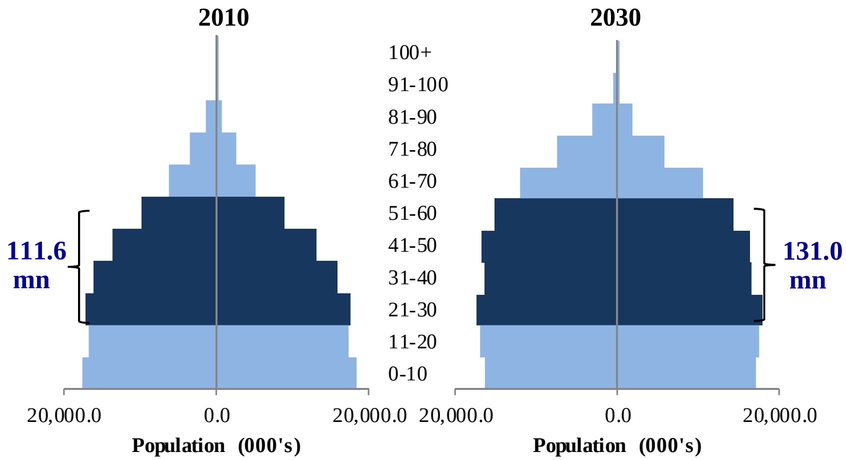
Steady GDP Growth

- Brazil is the 6th largest economy in the world in terms of nominal GDP
- It has shown strong real GDP growth of 7.5% in 2010 and is expected to grow at ~4.1% through the next 5 years[1]



Increasing Youth Population

- The GDP growth is being fueled by growing young population and burgeoning middle class. 55.8%, or 111.6 mn of Brazil's population is between 20–60 years of age, and this is expected to increase to 131.0 mn, by 2030[2]



Steady growth in Brazil is supported by favorable demographics

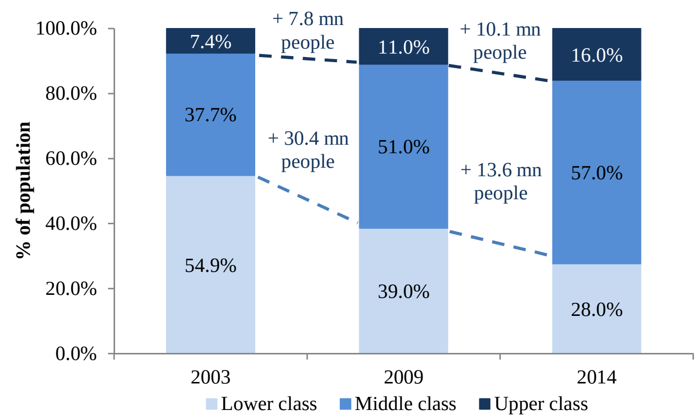
Sources:
(1) IMF
(2) U.S. Census Bureau

Brazil Macroeconomic Overview

Increasing Income & Consumption

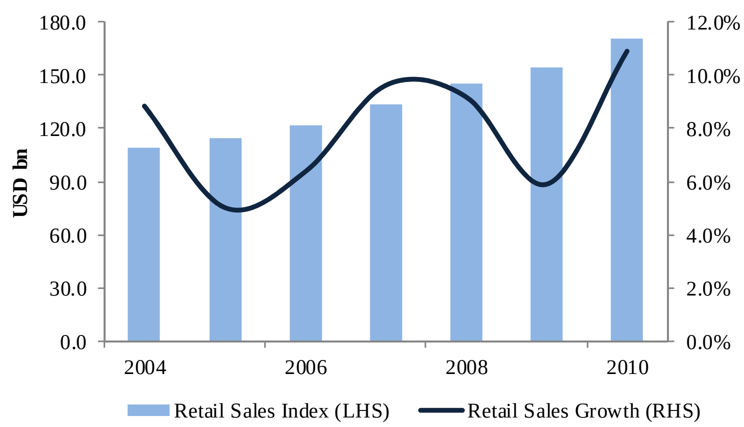
Increasing Wealth

- The reformist policies of the Brazilian government have always paid attention and tried to reduce social inequalities within the society
- Consequently, the middle class has added 30.4 mn people from 2003 to 2009, and is expected to add 13.6 mn more people by 2014, & lower income population is expected to decline from 54.9% to 28.0% of the population between 2003 - 2014[1]



Higher Consumption

- Retail sales in Brazil have increased at a CAGR of 8.1% from 2003 to H1 2011,[2] which has been supported by lower inflation than what Brazil has historically experienced



An increase in wealth level in the economy has boosted consumption expenditure

Sources:
(1) PriceWaterhouseCoopers – INSEAD Survey, 2011
(2) IBGE

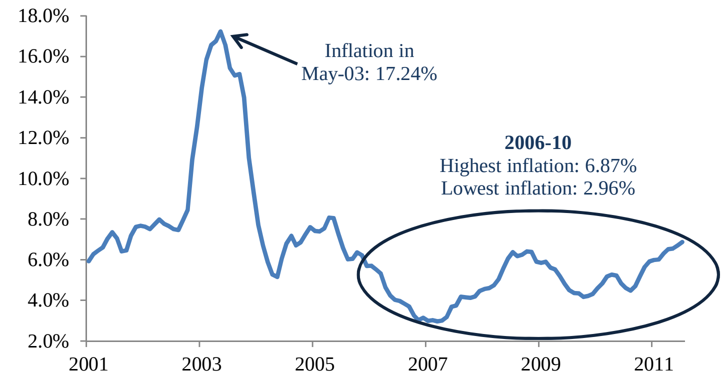
Brazil Macroeconomic Overview

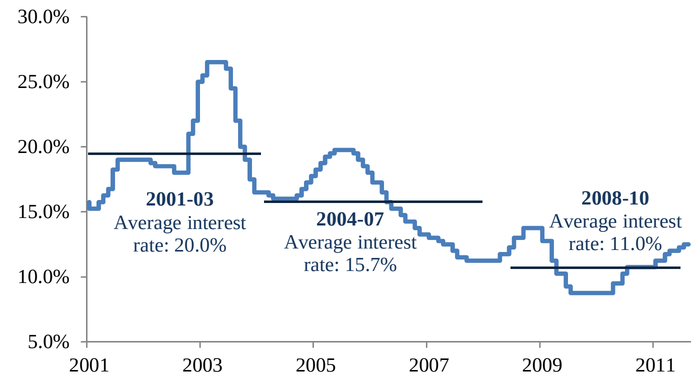
Economic Stability

Tamed Inflation & Stable Interest Rates

- An unstable inflation has always been the major challenge of the Brazilian government
- Post 2004, with political stability, the government and the Central Bank of Brazil have displayed commendable maturity in handling the fiscal and monetary policy
  - Inflation has reduced significantly, with an average inflation of 6.42% in H1 2011, compared to 14.8% in 2003
- Effective monetary policy has led to increasing attractiveness of Brazil for foreign investors, boosting FDI investments into the country and leading to appreciation in currency & growth in equity markets

Historic Inflation [1] & Interest Rates [2]





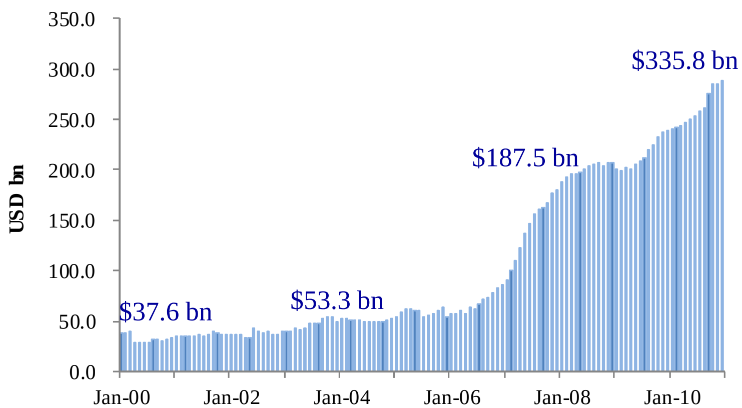
Stringent monetary policy discipline has helped Brazil overcome its biggest hurdle – inflation

Sources:
(1) Inflation.eu
(2) Banco Central do Brasil

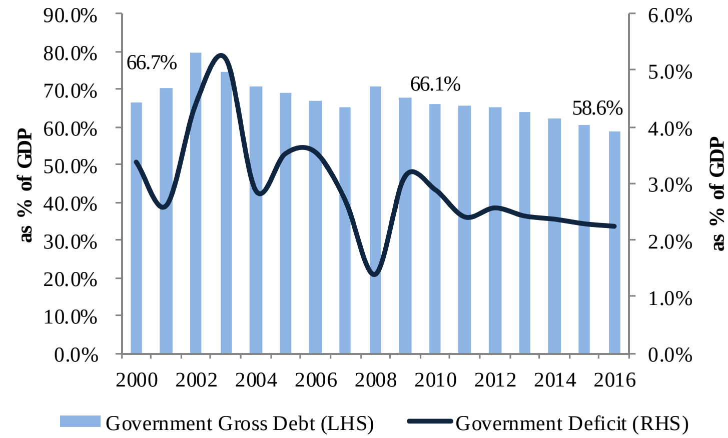
Brazil Macroeconomic Overview

Strong Foundation

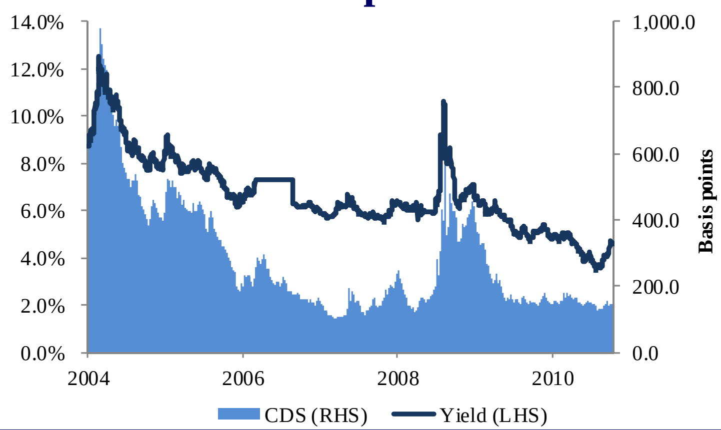
Increasing Forex Reserves [1]



Falling Debt & Deficit [2]



Reduced Risk Perception [3]



Sustainable Growth

- Trade surplus & strong FDI inflows led to ~10.0x increase in forex reserves over 9 years to US$335.8 bn as of June 2011
- Also, falling debt and deficit as a % of GDP indicates a sustainable growth
- This has led to reducing risk perception, reflected by falling yields & CDS premium

Stable macroeconomic environment has increased investor interest & confidence in the Brazil story

Sources:
(1) Banco Central do Brasil
(2) IMF
(3) Bloomberg

TresVista
FINANCIAL SERVICES

Brazil Macroeconomic Overview

Government Initiatives

Economic and Social Reforms

- Since early 1990's, the Brazilian government has taken a reformist stance, first to stabilize rampant inflation and rising deficits, and later to achieve social equity and make the country investor-friendly
  - **1994; Plano *Real:*** Plano *Real* helped create a new currency, which was initially pegged to the dollar. The plan also included cutting government expenses & raising interest rates to reduce inflation and attracting foreign investments to manage balance of payments
  - **2003; Bolsa Família:** The program provides & encourages children's education and vaccination by direct cash transfers to families that send their children to school, as well as meals to children. The program has led to rising incomes for poor and helped pull millions out of poverty
  - **2007; Programme Aceleração do Crescimento (PAC):** PAC entails massive investments in building infrastructure, such as transportation, water, and power. Phase I (2007–10) comprised investments worth US$346.4 bn, and Phase II (2011 – 14) entails investments worth US$526.0 bn. The plan was primarily implemented to make Brazil ready for the Football World Cup in 2014 and the Olympics in 2016
  - **2009; Minha Casa Minha Vida:** Launched with an initial investment of US$35.0 bn (topped with US$47.3 bn in 2011), this program offers housing to the poor for free or through subsidized loans
  - **2010; IFRS Implementation:** Between 2006 and 2007, the securities market regulator, Securities Commission (CVM) and the Central Bank implemented various guidelines that effectively make IFRS adoption mandatory from 2010

Timely and appropriate government measures have steered the economy towards growth

Sources: Industry research, news articles

Private Equity Trends in Brazil

TresVista
FINANCIAL SERVICES

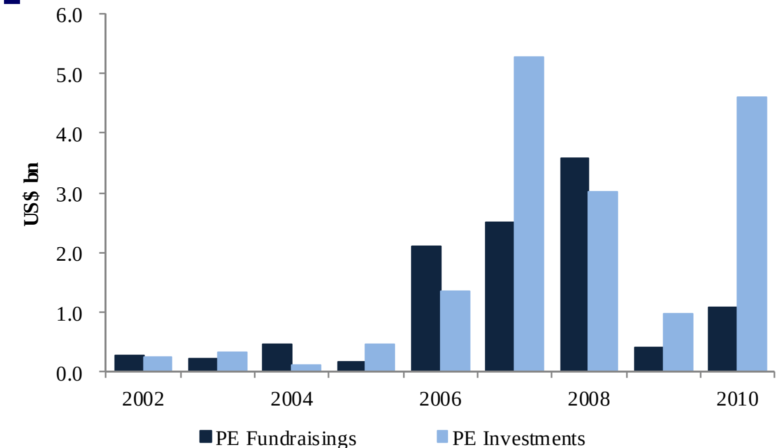
Private Equity Trends in Brazil

Introduction

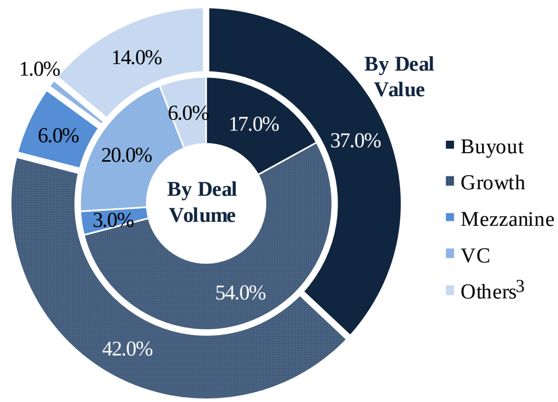
Current Scenario

- Brazil has 151 active funds, and local funds raised 58.0% of Brazil-focused funds in 2010[1]
- PE funds invested US$4.6 bn in Brazil in 2010, representing 69.3% of investments in Latin America and 16.0% of investments in EMs[2]
- Brazil focused PE funds raised US$1.1 bn in 2010, while Latin America focused funds (which are mandated to invest in Brazil as well) raised another US$4.3 bn[2]
- Growth capital investments dominate PE investments in Brazil, reaffirming investors belief in Brazil's growth potential
- Buyout deals have reduced from 48.0% in 2009 to 37.0% in 2010 by value and from 20.0% to 17.0% in the same period by volume, reflecting aversion to debt and high borrowing costs

Brazil Fundraisings & Investments [2]



Stage-wise PE Investments [3]



Heightened PE activity in Brazil on back of strong revenue growth, with local funds playing a major role

Sources:

(1) PriceWaterhouseCoopers – INSEAD Survey, 2011

*(2) EMPEA; **Note:** Fundraisings includes amount raised by local Brazilian PE funds*

*(3) Ocroma PE update, May 2011; **Note:** Others includes greenfield, start-up, turnaround, and bridge investments*

TresVista FINANCIAL SERVICES

Private Equity Trends in Brazil

Evolution of Private Equity in Brazil

Regulatory Changes Supporting PE in Brazil

Throughout 90s: Brazil's privatization program gathered steam to reduce fiscal pressures

1994 – Plano *Real*: New currency, *real* introduced and pegged to USD; legally enforced balanced budgets; plan helped in long term to eliminate chronic high inflation

1999: Currency devalued by Central Bank after Asian & Russian crisis; dollar peg removed; inflation rises; interest rates hiked

2000: Nova Mercado segment of BOVESPA launched with strict corporate governance rules

2000 - 2005: Brazil's economy marred by high inflation and interest rates, and negative sentiment due to dot-com bust, 9/11, and Argentinian default

2002: Pension funds allowed to invest in PE

2003: Regulatory approval for Fundo de Investimentos em Participações (FIP) as a vehicle for foriegn investment

2006: President Lula's re-election reinforced confidence in Brazil's policy stability

2008: S&P upgraded Brazil to investment grade, followed closely by Fitch & Moody's in 2009

2008 – 2009: The global financial crisis proved to be a blip for Brazil, economy contracts only 0.6% in 2009 and resumes rapid growth trajectory in 2010

2010: IFRS made mandatory for all listed companies

1990 — 1995 — 2000 — 2005 — 2011

- Low inflation attracted FDI, leading to *real* appreciation
- First steps of PE in Brazil - local banks & institutions started funds, a few international firms establish presence
- Most major deals arose from privatization, such as buyout of América Latina Logística by GP Investimentos
- In 1999, funds lost money due to *real* devaluation; rising inflation & interest rates made PE investments unattractive

- Decline in investments due to deteriorating macro-economic and global conditions
- Funds struggled with capital raising
- Most international investors left the country
- PE deals done at low multiples, and funded by local HNIs

- Favorable economic climate benefited the PE cycle
- Local PE firms raised large funds
- International firms returned to Brazil, established offices and formed partnerships with local institutions
- Better disclosures and increased transparency helped boost investor confidence

Favorable regulations and conducive economy play well for PE investors

Source: Industry research

TresVista FINANCIAL SERVICES

Private Equity Trends in Brazil

Evolution of Private Equity in Brazil - Growth Factors

Small Family-Owned Firms

- Most industries in Brazil are dominated by family-owned businesses, which are characterized by limited access to capital. Rapid growth has thrown up organic and inorganic growth opportunities, resulting in significant capital requirements. With expensive corporate lending, companies perceive PE as more viable
- PE investments also result in higher transparency & professionalism, due to board membership for PE firms, and operating partners becoming managers. Acceptance of IFRS is also helping GPs understand companies
- Fragmented sectors such as education and retail have seen a lot of PE activities in the recent years, as large firms aim to increase market share by consolidation

Wider Exit Options

- Earlier, the most common exit available to PE firms was strategic sale
- However in the recent years, exit options for PE firms have increased tremendously
  - With maturing capital markets in Brazil, IPOs have become the preferred mode of exit for PE firms
  - As more international PE firms look to invest in Brazil, opportunities for secondary PE deals will also increase, as firms without expertise in Brazil will buy-out stakes from other PE firms
  - Strategic deals still remain a key mode of exit

Positive perception of PE among family businesses has caused adoption of transparency initiatives

Source: Industry research

Private Equity Trends in Brazil

Recent Foreign Fund Activities in Brazil

Increasing Presence of Foreign Funds

- In the last few years, foreign funds have increased their presence in Brazil, opening offices, hiring local teams, and launching Brazil or Latin America focused funds
- Brazil is a diverse market, with various differences in demographics, incomes, and customs among different regions.
- As a result of these differences, PE firms establishing presence in Brazil need to hire local talent or have partnerships with local firms, to take these factors into account while investing
- Increasing presence of foreign funds with more funds at disposal is also likely to make competition for deals more intense, inflating deal valuations

Date	PE Firm	New Activity in Brazil
Aug-11	G5 Advisors (Evercore Partners)	US$1.0 bn fundraising launched to invest in Brazil
May-11	KKR and TPG Capital	KKR & TPG, are said to be recruiting teams to open offices
Apr-11	3i	Appointed ex-Standard Bank PE partner to open & head Brazil operations
Feb-11	Siguler Guff & Company	Opened office in Sao Paolo & hires Brazil MD
Jan-11	Partners Group	Established office in Sao Paolo
Nov-10	Starwood Capital	Hired staff to launch Brazil operations
Jul-10	Carlyle Group	Set up US$227.0 mn joint fund with Banco do Brasil (Brazil Central Bank)
Mar-10	Warburg Pincus	Set up office in Sao Paolo

Foreign PE funds have recognized Brazil as a favorable investment destination

Sources:
(1) Preqin

Private Equity Trends in Brazil

Growth Factors

Why PE is on the rise in Brazil

Sources: Industry research

TresVista FINANCIAL SERVICES

Private Equity Trends in Brazil

Regulatory Provisions for PE in Brazil

Key Regulatory Provisions

Fund Structures	• Brazil has 2 fund frameworks – *fundos mutuos de investmento em empresas emergentes* (FIEE), for VC activity and *fundos de investimento em partipacoes* (FIP) for PE funds. FIP's are exempt from capital gains and distribution taxes. As a result, they have emerged as a preferred mode of PE investments. They however have to be registered with the market regulator CVM
Minority Shareholders' Rights	• The current corporate law provides protection to minority shareholders, with provisions such as mandatory distribution of dividends and limits on preferred shares in capital structure. Shareholders having 10.0% stake have right to elect 1 member of the audit committee
Pension Funds Governance Issue	• Brazilian pension funds demand a seat on investment committees of funds they invest in, compromising their role as LPs and leading to a governance conflict. As a result, Brazilian fund managers face difficulty securing commitments from international investors. The Brazilian PE association has passed a self regulation code to address the problem, but its impact is yet to be judged

The government has strived to make more investor friendly & simplified laws

Sources:
(1) LAVCA Scorecard, 2011.

Private Equity Trends in Brazil

Regulatory Provisions for PE in Brazil

Key Regulatory Provisions

Local Funds Investment in PE	• Open pension funds (not limited to employees and retirees from specific companies) may invest 60.0% of AUM in variable income instruments including PE funds. Since September 2009 closed pension funds may invest 10.0% of reserves in PE/VC and 10.0% in offshore funds. Insurance companies may invest up to 50.0% of reserves in variable-income instruments, such as shares
Local Accounting Quality	• Move toward International Accounting Standards (IAS) has been rapid in recent years. Companies listed on the Novo Mercado section of the stock exchange must use US GAAP. All listed corporations as well as financial companies transition to IFRS by 2010

The government has strived to make more investor friendly & simplified laws

Sources:
(1) LAVCA Scorecard, 2011.

Expectations of Private Equity Investors

TresVista
FINANCIAL SERVICES

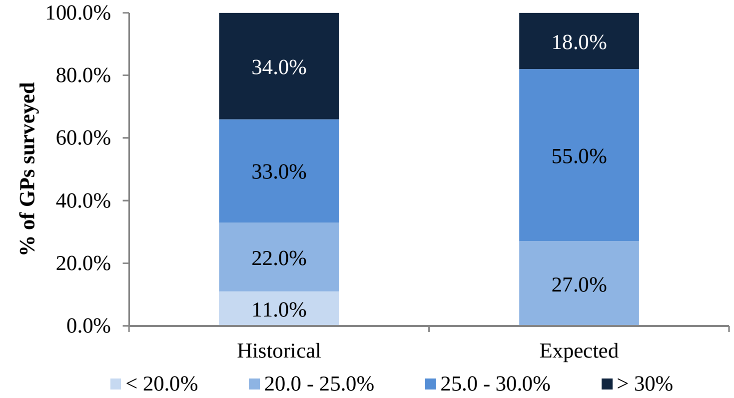
Expectations of Private Equity Investors

Returns Expectation

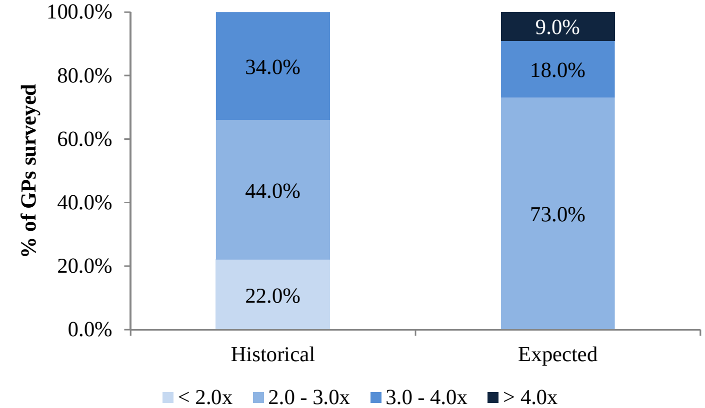
Expected Exit Multiple & IRR

- Private equity GPs are very bullish about prospects of Brazilian companies
  - All GPs expect returns of more than 20.0% in the future
  - 33.0% GPs have generated returns of 25.0% - 30.0% historically, and 55.0% expect to generate such returns in the future
  - 9.0% GPs expect more than 4.0x exit multiple
- 14.0% GPs want to commence investing in Brazil, the highest among all emerging countries
- Most GPs already invested in Brazil plan to increase their investments 3-fold over the next 3 years

Historical and Expected IRR's [1]



Multiple of Investment [1]



Most GPs expect to generate higher returns due to favorable valuations

Sources:
(1) PriceWaterhouseCoopers – INSEAD Survey, 2011
.

TresVista FINANCIAL SERVICES

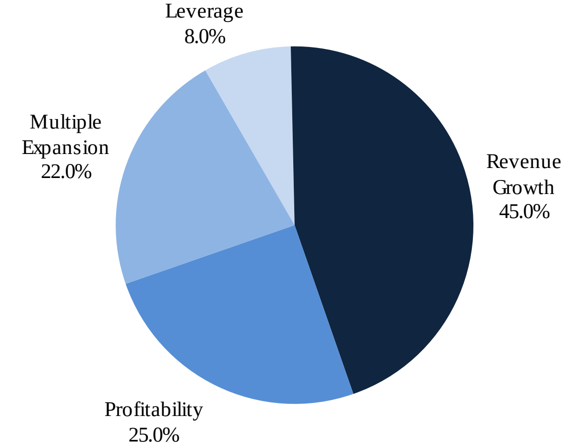
Expectations of Private Equity Investors

Other Expectations

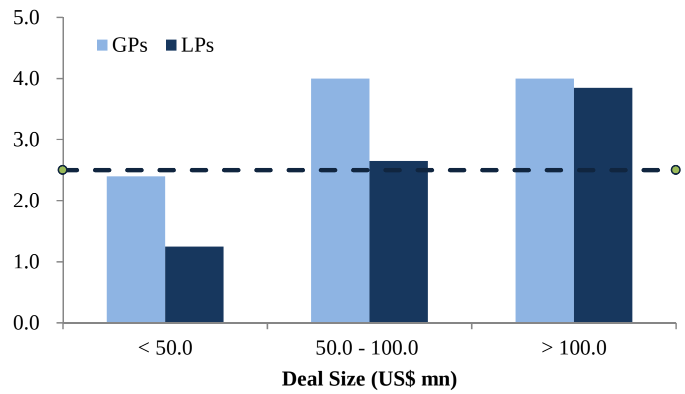
Sources of Returns and Competition

- Brazilian PE investors expect returns to be generated from multiple sources:
  - Substantial majority of GPs believe in the growth potential of Brazilian companies, making them bigger and driving economies of scale to increase efficiency and profitability
  - 22.0% GPs believe multiple expansion to generate returns, due to favorable market conditions, better prospects & better exits
  - Leverage is the least important source of value creation, as high interest rates make leverage unattractive
- An increase in the number of PE funds in Brazil has also heightened competition for deals, especially for mid and large size investments, where international funds are active

Sources of Return Generation [1]



Expected Level of Competition [1]



Most GPs expect higher growth and increasing profitability to drive the PE returns

Sources:
(1) PriceWaterhouseCoopers – INSEAD Survey, 2011

TresVista
FINANCIAL SERVICES

Risks and Mitigating Factors

TresVista
FINANCIAL SERVICES

Risks and Mitigating Factors

Key Challenges to Brazilian PE

Obstacles to PE firms in Brazil and Mitigating Factors

Risks Faced	Mitigating Factors
Currency Appreciation	
Brazil's currency has appreciated 8.3% in the last year, making investing in the country unattractive for foreign funds	In January 2011, the government reduced tax on foreign currency inflow by PE investors and certain FDI investments from 6.0% to 2.0%[1]. Also, in August 2011, BM&F Bovespa exchange launched derivative contracts against 6 currencies to enable currency hedging
Complicated Tax System	
Brazil has a complicated tax system, with 19 types of taxes, and companies bearing 3 different taxes. The system also lacks transparency, resulting in inadvertent breach, which attracts penalties ranging from 75.0%-150.0%[2]	Brazil has made a lot of minor tax changes to simplify the system. Currently a major tax amendment is pending in the congress for approval. The current administration of President Rousseff has made it a priority, and political analyst expect the bill to pass with relative ease
Unavailability of Debt	
Brazilian banks charge an interest of ~20.0% on corporate loans. This makes it difficult for PE funds to make use of leverage in deal structures, significantly limiting their returns. Also, this gives an inherent advantage to foreign funds having access to low cost debt from abroad	While credit availability is increasing gradually, Brazilian PE firms have evolved models focusing mainly on growth and operational efficiency for returns. Also, PE firms don't prefer big-ticket deals which would require leverage, focusing instead on mid-sized companies with more growth potential

Government steps to stem currency rise & simplify taxes will remove major challenges to PE

Sources:
(1) Insead-PriceWaterhouseCoopers Survey, 2011
(2) Ernst & Young report "Private Equity in Brazil," 2010

Risks and Mitigating Factors

Key Challenges to Brazilian PE

Obstacles to PE firms in Brazil and Mitigating Factors

Challenges Faced	Mitigating Factors
Informal Activities	
The informal Brazilian economy accounts for approximately 18.4% of Brazilian GDP[1]. Funds waste considerable time & resources in due diligence, and sometimes also have to forgo a deal	Informal activity has reduced in Brazil from 21.0% of GDP in 2003 to 18.4% currently[1]. The government has put in place strict laws to protect interests of investors specifically against unlawful activities. Also, companies are now dis-incentivizing informal activities since it makes capital raising / acquisitions more difficult
Corporate Governance and Transparency	
Most companies in Brazil are family owned, and many of them lack corporate governance and transparency. Lack of professionalism also deters PE investors	Higher PE investments in Brazil's family-owned businesses is itself driving companies to adopt strict corporate guidelines and become more transparent. Also, PE firms are using professional managers to run and supervise company operations. Moreover, there has been a change in the attitude of the businesses also, with more voluntarily opting for better governance standards

Increasing professionalism is gradually reducing challenges rooted in Brazil's societal set-up

Sources:
(1) Insead-PriceWaterhouseCoopers Survey, 2011

Comparison of Brazil with Select Emerging Markets

TresVista
FINANCIAL SERVICES

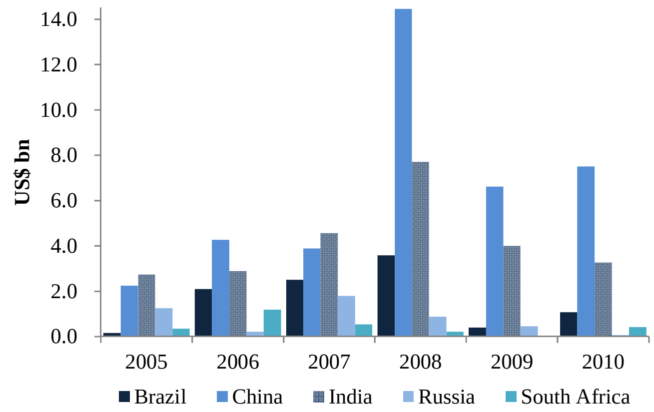
Comparison of Brazil with Select Emerging Markets

Brazil and the BRICSA

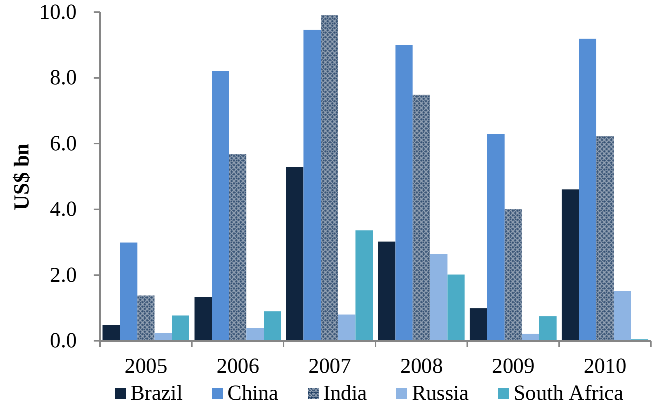
Fundraising & Investments

- Among BRICSA nations, Brazil lags behind China and India. Though PE activity is higher in India, Brazil is catching up fast
- In China, most funds seem to ignore increasing inflation and transparency issues, to pursue the high returns China has to offer
- Poor infrastructure coupled with a weak political and legal system have hampered growth prospects in South Africa
- The robust increase in PE investments in Brazil post-2009, compared to other BRICSA nations where investments remained almost flat, further highlights the growth prospects of the economy and stability of government policies

Brazil v/s BRICSA Fundraising [1]



Brazil v/s BRICSA Investments [1]



Fundraising & investments in Brazil have been rising faster compared to other BRICSA nations

Note: BRICSA = Brazil, Russia, India, China, and South Africa
Sources:
(1) EMPEA

TresVista FINANCIAL SERVICES

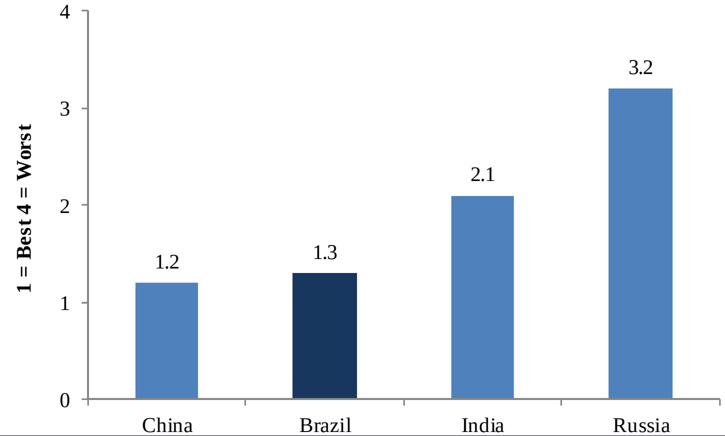
Comparison of Brazil with Select Emerging Markets

Brazil and EMs

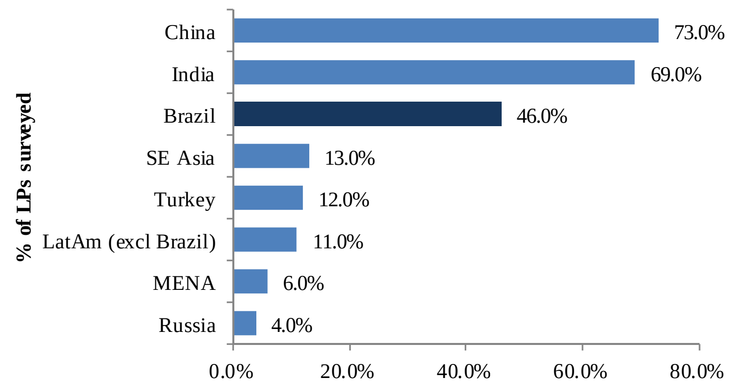
Risk Perception & Competition

- PE investments in Brazil are perceived to be less risky compared to India and Russia
- Increasing policy obstacles in India versus growth oriented Brazilian policies led most LPs to contemplate a portfolio re-balance & invest in Brazil, which has higher risk adjusted returns
- 70.0% of the LPs surveyed wanted to increase their investments in Brazil 3.0x in the next 3 years
- Brazil is also perceived to have less intense competition for PE deals compared to China & India, implying that valuations are *currently* more attractive than India & China
- The bright prospects of Brazil as a PE destination is re-affirmed by the fact that there is still higher level of competition than all other EMs (excluding China & India), since more firms are showing interest in Brazil

BRIC's Risk Perception [1]



Intensity of Competition



Lesser risk perception and favorable valuations makes Brazil attractive for PE firms

Sources:

(1) PriceWaterhouseCoopers – INSEAD Survey, 2011

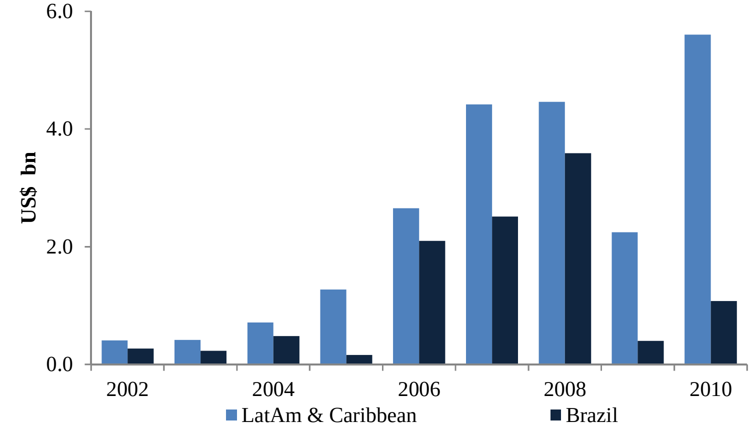
Comparison of Brazil with Select Emerging Markets

Brazil and LatAM

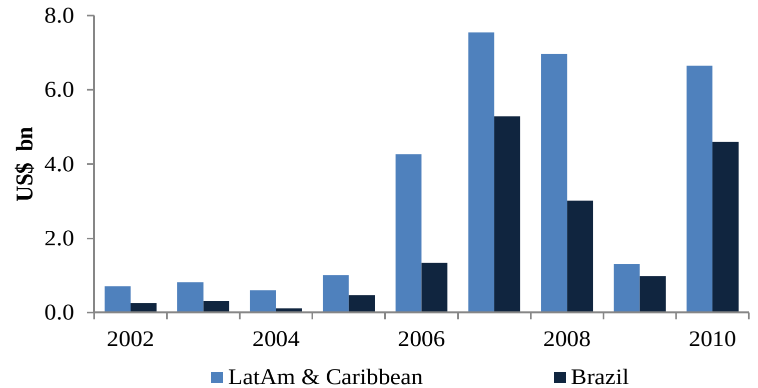
Fundraising & Investments

- Brazil is the clear leader in Latin American and Caribbean in terms of funds raised (~19.2% of LatAm funds raised in 2010) and investments (69.3% of LatAm investments in 2010)
- Brazil is the largest country in LatAm by area and economic size. This makes the economy more diversified than most other regional countries, offering more growth sectors and investment opportunities for PE firms to capitalize
- Compared to most regional countries, Brazil has historically displayed more commitment towards reformist and investor-friendly policies
- The country's holistic development policies, relative under-penetration of PE funds and foreign investors, and abundance of opportunities makes the country ripe for increasing investments

Brazil v/s LatAm Fundraisings [1]



Brazil v/s LatAm Investments [1]



Large size, diversity, and holistic policies make Brazil a leader in LatAm

Sources:
(1) EMPEA

TresVista FINANCIAL SERVICES

Potential Sectors for Private Equity Investments

TresVista

FINANCIAL SERVICES

Potential Sectors for Private Equity Investments

Select Industries

Consumer Industries

- Increasing young population, rising middle class population and growing purchasing power bodes well for consumer-driven businesses in Brazil
  - Sales of products such as electronic goods, cars, food & beverages, cosmetics, and textiles are growing rapidly
  - Sectors such as retail, restaurants, recreation, and e-commerce are also looking attractive
- Fragmented consumer industries with opportunities for consolidation has led to increased attractiveness for PE investors
- With an increasing propensity to consume non-food & luxury items and falling interest rates, consumer industries have tremendous growth potential

Infrastructure

- Infrastructure development has long been a challenge to growth. Until recently, the government refused to increase spending on infrastructure to control deficits
- Brazil is set to host 2 of the world's biggest sporting events - Football World Cup in 2014 and Olympics in 2016.
- As per government estimates, US$906.5 bn will be required to bring infrastructure up to speed, of which the games will demand investments of US$36.5 bn[1]
- The government introduced PAC specifically to address these challenges
- The power sector, which requires investments of ~US$400.0 bn, is appealing to PE investors, mainly due to stable regulatory framework[1]

Demographics and government spending make consumer & infra industries attractive

Source:
(1) PriceWaterhouseCoopers – INSEAD Survey, 2011

TresVista FINANCIAL SERVICES

Potential Sectors for Private Equity Investments

Select Industries

Financial Services

- Financial services saw the largest PE deal in Brazil - a group of investors including the Rothschild & Agnelli families and Asian & MENA based sovereign wealth funds invested US$1.8 bn in BTG Pactual in December 2010[1]
- Brazilian financial institutions weathered the financial crisis on account of to strong capitalization, less troubled assets, and the legacy of strict regulatory oversight
- Reducing interest rates and increasing accessibility to local population is deepening the reach of banks and insurance firms
- With Brazil on the radar of global investors and corporates, investment banking and fund management activity is likely to increase significantly, making these sub-sectors appealing to PE investors

Oil & Gas

- The 2007 oil discovery off the coast of Rio has tremendous economic & financial implications on the sector and the economy as a whole
- This discovery will help double Brazil's oil production to 4.0 mn barrels by 2020, and will require an investment of ~US$224.0 bn from Petrobras alone to develop the oil assets[1]
- Since then the sector has seen increasing interest from PE investors
- Improving prospects for the sector is also leading to favorable outlook for ancillary industries in the industry supply chain that provide various services to oil & gas majors, and these will require extensive capital investments

Rising financial activity and oil discoveries bode well for PE investments in these industries

Sources:-
(1) PriceWaterhouseCoopers – INSEAD Survey, 2011

Potential Sectors for Private Equity Investments

Select Industries

Education

- As of March 2010, more than 22.0% of Brazil's workers were unqualified to meet demands of the recruiters[1]
- To reduce the skill-mismatch, the government invested heavily in basic education, and has provided tax incentives to private players in higher education
- The market size of the education sector is US$36.0 bn currently and has shown a growth of 18.7% CAGR over the last 9 years[2]
- The post-secondary education market is very highly fragmented, with the top 20 institutions accounting for only 25.4% of students. This makes the sector ripe for PE-backed consolidation[1]

Information Technology

- Brazil is the largest market for IT in the LatAm region. The sector is poised to grow at 13.1% in 2011, generating revenues of US$39.0 bn[2]
- Brazil offers a well developed market in information technology outsourcing and business process outsourcing
- With increasing focus on operating efficiencies, use of IT systems is likely to grow multi-fold
- E-commerce & B2B software are being increasingly used for marketing, making them attractive to the PE investors
- Brazil's cultural background and predominantly Spanish and Portuguese speaking population makes competition from low-cost Asian countries almost impossible

Increasing importance of education & growing outsourcing industry are major attractions for PE firms

Sources:-
(1) Press articles
(2) PricewaterhouseCoopers - Insead Survey, 2011

Outlook

TresVista
FINANCIAL SERVICES

Outlook

The Way Ahead

Conclusion

- Booming PE activity in Brazil will attract PE secondaries firms, increasing liquidity for PE investors
- On the back of increasing PE activities, number of venture capital funds are likely to rise, spurring entrepreneurs and contributing to the overall growth of the economy
- Sector-specific funds, which are still under developed in Brazil, should also see more activity in coming years, as industries mature and sector-specific funds based abroad enter the country
- Overlooked sectors like infrastructure and consumer industries, with their untapped potential are likely to be some of the driving forces of private equity activities in the coming years
- Sectors such as retail, luxury products, & automobiles among others will also see significant growth, as a result of improving macro-economic landscape and rising wealth levels of the country
- The current tax system, despite reforms, is still complicated and are likely to be simplified
- Brazil lacks skilled talent and experienced professionals required by PE firms. Local talent needs to be brought up to global standards, so that they can contribute to and capitalize on the growth of PE in Brazil

Brazil's PE industry is likely to mature with more activity across all deal types and industries

Source: Industry research

Appendices

TresVista
FINANCIAL SERVICES

Select Local Fundraisings

Fund Raising Activities by Local Funds

PE Fund Raisings

Vintage	Fund Name	Fund Manager	Strategy	Fund Size (US$ mn)
2011	Angra Partners Fund 2 *	Angra Partners	Expansion / Late Stage	500.0
2011	Axxon Brazil Private Equity Fund II	Axxon Group	Buyout	315.0
2011	BTG Pactual Brazil Investment I	BTG Pactual	Buyout	1,600.0
2011	DFJ FIR Brazil III *	FIR Capital	Venture (General)	200.0
2011	Kinea I Private Equity Fund *	Kinea Investimentos	Buyout	500.0
2011	Pátria Brazilian Private Equity Fund IV	Patria Investimentos	Buyout	1,250.0
2011	Stratus Capital Partners *	Stratus Group	Buyout	300.0
2010	FIP Oil and Gas	Banco Modal	Growth	320.0
2010	CRP VII – Brazilian Middle Market Growth Fund	CRP Companhia de Participações	Growth	190.0
2010	Gávea Investment Fund IV	Gávea Investimentos	Hybrid	1,800.0
2010	Green Capital Oil & Gas Fund	Green Capital	Growth	95.0
2010	Fundo Brasil Sustentabilidade	Latour Capital do Brasil	Expansion / Late Stage	240.0

*Note: * denotes funds which are still being raised, and the fund size for these funds reflect target fund size*
Source:
(1) Preqin

TresVista FINANCIAL SERVICES

Select Local Fundraisings

Fund Raising Activities by Local Funds

PE Fund Raisings (cont'd)

Vintage	Fund Name	Fund Manager	Strategy	Fund Size (US$ mn)
2010	TMG Co-Investment Fund I	TMG Capital Partners	Co-investment	100.0
2010	Vinci Capital Partners II	Vinci Capital Partners	Growth	1,400.0
2009	DGF Terra Viva	DGF Investimentos	Growth	160.0
2009	Green Capital Logistics Fund	Green Capital	Growth	55.0
2009	TMG Private Equity Fund II	TMG Capital Partners	Buyout	275.0
2008	Alothon Fund II	Alothon Group	Buyout	80.0
2008	PROT - FIP	Angra Partners	Buyout	920.0
2008	FAMA Private Equity I	FAMA Investimentos	Buyout	60.0
2008	Gávea Investment Fund III	Gávea Investimentos	Growth	1,200.0
2008	GP Capital Partners V	GP Investments	Buyout	1,100.0
2008	JBVC I Fund	Jardim Botanico Investimentos	Expansion / Late Stage	60.0

Source: Preqin

TresVista FINANCIAL SERVICES

Recent Investments

Recent Investments by PE Funds

PE Deals in Brazil

Date	Target Name	Target Industry	Acquirer Name	Deal Value (US$ mn)
Aug-11	Fogo de Chao Churrascaria	Food Catering	GP Investments Ltd	95.0
Jul-11	Grupo Linx	Enterprise Software	BNDES, General Atlantic	NA
Jul-11	MRV Logistica e Participacoes	Logistics Services	Starwood Capital, Investor Group	221.3
Jul-11	Tenco Realty	Real Estate Developers	Patria Investimentos	NA
Jun-11	Unidas SA	Automobile & Equipment Rental	Gavea Investimentos, Itausa - Investimentos Itau, Vinci Partners Investimentos	190.8
May-11	ADVANCE Medical	Medical Products	Venrock Associates, Private Investor	6.0
May-11	Grupo Confidence	Financial Services	Apax Partners	NA
May-11	Ciashop	B2B E-commerce	IdeiasNet SA	3.2
May-11	ViajaNet	Travel Services	General Catalyst Partners, Redpoint Ventures	19.0
May-11	Brinox Metalurgica Ltda	Housewares	Southern Cross Group	NA
May-11	Peixe Urbano Inc	E-commerce	General Atlantic LLC, Tiger Global Management	NA

Source: Bloomberg, News articles

TresVista FINANCIAL SERVICES

Recent Investments

Recent Investments by PE Funds

PE Deals in Brazil (cont'd)

Date	Target Name	Target Industry	Acquirer Name	Deal Value (US$ mn)
May-11	Exatra Logistica e Transportes	Logistics Services	Equity International Partners	NA
May-11	Exata E-Commerce Comercia de Servicos de Equipamen	E-commerce	Equity International Partners	NA
Apr-11	Hotel Urbano Servicos Digitais	E-commerce	Insight Venture Partners	NA
Apr-11	BGK do Brasil SA	Restaurants	BR Partners	167.2
Apr-11	Cia Brasileira de Tecnologia Digital SA	Electronic Products	Agencia de Fomento do Estado do Amazonas, Fundacao Petrobras de Seguridade Social, and others	43.3
Mar-11	Sascar Tecnologia e Seguranca Automotiva SA	Security Services	GP Investments Ltd	101.4
Feb-11	Sete Brasil Participacoes	Oil & Gas Drilling	BTG Investments, Banco Bradesco, Banco Santander, and others	1,021.6
Feb-11	ALOG Data Centers of Brazil	Web Hosting	Equinix Inc, Riverwood Capital LP	127.0
Feb-11	GuardeAqui Armazenagens Self Storage Ltda	Logistics Services	Equity International Partners	58.0

Source: Bloomberg, News articles

TresVista FINANCIAL SERVICES

Recent Investments

Recent Investments by PE Funds

PE Deals in Brazil (cont'd)

Date	Target Name	Target Industry	Acquirer Name	Deal Value (US$ mn)
Jan-11	Angra Partners Gestao de Recursos e Assessoria Fin	Asset Management	RC Capital Group LLC	NA
Jan-11	Terminal de Conteineres de Paranagua SA	Logistics Services	Advent International	NA
Dec-10	Boa Vista Servicos SA	Financial Serices	TMG Capital	117.9
Dec-10	Banco BTG Pactual SA	Investment Banking	Andrade Gutierrez Participacoes, Angra Partners	1,800.0
Nov-10	VOSTU	Online Media	Accel Partners, General Catalyst Partners, Intel Corp, Tiger Management	30.0
Nov-10	XP Investimentos CCTVM SA	Education	Itau Unibanco Holding	116.6
Nov-10	MULTI Holding	Household Products	Actis LLP	53.0
Sep-10	Patria Investimentos	Asset Management	Blackstone Group LP	200.0
Sep-10	Omega Energia	Energy - Alternate Sources	Tarpon Investimentos, Warburg Pincus	203.4
Aug-10	Scalina Group	Retail	Carlyle Group	159.8

Source: Bloomberg, News articles

Recent Exits

PE Exits and Mode of Exit

PE Exits in Brazil

Date	Target Name	Target Industry	Acquirer / Mode of Exit	Seller	Deal Value (US$ mn)
Aug-11	CVC Brasil Operadora e Agencia de Viagens	Tour Operator	*IPO (Announced)*	Carlyle Group	NA
Jun-11	Brasil Trade Shows Partners Participacoes	Commercial Services	Informa PLC / *Strategic sale*	DLJ South American Partners	105.3
Feb-11	Enesa Participacoes	Engineering	*IPO (Announced)*	Banco Santander and Banco Modal	NA
Jan-11	CETIP SA - Balcao Organizado de Ativos e Derivativos	Financials	*IPO*	Advent International	364.9
Dec-10	Certain Assets (2 melting sites of Aleris International Inc)	Aluminium	MCN Empreendimentos / *Secondary sale*	TPG Capital	NA
Sep-10	Telecom Net	Telecommunications	Euronet Worldwide / *Strategic sale*	Darby Technology Ventures, Intel Capital, Mifactory Fondo de Inversion Privado	NA
Jul-10	Qualicorp Group	Healthcare Services	Carlyle Group / *Secondary sale*	General Atlantic	1,200.0

Source: Bloomberg, Industry research

TresVista FINANCIAL SERVICES

Recent Exits

PE Exits and Mode of Exit

PE Exits in Brazil (cont'd)

Date	Target Name	Target Industry	Acquirer / *Mode of Exit*	Seller	Deal Value (US$ mn)
Jun-10	SSE do Brasil Ltda	Safety products	G4S PLC / *Strategic sale*	Axxon Group	24.7
May-10	TIVIT Terceirizacao	Technology - BPO	Apax Partners / *Secondary sale*	Patria Investimentos and Company Management	1,000.0
Nov-09	International Meal Co Holdings	Consumer Services	*IPO*	Advent International	971.4
Oct-09	Advent Depository	Financial Services	Cetip SA / *Strategic sale*	Advent	450.0
Sep-09	Buscape.com	E-commerce Media	Naspers Limited / *Strategic sale*	Great Hill Partners	342.0
Jul-09	Hoyts Brasil	B2B E-commerce	Cinemark Brasil / *Strategic sale*	Linzor Capital Partners	NA

IPOs have become a preferred mode of PE exits in 2011, compared to strategic sale earlier

Source: Bloomberg, Industry research

TresVista FINANCIAL SERVICES

Foreign Private Equity Fund Activities

Increasing Foreign PE Activities in Brazil

Foreign Activities in Brazil

Fund Name	Country of Origin	Started Brazil Ops	Brazil Activity
3i	UK	2011	Opened office & hired staff including the appointment of ex-Standard Bank PE partner to head Brazil operations
Partners Group	Switzerland	2011	Opened office in Sao Paolo
G5 Advisors (Evercore Partners)	USA	2011	US$1.0 bn fundraising launched to invest in Brazil
KKR and TPG Capital	USA	2011	KKR & TPG, are said to be recruiting teams to open offices
Siguler Guff & Company	USA	2011	Opened office in Sao Paolo & hires Brazil MD
Starwood Capital	USA	2010	Hired staff to launch Brazil operations
Warburg Pincus	USA	2010	Set up office in Sao Paolo
Actis	UK	2010	$169.0 mn invested in 3 deals
Carlyle Group	USA	2010	Invested $1.6 bn in 3 deals; closed 2 South America funds with $1.0 bn in 2011
PineBridge Investments	USA	2010	Opened office & hired staff in 2010
DLJ Partners	USA	2008	Raised $300.0 mn in a South America Fund in 2008 in JV with Credit Suisse
Denham Capital	USA	2008	1 investment in a Brazilian mining firm

Source: Preqin, News articles

Foreign Private Equity Fund Activities

Increasing Foreign PE Activities in Brazil

Foreign Activities in Brazil (cont'd)

Fund Name	Country of Origin	Started Brazil Ops	Brazil Activity
General Atlantic	USA	2008	3 current investments, of which 2 made in 2011; exited Qualicorp by sale to Carlyle
Brookfield Asset Management	Canada	2006	2 PE deals worth $348.0 mn since 2007; Has 3 open-ended Brazil focused funds worth >$2.2 bn
ACON Investments	USA	2005	Invested in 2005 in Gbarbosa, a supermarket chain, and exited in 2007
Southern Cross Group	Argentina	1998	1 investment in Brazil, raised $2.8 bn for LatAm
Warburg Pincus	USA	1998	Made 2 investments between 1998 - 2005 (now exited); invested $201.0 mn in Omega Energia in 2010
Advent International	USA	1996	14 deals; Since 1996, it has raised US$3.7 bn through 4 LatAm funds
Cartesian Capital Group	USA	NA	2 deals in Brazil
Darby Overseas Investments	USA	NA	10 investments
Intel Capital	USA	NA	6 investments

Source: Preqin, News articles

TresVista FINANCIAL SERVICES

Case Study

Qualicorp

Carlyle acquires stake in Qualicorp

- Founded in 1997, Qualicorp Group is one of the leaders in healthcare brokerage and health benefits administration in Brazil
- General Atlantic (GA) acquired a stake in November 2008 for an undisclosed amount
- The investment helped Qualicorp take advantage of opportunities in the health sector and gave it liquidity for capital expansion and acquisitions
- GA exited the company in mid 2010, selling 100.0% of its stake to The Carlyle Group in a secondary sale for US$1.2 bn. The Carlyle Group invested money from its Carlyle Partners V and Carlyle South America Buyout Fund
- Qualicorp raised US$587.3 mn through an IPO in May 2011. Carlyle still holds 43.9% of the Company post-IPO [2]

Key Financials (USD mn) [1]

	2008	2009	2010
Revenue	126.2	155.8	266.2
Growth		*23.5%*	*70.8%*
EBITDA	27.2	28.4	72.2
Margin	*21.5%*	*18.2%*	*27.1%*
EBIT	25.9	26.5	60.1
Margin	*20.5%*	*17.0%*	*22.6%*
Net Income	14.8	20.2	36.1
Margin	*11.7%*	*12.9%*	*13.6%*
Total Debt	31.7	88.4	171.0

Qualicorp represents a successful Brazil PE investment, with increasing growth & attractive exit options

Sources:-
(1) Company Website
(2) Bloomberg