



DUFF & PHELPS

Protect, Restore and Maximize Value

Brazil Transaction Insights

Summer 2019



Q Overview

Emerging markets will likely be the primary driver of global growth in the coming years, and Brazil is positioned positively given an expected radical shift in its economic and political fundamentals and, consequently, a more market-friendly approach.

Over the next years, under new President Jair Bolsonaro, Brazil will likely move toward globalization, free trade, increased national competitiveness and a reduction of bureaucracy to overcome its national deficit and high level of unemployment. Public pension and tax reforms, as well as a substantial reduction in government spending, will likely be approved in the first half of 2019.

Financial markets already reflect investor confidence in the new government and its cabinet. The IBOVESPA index reached an all-time high (96k points) in the first two weeks of government, responding well to the speech of new Economy Minister, Paulo Guedes, relating to a considerable movement toward privatization, a stronger control over government spending and fiscal austerity. A real ode to free market.

BY THE NUMBERS

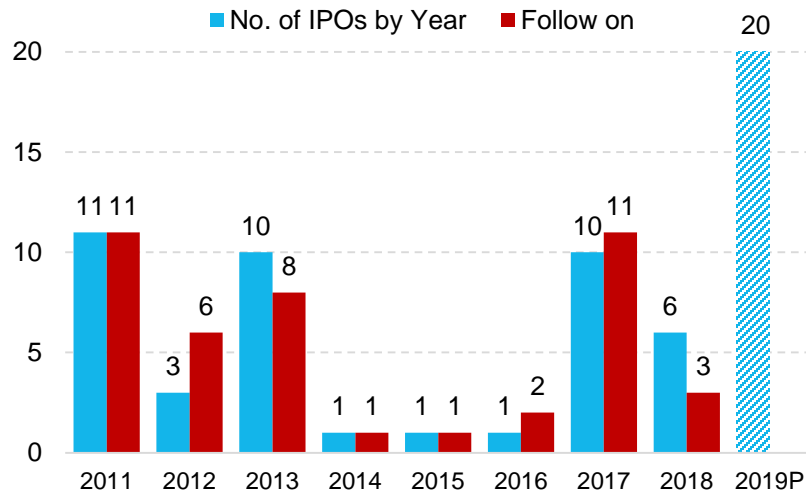


1. As of January 18, 2019; in local currency.

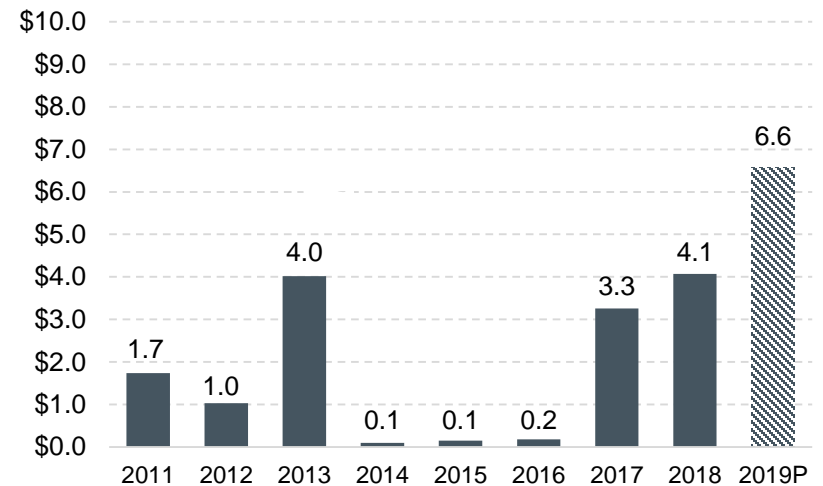
IPO Activity

Companies' access to capital markets is deeply related to the economic outlook for the next few years. Foreign investors continue to keep Brazil under scrutiny in order to allocate their money and seek the best risk x return options. Under President Dilma Rousseff's second mandate (2014–2016), there was a considerable decrease in IPOs, with economic and political uncertainty. The movement regained traction after Rousseff's impeachment in mid-2016, but suffered a slowdown again with political uncertainty during the 2018 election. After Bolsonaro's right-wing party victory, the markets show signs of a recovery and experts predict a large backlog of deals will come to fruition in 2019.

Number of IPOs



Amount of IPO Funds Raised (US\$ bn)



IPO Activity

Half of 2018 IPOs came from technology companies, followed by healthcare transactions. Given the political uncertainties in Brazil during the election year, StoneCo, Arco Platform and PagSeguro decided to offer their stocks on the American stock market and pursue more technology-mature investors. The majority of deals were priced within the marketed share price range. There were two IPOs above \$500 million in 2018 and two above \$1 billion in gross proceeds.

2018 Completed IPOs

Pricing Date	Company Name	Ticker	Incorporation	Industry Sector	Gross Proceeds	Offer Price	Offer Price vs. Marketed Range	As of 12/31/2018		
								Stock Price	Market Capitalization (US\$ MM)	Price to LTM ² Earnings Multiple
10/25/2018	StoneCo Ltd.	NASDAQ:STNE	Cayman Islands	Data Processing /Outsourced Services	\$ 1,217.4	\$ 24.00	Within	\$ 22.14	\$ 6,369.8	NA
9/25/2018	Arco Platform Limited	NASDAQ:ARCE	Brazil	Consumer Services	\$ 194.4	\$ 17.50	Within	\$ 24.35	\$ 1,193.7	NA
4/30/2018	Banco Inter S.A.	BOVESPA:BIDI4	Brazil	Diversified Banks	\$ 171.4	\$ 4.83	Within	\$ 10.03	\$1,009.3	14.8x
4/25/2018	Hapvida Participações e Investimentos S.A.	BOVESPA:HAPV3	Brazil	Managed Healthcare	\$ 783.5	\$ 6.14	Within	\$ 7.50	\$4,973.7	14.3x
4/22/2018	Notredame Intermédica Participações S.A.	BOVESPA:GNDI3	Brazil	Managed Healthcare	\$ 631.3	\$ 4.31	Within	\$ 7.46	\$3,658.8	45.9x
1/23/2018	PagSeguro Digital Ltd.	NYSE:PAGS	Cayman Islands	Software and Services	\$ 2,265.8	\$ 21.50	Below	\$ 21.96	\$7,427.3	34.3x

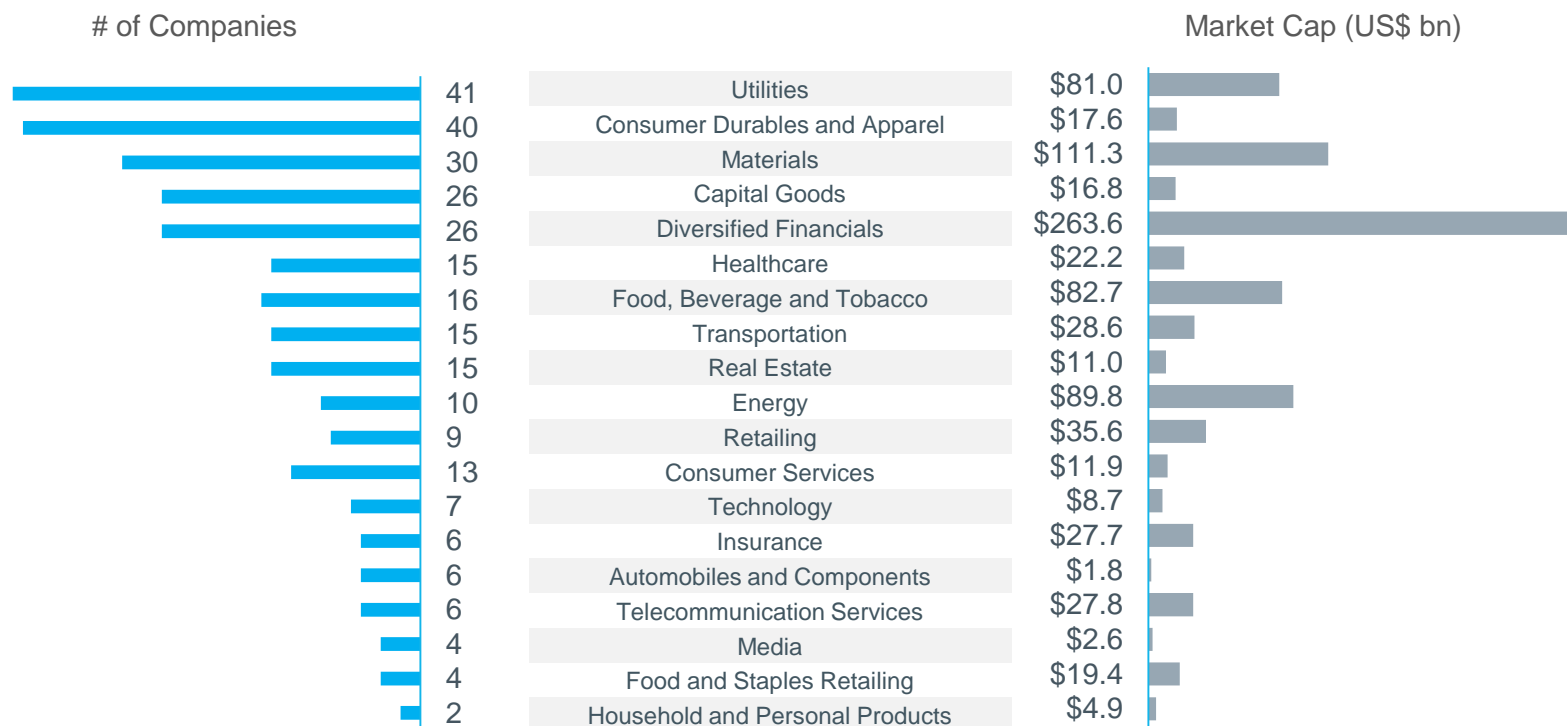
2. LTM = Last Twelve Months

Sources: CVM filings, company press releases and S&P Global Market Intelligence as of December 31, 2018.

Listed Brazilian Companies

Among over 250 Brazilian companies listed on the major Brazilian stock exchange (B3) as of December 31, 2018, there is a considerable diversification among sectors. Utilities, the sector with the highest number of companies (41), accounts for approximately 10% of market capitalization of the listed companies. Diversified Financials (26 listed companies) account for 30% of total market capitalization, followed by Materials (30 listed companies), accounting for 13%. Overall, the Brazilian stock exchange is trading at an average of 11.5 times Price/Earnings ratio.

Summary of Listed Companies



U.S.-Listed Brazilian Companies

Of the 68 Brazilian companies listed on major U.S. exchanges as of December 31, 2018, approximately two-thirds of them trade on over-the-counter, one-third on the NYSE and three companies at Nasdaq. There is a large diversification in terms of sectors for U.S.-listed Brazilian companies, with Diversified Financials capturing over a third of total market capitalization. The vast majority of the companies are incorporated in Brazil.

Summary of Listed Companies

Industry Sector	# of Companies	Total Market Cap (US\$ MM)	Exchange	# of Companies	Total Market Cap (US\$ MM)
Utilities	11	\$40,719	Nasdaq	3	\$1,300
Materials	8	\$95,980	NYSE	26	\$484,768
Food, Beverage and Tobacco	7	\$75,693	OTC	40	\$128,871
Energy	5	\$86,996	Total	69	\$614,939
Diversified Financials	4	\$210,571			
Capital Goods	4	\$14,220			
Consumer Durables and Apparel	4	\$3,073			
Transportation	4	\$10,469			
Consumer Services	3	\$6,497			
Real Estate	3	\$3,050			
Telecommunication Services	3	\$26,981			
Software and Services	2	\$11,938			
Retailing	2	\$1,478			
Commercial and Professional Services	2	\$359	Incorporation	# of Companies	Total Market Cap (US\$ MM)
Health Care Equipment and Services	2	\$2,762	Cayman Islands	4	\$7,042
Food and Staples Retailing	1	\$5,362	Brazil	62	\$605,766
Pharmaceuticals, Biotechnology and Life Sciences	1	\$4,848	Nevada	1	\$0
Insurance	1	\$13,904	Bermuda	1	\$2,131
Household and Personal Products	1	\$36	Total	68	\$614,939
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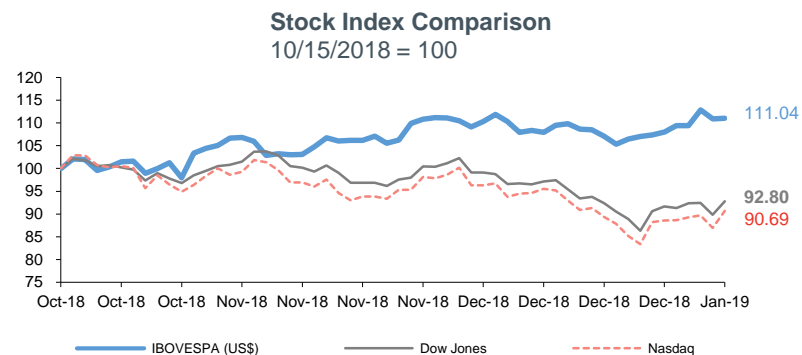
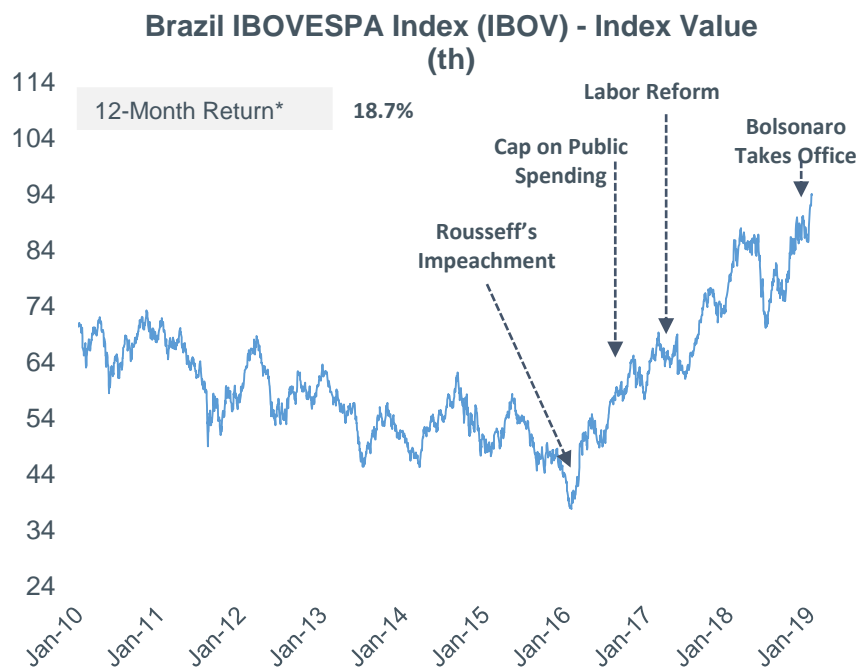
Top 10 Companies by Market Capitalization

Company Name	Incorporation	Industry Sector	Business Description	Market Capitalization (US\$ MM)	% of 52-Week High	Price to LTM Earnings Multiple
Itaú Unibanco Holding S.A. (BOVESPA:ITUB4)	Brazil	Banks	Itaú Unibanco Holding S.A. provides a range of financial products and services to individuals and corporate clients in Brazil and internationally.	\$ 79,265.1	94%	15.2x
Petróleo Brasileiro S.A. - Petrobras (BOVESPA:PETR4)	Brazil	Energy	Petróleo Brasileiro S.A. - Petrobras operates in the oil, natural gas and energy industries.	\$ 77,679.0	77%	17.7x
Vale S.A. (BOVESPA:VALE3)	Brazil	Materials	Vale S.A., together with its subsidiaries, produces and sells iron ore and iron ore pellets for use as raw materials in steelmaking in Brazil and internationally.	\$ 65,426.0	79%	17.4x
Ambev S.A. (BOVESPA:ABEV3)	Brazil	Food and Beverage	Ambev S.A., through its subsidiaries, produces, distributes and sells beer, draft beer, carbonated soft drinks (CSD), other nonalcoholic beverages, malt and food in the Americas.	\$ 60,796.7	61%	24.7x
Banco Bradesco (Brasil) S.A. (BOVESPA:BBDC4)	Brazil	Banks	Banco Bradesco (Brasil) S.A. provides banking and financial products and services to individuals, enterprises, corporations and institutions.	\$ 60,680.5	90%	15.2x
Banco Santander (Brasil) S.A. (BOVESPA:SANB4)	Brazil	Banks	Banco Santander (Brasil) S.A. provides banking products and services in Brazil and internationally.	\$ 38,435.7	92%	15.1x
Banco do Brasil S.A. (BOVESPA:BBAS3)	Brazil	Banks	Banco do Brasil S.A. provides banking products and services for individuals, companies and public sectors in Brazil and internationally.	\$ 32,190.1	98%	11.4x
Itaúsa – Investimentos Itaú S.A. (BOVESPA:ITSA3)	Brazil	Banks	Itaúsa - Investimentos Itaú S.A., through its subsidiaries, operates in the financial and industrial markets in Brazil and internationally.	\$ 27,188.0	86%	11.9x
Telefônica Brasil S.A. (BOVESPA:VIVT4)	Brazil	Telecommunication Services	Telefônica Brasil S.A. provides mobile and <i>fixed line</i> telecommunications services to residential and corporate customers in Brazil.	\$ 18,978.9	87%	8.9x
BB Seguridade Participações S.A (BOVESPA: BBSE3)	Brazil	Insurance	BB Seguridade Participações S.A. provides insurance, pension plans, premium bonds and brokerage services in Brazil.	\$ 13,904.2	84%	15.2x

BOVESPA Index

In the post-impeachment period and with the expectation of implementation of favorable economic measures during former President Michel Temer's administration, stocks rose sharply. This movement was a direct result of considerable improvements in the management of fiscal and monetary policies. The implementation of the fiscal responsibility act in December 2016, controlled inflation and improved responsibility with regard to public spending are great examples of measures well accepted by investors. The Brazilian stock market accumulates the highest return among the world's main indexes, largely influenced by internal factors, including low prime rate, GDP growth after two years of recession and a market-friendly agenda appointed by new government.

Main Brazilian Index (IBOVESPA)³



Index	Country	Return of 2018 in Local Currency
IPC	Mexico	(16.0%)
COLCAP	Colombia	(12.5%)
IPSA	Chile	(8.3%)
S&P 500	USA	(7.0%)
Dow Jones	USA	(6.7%)
Nasdaq	USA	(4.6%)
S&P/BVL	Chile	(3.4%)
MERVAL	Argentina	0.8%
IBOVESPA	Brazil	15.0%

3. As of January 18, 2019. Sources: S&P Global Market Intelligence as of December 31, 2018, BACEN and Economatica .

Going-Private Transactions

Of the main going-private transactions, three companies went through this process in 2018, two from the utilities sector and one from the transportation sector.

2017–2018 Selected Closed Transactions

Closed Date	Company Name	Incorporation	Industry	Business Description	Implied Equity Value (US\$ MM)	Price to LTM Earnings Multiple	Premium as a % of ⁴	
							1-Day Prior	30 – Day VWAP
Aug/2018	AES Elpa S.A.	Brazil	Utilities	Engages in the generation and distribution of electricity in São Paulo.	\$ 0.2	6.1x	(99.7%)	(99.9%)
Jun/2018	Eletropaulo Metropolitana Eletricidade de São Paulo S.A.	Brazil	Utilities	Electric power utility concessionaire, distributes and sells electric power.	\$ 1,951.6	NM	105.5%	(38.9%)
Mar/2018	Prumo Logística S.A.	Brazil	Transportation	Engages in infrastructure and logistics businesses in Brazil.	\$ 1,047.1	NM	3.6%	(75.1%)
Oct/2017	Afluenta Geração de Energia Elétrica S.A.	Brazil	Utilities	Engages in the generation of electricity.	\$ 24.3	6.3x	4.5%	NM
Oct/2017	Paraná Banco S.A.	Brazil	Financials	Provides various financial products and services in Brazil.	\$ 290.2	NM	28.6%	NM
Jun/2017	JPSP Investimentos e Participações S.A.	Brazil	Financials	Through its subsidiaries, focuses on participating in and managing the capital of other companies, as a partner or shareholder in Brazil.	\$ 13.4	NM	(31.4%)	NM
Feb/2017	Celg Distribuição	Brazil	Utilities	Engages in the distribution of electricity in Brazil.	\$ 559.9	39.8x	NM	NM

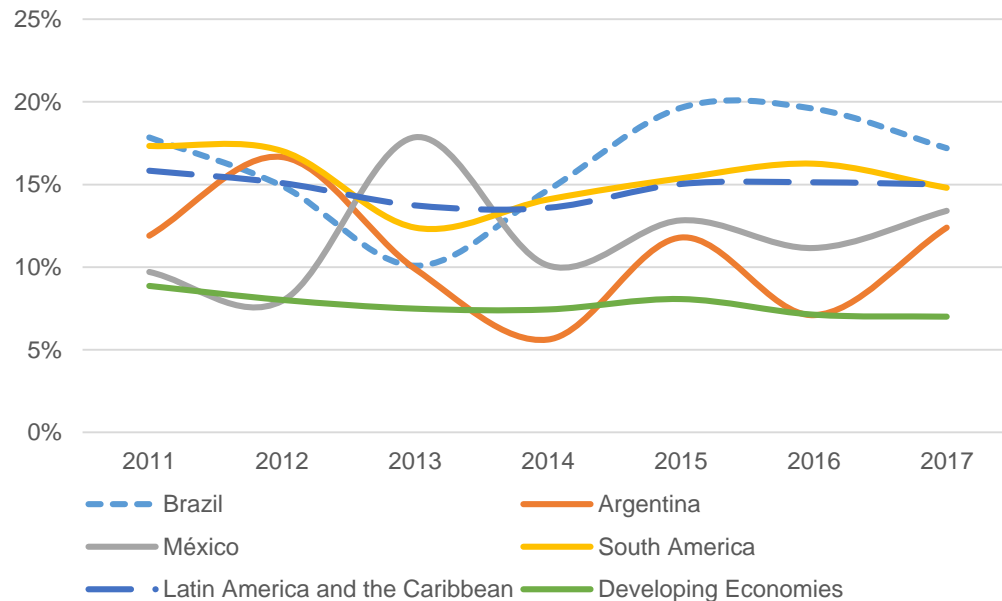
4. Reflects premium over the closing price of the company's stock on the last trading day prior to the offer and the 30-day volume weighted average price (WVAP) prior to the offer.

Sources: Company filings, press releases and S&P Global Market Intelligence as of December 31, 2018.

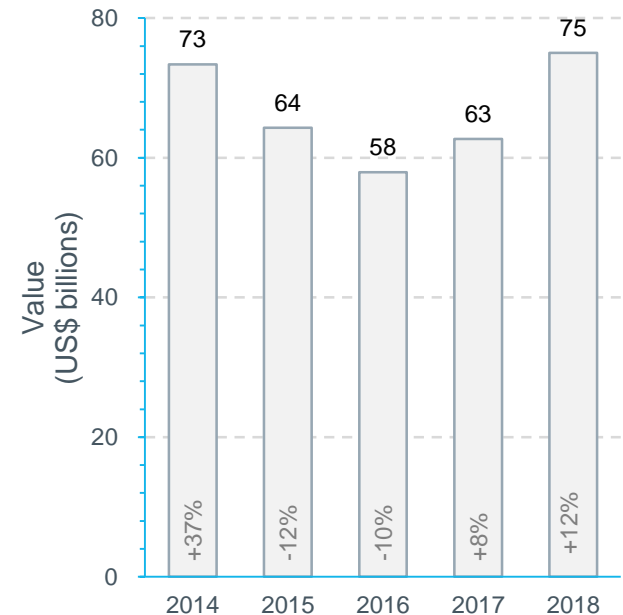
Cross-Border Transactions

Brazil is ranked fourth globally in foreign direct investment and has shown itself as a great country to invest in when compared to other countries in Latin America. Moreover, the positive economic outlook from the market-friendly agenda (e.g., privatization and macroeconomic reforms) delineated by the new administration may increase the market's expectations and potentially bring more financial and strategic investors to the Brazilian market.

Foreign Direct Investment Inflow as a % of Gross Fixed Capital Formation



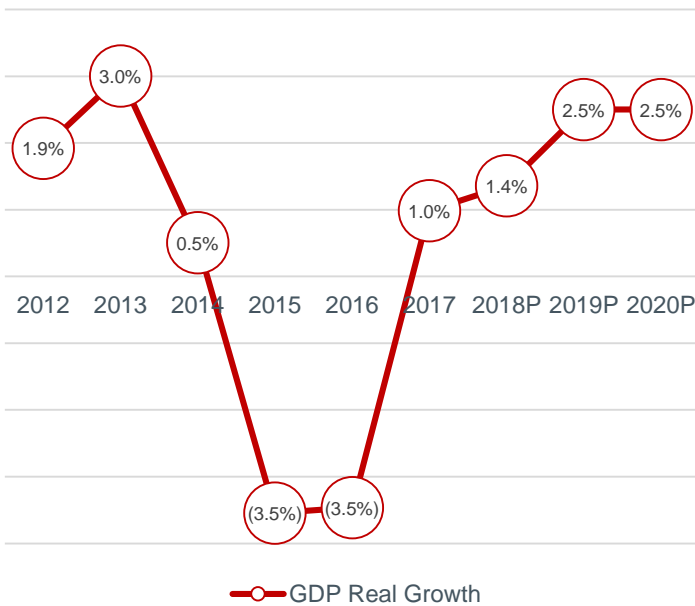
Foreign Direct Investment in Brazil



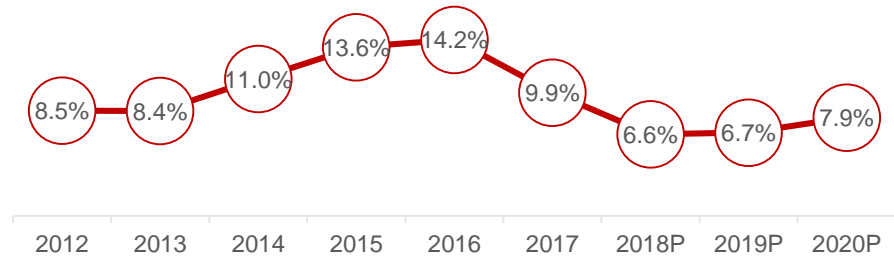
Macroeconomic Environment

President Jair Bolsonaro will likely implement deep structural changes. The new government has already indicated a sweeping reform agenda with a focus on pension reform, privatizations and anti-bureaucratization, with a declared inclination to the reduction of government's intervention in the economy. This economic approach will likely facilitate improved financial conditions, lower risk figures and gradual recovery in labor and credit markets. The anticipated higher GDP growth in 2019 may be linked to the expansion of household consumption and investments along with positive sentiment of the expected reforms.

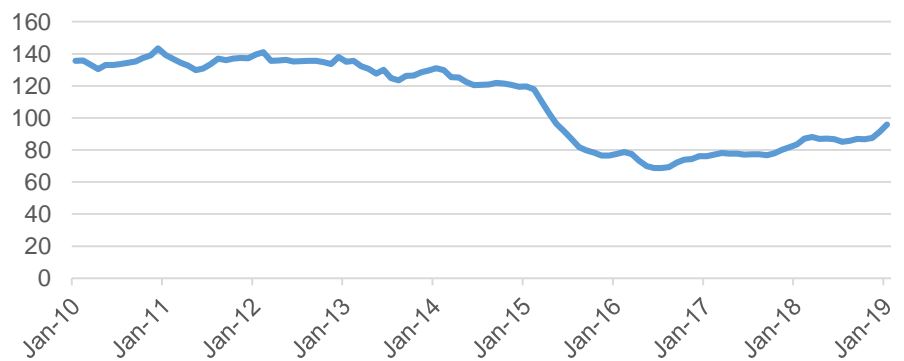
GDP Real Growth (%)



Brazil Basic Interest Rate/Selic Average (%)



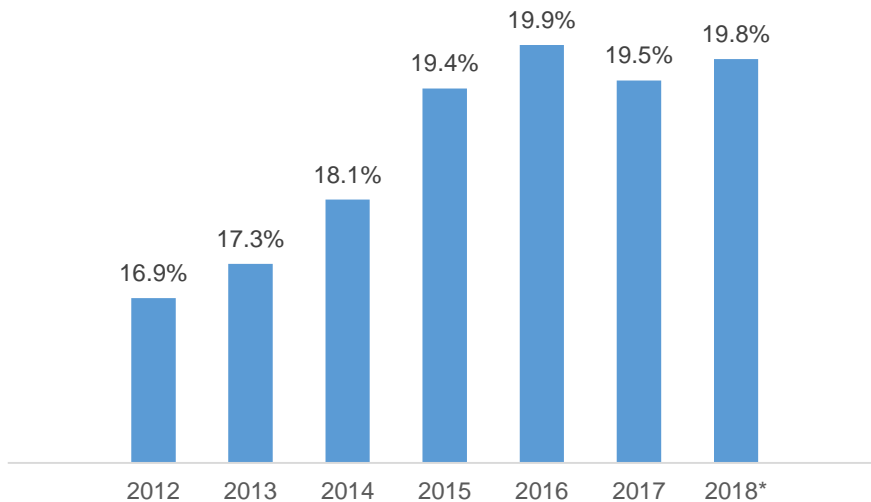
Household Consumption Intention Index



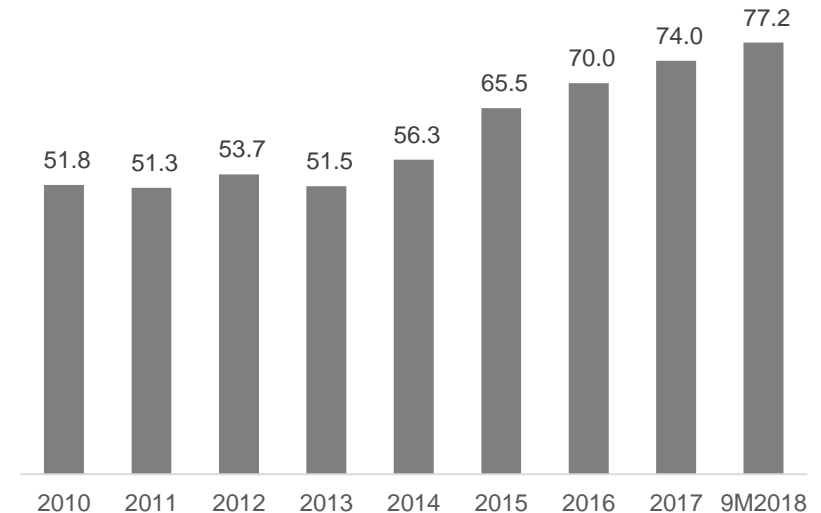
Public Expenditure and Debt

Recent governments haven't properly put into perspective the state of public accounts. Government gross debt is reaching a dismal situation, but the current discussions tend to be more focused on medium-term sustainability than on short-term dynamics of the fiscal result. Despite the expectation of economic recovery, which would raise primary revenues, the fiscal adjustments will need to be implemented essentially through cuts in primary expenditures.

Government Expenditure (% GDP)



Government Gross Debt (% GDP)

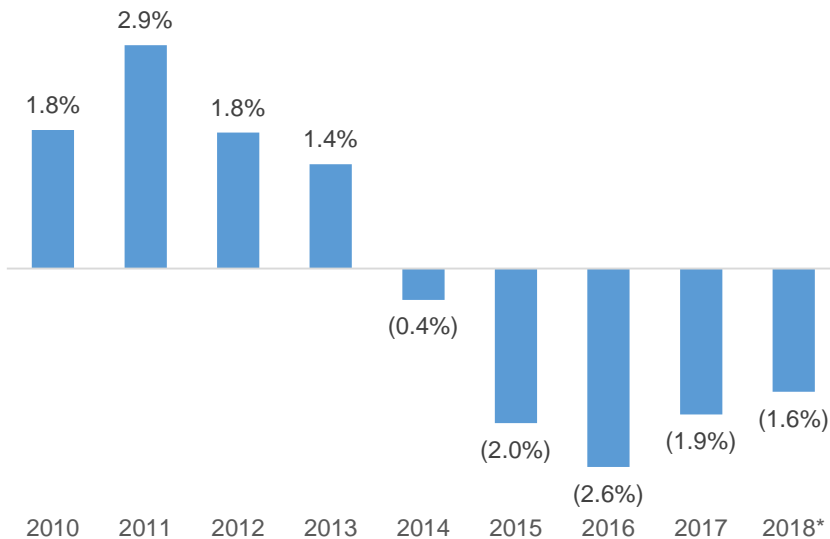


* November 2018.
Source: Secretaria do Tesouro Nacional.

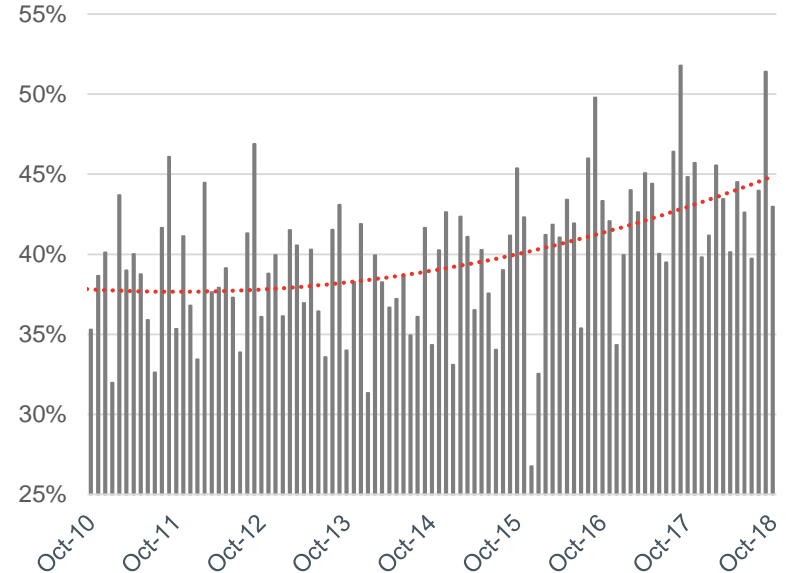
Deficit/Social Security

The social security reform is an essential condition for the fiscal consolidation process and anchors the expectation regarding the sustainability of public accounts. The primary public deficit initiated a downtrend in recent years, showing signs of recovery in the post-impeachment period, after the approval of spending cap rule by former President Temer.

Primary Public Deficit⁵



**Social Security Benefits
(% of total expenditure)⁶**



*November 2018.
Sources: 5. IBGE. 6. Secretaria do Tesouro Nacional.

New Government's Agenda



The new president will face a reasonably steady mandate for free-market reform but has a sharp and challenging road ahead with a highly-fragmented congress. Bolsonaro has already made clear that he will try to enact his agenda with broad support from cross-party interest rather than through old-fashioned politics (i.e., distributing favors to form alliances).

The president and his cabinet will likely face vehement opposition, as he has already announced controversial actions that diverge from social conservatism and libertarian mindset, such as a contentious military law-and-order initiative, lowering of the minimum age for criminal responsibility and less strict gun laws. At the same time, his immediate and most important challenge is to have pension reform approved in early 2019, to provide solid traction for Brazilian economic recovery.



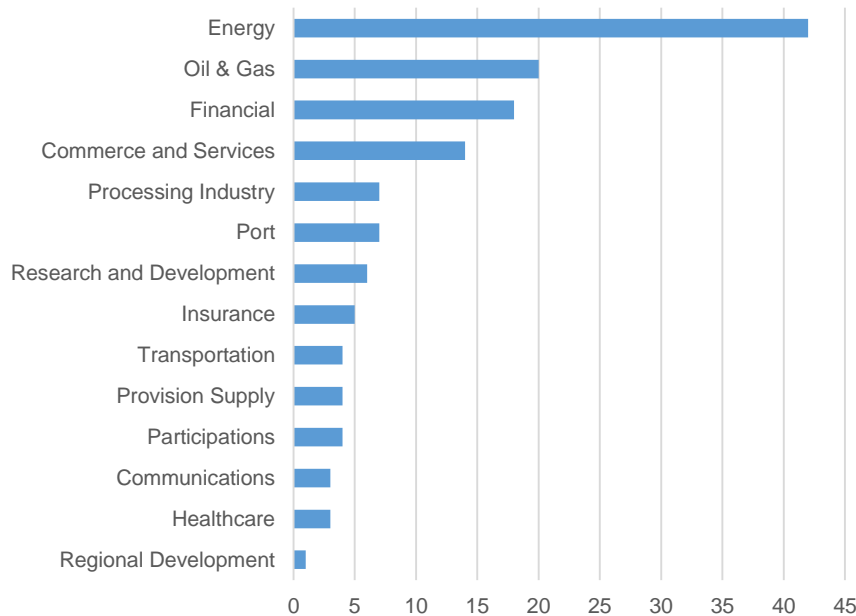
Actions	Considerations
Cabinet Formation	Bolsonaro has shown signs of a more market-friendly agenda when forming his team. Investors have welcomed important names such as Paulo Guedes, a Chicago economist, as the head of the Economy Ministry; Joaquim Levy as head of BNDES (the largest state-owned development bank in Brazil); Roberto Castello Branco as the CEO of Petrobras (a state-controlled oil company that was the focus of a substantial number of corruption scandals over the past few years); and Roberto Campos Neto as head of the Brazilian Central Bank.
International Relations	The new president and his team have disclosed several adjustments in foreign policy that may have ripple effects as he formulates antagonist measures to that of the former government of Lula and Dilma which favored leftist ideologies, including sympathy toward Cuba and Venezuela. The new government pursues trade liberalization through bilateral deals, seeking, for example, a closer alignment with U.S. President Donald Trump that would oblige Brazilian companies to become more competitive and efficient.
Privatization Program	Guedes advocates free-market policies, pivoting away from state interventionism. The new government will inherit a large package of “ready-to-go” privatization initiatives from former President Temer.
Tax Simplification	This would deliver an appreciable boost for the entrepreneurial ecosystem in Brazil, as the unification of taxes into a value-added tax (VAT) could cause a decrease in costs and regulations.
Pension Reform	The public pension scheme is responsible for a considerable share of current government expenses and for most of the public deficit. Consequently, the approval of this reform is important to ease the pending fiscal crisis by providing positive traction for Brazilian economy, as existing proposals envisage considerable savings of USD135 billion over the next decade.

New Government's Agenda

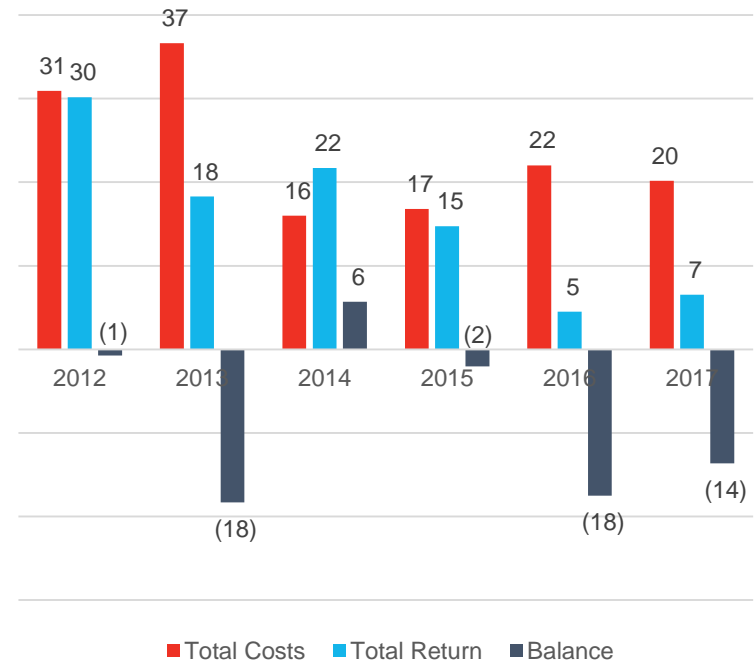


When compared to the 36 members from OECD, Brazil ranks first in the number of state-owned companies. Brazil has 418 government-owned companies, 138 of which are federally owned, which has contributed to the government's recurring deficits. President Bolsonaro inherits from former President Temer, 57 privatization projects that are expected to result in BRL133 billions.

Federally Owned Companies by Sector⁷



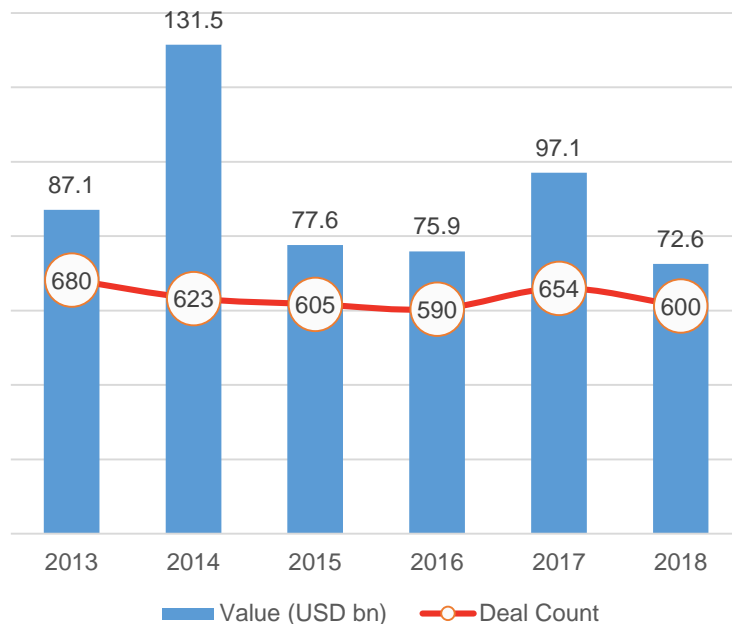
Ratio Return and Costs of Public Cos. (BRL bn)⁸



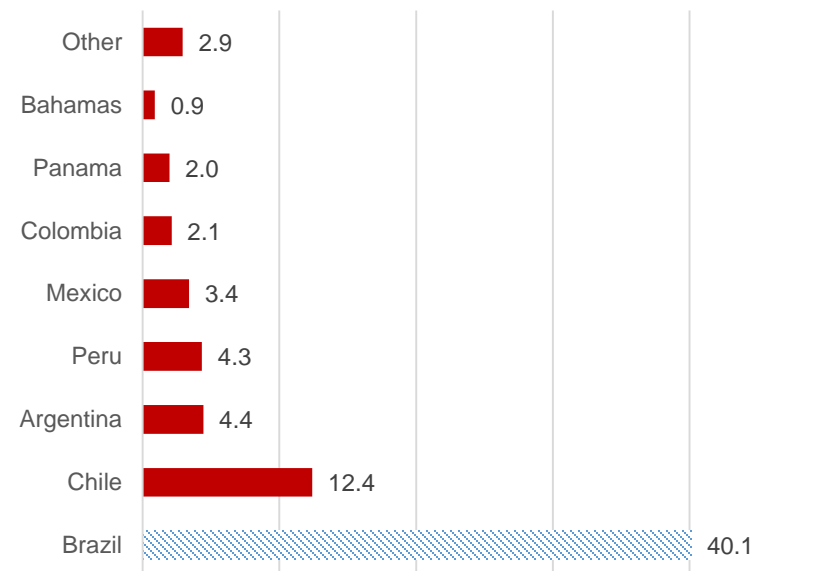
M&A Activity

In 2018, as it continued to work past its corruption scandals, stabilize its economy and elect a new president, Brazil remained Latin America's largest economy and the region's leading country for mergers and acquisitions (M&A), recording USD40 billion in total deal value and over 300 transactions (based on Acuris Mergermarket criteria, which consider large transactions). Based on a wider criteria, incorporating all transactions announced in Brazil), the country accounted for almost 700 deals and confirmed it is a middle-market M&A country⁹, with multisector opportunities and many family-owned companies with potential for consolidation.

Latin America M&A¹⁰



Country Breakdown - Deal Value¹⁰
USD bn - 2018

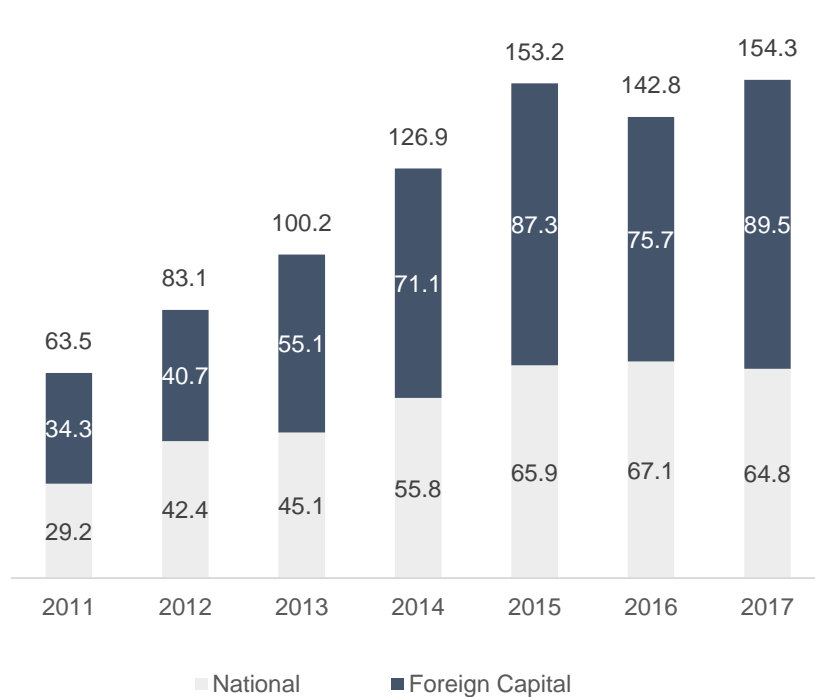


PE/VC Activity

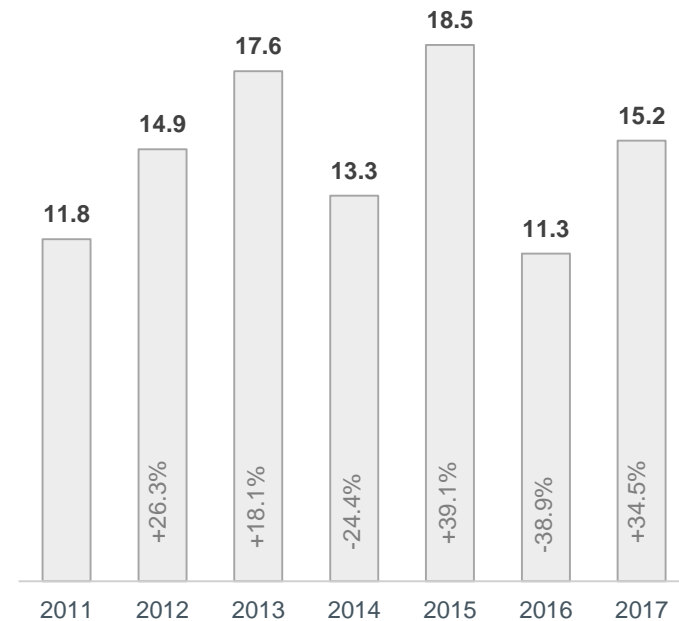
Brazil's deal activity is boosted by financial investors. From 2019 onward, private equity activity will likely increase twofold and expand its participation in the economy in the wake of the more market-friendly approach pursued by President Bolsonaro and his cabinet. Markets have behaved very emphatically and the business community in Brazil is jubilant with the expectation that the nation will finally detach from the last financial crisis (encompassing a lot of negative factors such as corruption scandals, impeachment and recession). The opportunities are notable, as the new government shows signs of prioritizing privatization of state-owned companies and the stabilization of Brazil's political environment opens the door for new investments.

Private Capital

Committed Capital and Origin (BRL bn)



Investments Per Year (BRL bn) and Change YoY (%)



Notable Transactions – 2018



In July 2018, CVC Capital Partners Ltd. and Messer Group agreed to pay a total consideration of USD3.3 billion for all of Linde's U.S. bulk business and its business in Brazil, Canada and Colombia. The joint venture between Messer and CVC will be named MG Industries.



In July 2018, Boeing agreed to a controlling stake in the commercial aircraft arm of Brazilian plane maker Embraer under a new USD4.75 billion joint venture. Final government approval is expected in Q1 2019.



In May 2018, Enel won the bid against Neoenergia, An Iberdrola subsidiary, to acquire the biggest energy distributor in Brazil, Eletropaulo, for a consideration of USD2.03 billion.



In June 2018, Advent International agreed to acquire an 80% stake in Walmart Brazil for a consideration close to BRL8 billion.



In April 2018, Kroton acquired a 73.35% stake in Somos for USD1.33 billion.



In April 2018, Whirlpool announced the sale of its subsidiary Embraco to the Japanese Nidec Corp. for a consideration of USD1.08 billion.



In March 2018, Suzano agreed to acquire a 100% stake of Fibria for USD10.72 billion.

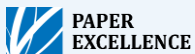


In January 2018, Didi Chuxing Technology acquired 99 Taxis for a consideration of over USD1 billion, making 99 the first Brazilian unicorn.

Notable Transactions – 2017



In September 2017, J&F holding, owner of Eldorado Celulose, agreed to sell 100% to Paper Excellence (PE) for USD4.77 billion in a staggered transaction.



In January 2017, CPFL Energia, the largest privately owned energy company in Brazil, agreed to sell 54.64% to State Grid Corporation for USD4.5 billion.



In November 2017, State Grid completed the acquisition of the remaining 45.36% for USD3.9 billion.



In December 2017, Statoil ASA acquired 25% of Petrobras' stake in *Campo de Roncador* for USD2.9 billion.



In September 2017, State Power won an auction for hydroelectric plant *Usina São Simão*, which was previously operated by CEMIG, for an amount of USD2.26 billion.



In May 2017, Itaú Unibanco acquired 49.9% of the biggest Brazilian independent broker for USD1.81 billion.



In February 2017, Cristal Pigmentos do Brasil announced that Tasnee, one of its indirect controlling shareholders, agreed to sell its titanium dioxide business as well as 24% of the company to Tronox for USD1.67 billion.



In September 2017, Ternium, the Latin America's largest steel producer, acquired Companhia Siderúrgica do Atlântico (CSA) from ThyssenKrupp for USD1.58 billion.



In August 2017, a consortium led by China Three Gorges Corporation (CTG) acquired hydroelectric plant Chaglla for USD1.39 billion.

Brazil in Numbers

The incoming administration will likely win approval of some critical reforms such as pension and tax. The administration's transition team is also showing signs of good progress in the concessions and privatization programs, as well as incentives to increase productivity and competitiveness by reducing trade barriers.

	2011	2012	2013	2014	2015	2016	2017	2018E	2019P	2020P
Inflation IPCA (%) EOP	6.50	5.8	5.9	6.4	10.7	6.3	2.9	3.8	3.9	4.0
Exchange Rate EOP (USD/BRL)	1.88	2.04	2.34	2.65	3.90	3.26	3.32	3.75	3.6	3.68
Nominal Interest Rate SELIC (%) EOP	11.00	7.25	10.00	11.75	14.25	13.75	7.00	6.50	8.00	9.00
Nominal GDP (USD bn)	2,612	2,465	2,470	2,470	1,798	1,800	2,055	1,912	2,034	2,219
Real GDP Growth (% – Market Prices)	4.0	1.9	3.0	0.5	(3.5)	(3.5)	1.0	1.3	2.5	2.5
Trade Balance (USD bn) – Median	27.6	17.4	0.4	(6.6)	17.7	45.0	64.0	58.0	52.0	47.3
Direct Investments (USD bn) – Median	101.2	86.6	69.7	97.2	74.7	78.2	70.3	75.0	79.5	84.4
International Reserves (USD bn)	352.0	379.0	376.0	374.0	369.0	372.0	374.0	375.0	390.6	389.4
Total External Debt (USD bn)	415	455	487	560	540	549	559	573	588	589
Primary Result (% GDP) – Median	2.90	2.20	1.70	(0.60)	(1.90)	(2.50)	(1.69)	(1.80)	(1.40)	(0.75)
Unemployment – IBGE (%)		7.4	7.1	6.8	8.5	11.5	12.7	12.1	11.3	10.6

Middle Market M&A Ranking

Top Ranked U.S. Middle-Market M&A Advisor

Firm	No. of Deals	Rank
Houlihan Lokey	712	1
Piper Jaffray Cos.	338	2
Raymond James Financial Inc.	316	3
Duff & Phelps	287	4
William Blair & Co.	281	5
Jefferies LLC	280	6
Stifel/KBW	276	7
Goldman Sachs & Co.	271	8
Lincoln International	261	9
Moelis & Co.	259	10

Source: Thomson Financial Securities Data (U.S. deals \$50M < \$150M, including deals without a disclosed value). Full years 2014 through 2018.

Duff & Phelps Differentiators

Strong and dedicated global M&A practice with significant experience advising on cross-border transactions and negotiating with financial and strategic investors.

A team of +60 professionals in Brazil with +120 in Latin America with offices in Brazil, Argentina, Colombia and Mexico.

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