

# FOREIGN INVESTMENTS IN BRAZIL VIA M&A

## American Society of SP

São Paulo, April the 15th, 2019



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# **CAPITAL INVEST IS A M&A BOUTIQUE THAT HELPS INTERNATIONAL PLAYERS ENTER BRAZIL VIA ACQUISITION OR PARTNERSHIP WE ADVISE OUR CLIENTS THROUGH ALL THE STEPS OF THE DEAL PROCESS**

**CAPITAL INVEST is a M&A boutique that assists European, North American, South American and Asian investors willing to enter Brazil via acquisitions or partnerships.**

**At CAPITAL INVEST we advise our clients through all the steps of the deal process:**

- Market research to select the targets aligned with the investor's goals.**
- Preliminary Screening and Prioritization of targets, and recommendation of best buying process.**
- Support and/or coordination during the rest of the selling process, including: valuation, emission of letter of interest (LOI), recommendation on buying structure, Non Binding Offer (NBO), Due Diligence (DD), Final Offer (FO or Binding Offer (BO), and negotiations leading to the signing of the Sales and Purchase Agreement (SPA) and eventual Shareholders Agreement (SLA)**

**Our typical client is a Multinational willing to enter Brazil via acquisitions. We financially advise before and during the transaction negotiations aiming at 3 levers that will hugely create value: target selection, valuation, and Post Merger integration (PMI) incentivisation.**

**We can also advise selected Brazilian projects or companies, through all the selling process, including a recommendation on the best process and structure, selling documentation, business plan, road show, NBO, DD, BO, and final legal negotiations.**

**The partners and associates of CAPITAL INVEST have an accumulated experience exceeding R\$20 billion in over 50 transactions in the last 20 years. Most of those transactions involve a multinational investor acquiring a local Brazilian target.**

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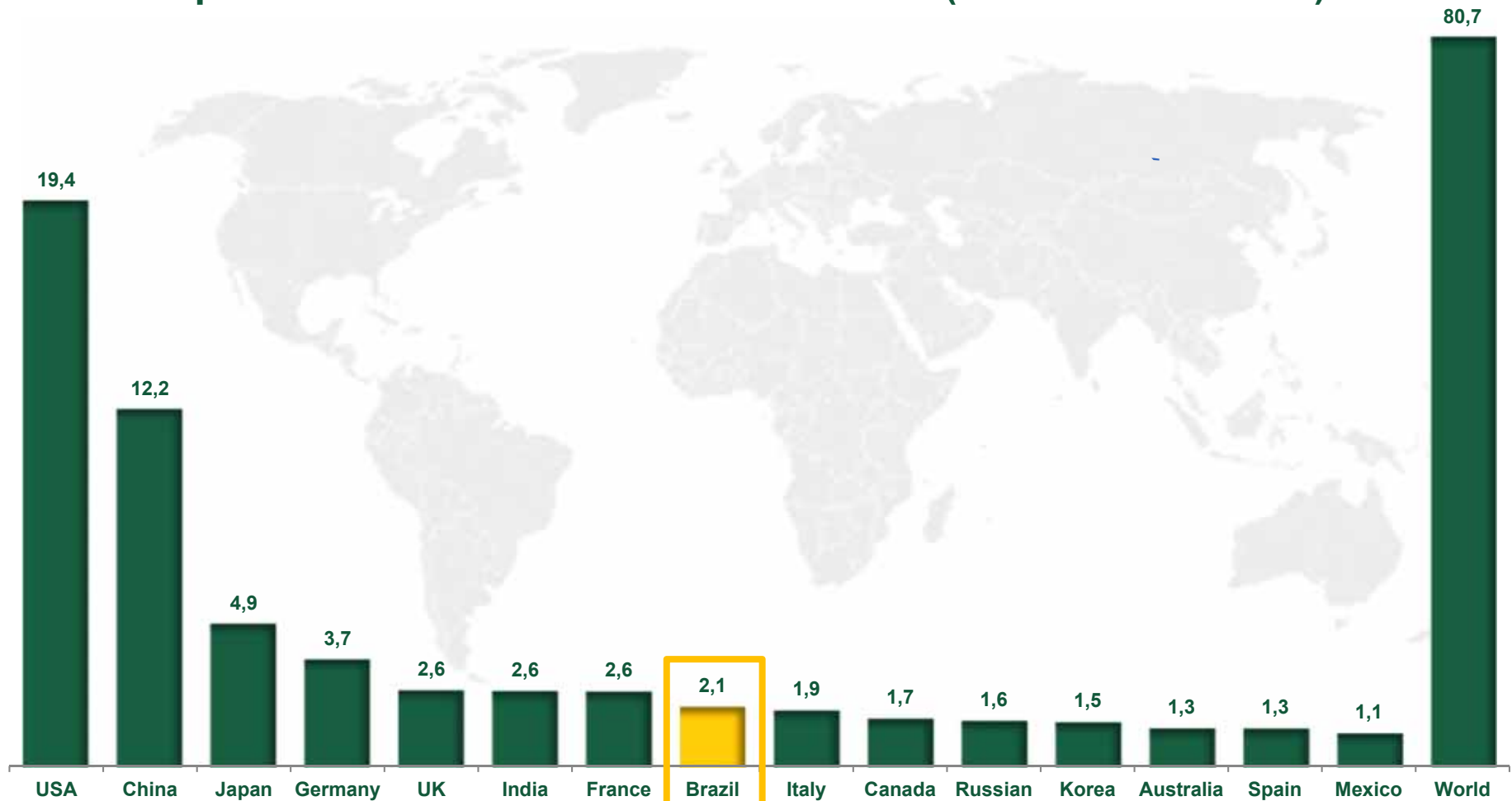
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# BRAZIL IS THE 8<sup>TH</sup> ECONOMY WORLDWIDE ...

## World's Top 15 Economies in Nominal GDP Terms (USD Trillion – 2017)

Sources:  
World Bank  
IMF  
Economist  
USDA  
CI Analysis



|                                 | USA          | China        | Japan       | Germany     | UK          | India        | France    | Brazil       | Italy | Canada      | Russian      | Korea        | Australia    | Spain | Mexico      | World  |
|---------------------------------|--------------|--------------|-------------|-------------|-------------|--------------|-----------|--------------|-------|-------------|--------------|--------------|--------------|-------|-------------|--------|
| <b>GDP US\$ tri</b>             | <b>19,39</b> | <b>12,24</b> | <b>4,87</b> | <b>3,68</b> | <b>2,62</b> | 2,60         | 2,58      | 2,06         | 1,93  | 1,65        | 1,58         | 1,53         | 1,32         | 1,31  | 1,15        | 80,68  |
| <b>FDI Inflows US\$ bi</b>      | <b>349</b>   | <b>168</b>   | 19          | <b>78</b>   | 47          | 40           | <b>51</b> | <b>70</b>    | 20    | 28          | 28           | 17           | 49           | 4     | 32          | 1.863  |
| <b>Population .000 000</b>      | <b>326</b>   | <b>1.386</b> | 127         | 83          | 66          | <b>1.339</b> | 67        | <b>209</b>   | 61    | 37          | <b>144</b>   | 51           | 25           | 47    | 129         | 7.530  |
| <b>Surface sq km .000 000</b>   | <b>9,83</b>  | <b>9,56</b>  | 0,38        | 0,36        | 0,24        | 3,29         | 0,55      | <b>8,52</b>  | 0,30  | <b>9,98</b> | <b>17,10</b> | 0,10         | 7,74         | 0,51  | 1,96        | 134,33 |
| <b>GDP per capita US\$ .000</b> | 59,53        | <b>8,83</b>  | 38,43       | 44,47       | 39,72       | <b>1,94</b>  | 38,48     | <b>9,82</b>  | 31,95 | 45,03       | <b>10,74</b> | 29,74        | 53,80        | 28,16 | <b>8,90</b> | 10,71  |
| <b>GDP % CAGR 2018-2023</b>     | 2,60%        | <b>7,30%</b> | 1,10%       | 1,60%       | 2,10%       | <b>9,90%</b> | 1,80%     | <b>4,10%</b> | 1,10% | 2,60%       | 1,80%        | <b>2,90%</b> | <b>3,40%</b> | 2,10% | 2,90%       | 3,70%  |
| <b>Inflation %</b>              | 1,80%        | 4,05%        | -0,22%      | 1,54%       | 1,96%       | 3,00%        | 1,00%     | 3,79%        | 0,63% | 2,27%       | 5,21%        | 2,27%        | 3,70%        | 0,95% | 6,13%       | 3,42%  |

# ... AND THERE ARE SOLID MOTIVES TO INVEST IN BRAZIL, ...

**Huge Economy, size and internal market:** Brazil is the 8<sup>th</sup> biggest economy in the world, and is the 5<sup>th</sup> in terms of both surface (8,52 million sq km) and population (210 Million inhabitants).

**Gate to Latin America.** Brazil represents 1/3<sup>rd</sup> of Latin American GDP (including Mexico).

**São Paulo city is the main financial and business hub of both Brazil and Latin America.** São Paulo City Area, with over 20million inhabitants and 50% of SP State (1/3<sup>rd</sup> of Brazilian GDP), is the biggest city in terms of both population and GDP in: Brazil, Latin America, and the whole Southern Hemisphere (including cities from the Australian and the African Continent). Counting with a top business infrastructure, São Paulo city is the preferred Latin American base for most of the multinationals, banks, top financial advisors and law firms. reasons

**Rich Natural resources.** Brazil is the world's largest producer and exporter of: agricultural products, ethanol, iron ore, soy, sugar cane, fruit, coffee, meat, leather and chicken, etc. On top of that, Brazil is self-sufficient on oil, and other energy production resources such as hydro and wind power plants.

**Highly developed industry**

**Infrastructure opportunities**

**Regional Opportunities.** There are 14 cities outside the State of São Paulo with over 1 Million citizens, and several states are indeed bigger than many countries.

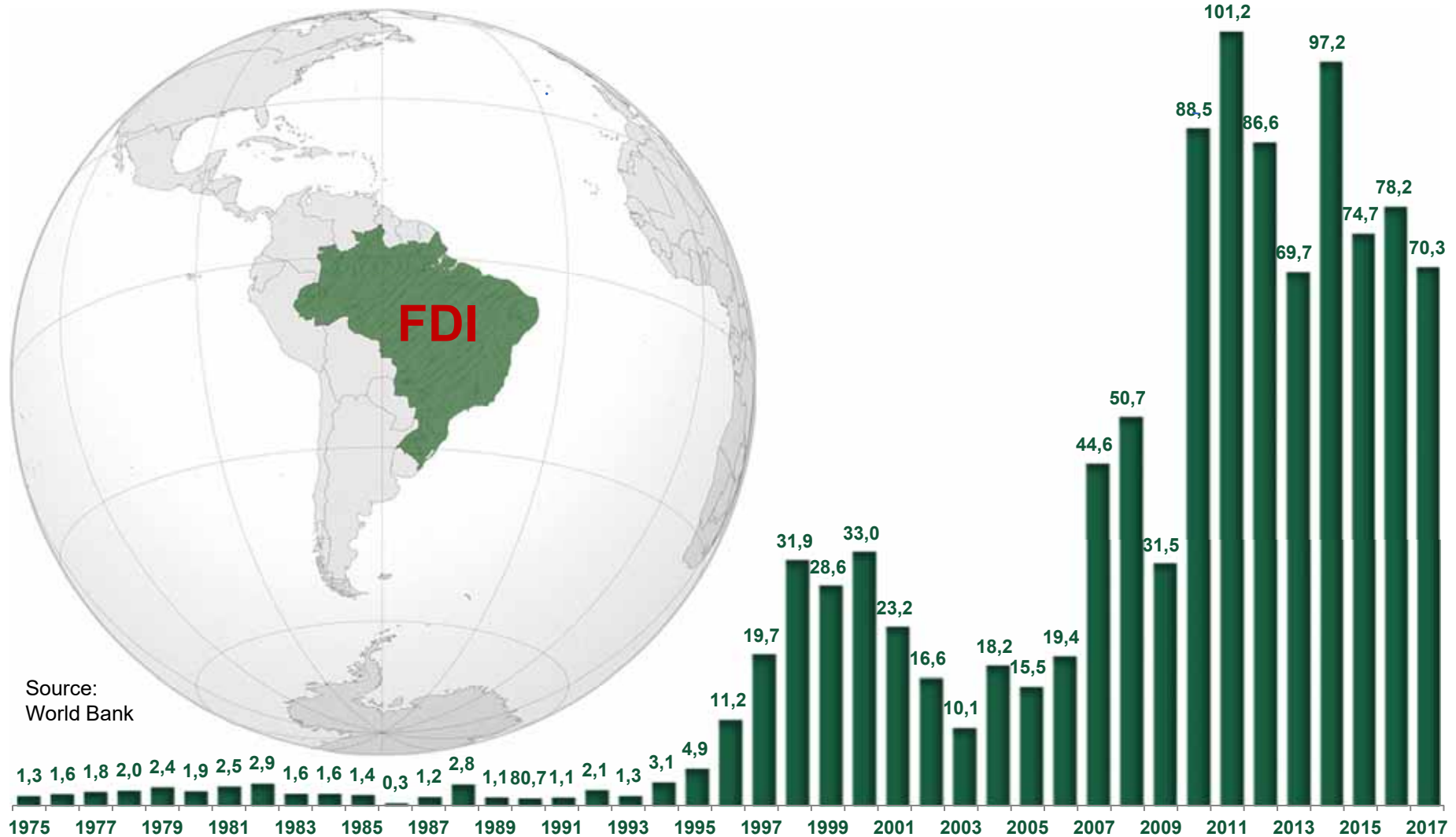
**Growth opportunities.**

**Peaceful country**

**Consolidated democracy and Rule of Law.**

# ... THUS, BRAZILIAN FDI HAS BEEN GROWING SINCE 1993

## Brazilian Foreign Direct Investment inflows (USD billion)



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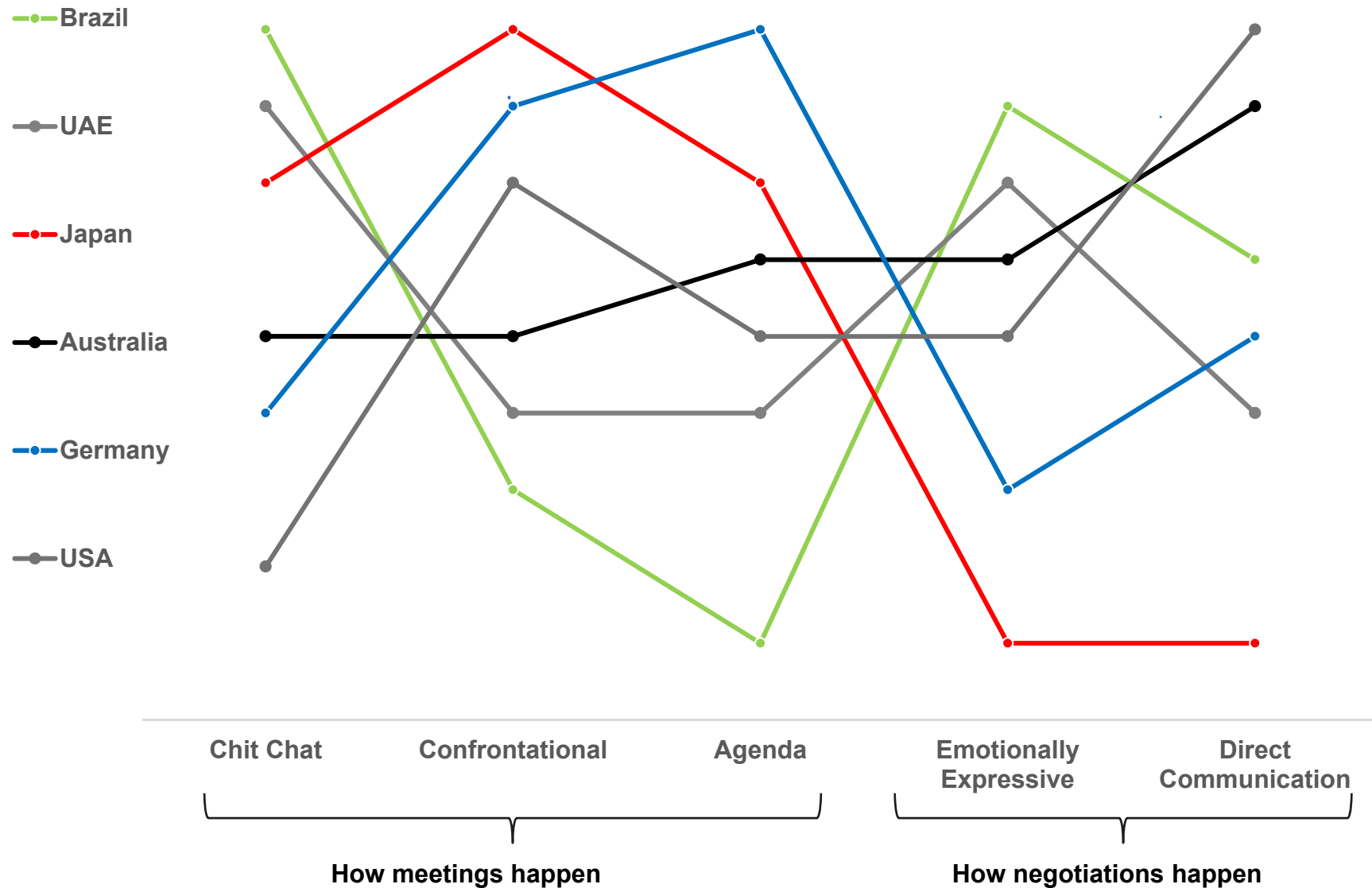
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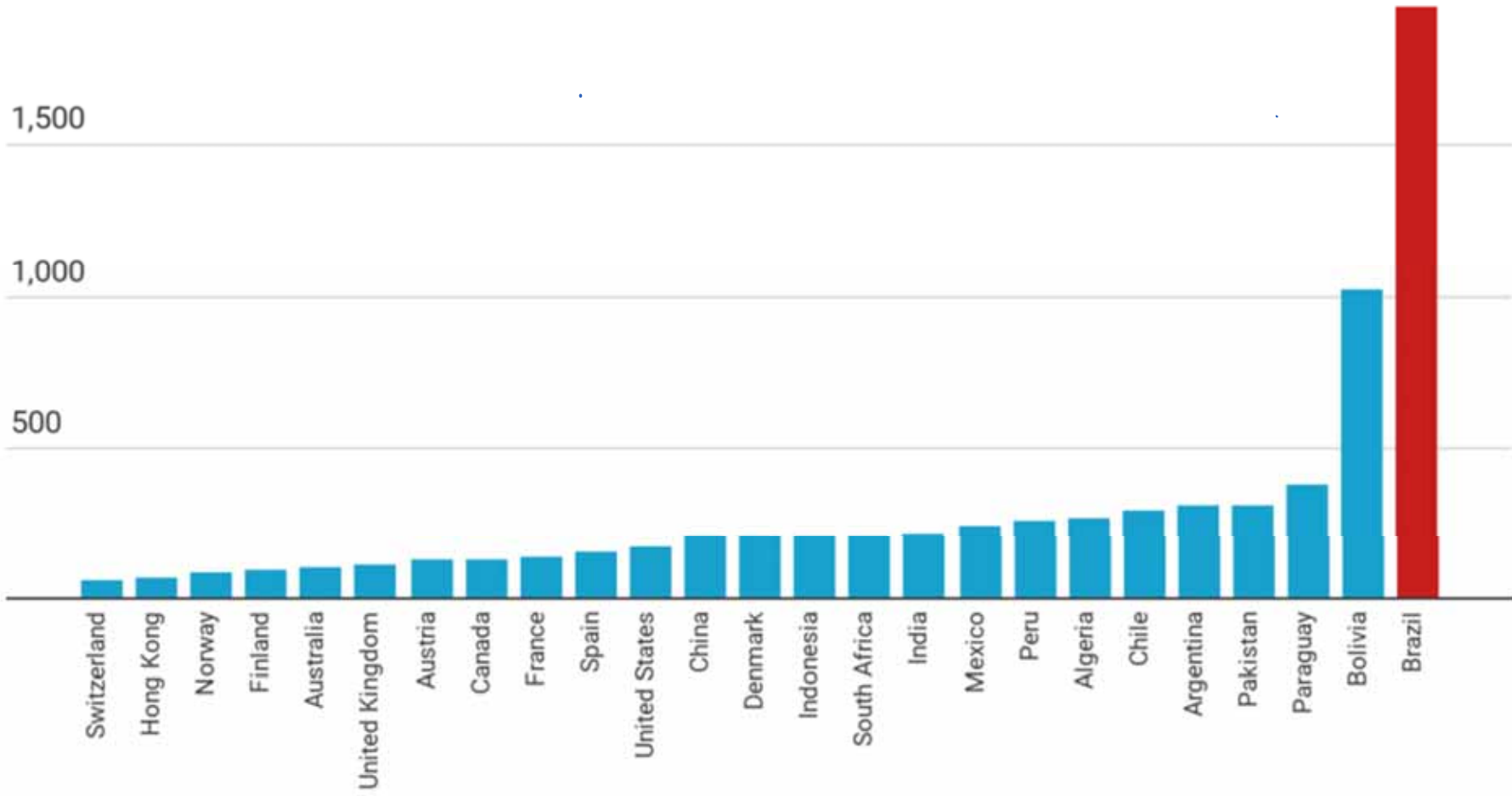
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# THERE ARE SEVERAL CULTURAL CHALLENGES TO DOING BUSINESS IN BRAZIL



# BRAZILIAN TAXES ARE THE MOST COMPLEX WORLDWIDE (AND THUS POTENTIAL LIABILITIES) HOURS PER YEAR TO COMPLY WITH TAX LEGISLATION WORLDWIDE



# BRAZILIAN LABOR LITIGATIONS STILL HAS ROOM TO IMPROVE AFTER THE LABOR REFORM



**Ricardo Amorim** ✓

@Ricamconsult

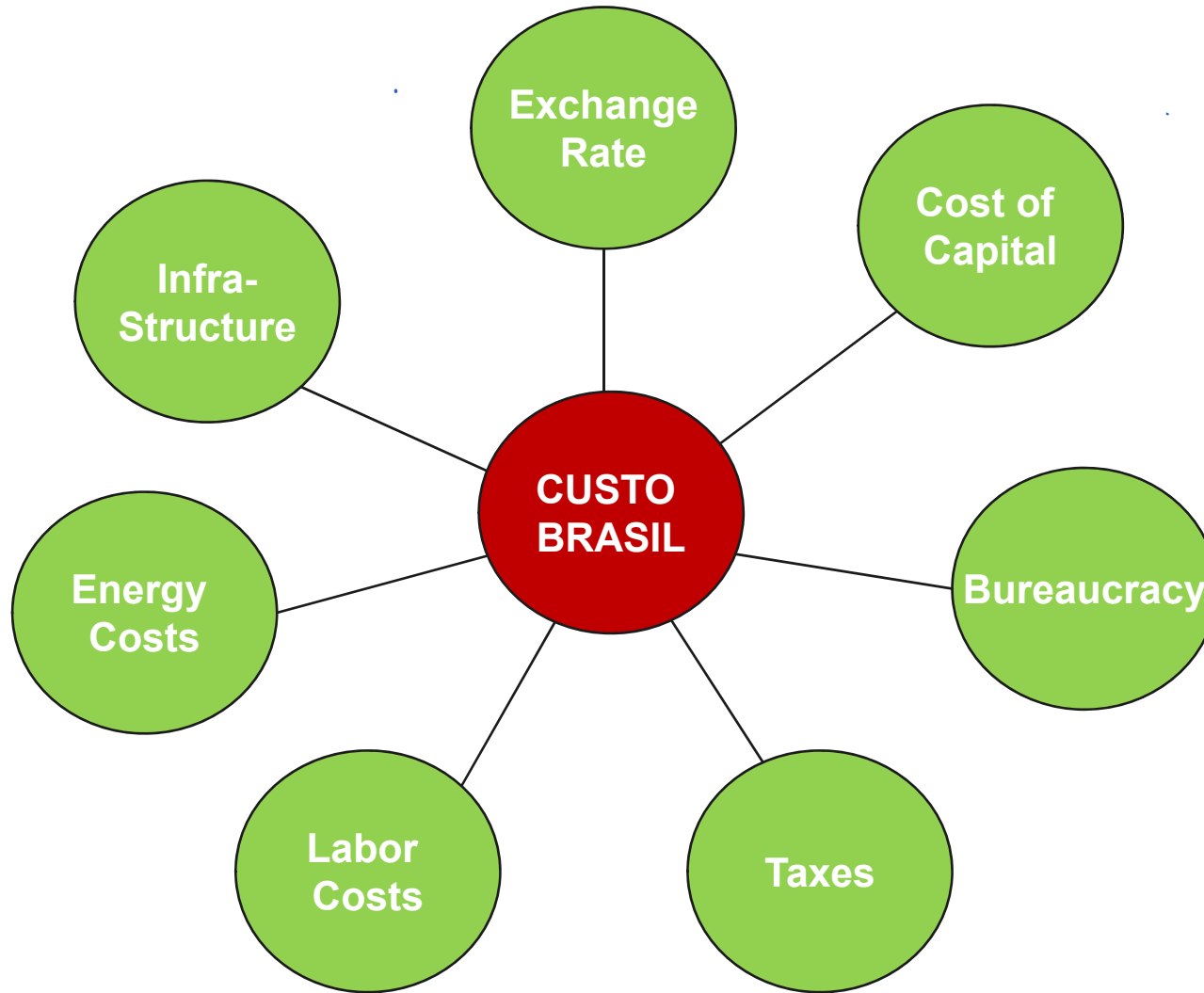
Seguir

Brasil tem entre 95% a 98% de todas as ações trabalhistas do mundo. Em 2016 foram aproximadamente 3.900.000 de processos. Após a reforma trabalhista houve uma redução de 36,5% no número de processos, mas ainda temos muito + processos trabalhistas q todo o resto do mundo somado.

**OS PAÍSES EM VERMELHO  
CONCENTRAM, JUNTOS, 95% DAS  
AÇÕES TRABALHISTAS DO MUNDO**



# ... LABOR, TAXES AND OTHER COST ADD UP TO WHAT IS KNOWN AS “CUSTO BRASIL”



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# DUE TO BRAZIL'S HIGH "BARRIERS TO ENTRY", M&A IS A WISE AND TYPICAL STRATEGY AMONG SUCCESSFUL MULTINATIONALS

## BUSINESS CASE: TOP MULTINACIONALS IN THE HEALTH SECTOR IN BRAZIL

|                      |  |   |   |   |  |   |
|----------------------|--|---|---|---|--|---|
| Crescimento Orgânico |   |     |   |   |  |   |
|                      |   |    |   |   |  |  |
| M&A or JV            |  |   |   |   |  |   |
|                      | < 50 anos no Brasil  |   | > 50 anos no Brasil   |   |  |   |

- Top List source: IMS Ranking NRC+PMB PPP based on IMS PMB Abr/2012 and IMS NRC Mar/2012, ANVISA; Mídia

- M&A/ JV criteria source: Press, Merger Market, Sindusfarma, CI Analysis

- Summary of acquisition or JVs (including of MNCs with Brazilian Assets): **SANOFI AVENTIS**: Medley. **NOVARTIS**: Alcon do Brasil. **PFIZER**: Wyeth, 40% of Teuto. **GSK**: Stiefel, including its Brazilian Assets. **MERCK**: Serono, Supera (JV with Cristalia and Eurofarma) and Organon. **ABBOTT**: Solvay, including subsidiaries in Brazil. **BAYER** acquired Shering-Plough with assets in Brazil. **J&J** acquired Janssen and Cilag and thus its Brazilian subsidiaries. **BORHRINGER** acquired Instituto De Angeli, with presence in Brazil. **AZ**: Astra, Zeneca. **TAKEDA**: Nycomed.

- Years in Brazil: Sanofi: 54, Novartis (Sandoz): 73, Pfizer: 60, GSK: 104, Merck: 89, Abbott: 75, Bayer: 116, J&J: 79, Boehringer: 59, Roche: 116,

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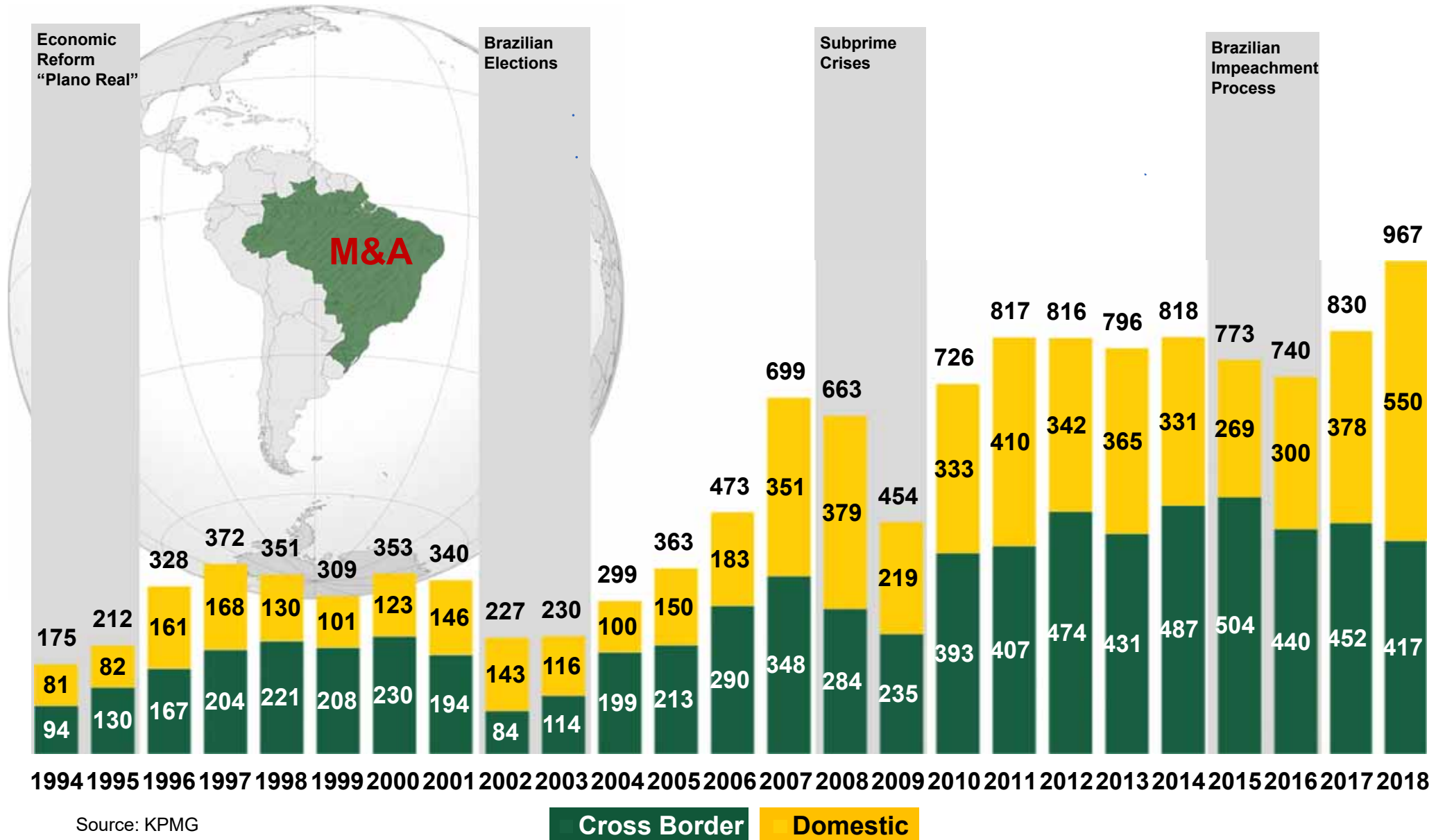
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# THE BRAZILIAN M&A MARKET HAS BEEN QUITE ACTIVE SINCE 2004

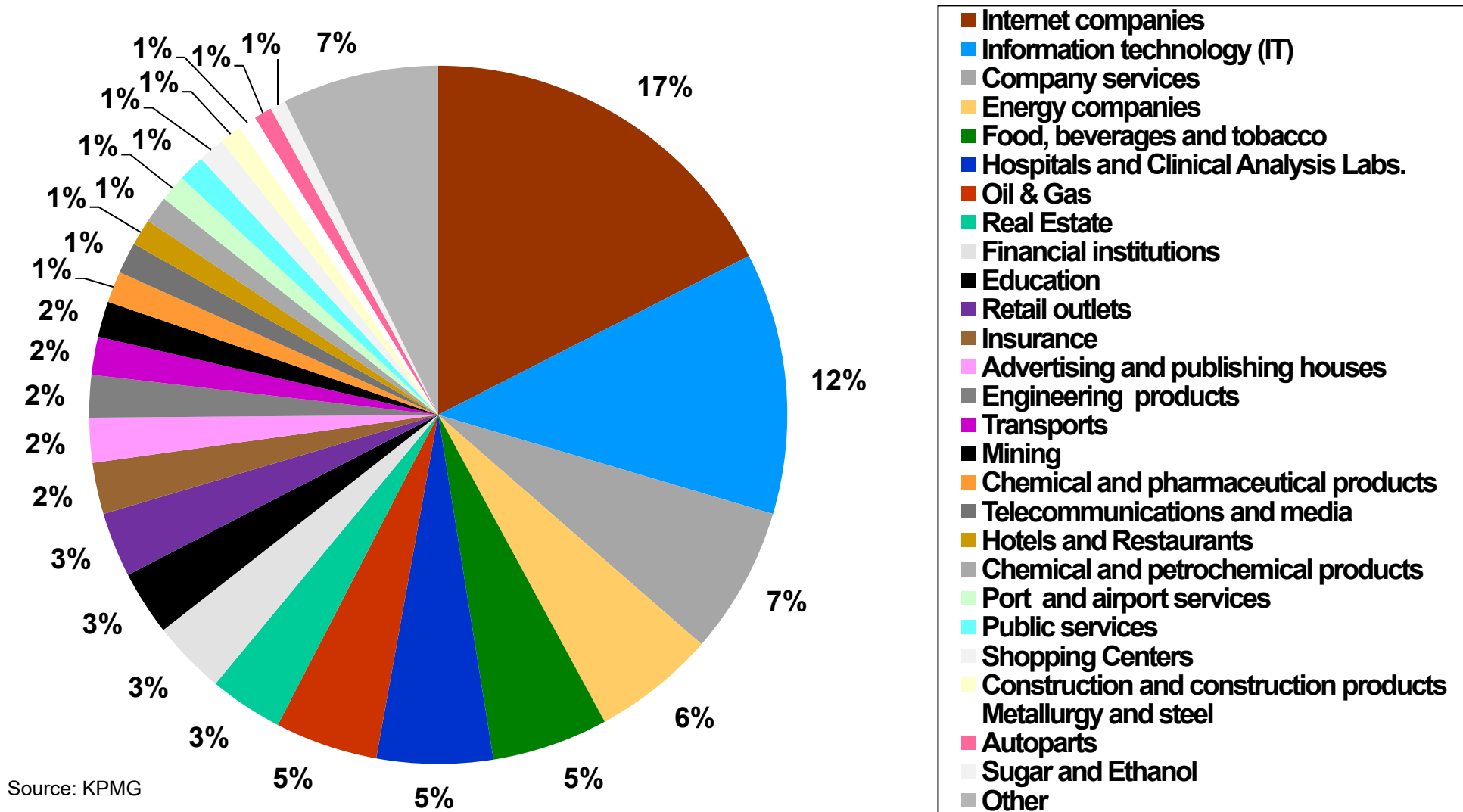
## Number of transactions per year – total/ domestic/ cross border





# INTERNET, IT, SERVICES, FOOD AND ENERGY ARE THE MOST ACTIVE M&A SEGMENTS IN BRAZIL

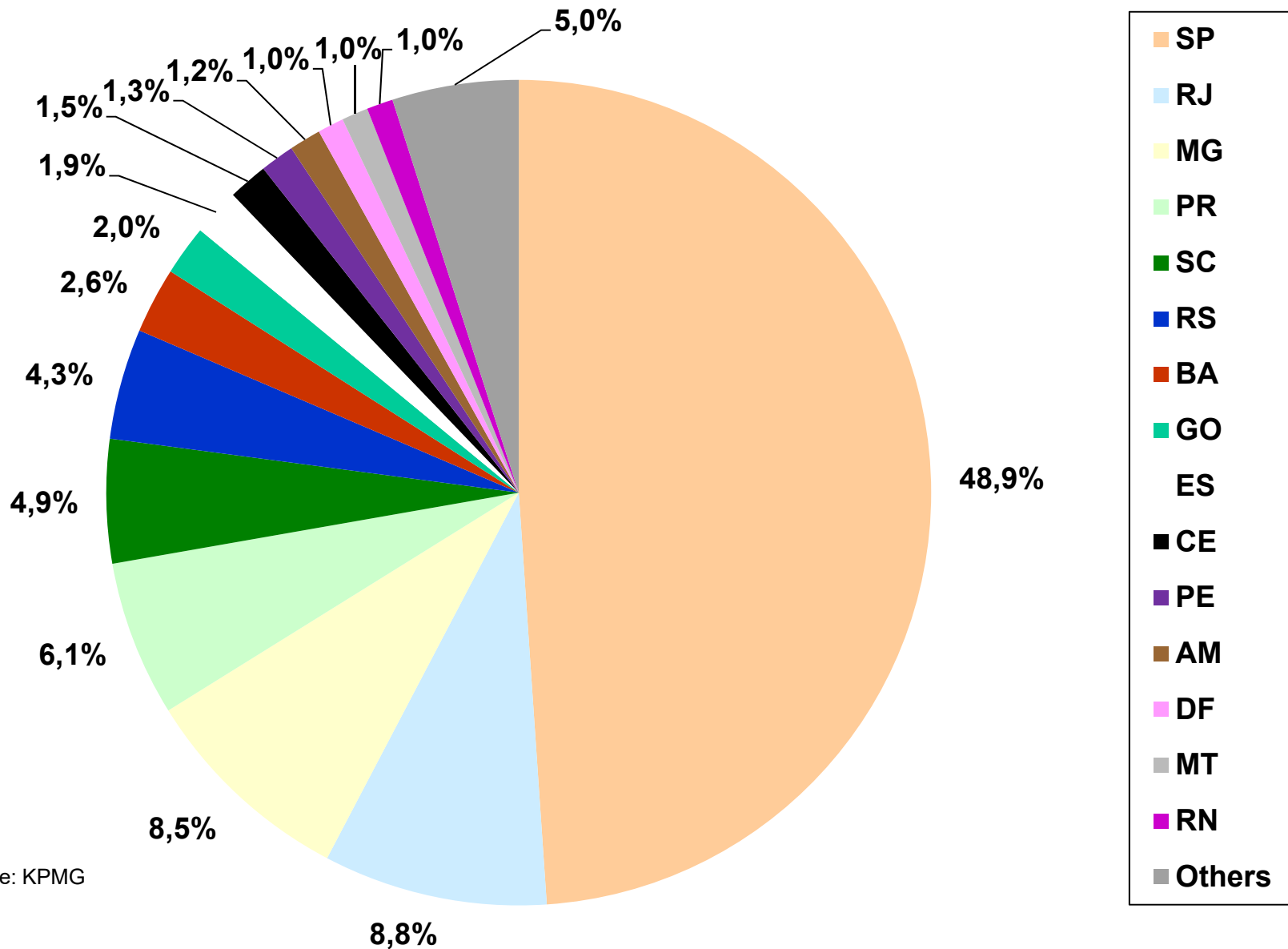
Percentage of number of transactions by segment – year 2018



Source: KPMG

# SP, RJ, MG, PR AND SC ARE THE STATES MOST ACTIVE IN M&A

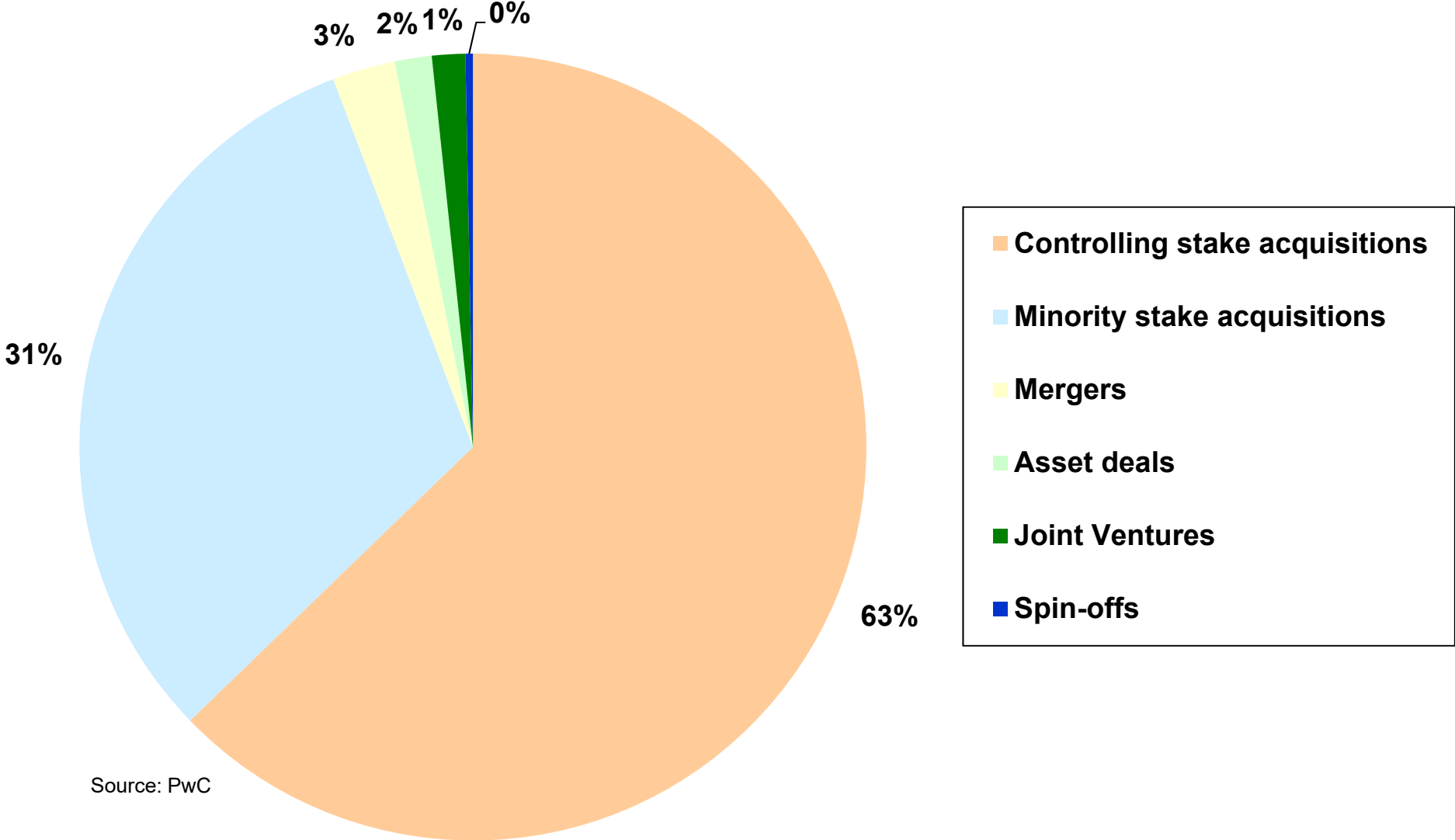
## Percentage of number of transactions by State – year 2018



Source: KPMG

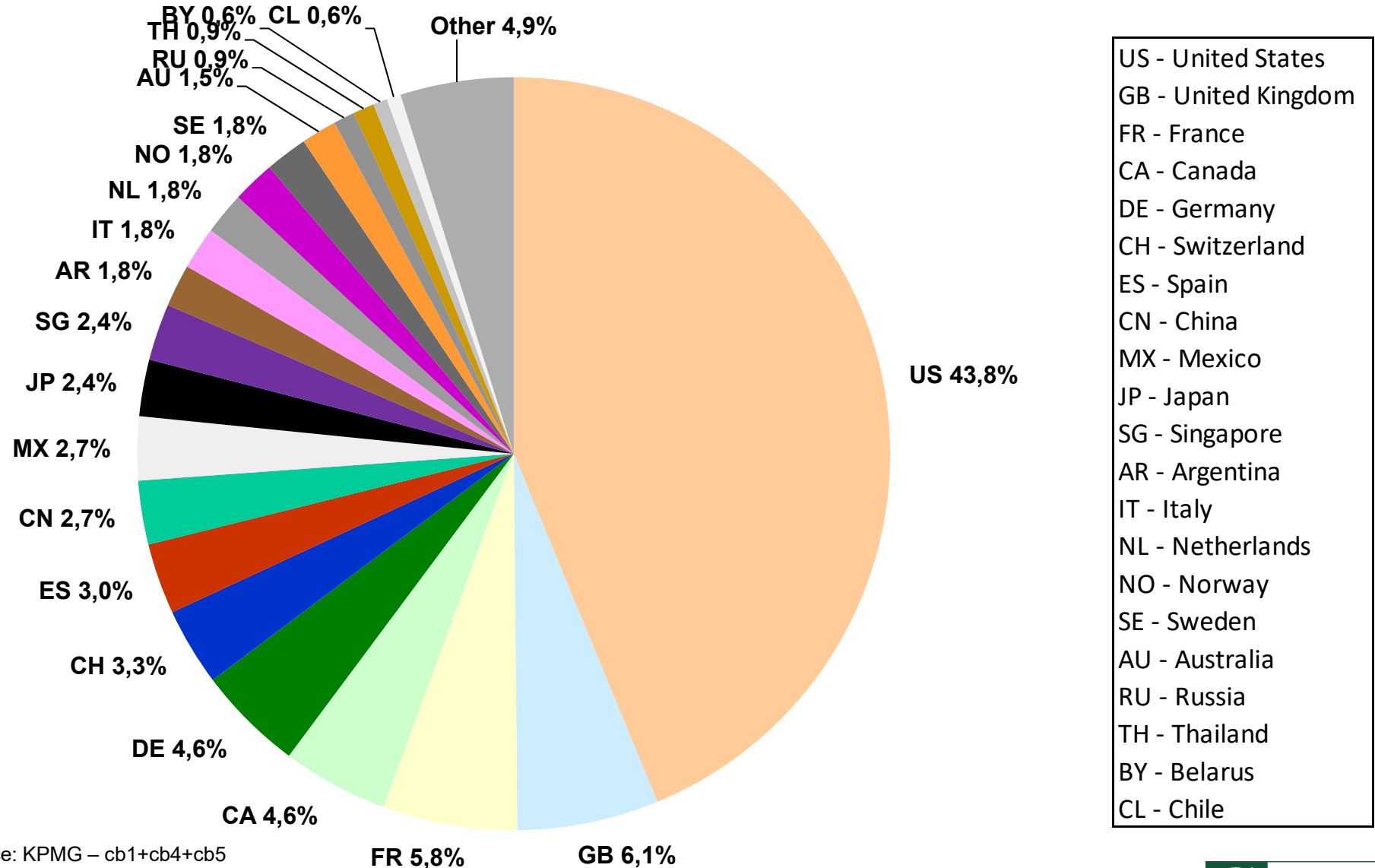
# MOST OF THE TRANSACTIONS IMPLY THE TRANSFER OF CONTROLLING STAKES

Percentage of number of transactions by type – year 2018



# THE MOST ACTIVE FOREIGN INVESTORS IN BRAZIL ARE FROM: USA, UK, FRANCE, CANADA, GERMANY AND SWISS

Percentage of number of 329 inbound cross border transactions by country – year 2018



- US - United States
- GB - United Kingdom
- FR - France
- CA - Canada
- DE - Germany
- CH - Switzerland
- ES - Spain
- CN - China
- MX - Mexico
- JP - Japan
- SG - Singapore
- AR - Argentina
- IT - Italy
- NL - Netherlands
- NO - Norway
- SE - Sweden
- AU - Australia
- RU - Russia
- TH - Thailand
- BY - Belarus
- CL - Chile

Source: KPMG – cb1+cb4+cb5

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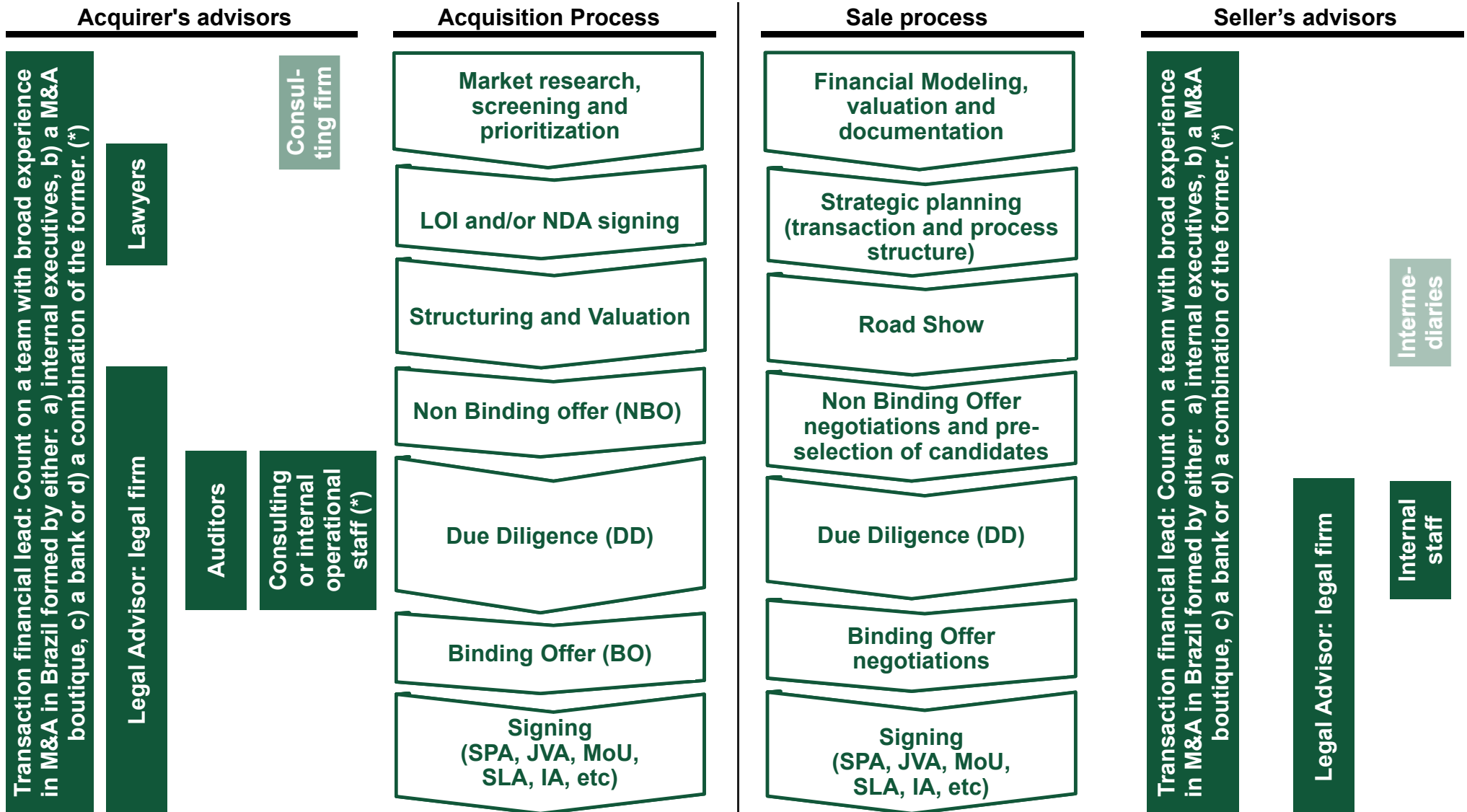
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# DIFERENT ADVISORS ARE KEY AT DIFFERENT STEPS, BUT A TRANSACTION WITHOUT THE RIGHT FINANCIAL LEAD IS LIKE AN ORCHESTRA WITHOUT THE RIGHT “CONDUCTOR”



(\*) Internal operational personnel involvement is highly recommended to facilitate PMI.

**REQUIRED.** Key teams or advisors

**OPTIONAL.** Collaborators that in some cases are suitable (not always)

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# THERE ARE BRAZILIAN PECULARITIES ALONG THE M&A PROCESS THAT ARE KEY TO A SUCESSFUL TRANSACTION IN BRAZIL

## TARGET SELECTION.

- As tax, labor, legal and regulatory **compliance**, as well as “**integrity**” are not to be taking for granted in Brazil, **selecting** the right “acquisition target” is crucial for a successful M&A transaction.
- On the other side, **publicly available information is quite scarce** and, when available, is not always reliable. Consulting experience, double-checking information from several sources, including personal contacts, is therefore of the utmost importance.

## DEAL NEGOTIATIONS

- When reaching the “Deal Phase” of a transaction, there are relevant **cultural facts**, that are crucial when sitting at a the negotiation table, as paradoxically: personal relations, creating empathy, speaking the same language, gaining trust, and in summary dealing with emotions, can be as relevant as making a high bid or communicating brilliant rational arguments.

## BUSINESS VALUATIONS

- Business Valuations in Brazil need to be **political-proof and economical-proof**, as valuation assumptions may change due to regulatory, legal and economical shifts. Therefore, a solid scenario analysis developed by a local M&A advisor is vital to a trustworthy business valuation.

## DUE DILIGENCE

- Due Diligence in Brazil is crucial in order to **map and quantify liabilities**. The bad news is that there is not a single transaction without liabilities. The good news is that there are several legal and financial structures, which can either mitigate those liabilities, or leave those burdens on the seller’s side.



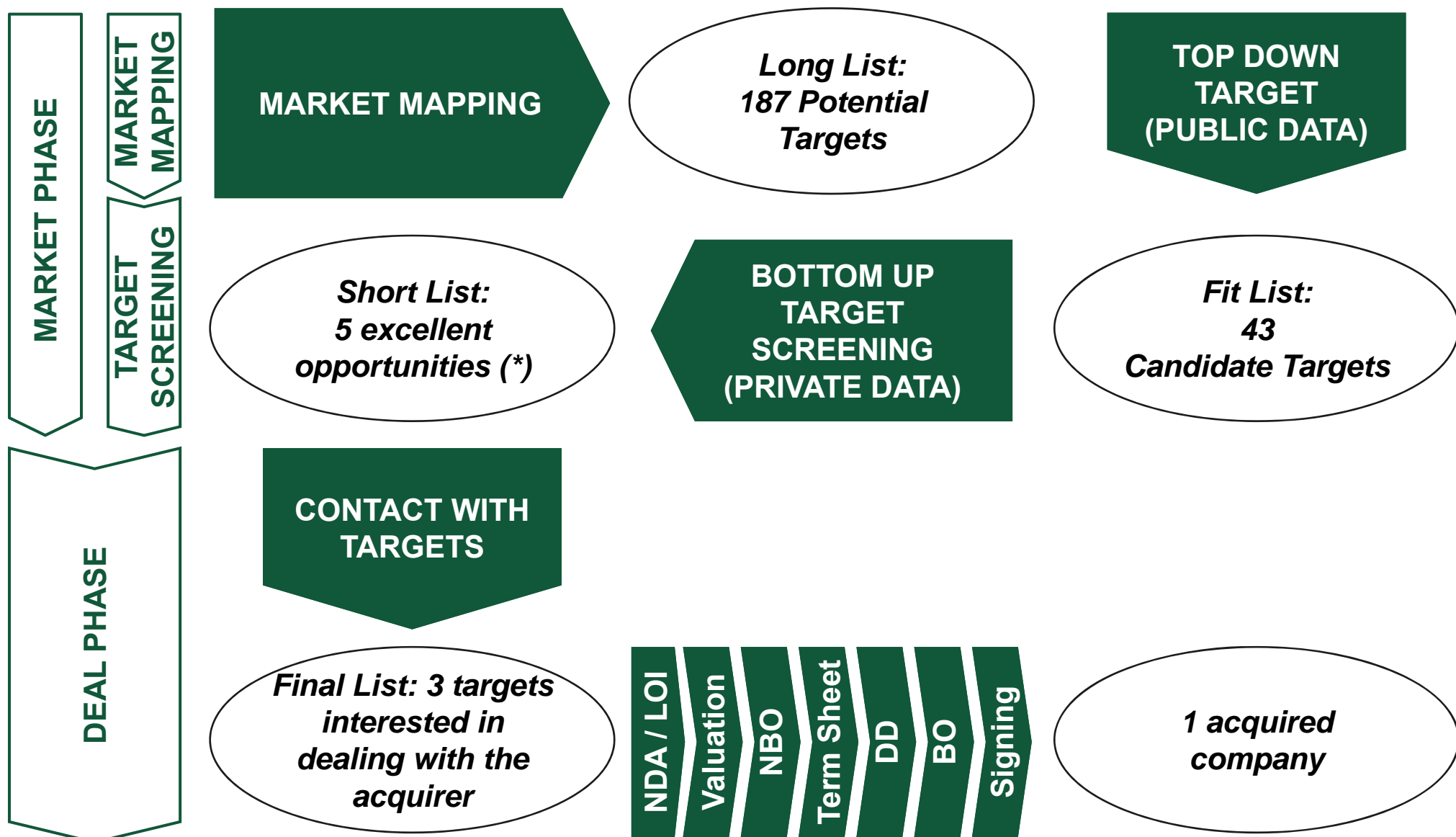
# FOR THOSE REASONS, CHOOSING THE RIGHT FINANCIAL LEAD IS KEY TO A SUCESSFUL ADQUISITION IN BRAZIL

Taking into account those facts, a successful deal process, on top of the technical M&A know how and experience, also requires:

- Along the **MARKET PHASE**: Significant “local network”, meaning personal contacts in the marketplace to correctly:
  - **Map** the sector of interest and its players using not only the scarce information available from public sources, but also data from private sources.
  - **Screen and prioritize** the targets by interviewing third parties (industry experts and top executives).
  - **Double-checking** the information by consolidating different sources.
- Along the **DEAL PHASE**:
  - Deep **knowledge of the “Brazilian style”** of doing business and dealing with Brazilians.
  - The ability to develop **trustworthy and friendly negotiations** in Portuguese.
  - **Local knowledge** of the political, economic, legal and regulatory environment and its potential shifts in order to develop trustworthy business valuations.

# THE MARKET PHASE IS KEY TO MAP AND SCREEN THE BEST TARGETS, THE DEAL PHASE IS VITAL TO FULFILL THE TRANSACTION

## TYPICAL EXAMPLE OF A MULTINATIONAL ADVISED BY CAPITAL INVEST



# THANKS!

[www.capitalinvest-group.com](http://www.capitalinvest-group.com)

