

Brazil Transaction Insights

Q3 2019

Q Overview

Since the inauguration of President Jair Bolsonaro in January 2019, a trend of cautious optimism has swept over the Brazilian business community.

Following the guidance of the Minister of Economy, Paulo Guedes, the new government has proposed to host free market reforms that piqued the interest of both domestic and foreign investors.

The government's largest mandate includes pension reform, which may bolster fiscal health of the nation and endorse the relation between the executive power and congress. This will likely pave the way for the approval of other relevant reforms (like tax and anti-crime) and further actions of the government for sweeping deregulation and privatization, fostering new investments after years of sluggish economic growth.

The IBOVESPA index reached an all-time-high (105k points) in July 2019, reflecting investors' increasing confidence in the country.

Brazil is currently boasting a healthy balance of external accounts, stabilized inflation and a more stable fiscal situation.

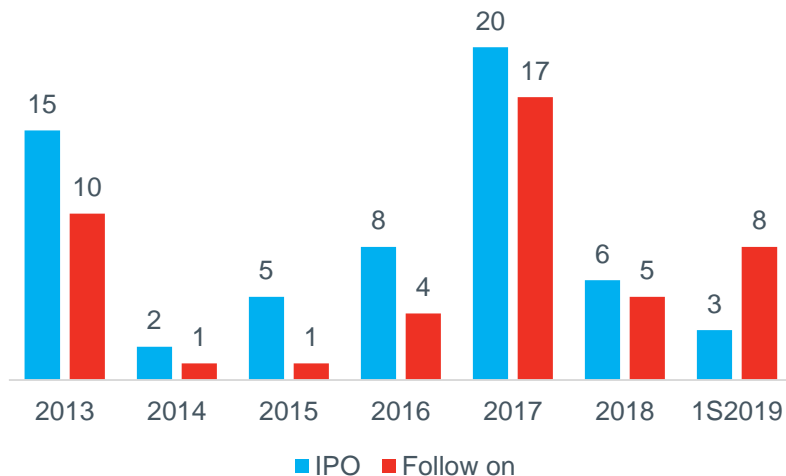
BY THE NUMBERS



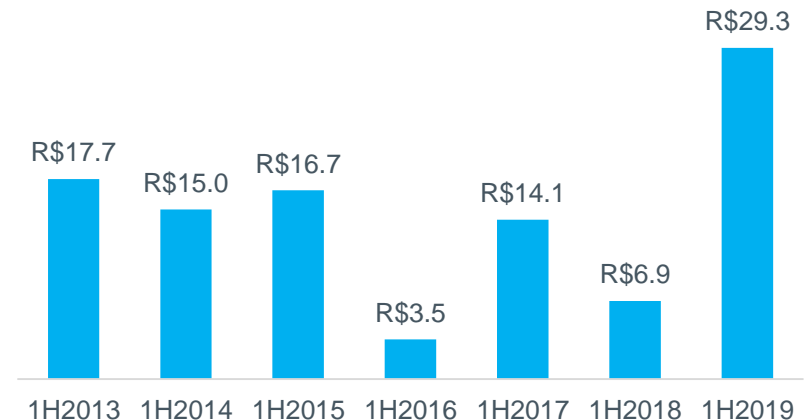
Equities Activity .o

Companies' access to capital markets is deeply related to the economic perspectives. President Bolsonaro's election, supported by Minister Paulo Guedes, aligned a market driven economy and fostered companies confidence to access capital markets and fund growth (and financial sponsors exit) projects. The first half of 2019 marked a 320% increase in funds raised (mainly follow on operations, when perceived risk level is lower) when compared to first half of 2018. The reforms foreseen by the government are essential to the maintenance and also intensification of capital markets operations.

Number of Public Offerings



Amount of Public Offerings Funds Raised (R\$ bn)



Equities Activity

Potential IPO candidates were weary to enter the market in the first half of 2019. As a result only three IPOs were announced. Given the political uncertainty in Brazil in an election year, StoneCo, Arco Platform and Pag Seguro decided to offer their stocks on the American stock market and pursue more technology-mature investors.

2018 - 2019 Completed IPOs

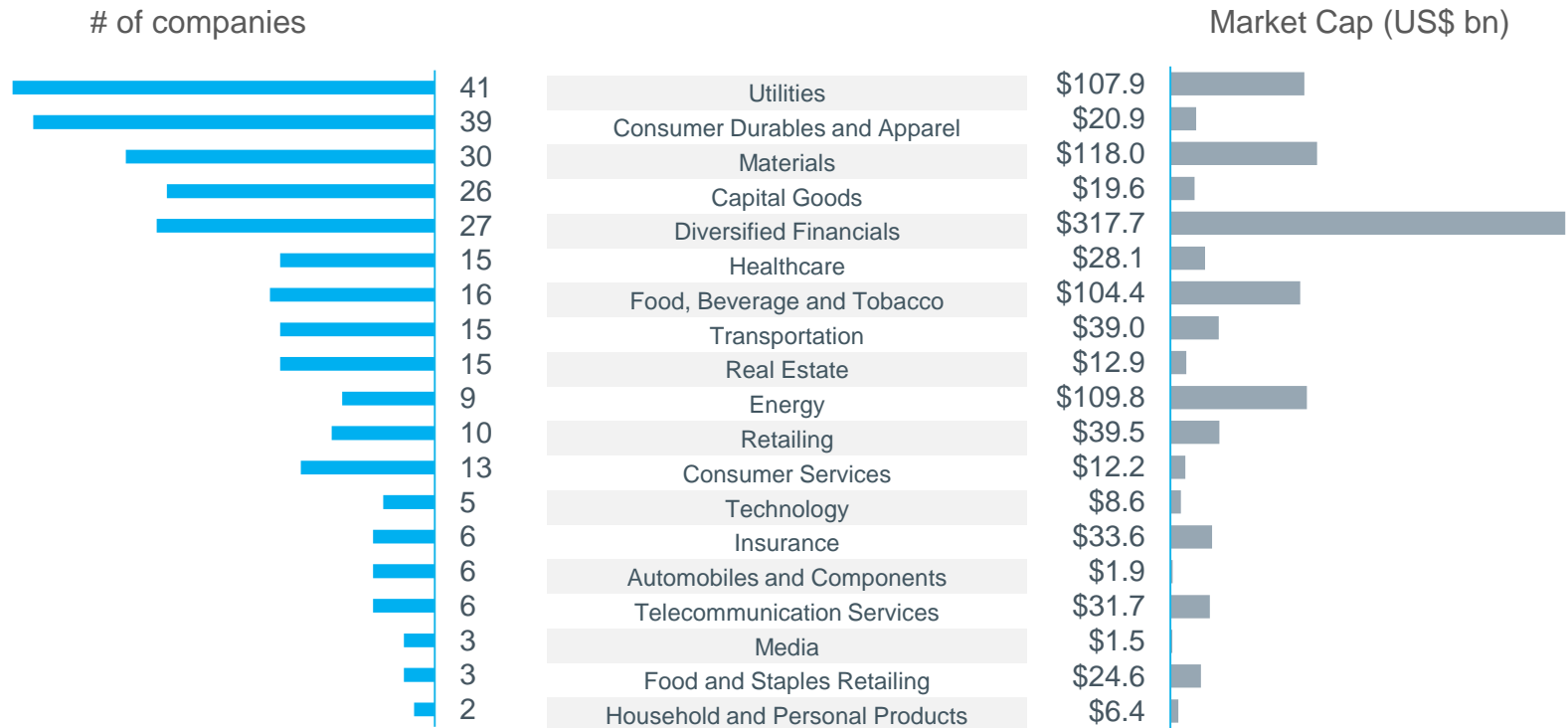
Pricing Date	Company Name	Ticker	Incorporation	Industry Sector	Gross Proceeds	Offer Price	Offer Price vs. Marketed Range	As of 30/06/2019		
								Stock Price	Market Capitalization (US\$ MM)	Price to LTM Earnings Multiple
6/30/2019	Neoenergia S.A.	BOVESPA: NEO3	Brazil	Utilities	\$862.6	\$4.15	Within	\$4.18	\$5,077.2	11.2x
6/25/2019	Linx S.A.	BOVESPA: LINX3	Brazil	Software Services	\$308,8	\$9.40	Within	\$9.32	\$1,785.5	94.0x
4/15/2019	Grupo SBF S.A.	BOVESPA: CNTO3	Brazil	Specialty Stores	\$178.2	\$3.32	Within	\$3.74	\$772.9	14.8x
10/25/2018	StoneCo Ltd.	NASDAQ: STNE	Cayman Islands	Data Processing /Outsourced Services	\$ 1,217.4	\$ 24.00	Within	\$ 29.58	\$ 8,205.4	62.8x
9/25/2018	Arco Platform Limited	NASDAQ: ARCE	Brazil	Consumer Services	\$ 194.4	\$ 17.50	Within	\$ 43.78	\$ 2,204.7	NA
4/30/2018	Banco Inter S.A.	BOVESPA: BIDI4	Brazil	Diversified Banks	\$ 171.4	\$ 4.83	Within	\$ 2.65	\$1,615.0	87.6x
4/25/2018	Hapvida Participações e Investimentos S.A.	BOVESPA: HAPV3	Brazil	Managed Healthcare	\$ 783.5	\$ 6.14	Within	\$ 10.31	\$6,926.7	33.5x
4/22/2018	NotreDame Intermédica Participações S.A.	BOVESPA: GNDI3	Brazil	Managed Healthcare	\$ 631.3	\$ 4.31	Within	\$ 10.54	\$5,570.6	58.0x
1/23/2018	PagSeguro Digital Ltd.	NYSE: PAGS	Cayman Islands	Software and Services	\$ 2,265,8	\$ 21.50	Below	\$ 38.97	\$12,754.3	45.9x

Source: CVM filings, company press releases and S&P Global Market Intelligence as of June 30, 2019.

Listed Brazilian Companies

Among 287 Brazilian companies listed on the major Brazilian stock exchange (“B3”) as of June 30, 2019, 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 (27 listed companies) account for 30% of total market capitalization, followed by Materials (30 listed companies), accounting for 11%.

Summary of Listed Companies



U.S.-Listed Brazilian Companies

Of the 65 Brazilian companies listed on major U.S. exchanges as of June 30, 2019, approximately two-thirds of them trade over-the-counter, one-third on the NYSE and one company on the Nasdaq. There is a large diversification in terms of sectors for U.S.-listed Brazilian companies, with the Energy sector capturing over a fourth 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)
			Nasdaq	1	\$2.205
Utilities	8	\$39.804	NYSE	20	\$566.138
Materials	8	\$112.596	OTC	44	\$172.080
Food, Beverage and Tobacco	8	\$98.363	Total	65	\$740.424
Energy	3	\$197.108			
Diversified Financials	4	\$161.829			
Capital Goods	4	\$16.718			
Consumer Durables and Apparel	4	\$2.330			
Transportation	5	\$24.837			
Consumer Services	1	\$2.205			
Real Estate	6	\$10.130			
Telecommunication Services	3	\$12.343			
Software and Services	1	\$1.786			
Retailing	2	\$5.626			
Commercial and Professional Services	2	\$570	Incorporation	# of Companies	Total Market Cap (US\$ MM)
Health Care Equipment and Services	3	\$3.372	Cayman Islands	1	\$2.205
Food and Staples Retailing	1	\$6.558	Brazil	63	\$738.218
Pharmaceuticals, Biotechnology and Life Sciences	1	\$4.956	Nevada	1	\$1
Banks	1	\$39.294	Total	65	\$740.424
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Brazil B3 - Top 10 Companies by Market Capitalization

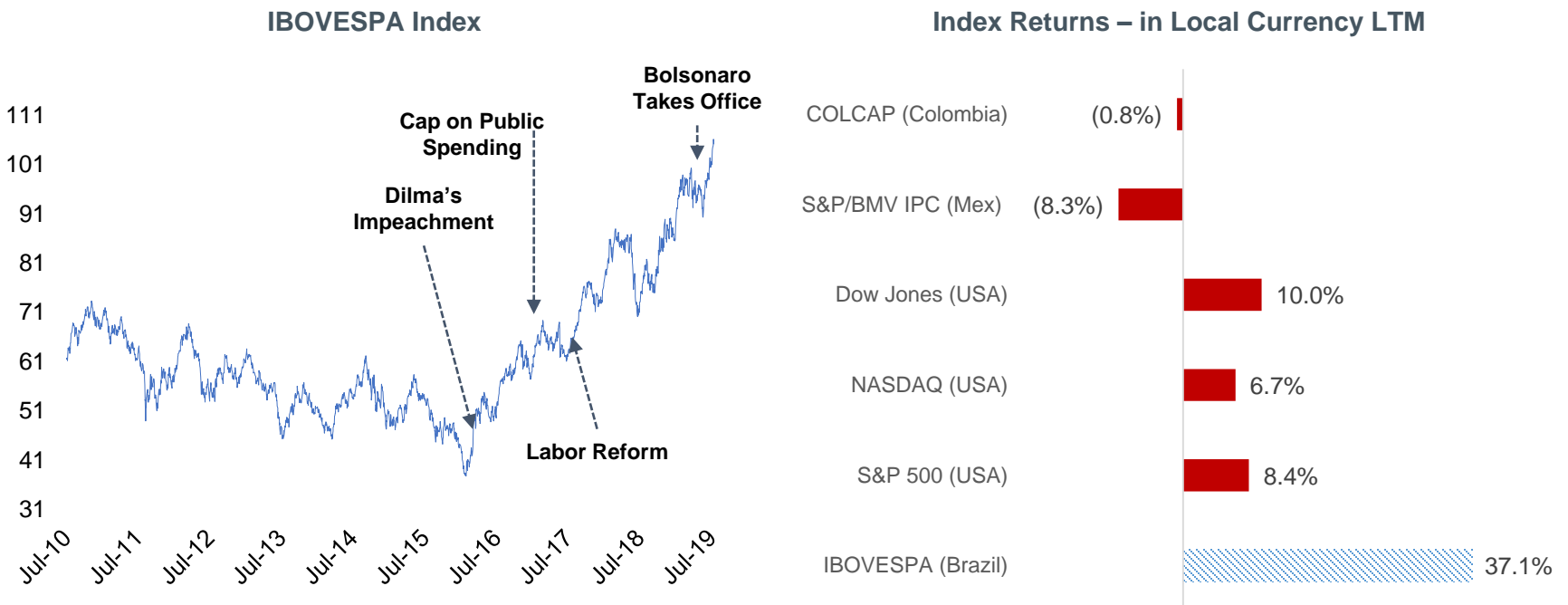
Company Name	Incorporation	Industry Sector	Business Description	Market Capitalization (US\$ MM)	% of 52-Week High	Price to LTM Earnings Multiple
Petróleo Brasileiro S.A. - Petrobras (BOVESPA:PETR4)	Brazil	Energy	Petróleo Brasileiro S.A. - Petrobras operates in the oil, natural gas and energy industries.	\$98,550.6	94%	15.2x
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.	\$85,711.2	77%	17.7x
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.	\$73,557.7	79%	17.4x
Banco Bradesco (Brasil) S.A. (BOVESPA:BBDC4)	Brazil	Banks	Banco Bradesco S.A. provides banking and financial products and services to individuals, enterprises, corporations and institutions.	\$74,735.4	61%	24.7x
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.	\$69,474.7	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.	\$44,636.6	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.	\$39,293.7	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.	\$28,546.7	86%	11.9x
Telefônica Brasil S.A. (BOVESPA:VIVT4)	Brazil	Telecommunication Services	Telefônica Brasil S.A. provides mobile and fixed line telecommunications services to residential and corporate customers in Brazil.	\$20,894.0	87%	8.9x
B3 S.A (BOVESPA: B3SA3)	Brazil	Diversified Financials	B3 S.A. - Brasil, Bolsa, Balcão organizes, develops, and operates free and open securities markets for spot and future settlements in Brazil.	\$20,050.2	84%	15.2x

BOVESPA Index

In the post-impeachment period and with the expectation of implementation of favorable economic measures during President Michel Temer's administration, stocks rose sharply (July 2016 to Dec. 2018). This movement was a direct result of considerable improvements in the management of fiscal and monetary policies. The fiscal responsibility act (Dec/2016), controlled inflation and improved awareness with regard to public spending.

The Brazilian stock market has reached an all time high after President Bolsonaro took office and it accumulates the highest return among the world's main indexes in local currency, largely influenced by internal factors, including low prime rate, and confirmation of pension and fiscal reforms.

Main Brazilian Index (IBOVESPA)



Going-Private Transactions

Three companies completed going-private transactions in the first half of 2019. These companies were in the financial, education and entertainment sectors.

2018-2019 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	
							1-Day Prior	1-month prior
Jun/2019	Tarpon Investimentos S.A.	Brazil	Financial	Manages Investments	\$ 4.1	0.2x	(83.6%)	(84.2%)
May/2019	Somos Educação S.A.	Brazil	Education	Somos Educação S.A. operates as an education company in Brazil.	\$1,536.8	NM	0.6%	(2.3%)
Apr/2019	Multiplus S.A.	Brazil	Entertainment	Operates a network of loyalty programs	\$1,130.8	12.0x	7.8%	(4.3%)
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%)	(99.8%)
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%	150.5%
Mar/2018	Prumo Logística S.A.	Brazil	Transportation	Engages in infrastructure and logistics businesses in Brazil.	\$ 1,047.1	NM	3.6%	1.0%

New Government's Agenda .o

President Bolsonaro faced substantial obstacles in his first six months of mandate with a solid opposition in congress. Pension reform is still the main focus of the new government as it will likely produce the largest amount of public savings and may solidify the country' fiscal health. Other measures such as tax reform, the intensification of the privatization program, consolidation of international agreements, and anti-crime package may produce positive effects in terms of productivity, judicial stability, free trade, increase in national competitiveness as well as notable social impacts. These are essential for the country to maintain its position among the biggest economies in the world and improve its Doing Business Index (measured by the World Bank), where the country faced the 109th position in a list of 190 countries.

Actions	Considerations
Pension Reform	Approved at the Lower House of Brazilian Congress, the country's social security reform is yet to be approved by the Senate. The bill will produce savings of some R\$ 900 bn (US\$ 2500 bn) over a 10 years period, according to the government.
EU-Mercosur	The new president and his team have effectively pursued trade liberalization agreements so far. After the relaunch of negotiations in 2016, it was announced the EU-Mercosur Association Agreement, one of the largest in history. The Brazilian government projects an addition of over US\$ 100 bn a year in exports for 15 years and a massive increase in investments of over US\$113 bn in the same period.
Organisation for Economic Co-operation and Development (OECD)	Brazil is supported by the U.S. and Israel to be part of OECD as the South American country, making a considerable effort towards the consolidation of its democracy, free trade and entrepreneurial path.
Privatization Program	Paulo Guedes, the Economy Minister, advocates free-market policies, pivoting away from state interventionism. The government privatization program can raise up to R\$ 450 bn in 2019, including 132 companies that have the state as direct or indirect partner.
Tax Reform	The complexity of Brazilian tax system has been producing some relevant costs nationwide. A proposed unification of tax system (Value added tax - VAT), the government estimates that under the proposed reform, costs may be reduced by 13% of the nations gross domestic product (GDP), considering 2018 data.
Anti-crime package	With efforts to reduce corruption and violent crime rates in Brazil, Justice and Public safety minister, Sergio Moro has proposed a package that covers several changes in the criminal justice system in Brazil.

New Government's Agenda ..

Brazilian Economy Minister, Paulo Guedes, is making a considerable movement toward privatization, stronger control over government spending and fiscal austerity. There's already an ongoing and strong privatization program (PPI) that foresees the sale of government owned companies to private players, covering various sectors such as ports, airports, telecom, energy, roads, railroads, finance and water/sewage, oil and gas and mining. The main focus is to ensure Brazil doesn't lag behind in infrastructure and has predictable regulatory milestones. PPI already struck a series of extremely successful auctions and bidding processes since its inception in 2016.



193
Qualified Projects

R\$ 260.2 bn
(US\$ 68.5 bn)
Contracted Investments

147
Concluded Projects

R\$ 54.1 bn
(US\$13.8 bn)
Concession Bonuses
("Outorgas")



Energy: 94 projects
Airports: 16
Ports: 27
Oil & Gas: 7
Other: 3

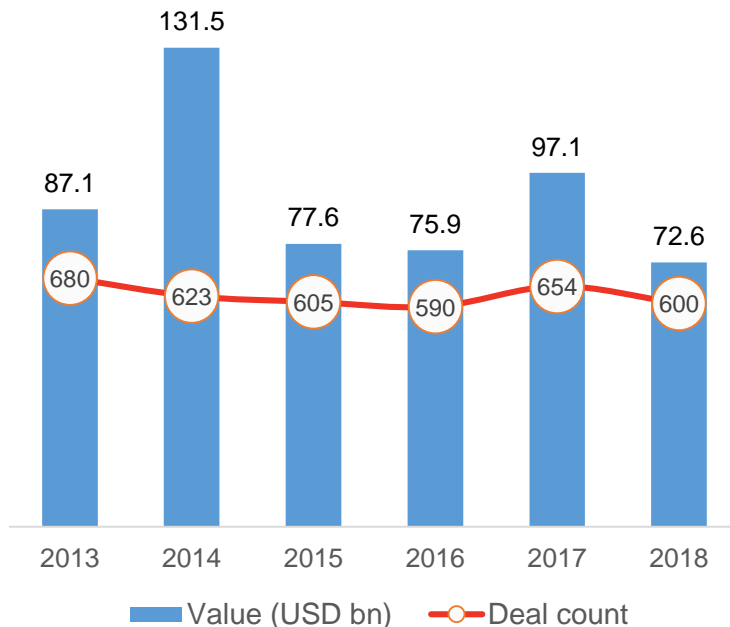
Global Strategic and
Financial Investors

M&A Activity

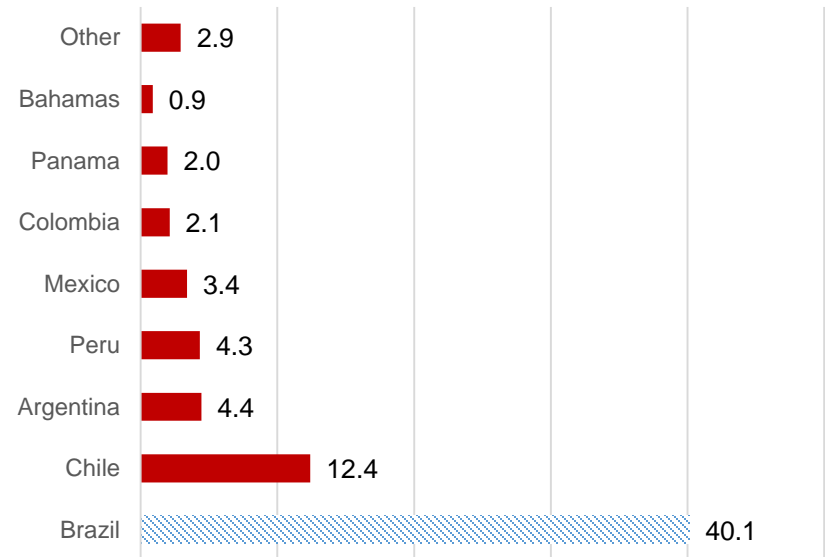
In 2018, as it continued to work past its corruption scandals, stabilize its economy and elect a new president, Brazil remained Latin America's largest economy and the region's leading country for mergers and acquisitions (M&A), recording USD40 billion in total deal value and over 300 transactions (based on Acuris Mergermarket criteria).

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 country⁽¹⁾, with multisector opportunities and many family-owned companies with potential for consolidation. With recent government initiatives and proposed reforms, M&A activity will ramp up and market expects +1.000 transactions announced in 2019.

Latin America M&A⁽²⁾



Country Breakdown - Deal Value⁽²⁾
USD bn - 2018

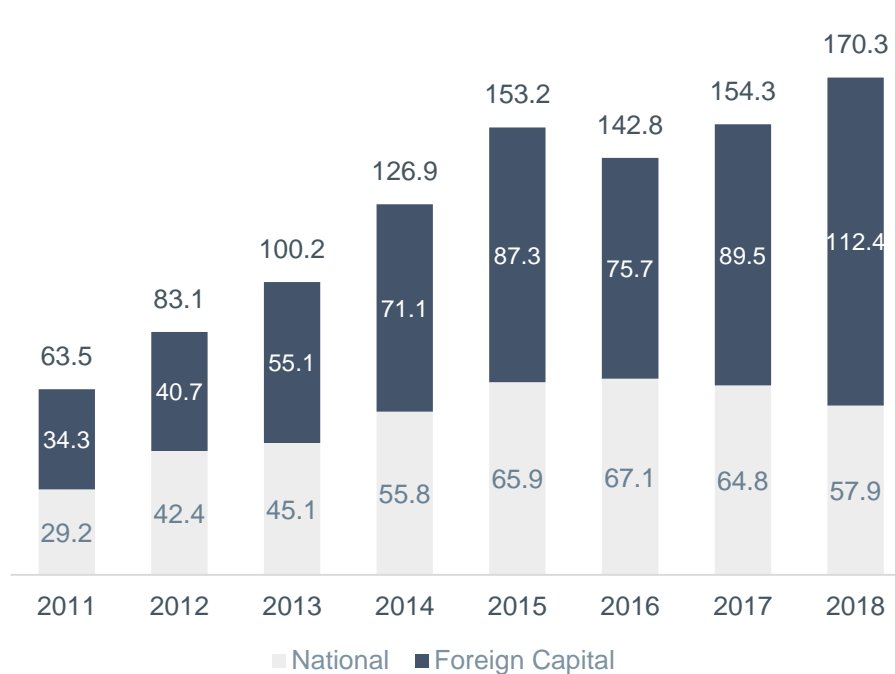


PE/VC Activity

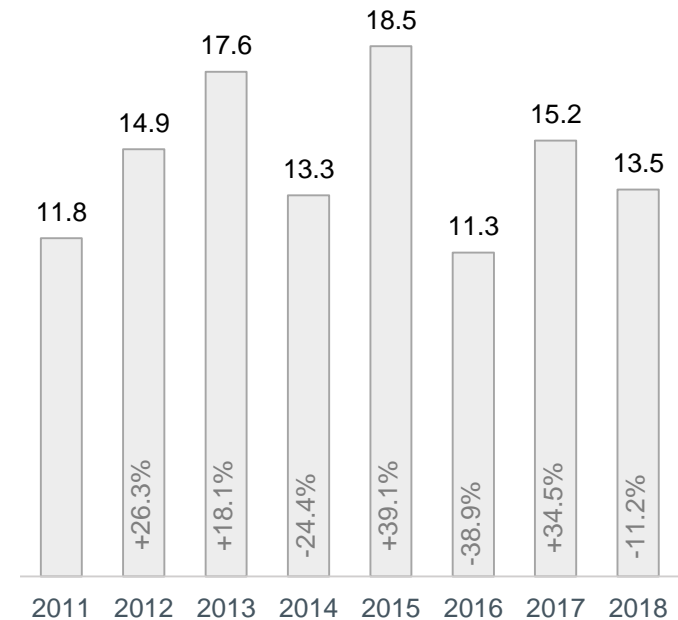
Brazil's deal activity is boosted by financial investors. In 2018, total committed capital reached an 8-year record high, despite fewer investments made. The reduction in investments last year was due to higher exchange volatility and portfolio managers' parsimony regarding electoral definition. The Brazilian private equity outlook remains strong for the remainder of 2019, with political and fiscal reforms that aim to ensure judicial safety, healthier state economies and less corporate bureaucracy.

Private Capital

Committed Capital and Origin (R\$ bn)



Investments per year (R\$ bn) and change YoY (%)



Notable Transactions – First Half 2019

TAG



In June 2019, Transportadora Associada de Gas (TAG), one of Petrobras Subsidiaries, closed a sale of 90% to a consortium between Engie and Caisse de Dépôt et Placement du Québec (CDPQ) for a consideration of US\$ 8.2 bn.



In June 2019, Omega Geração announced the acquisition of CEA- Centrais Eólicas Assuruá for approximately US\$ 500 mm.

magalu

NETSHOES

In June 2019, Magazine Luiza, one of the biggest retailers in Brazil acquired Netshoes for US\$ 115mm.

**REDE D'OR
SÃO LUIZ**



In June 2019, Rede D'Or, the biggest healthcare service provider in Brazil, acquired Maternidade Perinatal for R\$ 800 mm.



In May 2019, Hapvida acquired Grupo São Francisco for a consideration of US\$ 1.3 bn.



YAMANA GOLD

lundin mining

In April 2019, Yamana Gold, agreed to sell Mineração Maracá to Lundin Mining for US\$ 1 billion.



ODEBRECHT
Rodovias



In January 2019, Mamoura Diversified Holdings and Farallon Latin America acquired 85% of the Concessionária Roda das Bandeiras from Odebrecht Rodovias for a consideration of US\$ 1.1 bn.

Y YELLOW



In January 2019, the two main bike and electric scooter sharing startups in Latin America announced a merger of US\$ 150mm into one company called Grow.

Notable Transactions – 2018



In July 2018, CVC Capital Partners Ltd and Messer Group agreed to pay a total consideration of US\$ 3.3 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 acquire a controlling stake in the commercial aircraft arm of Brazilian plane maker Embraer under a new US\$ 4.75 billion joint venture.



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 US\$ 2.03 billion.



In June 2018, Advent International agreed to acquire an 80% stake in Walmart Brazil for a consideration close to R\$ 8 billion.



In April 2018, Kroton acquired a 73.35% stake in Somos for US\$ 1.33 billion.



In April 2018, Whirlpool announced the sale of its subsidiary Embraco to the Japanese Nidec Corp. for a consideration of US\$ 1.08 billion.



In March 2018, Suzano agreed to acquire a 100% stake of Fibria for US\$ 10.72 billion.



In January 2018, Didi Chuxing Technology acquired 99 Taxis for a consideration of over US\$ 1 billion, making 99 Taxis the first Brazilian unicorn.



Brazil in Numbers

	2011	2012	2013	2014	2015	2016	2017	2018	2019P	2020P
Inflation IPCA (%) Median	6.5	5.8	5.9	6.4	10.7	6.3	2.9	3.7	3.8	3.9
Exchange rate EOP (USD/BRL)	1.87	2.05	2.36	2.66	3.96	3.26	3.31	3.88	3.80	4.00
Nominal Interest Rate SELIC (%) EOP	11.00	7.25	10.00	11.75	14.25	13.75	7.00	6.50	5.00	5.00
Nominal GDP (USD bn)	2,612	2,463	2,468	2,455	1,800	1,797	2,053	1,868	1,856	1,938
Real GDP Growth (% – Market prices)	4.0	1.9	3.0	0.5	(3.5)	(3.3)	1.1	1.1	0.8	1.7
Trade Balance (USD bn) – EOP	30.0	19.0	2.0	(4.0)	20.0	48.0	67.0	58.0	61.0	53.0
Direct Investments (% GDP)	3.9	3.5	2.8	3.9	4.2	4.4	3.4	4.7	4.6	5.1
International reserves (USD bn)	352.0	379.0	376.0	374.0	369.0	372.0	382.0	387.0	387.0	387.0
Gross Public Debt (% GDP)	51.3	53.7	51.5	56.3	65.5	69.9	74.1	77.2	77.7	79.3
Primary Result (% GDP)	2.90	2.20	1.70	(0.60)	(1.90)	(2.50)	(1.69)	(1.60)	(0.90)	(1.20)
Unemployment – IBGE % EOP		7.4	6.8	7.1	9.6	12.7	12.5	12.3	11.8	11.6

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.

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- Strong and dedicated global M&A practice with significant experience advising on cross-border transactions and negotiating with financial a strategic investors.
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- Local industry expertise in the following industry sectors: consumer, food, restaurants and retail; energy and mining; healthcare and life sciences; education; logistics and distribution; industrials; media and entertainment; and technology and telecom.
- Local professionals leverage on a global team of +3,500 professionals in 30 countries.
- Independent and free of conflicts of interest

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