

INSEAD

The Business School
for the World®



pwc

INSEAD - PwC study on Private Equity in Brazil

Brazilian Private Equity:
Moving Centre Stage



This report was published by the INSEAD Global Private Equity Initiative (GPEI) with support from PwC Brazil Private Equity.

It was written by Rodrigo B. Feitosa, Fabio Terepins and Hermano Kemps, INSEAD MBAs, under the supervision of Michael Prah, Senior Researcher and Professor Claudia Zeisberger, Academic Co-Director of GPEI at INSEAD.

We would like to thank PwC Brazil for their support during our research, in particular Carlos Mendonça (PwC Brazil Private Equity leader) and Alexandre Pierantoni (PwC Brazil Corporate Finance Partner).

The publication of this research paper was made possible by a financial contribution from PwC, as well as by Mr. Gilles Destremeau, INSEAD MBA '87J, private equity professional and investor, whose support is gratefully acknowledged.

Special thanks go to our survey respondents on whose valuable insights this report is based.

Furthermore we would like to thank Preqin for access to their database that enabled us to present current fundraising and investment trends.

For further information on the INSEAD Global Private Equity Initiative, please visit www.insead.edu/gpei

Contents

1	Executive Summary	02
2	Historical Development of Private Equity in Brazil	03
2.1	Introduction	03
2.2	First steps (1994-2000)	04
2.3	Brazilian Private Equity shake-out (2001-2004)	05
2.4	Private Equity Matures 2005-2010	06
3	Current Status of Private Equity in Brazil	07
3.1	Private Equity GPs in Brazil	07
3.2	Private Equity in Brazil from the LP's Perspective	09
4	Outlook	10
4.1	LP's Investment Outlook	10
4.2	Historical Returns and Expectations	11
5	Challenges and growth drivers of PE investing in Brazil	14
5.1	The Main Challenges of Investing in Brazil	14
5.2	Main Drivers of Growth in the Brazilian Private Equity industry	16
5.3	Attractive Industries for PE investment	19
6	Conclusion	22
7	References	23

1 Executive Summary

This report provides an overview of Brazil's private equity industry,¹ discussing its history, current status and outlook. It draws on surveys of leading limited partners (LPs or investors) and general partners (GPs or PE firms) that are currently investing or intend to invest in the Brazilian private equity (PE) industry. The INSEAD-PwC Private Equity Survey was conducted from February to April 2011 among 15 GPs from across the region and 10 LPs investing or considering investing in Brazil.

The first part of the report offers an introduction to Brazilian private equity, starting with a summary of its historical evolution and followed by a discussion of recent developments in the industry, including the increasing flow of funds into this asset class.

It then takes a look at the current market situation from both the GP and LP perspective in terms of investment strategies and fund raising trends. It will discuss the prevalence of growth and minority investing and changes that result from the entrance of international buy-out funds into the market.

The core of the report focuses on the investment outlook. It analyzes investor perspectives on the country, discusses new pools of capital both domestic and international that are likely to feed the growth of the industry and the historic returns for private equity investments. These returns are especially interesting as they have been achieved with very limited leverage given the high cost of debt. It then covers expected future returns as an interplay of great investment opportunities and increasing competition among PE funds.

Finally, it highlights the main conditions driving PE industry growth in Brazil, including the emerging consumer market, the recent development of capital markets, and the high level of fragmentation in several sectors, as well as the main challenges faced by LPs and GPs when investing in the country.

¹ Throughout the report we use a narrow definition of private equity that excludes venture capital.

² Organizations that pool large sums of money and invest those sums in a wide range of asset classes. These chiefly include pension funds, insurance companies, foundations and endowments, banks and providers of investment vehicles (including mutual funds, funds of funds and hedge funds).

2 Historical Development of Private Equity in Brazil

2.1 Introduction

Brazil has developed into the major market for private equity in Latin America, accounting for more than Mexico and Argentina combined. In 2010, according to the Emerging Markets Private Equity Association (EMPEA), total PE investments in the country were US\$4.6 billion,³ representing 69% of the Latin American PE industry. According to a recent survey published by EMPEA and Collier Capital, Brazil is today the most attractive emerging market for private equity investments. Consequently, many of the funds that hitherto only invested opportunistically in the country are now establishing local offices and raising local funds.

The PE industry has directly benefitted from positive macroeconomic developments in the country. Over the past 15 years, Brazil has experienced political stability, adhered to a strict monetary policy and finally tamed inflation, creating a benign investment climate. In parallel, capital markets have expanded, aided by improvements in corporate governance and minority shareholder protection, providing a viable exit route for PE investors.

Today's favorable economic conditions are the main driver behind the growth of the Brazilian PE industry. The emerging middle class, eager to benefit from ever-increasing disposable income and credit availability, is boosting internal consumption of a broad range of products, from food to government-subsidized housing, making Brazil one of the leading consumer markets worldwide. The Brazilian government is stimulating this growth, mainly by means of large investments in infrastructure, including the World Cup in 2014 and the Olympic Games in 2016. Other sectors such as commodities and energy will continue to play an important role in the continued growth of GDP, backed by solid internal and external consumer markets.

This report seeks to provide some insight into the Brazilian PE sector, to identify its key characteristics and trends, and thereby contribute to the understanding of the PE industry in the country. It is based on an INSEAD-PwC Survey of PE firms and their investors conducted in early 2011 by PwC and INSEAD's Global Private Equity Initiative (GPEI). It also draws on PwC's and INSEAD's experience working with leading PE firms and investors in the region.

³ EMPEA (2010): EMPEA Industry Statistics FY 2010

2.2 First steps (1994-2000)

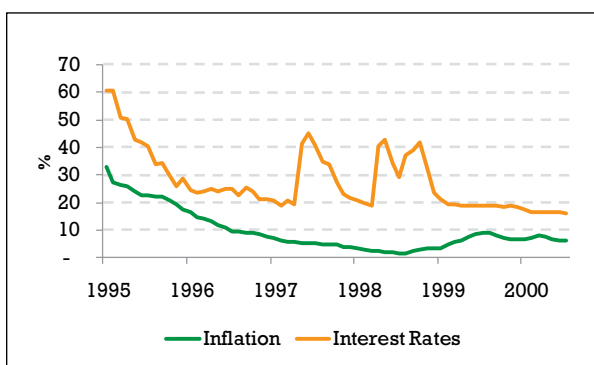
The initial conditions for the growth of the private equity market in Brazil emerged in the wake of the *Plano Real*. Launched in 1994, this economic plan focused on shoring up the Real as a stable currency, controlling inflation through interest rates, and initially fixing the exchange rate. Previous periods of hyperinflation and political instability had prevented most investors from acquiring privately-held assets. Capital liberalization in the 1990s was another important milestone that resulted in increasing competition from foreign companies, underlining the need for local companies to improve productivity.

The government also contributed to the emergence of the PE industry in Brazil by privatizing inefficient state owned companies in several sectors during the early 1990s. This attracted private equity investments into the country, such as the acquisition of ALL (the largest private railway in Brazil) and Telemar (one of the largest telecommunication companies) by PE funds in the 90s. The early years of the private equity industry saw increasing activity among major Brazilian banks, the emergence of local independent firms, and a number of tentative forays by international funds. These players invested in many different sectors and in companies at different stages, ranging from large-scale privatizations to internet start-ups.

In the mid-90s, investors started to turn to emerging markets, attracted by low valuations, a strong growth outlook, and the promise of outstanding returns. At its peak in 1998, the PE industry in Brazil raised US\$3.7 billion for investment into the country.⁴

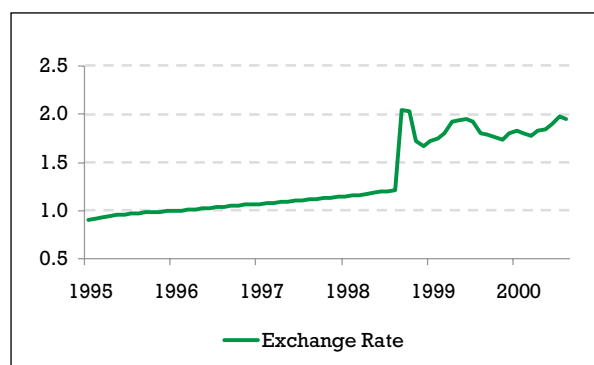
However, the Asian and the Russian financial crises reminded investors of the political and economic risks of emerging markets, and led to a pulling back of capital from emerging to developed economies. In 1999, Brazil saw a major currency devaluation when the Brazilian Central Bank was no longer able to maintain the fixed exchange rate policy. The Real-Dollar exchange rate in January of that year went from 1.20 to 2.06,⁵ severely affecting the performance of dollar-denominated investments in Brazil. In addition, a sharp increase in interest rates to contain inflation had adverse effects on the real economy. As a result, many fund managers performed poorly, failed to meet investor expectations, and either left the market or could no longer raise capital.

Inflation and Nominal Interest Rates



Source: Bloomberg

Exchange Rate (BRL/USD)



Source: Bloomberg

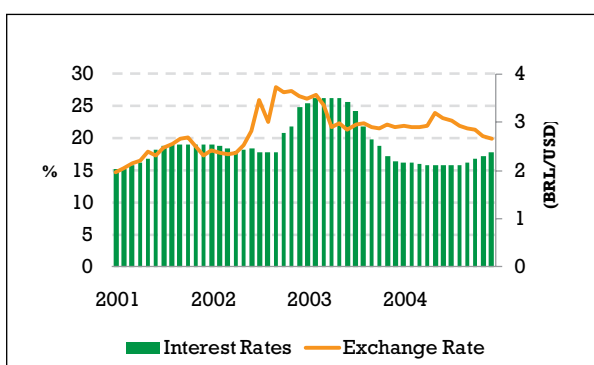
⁴ Venture Equity-Latin America (2011)

⁵ Bloomberg

2.3 Brazilian Private Equity shake-out (2001-2004)

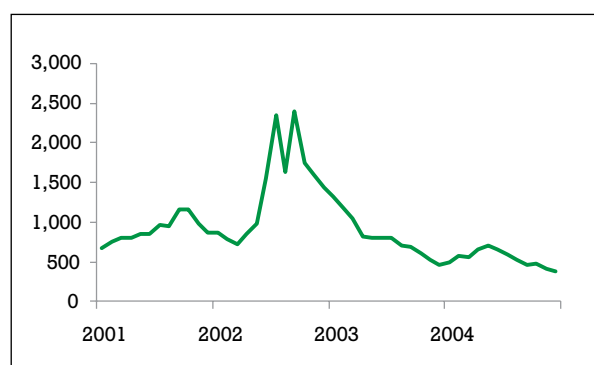
In the early 2000s, Brazil went through a period of macroeconomic uncertainty when it could no longer attract capital, with the Asian crisis still haunting most of the emerging economies. The bursting of the internet bubble blunted investors' risk appetite and the terrorist attacks of September 11 2001 had a strong impact on financial markets and investments globally. At home, the election of left-wing candidate Luis Inácio Lula da Silva as president prompted investor concerns that the previous monetary policies, including inflation targets and primary surplus control, would be discontinued. During 2002, the exchange rate to the dollar reached more than 3.5 and interest rates soared to 24.9%.⁶

Interest Rates and Exchange Rates



Source: Bloomberg

Brazil's Risk (JPMorgan EMBI+)



Source: JP Morgan

Private equity fund raising declined as a result of the macroeconomic environment and disappointing returns from previous vintages. Funds struggled to raise capital and most PE investments were club deals funded by Brazilian high net worth individuals. International players pulled back investments and several left the country, while independent local players started to fill the gap. As competition dwindled, most of the deals were done at low multiples. Exits from PE investments were only possible via sales to strategic players, as the capital markets in Brazil were still in their infancy.

Despite this adversity, the period was marked by several important regulatory measures that established the basis for the future development of the PE industry. In 2002, new norms allowed local pension funds to allocate part of their funds to alternative investments, such as private equity. This created an important source of domestic funding as Brazilian pension funds would grow to about US\$342 billion in assets under management by 2010.⁷ In 2003, another important regulatory milestone created the first private equity-friendly investment vehicle in the country, the *Fundo de Investimentos em Participações*, allowing PE firms to increase fund raising and investors to deploy capital through a less risky, more transparent and tax-efficient instrument.

Corporate governance and the protection of minority shareholders in Brazil were also enhanced during this period, first by the improvement of the corporate law (*Leis das S.A.'s*), and then by the establishment of the Novo Mercado (New Market) segment on the Bovespa Stock Exchange. The Novo Mercado was key to the development of the capital markets in the country, as companies with the highest standards of corporate governance were listed in a special segment.

⁶ Bloomberg

⁷ Tower Watson (2011): Global Pension Asset Study 2011

2.4 Private Equity Matures 2005-2010

From 2005, the macro-economic environment was once again favorable, with falling interest rates, inflation under control, and no sign of political instability. Market concerns about President Lula's policies proved to be overly pessimistic as he maintained the previous government's economic thrust, while boosting income distribution policies. Political stability was enhanced by his re-election in 2006. The positive momentum for Brazil culminated with its upgrade by S&P, Fitch and Moody's to investment grade (in 2008/09), which prompted a massive capital inflow to the country.

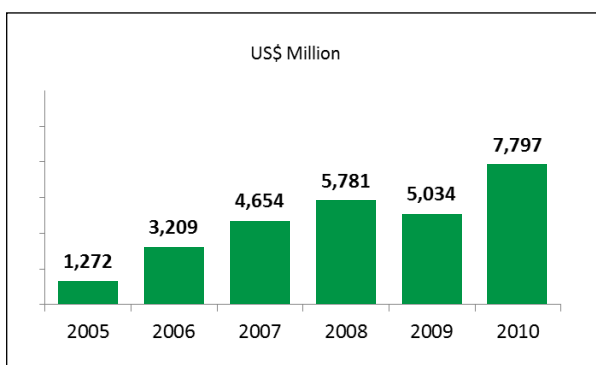
The middle class that emerged during this period started spending, boosting growth in a range of sectors from consumer goods to real estate. Credit availability was another important driver of the consumption boom, as credit penetration increased from 25% in 2005 to 44%⁸ of GDP in 2009.

The favorable economic climate benefited the entire PE cycle: attracting investment, deploying capital, exiting investments and generating returns. Starting in 2005, fund raising resumed on a large scale, the pace of investment accelerated and funds started exiting their investments, some through the capital markets. Many international PE firms decided either to intensify their investments in the country and/or to create subsidiaries in Brazil.

The global financial crisis of 2008/09 did affect the PE industry in Brazil negatively, but to a much lesser extent than in the developed and most other emerging countries. Thanks to Brazil's resilient and favorable macroeconomic fundamentals, PE development was halted for only a short period of time. Despite a slight decrease in fund raising in 2009, billion-dollar funds were still being raised, for example GP Investments' US\$1.4 billion fund in 2008 and Advent International's US\$1.65 billion fund⁹ in 2010. Yet while investors continued to deploy capital in the country, they did so at a reduced pace, instead focusing their attention on managing portfolio companies.

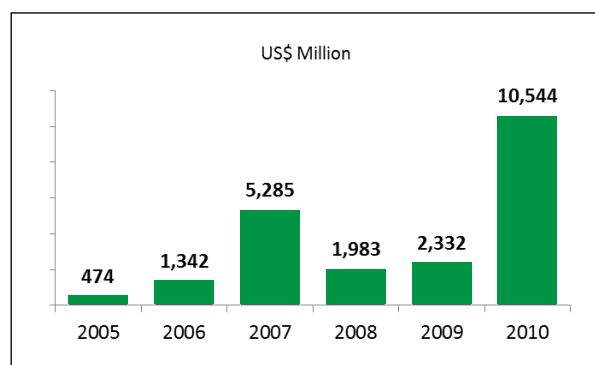
However, by 2010 PE investments in Brazil had recovered even beyond pre-crisis levels, fueled by PE firms' regained confidence in the country's fundamentals and favorable outlook. As a consequence, the PE industry resumed its activity, reaching a record level of US\$10.5 billion invested in the country.¹⁰

Latin America Fundraising



Source: Venture Equity Latin America (2011)

PE Investments in Brazil



Source: Venture Equity Latin America (2011)

⁸ Banco Central do Brasil (2011)

⁹ Venture Equity Latin America (2011)

¹⁰ Venture Equity Latin America (2011)

3 Current Status of Private Equity in Brazil

3.1 Private Equity GPs in Brazil

Overview

Currently there are around 150 private equity institutions operating in Brazil.¹¹ This number has increased rapidly during the past few years due to the expansion of the local economy and the arrival of large international funds. Today, we can segment the private equity funds active in Brazil into two large groups according to their origins: (i) local funds, (ii) international funds.

The first group is relatively limited in number, but large in terms of assets under management (AUM). According to the GPs who responded to the INSEAD-PwC Survey, 58% of total assets under management for private equity in Brazil were raised by local funds. These funds were mainly established during the 90s and the beginning of the 2000s, and survived the economic crises and changes that Brazil went through during this period. In fact, when Lula da Silva took office in 2003, most of the international funds that had once dominated the PE industry had already left Brazil, enabling local funds to thrive both in terms of fund raising and new investments. Representatives of this class included GP Investments, Patria Investments, Tarpon Investments and Gavea.

A relevant subgroup of the local funds, which was established relatively recently (around 2008), are institutional-backed funds, consisting of PE firms associated with large financial institutions such as investment and commercial banks. The main players in this segment are Bradesco-Espirito Santo, Kinea-Itau and BTG Pactual. These firms were established to take advantage of the strong growth of the private equity industry in Brazil over the last few years and to leverage the multiple business relationships that their parent banks maintained with Brazilian companies. However, this subgroup has generally deployed capital at a slower pace than the other players, mainly because their private equity business divisions are still nascent, although a notable exception to this is BTG Pactual.

The international funds comprise well-known institutions such as Actis, Advent International, Apax Partners, Carlyle and General Atlantic. With the exception of Advent International, these funds entered Brazil very recently, establishing local offices during the third phase of development of the industry, mainly after 2008. They have broad support from their parent companies both in terms of fund raising and operating expertise. Yet while they have strong brands, and highly capable professionals recruited from leading investment banks and local fund managers, as relative newcomers they still lack the breadth and depth of the connections of local players.

Investment Strategy

Beyond segmentation by origin, as described above, it is potentially more interesting to look at the different investment strategies i.e. the type and size of the deals that these firms are currently pursuing.

As indicated earlier, the private equity industry has undergone a major transformation over the last few years. A market that was once very small, with a limited number of funds, has expanded to hundreds of Brazilian and international players operating in the country. As such, PE activity has steadily increased its share of overall M&A activity from about 11% of the announced deals in the Brazilian market in 2006 to about 42% in 2010.¹²

¹¹ FGV/GVcepe (2008)

¹² PwC (2010)

Not surprisingly, a larger market has led to greater differentiation among PE funds with respect to investment size and investment stage pursued. Today, the PE funds operating in Brazil can be divided into three segments according to preferred deal size: (i) large deals, including some LBOs, with an average size above US\$200 million, (ii) growth capital and buy-out deals, with an average size ranging from US\$50 million to US\$200 million, and (iii) growth capital deals, with the average smaller than US\$50 million.

The first segment, investments larger than US\$200 million, is mostly comprised of international PE funds. This segment is likely to increase considerably in terms of AUM over the coming years, since most of the international funds that focus on this segment are currently setting up offices in Brazil. Some might even go on raising local funds once they are properly established in the country. Although leverage is not a strong characteristic of PE in Brazil, some of these funds have introduced debt into their larger, more complex buy-out deals. Yet with debt still very expensive (SELIC, the Brazilian basic interest rate, was still 12% in May 2011)¹³ its contribution to the return of an investment (compared to growth and multiple expansion) will be relatively more limited than in more mature markets. However, it is still too early to judge the success of these more traditional buy-outs as most deals were closed during the last two years.

The second segment comprises investment firms that focus on closing deals ranging from US\$50 million to US\$200 million. Although a number of international players operate in this segment, the majority of deals in this range are made by Brazilian firms. Several PE firms in this part of the market have already raised, or are currently raising, funds larger than US\$1 billion, as shown in the table below.¹⁴

Fund	Status	Fund Size	Year Announced / Closed
Advent International	Raised	1.65 billion	2009
GP Investments	Raised	1.4 billion	2008
Gavea	Fund Raising	1.5 billion	2010
Carlyle	Fund Raising	1.0 billion	2010
BTG Pactual	Fund Raising	1.0 billion	2010
Vinci Partners	Fund Raising	1.0 billion	2010

Source: Preqin

The use of leverage in this segment of the industry is still limited, not only because of high interest rates but also because these funds have been able to produce IRRs greater than 20% by focusing on operational improvements and industry consolidation. However, increasing competition is starting to be seen in entry valuations and some firms have started to use leverage selectively to offset the increase in entry multiples.

Finally, the third segment includes funds that focus on deals smaller than US\$50 million. These firms are also mostly Brazilian. This segment has relatively less competition than the two other segments, not only because the screening of smaller companies for investments can be complicated but also because some companies in this part of the market have grown their funds under management so rapidly in recent years that they have started to look at larger deal sizes. In this segment, entry multiples are still very attractive when compared to the mid and high-end of the industry, and debt is hard to obtain on reasonable terms, precluding the use – at least in the short and medium term – of high leverage in transactions.

Regarding the type of investment approach adopted by funds operating in Brazil, responses to the 2011 INSEAD-PwC Survey show a strong prevalence of growth capital (80% of respondents). Some industry participants suggest that growth capital is currently more suitable to the Brazilian reality than buy-outs (40% of respondents), mainly due to the cost of debt and hurdles to gaining controlling stakes. However, this may change if debt becomes easier to obtain, more buy-out targets become available, and returns from growth capital start to decline as a result of higher entry multiples. A relatively new development is investment in publicly listed firms (PIPEs) in which only 13% of respondents are engaging.

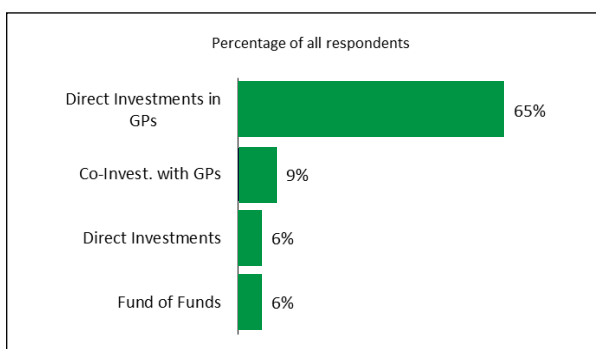
¹³ Banco Central do Brasil (2011)

¹⁴ Preqin (2010)

3.2 Private Equity in Brazil from the LP's Perspective

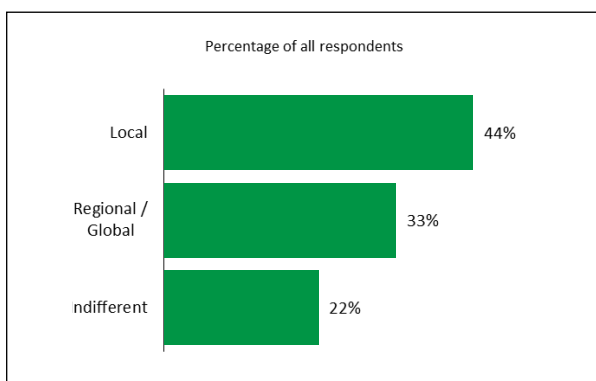
Given that the Brazilian PE industry has only recently reached a size and maturity attractive to larger institutional investors, as well as the challenges of investing in the country, the 2011 INSEAD-PwC Survey attempted to understand how LPs structure their investments in order to mitigate the perceived risks.

LP Survey Question - What is your breakdown of investment vehicles for Brazil?



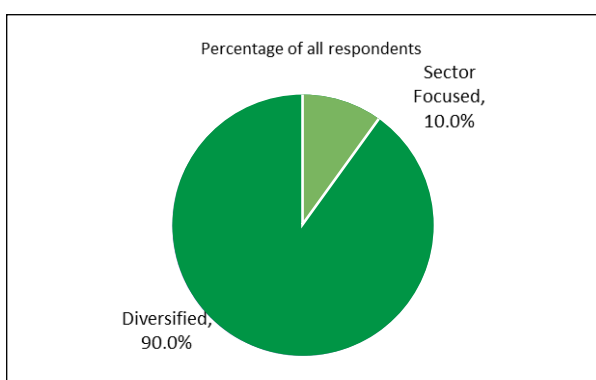
Considering the channels through which the LPs surveyed currently invest in Brazilian PE, it is noticeable that two thirds go with traditional direct investment in GP structures. Notably the low portion of investment allocated through funds of funds differs sharply from other emerging markets, pointing to a higher comfort level with manager selection and market transparency in Brazil. The global trend for co-investments with GPs and selective direct investments without GPs plays out as well, although it can only be complementary in nature to the traditional fund business.

LP Survey Question - Your preference for investing in local vs. regional/global funds?



44% of the LPs surveyed show a preference for local funds, primarily stressing their advantages in deal sourcing. In part this preference is also a result of the segment LPs focus on, with the mid to lower end of the market overwhelmingly served by local firms. Of the remaining LPs, 33% prefer regional or global players for their ability to allocate capital flexibly geographically, and their superior processes and transparency. 22% of LPs remain indifferent to the two structures, although LPs that are indifferent or prefer regional/global funds also appear to believe in the importance of having local teams as part of a wider set up.

LP Survey Question - Do you prefer to invest in diversified or sector focused funds?



Regarding the diversification of investments, around 90% of the LPs surveyed prefer to invest in diversified over sector-focused funds. The main reasons given were the required flexibility of GPs to adjust to changing conditions in different industries, the size of some Brazilian industries that are still too small to support sector-focused funds, and the classic reduction of risk from diversification that investors are unable to achieve on their own given the shortage of sector-focused funds.

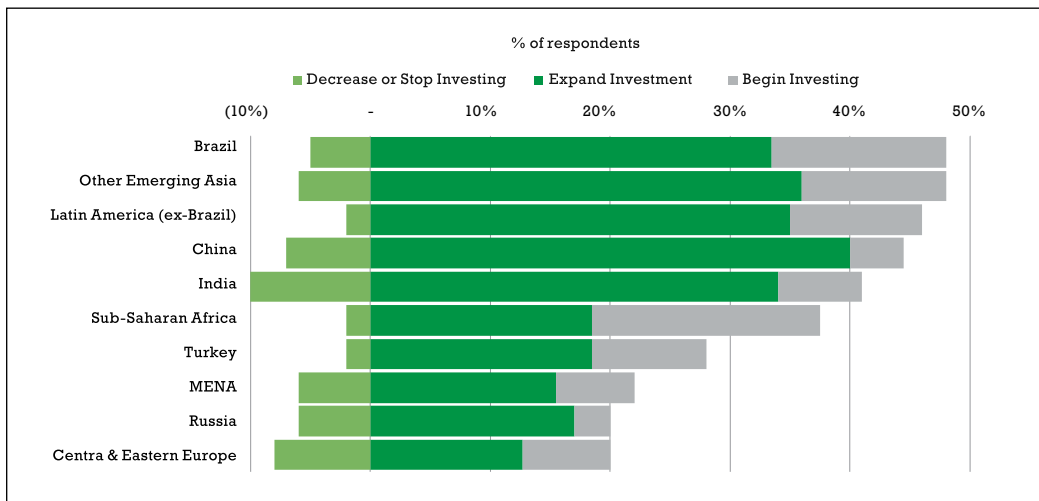
Source: 2011 INSEAD-PwC Survey

4 Outlook

4.1 LP's Investment Outlook

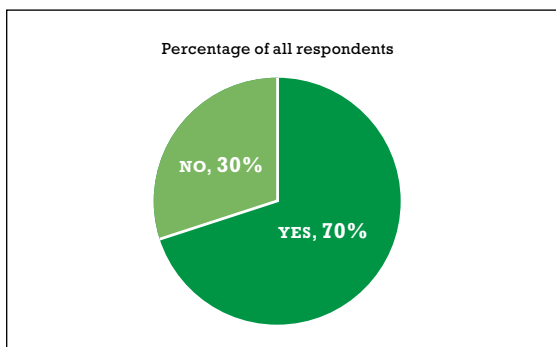
Overall, emerging markets did quite well after the subprime crisis. Several emerging countries showed resilience to the global meltdown – prominent among them Brazil – which has boosted confidence in the country. This confidence in Brazil's future can be seen among institutional investors. In the 2011 EMPEA/Collier Capital Emerging Markets Private Equity Survey, Brazil replaced China for the first time as the most attractive emerging market (EM) for private equity investment. Especially interesting were the 14%¹⁵ of investors that expressed the intention to begin investing in Brazil, the highest rate among all regions except sub-Saharan Africa. This represents a potentially large pool of new money that can be tapped in the future. Only approximately 5% of the LPs surveyed manifested the intention to stop investing in Brazil, a relatively low percentage compared to other large emerging economies, and a reflection that investors had fewer negative experiences than elsewhere.

LPs Planned Changes in EM Investment Strategy



Source: EMPEA / Collier Capital

Do you currently have investment commitments in Brazil?



Source: 2011 INSEAD-PwC Survey

According to the Latin American Venture Capital Association, around US\$8.1 billion was raised for the region in 2010, with 76% of the commitments going to Brazil.¹⁶ In 2011, projections already point to US\$16.1 billion, or almost 100% growth year over year,¹⁷ a trend confirmed by our survey. When asked about their plans for future commitments, LPs showed a strong interest in increasing their investments in the country. From the LPs surveyed, 70% already invest in Brazil and plan on average to almost triple their commitments over the next three years. The other 30% of LPs that currently have no investments in Brazil are planning to start operating in the country in the near future.

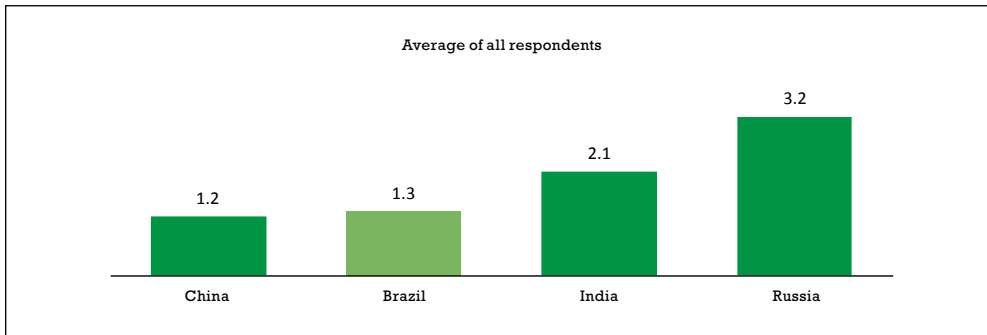
¹⁵ EMPEA / Collier Capital (2011)

¹⁶ Latin American Venture Capital Association (2010)

¹⁷ Prequin (2011)

The current popularity of Brazilian PE was confirmed when LPs were asked to rank the BRIC countries for their attractiveness to private equity. Brazil ranked a very close second to China, significantly ahead of India and Russia. Investors often put Brazil ahead of India and Russia, not only because of its strong macroeconomic environment but also because it seems to have “the least amount of risk among all the BRIC countries” in terms of the challenges perceived by both LPs and GPs of investing in emerging countries.

LPs Survey Question - Please rank the BRIC countries according to their investment perspectives (1 being the best and 4 the worst)

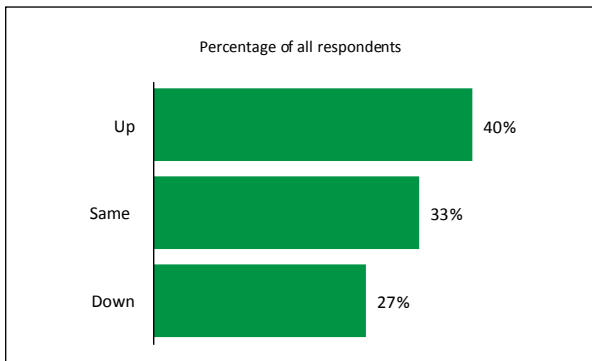


Source: 2011 INSEAD-PwC Survey

4.2 Historical Returns and Expectations

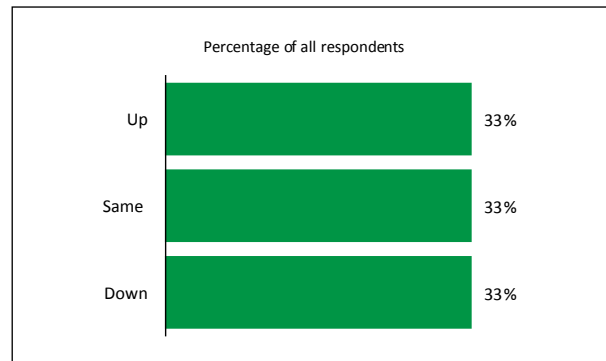
In the 2011 INSEAD-PwC Survey, when asked about their expectations regarding private equity returns in Brazil, the great majority of respondents expected private equity returns to either go up or remain the same, as indicated below:

GPs Survey Question - Do you expect Brazilian PE returns over next 5-10 years to go up, down or stay the same?



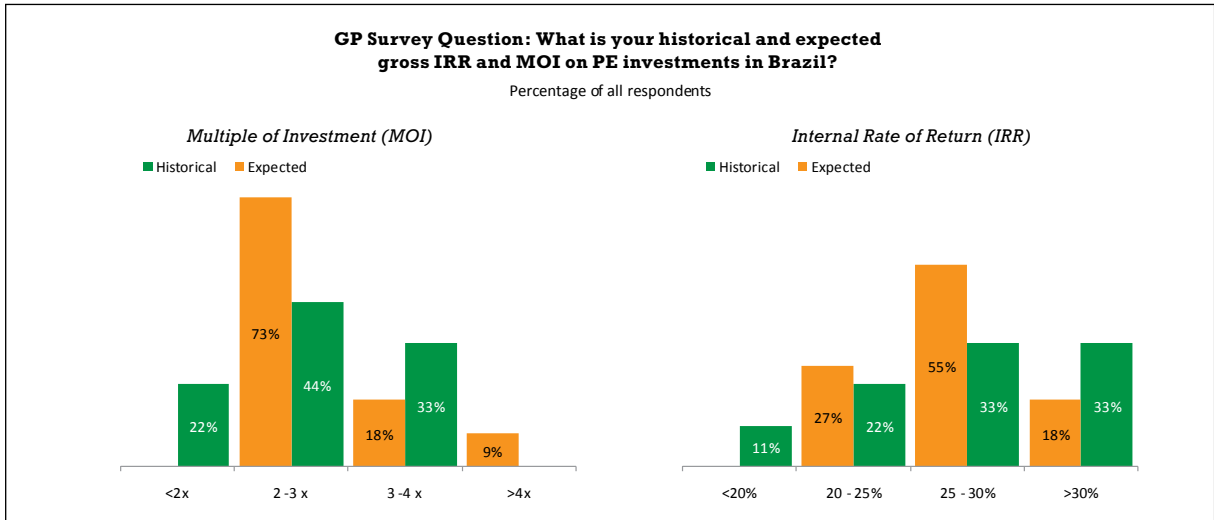
Source: 2011 INSEAD-PwC Survey

LPs Survey Question - Do you expect Brazilian PE returns over next 5-10 years to go up, down or stay the same?



Source: 2011 INSEAD-PwC Survey

This comes on the back of seemingly strong historical returns. Of the GPs surveyed, more than three quarters stated historical gross money multiple returns of more than two, and close to 90% claimed gross IRRs greater than 20% (which incidentally would point to rather short holding periods). When asked about the future, GPs were very positive, with returns at about the same level, although naturally fewer outliers were foreseen (as they are hard to predict).

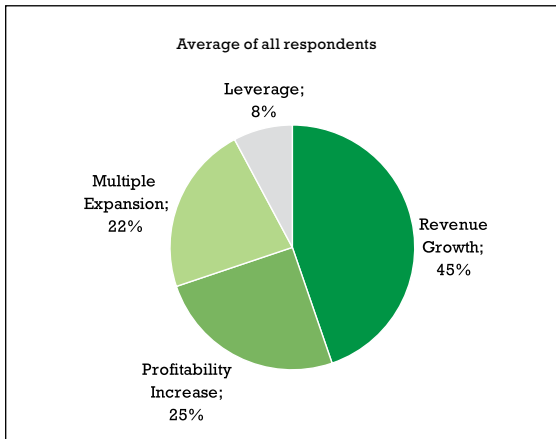


Source: 2011 INSEAD-PwC Survey

Additionally, when surveyed about returns in Brazil and the country's risk premium on private equity investments, LPs put a risk premium at a level similar to those required for other BRIC countries, i.e., 5% over developed economy private equity investments, leading to an expected IRR of 25% or above per year.

Value Creation Drivers

GP Survey Question -What are the sources of return in your portfolio?



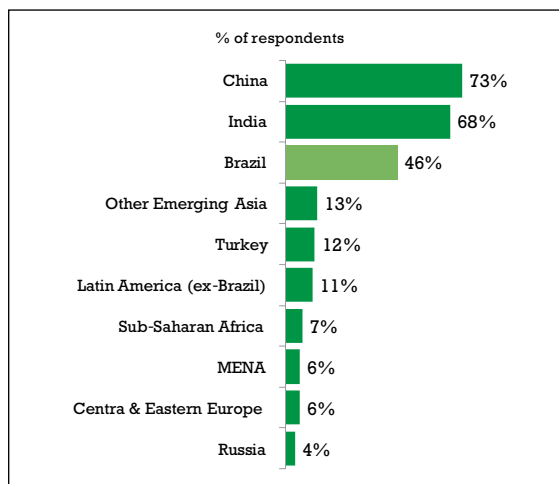
Source: 2011 INSEAD-PwC Survey

Regarding sources of value generation, GPs cited revenue growth as the strongest value driver in their portfolio companies. Profitability increase from better processes and cost control measures comes second. A close third is multiple expansion, meaning funds are able to exit their investments at higher multiples of profit than they paid for. While multiple expansion can be partially the result of favorable market trends (i.e. generally higher valuations in an expanding market), it is more fundamentally linked to improvements in business prospects (i.e. either higher cash flow/profit growth outlook or less risky cash flows) as a result of the strategic and operational changes companies undergo under PE ownership. Finally, GPs indicated the use of leverage as the least important factor among all, something that might be expected given the high cost of raising debt in Brazil noted earlier.

Perceived Competition for Private Equity in Brazil

The strong growth prospects for the Brazilian private equity industry naturally prompt questions about how competitive this market might become.

LPs Perceptions of Intense Competition Over Next 12 Months



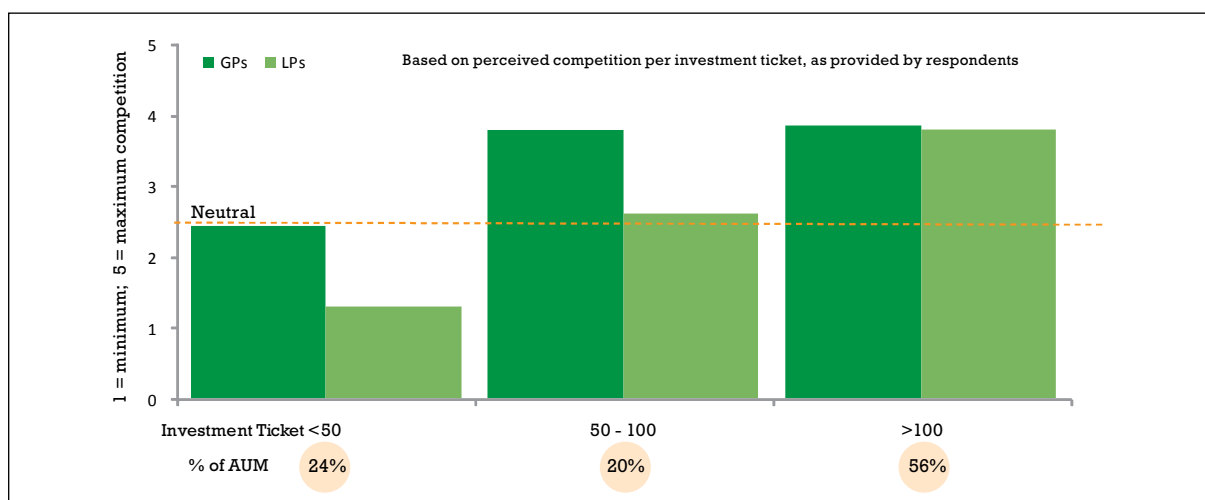
Source: EMPEA/ Collier Capital

Recent years have seen a number of large international players, such as Carlyle, Apax and General Atlantic, entering the country. Other PE firms have chosen to acquire stakes in local funds, such as The Blackstone Group providing 40% of Patria's capital, and Highbridge Capital, a subsidiary of JP Morgan, acquiring a majority stake in Gavea.

Close to half of all LPs, according to the 2011 EMPEA/Collier Capital Emerging Markets Private Equity Survey, believe that the PE market in Brazil will become more competitive over the next twelve months, ranking the country third in terms of increasing competition for PE investments among emerging markets.¹⁸

However, the increase in competition is not likely to be evenly distributed among all segments of the PE industry. Both the GPs and LPs surveyed think it is most likely to affect funds targeting mid and large size companies (above a US\$50 million investment ticket), which already account for 76% of AUM, as depicted below.

Perceived Competition in PE industry, per ticket size



Source: 2011 INSEAD-PwC Survey

If this expectation holds, then it is likely that those funds positioned to invest in small Brazilian companies will continue to see relatively low competition, allowing them to continue investing at attractive entry multiples compared to the mid and high-end segments of the industry.

¹⁸ EMPEA / Collier Capital (2011)

5 Challenges and growth drivers of PE investing in Brazil

5.1 The Main Challenges of Investing in Brazil

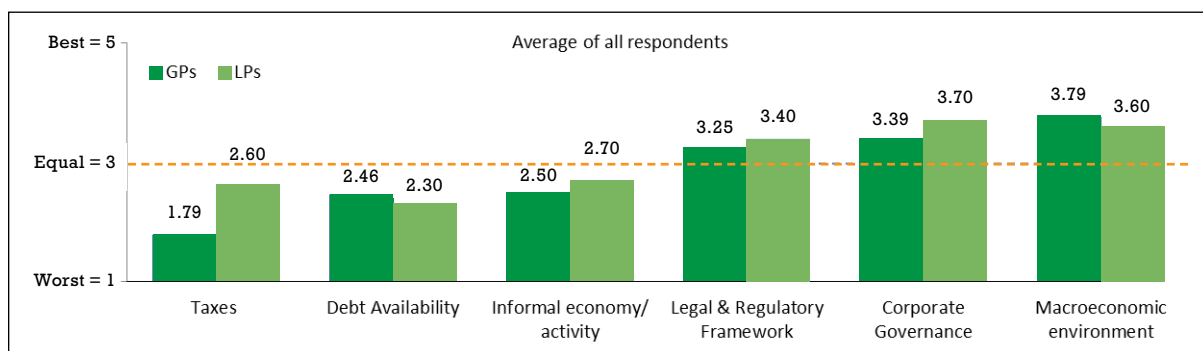
In order to further understand why Brazil is so well positioned in terms of investment attractiveness, the 2011 INSEAD-PwC Survey compared the country with the other BRIC countries along six structural dimensions that affect PE investments in emerging countries: the macroeconomic environment, corporate governance, the legal and regulatory framework, informal economy, debt availability and the tax system.

Even though Brazil and its private equity industry are poised for strong growth, investing in Brazil is certainly not without risks. As with most emerging countries, it still presents investment challenges for actual and prospective investors in terms of the legal, regulatory, cultural and macroeconomic environment that need to be considered when looking at investment opportunities in the country.

In the 2010 *Doing Business Report* published by the World Bank, Brazil ranked 129 out of 183 countries in terms of ease of doing business, a poor showing behind Latin American peers such as Chile, Mexico and Peru, and two other BRIC countries, China and Russia.¹⁹ Brazil lags other countries especially when analyzed in terms of ease of starting and closing down a business and paying taxes.

In the 2011 INSEAD-PwC Survey, LPs and GPs were asked to rate the main issues for investing in Brazil compared to other BRIC countries. Not surprisingly, both GPs and LPs ranked the Brazilian tax system, the availability of debt and the informal economy as the main issues in making private equity investments in the country.

GP and LP Survey Question - How do you evaluate the following factors in Brazil compared to other BRIC countries (1 being the worst and 5 the best?)



Source: 2011 INSEAD-PwC PE Survey

Tax System

The Brazilian tax system is one of the main hindrances to operating in Brazil. In the 2011 INSEAD-PwC Survey, respondents ranked the tax system as the main (GPs) or second (LPs) most important issue, a view echoed by the World Bank which judges that Brazil's tax system imposes a greater burden on companies than any other system in the world.

Brazil has more than 19 separate types of taxes. Companies are taxed at three different levels and must submit tax returns to the federal tax authority, the state tax authority and the municipal tax authority.

¹⁹ World Bank (2010)

Companies operating in the country pay tax on revenues and on pre-tax income. Tax legislation on items such as capital gains, transfer pricing and foreign income is often confusing and misleading, leaving room for multiple interpretations and leading to long legal disputes between companies and the tax authorities.

Although there have been a number of small improvements in the last years, a major reform of the tax system is still under discussion in congress. While the commitment of the government to tackling this problem provides reason for cautious optimism, it can be expected to take substantial time.

Debt Availability

In the 2011 INSEAD-PwC Survey, debt availability was ranked first in the perception of LPs and second by GPs among the main issues for investors in Brazil.

The country has a long history of macro-economic volatility (especially prior to the 1990s) driving up risk premiums and educating companies to not rely on debt to fund their ventures but rather finance growth internally. Although the *Plano Real* (see section 1.3.1.) helped to bring some stability and predictability to the country, a lack of availability of corporate debt and its prohibitive cost remain. Companies (especially medium and small enterprises) still struggle to gain access to debt on reasonable conditions. Double-digit basic interest rates create a lofty hurdle, on top of which high risk premiums are charged.

While this means that companies and owners are more receptive to equity financing structures, it also limits returns both from debt pay-down and foregone growth projects. While a moderate improvement in the availability and terms of debt can be expected, there is still a large gap between Brazil and the developed world, and even with some of its BRIC peers.

Informal activity

As a direct result of the complex and costly tax system, the informal sector now represents a large part of the Brazilian economy. According to Ibre-FGV, the informal economy accounts for approximately 18.4% of Brazilian GDP,²⁰ equivalent to the entire GDP of Argentina.

This often presents a problem for private equity players operating in Brazil, and it is not uncommon for them to turn down investment opportunities because of the high degree of informal activity among companies. Funds spend a lot of time and money on due diligence assessing the informal activities of the target in order to mitigate the potential risks to which they might be exposed.

Although the problem has diminished somewhat in recent years (in 2003 the reported figure was equivalent to 21% of Brazilian GDP)²¹ due to stricter control by the government and higher incentives for companies to formalize their businesses (high rates of informal activity make any kind of M&A activity almost impossible), it remains a major challenge for private equity investors chasing deals in Brazil.

Regulatory and Legal Framework

Brazil is a heavily regulated country. On top of the vast number of regulations, the processes established by these regulations are often extremely cumbersome to comply with, time-consuming and in some instances unreasonable. This is especially true of highly regulated industries such as telecommunications, energy, healthcare and education. Although Brazil has a reasonably well developed legal framework, it can take a long time for decisions to be reached. Brazil's legal system permits numerous appeals and legal instruments that can significantly delay the outcome of any lawsuit. Thus although decisions are ultimately reached and legally enforced, they often come too late.

²⁰ Instituto Brasileiro de Economia da Fundação Getulio Vargas (2009)

²¹ Instituto Brasileiro de Economia da Fundação Getulio Vargas (2009)

Corporate Governance

Most Brazilian companies are essentially family-owned. Many lack a proper corporate governance structure to establish a clear separation of roles and responsibilities. For example, separation of personal expenses and company costs is frequently lacking.

On the one hand this provides a fertile environment for private equity skills focused on introducing a professional management team and a working corporate governance model; on the other the typical structure of a PE deal in Brazil is one of growth capital, often as a minority investment, in which the founder shareholder remains as the CEO in charge. Therefore, although the changes are value-creating from a strictly shareholder value perspective, the political dimension makes these changes typically more painful and time-consuming than in countries with a predominance of buy-out deals.

Potential Instability of the Macroeconomic Environment

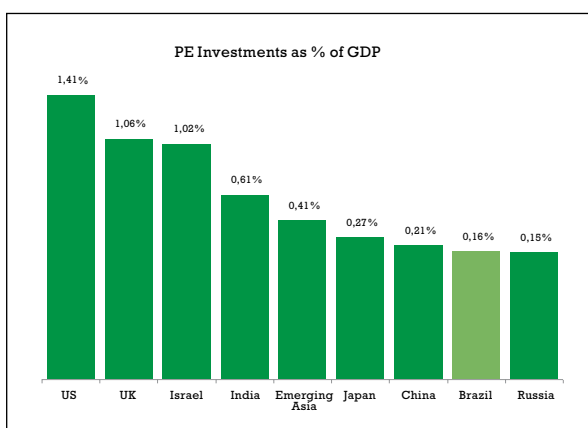
Brazil has gone through a period of major reforms in the last 15 years and much has been accomplished, notably controlling hyperinflation and lifting many people out of poverty. However, the country still has to address major economic challenges going forward. The government is currently fighting inflation (which in 2010 was 5.9%, significantly above the government target of 4.5%) and rising exchange rates (the Brazilian Real has appreciated 112% against the US dollar in the last eight years).²² Brazil had the highest real interest rates in the world in March 2011, reaching 5.9% per year (nominal interest rate minus the expected inflation rate for the following 12 months), obstructing growth.²³

5.2 Main Drivers of Growth in the Brazilian Private Equity industry

As discussed in the previous chapter, PE investors in Brazil still face challenges, yet the overall business environment has improved significantly over the past few years, making Brazil a top PE destination. Beyond the general economic drivers there are some specific characteristics that explain PE investor confidence, among them: (i) limited private equity penetration, (ii) the size of the Brazilian economy, (iii) a growing middle class, (iv) increasing exit opportunities and maturation of Brazilian capital markets, and (v) multiple industries with a high degree of fragmentation.

Limited Private Equity Penetration

Private Equity Penetration



Source: EMPEA, as of December 31, 2009

According to EMPEA, the country's PE investment as a percentage of GDP was only 0.16% at December 31, 2009.²⁴ China is ahead and India had almost three times as much as Brazil. The only country behind Brazil among the BRICs was Russia, but since Russia is seen as the least attractive destination for private equity investments among the BRICs according to the 2011 INSEAD-PwC PE Survey, this is to be expected. The relatively small percentage in Brazil suggests that there is still a lot of room for private equity investments to grow before the market becomes crowded and returns start to diminish.

²² Bloomberg (2010)

²³ Valor Economico (2011)

²⁴ EMPEA (2010), Arguably that was before PE investment increased 4.5x year over year in 2010

Size of the Economy

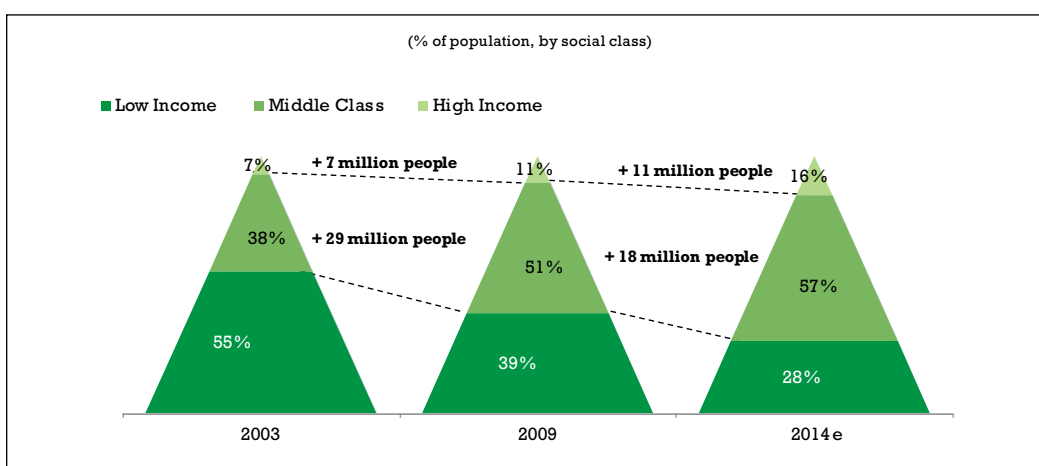
Brazil is the largest and most populous country in Latin America, with almost 200 million people. It covers an area greater than the continental United States. São Paulo, the biggest city in Brazil, is one of the world's five largest cities. The Brazilian economy is the largest in Latin America and the fifth largest in the world, with an estimated GDP of approximately \$2 trillion in 2010.²⁵ In the past few years, the country has experienced continued GDP growth, with real GDP increasing by 7.6% in 2010, according to IBGE. Economic projections for the next few years predict strong growth and a continued improvement in the country's key macroeconomic metrics.

Growing Middle Class

The improved economic environment in Brazil has led to continuous improvements in real wages. A large portion of the population has seen a significant increase in purchasing power and is now consuming more sophisticated products, boosting the growth of consumer-driven businesses.

Previous governments launched several income distribution programmes to improve living standards for the lower and middle classes. Among such programmes, the Bolsa Família Programme (BFP) deserves special mention. This is a comprehensive measure to stimulate growth and social progress at the family level by offering cash incentives conditional on behavior such as school attendance, use of health cards, and other social services. Since its launch, the BFP has grown exponentially to include approximately 50 million people, of which two thirds are classified as low-income families.²⁶ In terms of the numbers of beneficiaries, the BFP is by far the largest cash incentive programme in the developing world. Brazil's strong macroeconomic performance, together with the success of the BFP, has helped to reduce poverty and income inequality significantly in recent years. By 2014, projections²⁷ estimate that 50 million new members will be added to the already large Brazilian middle class.²⁸

Emerging Consumer Class



Source: Ministry of Finance

²⁵ IBGE (2011)

²⁶ Lindhert, Kathy (2007)

²⁷ Ministry of Finance (2011)

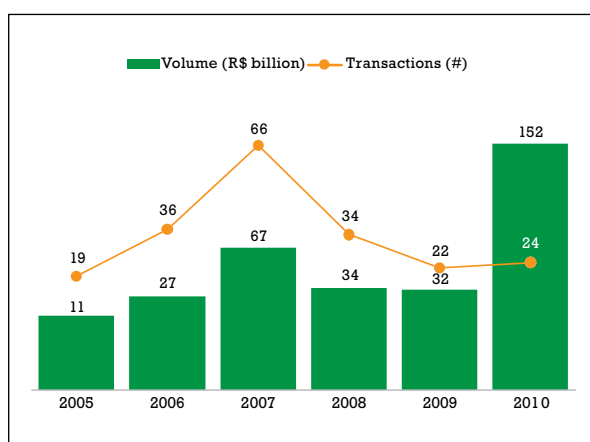
²⁸ Middle class is defined according to IBGE, the Brazilian statistics bureau, as households with monthly income between R\$1.1k (~US\$0.7k) and R\$4.8k (~US\$3k)

Increasing Exit Opportunities and Maturation of Brazilian Capital Markets

The São Paulo Stock Exchange (BM&FBovespa) is Brazil's largest. As of December 31, 2010 its 471 companies had a market capitalization of US\$1.54 trillion,²⁹ making it the tenth largest in the world³⁰.

Yet at the beginning of the 90s, the Brazilian equity markets suffered from economic instability and political uncertainty. After the stabilization of the currency in 1994, some analysts predicted that Brazil's capital markets would experience a period of strong growth, with a significant increase in the number and size of listed companies. However, the final push to the development of the Brazilian capital markets only came in 2000 with the creation of a new corporate governance segment known as the Novo Mercado.

Public Offerings



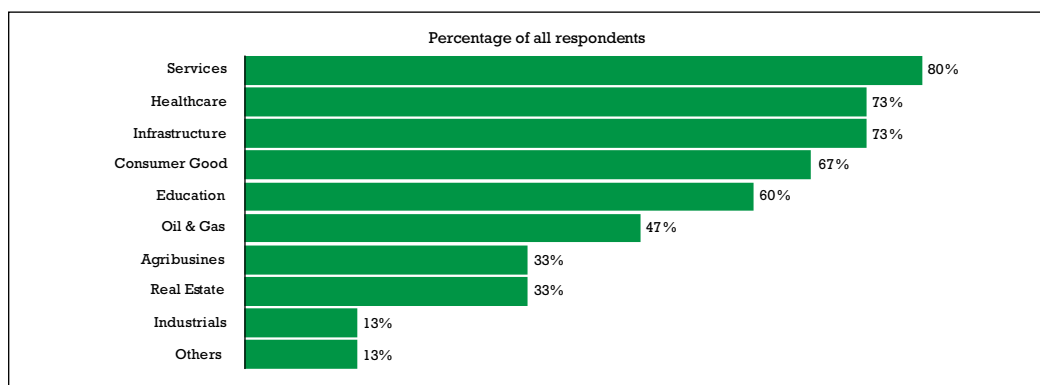
Source: BM&FBovespa

Novo Mercado required stricter corporate governance, thereby reducing risk for investors and helping to boost demand for Brazilian publicly traded companies. This in turn generated greater interest from local companies in accessing the capital markets to finance growth and provide liquidity for existing shareholders. Consequently, from 2005 to 2010 there were 182 equity offerings on the Bovespa, with more than R\$320 billion raised.³¹ In 2010, the world's largest public share offering occurred on the BM&FBovespa, with the Brazilian oil company Petrobras raising US\$70 billion to finance its future growth.³²

Multiple Industries with a high degree of fragmentation

Brazil's growth prospects should provide expansion opportunities within various industries while increasing the need for capital to finance such growth. Furthermore, a large number of industries in Brazil are still highly fragmented, presenting interesting consolidation dynamics. In the 2011 INSEAD-PwC Survey, GPs were asked which industries they considered the most attractive for private equity investments in Brazil.

GPs Survey Question -Which are the most attractive industry sectors in Brazil?



Source: BM&FBovespa

A short profile of selected industries is presented in the following chapter.

²⁹ Comissão de Valores Mobiliários (CVM) Website

³⁰ World Federation of Exchanges (2010)

³¹ Bloomberg (2011)

³² Bloomberg (2011)

5.3 Attractive Industries for PE investment

Healthcare

Brazil was the ninth-largest pharmaceutical market worldwide in 2009, with total sales of R\$30.³³ billion. According to IMS Health, the Brazilian market is expected to continue its consistent high growth which averaged 8% per year from 2005 to 2009. The positive prospects for the healthcare industry are driven by three main factors: (i) Brazil's young but aging population. (Currently, 74.4% of the population is over 15 years,³⁴ and this percentage is expected to reach 81.9% by 2025 and 86.8% by 2050³⁵); (ii) an increase in disposable income across all social classes, leading to real growth of household spending on healthcare products and services of 12.2% from 2002 to 2009³⁶; and (iii) an expected increase in government spending on public healthcare, which in 2007 stood at a low 3.6% of GDP, compared to Argentina's 4.6%, Chile's 4.0%, Mexico's 4.9% and the US' 7.8% in 2007.³⁷

Infrastructure

Private investment in Brazil's infrastructure sector is poised to grow. In the past, the government was more committed to return to a fiscal surplus than investing in public infrastructure. The result of this was that a wide range of essential investments in Brazilian infrastructure were not undertaken. The only solution for the government to catch up is to foster private investment, either through public-private partnerships or through privatizations. Several opportunities are available today, ranging from electric power, roads, airports, railways, etc. Despite the massive underinvestment, Brazil will host the next two biggest sports events in the world: the Football World Cup in 2014 and the Rio Olympic Games in 2016. According to Valor Econômico at a recent conference promoted by the G-20, Brazil is estimated to require the largest volume of infrastructure investment among all emerging and developing countries in the years to come. The government estimates that US\$906.5 billion will be needed, with US\$545.7 billion to be invested in the period 2011-2014, and US\$360.8 billion thereafter. Infrastructure investments related to the World Cup and the Olympic Games alone will demand US\$36.5 billion.³⁸

Consumer Goods

The consumer goods industry is being positively affected by increasing credit availability, falling real interest rates and the burgeoning middle class. Despite recent growth in the credit market, Brazil still lags other countries in terms of the level of consumer credit to GDP, at only 15% in 2009.³⁹ Economic development and the government's income distribution programmes have drastically reduced the number of people living below the poverty line and added millions of potential buyers. Consumers are now spending more on medication and basic personal hygiene/care products, for example. The new middle class is buying nonfood items such as clothing, electronics and entertainment. We see this as a long-term trend as the country is expected to continue to post strong growth and favorable demographics will provide more consumers in the core age group of between 15 and 65 years.

In addition, the consumer goods industry is still very fragmented, offering a major opportunity for consolidation. Most companies are still small, family-owned and have little capital available for growth, providing PE firms with opportunities for investment.

³³ IMS Health

³⁴ IBGE

³⁵ Credit Suisse

³⁶ IBGE

³⁷ OMS

³⁸ Valor Econômico (2010)

³⁹ Estado de Sao Paulo (2010)

Education

According to Data Popular Institute, Brazil's private education market expenditure will total approximately R\$57.8 billion in 2011. This would represent a CAGR of 18.7% over 9 years, since overall private expenditure totaled just R\$12.3 billion in 2002.⁴⁰ Throughout the 1990s, the Brazilian government invested heavily in the development of primary and secondary education (basic education). According to the Instituto Brasileiro de Geografia e Estatística (IBGE), the illiteracy rate in Brazil fell from 17.2% in 1992 to 9.6% in 2009. Similarly, the percentage of children aged 7 to 14 years enrolled in basic education increased from approximately 86% in 1992 to approximately 97% in 2009.⁴¹ While the government invested heavily in basic education, it also created incentives to foster private investment in post-secondary education, using taxes exemptions for post-secondary institutions that offered scholarships to low-income students. Although the industry has evolved significantly during the last few years, Brazilian schooling rates are still significantly lower than in developed countries, and even lower than in many other emerging countries. In a recent report published by the OECD, among 40 countries Brazil had the lowest rate of individuals from 25 to 34 years with post-secondary education.⁴²

CASE STUDY - The impact of Private Equity Investments in the Post-secondary Educational Market

The post-secondary education market is a perfect example of an extremely fragmented industry that is being changed rapidly by the intervention of private equity funds.

In 1996, a new law, the “Lei das Diretrizes e Bases da Educação Nacional” changed the private investment environment for educational institutions. Among the changes, companies were allowed to operate for profit and fewer restrictions were imposed. These measures boosted growth in the market, especially the number of small institutions. This resulted in a fragmented market with more than 2,000 private institutions in 2007, and with the top 20 private post-secondary institutions accounting for only 24.5% of enrolled students.⁴³

Brazilian private equity funds started to invest in the educational sector in 2005 when Patria Investimentos acquired a stake in Anhanguera,⁴⁴ which at the time was a small company established in a rural location. Patria foresaw the investment opportunity – the growth prospects for a market with rising income, a lack of quality institutions for middle and lower income classes, a fragmented industry and a high possibility of market consolidation through acquisitions. The successful investment of Patria that culminated in an IPO in 2007 led other funds to enter the market. In May 2008, GP Investments acquired a 20% stake in the publicly traded Estácio,⁴⁵ another leading educational player. In June 2009, Advent International bought a 28% share in Kroton.⁴⁶ Both firms followed an aggressive growth strategy through acquisitions and a subsequent focus on improving operational performance.

Looking ahead, the market is still very fragmented, income continues to grow, and student financing programmes are expanding, allowing more students to enroll.

⁴⁰ Data Popular (2011)

⁴¹ IBGE (2010)

⁴² OECD (2010)

⁴³ Kroton Educacional S.A (2007) : Prospecto de Oferta Pública de Distribuição Secundária de Certificados de Depósito De Ações (UNITS)

⁴⁴ Anhanguera Educacional Participações S.A. (2009): Prospecto de Oferta Pública de Distribuição Secundária de Certificados de Depósito De Ações (UNITS)

⁴⁵ Estácio Participações S.A. : Material Fact - Estácio's Controlling Shareholders Agree to Sell 20% of the Company's Capital Stock to GP Investments

⁴⁶ Advent International (2009) : Kroton Educacional to receive investment from Advent International

Oil & Gas

In 2007, a gigantic oil discovery was made in Brazil. The 'pre-salt discoveries' as they are called, since the oil lies below a thick layer of salt, are thought to be one of the most important in several decades. According to Petrobras, the pre-salt fields will help to double Brazil's oil production from the current 2 million barrels per day to 4 million barrels per day by 2020. Petrobras' business plan foresees an investment of US\$224 billion during the period 2010-2014 to develop these fields.⁴⁷ There are multiple private equity investment opportunities in this industry, especially in firms positioned in the supply chain of the huge exploration and production companies such as Petrobras, Repsol, Shell, OGX, etc.

Agribusiness

The Brazilian agricultural sector has enjoyed more than a decade of success with rising production and exports, technological development and increased investment. With extensive territory, arable land, mild weather and approximately 10% of the world's drinking water, there is strong growth potential for Brazil's agricultural sector. According to the IBGE, in 2010, Brazil's agribusiness exports reached almost US\$76 billion.⁴⁸ Currently, the agribusiness sector represents approximately 25% of the country's GDP.⁴⁹ Over the past decade, Brazil's agricultural sector has benefited from macroeconomic stability, high international commodity prices, currency devaluations, and large capital inflows from domestic and foreign investment. Brazil is very competitive in a number of agricultural products, including beef, poultry, coffee, sugar, and orange juice, of which it is the largest producer in the world.

Real Estate

The Brazilian real estate market has been buoyed by economic growth, reductions in real interest rates and the greater availability of credit. Since 2006, 30 companies in homebuilding, property development and shopping centre administration have gone public through Initial Public Offerings, raising more than R\$32 billion.⁵⁰

The government has focused on housing for the low-income segment, creating the housing programme "Minha Casa, Minha Vida" in 2009, which has become a major growth force in this sector. A strong lower middle class is emerging and will demand new houses. Shopping malls and commercial properties are also attractive, considering Brazil's lower multiples and favorable economic outlook.

Information Technology

The Brazilian IT market represents an attractive opportunity for private equity investments. IDC estimates that the Brazilian IT industry in 2011 should grow 13.1% - almost double the global rate of growth of 7% - to reach total revenues of US\$39 billion.⁵¹ Brazil has extensive experience in technology outsourcing, with a well developed local market in information technology outsourcing (ITO) and business process outsourcing (BPO). The offshore ITO and BPO markets potentially represent a significant growth opportunity for developing countries as major global players continue to increase their presence in a few well-positioned low-cost countries such as Brazil. Business models with an efficient delivery platform, typically centred on cost-advantaged locations and clear skillsets to develop a strong competitive position show a strong potential for value creation and thus for private equity investments.

⁴⁷ Petrobras (2010)

⁴⁸ IBGE (2010)

⁴⁹ IBGE (2010)

⁵⁰ Comissão de Valores Mobiliários (CVM) Website

⁵¹ IDC (2011)

6 Conclusion

Brazil has undergone several structural changes and reforms during the last 20 years. Starting with the *Plano Real* in 1994, it has experienced a period of major transformation that has successfully created the basis for future growth.

Following the macroeconomic cycle, the private equity industry has oscillated between periods of excitement at the beginning of the 90s and relative stagnation in the early 2000s. Nevertheless, Brazil's increasing importance on the political and economic global scene, together with incentives created by the government to foster the development of private investment in the country, have finally created the necessary conditions for the industry to flourish. Today, private equity is experiencing a period of rapid growth, with PE players raising money and deploying capital at record levels. The number of funds has increased dramatically, with many international funds that had no previous Brazilian 'footprint' setting up local offices and bringing new investments strategies (such as leveraged buyouts) to the country in the last two years.

Looking ahead, it is likely that private equity investments will continue to grow strongly in Brazil. The economy remains healthy and resilient in the wake of the recent subprime crisis, and the dynamics of private equity investing are regarded as very attractive by international and national GPs and LPs operating in the country. Although the industry is becoming more competitive, there is still a lot of value to be captured given the size of the Brazilian economy, the relatively low penetration of private equity investment in Brazil, the abundant investment opportunities across various sectors and the recent development of capital markets which offer an alternative exit route for investors. Those players who understand the peculiarities of making investments in Brazil, adapt their strategies to the local context, and have the skills, patience, timing and the right professionals have the potential to achieve great results in the near and long term.

7 References

- Advent International (2009) : Kroton Educacional to receive investment from Advent international. Retrieved from: http://www.adventinternational.com/news/pressreleases/Pages/Pressrelease20090624_EN.aspx
- Anhanguera Educacional Paticipações S.A. (2009): Prospecto de Oferta Pública de Distribuição Secundária de Certificados de Depósito De Ações (UNITs). Retrieved from: <http://www.unianhanguera.edu.br/ri/>
- Banco Central do Brasil (2011): Copom eleva a taxa Selic para 12,00 % ao ano. Retrieved from <http://www.bcb.gov.br/textonoticia.asp?codigo=3016&IDPAI=NOTICIAS>
- Bloomberg Terminal
- Comissão de Valores Mobiliários (CVM) Website. www.cvm.gov.br
- Credit Suisse (2010): Brazil 2011/12, "Strong growth in GDP and investments, with above-target inflation and higher interest rates"
- EMPEA (2010): EMPEA Industry Statistics FY 2010. Retrieved from <http://www.empea.net/Main-Menu-Category/EMPEA-Research/Industry-Statistics/EMPEA-Industry-Statistics-FY-2010-ppt--Public.aspx?FT=.vnd.ms-powerpoint>
- EMPEA / Coller Capital: Emerging Markets Private Equity Survey (2011)
- Estácio Participações S.A. : Material Fact - Estácio's Controlling Shareholders Agree to Sell 20% of the Company's Capital Stock to GP Investments. Retrieved from: http://www.estacioparticipacoes.com.br/estacio2010/web/arquivos/Estacio_FR_20080511_eng.pdf
- Estado de Sao Paulo (2010) - Brasil já usa crediário como os EUA. Retrieved from: <http://www.eagora.org.br/arquivo/brasil-ja-usa-crediario-como-os-eua>
- Fundacao Getulio Vargas (2008). Panorama da Industria Brasileira de Private Equity e Venture Capital
- G1 (2011). Mensalidade concentra 78% dos gastos com educação, diz pesquisa. Retrieved from: <http://pe360graus.globo.com/noticias/economia/financas-pessoais/2011/01/31/NWS,528384,10,193,NOTICIAS,766-MENSALIDADE-CONCENTRA-GASTOS-EDUCACAO-DIZ-PESQUISA.aspx>
- Gvcepe (2010). Fundos de Private Equity crescem no Brasil. Retrieved from: www.nsgcapital.com.br/arquivos/JC_0001408348b
- IBGE (2010). PNAD 2009: rendimento e número de trabalhadores com carteira assinada sobem e desocupação aumenta. Retrieved from: http://www.ibge.gov.br/home/presidencia/noticias/noticia_visualiza.php?id_noticia=1708
- IBGE (2011). Com alta do PIB, Brasil avança rumo à 5ª economia do mundo. Retrieved from: <http://www.localizaagora.com.br/economia/com-alta-do-pib-brasil-avanca-rumo-a-5%C2%AA-economia-do-mundo/>
- Instituto Brasileiro de Geografia e Estatística (IBGE): <http://www.ibge.gov.br/>
- IDC (2011). Top 10 Predictions 2011 Brasil
- IMS Health (2010). IMS Health MIDAS, Market Prognosis October 2009.
- Instituto Brasileiro de Economia da Fundação Getulio Vargas (2009). Economia subterrânea ou informal movimentou 18,4% do Produto Interno Bruto (PIB). Retrieved from: <http://www.ecodebate.com.br/2010/07/22/economia-subterranea-ou-informal-movimentou-184-do-produto-interno-bruto-pib/>
- Instituto de Pesquisa Econômica Aplicada (2009). Pesquisa Nacional por Amostra de Domicílio.

JP Morgan: JP Morgan Emerging Markets Bond Index Plus (EMBI+)

Kroton Educacional S.A (2007) : Prospecto de Oferta Pública de Distribuição Secundária de Certificados de Depósito De Ações (UNITS). Retrieved from: http://www.mzweb.com.br/kroton/web/arquivos/Prospecto_Definitivo_CVM_20070803.pdf

Leahy, Joe (2011, 3 February). Petrobras plans to double Brazil oil output. Retrieved from: <http://www.ft.com/cms/s/0/fb4f8116-2f25-11e0-88ec-00144feabdc0.html#ixzz1I4jhmZwR>

Lindhert, Kathy (2007). Brazil: Bolsa Familia Program – Scaling-up Cash Transfers for the Poor.

Ministry of Finance (2011). Classe C deve reunir 56% da população brasileira em 2014, prevê Fazenda. Retrieved from: http://economia.estadao.com.br/noticias/economia,classe-c-deve-reunir-56-da-populacao-brasileira-em-2014--preve-fazenda,not_51094,0.htm

Moreira, Assis (2010, 17 November). Brasil espera investir US\$36 bilhões na Copa e Olimpíada. Retrieved from: <http://www.valoronline.com.br/online/copa-do-mundo/19597/337301/brasil-espera-investir-us-36-bilhoes-na-copa-e-olimpiada>

Or, Amy (2011, 22 March). Latin America Private Equity Funds Scrambling For \$16B. Retrieved from: <http://online.wsj.com/article/BT-CO-20110322-711610.html>

OMS (2009). World Health Statistics 2009.

Organisation for Economic Co-operation and Development (2010). Education at a Glance 2010.

Petrobras (2011). Plano de Negócios prevê investimentos de US\$224 bilhões em cinco anos. Retrieved from: <http://www.petrobras.com.br/pt/noticias/plano-de-negocios-preve-investimentos-de-us-224-bilhoes-em-cinco-anos/>

PwC (2010). Fusoes e Aquisicoes no Brasil. Retrieved from: <http://www.pwc.com/br/pt/estudos-pesquisas/assets/relatorio-ma-dez2010.pdf>

Preqin (2010), requested by EXAME magazine: “Os compradores” (December 17, 2010)

Preqin (2011). Latin America Private Equity Funds Scrambling For \$16B. Retrieved from: <http://online.wsj.com/article/BT-CO-20110322-711610.html>

Valor Economico (2011). Taxa de juros real e a maior do mundo. Retrieved from: <http://www.valoreconomico.com.br>

Venture Equity Latin America (2011): 2010 Year End Report

World Federation of Exchanges (2010). Retrieved from: <http://www.world-exchanges.org/statistics/annual/2010/equity-markets/domestic-market-capitalization>

World Bank (2010). Ease of doing business. Retrieved from: <http://www.doingbusiness.org/rankings>

PwC - Establishing relationships that create value

PwC is one of the world's largest providers of assurance, tax, and business consulting services. For the past 95 years, since its arrival in Brazil in 1915, PwC has helped fostering a robust business environment, through meaningful and long term relationships. PwC has built a strong presence in the most important economic regions, reinforcing its commitment with the country and being recognized for its leadership. In Brazil, approximately 4.200 professionals located in 16 offices offer industry-focused assurance, advisory and tax services, applying our expertise to work with our clients and our people to create the value they look for.

PwC Brazil works with many of the most important investors and companies in the country and become a clear reference in several industries as Financial Services, Agribusiness, Energy and Consumer and Industrial Products, just to mention a few.

We have an established private equity practice with a proven track record. Our capabilities include fund structuring, through to deal origination, execution and post deal services. We work with our private equity clients to help them when screening the market, approaching targets, developing valuations/ negotiations/ due diligence until investments exit. Our taxation advice extends across the private equity deal continuum, from fund inception and ongoing compliance to tax due diligence, structuring and exit planning.

Contacts:

Carlos Mendonça - Private Equity Leader and PwC Brazil Partner (carlos.mendonca@br.pwc.com)

Alexandre Pierantoni - PwC Brazil Corporate Finance Partner (alexandre.pierantoni@br.pwc.com)

Global Private Equity Initiative (GPEI) @ INSEAD

GPEI aims to work hand in hand with private equity firms especially in emerging markets to create relevant, timely and thought provoking output. Our research targets to enhance the productivity of the capital deployed in this asset class and to facilitate the exchange of ideas and best practices amongst limited partners (LP).

GPEI endeavours to produce a regular stream of state-of-the-art research with a strong focus on PE in emerging markets and the needs of LPs. GPEI's research agenda flows from linking top scholars closely to industry, and these ties help us communicate our findings in ways executives and MBA students can use. GPEI aims not merely to provide information or advice; but to help professionals generate their own unique insights.

INSEAD's global presence through its campuses in France, Singapore and the UAE gives GPEI a unique advantage to explore new frontiers in private equity. By leveraging the support of our alumni network, GPEI will focus on becoming INSEAD's centre of excellence in private equity and on providing thought leadership in conjunction with leaders in the industry.

Contacts:

Claudia Zeisberger - Academic Co-Director GPEI (claudia.zeisberger@insead.edu)

Michael Prahl – Head of Research GPEI (michael.prahl@insead.edu)

INSEAD Asia Campus
1 Ayer Rajah Avenue, Singapore 138676
Tel: +65 6799 53 88
Fax: +65 6799 53 99

INSEAD Europe Campus
Boulevard de Constance
77305 Fontainebleau Cedex, France
Tel: +33 (0)1 60 72 40 00
Fax: +33 (0)1 60 74 55 00

INSEAD Abu Dhabi Campus
Muroor Road, Street No. 4
P.O. Box 48049
Abu Dhabi, United Arab Emirates
Tel: +971 2 651 52 00
Fax: +971 2 443 94 61

www.insead.edu/gpei