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cutting through complexity

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Associação Brasileira de
Private Equity & Venture Capital

Data Consolidation of the Private Equity and Venture Capital Industry in Brazil

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A Message by KPMG

Marco André C. Almeida
KPMG's National Head for Private Equity and Venture Capital

We are pleased to report the results from the consolidation of data of the Brazilian PE/VC industry for 2012 and 2011, jointly prepared by ABVCAP and KPMG.

Initially I would like to thank all the PE Houses and managers who participated in this process. They represent significantly the main PE/VC players in the Brazilian market. Thank you for your participation!

We all know the importance of having the data of the PE/VC industry in Brazil in a comprehensive and reliable manner. It is fundamental for us to know the industry's real situation and thus further stimulate the investment flow into the companies in Brazil, to generate jobs, development, governance and efficiency, and thus contribute to strengthen our capital market with better prepared companies.

However, that is not a simple task. It is not sufficient to compile data from the FIPs, (the Participation Investment Funds in Brazil). The FIPs are efficient investment vehicles widely used by the PE/VC industry, however they are also used for structuring equity interests, successions, tax planning, financing projects and others, many of which, in our view, are not PE/VC deals.

On the other hand, many PE/VC investments are structured using other investment vehicles, including direct investments from international funds, some mezzanine investments or Private Investments in Public Equity (PIPE), co-investments, direct investments by institutional investors in PE/VC, corporate ventures, etc. Also, many deals and funds' data are not publicly available and are considered confidential and strategic by the market players.

Therefore, our challenge was not only to capture PE/VC industry information and data but also, and equally important, to identify and eliminate data of transactions and deals not specifically classified as PE/VC in order to prevent inflating and distorting the results.

In summary, the process of obtaining the data consisted of:

- investigating how other countries conduct similar work.
- preparing a questionnaire that would allow us to obtain the most relevant results, while not overburdening the managers with excessive information requests.
- developing a Web-based form to capture the data efficiently.
- the ABVCAP team extracted and consolidated data already available in ABVCAP's proprietary database, ABVCAPData , and filled this info into the consolidation form to avoid that managers had to report again deals already registered in ABVCAPData.
- compiling a comprehensive list of the market's players whether or not registered in the ABVCAPData.
- conducting the official launch of the consolidation process through a Webcast, which was conducted by ABVCAP and KPMG on February 25, 2013.
- making several contacts with fund managers, follow ups, inquiries, questions, adjustments and reclassifications.
- the preliminary results were presented during the 2013 Annual ABVCAP Congress.

We emphasize that KPMG have not conducted an audit nor any other kind of assurance to the numbers informed by the managers. We have analyzed the coherence of the data informed by the managers, compared them with publicly data when available and with the proprietary KPMG data-base on M&A transactions that support our M&A research published quarterly for many years. We have also visited or called most of the participants, sometimes to obtain data from the large PE Houses that had not yet responded, others to make questions and challenge to identify deals that do not match the definition of PE/VC, in order to eliminate them from the consolidation results, or to adjust eventual inconsistencies and complete missing data.

We are pleased with the results achieved this year, and at the same time aware that it is necessary and possible to improve the data gathering process. For that purpose, KPMG continues working together with ABVCAP and supporting it in this important challenge.

A Message by ABVCAP

Clovis Meurer
ABVCAP's President

In its 12-year long history, ABVCAP has supported several researches and studies about the Private Equity and Venture Capital sector that were conducted by renowned academic centers national and international or similar associations and institutions that, directly or indirectly support this industry. Although these studies are important and serve as references for industry's players, they lack systematization, and depend on the voluntary adhesion of fund managers and administrators who participated in the surveys.

In 2011, in an initiative together with the Brazilian Financial and Capital Markets Association (ANBIMA), the ABVCAP-ANBIMA Code for Regulation and Best Practices was compiled, foreseeing the implementation of a database that captures information on regular and systematic activities of Participation Investment Funds (FIP, in the Brazilian acronym) and Emerging Companies' Investment Funds (FIEE) making mandatory the provision of information by those investment vehicles when they are maintained by members of ABVCAP or ANBIMA. That was the necessary first step for the creation of a wide and regular flow of historical and official data on the local asset class players. Since the enactment of the Code, ABVCAP has invested resources and developed human capital to make that goal feasible. Likewise, ANBIMA has structured its overseeing area in order to meet that new demand, as set forth in the Code.

That is not a simple or trivial task. The Private Equity, Venture and Seed Capital industry is a complex, long-range area with a diversity of financial and strategic chain-structured operations that cannot always be described directly and objectively. FIPs and FIEEs are only a part of that universe. Aggregating all the large players, including those that have international structures, increasingly common in Brazil, poses a great challenge and requires specialized analytical capacity for the consolidation of PE/VC industry data.

For that, counting on the expertise of KPMG's Private Equity and Venture Capital team was fundamental to the success of this initiative.

We want to thank all of those who worked in that project for their effort, dedication and the priority they gave to the disclosure of that study, which we consider highly necessary to reliably reflect the progress of the industry over the past few years.

Although recent, the Brazilian Private Equity and Venture Capital industry had a very positive progress over the last decade. ABVCAP´s primary mission is to maintain and provide industry data to support investment decisions, reveal trends and, last but not least, assist in the development of policies.

For that reason, we at ABVCAP are very pleased to be able to present the first results of that work and reaffirm our commitment to achieve progress in the coverage, periodicity and depth of the information to be disclosed from now on.

For that purpose, the initiative will require the adhesion of all managers operating in the Brazilian market, and we kindly ask them to contribute with the updated information on their funds. To those who have collaborated with us by providing their data for this edition, we are especially grateful for their help in making this important report feasible.

Methodology

This report presents an overview of Private Equity and Venture Capital investments in Brazil. We had the voluntary participation of over 60 Brazilian and foreign managers of funds of all sizes. We believe that the data showcased represent almost the entire operations of the industry.

The statistics presented are based on: (i) information from the ABVCAPData, (ii) information reported by fund managers and (iii) publicly available information from several sources and from other surveys. Investments abroad through Brazilian-managed vehicles were excluded from this report.

ABVCAPData is a system that was set up for consolidating FIP and FIEE industry data and assisting in the self-regulation of this market. It was designed to meet the requirements of the ABVCAP-ANBIMA Regulation and Best Practices Code for the FIP and FIEE market, and served as an initial database for the survey, as described below. In addition to the already available data, we increased the universe of investment vehicles by obtaining information on investment funds abroad, holding companies and corporate ventures.

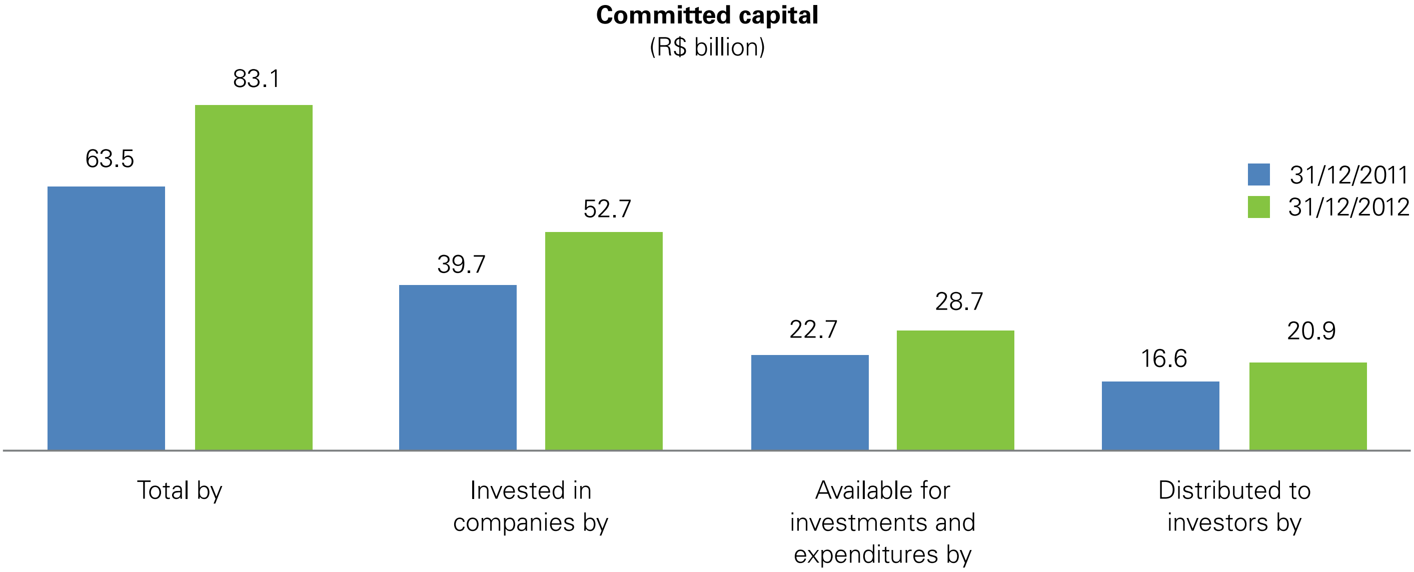
The information was obtained from login restricted online platform. That form contained pre-distributed information on FIP and FIEE operations, obtained from the ABVCAPData. We requested all managers to either approve or update the pre-distributed data or include the missing information. The information obtained was analyzed and compared to publicly-available information as much as possible. Cross-analyses were made to check possible inconsistencies. Finally, we contacted most participants to clarify the inconsistencies and confirm the information received to ensure that only transactions in the Private Equity and Venture Capital form were considered. After those contacts, adjustments were made to the consolidation database to reflect the reality of the operations.

For purposes of this publication, committed capital is defined as the sum of (i) amounts already invested and (ii) the balance still available for new investments, in funds under operation on December 31, 2012, i.e., it includes funds captured since the beginning of the previous decade up to funds captured in 2012.

Statistics regarding operations of fund funds were excluded from the publication. A careful analysis of investments structured as co-management was made in order to avoid double-counting data.

For real estate and infrastructure sectors, only the operations in the Private Equity and Venture Capital form were considered, i.e., where there is an investment in a business rather than in an asset only. The statistics of sectors in which there are direct or indirect investments in real estate or infrastructure assets were excluded from the committed capital, investments and divestments numbers.

Observed Results



The increase of R$19.6 billion of the capital committed in 2012 as compared to 2011 corresponds to a 31% increase, which demonstrates the continuous growth of the PE/VC industry in Brazil.

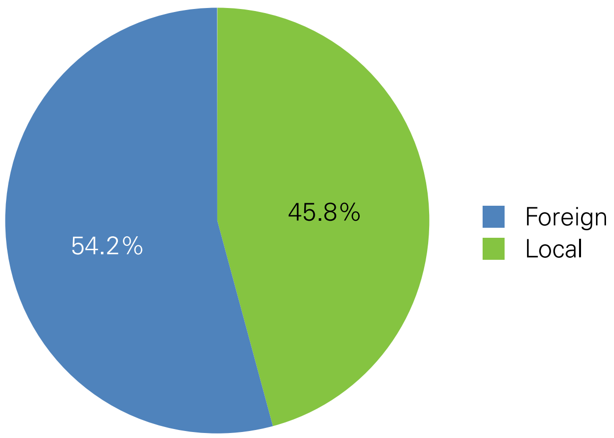
In 2012, most of the committed capital, R$ 52.7 billion, had already been actually invested in companies and R$ 28.7 billion was available for new investments and fund expenses. In addition, about R$ 20.9 billion had been returned to investors.

The sum of the amounts invested in companies with the amounts available for investments and expenses is not exactly equal to committed capital, since part of the amounts received by the funds is reinvested in other companies. Part of the funds is used to defray operating costs and expenses and part of the committed capital has already been returned to the investors.

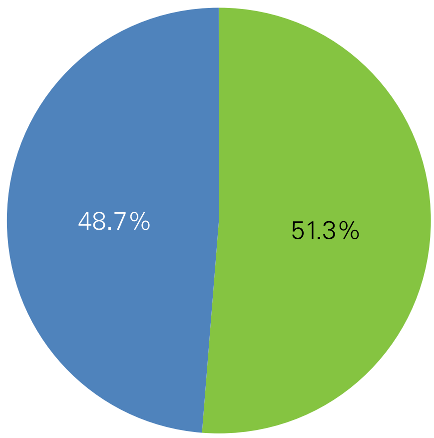
The portion available for investments will be used to invest in companies and the remainder to defray the costs of the funds' operations.

In the two years under analysis, the ratio of invested capital to committed capital is 63%. The joint analysis of the variation of the total committed capital and the total invested amount shows that R$ 6.6 billion of the committed capital raised in 2012 had not been invested by the end of 2012. The purchase of illiquid assets is a time-consuming process, which can last over six months. This amount will be invested in accordance with the industry's usual term, probably in 2013 and 2014.

Origin of committed capital*
2011



Origin of committed capital*
2012



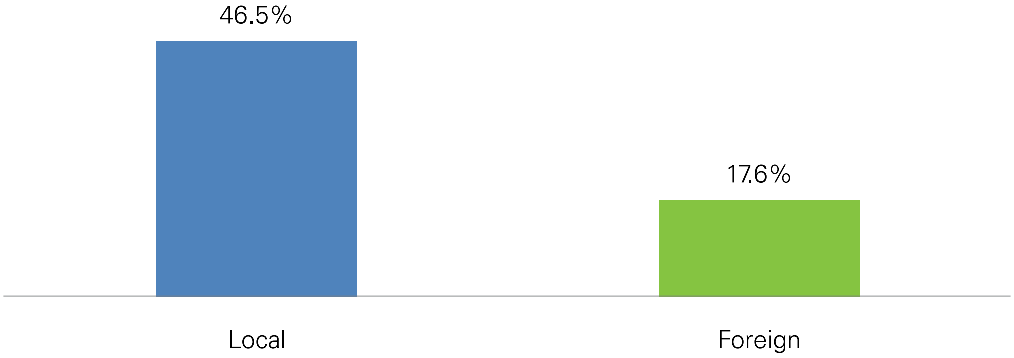
In 2012, local investors' committed capital balance surpassed that of foreign investors, which is in line with the declarations of Brazilian institutional investors at the ABVCAP Conferences in 2011 and 2012 that they would continue to increase their investments in the PE/VC industry.

In addition to the direct benefits Private Equity and Venture Capital transactions generate for the economy, such as an increase in productivity, jobs and collection of taxes, it is possible to state that, as from 2012, most of the future financial benefits arising from the companies in which this industry invests will return to Brazil in the form of payments of dividends and sales of equity interests.

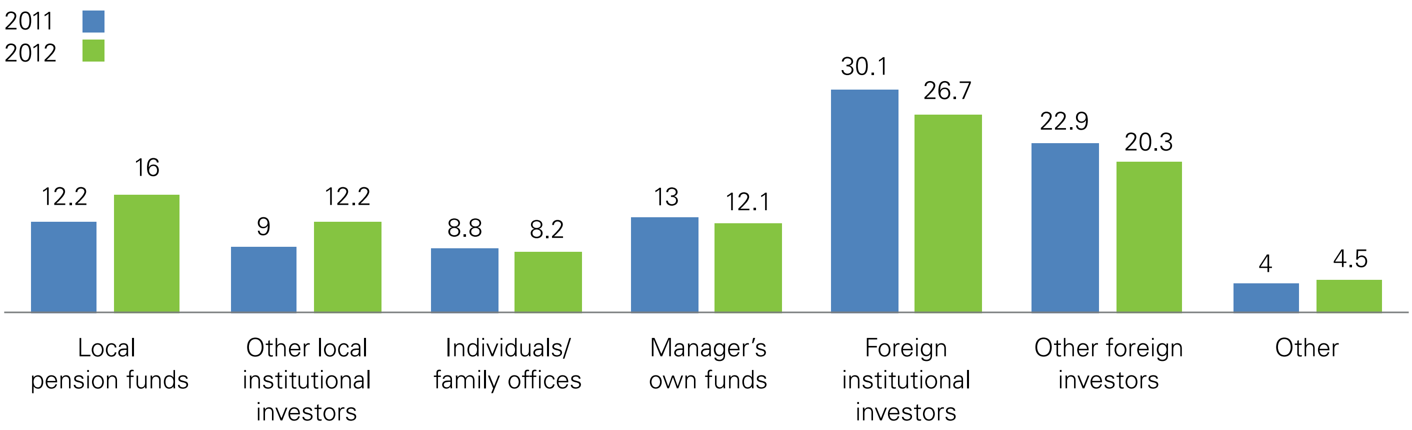
* percentage calculated exclusively on the amounts reported.

In 2012, local investors' committed capital increased by 46.5% in comparison to 2011, whereas that of foreign investors increased by 17.6%.

Percentage growth of committed capital by origin
2011 – 2012



Percentage of committed capital by type of investor*



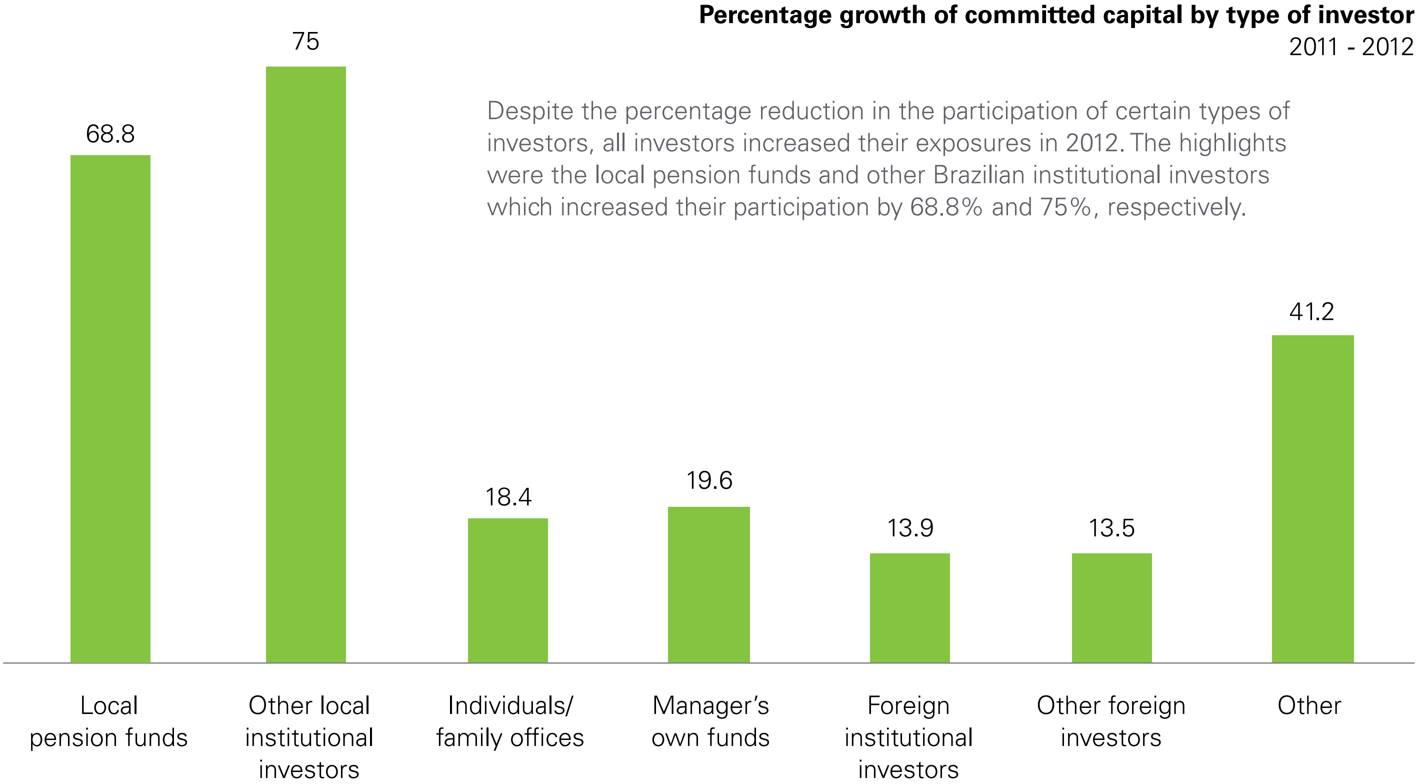
*percentage calculated exclusively on the amounts reported

In addition to third party resources, fund managers also invest their own capital in the funds which shows their trust in and commitment to the industry.

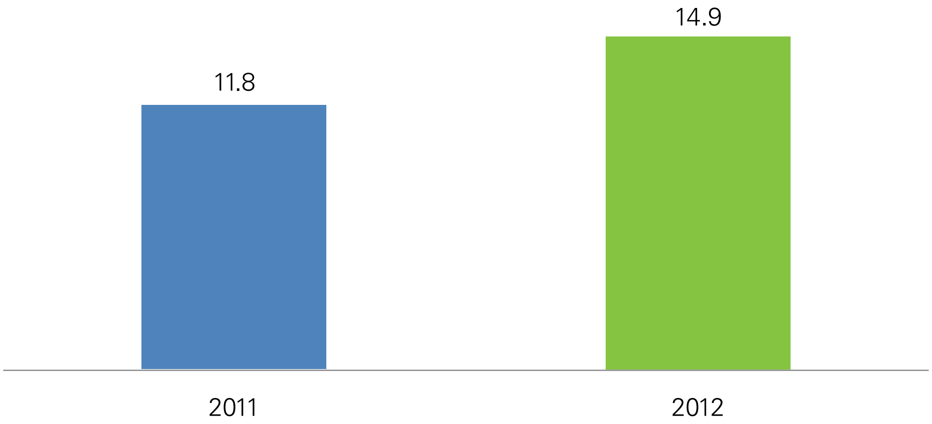
It is possible to note an increase in the participation of large domestic investors. In addition, the percentage reduction in the participation of foreign institutional investors and other foreign investors confirms the increased local interest in the industry.

Percentage growth of committed capital by type of investor
2011 - 2012

Despite the percentage reduction in the participation of certain types of investors, all investors increased their exposures in 2012. The highlights were the local pension funds and other Brazilian institutional investors which increased their participation by 68.8% and 75%, respectively.



Investments made
(R$ billion)

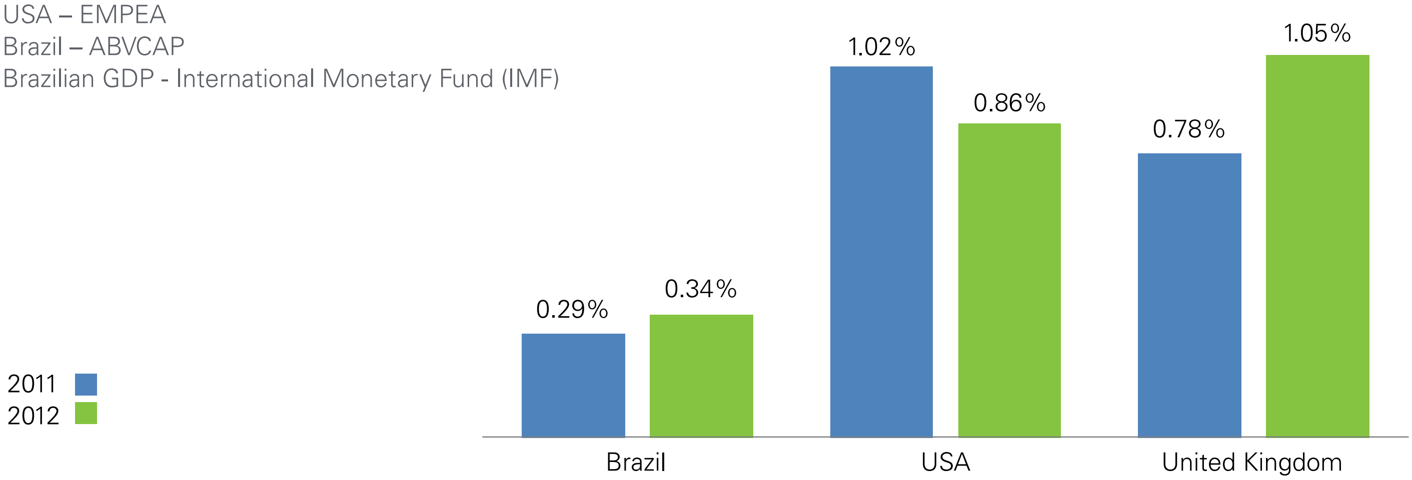


The investments made in 2012 totaled approximately R$ 15 billion, a significant increase in comparison with the prior year. The amount reported for 2012 is not equal to the variation of the investments presented in Graph 1 on page 7, as part of the investments will be settled in installments.

Considering the relation of investments on the US GDP in 2012, which was 0.86%, it is possible to reckon that the Brazilian market has the potential to attract investments of at least R$ 37.9 billion per year, which would represent an increase of 154% in comparison with the actual investments of 2012.

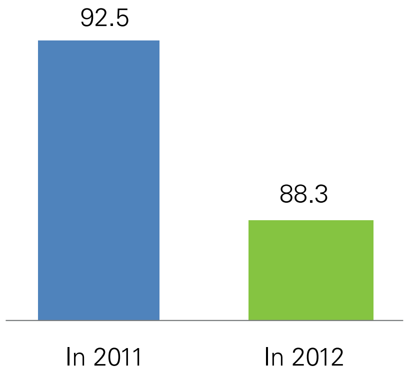
Investments/GDP

Sources:
United Kingdom – EMPEA
USA – EMPEA
Brazil – ABVCAP
Brazilian GDP - International Monetary Fund (IMF)

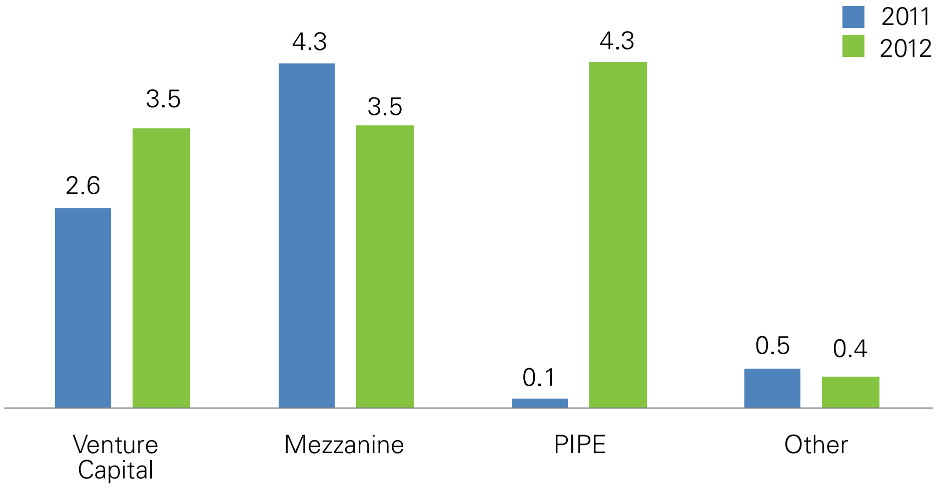


Investments by type

Percentage of the amount of Private Equity investments*



Percentage of the amount of other types of investments*

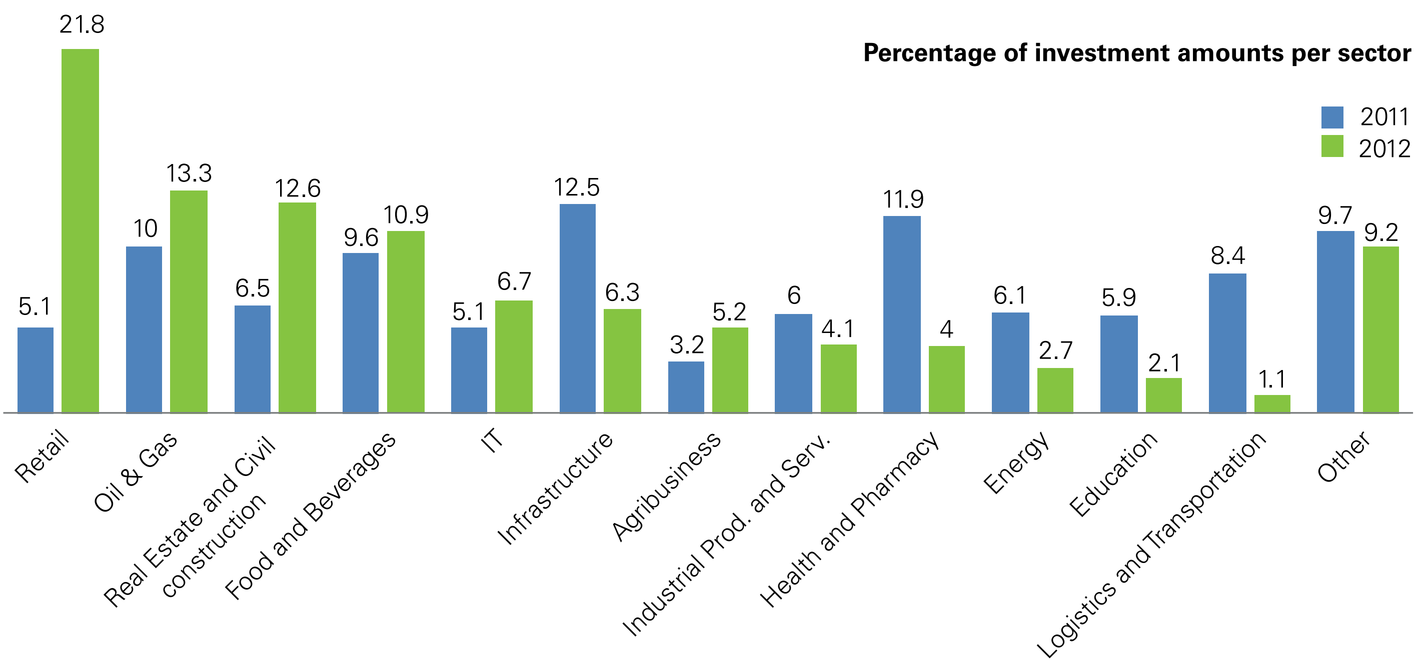


* percentage calculated exclusively on the amounts reported.

The investments in Venture Capital increased by 79.4% in 2012 in comparison with 2011.

Venture capital investments made in 2012 correspond to only 3.5% of the total invested – which is partially explained by the fact that most managers that took part in this consolidation process were focused on PE investments. In addition, the values of PE investments are normally much higher than of investments in VC. Investments in PIPE increased from less than 1% in 2011 to more than 4% in 2012*.

Percentage of investment amounts per sector

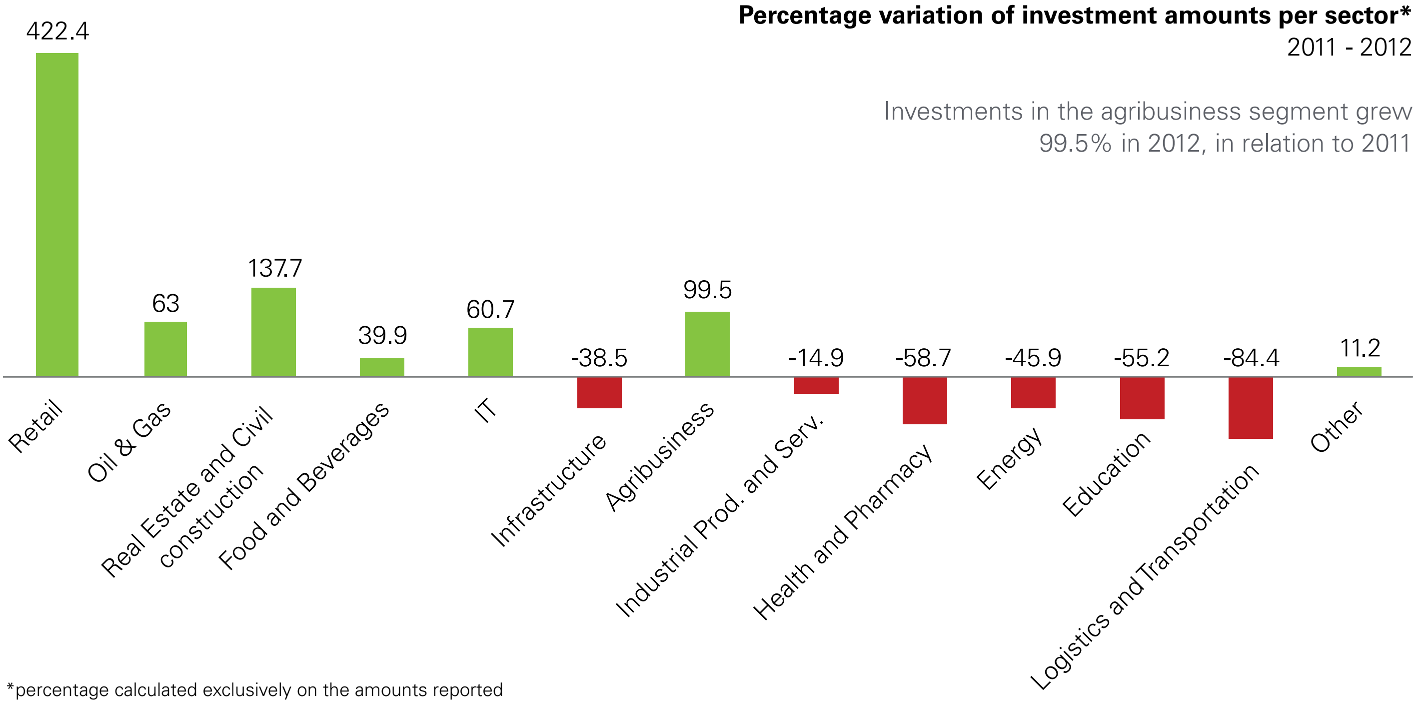


Driven by the increase in internal consumer market and by the growing increase of Brazilian middle class, retail segment led investments in 2012 with 21.8% of the total.

In 2012, in addition to the retail segment oil & gás (13.3%), real estate and civil construction (12.6%) were the highlights. These three segments represented 47.7% of 2012 investments. In 2011, the highlights were infrastructure (12.5%), health and pharmacy (11.9%) and oil and gas (10%). These three segments represented 34.4% of 2011 investments, showing less concentration than in 2012. Led by sub-salt discoveries and investments to be made by Petrobras, the oil and gas segment was among the three main sectors in both years. The IT segment is also a highlight, with a considerable number of transactions, although usually the value of the transactions are lower than in other sectors.

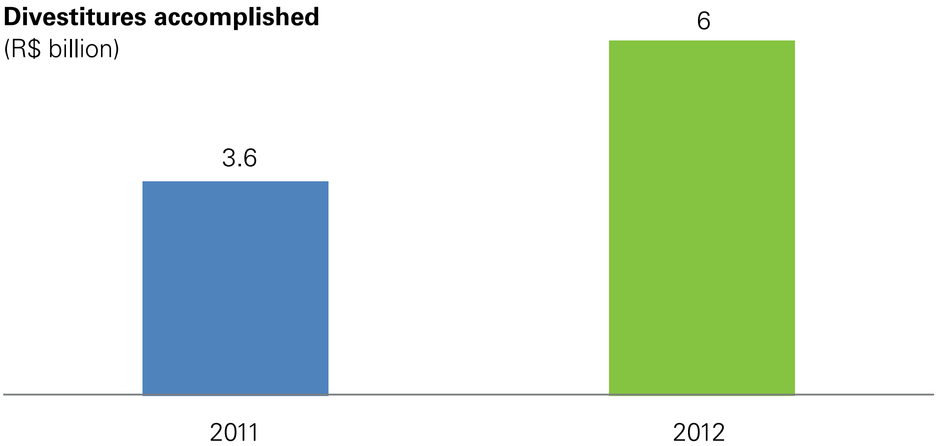
Percentage variation of investment amounts per sector*
2011 - 2012

Investments in the agribusiness segment grew 99.5% in 2012, in relation to 2011



*percentage calculated exclusively on the amounts reported

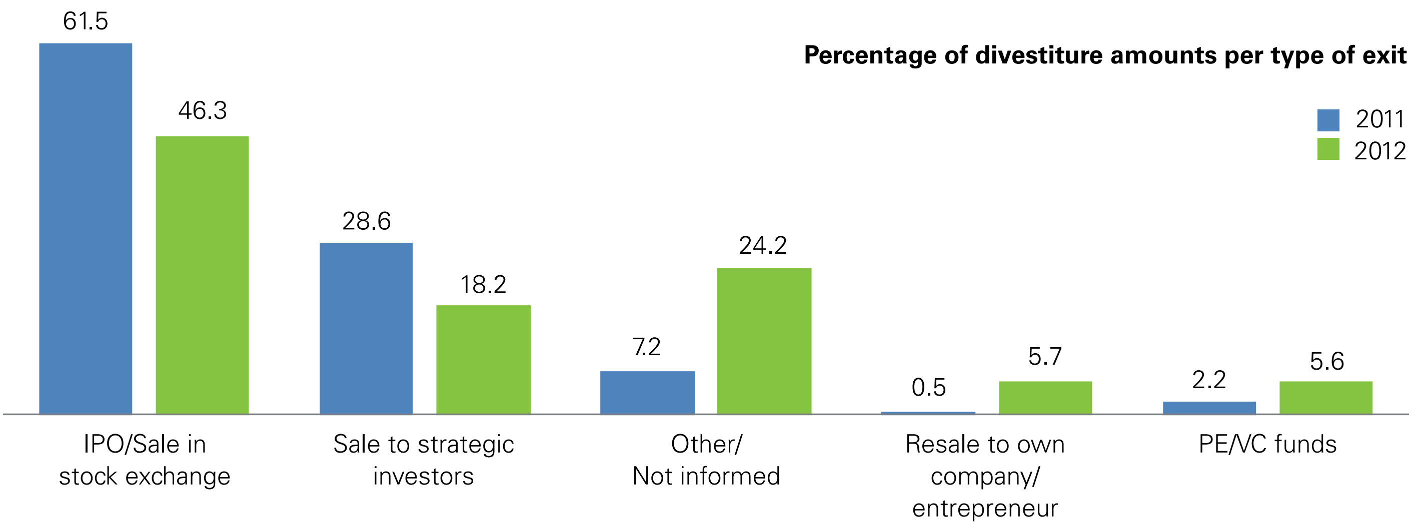
Divestitures accomplished
(R$ billion)



Divestitures grew 67% in 2012 in relation to 2011, demonstrating that the Brazilian market presents growing exit options.

IPO sales or subsequent disposals in stock exchange were the highlight of divestitures in those two years, despite of the not so favorable situation of the stock market. Sale to strategic investors was also an option, which demonstrates the industry power to prepare companies for subsequent market consolidation.

In spite of the percentage reduction of some types of exits in relation to the annual total, all had absolute increases. IPOs and subsequent sales in the stock exchange increased by 25.1% while sale to strategic investors grew by 5.7% between 2011 and 2012.



About KPMG

KPMG is a global network of independent firms providing Audit, Tax and Advisory professional services. We are present in 156 countries, with 152 thousand professionals acting in member-firms throughout the world. In Brazil, we have approximately 4,000 professionals in 20 cities located in 11 states and the Federal District.
In the global scope, we offer a consistent set of accounting and financial skills and competences, based on deep knowledge of each client's market segment, a highly relevant distinctiveness.
Our high performance professionals help to simplify the complexity, presenting clear solutions to benefit all our clients. Focus on clients, commitment with excellence, global mentality and constant delivery build a relationship of trust that is the core of our business and reputation.

KPMG in Brazil – Strong and sound growth

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Londrina	Uberlândia

About ABVCAP

Founded in 2000, ABVCAP is a not-for-profit institution that fosters long-term investment in Brazil. During its 12 years of operation, ABVCAP has helped to promote those best practices that are aligned with international industry standards, and has operated as a facilitator of relationship among members of the long-term investment community in Brazil. ABVCAP has more than 200 members that represent the main players of the Private Equity and Venture Capital industry, including largest Brazilian pension funds, domestic and foreign managers, and service providers, among others.

For further information, visit www.abvcap.com.br

KPMG Contacts

Marco André C. Almeida
Audit
Tel.: 55 (21) 3515-9404
maalmeida@kpmg.com.br

Marcio Sabalo Barea
Transactions & Restructuring
Tel.: 55 (11) 3245-8336
mbarea@kpmg.com.br

Mateus Ramos Silva Carvalho
Audit
Tel.: 55 (21) 3515-9214
mrcarvalho@kpmg.com.br

ABVCAP Contacts

Ângela Ximenes
Superintendent
Tel.: 55 (21) 3970-2432
Tel.: 55 (11) 3106-5025
aximenes@abvcap.com.br

Cristiane Nascimento
International Projects
Tel.: 55 (11) 3106-5025
Tel.: 55 (21) 3970-2432
cnascimento@abvcap.com.br

Raphael Vianna
Information and Research
Tel.: 55 (21) 3970-2432
Tel.: 55 (11) 3106-5025
rvianna@abvcap.com.br

kpmg.com/BR
www.abvcap.com.br

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