# InsidePE

JUNE 2019

# Private Equity in Brazil

inBrazil

The Brazilian Private Equity and Venture Capital Association is a non-profit organization that promotes the development of private equity, venture capital and seed capital in Brazil, by improving industry conditions and understandings, while also fomenting good practices that are aligned with international industry standards.

The Brazilian Trade and Investment Promotion Agency (Apex-Brasil) works to promote Brazilian products and services abroad, and to attract foreign investment to strategic sectors in Brazil. The Agency carries out several trade promotion initiatives, such as commercial and prospective missions, business rounds, support to the participation of Brazilian companies in major business fairs, and visits of foreign buyers and opinion formers to assess the country's productive structure. Apex-Brasil also plays a key role in attracting foreign direct investment to Brazil, working to detect business opportunities, promoting strategic events and providing support to foreign investors interested in allocating resources in the country.

The InBrazil Private Equity & Venture Capital Program is a joint initiative between ABVCAP and Apex-Brasil, set up to keep international investors well informed, linking them up with Brazilian fund managers and portfolio companies. The main goal of the program is to inform and empower the global investor community about the PE-VC ecosystem in Brazil, spotlighting its many opportunities.

# Industry Overview

This report offers a general overview of the private equity industry in Brazil. Through data, analyses and interviews with some of Brazil's leading players, this publication outlines the main trends for this sector, together with the outlook for the next few years.

In 2018 Brazil's private equity industry recorded its highest amount of committed capital for the past few years, as will be shown on the next pages. These figures were specially impacted by the massive increase in fundraising, of almost three times 2017 figures.

Despite certain reticence among investors, due to political uncertainties, the numbers confirm Brazil's solid foundations and the confidence investors deposit in its massive consumer market. This report also offers a detailed analysis of the retail sector, which is among the most promising for the next few years, according to investors.

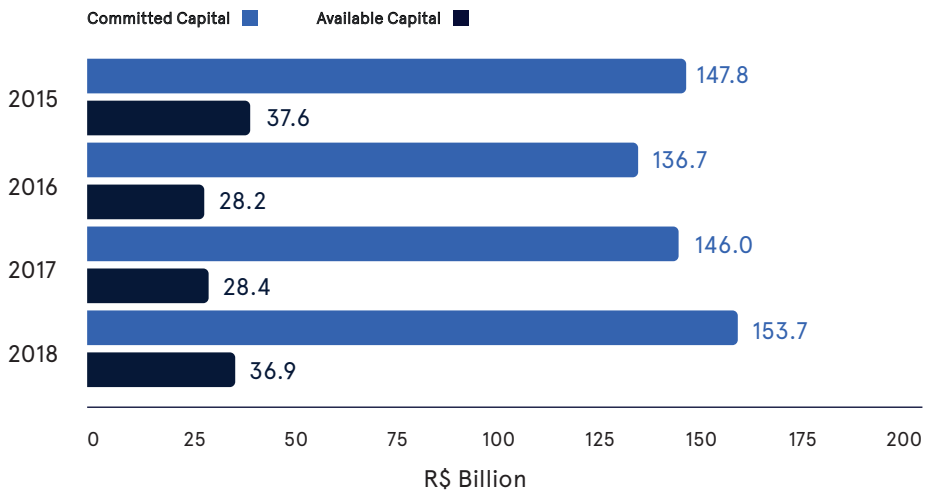
Despite the economic and political turbulence of 2018, some Brazilian firms conducted successful IPOs. Three of them – the Inter bank and the NotreDame Intermédica and Hapvida medical aid schemes – went public on the local stock exchange (B3), while others (such as Stone and Arco Educação) had their stocks listed directly on Wall Street. Through shares traded on the Brazilian Stock Exchange, firms raised BRL 6.76 billion, while IPOs on the US Stock Exchange brought in USD 4 billion. The reformist stance of Brazil's new government and the stabilization of its economy should whet investor appetites, paving the way for more domestic IPOs during 2019.

In terms of this new administration, there are high hopes of improvements in the business environment and institutional sector, with the main challenge being the implementation of reforms rated as full for strengthening and opening of the Brazilian economy. The positive outlook for domestic and foreign investors promises a year of broad-ranging activities for the private equity industry in Brazil during 2019.

# Numbers

According to the ABVCAP and KPMG Industry Data Consolidation, in 2018, the total committed capital allocated by the private equity industry in Brazil was up 5% over 2017 at a record BRL 153.7 billion. As shown below, these figures reflect the outcome of an excellent year of bringing in funds, buttressing the assessment that domestic and foreign investors believe in Brazil's solid foundations, seeking out opportunities in its massive consumer market.

## Total Committed and Available Capital* for Private Equity Investments in Brazil

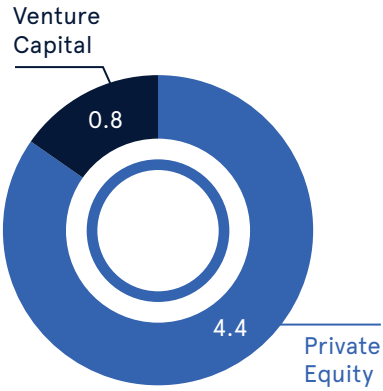



***Total committed capital encompasses the full amount of capital subscribed by private equity investors in Brazil, including amounts allocated and capital available for investments and outlays as of December 31 of each year.**

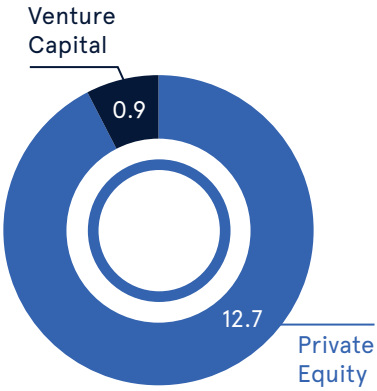
During the somewhat hesitant context of 2018, particularly during the election period, available capital increased again, reaching 24% as a proportion of the total committed capital. This period of marking time while awaiting decisions in the political sphere increased 'backed-up' capital volumes in Brazil, with a 30% surge in investor 'dry powder', compared to the previous year.

The about-turn in private equity investment volume uptake that began in 2017 firmed up during 2018. Despite political quicksands, private equity managers operating in Brazil raised BRL 12.7 billion (about USD 3.5 billion), up 189% (in Brazilian Reais) over the previous year, which was the highest amount since 2014.

Fundraising in Brazil by Investment Type BRL Billion 2017

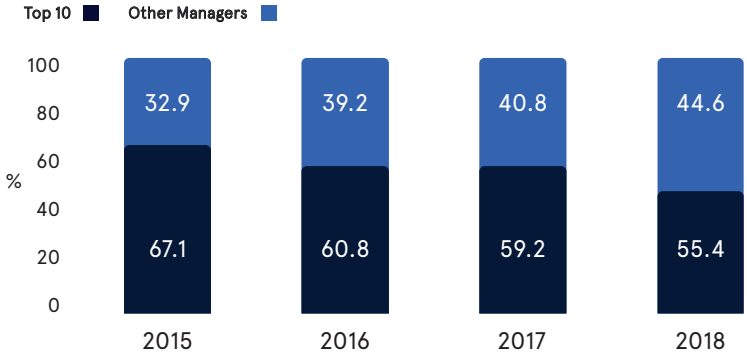



Fundraising in Brazil by Investment Type BRL Billion 2018

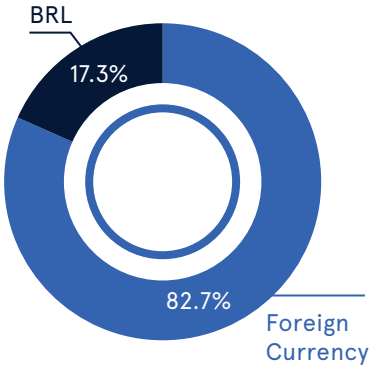



The arrival of new private equity players on the Brazilian market has diluted the amount of funds held by major managers. Nevertheless, the top ten asset management firms still accounted for 55.4% of total committed capital in Brazil in 2018.

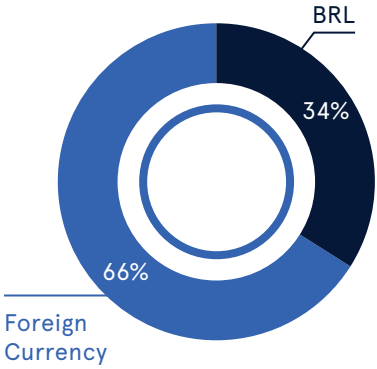
## Top 10 Managers by Total Committed Capital in Brazil FY15-FY18



2018 Fundraising by Currency

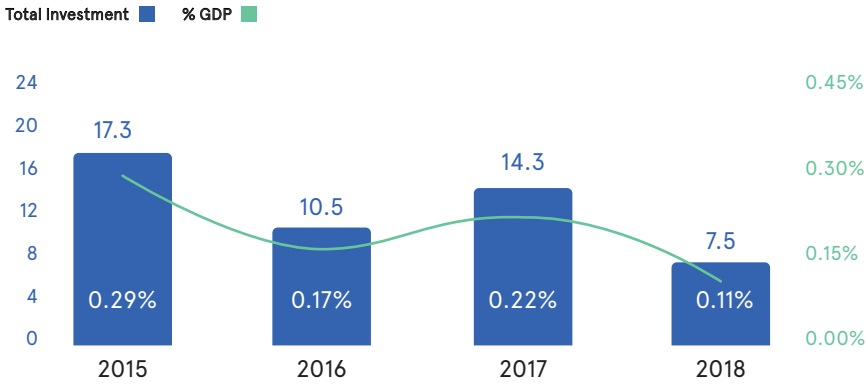



2018 Committed Capital in Brazil by Origin

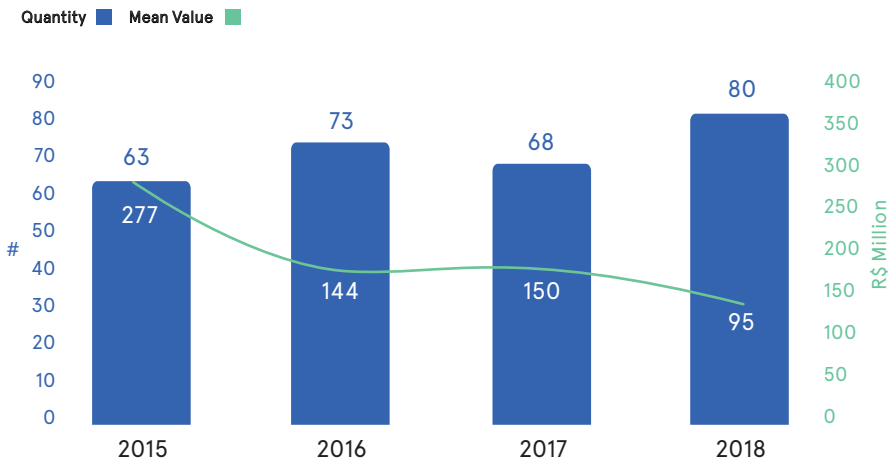



The presence of foreign capital in private equity transactions conducted in Brazil has always been notable, reaching 66% of total committed capital in Brazil during 2018, a significant increase over the 58% posted for 2017. Some 83% of the amounts raised by private equity funds for investment in Brazil during 2018 were in other currencies, clearly indicating the importance of inflows of foreign funding for Brazil.

## Private Equity Investments in Brazil as a % GDP



## Number of Invested Companies and Mean PE Investments value



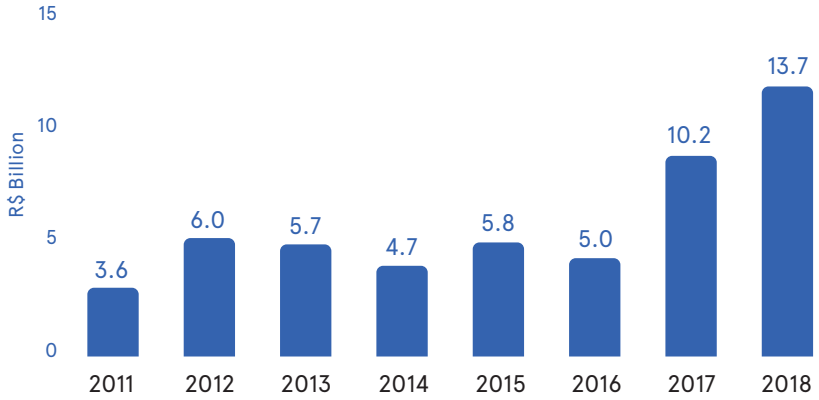

A 48% drop in private equity investments in Brazil was recorded for 2018, at BRL 7.5 billion. Despite lower investment volumes, the number of target companies increased, although with a lower mean ticket.

With lower investment volumes and an upsurge in the amounts raised, there is clearly no shortage of capital on the market, particularly with foreign exchange devaluation lowering asset values for funds raised in foreign currencies. The outlook for 2019 is that the appetite of private equity funds will return to grow in Brazil, encouraged by economic recovery and the need for many companies – particularly medium-sized enterprises – to raise capital to expand their businesses.

Looking at the available capital and the mean private equity investment ticket, it seems as though there is already enough committed capital available for investment in around 389 companies during the next few years – almost five times the number of businesses absorbing investments during 2018.

Brazil has been experiencing record private equity and venture capital fund divestments since 2017, illustrated by a 34% increase in 2018, reflected in a record amount of BRL 13.7 billion in exits. As papers are sold off from their portfolios, funds seek out new investments, moving into new uptake phases and channeling capital back to their investors.

## Private Equity and Venture Capital Divestments in Brazil




As divestments volumes rise and funds move into their final stages, paying capital back to their investors, the uptake process naturally intensifies, as already noted during the past two years, and continues on through 2019.

**Source: ABVCAP and KPMG, 2019**

# Sample of private equity transactions in Brazil

## 2019

| FUND MANAGER (S) | TYPE | VALUE (BILLION) | COMPANY | SECTOR |
|---|---|---|---|---|
| Mubadala; Farallon | Investment | R$ 1.650.0 | Rota das Bandeiras | Infrastructure |
| Softbank | Investment | US$ 1.000.0 | Rappi | Mobility |
| Vinci Partners; Capital Group; Temasek | Divestment | R$ 714.5 | BK Brasil (Burguer King Brasil) | Food & Beverages |
| Pátria Investments | Investment | R$ 500.0 | Bio Ritmo (Smart Fit) | Services |
| Vinci Partners | Investment | R$ 500.0 | Vero Internet | Telecommunications |
| Vinci Partners | Divestment | R$ 415.0 | Cecrisa | Retail |
| GTIS Partners | Investment | R$ 400.0 | BHG | Hospitality |
| Softbank | Investment | US$ 200.0 | Creditas (Ex-bankfacil) | Fin Tech |
| Kinea Investments | Investment | R$ 200.0 | Wiser | Education |
| Softbank | Investment | US$ 190.0 | GymPass | Services |
| Softbank; Microsoft; GGV; Fifth Wall; Velt Partners | Investment | US$ 150.0 | Loggi | Logistics |
| Starboard | Investment | R$ 150.0 | Agemed | Healthcare |
| Kinea Investments | Investment | R$ 150.0 | Centro Clínico Gaúcho (CCG) | Healthcare |
| Naspers; Innova Capital | Investment | US$ 124.0 | Movile | IT |
| Axxon Group | Divestment | US$ 100.0 | America Net | Telecommunications |
| Warburg Pincus | Investment | US$ 100.0 | America Net | Telecommunications |
| Alothon Group | Investment | R$ 100.0 | Elétron Energy | Energy |
| CRP Participações | Divestment | R$ 50.0 | Hiper | Retail Tech |
| Franklin Templeton | Investment | US$ 30.0 | Weel | Fin Tech |

| FUND MANAGER (S) | TYPE | VALUE (BILLION) | COMPANY | SECTOR |
|---|---|---|---|---|
| GPS Investments | Investment | Undisclosed | Magnetis | Fin Tech |
| Vinci Partners | Investment | Undisclosed | Drumattos | Food & Beverages |
| Naspers | Divestment | Undisclosed | Buscapé | Retail Tech |
| Tiger Global | Divestment | Undisclosed | Petlove (ex-PetSUperMarket) | Pet Care |
| Tarpon Investments | Investment | Undisclosed | Petlove (ex-PetSUperMarket) | Pet Care |
| Gávea Investments | Divestment | Undisclosed | Chilli Beans | Retail |
| Invest Tech | Investment | Undisclosed | ClipEscola | Ed Tech |
| Aqua Capital | Investment | Undisclosed | Rech Agrícola | Agribusiness |
| Pátria Investments | Investment | Undisclosed | Impacto | Logistics |

## 2018

| FUND MANAGER (S) | TYPE | VALUE (BILLION) | COMPANY | SECTOR |
|---|---|---|---|---|
| Tarpon Investments | Divestment | R$ 4.100,0 | Somos Education | Education |
| Bain Capital | Divestment | R$ 2.377,7 | Intermédica (Notre Dame) | Healthcare |
| Advent International | Investment | R$ 1.900,0 | Walmart Brasil (Bompreço) | Retail |
| GIC | Divestment | R$ 1.730,0 | Somos Education | Education |
| Carlyle | Investment | R$ 700,0 | Madero | Food & Beverages |
| Brookfield Asset Management Inc | Investment | R$ 660,0 | Ouro verde | Logistics |
| Sequoia Capital | Investment | R$ 610,5 | Rappi | Mobility |
| CVC Capital Partners | Investment | R$ 562,0 | Moove | Industry |
| Rakuten Capital; TheVentureCity; Endeavor Catalyst; GAT Investments | Investment | R$ 500,0 | Maxi Mobility (Cabify e Easy) | Mobility |
| DST Global; Red Point E.ventures | Investment | R$ 495,0 | Nubank | Fin Tech |

| FUND MANAGER (S) | TYPE | VALUE (BILLION) | COMPANY | SECTOR |
|---|---|---|---|---|
| Thomas H. Lee Partners | Divestment | US$ 400,0 | Fogo de Chão | Food & Beverages |
| Alberta Investment Management Corporation (AIMCo); IG4 Capital | Investment | R$ 400,0 | Iguá Saneamento (ex- CAB) | Infrastructure |
| Naspers; Innova Capital | Investment | US$ 400,0 | Ifood | Marketplace |
| Carlyle; Vinci Partners | Divestment | R$ 380,0 | Uniasselvi | Education |
| Neuberger Berman | Investment | R$ 380,0 | Uniasselvi (Treviso) | Education |
| Advent International | Investment | R$ 355,0 | Estácio | Education |
| GIC | Investment | R$ 352,0 | Algar Telecom | Telecommunications |
| Advent International | Divestment | R$ 300,0 | Faculdade Serra Gaúcha | Education |
| Vinci Partners | Investment | R$ 300,0 | Domino's | Food & Beverages |
| Vinci Partners | Investment | R$ 300,0 | Cura Laboratórios | Healthcare |
| Jaguar Growth Partners | Investment | R$ 300,0 | Bresco | Real Estate |
| Starboard | Investment | R$ 250,0 | Máquina de vendas (Ricardo Eletro) | Retail |
| General Atlantic; Kaszek Ventures; Qualcomm Ventures | Investment | R$ 250,0 | Quinto Andar | Marketplace |
| Tecent | Investment | US$ 200,0 | Nubank | Fin Tech |
| Tiger Global | Investment | R$ 100,0 | Conta Azul | Fin Tech |
| Diamond Mountain Investments (DMI) | Investment | R$ 100,0 | Bio5 | Automobiles |
| Aqua Capital | Investment | R$ 100,0 | Lac Lélo | Agribusiness |
| Softbank | Investment | US$ 100,0 | Loggi | Logistics |
| GP Investments | Investment | US$ 100,0 | Bravo Rio Restaurant Group | Food & Beverages |
| FTV Capital | Investment | R$ 99,0 | Ebanx | Fin Tech |
| Temasek | Investment | R$ 95,0 | Bionexo | Health Tech |
| HSI Investments | Investment | R$ 88,0 | Madero | Food & Beverages |

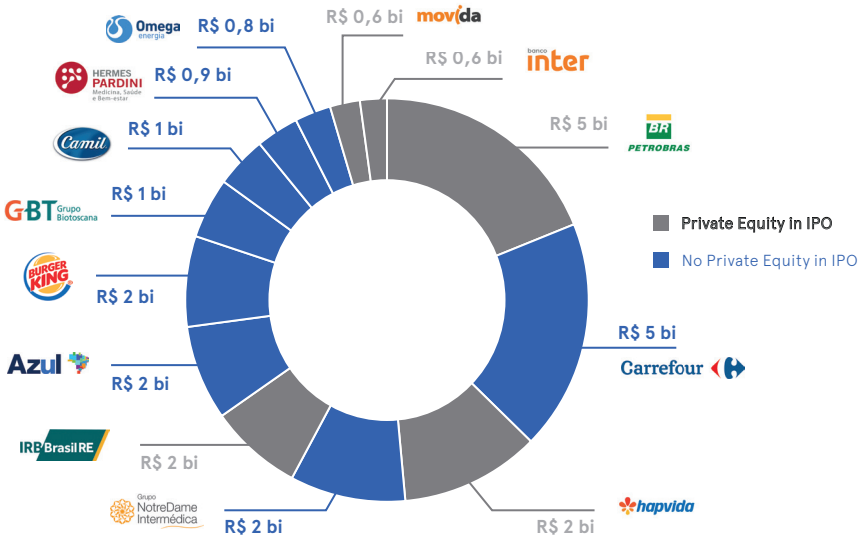
| FUND MANAGER (S) | TYPE | VALUE (BILLION) | COMPANY | SECTOR |
|---|---|---|---|---|
| CPPPIB; Adams Street Partners | Investment | US$ 85,0 | Mutant | Services |
| Sforza | Investment | R$ 75,0 | Pizza Hut | Food & Beverages |
| IFC; TheVentureCity; Ventech | Investment | R$ 72,6 | RecargaPay | Fin Tech |
| GGV Capital; Monashees Capital; Base10 Capital; Glass 5 Global | Investment | US$ 63,0 | Yellow | Mobility |
| Sforza | Investment | R$ 60,0 | KFC Brasil | Food & Beverages |
| Invus Opportunities | Investment | R$ 54,0 | Descomplica | Ed Tech |
| Valor Capital Group; Red Point E.ventures; OpenView Partners | Investment | R$ 52,8 | Pipefy | IT |
| H.I.G. Capital | Investment | R$ 20,0 | Cel.Lep | Education |
| Movile | Investment | US$ 18,3 | Zoop | Fin Tech |
| H.I.G. Capital | Investment | R$ 16,1 | Elekeiroz | Retail |
| Carlyle | Divestment | Undisclosed | Tempo Participações | Services |
| Aqua Capital | Investment | Undisclosed | Grão de Ouro | Agribusiness |
| Aqua Capital | Investment | Undisclosed | AgroFerrari | Agribusiness |
| Dynamo | Investment | Undisclosed | Enjoei | Marketplace |
| Grupo Garantia | Investment | Undisclosed | BestPay | Fin Tech |
| Vinci Partners | Divestment | Undisclosed | Inbrands | Retail |
| Crescera Investments (Ex-Bozano) | Divestment | Undisclosed | Forno de Minas | Food & Beverages |
| Monashees Capital; Qualcomm Ventures; Tiger Global; Riverwood Capital | Divestment | Undisclosed | 99 | Mobility |
| Kohlberg Kravis Roberts (KKR) | Divestment | Undisclosed | Aceco | TI |
| 2bCapital | Investment | Undisclosed | Cuponeria | Services |
| DXA Investments | Divestment | Undisclosed | Zee.dog | Retail |
| Axxon Group | Investment | Undisclosed | Casa do Adubo | Agribusiness |
| GWI Asset Management | Investment | Undisclosed | Gafisa | Civil construction |

| FUND MANAGER (S) | TYPE | VALUE (BILLION) | COMPANY | SECTOR |
|---|---|---|---|---|
| Darby Overseas | Divestment | Undisclosed | Alesat | Energy |
| H.I.G. Capital | Investment | Undisclosed | Grupo Meridional | Healthcare |
| Victoria Capital Partners | Investment | Undisclosed | Import Sports | Healthcare |
| Axxon Group | Investment | Undisclosed | Westwing | Retail |
| Pátria Investments | Investment | Undisclosed | Marlim Azul Energy | Energy |
| 2bCapital | Investment | Undisclosed | Hemoterapia (H. Hemo) | Healthcare |
| Pátria Investments | Investment | Undisclosed | Vitória Apart Hotel | Healthcare |
| H.I.G. Capital | Investment | Undisclosed | Sofape (Tecfil) | Automobiles |
| H.I.G. Capital | Investment | Undisclosed | Clínica Amo | Healthcare |
| Kinea Investments | Divestment | Undisclosed | Eliane Revestimentos | Retail |
| Tarpon Investments | Divestment | Undisclosed | BRF | Food & Beverages |
| Stratus Investments | Investment | Undisclosed | Farma Participações (Poupa Farma) | Healthcare |
| Pátria Investments | Investment | Undisclosed | Pitangueiras | Agribusiness |
| Gávea Investments | Divestment | Undisclosed | Energisa | Energy |
| Leste Investments | Investment | Undisclosed | Fábrica de Bolo Vó Alzira | Food & Beverages |
| Salesforce Ventures | Investment | Undisclosed | Bliive | Marketplace |
| Crescera Investments (Ex-Bozano) | Investment | Undisclosed | UninovaFapi | Education |
| Crescera Investments (Ex-Bozano); Abaporu | Investment | Undisclosed | Herp | Healthcare |
| Aqua Capital | Investment | Undisclosed | Total Biotecnologia e Biotrop | Bio Tech |
| Partners Group | Investment | Undisclosed | Hortifruti | Retail |
| Kinea Investments | Investment | Undisclosed | Grupo A | Education |
| HSI Investments | Divestment | Undisclosed | GoodStorage | Services |
| Actis; Tiger Global | Divestment | Undisclosed | Stone Pagamentos | Fin Tech |

# Capital Market and Private Equity Funds in Brazil

After a long period with few windows of opportunity, since 2017 Brazil's capital market has shown signs of improvement and has been more attractive for stock offerings, with BRL 26 billion raised by thirteen firms on the Brazilian Stock Exchange between 2017 and 2018.

Issuers 2017 | 2018

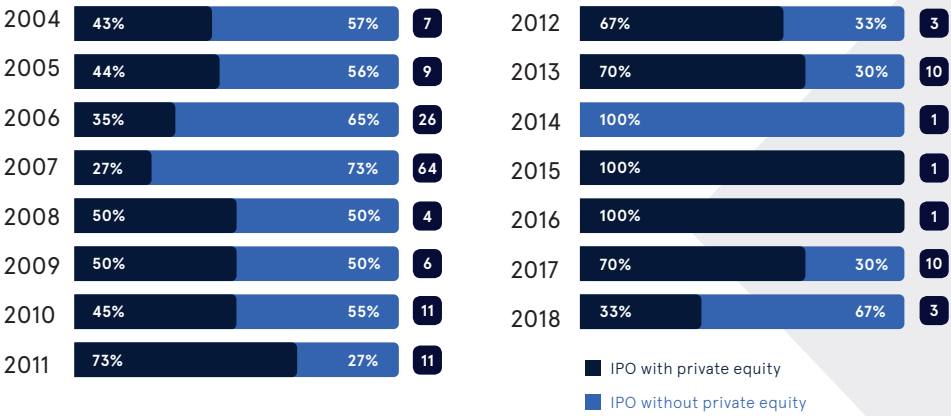



**Source: B3**

## More Than **BRL 26 billion** raised during 2017 | 2018

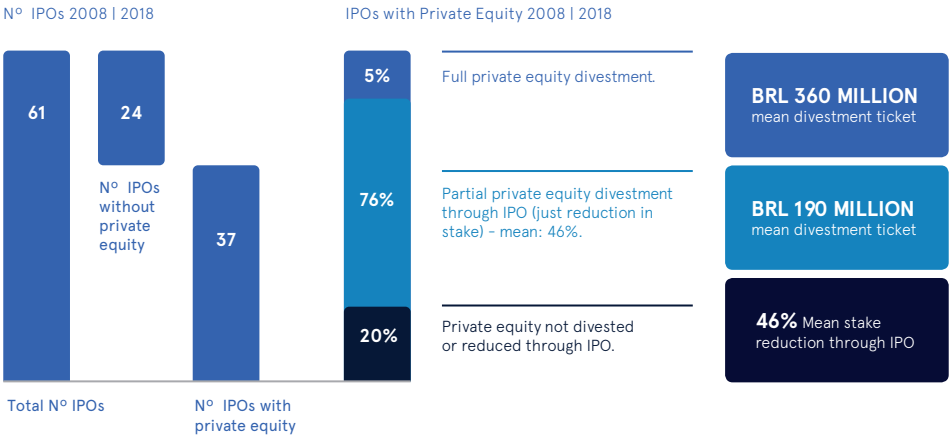
During this period, a proportional increase was also noted in the number of companies targeted for investment by private equity funds, among those going public. From 2013 to 2018, 65% of business that went public were invested by private equity funds.

## Comparison: IPOs with and without private equity funds as a partner




**Source: B3**

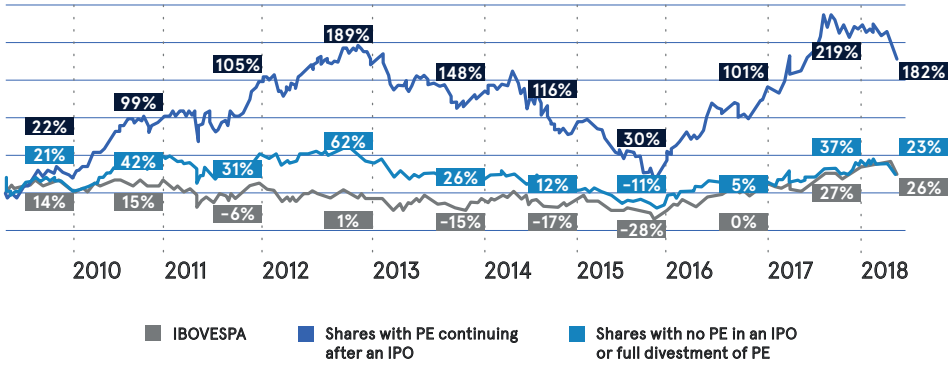
During the past 10 years, most private equity funds have partially moved out during IPOs, showing that in most cases, the investment is completed in stages after the IPOs, also offering opportunities to maximize investor returns.




**Source: B3**

The survey conducted by the Brazilian Stock Exchange (B3) analyzing the behavior of papers with private equity funds during the IPO noted that stocks keeping an investor partner outperformed the Stock Exchange Index (IBOVESPA), as well as shares with no private equity stakes.

## Behavior of papers by companies backed or not backed by PE funds during the IPO

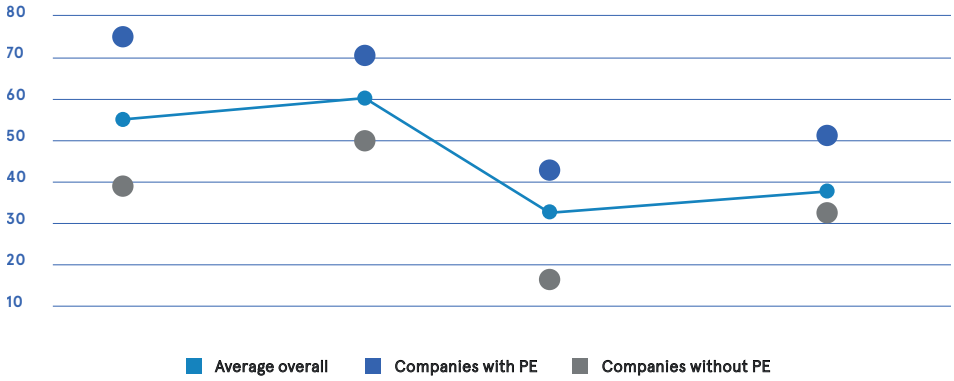



**Source: B3**

Furthermore, firms with private equity stakes posted mean IPO multiples that were higher than those of companies with no private equity backing, in the sectors listed below.

## Price x Sector profit in IPO

P/E ratio in IPO - comparing companies with stakes held by private equity funds to other with no private equity shareholders

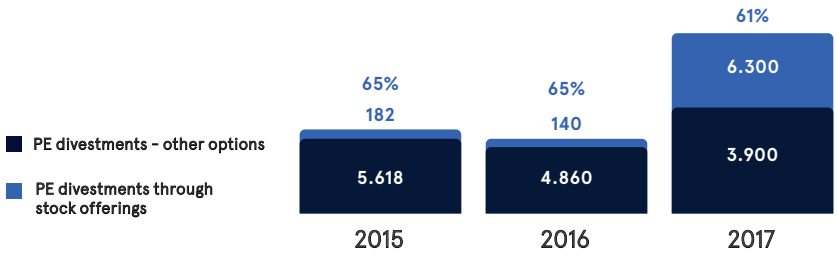



| Macro sector | Healthcare | TI | Industrial Goods | Financial & Others |
|---|---|---|---|---|
| companies with PE | 5 | 4 | 4 | 8 |
| companies without PE | 4 | 3 | 2 | 27 |

**Source: B3**

Finally, the data show that leaving the market was indeed a feasible alternative for private equity investments, offering greater comfort for investors operating in Brazil.

## Private Equity Divestments (BRL million)




**Source: B3**

# Sector focus RETAIL

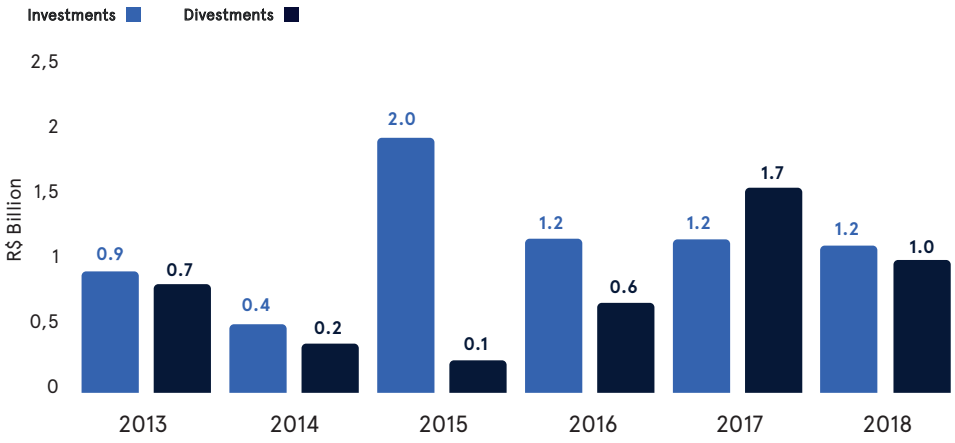
The significance of the retail sector for the Brazilian economy is becoming increasingly clear, attracting domestic and foreign investors eager to seize opportunities rooted in the specific characteristics of its consumer market. In addition to being responsible for the majority of formal jobs nationwide, this sector has also returned to growth at significant rates, keeping pace with global trends towards modernization in consumption.

Now accounting for almost 50% of the Brazilian GDP, after a lackluster performance dimmed by Brazil's economic meltdown, the retail sector is now rated as one of the most promising for the coming years, spurred by the nation's return to growth and underpinned by transaction volumes.

In 2018, the retail sector was a major magnet for the private equity industry in Brazil, with 5 investments and 3 divestments announced. Looking only at transactions whose values were disclosed, more than BRL 1.2 billion were invested in this sector, accounting for 9% of total investments and ranking the retail sector second by investment volume for the year.

One transaction in particular caught the attention of the global financial market: the August 2018 purchase by Advent International of a majority (80%) stake in Walmart Brasil, which is the nation's third-largest retail chain. Planned to top BRL 1.9 billion, this deal will be divided into three phases, constituting the largest-ever investment by Advent in Latin America.

## Investment and Divestment Volumes in Brazil's Retail

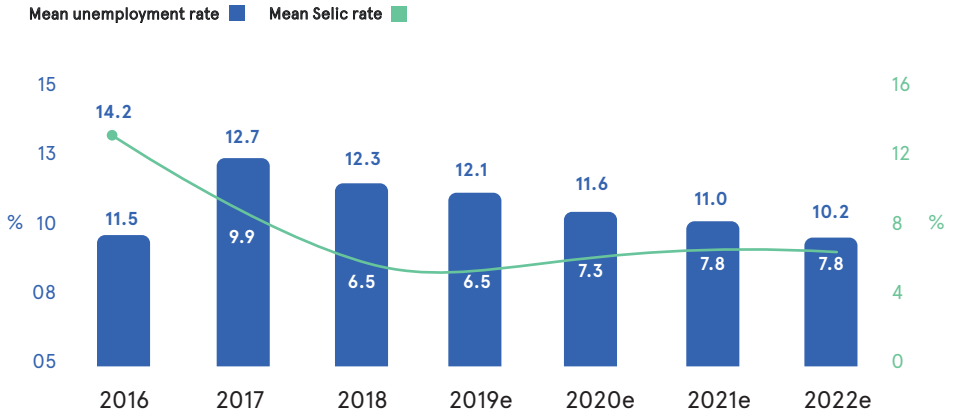



**Source: KPMG and ABVCAP**

***These figures include only transactions whose values were disclosed.**

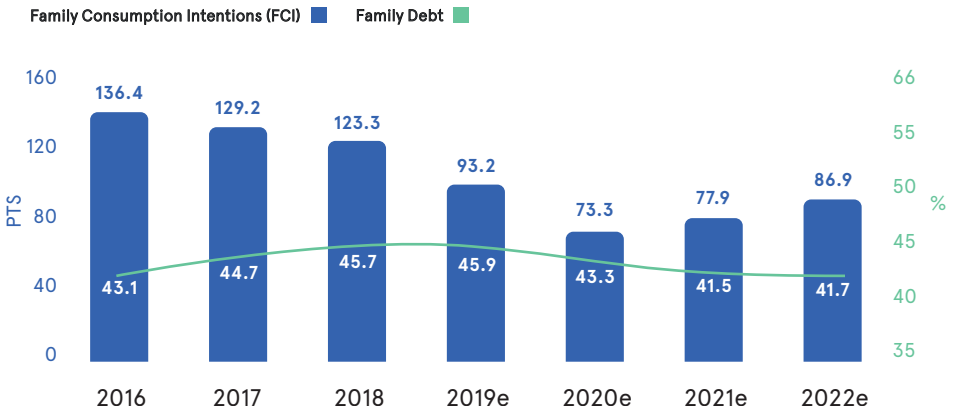
Brazil's retail sector is particularly attractive for investments, due to its massive domestic consumer market, with almost 210 million inhabitants and family outlays on consumption topping BRL 4 trillion in 2018. Recent positive aspects such as surging consumption by families, new jobs being generated, and wages rising across the board also indicate that the uncertainties of an electoral year are beginning to fade, with an upbeat outlook for the retail sector in 2019.

## Forecast Selic Rate and Mean Unemployment Rate - Brazil




Source: IBGE, Itaú BBA and Brazilian Central Bank

## Debt Level and Family Consumption Intentions

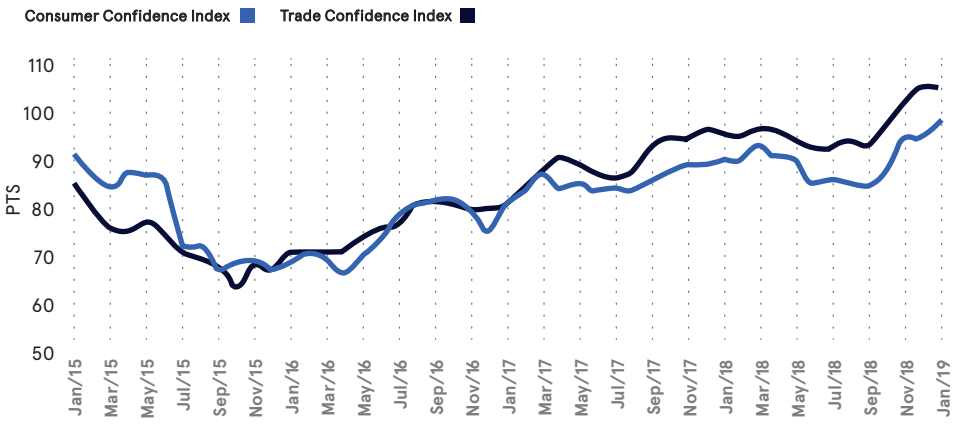



Source: CNC and the Brazilian Central Bank

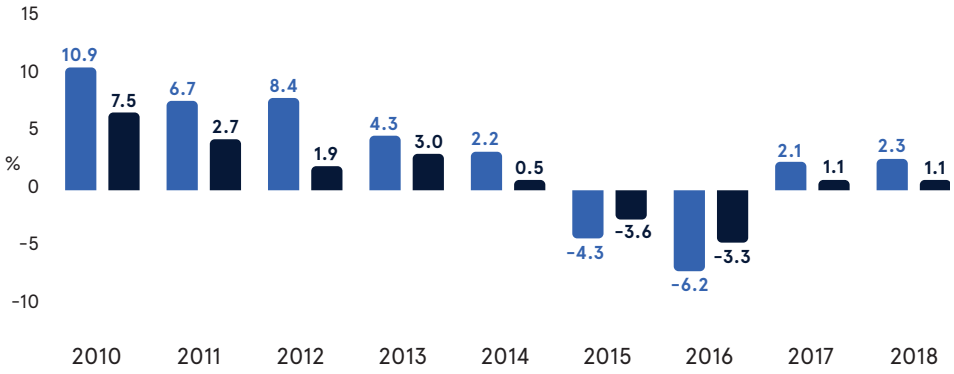
Family consumption is the mainspring of Brazil's GDP, accounting for more than 60% of aggregate demand. An upsurge in buying intentions, together with a more active job market, rising consumer confidence and a dropping default rate are now fueling its retail sector. Moreover, with the basic interest rate held at 6.5% (the lowest rate in this historic dataset), credit costs can be slashed, firming up the foundations for expanding consumption in Brazil.

There is an atmosphere of confidence among businesses and consumers alike. After turbulent times last year – including the strike and the election – businesses saw their sales rise during late 2018, with high hopes for early 2019. Ensuring that for this recovery to continue it will require ongoing improvement for the job market.

## Deseasonalized Consumer and Trade Confidence Rates




## Brazil's Retail Sector Performance and GDP Growth




**Source: PMC and IBGE**

As the recession faded, retail sales rose 500% in 2018, confirming a steady recovery process for the retail sector. This trend is also reflected in an upsurge in registered jobs for this sector, with a return to net store openings after the slump.

For 2019, the National Confederation of Trade (CNC) forecasts a 5.6% hike in broad retail sales, with 3.0% for the narrow retail segment (respectively, with and without vehicles and construction materials). As economic activities pick up, the role played by family consumption in the GDP will allow retail sales to continue this uptrend.

The fact that this is a sector where many small businesses still prevail, many with only regional operations, offers solid opportunities for investors targeting Brazil's retail sector, with many assets available on a market that is still firming up, with rising needs for more modern management models that can keep pace with new consumption trends. Brazil's retail sector could benefit greatly from transactions involving the private equity industry in this sector. Furthermore, the depreciated Real offers even better opportunities for foreign investors eager to start or expand their activities in Brazil, due to drastic shrinkage in asset values.

## Selected Transactions in Brazil's Retail Sector | 2019

| FUND MANAGER (S) | TYPE | BRL MILLION | TARGET |
|---|---|---|---|
| Vinci Partners | Divestment | 415.0 | Cecrisa |
| CRP Participações | Divestment | 50.0 | Hiper |
| Naspers | Divestment | Undisclosed | Buscapé |
| Gávea Investments | Divestment | Undisclosed | Chilli Beans |

## Selected Transactions in Brazil's Retail Sector | 2018

| FUND MANAGER (S) | TYPE | BRL MILLION | TARGET |
|---|---|---|---|
| Advent International | Investment | 1,900.0 | Walmart Brasil |
| Starboard | Investment | 250.0 | Ricardo Eletro |
| H.I.G Capital | Investment | 16.10 | Elekeiroz |
| Vinci Partners | Divestment | Undisclosed | Inbrands |
| DXA Investimentos | Divestment | Undisclosed | Zee dog |
| Axxon Group | Investment | Undisclosed | Westwing |
| Partners Group | Investment | Undisclosed | Hortifruti |
| Kinea Investments | Divestment | Undisclosed | Eliane Revestimentos |

# Walmart Transaction - Advent International

Operating on the Brazilian market for the past 22 years, Walmart Brasil is the nation's third-largest retail chain, with 438 stores in 18 states and a headcount of 55,000 employees. In 2017, its total sales topped BRL 28 billion.

The transaction with Advent involved Walmart selling off 80% of Veraneio, Walmart Brasil, WMS Brasil, Bompreço Supermercados and Bompreço Bahia, for a total of BRL 1.9 billion. Divided into three phases, this transaction is the largest investment ever undertaken by Advent in Latin America.

The Walmart Global Group holds the remaining 20% of the shares in these companies. One of the Advent International investment channels, the Momentum Equity Investment Fund (FIP) purchased shares worth BRL 750 million in August 2018, with the same amount scheduled for August 2019. The remaining installments will be settled by 2021, while restructuring and upgrading the operations of this US chain, which has not yet managed to post particularly impressive results in Brazil.

Once Advent took over control of Walmart Brasil, its senior management was replaced, with Luiz Fazzio (a Brazilian executive with massive experience in retail turnarounds) appointed as the new CEO. Other newcomers included Davi Ponciano Lima (formerly with the Quero-Quero retail chain owned by Advent) as Chief Financial Officer; Fernando César Lunardini as its Chief Transformation Officer; and Ana Paula dos Santos as its Human Resources Director. The introduction of a five-seat Board was also approved, with two-year terms of office whose members include Advent partner and director Patrice Philippe Etlin; Fund Director Wilson Lourenço da Rosa; and Walmart President for Latin America, UK and Africa, Enrique Ostale Cambiaso.

Advent must undertake a complete restructuring of Walmart Brasil, ranging from logistics to store portfolios. Keeping pace with its competitors, Walmart intends to focus strongly on big-box stores and neighborhood supermarkets, which expanded considerably during Brazil's economic meltdown. Big-box store operations will absorb much attention, including the conversion of hypermarkets into Maxxi Atacado wholesale outlets. Neighborhood supermarkets in the Todo Dia chain will also absorb investments, together with the Sam's Club bulk purchase chain. Moreover, the brand will be repositioned, moving away from the "low prices every day" model to an approach featuring promotions and special offers. These adjustments are designed to endow the brand with a keener competitive edge, thus increasing its share of the Brazilian market, which currently stands at 2.5%.

# GP Profile

**BRUNO ZAREMBA**
Head of Private Equity - Vinci Partners

One of Brazil's largest independent fund managers, Vinci Partners focuses on alternative investments through three private equity funds (the third is still in the uptake phase). Its investments are widely diversified, targeting sectors such as energy, transportation, retail, education, healthcare and food, and also managing BRL 2 billion in infrastructure funds.

**Tell us about the activities of Vinci Partners and give us an overview of recent transactions.**

Today, we have some BRL 9 billion in private equity assets under management by Vinci Partners. This capital is split between two strategies, both focused on investments in Brazil: 1) Vinci Capital Partners looks for stock control transactions, investing between BRL 200 and 400 million each time, focused mainly on growth equity; 2) Vinci Impact e Governança (VIG) specializes in minority stakes of BRL 40 to 80 million in each business, with particular attention to responsible investing with impacts that are quantifiable in terms of the environment, social aspects and governance (ESG).

We currently have four private equity funds operating at Vinci Partners: VCPs II and III, and Nordeste II and III aligned with the VIG strategy.

The three latest transactions conducted under the VCP strategy have all been closed since August 2018: the acquisition of 100% stake in Domino's Pizza in Brazil; stock control of the CURA diagnostic laboratory in São Paulo; and control acquisition of a group of eight broadband Internet providers through fiber-optic networks in Minas Gerais State (VERO). Since then, the CURA laboratory has tripled in size by acquiring another group of laboratories in Southern Brazil.

The VIG investments team recently completed the acquisition of minority stakes in the Camarada Camarão, a shrimp restaurant chain (BRL 35 million); the Mundo do Cabelereiro specialized hairdressing supplies retail chains (BRL 30 million); and the ENC Energia bioenergy company (BRL 20 million).

**Looking at the Fund III uptake process, what is its current status and uptake**

**target? What differences have you found in the current fundraising context compared to the uptake processes for Funds I and II?**

The VCP III closed its uptake stage in April this year, raising some BRL 4 billion for this strategy. The first of these strategy funds began to invest in 2003/2004, with only in-house commitments rather than outside clients. In 2010 and 2011, the stage for VCP II took place at a time when Brazil was riding the crest of the global market, leading to a relatively speedy process with heavy demands for investments in this country. Its uptake closed with total commitments of around BRL 3 billion.

Undermined by a severe recession that dragged on through 2015 and 2016, in parallel to political turmoil, funding uptake in Brazil shrank significantly, with no clear signs of recovery so far. Another damper on interest (particularly among foreign investors) was the sharp drop in the value of the Brazilian Real. This discouraging blend of recession and devaluation slashed investor payback in US dollars, shrinking the potential foreign capital inflow while local institutional capital was still not investing heavily in long-term strategies, including private equity. As a result, capital availability weakened across the board.

Most VCP III clients are foreign institutional investors that are finally glimpsing (after a severe recession and political crisis) the conditions needed to approve sweeping – and necessary – reforms in Brazil, leading to more sustainable improvements in its economic policy. Reassured by our track record and the qualifications of our team, they believe that our growth equity strategy will thrive during this new growth cycle.

A few local institutional investors still account for only a small proportion of our capital. Over the medium term, we hope that their stakes increase substantially, confident that a set of pre-conditions are now in place that will spur this trend, particularly as interest rates plummet.

**Bearing in mind your sectoral diversification, what segments seem the most promising for the next few years? And why?**

We look for long-cycle investment sectors with growth potential higher than the mean GDP, underpinned by micro-or macro-economic reasons, together with demographic, educational or social trends. The three investments already included in the VCP III Fund structure reflect some of the sectors tagged as high priority for this investment cycle: Domino's Pizza (eating out), CURA Medicina Diagnóstica (diagnostic medicine – healthcare) and Vero (telecom).

We are focusing our allocations on three sectors where we already invest: food in general, financial and non-financial services, non-durable consumer goods, technology and media.

**Tell us something about the Burger King case. With investments in 2014 and 2016, you posted a payback of three times the amount invested during a six-year period with the valuation of your stake through the IPO, while still retaining a 13.3% share of stock in this company. As its main shareholders, tell us about your involvement in generating value in the company.**

The VCP II Fund began to invest in Burger King Brazil in 2011, when it was operating through a cluster of regional franchisees, with around a hundred stores. With the brand not expanding as fast as expected,

we signed a Master Franchise agreement in order to boost its growth in Brazil. We purchased 75% of the company that signed this agreement, with Burger King Corporation keeping 25%. Massive restructuring was required, hiring an entire new management team as this brand did not have an operating framework in Brazil.

Working closely with the management team, we were able to drive expansion at a fairly rapid pace, despite economic turbulence during the investment cycle. In order to continue financing for growth, capitalization rounds were conducted with Temasek in 2014 and the Capital Group in 2016, also prompted by capital investment opportunities that were greater than forecast in our original investment model.

Today one of the largest food companies in Brazil, this chain has grown sevenfold since 2011, acquiring or opening some 600 stores. It went public in late 2017 with an IPO, with a subsequent follow-on in April 2019. Today, the VCP II Fund holds some 7% of its shares, with a close to fourfold ROI and an IRR of around 25%.

I believe that our involvement with Burger King display the engagement that is typical of our investments: setting up seamlessly-aligned management teams, negotiating add-on acquisitions through target companies, generous inflows of capital spurring growth, job generation, active input through capital allocation committees, organization of capitalization rounds and timely divestment.

Although investing in widely-assorted sectors, we always follow the same basic guidelines, surrounding ourselves with top-line professionals and ensuring the feasibility of well-implemented expansion plans with high rates of return, while generating value for everyone involved with the assets: managers, fund clients and partners.

**In 2018, a significant number of transactions involved retail firms. How do you feel about this sector in Brazil? Which segments or investment areas offer the best opportunities, in your view?**

We like the B2C sector and, over time, many of our activities have focused on this type of direct contact with end-customers. The Brazilian consumer market is huge, and we believe it is one of the most attractive segments for our strategy.

In general, we seek involvement with retail chains or specialized consumer businesses with large-scale expansion potential. An example of this strategy is Burger King, but we have several others: a retail business originally set up in Bahia State, Le Biscuit was a VCP II Fund investment with the same profile. At the start of our investment activities in 2012, it had 20 stores in 2 states. Today it has 130 stores in 13 states, and we see nationwide growth potential for this chain.

The VCP III Fund invests in Domino's Pizza, where we see a great opportunity to expand throughout Brazil, just as we did with Burger King during our previous investment cycle. We are continuing to originate potential investments in the Brazilian consumer sector, confident that we will pinpoint other targets in future that reach out directly to local consumer markets.

**With a more stable capital market and anchored interest rates, investment flows to listed companies have risen. How do you view Brazil's IPO's scenario and capital market overall?**

Liquidity is one of the bedrock aspects of our private equity strategy, as a variable analyzed right from the start of the origination process of a potential new investment for the funds. Thus, when moving into a new asset, we already have a fair idea of the best way of pumping up its liquidity.

The VCP Funds are deployed at certain points in business cycles where going public will usually be a divestment option for the asset. Although not necessarily the alternative bringing in the highest amounts for investors, partners and management teams, this is a feasible option for most investments. The more divestment options we can foresee for a specific asset, the firmer our conviction that we will achieve pricing levels that will bring in better returns, in parallel to greater possibilities of obtaining liquidity for the investment at the right time in its life-cycle.

Furthermore, Brazil's capital market is still underrepresented in many sectors, with few or even no investment alternatives. We believe that our mandate also encompasses the development, growth and formalization of businesses that will offer a broader range of investment options in future to stock fund managers and investors in listed companies in general. This is why we are active on the capital market, as we believe we can encourage the formation of many assets that will develop into investment options for these managers over the longer term.

**Tell us about your view of the private equity industry in Brazil, and the outlook for the next few years.**

We have a very upbeat view of Brazil's private equity segment. Although relatively minor in terms of the nation's economy as a whole, this industry has already been well-tested, with some asset managers building up to changes and difficulties in the macroeconomic and political scenario over the last two decades. Despite a huge variety of economic and political events and contexts during these decades, this industry has shown that it can generate solid results steadily over time.

The exposure of local institutional investors to investment alternatives in general, and private equity in particular, is still very limited, compared to global levels. The current context of low real interest rates will buttress significant expansion for these investments during the years ahead.

Furthermore, with a huge population, one of the world's largest GDPs and a robust middle-class, Brazil is a continent-sized country with massive growth potential for well-managed firms with good business models and access to financial and human capital. Our role is to find these companies and streamline their access to these resources, coordinating their growth processes through partners and executives.

With an impressive track record of savvy investments, notable returns and an upsurge in capital flows in this area during the next few years, we believe that the private equity industry is well-positioned to become a major driving force behind the Brazilian economy over the medium term ●

# Company Profile

**LUIZ DURSKI JUNIOR**
CEO - Madero Restaurant Group

Established in 2005 by Curitiba-born Luiz Durski Júnior, the Madero restaurant chain currently has 141 locations operating under three main brand names: Madero Steakhouse, Madero Container and Jeronimo. Famed for its rapid expansion and valued at BRL 3 billion, its revenues reached BRL 780 million in 2018. In January 2019, Madero signed an agreement with The Carlyle Group, which purchased a stake of 23.3% for BRL 700 million.

**Tell us a little about the Madero Group operations.**

With 147 restaurants all over Brazil, the Madero Group tried working with the franchise model, but now prefers to keep its operations vertical, keeping only six franchisees out of respect for their efficiency. Our structure is tightly vertical, and we believe in this system, starting with a central kitchen in Ponta Grossa that makes all the products sold in our stores, which are distributed nationwide by our own fleet of forty trucks. We also have a construction company and our own architectural office, and even store security is handled by our own employees. We believe in doing things ourselves, putting our brand on everything and controlling every step. We currently have 6,100 employees in our stores and offices, all of them living in their own homes, that we rent. Our HR staff includes headhunters seeking out talents in upstate areas, up to 200 kilometers away from the stores or the operations, striving to open up opportunities for people living in underprivileged regions. We are also deeply concerned about the social impacts of our business.

At the moment, we have no internationalization plans in place, although we did open a restaurant in Miami four years ago. But profits were low during its two and a half years in operation, with massive efforts required for international expansion at that time, particularly in view of our verticalization culture. We want to strengthen our brand here in Brazil, and we are also keenly aware of our responsibility to invest in our homeland.

**Can you share more of Carlyle's arrival in your company? What are your expectations about their role and the potential value generation for your shareholders?**
Our history with Carlyle is very interesting. In 2014, I started thinking about doing a deal with a private equity fund, and an adviser introduced me to the Carlyle team, when I met Fernando Borges (Managing Director) and Edson Peli (Director). They liked our business and believed in our philosophy, particularly product quality and budget prices, confident that we would sail through the crisis. At that time, they were unable to invest due to the size of our business, which in 2014 had an EBITDA of only BRL 14 million, and they needed a threshold of BRL 100 million. However, we continued on with the business and other opportunities arose, but none of them were appropriate, for reasons ranging from valuations through trust in the team. In this case, we moved ahead with getting the company well organized, particularly as we already knew that this would be required if we ever closed a deal with a PE fund. In September 2018, the Carlyle team called me and wanted to re-open the negotiations (by then, our EBITDA had reached BRL 200 million). The transaction was very fast, as we had already been audited and were well prepared.

Initially, doing business with Carlyle was already something we wanted. Their due diligence is extremely thorough, and the fact that they put the stamp of their approval on our business put us way ahead for the IPO, with one of the world's best private equity managers as our partner. Furthermore, my personal relationships with Fernando and Edson could not be better.

Next, their experience in different areas has already upgraded our operations in many areas, and will continue to do so. We do not know exactly when we will go public, but we are fully prepared, and they are essential to this process. Their technology area is very well developed, and has already offered many insights on how to streamline our IT operations. In New York, they have a technology unit that helps companies targeted for investment. They are already making a difference at Madero, making our business more secure. And on the financial side, they provide upgrades and tools that display our results more easily.

**In addition to cutting back on leverage, what other plans do you have for these resources?**

Not only will we cut back on leverage, but we will also pay off our current debt, using BRL 560 million to settle these commitments. The other BRL 140 million will underwrite the expansion of the business. This year alone, we intend to invest this amount in the central kitchen, with new equipment and plenty of technology.

In July, we will launch our bread-making machine, replacing the current handmade process. We will keep the same flavor and crustiness, but will ensure a more standard appearance through total control, with massive cost reductions. We will be producing perfect loaves. A new cold room will be shipped in from Germany, with an automated hamburger line using robots that will result in better product quality and less stress for our employees.

**Brazil is recovering from an economic recession that has directly affected family consumption. How did this scenario impact the Madero Group businesses? And what strategies have been deployed to preserve profits and growth?**

Prior to the crisis, we decided not to be dragged down, deciding to do something different. When a crisis strikes, people have less money. Bearing this in mind, instead of cutting back on portions, we decided to increase them a little, giving people better value for their money. We increased the size of almost all portions, and polished up our customer services, thus giving customers better value for their money, with good service. We pruned behind the scenes, but not the essential characteristics perceived by our customers. As a result, our store sales have risen by 9% a year during the past four years.

All our employees spend 60 days training in Curitiba, as quality is everything for us. Consumers are increasingly more demanding, and are aware of even minor differences in product quality. They are also very critical of price, which is why we make sure we are very affordable. Nothing changes in 2019, particularly because a new administration takes a while to make its mark. We are very optimistic.

**In your opinion, what are the main opportunities and outlooks for the retail sector in Brazil, during the next few years?**

The main opportunity in Brazil is growth with quality. The quality bar in Brazil is set very low – you can go to a food court in a mall and eat something, but you will not be enchanted or surprised. So quality is a major comparative advantage, and anyone offering this at a good price will surge ahead.

This is why the franchise model did not work well for us. Many franchisees believe that, once they have purchased their licence, the business will earn profits and run itself. This is not so, as a lot of hard work is needed. I always say that plenty of elbow grease is the secret of success. Food is our business, and we want to grow within this universe. We have the Jeronimo chain that is more affordable, and the Sanduicheria in Curitiba selling top quality sandwiches. We intend to continue in the food retail sector, exploring different publics in different price ranges.

**The investment strategy selected by the Fund views divestments through the market as a possibility. Tell us about your plans for an IPO in the near future, and how the company is gearing up for this.**

This opportunity is very clear to us. The company is very firmly structured, and we have been audited for the past four years by PWC, with clear reports. I know that our partners are crucial to this plan, and their choice was quite strategic. In addition to Carlyle, TV host and entepreneur Luciano Huck holds a 5% stake in our business. This is our team, and I know that we have dedicated people running our business, ensuring impressive results and asset quality.

**What are shareholder expectations for the Group earnings in 2019?**

In the course of the year, we plan to open 48 new Madero restaurants and tweak the Sanduicheria operations, in order to start expanding during the second six months of 2019, particularly through opportunities in malls. São Paulo is a strategic city, due to buying power, heavy traffic and taxes that are far lower than elsewhere. Avoiding home-bound traffic jams is a great incentive for happy hour get-togethers and higher consumption in malls, with São Paulo also being very close to our home state: Paraná. We keep a sharp

eye out for opportunities all over Brazil, but often run up against tax issues and limited understanding of local markets. For this latter aspect, Carlyle has been a great help. As the controlling shareholder of the Ri Happy toy stores and the Tok Stok furniture chain, it is very familiar with Brazilian malls, putting me in contact with other partners who have helped me and speeded up decisions.

Our targets for 2019 are to reach sales of BRL 1.1 billion, with an EBITDA of BRL 297 million ●

# LP Profile

**EDUARDO FARHAT**
Vice President - CDPQ

A long-term institutional investor headquartered in Canada, the Caisse Depôt et Placement du Québec (CDPQ) manages funds primarily for public and parapublic pension and insurance plans. With a global presence in more than 70 countries and some USD 230 billion under management, CDPQ has long been an active investor in Latin America, with Brazil a country of interest.

**Tell us about the CDPQ role in Brazil and transactions in the pipeline.**

CDPQ is a long-term and sustainable investor in liquid (stocks and bonds) and illiquid (infrastructure and real estate) assets all over the world. More than just a transaction pipeline, CDPQ seeks like--minded partners to invest in transactions that match its philosophy. Over the past few years in Brazil, we have invested in private equity and in real estate through our real estate arm, Ivanhoe Cambridge.

**Can you give us an overview of the types of deals you are looking for right now in Brazil? And what are your main asset selection criteria?**

We have made our first infrastructure investment in the Petrobras TAG gas transportation company, with the Engie power generation utility as a partner. In Brazil, we are looking at assorted opportunities in all sectors, seeking a solid foundation to deploy our capabilities. With a huge economy, this is clearly a country where we are happy to spend time and explore investment opportunities on a risk-adjusted basis.
In Latin America, we have set up two partnerships with local pension funds, one in Mexico and the other in Colombia, allowing us to combine local knowledge with our own expertise, for long-term investments. To us, it is really important to have local partners investing alongside us in the assets that we acquire.

**In general, you have a strong presence in sectors such as energy, consumer goods, health, IT and finance. In your opinion, what are the most attractive sectors in Brazil?**

Brazil has been a country of focus for CDPQ for the past few years, as it offers an array of opportunities. It is likely that

Brazil will provide the setting needed for sustainable growth and expanding opportunities in the infrastructure sector and consumer-driven industries. But it is up to the government to decide whether to privatize any sectors.

**Besides the infrastructure gaps, Brazil's new government intends to privatize certain assets in the infrastructure sector. How do you envision this situation, and what are the opportunities for global players?**

Brazil is a unique country with a well-established infrastructure base. We have recently seen fundamental upgrades in airports and in toll roads, with positive impacts on its economy and benefits for end users. Given the size of its economy, privatization in the power and energy, logistics and transportation, water and sewage sectors should draw particular attention.

**CDPQ has expertise in investing in greenfield infrastructure projects. Do you plan to make their type of investments in Brazil? Or do you prefer assets that are already in operation?**

We can invest in either greenfield or brownfield assets. The most important aspects are the quality of our local partners and a well-balanced risk x return equation.

**Considering your presence in more consolidated markets, what draws your attention to Brazil?**

Looking at its current context and future outlooks, Brazil requires large amounts of infrastructure investments, in parallel to sector consolidation, offering an interesting investment option for CDPQ.

**What do you rate as key factors distinguishing the private equity industry in Brazil?**

The Private Equity sector is well established in Brazil. With experienced managers and stable regulations, it has clearly caught the attention of several long-term investors ●

# PE firms active in Brazil

*Lista de membros Efetivos e Pré-Efetivos da ABVCAP.*

- 2b Capital
- A5 Capital Partners
- Actis Capital LLC
- Advent International
- Angra Infra Investimentos
- Angra Partners
- Aqua Capital Consultoria
- Axxon Group
- Banco Modal
- Bela Vista Investimentos
- BNP Paribas Asset Management
- Bratus Capital
- BRKB DTVM AS
- Brookfield Brasil Ltda
- BRPP Gestão de Produtos Estruturados
- BRZ Investimentos
- BTG Pactual
- Caixa Econômica Federal - CEF
- CASAFORTE Investimentos S.A.
- CDPQ Brasil
- Claritas Administração de Recursos
- Coller Capital
- Crescera Investimentos
- CRP Companhia de Participações
- CVC Advisers Latam Representação
- Darby Overseas Investments
- DEG Brasil - KFW Bankengruppe Representações
- DMI Investimentos
- Dynamo Venture Capital
- Eastman Chemical do Brasil Ltda.
- Endurance Capital Partners
- Gávea Investimentos
- GEF Brasil Investimentos
- General Atlantic
- Grupo Stratus
- GTIS Partners
- Hamilton Lane
- Hancock Asset Management Brasil
- H.I.G Capital
- Kinea Private Equity Investimentos
- Leblon Equities Gestão de Recursos
- Lexington Partners
- Lions Trust
- Macquarie Group
- Mantiq Investimentos
- Mubadala Consultoria Financeira
- Neo Investimentos
- O3 Capital
- Oria Capital
- Partners Group
- Pátria Investimentos
- Principia Capital Partners
- REAG Investimentos
- Rio Bravo Investimentos
- Riviera Investimentos
- Siguler Guff Gestora
- Southern Cross Group
- Spectra Investimentos
- StepStone do Brasil Consultoria
- Temasek Brasil Consultoria
- The Carlyle Group
- TMG Capital
- Valora Investimentos
- Vela Investimentos
- Victoria Capital Partners
- Vila Rica Capital
- Vinci Capital Gestora de Recursos
- Vision Brazil Investments
- Warburg Pincus

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