



INSIDE PE

2018

inBrazil
● Private Equity



Brazilian Private Equity &
Venture Capital Association

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 and also fomenting best practices that are aligned with international industry standards.



The Brazilian Trade and Investment Promotion Agency promotes Brazilian products and services abroad and attracts foreign investments to strategic sectors of the Brazilian economy. Apex-Brasil coordinates actions designed to attract foreign direct investment (FDI) to Brazil, striving to allocate resources in sectors of strategic relevance for endowing Brazil and its businesses with a keener competitive edge.



The Private Equity & Venture Capital inBrazil Program is a joint initiative between ABVCAP and Apex-Brasil with the goal of informing and connecting international investors with Brazilian fund managers and portfolio companies. The main goal of the program is to inform and empower the global investor community in respect to the Brazilian PEVC ecosystem and its many opportunities.



Feijó Lopes Advogados is a leading Brazilian law firm with solid expertise in private equity and venture capital, actively representing Brazilian and foreign corporate, angel, PE and VC investors engaged in setting up funds and structuring investments in all sectors, including technology, healthcare, agriculture and finance. The firm operates worldwide and have counseled clients in corporate, financial and commercial transactions worth more than USD 10 billion.

AN OVERVIEW

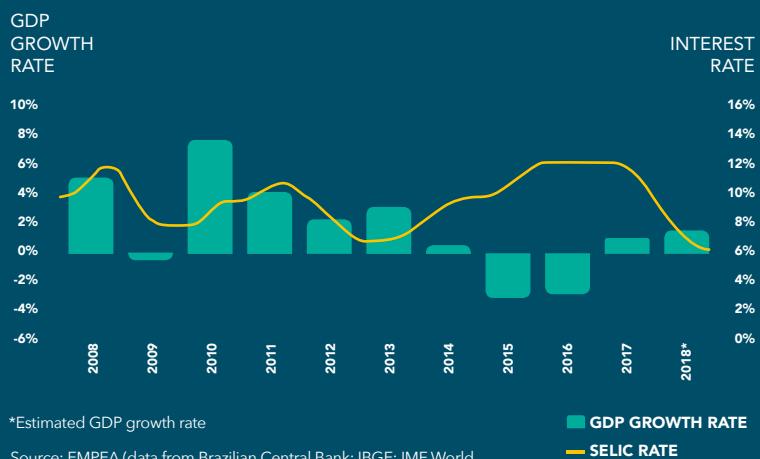
This publication offers a general overview of the private equity industry in Brazil. Through data, analyses and interviews with major Brazilian industry leaders, it outlines the main trends for the sector, together with the outlooks for the next few years.

The Brazilian private equity and venture capital industry is currently thriving, having matured during the past few decades. A growing number of managers, who have proved themselves in previous funds and secured an impressive track-record, are going to their fourth, fifth and so on funds attracting the interest of even more international investors. The capital available to be deployed both from local and international sources will be channeled to several of Brazil's attractive sectors. This publication focuses on one of these promising segments: healthcare.

In 2017, there was an upturn in the Brazilian economy compared to the previous twelve months, reflected in rising market confidence in Brazilian companies. At the begining of the year, Brazil's 99 Taxi ride-sharing app was acquired by China's DiDi mobility behemoth. This transaction endowed the Brazilian company with unicorn status (businesses assessed at more than USD 1 billion). Furthermore, Pagseguro, an online purchase payment system,

was listed on the New York Stock Exchange, raising USD 2.3 billion. In this upbeat context, seventeen¹ companies sought equity through the market and found good opportunities, resulting in nine Initial Public Offerings - the highest number of IPOs on the Brazilian market since 2009. Despite all the uncertainties of an election year, 2018 got off to a promising start and remained solid throughout its first semester.

KEY MACROECONOMIC INDICATORS FOR BRAZIL 2008 - 2018

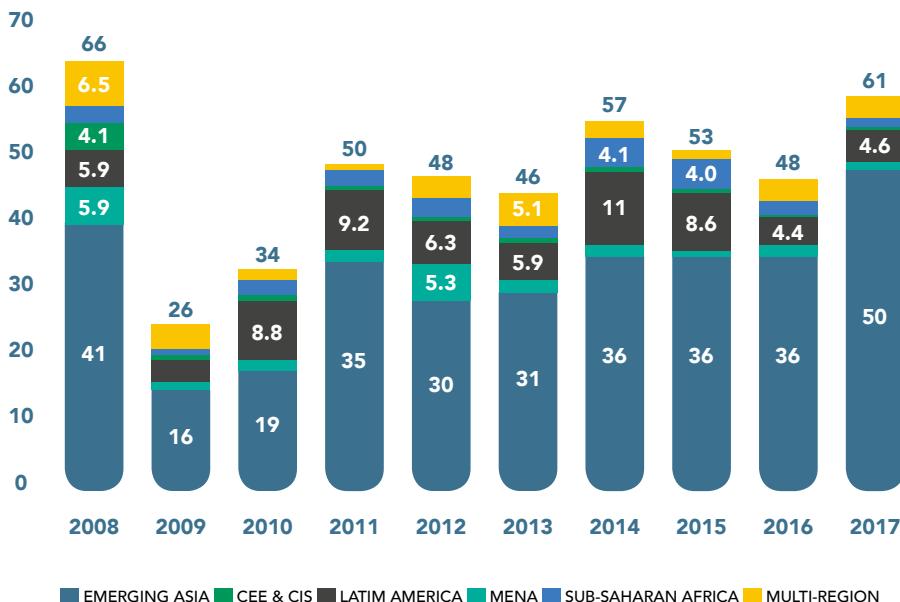


¹ ANBIMA, B3 - Brasil Bolsa Balcão and Infomoney

NUMBERS

According to data released by the Emerging Markets Private Equity Association (EMPEA), funding uptakes during 2017 in the private equity, private credit & private infrastructure and real asset categories brought in the largest amount of funding since 2008: USD 61 billion on global markets, up 27% over the figures for 2016.

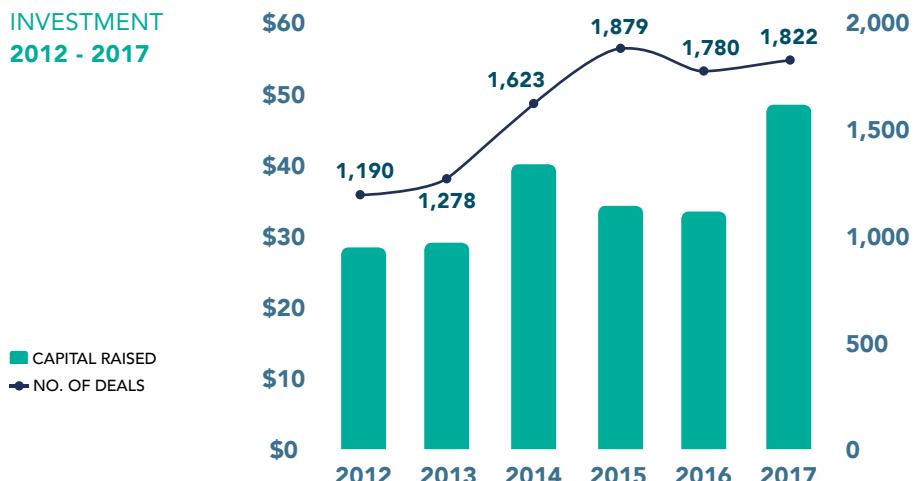
EMERGING MARKETS FUNDRAISING BY REGION
2008-2017 (USD BILLION)



Source: EMPEA data as of 31 December 2017, including private equity, private credit and private infrastructure and real assets

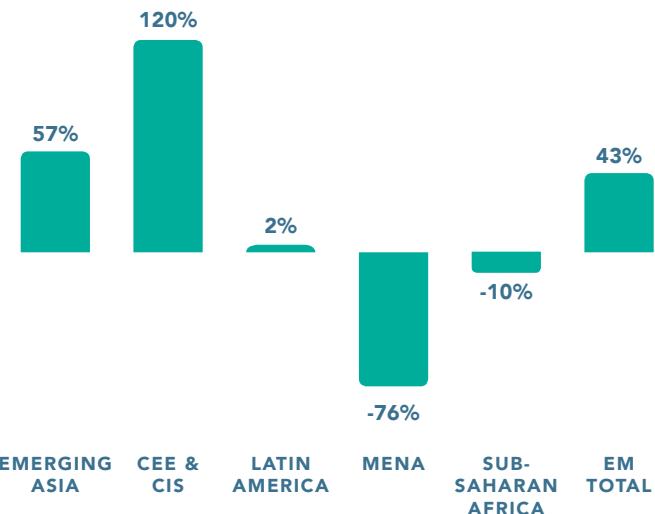
In terms of investments during the period, there was a record number of 1,822 transactions on emerging markets. Deals completed in Latin America rose by 2% over 2016 figures.

EMERGING MARKETS (INCLUDING LATAM)



INVESTMENT BY REGION 2016 - 2017

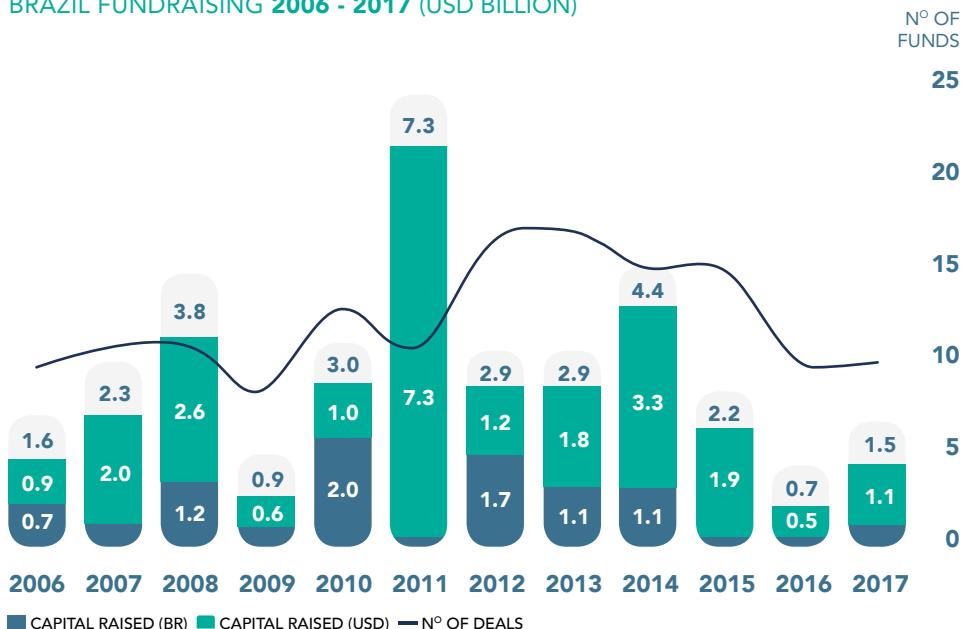
PERCENT CHANGE



Source: EMPEA data as of 31 December 2017

Amounts raised and invested in Brazil as private equity and venture capital posted significant growth in 2017 compared to the previous year, confirming the economic recovery noted during this period.

BRAZIL FUNDRAISING 2006 - 2017 (USD BILLION)



It is appropriate to stress the importance of foreign capital on the Brazilian market, which increased considerably during 2017, compared to the previous year.

BRAZIL INVESTMENT 2008 - 2017 (USD BILLION)



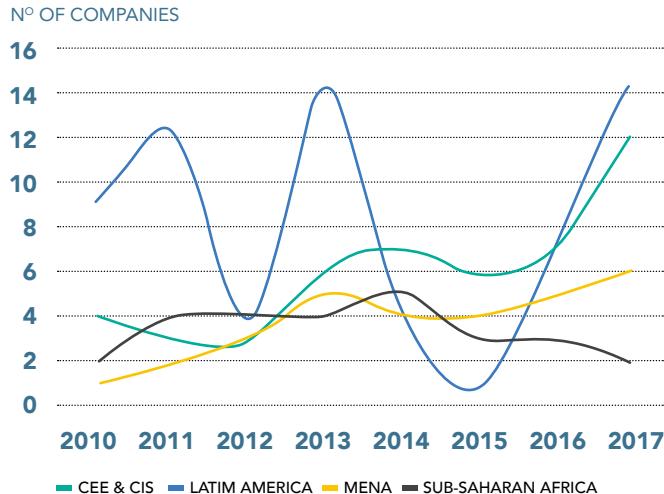
Source: EMPEA data as of 31 December 2017, including private equity, private credit and private infrastructure and real assets

The year's highlights included a significant number of IPOs and follow-ons during the period, especially in Latin America.

EXITS

MARKET EXITS REVIVAL OF 2017

PUBLIC MARKET
EXITS — SELECT
REGIONS
2010 - 2017



Note: Includes all IPOs, listings without formal offer of shares, back-door listings and follow-on sales. 'Emerging Asia' includes underlying country totals.

Source: EMPEA data as of 31 December 2017

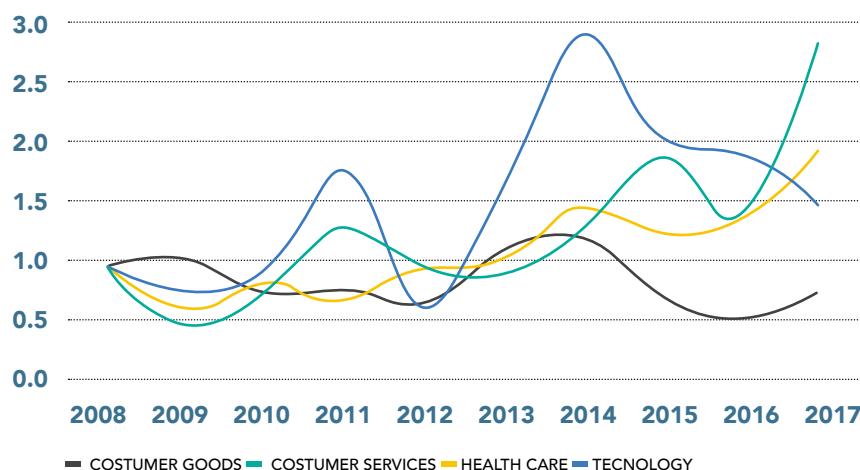
SAMPLE OF BRAZILIAN MARKET EXITS 2017

COMPANY	TRANSACTION	AMOUNT RAISED (BRL MILLION)	SECTOR	PRIVATE EQUITY FIRM
Grupo Fleury	Follow-on	1.300	Laboratories	Advent Internacional
Burguer King	IPO	1.300	Foods	Vinci Partners; Temasek; Sommerville Investments
Hermes Pardini	IPO	878	Laboratories	Gávea Investimentos
Camil	IPO	818	Foods	Warburg Pincus
Omega Geração	IPO	250	Energy	Warburg Pincus
Azul	IPO	Undisclosed	Airline	TPG Capital
Biotoscana	IPO	Undisclosed	Medications	Advent Internacional
Carrefour BR	IPO	Undisclosed	Foods	Península Investimentos

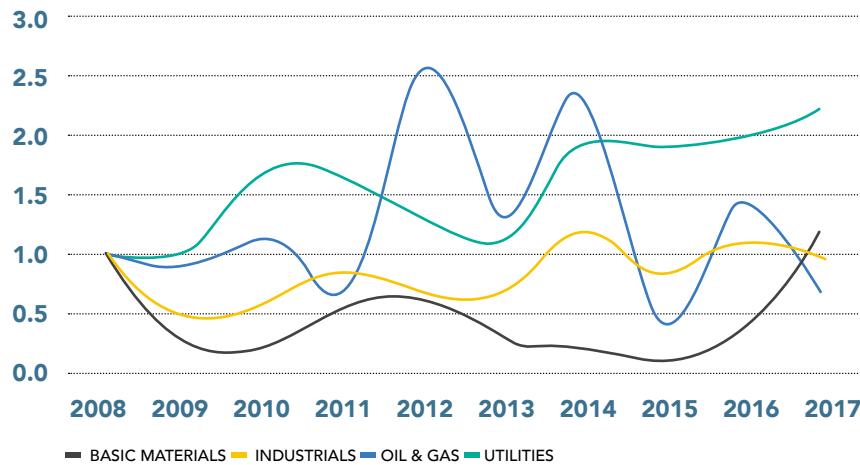
Particularly outstanding among sectors with higher concentrations of transactions in 2017 on emerging markets were consumer services and healthcare.

EMERGING MARKETS INVESTMENT 2008 - 2017 (INDEXED TO 2008)

COSTUMER-FACING



PRIMARY GOODS AND INDUSTRIALS



SAMPLE OF PRIVATE EQUITY TRANSACTIONS IN BRAZIL 2017

GP/LP	DEAL TYPE	DEAL SIZE (MILLION)	TARGET NAME	TARGET INDUSTRY
General Atlantic; Dynamo	Divestment	BRL 5,700	XP Investimentos	Financial Services
Cambuhy Investimentos	Investment	BRL 3,500	Alpargatas	Retail
Advent International	Divestment	BRL 1,610	TCP	Logistics
Vinci Partners; Temasek; Sommerville Investments	Divestment	BRL 1,300	BK Brasil (Burguer King Brasil)	Foods & Beverages
Advent International	Divestment	BRL 1,300	Fleury	Healthcare
Warburg Pincus	Divestment	BRL 818	Camil	Foods & Beverages
Gávea Investimentos	Divestment	BRL 691.6	Hermes Pardini	Healthcare
Advent International	Investment	BRL 550	quantiQ	Oil & Gas
Tarpon Investimentos	Divestment	BRL 499	Cremer	Healthcare
TPG Capital	Investment	BRL 482	Abengoa	Energy
Victoria Capital Partners	Investment	BRL 400	Cellera Farma	Healthcare
Gávea Investimentos; Vinci Partners; Kinea Investimentos	Divestment	BRL 398.6	Unidas	Services
Grupo 3i; Siguler Guff	Divestment	BRL 360	Óticas Carol	Retail
Cartesian Capital Group	Investment	BRL 340	Aloo Telecom	Telecommunications
Warburg Pincus	Investment	BRL 300	Eleva	Education
Warburg Pincus	Divestment	BRL 250	Omega Geração	Energy
Advent International	Investment	BRL 200	Easy Invest	Financial Services
Softbank	Investment	USD 100	99	Mobility
Carlyle	Investment	BRL 100	FS	IT
General Atlantic	Investment	BRL 90	SAS	Education

GP/LP	DEAL TYPE	DEAL SIZE (MILLION)	TARGET NAME	TARGET INDUSTRY
2bCapital; Siguler Guff	Investment	BRL 90	Ouro Lac	Foods & Beverages
Temasek	Investment	USD 30	Neoway	IT
Valor Capital Group	Investment	BRL 14	Revelo	Services
TreeCorp Investimentos	Investment	Undisclosed	Ô Insurance	Insurance
Blackstone	Investment	Undisclosed	Windsor Atlantica Hotel	Hotels
Bozano Investimentos; Abaporu	Investment	Undisclosed	Hospital Vera Cruz	Healthcare
GIC	Investment	Undisclosed	Cruzeiro do Sul	Education
Gávea Investimentos	Investment	Undisclosed	Nature One	Foods & Beverages
Vinci Partners	Divestment	Undisclosed	BK Brasil (Burguer King Brasil)	Foods & Beverages
Gávea Investimentos	Investment	Undisclosed	Grupo Predial de Serviços	Services
Aqua Capital	Investment	Undisclosed	Agro100	Agribusiness
Pátria Investimentos; Blackstone	Investment	Undisclosed	Med Imagem	Healthcare
Blackstone	Investment	Undisclosed	Ascenty	IT
Diamond Mountain Investimentos	Investment	Undisclosed	CTG (Companhia de Transporte de Gás)	Energy
2bCapital	Investment	Undisclosed	WDC Networks	IT
Aqua Capital	Investment	Undisclosed	Casa da Vaca	Agribusiness
Pátria Investimentos	Investment	Undisclosed	Independente	Pharmaceuticals
TPG Capital	Divestment	Undisclosed	Azul Linhas Aéreas	Aviation
Neo Capital Investimento	Investment	Undisclosed	Verzani & Sandrini	IT

GP/LP	DEAL TYPE	DEAL SIZE (MILLION)	TARGET NAME	TARGET INDUSTRY
Advent International	Investment	Undisclosed	Estácio Participações	Education
G5 Evercore	Investment	Undisclosed	MC1	Mobility
Brasil Plural	Investment	Undisclosed	Celer Energia	Energy
Península Investimentos	Divestment	Undisclosed	Carrefour	Retail
Stratus Investimentos	Investment	Undisclosed	BBM Logistica	Logistics
Gávea Investimentos	Investment	Undisclosed	Grupo RPS	Services
Advent International	Divestment	Undisclosed	Biotoscana	Pharmaceuticals
TPG Capital	Investment	Undisclosed	Solinftec	Agribusiness
Arlon Group	Investment	Undisclosed	CBL Foods	Foods & Beverages
Advent International	Investment	Undisclosed	Fortbras	Autospares
Temasek	Investment	Undisclosed	Clínica SIM	Healthcare
Pátria Investimentos	Investment	Undisclosed	Majela	Pharmaceuticals
One Equity Partners	Investment	Undisclosed	Onelink	IT
General Atlantic; Valor Capital Group	Investment	Undisclosed	GymPass	Services
GP Investimentos	Divestment	Undisclosed	BHG	Hotel Services
Partners Group	Investment	Undisclosed	Hortifrutti	Retail
Bozano Investimentos; Abaporu	Investment	Undisclosed	Hospital São Lucas	Healthcare
Advent International	Divestment	Undisclosed	IMC (Frango Assado e Viena)	Foods & Beverages
Carlyle	Divestment	Undisclosed	Urbplan	Real Estate
Arlon Group	Investment	Undisclosed	Ok Superatacado	Retail

Source: ABVCAP research based on public transactions

SECTOR FOCUS HEALTHCARE

In 2017, the healthcare sector was paramount in attracting investments worldwide. According to data released by EMPEA, the number of healthcare investments was the highest since 2008 in emerging markets.

Brazil played a major role in these figures. In 2017 there were seven investments and four divestments in healthcare. Considering public figures, transactions raised alone more than BRL 2.9 billion and of these, three companies raised more than USD 0.6 billion (BRL 2.0 billion) on the Brazilian Stock Exchange in the following segments: laboratory analyses (Fleury Group and Hermes Pardini) and pharmaceuticals (Biotoscana).

SAMPLE OF HEALTHCARE DEALS IN BRAZIL 2017

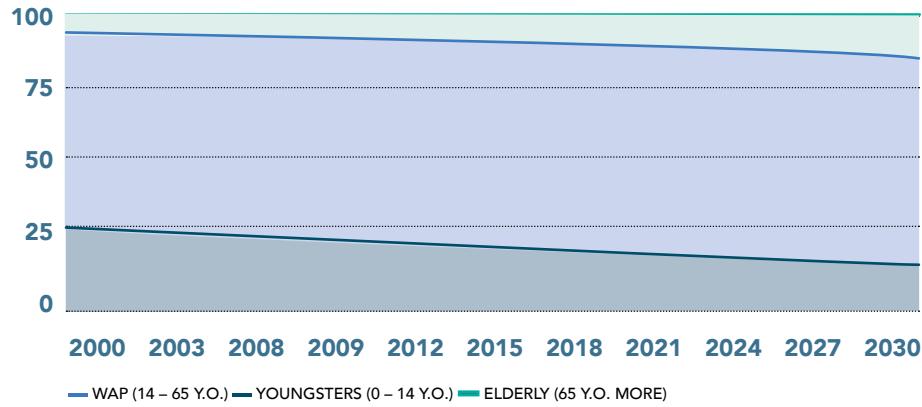
GP/LP	DEAL TYPE	DEAL SIZE (BRL MILLION)	TARGET NAME	TARGET INDUSTRY
Advent International	Divestment - Follow On	1,300	Fleury	Healthcare
Gávea Investimentos	Divestment - IPO	692	Hermes Pardini	Healthcare
Tarpon Investimentos	Divestment	499	Cremer	Healthcare
Victoria Capital Partners	Investment	400	Cellera Farma	Healthcare
Temasek	Investment	Undisclosed	Clínica SIM	Healthcare
Pátria Investimentos	Investment	Undisclosed	Majela	Pharmaceuticals
Bozano Investimentos; Abaporu	Investment	Undisclosed	Hospital São Lucas	Healthcare
Advent International	Divestment - IPO	Undisclosed	Biotoscana	Pharmaceuticals
Pátria Investimentos; Blackstone	Investment	Undisclosed	Med Imagem	Healthcare
Pátria Investimentos	Investment	Undisclosed	Independente	Pharmaceuticals
Bozano Investimentos; Abaporu	Investment	Undisclosed	Hospital Vera Cruz	Healthcare

Source: ABVCAP research based on public transactions

There is a worldwide trend for growth in the sector. Brazil, which is among the world's ten largest² in terms of population size, remains an attractive hub for healthcare investments with the aging of its population and its higher risk for chronic diseases.

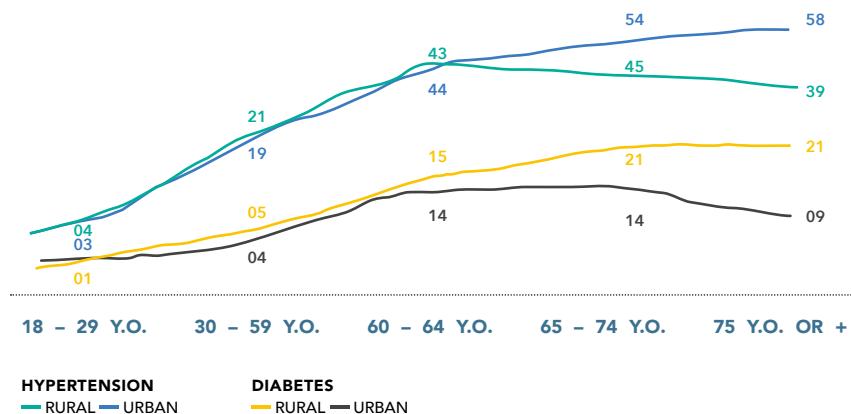
PROJECTED CHANGES IN BRAZIL'S DEMOGRAPHIC PROFILE 2013

AGE GROUP EVOLUTION 2000 - 2030



Source: IBGE

% POPULATION DIAGNOSED WITH DIABETES AND HYPERTENSION 2013



Source: IBGE

2 UN Data

According to data released by the Brazilian Institute for Geography and Statistics (IBGE), the Brazilian population will top 223 million by 2030, of whom some 13% will be elderly (over 65 years old), rising to 19% for the over-sixties. The estimated proportion of elderly people in the entire population for 2017 was 8%.

Brazil's hybrid healthcare system blends a government-run health system with private medical aid plans. In 2015, the equivalent of USD 156 billion (BRL 546 billion) were spent on healthcare goods and services, equivalent to 9.1% of the nation's GDP, with government spending accounting for only 3.9% of this amount, according to the IBGE.

As shown on the next page, total outlays on healthcare as a percentage of its GDP are just as high in Brazil as in the OECD³ nations and its regional economic peers; however, public spending is among the lowest (together with the BRICs), with private expenditures among the world's highest.

Regulatory issues have not been a barrier for this sector since 2013, when the National Private Health Insurance Regulator (ANS) gained greater autonomy for regulating healthcare services, particularly in the private sector, covered largely by medical aid plans.

Today, 47 million Brazilians (around 23% of the total population)⁴ access the private system through medical aid plans. However, a recent upsurge in unemployment has curtailed the number of beneficiaries, as most of these plans are collective, taken out by employers. Furthermore, this model also does not issue refunds for medications, leaving this market dependent on per capita income increases.

Another major change from 2015 onwards was broader authorization for foreign capital in this sector. Previously, stakes were limited to medical aid plans, insurers and pharmaceutical companies, activities outside the direct scope of Brazil's Unified National Health System (SUS). Since then, access is permitted for foreign capital and also direct healthcare providers, making this market more competitive.

³ Organization for Economic Co-operation and Development, whose 35 members encompass much of Europe and all of Oceania, as well as Canada, Mexico, Chile and the USA

⁴ Data released by the Supplementary Healthcare Studies Institute (IESS) and the Brazilian Institute for Geography and Statistics (IBGE), December 2017

SELECTED INDICATORS 2013

BRAZIL — STRUCTURAL PEERS — BRICS — REGIONAL PEERS — REGIONAL PEERS

TOTAL OUTLAYS ON
HEALTHCARE (% GDP)

9,7

6,7

6,9

6,7

9,5

GOVERNMENT SPENDING
ON HEALTHCARE (%
TOTAL OUTLAYS)

48,2

56,8

46,5

60,3

71,8

PRIVATE SPENDING
ON HEALTHCARE
(% TOTAL OUTLAYS)

51,8

43,2

53,5

39,7

28,0

SPENDING ON
SUPPLEMENTARY
MEDICAL AID
PLANS (% PRIVATE
OUTLAYS)

40,4

35,0

27,6

25,4

23,4

DIRECT PAYMENTS
AS % TOTAL PRIVATE
SPENDING

57,8

60,4

65,3

72,0

68,7

- IBGE (2013) estimates total spending at 8% Brazil's GDP: 3.6% public and 4.4% private
- Tax outlays not included: 0.49% GDP 2013

Source: World Bank, 2016

According to data released by the World Bank, in the government sector - medium and high complexity primary care accounts for 67% of total outlays - inefficiencies reach almost USD 6.3 billion (BRL 22 billion) in order to maintain the same level of outcomes. If today's surging spending patterns continue, enhanced efficiency could result in gains of up to USD 32.28 billion (BRL 115 billion) by 2030.

For investors this scenario presents solid opportunities. "(In Brazil) there are plenty of assets available for consolidation; and without going into detail, we have also found ample headroom for management upgrades, precisely because these are relatively small businesses," said Brenno Raiko, Director at Advent Brasil. Advent, a regional fund manager active in Brazil for more than two decades has made important bets in healthcare. More recently they have exited Fleury, a diagnostic medicine service.

"We invested in Fleury as Brazil's economic meltdown was bottoming out in 2015, believing in the resilience of this sector. We achieved a great structure with the partnership: Advent focused on managing and implementing good practices, along with the group of physicians who set up this business, focused tightly on service quality management and technical aspects and Bradesco Saúde, a strategic player with ample expertise in this sector," he said. Before Advent the group was opening two to three units a year, and by the time they left this figure had risen to somewhere between thirty and forty units a year. "This growth was basically organic. In 2015, the ROI was 19% p.a., topping 40% at the time of divestment. We spent just over two years being part of the company - the shortest period on a company's management of the entire twenty years of our operations in Brazil - and then the opportunity arose to get out through the market. We initially considered forming a block (the three majority partners), keeping a third of our stake, but demands for the asset were so keen that we ended up by selling 100% of our shares," he added.

On Brazil's main challenges in the sector, Raiko pinpointed two major hurdles: "1. There are still only a few players with significant scale, and hardly any are effectively structured and evenly balanced, with professional staff, among other aspects. This gives rise to many challenges, and also opportunities, especially for initial investments: there are many possibilities for setting up platforms from scratch. 2. Inflation for Brazil's medical sector is far higher than the official inflation rate, which might lead to discussions of sustainability over the medium term, seeking solutions to this issue. A global challenge, this tends to open up attractive chances for new businesses," he concluded.

GP PROFILE



MARIO MALTA / MANAGING DIRECTOR / ADVENT INTERNATIONAL

One of the world's largest private equity firms, with offices in 12 countries, Advent International manages USD 42 billion in assets and has raised USD 6 billion dedicated for investment in Latin America. Advent has been operating in Brazil for more than 20 years and has invested in over 20 companies in the country, including recent investments in the education, healthcare and financial services sectors.

Give us an overview of Advent's operations in Brazil.

Founded in Boston, USA in 1984, Advent has been active in Latin America since 1996, starting its operations in Brazil the following year. We manage two main families of funds: The Global Private Equity (GPE) program, which invests primarily in the USA, Europe and Asia, and the Latin American Private Equity Fund (LAPEF) program. The GPE program is currently in its eighth fund with USD 13 billion in committed capital in the current fund; the sixth fund of the LAPEF program has USD 2.1 billion in capital, with teams working out of offices in Brazil, Peru, Mexico and Colombia.

Advent has a sector-oriented approach, specializing in five core sectors: Business & Financial Services; Healthcare; Industrial; Retail, Consumer & Leisure; and Technology, Media & Telecom.

What kind of investments are you looking for right now, and what is the average ticket? What governance structure are you implementing in your target companies?

Our ideal equity ticket is USD 100 million to USD 250 million for each company, with a goal of investing in ten to twelve companies per fund. We have teams dedicated to each of our five core sectors, ensuring that we find attractive opportunities in these areas across Brazil and Latin America more broadly.

We employ a multi-pronged approach to finding and building value in companies. We have a micro approach to sub-sectors, identifying and investing in high-growth companies with substantial value creation opportunities. We work closely with management teams and operating partners, who are specialists in these sectors, often former CEOs or owners with ample

experience in their fields. We also engage operations advisors, who specialize in functional areas such as human resources, finance, IT and sales, to advise Advent and our portfolio companies. This allows us to combine sector-specific know-how with proficiency in crucial functions, all underpinned by the global perspective Advent has gained from our teams sharing their experiences with prior successful investments around the world.

In terms of governance, we are a hands-on investor. We strive to play an active role by sitting on the boards of our portfolio companies and advising management teams on strategy and operations. We also provide management with significant resources, including our own Portfolio Support Group and third-party advisors with sector and functional expertise, to help them implement critical value creation initiatives.

Among the sectors where Advent is focusing its investments in Brazil, which of them do you feel are the most promising? And why?

We have a micro approach to identifying high-growth but resilient sub-sectors that can withstand negative macro-scenarios. We were able to navigate the downturn in Brazil by focusing on recession-resistant sectors such as education, healthcare and tourism. We are also keeping a close watch on the fintech sector and have made an investment in this area in Brazil during the past year. We believe this sector has attractive fundamentals and are seeing many fintech start-ups beginning to grow to the point where they could be candidates for investment in the years ahead.

Last year, the number of companies raising funds on the Stock Exchange was the highest since 2009, including one company, Biotoscana, in your portfolio. What is your view of the public market as an exit route for private equity firms? Do you believe this is a viable alternative for other companies?

Brazil's equity capital market is volatile, with a limited number of windows, such as those that opened last year, offering favorable conditions for initial and secondary public offerings. Six of our portfolio companies have completed IPOs in Brazil, and we believe in the capital market, but this is not our primary exit route. When we invest in companies, we already have an exit plan in mind and typically position businesses for sale to strategic or financial buyers.

In view of the global position of Advent, how do you assess the private equity industry in Brazil, within the context of Latin America?

Latin America is very diverse, with countries that are quite different, experiencing widely-varying economic and political cycles. The fact that we operate in several countries allows us to choose the best times to invest in each country. We do not designate a fixed percentage of our funds to any particular country but instead dynamically allocate capital to the most attractive investment opportunities wherever they occur. We believe this dynamic allocation of capital is critical to the success of the program, as it allows us to shift our focus from a country or sector that

is becoming overheated to other areas where investment conditions are more favorable. For example, the Brazilian economy was thriving up until 2013, with high evaluations for companies. So at that time we invested significantly in Mexico and Colombia, where we were able to find the most attractive investment opportunities. Since 2014 we have been investing heavily in Brazil again.

This year, there are presidential elections in the three main countries where we operate in Latin America: Brazil, Mexico and Colombia, creating some short-term uncertainties.

Having operated in Brazil for more than twenty years, how do you see the local market and what aspects would you recommend for consideration by a foreign investor thinking about allocating funds to Brazil?

As the Brazilian market requires very specific local knowledge, the penetration of private equity firms in this country is lower than in other developing markets, resulting in less competition for deals. Howev-

er, transactions are more “due diligence intensive” and thus require more time for completion, offering an advantage to players who are firmly established in the country and are more familiar with the specific characteristics of the market.

In your opinion, what are the main opportunities for the private equity industry in Brazil over the next few years?

Brazil offers great opportunities in many sectors, and its macroeconomic situation will improve compared to the past few years. It is a large market with an expanding middle class. Valuations for companies remain reasonable, many businesses are in need of capital, and there are prospects for strong players with financial backing to consolidate their markets by acquiring other businesses in their sectors. The winning strategy is to invest in sub-sectors resilient enough to ride out economic downswings, with substantial value creation opportunities, identifying the right businesses and above all partnering with the best management teams. ■

COMPANY PROFILE



OMILTON VISCONDE JR. / CEO / CELLERA FARMA

A Brazilian business focused on the pharmaceutical market, Cellera Farma is the outcome of the acquisition of Delta Farmacêutica and MIP Brasil Farma by Victoria Capital Partners in 2017, today producing an important line of generic products.

Tell us a little about the restructuring process that resulted in Cellera Farma and its operations in Brazil.

Cellera Farma is rooted in the acquisition of Delta Farmacêutica, which was among the assets of Valeant Pharmaceuticals International. We took over a generic medications business with more than sixty stock-keeping units (SKUs) and some over-the-counter products. Two divisions were established - Cellera OTC and Cellera Prescription - that are aligned with our long-term vision for operating on this market.

In the prescription medications field, we selectively seek acquisitions of well-established brands and spur a return to growth for some OTC products in the portfolio; we intend to revive several once-renowned brands that have been 'forgotten' in the portfolio, in parallel to developing new products in-house.

As part of this strategy, having incorporated Cellera, we purchased MIP Brasil Farma, a company specializing in the OTC segment, thus acquiring the Brazilian sales rights for the world's top-selling probiotic.

Our activities always include searching for new products and businesses. In this field, we have major partnerships set up with local firms and more than thirty projects focused on new products that are under analysis with international corporations; we are working towards implementing a fast and tightly-focused business platform for the entire pharmaceutical sector.

What is your relationship like, with the private equity fund?

I know the Principia (firm founded by former partners of Victoria Capital) team from way back, and we have always wanted to work together. The opportunity arose and we seized it, after a fast and

straightforward discussion grounded on trust, confidence and the potential of the deal. As a partner and CEO, I can say that we work closely together, firmly convinced that Cellera will generate great value for the company and its investors.

What are the influences on the operations and strategy of the company, targeted for investment by a fund?

Ethics, integrity and compliance; pursuing a long-term approach with top-grade people endowed with focus and agility while remaining humble enough to learn; and finally, profitability – these are the most important aspects where the fund and the team are most determined to succeed.

Tell us a little about your growth strategy. Today, are you focused on the pharmaceutical industry, or is there any other segment of interest where Cellera might penetrate or is already operating? What do you consider the most promising, and why?

We are focused on the pharmaceutical industry, with three main divisions: generics, prescription drugs and OTC products. This is an extremely competitive market that is very tightly regulated. Navigating through this segment is not easy but it can be done, provided that we develop different ways of offering products and services, while ensuring that we understand all the variables underpinning the success of the business.

Selective product acquisitions are important, together with a ceaseless quest for new businesses and promising

opportunities, underpinned by heavy investments in digital marketing reaching out to physicians and consumers.

Building up solid relationships with the distribution and retail segments in this sector remains an ongoing challenge that ranks high among our priorities.

Regarding your vision of Brazil's healthcare and pharmaceutical markets: what are the main opportunities and hurdles that players encounter on the Brazilian market?

This is a complex issue. Our market is a hybrid where the public and private sectors operate in tandem. There are stumbling-blocks in the government healthcare sector that lie in the public domain; however, the government purchases cutting-edge medications and runs programs subsidizing access to medications for lower-income consumers.

However, despite government input, 80% of the pharmaceutical market is underpinned by purchases paid by patients and consumers; indeed, this is uncommon, as this is a market that is dependent on individual incomes. Furthermore, competition is extremely keen: penetrating sales channels is today a massive challenge, as they are tightly concentrated with significantly enhanced purchasing power.

The regulatory model for this sector is aligned with global authorization procedures and standards systems. However, compliance with Brazil's sophisticated regulations is difficult, which is actually a good

thing. The weakest point lies in its oversight and enforcement capabilities, resulting in significant asymmetries for this segment.

It is important to recall that there are no reimbursements for medications in the private healthcare segment, which is also unusual. This means that we have access to hospitals and diagnoses, but medications are not included, which differs from the US model. The private healthcare segment covers only medications in hospital, which leads to a recurrent problem of poor prevention and heavy outlays during acute phases.

Indeed, the absence of coverage for medications treating chronic conditions actually increases the long-term costs of the system, as non-compliance with treatment steps up hospitalization risks, widening gaps between the Brazilian system and leading pharmaco-economic models.

Opportunities derive from economic growth and higher incomes, in parallel to structuring smarter and longer-lasting pharmaceutical aid models.

In terms of earnings, what was 2017 like for you? What about 2018? Tell us about your results so far and the outlook for the rest of the year.

After we took over the company in May 2017, our main job has been to reinvent the business from the standpoint of a new vision. Hiring a completely new team and implementing strategic plan-

ning aligned with our expectations are crucial steps for the new Cellera. This has been a time of discoveries and plenty of hard work. Nevertheless, sales grew by 20% and we posted several other gains through stronger, more inspired and dedicated management.

The current year - 2018 - got off to a good start, and will in fact to be our first full year in operation: plant upgrades completed; moving full steam ahead with Enterprise Resource Planning (ERP); management tools implemented at all levels; product launches; setting up a solid sales and advertising structure; and strategic planning under way, among many other steps. This set of synergized actions will ensure that we respond effectively to our main challenge for 2018: doubling our operations. This will also form the baseline for our five-year plan that has already been drawn up. Plenty of hard work and eagerness! ■

KEY ASPECTS FOR FOREIGN INVESTORS IN BRAZILIAN PE TRANSACTIONS



LÚCIO FEIJÓ LOPEZ / FEIJÓ LOPEZ ADVOGADOS

Brazil saw an upsurge of 300% in private equity and venture capital transactions in 2017. Much of this was due to the depreciation of the Brazilian Real, resulting in attractive asset prices and international firms eager to expand their businesses locally. The list below aims to share some sensitive aspects that should be taken into consideration by investors when preparing for potential PEVC transactions in Brazil.

Understand Local Culture.

Brazil is a large country, divided into 26 States. Each state has its own particular culture and way of doing business. As example, the initial contacts and approaches to negotiations with a potential target in São Paulo will certainly differ from a possibility located farther south in Porto Alegre, or northwards in Fortaleza. People in São Paulo tend to be receptive to cold calls and offers, and are generally familiar with international PE negotiation standards and process (as they live in Brazil's main business hub). However, business owners in other parts of Brazil are more likely to distrust initial contacts by unknown foreigners, leading to longer negotiation processes. Similar cultural variances apply to states elsewhere

in Brazil, including Minas Gerais, Rio de Janeiro, Paraná, Santa Catarina, Mato Grosso, etc. Thus, understanding the regional approach and business culture surrounding a target may well define the success of initial investor contacts.

Have a Portuguese Speaker on your Team.

Most small to medium-sized Brazilian companies do not have controlling shareholders, senior officers or employees who are proficient enough in English to handle initial contacts, provide basic target information or negotiate PE transactions with foreign investors. However, larger companies will often have fluent English speakers on their staff. In our experience, a relevant percentage of potential PE transactions are turned down

or do not move forward simply because investors and sellers cannot communicate effectively in a common language. If a target company does not have

English-speaking capabilities, foreigners should consider retaining advisors fluent in Portuguese to assist them throughout the deal process. This will certainly make the other party more comfortable throughout the negotiations, with full understanding of the terms and conditions of the PE transaction.

Sign Preliminary Contracts.

Two preliminary contracts are key in Brazilian PE transactions: a Confidentiality Agreement ("CA") and a Letter of Intent ("LoI"), or else a Memorandum of Understanding (MoU) and a Term Sheet. As widely known by international PE firms, the CA is designed, among other aspects, to protect: (i) the target company and its shareholders, for any confidential information shared with a potential buyer; and (ii) the buyer, avoiding any target company disclosure of its intention to make an offer, particularly if one of them is publicly held. Typically signed after the CA, the LoI effectively shows each of the parties involved that they are both serious about the deal. The purpose of the LoI is to (i) provide a road map and timeline for the transaction; (ii) specify what the buyer is willing to acquire (total, majority or minority equity); (iii) establish the price range, valuation method and form of payment; (iv) give the buyer the right to access the target company information; (v) establish binding or non-binding obligations (e.g. seller dealing exclusively with the buyer, allocation

of expenses and break-up fees); and (vi) identify the definitive documents to be signed as condition for closing the deal.

Draw up Risk Assessments

Experienced and sophisticated buyers tend to save time in PE transactions by preparing detailed assessment of the risks involved with the target company, prior to entering into negotiations. How do they do this? Through examining strategic information that is publicly available. Although public data on privately held companies in Brazil is not substantial, there are important public records accessible to foreign investors and the available information may be crucial for risk assessment purposes. For example, a buyer can save time if it discovers that a target company has material deal-breaker tax and labor liabilities, identified before the due diligence phase. From a legal standpoint, foreign investors should consider searching through court records and the registries of other government entities for material tax, labor, environmental, commercial, financial, criminal and insolvency liabilities and claims involving the target company, its subsidiaries and shareholders.

Add Anti-Corruption/Compliance Steps to your Due Diligence Process.

Due diligence is part of the basic to-do list for any PE transaction. From the legal standpoint, no PE deal should be closed without the buyer completing detailed due diligence and verification of the target company's information, documents, contracts, environmental matters, intellectual

property, commercial aspects, records, charters, licenses, filings and others. Furthermore, foreign investors should consider adding another relevant area to be checked: the anti-corruption/compliance practices of the target and its shareholders. Brazilian legislators have passed new laws and regulations to: (i) prevent bribery and corruption practices in the relationship between private companies and government; and (ii) encourage companies to implement compliance practices. Although local targets could take anti-corruption/compliance due diligence steps personally and might be offended by them, recent developments in the local business community and the new set of Brazilian laws in effect clearly demonstrate that this is merely normal due diligence and not any specific steps prompted by the target company or its shareholders.

Think Carefully about the Form of Transaction.

Whether an asset purchase or an equity acquisition, the form of a PE transaction will impact the acquirer's legal rights and liabilities, level of control, extent of involvement and taxes. The legal structure underpinning Brazil's business segment is complex, due to countless codes, laws and regulations at the Federal, State and Municipal levels that potentially generate conflicts of legislation and interpretation, as well as how they apply to business. This means that foreign investors must carefully study the form they select for a PE transaction, steered by these impacts. For example, in asset purchase, depending on: (i) the characteristics of

the specific asset, (ii) its status on acquisition (Court-supervised restructuring, bankruptcy or in the normal course of business); and (iii) how the transaction is formalized; its tax and labor treatment/implications will differ. This means that planning the form of transaction is paramount for its success in Brazil.

Consider the Tax Impacts.

It is well-known that Brazil's taxation system is complex, which also applies to PE transactions. Factors such as: (i) jurisdiction of the investor's vehicle; (ii) existence of double-taxation treaties; (iii) the legal format of how the investment is allocated, through convertible debt, asset or equity purchase; and (iv) how and when it is exited, will define the tax implications in Brazil, with direct impacts on the overall economics of the investment. This means that a full understanding of the tax effects of any PE investment is essential, due to the complexity of Brazil's taxation system.

Careful Selection of the Contract Law and Jurisdiction.

All PE transactions must be strategically negotiated and fully documented. Their terms and conditions are documented broadly in the preliminary instruments (CA and LoI) and more precisely in the definitive documents (e.g., Equity Purchase Agreement and Shareholders' Agreement, if any). For cross-border PE transactions, the choice of law and jurisdiction for each legal contract is crucial for protecting

the rights of each party. In general, foreign investors doing business in Brazil tend to opt for their homeland courts and legislation as the governing law for all documents and the settlement of possible future litigation related to a deal. However, before making this decision, they should bear in mind that the purchased assets and the seller's assets are probably located in Brazil, so if any legal remedy is to be taken quickly, it will have to be filed and processed locally, rather than in the buyer's home

country. So think carefully when selecting contract law and jurisdiction for a Brazilian PE transaction.

When foreign investors understand and follow the aspects outlined above, the success rate of their potential PE transactions with Brazilian target companies will certainly rise substantially. ■

LP PROFILE



RICARDO FERNANDEZ JUNIOR / HAMILTON LANE

With offices in 12 cities, Hamilton Lane has been investing in Brazil for more than 20 years, being member of boards in several local and international funds active in the country. In 2017 its allocation for the Brazilian market reached USD 2.7 billion.

Tell us about the activities of Hamilton Lane, its background and investments in Brazil.

Hamilton Lane has been investing in Brazil since 1997 through our global funds with allocation to the region. Today we have more than USD \$2.7 billion invested in the region (as of December 31, 2017). In addition, we have board seats in several local and international funds active in Brazil.

With the increasing relevance of Brazil in the private equity industry, Hamilton Lane opened its first local office in 2011 aiming to offer local pension funds and our clients an unique and innovative service by leveraging our experience, local relationships and influence of Hamilton Lane's international platform.

Today, we are happy to say that our goal has been fulfilled! With the support and partnership of our local clients, Hamilton

Lane has been able to take a unique, flexible approach and combine primary, secondary and co-investment strategies in the same portfolio, resulting in a shorter J-Curve. Additionally, we helped develop the secondary private equity market in Brazil by closing one of Brazil's first transactions.

In terms of governance, Hamilton Lane team seeks to implement the best international market practices that we believe bring additional transparency to the market and the asset class.

How you apply team expertise to generate value in private equity investments?

As a global investor operating in Brazil, I believe that generating value for PE investments begins with a meticulous analysis of investment processes, in parallel to PE manager governance, ensuring that they are aligned with the best international practices. As an

investor, it is vital to map out and address all these points, before allocating any investments. After an investment has been made, diligent oversight is vital for ensuring that the manager is complying closely with the plan agreed with the investor, intervening proactively if necessary in order to deal with potential challenges throughout the lifespan of the investment.

What are the top-performing assets in your Brazilian portfolio?

In Brazil, our portfolio consists of investments in other funds (primary investments), purchase of positions in PE funds (secondary market) and co-investments with managers. Due to the characteristics and dynamics of secondary and co-investments, these strategies can help to enhance returns.

Which sectors do you feel are the most promising for the next few years? Why?

Although many people believe that the healthcare and education sectors are already 'expensive', we still believe that there are niches with exponential growth potential in these two sectors. These niches are where we see opportunities for growth and consolidation. We also believe that the consumer sector will offer excellent opportunities for investment during the next few years, as the Brazilian economy returns to growth, even if gradually.

During these years in Brazil, when you assess its investment context, what has changed for either better or worse: for-

eign exchange, quality of management and companies sector? What aspects would you recommend for consideration by a foreign investor thinking about allocating funds to Brazil?

We have been investing in Brazil since 1997, but only opened our offices in 2011. Since then, it is amazing to see how the local market has developed. One point that I always like to stress is the quality of managers. Eager to attract international investors, they have adapted and are seeking to be compliant with the best international management and governance practices. The quality of the information that we gather today from these managers is far superior to what we used to receive when we first opened our offices here. Managers are better prepared, and I think that this has positive implications for the industry over the medium and long terms. Today, we can see that entrepreneurs and executives are already more familiar with the key role played by the PE industry for creating value; they are far more open to considering it as a major source of financing for their businesses. As global investors, we must be aware of currency volatility and risks in emerging markets. Things are no different in Brazil, but we address this as part of the analysis when structuring a global portfolio for our clients.

How do you rate the current divestment context in Brazil?

It is still very volatile, with metrics that are lagging well behind more developed markets and even other emerging markets; there is the DPI, which is distributions to paid-in capital. However,

the situation has improved considerably over the past few months, with several companies managing to access the capital market. Nevertheless, it may not be assumed that the 'window' will always remain open. I see this as a really positive step, particularly as managers have also developed and become more sophisticated, establishing structures as investments are allocated that allow divestments, even if only partial, or sales to strategic investors in order to underwrite liquidity events throughout the lifespan of the investment. Without a shadow of doubt, this is a positive aspect of how the industry is coping with one of the main difficulties on the local market.

In your opinion, what are the main opportunities for the private equity industry in Brazil during the next few years?

I think that the main opportunity for this industry lies in the fact that it is set up as a major financing tool within the real

economy. I also see massive potential in a context with constantly dropping interest rates, where individual and institutional investors seek out this class of assets to an increasing extent, in Brazil and elsewhere in the world.

What are the prospects over the medium and long terms for the macro-economic context in Brazil?

After one of the worst recessions in the nation's history, along with political turmoil, we believe that the outlook is positive, and we are well-prepared to seize the best investment opportunities, creating value for our local and international investors. ■

PE/VC FIRMS ACTIVE IN BRAZIL

- 2b Capital
- A5 Capital Partners
- Actis Capital LLC
- Advent International
- AEM Capital Gestão de Recursos Ltda
- Algar
- Angra Infra Investimentos
- Angra Partners
- Antera Gestão de Recursos
- Aqua Capital Consultoria Ltda
- Aria Capital Partners
- Astella Investimentos
- Banco BTG Pactual
- BNP Paribas Asset Management
- Bossa Nova Investimentos e Administração S.A
- Bozano Investimentos
- BR Opportunities Gestora de Fundos Ltda
- BREI - Brazilian Real Estate Investments
- BRKB DTVM AS
- Brookfield Brasil Ltda
- BRPP Gestão de Produtos Estruturados
- BRZ Investimentos
- CASAFORTE Investimentos S.A.
- Cedro Capital
- CEF - Caixa Econômica Federal
- Citybell Invest
- Claritas Administração de Recursos Ltda
- Coller Capital
- Confrapar - Participações e Pesquisa S/A
- CRP - Companhia de Participações
- Culturinvest
- CVentures
- Cypress Associates
- Darby Overseas Investments
- DGF Investimentos
- Diamond Mountain Investimentos
- Domo Invest
- Dynamo Venture Capital
- Eastman Chemical do Brasil Ltda
- EB Capital
- ECO Gestão de Ativos Ltda
- Endurance Capital Partners
- Equitas Administração de Fundos de
- FinHealth
- FIP Gestora de Recursos Ltda
- FIR Capital Partners
- FUNDEPAR Gestão de Investimentos Ltda
- G5 Gestora de Recursos Ltda
- Gávea Investimentos
- GEF Brasil Investimentos
- GM Ventures LLC
- Graycliff Partners
- Grupo Stratus
- Guiar Investimentos
- H.I.G Capital
- H11 Gestão de Recursos
- Hamilton Lane
- Hancock Asset Management Brasil Ltda
- IdeiasNet
- Inseed Investimentos
- Invest Tech Participações e Investimentos
- Investimage Administradora de Recursos Ltda
- Investimentos
- Jardim Botânico Partners
- Kaeté Investimentos

- KFW Bankengruppe Representações Ltda
- Kinea Private Equity Investimentos
- Leblon Equities Gestão de Recursos Ltda
- Lexington Partners
- Lions Trust
- Ltda
- Mantiq Investimentos
- Mare Investimentos Ltda
- Modal Administradora de Recursos
- Monashees Capital
- MSW Capital
- Neo Investimentos
- Nexo Investimentos
- Norte Investimentos Administradora de Recursos Ltda
- O3 Capital
- Oria Capital
- Otinga Investimentos Eireli
- Partners Group
- Pátria Investimentos
- Performa Investimentos
- Portbank Capital Gestora de Recursos Ltda
- Principia Capital Partners
- Qualcomm Ventures
- Queluz Gestão de Recursos Financeiros Ltda
- REAG Investimentos
- Redpoint eVentures
- Rio Bravo Investimentos
- Riviera Investimentos
- Siguler Guff Gestora de Investimentos Brasil Ltda
- Somma Investimentos S.A.
- Southern Cross Group
- SP Ventures
- StepStone do Brasil Consultoria Financeira
- Temasek Brasil Consultoria e Participações
- The Axxon Group
- The Carlyle Group
- TMG Capital
- TreeCorp Partners
- Triaxis Capital
- Trivèlla Investimentos
- Trivèlla M3 Investimentos
- Valora Investimentos
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