

# inBrazil 2019

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Private Equity

PITCHBOOK

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**The InBrazil Private Equity & Venture Capital** 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.

**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.

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# 1.1 MACRO-ECONOMIC DATA

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**Background for Brazil**



Among the world’s ten largest economies, and heading up Latin America, the Brazilian economy is back on the path to growth. As illustrated in the following pages, its prospects are positive for the next few years.

BRAZIL

- Annual GDP of US\$ 1.9 trillion
- 212 million inhabitants
- Urbanisation rate of 84%
- Among the top ten countries receiving foreign investments in 2018

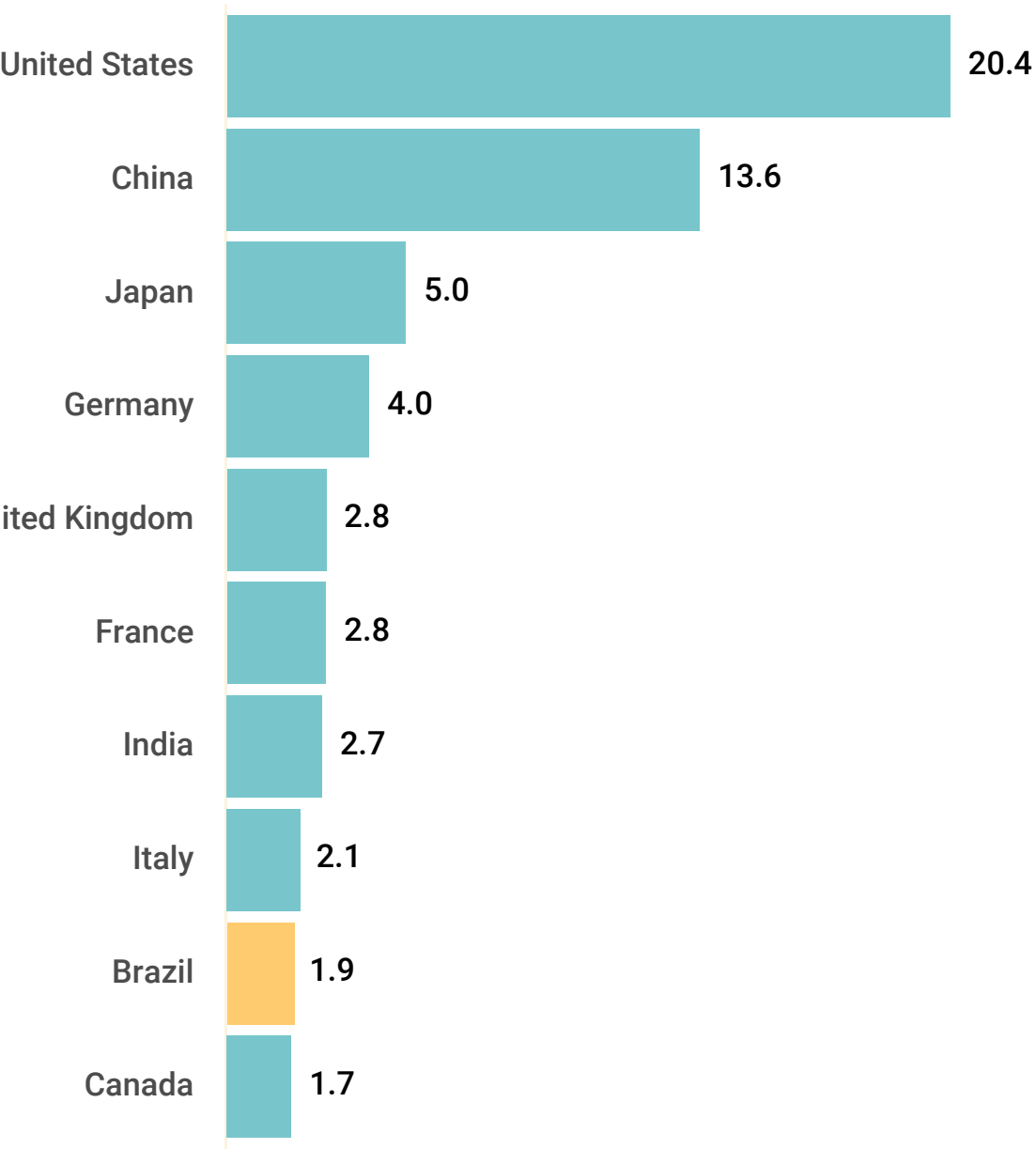
These are promising times for the Brazilian economy, due to the following set of circumstances:

- Well-balanced inflation that remains under target;
- Consumption and confidence ratings are uptrending;
- Brazil’s capital market has been booming since 2017, with the IBOVESPA Index reaching new highs and record share volumes; and
- More than seven companies attained unicorn status in 2018, appraised at more than US\$ 1 billion.

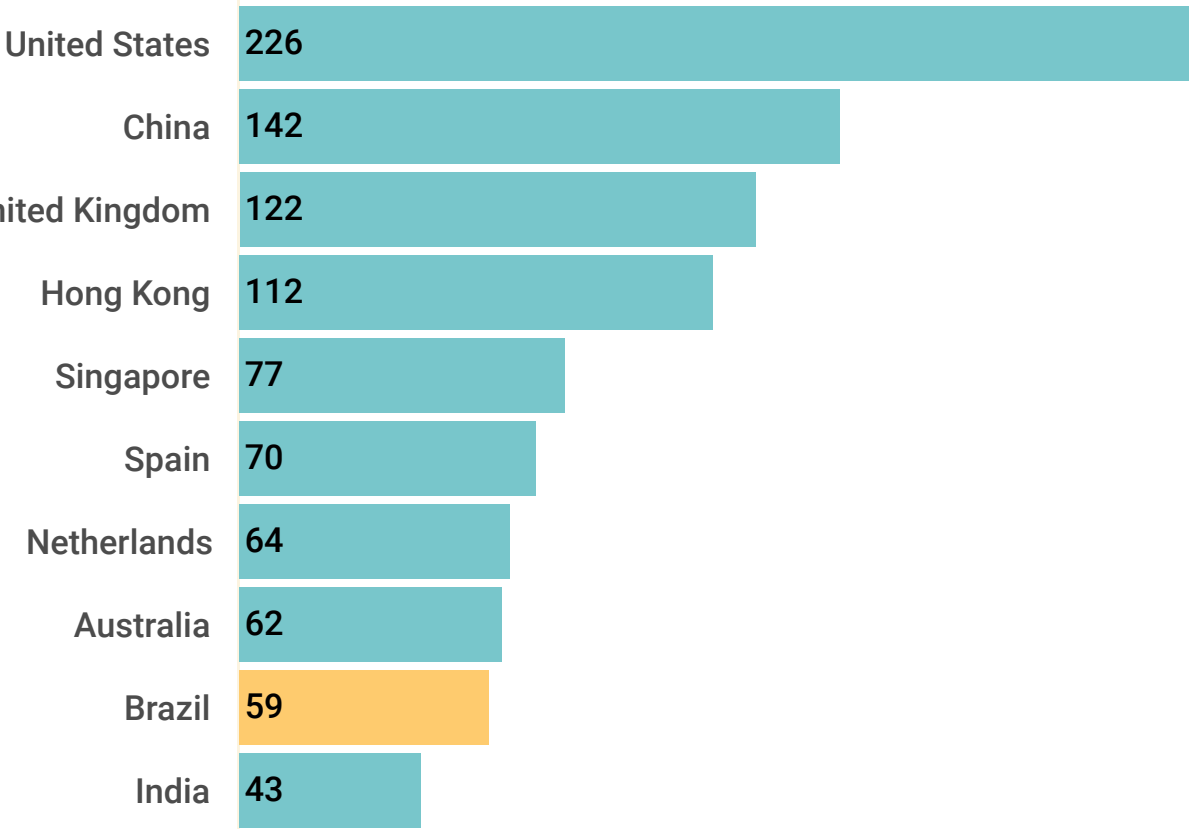
Ranking of Latin American economies – GDP – 2018 (US\$ trillion)



TOP 10 world economies 2018 (US\$ trillion)



Foreign Direct Investment inflows 2018 (US\$ billion)

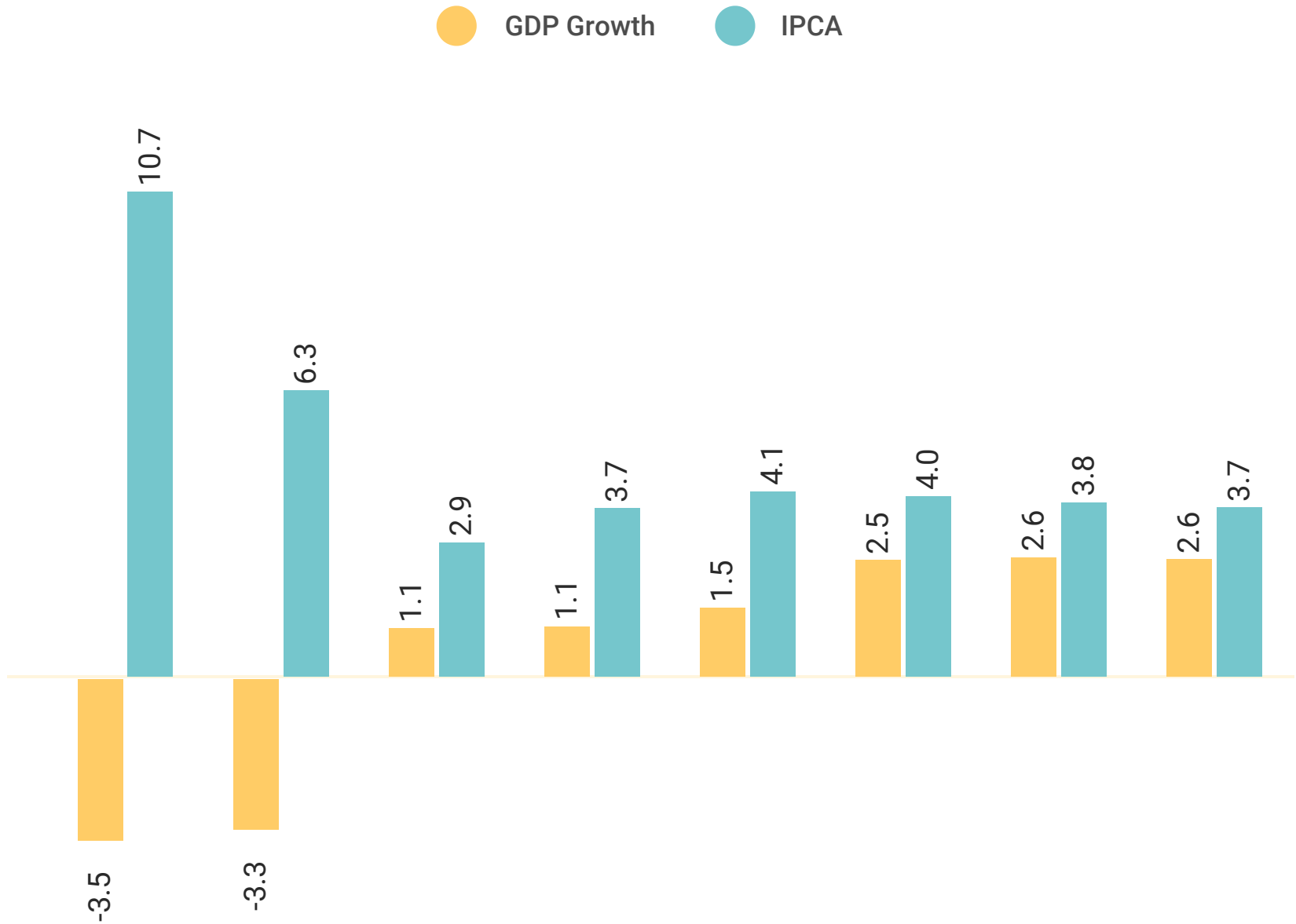


The gradual growth recovery of the Brazilian economy is reflected in a context of tight-leashed inflation and lower interest rates that, influenced by credit costs, are helping drive up activity and employment levels.

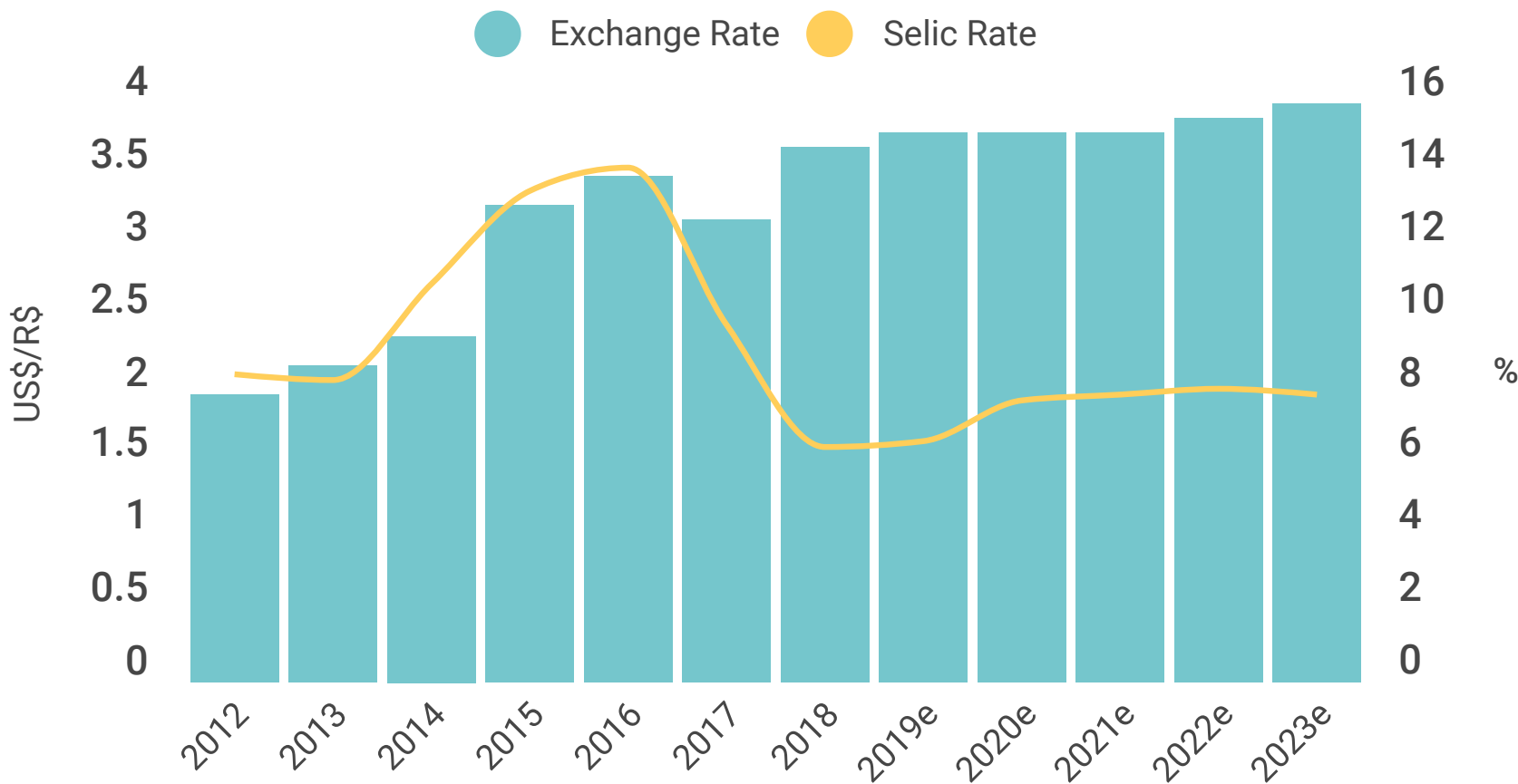
With inflation close to target and solidly-rooted expectations, Brazil’s monetary policy is grounded on interest rate stability and indications that this context will continue over the next few years.

Since december 2017, unemployment rates have been dropping, while the employed population has expanded by almost two million positions and real incomes have recovered, increasing the actual wage mass even more. The jobs market should follow this uptrend.

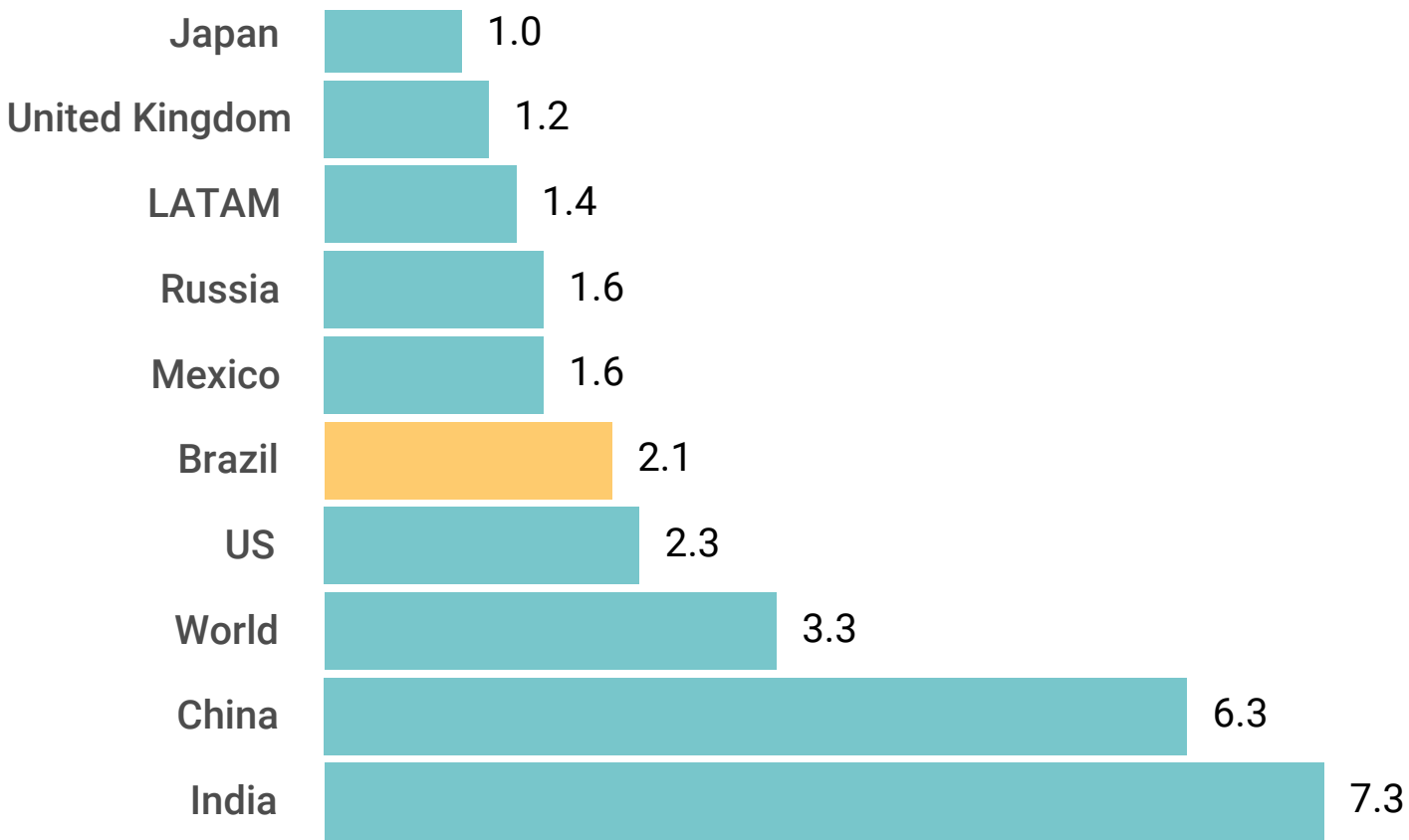
GDP growth and inflation rates in Brazil FY15-FY22e (%)



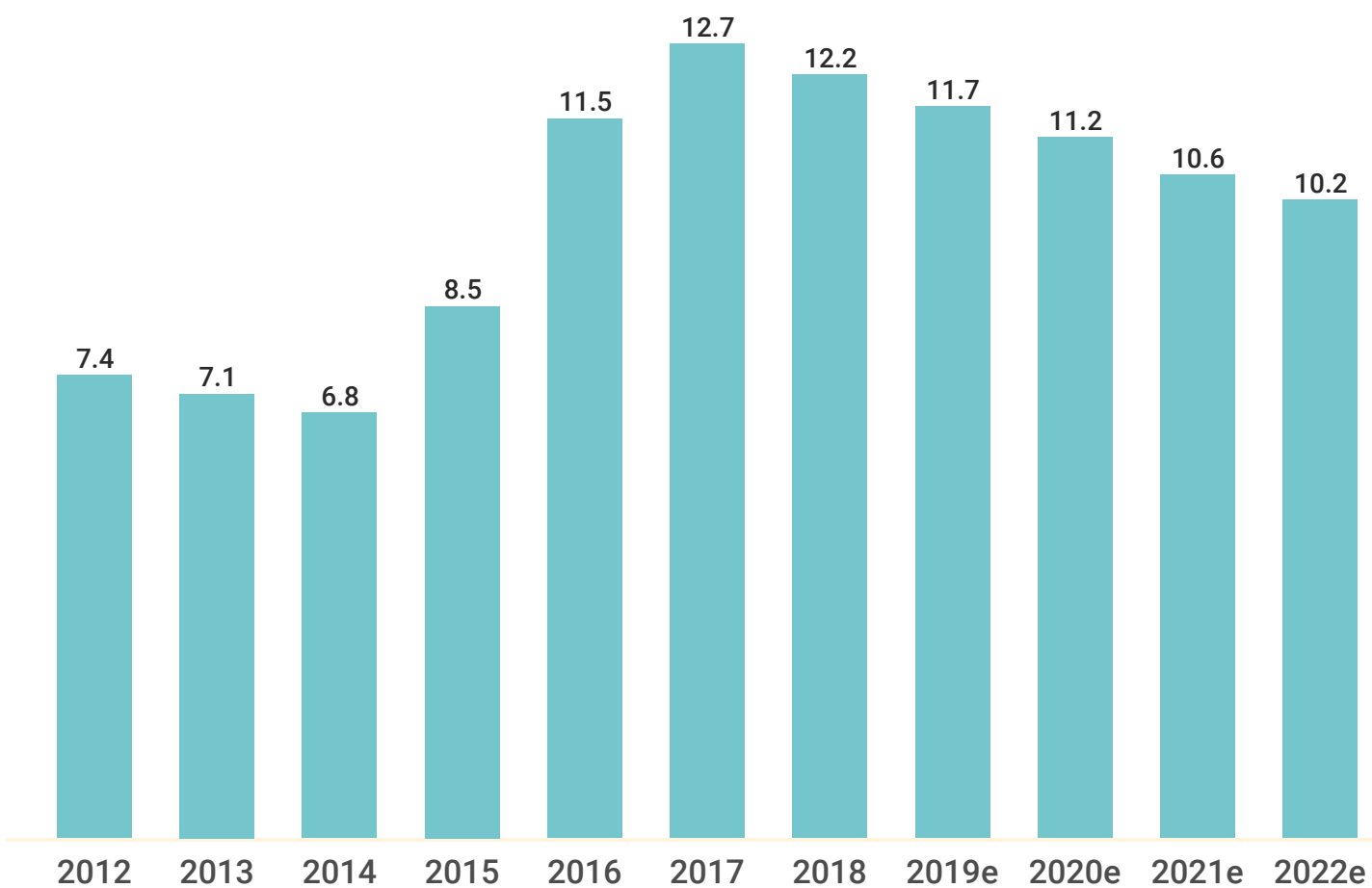
Exchange and Selic rates forecast FY12-FY23 (expected)



GDP growth projection by country FY19e (%)



Average unemployment rate forecast FY12-FY22 (expected) (%)





In parallel with the economic recovery, better capital market conditions and the prospects of a stable foreign exchange rate, all point to a context that is more appealing to foreign investors seeking assets in Brazil.

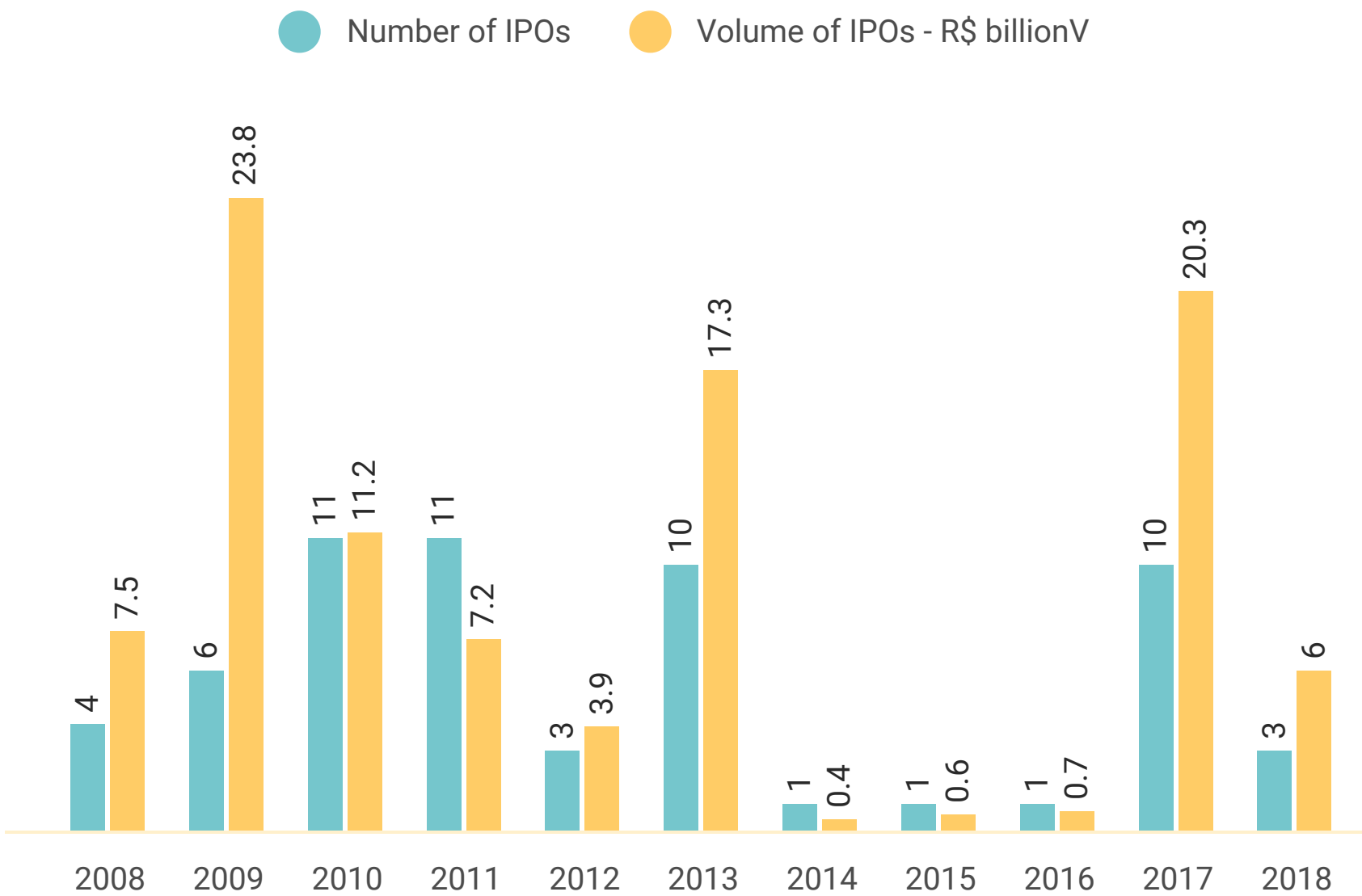
Under a newly-elected government, market optimism spread rapidly. A survey released by Bloomberg indicated that Brazil tops the list of the emerging countries from the investor standpoint. Brazilian bonds were recently ranked as equivalent to those of other economies rated as investment grade.

This positive view of Brazilian papers has been expanding among investors, as its Government moves ahead with social security reform, which is considered crucial for shrinking the public deficit.

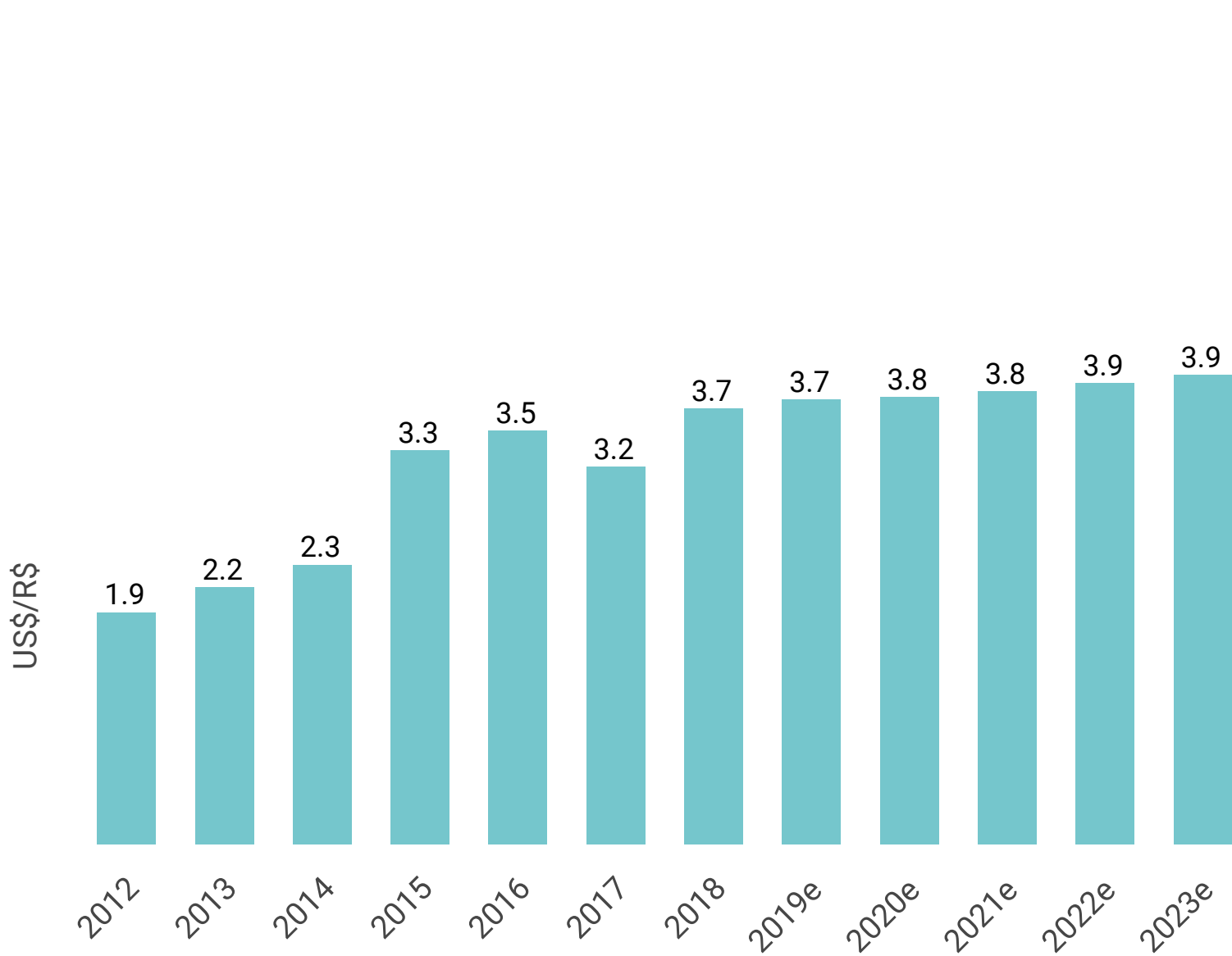
In 2018, three companies went public on the B3 – the Interbank and the NotreDame Intermédica and Hapvida medical aid operators – while others (such as Stone and Arco Educação) offered their papers directly on Wall Street. Through offerings on the Brazilian stock exchange, companies raised R\$ 6.76 billion, while IPOs on the US stock exchange brought in US\$ 4 billion.

With significant international reserves and a floating exchange rate, Brazil’s foreign exchange policy has been more foreseeable and stable. The outlook for the Brazilian real against the USD over the medium term is a positive indicator for foreign investors eyeing Brazil.

IPO history on the Brazilian stock exchange FY08 – FY18



Exchange rate forecast FY12 – FY23e (US\$/R\$)



What market investors have their eye on

	Foreign Exchange	Bonds	Stocks			
1	Brazilian real	Brazil	Brazil	7	Polish Zloty	Turkey
2	Mexican Peso	Indonesia	India	8	Indian Rupee	China
3	Indonesian Rupiah	Mexico	Indonesia	9	Chinese Yuan	India
4	Argentinian Peso	Argentina	China	10	South Korean Won	Poland
5	Russian Ruble	South Africa	South Africa	11	Turkish Lira	South Korea
6	South African Rand	Russia	Argentina			Turkey

In the developing economies, shares, currencies and government papers should outstrip their counterparts in the more developed nations during 2019, with Brazil as a favourite choice among investors for these three asset classes, according to a Bloomberg survey of thirty investors in December 2018.

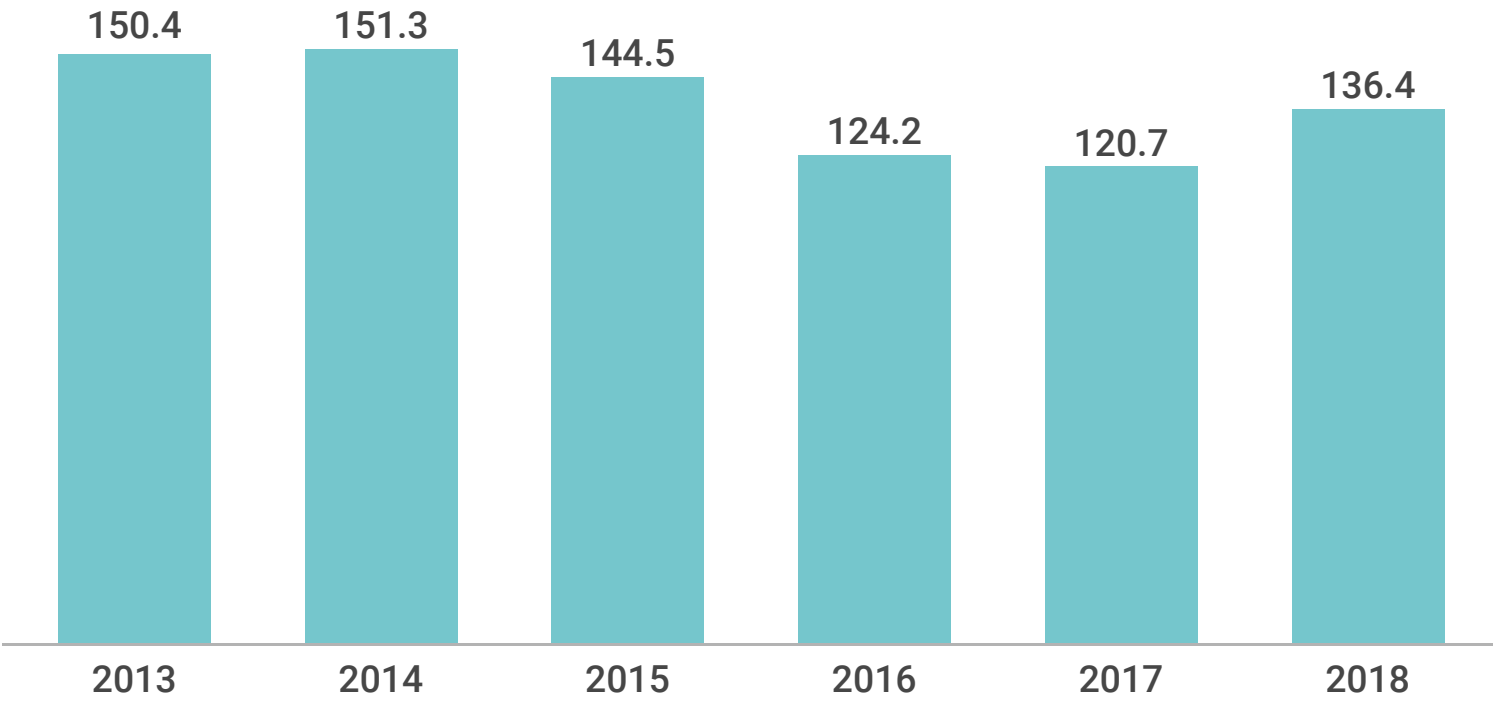
Private capital funds (especially when foreign) are trustworthy sources of financing and operational support in the current context of sparse bank credit, particularly as dry powder is limited among local players.

Tightly-strapped bank credit is spurring the search for alternative sources of corporate funding, opening up a great opportunity for private equity and venture capital funds operating in Brazil.

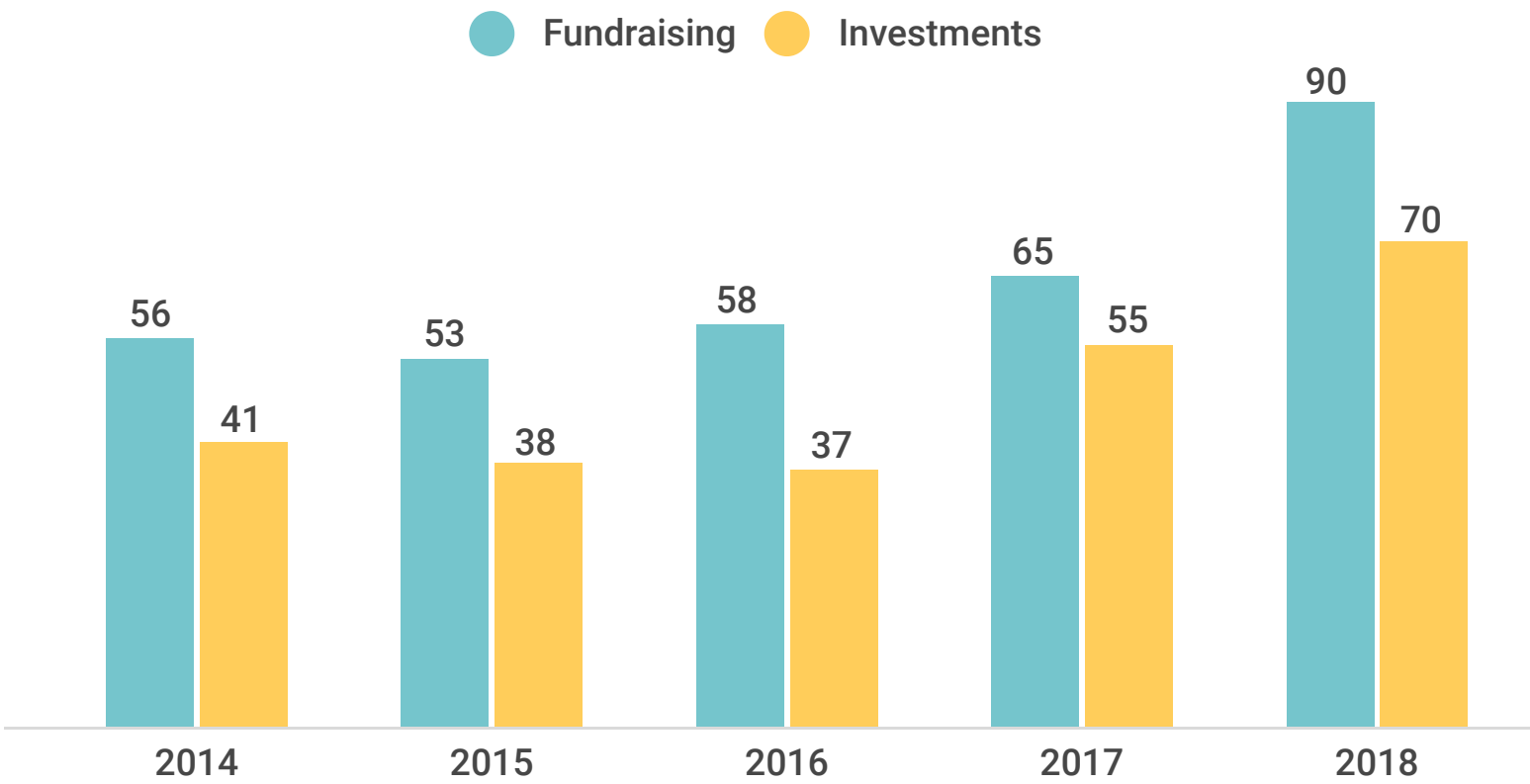
Furthermore, many companies that were heavily leveraged during the economic growth years are now floundering in the wake of the recession.

The large number of businesses declaring bankruptcy or under court-supervised receivership hint at very favourable prospects for funds investing in promising turnaround possibilities and special situations.

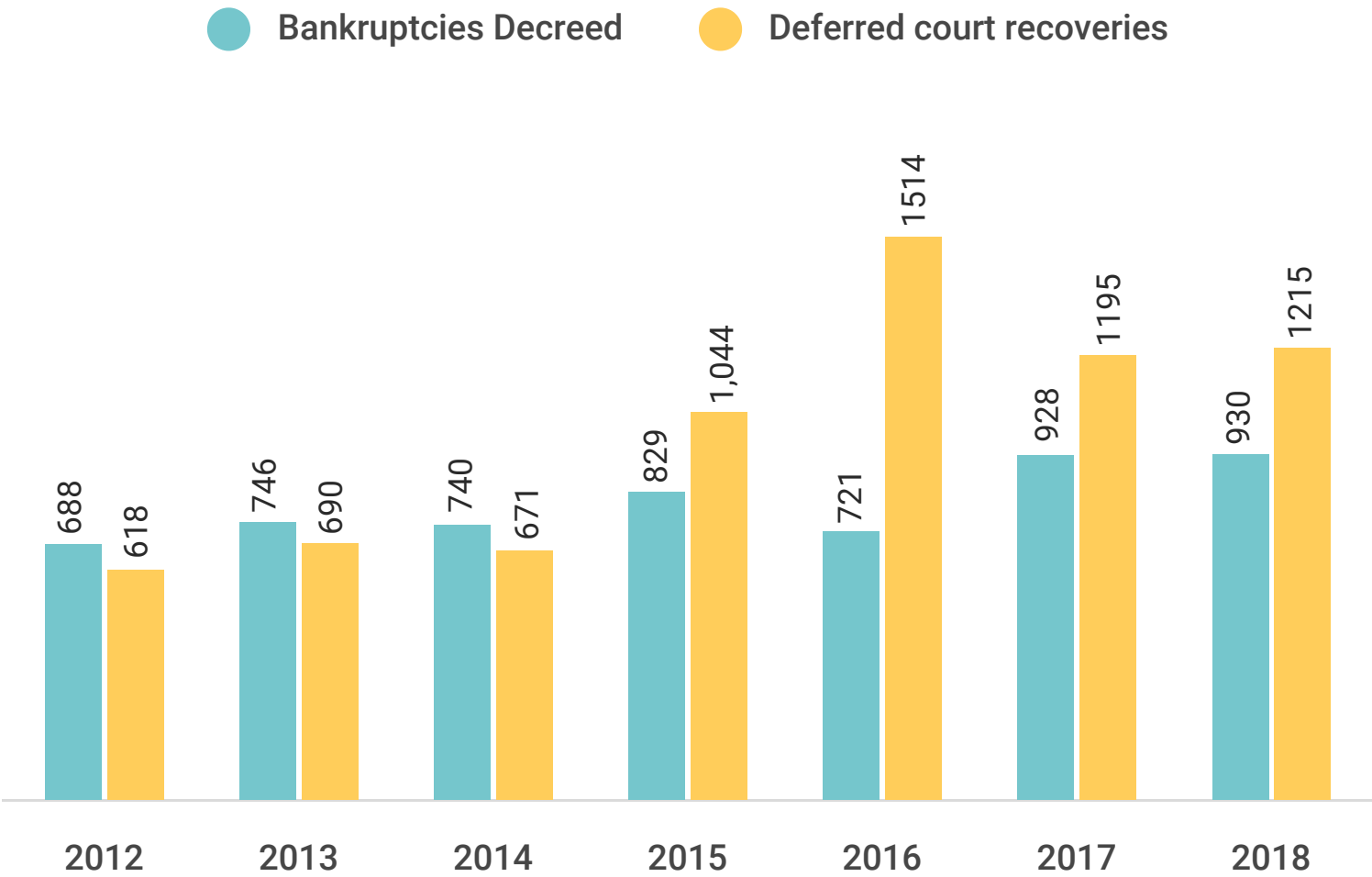
Average annual credit lines to companies in Brazil  
FY13-FY18 (# thousand)



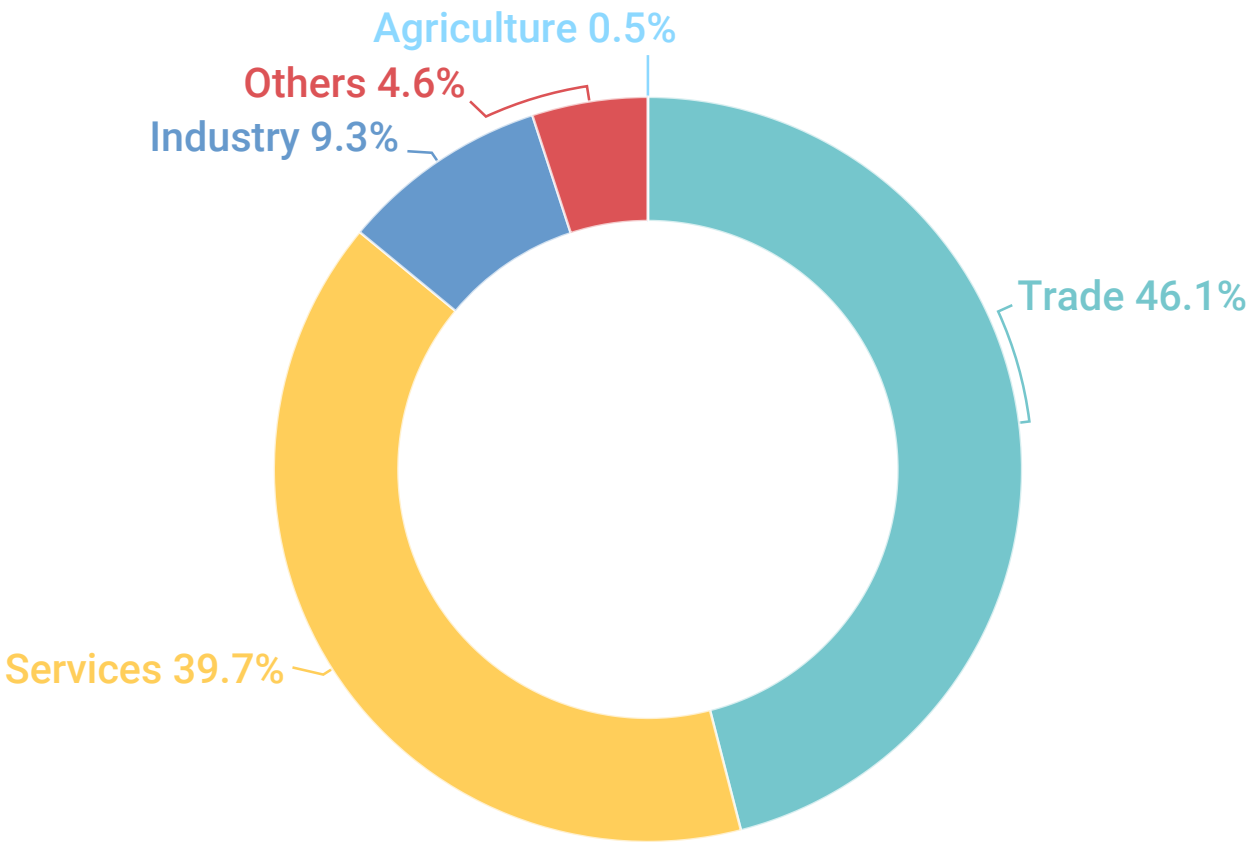
Fundraising and global investment in  
Emerging Markets FY14-FY18 (R\$ billion)



Number of bankruptcies and judicial  
recoveries in Brazil FY12-FY18



Participation of sectors in corporate insolvency FY18





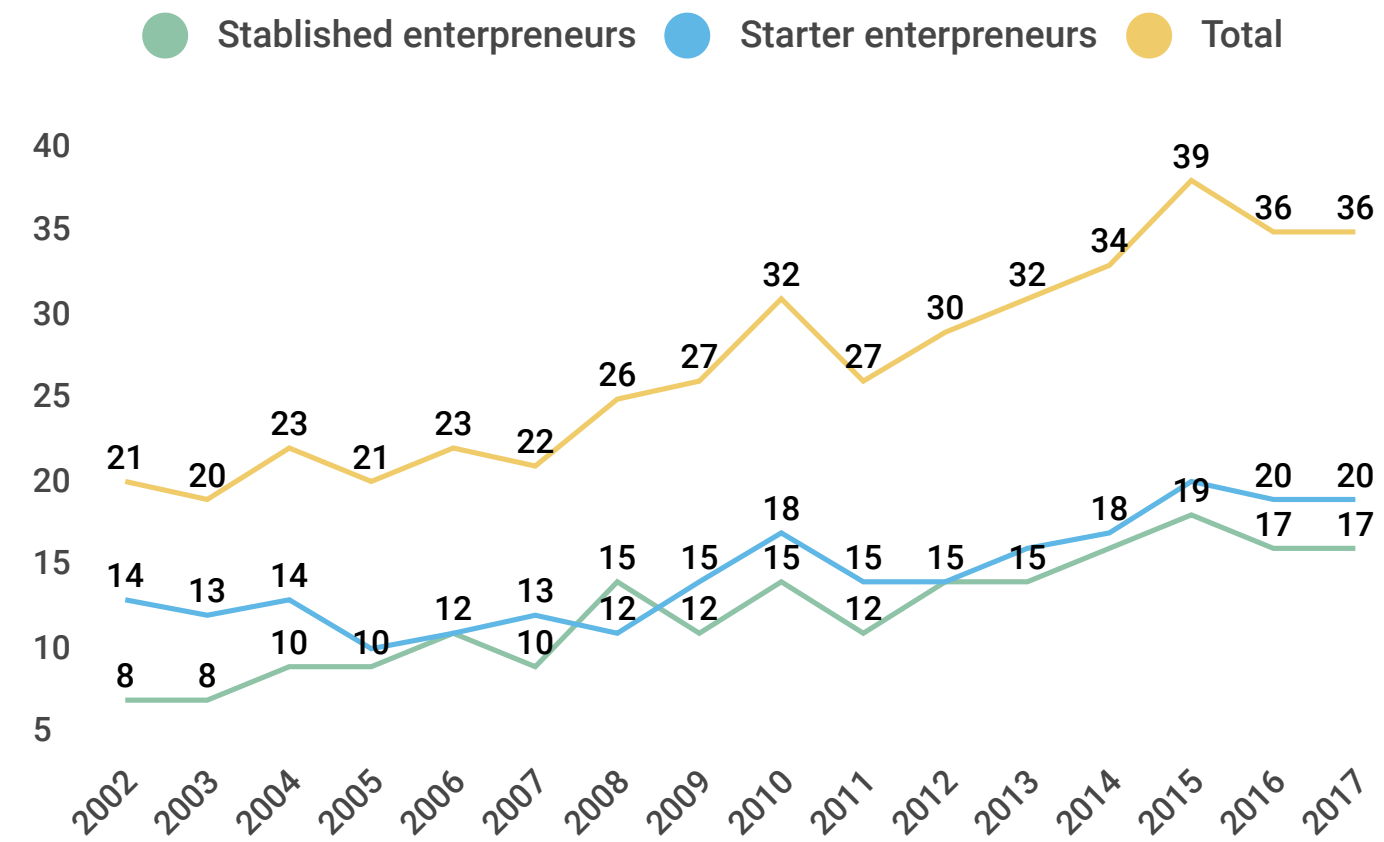
A record number of Brazilian start-ups reached unicorn status during 2018, valued at over US\$ 1 billion and attracting attention from local and international venture capital funds, whether operating in Brazil or not.

Entrepreneurship has been surging steadily in Brazil: among each 100 Brazilians, 36 are entrepreneurs, and young people between 25 and 34 years old were the most active in setting up new businesses, with 30.5% of Brazilians in this age bracket owning and managing start-ups.

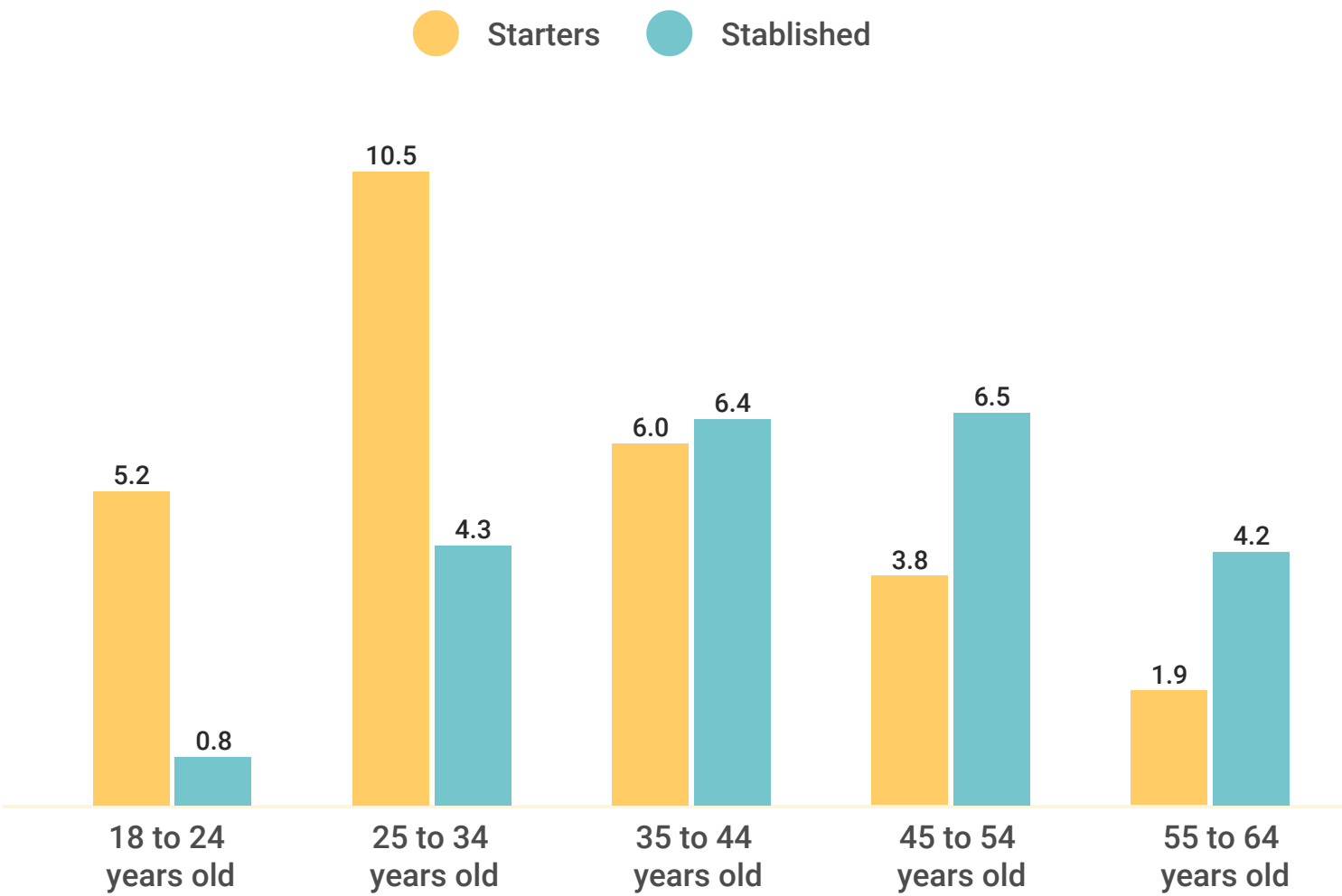
The Census on Brazil’s startup ecosystem (conducted in 2017 by Startse\*) found that most start-ups had already moved beyond the initial stage and are maturing, validating solutions and seeking market niches for their operations. In fact, they are even being set up with an eye to international markets, reflecting a mindset that is seamlessly aligned with global trends.

Most of these initiatives are now in the capital-intensive validation stage. Furthermore, the main source of funding for 91.8% is partner capital, thus opening up great opportunities for venture capital funds.

Rate in% of entrepreneurship according to business stage – Brazil – 2002 – 2017



Number of entrepreneurs in each stage by age (# million)

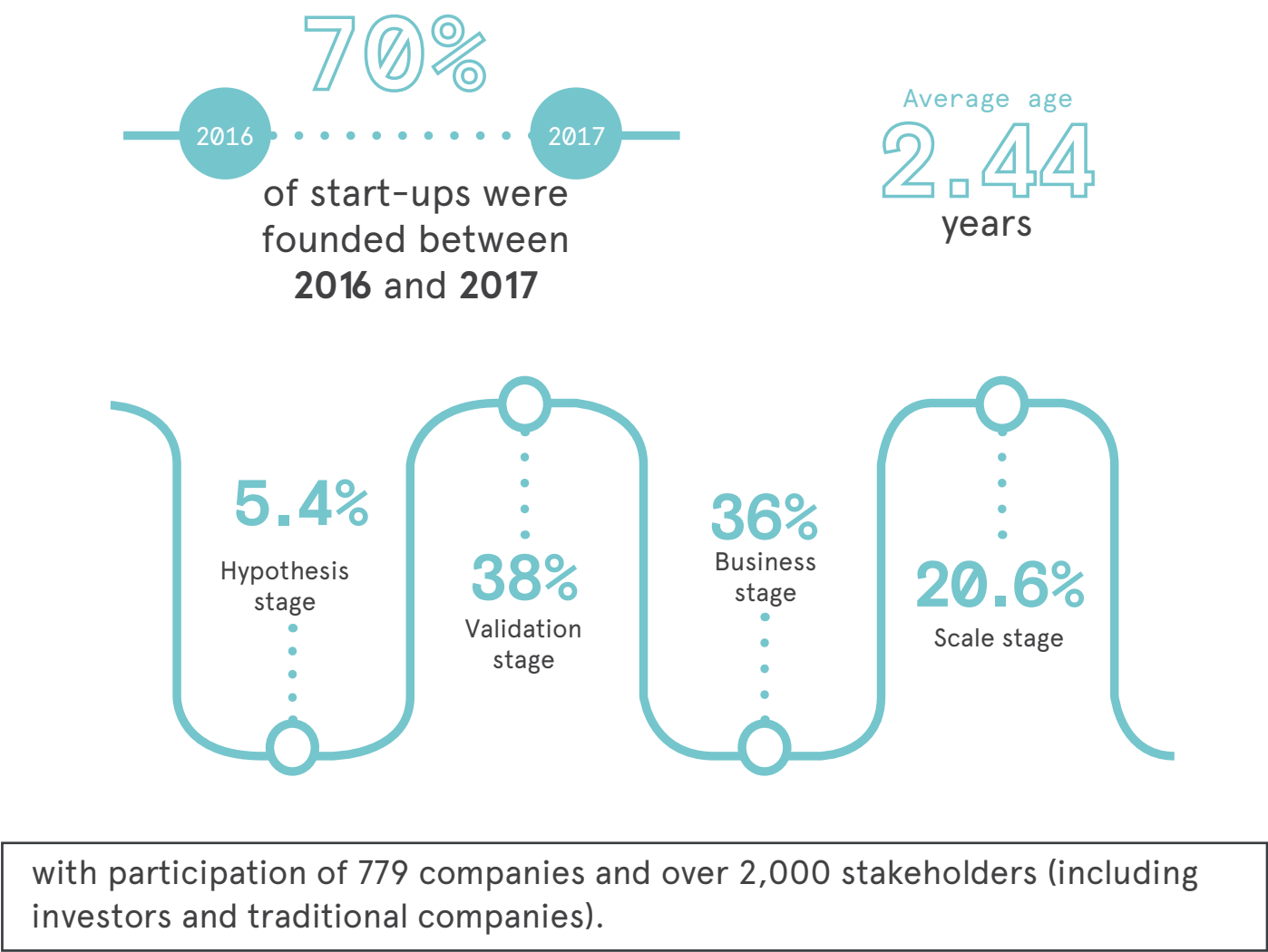


Brazilian unicorns – 2018 | 2019\*



\*until October 2019

Brazil’s startup ecosystem



With signs of the economic recovery for Brazil and the outcome of its new government, the outlook for the next four years is quite positive for M&A transactions.

Acquisitions are heading up M&A deals in Brazil, particularly among companies weakened by the recent economic meltdown.

In 2018, Brazilian investors competed with their foreign counterparts for 63% of announced minority purchases and acquisitions.

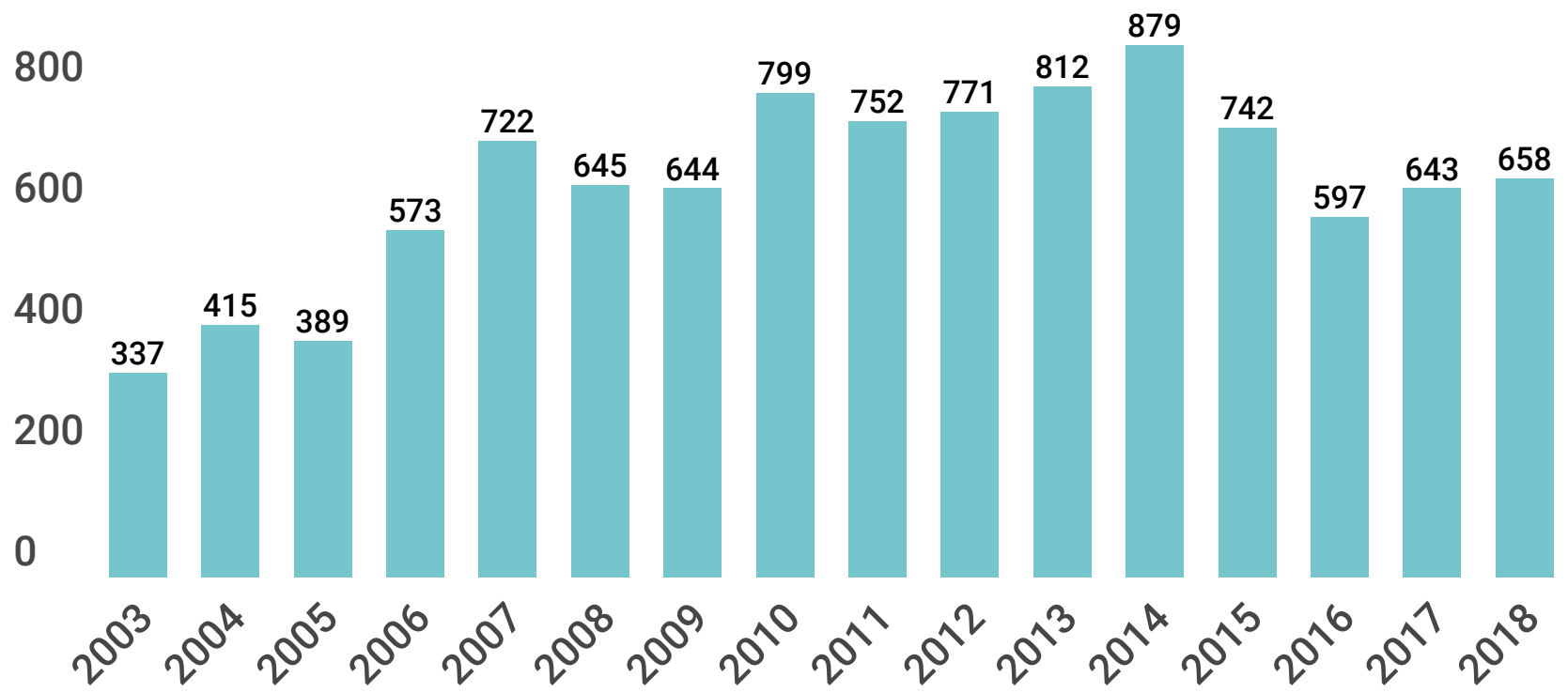
Nevertheless, foreign investors, particularly those in the US, continue to wager on M&A deals in Brazil.

In 2008, of the announced transactions, 245 involved foreign capital, with the US, France and Canada accounting for 48% of deals involving foreign capital in Brazil.

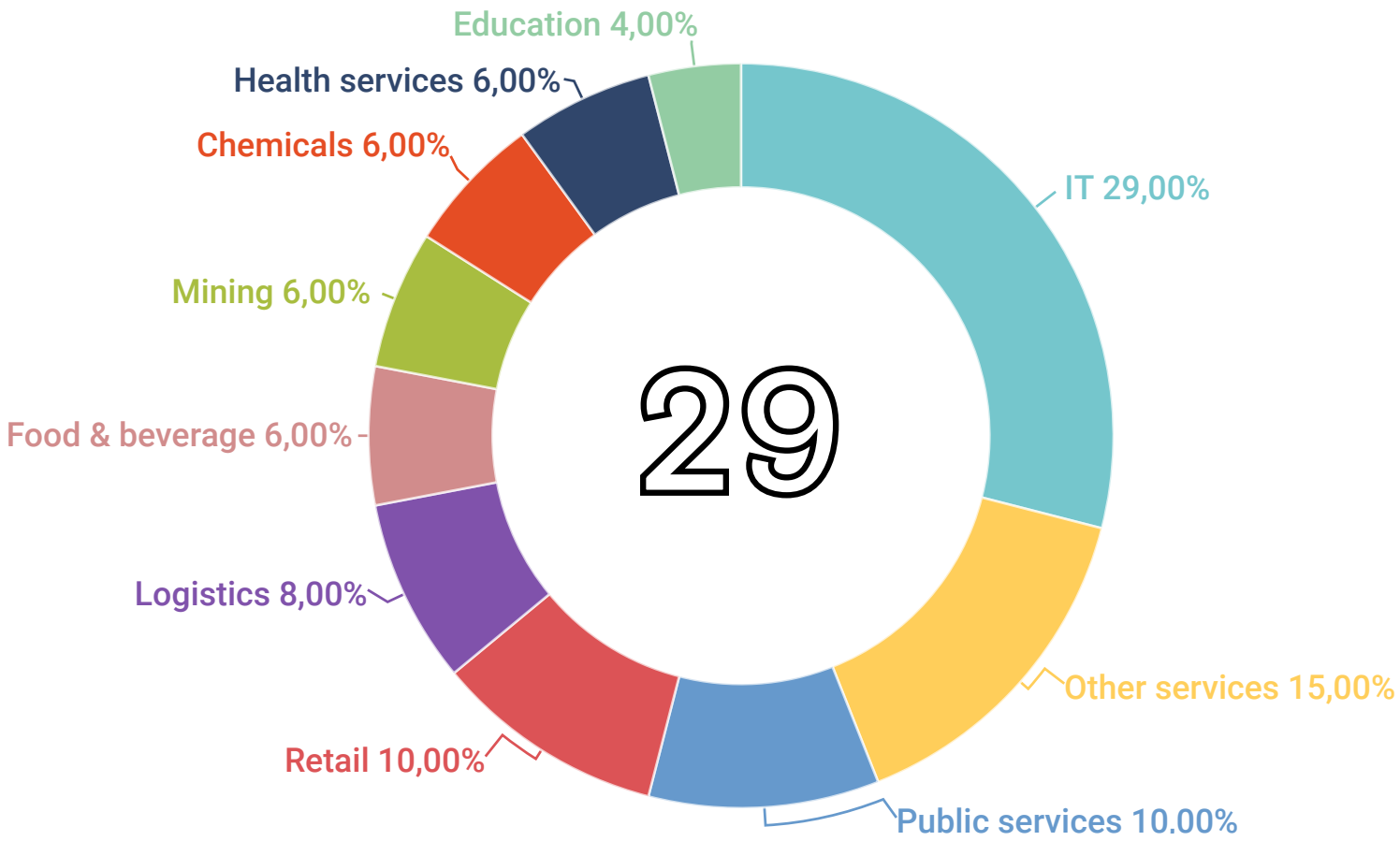
Foreign investors are expected to flock back to Brazil, in parallel to a new surge of privatisation, driving transactions and attracting the attention of global fund players.

The Brazilian M&A market is becoming increasingly more mature in the IT segment, and is already a benchmark for transactions among ERP vendors and on the start-ups market, encompassing mainly the consulting, administration and marketing sectors, among others, together with public utility services such as energy and aviation.

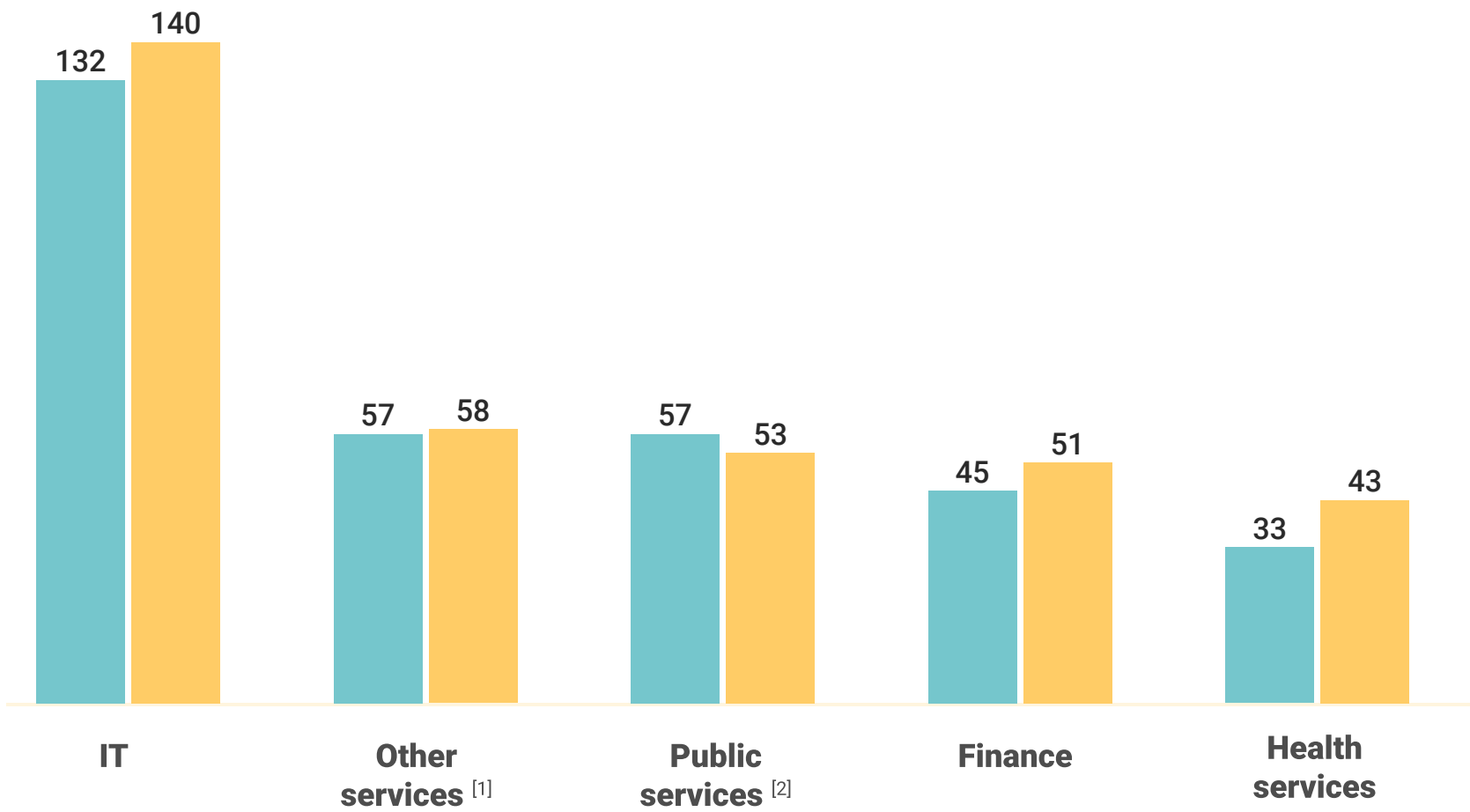
M&A transactions announced in Brazil FY03–FY18 (US\$ million)



M&A transactions (only in december 2018) by sector



Top 5 sectors among announced transactions FY17–FY18 (US\$ million)



● 2017 ● 2018

[1] comprise mainly the consultant, management, marketing sectors, among others;

[2] public utilities services, such as energy and aviation

Privatisations and concessions are priorities for Brazil’s new administration during the next four years. The denationalisation of Brazilian businesses may well offer investment opportunities in sectors that are strategic for the economy, with a wide diversity of assets available to private equity and infrastructure funds.

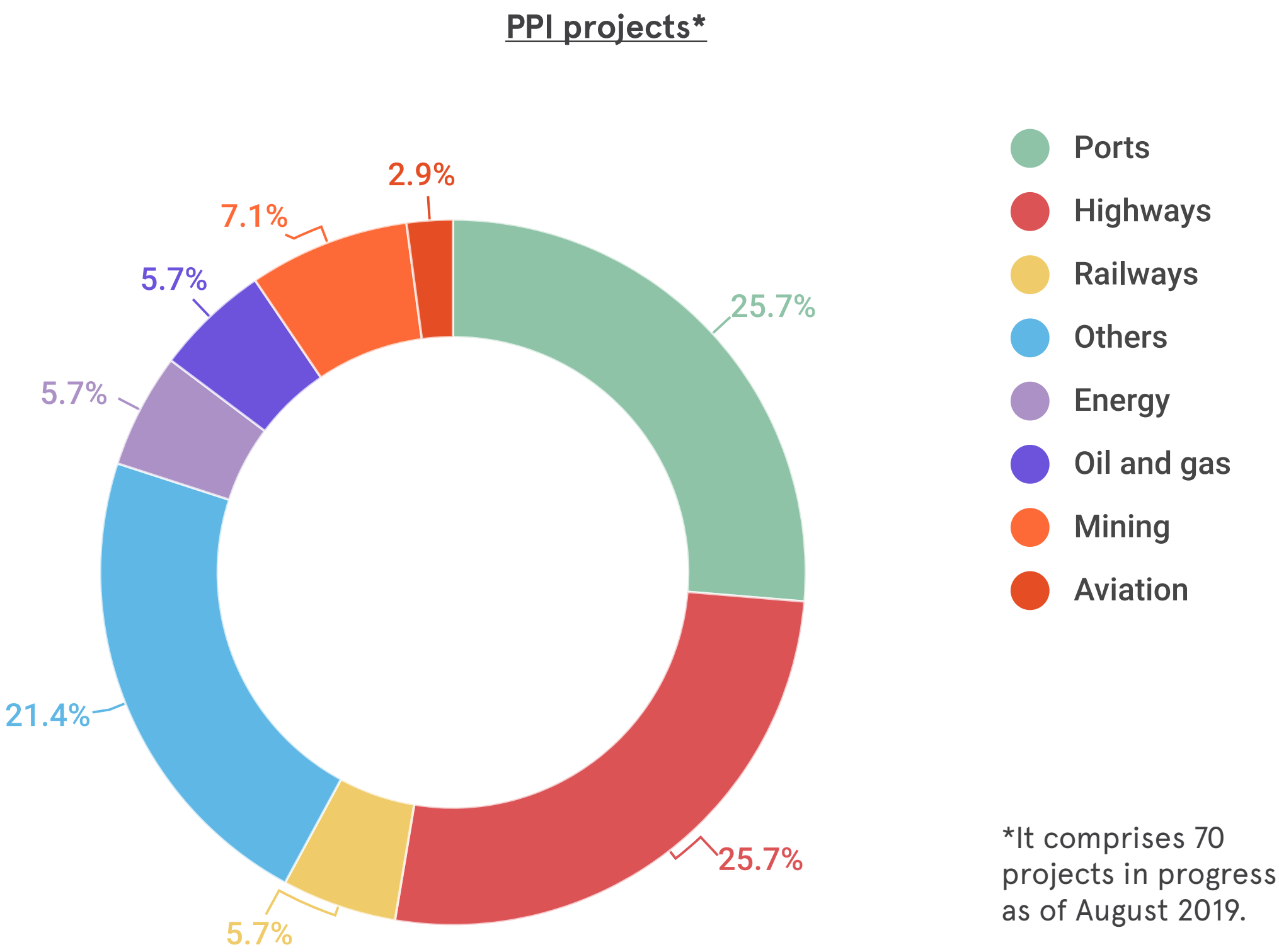
The Brazilian Government is forging ahead with its Investment Partnerships Programme (PPI), set up in 2016 to boost and buttresses interactions between the State and private enterprise through partnership agreements and other State divestment steps.

This Programme is intended to underpin the expansion of high-grade infrastructure in Brazil, with user-friendly tariffs, fostering fair competition across the board when establishing partnerships and rendering services involving foreign capital in Brazil.

By year-end 2018, 105 bidding rounds had been held during the thirty months that the PPI had been in place, 42 of which were won by foreign companies, either alone or in consortium with Brazilian firms. Rising interest among international investors in infrastructure projects in Brazil is the outcome of an innovations plan designed to enhance the quality, appeal and juridical security of tender announcements and projects.

The changes introduced include lifting the requirement for foreign companies to operate in partnerships with Brazilian firms. Furthermore, dialogue between the public and private sectors drew contributions for fine-tuning regulations, including Law N° 13,448/2017, which allows inflows of new investments into existing concessions through anticipated extensions, and Law N° 13,499/2017 that allows adjustments to airport concession profiles.

Moreover, the PPI is striving to streamline financing models and mechanisms, in order to attract international players, while ensuring that Brazilian projects are competitive with those in other countries. The outcome reflects confidence in Brazil among international investors.



## 1.2 POLITICAL CONTEXT

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### **Background for Brazil**





The Bolsonaro Administration charged into its first year in office with a pro-business agenda that included major reforms, particularly the social security and tax systems.

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Brazil's new Ministry of Economy affirms that his administration will be based on four pillars:

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- 1 Social Security reform
  - 2 Fewer constraints on the economy
  - 3 Simplified taxes and privatisations
  - 4 Decentralisation of State and Municipal Government funding
- 

Brazil is eager to step up the share held by foreign trade in its GDP, rising to 30% over the next four years. To do so, it is determined to endow Brazilian companies with a keener international edge. Aspects earmarked as high priority are privatisation and concession programmes, together with civil service reform, pruning the administrative machine and enhancing efficiency, thus easing the weight of the State in the economy.

As reforms are approved in Brazil, significant inflows of direct and portfolio investments will appear as well. Investments of at least US\$ 100 billion are waiting only for reforms to progress.

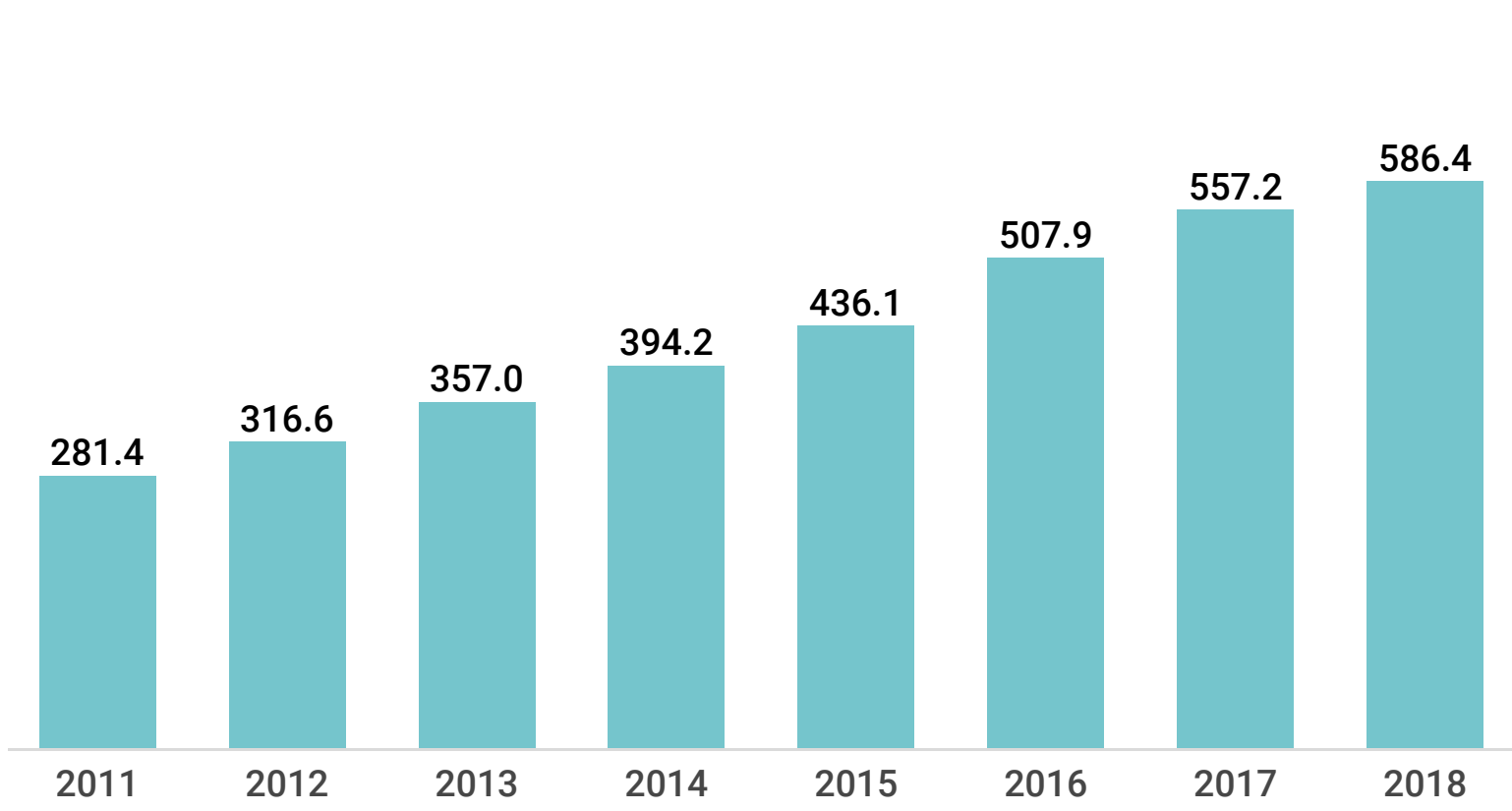
Approval of tax and social security reforms is crucial for a return to fiscal balance in Brazil, underpinning the sustainability of its economic growth.

REFORMS UNDER DISCUSSION:  
TAX AND SOCIAL SECURITY

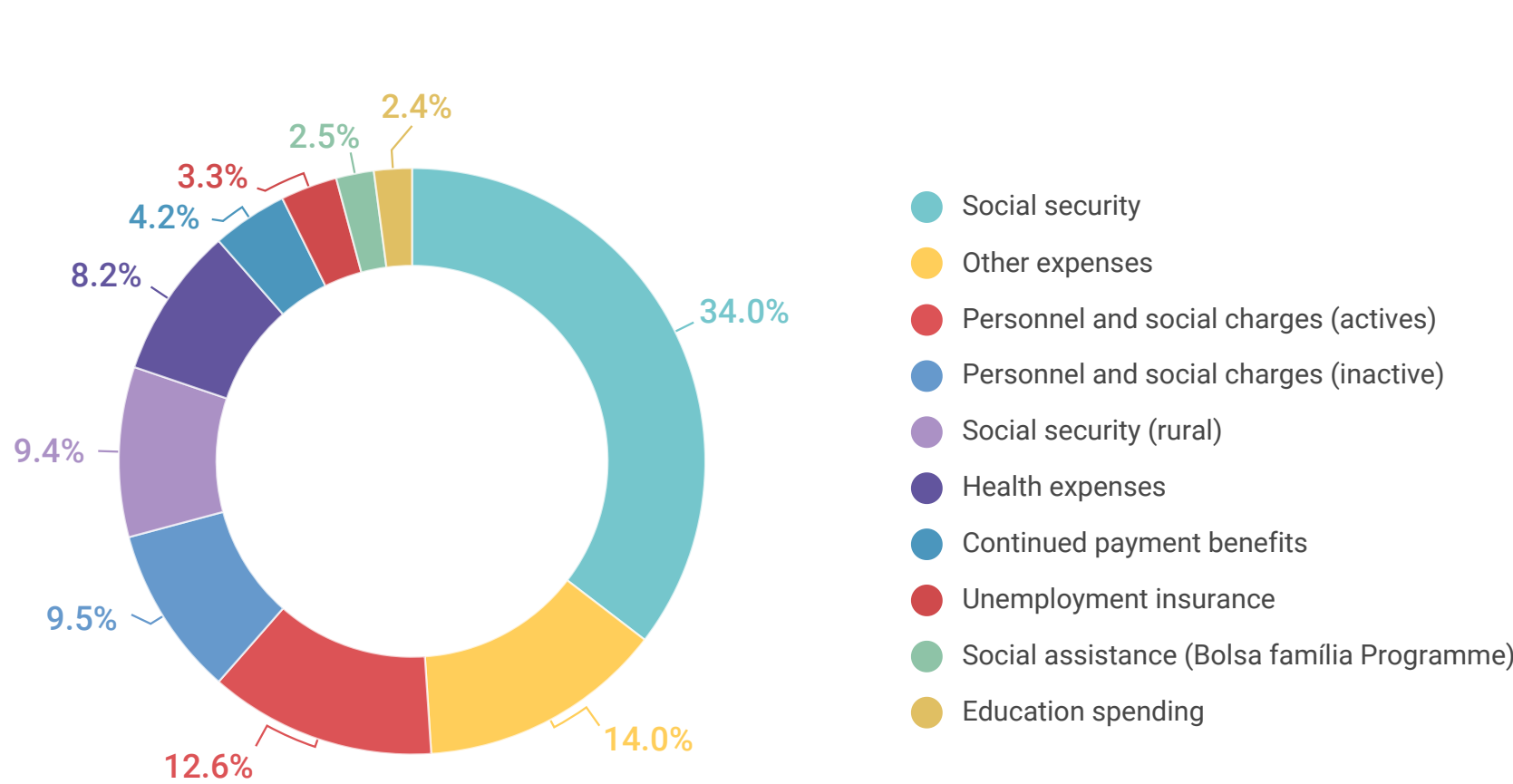
Outlays on social security account for over half of Brazil’s primary federal budget. Only 10% of its budget is allocated to education and healthcare, which are sectors that are crucial to economic and social development.

The deterioration in budget outcomes has been worsened by rising public outlays and above all by soaring social security expenditures, explaining why Brazil’s net debt has ballooned.

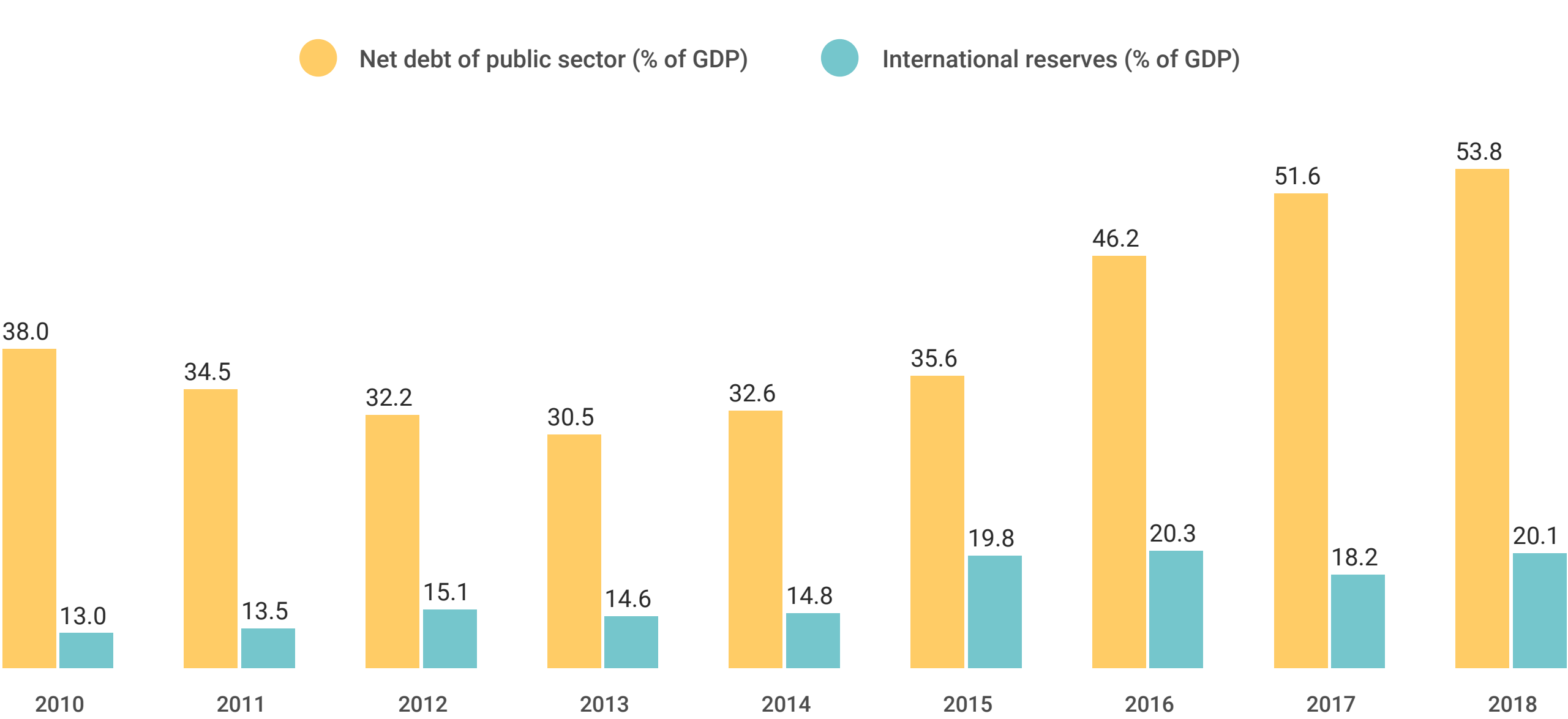
Evolution of social security expenditure in Brazil FY10–FY18 (R\$ billion)



Composition of primary expenditure FY17



Net debt of public sector and international reserves (%) of GDP FY10–FY18





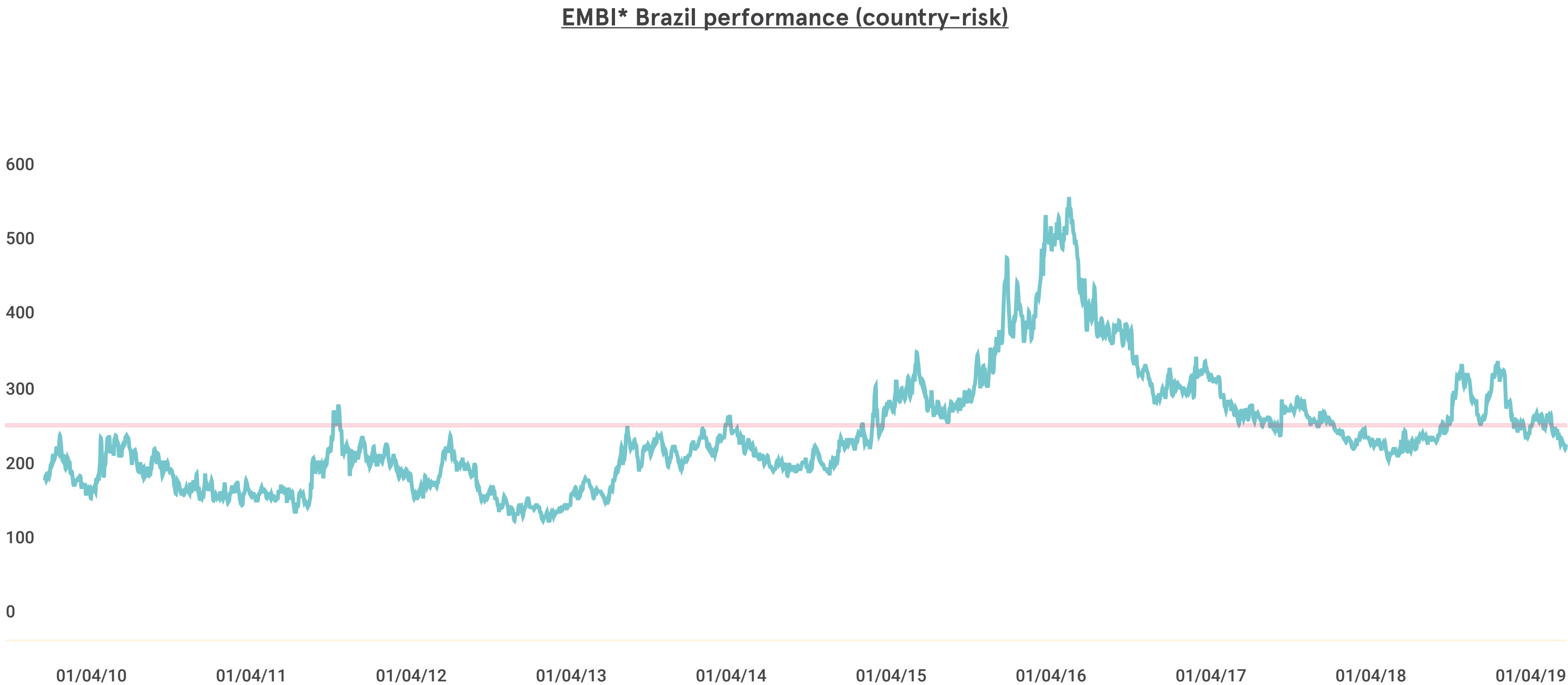
A welcome side-effect of Operation Car Wash is better compliance levels among local companies, dimming impressions that Brazil has a corrupt society.

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**RISING LEVELS  
OF CONFIDENCE**

Since its launch in 2014, the Operation Car Wash corruption clean-up drive has upped compliance levels among Brazilian companies, as a way of preventing fraud while also showing markets, investors and consumers that they obey the law. The steps taken since then – which led to prison sentences for corrupt executives and politicians – are already presenting positive results in terms of perceptions of corruption in Brazil among investors and the business sector.

At Petrobras, for example, steps taken during the past few years for dealing with corruption scandals and reducing the debt of this state-run oil giant have helped rebuild investor trust, which is reflected in the value of its shares.



\*Difference in the mean daily  
payback on Brazilian papers and  
return on US Treasury bonds.

## 1.3 REGULATORY ENVIRONMENT

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### **Background for Brazil**



# SOLID GROUND FOR THE EXPANSION OF THE PE&VC INDUSTRY

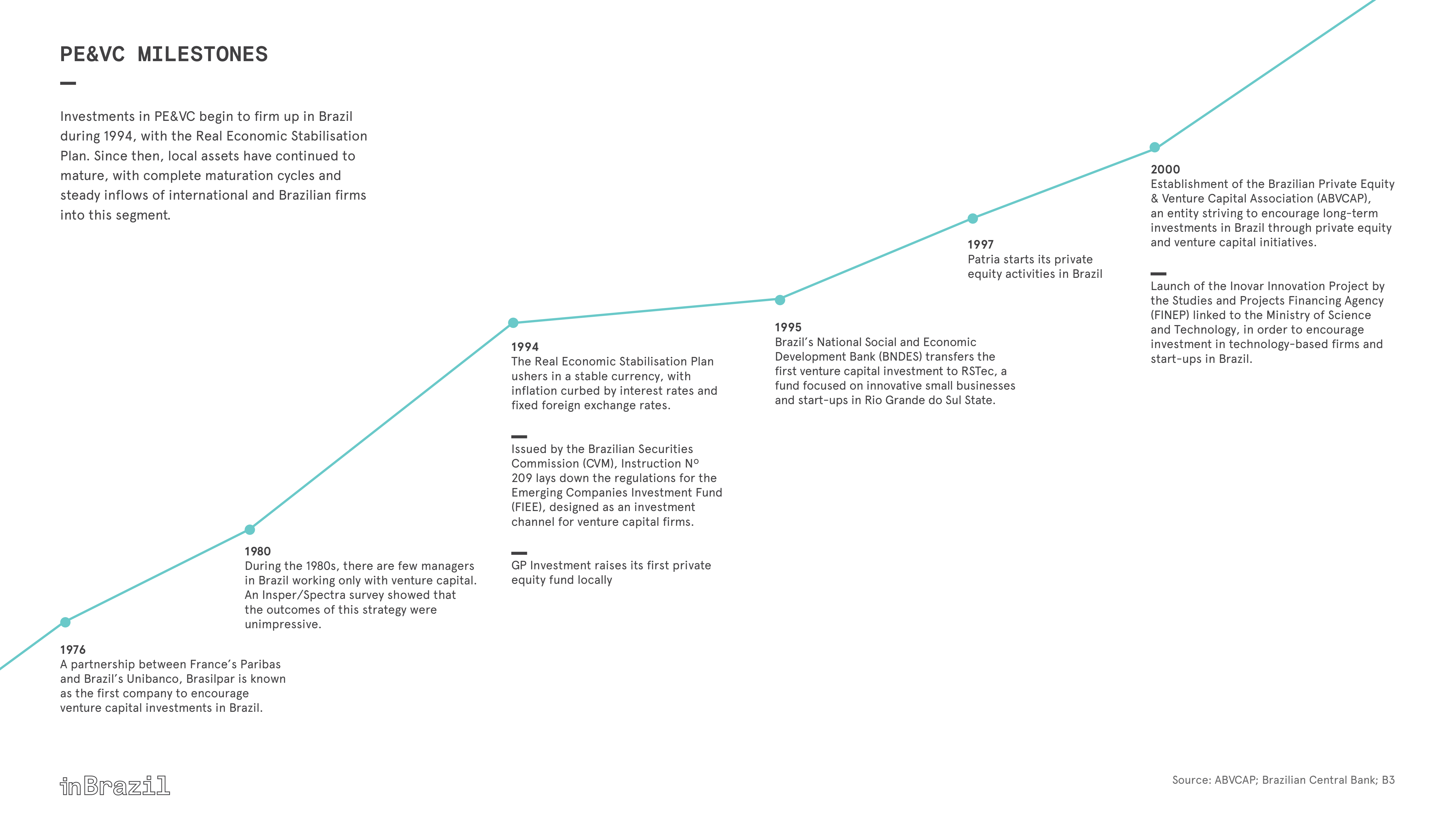
The regulatory context for setting up Equity Investment Funds (FIPs), tax treatment, Brazil’s capital market and entrepreneurship are among the mainsprings of the private equity and venture capital industry in Brazil, according to the LAVCA Scorecard, prepared by the Association for Private Capital Investment in Latin America .

Despite emphasizing the need to curb corruption, the Report acknowledges the efforts of the Courts to punish offenders in fraud cases. Furthermore, the recent reform of Fund regulation by the Brazilian Securities Commission (CVM) was mentioned as a major step forward for the industry.

2017/2018 Scorecard	Argentina	Brazil	Chile	Colombia	Costa Rica	Dominican Republic	Jamaica	Mexico	Panama	Peru	Uruguay	Israel	Spain	UK
Overall score	51	69	71	64	58	42	51	67	51	54	61	86	78	96
Laws on PE/VC fund formation and operation	1	4	3	3	2	2	2	3	2	2	2	4	4	4
Tax treatment of PE/VC funds & investments	2	3	2	2	3	1	2	2	2	1	3	3	4	4
Protection of minority shareholder rights	2	3	3	3	2	2	2	3	2	2	2	4	3	4
Restrictions on local institutional investors investing in PE/VC	1	2	2	3	1	1	2	3	2	3	2	4	3	4
Protection of intellectual property rights	2	2	3	2	3	1	2	2	2	2	3	3	3	4
Bankruptcy procedures/creditors’ rights/ partner liability	2	3	3	3	2	1	2	3	2	2	3	2	3	3
Capital markets development and feasibility of exits	2	3	3	2	2	1	2	3	2	2	2	3	3	4
Registration/reserve requirements on inward investments	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Corporate governance requirements	2	3	3	3	2	3	2	3	2	3	2	4	3	4
Strength of the judicial system	2	2	2	2	3	1	2	2	2	1	3	4	2	4
Perceived corruption	2	1	1	1	3	1	1	1	1	1	3	3	3	4
Quality of local accounting/use of international standards	4	4	4	3	4	3	3	3	3	4	3	4	4	4
Entrepreneurship	3	3	3	3	2	2	2	2	2	2	2	3	2	3

# PE&VC MILESTONES

Investments in PE&VC begin to firm up in Brazil during 1994, with the Real Economic Stabilisation Plan. Since then, local assets have continued to mature, with complete maturation cycles and steady inflows of international and Brazilian firms into this segment.



**1976**  
A partnership between France’s Paribas and Brazil’s Unibanco, Brasilpar is known as the first company to encourage venture capital investments in Brazil.

**1980**  
During the 1980s, there are few managers in Brazil working only with venture capital. An Insper/Spectra survey showed that the outcomes of this strategy were unimpressive.

**1994**  
The Real Economic Stabilisation Plan ushers in a stable currency, with inflation curbed by interest rates and fixed foreign exchange rates.

Issued by the Brazilian Securities Commission (CVM), Instruction N° 209 lays down the regulations for the Emerging Companies Investment Fund (FIEE), designed as an investment channel for venture capital firms.

GP Investment raises its first private equity fund locally

**1995**  
Brazil’s National Social and Economic Development Bank (BNDES) transfers the first venture capital investment to RSTec, a fund focused on innovative small businesses and start-ups in Rio Grande do Sul State.

**1997**  
Patria starts its private equity activities in Brazil

**2000**  
Establishment of the Brazilian Private Equity & Venture Capital Association (ABVCAP), an entity striving to encourage long-term investments in Brazil through private equity and venture capital initiatives.

Launch of the Inovar Innovation Project by the Studies and Projects Financing Agency (FINEP) linked to the Ministry of Science and Technology, in order to encourage investment in technology-based firms and start-ups in Brazil.

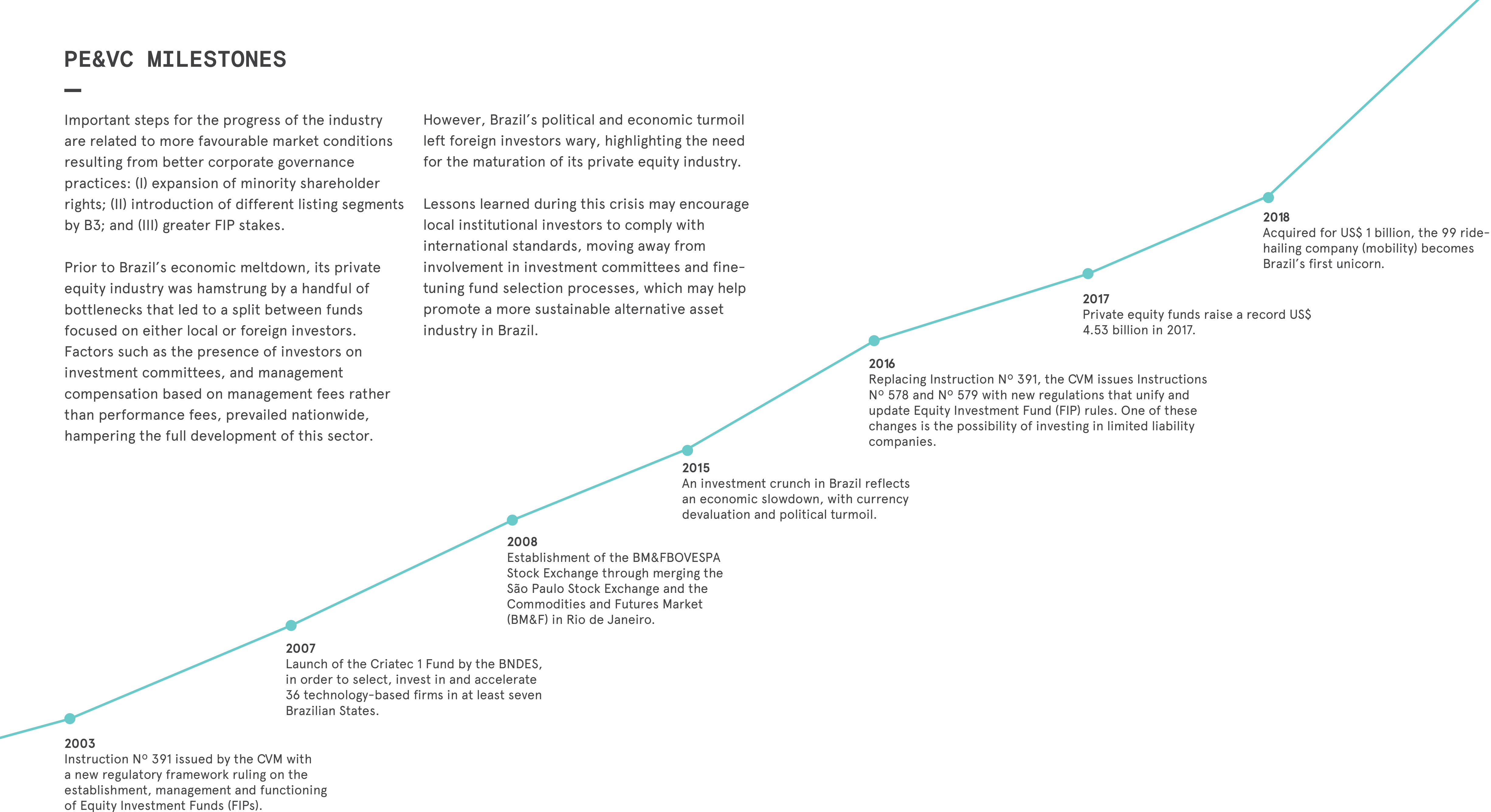
# PE&VC MILESTONES

Important steps for the progress of the industry are related to more favourable market conditions resulting from better corporate governance practices: (I) expansion of minority shareholder rights; (II) introduction of different listing segments by B3; and (III) greater FIP stakes.

Prior to Brazil’s economic meltdown, its private equity industry was hamstrung by a handful of bottlenecks that led to a split between funds focused on either local or foreign investors. Factors such as the presence of investors on investment committees, and management compensation based on management fees rather than performance fees, prevailed nationwide, hampering the full development of this sector.

However, Brazil’s political and economic turmoil left foreign investors wary, highlighting the need for the maturation of its private equity industry.

Lessons learned during this crisis may encourage local institutional investors to comply with international standards, moving away from involvement in investment committees and fine-tuning fund selection processes, which may help promote a more sustainable alternative asset industry in Brazil.



## 2.1 MAIN FIGURES

**Private equity & venture capital in Brazil**



With an upsurge in the amounts raised in Brazil, the relevance of foreign investors continued. Of the R\$ 13.6 million raised during the period, 83% was in foreign currency.

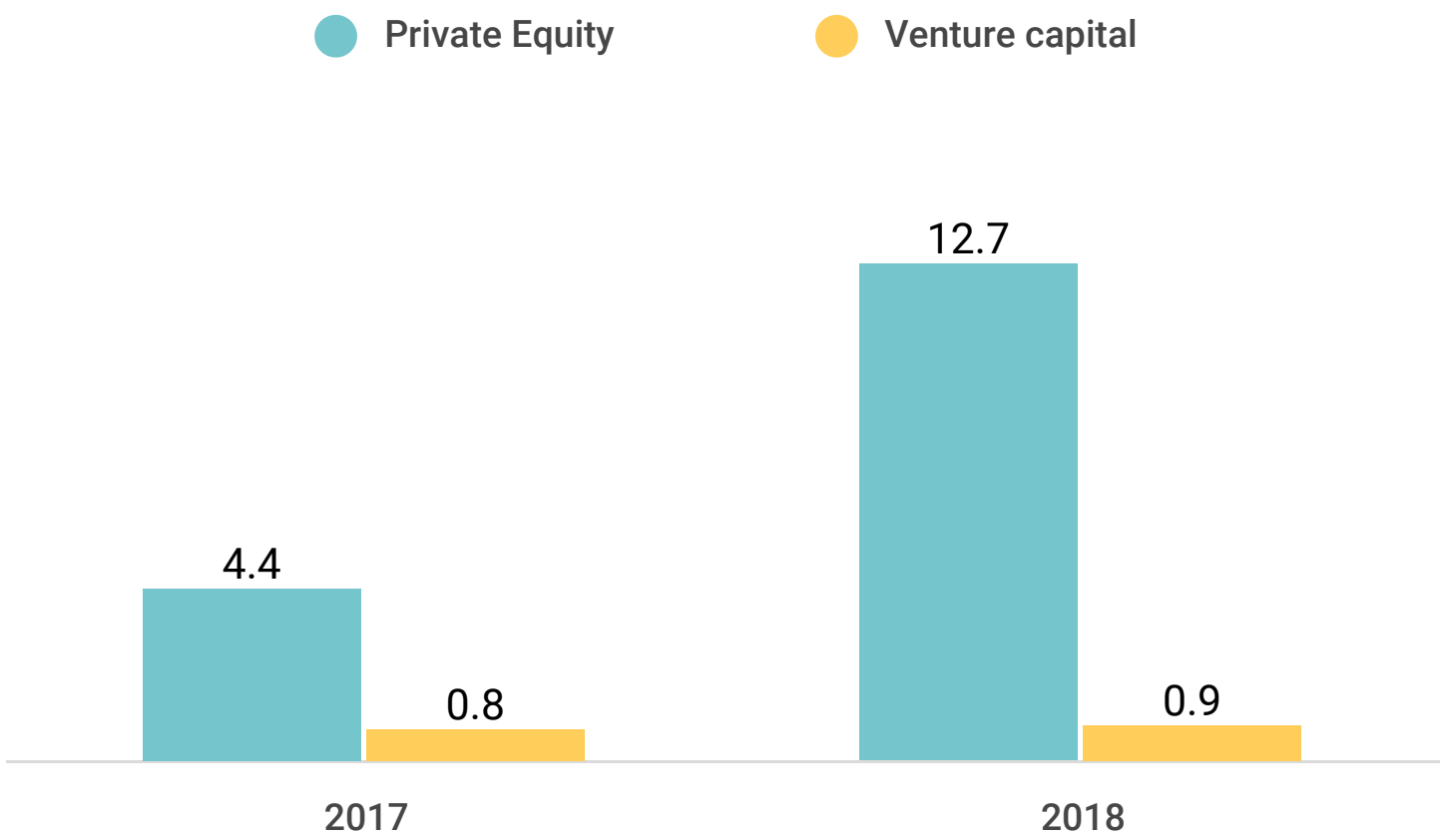
PE&VC FUNDRAISING

In 2018, the amount of private capital raised for investments in Latin America almost doubled, as shown in the graph released by the Emerging Markets Private Equity Association (EMPEA). In Brazil, the amount raised by private equity and venture capital funds rose by 162% to R\$ 13.6 billion, compared to R\$ 5.2 billion in 2017.

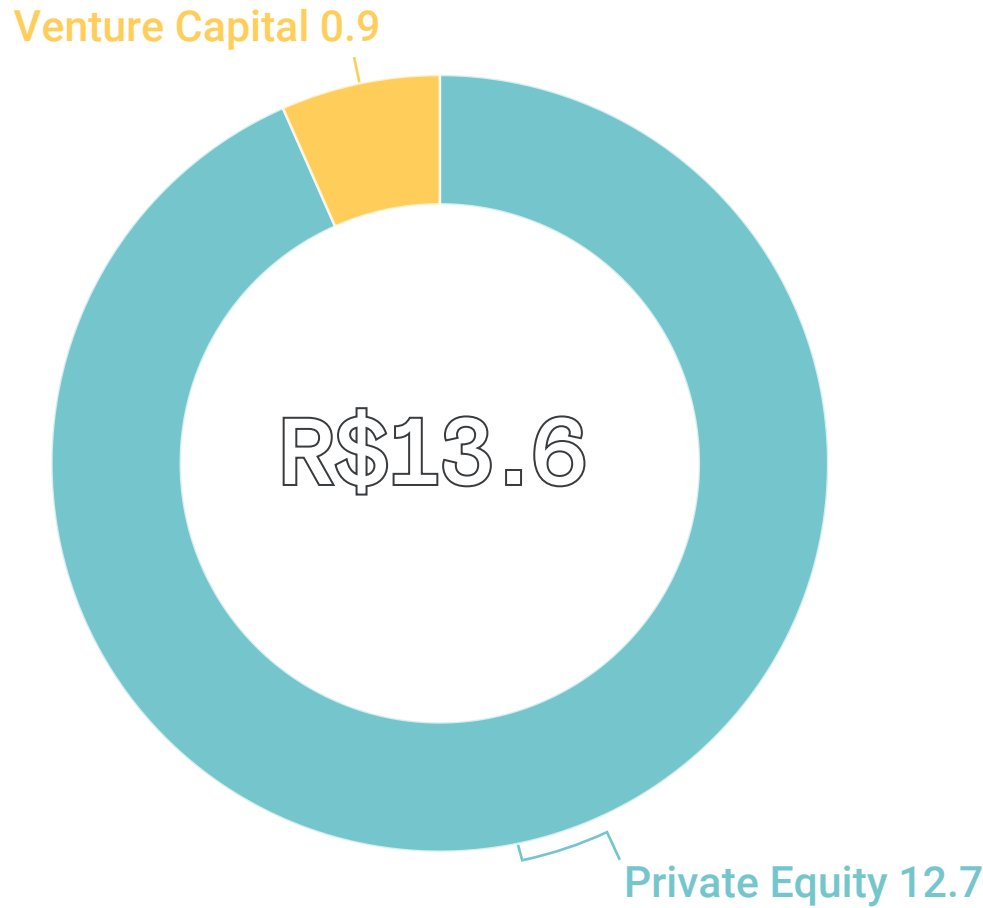
As divestments increase, with more funds in their final stages that now are paying back capital to their investors, it is natural for the uptake process to intensify; already apparent during the past couple of years, this process will continue in 2019.

International investors are vital for the Brazilian PE&VC industry, accounting for 83% of funding raised in 2018.

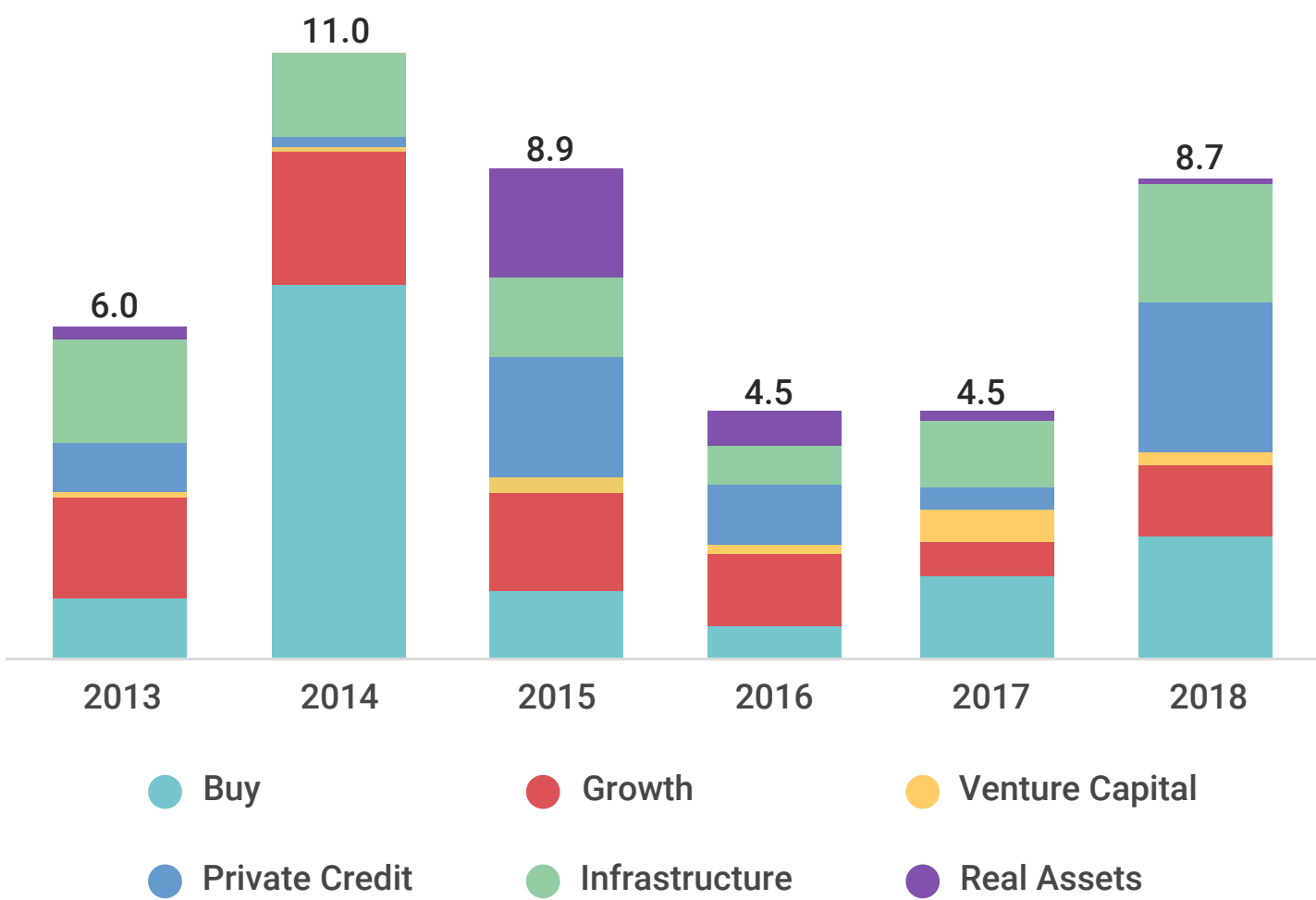
PE&VC fundraising in Brazil FY18 (R\$ billion)



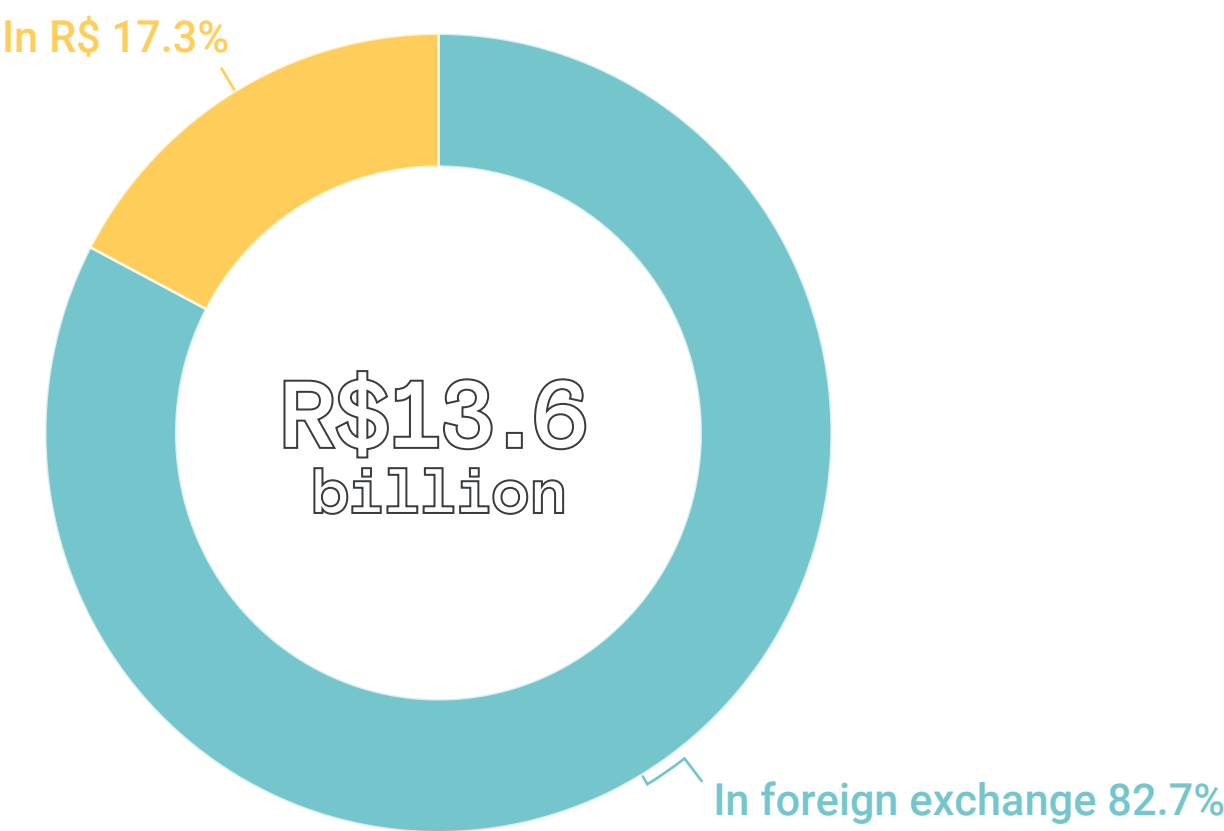
Fundraising by modality FY18 (R\$ billion)



Fundraising in Latin America by strategy FY13 - FY18 (US\$ billion)



Fundraising by currency FY18 (%)



The appetite of private equity funds for investments in Brazil is back with a bang, spurred by economic recovery and a widespread need to raise capital for expansion, particularly among medium-sized businesses.

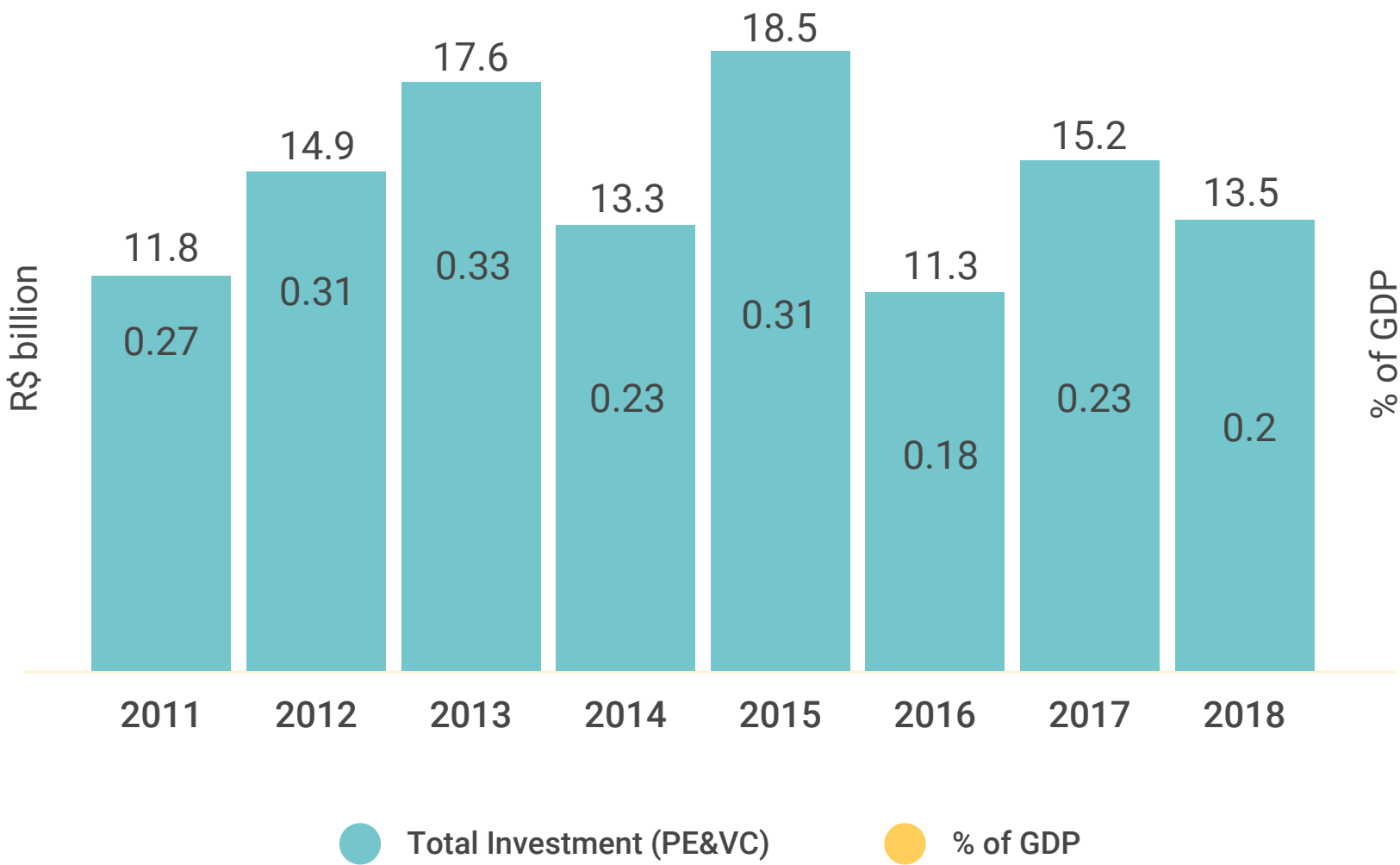
## AMOUNTS INVESTED IN PE&VC

In 2008, consolidated data prepared by KPMG and ABVCAP on the PE&VC industry reflected record-breaking venture capital investments of R\$ 6 billion, up 150% over R\$ 900 million in 2017. However, the total amounts invested by the industry dipped from R\$ 15.2 billion in 2017 to R\$ 13.5 billion in 2018, for both private equity and venture capital.

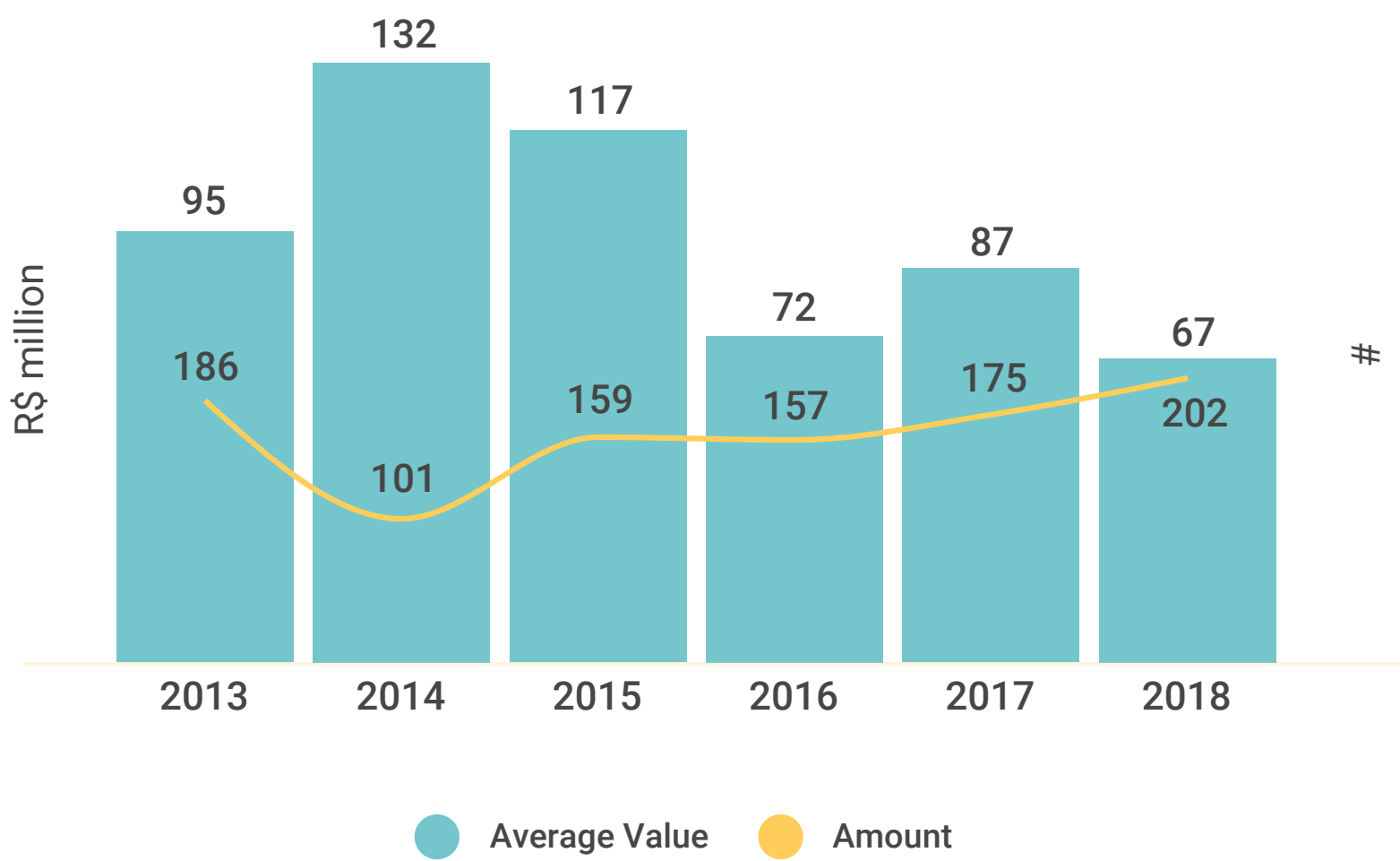
Furthermore, there was a 15% increase in the number of target companies over the period, reaching 202 compared to 175 in 2017. Among them, the sectors absorbing the highest amounts of funding in 2018 and Brazil were financial services, food and beverages, education, and retail.

Total investments by PE&VC funds in Brazil topped R\$ 13.5 billion in 2018, of which R\$ 7.5 billion consisted of private equity and R\$ 6 billion in venture capital, invested in 202 companies.

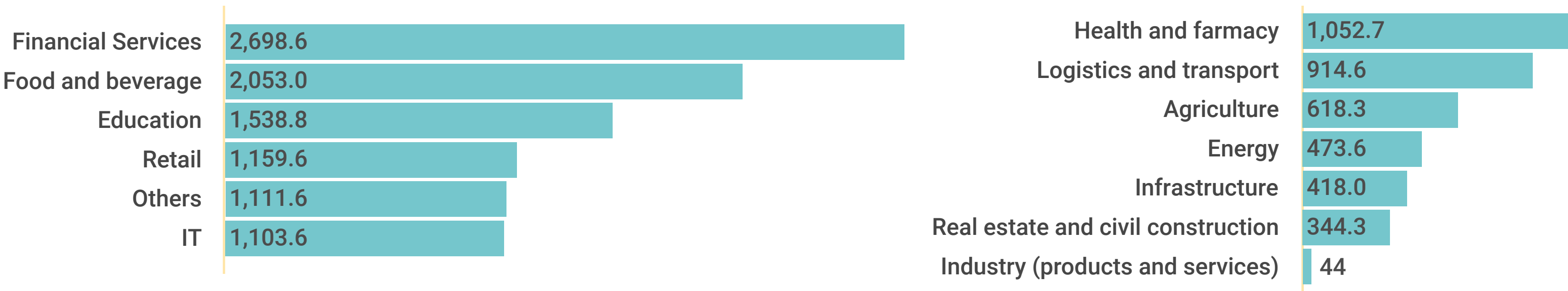
Total investment and as a percentage of Brazilian GDP FY11 – FY18 (R\$ billion)



Amount of invested companies and average value of investments in Brazil FY13–FY18



Volume of investment in main sectors FY18 (R\$ million)



The total amount of capital committed by the industry has been rising steadily, still with a very significant share held by foreign capital, pension funds, and institutional investors.

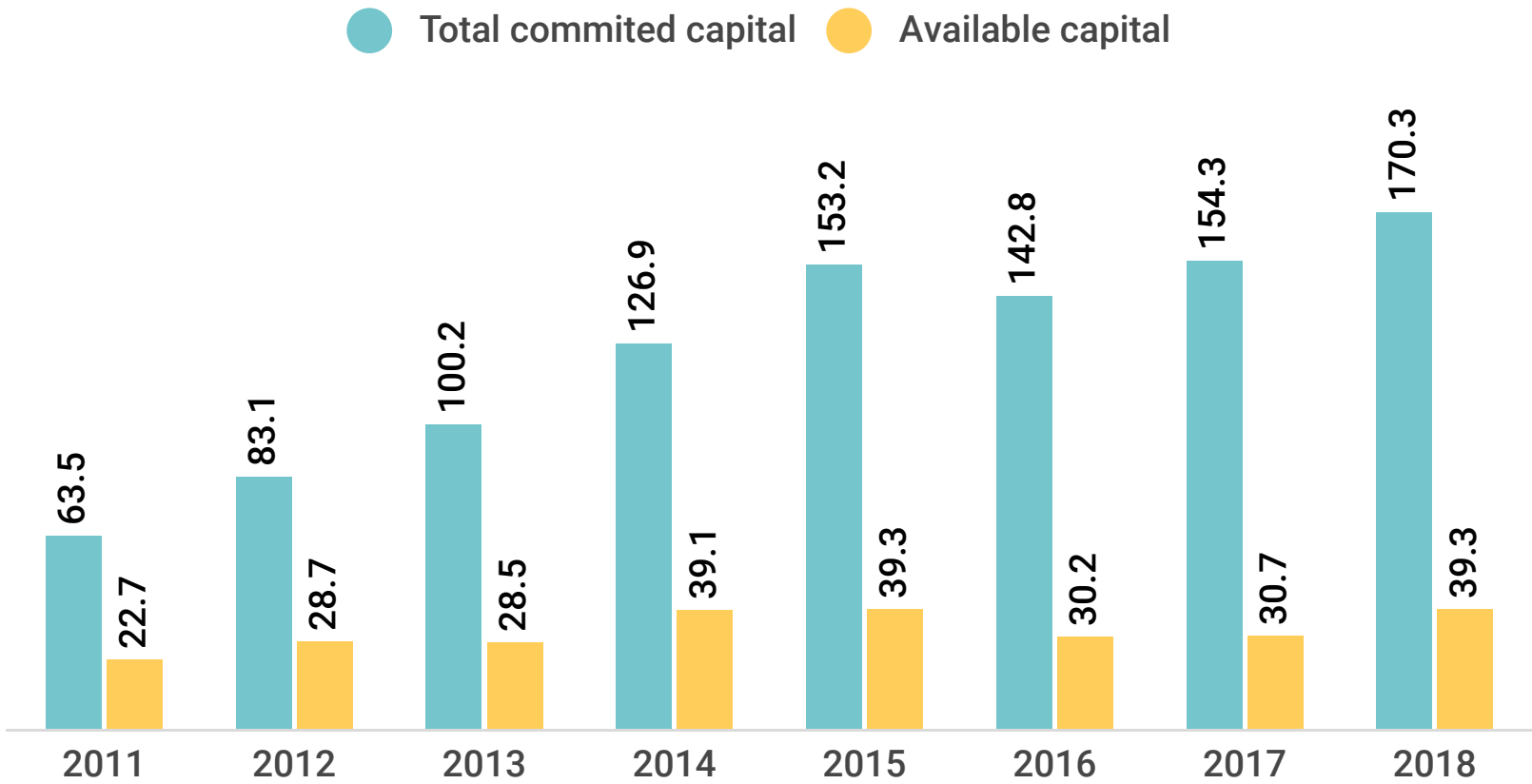
COMMITTED CAPITAL – PE&VC

In 2018, Total Committed Capital rose to R\$ 170.3 billion, up 10% over the previous year. These figures underpin the view that foreign and domestic investors believe in the solidity of Brazil.

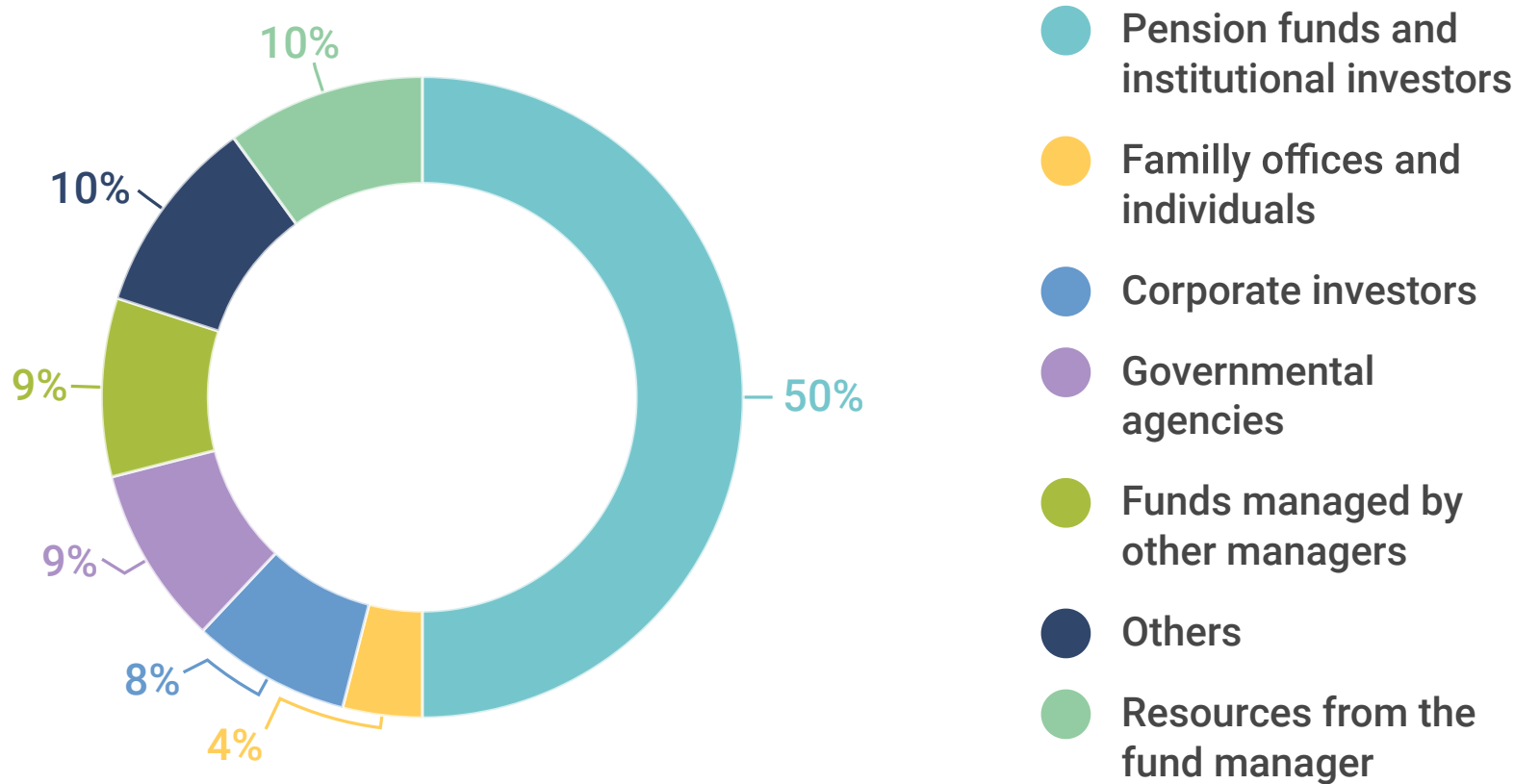
Among new funds and others already raised but not yet fully allocated, estimates indicate that private equity and venture capital managers have some R\$ 39.3 billion available for investments in Brazil.

The amount of committed capital in the PE&VC industry has been rising steadily since 2011, while the share held by foreign capital is expanding steadily.

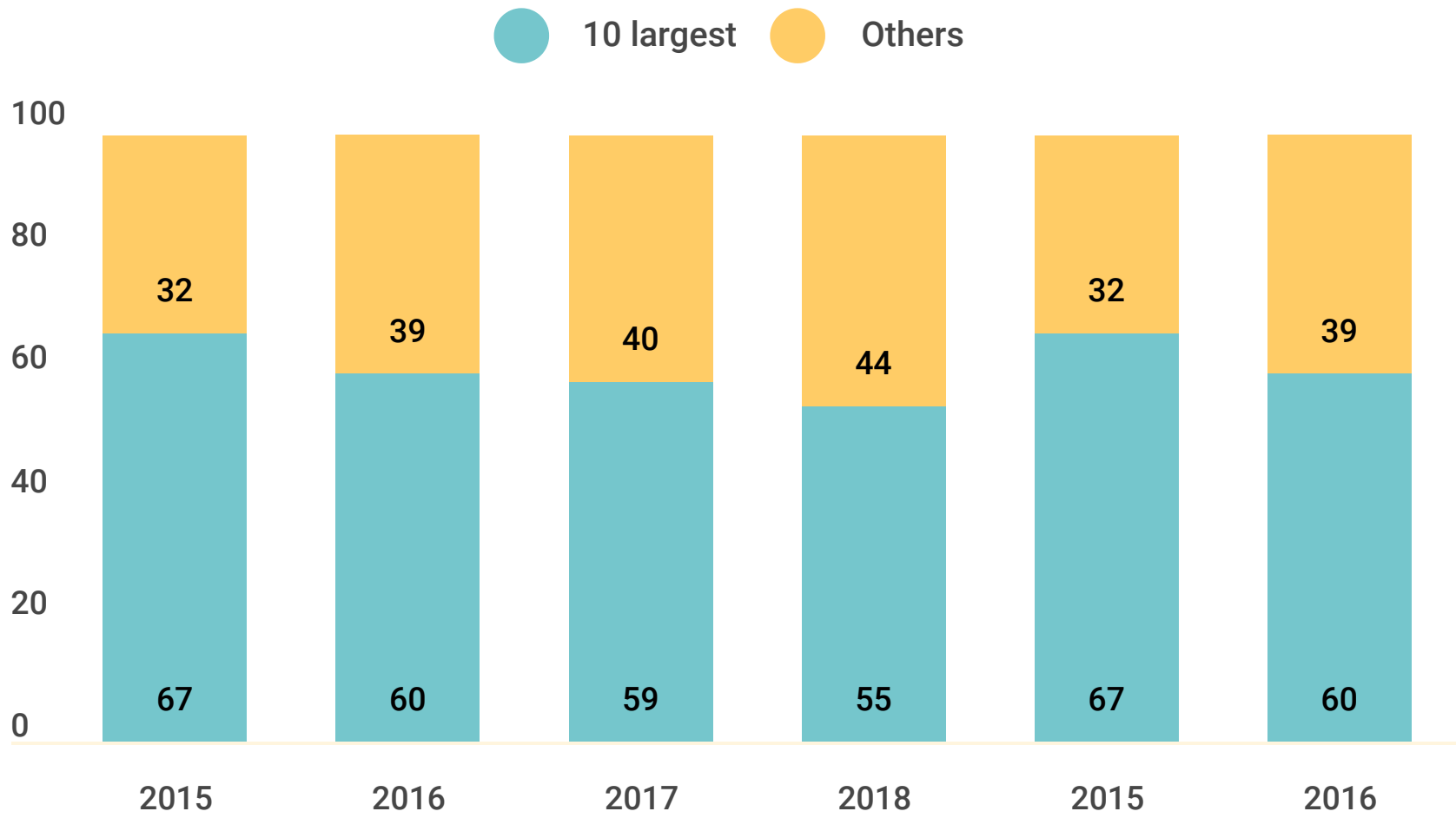
Committed capital and available for investments in PE/VC FY11-FY18 (R\$ billion)



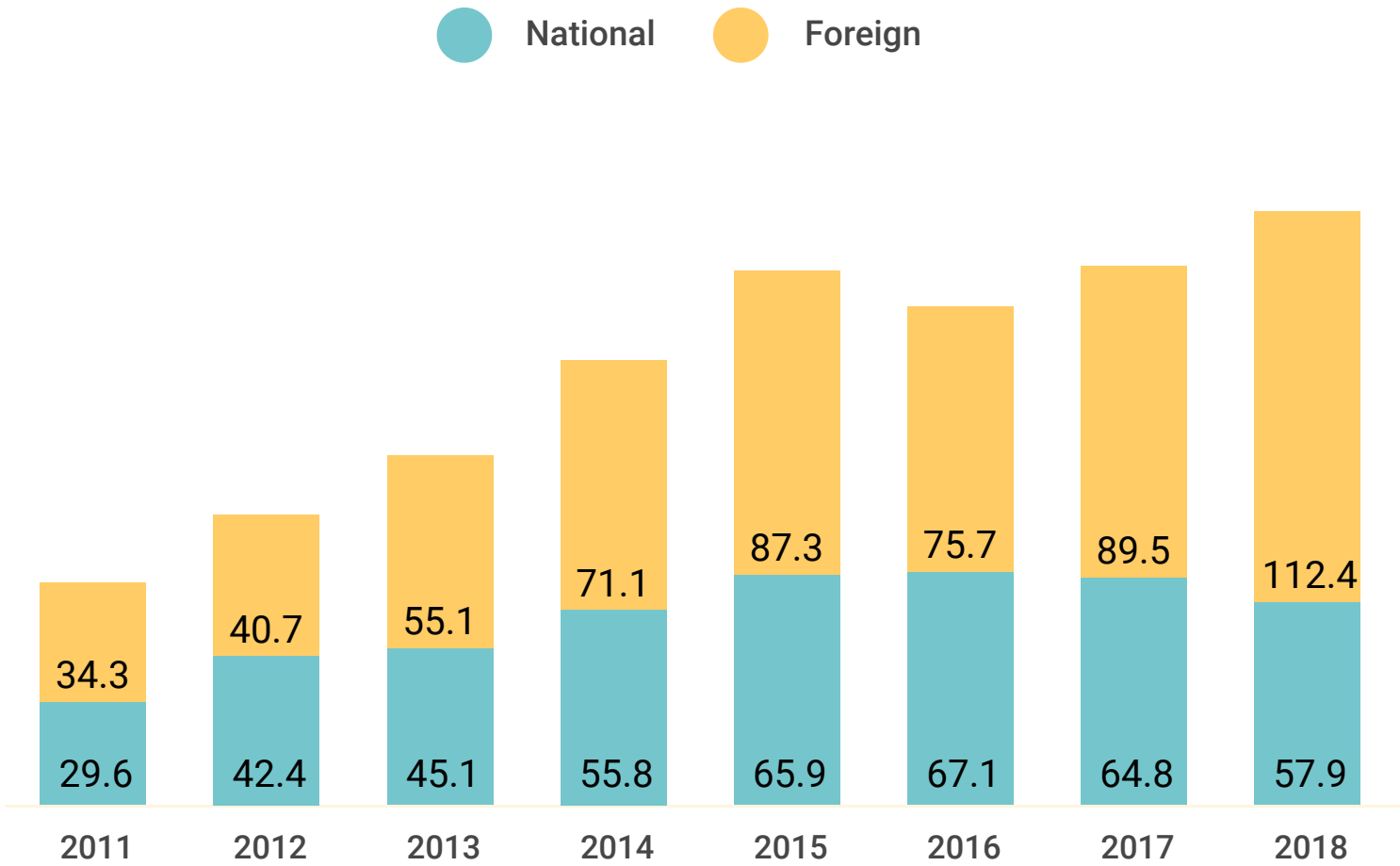
Committed capital by type of investor FY18



Top 10 fund managers by total committed capital in Brazil FY15-FY18



Committed capital in Brazil by origin FY11-FY17(R\$ billion)



In 2017, divestments reached a new high, continuing on through 2018, under the influence of a favourable IPO window that encouraged Brazilian companies to go public, firming up as a feasible alternative for moving out of investments.

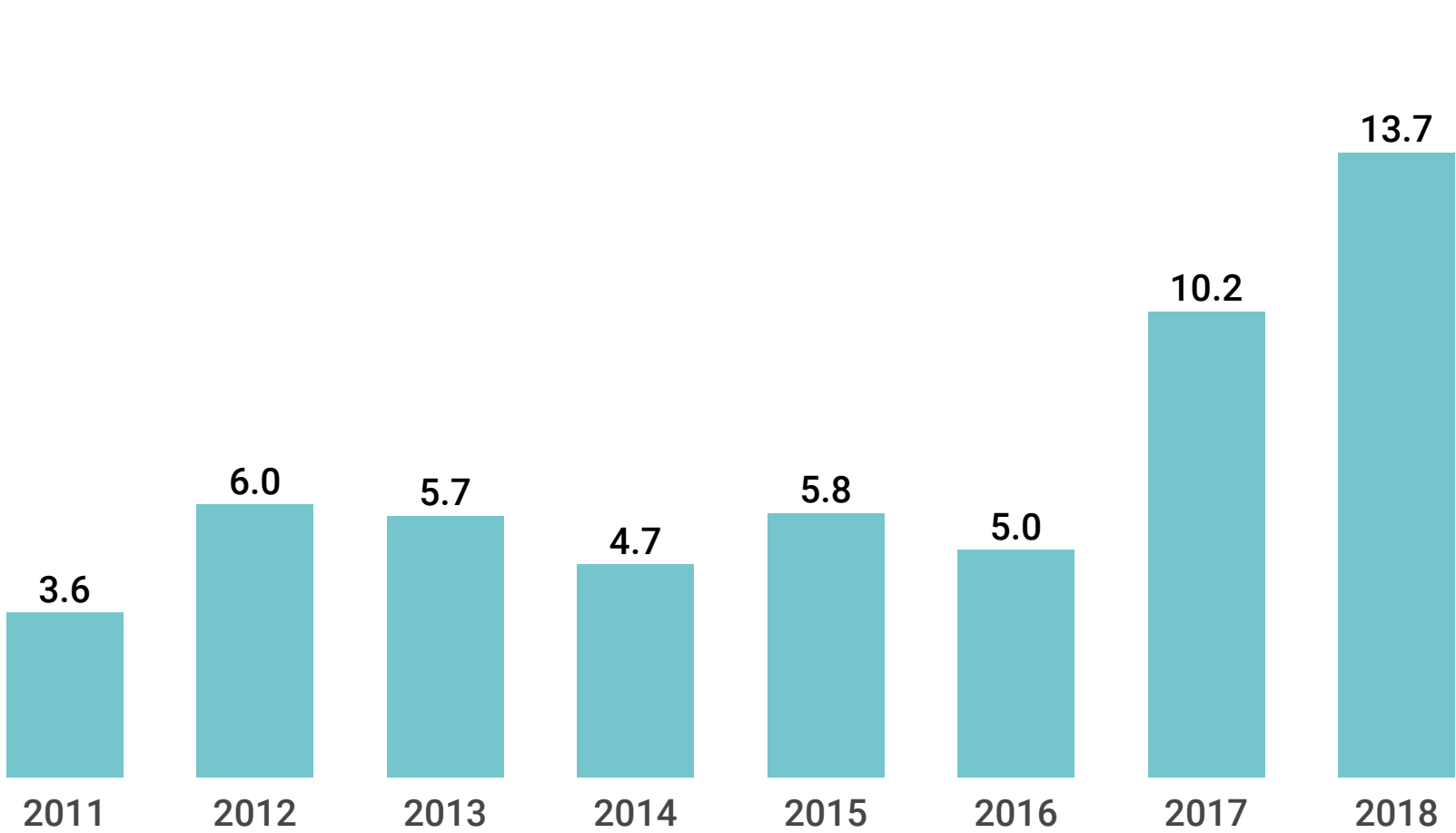
DIVESTMENTS – PE&VC

Reflected in the number of IPOs during the year, divestments by private equity and venture capital funds reached a historic high of R\$ 13.7 billion in 2018, up 34% over 2017.

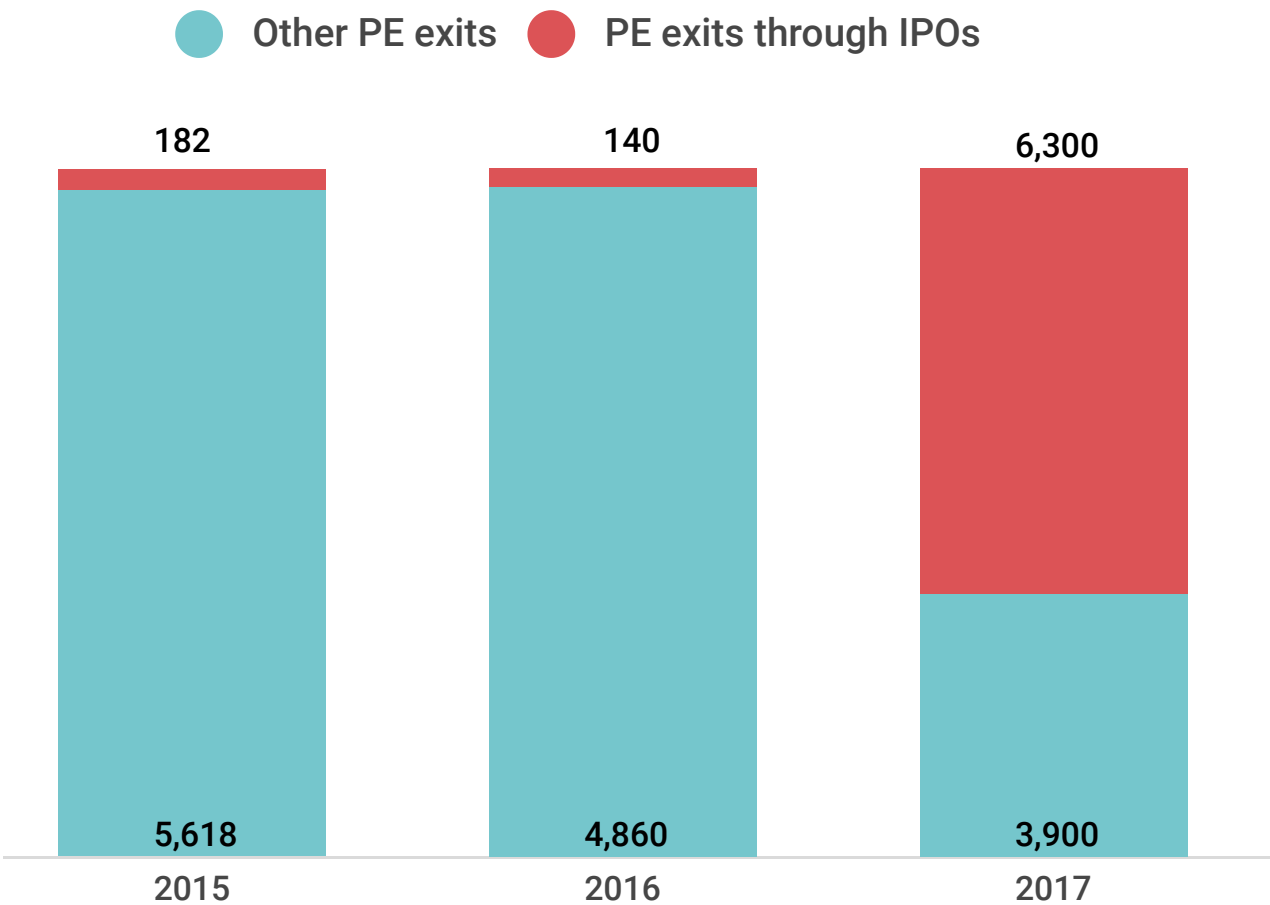
Since 2017, Brazil’s capital market has proved more attractive for stock offerings, with thirteen companies spending the equivalent to R\$26 billion during the past two years on Brazil’s B3 Stock Exchange.

Divestments by private equity and venture capital funds reached some R\$ 55 million in Brazil since 2011.

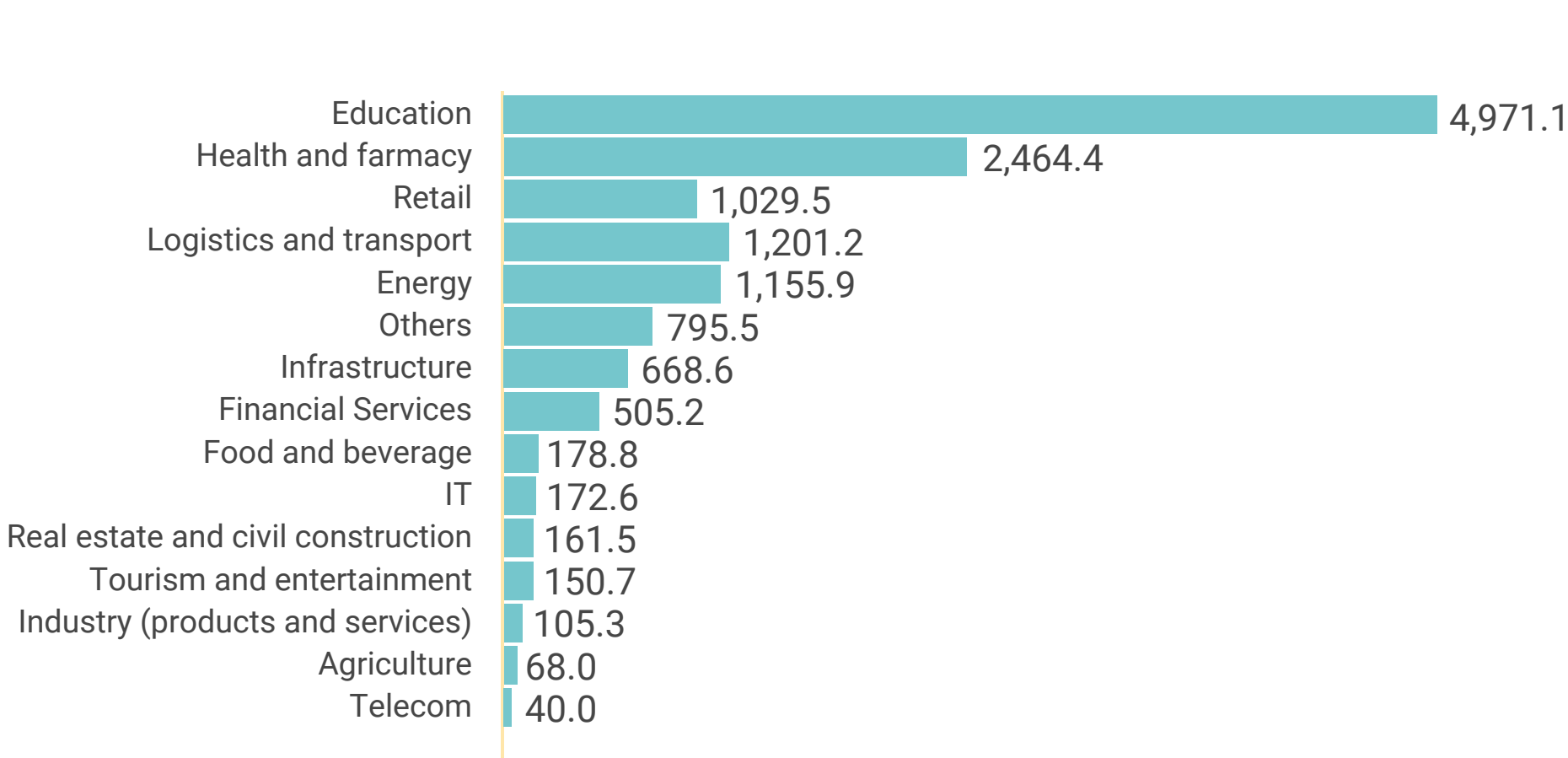
Divestments per year FY11 –FY18 R\$ billion



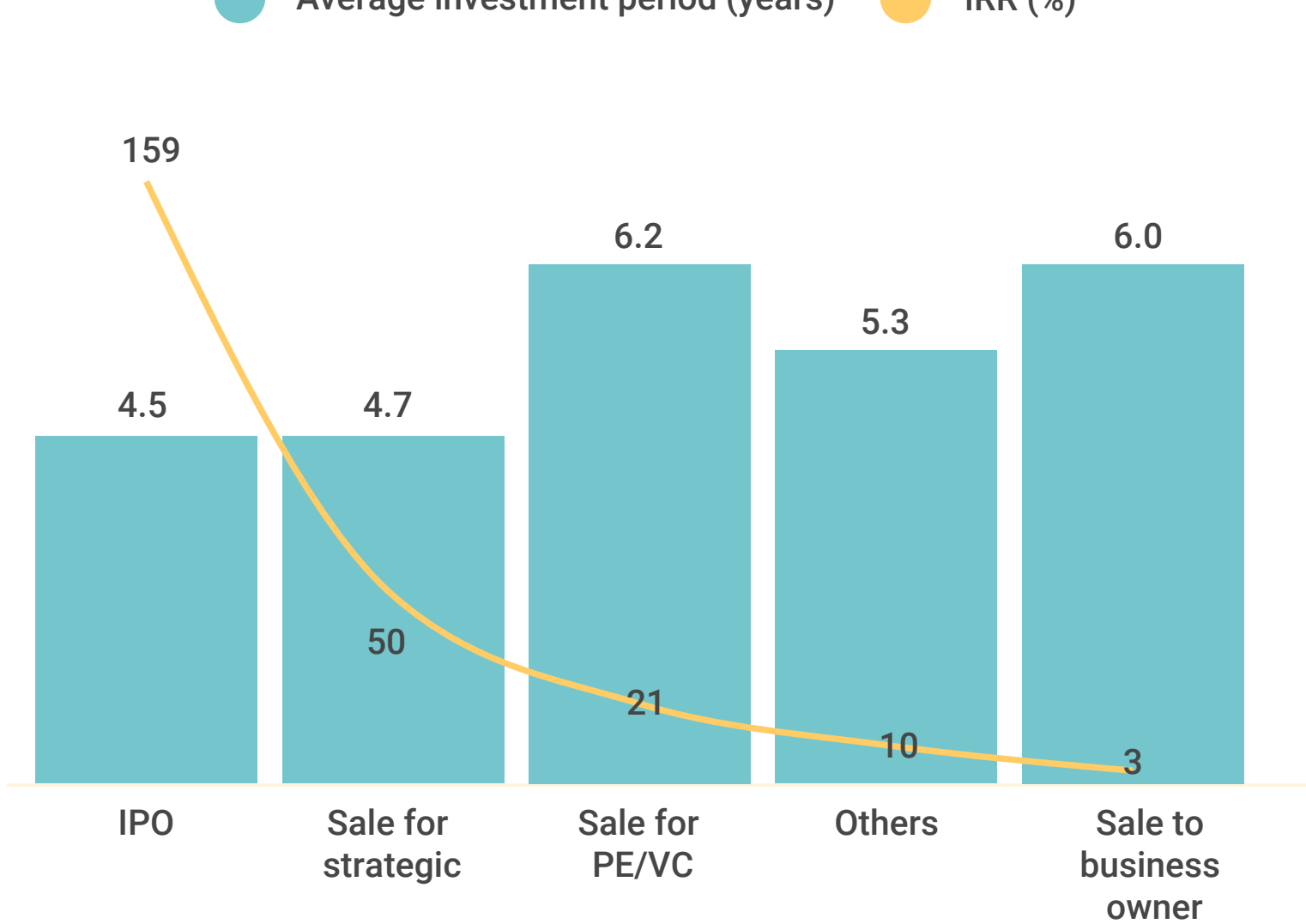
Divestments in Private Equity R\$ billion



Divestments in Brazil by sector FY13–FY18 (R\$ million)



Perfomance and average investment period by exit strategy FY17





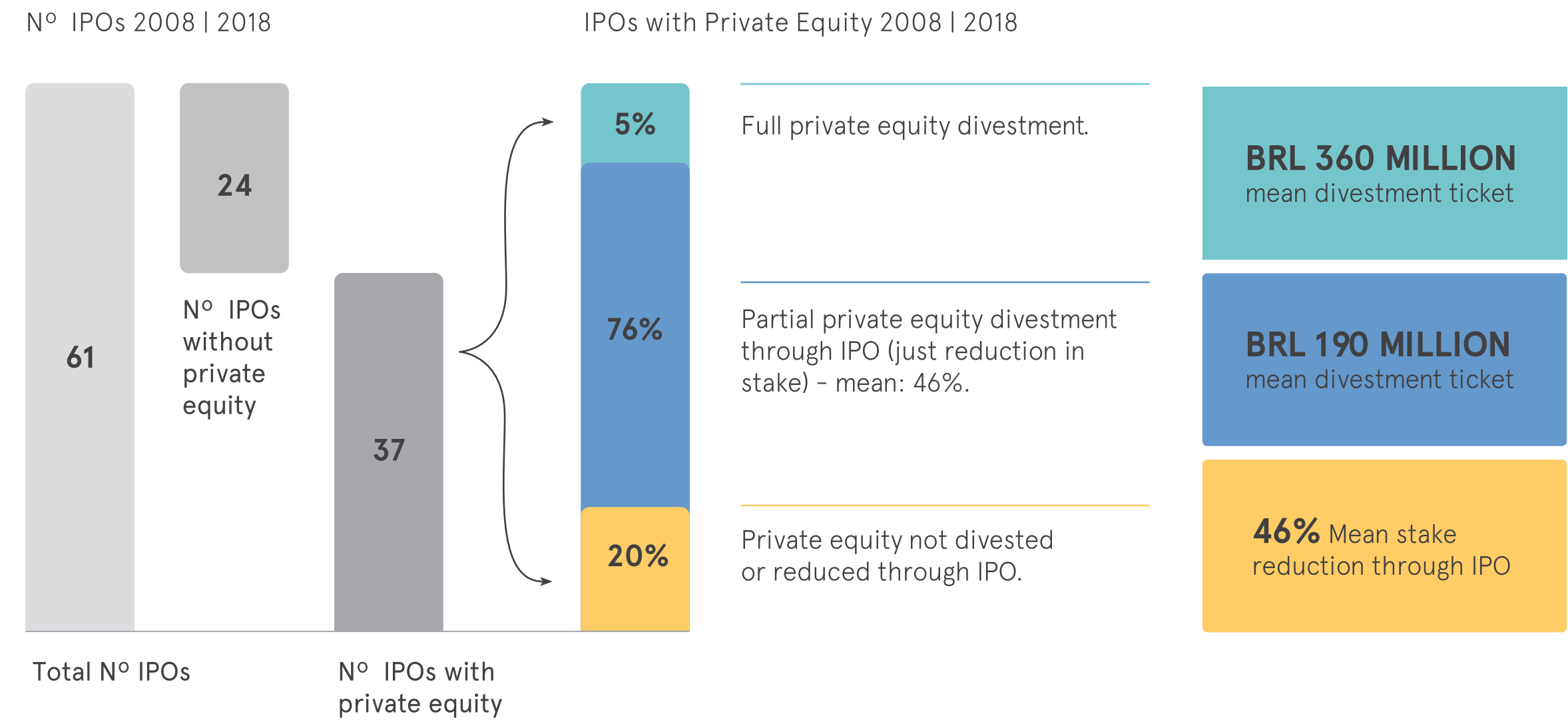
While providing a feasible exit alternative for private equity and venture capital investments in Brazil, stock offerings also firmed up their position as one of the most profitable options, especially for investors continuing as partners and merely diluting their stakes.

DIVESTMENTS - PE&VC

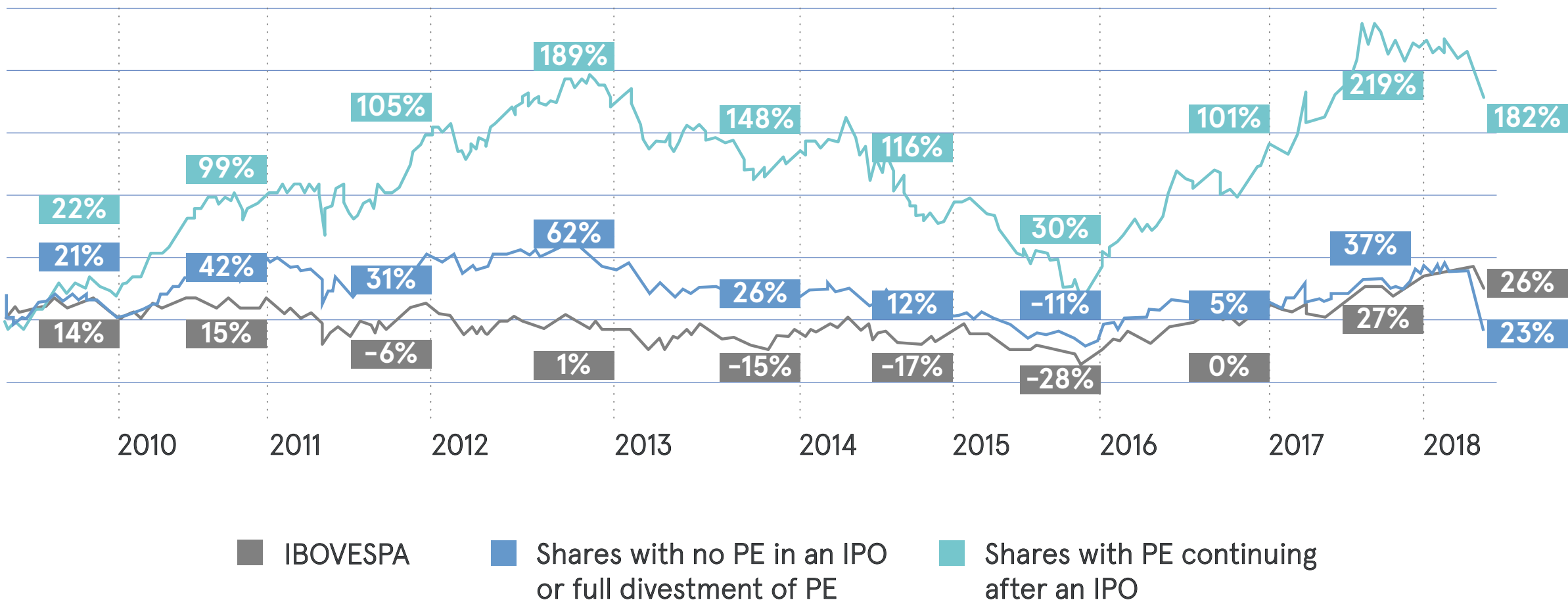
In 2018, 61% of divestments (including partial sell-offs) by private equity funds were handled through stock market offerings. Funding raised by companies going public in Brazil (particularly in 2017 and 2018) reached R\$ 26 billion, of which R\$ 14.7 had private equity funds as investors, thus consolidating this exit alternative for private equity funds.

Furthermore, as shown previously, divestment performances with market exits proved far superior to other options. When compared to the IPOVESPA Index, shares issued by companies with private equity investors outperformed this Index. Moreover, those retaining investor partners with only partial departures tended to move away from the Index, with much better performances.

IPOs of PE invested companies FY08 - FY18



Performance comparison: stocks which investors exited total ou partially compared to IBOVESPA



Disregarding prices in 2015 and 2016 that resulted from shrinking corporate profits during the recession, businesses with attractive valuations in private equity and venture capital have remained the norm in Brazil since 2013.

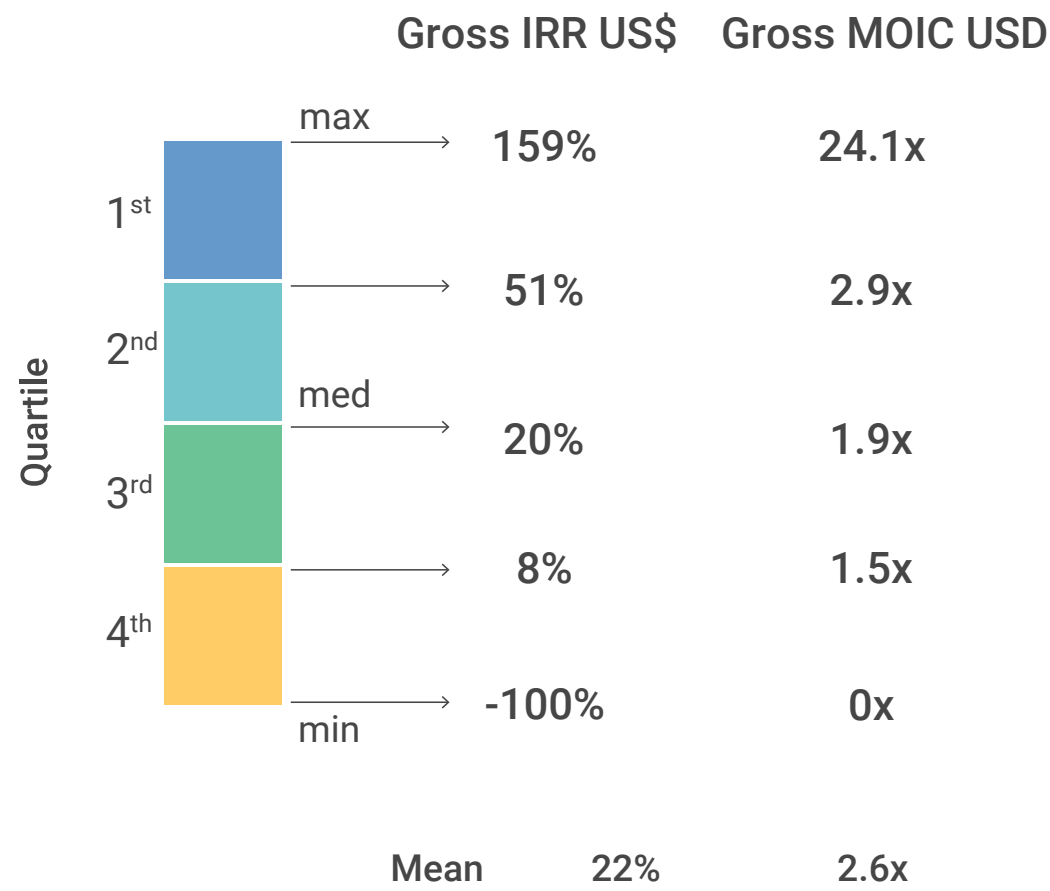
PROFITABILITY – PE&VC

According to an Insper/Spectra study, the mean gross internal rate of return in US dollars of Brazilian PE&VC funds is 22%, while the mean gross MOI is 2.6x. Similar to the international industry, with performances scattered widely between best and worst, the highest internal rate of return peaked at 159% and the lowest dipped to -100%.

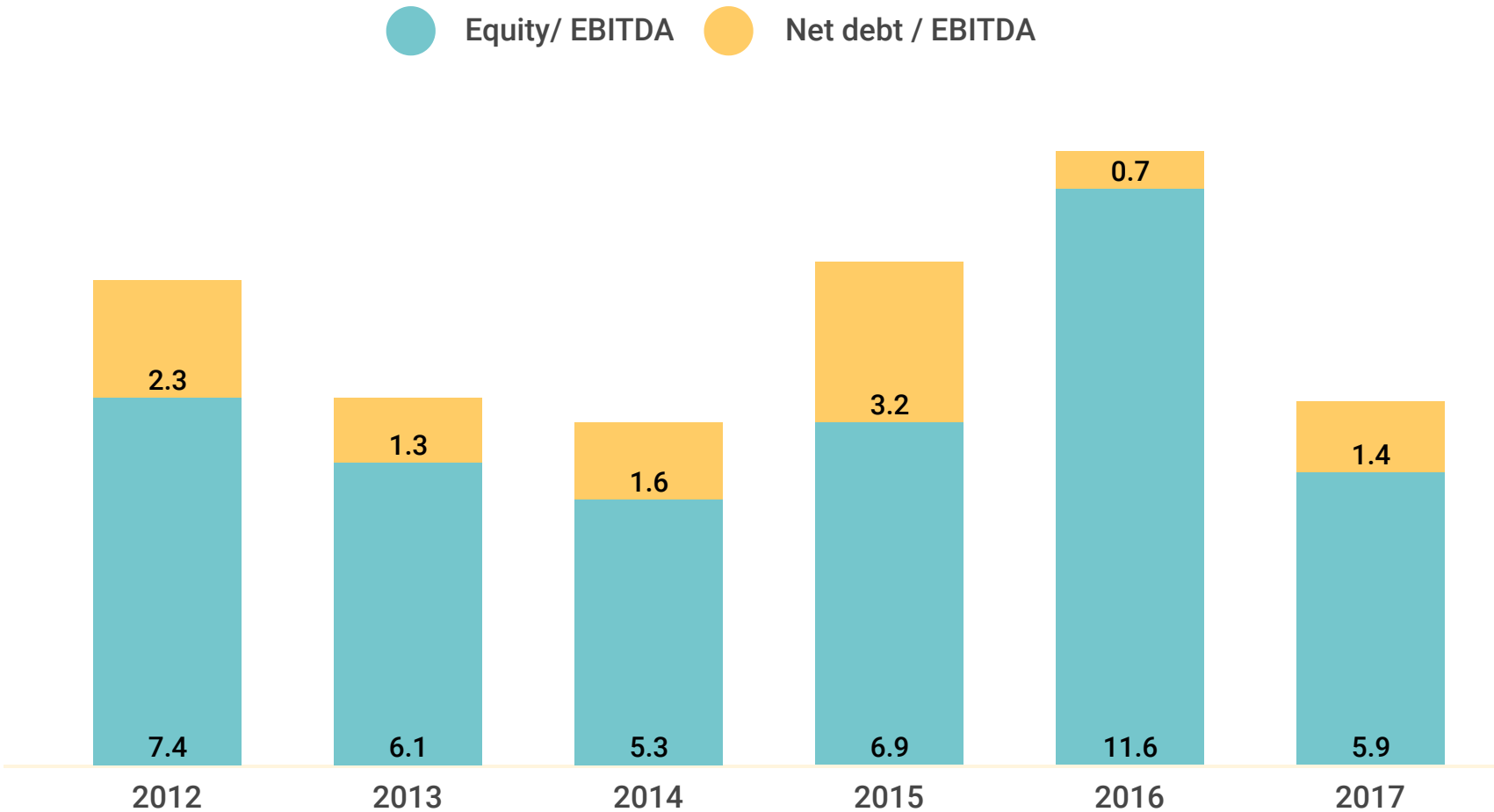
Despite recent crises, PE&VC deals performed well overall between 1994 and March 2018. The average gross multiple of invested capital (MOIC) in US\$ was 2.6x and the median was 1.3x. The maximum MOIC for PE was 34x and 60x for VC (see Exhibit 7). More than 60% of the deals had positive returns (with the MOIC topping 1.0x), and almost 30% returned more than 2.5x invested capital (see Exhibit 8). Similar to the global industry, VC deals had a high write-off of 44%, but the 13% of deals with outstanding returns drove the mean MOIC to 2.3x for VC deals.

Particularly with its recent recession, Brazil offers great opportunities for private equity managers to invest in companies that have been poorly managed and under-capitalised, providing funds that help them grow and bring in good returns.

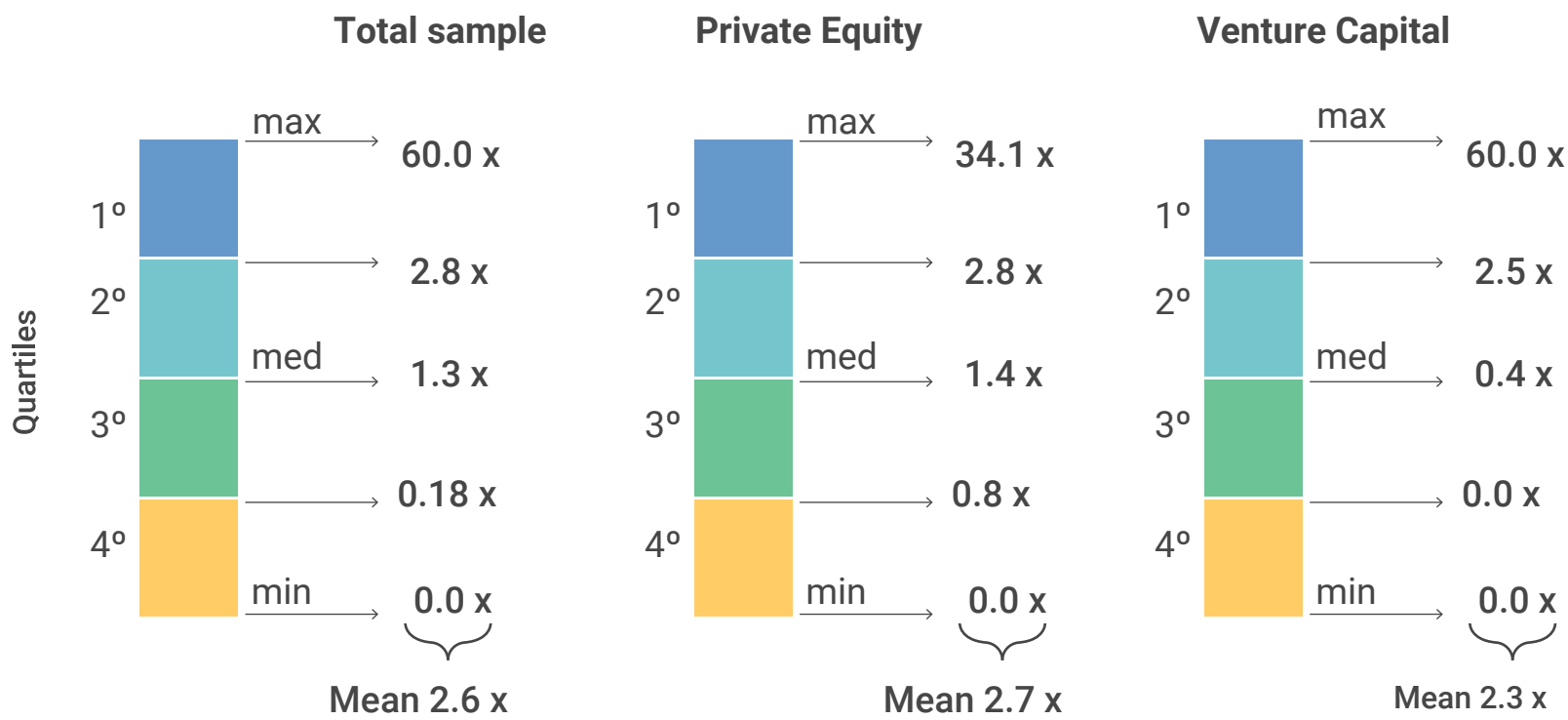
IRR of Brazilian PE/VC funds raised between 1982 and 2010



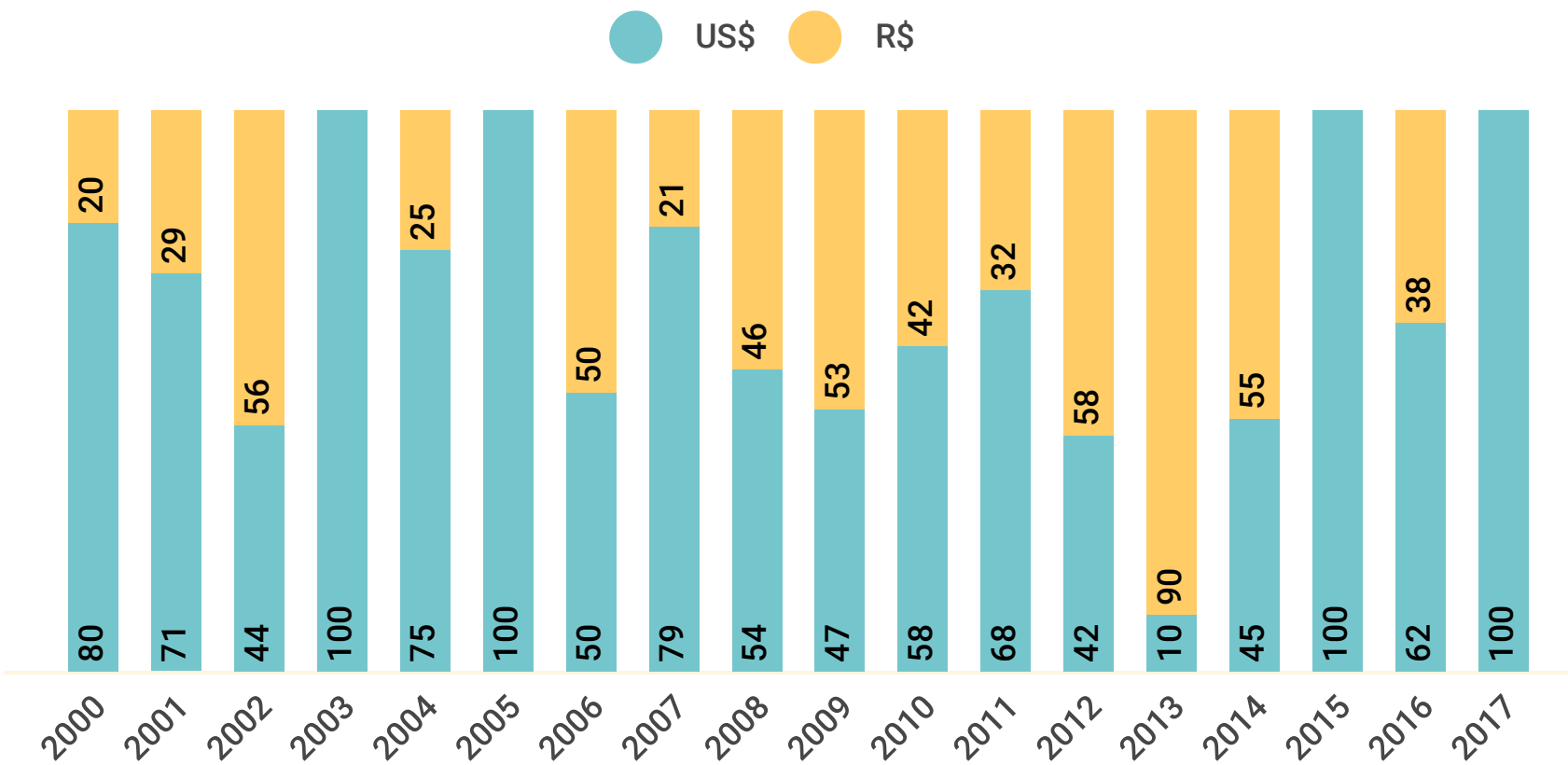
EV/ EBITDA of Brazilian transactions FY12–FY17



PE/VC deals performance in US\$ between 1994 e mar-18



Proportion of Brazil/LATAM dedicated funds raised in US\$ or R\$ FY00–FY17





As a result of the maturation process, some Brazilian private equity and venture capital funds are outperforming their counterparts in the USA, as shown by Insper/Spectra surveys.

PROFITABILITY – PE&VC

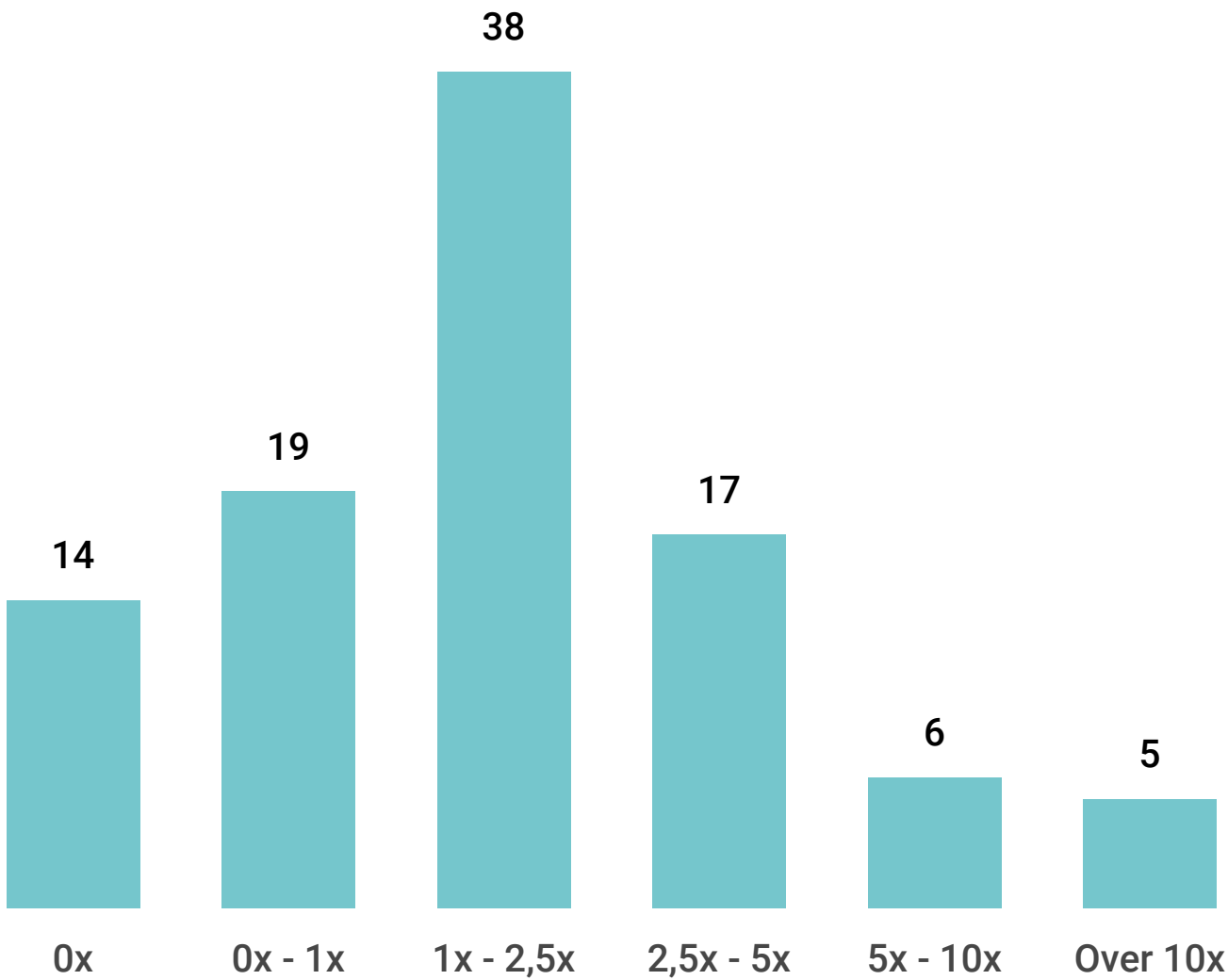
The Insper/Spectra study indicates that private equity investments generally performed well in Brazil between 1994 and March 2018. Similar to the international industry, there is a wide gap between the best and worst performing managers. In the analysis, first and second quartile funds in Brazil are classified as equal to or better than the global industry.

Despite the recent economic slowdown, venture capital investment returns have been improving since 2015, compared with figures for 1994 through to 2014.

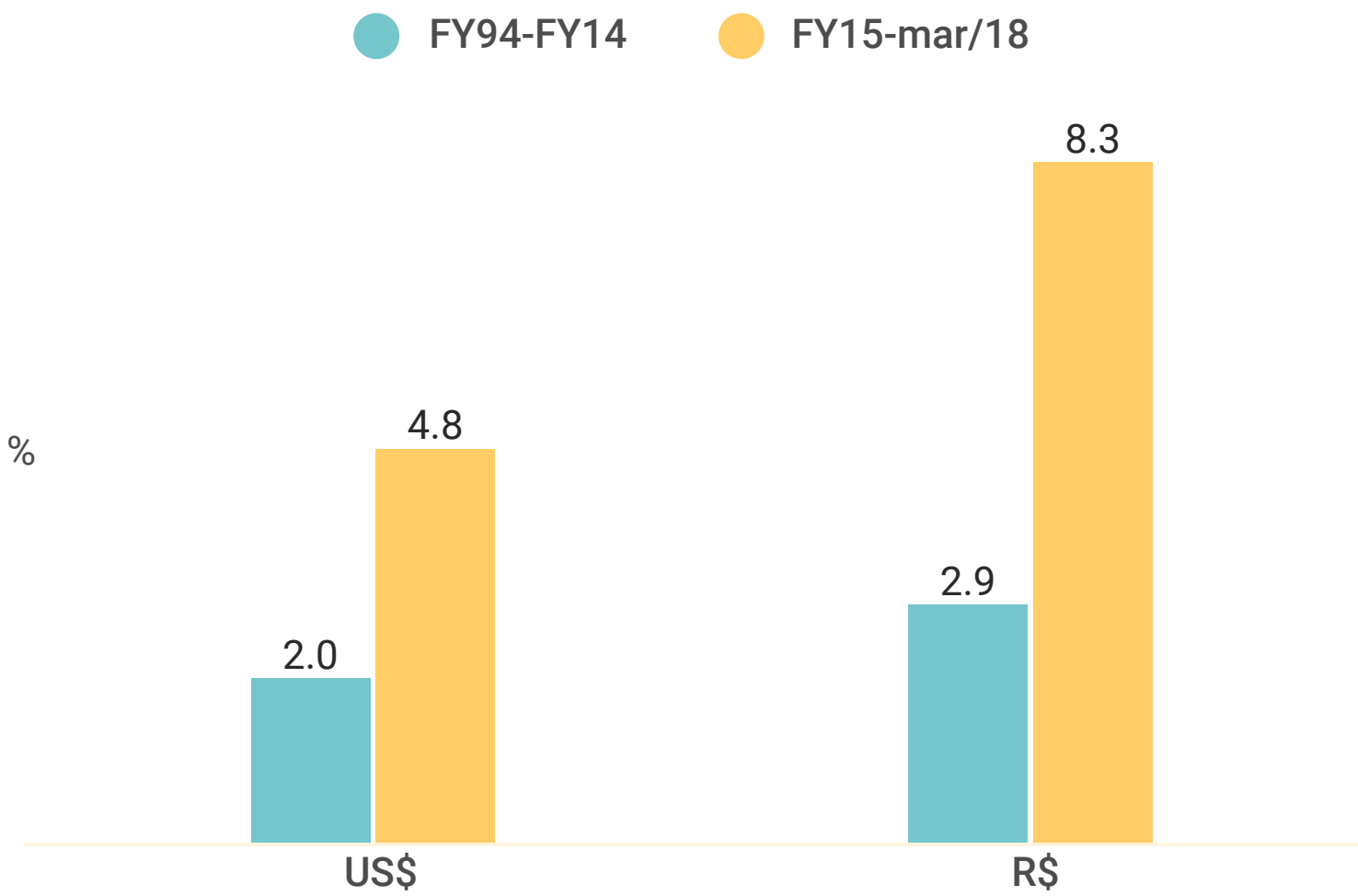
Although Brazil’s PE&VC industry is relatively young, it has many experienced fund managers: 72% of the PE&VC firms in the sample are at least six years old; 40% were established more than ten years ago; 59% of them have set up two or more funds; and 34% have set up three or more funds.

The Brazilian PE/VC industry has been going through a natural renewal cycle, and investors are learning to be more selective in choosing a fund manager.

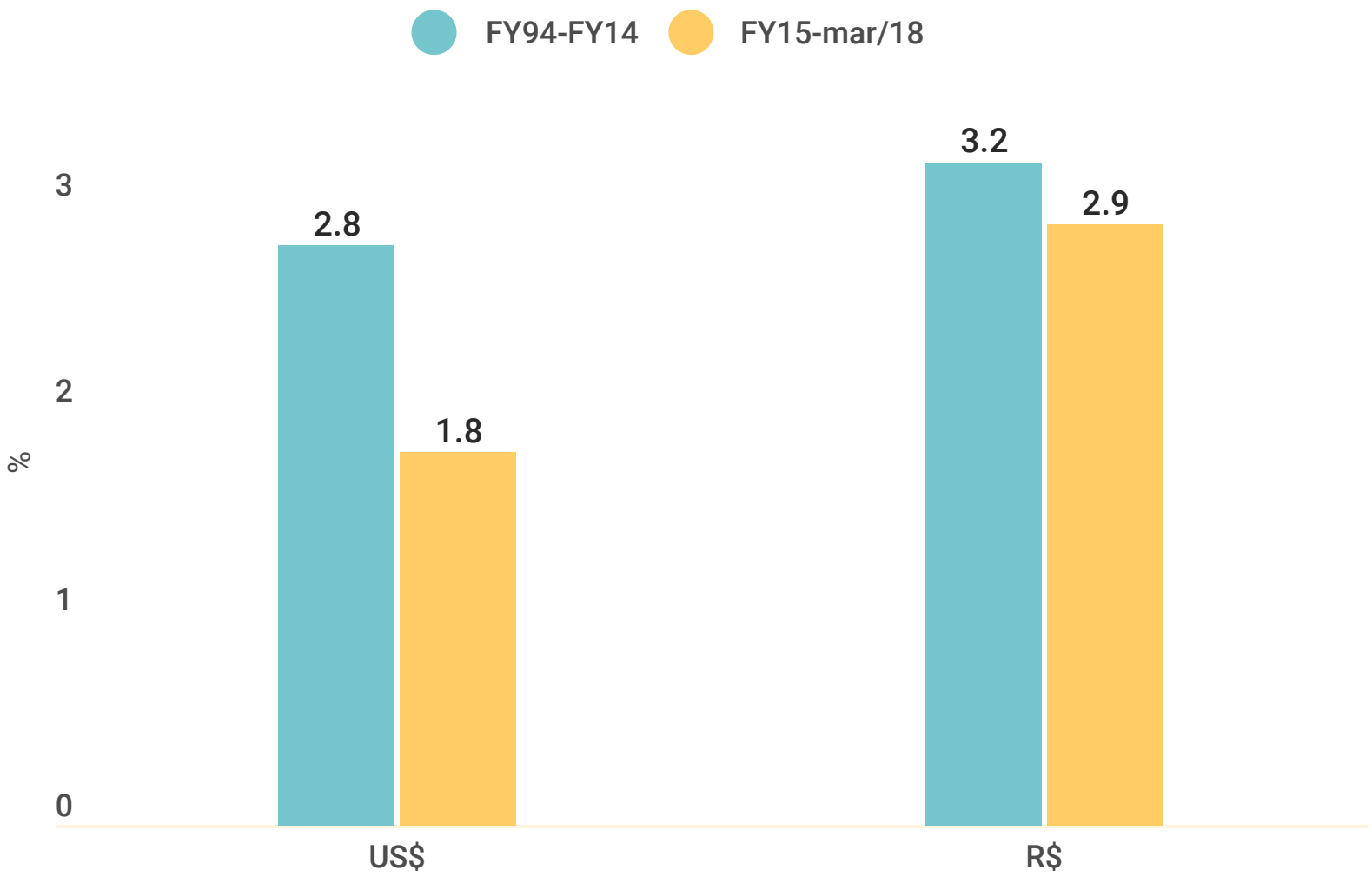
MOIC\* of private equity investments in US\$ in Brazil FY94 – mar 18



MOIC\* of venture capital investments in Brazil (before and after 2015 crisis)



MOIC\* of private equity investments in Brazil (before and after 2015 crisis)



\* Multiple of invested capital (MOIC)

## 2.2 Private Equity

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**Private equity & venture capital in Brazil**



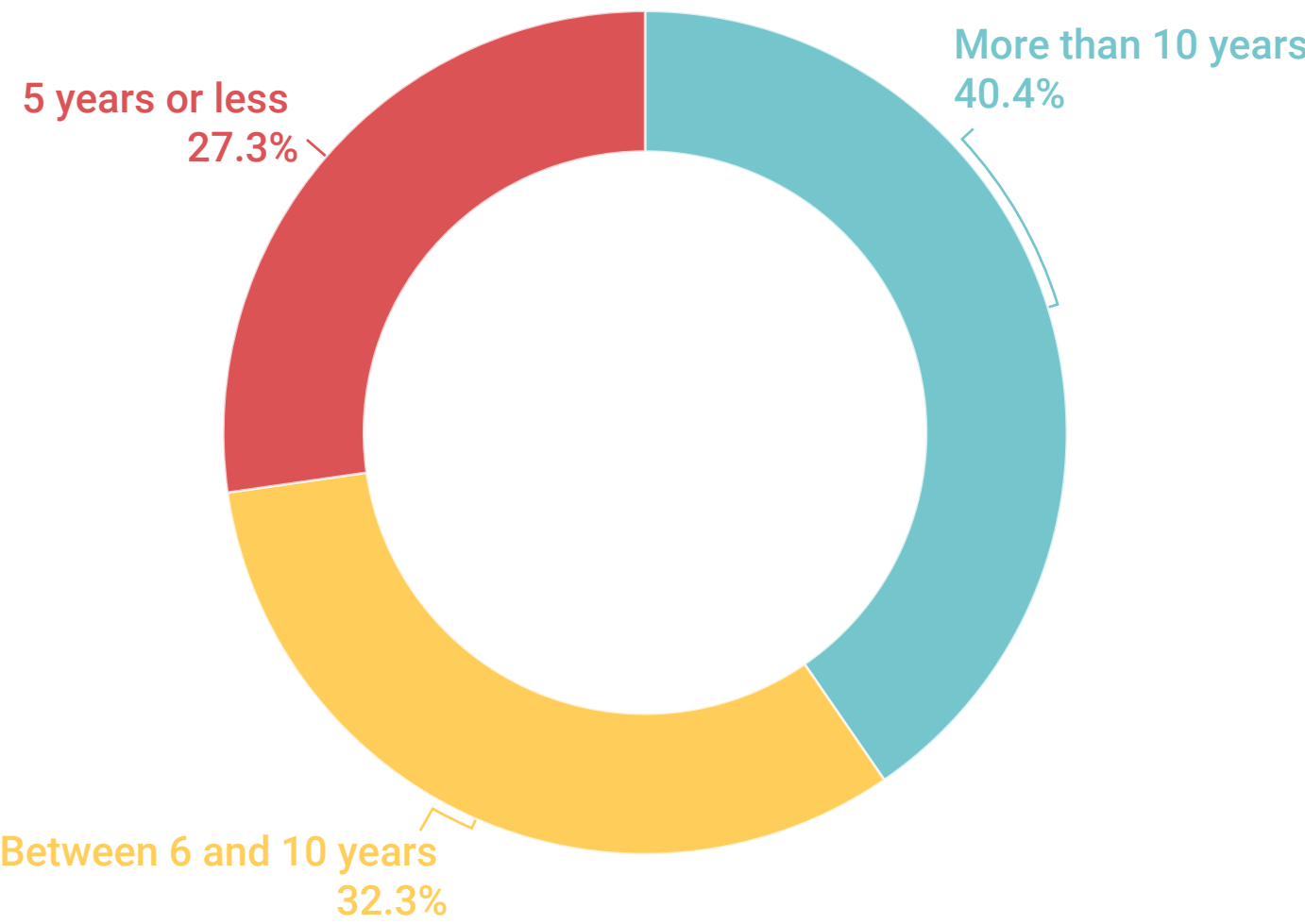
With experienced managers and a proven track record, Brazil’s private equity industry has already completed at least one investment cycle.

Almost half these private equity fund managers have been operating in Brazil for more than ten years, and have already or almost completed at least one complete investment cycle.

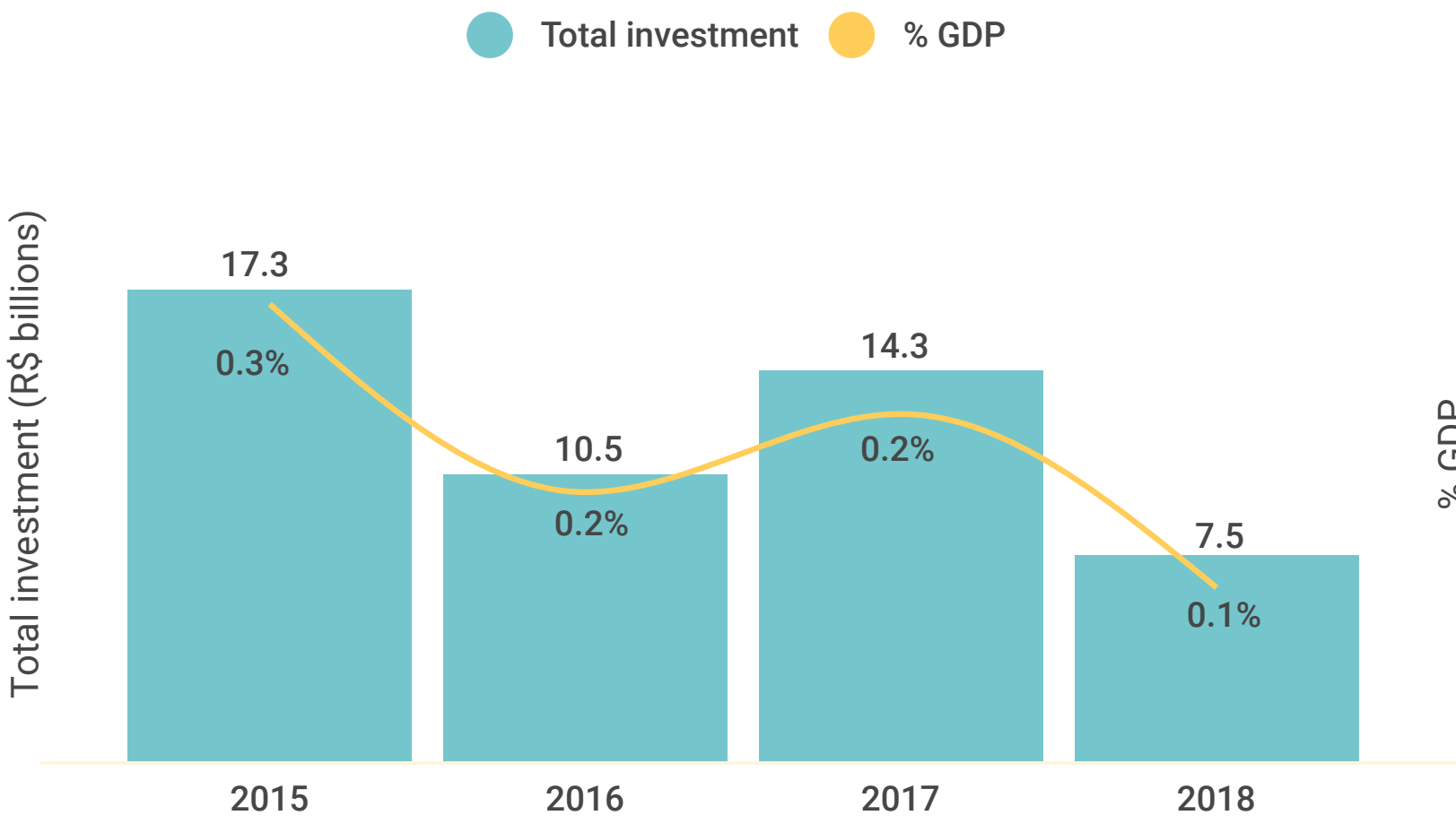
In parallel to the need to expand their businesses, Brazilian businesspeople already glimpsing opportunities opened up by the operational support that fund managers can offer their businesses, in addition to synergy with companies in their portfolios.

In 2018, capital committed by the industry reached R\$ 153.7 billion, with R\$ 36.9 billion available for new investments. This reflects growth of 5% and 30% respectively over the figures for 2017.

Years of activity of private equity players in Brazil FY18



Total private equity investment and as a percentage of GDP FY11-FY18



Private equity committed capital and available for investment FY15-FY18 R\$ billion



# The ongoing maturation of Brazil's private equity industry is strengthening the nation's economy, focusing on industrial bottlenecks and the effects of the recent economic meltdown.

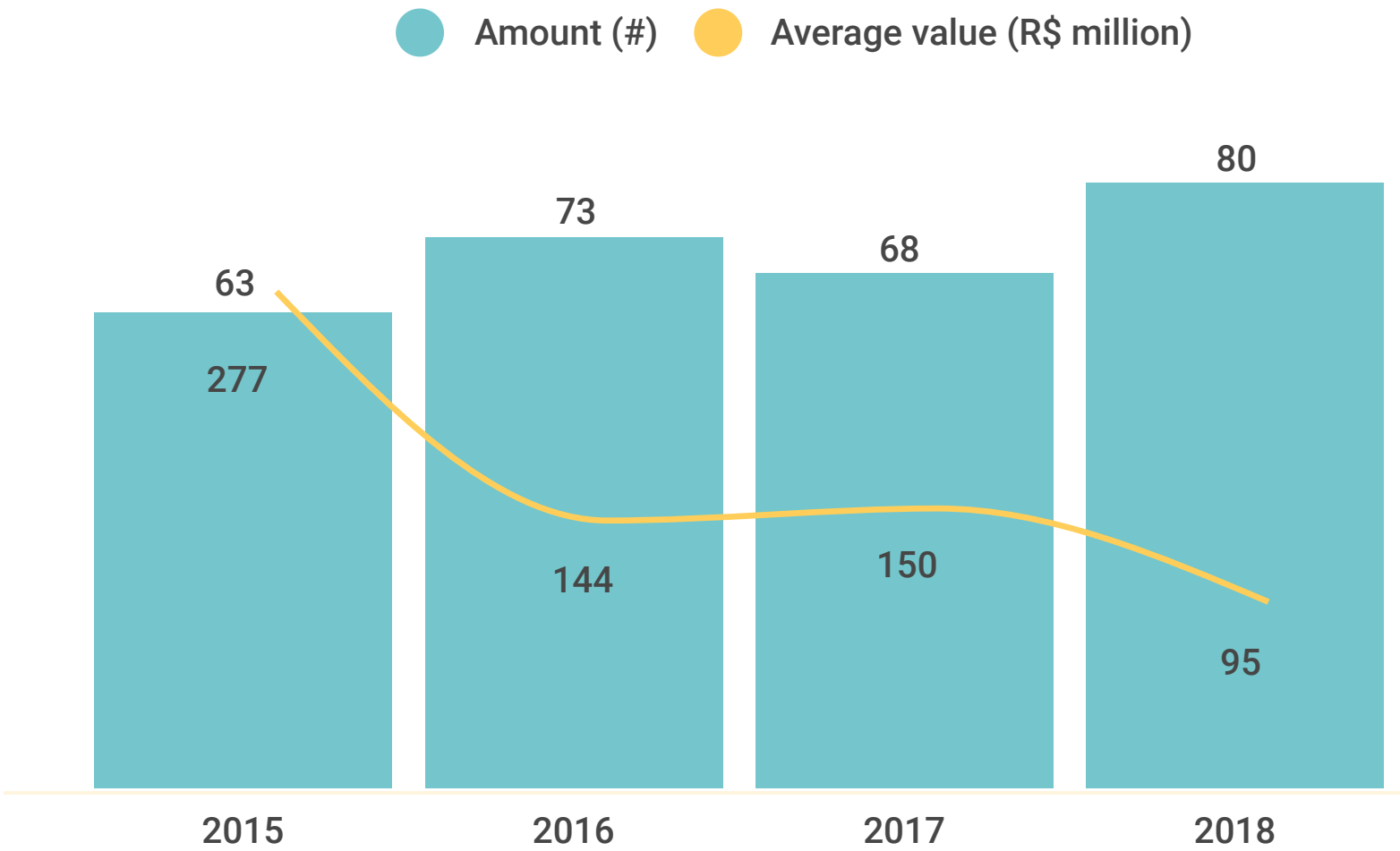
As it matures, the growth prospects of the private equity industry are promising in Brazil.

The reasons for this include strong possibilities of sectoral diversification, with a wider range of attractive sectors whose appeal comes from economic bottlenecks and underdevelopment, as well demographic and territorial opportunities that favour sectors such as agriculture and energy, among many others.

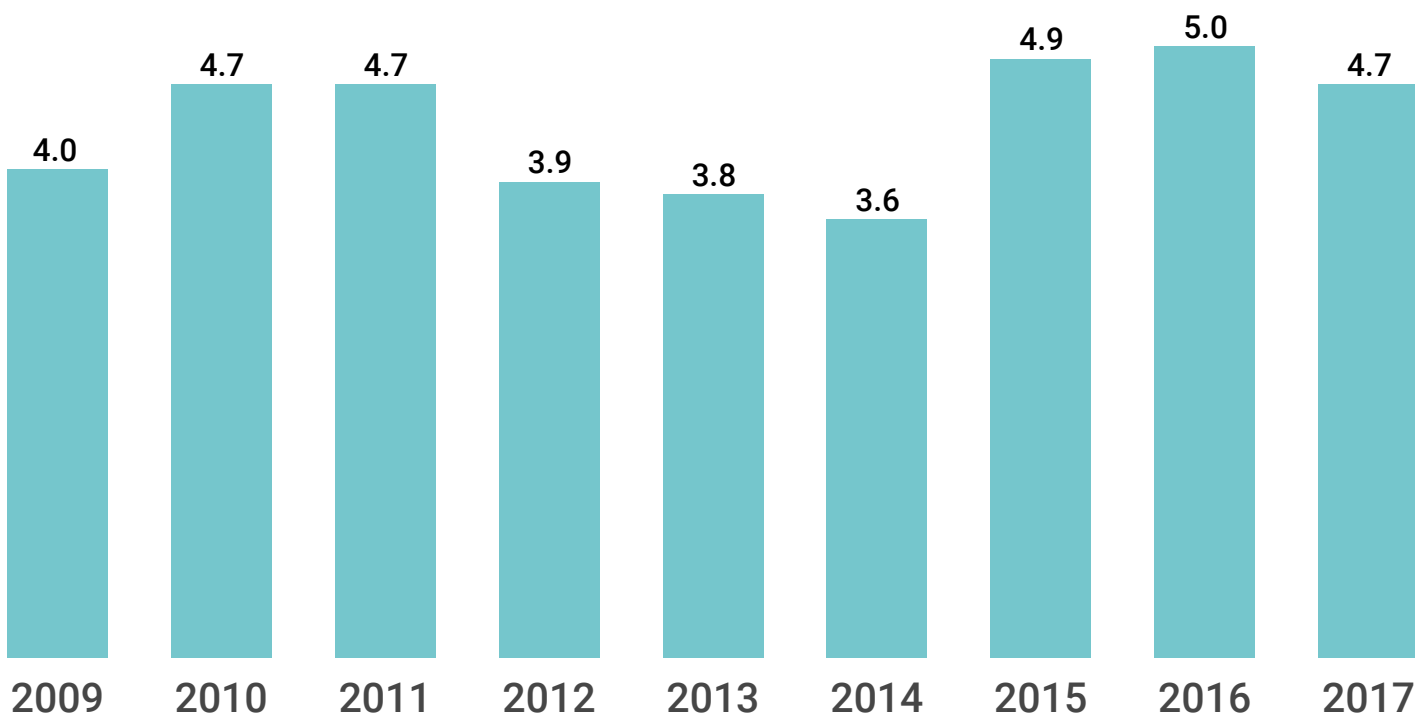
In 2018, eighty companies were targeted by private equity funds, with a mean investment value of R\$ 95 million.

Market exits are a reality for companies targeted for investment by private equity funds in Brazil. From 2013 to 2018, 65% of companies that went public had been targeted by private equity funds, some of which sold out completely, while others retained only partial interests, diluting their stakes.

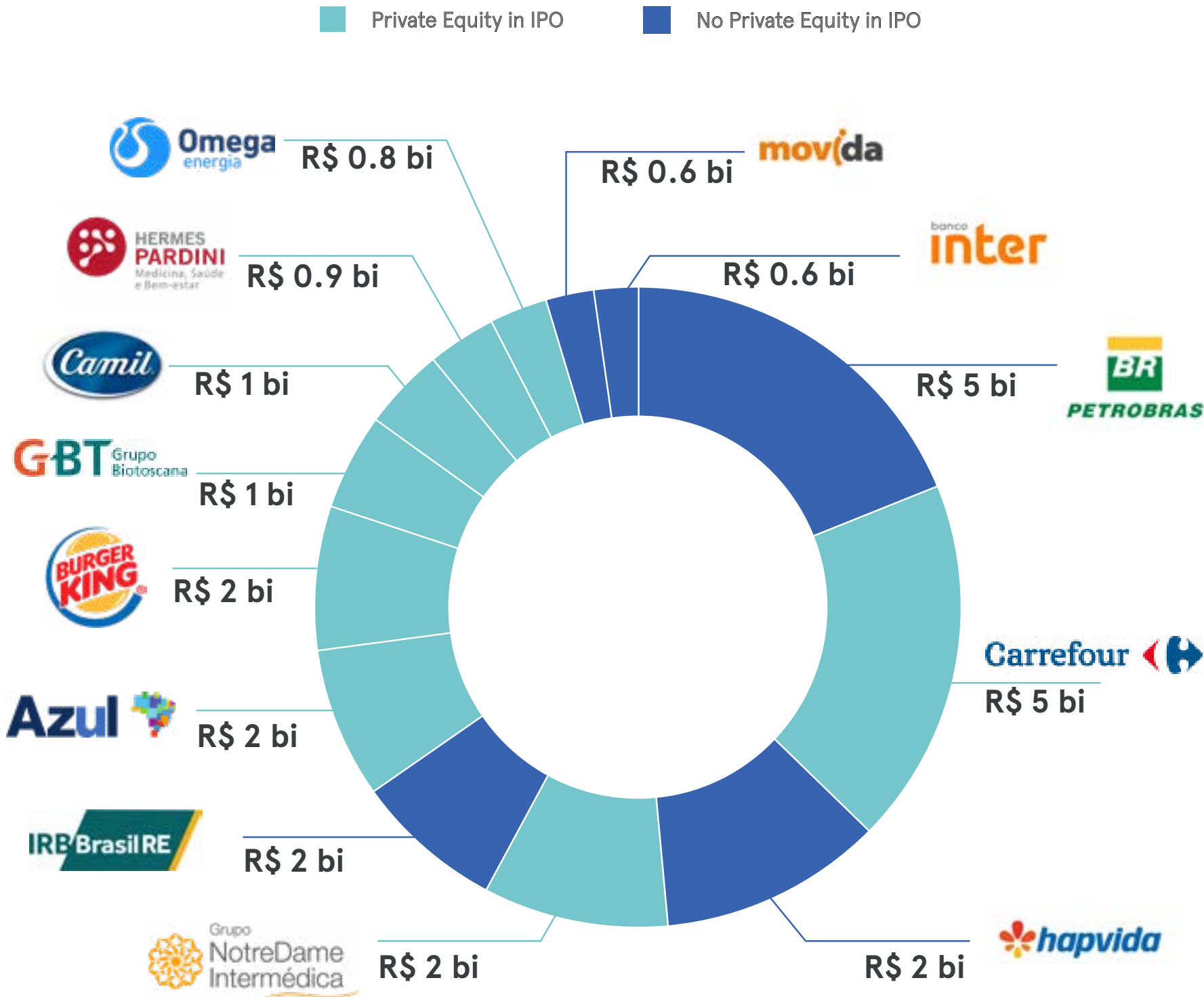
PE – Amount of invested companies and average investment value



Average investment period of private equity deals in Brazil by exit year FY09-FY17



Issuers – 2017 and 2018 (R\$ billion)



With 2018 a notable year for private equity industry transactions in Brazil, the Education, Healthcare and Retail sectors were outstanding in the twenty largest transactions (investments and divestments), totalling 66% of the total value of these top deals.

MAIN PRIVATE EQUITY DEALS IN BRAZIL 2019-2018

2019	INVESTOR(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 & Beverage
	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)	Fintech
	Kinea Investments	Investment	R\$ 200.0	Wiser	Education
	Softbank	Investment	US\$ 190.0	GymPass	Services
2018	INVESTOR(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 & Beverage
	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	Fintech

### 3. NOTABLE SECTORS

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Its wide diversity of sectors with significant size and appeal rank Brazil among countries with massive potential for absorbing PE&VC investments, underpinned by a huge domestic consumer mass, particularly when compared to the global market.

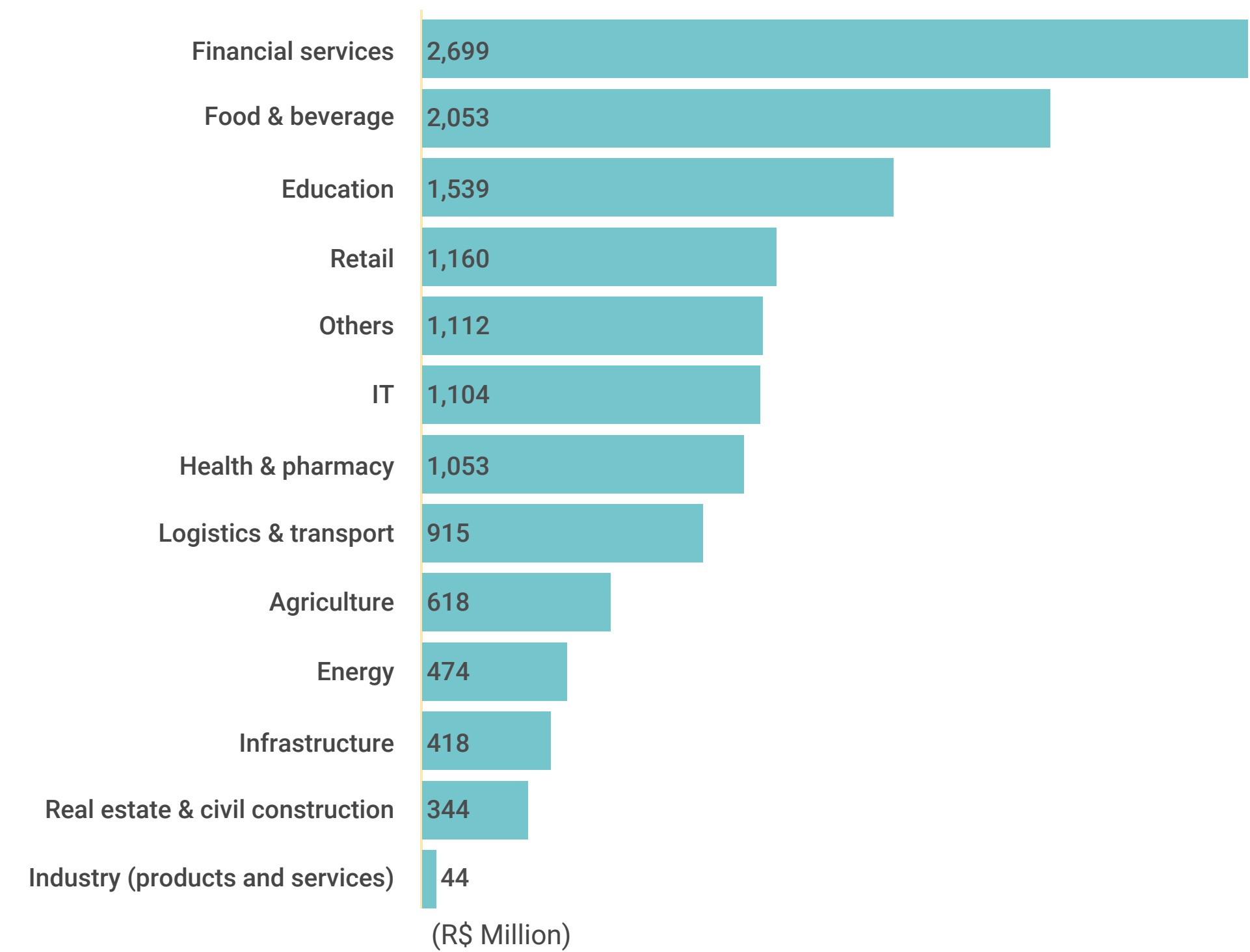
Its vast land surface with huge areas of arable land under cultivation and ample natural resources rank Brazil among the countries with a broad range of well-developed sectors that offer promising opportunities for private investments, buttressed by the size of its population.

Gaps in the development of the Brazilian economy and society make sectors such as healthcare, education and infrastructure particularly attractive.

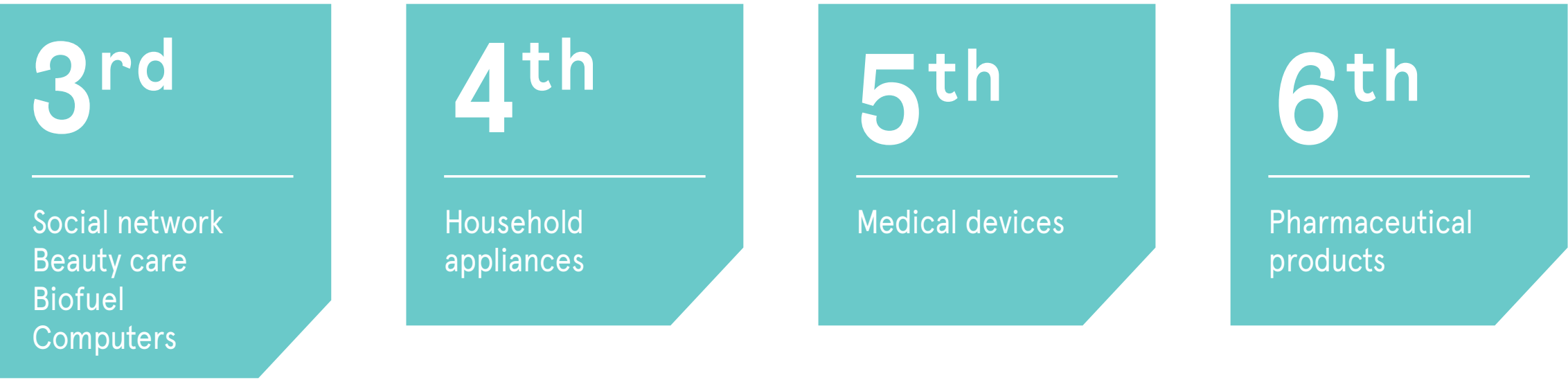
Noteworthy among the transactions examined by ABVCAP and APEX in their consolidated report for 2018, food and beverages, education, and financial services and absorbed the largest amount of investments.

Despite Brazil’s weak track record for new technology development, fintech and agtech are very well developed, for example.

Amount of investment – main sectors FY18 (R\$ million)



One of the world’s largest consumer markets, Brazil stands out in some specific sectors:



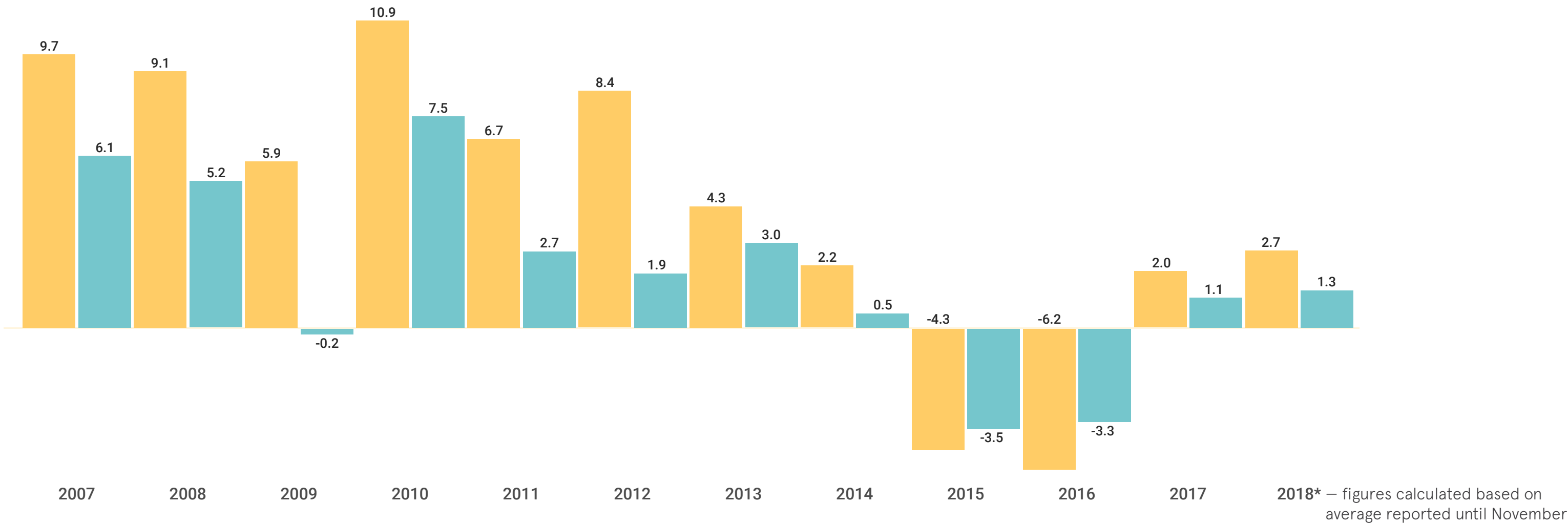
3.1 Retail—  
In addition to generating the largest number of jobs nationwide, Brazil’s retail sector has returned to growth at impressive rates, keeping pace with global trends in consumption modernisation.

Retail accounts for almost 50% of Brazil’s GDP. After a lacklustre performance undermined by economic turbulence, this sector is tagged as one of the most promising over the next few years, as Brazil returns to growth, with recent transaction volumes buttressing this trend.

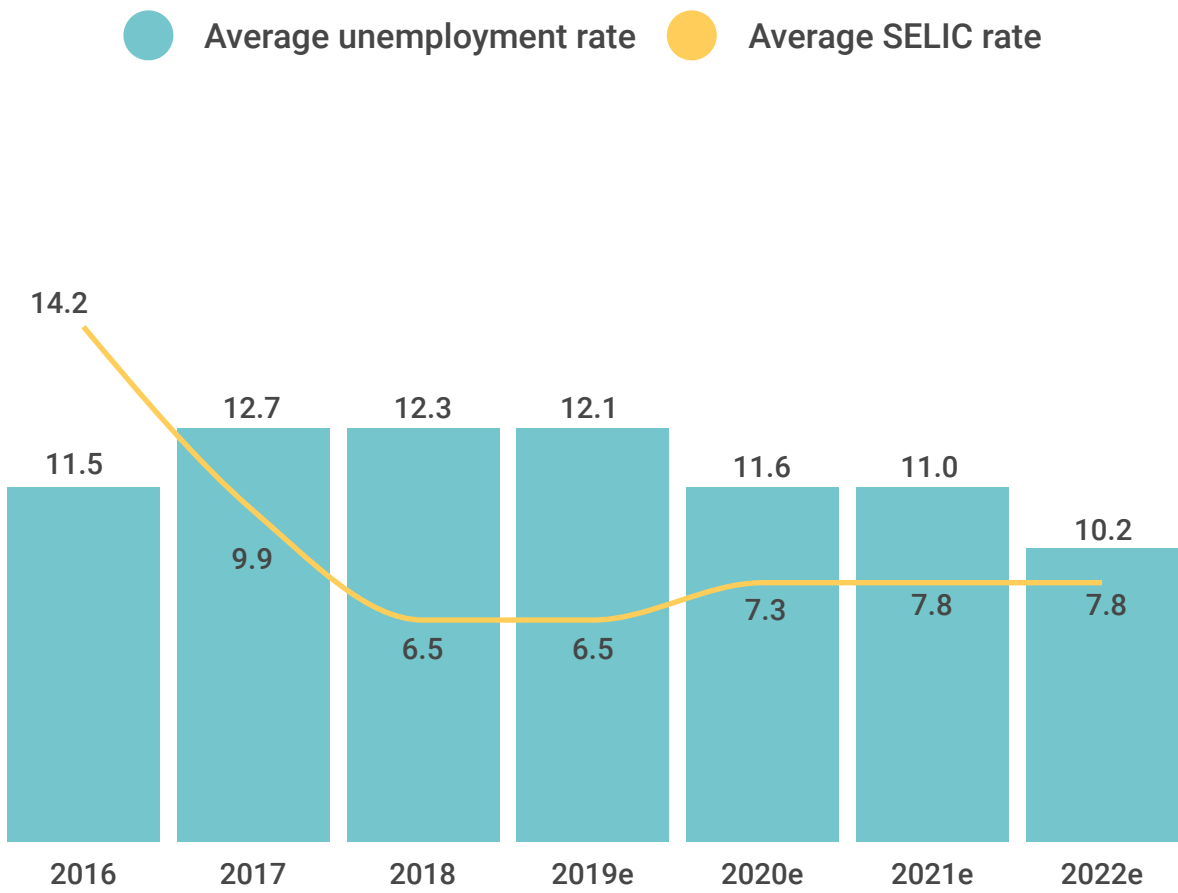
Brazil’s retail sector is particularly attractive for investments, due to a massive domestic consumption market with a population of almost 210 million and outlays on consumption topping R\$ 4 trillion in 2018.

Signs indicating that the electoral uncertainties of 2018 are fading include rising family consumption, new jobs being generated and an expanding wage mass, with rosy prospects for the retail sector in 2019.

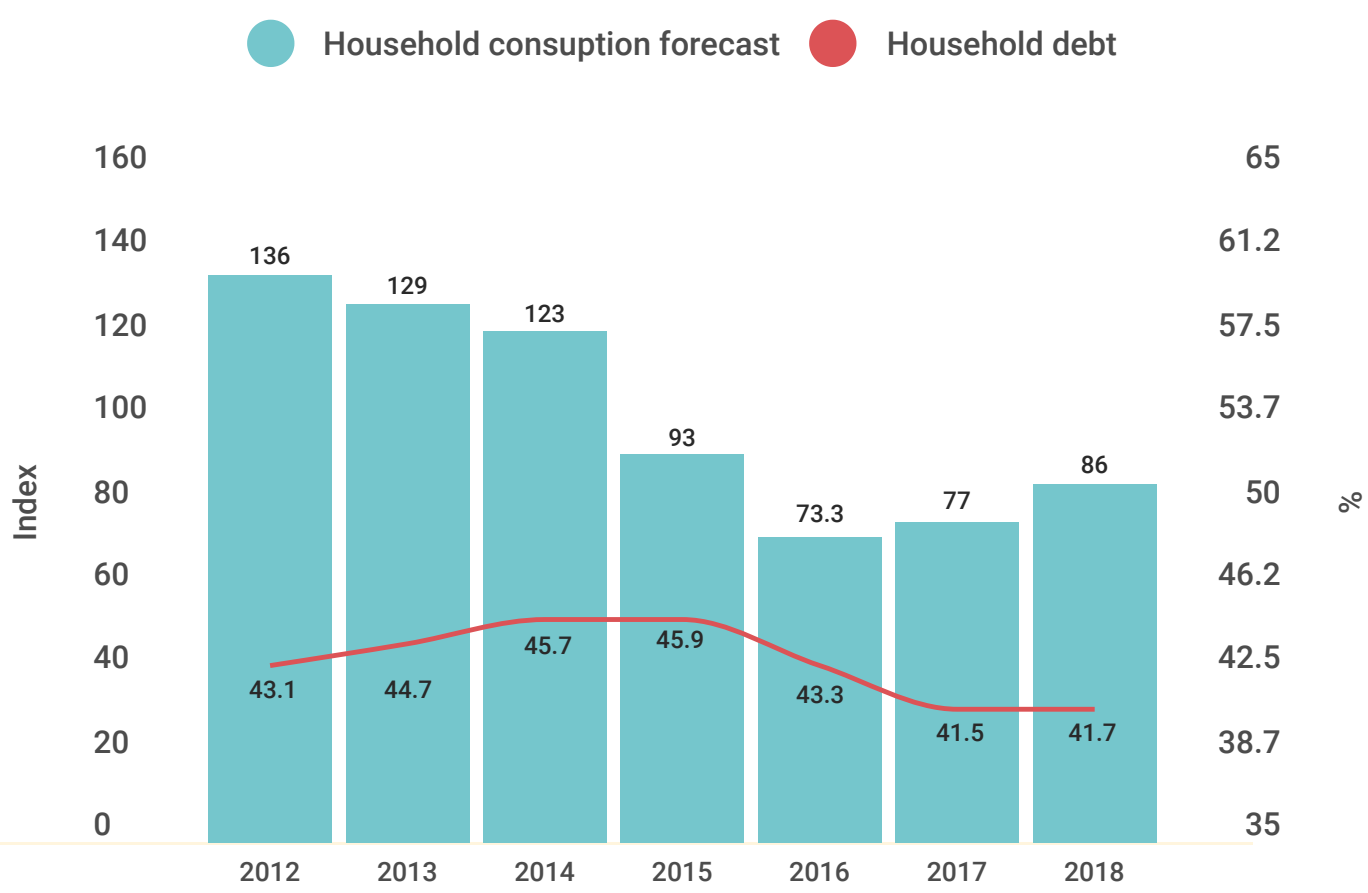
Retail performance compared to country’s GDP FY18 (%)



Average unemployment and SELIC rates forecast FY16-FY22e (%)



Debt Level and Household Consumption Intentions

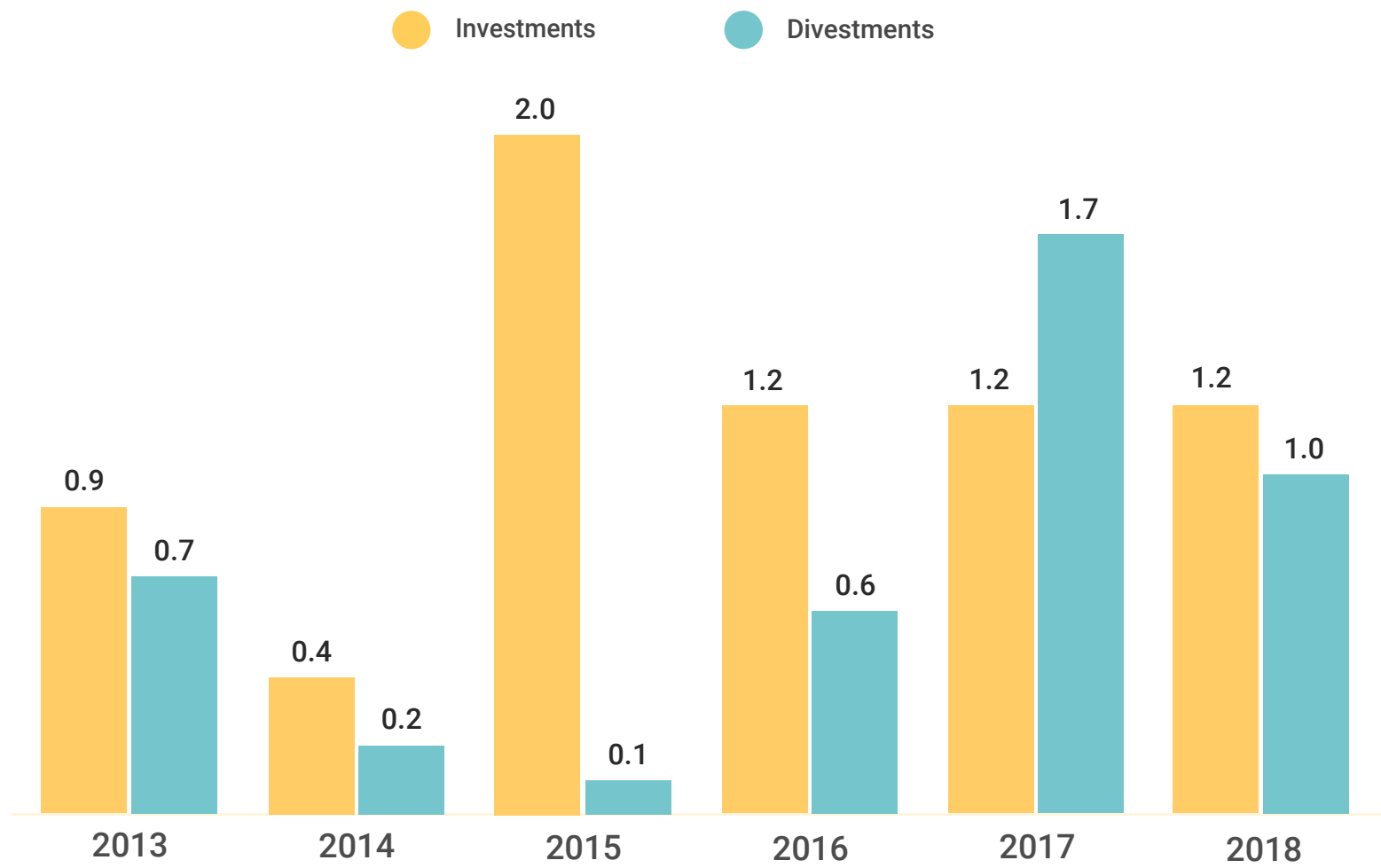


3.1 Retail–  
With many small firms still operating regionally, this sector offers solid opportunities for investors interested in the Brazilian market.

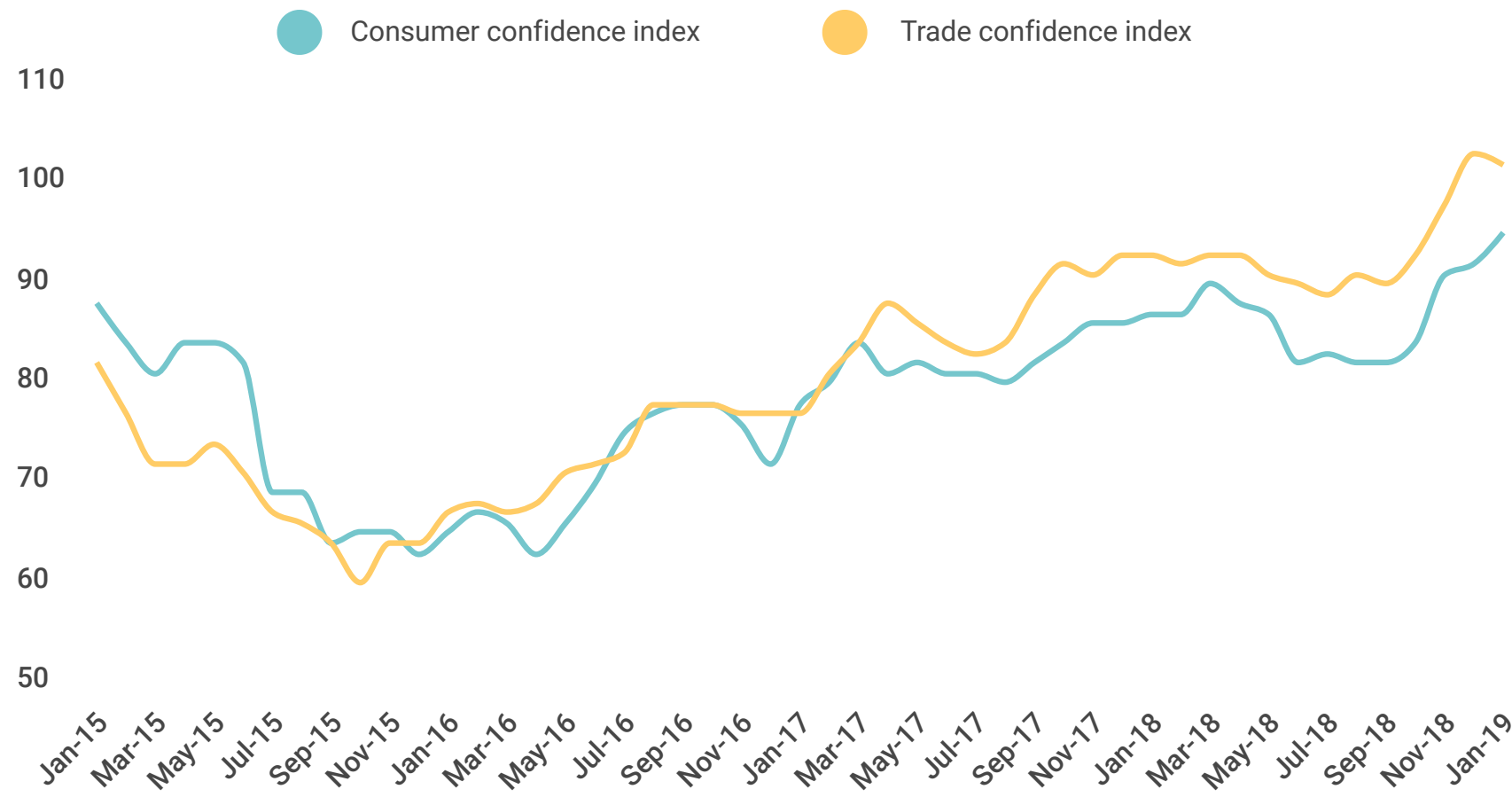
The National Confederation of Commerce (CNC) forecasts 5.6% growth in extended retail sales for 2019, and 3.0% in restricted retail. As economic activity picks up pace, the effects of family consumption on Brazil’s GDP will spur this uptrend in retail sales.

With many assets available on the market that is still consolidating, and with rising needs for management model modernisation in order to keep pace with new consumption trends, Brazil’s retail sector will benefit greatly from the interest of the private equity industry in this sector.

Amount of retail investment and divestment in Brazil FY13–FY18 (R\$ billion)



Confidence Index



Main retail public transactions in Brazil 2018– 2019

PE/VC	Investors	Type	Value (R\$ million)	Target company
PE	Advent International	Investment	1,900	Walmart Brasil
PE	Starboard	Investment	250	Máquina de vendas (Ricardo Eletro)
PE	H.I.G Capital	Investment	16.1	Elekeiroz
PE	Vinci Partners	Divestment	Undisclosed	Inbrands
PE	DXA Investimentos	Divestment	Undisclosed	Zee dog
PE	Axxon Group	Investment	Undisclosed	Westwing
PE	Partners Group	Investment	Undisclosed	Hortifruti
PE	DXA Investimentos	Divestment	Undisclosed	Zee dog
PE	Axxon Group	Investment	Undisclosed	Westwing
PE	Partners Group	Investment	Undisclosed	Hortifruti

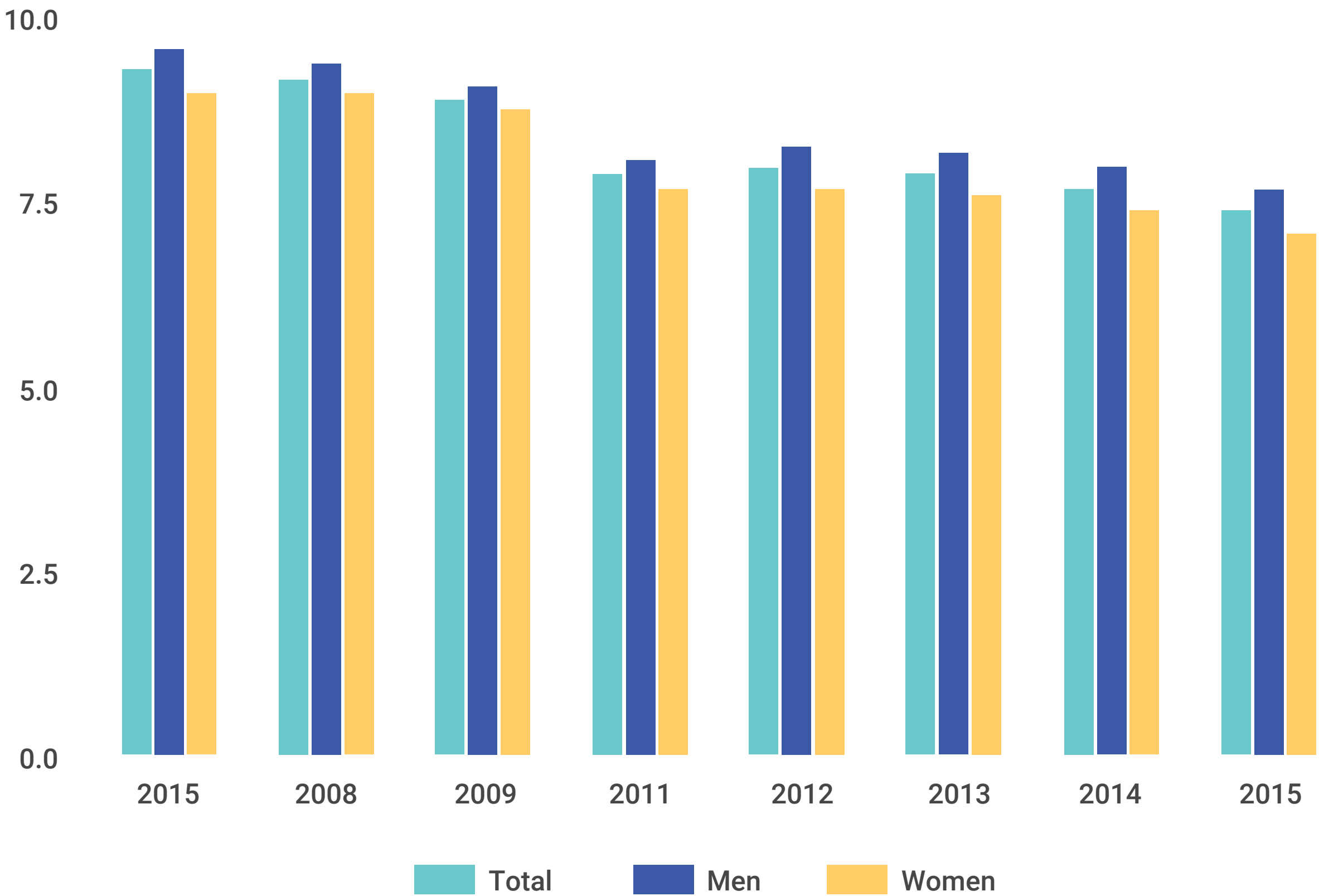
PE/VC	Investors	Type	Value (R\$ million)	Target company
VC	Foundation Capital	Investment	26.4	Grabr
VC	Monashees Capital; Canary	Investment	19	Volanty
VC	Valiant Capital	Investment	15	Gaveteiro
VC	Red Point E.ventures; Bossa Nova nvestimentos	Investment	Undisclosed	Repassa
VC	Red Point E.ventures; Bossa Nova nvestimentos	Investment	Undisclosed	Repassa

3.2 Education—  
Although illiteracy has been shrinking during the past few years, the education sector still needs reforms.

Among the main issues some stand out: seven of ten students graduate at high school with insufficient knowledge in portuguese and mathematics and only 4% of Brazilian counties achieved high school average grade of 4,7 (in a 0 to 10 scale), according to IEDE (Basic Education Development Index) data of 2017.

Another major problem is dropping out of high school, prompted partly by young people’s need to enter the job market and partly by Brazil’s hidebound education system, with little technology, ramshackle infrastructure, limited autonomy and ill-paid teachers, resulting from poor management and tangled red tape.

Illiteracy rate of the Brazilian population aged 10 years and over FY07–FY15 (%)

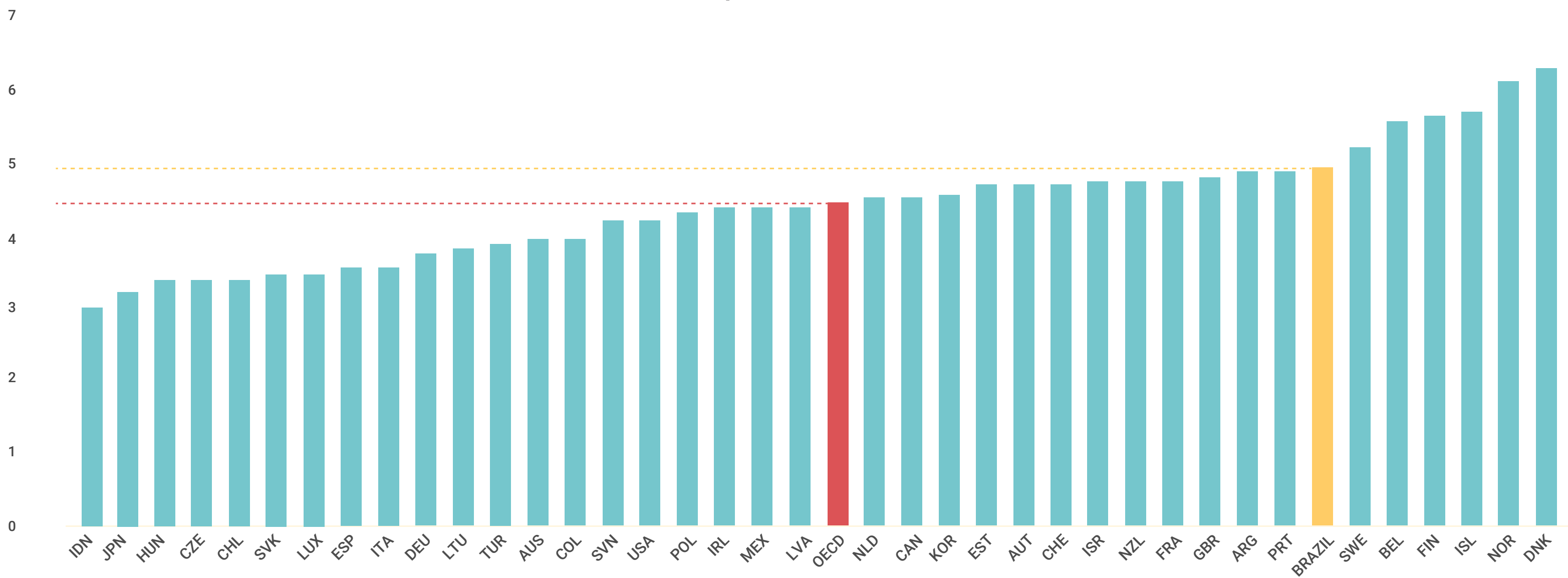


3.2 Education—  
Private investments could fill  
some gaps, such as poor use of  
public funding and investments  
in professional training and  
qualification, together with  
infrastructure maintenance.

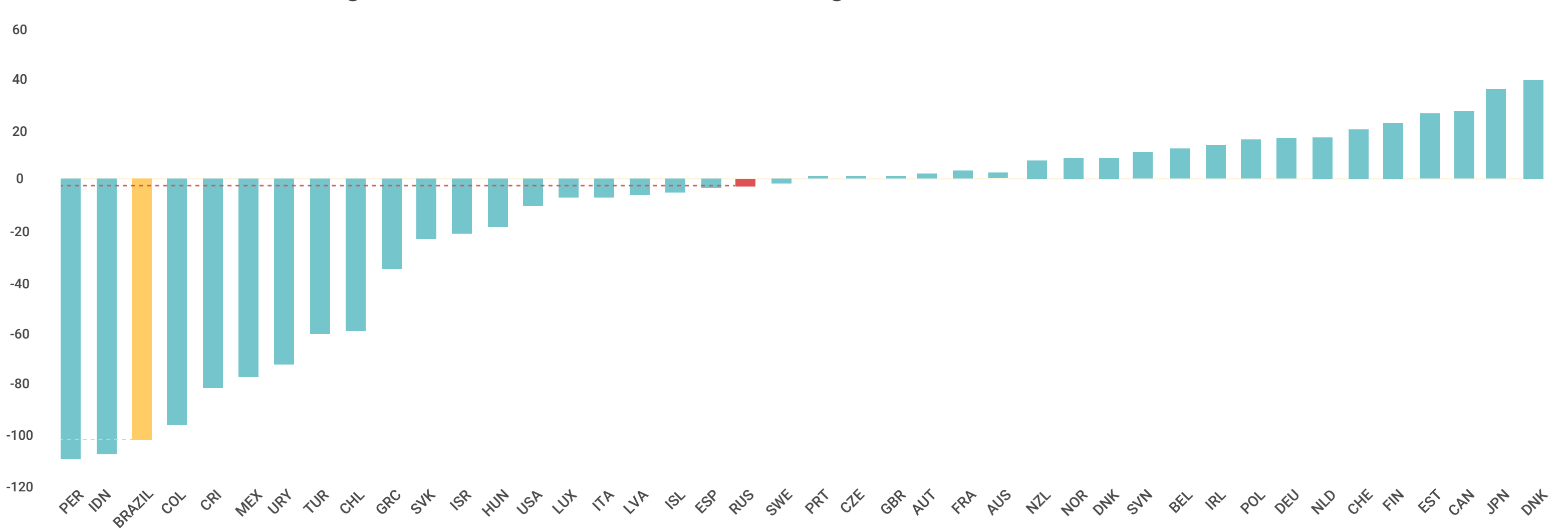
Despite above-average government spending on education, compared to other countries in Latin America and the Organisation for Economic Cooperation and Development (OECD), nations investing less per student outperform Brazil in the Programme for International Student Assessment (PISA) tests run by the OECD.

Achieving best spending efficiency is key to solve some of Brazilian main problems, such as low learning, school dropout and poor training of teachers, that could be improved by an increase of volume invested, specially if focused to the development of scalable solutions.

Public education expenditure as a % of GDP FY14



Average in sciences, mathematics and reading, deviation from the OECD mean (%)





3.2 Education—  
In this context, edtechs are on the rise in Brazil and can help greatly in the education system while cutting costs and introducing technologies that enhance the efficiency of education business management, while also proposing formats that are more modern and interesting to students.

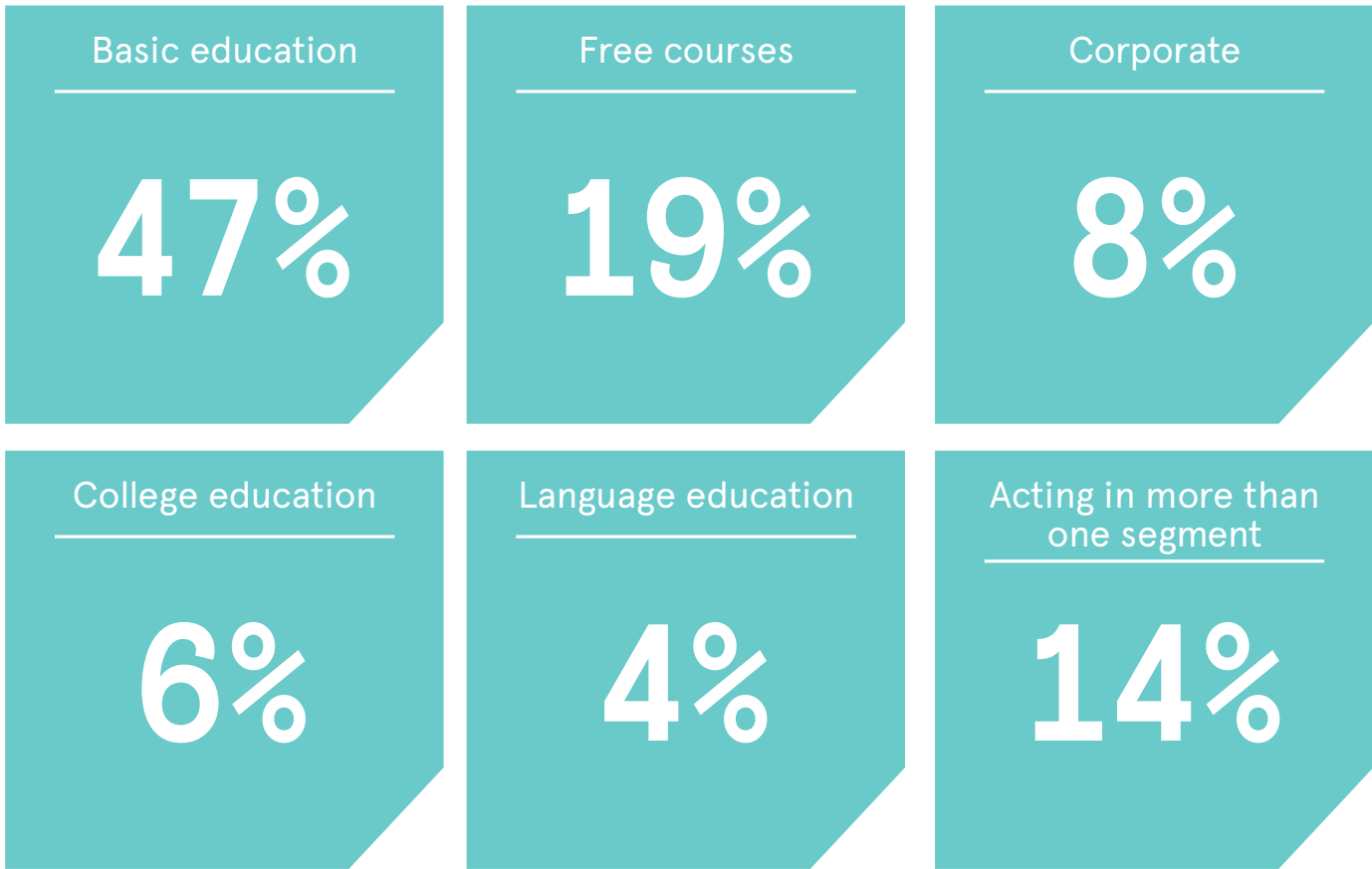
In addition to private education groups that have been consolidating colleges and schools nationwide, edtechs are expanding their scope in this context. In 2018, there were 364 of them mapped nationwide: 73% of Brazilian States have at least three and only one State has no initiatives of this type at all; 70% work with the Software as a Service (SAAS) model.

Targeted for investment by General Atlantic, in 2018 Arco became Brazil’s first education start-up to go public on Nasdaq, raising some R\$ 800 million.

With investments in Brazil’s education sector topping R\$ 1.5 billion in 2018, its elementary education market still offers many opportunities to private equity groups. Still very fragmented, this sector nevertheless posted throughflows of R\$ 60 billion.

inBrazil

Edtechs in Brazil



Brazilian Edtechs expertise

Content production	61.6%
Data collection and processes	18.9%
Data monitoring and management	4.9%
Content sale and distribution	4.7%
Virtual and augmented realities	1.9%
Coaching and carreer planning	1.6%
Communication and interaction tools	1.4%
Hardware and devices	0.8%
Didatic and classes planning	0.8%
Exams	0.8%
Development of pratical abilities	0.5%
Adaptive teaching	0.5%

MAIN PUBLIC EDUCATION DEALS IN BRAZIL FY18

YEAR	MODALITY	INVESTOR(S)	TYPE	VALUES (R\$ MILLION)	TARGET COMPANY	SECTOR
2018	PE	Tarpon Investimentos	Divestment	4,100.0	Somos Educação	Education
2018	PE	GIC	Divestment	1,730.0	Somos Educação	Education
2018	PE	Carlyle; Vinci Partners	Divestment	380.0	Uniasselvi	Education
2018	PE	Neuberger Berman	Investment	380.0	Uniasselvi (Treviso)	Education
2018	PE	Advent International	Investment	355.0	Estácio	Education
2018	PE	Advent International	Divestment	300.0	Faculdade Serra Gaúcha	Education
2019	PE	Kinea Investimentos	Investment	200.0	Wiser	Education
2018	PE	Invus Opportunities	Investment	54.0	Descomplica	Ed Tech
2018	PE	H.I.G. Capital	Investment	20.0	Cel.Lep	Education
2019	PE	Invest Tech	Investment	Undisclosed	ClipEscola	Ed Tech
2018	PE	Crescera Investimentos (Ex-Bozano)	Investment	Undisclosed	UninovaFapi	Education
2018	PE	Kinea Investimentos	Investment	Undisclosed	Grupo A	Education
YEAR	MODALITY	INVESTOR(S)	TYPE	VALUES (R\$ MILLION)	TARGET COMPANY	SECTOR
2018	VC	Invus Opportunities	Investment	54.0	Descomplica	Ed Tech
2019	VC	Elephant Ventures; Peak Ventures	Investment	16.0	Mosyle	Ed Tech
2019	Corporate	Google AI Impact Challenge	Investment	3.0	Hand Talk	Ed Tech
2018	VC	Domo Invest	Investment	3.0	Agenda Edu/ Agenda Kids	Ed Tech
2018	VC	Inseed Investments	Investment	2.6	Playmove	Ed Tech
2018	VC	Kviv Ventures; Bossa Nova Investments	Investment	2.5	Hand Talk	Education
2018	VC	Cedro Capital	Investment	2.0	Escola em Movimento	Education
2019	VC	MSW Capital	Investment	0.8	Voa Educação	Ed Tech
2019	VC	Diversos Gestores	Investment	0.2	Jovens Gênios	Ed Tech
2019	Corporate	Samsung Creative Startups	Investment	0.2	Olivas	Ed Tech
2019	Corporate	Starter Acceleration Program (EDP)	Investment	( - )	Já Entendi	Ed Tech
2019	Impact	Yunus Negócios Sociais	Investment	( - )	4You2	Ed Tech
2018	VC	Cedro Capital	Investment	( - )	Kanttum	Ed Tech
2018	Impact	Vox Capital; E.bricks Early Stage	Investment	( - )	Editora Sanar	Ed Tech
2018	VC	Garan Ventures	Investment	( - )	Estuda.com	Ed Tech
2018	Impact	Omidyar Network	Investment	( - )	Agenda Edu/ Agenda Kids	Ed Tech
2018	VC	FCP Innovacion; Ameris; Small Giants	Investment	( - )	TriCiclos	Education

Source: ABStartups; ABVCAP

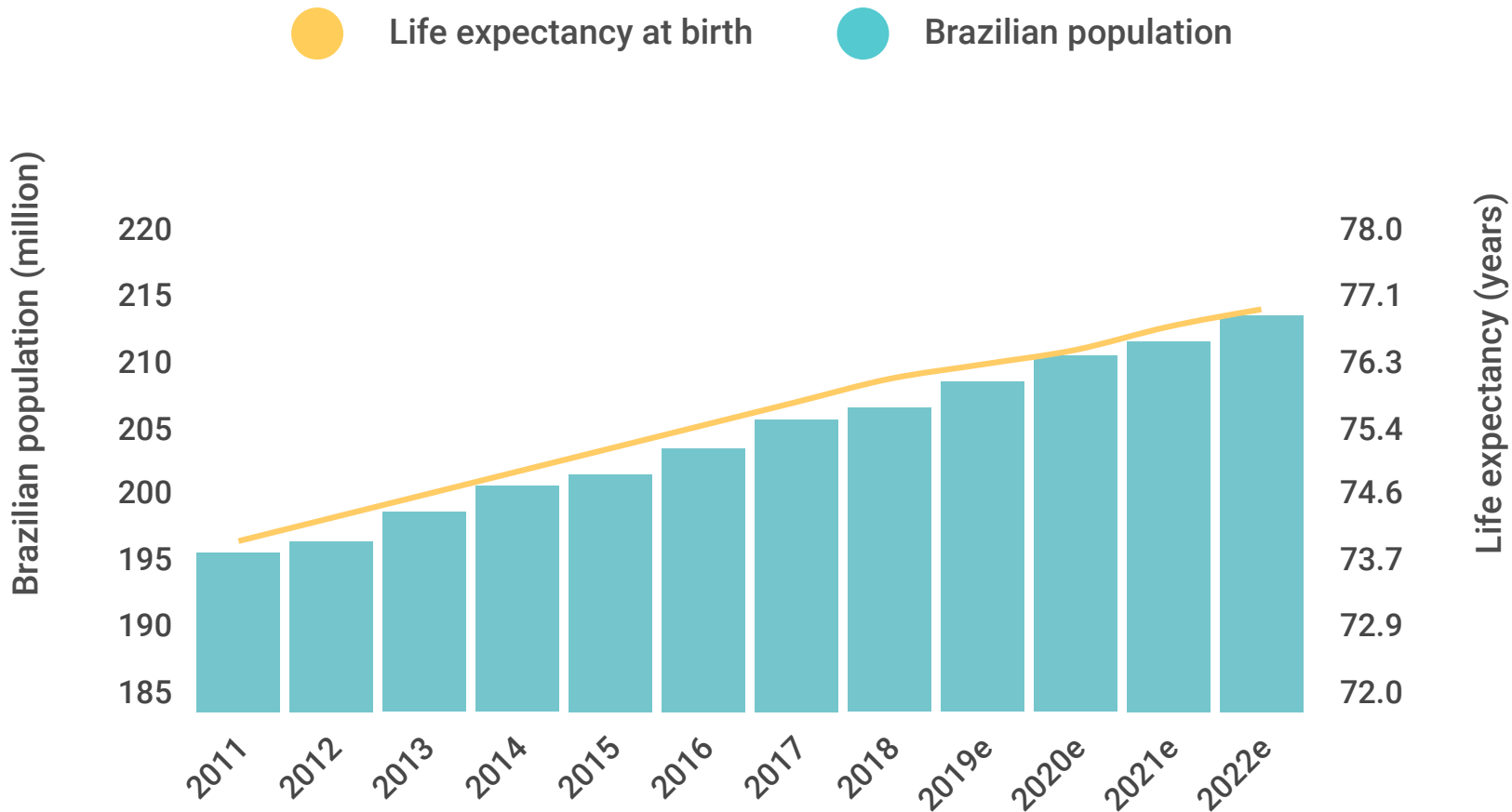
3.3 Healthcare—  
As its population ages at a fairly rapid rate, public investments are not keeping pace with the needs of Brazil’s healthcare system.

The number of elderly Brazilians will increase by an average of 2.7% a year through to 2060, far outstripping the average growth of the general population (0.2%). By 2030, it is estimated that seniors will exceed the number of children between 0 and 14 years of age. As people get older, risks of disease rise significantly, with an estimated half of the population over 65 years old having at least one chronic disease.

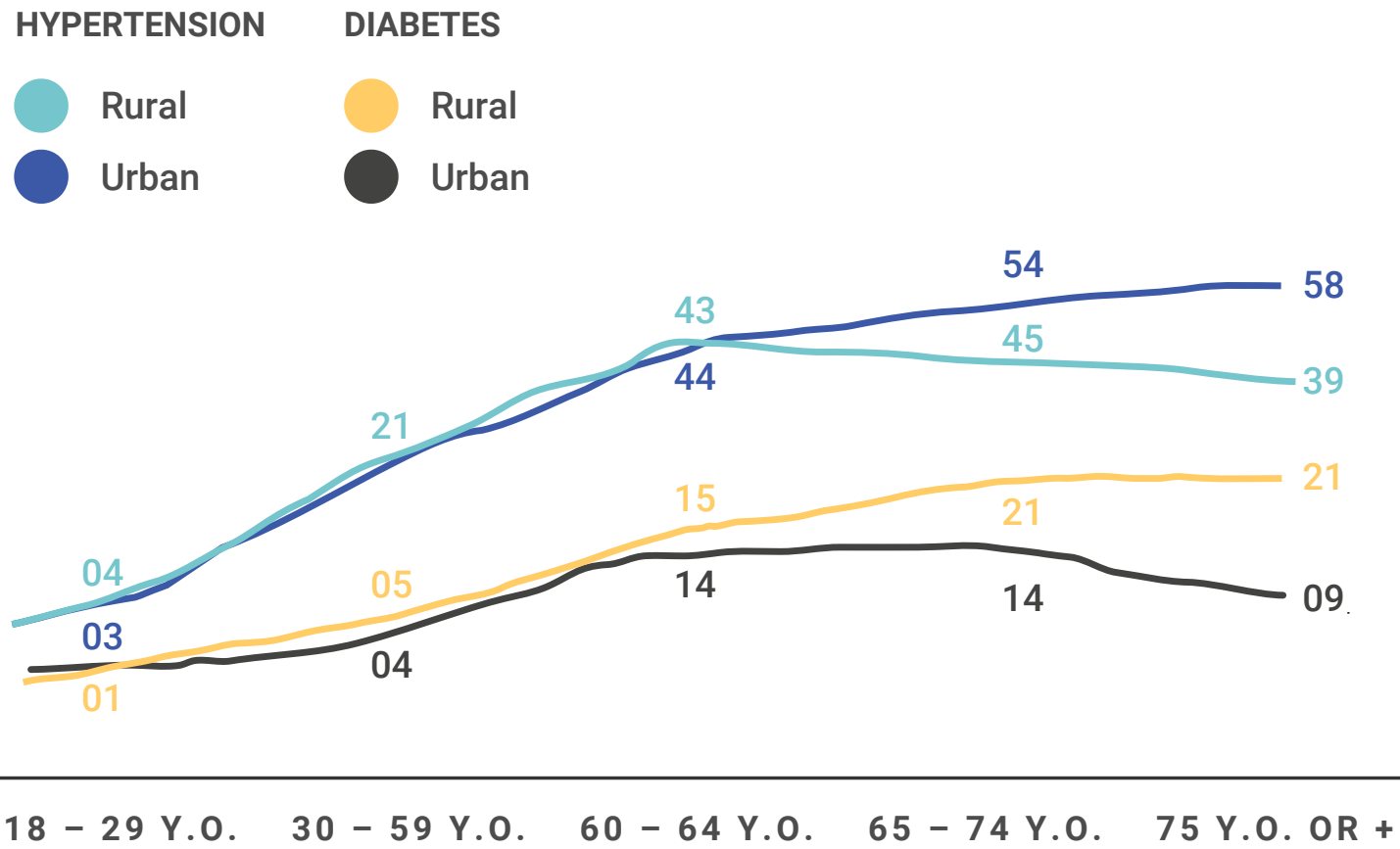
Total outlays on healthcare currently account for some 8% of Brazil’s GDP with 4.4% being private (55% of the total) and 3.8% public (45% of the total), according to data released by the World Bank. Despite its universal healthcare system, expenditures differ from those in the more developed countries with similar systems, such as the UK and Sweden, where government spending is higher.

A study published in 2018 by the Revista Pan-Americana de Saúde Pública journal calculated that Brazil could reach its target of investing 6% of its GDP in the government spending on healthcare in only 2064, with its current economic growth forecast.

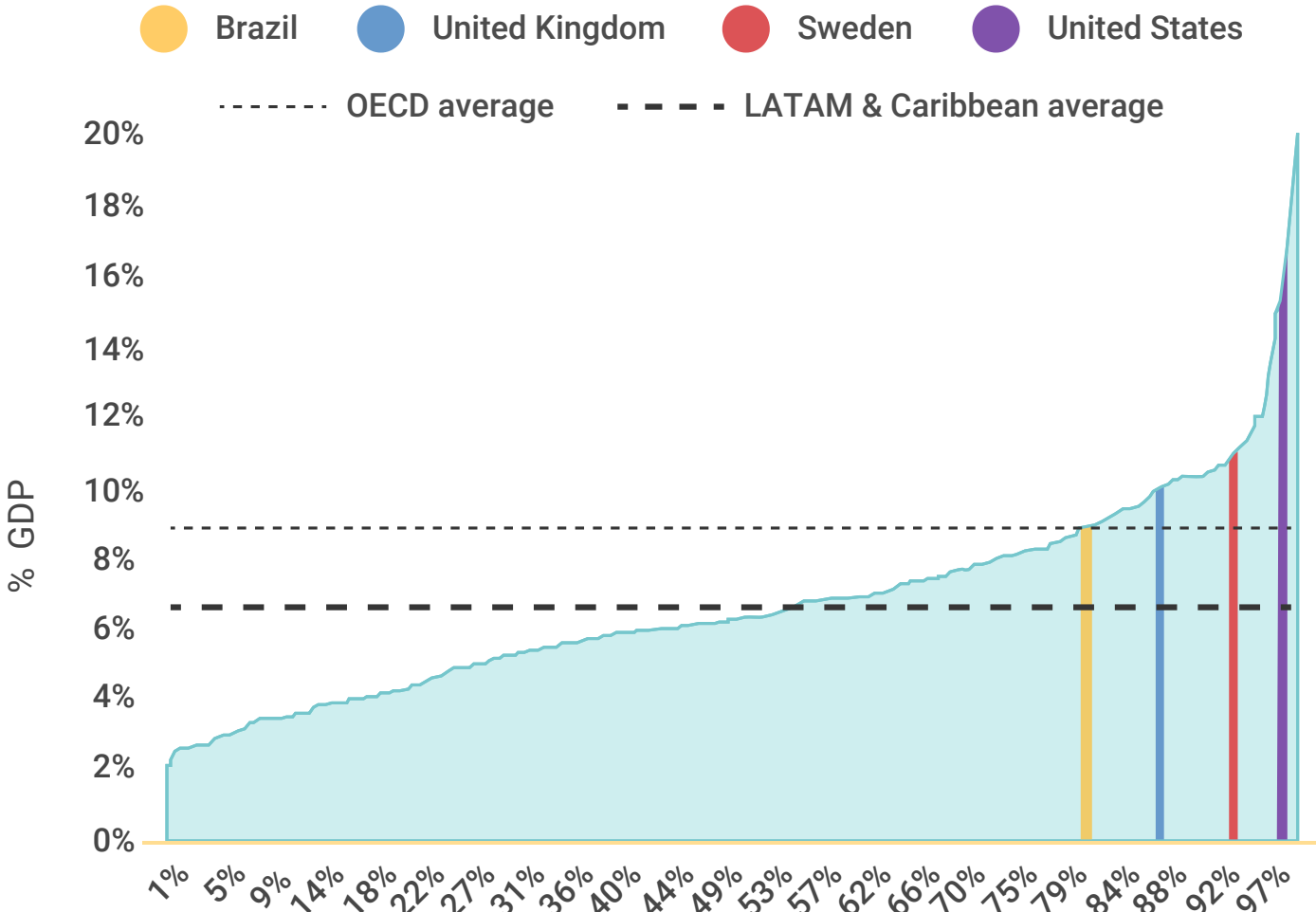
Brazilian population projection and life expectancy at birth FY11-FY22e



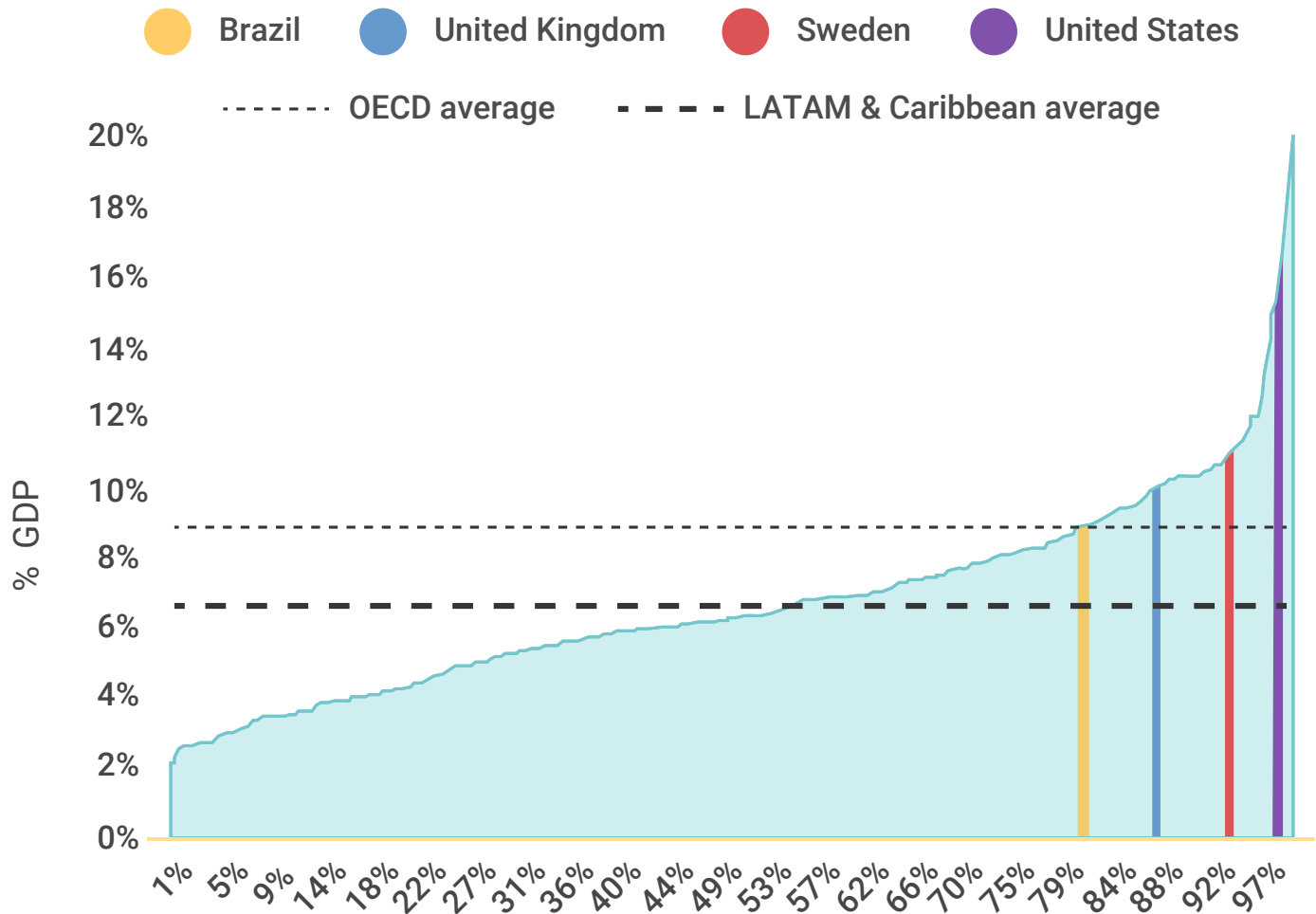
% population diagnosed with diabetes and hypertension 2013



Total public healthcare expense (% of GDP)



Total healthcare expense (% of GDP)

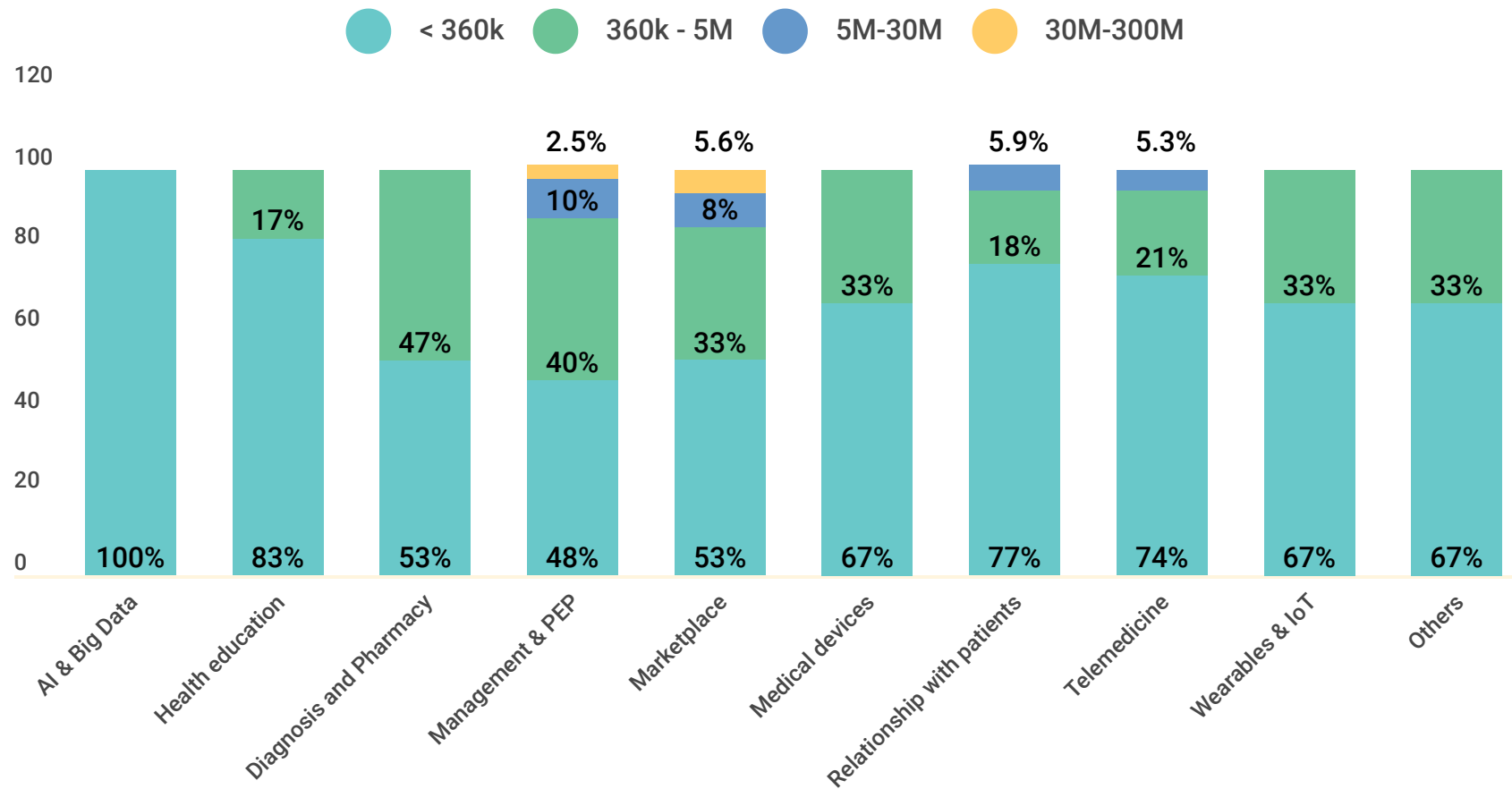


3.3 Healthcare-  
Healthcare administration  
problems – particularly in  
Brazil’s national health network  
that clusters 75% of users  
– offer fertile ground for  
healthtechs providing disruptive  
solutions that are aligned with  
global trends.

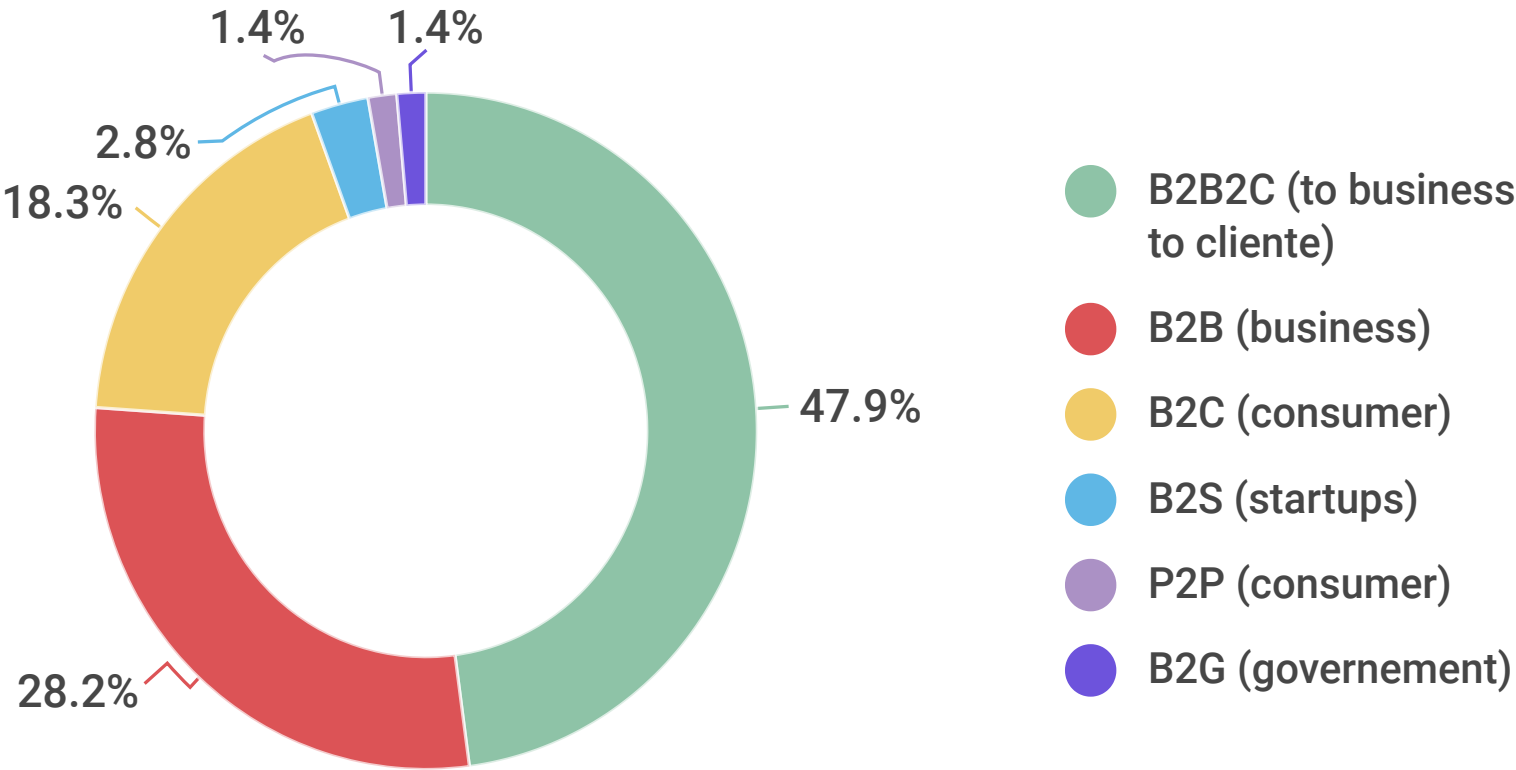
In 2018, Brazil’s healthcare sector posted R\$ 3.5 billion in investments and divestments. One of the most significant deals in this sector was the sale of part of its Intermédica stake by Bain Capital, with an almost sixfold increase in the capital invested in this healthcare operator in under four years.

Selling off some of its shares through an IPO in April at a price 58% higher than eight months earlier, this US private equity manager has already pocketed more than double its invested capital.

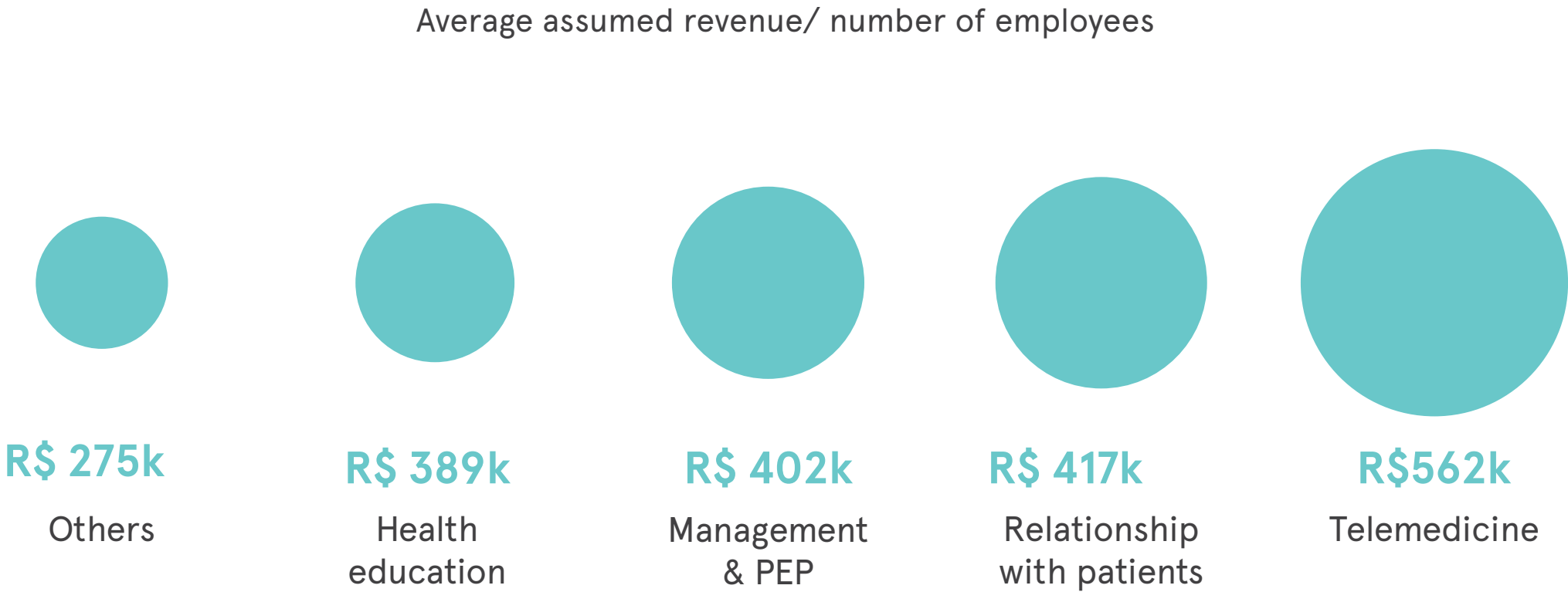
Presumed revenues comparison between categories



Target audience of Brazilian healthtechs



Sectors scalability





3.3 Healthcare—  
The health sector is among the most benefited by technology development, aiming to promote the well-being and increase of people’s quality of life.

—  
Creative Startups, Samsung’s startup acceleration program in partnership with the National Association of Innovative Enterprises Promoting Entities (Anprotec) and the Korean Center for Creative Economy and Innovation (CCEI), selected some healthtechs to receive investment of up to US\$ 200 thousand for product and service development.

Wheelchair expression control, children’s language stimulation and seizure monitoring were some of the solutions chosen for the 4th round of acceleration of the program, held in Brazil in 2019.

Epistemic, for example, one of the startups contemplated by the project has created an app for managing epilepsy seizures, in which patients can record it, possible triggers and symptoms that can be analyzed in detailed reports by their doctors, increasing their well-being, helping to control a disorder that already affects more than 60 million people worldwide.

MAIN PUBLIC HEALTHCARE DEALS IN BRAZIL FY18

YEAR	MODALITY	MANAGERS	TYPE	VALUES (MILLION)	TARGET COMPANY	SECTOR
2018	VC	Temasek	Investment	R\$ 95.0	Bionexo	Health Tech
2019	VC	DNA Capital	Investment	R\$ 20.0	Feegow	Health Tech
2018	VC	Discovery Capital; Btov	Investment	R\$ 19.0	Vitta	Health
2018	VC	Monashees Capital; Qualcomm Ventures	Investment	R\$ 14.7	Hi Technologies	Health Tech
2019	VC	Fundo Miletus	Investment	US\$ 5.0	Braincare	Health Tech
2019	Impact	Kviv Ventures	Investment	R\$ 5.0	Nutrebem	Health
2019	VC	Indico Capital Partners	Investment	R\$ 2.0	Zenklub	Health Tech
2019	Corporate	Libbs Farmacêutica (Portas Abertas)	Investment	US\$ 1.0	Pluricell	Health Tech
2019	Corporate	Samsung Creative Startups	Investment	R\$ 0.2	Epistemic	Health Tech
2019	Corporate	Samsung Creative Startups	Investment	R\$ 0.2	Keep Smiling	Health Tech
2019	Corporate	Samsung Creative Startups	Investment	R\$ 0.2	Alltism	Health Tech
2019	Corporate	Samsung Creative Startups	Investment	R\$ 0.2	Realvm	Health Tech
2018	Impact	Vox Capital	DesInvestment	( - )	TEM	Health
2018	VC	Canary	Investment	( - )	Go Good	Health
2018	VC	Kick Ventures	Investment	( - )	Anestech	Health
2018	VC	Red Point E.ventures; Endeavor Catalyst	Investment	( - )	Gesto	Health
2018	VC	Cedro Capital	Investment	( - )	Imedicina	Health Tech
YEAR	MODALITY	FUND MANAGER (S)	TYPE	VALUE (BILLION)	COMPANY	SECTOR
2019	PE	Starboard	Investment	R\$ 150.0	Agemed	Healthcare
2019	PE	Kinea Investments	Investment	R\$ 150.0	Centro Clínico Gaúcho (CCG)	Healthcare

3.4 Fintech—  
Brazilian fintechs are revolutionizing the payments market, creating lower-cost smart solutions for a segment that is packed with traditional banks.

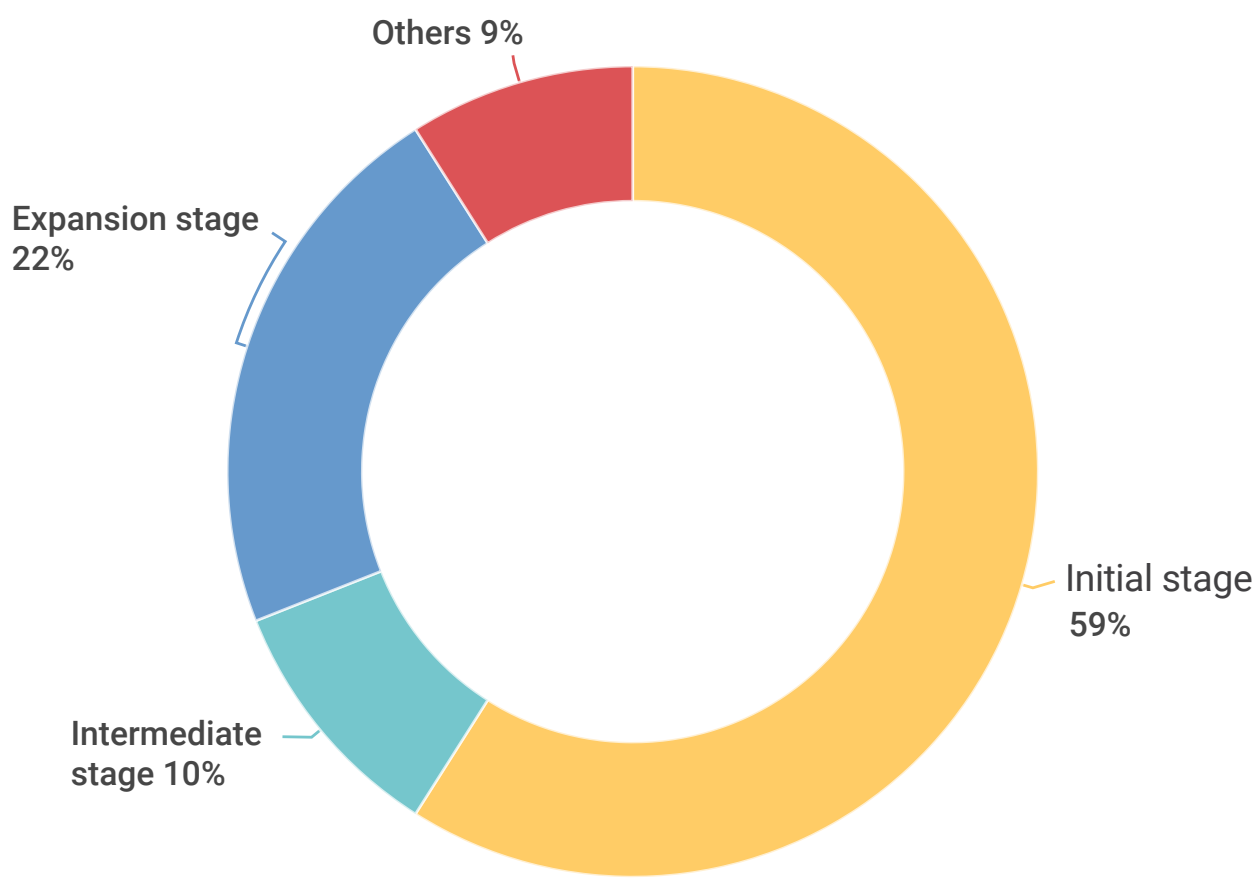
Brazilian fintechs are playing a leading role through creating solutions that are reshaping the future for companies and consumers. Regulatory changes are spurring competition, with the arrival of new players stirring up this industry.

A heavyweight banking sector opens up many opportunities for newcomers in Brazil, introducing innovative technologies and operating independently of traditional financial institutions. With lower costs and more flexibility, fintechs can pass these benefits onto their users. It is believed that, by 2020, fintechs may well take over more than 20% of transactions that are currently handled by financial institutions all over the world.

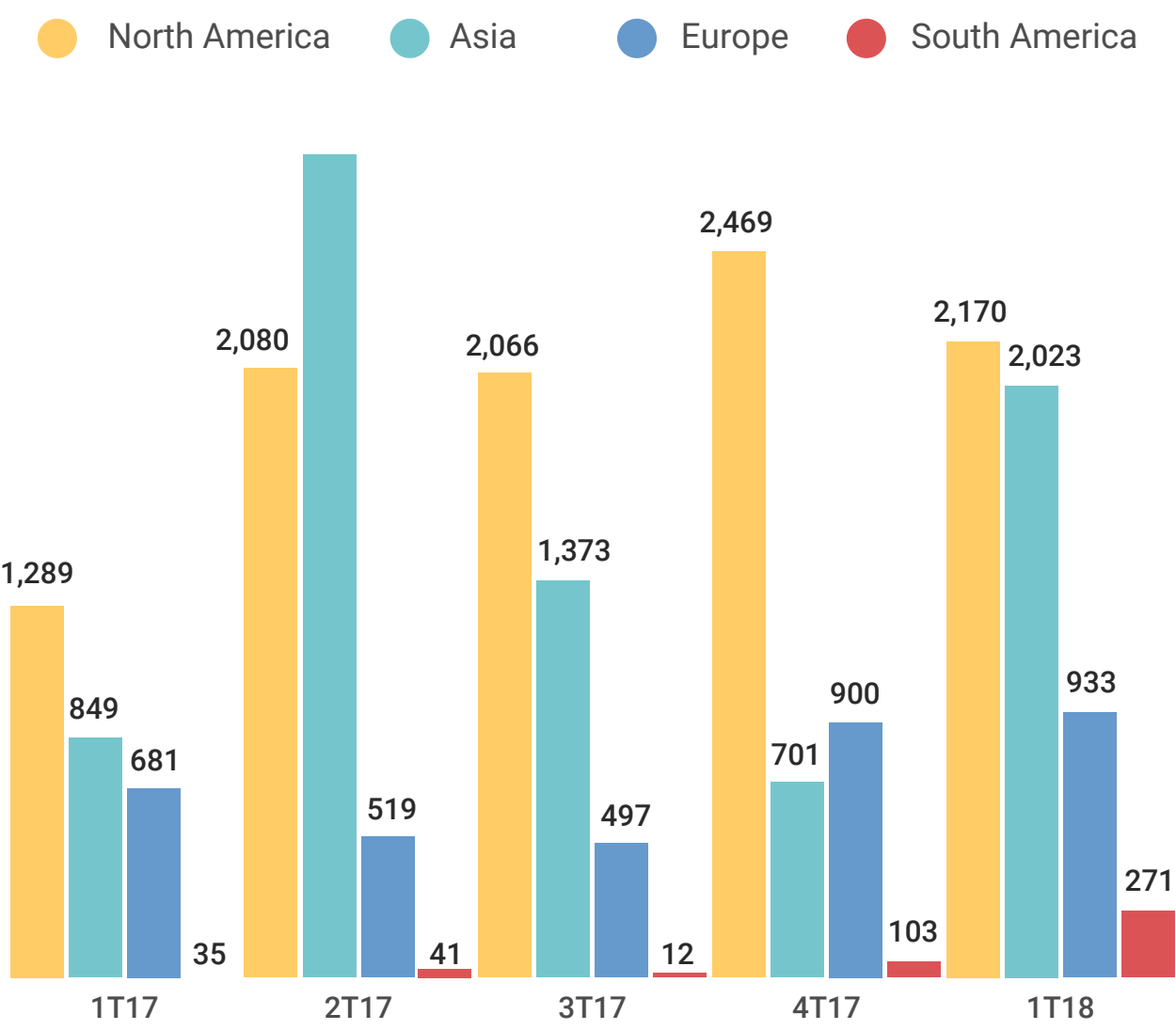
In 2013, the Brazilian Government promulgated Law N° 12,865, authorizing the Brazilian Central Bank to serve as a regulator. At the same time, a new regulatory framework was issued, introducing the concept of payment accounts and arrangements.

These new regulations are intended to create competition through non-discriminatory treatment of participants, in addition to a focus on protecting merchants, offering them a free choice of institutions for depositing funds and the mechanisms designed to protect their receivables.

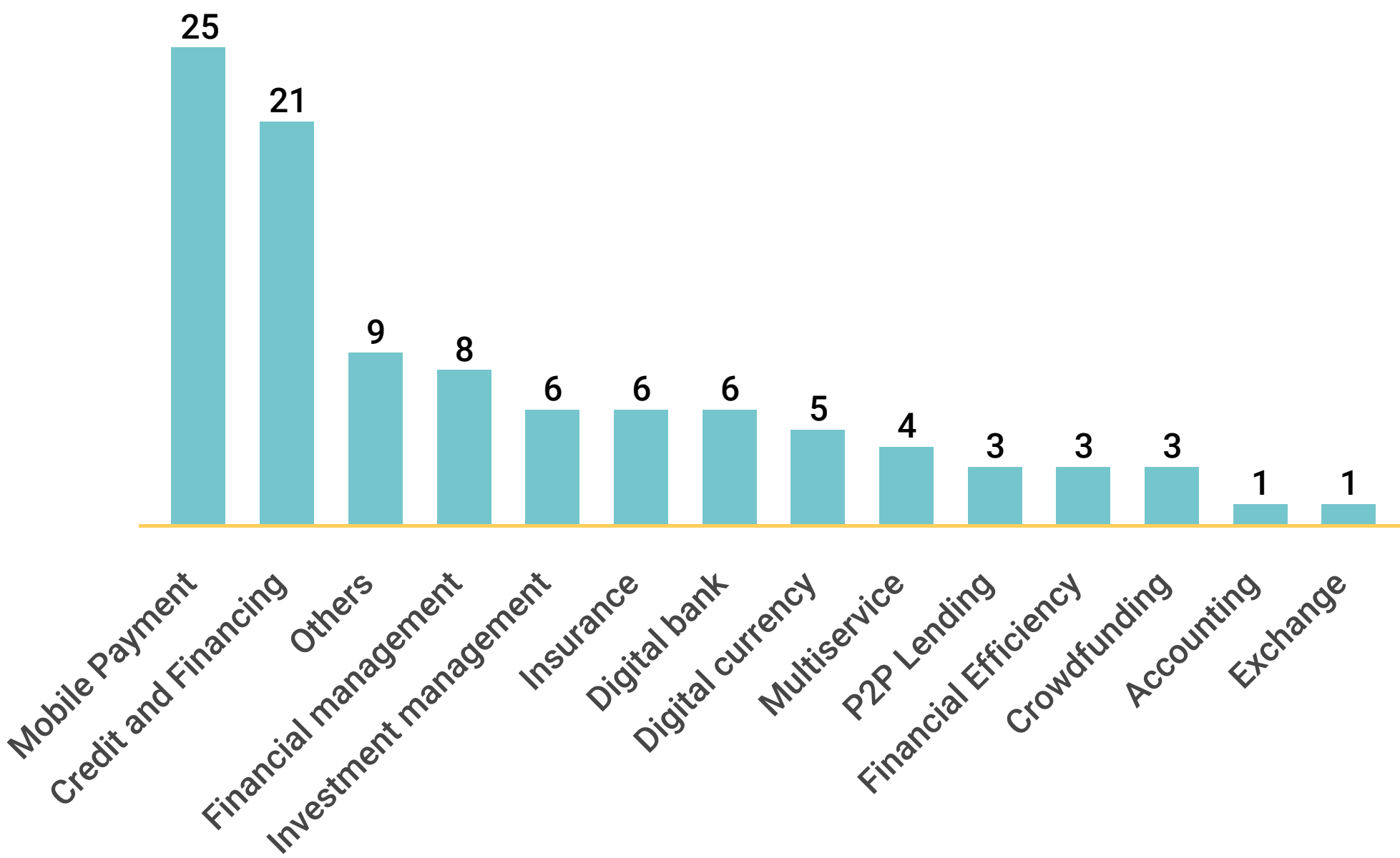
Fintech investment percentage by stage of business 4T17



Fintech investments in venture capital by continent 1T17–1T18 (US\$ million)



Main segments of Brazilian fintechs FY18 (%)





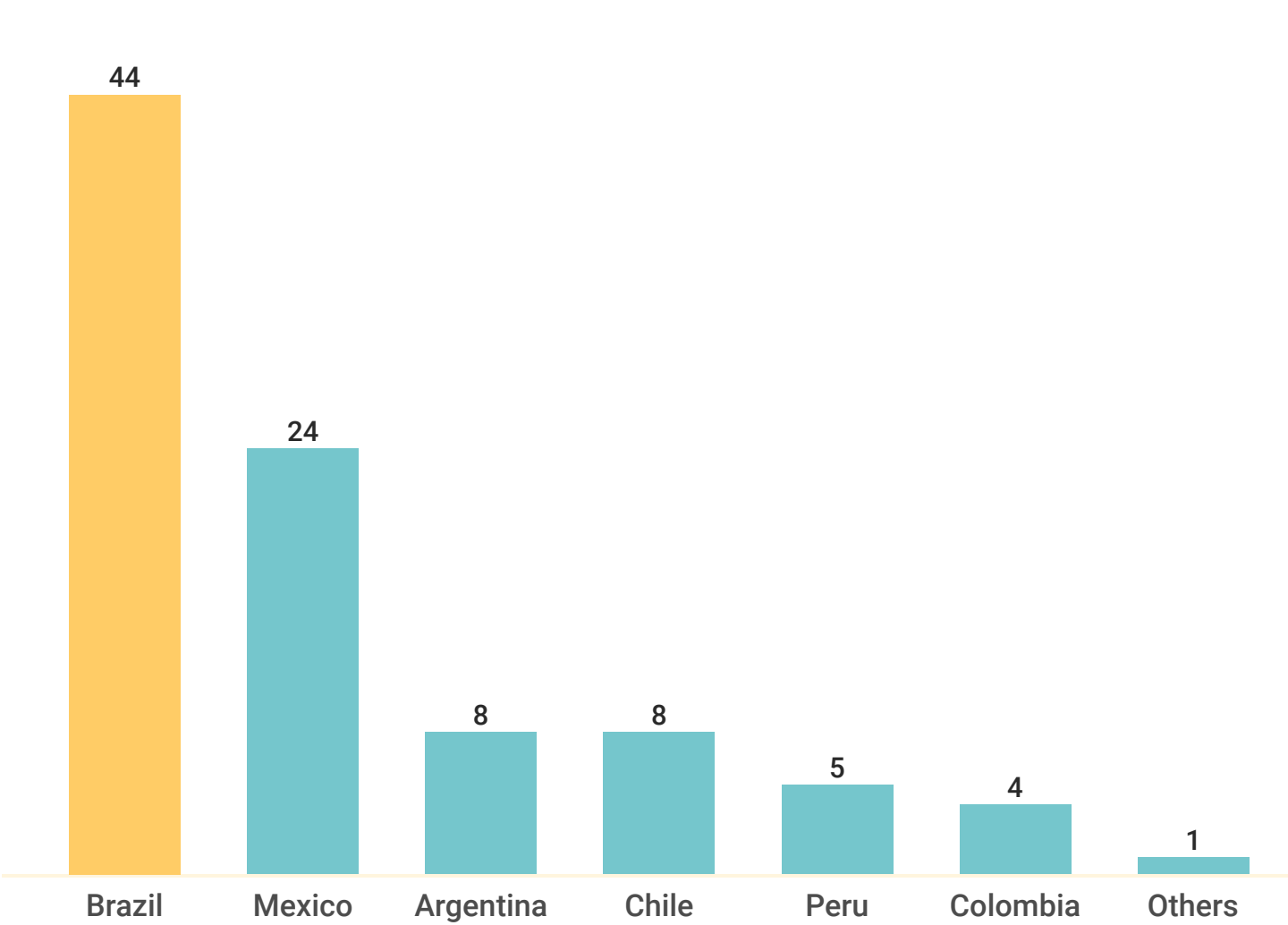
3.4 Fintech–  
With Brazil heading up fintech investments in Latin America, solutions based on loans and payments platforms are still attracting the most attention from investors.

Fintech is the N° 1 for venture capital investments in Latin America, with US\$ 540 million invested in 94 transactions between 2017 and mid-2018. During the first half of 2018, Brazil continued to head up the fintech sector in Latin America, with Nubank’s US\$ 150 million outstripping many other fintech investments in the region. Although an outlier in terms of business size, the Nubank deal spotlights the rising interest of VC investors in Brazil, viewed as a fintech innovation epicentre in Latin America.

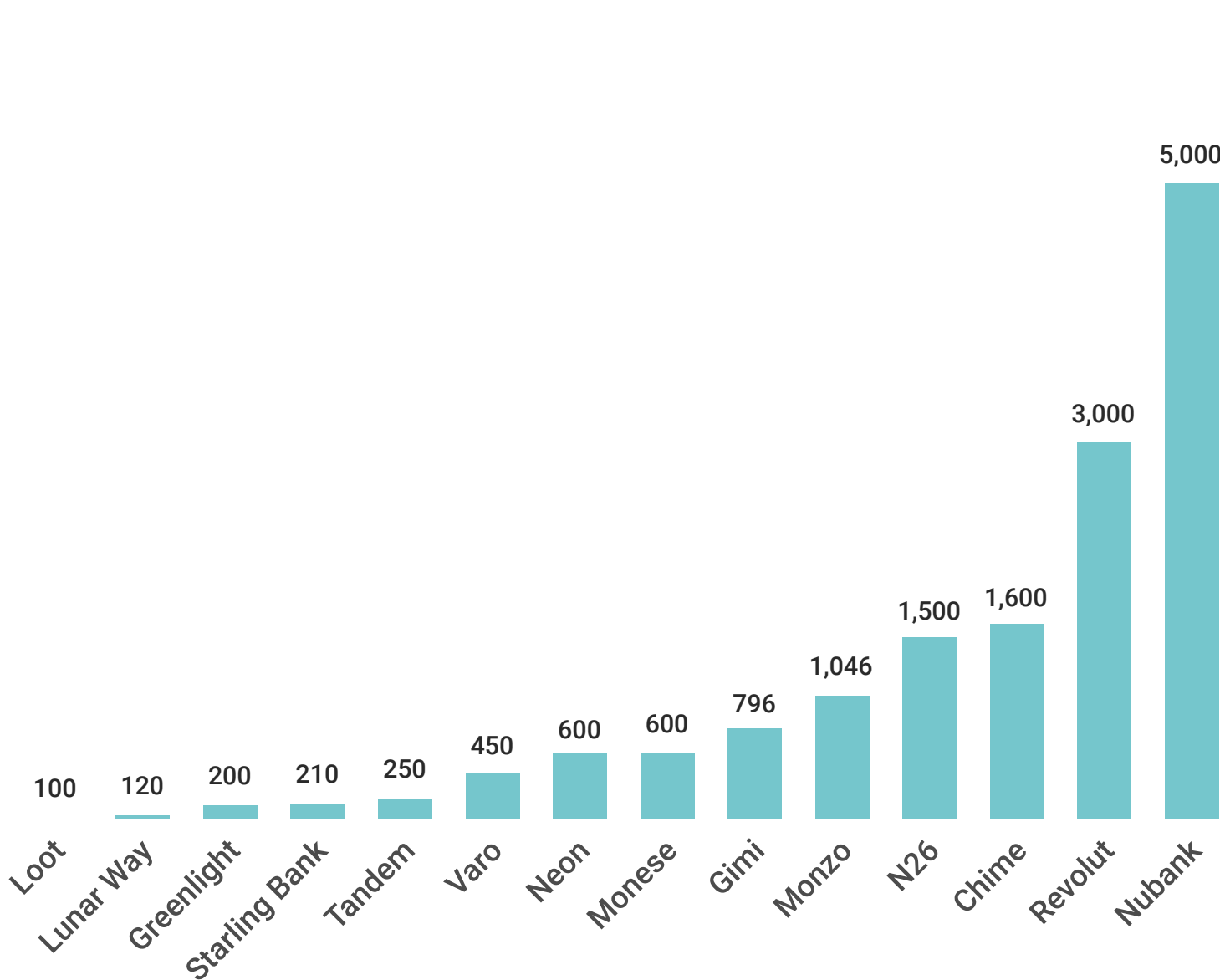
Loans and payments platforms continue to dominate investor interests in Brazil and – more broadly – in Latin America.

A recent KPMG report indicated that investments in financial start-ups peaked last year at a record US\$ 111.8 billion, compared to US\$ 50.8 billion entering this sector in 2017. The study credits much of these results to mergers and acquisitions.

Number of investments in fintechs in LATAM FY17–1H18



Users of main fintechs worldwide FY18 (thousand)



3.4 Fintech—  
Deals involving Nubank,  
PagSeguro and Stone, among  
others, ranked Brazil as one of  
the major markets worldwide,  
as technology endows fintech  
businesses with a global reach.

New players, particularly fintechs, are bridging the gap left by traditional financial institutions and contributing to financial inclusion. There is a rising trend in foreign investments among Brazilian fintechs, with China’s TenCent investing listing US\$ 180 million in Nubank.

In October 2018, the Stone IPO drew shareholders that included Berkshire Hathaway, Warren Buffett, Gávea Investimentos and Alibaba Group subsidiary Ant Financial. At the start of the year, PagSeguro raised US\$ 2.3 billion through its IPO on the New York Stock Exchange.

MAIN FINTECH TRANSACTIONS IN BRAZIL FY18

YEAR	MODALITY	MANAGERS	TYPE	VALUES (MILLION)	TARGET COMPANY
2018	VC	DST Global; Red Point E.ventures	Investment	R\$ 495.0	Nubank
2019	VC	Softbank	Investment	US\$ 200.0	Creditas
2018	VC	Tecent	Investment	US\$ 200.0	Nubank
2018	VC	FTV Capital	Investment	R\$ 99.0	Ebanx
2019	VC	Point72 Ventures; IFC; Quona Capital	Investment	R\$ 75.0	Contabilizei
2018	VC	IFC; TheVentureCity; Ventech	Investment	R\$ 72.6	RecargaPay
2018	VC	Monashees Capital; Omidyar Network	Investment	R\$ 72.0	Banco Neon
2018	VC	Vostok Emerging Finance; Santander InnoVentures; Amadeus Capital Partners	Investment	R\$ 55.0	Creditas
2019	VC	Vostok Emerging Finance; Atlant Fonder; Dunross & Co	Investment	R\$ 42.0	Finanzero
2019	VC	Ribbit Capital; Kaszek Ventures; Chromo Invest	Investment	R\$ 25.0	Warren
2018	VC	Innova Capital	Investment	R\$ 22.0	Bom pra Crédito
2018	VC	Quona Capital; Monashees Capital	Investment	R\$ 20.0	Biz Capital
2018	VC	Movile	Investment	US\$ 18.3	Zoop
2018	VC	Vostok Emerging Finance; Monashees Capital	Investment	R\$ 17.0	Magnetis
2018	VC	IFC	Investment	R\$ 15.0	Koin
2018	VC	Chromo Invest	Investment	R\$ 15.0	Biz Capital
2018	VC	Prosegur Tech Ventures	Investment	R\$ 15.0	Concil
2018	VC	Vostok Emerging Finance	Investment	R\$ 12.0	Finanzero
2018	VC	E.bricks Early Stage	Investment	R\$ 10.0	F(x)
2018	VC	Monashees Capital; Canary; Mercado Livre	Investment	R\$ 9.0	IDWall
2019	VC	Yellow Ventures; Osher Tech; DGF Investments; 42K Investments; Chromo Invest	Investment	R\$ 8.0	Adianta
2019	Impact	Vox Capital	Investment	R\$ 6.0	Celcoin
2019	VC	Monashees Capital; Mindset Ventures; Banco Votorantim	Investment	US\$ 6.0	Weel
2018	VC	Valorem Financial	Investment	R\$ 6.0	Par Mais

## 4. CASE STUDIES

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## PRIVATE EQUITY

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**Sector:** Food & Beverage



### BURGER KING | VINCI PARTNERS

**The Master Franchisee of the Burger King Corporation in Brazil, Burger King Brasil handles the management and development of this brand in Brazil. Its first Burger King restaurant opened in November 2004, and currently has over 800 establishments.**

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**Investor Profile:** Established in 2009 by a group of former partners in the Banco Pactual bank, Vinci Partners is one of Brazil's largest independent fund managers, focused on alternative investments and active in the private equity, real estate, infrastructure, credit, multimarket, shares, investment solutions and consulting sectors.

**Investment date:** July 2011

**Investment value:** R\$ 319 million

**Initial stake:** 75%

**Current stake:** 13.3%

**Fund name:** Vinci Capital Partners

**Fund size:** US\$1.4 billion

**Assets under management (AUM):** R\$ 9 billion

### OPPORTUNITY

The world's second-largest hamburger chain, Burger King reached Brazil in November 2004. However, the Brazilian operations of this US chain failed to really take off through to 2011. Nevertheless, it posted profits of R\$ 7.1 million in 2010, which was a huge leap up from its earnings of R\$ 1.0 million the previous year. Furthermore, its sales revenues rose 36% over the period to R\$ 129.1 million, closing the year with 39 stores in operation, nine more than in 2009.

The Brazilian fast food market was even more dynamic at that time, expanding aggressively with revenues of R\$ 15.3 billion in 2010. Despite several years in Brazil, the number of Burger King outlets was still equivalent to only one sixth of McDonald's (its direct competitor), hinting at significant growth potential. The idea of setting up a large group with significant expansion investment capacity arose when the 3G Capital fund bought the Burger King Corporation for US\$ 4 billion. In parallel to international brand recognition, Brazil's ballooning fast-food market and the consolidation of companies in Brazil made Burger King Brasil an excellent investment opportunity for private equity funds.



## PRIVATE EQUITY

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**Sector:** Food & Beverage



### TRANSACTION

In June 2011, Burger King Corporation and Vinci Partners established a joint venture for opening up a company that would serve as the master franchisee for this brand in Brazil. Through Vinci Capital Partners II fund, Vinci invested R\$ 319 million for a 75% stake in the company. The plan for this newly established enterprise was ambitious: opening 900 stores during the next five years in Brazil, with investments ranging between R\$ 600 million and R\$ 900 million. The management of the company was handed over to Iuri Miranda as its CEO.

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### IMPLEMENTATION

The aggressive investment plan proposed by its new partners found a situation that was very different from the prevailing context during the first few years of Burger King in Brazil, as the operations of fast food companies had become more firmly consolidated. The new expansion plans for this chain included a model through which existing franchisees would co-exist with the figure of a master franchisee, also with its own stores. The intention of its new management was to ensure that this chain kept pace with rising consumption on the Brazilian market. In 2012, Burger King Brasil purchased the largest Brazilian franchisee – BGK – with 63 stores clustered in São Paulo. Eager to spur growth, Burger King continued to buy up franchise sites and began to control the expansion process of this chain. To do so, it mapped out 500 municipalities nationwide, pinpointing towns and regions that would comfortably accommodate the restaurant models designed by this chain.

In 2014, the Temasek sovereign fund (headquartered in Singapore) invested US\$ 100 million in a 20.5% stake in BK Brasil. With the arrival of this new

partner, the Vinci Partners holding was diluted from 75% to 59.6%. Just over three years after its acquisition by Vinci, Burger King closed 2014 with more than 500 stores in Brazil. Initially clustered in the more prosperous Southeast, it bought out the main franchisor in the Northeast, and began to focus on expanding nationwide. With 531 outlets in operation, it rose from seventh on the fast food market by number of stores to third in 2015, behind only Subway, McDonald's and Bob's. Focused on opening stores and buying out franchisees, its investment project had the side-effect of increasing its financial leverage. Three transactions were conducted with debentures through to 2015, one involving R\$ 150 million and two at R\$ 100 million each.

In 2016, the Capital Group private equity fund reached an agreement on channelling capital into Burger King in Brazil, with total investments of just over R\$ 450 million. With this transaction, this fund took over 31% of the chain, while the Vinci stake fell to 38%. The Capital Group investment almost eliminated the net debt of the company, and buttressed its Capex for the next few years. The subsequent year, Vinci Partners sold off a 5% interest in Burger King Brasil to a US family office, with the company appraised at around R\$ 2 billion. With this, Vinci retains a 32% stake in the company. The arrival of new partners was intended to provide capitalisation, with less leverage and better funding for new investments.

In December 2017, the Burger King IPO attracted funding of R\$ 2.2 billion, with purchase orders for four times the number of available shares, allowing the chain to set the price of its papers at R\$ 18, right at the top of its indicative price bracket. The company raised R\$ 886.2 million for extending its own store network, while also boosting the brands of restaurants operating in Brazil. Although still the main Burger King shareholder, the Vinci stake was diluted.



# PRIVATE EQUITY

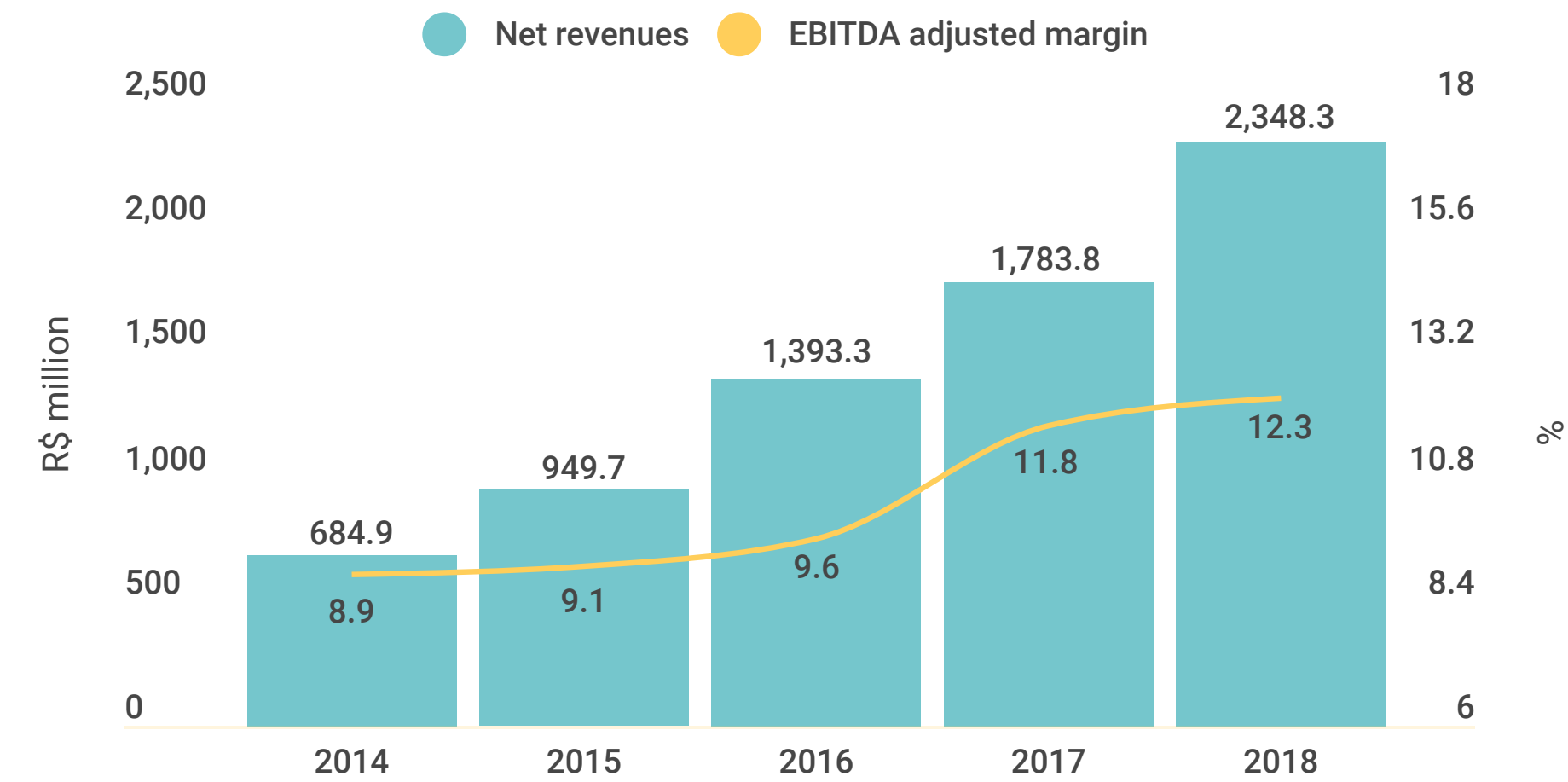
Sector: Food & Beverage



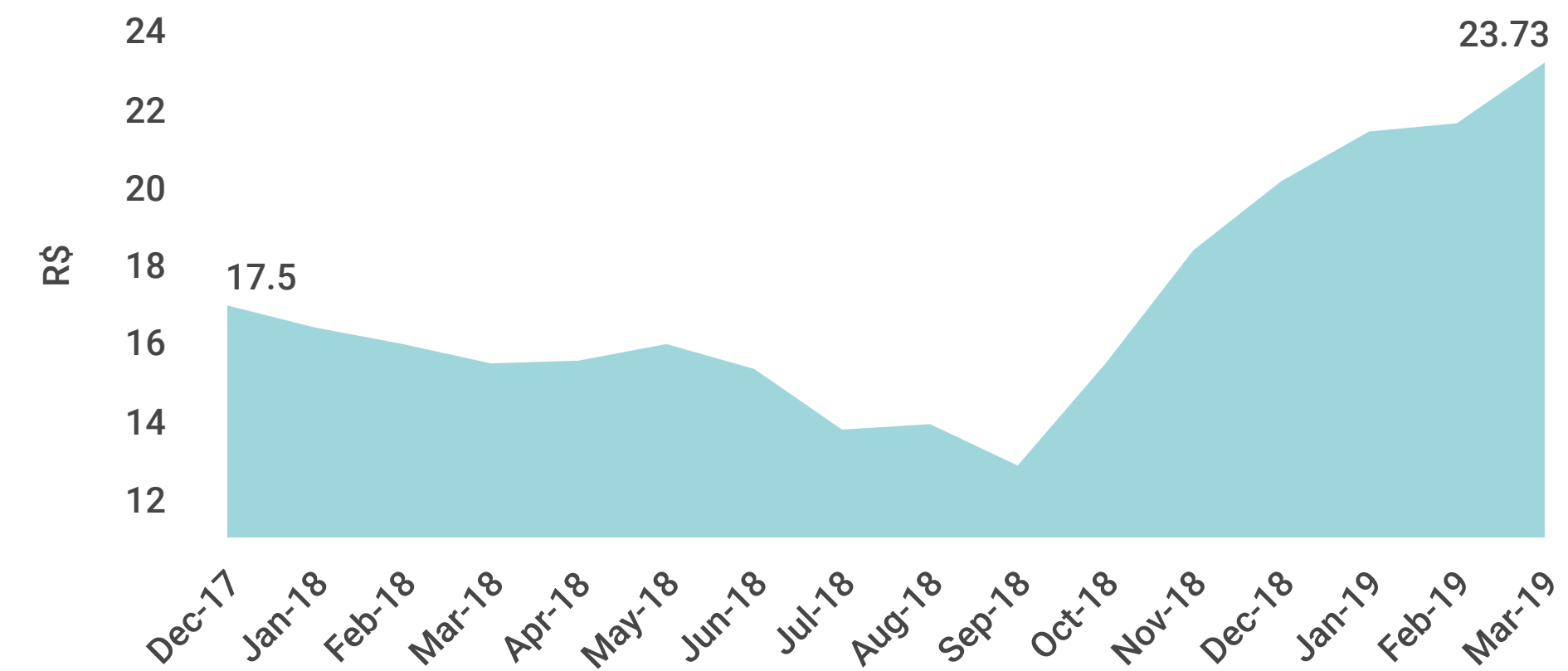
## OUTCOMES

Despite a few years of losses due to rapid expansion, this business is a dynamic cash flow generator, together with predictable revenues. With its IPO in late 2017, the R\$ 319 million invested in this snack bar chain in July 2011 by Vinci reached almost R\$ 1.1 billion, more than triple the initial investment. After years of net earnings in the red, due to the need to invest in expanding the business, the company posted profits of almost R\$ 4 million in 2017, reaching R\$ 128 million in 2018. Up by 32% in 2018, net sales rose to R\$ 2.34 billion. Furthermore, in March 2019, BTG Pactual raised the target price of the stock from R\$ 21 to R\$ 26 in 12 months, keeping its buy rating. It ended February at R\$ 22.17, with the highest growth among shares listed on the Consumption Company Index.

Net revenues (R\$ million)



Burger King Brasil share price evolution (BKBR3)



Source: company's financial report; BM&FBovespa

## PRIVATE EQUITY

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**Sector:** Fintech



### STONE | GÁVEA

**A Brazilian dotcom specializing in means of payment, Stone is a start-up that specialises in providing credit and debit card services to commercial establishments. Its business model includes accreditation, installation and maintenance of electronic terminals for the uptake, processing, transmission and financial settlement of transactions.**

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**Date of IPO:** October 2018

**Size of IPO:** US\$ 1.5 billion

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### OPPORTUNITY

During Brazil's recession, using credit cards as a means of payment became more important, particularly as credit became scarce, underpinning consumption and supporting the retail sector. The total amount of cash-free payments using cards will grow by 10.5% a year through to 2020 worldwide, with Brazil being the largest country in Latin America for digital payments. Although cards have progressed in terms of Brazilian family consumption over the past few years, a third of all purchases are still settled in cash, reflecting a great investment opportunity in the payment segment. Despite technological progress, this sector still has only limited penetration in Brazil, with its growth potential significantly outstripping that of more mature economies.

The Brazilian market began to open up to alternative means of payment only in 2010, with the end of exclusive rights for brands and accreditation bureaus. Since then, it has been welcoming newcomers eager to benefit from the opportunities opened up by technological progress. Furthermore, in 2013 a specific regulation for this market was enacted through Law N° 12,865, dated October 9, 2013, allowing the entry of new players.

Brazil is appealing to the payments market, due not only to its large population and expanding economy, but also because of the still timid presence of electronic settlement options and products using simple technology that can fuel trade and encourage entrepreneurship nationwide. Fintech companies working with means of payment have been opening up new markets, allowing credit card use for individuals and companies that were previously unable to cope with the costs of renting swipe devices and card fees.

## PRIVATE EQUITY

**Sector:** Fintech



### TRACK RECORD, IPO & OUTCOMES

Established in 2012 by André Street and Eduardo Pontes (Arpex Capital), together with the Banco Pan and BTG Pactual, Stone started up operations in 2014, after two years of preparation, during which it acquired licenses from credit cards such as Visa and Mastercard. Over the years, it organised several rounds of private offerings, attracting investors such as Actis LLP (UK) and Gávea Investimentos (Brazil). Its list of partners also includes the Tiger Global Investors fund, the Madrone Partners investment company that manages part of the Walton family fortune (the main owner of retail giant Walmart), and three of the founders of 3G Capital: Jorge Paulo Lemann, Marcel Telles and Carlos Alberto Sicupira.

In contrast to PagSeguro, which focuses on small merchants, Stone specialises in medium-sized entrepreneurs, competing directly with long-established accreditation firms such as Cielo and Rede. In addition to means of payment, Stone offers packages of other services, such as management software, in order to attract merchants who would not otherwise be able to contract the services individually.

In 2016, Stone bought out its competitor – Elavon do Brasil, an accreditation company that is the fourth largest acquirer of means of payment in Brazil, with a 2% market share. Furthermore, in July 2017, it was authorised by the Brazilian Central Bank to operate as a payment institution functioning as an accreditation office. A few months later, Stone was assessed at R\$ 2.27 billion in October, when the Banco Pan sold its 10.1% stake to DLP Pagamentos Brasil (which is owned by Stone partners) for R\$ 229 million.

Moreover, it acquired R\$ 1 billion fund for the sale of receivables to a Credit Rights Investment Fund (FIDC). This amount is intended to finance advances on transactions with cards through the Stone credit card readers. This fund will pay its senior unit investors (the most strongly protected against possible future defaults) 106.8% of the Interbank Deposit Certificate (IDC), and was granted an AA+ rating by Fitch.

In early 2018, the company was planning a private placement of R\$ 250 million with international investors, through what was to be its last round of investments before the IPO. By the first quarter of 2018, Stone held 4.5% of Brazil's payments market, handling transactions equivalent to 1% of the nation's GDP. Although market concentration clustered mainly in large banks hampers keener competition, accreditation companies outside the financial system such as PagSeguro, Stone and FirstData processed 15% of debit and credit card transactions in Brazil during 2017, compared to 12% in 2016.

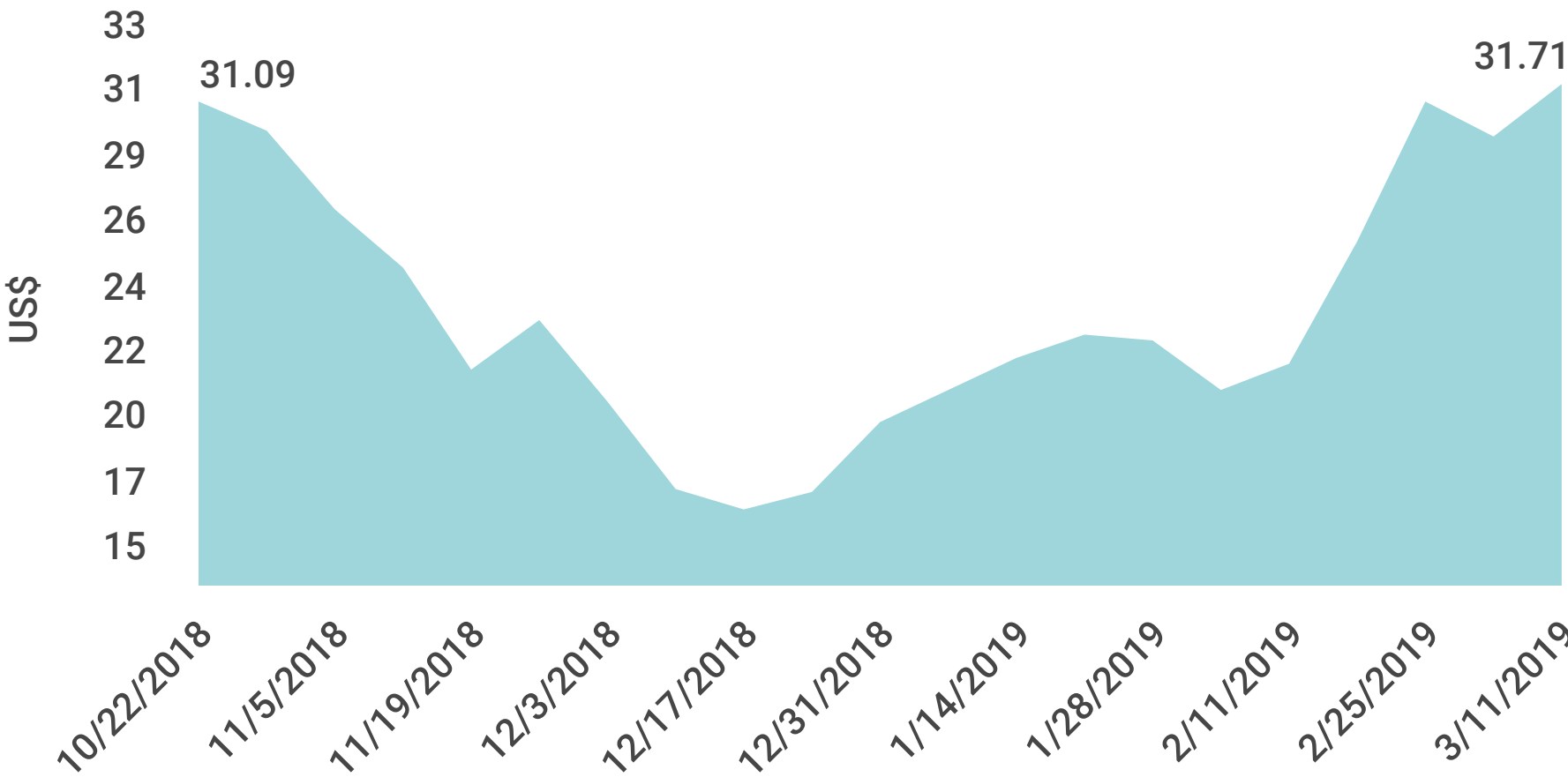
PRIVATE EQUITY

Sector: Fintech

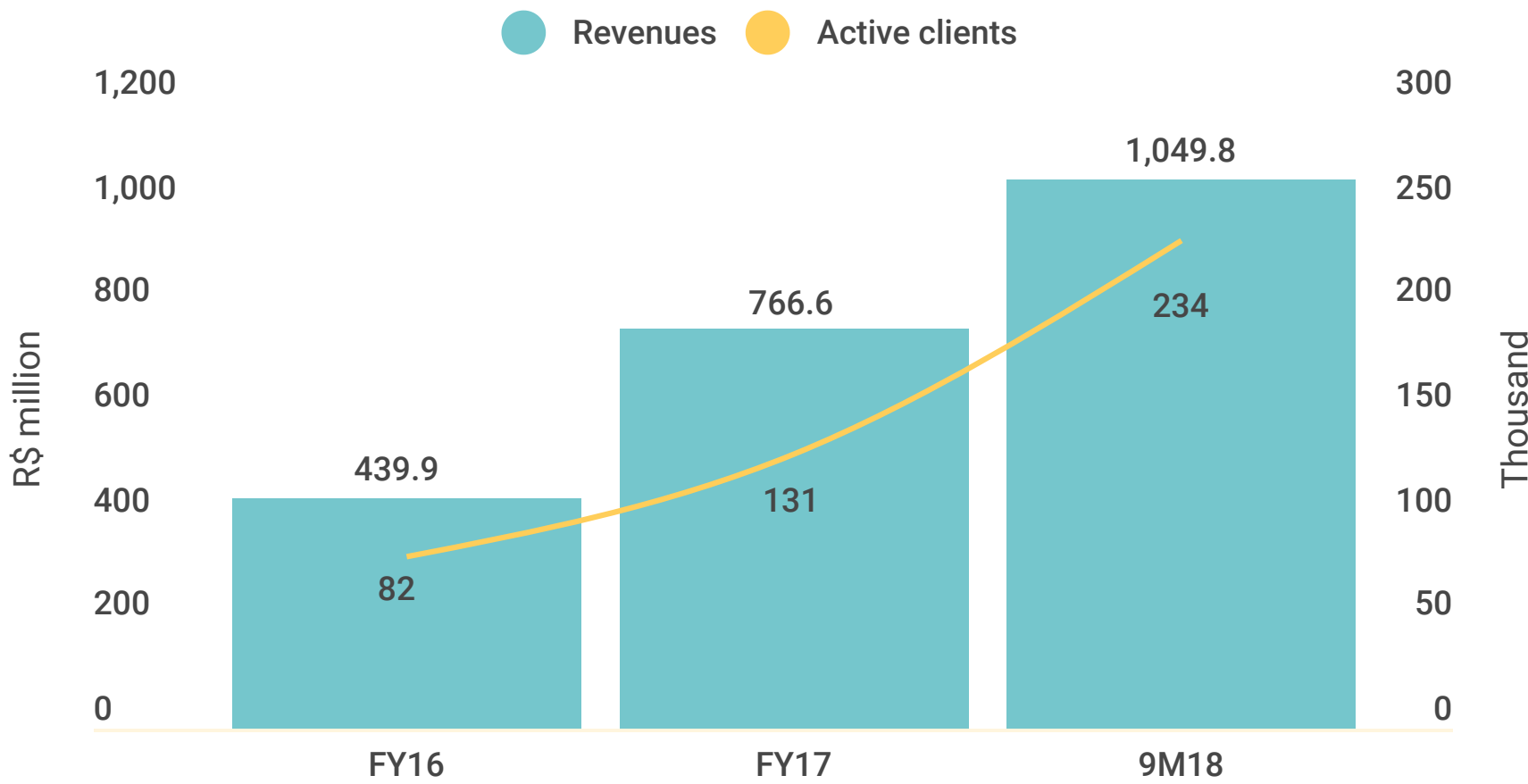


In October 25, 2018, Stone went public on the NASDAQ exchange in the USA. Its IPO was brought forward a day by heavy demands for shares that outstripped the supply twentyfold, despite increasing the share price by a dollar (to US\$ 24). The book had a demand of some US\$ 20 billion, with the help of renowned anchors such as US mega-investor Warren Buffett (a founding partner of Berkshire Hathaway) who invested some US\$ 315 million in acquiring 11.3% of Stone’s capital. Another anchor investor with US\$ 100 million was Chinese billionaire Jack Ma, who owns Asia’s e-commerce giant Alibaba. Additionally, the Madrone Capital asset manager (which handles the inheritance of the Walmart family heirs, and was already a shareholder in the company) seized its chance to increase its stake in Stone. This successful IPO raised US\$ 1.5 billion, which was the highest-ever amount obtained by a Brazilian company since 2013. Just over a month after it went public, Stone was still being traded at some thirty times its estimated profits for 2019, compared to twenty times for PagSeguro and ten times for Cielo.

Stone (STNE) shares performance on Nasdaq since IPO



Stone’s revenues and number of active clients FY16–9M18



Source: Stone; NASDAQ



Qualified international investors have access to details related to funds in operation, funds raising, investments made, exits among other data of the fund managers active in Brazil through the ABVCAP Member Directory. To guarantee your access please send us an e-mail to [brazilpe@abvcap.com.br](mailto:brazilpe@abvcap.com.br) so you can send your login credentials.

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