

inBrazil 2019

Infrastructure

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

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

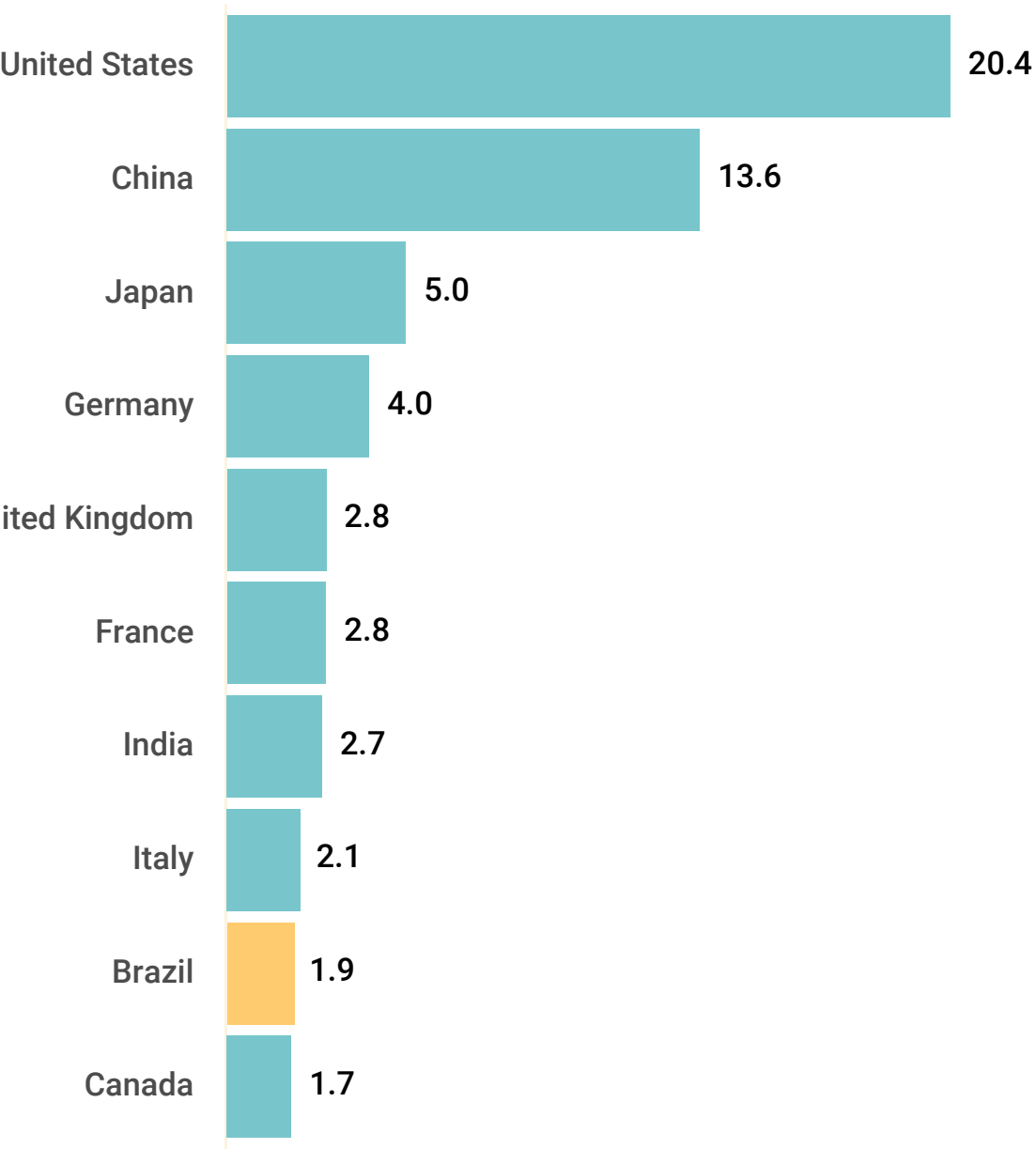
These are promising times for the Brazilian economy, due to the following set of circumstances:

- 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.

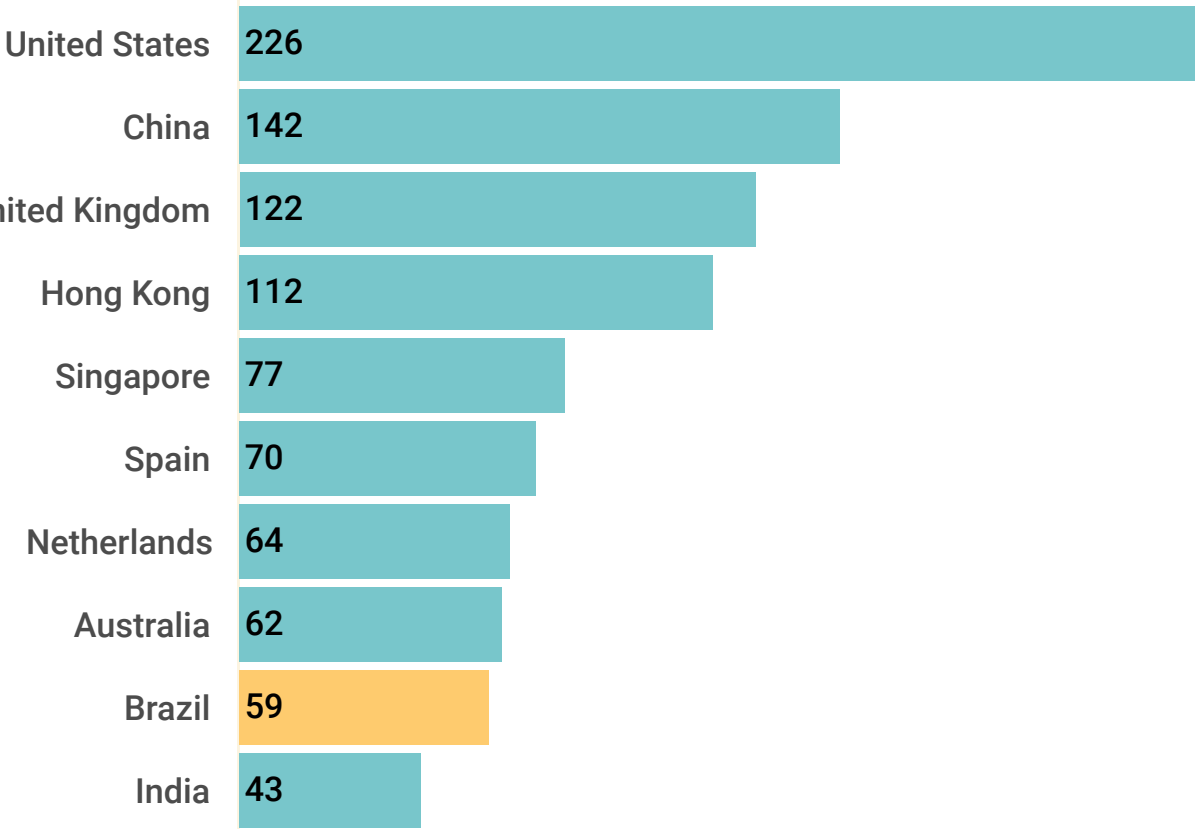
Ranking of Latin American economies – GDP – 2018 (US\$ trillion)



TOP 10 world economies 2018 (US\$ trillion)



Foreign Direct Investment inflows 2018 (US\$ billion)

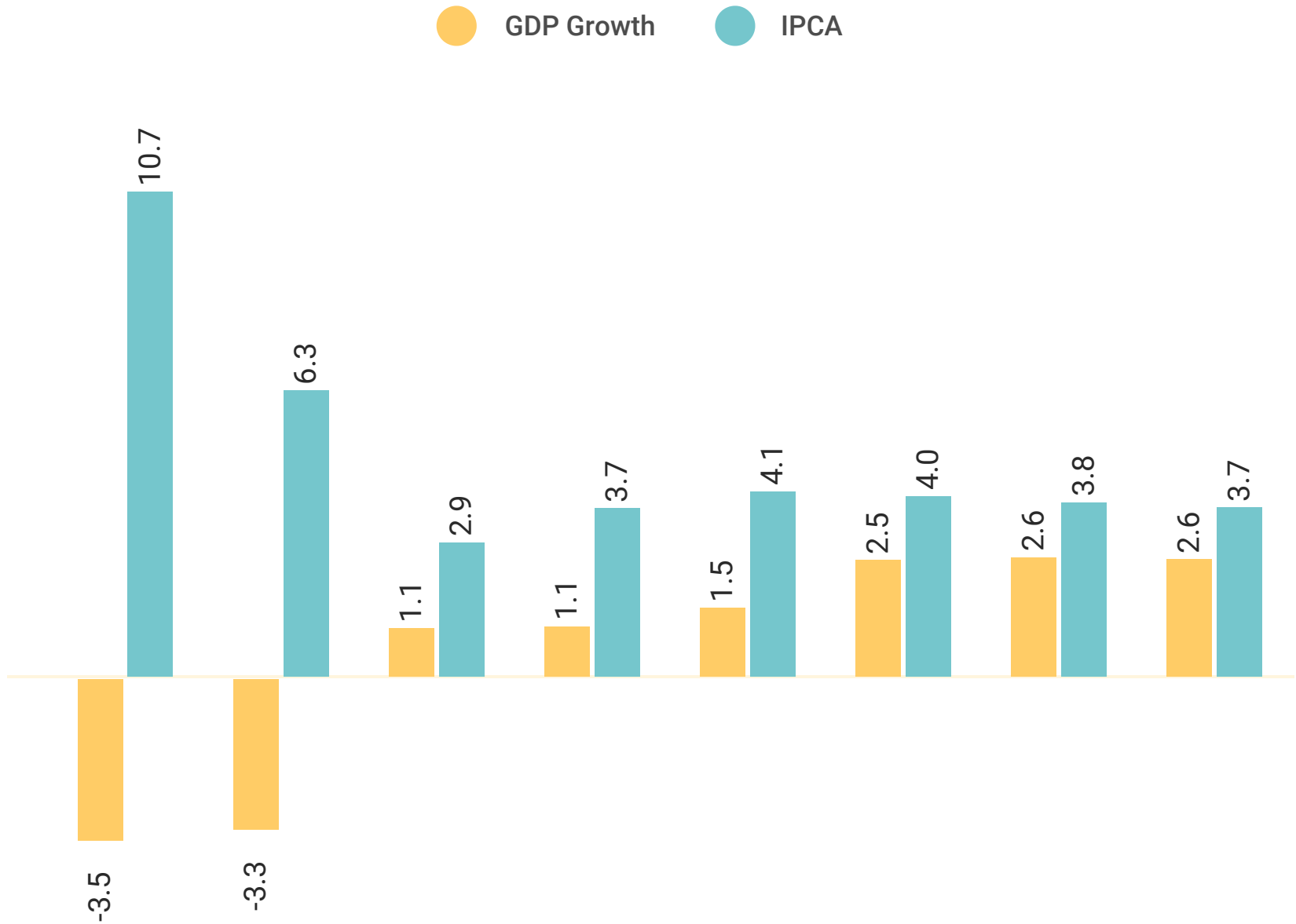


The gradual growth recovery of the Brazilian economy is reflected in a context of tight-leashed inflation and lower interest rates that, influenced by credit costs, are helping drive up activity and employment levels.

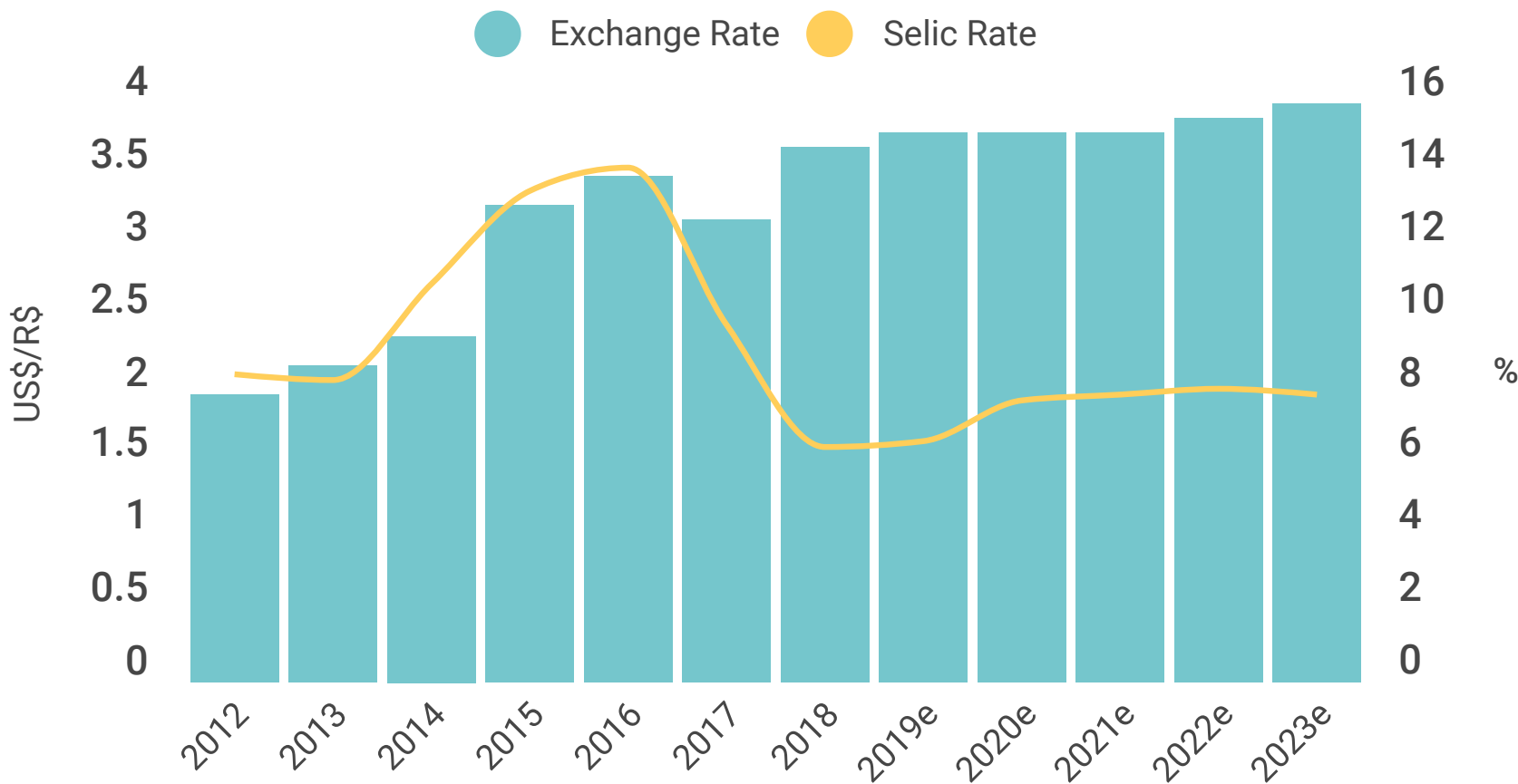
With inflation close to target and solidly-rooted expectations, Brazil’s monetary policy is grounded on interest rate stability and indications that this context will continue over the next few years.

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.

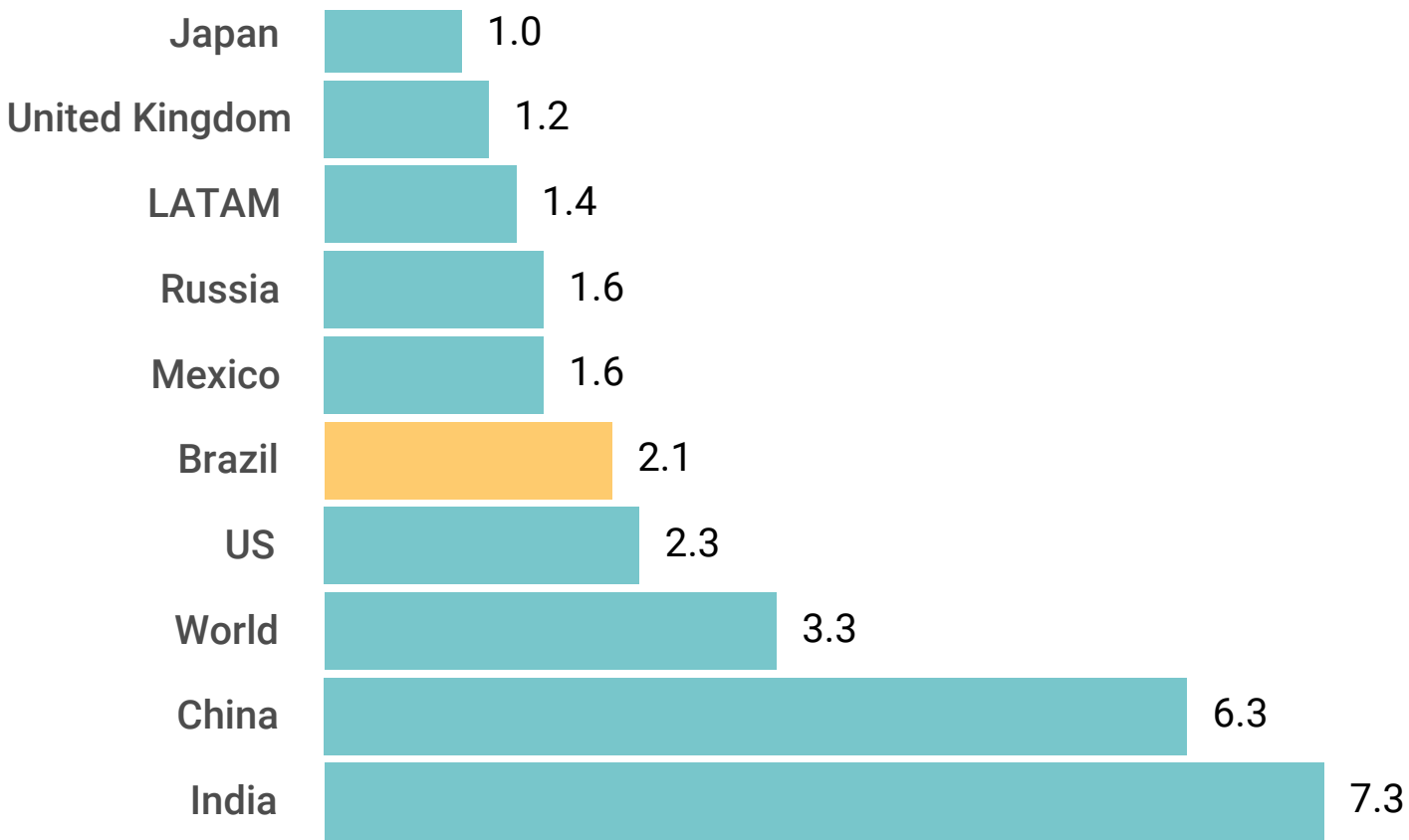
GDP growth and inflation rates in Brazil FY15-FY22e (%)



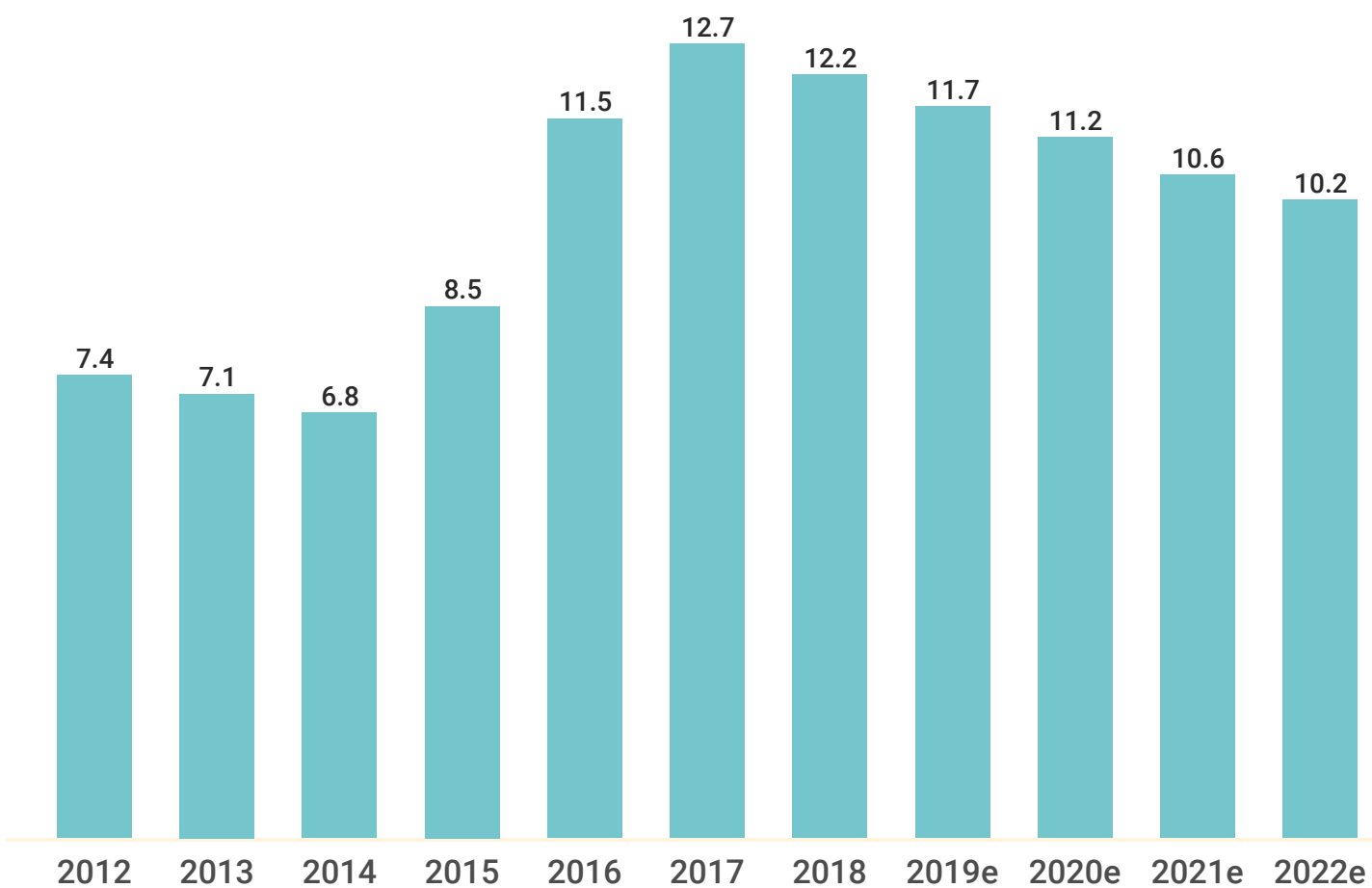
Exchange and Selic rates forecast FY12-FY23 (expected)



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.

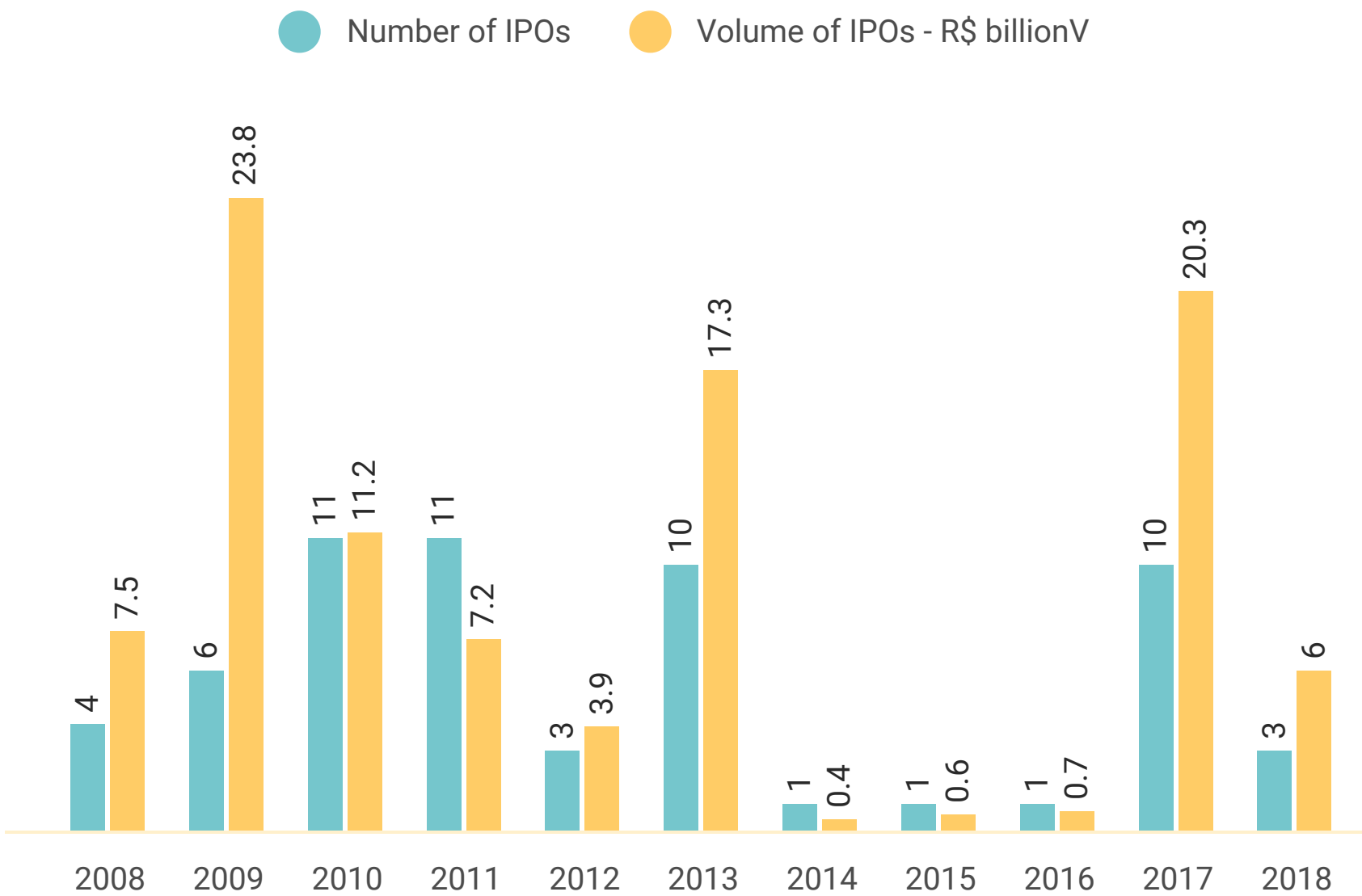
Under a newly-elected government, market optimism spread rapidly. A survey released by Bloomberg indicated that Brazil tops the list of the emerging countries from the investor standpoint. Brazilian bonds were recently ranked as equivalent to those of other economies rated as investment grade.

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.

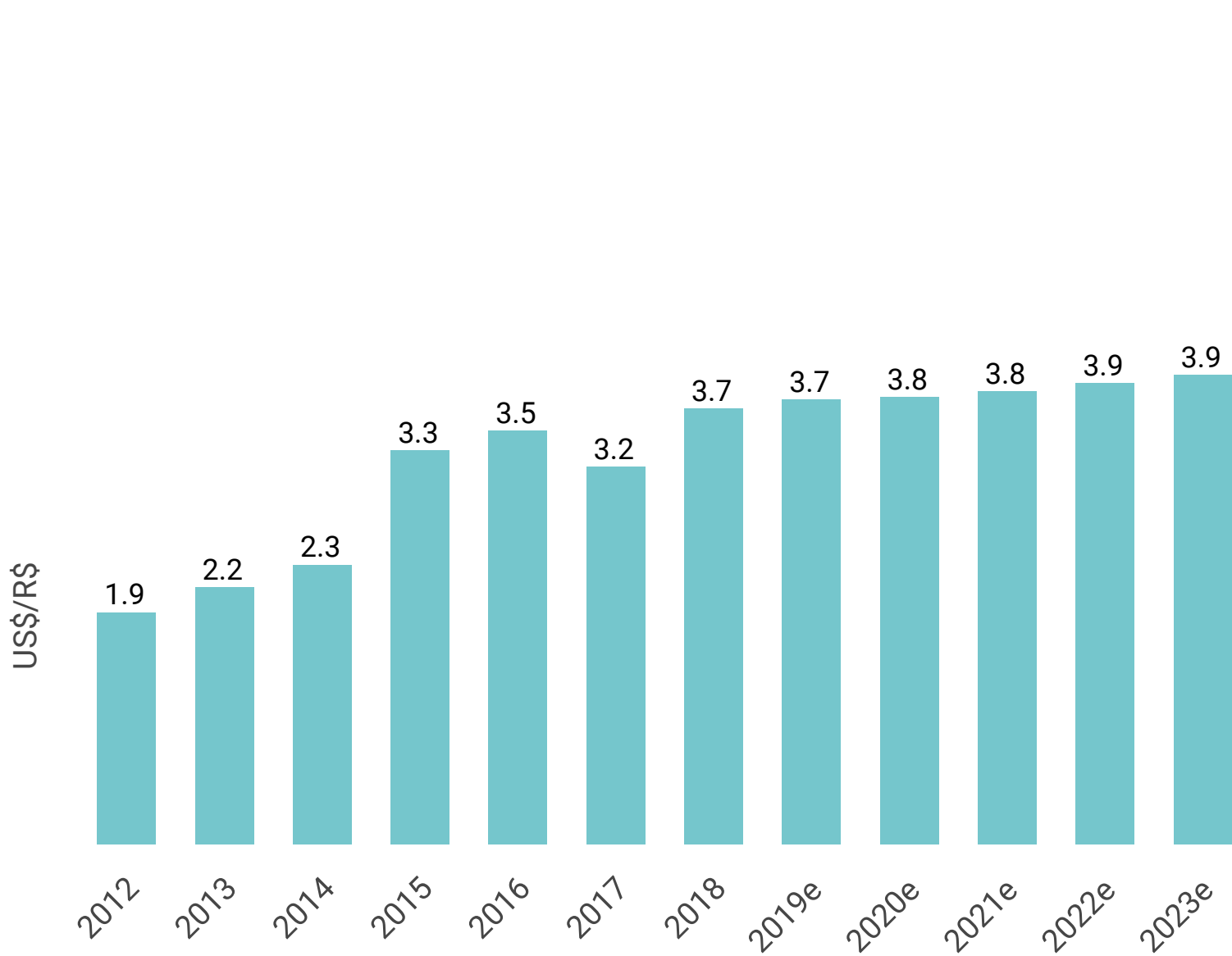
In 2018, three companies went public on the B3 – the Interbank and the NotreDame Intermédica and Hapvida medical aid operators – while others (such as Stone and Arco Educação) offered their papers directly on Wall Street. Through offerings on the Brazilian stock exchange, companies raised R\$ 6.76 billion,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

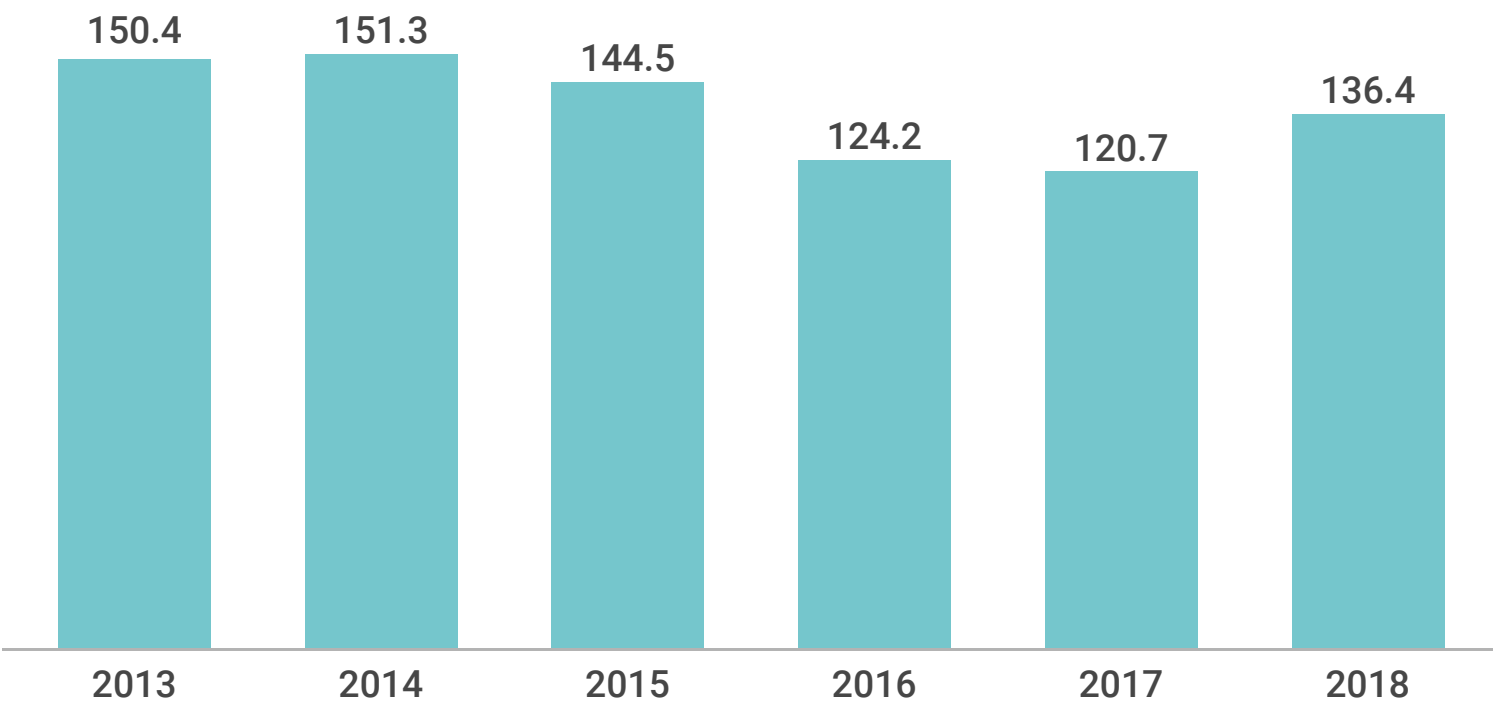
Private capital funds (especially when foreign) are trustworthy sources of financing and operational support in the current context of sparse bank credit, particularly as dry powder is limited among local players.

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.

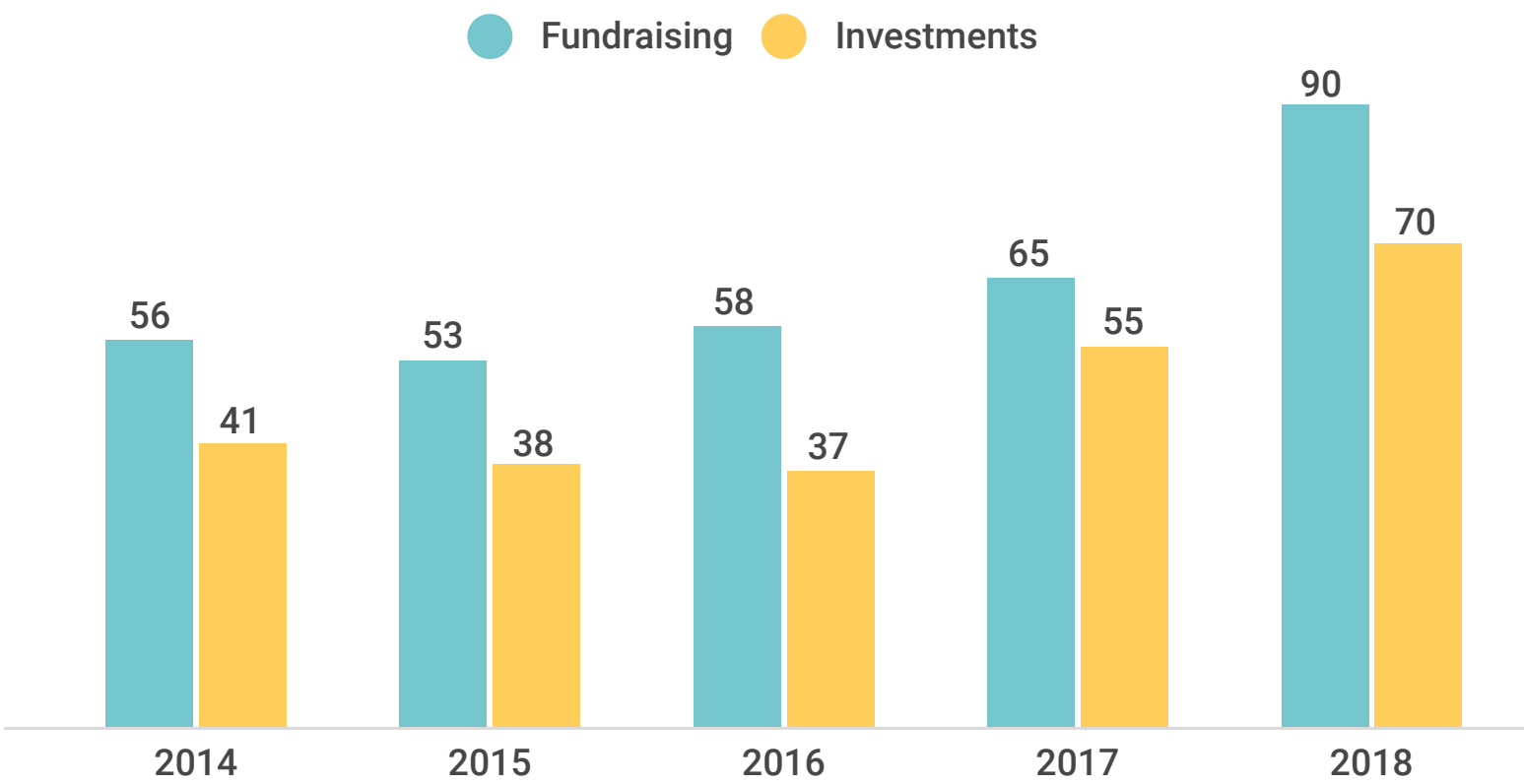
Furthermore, many companies that were heavily leveraged during the economic growth years are now floundering in the wake of the recession.

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.

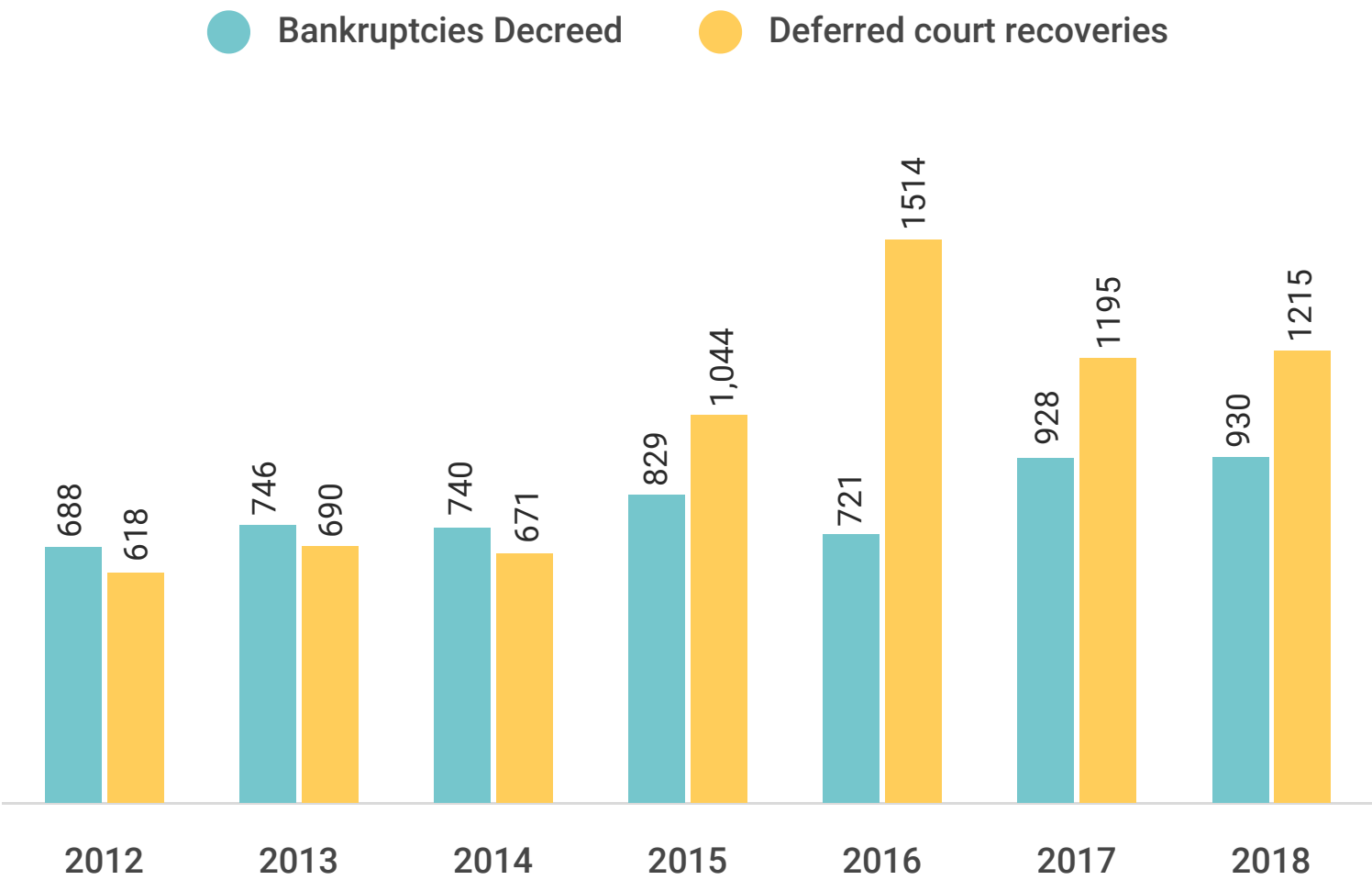
Average annual credit lines to companies in Brazil
FY13-FY18 (# thousand)



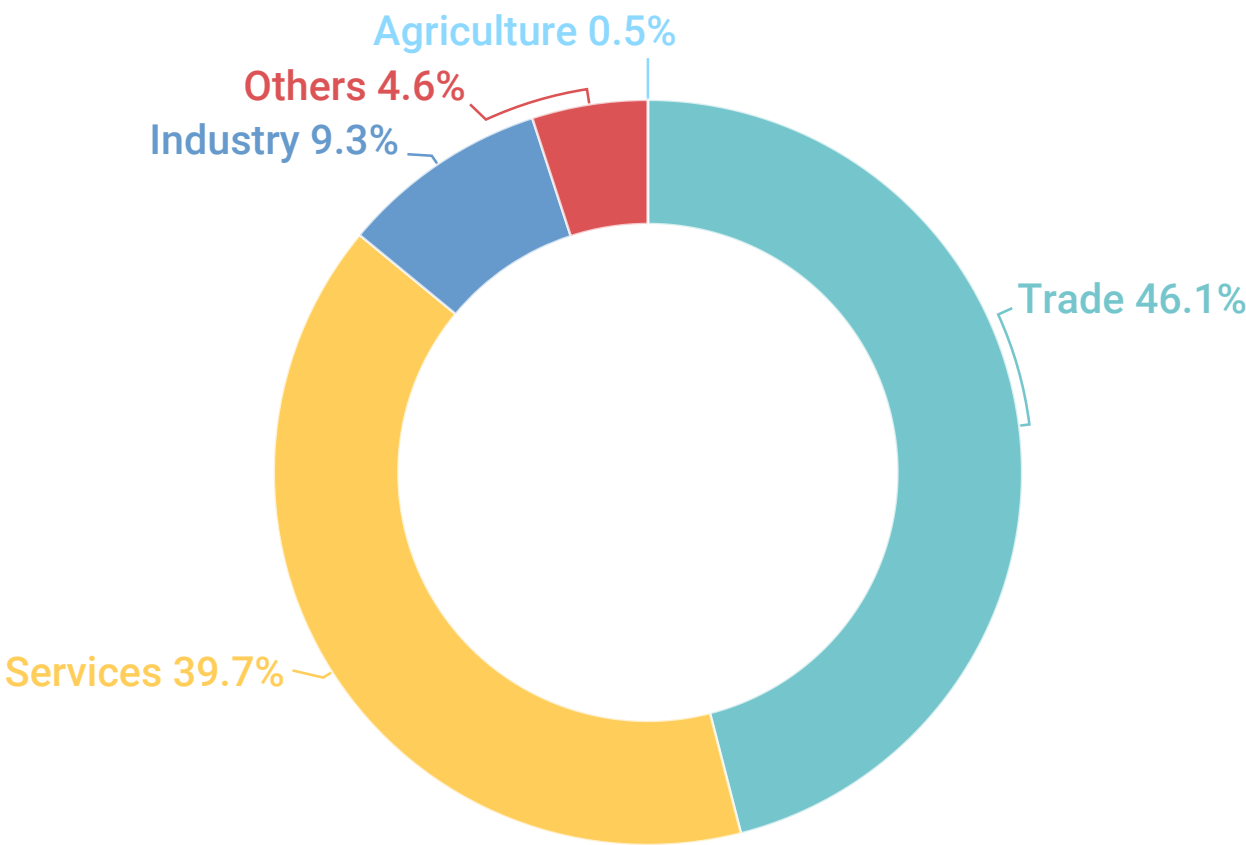
Fundraising and global investment in
Emerging Markets FY14-FY18 (R\$ billion)



Number of bankruptcies and judicial
recoveries in Brazil FY12-FY18



Participation of sectors in corporate insolvency FY18

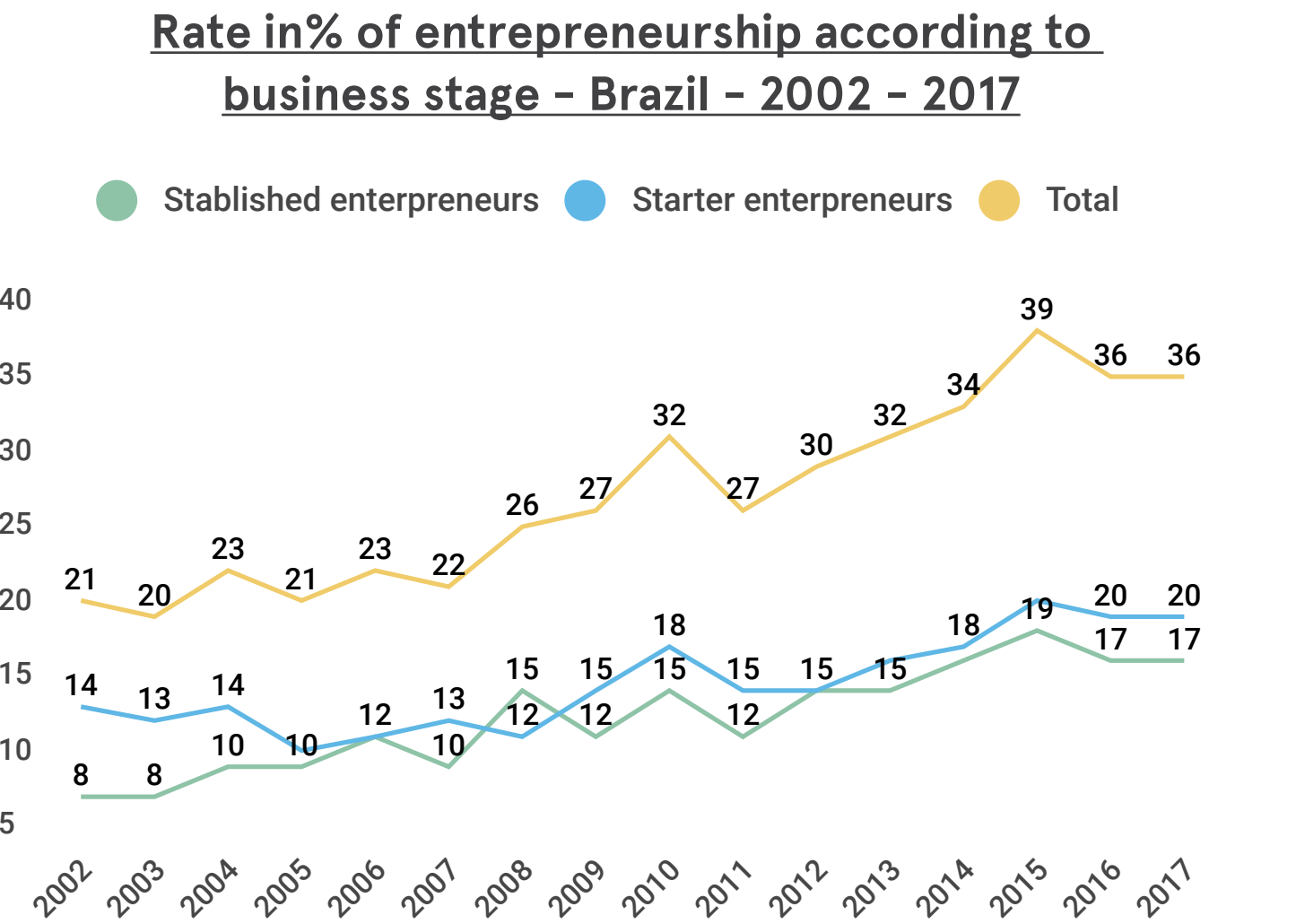


A record number of Brazilian start-ups reached unicorn status during 2018, valued at over US\$ 1 billion and attracting attention from local and international venture capital funds, whether operating in Brazil or not.

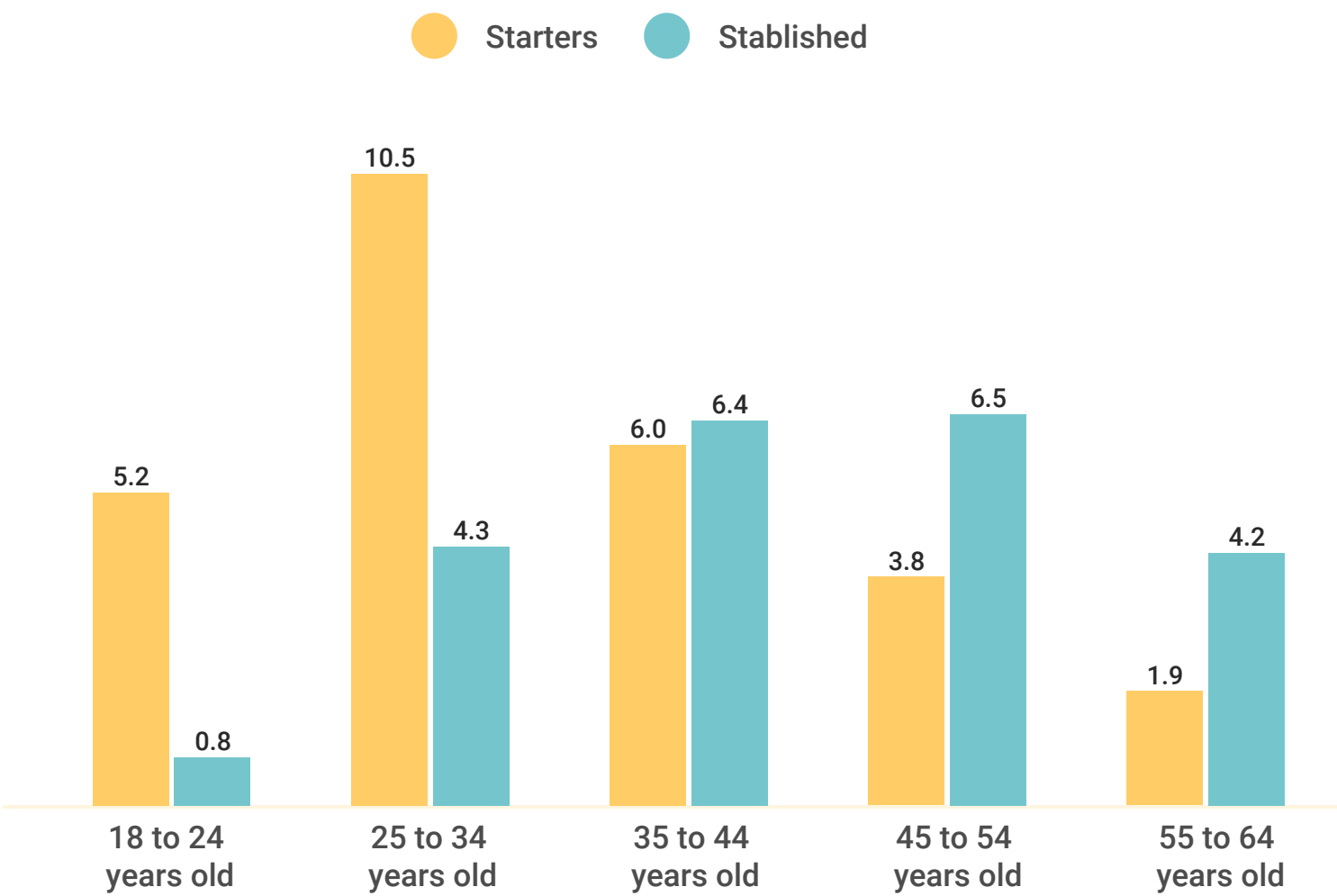
Entrepreneurship has been surging steadily in Brazil: among each 100 Brazilians, 36 are entrepreneurs, and young people between 25 and 34 years old were the most active in setting up new businesses, with 30.5% of Brazilians in this age bracket owning and managing start-ups.

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.



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

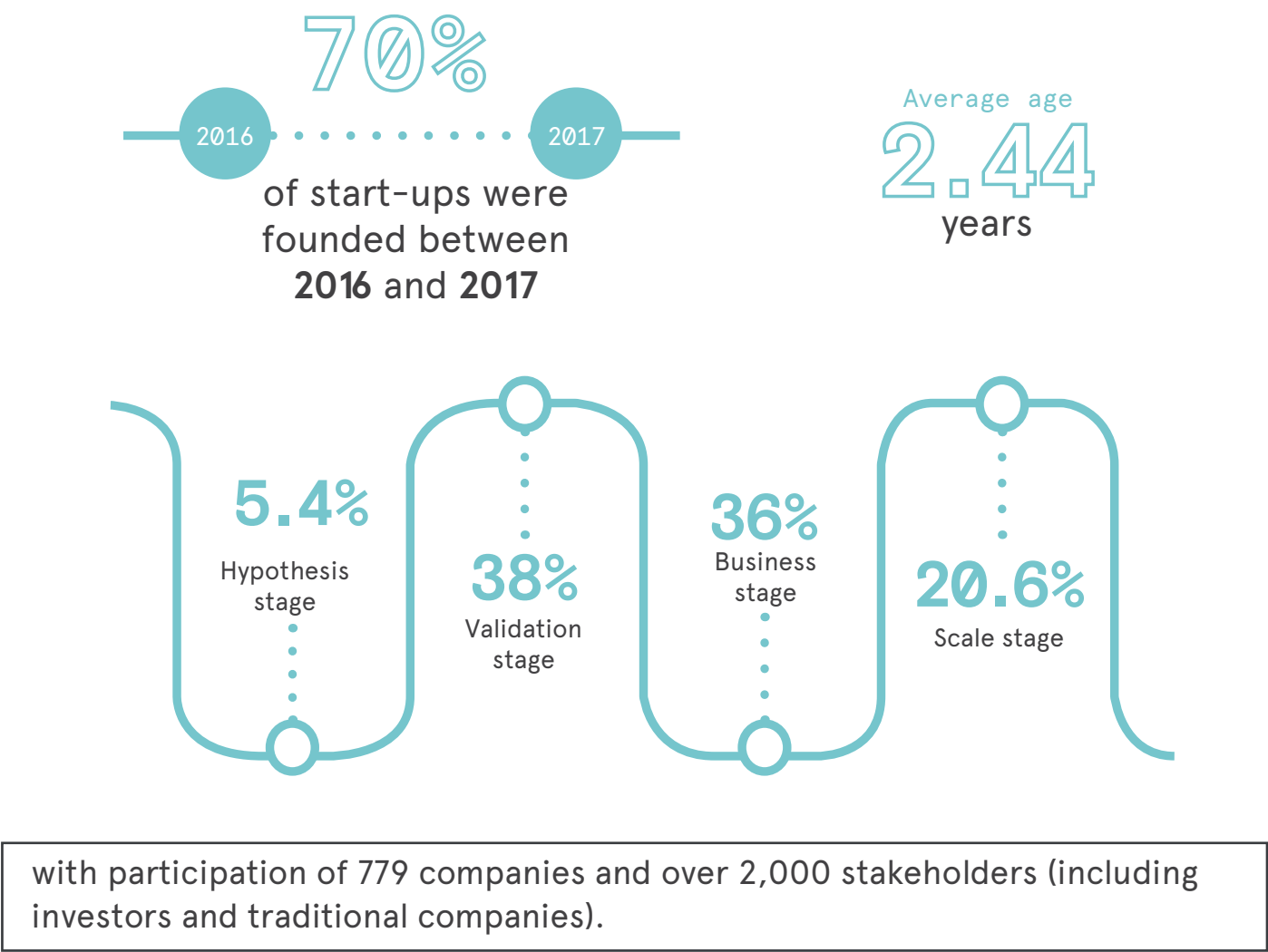


Brazilian unicorns – 2018 | 2019*



*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.

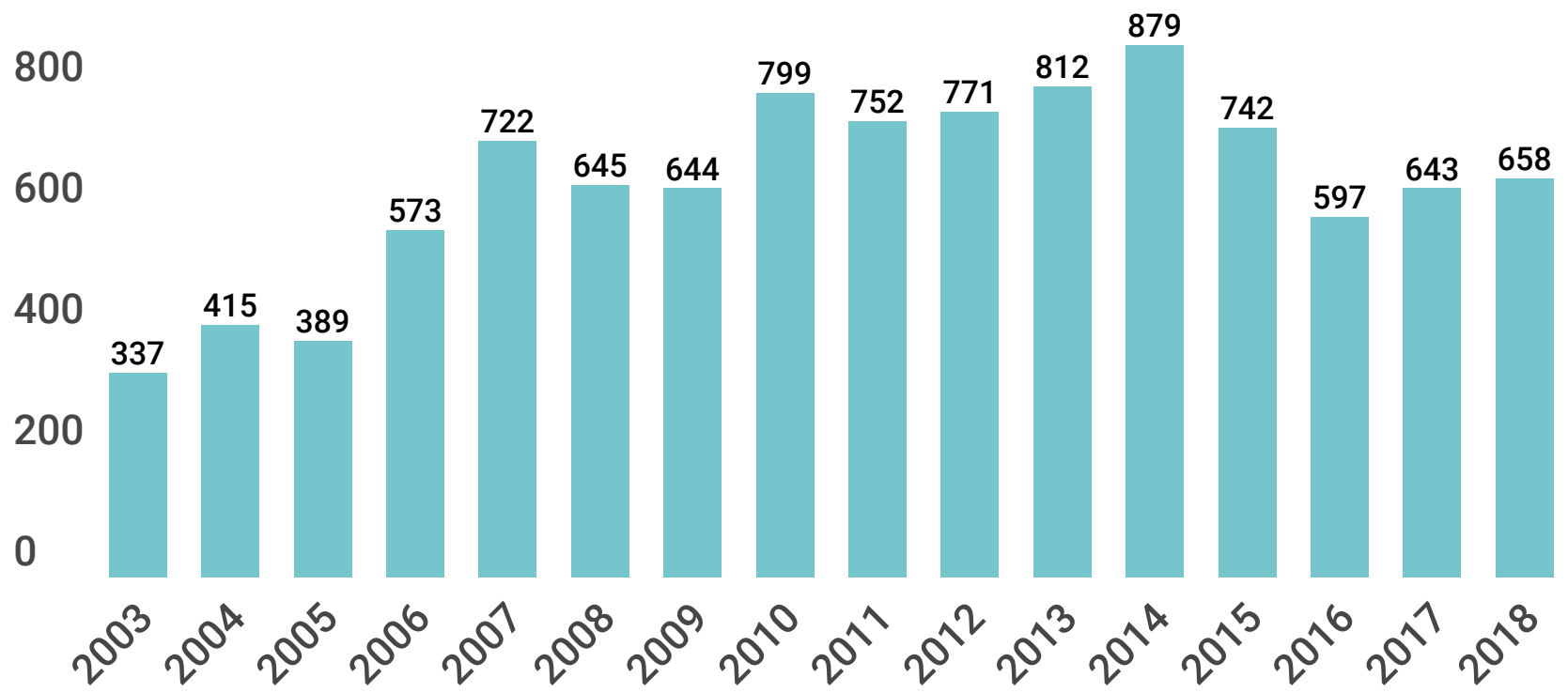
Nevertheless, foreign investors, particularly those in the US, continue to wager on M&A deals in Brazil.

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.

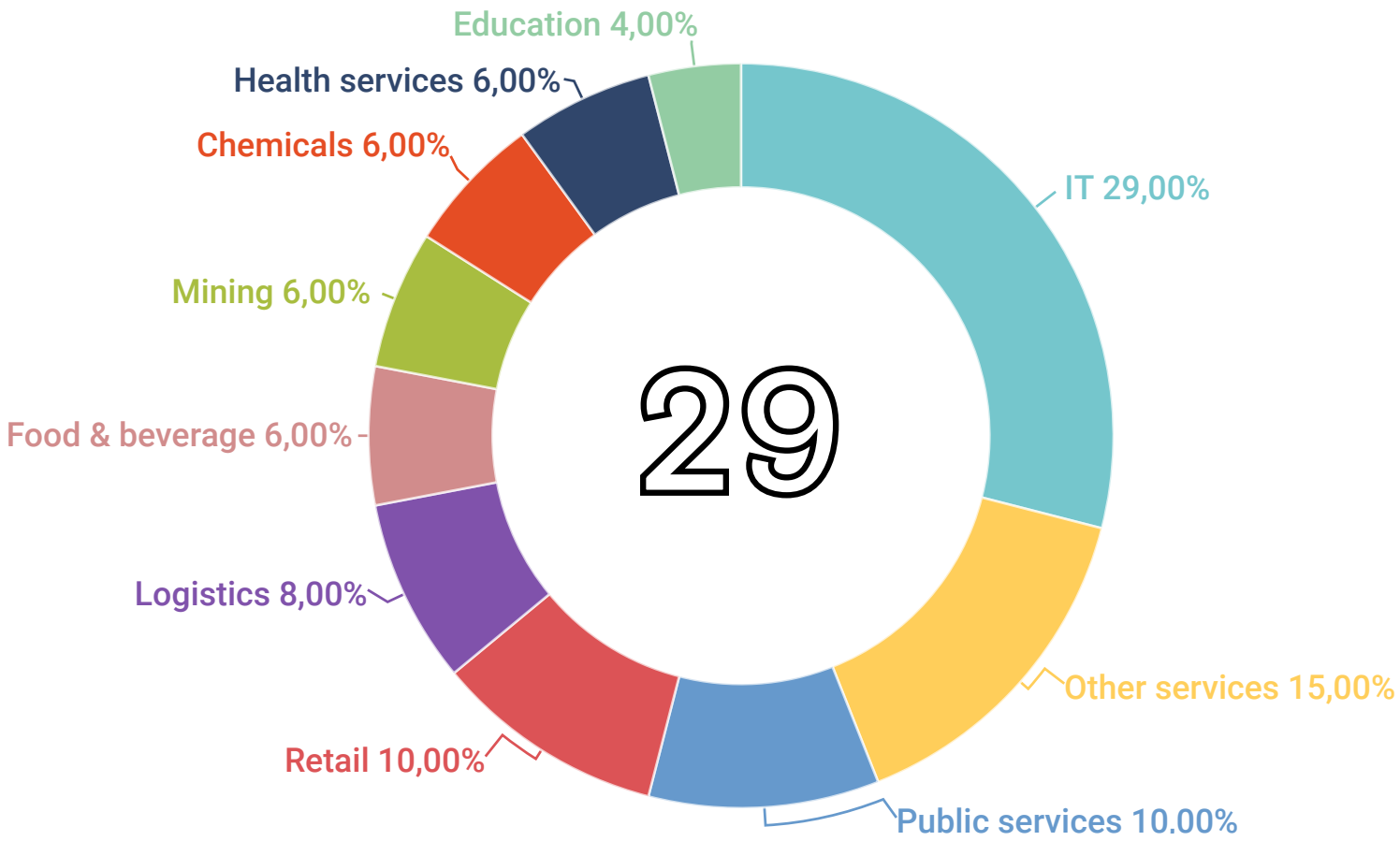
Foreign investors are expected to flock back to Brazil, in parallel to a new surge of privatisation, driving transactions and attracting the attention of global fund players.

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.

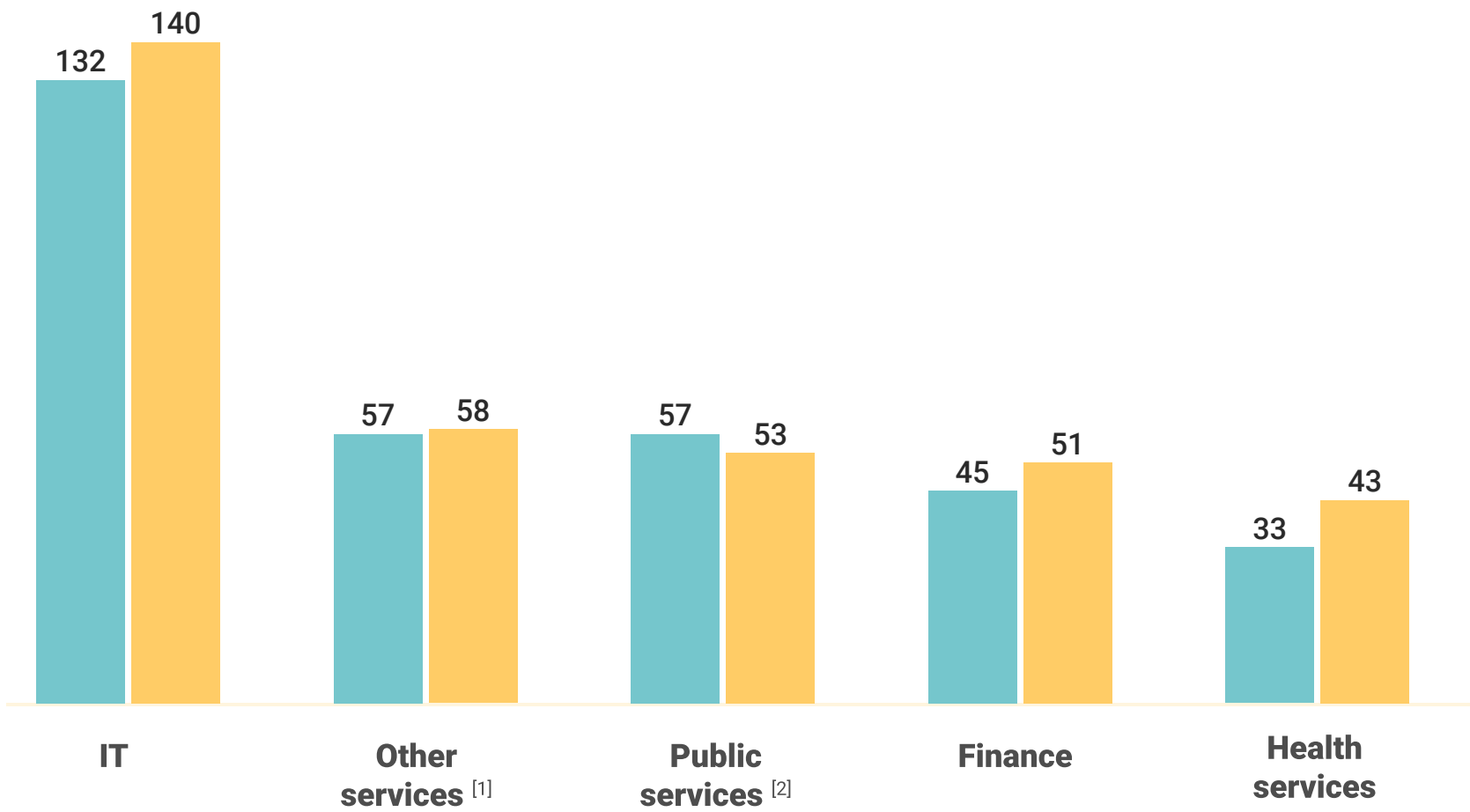
M&A transactions announced in Brazil FY03–FY18 (US\$ million)



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.

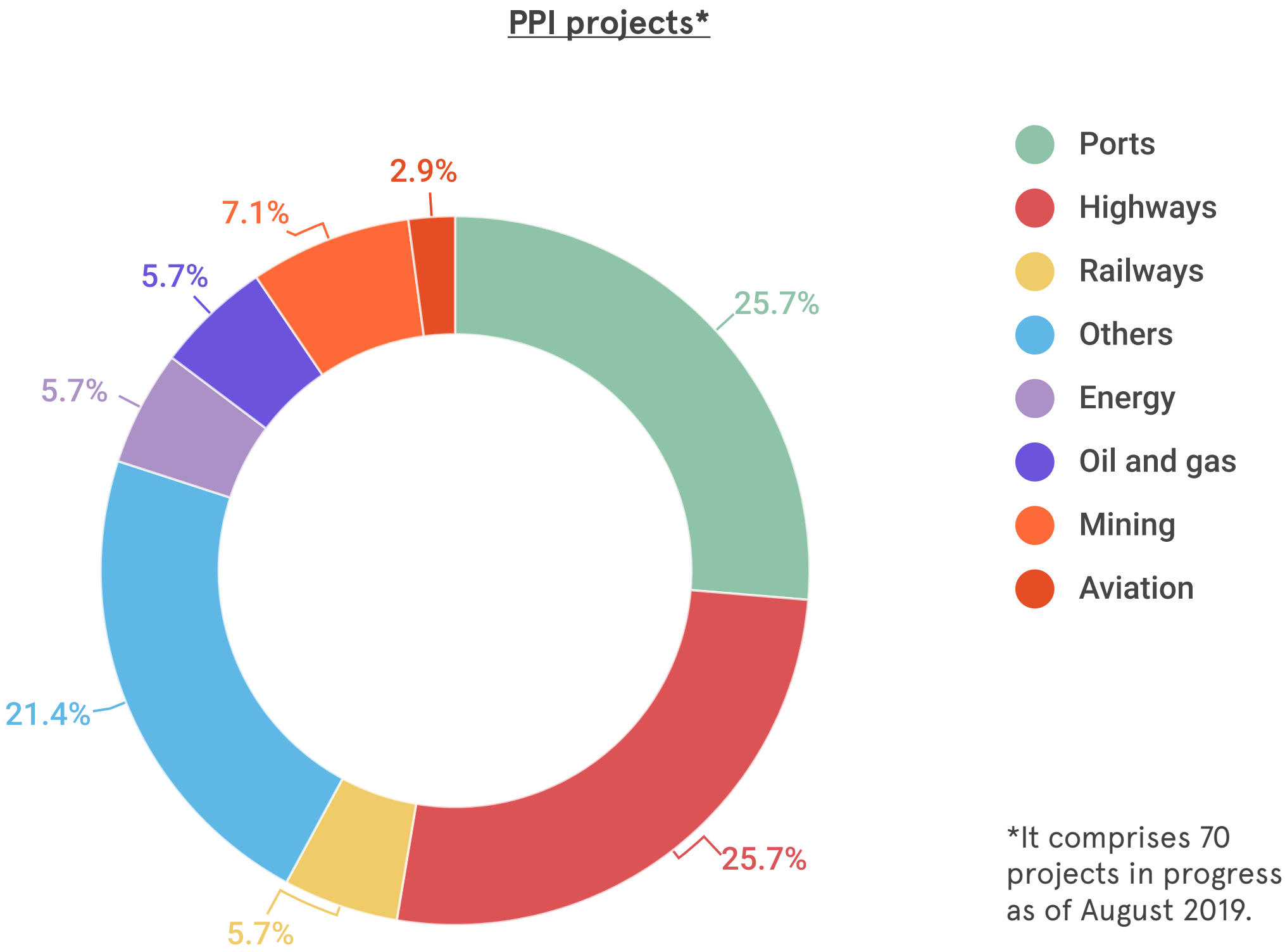
The Brazilian Government is forging ahead with its Investment Partnerships Programme (PPI), set up in 2016 to boost and buttresses interactions between the State and private enterprise through partnership agreements and other State divestment steps.

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

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.

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

- 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.

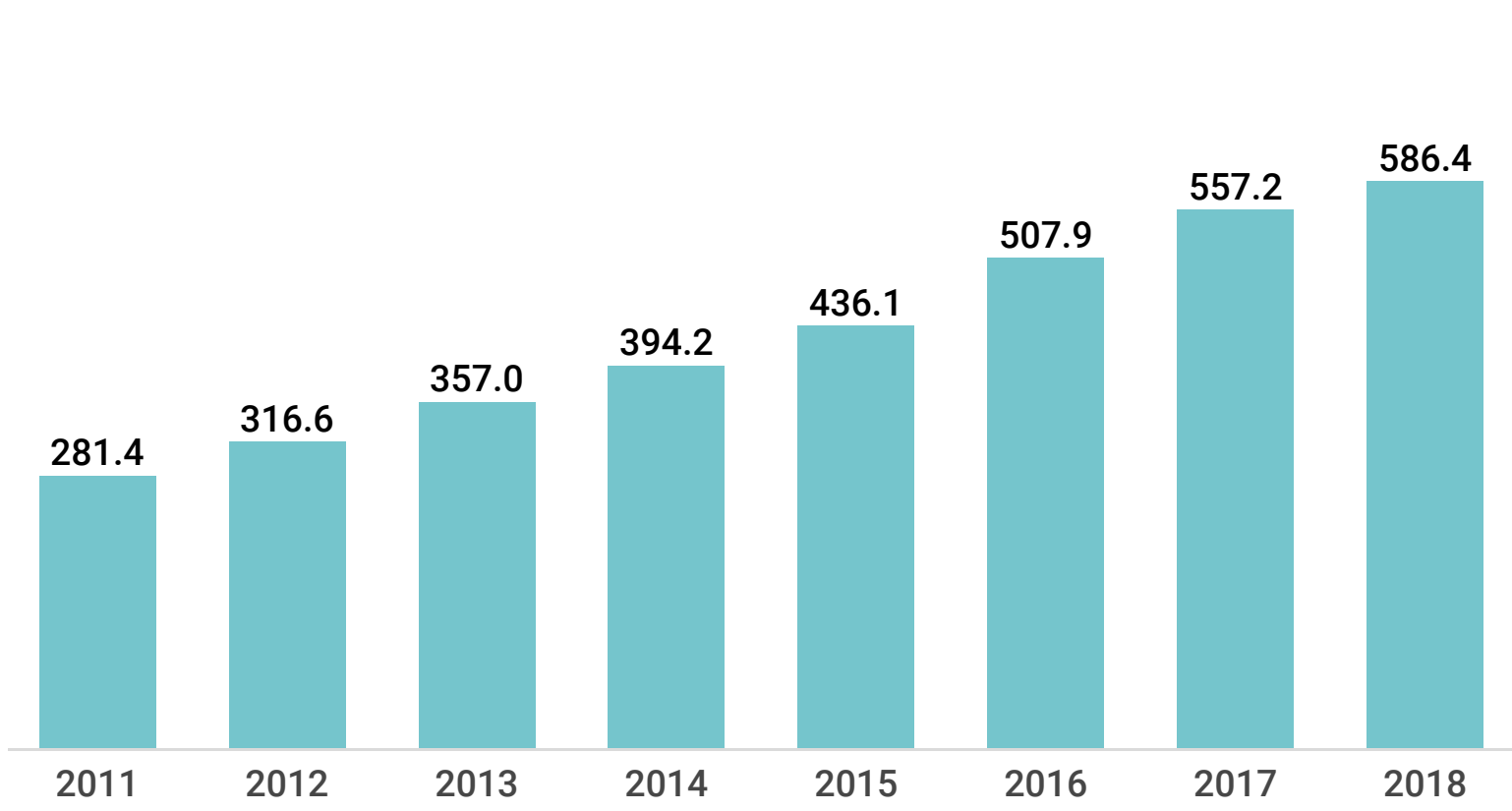
Approval of tax and social security reforms is crucial for a return to fiscal balance in Brazil, underpinning the sustainability of its economic growth.

REFORMS UNDER DISCUSSION:
TAX AND SOCIAL SECURITY

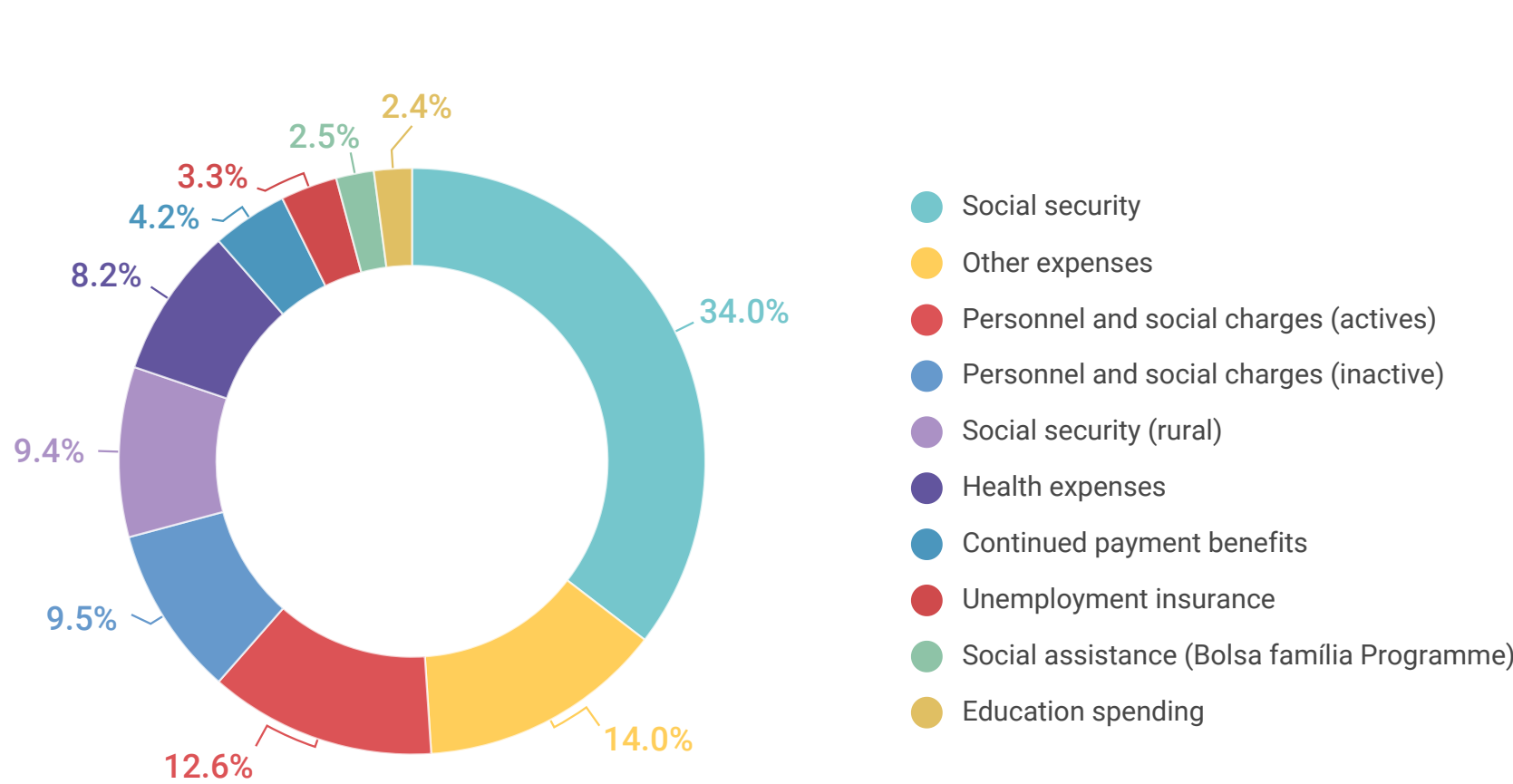
Outlays on social security account for over half of Brazil’s primary federal budget. Only 10% of its budget is allocated to education and healthcare, which are sectors that are crucial to economic and social development.

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.

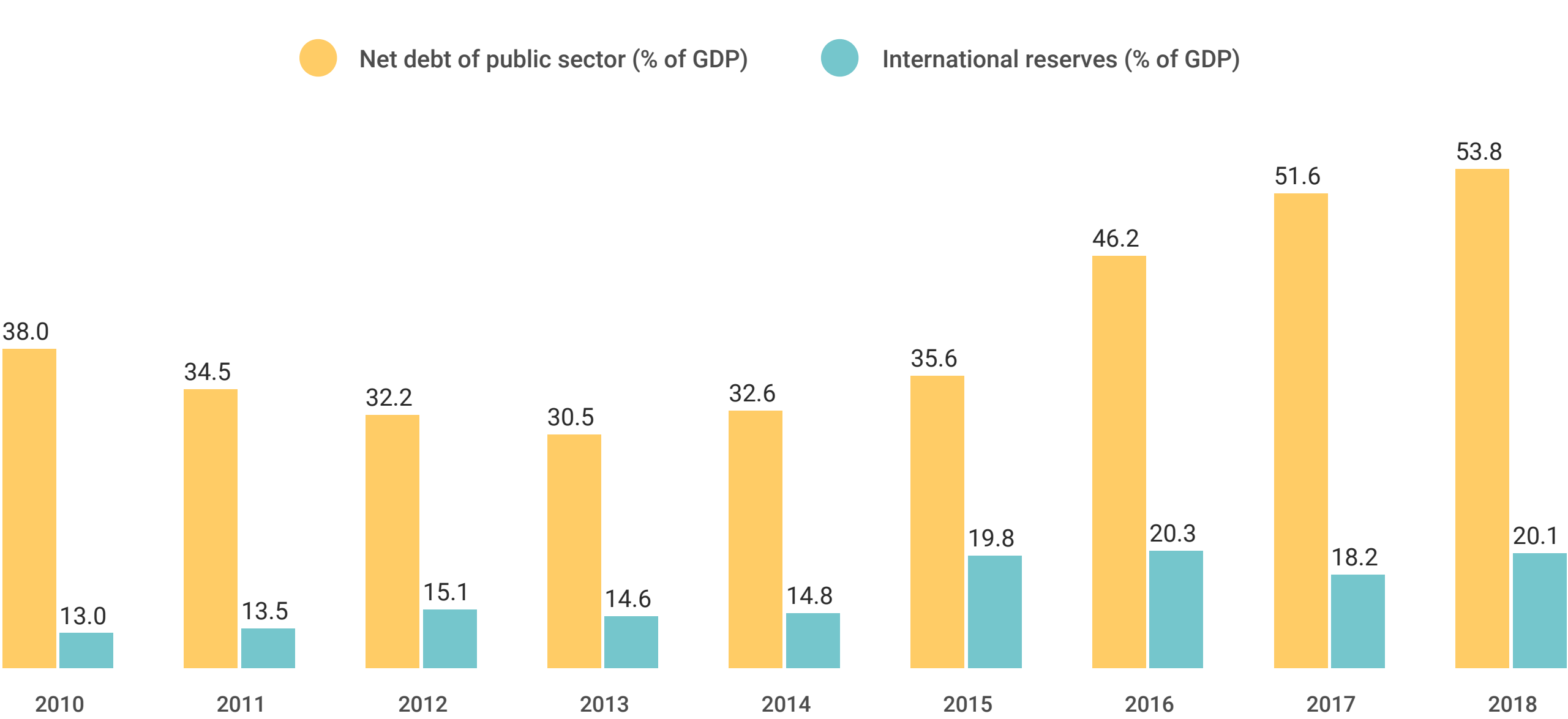
Evolution of social security expenditure in Brazil FY10–FY18 (R\$ billion)



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.

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.

EMBI* Brazil performance (country-risk)



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

1.3 REGULATORY ENVIRONMENT

Background for Brazil



SOLID GROUND FOR THE
EXPANSION OF THE PE&VC
INDUSTRY

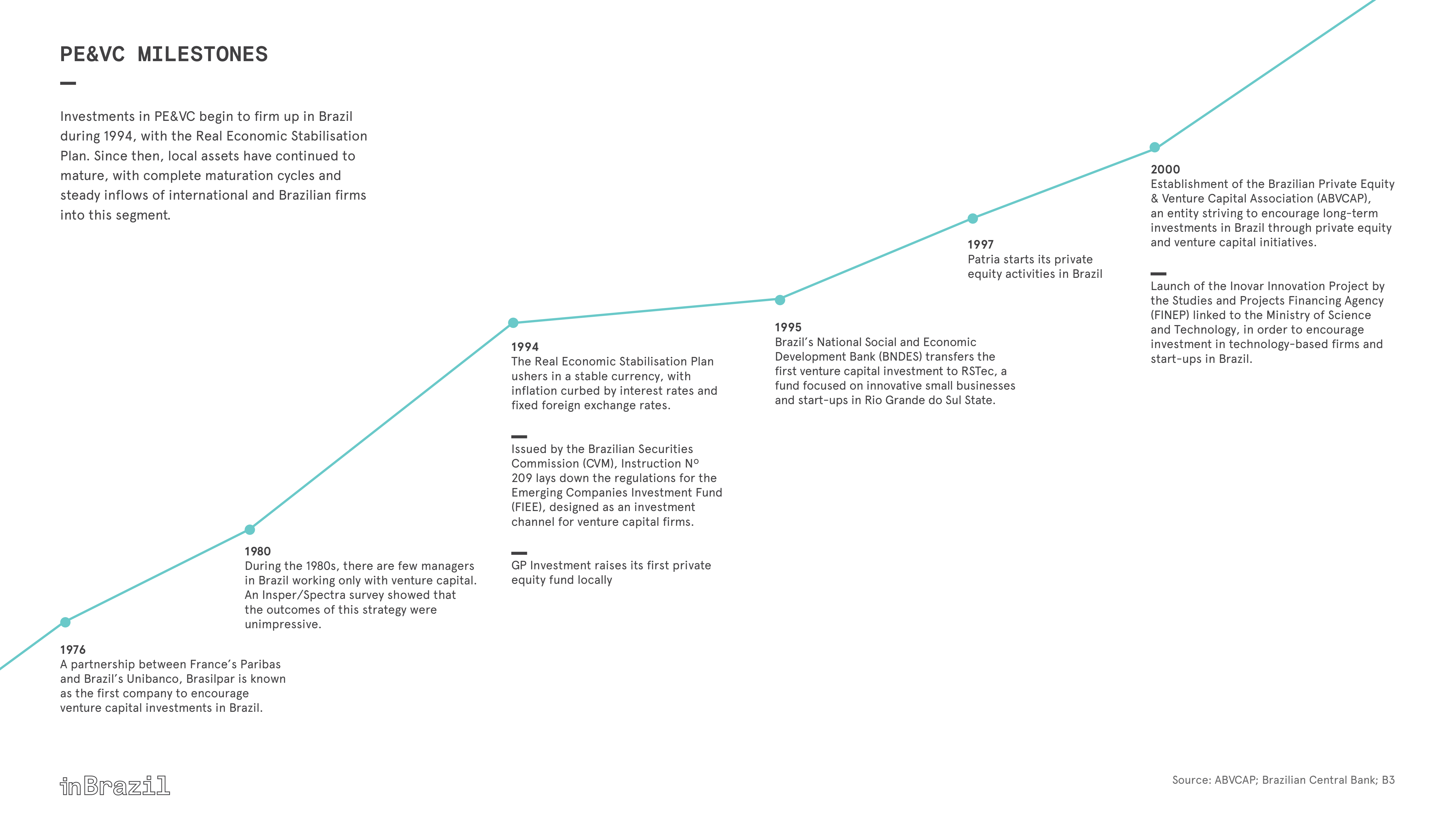
The regulatory context for setting up Equity Investment Funds (FIPs), tax treatment, Brazil’s capital market and entrepreneurship are among the mainsprings of the private equity and venture capital industry in Brazil, according to the LAVCA Scorecard, prepared by the Association for Private Capital Investment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

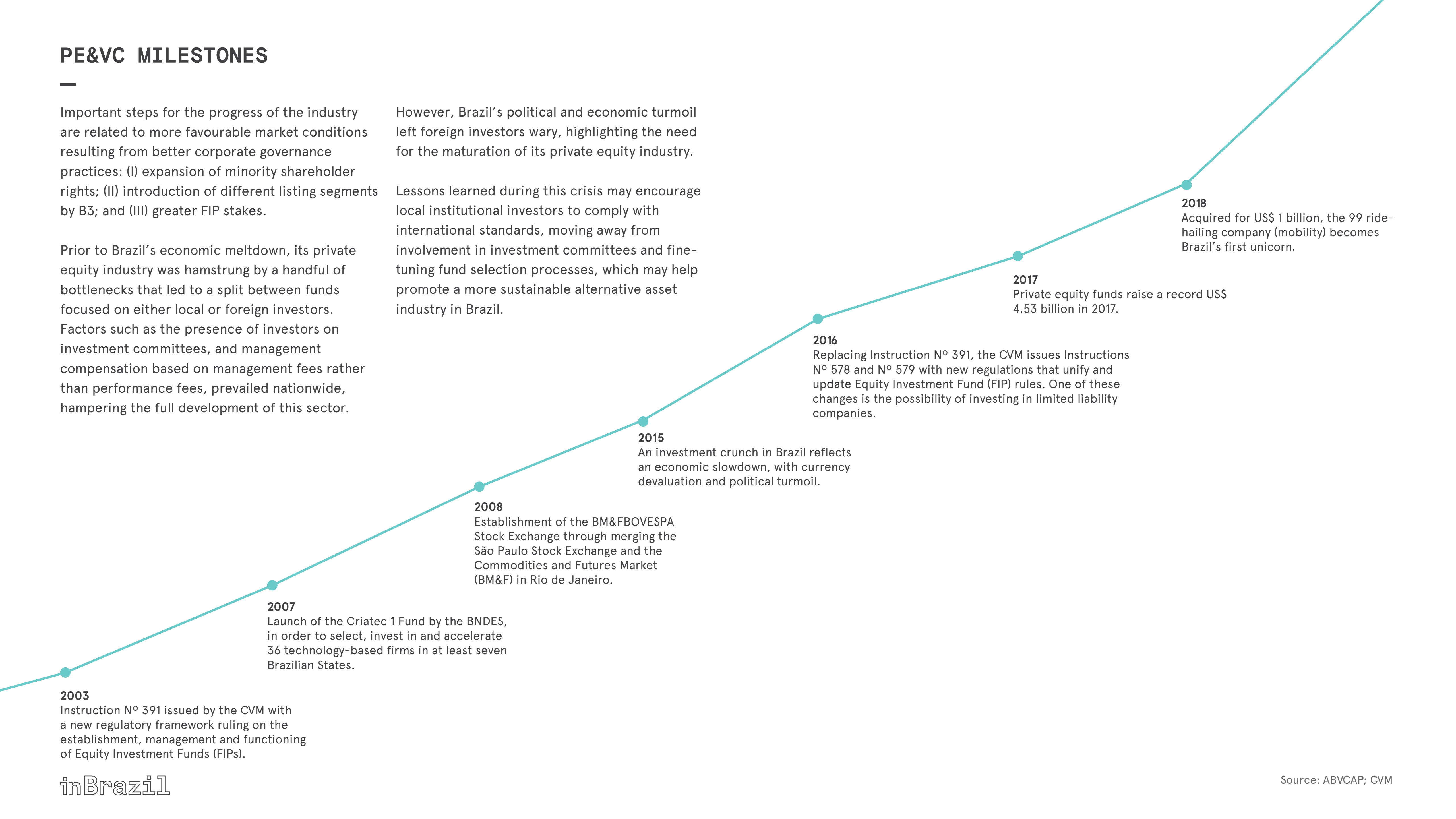
PE&VC MILESTONES

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.



2003
Instruction N° 391 issued by the CVM with a new regulatory framework ruling on the establishment, management and functioning of Equity Investment Funds (FIPs).

2007
Launch of the Criatec 1 Fund by the BNDES, in order to select, invest in and accelerate 36 technology-based firms in at least seven Brazilian States.

2008
Establishment of the BM&FBOVESPA Stock Exchange through merging the São Paulo Stock Exchange and the Commodities and Futures Market (BM&F) in Rio de Janeiro.

2015
An investment crunch in Brazil reflects an economic slowdown, with currency devaluation and political turmoil.

2016
Replacing Instruction N° 391, the CVM issues Instructions N° 578 and N° 579 with new regulations that unify and update Equity Investment Fund (FIP) rules. One of these changes is the possibility of investing in limited liability companies.

2017
Private equity funds raise a record US\$ 4.53 billion in 2017.

2018
Acquired for US\$ 1 billion, the 99 ride-hailing company (mobility) becomes Brazil’s first unicorn.

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.

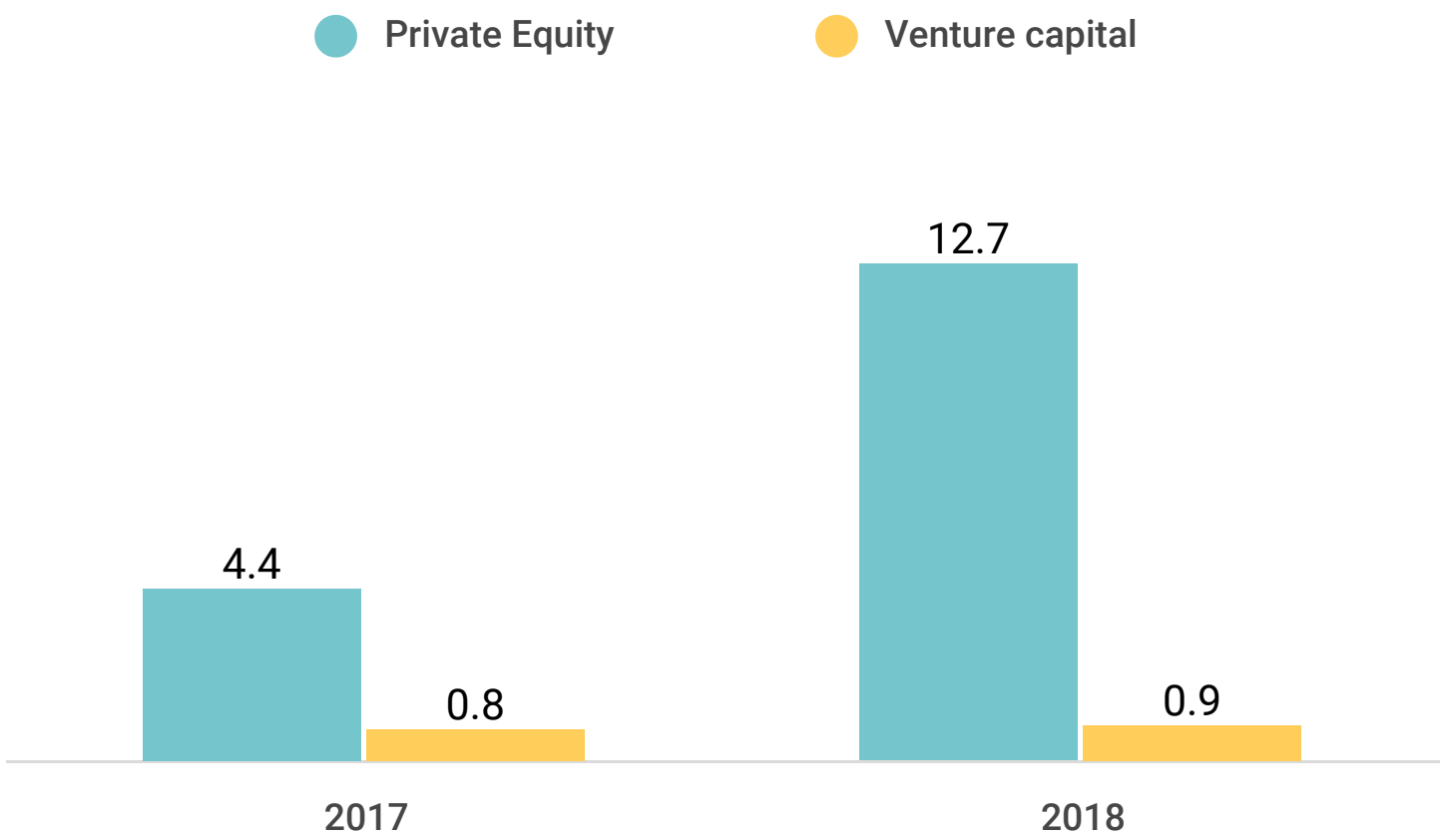
PE&VC FUNDRAISING

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.

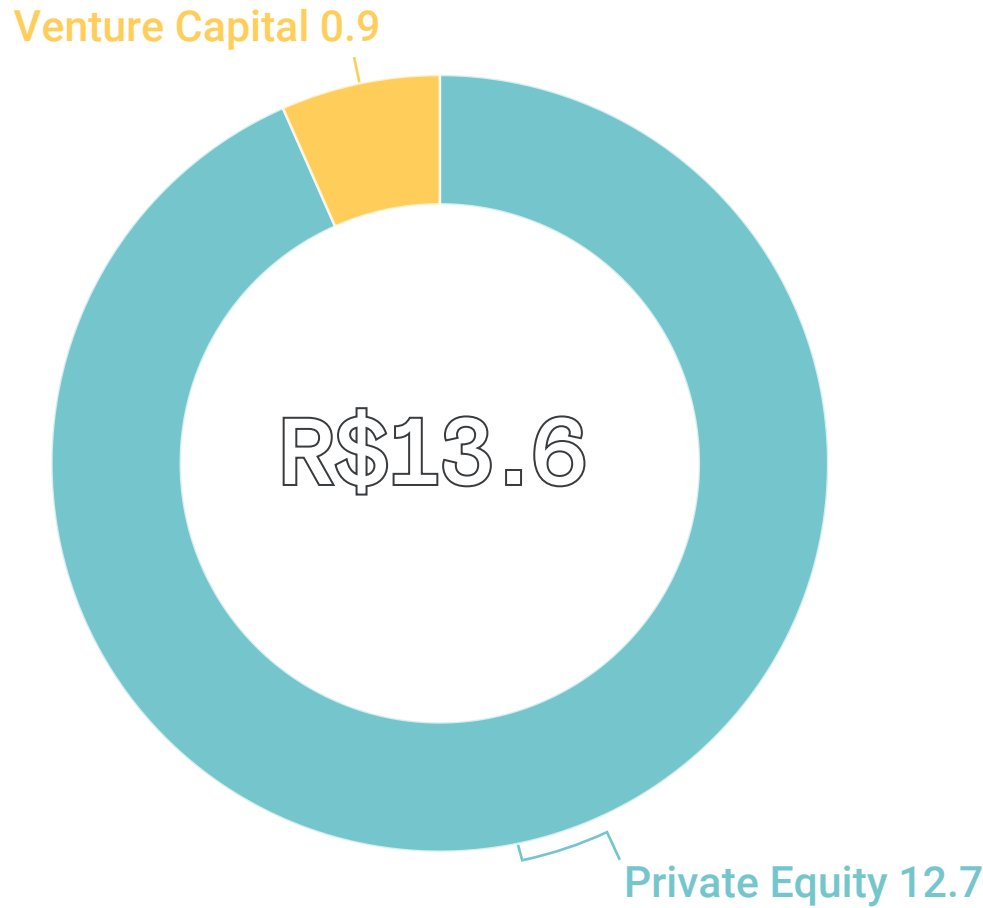
As divestments increase, with more funds in their final stages that now are paying back capital to their investors, it is natural for the uptake process to intensify; already apparent during the past couple of years, this process will continue in 2019.

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

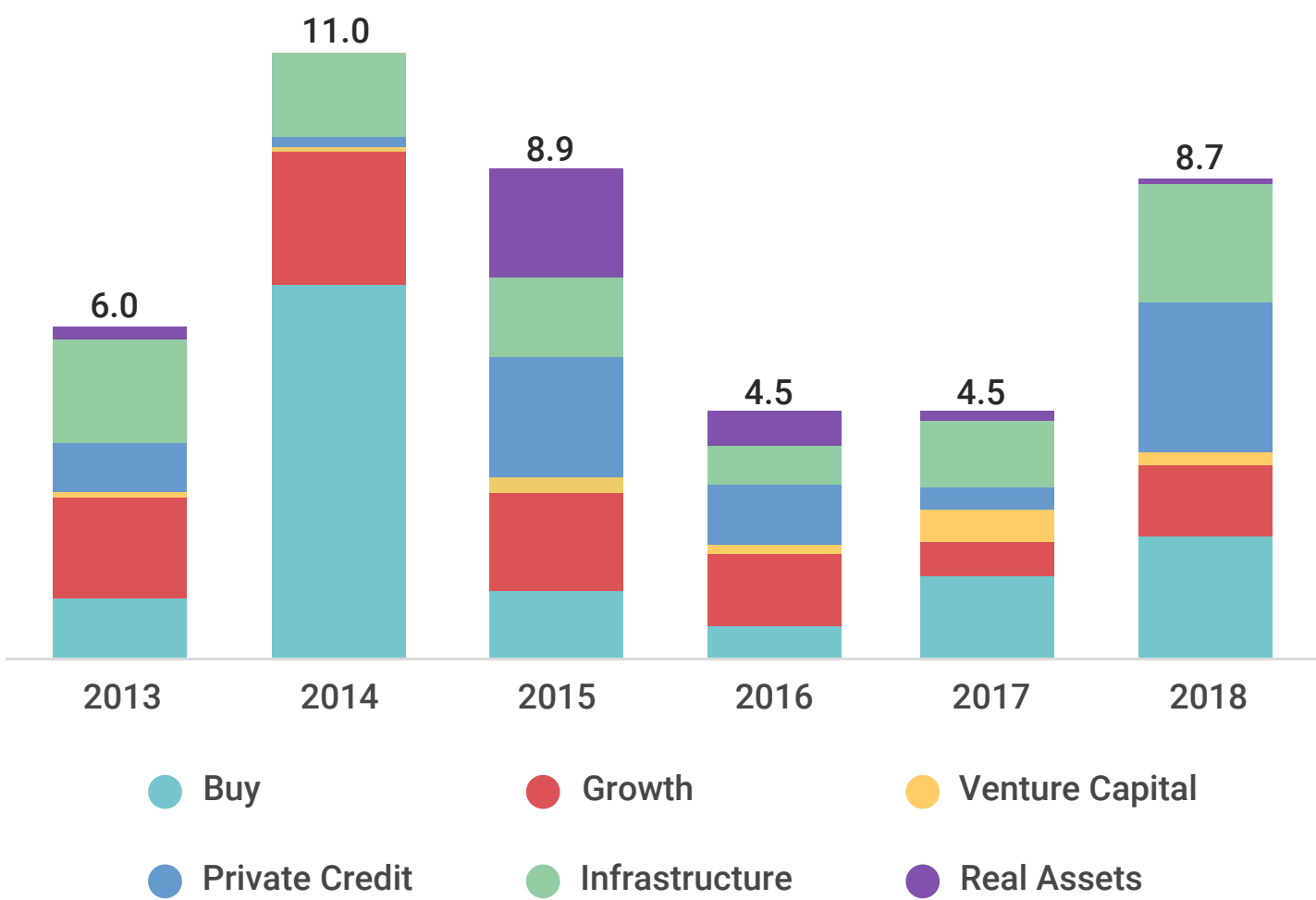
PE&VC fundraising in Brazil FY18 (R\$ billion)



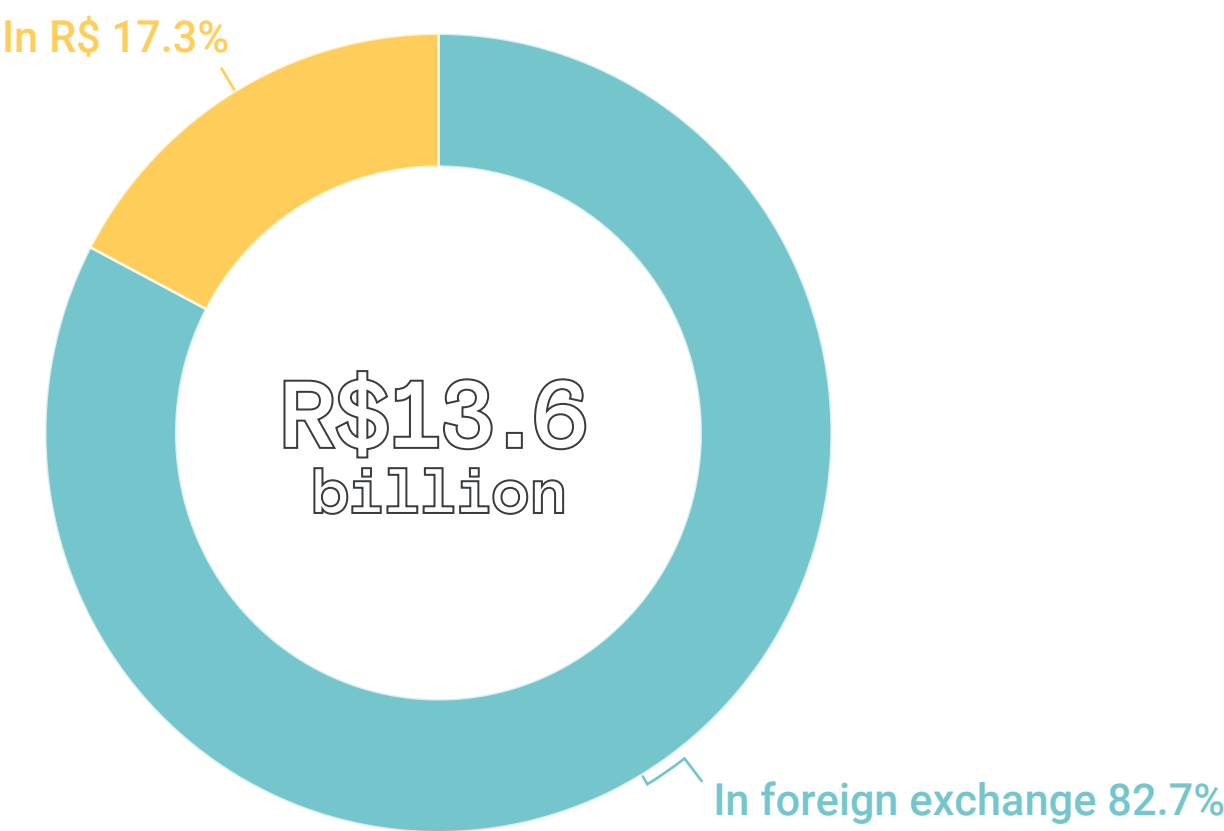
Fundraising by modality FY18 (R\$ billion)



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.

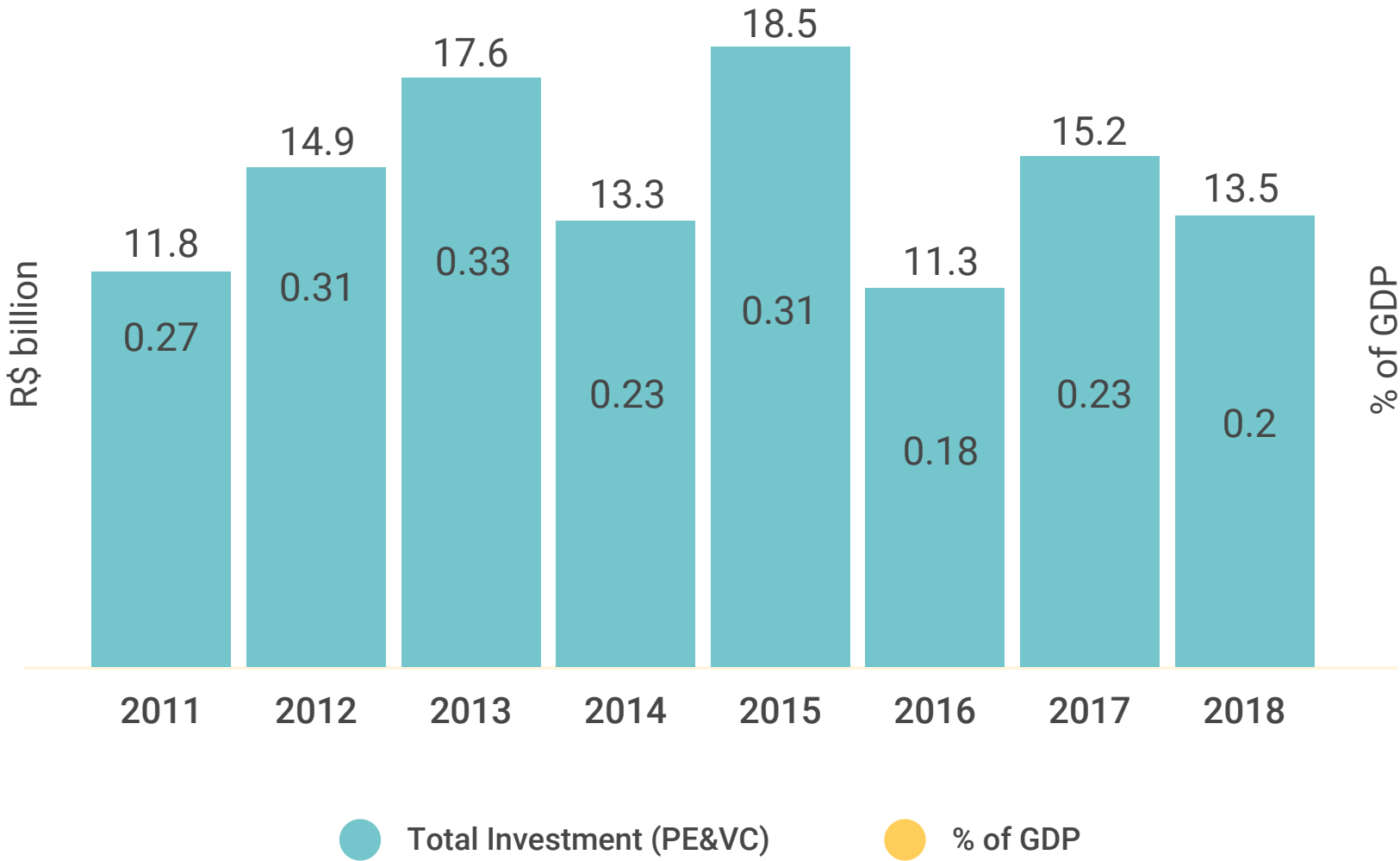
AMOUNTS INVESTED IN PE&VC

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.

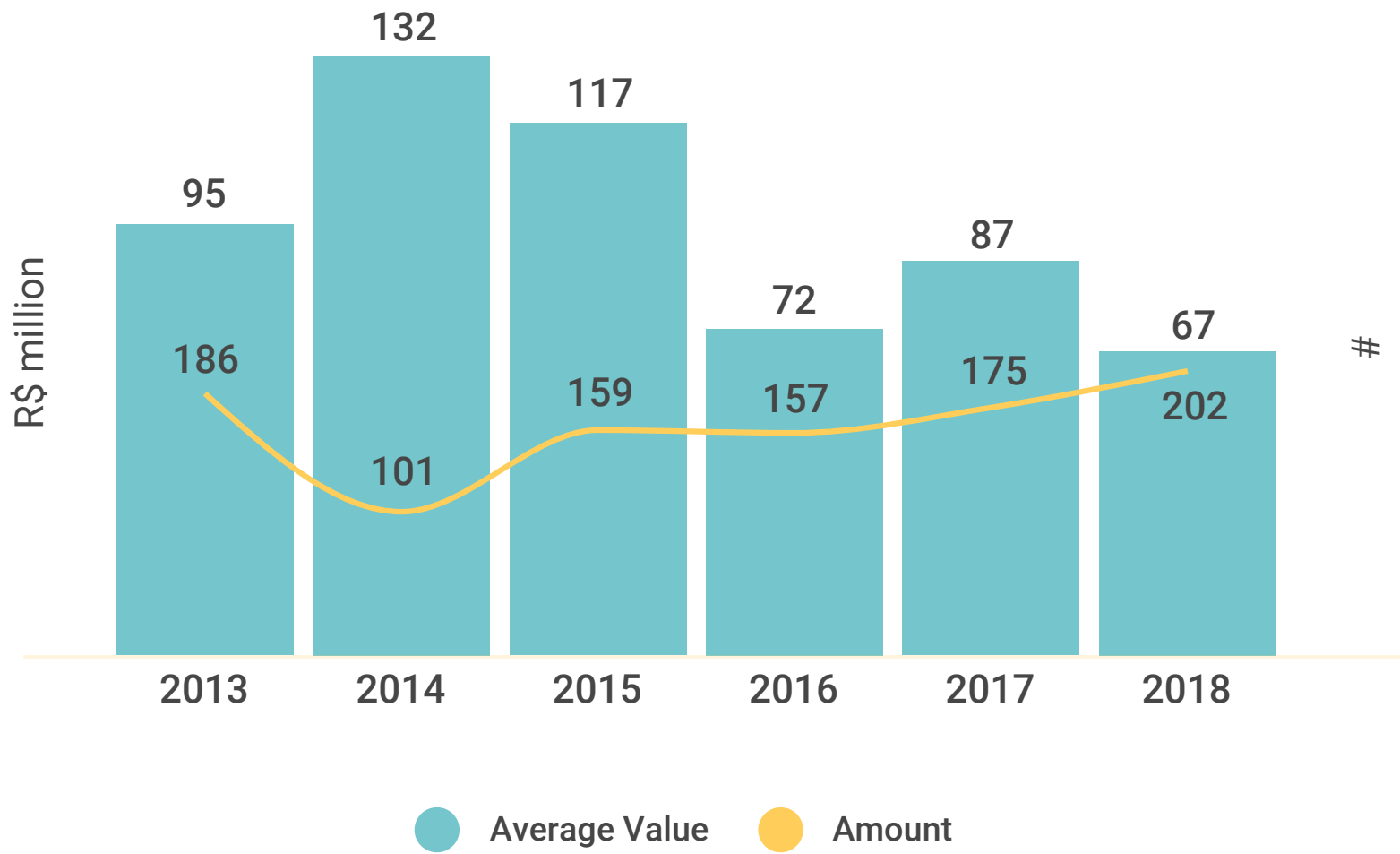
Furthermore, there was a 15% increase in the number of target companies over the period, reaching 202 compared to 175 in 2017. Among them, the sectors absorbing the highest amounts of funding in 2018 and Brazil were financial services, food and beverages, education, and retail.

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.

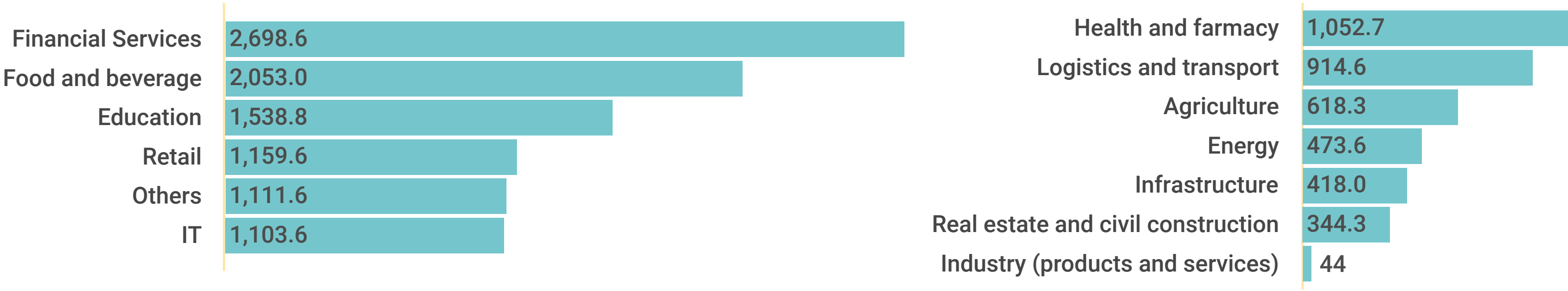
Total investment and as a percentage of Brazilian GDP FY11 – FY18 (R\$ billion)



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.

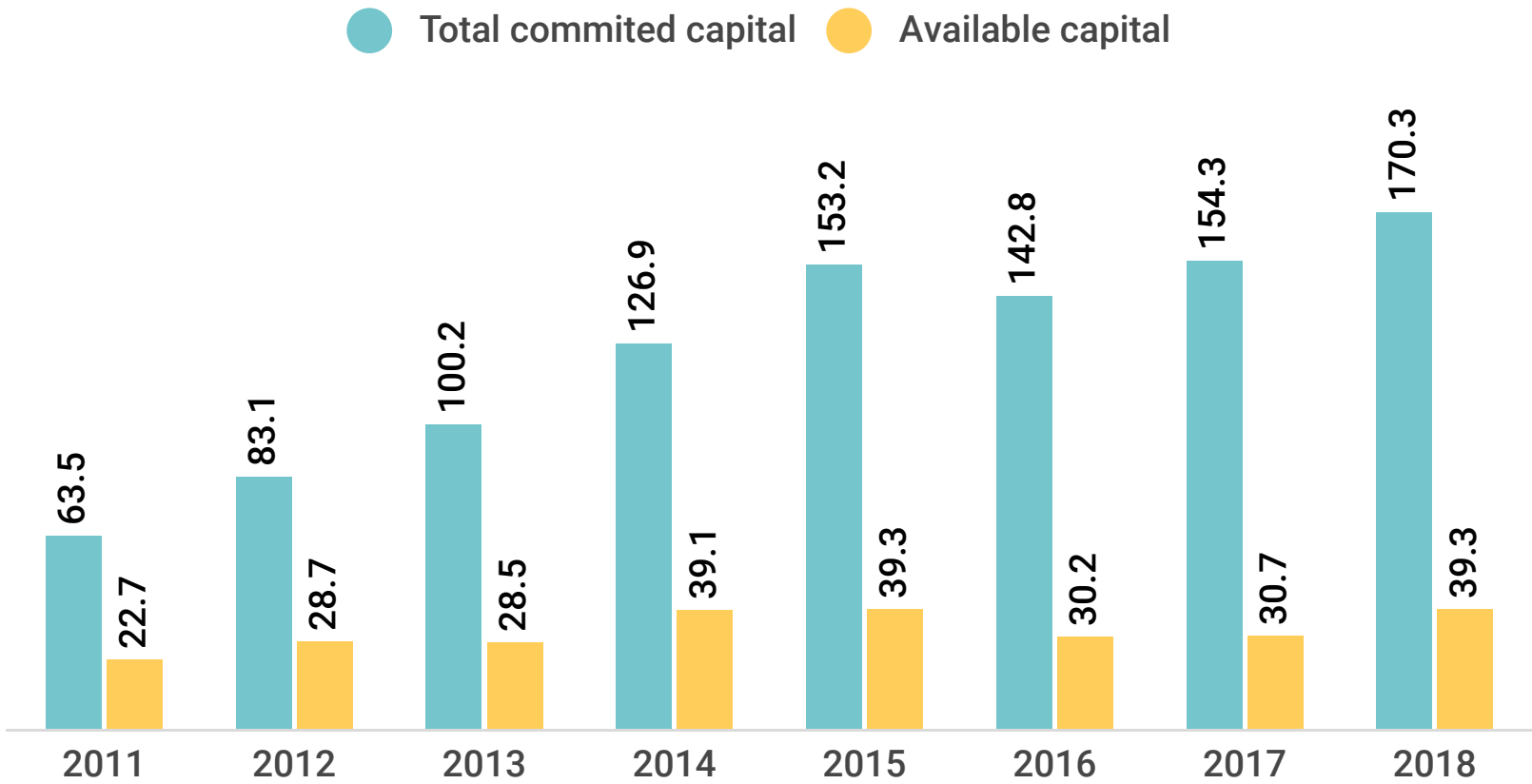
COMMITTED CAPITAL – PE&VC

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.

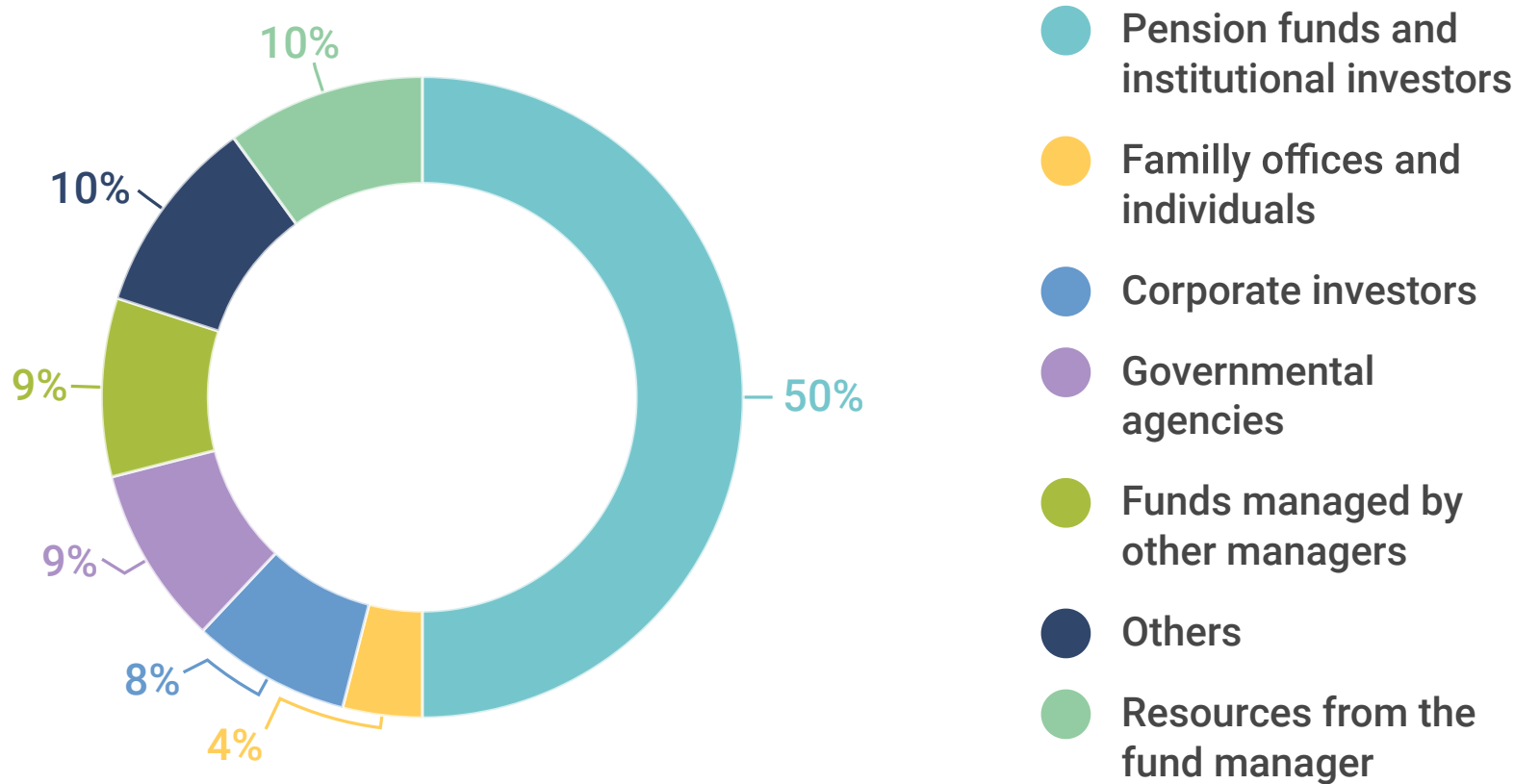
Among new funds and others already raised but not yet fully allocated, estimates indicate that private equity and venture capital managers have some R\$ 39.3 billion available for investments in Brazil.

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.

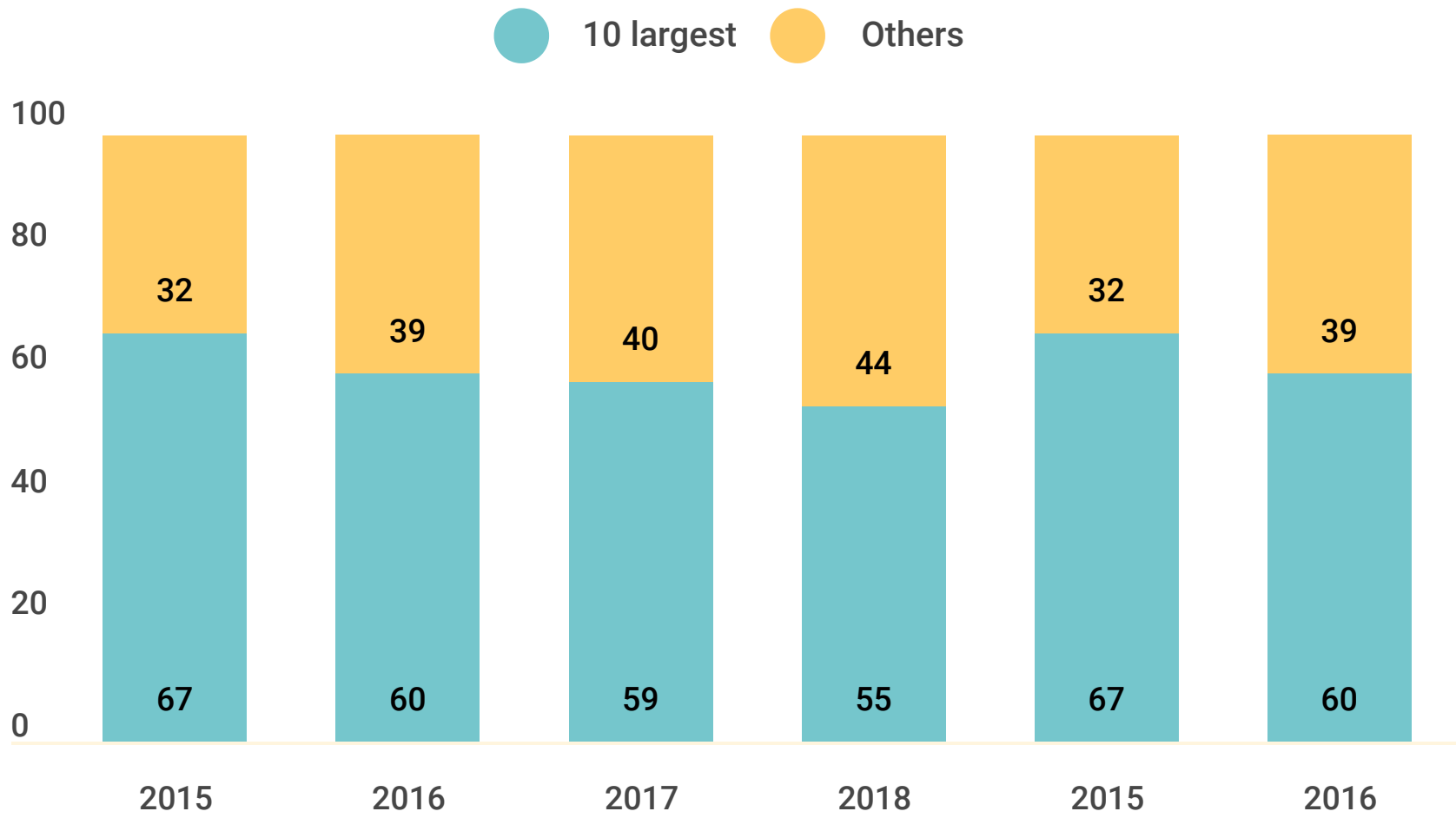
Committed capital and available for investments in PE/VC FY11-FY18 (R\$ billion)



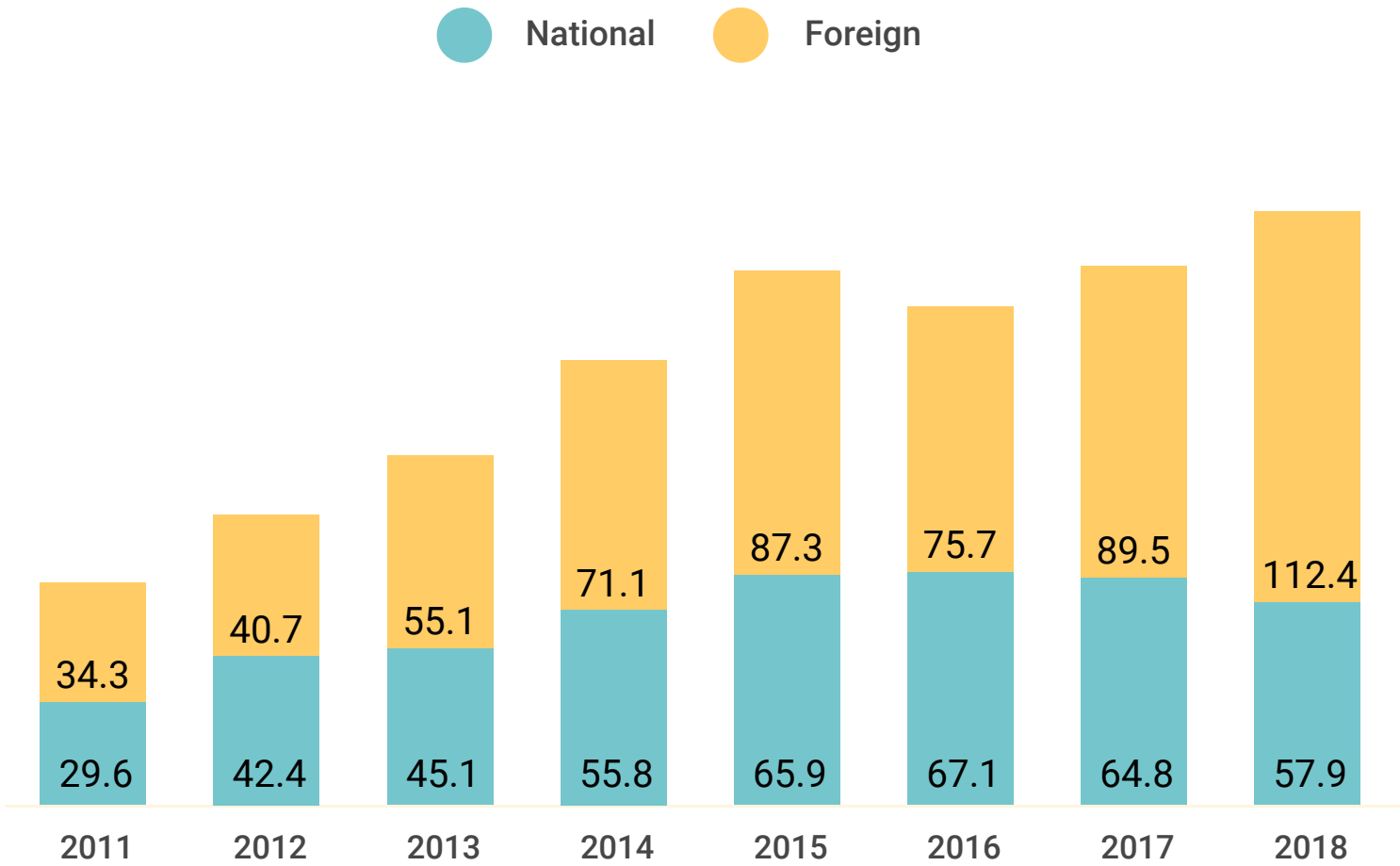
Committed capital by type of investor FY18



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.

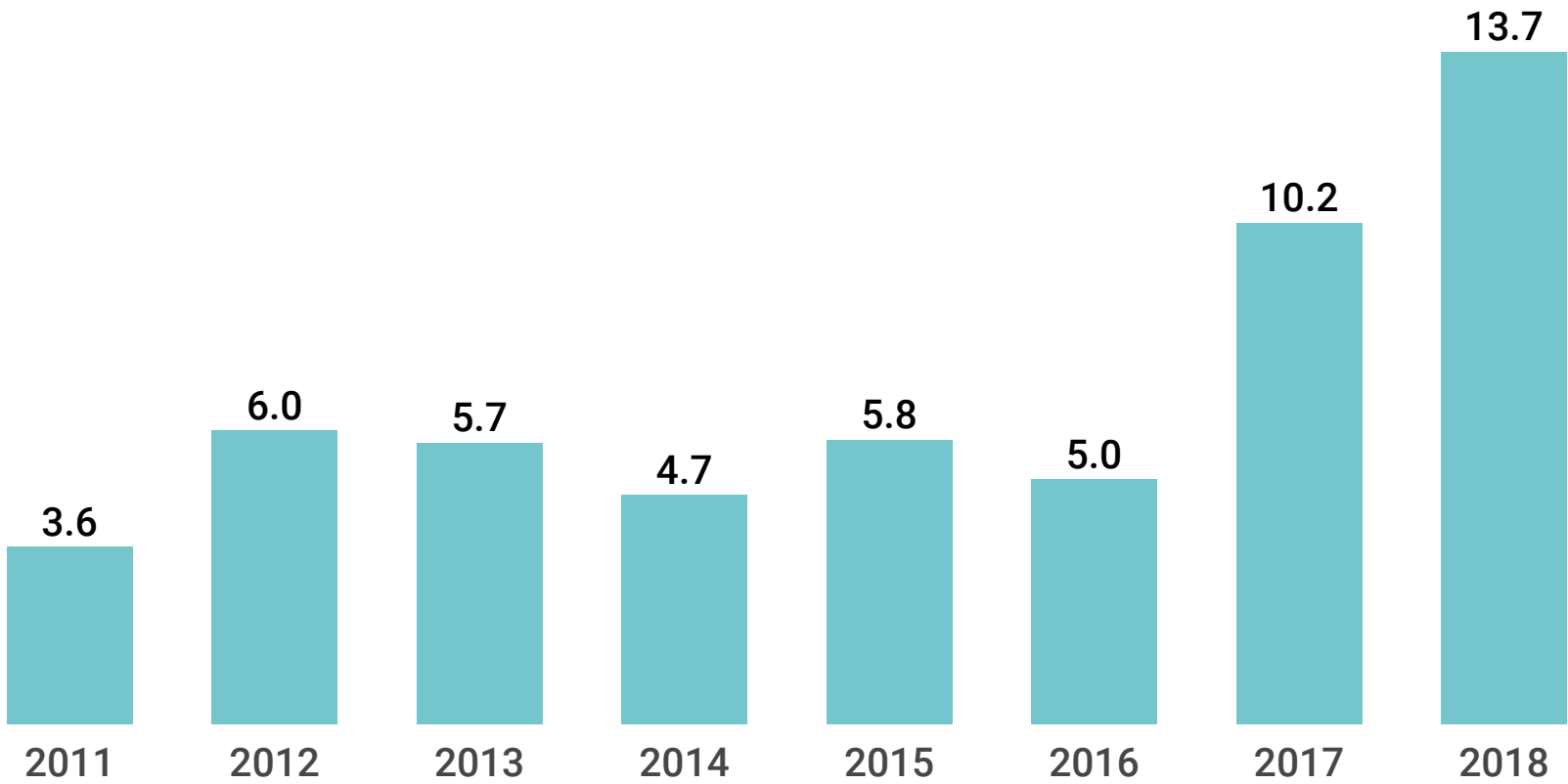
DIVESTMENTS – PE&VC

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.

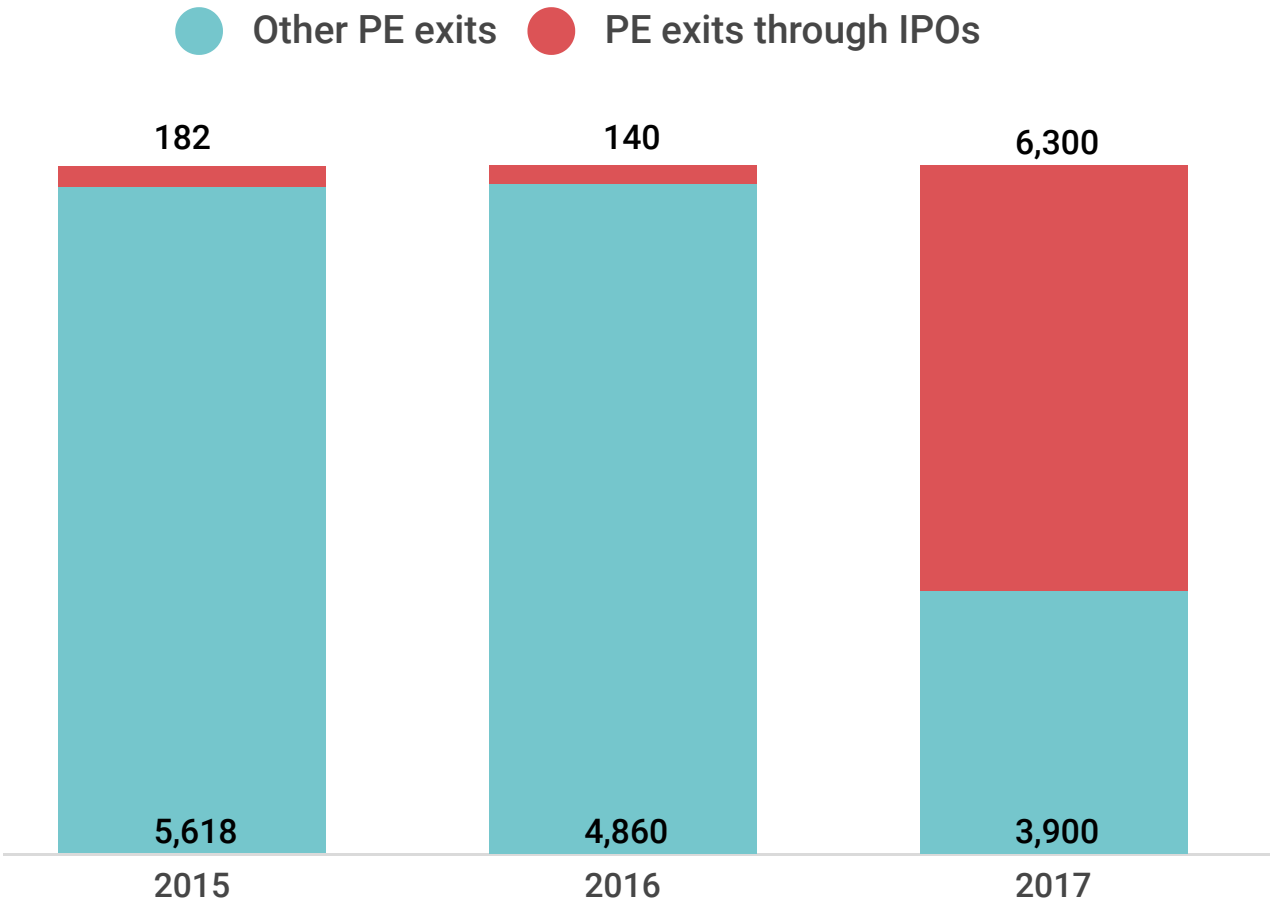
Since 2017, Brazil’s capital market has proved more attractive for stock offerings, with thirteen companies spending the equivalent to R\$26 billion during the past two years on Brazil’s B3 Stock Exchange.

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

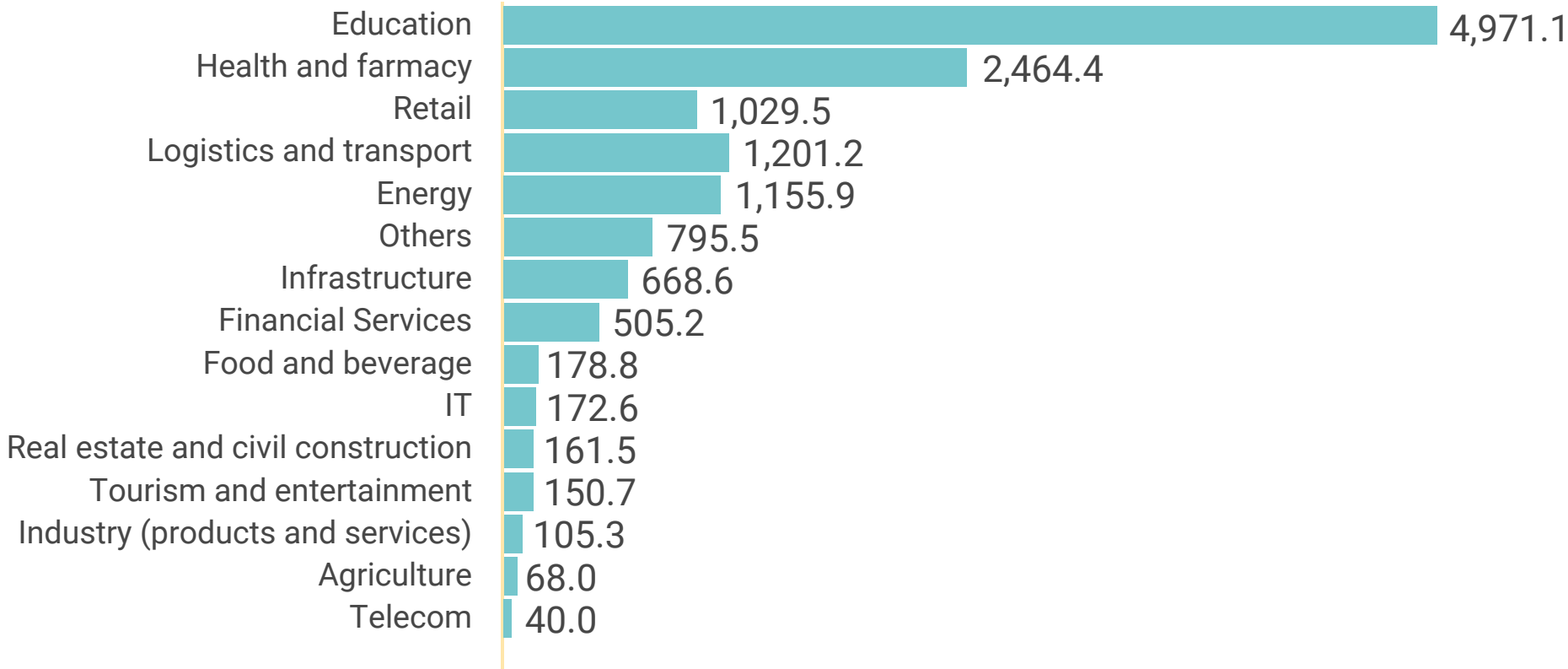
Divestments per year FY11 –FY18 R\$ billion



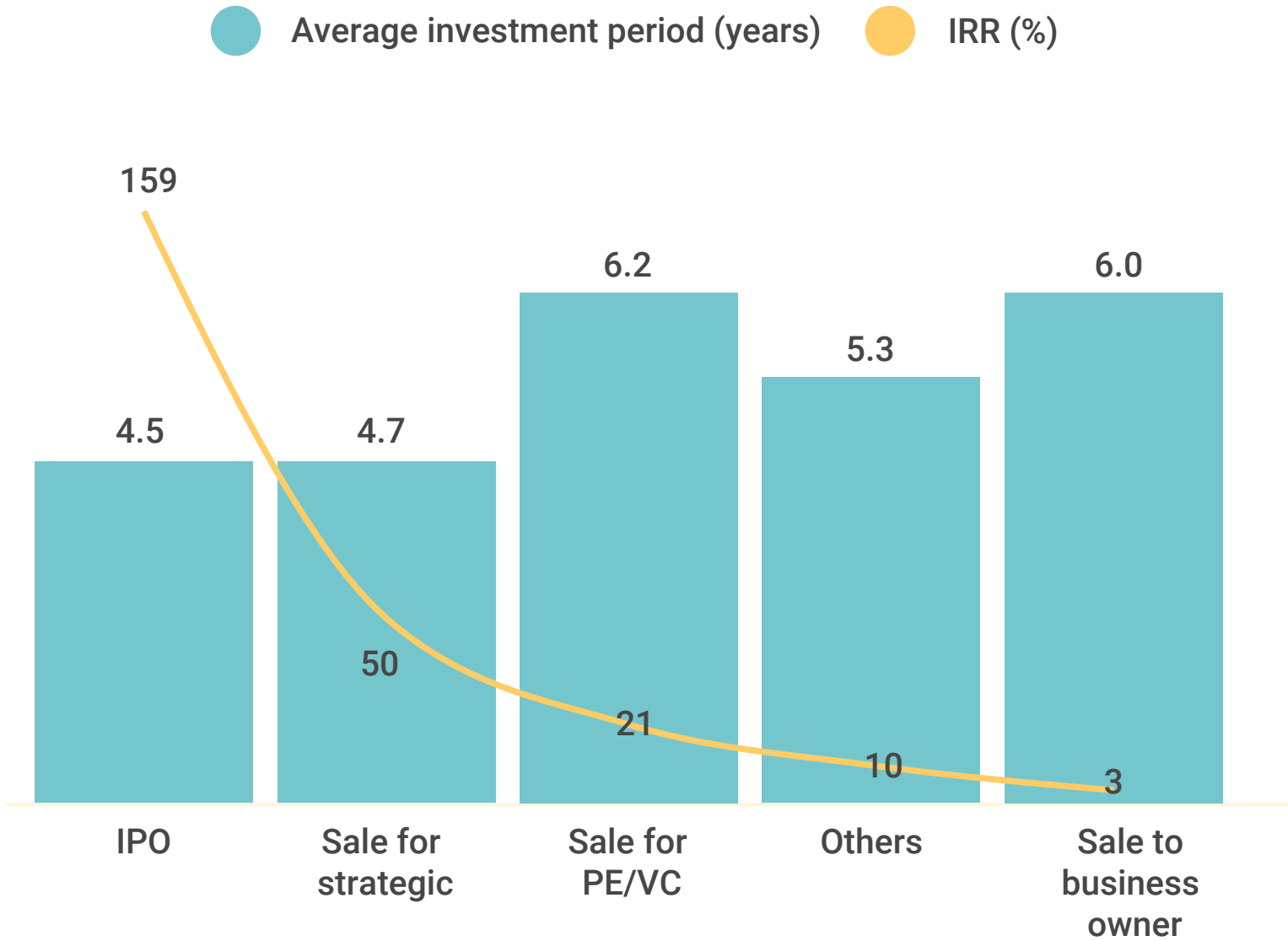
Divestments in Private Equity R\$ billion



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



Perfomance and average investment period by exit strategy FY17



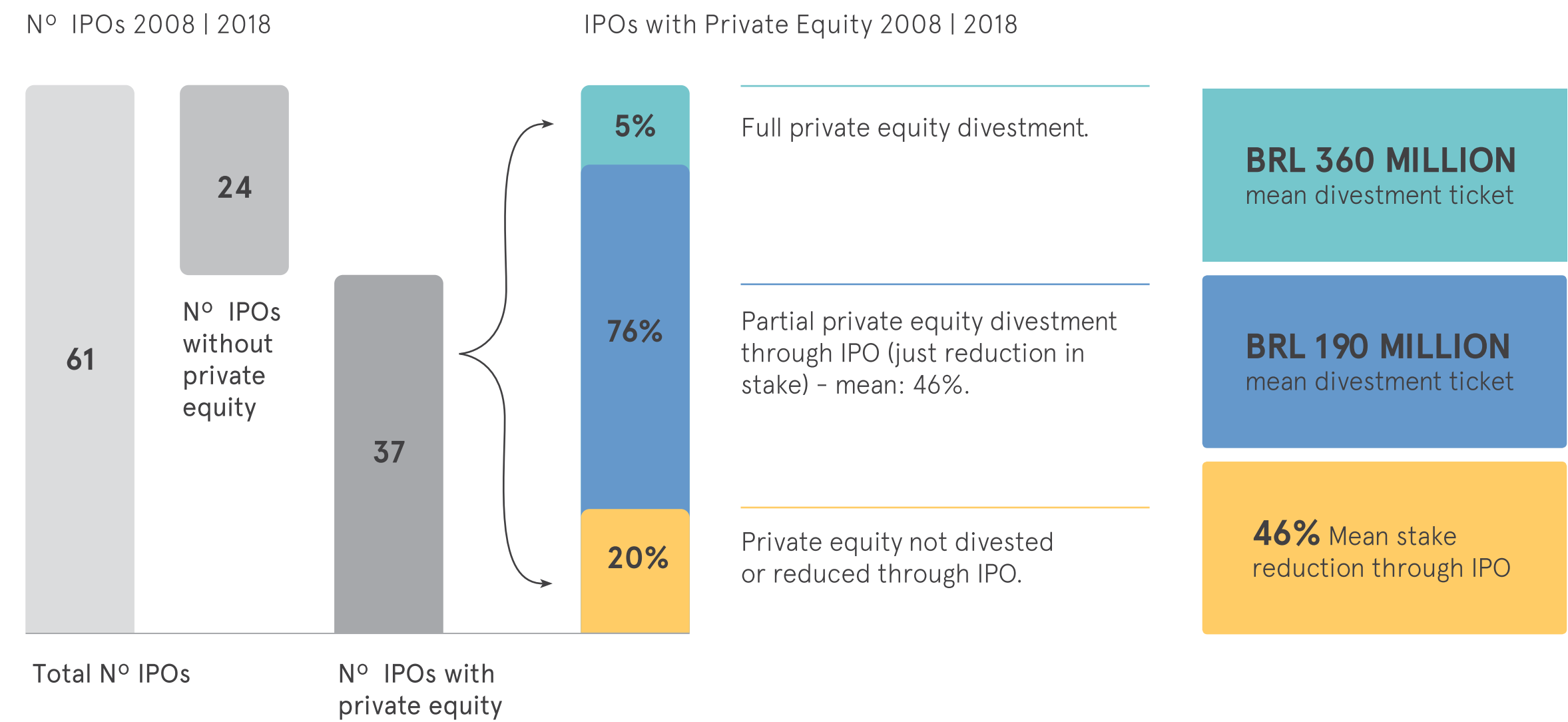
While providing a feasible exit alternative for private equity and venture capital investments in Brazil, stock offerings also firmed up their position as one of the most profitable options, especially for investors continuing as partners and merely diluting their stakes.

DIVESTMENTS - PE&VC

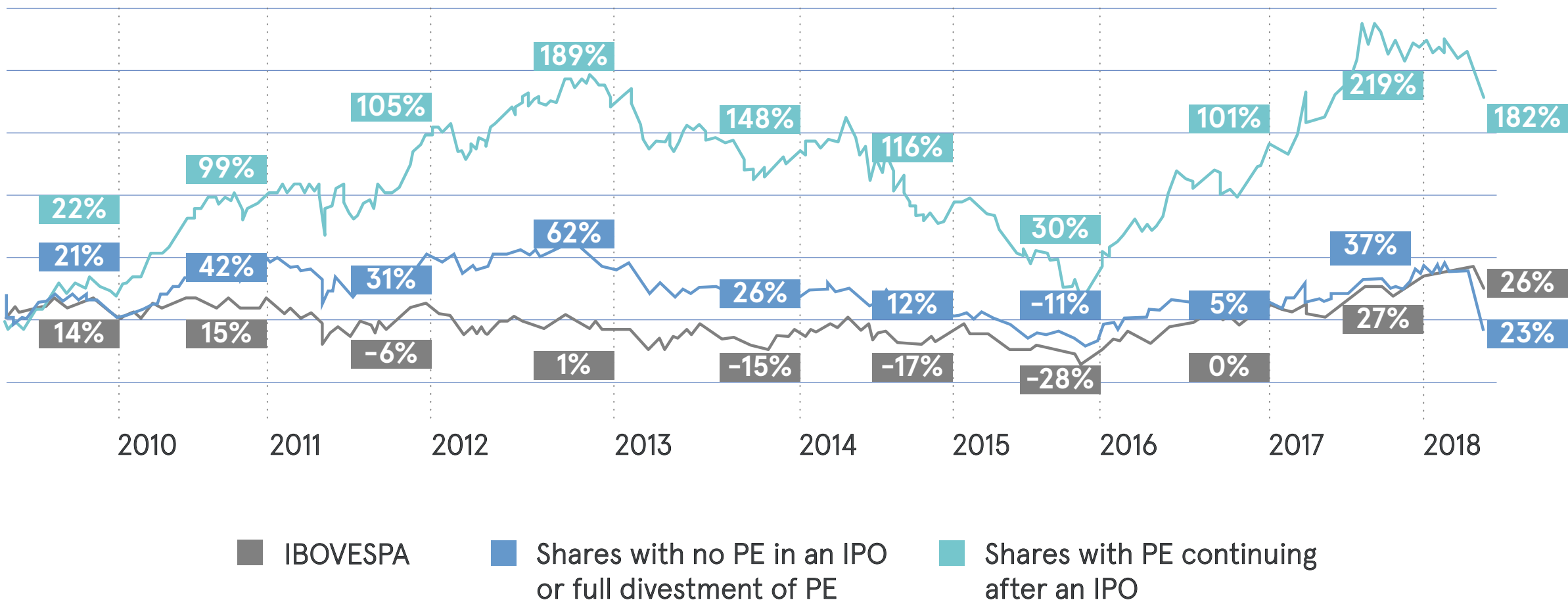
In 2018, 61% of divestments (including partial sell-offs) by private equity funds were handled through stock market offerings. Funding raised by companies going public in Brazil (particularly in 2017 and 2018) reached R\$ 26 billion, of which R\$ 14.7 had private equity funds as investors, thus consolidating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

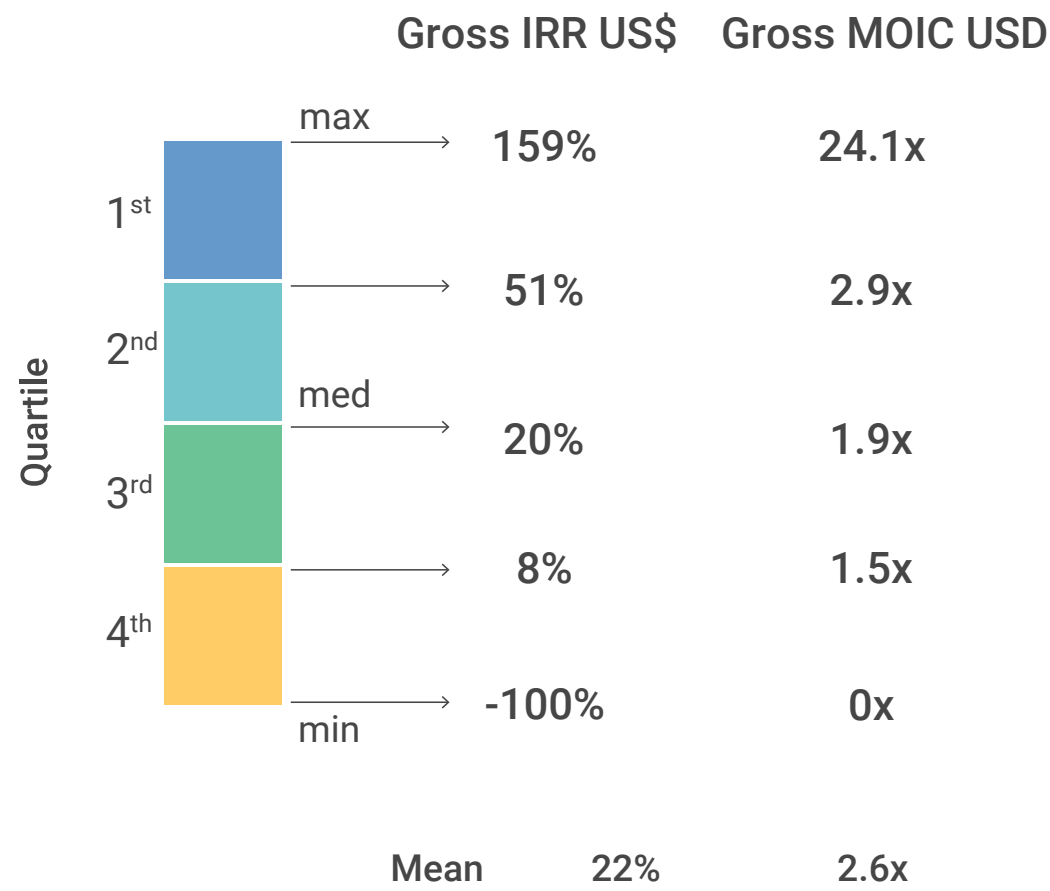
PROFITABILITY – PE&VC

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%.

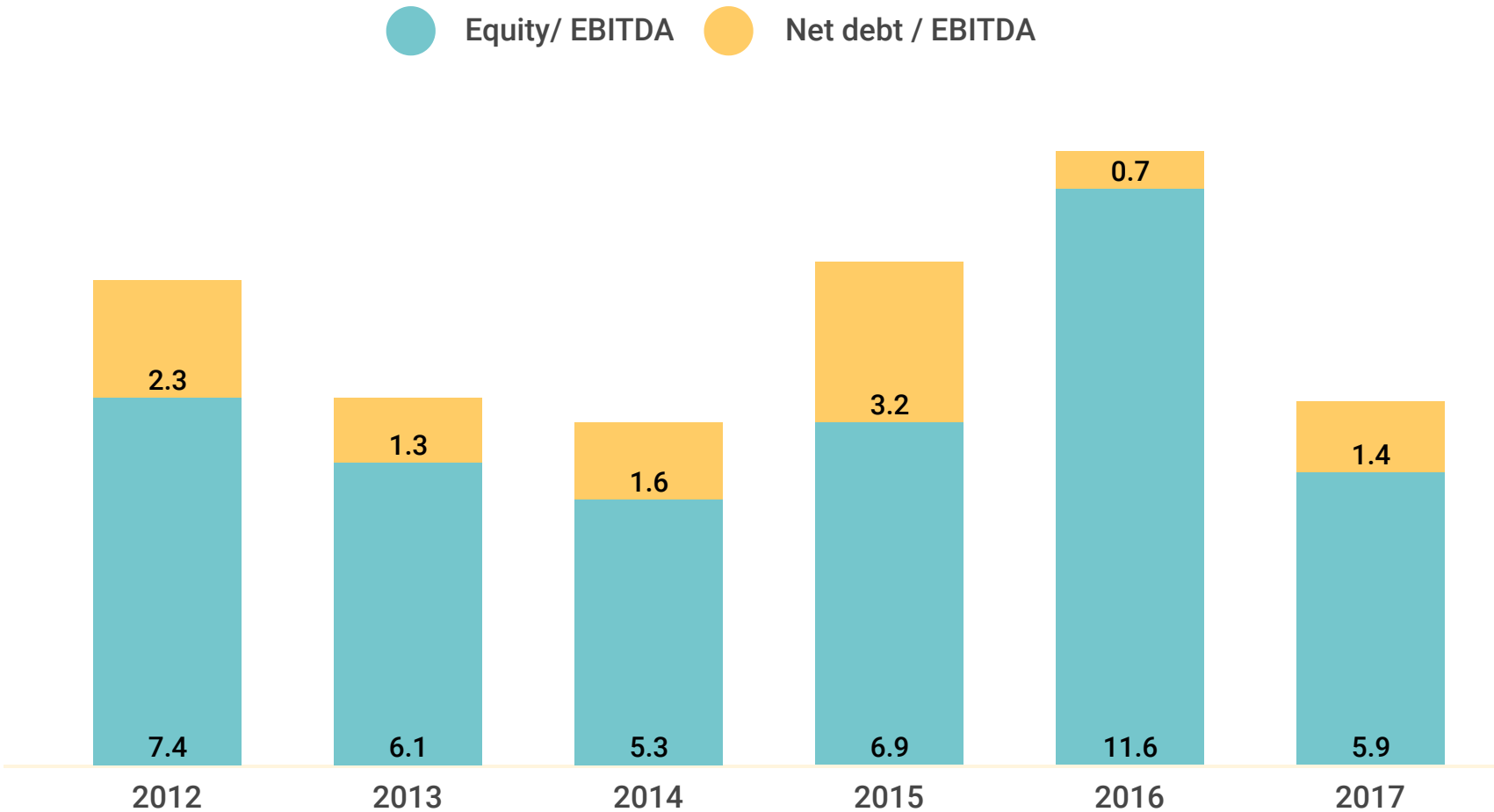
Despite recent crises, PE&VC deals performed well overall between 1994 and March 2018. The average gross multiple of invested capital (MOIC) in US\$ was 2.6x and the median was 1.3x. The maximum MOIC for PE was 34x and 60x for VC (see Exhibit 7). More than 60% of the deals had positive returns (with 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.

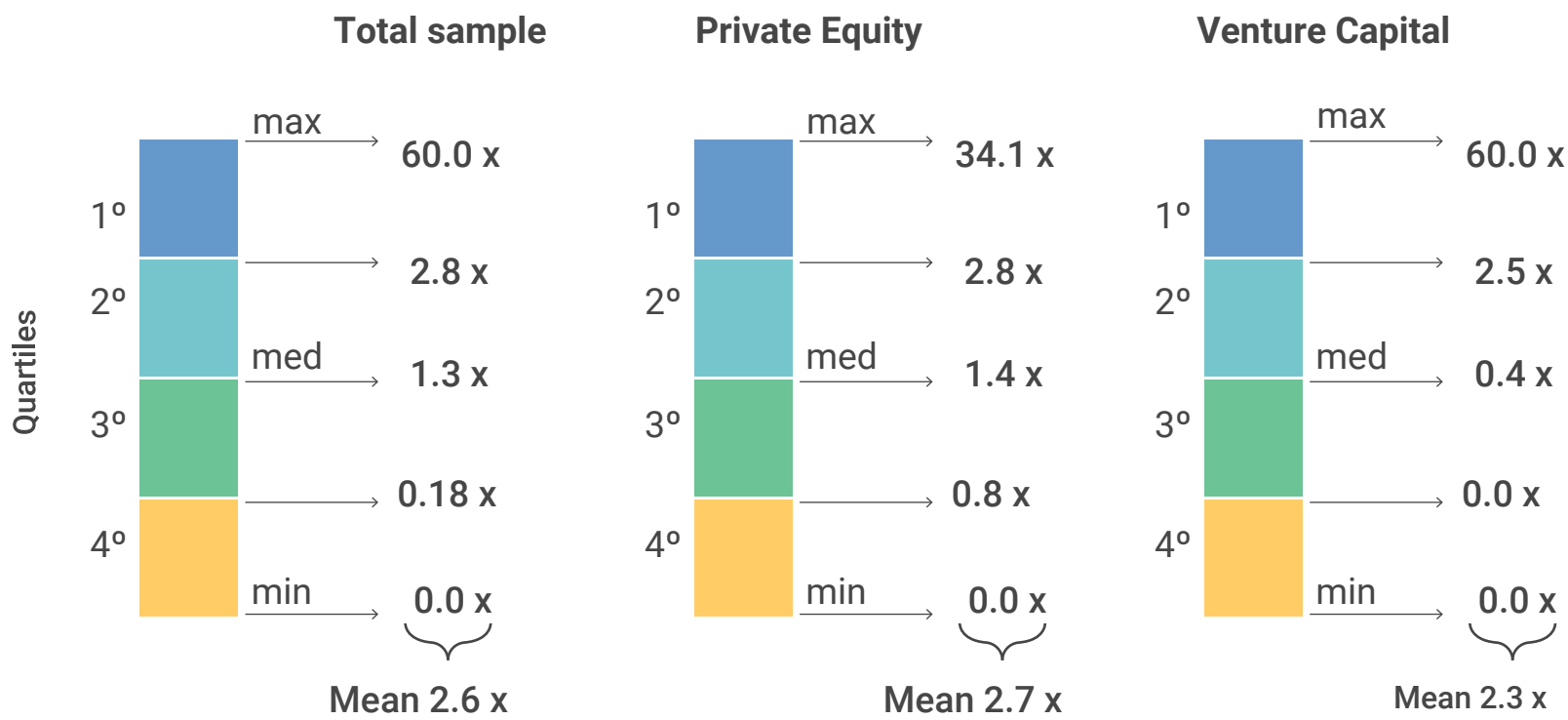
IRR of Brazilian PE/VC funds raised between 1982 and 2010



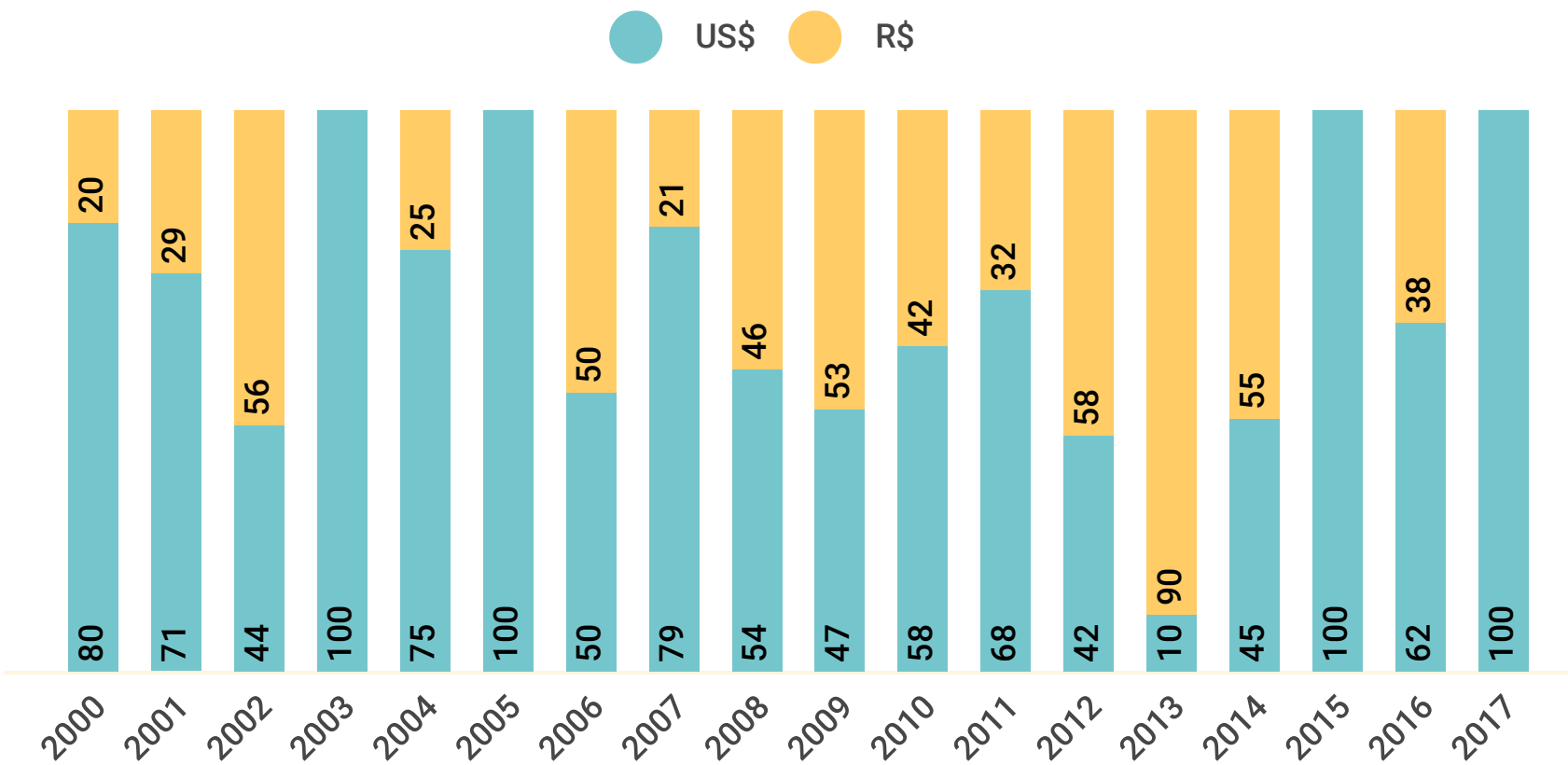
EV/ EBITDA of Brazilian transactions FY12–FY17



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

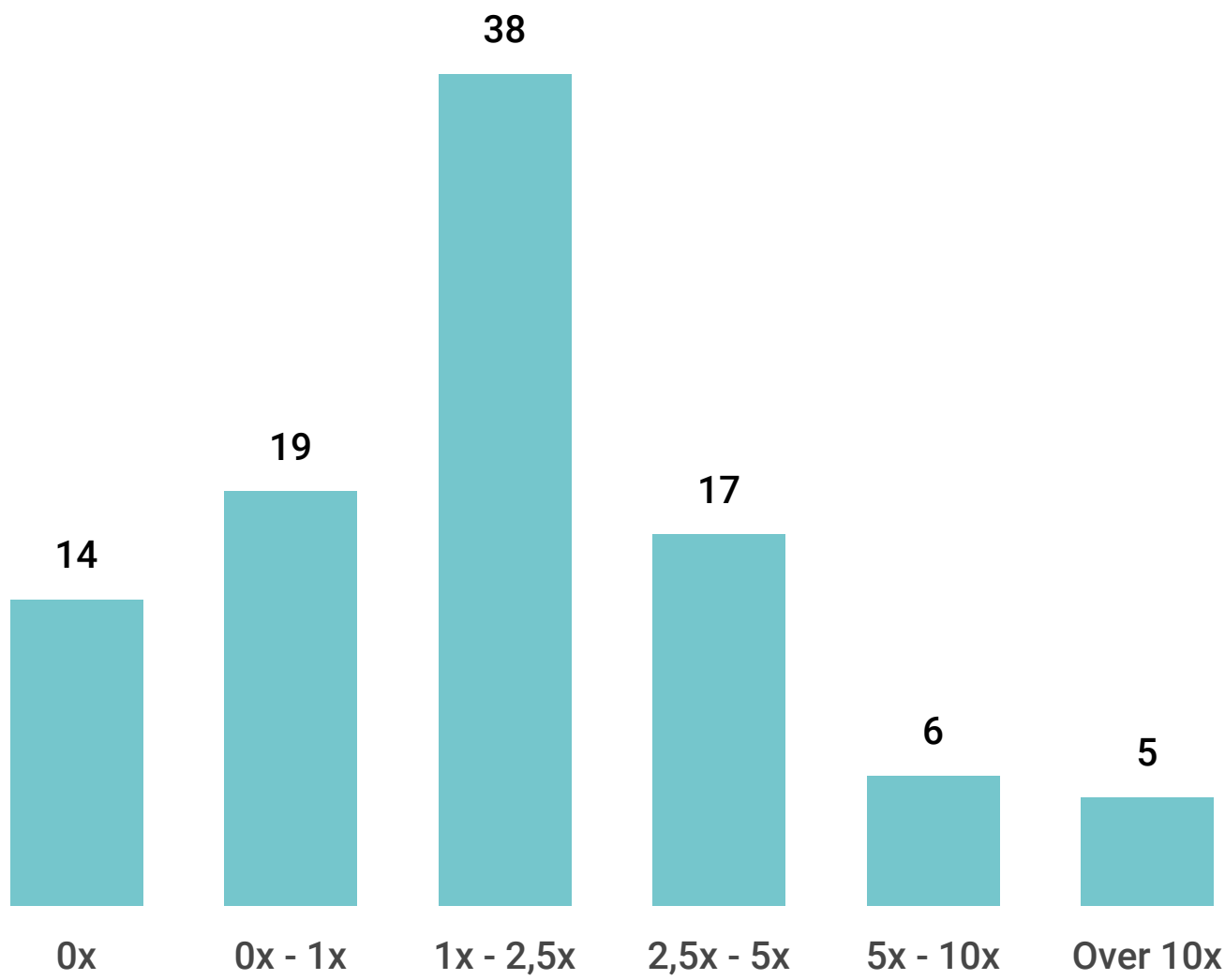
The Insper/Spectra study indicates that private equity investments generally performed well in Brazil between 1994 and March 2018. Similar to the international industry, there is a wide gap between the best and worst performing managers. In the analysis, first and second quartile funds in Brazil are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

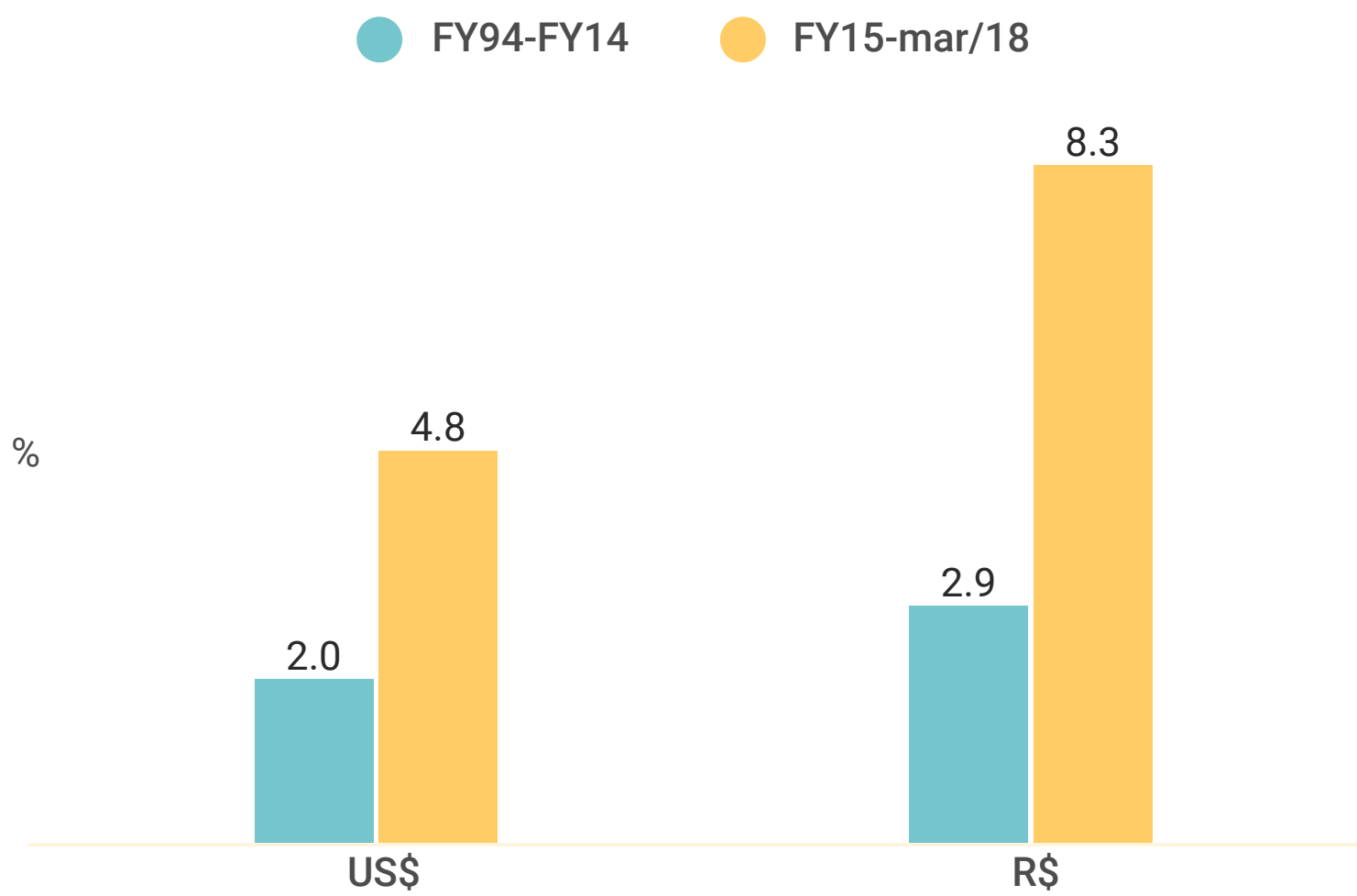
Although Brazil’s PE&VC industry is relatively young, it has many experienced fund managers: 72% of the PE&VC firms in the sample are at least six years old; 40% were established more than ten years ago; 59% of them have set up two or more funds; and 34% have set up three or more funds.

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.

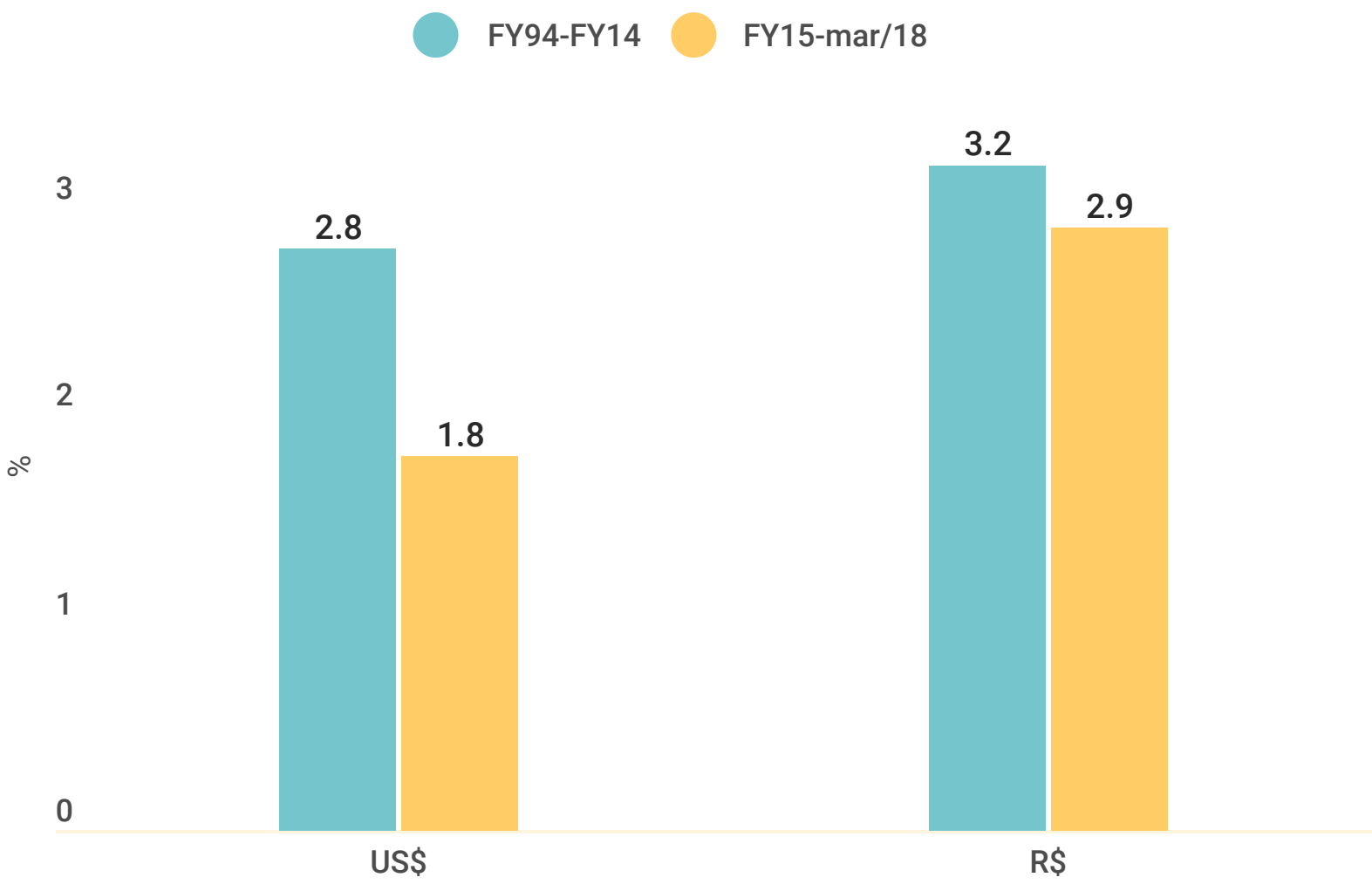
MOIC* of private equity investments in US\$ in Brazil FY94 – mar 18



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



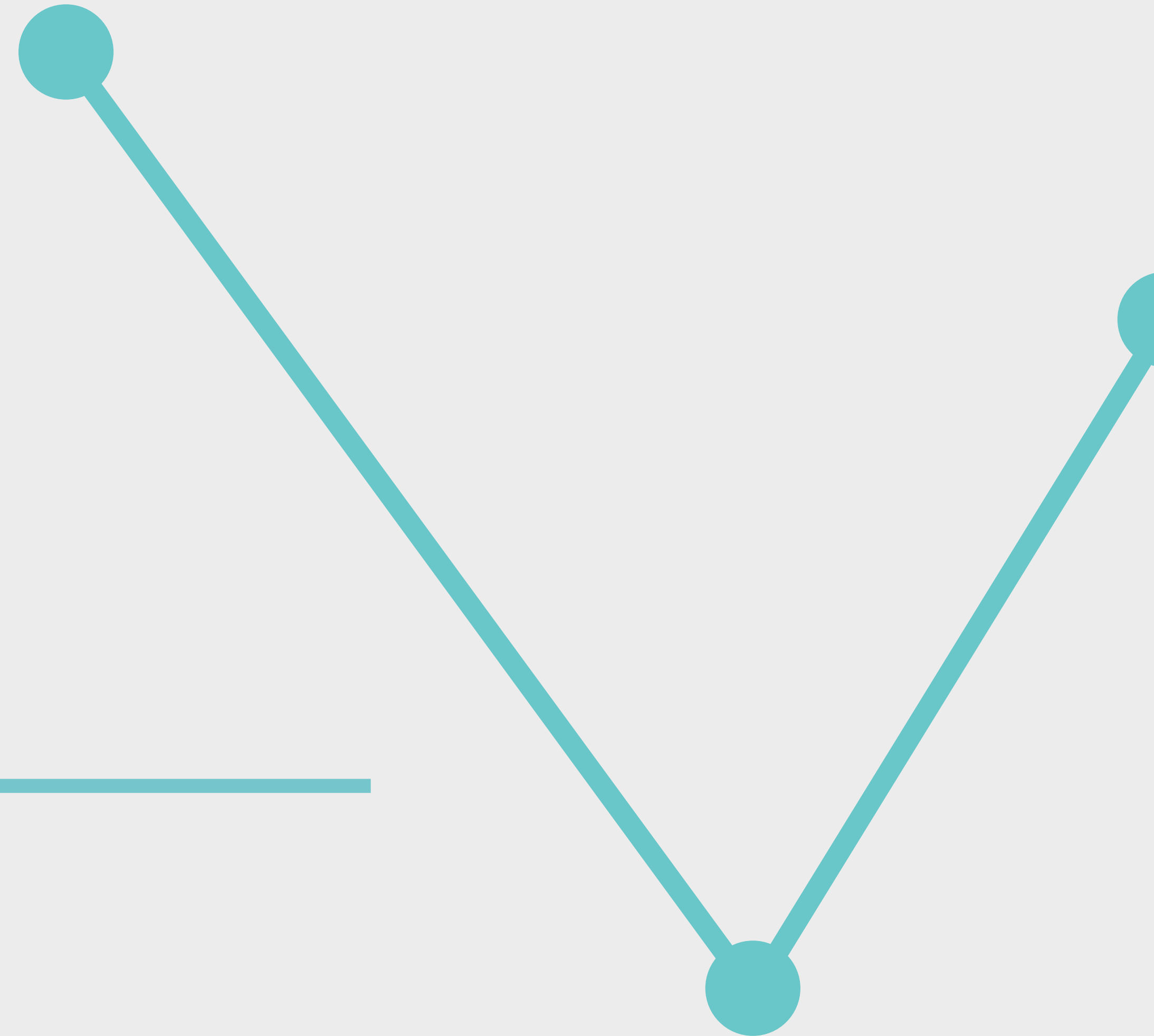
MOIC* of private equity investments in Brazil (before and after 2015 crisis)



* Multiple of invested capital (MOIC)

2.2 INFRASTRUCTURE

Private equity & venture capital in Brazil



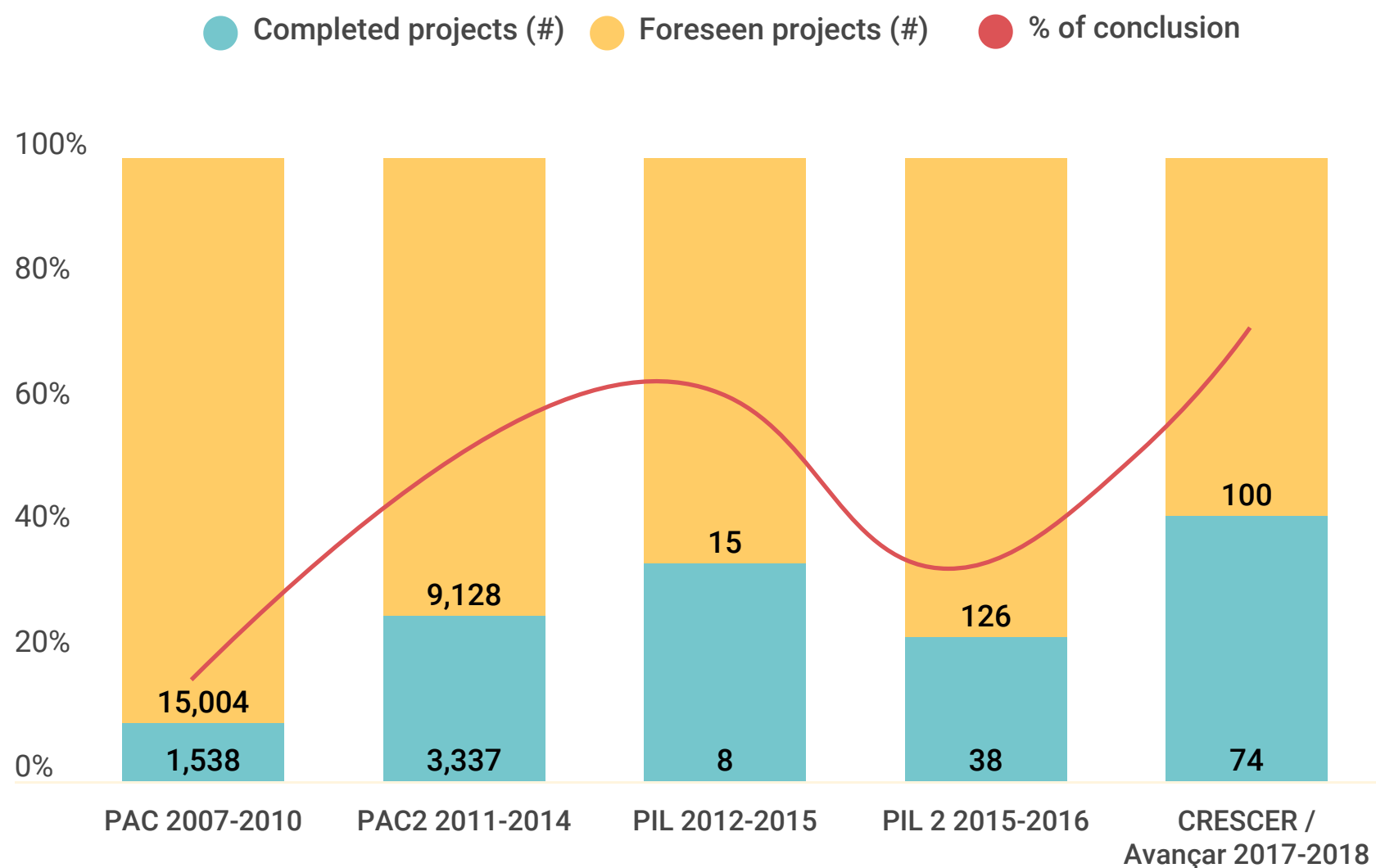
Infrastructure bottlenecks are strangling economic activities in Brazil and must be removed, with private credit playing a leading role in this process, due to funding needs and project management support requirements.

Brazilian investments in infrastructure are insufficient, still unable to resolve the nation’s bottlenecks.

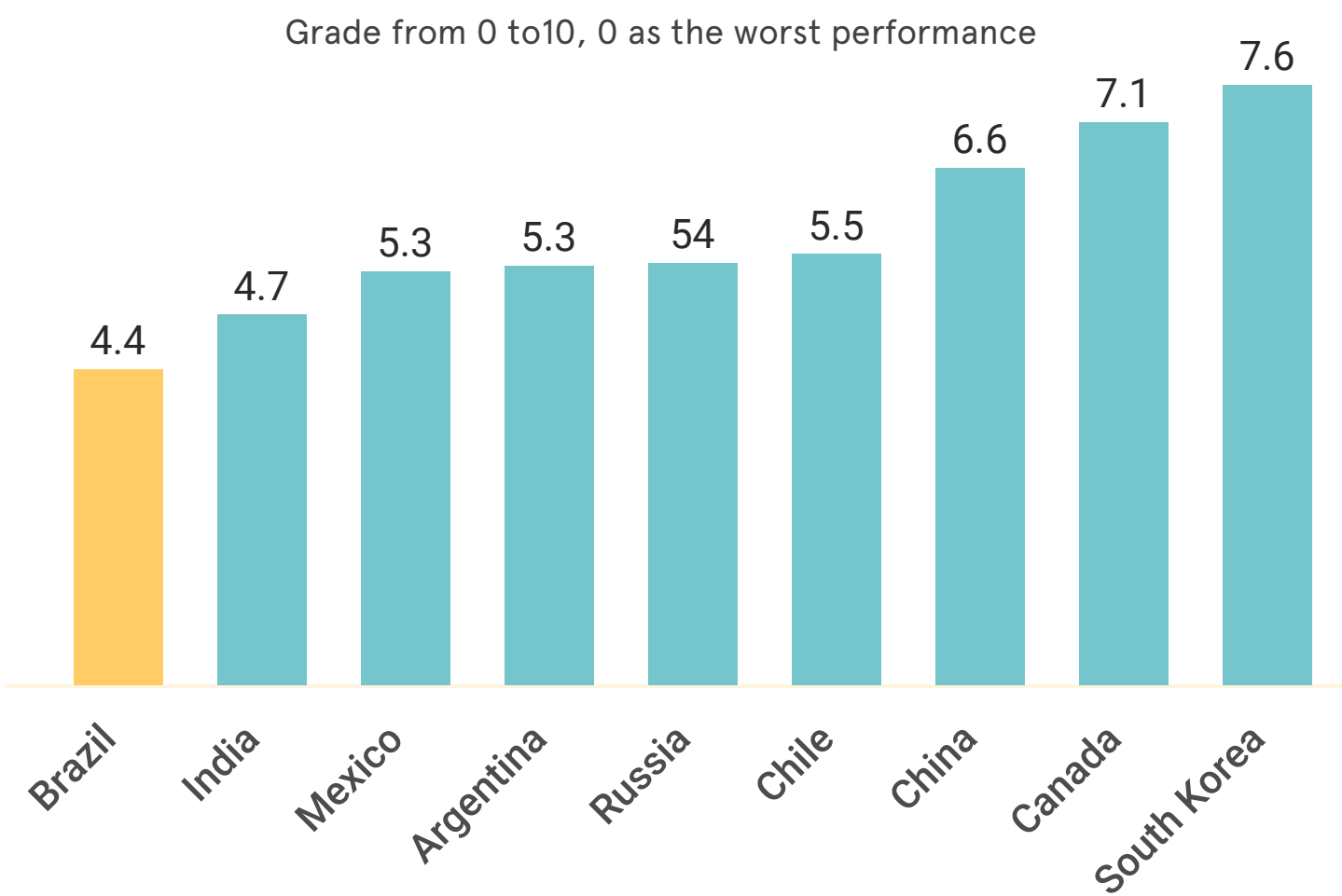
Properly-proportioned investment flows can endow Brazil with a keener competitive edge over the long term, in addition to driving its economy through infrastructure works.

Private capital already accounts for a very significant slice of these investments, which must increase over the coming years, particularly with privatisation and concessions being urged by a newly-elected administration.

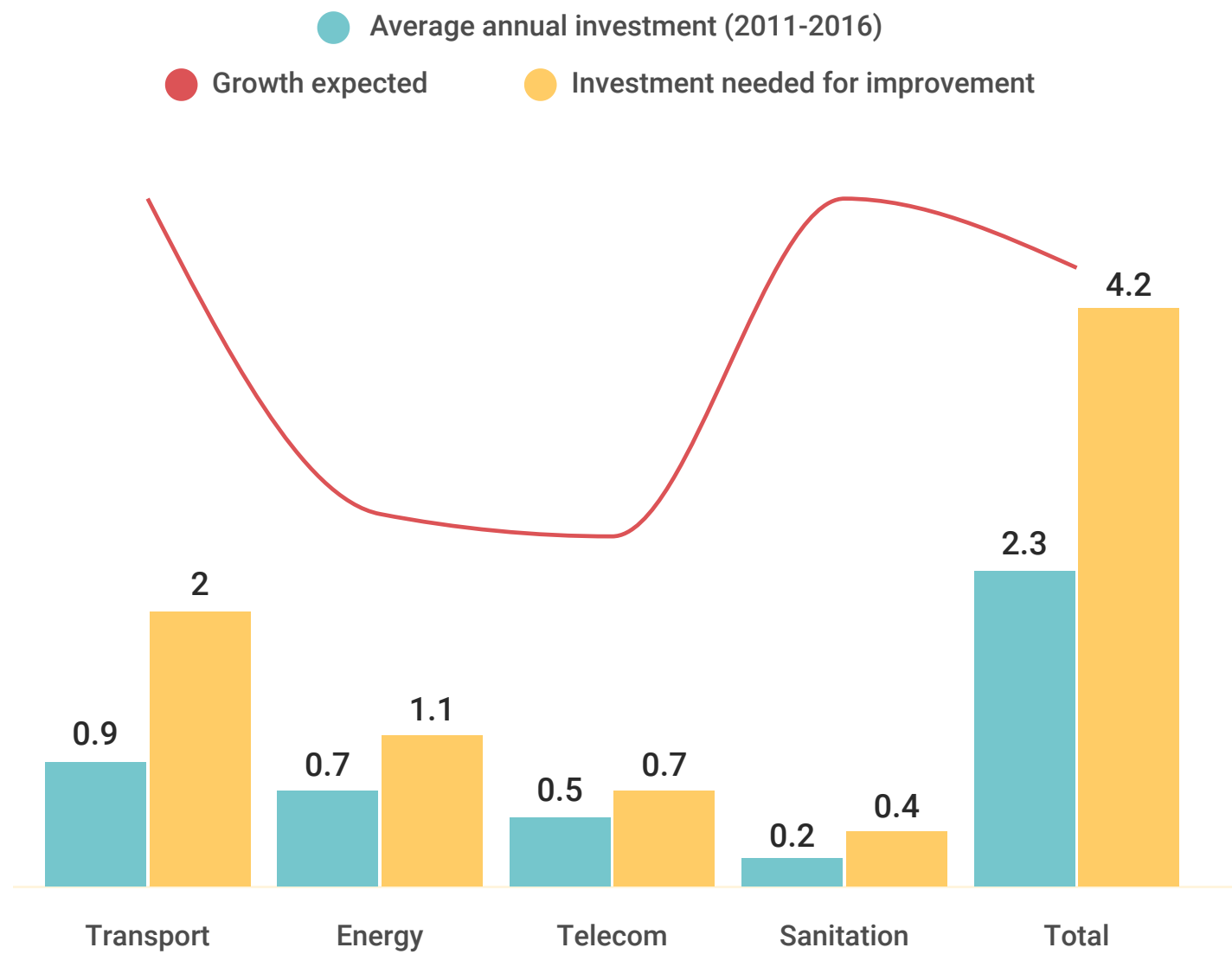
Infrastructure project by government programme FY07–FY17



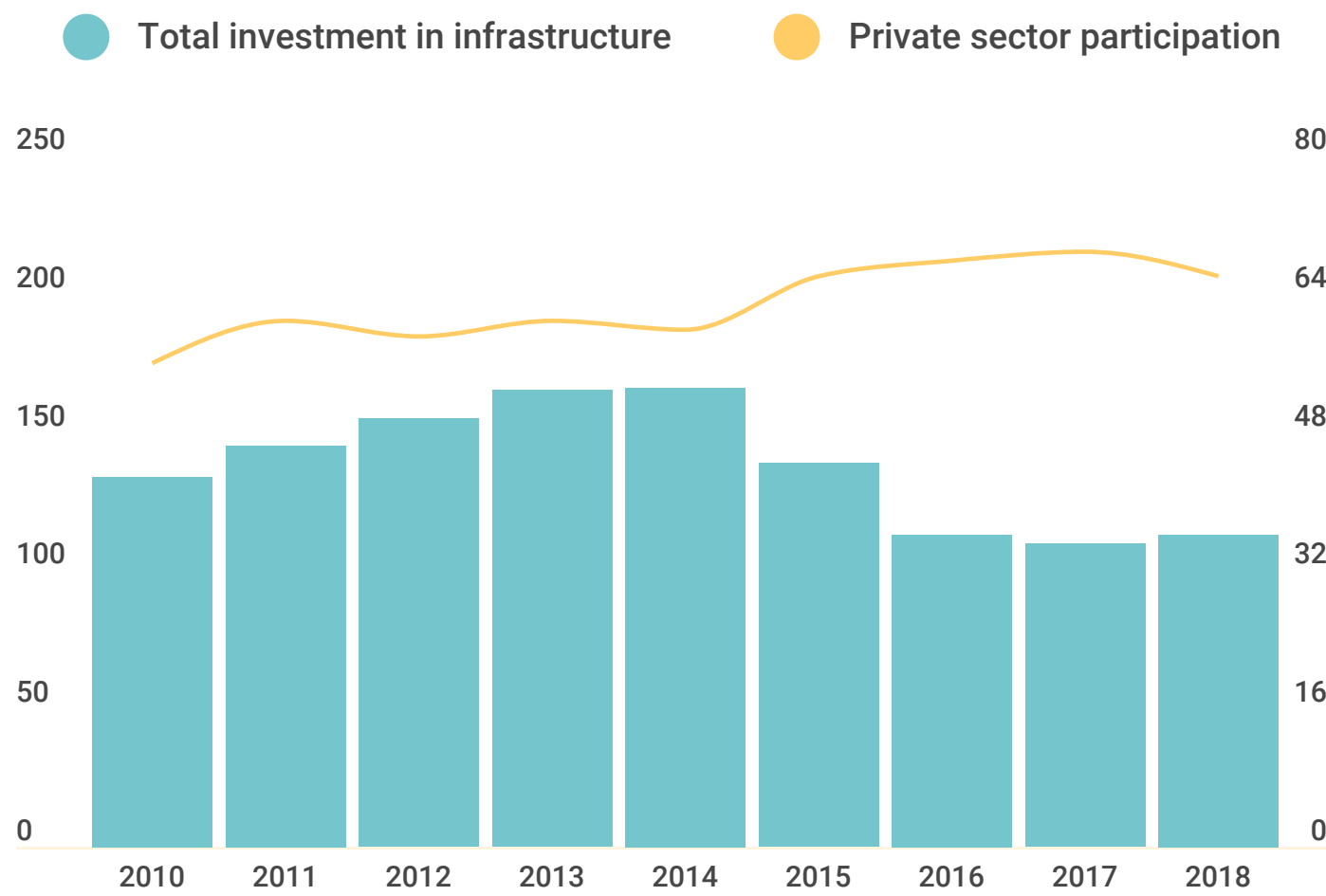
Infrastructure ranking by country FY18 (%)



Infrastructure investment in Brazil and deficit as a % of GDP FY17



Public and private infrastructure investment in Brazil FY10–FY18



Source: CNI; OCDE; Infrastructure Directory 2016/2017; ABDIB; Frischtak and Mourão (2018)

In parallel to repressed demands, and with subsidised public funding petering out, there is a clear and increasing need for private credit among companies in Brazil’s infrastructure.

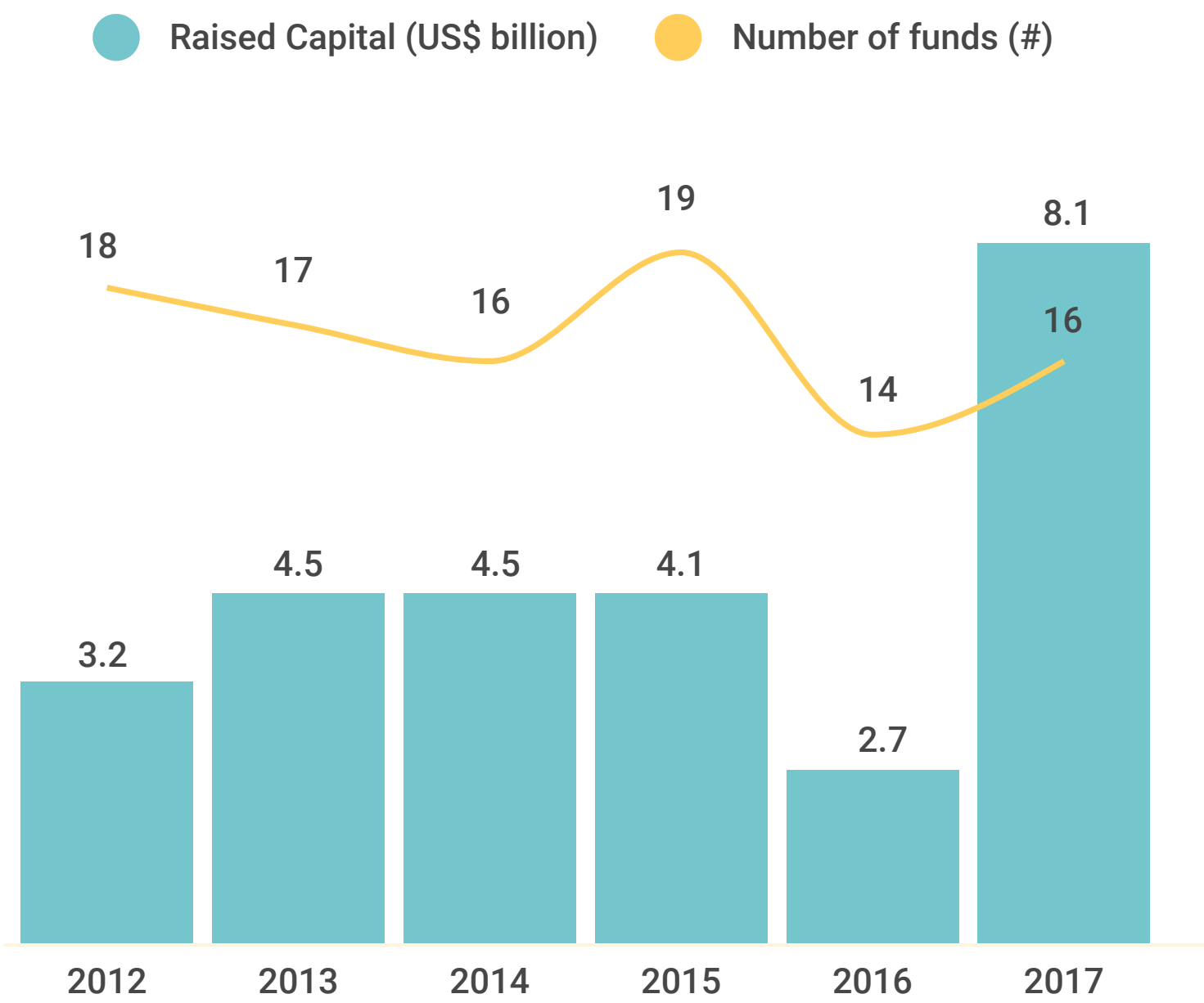
Sparse government-subsidised funding for infrastructure projects and a new guideline introduced by Brazil’s National Social and Economic Development Bank (BNDES) for long-term financing are spurring immediate demands for private credit in this sector.

The need to attract new capital to this sector is a noteworthy issue, as financing costs are on the rise, while the availability of subsidised credit for investment is shrinking.

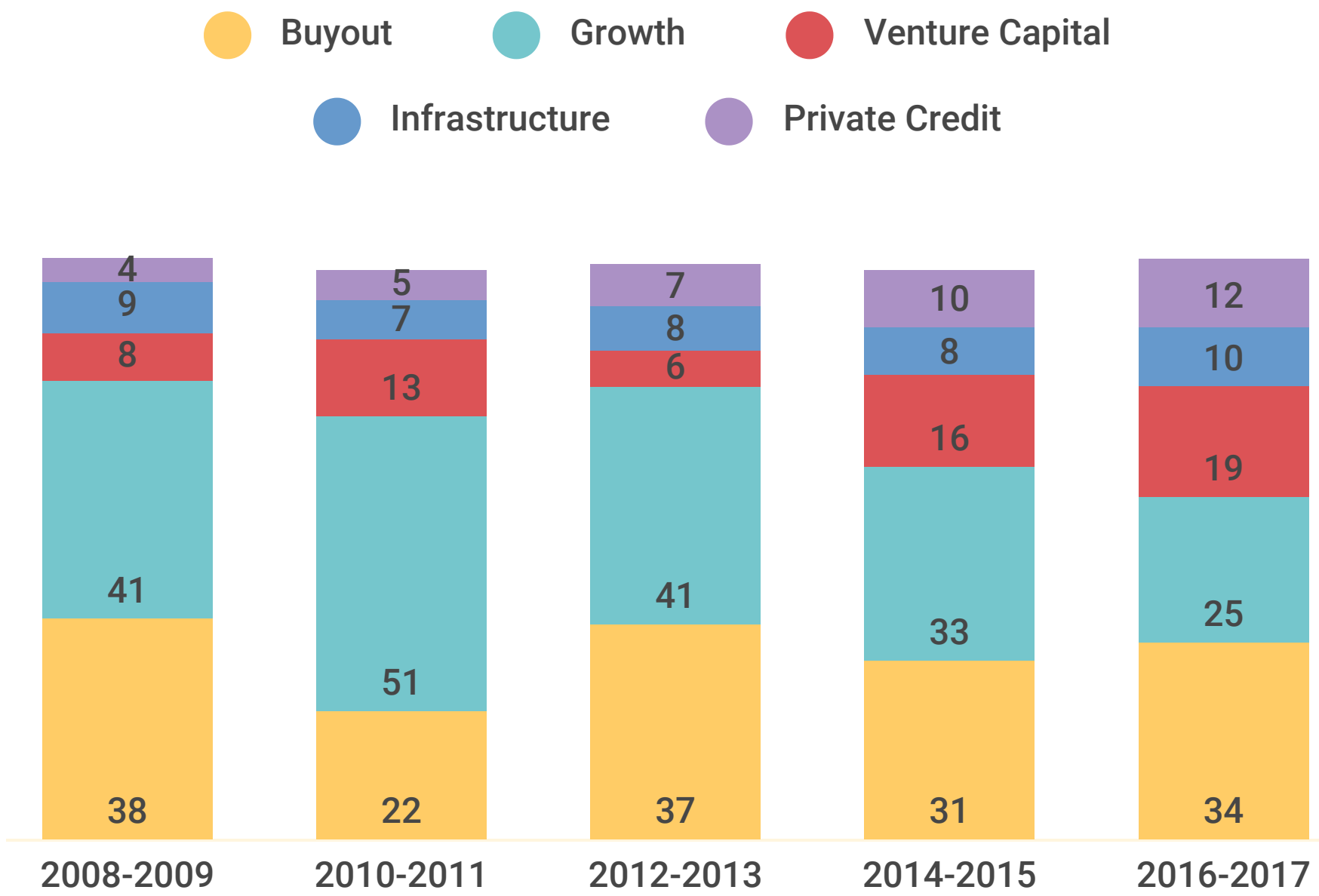
Private equity funds with infrastructure expertise can offer – together with credit – operational support that underpins better performances and expansion by companies in this sector.

In this context, private equity investments can be an important source of funding, complementary to BNDES’s lines and subsidised debentures.

Infrastructure fundraising in emerging markets FY12–FY17



Fundraising by strategy in emerging markets FY12–FY17



Recent changes in the rules of auctions and infrastructure projects aim to adopt global standards contracts, guarantees and risks, in order to promote an environment to offer legal certainty and attractiveness to domestic and foreign investors.

Brazil’s infrastructure deficit led to the expansion of privatization projects and regulatory authorities improvements aiming to attract domestic and foreign investors to the sector. The creation of a Ministry of Infrastructure by the new government aims to reduce consultation time and approval of projects and seeks to facilitate the execution of long term constructions. In addition, the new government has committed to strengthening regulatory agencies, seeking to ensure predictability and clear rules for bids and projects.

Recent movements in the sector point to a growing interest FDI inflows in infrastructure projects. In Brazil, the most attractive sector has been energy. Only in 2018, private funds equity moved more than R\$ 473 million in stakes of companies positioned in this sector. Foreign investors who in 2010 accounted for 27% of private investment infrastructure in Brazil, started to respond 70% of investments in 2018.

MAIN INFRA DEALS IN BRAZIL 2019-2018

2019	INVESTOR(S)	TYPE	VALUES (MILLION)	TARGET COMPANY	SECTOR
	Mubadala; Farallon	Investment	R\$ 1,650	Rota das Bandeiras	Infrastructure
	Vinci Partners	Investment	R\$ 500	Vero Internet	Telecom
	Softbank; Microsoft; GGV; Fifth Wall; Velt Partners	Investment	US\$ 150	Loggi	Logistics
	Axxon Group	Divestment	US\$ 100	America Net	Telecom
	Warburg Pincus	Investment	US\$ 100	America Net	Telecom
	Alothon Group	Investment	R\$ 100	Elétron Energy	Energy
	Pátria Investimentos	Investment	Undisclosed	Impacto	Logistics
2018	INVESTOR(S)	TYPE	VALUES (MILLION)	TARGET COMPANY	SECTOR
	Brookfield Asset Management Inc	Investment	R\$660	Ouro verde	Logistics
	Alberta Investment Management Corporation (AIMCo); IG4 Capital	Investment	R\$ 400	Iguá Saneamento (ex- CAB)	Infrastructure
	GIC	Investment	R\$ 352	Algar Telecom	Telecom
	Softbank	Investment	US\$ 100	Loggi	Logistics
	GWI Asset Management	Investment	Undisclosed	Gafisa	Civil construction
	Darby Overseas	Divestment	Undisclosed	Alesat	Energy
	Pátria Investimentos	Investment	Undisclosed	Marlim Azul Energia	Energy
	Gávea Investimentos	Divestment	Undisclosed	Energisa	Energy

3. NOTABLE SECTORS



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.

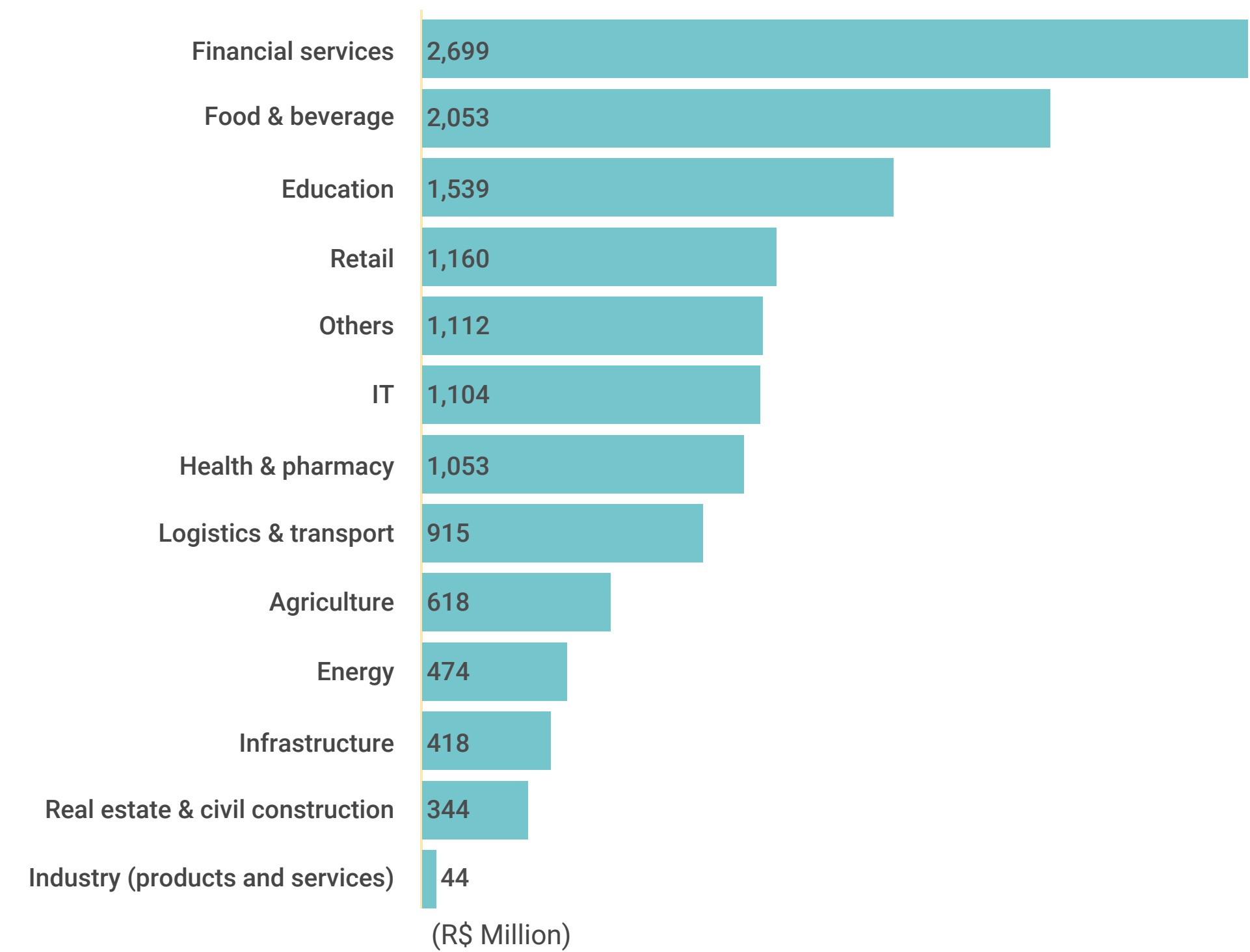
Its vast land surface with huge areas of arable land under cultivation and ample natural resources rank Brazil among the countries with a broad range of well-developed sectors that offer promising opportunities for private investments, buttressed by the size of its population.

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

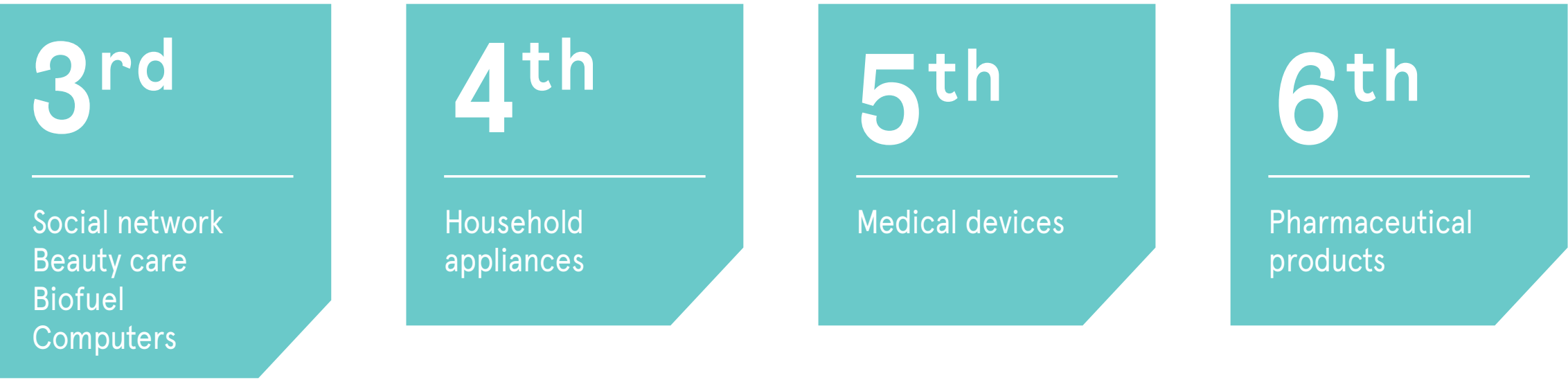
Noteworthy among the transactions examined by ABVCAP and APEX in their consolidated report for 2018, food and beverages, education, and financial services and absorbed the largest amount of investments.

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:



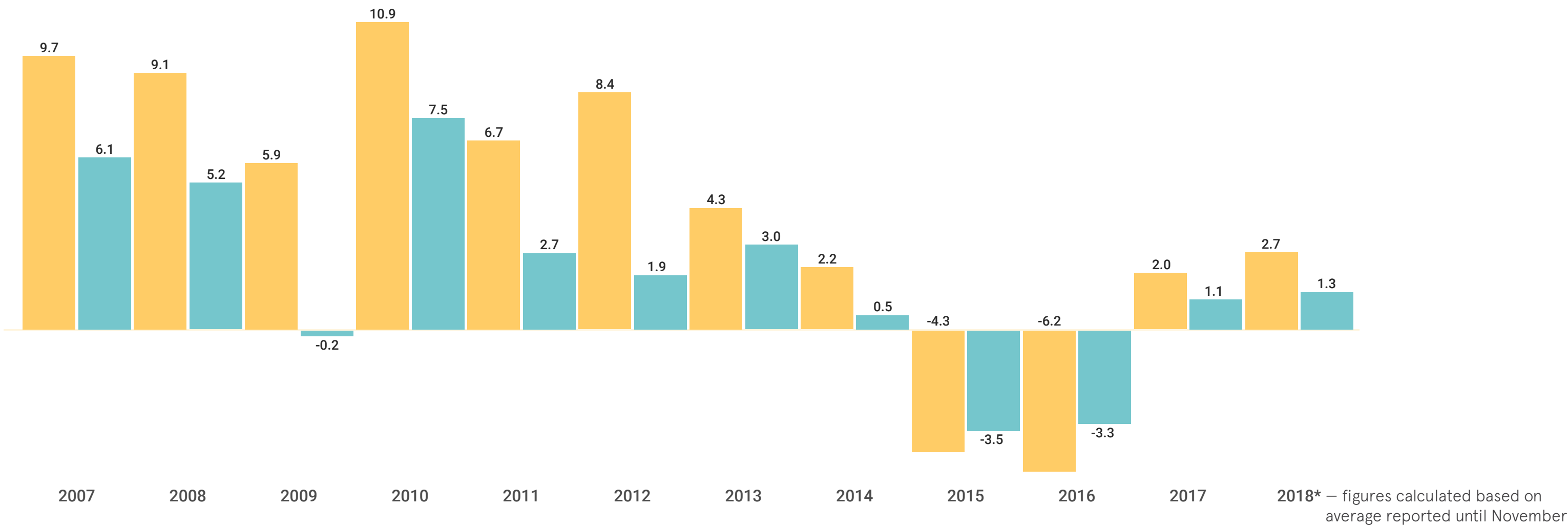
3.1 Retail—
In addition to generating the largest number of jobs nationwide, Brazil’s retail sector has returned to growth at impressive rates, keeping pace with global trends in consumption modernisation.

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.

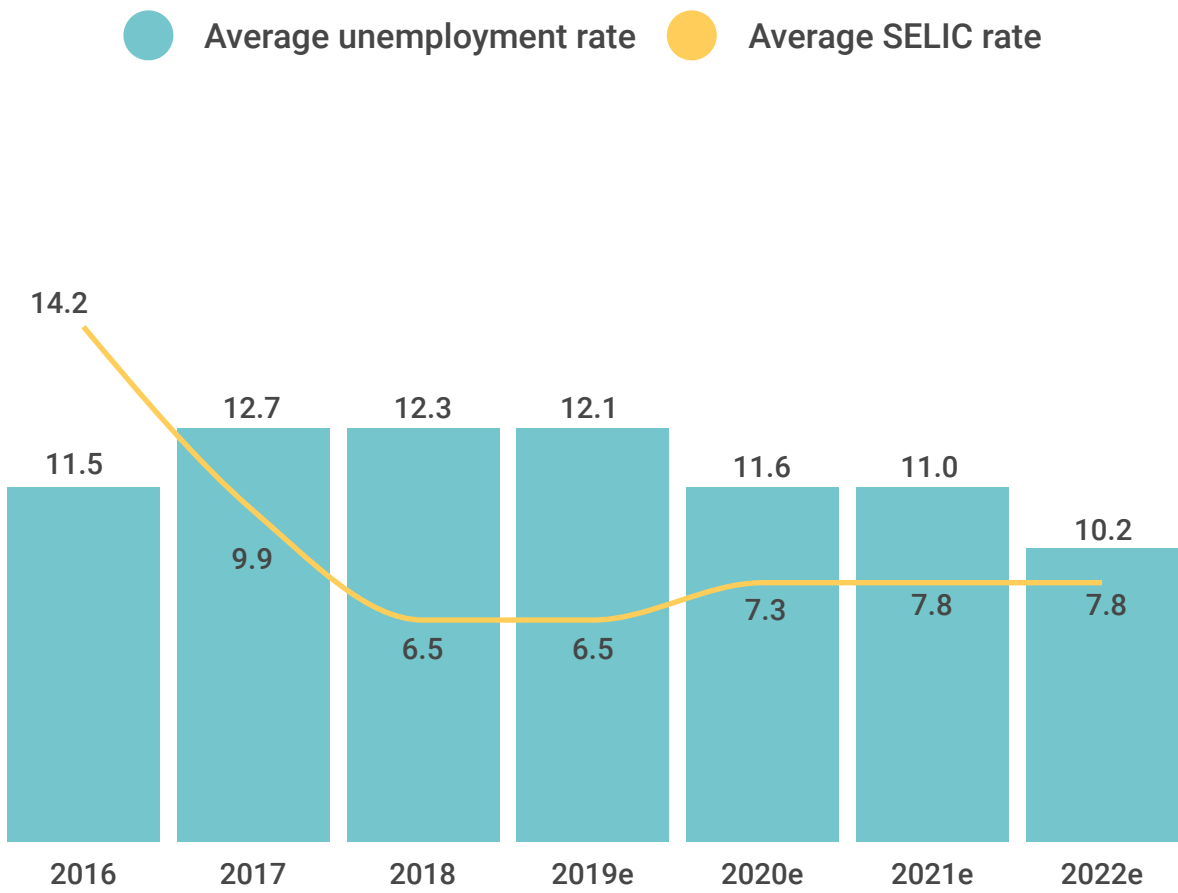
Brazil’s retail sector is particularly attractive for investments, due to a massive domestic consumption market with a population of almost 210 million and outlays on consumption topping R\$ 4 trillion in 2018.

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.

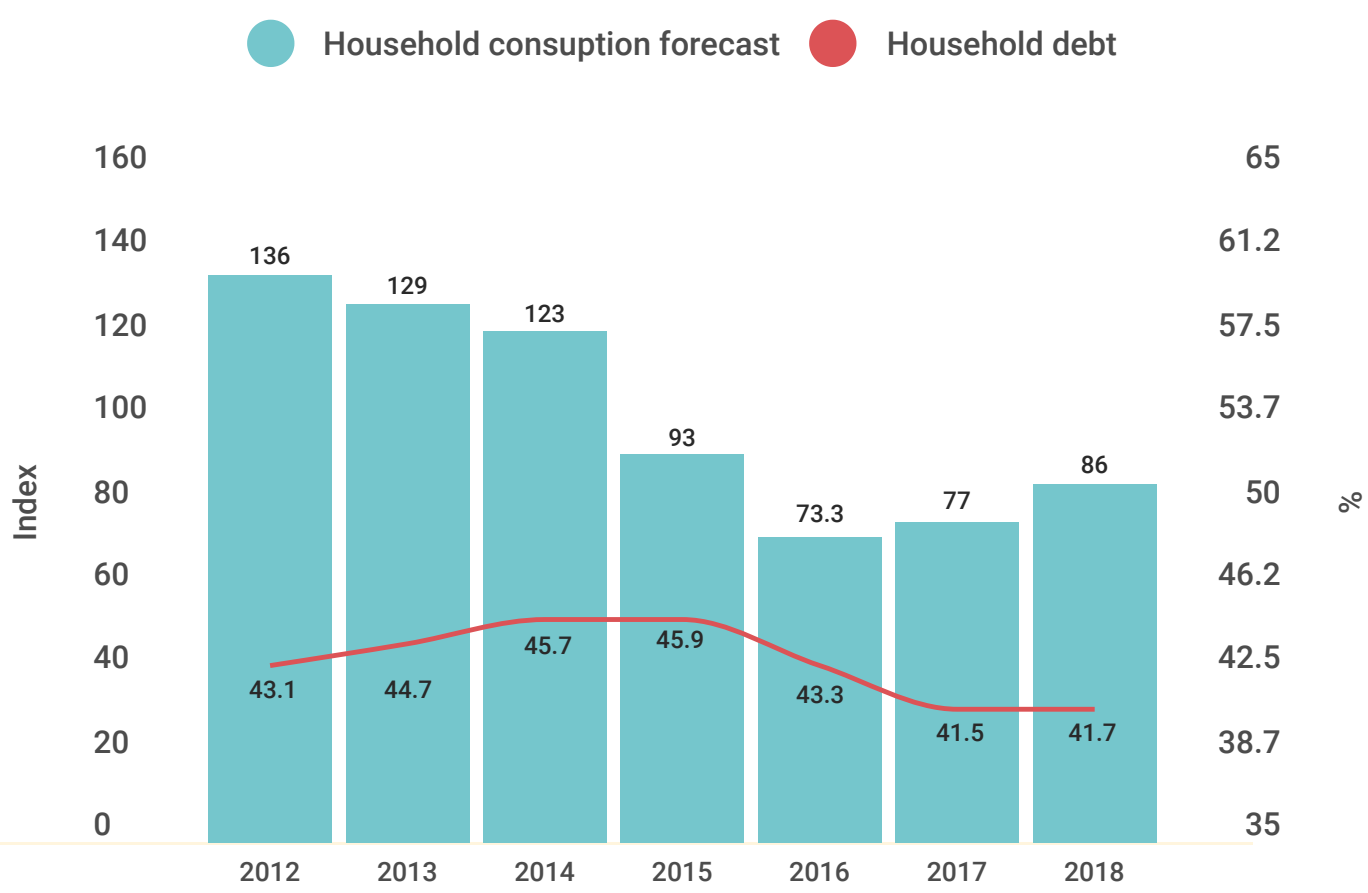
Retail performance compared to country’s GDP FY18 (%)



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



Debt Level and Household Consumption Intentions

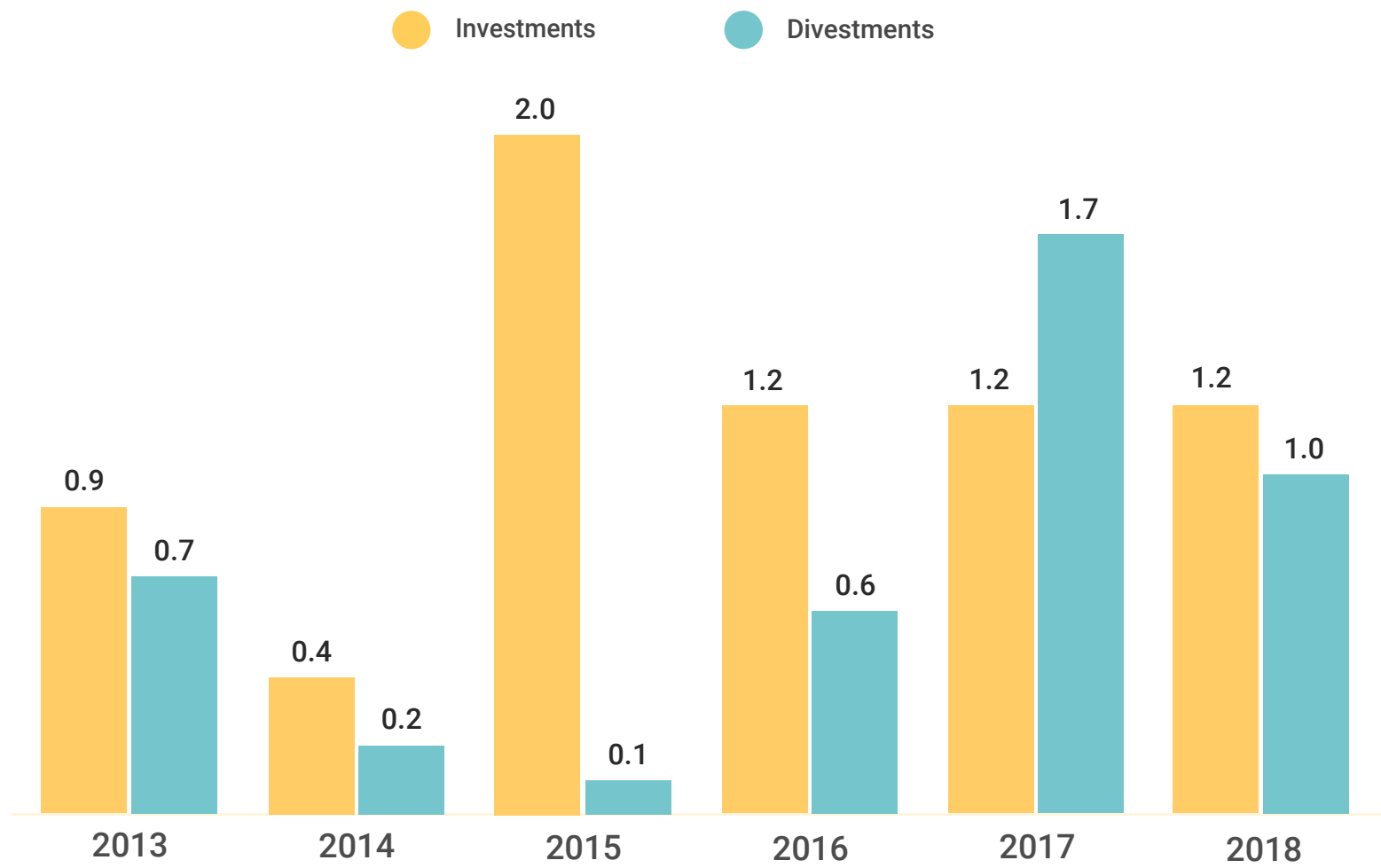


3.1 Retail–
With many small firms still operating regionally, this sector offers solid opportunities for investors interested in the Brazilian market.

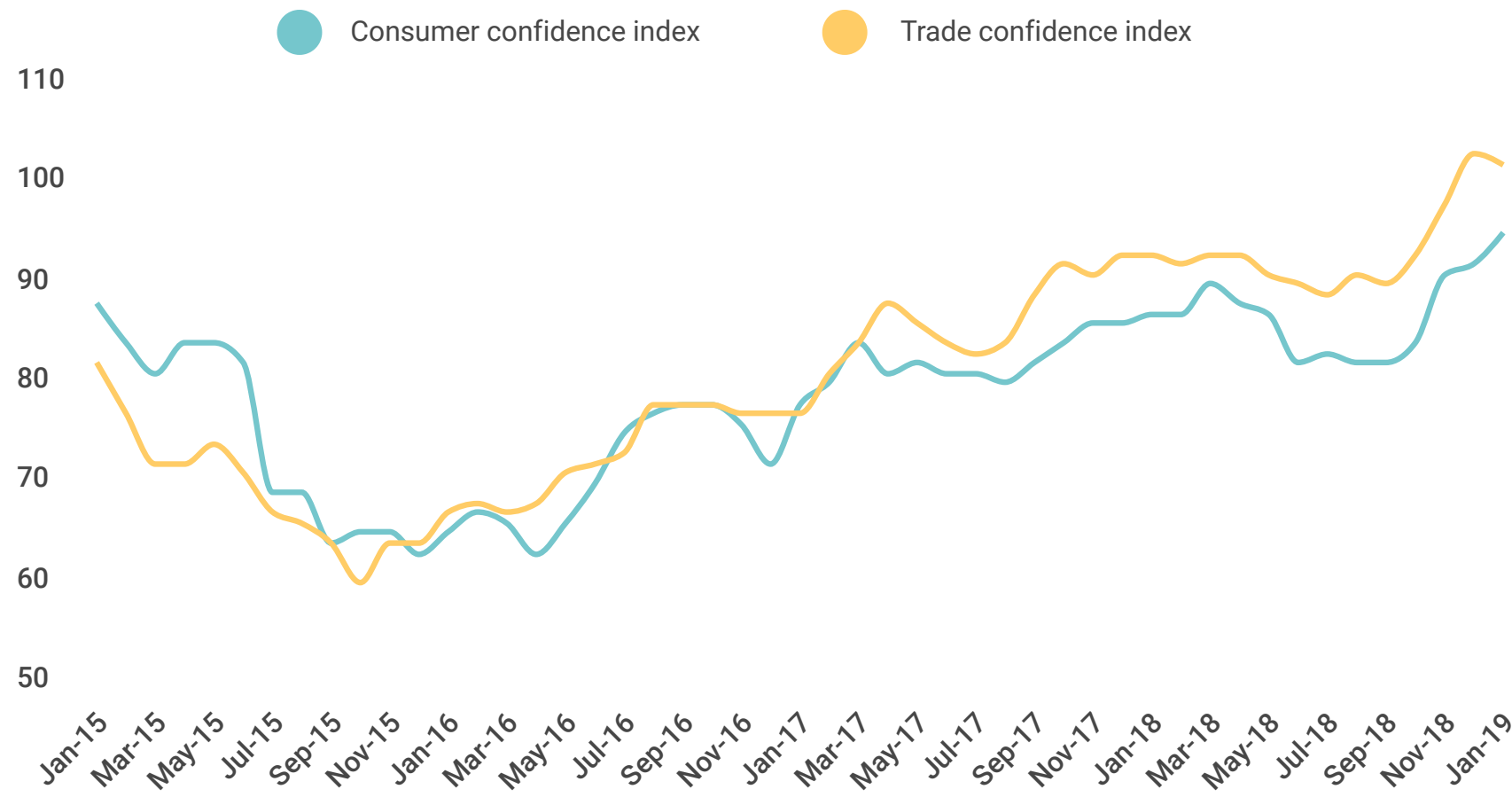
The National Confederation of Commerce (CNC) forecasts 5.6% growth in extended retail sales for 2019, and 3.0% in restricted retail. As economic activity picks up pace, the effects of family consumption on Brazil’s GDP will spur this uptrend in retail sales.

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

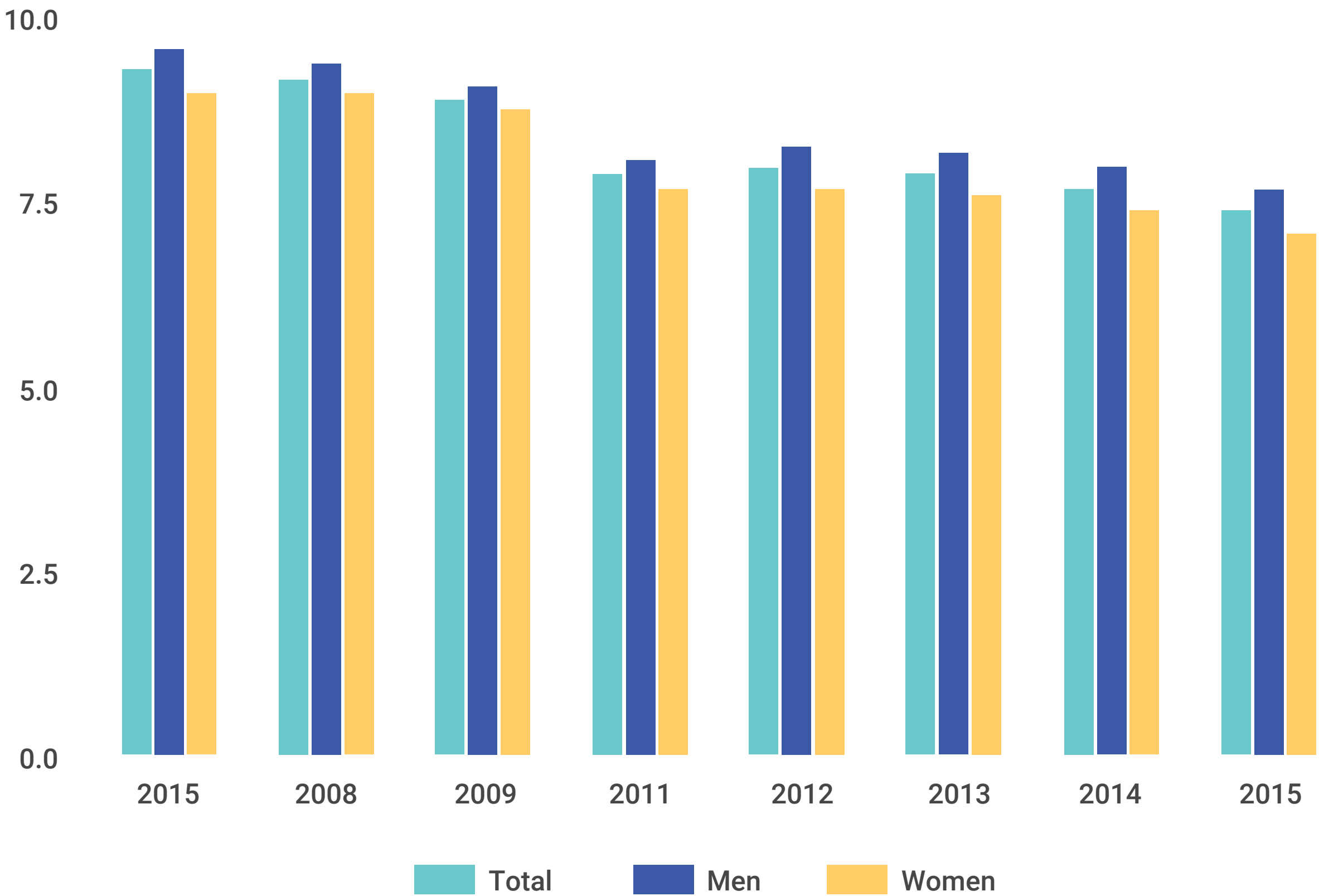
PE/VC	Investors	Type	Value (R\$ million)	Target company
VC	Foundation Capital	Investment	26.4	Grabr
VC	Monashees Capital; Canary	Investment	19	Volanty
VC	Valiant Capital	Investment	15	Gaveteiro
VC	Red Point E.ventures; Bossa Nova nvestimentos	Investment	Undisclosed	Repassa
VC	Red Point E.ventures; Bossa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

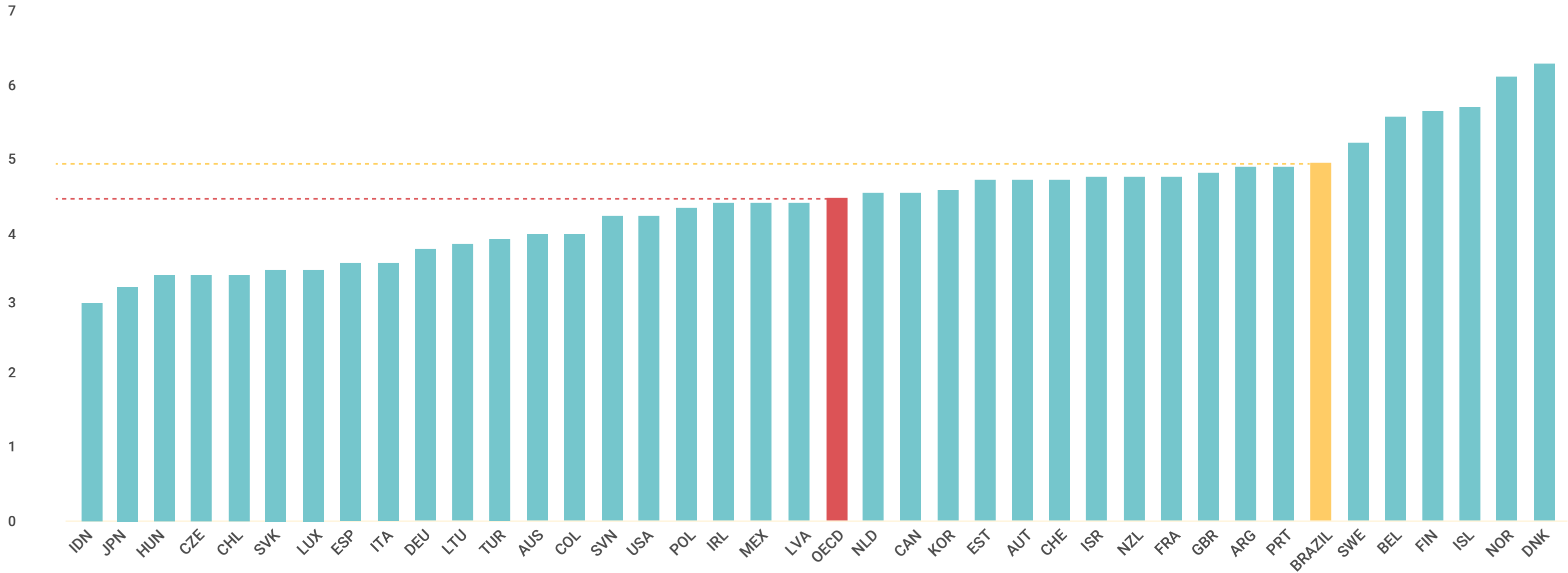


3.2 Education—
Private investments could fill
some gaps, such as poor use of
public funding and investments
in professional training and
qualification, together with
infrastructure maintenance.

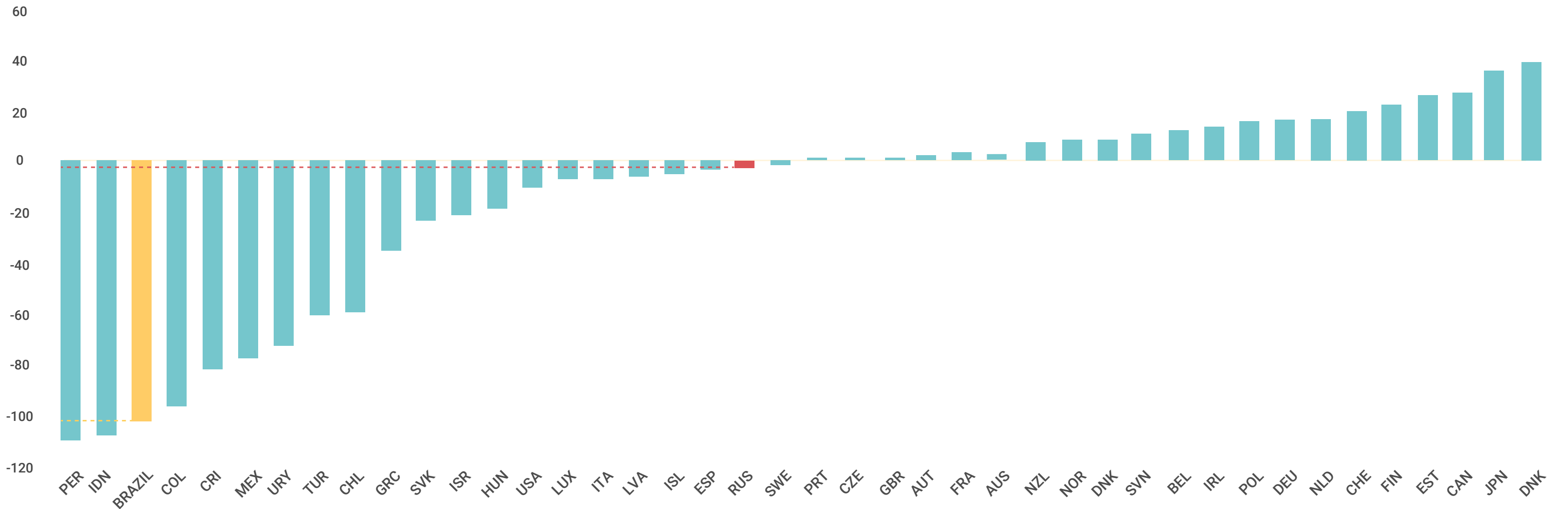
Despite above-average government spending on education, compared to other countries in Latin America and the Organisation for Economic Cooperation and Development (OECD), nations investing less per student outperform Brazil in the Programme for International Student Assessment (PISA) tests run by the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

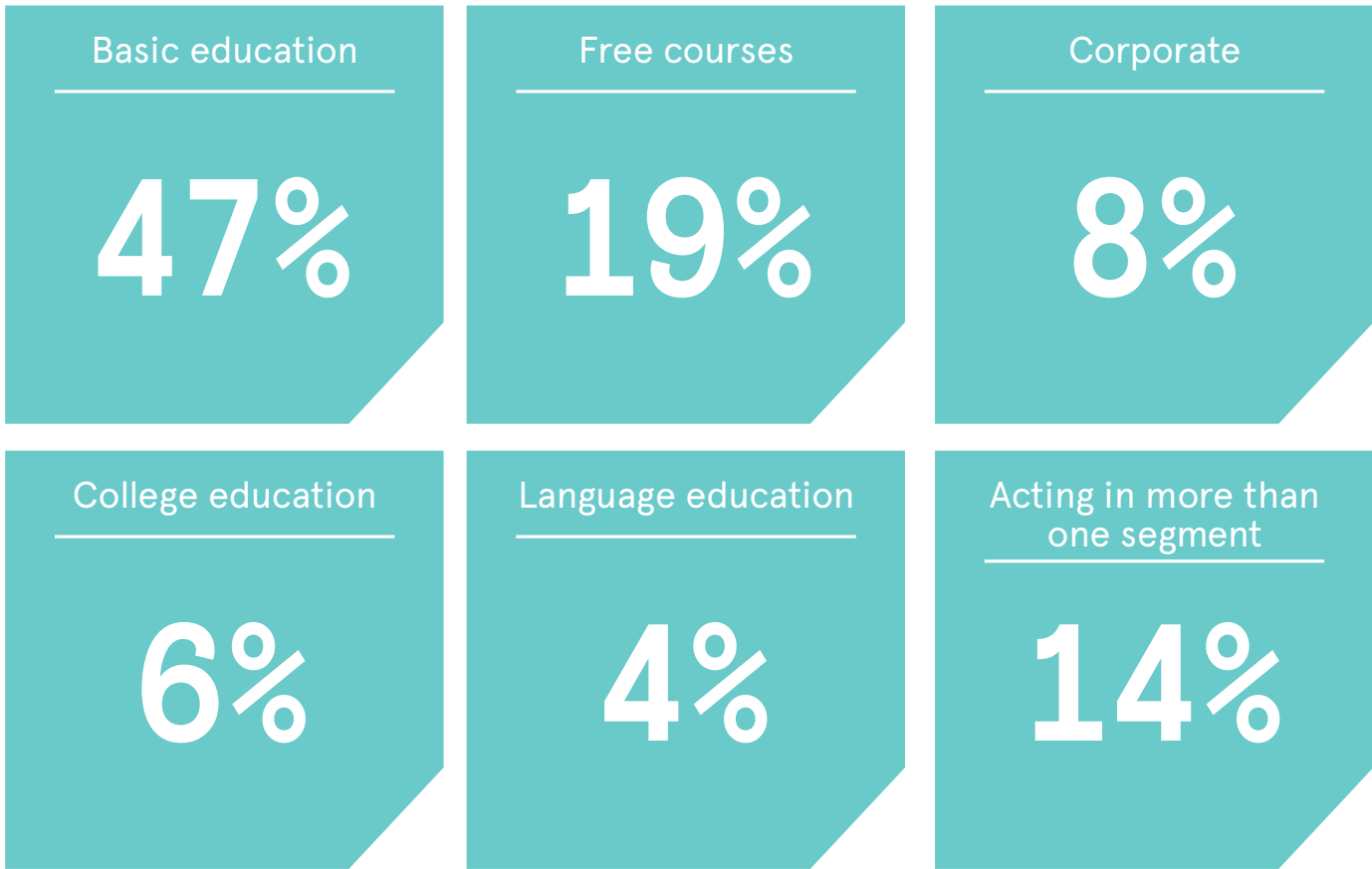
In addition to private education groups that have been consolidating colleges and schools nationwide, edtechs are expanding their scope in this context. In 2018, there were 364 of them mapped nationwide: 73% of Brazilian States have at least three and only one State has no initiatives of this type at 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 Inovacion; Ameris; Small Giants	Investment	(-)	TriCiclos	Education

Source: ABStartups; ABVCAP

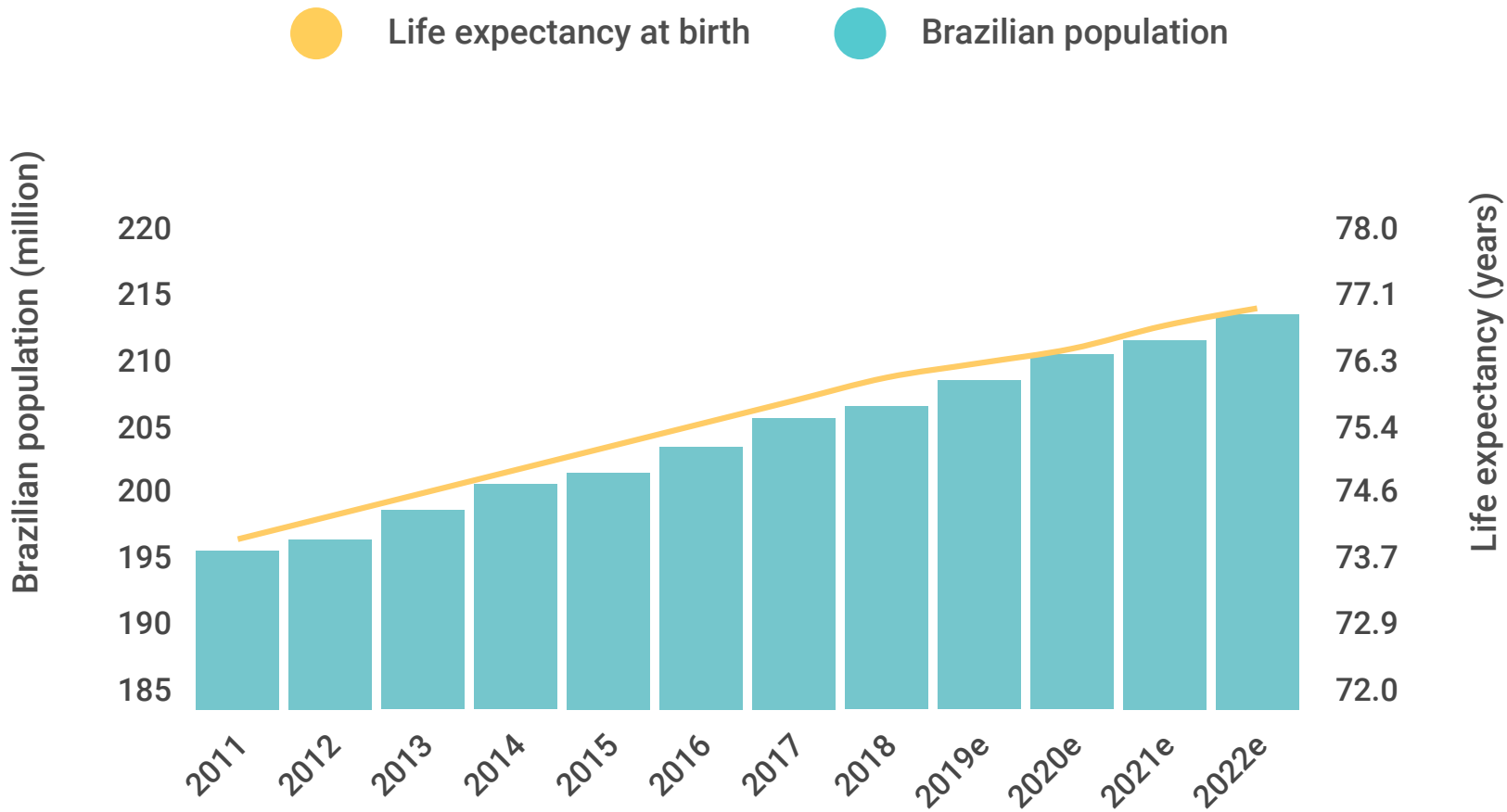
3.3 Healthcare—
As its population ages at a fairly rapid rate, public investments are not keeping pace with the needs of Brazil’s healthcare system.

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.

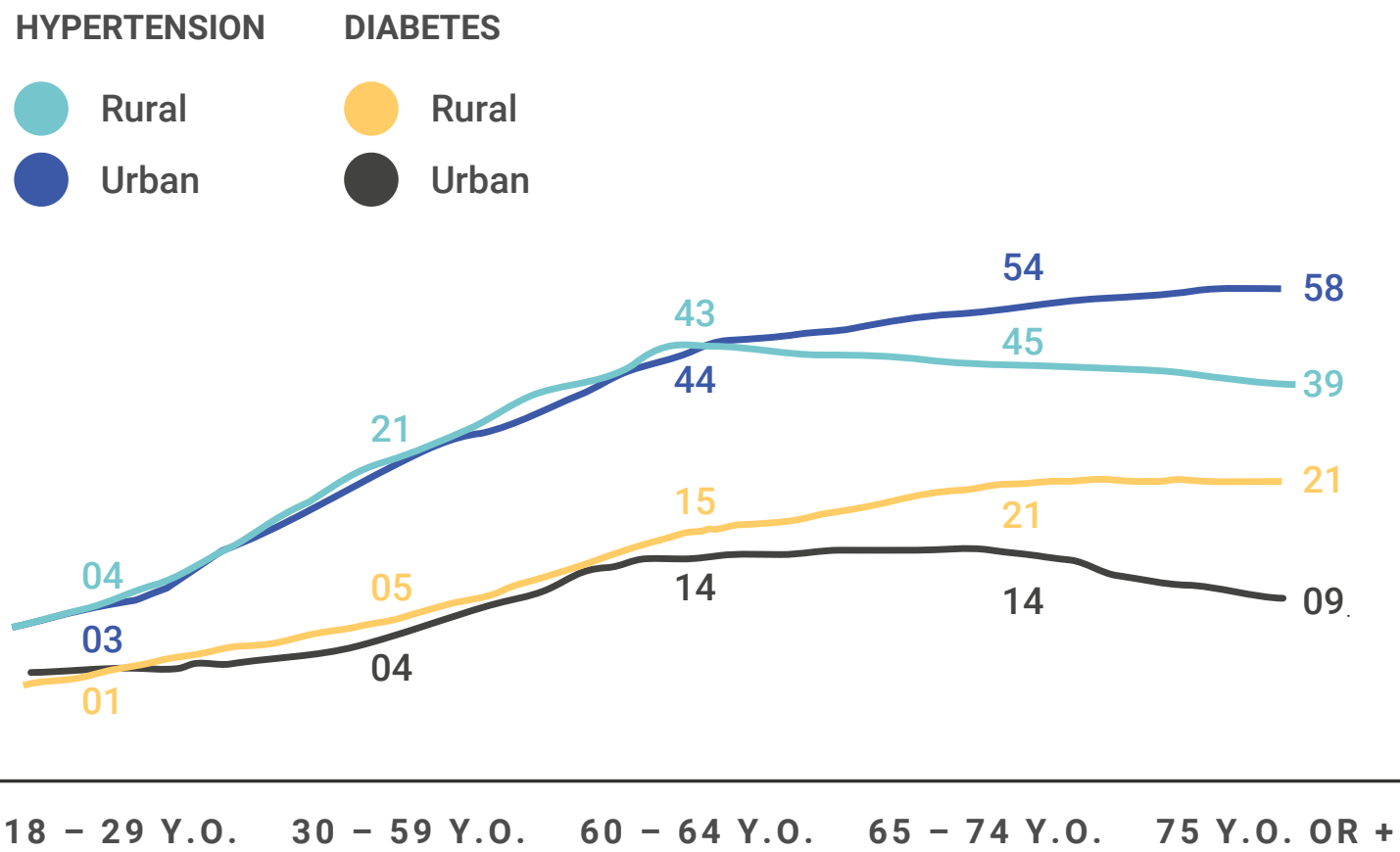
Total outlays on healthcare currently account for some 8% of Brazil’s GDP with 4.4% being private (55% of the total) and 3.8% public (45% of the total), according to data released by the World Bank. Despite its universal healthcare system, expenditures differ from those in the more developed countries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

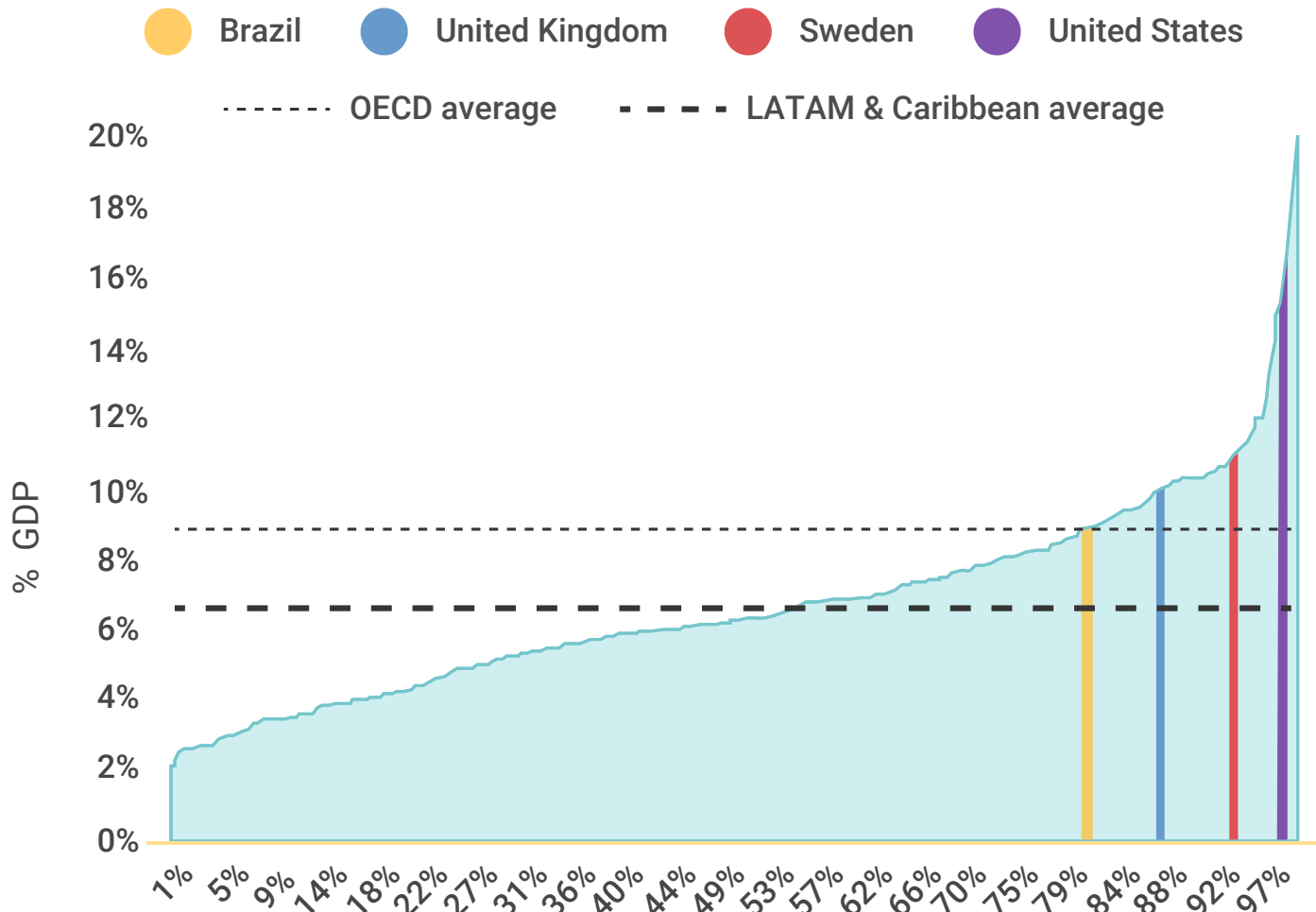
Brazilian population projection and life expectancy at birth FY11-FY22e



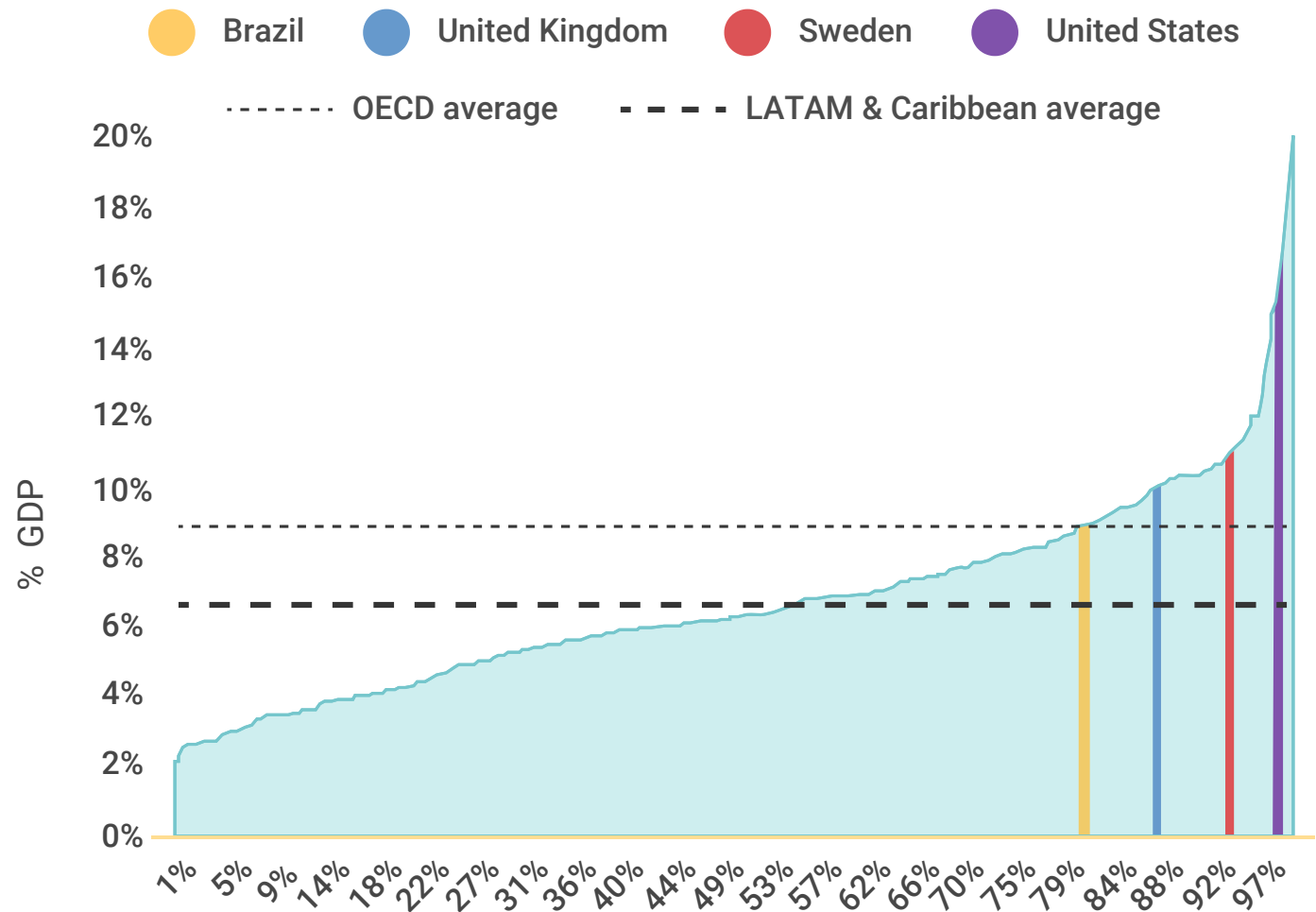
% population diagnosed with diabetes and hypertension 2013



Total public healthcare expense (% of GDP)



Total healthcare expense (% of GDP)

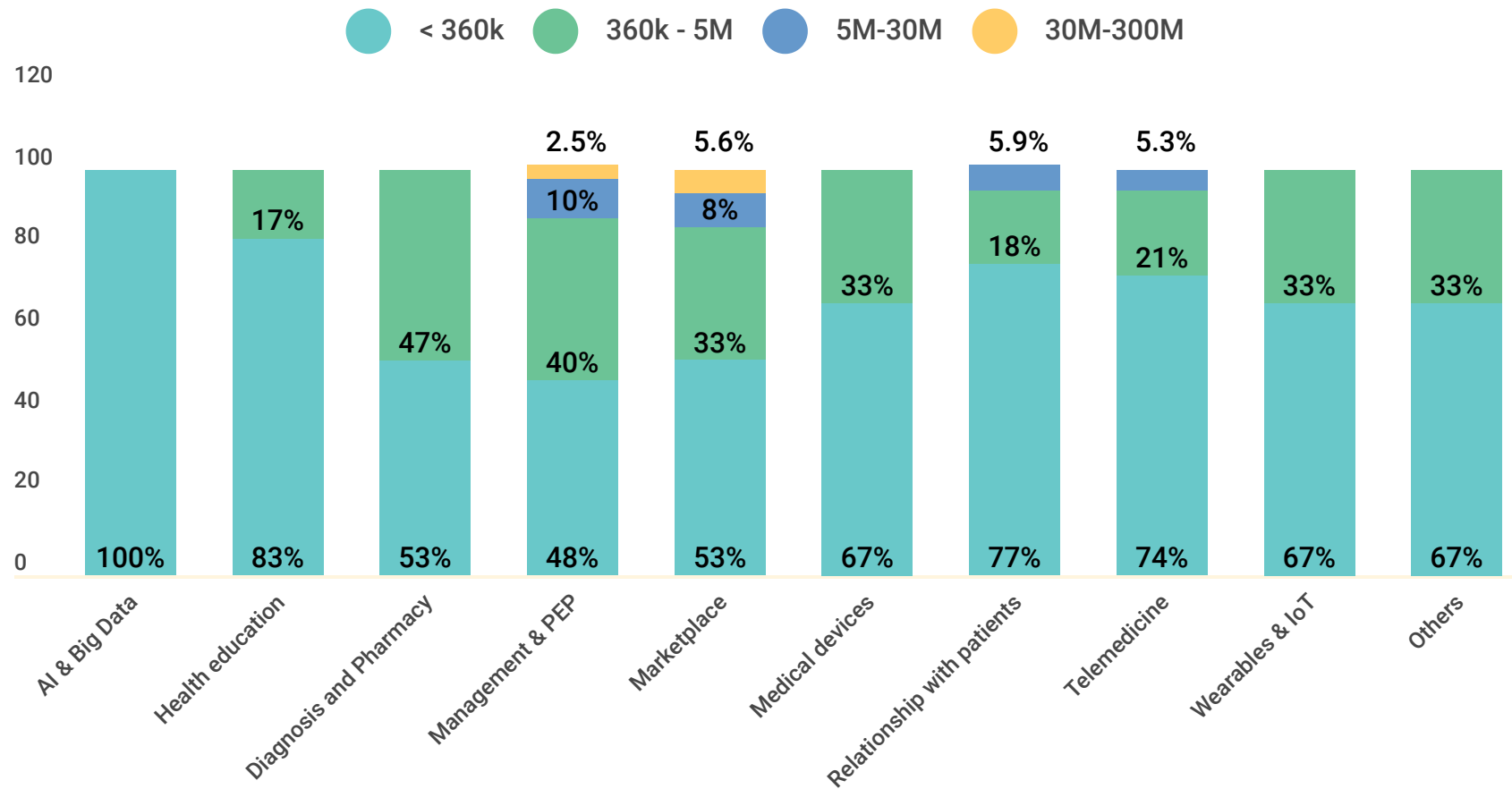


3.3 Healthcare-
Healthcare administration
problems – particularly in
Brazil’s national health network
that clusters 75% of users
– offer fertile ground for
healthtechs providing disruptive
solutions that are aligned with
global trends.

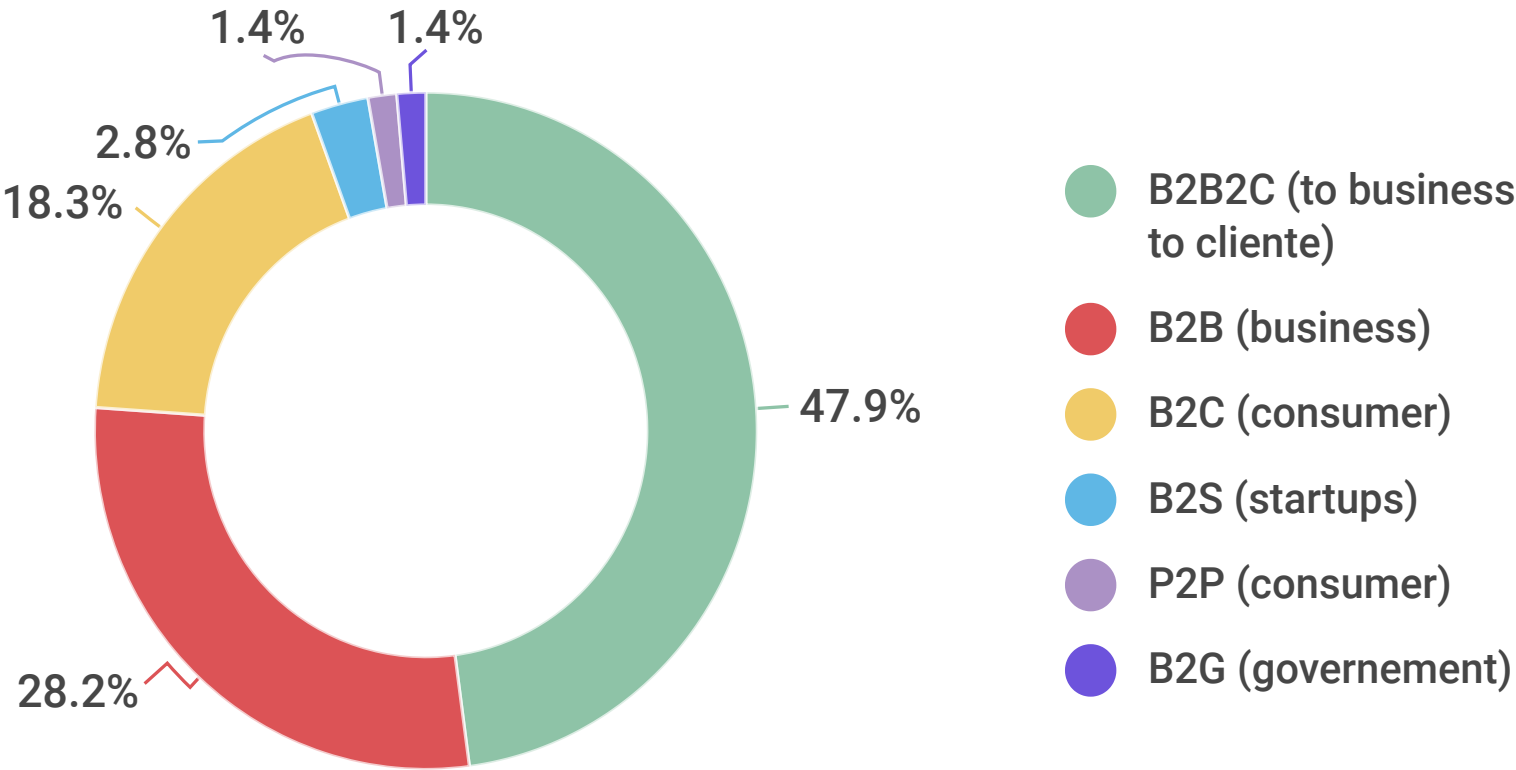
In 2018, Brazil’s healthcare sector posted R\$ 3.5 billion in investments and divestments. One of the most significant deals in this sector was the sale of part of its Intermédica stake by Bain Capital, with an almost sixfold increase in the capital invested in this healthcare operator in under four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

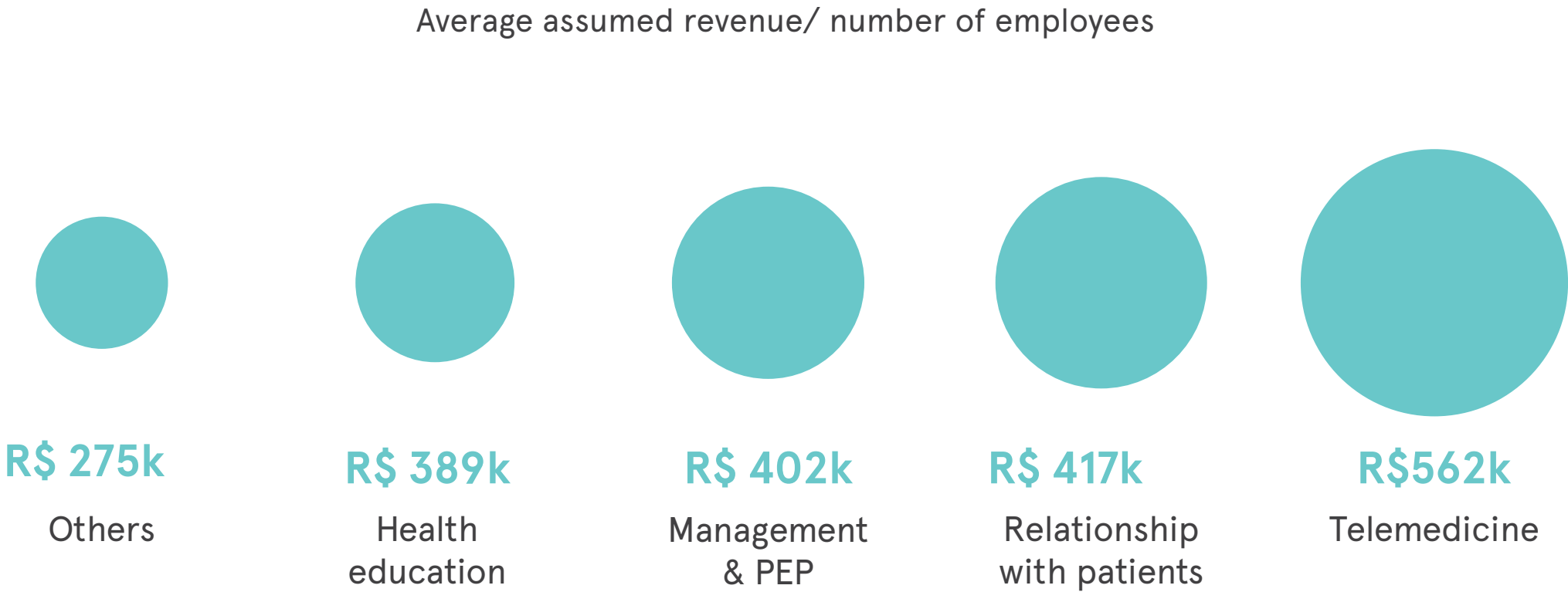
Presumed revenues comparison between categories



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.

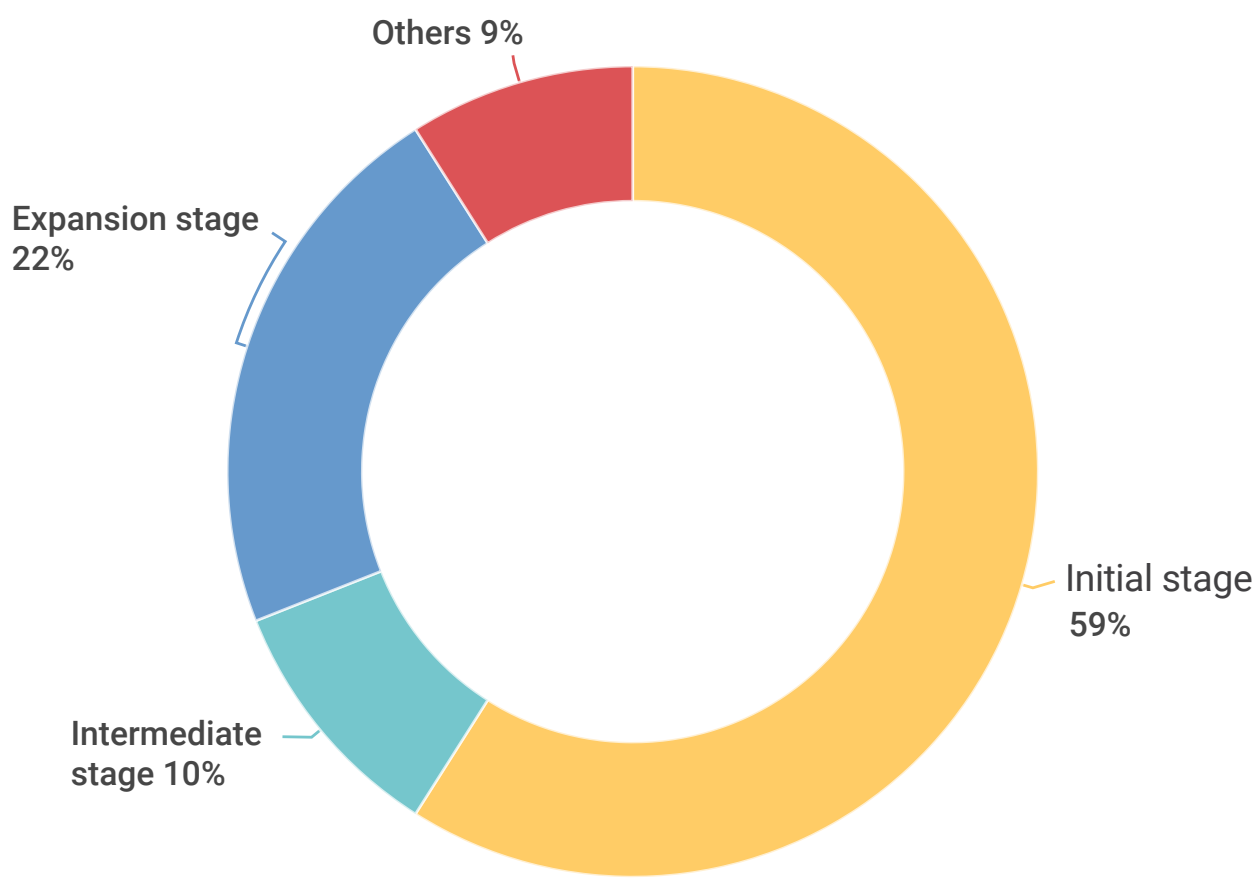
Brazilian fintechs are playing a leading role through creating solutions that are reshaping the future for companies and consumers. Regulatory changes are spurring competition, with the arrival of new players stirring up this industry.

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.

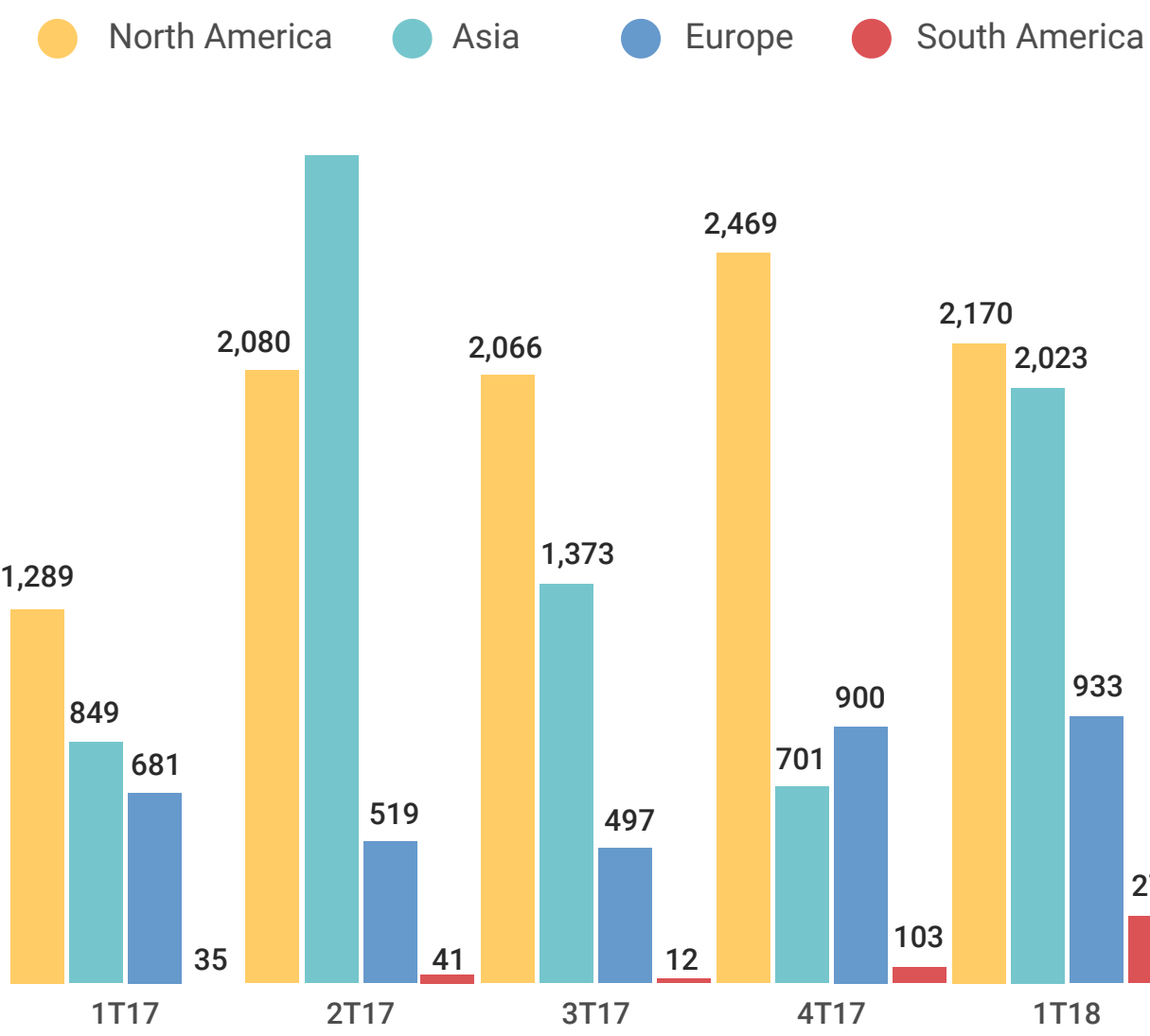
In 2013, the Brazilian Government promulgated Law N° 12,865, authorizing the Brazilian Central Bank to serve as a regulator. At the same time, a new regulatory framework was issued, introducing the concept of payment accounts and arrangements.

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.

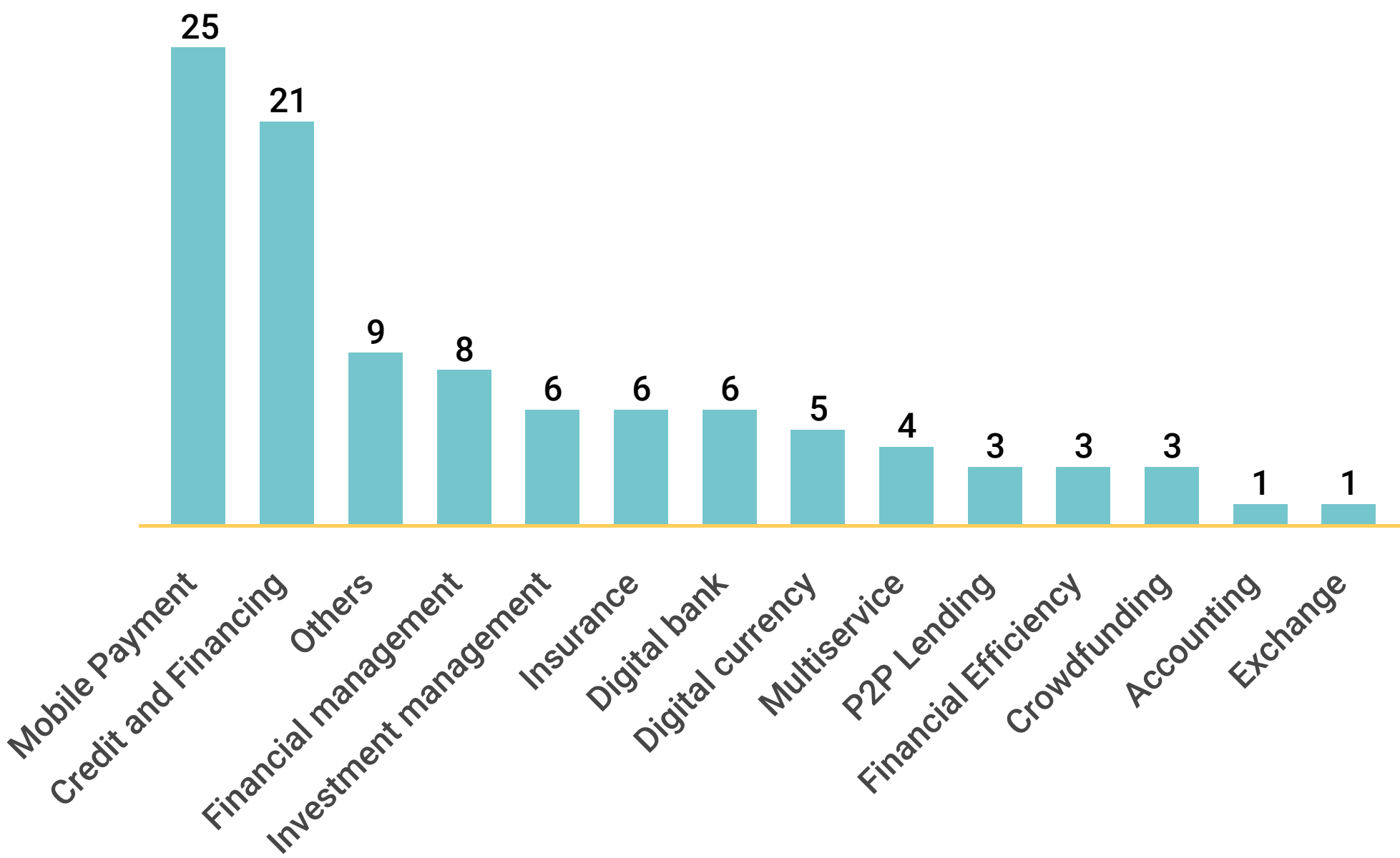
Fintech investment percentage by stage of business 4T17



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



Main segments of Brazilian fintechs FY18 (%)



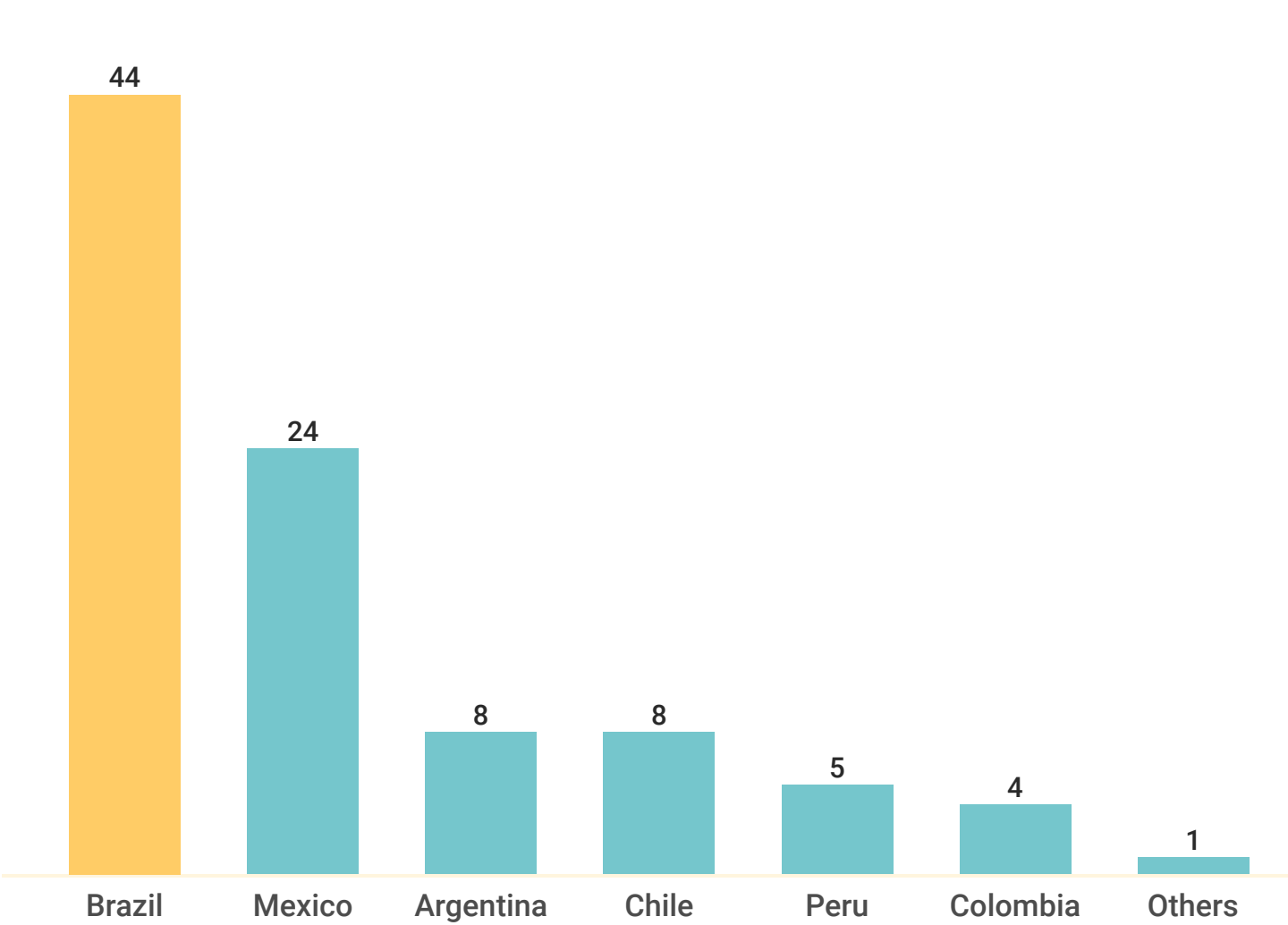
3.4 Fintech–
With Brazil heading up fintech investments in Latin America, solutions based on loans and payments platforms are still attracting the most attention from investors.

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.

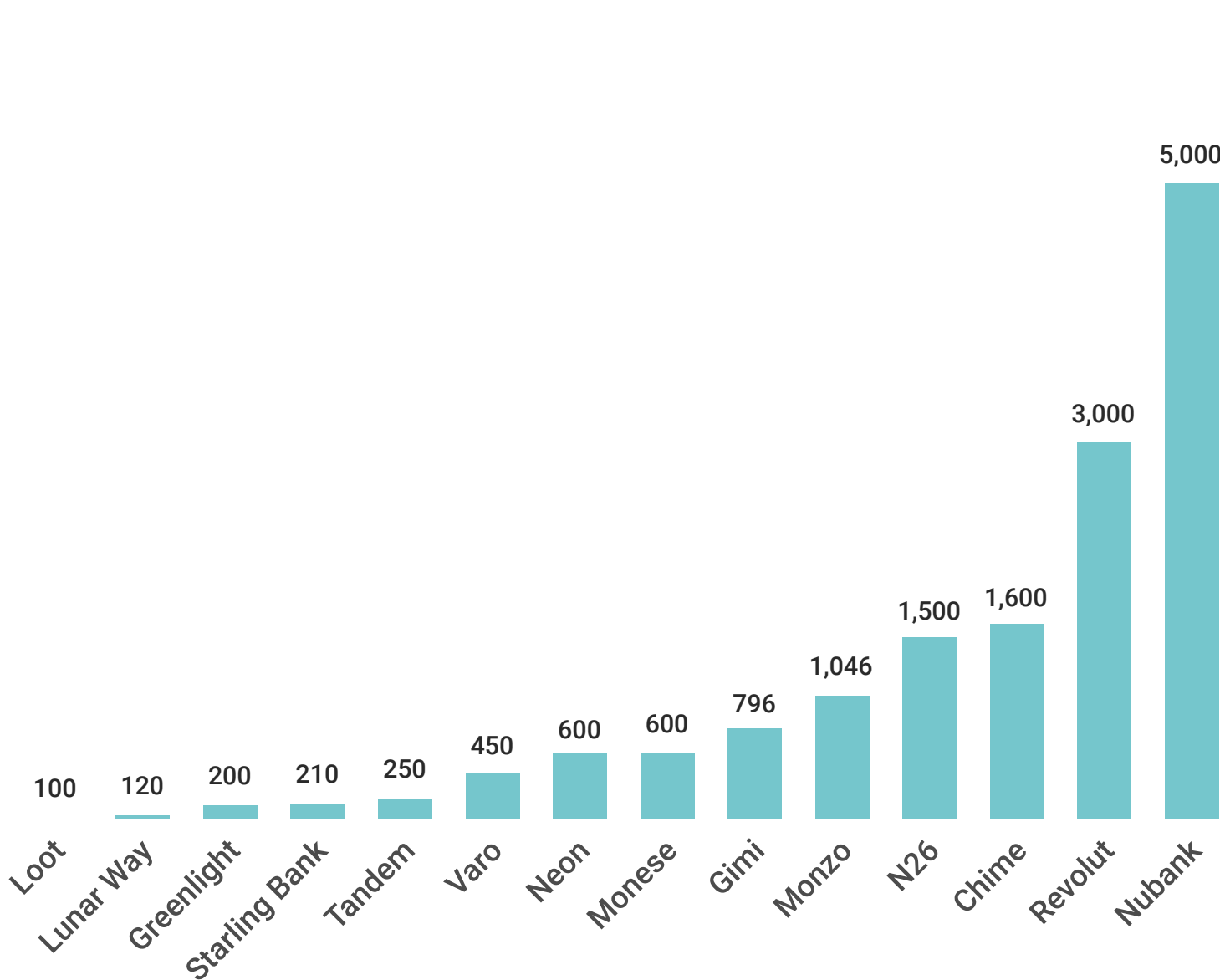
Loans and payments platforms continue to dominate investor interests in Brazil and – more broadly – in Latin America.

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



INFRA

Sector: Infrastructure



HIDROVIAS DO BRASIL | PÁTRIA

Set up as a holding company in 2010 by P2Brasil (which is a joint venture between Pátria Investimentos and the Promon Group), Hidrovias do Brasil manages investments in waterway logistics through a combination of greenfield projects, acquisitions and local partnerships. Its main focus is structuring long-term projects and implementing them from start-up through to full operations, along major waterway corridors in Brazil: North, Southeast, South and Paraná-Paraguay.

Investor profile: with a track record stretching back more than thirty years, Pátria Investimentos is one of the largest alternative investment managers in Brazil. A pioneer in the local private equity industry, it has gradually expanded its portfolio through setting up new businesses in the infrastructure, real estate, Public equities, agribusiness and credit solutions sectors.

Investment date: August 2010

Initial investment value: R\$ 100 million

Stake: 60%

Fund name: P2 Brasil Infraestrutura

Fund size: US\$1,15 billion

Assets under management (AUM): R\$30 billion (approx.)

OPPORTUNITY & TRANSACTION

Established in August 2010 by the Pátria fund manager and the Promon engineering company, Hidrovias do Brasil took an unusual step for an investment fund: starting a company from scratch. However, this model has been adopted by Pátria in other investments. Its first allocation of R\$ 100 million was handled P2 Brasil, an infrastructure fund set up in 2008, with its capital held by Pátria Investimentos (60%) and Promon (40%), for investments in the energy, telecommunications, logistics and transportation, oil and gas, and environmental services sectors.

IMPLEMENTATION & OUTCOMES

In December 2010, Hidrovias do Brasil allocated its first investment outside Brazil, purchasing a grain terminal in the Free Zone at Nueva Palmira, the second largest port in Uruguay. In 2012, it signed an agreement channelling investments to the company worth US\$ 220 million, through stock subscriptions over a three-year period by the P2 Brasil Infraestrutura investment fund, as well as other channels controlled by the Alberta Investment Management Corporation and Tomasek Holdings. Still in the pre-operating stage, Hidrovias do Brasil signed its first agreement with Vale do Rio Doce in July 2012, definitively squaring off in the dispute for the logistics operations market, with the main challenge of the business being attracting more customers to the waterborne transportation option. It agreed to render transportation services along the Paraná-Paraguay waterway on a take-or-pay basis for 25 years, handling annual volumes estimated at 3.25 million tons.

INFRA

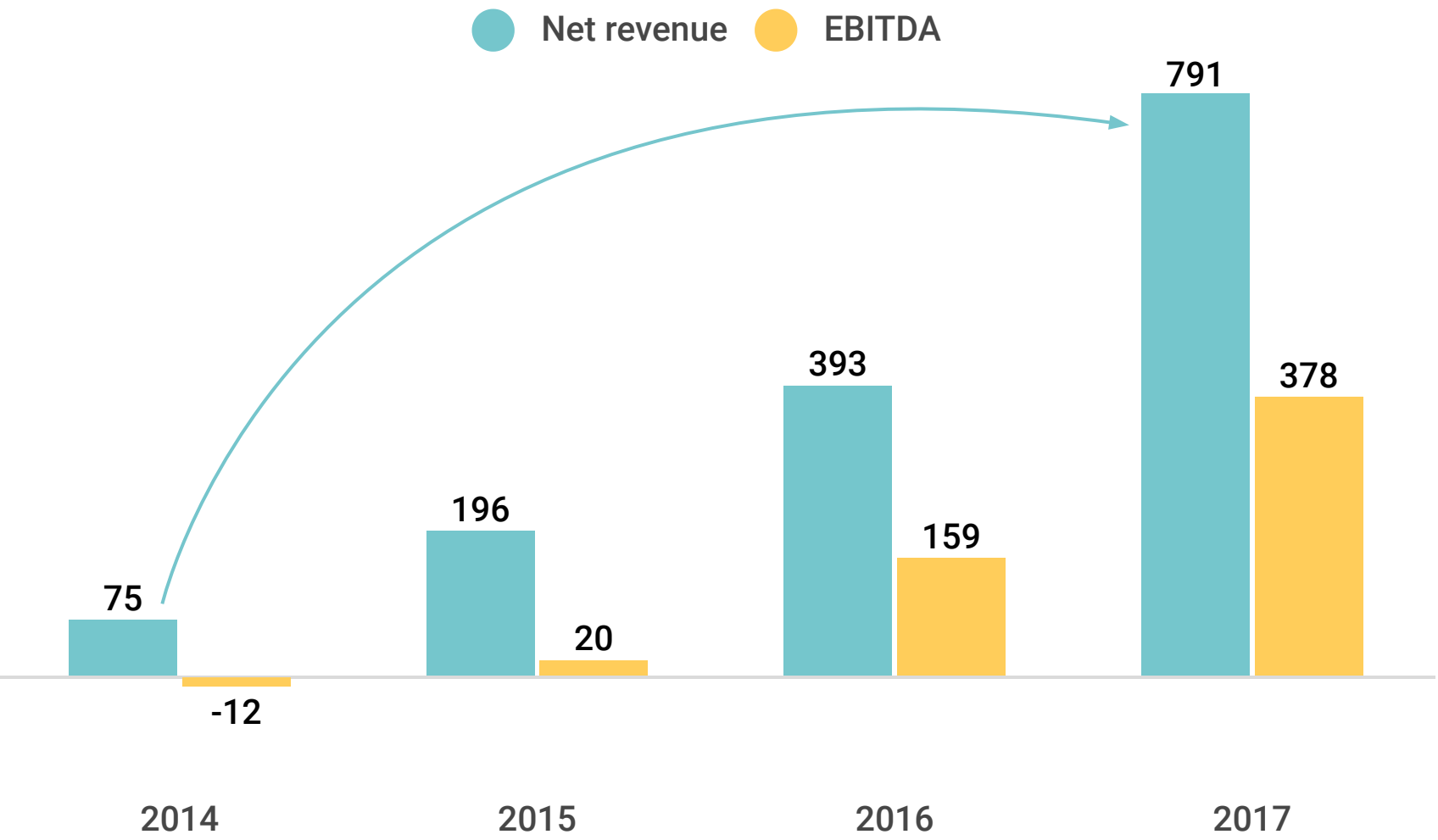
Sector: Infrastructure



In 2013, Hidrovias do Brasil began to post revenues, thus moving out of the pre-operating stage. It received financing for a contract with Vale, investing R\$ 800 million for carrying cargoes from Mato Grosso to Pará. Its net revenues reached R\$ 711,000 between April and June 2013. In 2014, Hidrovias do Brasil was authorised by the National Waterborne Transportation Regulator (ANTAQ) to build its first port terminal in Brazil. Located in the Barcarena municipality in Pará State, this is part of a total investment of R\$ 1.3 billion by the company in the logistics system in this region. Its new terminal and long-term agreements with major partners make the company more attractive for future sale. In addition to plumping up its asset portfolio, Hidrovias do Brasil diversified the scope of its operations by moving into the coastal shipping segment in 2016. Expanding rapidly through logistics operations in Brazil – particularly grains – its revenues reached R\$ 196 million in 2015.

In 2017, Hidrovias do Brasil posted revenues of R\$ 790.6 million, up 101.4% over R\$ 392.6 million in 2016. It managed to reverse its 2016 losses of R\$ 88.9 million, with net profits of R\$ 11.7 million in 2017 and a consolidated EBTIDA of R\$ 377.6 million, up 137.8% and accounting for 48% of its net revenues.

Net Revenues and EBITDA FY17 (R\$ million)



Source: company’s financial report

INFRA

Sector: Infrastructure



TCP | ADVENT

Set up in 1998, the Paranaguá Containers Terminal (TCP – Terminal de Containers) runs the containers terminal at the second-largest port in Brazil: the Port of Paranaguá.

Investor profile: Established in 1984, Advent International is one of the world's largest and most experienced private equity investors. This fund has invested in over 340 private equity transactions 41 countries, with a local presence and ample experience with investments in Brazil. Since opening its office in São Paulo in 1997, this fund has already invested in thirty Brazilian businesses in many different sectors.

Investment date: January 2011

Investment date: September 2017

Investment value: R\$ 835 million

Stake: 50%

Fund name: Advent Latin American Private Equity Fund V

Fund size: US\$1,65 billion

Assets under management (AUM): aprox. US\$ 39 billion (September 2018)

OPPORTUNITY

In 2010, TCP was operating the container terminal at the Port of Paranaguá, which is the second-largest port in Brazil, with an annual throughflow of around 675,000 TEUs and a total surface area of more than 320,000 square meters. It held a notable position in the field of international logistics, as it was operating a port large enough to handle most container ships, operating on international lines and also with shipping along the Brazilian coastline. Brazil's container market expanded by more than 10% a year at the start of the millennium, and by 2011 it was forecast to continue this expansion at an attractive rate, aligned with the forecast upsurge in Brazil's imports and exports. During the first nine months of 2010, Brazil handled 4.1 million TEUs, up 14.2% over the same period in 2009. For Advent International, TCP was a promising opportunity to create value through deploying ambitious growth strategies.

An association with Advent would allow TCP to speed up its growth and generate additional value for the business, which would lead to better services for its customers.

INFRA

Sector: Infrastructure



TRANSACTION

Having raised US\$ 1.65 billion to invest in Latin America in 2010, Advent International acquired 50% of the Paranaguá Containers Terminal (TCP) for R\$ 835 million which was appraised at US\$ 1 billion, for this transaction. Advent paid in R\$ 700 million cash, with the remaining R\$ 135 million being paid off in tranches during the next two years. This entire investment was handled by two Advent funds focused on Latin America: LAPEF IV (US\$ 1.3 billion), and LAPEF V (US\$ 1.65 billion). Some of this investment was earmarked for buying up part of the shares owned by the TCP shareholders at that time: Pattac, TUC Participações Portuárias, Soifer, Grupo Marítimo TCB and Galigrain. The remainder was channelled to its cash flow, in order to speed up its investments.

IMPLEMENTATION

In Latin America, as well as other parts of the world, Advent adopts an active management approach to its investments, supporting companies for the administration of its portfolio in fields such as corporate governance, strategy, operations and financing. The Advent investment was intended to allow TCP to expand its capacity significantly, while upgrading productivity through a set of initiatives. With its handling capacity stretched to the limit, the plan was for TCP to move beyond its annual capacity of 700,000 TEUs (the standard unit for a 20-foot container) in 2010 to 1.2 million TEUs a year. To do so, a plan for investing R\$ 185 million was slanted towards the construction of a new mooring berth for vessels 315 meters long, together with the acquisition of new equipment for the terminal. Moreover, a new

business department was set up in order to locate assets along the supply chain, such as warehouses and carriers, reaching the target of doubling its revenues by 2014. The initial priorities focused on the consolidation of the new corporate governance requirements and anticipating investments, which might reach R\$ 365 million. In 2016, Brazil's Waterborne Transportation Regulator (ANTAQ) authorised the renewal of the agreement for a further 25 years, from 2024 onwards, when the lease period would expire. In exchange, TCP agreed to disburse R\$ 1.1 billion in two phases, raising R\$ 588 million in debentures for this purpose, through an issue proposal with a long-term AA-score from the Fitch risk rating agency.

RESULTS AND DIVESTMENT

In 2016, it proved that it had matured from the governance and capital structure standpoints, with a terminal expansion project that included a planned increase in its annual handling capacity, up from 1.5 million TEUs to 2.5 million TEUs by 2019. As a result, the terminal expected to keep pace with modern requirements and enhance the efficiency of the limited large-scale container terminals market in Brazil. At that time, Advent decided to exit this asset, with its sale included in a strategy of directing the asset still with a high EBITDA, before the arrival of a competitor lowered the value of the business. In September 2017, China Merchants Port Holdings acquired 90% of TCP for R\$ 2.9 billion, with an implicit enterprise value of R\$ 3.9 billion.

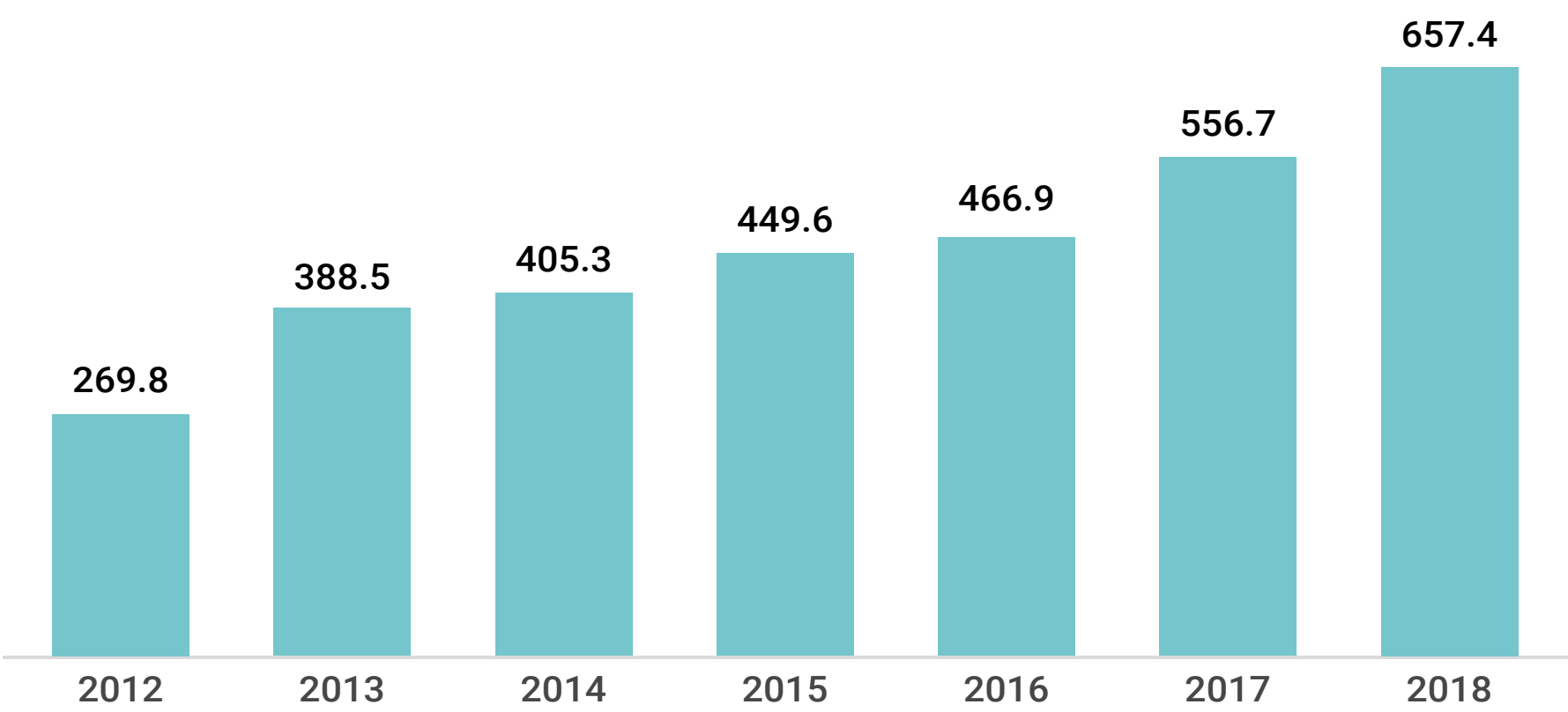
INFRA

Sector: Infrastructure

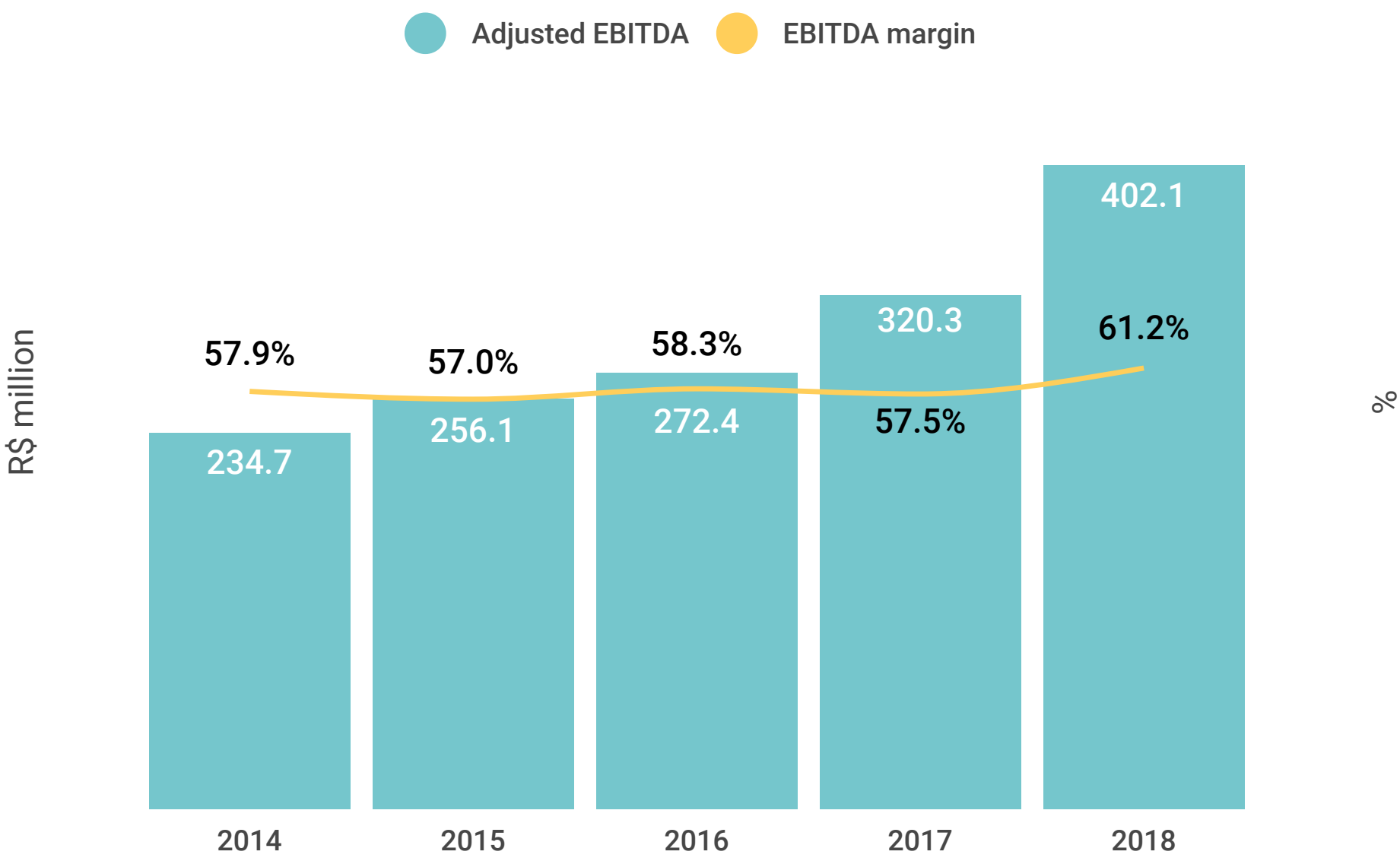


This transaction was the first step of this port operations giant into the Brazilian port sector, involving the purchase of tranches of Advent International (the TCP controller with 50%) with a further 40% in the hands of its minority shareholders. TCP was appraised at R\$ 4.1 billion – R\$ 3.2 billion for 100% of its shares plus R\$ 900 million in debt. When Advent acquired 50% of TCP in 2011, the asset was valued at R\$ 1.3 billion. Since then, the company has paid out dividends of over R\$ 900 million. For the fund, the sale was an opportunity to monetise its 2011 investment, with significant value created through growth and improvements in KPIs. This transaction was one of the most successful conducted by Advent in Brazil, as it involved appreciation of 14.3x in the EBITDA.

TCP Net revenue evolution FY14–FY18 (R\$ million)



TCP evolution of operational indicators FY14–9M18



Source: company’s financial report

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