

**PLUS:**

Plunging Valuations Mean Opportunity  
Looking Beyond Brazil  
Understanding Small Brazilian Companies

# SPOTLIGHT

## On Brazil

Where Private Equity is  
Finding Opportunity  
Amid Turmoil

**WITH EXPERTS FROM:**

Victoria Capital  
Performa Investimentos  
TMG Capital  
GP Investments

**T**he bad news seems to keep piling up for Brazil. Asian demand has slipped and commodity prices have crumbled, harming a natural resources-heavy economy; the Brazilian real has plummeted; a political crisis is unfolding, including an attempt to impeach President Dilma Rousseff; and the head of Brazil's most successful financial institution, BTG Pactual, has been arrested on corruption charges.

Yet it would be too easy to list these calamities as reasons to avoid the Brazilian private equity market. Too easy, because, while macro shocks do indeed influence private equity outcomes, they do not control them. What investors should first see amid the chaos is a relatively large, well established population of private equity managers in Brazil who have guided portfolio companies through tough times, are largely focused on consumer-driven businesses in the middle market, and may be facing an incredible buying opportunity.

Across Latin America, it is hard to find GP groups with more than one or two funds under its belt; Brazil has many. You will read commentary from some of these managers in this report, which is presented in partnership with ABVCAP, the nonprofit representing Brazil's PE and venture capital industry.

As Carlos Garcia, a partner at Victoria Capital, says in these pages, "Brazil is such a large and diversified economy, it is impossible not to find good opportunities along the [volatile] ride."

Amid the scary headlines, it is easy to forget that good returns in private equity tend to be born during macro turmoil, though typically only the very best GPs have the connections and intellectual infrastructure to be able to put capital to work.

Keep a close eye on Brazilian deal activity in the coming months, because you will most likely see news of investments that will later inspire envy among those who sat on the sidelines, and who then flood Brazil with capital as the boom nears its peak.

Enjoy the report,

### **David Snow**

CEO & Co-founder  
Privcap Media  
@SnowsNotes

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# Finding Opportunity Amid Turmoil in Brazil

**Luiz Viana** of Brazilian-based TMG Capital talks to Privcap about private equity in the South American country, and about where his firm sees opportunity amid a recession and a political transition



**Luiz Viana**  
President and CEO,  
TMG Capital

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interest rates are significantly high. There is a fiscal adjustment on the way that creates an environment of a lack of capital. Public markets are not open, given the circumstances, and our companies struggle to finance growth or investments or acquisitions. Having said that, that's part of what I call the cyclicalities of emerging economies—Brazil being a specific case where the cyclical aspects also affect mature economies. Having this environment today is not friendly to exits. It is, on the other hand, a very good time to deploy capital.

**So the public markets are somewhat closed for exits at this point and for basically any IPO. What does that mean for new deal flow for you?**

**Viana:** There are companies in certain situations and certain sectors that continue to grow—not all of them. The companies that are in sectors that are affected by the fiscal adjustment, they're flat, and some of the sectors are even posting negative growth. The bio-tech, pharma, education, healthcare, analytics, and consumer products companies have a hard time finding the necessary capital to fund growth, be it organic or [through] acquisition. But that doesn't mean there aren't other sectors that continue to grow.

And that also doesn't mean that there aren't exits. The strategics are looking at Brazil, just not over the next two or three years—maybe a decade. So you can make the statement that we are probably going to get back to growth in two or three years down the line, which, as a consequence, makes this window that we are going through right now a good moment for deployment of capital.

**You have an investor base that includes international investors.**

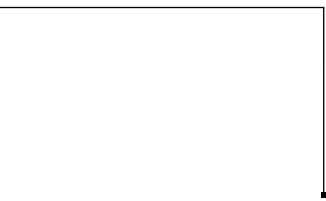
**What kinds of questions do they have for you about what's going on in Brazil?**

**Viana:** First is a question about the future of financial sponsors in a market with that kind of cyclicity. The second question is, about dealing with currency fluctuation. The third: how do you deal with the fact that the concept of leveraged buyout in an economy where interest rates are really high is not a feasible concept? And therefore, how do you generate value for investors and shareholders?

The answer is pretty much related to our strategy. We look at those events—be it macroeconomic turmoil, like the hyperinflation of the '80s; a situation, like today, where you have the tax burden and the reforms are still uncertain. That's my answer to investors, and I think I've been [listened to] until now. ■

“There is a fiscal adjustment on the way that creates an environment of a lack of capital. Public markets are not open”

– Luiz Viana, TMG Capital



**Privcap: The Brazilian economy has slowed down, like many other emerging markets. What has this done to the private equity industry, and what is your mood about the current state of affairs?**

**Viana:** Well, Brazil is now facing what can be called a recession and a crisis. But more important than other situations, it's a crisis that is not just economic. It's actually a political transition. And by that, I mean the fact that we are confronting issues as a country that are extremely relevant for the future.

The country has also been confronting corruption. We're making significant progress. More and more, I see the country dealing with the relevant questions, and that will eventually lead to a more stable, more mature environment for economic development and growth.

**So, in the meantime, what does all this mean for the private equity industry in Brazil?**

**Viana:** If you look at the short term, we are facing a situation that creates adversity. Why? First of all, because

# Amid Turmoil, Capital and Expertise Take Center Stage

A challenging economy means that struggling businesses may need PE more than ever, says **Eduardo Alcalay**, managing director and head private equity at **GP Investments**



**Eduardo Alcalay**  
Managing Director,  
GP Investments

**Privcap:** Your firm is a Pan-Latin American investor. You're based in São Paulo, and you were one of the original private equity firms in Brazil. First of all, can you give us a sense of what percentage of your capital goes outside of Brazil versus in Brazil?

**Eduardo Alcalay, GP Investments:** Well, we have only invested a small percentage of our capital outside of Brazil. We've made an investment in a Pan-Latin American oilfield service company, but that was a while ago. We have been focusing on Brazil. Going forward, we may look especially at the Andes—Peru, Colombia, and Chile—as [well as] other regions. But we are mostly focused on Brazil.

**Brazil is obviously going through some economic turmoil. What is the mood among business leaders in Brazil, and what opportunities do you think that presents for private equity firms?**

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**Alcalay:** The mood is quite challenging right now. People are concerned. Business confidence is at record lows because of all the problems and the challenges ahead of the country in terms of a macro as well as micro environment. Interest rates are high. Economic activity is going backwards. But at the same time, Brazil is a very dynamic economy. New segments are being developed, so business owners need capital either to strengthen their businesses or to fund a consolidation process.

More and more, they need capital, together with managerial improvements, long-term, robust execution capabilities, and so forth. And that's where we get in.

**Are you able to find companies that are growing quickly, despite the macroeconomic conditions?**

**Alcalay:** This is sort of counterintuitive, but yes. Brazil is a relatively young economy compared to the U.S. or Europe. You have many, many business segments—like consumer financial services, education, healthcare, technology, and infrastructure—that regardless of an overall macro-negative environment, segments are growing, because they have a big demand relative to supply.

And yes, you find some great champion companies that have growth ahead of them. They need capital. There is no public capital out there, there is very scarce credit capital out there, and they need strong managerial support. So we're pretty busy.

**Having been in the private equity business in Brazil for a couple of decades, how have you seen the attitude of business owners and entrepreneurs**

“Interest rates are high. Economic activity is going backwards. But at the same time, Brazil is a very dynamic economy.”

—Eduardo Alcalay, GP Investments

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**change toward private equity? Are you having more natural conversations with potential sellers now than you did maybe 15 years ago?**

**Alcalay:** If you compare Brazil to other Latin American countries, from Mexico down to Chile, I think Brazil has had a more open mentality from the business owners toward a good-quality

potential partner. So we've been getting more and more business owners open and willing to entertain conversations, willing to consider doing private equity deals. In a very big, challenging environment, business owners more and more understand that, because they are facing succession problems in their family-held companies or because they want to take their companies to another level in terms of growth, in terms of development. And they are thinking about institutionalizing their companies with a long-term view.

**Since you also invest outside of Brazil, I'm interested in where you see pockets of strength and pockets of opportunity for your style of investment.**

**Alcalay:** Colombia and Peru—they've been performing quite well. They've done great macro adjustments in their policies, in the economy over the last 10 years. And the results are both industrial and consumer markets in those countries doing well. And again, companies are growing, markets are consolidating, and so forth. And there are good pockets of opportunities there.

Chile, even though it's much smaller than Brazil, is a fairly more developed country with highly professional business conglomerates, pension funds, and the like. It's a more expensive market, but still with good opportunities, because the economy and the country function pretty well.

The Andes—Chile, Colombia, and Peru—account in aggregate for more or less a third of the business activity [and] private equity investment [outside] of Brazil. So they are relevant in aggregate. But again, Brazil is where we are locals and where the big mass market remains our most important focus. ■

# The Most Valuable Commodity in Brazilian PE: Discipline

Turmoil in Brazil will bring asset valuations down even further, says **Carlos Garcia**, co-managing partner and chairman of **Victoria Capital**. However, being the largest economy in Latin America, it will still be possible to find good opportunities in the country.



**Carlos Garcia**  
Co-Managing Partner & Chairman,  
Victoria Capital

**Privcap: What's your analysis of Brazil's economic landscape?**

**Carlos Garcia, Victoria Capital:** Brazil clearly is going through a very difficult period. Not only because of macroeconomic conditions related to commodities and capital flows, but most importantly because it's going through some political turmoil or crisis. It's very difficult to predict what is going to be the end of the story, and when we are going to reach the end of it. So we're going to see more volatility, and perhaps a little bit more of a decline in values in the assets in Brazil.

Having said that, Brazil is such a large and diversified economy, it is impossible not to find good opportunities along the ride. What is critical is that you need to be disciplined, because we are in a volatile environment and you never know when you may hit the bottom. And asset prices should come down even further. So the opportunities are there, but you need to be disciplined and pull the right trigger. ■

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—Carlos Garcia, Victoria Capital

# Taking Big Ideas Global

São Paulo–based venture capital firm **Performa Investimentos** has found a recipe for success: taking Brazilian companies global before they become too big at home.

**Privcap: What are the opportunities in Brazil amid the country's economic crisis?**

**Eduardo Grytz, Performa Investimentos:** First of all, Brazil and Latin America have very large economies and a very large population base. Brazil alone has 200M people. These people have to eat, feed, and produce independently. So now they will have a greater focus on efficiency and cost reduction. This opens a very good space for what Performa does right now, which is innovation investing. It's the time to bring in new solutions that can allow more efficiency in industries like IT, health-care, and agritech.

[Brazil has] one of the largest agricultural industries in the world and is one of the most sophisticated in terms of investments in productivity and efficiency. Now is the right time to invest in infrastructure or commodities-

related subjects in Brazil, as the assets are becoming cheaper. But in five or 10 years' time, we expect that parity will prevail. The economy will not disappear. We have a mix of fiscal imbalance with the political crisis, and both of them are not serious [enough] to jeopardize institutions of the country or the long-term stability we have. It can be a good moment to capitalize on the opportunity in the crisis.

**Are there certain parts of the culture that international investors need to understand before they go into Brazil and try to join funds or buy companies?**

**Grytz:** The region is very relationship-based, so you depend on people helping you to get to the right opportunities and situation on a business level. This is very important. When you come to the United States, if you are good enough and have an opportunity



**Eduardo Grytz**  
Founding Partner,  
Performa Investimentos

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to sare, you can get to anyone and the door is open—at least for a first conversation. That’s not necessarily the case in Brazil and Latin America.

[The level of] bureaucracy is high and significant. People don’t factor that correctly when they think about the time it takes to open up a company and to shut down a company. Labor costs and labor liabilities are very high. Tech costs are significant. How this composite impacts a business opportunity is not necessarily clear to an outsider. And a local partner helps build credibility when talking to other parties in Brazil and Latin America.

**One of your theses is to take Brazilian and Latin American companies global. How do you propose doing that in your next fund?**

**Grytz:** What we see is the growing interest of international funds in themes where Latin America has expertise—for example, agriculture, healthcare, and some segments of IT. In the region, we have the opposite. We have a lack of capital availability. Interest rates are very high. There are still not a significant number of venture capital funds, angel investors, or agents. Successful companies from Brazil and the

region that manage to go into the next phase cannot find abundant local capital.

In the last four or five years, Performa has been developing relationships with international venture capital firms so that we can bridge the companies that we find best in the region.

[There was] one software company we incorporated directly in Silicon Valley from the start. We have a second company where we are negotiating an investment from an Israeli fund. And we have a company where we took ethanol technology from Belgium and brought it to Brazil, alongside the investment of three venture capital firms from Belgium.

**Can you give me an example of a company that you were successful in creating value for?**

**Grytz:** The software company Goboxi that we incorporated in Silicon Valley. It’s from an entrepreneur, Christian, who at 14 years old was the youngest Microsoft-certified professional in the world. At 19 he sold his company. He then had a health problem and decided to focus his energy and time on his condition. He learned everything about it. He’s a Mensa guy, so a top

“Now is the right time to invest in infrastructure or commodities-related subjects in Brazil, as the Brazilian assets are becoming cheaper at this very moment.”

–Eduardo Grytz, Performa Investimentos

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2 percent IQ. And he set up his own productivity-management system in theory and software.

We talked to him and got to know him, and we really liked him as an entrepreneur. But he didn’t know anything about venture capital investments and how to build up a company. We convinced him to separate and spin off his software company from his consulting business.

We took him to Silicon Valley to talk to some funds to help shape the model, and we convinced him to incorporate his company. Now this company is receiving investments from angel investors in Silicon Valley. ■

## About Privcap Media

Privcap is a digital media company that produces events and thought-leadership content for the global private capital markets. Privcap Media offers communications services to market participants.

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The Most Valuable Commodity in Brazilian PE: Discipline



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Brazil has today more than **150** active private equity and venture capital management firms that invested in more than **1500** companies. These funds have capital from the top **20** institutional investors of Brazil and the leading Limited Partners worldwide. In the last **10** years, more than **50** private equity-backed IPOs were made raising approximately **R\$35** billion.

The early stage segment is advancing fast with more than 3.500 start-ups, 300+ incubator and 25+ accelerator programs in the country.

The ecosystem is here.

The opportunities are here.

**Come learn and update yourself on how seasoned managers are reaping the benefits amid the turmoil.**

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