Deals

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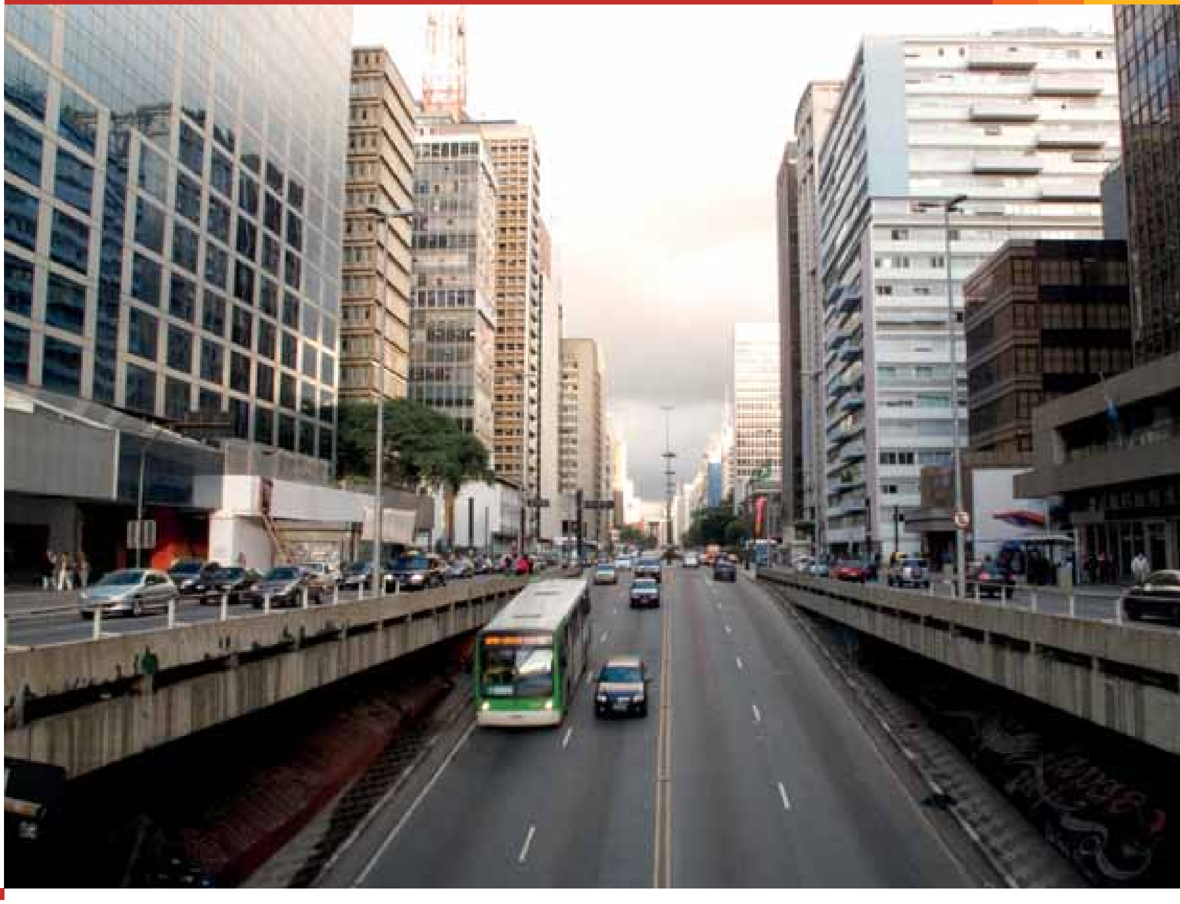
# *Shifting centre of gravity*
# Mergers & Acquisitions in Brazil—A Canadian perspective

February 2011



# *Contents*

# *Introduction*

Brazil is a nation transformed.

On its current growth trajectory, we expect Brazil's economy, measured by GDP, to outpace all other G7 nations, except the US, by 2050. This South American giant's growth story is, like other BRIC nations, based on strong economic fundamentals and a dynamic emerging consumer class. Brazil, however, is unique among other emerging nations for its wealth of food, energy and mining commodities.

Brazil's unfulfilled domestic demand, hyper growth potential and globally competitive returns have spurred M&A action, both inbound and outbound, during the past decade. However, only a select group of Canadians have been actively dealmaking with Brazilians. Rather than dwell on the reasons and implications of historic precedent, PwC's perspective is that Canadians are well-positioned to share in Brazil's growth. A number of emerging deal drivers suggest that transacting with Brazil will be a promising new frontier for Canadian dealmakers.

The aim of this publication is twofold—to provide insight into Brazil and, perhaps most importantly, to share our view on opportunities in Brazil for Canadians. We look forward to having a continued dialogue with Canadians on this fascinating part of our world.

**Kristian Knibutat**
National Deals Leader
Canada

# *Our Perspective:*
# The time is right for Canadians to step onto the global stage

> ***"We've moved to a multipolar world in terms of economic power, and this is not a temporary shift."***
>
> ***Mark Carney***
> Governor of the Bank of Canada, September 2010

The global economic centre of gravity is shifting:

- We expect an uneven global recovery, characterized by strong growth in emerging markets and weak growth in advanced economies.
- We expect that by 2020, the E7 Economies[1] will be larger than the current G7[2,3].
- We expect that the US will be surpassed as the world's largest economy by 2020, by at least one of the E7[3].

Canadians must capitalize on this global realignment or we risk being left behind:

- Canada remains overly reliant on slow growing G7 nations, especially the US.
- This reliance is not borne of necessity; Canada is extremely well positioned to share in E7 growth. Consider that Canada is:
  - A global leader in resources, including energy, mining, chemicals and agriculture—the building blocks for emerging market industrialization and urbanization;
  - Fiscally stable, with the strongest balance sheet among the G7;
  - Home to a stable, functioning banking system and a well capitalized corporate sector, arguably the best in the world; and is
  - Extremely well regarded by the international community.

Our view is that M&A, in addition to or instead of organic growth, should be explored by Canadians as a means to tap into emerging world growth. This report is the second[4] in a series exploring the dynamics and logistics of M&A with the emerging world, from a Canadian perspective.

Fortune favours the brave[5]. It is not time for Canada to rest on our laurels—it is time to step onto the global stage.

[1] E7 = China, India, Brazil, Russia, Mexico, Indonesia and Turkey

[2] G7 = US, Japan, Germany, UK, France, Italy and Canada

[3] Economies measured by GDP at Purchasing Power Parity (PPP) terms

[4] The first report is *Shifting centre of gravity: Mergers & Acquisitions in India – A Canadian Perspective*, 2010. www.pwc.com/ca/IndiaDeals

[5] Adapted from remarks by Mark Carney, Governor of the Bank of Canada, September 2010

# *Brazil's economy – The real deal?*

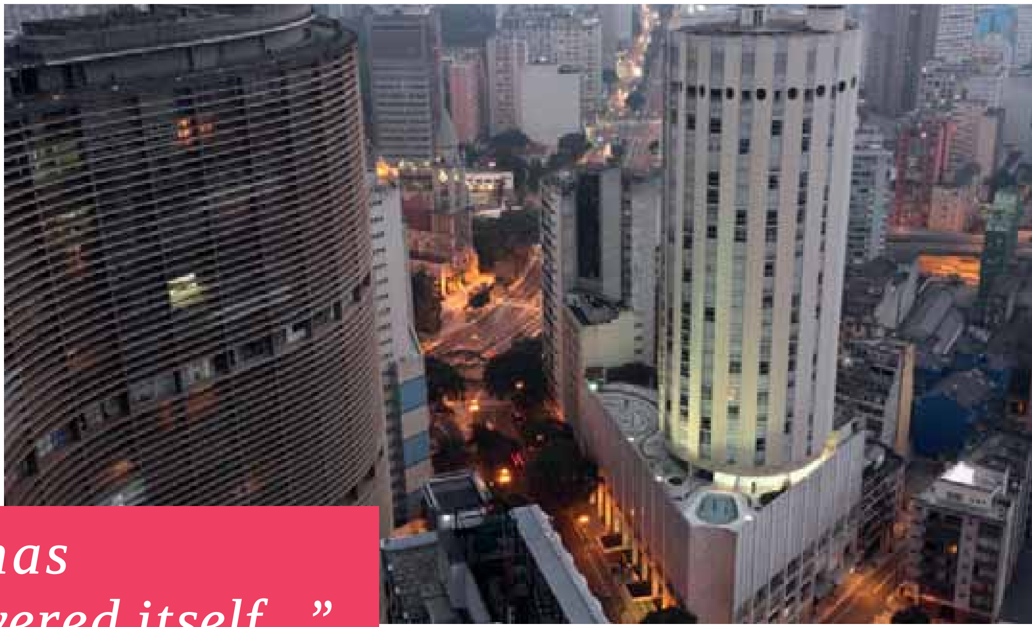
By 2050 we expect Brazil's economy, measured by GDP, to outpace all other G7 nations, except the US.

# Take a second look at Brazil

At one time characterized by macro-economic instability and closed trade policies, Brazil's economy is now among the strongest globally. PwC forecasts that Brazil will achieve more than 7% economic growth this year, eclipsing growth rates in Canada and all other developed nations. By 2050 we expect Brazil's economy, measured by GDP at PPP, to outpace all other G7 nations, except the US.

***Economic Snapshot***

Brazil's evolution began in earnest in the mid nineties and was briefly interrupted by the 2008 credit crisis. During this period, government commitment to sound policies, including the introduction of the modern day real (initially fixed to the US dollar) effected manageable inflation, an accumulation of foreign reserves, a reduction in debt profile (vis-à-vis a shift in debt burden toward real denominated and domestically held instruments) and enviable growth across nearly all economic metrics. Consider that in 2006 Brazil's GDP outpaced inflation for the first time in 50 years and in 2008 Brazil became a net external creditor. Last year, the nation was rated investment grade, for the first time, by all three main rating agencies. The Brazilian government's successful strategy was amplified by a steep appreciation in the prices of energy, mining and agricultural commodities—key drivers of Brazil's economy.



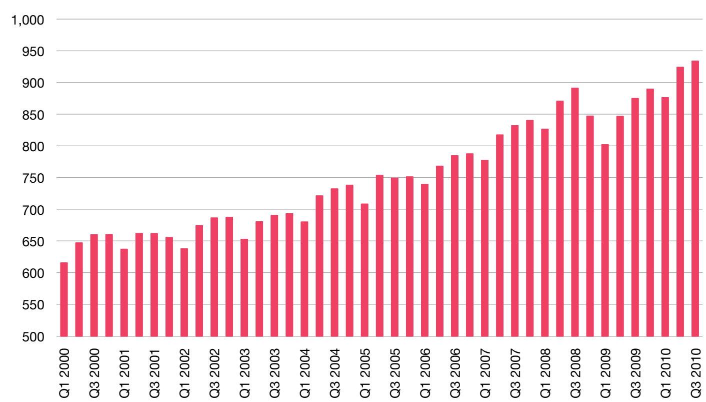
*"Brazil has rediscovered itself..."*

***Luiz Inacio Lula da Silva***
Former President of Brazil

# Economic snapshot

From Q3 2009 to Q3 2010, real quarterly GDP grew at an annual rate of 6.74%.

Figure 1: **Real GDP by quarter – (US$ billions)**



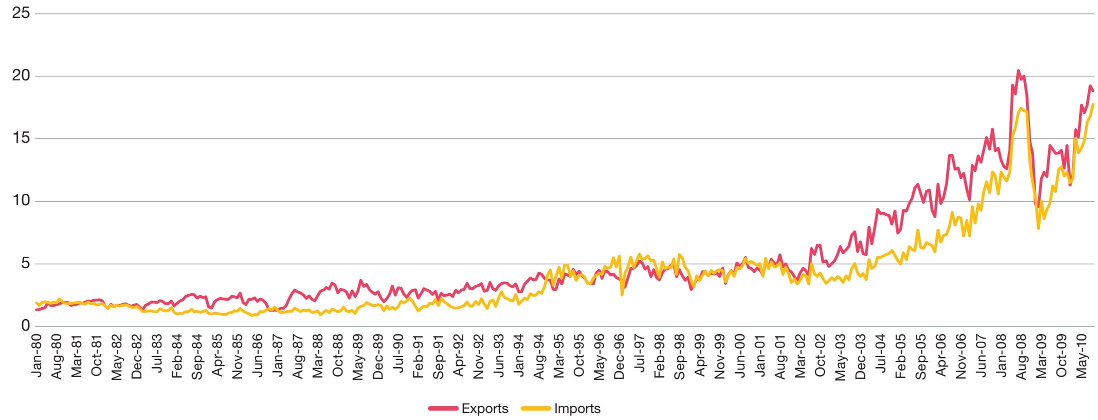

**Source:** Capital IQ, PwC Analysis

Between 1990 and 1995, inflation in Brazil averaged 764% per year. In 1993, inflation hit a high of 2,489%. Inflation in 2010 averaged 4.2%.

Figure 2: **CPI**


**Source:** Brazilian Central Bank

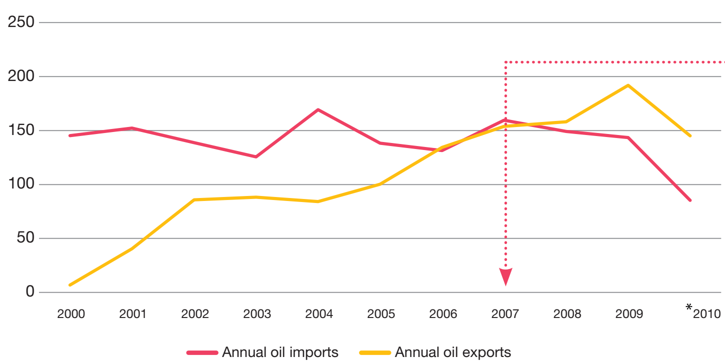
Figure 3: **Exports and imports (US$ billions)**




**Source:** World Bank

A combination of tightened import controls, real depreciation, oil discoveries and a fall in domestic demand induced by the restrictive macroeconomic policies of the early 1980s resulted in a sharp adjustment in Brazil's external accounts.

Figure 4: **Oil imports vs exports (million of barrels)**

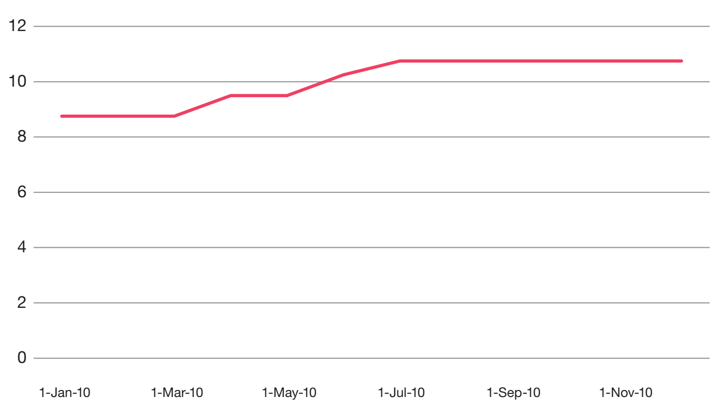



**Tupi oil field discovery off the coast of Rio de Janeiro**

**Source:** Agencia Nacional do Petroleo Gas Natural e Biocombustiveis
* Current to December 1, 2010

Brazil joined the ranks of the world's few energy independent nations in 2006.

Figure 5: **Sistema Especial de Liquidacao e Custodia (%)**




**Source:** Bloomberg

Brazil's central bank has elevated its reference Selic rate to 11.25% in January 2011, in an effort to stem inflation pressure and prevent overheating.

> *"No doubt many foreign oil companies will come to Brazil... Compared with many places they do business, Brazil is a model of predictability, good regulation and respect for contracts."*
>
> ***The Economist***
> November 2009

> *"I buy gasoline only if I can't get anything else... Gasoline is always the last option."*
>
> ***Alexandre Rigueirra,***
> a Sao Paulo taxi driver who modified his flex-fuel Chevrolet to use natural gas.

> *"Wind conditions are amazing in Brazil, far better than what is available in the US and Europe."*
>
> ***Unai Otazua Aranguren,***
> Head of Engineering, GL Garrad Hassan (a UK based renewable energy consulting firm)

While most economic news in Brazil is positive, there are concerns about the rate the real has appreciated (due to the increased amount of US dollar inflow). Brazil's government has been vocal about currency concerns, especially in regard to the risk associated with further real appreciation stemming from quantitative easing in the US. A second major concern in Brazil is the rapid rate of domestic credit expansion (mortgages in particular), arguably an expected by-product of the nation's domestic boom. The central bank has recently raised its overnight lending rate in an attempt to curb overheating.

To obtain regular updates on key economic metrics for Brazil, visit www.economics.pwc.com.

### *Beyond the numbers*

Brazil's economic data tells a powerful story of transformation. But that of China, India and Russia, the other "BRIC" nations, also tells similar stories, begging the question, "Why choose Brazil over other emerging markets as a destination for investment or deals?"

What sets Brazil apart is its role as a lynchpin for the industrialization of the emerging world. Brazil, like Canada, is extremely well positioned to provide the world with the three basic building blocks of industrialization—energy, food and resources.

**1. Energy:**

- **Oil:** Sizable oil field discoveries have been made off the coast of Brazil during the past decade. The nation became a net oil exporter in 2006 and indications are that Brazil could soon join the ranks of the world's major oil exporters.
- **Ethanol:** Brazil's sugarcanes yield more than twice as much ethanol per acre than corn, due to their high sugar content. In fact, Brazil's sugarcanes represent 92% of global ethanol exports and are the most efficient source of

ethanol on the planet. Going forward, global regulatory changes in gasoline content are expected to create tremendous demand-side growth, as depicted in the accompanying table.

**Potential demand for ethanol (billion litres)**

| Country | Potential demand | % Ethanol regulated for the gasoline | Due date for change |
|---|---|---|---|
| **USA** | 136 | 20 | 2017 |
| **China** | 13 | 10 | 2020 |
| **EU** | 9 | 5 | 2020 |
| **Japan** | 6 | 6 | 2030 |
| **Australia** | 2 | 10 | 2011 |
| **Canada** | 2 | 5 | 2010 |

**Source:** GV Agro, EIA, Comissao Europeia, Copersucar, Icone, adapted by PwC Research & Knowledge Centre

- **Wind:** The easterly breezes in northern Brazil are among the most consistent weather patterns in the world, according to the American Meteorological Society, a fact that contributes to Brazil's technical wind generation potential of 143 GW (higher than the country's entire current 113 GW of electricity generation needs). The Brazilian Wind Energy Association has set a goal of achieving 10GW of wind energy capacity by 2020 and the government has already held a number of auctions for rights to build wind farms.

- **Hydroelectricity:** Brazil boasts extensive untapped hydroelectric potential, including the world's largest hydroelectric power plant, the Itaipu dam in the extreme south-west. Despite this potential, droughts that cut water to Brazil's hydroelectric dams, and environmental concerns, have prompted the nation to focus on alternative energy sources.

**2. Food**

- The World Bank estimates that global demand for food will increase by 70% in the next 50 years, a worrisome trend that has raised concerns about potential food scarcity. Already an efficient producer of a significant amount of the world's soybeans, corn, beef, poultry, pork, sugar, coffee and orange juice, Brazil has more spare farmland than any country in the world, making it a potential "saviour" to the food scarcity situation.

*"Some meat producers in Brazil need no electricity to heat chicken coops, unlike competitors in colder climates."*

*"In some areas of Brazil, land is so fertile that farmers manage three harvests per year."*

***PwC Agribusiness Research & Knowledge Centre,***
*August 2010*

**Food production & exports**
(Harvest 2007/2008)

| | Production | Market share (world) | Ranking (world) | Exports | Share in the world | Ranking (world) |
|---|---|---|---|---|---|---|
| **Soybean** (thousand tonnes) | 60 | 25% | 2 | 24 | 32% | 1 |
| **Corn** (thousand tonnes) | 50 | 6% | 3 | 7.87 | 6% | 3 |
| **Beef** (thousand tonnes) | 9.205 | 15% | 2 | 1.925 | 25% | 1 |
| **Poultry** (thousand tonnes) | 11.033 | 15% | 2 | 3.646 | 46% | 1 |
| **Pork** (thousand tonnes) | 3.029 | 3% | 4 | 529 | 8% | 4 |
| **Sugar** (thousand tonnes) | 36.622 | 20% | 1 | 19.472 | 38% | 1 |
| **Coffee** (thousand of bags 60kg) | 45.992 | 34% | 1 | 29.486 | 30% | 1 |
| **Orange Juice** (thousand tonnes) | 1.165 | 50% | 1 | 1.23 | 83% | 1 |

**Source:** USDA, adapted by PwC Agribusiness Research & Knowledge Centre

### 3. Natural Resources

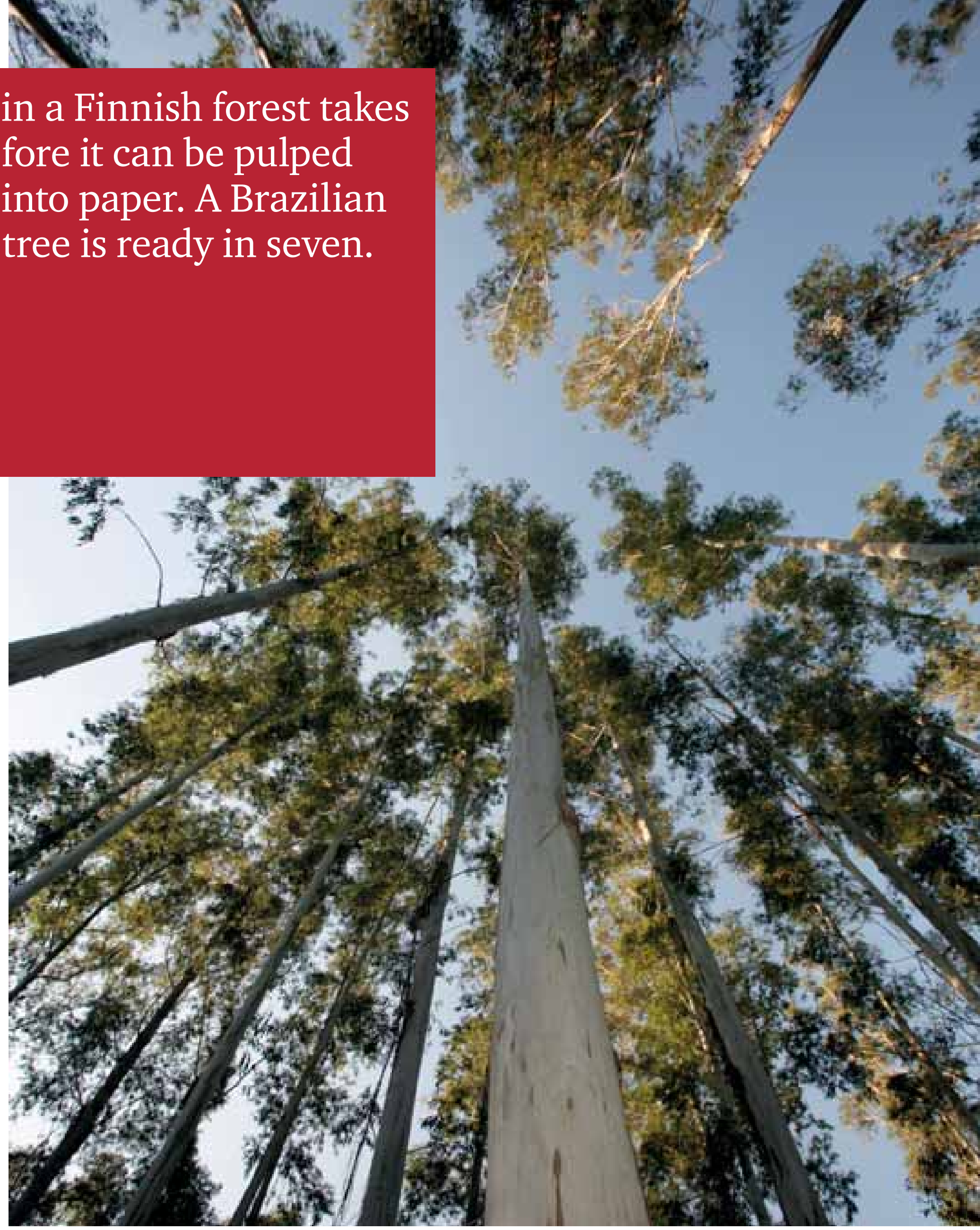
- Brazil is home to the world's sixth largest reserves of commercially recoverable iron ore, manganese, uranium and bauxite, and to the world's largest reserves of niobium and tantalite. Nickel, potassium, phosphate, tungsten, cassiterite, lead, graphite, chrome, gold, zirconium and thorium are also in abundance. Adding to this richness, Brazil is among the five biggest world producers of gems—diamonds, aquamarines, topazes, amethysts, tourmalines, and emeralds—and other stones, like granite.
- Brazil has more than 8,000 cubic kilometres of renewable water each year, easily more than any other country. In fact, Brazil alone, with a population of 190 million, has as much renewable water as all of Asia, with a population of 4 billion.

Brazil's identified deposits are sufficient to supply the world demand for iron ore for the next 20 years.

**6th**

largest reserves of commercially recoverable iron ore

A pine tree in a Finnish forest takes 50 years before it can be pulped and milled into paper. A Brazilian eucalyptus tree is ready in seven.



- Brazil's forests source much of the world's pulp. Over the next seven years an estimated US$20 billion will be invested in the nation's forest base and the construction of new mills. This investment is both well calculated and ambitious. Currently, pulp production is at 13.4 million annual tonnes. By the end of 2017 this is expected to reach 20 million annual tonnes.
- As the world population increases, most analysts expect natural resources will experience a "supercycle", a prolonged period of commodity price appreciation, making Brazil a veritable "gold mine."

Like other BRIC nations, the rising incomes of Brazil's emerging middle class also mean opportunities abound in financial services, retail and consumer and industrial sectors. Indeed, Brazil already has one of the world's largest consumer markets. In the near term, the infrastructure sector is also expected to experience a mini-boom as the nation readies itself to host the 2014 FIFA World Cup and the 2016 Olympics.

Yes, the accepted view is that Brazil is a nation transformed. However, only a select few Canadians have participated in Brazil's growth. As we profile in our next chapter, on the whole, Canadians have been "on the sidelines" in cross-border M&A to and from Brazil.

> *"This boom in mergers represents the repositioning of the world's investments following the economic crisis... many companies are searching for opportunities and Brazil fits the bill."*
>
> ***Arthur Badin***
> President, Brazilian National Antitrust Agency

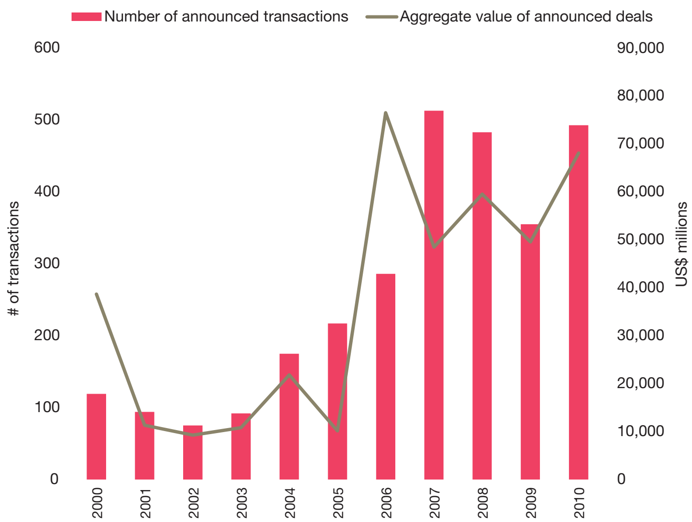
# *No shortage of samba partners*
# Mergers & Acquisitions

It's no surprise that Brazil's prosperity has been accompanied by a steep rise in M&A activity this past decade—such was the experience of almost every nation since 2000. Brazil's deal market does, however, have five distinguishing features. Consider that:

***1. Brazil's deal market rebounded sharply from the crisis, garnering dealmakers' attention.***

- In contrast to the global trend, the Brazilian deal market was only "quietly" impacted by the 2008 credit crisis and its rebound was sharp.
- We tracked 492 deal announcements worth close to US$68 billion in 2010—results that approach the decade high. Brazil's recovery has prompted many to revisit deal making opportunities in the region.

Figure 6: **Brazilian M&A activity**




**Source:** Capital IQ

***2. Early stage ventures are highly attractive takeover targets; middle market deals set to rise.***

- Deals with undisclosed values or values less than US$100 million represent 84% of 2010 activity. The majority of these transactions were "tuck under" acquisitions of early-stage consumer and commodity ventures.
  - These targets were most often acquired to participate in Brazil's booming domestic economy with limited economic risk and, in select cases, to establish a foothold in the broader Latin American region.
- The "middle market", the US$100 million - US$1 billion deal segment, represents only 13% of activity. This is not for lack of deal demand, but due to the nascence of Brazil's private sector. We anticipate that, as businesses move forward in their lifecycles, this segment will be busier. While quiet, Brazil has seen some notable middle market activity:
  - In September 2010, US based Owens-Illinois Inc. agreed to acquire Brazilian glassmaker Companhia Industrial de Vidros for US$603 million. The deal is expected to allow Owens-Illinois to expand its presence in South America and especially Brazil. Owens-Illinois CEO Al Stroucken said the acquisition will bolster the firm's strategy to expand its foothold in emerging markets with strong earnings growth potential.
  - In December 2009, US-based Bunge Limited agreed to acquire Usina Moema Participacoes S.A., owner of Brazilian sugarcane mills, in a share exchange transaction valued at US$896 million. "This transaction fulfills Bunge's strategic goal of building a large-scale, fully integrated business in sugar and bioenergy," stated Alberto Weisser, CEO.
  - In May 2009, US based Bristow Group agreed to acquire 42.5% of Lider Aviacao Holding S.A., Brazil's largest provider of helicopter and executive aviation services, for US$174 million. "We view Brazil as the next 'North Sea' in terms of its potential for growth in offshore services requirements," said William Chiles, Bristow Group CEO.

# Brazil was home to four of the 10 largest takeovers in the so-called BRIC region in the first half of 2010

Brazilian Association of Financial and Capital Markets Firms

Figure 7: **Brazilian M&A, by size (2010)**

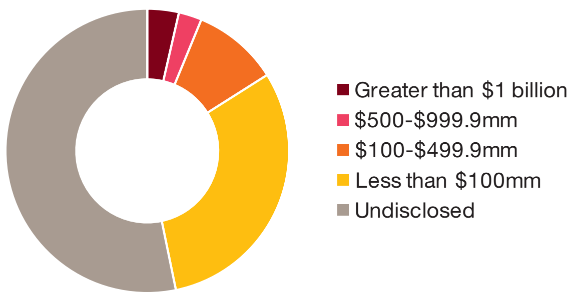
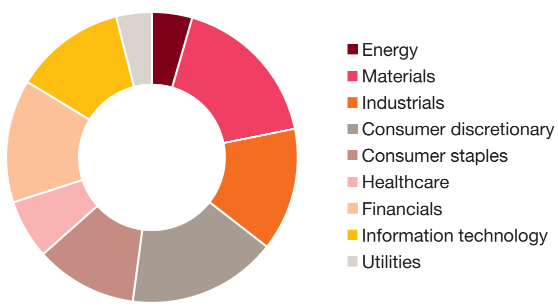



Figure 8: **Brazilian M&A, by industry (2010)**




**Source:** Capital IQ, PwC Analysis

- Mega mergers involving leading Brazilian corporations made up 4% of announced 2010 transaction volume. Although a small percentage, 15 deals valued at US$1 billion or more is a respectable volume for an emerging market. Keep in mind that deal statistics often exclude strategic partnerships, which can skew the "real" value of deals. This year, for example, Brazilian sugar and ethanol producer Cosan announced a relationship with Royal Dutch Shell worth an estimated US$21 billion.

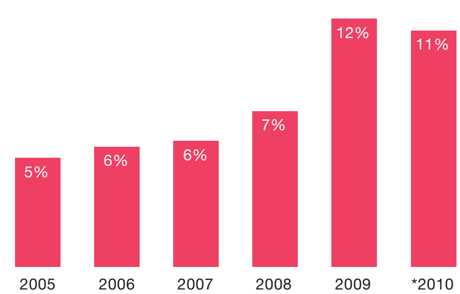
### *3. The consumer and materials sectors dominate deal activity.*

- Like other resource-rich nations, activity in the materials sector represents the bulk of 2010 M&A activity (18%). This is consistent with historic precedent.
  - Resource-hungry Chinese entities have been at the forefront of deal making in Brazil's materials sector. In March of this year, for example, the East China Mineral Exploration and Development Bureau agreed to buy the Itaminas iron ore mine in Brazil from its owner, Bernardo de Mello, for US$1.2 billion. The Itaminas mine produces three million tonnes of high-grade iron ore per year. The hefty price tag on the deal was due to China's economic reliance on the steel industry. *"China has the will and more acquisitions are waiting in the wings,"* East China Minerals said in a statement.
- The Brazilian consumer staples and consumer discretionary sectors (together, 28% of all activity) have seen an extraordinary volume of activity. This is because Brazil, unlike other BRIC nations, already has a vibrant consumer culture. Indeed, the nation is already home to the fourth largest cosmetics and apparel market in the world and most analysts expect Brazil to be among the top three consumer markets in the world before 2050.

#### *4. Private equity has been "late to the game" in Brazil.*

- Another interesting feature of Brazil's M&A market is the relative inactivity of PE players during peak years (6% of activity in 2006 & 2007). As a barometer for what was normal for developed economies during peak M&A years, consider that 20% of transaction activity between 2005 and 2008 in the US involved a PE fund.
- PE activity in Brazil is on the rise, representing 11% of activity in 2010 and 12% in 2009—decade highs. Conversely, in most developed economies, PE's share of the deal market is declining. In Canada, for example, PE deals represent approximately 8% of current transaction volumes.
- Private funds are reportedly attracted to Brazil because it is the last "untapped" BRIC market, from a deal perspective. Recent PE activity is centered in the high growth financial services and consumer sectors. Notable PE led deals include:
  - In September 2010, Blackstone agreed to purchase a 40% stake in Patria Investimentos, a Brazilian private equity group, for a reported US$200 million. Patria will be used as a platform for further expansion (via deals) in Brazil.
  - In September 2010, Evercore Partners completed the acquisition of a 50% interest in G5 advisors, a São Paulo-based independent investment banking boutique and investment management firm. Transaction consideration was US$20 million (cash and restricted stock) plus potential earnouts based on the achievement of agreed upon targets. "As we look ahead, we believe that the number of cross-border merger transactions will increase, and that Brazil and, to a larger extent, all of Latin America, will be an increasingly important part of this trend. This transaction is an important part of our strategy to position Evercore's Advisory business to capitalize on the increased globalization of mergers and acquisitions," said Ralph Schlosstein, Evercore's President and CEO.
  - In July 2010, the Carlyle Group agreed to acquire Brazilian Health services provider Grupo Qualicorp, seeking to tap into demand from the country's growing middle class. While Carlyle Group did not reveal the deal value, according to Reuters, a source familiar with the transaction disclosed that it was US$1.2 billion. The source also stated that Carlyle was interested in further purchases in the areas of health, consumption, and transport in Brazil.
  - In May 2010, Apax Partners LLP agreed to acquire 54% of computer-services company Tivit Terceirizacao de Tecnologia e Servicos S.A. Apax's offer of 18.10 Brazilian reals (US$10) per share in cash valued the company at US$1 billion. This acquisition marks Apax's first investment in Brazil and "advances Apax's global strategy of investing in large companies that have strong, established market positions and the potential to expand," said Jason Wright, Partner at Apax.

Figure 9: **Private Equity Share of Brazilian M&A Market**




* Current to December 1, 2010

> "2010 saw an increase of 21% of assets in private equity in Brazil, with 18 institutions successfully raising funds last year."
>
> Brazilian Private Equity and Venture Capital Association (ABVCAP)

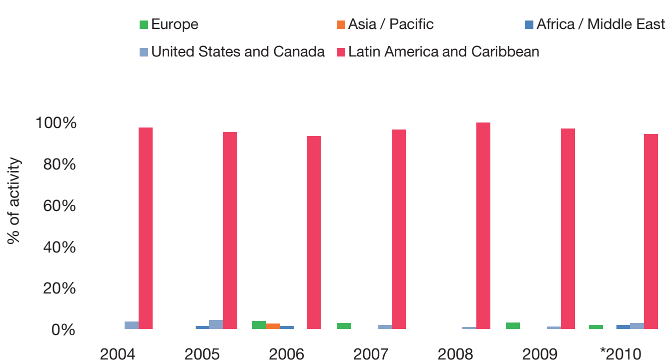
# The merger and acquisition (M&A) driven expansion strategies of some multilatinas have resulted in an impressive increase in the number of companies from Latin America ranking among the world's largest companies.

Forbes Magazine, March 2010

### *5. Brazilian M&A is "home-grown"*

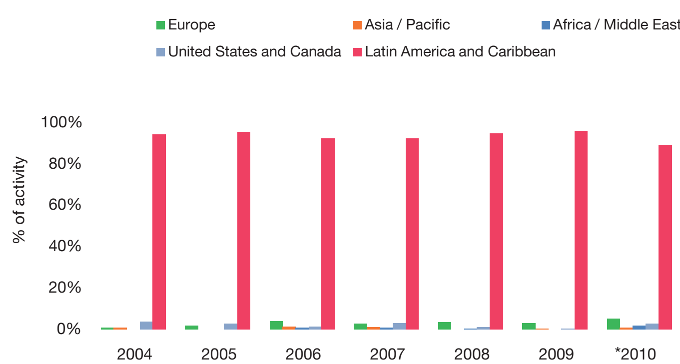
- So-called "multilatinas", multinational firms based in Latin America, are most often on the other side of the deal table when Brazilian entities are transacting. In August 2010, for example, Chile's LAN Airlines agreed to merge with Brazil's TAM Airlines in a transaction valued at US$7 billion, the largest deal of the year. The combined airline company, to be known as LATAM Airlines Group, will be the largest in Latin America and will be well positioned to cash in on the FIFA 2014 World Cup and the 2016 Olympic Games. "If we want to survive in this world, we have to have a mega fusion of our own," said Mr. Cueto, who will become chief executive of the new group.
- As set out below, from a volume perspective, entities from North America have a negligible role in Brazilian deal-making, representing less than 3% of total activity on the buy side and the sell side.
- These statistics are partially misleading, as some of the most noteworthy deals of the past decade involved North Americans. For example, Brazil's Vale acquired Canada's Inco in 2006 in a US$19 billion all cash deal, the largest-ever acquisition by a Latin American company. The deal, driven by the company's diversification strategy, turned Vale into the world's second largest mining company and the world's second largest nickel producer (Canada's role in Brazilian M&A is discussed in further detail in the following section).

Figure 10: **Acqusitions in Brazil, by geography of acquiror**




**Source:** Capital IQ, PwC Analysis

Figure 11: **Geographies targeted by Brazilian buyers**



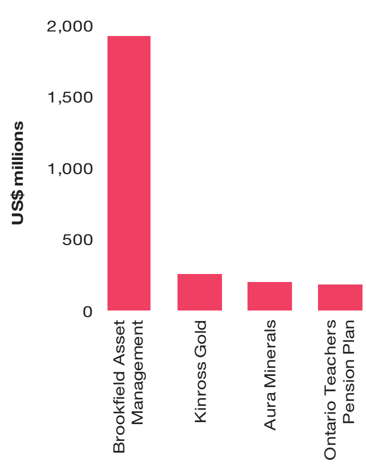

**Source:** Capital IQ, PwC Analysis

# Canada & Brazil
# Strong links, weak deal history

- During the past decade, Brazilian buyers announced only 17 acquisitions of Canadian targets for total deal value of US$20.2 billion (inclusive of Vale's US$19.7 billion acquisition of Canada's Inco). The remaining 16 deals were largely concentrated in the Canadian mining and energy sectors and, in two cases, involved the acquisition of operations in Brazil that were simply owned "in name only" by Canadian entities.

- Canadian buyers have been more active in Brazil, announcing 70 acquisitions of Brazilian targets worth just under US$3 billion (although numerous deals did not have publicly disclosed values). Activity has been highly concentrated among a small group of financial service, resource and mining companies.

Figure 12: **Total disclosed value of acqusitions in Brazil**
(2000 - December 1, 2010)




**Source:** Capital IQ, PwC Analysis

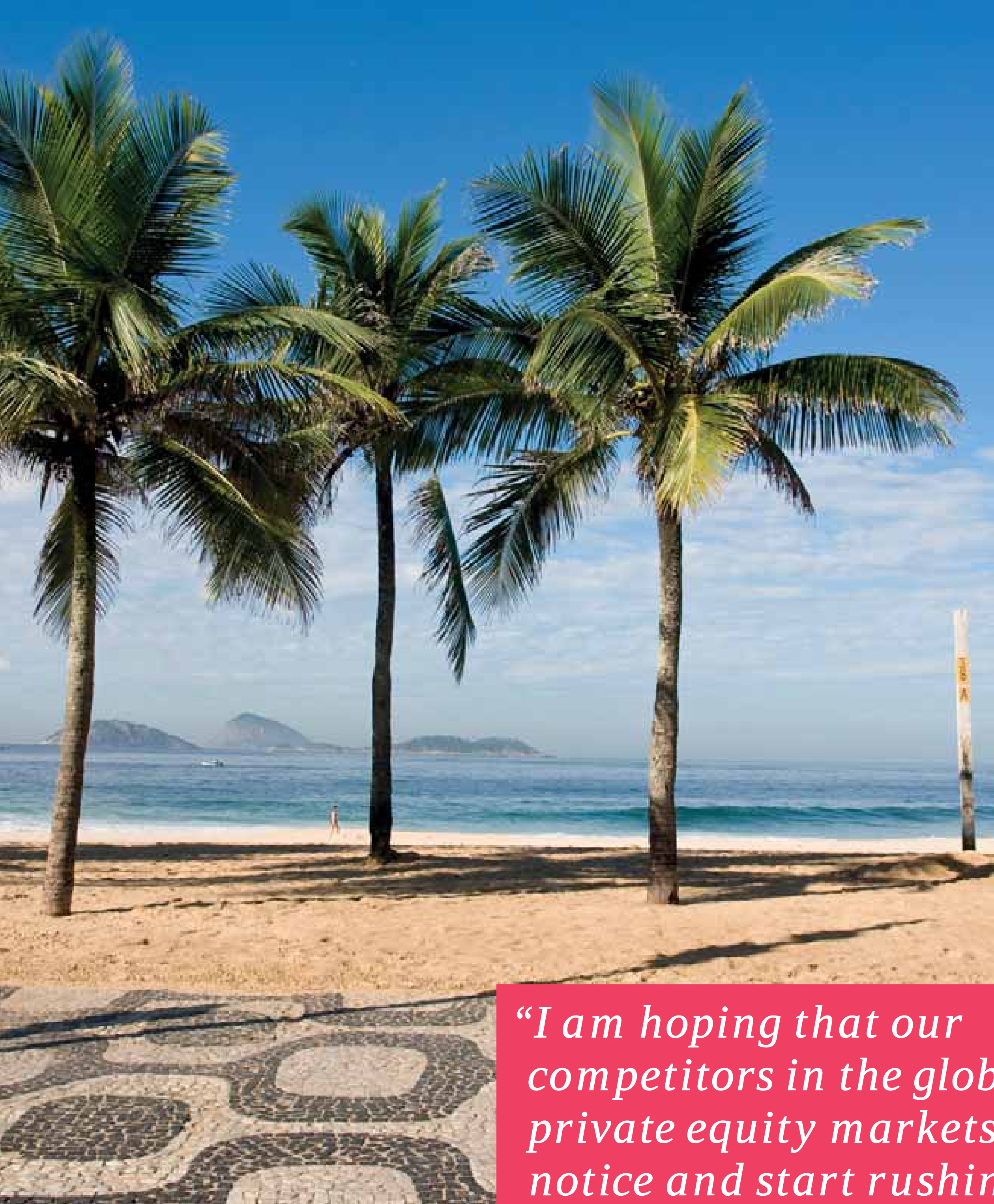
- As depicted in the accompanying graph, since 2000 Brookfield Asset Management, Kinross Gold, Aura Minerals and Ontario Teacher's Pension Plan made acquisitions worth a cumulative US$2.5 billion—92% of disclosed Canada-Brazil deal value. Key transactions are set out in Appendices A and B.

- Certain recent deals without disclosed value were also considered notable, among them:

    - The Bank of Nova Scotia acquired Dresdner Bank Brazil. "We see tremendous potential for growth and we are very optimistic about the opportunity in Brazil," said Mike Durland, co-chief executive of Scotia Capital.

    - SNC-Lavalin announced the acquisition of Marte Engenharia Ltda., a leading Brazilian engineering firm. Patrick Lamarre, Executive Vice-President responsible for SNC-Lavalin's global power operations, said, "With this addition, we are well positioned to serve the South American power industry and to expand our role in Brazil's booming economy."

    - Ivanhoe Cambridge continued its expansion into Brazil by acquiring shopping centre company Sao Marcos Real Estate Enterprises, co-owner of four high-quality shopping centres in Brazil. This acquisition allows Ivanhoe to capitalize on Brazil's burgeoning middle class and strong retail sales growth.



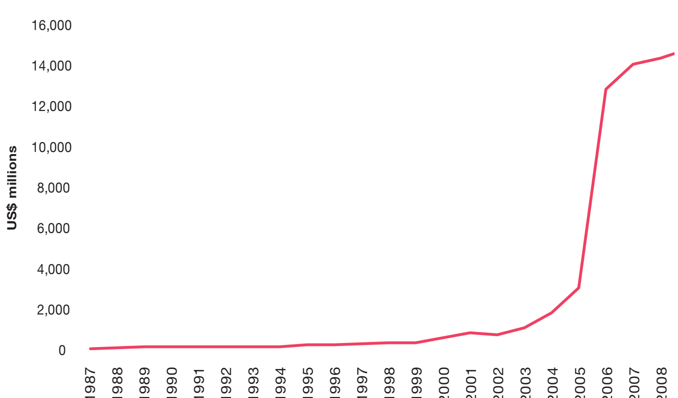
*"I am hoping that our competitors in the global private equity markets won't notice and start rushing to invest in Brazil."*

***David Rubenstein***
Co-founder, The Carlyle Group (as per *Financial Times*)

- Interestingly, a lack of deal activity is not due to a lack of recognition of the market opportunity. Foreign direct investment between Brazil and Canada has been growing at a rapid clip this past decade. Since 2000:
  - Foreign direct investment (FDI) in Canada from Brazil had a CAGR of 142%. At the end of 2009, total Brazilian investment in Canada stood at US$14 billion, the sixth largest investment balance and in line with investment from France, Germany and Japan (although still well below US investment of US$288 billion).
  - FDI in Brazil from Canada had a CAGR of 106%. At the end of 2009, total Canadian investment in Brazil stood at US$11.4 billion, the 11th largest investment balance and in line with investments in France, Germany, Australia (although still well below the US$261 billion the US invested in Brazil).
- These two data sets seem to suggest that Brazil and Canada have utilized means other than M&A for cross-border investment (other components of FDI include incorporating a wholly owned subsidiary or company and participating in an equity joint venture with another investor or enterprise).

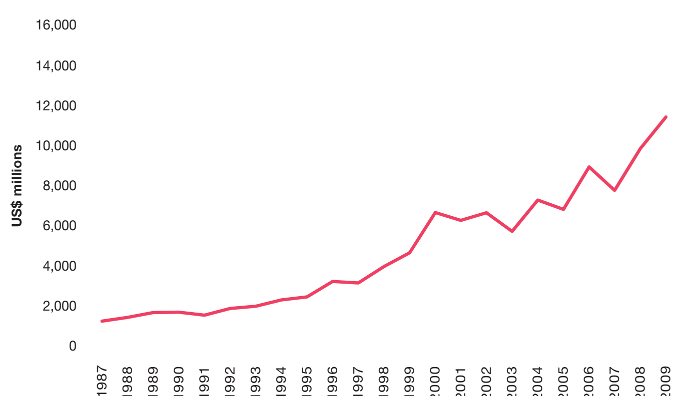
Historic precedent is a useful compass, but perhaps the more important question for Canadian dealmakers is—what next? Where do we go from here? In our next chapter, PwC identifies key opportunities for Canadians seeking to transact with Brazilians.

Figure 13: **Brazilian direct investment into Canada**




**Source:** World Bank, IMF, PwC Analysis

Figure 14: **Canadian direct investment into Brazil**




**Source:** World Bank, IMF, PwC Analysis

# *Opportunities and challenges for Canadians*

# Opportunities

So what's next for Brazil and Canada? We believe there are tremendous deal opportunities across all sectors, for entities in both nations to consider. Canadians would be well advised to consider strategic partnerships and acquisitions in the Brazilian **consumer, retail and financial services sectors**. Like other emerging nations, each of these is set to grow in response to rising middle class populations and large-scale urbanization.

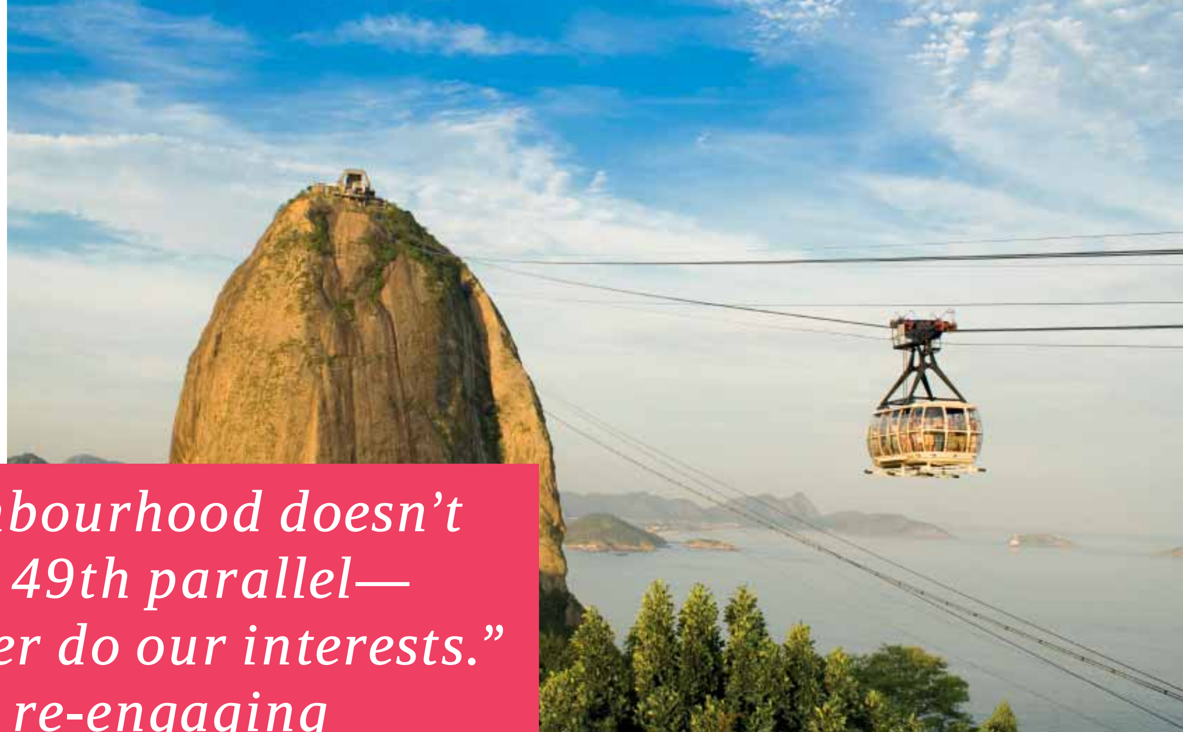
However, we believe that the most compelling deal opportunities for Canadians will be in the following six sectors, areas in which Canadians and Brazilians are global leaders:

***1. Oil & Gas***

- State-run Petrobras continues to monopolize the oil and gas sector, meaning "mega mergers" in the oil and gas sector are not plausible. Currently, most concession rights for exploration and production of oil and gas are in the hands of Petrobras, and most independent oil companies in Brazil operate in partnership with Petrobras (under production sharing models where participating companies receive a fixed share of revenues).
    - In August 1997, the Brazilian Congress approved the "Petroleum Law", which added flexibility to the administration of Brazil's monopoly on exploration, evaluation, development and production of oil and natural gas. The Petroleum Law also created the Agencia Nacional de Petroleo, Gas Natural e Biocombustiveis (ANP) , an entity responsible for the regulation, contraction and supervision of commercial activities in the oil industry including, among other things, the preparation of the tender protocols and promotion of the bidding for the rights concessions of exploration, development and production activities in the oil and gas sector.
- Despite Petrobras' monopoly, the state-run giant will likely not be able to "go it alone" during the next decade. The main reason for this? Most of Brazil's proven reserves are located offshore in deep water, requiring extensive capital investments, even beyond the scope of Petrobras. Indeed the Brazilian giant's 2010-2014 Strategic Investment Plan sets out expected investments of US$224 billion and articulates that it will seek out a significant number of strategic partnerships. According to the Brazilian Petroleum Institute, international companies already plan to invest US$34 billion in the petroleum sector in partnership with Petrobras by 2012. Canadians have been identified as ideal partners. In an unprecedented show of force and partnership, the Canadian

*"Brazil is all about mining, all about oil and gas... It's about agrifoods, infrastructure, the environment and protection of local economies."*

***Feroz Ashraf,***
Executive Vice President, SNC Lavalin



*"Our neighbourhood doesn't end at the 49th parallel—and neither do our interests." Canada is re-engaging relationships throughout the Americas, and Brazil is key."*

***Canadian Prime Minister Stephen Harper***

Consulate General in Rio and Export Development Canada recently invited a Petrobras-led delegation of 39 Brazilian executives from the oil and gas and related sectors to Canada for what was a highly successful visit. This high-level mission was aimed at identifying and attracting Canadian suppliers interested in, and willing to undertake partnerships with companies in Brazil.

- We expect partnership opportunities for Canadians in both upstream (exploration, development and production) and downstream (oil tankers, refiners, retailers) categories, but also in ancillary oil and gas sectors including:
  - pipelines;
  - tools to operate and perform tasks in deep water;
  - offshore support services; and
  - service and engineering.
- Brazil's government is expected to initiate an 11th round auction of rights to explore for oil and natural gas in 2011. This auction round is expected to include shallow-water, deep-water and inland blocks, but not the areas off the coast of Brazil (which have yielded enormous reserves in recent years).

### *2. Mining*

- Brazil's mining sector is undoubtedly robust, however, current mining production is considered to be remarkably low considering the geological potential of the country. Indeed, Brazil is generally considered under-explored when compared to Canada and Australia—a tremendous opportunity for mining players who are currently "scouring the globe" for growth opportunities.
- Since it is mandatory for foreign mining firms to be established in Brazil or have a Brazilian partner, joint ventures with Brazilian or other foreign firms already active in the country are common methods of entry into the market. Deals can take the form of minority or majority acquisitions or, alternatively, joint venture projects.
- Canadians should also consider deal opportunities in ancillary mining sectors including mining equipment and geological surveying and consulting.
- According to Foreign Affairs and International Trade Canada, the Brazilian government is implementing changes to their legal framework in order to restructure and deregulate

the mining industry. The four key changes will be to:

- permit mining operations in aboriginal lands throughout Brazil which represent over 12 percent of Brazilian territory;
- permit mining operations in border lands;
- grant exploration rights to private companies to explore nuclear minerals (Brazil ranks sixth in the world regarding uranium reserves); and
- improve coordination with environmental agencies in order to speed up the environmental licensing process.

### *3. Alternative Energy*

- Given that Brazil's focus is shifting from conventional environmental technologies (air, water and soil) to emerging areas of Canadian excellence, such as renewable energy and climate change technologies, we expect a brisk level of sector M&A and strategic partnerships. According to Foreign Affairs and International Trade Canada, the following are generally the best opportunities in the Brazilian environmental market for Canadians:
  - air pollution control and monitoring;
  - water and wastewater equipment and services;
  - industrial waste management;
  - soil remediation;
  - clean process technologies;
  - water reuse;
  - environmental information systems analytical software;
  - consulting engineering;
  - renewable energy (solar, wind, waste-to-energy); and
  - greenhouse gas emissions reduction technologies.

It should be recognized that public tenders require minimum-priced bids, which do not favour foreign companies.

Ethanol and wind are two key subsectors of alternative energy that are worth a more detailed mention.

**Ethanol**

- Brazil plans to continue developing its ethanol sector, ahead of expected regulatory changes to recommended ethanol contents for gasoline. In addition, Brazil plans to build pipelines to optimize the logistics of connecting the ethanol production area in São Paulo (and others in the Center West region) to the Atlantic ports.
- For Canadian companies, we expect deal opportunities in the areas of ethanol production processes, as well as advanced industrial automation technologies and transportation infrastructure.

**Wind**

- The Associacao Brasileira de Energia Eolica (the Brazilian wind power industry association), is in talks with the federal government to guarantee at least 2,000MW a year in new wind power contracts, according to Ricardo Simoes, the association's president.
  - The government held one wind power auction in 2009, when 1,800MW were contracted. In 2010, it held an alternative energy auction in which just over 2,000MW of wind power were contracted. In the auctions, the government establishes the prices of 20-year contracts that are signed between producers and distributors.
- According to Simoes, with the combination of the 20-year power purchase contracts, the easing of rules about the nationalization of equipment and subsidized financing from the federal government for up to 75% of the projects' values, investors have been able to offer power at decreasing prices to local power distribution utilities and companies that need to increase their renewable power buy to meet sustainability goals. The rate of return on Brazilian wind power investments stands at about 12% to 13%, according to ANP.

"The rate of return on Brazilian wind power investments stands at about 12% to 13%."

ANP

> *"We see tremendous opportunities for Canadian companies to invest in markets like Brazil..."*
>
> ***Gilles Ross,***
> Acting President, EDC

### *4. Real Estate*

- Large Canadian pension funds have recently invested heavily in real estate outside of North America, with a primary strategic rationale of yield.
- Many investors focus on Brazil's major cities of São Paulo and Rio de Janeiro but there are opportunities outside these major centres including Santos, due to oil discoveries, Brasilia, with a low vacancy rate, and the North and Northeast of Brazil, where lower income classes are increasing their purchasing power. There are also increasing opportunities for land close to railroads and ports, due to improvements in infrastructure.

### *5. Infrastructure*

- The Brazilian government expects up to US$220 billion of foreign investment will be required for its Second Growth Acceleration Program (PAC 2).
  - PAC 2 is a set of infrastructure projects in energy, transportation, logistics, housing and social initiatives, which will require a combined total of US$526 billion in investment from 2011 to 2014, and an additional US$346.4 billion after 2014. The major portion of the US$870.4 billion investment will be made directly by the Brazilian government, state-owned development bank BNDES, and state-owned companies such as Petrobras.
- In addition to traditional infrastructure opportunities (transportation, logistics), water is expected to be a high growth area. It is estimated by the federal Ministry of Cities that Brazil will have to invest US$5 billion every year, for the next 20 years, in order to offer water and wastewater services to the entire population by 2030, a target known as the universalization of water and wastewater services.
- The best opportunities in the water and wastewater sector for Canadians are found in the following areas:
  - equipment and services for water reuse in industrial processes;
  - equipment and services for reduction of water losses;

- measurement, control and monitoring technologies;
- analytical laboratory equipment;
- automation technology for wastewater treatment plants;
- control systems for underground water; and
- UV systems for water disinfection.

### *6. Agribusiness*

Agribusiness is perhaps the most intriguing deal opportunity for Canadians. This includes not just farming production, but also upstream and downstream activities such as sale of farming inputs/machinery and processing. A brief overview of the agricultural regions of Brazil are set out below:

**The Brazilian Midwest**

- Business expansion has significant implications in terms of bringing economic development to non-coastal regions in the Brazilian Midwest. Agriculture services and food processing, activities that help integrate the domestic market more effectively, are needed in this region.

**The Northeast**

- The Northeast has undergone a major expansion in harvesting, particularly soybeans in western Bahia State and at Balsas (Maranhão State), with both areas now totalling over 500 thousand hectares under cultivation and generating over 1.3 million tonnes of farming products.

**Southeastern Region**

- In its Southeastern region, São Paulo State's orange production has made Brazil the world's number one orange juice exporter. To achieve this mark, over 800 thousand hectares are set aside for growing oranges, and growers are highly competitive from the standpoint of industrial processing, shipping logistics, and marketing.

**Other Regions**

Several other Brazilian regions have also had outstanding performances. In addition to booming grain production, the South has tobacco plantations (with thousands of small integrated growers), temperate fruit production, poultry and hog breeding in integrated farms led by major agribusiness concerns, as well as irrigation rice plantations in the extreme south.

# Challenges

The good news for dealmakers is that Brazil's restrictions on foreign equity ownership are extremely relaxed. Compared with other BRIC countries, only Russia has fewer restrictions on foreign equity ownership. Brazil restricts foreign equity ownership in the air transportation sector to a maximum of 20% and in media industries (both TV broadcasting and newspaper publishing) to a maximum of 30%. The health care sector is closed to foreign capital participation. In general terms, though, Brazilian legislation grants equal treatment to foreign and domestic companies.

This means that barriers are few in Brazil, when compared to India and China. However, cross-border deals with Brazilian entities do have certain complexities that must be appreciated, including:

### *Complex tax and labour laws*

Brazil has extensive labour regulations governing employer-employee relations. Trade unions are quite active and powerful, holding significant influence in certain industries and regions. Additionally, labour legislation is notoriously favourable to employees. However, the local standards and practices are very clear, so foreign investors generally do not have difficulty managing their employees.

Brazil's tax system is extremely complex and complying with the myriad of statutes can be quite daunting for foreign investors. With more than 19 separate taxes, Brazil's tax code is more burdensome to companies than any other tax regime in the world.

Companies considering transactions in Brazil must ensure that they have tax and legal advisors in place to guide them through the country's cumbersome labour and tax systems.

### *Security concerns*

Brazil's homicide rate is one of the highest in the world. There are approximately 24 homicides per 100,000 inhabitants—more than four times that of the US and 12 times that of Canada, raising the risk that companies will lose key employees.

Brazil is rated high risk in both Maplecroft's Human Security Risk Index and the Kidnapping Risk Index. Canadian companies must be cognizant of safety concerns when operating in Brazil, and take the appropriate measures to ensure safety of their people and physical assets. When expanding into Brazil, Canadians would be well advised to consult with a political risk and/or security advisor.

### *Foreign Corrupt Practices Act issues*

There are certain factors that make companies operating in Brazil more vulnerable to FCPA violations. While Brazil outperforms its BRIC compatriots in Transparency International's latest corruption index, it still has corruption issues typical of a developing country. Certain features of Brazil's regulatory and tax framework increase the likelihood of bribery demands by public officials. Potential investors must consider past violations which may result in contingencies under the FCPA.

### *Language and cultural barriers*

Brazil's official language, Portuguese, is spoken by nearly 99.9% of the population. English is part of the official high school curriculum in most Brazilian states, but very few Brazilians are fluent. Of course, Brazil also has its own distinct etiquette and numerous cultural customs that potential investors should attempt to understand.

*"The tremendous growth in business between Canadian and Brazilian companies reflects the natural match between what Brazil needs, and what Canada has world-leading expertise in providing."*

***Eric Siegel,***
President & CEO, EDC

Transacting with Brazil may be one of the most promising new frontiers for Canadian dealmakers. Indeed, exploring partnerships with the emerging world may be the answer to the question that is plaguing investors, economists and corporations alike—what will drive growth in Canada for the next generation?

**Note:** Certain information in this section has been reproduced from the Canadian Commercial Corporation, Foreign Affairs and International Trade Canada.

# ***Appendix A:*** Key inbound deals from Canada to Brazil (by deal value)

| Date | Target | Description |
|---|---|---|
| 10-Dec-07 | Portfolio of Shopping Centers in Brazil | Five Brazilian shopping centers covering a total area of 98,000 square meters. |
| 9-Jun-09 | Yamana Gold, Inc., Three Gold Mines in Honduras and Brazil | The San Andrés mine, the Sao Francisco, and Sao Vicente mines. |
| 23-Jul-07 | LLX Minas-Rio Logistica S.A. | LLX Minas-Rio Logistica S.A. owns and operates a slurry pipeline and a 300-hectare iron ore port facility at the Port of Acu. |
| 11-Jan-06 | CCL Label do Brasil Rótulos Adesivos S/A | CCL Label do Brasil Rótulos Adesivos S/A supplies pressure sensitive labels to the home and personal care, healthcare, premium food, and beverage markets. |
| 28-Jan-08 | Canaan Company Group | Canaan Company Group, through its subsidiaries, engages in the production and distribution of powdered milk, roasters, and easy-to-use coffee pods for domestic and office use. |
| 7-Dec-07 | Riacho Dos Machados Gold Project | The Riacho Dos Machados Gold Project comprises open pit gold mine reserves spread approximately over an area of 22,000 hectares. |
| 21-Dec-06 | Aurizona Goldfields Corporation | Gold mining services and properties. |
| 7-May-09 | Global Milk Businesses and Administration of Private Properties LTDA | Global Milk Businesses and Administration of Private Properties LTDA under the brand name Teixeira and Mestre Cuca manufactures and sells dairy products. |
| 7-Dec-09 | Mineracao Vale do Sonho Ltda. | Mineracao Vale do Sonho Ltda. |
| 15-Jun-10 | Regent Brazil Holdings Limited | Regent Brazil Holdings Limited operates as a investment holding company. |
| 14-Feb-07 | Majescor Resources, Braúna Diamond Deposit | Majescor Resources, Braúna Diamond Deposit consists of exploration concessions in northeastern Brazil that encompasses four diamondiferous kimberlite pipes, or blows associated with a laterally extensive system of kimberlite dykes. |
| 8-Aug-06 | Two Coringa Mining Claims | Two Coringa Mining Claims are engaged in gold mining and production services. |
| 8-Aug-05 | Majescor Resources, Braúna Diamond Deposit | Majescor Resources, Braúna Diamond Deposit consists of exploration concessions in northeastern Brazil that encompasses four diamondiferous kimberlite pipes, or blows associated with a laterally extensive system of kimberlite dykes. |
| 16-Sep-10 | Dresdner Bank Brasil S.A. | Brazil based financial institution. |
| 22-Dec-09 | Marte Engenharia Ltda | Marte Engenharia Ltda provides engineering, inspection, construction supervision and maintenance services to electric utilities, hydro and nuclear generators, and private companies. |
| 5-Aug-09 | Vila Nova Iron Ore Project in Amapa State, Brazil | As of August 5, 2009, Vila Nova Iron Ore Project was acquired by Eldorado Gold Corp. Vila Nova Iron Ore Project is an iron ore deposit. |
| 4-Aug-08 | Sao Marcos Real Estate Enterprises | Sao Marcos Real Estate Enterprises owns and operates shopping centres and other real estate commercial properties. |
| 13-Dec-07 | Minerconsult Engenharia Ltda. | A leading multidisciplinary engineering firm with expertise in material handling, iron ore and bauxite mining engineering requirements. |
| 29-Aug-07 | Rio Tinto Desenvolvimentos Minerais Ltda, Catalao Property | Catalao Property of Rio Tinto Desenvolvimentos Minerais Ltda consists of diamond-bearing kimberlite pipes. |
| 18-Jul-07 | Geskan | Geskan is a provider of specialty coffee. |
| 15-Feb-07 | Majescor Resources, Tres Marias Interests | Majescor Resources, Tres Marias Interests consist of 47 exploration licenses covering approximately 900 sq. |
| 18-Sep-06 | Ancar Ivanhoe Shopping Center | Ancar Ivanhoe Shopping Center operates and manages shopping centers and malls in Brazil. |

| Transaction value (US$ mm) | Buyers/Investors | Industry |
|---|---|---|
| 964.54 | Brookfield Asset Management Inc. | Commercial Real Estate |
| 202.76 | Aura Minerals Inc. | Gold |
| 185.0 | Ontario Teachers' Pension Plan | Steel |
| 55.27 | CCL Industries Inc. | Office Services and Supplies |
| 37.5 | Latteno Food Corp. | Packaged Foods and Meats |
| 37.28 | Carpathian Gold Inc. | Gold |
| 14.68 | Luna Gold Corp. | Gold |
| 6.17 | Latteno Food Corp. | Packaged Foods and Meats |
| 4.03 | Stronghold Metals Inc. | Gold |
| 3.06 | Brazilian Gold Corporation | - |
| 2.95 | Vaaldiam Resources Ltd. | Precious Metals and Minerals |
| 2.65 | Chapleau Resources Ltd. | Gold |
| 0.352 | Vaaldiam Resources Ltd. | Precious Metals and Minerals |
| - | The Bank Of Nova Scotia | Regional Banks |
| - | SNC Lavalin Group Inc. | Construction and Engineering |
| - | Eldorado Gold Corp. | Steel |
| - | Ivanhoe Cambridge, Inc.; Ancar Ivanhoe Shopping Center | Diversified Real Estate Activities |
| - | SNC Lavalin Group Inc. | Construction and Engineering |
| - | Vaaldiam Resources Ltd. | Precious Metals and Minerals |
| - | Latteno Food Corp. | Soft Drinks |
| - | Vaaldiam Resources Ltd. | Precious Metals and Minerals |
| - | Ivanhoe Cambridge, Inc. | Real Estate Operating Companies |

# ***Appendix A*** *(continued)*

| Date | Target | Description |
|---|---|---|
| 18-Sep-06 | Three Shopping Centres | Three Shopping Centres includes Conjunto Nacional, Shopping Iguatemi, and Nova AmDerica which operates as shopping malls. |
| 26-Jun-06 | Multiplan Empreendimentos Imobiliários S.A | Multiplan Empreendimentos Imobiliarios S.A. engages in the development of and investment in real estate projects, purchase and sale of properties, purchase and disposal of rights related to such properties, civil construction, and construction projects in Brazil. |
| 8-Jun-06 | Aroeira kimberlite project | Aroeira kimberlite project comprises diamond reserves spread over an area of 1400 hectares. |
| 3-Mar-06 | Hydro Facility | A 30 Megawatt Hydro Facility in Brazil (50%). |
| 23-Feb-06 | Coala Comercio Vendas e Servicos Ltda. | Coala Comercio Vendas e Servicos Ltda. |
| 10-Feb-06 | Hemagen Diagnosticos Comercio Importacao e Exportacao Ltd. | Hemagen Diagnosticos Comercio Importacao e Exportacao, Ltd. distributes autoimmune and infectious disease test kits to hospitals and commercial labs in Brazil. |
| 23-Dec-05 | BuscaPé, Inc. | BuscaPé, Inc. operates as a product search/comparison company in Brazil. |
| 8-Dec-05 | Brazilian Helicopter Services Taxi Aereo Ltda. | Provider of helicopter services to the Brazilian market. |

| Transaction value (US$ mm) | Buyers/Investors | Industry |
|---|---|---|
| - | Ivanhoe Cambridge, Inc. | Real Estate Operating Companies |
| - | The Cadillac Fairview Corporation Limited | Real Estate Operating Companies |
| - | Vaaldiam Resources Ltd. | Precious Metals and Minerals |
| - | Brookfield Asset Management Inc. | Electric Utilities |
| - | EngView Systems Corp. | Technology Distributors |
| - | Hemagen Diagnostics Inc. | Healthcare Distributors |
| - | Great Hill Partners, LLC | Internet Software and Services |
| - | CHC Helicopter Corporation | Transportation |

# ***Appendix B:*** Notable activity from Brazil to Canada (by deal value)

2005 - October 2010

All figures in US$ millions

Please note our list only includes key large transactions.

| Date | Target | Description |
| --- | --- | --- |
| 14-Aug-06 | Inco Limited | Inco Limited engages in the exploration and production of nickel primarily in Canada, the United States, Indonesia, Asia, New Caledonia, the United Kingdom, and Brazil. |
| 14-Sep-05 | Canico Resource Corp. | Canico Resource Corp. engages in the exploration and assessment of nickel laterite deposits in Para State, Brazil. |
| 25-Sep-08 | Saber Energy Corporation | Saber Energy Corporation engages in the development of gas fields and power stations with focus on Coal Bed Methane exploration. |
| 18-May-10 | Big Stick Media Corporation | Big Stick Media Corporation engages in the ownership and operation of sports media assets, including Web sites, client-server software, publications, television and radio shows, and call centers in North America. |
| 8-Oct-09 | Brazilian Renewable Energy Company Ltd. (partially owned by Ontario Teachers Pension Plan) | Brazilian Renewable Energy Company, Ltd., a renewable fuels company, engages in the production and distribution of ethanol fuel. |
| 2-Oct-08 | PCS Fosfatos do Brasil Ltda (owned by Potash Corp) | PCS Fosfatos do Brasil Ltda manufactures and supplies phosphate. |

| Buyer | Buyer Description | Transaction value (US$ mm) | Industry |
|---|---|---|---|
| Vale S.A. | Vale S.A., through its subsidiaries, operates as a diversified metals and mining company worldwide. | 19,009 | Diversified Metals and Mining |
| Vale S.A. | Vale S.A., through its subsidiaries, operates as a diversified metals and mining company worldwide. | 731 | Diversified Metals and Mining |
| Talon Metals Corp. | Talon Metals Corp. engages in the acquisition, exploration, and development of base and precious metal projects. | 8 | Oil and Gas Exploration and Production |
| BMX ENTERTAINMENT Limited; Suplitodo S.A.; CVR Investments Ltd.; SGR Investments Ltd.; Townson Holdings Ltd.; Quality Investments S.A.; Distribuidora Gravot S.A.; Corporation Guiya S.A.; Clarence Gary Austin and Keen Sing Enterprises | Select buyers in the consortium are Brazil based private equity funds. | 4 | Internet Software and Services |
| ETH Bioenergia S.A. | ETH Bioenergia S.A. engages in the production, sale, and logistics of ethanol, electric energy, and sugar. | - | Coal and Consumable Fuels |
| Tortuga Companhia Zootécnica Agrária | Tortuga Companhia Zootécnica Agrária engages in the agribusiness sector and provides animal feed. | - | Fertilizers and Agricultural Chemicals |

# ***Appendix C:*** Who should you know?

Brazil is home to some of the largest and most influential companies in the world. Here we profile a select group of Brazilian corporations, segmented by industry sector, that have interesting ties to Canada.

## *Oil and Minerals*

**Vale**

Vale is the second-largest metals and mining company in the world (based on market capitalization). Vale's business activities include:

- Exploration, production and selling of iron ore and pellets, nickel, copper, coal, bauxite, alumina, aluminum, potassium, kaolin, manganese, cobalt, platinum-group metals and precious metals. Vale is the world's largest iron ore producer.
- Operations in the logistics, energy and steelmaking sectors.

***Fast facts for Canadians:***

- In 2010, Vale announced that it will invest more than US$10 billion in Canada over the next five years to strengthen and expand its Canadian operations.
- In 2010, Export Development Canada extended a US$1 billion credit line to Vale to finance export projects from Canada. According to Vale, part of this amount will be used to fund investments in the Provinces of Newfoundland, Labrador and Ontario.
- In 2006, Vale acquired Canadian nickel mining giant Inco for US$17 billion cash. Vale's nickel mining and metals, largely comprised of the former Inco operations, are headquartered in Toronto, Ontario.

| Financial snapshot | US$ (millions) |
|---|---|
| Market Capitalization | 169,189 |
| Revenue | 31,108 |
| EBITDA | 14,173 |
| Cash | 1,533 |

**Source:** Bloomberg, Market capitalization data at October 18, 2010, financial statement data per Q2 2010 financial statements.

### Petrobras

Petrobras is the largest company in Latin America by market capitalization and revenue. The Brazilian Government directly and indirectly holds the majority of Petrobras' shares. Petrobras' business activities include:

- Exploration, production and refining of oil, natural gas, petrochemicals, biofuel and other renewable energy sources. Preliminary calculations indicate that Petrobras' recent oil discovery, the Tupi reserve, could be the third-largest oil reserve on the planet.
- Technology for exploration in deep and ultra-deep waters.

***Fast facts for Canadians:***

- In September 2010, Petrobras raised US$70 billion in the world's biggest-ever share offering. The record offering had total demand of US$140 billion, including notable interest from North American institutional investors.
- In September 2009, Export Development Canada and Department of Foreign Affairs and International Trade Canada hosted an exclusive seminar and business matchmaking event with Petrobras. The high-level mission was aimed at identifying and attracting Canadian suppliers interested and willing to undertake partnerships in Brazil, in conjunction with Brazilian companies. During the mission Petrobras highlighted that it was seeking out Canadian business partners and joint ventures.

| Financial snapshot | US$ (millions) |
|---|---|
| Market Capitalization | 217,634 |
| Revenue | 31,108 |
| EBITDA | 14,173 |
| Cash | 1,533 |

**Source:** Bloomberg, Market capitalization data at October 18, 2010, financial statement data per Q2 2010 financial statements.

### EBX Group

EBX is a conglomerate of companies run by Brazilian entrepreneur Eike Batista. The companies of the group are characterized by X in each of their names, a purported symbol of multiplication of wealth. EBX's subsidiaries include:

- OGX Petroeo, Brazil's largest privately held oil and natural gas company and the second largest Brazilian company in this sector, after Petrobras.
- MMX Mineracao, an iron ore miner, with operations concentrated in Brazil and Chile.
- LLX Logistica, a port terminals logistics company.
- MPX Energia, a generator and distributer of electric energy. (The Company manages hydroelectric, fossil fuel and natural gas electric power generation projects).

***Fast facts for Canadians:***

- EBX has made an unsolicited all-cash takeover offer to Canadian gold/silver developer Ventana Gold. At time of print, no resolution had been achieved.
- Ontario Teachers' Pension Plan (OTPP) owns a 4.77% stake in OGX. (OTPP sold a substantial stake in the company in September 2010. Prior to the sale, the Canadian fund held as much as a 10.67% of OGX and was its second largest shareholder behind Mr. Batista).

| Financial snapshot for publicly traded subsidiaries | US$ (millions) |
|---|---|
| Market Capitalization, **OGX** | 44,566 |
| Market Capitalization, **MMX** | 3,901 |
| Market Capitalization, **LLX** | 3,774 |

**Source:** Bloomberg, Market capitalization data at October 18, 2010, financial statement data per Q2 2010 financial statements.

## Steel/Metals

### Gerdau

Gerdau is Latin America's largest steelmaker and a major global supplier of specialty long steel. Gerdau's main business activities include:

- Production of long carbon steel and specialty long steel.
- Supplier of products to the civil construction, industrial, and agribusiness sectors
- Hydroelectric power generation.

**Fast facts for Canadians:**

- In October 2002, a historical merger took place between Ameristeel, Co-Steel, Gerdau Courtice Steel and Gerdau MRM Steel. The consolidated entity was headquartered in Brazil although the company's mini-mill steel operations, known as Gerdau Ameristeel, were headquartered in Toronto, Ontario. Gerdau Ameristeel was 66.3% owned by the parent Gerdau SA with the remaining 33.7% publicly traded on the TSX and NYSE.
- In August 2010, Brazilian parent company Gerdau SA acquired a remaining 33.7% stake in Gerdau Ameristeel for US$1.6 billion for cash (a 53.4% premium to Gerdau Ameristeel's closing price).

| Financial snapshot | US$ (millions) |
|---|---|
| Market Capitalization | 17,186 |
| Revenue | 15,889 |
| EBITDA | 3,752 |
| Cash | 1,043 |

**Source:** Bloomberg, Market capitalization data at October 18, 2010, financial statement data per Q2 2010 financial statements.

## Food

### Ambev

Ambev is the fourth-largest producer of beer, soda and carbonated drinks in the world. Ambev's business activities include:

- A portfolio of beers including Antarctica, Brahma, Bohemia, Skol, Stella Artois and soft drinks including Guarana and Antarctica.
- Bottling operations (Ambev is the largest bottler of PepsiCo outside United States and sells and distributes Pepsi products in Brazil and other Latin American countries).

**Fast facts for Canadians:**

- Ambev has acquired two major Canadian beer brands:
  - In March 2004, Ambev acquired Canada's John Labatt company from Interbrew for C$8 billion in stock and the assumption of C$1.5 billion in liabilities.
  - In February 2007, Ambev, via its Labatt Brewing Company subsidiary, acquired Canada's Lakeport Brewing Income Fund for total consideration of C$161.15 million.

| Financial snapshot | US$ (millions) |
|---|---|
| Market Capitalization | 79,295 |
| Revenue | 13,340 |
| EBITDA | 5,875 |
| Cash | 393 |

**Source:** Bloomberg, Market capitalization data at October 18, 2010, financial statement data per Q2 2010 financial statements.

## *Aircraft*

### Embraer

Embraer is the world's fourth-largest aircraft maker. The company produces commercial and executive jets, and defence systems.

***Fast facts for Canadians:***

- In 2007, Canadian flight simulation specialist CAE Inc. entered into a joint-venture with Embraer to provide pilot and ground crew training to Embraer customers.
- Canada's Bombardier and Brazil's Embraer, competitors in the jet market, spent the earlier part of the past decade disputing about unfair subsidies. The two firms have a more amicable relationship of late.

| Financial snapshot | US$ (millions) |
|---|---|
| Market Capitalization | 4,938 |
| Revenue | 5,466 |
| EBITDA | 422 |
| Cash | 1,592 |

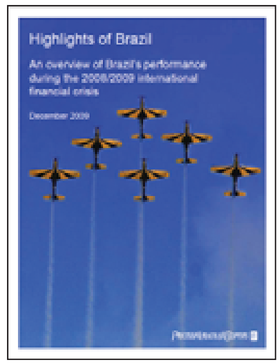
**Source:** Bloomberg. Market Capitalization data at October 18, 2010, financial statement data per Q4 2009 financial statements.

# For further reading


***What's new! In M&A TAX***
A publication by PwC Brazil – 4th Edition – September 2010

Privileged tax regimes, Banking agents and Installment program issued by São Paulo State.

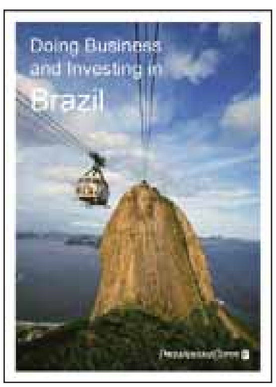
www.pwc.com/br/pt/publicacoes/whats-news-mea-tax/index.jhtml




***Highlights of Brazil***
M&A and Private Equity

An overview of Brazil's performance during the 2008/2009 international financial crisis.

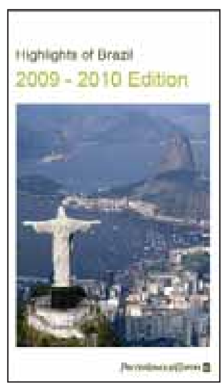
www.pwc.com/br/pt/publicacoes/highlights-brazil-overview.jhtml




***Doing Business in Brazil***
May 2010

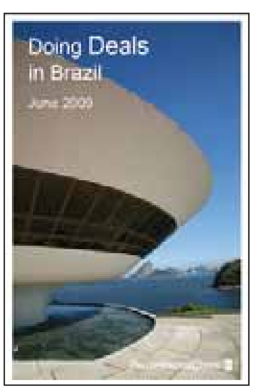
An introduction to the major business and legal issues to be considered by foreign companies in establishing business operations in Brazil.

www.pwc.com/br/pt/publicacoes/doing-business-in-brazil.jhtml



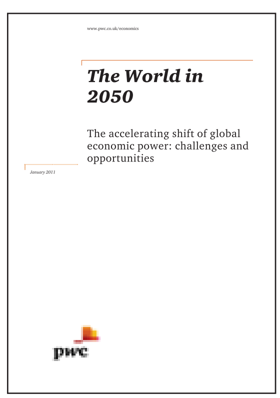

***Highlights of Brazil***
2009 - 2010

www.pwc.com/br/pt/publicacoes/highlights-of-brazil.jhtml




***Doing Deals in Brazil***
2009

www.pwc.com/br/pt/publicacoes/doing-deals-in-Brazil-2009.jhtml




***The World in 2050***
The accelerating shift of global economic power: challenges and opportunities

www.pwc.co.uk/eng/publications/the-world-in-2050.html

# Who to call

**Kristian Knibutat**
National Deals Leader
kristian.knibutat@ca.pwc.com
416 815 5083

**Ajay Chadha**
National Leader
Private Equity
ajay.chadha@ca.pwc.com
416 814 5788

**Doug Frost**
National Leader
M&A Tax Services
doug.l.frost@ca.pwc.com
416 365 8852

**Helen Mallovy Hicks**
National Leader
Valuations, Forensics & Disputes
helen.m.mallovy.hicks@ca.pwc.com
416 814 5739

**Nicolas Marcoux**
Deals City Leader
Montreal
nicolas.marcoux@ca.pwc.com
514 205 5302

**John Nyholt**
National Leader
Transaction Services
john.nyholt@ca.pwc.com
416 815 5086

**Dave Planques**
National Leader
Corporate Advisory & Restructuring
david.planques@ca.pwc.com
416 815 5275

**Robert Sandy**
Deals City Leader
Vancouver
robert.j.sandy@ca.pwc.com
604 806 7422

**Robert White**
Deals City Leader
Calgary
robert.s.white@ca.pwc.com
403 509 7345

## Authors

*Kristian Knibutat*
kristian.knibutat@ca.pwc.com
416 815 5083

*Vanessa Iarocci*
vanessa.s.iarocci@ca.pwc.com
416 941 8352

*Guilherme Reis*
guilherme.b.reis@ca.pwc.com
416 941 8383 ext. 25319

## Media enquiries

*David Rowney*
Senior manager,
Media Relations
david.rowney@ca.pwc.com
416 365 8858

**Sources**

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