

Europe PE Hits Brazil

by Taina Rosa

UK-based private equity (PE) firm Apax Partners is busy looking for acquisition opportunities in Brazil, alongside a growing number of European investors. In June, it made its first investment in the country when it acquired a 54.25% stake in technology company Tivit for 874 million *reais*. It now seeks to do bolt-on acquisitions to grow Tivit and to purchase companies in other industries as well.

This marked the largest deal a European PE firm has ever made in Brazil, according to Washington D.C.-based Emerging Markets Private Equity Association (EMPEA). It is also the first take-private in Brazil, according to Jason Wright, partner at Apax.

"The deal is also notable because it was a secondary sale, which is not the norm in Brazil," says Carlos Ascitti, head of Brazil PE at Ernst & Young.

Apax, which has \$35 billion in AUM, expects to do more deals in Brazil.

"We have investment professionals from each of the sectors we focus on spending time in Brazil looking for opportunities," Wright tells *LatinFinance*. The sectors Apax focuses on are tech/telecoms, media, healthcare, retail/consumer and financial/business services. "We are actively building a pipeline of opportunities in Brazil," says the investor.

Apax may also buy elsewhere in LatAm. "We are currently evaluating a financial services company and an education services company," Wright says without disclosing the size of the target companies.

He also notes that Apax has financing sources locally with Bradesco, Santander and HSBC. These banks plus Itaú also bring ideas to the company for acquisitions.

Wright says Apax does not have a specific amount it would like to invest in Brazil in the next year. "We don't

Apax Partners last year announced its first deal in Brazil and is actively building a pipeline in LatAm. More European private equity firms are following its lead.



Apax building Brazil pipeline: Wright

have dollar allocations by industry or by geography. We pursue attractive deal opportunities globally which typically results in a diversified portfolio across all core sectors," he explains.

Meanwhile, Apax, which was expected to have consumed most of Tivit by the end of February – all but a 2.2% stake held by Tivit CEO Luiz Mattar – also wants to buy companies to merge into Tivit.

Apax now has three business units in Brazil: business process outsourcing [BPO], IT outsourcing and application systems. "We are looking for acquisitions particularly in application systems. It is the smallest and fastest growing of our business segments. It is an area in which we think we can create a significant business," says Wright.

He adds that outsourcing is second

priority for Tivit's growth. "Our goal is to get a deal done in the first six months of 2011," says Wright, adding that this will be in one of the three Apax business units.

Wright says Apax does not have a stated target in terms of enterprise value for potential acquisitions. "Most of the businesses we are looking at fall between the 50-200 million *reais* range in terms of revenue. I think five to six times Ebitda is a target range for these companies which are relatively small," he explains. "Some of them have employees who are not registered so upon acquiring them we will have to register all the employees which results in an additional expense to Tivit," he adds.

The Tivit acquisition was made via the \$15.9 billion Apax Europe VIII and \$856.3 million Apax US VII funds, Wright says without disclosing why two fund were used. Apax is reportedly currently seeking to raise a new multi-billion fund, but Wright declines comment on the matter.

Euro-Brazil PE Connection

Apax is joined by other European private equity shops in pursuit of Brazilian assets.

UK-based Actis made its first investment in the country in September, acquiring supermarket chain Companhia Sulamericana de Distribuição (CSD) for \$58 million equivalent. In November, it purchased Gtex Group, a cleaning products manufacturer, for \$53 million equivalent.

It also took a minority stake in XP Investimentos, Brazil's largest independent brokerage firm, through a capital injection of \$58 million equivalent.

Actis says it will work with XP to prepare an IPO. All three investments were made through the firm's \$2.9 billion Actis Emerging Markets III fund.

Actis, which has almost \$5.0 billion in assets under management (AUM), seeks opportunities with a minimum investment of \$50 million. Its focus is consumer goods, retail, financial services, housing, entertainment, media, healthcare and education. All are seen benefitting from strong growth in Brazilian consumer demand and financing.

Meanwhile, Swiss asset management firm Capital Dynamics, which focuses on private equity, said in July that it was opening an office in Rio de Janeiro. The firm says it wants to strengthen relationships with PE fund managers in LatAm.

"We are quite bullish on the region's abundant opportunities," says Filipe Cerqueira Caldas, head of business development at Capital Dynamics in Brazil. Capital Dynamics manages more than \$21 billion in PE and real estate funds globally. The firm says it has helped obtain more than \$125 million in commitments from clients to LatAm PE funds.

Also from Switzerland, global private markets investment manager Partners Group announced in January that it is opening an office in Brazil. "São Paulo offers an excellent position for further expansion in a promising growth market. The country had a modest recession followed by a quick recovery and is back on a growth path," says Urs Wietlisbach, founding partner and executive vice chairman.

"This favorable investment environment is due to political and regulatory stability, dynamic economic growth, increasing prosperity, and strong domestic demand," he says. Partners Group has \$15 billion in PE AUM.

Spain's Mercapital, with about \$1.6 billion euros in AUM, in September opened an office in São Paulo.

Riding Middle Class Growth

When Brazil's growth outlook is taken into consideration, it is clear why European PE firms are chasing local assets.

Take the country's growing middle class. Over the last 10 years, partly as a

their counterparts in more economically developed nations, the report adds.

The report also shows that in 2009, the latest data available, almost 60% of Brazil's population was part of the middle class, up from slightly more than 40% in 2002. In 2010, domestic demand in Brazil is projected to have increased 6.3%, according to Ernst & Young. Meanwhile, domestic demand was expected to have grown only 3.4% globally, it adds.

There are other reasons why foreign PE is so interested in Brazil. One of them is that PE penetration in Brazil, at 0.07% of GDP, lags other countries. Ernst & Young says that among BRIC countries, only Russia, with PE penetration at 0.03% of GDP, trails Brazil.

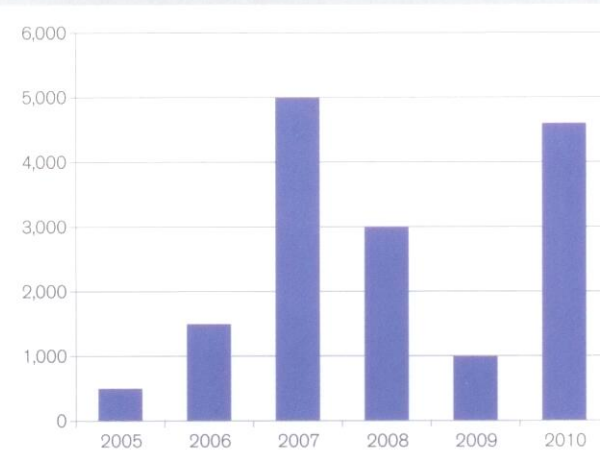
China, at 0.13% of GDP, has nearly twice the PE activity relative to its GDP. India is currently the global leader at 0.32% of GDP, ahead of even the US (0.30%) and Europe (0.20%), the report says.

Also attractive is Brazilian capital markets' maturation over the past 10 years. Ernst & Young says better transparency, reliability, and a regulatory framework that is up to international standards is likely to draw even more foreign investors to Brazil in the coming years.

Brazil's need for infrastructure investment, driven partly by the upcoming 2014 World Cup and 2016 Olympic Games, is also drawing PE firms' attention, although they are not likely to provide a large chunk of the \$50 billion in investments required, says Ascitti. "Most

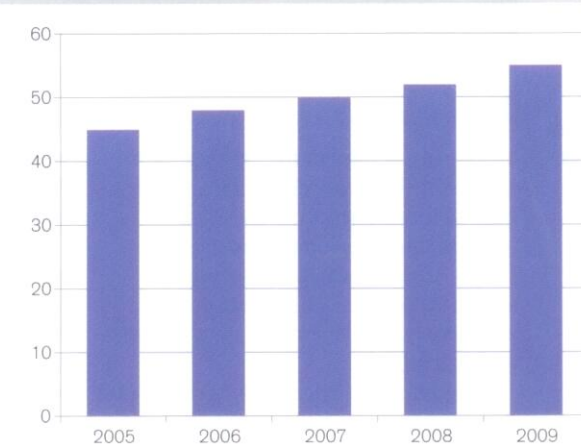
of the investments in infrastructure will come from strategic players in the sector," he adds. **LF**

PE Investment in Brazil (\$m) Volume rebounds in 2010



Source: Emerging Markets PE Association

Brazil's Middle Class Growth (% of Population) Steady growth since 2005



Source: FGV Research

result of government policies designed to stimulate employment, maintain low inflation and better distribute the country's growing wealth, nearly 30 million Brazilians have entered the middle class, according to Ernst & Young's Brazil PE report, published in 2010. They are starting to consume nearly as much as

UPDATE

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