



Brazil highlights

Global Capital Confidence Barometer



Felipe Miglioli
EY-Parthenon |
Strategy Services
Ernst & Young Assessoria
Empresarial Ltda.
+55 11 2573 5617
felipe.miglioli@br.ey.com

A note from Felipe Miglioli, Partner, EY-Parthenon | Strategy Services, Ernst & Young Assessoria Empresarial Ltda.

Brazilians feel confident about the economy but take a wait-and-see approach to M&A

Since we last surveyed Brazilian companies for our M&A report, respondents say they are seeing some signs of economic recovery. According to the latest edition of the EY *Capital Confidence Barometer*, 82% are saying the local economy is growing, up from 56% a year ago. This positive sentiment is underpinned by improvements across a range of domestic macroeconomic indicators, with 88% feeling positive about corporate earnings (versus 50% in October 2018), credit availability (81% versus 59% in October 2018) and short-term market stability (80% versus 57% in October 2018).

This increase in confidence may, in part, be attributed to the structural reforms that the new Government under President Bolsonaro is either in the process of implementing or is discussing. The recently enacted social security reforms, for example, are expected to have a positive long-term impact on the financial well-being of the country. Similarly, tax reforms, which the Government plans to have in place for next year, are expected to simplify some of the current taxation complexity and improve efficiencies within the system. Additional reforms, such as the Government's privatization agenda, may also yield positive returns in the medium term. As a result, 79% of Brazilian companies expect revenues to increase in the next 12 months; 76% expect profit margins to improve within the same time frame.

Despite the positive sentiment, Brazilian executives are aware of the risks, with regulatory uncertainty, slowing local economic activity and political uncertainty topping the list. Although many in the business community feel that the Government is moving in the right direction, they are neutral about seeing positive results in the short term. Further, Brazilian executives are conscious of the shifting political environment in neighboring countries. Argentina, one of Brazil's largest trading partners in the region, recently elected a socialist president, which may have an impact on that country's economy as well as relations with Brazil's more conservative president.

M&A takes a back seat amid regulatory and political uncertainty

Concerns relating to regulatory and political uncertainty have Brazilian companies taking a wait-and-see attitude toward dealmaking, with only 29% of executives saying they plan to pursue M&A in the next 12 months, down from 45% six months ago. Of those on the hunt for assets, half (52%) are seeking transitional capabilities and companies that offer new routes to the customer, and can fast-track their growth and digital agendas. Interestingly, one-third (32%) are looking to make a transformative deal that could fundamentally reshape their business.

Digital and technology form critical foundations for future growth

Whether Brazilian companies are looking to buy assets for their transitional capabilities or to fundamentally reimagine their businesses, digital and technology sit at the core of their decision-making. Brazilian companies understand the impact that changes in customer behaviors and preferences are having on their companies and the competitive pressures that stem from these changes. As a result, although three-quarters of Brazilian executives say that digital capabilities are infused throughout their business, 76% plan to spend 25% or more of their total annual investment capital on digital and technology. Eighty-four percent say that their company has a clear vision for digital technology's transformational impact on their business strategy. Meanwhile, an overwhelming 92% agree that digital transformation will present them with an opportunity to reposition their overall business strategy and reshape their portfolio.

Top five investment destinations



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While a clear majority of Brazilian companies agree on the need for digital transformation, they are split on the route: 46% say they will develop their digital and technology capabilities in-house, whereas 52% say they will consider joint ventures, alliances, acquisitions and external venture funds to accelerate their digital journey. Regardless of which route they take, Brazilian companies will be making digital and technology a foundational element of their growth agenda.

Executives focus on building resiliency

69%

expect the domestic M&A market to improve in the next 12 months.

29%

are planning to actively pursue M&A in the next 12 months.

81%

expect an increase in hostile and competitive bidding in the next 12 months.

Talent search for tech positions is a challenge

50%

say they find hiring or retaining staff difficult.

58%

tell us the challenge with hiring and retaining staff is finding talent with specific technical skills relevant to their core business.

28%

say reducing barriers to entry and new players entering the market are the biggest disruptions from digital transformation.

Executives remain focused despite slowdown talk

67%

do not expect an economic slowdown in the near to mid term.

36%

are actively planning to respond to ongoing geopolitical, trade and tariff concerns.

16%

say talent shortage and margins are the most significant challenge to their company's growth plans.

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