November 2018 | 19th edition | ey.com/ccb

Building a better working world

# 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.**

## New government spells good news for M&A outlook in Brazil

When we were surveying Brazilian executives for the latest edition of our semiannual M&A report, the *Capital Confidence Barometer*, there was an overwhelming feeling of uncertainty as everyone awaited the outcome of the country's recent elections.

For 36% of Brazilian respondents, evolving government and regulatory intervention were seen as key risks to business growth, while 41% saw regulatory and political uncertainty as an ongoing concern for dealmaking.

Although executives expressed overwhelming confidence in the global economy, we saw optimism in the local economy diminish somewhat, with 56% of Brazilian executives indicating it was improving, down from 84% six months earlier. We believe a slower pace of economic recovery than earlier this year contributed to this sentiment.

As a result of the uncertainty, we saw many Brazilian companies delay their M&A intentions; 42% of executives said they would be pursuing deals in the next 12 months versus 72% six months previously. Those who were forging ahead with transactions were primarily looking to address changes in customer behavior or enter new markets.

In this state of change, 61% of Brazilian companies indicated they had turned their attention inward, focusing on improving working capital management as part of their capital allocation strategy and investing in existing operations. Brazilian companies also stepped up the pace of their portfolio reviews, with 78% finding assets ripe for divestment, either because they were underperforming or at risk for disruption.

Now that elections are over and Brazil has elected a pro-business candidate as president, we anticipate an uptick in M&A activity in the months ahead. There is some consensus that Brazil's new president will introduce fiscal reforms that will improve market confidence and attract new investment. Specifically, we expect to see the privatization of public companies across numerous industries, from infrastructure to energy. We also anticipate that the new government will create incentives to encourage public-private partnerships (PPPs) to fund infrastructure, health care and education programs.

Given these developments, we will be looking for private equity to play a much larger role in the M&A market, something 39% of Brazilian executives expect will be a key M&A theme in the next 12 months. In fact, more than half expect their fiercest competition to come from private equity firms, venture capital and sovereign wealth funds. In the spirit of the saying: "if you can't beat them, join them," Brazilian corporates may want to consider collaborating with private equity on some deals rather than competing against them.

## Macroeconomic and external environment

Strong corporate earnings and open credit markets point to a continued upswing in equity markets.

**56%**
see the local economy as improving.

**50%**
see corporate earnings improving.

**64%**
expect the M&A market to improve.

## Buy and integrate

Executives see the M&A cycle continuing at elevated levels. While some executives look to pause their dealmaking, for others, M&A remains an imperative. Identification and realization of synergies are at the center of M&A value creation.

**42%**
expect to actively pursue acquisitions in the next year.

**60%**
are starting integration planning earlier.

**50%**
say they achieved lower synergies than anticipated in their most recent deal.

## Major M&A themes

Trade and tariff issues are compelling some executives to pause their M&A plans. Private equity is seen to be a major influence in near-term dealmaking, and cross-sector dealmaking is on the rise.

**41%**
cite regulation and policy uncertainty as the biggest potential risks to dealmaking.

**34%**
see an increase in cross-sector M&A driven by technology and digital.

**51%**
expect more competition for assets from private-equity buyers.



EYG no. 012205-18Gbl
1808-2856410
ED None