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Building a better working world

Brazil highlights

Global Capital Confidence Barometer

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

Brazilian companies focus on building resilience as valuation gap tempers M&A appetite.

It's been seven months since Brazilians elected Jair Bolsonaro as their new president, and executives are beginning to see the direction the new Government is taking to get the economy back on track. Overall, Brazilian executives are feeling positive based on what they've seen so far, according to the latest edition of the EY *Capital Confidence Barometer*.

Ninety-three percent of Brazilian executives surveyed expect the global economy to improve over the next 12 months. More than three-quarters (76%) express a similar sentiment about the domestic economy, down from a year ago, but well up from two years ago. At the time of our M&A survey, the Government's pension reforms – a key driver to help cut public debt and spur economic growth – were still winding their way through the legislative process, which may have contributed to a slightly more cautiously optimistic outlook. However, confidence remains strong across important economic and corporate fundamentals, both globally and domestically.

The one area executives are keeping a close eye is credit availability. While 57% expect this to improve in the months ahead, a larger percentage (19% versus 2% a year ago) see the potential for less credit availability. In fact, one in four (24%) Brazilian executives cite lack of access to credit as the greatest risk to the growth of their business, only behind slowing economic activity (28%). A similar percentage (23%) indicate that access is vital for their own company's growth plans. Even as Brazil emerges from several years of economic turmoil, credit availability remains elusive for some companies, as banks and investors hang back until they are sure the signs of economic recovery they're seeing hold firm.

As Brazilian executives consider their capital accessibility concerns, one in five (19%) cite improving their capital structure as a top capital allocation priority, along with more traditional investments in existing operations (18%) and restructuring their existing business (18%). Nearly half (48%) of Brazilian executives indicate they are reviewing their portfolios every quarter or more frequently. Following their most recent portfolio review, 38% say they reshaped their capital allocation across the whole portfolio.

As Brazilian companies wait for funding to return to the market and watch as the valuation gap between buyers and sellers widens, they are selective with their M&A ambitions. While nearly half (47%) continue to look for emerging opportunities through M&A, this is down considerably from the 72% that were looking to make deals a year ago. Key drivers for their M&A activity are to grow into adjacent business activities or to acquire technology, talent or production capabilities that can help them innovate. More than 80% of Brazilian executives expect the majority of their M&A targets to be cross-border, with the US, Mexico, India and China among their top destinations outside of Brazil.

Looking ahead, while there are many more steps to go in the process before pension reforms can be finalized, the Brazilian Government cleared a key constitutional hurdle in late April 2019, allowing the reforms to proceed to Congress. In the short term, the length of time it takes for the Government to pass the bill may continue to place downward pressure on Brazilian markets. In the longer term, if the law passes, we expect it to give the domestic economy a lift and open the doors to new funding opportunities for Brazilian companies.

Top five investment destinations

1. US
2. Brazil
3. Mexico
4. India
5. China

Macroeconomic environment and risks to growth

Despite concerns of a slowing economy as a primary threat to growth plans, companies remain optimistic about their own performance and growth potential.

76% see the local economy as improving.

40% expect revenue growth of 6%–10% in the next year.

28% cite slowing economic growth as the greatest external risk to their business.

Portfolio reshaping and long-term value creation

Companies are building resilience into their operations and are instilling financial discipline as they realign to future-proof growth.

36% say they are focused on working capital and cash flow optimization to build resilience.

48% are reviewing their portfolio at least quarterly.

29% say expanding business into adjacent sectors is a priority for growth.

M&A outlook and major themes

Executives are looking for future growth and transformation through M&A.

60% expect the M&A market to improve.

47% expect to actively pursue acquisitions in the next year.

52% expect to aim future deals on access to new markets, customers and intellectual property (IP).

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