

# Brazil highlights

## Global Capital Confidence Barometer



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## Brazilian companies focus on resilience now, transformation next

Although Brazil's first COVID-19 case was confirmed on 26 February, the number of cases in the country only began to rise significantly from 17 March on. On 21 March, the state of São Paulo ordered the suspension of all nonessential services. As of 24 March, stores and malls were shut down, and many businesses shifted to work-from-home models. The state of São Paulo accounts for a substantial portion of Brazil's main businesses and accounts for most of the country's gross domestic product (GDP) compared with other states.

The current edition of the EY *Global Capital Confidence Barometer* is based on results from a survey that began on 5 February and closed on 27 March, with new, COVID-19-specific questions added after 19 February.

It's important to provide this context in explaining why, in general, the Brazilian business community appears more optimistic about the impact of the pandemic on the global economy compared with global executives. This is especially true in relation to Asia-Pacific executives, who have been experiencing the impact of the crisis for a longer period.

With these factors in mind, when we evaluate the survey responses from Brazilian executives, we notice that despite the overall higher optimistic results, executives surveyed after 19 February have deteriorating views. We expect this trend to intensify week after week since Brazil's situation regarding the virus is evolving. As a result, we anticipate that the declining perspective about the global and local economic prospects may continue as the impact of COVID-19 in Brazil becomes more acute.

### Brazil executives expressed greater optimism than global executives, but had a sense of what was ahead

Of the global executives interviewed after 19 February, almost half (46%) perceive the global economic outlook to be negative; slightly more than one-third (35%) of Brazilian executives share a similar sentiment. In terms of COVID-19's effects on the global and local economies post-19 February, 56% of global executives believe the pandemic will have a minor impact, whereas 78% of Brazilian executives expect only a minor impact.

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Executives in Brazil are focused for now on resilience but expect M&A will help them accelerate transformation in the next and beyond.

**Q** What is your perspective on the global economic growth today?

Before 19 February 2020



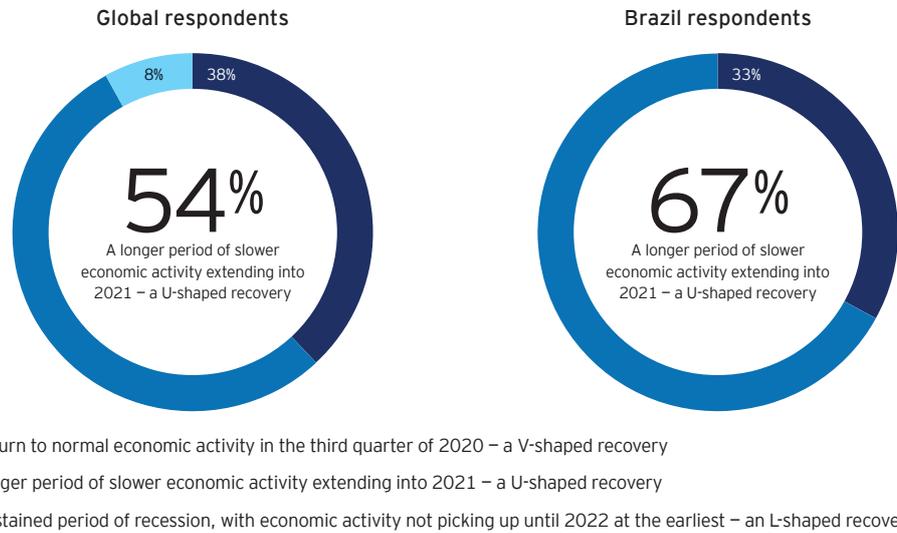
After 19 February 2020



Positive Stable Negative

Despite their relative optimism, even before Brazil's COVID-19 numbers began to rise, Brazilian executives seemed to have a sense of what was to come, as 67% of Brazilians say they are preparing for a U-shaped recovery vs. 56% of global respondents.

**Q** What economic scenario is your company currently operating under?



**For now, Brazilian companies need to focus on resilience**

The sudden and unexpected nature of the pandemic is compelling Brazilian executives to reassess their operating models and search for ways to become more agile and resilient. The unique nature of current events now demand that Brazilian companies take steps that they may still not yet be fully prepared for.

Although Brazil is less exposed from a global supply chain perspective – ranking 157th in the World Bank's 2018 rankings for foreign trade openness – we expect many businesses will experience significant disruption to their operations. According to executives, the sectors most affected by COVID-19 in Brazil are advanced manufacturing, transportation and automotive, consumer and financial services. On the other hand, the least impacted sectors are telecommunications, media and entertainment and life sciences.

Ensuring liquidity and credit access will be essential for sustainability. The crisis also demands that all businesses provide more transparent and enhanced communication with their stakeholders.

With vulnerabilities in the supply chain due to interruptions of some services and sectors, 83% of Brazilian executives say they are re-evaluating or are already taking steps to change how they manage their workforce; another 61% are reviewing or are making changes to accelerate their plans for automation.

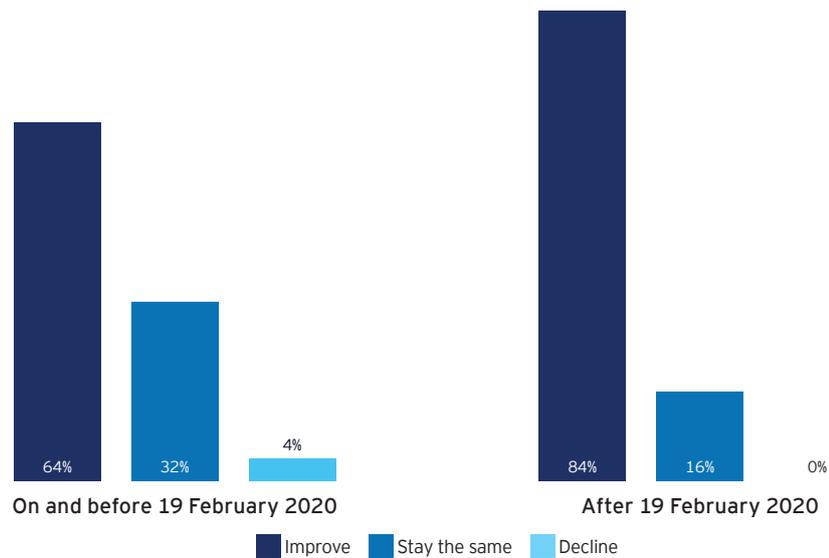
**Preparing for what comes next, companies will restart their transformation plans**

Consistent with what global executives indicated prior to the crisis, transformation was high on the corporate agenda in Brazil. These plans have been paused for many companies. Many companies have suspended these plans, but they should be relaunched – with more energy, if possible – as soon as the situation stabilizes.

**M&A will play a role in transformation as companies look beyond the crisis**

The pandemic will bring long-lasting change on many fronts, including customer behaviors. Business models will have to change, and we expect some companies will use M&A to help drive transformation. Some Brazilian companies will seek to acquire assets that fit new business models or are available at favorable valuation. Others will look to restructure by divesting of assets.

**Q** What is your expectation for the M&A market in the next 12 months?



Interestingly, although the perspective on the economy deteriorated among executives surveyed after 19 February, sentiment about the M&A outlook improved. While 58% of Brazilian executives say they had plans for M&A in the next 12 months after 19 February, the percentage rose to 65%. Further, 70% of Brazilian executives believe the global M&A market will improve in the months ahead, vs. 60% of global executives. Their perspective on the local M&A market was even more optimistic, with 84% of Brazilian executives expecting prospects to improve over the next 12 months post-19 February (vs. 64% of pre-19 February executives).

These results reflect executives' perspectives at a moment while a cascading crisis unfolds across the globe. It's hard to know what lies ahead, particularly as conditions within Brazil continue to change rapidly. In the short-term, the "new normal" means addressing challenges amid an environment of constant change. For most companies, the total impact on revenue and profitability remains uncertain.

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