

# Mergers and acquisitions in Brazil hit a new record

By Caroline Martin and Thais Santi

The global scenario is still adjusting to the changes caused by the economic collapse that occurred three years ago. The transition phase is marked by stronger emerging countries in relation to rich nations, which are recovering at a slower pace. In the current context, developing countries showcase all their potential to investors. Among these fertile and promising lands for doing business, Brazil is at the same level as those countries that receive most of the investments: China, India and Russia.

A study conducted by KPMG, a global network of firms that offer Audit, Tax and Advisory services, registered a record number of merger and acquisition transactions concluded in the country in 2010. A total of 726 deals compared to the 454 in 2009, representing an increase of 60%. “The decisive factor in breaking this new record was the appetite of foreigners to acquire Brazilian companies in the country”, explains Luis Motta, KPMG partner and executive responsible for the study.

Foreign interest, however, did not make domestic movements less advantageous. The favorable economic outlook opened many other doors. For example, it allowed Ibema Companhia Brasileira de Papel and Papirus Indústria de Papel S.A. to sign a letter of intention to work together in the paperboard segment. The merger should be concluded in the first semester of this year and will combine Ibema’s 12% market share with Papirus’ 13% share in the domestic market. With this new structure, the companies aim to generate more value for its clients and boost competitiveness.

In the acquisitions side, Suzano Papel e Celulose announced in December the purchase of Conpacel (Consórcio Paulista de Papel e Celulose) assets that it shared with Fibria. The financial settlement of the transaction including the formalization of all definitive instruments should take place during 2011.

According to the sectorial analysis accumulated for the year, nine alliances took place between pulp and paper players. Said figure is well below that of other segments, such as Information Technology; Food, Beverage and Tobacco; Real Estate and Energy; and Oil & Gas, which registered 85, 42, 41, 35 and 34 deals, respectively. However, Motta explains that the small number of transactions involving large amounts of money is typical of already consolidated industries, which is the case of companies in the sector.

In an interview to **O Papel**, the executive discusses aspects pointed out in the study and prospects the paths that will be pursued this year by the market. In terms of acquisition perspectives, forestry assets stand out as promising in the pulp and paper sector. “With the increase in matters relating to sustainability, Brazilian and foreign investors have demonstrated significant interest for buying land”, he said.



**Motta: “It’s not only foreign companies that are coming to Brazil; our companies are also turning into multinationals, denoting a very positive two-way road”**

**O Papel** – What are the reasons that led to a record number of mergers and acquisitions in Brazil last year?

**Luis Motta** – It’s a sum of factors. The main one is that Brazil recovered quickly from the crisis, creating a favorable environment for these negotia-

tions. 2010 was a year of growth, with a significant reduction of risks in the economy. This reality, coupled with the growth perspectives, allowed for more positive projections leading companies to assume certain risks. Another very important factor – observed mainly in

the first quarter of last year – is that a series of projects that were put on hold during the crisis started up in the market again. On top of all this, the return of foreigners into Brazil represented another key factor that contributed to achieve this record.

**O Papel** – What factors led foreigners to resume interest in Brazilian companies?

**Motta** – Up until the first quarter of 2010, foreigners were repressed as they didn't have a clear perception about Brazil's growth and reduced risk. Additionally, investors from the United States and various European countries faced financial difficulties with the significant withdrawal of capital from the market. This context, of unfavorable foreign scenarios and a hotter Brazilian market, was sufficient for a massive return, in levels never seen before on the part of foreign investors.

**O Papel** – Is this favorable trend expected to continue in 2011?

**Motta** – This year has all the ingredients to be even better than 2010. Even though we no longer have the trend of repressed transactions, figures for last year convey that the trend shall continue. In the first quarter of 2010, 160 transactions were concluded. This figure increased to 191 in the second quarter and to 195 in the last quarter. Brazil's economic situation is the key factor for sustaining this positive trend. We are seeing continued scenario of low risk and growth perspectives. It is also important to point out that Brazil will be receiving a series of investments on account of upcoming sporting events it will host over the next years – a factor that comes into play to add even more fuel for a good year to take place.

**O Papel** – Which countries stand out in the purchase of Brazilian assets?

**Motta** – The majority of deals were done by American companies, followed by French and Chinese. Even though we have a greater number of deals on the part of Americans, the majority of them were medium sized, while those made by Chinese were more directed at industries characterized by larger sized

investments, such as the commodities and energy sectors. Asian presence will tend to increase throughout 2011 and 2012. These investors shall become stronger, creating challenges for those in the market, beginning with cultural issues. It is necessary to know how to negotiate and integrate with them.

**O Papel** – Are there any risks involved in foreign interest?

**Motta** – I see a lot more benefits than risks. When a foreigner invests in a company, the project becomes part of a global platform, with access to other modes of capital and new business practices. It also opens doors for exporting good practices to the investing company. Obviously, every investment has a rate of return. At some point in time foreign investment will have to remunerate the capital that is brought into the country. In the present context of Brazil's economy, we have attributes that allow for this return with a lower level of risk, especially due to the transparency in various segments of the country's industry. It is important to mention that Brazilian companies have been making acquisitions and becoming multinationals, conveying a very positive two-way highway. It's not only foreign companies that are coming to Brazil; our companies are also being competitive abroad.

**O Papel** – What reasons can explain the interest for mergers between Brazilian companies?

**Motta** – Several Brazilian companies did IPOs these past few years and a large part of these mergers have been carried out by such companies. The explanation is that they went after resources to consolidate markets. Deals that we hadn't seen being made in the past four years were closed in various segments, such as in the food, information technology and civil construction sectors. Another important aspect is

that many companies began to focus on catering to classes C & D.

**O Papel** – Does the pulp and paper sector present favorable characteristics for mergers?

**Motta** – This is a sector that tends not to have many transactions. The number of deals done in 2010 was small when compared to other sectors. On the other hand, it is an industry that tends to present the largest financial transaction volumes. This fact is noted, since the sector is already well consolidated and comprises big players. There are a series of mechanisms involved in large size investments, however, in this niche the forestry sector stands out as promising, with a growing concern towards sustainability matters. Brazilian and foreign investors have shown considerable interest for purchasing land.

**O Papel** – Can alliances between big players make small and medium sized companies less competitive or cause other difficulties in the Brazilian market?

**Motta** – Every market that undergoes consolidation brings about consequences, including challenges for smaller sized players. However, certain industry segments need scale and require big investments to be competitive. Without a doubt, it is important to avoid monopolies, however, there are several types of competition nowadays. When we talk about market concentration, we need to analyze the industry segment that companies are in. In the iron ore segment, for example, competition takes place on a global level, between big companies. Organizations that do not present large volume scales are not competitive in essence. On the other hand, in the education segment (educational institutions), this competition is seen even more in Brazil, especially between large and medium-sized institutions. 