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# CONTENTS

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## BRAZIL EYES POST-PANDEMIC RECOVERY

04 The largest economy in Latin America has embarked on a series of reforms to help drive investment.

## Q&A: RODRIGO ZAMBON

06 Professional services firm TMF Group established its Brazil operations in 2006, the managing director of TMF Brazil talks about the company's expansion in the country and reflects on how the investment environment is changing.

## SALE OF BRAZIL'S INFRASTRUCTURE ASSETS STAYS ON TRACK

07 The country's privatisation programme goes on.

## BRAZIL POWERS UP ITS ENERGY SECTOR

09 The country eyes more renewable energy capacity.

## INVESTORS EYE PRIVATE CAPITAL OPPORTUNITIES

10 Venture capital and private equity investment booms on the back of "unimaginable" monetary stimulus.



Major player: Brazil's GDP of \$1.4tn made it the 12th largest economy in the world in 2020

# Brazil eyes post-pandemic recovery

**THE LARGEST ECONOMY IN LATIN AMERICA HAS EMBARKED ON A SERIES OF REFORMS TO HELP DRIVE INVESTMENT. WENDY ATKINS REPORTS**

**B**razil has been in the spotlight many times over the past decade. Its hosting of the 2014 Fifa World Cup and the 2016 Olympic Games showed the world the now iconic images of its coast and hinterlands, projecting an upbeat picture of a nation that is moving forward, enjoys life and has seen rapid growth. But the recession and political turmoil in the mid 2010s, and the scrutiny that came with its handling of the Covid-19 pandemic, have highlighted some of the challenges that it continues to face.

As it emerges from the pandemic, international perceptions of the country are shifting as it continues with its series of reforms aimed at reducing public spending and debt, driving investment and lowering barriers to foreign direct investment (FDI). In turn, this is helping its efforts to join the Organisation for Economic Co-operation and Development (OECD) as a full member – something that moved a step closer in January 2022 when the

OECD Council decided to open accession discussions with the country.

## Size matters

Brazil is the largest economy in Latin America and has traditionally been a popular destination for international companies looking to expand their regional footprint. Its 213 million-strong population, growing urban middle class, wealth of natural resources and favourable geographic location have encouraged firms to set up shop here to access increased internal demand, and the growing number of business opportunities in strategic sectors such as agribusiness, energy, infrastructure, real estate and innovative technologies.

Apex-Brasil, the country's investment promotion agency, reports that there is a strong pool of local talent that is motivated to develop new skills. Universities and higher education institutions are producing the next generation of workers for a variety of internationally focused sectors including spacetechnology, biotech and renewable energy.

Reform of labour laws is giving employers more flexibility. "The economic liberty law of 2019 has been seen as a huge contribution to economic growth, as it relieves govern-

mental interference in entrepreneurial activity," says TMF Brazil managing director Rodrigo Zambon (see interview on page 6).

According to the World Bank, in 2020 the country's gross domestic product (GDP) was \$1.4tn, making it the 12th largest economy in the world and the largest in South America.

In its May 2022 economics research assessment of Brazil's economy, Goldman Sachs revealed that it is upgrading its forecast for real GDP growth in 2022 from 0.6% to 1.25%, while downgrading its predictions for 2023 from 1.9% to 0.9%.

"This will be a year of two very distinct halves," Alberto Ramos, head of the Latin America Economic Research team in Global Investment Research at Goldman Sachs, tells *FDI*. "In the first half there will be the residual effects of the reopening – particularly among some services segments – significant fiscal stimulus and the use of pent-up savings."

He believes that part of the resilient first-quarter growth momentum will carry over to the second quarter, but the second half of 2022 will be difficult given very tight domestic financial conditions, double-digit inflation, record-high levels of household debt and the uncer-

tainty surrounding presidential elections in October.

Geopolitics is also having an impact on its economy, despite the geographic distance from the war in Europe. Giovanni Loss, oil and gas partner at legal firm Mattos Filho says: "The increase in oil and gas prices as a result of the war in Ukraine is making the oil and gas sector in Brazil more attractive. In particular, this is because we have lots of reserves yet to be developed."

### Foreign entrants

Having been hit by the pandemic in 2020, which saw FDI inflows plummet in key sectors such as oil and gas, energy, financial services, and travel and tourism, the country started to bounce back in 2021. According to Unctad, Brazil received \$58bn in FDI – almost double 2020's amount – but still below pre-pandemic levels of \$72bn in 2019.

The energy, infrastructure, sustainable tourism and technology sectors have all been among the winners of new investments, driven by a number of investment partnership programmes (PPIs), auctions, leasing and privatisation initiatives, which are continuing into 2022 and beyond. Recent headline grabbers include the privatisation of the national insurance company La Caixa and the sale of several Petrobras subsidiaries, including Petrobras Distribuidora and Liquigás.

PPIs, which were created by the federal government in 2016, form the base of Brazil's attempts to reinvent itself as an investment destination for large-scale infrastructure projects.

Apex-Brasil reveals that since 2021, PPIs have been involved in more than 50 auctions, including one for the country's 5G spectrum in November last year, which mobilised \$7.7bn in investment, making it the largest auction of telecom assets in Latin America to date. Among the successful bidders were Spain's Telefonica, which runs Brazil's largest wireless carrier under the Vivo brand, Telecom Italia's TIM Brasil, and new domestic player Winity II. Other notable auctions include the sixth round of airport concessions valued at \$1bn and the \$988m East-West Integration Railway.

Although the country is making progress in liberalising its markets, reforming labour laws and easing bureaucratic pressures, businesses say there is still a way to go.

According to TMF Group's Global Business Complexity Index 2021, Brazil comes first in its ranking of the top 10 most complex jurisdictions in which to do business. Mr Zambon says the country has a multi-layered system of governance which can make company incorporation bureaucratic and slow. He adds that tax rates are complex, too.

### Innovation, research and development

Technology and entrepreneurship are becoming important components of Brazil's economy. As well as assisting home-grown firms to support local markets, the country is also serving as a launchpad from which domestic companies can establish their business roots before spreading their wings globally.

According to Statista, Brazil is one of the top five economies for business creation and has been the launch pad for more than 13,000 start-ups over the past decade.

It is also home to several 'unicorns' (companies valued at more than \$1bn). One of the country's biggest start-up successes is Nubank, which was founded in São Paulo in 2013 and became the most valuable financial group in Latin America with a valuation of almost \$50bn after its initial public offering in 2021.

Embrapii, Brazil's research and industrial innovation agency, drives the country's development of new products, processes and business solutions. According to Apex-Brasil, in seven years, Embrapii has provided more than €307.6m to support 1400 projects and 1000 companies, from multinationals to small and medium-sized enterprises and around the world.

One area in which innovation is making a difference is in the creation of cleaner cities. Maurizio Bezzeccheri, head of Latin America at energy firm Enel, reports that his company is working on the Urban Futurability project, which aims to transform São Paulo's financial district, Vila Olympia, into a city of the future. "We're using new solutions to digitalise the power network," he explains. "All in all, Brazil offers a very positive scenario for business expansion and we definitely expect to consolidate our position here." ■

*In association with Apex-Brasil. Writing and editing were carried out independently by fDi Intelligence.*

THE ECONOMIC LIBERTY LAW OF 2019 HAS BEEN SEEN AS A HUGE CONTRIBUTION TO ECONOMIC GROWTH

**O&A: RODRIGO ZAMBON**

# Complex, but investable

PROFESSIONAL SERVICES FIRM TMF GROUP ESTABLISHED ITS BRAZIL OPERATIONS IN 2006. THE MANAGING DIRECTOR OF TMF BRAZIL TALKS TO **WENDY ATKINS** ABOUT THE COMPANY'S EXPANSION IN THE COUNTRY AND REFLECTS ON HOW THE INVESTMENT ENVIRONMENT IS CHANGING

**CURRICULUM VITAE**

RODRIGO ZAMBON  
2018

**TMF**  
Sub-regional director and  
MD of TMF Brazil

**Previously**  
Partner and head of digital  
operations and BPO – Americas,  
Everis

**Q** What are your firm's activities in Brazil?

**A** The 2015 acquisition of the PwC outsourcing company turned TMF Brazil into the biggest TMF Group branch globally, and made us the largest such provider in Brazil. We employ more than 700 staff to meet clients' needs for accounting, tax, treasury, payroll, structured finance, trust and corporate services, corporate secretarial, fund administration and compliance solutions.

This year, we acquired Paraty Capital – now rebranded as TMF Funds – a Brazilian fund administration platform that specialises in private equity, infrastructure, venture capital and private debt funds. As a result, we can now provide end-to-end fund administration in Brazil.

The acquisition is a milestone in TMF Group's strategy of growing our global fund services business and bolstering our capabilities in the Americas. As well as offering fund manager coverage across South America, we can now also provide administration services to regulated Brazilian funds.

**Q** How would you describe the investment environment in Brazil, and how has it changed since the start of the pandemic?

**A** Brazil is an attractive investment destination, given that it was the world's 12th largest economy in 2020 and has grown rapidly in recent years.

To help companies looking to invest abroad, every year we prepare our Global Business Complexity Index report, where we rank around 80 jurisdictions using almost 300 parameters to determine the complexity of their business environment. Last year, Brazil was considered the most complex jurisdiction in which to do busi-



ness. This is due to a multi-layered registration process when incorporating a company.

While the country has been hit hard by Covid-19, the pandemic has modernised many business practices, such as permitting electronic documents for a variety of business activities. However, many businesses were slow to take up the support packages provided by the authorities because these were often unclear, and companies were reluctant to commit to schemes that could potentially leave them with unknown liabilities.

Last year, Brazil introduced some short-term changes in response to the pandemic. These included temporary government incentives to help businesses reduce their payroll costs and tax cuts to help companies retain their workforce. However, these changes came with a heavy administrative burden. This year, the cessation of these incentives comes with a similar administrative workload as businesses return to normal.

**Q** What are the opportunities for firms investing and operating in Brazil?

**A** Brazil continues to be a commodity superpower, and its trade balance benefits from the increases in commodity prices. Foreign investment is growing and has reached its highest mark in the past five years. It has been oriented mostly towards the e-commerce, technology, fintech, energy and agribusiness sectors. ■

*In association with Apex-Brazil. Writing and editing were carried out independently by fDi Intelligence.*

LAST YEAR, BRAZIL WAS  
CONSIDERED THE MOST  
COMPLEX JURISDICTION IN  
WHICH TO DO BUSINESS

# Sale of Brazil's infrastructure assets stays on track

THE COUNTRY'S PRIVATISATION PROGRAMME GOES ON. WENDY ATKINS REPORTS

**T**he Brazilian government has ambitious plans to develop the country's economy through a modernisation programme based on reducing bureaucracy, stimulating investment, generating jobs and boosting income. At its heart is the sale of multiple state assets. Its infrastructure sector is one of the winners from these initiatives, with inflows of private capital being used to support key concessions and projects in transportation, sanitation and telecoms.

The Investment Partnerships Programme (PPI), which is chaired by the Ministry of Economy, plays a central role in driving investment in the country's major infrastructure projects. It acts as an investment hub, facilitating links between key stakeholders including regulatory agencies, embassies, regional governments, domestic and international investors, banks and financial services firms and multi-lateral organisations.

According to the World Bank's Logistics Performance Index for 2018/19, Brazil ranks 56th out of 160 countries in the quality of its infrastructure.

"Since 2019, 83 infrastructure assets have been granted to the private sector, ensuring 100bn reais (\$21bn) in investments and with 1.2 million jobs set to be created during the course of the contracts," says Marcelo Sampaio, Brazil's infrastructure minister.

In what Mr Sampaio describes as "the largest infrastructure assets concession programme in Brazil's history", the auctions that have taken place so far include the November 2021 5G auction, which netted \$7.7bn; the sixth round of airport concessions in April 2021, which raised \$1bn; and the East-West Integration Railway connecting Brazil's north and north-east regions with more than 1500km of new railway tracks, which raised \$988m.

The sale of Brazil's 5G spectrum in the three main broadcast bands was the second-largest auction of assets in the nation's history and the largest auction of telecom assets to date in Latin America. According to investment promotion



Networking opportunity: Brazil's November 2021 5G auction raised \$7.7bn

agency Apex-Brasil, the creation of the 5G network is eagerly anticipated in the country as it will allow for greater automation across multiple sectors, from agriculture to healthcare.

Brazil is holding another auction of 5G spectrum licences in 2022, which is expected to generate around \$1bn.

## Aviation investment takes off

Despite air travel being hugely affected by the pandemic, Brazil held 22 airport auctions in 2021, attracting investment from firms such as France's Vinci Airports, which won the right to run seven airports in north-east Brazil. Vinci said in March this year that its investment would improve mobility in the Amazon region, modernise airport infrastructure, reduce the carbon footprint of the airports by 50% by 2030 and achieve net-zero emissions by 2050 through energy efficiency measures. The firm said it would also open new routes and add destinations, as well as enhance the passenger experience.

Nicolas Notebaert, president of Vinci Airports and CEO of Vinci Concessions, said in a statement in March 2022: "Here in the Amazon region, where air connectivity is essential, Vinci Airports will look at creating long-term benefits for the mobility of people and the supply chain. We will mobilise an industrial model to unlock airport potential and activate the synergies with Salvador airport that we have been successfully operating since 2018." ▶

### **Transport accelerates**

According to the US International Trade Administration, trucks are the primary method of cargo transport in Brazil, which makes logistics more expensive and contributes to the 'custo Brasil' concept that high operational expenses are part of the cost of doing business in the country. To address this, transport projects are being initiated to improve links and cut costs.

Investment in the Arco Norte, the corridor of roads, ports and railways in the north of the country, will connect major transit hubs and enable goods to be exported via north and north-eastern ports. This has the potential to cut the number of miles travelled and the costs involved in reaching markets in Europe or China, and other destinations via the Panama Canal.

Another project aimed at reducing distances and cutting costs is the Ferrogrão, a new freight railway line that is nearly 1000km long. Part of a broader series of rail expansion plans, and scheduled for completion in 2030, this scheme aims to connect the agriculture state of Mato Grosso with the northern ports of Pará, creating a transport link for ships bound for Asia.

As investment in Brazil's transport networks shifts up a gear, the aim is to improve connectivity and cut logistics costs, thus increasing the competitiveness of mineral and grain crop exports, boosting regional economies and services, and creating jobs.

However, concerns have been raised by environmental groups that carving out new transport corridors could also increase deforestation and put pressure on indigenous and local populations.

For example, the Forest Declaration Platform, which was set up to support stakeholders to take action on forest pledges, says in its 2020 'Balancing forests and development – addressing infrastructure and extractive industries, promoting sustainable livelihoods' report that a review of proposed road construction projects in Brazil and other Latin American countries found that most lacked a rigorous environmental and social impact assessment.

### **Sanitation services**

Investment opportunities are emerging in Brazil's sanitation infrastructure. The World

Bank reports that despite the progress made over the past decades, Brazil still faces persistent deficits in access to water supply and sanitation services with important environmental, social and economic negative impacts.

To address some of these challenges, more than 10 auctions are scheduled for 2022. These include the privatisation of water utility Corsan in the state of Rio Grande do Sul and the creation of a wastewater public-private partnership in the state of Ceará.

### **Project pipeline**

Auctions for 142 Brazilian state assets have been earmarked for 2022. "There will be new opportunities for investors this year, with the prospect of contracting another 100bn reais," says Mr Sampaio. "In the port sector, auctions are scheduled for the leasing of 19 port terminals and the Paranaguá Canal, in addition to the privatisation of the ports of São Sebastião, Itajaí and Santos, which is the main project. The auction of the seventh round of airport concessions is expected to ensure 7.3bn reais in private investment with the concession of 15 airports in three blocks, including Congonhas in São Paulo."

Mr Sampaio says that when it comes to roads, the auction of the highway between Rio de Janeiro and Governador Valadares will be one of the highlights. "Also planned is the main road link between Rio de Janeiro and Belo Horizonte, and the Paraná ring road, with more than 50bn reais in investment," he adds.

He says private investment in Brazil's infrastructure is crucial. "The public sector has fiscal restrictions that have worsened with the global recession caused by the Covid-19 pandemic," he explains. "Thus, the search for private investment, whether domestic or foreign, is essential, not only for the resumption of economic growth in the coming years, but also to improve the country's infrastructure. For this reason, the Ministry of Infrastructure has developed incentives to stimulate competition for assets, offering innovative projects in all modes of transport, with important advances in funding sources, new contract models and sustainable practices." ■

*In association with Apex-Brasil. Writing and editing were carried out independently by fDi Intelligence.*

THERE WILL BE NEW OPPORTUNITIES FOR INVESTORS THIS YEAR, WITH THE PROSPECT OF CONTRACTING ANOTHER 100BN REAIS



# Brazil powers up its energy sector

THE COUNTRY EYES  
MORE RENEWABLE  
ENERGY CAPACITY.  
WENDY ATKINS  
REPORTS

**A**s one of the top 10 largest oil producers in the world, the energy industry plays a significant role in Brazil's economy. New opportunities are emerging for investors in both the renewable and traditional sectors, driven by increasing consumer demand, government liberalisation and an abundance of natural resources.

The International Energy Agency reports that total primary energy demand in the country has doubled since 1990, propelled by strong growth in electricity consumption and demand for transport fuels on the back of robust economic growth and a burgeoning middle class.

However, the US Energy Information Administration (EIA) reveals that issues challenging energy generation and transmission include uncertainty about the reliability of the national electricity generation system because of the country's reliance on one resource – hydropower, which accounts for the majority of domestic electricity generation; the big distances between generation and demand centres; as well as ongoing droughts and deforestation.

## Market liberalisation

The government's plans to liberalise the energy industry include the privatisation of Eletrobras, Latin America's largest power utility. In May 2022, Brazil's audit court ruled in favour of allowing the state to reduce its controlling stake in the public entity. The next step will involve filings with financial regulators and an investor roadshow.

The government is also launching a series of auctions for Brazil's oil-rich pre-salt layer. According to the Brazilian trade and investment promotion agency Apex-Brasil, an estimated 50 billion barrels of high-quality

crude oil could be extracted from these pre-salt layers alone.

State-owned multinational Petrobras has been going through a period of divestment by selling several small to mid-size upstream producing assets, and midstream oil and gas assets since 2015. "Firms that acquire those assets will have access to cash flow from the start and could develop an energy base in Brazil or South America," Giovanni Loss, oil and gas partner at law firm Mattos Filho, told **fDi**.

## Renewables push

According to the Ministry of Energy, almost 50% of the energy matrix comes from hydropower and renewable sources, and plans are afoot to increase the share of clean energy sources within the mix.

Major new investments in renewable energy are on the cards for 2022, designed to scale up wind and solar infrastructure.

One of the latest wind projects to come online is the 716 megawatt (MW) Lagoa dos Ventos facility in the state of Piauí, which consists of 230 wind turbines that can generate more than 3.3 terawatt hours per year.

Apex-Brasil says that other recent renewables announcements include Engie's 2021 commitment to a new wind farm complex in Rio Grande do Norte on Brazil's far north-east coast which will see the construction of 70 turbines and generate up to 434MW of electricity. Other investments have come from Canada's Brookfield Renewable Partners which is building 1.8 gigawatts (GW) of solar capacity.

Elsewhere, major players such as Shell, Petronas, Petrobras and Equinor are among those who have announced evaluation plans for offshore wind projects aimed at increasing the country's electricity generation capacity.

Brazil is an important market for energy firm Enel, according to its head of Latin America, Maurizio Bezzeccheri. "It already accounts for 40% of our growth in Latin America's renewable market. The Enel Group's renewables arm, Enel Green Power, currently operates more than 4.7GW of renewable power in the country. In 2022-2024 alone, we will add 2GW to our renewable capacity portfolio in onshore solar and wind plants, and much more is expected for the next few years," he tells **fDi**. ■

*In association with Apex-Brasil. Writing and editing were carried out independently by fDi Intelligence.*

ENEL GREEN POWER  
OPERATES MORE THAN  
4.7GW OF RENEWABLE  
POWER IN THE COUNTRY

# Investors eye private capital opportunities

**VENTURE CAPITAL AND PRIVATE EQUITY INVESTMENT BOOMS ON THE BACK OF "UNIMAGINABLE" MONETARY STIMULUS. WENDY ATKINS REPORTS**

**B**razil's private equity (PE) and venture capital (VC) markets have seen a surge in activity in recent years, with the technology sector being one of the biggest winners. However, there are already signs of caution in the market.

The market has flourished over the past two years, according to the Association for Private Capital Investment in Latin America (Lavca), with private capital investment in Brazil in 2020 resulting in 391 deals valued at \$6.41bn, leaping to 534 deals worth \$13.95bn in 2021.

"Recent years in Brazil have been very favourable for PE and VC funds, as since late 2016 we have had a constant fall in the Sistema Especial de Liquidação e Custódia [the Brazilian central bank's system for performing open-market operations] base interest rate, dipping to 2.0% in 2020 – something unimaginable for Brazil," says Felipe Argemi, CEO of mergers and acquisitions boutique Santis. "As a result, there has been a massive migration of fixed income investments to the capital market and to private investments, whether direct investments or through PE and VC funds."

TMF Brazil managing director Rodrigo Zambon agrees: "PE and VC investments have increased by 128% between 2020 and 2021 – a clear sign that there is still appetite for investing in business growth and value creation in Brazil," he says. "Traditionally, these types of investments are counter-cyclical and benefit from the low price of assets, which increases their chances of achieving higher returns in the mid-to-long term."

## **Regional leader**

Lavca's 2022 industry data and analysis report reveal that Brazil continued to attract the most capital in the region last year, minting eight new 'unicorns' (tech companies valued at more than \$1bn). Several notable VC rounds took place in the country which saw investments in

fintech Nubank, proptech firm Loft and logistics firm CargoX.

Beyond the tech industry, investors have been eyeing opportunities in traditional sectors, such as energy and infrastructure. For example, the divestment of mature assets by state-owned multinational Petrobras is providing opportunities for PE funds, financial institutions and other firms to enter the market and expand their portfolio.

## **Looking ahead**

The first quarter of 2022 has seen no slackening of market activity. However, as global economic storm clouds gather and certain investors become more risk-averse, Brazil's PE and VC markets are expected to come under increased pressure. "This year will be slower than 2021, due in part to the country's general election, but mainly because of the increase in the interest rate, which has reached 12.75%, a level we have not seen since the beginning of 2017," Mr Argemi says. "This takes the euphoria out of the market and the more conservative investors, who recently started investing in riskier assets, are moving their investments back to fixed income again."

He adds that higher interest rates will also impact the valuation of companies. "Today we are seeing a mismatch between the expectation of value between sellers and buyers. Sellers are still considering more generous 2020–2021 valuation metrics, while buyers have already adjusted to the more cautious 2022 scenario," he says. "The impact of this can also be seen on the Brazilian Stock Exchange, because in 2022 we still haven't seen any company debut here. As a result, we expect a decrease in PE and VC activity in the coming months, as they are now even more cautious with their investments." ■

*In association with Apex-Brasil. Writing and editing were carried out independently by fDi Intelligence.*

THERE HAS BEEN A MASSIVE MIGRATION OF FIXED INCOME INVESTMENTS TO THE CAPITAL MARKET AND TO PRIVATE INVESTMENTS



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