

Brazil, 2022.

Dealmaking in turbulent times

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Content

Introduction	3
About the survey	5
Key highlights	6
The picture for 2021	7
Sector distribution 2021 vs 2022	9
Cross-border deals	10

Setting up the deal	11
Fees	16
COVID-19	18
Conclusion	19

Introduction

According to the most recent OECD report*, after a substantial recovery of 5% in 2021, Brazil's economic growth is expected to slow significantly in 2022 before picking up again in 2023; this goes in line with Bloomberg's analysis, that the economy in the first quarter grew 1% quarter on quarter and 1.7% year on year.

Rising inflation, the war in Ukraine, and tighter financial conditions have eroded economic sentiment and purchasing power, which is expected to dent domestic demand in the first half of 2022 strongly. The 2022 presidential election adds uncertainty, helping to keep investment subdued until 2023.

Brazil's economic stagnation is a reflection of the political uncertainty, and things may change after the election; although the growth forecast for 2023 has already been downgraded from the January assessment (2%) to 1.5%, consequently the labor market response has been slow; with the participation rate and real labor incomes remaining below pre-pandemic levels.

The near-term economic outlook has been improved by the windfall in commodity prices, but this increase in income did not slow down the rise of inflation triggered by energy and food prices, a consequence of the war in Ukraine and issues with the supply chain.

Companies have difficulties growing in a stagnant economy; however, Brazil's current economic environment enables liquid companies to pursue strategic expansion plans through mergers or acquisitions.

To get an inside perspective of how the M&A in Brazil has played out this year and the dealmaker's sentiment for the future, the M&A Community in partnership with iDeals surveyed 108 M&A professionals working in the country.

34%

Of the total respondents are legal advisors, and 15,38% are financial advisors.

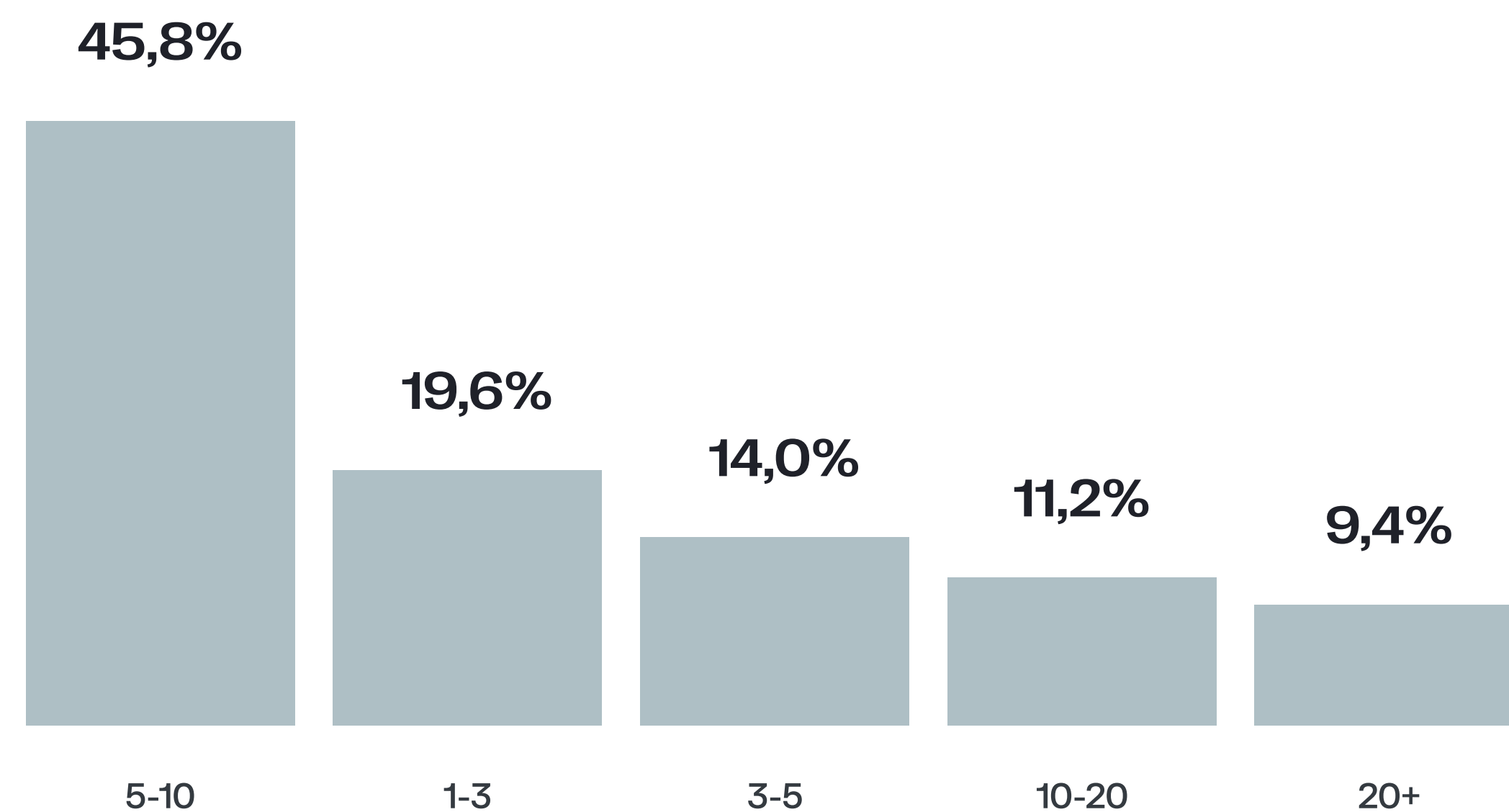
*Source of all data is the OECD June 2022 Economic forecasts for each country

About the survey

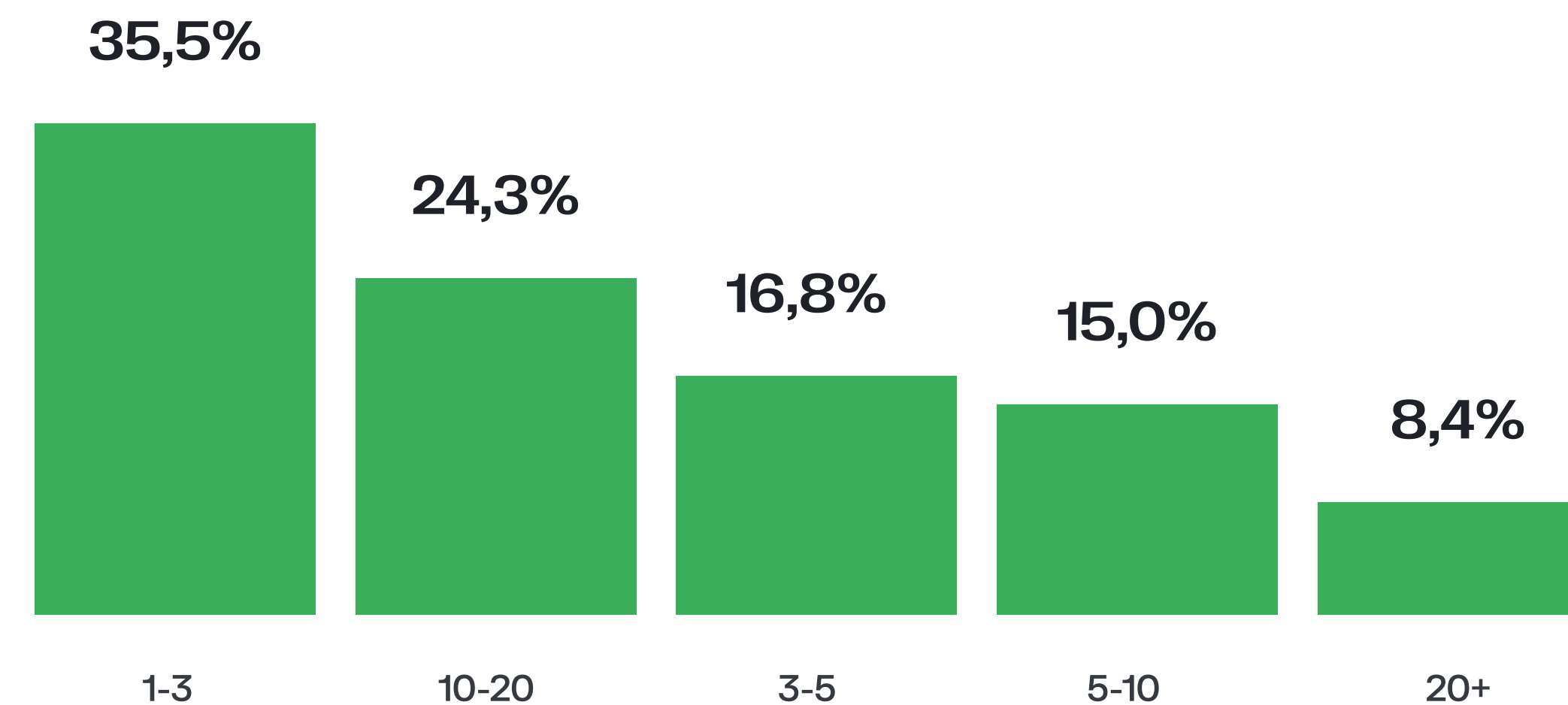
In Brazil, the M&A Community and iDeals asked 108 M&A professionals how they and their firms had reacted to COVID-19 and other challenges in 2021 and what they thought were the key trends for 2022.

Our surveyed professionals are evenly spread in terms of their M&A experience and the size of their clients' turnover.

Years of experience



Number of employees working in the respondents' department



We believe that the sample is of sufficient size and breadth to provide a reliable assessment of the past years and exceptional insights into current M&A trends in Brazil.

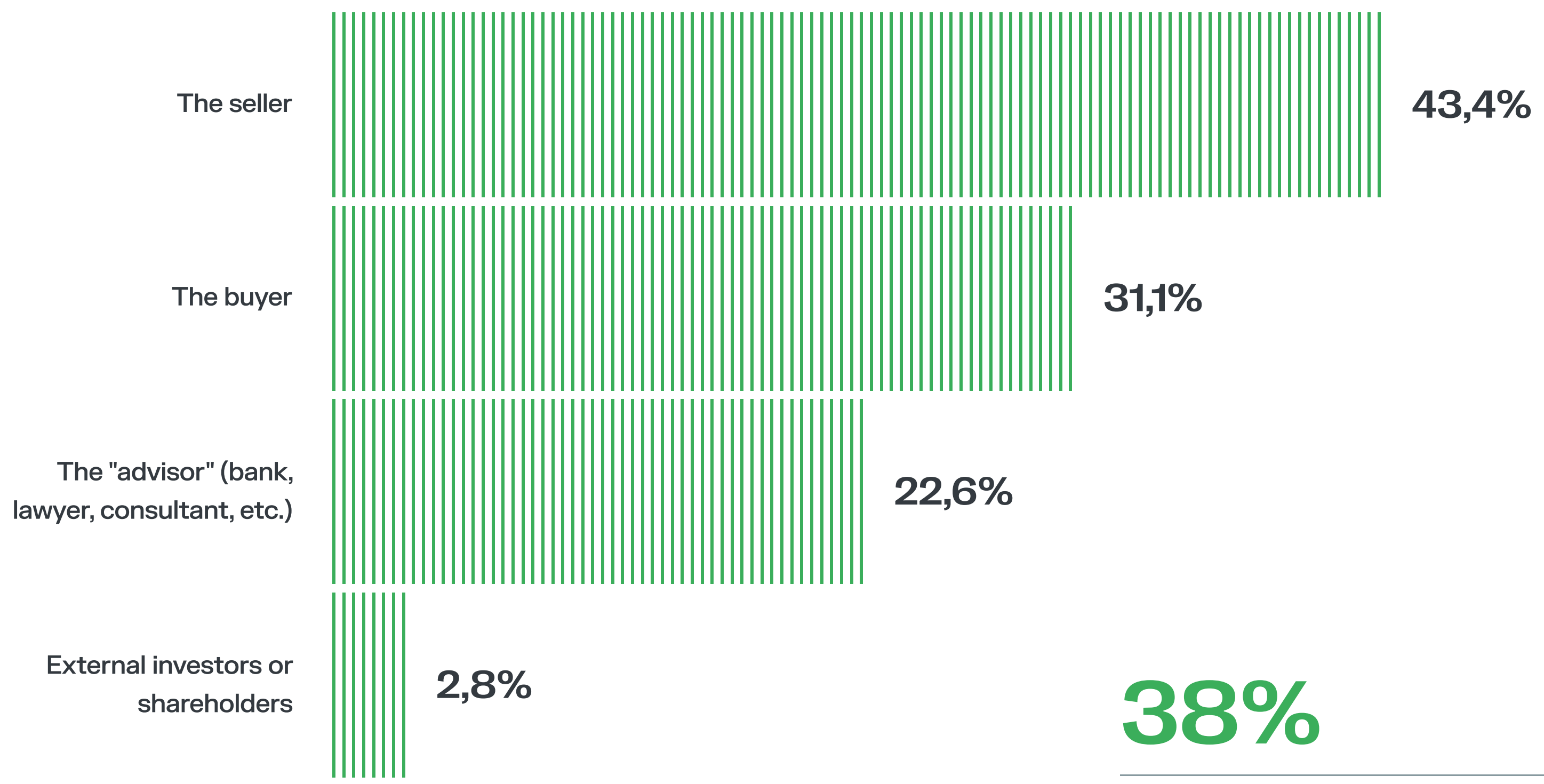
About a third of the responses (33.7%) came from Legal advisors, followed by corporate development advisors and Financial Advisors (both at 15.4%).

CFOs made up 8.7% of the respondents, and Strategic and business development advisors, 7.7% each.

57%

Of the respondents had less than 10% of their deals happening abroad. Only 6.67% had more than 60% deals happening internationally.

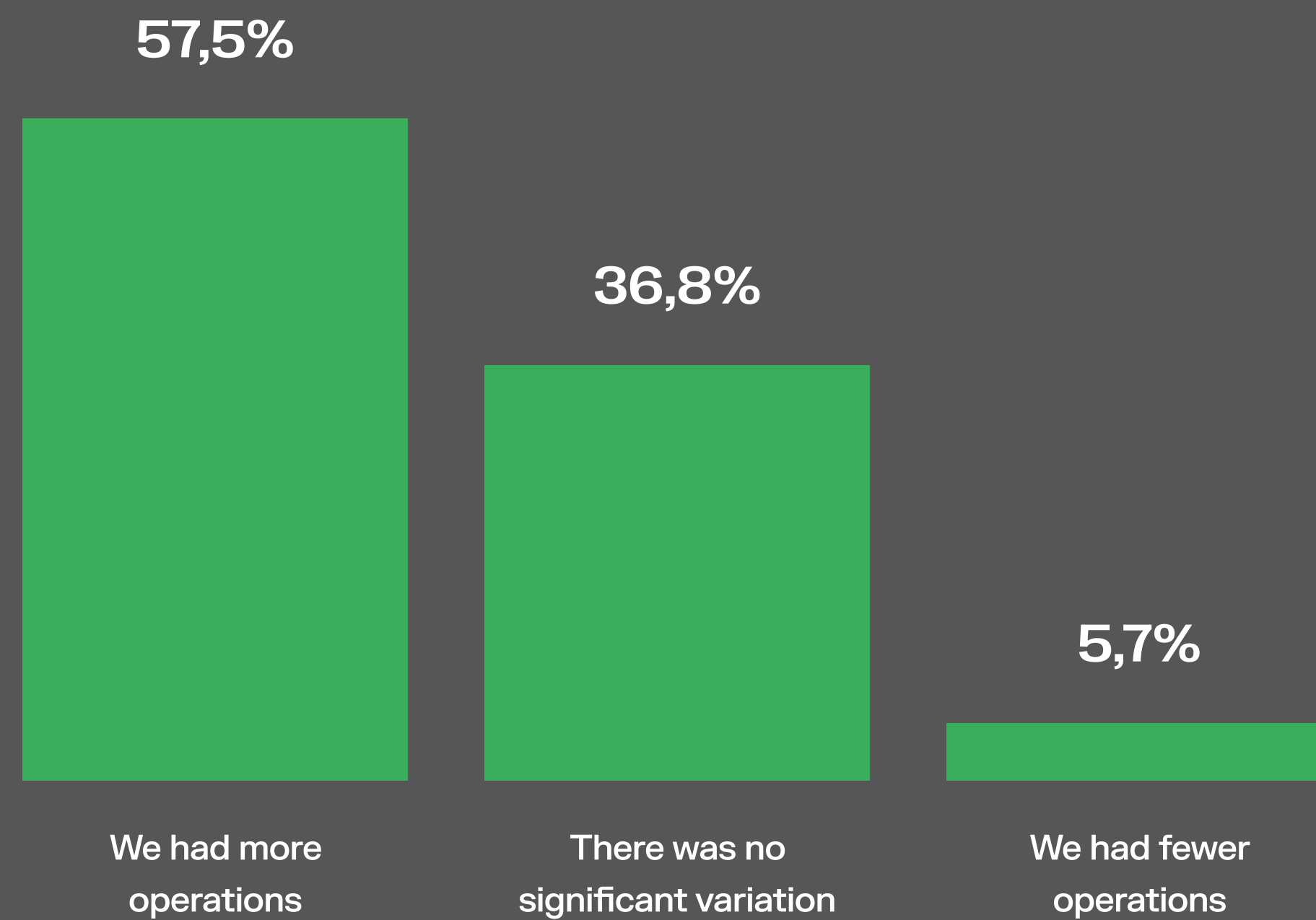
In general, who started the operation with your firm?



38%

Of the respondents had the most dealmaking activity in 2021 happening in Energy. 27.36% in Technology and 11.32% in Healthcare.

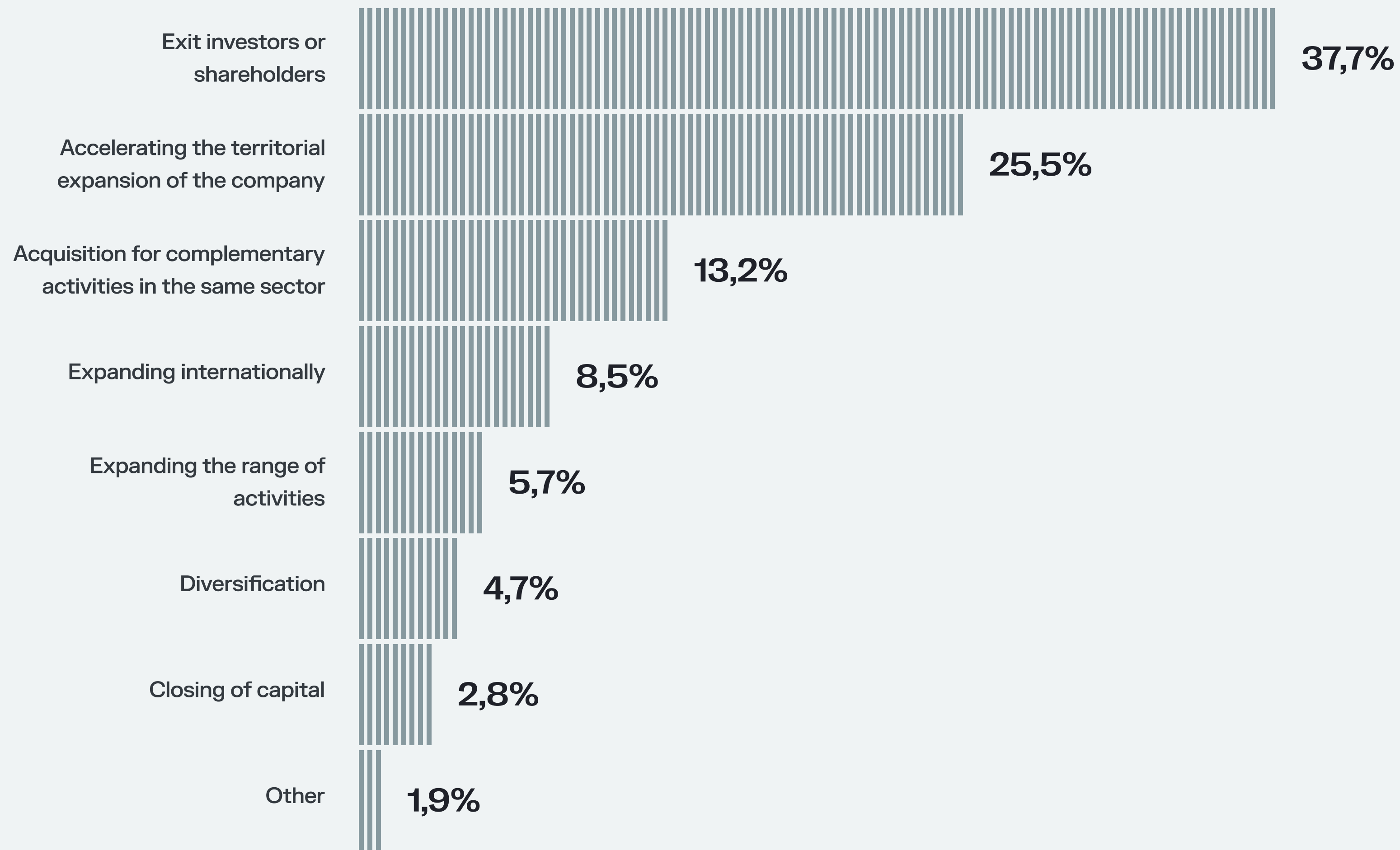
Pandemic effect on your firms' deals



Key highlights

- Investors and shareholders exiting the business prompted more than one-third of the deals (38%), accelerating territorial expansion of the company account for 23% and growth into complementary activities in the same business sector for the remaining percentage.
- 48% of the respondents thought that remote working during the pandemic made no difference to dealmaking. 17% stated it made things easier, while 35% thought it made it more difficult.
- 49% of firms did not adjust their fees in 2021, and 45% did not set a minimum transaction value.
- Only 4.7% of the respondents found setting up the VDR to be one of the easiest aspects of any deal.

The main reason for M&A in the last year



The picture for 2021

Volume was higher than in 2020 – 58% of the companies did more deals this year as compared to last and, less than 6% reported fewer deals.

The most common reason to embark on a merger or acquisition was to help investors or shareholders who opted to leave the business (38%). But they were the instigators only 3% of the time; sellers instigated the process 43% of the time, buyers 31%, with advisers responsible for triggering 23% of all transactions.

Companies wanting to expand their territory quicker made up the next most significant tranche (25%), followed by acquiring complementary activity 13%.

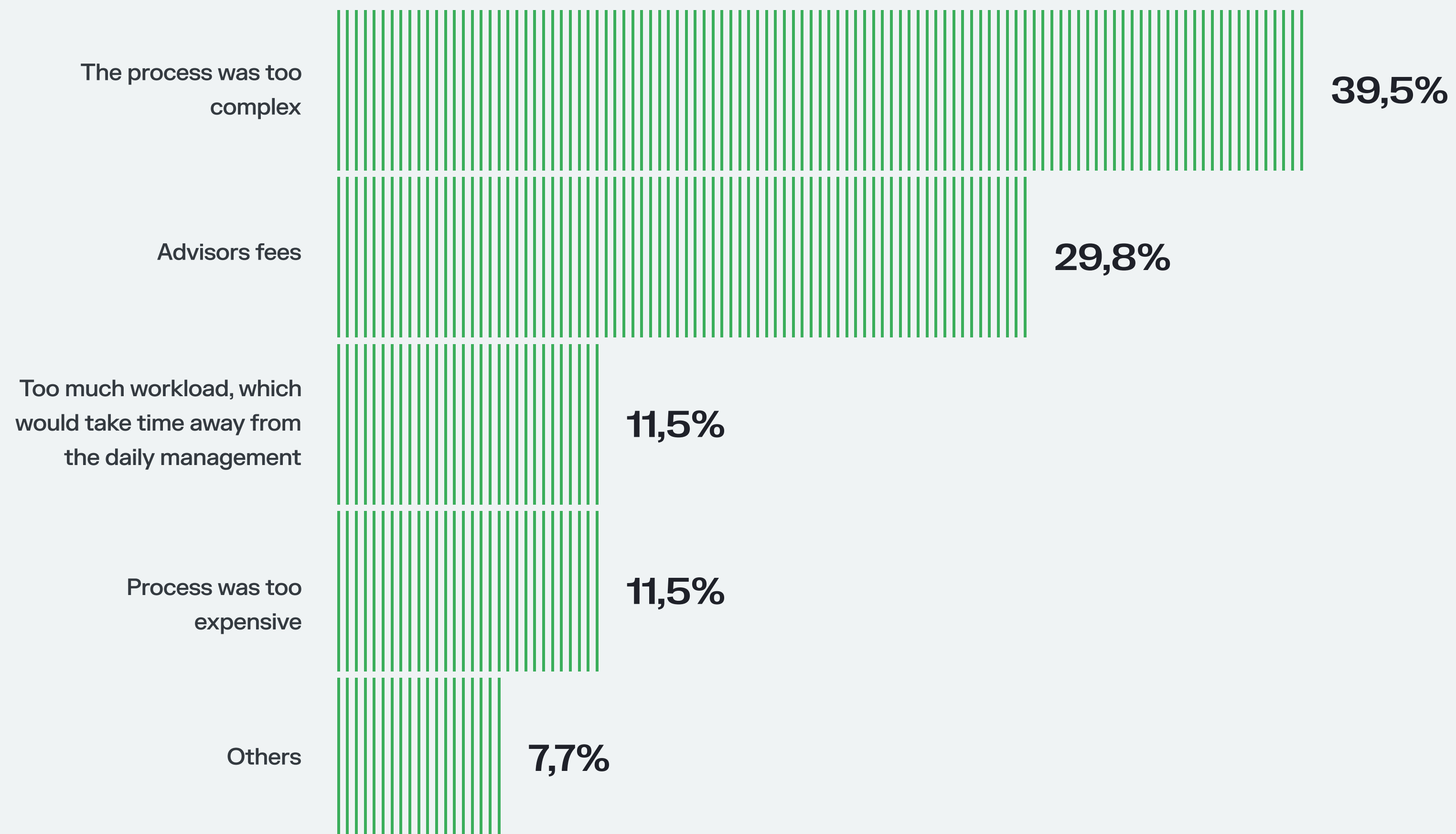
Entering new markets was mentioned by 8% of the respondents, expanding their range of activities by 6%, and diversification by 5%. A listed company's reverse acquisition accounted for just 2.8% of transactions.

In cases where clients decided not to go through with a deal, they mostly blamed the complexity of the process (39%), and almost 30% blamed the number of expensive advisers. 12% of respondents said that dealing with M&A took too much time away from everyday management, and an equal share blamed the fees in general.

58%

Of the respondents affirmed doing more transactions in 2021 and 2022 than in 2020. 36.79% have not seen an impact in volume, and only 5.66% have done fewer.

Most common clients' explanation for not going through with a deal after the initial exploratory meetings



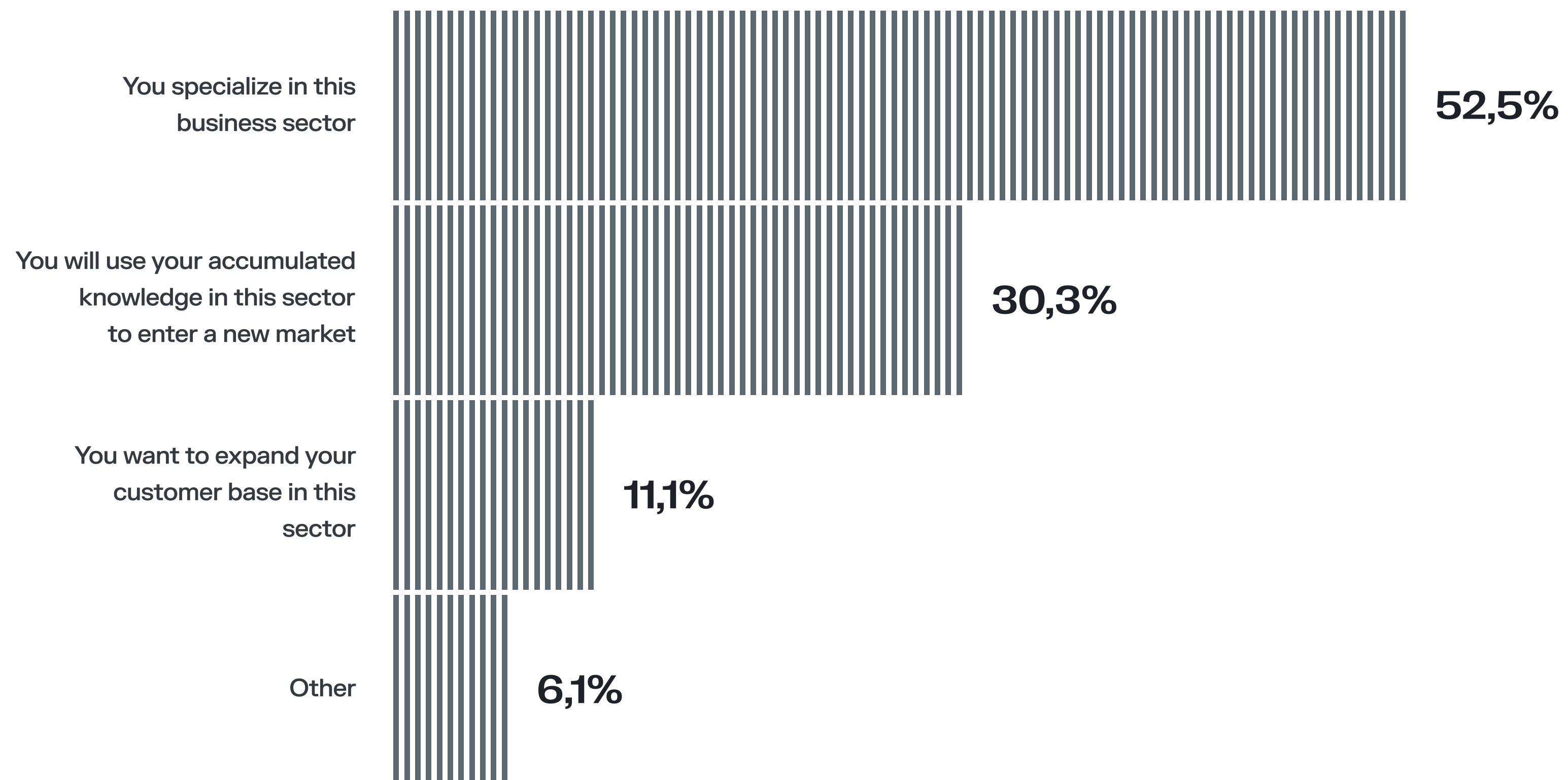
Sector distribution 2021 vs 2022

To the respondents, the two most active business sectors in 2021 were energy (38%) and technology (software but not hardware) 27%, followed by Healthcare (11%).

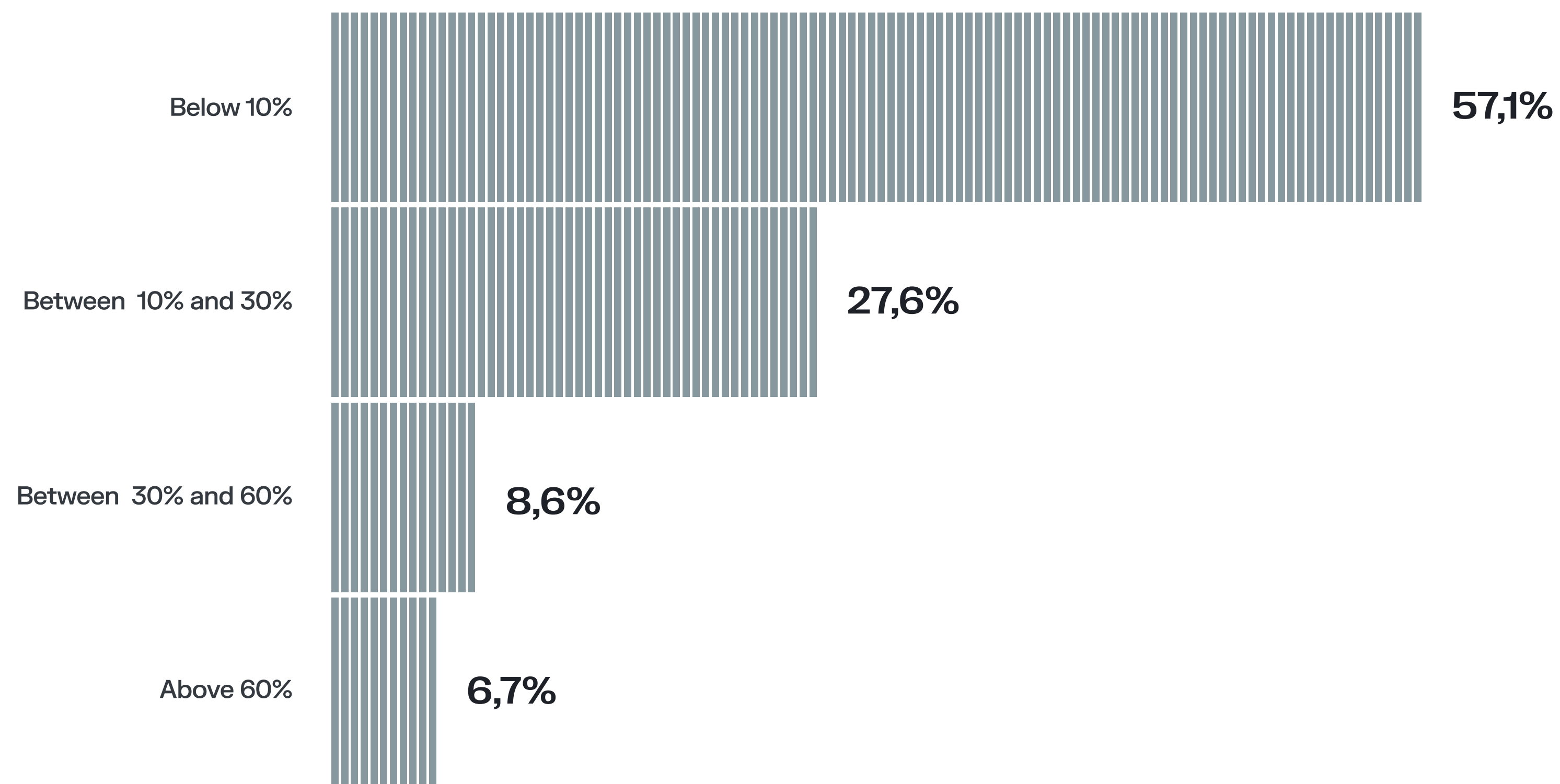
In 2022, 53% of the respondents decided to focus on their expertise sector. Others (39%) are keen to move into different industries where their experience would stand them in good stead or expand their client base (11%).

For the rest of 2022, the respondent will still concentrate their marketing effort on Energy and Software; there will be a lower focus on health (8.5% in 2022 vs. 11.3% in 2021) and more focus on financial services (5.7% in 2022 vs. 1.9% in 2021).

If the most active industry in 2021 differs from that in 2022, please explain why



Percentage of international deals



Cross-border deals

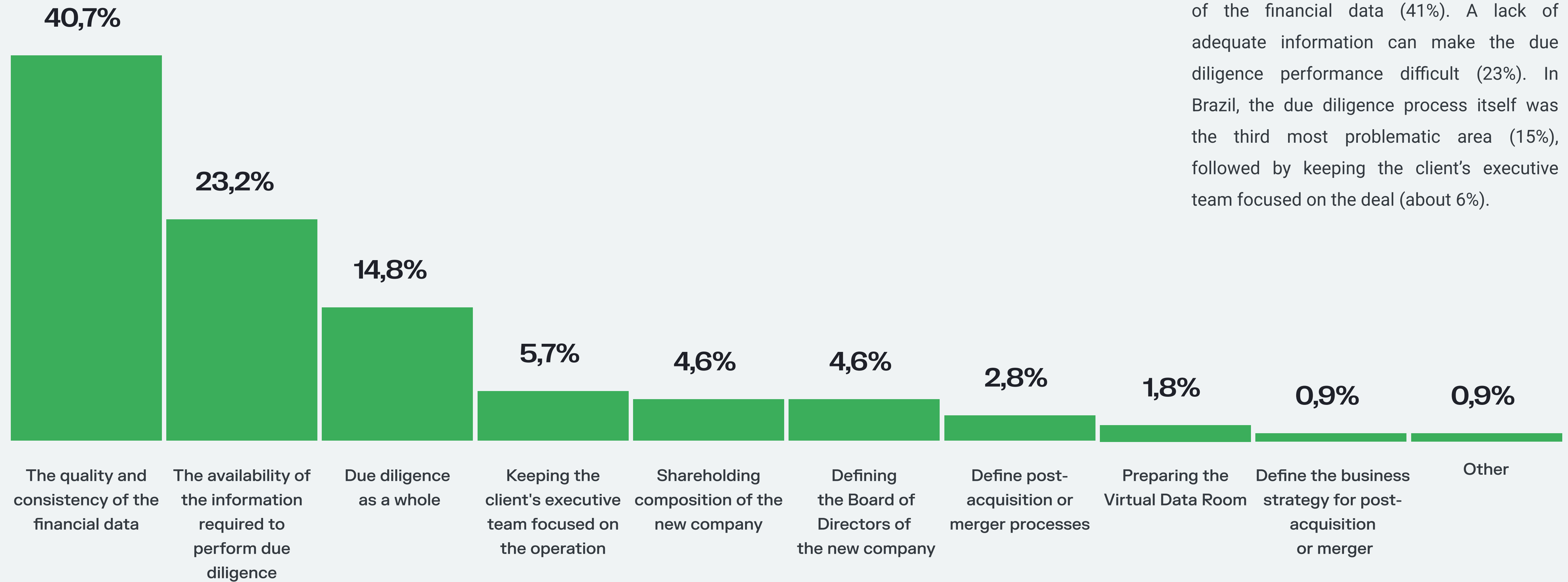
About 43% of the firms who responded to the survey had more than a 30% share of cross-border business. International transactions were less than 10% of the total volume for most responses (57%).

Of all the respondents that were involved in transactions outside Brazil (58.5%), the United States was by far the most prominent international market (28.3%), followed by Argentina, Colombia, and Chile (all three at 6.6%)

42%

Of the respondents affirmed focusing their deals solely on Brazil. With 28.30% in the US, the other respondents concentrate in Latam.

What was the most complicated part of the deal



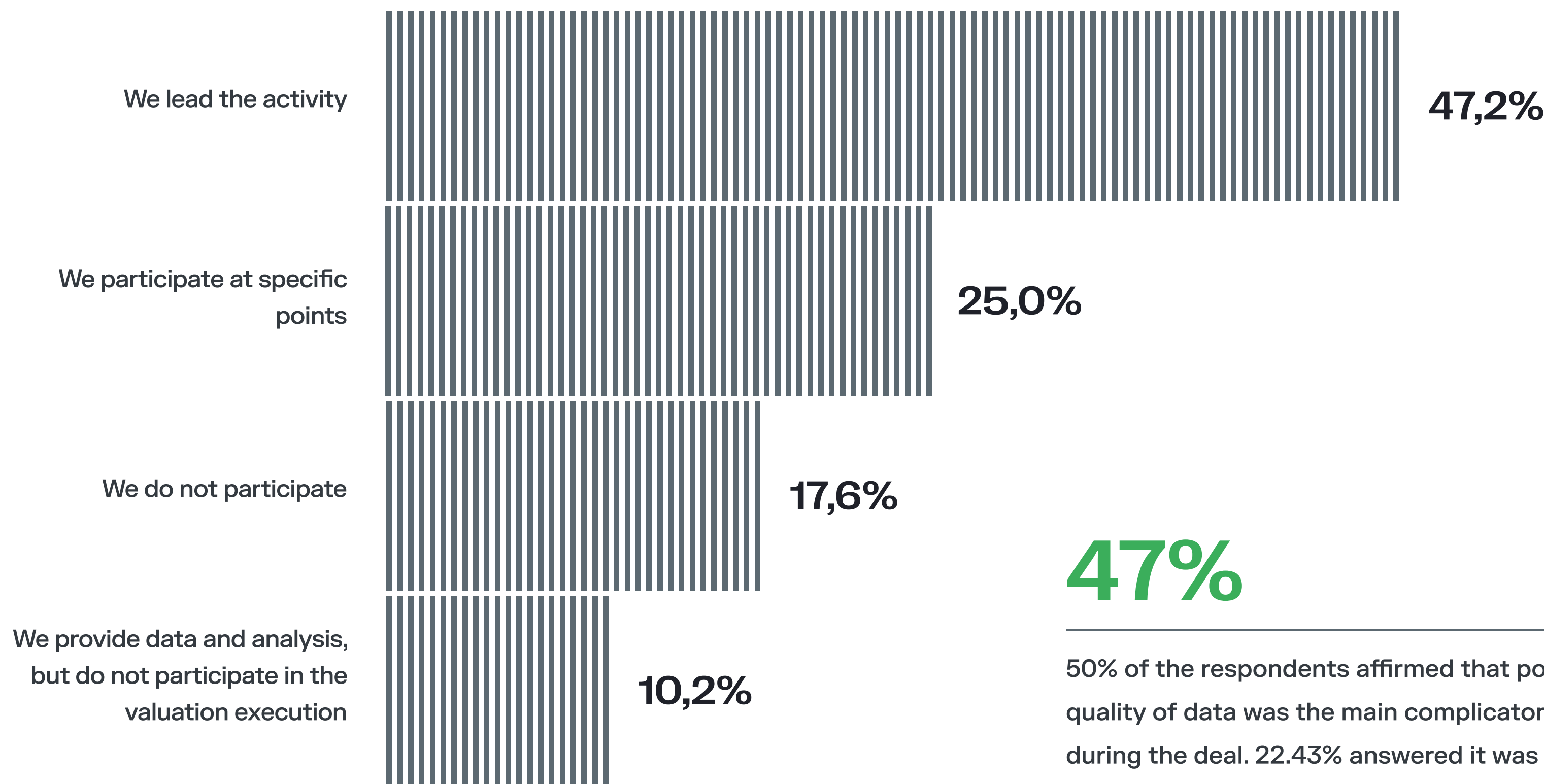
Setting up the deal

The most challenging aspect of any deal is dealing with the poor quality and consistency of the financial data (41%). A lack of adequate information can make the due diligence performance difficult (23%). In Brazil, the due diligence process itself was the third most problematic area (15%), followed by keeping the client's executive team focused on the deal (about 6%).

Apportioning the shares in the new company and defining the board of directors of the new company were both considered a problem only by about 5% of the respondents each. Only about 2% mentioned building the virtual data room as a problem and defining the future strategy of the merged entity was considered a walk in the park; less than 1% highlighted it as a problem.

Poor quality of data (47%) and uncooperative client staff (22%) were the two main reasons behind the difficulties the respondents found during the M&A process. 14% stated problems with documents, either because some were missing or because their quality was poor.

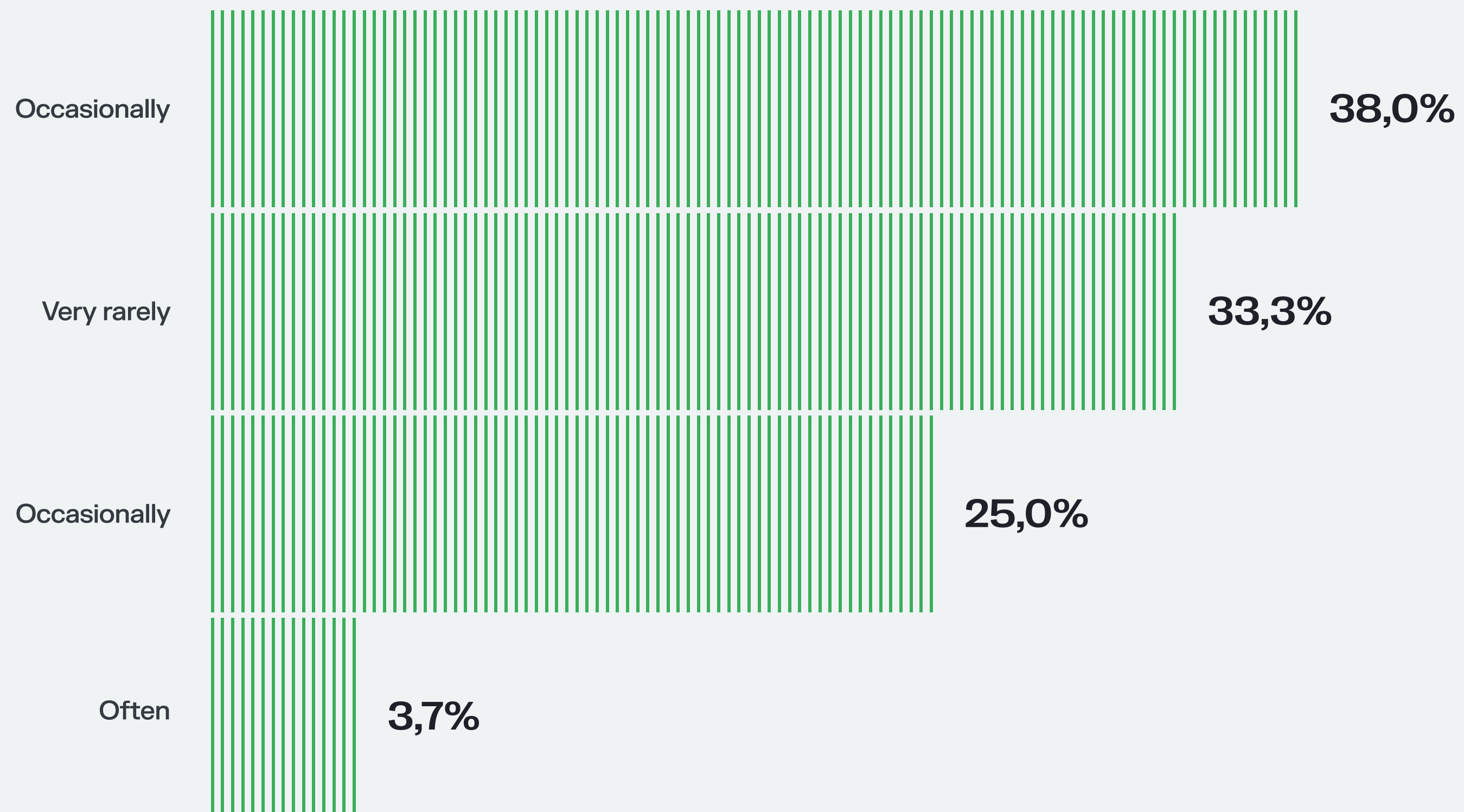
What is your company's participation in the Valuation stage?



47%

50% of the respondents affirmed that poor quality of data was the main complicator during the deal. 22.43% answered it was a non-collaborative client or clients' staff.

Were you faced with data that did not represent the real situation of the company's activities?



“Differences in priorities between the parties” was mentioned by about 8% of the respondents. Slightly less than 6% selected “Major disagreement over future corporate strategy” as one of the problems they encountered; it apparently contradicts the previous set of responses, where less than 1% mentioned, “Defining the future strategy of the merged entity” as the most complicated part of the M&A. It may only look like a contradiction because defining the strategy may be easy but getting everybody to agree to it may be problematic.

41% of the respondents stated that keeping the client’s executive team focused was the most straightforward part of the process. The due diligence process (17%) and availability of information (15%) were the second and third most straightforward aspect of an M&A transaction.

Almost 5% of respondents considered preparing the VDR the most straightforward part of the process, and only about 2% thought it was the most complicated part.

Overall, 41% quoted collaborative client staff as the reason behind a straightforward deal.

23% of the firms in our survey carry out their due diligence, 40% use a third party, and approximately 10% prefer to mix contractors and in-house staff. Surprisingly, 27% of the respondents do not do any due diligence.

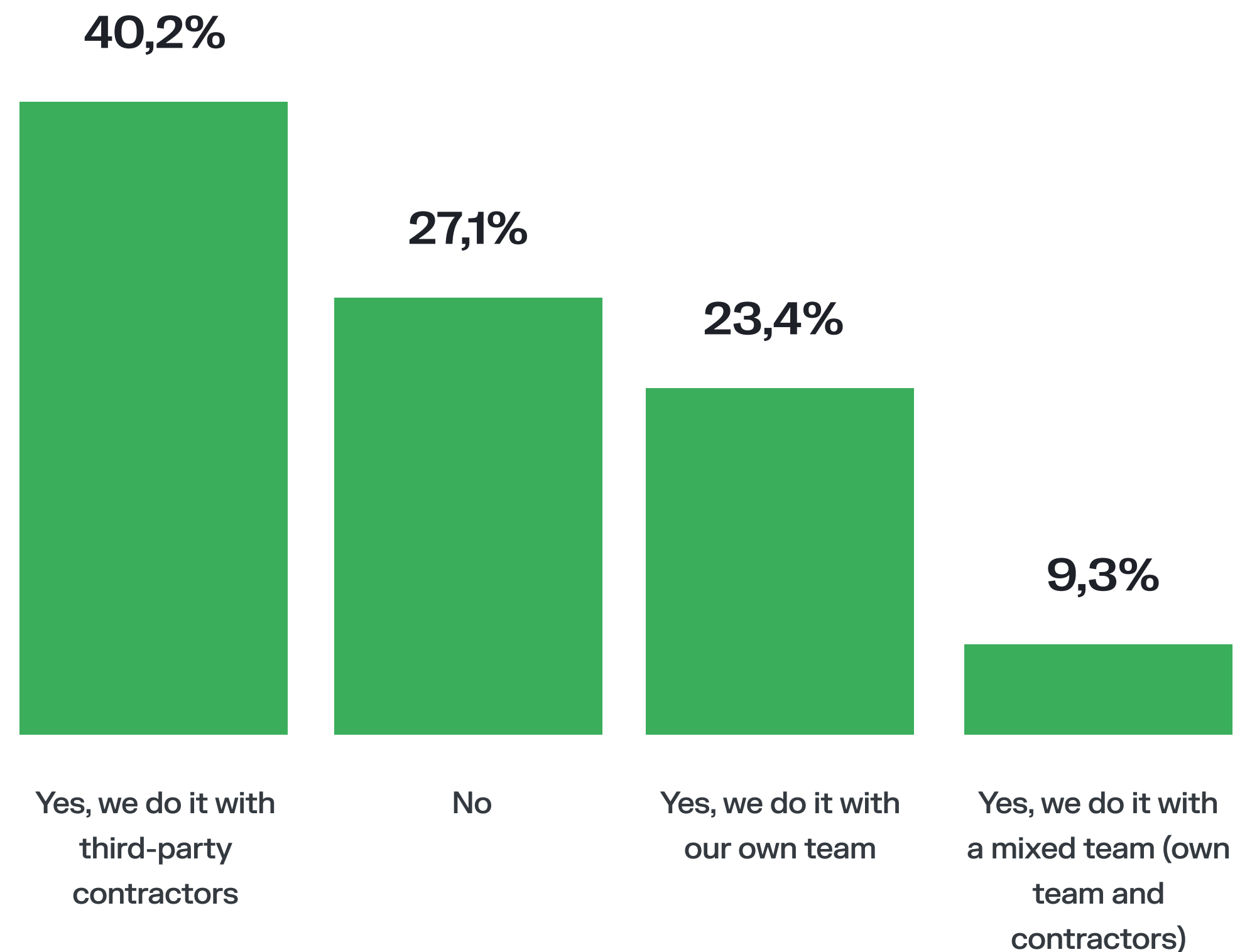
Only about 58% of the companies vetted other aspects of the deal. They mostly looked at the corporate culture and seller's values, problems with the seller's market image (and the risk of clients rejecting the merged company), and potential issues with integrating technology. 58% of the surveyed companies do any post-integration follow-up and mostly use the KPIs in the business plan,

though some have specific KPIs set out in a post-integration plan.

Only 18% of the companies did not engage in the valuation stage at all. 47% lead the activity, with others either participating at certain key stages or providing data and analysis but leaving the actual process to others.

When setting up the VDR, less than 3% of the firms found it very difficult, 39% said it did not involve much work, and the same percentage declared it easy. An overwhelming majority (71%) stated that they rarely or very rarely came across data that did not represent the reality of the company they were analyzing. Less than 4% mentioned that they were frequently faced with that specific problem.

Does your company perform Due Diligence?



Based on your previous transactions, how much effort and complexity is it to set up a comprehensive data room?

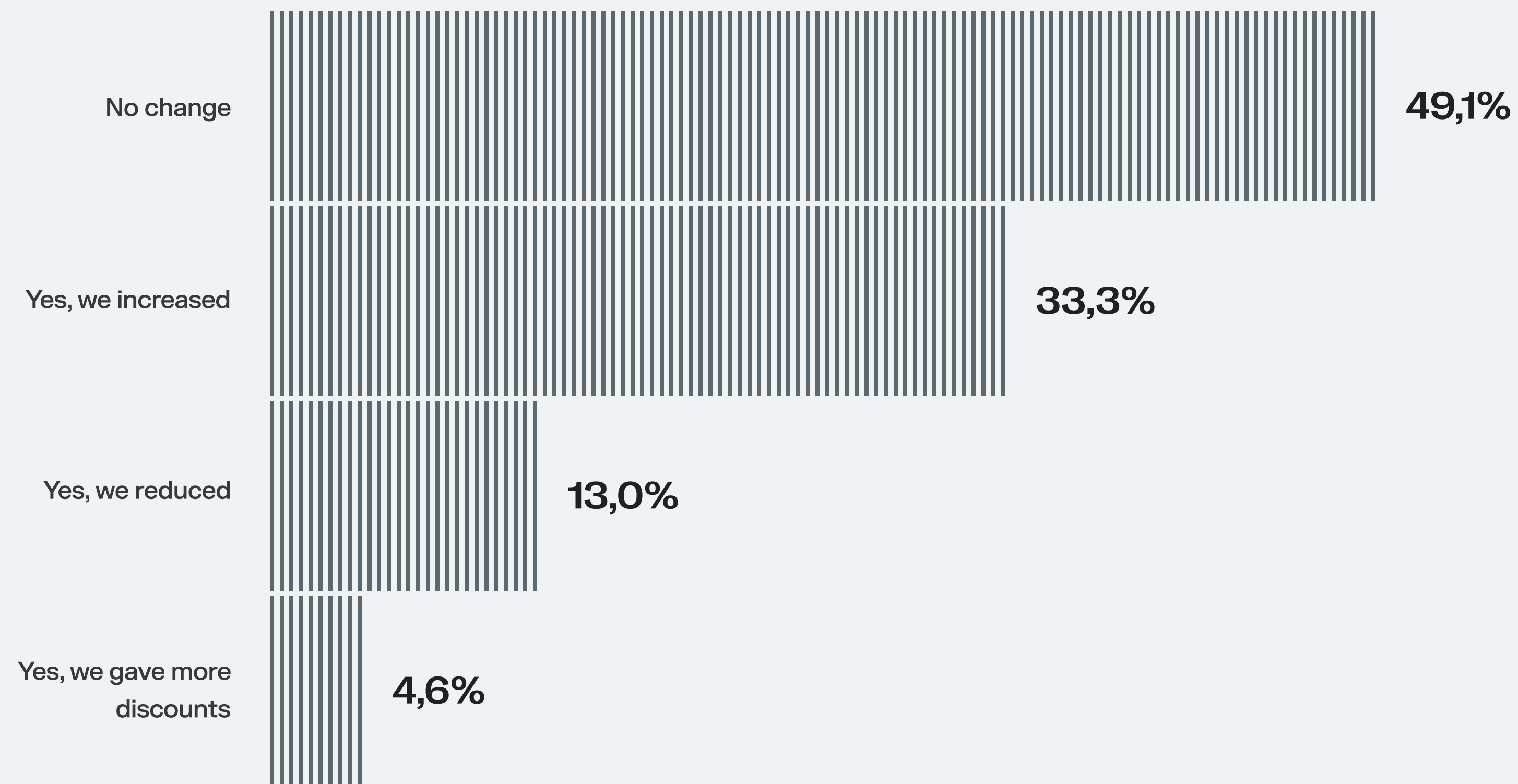


The question of whether inconsistency of data jeopardized a transaction had a very similar distribution of responses. Overall, 71% said it had seldom (or very seldom) been an issue, and less than 5% replied that inconsistency of data frequently prevented a successful outcome of a transaction.

39%

Of the respondents very rarely paralyze a transaction when faced with data inconsistency. Only 4.63% had to paralyze it due to data inconsistency.

In 2021, did you change your fees?



Fees

49% of companies had not adjusted their fees at all in 2021; 33% raised their fees. Among them, 50% raised them by 5% or less, and only about 15% raised fees by more than 10%. 13% reduced their fees, half of them reduced them by 5% or less, another 31% by 5-10%, and 19% by more than 10%. Five companies said they had offered more discounts.

50%

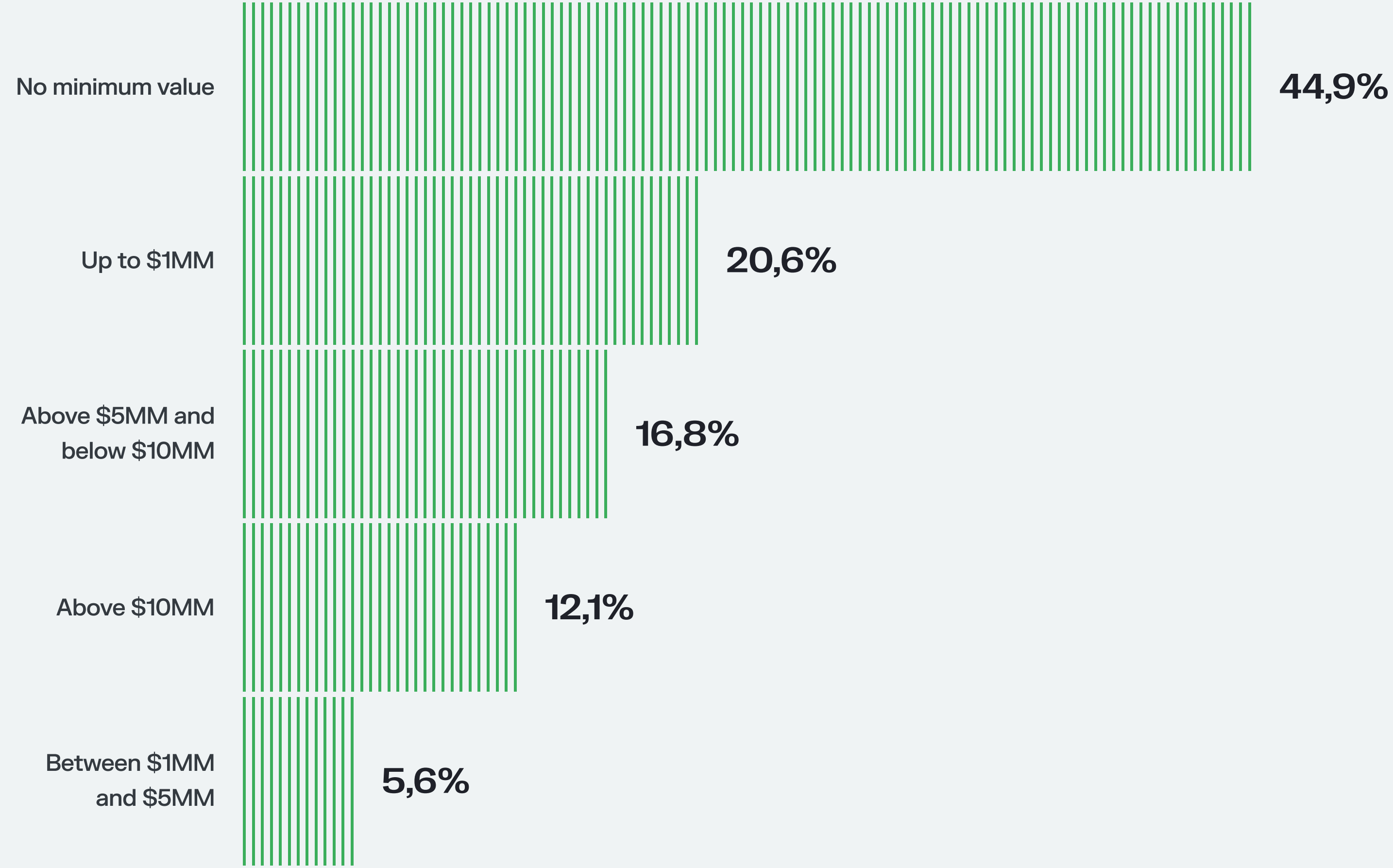
From the respondents that affirmed increasing their fees in 2021 50,00% commented it was less than 5%.

45% of companies did not set a minimum transaction value, 12% went for over \$10mm, and 68% of firms charged a success fee. 16% charged a set fee, and 50% varied their success fee based on the deal size.

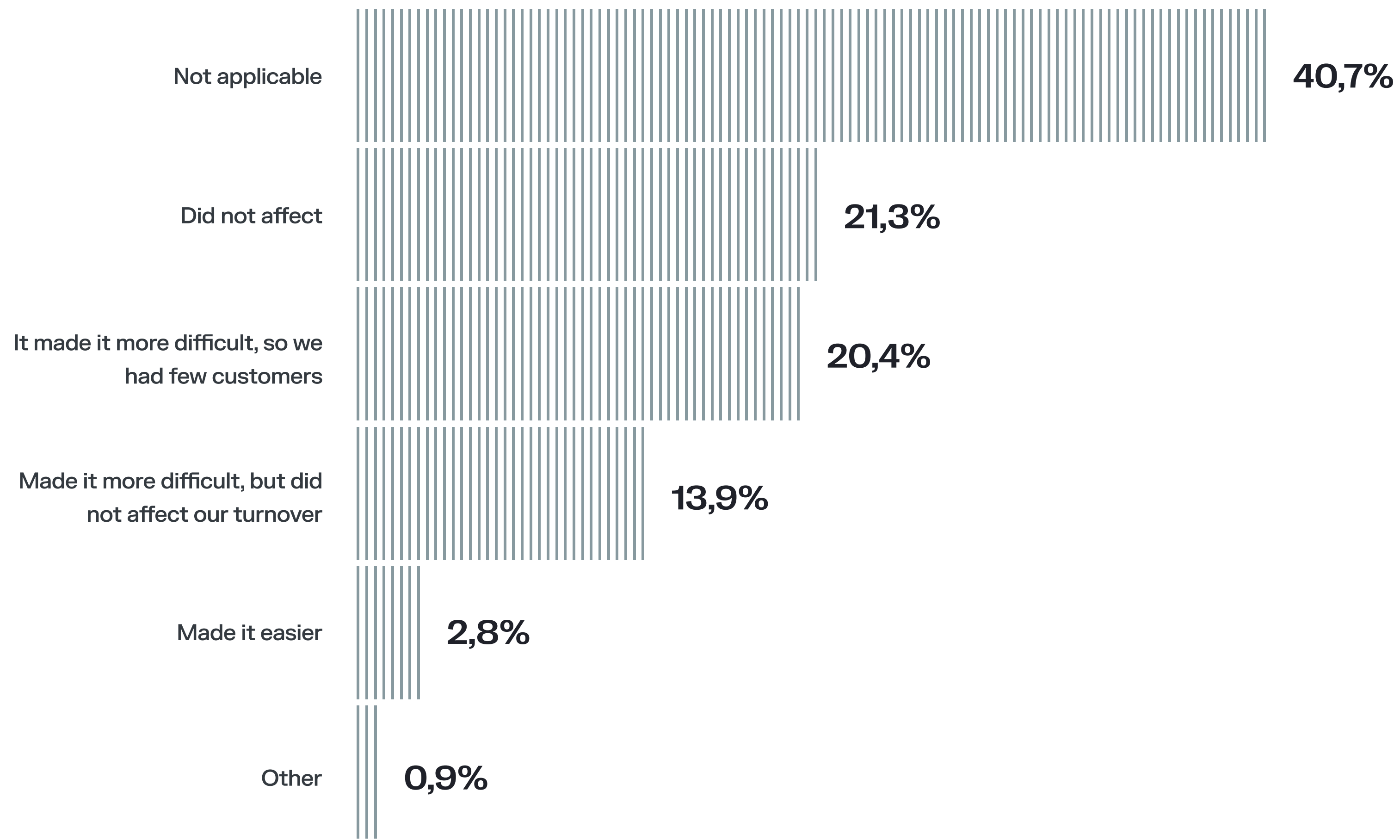
50%

Of the respondents who had decreased their fees in the past year had done it with less than a 5% reduction. Only 4.08% applied more than a 15% discount on their typical fee.

Minimum transaction value



How COVID-19 affected your international deals?



COVID-19

Of course, the biggest challenge of the past two years has been the evolving global pandemic, and for many, the advice, or even the requirement, to work from home were possible meant that face-to-face meetings became a rarity. We asked if the shift to home-working had had any impact on dealmaking, and 48% of the companies claimed it had made very little difference. 17% thought it made life easier and 35% more difficult.

The picture was also mixed for companies handling cross-border deals. 21% did not notice much difference, 20% said it was more difficult and had fewer clients, whereas 14% stated it made things more difficult, but it did not affect the number of clients. Less than 3% thought working from home had made engaging with foreign buyers and sellers easier.

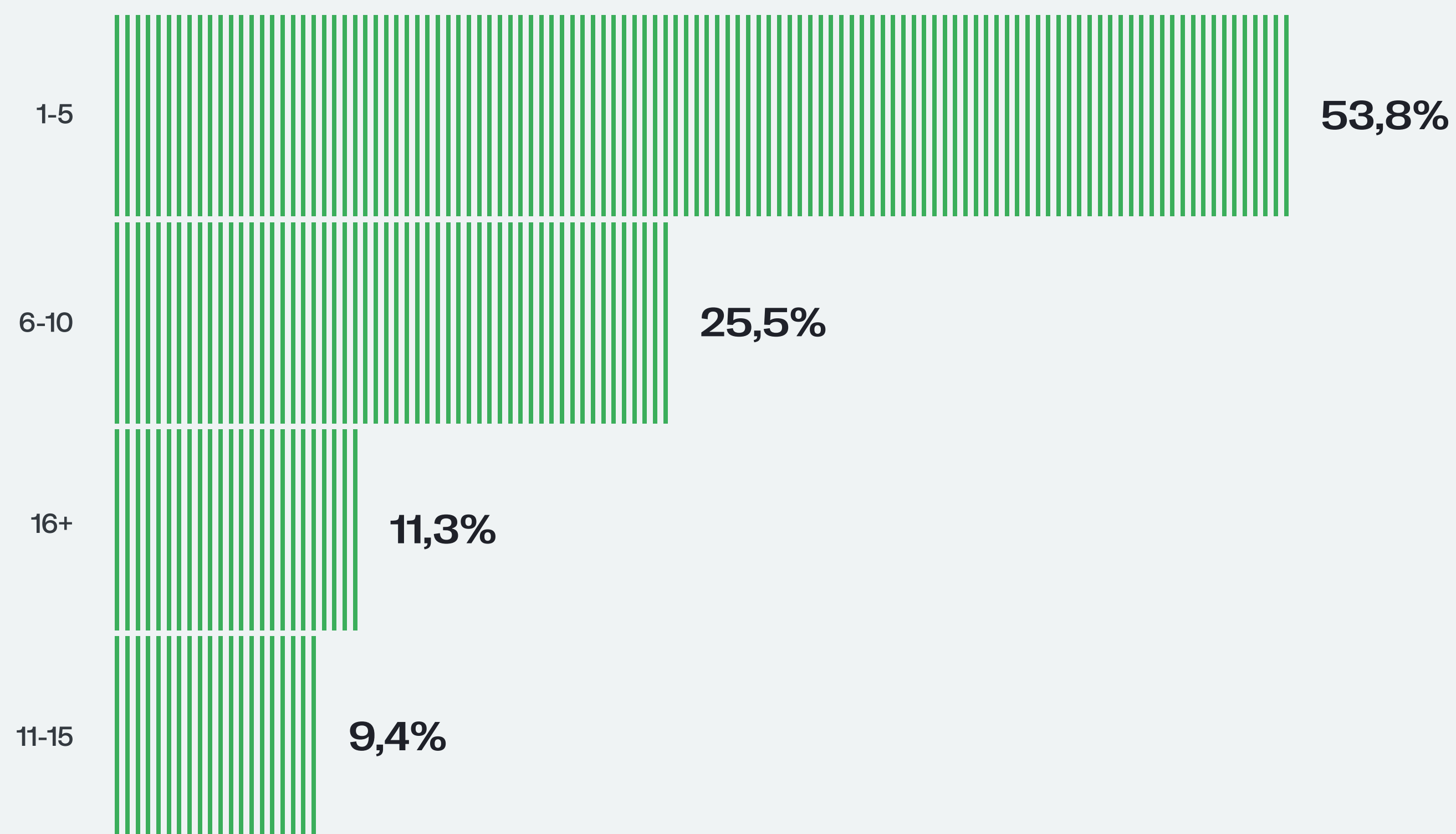
Conclusion

Expectations coming from respondents reflect the slower economic growth expected for 2022. 54% of the respondents believe to work on five deals or less in 2022. About 25% anticipate to work on 6-10 deals, but only 21% forecast working at more than ten deals.

In this uncertain and stagnant economic climate, the expectation is that there will be a resiliency in terms of deals volumes and values. This proves the point that in a stagnant economy, mergers and acquisitions represent a safe approach to expand a business.

There is a common saying in the country: "Brazil is not for beginners," case and point is the speed at which M&A professionals in Brazil have adapted and evolved in the past two years, maintaining almost 70% of the dealmaking activity of the whole region in 2022.

How many transactions does your firm expect to work on during the rest of the year?



” The whole process of working with iDeals VDR went very smoothly. It’s pretty intuitive to work with the framework provided, the team is great, ready to help fast.

David Strycek,
Senior Consultant, EY

Rated 4,7/5 based on 181 reviews,
G2 Market leader 2022

