Brazil Outlook

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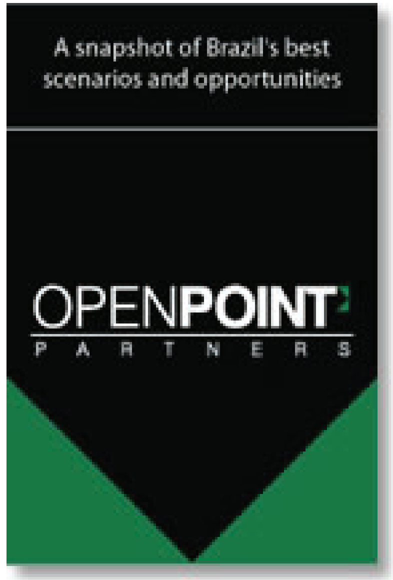


Brazilian Macroeconomic Overview

By Open Point Research Team

September 2010

When Real became national's currency on July 1, 1994, Brazil had no idea that the transformation in its economy would be so great in the long-term outlook. With the reduction in inflation and stability maintenance together with lower interest and exchange rates, Brazil firmed its way into the G-20. Sometime after, in 2001, Goldman Sachs "created" the group called BRIC (Brazil, Russia, India and China), stating that in 2050 these four countries would be a united economic force greater than that formed by the now called G-8.

In 2008 Brazil received the title of investment grade, awarded by major agency investments, rating countries by their capacity to meet their financial commitments.

Following this logic, Brazil is, from 2008 receiving greater attention from international investors, who descry in the country a plethora of opportunities for growth and expansion of their business.

Although the total Merger and Acquisitions transactions worldwide has decreased 27% in 2009 compared to 2008, this movement was not reflected in Brazil. M&A deals history in Brazil shows how an instable economy avoids this kind of transactions, mostly due the lack of conditions to project mid and long term results.

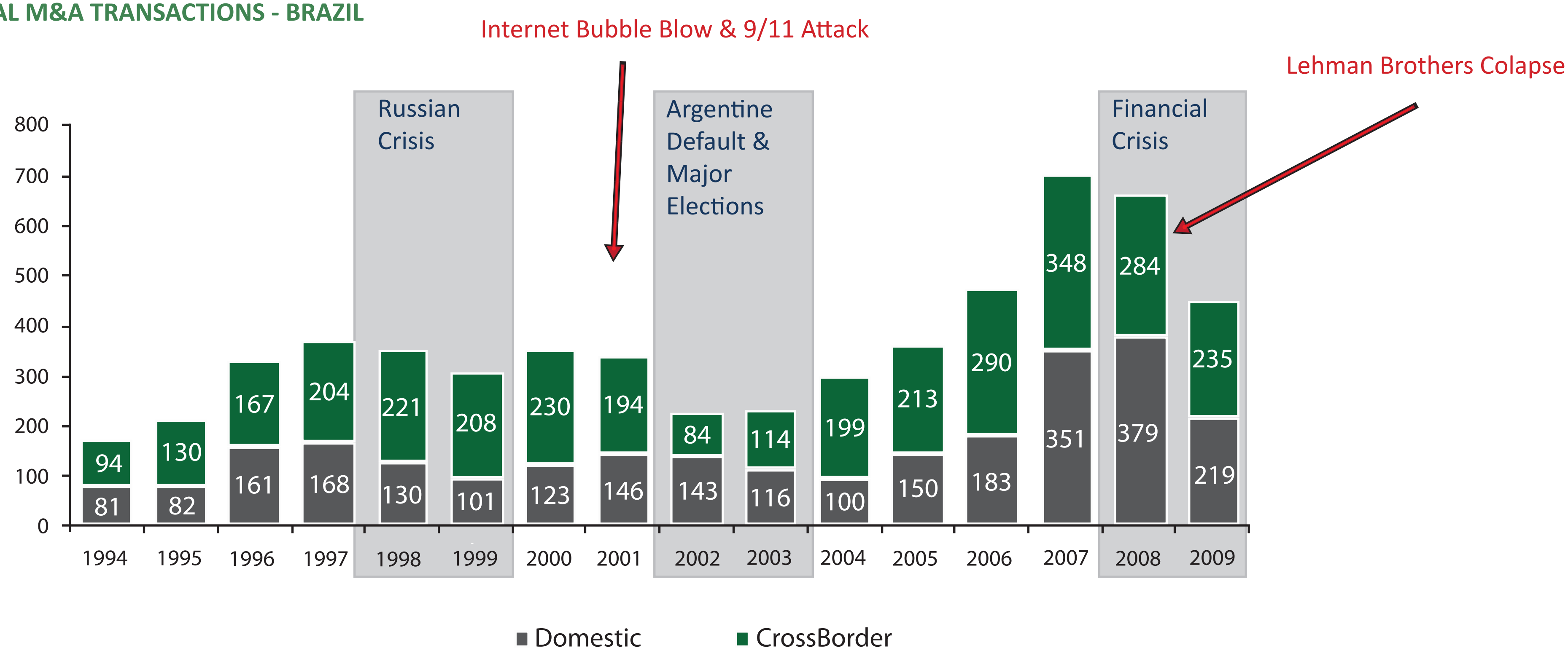
According to PwC annual report Brazil had a record of 630 deals in 2009. Federal Government, with macro policies and also as financial agent through its biggest funding bank BNDES held important position to consolidate with international incoming capital.

Not only based on this context but also in true consumption power of the pyramid basis and the whole wide space to invest in infrastructure, education, health and technology, this country is nowadays a kind of "wonderland" for venture capital, private equity managers and companies willing to multiply their results generating solid production growth.

Brazilian SELIC (interest official reference rate) has dropped from around 25% in 2003 to 10,75% in September 2010. This is one of major reasons that "speculative capital" that used to generate highest derivative flows back in 2003 was replaced by "investment capital" involved in industry and services promotion.

Some important eyes from all over the world are turning to this important emerging market as we'll see further in this material. Enjoy this report and drive your eyes to one of the world's most promising economies.

TOTAL M&A TRANSACTIONS - BRAZIL



Source: KPMG, 2009

Brazilian Mergers and Acquisitions Recent Data

The announcement of Burger King's control acquisition by Brazilian controlled fund 3G may have surprised some people from outside the financial world, but we'll try to deliver some recent movements that may sustain and show signs that points towards Green & Yellow consolidation as global player.

October 2006 – Companhia Vale do Rio Doce acquired 75,66% of Canadian Mining Company Inco for an estimated amount of US$ 17 billion. Vale become at this point the second biggest mining company of the World, following British BHP Biliton.

November 2007 – Gerdau announced the takeover of Enco – Construction Material, just a couple of months after having acquired Chaparral Steel in a US$ 4,2 billion. At the same time, Gerdau reached a final agreement for MacSteel division of Quanex Corporation. The amount informed was around US$ 1,46 billion plus the acceptance of debts. Gerdau became one of world's biggest steel production companies.

January 2008 – Franklin Electric Co., completed the acquisition of the Brazilian pump manufacturer Industrias Schneider SA in a cash deal, right after Schneider had announced net revenues for 2007 of US$ 71 million.
July 2009 - Sompo Japan Insurance Inc, through its subsidiary, Yasuda Seguros S.A. acquired 50% of common shares and 70% of non-voting shares of Marítima Seguros S.A. The total consideration paid by Sompo Japan was US$ 200 million.

2010 Completed Deals

- Banco do Brasil acquired 51% and control of Argentinean Banco Patagonia, for US$ 479,6 million

- Private Equity giant Carlyle acquired controlling share (63,9%) of Brazilian tourism operator CVC in a deal of near US$ 400 million
- Great Hill Partners (PE) sold 91% of E-Business company Buscapé to Naspers Limited for US$ 374 million;

- Brazilian international player JBS Friboi acquired Canadian Company Weddel Ltd. for US$ 3,75 million

- Totvs IT Company held and confirmed 3 acquisitions: M2I Software Installing Services & M2S Support Services for US$ 3 million and 30% of Midbyte Informática shares for US$ 7 million;

- Braskem acquired Sunoco Chemical, through its subsidiary Braskem America Inc, for US$ 350 milhões;

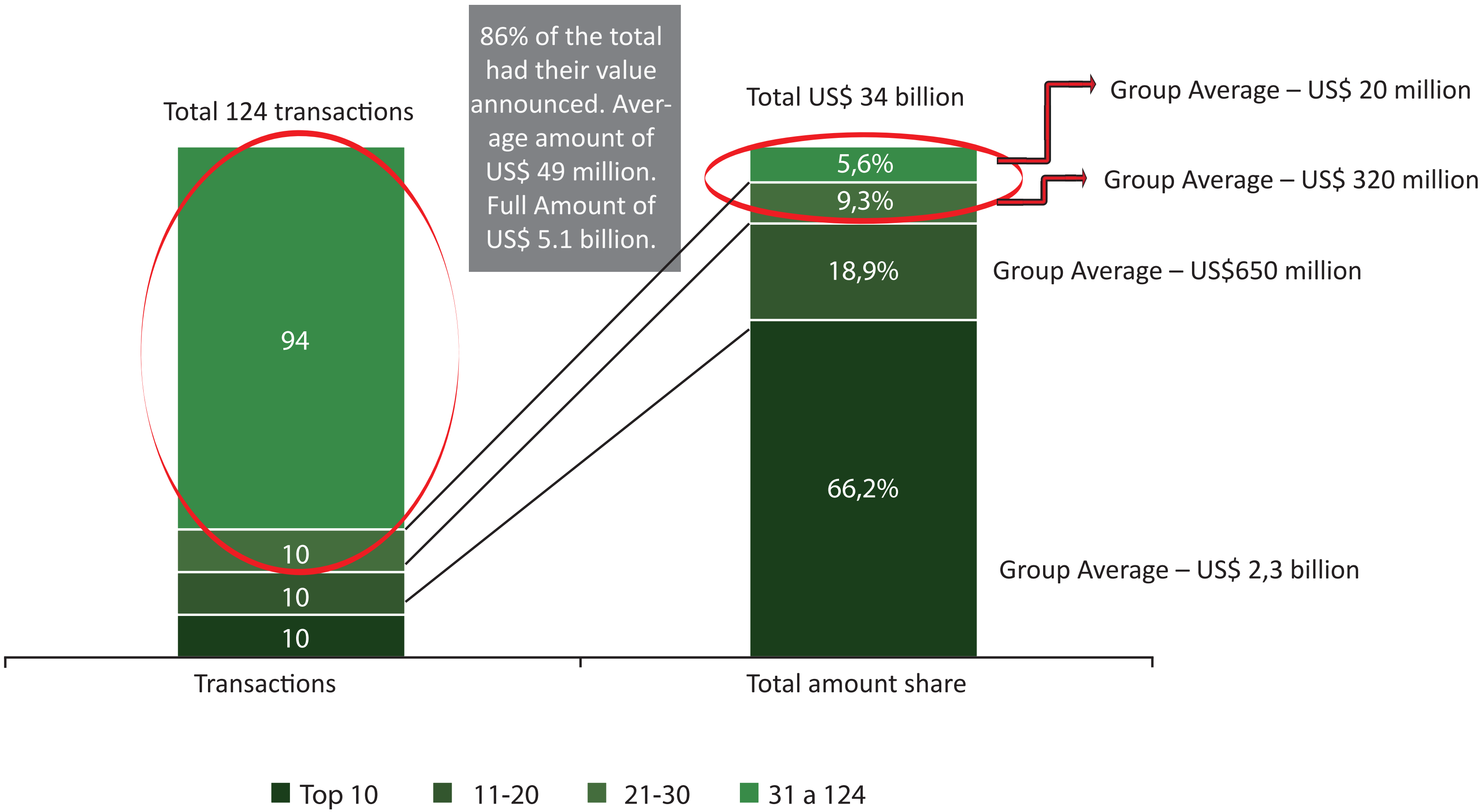
- Marfrig Alimentos acquired 100% of O'Kane Poultry, Nothern Ireland company, in a deal of arounde US$ 37,2 million. The acquisition will be formalized through its subsidiary Marfrig Holdings (Europe) BV & Moy Park;

- A Vale do Rio Doce acquired AMCI Investments Pty Ltd, for US$ 92 million, additional share of 24,5% in coal mine project Belvedere, in Australia;

- Ibmec Educational received financial contribution of US$ 75 million from Private Equity funds managed by The Capital Group Companies;

M&A BRAZIL – Some Important Data

Small and medium size deals, with almost no leverage were the standard in Brazilian market. Certainly for the next couple of years there may be some huge deals, but most of them shall be concentrated on middle market companies.



How safe can be to invest in a Brazilian Middle-Market Company?

Recent movements and the high adaptation capacity that is traditional on every segment of Brazilian economy and culture, has driven some important companies and entities towards the establishment of professional governance processes and structures.

The IBGC – Brazilian Institute of Corporate Governance

The Brazilian Institute of Corporate Governance (IBGC) was founded in 1995 as a non-profit entity. Since its inception, IBGC has been the central forum for the introduction and dissemination of the corporate governance concept in Brazil and it stands today as the main reference and on the development of best practices in corporate governance. With over a thousand and half members, researchers and specialists, IBGC is uniquely positioned to understand the effects of changes in the corporate governance landscape. The Institute has been recognized and awarded by many of the top corporate and financial institutions.

The Institute is also well known for preparing the "Code of Best Practices in Corporate Governance". Originally released in 1999, its fourth edition was released in 2009 and serves as the primary reference for Corporate Governance. Alongside this standard-setting document, the IBGC produces and disseminates dozens of guides, reference works and publications to provide managers, directors, investors and professionals with the practical tools they need to implement corporate governance practices that add value for all stakeholders.*

**Source: ibgc.org.br – official website*

Transparency and Confidence

Following the arrival of international investors, Brazilian entrepreneurs have been "touched" by the need of transparency. ERP's, external auditing, some important IPO examples were more than enough to show national capital controlled companies the differences between having control and governance policies and not having.

In a recent article, former PwC Consultant and former OPP Partner Diego Godoy stated: *"The question that takes us to a rational analysis of a business is: through management tools that exposure from the standpoint of business, coupled with image, marketing, ensures that the information generated within a company and published, brought to market, are really true and reliable? The answer, in this case, admits no controversy, it is corporate governance. It is not for defining or conceptualizing governance in the text, but rather to demonstrate that a structure of internal controls and risk management that works for transparency and reliability of accounting data and acts of the body managing of an organization, creates a perception in investors of a larger value of the enterprise than just its value analyzed by traditional methods of valuation."*

OPP Article

"Decipher me or I'll swallow you"

Your company is like no other, just how it is among investors. Knowing your differences can be the key to your desired transaction.

By Jose Damigo – Senior Partner

Taking as reference the first Quarter of 2010, Brazil has registered a 39% growth is total Mergers & Acquisitions deals confirmed. This is a snapshot of the new market dynamic, and at the same time settle quite encouraging strategic horizon for the next couple of years. Apart of macroeconomic uncertainties, investment capital is still willing to find greater opportunities and it's working with extremely accurate radar focused on emerging companies and sectors together with attractive results chances on middle-market.

This "window" opens in global market from time to time e just for few economies worldwide. Efficient, creative, profitable and future committed enterprises will be privileged. This is the moment in which well prepared and "watchful" entrepreneurs can harvest greatest results from their visionary effort. Either receiving investments for new development flights or even trade his company history for liquid capital compensating partial or total share and control of ownership.

Although, in this buying oriented environment and with so much good opportunities to analyze, the target needs to show merits and attributes that may seem appropriate by the investor point of view. It is exactly the reason that we recommend special attention to the most common kind of investors in Merger and Acquisitions:

1. Non-Financial buyers/investor (also known as strategic)
2. Exclusively Finance Profile investor.

As any investor, both categories quite similar focus and objective: maximum advantages and minimum risks. On the other hand, each of them tends to behave in a particular way based on what particular asset of the target will be taken as most relevant.

Strategic buyer/investor usually evaluates in a "more executive" way, considering synergies, potential and subjective value identities, normally least considered or compensated by the finance oriented investor. For these "executive analysts", one of the main worries is the maximization of global return to shareholders. They support structure complementarities thesis, pre-existing markets and operations or even creating new and relevant niches for value aggregating as "opportunity makers".

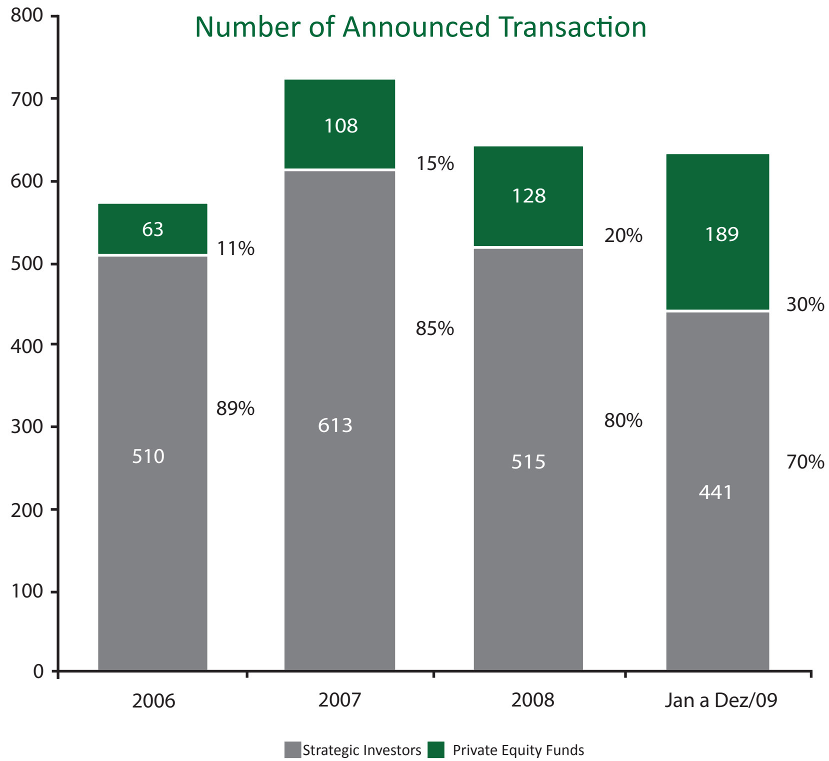
On the other hand, purely financial buyer/investor tends to analyze in such a pragmatic/Cartesian way, searching for toughest management tools and risk diligent strategy, linking value basis to investment/return index on the target evaluation. Different from strategic investor, this group is formed by what we call "opportunity takers", whose main focus is to absorb great potential business, in difficult financial situation or at least far from the ideal breakeven. They apply organization tools, management and direction in order to produce high levels of value and profit leverage, and at some point make (or not) disinvestment (way-out).

None of these investors can be rated as better or worse than the other. Both can be the path for a "win-win" transaction, as long as the right choice is made for each particular moment and entrepreneurial stage.

Just like the mythological sphinx in King Oedipus, from Sophocles, the wisdom to decipher each transaction "codes" and the expectations of each kind of investor, may be the difference between writing with such pride and enviable financial comfort, the achievements of an entrepreneurial life, or let be devoured some huge amount of money in a table with disproportionally prepared dealing sides.

Private Equity Funds reaches record number of deals in 2009.

In a year marked by some serious reductions in international M&A activity, Brazil registered an active presence of Private Equity Funds in private capital markets operations, stock options deals and PIPE operations. Total of 189 deals announced, 30% of total M&A transactions.
Capitalized and with liquid assets available around US$ 12 billion, PE funds were active agents in investment and sector consolidation processes. Remarkable moves on food, educational, health, real estate and construction, IT, services and general consumption products.
The challenge for 2010, and still under battle, is to maintain strategy of opening new investments, direct its portfolio towards selling some business to strategic buyers searching for reasonable profits as the end of 2009 left the impression of trend. Services and infra-structure shall be sectors on the spotlight.



Source PwC Report

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How to conduct a deal in Brazil?

A&M Logos International, Inc. has published a quite particular analysis of Brazilian environment and legal issues on a deal.

They stated: *"When participating in or undergoing through a M&A operation in Brazil, it is highly recommendable that a company seeks legal and auditing assistance to arrange for due diligence of the acquired or target company and drafting and negotiation of the letter of intentions and applicable contracts, in addition to observing several legal requirements.*

Assessing the liabilities of the target company may severely affect the purchasing price in the transaction. Especially tax, labor and environmental legislations in Brazil are very complex and burdensome and lawsuits involving such matters in Brazil may produce a severe impact in decision making process.

Brazilian companies are more than 80% family-owned and managed by their owners. In larger companies there are professional executives. Mainly in the South and Southeast region (States of Sao Paulo, Rio de Janeiro, Minas Gerais, Parana, and Rio Grande do Sul).

Negotiations in Brazil never follow a standard pattern and normally vary on a case-by-case basis. In small and medium-sized companies, owners conduct negotiations, while many larger companies have people trained for that purpose. In significant business negotiations the chief executive officer or chairperson of the board of directors may become involved assisting the company's negotiations team in solving significant issues. Lawyers usually assist in the operation.

Contracts in Brazil are on a less formal basis than the extensive, signed agreements used in the United States."

A nation of "brothers"

The first thing international investor has to know before investing in Brazil is: have a Brazilian partner. Not necessarily a share associated partner, but some company or professional that can represent its interest and walk among institutions and entities in order to guarantee the best path to the deal.

If 2 out 3 companies that can be attractive to foreign capital are family owned and family managed, trust can be the key to success. "Corporate speeches" and army of auditors may scare the entrepreneur out of the deal. National culture avoids turning into an irrelevant position the history of the company and the family.

Smooth progress, recognition of company's assets, brands and environment, even that looks like these may be factors to level up the "deal price", must be the best strategy for those willing to make the best investment.

No matter what segment of the economy, being partner of these "family guys" can be the shortest path to conquest and retain customers, multiplying results and letting community and environment work for the company and not against it.

Most of the times, it is not a matter of money. It is a matter of considering history, personal character and family values. In a country that for 5 centuries has harvest personal relations and "brotherhood", letting this point out of the deal may be a negative issue on investors risk management strategy.

A country moving up to International positions and consolidating internally

Brazilian companies may not be restricted to acquiring local market rivals or competitors. With a highly favorable exchange rate and the liquid assets back in the market, everything points to the speeding of “internationalization process.” It is expected for the next two years that Brazilian Banks advance and promote worldwide takeovers of financial players after the huge consolidation that national market has passed through over the past years. A good example of it is Bradesco that acquired last January all financial services of Mexican bank IBI. Not to mention what the “mega-player” formed after the Merger of Itau and Unibanco.

Traditional sectors may seek for opportunities abroad too. Foreseeing a tough fight for recent discovered pre-salt Oil reserves and the definite chance to become a global reference in Oil&Gas business, Braskem has worked hard to become a giant in its sector. After incorporating Quattor, helped by State-Owned Petrobras, the eight biggest resins productor of the world is full of assets, money and credit to make strategic alliances and become Latin America Leader – they are just behind Dow Chemical, but market info guarantees that a new giant merger is under evaluation.

Internally, the mostly likely niche to be “the consolidator” is Ethanol and Sugar Cane with something around 50 plants for sale. Most of national groups in these areas aren’t capable of great developments nowadays. Higher levels of debts, made companies life even tougher after international crisis of the past couple of years. That’s one of the main reasons why specialists keep waiting for foreign capital to dive into these opportunities. Beyond the traditional giants such as ADM, Bunge, Cargill & Louis Dreyfus, other international groups are searching for the right time and chance to get in. Brazil may benefit in 2010 due to higher price levels of sugar cane because the smaller production in India, China and Pakistan.

The intense consolidations of some areas last year still may bring important moves in 2010. Competitors in major retail chains may not watch passively mergers such as the one of Ponto Frio and Casa Bahia, creating a giant retailer of US$ 10 billion / year in revenue. Some believe that Walmart may lead together with Carrefour series of acquisitions of smaller retail networks in order to maintain their market share.

Some important issues on this competition are the pyramid base consumption power. Either through federal care funding programs or job promotion actions. With GPD raise and credit access in abundance may lead and maintain the range of choices for investments.

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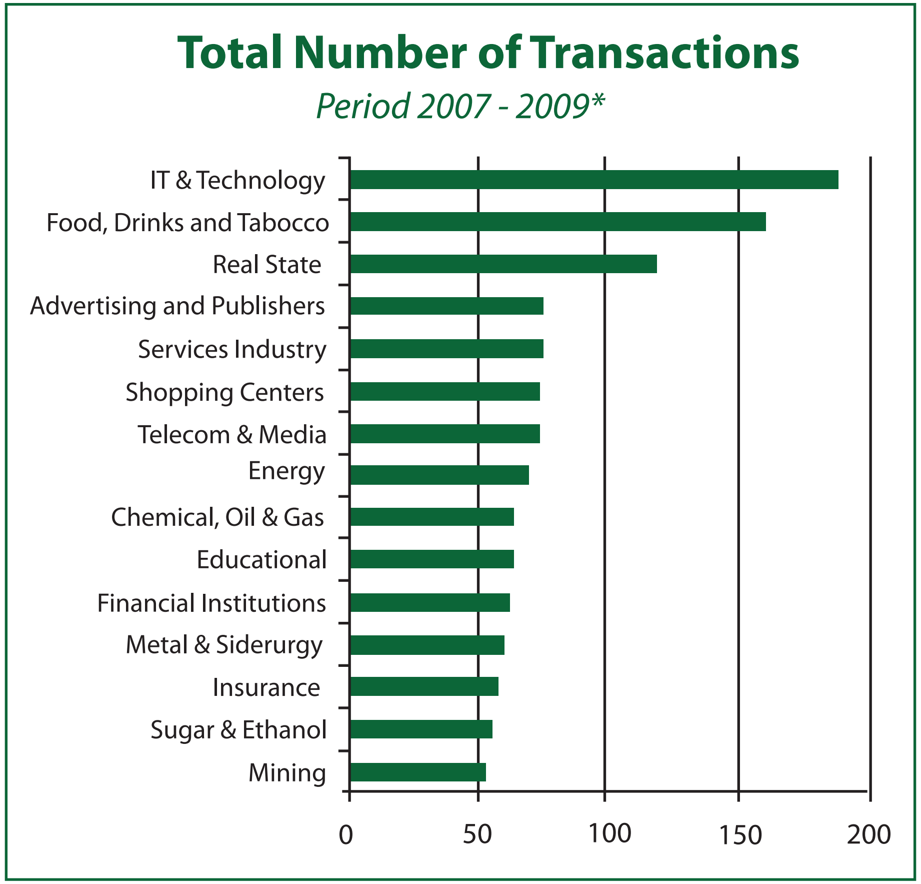
Mergers and Acquisitions in Brazil

Operations by Sector

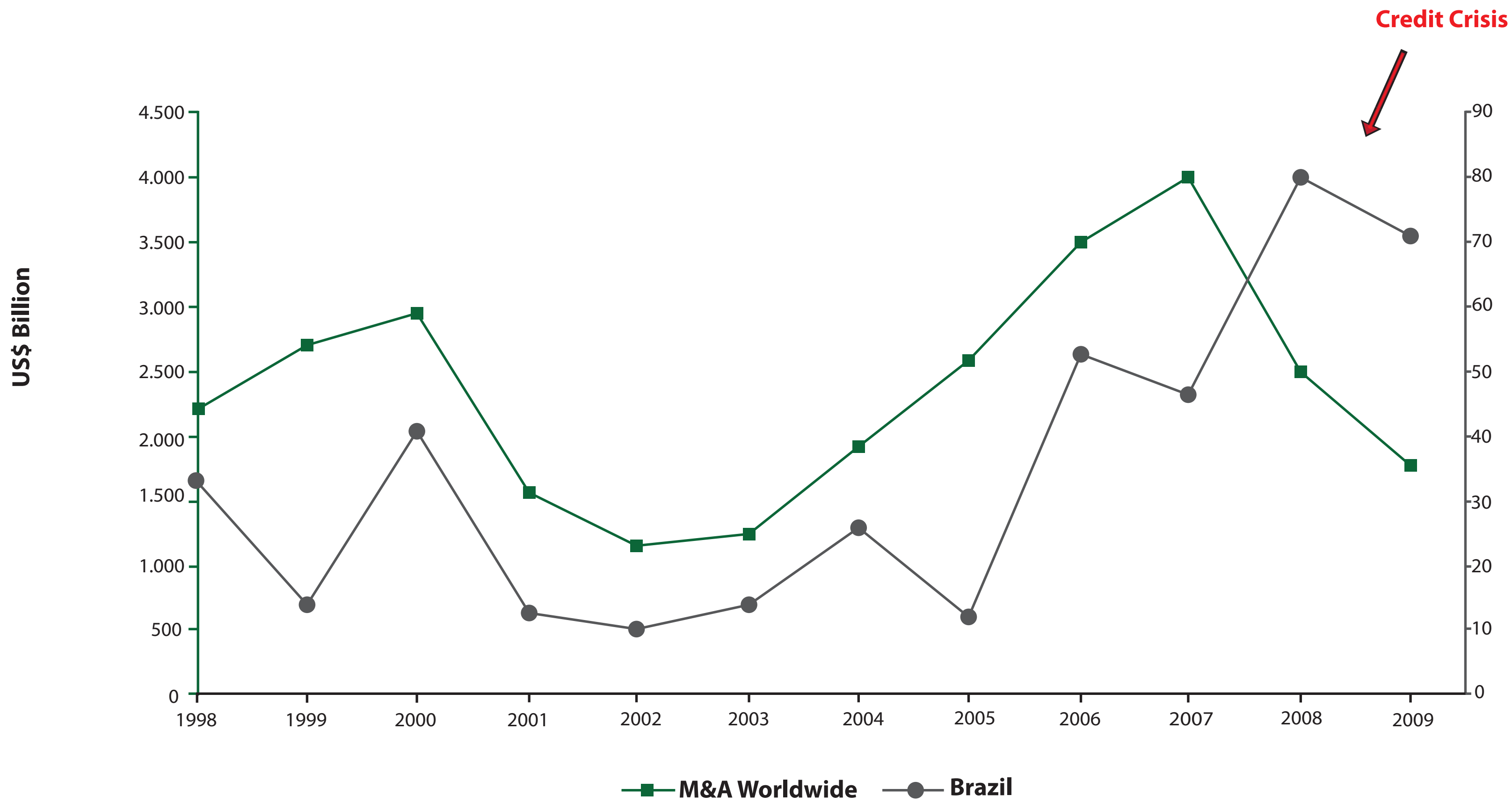


*Source KPMG Report – May 2010.

Some Relevant Transactions and their Repercussions

Acquirer	Target	Estimated $	Selected Market Quote
Perdigao	Sadia	US$ 6 billion	Creation of a giant player in Food market
Banco do Brasil	Banco Votorantim	US$ 2,5 billion	BV became Federal Banco do Brazil's retail ans automotuve lender
Vivendi	GVT Holding	US$ 2,5 billion	Vivendi took advantage of telecom boom and "C/D" class consumption power
Hypermarcas	Neo Química, Inal, PamPom, Jontex	US$ 1,5 billion	A few steps further for an anterprise with unprecedented in Brazi's history. Brand and synergy valuator

Development of M&A transactions - Worldwide & Brazil



Source Bloomberg

Brazil – Macroeconomics Forecast

	2008		2009		Latest Period		2010	2011	
Nominal GDP, US$bn 2	1573.5		1541.0		-	-	1888.0	f 2106.8	f
Nominal GDP, BRLbn 2	2889.7		3075.8		-	-	3322.9	f 3613.2	f
Population, mn 3	192.0	e	194.7	e	-	-	197.4	f 199.3	f
GDP per capita, US$ 4	8194		7914		-	-	9562	f 10574	f
Real GDP growth, % change y-o-y 4	5.1		-0.2		2.0	Oct-Dec	5.3	f 3.6	f
Industrial production index, % y-o-y, eop 3	-16.4		18.1		16.7	Apr	5.7	f 5.0	f
Consumer prices, % y-o-y, eop 3	5.9		4.3		5.3	Apr	5.3	f 5.0	f
Budget balance, % of GDP 4	-2.0		-3.4		-3.3	Dec	-3.2	f -2.9	f
Lending rate, %, eop 5	43.3		44.5		-	-	38.7	f 37.0	f
Exchange rate BRL/US$, ave 4	1.84		2.00		-	-	1.76	f 1.71	f
Exchange rate BRL/US$, eop 4	2.31		1.74		1.85	2-Jun	1.74	f 1.69	f
Goods exports, US$bn 5	197.9		153.0		54.4	Jan-Apr	182.0	f 205.0	f
Goods imports, US$bn 1,5	173.2		127.7		52.2	Jan-Apr	170.0	f 197.0	f
Balance of trade in goods, US$bn 5	24.8		25.4		2.2	Jan-Apr	12.0	f 8.0	f
Current account, US$bn 5	-28.3		-24.3		-16.7	Jan-Apr	-34.3	f -42.2	f
Current account, % of GDP 4	-1.8		-1.6		-	-	-1.8	f -2.0	f
Foreign reserves ex gold, US$bn 5	193.8		238.5		239.8	Feb	290.0	f 265.0	f
Net FDI, US$bn 5	24.6		36.0		-	-	-	-	
Total external debt stock, US$mn 5	170120.0		179000.0	e	-	-	190000.0	f 201000.0	f
Total external debt stock, % of GDP 4	10.8		11.6	e	-	-	10.1	f 9.5	f
Total external debt stock % of XGS 4	74.5		99.0	e	-	-	89.7	f 86.1	f

Notes: e BMI estimates. f BMI forecasts. 1 Keep an eye on which data series is denominated in a negative figure, and which is positive; Sources: 2 IBGE, IMF. 3 IBGE; 4 BMI Calculation; 5 BCB.

* Source: Latin America Monitor

A Land to Focus, Trust and Invest
By Adeodato Netto

All these data show in this material may sustain the theory of opportunity for the next years in Brazil. More than this, our intention was to deliver to worldwide partners some important information from many different sources and consolidate them added with opinion.
It is not only about being a BRIC country. It is a matter of maturity. It is a matter of environmental responsibility. It is a matter of becoming a Global Player and retaining this position on solid basis.
That's all based on facts. Inflation is gone. Primary industry is on the edge. Research and development are getting stronger in every area. Oil & Gas with a promising future with pre-salt and Petrobras consolidation as one of World's most innovative and responsible oil companies.
Green thoughts. Caring about Amazon, which is world's lung. Responsibility and respect to international protocols and sustainability projects being financed by government initiatives together with private capital.
Country risk lower than ever. Investment grade assured by all major risk agencies.
We are not talking about wonderland. We are talking about a country that fought hardly over the past century, navigating through thunderstorms, uncertainties and serious financial and social crisis.
Brazil learned how to survive. Brazil learned how to walk among the great. This country still searches for its political definite drive and place in world scenario, but surely is a voice to hear nowadays.
Brazil is not a kid anymore. Brazil can be responsible with foreign investors and capital. Brazil learned about sharing. Opened borders, stock markets and gained "liquidity".
Itau-Unibanco is the biggest bank in liquid assets basis of the South Hemisphere and one of the most respectful institutions worldwide. Gerdau and Vale already took their places. Petrobras is coming stronger and stronger.
Best of all... these giants can be secondary. The heart of the economy is in its master consumption potential that is still starting to push stronger movements.
This is a country where middle-market players can take the chance and grow. There is no industry or niche that is not willing to receive options, brands, investments, employment and profits.
This research wants to show that this is really a Land to Focus, Trust and Invest.

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