

Landscape and M&A Opportunities in the Brazilian Infrastructure Market



2ND BCCC INFRASTRUCTURE FORUM

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Agenda

- 1 M&A Landscape in Brazil
- 2 Due Diligence Recommended Approach
- 3 Selected Due Diligence Case Studies



Promon Group

Shareholding Professionals

Promon S.A.

Instituto de Tecnologia Promon

Fundação Promon de Previdência Social

Associated Entities



Information and Communication Technology (ICT)

 **PROMON LOGICALIS**

35%



Environment

 **Promon**
Meio Ambiente

100%



Engineering

 **Promon**
Engenharia

100%



Consultancy in Strategy and Technology

 **Promon**
Intelligens

100%

 **BRANDT**
meio ambiente

 **verti**
ECOTECNOLOGIAS

 **TERRAVISION**
geotecnologia e geoinformação

52,7%

The economic crisis had an impact of 45% on the announced deals value for 2015

 # of transactions



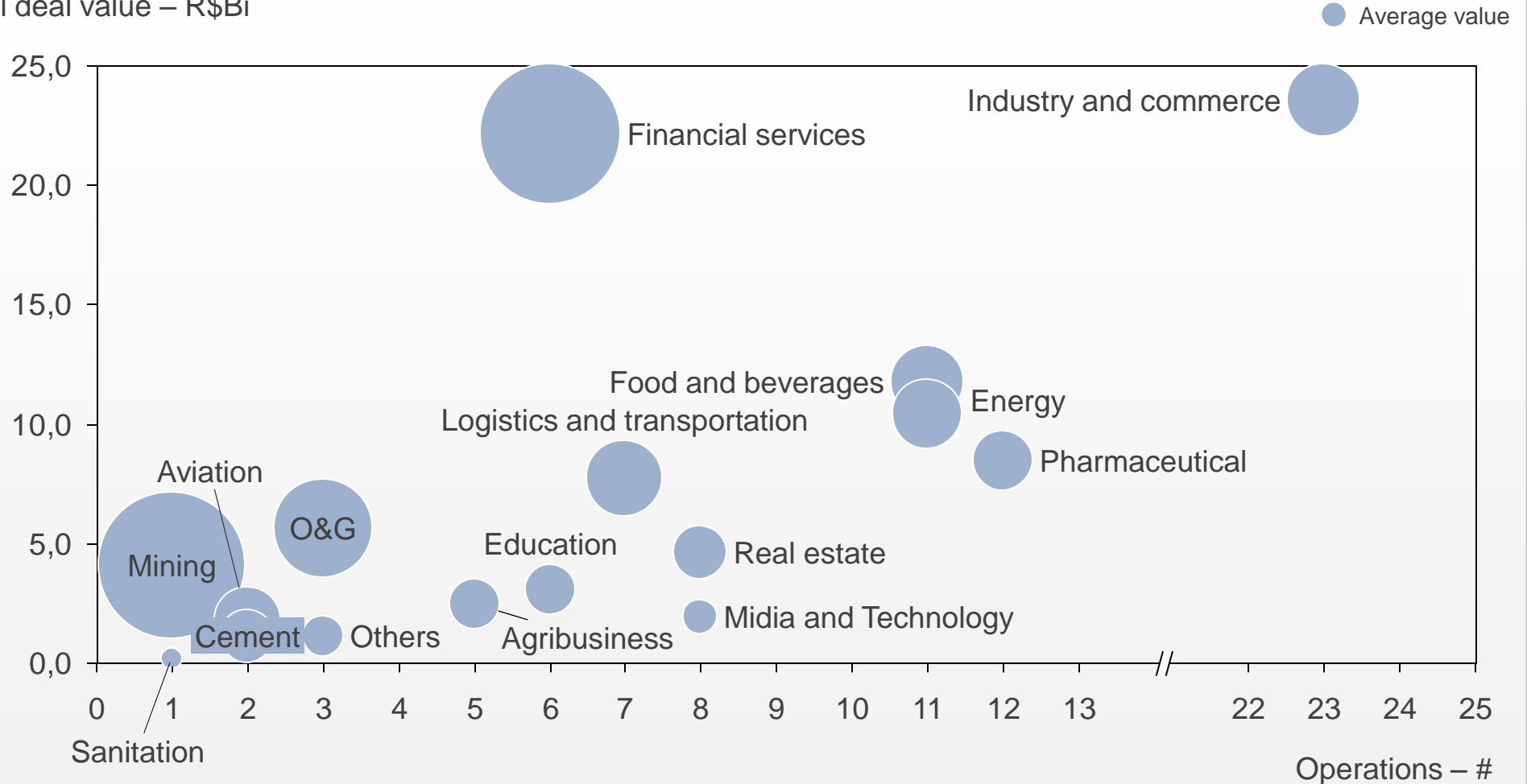
Biggest deals in 2015

1. HSBC Bank Brasil – R\$17.9Bi
2. Souza Cruz – R\$10.4Bi
3. Moy Park Holdings – R\$4.6Bi
4. Eneva – R\$4.5Bi
5. Cargill Pork Assets – R\$4.5Bi
6. Ecorodovias – R\$4.3Bi
7. MBR – R\$4.0Bi
8. Hypermarcas – R\$3.8Bi
9. Brasbunker – R\$3.0Bi
10. Alpargatas – R\$2.7Bi

Industry & Commerce and Financial Services – segments with the biggest deal value

M&As in Brazil by sector - 2015

Total deal value – R\$Bi



Current Brazilian environment creates interesting M&A opportunities / entry point

Brazil's rating evolution

Credit Rating	Sep2014	Apr2016
Moody's	Baa2	Ba2
S&P	BBB-	BB
Fitch	BBB	BB+

USD/BRL



- From a leveraged, investment grade and liquid market to a non investment grade distressed credit market
- Favorable exchange rate

Investment Opportunities

- According to estimates, the value of assets for sale in Brazil are between R\$90bn¹ and R\$150bn²

"Brazil's state-run oil company Petroleo Brasileiro SA said on Friday it plans to sell its rights to 104 onshore oil and gas concessions, part of efforts to raise cash and focus ..."

"Construtora (...) is intending to sell 24.4% of its subsidiary (...). More than 20 groups from around the globe have shown interest in the plan of Brazilian construction firm to sell off company assets worth some \$1.03 billion" - Reuters

"Centrais Elétricas Brasileiras SA, Brazil's largest power holding company, is considering selling controlling stakes in several power distribution companies to focus on generation and transmission of electricity" - Reuters

- Cash instead of valuation
- Capex "arbitrage"
- Concession renewals & PPPs

1 – Exame based on PWC estimates

2 – Estadão based on investment banks estimates

Key challenges for properly evaluating an M&A opportunity

Main challenges evaluating opportunities in the Brazilian Infrastructure Sector

Demand Forecast

- Optimistic forecasts made during the bull market
- Expected positive developments in the political front in the near future
- Changes in public policies/regulations

Greenfield projects

- Environmental licensing costs and schedule
- CapEx costs and schedule
- EPC contracts
- Regulations

Brownfield projects

- Environmental and social liabilities
- Ongoing construction contracts
- Scheduling & physical progress delays
- Claims

OpEx

- Efficiency gains measurement
- Valuation of Opex vs Capex trade offs
- End to end processes cost evaluation



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The complexity and lack of uniformity of assets in Brazil implies the need of detailed Due Diligence, assuring that both strategic and operational aspects are well addressed

NON EXHAUSTIVE

Key questions

Conception

- Is the scope and objectives of the project well defined and comprehensive?
- Are the budget and schedule realistically and precisely estimated?
- Are the project phases detailed in a clear and exhaustive manner?
- Is the project well structured and mature for its implementation?
- Is the technological choice aligned with the value proposal?
- Does the analysis consider the ecosystem around the asset?

Implementation

- Are there scope deviations occurring during implementation? Do these compromise project objectives?
- Are the original schedule and budget really being followed?
- Are there many unforeseen events during the implementation phase?
- Are there adequate controls to mitigate risks?
- Is the communication between the strategic and operational teams being made effectively?

Operation

- Are the project results in line with what was predicted during its conception?
- Is the operation ramp-up following the estimated schedule?
- Are the project contingencies able to accommodate operational risks?
- Do operational parameters deviate from expectations?
- Are the environmental practices being followed?

An integrated approach is fundamental in the assessment of M&A targets

Promon's Proposed Integrated Approach



Focus on Maximizing Value

- Business model evaluation and support on negotiation
- Infrastructure evaluation and optimization of investment plan
- Risk evaluation and support on mitigation plan, with scenarios evaluation
- Synergies and upsides identification and evaluation

Promon' services cover the entire business lifecycle

Investment Lifecycle



Promon's Services

Fund and Investment Level

Pre-Deal:




- Technical Advisory
- Opportunity Identification & Screening
- Technical, Economical and Environmental Feasibility
- Project / Asset Maturity Analysis
- Due Diligence

Portfolio Company Level

Pre-Deal:

- Conceptual, Basic & Detailed Engineering
- Project Management
- Sustainability Management & Environmental License
- Project Implementation – EPC, EPCm
- Operational Optimization

Promon has supported several financial & strategic investors in the last 3 years in deals adding more than \$10bn

	Project	Coverage	Estimated Deal Size ¹	Year
Transportation 	Assessment of a highway concessions portfolio	Due Diligence - assets distributed throughout all the national territory More than 1,500 km total length	\$ 2,5 Bn	2015
	Evaluation of transport infrastructure assets	Due Diligence - highways, including tunnels, bridges and other civil works More than 100 km total length	\$ 96 MM	2015
Energy 	Evaluation of hydropower generation assets	Pre-Bid Due Diligence - assistance in setting bid More than 200 recommendations	\$4,3 Bn	2015
	Evaluation of hydropower generation assets	After-Bid Due Diligence and elaboration of simplified investment plan for electrical energy regulatory agency More than 147 recommendations	\$ 300 MM	2015
	Evaluation of hydropower generation asset under construction	Independent evaluation of the implementation of PPP Second largest hydropower project in Brazil	\$ 3,2 Bn	2012
	Evaluation of wind farms end hydropower generation assets	Pre-Bid Due Diligence – Asset evaluation Eight wind farms and four small hydro power plants	–	2014
Facilities 	Assessment of telecommunication network infrastructure	Sampling for assessment of more than 1,000 sites dispersed throughout the national territory	\$ 96 MM	2015

1 – USD, conversion BRL to USD: 01/07/2015

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DUE DILIGENCE FOR TRANSMISSION ASSETS IN OPERATION

Situation

- Technical due diligence for transmission assets, including analyzes of: Assets, Project, Operational Performance, Regulatory Performance, Environmental Performance and O&M.
- Almost all assets were operated by the concession through two redundant operations centers.



Approach

- Promon was hired to participate in the technical due diligence.
- The analyzes were performed assess the stage of development of each asset category.
- Using the systemic knowledge of contracts of this nature, Promon has implemented a methodology that was suited to the project in order to capture the actual risk of each asset.



Results

- The actual situation of the assets and risks of ongoing processes: storage conditions of assets, operational procedures, regulatory performance, providing a structured technical framework for decision making.



DUE DILIGENCE OF TRANSMISSION ASSETS UNDER CONSTRUCTION

Situation

- Technical due diligence for transmission assets, including analyzes of: Assets, Project CAPEX, physical and financial schedule, Environmental (cross-examination), and O & M.
- The assets were all in design or construction stage, EPC contracts were underway, suppliers at different stages (design, manufacture, delivery, etc.),



Approach

- Technical due diligence, interacting with the environmental, regulatory and legal teams.
- The analyzes were performed framed to the stage of development of each examined subject.
- Using the systemic knowledge of contracts of this nature, Promon has implemented an analysis that was best suited to the project in order to capture the actual risk of each asset category.



Results

- Independent and qualified description of the asset's situation.
- Cost and schedule estimation to construction accomplishment.
- Provisions for future costs to be incurred as possible claims in EPCs, O&M and corrective maintenance were key inputs for the financial modeling & valuation.



DUE DILIGENCE

WIND FARMS AND SMALL HYDRO POWER PLANTS

Situation

- The client was interested in the acquisition of a company holding a portfolio of renewable energy generation plants.
- The total installed capacity was 300MW divided in:
 - 3 SHPs in operation
 - 1 SHP in construction
 - 7 wind farms in operation
 - 1 wind farm in construction



Approach

- The analysis was carried out in the following dimensions:
 - civil and electromechanical projects
 - contract of civil works and electromechanical erection
 - physical collateral and hydrological risk
 - micrositing and estimates of energy production
 - construction risks
 - budget and construction resources
 - ONS network procedures
 - connections to the grid
 - safety of installations
 - level of automation and remote-controlled capabilities
 - restrictions and / or potential upsides
 - transmission system
 - historical events
 - inspection reports from regulatory agencies
 - O&M contracts
 - technical visit

Results

- Independent and qualified description of the assets actual situation
- Cost and schedule estimation to construction accomplishment
- Understanding of the compliance with regulatory procedures and obligations
- Mapping of the operational situation
- Identification of externalities affecting energy delivery such as lack of proper connections and transmission lines

DUE DILIGENCE (POST ACQUISITION) WIND FARMS AND SMALL HYDRO POWER PLANTS

Situation

- The customer, a hydroelectric generation concessionaire, requested a status map of the HPP assets recently acquired.
- The status map would support decision-making and the planning of actions at the early stage of the new concession agreement by the Quota Regime (Law 12.783/13)



Approach

- Analysis of the situation of Assets in 5 dimensions:
 - Availability/existence
 - Obsolescence
 - Lack of parts
 - Standards and legislation
 - Non-compliance with the project
- Independent certification of the services
- Final report comprising:
 - Recommendation by system/equipment
 - Situation of the documentation
 - Indication of the main risks
- Support at meetings with agencies



Results

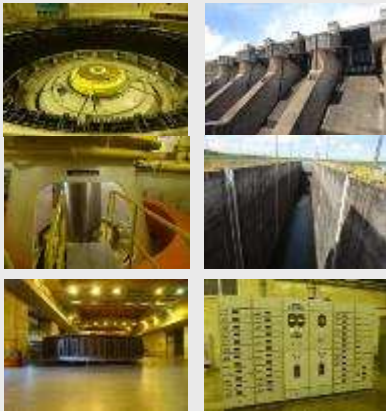
- 114 recommendations
- Alignment of understanding of the situation of assets with different stakeholders :
 - Executive board
 - Engineering and management team
 - Regulatory agency (ANEEL)
- Inputs for:
 - Investment planning
 - Fast and assertive solution of critical items.



SIMPLIFIED INVESTMENT PLAN UHE

Situation

- According to RN ANEEL 642/14, the Client, a hydroelectric generation concessionaire, requested support in developing the Investment Simplified Report.
- The scope included technical, environmental and land aspects of:
 - Identification of necessary and prudent investments
 - Valuation
 - Classification



Approach

- I – Gathering of Requirements and analysis of available documentation
- II – Consolidation of the criteria to define and value the investment
- III – Development of report in ANEEL standard - simplified model
- Presentation to board of directors
- Support at meetings with ANEEL



Results

- 47 investments identified, classified and valued
- Alignment of the understanding of the necessity and pertinence of the investments with:
 - Executive board
 - Engineering and management team
 - Regulatory agency (ANEEL)
- Besides the simplified plan delivered to ANEEL, the Report of Recommendations and Impacts to the concessionaire business was also presented.



DUE DILIGENCE – PRÉ-AUCTION (MP-688) HPP

Situation

- The customer, interested in the main auction lot, requested the mapping of the situation of the HPPs
- The risks mapping and the CAPEX and OPEX estimate (of high level) would support positioning decisions and pricing for auction in accordance to MP-688



Approach

- The Analysis of the situation of Assets occurred in 3 stages:
 - Structuration and analysis of available databases
 - Technical visit and workshop
 - Development of the Final Report and estimates
- Final Report comprising:
 - Estimate of CAPEX and OPEX throughout the new cycle of O&M
 - Situation of the documentation
 - Indication of the main risks



Results

- More than 200 recommendations
- Alignment of understanding of the situation of assets with different stakeholders:
 - Board
 - Executive board
 - Engineering and management team
 - Inputs for:
 - Pricing
 - Positioning for auction



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