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The case for continued consumer spending in 2011

Real wage hikes and a tight labour market will keep retail sales of non-durables strong

Despite rising inflation and a series of recent measures enacted by the government to cool the country's overheating economy, Brazil's new consumer classes are likely to keep spending this year. Reasons for optimism include real wage hikes in a majority of sectors, Brazil's tight skilled labour market and estimated GDP growth of 3-4 per cent in 2011. However inflationary pressures will persist and default rates will rise as credit tightening continues.

Key judgments

- In spite of a smaller-than-expected minimum wage hike in 2011, average real wages nationwide are still close to their historical highs and should stay high in the near term.
- With more credit-tightening measures by the Banco Central likely, sales of durable goods will grow at a slower rate this quarter and in H2/11, with a knock-on effect on top retailers such as Pao de Acucar's (PCAR3:BZ, CBD:US) home appliance unit and Magazine Luiza (MGLU3:BZ).
- We expect sales of non-durable goods and some services to stay strong, with annual growth of 5-10 per cent. Companies that could benefit from these trends include construction materials firm Duratex (DTEX3:BZ); food and beverage companies Brasil Foods (BRFS3:BZ, BRFS:US) and AmBev (AMBV3:BZ); and beauty and personal care firms such as Natura (NATU3:BZ), Drogasil (DROG3:BZ), Raia (RAIA3:BZ) and Hypermarcas (HYPE3:BZ, HYPMY:US).
- The increasing indebtedness of Brazil's new consumer classes bears watching, but the risk of a subprime crisis remains low for now. Risks of defaults are rising but actual default levels are still low relative to past history. A projected minimum wage hike of 13-14 per cent in 2012 is likely to sustain salary hikes in other sectors.

Context

Brazil's Banco Central and the federal government have taken steps since December to cool the country's overheated economy after exuberant GDP growth of 7.5 per cent in 2010, aided by record government spending in the run-up to the October presidential elections. Tighter restrictions on consumer credit to date include:

- Higher capital requirements of 16.5 per cent (up from 11 per cent) for financial institutions on most consumer loans over 24 months and on payroll-deducted loans longer than 36 months. Housing and leasing transactions are exempt.
- Larger down payments for auto loans, with bank capital requirements of 16.5 per cent taking effect if the down payment is less than 20 per cent of the car price for loans of 24-36 months, is less than 30 per cent for a 36-48 month loan and is less than 40 per cent for a 48-60 month loan.
- Higher bank reserve requirements on time deposits of 20 per cent (up from the previous 15 per cent) and 12 per cent for cash deposits (up from 8 per cent). The Banco Central has estimated that these higher reserve and capital requirements would remove R$61 billion (US$38.4 billion) from circulation.
- Two 50 bps hikes in the base Selic rate in January and March to 11.75 per cent.
- A temporary hike in the financial operations tax (IOF), enacted on 8 April, to 3 per cent from 1.5 per cent on consumers who are making purchases using credit cards, personal loans and payroll loans. Housing loans and leasing operations are exempt from this measure.

Furthermore the Dilma administration has vowed to cut R$50.7 billion (US$31.9 billion) from the budget this year so as to curb excessive government expenditure. Dilma also endured friendly fire from traditional allies such as labour unions in order to keep the minimum wage hike for 2011 at a relatively modest 6.8 per cent. But inflationary pressures persist. Consumer prices (as measured by the IPCA inflation index) in the 12 months to March rose to 6.3 per cent, the highest level in over two years. Likewise inflation in March was higher than expected, rising by 0.79 per cent month on month according to Brazil's statistics bureau IBGE. Banco Central President Alexandre Tombini further confirmed market projections on 25 March when he acknowledged that inflation may worsen and noted that the Banco Central is now looking to bring inflation back down to the 4.5 per cent midpoint of its inflation targeting range (plus or minus two percentage points) only in 2012.

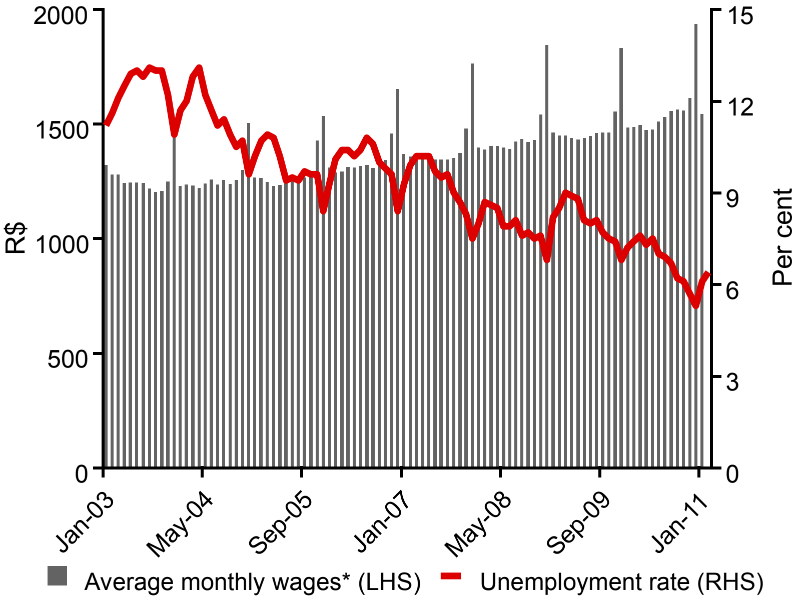
Brazil's growing middle classes will keep spending

Although inflation is starting to erode the purchasing power of Brazil's new middle classes, we expect the country's consumers to keep up their spending on discretionary items this year, as long as Brazil's GDP growth stays on track at the projected 3-4 per cent. Four factors anchor our view.

1. Real wages remain near historical highs

Owing to Brazil's tight labour market and a continuing shortage of skilled workers in a majority of sectors, average real salaries in six key metropolitan regions – Sao Paulo, Rio de Janeiro, Belo Horizonte, Porto Alegre, Salvador and Recife – in February stayed near historical highs (see Chart 1). Moreover 88.7 per cent of employers in 2010 granted workers above-inflation wage hikes, and an additional 7 per cent gave workers at-inflation wage hikes according to a survey by the Inter-union Department of Statistics and Socioeconomic Studies (DIEESE) (see Chart 2). Real wages over the coming year should therefore continue to stay relatively high. Adding to increased wage expectations, the Dilma government has already struck an agreement with labour unions to raise the minimum wage next year by an estimated 13-14 per cent. Although the deal is not written in stone and may eventually prove difficult to implement if inflationary pressures persist, the government will be loath to abandon it ahead of the mid-term municipal elections in October 2012. In the event it is forced to do so, it nonetheless has a strong incentive to provide a real wage hike in its place and union negotiations in both the industrial and services sectors throughout this year will occur with this expectation.

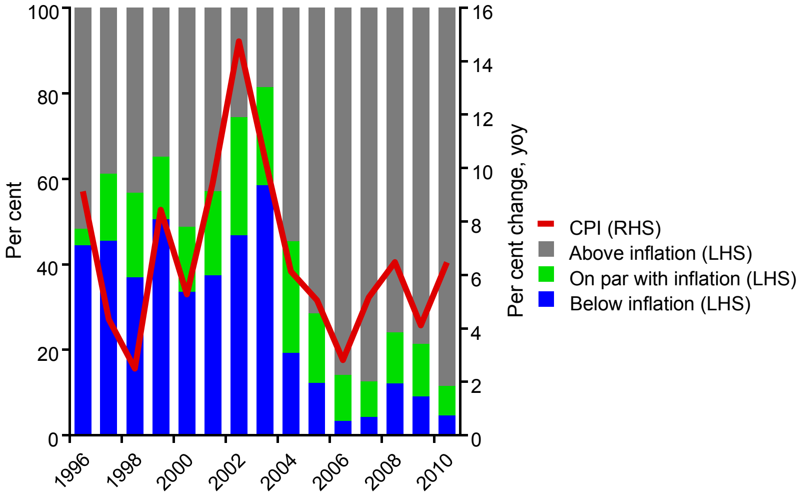
Chart 1: Average real monthly wages and unemployment rate



* Adjusted to February 2011 prices. December wages include the annual Christmas bonus paid to workers by employers.

Source: IBGE.

Chart 2: Average annual wage increases vs inflation



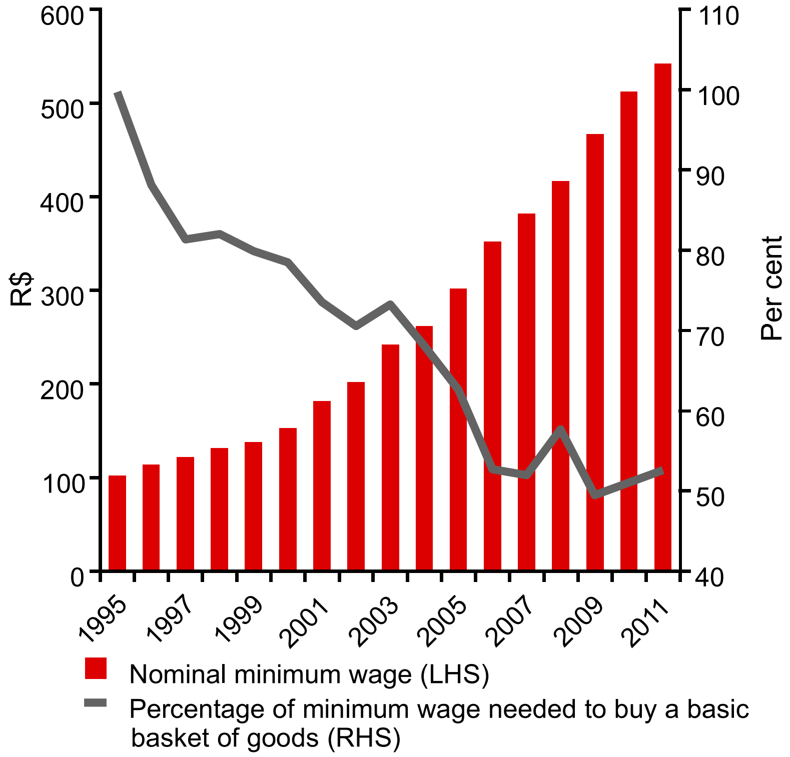
* Salary hikes of several hundred labour unions and other organizations are surveyed annually for this study. CPI is measured by the INPC inflation index.

Sources: DIEESE, SAS-DIEESE, Bloomberg.

2. Consumer spending power is still ample

Owing to the Dilma government's at-inflation minimum wage hike this year of 6.8 per cent to R$545/month (US$343/month), a basic basket of goods today continues to cost just over half the minimum wage (see Chart 3 below). In addition another recent presidential decree, which went into effect on 28 March, adjusts the lowest income tax bracket upwards by 4.5 per cent annually until 2014. Workers who make under R$1566.61/month (US$985) are now exempt from paying income tax (compared to R$1,499.15/month (US$943) previously). Even though the second measure will have a fiscal benefit for workers only next year, the upshot of both measures is that the discretionary spending taps are likely to stay on even among the working poor this year.

Chart 3: Brazil's monthly minimum wage vs a basic basket of goods

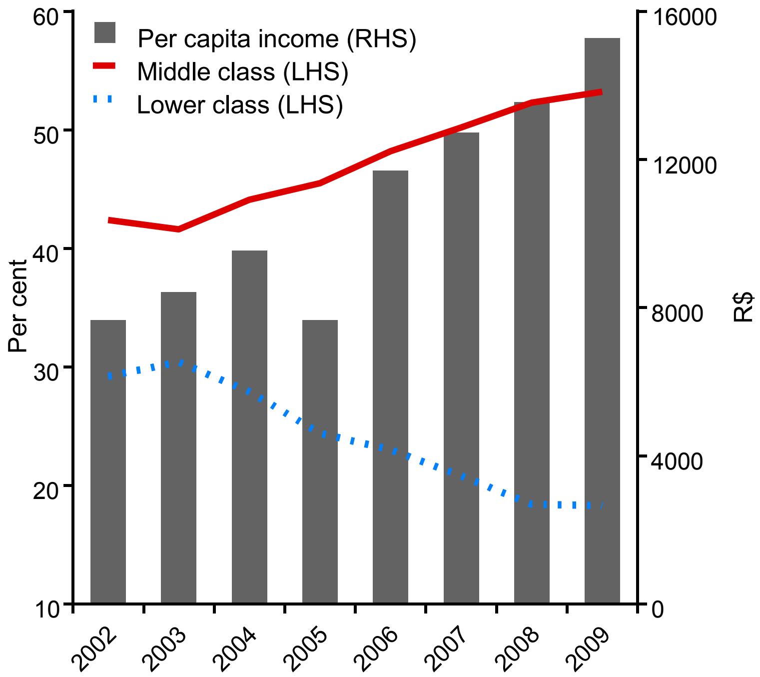


Source: DIEESE.

3. Brazil's middle class consumer base is expanding, albeit more slowly

Brazil's middle class base also continues to expand, as we have underlined previously. Over 30 million new consumers since 2008 have entered Brazil's credit markets for the first time according to Marcel Solimeo, chief economist at the Sao Paulo Commercial Association. Moreover Brazil's new middle class grew in 2010 to account for 53 per cent of Brazil's population of 191.7 million, up from 49 per cent in 2009 and 34 per cent in 2005 according to a recent survey conducted by polling agency Ipsos Public Affairs. As long as the Brazilian economy stays on track, the country's new consumers are likely to keep their jobs and maintain their salary levels, notes Solimeo. However it will take longer for Brazil's working poor to ascend into the middle class as the economy slows down.

Chart 4: Social class structure vs per capita income



Source: FGV.

4. Job creation will continue

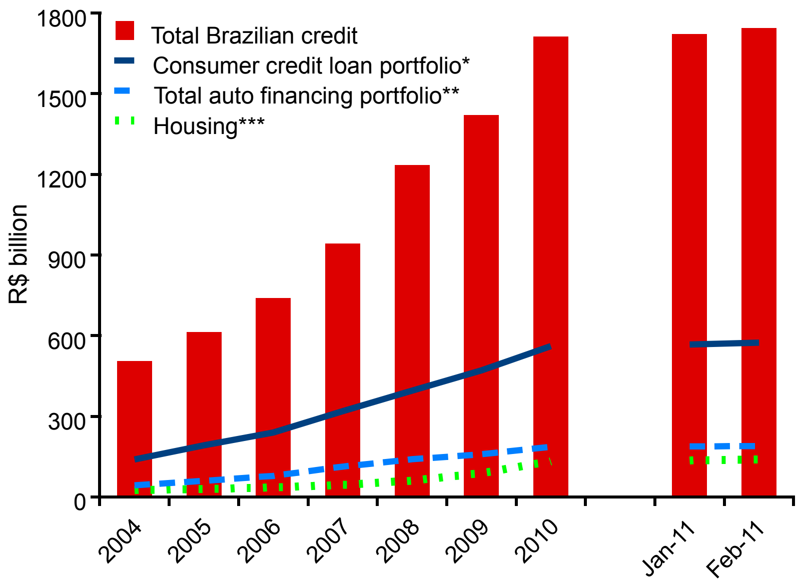
Brazil had a banner year for employment in 2010, with a record 2.5 million formal jobs created. Job creation in February hit another peak of 280,000 for the month, up 34 per cent year on year and up 0.5 per cent month on month (discounting seasonal factors) according to the Labour Ministry. Although February job numbers were aided by the fact that Brazil's Carnival holiday this year took place in March, all signs point to continued formal job creation this year. The National Confederation of Goods, Services and Tourism forecast in March that the country will create 5.7 per cent more jobs this year compared to 2010 if the GDP grows at 4.4 per cent.

While this estimate may be overly optimistic if the GDP grows at a reduced rate, Brazil's ambitious array of infrastructure projects for the 2014 World Cup, its landmark low-income housing programme *Minha Casa Minha Vida*, the 2016 Olympics in Rio de Janeiro and the hundreds of billions of dollars in investments necessary to develop the country's promising offshore subsalt region will likely keep job creation high during the next five years. However some of these jobs will need to be filled by imported labour, which, in turn, will push up costs for employers. The National Confederation of Industry on 6 April released a survey showing that a staggering 69 per cent of 1,616 companies interviewed now report difficulties in finding qualified workers. Fifty-two per cent of the companies added that a central problem with finding qualified workers was the lack of basic educational skills, which impedes on-the-job training.

Sales of durable goods will slow as credit tightens further

With more government measures to curb credit growth likely in the near future, we expect sales of durable goods to grow at a slower rate for the rest of the year. Sales, particularly of autos, have thus far appeared only marginally affected by recent measures. This is a result of low delinquency rates in the sector, as well as the aforementioned salary hikes that have allowed many Brazilian consumers to pay larger down payments. In addition, growing competition from new Chinese and South Korean carmakers has spurred companies to offer aggressive promotions so as not to lose market share. The country's total auto loan portfolio in February (excluding leasing operations) rose 50 per cent to R$146.8 billion (US$92.3 billion) year on year and 2.7 per cent month on month (see Charts 5 and 6 below). Brazil's National Association of Automakers has reported 4.7 per cent year-on-year growth in new car sales for Q1/11 and projects 5 per cent growth for 2011 overall. Brazil's credit card portfolio has also continued to grow, up 18 per cent year on year in February at R$31.87 billion (US$20 billion) and up by 4.7 per cent from January.

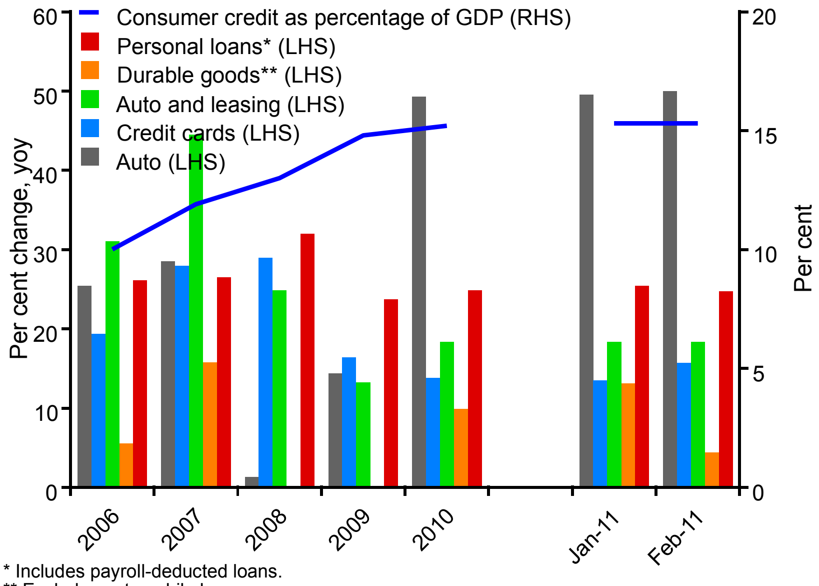
Chart 5: Brazil's auto and housing lending vs total credit



* Does not include mortgage financing and other earmarked loans.
** Includes leasing operations.
*** Data for private bank mortgage lending, which totalled roughly R$8.2 billion in February 2011, is not included.

Source: Banco Central.

Chart 6: Growth of Brazil's consumer credit portfolio



* Includes payroll-deducted loans.
** Excludes automobile loans.
Source: Banco Central.

Credit lines for other durable goods, such as large household appliances and electronics, have started to falter. Although sales in February were up 4 per cent year on year largely because of added shopping days owing to the March Carnival holiday, they declined by 9 per cent from January. For the same reason the sharp downturn in March sales may not accurately reflect an underlying sales decline. As the slowdown becomes more pronounced in H2/11, it is likely to affect the country's top retailers such as Pao de Acucar's (PCAR3:BZ; CBD:US) home appliances unit Globex, Maquinas de Venda and local PC maker Positivo (POSI3:BZ), as well as the local units of major car manufacturers, including Fiat, Volkswagen, GM, Ford and Honda. The IPO of home appliance and housewares retailer Magazine Luiza (MGLU3:BZ), currently scheduled for 2 May, could face headwinds.

The recent IOF hike on consumer credit transactions from 1.5 to 3 per cent is unlikely to prove effective in quelling demand because it is relatively small compared to other taxes that are already buried in the sales price of consumer goods, according to local economists. For example, a refrigerator or a PC with a price tag of roughly R$1,000 (US$629) that is payable in 12 monthly installments of R$83.33 (US$52.4) without interest will now have an IOF tax of R$2.50 (US$1.57)/month vs the previous tax of R$1.25 (US$0.79)/month.

Non-durable sales will benefit

As durables sales slacken, Brazilian consumers will likely continue spending on many non-durable goods and selected services in H2/11 as a result of their still-abundant disposable incomes. For example:

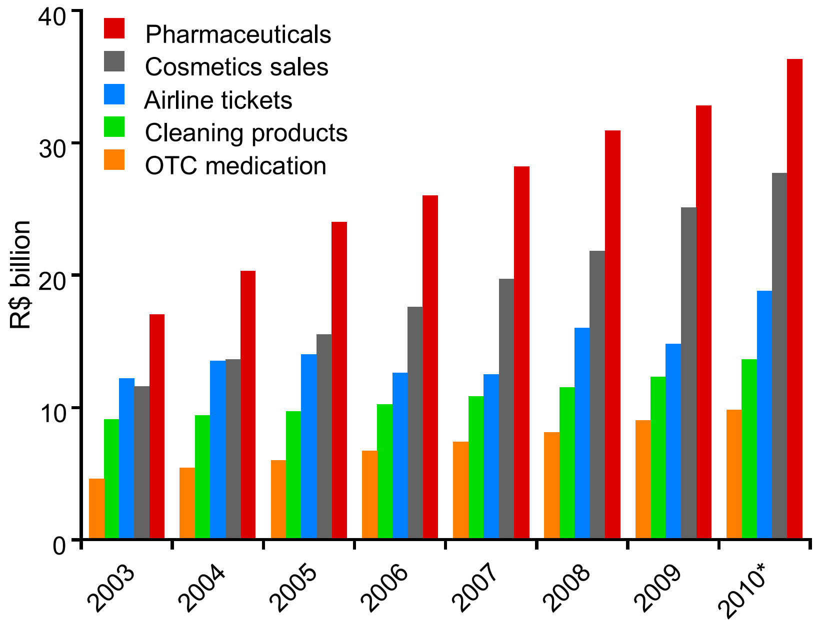
- **Cosmetics, personal care and OTC medication.** Brazil has the world's highest per capita consumption of personal hygiene products. Sales in these sectors rose by 9-13 per cent in 2010, as illustrated in Chart 8, and we expect these sectors to continue to do well this year. Companies in these sectors include cosmetics firm Natura (NATU3:BZ

), pharmacy chains Drogasil (DROG3:BZ) and Raia (RAIA3:BZ), and Hypermarcas (HYPE3:BZ, HYPMY:US), which sells a broad range of consumer non-durable goods. See the Relevant Companies section below for additional details.

- **Construction materials.** After growth of 12 per cent year on year in 2010, February sales remained strong at 11.5 per cent year on year. The Brazilian Association of Construction Materials Industry forecasts overall growth of 9 per cent this year. The sector is aided by *Minha Casa Minha Vida* and other large-scale infrastructure projects as well as the greater disposable income of local consumers. Firms in this sector include wood panel and bathroom fixture maker Duratex (DTEX3:BZ), steelmakers CSN (CSN3:BZ) and Gerdau (GGBR3:BZ), and ceramic tile manufacturers Ceramica Chiarelli (CCHI3:BZ) and Portobello (PTBL3:BZ).
- **Processed food and beverages.** Growing disposable income has put a universe of new food items (such as spices, yogurt, fruit juices and animal protein) within the reach of Brazilian families. Per capita animal protein consumption in Brazil in 2010 actually eclipsed consumption in the US in 2010 and hit 44.7 kg, according to data from Informa Economics FNP. Companies such as poultry and processed food giant Brasil Foods (BRFS3:BZ, BRF:US) and AmBev (AMBV3:BZ) are positioned to benefit from this trend, as are leading supermarkets such as Pao de Acucar and Walmart's Brazilian unit. International Meal Company (IMCH3:BZ), the leading "quick-casual" restaurant chain in Brazil, provides related exposure to rising disposable income.
- **Health and education.** Quality-of-life considerations are of growing importance to Brazilian consumers. As real incomes stay high, healthcare is likely to stay an overriding concern of the new middle class, aiding firms such as Amil (AMIL3:BZ), Dasa (DASA3:BZ) and Fleury (FLRY3:BZ), though government regulation in the sector is also likely to tighten, as we have underlined in the past. Education is another sector that should benefit from Brazil's growing middle classes as well as the possibility of more government financing. The Education Ministry in March sent a bill to Congress that proposes increasing government funding for education from 5 to 7 per cent of GDP by 2020 (totalling an estimated R$80 billion (US$50.3 billion)). Associations like the National Conference of Education are lobbying to increase that to 10 per cent. In another welcome development, the government last month also announced that it would expand its Higher Education Student Financing Fund, with low interest rates of 3.4 per cent, to include technical and continuing education programmes. Leading firms that could benefit from these initiatives medium term include Anhanguera (AEDU3:BZ), Estacio (ESTC3:BZ) and Kroton (KROT11:BZ).
- **E-commerce.** As PC and tablet computer use grows in Brazil, e-commerce sales have also soared, with revenues in 2010 up 40 per cent year on year to R$14.8 billion (US$9.3 billion) according to local consultancy e-bit. Although PC sales are likely to grow at a slower rate this year, Brazilian consumers will still gravitate towards more online shopping owing to planned federal PIS/COFINS tax exemptions (now at 9.25 per cent) on modems and tablets that are manufactured in Brazil. While manufacturers such as Positivo are nonetheless at risk of narrowing margins due to the tight labour market and inflation, e-commerce is a natural beneficiary of growing tablet usage. The

country's large retailers all have significant online presences; other local computer-related firms include Latin America's top business software manufacturer Totvs (TOTS3:BZ) and technology incubator Ideiasnet (IDNT3:BZ).

Chart 7: Sales of selected non-durable goods and services



* Data is estimated for cosmetics and airline ticket sales.

Sources: ABIHPECS, ABIPLA, ANAC, Febrafarma and IMS Health.

Not all non-durable goods or service sectors will outperform the market, however. Shoe and textile manufacturers such as Grendene (GRND3:BZ) and Vicunha Textil (VINE3:BZ) will continue to face growing export difficulties and rising import competition, with the Real currently below R$1.6/US$. The Dilma government promised to announce new measures by next month to help key domestic industries but it may end up delaying its announcement again as it focuses on fighting inflation. In the airline sector, though passenger traffic rose by 21 per cent to 77.6 million passengers last year, rising jet fuel costs as well as the woeful state of Brazil's airports are likely to trim margins for the Brazilian airlines TAM-LAN (TAMM3:BZ, TAM:US) and Gol (GOLL4:BZ, GOL:US) this year.

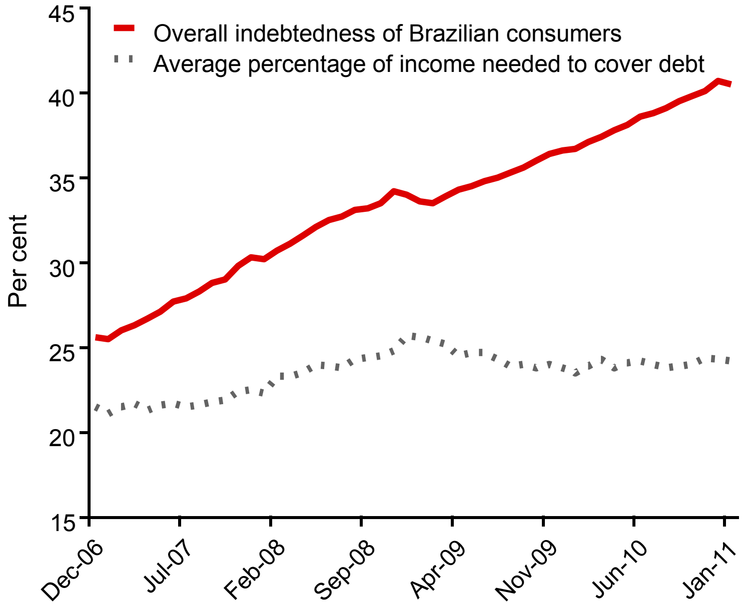
Debt levels are rising fast...

As credit has become available to Brazilians of all classes, families have been spending more of their income on debt servicing (see Chart 7 below). In the 12 months to February 2011, Brazil's consumer credit portfolio (not including housing and other government-directed loans) grew 19.8 per cent to R$573.1 billion (US$360.4 billion), up 1.3 per cent from the month before. Housing loans (both government and private) rose by 55.3 per cent in the 12 months to February to R$146.4 billion (US$92.1 billion) and up 2.7 per cent from January. Banco Central President Alexandre Tombini expressed his concern about consumer debt levels in his first speech in December 2010.

The average percentage of a Brazilian consumer's monthly income (including retirees) that is needed to cover debt has stayed at a relatively constant 20-25 per cent in the past four years according to Banco Central (see Chart 8 below).

However the general level of indebtedness of Brazilian consumers, as measured against their total income, has risen significantly in the past four years, from 25.5 per cent to 40.5 per cent in December 2010.

Chart 8: Overall indebtedness of Brazilian consumers vs total income and average percentage of income needed to cover debt



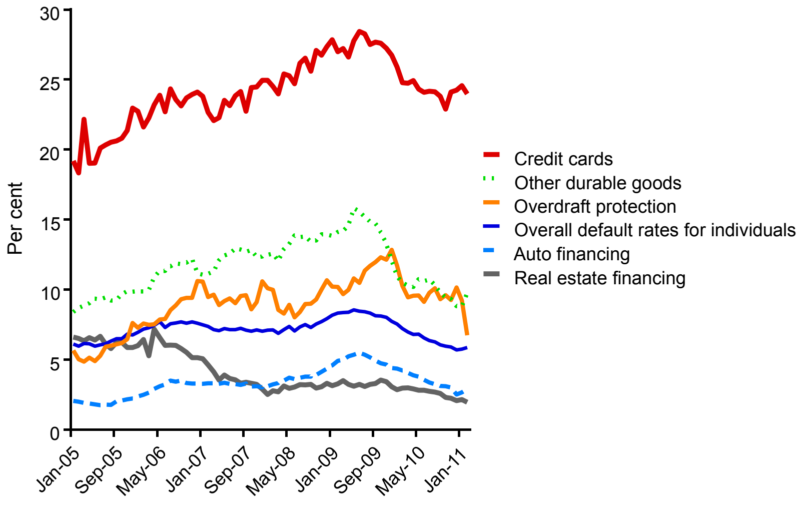
Source: Banco Central.

...but the risk of defaults appears modest for now

Although this development is worrisome, as long as Brazil's economy keeps growing and credit expansion slows down this year to a more sustainable level, we believe that the default risk remains low for lenders in the near term, for three reasons.

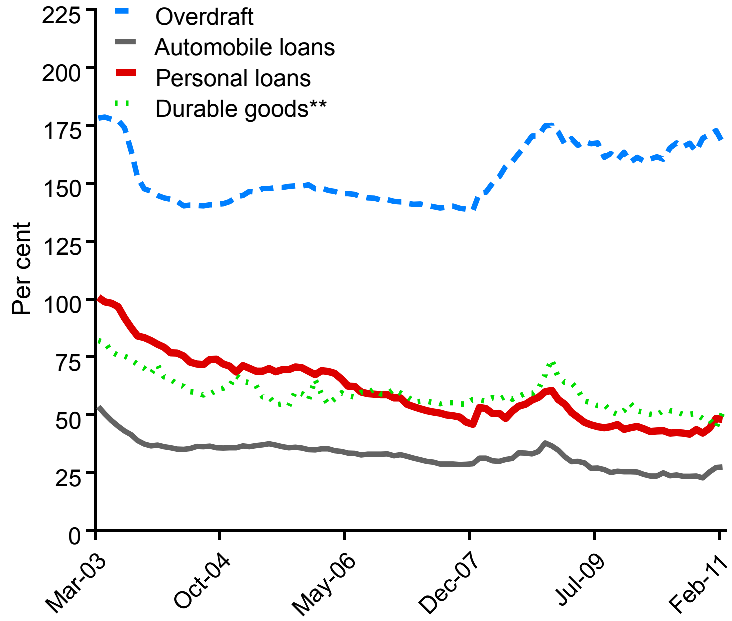
1. Late payment rates are still below historical averages. With the economy still on track, consumer delinquency rates exceeding 90 days totalled just 5.8 per cent in February, up marginally from 5.7 per cent in January but much lower than the 7.2 per cent registered 12 months before (see Chart 9 below). Moreover delinquency rates for consumers still remain below the historical average of 7 per cent, although they may rise to this level by year-end as higher borrowing costs provoke more late payments, according to Luiz Rabi, economist at credit bureau Serasa Experian.

Chart 9: Consumer delinquencies that exceed 90 days by credit type



Source: Banco Central.

Chart 10: Average annual interest rates on consumer loans



* Doesn't include autos.

Source: Banco Central.

2. Sky-high interest rates. Steep interest rates on consumer loans also ensure that financial institutions and other lenders will recoup costs at a faster rate in Brazil compared to other countries where interest rates are lower (see Chart 10 above). For example despite (or due to) a high default rate of nearly 24 per cent in February, average annual credit card interest rates are an exorbitant 238 per cent according to Brazil's National Association of Finance, Administration and Accounting Executives.

In a bid to rein in the sector, the Banco Central has already announced increased regulations on credit cards that are set to take effect later this year and that should also help to dampen credit growth. Notably the minimum monthly payment on credit card purchases will rise to 15 per cent of the total purchase (from the current 10 per cent) on 1 June and to 20 per cent in December. Although this is likely to push up default rates even higher in the short term – and could affect margins for credit card firms such as Cielo (CIEL3:BZ, CIOXY:US) and Redecard (RDCD3:BZ) – these measures are ultimately necessary for the long-term sustainability of credit growth in Brazil.

3. Brazil continues to be a cash economy. Although consumer credit has grown at double-digit rates in recent years, the country is still far from reaching its saturation point. According to the Banco Central, 72 per cent of all purchases in Brazil were made in cash in 2010 and 55 per cent of workers received their salary in cash. Likewise only 51 per cent of the population has a bank account and a mere 42 per cent of Brazilians have credit cards, up from 37 per cent in 2007, the last time the Banco Central conducted the survey.

While anecdotal reports of recent speculative activity in the real estate sector in some cities, including Sao Paulo, should not be taken lightly, a full 49 per cent of homes in the city of Sao Paulo were still paid for in cash in January, down from 61 per cent in January 2007, according to the Real Estate Agents Council for the state of Sao Paulo. In the satellite cities surrounding Sao Paulo mortgage lending has penetrated the market to a greater degree. In these suburban areas, where incomes and home values are lower, 31 per cent of homes are bought in cash. Although credit will play an increasingly important role in the Brazilian economy over the next decade, this process will take time. The slowdown in Brazil's economy will be positive in this regard, forcing lenders to expand at a diminished rate.

Conclusion

Brazil has made significant advances in poverty reduction and income expansion over the past decade. Although we expect these trends to continue, the political and economic outlook will be dominated by inflation over the next 18 months. To control inflation, the government will be forced to suppress Brazil's growth below its potential, which will result in modest GDP expansion, in the 3-4 per cent range. For consumers this will also mean more moderate growth in expenditure and a switch from high-ticket items to less costly goods. If the government is able to bring inflation back to the centre of its target by the end of 2012, as the market currently expects, consumption patterns are likely to shift back towards durable goods.

This new growth paradigm will likely punish Brazilian equities over the next six months. However that could also create buying opportunities for long-term investors. Despite the inflation hiccup we continue to believe that the longer-term outlook for Brazil is positive in view of the country's massive raw materials wealth and growing consumer class.

Relevant Companies

Beverage companies

Companhia de Bebidas das Americas – AmBev (AMBV3:BZ). Part of the global beer company AB InBev, the firm is the leading beer producer in Brazil with over 70% of the market. It is also the largest PepsiCo bottler outside the US.

FEMSA (FEMSAUB:MM). The largest bottler of Coca-Cola in Latin America, with four plants and 27 distribution centres in Brazil alone. FEMSA sold its beer operations to Heineken in 2010 in a share swap that gave the firm 20% of Heineken.

Schincariol (unlisted). One of Brazil's leading soft drinks companies and its second-largest beer producer. Controlled by the Schincariol family, which invested an estimated R$1 billion in product development, the expansion of production capacity and distribution in 2010. News reports in April 2011 indicated that SAB Miller and Heineken are interested in bidding for Schincariol with a price set around US$2 billion.

Computer-related companies

B2W (BTOW3:BZ). Brazil's largest e-commerce company. Formed in late 2006 with the merger of major Brazilian retailer Lojas Americanas' e-commerce site and online retailer Submarino. The firm has not lived up to investor expectations and there has been talk in recent months that controlling shareholder Lojas Americanas will buy B2W's remaining shares and delist the firm from the BM&FBOVESPA.

Ideiasnet (IDNT3:BZ). A Brazilian IT holding company that has invested seed capital in over one dozen companies in the e-commerce, IT infrastructure, telecom and media sectors. One of these firms, Padtec, won the first government auction held by Telebras in November 2010 to supply fibre optic systems for the National Broadband Plan. Brazilian billionaire Eike Batista's Grupo EBX purchased a 7.87% minority stake in Ideiasnet in mid-2008 for just over R$50 million; as of April 2011 EBX had a roughly 15% stake in the firm.

Itautec (unlisted). A subsidiary of the Itausa holding group. Itautec is a key player in Brazil's PC and IT markets, with one factory operating in the municipality of Jundiai in Sao Paulo state.

Positivo Informatica (POSI3:BZ). Brazil's leading PC maker by sales, although the company has seen market share erode as sales of imports have risen. Has a strong focus on educational products. The local press in February 2011 reported that HP may be in negotiations to acquire the firm.

Saraiva SA Livreiros Editores (SLED3:BZ). A major Brazilian publishing house, with roughly one-third of its total revenue coming from e-commerce. The company's e-commerce site in 2009 ranked third nationwide in sales.

Totvs (TOTS3:BZ). Latin America's biggest maker of business-management software. The company purchased its rival Datasul (DSUL3:BZ) for about R$713 million in 2008.

Construction materials companies

Acos Villares (AVIL3:BZ). Part of the Sidenor Group. The firm focuses on the production of special bar quality steels for the automotive industry. It has three plants, all of which are located in the state of Sao Paulo.

ArcelorMittal (MT:US). Produces long carbon steel and flat carbon steel. Brazil accounts for 11% of the company's global turnover. Its Brazilian subsidiary is comprised of three companies: ArcelorMittal Acos Longos, ArcelorMittal Tubarao and ArcelorMittal Vega.

Ceramica Chiarelli (CCHI3:BZ). One of the principal ceramic tile manufacturers in Brazil. Headquartered in Mogi Guacu, in the state of Sao Paulo.

Companhia Siderurgica Nacional (CSN) (CSNA3:BZ, SID:US). Brazil's first integrated flat steel producer. The company's assets consist of an integrated steel mill, five industrial units and an iron ore mine.

Duratex (DTEX3:BZ). A top Brazilian producer of industrialized wood panels, hardwood and laminated floors and brass and ceramic bathroom fixtures.

Eucatex (EUCA4:BZ). One of Brazil's largest producers of floors, doors, wood panels and paints, the company also exports to 37 countries. Controlled by the family of Sao Paulo's former Mayor (and current Congressman) Paulo Maluf, who has been accused of corruption, tax evasion and money laundering.

Gerdau (GGBR3:BZ, GGB:US). The largest producer of long steel in the Americas, with mills in Brazil, Argentina, Canada, Chile, Colombia, Venezuela, Mexico, the Dominican Republic, Peru, the US and Uruguay.

Portobello (PTBL3:BZ). A large manufacturer of ceramic tiles.

Cosmetics companies

Avon (AVP:US). One of Brazil's leading cosmetics retailers. Avon has been present in Brazil for more than 50 years and now has over 1 million local sales representatives.

O Boticario (unlisted). Brazil's largest perfume and cosmetic franchise, with over 3,000 stores and an additional 600 points of sale. It also has operations abroad with 70 stores in 10 countries.

Hypermarcas (HYPE3:BZ). Founded in 2002, the firm is growing through an aggressive acquisition strategy. It targets low-income consumers with products in four segments: over-the-counter medications, beauty and personal hygiene, cleaning products and processed foods. Operates 19 plants in nine industrial complexes located in the states of Goias, Santa Catarina and Sao Paulo.

Natura Cosmeticos (NATU3:BZ). Brazil's largest cosmetics, perfume and personal hygiene products company, with an over 20% market share in 2010. The company develops, manufactures and sells all of its products. It has a strong focus on sustainability. The company has operations in seven other countries in Latin America and in France. It had over 1 million sales representatives in Brazil in 2010 and is one of the country's leading direct sales companies.

Credit card companies

Cielo (CIEL3:BZ / CIOXY:US). The leading company in Brazil's merchant acquiring and payment processing sector, with a 49% market share in terms of credit and debit card transaction volume. The first Visa-branded card acquirer in Brazil, the firm is controlled jointly by Bradesco and Banco do Brasil.

CSU Cardsystems (CARD3:BZ). The largest independent processor of credit cards in Brazil. Operates in third-party credit card processing and management.

GetNet (not listed). The first independent credit card services company in Brazil. Currently offers private-label card services as well as card acquiring and processing.

Redecard (RDCD3:BZ / RDCSF:US). Brazil's second-largest merchant acquiring and payment processing company. Currently the main acquirer of MasterCard and Diners Club International cards in Brazil. Began processing Visa cards on 1 July 2010.

Banco Santander Brasil (SANB3:BZ / BSBR:US). The fourth-largest bank in Brazil and a subsidiary of Spanish bank Santander. Acquired Banco Real in August 2008. Entered the card acquiring industry recently through a partnership with GetNet.

Education

Anhanguera Educacional Participacoes (AEDU3:BZ). Brazil's largest for-profit education company. Has 54 campuses and 210,000 students enrolled. Offers undergraduate and graduate degrees, as well as technical courses and two-year degrees. Focuses on Brazil's middle and lower income students. Received backing from local private equity fund manager Patria Investimentos in 2005 and has since pursued an aggressive acquisition strategy.

Estacio Participacoes (ESTC3:BZ). One of Brazil's largest post-secondary education companies with 210,000 students enrolled. Offers undergraduate and graduate degrees. Has two universities, 25 colleges and 51 distance-learning centres located in 16 Brazilian states. After Estacio listed on the BMFBOVESPA in 2007, private equity fund GP Investimentos acquired 20% in 2008, and has since taken a leading role in its management.

Kroton Educacional (KROT11:BZ). Founded in 1966, Kroton offers primary, secondary and post-secondary education programmes throughout Brazil. Kroton has 37 college campuses located in 27 cities in 10 Brazilian states. Kroton offers four- and five-year undergraduate degrees, one-year graduate degrees as well as 3-year associate degrees. Kroton has over 85,500 students in its higher education programmes and 265,000 primary and secondary students. Kroton received backing from private equity fund manager Advent International in June 2009. Kroton raised R$455.8 million in an IPO held in June 2007.

Sistema Educacional Brasileiro (unlisted). One of the leading private education companies in Brazil. SEB has a network of its own primary and secondary schools but also provides content, training for teachers and other educational services for third-party private and public schools. It also offers post-secondary education. British publisher Pearson acquired SEB for R$888 million in July 2010.

Food companies and fast food retailers

Arcos Dorados Holdings (ARCO:US). This Argentine-based firm is McDonald's biggest independent franchise operator with over 1750

McDonald's locations in Latin America and the Caribbean. Roughly 35 per cent of the firm's restaurants are in Brazil.

Brasil Foods (BRFS3:BZ, BRFS:US). Brazil's processed food giant is one of the world's top ten meat multinationals. Formed from the merger of Brazil's top two poultry and pork behemoths Perdigao and Sadia, after Sadia ran into financial difficulties in the aftermath of the global financial crisis. The merger is still awaiting regulatory approval from Brazil's antitrust authorities.

Cosan (CSAN3:BZ, CZZ:US). Brazil's largest sugar and ethanol producer, with a parent company headquartered in Bermuda, and separate units for fuel distribution, logistics and agricultural land. The firm formed a US$12 billion JV in ethanol with Shell's Brazilian unit in 2010 that is now named Raizen. Cosan is starting to diversify into added-value food products such as coffee, biscuits and chocolate.

JBS (JBSS3:BZ, JBSAY:US). The world's largest meatpacker by volume. With help from Brazil's state development bank BNDES, JBS acquired the assets of Brazil's then-second largest meatpacker Bertin after the global financial crisis and also bought the US' second-largest chicken producer Pilgrim's Pride.

International Meal Company (IMCH3:BZ). Brazil's leading fast food chain operator, with well-known chain restaurants including Viena and Frango Assado. The company raised R$474 million in its Bovespa IPO in March 2011. Controlled by private equity fund Advent International. As of April 2011, the Government of Singapore Investment Corporation owned a roughly 12% stake while British Columbia Investment Management owned a nearly 6% stake.

Healthcare and related sectors

Ache Laboratorios Farmaceuticos (unlisted). Headquartered in Guarulhos (Sao Paulo). One of Brazil's leading OTC and generic drug manufacturers. Has two manufacturing facilities with over 3,000 workers. Controlled by the Syaulis, Baptista and Depieri families.

Amil Participacoes (AMIL3:BZ). Brazil's largest health insurance provider. The company has made several acquisitions in recent years, including rival Medial for R$612 million in November 2009 (still awaiting regulatory approval).

Diagnosticos da America (DASA3:BZ). Brazil's leading medical diagnostics firm, with operations in 12 Brazilian states as well as Brasilia.

EMS-Sigma Pharma (unlisted). One of the largest pharmaceutical companies in Brazil. Controlled by the Sanchez family and headquartered in Hortolandia (Sao Paulo. It has two industrial plants in the state of Sao Paulo. Has invested heavily in R&D and currently exports to 30 countries.

Fleury (FLRY3:BZ). One of Brazil's top providers of medical services and lab tests. The firm raised R$548 million in its IPO on the BM&FBOVESPA at year-end 2009, and agreed in December 2010 to buy rival Labs D'Or for R$1 billion. It has operations in the states of Sao Paulo, Rio de Janeiro, Parana, Rio Grande do Sul, Pernambuco and Bahia.

Odontoprev (ODPV3:BZ). Founded in 1987 by a group of orthodontists, Odontoprev is Brazil's top provider of dental care plans with 4.8 million people covered. Bradesco acquired a 43.5% stake in Odontoprev in October 2009.

Pharmacies

Farmacias Pague Menos (unlisted). One of Brazil's largest pharmacy chains, with more than 400 stores in every Brazilian state and annual revenues of R$2.24 billion in 2010. Controlled by Renda Participacoes.

Brazil Pharma (unlisted). Holding company created by the BTG Pactual Group to manage its assets in the pharmacy retailing industry. Has over 540 stores and annual revenues of R$1.4 billion. In September 2009, BTG acquired Farmais, one of the largest pharmacy chains in Brazil with more than 359 stores located in the states of Minas Gerais, Rio de Janeiro, Sao Paulo, Parana, Mato Grosso do Sul, Santa Catarina and Rio Grande do Sul. Other acquisitions include Farmacia dos Pobres, the largest pharmacy franchise in Brazil and Rosario Distrital, which has retail locations in Brasilia and Goias.

Drogarias Sao Paulo (unlisted). One of the largest pharmacy chains in Brazil with over 360 stores. Acquired Drogao in June 3010 which has 72 stores in the state of Sao Paulo. Has operations in 60 cities in the states of Sao Paulo, Rio de Janeiro, Minas Gerais, Ceara and Bahia.

Drogasil (DROG3:BZ). Drogasil is the second-largest retail drugstore chain in Brazil in revenue terms. It has 342 stores located in 6 states in Brazil. Listed on the BM&FBOVESPA in June 2007.

Raia SA (RAIA3:BZ). One of Brazil's key retail pharmacy chains, with operations concentrated in the centre-south region. The firm raised R$655 million in its IPO in December 2010. The company has over 326 stores in Sao Paulo, Rio de Janeiro, Parana and Minas Gerais.

Retailers

Arthur Lundgren Tecidos. Controls Casas Pernambucanas, one of Brazil's largest department store chains, which sells clothing, home appliances, housewares, linens and towels. Controlled by the Lundgren family, which is also involved in the company's day-to-day management.

B2W (BTOW3:BZ). Brazil's largest online retailer was formed from a merger between the online site of the country's largest discount retailer Lojas Americanas and e-commerce retailer Submarino in 2006. However, the company has had disappointing results in recent years.

Carrefour (CA:FP). Brazil's second-largest retailer in sales terms, with 540 outlets nationwide. Carrefour opened 23 new stores in 2009 and plans capital expenditure of R$2.5 billion in 2010–11.

Cia. Hering (HGTX3:BZ). One of Brazil's largest retail clothing franchises with four brands - Hering, Hering Kids, PUC and dzarm – that the firm designs, manufactures and retails. As of year-end 2010, the firm had 347 Hering stores, 78 PUC stores, 2 Hering Kids stores and one dzarm store across Brazil, as well as a network of nearly 16,000 sales points in multi-brand retail stores. Hering also has 15 franchised stores in other Latin American countries.

Companhia Brasileira de Distribuicao (Pao de Acucar) (PCAR5:BZ, CBD:US). Latin America's largest retailer, with annual sales of R$36.1 billion in 2010. Acquired the country's second-largest home appliance retailer Ponto Frio, its first acquisition in the non-food sector, in June 2009 and acquired Casas Bahia, Brazil's largest home electronics retailer, in December 2009. Both deals still await approval from anti-trust agency CADE.

G. Barbosa (unlisted). Brazil's third-largest supermarket chain, with a strong presence in the northeast. The company has 19 hypermarkets, 30 supermarkets, 45 pharmacies and 25 consumer electronics stores. G. Barbosa was acquired by Washington-based private equity fund ACON Investments in 2005 from Dutch food retailer Royal Ahold for an estimated US$115 million. ACON sold the chain to Chile's Cencosud in 2007.

Guararapes Confeccoes (GUAR3:BZ). Owner of Brazil's third-largest clothing retailer, Lojas Riachuelo, which has 124 stores throughout the country. More than 80% of Guararapes' production is sold to Riachuelo.

Lojas Americanas (LAME3:BZ). One of the oldest department store chains in Brazil. The company has 473 shops and three distribution centres in the principal cities of Brazil, and plans to open 400 new shops in the next four years. It is the controlling shareholder of e-commerce powerhouse B2W, which was created through the merger of Americanas.com and Submarino.com.

Lojas Marisa (AMAR3:BZ). A leading Brazilian retailer of women's wear and lingerie. The company had 277 stores nationwide by year-end 2010, with same sales store growth of 13.2 per cent compared to the year before. The company's IPO on the BM&FBOVESPA in 2007 raised R$506 million.

Lojas Renner (LREN3:BZ)., Lojas Renner is the second-largest apparel department store in Brazil, with 129 local stores and headquartered in Rio Grande do Sul. It was acquired by JC Penney Brazil in 1998 and sold in 2005 in a share offering that brought the company's free float to 100%.

Magazine Luiza (MGLU3:BZ). Brazil's third-largest home appliance retailer, with net revenues of roughly R$4.8 billion in 2010. Controlled by the Trajano family, which sold a 12.3% stake to Capital International in June 2005 for US$120 million. The company plans an IPO for 2 May 2011.

Maquina de Vendas (unlisted). Created through the merger of Ricardo Eletro, Insinuante and City Lar, three home appliance, furniture and consumer electronics retailers. Following the merger, Maquina de Vendas is now the second-largest retailer in the home appliance and consumer electronics categories. Has 750 stores in 23 states and sales revenues of R$5.6 billion in 2010. It plans to open another 30 stores in 2011.

Wal-Mart Brasil (WMT:US). Brazil's third-largest retailer in terms of sales. Its largest acquisitions in Brazil were Bompreco and Sonae, in 2004 and 2005 respectively.

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