

The New State of M&A

Brazil



Contents



Executive Summary	02
2020 The Current State of M&A in Brazil	06
2025 The Future State of M&A in Brazil	07
Case Study BS BB Investment Bank	08
Case Study Cescon Barrieu	10
Datasite with you every step of the way	12
Research Methodology	13
Research Demographics	14
Results	15

Executive Summary

Spotlight on Brazil

For all the advances in recent years, just how digitally mature and technologically sophisticated is the M&A, due diligence and asset marketing process in Brazil?

Moreover, what does the process look like today, and how might technology and accelerating digitization change the dealmaking process over the coming years?

These are some of the key questions we wanted to investigate and answer in this research, which involved surveying 100 Brazil based M&A practitioners from corporates, private equity firms, investments banks, law and professional services firms, for their views on the subject.

The respondents, who form part of a global survey of 2,235 practitioners, not only provide insight on the current and future state of the dealmaking process, their responses reveal some interesting regional similarities and differences in opinion.

2,235 Global M&A practitioners surveyed

Digital maturity rising among Brazilian dealmakers

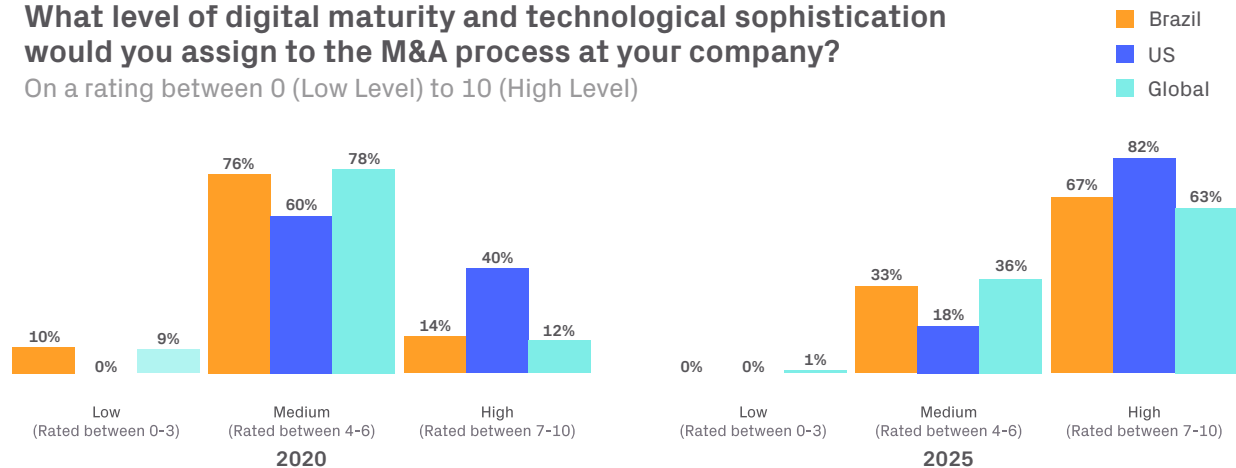
For instance, most Brazil practitioners today assess that the digital maturity and technological sophistication of the M&A process at their company and industry-wide is at a medium level, and expect this to rise to a high level in four years' time.

Yet, while most (66%) of them believe a high level will be achieved at their company come 2025, they are the least confident of this among their North and Latin American peers. Some 80% of Colombia practitioners, for instance, believe a high level will be achieved in four years' time.

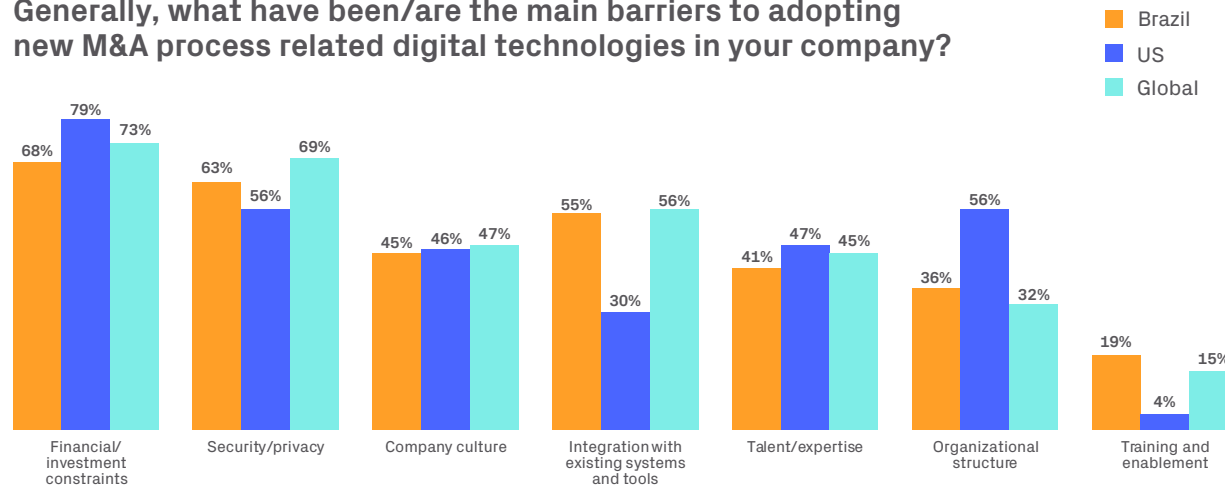
So, what's holding Brazil practitioners back? Similar to elsewhere, most (68%) say financial or investment constraints is the main barrier to their company adopting M&A process related digital technologies. Also hindering development is integrating new technologies with existing technology infrastructure and systems, a key barrier for 55% of Brazil practitioners – the highest percentage across the Americas.

What level of digital maturity and technological sophistication would you assign to the M&A process at your company?

On a rating between 0 (Low Level) to 10 (High Level)



Generally, what have been/are the main barriers to adopting new M&A process related digital technologies in your company?



Big data, AI and ML, and blockchain to enhance M&A processes

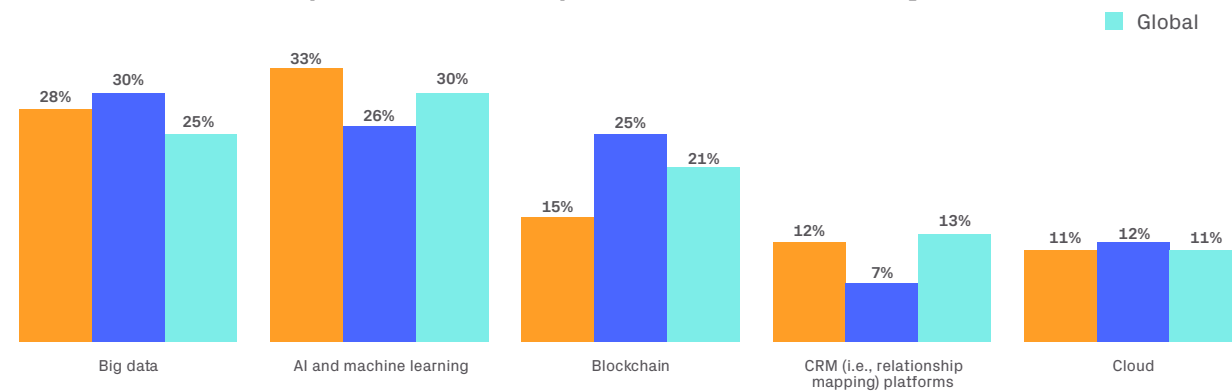
Technological advancement is, however, happening. And over the next five years, most Brazil practitioners, believe that technologies such as AI and machine learning, big data, and blockchain, could potentially have the most transformational impact on the M&A process.

In practice, of course, technology can help improve many different stages, and for Brazil practitioners, they believe due diligence, the most time-consuming phase, could be enhanced most by new technologies and digitization.

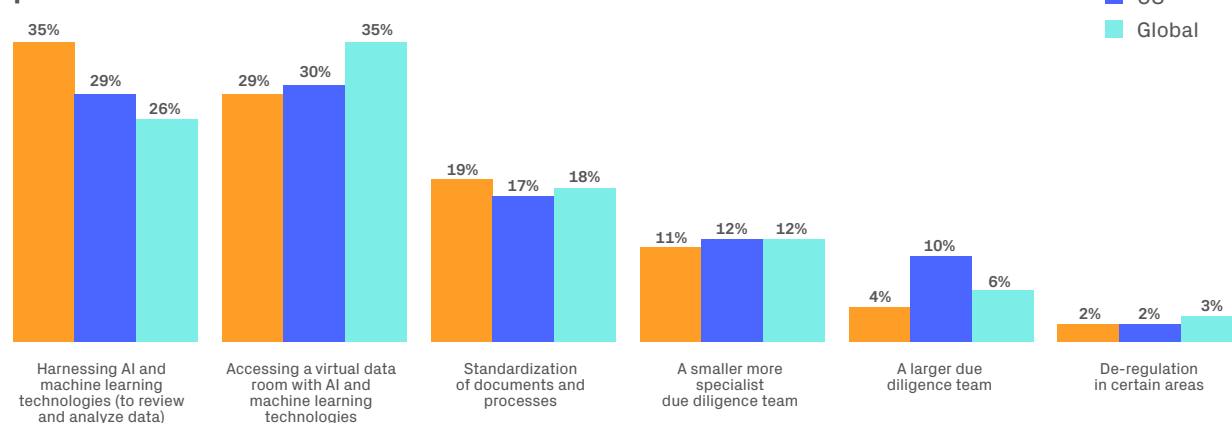
Indeed, most Brazil practitioners expect technology to enable greater analytical capability, and security, in the diligence process over the next five years. In particular, they are also placing greatest hope in AI and machine learning technologies, including as part of virtual data rooms, to speed-up the due diligence process.

They also see these technologies and others helping to improve data management and communications, analytics and reporting, and scenario analysis.

Which of the following technologies do you think will have the most transformational impact on the M&A process in the next five years?



Which of the following would help accelerate the due diligence process the most?



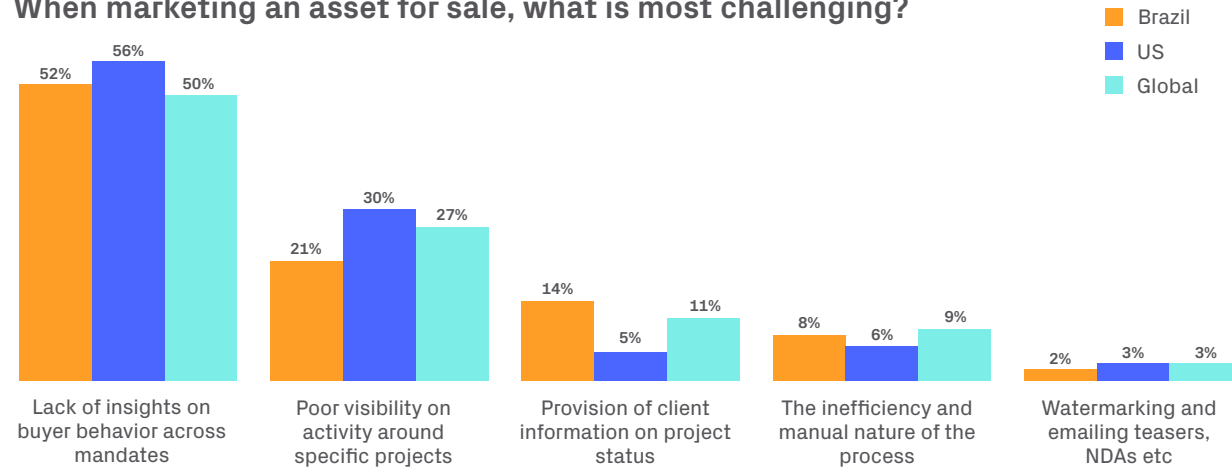
Technological benefits to and advances in other areas of M&A

What's more, these technologies have similarly beneficial uses in asset marketing, and could help address some of the key challenges in this process, such as a lack of insights on buyer behavior across mandates, according to 51% of practitioners.

Without doubt there has been some significant technological advances across the M&A process in recent years.

Yet, in the next five years and beyond, there is an expectation among Brazil practitioners, that both established and emerging technologies, perhaps built-in to the next generation of virtual data rooms, could digitally transform key areas of the process. They may even transform the process entirely.

When marketing an asset for sale, what is most challenging?



2020 The Current State of M&A in Brazil

Maturity and sophistication

75%

of Brazil practitioners assess a medium level of digital maturity and technological sophistication in their company's M&A process. Some 79% of practitioners assess the same level industry-wide.

Barriers to digitization

68%

of Brazil practitioners say financial or investment constraints are one of the main barriers to their company adopting M&A process related digital technologies.

Diligence speed

64%

of Brazil practitioners say due diligence takes on average 1-3 months to complete on a successful deal.

Enhancing diligence

52%

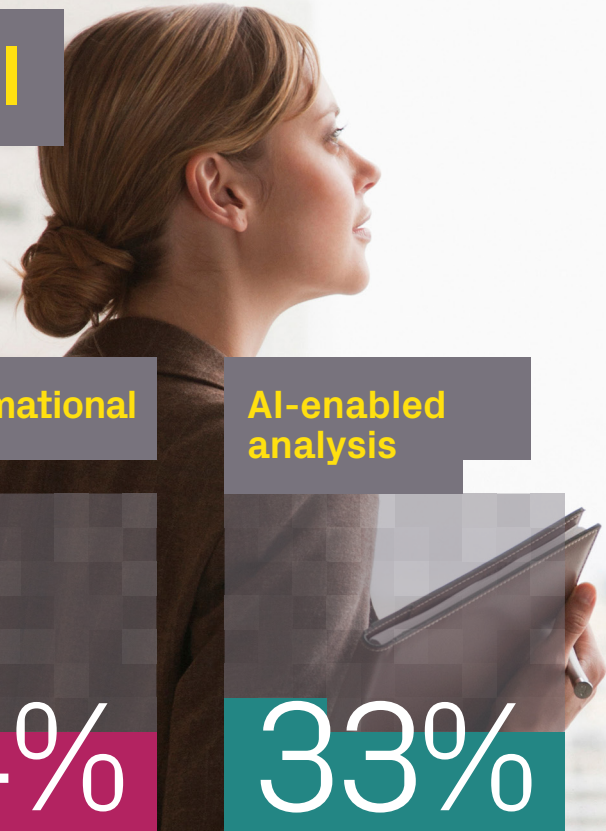
of Brazil practitioners believe that due diligence could be enhanced most by technology and digitization.

Technology upgrade

20%

of Brazil practitioners say inadequate technology supporting them in their role is the factor that slows the due diligence process the most.

2025 The Future State of M&A in Brazil



Advanced analytics

67%

of Brazil practitioners believe new technologies should enable greater analytical capability in the due diligence process over the next five years.

Maturity & sophistication levels

66%

of Brazil practitioners assess a high level of digital maturity and technological sophistication in their company's M&A process come 2025. Some 68% of practitioners assess the same level industry-wide.

Diligence speed

56%

of Brazil practitioners believe due diligence on a successful deal will accelerate to 1 month or less in five years' time.

Transformational tech

34%

of Brazil practitioners expect AI and machine learning technologies to have the most transformational impact on the M&A process over the next five years.

AI-enabled analysis

33%

of Brazil practitioners believe harnessing AI and machine learning technologies, would help accelerate due diligence the most.

Case Study

UBS BB Investment Bank

News ways to uncover new insights

If the success of an investment bank's M&A business is partly defined by the relationships it has with the corporate sector, another part is the quality and depth of advice.

Good advice tends to come from raw dealmaking experience and expertise. Yet it is also increasingly coming from sophisticated analysis of vast swaths of economic, consumer, and other forms of data.

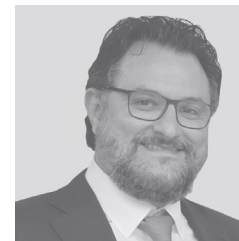
For Daniel Bassan, CEO of UBS BB Investment Bank, a joint venture between UBS and Banco do Brasil, new insights from deep dive data analysis can often provide an edge over their rivals.

In fact, Bassan says some of data insights his M&A bankers have been armed with from UBS Evidence Lab – a sell-side team of experts that work across 55 specialized labs creating insight ready data-sets – has partly contributed to the investment bank winning mandate pitches.

“M&A will remain a relationship driven business, but there is much more information we can now bring into how and what we advise clients. Whether this means advising them to go for a deal or pull back, some of the insight we can access enables us to provide more and better-quality advice”



UBS BB Investment Bank is a joint venture between UBS and Banco do Brasil to provide investment banking and institutional brokerage services in Brazil, Argentina, Uruguay, Chile, Peru and Paraguay.



Daniel Bassan
CEO



Analysis, insights and outcomes

Other investment banks may have something similar to UBS Evidence Lab. If they don't, they should.

The experts in the lab essentially turn data into evidence by applying a combination of tools and techniques to harvest, cleanse, and connect billions of data items each month. The library of assets, covering over 5,000 companies of all sizes, sectors and regions, is designed to help answer some of the big questions that matter to the investment plans of companies and institutional investors.

So how does it work? Bassan provides a simple example based on the type of geospatial analysis that UBS Evidence Lab can run.

“The lab provides us with tools that help us understand cannibalization and the competitiveness of stores in retail,” he says. “So, for instance, if a drug store chain in a country is looking to buy another chain, we can use this type of analysis to show which chain might be the best fit based on the extent of the overlap in stores across locations. The smaller the overlap, the more attractive the deal.”

Such insight can prove valuable, especially in the initial phase of M&A, when a buyer is in the process of working out whether a potential deal could work or not.

“Ahead of committing, this type of insight can be very important in that go, no-go decision,” says Bassan.

The science of technological boost

Human instinct for a deal can be important, too. But it should probably be weighed against the type of objective evidence that advanced data analysis like this can deliver.

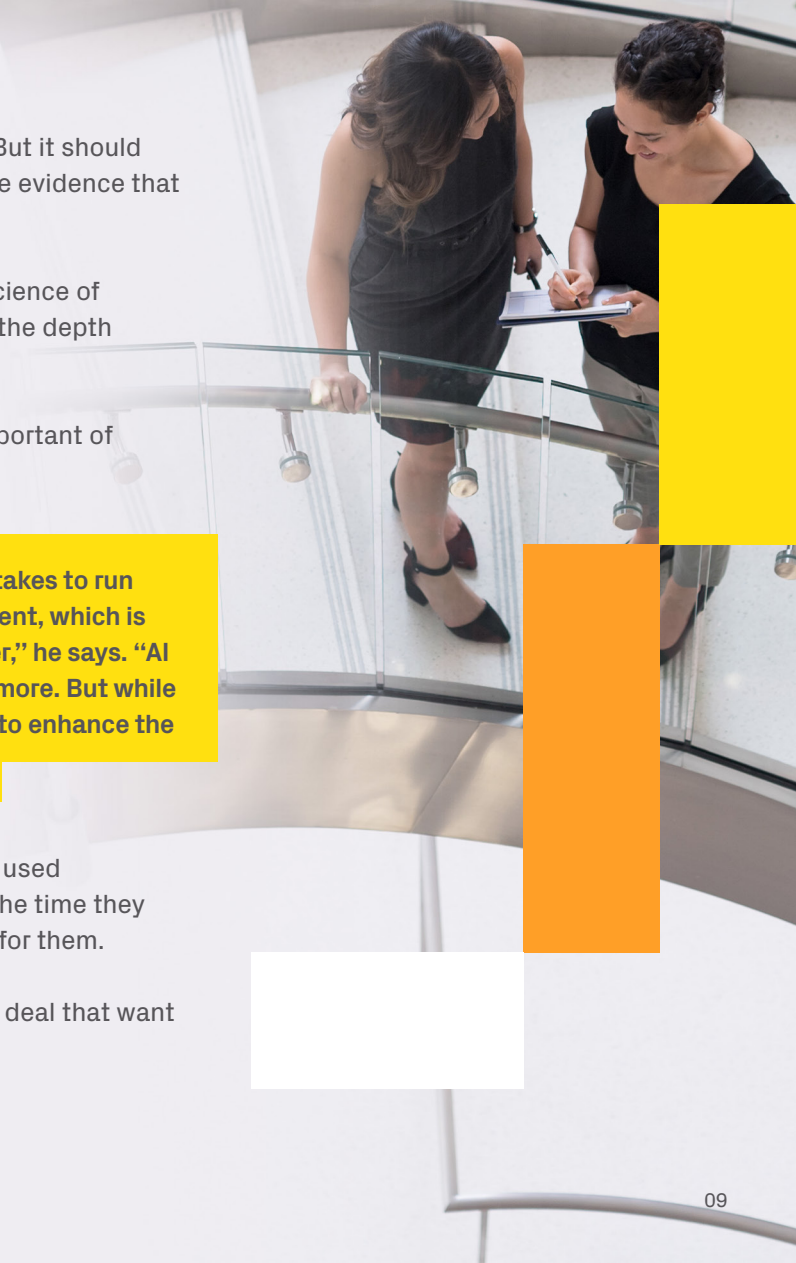
This is perhaps the ‘new science’ in the art and science of dealmaking, ultimately something that improves the depth and quality of the advice advisors can provide.

It is this benefit that Bassan sees as the most important of technological advancement in M&A.

“We have seen a lot of acceleration in the time it takes to run due diligence because of technological development, which is enabling information to be shared faster than ever,” he says. “AI could potentially expedite the process a little bit more. But while speed is important, more important is being able to enhance the quality of information and advice we provide.”

He adds that no matter what technology is being used throughout the process, people will always take the time they need to make what they feel is the right decision for them.

“Rarely do you find two people on either side of a deal that want exactly the same thing. Negotiations take time.”



Case Study

Cescon Barrieu

Innovations that increase speed and efficiency

Sometimes it's the simplest digital solutions that can have the biggest impact.

In the past year some of those solutions in M&A have included video conferencing, using mobile video technology and drones to progress transactions and ultimately get deals done. But one solution, perhaps the simplest of them all, that has had a big impact on Brazilian M&A is the electronic signature.

While more widely used in M&A in some markets such as the US, Cristina de Freitas Bueno, Partner at law firm Cescon Barrieu in São Paulo, says the greater use of electronic signatures in Brazil is a key reason why the execution and closing procedures on transactions was transformed last year.

Where before, all execution agreement documents would need to be printed and then initialed in-person by the lawyers or legal representatives, the use of electronic signatures has changed this.

“Now, electronic signatures have been accepted and are considered legally binding, which has allowed for the law firms to agree on final versions and circulate a pack of documents through the signing platforms and have people signing it simultaneously, no matter where they are,” says Bueno.

This means Brazil is now more in line with the US, for example, where the practice of exchanging PDF signature pages, held in escrow by lawyers, is common.



Cescon Barrieu is one of Brazil's leading law firms, consistently ranked among the nation's top legal advisors across industries and practice areas.



Cristina Bueno
Partner

**CESCON
BARRIEU**

Technology sector boosting M&A

In addition to this, Bueno says that the long drafting sessions have, for now, been replaced by virtual meetings, which have also brought greater efficiency to the execution and closing process.

These tech solutions have clearly supported practitioners in Brazil, as elsewhere. But even before they were forced to seek digital solutions, how digitized were some of the areas and processes?

Bueno says digitization has been increasing, and especially in some core areas such as due diligence.

She says Cescon Barriou and some other law firms in Brazil are already using software and AI robots to “review contracts and check for inconsistencies in the public certificates of claims and the list of claims indicated by the sellers.”

Using such technology to review and assemble deal documents has increased process efficiency, but that can depend on how these applications have been set up and run, says Bueno.

“Lawyers need to be trained and be aware that there may be flaws to be adjusted. Our experience proves that technology is, and can be helpful, but it needs to be used with caution,” she says.

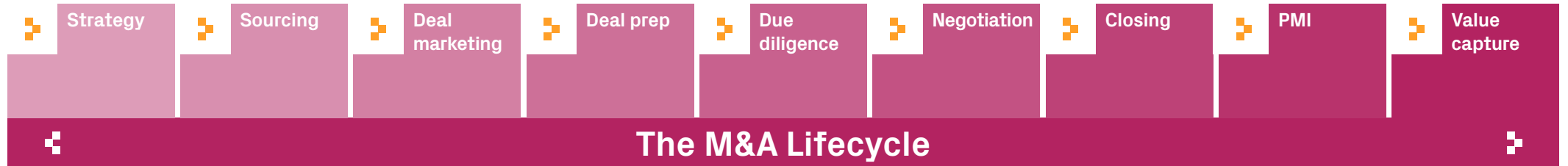
Changes in full swing

Looking to the future, Bueno, a former investment banker at Goldman Sachs and UBS, says she believes that greater standardization could unlock further innovation.

This could include software applications being capable of producing first drafts of some of the simpler agreements, which may only require some minor adjustments before being shared between parties. Such innovations would increase speed and efficiency in the process even further.

What this shows is how the Brazilian M&A market is evolving. The process around transactions is becoming ever more digitized and innovative, and the pace of change is accelerating.

Datasite with you every step of the way



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Datasite

Research Methodology

Brazil

The analysis in this report is based on the survey responses from 100 Brazil based M&A practitioners. These responses formed part of a larger global survey of 2,235 M&A practitioners.

By institution type, respondents were evenly split between companies and private equity firms (50%), representing M&A clients; and investment banks, professional services and law firms (50%), representing M&A advisors.

By seniority, board and executive management level executives comprised 16% of respondents, with managing partner, managing director and partner level executives comprising 33%. Director, principal, associate level executives comprised 51%.

The global survey was conducted by Euromoney Thought Leadership Consulting between February and April 2020.

Research Demographics

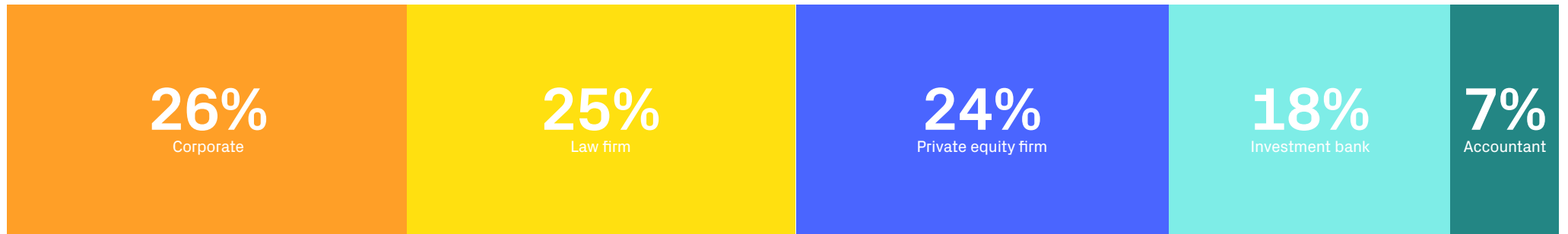
Brazil

Percentages in the following charts are rounded to the nearest 1%.

Which of the following best describes your position?



Company type



Digitization Brazil

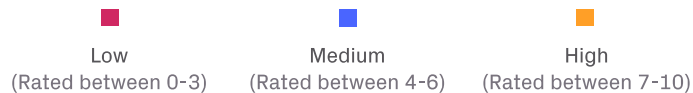
What level of digital maturity and technological sophistication would you assign to the M&A process?

On a rating between 0 (Low Level) to 10 (High Level)

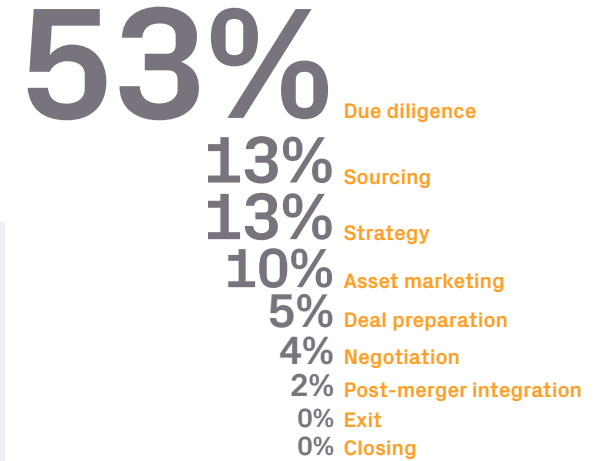
Industry wide



Your company



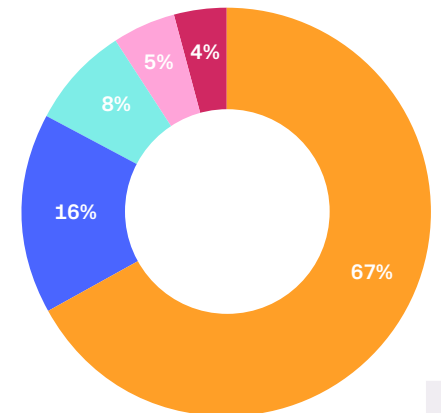
Of these key areas or stages, which do you believe could be enhanced most by new technologies and digitization?



In the context of a M&A transaction, how do you expect technology to change the due diligence process over the next five years (to 2025)?

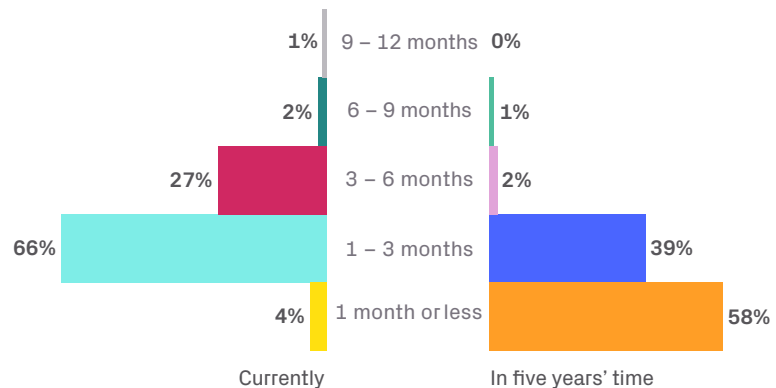
New technologies should...

- Enable greater analytical capability
- Enable greater security
- Simplify the entire process
- Reduce the total deal (resources and time) cost
- Make it faster to close deals



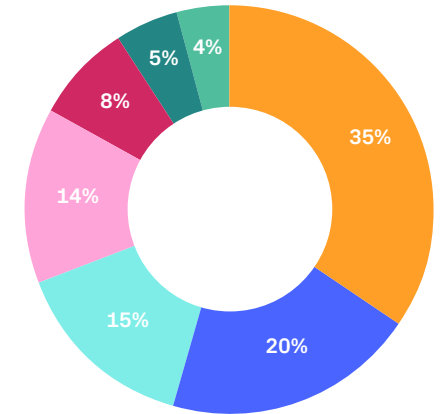
Due Diligence Process Brazil

From sourcing a deal to deal completion, how much time on average does due diligence take on a single successful M&A transaction?

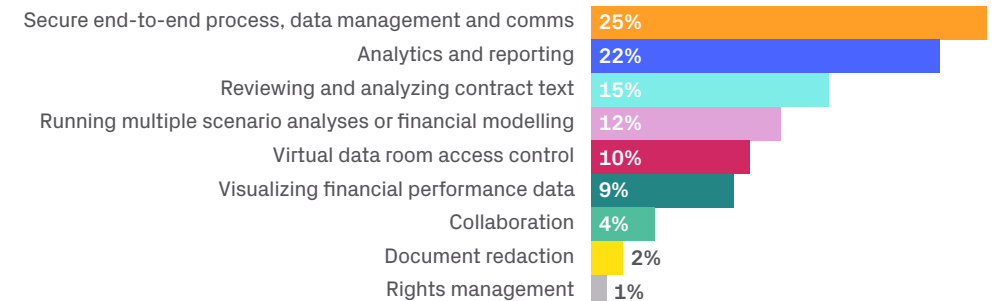


Which of the following factors tends to slow the due diligence process the most?

- Incomplete or inaccurate deal documents and information
- Inadequate technology supporting the process
- Document or contract review and analysis
- Poor communication between parties
- Insufficient number of people involved
- Regulatory compliance
- Too many people involved



Which of the following do you believe technology could help improve the most?

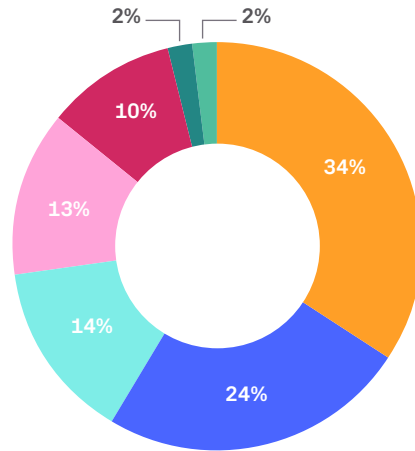


Due Diligence Concerns

Brazil

What is the most common issue uncovered in due diligence that causes the withdrawal from a deal?

- Data or cyber security concerns
- Financial weakness or fragility
- Excessive valuation
- Financial irregularities
- Leadership concerns
- Regulatory non-compliance
- Staff concerns



Have you worked on M&A transactions that have not progressed because of concerns about a target company's:

ESG credentials



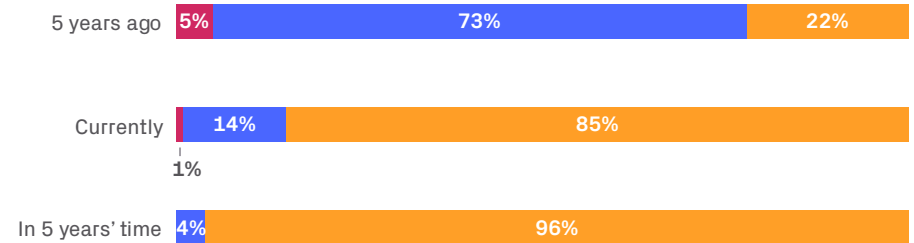
Compliance with data privacy regulations



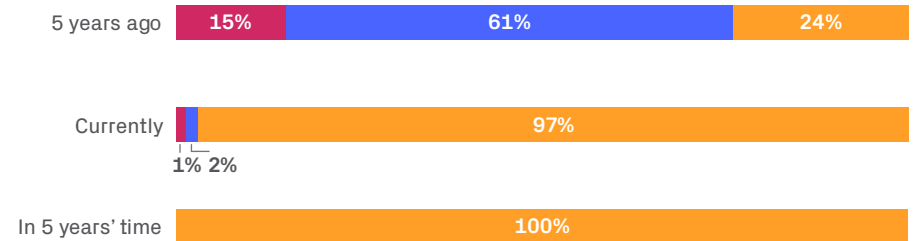
- No
- Yes
- Don't know

As a consideration in M&A due diligence, assess the importance of the following issues:

Environmental, social and governance (ESG)



Data privacy regulation (e.g.: Brazil's General Data Protection Regulation)

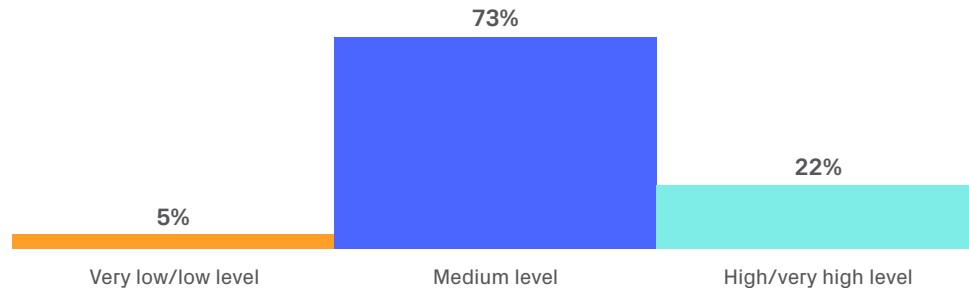


- Slightly important/Not important
- Moderately important
- Very important/Important

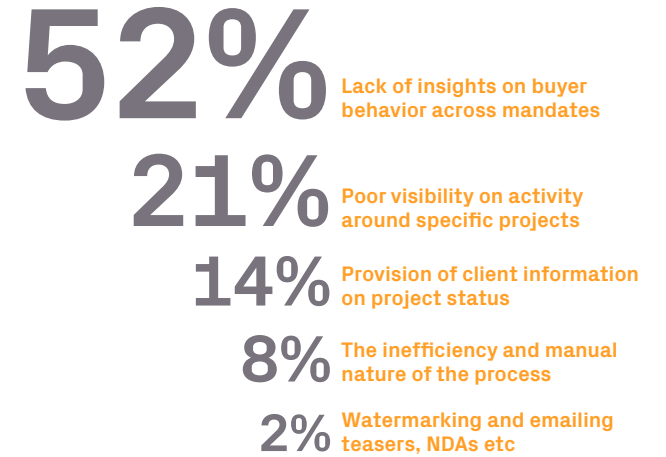
Asset Marketing and Acquisitions

Brazil

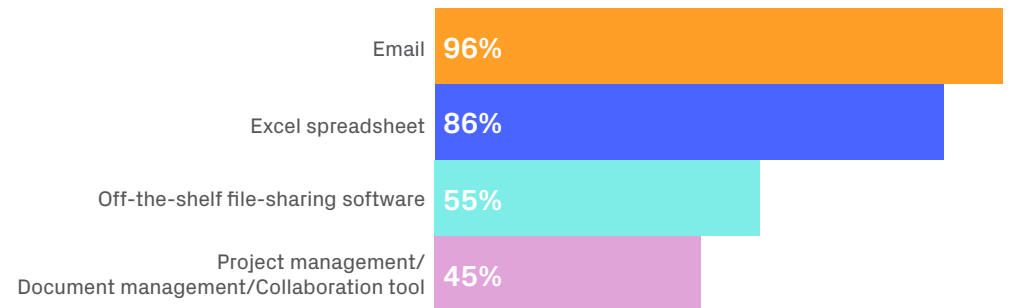
When marketing an asset for sale, how efficient and effective is your company's current process of identifying, marketing to and tracking potential buyers?



When marketing an asset for sale, what is most challenging?



What tools do you use today to execute the workflow of the due diligence process on a potential acquisition target?



About this report

The survey was conducted by Euromoney Thought Leadership Consulting between February and April 2020.

Thought Leadership Consulting specializes in creating original, authoritative and impactful thematic research and content for global business and finance leaders.



Thought Leadership **Consulting**

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