



## Economic Perspectives: Facing Challenges, Exploring Opportunities

August 2024, Deloitte Brazil

# Agenda

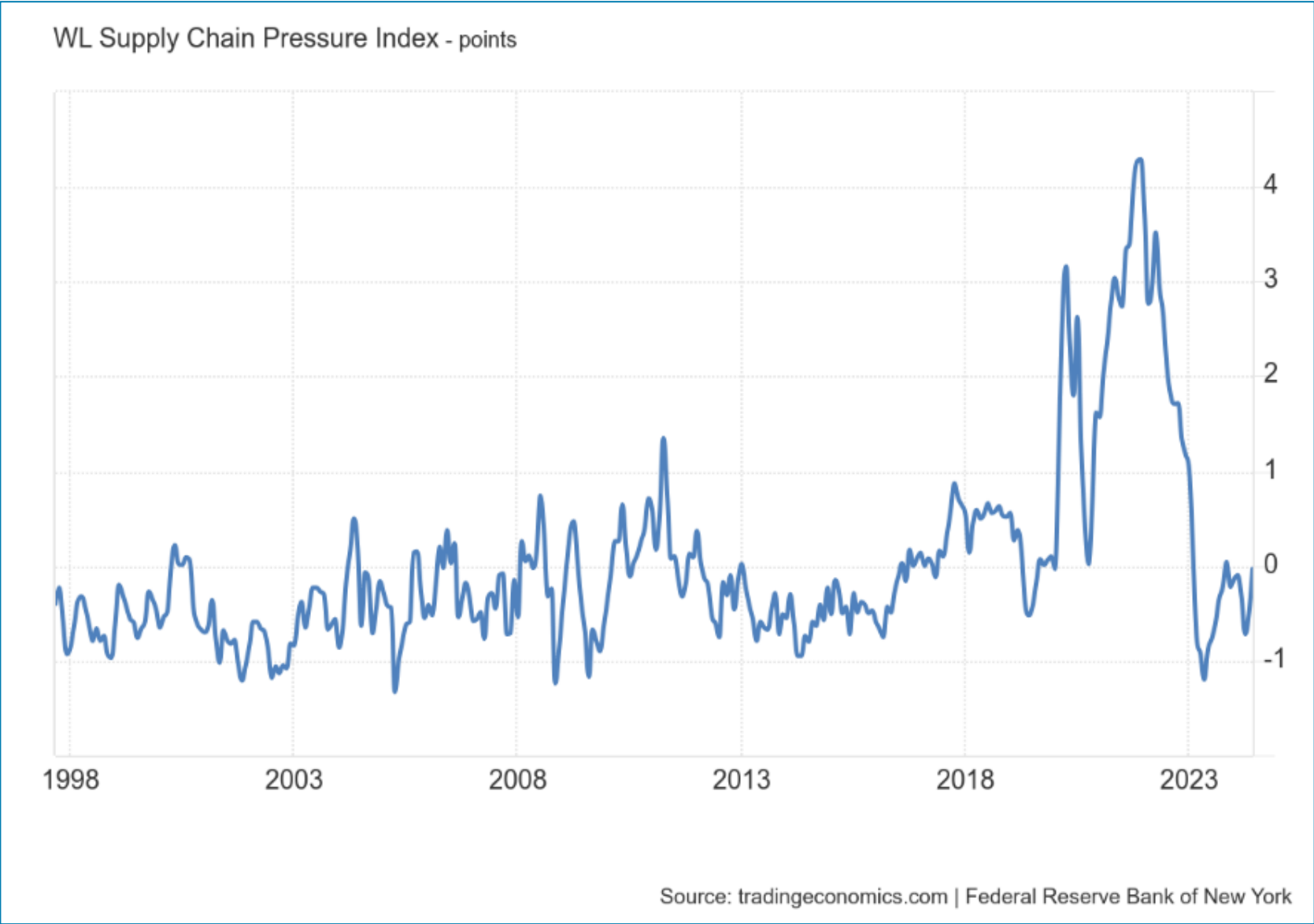
Today's agenda is shown as below;

Topic	Content	Person responsible	Timing
Economic Perspectives: Facing Challenges, Exploring Opportunities	<ul style="list-style-type: none"><li>• Presentation</li><li>• Q&amp;A session</li></ul>	Dr. Ira Kalish	10:00 – 10:45 10:45 – 11:00
Opportunities and threats for companies in current macroeconomic situation	• How Companies See the Current Market? - From Agenda 2024	Ikegaya Yuichi	11:00 – 11:15
	• Overview of M&A market in Brazil	Sasaki Tomomi	11:15 – 11:30
	• Opportunity of Value Creation	André Sousa	11:30 – 11:40
Roundtable discussion	• Discussion about major question	Participants	11:40 – 11:55

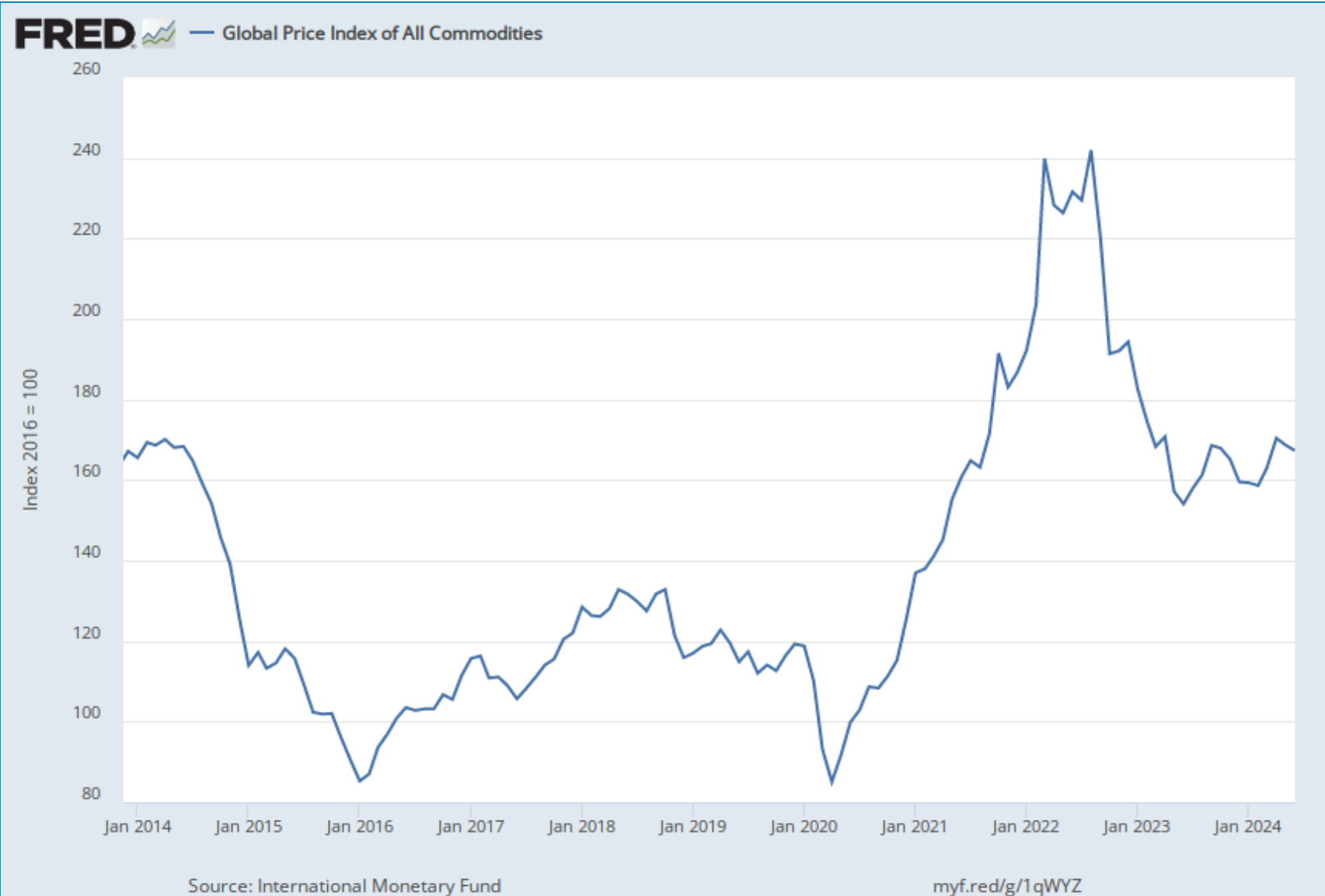
# **Opportunities and threats for companies in current macroeconomic situation**

Ira Kalish

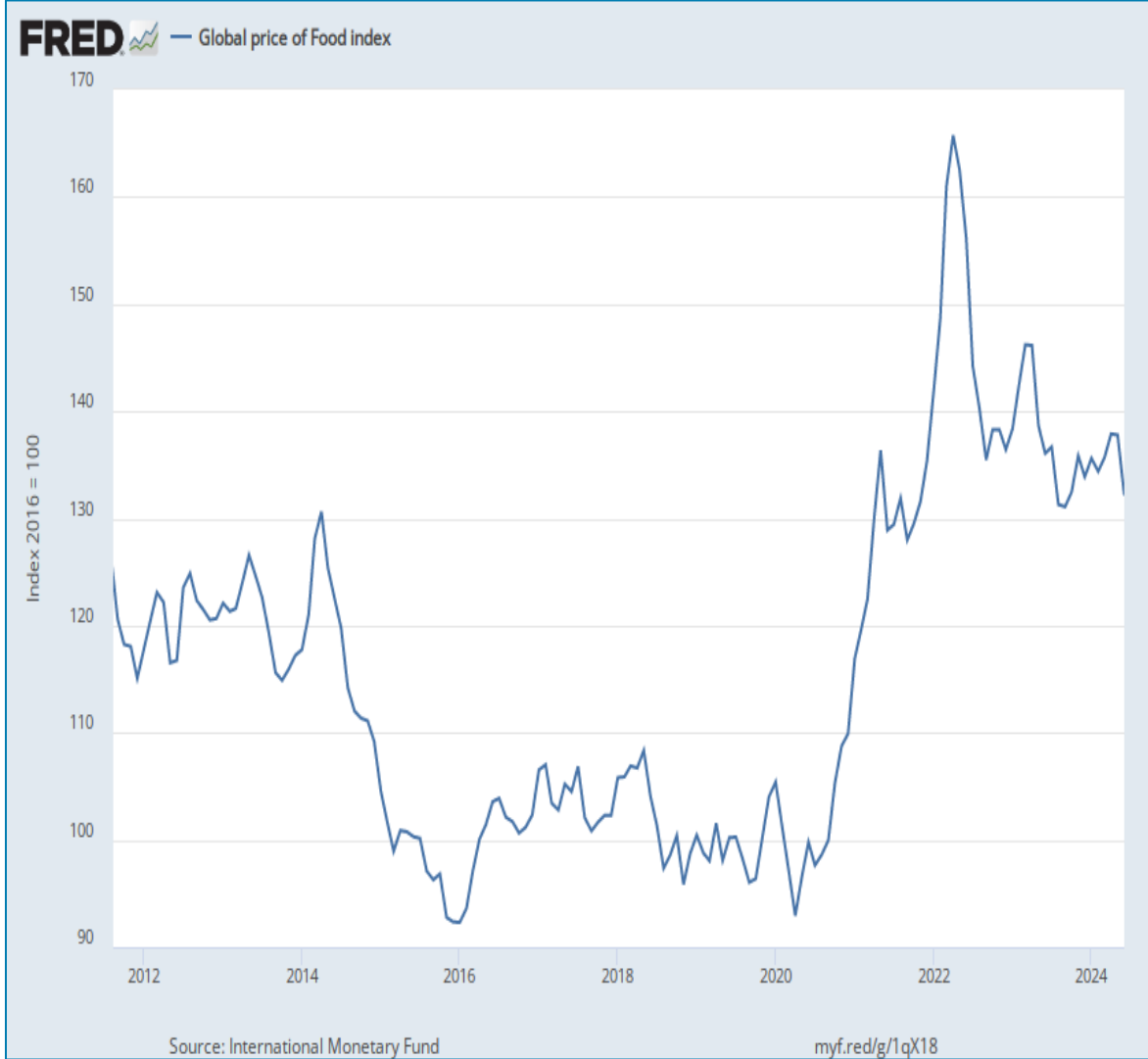
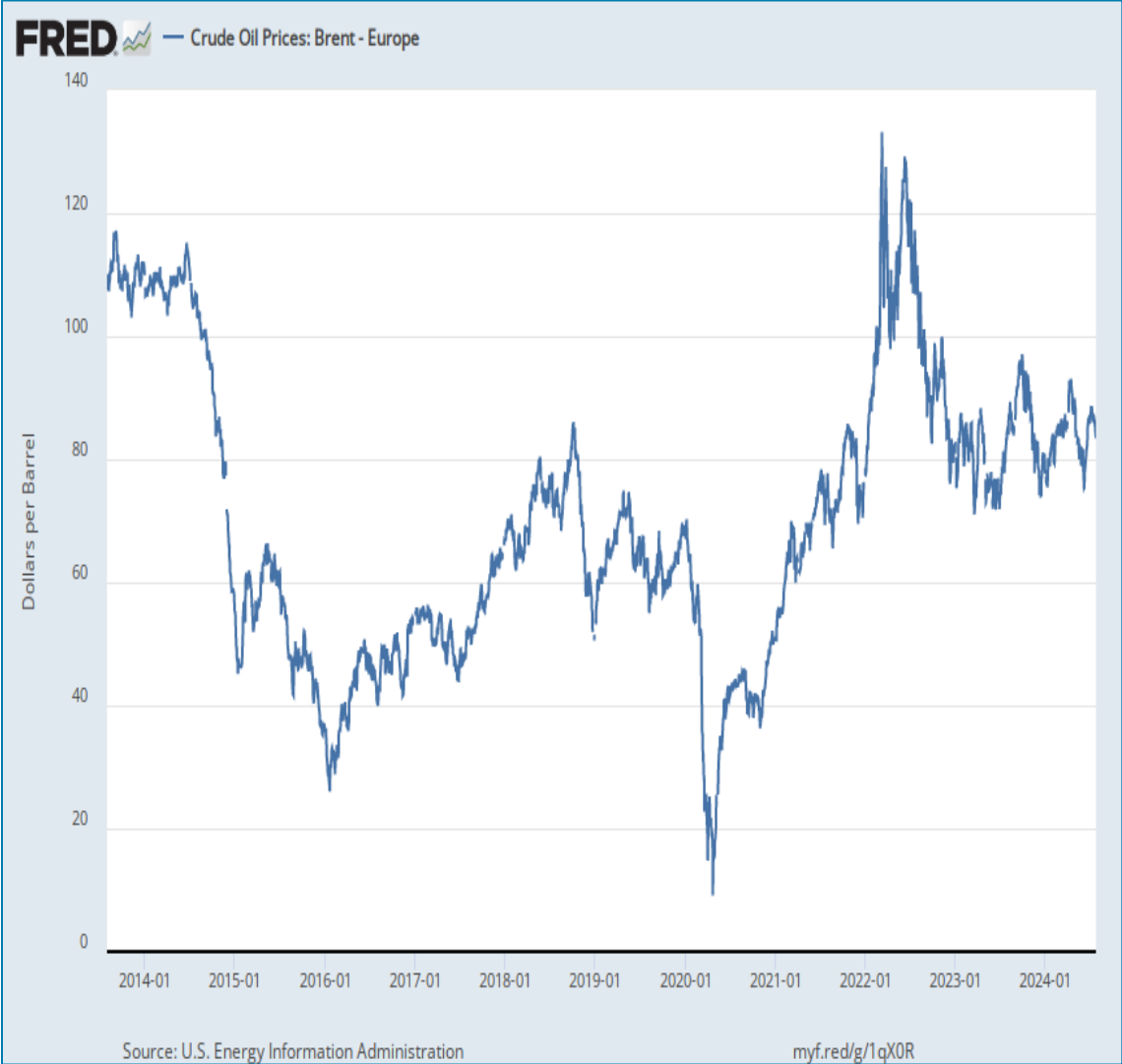
# Global supply chain pressure index



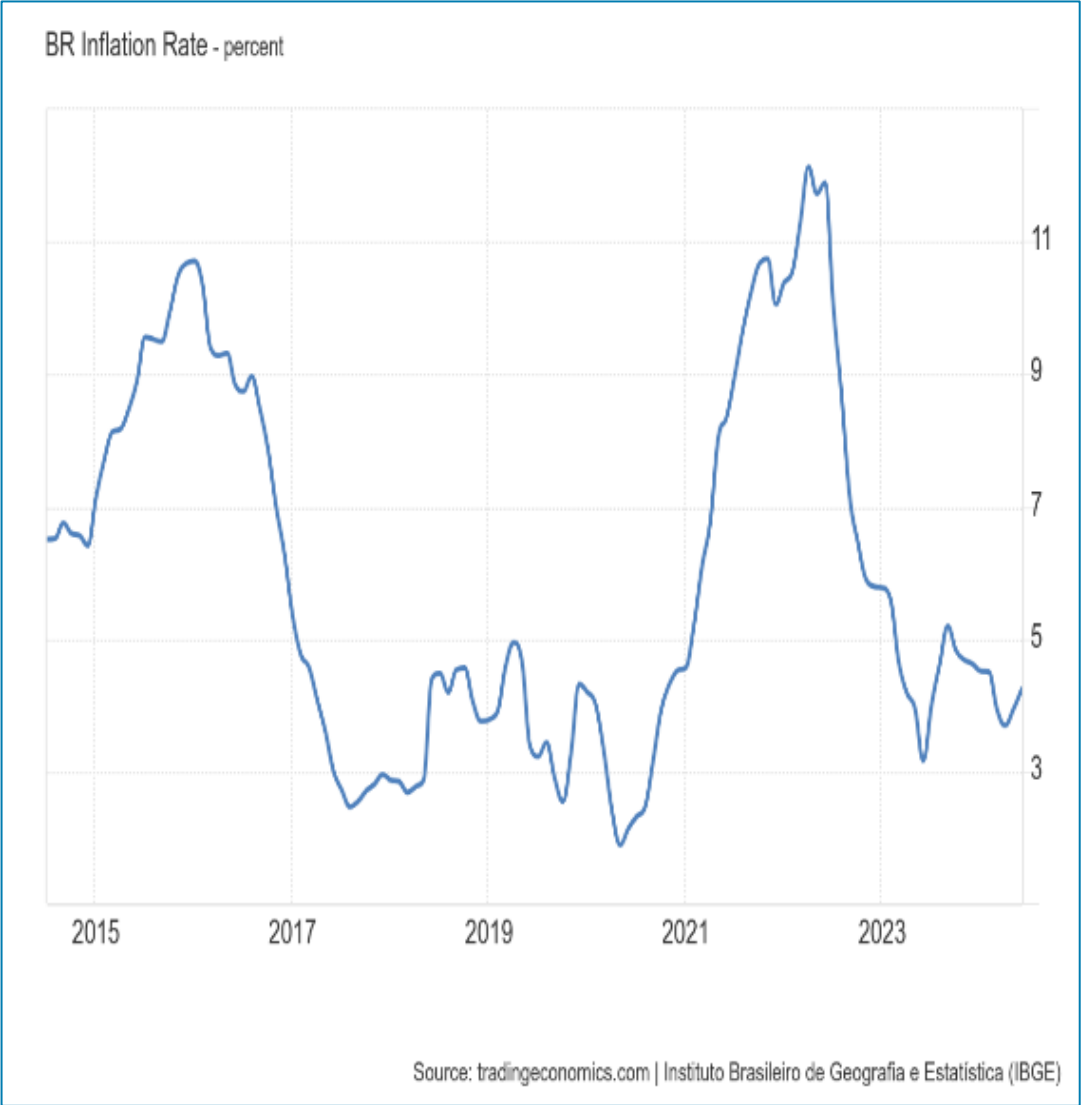
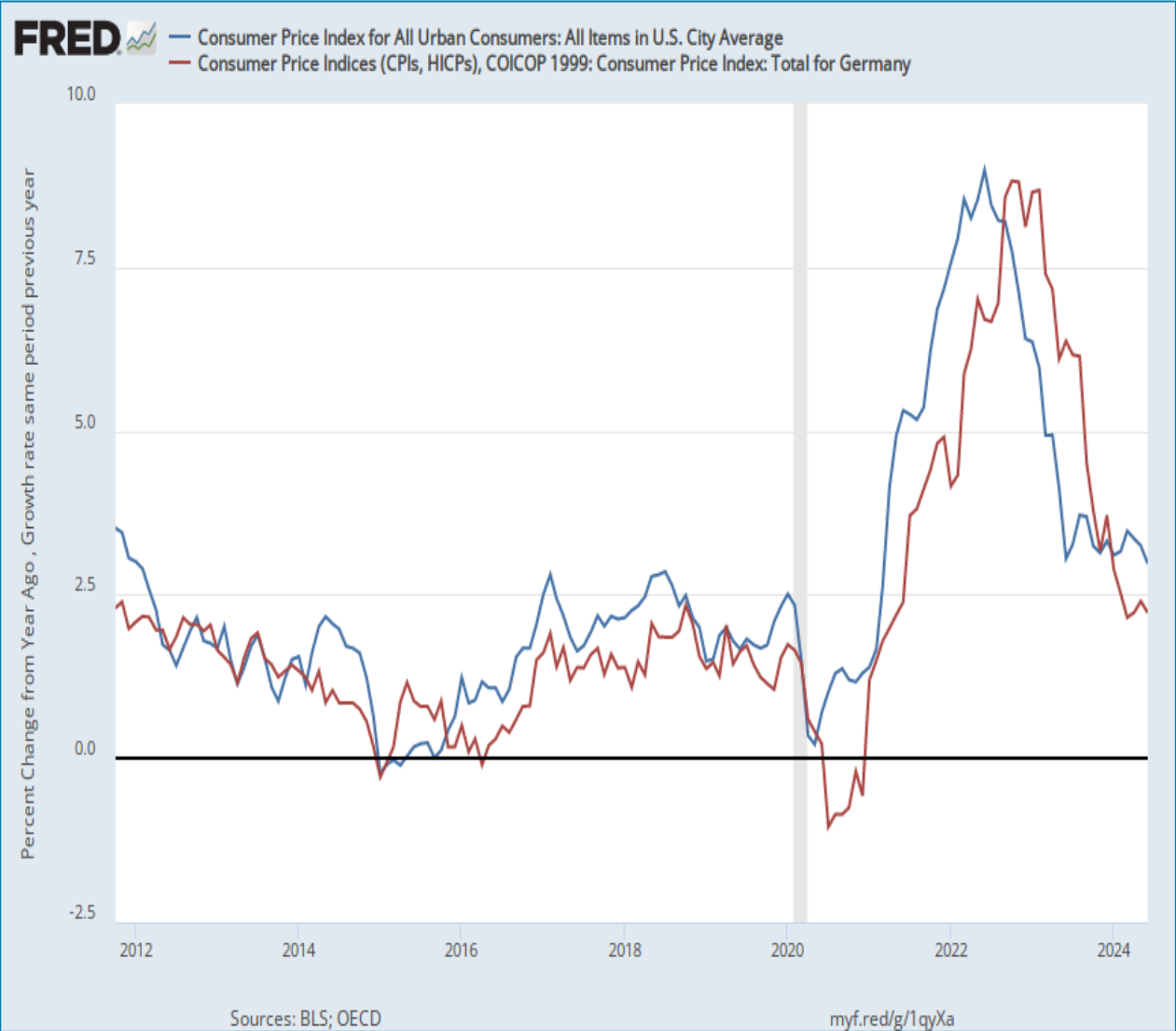
# Commodity prices stabilize



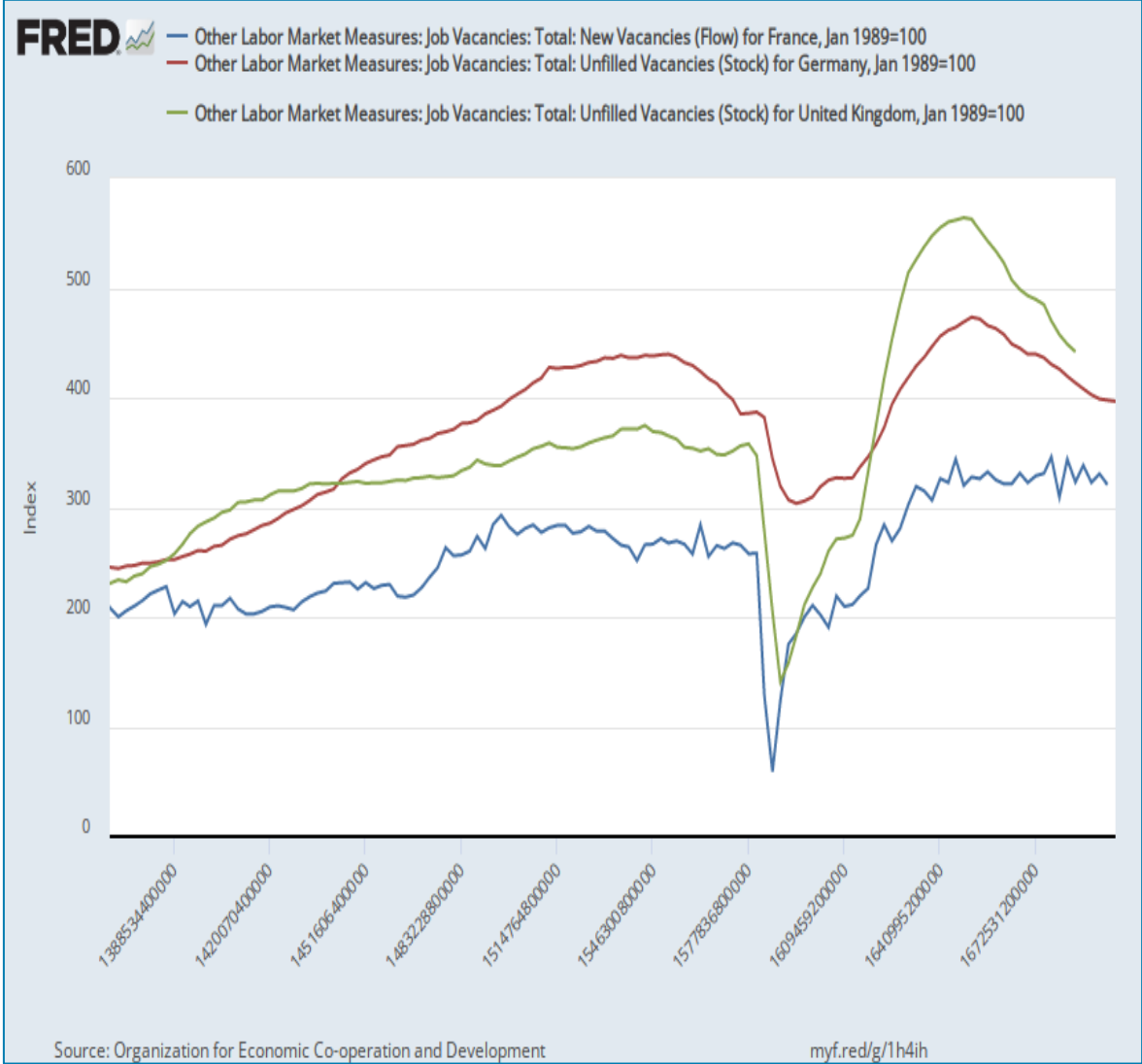
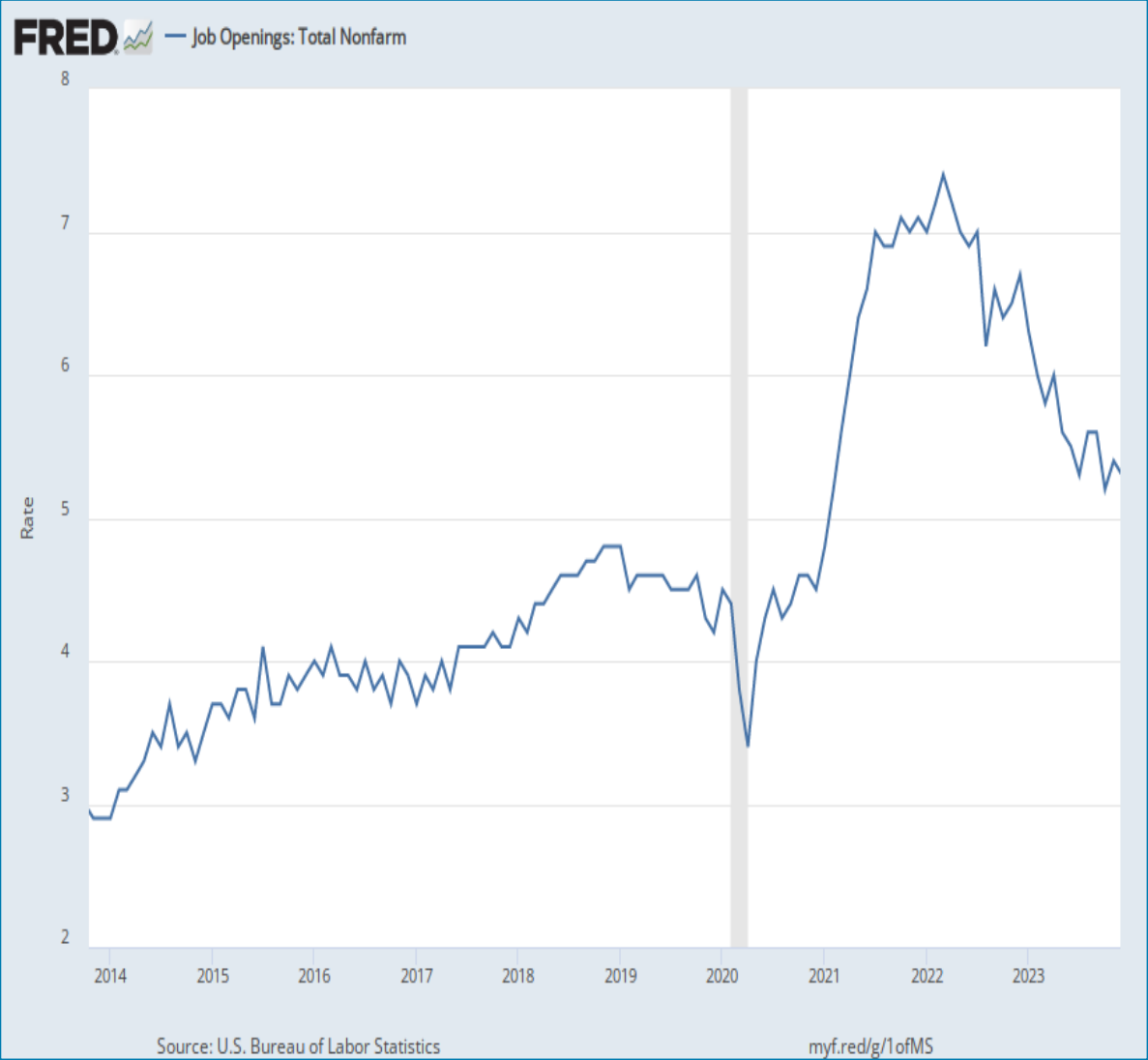
# Oil and food prices stabilize



# Inflation starts to normalize in major economies



# Labor market conditions



# Labor market issues that influence inflation

## Productivity

- Growing in US
- Declining in Europe

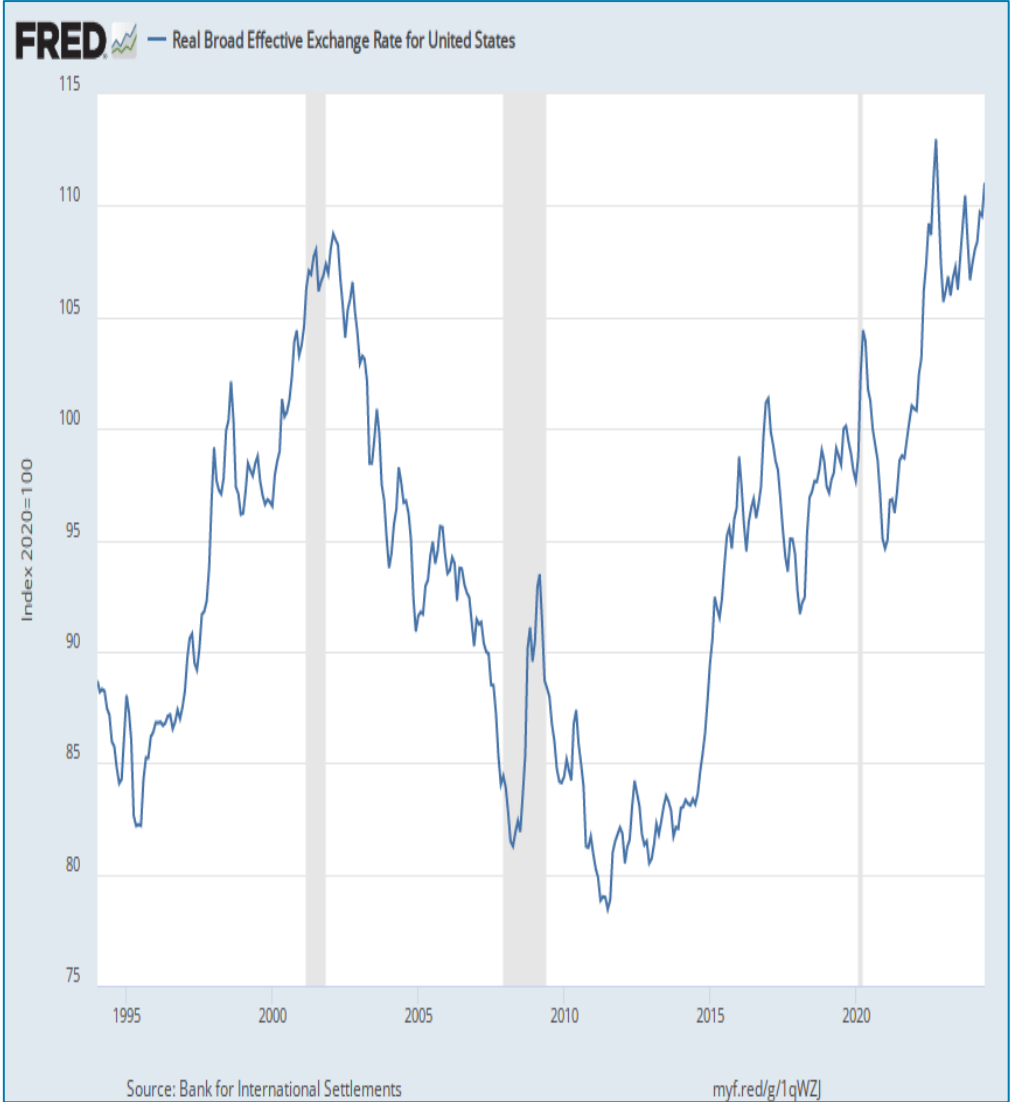
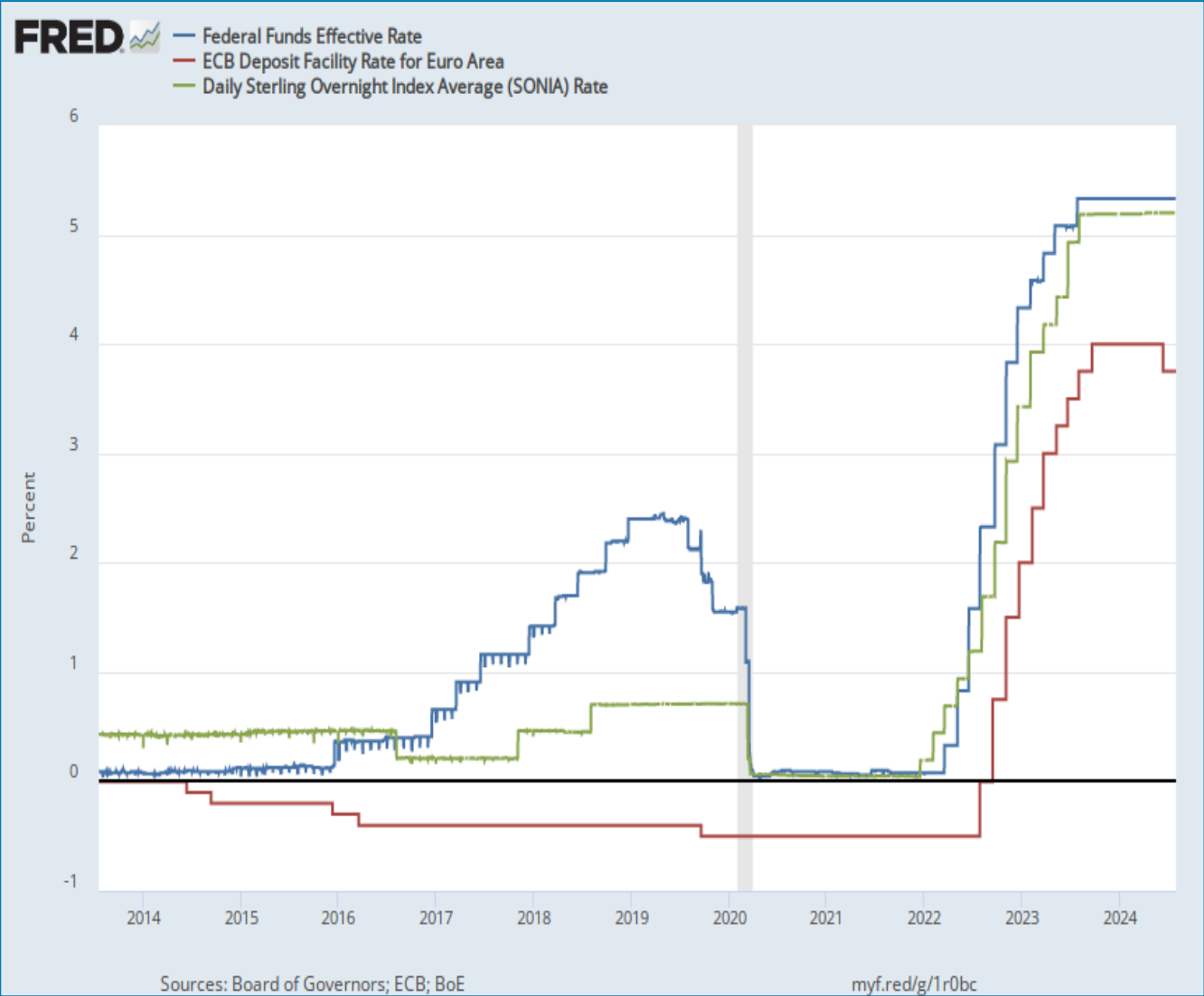
## Immigration

- Surging on both sides of the Atlantic
- Suppresses inflation, boosts growth

## Labor force participation

- Returned to pre-pandemic levels

# Central bank policy rates and exchange rates



# Resilient US economy in 2024

- Immigration
- Consumer balance sheets strong
- Mortgage payments immune to higher mortgage rates
- Growing employment
- Rising real wages
- Business investment strong due to:
  - Plenty of cash
  - Long-term financing
  - Impact of CHIPS Act and Inflation Reduction Act

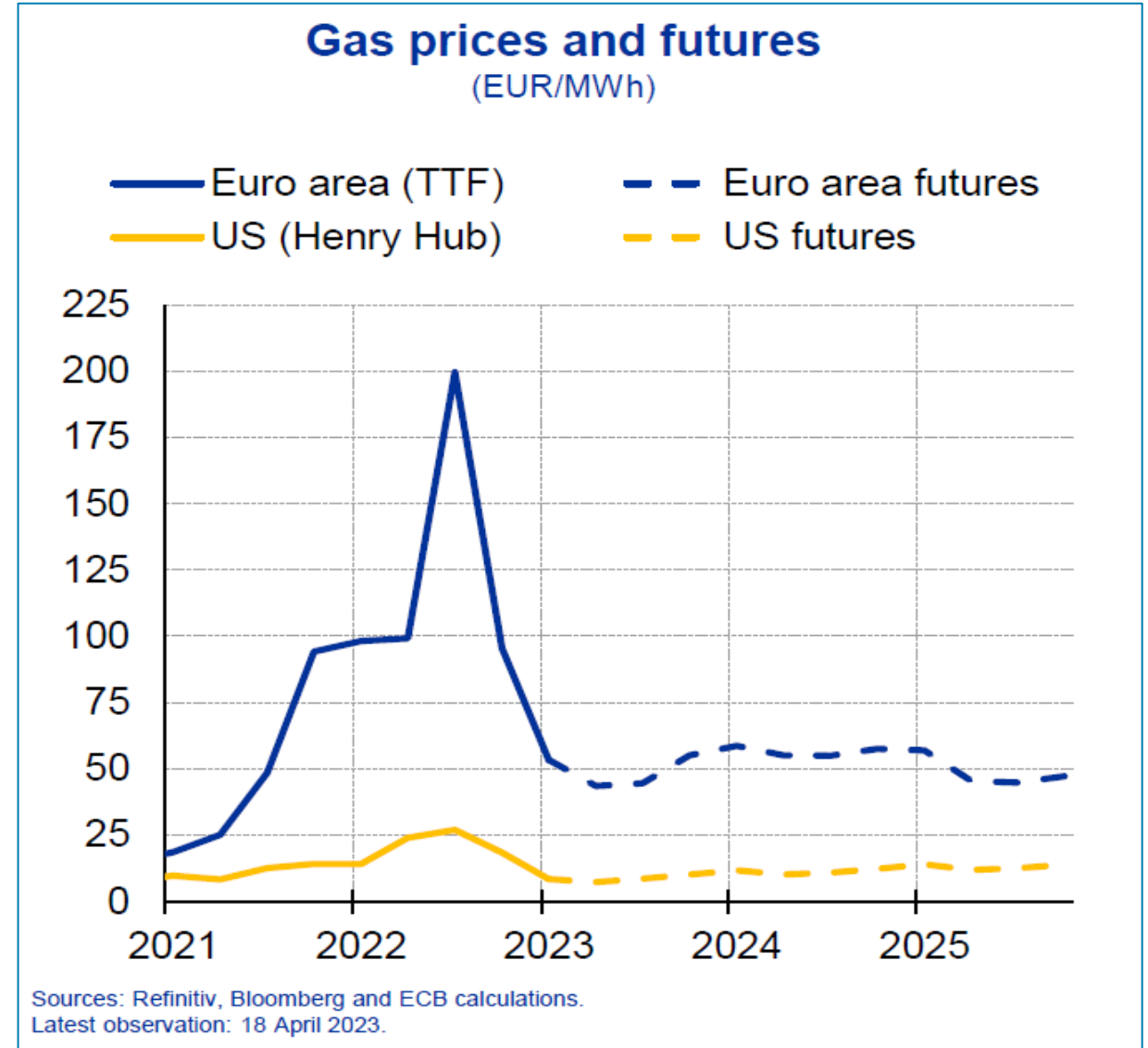


## Trump versus Harris

	Trump	Harris
<b>Taxes</b>	Cut taxes for all households and corporations	Cut taxes for lower to middle income households, raise taxes for corporations
<b>Regulation</b>	Reduce regulation	Maintain regulation and boost support for workers
<b>Trade</b>	Across the board 10 percent tariff, raise tariffs on China to 60 percent	No new tariffs, but restrictive relations with China. History of support for freer trade
<b>Foreign policy</b>	Force Ukraine to accept a peace deal, reduce support for NATO, questions support for Taiwan	Continued support for Ukraine and NATO Support Taiwan in case of attack
<b>Climate</b>	Repeal Inflation Reduction Act, provide subsidies for oil, gas, coal	Reinforce Inflation Reduction Act
<b>Immigration</b>	Dramatically reduce immigration, deport 11 million	Reinforce border, but allow continued legal immigration

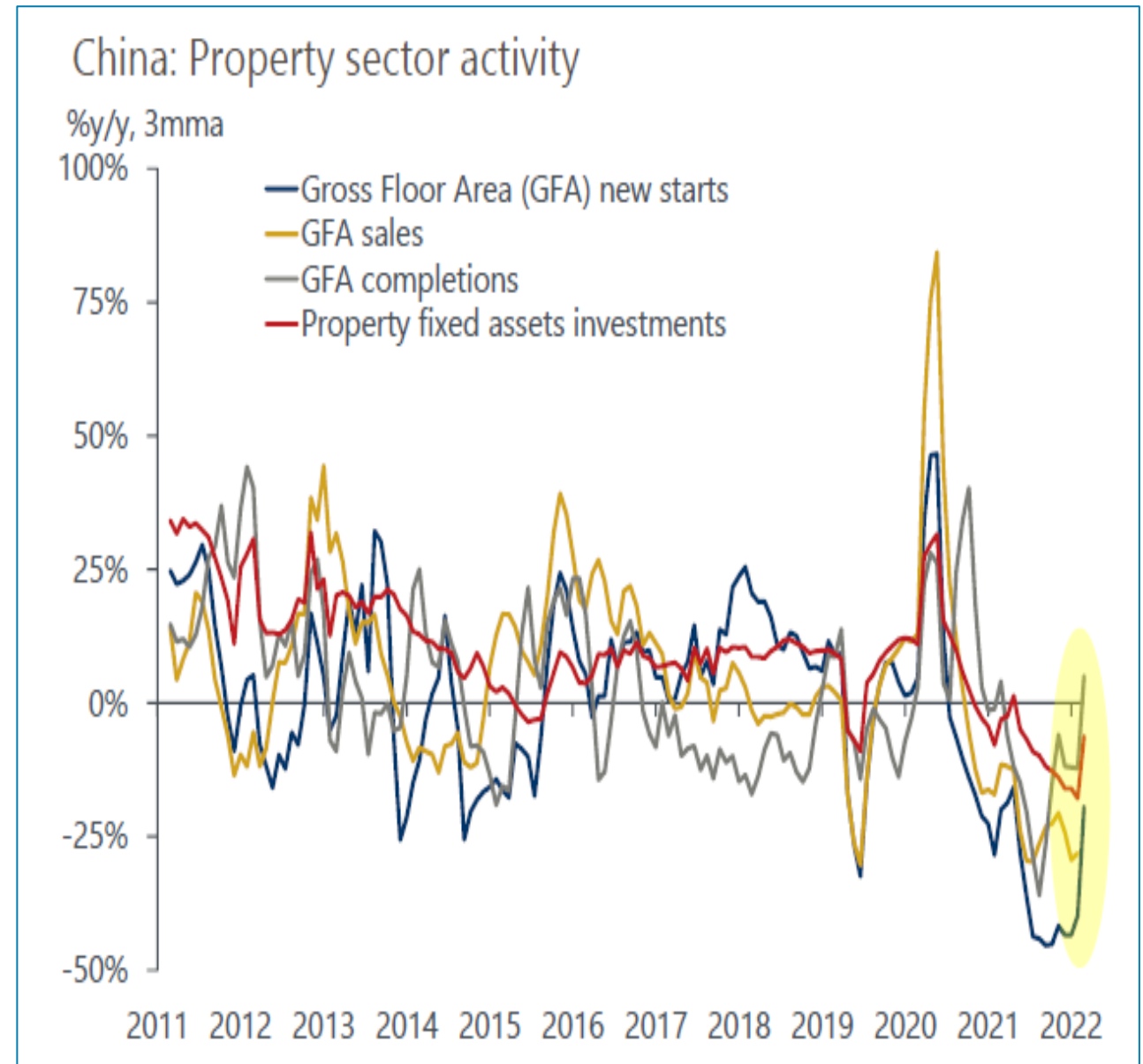
# Eurozone

- Consumer spending restrained by high interest rates, high energy costs, uncertainty.
- Rising real wages could boost spending
- Labor market tight, fueling remaining inflation
- ECB and BOE likely to cut rates
- Major obstacles to recovery are the energy shock, weak China demand, competitive global environment



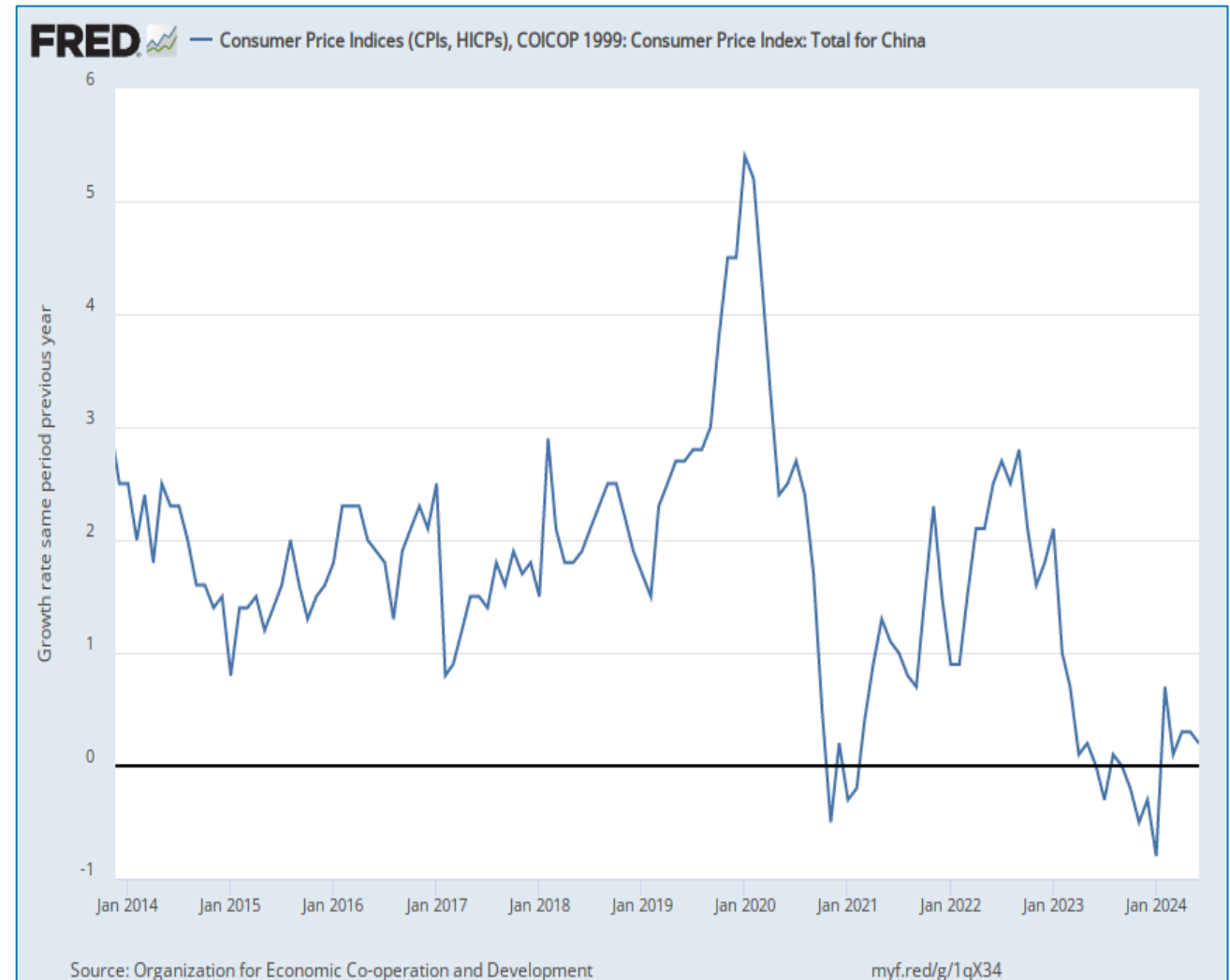
## China faces significant headwinds

- Property crisis reduces investment, hurts local government finances, and spurs consumers to save
- Private sector investment stalls while inbound FDI drops
- Weak global economy, trade disputes, demographics



## China excess capacity

- Weak domestic demand, subsidies for investment/exports lead to excess capacity
- Deflationary pressure leads to easier monetary and fiscal policy
- Focus on exports versus domestic demand, yet trade restrictions will hurt exports



# Globalization

- Decline in investment into China
- Diversification of supply chains
- Particular focus on Southeast Asia, India, Mexico
- Industrial policy in US, EU, Japan encourages reshoring in high tech and clean energy



## Major global trends

- Demographics influence migration, tech investment
- Ongoing debate about clean energy transition
- Massive investment in gen-AI
- Industrial policy and protectionism



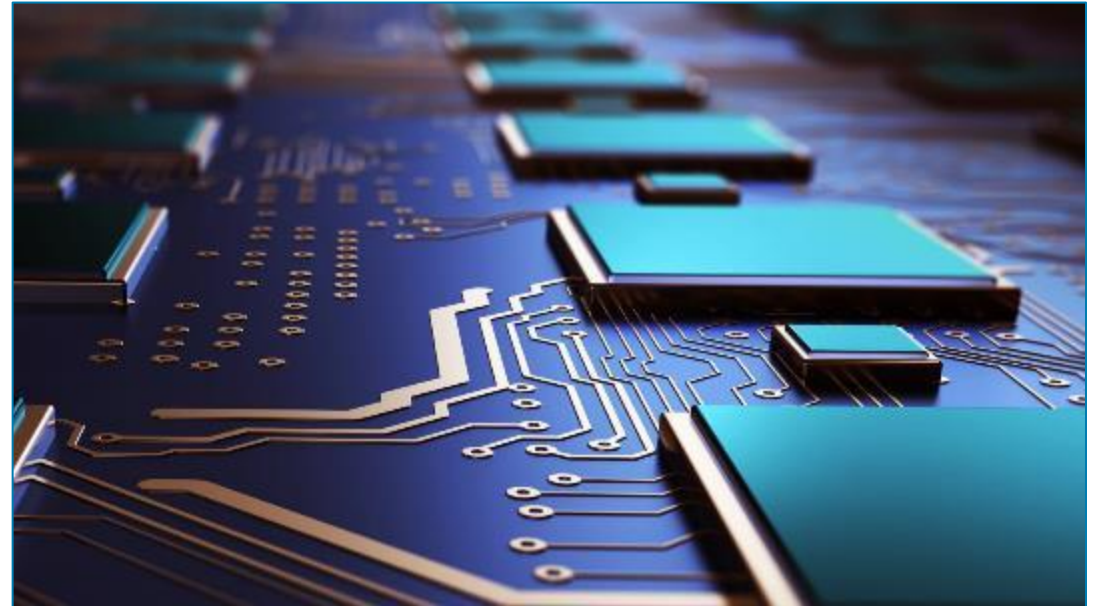
## What could go wrong?

- China-Western relations accelerate supply chain diversification
- Russia-Ukraine war weakens EU, NATO
- Europe hurt by energy shock, rise of US and China
- Monetary policy errors invite rebound in inflation



## What could go right?

- Investment in IT boosts productivity growth
- New technologies create new industries, companies
- Favorable demographics fuel growth in Africa, India
- Authoritarian regimes suffer loss of competitiveness



# **How Companies See the Current Market? From Agenda 2024**

Ikegaya Yuichi

# Brazil's Agenda survey | Sample profile



Responses collected between **February 2024** and **April 2024**



**411**

Participating companies



**R\$ 2.05 trillion**

Sum of revenues in 2023



**~20%**

Equivalence to  
Brazil's GDP\*



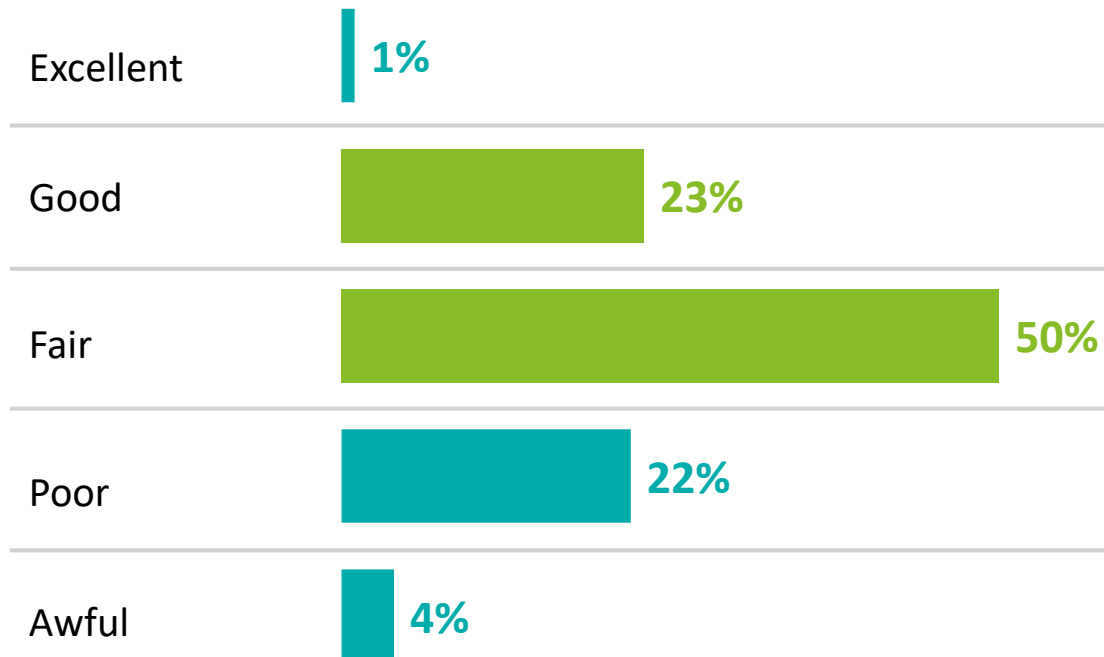
**90%**

Executive level  
Respondents in boards and  
executive positions

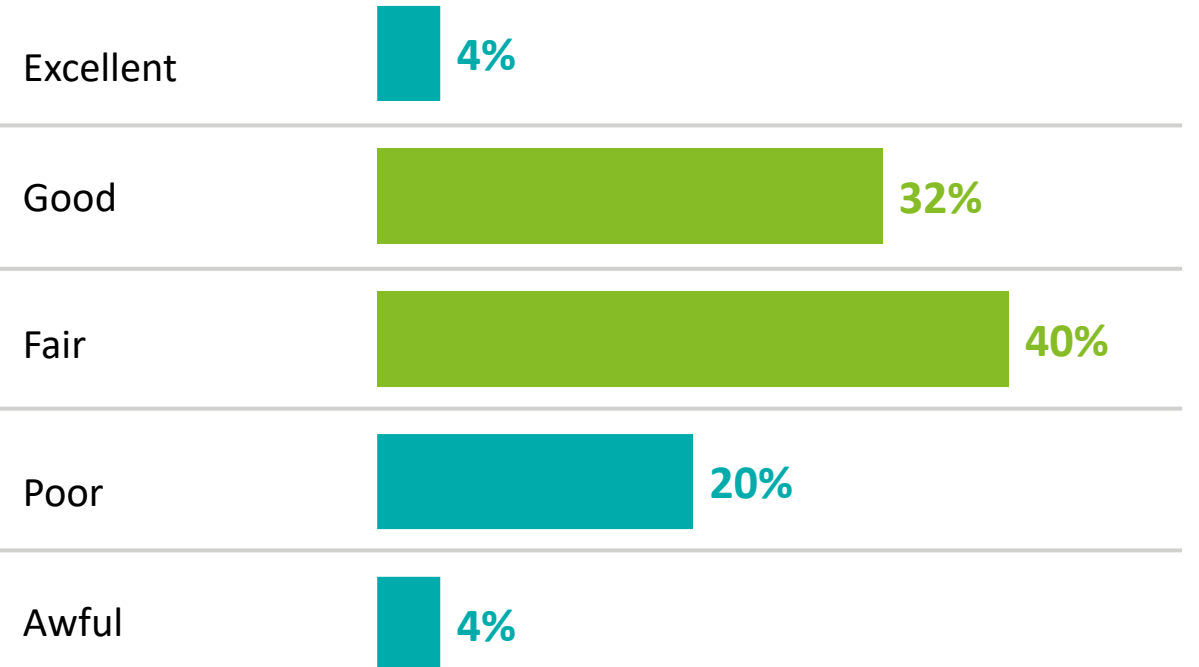
\*Considers the sum of the revenues of the participating companies over the Brazilian gross domestic product (GDP) of 2023.

# Brazil's Agenda survey | Business environment

## Perception of the economic scenario in 2023



## Perception of the economic scenario in 2024



# Brazil's Agenda survey | Business environment

## Top 5 challenges for businesses in 2024 (as a % of the companies)

 **67%**

Risk of instability in the national economic environment

 **62%**

Risk of instability in the national political environment

 **62%**

Tax complexity

 **55%**

Find qualified professionals

 **49%**

Global economic slowdown



# Brazil's Agenda survey | Business environment

## Top 5 challenges for company management in 2024 (as a % of the companies)

+ 80%

Increase sales or expand activities

64%

Technological adoption/implementation

41%

Have a resilient supply chain (reduce the risk of supply shortages, delays and maintenance of quality)

41%

Cybersecurity

35%

Credit or financing offer



# Brazil's Agenda survey | Business strategy

## Fundings: Funding strategies for 2024



**13** companies

are aware of the possibility of an IPO



**31** companies  
intend to issue bonds in 2024

# Brazil's Agenda survey | Qualification as a strategic priority

6 priorities for the public sector in 2024, from the business perspective (as % of the companies, multiple answers)



Investments in education



Expenses reduction



Policies to promote micro, small and medium-sized enterprises



Investments in the healthcare sector



Investments in public security



Policies to promote the tech industry

Among the 16 mapped priorities, the business community assesses that investments in education should be the top priority on the public sector's agenda.

# Brazil's Agenda survey | Energy transition

## About energy transition...



of companies intend to do it



of companies do not intend to do it



of companies have not yet planned it

**43%**

are companies with revenues above R\$ 1 billion, in the infrastructure, extractive industry and manufacturing sectors.

**75%**

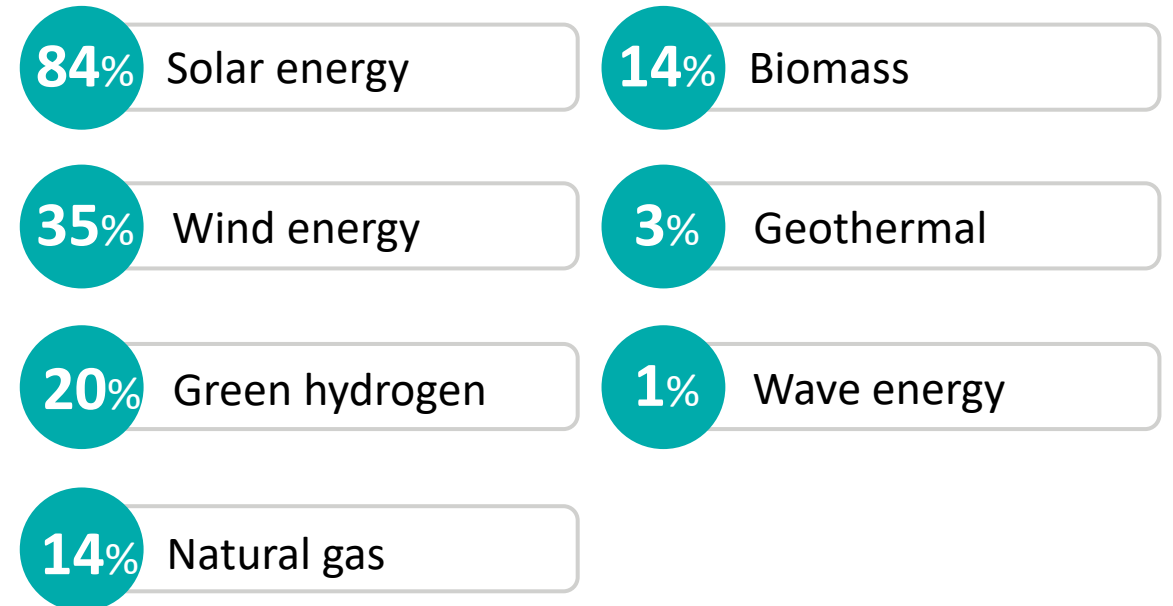
are companies with revenues up to R\$ 250 million, in the services, IT and Telecom and financial services sectors.



# Brazil's Agenda survey | Energy transition



## Energy sources that will be prioritized in the energy transition (as % of the companies, multiple answers)



# Current M&A Market

Tomomi Sasaki

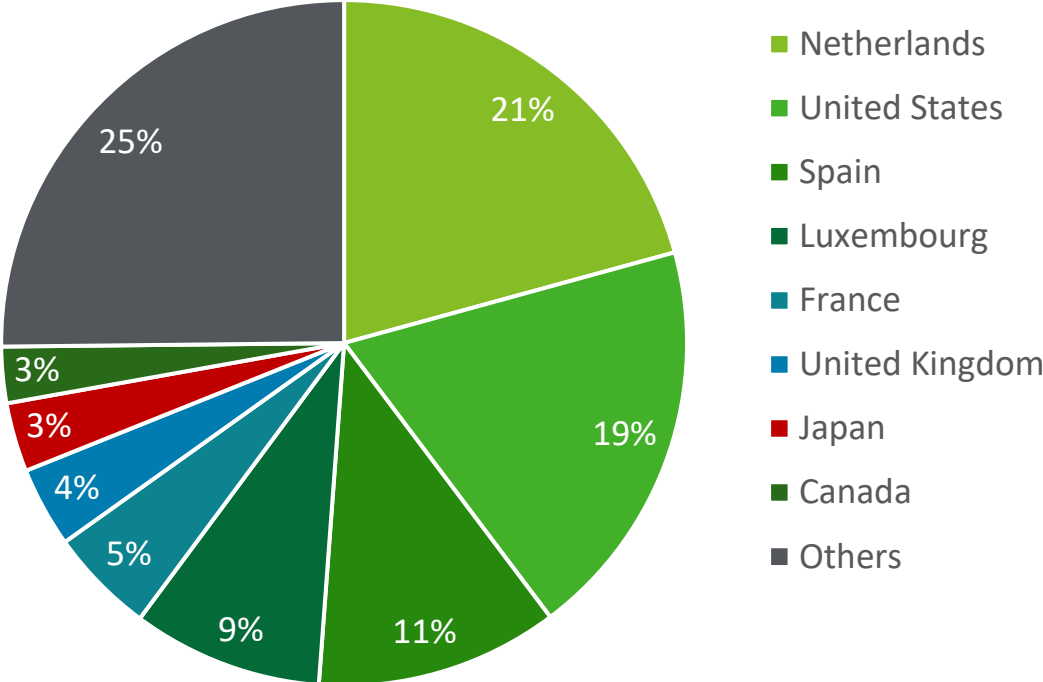
# Investment from Japanese Companies

Investment amount continues to be low from COVID-19, but still Japan is the 7<sup>th</sup> biggest investor for Brazil. Japanese Manufacturers, Trade houses and Financials have branches in Brazil.

## Investment from Japan to Brazil

Foreign direct investment – Liability position (to Brazil)

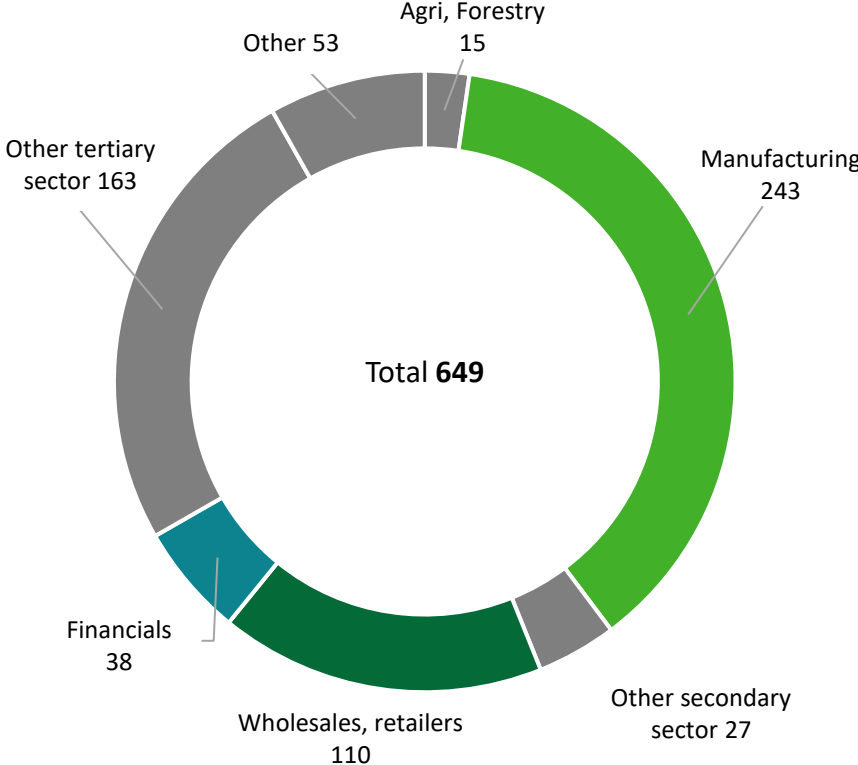
(%)



Source: Jetro “Basic information of Brazil”, Banco Centro do Brasil

## Japan-related companies (by sector, 2022)

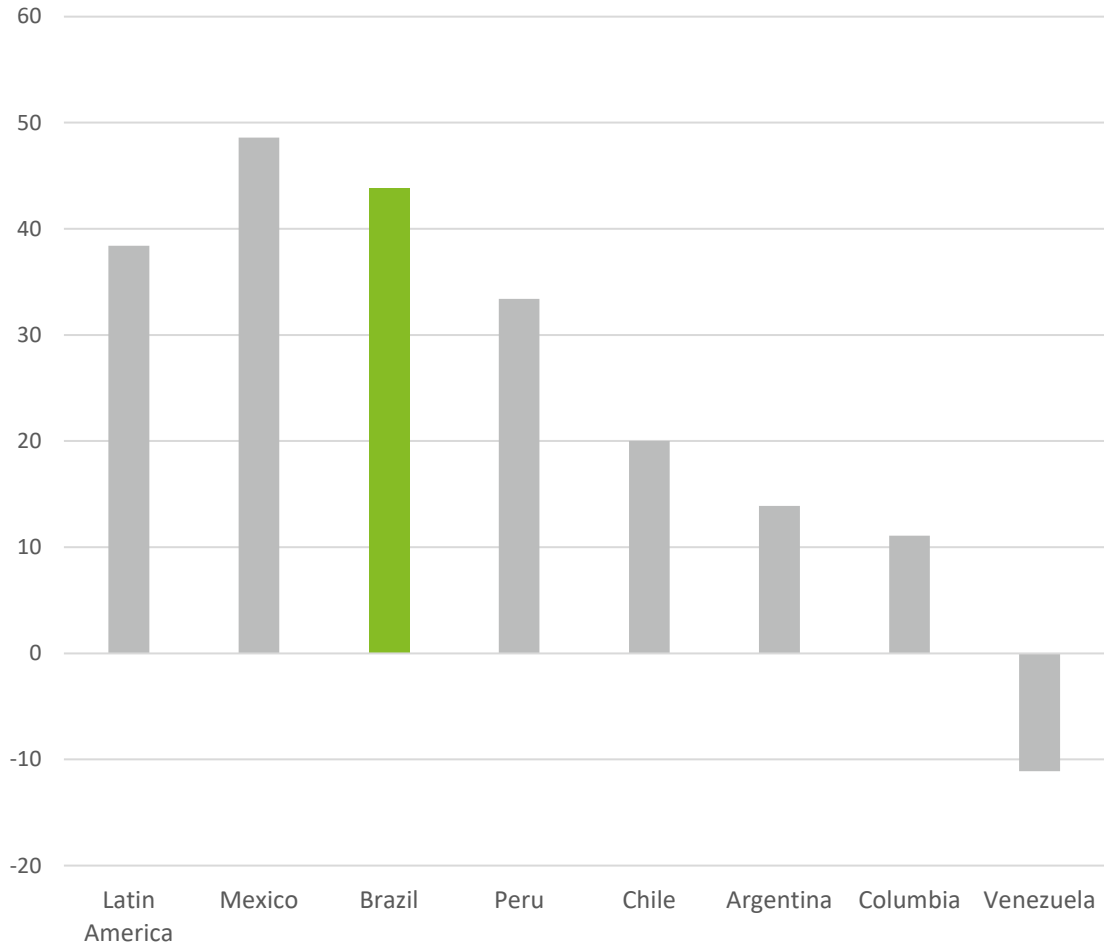
Number of branches



# Business sentiment of Japanese companies operates in Brazil

Most of Japanese companies in various sectors foresee the positive business environment in Brazil.

Diffusion Index per Country (2024)

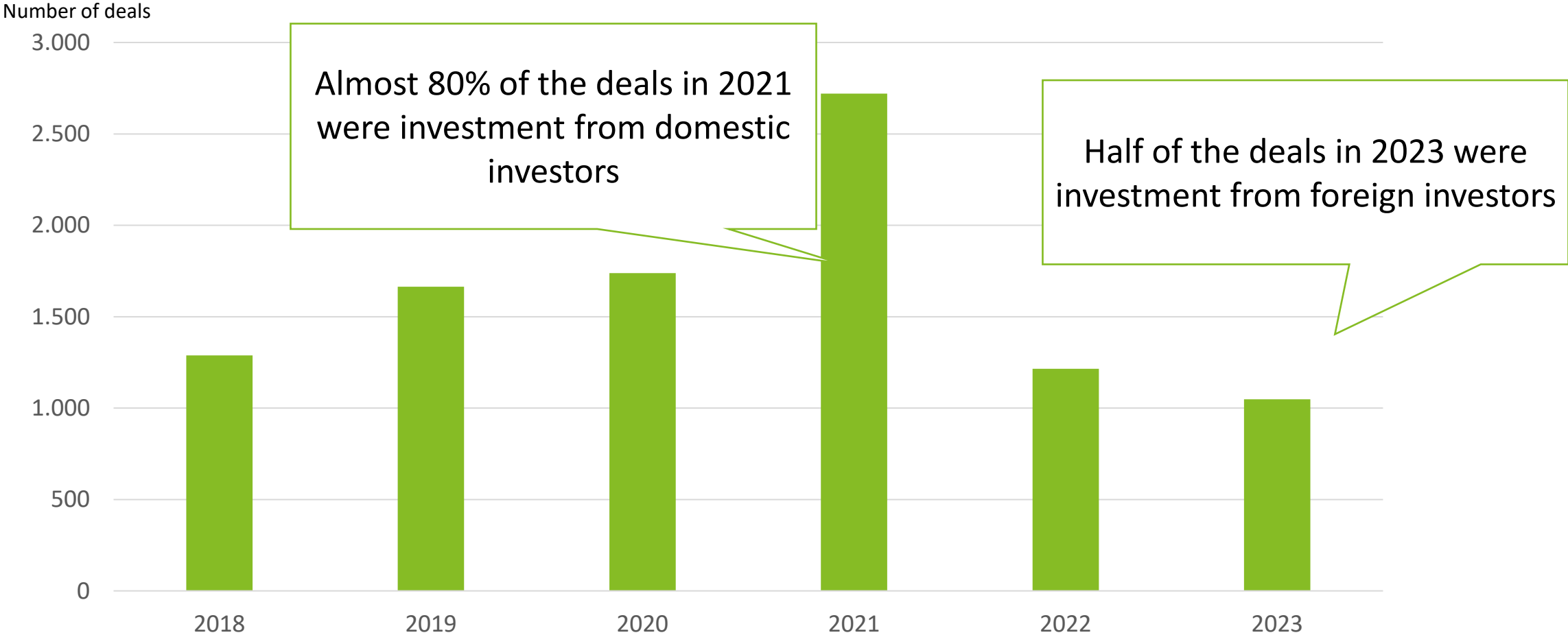


Source:Source: Jetro

## Key Factor

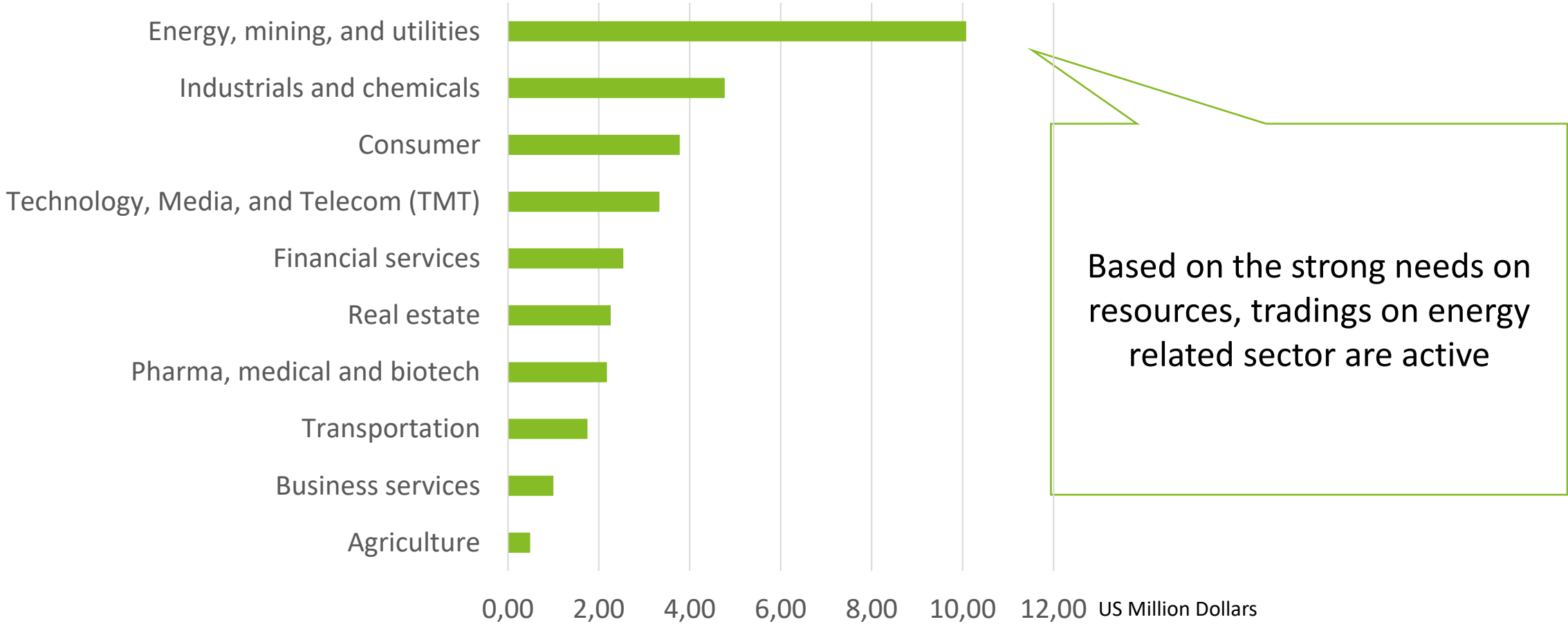
- **Stable demand and lower import cost lead to historical improvement of profit margin**
  - Profit margin is expected to improve due to hike of commodity price and cost reduction caused by appreciation of BRL.
  - Also market foresees further growth based on the strong domestic demand growth and lower unemployment rate.
- **Increasing companies aim to expand the business in Brazil**
  - Companies in various industries have intention to expand their business in Brazil
  - For example: automotive, regenerative energy, energy management, agriculture, digital, healthcare, manufacturing, foods, consumers, IT business, financials, services, etc.
- **Will expand the market share in Brazil to take advantage of growing domestic demand**
  - 48.1% of Japanese companies plan to expand business in Brazil

Number of M&A deals declined in 2023 due to the decrease of in-in deals. Foreign investors are growing in Brazil market.



Source: Statista

By industry, deals related to energy, mining and utilities sector are the highest in terms of value in 2023.

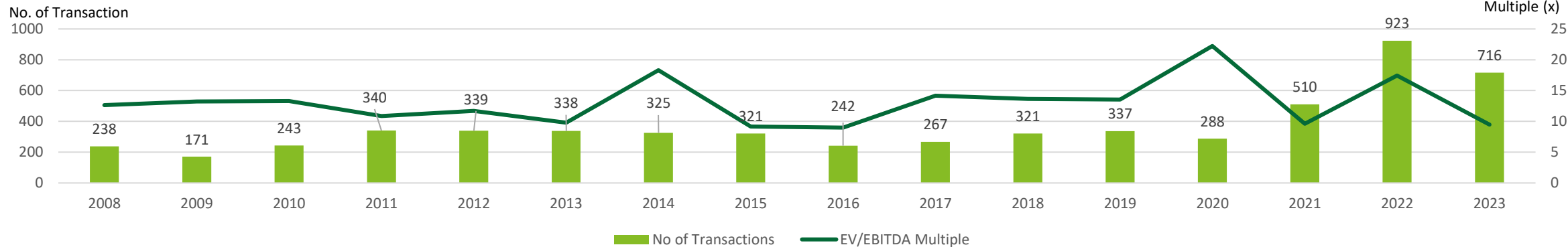


Source:White & Case

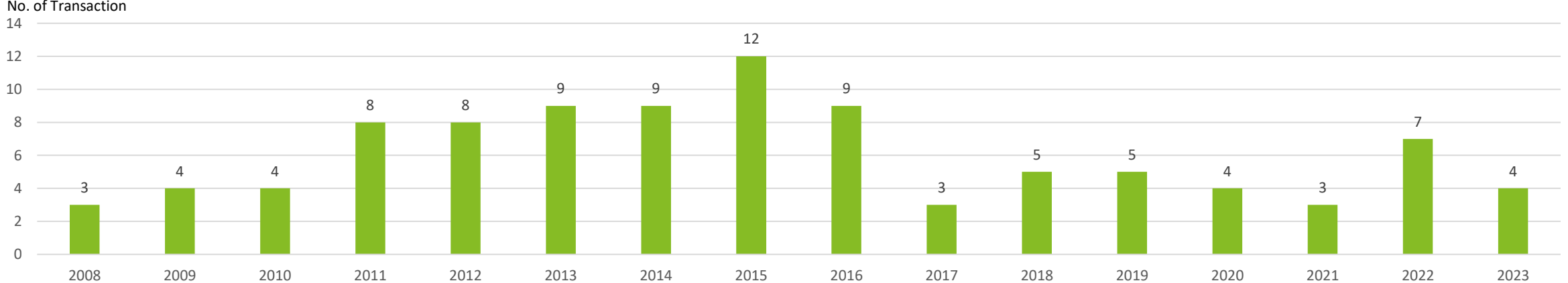
Multiples are continuously high. We need to ensure it is a valuable deal to pay.

Trend of M&A in Brazil

Number of Transaction in Brazil & Transaction Multiple (EV/EBITDA)



Number of Transactions in Brazil by Japanese Companies

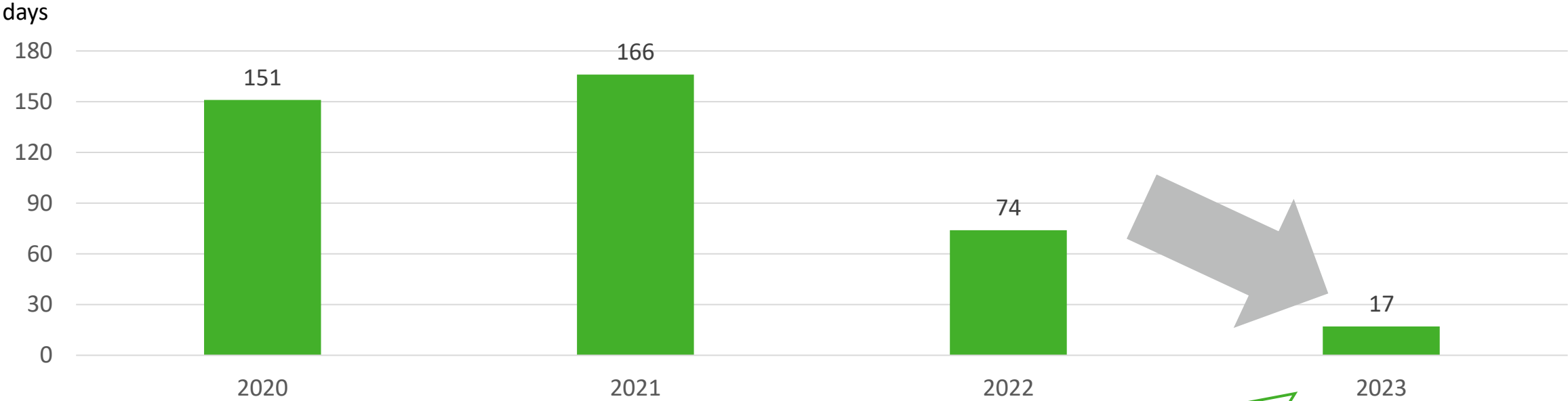


Source: Mergermarket

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We can close our deal shorter than ever – it is important to have a blueprint of deal before closing.



**Time to conclude the deal is continuously shorten  
We have to prepare for the competition and move quickly**

# Opportunity of Value Creation

André Sousa

# Roundtable Discussion

# Major Question about Macroeconomy

## Questions? (welcome from table too)

- What is the main challenge for your company, based on the current economic situation?
- Now we are facing the high interest rate and low value of reals – what will be the impact on our Economy? What is the merit and demerit?
- Japanese yen is fractuating, but which is better for Japanese companies – strong yen or weak yen?
- Which sector is best to invest?



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