

Companies estimate revenue growth in 2017 and gradual recovery of investments, Deloitte first-of-its-kind survey reveals

- *The study, in which 746 organizations from all over the country participated - which should close 2016 with a total net revenue of R\$1.6 trillion - projects a growth of 8.3% next year;*
- *The value of corporate investments should increase 5% in 2017; the priorities are new products or services and replacement of machinery and equipment;*
- *84% of the companies interviewed intend to retain or hire employees; 43% of these, however, admit intention to look for higher skilled professionals.*

São Paulo, 10 November, 2016 - After a difficult period of two years, with crises in the economic and political scenarios, company managers in Brazil begin to improve their expectations in relation to the business and point to a more positive outlook from next year on. This is what shows the first-of-its-kinds survey **Agenda 2017**, conducted by Deloitte with the participation of 746 organizations, of which 25% are estimated to report net revenues above \$1 billion by the end of 2016 and 32% are controlled by foreign groups.

According to the survey, the sum of net revenues foreseen by all participating organizations should reach R\$1.739 trillion in 2017, a nominal value 8.3% higher than the R\$ 1.606 trillion expected for 2016. As a reference, this latter figure is equivalent to a little more than a quarter of the GDP (Gross Domestic Product) estimated by the Central Bank of Brazil (BCB) for the 12-month period that ended last September (R\$ 6.1 trillion). The increase of 8.3% should be, therefore, above the expected inflation at around 5% for the coming year, according to estimates of the Focus report, from the BCB.

As regards investments to be made by the companies, managers foresee a gradual recovery: for 2016, the expectation, according to the median of the projections - a measure of center tendency, which eliminates extreme responses - is of expansion of 4% compared to 2015; for 2017 the expected percentage of increase goes to 5%.

"It is important to realize that there is a clear shift in the expectations of those who manage businesses in the country. As we experienced a downturn in all economic sectors over the past two years, estimating an increase of 8.3% in net revenues for 2017 is a real demonstration of optimism," says Othon Almeida, leader partner in Deloitte's Market Development practice. "On the other hand, the projections show that the resumption of investments will be gradual, which is natural in this stage of economic transition, and also very positive, as long as it reflects decisions aligned with the new opportunities of the economic environment," says the executive.

Among all participating companies, 38% estimate that their net revenues should grow more than 10% in 2016. Now for the next year, 56% of companies that participated in the study anticipate a revenue growth in that order of magnitude. While 26% project a drop in revenues this year, only 6% of respondents estimate a drop in 2017.

The analysis of data from the **Agenda 2017** study indicates that the optimism is motivated by several factors, among them, the improvement in the expectation about the possible resumption of investments in the infrastructure area. There is also influence of the improvement in the business sector's confidence in a recovery of the Brazilian economic activity, as well as important advances in the growth projections of industries that were very affected by the current crisis, such as the construction industry.

Among the items that should have the most impact on business the executives mentioned: changes in foreign exchange rates, recovery of the economy and changes in oil prices.

Employment takes a breath

Over a quarter (26%) of the participating companies intend to increase their staff in 2017. The majority (58%) believe that their organizations will keep the same number of employees next year, while 16% of them estimate that they will reduce the number of employees.

Of the companies that intend to keep or hire employees; 43% admit intention to look for higher skilled professionals. "This vision points to the urgent need for businesses and individuals to prioritize the professional qualification in their concerns", explains Deloitte's partner.

In regard to investments in training and qualification of professionals, 38% of respondents say that their companies should increase their investments in this area in the coming year. The other 53% intend to maintain the same level of investments of this year; and only 9% estimate to reduce spending in this area.

Most optimistic regions

According to the surveyed data, companies in the Midwest region anticipate better results because, in addition to projecting a growth of 10% in net revenues in 2016, they estimate to increase the values of investments for the coming year by 10%.

The Northeast region also stands out by estimating a growth in revenues of 6% in 2016, and 10% for the coming year. The investments by northeastern companies also exceed the national average, of 5% for 2016 and 10% for the following period.

Analysis by industry

Per segment, the financial services, technology and health and pharmaceutical products are the industries which have the more optimistic projections. The three estimate a growth of 10% in net revenues, both this year and in 2017. Regarding investments, the financial services industry projects a 10% increase, both this year and next year. Now the technology services industry estimates expenditures 5% greater in 2016, and 10% greater in the coming year; while the health and pharmaceutical products industry projects to invest 9% more in 2016, and 10% in 2017.

At the other extreme, the expectations are less optimistic, but indicate a resumption of sales. The construction industry, which estimates a drop of 10% in the net revenues in 2016, expects better results in the coming year, with a growth of 5%. As for the planned investments, the expectation is to close 2016 at the same levels of 2015, and an increase by 5% in 2017, compared to 2016. Now the vehicles and auto parts industry, which does not estimate a growth in revenue for 2016, estimates an increase of 9% next year.

Priorities for investing

Among the companies that are likely to invest in 2017, some alternatives appear as a priority. The release of new products or services has been the most mentioned goal (48%) by the interviewees; followed by replacement of machinery and equipment (40%). The expansion of points of sale was mentioned by 17% of respondents, followed by expansion of the industrial park (14%). The acquisition of companies (13%); the participation in tenders or privatizations (9%); and the opening of new units (6%) also appear as a destination for investments. Acquisition of products or brands of other companies and participation in public concessions appear with 5% of the mentions each.

"An interesting data from the survey is that showing that 40% of respondents say that their companies will invest in replacement of machinery and equipment. This is the result of a long contention period, in which companies applied their resources in improving the operational

management, with the goal of ensuring sustainability at a time of economic instability," says Othon Almeida.

Concerning industries and geographies, infrastructure companies will prioritize the North and Northeast Regions for the opening of new units, while financial institutions will focus on the Midwest. Among the companies in São Paulo, 21% will open units in the Northeast, while 67% of the Midwest organizations will expand their business in São Paulo.

The acquisition of companies or products and brands is also on the radar among the investments planned to be made by the companies, since 16% emphasized this option for 2017. Of these, 33% do not intend to capitalize, another 22% will use loans from retail banks and 20% loans from development banks.

Per industry, it is worth noting that consumer goods and products industry mentioned with more emphasis the investments with a focus on opening new units (74%) and the expansion of plants (66%). The factors of stimulus for investment in 2017 are the opportunities related to the business of the company (66%) and the expectation of recovery of the Brazilian economic activity (62%).

Priority industries: infrastructure in focus

With the expected upturn in the economic activity next year, the industries linked to the infrastructure area are pointed out as those which can receive the greatest volume of investments in 2017. For the respondents, who had the option of choosing five economic segments that should receive more investments in 2017, highways (38%), electric power generation (35%) and ports (33%) are the ones that should receive more investments.

"One of the factors that may be leading managers to this perception is the Investments Partnership Program (PPI), launched by the Federal Government in September 2016, and which foresees a series of public assets privatizations and concessions, such as highways and airports, starting next year," says Othon Almeida. Of the companies that intend to participate in biddings, privatizations and public concessions in 2017, 37% are of infrastructure.

The area of education and technical training received 30% of the mentions as a potential target for investments next year. Following, are urban works (29%); transmission and distribution of energy (26%); health and sanitation (26%); airports (22%); housing (21%); telecommunications (21%); iron and steel metallurgy (20%); exploration of oil and gas (19%); railroads (19%); security (18%); exploitation of minerals (14%); and waterways (5%).

Also according to the perception of the respondents, the investments in highways, iron and steel metallurgy and the exploitation of oil and gas are the three that will have a bigger impact on the business of the companies this year and in 2017.

"This perception of the companies is positive since the area of infrastructure is a great generator of jobs and mobilizes vast resources. Thus, we can imagine good prospects and a significant scenario change in relation to employment and income generation", evaluates Othon Almeida.

Representing 14% of all participating companies, the infrastructure industry is among the most optimistic, estimating a 10% growth of net revenues, and an increase in investments also around 10% for the coming year, according to the median of the opinions in the study.

Also the construction industry, despite being one of the most affected by the current crisis (with estimates of 10% drop in net revenues in 2016, by the median of responses),

estimates a reversal of the trend for 2017, expecting an increase of 5% in their revenues and also in their investments in the coming year.

Challenges in raising funds

Even in the face of a positive expectation for the market, 50% of respondents said that their companies will not capitalize in 2017. The majority of them are small businesses (74% are companies that estimate net revenues of less than R\$ 500 million in 2016).

Among those that want to go to the market to raise capital, 18% estimate to use loans from development banks; 16% should seek funding from retail banks; 14% should rely on contributions from the owners or partners; 12% expect contributions from controlling groups; 7% expect contributions from investment funds; and 5% should issue debt securities.

After years with very few going public transactions (IPO, "Initial Public Offering") of companies on the Brazilian Stock Exchange, 1% of the 746 participating companies indicate intention to use this option of capitalization in 2017 - of these, almost all estimate net revenues of more than \$1 billion for this year.

With estimates of economic recovery in 2017, most of the participating companies expect a more favorable scenario for raising funds at a lower cost. "On the other hand, the fund raising by means of own resources, characteristic in smaller companies, appears as an important element in 2017", says Deloitte's partner.

Focus on management

Encouraged to choose five priorities for 2017, among 15 options of practices designed for good corporate governance, the respondents of the study pointed out as a focus three quite logical items in a context of two consecutive years of crisis: financial (65% of mentions); processes (61%); and budget (55%) management. The survey also indicated that Brazilian companies demonstrate intention to prioritize the adoption of best practices of corporate governance. The most discussed items in this context are: risk and internal controls management (37%), compliance management (33%) and corporate governance structure (31%).

The other practices mentioned were information technology management (36%); marketing and communication management (34%); external audit (16%), internal audit (14%); environmental management (14%); crisis management (13%); social responsibility (12%); transparency mechanisms (7%); and supervisory board (6%).

A large part of the companies that participated in the survey have not yet implemented important structures of corporate governance, such as, for example, areas of crisis management or supervisory boards. In the initial phase of implementation, the area of internal audit was remembered in the survey. With a little more inserts, the companies mentioned transparency mechanisms, compliance and risks management, internal controls and corporate governance structures. The adoption of external audit is also mentioned as a priority by the companies.

"It is quite understandable that, during this phase of transition, companies maintain a focus on improving administrative practices. However, even in a moment like the present, organizations must not neglect the efficiency of the management controls", explains Othon Almeida.

Disruptive challenges

Among the clippings of the surveys, it is also possible to realize that managers in Brazil still have a good way to go to insert their organizations in the process of adoption of new technologies and trends that mark the disruptive changes in the business field.

Among 12 technology fronts suggested, the participants were asked to choose three options that will be a priority in their businesses next year. The practice of Analytics appears at the top of the indications, with 36% of mentions, followed by the Internet of Things (IoT, with 29%). Cyber security is in the third position (22%); followed by Industry 4.0 (13%); digital health (12%); autonomous platforms (12%); exponential technologies (7%); virtual and augmented reality (6%); 3D printing (7%); smart cities (5%); bitcoins (2%); and blockchain (2%).

It is interesting to note that 61% of respondents do not have any idea of what blockchain (records system that ensures the security and integrity of financial transactions performed without the need of a central authority; its better known use is on digital currencies) is; 40% of the participants said they do not know completely what Industry 4.0 is (a concept which represents the tendency of the new integrated manufacturing, with the disruptive technologies uniting machines, systems and people; it is considered a "new industrial revolution"); 36% have never heard about exponential technologies (which, according to the so-called "Moore's Law", estimate the exponentially fast advance of processors); and 33% of the respondents have only heard about the concept of smart cities, or intelligent cities, connected by networks that optimize the management of its resources and services.

Other important technology fronts were also mentioned as slightly or moderately known: 3D printing (48%); internet of things (IoT, 47%); cyber security (44%); bitcoins and augmented virtual reality (38%); and analytics and autonomous platforms (37%).

"Companies that develop disruptive technologies and approaches have great potential for business in Brazil since there is plenty of space for market penetration," indicates Othon Almeida. "On the other hand, businesses in general need to seriously plan how to know better, invest and incorporate these new technologies into their processes, which can mean the survival, or not, of the business", he concludes.

About the Agenda 2017 survey

Deloitte counted with the participation of managers from 746 companies for the **Agenda 2017** survey. Together, they estimate net revenues of R\$1.6 trillion in 2016, just over a quarter of the value of the Brazilian GDP (Gross Domestic Product) in the 12 months accumulated from September 2016 (R\$ 6.1 trillion), according to BCB (Central Bank of Brazil). Among the respondents, 18% are CEOs; 44% directors or superintendents; 5% members of boards of directors; 30% managers; and 3% analysts.

Among the organizations, 32% are controlled by foreign groups. As regards the net revenue expected for the 2016 closing, 52% estimate that it will be up to R\$250 million, 23% expect between \$250 million and R\$ 1 billion and 25% estimate results above \$1 billion. The data was collected between September and October of this year.

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