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Brazil's Agenda 2018

The companies' perspectives and strategies for a decisive year full of transformations

December 2017

Contents

Brazil's Agenda 2018

Key findings

Performance expectations

- Sales, revenue and investments growth

Factors of greater business impact

- Infrastructure investments
- Reforms (tax and social security)

Reasons to invest

- Opportunity related to the company's business
- Estimate of recovery of the economic activity

Expected investments

- Release of new products or services
- Replacement of machinery, equipments and facilities

Capitalization

- Retail banks and Brazilian Development Bank as main sources of funds
- Continuity of IPOs resumption

Human capital

- Increase in the number of employees
- Maintenance of benefits and increased training

Technology

- Relatively unaware about digital transformation movements

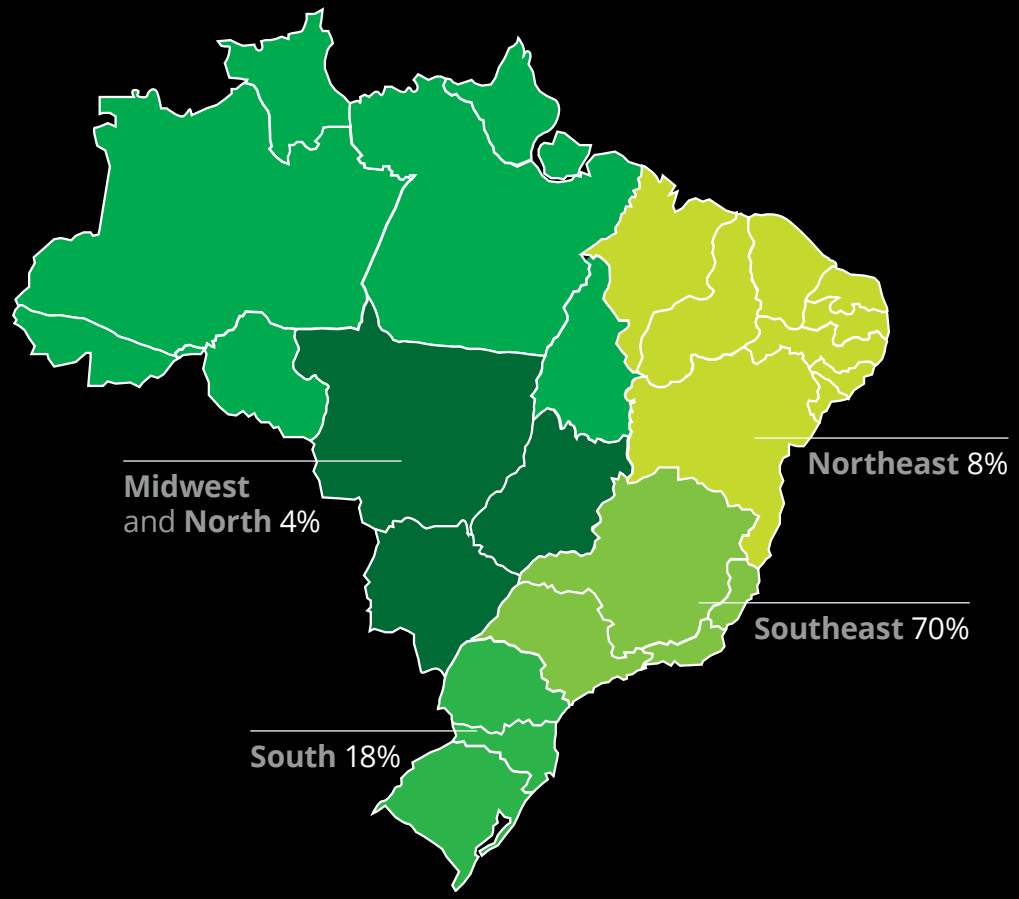
Survey sample

750 participating companies

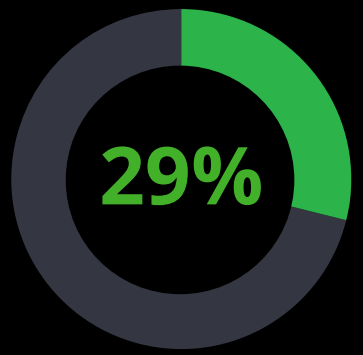
R$1.779 trillion
in revenues (represents 26% of the estimated Brazilian GDP for 2017)

71% of respondents are board members, presidents, vice presidents, superintendents or directors

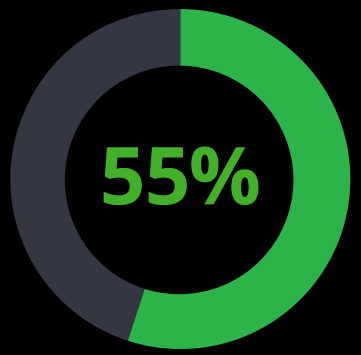
Participation per region



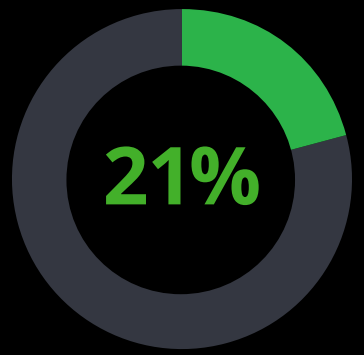
Survey sample



are foreign controlled

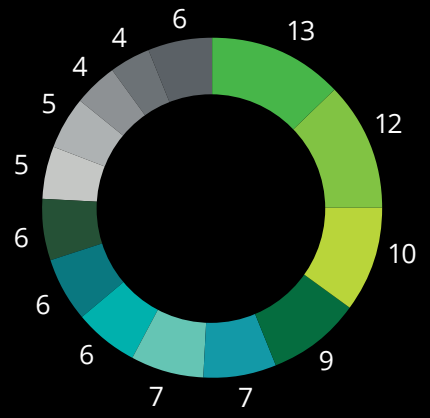


are family-run companies



Have decentralized control

Sector composition (%)



- Technology and telecommunications services
- Provision of services to companies
- Agribusiness, food and beverage
- Health, education, water and sanitation services
- Financial activities
- Machinery, equipments and metallurgy
- Construction and construction services
- Pharmaceutical and chemical industry
- Consumer goods
- Retail / Wholesale
- Oil, gas, mining and electricity
- Vehicles and auto parts
- Transport and logistics services
- Other manufacturing[1]

[1]Textile and footwear; Pulp and paper; Editorial and graphic design

Performance

Results expectations

Estimated net revenue growth (average of responses)

14.8%
Between 2016 and 2017

19%
Between 2017 and 2018

13.2% is, on average, the profit margin expected by the organizations interviewed for the 2017 closing

Despite the challenges of the economy, the companies participating in the survey estimate a growth of 14.8% in their net revenue for the 2017 closing.

For 2018, the expectation of increased sales is even higher, reaching 19% – a result that suggests a market optimism about next year.

Sectors and regions

Estimated net revenue growth per sector (average of responses)

Selected sectors	Between 2016 and 2017	Between 2017 and 2018
Financial activities	17.3%	27%
Business services	9.4%	21%
Construction and construction services	13.0%	20%
Machinery and equipments	4.3%	18%
Agribusiness, food and beverages	13.8%	17%

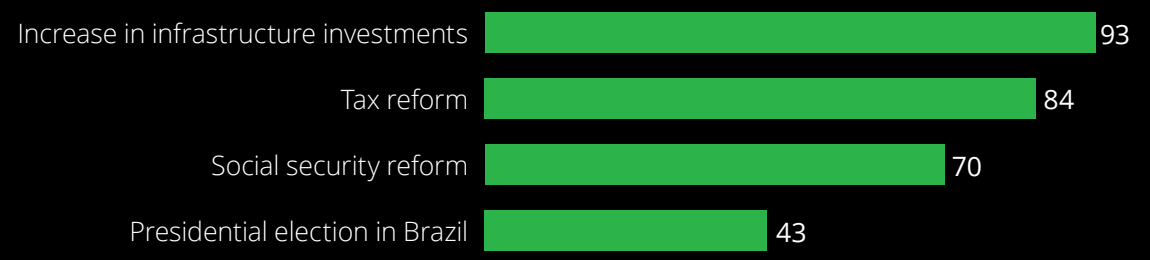
Regional highlights
Companies of the **Northeast Region** estimate an increase of 23% in net revenue in 2018 over the previous year – almost 10 percentage points above the 13.4% expected by these organizations for 2017 in relation to 2016, and well above the average of other regions of Brazil.

Impacts

Local

The business community estimates that the country's structural issues, such as investments in infrastructure and reforms, will be more relevant than the political scenario.

Events with positive impact on business in 2018 (% of respondents; multiple responses)



International

30%

of participating companies have debts in foreign currency

Events with negative impact on business in 2018 (% of respondents; multiple responses)

Investments

Consistent increase

Estimate of increase in investments (average of responses)

11.8%
Between
2016 and 2017

15.8%
Between
2017 and 2018

In 2018, the resumption of investments is on the radar of organizations: while for the 2017 closing the companies predicted an increase of 11.8% in contributions, for 2018, they project a growth of 15.8% over the previous year.

Reasons to invest*

* Among 85% of companies intending to make investments in 2018

Sectors

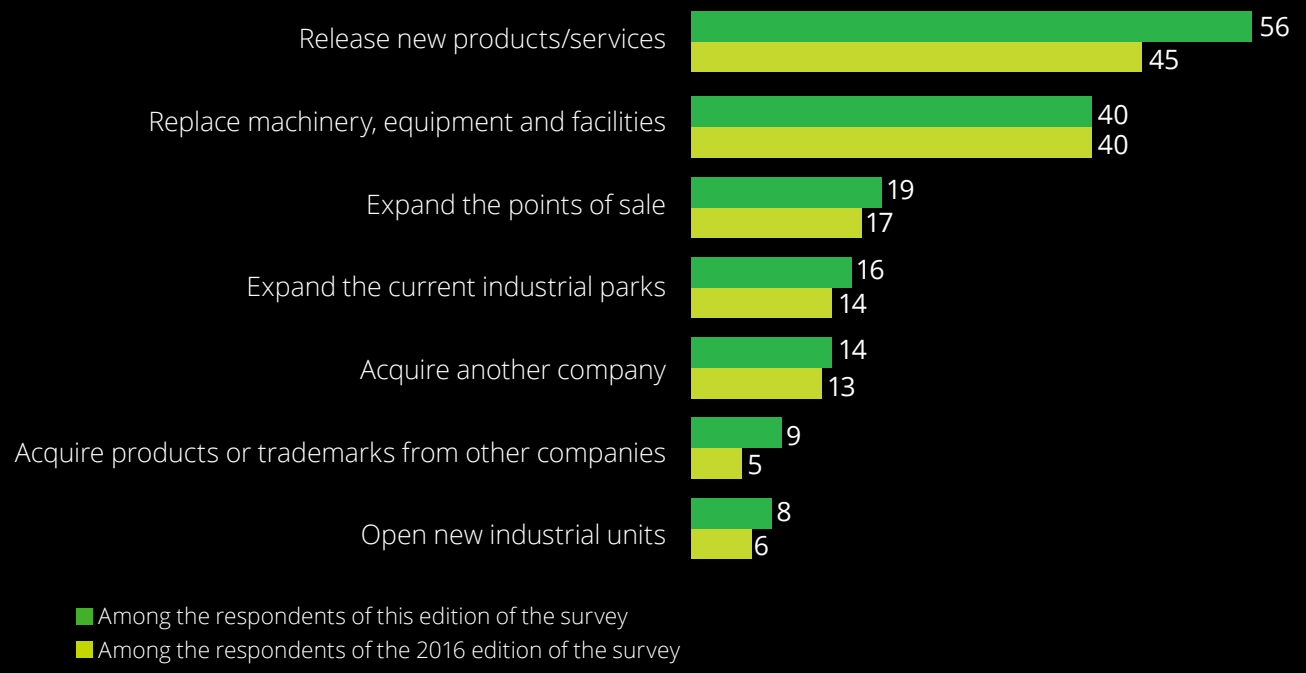
Infrastructure-related segments – such as oil, gas, mining, energy and construction – are among those that can receive more investments in 2018.

Estimate of increase in investments by sector (average of responses)

Selected sectors	Between 2016 and 2017	Between 2017 and 2018
Oil, gas, mining and electricity	21%	32%
Pharmaceutical and chemical industry	1%	15%
Construction and construction services	1%	11%

Strategies

Investments foreseen for 2018 (% of respondents; multiple responses)



The survey identified a bet on the growth of consumption and, consequently, on the continuity of a gradual upturn in the economy. 56% of companies predict releasing new products or services, an increase of 11 percentage points compared with the 45% that indicated this action in the 2016 edition of the survey.

Government contributions

Highways, which influence the companies' logistics in terms of product distribution and purchase of inputs, is the sector that most entrepreneurs believe that should receive government investments. Following it, are investments in education, influencing workforce qualification and contributing to improvement of productivity and efficiency.

Sectors that should receive more government investments

- Highways
- Education and technical training
- Electric energy
- Ports
- Urbanization works

Capitalization

Sources of funds

How companies will capitalize in 2018

1. Retail banks
2. Brazilian Development Bank
3. Contribution from owners
4. Contribution from the controlling group
5. Contribution from investment funds

10 companies plan to go public on the Stock Exchange in 2018

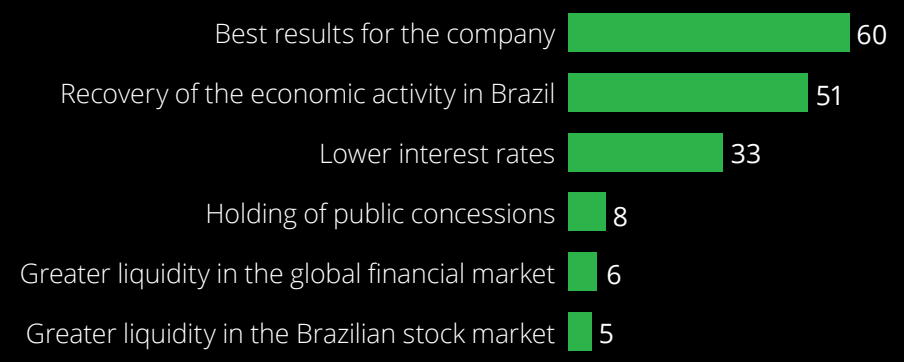
8 companies, among the participating organizations of the 2016 edition of the study, responded that they intended to go public in 2017

8 IPOs were carried out in 2017, according to Securities and Exchange Commission of Brazil*

* Includes BR Distribuidora's IPO, on December 14th

Reasons

Companies plan to capitalize in 2018 with the expectation of...
(% of respondents; multiple responses – chose up to 3 priorities)*

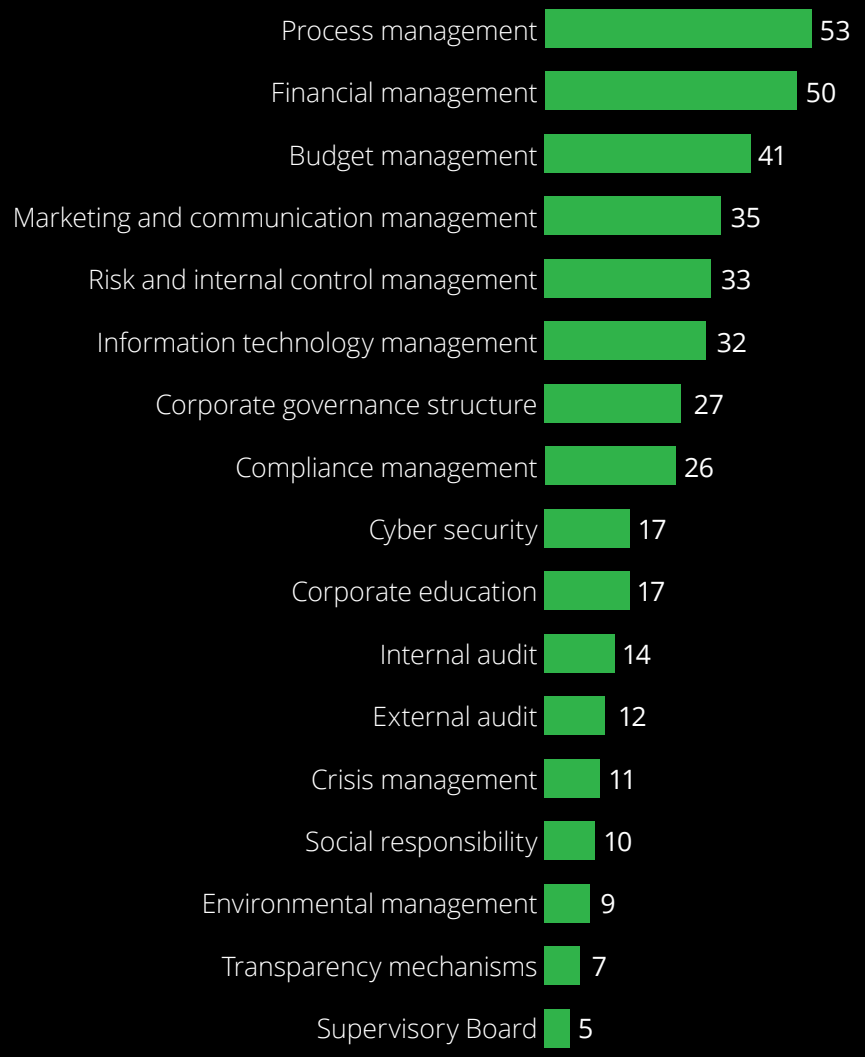


* Among 43% of companies that want to capitalize in 2018

Management

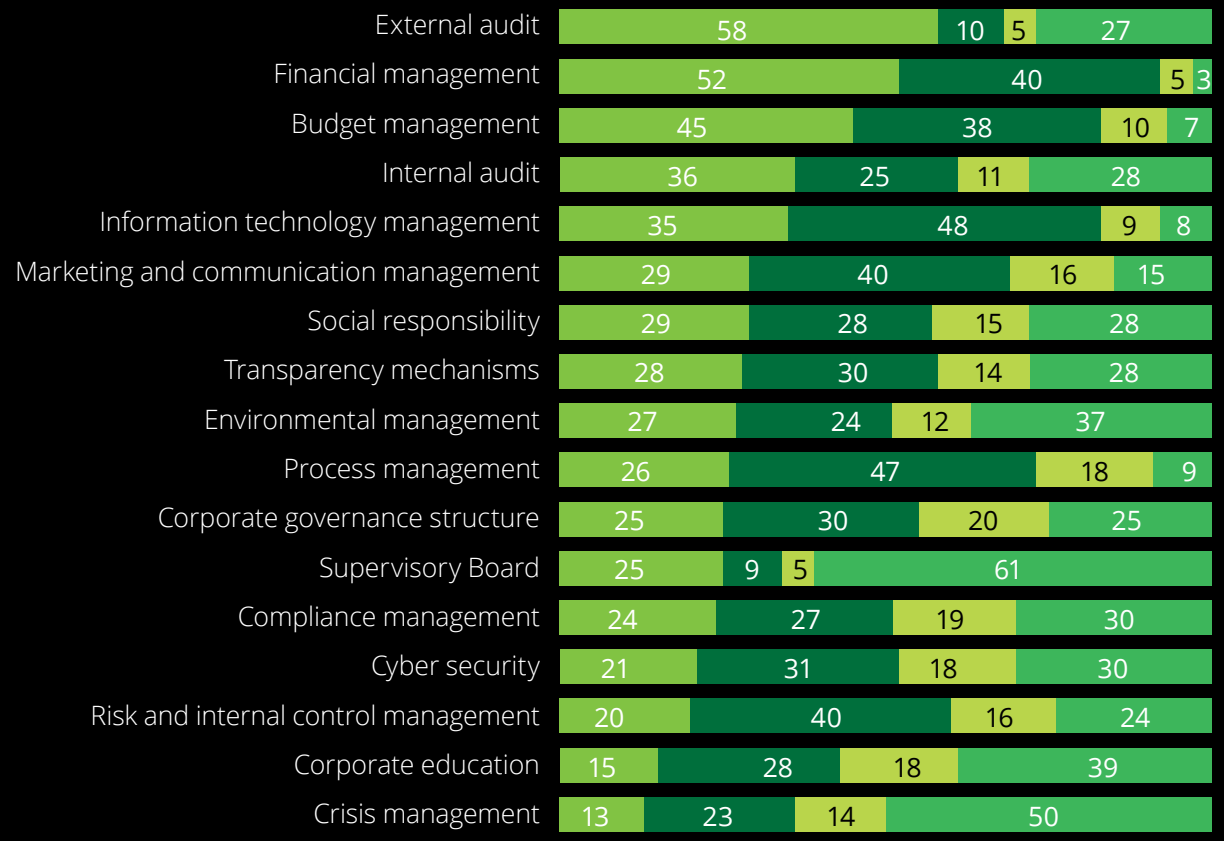
Management priorities

Companies' priorities for 2018 (% of respondents; multiple responses – chose up to 5 priorities)*



Implemented initiatives

Level of adoption of practices by companies
(% of respondents; multiple responses)



In recent years, organizations were already making adjustments in their structure and processes to deal with the economy's challenges. The trend is that the constant reinvention of control practices, transparency, financial management, technology and corporate governance continue so that companies can adapt to the new cycle.

People and tecnology

Human capital

41% of the respondents **expect to increase** the number of employees, a rise of 15 percentage points compared to the 26% of companies that had this expectation for 2017 evaluated in the 2016 edition of the survey

47% will maintain the number of employees

81%
will maintain the current employee benefits

45%
will increase investments in training for employees

42%
consider replacement for more qualified professionals

21%
consider replacing staff to reduce costs

12%
estimate to reduce the number of employees

Contributions

3% of revenues
is the amount the organizations interviewed, on average, invest in technology

In total, that is more than
R$ 58.9 billion in contributions
in this area, among the companies participating in the survey

Sectors that most invest in technology

- Financial services
- Technology and telecommunications services
- Business services
- Oil, gas, mining and electricity

Disruptions

More than one-third of the organizations interviewed is unaware about some of the key disruptive technologies. Despite this, many of these new technologies should receive investments from organizations over the next two years.

Knowledge and implementation of new technologies

	Blockchain	Smart cities	Exponential technologies	Digital health	Industry 4.0	Autonomous platforms	Analytics	Augmented virtual reality	Bitcoin	Internet of Things	3D Printing	Cyber security
Unaware	35%	35%	35%	32%	31%	30%	24%	23%	19%	18%	14%	11%
Think about investing In the next two years	10%	7%	13%	9%	17%	12%	16%	11%	5%	19%	7%	17%

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