

Time to organize the house

The vigorous optimism of Brazilians has become somewhat weary nowadays. And not without cause.

Data from the International Monetary Fund shows that the average growth of the Brazilian GDP was 2.5% in the period from 2004 to 2014, a figure that lies below emerging markets such as Indonesia, India and Turkey.

With so (literally) discouraging growth perspectives, not only of the GDP, but also of pivotal industries to a country, such as energy, construction, and infrastructure. The only option is to move on and try to turn this moment of crisis into a new opportunity, especially for small and medium private sector companies.

Growth on solid grounds requires the combination of physical (machinery, equipment, infrastructure) and intellectual (quantity and qualification of workers available) capital, and the increase in productivity, which is the efficiency with which workers utilize the physical capital available in order to generate the final product.

As such, slow down crisis is the moment to redefine strategies, identify needs and new market opportunities, search for new products, invest in capital goods, create new sources of revenue and more efficient means of distribution to the final consumer. It is also time to train and motivate teams and invest strongly in a larger technical knowledge.

Downturns is time to improve the efficiency of manufacturing plants, reduce costs, introduce or improve corporate governance, reorganize and reevaluate proceedings and routines, check over the financial and legal situation of the company, the contracts in force and the effective enforcement of the compliance and anti-corruption rules of the whole business chain. Companies that are better prepared will be more competitive to enter into strategic partnerships, obtain better interest rates and gain participation in their respective markets. Further, with the house cleaned up, many companies may become good targets for foreign investments.

Moreover, as regards this latter alternative, considering the current highly favorable exchange rates, foreign companies, and particularly, North-Americans, Europeans and Chinese, may acquire the same assets with less capital. Not to mention companies that will need partners to consolidate growth in strategic markets. In other words, apart from encountering true bargains, which appeals to every investor in moments of crisis, including the location, foreigners may also profit from a more beneficial exchange rate. In the past 12 months, the valuation of the dollar towards the Real has reached 30%.

And for those who are eventually considering a corporate reorganization, times of slowdown are the best occasion to identify deficiencies, address possible contingencies and legal liabilities of its businesses, as well as, to develop a concrete action plan to eliminate or minimize potential critical issues identified. In other words, it is time to get prepared to enter into a negotiation completely aware of its weakness, in order to avoid the buyer / investor comes to devalue the company for reasons unrelated to its core business, or knowing exactly the discount that may be granted.

Obviously, it cannot be stated that this will be a good year for foreign investments or mergers and acquisitions. Nor that the political environment is favorable. The lack of credibility of the country towards foreign investors, the loss of the investment grade recently imposed by rating agencies to Petrobrás, the reduction in available credit lines and in the general access of the mass of consumers, increasing interest rates and inflation are undeniable hindrances.

However, instead of complaining and focusing on the negative aspects of this cycle, it is more productive for the private sector to take lead and gradually collaborate for the country to recover. Brazil is a country which has always had will and means to be a country of the future. Even though this future may be haunted by the past and worn out by the present.

Fortunately, together with optimism there is Brazilian creativity, and a growing number of well prepared professionals that wish to prosper and which would be granted triple "A"s by the rating agencies.

By

***Juliana G. Meyer Gottardi – Partner of Pacheco Neto Sanden Teisseire Advogados
São Paulo - Brasil***

***Carla Ricchetti – Investment Officer of the International Finance Corporation (IFC) – World
Bank - Washington - USA.***