



**DEG in Brazil -
Financing for growth
and development**

Our business: Financing for Development



- **Who we are:** The German Development Finance Institution for the promotion of private companies in developing countries and emerging markets. DEG is the biggest DFI in Europe.
- **What we do:** 1. Provide long-term investment capital for private enterprises 2. Provide Technical Assistance
- **Where we invest:** manufacturing industry, services, agribusiness, financial sector and infrastructure.
- **Our goals:**
 - provide adequate solutions for the financing needs of our customers.
 - contribute to sustainable development, economic growth and poverty reduction.



DEG at a glance.

DEG

- Seat: Cologne
- Founded: 1962
- Employees: 370
- Equity: approx. USD 2 billion
- Sole Shareholder: KfW Banking Group, Frankfurt

KfW

- Rating AAA/aaa
- Total balance sheet approx. USD 560 billion

DEG belongs to a strong family of brands



Promotion of SMEs,
business founders
and start-ups

Investment Finance in
Germany and Europe



Promotion of housing,
environmental and
climate protection,
education, infrastructure
and the social sector



Export and project
financing, large scale
investment and
corporate financing

Export and
Project Finance



Promotion of and
investment in emerging
markets:

DEG: Private Sector

KFW: Public Sector

Financial Cooperation,
Promotion of Private
Enterprise



Brazil is focus country for DEG

1. Strong local presence. DEG has a representative office in Sao Paulo with 6 full-time employees
2. DEG is financing investments in Brazil since 1967
3. Since then DEG has committed more than USD 750 mln. for private companies
4. DEG is a reliable long term partner - we stayed committed in times of crisis
5. DEG works complementary to commercial banks and provides „value added“

Financial Instruments of DEG: Tailor-made Financing



- Long-term loans
- Mezzanine finance
- Equity capital

with terms suited to the individual project and on market-oriented conditions

Financial instruments: Long-term loans



- Amount:
 - Own account: up to approx. USD 60 mln
 - additional amounts through arrangements
- Borrower: private company (no German capital required)
- Term: generally 4-10 years, much longer tenors possible
- Period of grace: Cash flow oriented, up to 3 years
- Repayment profile: Cash flow oriented
- Collateral security: mortgages, pledges etc (project-specific arrangements)

Long term loans: additional advantages for German Companies



- Additional debt capacity through DEG funding of local entity
- Collateral/Security: in general in country of investment
- Separation of German and foreign activities: local subsidiary is the borrower
- DEG is an experienced and well-connected partner in Brazil

Equity: Features



Features of a participation

- up to USD 25 million
- Not to exceed 30% of share capital
- Shareholder/minority rights, in some cases Board representation
- exit strategies to be defined: trade sale, IPO, put option, tag along

Equity: Advantages of partnership with DEG



- Financial aspects:
 - support asset growth by strengthening the capital base
 - Complementary long-term funding of DEG
 - access to other sources of funding via DEG
 - spread reduction of overall funding
- Strategic aspects:
 - DEG/KfW brand increases value of investee company
 - Support of organizational growth (corp. governance, system improvements ...) through technical assistance, board representation etc.
 - access to DEG network
- Specific advantages for German companies
 - DEG and German partner can form a „German“ majority in joint venture
 - German company may not need to consolidate its foreign investment in balance sheet

Mezzanine Finance: Advantages

DEG provides a broad range of mezzanine products

Mezzanine finance can have the following benefits:

- Cashflow-based lending vs. balance sheet/security mentality
- Improve equity ratio and expand debt capacity
- Avoid dilution from capital raising
- Leverage equity return, improve ROE
- Tax deductability of interest expense

Situations:

- Growth capital
- Leveraged buyouts
- Pre-IPO

Long term loan, example: Mangels Indústria e Comércio Ltda.



- **The Company.** Medium sized company, major cold rolled milling operator and leading manufacturer of alloy wheels and LPG cylinders in Brazil
- **The challenge.** Company decided to streamline its business, divest from low return business and invest in profitable core business. This required major investments in fixed assets
- **The solution.**
 - DEG structured and arranged long-term loans of USD 60 mln, thereof USD 30 mln for DEG's own account
 - DEG modelled tenor and repayment profile according to the cash flows of the company

Equity, Mezzanine, example: A. Guerra S.A.



- **The Company.** Second largest producer of truck trailers in Latin America, five plants in Brazil, one in Argentina
- **The challenge.** Former owners (family) wanted to sell business because of internal family issues
- **The solution.** DEG (together with other parties) invested as minority shareholder with a combination of equity and mezzanine instruments. DEG plans to provide TA funds. New shareholders will introduce professional management systems and international environmental and social standards. Strategic re-focussing leads to improved competitiveness; strengthened capital base permits growth investments

Technical Assistance compliments financing



- Training and qualification measures
- Social and environmental measures
- Business consulting

Public Private Partnership – PPP-Program



Partner:	European companies and their subsidiaries, Existing clients of DEG
Objectives:	Co-financing of private sector projects with high developmental effects
PPP-contribution:	max. 50% of the project costs / max. 200.000 €
Partner contribution:	financial & other (know how etc.), responsibility for project implementation

PPP, Example:

Water loss management in Minas Gerais

VAG Armaturen GmbH, SebaKMT GmbH



Project Concept

In cooperation with COPASA (water utility of MG):

- Training and capacity-building activities
- Pilot project (sector: drinking water system)

Scope of Work

- Identification and repair of leaks
- Improving control of water pressure in drinking water system (VAG)

Total Cost: € 860.000

PPP-Contribution: 44%



Expected Results:

- Reduction of water losses, increase reliability of drinking water system
- Reference project for further market development

Falem conosco! - speak with us!



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