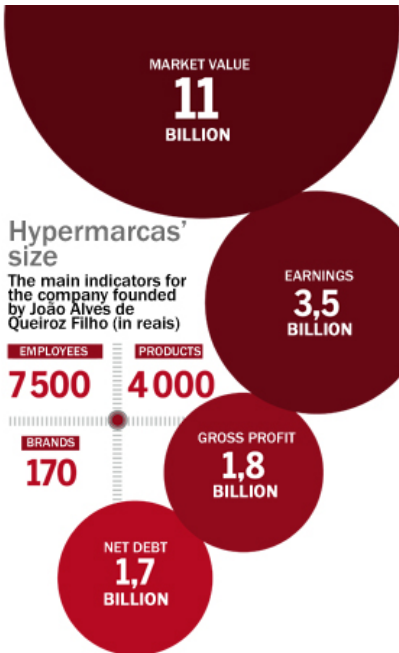




# THE EMPIRE OF BRANDS

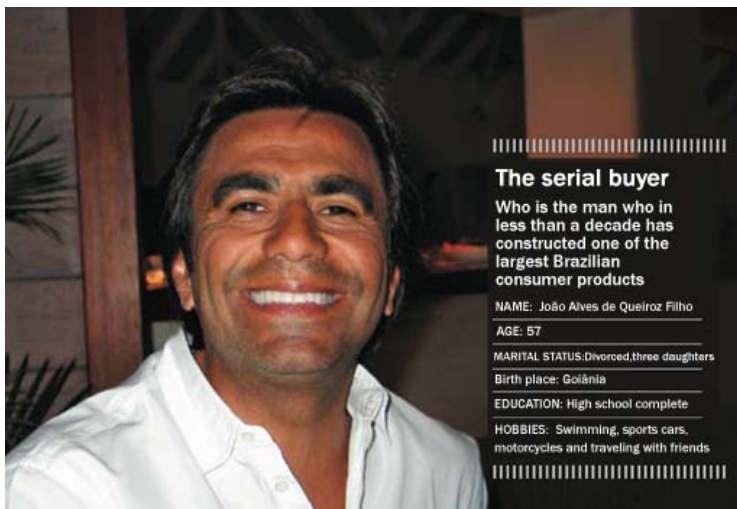
WITH INVESTMENTS OF 5 BILLION REAIS AND TYPICALLY BRAZILIAN MANAGEMENT, ENTREPRENEUR JOÃO ALVES DE QUEIROZ FILHO, FORMER OWNER OF ARISCO, BOUGHT 20 COMPETITORS AND TRANSFORMED HIS HYPERMARCAS INTO ONE OF THE LARGEST CONSUMER PRODUCTS COMPANIES IN THE COUNTRY.

Brazil's economy has undergone deep transformations over recent years - almost all for the better. Today, stability is something that not even the most radical leftists question. The country has achieved investment grade. The capital market has become one of the most powerful in the world. And access to credit is now easier and cheaper. This combination of factors has led to the emergence of what some economists already call the "new Brazilian capitalism", a period during which large national companies have been formed that are able or willing to take on some of the largest global corporations. "This is an unprecedented moment. It has permitted the rise of Brazilian companies with potential to conquer the world," says Oscar Malvessi, professor of corporate finance at the Fundação Getulio Vargas in Sao Paulo. Few companies represent this phase as well as Hypermarcas, whether due to the speed at which it was created or the peculiar way it is run. Hypermarcas was founded nine years ago with a product without practically any technology or innovation - Assolan steel wool. It grew from a mid-sized company with 30 million reais in earnings in its first year of operations to a respectable company with 3.5 billion reais in revenues in 2009. That is a spectacular growth of 11,500% in less than one decade. During that period, it invested nearly 5 billion reais in 20 acquisitions of domestic companies. They are all consumer product companies, some with well-known brands, but most especially in the growing, and today appealing, class C market. In 2009, according to a survey by the Bain&Company consulting firm, Hypermarcas was the Brazilian company that bought the most (excluding private equity firms and banks), with five acquisitions that totaled nearly 5 billion reais.



Although it is a publicly-held company, with a stock market value of nearly 11 billion reais and thousands of shareholders, Hypermarcas is a result of Joao Alves de Queiroz Filho's way of thinking. This man from the state of Goiás, best known as Junior, is one of those rare Brazilian entrepreneurs who reinvented their success in different times, circumstances and businesses. At the age of 57, founder and owner of 31% of Hypermarcas' capital, Junior is constructing a giant in the consumer product market for the second time. He ran Arisco, a company founded by his father in 1969, for nearly two decades. After selling the company for 760 million dollars to Bestfoods of the USA (which would then be almost immediately incorporated by Anglo-Dutch Unilever) in 2000, Junior decided to start over. His plan was to construct a sort of "Brazilian Procter & Gamble", a company that would offer consumer products in such diverse areas as foods and medications, and most especially for emerging consumers. As with Arisco, he would not create anything new. His products, from steel wool to generic medications, do not require patents or large research and development departments. They are an alternative, often a cheaper one, to what the consumer is used to buying. His greatest capital in doing this would be the combination of production experience, control of mass marketing and in-depth knowledge of distribution channels - three pillars constructed during his years at Arisco. Hypermarcas' recent results demonstrate that at least in this sense, Junior is close to achieving his objective. Today, his company has a portfolio with nearly 170 brands and 4000 products ranging from tomato sauce to analgesics. It is also practically two

times the operation size of P&G in Brazil, which earned nearly 1 billion reais in the country in 2009. It is also practically two



## The serial buyer

Who is the man who in less than a decade has constructed one of the largest Brazilian consumer products

NAME: João Alves de Queiroz Filho

AGE: 57

MARITAL STATUS: Divorced, three daughters

Birth place: Goiânia

EDUCATION: High school complete

HOBBIES: Swimming, sports cars, motorcycles and traveling with friends

## FEW COMPANIES HAVE BENEFITED AS MUCH FROM THE RECENT EXPLOSION IN CLASS C CONSUMPTION AS HYPERMARCAS

His serial buyer's side began to manifest itself in 2001 when Junior bought Assolan, a brand that was part of Unilever's Arisco portfolio. The next year he launched Assim laundry detergent. After 2003, with an increasingly more voracious appetite, he bought companies ranging from the practically unknown to renowned ones like Doril and Bozzano. His radar is triggered every time he runs into a company that owns products that are well known by the public at large, but for some reason have been "forgotten"; or family companies going through succession problems. Once the target has been identified, it is time for Junior to demonstrate his negotiation skills. "It is necessary to make the owner of the company realize that if he sells, he will get a fair price and his life's work will not be buried. Otherwise, the company can disappear," he says.

### The trajectory of acquisitions

After selling Arisco to Bestfoods in 2000, João Alves de Queiroz Filho, Junior, invested 5 billion reais in 20 acquisitions to construct a new empire (values in reais)



Actually, this power of persuasion is pointed out as one of his greatest skills by those who know him well. Despite his modest childhood, Junior is a sophisticated entrepreneur. He surrounds himself by the most respected bankers and attorneys in the country. He elaborates complex strategies while also cultivating the image of successful hillbilly in the business environment. In a way, Junior is the personification of a typically Brazilian management style - a way of doing business that combines sophisticated techniques with a strong dose of intuition, aggressiveness with conservatism in costs typical of businesses created from scratch and quick decisions with personalism. In that simple manner of his, he knows how to say what the listener wants to hear and he has no problem in making concessions, something which is complicated for multinational firms. That is how Hypermarcas beat out Pfizer in negotiations with the Neoc Química generic laboratory. Although it had brought an excellent financial proposal to the table, Pfizer would not guarantee a prominent executive position to then president and largest shareholder of Neoc Química, Marcelo Limirio Gonçalves Filho. Negotiations between the two companies were already in advanced stages when Junior entered the dispute. According to an executive who accompanied the process up close, he offered practically the same price as the American multinational - 1.3 billion reais - but he guaranteed that Gonçalves Filho would assume command of the Hypermarcas medications area. "We always make use of the people and cultures of those companies we buy.



They already know how the business works, and most especially, the errors that must be avoided," says Junior. He adopted a different tactic in another deal reached by Hypermarcas last year. He noticed that the owner of the company with whom he was negotiating was frustrated because he did not have any heirs interested in the business and he feared the brands he had



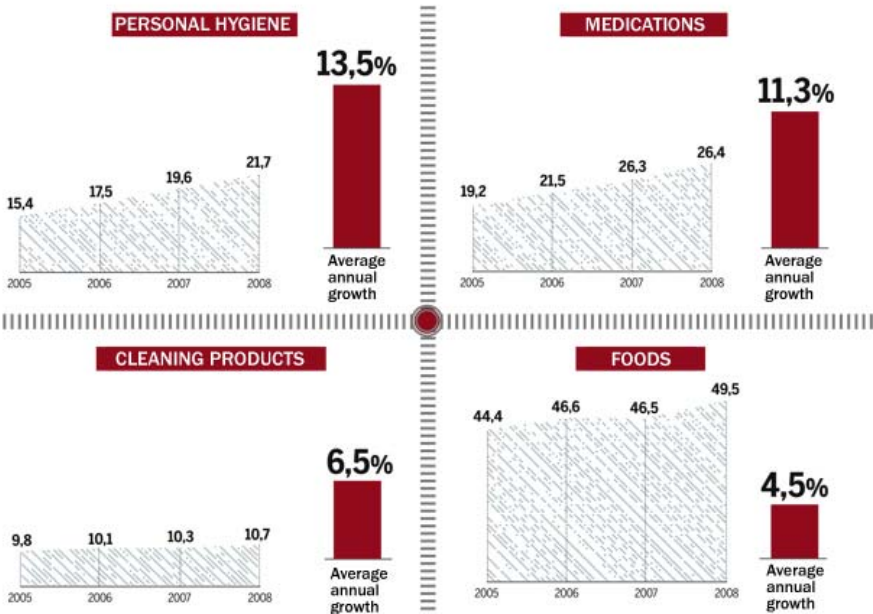
**BERGAMO AND MELLO: Junior's trusted men have been with the entrepreneur since the days of Arisco**

created would disappear. "I am the son you didn't have and I'm going to make our company grow," Junior told him at the time. That was decisive for closing the deal and it is far from being mere talk by the negotiator. After selling Arisco, Junior saw the brand practically disappear from the market over the following years. Once a market leader in some segments, such as seasonings, today it has a timid share in the Unilever line of products and it has not received any investments in markets for some time. Last year, Unilever sold Frisco powder juices, one of the brands included in the Arisco acquisition and which was once ranked second in the segment, to Santa Clara coffee. The Arisco unit in Goiás has been modernized and expanded. Today, it is Unilever's largest foods factory in the world. (Market rumors say the Arisco brand is Hypermarcas' new target for acquisition. Those involved do not confirm this.)

Junior had more than a good strategy and cunning to construct his consumer products conglomerate. He had to prove to the market that he indeed had the ambition and sufficient cash to build a company even larger than Arisco had been. In that sense, his big move was in 2007 with the acquisition of Dorsay Monange, DM of Sao Paulo, a medications and personal care products company, owner of brands like Doril, Gelol and Risqué. Hypermarcas tripled its earnings after buying the company for 1.2 billion reais. "Junior is an excellent negotiator and he was able to take advantage of the good moment of the Brazilian market to create a large company," informed Nelson Morizono, former owner of DM to EXAME. Morizono and Junior have many characteristics in common. Besides their aversion for public exposure (Morizono's interview to EXAME was his first ever), both adopted the strategy of buying strong brands and sustaining them with big investments in marketing. The purchase of DM also marked Hypermarcas' debut in two of the fastest growing consumer markets, especially after the phenomenal growth of class C: medications that do not need prescriptions, also known as OTC drugs, and personal care products.

## Markets in evolution

The size and growth rate of sectors in which Hypermarcas operates (earnings in billions of reais)



Despite his essential role in defining company strategy and especially in acquisition negotiations, Junior has never held an executive function at Hypermarcas. "I think I am more valuable as a consultant, helping solve problems when they need me," he says.

## THE COMPANY'S FUTURE MAY BE IN INTERNATIONALIZATION, FOLLOWING THE SAME PATH AS THE AMBEV BREWERY

At company headquarters in Itaim Bibi, a district in the south zone of the city of Sao Paulo, there are no rooms or desks reserved for its controller. Day-to-day activities at Hypermarcas are run by two of his trusted men. One is the executive Cláudio Bergamo, former partner at McKinsey consulting, and who is company president. At the age of 43, twelve working with Junior, Bergamo knows the Brazilian consumer market like few others and he learned how to find good targets from his boss. The other is business administrator Nelson Mello, who has been at Junior's side for more than three decades and was one of those responsible for Arisco's growth in the past. Today, Mello is commercial director at Hypermarcas and one of the voices Junior listens to the most. No acquisition is made without his approval. There are only four other directors at Hypermarcas besides those two. Inherited from Arisco, this reduced structure permeates every department at the company. For example, the merger and acquisition area, one of the most important today, has only two employees - before closing large deals, Junior usually asks for help from banker Ricardo Lacerda, former Citi and Goldman Sachs. "Hypermarcas buys very well, as if it were a private equity fund, and it has exemplary brand management capacity," says Luis Arjona, partner at Bain&Company consulting.



**MARIANA XIMENES: after Globo, Hypermarcas is the company that contracts the most celebrities**

The only Hypermarcas area Junior commands from up close is marketing - so up close that no ad for the company's products is run without his approval. Ever since the days of Arisco, the entrepreneur has made his brands well-known enough to compete with market leading products through intensive investments in marketing. Junior does not use external advertising agencies. Everything is done in-house. He thus negotiates advertising space directly with newspapers, magazines and TV stations. According to Ibope Monitor, Hypermarcas is the sixth largest advertiser in the country today. Its communication formula is directly tied to the phenomenon of celebrities. The list of artists and athletes who approve its products range from TV host Xuxa to actress Mariana Ximenes and soccer star Ronaldo Fenômeno. Hypermarcas is currently the second company that most contracts artists and celebrities in the country. It trails only the Globo TV network. In 2010, the company shall invest nearly 300 million reais in marketing. Of that total, a large part will be injected in its most recent move: soccer. Although Junior is not a sports fan, Bergamo cheers for Sao Paulo and Mello for Palmeiras, a few weeks ago Hypermarcas signed the largest sponsorship contract in the history of Brazilian soccer - with Corinthians. The team will receive 38 million reais during its centennial year to put the Neoquimica laboratory, Avanço deodorant, Bozzano men's personal hygiene products and Assim detergent brands on its jerseys.

It can be said that the greatest challenge for Junior and his executives starts now. In order to maintain its speed of growth and investor interest in its papers, the company will need to make acquisitions at an even more intense pace than now. Junior's goal is to buy on average one new business every two months in 2010 - and at least one of these operations shall involve a large company. "We are going to buy until we grow threefold," says Junior. Bergamo figures it will take five years for Hypermarcas to achieve annual earnings of approximately 10 billion reais. The volume of acquisitions should slow down gradually after that. "There won't be that many companies for sale on the market," says Bergamo. Hypermarcas' executives project that after that growth in Brazil will be basically organic, concentrated in those areas of operation already explored by the company - foods, hygiene and cleaning products, personal care and medications.

However, according to those close to Junior, he is already analyzing the possibility of taking the first steps towards the internationalization of his business. "With this crisis, there are cheap companies available in the United States and Europe," says Junior. "The problem is there is not much synergy with business in Brazil, and that ends up making the operation more expensive." Those "cheap companies" Junior is examining include a small pharmaceutical laboratory in the United States and a cosmetics manufacturer in Europe.

Entering foreign markets can help him on the way to making Hypermarcas perennial. None of his three daughters work at the company and Junior has already made it clear they will never assume any other role outside of shareholder. One way out in face of this would be to do with Hypermarcas what Jorge Paulo Lemann, Marcel Telles and Carlos Alberto Sicupira, of whom Junior is a confessed admirer, did with AmBev. The brewery dominated the local market, merged with Interbrew of Belgium, bought Anheuser Busch and is the largest in the world today. Although Lemann, Telles and Sicupira do not have shareholder control of ABInbev, the Brazilian management model prevailed.



**RONALDO FENÔMENO: Corinthians signed the largest sponsorship in the history of Brazilian soccer with Hypermarcas**

Since Hypermarcas went public in 2008, Junior has gone to work at the same intense pace he had at Arisco: about 10 hours a day. He exercises daily to maintain his energy and his favorite sport is swimming. On days off, one of his favorite pastimes is to travel with his three best friends: former Formula 1 driver Nelson Piquet, the Iranian Abbas Abrapour, who knows Junior since adolescence and lives in Miami today, and Denis Coury, owner of the Sao Paulo Arab food restaurant chain Almanara. The four friends enjoy visiting the paradisiacal (and very expensive) island of Saint Barth in the Caribbean, where Junior has a home. Together, they also conquer trails around the world on their motorcycles. Since his separation about five years ago, it is common to see him with beautiful, young dates, normally blond and tall. Over time, he has acquired a taste for a sophisticated lifestyle. He loves powerful, sports cars. He has already owned a classic red Ferrari and today is the owner of the only Aston Martin DB9 in Brazil. His private jet, a Citation X, is used for leisure as well as business trips. (Even on professional trips, Junior does not charge the company

a penny for use of the jet.) He also owns three motor boats and an art collection with paintings by Tarsila do Amaral. The entrepreneur's fortune is estimated at around 2.5 billion dollars, and this year Joao Alves de Queiroz Filho from Goiás should appear for the first time on Forbes magazine's list of the richest men in the world.