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It was June 15, 2001 and Alexandre Behring (HBS MBA' 1995) glanced out the window of his car after a long day discussing a possible acquisition. Behring's thoughts wandered to the events that had brought him to this point since he graduated from business school six years earlier. In 1999, Behring had become CEO of America Latina Logistica (ALL), a formerly state-owned railway company. Taking the job had been no easy decision. Behring gave up his executive position at GP Investimentos (a prestigious Latin American private equity fund) to take charge of the poorly performing railway.¹ Three years later, he reflected on ALL's progress to date. ALL's Brazilian operations had improved from a net loss 80 million Brazilian reais (BRL) in 1997 to a net profit of 24 million BRL in 2000.² (see **Exhibit 1** for ALL Brazil financial information). Over this same time period, ALL had more than doubled its revenues by acquiring other railway assets in Brazil and Argentina.

As he darted through the late afternoon traffic, Behring considered whether ALL should acquire Delara Transportes, a large Brazilian trucking and logistics company owned and operated by its founder Wilson Delara. On the one hand, the acquisition represented an opportunity to broaden ALL's services from rail transport to integrated logistics solutions. On the other hand, Behring worried that combining the two companies' operations would divert ALL from its core rail business and distract management and employees from continuing to improve the company's profitability. Behring also wondered what role Wilson Delara, the company's founder and sole owner, should play after the merger. Behring pondered whether a merger with Delara was the best alternative, and whether the timing was right for such a major move. He also considered how to value Delara and structure the deal.

¹ Behring did, however, retain a position as a non-executive partner and a member of GP's Investment Committee while serving as ALL's CEO.

² The Brazilian real was worth US\$0.90 on December 31, 1997, \$0.83 on December 31, 1998, \$0.55 on December 31, 1999, \$0.51 on December 31, 2000, and \$0.45 on December 31, 2001.

PRIVATIZING BRAZIL'S RAILWAY

In 2001, Brazil was the world's fifth largest country in terms of both population (170 million citizens), and size—the country's 8.5 million square kilometers was approximately 10% larger than the continental United States. Economic activity was heavily concentrated in the southeastern part of the country, particularly in and around the city and state of São Paulo, which represented 35% of the country's gross domestic product (GDP). The three southern-most states of Parana, Santa Catarina, and Rio Grande do Sul together contributed 18% to Brazil's GDP.³ Brazil's economy grew at nearly 8% compound annual growth between 1964 and 1980, a period that was referred to as the "Brazilian Miracle." However, between 1981 and 1994, GDP growth slowed to 1.6% per year, annual inflation averaged over 700%, and the country twice defaulted on its sovereign debt. The 1980s were frequently referred to as Brazil's "lost decade."

In 1989 Fernando Collor de Mello was elected president in the first free elections since the military had seized power in 1964. Collor initiated a series of dramatic economic reforms including privatizing state-owned enterprises in the steel, chemicals, energy, and mining industries, as well as attempting to tame inflation. Collor was impeached on corruption charges in 1992. Fernando Henrique Cardoso, who served as finance minister from 1993 to 1994 and president from 1994 onward, introduced a new currency—the real—in July 1994. The "real plan" pegged the new currency to the U.S. dollar and also included a series of changes in fiscal and monetary policies. The real plan reduced inflation from 40% per month to 4% to 10% per year. The Cardoso administration extended privatization of state enterprises to rail, telecommunications, and banks.

In 1995, Cardoso decided to split the national rail administration—Rede Ferroviária Federal SA—"RFFSA" into seven separate branches and auction off long-term concessions to run the branches. State ownership of Brazil's 22,000 kilometer rail system had emerged piecemeal over the preceding decades, as the federal government acquired ailing private railways. Earlier administrations had not considered the RFFSA an important priority, and investments in the network declined prior to privatization. A 1996 study of the Brazilian rail system reported that 50% of the network's bridges needed repair (20% were on the verge of collapse), that only 14% of the rails had been upgraded to the standard that prevailed in most developed countries, and that the system still utilized more than 20 steam-engine locomotives.⁴ Moreover, the various regional lines were poorly integrated, making it difficult to transport cargo over long distances.

The government decided to sequentially auction off concessions for 30-year lease for the assets of the seven newly formed branches between March 1996 and November 1998. The leases, renewable for another 30 years, were limited exclusively to cargo transportation and required the new owner to provide access to passenger and cargo trains of other operators. In exchange for the right to operate the assets, the concessionaire had to achieve specified targets in terms of volume of cargo transportation, safety, investments to maintain infrastructure, and quality of service. The concessionaire was also required to disclose performance data to the government. Failure to reach the targets or comply with the obligations would trigger penalties, beginning with fines and culminating with government intervention or taking over the concession. The government agreed to assume all liabilities of RFFSA that arose prior to the deal, even if the liability surfaced only after the

³ IBGE (Brazilian Institute for Statistics), 1999 data.

⁴ Translated and adapted from "Privatização do Sistema Ferroviário Brasileiro" (IPEA, Sergio de Azevedo Marques. August 1996).

privatization. The most important liability was labor-related, covering severance and pension fund payments for thousands of employees that the RFFSA would lay off prior to privatization.

BETTING ON RAILROADS

When the government announced its intention to privatize the railway system in 1995, Behring began analyzing the rail assets as a possible investment for GP Investimentos Limited (GP). Although GP was founded in 1993, the firm traced its roots back to the late 1970s when founding partners Jorge Paulo Lehman, Marcel Telles, Roberto Sicupira, and Claudio Haddad began pooling their personal capital to invest in Brazilian companies. GP's partners generally acquired a controlling interest in their portfolio companies and took an active role in improving operations. Behring explained the rationale:

In Brazil, the technology factor is not there, so you can't really do venture capital. The leverage factor isn't there either, so forget about LBOs. Hence, the only remaining way to earn one's money in private equity is to add value to the business. It has to do with managing the operation directly.

GP's founding partners had made several successful investments including the acquisition and turnaround of Brahma Breweries, which emerged as the leading brewer in Brazil; expanded into Argentina, Venezuela, and Uruguay; and listed on the New York Stock Exchange. The partners also founded the largest investment bank in Brazil—Banco Garantia—which they sold to Credit Suisse First Boston in 1999. Behring had joined GP as an associate in 1994 while finishing business school.

Despite the problems with the Brazil's rail system, Behring saw a potential opportunity. Rail transportation had an inherent cost advantage relative to trucking over longer distances. In the United States, for instance, rail accounted for 20% of shipping for distances of 50 kilometers, but exceeded 80% of shipments over 2,000 kilometers. Incompatibilities among the regional lines and the poor state of infrastructure in Brazil, however, limited rail's share to approximately 20% even on long hauls (see **Exhibit 2** for market share of rail transport in the United States and Brazil). Behring believed that a Brazilian rail operator could create significant value by increasing market share over longer distances. He explained:

Brazil's economy always faces big ups and downs in disposable income, GDP growth, and consumer interest rates. Any business that relies on low interest rates or economic growth is vulnerable in difficult times. But railway transport had dormant demand. When compared to the U.S., Brazilian rails accounted for a very low share of automobile, parcel, and chemical shipments. The key to increasing revenues in the business was to take share away from trucking. Growth wouldn't depend on favorable macroeconomic trends. Plus there were other advantages. Rails, when well managed, are a natural monopoly with strategic cost advantages over trucks, and they are immune to global competition.

In the first meeting where the partners at GP discussed the investment opportunity, they decided that GP should seek the deal together with a company that had relevant experience in the sector. Carlos "Beto" Sicupira (OPM '84), a founding partner of GP Investimentos knew Bruce Flohr (OPM '92), the chairman and CEO of Railtex, a successful U.S.-based short line railroad. On a Friday in mid-1996, Sicupira called Flohr and the next week, Behring flew to San Antonio to meet with RailTex top management. A due-diligence team including 20 RailTex professionals was assembled under the

leadership of Behring and Sergio Pedreiro, who was later appointed ALL's CFO. Pedreiro had joined GP as an associate out of Stanford Business School earlier that year.

Based on the team's due diligence, the GP partners decided to bid for a controlling interest in the RFFSA's Malha Sul, or "southern line" which ran through Brazil's three southern-most states, but did not include Sao Paulo.⁵ The public auction took place in December 1996. The GP-led consortium included RailTex as well as several domestic and foreign investors such as Credit Suisse First Boston. GP's consortium bid BRL 217 million, which represented a 38% premium over the minimum price of BRL 156 million set by the government, and just BRL 100,000 above the next highest bidder. The GP-led consortium paid approximately BRL 90 million at the closing.⁶

Three months elapsed between the auction and the date when the consortium assumed control of the privatized company. During this period, the investors selected a seven-person board consisting of three GP representatives, three representatives of other investors, and Bruce M. Flohr, the founder and CEO of RailTex. The board hired José Paulo Alves to be the new CEO. Alves had recently quit as the CEO of Minerações Brasileiras Reunidas S.A., a mining concern with 1997 sales of BRL 500 million. The investors selected Alves for his expertise in cost-reduction and downsizing. On March 1, 1997, the entity began operating under new management as Ferrovia Sul Atlântico SA and the company was renamed America Latina Logística SA in 1999.⁷

Nine months after acquiring ALL, the board concluded that the company was ready to begin increasing revenue in addition to the ongoing cost-cutting efforts. The new owners believed that this new emphasis would require a change in culture. At that point, Alves was completing the first round of cost cutting and the board began its search for a new CEO in January 1998. Behring and the other GP partners believed that a candidate familiar with their firm could create a culture best aligned with GP's own values. Behring considered asking for the position himself, and discussed the possibility with other GP partners who encouraged him. Behring recalled:

The GP partners were willing to commit the imprudence of giving someone as young as me such an opportunity, mainly because they knew it would be important for my development. They had also been there before, having taken active management roles at portfolio companies. Beto [Sicupira] began running the retailer Lojas Americanas when he was 34 years old, and Marcel [Telles] took over Brahma brewery when he was 39.

The other investors, who knew Behring from the due diligence process and his twelve months as a board member, supported the decision and agreed to his becoming CEO six months later. Jose Carlos Marreco, a consultant to ALL and former Head of Railways Operations at CVRD (Brazil's largest iron ore mining company), stepped in as interim CEO in February 1998 while Behring transferred his remaining GP responsibilities to his partners and prepared to join ALL.

⁵ The GP partners also participated as minority investors in a successful bid for assets in the central-eastern region of Brazil, Ferrovia Centro-Atlantica S.A., six months prior to bidding for the southern branch.

⁶ The government set the conditions of the deal, leaving no room to negotiate on payment. The contract required that 20% of the minimum price was to be paid upfront, and the remaining portion of the minimum price would be paid in 112 quarterly installments, subject to a 12% yearly real interest rate computed quarterly, starting 2 years after the closing. Any premium (difference between winning bid and minimum price) would also be paid upfront.

⁷ To avoid confusion, the company is referred to as America Latina Logística (ALL) throughout the text, even during periods prior to the name change.

DOING HIS HOMEWORK

To prepare for his new position, Behring spoke with GP partners who had made the transition from investing to running portfolio companies. Marcel Telles had left in 1989 to run Brahma, the second largest brewer in Brazil, after the firm's partners had acquired a controlling interest in that company. In the following twelve years, Brahma surpassed market-leader Antarctica in profitability and eventually acquired its former rival to create AmBev--the largest brewer in South America. Upon taking control of Brahma, Telles had attempted to replicate the systems and culture of Banco Garantia, the investment bank created by GP's founding partners earlier in the 1980s. Specifically, Telles replaced many long-time employees with recent college graduates, instituted aggressive performance-based bonuses for all employees and forced attrition for under-performing employees. In addition, Brahma's top management publicly posted daily firm-level performance against key metrics such as cost and revenues, and replaced closed offices with an open floor plan reminiscent of a floor in an investment bank. In 1983 Beto Sicupira had joined retailer Lojas Americanas as CEO, where he implemented "Zero Based" budgeting to control costs.⁸ Behring recalled one particular piece of advice from Sicupira:

Beto told me: "This is our money at stake here. Don't do anything strategic for the first two or three years. Just focus on common sense. Once you get to know the business, then you can begin to think strategically." I never forgot that advice.

Behring also met with Professor Vincente Falconi, who had implemented a widely emulated management-by-objective system in Aços Gerdau, a Brazilian steel company. Behring also spoke with CEO's and top management of several U.S. railways to understand how they divided their operations into distinct business units.

Before joining ALL full time, Behring also recruited a management team. He later recalled:

At the time, there wasn't a stable management team in place. José Paulo [Alves – the first CEO] was not only the CEO, but also in charge of sales and operations. The Human Resources vice president was on loan from a GP-controlled retail company and the CFO had been hired on an interim basis. The top management team from the old state-owned railroad were political appointees and many had left when GP acquired the business.

Behring considered the key functions of his management team to be human resources, operations, sales, and finance. Behring asked Pedro Almeida to join ALL full time as vice president of Human Resources and Corporate Relations. Almeida had been on loan from a GP portfolio company and was a veteran of Lojas Americanas, where he worked directly with Sicupira. For the vice President of operations position, Behring perceived a dilemma:

I wanted someone who had extensive railway experience, but who had not acquired all the bad habits of a state-owned company. So the board used its network to identify someone who had been in the business just long enough to learn the trade, but was still a rebel within the culture.

⁸ Zero Based budgeting was an approach designed to "reset the clock" each year. Traditionally in many companies, the budgeting process began with the preceding year's expenditures as a baseline and increased these costs incrementally to calculate the following year's budget. Zero Based budgeting, in contrast, required managers to develop their budget from scratch each year. As a result they were required to justify each budget item. Some managers found this methodology a useful tool to force an ongoing examination of costs.

Marreco, the interim CEO, suggested Raimundo Costa, a 35-year-old engineer who had served as a manager in the railway operations of CVRD, the largest Brazilian mining company. Since the Brazilian railways had historically not pursued new customers aggressively, Behring looked for a sales executive in the highly competitive trucking industry and hired Walter Souza, who had served as the chief operating officer of a mid-sized trucking company based in central Brazil. Souza hired a team of six sales representatives to fill out ALL's commercial department. For the CFO position Behring hired Duilio Calciolari, the 35-year-old CFO of Brazil's largest casting company, which was located near Curitiba. Calciolari served as an auditor at a big five accounting firm for ten years and was hired to establish financial controls within ALL.

ALEX TAKES CHARGE

After extensive discussions, Behring and his team planned their efforts along four key fronts: (1.) creating an aggressive corporate culture like the one at Brahma; (2.) cutting costs; (3.) investing selectively to eliminate bottlenecks; and (4.) growing revenues by expanding service to existing customers. When Behring and Costa arrived for their first day on July 16, 1998, however, they were faced by an immediate crisis. One of their first meetings was with a mid-level manager, who demanded the immediate release of BRL 5 million to repair a bridge which he claimed was in imminent risk of collapse. ALL was at that time still short of cash, pending the planned issuance of commercial paper. Behring recalled that meeting:

We sensed he was trying to take advantage of two young and inexperienced managers to approve a project that was delayed by previous officers. I told him that the train would pass over the bridge exactly as scheduled, and that he, Raimundo [Costa, COO] and myself would ride along. Word about the incident quickly spread around the company, and we did not face similar threats after that.

Changing the culture

Behring and his team believed that transforming ALL's existing culture posed a significant challenge. Under government administration, the company had not hired a single new employee since 1985 and lacked structured processes for career planning, performance evaluation, and training. Promotions and salary increases were strictly a function of seniority. Moreover, the top management team believed that the current staff of 3,110 employees was too high, even after the government and preceding CEOs had reduced employment from its peak of over 12,000 prior to privatization.

Behring and Costa spent the first ten days on the job conducting 15 minute interviews of the top 150 managers of the company (a tactic Behring had learned from Sicupira, who had done the same at Lojas Americanas). The managers were asked to bring a single-page memo with their name, function and suggestions for improving their own operations and the company as a whole. Based on these interviews, Behring and Costa selected a group of approximately 30 mid-level managers to serve as a "Praetorian Guard" and help top management lead further changes. Behring and his team also identified managers whom they believed could not make the transition to the new culture. These managers were let go or reassigned to less prominent positions.

Behring and his team also conducted over a 100 interviews with managers and employees lower in the organization over the next three months. Behring later recalled:

We used these meetings to let people get exposure to us, and to identify employees with potential for future promotion. We soon realized we could rank the employees into a three-layer pyramid. The top was composed mostly of a few dozen remaining political appointees. We had to let go of all of them. In the middle there was a team of approximately 150 engineers and managers. They were usually very good employees. In the old days the state-mandated admission test was very challenging. Demotivated by years of political interference, this group felt powerless. At the base of the pyramid were a couple of thousand front-line employees, such as train engineers and technicians, who were very proud of their work. But, they felt ashamed for the sorrowful condition of the company after years of mismanagement.

Between July and October 1998, the team reassigned approximately 100 middle managers and front-line employees to new positions. Behring recalled the criteria they used:

When we found someone who had a ‘spark’ in their eyes, who wanted to do something, and was strong technically, we’d give them space, authority, managerial training, and then a new challenge. Since the new challenge usually represented an upgrade—also financially speaking—that created instant loyalty to the new project. These people really bought into our vision.

ALL also launched a Trainee Program in June 1997, recruiting 32 students straight from college. After the twelve-month program, trainees assumed positions as analysts (entry-level supervisors) or assistant-managers. Between 1997 and 2001, the company hired 500 recent college graduates (**Exhibit 3** graphs the work force by ages). In 2001, over 9,000 students applied for 18 trainee positions, placing the program among the five most popular internships in Brazil. To promote a more open working environment, the executive team dismantled existing walls and cubicles to create a “single-floor, no cubicles” workspace modeled on that found in Brahma. This design was applied at all levels of the organization from the top executives to call center operators.

In 1998, management designed and implemented a new compensation process for all managers. Each year, top management would decide on up to five key objectives for the corporation as a whole (**Exhibit 4** details the company’s goals for years 1998 to 2001). Between September and November of each year, managers would meet with their boss to agree on five targets for the next year. (Each individual goal received a different weight for a total of 100 possible “points”.) Manager’s targets were linked to the overall corporate objectives, but translated into objectives that could be achieved by the individual manager. The five targets were quantitative and typically included categories such as margins, asset turns, cost, service indicators, etc. Behring selected five objectives because he believed that a larger number of goals would distract managers. The percentage of variable compensation linked to achieving these targets varied by level in the organization: for top executives it ranged between 50% to 75% of their total compensation, for middle managers it ranged between 25% to 40%, front-line employees 7% to 24%. Individual manager’s performance against their personal objectives was tracked weekly and the data were posted publicly. Compensation was also linked to corporate and business/production performance against goals, which was also posted publicly and updated quarterly.

Top management took a number of symbolic steps that were intended to demonstrate their commitment to changing the company’s culture. In his first year, Behring certified as a train conductor and spent approximately one week per month in the field wearing the standard conductor uniform and sleeping in the conductor dorms. During one of these periods in the field in August 1998, the fledgling company faced one of the worst accidents in history. Twenty-seven cars derailed between two cliffs two hundred kilometers from ALL’s headquarters in Curitiba. Behring and Costa arrived within four hours. Costa spent the next 36 hours supervising the construction of a detour to

reopen that important route. Behring, meanwhile, visited both the train's operator and his trainee in their homes. Behring recalled:

They had sustained only minor injuries, but there had never been a case of a company officer visiting the home of a field worker before. That whole episode helped us become very close to the train conductors, who were key to many of the good things that happened at ALL.

Cutting costs

Upon taking control of ALL, Behring and his management team took a series of small steps to increase employees' consciousness of costs, including auctioning off cars reserved for officers' use and discontinuing the use of chauffeurs by top management. They also took several steps to reduce costs, and later described these as unfolding in four distinct waves.

March 1997 - July 1998. The first CEO, Alves, took a series of top-down cost-cutting actions. He cut total employment from 6,300 when he began in March 1997 to 3,300 when he left in January 1998. In most railways in the world, a pair of machinists conducted trains together, but Alves switched most trains to single conductor, a move that reduced headcount by approximately 500.⁹ The company also introduced a satellite-based system to confirm that a particular stretch of the line was available for use, a move that eliminated hundreds of "station agents" who had visually checked the line in the past.

August 1998 - October 1998. In August, Behring and Costa introduced Zero-Base budgeting, with the help of a local consulting firm. Each of the 6 business units, the 12 production units, as well as the supporting functional areas (HR, control, treasury, etc.) was required to submit a formal request for all of the resources for the following year. The introduction of Zero-Based budgeting resulted in the elimination of many activities and the outsourcing of others like mechanical maintenance. ALL managers estimated that Zero-Based budgeting contributed total cost savings of approximately BRL 50 million per year, resulting primarily from outsourcing of non-core activities, eliminating redundant activities, and benchmarking internal best practices.

August 1999 - November 1999. In August 1999, top managers instituted an internal operational benchmarking across stations, yards, and mechanical shops. Each field unit was benchmarked in terms of productivity, activities performed, and resources used. The best practice was then selected and deployed in all similar units across ALL. Performance was compared based on indicators such as car utilization, on-time delivery, carloads per employee, load and unload time, and safety indicators. Management estimated that the identification, codification, and transfer of best practices across the units yielded annual gains of approximately BRL 20 million in terms of both direct cost reduction and productivity improvements.

March 2000 - 2001. The results of the first three waves of cost cutting were substantial. As revenue grew from BRL 194 million in 1997 to BRL 477 million in 2000,¹⁰ fixed expenses declined from BRL 143 million to BRL 106 million (see Exhibit 5 for the change in expenses between 1997 to 2001). Despite this progress, Behring believed that more cost-cutting was required and noted: "Costs are just like fingernails. They grow organically and must be cut regularly." Having captured the low-

⁹ The reduction from two to one conductor did not compromise safety, and ALL had the best safety record (measured in accidents per train mile) of any Brazilian railway according to SOURCE?

¹⁰ Revenues of BRL 477 million include ALL revenues outside of Brazil and therefore exceed the revenue numbers found in figure 1 for ALL's Brazilian operations.

hanging cost-reduction opportunities, however, management believed that more creative steps would be necessary in the future. Management was contemplating a new initiative, for example, to cut diesel fuel usage (the company's largest single cost item). By introducing a "Diesel Cup," in which conductors would compete to reduce fuel consumption. The winners would receive cash bonuses and prizes. To ensure compliance with safety rules, any conductor that failed to observe safety regulations or was involved in accidents would be automatically disqualified from the competition.

A "Vietnamese" Approach to Investments

When Behring became CEO in August 1998, the company had only BRL 30 million in cash on the balance sheet, generated positive operating cash flow only during the harvest season and depended on loans from the Brazilian Development Bank to fund investment. After decades of under investment, however, middle managers proposed investments totaling hundreds of millions of reais to maintain and upgrade the company's physical assets. Behring and CFO Calciolari implemented a very rigorous capital budgeting process to assure that proposals were approved only when they provided an immediate increase in operating cash flow. Behring and his team limited their expenditures to outlays that would quickly fix existing bottlenecks and adopted four simple rules to prioritize and sequence their capital investments.

- First, capital expenditures were limited to those that eliminated bottlenecks preventing the company from growing revenues.
- Second, the lowest upfront cash alternative was preferred, even if it was not necessarily the largest net present value or the most elegant technical solution.
- Third, options that fixed a problem faster were preferred to longer-term solutions.
- Fourth, reutilizing existing resources was preferred to acquiring new materials.

Costa referred to their method as a "Vietnamese" approach to investments. During the Vietnamese War, the Viet Cong lacked resources, and adopted the tactic of quickly building cheap, wooden bridges just below the surface of the water to manage their supply lines to battle. Such bridges required limited defense and maintenance. In contrast, the U.S. military erected expensive bridges that took more time to build and required constant defense against enemy attacks. These four rules forced company engineers to develop a series of creative solutions. (**Exhibit 6** provides representative examples of investments). By 2000, the most serious bottlenecks had been addressed, and the company began investing in higher-end technologies, such as satellite tracking, on-board computers, and electronic derailment detectors.

Picking the low hanging fruit in the marketplace

As part of the due diligence process prior to the privatization auction, Behring had discovered that many existing customers were interested in increasing their use of rail transport. They were deterred, however, by insufficient capacity (particularly during periods of peak demand), feeder lines in poor condition, erratic or infrequent train schedules, and poor customer service. Before exploring any new markets, management decided to identify current customers with the largest latent demand for rail services. The commercial team developed three criteria to identify the most promising customers: (1) the customer's current volume of rail traffic, (2) its total potential cost measured by the volume hauled by trucks, and (3) the magnitude of the railway's potential advantage over trucking.

These criteria identified current clients in agricultural products, cement, wood, and fuel as the most promising opportunities for additional business. Although these customers accounted for only 30% of ALL's total client base, they contributed more than 80% of total revenues. The sales department estimated that they could double sales with these core customers within three to four years.

The sales department attempted to create partnerships with core customers in targeted segments. Following the partnership model, customers would share the costs of investing in infrastructure dedicated to serving their needs. These included distribution centers, grain storage capacity, and dedicated fleet of rail cars. In exchange for the investments, the clients would receive discounted freight rates but ALL would reserve the right to buy the assets from the client over a period of five to seven years. ALL generally contributed land in lieu of cash on its portion of the co-investment in new facilities. The cement operation of Votorantim, for example, invested more than BRL 15 million between 1999 and 2000 to build distribution centers, silos, and rail cars. Investment by clients had increased over time as ALL's reliability and service levels improved. For 2002, ALL forecasted more than BRL 100 million would be invested by clients in assets in the company's network.

While continuously expanding business among existing customers, management increasingly turned its attention to seeking new customers. The company traditionally derived more than 90% of its revenues from transporting agricultural goods (mainly grains), fuel, and cement. Management believed that further top-line growth would require diversifying into more value-added cargos, such as petrochemicals, steel products, food, and other industrialized products. An "Industrial Products" business unit was created to develop these markets. To win new industrial customers, ALL was the first Brazilian railway to introduce multimodal trailers—known as "roadtrailers"—that could run both on rail lines and on the highway in 1999. Roadtrailers allowed trucks with cargo to drive straight onto the train, avoiding reloading cargo from a truck into a train. Based on these actions, the company increased its revenue by 144% from 1997 to 2000, and reduced its dependence on grains and fuel from 95% of revenues to 80%, as the company shipped a larger percentage of consumer goods, construction products, containers, and other industrialized goods. In 2001, executives were considering the creation of a call center and an Internet-based tracking service for customers to check on the status of their freight.

GOING FOR GROWTH

ALL's shareholders pursued acquisitions as opportunities to extend ALL's existing rail network. In 1997, GP and ALL management began negotiations to acquire the Argentine railroads that connected to ALL. The negotiation process extended for more than two years and a deal was finalized in May of 1999. (**Exhibit 7** reports ALL Argentina financial results). The Argentinean operations added 8,000 km of tracks, more than doubling ALL's reach. They also provided access to key Argentinean deep-water ports, to industrial areas such as Buenos Aires and Santiago, and agricultural markets including the soy production areas of Argentina and Paraguay. ALL's investors paid US\$ 32 million to acquire a 74% stake of the Argentinean companies. In late 1998, ALL acquired lines that connected its network to the industrial area of São Paulo city and a connecting railroad in contiguous state of Paraná. In 1999 the company was renamed America Latina Logistica SA (ALL) to reflect its focus on logistic services and a regional reach extending beyond Brazil's border. The combined rail network covered the area accounting for more than two-thirds of South America's GDP.

In early 2000, ALL's investors created a separate entity called Geodex, which raised \$70 million from ALL's investors and Goldman Sachs to build a 1,600 km network of fiber cable along ALL's rail

lines. ALL contributed the right-of-way, and in exchange received approximately 40% of Geodex equity. Geodex had an independent management team, but Behring served as the company's board chairman. In June 2001, the network had been completed, and Geodex management was planning to lease broadband capacity to a range of customers including traditional telecommunication companies, mobile operators, and private network companies.

In June 2001, ALL's top management and board were considering whether ALL should evolve from a rail operator into an integrated logistics operator. As the company served more clients in the industrial sector, ALL management saw an opportunity to offer integrated logistic services as opposed to simply shipping cargo by rail. In order to provide fully integrated door-to-door logistic service to industrial clients, ALL would need to ship from the end of the rail line to and from the client premises. ALL would also need to provide warehousing capacity, inventory management, distribution, dispatching, and customs services as needed.

Providing integrated logistics solutions to industrial clients would open new markets and greatly increase the size of the market ALL could serve (**Exhibit 8** illustrates the addressable market for the main segments). International logistics providers such as TNT (Australia), Ryder (USA), and Danzas (Germany) had identified the market potential for logistic services and had entered the Brazilian market in the late 1990's and early 2000's. Their initial forays into Brazil were disappointing as these companies struggled to provide their customary level of service in a country that lacked the quality of transportation infrastructure found in the U.S. and Western Europe. They also priced their services at a significant premium over fees charged by local trucking firms. ALL management believed these high prices would continue to prevent multinational logistics companies from gaining significant market share. By 2001, some competitors like Ryder were beginning to increase their presence, largely by leveraging their existing relationships with global customers like General Motors.

Behring believed that integrating forward into delivery by truck might offer a significant opportunity for ALL to capture more value in transporting goods. Although they moved the cargo a much shorter distance, trucking companies typically charged a premium relative to the railway. Trucking companies also enjoyed close relationships with customers. In the past, ALL had tried partnering with trucking companies to offer an integrated logistic service for the rice market. Established trucking companies, however, perceived ALL as a potential new competitor and priced their portion of the delivery at a premium that made the integrated service economically unfeasible.

ALL managers considered a few alternatives to enter the logistics market. Top management evaluated the possibility of integrating forward into logistics on their own. After making such a large investment in developing the company's personnel, ALL managers believed their employees could make the transition to a logistics supplier without a major merger, relying instead on a series of acquisitions to fill gaps around their core rail business. Management believed this alternative would minimize the risks of diluting their shareholders' equity stake and clashing cultures. Behring was familiar with research that showed the majority of major mergers and acquisitions failed to achieve the expected targets. ALL's initial success in the rail market had conferred credibility with investors. Building on the company's track record would be critical to raising capital in the future. Managers worried that a failed merger would hurt the company's track record. On the other hand, building the logistics capabilities in house would take longer, particularly in the Brazilian market where relatively few people had logistics skills common in more developed countries.

Another alternative was merging with Delara Transportes. The company had been founded in March 1989, by Wilson Delara (hereafter called Wilson) and was headquartered in Curitiba. As of

2000, Delara had 60 branches in Brazil, Chile, and Argentina, and employed over 2,600 people. Delara transported over 4 million tons of freight in year 2000, which placed it among the top Brazilian domestic transportation and logistics companies. Wilson (who began his career in the trucking industry) had expanded Delara beyond trucking into a broad array of logistics services. The company operated dedicated distribution centers and offered integrated logistics solutions to Brazilian and multinational clients. In many cases, Delara distributed these companies' products, including everything from invoicing to truck maintenance. It was not uncommon for Delara to manage its clients' entire supply chain.

Delara offered several advantages as a possible partner. The company's broad geographic coverage and experience with urban distribution, would complement ALL's strengths in long-haul transportation. Furthermore, some overlap did exist between the customer base of ALL and Delara, posing an opportunity to convert truck cargo into rail cargo. ALL management believed that Delara was run in a more professional manner than most other trucking firms in Brazil. Delara also provided logistics services to AmBev, another GP portfolio company with a management style similar to ALL's own culture and processes. In fact, during their discussions, Wilson had told Behring: "In managing Delara, my biggest inspiration was AmBev. It is my toughest client, feared and admired at the same time. So we always try to emulate its performance driven culture and meritocracy at my company."

Despite these advantages, many uncertainties remained. Particularly worrisome to Behring was the differences between the companies' operations. Delara operated not only long and short haul of cargo, but also logistics businesses such as warehousing and point of sale distribution. It was, for example, responsible for AmBev's distribution of beer in several cities, which in some cases, required the delivery of individual kegs of beer to bars and collection of immediate cash payment. Also, the merger could distract ALL management attention away from the rail operation. ALL management believed that Wilson was the company's most valuable resource, and Behring was also concerned that Wilson might lose interest in the company after a merger. In their discussions, Wilson had expressed his desire to have board seat without any active management responsibility. Behring pondered what role Wilson would play in the combined entity and how that would affect his own position.

There were also issues surrounding valuation and deal terms. Wilson proposed valuing Delara using a discounted cash flow methodology based on his own financial projections. (**Exhibit 9** provides historical financials and pro forma cash flow projections for Delara). Behring wondered whether this valuation was consistent with comparable transactions. Behring knew that publicly traded railways in the United States traded on average at 2.3 times revenues and 9.3 times EBITDA. Third party logistics providers, in contrast, traded at 0.8 times revenues and 14.5 times EBITDA, while the multiples for an average of trucking and logistics companies (approximating Delara's business mix) was 0.6 times revenues and 9.6 times EBITDA. ALL's finance staff estimated a real weighted average cost of capital of 12.9% assuming ALL acquired Delara (See **Exhibit 10** for details of this calculation).

In terms of deal structure, Wilson had proposed selling 100% of Delara equity, and receiving his payment as 30% cash and 70% equity in the resulting entity. Depending on the relative valuation accorded to ALL and Delara, Wilson could be one of the largest shareholders of the merged entity if the deal was structured as a stock exchange. Behring considered how the existing investors and board members would react to such a proposal. He also pondered how he could best persuade the board if he and the rest of the team decided a merger with Delara was the right course of action.

As these thoughts ran through his mind, Behring considered whether it might be best to stick to rail. Was it prudent to try to play catch-up with well-established logistics players? Would ALL be better off focusing on becoming the number one railway company in Brazil? ALL's management team knew well that successful logistics companies were generally light on assets and heavy on expertise. ALL, in June 2001, was the opposite. As he pulled into his driveway, Behring knew that time was running short. He had promised to get back to Wilson within a few days with a specific proposal, and he knew he would have to consult the board as well. It was going to be another long night.

Exhibit 1 ALL Brazil Income Statement

ALL BRAZIL INCOME STATEMENT
(In thousands of Reais)

Description	1997 A	1998 A	1999 A	2000 A	1 H. 2001 A	2001 F
Gross Revenue	193,606	222,145	279,580	339,811	213,768	449,819
Logistic Costs	0	3,029	13,486	25,384	21,928	49,836
Rail Gross Revenue	193,606	219,116	266,094	314,427	191,840	399,983
Rail Revenue	191,500	215,690	261,738	301,943	186,984	389,668
Others	2,106	3,425	4,356	12,484	4,856	10,315
Taxes	16,258	19,064	24,720	30,786	17,517	38,381
ICMS	11,152	13,214	15,559	19,435	10,533	23,908
PIS/COFINS	5,106	5,849	9,161	11,351	6,984	14,473
Net Revenue	177,348	200,052	241,374	283,641	174,323	361,602
Variable Costs	24,637	30,273	45,512	61,215	41,169	86,787
Fuel	24,637	28,865	45,111	60,432	39,779	83,927
Others	0	1,408	401	783	1,390	2,860
Gross Margin	152,711	169,779	195,862	222,426	133,154	274,815
Fixed Costs	143,394	129,889	118,331	105,998	58,067	116,364
Personnel	84,824	73,948	69,319	59,547	32,937	66,372
Maintenance	29,318	30,816	23,483	21,980	11,467	22,490
Rolling Stock	15,882	17,133	10,861	11,601	6,034	12,243
Permanent Way	7,521	8,459	6,835	4,759	2,325	4,626
Tools	5,915	2,031	2,661	2,510	1,263	2,333
Machinery	0	968	1,694	2,105	969	1,845
Others	5,915	2,225	1,432	1,005	876	1,443
Rents and Leasing	0	3,173	1,956	1,608	543	1,219
Administrative	15,894	6,954	8,051	6,373	3,959	8,191
Government Fees	0	886	835	822	301	654
Lawsuits	0	1,394	2,239	1,313	679	1,377
Travelling	5,722	5,622	5,574	5,920	3,764	7,321
Utilities	4,118	4,078	4,253	5,368	3,187	6,296
Insurance	3,518	3,018	2,621	3,067	1,230	2,444
EBITDA	9,317	39,890	77,531	116,428	75,087	158,451
Depreciation	3,006	6,933	12,187	17,429	11,824	24,849
Concession	6,095	7,098	24,026	27,464	16,256	31,781
Provision	15,279	8,757	5,055	1,246	1,201	3,838
EBIT	(15,063)	17,102	36,263	70,289	45,806	97,983
Net Interest Expense	(24,302)	(26,250)	(28,823)	(36,320)	(27,340)	(65,553)
Interest Income	3,163	10,726	15,050	9,488	3,701	8,980
Interest Expense	(27,465)	(36,976)	(43,873)	(45,808)	(31,041)	(74,633)
Equity in the results of associated companies/Others		1,530	3,690	14		
Profit Sharing Program		4,244	(7,124)	6,625	4,002	7,000
EBT	(39,365)	(11,862)	8,524	27,330	14,464	25,430
Extraordinary Items*	(40,940)	8,757	(33,025)	(1,321)	(1,335)	9,775
Taxes		0	0	2,198	407	2,155
Net Income	(80,305)	(3,105)	(24,501)	23,811	12,722	33,050

Source: ALL company documents. Income statement and balance sheet include only ALL' s Brazilian operations.

Exhibit 1 (continued) ALL Brazil Balance Sheet (Assets):

Assets – Brazil (BRL 000)	1997	1998	1999	2000
Current assets	51,507	138,328	145,918	111,049
Cash & financial investments	1,255	80,523	77,046	61,113
Cash & banks	309	619	264	303
Financial investments	946	79,904	76,782	60,810
Accounts receivables	32,268	40,279	41,665	21,809
Accounts receivables	5,773	10,521	16,755	24,195
Allowance for doubtful accounts	(119)	(1,445)	(3,339)	(2,648)
Accounts receivables - RFFSA	26,614	31,203	28,249	262
Inventories	10,196	7,079	8,561	12,109
Others	7,788	10,447	18,646	16,018
Prepaid expenses	4,582	3,455	7,035	4,591
Taxes recoverable	2,123	4,039	8,365	9,250
Other account receivables	1,083	2,953	3,246	2,177
Long Term Assets	81,336	80,602	104,765	109,170
Sundry receivables	-	-	-	-
Related parties	-	398	792	651
Affiliates	-	-	-	-
Subsidiaries	-	232	2	651
Others	-	166	790	-
Others	81,336	80,204	103,973	108,519
Prepaid expenses	81,253	78,368	99,562	97,124
Judicial deposits	83	1,836	4,411	7,676
Taxes recoverable	-	-	-	3,719
Permanent Assets	81,706	126,849	205,961	333,025
Investments	-	7,899	6,061	39,141
Investment in affiliates	-	2,022	-	-
Investment in subsidiaries	-	5,877	6,061	35,193
Other investments	-	-	-	3,948
Property Plant and Equipment	79,606	107,001	177,715	264,375
Deferred Charges	2,1	11,949	22,185	29,509
Total Assets	214,549	345,779	456,644	553,244

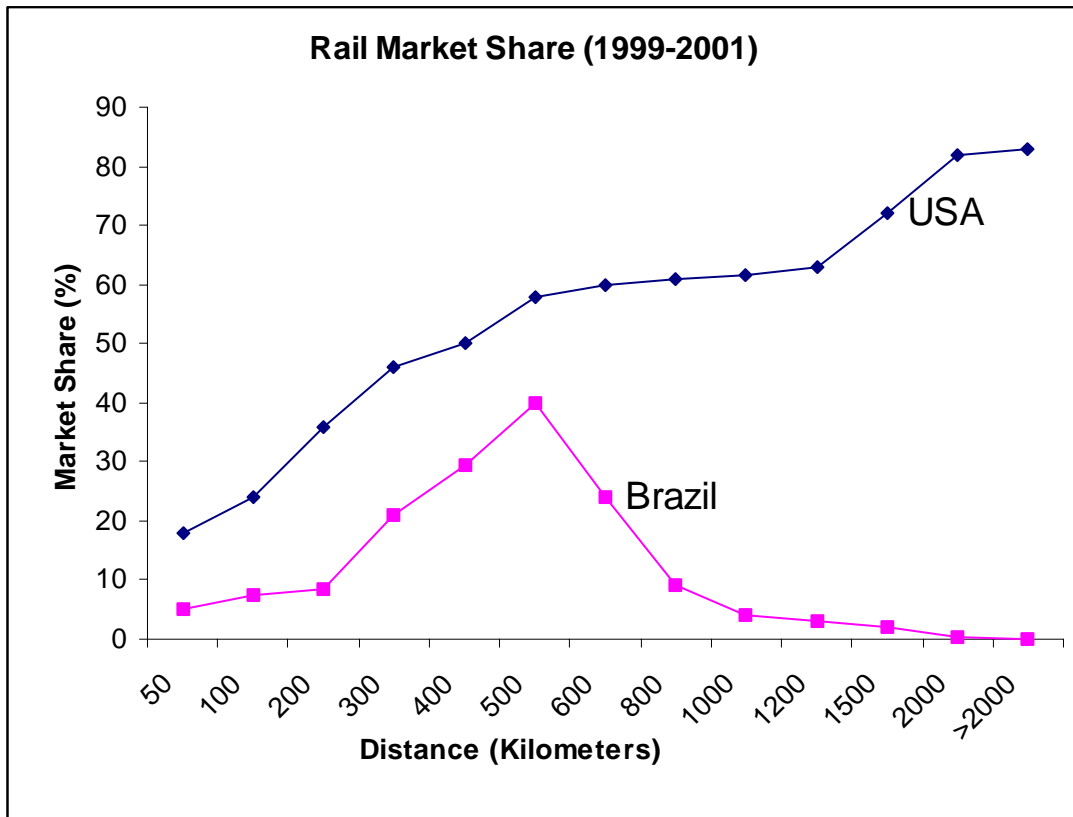
Source: ALL company documents. Income statement and balance sheet include only ALL's Brazilian operations

Exhibit 1 (Continued) ALL Brazil Balance Sheet (Liabilities)

Liabilities – Brazil (BRL 000)	1997	1998	1999	2000
Current Liabilities	130,572	94,573	111,199	129,818
Loan and Financing	14,973	17,164	17,309	28,945
Debentures	-	-	-	12,392
Suppliers	8,128	11,428	15,308	13,540
Taxes charges and Contributions	591	2,231	8,820	9,940
Dividends proposed	-	-	-	-
Provisions	4,335	9,022	5,931	3,000
Allowances for losses on Subsidiaries	4,335	6,152	-	-
Allowances for losses on Affiliates	-	1,530	2,734	-
Provisions for accidents	-	1,340	3,197	3,000
Related parties debt	77,347	6,881	-	-
Subsidiary	77,347	6,881	-	-
Others	25,198	47,847	63,831	62,001
Payables - RFFSA	11,611	12,400	13,101	-
Leasing and Concession payable	-	20,449	24,537	30,579
Salaries and Payroll charges	9,907	12,338	17,224	16,290
Insurance recovery prepaid	-	-	5,116	1,022
Advance from customers	-	1,428	2,672	10,851
Other payables	3,680	1,232	1,181	3,259
Long Term Liabilities	32,863	153,879	199,732	243,996
Loan and Financing	10,855	45,215	173,469	128,730
Debentures	-	-	-	86,970
Provisions	-	-	-	-
Related parties debt	4	87,777	-	18
Subsidiary	4	87,777	-	18
Others	22,004	20,887	26,263	28,278
Provision for contingencies (labor)	6,396	6,345	6,311	10,048
Leasing and Concession payable	15,608	14,542	19,126	18,230
Other payables	-	-	826	-
Rights related to future transactions	-	-	-	9,906
Income from trackage rights	-	-	-	9,906
Stockholders Equity	51,114	97,327	145,713	169,524
Paid in Capital	114,200	163,518	233,588	233,588
Capital reserves	-	-	-	-
Revaluation reserves	-	-	-	-
Own Assets	-	-	-	-
Assets from subsidiaries/affiliates	-	-	-	-
Appropriated earnings	-	-	-	-
Legal	-	-	-	-
Statutory	-	-	-	-
Contingencies	-	-	-	-
Unrealized income	-	-	-	-
For undistributed dividends	-	-	-	-
Others	-	-	-	-
Unappropriated earnings/losses	(63,086)	(66,191)	(87,875)	(64,064)
Total Liabilities	214,549	345,779	456,644	553,244

Source: ALL company documents. Income statement and balance sheet include only ALL's Brazilian operations.

Exhibit 2 Rail Market Share of Cargo by Distance Transported



Source: ALL company documents.

Exhibit 3 ALL Brazil distribution of employees by age

***ALL WORKFORCE
Distribution by Age***

	1997	1998	1999	2000	2001
30 years old or younger	270	402	476	554	677
from 31 to 40 years old	2,290	1,792	1,233	874	757
from 41 to 50 years old	873	809	705	661	667
above 50 years old	16	13	13	13	15
TOTAL	3,449	3,016	2,427	2,102	2,116

Source: ALL company documents.

Note: Figures are averages for calendar year

Exhibit 4 ALL Brazil Goals**1998**

- Raise at least R\$ 85 million in financing at the local market with a duration of one year or more
 - Achieve EBITDA of R\$ 35.7 million (3.8x previous year's)
 - Increase gross revenues to R\$ 233 million
 - Reduce fixed costs by at least R\$ 13 million to R\$ 130 million
 - Reduce fuel consumption by 1%
- Increase transportation volume by 17% to 8.17 billion of TKU (net ton kilometers)
- Increase transportation safety reducing accidents ratio to 76 or fewer accidents per million train kilometers

1999

- Increase EBITDA to R\$ 71 million
 - Increase gross revenues by 25% to R\$ 278 million
 - Reduce fixed costs by at least R\$ 11 million to R\$118 million
 - Reduce fuel consumption by 1%
- Elaborate ALL strategic plan for the next three years
- Raise R\$ 100 million of long-term financing and from clients
- Improve customer satisfaction level
 - Implement service train order and on-time performance
 - Client satisfaction survey with approval level above 85%
- Improve human resources development
 - Implement a housekeeping program
 - Elaborate a plan to identify in-house talents
 - ALL values and vision implemented company wide
 - Training of 100 new locomotive conductors

2000

- Achieve EBIT of R\$ 70 million with CAPEX limited to R\$ 80 million
 - Increase revenues by at least 20% to R\$ 335 million
 - Reduce fixed costs by R\$ 12 million to R\$ 106 million
 - Reduce fuel consumption by 3%
- Achieve net income of at least R\$ 20 million
- New business development
 - Develop and implement ALL intermodal business unit
 - Develop other revenue sources such as fiber optics, rights of way, and real estate, among others
- Implement economic value added (EVA) metrics company wide
- Human resources development
 - Identify and monitor successors for key management positions
 - Develop a program to hire and train new entry-level employees

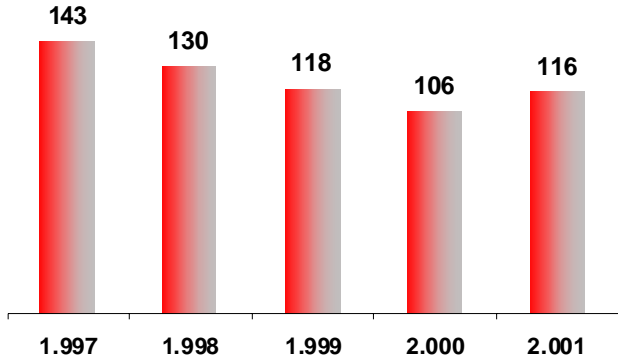
2001

- Increase EVA by R\$ 7 million on ALL Brazil and by P\$5 million on ALL Argentina
- Develop full logistic service provider capacity
 - Enter industrialized products sector
 - Develop capacity to offer door-to-door solutions
- Increase value added of non-core businesses
 - Structure and start operations of fiber optics telecom subsidiary (Geodex)
 - Develop new business opportunities
- Further advance the company's enterprise resource planning capacity
 - Development of new operations management system
- Improve human resources development
 - Consolidate ALL vision and mission
 - Consolidate ALL's culture in ALL Argentina
 - Training of 1,500 employees

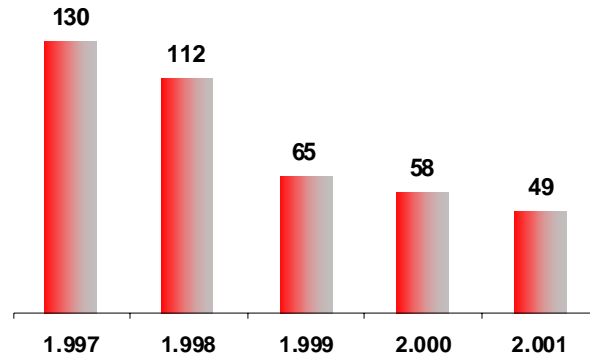
Source: ALL company documents.

Exhibit 5: Results of cost cutting initiatives for ALL Brazil

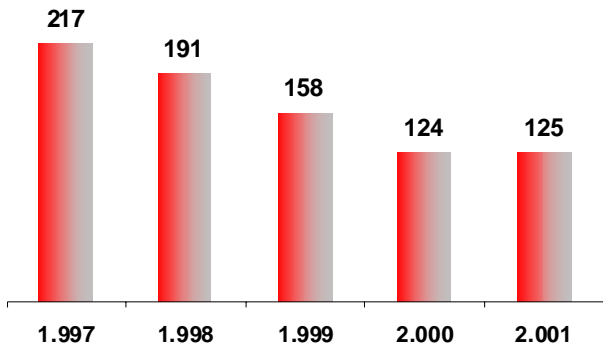
Fixed Expenses ALL Brasil
R\$ (MM)



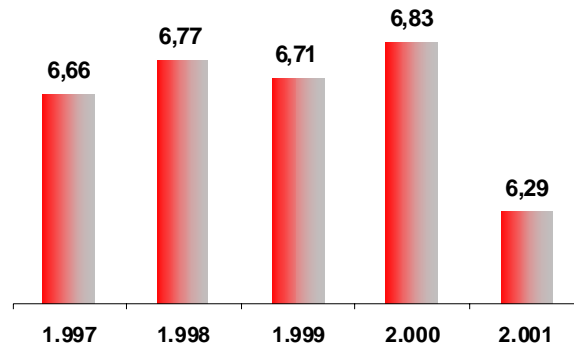
Fixed Expenses ALL Brasil
US\$ (MM)



Fixed Expenses ALL Brasil
R\$ (MM) - Adjusted for Inflation



Fuel Consumption
Liters/1000TKB



Source: ALL company documents.

Exhibit 6: Examples of ALL investments employing “Vietnamese” approach

- In 1998, the company was forced to turn down business during the grain harvesting season (March to November), because ALL lacked sufficient locomotives to haul the cargo. While the other privatized Brazilian railways were negotiating multi-million dollar contracts with General Electric and Asea Brown Boveri to buy new locomotives, ALL engineers worked around the clock to upgrade old engines and buy used ones from Africa. Recuperating locomotives from the “dead fleet”¹¹ or buying used from Africa clearly implied risks in terms of expected reliability and operating costs. However, this alternative required the minimum up-front cash outlay.
- The company’s engineers also increased the fuel tanks of existing locomotives to extend the distance they could operate without refueling. This improvement increased asset turns since it reduced down time required to refuel. Average car cycle – or the time required for a locomotive or car to complete a delivery – improved from 14 days in 1997 to 8 days in 2001. This improvement resulted from improved speed, reduced load and unload down time, increased locomotive availability and reliability, among other measures. Reducing average car cycle allowed ALL to nearly double the availability of cars to its clients without a significant increase in fleet size.
- Engineers also introduced the use of ‘slugs,’ an idea they borrowed from Flohr. When a locomotive’s diesel engine was scrapped but the locomotive’s supplemental electrical engine was retained (this engine was powered by electricity generated from the locomotive, much as a car’s engine fuels its electrical needs), this unit – referred to as a ‘slug’ – was then coupled with two diesel locomotives, which provided electricity for its electric motor. Slugging an old locomotive cost 80% less than rebuilding it and approximately 5% of the cost of buying a new one. Adding a slug also allowed the company to increase the number of wagons in a train while keeping fuel costs flat.
- Another serious bottleneck was the poor state of many tracks due to historical neglect. These broken down tracks limited a train’s maximum speed, and hence the number of trips a locomotive could make in a period of time. Engineers identified the most seriously damaged tracks for replacement. Instead of purchasing new metallic rails, which cost an average of US\$ 400 per ton, the engineers dismantled tracks from abandoned crossing and parking stations and installed them on the main tracks.

¹¹ As part of the fleet received at the privatization there were 160 locomotives and close to 2,000 cars in non-running condition

Exhibit 7 ALL Argentina income statement

**ALL ARGENTINA
INCOME STATEMENT
(In Thousands of Pesos)**

Description	1999 A	2000 A	1 H. 2001A	2001 F	2002 F
Gross Revenue	82.863	74.505	36.140	64.954	111.247
Logistic Costs	14.168	9.163	3.706	6.879	12.281
Rail Gross Revenue	68.695	65.342	32.434	58.074	98.966
Rail Revenue	57.186	56.586	28.470	50.520	89.640
Others	11.509	8.756	3.964	7.555	9.326
Taxes	12.592	11.700	5.835	10.347	17.818
Value Added tax	10.660	9.895	4.941	8.839	2.355
OTHERS	1.932	1.805	894	1.508	15.463
Net Revenue	56.103	53.642	26.598	47.727	81.148
Variable Costs	7.023	8.803	3.321	6.447	13.493
Fuel	6.893	7.081	2.886	5.641	11.844
Others	130	1.722	435	806	1.649
Gross Margin	49.079	44.839	23.278	41.280	67.655
Fixed Costs	42.014	40.292	20.046	38.992	41.136
Personnel	24.683	24.106	12.583	23.536	22.806
Maintenance	3.616	4.113	2.245	4.692	7.485
Rolling Stock	1.214	1.397	950	1.906	2.582
Permanent Way	1.425	1.907	749	1.737	3.356
Toos	0	0	0	0	96
Machinery	82	103	115	174	1.450
Others	895	707	429	874	0
Rents and Leasing	55	121	37	87	47
Administrative	4.420	3.631	1.888	4.241	4.537
Government Fees	146	101	63	82	52
Lawsuits	1.808	653	120	341	339
Travelling	3.290	3.877	1.621	2.960	2.600
Utilities	2.882	2.398	1.083	2.153	2.537
Insurance	1.114	1.292	408	900	734
EBITDA	7.066	4.547	3.232	2.288	26.519
Depreciation	8.375	5.607	2.969	6.332	7.208
Concession	3.038	3.238	1.738	3.476	3.481
Provision	0	1.273	(567)	(1.762)	1.562
EBIT	(4.347)	(5.571)	(909)	(5.788)	14.268
Net Interest Expense	(6.730)	(12.892)	(1.897)	(18.299)	(56.250)
Interest Income	314	161	30	142	7.642
Interest Expense	(7.044)	(13.053)	(1.926)	(18.441)	(63.892)
Profit Sharing Program		(798)	(798)	(60)	(2.520)
EBT	(11.077)	(19.262)	(3.603)	(24.117)	(44.502)
Extraordinary Items	2.604	3.497	1.183	1.484	(23.169)
Taxes	(237)	(165)	0	0	
Minority Share	2.402	2.284	1.246	3.757	17.406
Net Income	(6.308)	(13.646)	(1.174)	(18.876)	(50.269)

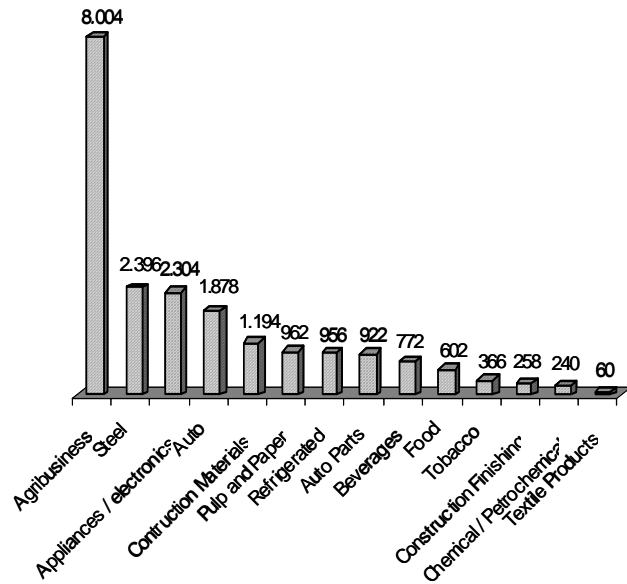
- Average yearly consumer inflation for the period 1999-2002: 10,6%

- Average exchange rate devaluation for the period 1999-2002: from an average rate of P\$ 1,00/U\$ in 1999 to P\$ 3,16/U\$ in 2002

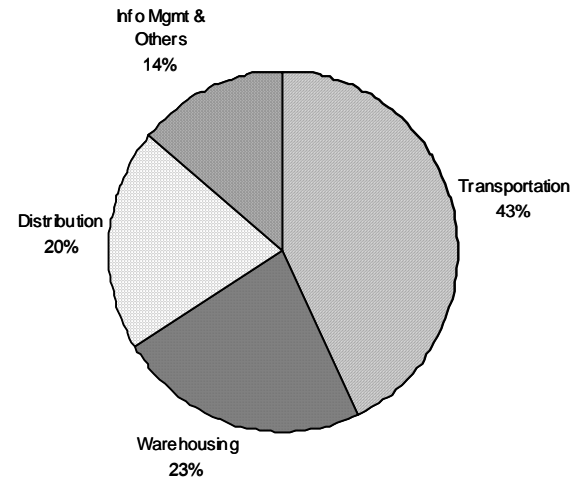
Exhibit 8

Size of Potential Logistic Market: R\$ 20.9 billions

Logistics Potential per sector - Brazil - (R\$ MM)



Logistics Market



Source: ALL company documents.

Exhibit 9a Delara Income Statement

Delara
Income Statements (R\$ 000)

	1996A	1997A	1998A	1999A	2000A	2001F	2002F
Gross Revenue	27.093	50.132	110.938	127.587	164.089	197.000	231.056
(-) Taxes	(1.982)	(4.951)	(11.499)	(12.435)	(20.967)	(20.738)	(24.323)
Net Revenue	25.111	45.181	99.439	115.152	143.122	176.262	206.733
(-) Cost of Services	(15.337)	(39.186)	(76.653)	(80.627)	(86.325)	(124.223)	(144.556)
Gross Margin	9.774	5.995	22.786	34.525	56.797	52.039	62.177
SG&A	(2.885)	(2.490)	(7.157)	(18.751)	(44.359)	(33.959)	(34.890)
EBITDA	6.889	3.505	15.629	15.774	12.438	18.080	27.287
(-) Depreciation	(1.000)	(1.248)	(1.872)	(1.872)	(7.265)	(10.737)	(11.431)
EBIT	5.889	2.257	13.757	13.902	5.173	7.343	15.856
Interest Revenue (Operating Cash)	1.625			800	-	251	297
Interest Expense	(674)	(1.177)	(1.600)	(2.149)	(2.494)	(5.261)	(5.536)
(+/-) Extraordinary Items	247	649	311	9	239	-	-
EBT	7.087	1.729	12.468	12.562	2.918	2.333	10.617
(-) Taxes (Contribuição Social)	(241)	-	(997)	(1.585)	-	(187)	(849)
(-) Taxes (Imposto de Renda)	(1.936)	-	(2.844)	(2.936)	(109)	(583)	(2.654)
Net Profit	4.910	1.729	8.627	8.041	2.809	1.563	7.113
Gross Revenue Growth		85%	121%	15%	29%	20%	17%
EBITDA Margin	27%	8%	16%	14%	9%	10%	13%
Net Margin	20%	4%	9%	7%	2%	1%	3%
COGS	61%	87%	77%	70%	60%	70%	70%

Exhibit 9b Delara Balance Sheet

Delara
Balance Sheet (R\$ 000)

	1996	1997	1998	1999	2000	2001	2002
Assets	22.440	35.434	54.298	64.467	70.095	80.046	86.974
Current Assets	12.717	19.592	26.346	25.518	30.195	37.355	43.529
Cash - Total	107	2.249	1.519	1.514	413	2.223	5.434
Clients	4.363	7.573	13.766	16.827	20.654	26.005	28.967
Securities	7.287	7.691	8.535	6.177	324	324	324
Taxes	875	437	401	560	7.018	7.018	7.018
Prepaid insurance	42	226	614	220	1.296	1.296	1.296
Other	43	1.416	1.511	204	457	457	457
Lawsuits				16	33	33	33
Long Term Assets					442	442	442
Permanent Assets	9.723	15.842	27.952	38.949	39.458	42.249	43.003
Investments	124	124	124	124	124	124	124
Fixed Assets (net)	9.599	15.718	27.828	38.455	38.036	40.827	41.581
Deferred				370	1.298	1.298	1.298
Liabilities & Shareholders Equity	22.440	35.434	54.298	64.467	70.095	80.046	86.974
Current Liabilities	4.096	5.142	6.147	11.427	12.901	13.721	15.474
Suppliers	387	3.176	665	1.768	1.857	2.721	3.015
Personnel	256	395	198	1.843	3.843	2.636	3.000
Sales Taxes	894	485	1.540	3.228	1.884	1.863	2.186
Freight	382	686	3.448	1.496	2.606	3.750	4.364
Taxes	2.177	-	235	264	6	45	205
Others	-	400	61	2.828	2.705	2.705	2.705
Long Term Liabilities	2.919	13.140	21.517	18.366	28.263	35.832	33.892
Debt	2.919	13.140	21.517	18.366	27.275	34.844	32.904
Others					988	988	988
Shareholders Equity	15.425	17.152	26.634	34.674	28.931	30.494	37.607
Paid in Capital	1.978	1.978	1.978	1.978	-		
Capital Reserve	-	-	1.424	1.424	-		
Accumulated Profit	13.447	15.174	23.232	31.272	28.931	30.494	37.607