LEBLON
E Q U I T I E S

Leblon Letter 21

1st Quarter 2015

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It is our pleasure to share our 21st Leblon Letter. Once again we hope this channel of communication will be of interest, and succeed in conveying our opinion on important themes affecting our investment decisions.

Thank you and regards,
Leblon Equities

The Quarter

The table below shows Leblon Equities Funds' performance in 1Q15 and since inception (November 28, 2008).

	1Q2015	Since Inception
Offshore Funds		
Leblon Equities Partners Fund	-16,7%	52,1%
Leblon Equities Class LV B Shares	-1,4%	13,0%
Benchmarks		
Libor	0,1%	5,2%
MSCI Brazil	-15,5%	-4,8%
Ibovespa in US$	-15,3%	1,7%

Low Visibility...

Seldom in the last 20 years has there been so little visibility of Brazil for the medium-term future (two to three years). There have been several crises of confidence, but the present one is very specific and unusual. It is unusual because the political actors involved in the responses to the problems are almost impossible to read: it is one of these moments in which people are much more important than processes or institutions (a parallel with our analyses of companies). The appointment of Joaquim Levy as Finance Minister was in the direction of the predictability that investors so much need to make investment decisions, but Levy now seems to be rapidly becoming an island in the new government team, and the measures being taken to bring Brazil back to a sustainable primary surplus – capable of stabilizing or reducing the public debt (gross and net) over the long term – have been taken with a focus on increases in revenue (taxes), rather than a cut in public spending and privatizations. Compared to other countries Brazil does not have a serious fiscal problem, involving rollover of debt. Although the nominal deficit – and the gross debt – are circumstantially high, we still have a low net debt, and a cost of debt that could fall rapidly in response to simple measures for credibility. The real problem of Brazil is having a State that is enormous, inefficient and spends too much, so that little is left for investments (in infrastructure, security, education and health).

Thus, although in the short term the risk rating agencies may be happy with the measures announced, in the medium and long term (which is what in fact interests us all most) it is now very difficult to visualize implementation of the structural reforms that would enable the country to return to annual growth of 4%–5%, sustained over decades – something that seemed perfectly possible four years ago. Yes, some have been taken – such as privatization of a few airports (Guarulhos in São Paulo, Galeão in Rio, Confins in Belo Horizonte, Brasília), but everything is still very timid and slow in relation to the urgency of the question.

If we make a parallel between micro-economic analysis of companies and analysis of Brazil today, we can say that Brazil is going through a short-term profit and loss account problem (high expenses for the scale of its revenue, generating a loss), which can be adjusted 'easily' by measures such as those recently announced; but what in fact concerns us is the balance sheet (assets and liabilities) of this 'company'. The Brazilian State has too many assets, generating too little return – and this produces an enormous cost for society. There are in particular piece of real estate, and shares of state-controlled companies, that could rapidly reduce the public debt, generating a virtuous cycle of lower interest rates, helping business owners and entrepreneurs to take more risks (increasing investments in the real economy, and consequently its growth).

With the private sector restrained due to daily and erratic regulations, and suffocated by incomprehensible taxes, and with the public sector spending a lot and also investing little, even with the help of a strong foreign direct investment it is almost impossible to return to achieving growth at Asiatic rates. And thus, Brazil misses the bus – even while it can see it coming and going on its way.

To make things even worse, we have a management and image crisis in Petrobras that paralyzes an organization that is a strong engine for both the micro and the macro. Completion of the refineries under construction, and duplication of Brazil's current oil production capacity from two to four million barrels per day are two urgent factors for a strong improvement in the trade balance, and consequently stability of the exchange rate – which in turn is very important for reduction of real interest rates in the country.

Thus, we seem to have a perfect storm, indeed one whose duration is unpredictable – and as a result we have the present strong aversion to risk, and extremely low stock prices. If you look at Brazilian stocks, you will ask yourself: "Expensive, or cheap?" – The answer depends on the assumption for future profits, which in many cases at this moment is a very difficult exercise to do, for all the reasons referred to above.

As managers of long-term funds for equities in Brazil, it is not our role to merely lament, but rather to seek companies that succeed in continuing to progress even in the midst of this perfect storm. At Leblon Equities we continue to do what we have always proposed to do: look for companies that are excellent, with managers that have quality, and which are going through short-term issues or difficulties that make them attractive in terms of price.

We don't usually like to classify our investment cases into groups, because usually each case is unique – very particular and specific. Even so, making a temporary effort to 'simplify' for the purpose of summarizing, we can say that: 34% are extremely good companies, with reasonable prices (Itausa, Mills, Estácio, Ânima, Natura and Arezzo); 43% are very good companies with 'reasonable' prices' (BVMF, Lojas Renner, Aliansce, Cetip, Senior Solutions, Duratex, Tarpon, Hypermarcas and Lopes); and 23% are cases of companies that are in a strong process of transformation (deleveraging, change of management, expenses cut, etc) at 'very low' prices (Saraiva, Springs, Dasa, Cambuci and HRT).

Thus, on average, our portfolio today has a P/L of 12 (2015E) and expected earnings growth of 18% (2015-2018). Doing a discounted cash flow exercise for each company in the portfolio at 10% p.a. in real terms (i.e., in excess of inflation), we arrive at a combined fair value for the portfolio potentially 78% above the current price. Historically this potential has varied, in the last six years, between 30% and 100%.

Our nine main companies, representing currently almost 62% of the fund, are: Itausa (ITSA4), Saraiva (SLED4), Springs (SGPS3), BMF (BVMF3), Aliansce (ALSC3), Lojas Renner (LREN3), Estácio (ESTC3), Mills (MILS3) and Cetip (CTIP3).

Itausa (ITSA4)

Market Cap: R$ 61 bi, at R$ 10.5/share. Average daily trading volume: R$ 140 mm.

Itaúsa is the holding company that controls Banco Itaú Unibanco (Brazil's largest private sector bank), with a 37% stake. It also has holds 36% of Duratex (Brazil's largest producer of wood panels and home fittings); 98% of Itautec (which has the world's tenth largest network of ATMs); and 97% of Elekeiroz (the only Latin American integrated producer of oxo-alcohols, phthalic and maleic anhydrides and plasticizers). Banco Itaú is more than 90% of the value of Itaúsa: A diversified bank with a strong balance sheet (well capitalized) and with ROE consistently above 20%. The principal stockholders of Itaúsa are the Setúbal and Villela families, with 61% of the voting stock and 34% of the total stock. Itaúsa trades at a discount of 20% to the value of its investments, which is justified partly by the operational costs and partly by the market's view that the Setúbal and Villela families will never cease to maintain it as their vehicle for control. It has a long history of returns higher than its cost of capital (around 17%), arising principally from its largest and best investment (Banco Itaú). Its aim is not to be an 'active' manager of these investments, in the sense of re-investing capital that is potentially distributable to stockholders as dividends into new businesses, which significantly reduces its risk. Thus, we see the main risks of being invested in Itaúsa as being those related to the business of Banco Itaú: regulation, interest rates, competition, leverage, etc. – all of which the present controlling group has managed in a masterly fashion.

The implicit value of Itaúsa today (P/L 2015E 8x, with expected earnings growth of 12% p.a. over 2015–17, and dividend yield of 4%) does not reflect any control premium for its interests (which would be perfectly plausible), nor a potential tax on capital gains of 34%. In our view, the fair value of Itaúsa is approximately 25% above its present market value.

R$ Bi	2011	2012	2013	2014	2015
Net Income	4.8	4.5	5.7	7.9	8.7
Growth	*10%*	*-6%*	*26%*	*39%*	*10%*
Total Assets	31	32	42	48	54
Growth	*13%*	*3%*	*31%*	*16%*	*12%*
Sh Equity	29	30	33	39	45
BVPS	R$ 5.91	R$ 5.48	R$ 6.06	R$ 6.43	R$ 7.42
ROE	17%	15%	18%	22%	20%

Saraiva (SLED4)

Market Cap: R$ 185 mm, at R$ 5.74/share. Average daily trading volume: R$ 1.1 mm.

Saraiva has two distinct businesses: (1) Education (23% of sales revenue, but 69% of Ebitda) – Saraiva is the leading publisher of legal books and one of the five largest companies in technical books and learning systems in Brazil and (2) Retail (77% of revenue, 31% of Ebitda), with a century-old brand and leadership in culture/leisure/entertainment in 115 stores, plus a web sales system that already supplies 1/3 of its total sales. The Saraiva family controls the company with 27% of the capital; and Leblon Equities is the second largest stockholder, with 9% (appointing two members of the Board of Directors).

The education business has high returns (average ROIC of 22% over 2009–14), strong free cash flow (a business with a low need for maintenance investment), a strong entry barrier (authors are unique), and good opportunities for growth through acquisitions. The strong investment made in recent years in a learning system and digital content will, in our opinion, now be bearing fruit. The retail business has been growing reasonably (CAGR of 17% over 2008–14), but with returns lower than potential (average 4% over 2008–14). Profitability has diminished since 2013 with the exit of the former CEO, but we expect change with the recent contracting of Enéas Pestana (former CEO of Pão de Açúcar). In our view the company is trading at far below its fair value due to the market's perception that there is a high technology/competition risk, and also its strong indebtedness; but we are confident in the new management as a means of addressing these issues appropriately.

Saraiva is trading at P/E of 7x, and we are assuming earnings growth of 35% p.a. for 2015–18. In our base scenario, discounting cash flow at 10% (real terms) gives us a potential value for the business of R$ 28/share (R$ 20/from the Education business, and R$ 8/share from the Retail business).

R$ MM	2011	2012	2013	2014	*2015*
Net Revenue	1.889	1.923	2.144	2.300	2.500
Growth	*21%*	*2%*	*11%*	*7%*	*9%*
EBITDA	174	185	95	111	130
EBITDA Margin	*9%*	*10%*	*4%*	*5%*	*5.5%*
Profit	65	77	13	6	25
Net Debt	274	288	595	544	600
ROIC	12%	11%	11%	11%	11%

Springs (SGPS3)

Market Cap: R$ 178 mm, at R$ 0.89/share. Average daily trading volume: R$ 280K.

Springs is one of the world's largest integrated producers of household textile products (bed linen, table linens, towels), with factories in Brazil, Argentina and the US. It has three distribution channels: (1) wholesale in South America (55% of sales, 105% of Ebitda); (2) wholesale in North America (32% of sales, 5% of Ebitda); and (3) retail in Brazil (AMMO) with 13% of sales and –10% of Ebitda). Among the principal brands are Santista (wholesale, Brazil) and Artex, MMartan and Casa Moysés (retail, Brazil, with 230 stores). The controlling stockholder is Coteminas (CTNM3/4 – controlled by the Gomes da Silva family), with 53%. The largest minority stockholders are Leblon Equities (with 24%) and Heartland IP (4%). Leblon appoints two Board members and Heartland appoints one.

Brazil's textile sector has been going through a lengthy crisis over the last 15 years (with a strong Real, high interest rates, lower import barriers, etc.), which has helped the efficient Springs to emerge as the outright leader in scale in Brazil/Argentina. For the wholesale segment, in Brazil/Argentina we expect 2015 sales of R$ 1.5 billion, with Ebitda margin of 18% to 20%. In North America we do not expect the business to grow so much, and margins are less volatile, but there was a recent transaction in the sector valuing a similar business at 2014 EV/Ebitda between 6 and 7. Sale of 'unnecessary' assets (mainly real estate) could generate significant funs to reduce the company's debt. In 2015 one sale (of real estate in Montes Claros) has already realized R$ 48 mn. The business can also benefit from the potential growth of retailing in Brazil, where there is a target of 600 stores in a franchising model – (of Artex and MMartan) by 2018.

Springs trades for implicit 2016E P/E of 6, but using discounted cash flow at 10% (real) gives a potential fair value of R$ 3.35/share. We are expecting revenue growth of 5% p.a. for 2014–18, and an improvement in Ebitda margin to 12% in 2017.

R$ MM	2011	2012	2013	2014	*2015*
Net Revenue	1408	1683	2043	2092	2.150
Growth	*-39%*	*20%*	*21%*	*2%*	*3%*
EBITDA	140	142	155	190	210
EBITDA Margin	*10%*	*8%*	*8%*	*9%*	*10%*
Profit	-410	-143	-53	-29	10
Net Debt	742	605	666	730	650
ROIC	2%	4%	3%	3%	6%

BVMF (BVMF3)

Market Cap: R$ 21.6 bi, at R$ 12/share. Average daily trading volume: R$ 145 mm.

BM&FBovespa was created in 2008 from the integration of the BM&F (São Paulo's commodities and futures exchange) and the São Paulo Stock Exchange (Bovespa – Bolsa de Valores de São Paulo). Currently it is the only securities exchange in Brazil – listing, and posting, clearing and settling trades in a wide range of assets through its platforms in an integrated model.. It also functions as depositary/custodian of assets traded in its sessions, and licenses software, and indices. The largest stockholders are Oppenheimer Funds (11%), Vontobel Funds (7%), CME Group (6%) and Blackrock Funds (5%).

Due to the model based on integration (principally with the clearing and custody center CBLC), it has enjoyed the benefit of a near-'natural' monopoly in the Brazilian capital market, with a strong entry barrier for new competitors, also for regulatory reasons. It has diversified revenue, which we expect to benefit from expansion of the businesses in derivatives, and from listing of an increasing number of companies, as savings migrate from fixed income to shares in the long term (as in developed countries). This type of business is highly scalable, able to grow significantly with little additional investment, and generates a lot of free cash flow, with interesting returns. In the long term, we see the main risks for the business as: (1) entry of new trading platforms in Brazil; (2) speed of development of the Brazilian market (always slower than expected due to the absence of strong structural reforms); and (3) its own corporate governance, in that it does not have a defined controlling stockholder (and also, it has a Board of Directors with potential conflicts of interest).

Based on discounted cash flow at 10% (real) we deduce a potential value for BVMF of R$ 14/share – which is 17% above the present valuation.

R$ MM	2011	2012	2013	2014	2015
Net Revenue	1.905	2.065	2.132	2.034	2.268
Growth	*0%*	*8%*	*3%*	*-5%*	*12%*
EBITDA	1.163	1.395	1.454	1.344	1.583
EBITDA Margin	*61%*	*68%*	*68%*	*66%*	*70%*
Profit	1.048	1.074	1.082	977	1.110
Net Debt	-1.055	-2.035	-2.624	-844	-1.031

Aliansce (ALSC3)

Market Cap: R$ 2.7 bi, at R$ 17/share. Average daily trading volume: R$ 8.4 mm.

Aliansce is the third largest shopping mall management company listed in Brazil, with ownership/management of 17 units (plus one project in progress) at widespread locations throughout the country. These focus primarily on the B and C income groups, totaling 403,000 square meters of GLA (gross leasable area), and Aliansce plans to reach 509,000 m2 at the end of 2015. The principal stockholders are: the Canadian Pension fund CPPIB, with 28%; founder and Chair Renato Rique, with 22%; BNY Mellon ARX, with 10%; Constellation, with 8%; and GIC, with 6%.

In the last 10 years Aliansce has been one of the principal developers of new shopping malls in Brazil, with a track record of success. Since approximately 43% of its GLA is still maturing (less than five years in operation) we expect to see higher average growth in rentals than the sector pattern. Also, we expect a number of opportunities for expansion and acquisitions to make it possible for free cash flow to be reinvested at attractive rates, maintaining the healthy growth. Aliansce has built a portfolio of assets that are well positioned regionally, and with low need for maintenance investment. The principal risks of the business are: (1) construction of new malls in its areas of influence; (2) weakening of its clients' purchasing power (limiting real increases in rentals); and (3) leverage.

It is trading at 17x 2015E P/FFO[1], and we are expecting 18% p.a. FFO growth in 2015–18. In our base scenario (8% p.a. revenue growth in 2014–19, Ebitda margin of 76%), discounting cash flow to the stockholder at 9% p.a. (real), gives us a fair value of R$ 22/share.

R$ MM	2011	2012	2013	2014	*2015*
Net Revenue	270	357	451	507	547
Growth	*30%*	*31%*	*26%*	*12%*	*8%*
EBITDA	190	253	325	370	410
EBITDA Margin	*70%*	*71%*	*72%*	*73%*	*75%*
Profit	92	129	60	61	101
Net Debt	472	1148	1738	1545	1588
ROIC	8%	6%	6%	6%	7%

1- FFO: Funds From Operations

Lojas Renner (LREN3)

Market Cap: R$ 11.5 bi, at R$ 90.78/share. Average daily trading volume: R$ 68 mm.

Renner is Brazil's largest fashion retailer by sales revenue, with a long history of strong growth (CAGR 19% in 1995–2014), and profitability (Ebitda CAGR 29% in 1995–2013) – both in our view resulting from high quality management. With more than 350 operations, including stores of Renner (248), Camicado (59) and YouCom (25), it has a presence in the five regions of Brazil and has more than 17,000 employees. The client financing division provided 20% of Ebitda in 2014. The largest stockholders are Aberdeen (14%) and Blackrock (7%).

Renner, a traditionally conservative company, is optimistic on the growth potential, estimating that it will have 400 stores in the Renner model and 400 in the YouCom model by 2020. The Camicado model, with only 1% of a highly fragmented and very large (R$ 10 bn) market, also offers significant opportunities. The new difficulties that the competitors (40% of the market) are currently finding in being able to continue operating outside the formal employment rules are currently a major catalyst for changes in Brazilian retailing. Renner has been investing heavily in a 'new logistics' (distribution systems and centers) to reduce inventories and increase productivity of sales, creating a new competitive differential. The principal risks of the business that we see are: continuation of quality execution (e.g., at some time in the long term, replacement of current CEO José Galló); and the volatility of the Brazilian economy.

We estimate a fair value for Renner of R$ 96/share, based on discounting cash flow to the stockholder at 9% in real terms, with revenue growth assumption of 12p.a. for 2013–22, and Ebitda margin of 25%.

R$ MM	2011	2012	2013	2014	*2015*
Net revenue	3238	3862	4370	5217	6001
Growth	*18%*	*19%*	*13%*	*19%*	*15%*
EBITDA	570	692	818	1015	1173
EBITDA Margin	*18%*	*18%*	*19%*	*20%*	*20%*
Net profit	337	355	407	471	541
Net debt	260	632	981	1121	1121
ROIC	19%	16%	15%	15%	15%

Estácio (ESTC3)

Market Cap: R$ 6.1 bn, at R$ 19.56/share. Average daily trading volume: R$ 86 mm.

Estácio is one of Brazil's largest university teaching companies, with a total of 437,400 pupils (in-person teaching plus distance teaching), in 78 undergraduate courses, and numerous postgraduate and extension courses, given at one university, six university centers, 36 university operations and 163 distance teaching centers. These are all registered and qualified with the Education Ministry, with a capillary presence throughout Brazil in 84 campuses, in the main Brazilian urban centers and 20 of Brazil's states. The target public is working people of the middle and lower-middle class. The largest stockholders are: Lazard (11%), the Zaher family (10%, former controlling stockholders of the acquired company UniSEB), Oppenheimer (9%) and Capital (5%).

Estácio has an especially dominant presence in Rio de Janeiro (source of 50% of its sales revenue), with a strong brand, weak competitors and very good location (difficult to replicate). The university education sector in Brazil has good fundamentals, with only 15% penetration (among young people aged 18–24), and with a government target of reaching 33% by 2020. There is also expectation that the public budget will rise from 6% to 10% of GDP in 2020 (for example through the FIES, PROUNI and Pronatec education subsidy and loan programs). The sector is still very spread out between multiple players – the five largest have only 17% of the market (2013). There is still the possibility of improvement of average price of monthly charges, and reduction of default. The highest risk that we see is the unpredictability of any moves the government may make – involving, for example, rules for education incentives (such as the FIES system) and changes in tax rules). Our estimate of fair value for Estácio is R$ 27.3/share. This is based on discounting cash flow to the stockholder at 10% in real terms, using the assumptions of 11% p.a. revenue growth in 2014–22, and Ebitda margin of 28%.

R$ MM	2011	2012	2013	2014	*2015*
Net revenue	1148	1383	1731	2405	2909
Growth	*13%*	*20%*	*25%*	*39%*	*21%*
EBITDA	123	210	320	534	704
EBITDA Margin	*11%*	*15%*	*19%*	*22%*	*24%*
Net profit	70	110	245	448	552
Net debt	89	148	(456)	(47)	(47)
ROIC	11%	16%	22%	19%	19%

Mills (MILS3)

Market Cap: R$ 1.1 bn, at R$ 8/share. Average daily trading volume: R$ 6 mm.

Mills is: one of the largest providers of specialized engineering services in Brazil (infrastructure); and also a leader in supply of concrete forms and tubular structures (construction), and in rental of motorized construction access equipment in the Brazilian market. The rental division provides 60% of Ebitda, infrastructure produces 30%, and construction (Jahu) 10%. Main stockholders: The Nacht family (35%), Capital (5%) and HSBC (5%).

Mills has a strong brand (since 1952), excellent management, and leadership in the markets in which it operates. In our view Brazil's infrastructure deficit, and its housing deficit, indicated the possibility of strong growth for the business in the long term (in spite of any turbulence in these sectors in the short term). Also, ROIC is high (above 15%) in spite of the business being cyclical. The fundamental risk factor is temporary: how fast Brazilian entrepreneurs' confidence will return. Mills's businesses are intimately linked with investments, throughout the economy.

We estimate fair value of Mills at R$ 14.7/share, based on discounting cash flow to the stockholder at 10% in real terms, assuming revenue growth at 7% p.a. over 2014–24, Ebitda margin of 45%, and ROIC of 12%.

R$ MM	2011	2012	2013	2014	*2015*
Net revenue	678	666	832	794	662
Growth	*23%*	*-2%*	*25%*	*-5%*	*-3.0%*
EBITDA	238	339	403	350	220
EBITDA Margin	*35%*	*51%*	*48%*	*48%*	*33%*
Net profit	92	149	168	79	-16
Net debt	387	429	617	561	431
ROIC	13%	15%	14%	8%	2%

Cetip (CTIP3)

Market Cap: R$ 8.4 bi, at R$ 31.9/share. Average daily trading volume: R$ 50 mm.

Cetip is (1) the largest depository of private-sector fixed income securities in Latin America – providing 2/3 of its sales revenue; and (2) the largest trading chamber for private assets in t he country (principally loans and mortgages related to automobiles), providing 1/3 of its revenue. The largest stockholders are: ICE (NYSE) with 12%, GIC with 4%, and João Carlos Ribeiro (former owner of the acquired company GRV) with 4%. We expect the fixed income business to grow significantly in the long term, with the increasing maturity of the Brazilian capital market, since annual turnover is still less than 1% of the assets held in custody. We expect new, more sophisticated products to be created with the reduction in real interest rates in Brazil, as has happened in the developed countries. There is an enormous potential for growth in the business of recording and registry of loans in real estate transactions (mortgages, etc.), since in Brazil the network of notaries' offices is still effectively 'in the stone age'. Cetip is a business with high margins and low investment in maintenance, with high returns (ROIC) and consequently strong generation of free cash flow and dividends, with good (regulatory) entry barriers and 'almost-captive' clients (low churn). The largest risk is possible competition from BMFBovespa. Cetip is trading for an implied 2015E cash flow yield of 6%. We estimate its fair value at R$ 34.6/share, based on discounted cash flow to the stockholder at 10% in real terms, assuming revenue growth (2015–24) of 12% p.a., with Ebitda margin of 68%.

R$ MM	2011	2012	2013	2014	*2015*
Net revenue	742	791	908	1016	1137
Growth	*119%*	*7%*	*15%*	*12%*	*12%*
EBITDA	518	550	629	700	773
EBITDA Margin	*70%*	*70%*	*69%*	*69%*	*68%*
Net profit	221	275	361	427	497
Net debt	930	601	230	124	114
ROIC	13%	14%	17%	19%	21%

Update on our Private Equity investments:

BRHC

BR Home Centers is a holding company formed by the merger, in 2010, of the construction materials retail chains TendTudo (with presence throughout the country) and Casa Show (Rio de Janeiro). Today it is the fifth largest construction materials chain in Brazil by sales revenue. It has 26 stores, with 72,000 m2 of total sales area, and 2,215 employees, in eight states of Brazil (BA, CE, DF, GO, MA, PE, RJ, SP), as well as six distribution centers, placed strategically in Goiânia, Brasília, São Luís, Lauro de Freitas, Fortaleza and Rio de Janeiro. The sales mix is: 33% ceramic flooring, tiles and finishes; 11% paints; 11% metal fixtures/accessories; 9% electrical/plumbing; 8% lighting; 7% porcelain ware; 5% doors/windows; and 16% other products. Its regional presence breaks down as 41% Northeast, 38% Southeast and 21% Center-West. The main competitors are regional players, but at national level the companies with highest billing in the sector are Leroy Merlin, C&C, Telhanorte and Diccico. BRHC expects 2015 gross revenues of R$ 950 mn (with CAGR of 15.5% in 2003–13), Ebitda of R$ 55 mn, and average bank debt of R$ 105 mn. Control is shared between the Aguinaga family (50%) and investment vehicles managed by Leblon Equities(50%)

MILLS SI

Mills SI Serviços Industriais is an operating division of Mills (MILS3, founded in 1952), which was acquired 100% by a fund managed by Leblon Equities in 2013. With 2,500 employees, it is today one of the leaders in Brazil in motorized access equipment (e.g. aerial work platforms, telescopic handlers), surface painting/treatment, thermal insulation and habitat protection, normally necessary in the process of construction, refurbishment and maintenance of major industrial plants (petrochemicals, paper & pulp, steel, etc.) and also oil and gas (platforms, FPSOs, ships, etc.). The management team has been working together for more than 20 years, with unparalleled experience, and the company stands out for its meeting of deadlines, and customized and innovative solutions with state-of-the-art technology, enabling it to boast a track record of retaining major clients such as Petrobras, Odebrecht, Braskem, Camargo Corrêa, CSN, Gerdau, Fibria, Klabin, Votorantim, Solvay/Rhodia. etc. Im 2014, the company had R$ 230 mn in revenues, Ebitda of R$ 29 mn and debt of R$ 40 mn.

CITY SHOES

Founded in 1996, the Rio de Janeiro brand City Shoes is today one of Brazil's most recognized and award-winning franchises in footwear and women's accessories. Since foundation its concept has been to offer quality fashion at accessible prices to contemporary urban women. It has won the Brazilian Franchising Association (ABF) Franchising Seal of Excellence five times. Today the franchisor company has 40 employees, supporting a franchise network of 62 stores throughout Brazil, mostly in shopping malls. A standard franchise has a store with 50 m2, installation/inventory cost of R$ 350,000 and estimated payback in three years. In 2014, BTL (holding company of City Shoes) acquired Ferni. Ferni, a label created 7 years ago, has been through a quick expansion and now has 40 stores. Eventhough the main market is Rio de Janeiro, the company has franchises in other states. The label's positioning is complementary to City Shoes and the assocition widens the possibility of both companys' growth in the long term.

The Arezzo Group (ticker: ARZZ3), with 514 stores and market valuation of R$ 2.2 bn, currently leads the sector in Brazil – which is very widely spread out among many operators: the next largest is Carmen Steffens (187 stores), Mr. Cat (159 stores), Santa Lolla (124 stores) and Paquetá (119 stores). The 2014 sales revenue target (on the 'sell-out' concept) is R$ 60 mn. The company's founders own 50% and a fund managed by Leblon Equities owns 50%.

TAMBORO

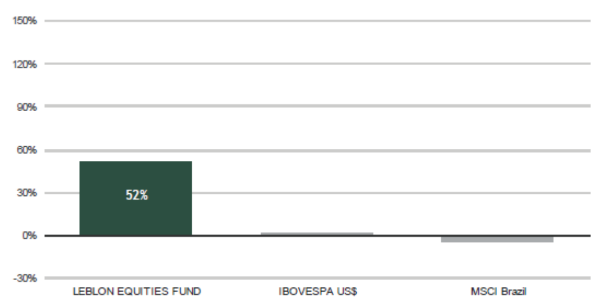
Tamboro is an education-technology (Ed-Tech) company that conceives, develops and sells virtual games that enable the player to experience an individualized learning process, with monitoring of performance in real time. The proprietary platform developed by Tamboro is differentiated and innovative in that it integrates the experiences that are particular to education with the potential contained in the games where the user's motivation is permanently stimulated by the combination of the adaptive dimension(obedience to the individual's learning speed), the motivational dimension (incentive to achieve, throughthe dynamic of the games), and the collaborative dimension (it stimulates exchange of ideas and experiences) and the evaluation dimension (it accompanies the student's performance in real time). By forming an alliance between the play universe of virtual games and basic formal teaching, Tamboro invests in experiences which change the way we relate to knowledge, relying on the belief that the process of learning should be conscious and harmonized with the skills of the 21st century, making use of procedures of reading, problem solving and the capacity to communicate and collaborate – employing visual, spatial and dynamic knowledge, through networks that connect the creative potential of each individual. Founded in 2010 by entrepreneurs connected to the NAVE Project (of Oi Futuro), it now has 20 employees and more than 2,300 active pupils, from fifth to ninth grades, using its LUDZ learning/game (including the São Paulo State Education Department, the Aliança Institute, the Objetivo Group, Ari de Sá, and others). The entrepreneurs and angel investors own 56% of the company, a vehicle managed by Leblon Equities owns 24%, and a vehicle managed by VOX Capital

Leblon Equities Partners Fund

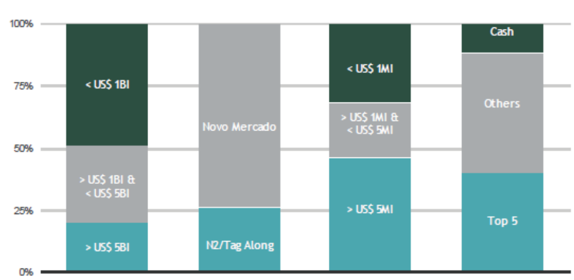
In the 1Q15, Leblon Equities Partners Fund had a downfall of 16.7% net of all costs, while the Ibovespa index measured in USD fell 15.3%. Since inception, the fund has returned a gain of 52.1%, while in the same period the Ibovespa in USD yielded only 1.7%. The fund's annualized return since inception is 6.9%, compared to 0.3% for the Ibovespa in USD.

For the 1st quarter, our top contributions came from our positions in Springs, Hypermarcas and Senior Solutions. Our losses were due to Cetip, Natura and Saraiva. During the quarter, we increased our positions in Mills, Springs, Ânima, Estácio and Saraiva. On the other hand, we decreased our exposure to Aliansce, Natura and Lojas Renner. In addition, we've ended our positions on Pão de Açúcar, Wilson Sons and GP Investimentos.

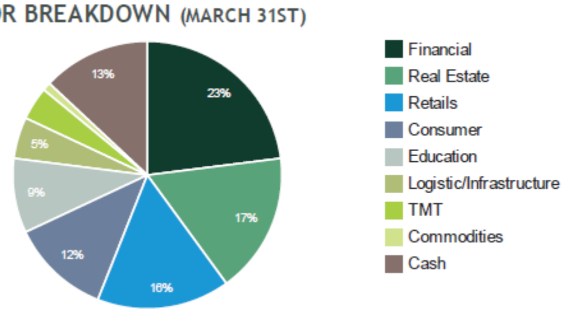
PERFORMANCE US$ (SINCE NOVEMBER 28TH, 2008)



RELEVANT INFO - EQUITY PORTFOLIO (MARCH 31ST)



SECTOR BREAKDOWN (MARCH 31ST)



RETURNS

Last 12 months returns (US$)			
Period	Leblon Equities Fund	Ibovespa US$	MSCI Brazil
March 15	-7,89%	-11,03%	-11,49%
February 15	-2,51%	1,72%	2,23%
January 15	-7,18%	-6,41%	-6,62%
December 14	-10,89%	-11,92%	-11,37%
November 14	-9,23%	-4,36%	-4,81%
October 14	0,16%	1,23%	0,07%
September 14	-17,58%	-19,32%	-19,39%
August 14	7,79%	11,14%	10,77%
July 14	-1,99%	2,00%	1,68%
June 14	3,81%	5,48%	5,09%
May 14	1,17%	-0,88%	-2,04%
April 14	1,31%	3,64%	2,66%
12 Months	-37,44%	-28,43%	-31,55%
ITD (Until 03/31/2015)	52,08%	1,65%	-4,75%

Annual returns (US$)			
Period	Leblon Equities Fund	Ibovespa US$	MSCI Brazil
2015 (until 03/31/2015)	-16,65%	-15,31%	-15,50%
2014	-29,06%	-14,37%	-17,39%
2013	-18,24%	-26,29%	-18,68%
2012	18,85%	-1,42%	-3,50%
2011	-21,55%	-27,26%	-24,85%
2010	21,17%	5,59%	3,78%
2009	144,67%	145,16%	121,25%
2008*	13,81%	2,44%	0,79%

Annualized returns			
Period	Leblon Equities Fund	Ibovespa US$	MSCI Brazil
1 year	-37,44%	-28,43%	-31,55%
2 years	-31,97%	-24,52%	-24,15%
3 years	-21,76%	-23,46%	-21,56%
4 years	-18,58%	-21,63%	-20,36%
5 years	-11,36%	-16,65%	-15,60%
Since Inception*	6,91%	0,26%	-0,77%
Volatility since inception*	22,74%	31,58%	31,38%

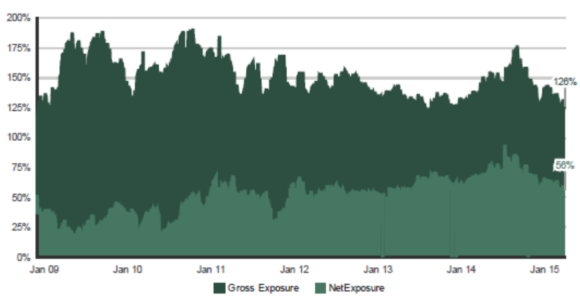
Leblon Equities Partners Class LV B Shares

In the 1Q15, Leblon Equities Partners Class LV B Shares (former Leblon Value Hedge Fund) had a downfall of 1.4% net of all costs, while the Ibovespa index measured in USD fell 15.3% and the MSCI Brazil Index also fell -15.5%. Since inception, the fund has returned a gain of 13.0%, while in the same period the Ibovespa in USD yielded 1.7% and the MSCI Brazil -4.8%. The fund's annualized return since inception is 2.0%, compared to 0.3% for the Ibovespa in USD and -0.8% for the MSCI Brazil.

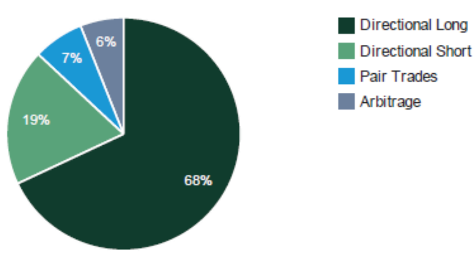
For the 1st quarter, our top contributions came from our arbitrage position in Eletrobrás (the short end in ELET6 contributed positively with 1.1%.), our short positions in Júlio Simões and Lojas Marisa. Our losses were on the long book (same as the prior fund): Cetip, Natura and Saraiva. During the quarter, we made the same changes we did for Leblon Equities Partners Fund. In addition, we also ended our short position in Cielo.

PERFORMANCE US$ (SINCE NOVEMBER 28TH, 2008)

GROSS AND NET EXPOSURE



STRATEGY BREAKDOWN (MARCH 31ST)



RETURNS

Last 12 months returns (US$)			
Period	Class LVB	Ibovespa US$	MSCI Brazil
March 15	3,64%	-11,03%	-11,49%
February 15	-0,21%	1,72%	2,23%
January 15	-4,69%	-6,41%	-6,62%
December 14	-7,40%	-11,92%	-11,37%
November 14	-5,67%	-4,36%	-4,81%
October 14	0,58%	1,23%	0,07%
September 14	-8,28%	-19,32%	-19,39%
August 14	3,19%	11,14%	10,77%
July 14	-0,15%	2,00%	1,68%
June 14	0,91%	5,48%	5,09%
May 14	0,03%	-0,88%	-2,04%
April 14	-0,72%	3,64%	2,66%
12 months	-17,99%	-28,43%	-31,55%
ITD (until 03/31/2015)	13,04%	1,65%	-4,75%
Annual returns (US$)			
Period	Class LVB	Ibovespa US$	MSCI Brazil
2015 (until 03/31/2015)	-1,43%	-15,31%	-15,50%
2014	-25,66%	-14,37%	-17,39%
2013	-8,65%	-26,29%	-18,68%
2012	10,30%	-1,42%	-3,50%
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2010	11,98%	5,59%	3,78%
2009	43,35%	145,16%	121,25%
2008	6,61%	2,44%	0,79%

Annualized returns			
Period	Class LVB	Ibovespa US$	MSCI Brazil
1 year	-17,99%	-28,43%	-31,55%
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3 years	-12,03%	-23,46%	-21,56%
4 years	-9,90%	-21,63%	-20,36%
5 years	-5,90%	-16,65%	-15,60%
Since Inception*	1,97%	0,26%	-0,77%
Volatility since inception*	12,77%	31,58%	31,38%

*Inception date of the fund 11/28/2008

PERFORMANCE ATTRIBUTION (MARCH 31ST)

Cash + FX Hedge	6,89%
Directional Short	1,62%
Pair Trade	0,57%
Arbitrage	0,44%
Directional Long	-5,79%
Expenses	-0,09%
Total	3,64%

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