



**BATISTA:** His critics say the time has come for the companies in his conglomerate to start producing results.

# The Billionaire from Brazil

EIKE BATISTA HAS CREATED A SPRAWLING INDUSTRIAL EMPIRE BUT HAS YET TO PROVE HIMSELF WHERE IT MATTERS MOST: PUMPING PROFIT INSTEAD OF PROMISES

BY BRIAN ELLSWORTH  
RIO DE JANEIRO, DEC 17

**E**IKE BATISTA SITS atop one of the world's most expansive industrial conglomerates, ranging from oil and mining to recreation and beauty care. Already the richest person in Brazil, he wants to be the richest in the world.

His country has not seen industrial ambition on this scale since the 19th century, when a banker called Irineu Evangelista de Sousa built the first railroad, helped put steamships on the Amazon and linked South America to Europe with an undersea telegraph.

Since then, Brazil has evolved from a slaveholding backwater addicted to foreign capital into an emerging global power. And yet in skeptical capital markets, Brazil is still trying to prove itself.

And so is Batista.

The main companies in EBX, his conglomerate, are in start-up mode and most are posting operating losses. His flagship oil company has pumped no crude and his enormous port projects have loaded no cargo.

His fortunes depend on Brazil's continued economic success, and his huge bets on oil and commodities could prove highly vulnerable if world prices fall. The time has come, his critics say, for Batista to deliver results to justify his aggressive promises and the sky-high valuations of his companies.

The risks have already become evident. In April, Batista's oil company, OGX, presented a study showing its potential oil resources jumped almost 60 percent to 10.8 billion barrels. But, on the next trading day, its shares fell by as much as 17 percent.

That was because the new number came

with a large footnote: "Potential resources" are much less likely to be produced than "reserves." In the eyes of many investors, the study raised doubts over whether OGX has as much oil as it suggested.

Batista dismisses as absurd any doubts about future successes of OGX and his other companies. In a recent interview, brimming with charm and wearing an infectious grin, he promised to fill his shareholders' pockets and, at the same time, to transform Brazil into a developed nation.

"My companies are going to be billion-dollar EBITDA machines that will pump out profits for my shareholders and dividends for my children and grandchildren," he said, using the term for earnings before interest, taxes, depreciation and amortization.

SOME INVESTORS are skeptical. Nick Robinson of Aberdeen Asset Management,



REUTERS/SERGIO MORAES

**MAGNATE:** Batista's holdings range from oil and mining to recreation and beauty care.

who helps manage around \$10 billion in Brazilian equity investments, says his fund has no money in the EBX group.

"I think there are some good companies there, but they're a bit too early-phase for us at the moment," said Robinson. "These are projects that require a lot of cap-ex, a lot of cash needs to be invested. There's a risk that those investments won't generate good returns," he said.

Others are standing by Batista, who was ranked the world's eighth-wealthiest person by Forbes in 2011. Among the first major outside investors in his companies was the Ontario Teachers' Pension Plan, which had \$108 billion under management at the end of 2010.

The plan's annual report for 2009 listed OGX and Batista's logistics company, LLX, as key drivers in its non-Canadian equities portfolio. OGX shares jumped 225 percent that year, while LLX soared 560 percent.

But since the start of this year, the combined value of the five listed companies in Batista's conglomerate has fallen by \$17.5 billion. OGX's shares are down 32 percent, compared with an 18 percent drop in the Bovespa, Brazil's benchmark stock index.

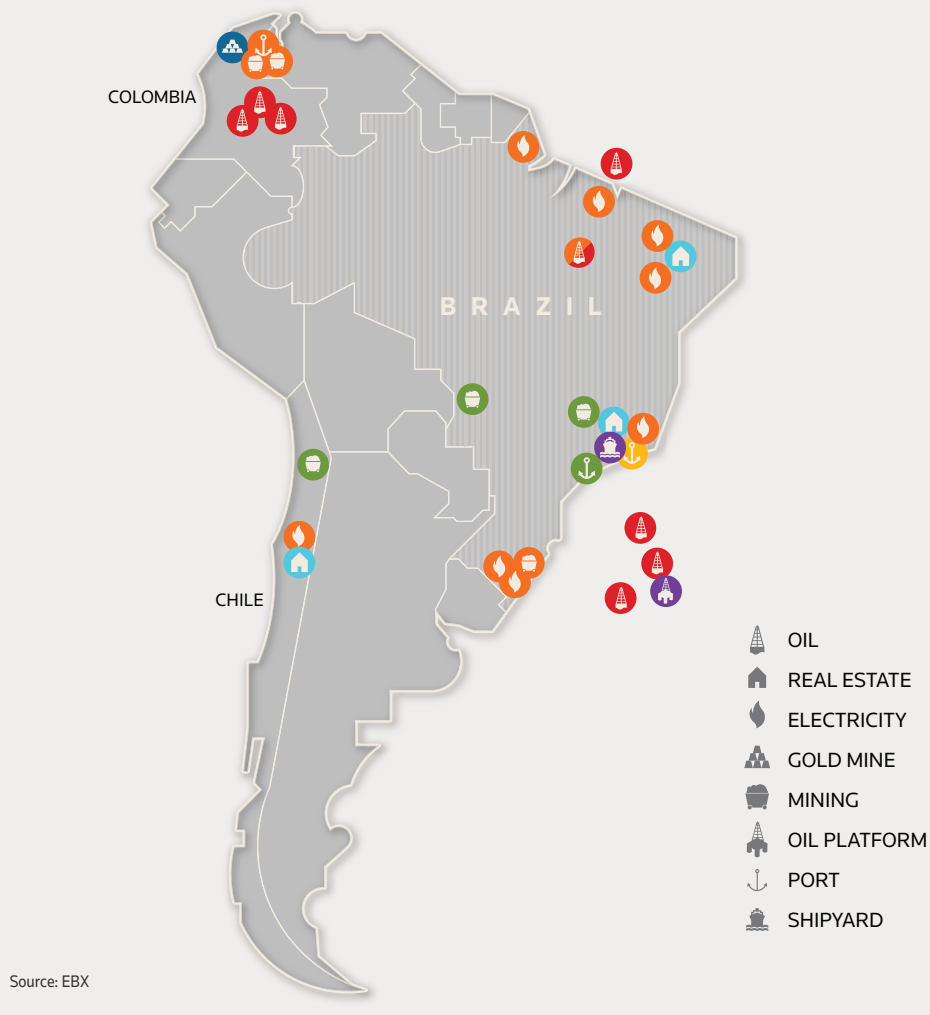
Wayne Kozun, senior vice president of public equities at the Ontario Teachers' Pension Plan, said he still has faith in the EBX group's capacity to deliver.

"It's not just Eike who's running these

## The X factor

Key holdings of Eike Batista's EBX conglomerate:

MMX	LLX	MPX	OGX	OSX	REX	AUX
Mining	Logistics	Energy and electricity	Oil and gas	Shipbuilding	Real estate	Gold mining



things, he has a large team. He's hired people that have expertise in the area," Kozun said. "Yes, we have confidence in them."

AS WELL AS oil company OGX and logistics company LLX, Batista's conglomerate also includes mining company MMX, energy and electricity company MPX and shipbuilder OSX. Batista says the "X" at the end of each name represents multiplication of wealth.

The conglomerate has set cash-flow targets of \$1.1 billion for 2012 and \$17.4 billion for 2015. Reaching them may well depend on the performance of oil company OGX, perhaps Batista's riskiest venture.

Batista created OGX in 2007, making big bets on fields off Brazil's coast.

Those bets began to pay off in 2009, when

OGX announced multiple discoveries. OGX's stock price shot up and, without producing a single drop of oil, its valuation at times rivaled that of Devon Energy, one of the largest independent oil and gas producers in the United States.

OGX even floated a \$2.6 billion bond at competitive interest rates -- unheard of for an oil company with no production.

It plans to pump 1.4 million barrels of oil and gas equivalent by 2019.

"It will be a world record from first drilling to first production of offshore oil and gas," Batista said in the interview in September. "We're going to be creating some benchmarks in the industry."

Since then, OGX has delayed its start date for production to January from December.





REUTERS/SERGIO MORAES

**BEAUTY SPOT:** Marina da Gloria, with Sugar Loaf mountain in the background, just a small part of Batista's empire.

BATISTA SAYS OGX shows what Brazil needs – someone bold enough to take risks in a nation where industrialists live comfortably off the “teat” of government contracts and guaranteed returns.

“This is Brazil. There’s no risk-taking,” he said. “The risk-taking in Brazil was done by state-owned companies.”

He has a point. The two largest companies on Brazil’s stock exchange are Petrobras, an oil company known for its advanced drilling technology but also for suffering heavy government interference, and world No. 2 mining company Vale, which removed its chief executive this year under political pressure.

Nearly half of the weighting of the Bovespa comes from companies that are either currently or formerly state-controlled, ranging from utilities and telecom companies to steel mills and jet maker Embraer. State development bank BNDES is still the principal source of medium- and long-term financing for Brazilian companies.

But while Batista criticizes others for living off the government, he is no free-market hawk.

For example, he has backed government efforts to require offshore drilling equipment

## Share performance

Four EBX companies have underperformed the Bovespa this year



YTD share price change – pct	
MPX	64.7
LLX	-25.4
OGX	-31.5
MMX	-43.6
OSX	-97.6
Bovespa	-18.0

be built at home -- even if the cost is higher -- to spur local industry and create jobs. He opened his own shipbuilding business to provide rigs and platforms for OGX, which he insists will create value over time even if costs are higher at first.

“He believes in Brazil,” said Senator Delcidio Amaral of the ruling Workers’ Party

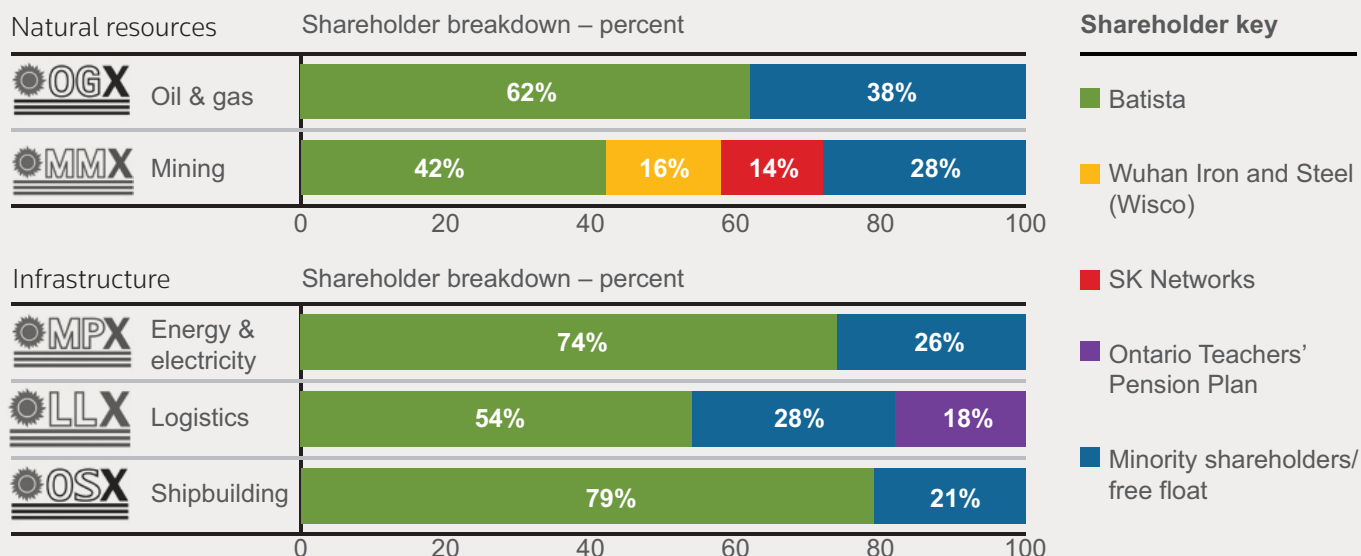
and a former Petrobras executive. “He’s not a conventional businessman, he’s brash, he’s insolent -- this is why so many people criticize him.”

Batista is convinced he can help Brazil strengthen in crucial areas -- expanding clogged ports that are slowing economic growth, lowering logistics costs by using

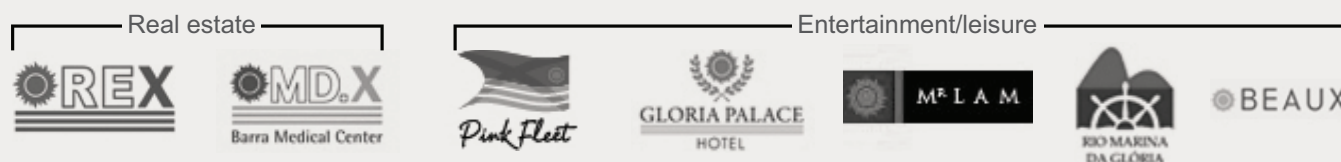
# Who owns EBX?

Batista has a controlling interest in all five of his publicly traded companies

## Publicly traded companies



## Privately held companies



Source: Company, Thomson Reuters

sea freight instead of roads, spurring private entrepreneurship that is independent of the state -- while still making a killing.

His Port of Acu project, being built by LLX in Rio de Janeiro state, will help mining companies expand by giving them a way to ship "trapped" minerals that currently have no way to market.

That project, says Batista, shows the "brutal efficiency" that he embodies: Iron ore produced by MMX will be turned into steel at a mill to be housed at the port complex, using power generated by MPX. That steel will then be used by shipbuilder OSX to build rigs and offshore platforms for oil company OGX.

In October alone, EBX announced deals to build a fertilizer plant and an oil pipe construction facility in an industrial park linked to the port.

LIKE MANY OTHERS of his generation, Batista, 55, was raised not to believe in Brazil, which suffered years of military

dictatorship, kleptocratic state governments, and hyperinflation in the 1980s. His own father suffered under the dictatorship and was suspected of being a communist because he spoke Russian.

"I think it wasn't until 2008 that people really began to regret having sold assets in Brazil," he said.

Today, Batista is a larger-than-life figure in Brazil and a mainstay in the business and society pages. He was married to former carnival queen and Playboy centerfold Luma de Oliveira, whom he divorced in 2004. They have two sons.

His holdings include a touring yacht called Pink Fleet, a Chinese restaurant and a high-end hair and skin clinic called BEAUX headed by his girlfriend, Flavia Sampaio.

And his public persona is not that of the average CEO. On Twitter, he says things like, "Have a good and beautiful night my friends in Twitterland! Bye bye. Eike." Or, "Whoever loses their simplicity loses the essence

of life!"

When reporters at an oil and gas conference pressed him last year for details about OGX's drilling plans, Batista spent most of a press conference talking about his idea for an electric car factory. Asked how much he would invest in it, Batista, in an eye-catching pair of cowboy boots, cocked his head and said, "Keep asking me questions, I'm still thinking about it." Almost an hour later he said, "a billion." He meant dollars, not Brazilian reais.

HIS RISE BEGAN in the early 1980s, when tens of thousands of Brazilians flocked to the heart of the Amazon to work informal mines in conditions not much advanced from the California Gold Rush 130 years earlier.

Back from Germany, where he had studied metallurgical engineering, he borrowed \$500,000 from two Rio de Janeiro jewelers and traded gold from the isolated jungle mines. Brazil's economy was floundering





REUTERS/SERGIO MORAES

**UNDER CONSTRUCTION:** The Port of Acu, one of Batista's ambitious projects.

under military dictatorship and inflation was going through the roof. Gold was in demand.

Trekking through malarial mining camps, Batista says he traded \$60 million, kept 10 percent for himself, and made a fortune of \$6 million by age 22.

He used the proceeds to buy and mechanize his own mine, an experience he says taught him to find productive assets overlooked by others.

"In the middle of the jungle it's a military operation. You have to build your own city, people need to eat, you have to produce your own power," he said. "I only survived it because the mine was so rich that it was totally idiot-proof."

"Idiot-proof," used to describe a project with margins so high that it is profitable no matter what, is a catch-phrase that still comes up as he discusses his current businesses.

Critics say Batista isn't completely self-made. His father, Eliezer Batista, was a former mines minister and president of Companhia Vale do Rio Doce, the formerly state-owned mining company now called Vale. He denies his father's connections gave him a leg-up.

By the age of 29, the younger Batista had risen to become a director at Canadian gold miner TVX, traveling the globe in search of overlooked assets. He came into conflict with

## REUTERS INSIDER



Batista talks to Chrystia Freeland of Reuters:  
<http://reut.rs/uycR6W>

partners over projects in Greece and Russia, which led to the decline of TVX.

"His business history before his current ventures is a bit questionable," said geologist and former mine developer Rik Visagie. He said Batista used data that Visagie and his partners had gathered on the Kassandra gold mine in Greece and then pushed them off the project. A Canadian court awarded

Visagie control of a stake in the mine.

"He decided he was going to teach everyone how to mine, so he brought in a whole lot of Chileans to work in Greece," said Visagie, who later became an analyst with Octagon Capital in Toronto. "That doesn't work well at all."

Battered by legal wrangling and a crash in the price of gold, TVX's stock tumbled and



the company was ultimately bought out by Canada's Kinross.

Despite their dispute, Visagie still has respect for Batista's successes.

"Eike put together the deals for TVX, and those assets today are probably still the best Kinross has," he said.

Batista, who blames the problems on the Greek government for refusing to grant an environmental license, returned to Brazil. "I traveled around the world and I realized that Brazil is the best place in the world to invest," he said.

OF BATISTA'S MAIN companies, iron ore miner MMX, which he set up in 2005, is the most operationally advanced. It posted a relatively modest profit of around \$57 million

in the second quarter of this year and swung to a loss of \$139 million in the third quarter due to a decline in Brazil's currency.

Its furious pace of dealmaking is an example of Batista's unusual style, which he calls "capitalismo turbinado," or "turbo-capitalism."

In 2008, he sold stakes in two of MMX's three mines to Anglo American for \$5.5 billion, considerably more than what analysts said they were worth, in what may have been the deal of his life.

In early 2010, he sold a 22 percent stake in MMX to China's Wuhan Iron and Steel for \$400 million and South Korea's SK Networks bought \$700 million worth of MMX shares.

Skeptics note that the largest gains for MMX shareholders have come from deals

rather than from the production of iron ore, raising questions about whether he can execute his projects. Investors in his other companies are still waiting for his ambitious plans to turn a profit.

Batista shrugs off the global economic headwinds, Brazil's own slowdown and falling share prices.

"Our shares? We don't even look at them. We don't need to look at them. Our financial discipline allows us to laugh at what's going on," he said.

And he has no doubt he'll climb to the top of the Forbes list of the world's wealthiest.

"It's inevitable," he said.

(Editing by Eddie Evans)



REUTERS/SERGIO MORAES

**GOING UP:** Reaching the top of the list of the world's richest people is "inevitable," Batista says.

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