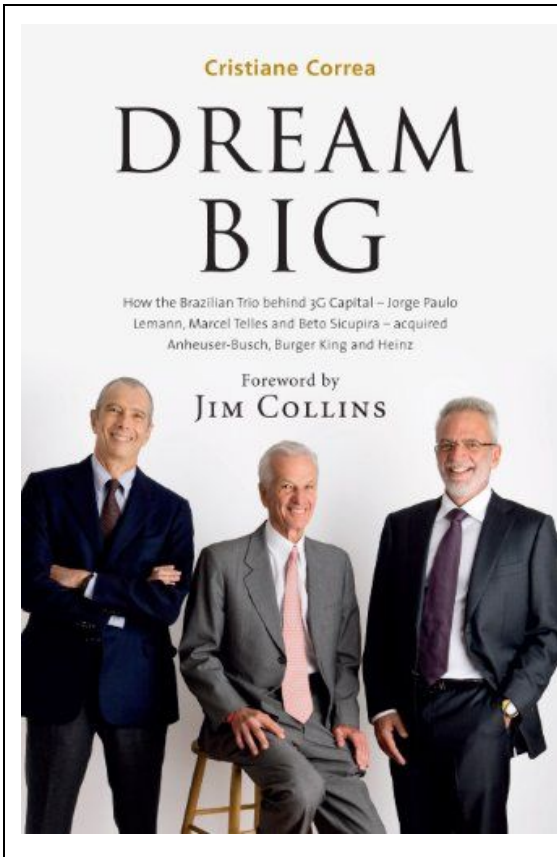


Favorite Quote:

"My friend - and now partner - Jorge Paulo and his team are among the best businessmen in the World. He is a fantastic person and his story should be an inspiration to everybody, as it is for me."

—Warren Buffett



Summary: *Dream Big* is about three of the most successful businessmen in history you've never heard of. When they're not making deals, you can find them on the ocean floor enjoying their favorite hobby: underwater fishing.

Meet Jorge (pronounced like *Georgia* with a J) Paulo Lemann, Marcel Telles, and Carlos "Beto" Sicupira. Their combined net worth is \$27 billion dollars. (\$12.9b, \$8b, \$6.1b, respectively)

These Brazilians achieved phenomenal success and wealth by adhering to simple principles, ruthlessly executed:

- **Meritocracy:** incentivize top talent (pay them millions)
- **Reduce costs:** amputate corporate bloat
- **Continuous improvement:** relentless pursuit of efficiency
- **Hard work:** willingness to make tradeoffs in personal life

The early money was made in trading securities: they founded Banco Garantia in 1971 (which became the "Goldman Sachs" of Brazil). Then they started buying and running companies: retail, railroad, beer, CPG, burgers—their formula is industry agnostic.

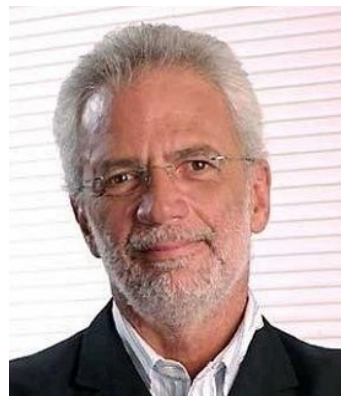
With limitless aspirations, they now own controlling interests in AB Inbev, Burger King, and Heinz. Add this [uniquely good book](#) to your library, and/or enjoy the highlights below.

Sicupira was always paranoiac about controlling expenses at Lojas Americanas. He used to say that
"Costs are like nails; they always need to be cut."

Jorge Paulo Lemann



Marcel Telles



Carlos "Beto" Sicupira



"Beto once told me that 'Everything you do that is important in life needs to be institutionalized, if not, it's as though you have done nothing.' I will never forget that phrase."

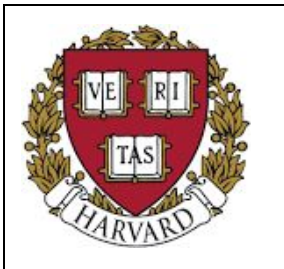
Introduction

“People who know me and my companies know that I always say that, ‘having a big dream brings as much work as having a small dream.’ —Jorge Paulo Lemann

→ “It has been estimated that since Banco Garantia was founded in 1971, between 200 and 300 people who worked in the three partners’ various businesses have each earned more than \$10 million. *Forbes* magazine reported in March 2013 that Lemann was the 33rd richest man in the world, with a fortune of almost US\$ 18 billion (Telles and Sicupira were ranked in the 119th and 150th positions, with US\$ 9.1 billion and US\$ 7.9 billion, respectively). The three are among the 10 richest people in Brazil.”

But that’s just the prize money.

How they got there is far more fascinating. . .



“Harvard also taught me to focus on a way of obtaining results. To finish within my deadline meant I had to create a system involving great focus... **I always try and reduce everything to what is essential** and this has also helped us a lot in forming our businesses. Most of our companies – and people – have five goals... Doing something simply is always better than doing it in a complicated way.”

The importance of connections: he got a job with a company called Deltec, founded in Rio in 1946, to sell shares on the Latin American market. The owner was an American, Clarence Dauphinot Jr., who was also a member of [the Country Club](#), and hired the young fluent English speaker as a trainee.

DELTEC
Deltec Asset Management LLC

CREDIT SUISSE

Later in his career, Lemann quit Credit Suisse after 7 months. He felt everything was “too slow, rigid and predictable.”

Lemann, somewhat out of character for the now-media-shy mogul, leveraged the media in his early days: “Lemann started writing a column on investments that appeared in the Sunday edition of the *Jornal do Brasil* newspaper.”

I have no idea what this means, but clearly Lemann was able to exploit an unregulated Brazilian stock market:

“Neither Lemann nor Invesco had inherited anything, but he was not ready to stay on the sidelines in the game of buying and selling shares. The way in, he discovered, was to create a kind of “parallel stock market,” in which the shares were sold over the phone outside the official trading session. This new approach turned into an excellent business for him, as the shadow stock market ended up with the equivalent of 5% of the volume of the Rio exchange, but, as expected, the big brokers did not look kindly on this daring approach.”



Makes his first million: At the age of 31, Lemann was unemployed once again. But this time, he had US\$ 200,000 in his pocket [about \$1.5m in 2020 money], a lot of money in those days, and he had in his head the business model he had been dreaming about – in which the wealth generated would be split with the best employees. Lemann = happy, but just getting started.



Power move: buys a brokerage with wealthy backers for \$6m.

How did they find it? They put an ad in a newspaper: "Brokerage for sale sought." The acquisition was concluded in August of that year when the group, banked by Gentil, bought a brokerage called Garantia from speculators for US \$800,000.

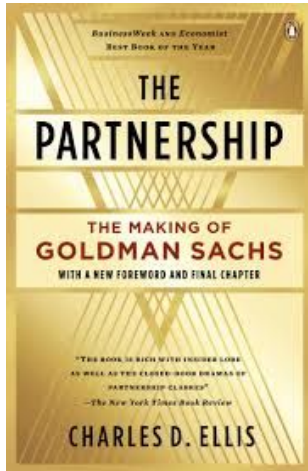
- **Decision:** again, partners with wealthy people to buy a brokerage firm for \$800k, or \$6m today. But Lemann and Ramos da Silva had learned their lesson from the Libra experience and negotiated with Gentil until they managed to get a **51% stake split equally between them**. Gentil kept 39% and Arinos held the remaining 10%.



Meritocracy, relentless cost control, hard work and a lot of pressure that not everyone could endure. There were no perks or status symbols. However, for the best - people like Brito, Thompson and Dutra - the opportunities gave them the chance to become business partners.

Due to market conditions, things go south or sideways for 1.5 years. Lemann and team continue to slog it out. Persistence. This is the part that *wasn't* on the cover of *Forbes*. They just keep hustling while things are shitty for 18+ months. How long would you be willing to keep at it?





Lemann, Telles and Sicupira were very much inspired by **Goldman Sachs**: the referenced Charles D. Ellis, the author of the book *The Partnership – The Making of Goldman Sachs*, where personal anonymity is almost a core value of the firm. A pattern I noticed was they are not afraid to mimic success. They are intellectually honest—and humble—enough to seek out others who have already figured it out.

“Success leaves clues,” as they say. And the Brailians became quite good at picking up such clues, but more importantly proactively seeking out clues from other accomplished businessmen, e.g. Sam Walton.

Money, Money, Money



At Garantia, they pay their top performers a boatload of money. Garantia paid salaries that were below the market average but the bonus could amount to four or five extra salaries, a potentially huge amount of money at that time. They were not afraid to pay for performance! Massive upside = 4-5X base salary.

How did they structure incentives? The Garantia staff was basically divided into three areas.

1. **Bonus:** The new arrivals, all of whom were eligible for a bonus. Those at the bottom could not rise to the group above them, nor was there a minimum time for the worker on the bottom level to move up and work on commission. Everything depended on performance.
2. **Profit-sharing:** The group immediately above worked on commission, and instead of receiving a multiple of their salary, as those below them did, commission workers received a small percentage of the company's total profit. This usually resulted in each receiving between 0.1% and 0.3% of the firm's total profit.
3. **Equity:** The top 1% of performers made partner.

How did they allocate retained earnings? “From the bank’s earnings, 25% was distributed as profit sharing, 15% as dividends and 60% was capitalized,” said Baptista. “It was a doctrine that could not be changed.”

If you were in the top 1% of performers and made partner, you still had to buy your 1% equity for \$600,000! Garantia would loan you the money, you’d buy your equity, and then you’d go back to work. Meanwhile, tech workers think they have it hard with exercising stock options and their 83b elections :)

When Beto Sicupira is not at work. . . “Carlos Alberto Sicupira is a specialist in underwater fishing. He is even a world-record medalist in six categories of this radical sport. His biggest conquest is a blue marlin weighing 301.2 kilos, hooked off Cabo Frio on the Rio coastline in 2006.”

For those keeping score at home, 301 kilos is equal to:

a 660-pound blue marlin which he caught with a spear.

This is what Beto Sicupira does for fun.



Sicupira was known to say, “None of the people I ever saw who were bothered about cents ever made any great success.”

Tactful application of game theory: Instead of saying no to JP Morgan’s acquisition, he creates a scenario for JP Morgan to withdraw and save face. Very diplomatic move on Lemann’s part.

“It was an epic decision, the most difficult I had ever taken,” he once said. He needed to tell JP Morgan the transaction would not go ahead, but did not want to back out and leave the world’s largest bank annoyed with him. His way out was to create “difficulties” for the deal to come about. It was initially agreed that Morgan would have 30% of the new institution (the maximum allowed at that time) and the Garantia brokerage having just over 40%. The rest would be distributed among Brazilian investors to be defined. Lemann then got in touch with his contacts at the

Central Bank to confirm it would only give a permit for the new institution created by the association between JP Morgan and Garantia if 51% of the capital remained in Lemann's hands. He believed that when JP Morgan saw that this requirement meant it would never be the controller of the new institution, it would give up the association. He was right. When Morgan learned about the Central Bank's new decision, it withdrew. The deal was aborted and each one went its own way.

From Banker, to Investor

Turning point: Lemann begins investing in companies directly like Buffett and Munger; minority shareholders in retail. One of the first initiatives was launched in the 1970s with the purchase of a 25% stake in São Paulo Alpargatas, the owner of the Havaianas brand. Garantia also bought a small stake in the Lojas Brasileiras retail chain. Lojas Americanas had lost its sparkle. The founders had long gone and the earnings deteriorated by the year. Its market value at that time did not even amount to US\$ 30 million – a fraction of the company's real estate holdings of almost US\$ 100 million alone.



How to get a deal done: Lemann brings \$3m cash to Banco Itaú's head office in São Paulo to talk to its owner, Olavo Setúbal, an engineer and former mayor of the city. He explained that he needed the block of shares Itaú held in Lojas Americanas to obtain control of the retailer and get it back on the right track. Setúbal was won over by his enthusiasm and agreed to the offer.



“It's easier to rein in a guy who's crazy than push someone who is slow.”

On cutting the fat: Within a few months, 6,500 people, 40% of the workforce, were fired. “We were too big and bloated and needed to make a big adjustment,” he said at the time. Fires 6,500 people, cancels big capX, overhauls executive comp—all in the first few months. Ruthless efficiency.

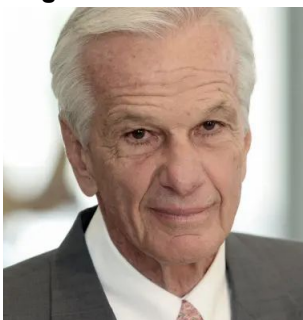
Learning from the best by sending letters: Shortly before assuming command of Lojas Americanas, and when he was still on the executive board, **Sicupira sent 10 letters to some of the world's biggest retailers.** He introduced himself and asked if he could learn how each company operated at firsthand. His aim was to learn from the leaders and then adopt the best ideas. Why waste time reinventing the wheel if he could copy from the most advanced companies in the world? Two never replied while another two politely declined. Five companies, including Kmart and Bloomingdale's, replied and invited him to visit their head offices. The CEO of one of the companies Sicupira contacted went further and phoned him directly. He said he would be happy to receive him and show him the operations of his company, a chain he had founded in Arkansas in 1962. **His name was Sam Walton and the company he ran was called Walmart.**



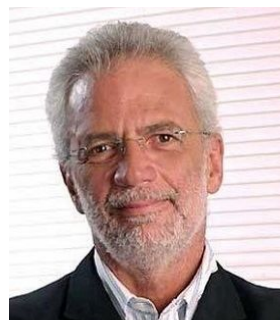
Thanks to the letters, they become friends with Sam Walton, founder of Wal-Mart. “Like most overnight success stories, ours took 20 years,” he joked in his autobiography. As soon as the Brazilians stepped off the turbo-prop plane at the small local airport and saw that the man with a baseball cap, sitting in an old pickup truck with dogs and hunting rifles in the back, was Sam Walton himself, they were agreeably surprised. A powerful company and a simple lifestyle were exactly what they also wanted.

On division of power within Garantia: Their roles were clearly established right from the start. Lemann was always the strategist at Garantia, Telles, the head of trading and Sicupira in charge of new businesses. Although a large part of the staff referred to Lemann as the “boss,” as he was always the largest shareholder, Telles and Sicupira had independence. None of them interfered in the work of the other although they swapped ideas and opinions. This same recipe was maintained in all the initiatives that followed Garantia – Lojas Americanas, Brahma, Burger King etc. **Whoever is the “owner” of a business makes the decisions and assumes the risks.**

Jorge Paulo Lemann



Marcel Telles



Carlos “Beto” Sicupira





Lemann trusts his instincts and buys Brahma Brewing: “After hanging up, Lemann ran to the brewer’s head office in Rio. When he came back to the bank several hours later, he announced: “Listen everybody, I’ve bought Brahma.” The cost to the bank was US\$ 60 million. “Just as well I never went to business school, otherwise, I would never have closed a deal like that in a single afternoon,” he would say later.

Lemann on decision making: His absolute confidence had nothing to do with any sixth sense or anything like that. Lemann sees himself as a man without any kind of intuition. He relies mainly on good sense, a view of the future and simple thinking in taking decisions. The argument he used to convince Haddad that the acquisition made great sense was as follows:

“Tropical country, hot climate, good brand, young population and poor management... OK, that gives us everything we need to transform it into something great.”

Ongoing education: Even after 15 years of working at Garantia, Telles completes the [Harvard OPM program](#). Sicupira did the same. Learn, learn, learn. If these 3 can find time, anyone can find time.

They miss a big issue in diligence with Brahma: When he finally had access to all the numbers, Telles got a shock. The brewer’s pension fund had assets of US\$ 30 million and needed reserves of US\$ 250 million to meet its obligations – four times the amount the bank had paid to buy the company. When they discuss the matter today, Telles, Lemann and Sicupira say it was good that they had not done their homework, as they would probably not have gone ahead had they known the size of the problem.

- He decided that the amount of the pension to which the directors had a right would be cut by half while managers would have their amount cut by 30% to 40%. The shop floor workers were the only ones to have their rights preserved. Almost 400 individual conversations were needed to reach a new format for the pension plan. The decision caused an uproar among the executives.
- Telles: continues with layoffs @ Brahma. Three months after Telles arrived, 2,500 workers had been dismissed. (This included those who had been fired, retired or sought voluntary redundancy.) This was equivalent to 10% of the entire workforce, but 18% of the payroll. “They

What does Telles wear to work most days? “He arrived wearing jeans, running shoes with no socks, a diver’s watch on his wrist and carrying a backpack.”

They meet a guy who would become a career-long advisor. Enter [Vicente Falconi](#), and his methodology which was based on the PDCA acronym, meaning **plan-do-check-act**. Applying this apparently simple concept to the disorganized Brazilian companies at that time had a quixotic touch.

What is Falconi like? With his sober style and white hair, Falconi could be mistaken for a quiet old gentleman at first sight. However, he still controls data, numbers and results with an iron fist and is not satisfied unless he meets the targets he himself has helped set.



Eric Hime, one of Lemann's top traders. "Under Lemann's meritocracy, some earned more than others, and no one was happier than Eric Hime, a brilliant trader from Rio who was not even 30. According to press reports at that time, and former Garantia employees interviewed during the research for this book, he earned US\$ 20 million. If the amount is a fortune in today's terms, imagine what it was like almost two decades ago."

All the stress takes a toll on Lemann's health: "Lemann, who was then 54, spent 1994 in convalescence after suffering a heart attack while carrying out a physical effort test in the Clínica São Vicente, in Rio. Although he kept the same strict discipline in terms of his health – he did not smoke or drink and practiced exercises almost daily – more than two decades of heavy work in the financial market had affected his heart."

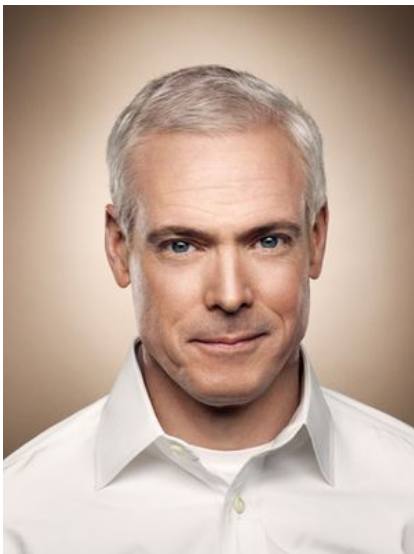
They finally sell Garantia: the Swiss bank Credit Suisse First Boston finally bought Garantia on June 9, 1998, for US\$ 675 million. Lemann never forgot this date. "It was very sad," he said years later. That bank was a passion. It was built with the greatest tenderness and sweat."

GP Investments

They start a private equity firm with \$500m: GP achieved its greatest conquests under the command of Bonchristiano and Lambranhó and consolidated itself as the biggest private equity firm in Latin America. Investments like those made in Cemar, the energy company in Maranhão state, brought an astonishing return of 35 times the initial invested capital. Just as Garantia became the most envied investment bank in the 1980s and 90s, so GP became the most acclaimed manager of third-party resources in Brazil for most of the decade starting in 2000. Throughout its history, it invested over US\$ 5 billion in the acquisition of 51 companies and spread the business principles established by Lemann, Telles and Sicupira in the Garantia days throughout a large part of them.

“Jorge Paulo said the only way to kill a competitor is through the cash,” former Brahma director Magim Rodrigues recalled.

Lemann was known to pay for people’s education: Lemann: “Brito, I spoke to some people I know at Shell and they said you were doing well. Come over and I will give you a grant and pay for the first year.” Brito: “Jorge, how will I pay you all this back? I don’t have this money [US\$ 22,000 at that time].” Lemann: “We’ll talk about that later. I only want you to promise me three things: The first is that you will keep me informed. I want to know how the course is going. If you read any interesting articles about finance, send them to me. The second is that if you can help someone else in the future as I am helping you now, you should. The third is that when you finish the course, come and talk to us before accepting any job offer.”



They befriend Jim Collins in Boulder, Colorado:

“The city of Boulder, Colorado is surrounded by mountains and is home to over 100,000 people. For more than a decade, Ambev executives and controllers have been traveling to this quiet spot to take part in a [workshop](#) with Jim Collins, author of business classics *Built to Last* and *Good to Great*, and an old acquaintance of Lemann. At the meetings he chairs in Boulder with Lemann and his team, Collins uses the Socratic method of asking questions and helping the participants to reach their own conclusions. One of the questions Collins raised during the workshop held in December 2002 left Telles particularly disturbed. The guru asked the group what Ambev’s main problem was.”

How Lemann builds relationships: “following the meeting in New York, it was Lemann who began strengthening the relationship with Van Damme [of Interbrew]. He invited him to watch the samba schools at the Rio Carnival from the Brahma VIP lounge. Later, they spent sunny days with their respective families in the Hamptons, and met in the Swiss Alps in the middle of that year.

On InBev: Aloysio Miranda Filho, partner of the Ulhôa Canto law firm, was responsible for advising Braco, the holding company they created that brought together the stakes Lemann, Telles and Sicupira held in Ambev. (BR Global is the holding company that currently plays this role.)

- Through the share swap, Interbrew and Ambev, respectively the world’s third and fifth-largest brewers in terms of volume, created a new company that was born as the leader of the beer sector (Anheuser-Busch remained ahead in revenues). The new company was initially called InterbrewAmbev – the name InBev was adopted some days after the announcement – and it had annual revenues of almost US\$ 12 billion, operations in 140 countries and a 14% share of the beer global market.

- Braco's stake in Ambev was valued at around US\$ 2 billion, but the three businessmen received US\$ 4 billion in InBev shares. (The difference was due to the "control premium.")

Interesting legal tactic to pre-empt a battle by inducing conflict of interest: Telles suggested that Ambev hire lawyer Sergio Bermudes to look at the agreement from the viewpoint of a minority shareholder, and gain an in-depth understanding of all the details in a bid to find any possible breaches. (One side effect of Telles' tactic was that Bermudes, one of the most famous lawyers in Brazil, would be unable to represent Previ.)



On June 11, 2008, Brito sent August Busch IV, AB's CEO, a letter in which he formalized the intention of buying the company. In November, Lemann, Telles and Sicupira became the controllers of the American brewery at a cost of US\$ 52 billion, and created AB InBev.

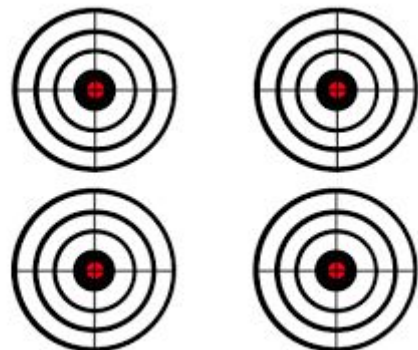
Legal Lesson, listen up! *This is referring to CFO Felipe Dutra as they were structuring the acquisition of Anheuser Busch.*

"His greatest triumph was to successfully exclude a clause known as the Material Adverse Change (MAC), which guarantees the institutions the right to renegotiate the financing conditions in the event of any sudden worsening of the situation. As the banks did not have this clause in the contracts, they were obliged to adhere to all the conditions to which they had agreed before the crisis broke out and they were legally prevented from abandoning ship."

In other words, if it weren't for this single contractual exclusion, the acquisition of AB would have unraveled in the turmoil of 2008. Nice job, Felipe.



Four goals in peacetime, two in wartime: We usually had four big targets a year: market share, expenses, EBITDA and cash. We saw that 2009 would be a year of survival and decided to focus on only two: EBITDA and cash. Then we had to do our homework. How can I extend some payment period? How can I put off some plant expansion project? How can we make a product launch with R\$ 20 million and not R\$ 30 million? You had to make choices... Anything that was not essential had to wait."



How to incentivize large company execs to reduce costs: Brito and another 39 senior AB InBev executives had an extra incentive to reduce expenses quickly and integrate AB to the Belgian-Brazilian brewer. Shortly after the conclusion of the purchase, AB InBev offered the group a package of 28 million share options, equivalent to US\$ 1 billion at the time. However, the executives would only receive these shares if they managed to reduce the company's debt by half by 2013. It was all or nothing.

Not only did Brito and his troops achieve this goal, they did it two years ahead of the deadline. As a result, a new crop of millionaires was formed, as had occurred so often during the trajectory of Lemann, Telles and Sicupira. The stake promised to Brito alone came to R\$ 500 million based on the AB InBev share price at the beginning of 2013. The stock had appreciated by 270% since the acquisition of AB. The magazine *Época Negócios* reported at the time that it was the biggest amount ever paid in variable remuneration to a Brazilian (\$100m in US dollars!)



How they bought Burger King: Behring sought out a member of the Burger King board of directors at the end of 2009, on the pretext of getting to know the company better. While he combed through everything he could, Behring was preparing to make an offer. Lazard was hired as the bank. Burger King's CEO and board chairman, John W. Chidsey, received a letter on March 29, 2010, in which Behring officially expressed his interest in buying the chain. Five months of intense negotiations followed, and it was announced on September 2, 2010 that the company had been sold for US\$ 4 billion.



Jorge Paulo & Susanna Lemann at the annual [Allen & Co. Sun Valley Conference](#)

And just when I thought Beto Sicupira had done it all, it turns out he also runs an education incubator called Endeavor: [Endeavor](#) gives lessons on entrepreneurship to anyone interested in the subject through on-site and Internet courses and events throughout the country.

"The world was taken aback by the Heinz acquisition, not only because of the amount involved, but also because it turned the Brazilians into the owners of three iconic American brands - Budweiser, Burger King and Heinz. They also became partners of mega-investor Warren Buffett."

LEMANN'S DEALS

H.J. HEINZ

BOUGHT JUNE 2013 FOR \$23 BILLION WITH BACKING FROM WARREN BUFFETT



BURGER KING

BOUGHT OCTOBER 2010 FOR \$3.3 BILLION IN A LEVERAGED BUYOUT

AB INBEV

SOLD BRAZILIAN BREWER AMBEV TO BELGIUM'S INTERBREW IN 2004, CREATING INBEV, THEN ORCHESTRATED THE \$52 BILLION TAKEOVER OF ANHEUSER-BUSCH IN 2008. LEMANN IS THE LARGEST INDIVIDUAL SHAREHOLDER



LOJAS AMERICANAS

RETAIL CHAIN ACQUIRED IN 1982 FOR \$24 MILLION. BRAZIL'S FIRST HOSTILE TAKEOVER



SÃO CARLOS

SPUN OFF FROM LOJAS AMERICANAS IN 1989 TO MANAGE REAL ESTATE ASSETS

BANCO GARANTIA

ACQUIRED AS A BROKERAGE IN 1971 FOR \$800,000. SOLD TO CREDIT SUISSE IN 1998 FOR \$675 MILLION

GRAPHIC BY BLOOMBER BUSINESSWEEK

Here are my Kindle notes, [exported](#).