

IPOs in Brazil: An Overview



São Paulo, April, 2012 | Raul Ciarelli

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- I. LatinFinance
- II. Equity Funding in Brazil
- III. Evolution of Bovespa
- IV. Bovespa Mais

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Highlights

11 years of experience as a Financial Advisor

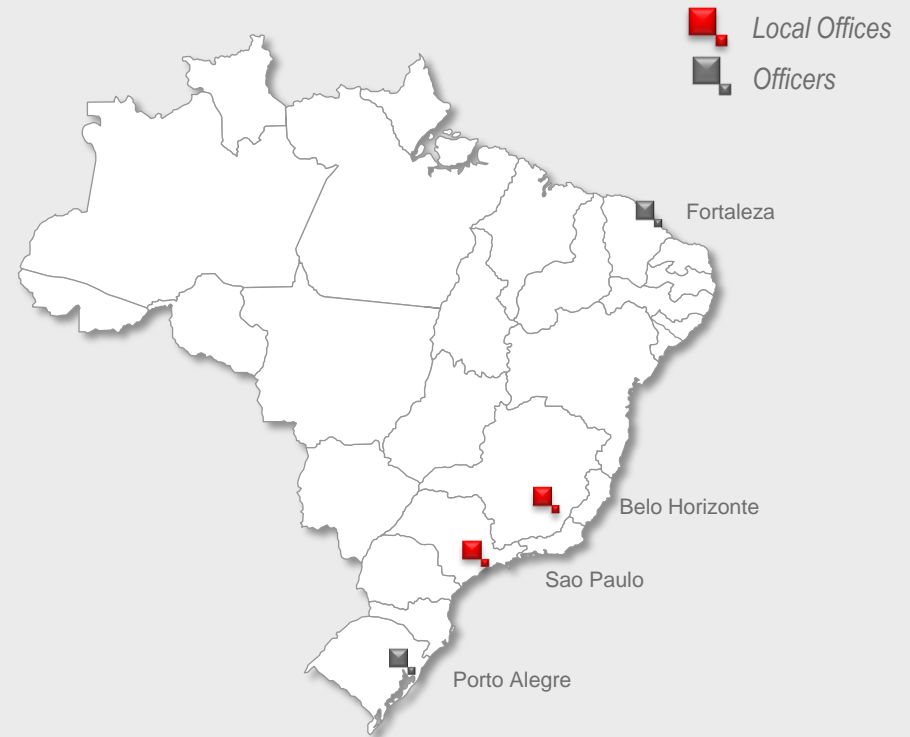
More than 30 transactions in the last 5 years

Professionals with large track record in Investment Banking of the following banks:



Associated to ANBIMA – National Association of Financial and Capital Markets Entities

National Coverage



Timeline



Mergers and Acquisitions

- ✓ Sell Side
- ✓ Buy Side
- ✓ Mergers or Associations
- ✓ Joint Ventures
- ✓ Fairness Opinion and Valuation Report
- ✓ Corporate Restructuring

Capital Markets and Fund Raising

- ✓ Initial Public Offering (IPO) Preparation
- ✓ Capital Markets Repositioning
- ✓ Offers Structuring on Bovespa Mais
- ✓ Tender Offers
- ✓ Private Placement
- ✓ Debt Restructuring

Project Finance

- ✓ Specialized Project Consulting
- ✓ Funding from development banks
- ✓ Economic and financial sustainability analysis for concession auction participation
- ✓ Financial structuring and analysis of PPPs (Public-Private Partnership)
- ✓ Infomemos for Structured Cooperation
- ✓ Advisory in merger and acquisition related to the projects

Corporate Finance

- ✓ Differentiated structures to meet specific demands
- ✓ Capture of accounting and tax efficiencies, with high added value
- ✓ Financing for mergers and acquisitions
- ✓ Adequacy of capital structure, corporate and / or governance to capture more value in liquidity events (IPO, FO, M&A)
- ✓ Operations with real estate collateral, in agribusiness, based on the payment of dividends, financing to suppliers, etc

Why LatinFinance?



- More than 30 transactions in the last 5 years
- Focus on the best solution for the client
- Focus on long-term relationships with clients and direct involvement of partners in projects
- Relationship and know-how in several sectors
- First tier investment banks and first class academic background

Sector Expertise: Main Clients

Consumption	Retail	Real Estate	Infrastructure	Logistics	Financial	HealthCare	TMT ¹	Others
								
								
								
								
								
								
								

1. Technology, Media & Telecommunication

Participation in IPOs

- LatinFinance has been involved in the preparation for IPOs of five companies, besides helping na already listed company moving to the Novo Mercado; no boutique has made more:



Reposicionamento:



- Our job on those companies consisted, amongst many tasks:
 - Separating the company operation from non-related activities and assets;
 - Moving family members from daily tasks and bringing professionals;
 - Building the internal governance;
 - Selecting auditors, banks, lawyers and other service providers for the IPO;
 - Developing the investment thesis, valuation, and help preparing for the IPO.

I. LatinFinance

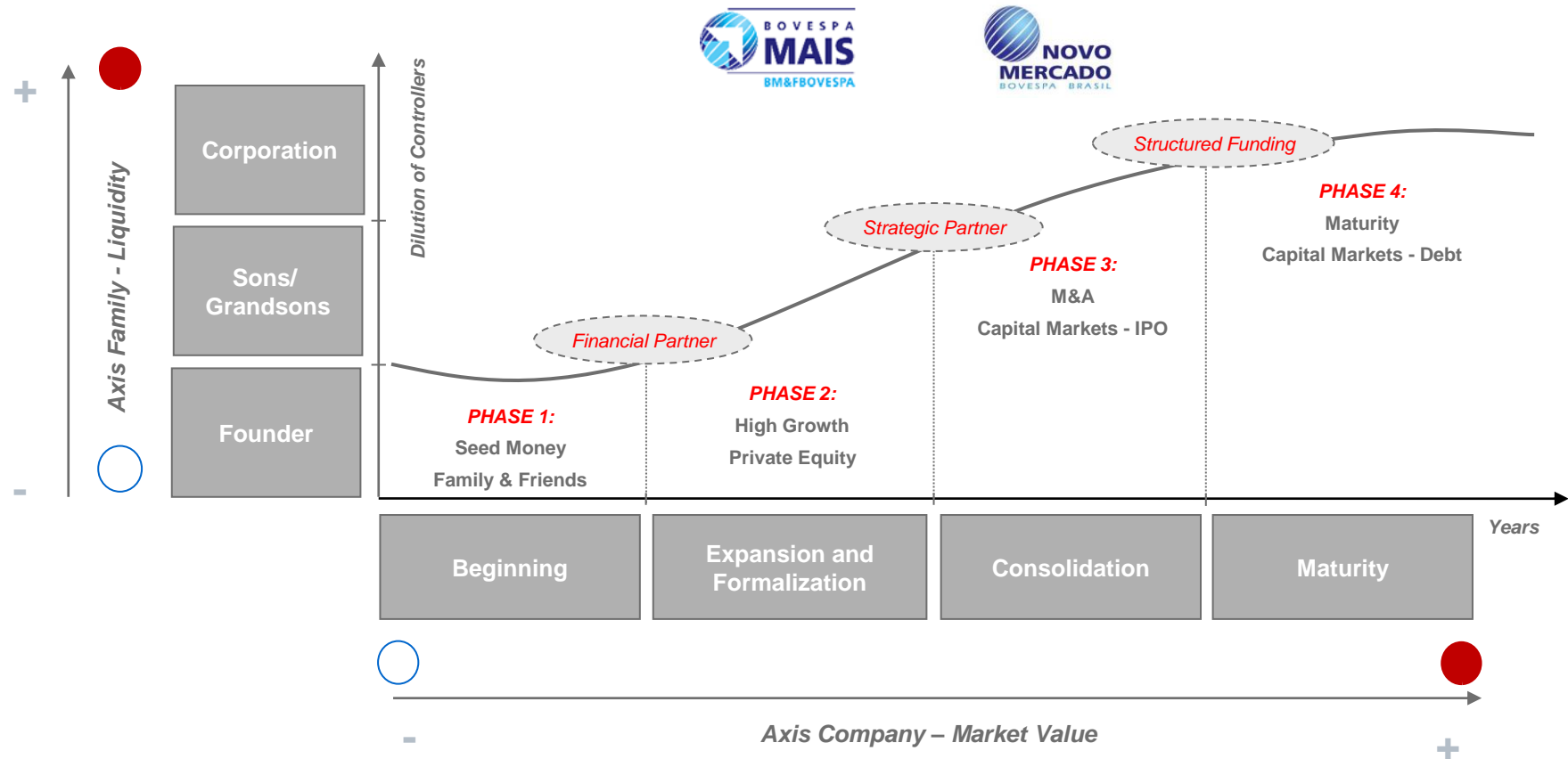
II. Equity Funding in Brazil

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Cycle of Life and Funding

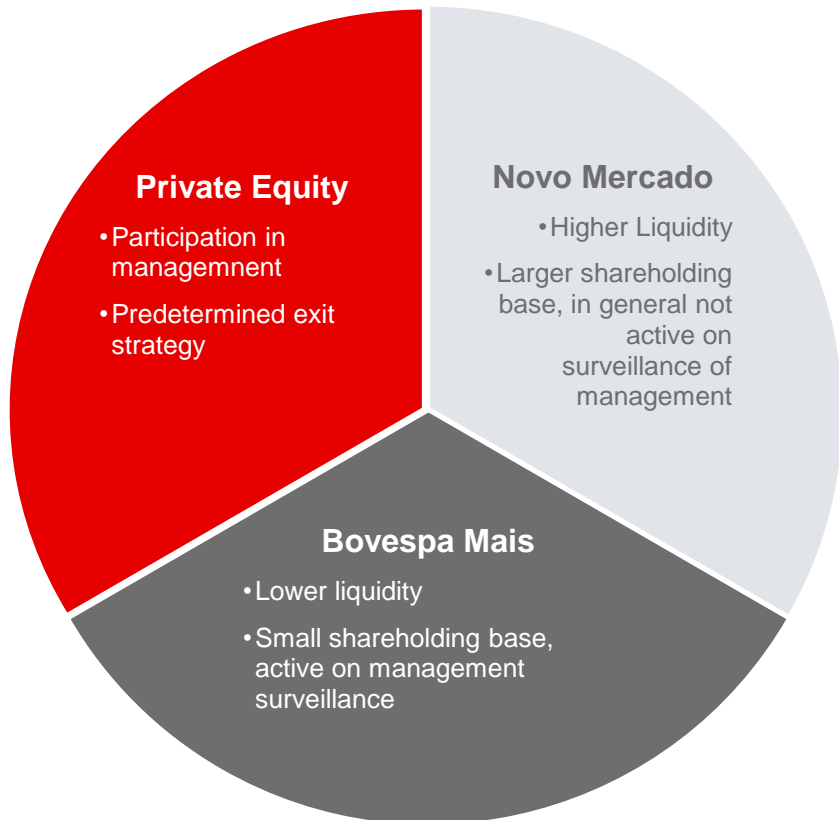
- Brazilian companies are mainly family concerns; some may become corporations in the future, most do not.
- Though capital markets have been around for the decades and private equities since the nineties, this cycle of funding has become more usual only from the 2000s.



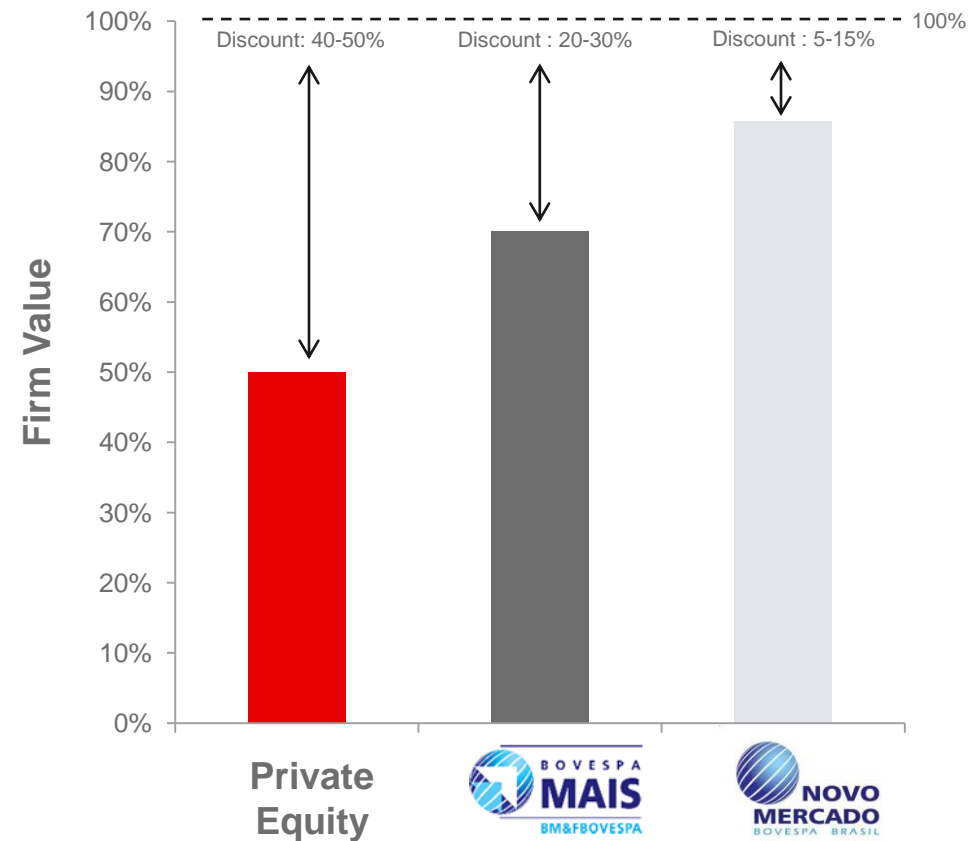
Pricing of Equity

Comparing different strategies of funding with equity

General Features



Discount on Valuation



- I. LatinFinance
- II. Equity Funding in Brazil

III. Evolution of Bovespa

- IV. Preparing for an IPO in Brazil
- V. Bovespa Mais

Largest stock and derivatives exchange in Latin America

4th largest listed exchange in the world – US\$ 12,6 billion (April/02/12)

Important Capital Market

- Largest Equity Options Market in the World (2011)*
- 7th Largest Capital Raising Market in the World (2011)*
- Among the Top 6 Derivatives Market in the World (2011)**

Listed Companies

- Number of listed companies: 465 (March - 12)
- Market capitalization of the listed companies: R\$ 2,5 trillion (USD 1,4 trillion)

Source: * WFE and IOMA

Brazil - Situation of Equity Capital Markets in Early 2000s

Governance

- Almost universally controlled by founders/family
- Prevalence of non-voting shares (PN)
- Inequitable treatment of shareholders
- Changes of control without regard to minority shareholders
- Delistings on unfair value
- Insufficient transparency standards
- Inactive Boards
- Poor enforcement

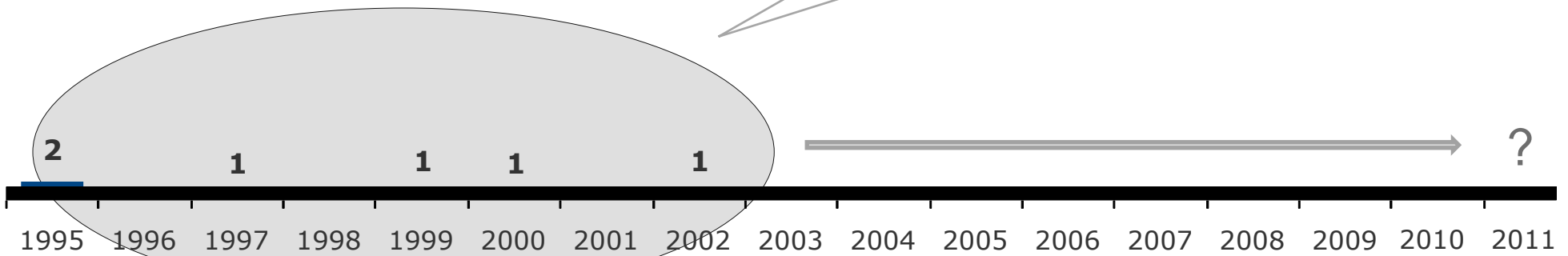
Consequences

- Low liquidity
- Capitalization concentrated on public/former public companies
- Main companies on double listing (ADRs)
- Float moving abroad
- Market not considered as a source of funding
- Mistrust from investors
- Decreasing number of listed companies
- Huge discount on stock prices

Consequence: Evolution of the IPOs (from 1995 to 2002)

Contradiction between the mission of a stock exchange and the reality of the Brazilian market

Lack of a market for public offerings in Brazil, successful offers were necessarily overseas with an ADR listing





Concept and brief history of Novo Mercado

- **Main problem identified by the Stock Exchange: the lacking of enough or suitable protection for minority shareholders**
- **Main goal of the Stock Exchange: the creation of a receptive environment for public offerings**
- **Corporate governance and market:**
 - Corporate governance practices can provide the alignment of interests between investors and companies
 - For investors: it implies risk mitigation
 - For companies: it implies better valuation

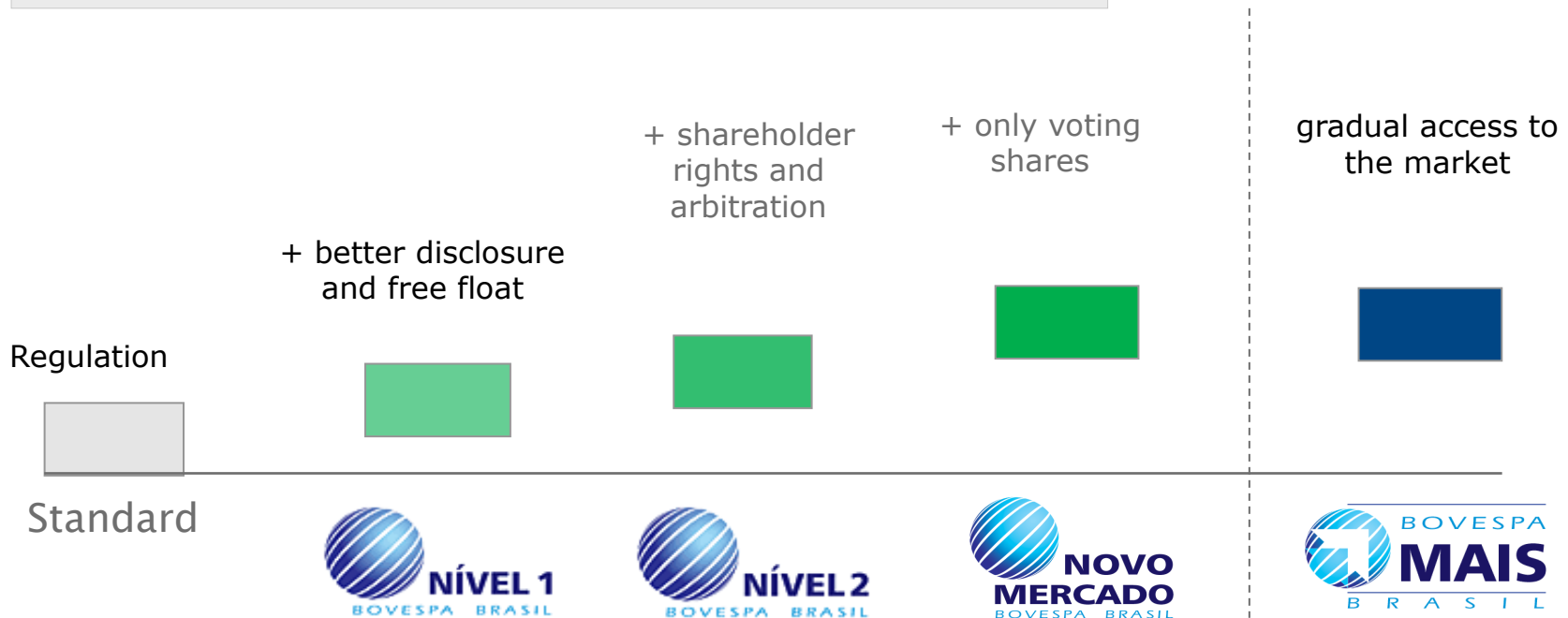
Concept and brief history of Novo Mercado

SOLUTION FOUND

- **The Novo Mercado creation:** reflecting the best corporate governance practices and assuring essential rights to the investors
- **Non-resident Investor:** improvement of the regulations (Resolution 2.689/2000) and increase in the promotion of the Brazilian market abroad (BEST)
- **Institutional alliance to generate incentives**
 - Investment Banks: self-regulation code – exclusive ANBIMA signet for offerings made by companies listed at least in Level 1 (Nível 1)
 - Pension Funds: Resolution 2829/2001 – higher allocation limit for shares listed in Novo Mercado, Level 1 and Level 2
 - BNDES: possibility of invested companies making their IPO in the Novo Mercado
 - Macro economic context: currency stability and CPMF extinguishment

BM&FBOVESPA Listing Segments

- Creation of special corporate governance segments (in 2000)
- Corporate governance listing segments:
 - Nível 1 (Level 1)
 - Nível 2 (Level 2)
 - Novo Mercado (New Market)
 - Bovespa Mais (Bovespa Plus: access market) - 2007



Shareholders' rights

- Only voting shares
 - Alignment between economic exposure and voting rights
 - Brazilian Corporate Law allows non-voting shares – 2/3 (until 2001) and 1/2(after 2001) of the total capital
- Full tag-along rights extend to all shareholders in case of change of control
- Public tender offering at economic value in case of delisting
- Arbitration panel to solve conflicts

Transparency (monitoring)

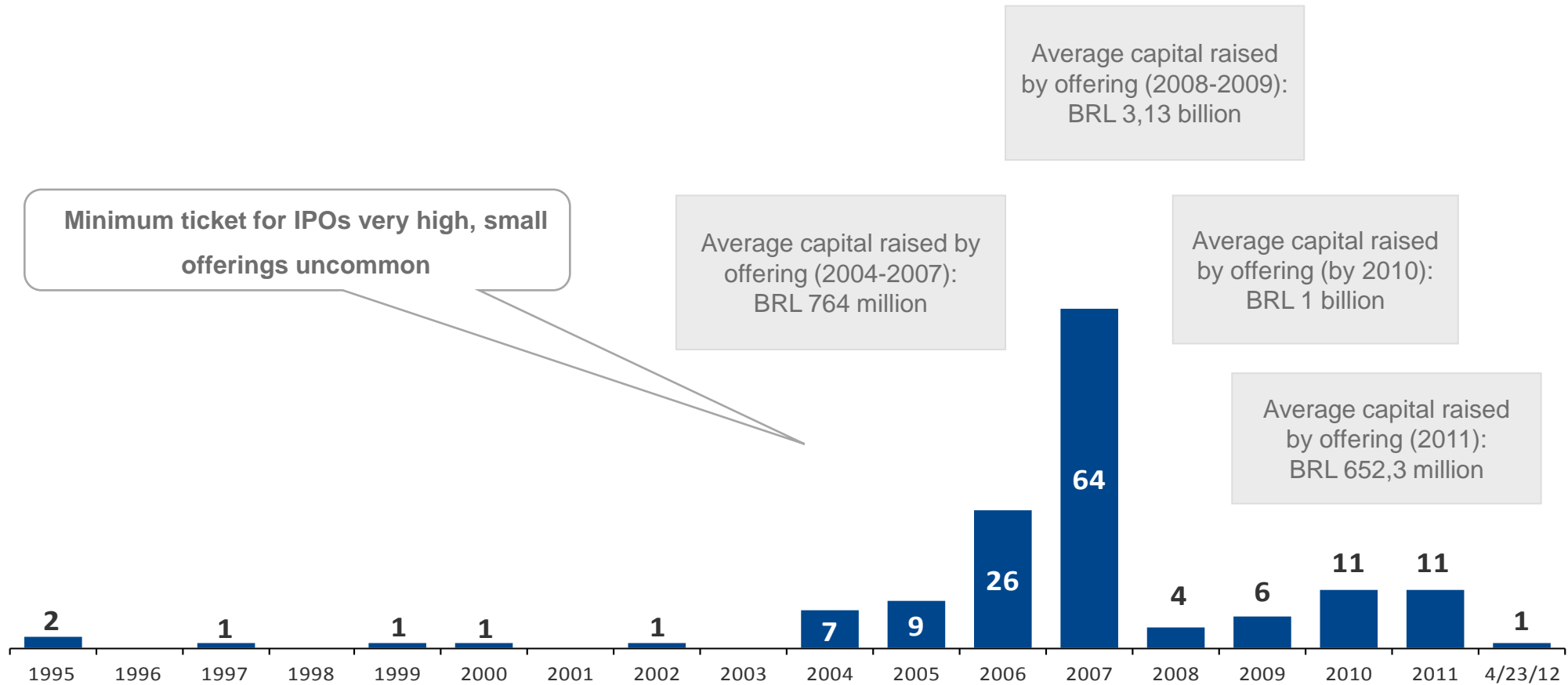
- Disclose of additional information (for example: self-dealing transactions)
- Board of directors with at least 5 members being 20% of them independent ones

Dispersion

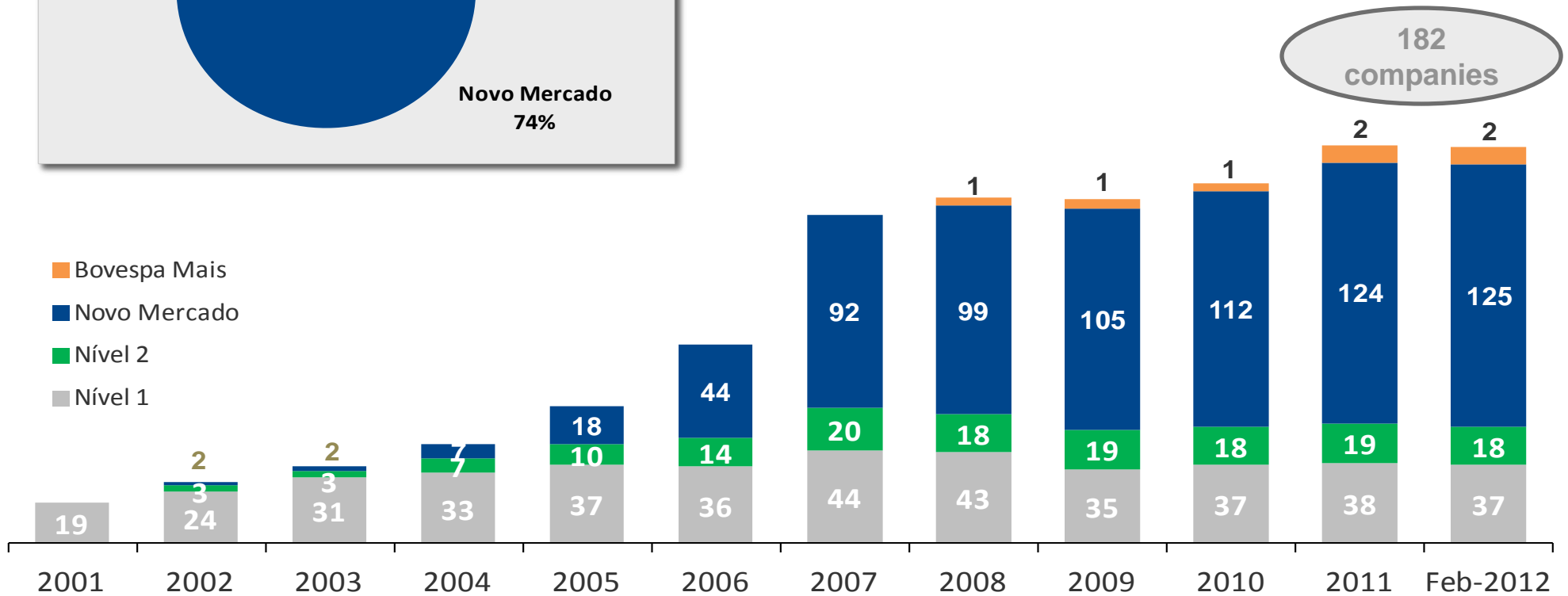
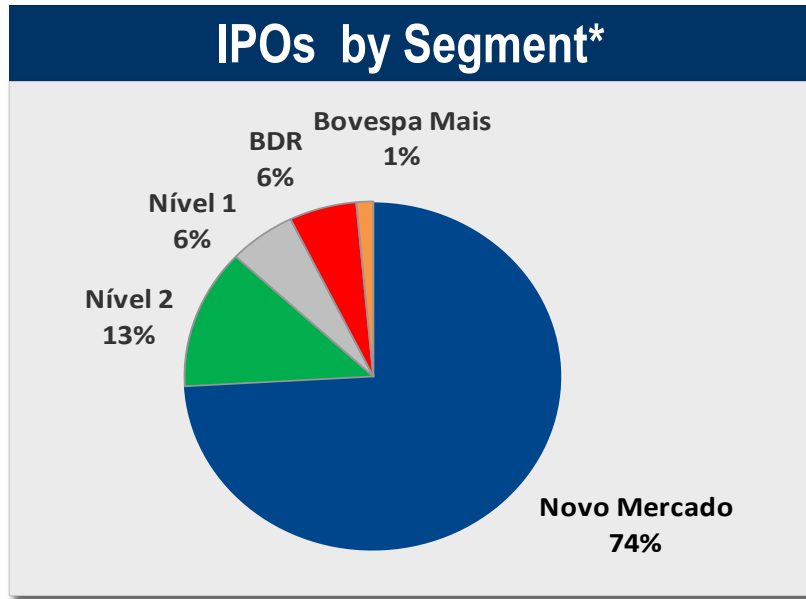
- Minimum free float of 25%
- Procedures in public offerings to enhance the dispersion of the company shares

Consequences of Novo Mercado and Better Macroeconomics

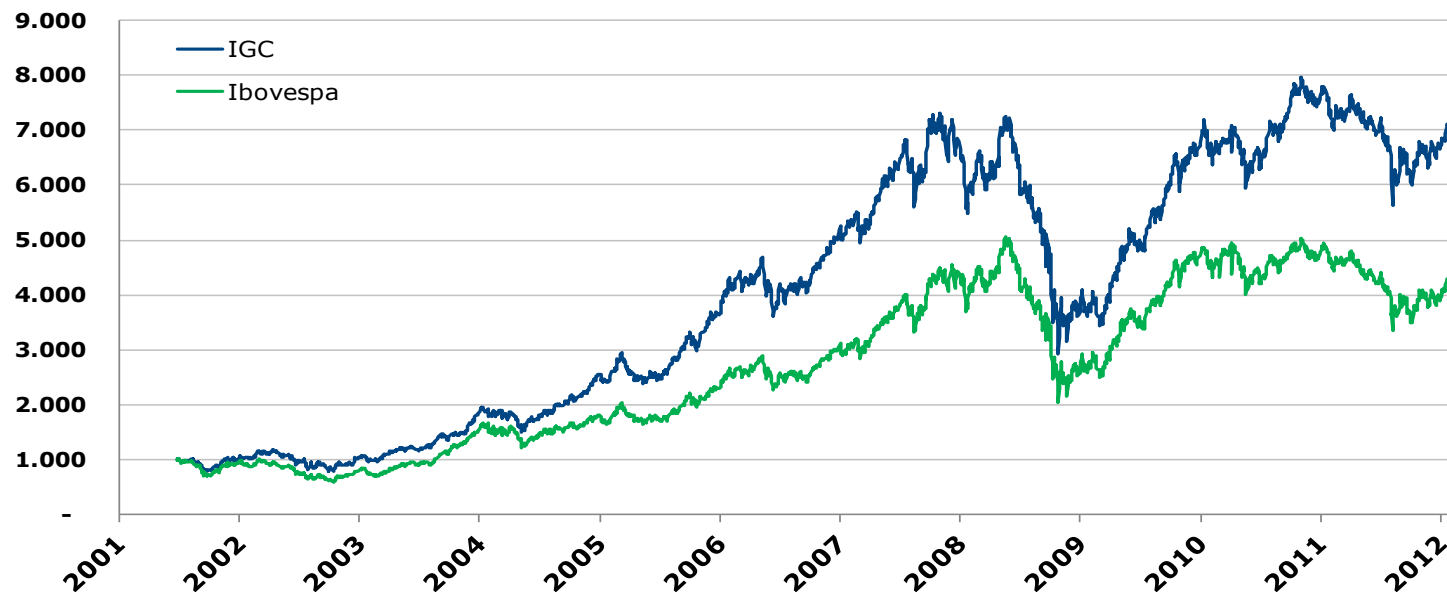
Evolution of the IPOs (1995 to April 2012)



Evolution of IPOs - Corporate Governance as the Norm



Corporate Governance Index Compared to IBOVESPA

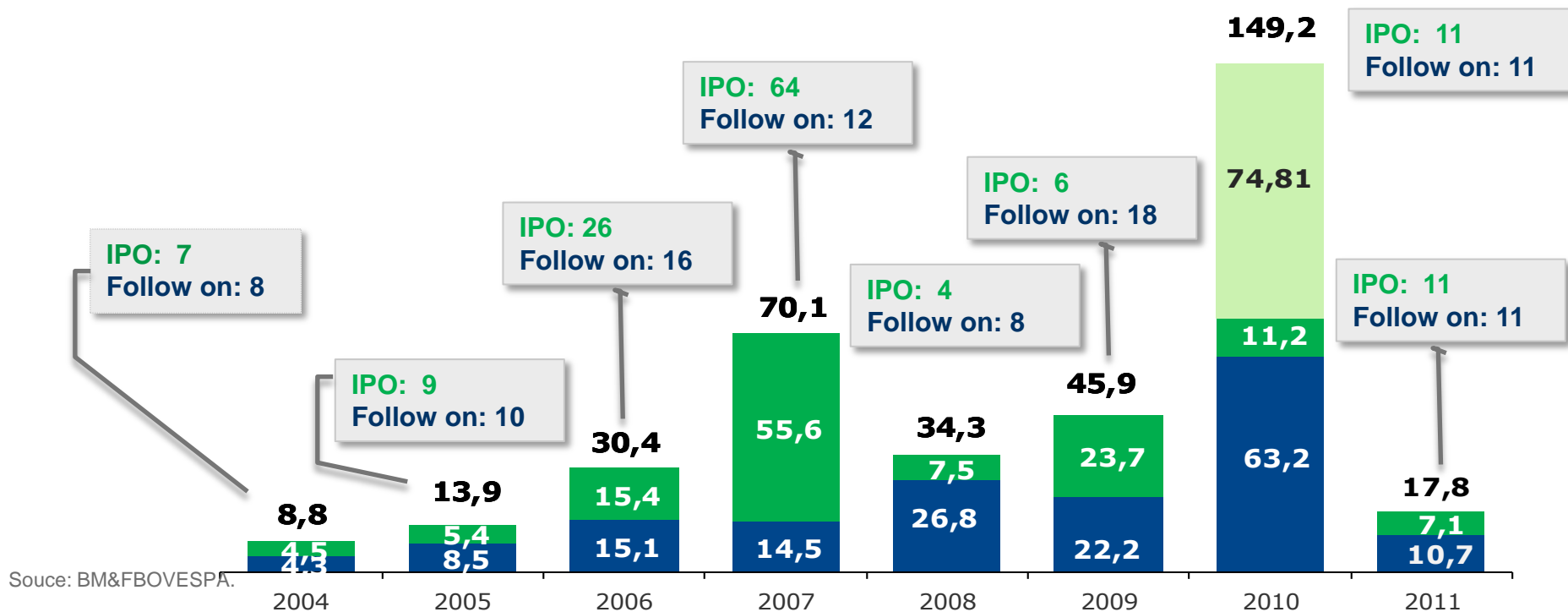


(Base 1.000 – since June 25, 2001) – source: BM&FBOVESPA

Index	IGC	IBOV
Feb/2012	6,09%	4,34%
In 2011	-7,08%	-9,96%
Since 2001	660,70%	353,24%

The Brazilian exchange has become one of the top capital raising markets

Capital raised by share issues (BRL billion)



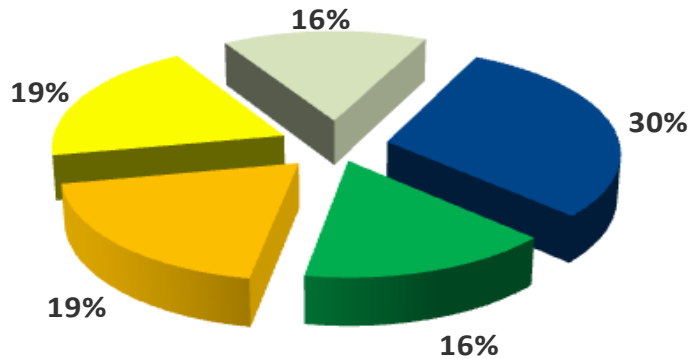
Source: BM&FBOVESPA.

■ Follow-On ■ IPO ■ Parcel Related to the onerous cession - Petrobras offer

2010 – Petrobrás – biggest public offering in the world

Bovespa Today: Much Greater Diversification

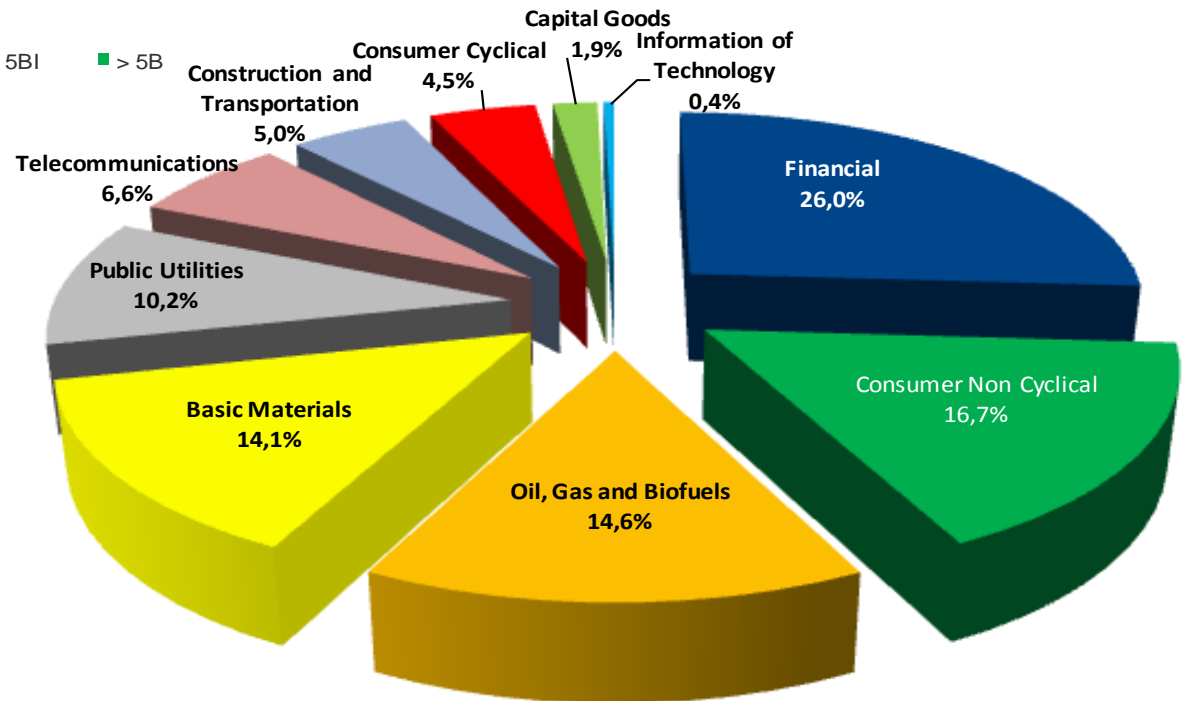
Listed Companies by net revenue (2010)



■ < 100MM
 ■ 100MM to 500MM
 ■ 500MM to 1B
 ■ 1B to 5B
 ■ > 5B

New sectors (since 2004): car rental, information technology, toll roads and highways, pharmaceutical products, agriculture, sugar and alcohol, residential building construction, property agency, education services, medical services and stock exchange

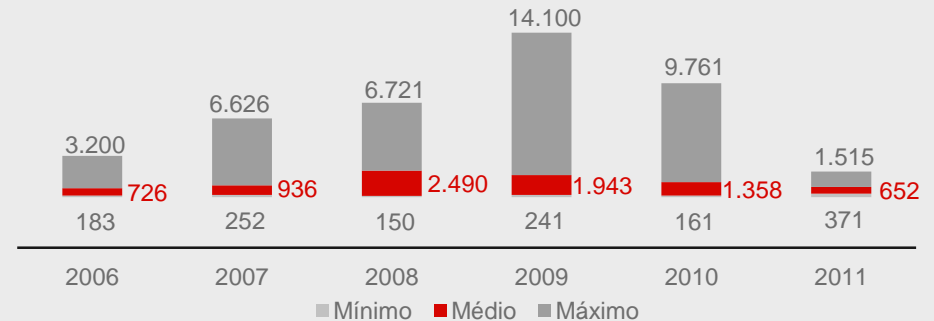
Sectorial Distribution of market capitalization – March/12



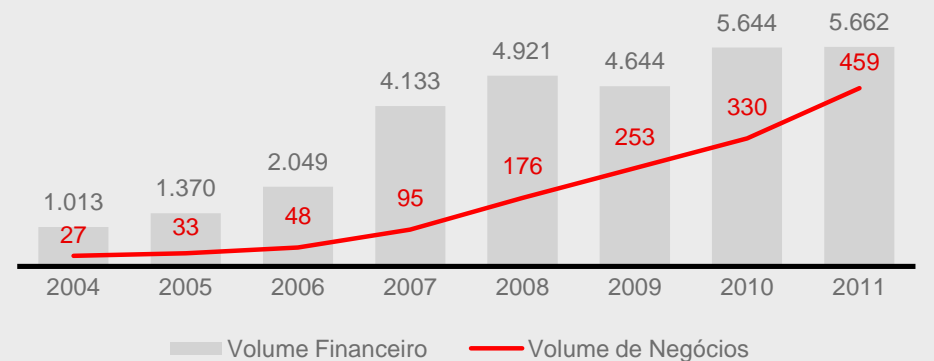
General View

- Volume of share offers well below those observed before the crisis.
- Market extremely more selective in term of companies and offer size.
- After Petrobrás offer and elections, many companies trying to go to market, just a few successful.
- Offers are still expected to be above R\$ 400 MM.
- Offers continue to be concentrated on foreign investors. As a rule of thumb, 70% of the volume is bought by foreigners.
- Retail investor continues to represent a small part of the float.

Min., Max. and Average Offer Value¹ R\$ mm



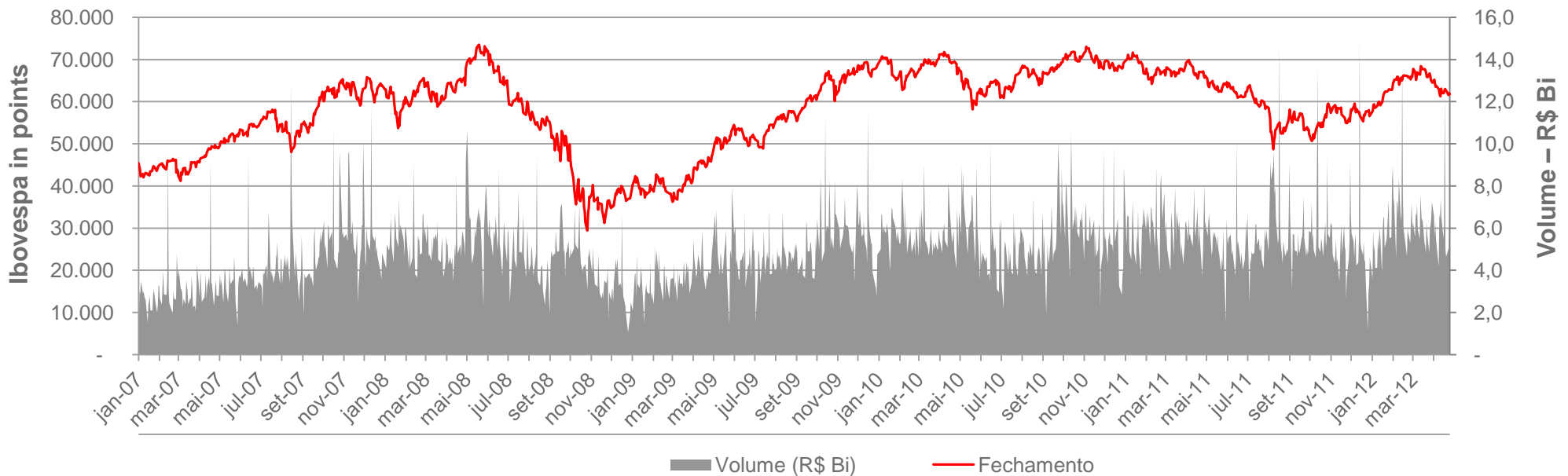
Bovespa – Daily Averages R\$ mm, n° transactions in '000



¹ All offers except Petrobrás
Source: CVM & Bovespa

Bovespa Today:

- Recovery of pre-crisis price levels
- However P/E levels are still at levels well below both the historic Brazilian average and those of the BRICs
 - Considering consensus P/E 2011, companies in Bovespa are being negotiated at 12.4x (vs 15.4x lucro in 2007)
- **Perspectives for Bovespa suffer from uncertainties caused by the situation in Europe and deceleration in local growth**



Source: Economática and Goldman Sachs, Morgan Stanley

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Bovespa Mais – Access Segment



+

Characteristics of
companies seeking
gradual access to the
market

=



- Segment aimed at companies that have not yet reached the corporate governance level to list in the Novo Mercado
- However, assuring essential rights to the investor: transparency, tag along, buyback at economic value in case of delisting and adherence to the Arbitration Chamber
- Essential to disseminate and consolidate the knowledge about the capital market
- Induces the adoption, by the Companies, of better corporate governance practices stimulating investors' interest
- Complement and can be a potential stimulator of the VC&PE industry in Brazil, enabling delisting strategies in more initial stages and even gradual delisting with more visibility to the company

Comparison of Novo Mercado vs. Bovespa Mais

Similarities

- Listed companies can issue only common shares
- Tag-along for common shares can reach 100%
- Delisting with mandatory public tender offer at least for the company's economic value
- Adoption of the Market Arbitration Panel for conflict resolution
- 180-day IPO lock-up for controlling shareholders and executives

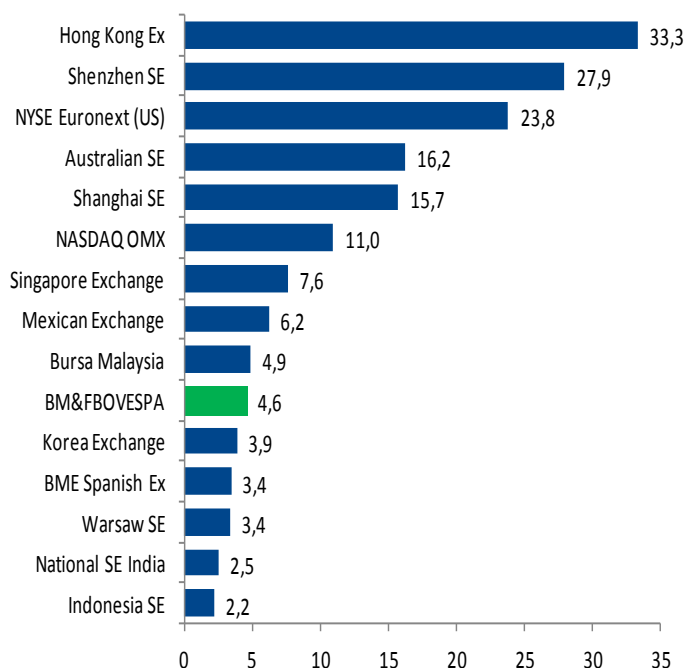
Differences

- Existing preferred shares may not be traded and must be convertible into common shares
- Company can be listed without public offering
- Board of Directors must have at least three members
- Mandatory listing application
- Free float of at least 25% until seventh year after listing
- Exemption from ownership dispersion in public offerings

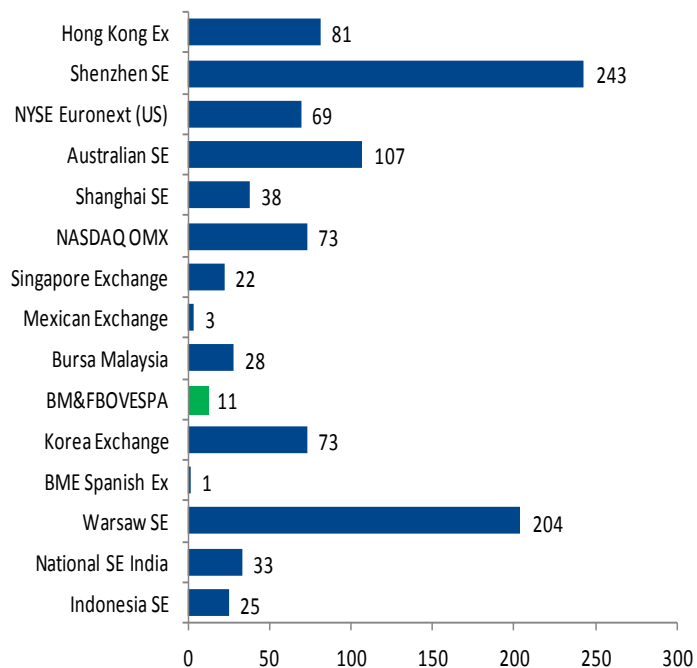
Average Ticket of Public Offerings in Main Markets

- The average ticket of IPOs in most mature markets shows a trend of offerings of lesser value
- The average ticket of IPOs in emergent markets also reduces when it increases the number of new listed companies

Volume of Capital raised in IPOs (USD billions)



New company Listed



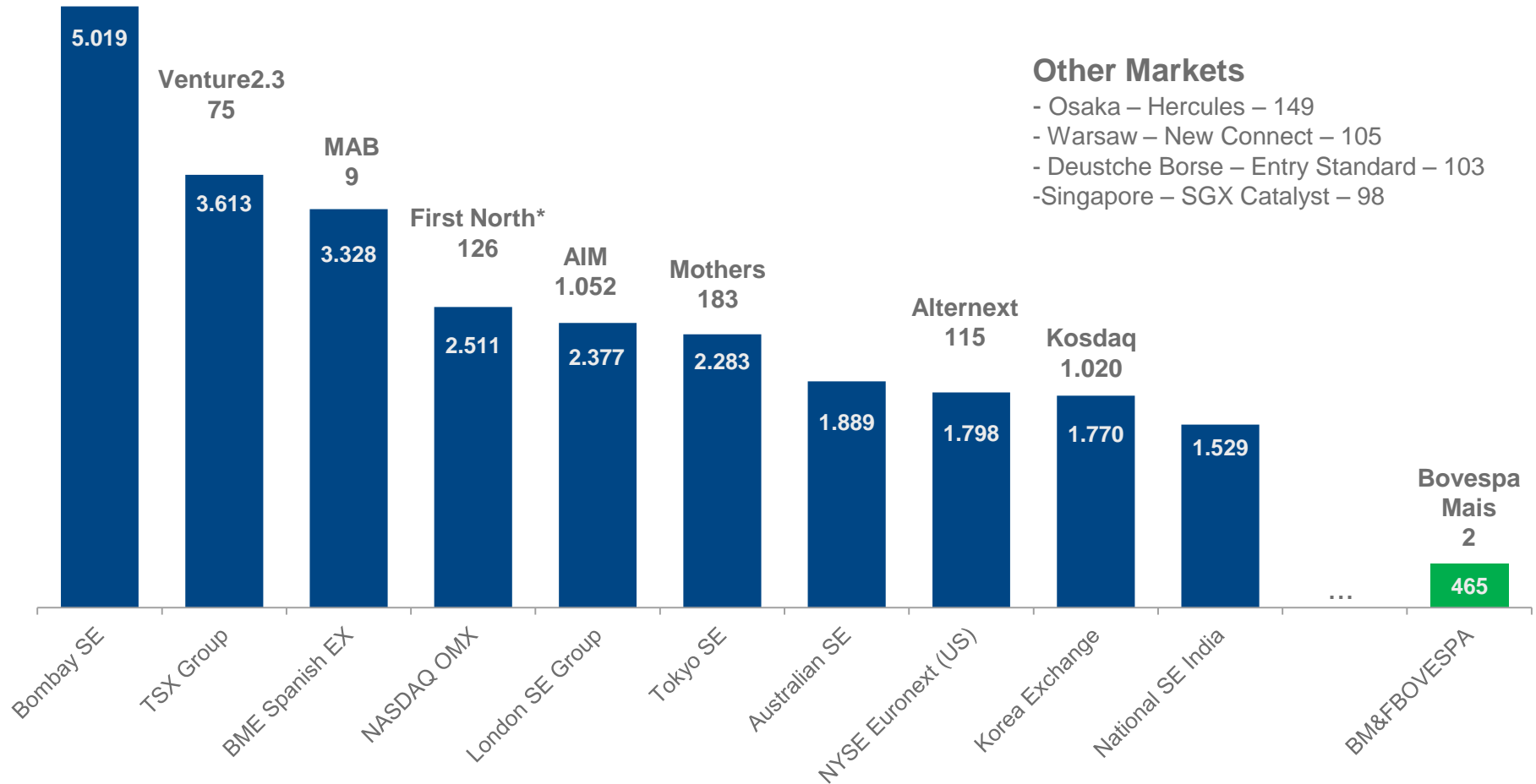
Average Ticket (USD Millions)

Hong Kong Ex	411,0
Shenzhen SE	115,0
NYSE Euronext (US)	345,2
Australian SE	151,5
Shanghai SE	413,7
NASDAQ OMX	150,1
Singapore Exchange	346,8
Bursa Malaysia	174,5
BM&FBOVESPA	414,4
Korea Exchange	53,1
Warsaw SE	16,6
National SE India	77,0
Indonesia SE	88,7

Source: WFE – World Federation of Exchanges December - 2011

Number of companies and Access Segments

Number of domestic listed companies on the Main Market
TOP 20 STOCK EXCHANGES + BM&FBOVESPA (25^a position)



Other Markets

- Osaka – Hercules – 149
- Warsaw – New Connect – 105
- Deutsche Borse – Entry Standard – 103
- Singapore – SGX Catalyst – 98

Source: WFE – october 2010 (It was considered only domestic companies).

Alternative Markets/SMEs – WFE statistics relative to 2009.

* Market located in Europe

LatinFinance's Transactions

Mergers & Acquisitions

TEGMA
Credito Logístico

Acquisition of

LTD
TRANSPORTA

R\$ 29.5 million

January, 2012

LINCX

Sale of 100% of its equity stake to

Amil
par

R\$ 170.0 million

May, 2011

TEGMA
Credito Logístico

Acquisition of 80% equity stake in

direct
parcel service

R\$ 77.2 million

March, 2011

MASH:
Tecnologia em Computação e Hardware

Sale of 100% of its equity stake to

A. Schulman
compounding your success

November, 2010

EMBRAMED

Operating agreement and options for acquisition and sale of its equity stake with

Cremer

September, 2010

SASIL
crescendo com você

Acquisition of 100% equity stake in

varient

July, 2010

C
Concórdia
CORRETORA

Sale by previous controlling shareholders of Sadia

November, 2009

C
Concórdia
BANCO

Sale by previous controlling shareholders of Sadia to

BANCO RENDIMENTO

November, 2009

PEDRA BRANCA
nova
URBANISMO

Real Estate development of a 350 thousand m² area with

Espírito Santo Property

October, 2009

SAE
Serviços de Análises Especializadas
Laboratório Médico
Tradição - Pioneirismo - Parceria

Sale of 100% of its equity stake to

medial
SAÚDE

November, 2008

RV
tecnologia e sistemas

Sale of its equity stake control to

3P
Investimentos

September, 2008

LGA
mineração e siderurgia

Sale of a Mining Right to

MMX

R\$ 193.3 million

July, 2008

Merger of Reitzfeld, Rezende and Taramã resulting in the foundation of

InCons
Imóveis de valor

April, 2008

LatinFinance was the advisor of Grupo Peixoto de Castro in the incorporation of Prosin by Synteko, resulting in the foundation of

GPC
química
GRUPO PEIXOTO DE CASTRO

December, 2007

Camil

Acquisition of 100% of the largest Uruguayan rice industry equity stake

SAMAN

November, 2007

LE LIS BLANC

Sale of 80% of its equity stake to the fund

Artesia
Gestão de Recursos

October, 2007






















Bradesco
Asset Management

Structuring of a partnership for management, administration and distribution of investment funds with


Banchile
INVERSIONES

October, 2007

Capital Markets / Fund Raising

 <p>Financial advisory and bridge loan structuring with</p>  <p>R\$ 66.0 million</p> <p>August, 2011</p>	 <p>Debt structuring with</p>  <p>January, 2010</p>	 <p>Debentures issuance structuring</p> <p>R\$ 200.0 million</p> <p>July, 2008</p>	 <p>Bridge loan structuring with</p>  <p>R\$ 200.0 million</p> <p>November, 2007</p>	 <p>IPO advisory resulting in a public offering of</p> <p>R\$ 440.0 million</p> <p>November, 2007</p>	 <p>IPO advisory resulting in a public offering of</p> <p>R\$ 318.8 million</p> <p>November, 2007</p>
 <p>IPO advisory resulting in a public offering of</p> <p>R\$ 416.3 million</p> <p>August, 2007</p>	 <p>IPO advisory resulting in a public offering of</p> <p>R\$ 471.4 million</p> <p>June, 2007</p>	 <p>Migration to the <i>Novo Mercado</i>, resulting in a public offering of</p> <p>R\$ 419.6 million</p> <p>April, 2007</p>	 <p>IPO advisory resulting in a public offering of</p> <p>R\$ 791.3 million</p> <p>March, 2007</p>	 <p>Brazil's first out-of-court reorganization plan advisory for</p>  <p>April, 2006</p>	 <p>Tender Offer advisory for</p>  <p>Fevereiro, 2006</p>
 <p>Tender Offer advisory of CMA Participações S.A.</p> <p>March, 2005</p>	 <p>FIDC Structuring</p>  <p>R\$ 200.0 million</p> <p>January, 2004</p>	 <p>Financial restructuring and sale of assets</p> <p>November, 2003</p>			

Fairness Opinion



Fairness Opinion on the valuation of the company assets to mark the market of the FI-FGTS investment

March, 2012




Fairness Opinion on the evaluation of Grupo Algar's assets

December, 2011




Fairness Opinion on the evaluation of Peixoto de Castro Group's assets to increase its shareholders capital.


June, 2011



Fairness Opinion on the valuation of



June, 2011



Fairness Opinion on the valuation of the company assets to mark the market of the FI-FGTS investment


March, 2011



Fairness Opinion on the evaluation of the company on capital investment of



September, 2010




Fairness Opinion on the valuation of Arcadis Tetraplan, a subsidiary of Arcadis

September, 2010



Fairness Opinion on the valuation of a company that manufactures equipment for the energy industry

July, 2010



Fairness Opinion on the valuation of UMÖE Bioenergy ASA, controller of Destilaria Paranapanema S.A.

February, 2010



Fairness Opinion on the valuation of the company on capital investment of



July, 2009



Fairness Opinion in the valuation of the Turkish company Şenocak Holding A.Ş for the acquisition of a controlling stake in the company


March, 2008



Development of Company Recovery Plan


December, 2005

Market Maker



Market Maker

January, 2007




Market Maker

November, 2006




Market Maker

November, 2005



Market Maker

May, 2004



Market Maker

July, 2005



Market Maker

April, 2005



Market Maker

April, 2005



Market Maker

December, 2004



Market Maker

July, 2004



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