



INSIDE PE

inBrazil

● Private Equity

2017



Brazilian Private Equity &
Venture Capital Association

The Brazilian Private Equity and Venture Capital Association is a non-profit organization that promotes the development of private equity, venture capital and seed capital in Brazil, by improving industry conditions and understandings and also fomenting best practices that are aligned with international industry standards.



MINISTRY OF
EXTERNAL RELATIONS



The Brazilian Trade and Investment Promotion Agency promotes Brazilian products and services abroad and attracts foreign investments to strategic sectors of the Brazilian economy. Apex-Brasil coordinates the actions related to foreign direct investment (FDI) attraction into Brazil, seeking to allocate resources in sectors of strategic relevance for the development of the competitiveness of Brazilian companies and of the country itself.



The Private Equity & Venture Capital InBrazil program operates as a joint initiative between ABVCAP and Apex-Brasil with the goal of informing and connecting international investors with Brazilian fund managers and portfolio companies. The main goal of the program is to inform and empower the global investor community in respect to the Brazilian PEVC ecosystem and its many opportunities.



Developing safe and innovative legal solutions with the commitment and determination to deliver results is how TozziniFreire works. It is in TozziniFreire DNA to make significant contributions to their clients' business strategies in an increasingly complex environment, offering comprehensive advice and anticipating corporate legal issues. TozziniFreire is a full-service law firm acting in 47 areas of corporate law. They offer a unique structure with industry groups and international desks staffed by lawyers who are considered experts by the market and key national and international guides. Ever since its establishment in 1976, TozziniFreire has played a central role in many of the most significant transactions in the Brazilian market, contributing to the growth of the local economy and becoming one of the most respected law firms in Latin America.

AN OVERVIEW

This publication aims to provide an overview of the private equity industry in Brazil through data analysis, recent investments, opinion and insights from market leaders.

Despite the political volatility that Brazil has experienced in recent years and which should continue until 2018, efforts in the macroeconomic scenario, such as the continuity of the reform process, with emphasis on social security and labor and cost reduction measures, have repositioned the country on a positive trajectory. On the other hand, the access of local general partners to solid deals and the availability of new funds in the funding phase renew the vigor of the Brazilian private equity industry.

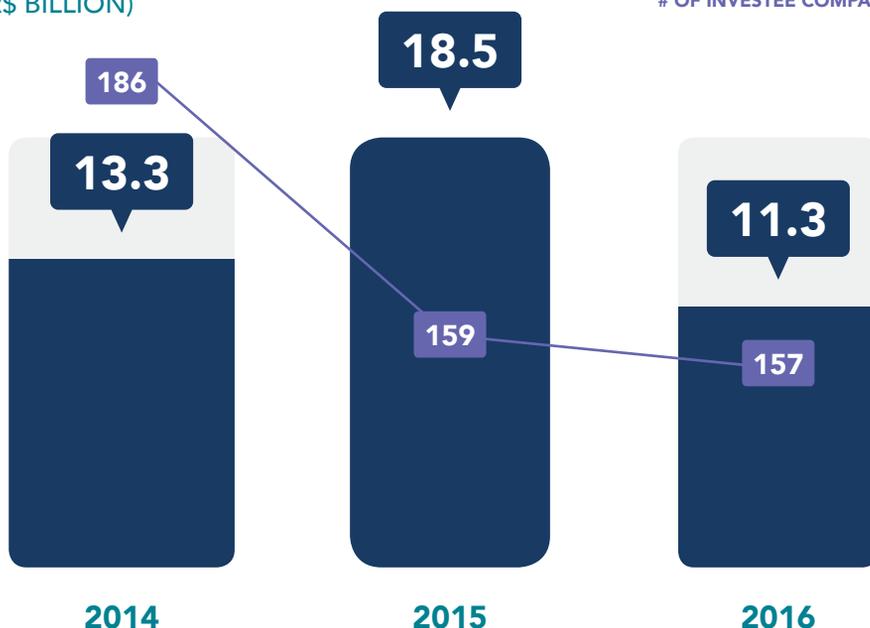
NUMBERS

The following data is part of the Data Consolidation of the Private Equity and Venture Capital Industry in Brazil, conducted by ABVCAP together with KPMG. The consolidation analyzed information from 134 local and foreign investors, from different sectors, geographical focus and sizes during the year 2016 and compared it to the data collected in recent years. We encourage readers to sign up at abvcap.com.br to keep up with updates and new industry data.

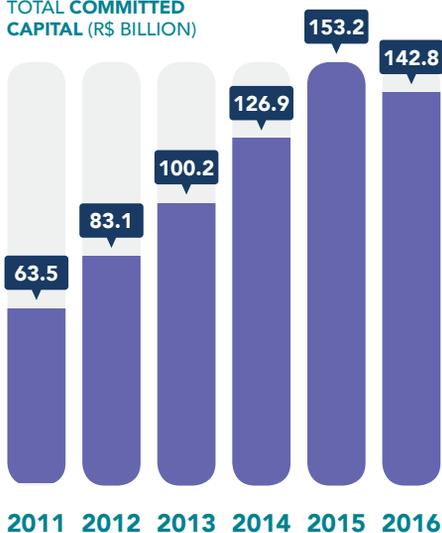
In 2016, although the volume of investments decreased from the previous year to R\$ 11.3 billion, compared to R\$18.5 billion in 2015, the number of investments remained, with a total of 157 companies in 2016 against 159 in 2015.

AMOUNT INVESTED AND NUMBER OF INVESTEES (R\$ BILLION)

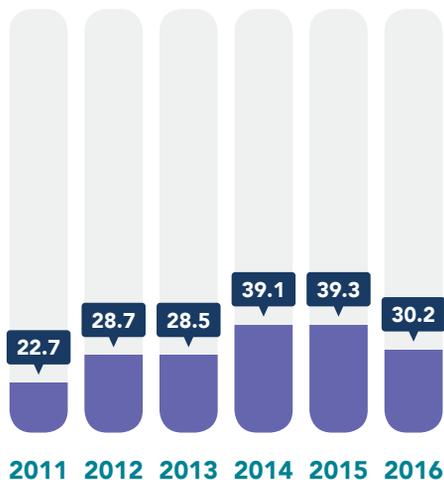
INVESTED AMOUNT # OF INVESTEE COMPANIES



TOTAL COMMITTED CAPITAL (R\$ BILLION)



CAPITAL AVAILABLE FOR INVESTMENTS AND EXPENSES (R\$ BILLION)

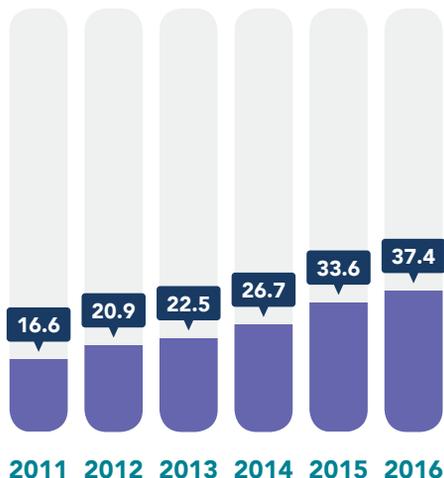


With the exception of 2016, the industry's historical committed volume of capital has been growing steadily in recent years. In 2011, the total historical value of committed capital was R\$ 63.5 billion. This number gradually increased until 2015, when a total of R\$ 153.2 billion was recorded. In 2016, however, this number was reduced to a total of R\$ 142.8 billion. The capital distributed to investors showed a significant growth in the last year, of 11.3% in relation to the amount distributed in the previous year.

CAPITAL INVESTED IN COMPANIES (R\$ BILLION)



CAPITAL DISTRIBUTED TO INVESTORS (R\$ BILLION)



In 2016, the sectors that received most investments included real estate and construction (18%), food and beverage, financial services and retail (11%). Highlight is given to the health and pharmacy sector, which in 2015 had 38% of the volume of investments and in 2016 was only 7%.

PERCENTAGE OF THE VALUE OF INVESTMENTS BY SECTOR

REAL ESTATE & CIVIL CONSTRUCTION

2015 ■ 2%
2016 ■ 18%

FINANCIAL SERVICES

2015 ■ 2%
2016 ■ 11%

FOOD & BEVERAGE

2015 ■ 2%
2016 ■ 11%

RETAIL

2015 ■ 11%
2016 ■ 11%

ENERGY

2015 ■ 11%
2016 ■ 9%

HEALTH & PHARMACY

2015 ■ 38%
2016 ■ 7%

INFORMATION TECHNOLOGY

2015 ■ 3%
2016 ■ 6%

AGRIBUSINESS

2015 0%
2016 ■ 5%

EDUCATION

2015 ■ 12%
2016 ■ 4%

LOGISTICS & TRANSPORT

2015 ■ 4%
2016 ■ 3%

INDUSTRIAL PROD. & SERV.

2015 ■ 2%
2016 ■ 3%

OIL & GAS

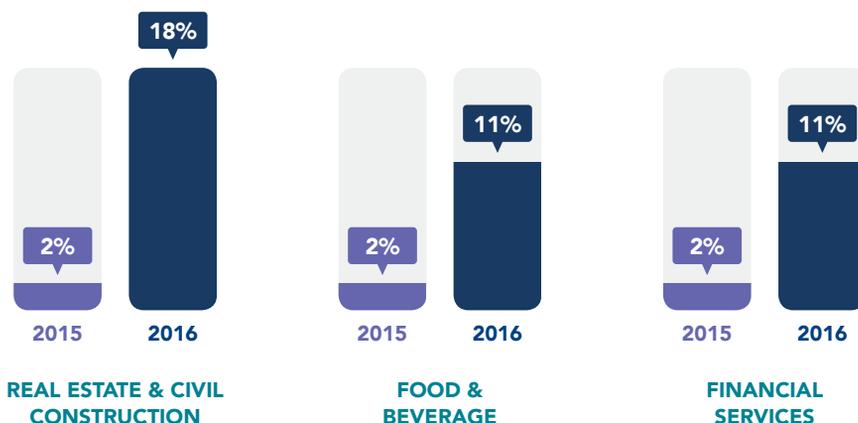
2015 ■ 10%
2016 0%

OTHERS

2015 ■ 3%
2016 ■ 12%

SECTOR HIGHLIGHTS

According to the survey, a total of R\$ 10.5 billion was invested in 2016 by the private equity funds, of which some sectors stood out:



Together these sectors accounted for 40% of the total volume invested in 2016.

REAL ESTATE AND CONSTRUCTION

The real estate and construction sectors showed a very significant increase when compared to the years 2015 and 2016. Some transactions, such as the increase of GP Investment's interest in BR Properties, which totaled approximately R\$ 1.9 billion, had a significant impact on this number. In addition, the outlook is positive, as the country has not yet equalized infrastructure investment according to current demand and gaps, so there is plenty of room for new investment and opportunities, especially for the private sector.

FOOD AND BEVERAGE

The food and beverage sector was one of the most significant in the Brazilian trade balance in 2016. The country's total surplus was U\$ 47.7 billion and food and beverage surplus totaled U\$ 31.5 billion. Exports grew to U\$ 36.4 billion, compared to U\$ 35.2 billion, according to the Brazilian Association of Food Industries (ABIA). According to the IBGE* (2014), the food and beverage industry is the largest (R\$ 550.8 billion in gross production) and the one with the largest number of employees: 1.6 million. Some of the transactions in the industry in 2016 were in the Burger King and Taco Bell fast-food chains. Accompanying the worldwide trend of fast-food and out-of-home demand, the food service sector has grown faster in the last decade than food retail growth rates. In the period between 2006-2016, it had an average growth of 14% per year, against 11% of retail. Last year, it had sales of U\$ 154 billion, a growth of 7.1% compared to 2015.

SAMPLE OF PUBLIC DEALS IN FOOD & BEVERAGE 2016 - 2017 (R\$)

YEAR	DATE	GP/LP	TARGET	DEAL SIZE
2016	June 13	Sforza	Taco Bell	100,000,000
2016	June 21	Warburg Pincus	Camil	Undisclosed
2016	August 10	Capital Group	Burguer King Brasil	450,000,000
2016	November 22	Acon Investiments	Dori Alimentos	Undisclosed
2017	January 9	Gávea Investimentos	Nature One	Undisclosed

Source: ABIA - Brazilian Association of Food Industries, 2016

*Brazilian Institute of Geography and Statistics

FINANCIAL SERVICES

Some industry regulatory milestones, such as: the elimination of the exclusivity of credit card flags operation in 2010 and the resolution of the Central Bank authorizing the opening of current accounts and online savings, were decisive for positioning the financial services sector as one of the most promising for investments in Brazil. With growing consumer demand for better services and the expertise of banks and financial companies allied to technology, several fintechs have emerged in the market promising to facilitate and reduce costs of financial operations.



+ R\$ 1 BILLION
INVESTED IN
BRAZILIAN FINTECHS
UNTIL 2016.



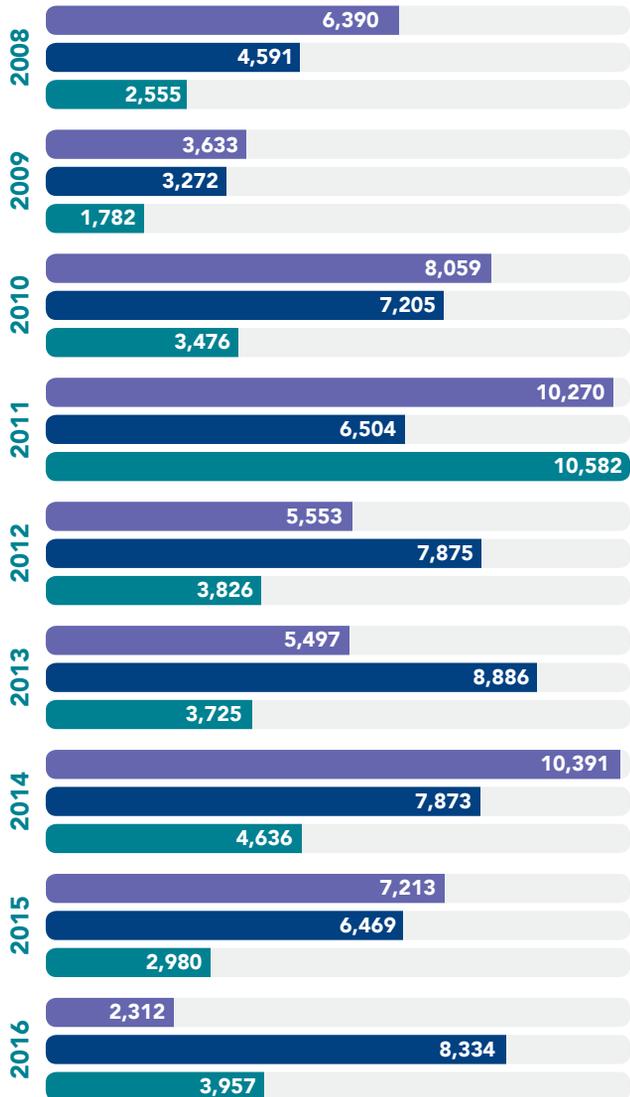
72% HAVE
ALREADY RECEIVED
INVESTMENTS,
WITH **14% OF**
THESE COMPANIES
RECEIVING ABOVE **R\$**
20 MILLION.

LATAM NUMBERS

In 2016, the private equity and venture capital industry in Latin America reached the second largest number of deals since 2008. Transactions in the energy, telecommunications and services/retail sectors accounted for a large part of this amount.

NINE-YEAR TRENDS ON FUNDRAISING, INVESTMENTS AND EXITS AMOUNT (U\$ MILLION)

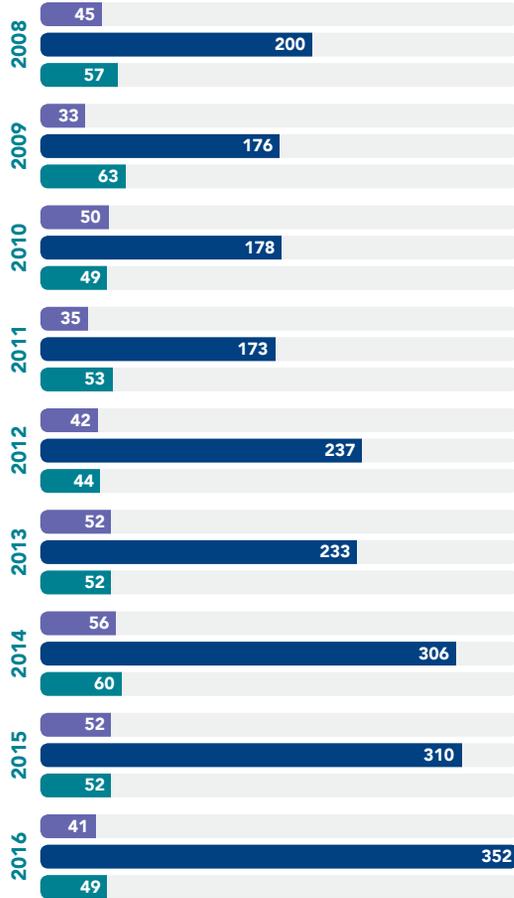
FUNDRAISING INVESTMENTS EXITS



Source: LAVCA Industry and Data Analysis 2017

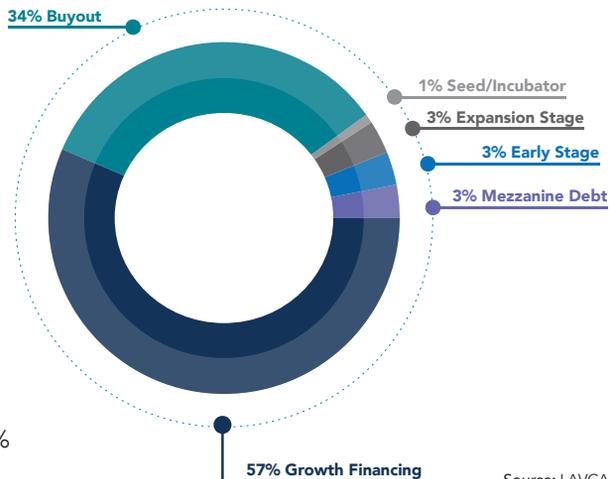
NINE-YEAR TRENDS ON FUNDRAISING, INVESTMENTS AND EXITS NUMBER OF TRANSACTIONS

FUNDRAISING INVESTMENTS EXITS



2016 INVESTMENTS BY STAGE (U\$ MILLION)

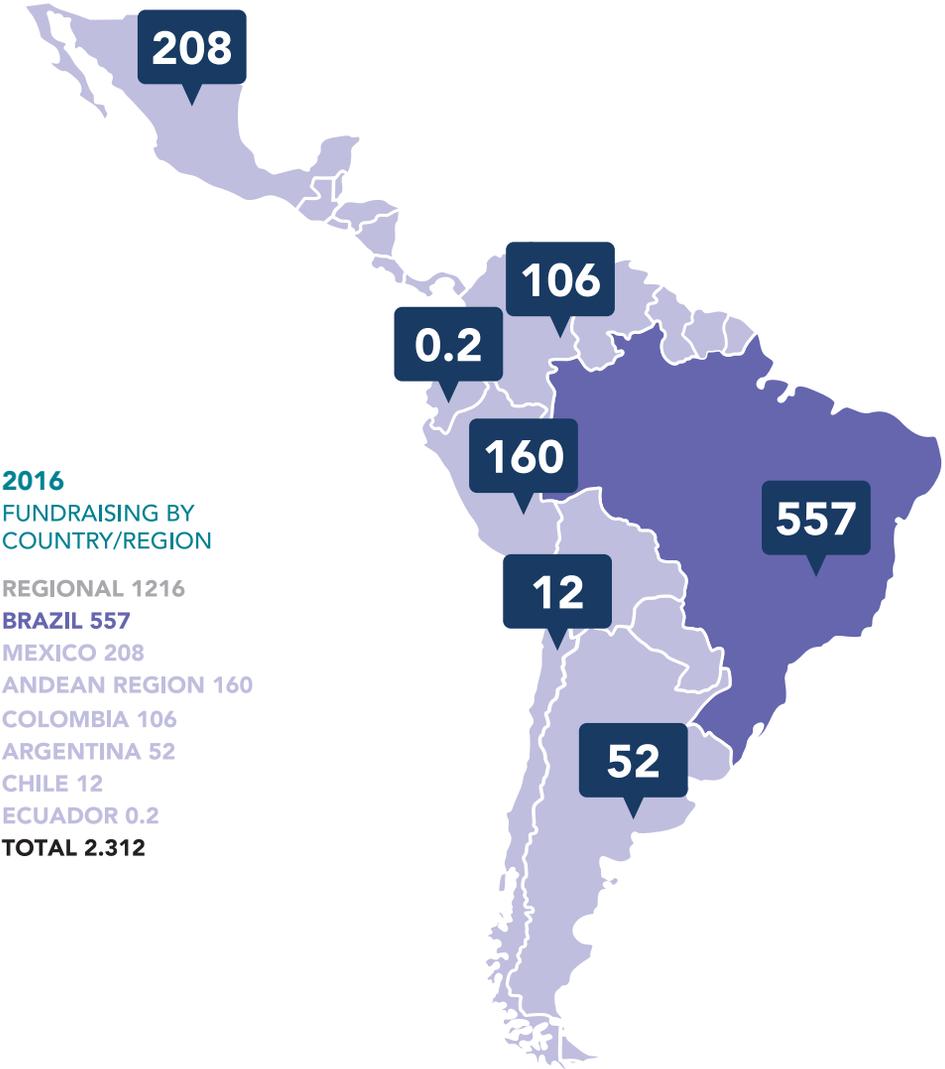
Of the total amount of investments, more than 50% were allocated to growth.



Source: LAVCA Industry and Data Analysis 2017

Despite the significant reduction in fundraising volume, impacted by uncertainties in the economic and political scenario in the region, Brazil continues to concentrate the largest volume of funds raised in Latin America.

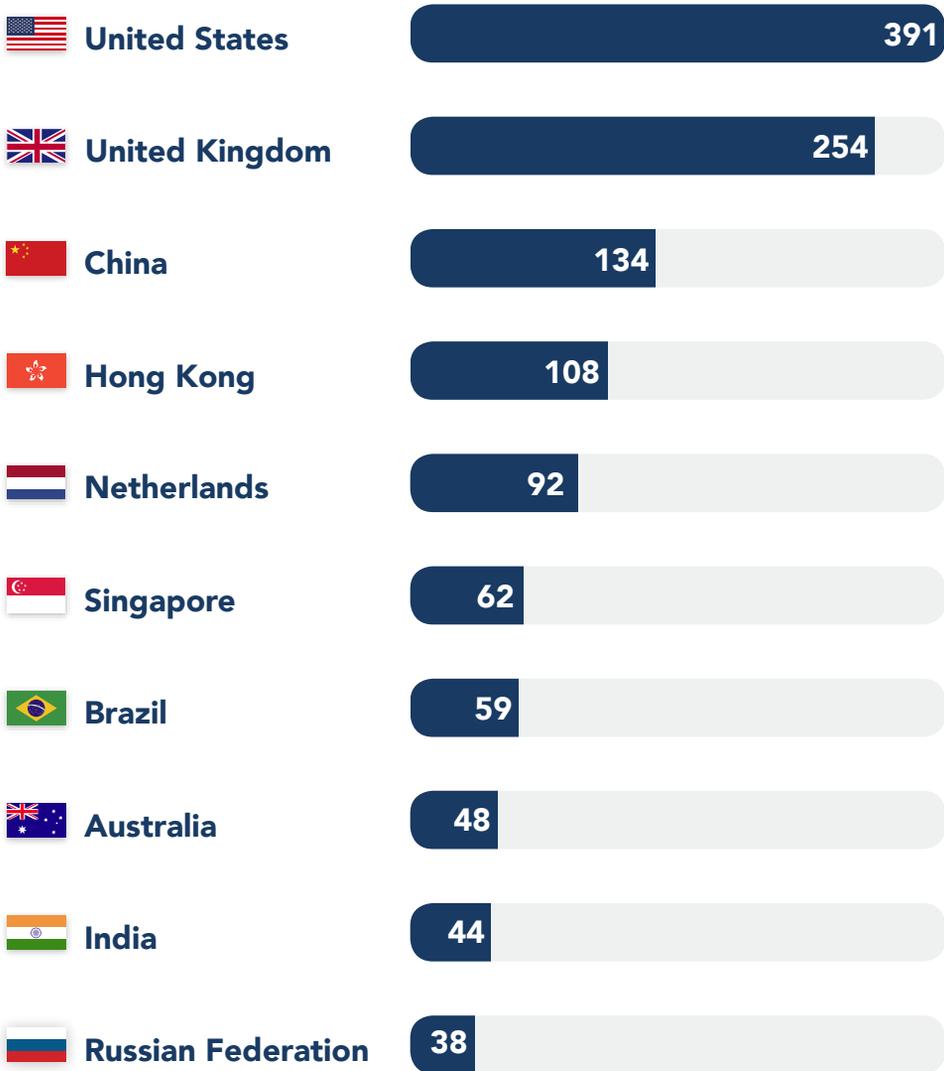
GEOGRAPHIC FOCUS OF FUNDS RAISED
(U\$ MILLION)



Source: LAVCA Industry and Data Analysis 2017

Brazil ranked seventh among the countries that attract the most foreign investment in the world.

FDI INFLOWS IN 2016 (U\$ BILLION)



Source: UNCTAD

SAMPLE OF RECENT PRIVATE EQUITY TRANSACTIONS IN BRAZIL 2016/2017

YEAR	DATE	GP/LP	CURRENCY	DEAL SIZE	TARGET NAME	TARGET INDUSTRY
2016	4-Jan	Black River	R\$	830,000,000	Grupo Ruette	Sugarcane Industry
2016	7-Jan	Global Enviroment Fund (GEF)	R\$	20,000,000	Tecverde Engenharia	Civil Construction
2016	11-Jan	2bCapital	-	Undisclosed	CorpFlex	IT
2016	16-Mar	Valor Capital Group	R\$	28,000,000	Beauty Date	Aesthetics
2016	17-Mar	H.I.G Capital	R\$	Undisclosed	Halex Istar	Health
2016	18-Mar	Aqua Capital	R\$	70,000,000	Yes	Agribusiness
2016	18-Mar	H.I.G Capital	R\$	Undisclosed	Isofarma	Health
2016	28-Mar	Kinea Investimentos	R\$	Undisclosed	Uninter Educacional	Education
2016	6-Apr	Goldman Sachs	R\$	Undisclosed	Cell Site Solutions	Telecommunications
2016	14-Apr	General Atlantic	R\$	450,000,000	XP Investimentos	Financial Services
2016	25-Apr	Pátria Investimentos; Blackstone	R\$	Undisclosed	ACS	Infrastructure
2016	27-Apr	Global Enviroment Fund (GEF); Kinea Investimentos	R\$	60,000,000	AGV Logística	Logistics
2016	4-May	Temasek; IDG; Eurazeo	US\$	110,000,000	Farfetch	E-commerce
2016	11-May	GP Investimentos	R\$	1,860,000,000	Br Properties	Civil Construction
2016	27-May	Pátria Investimentos	R\$	200,000,000	Odata	Services
2016	13-Jun	Sforza	R\$	100,000,000	Taco Bell	Food & Beverage
2016	21-Jun	Península Investimentos	R\$	Undisclosed	Wine	Retail
2016	21-Jun	Warburg Pincus	R\$	Undisclosed	Camil	Food & Beverage
2016	28-Jun	Naspers	US\$	40,000,000	Movile	IT
2016	30-Jun	Aqua Capital	R\$	Undisclosed	Rural Brasil	Fertilizers
2016	12-Jul	Actis	R\$	Undisclosed	Atlantic Energias Renováveis	Energy
2016	14-Jul	Pátria Investimentos	R\$	Undisclosed	Sports Nutrition	Retail
2016	22-Jul	Goldman Sachs	R\$	600,000,000	Metrofit	Furniture Warehouse

Source: Public deals

YEAR	DATE	GP/LP	CURRENCY	DEAL SIZE	TARGET NAME	TARGET INDUSTRY
2016	2-Aug	Jaguar Growth Partners	R\$	Undisclosed	Aliansce Shopping Centers	Real Estate
2016	8-Aug	Equity International	R\$	400,000,000	Estapar	Parking
2016	8-Aug	Ribbit Capital	R\$	100,000,000	Ideal Invest	Fintech
2016	10-Aug	Capital Group	R\$	450,000,000	BK Brasil (Burguer King Brasil)	Food & Beverage
2016	12-Aug	Advent International	R\$	Undisclosed	Fortbras	Car parts
2016	15-Aug	IFC	R\$	125,000,000	Aegea Saneamento	Infrastructure
2016	29-Aug	Permira	R\$	500,000,000	Mutant	Technology
2016	2-Sep	Gávea Investimentos	R\$	Undisclosed	Grupo São Francisco	Health
2016	20-Sep	Pátria Investimentos	R\$	100,000,000	Grupo Bio Ritmo	Fitness Center
2016	6-Oct	2bCapital	R\$	Undisclosed	Multi-Ar	Air Conditioning
2016	31-Oct	H.I.G. Capital	R\$	Undisclosed	Xsol Soluções Tecnológicas	Informatics
2016	22-Nov	Acon Investments	R\$	Undisclosed	Dori Alimentos S.A.	Food & Beverage
2016	5-Dec	Brookfield	R\$	3,200,000,000	Mantiqueira Transmissora de Energia	Energy
2016	26-Dec	Kinea Investimentos; Gávea Investimentos; Vinci Partners	R\$	Undisclosed	Unidas	Services
2017	9-Jan	Gávea Investimentos	R\$	Undisclosed	Nature One	Food & Beverage
2017	11-Jan	Advent International	R\$	550,000,000	quantiQ	Petrochemical
2017	18-Jan	Riverwood Capital	US\$	100,000,000	99	Urban Mobility
2017	24-Jan	GIC	R\$	Undisclosed	Cruzeiro do Sul	Education
2017	2-Feb	Carlyle	R\$	100,000,000	FS	Security
2017	22-Feb	International Finance Corporation ; Naspers	R\$	60,000,000	Creditas	Fintech
2017	9-May	Victoria Capital Partners	R\$	400,000,000	Cellera Farma	Health

Source: Public deals

GP PROFILE



SIDNEY CHAMEH / FOUNDED PARTNER / DGF INVESTIMENTOS

DGF is a general partner looking for investment opportunities in the software and technology sectors. In 2017, it was listed in the Preqin ranking as the general partner with the most consistent performance among those operating in emerging markets.

Can you give us an overview of DGF? Are funds being raised at the moment?

DGF Investimentos is a general partner specialized in private equity and venture capital portfolio management. Founded in 2001 by me, today it has three more partners: Frederico Greve, (since 2003), Patrick Arippol (since 2010) and Dario Boralli (since 2011). Operationally, only the first three operate on a daily basis. Currently, I am the chair of the company's Decision Committee, which acts as an investment committee; Fred leads the area of Growth; and Patrick is the leader of Ventures. Since its inception and after investing in various segments, today we invest primarily in technology companies, software/saas companies. Counting on a fund managed by me and Fred before DGF, the company has already invested in 35 companies and has sold 20 of them. Today the 15 companies in the portfolio are divided into 4 different funds. This year, we are expecting to launch a new Ventures

fund, DGFV2. It will start with R\$ 100 million and go up to R\$ 200 million in the second closing.

What types of investment and average ticket do you seek?

In the growth area, the ticket is up to R\$ 60 million, with an average volume of R\$ 30/40 million and the target is for companies with revenues between R\$ 20 million and R\$ 200 million. In venture, the maximum investment ticket reaches R\$ 12 million with an average of R\$ 7 million, focusing on companies with revenue between R\$ 1-20 million.

What are the main characteristics or positioning you are looking for in potential investees and/or future partners?

We seek ethical companies and entrepreneurs, motivated to perform and able to overcome challenges. Business models have to rely on recurring revenue and do not need high investment assets or high

maintenance costs, so IT companies are a focus for being light assets.

Despite the economic crisis in the country, the technology sector was one of the great highlights in recent years. How do you explain this? Which sectors and segments are the most promising for the next years in Brazil?

We continue to bet firmly on the software segment. The explanation is that software technology is part of all evolutionary processes in any segment. Any industry today gains more productivity by investing in it. When there is a crisis in one segment, others may be out of the crisis or on the edge, but all segments use technology to have more productivity and get out of the crisis.

DGF was listed in the Preqin Ranking with the most consistent performance among general partners operating in emerging markets. To what do you attribute this result?

DGF was listed for its consistent results for several quarters. We credit this to consistency to the continuous refinement of a very "fine-tuned machine." We are clear in the areas we want to invest, such as software/saas, we have designed good opportunities, and have followed a strict discipline in their analysis and valuation, monitoring very closely the portfolio companies and adding value to investments. Finally, we find good exit opportunities.

Considering the experience in the investment and divestment phases, which governance structure do you consider to

be ideal for the investees?

We have been working well and we intend to continue this way: each company is accompanied by two DGF officers from the beginning, usually a partner and another senior analyst who deal with the day to day investment. In addition to these professionals, usually a specialist is invited to help the company on specific issues; this professional may or may not be a member of the Board of Directors of the investee.

Are you interested in co-investing with other general partners? What strategies are you considering to reduce risks in the investment portfolio?

We have already done and will continue to co-invest, but we see in this strategy an opportunity to gain experience for adding value and not so much for reducing risk. To reduce risk there must be good selection and constant monitoring.

When was the DGF team formed and what do you look for in the professionals that form the team? Have new partners joined the company and how was this process?

The partners with the largest shareholding in the company, Fred and I, worked together for over 15 years. Before DGF, we managed a fund where I was the general partner and Fred was the analyst. There were two exits of partners during the life of the company. These are not pleasant situations, but they have always been treated with professionalism, and today there is a good relationship with both.

With the experience of divestment, which exit strategies do you consider most viable in the Brazilian market and why?

In Brazil, IPO is still a distant dream for most companies. Without discarding going public, here in Brazil or even abroad, selling to strategic partners is the most viable option.

In your opinion, what are the main opportunities for the private equity industry in Brazil in the coming years?

Unfortunately, in Brazil, a lot is missing and productive investment capital can help in various segments, sectors and activities. I think it will grow significantly, along with Brazil. ■

COMPANY PROFILE



JOSÉ BERGES / CEO / GTM GROUP - QUANTIQ

Since the beginning of the year, quantiQ, a chemical distributor operating in several market segments, such as pharmacy and cosmetics, food and beverage and construction, has become a GTM Group company, one of the largest chemical distributors in Latin America which has Advent International as a controlling shareholder.

Can you provide us an overview of the GTM Group and its operations in Brazil?

GTM Group has a leading position in Latin America: we are the largest independent distributor of chemical products of the region. We offer the market a vast portfolio of products and represented companies, we have 62 distribution centers in 11 countries and a team highly capable of delivering solutions to our customers. In Brazil, we are leaders in the distribution of chemical products and we are present in more than 30 market segments, with special emphasis on adhesives, agroindustry, fragrances, rubber, civil construction, cosmetics, pharmaceuticals, lubricants, human nutrition, oil and gas and paints.

Tell us about the support provided by Advent and how being their investee influences the business and strategy of the group.

There's a very close alignment of GTM with Advent. We agree on the goals, long-term activities and strategic objectives such as new acquisitions. This ensures that our goals are clear and seamless to all those involved. We also received all necessary support from Advent to achieve our goals. The Advent support group acts as an outside consultant, providing access to contracts and contacts of industry experts.

Tell us about the acquisition of quantiQ and what motivated this operation. How was it like to follow this path with the Fund?

GTM's goal is to be the largest distributor of chemicals in Latin America. In order to achieve this goal, we must have a significant position in the Brazilian market, which we did not have prior to the acquisition of quantiQ. We analyzed the market in depth and found that quantiQ was the

best option, especially for market reputation, quality of people, and similarity of philosophy and values with GTM.

We were able to negotiate this acquisition very quickly. It was crucial to have very close cooperation with Advent. Advent has all the technical know-how for an acquisition, as well as external resources such as industry experts, lawyers, etc., and GTM has in depth knowledge of the distribution business. This allowed for a very efficient process.

What are the consequences of this acquisition in the positioning of the GTM Group?

With the acquisition of quantiQ, GTM achieved a leading position as a number 1 company in Brazil and as the largest independent distributor in Latin America. This new platform, with the different skills within the group, positions us optimally to continue growing.

Considering that Brazil is now the largest market for GTM activity, Brazil has the largest Latin American Stock Exchange in São Paulo, that Advent has a wide experience in IPOs in Brazil and that the IPO is a strong possibility for GTM in the future, we decided to establish the new headquarters of the Group in São Paulo.

The presence of quantiQ in Brazil was already well-established. Now, being part of a very strong group in Latin America, is there any interest to diversify the market, or should this operation continue to focus on the Brazilian market?

The knowledge and skills of quantiQ

and other Group companies are very complementary and we have very similar philosophies and values. This gives us the opportunity to extend the best practices that exist among all GTM Group companies. Both quantiQ and other Group companies will take advantage of this. We see, above all, many opportunities in the field of chemical specialties, where we will expand in a very significant way.

Does quantiQ's growth strategy expect organic growth or do you have an interest in merging or acquiring other players in the industry?

We have a well-defined growth strategy. This will happen both organically and via acquisitions. The chemical distribution market in Latin America, including Brazil, is very fragmented and therefore offers opportunities for consolidation. We will certainly play a very active role within the consolidation of the market.

QuantiQ operates in several segments. Which do you consider most promising for the next years in Brazil?

Over the next few years, we believe in the resumption of the Brazilian economy. With this, segments such as automotive and civil construction tend to recover naturally, boosting in turn other segments such as paints, lubricants and rubber. The oil and gas segment could be an opportunity generator due to the resumption of exploration activities resulting from the recent changes in the sector. The segments of pharmacy, human nutrition and cosmetics are also considered promising because of their innovative nature and

constant evolution, with great participation of the chemical specialties.

Aiming at the opportunities related to the aforementioned segments, quantiQ is attentive to the market, either through the development of new projects, suitability of the portfolio or even investments. As an example, we can mention the increase of specialties accompanying global trends and regulatory demands in several segments and the development of customized solutions for customers through our formulated product line. ■

THE VIEW FROM A GLOBAL LP



CESAR COLLIER / MANAGING DIRECTOR / SIGULER GUFF

Since 2007, Siguler Guff, a general partner specializing in emerging markets, has invested a total of U\$ 856 million in Latin America, with Brazil receiving approximately 80% of this investment. In total, there were 20 funds, 11 co-investments and five exits, two of them complete and three partial ones.

Tell us about Siguler and its investments in Latin America and in Brazil.

Siguler invested in the region for the first time in 2007 and, before the opening of the office in 2011, it invested U\$ 190 million. Over a period of six years (2011 to 2017) these investments have tripled in value, most of them concentrated in the last three years.

With 10 years of investments in Brazil, Siguler adjusted its strategy according to the experience acquired in the country and the market movements. Today its checks are larger and its relationships more focused especially with general partners who offer more opportunities of co-investment. A novelty of recent years includes investments in distressed assets. Brazil was the first emerging market in which we invested in distressed assets, which is usually limited to developed countries.

What reasons led you to choose Brazil as the first country to invest in distressed assets in Latin America?

What gave us confidence here was the solidity of Brazilian institutions. What the Operation Car Wash* has shown is that the judicial institutions work and this is very important in a distressed asset transaction, which has by nature a strong legal component.

Which sectors do you consider the most attractive in the country and for what reasons?

Siguler has been betting strongly on the Brazilian consumer sector from the beginning, including the investment in the Óticas Carol. Even with the crisis, people continue to buy low-priced products. Retailers who have managed to reach the lower-middle class have been achieving double-digit growth for more than 15

* Operation Car Wash is an ongoing criminal investigation being carried out by the Federal Police of Brazil

years (Óticas Carol is the best example). Food service also grows despite the crisis due to other characteristics, mainly the consumption of food outside the house. The general partner continues betting in these sectors and we already made two co-investments this year in companies with great performance.

In addition to the consumer sector, Siguler invests in health, which given the size of Brazil, still offers opportunities for consolidation. Furthermore, we have also been active in services, education, late stage technology and will continue to invest in distressed assets, a segment in which the Siguler is a pioneer. We do not have investments in infrastructure and we must stay away from this segment.

What recommendations would you give to foreign investors planning to invest in Brazil?

I think a good alternative is to start a relationship through co-investments. The ideal is always to have a specialist to count on. And for general partners, the timing to invite an outside investor also needs to improve, usually when a general partner invites an investor from outside to make a co-investment it is urgently seeking fundraising, but foreign investors need time to feel comfortable with local opportunities.

What strategies have you successfully implemented for co-investments in Brazil?

In our selection process, the decision is to co-invest with the best general partners

in Brazil. The country has super difficult segments like e-commerce, for example. Building this from a distance is a risk for the investor and for the company. Local presence is fundamental because otherwise the investor ends up being guided more by its global experiences than by the nuances of Brazil, turning this into a luck game instead of a skill game.

I am extremely in favor of working with local funds. These general partners need to have relevance for the company, local and industry experience and add operational value. In this line, this year alone we intend to close with US\$ 310 million invested in the region and I believe we will maintain this number in 2018.

What are your perspectives for the country's macroeconomic scenario in the short and medium term?

I believe the most critical moment has passed. The recovery has begun, albeit slow, and the general partner intends to continue increasing investments in the country. We believe in Brazil! ■

REGULATORY UPDATE

VC ON THE PE RADAR: CHANGES IN EARLY STAGE INVESTING



RODRIGO DE CAMPOS VIEIRA / PARTNER / TOZZINFREIRE ADVOGADOS

Without a doubt, we have never had such a good moment in Brazil for venture capital. For the first time, it is possible to observe a safer environment for start-up fundraising, at most stages that these firms experience through their existence.

The Brazilian ecosystem has grown considerably in recent years, due to a number of factors. First, we have that entrepreneurship arises out of necessity or opportunity. In times of economic crisis such as the one facing the country, it is common for unemployment rates to rise, forcing lots of former employees develop his or her own activity; besides that, many see in start-ups an informal culture, opportunity to grow and freedom that cannot be found in traditional organizations, what makes the idea of having an own business more attractive.

With the increase in entrepreneurial activity, there is a growing demand for capital. The financing of start-ups works in a very particular way: the more developed the business, the greater the volume of capital invested and more robust is the investment method chosen at that time. Capital is then infused in rounds, which

comprise a diversity of sources.

For this reason, it is common for start-ups to seek capital first with angel investors; investment funds such venture capitals usually appear at more developed stages, bringing in larger investments. In addition, many firms usually decide to raise funds using equity crowdfunding - which allows the offering of securities on electronic platforms without having to register with the Comissão de Valores Mobiliários (CVM, the Brazilian government agency that regulates capital markets), a very costly process to start-ups. The main types of investment in start-ups have been impacted by recent regulatory initiatives, most of them in a positive way.

In 2016, the CVM changed the rules for the FIP (Fundos de Investimento em Participações), the main venture capital vehicles used in Brazil, publishing the CVM Instruction n. 578/16; a few months later, Supplementary Law n. 155/16 provided greater security for the angel investment, granting these investors patrimonial and contractual protections; finally, in 2017 the CVM again showed that it was attentive to the market, considering the manifestations raised in

public hearing to establish equity crowdfunding rules with the CVM Instruction n. 588/17.

Hence the most important investment modalities used by start-ups now have a regulatory framework and legal recognition, what attracts more and more investors who once considered start-ups could be a too risky company to fund.

In this wave, we can see an increasing amount of large companies interested in innovative start-up initiatives. In a recent survey conducted by the Harvard Business School Alumni Angels of Brazil, we note that Open Innovation and Corporate Venture programs are already real ideas in Brazil and present in several market sectors. Large players are joining efforts with small innovators through events, incentive programs and, most importantly, investments, contributing then to the increase in the quantity of capital available for entrepreneurial activity.

Investors play an important role in the development of start-ups. Innovative businesses are prototype-based, using MVPs to test their products. As these companies typically learn through their mistakes, if they have opportunities to develop their activities for a longer period of time, better the product will become, boosting the wisdom and development of the ecosystem.

We then have a well delineated cycle. The more capital these companies have, the less chance they will die at the start

of their operation. However, with a greater degree of maturity of the ecosystem, more capital will become available for entrepreneurial activity.

So what was paradoxical becomes clearer: for start-ups to be investments with the greatest return potential, you have to believe them from the beginning like angels do, at early stages. To expand the company, larger investments are necessary, so venture capitals are fundamental. That's why regulatory efforts that encourage each one of them are very welcome, since everyone plays a very important role. If investments do not cease, these companies will become more secure for new investments - and by closing the cycle, the investment will be able to deliver the expected return.

To begin with, entrepreneurship-friendly ecosystems improve unemployment rates, tax collection, service delivery and citizen welfare. Until now, it is possible to conclude that Brazil is doing a great job with its regulatory framework on these matters. We hope that this promising scenario remains at least for the next few years so then, finally, we can leverage the Brazilian economy through innovation. ■

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