

# inBrazil 2019

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Venture Capital

PITCHBOOK

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**The InBrazil Private Equity & Venture Capital** Program is 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.

**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.

**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 actions designed to attract foreign direct investment (FDI) to Brazil, striving to allocate resources in sectors of strategic relevance for endowing Brazil and its businesses with a keener competitive edge.

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# 1.1 MACRO-ECONOMIC DATA

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**Background for Brazil**



Among the world’s ten largest economies, and heading up Latin America, the Brazilian economy is back on the path to growth. As illustrated in the following pages, its prospects are positive for the next few years.

BRAZIL

- Annual GDP of US\$ 1.9 trillion
- 212 million inhabitants
- Urbanisation rate of 84%
- Among the top ten countries receiving foreign investments in 2018

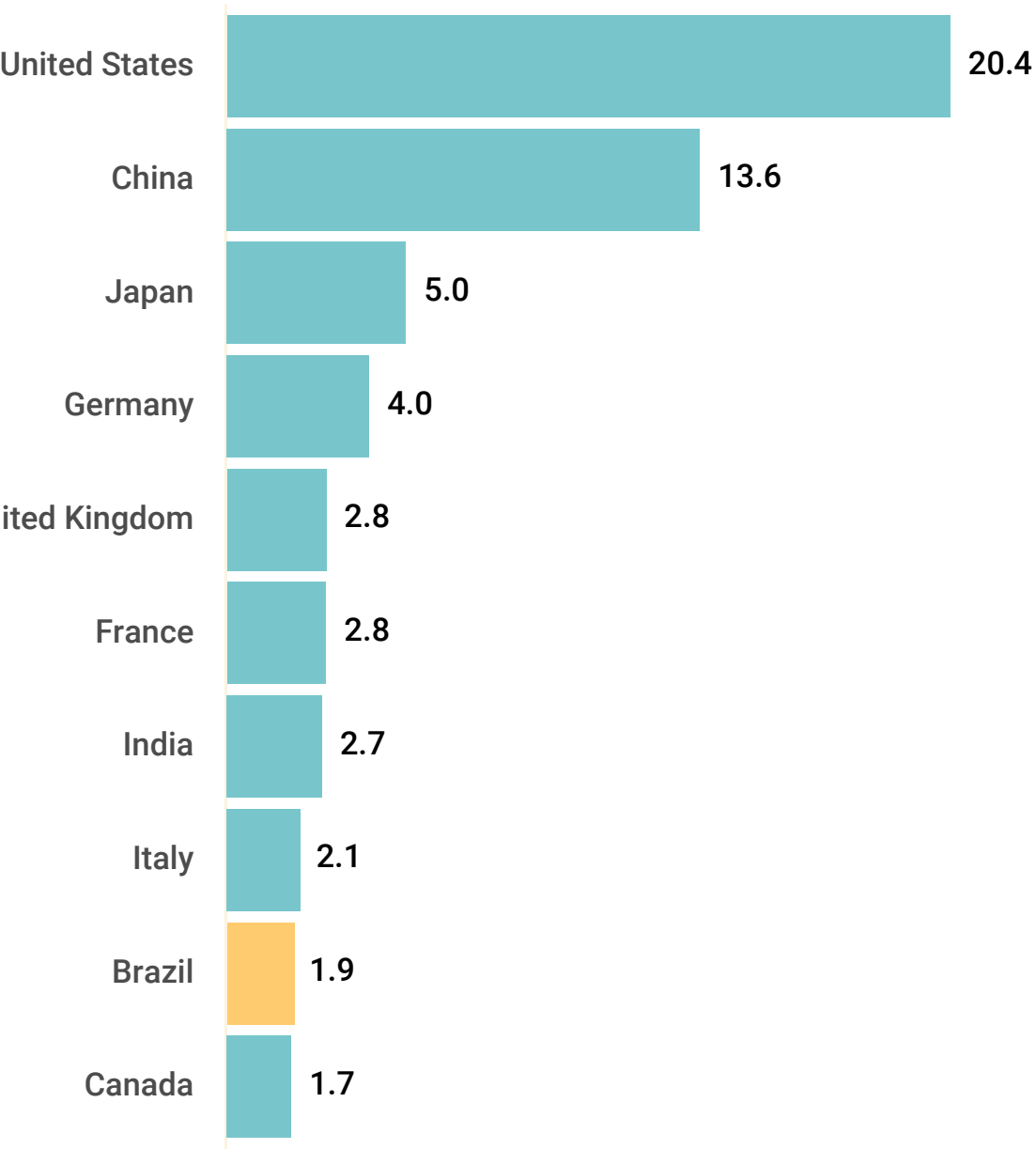
These are promising times for the Brazilian economy, due to the following set of circumstances:

- Well-balanced inflation that remains under target;
- Consumption and confidence ratings are uptrending;
- Brazil’s capital market has been booming since 2017, with the IBOVESPA Index reaching new highs and record share volumes; and
- More than seven companies attained unicorn status in 2018, appraised at more than US\$ 1 billion.

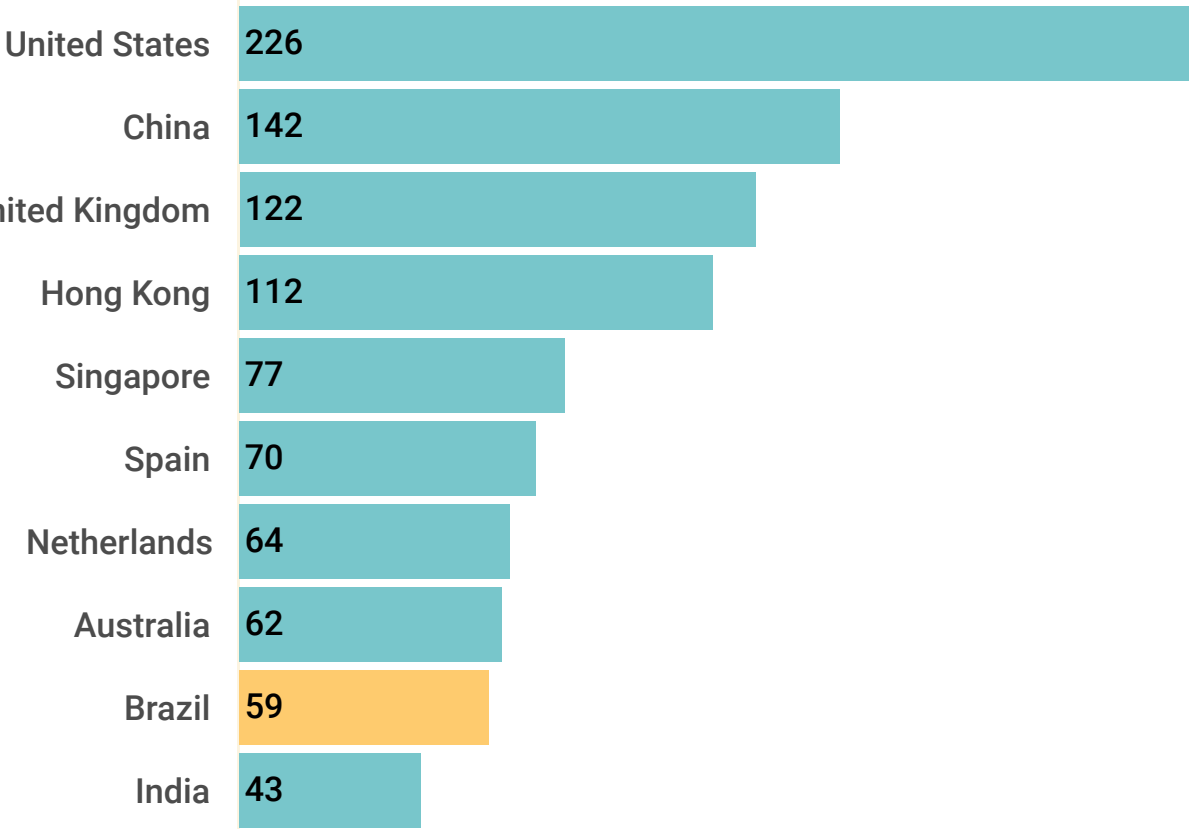
Ranking of Latin American economies – GDP – 2018 (US\$ trillion)



TOP 10 world economies 2018 (US\$ trillion)



Foreign Direct Investment inflows 2018 (US\$ billion)

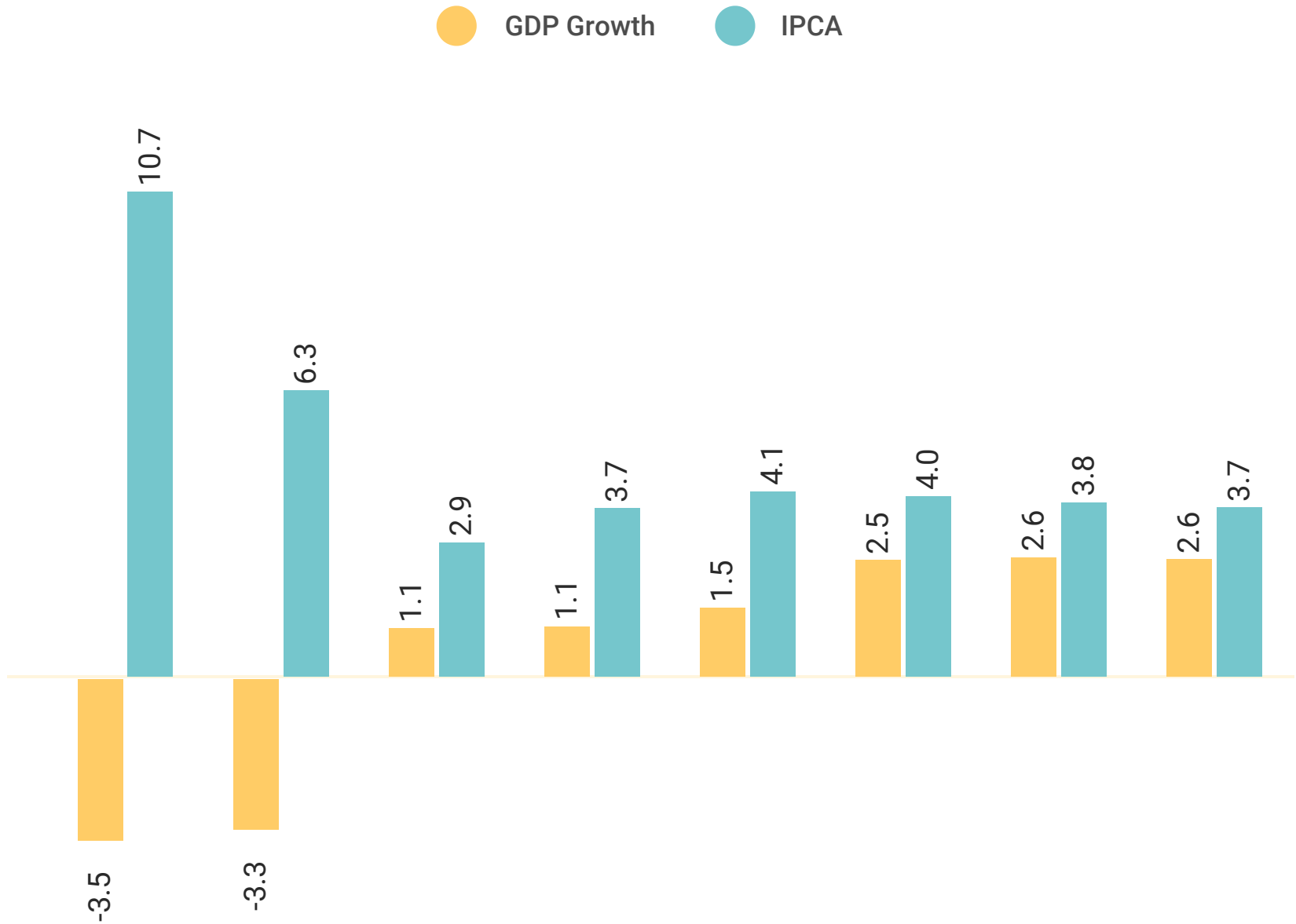


The gradual growth recovery of the Brazilian economy is reflected in a context of tight-leashed inflation and lower interest rates that, influenced by credit costs, are helping drive up activity and employment levels.

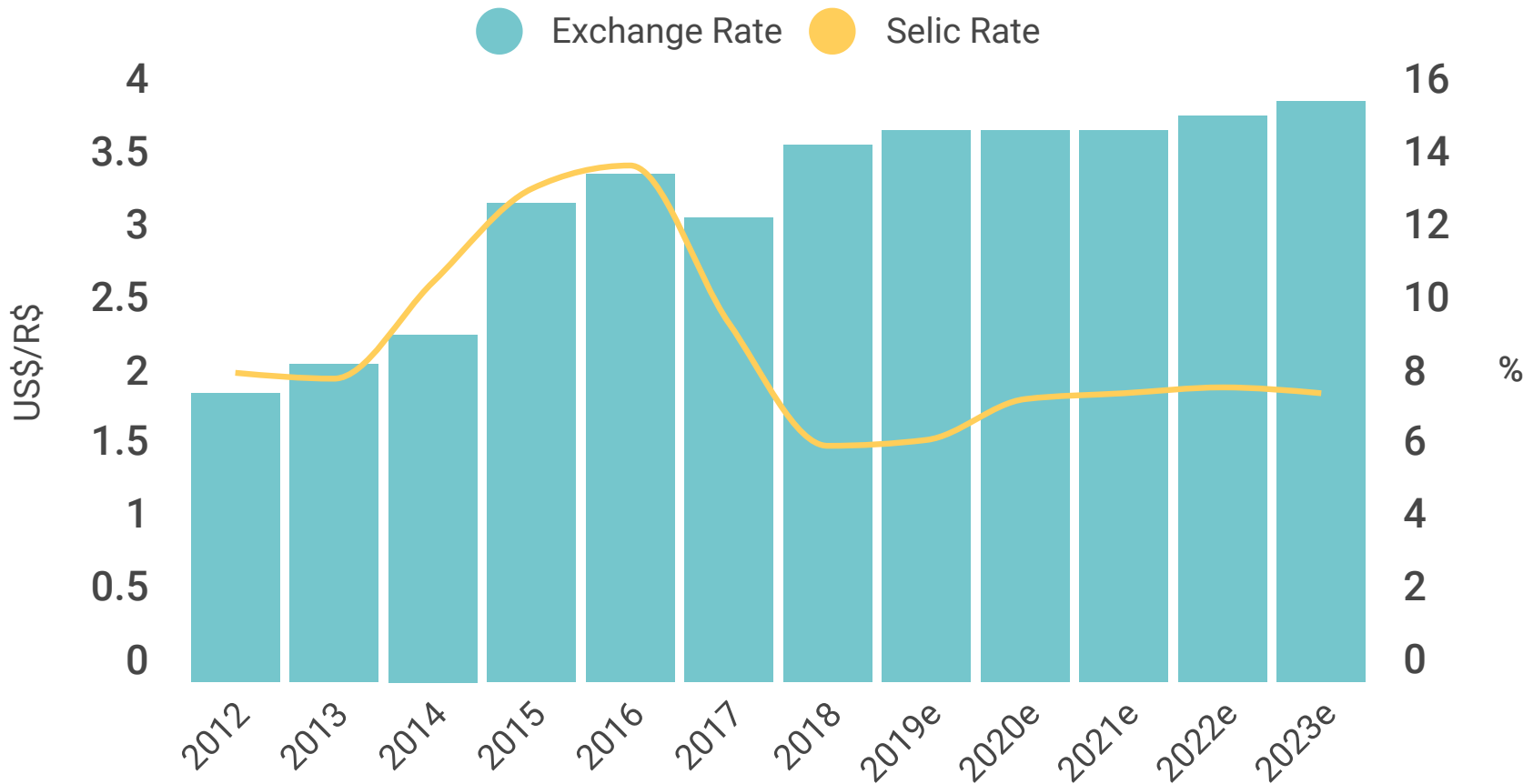
With inflation close to target and solidly-rooted expectations, Brazil’s monetary policy is grounded on interest rate stability and indications that this context will continue over the next few years.

Since december 2017, unemployment rates have been dropping, while the employed population has expanded by almost two million positions and real incomes have recovered, increasing the actual wage mass even more. The jobs market should follow this uptrend.

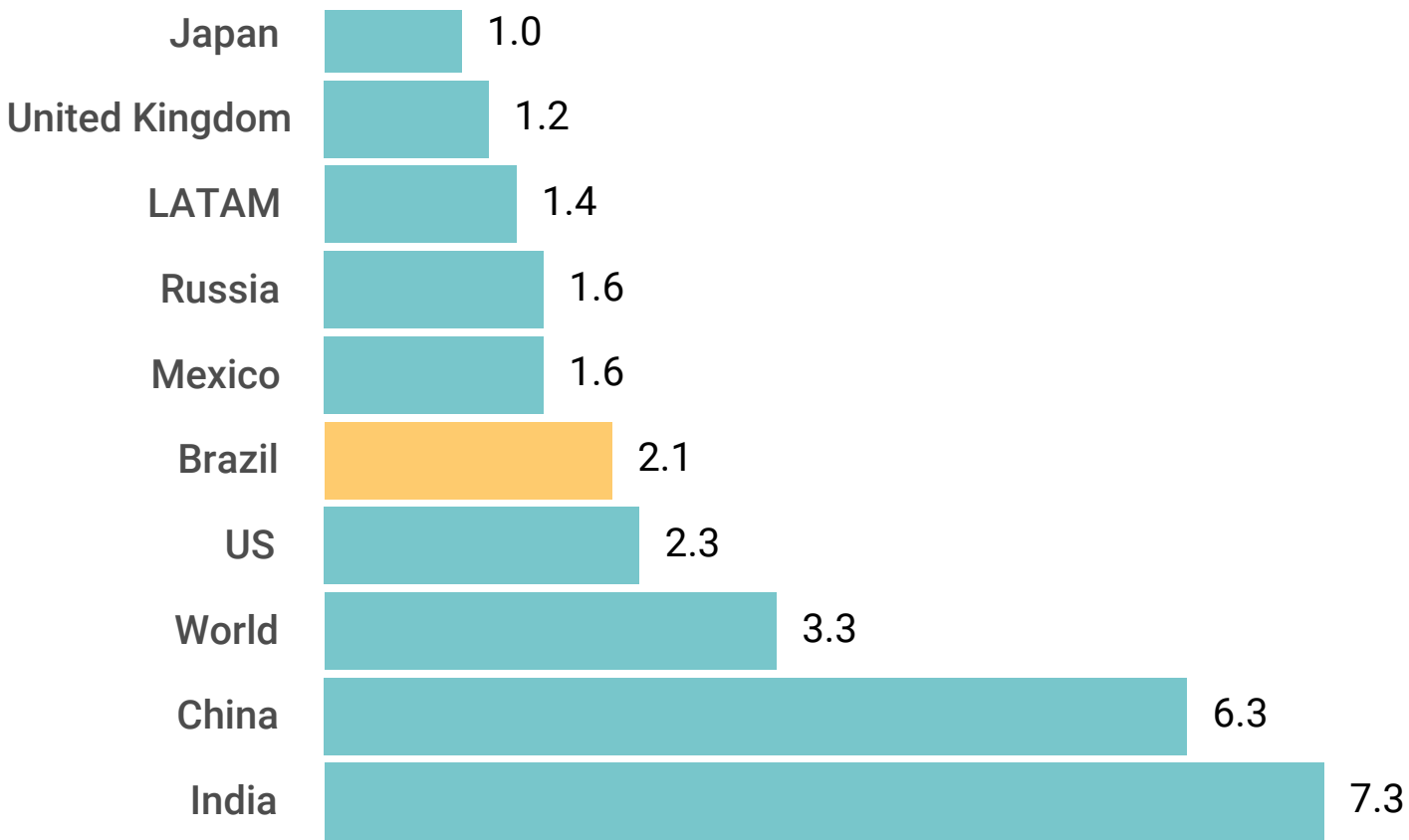
GDP growth and inflation rates in Brazil FY15-FY22e (%)



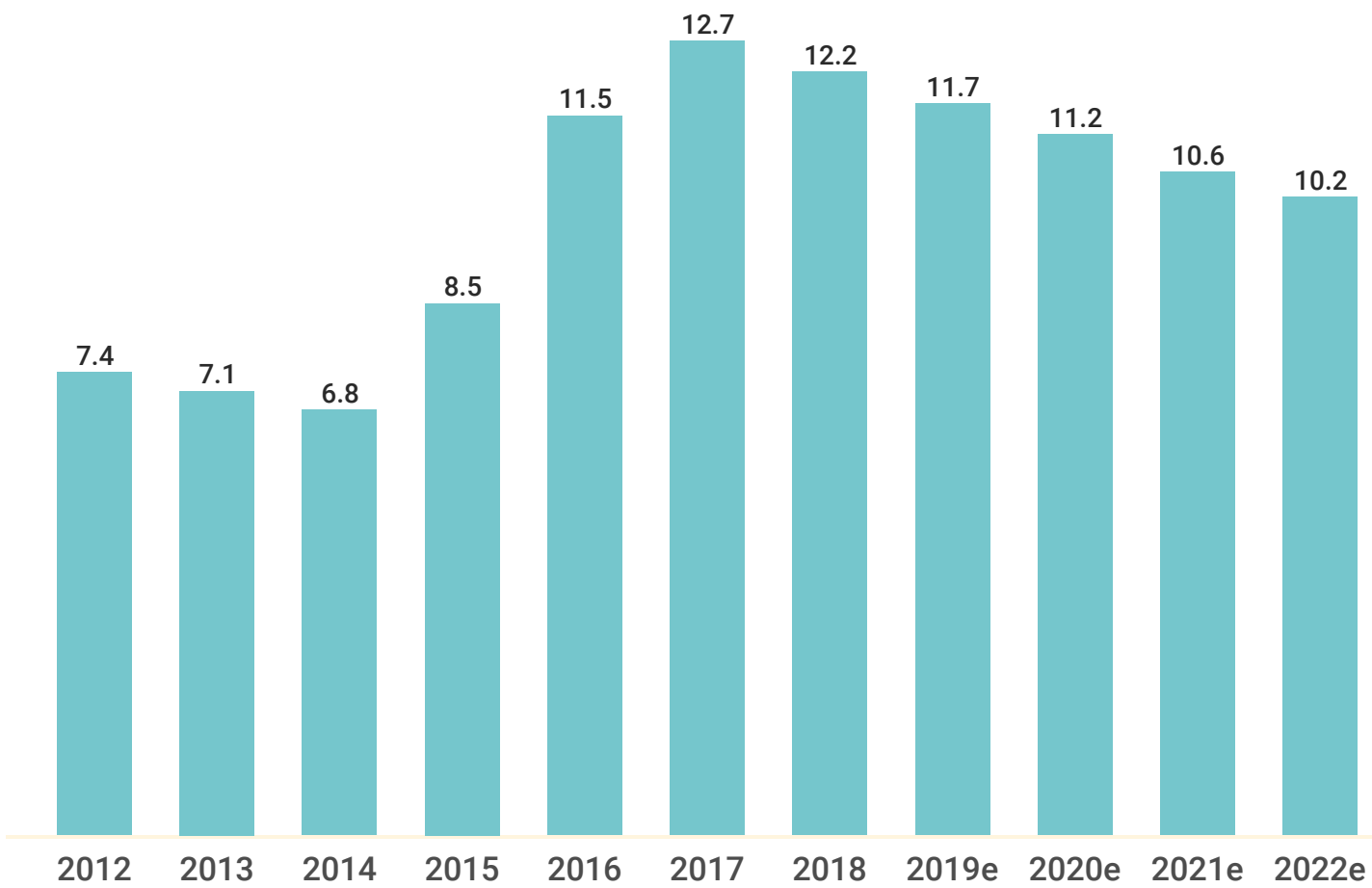
Exchange and Selic rates forecast FY12-FY23 (expected)



GDP growth projection by country FY19e (%)



Average unemployment rate forecast FY12-FY22 (expected) (%)





In parallel with the economic recovery, better capital market conditions and the prospects of a stable foreign exchange rate, all point to a context that is more appealing to foreign investors seeking assets in Brazil.

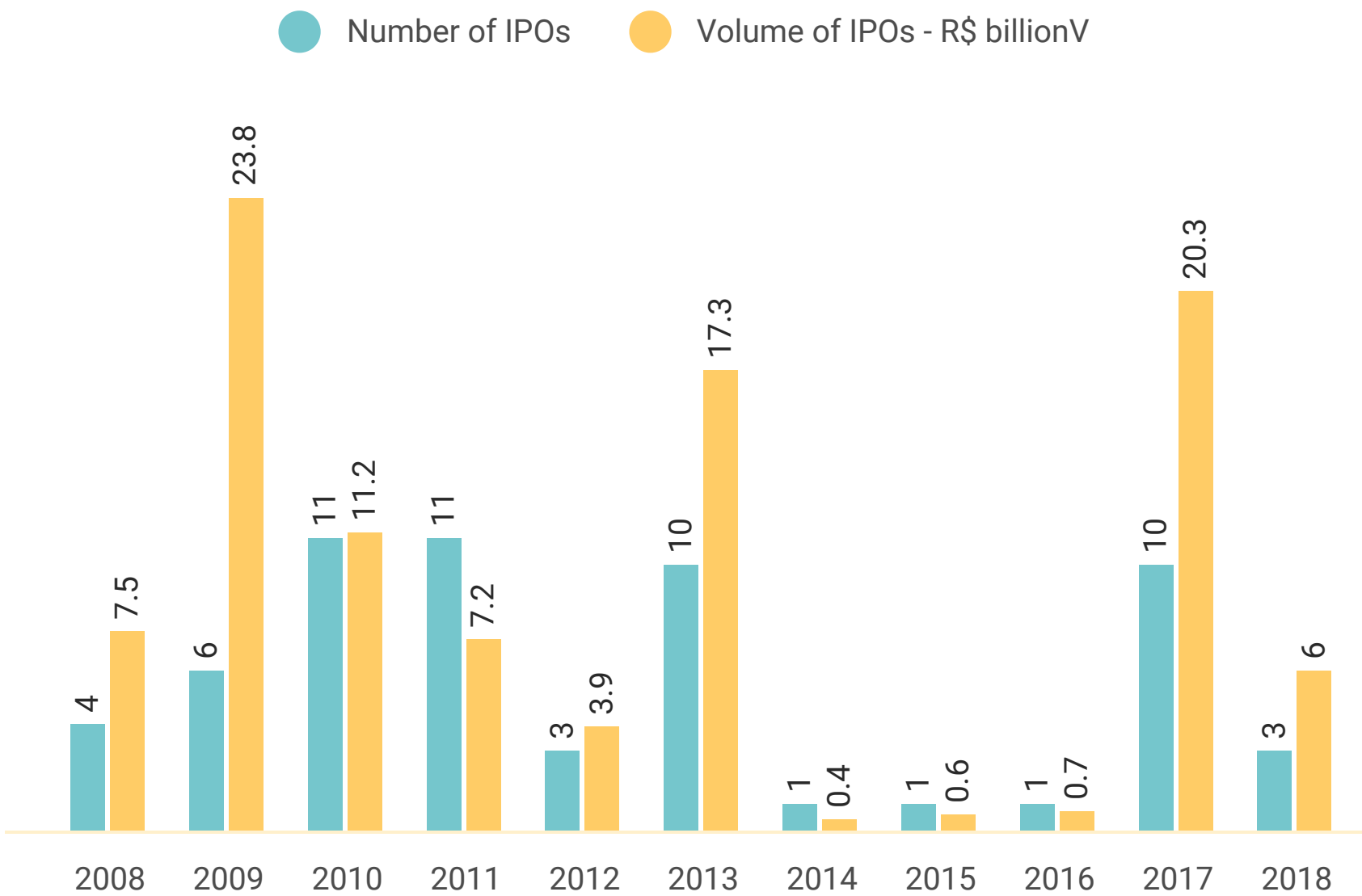
Under a newly-elected government, market optimism spread rapidly. A survey released by Bloomberg indicated that Brazil tops the list of the emerging countries from the investor standpoint. Brazilian bonds were recently ranked as equivalent to those of other economies rated as investment grade.

This positive view of Brazilian papers has been expanding among investors, as its Government moves ahead with social security reform, which is considered crucial for shrinking the public deficit.

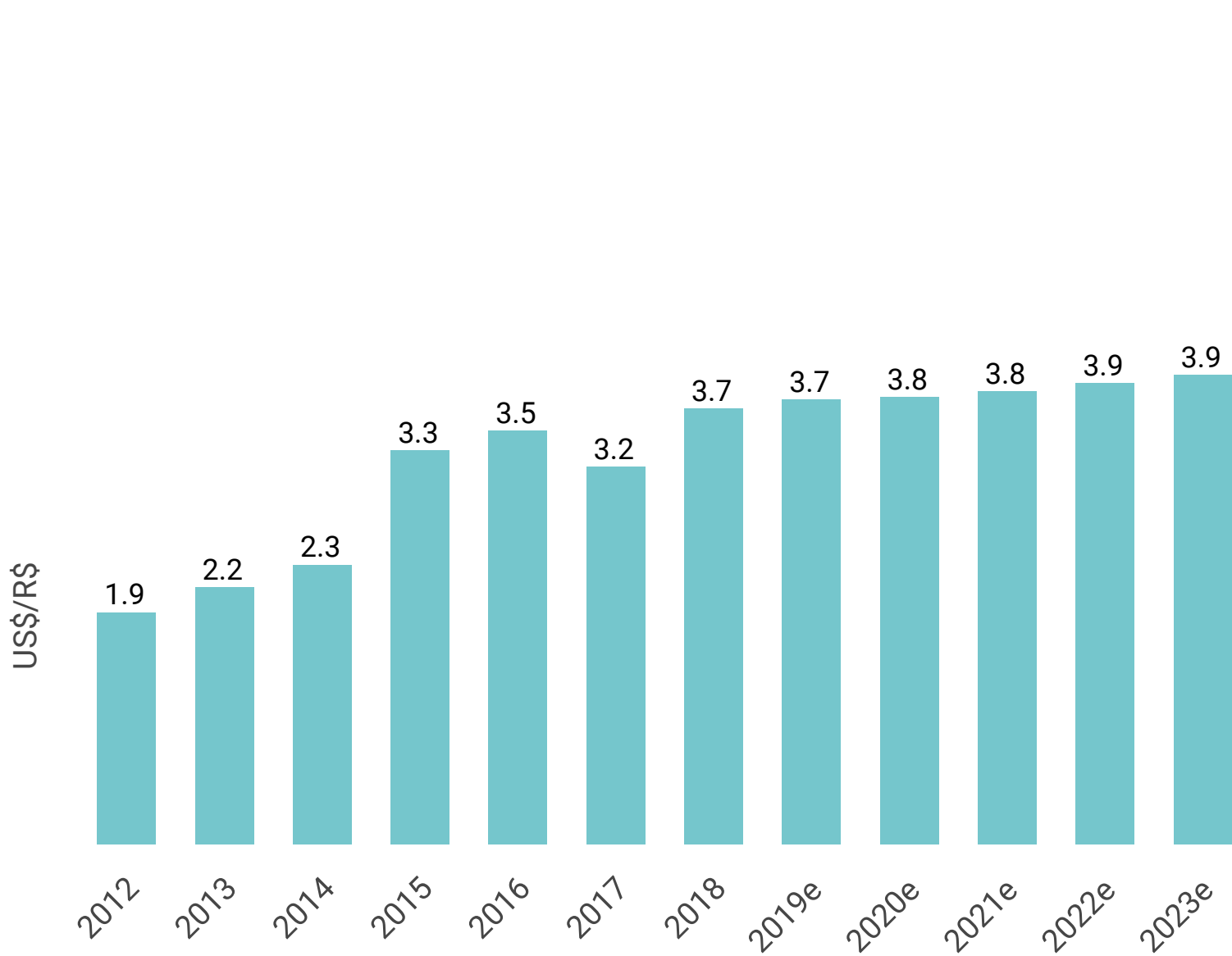
In 2018, three companies went public on the B3 – the Interbank and the NotreDame Intermédica and Hapvida medical aid operators – while others (such as Stone and Arco Educação) offered their papers directly on Wall Street. Through offerings on the Brazilian stock exchange, companies raised R\$ 6.76 billion, while IPOs on the US stock exchange brought in US\$ 4 billion.

With significant international reserves and a floating exchange rate, Brazil’s foreign exchange policy has been more foreseeable and stable. The outlook for the Brazilian real against the USD over the medium term is a positive indicator for foreign investors eyeing Brazil.

IPO history on the Brazilian stock exchange FY08 – FY18



Exchange rate forecast FY12 – FY23e (US\$/R\$)



What market investors have their eye on

	Foreign Exchange	Bonds	Stocks			
1	Brazilian real	Brazil	Brazil	7	Polish Zloty	Turkey
2	Mexican Peso	Indonesia	India	8	Indian Rupee	China
3	Indonesian Rupiah	Mexico	Indonesia	9	Chinese Yuan	India
4	Argentinian Peso	Argentina	China	10	South Korean Won	Poland
5	Russian Ruble	South Africa	South Africa	11	Turkish Lira	South Korea
6	South African Rand	Russia	Argentina			

In the developing economies, shares, currencies and government papers should outstrip their counterparts in the more developed nations during 2019, with Brazil as a favourite choice among investors for these three asset classes, according to a Bloomberg survey of thirty investors in December 2018.

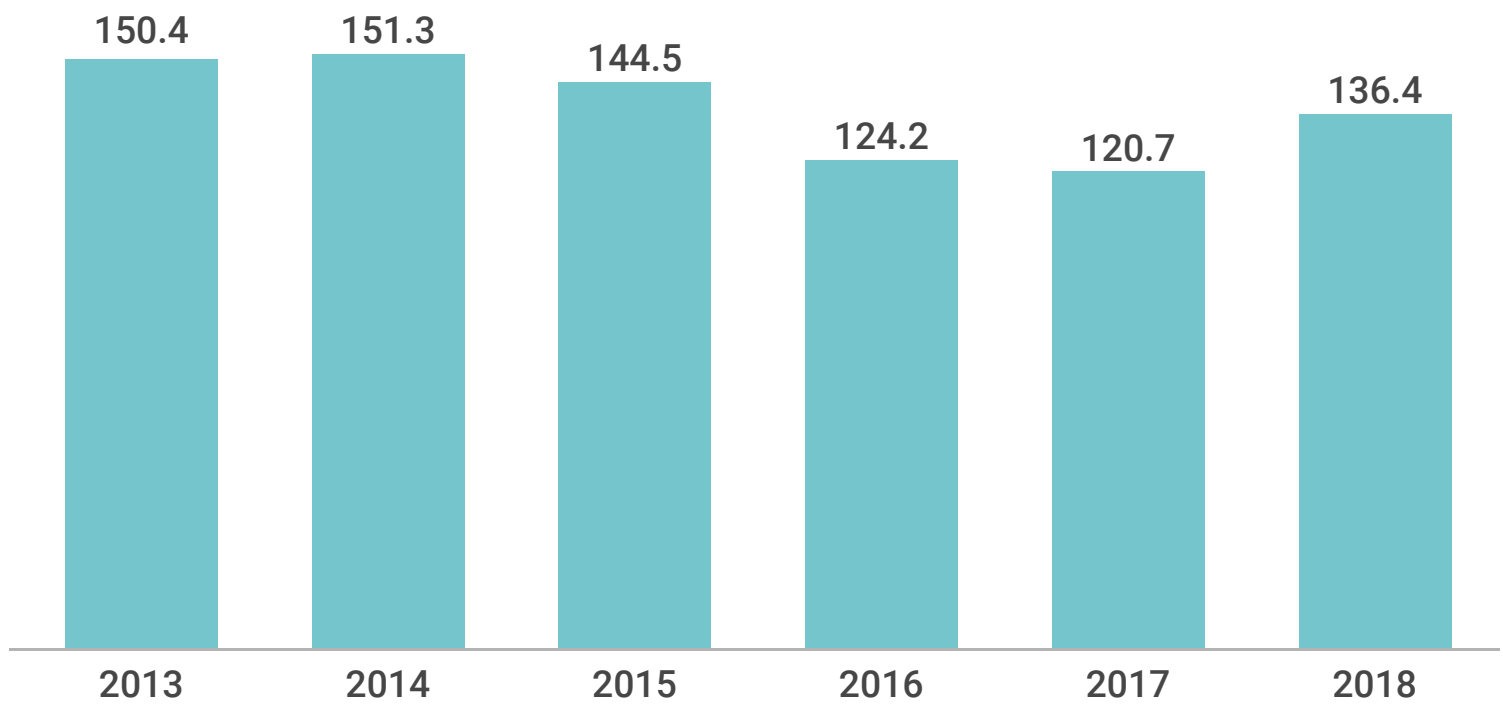
Private capital funds (especially when foreign) are trustworthy sources of financing and operational support in the current context of sparse bank credit, particularly as dry powder is limited among local players.

Tightly-strapped bank credit is spurring the search for alternative sources of corporate funding, opening up a great opportunity for private equity and venture capital funds operating in Brazil.

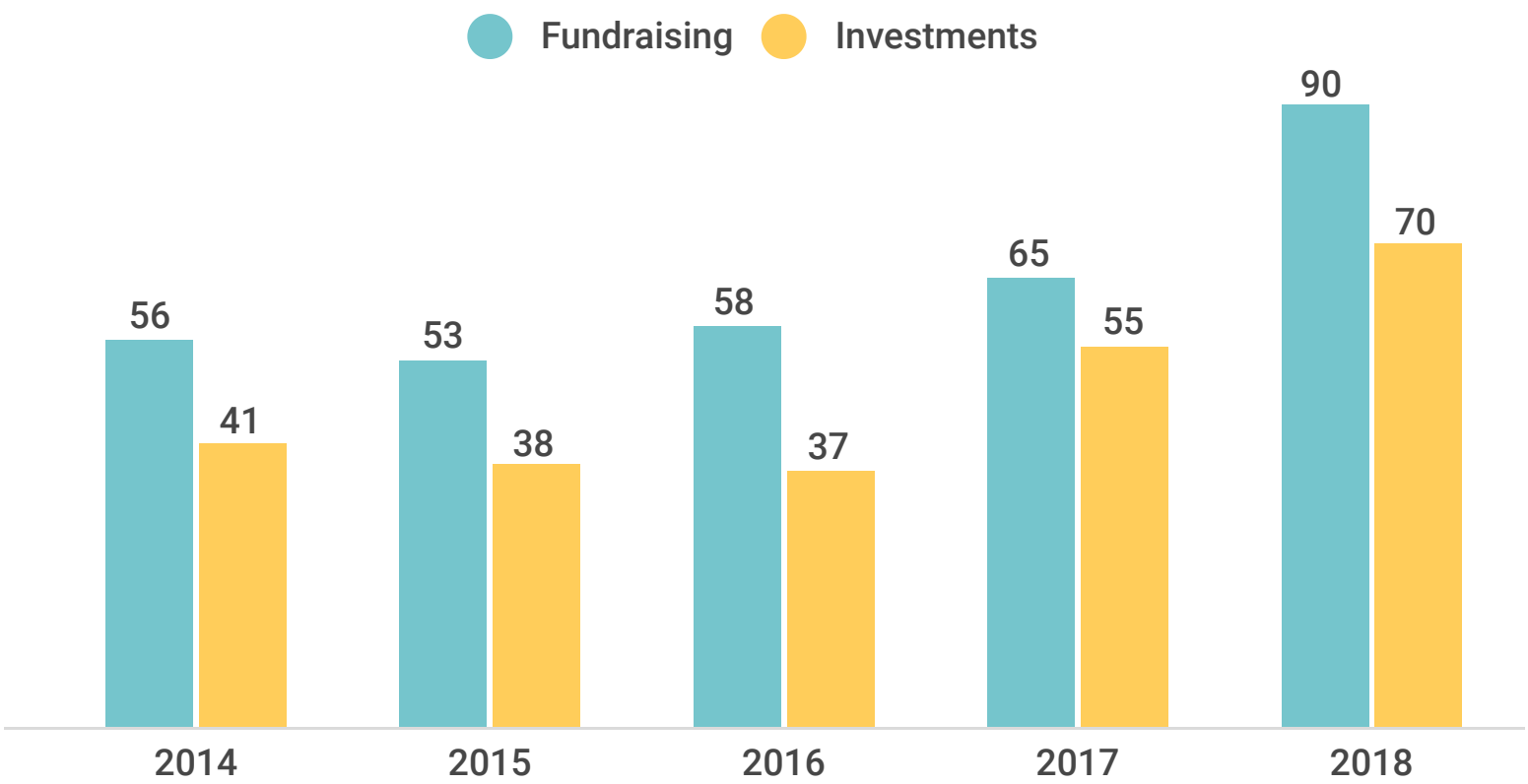
Furthermore, many companies that were heavily leveraged during the economic growth years are now floundering in the wake of the recession.

The large number of businesses declaring bankruptcy or under court-supervised receivership hint at very favourable prospects for funds investing in promising turnaround possibilities and special situations.

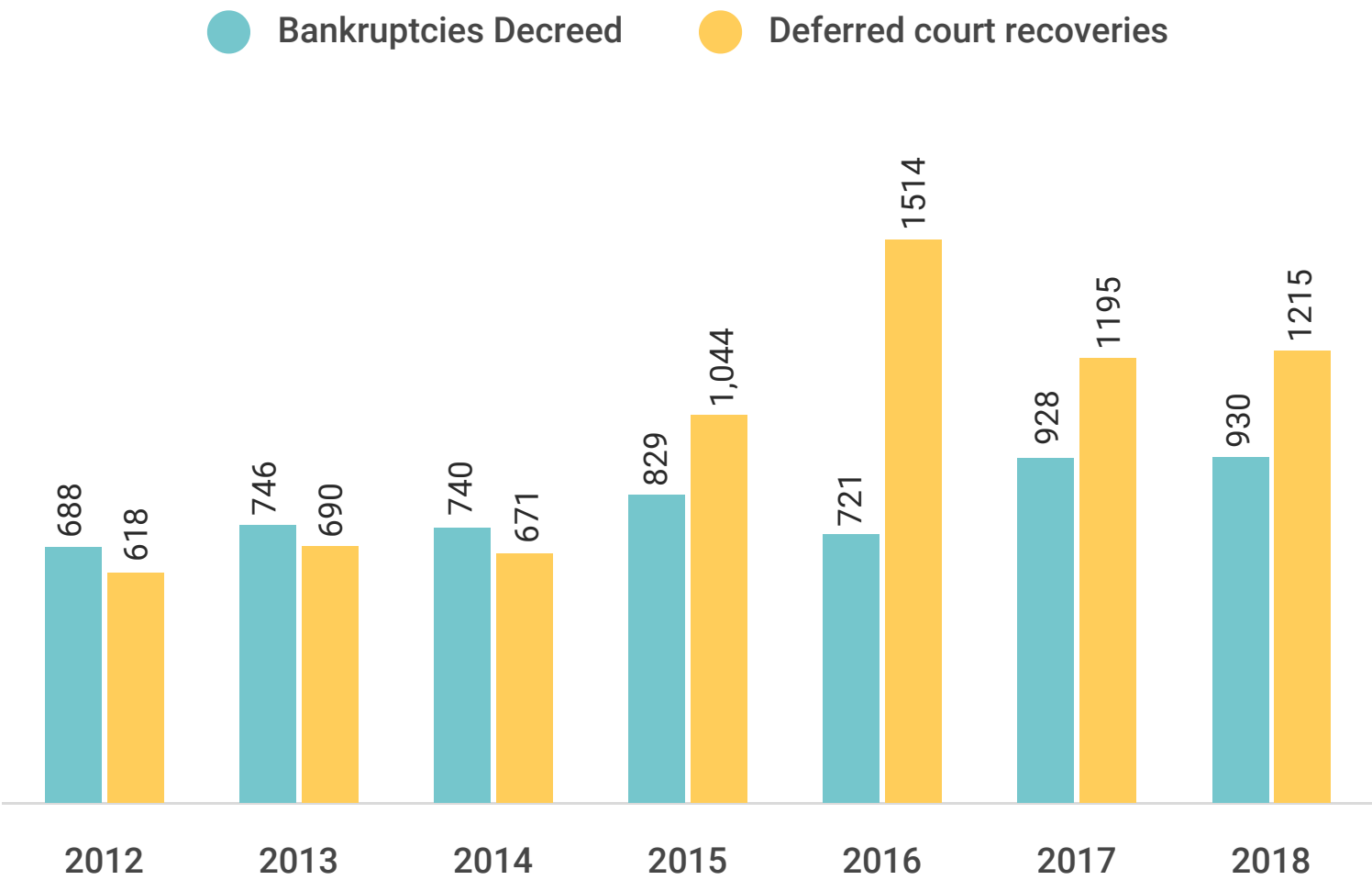
Average annual credit lines to companies in Brazil  
FY13-FY18 (# thousand)



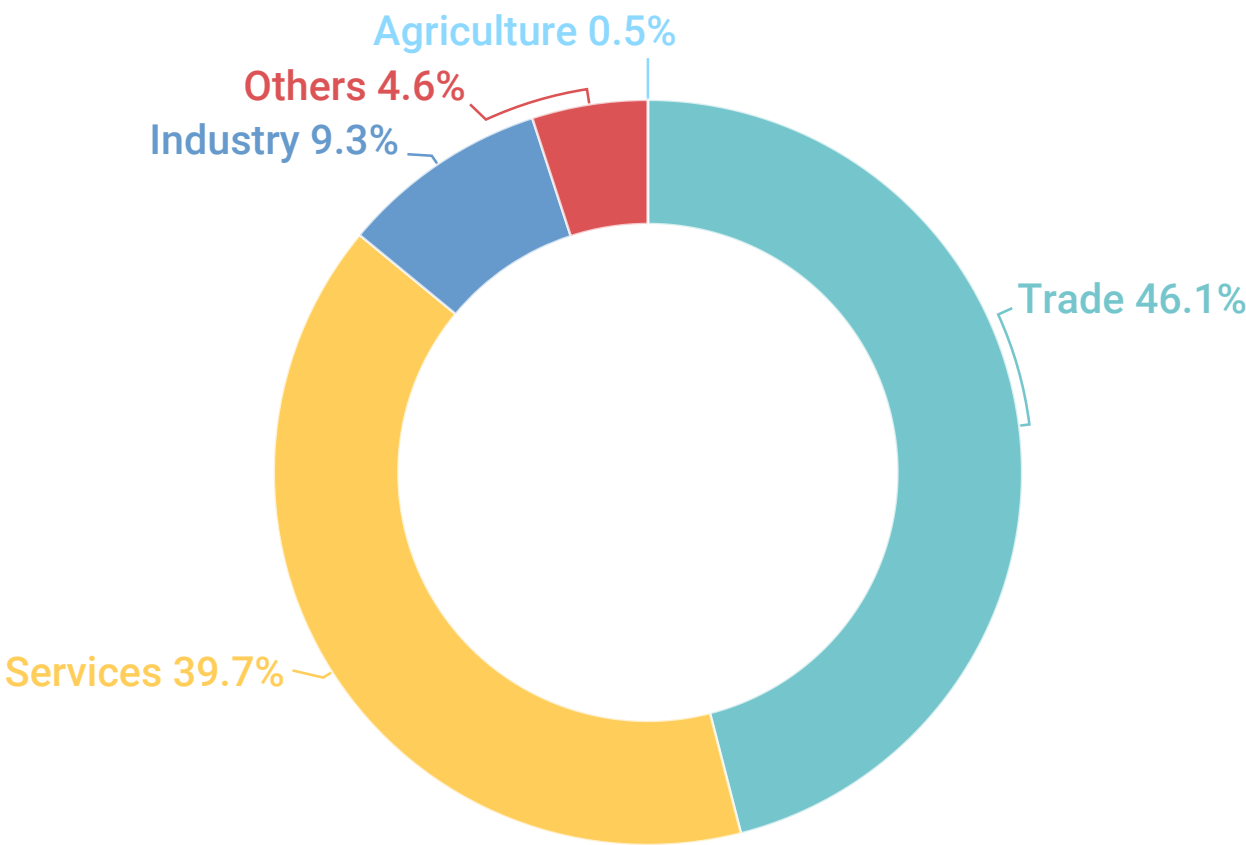
Fundraising and global investment in  
Emerging Markets FY14-FY18 (R\$ billion)



Number of bankruptcies and judicial  
recoveries in Brazil FY12-FY18



Participation of sectors in corporate insolvency FY18





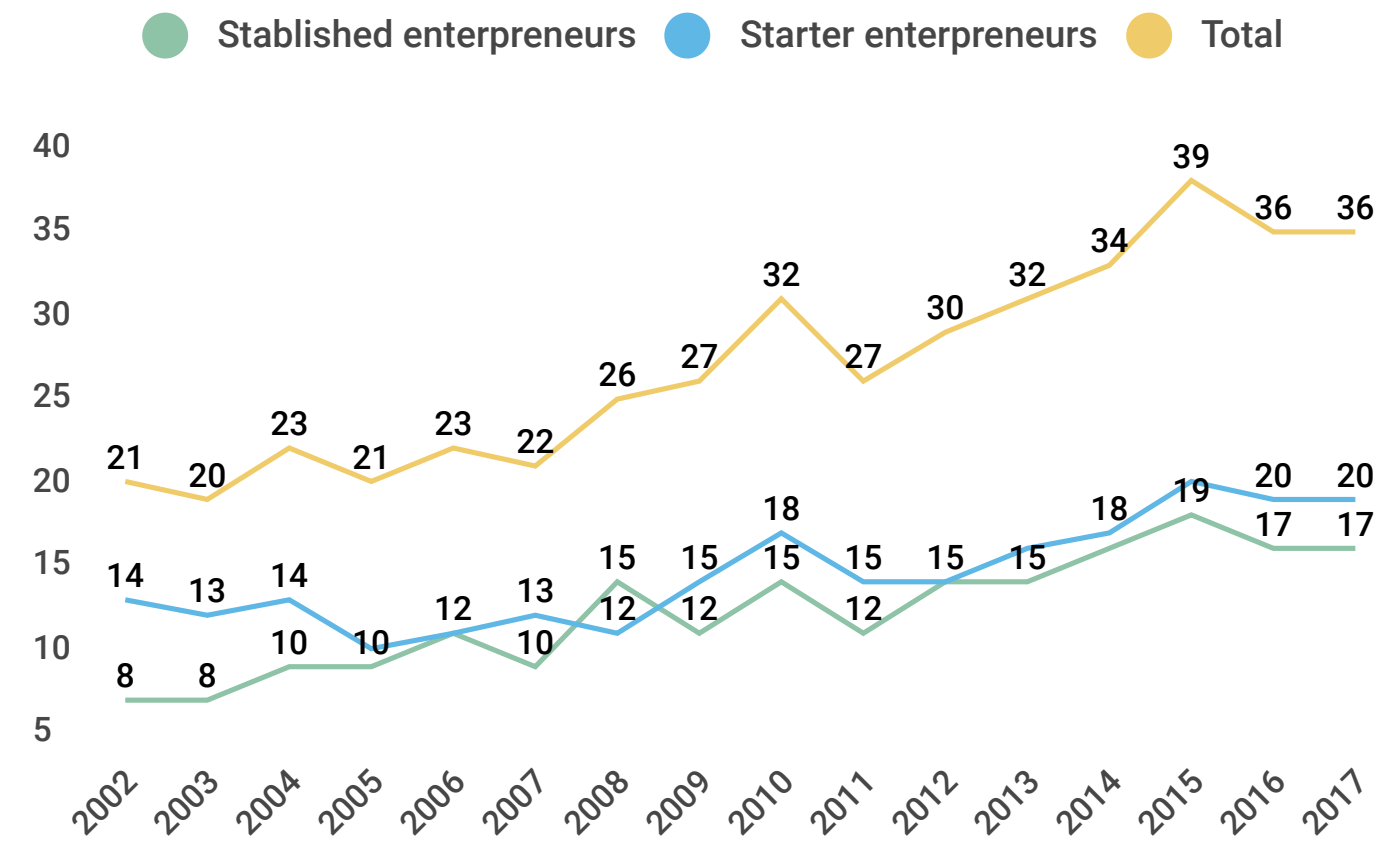
A record number of Brazilian start-ups reached unicorn status during 2018, valued at over US\$ 1 billion and attracting attention from local and international venture capital funds, whether operating in Brazil or not.

Entrepreneurship has been surging steadily in Brazil: among each 100 Brazilians, 36 are entrepreneurs, and young people between 25 and 34 years old were the most active in setting up new businesses, with 30.5% of Brazilians in this age bracket owning and managing start-ups.

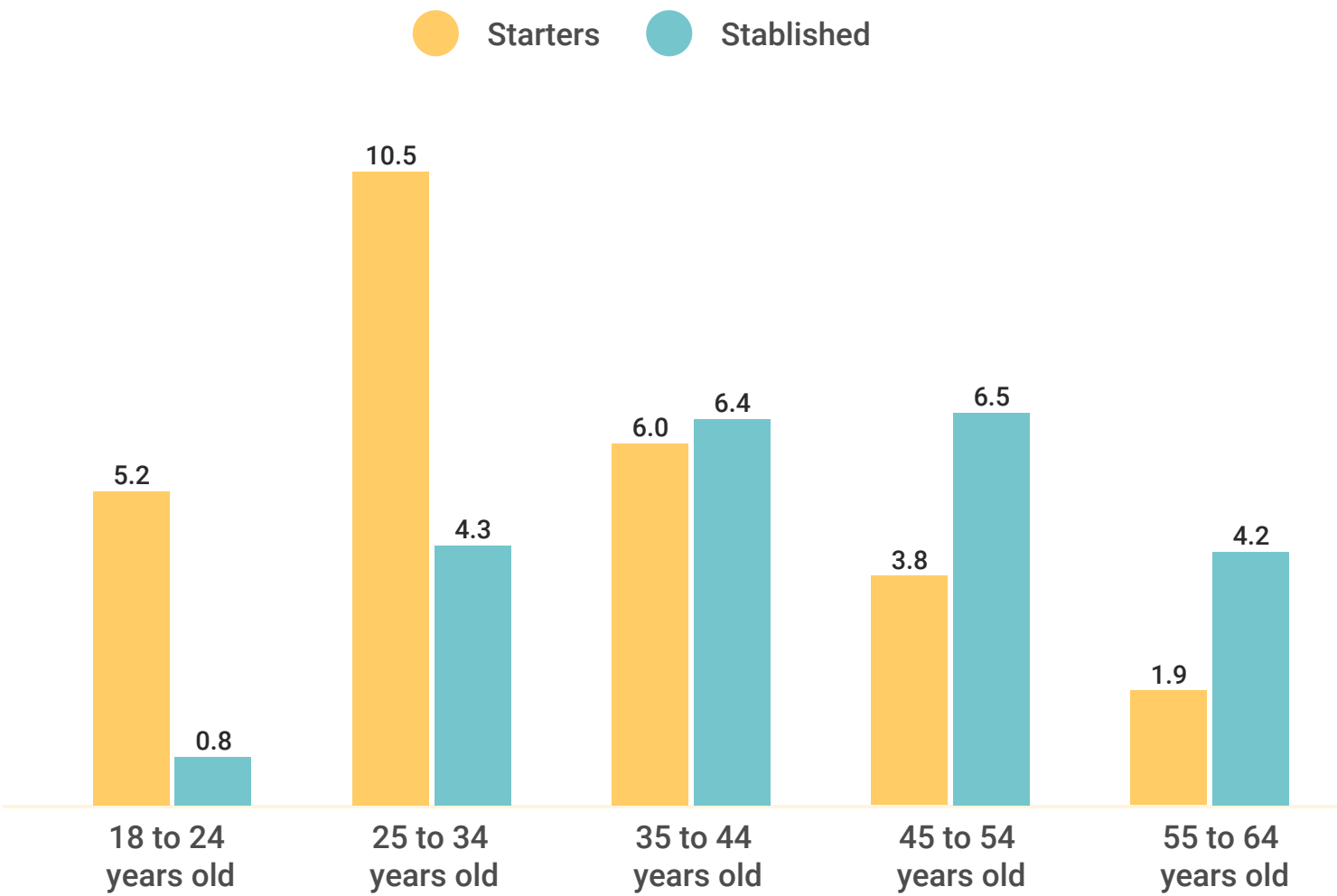
The Census on Brazil’s startup ecosystem (conducted in 2017 by Startse\*) found that most start-ups had already moved beyond the initial stage and are maturing, validating solutions and seeking market niches for their operations. In fact, they are even being set up with an eye to international markets, reflecting a mindset that is seamlessly aligned with global trends.

Most of these initiatives are now in the capital-intensive validation stage. Furthermore, the main source of funding for 91.8% is partner capital, thus opening up great opportunities for venture capital funds.

Rate in% of entrepreneurship according to business stage – Brazil – 2002 – 2017



Number of entrepreneurs in each stage by age (# million)

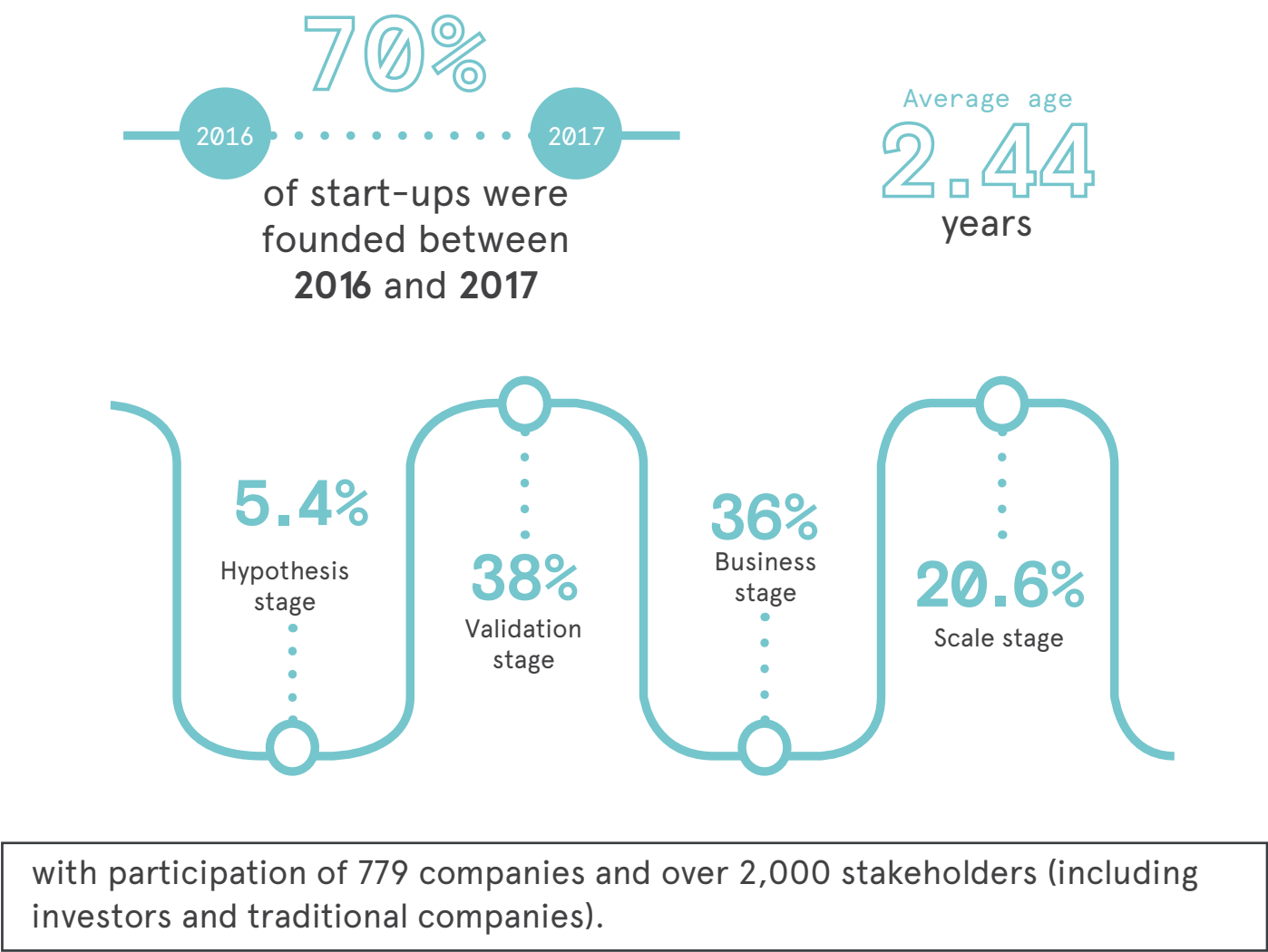


Brazilian unicorns – 2018 | 2019\*



\*until October 2019

Brazil’s startup ecosystem



With signs of the economic recovery for Brazil and the outcome of its new government, the outlook for the next four years is quite positive for M&A transactions.

Acquisitions are heading up M&A deals in Brazil, particularly among companies weakened by the recent economic meltdown.

In 2018, Brazilian investors competed with their foreign counterparts for 63% of announced minority purchases and acquisitions.

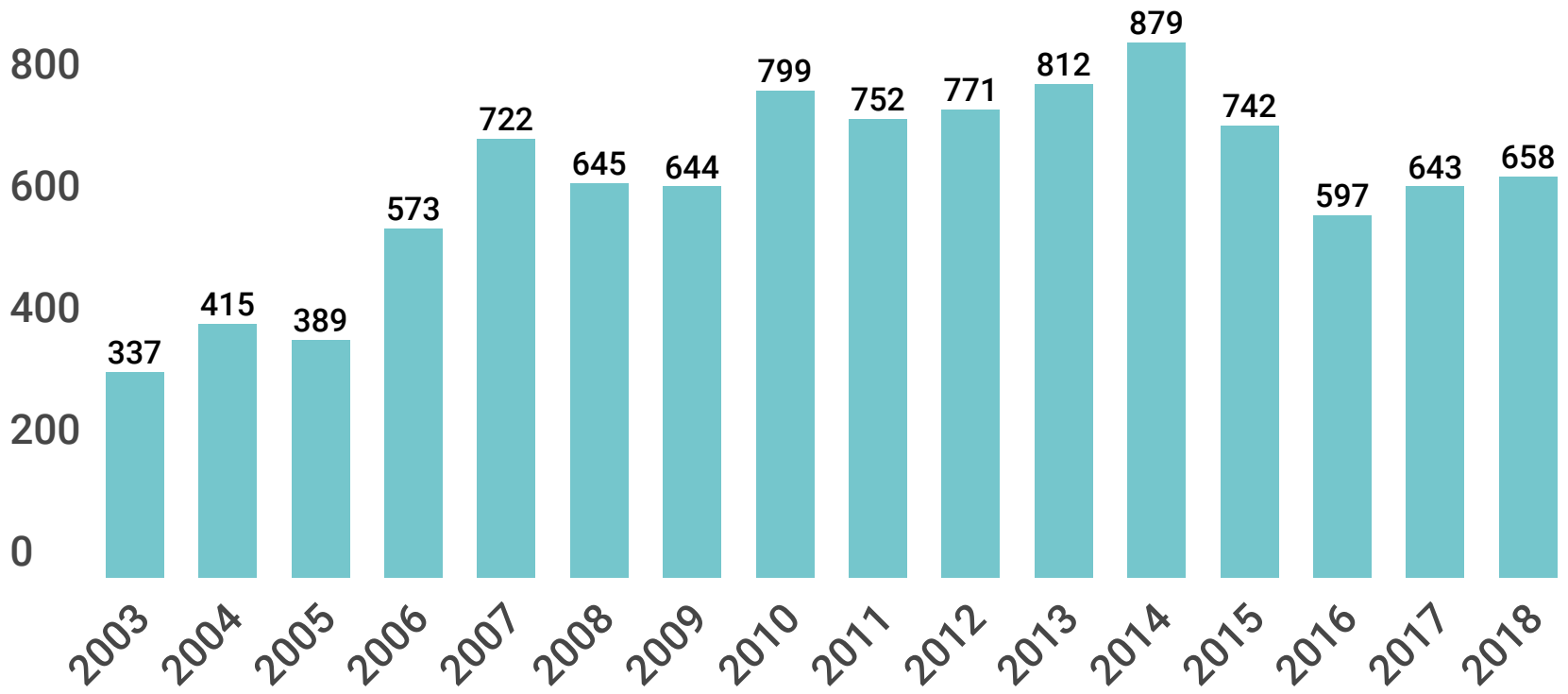
Nevertheless, foreign investors, particularly those in the US, continue to wager on M&A deals in Brazil.

In 2008, of the announced transactions, 245 involved foreign capital, with the US, France and Canada accounting for 48% of deals involving foreign capital in Brazil.

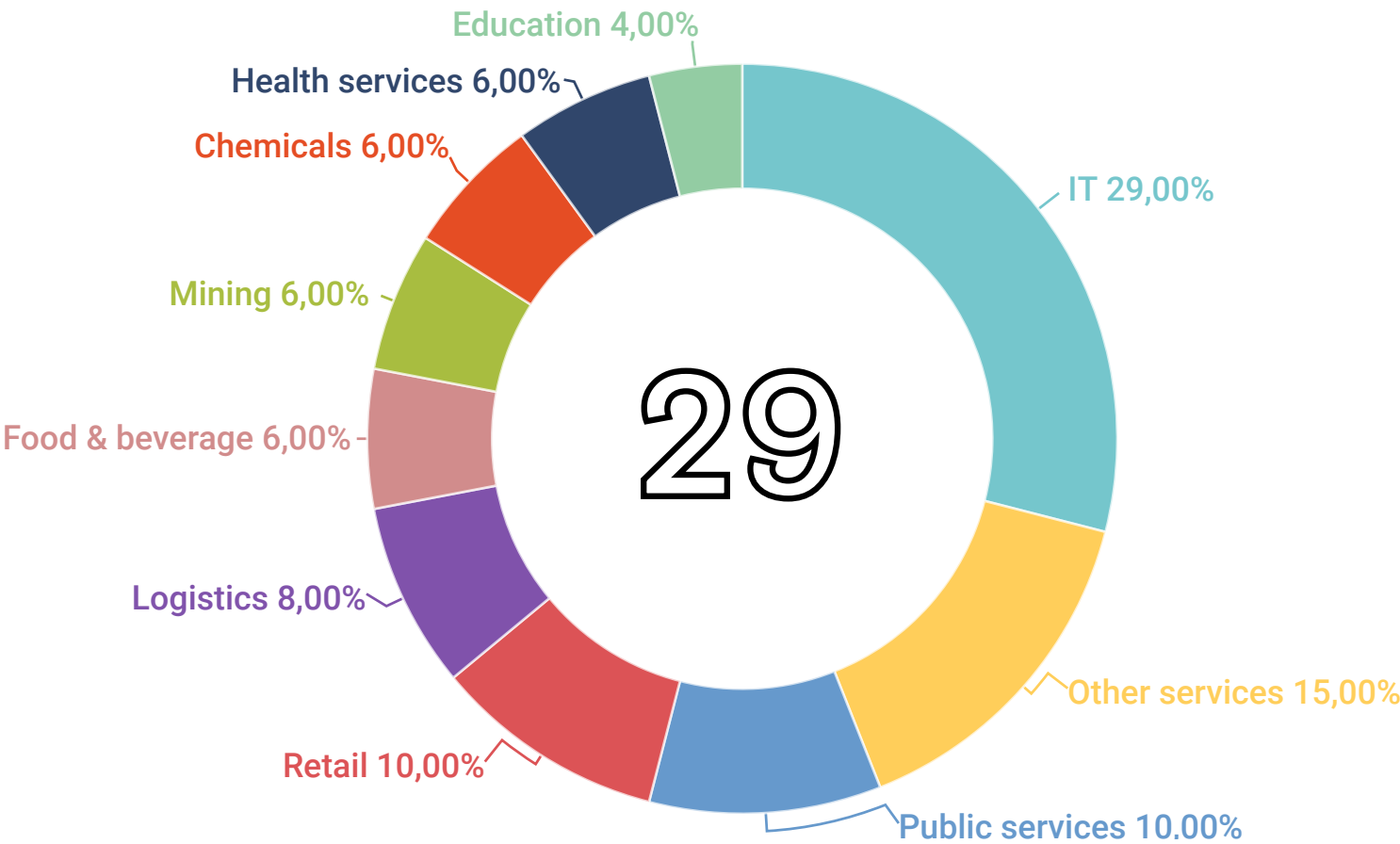
Foreign investors are expected to flock back to Brazil, in parallel to a new surge of privatisation, driving transactions and attracting the attention of global fund players.

The Brazilian M&A market is becoming increasingly more mature in the IT segment, and is already a benchmark for transactions among ERP vendors and on the start-ups market, encompassing mainly the consulting, administration and marketing sectors, among others, together with public utility services such as energy and aviation.

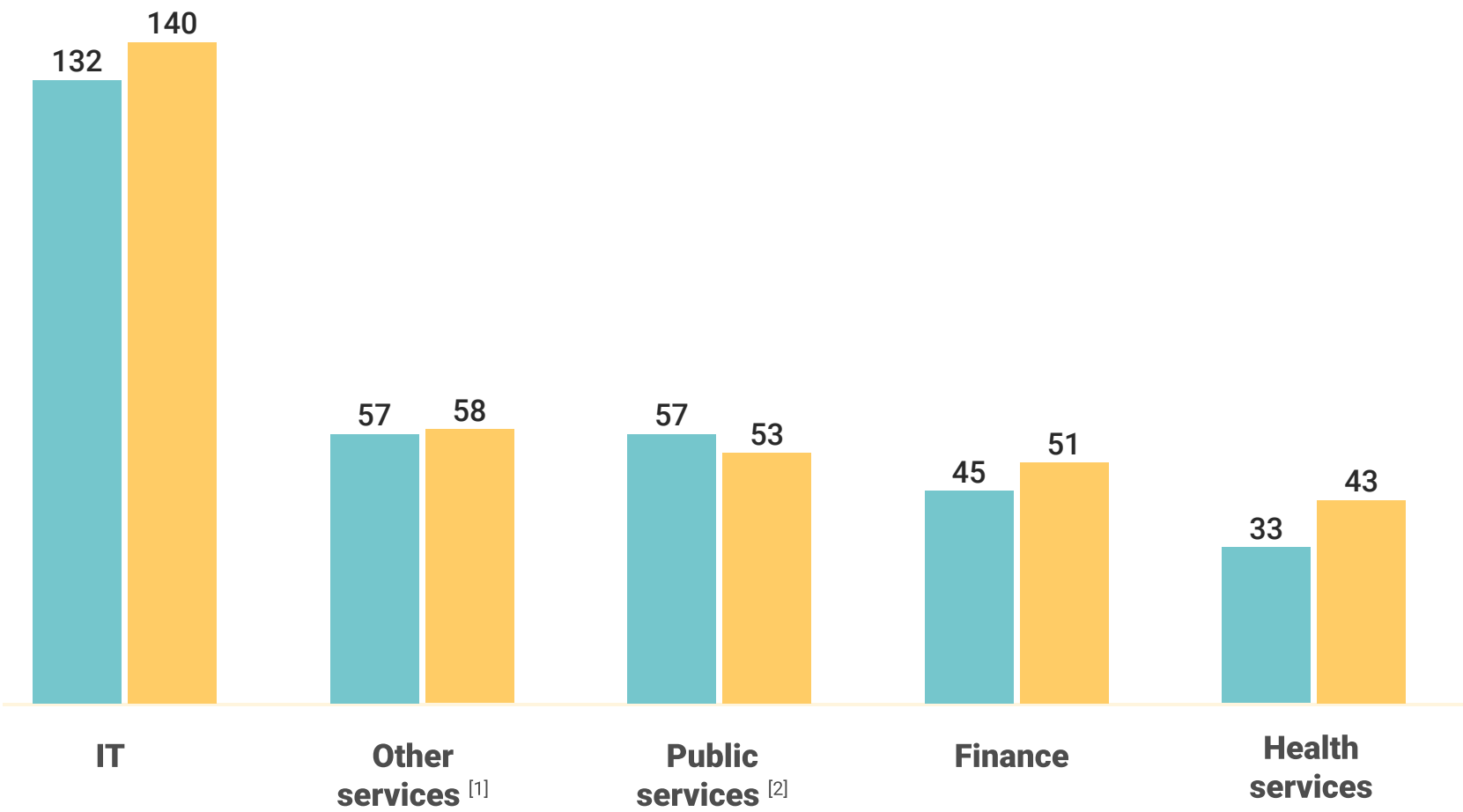
M&A transactions announced in Brazil FY03–FY18 (US\$ million)



M&A transactions (only in december 2018) by sector



Top 5 sectors among announced transactions FY17–FY18 (US\$ million)



2017 2018

[1] comprise mainly the consultant, management, marketing sectors, among others;

[2] public utilities services, such as energy and aviation

Privatisations and concessions are priorities for Brazil’s new administration during the next four years. The denationalisation of Brazilian businesses may well offer investment opportunities in sectors that are strategic for the economy, with a wide diversity of assets available to private equity and infrastructure funds.

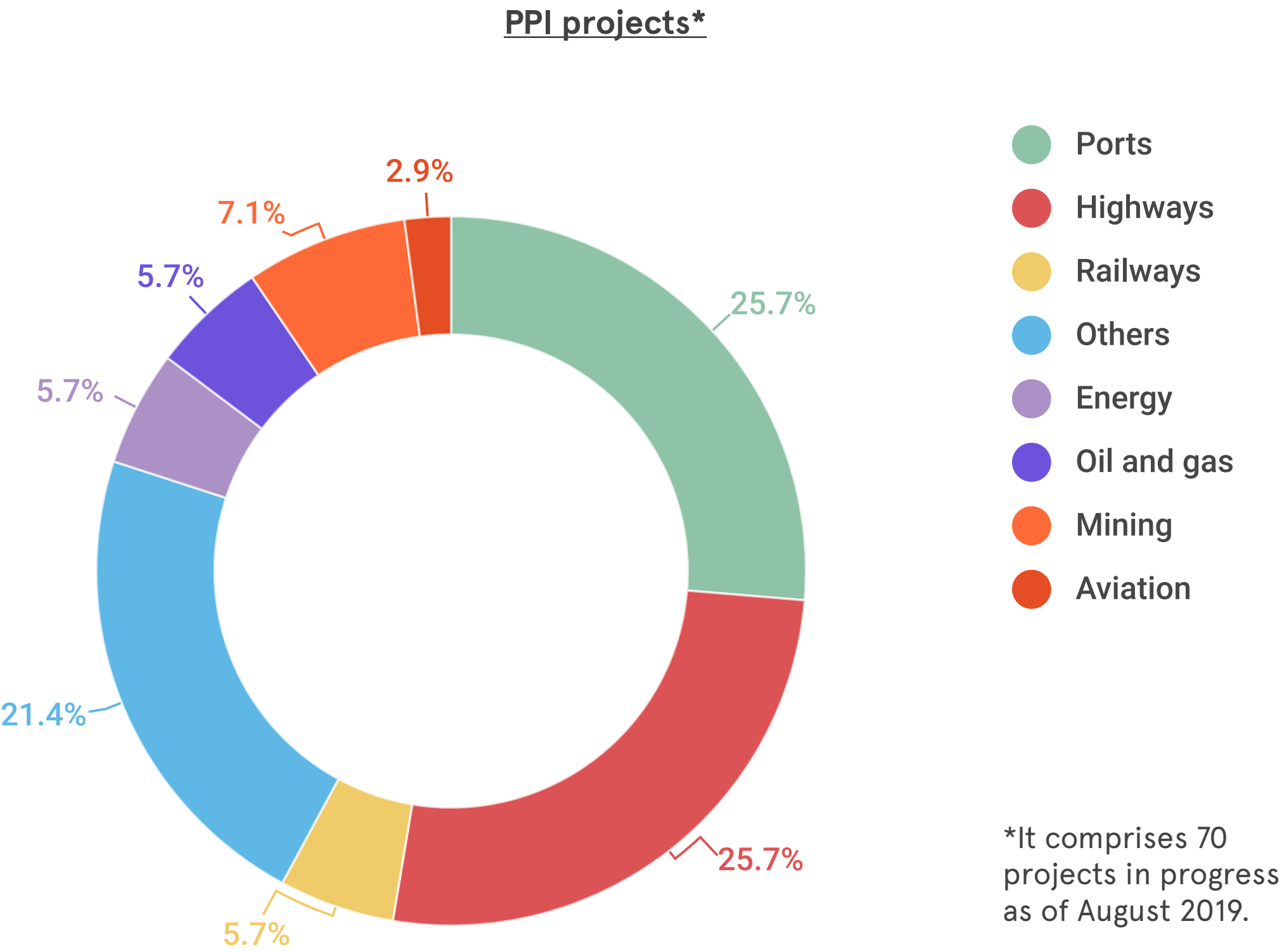
The Brazilian Government is forging ahead with its Investment Partnerships Programme (PPI), set up in 2016 to boost and buttresses interactions between the State and private enterprise through partnership agreements and other State divestment steps.

This Programme is intended to underpin the expansion of high-grade infrastructure in Brazil, with user-friendly tariffs, fostering fair competition across the board when establishing partnerships and rendering services involving foreign capital in Brazil.

By year-end 2018, 105 bidding rounds had been held during the thirty months that the PPI had been in place, 42 of which were won by foreign companies, either alone or in consortium with Brazilian firms. Rising interest among international investors in infrastructure projects in Brazil is the outcome of an innovations plan designed to enhance the quality, appeal and juridical security of tender announcements and projects.

The changes introduced include lifting the requirement for foreign companies to operate in partnerships with Brazilian firms. Furthermore, dialogue between the public and private sectors drew contributions for fine-tuning regulations, including Law N° 13,448/2017, which allows inflows of new investments into existing concessions through anticipated extensions, and Law N° 13,499/2017 that allows adjustments to airport concession profiles.

Moreover, the PPI is striving to streamline financing models and mechanisms, in order to attract international players, while ensuring that Brazilian projects are competitive with those in other countries. The outcome reflects confidence in Brazil among international investors.



## 1.2 POLITICAL CONTEXT

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**Background for Brazil**





The Bolsonaro Administration charged into its first year in office with a pro-business agenda that included major reforms, particularly the social security and tax systems.

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Brazil's new Ministry of Economy affirms that his administration will be based on four pillars:

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- 1 Social Security reform
  - 2 Fewer constraints on the economy
  - 3 Simplified taxes and privatisations
  - 4 Decentralisation of State and Municipal Government funding
- 

Brazil is eager to step up the share held by foreign trade in its GDP, rising to 30% over the next four years. To do so, it is determined to endow Brazilian companies with a keener international edge. Aspects earmarked as high priority are privatisation and concession programmes, together with civil service reform, pruning the administrative machine and enhancing efficiency, thus easing the weight of the State in the economy.

As reforms are approved in Brazil, significant inflows of direct and portfolio investments will appear as well. Investments of at least US\$ 100 billion are waiting only for reforms to progress.

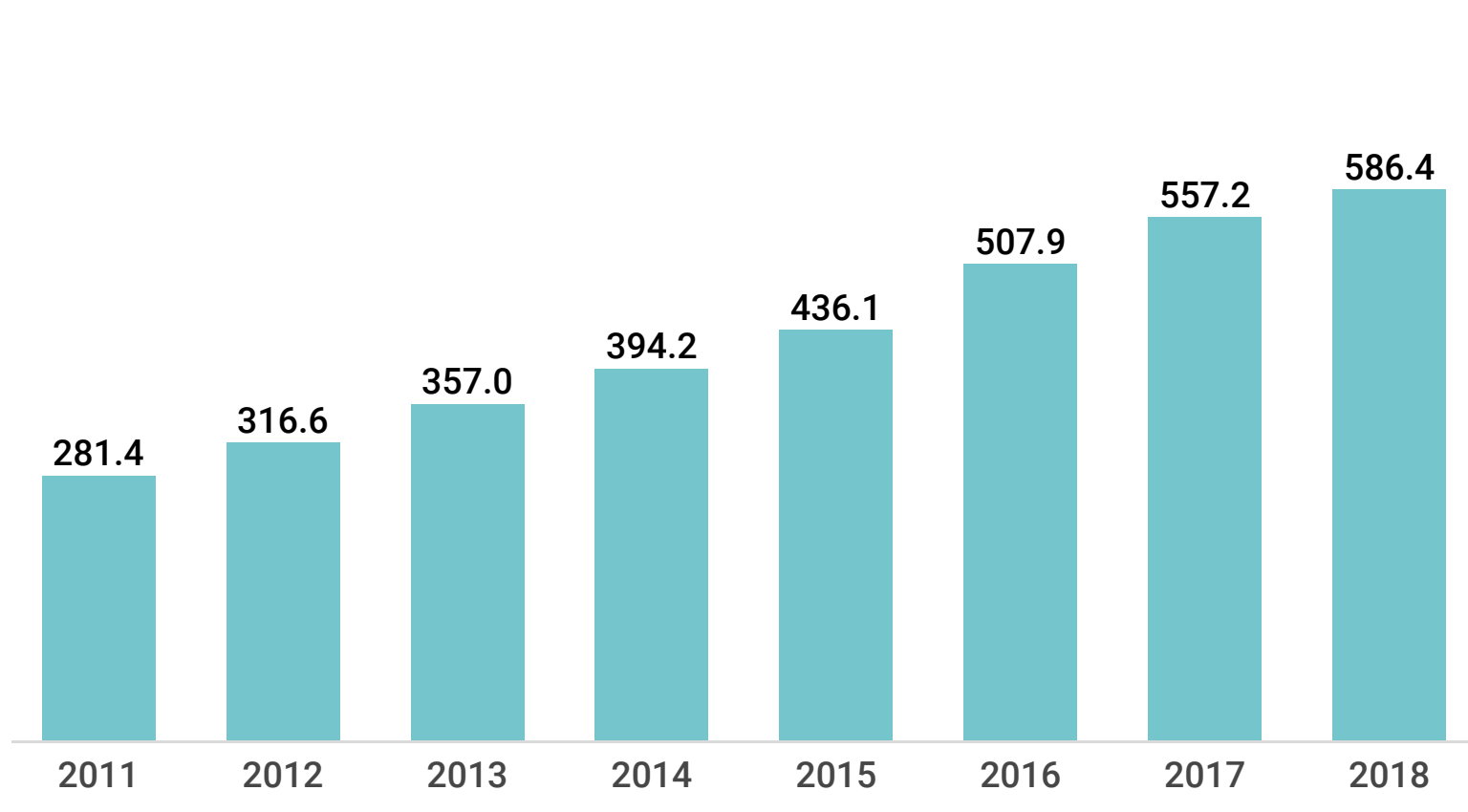
Approval of tax and social security reforms is crucial for a return to fiscal balance in Brazil, underpinning the sustainability of its economic growth.

REFORMS UNDER DISCUSSION:  
TAX AND SOCIAL SECURITY

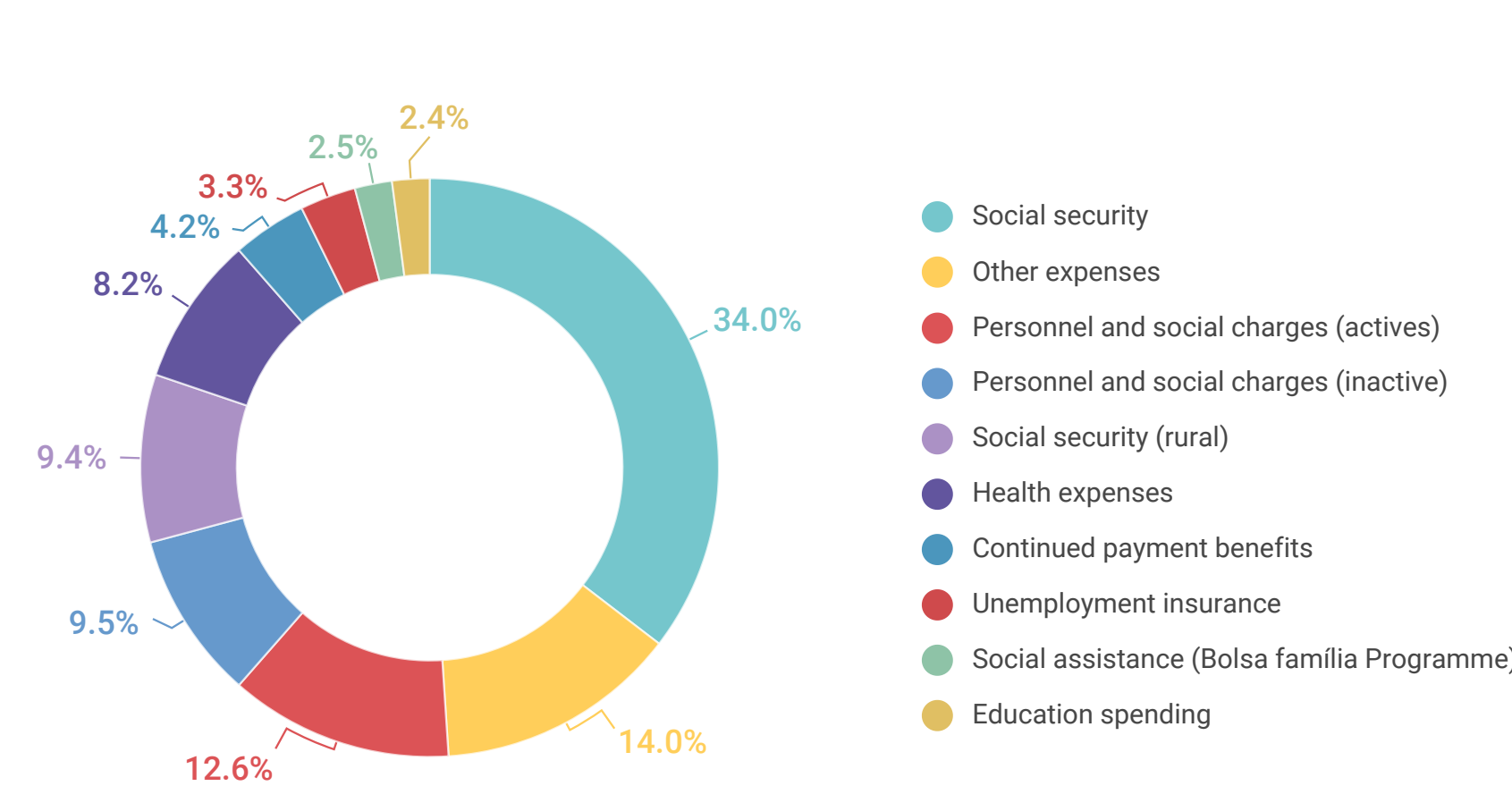
Outlays on social security account for over half of Brazil’s primary federal budget. Only 10% of its budget is allocated to education and healthcare, which are sectors that are crucial to economic and social development.

The deterioration in budget outcomes has been worsened by rising public outlays and above all by soaring social security expenditures, explaining why Brazil’s net debt has ballooned.

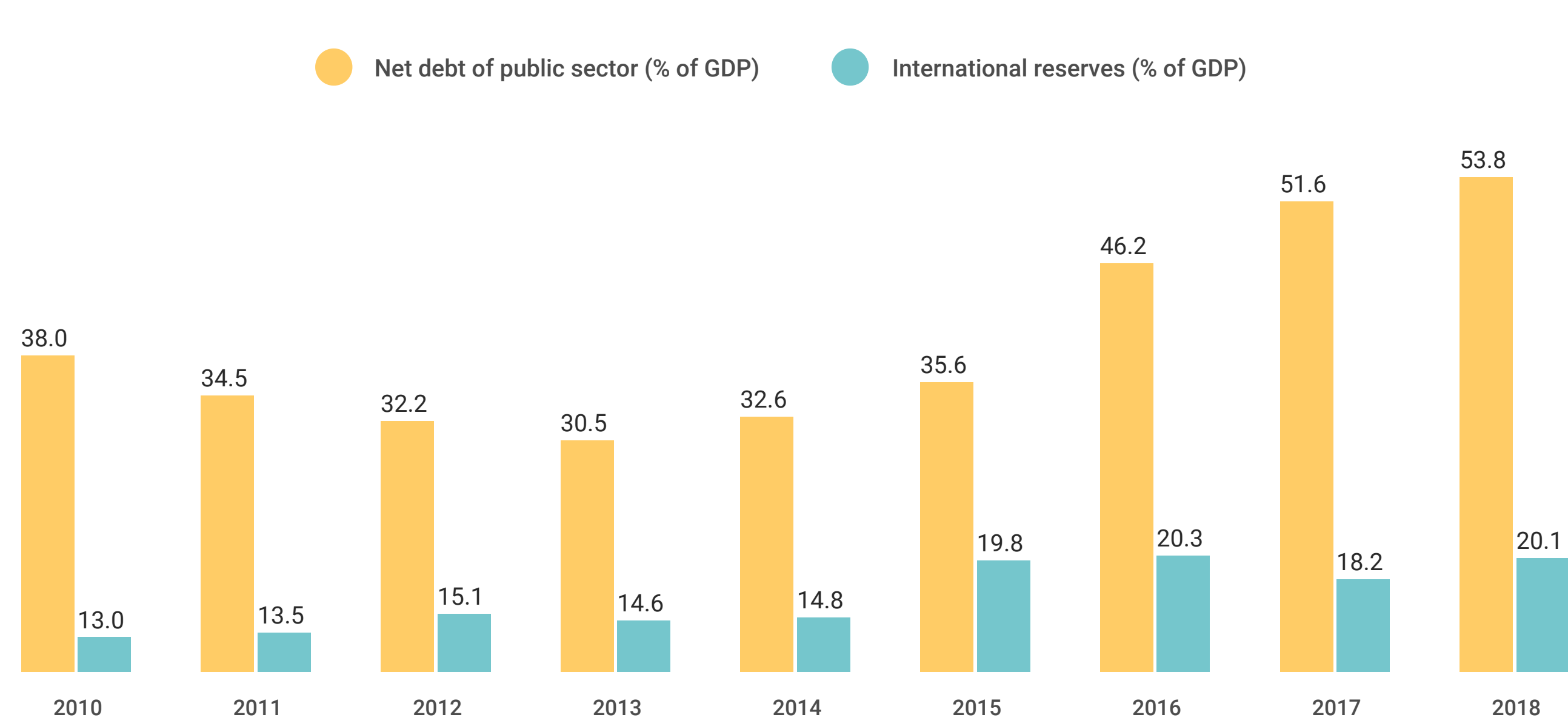
Evolution of social security expenditure in Brazil FY10–FY18 (R\$ billion)



Composition of primary expenditure FY17



Net debt of public sector and international reserves (%) of GDP FY10–FY18





A welcome side-effect of Operation Car Wash is better compliance levels among local companies, dimming impressions that Brazil has a corrupt society.

RISING LEVELS OF CONFIDENCE

Since its launch in 2014, the Operation Car Wash corruption clean-up drive has upped compliance levels among Brazilian companies, as a way of preventing fraud while also showing markets, investors and consumers that they obey the law. The steps taken since then – which led to prison sentences for corrupt executives and politicians – are already presenting positive results in terms of perceptions of corruption in Brazil among investors and the business sector.

At Petrobras, for example, steps taken during the past few years for dealing with corruption scandals and reducing the debt of this state-run oil giant have helped rebuild investor trust, which is reflected in the value of its shares.

EMBI\* Brazil performance (country-risk)



\*Difference in the mean daily payback on Brazilian papers and return on US Treasury bonds.

## 1.3 REGULATORY ENVIRONMENT

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### **Background for Brazil**



# SOLID GROUND FOR THE EXPANSION OF THE PE&VC INDUSTRY

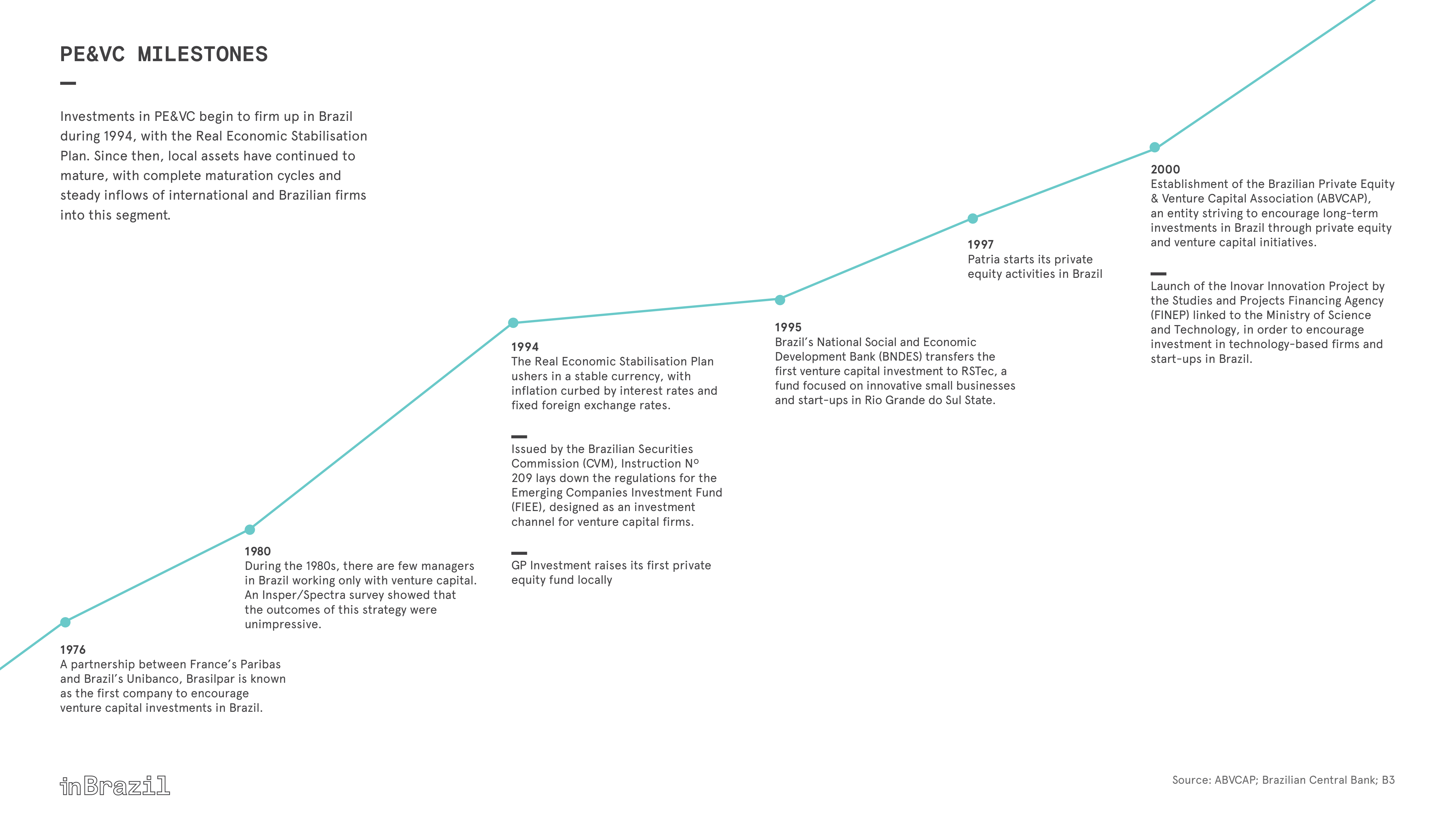
The regulatory context for setting up Equity Investment Funds (FIPs), tax treatment, Brazil’s capital market and entrepreneurship are among the mainsprings of the private equity and venture capital industry in Brazil, according to the LAVCA Scorecard, prepared by the Association for Private Capital Investment in Latin America .

Despite emphasizing the need to curb corruption, the Report acknowledges the efforts of the Courts to punish offenders in fraud cases. Furthermore, the recent reform of Fund regulation by the Brazilian Securities Commission (CVM) was mentioned as a major step forward for the industry.

2017/2018 Scorecard	Argentina	Brazil	Chile	Colombia	Costa Rica	Dominican Republic	Jamaica	Mexico	Panama	Peru	Uruguay	Israel	Spain	UK
Overall score	51	69	71	64	58	42	51	67	51	54	61	86	78	96
Laws on PE/VC fund formation and operation	1	4	3	3	2	2	2	3	2	2	2	4	4	4
Tax treatment of PE/VC funds & investments	2	3	2	2	3	1	2	2	2	1	3	3	4	4
Protection of minority shareholder rights	2	3	3	3	2	2	2	3	2	2	2	4	3	4
Restrictions on local institutional investors investing in PE/VC	1	2	2	3	1	1	2	3	2	3	2	4	3	4
Protection of intellectual property rights	2	2	3	2	3	1	2	2	2	2	3	3	3	4
Bankruptcy procedures/creditors’ rights/ partner liability	2	3	3	3	2	1	2	3	2	2	3	2	3	3
Capital markets development and feasibility of exits	2	3	3	2	2	1	2	3	2	2	2	3	3	4
Registration/reserve requirements on inward investments	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Corporate governance requirements	2	3	3	3	2	3	2	3	2	3	2	4	3	4
Strength of the judicial system	2	2	2	2	3	1	2	2	2	1	3	4	2	4
Perceived corruption	2	1	1	1	3	1	1	1	1	1	3	3	3	4
Quality of local accounting/use of international standards	4	4	4	3	4	3	3	3	3	4	3	4	4	4
Entrepreneurship	3	3	3	3	2	2	2	2	2	2	2	3	2	3

# PE&VC MILESTONES

Investments in PE&VC begin to firm up in Brazil during 1994, with the Real Economic Stabilisation Plan. Since then, local assets have continued to mature, with complete maturation cycles and steady inflows of international and Brazilian firms into this segment.



**1976**  
A partnership between France’s Paribas and Brazil’s Unibanco, Brasilpar is known as the first company to encourage venture capital investments in Brazil.

**1980**  
During the 1980s, there are few managers in Brazil working only with venture capital. An Insper/Spectra survey showed that the outcomes of this strategy were unimpressive.

**1994**  
The Real Economic Stabilisation Plan ushers in a stable currency, with inflation curbed by interest rates and fixed foreign exchange rates.

Issued by the Brazilian Securities Commission (CVM), Instruction N° 209 lays down the regulations for the Emerging Companies Investment Fund (FIEE), designed as an investment channel for venture capital firms.

GP Investment raises its first private equity fund locally

**1995**  
Brazil’s National Social and Economic Development Bank (BNDES) transfers the first venture capital investment to RSTec, a fund focused on innovative small businesses and start-ups in Rio Grande do Sul State.

**1997**  
Patria starts its private equity activities in Brazil

**2000**  
Establishment of the Brazilian Private Equity & Venture Capital Association (ABVCAP), an entity striving to encourage long-term investments in Brazil through private equity and venture capital initiatives.

Launch of the Inovar Innovation Project by the Studies and Projects Financing Agency (FINEP) linked to the Ministry of Science and Technology, in order to encourage investment in technology-based firms and start-ups in Brazil.

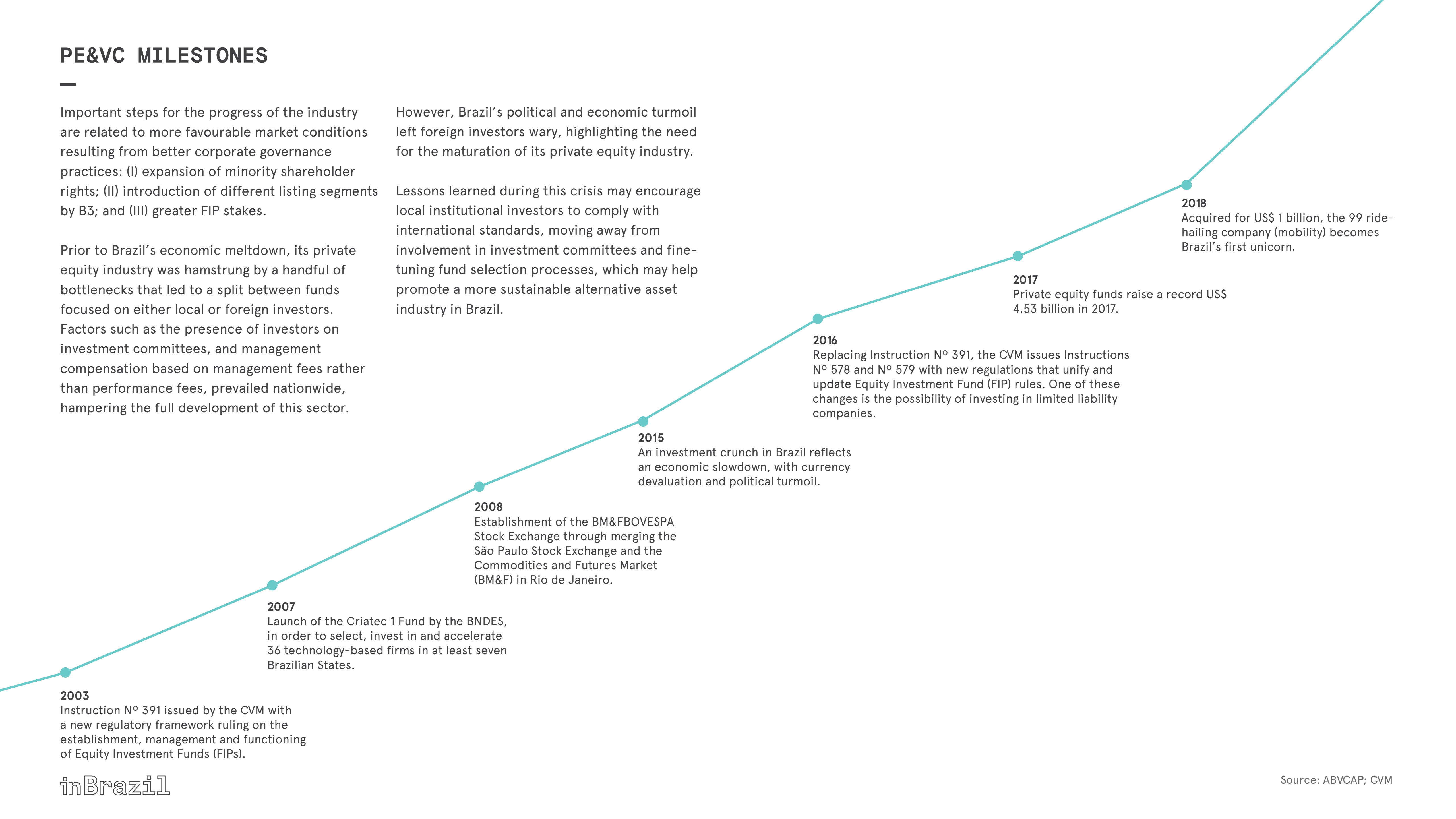
# PE&VC MILESTONES

Important steps for the progress of the industry are related to more favourable market conditions resulting from better corporate governance practices: (I) expansion of minority shareholder rights; (II) introduction of different listing segments by B3; and (III) greater FIP stakes.

Prior to Brazil’s economic meltdown, its private equity industry was hamstrung by a handful of bottlenecks that led to a split between funds focused on either local or foreign investors. Factors such as the presence of investors on investment committees, and management compensation based on management fees rather than performance fees, prevailed nationwide, hampering the full development of this sector.

However, Brazil’s political and economic turmoil left foreign investors wary, highlighting the need for the maturation of its private equity industry.

Lessons learned during this crisis may encourage local institutional investors to comply with international standards, moving away from involvement in investment committees and fine-tuning fund selection processes, which may help promote a more sustainable alternative asset industry in Brazil.



**2003**  
Instruction N° 391 issued by the CVM with a new regulatory framework ruling on the establishment, management and functioning of Equity Investment Funds (FIPs).

**2007**  
Launch of the Criatec 1 Fund by the BNDES, in order to select, invest in and accelerate 36 technology-based firms in at least seven Brazilian States.

**2008**  
Establishment of the BM&FBOVESPA Stock Exchange through merging the São Paulo Stock Exchange and the Commodities and Futures Market (BM&F) in Rio de Janeiro.

**2015**  
An investment crunch in Brazil reflects an economic slowdown, with currency devaluation and political turmoil.

**2016**  
Replacing Instruction N° 391, the CVM issues Instructions N° 578 and N° 579 with new regulations that unify and update Equity Investment Fund (FIP) rules. One of these changes is the possibility of investing in limited liability companies.

**2017**  
Private equity funds raise a record US\$ 4.53 billion in 2017.

**2018**  
Acquired for US\$ 1 billion, the 99 ride-hailing company (mobility) becomes Brazil’s first unicorn.

# 2.1 MAIN FIGURES

Private equity & venture capital in Brazil





With an upsurge in the amounts raised in Brazil, the relevance of foreign investors continued. Of the R\$ 13.6 million raised during the period, 83% was in foreign currency.

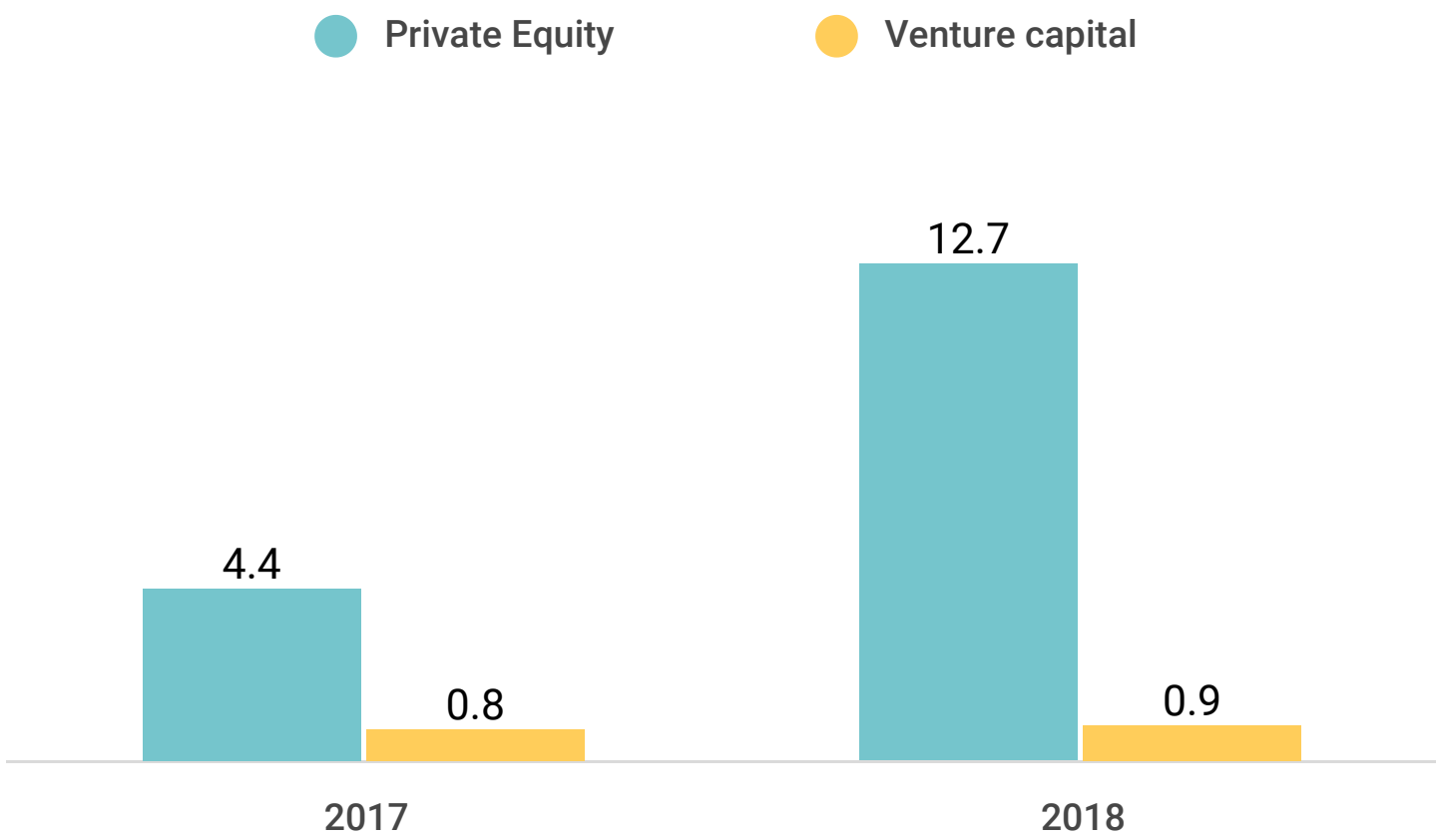
PE&VC FUNDRAISING

In 2018, the amount of private capital raised for investments in Latin America almost doubled, as shown in the graph released by the Emerging Markets Private Equity Association (EMPEA). In Brazil, the amount raised by private equity and venture capital funds rose by 162% to R\$ 13.6 billion, compared to R\$ 5.2 billion in 2017.

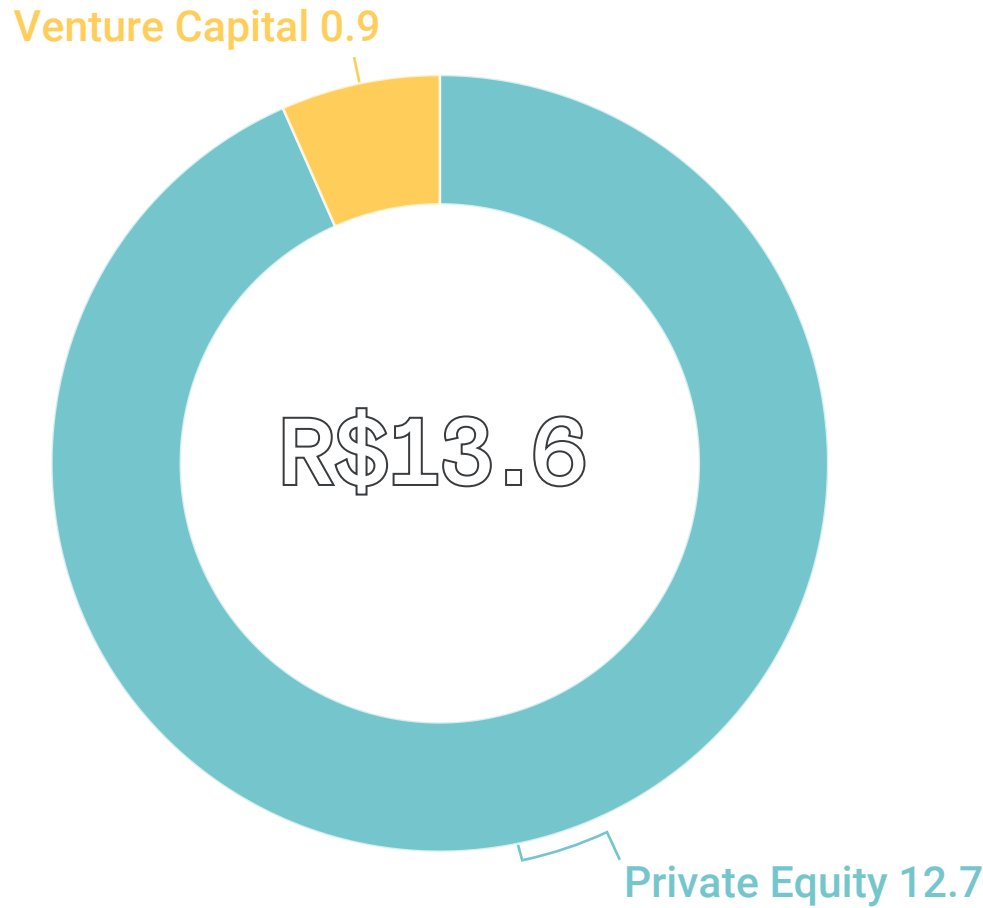
As divestments increase, with more funds in their final stages that now are paying back capital to their investors, it is natural for the uptake process to intensify; already apparent during the past couple of years, this process will continue in 2019.

International investors are vital for the Brazilian PE&VC industry, accounting for 83% of funding raised in 2018.

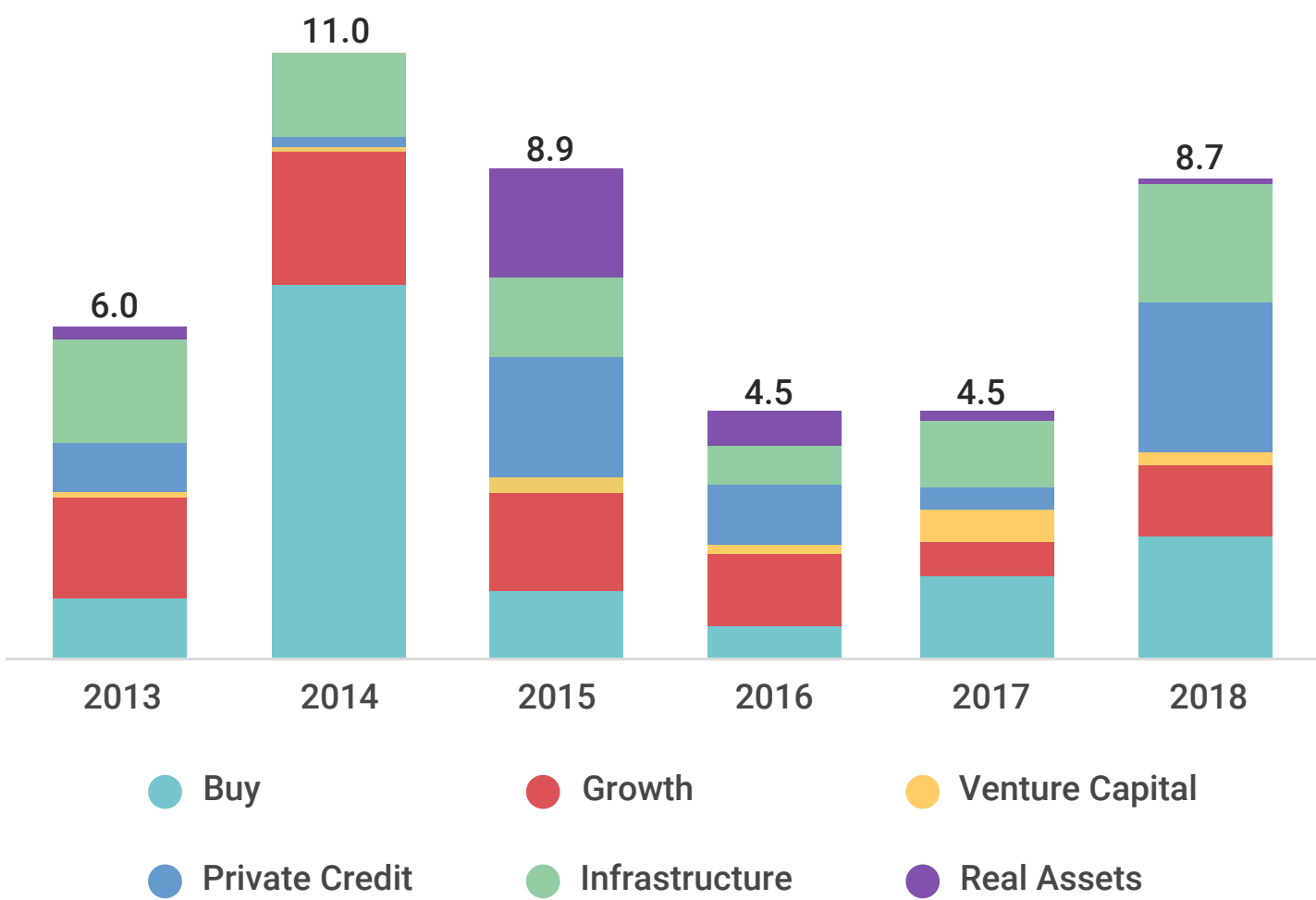
PE&VC fundraising in Brazil FY18 (R\$ billion)



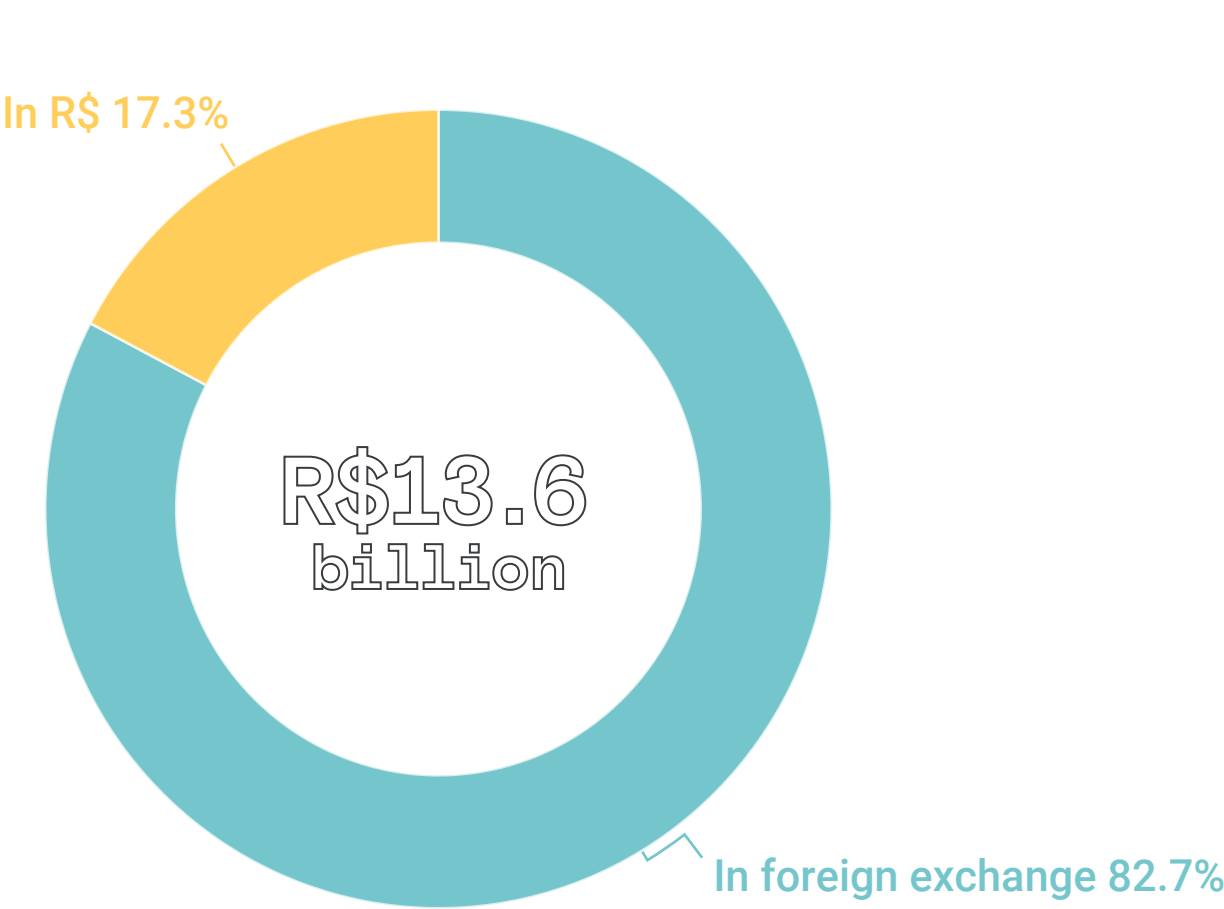
Fundraising by modality FY18 (R\$ billion)



Fundraising in Latin America by strategy FY13 - FY18 (US\$ billion)



Fundraising by currency FY18 (%)



The appetite of private equity funds for investments in Brazil is back with a bang, spurred by economic recovery and a widespread need to raise capital for expansion, particularly among medium-sized businesses.

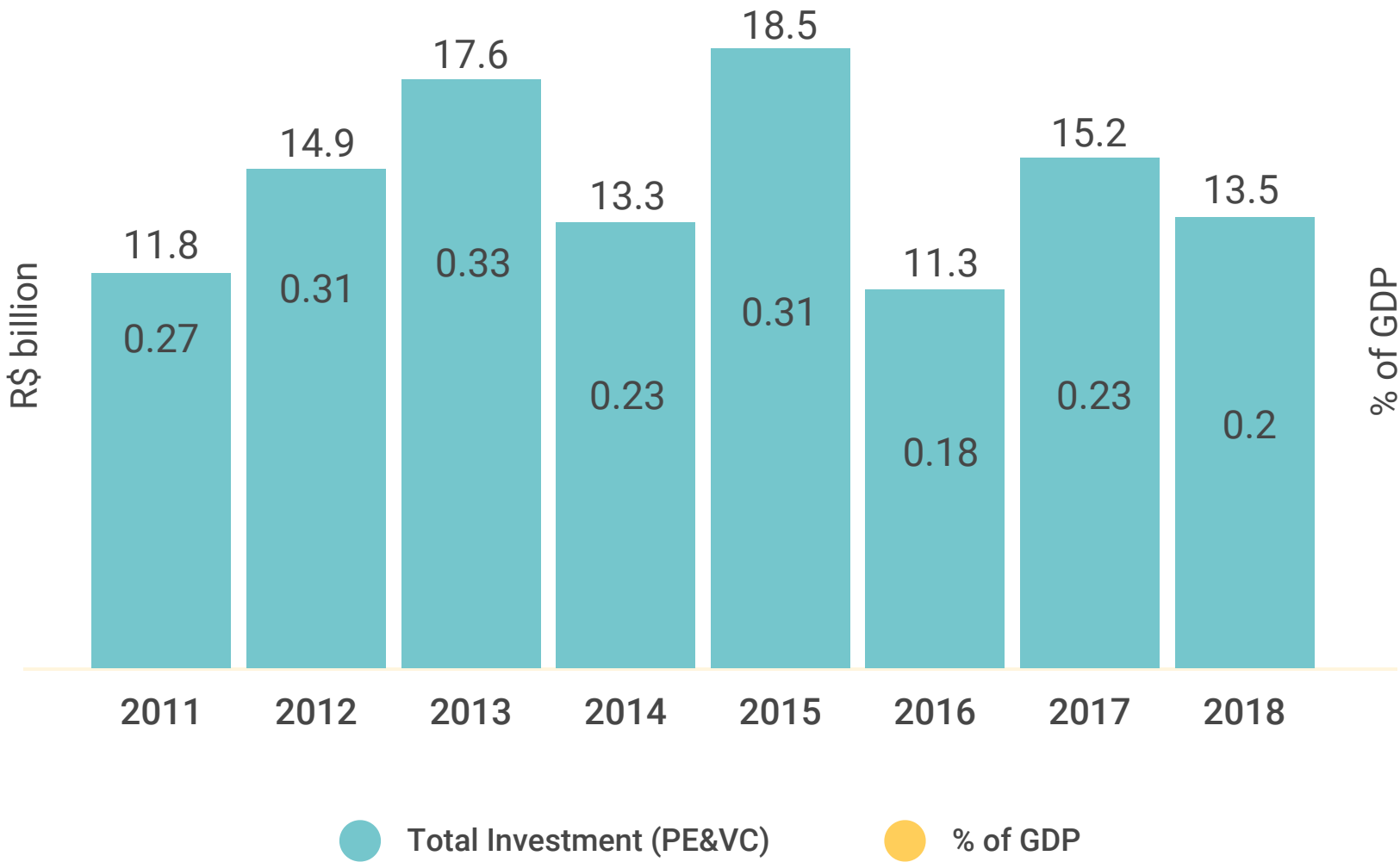
## AMOUNTS INVESTED IN PE&VC

In 2008, consolidated data prepared by KPMG and ABVCAP on the PE&VC industry reflected record-breaking venture capital investments of R\$ 6 billion, up 150% over R\$ 900 million in 2017. However, the total amounts invested by the industry dipped from R\$ 15.2 billion in 2017 to R\$ 13.5 billion in 2018, for both private equity and venture capital.

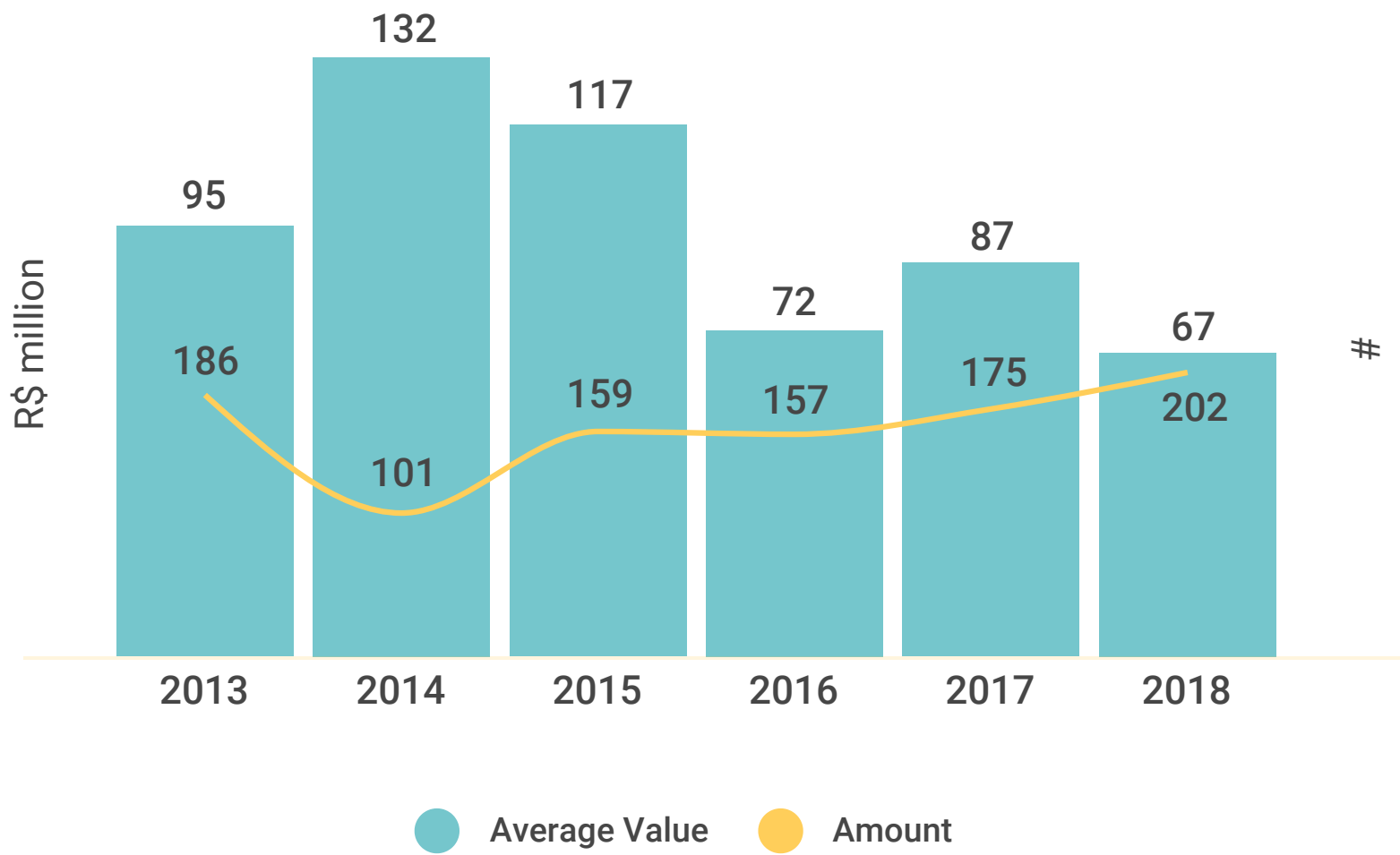
Furthermore, there was a 15% increase in the number of target companies over the period, reaching 202 compared to 175 in 2017. Among them, the sectors absorbing the highest amounts of funding in 2018 and Brazil were financial services, food and beverages, education, and retail.

Total investments by PE&VC funds in Brazil topped R\$ 13.5 billion in 2018, of which R\$ 7.5 billion consisted of private equity and R\$ 6 billion in venture capital, invested in 202 companies.

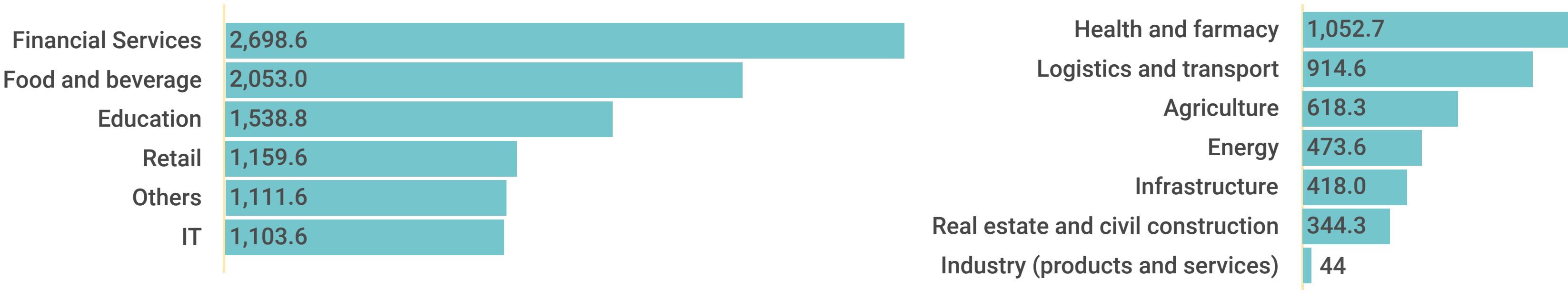
Total investment and as a percentage of Brazilian GDP FY11 – FY18 (R\$ billion)



Amount of invested companies and average value of investments in Brazil FY13–FY18



Volume of investment in main sectors FY18 (R\$ million)



The total amount of capital committed by the industry has been rising steadily, still with a very significant share held by foreign capital, pension funds, and institutional investors.

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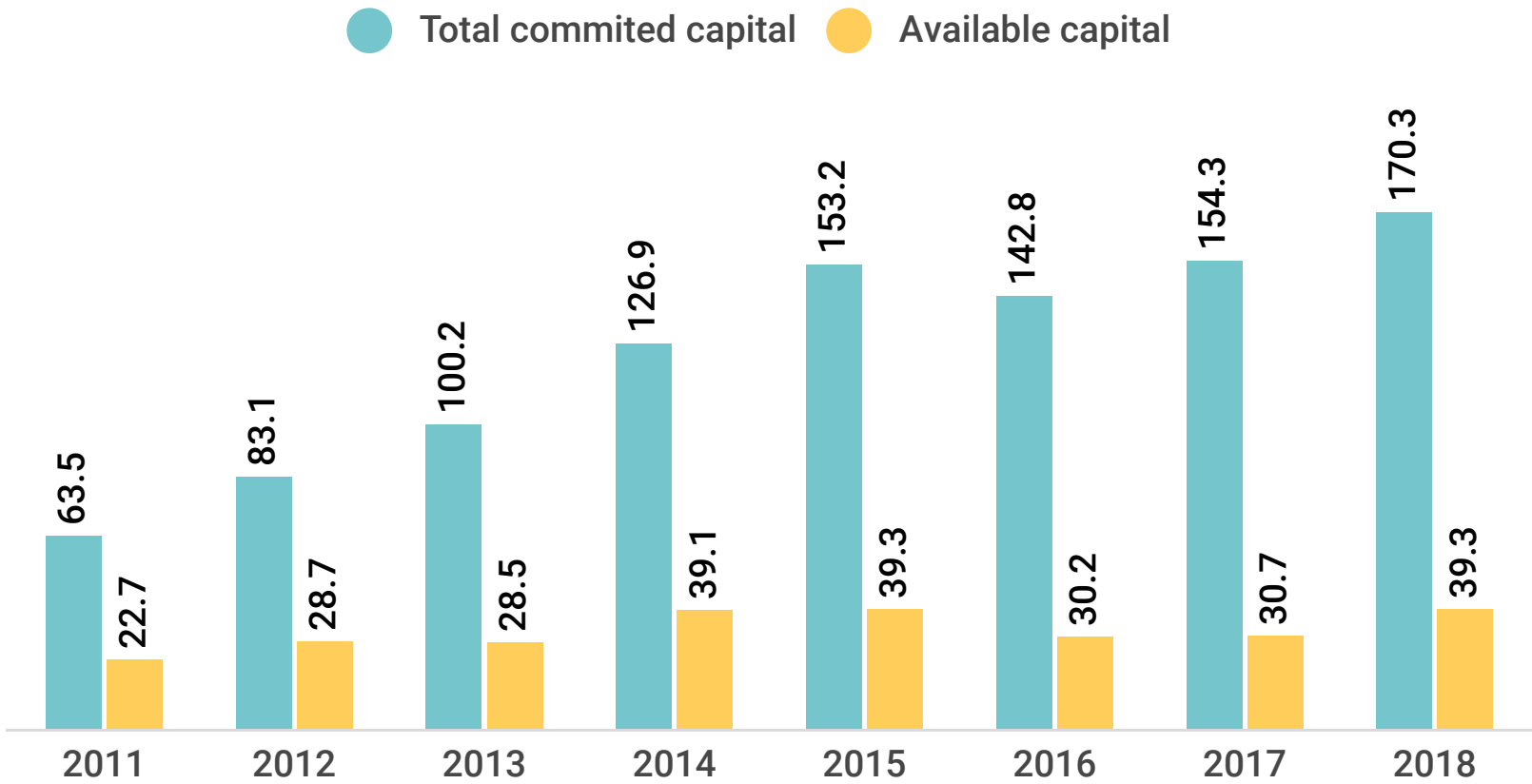
COMMITTED CAPITAL – PE&VC

In 2018, Total Committed Capital rose to R\$ 170.3 billion, up 10% over the previous year. These figures underpin the view that foreign and domestic investors believe in the solidity of Brazil.

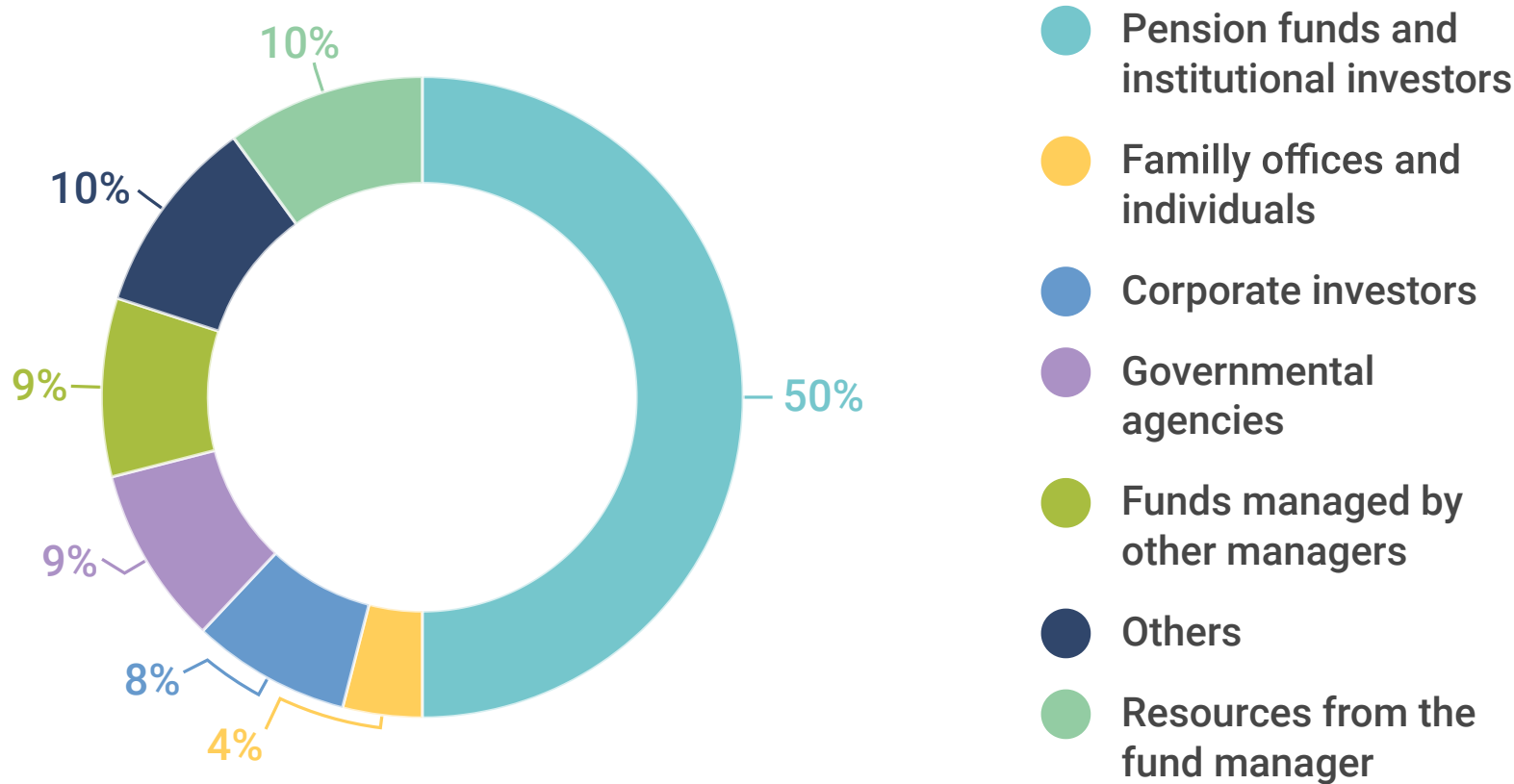
Among new funds and others already raised but not yet fully allocated, estimates indicate that private equity and venture capital managers have some R\$ 39.3 billion available for investments in Brazil.

The amount of committed capital in the PE&VC industry has been rising steadily since 2011, while the share held by foreign capital is expanding steadily.

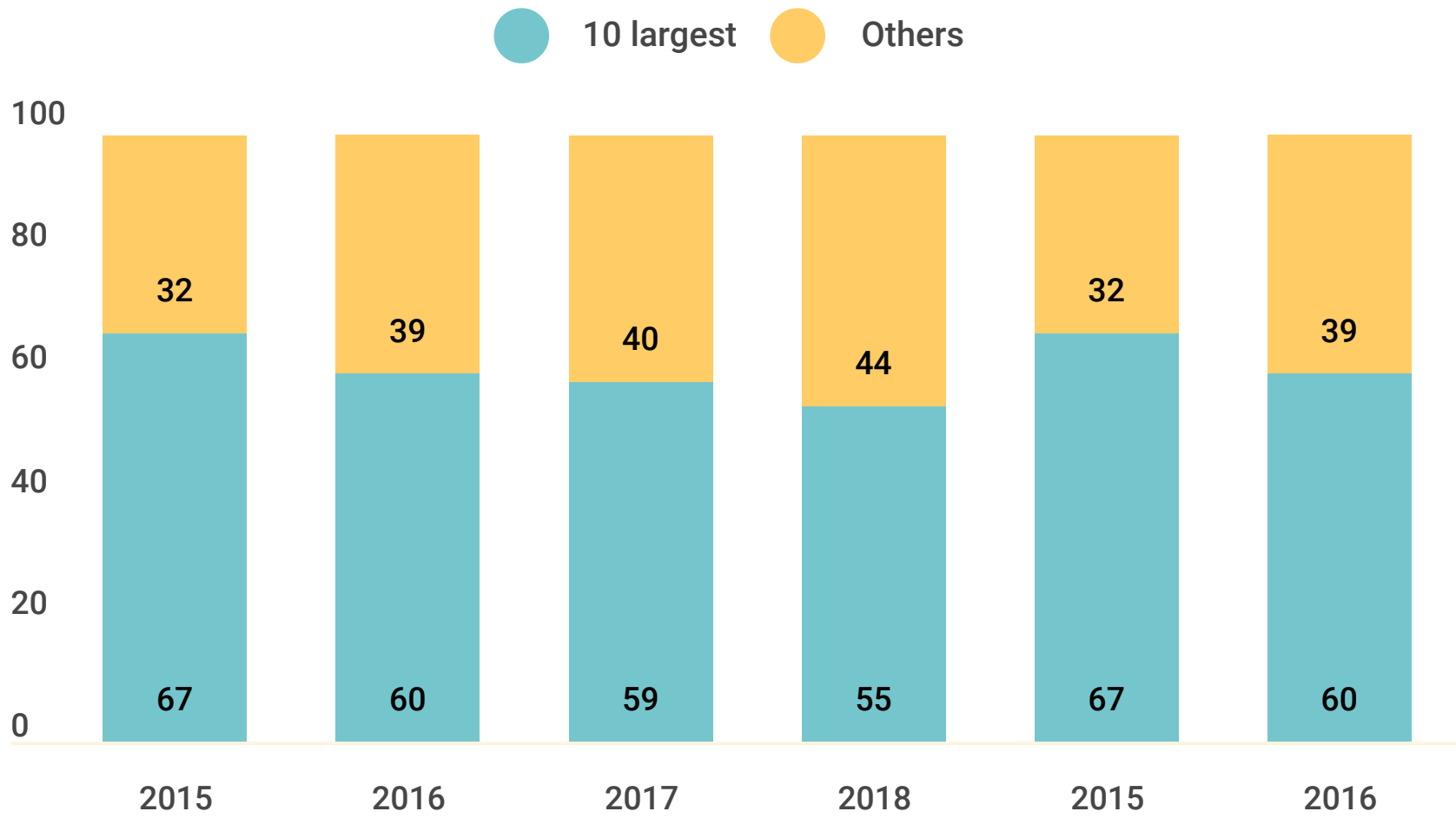
Committed capital and available for investments in PE/VC FY11-FY18 (R\$ billion)



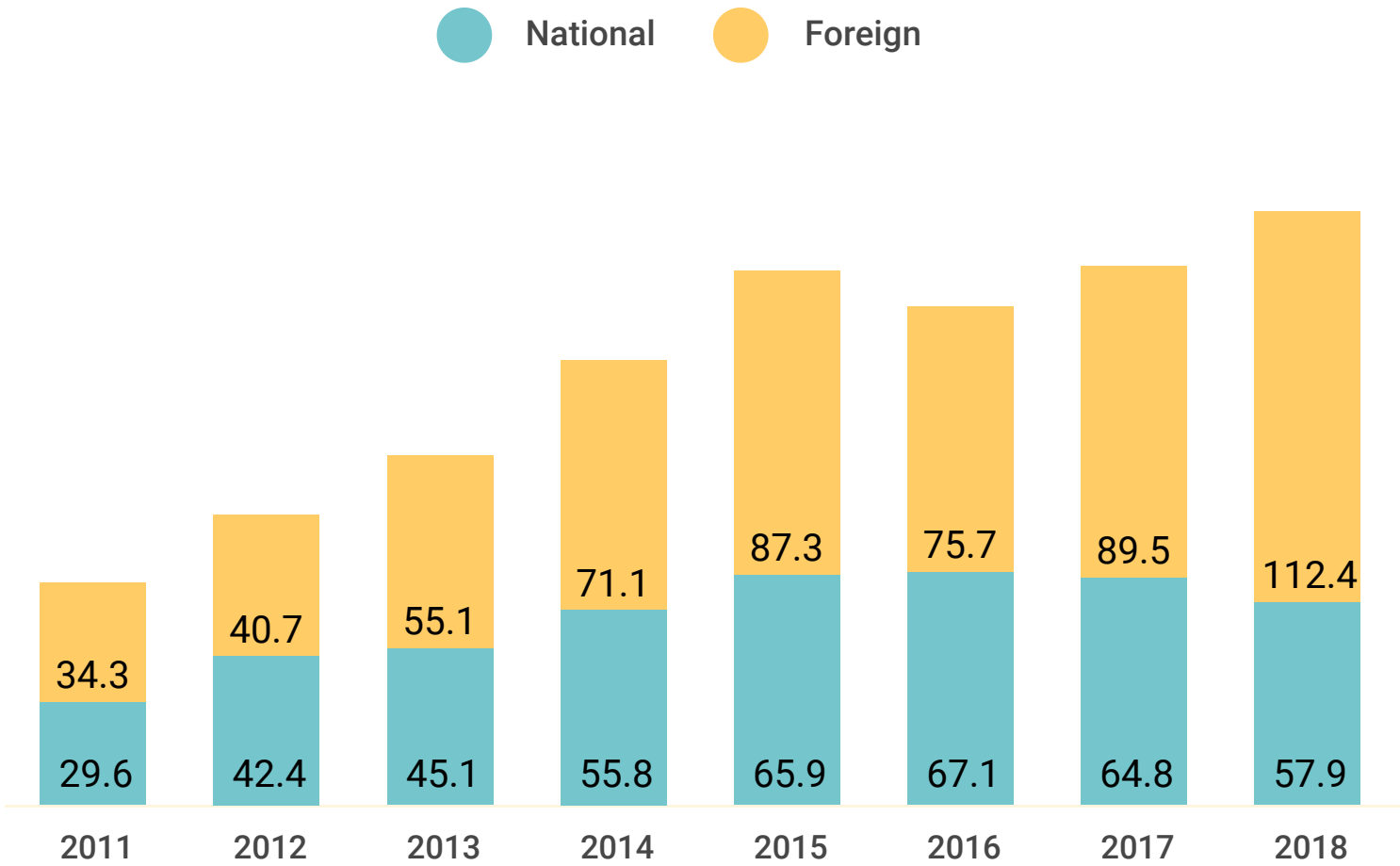
Committed capital by type of investor FY18



Top 10 fund managers by total committed capital in Brazil FY15-FY18



Committed capital in Brazil by origin FY11-FY17(R\$ billion)



In 2017, divestments reached a new high, continuing on through 2018, under the influence of a favourable IPO window that encouraged Brazilian companies to go public, firming up as a feasible alternative for moving out of investments.

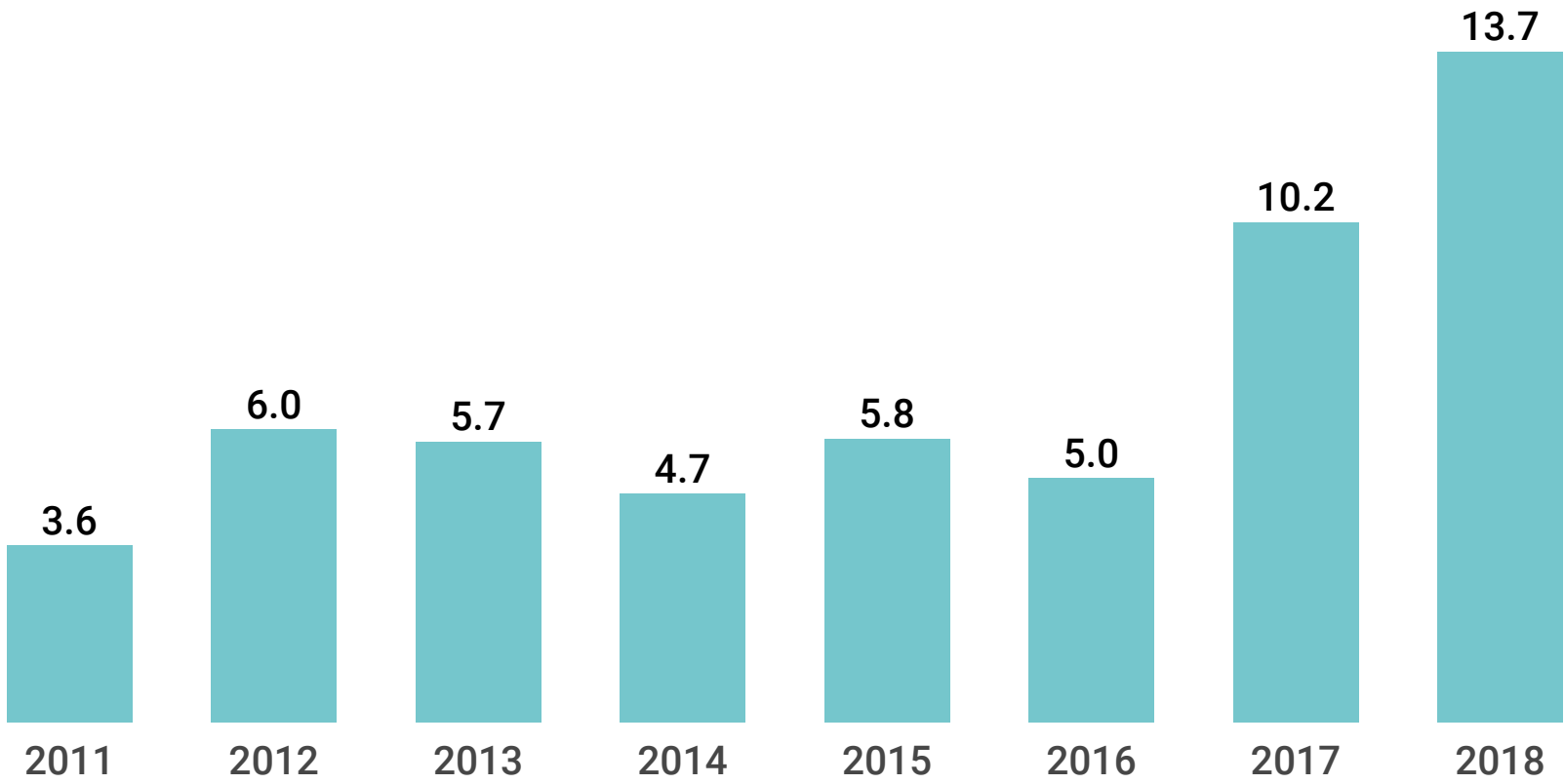
DIVESTMENTS – PE&VC

Reflected in the number of IPOs during the year, divestments by private equity and venture capital funds reached a historic high of R\$ 13.7 billion in 2018, up 34% over 2017.

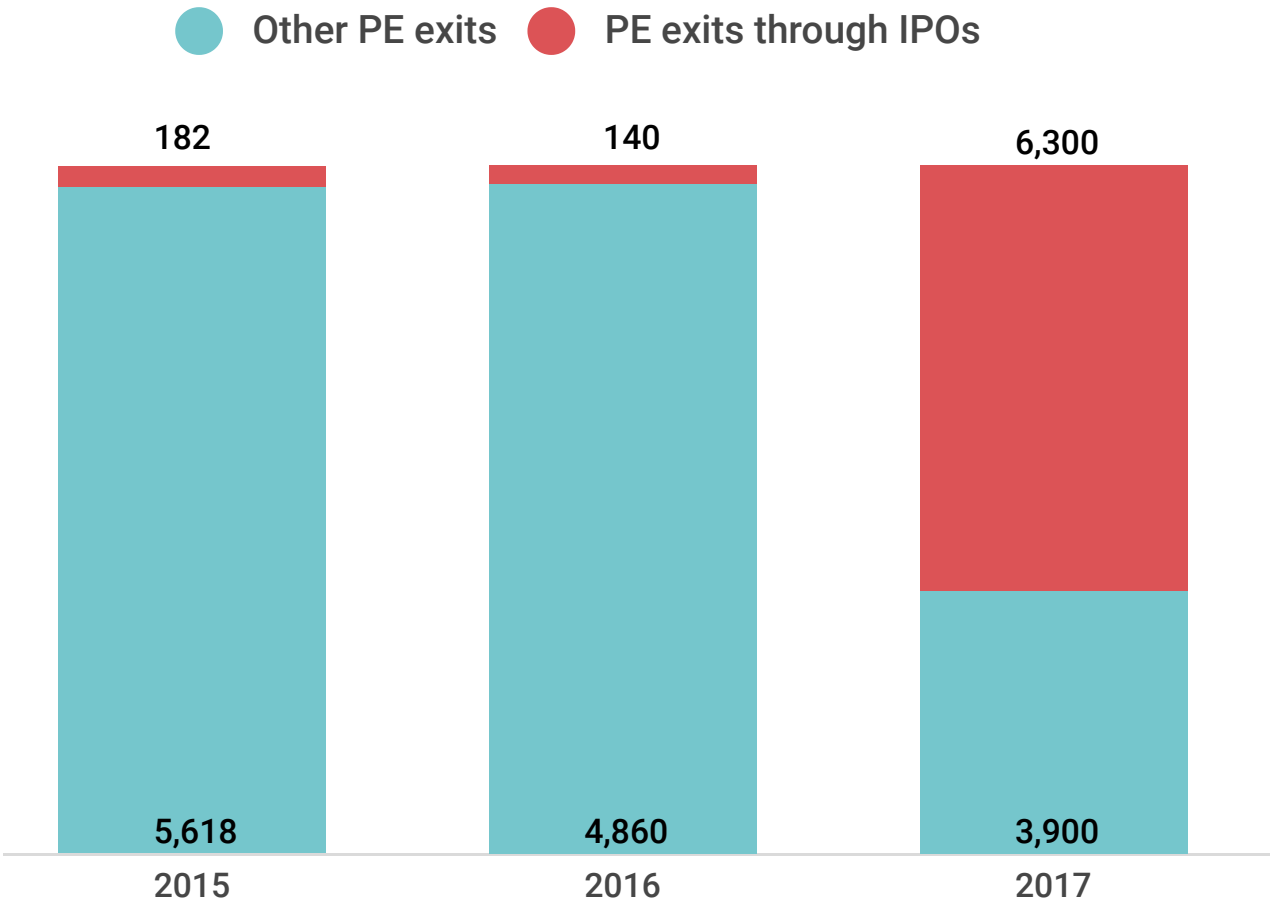
Since 2017, Brazil’s capital market has proved more attractive for stock offerings, with thirteen companies spending the equivalent to R\$26 billion during the past two years on Brazil’s B3 Stock Exchange.

Divestments by private equity and venture capital funds reached some R\$ 55 million in Brazil since 2011.

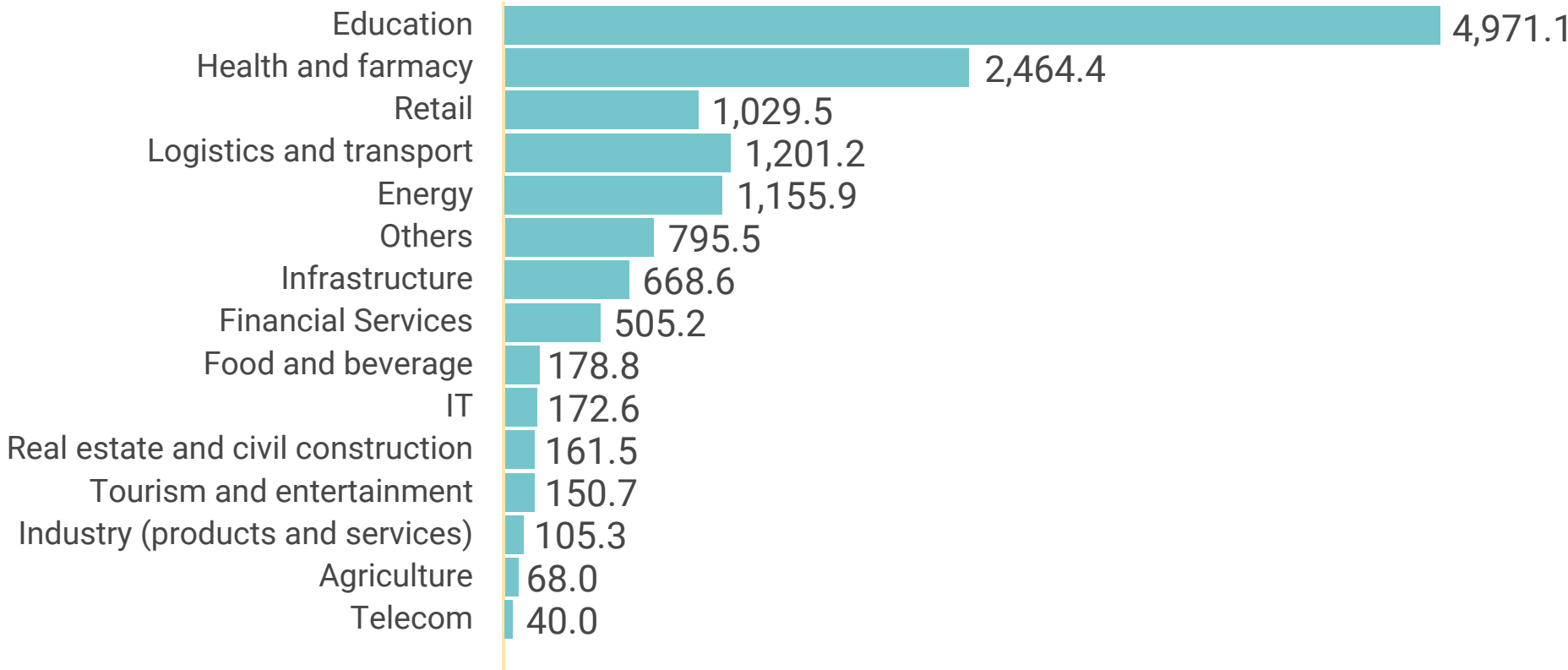
Divestments per year FY11 –FY18 R\$ billion



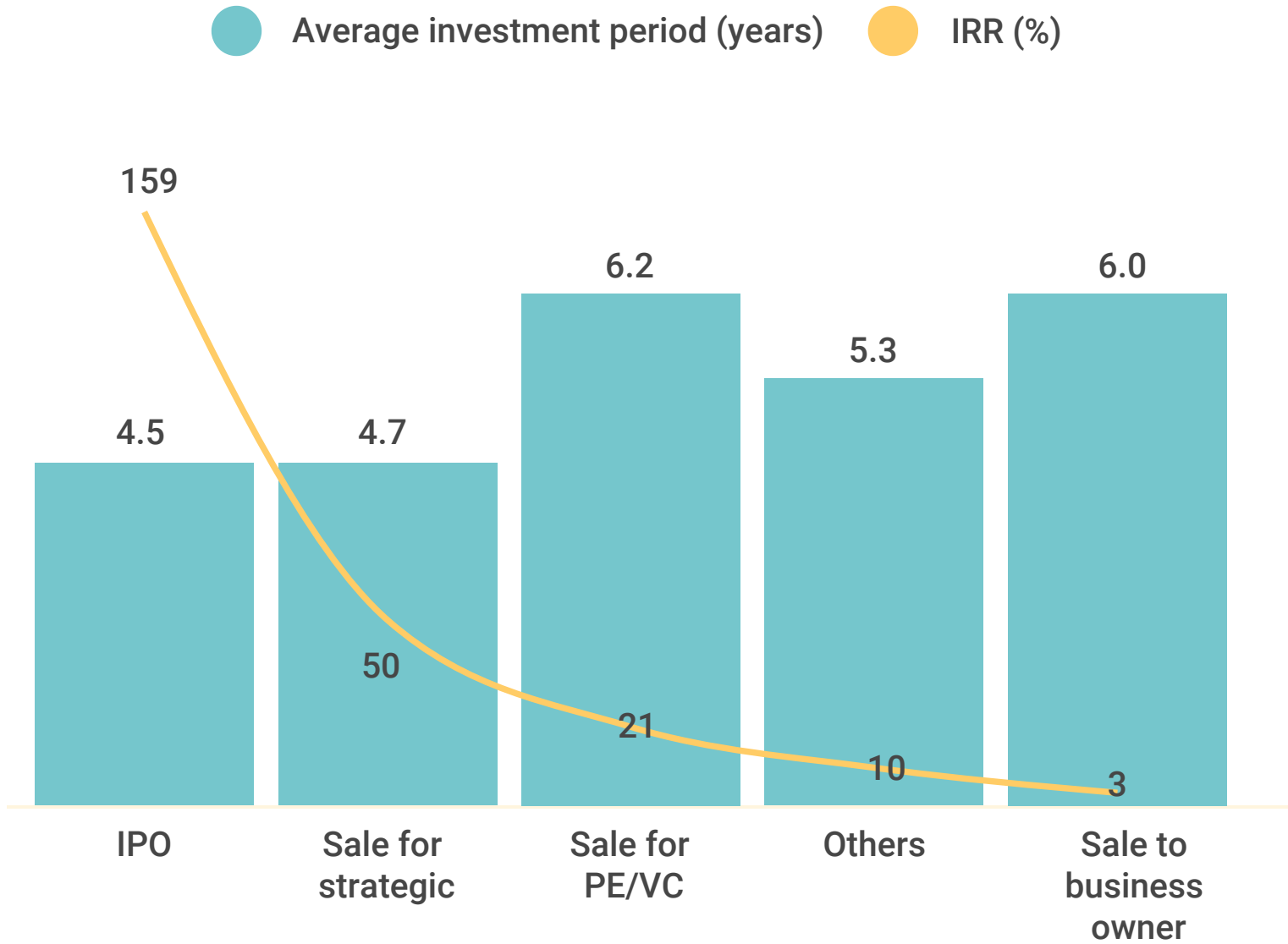
Divestments in Private Equity R\$ billion



Divestments in Brazil by sector FY13–FY18 (R\$ million)



Perfomance and average investment period by exit strategy FY17





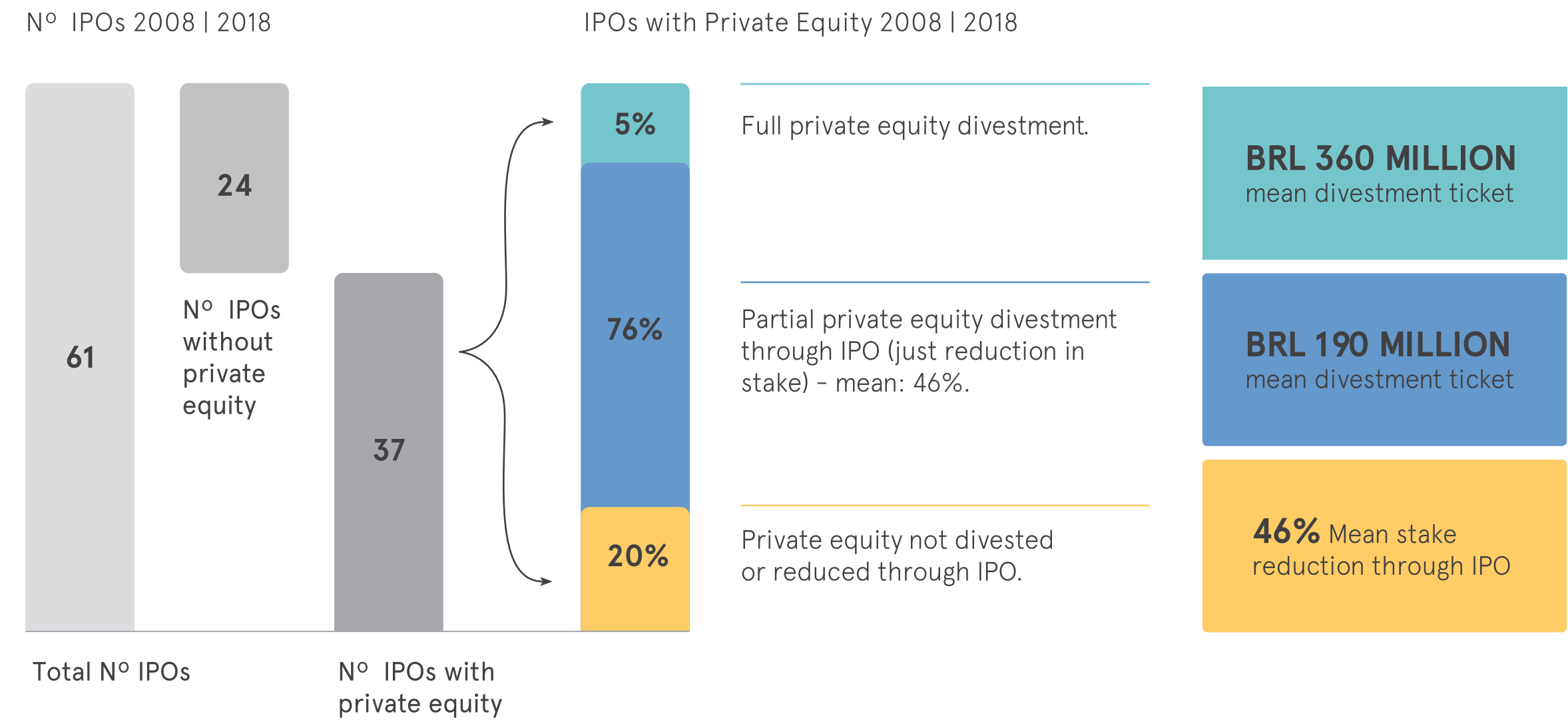
While providing a feasible exit alternative for private equity and venture capital investments in Brazil, stock offerings also firmed up their position as one of the most profitable options, especially for investors continuing as partners and merely diluting their stakes.

DIVESTMENTS - PE&VC

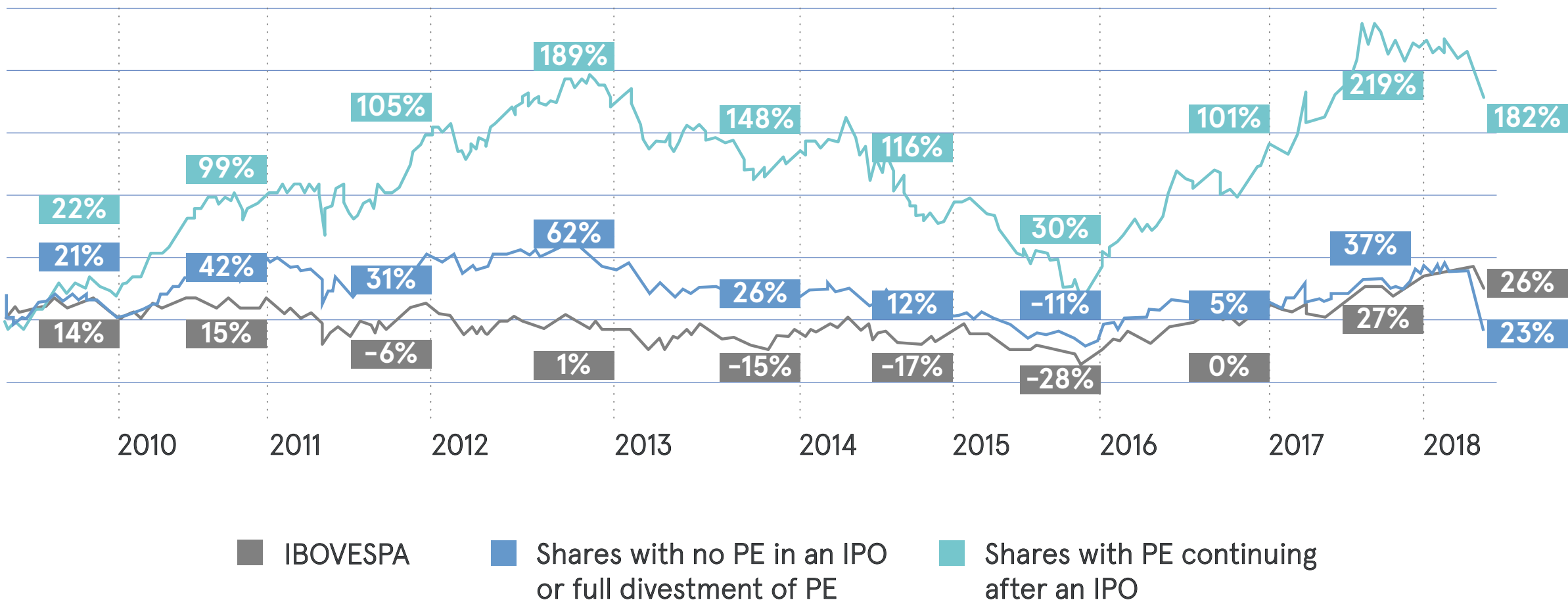
In 2018, 61% of divestments (including partial sell-offs) by private equity funds were handled through stock market offerings. Funding raised by companies going public in Brazil (particularly in 2017 and 2018) reached R\$ 26 billion, of which R\$ 14.7 had private equity funds as investors, thus consolidating this exit alternative for private equity funds.

Furthermore, as shown previously, divestment performances with market exits proved far superior to other options. When compared to the IPOVESPA Index, shares issued by companies with private equity investors outperformed this Index. Moreover, those retaining investor partners with only partial departures tended to move away from the Index, with much better performances.

IPOs of PE invested companies FY08 - FY18



Performance comparison: stocks which investors exited total ou partially compared to IBOVESPA



Disregarding prices in 2015 and 2016 that resulted from shrinking corporate profits during the recession, businesses with attractive valuations in private equity and venture capital have remained the norm in Brazil since 2013.

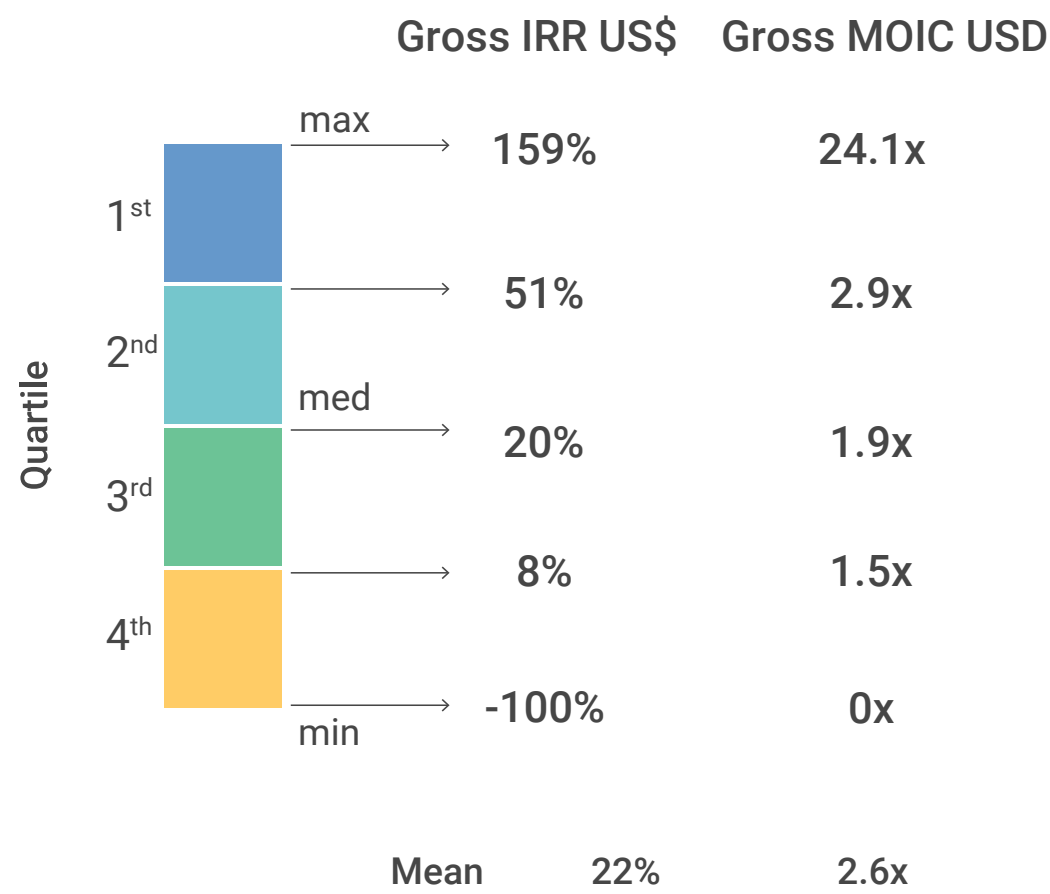
PROFITABILITY – PE&VC

According to an Insper/Spectra study, the mean gross internal rate of return in US dollars of Brazilian PE&VC funds is 22%, while the mean gross MOI is 2.6x. Similar to the international industry, with performances scattered widely between best and worst, the highest internal rate of return peaked at 159% and the lowest dipped to -100%.

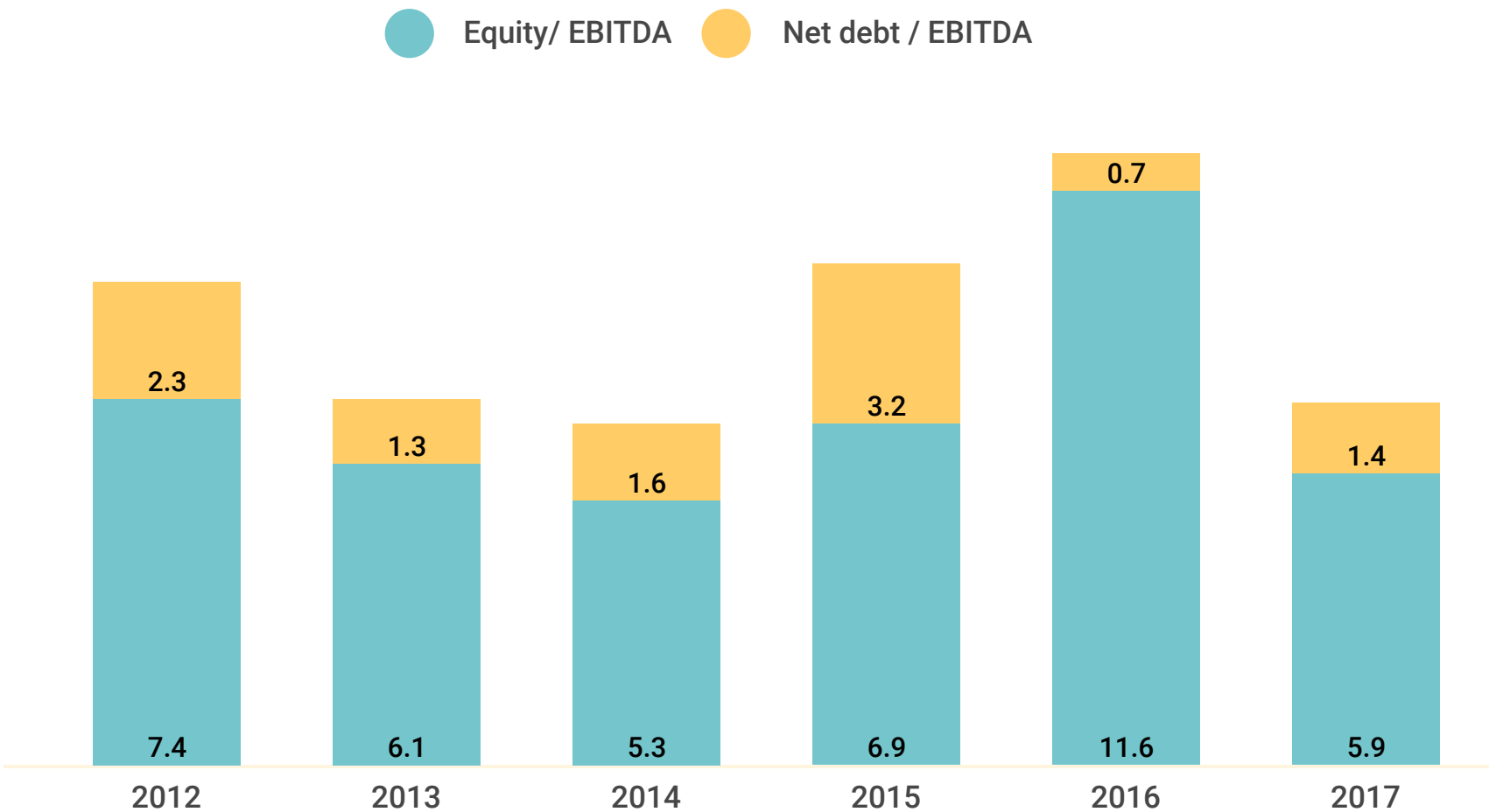
Despite recent crises, PE&VC deals performed well overall between 1994 and March 2018. The average gross multiple of invested capital (MOIC) in US\$ was 2.6x and the median was 1.3x. The maximum MOIC for PE was 34x and 60x for VC (see Exhibit 7). More than 60% of the deals had positive returns (with the MOIC topping 1.0x), and almost 30% returned more than 2.5x invested capital (see Exhibit 8). Similar to the global industry, VC deals had a high write-off of 44%, but the 13% of deals with outstanding returns drove the mean MOIC to 2.3x for VC deals.

Particularly with its recent recession, Brazil offers great opportunities for private equity managers to invest in companies that have been poorly managed and under-capitalised, providing funds that help them grow and bring in good returns.

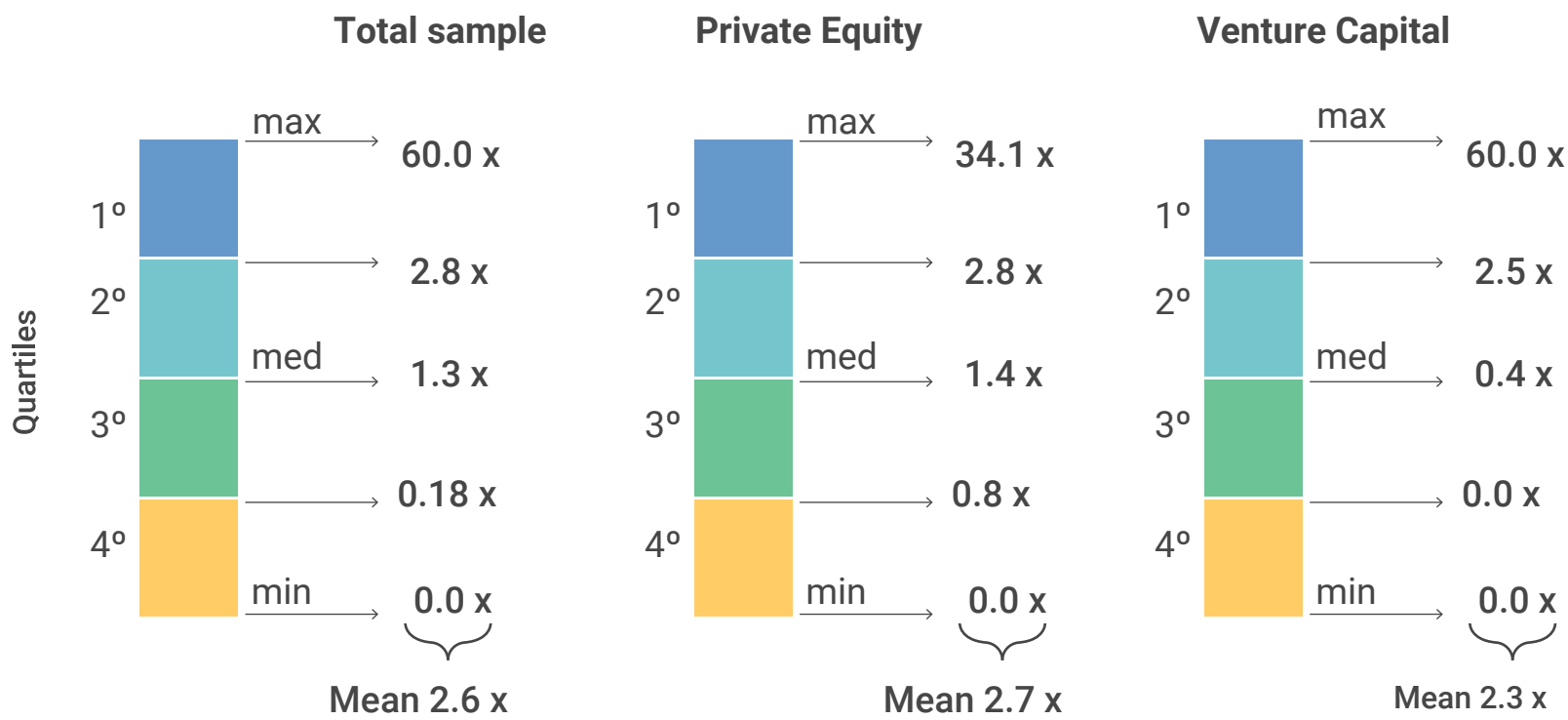
IRR of Brazilian PE/VC funds raised between 1982 and 2010



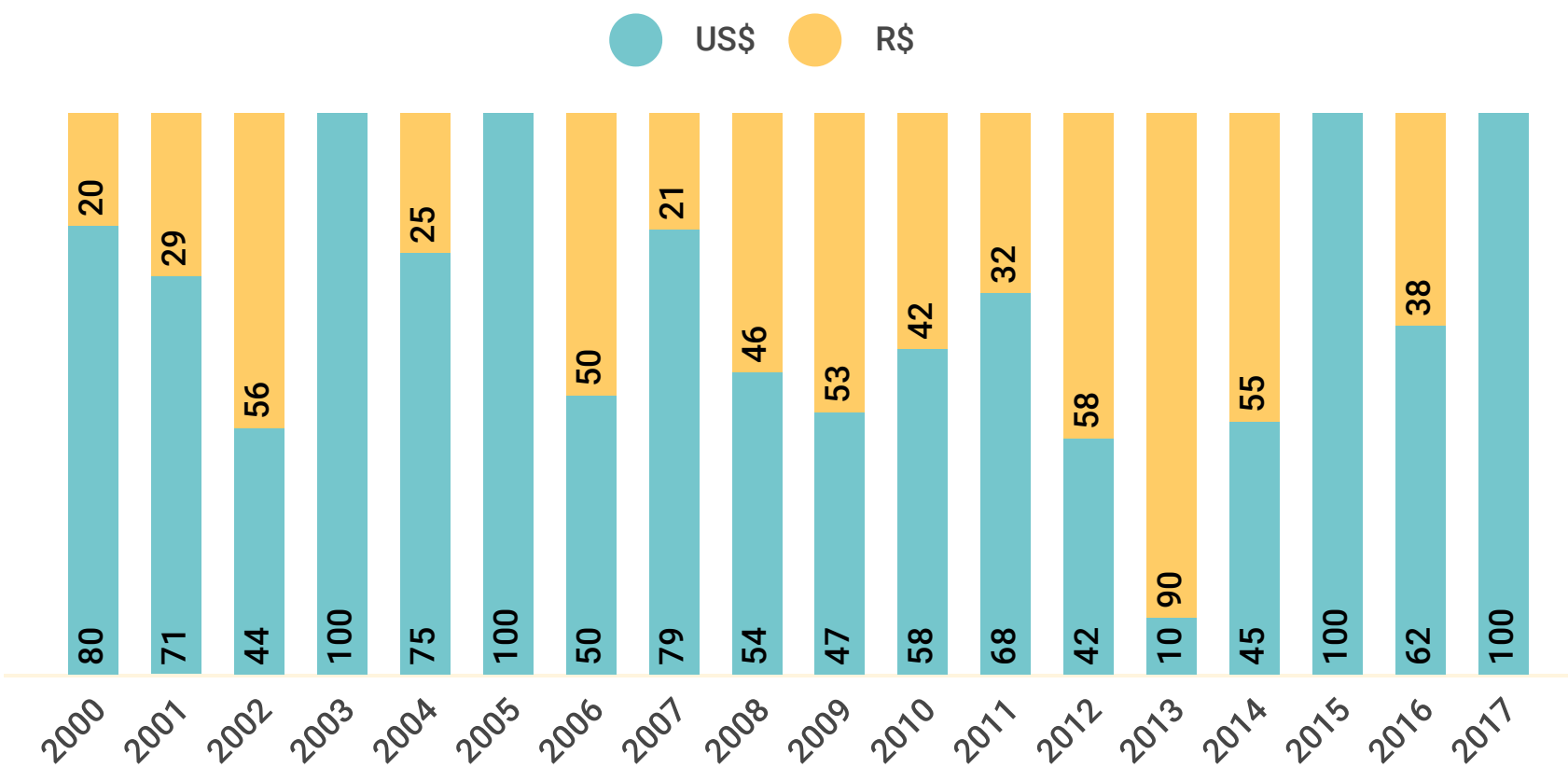
EV/ EBITDA of Brazilian transactions FY12–FY17



PE/VC deals performance in US\$ between 1994 e mar-18



Proportion of Brazil/LATAM dedicated funds raised in US\$ or R\$ FY00–FY17





As a result of the maturation process, some Brazilian private equity and venture capital funds are outperforming their counterparts in the USA, as shown by Insper/Spectra surveys.

PROFITABILITY – PE&VC

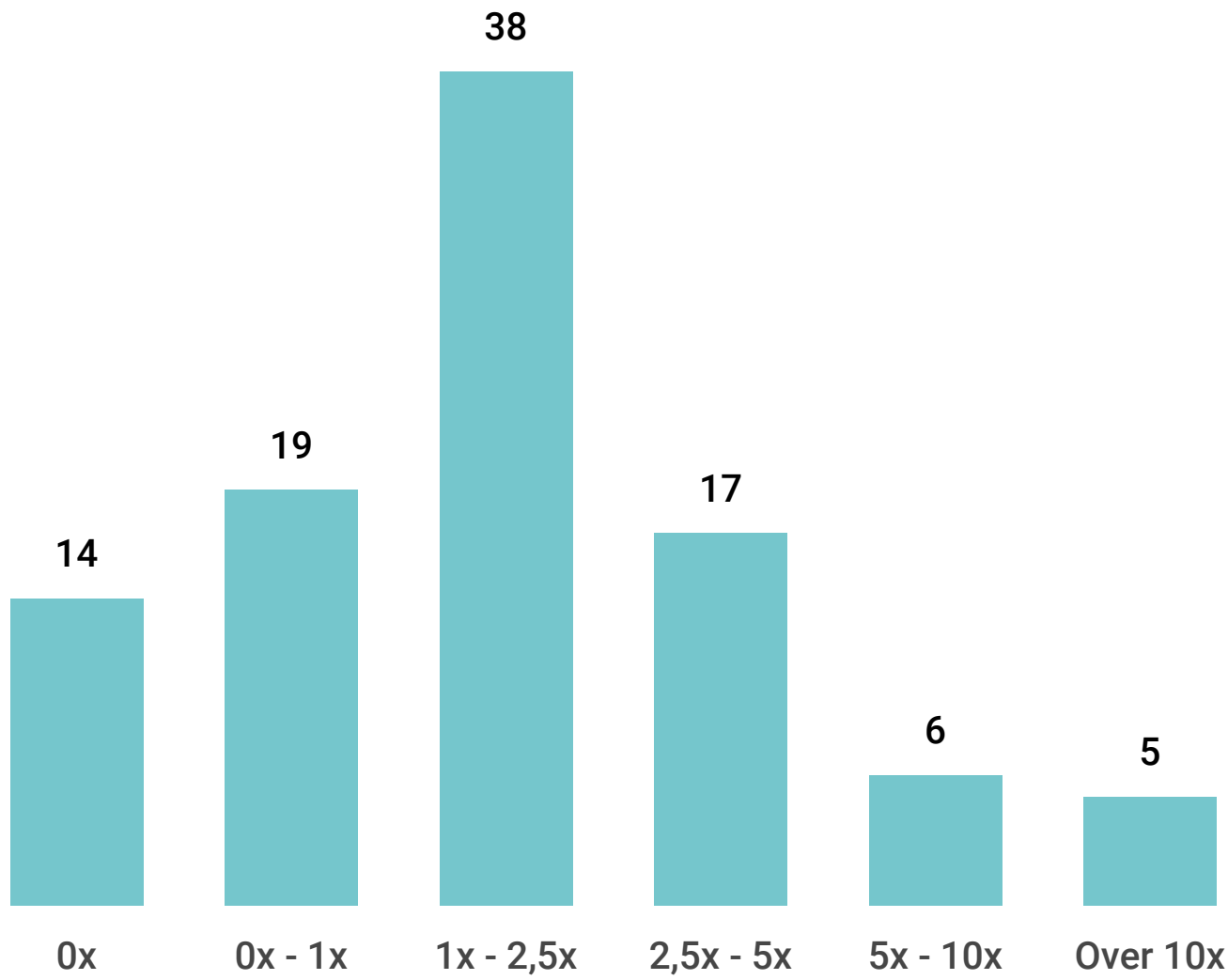
The Insper/Spectra study indicates that private equity investments generally performed well in Brazil between 1994 and March 2018. Similar to the international industry, there is a wide gap between the best and worst performing managers. In the analysis, first and second quartile funds in Brazil are classified as equal to or better than the global industry.

Despite the recent economic slowdown, venture capital investment returns have been improving since 2015, compared with figures for 1994 through to 2014.

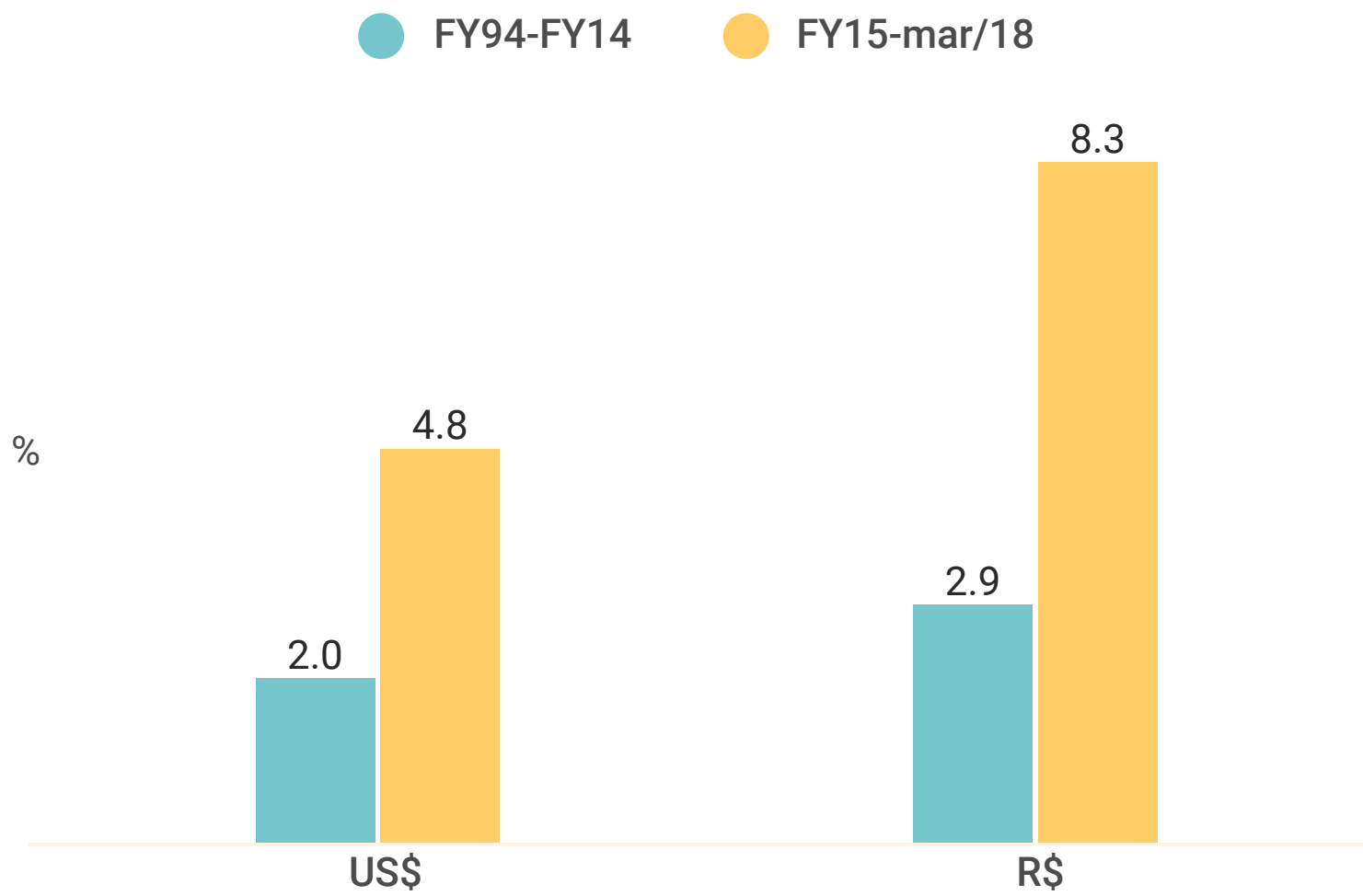
Although Brazil’s PE&VC industry is relatively young, it has many experienced fund managers: 72% of the PE&VC firms in the sample are at least six years old; 40% were established more than ten years ago; 59% of them have set up two or more funds; and 34% have set up three or more funds.

The Brazilian PE/VC industry has been going through a natural renewal cycle, and investors are learning to be more selective in choosing a fund manager.

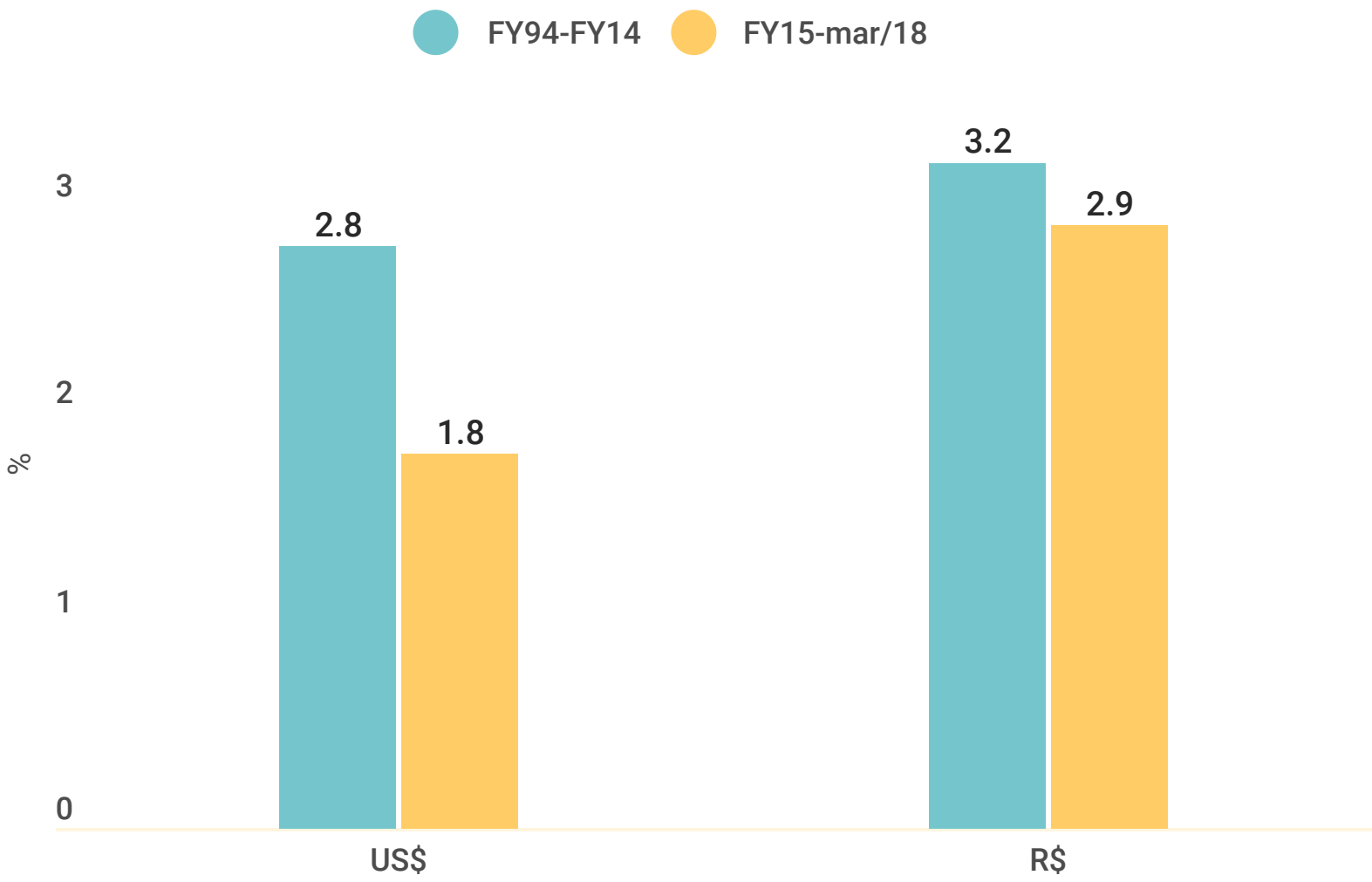
MOIC\* of private equity investments in US\$ in Brazil FY94 – mar 18



MOIC\* of venture capital investments in Brazil (before and after 2015 crisis)



MOIC\* of private equity investments in Brazil (before and after 2015 crisis)



\* Multiple of invested capital (MOIC)

## 2.2 Venture Capital

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**Private equity & venture capital in Brazil**



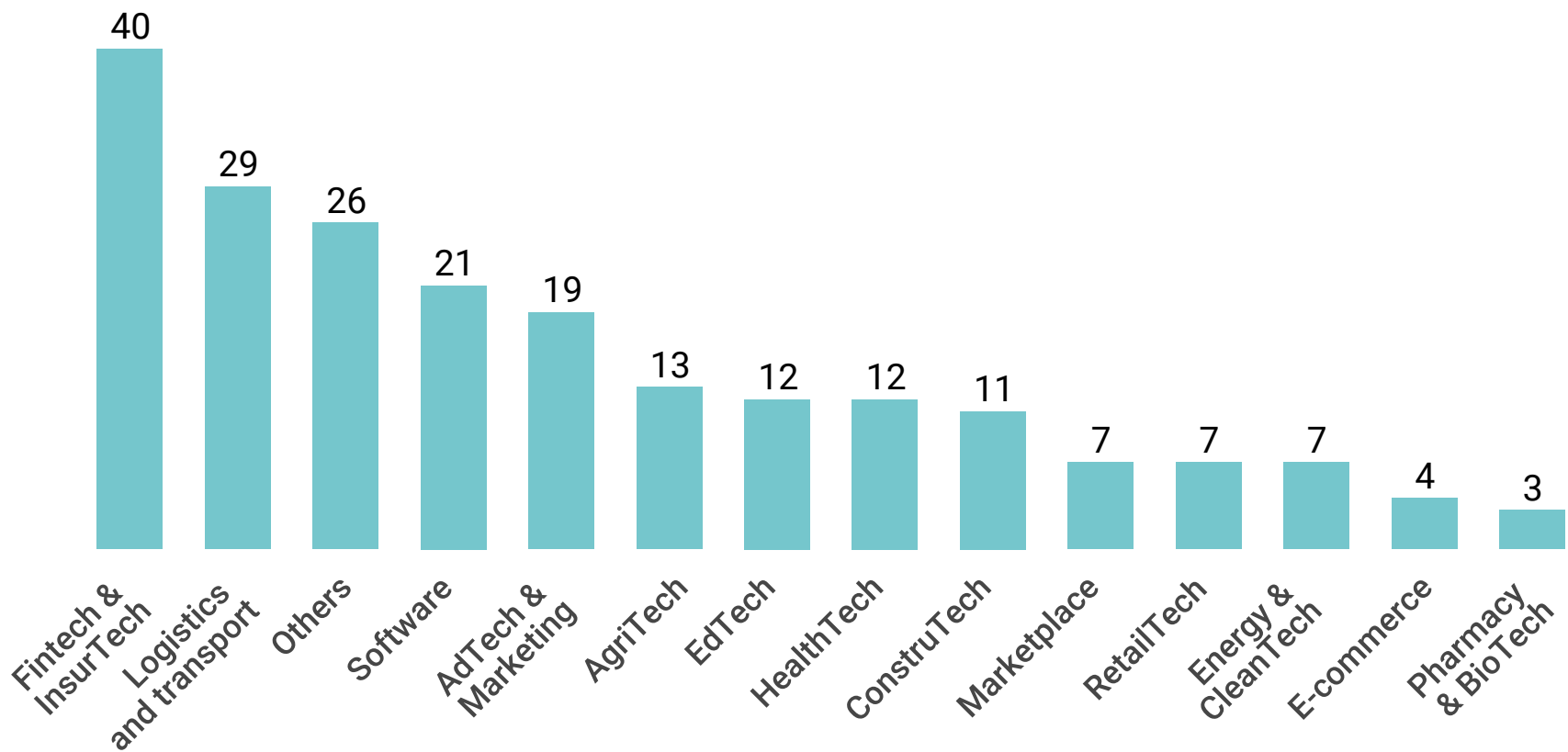
As it matures, Brazil’s venture capital ecosystem has been attracting rising numbers of foreign investors, who have headed up the main startup investment bidding rounds. In 2018, venture capital investments rose more than sevenfold over figures for the previous year.

Up 567% over the previous year, new unicorns and recent IPOs for local start-ups during 2018 hint at Brazil’s importance on the venture capital stage.

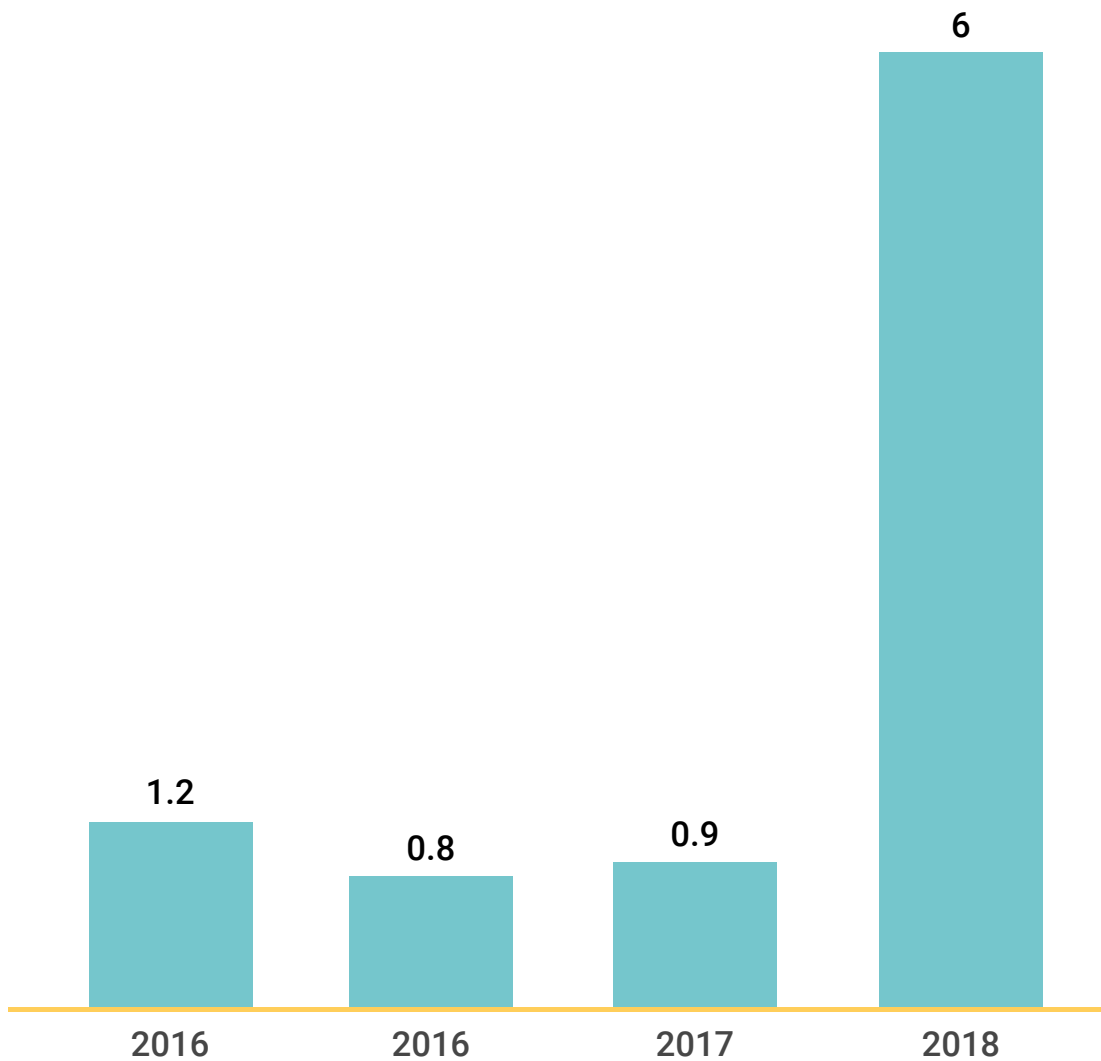
As a result, the mean investment value rose significantly, in parallel to larger quantities as well. Among these target companies, 33% are in the fintech and insurtech sectors.

As this industry matures, the appraisals of these start-ups are also starting to rise. Established more than five years ago, some of them are now reaching maturity and starting to bring in impressive returns.

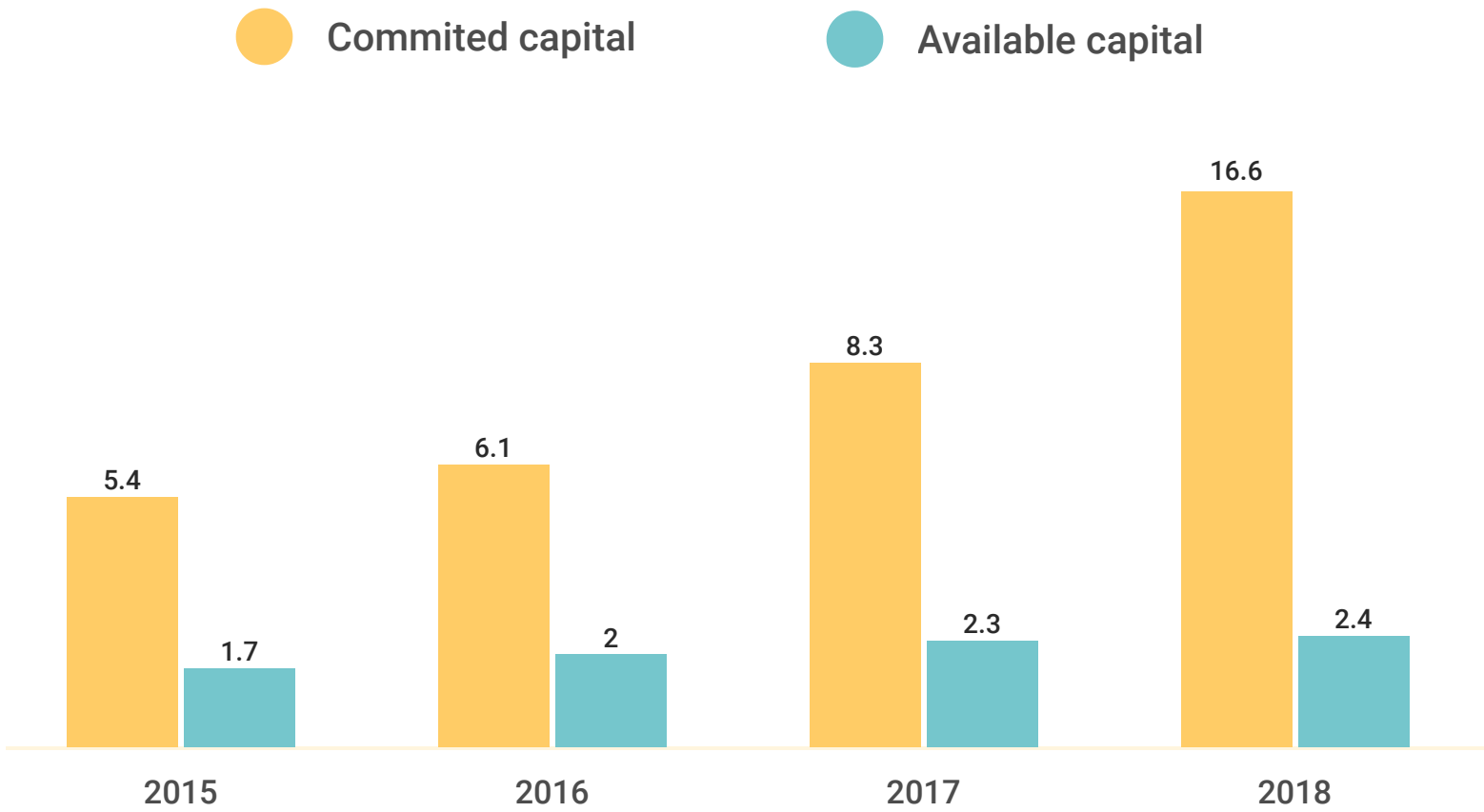
Amount of invested companies and average investment value in VC (#)



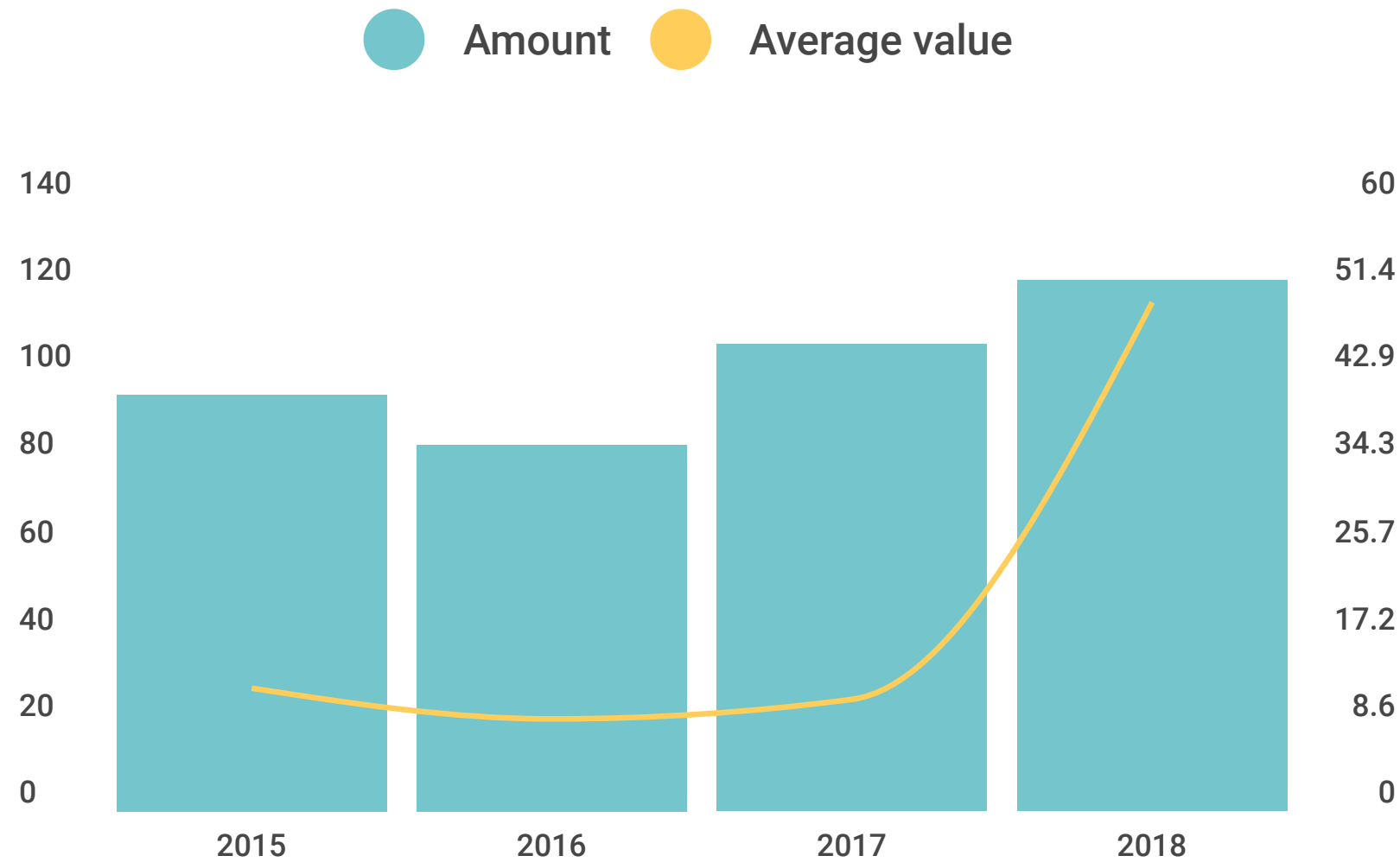
Venture capital investments in Brazil FY18 (R\$ billion)



Committed capital and available for investment in venture capital (R\$ billion)



Amount of invested companies and average investment value in venture capital FY15-FY18 (R\$ million)



Venture capital investments are on the rise in Latin America, despite significant underinvestment, hinting at massive potential for growth and maturation by the local industry.

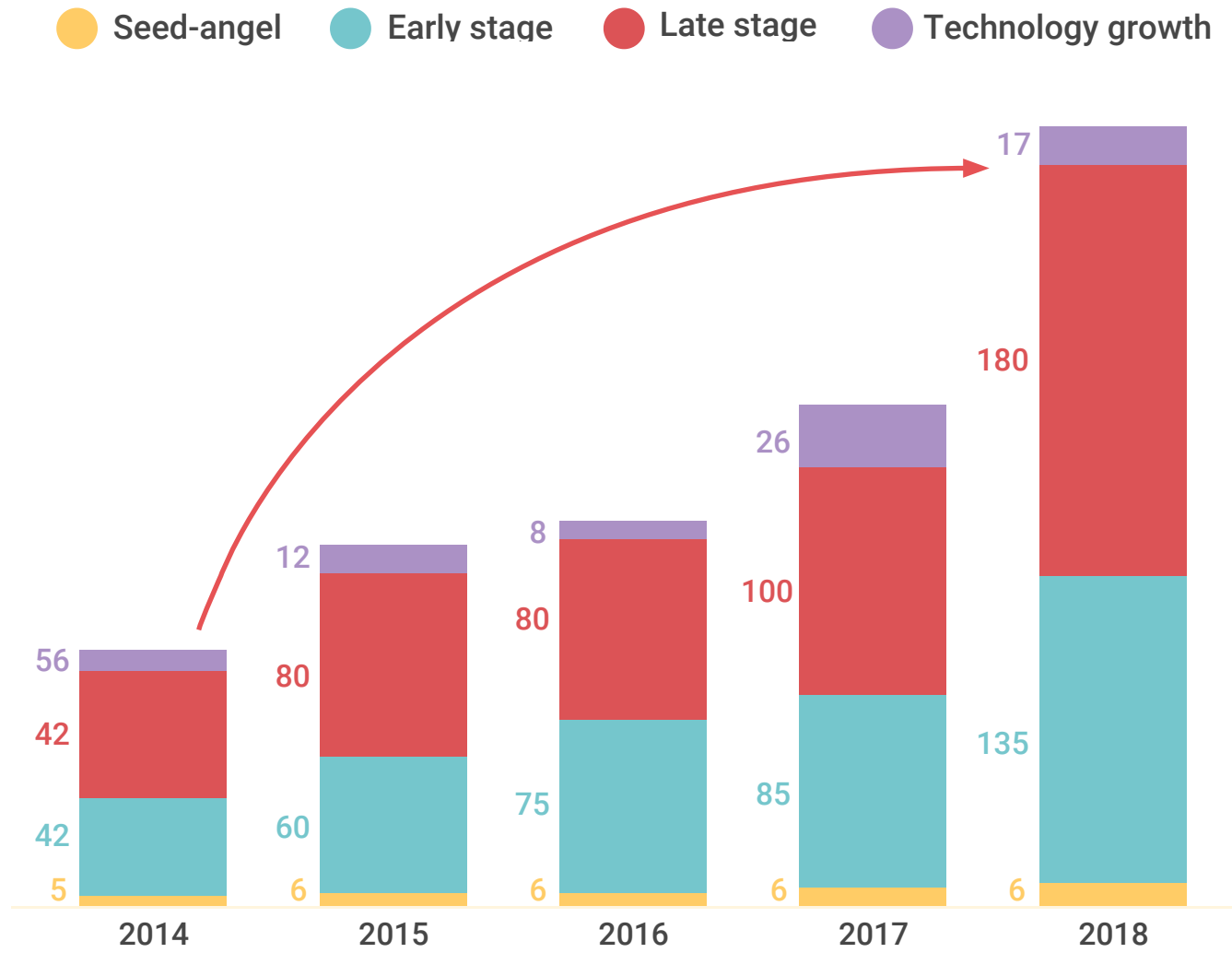
Venture capital investments are thriving all over the world. Since 2017, Latin American start-ups have been included among their main targets, resulting in a VC investment boom in Latin America.

The fastest-growing sectors for start-ups in this region include fintech, marketplaces, e-commerce and transportation technology, in parallel to investments in technology focused on education and healthcare.

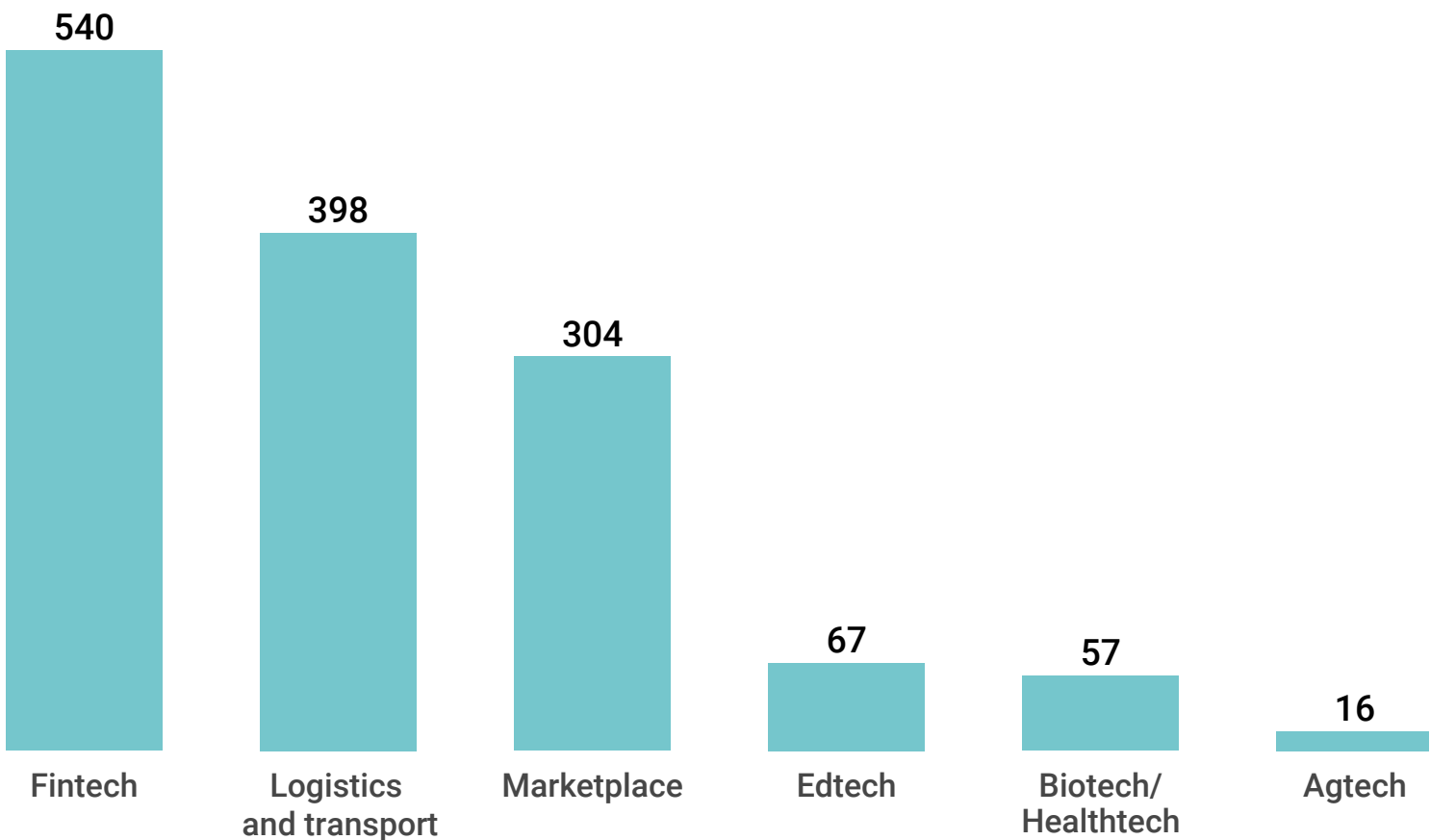
Mexico and Brazil are Latin American favourites with venture capital investors, particularly new unicorns and major deals in Brazil.

The main venture capital investment sector in Latin America is fintech, with US\$ 540 million invested through 94 transactions between early 2017 and the first half of 2018.

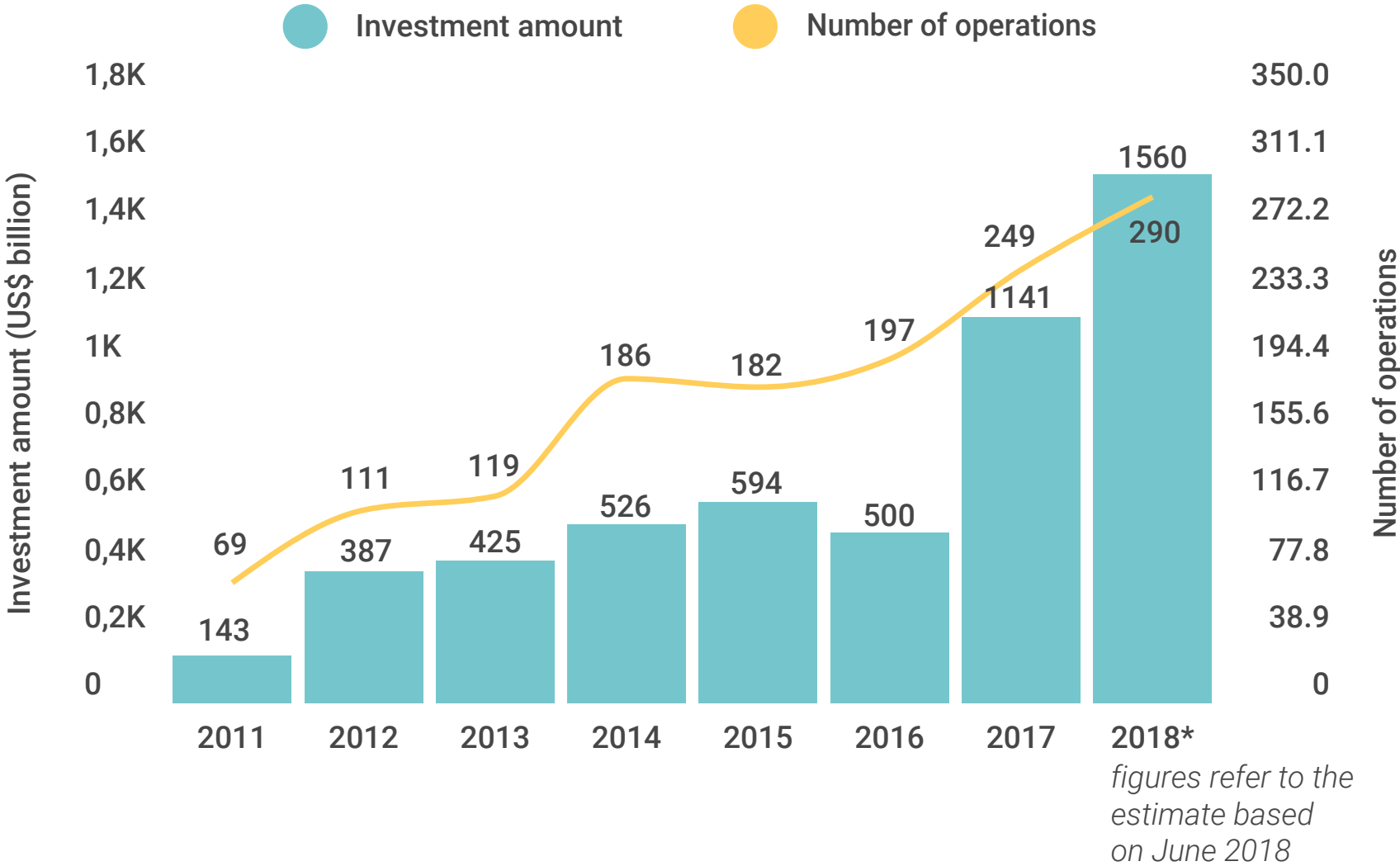
Global investment in venture capital  
FY14-FY18 (US\$ billion)



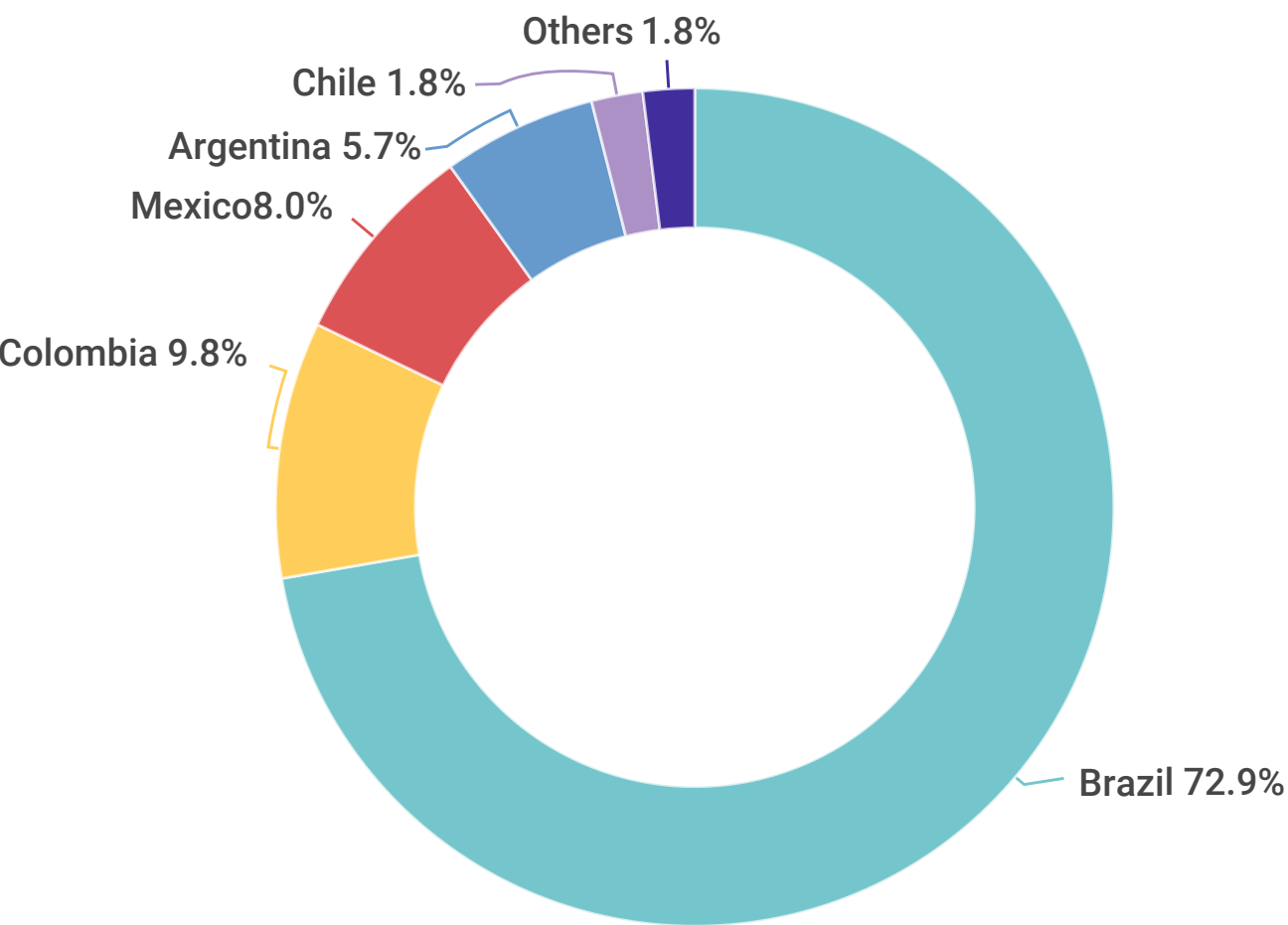
Investment in main venture capital sectors in Latin America FY17 - 1H18 (US\$ million)



Latin American investments investment in venture capital FY14-FY18 (US\$ million)



Start-up investment in LATAM FY17-FY18



Foreign investors have been active players in Brazil’s investment rounds. According to Consolidated Data released by KPMG and ABVCAP, 211 companies were targeted by venture capital investments, with the fintech and insurtech sectors particularly noteworthy.

Some of the main public transactions are listed below for this period, with the IT and fintech sectors accounting for 62% of total top deal values. (considering investments whose values were disclosed).

MAIN VENTURE CAPITAL DEALS IN BRAZIL 2019–2018

2019	INVESTOR(S)	TYPE	VALUES (MILLION)	TARGET COMPANY	SECTOR
	Softbank; General Atlantic; Atomico; Valor Capital Group	Investment	\$ 300	Gympass	Services
	Softbank	Investment	\$ 200	Creditas	Fintech
	Softbank; Microsoft; GGV; Fifth Wall; Velt Partners	Investment	\$ 150	Loggi	Logistics
	Monashees Capital; 500 Startups	Investment	\$ 150	Grow	Mobility
	QED Investors; Invus Opportunities	Investment	R\$ 87	Escale	Services
	Riverwood Capital	Investment	R\$ 80	Omie	IT
	Point72 Ventures; IFC; Quona Capital	Investment	R\$ 75	Contabilizei	Fintech
	Andreessen Horowitz; Thrive Capital; Monashees Capital; Canary; Valor Capital Group; Fifth Wall; QED Investors	Investment	\$ 70	Loft	Marketplace
	Redpoint Eventures; Intact Ventures	Investment	\$ 60	Minuto Seguros	Insurtech
2018	INVESTOR(S)	TYPE	VALUES (MILLION)	TARGET COMPANY	SECTOR
	DST Global; Redpoint Eventures	Investment	R\$ 495	Nubank	Fintech
	Naspers; Innova Capital	Investment	\$ 400	Ifood	Marketplace
	General Atlantic; Kaszek Ventures; Qualcomm Ventures	Investment	R\$ 250	Quinto Andar	Marketplace
	Tencent	Investment	\$ 200	Nubank	Fintech
	Naspers; Innova Capital	Investment	\$ 124	Movile	IT
	Softbank	Investment	\$ 100	Loggi	Mobility
	FTV Capital	Investment	R\$ 99	Ebanx	Fintech
	Temasek	Investment	R\$ 95	Bionexo	Health Tech
	IFC; TheVentureCity; Ventech	Investment	R\$ 72.6	RecargaPay	Fintech
	Monashees Capital; Omidyar Network	Investment	R\$ 72	Banco Neon	Fintech
	GGV Capital; Monashees Capital; Base10 Capital; Glass 5 Global	Investment	\$ 63	Yellow	Mobility

### 3. NOTABLE SECTORS

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Its wide diversity of sectors with significant size and appeal rank Brazil among countries with massive potential for absorbing PE&VC investments, underpinned by a huge domestic consumer mass, particularly when compared to the global market.

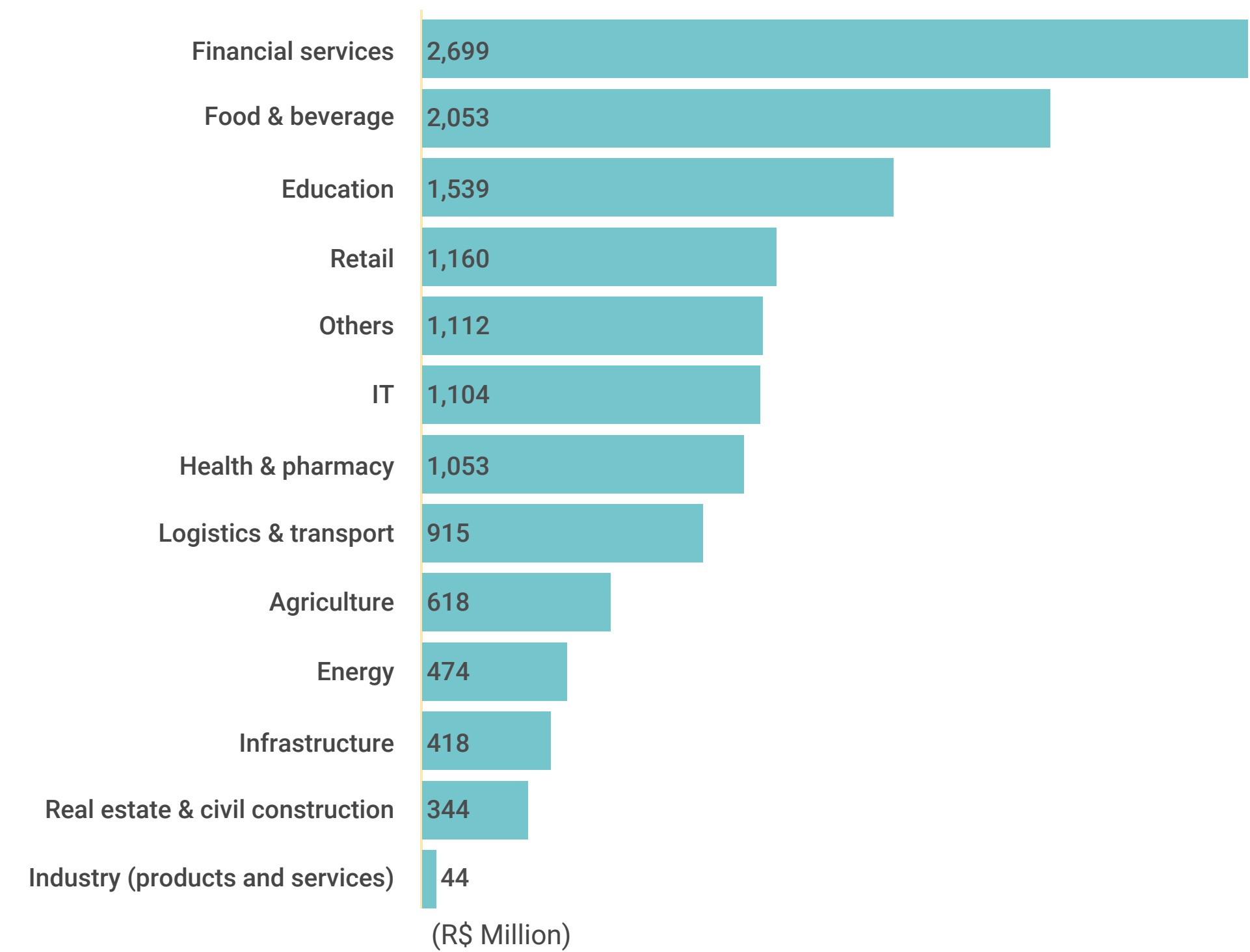
Its vast land surface with huge areas of arable land under cultivation and ample natural resources rank Brazil among the countries with a broad range of well-developed sectors that offer promising opportunities for private investments, buttressed by the size of its population.

Gaps in the development of the Brazilian economy and society make sectors such as healthcare, education and infrastructure particularly attractive.

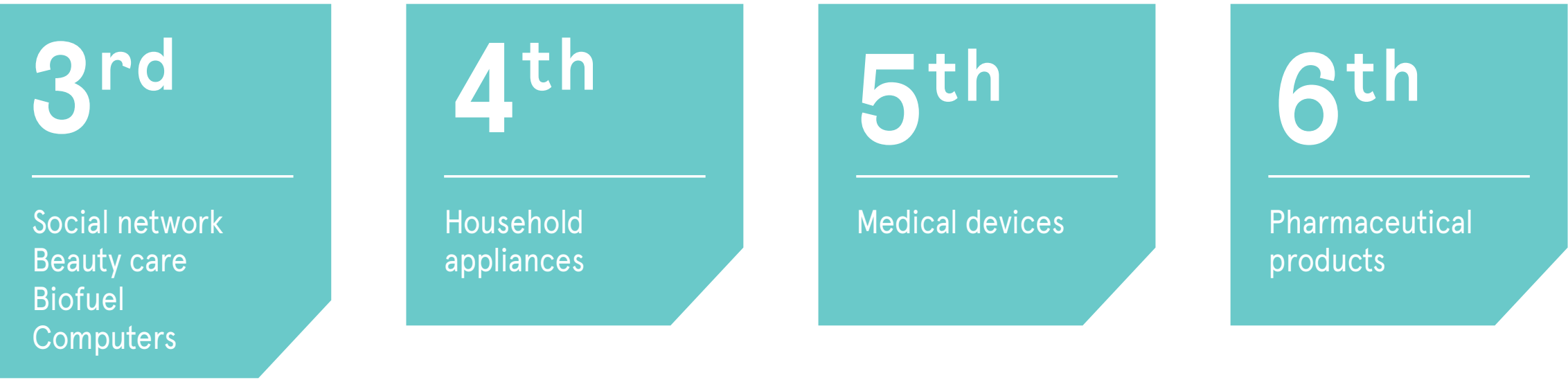
Noteworthy among the transactions examined by ABVCAP and APEX in their consolidated report for 2018, food and beverages, education, and financial services and absorbed the largest amount of investments.

Despite Brazil’s weak track record for new technology development, fintech and agtech are very well developed, for example.

Amount of investment – main sectors FY18 (R\$ million)



One of the world’s largest consumer markets, Brazil stands out in some specific sectors:



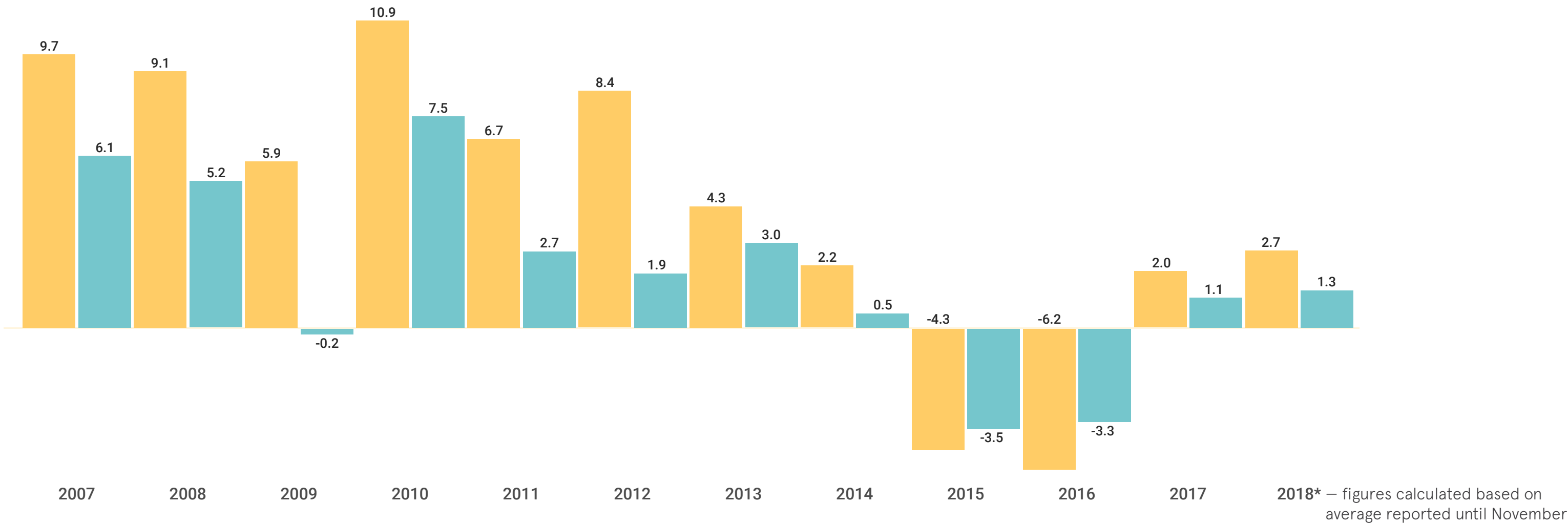
3.1 Retail—  
In addition to generating the largest number of jobs nationwide, Brazil’s retail sector has returned to growth at impressive rates, keeping pace with global trends in consumption modernisation.

Retail accounts for almost 50% of Brazil’s GDP. After a lacklustre performance undermined by economic turbulence, this sector is tagged as one of the most promising over the next few years, as Brazil returns to growth, with recent transaction volumes buttressing this trend.

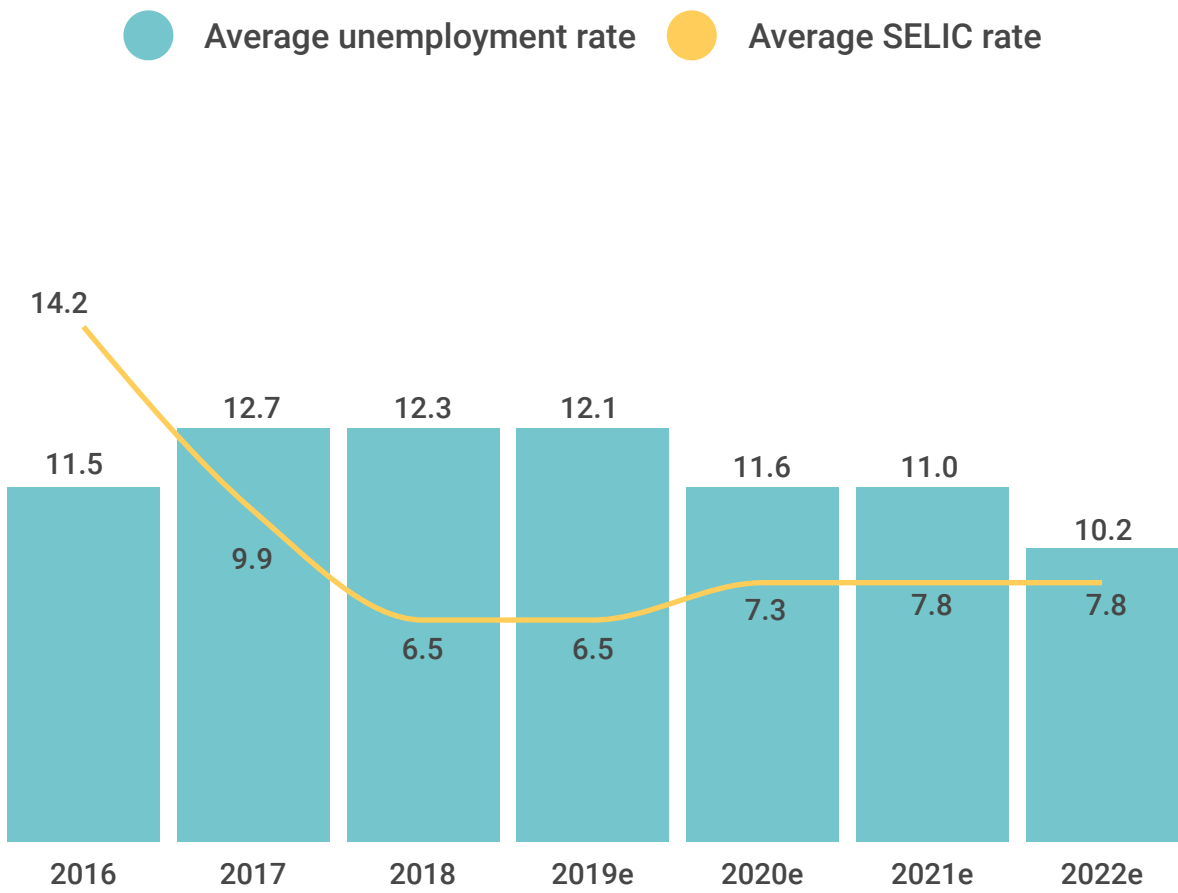
Brazil’s retail sector is particularly attractive for investments, due to a massive domestic consumption market with a population of almost 210 million and outlays on consumption topping R\$ 4 trillion in 2018.

Signs indicating that the electoral uncertainties of 2018 are fading include rising family consumption, new jobs being generated and an expanding wage mass, with rosy prospects for the retail sector in 2019.

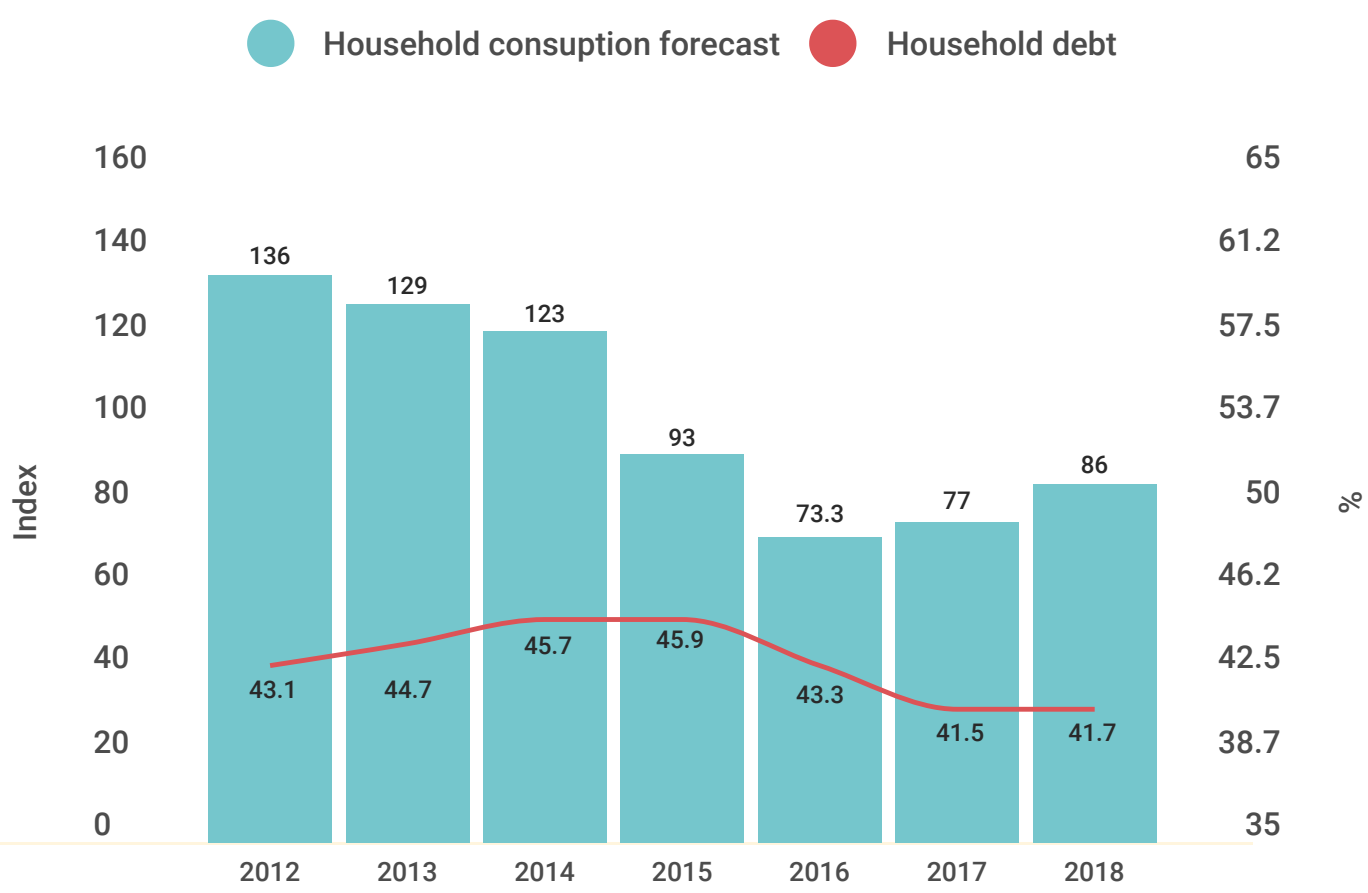
Retail performance compared to country’s GDP FY18 (%)



Average unemployment and SELIC rates forecast FY16-FY22e (%)



Debt Level and Household Consumption Intentions

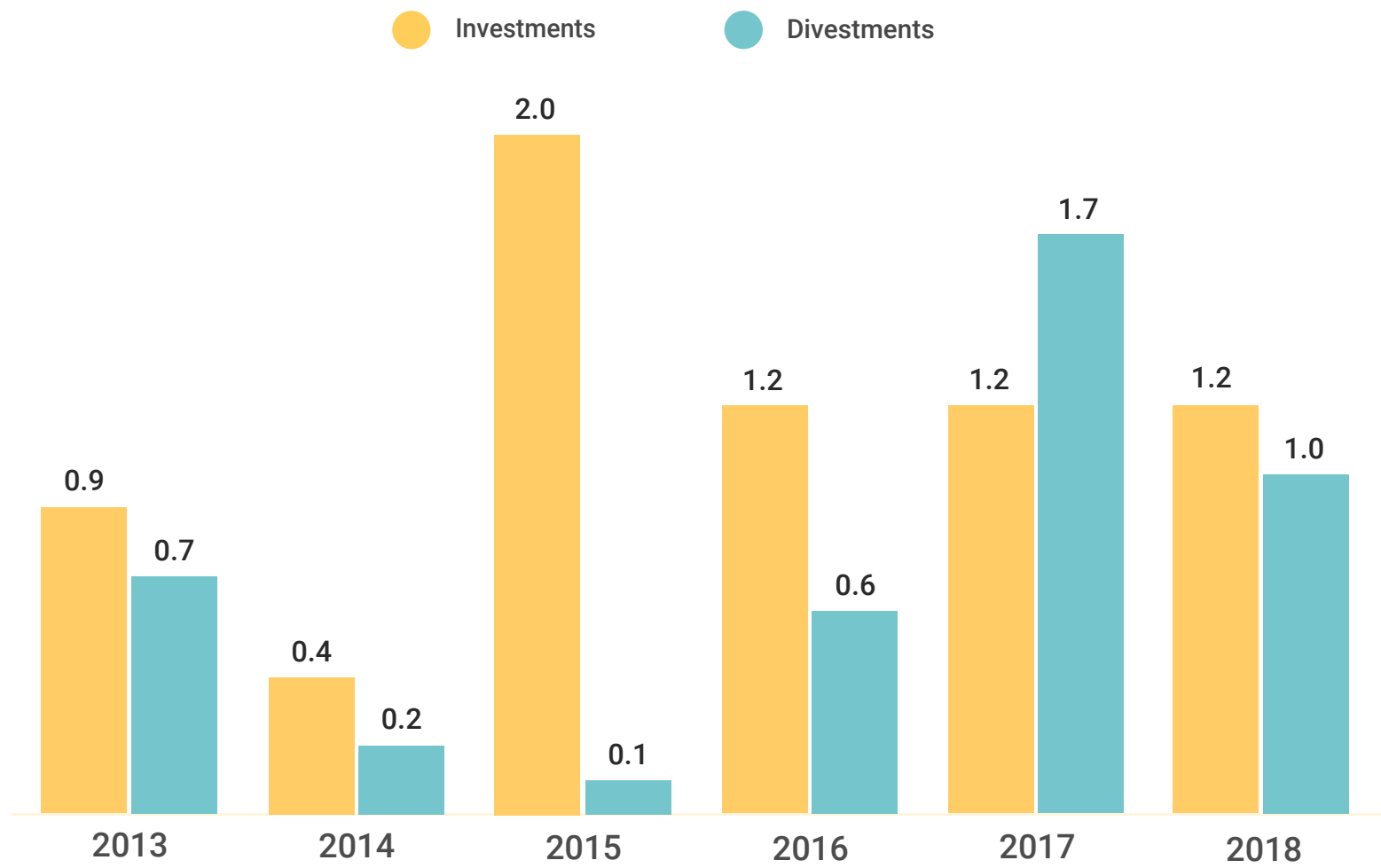


3.1 Retail–  
With many small firms still operating regionally, this sector offers solid opportunities for investors interested in the Brazilian market.

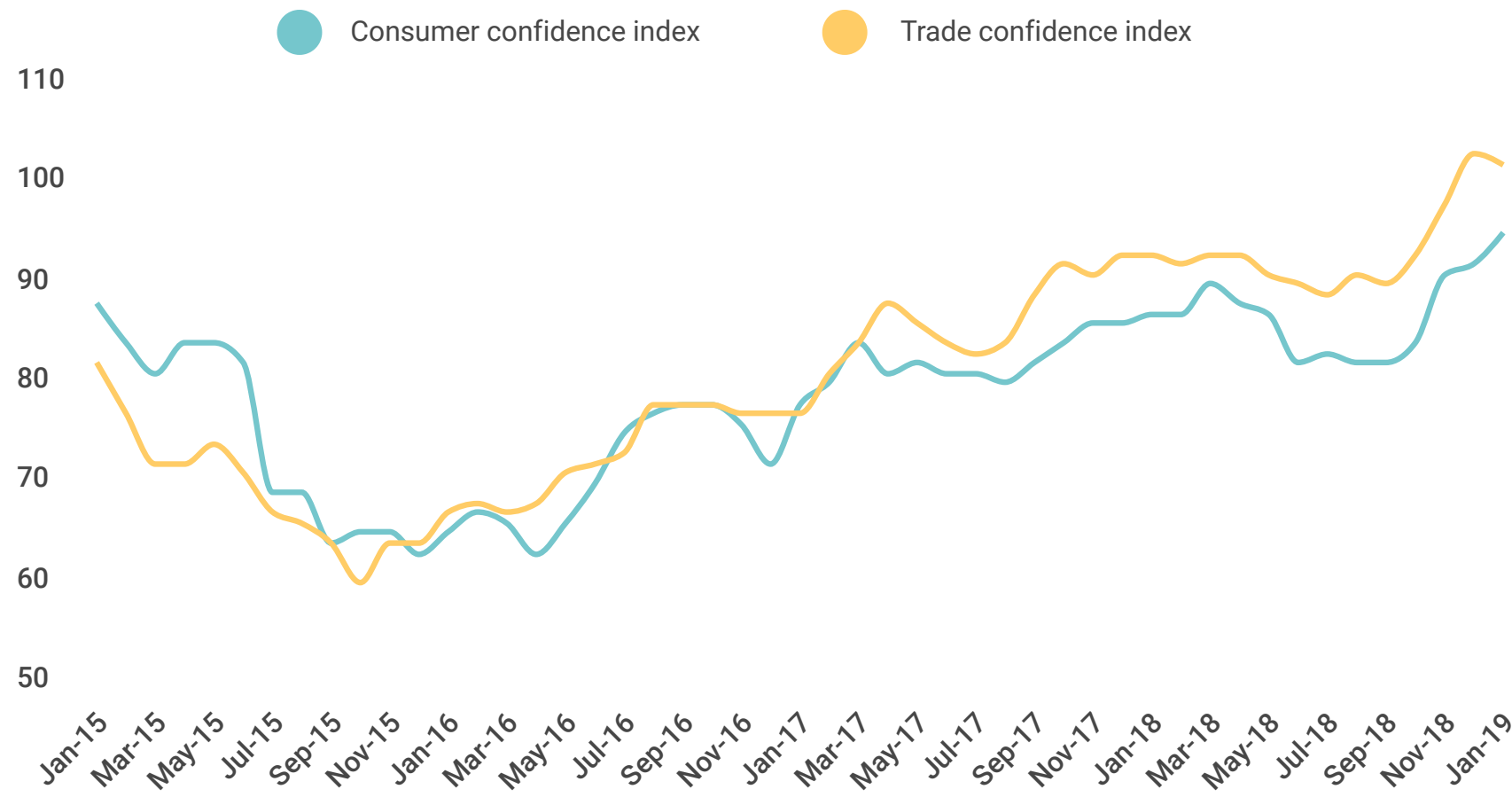
The National Confederation of Commerce (CNC) forecasts 5.6% growth in extended retail sales for 2019, and 3.0% in restricted retail. As economic activity picks up pace, the effects of family consumption on Brazil’s GDP will spur this uptrend in retail sales.

With many assets available on the market that is still consolidating, and with rising needs for management model modernisation in order to keep pace with new consumption trends, Brazil’s retail sector will benefit greatly from the interest of the private equity industry in this sector.

Amount of retail investment and divestment in Brazil FY13–FY18 (R\$ billion)



Confidence Index



Main retail public transactions in Brazil 2018– 2019

PE/VC	Investors	Type	Value (R\$ million)	Target company
PE	Advent International	Investment	1,900	Walmart Brasil
PE	Starboard	Investment	250	Máquina de vendas (Ricardo Eletro)
PE	H.I.G Capital	Investment	16.1	Elekeiroz
PE	Vinci Partners	Divestment	Undisclosed	Inbrands
PE	DXA Investimentos	Divestment	Undisclosed	Zee dog
PE	Axxon Group	Investment	Undisclosed	Westwing
PE	Partners Group	Investment	Undisclosed	Hortifruti
PE	DXA Investimentos	Divestment	Undisclosed	Zee dog
PE	Axxon Group	Investment	Undisclosed	Westwing
PE	Partners Group	Investment	Undisclosed	Hortifruti

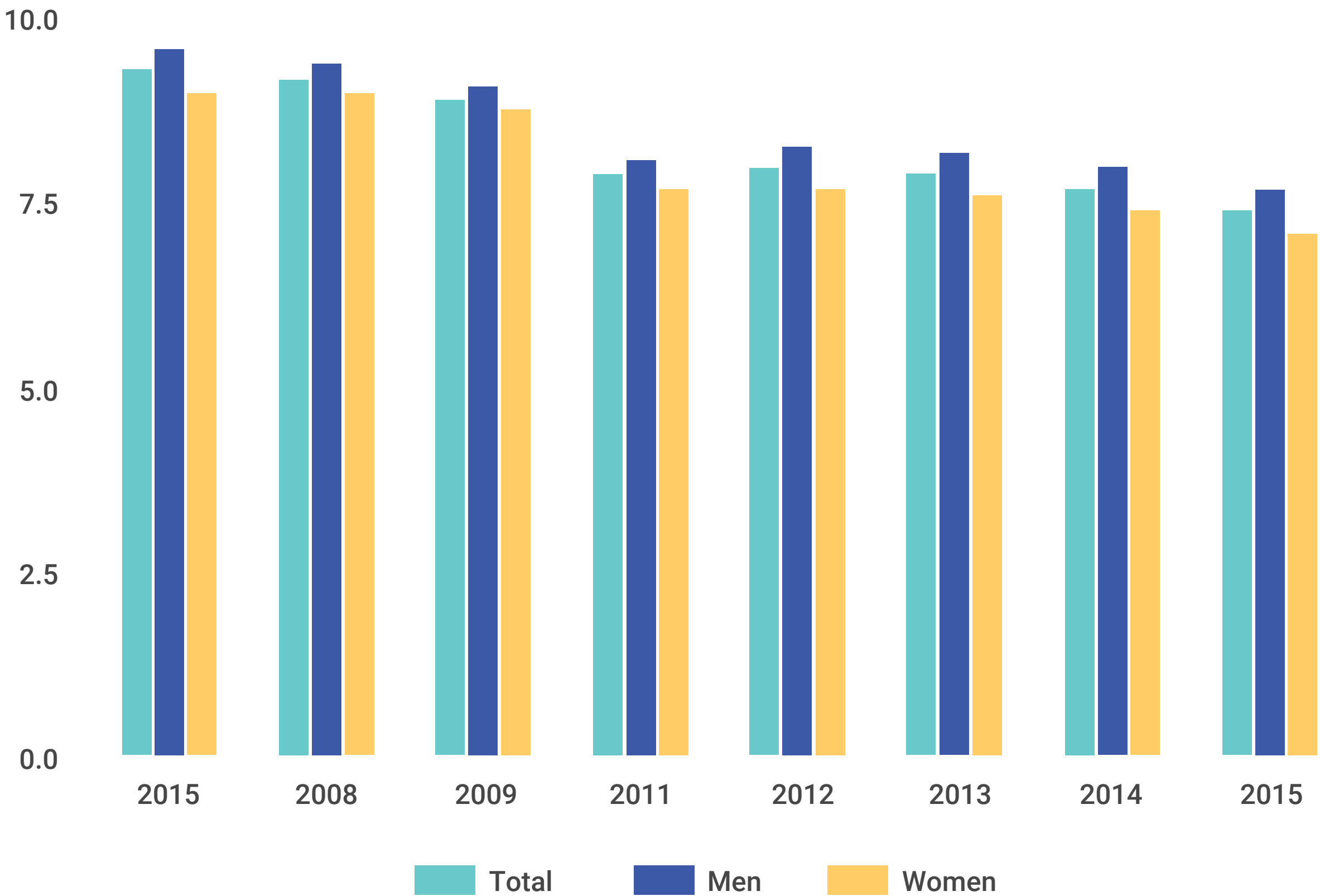
PE/VC	Investors	Type	Value (R\$ million)	Target company
VC	Foundation Capital	Investment	26.4	Grabr
VC	Monashees Capital; Canary	Investment	19	Volanty
VC	Valiant Capital	Investment	15	Gaveteiro
VC	Red Point E.ventures; Bossa Nova nvestimentos	Investment	Undisclosed	Repassa
VC	Red Point E.ventures; Bossa Nova nvestimentos	Investment	Undisclosed	Repassa

3.2 Education—  
Although illiteracy has been shrinking during the past few years, the education sector still needs reforms.

Among the main issues some stand out: seven of ten students graduate at high school with insufficient knowledge in portuguese and mathematics and only 4% of Brazilian counties achieved high school average grade of 4,7 (in a 0 to 10 scale), according to IEDE (Basic Education Development Index) data of 2017.

Another major problem is dropping out of high school, prompted partly by young people’s need to enter the job market and partly by Brazil’s hidebound education system, with little technology, ramshackle infrastructure, limited autonomy and ill-paid teachers, resulting from poor management and tangled red tape.

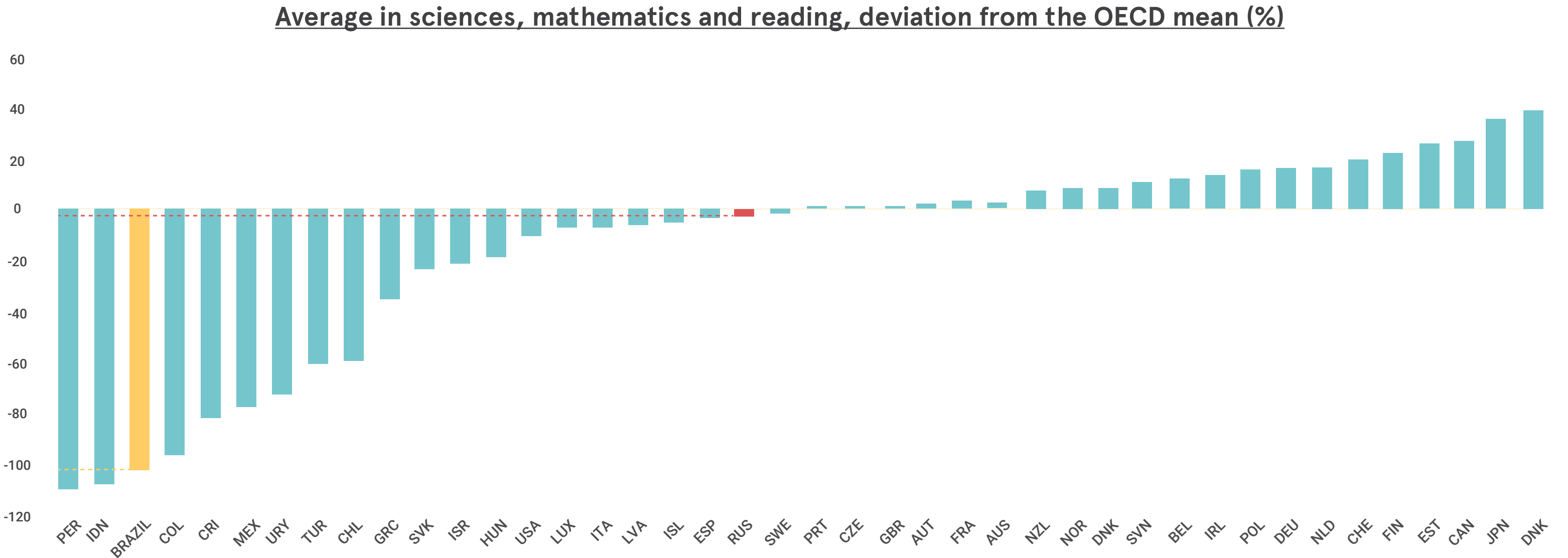
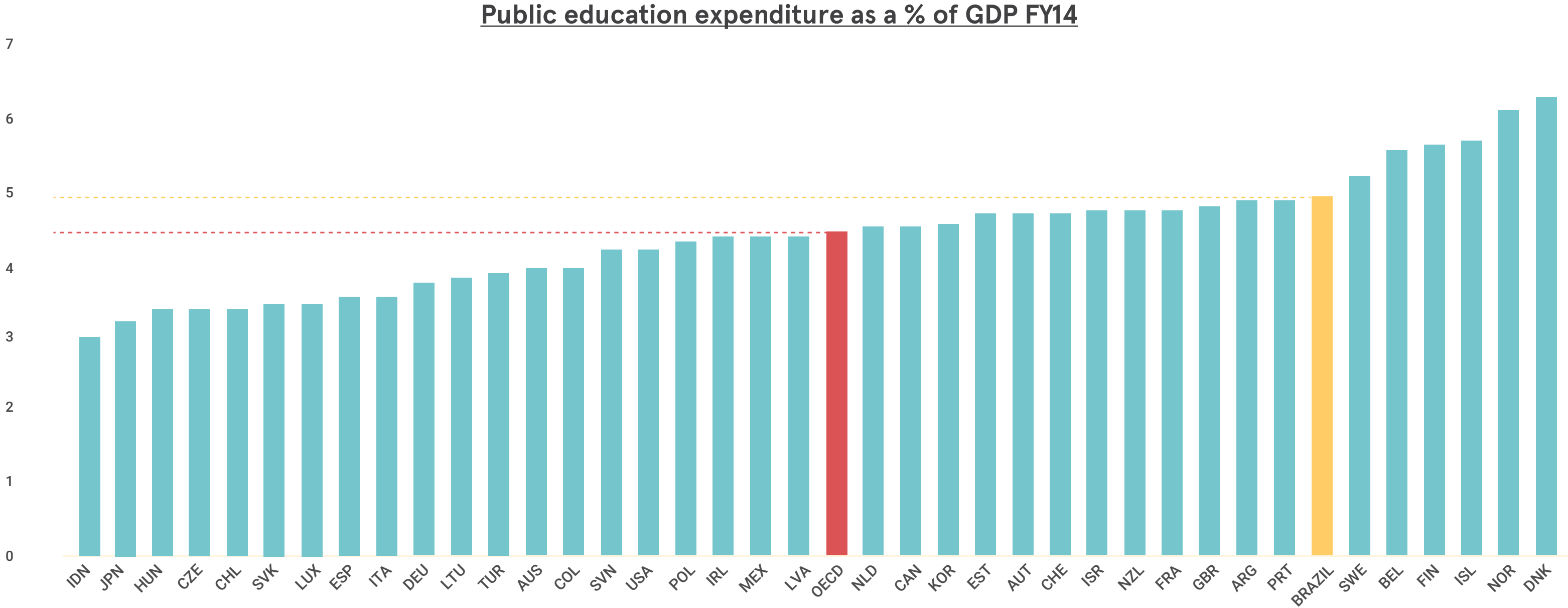
Illiteracy rate of the Brazilian population aged 10 years and over FY07–FY15 (%)



3.2 Education—  
Private investments could fill  
some gaps, such as poor use of  
public funding and investments  
in professional training and  
qualification, together with  
infrastructure maintenance.

Despite above-average government spending on education, compared to other countries in Latin America and the Organisation for Economic Cooperation and Development (OECD), nations investing less per student outperform Brazil in the Programme for International Student Assessment (PISA) tests run by the OECD.

Achieving best spending efficiency is key to solve some of Brazilian main problems, such as low learning, school dropout and poor training of teachers, that could be improved by an increase of volume invested, specially if focused to the development of scalable solutions.





3.2 Education—  
In this context, edtechs are on the rise in Brazil and can help greatly in the education system while cutting costs and introducing technologies that enhance the efficiency of education business management, while also proposing formats that are more modern and interesting to students.

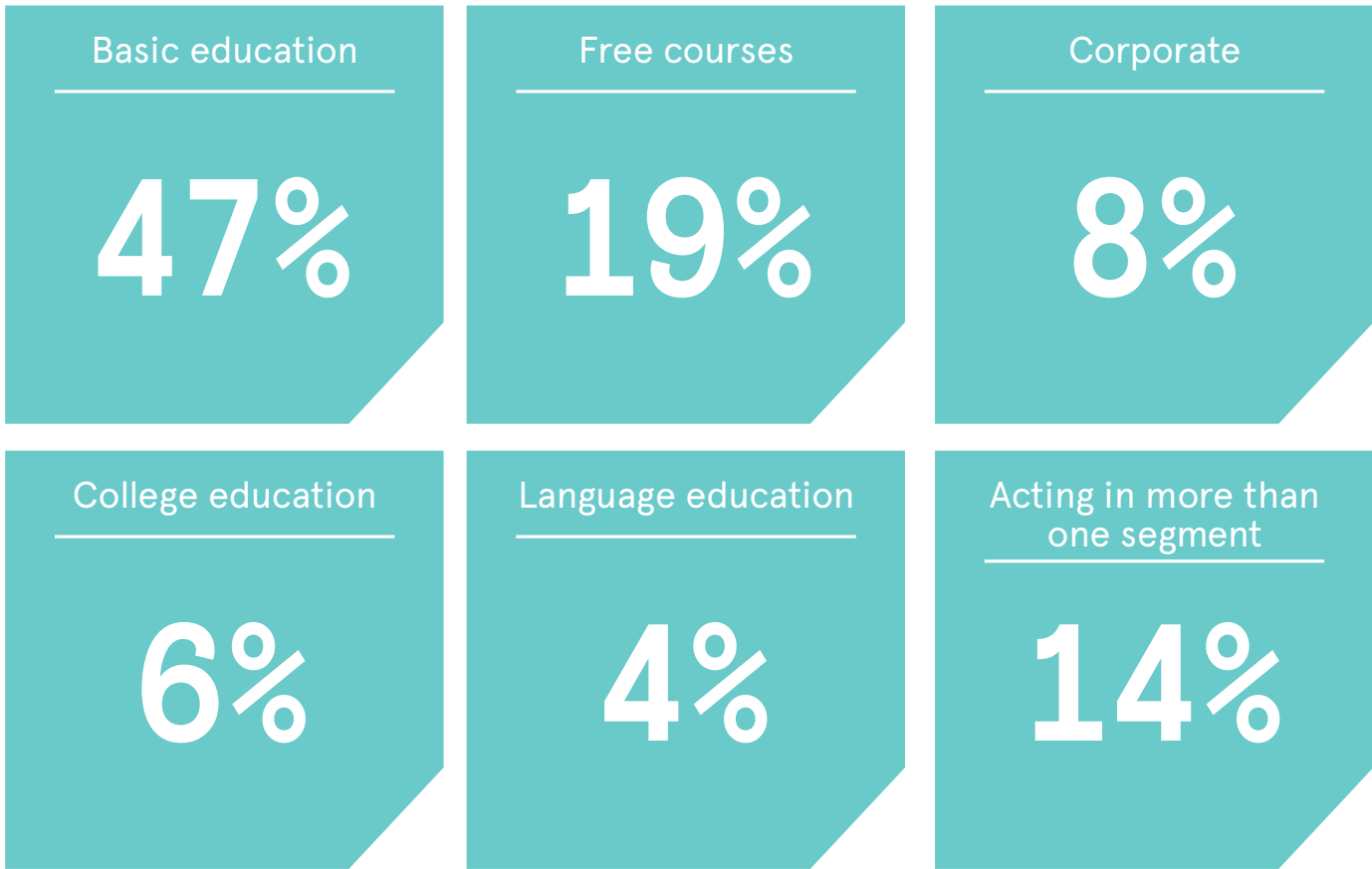
In addition to private education groups that have been consolidating colleges and schools nationwide, edtechs are expanding their scope in this context. In 2018, there were 364 of them mapped nationwide: 73% of Brazilian States have at least three and only one State has no initiatives of this type at all; 70% work with the Software as a Service (SAAS) model.

Targeted for investment by General Atlantic, in 2018 Arco became Brazil’s first education start-up to go public on Nasdaq, raising some R\$ 800 million.

With investments in Brazil’s education sector topping R\$ 1.5 billion in 2018, its elementary education market still offers many opportunities to private equity groups. Still very fragmented, this sector nevertheless posted throughflows of R\$ 60 billion.

inBrazil

Edtechs in Brazil



Brazilian Edtechs expertise

Content production	61.6%
Data collection and processes	18.9%
Data monitoring and management	4.9%
Content sale and distribution	4.7%
Virtual and augmented realities	1.9%
Coaching and carreer planning	1.6%
Communication and interaction tools	1.4%
Hardware and devices	0.8%
Didatic and classes planning	0.8%
Exams	0.8%
Development of pratical abilities	0.5%
Adaptive teaching	0.5%

MAIN PUBLIC EDUCATION DEALS IN BRAZIL FY18

YEAR	MODALITY	INVESTOR(S)	TYPE	VALUES (R\$ MILLION)	TARGET COMPANY	SECTOR
2018	PE	Tarpon Investimentos	Divestment	4,100.0	Somos Educação	Education
2018	PE	GIC	Divestment	1,730.0	Somos Educação	Education
2018	PE	Carlyle; Vinci Partners	Divestment	380.0	Uniasselvi	Education
2018	PE	Neuberger Berman	Investment	380.0	Uniasselvi (Treviso)	Education
2018	PE	Advent International	Investment	355.0	Estácio	Education
2018	PE	Advent International	Divestment	300.0	Faculdade Serra Gaúcha	Education
2019	PE	Kinea Investimentos	Investment	200.0	Wiser	Education
2018	PE	Invus Opportunities	Investment	54.0	Descomplica	Ed Tech
2018	PE	H.I.G. Capital	Investment	20.0	Cel.Lep	Education
2019	PE	Invest Tech	Investment	Undisclosed	ClipEscola	Ed Tech
2018	PE	Crescera Investimentos (Ex-Bozano)	Investment	Undisclosed	UninovaFapi	Education
2018	PE	Kinea Investimentos	Investment	Undisclosed	Grupo A	Education
YEAR	MODALITY	INVESTOR(S)	TYPE	VALUES (R\$ MILLION)	TARGET COMPANY	SECTOR
2018	VC	Invus Opportunities	Investment	54.0	Descomplica	Ed Tech
2019	VC	Elephant Ventures; Peak Ventures	Investment	16.0	Mosyle	Ed Tech
2019	Corporate	Google AI Impact Challenge	Investment	3.0	Hand Talk	Ed Tech
2018	VC	Domo Invest	Investment	3.0	Agenda Edu/ Agenda Kids	Ed Tech
2018	VC	Inseed Investments	Investment	2.6	Playmove	Ed Tech
2018	VC	Kviv Ventures; Bossa Nova Investments	Investment	2.5	Hand Talk	Education
2018	VC	Cedro Capital	Investment	2.0	Escola em Movimento	Education
2019	VC	MSW Capital	Investment	0.8	Voa Educação	Ed Tech
2019	VC	Diversos Gestores	Investment	0.2	Jovens Gênios	Ed Tech
2019	Corporate	Samsung Creative Startups	Investment	0.2	Olivas	Ed Tech
2019	Corporate	Starter Acceleration Program (EDP)	Investment	( - )	Já Entendi	Ed Tech
2019	Impact	Yunus Negócios Sociais	Investment	( - )	4You2	Ed Tech
2018	VC	Cedro Capital	Investment	( - )	Kanttum	Ed Tech
2018	Impact	Vox Capital; E.bricks Early Stage	Investment	( - )	Editora Sanar	Ed Tech
2018	VC	Garan Ventures	Investment	( - )	Estuda.com	Ed Tech
2018	Impact	Omidyar Network	Investment	( - )	Agenda Edu/ Agenda Kids	Ed Tech
2018	VC	FCP Innovacion; Ameris; Small Giants	Investment	( - )	TriCiclos	Education

Source: ABStartups; ABVCAP



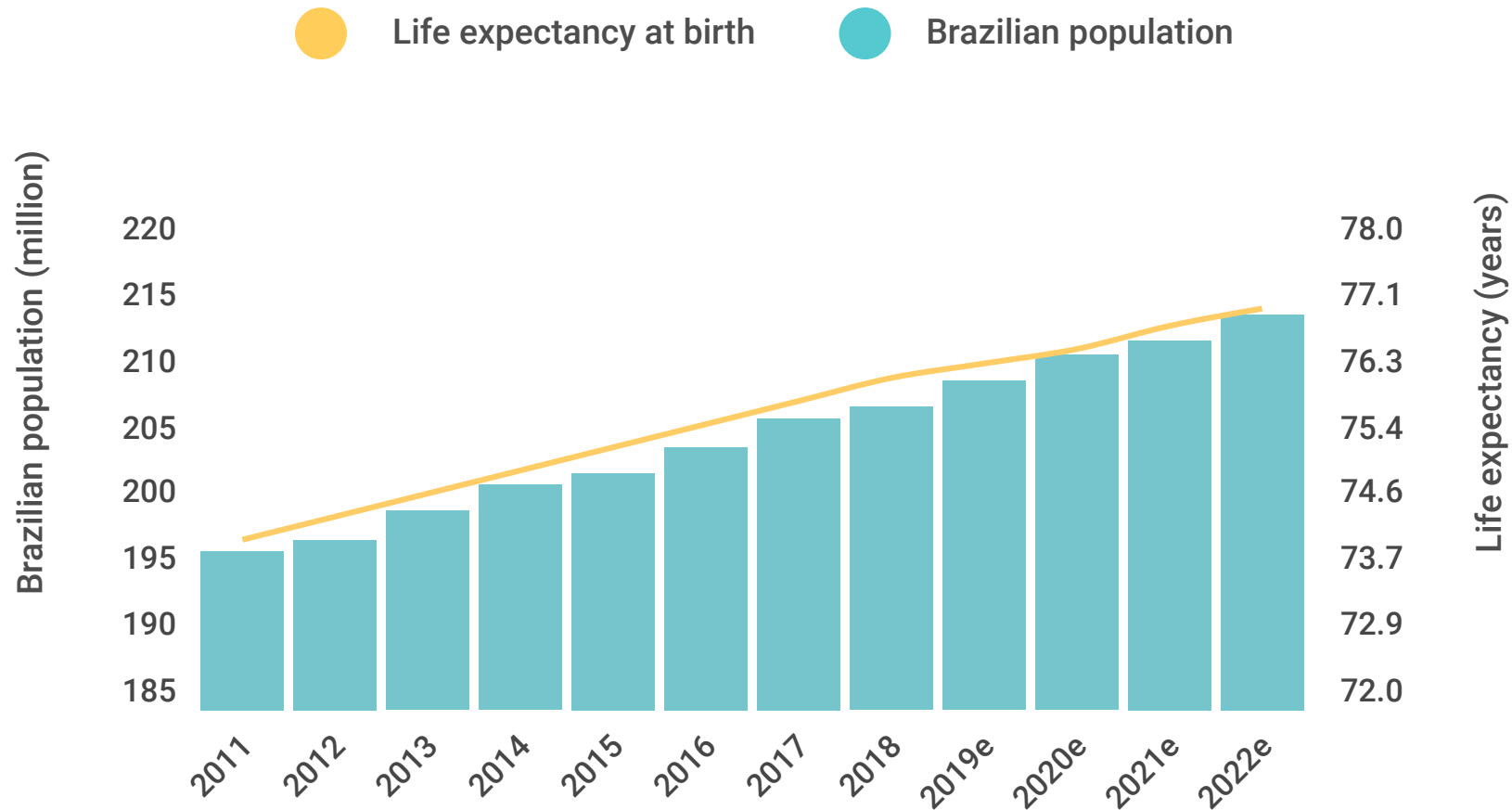
3.3 Healthcare—  
As its population ages at a fairly rapid rate, public investments are not keeping pace with the needs of Brazil’s healthcare system.

The number of elderly Brazilians will increase by an average of 2.7% a year through to 2060, far outstripping the average growth of the general population (0.2%). By 2030, it is estimated that seniors will exceed the number of children between 0 and 14 years of age. As people get older, risks of disease rise significantly, with an estimated half of the population over 65 years old having at least one chronic disease.

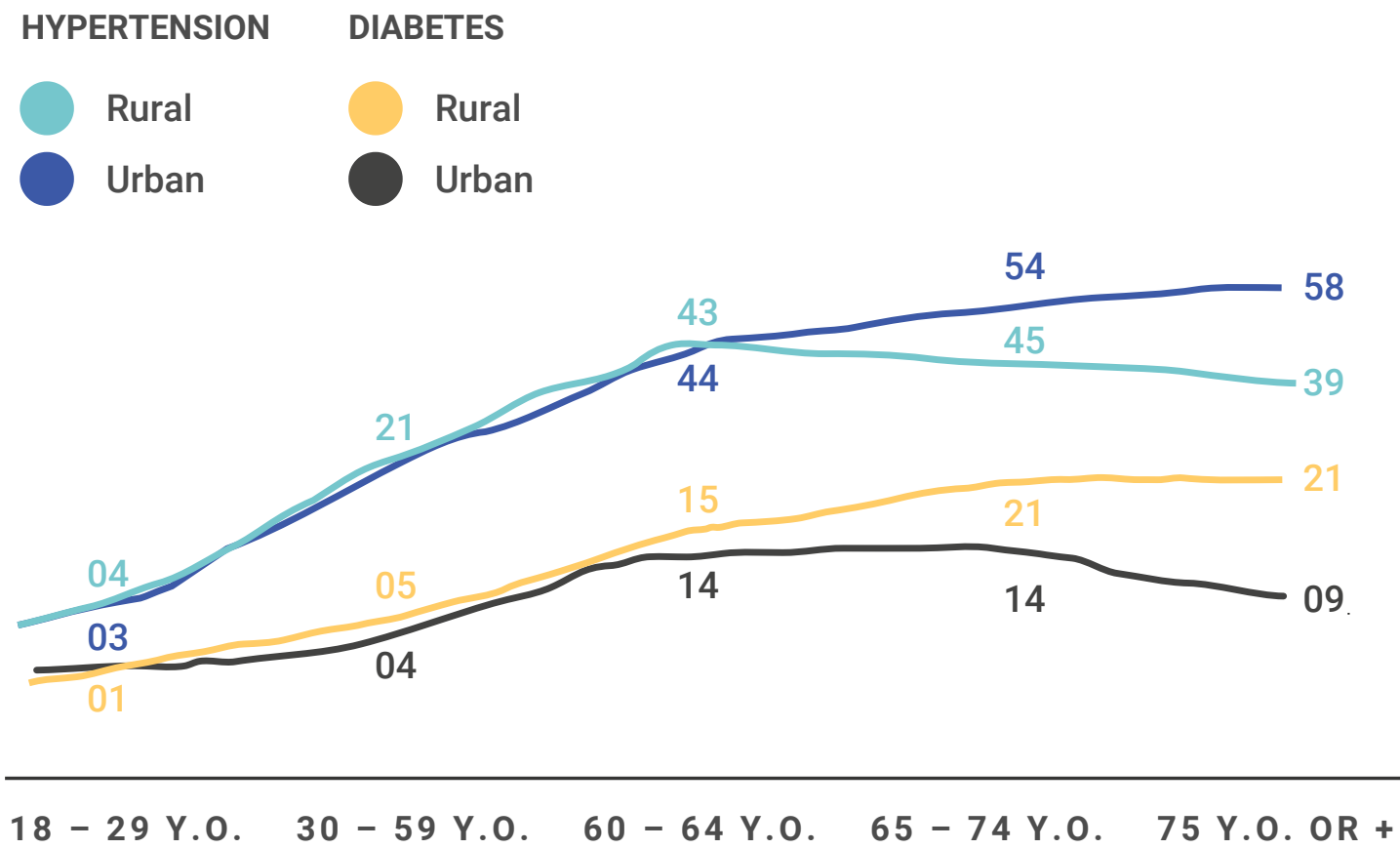
Total outlays on healthcare currently account for some 8% of Brazil’s GDP with 4.4% being private (55% of the total) and 3.8% public (45% of the total), according to data released by the World Bank. Despite its universal healthcare system, expenditures differ from those in the more developed countries with similar systems, such as the UK and Sweden, where government spending is higher.

A study published in 2018 by the Revista Pan-Americana de Saúde Pública journal calculated that Brazil could reach its target of investing 6% of its GDP in the government spending on healthcare in only 2064, with its current economic growth forecast.

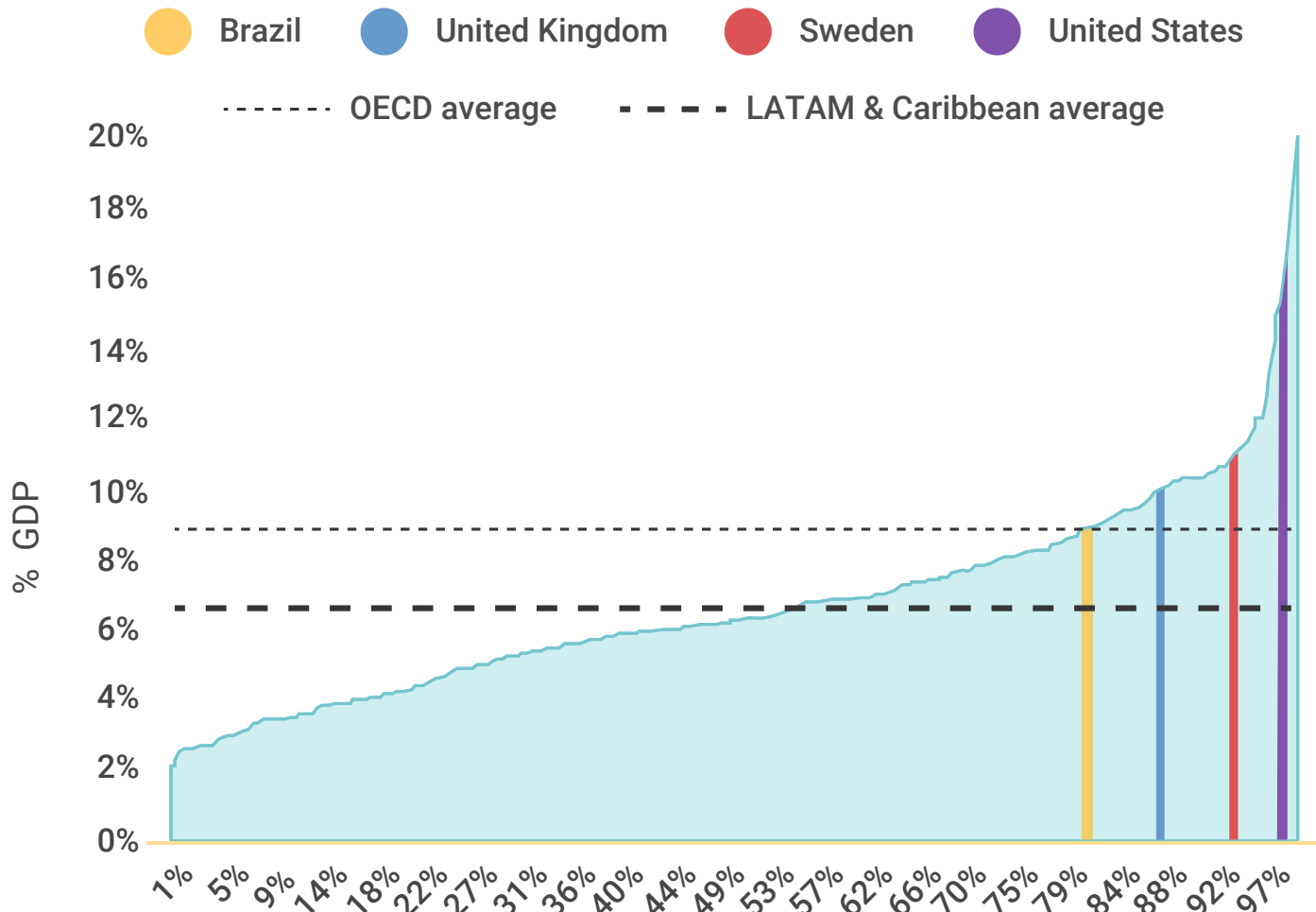
Brazilian population projection and life expectancy at birth FY11-FY22e



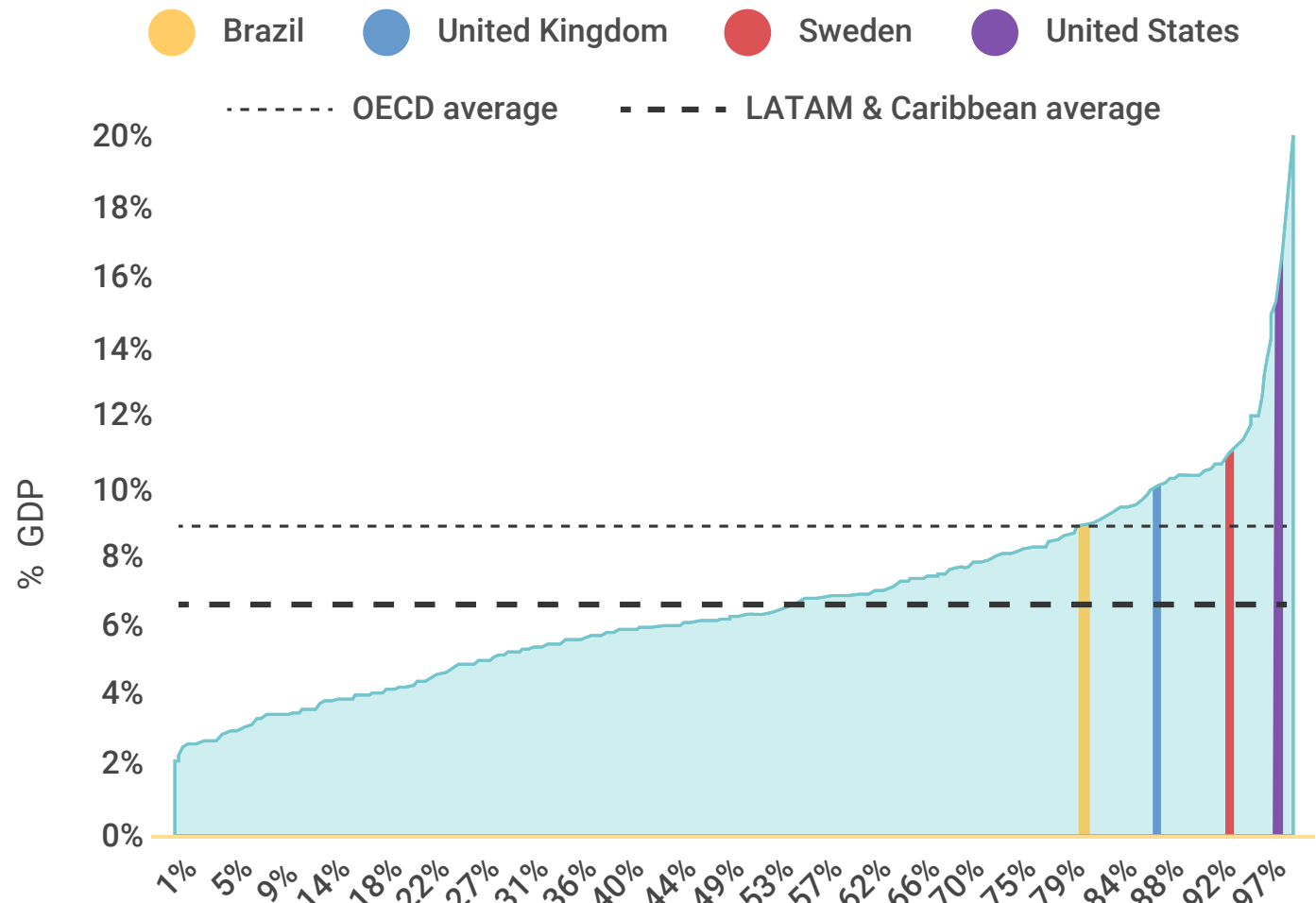
% population diagnosed with diabetes and hypertension 2013



Total public healthcare expense (% of GDP)



Total healthcare expense (% of GDP)

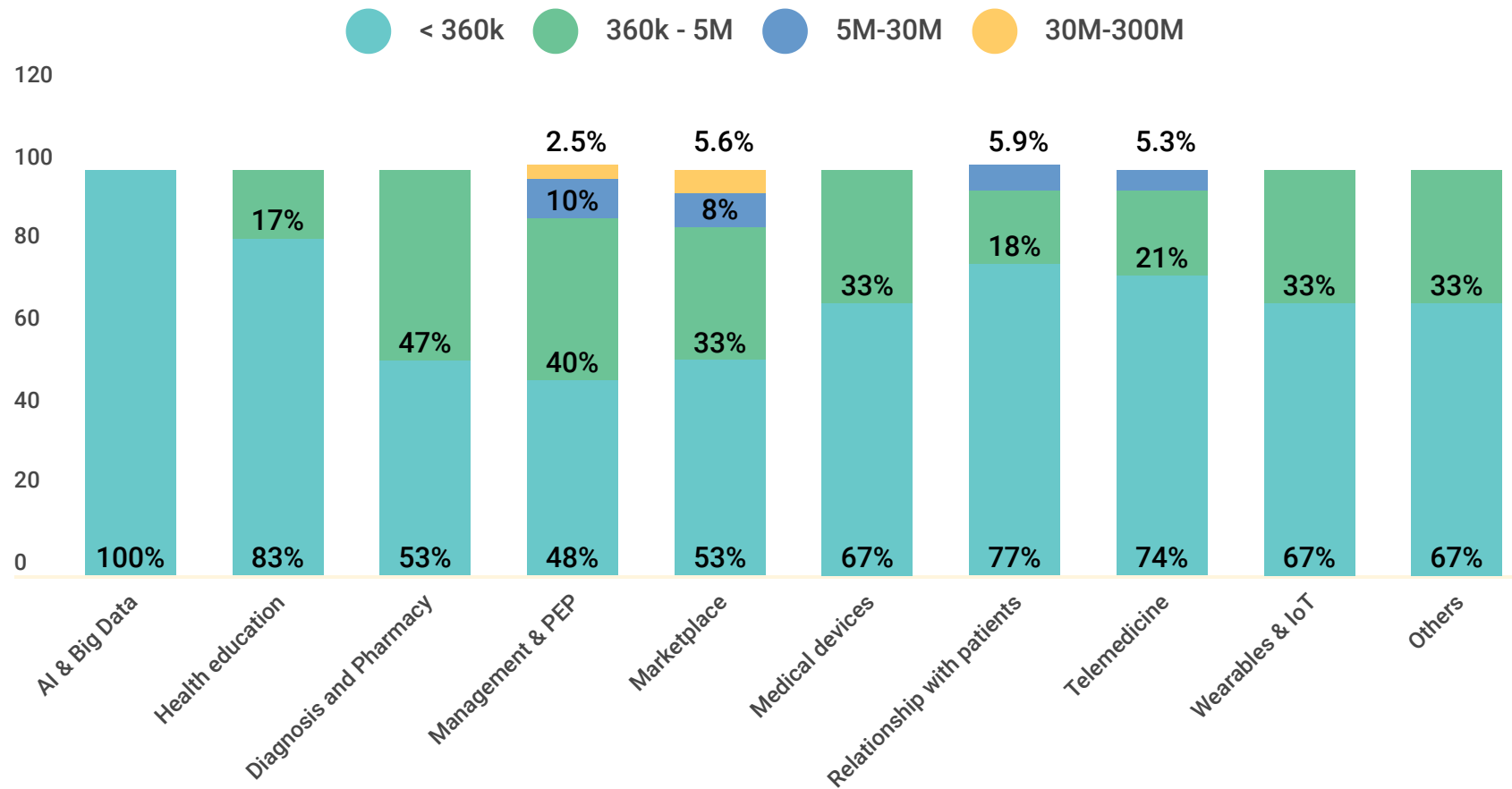


3.3 Healthcare–  
Healthcare administration  
problems – particularly in  
Brazil’s national health network  
that clusters 75% of users  
– offer fertile ground for  
healthtechs providing disruptive  
solutions that are aligned with  
global trends.

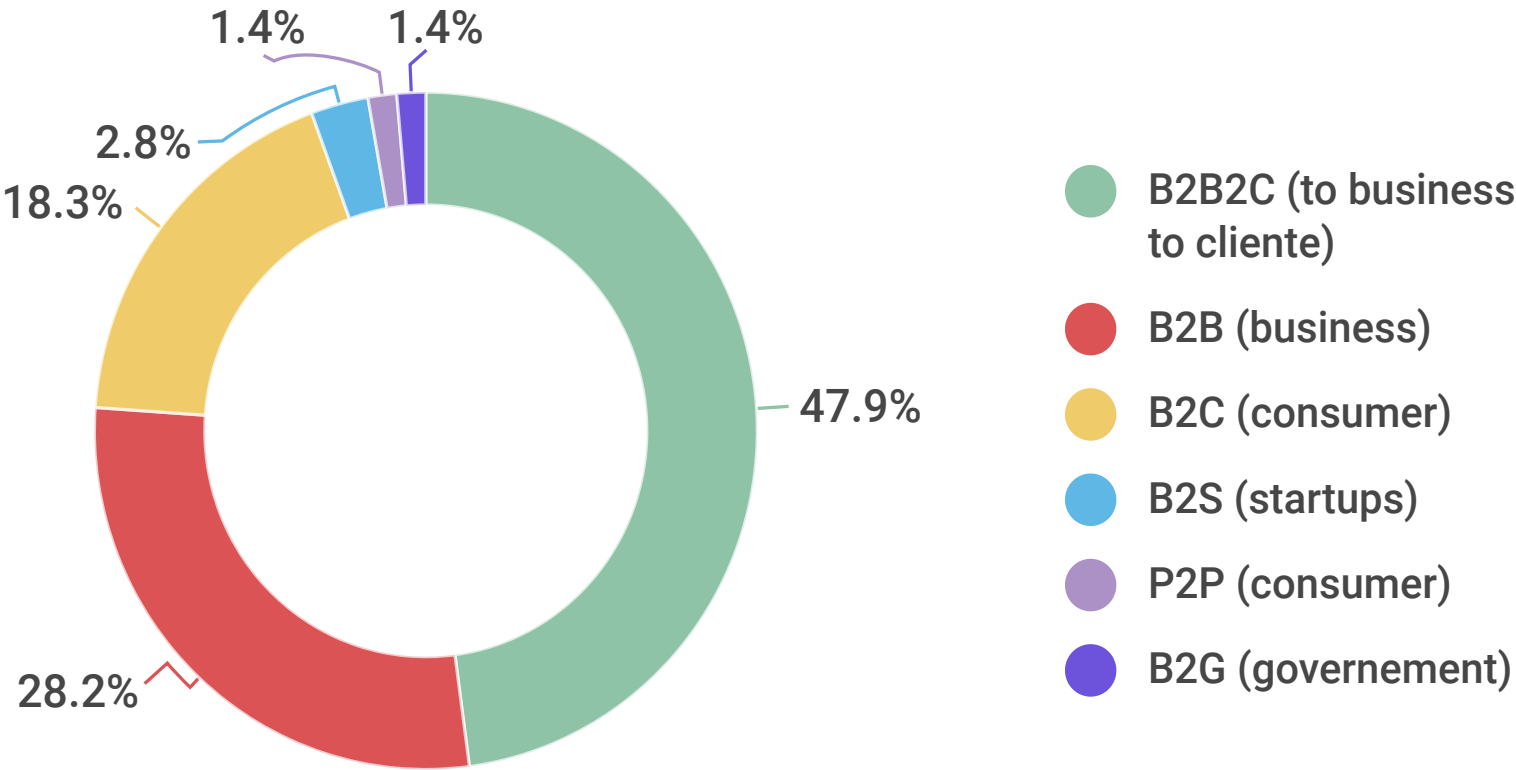
In 2018, Brazil’s healthcare sector posted R\$ 3.5 billion in investments and divestments. One of the most significant deals in this sector was the sale of part of its Intermédica stake by Bain Capital, with an almost sixfold increase in the capital invested in this healthcare operator in under four years.

Selling off some of its shares through an IPO in April at a price 58% higher than eight months earlier, this US private equity manager has already pocketed more than double its invested capital.

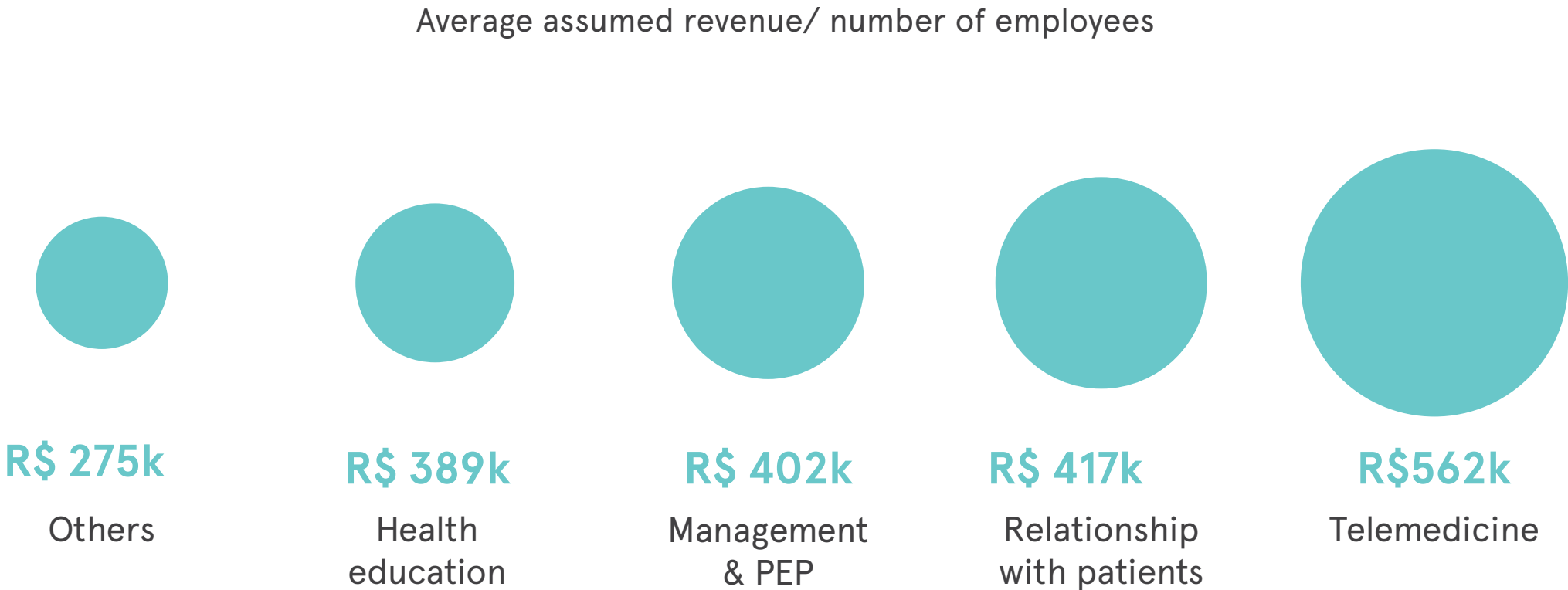
Presumed revenues comparison between categories



Target audience of Brazilian healthtechs



Sectors scalability



3.3 Healthcare—  
The health sector is among the most benefited by technology development, aiming to promote the well-being and increase of people’s quality of life.

Creative Startups, Samsung’s startup acceleration program in partnership with the National Association of Innovative Enterprises Promoting Entities (Anprotec) and the Korean Center for Creative Economy and Innovation (CCEI), selected some healthtechs to receive investment of up to US\$ 200 thousand for product and service development.

Wheelchair expression control, children’s language stimulation and seizure monitoring were some of the solutions chosen for the 4th round of acceleration of the program, held in Brazil in 2019.

Epistemic, for example, one of the startups contemplated by the project has created an app for managing epilepsy seizures, in which patients can record it, possible triggers and symptoms that can be analyzed in detailed reports by their doctors, increasing their well-being, helping to control a disorder that already affects more than 60 million people worldwide.

MAIN PUBLIC HEALTHCARE DEALS IN BRAZIL FY18

YEAR	MODALITY	MANAGERS	TYPE	VALUES (MILLION)	TARGET COMPANY	SECTOR
2018	VC	Temasek	Investment	R\$ 95.0	Bionexo	Health Tech
2019	VC	DNA Capital	Investment	R\$ 20.0	Feegow	Health Tech
2018	VC	Discovery Capital; Btov	Investment	R\$ 19.0	Vitta	Health
2018	VC	Monashees Capital; Qualcomm Ventures	Investment	R\$ 14.7	Hi Technologies	Health Tech
2019	VC	Fundo Miletus	Investment	US\$ 5.0	Braincare	Health Tech
2019	Impact	Kviv Ventures	Investment	R\$ 5.0	Nutrebem	Health
2019	VC	Indico Capital Partners	Investment	R\$ 2.0	Zenklub	Health Tech
2019	Corporate	Libbs Farmacêutica (Portas Abertas)	Investment	US\$ 1.0	Pluricell	Health Tech
2019	Corporate	Samsung Creative Startups	Investment	R\$ 0.2	Epistemic	Health Tech
2019	Corporate	Samsung Creative Startups	Investment	R\$ 0.2	Keep Smiling	Health Tech
2019	Corporate	Samsung Creative Startups	Investment	R\$ 0.2	Alltism	Health Tech
2019	Corporate	Samsung Creative Startups	Investment	R\$ 0.2	Realvm	Health Tech
2018	Impact	Vox Capital	DesInvestment	( - )	TEM	Health
2018	VC	Canary	Investment	( - )	Go Good	Health
2018	VC	Kick Ventures	Investment	( - )	Anestech	Health
2018	VC	Red Point E.ventures; Endeavor Catalyst	Investment	( - )	Gesto	Health
2018	VC	Cedro Capital	Investment	( - )	Imedicina	Health Tech
YEAR	MODALITY	FUND MANAGER (S)	TYPE	VALUE (BILLION)	COMPANY	SECTOR
2019	PE	Starboard	Investment	R\$ 150.0	Agemed	Healthcare
2019	PE	Kinea Investments	Investment	R\$ 150.0	Centro Clínico Gaúcho (CCG)	Healthcare



3.4 Fintech—  
Brazilian fintechs are revolutionizing the payments market, creating lower-cost smart solutions for a segment that is packed with traditional banks.

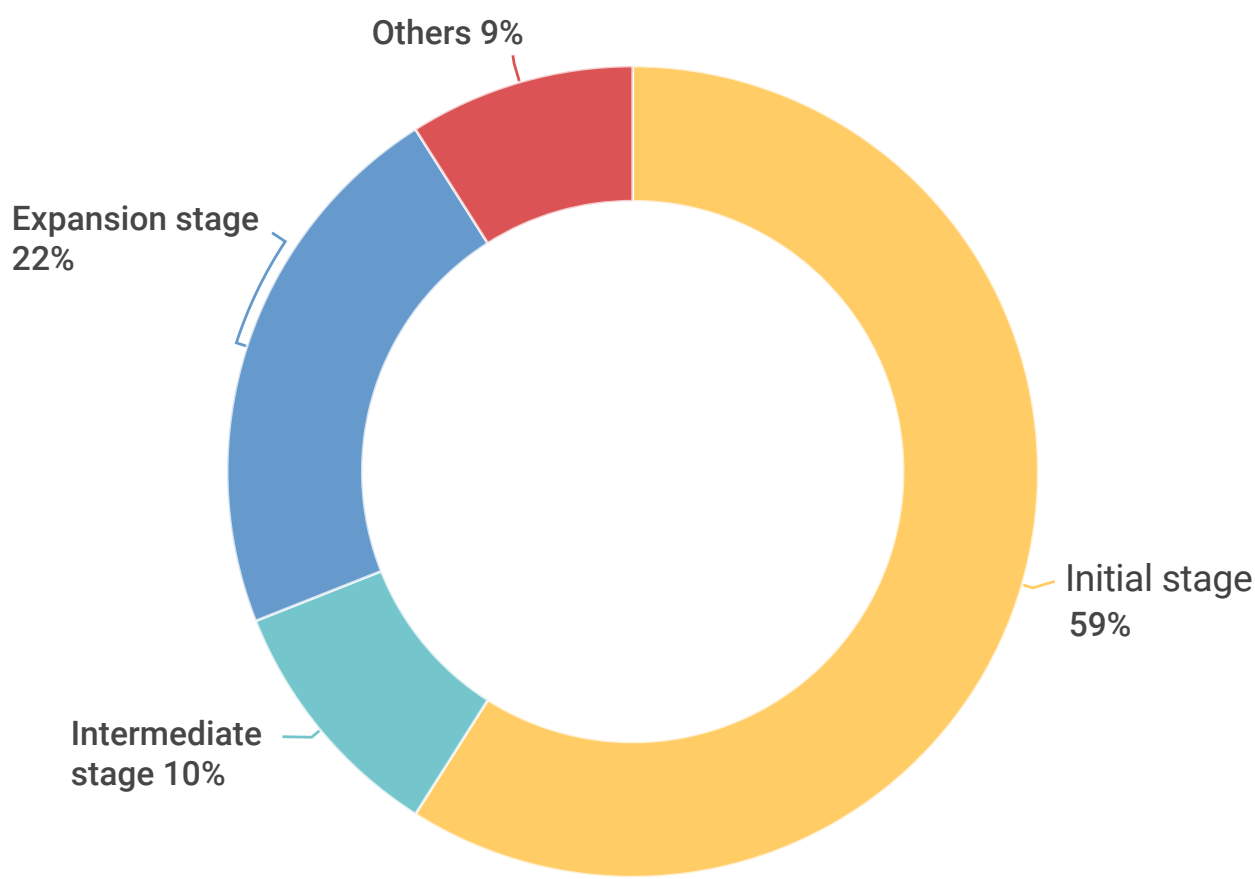
Brazilian fintechs are playing a leading role through creating solutions that are reshaping the future for companies and consumers. Regulatory changes are spurring competition, with the arrival of new players stirring up this industry.

A heavyweight banking sector opens up many opportunities for newcomers in Brazil, introducing innovative technologies and operating independently of traditional financial institutions. With lower costs and more flexibility, fintechs can pass these benefits onto their users. It is believed that, by 2020, fintechs may well take over more than 20% of transactions that are currently handled by financial institutions all over the world.

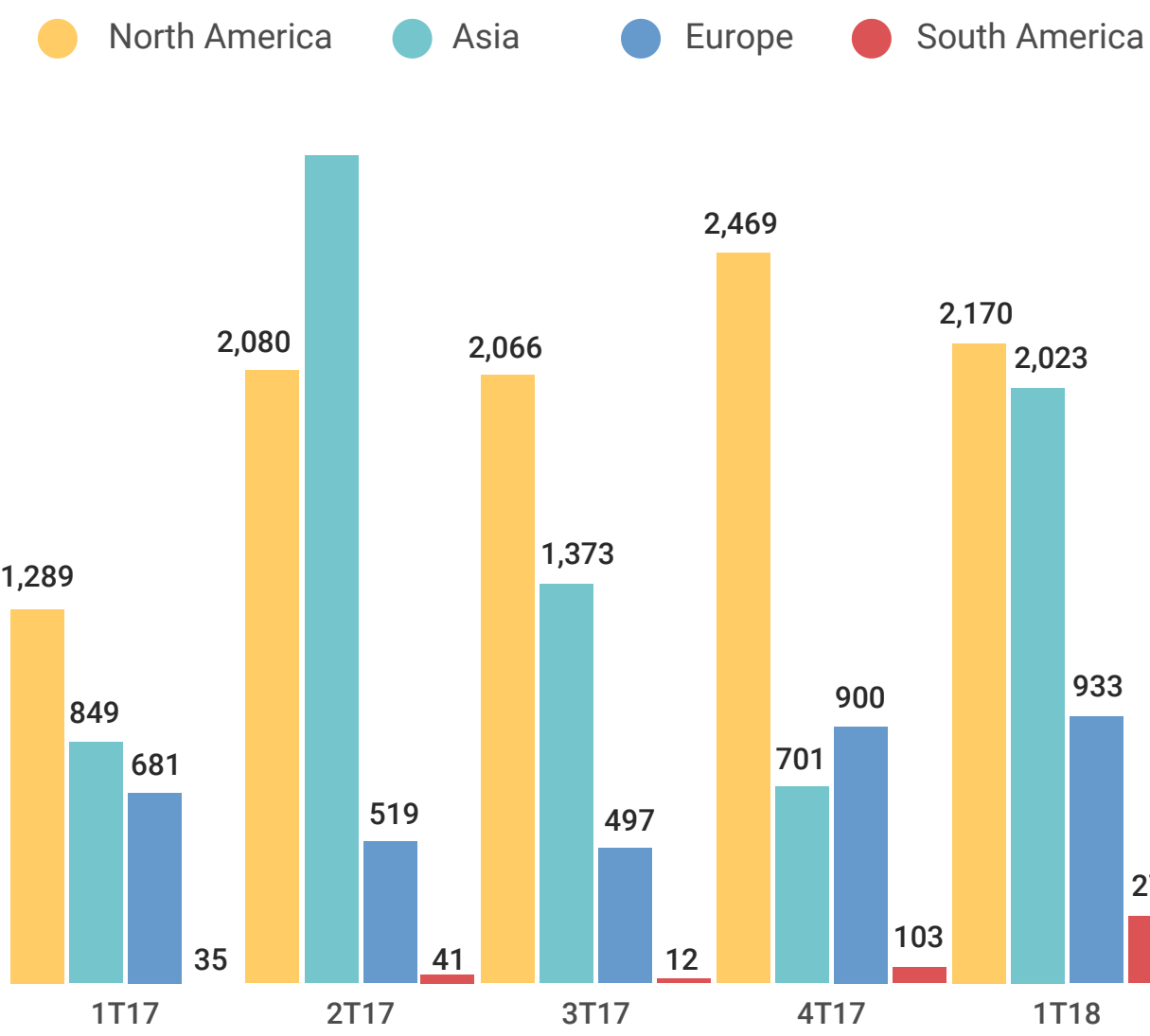
In 2013, the Brazilian Government promulgated Law N° 12,865, authorizing the Brazilian Central Bank to serve as a regulator. At the same time, a new regulatory framework was issued, introducing the concept of payment accounts and arrangements.

These new regulations are intended to create competition through non-discriminatory treatment of participants, in addition to a focus on protecting merchants, offering them a free choice of institutions for depositing funds and the mechanisms designed to protect their receivables.

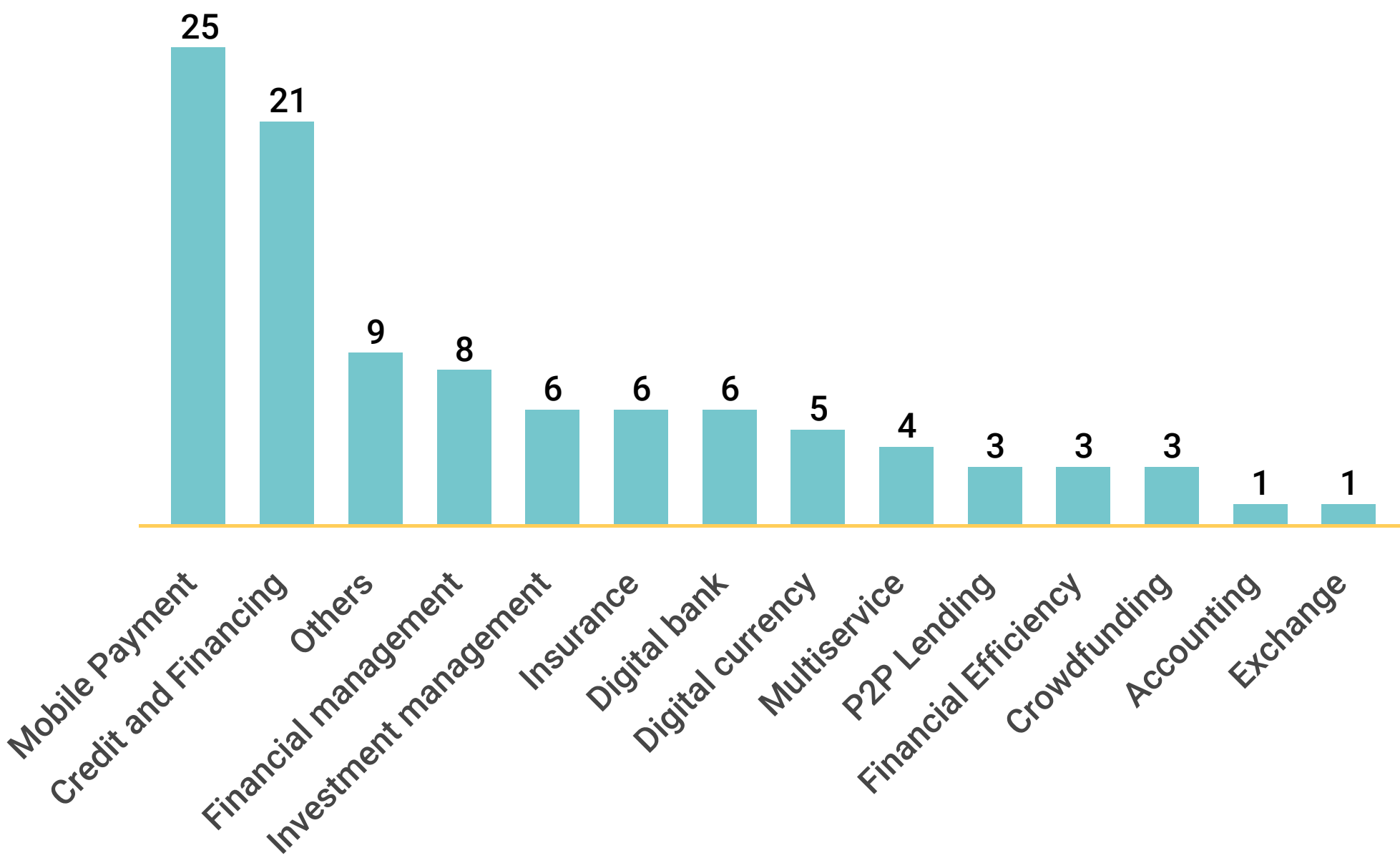
Fintech investment percentage by stage of business 4T17



Fintech investments in venture capital by continent 1T17–1T18 (US\$ million)



Main segments of Brazilian fintechs FY18 (%)



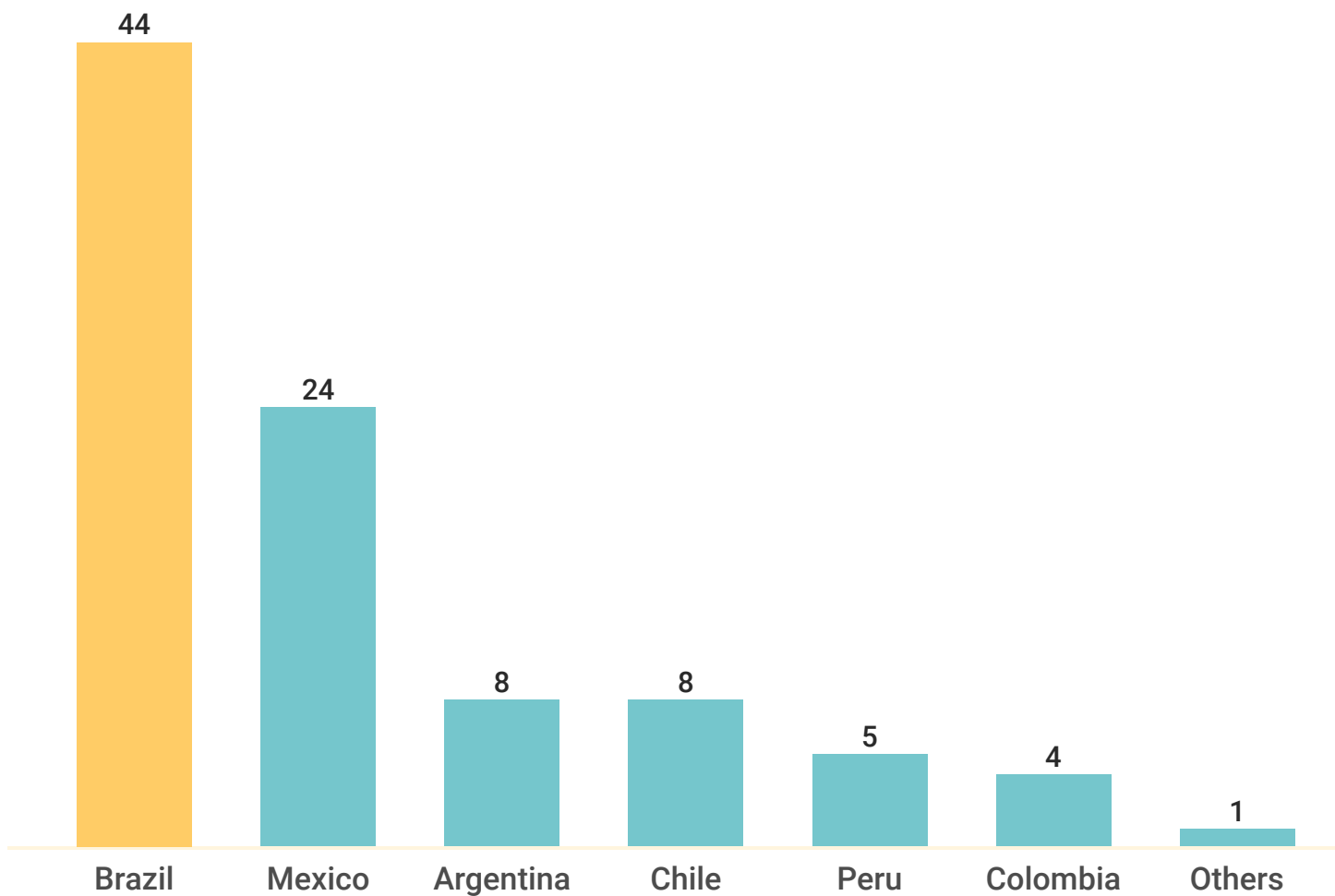
3.4 Fintech–  
With Brazil heading up fintech investments in Latin America, solutions based on loans and payments platforms are still attracting the most attention from investors.

Fintech is the N° 1 for venture capital investments in Latin America, with US\$ 540 million invested in 94 transactions between 2017 and mid-2018. During the first half of 2018, Brazil continued to head up the fintech sector in Latin America, with Nubank’s US\$ 150 million outstripping many other fintech investments in the region. Although an outlier in terms of business size, the Nubank deal spotlights the rising interest of VC investors in Brazil, viewed as a fintech innovation epicentre in Latin America.

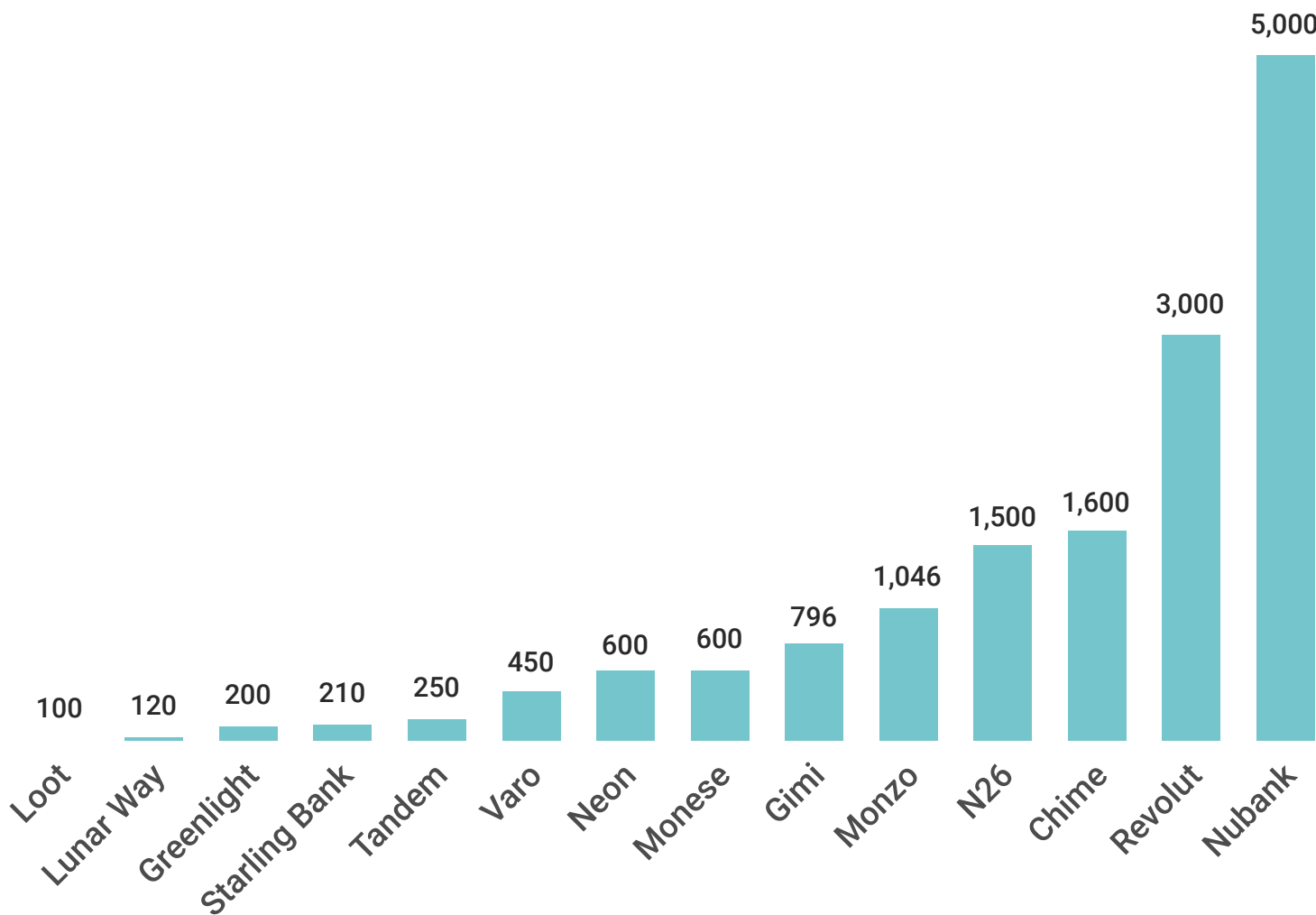
Loans and payments platforms continue to dominate investor interests in Brazil and – more broadly – in Latin America.

A recent KPMG report indicated that investments in financial start-ups peaked last year at a record US\$ 111.8 billion, compared to US\$ 50.8 billion entering this sector in 2017. The study credits much of these results to mergers and acquisitions.

Number of investments in fintechs in LATAM FY17–1H18



Users of main fintechs worldwide FY18 (thousand)





3.4 Fintech—  
Deals involving Nubank,  
PagSeguro and Stone, among  
others, ranked Brazil as one of  
the major markets worldwide,  
as technology endows fintech  
businesses with a global reach.

New players, particularly fintechs, are bridging the gap left by traditional financial institutions and contributing to financial inclusion. There is a rising trend in foreign investments among Brazilian fintechs, with China’s TenCent investing listing US\$ 180 million in Nubank.

In October 2018, the Stone IPO drew shareholders that included Berkshire Hathaway, Warren Buffett, Gávea Investimentos and Alibaba Group subsidiary Ant Financial. At the start of the year, PagSeguro raised US\$ 2.3 billion through its IPO on the New York Stock Exchange.

MAIN FINTECH TRANSACTIONS IN BRAZIL FY18

YEAR	MODALITY	MANAGERS	TYPE	VALUES (MILLION)	TARGET COMPANY
2018	VC	DST Global; Red Point E.ventures	Investment	R\$ 495.0	Nubank
2019	VC	Softbank	Investment	US\$ 200.0	Creditas
2018	VC	Tecent	Investment	US\$ 200.0	Nubank
2018	VC	FTV Capital	Investment	R\$ 99.0	Ebanx
2019	VC	Point72 Ventures; IFC; Quona Capital	Investment	R\$ 75.0	Contabilizei
2018	VC	IFC; TheVentureCity; Ventech	Investment	R\$ 72.6	RecargaPay
2018	VC	Monashees Capital; Omidyar Network	Investment	R\$ 72.0	Banco Neon
2018	VC	Vostok Emerging Finance; Santander InnoVentures; Amadeus Capital Partners	Investment	R\$ 55.0	Creditas
2019	VC	Vostok Emerging Finance; Atlant Fonder; Dunross & Co	Investment	R\$ 42.0	Finanzero
2019	VC	Ribbit Capital; Kaszek Ventures; Chromo Invest	Investment	R\$ 25.0	Warren
2018	VC	Innova Capital	Investment	R\$ 22.0	Bom pra Crédito
2018	VC	Quona Capital; Monashees Capital	Investment	R\$ 20.0	Biz Capital
2018	VC	Movile	Investment	US\$ 18.3	Zoop
2018	VC	Vostok Emerging Finance; Monashees Capital	Investment	R\$ 17.0	Magnetis
2018	VC	IFC	Investment	R\$ 15.0	Koin
2018	VC	Chromo Invest	Investment	R\$ 15.0	Biz Capital
2018	VC	Prosegur Tech Ventures	Investment	R\$ 15.0	Concil
2018	VC	Vostok Emerging Finance	Investment	R\$ 12.0	Finanzero
2018	VC	E.bricks Early Stage	Investment	R\$ 10.0	F(x)
2018	VC	Monashees Capital; Canary; Mercado Livre	Investment	R\$ 9.0	IDWall
2019	VC	Yellow Ventures; Osher Tech; DGF Investments; 42K Investments; Chromo Invest	Investment	R\$ 8.0	Adianta
2019	Impact	Vox Capital	Investment	R\$ 6.0	Celcoin
2019	VC	Monashees Capital; Mindset Ventures; Banco Votorantim	Investment	US\$ 6.0	Weel
2018	VC	Valorem Financial	Investment	R\$ 6.0	Par Mais

## 4. CASE STUDIES

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## VENTURE CAPITAL

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Sector: Fintech



### NUBANK

Established in 2013, Nubank is a Brazilian start-up that is breaking fresh ground in the financial services segment, functioning as a credit card operator and digital bank with operations in Brazil.

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#### 1st ROUND

**Date:** July 5th, 2013

**Value:** US\$ 2 million

**Type of investment:** Seed round

**Participants:** Sequoia Capital and Kaszek Ventures.

#### 2nd ROUND

**Date:** September 25th, 2014

**Value:** US\$ 14,3 million

**Type of investment:** Series A

**Participants:** Sequoia Capital, Kaszek Ventures, Nicolas Berggruen, QED Investors and Gene Lockhart.

#### 3rd ROUND

**Date:** June 2nd, 2015

**Value:** US\$ 30 million

**Type of investment:** Series B

**Participants:** Tiger Global Management, Sequoia Capital, Kaszek Ventures and QED Investors.

#### 4th ROUND

**Date:** January 7th, 2016

**Value:** US\$ 52 million

**Type of investment:** Series C

**Participants:** Founders Fund, Sequoia Capital, Kaszek Ventures and Tiger Global Management.

#### 5th ROUND

**Date:** December 6th, 2016

**Value:** US\$ 80 million

**Type of investment:** Series D

**Participants:** DST Global, Founders Fund, Ribbit Capital, Sequoia Capital, Tiger Global Management and Redpoint Ventures.

## VENTURE CAPITAL

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**Sector:** Fintech



### 6th ROUND

**Date:** March 1st, 2018

**Value:** US\$ 150 million

**Type of investment:** Série E

**Participants:** DST Global, QED Investors, Thrive Capital, Founders Fund, Redpoint Ventures, Dragoneer Investment Group and Ribbit Capital.

### 7th ROUND

**Date:** October 8th, 2018

**Value:** US\$ 180 million

**Participants:** Tencent Holdings

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### OPPORTUNITY

Brazil's tightly-concentrated banking sector is a reality that is opening up many opportunities for tech-dense newcomers whose operations are not connected to banking institutions. These fintechs benefit from their flexible, low-cost structures, and are able to transfer these benefits to their users. It is believed that, by 2020, fintechs may well be handling more than 20% of transactions that are currently the purview of financial institutions all over the world

Keenly aware of this reality and reacting to the lack of efficiency and transparency in traditional banks, Nubank was set up in 2013 by three executives, only one of whom was Brazilian: Cristina Junqueira. Its CEO, David Vélez is a Colombian businessman with a Stanford degree, who was a partner in the Sequoia Capital funds, which was the first major investor in this company. Through a business model based on intensive use of technology, fee-free credit cards and interest rates lower than those on the market, Nubank showed that it is possible to offer good-quality credit cards without abusive rates, while also allowing customers to understand what is happening with their expenditures.

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### TRACK RECORD & RESULTS

During its first few months, Nubank absorbed US\$ 2 million from the Sequoia Capital investment fund where Vélez was working. By September 2014, Sequoia Capital headed up a round of Series A investments of US\$ 14.3 million, with stakes taken by major funds and international investors. The third round was held in June 2015, where Nubank raised a further US\$ 30 million, bringing Tiger Global on board, with this US fund being one of the major players on the global digital market. In 2015, it posted losses of R\$ 32.7 million. However, the upbeat attitude of its investors was explained by the growth of its total revenues, soaring from R\$ 2 million in 2014 to R\$ 26.8 million.

## VENTURE CAPITAL

**Sector:** Fintech



### TRACK RECORD & RESULTS

During its fourth round of investments in January 2016, it was valued at US\$ 500 million (after less than two years in operation) and absorbed US\$ 52 million in investments, headed by the Founders Fund, which was one of the early investors in Facebook. With a fifth round of investments in December 2016, Nubank raised US\$ 80 million. This round was headed by the DST Global fund, making its first investment in South America, and as well as stakes taken by other funds such as Redpoint Ventures and Ribbit Capital. Although this cash injection represented 53% of its shares with voting rights, its funding partners retained control. In 2016, Nubank posted net losses of R\$ 122 million, with operating revenues of R\$ 77.09 million, significantly higher than the R\$ 10.4 million posted the previous year.

In 2017, Nubank was licensed by the Brazilian Central Bank to operate as a payment institution. It also launched its own Nubank Rewards programme for its customers, with points that never expire and can be credited against certain billing expenditures. In October, Nubank launched its NuConta, which is a current account with an automatic yield of 100% the Interbank Deposit Certificate (IDC), offering wire transfers (TED), and unlimited settlement of payment slips and utility bills accounts free of charge. In late 2017, it raised R\$ 250 million through a Credit Rights Investment Fund (FIDC), with an AA- rating and a senior unit payback rate of 130% of the Interbank Deposit Certificate (IDC). Ranked as one of Brazil's most successful fintechs, Nubank posted losses of R\$ 117 million, while its operating revenues rose by 183% to R\$ 218.5 million.

In 2018, Nubank was licensed to set up a financial institution that would allow it to raise funds directly from its customers, with a potentially lower funding costs. In March, it held its sixth round of investments (Series E), appraised at US\$ 2 billion and raising US\$ 150 million.

Subscriptions were headed by DST Global, with stakes taken up by existing investors – Founders Fund, Redpoint Ventures, Ribbit Capital and QED – as well as newcomers: Dragoneer Investment Group and Thrive Capital. After reaching the milestone figure of 1.5 million NuConta account-holders, in June 2018 this fintech announced its digital NuConta account for people who are not card users.

In October, China's Tencent technology giant invested some US\$ 200 million in Nubank, acquiring a 5% stake. This investment was divided into two segments: US\$ 90 million in direct investment and the remaining US\$ 90 million through purchases on the secondary market. For this transaction, Nubank was appraised at US\$ 4 billion – twice the figure in March. In China, Tencent earns the WeChat messaging app that is the most widely used in Brazil, assessed by the market at US\$ 370 billion, and the second-largest technology company in China. The investment by this Chinese tech giant will help this Brazilian fintech fine-tune its technology, offering more products and services, while also upgrading user experiences. Just over a year after the introduction of the NuConta account, this fintech launched debit and withdrawal functions for account users.



## VENTURE CAPITAL

**Sector:** Fintech



### TRACK RECORD & RESULTS

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In February 2019, Nubank launched a personal loan service to be offered gradually to credit card customers and NuConta account holders, with monthly interest of 2.1% to 5%. At that time, there were already more than three million active NuConta account holders. In March, it raised R\$ 500 million – once again through a Credit Rights Investment Fund (FIDC) – in order to finance its credit card receivables portfolio. Investor demands were more than twice the amount offered, lowering the remuneration rate offered on the investment and reflecting the positive view of the company among investors.

## VENTURE CAPITAL

**Sector:** Fintech

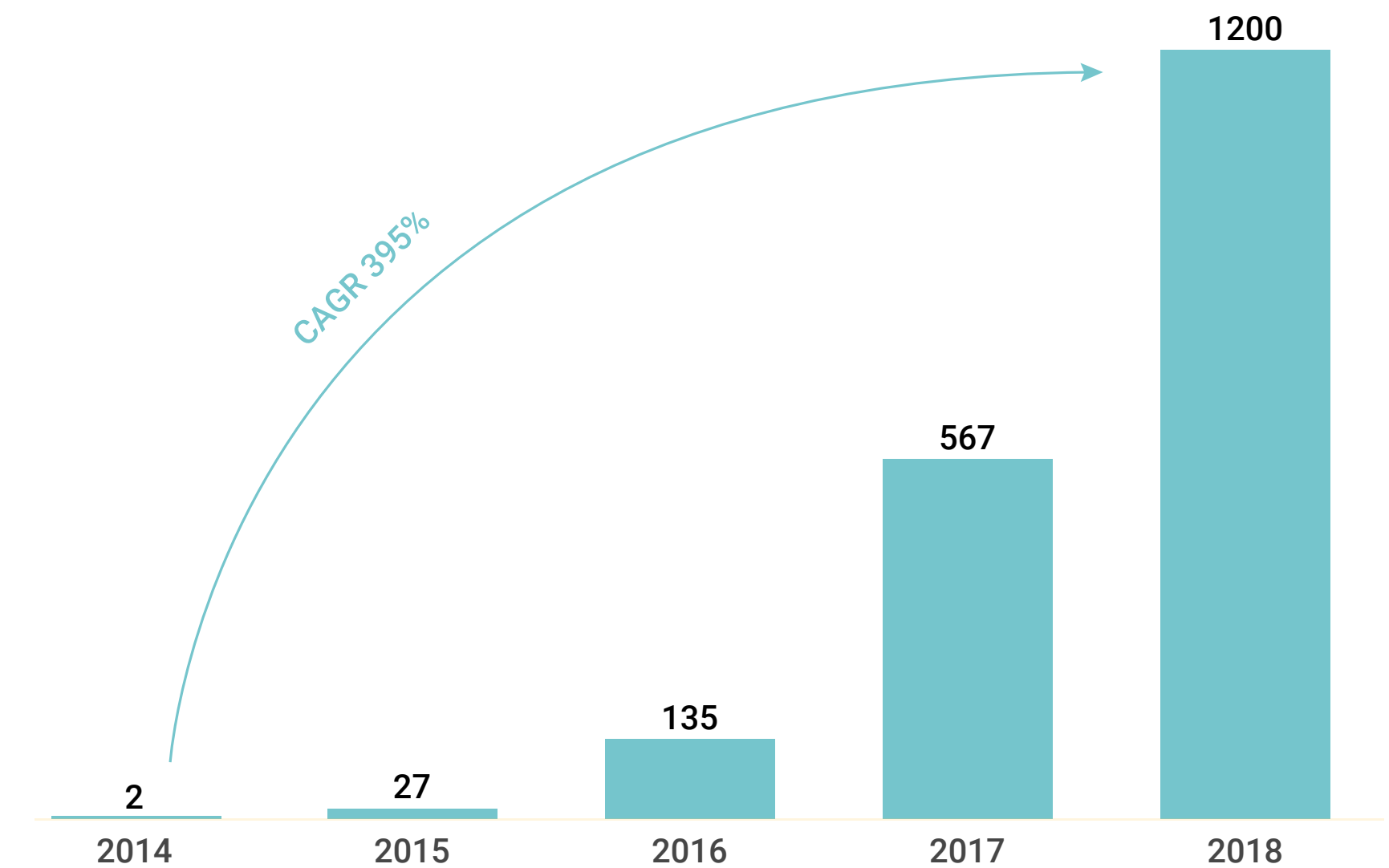


Diversification of sources of investment is a short step for maintaining fast and sustainable growth. In addition to cash inflows, the main source of funding for Nubank is a line of credit from Goldman Sachs, whose feasibility is underpinned by a Credit Rights Investment Fund (FIDC). In April 2016, Nubank raised R\$ 200 million through two lines of credit with Goldman Sachs, raising this to R\$ 300 million and again to R\$ 455 million in August 2017. In June 2018, this fintech announced its Nuconta digital account for people who are not card users. Despite losses of R\$ 50,889 million during the first half of 2018, Nubank posted a hike of 138.0% in its operating revenues, which reached R\$ 196,877 million.

Consecutive losses have not affected market enthusiasm for Nubank, as negative results are expected during the fast growth phase of any start-up, particularly in view of the significant upsurge in its revenues. The idea is to establish a sturdy, efficient operation right at the start, in order to cope with future demands and not lose relevance. Gains in scale have allowed a dilution of fixed costs, so that the company is already generating a cash flow. The Nubank business plan indicates that rising card transaction volumes and the addition of new products will generate future profits.

Its total revenues – operating financial revenues together – have risen at a dizzying rate since 2014, reaching R\$ 1.2 billion in 2018, up 112% over the previous year.

**Operational and financial revenues FY14–FY18 (R\$ million)**



Source: company's financial report

## VENTURE CAPITAL

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Sector: Mobility



**99**

Established in 2012, 99 is a Brazilian start-up focused on urban mobility, creating technology solutions that make life better for people on the go, with faster, cheaper and more comfortable trips.

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### 1st ROUND

**Date:** July 5th, 2013

**Value:** Not informed

**Type of investment:** Seed round

**Participants:** Monashees Capital, Qualcomm Ventures, StarCaps Ventures, Augusta Investments LLC e Adeyemi Ajao.

### 2a RODADA

**Date:** February 2nd, 2015

**Value:** US\$ 15 million

**Type of investment:** Series A

**Participants:** Tiger Global Management, Monashees Capital, Qualcomm Ventures e GE32 Capital.

### 3rd RODADA

**Date:** April 1st, 2015

**Value:** US\$ 25 million

**Type of investment:** Series B

**Participants:** Tiger Global Management, Monashees Capital and Qualcomm Ventures.

### 4th ROUND

**Date:** January 5th, 2017

**Valor:** US\$ 100 million (approx).

**Type of investment:** Series C

**Participants:** Riverwood Capital, Didi Chuxing and Monashees Capital

### 5th ROUND

**Date:** May 24th, 2017

**Valor:** US\$ 100 million (approx).

**Type of investment:** Series C

**Participants:** Softbank

### ACQUISITION

**Date:** January 3rd, 2018

**Value:** US\$ 900 million

**Investor:** Didi Chuxing

## VENTURE CAPITAL

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**Sector:** Mobility



### OPPORTUNITY

For many years, cab cooperatives and taxi ranks held a monopoly over private passenger transportation in Brazil. The arrival of ride-hailing apps stepped up the competition and made it easier for cab drivers to reach out to their passengers directly and more efficiently. Today, cab cooperatives and taxi ranks also use start-up apps for contact with the passengers. The Brazilian technology market has been expanding rapidly and will continue to do so over the next few years. Investing in local start-ups is the easiest way of understanding how this market operates, seizing the opportunities that it offers.

Established in 2012 by Ariel Lambrecht, Renato Freitas and Paulo Vera, 99 began as a taxi app called 99Taxis. With the arrival of ride-hailing software, it launched 99Pop and became the main competitor of Uber in Brazil. Its intention is to bring fast, quick transportation to people, democratizing the use of this type of service.

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### TRACK RECORD & RESULTS

During its first few months, Nubank absorbed US\$ 2 million from the Sequoia Capital investment fund where Vélez was working. By September 2014, Sequoia Capital headed up a round of Series A investments of US\$ 14.3 million, with stakes taken by major funds and international investors. The third round was held in June 2015, where Nubank raised a further US\$ 30 million, bringing Tiger Global on board, with this US fund being one of the major players on the global digital market. In 2015, it posted losses of R\$ 32.7 million. However, the upbeat attitude of its investors was explained by the growth of its total revenues, soaring from R\$ 2 million in 2014 to R\$ 26.8 million.

The concept underpinning 99 arose in 2012, prompted by the experience of one of its founders, Ariel Lambrecht. When needing transportation in Germany, he discovered the use of mobile apps for calling a cab. Together with his university friends Paulo Veras and Renato Freitas, Ariel invested some R\$ 50,000 to bring 99 onto the market, which was designed by this threesome in June 2012.

During the first year of their investment, only around 200 cabbies signed up. Deciding to focus their operations only in São Paulo, they developed a practical app with advantages for drivers, in order to expand their market through word-of-mouth recommendations. In contrast to its rivals, 99 did not charge a fee, so its membership ballooned rapidly. Its seed round was held in July 2013, with a small investment from Monashees, a Brazilian fund headed by Eric Acher. The partners decided to use this to underwrite the launch of their operations in other locations, choosing Rio de Janeiro as the second city to welcome 99.

Almost two years later, a second round of investments brought US\$ 15 million into the company in February 2015, led by Tiger Global, a US fund already invested in Brazil through Netshoes and B2W, together with existing investors including Monashees Capital and Qualcomm Ventures. Needing offices for some thirty employees by then, they invested in the physical infrastructure of the company, upgrading the workplace. With this capital injection, the company hired new developers to upgrade its app and strengthen the brand. By early 2015, 80,000 cabbies were already using this software to connect with their passengers. In São Paulo, four out of every five taxis were signed up with this ride-hailer.



## VENTURE CAPITAL

**Sector:** Mobility



### TRACK RECORD & RESULTS

In April 2015, yet another investment round bought 99 US\$ 25 million, once again headed up by Tiger Global, which is the world's largest investor in Internet and mobile start-ups. These investments were intended to spur product innovations, actions expanding its passenger base and stepping up the number of registered cabbies, improvements for ensuring better user experiences and more investments into the corporate plan.

These funds helped double the headcount, investing in product development and marketing. By then, more than 100,000 cabbies were signed up with 99, with more than three million users in its nationwide database.

The fourth investment round was held in January 2017, raising US\$ 100 million for 99. This round was headed up by China's giant Didi Chuxing ride-hailing app, and Riverwood Capital, a US private equity fund, together with other funds that had already invested in previous rounds. Both these companies obtain the right to a seat on the 99 board, bringing market expertise to this start-up. Some of this new funding was used to expand the transportation category to private vehicles through the 99Pop app, expanding services and reshaping the competitive profile of the market in Latin America. With more than 140,000 drivers on its books, 99 also chalked up 10 million users throughout the region.

Already ranked as Brazil's leading urban mobility start-up, in May 2017 99 signed a US\$ 100 million investment agreement with SoftBank. Established by Masayoshi Son in 1981, SoftBank is the world's largest investor in mobility apps, with significant stakes in DiDi, Ola and Grab, respectively the largest firms in this sector in China, India and Southeast Asia. Together with more than US\$ 100 million raised at the start of the year with Didi Chuxing and

Riverwood, this completed the Series C investment round with more than US\$ 200 million, making this the largest-ever investment round ever held by a Brazilian start-up. Overall, 99 absorbed a total of US\$ 240 million in five investment rounds.

In January 2018, 99 was acquired by Didi Chuxing, which already held a stake (estimated at 30%) since January 2017. Didi paid out some US\$ 600 million for the stakes held by the Riverwood Capital, Monashees, Qualcomm Ventures, Tiger Global and Softbank investment funds. A further US\$ 300 million will be invested in expanding its operations nationwide in Brasil and throughout Latin America. Appraised for this transaction at US\$ 1 billion, 99 is Brazil's first unicorn.

After becoming an investor in 2017, DiDi stepped up its interest in 99, with these two ride-hailing apps building up stronger links, particularly in the fields of technology, product innovation, market development and operations management. With a market value estimated at US\$ 50 million, Didi is the world's second most valuable start-up, behind only Uber. The focus of this partnership is to expand private driver services through 99Pop, competing on the market with giants such as Uber and Cabify. Once operations have been consolidated on the Brazilian market, the goal is to internationalise this app, expanding its activities to Latin America.



## VENTURE CAPITAL

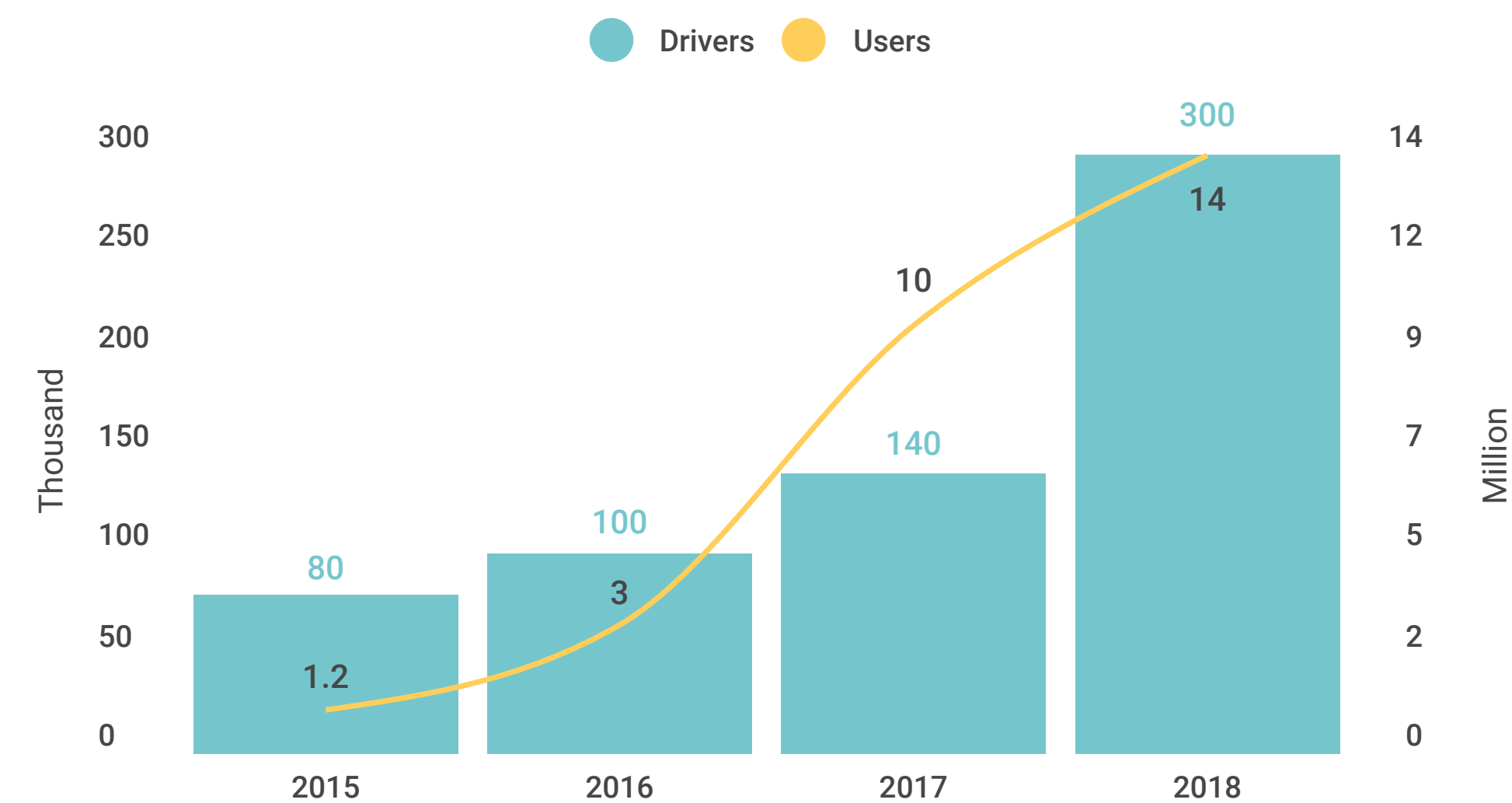
Sector: Mobility



### TRACK RECORD & RESULTS

Viewed as a phenomenon among Brazilian start-ups, 99 grew by more than 50% during the first half of 2018, expanding its staff to around a thousand employees and connecting 14 million passengers to over 300,000 drivers in more than 400 cities throughout Brazil, with the intention of expanding into Latin America in the course of the year. With representatives and offices in 10 cities, it offers cab-hailing services at 500 locations, with 99Pop signing up private drivers in forty towns. With the arrival of Didi Chuxing, it now operates in Australia, Japan and Mexico, as well as Brazil and China.

Evolution in the number of drivers and users of 99 FY15-FY18



Source: News and company's report

Qualified international investors have access to details related to funds in operation, funds raising, investments made, exits among other data of the fund managers active in Brazil through the ABVCAP Member Directory. To guarantee your access please send us an e-mail to [brazilpe@abvcap.com.br](mailto:brazilpe@abvcap.com.br) so you can send your login credentials.

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