

Venture Capital in Brazil

MONTERREY VENTURE
CAPITAL CONFERENCE 2010

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Objectives of the Study:

- Present a summary of the venture capital industry in Brazil
- Identify the main strengths of this industry in Brazil

Introduction

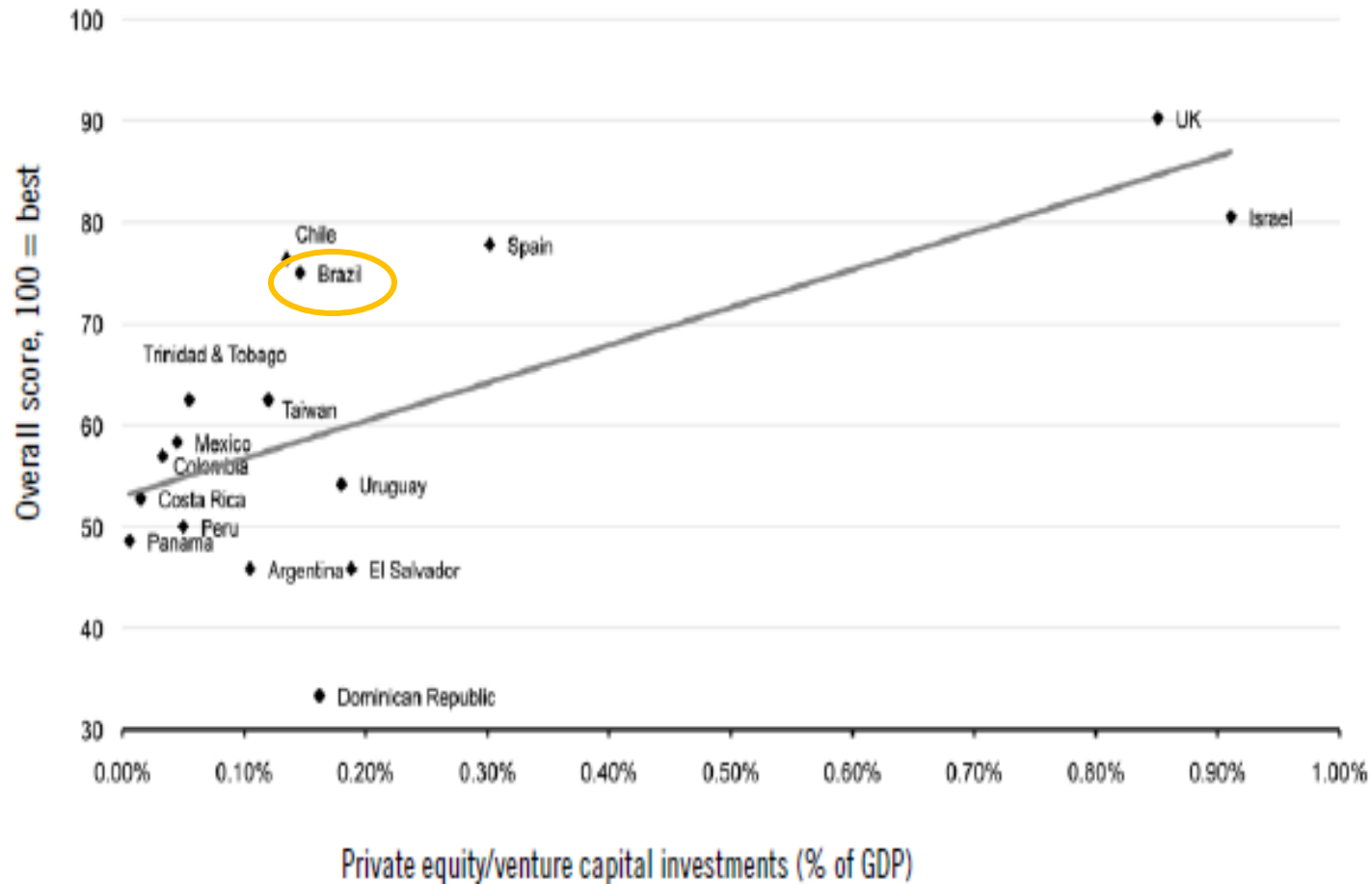
Scorecard 2009, LAVCA

Regional Rank	Country	Score (1-100 where 100 = best)	Change from 2008 (▲▼)	PEVC % GDP
	UK	90		0.851%
	Israel	81	▼ -1	0.911%
	Spain	78	▲ 4	0.302%
1	Chile	76	▼ -2	0.135%
2	Brazil	75		0.146%
3	Trinidad & Tobago	63	▼ -2	0.055%
	Taiwan	63		0.120%
4	Mexico	58		0.045%
5	Colombia	57	▲ 4	0.033%
6	Uruguay	54	▼ -2	0.180%
7	Costa Rica	53		0.015%
8	Peru	50	▲ 1	0.050%
9	Panama	49	▼ -2	0.006%
10	Argentina	46	▼ -4	0.105%
10	El Salvador	46	▼ -4	0.188%
12	Dominican Republic	33	▼ -6	0.162%

Overall score is the weighted total of all scorecard indicators, ranging from 0 - 100 where 100 = best/most favorable environment

† = First year in study: No comparative score for 2008

Scorecard 2009, LAVCA



Venture Capital in Brazil

History of Venture Capital in Brazil

- 1974
 - ▣ The Brazilian Development Bank (BNDES- Banco Nacional de Desenvolvimento Econômico) founded three entities to launch venture capital projects (IBRSA, EMBRAMEC and FIBASE).
- 1975
 - ▣ A group of French and Brazilian investors founded Brasilpar as a venture capital fund.
- 1982
 - ▣ CRP (Companhia Riograndense de Participacoes), a pioneer company, appeared to conduct venture capital investments.
 - ▣ The law 2,287 was created to regulate venture capital and entrepreneurship.

History of Venture Capital in Brazil

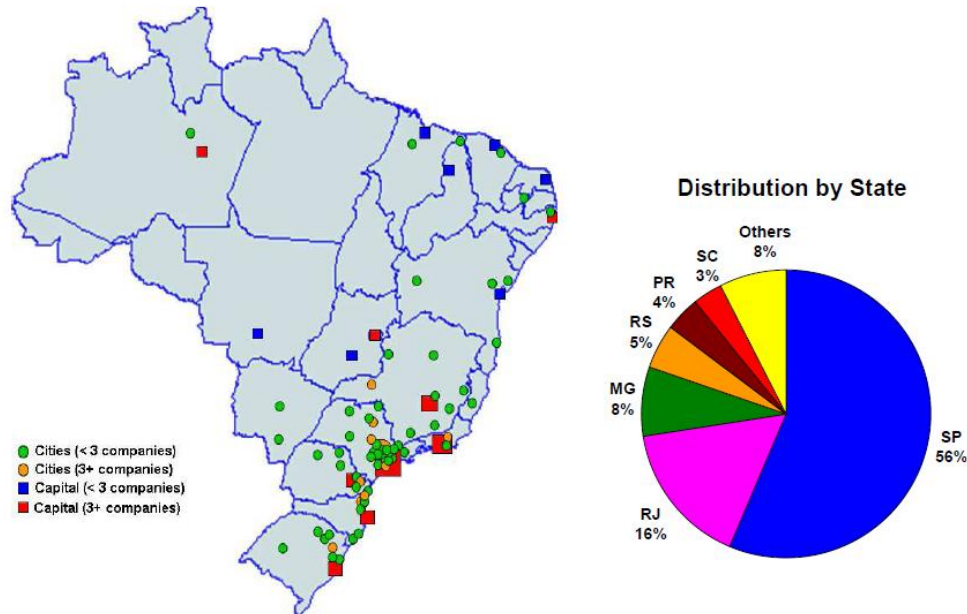
- 1993
 - ▣ GP Investimentos was founded in Brazil. This company attracted institutional investors by offering them diversified portfolios that combined many booming industries with American-style exit options.
- 1997
 - ▣ Between 1997 and 2002 foreign investors reduced their participation in new capital commitments.
- 1998
 - ▣ The Cardoso administration began a privatization campaign that included the telecommunication monopoly (Telebras).
 - ▣ The rising phenomenon of the dot-com era was taking place.
 - ▣ The Brazilian Ministry of Science and Technology established the FINEP (Financiadora de Estudos e Projetos) as its venture capital branch.

History of Venture Capital in Brazil

- 2000
 - A group of institutional investors joined to establish the Associação Brasileira de Private Equity & Venture Capital (ABVCAP) . Today this group has 26 members, ranging from institutional investors to government agencies and universities.
- 2003-2006
 - Between 2003 and 2006 foreign investors returned. In 2006 they represented 65 percent of all new capital commitments within Brazilian industry.
- 2008
 - The limited partnership structure is considerably less significant than it was in 2004, declining from 62 percent to 34 percent. In contrast, the vehicles created under the CVM regulation increased from 23 percent in 2004 to 39 percent of capital commitments by June 30, 2008; representing 40 percent of all vehicles.
 - The relative participation of pension funds in new fundraising reached 50 percent; close to the level of 58 percent reached during the privatization era. The participation of pension funds represents 27 percent of the total stock of committed capital as of June 30, 2008.

VC/PE Industry Geographic Distribution

Geographic Distribution of Portfolio Companies as of June 30, 2008



OBS: Considers 461 companies that reported the city where their headquarters is located (out of a total of 481 companies).

Source: Overview of the Brazilian Private Equity and Venture Capital Industry. Research Report. December 2008. Edition sponsored by Pinheiro Neto Advogados. Deloitte. (SP = Sao Paulo. RJ = Rio de Janeiro. MG = Minas Gerais. RS = Rio Grande do Sul. PR = Paraná. SC = Santa Catarina.)

- The state of Sao Paulo has been characterized as a major center for venture capital and private equity in Brazil, concentrating 56% of the companies in the industry.

Scope of VC Investment by Industry

Portfolio Company Industries

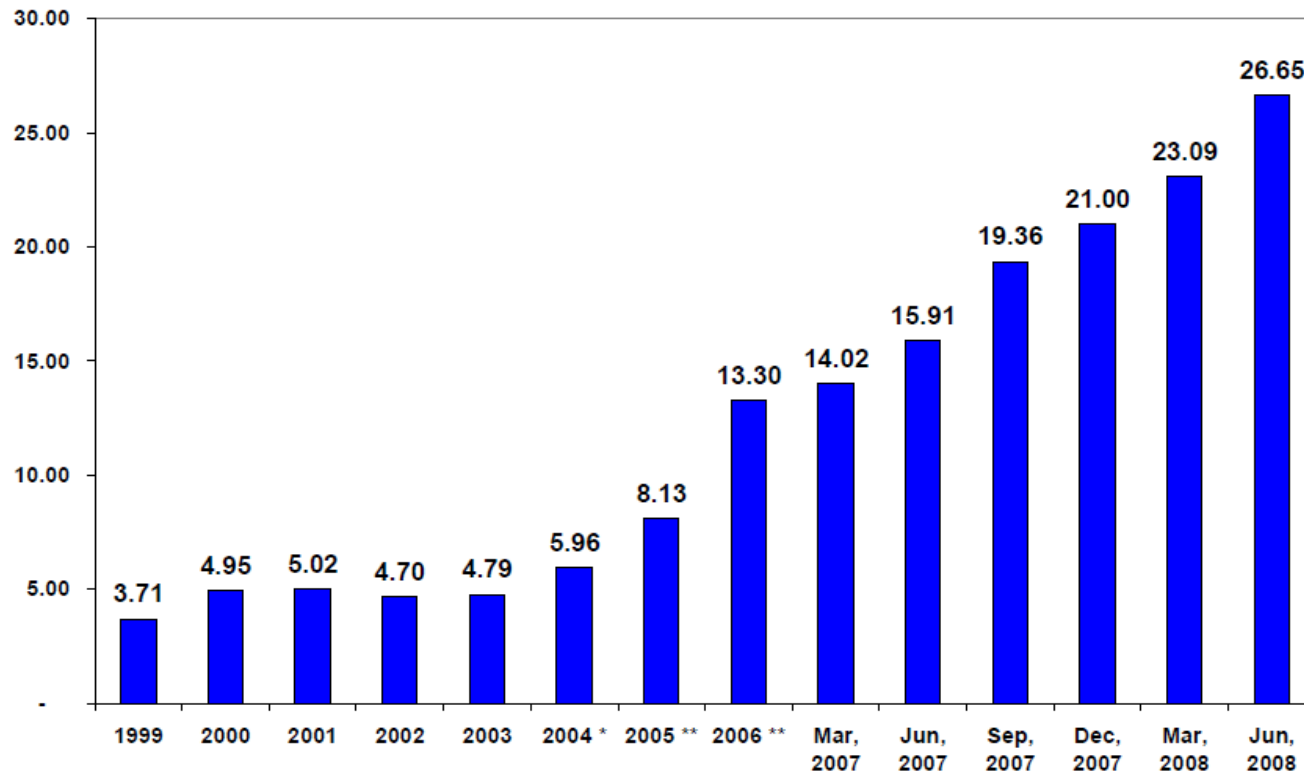
Industries	2004		2008		Growth Rate 2004 to 2008
	Units	%	Units	%	
IT and Electronic	92	30%	108	22%	17%
Industrial Products and Services	41	13%	63	13%	54%
Construction/Real Estate	9	3%	60	12%	567%
Communication/Media	7	2%	32	7%	357%
Energy	7	2%	29	6%	314%
Agribusiness	9	3%	21	4%	133%
Financial Services	10	3%	20	4%	100%
Biotechnology	10	3%	19	4%	90%
Retail	21	7%	19	4%	-10%
Food and Beverage	12	4%	17	4%	42%
Medicine and Beauty	8	3%	15	3%	88%
Telecommunications	28	9%	13	3%	-54%
Transportation	11	4%	13	3%	18%
Logistics/Distribution	7	2%	12	2%	71%
Education	3	1%	9	2%	200%
Others*	31	10%	31	6%	0%
TOTAL	306	100%	481	100%	57%

* Entertainment/tourism, sanitation, mining, textiles, holding companies, footwear, security equipment, company incubators, call centers and appliances.

- Source: Overview of the Brazilian Private Equity and Venture Capital Industry. Research Report. December 2008. Edition sponsored by Pinheiro Neto Advogados. Deloitte.

Evolution of VC Investment

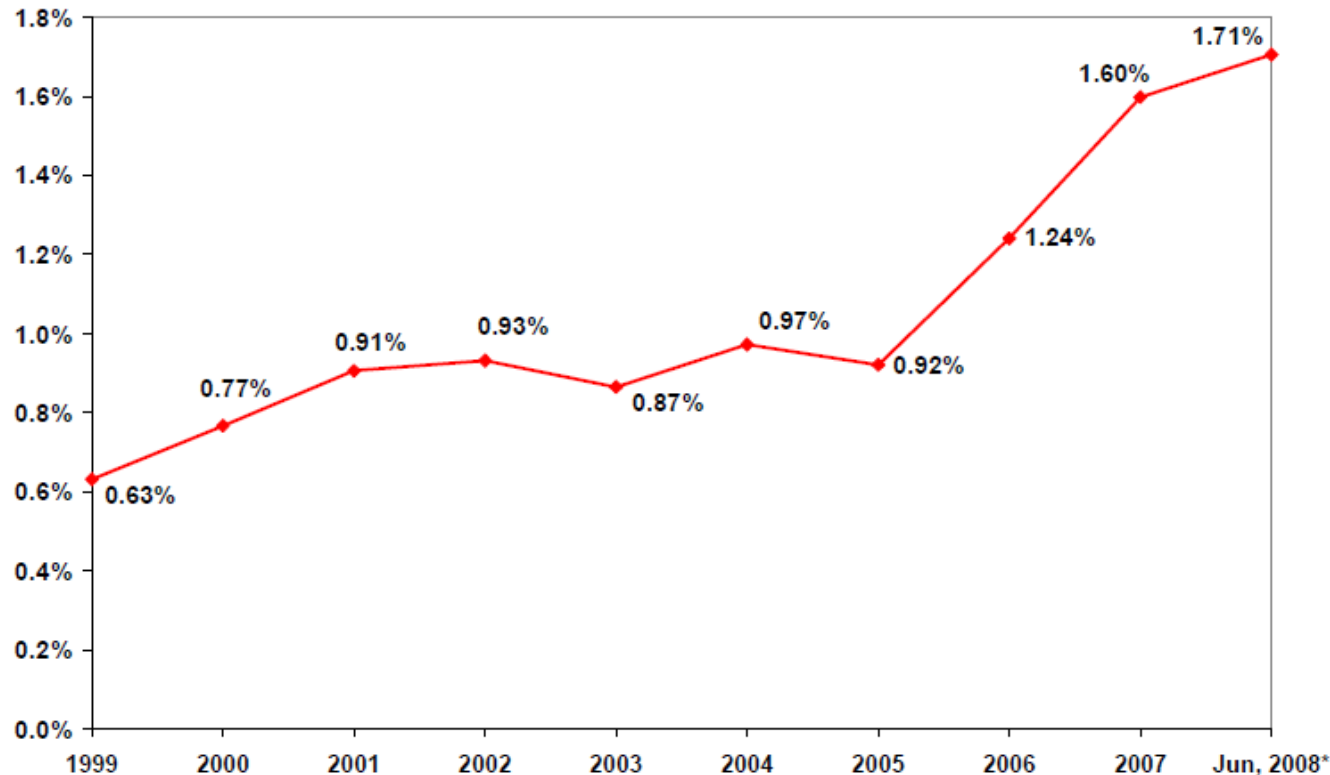
Evolution of Committed Capital Allocated in Brazil (USD billion)



- Source: Overview of the Brazilian Private Equity and Venture Capital Industry. Research Report. December 2008. Edition sponsored by Pinheiro Neto Advogados. Deloitte.

Evolution of VC Investment

Evolution of Committed Capital as a Percentage of GDP



- Source: BACEN for GDP in USD; GVcepe for all other data and analysis. *GDP for the first semester of 2008 annualized.

Industry Leaders (Fundação Getulio Vargas, 2008)

PE/VC organizations with the Ten Largest Volumes of Committed Capital Allocated in Brazil as of June 30, 2008 (USD million)

PE/VC Organization *	Country of Origin**	Category	Scope of Investment Vehicles Operating in Brazil	Committed Capital Allocated in Brazil ***	Committed Capital as a Percentage of Industry Total
GP Investments	Bermuda	Independent (Publicly Traded)	Brazil and Regional (Latin America)	2,738	10.3%
Angra Partners	Brazil	Independent (Private Company)	Brazil	1,985	7.4%
UBS Pactual	Brazil	Financial Institution	Brazil	1,736	6.5%
Advent International	United States	Independent (Private Company)	Brazil and Regional (Latin America)	1,520	5.7%
Pátria Investimentos	Brazil	Independent (Private Company)	Brazil	1,305	4.9%
Gávea Investimentos	Brazil	Independent (Private Company)	Brazil	1,062	4.0%
Autonomy Investments	United Kingdom	Independent (Private Company)	Global	1,000	3.8%
Prosperitas Investimentos	Brazil	Independent (Private Company)	Brazil	934	3.5%
AIG Private Equity	United States	Financial Institution	Regional (Latin America) and Emerging Markets	930	3.5%
Tarpon Investment Group	Bermuda	Independent (Publicly Traded)	Brazil	765	2.9%
TOTAL				13,975	52.4%

* PE/VC organizations that authorized the publication of their estimated data for Brazil.

** PE/VC organization's registration/legal headquarters

*** For vehicles not limited to Brazil (i.e. Emerging Markets, Global and/or Regional – Latin American, Mercosur, or South American) this represents the PE/VC organization's best estimate of committed capital allocated in Brazil.

Industry Leaders

Organization	Country of origin	Start of Operations (year)	Committed and allocated capital in Brazil (millions USD)	Committed capital as a percentage of the industry	Venture capital vehicles	Portfolio size (companies)
PE/VC						
GP Investimentos	Bermuda	1993	2,738	10.30%	6	15
Angra Partners	Brazil	2004	1,985	7.40%	2	4
Venture Capital- Early Stage						
VNN	Brazil	2000	300	38.50%	1	8
FIR Capital Partners	Brazil	1999	106	13.60%	5	18
Venture Capital- Seed						
Antera	Brazil	2005	60	40.20%	1	5
Invest Tech	Brazil	2003	35	23.50%	2	3

The chart includes information of the top two players in simple venture capital markets.

LAVCA 2009 Scorecard: The Private Equity and Venture Capital Environment in Latin America. Latin American Venture Capital Association: June 2009. p. 8. Retrieved from <http://lavca.org/wp-content/uploads/2010/02/scorecard091.pdf>

Industry Leaders Selection Criteria

- It is difficult to choose or name a single industry leader, because there are many combinations of participation in the different venture capital sub industries. Nonetheless, GP Investimentos is a name that constantly shows at the top of different venture capital markets. The selection criteria to name it the leader of the Brazilian VC/PE market are the following:
 - ▣ Time operating in the Brazilian market.
 - ▣ Size of allocated and committed funds to the Brazilian market (in different stages).
 - ▣ The number of different investment vehicles used actively in the market.

GP Invetimentos Keys to Success

- Active management
- Business model
- Internal funding
- Focus
- Community building
- “Big Company” investments, with annual revenues greater than 60 million reales

VC/PE Industry Strengths and Opportunity Areas

- Strengths
 - ▣ Favorable laws on fund formation and operation
 - ▣ Permissive regulations for institutional investors
 - ▣ Tax treatment
 - ▣ Protection of minority shareholders' rights
 - ▣ Corporate governance, bankruptcy procedures
 - ▣ Openness to inward portfolio investment
 - ▣ Use of international accounting standards
- Opportunity Areas
 - ▣ Enforcement of intellectual property rights
 - ▣ Perception of corruption

Conclusion

- The venture capital and private equity industry grew in average 50% annually between 2005 and 2008.
- Pension funds represent 24% of the committed capital in venture capital and private equity investment vehicles.
- Brazil maintains a deep and liquid stock market that enhances the development of the venture capital and private equity industry.
- The strengths of the Brazilian market are based in: favorable laws for funds formation and operation; tax treatment; protection of minority shareholder's rights; bankruptcy procedures; and the government's commitment to the industry.
- 34 percent of the industry's portfolio companies are companies that fit in venture capital, with the greatest emphasis on early stages (17 percent). This denotes an important concentration on the initial and intermediate stages of entrepreneurial development, guaranteeing the consolidation of links that permit sustained industry growth over the long term.
- More than 40% (USD 11.5 billion) of the total committed capital as of June 30, 2008 is invested in micro, small and medium sized enterprises; representing a huge impact on Brazil's economy.

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