

## **Structuring Exit Strategies in Private Equity Investments in Brazil: the BOVESPA MAIS Alternative**

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Successful exits in private equity and venture capital investments require careful planning. One of the most common exit strategies is taking the invested company public, through an initial public offering (IPO).

Brazil’s main stock exchange - BM&FBovespa, also known as São Paulo Stock Exchange -, has four listing segments: the traditional segment, Level 1, Level 2 and Novo Mercado. The last three were created in 2000 and require additional corporate governance practices in comparison to those set forth by law, Novo Mercado having the highest standards. The great majority of recent IPOs have been made on Novo Mercado.

However, there is also a lesser-known alternative for going public PE&VC firms should be aware of: BOVESPA MAIS. Created in 2005 inspired by the London Stock Exchange Alternative Investment Market – AIM, BOVESPA MAIS is an over-the-counter market also managed by BM&FBovespa. It focuses on smaller companies seeking gradual access to the stock market.

Companies listed on BOVESPA MAIS have up to 7 years to reach a minimum required free float of 25%, while on Novo Mercado, and also on Level 1 and Level 2, such requirement must be met since day one. This particular feature of BOVESPA MAIS encourages sustainable growth, for it allows the company enough time to gradually adjust to having stock market investors. During this 7-year period, companies are able to make the necessary changes to their corporate governance practices and attract investors to their business. Investors, on their turn, have time to fully understand the company’s activities and strategies while the company slowly prepares itself for an IPO.

BMF&Bovespa grants special benefits to companies listed on BOVESPA MAIS. Initially, they are exempt from paying the application fee to be listed. They are also given gradual discounts in the listing maintenance fee (the discount is of 100% in the first year and is gradually reduced to 25% in the fourth year). The costs borne by a company listed on BOVEPSA MAIS are much lower than those borne by companies listed on the other segments of BM&FBovespa.

Companies listed on BOVESPA MAIS are subject to rules of corporate governance specially designed for smaller companies. They must follow certain practices to ensure an elevated level of transparency and a greater alignment between the interests of majority and minority shareholders. Among the required practices, the following are worth highlighting: (i) the company may only issue common shares (preferred shares are permitted, provided that are not issued by the company after entering into BOVESPA MAIS); (ii) shareholders are granted a tag along right in the sale of the company's control, for a price equal to that paid to the selling controlling shareholder; and (iii) mandatory adoption of arbitration, under the rules of the Market Arbitration Chamber (Câmara de Arbitragem do Mercado) in dispute resolution between shareholders, directors, officers and the company.

Some see BOVESPA MAIS as a competitor of PE&VC funds in the preference of small and medium-size companies seeking funds to expand their activities. That could be true for certain companies that are matured and have well-established corporate governance practices, allowing them to sell themselves to investors directly through BOVESPA MAIS. However, in many other situations the natural path for a company would be to first obtain a private equity investment and later on, when implementing an exit strategy, be listed on BOVESPA MAIS or another listing segment. BOVESPA MAIS would be complementary to the private equity investment. Market agents generally agree that a company that has already dealt with private equity investors will be more prepared to deal with stock market investors.

Launched in 1995, the London Stock Exchange AIM quickly attracted many companies. It is currently home to more than 3,000 companies. Overshadowed by Novo Mercado, BOVESPA MAIS has not yet achieved a similar successful track record. So far, there are only 4 companies listed on BOVESPA MAIS. BM&FBovespa has been working hard to make it more popular. The combination of flexible listing requirements with the benefits granted by BM&FBovespa make BOVESPA MAIS an interesting alternative for companies that need more time to adapt to the challenges of having stock market investors. It should thus be considered as an attractive option by private equity and venture capital investors when planning exit strategies of invested companies.

Ofuscado pelo Novo Mercado, o BOVESPA MAIS ainda não conseguiu obter o mesmo sucesso do seu modelo inspirador, o londrino AIM, que, lançado em 1995, rapidamente atraiu a atenção do mercado e atualmente conta com mais de três mil companhias listadas. Até o momento, apenas seis companhias aderiram ao BOVESPA MAIS, o que tem motivado a BM&FBovespa a intensificar os trabalhos de divulgação deste segmento de listagem. Embora o BOVESPA MAIS ainda seja incipiente, gestores de fundos de private equity e venture capital deveriam tê-lo em mente ao estruturar as alternativas de saída para seus investimentos. Os requisitos de listagem mais flexíveis, combinados com os benefícios concedidos pela BM&FBovespa, podem tornar o BOVESPA MAIS uma alternativa atraente para determinadas empresas, principalmente aquelas que precisam de mais tempo para se adaptar à condição de companhia aberta.