

**Mercado de Acciones para el
Ingreso de Sociedades
Anónimas (MAIS)**

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BOVESPA – Brazil's Stock Exchange Overview



- § Since 2002, Brazil's only liquidity center for equity trading**
- § Products: equity and corporate bonds**
- § Listed companies: 380 (aug/05)**
- § Market capitalization: US\$ 402 billion (aug/05)**
- § Daily average trading value: US\$ 537 million (aug/05)**

BOVESPA – Brazil's Stock Exchange Overview



- § Largest equity market in Latin America: 64% of total value traded**
- § 2nd largest market in the world for equity options (number of contracts)**
- § 9th largest market in the world for raising equity financing**

Background

- § **Clear contradiction between BOVESPA's mission and the Brazilian market reality**
- § **BOVESPA's mission**
 - § **Providing liquidity to listed shares**
 - § **Offering an alternative source of financing for Brazilian companies (the majority of them are Small and Medium Enterprises – SMEs)**
- § **Brazilian market reality**
 - § **Primary market totally stagnated: 6 IPOs, from 1995 to 2003**

Background

- § **Performing the mission and making equity financing a real alternative**
 - § **Reactivating the primary market**
 - § **Receptive environment for public offerings, especially IPOs**

- § **The basis for the changes were set in 2000/2001**

- § **Friendly environment for IPOs depends on the demand of the investors**

BOVESPA's Strategy

- § **Broaden the investor base and the exchange's institutional role**
- § **Market popularization campaign: BOVESPA where you are (BOVESPA vai até você)**
- § **Raise awareness of the stock market in Congress, the judicial branch and government bodies**

BOVESPA's Strategy

- § **Reduction of minority shareholder's ownership risk**
 - § **Offering "better quality products"**
 - § **Increase the investors' confidence and willingness to acquire stocks and pay for them a better price that suits the owner of the company that is going public**

- § **Fostering companies to assure good practices of corporate governance related to investor protection**
 - § **Disclosure/transparency**
 - § **Minority shareholder rights**

Novo Mercado (NM)

- § Special listing segment of companies committed to higher standards of corporate governance**
- § Decision of joining NM is voluntary and market driven**
- § The entry into NM is based on a contract with BOVESPA**
 - § Compliance with the Novo Mercado Listing Rules**
 - § Agreement to settle any shareholder company disputes by arbitration**
- § Two more corporate governance segments: Level 2 and Level 1**

What was the outcome?

US\$ million

Company	Date	Segment	Consolidated net revenues¹	Value of public offerings
Natura	05/26/2004	Novo Mercado	460	243
Gol	06/24/2004	Nível 2	485	283
ALL	06/25/2004	Nível 2	263	189
CPFL Energia	09/29/2004	Novo Mercado	2.096	287
Grendene	10/29/2004	Novo Mercado	367	216
DASA	11/19/2004	Novo Mercado	126	158
Porto Seguro	11/22/2004	Novo Mercado	781	136
Renar Maçãs	02/28/2005	Novo Mercado	18	6
Submarino	03/30/2005	Novo Mercado	104	176
Localiza	05/20/2005	Novo Mercado	232	116
TAM	06/14/2005	Nível 2	1.703	226
EDP	07/13/2005	Novo Mercado	1.395	505
OHL	07/15/2005	Novo Mercado	101	212

(1) In the previous year

A market for IPOs

The success of the Novo Mercado

- § Better corporate governance contributed to attracting investor interest**
- § Offers occurred at multiples much higher than the market average**
- § More favorable pricing is stimulating new IPOs**

SMEs

§ More complex issues

§ Supply side

§ Less knowledge of market

§ More fear of the founders losing control

§ Higher relative cost of going public

§ Demand side

§ Qualified investor buyers (QIBs), largely international, are not interested in small deals

§ Large investment banks do not perform deals below US\$ 100 million

SMEs

- § **Novo Mercado opened the way for smaller offerings**
 - § **Independent brokerage houses start taking part in public offerings**
 - § **Individual investors are getting used to participating in IPOs**

- § **New listing segment for companies that desire access the market gradually**

A step further

- § **Creating an alternative market for a greater number of companies, especially SMEs**



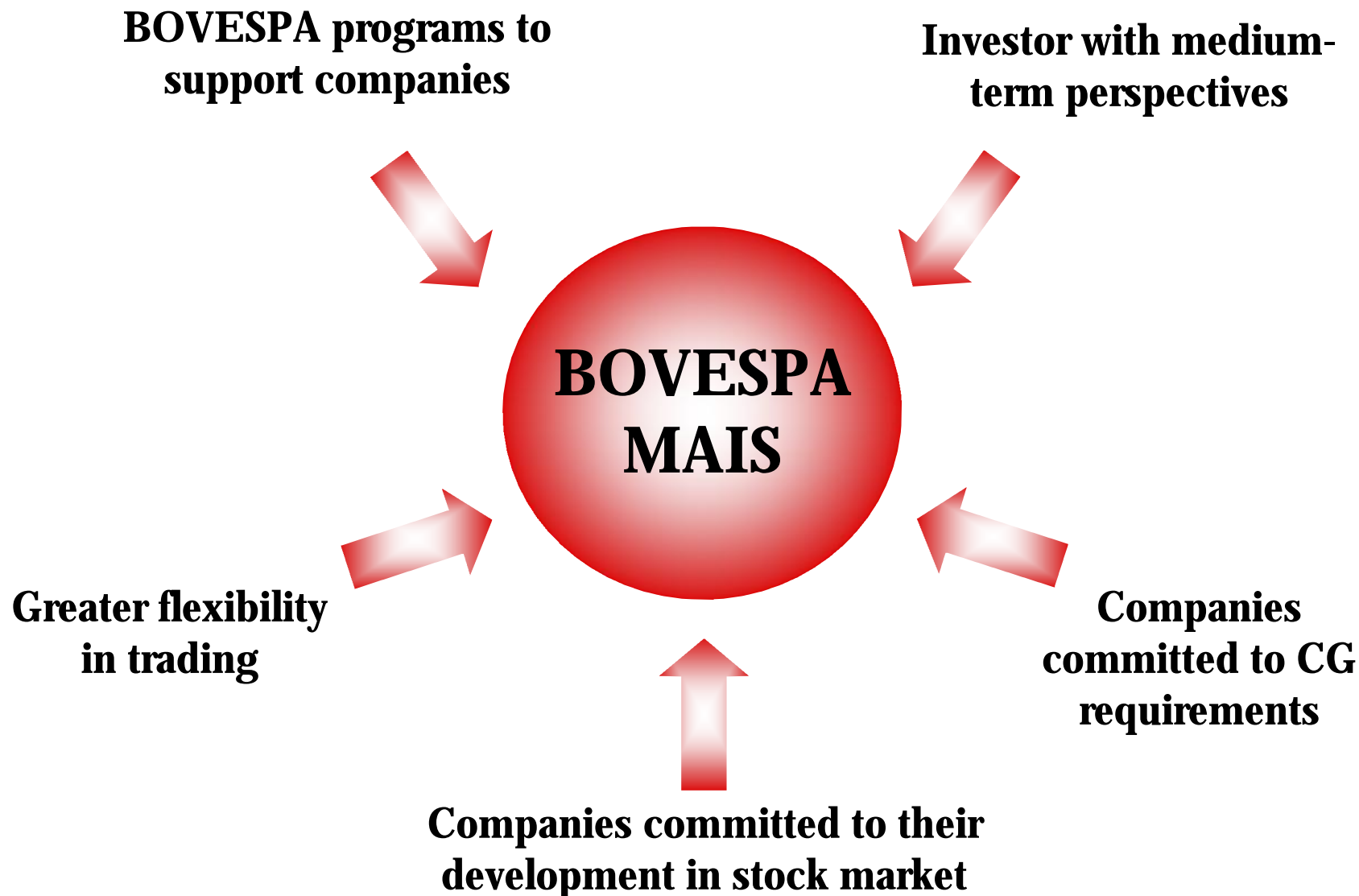
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Why a new segment?

- § **Access the market gradually means smaller offering and lower liquidity**
 - § **Investing in these companies is more adequate for investors with medium-term perspectives**
 - § **Trade-off between liquidity and return**

- § **Identifying clearly a set companies that may be attractive - committed to their development in the stock market (free-float and pro-active posture)**

BOVESPA MAIS Pillars



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Listing rules

- § Investor rights (one share, one vote; tag along rights)**

- § Disclosure (cash flow statements; consolidated financial statements; insider trades; related part transactions; annual corporate events schedule)**

- § Ongoing requirements in terms of:**
 - § Minimum free float of 25% in seven years**
 - § Economic and financial performance (minimum soundness)**

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Flexible trading

- § Trading rules adapted to liquidity levels**
 - § Calls (electronics auctions) at set times during the trading session and a closing call**
 - § Number of calls can increase in accordance with rise in liquidity**
 - § Continuous trading for shares with high liquidity or employing market makers**

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Support to listed companies

- § Program to enhance company exposure on market in order to foster regular coverage by analysts and investors**
- § Hire independent analysis consulting firms and send the their reports to investors**
- § Elaborate news clippings of BOVESPA MAIS companies and send them to investors**
- § Organize annual meetings of BOVESPA MAIS companies with analysts and investors**

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Support to listed companies

- § Professional training program in order to build the internal culture of a public company**
 - § Corporate governance**
 - § Investor relations**

- § Discounts on annual listing fees paid to BOVESPA**
 - § 100% in first year, with a gradual reduction up to the 4th year after listing**

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Present situation

- § BOVESPA MAIS is ready to be launched: all the infrastructure is in place**
- § There are companies really interested in joining BOVESPA MAIS**
- § We are working on activities that bring together potential underwriters and these companies**
- § Expectation: launching in the first quarter of next year**

Some lessons from Brazilian experience

How to develop the access market

- § Without investors there is no market mechanism that will work
 - § Good governance and the creation of an investment culture are essential
- § Activate the main market is easier
 - § Larger companies attract more attention from investors
 - § Successful examples may inspire others companies
- § Strengthen the intermediation industry and the appearance of smaller underwriters
- § Continuous prospect of privately held companies is worthy, even without short term results

Conclusion

- § Today, there are much better conditions for the success of the access market for SMEs in Brazil
- § BOVESPA is now working to make it happen!