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Not afraid of competing with investment banks

By Mônica Scaramuzzo and Naiana Oscar

Independent financial advisors gain share in the Brazilian market

It is not easy to abandon the business card of a large bank, the comfort of a structure that provides a personal assistant and corporate travel agent, in addition to a robust book of clients, to start almost from zero a new path in the financial market. Some Brazilian bankers decided over the last years to explore this path and compete with their old employers in a market dominated by giants. It took a while, but the independent financial advisors have started to gain share in the Brazilian market.

Research made by the newly-arrived American investment bank Greenhill shows that investment boutiques, as these advisory firms are called, represented 15% of the 20 largest mergers and acquisitions transactions in the country last year. In 2003, they participated in only 5% of the 20 largest deals. This is low compared to the United States where boutiques were present in 75% of the 20 largest mergers and acquisitions transactions in 2013. However, for Brazilian standards, this is already considerable progress.

Boutiques managed to gain ground as the number of mergers and acquisitions deals grew in Brazil: in one decade the number of transactions was multiplied by ten, starting from 85 in 2003 to 811 in 2013. Independent of capital markets sentiment in the past months, private transactions are advancing and, in many cases, serve as an alternative for companies that cannot access the market.

It was eyeing these companies, especially mid-size, that José Antonio Gragnani, former adjunct treasury secretary, and the capital markets veteran Emílio Otranto, left Pine bank to start Brazilwood just over one year ago. “Like us, there are several other executives trying to do business in this area,” says Gragnani. “The competition has been increasing, but there are still many opportunities for business that is outside the scope of the large investment banks.” The boutique that he founded with four other partners has ten deals in progress.

Crisis. The advancement of independent advisors in Brazil is linked to the financial crisis of 2008 for several reasons. Forced to cut costs, foreign investment banks reduced drastically their teams, both at headquarters and at subsidiaries, and started to offer more modest bonuses for its executives. “In the past there was a bigger balance between the risk taken and the reward earned,” says a banker. “Now, one works long hours, taking high risks, without an equivalent remuneration. This explains why seasoned executives are opting to fly solo.” By reducing their operations, the foreign banks ended up participating less in mergers and acquisitions in emerging markets, opening space for boutiques.

The American Greenhill arrived in the country in October of last year to explore this opening. Executive Daniel Wainstein, formerly at Goldman Sachs, is commanding the operations of the Brazilian subsidiary and says he already has a good book of business. “We believe that

Brazilian clients, as it happened with American ones, will prefer more and more to hire independent advisors without any potential conflict of interest," says Wainstein.

Without the powerful business card of a big bank, the flags of independence and exclusivity are the key differentiators of financial advisors in the race for clients. Founding partner of Lakeshore, boutique specialized in business in the infrastructure sector, Luiz Reis does a simple calculation when selling his services. When he headed the investment bank area at Santander his team of 70 people was responsible for 300 clients. Today at Lakeshore there are 25 executives for a book of 12 companies. "And we do not want to go far beyond this," says Reis, who advised last year the North-American group EIG in its acquisition of LLX from Eike Batista. Founded in 2010, Lakeshore is among the boutiques that most stood out in transaction volume.

Veterans. In number of deals done, however, the leader is BR Partners, belonging to the former president of Citibank and Goldman Sachs Ricardo Lacerda. In 2011 he transformed the boutique created in 2009 into an investment bank, but maintained the focus on financial advisory specialized in families. Since its inception, BR Partners has conducted around R$40 billion in mergers and acquisitions transactions in 90 transactions, including clients like Casino and Hypermarcas. "We focus on niche deals," says Lacerda. According to him, of the 450 companies represented by the investment bank, around 300 are family companies. "We started to be contacted by foreign groups such as the Chilean family Angelini and funds like KKR, Pincus, despite not having a structure abroad."

But it is not only from mergers and acquisitions that these companies survive. "We seek solutions to clients´ financial problems," says Alexandre Rezende who, alongside Marcos Rezende (the same surname is a coincidence), created Inspire Capital. The boutique was founded in April 2009 when the Dutch bank ING, where they worked, closed their office in the country.

In that same year they closed the biggest deal in the sugar and ethanol sector with the creation of Biosev, which united the domestic group Santelisa Vale with the French Louis Dreyfus. In five years, Inspire did approximately R$20 billion in mergers and acquisitions and financial advisory. Last year, its executives were responsible for the sale of bottler Spaipa to the Mexican Femsa.

Challenges. If, on the one hand, the independent advisors present themselves as an alternative to the big service of banks, on the other hand they also do not count on the structure which makes these intitutions the biggest in the country in terms of number and volume of transactions. "Without this support, the initial investment has to be heavy and you need cold blood as remuneration is tied to closing deals," says Gragnani from Brazilwood. "And it isn´t anyone that can easily make the transition from being an executive at a bank to an entrepreneur," affirms Bernardo Cavour, partner at recruiting firm Flow Executive Finders.

The former BBA executive Pércio de Souza, is one of the Brazilian bankers acting the longest in the investment boutique segment. He founded Estáter in 2003, specializing in large transactions, especially in shareholding disputes. In ten years Estáter did R$80 billion in mergers and acquisitions.

The boutique was responsible for one of the largest agreements announced this year – the incorporation of América Latina Logística (ALL) by Rumo, from Cosan group. Pércio´s company had been hired to resolve the litigation between the two companies but presented a proposal to merge the companies which had stopped long-dated negotiations.

With a history of complex deals, such as the union of petrochemicals Braskem and Quattor, Estáter has ambitious plans. With a structure in London, it plans to open an office in the United States by next year.

Free translation from the original article as posted on the Portuguese section of our website.

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http://www.estater.com.br/sites/default/files/estadosp_assessoriasfinanceiras_28abr14_0.pdf