

Multilateral Investment Fund
Project Abstract
Small Enterprise Investment Fund

I. BASIC PROJECT DATA

Title: Investment Fund for Emerging Technology-based Companies
Stratus I

Country: Brazil

Financing: MIF Facility III-b Equity USD \$ 3 mm.

The equity amount is contingent upon “matching” funds from private investors.

POTENTIAL INVESTORS:	\$R	USD
Private Investors		
Petros (private pension fund)	5.7 mm	3 mm ¹
Partners of Stratus	570,000	300,000 (2% fund size)
Individual investors	5.4 mm	2.8 mm
Institutional Investors		
SEBRAE	6.3 mm	3.3 mm
MIF	5.7 mm	3 mm
FINEP	6.3 mm	3.3 mm
TOTAL (approx.)	30 mm	15.7 mm

Sponsor: Stratus Investimentos Ltda.

II. BACKGROUND

- 2.1 The level of activity in the Brazilian VC/PE market during 2000 was, according to the number of transactions made, the largest historically. A total of 87 deals were announced, 56 in the Internet sector and 31 in other sectors. This represents an increase of 129% with respect to the 38 transactions announced at the end of 1999. Most of this evolution was due to investments in Internet, which occurred mainly during the first semester of the year. The amount invested however, was below expectations due to the small size of Internet projects. There was a 69% increase in the amount invested from 1999 to 2000, but a few large projects accounted for most of the total.
- 2.2 Following the two clear waves of investments in privatization and the Internet, this relatively smaller amount may be the first indication of a new trend in investment opportunities in the country: the small and medium-sized companies. Considering the context of the Brazilian market, with few exit alternatives, and an absence of financial leverage to increase returns in the larger investments, the VC/PE sector could in fact move towards this new investment focus. In the year 2000, approximately 40% of recorded transactions fell below USD 5 mm, 30% between USD 5-15 mm, 15% between USD 15-30mm, and only 15% of the 87 deals were above USD 30 mm. This represents a fine opportunity for MIF to lead investments in this segment of the market.

¹ Exchange rate used in this document is USD 1/R\$ 1.90

- 2.3 There are currently around 80 institutions actively involved in VC, some of them connected to international players that are in the process of establishing their presence locally. The entrance of these players may create a new sector outlook, and some consolidation is also likely to take place. These first indications are still not enough to draw objective conclusions on the outlook for the industry during 2001, but the development of these two factors are to be watched: a) the growing presence of independent players not linked to financial institutions (true VC firms), and b) the focus on small and medium-sized businesses, replacing the trends of privatization in 1997-98, and of pure Internet companies in 1999/2000.
- 2.4 This fund, if approved, will be the first one resulting from the joint collaboration of MIF and the INOVAR partners: FINEP, SEBRAE and PETROS (ref. TC-00-11-04-1Br), through its Technology Investment Facility (TIF). The TIF partners have committed to perform a joint due diligence on a number of projects they will select, focusing on the ones which are more in line with the institutions' different mandates and investment criteria. Each institution, after completing the due diligence, is free to make its individual investment decision --there is no a priori investment commitment. The fund proposals will pass through normal internal approval processes, leaving the decision-making up to each organization's Board of Directors.
- 2.5 The first meeting of the TIF partners occurred on February 19-23, 2001. The project team met with the three other partners to exchange investment criteria and analytical methodologies. Seventeen prospects for investment funds were presented on 2/21/01. Stratus was one of the few proposals unanimously selected for immediate due diligence by all TIF partners. The MIF, therefore, is starting its internal approval process by presenting this fund to the POC. If approval is granted, the team will schedule a due diligence trip to review this and one other proposal in April 2001.

III. MANAGEMENT COMPANY

- 3.1 The fund will be managed by Stratus Investimentos Ltda, founded in 1998 and headquartered in Sao Paulo. Stratus is an independent Brazilian firm dedicated exclusively to venture capital and private equity. Among the nascent venture capital industry in Latin America, Stratus Investimentos seems to have the potential to become, in time, a management company comparable to the world's leading venture capitalists. The Stratus team has managed VC/PE Latin American funds exceeding USD 500 mm; analyzed over 400 projects; and executed deals in excess of USD 125 mm.
- 3.2 The Stratus team has previous experience in corporate management, investment banking and strategic consulting, and in managing VC/PE funds in Brazil and abroad. The key executives in the Stratus team have relevant experience, as indicated below:
- *Alvaro Goncalves*, Executive Director, was, among other positions, founding partner of Pactual Electra Capital Partners (96-98), CEO of Lacta (96), and CFO of Pullman (83-93);
 - *Alberto Camoes*, Executive Director, was a partner in Newbridge Latin America Fund (96-98), Head of Mergers and Acquisitions in Banco Pactual (95-96), and McKinsey Engagement Partner with experience in Brazil, Mexico and USA (90-95);
 - *Gonzalo Cardoner*, Director, worked as Finance Director for UOL International and BMG-Ariola, and Grupo Techint and Continental Bank in Buenos Aires and Chicago; and
 - *Fernando Kalleder*, Director, was CFO of Pactual Electra Capital Partners (98), and has held management positions in the Finance area of Brazilian companies: Santos-Brasil/TECON, J. Macedo Alimentos, Grupo Ultra, Educatex, and Duratex.
- Alvaro Goncalves, Alberto Camoes and Fernando Kalleder are expected to be full-time dedicated to the fund.

- 3.3 Stratus I will be supported by: i) Stratus Investimentos as its general partner and management company; ii) Banco Itaú as the custodian of the fund's reserves; iii) Arthur Andersen as the fund's auditors; iv) the legal counsel Choaib, Paiva, Monteiro da Silva e Borestein in Sao Paulo, and Neiviani, Borges & Beldeck in Rio de Janeiro; and v) Ether Midia Tecnologia da Informacao as the technology consultant for the fund.
- 3.4 The governance structure will be composed of a Board of Directors, an Investment Committee and an Advisory Board, or *Conselho Consultivo*. The Board will make all decisions by consensus, even investments. The *Conselho Consultivo* will help the Board when analyzing and voting on investments. Four members from the investors' group will compose it. *The Conselho Consultivo* will exercise the supervision and the follow-up of the management of the fund.
- 3.5 The TIF's members preliminary evaluation of Stratus' proposal revealed the following:

Strengths	Weaknesses
Good mix of skills in the team	Governance decision-making seems unclear
Independence and exclusive dedication to the fund and VC	Size of target companies may be too high for MIF
Good sense of the market and the industry	
Stratus serves as a database provider and reference for the Brazilian VC industry	
Team has VC/PE experience	
Back-office is managed by reputable third party	
Defined investment criteria and strategy	
Long-term investment horizon	
Excellent network	

IV. FUND OBJECTIVES AND STRATEGY

- 4.1 The objective of the fund is to make equity investments in 10 companies throughout the life of the fund. The Fund will invest in companies that exhibit high growth potential, in sectors related to the New Economy, i.e., areas that are strongly influenced by new technologies, including IT, Internet, media, communications, software and logistics, and education (70-80% portfolio).
- 4.2 It is expected that most of the capital will be invested in companies that, despite their small size, already have a proven concept and management, as well as positive cash flow (see 4.1). Companies in earlier stages are expected to comprise between 20-30% of the portfolio, most likely in the biotechnology and the environmental sectors. Although Stratus prefers majority stakes, it may consider influential minority positions.
- 4.3 To ensure that the technological aspects of all deals are properly covered, Stratus has partnered with technology firm EtherMidia. This firm has over five years of experience in this fast-changing field and has become a leader among the Santa Catarina high-tech community, one of the largest technology research centers in Brazil.

- 4.4 The exits will be through sale to third parties or managers of the business. From the beginning of the due diligence on a potential portfolio company, Stratus investments must possess a clear exit strategy to a strategic buyer, preferably a local player.

V. ROLE OF THE MIF

- 5.1 The INOVAR Initiative has attracted much attention in the industry in Brazil, and many see it as the instrument to get venture capital anchored in the country. It is important that the funds approved through its Technology Investment Facility (TIF) be funds that help the nascent industry become established in Brazil. Last year, Stratus had approached the MIF for funding, and was told to process the proposal through the TIF that would be constituted soon. The investment officers who received Stratus then, and the officers now analyzing the deal through the TIF coincide in their assessment of Stratus as the kind of management company the MIF should support, because they are local people, with a good mix of skills and understanding of the VC industry, that could perform well in the market and have a demonstration effect.
- 5.2 The MIF not only adds credibility to the process, but also continues to play a catalytic role in attracting private sector money. The seal of approval it bestows upon the funds it invests in allows them to leverage funds from pension funds and other private investors, including individuals and international investors. Stratus is a member of the Brazilian Venture Capital Association and will thus, should it succeed, contribute to the demonstration effect of the MIF investment as intended.

VI. TERMS OF THE FUND

- 6.1 The fund will be constituted as a “*Fundo Emergente*” regulated by the CVM n. 209. The proposed terms of the fund are the following:

Size of the Fund:

R\$30 mm (approx. USD 15.8 mm).

Investment Period:

Three years with most investments to be made within the first two years.

Fund Investments Size:

Investments in the range of R\$ 1 mm to R\$ 4 mm (USD 526,315, up to USD 2.1 mm).

Operating/Administrative Costs:

Pre-Operating expenses: 2% of the subscribed capital, payable at subscription.

Management fee: 2% per annum of the Fund's net worth, payable quarterly

Carried interest: 20% of the Fund's capital gain, preferred return exceeding 8% per annum.

Expected return of the fund:

Above 40% IRR gross.

Distribution Cascade

The fund will distribute 20% of the profits to the manager after having distributed 100% of the initial invested capital, adjusted for inflation plus an annual, cumulative preferred rate of return of 8% to investors, plus 80% of capital.

VII. ENVIRONMENTAL GOALS

- 7.1 The investment policies of the fund will comply with IDB/MIF and local environmental guidelines. Given the nature of the sector where the fund will be investing we do not foresee significant environmental issues.

VIII. Timetable for Decision-Making

MIF Programming Committee	March 2001
Due Diligence	<u>April 1-6, 2001</u>
Post Due Diligence Investment Decision	April 2001
Presentation to IIC Expanded Operations Committee	May 1 st or May 8 th 2001
Donors Committee	June 13 th or June 27 th , 2001

X. PROSPECTIVE ISSUES

- 8.1 Governance of the Fund. This issue will need to be explored in depth during the due diligence trip, since it is not clear the participation and involvement that the shareholders will be allowed to have in the investment committee and in the other decision-making bodies of the fund.
- 8.2 Company and Investment size. The fund has a focus on larger companies and an investment size per company that is higher than the average company in MIF funds. If the MIF participates in this Fund, a compromise will have to be negotiated on the percentage of deals the fund can have in its portfolio, which are outside of the MIF's investment profile.
- 8.3 Track record and experience with VC and SME investing and managing. Since Stratus aims at holding controlling stakes in the investee companies, the team will look further into what their previous experience has been in the sector.
- 8.4 Technology Expertise in form of an external consultant. The team will look into the relationship between Stratus and EtherMidia, alignment of interest, and remuneration.
- 8.5 Fee Structure. During the due diligence, the team will ask Stratus to explain the reason for a lower than usual management fee, but a higher than usual pre-operating expenses.

For further questions, contact Susana García-Robles at ext. 8220

Annex I-Prospective Pipeline

➤ Lista de empresas com potencial de investimento (“prospect pipeline”)

Nota: todos os casos apresentados a seguir estão sob Acordo de Confidencialidade e os nomes das empresas foram propositadamente suprimidos.

1. Empresas com análise adiantada, com processo de negociação em fase inicial

Empresa de informações numéricas e qualitativas customizadas e disponibilizadas via internet
(setor com alta massa crítica de usuários e “players” como Economática e Bloomberg)

- Tese de investimento: expandir o negócio atual da empresa, tornando-a grande provedora de informações setoriais para corporações, instituições financeiras e outros.
- Destaques:
 - Demanda concreta em vários setores, contratos já firmados com ABB e Promon.
 - Equipe com vivência no desenvolvimento e venda da Internet Securities.
- Principais parâmetros: Investimento = R\$ 4,5 MM; Faturamento 2000 = R\$ 80 mil (empresa iniciou faturamento em final de 2000)

Empresa do setor de meios de pagamento/”merchant services” em pontos de venda (similar a Visanet/Redecard), incluindo consultas de cheques e cartões de crédito.

- Tese de investimento: alavancar e expandir a atual rede de serviços nos PDV, incl. cartão de crédito, administração de cartão de débito e consulta a cheques.
- Destaques:
 - Empresa tem crescido 25-30% aa nos últimos anos, investimento aumentará margem de empresa já lucrativa hoje
 - Empreendedor com garra e sólida experiência no setor.
- Principais parâmetros: investimento: R\$ 3,0 MM; Faturamento 2000: R\$ 11,0 MM

“Start up” de provedor de conteúdo para rádios (programas, notícia, etc)

- Tese de investimento: construir uma provedora de conteúdo (programação) para as rádios, reduzindo seus custos de programação e capturando as receitas publicitárias.
- Destaques:
 - Os produtos (programas de rádio) não serão vendidos, e sim permutados por espaço publicitário nas rádios.
 - Empreendedor foi principal dirigente de várias redes rádios que cresceram sob seu comando (Bandeirantes, Transamérica, Antena 1).
- Principais parâmetros: Investimento = R\$ 1,5 MM; Faturamento 2000 = ND (Start-up)

2. Empresas com negociação concluído em 90%, em processo de preparação

Distribuidor de normas técnicas por meio digital

- Tese de investimento: licenciar normas técnicas através de um portal de informações tecnológicas com conteúdo fornecido pela ABNT.
- Destaques:
 - Empresa já existe há alguns anos, tem crescido 50% aa, é lucrativa.

- Empresa tem 2.000 clientes que representam 95% do PIB industrial do país.
- Principais parâmetros: Investimento = R\$ 4,2 MM; Faturamento 2000 = R\$ 2,4 MM

Software para operadores de TV por assinatura (canal de programação, pay per view e canal local / canal assembléia).

- Tese de investimento: introduzir novos serviços interativos, obter receitas de propaganda no canal de programação e acompanhar crescimento de novas concessões
- Destaques:
 - Em dois anos de operação empresa passou a deter 51% do mercado.
 - Antes desse empreendimento, empreendedor iniciou operação concessão de TV a cabo com investidores financeiros e quadruplicou valor investido em venda para NetSul.
- Principais parâmetros: Investimento = R\$ 3,0 MM; Faturamento 2000 = R\$ 2,1 MM

3. Empresas em fase de análise e business due diligence

Empresa de análise de risco para fundações, seguradoras e asset managers

- Tese de investimento: Expandir o negócio atual da empresa, desenvolvendo e comercializando as ferramentas de análise de risco para fundos e asset managers.
- Destaques:
 - Empresa pioneira no Brasil em ferramentas de análise de fundos, risco, gap atuarial e política de investimento.
 - Empreendedores são autoridades no assunto no país
- Principais parâmetros: Investimento = R\$ 4,3 MM; Faturamento 2000 = R\$ 140 mil (empresa iniciou operações no fim de 2000)

Provedor de conteúdo de meteorologia para rádio, TV e internet e assinantes (p.ex. agricultores)

- Tese de investimento: expandir o negócio atual de consultoria meteorológica para um negócio multimídia de conteúdo relacionado ao tempo.
- Destaque:
 - Carteira de clientes inclui maiores TVs, rádios e jornais do país.
- Principais parâmetros: Investimento = R\$ 2,1 MM; Faturamento 2000 = R\$ 780 mil

“Solution provider” (software) focada em empresas do setor financeiro

- Tese de investimento: expandir o negócio atual da empresa, com a adição de novos produtos, além de tornar-se uma “software factory” e exportar softwares.
- Destaques:
 - Empresa quase dobrou ao longo do ano de 2000 (faturamento no último bimestre de 2000 anualizado de R\$4.300 mil), com boa lucratividade.
 - Carteira de clientes inclui muitos bancos (JP Morgan, Lloyds, Merrill Lynch, Citi, Boston, ABN) e empresas não financeiras (Petrobrás, Accor, 3M, Kolynos).
- Principais parâmetros: Investimento = R\$ 1,5 MM; Faturamento 2000 = R\$ 2,7 MM