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Investment banking: BR Partners is the new kid on M&A block

by Rob Dwyer

BR Partners breaks into top-five Brazilian advisers; Firm seeking investment banking licence

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Brazilian consumer products company Hypermarcas' three latest acquisitions announced in mid-November are also good news for start-up boutique BR Partners.

The deals – R$85 million ($49.2 million) for soap brand Pom Pom, R$84 million for drug brands Diderat, Peridal and Lopigrel, and R$82.5 million for dental brand Bitufo – bring the number of M&A transactions that BR Partners has advised on to 14 this year, according to Dealogic. The firm is ranked fourth by number of deals.

The fees generated will enable it to report a 2010 operating profit, two years ahead of the business plan projections. The partners have agreed unanimously to receive this year's non-basic annual compensation in equity to enable the firm to build its working capital.

BR Partners was launched in November 2009 by founding partner and chief executive Ricardo Lacerda, previously head of investment banking for Latin America at Citi and before that Goldman Sachs's country manager for Brazil. In September it moved into its first premises, the 26th floor of a newly built office block on Avenida Faria Lima, São Paulo. Previously, its 25 partners (all have an equity stake and between them raised R$85 million in working capital) had been operating from borrowed office space or working from home.

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Ricardo Lacerda, BR Partners

Acquisitions

The M&A success is just one part of the story; the firm is aiming at investment bank status, having applied for its banking licence, and is now looking closely at acquisitions of broking operations to fast-track this part of the firm's development.

One issue, however, is that prices of potential acquisitions are prohibitive.

"It's true prices are high – and we are very conscious of the cost of our own capital, given that we are small and the opportunity cost of that capital is very high. We don't intend to get into a bidding war or overpay," says Lacarda. "But there are some opportunities that are interesting, are non-competitive and we have an angle to make that happen. The licence approval process takes about a year; if we do an acquisition that could be accelerated, but either way by the end of next year we are either going to have underwriting capability or be very close."

BR Partners opened for business by concentrating first on the non-capital intensive advisory services – with M&A at the forefront. This year it will have managed the amount of business it had been expecting to achieve in 2012, just one of the benefits of launching in a booming market.

Standout deals, according to Lacerda, include acting for Hospital São Luiz in its sale to BTG Pactual/Rede D'Or, advising Grupo Qualicorp on the sale of a controlling stake to the Carlyle Group and in turn acting for Carlyle in the private equity company's purchase of Scalina.

Lacerda aims to add a further 45 M&A professionals by the end of next year and attain a run rate of 20 to 25 M&A advisory mandates every year. If achieved, however, that will be about its peak. "The bad news [about the rapid growth in the M&A business] is that we are very close to where anyone can be in the market," Lacerda says. "We anticipated our growth would happen over a longer term, but the saleability of that business is more limited."

Outbound

According to Lacerda the firm can compete on about 90% of Brazilian-related M&A. Only on outbound acquisitions does the firm stand aside. It is working with European, US and Australian companies and an Asian company looking to conduct acquisitions of Brazilian assets.

Of the firm's 14 deals to date, four have been valued at more than $1 billion; Lacerda estimates the firm has achieved total combined fees worth between 1% and 1.5% of transaction volumes. Some smaller transactions, especially when the firm has been working for the sell side, have generated between 3% and 4%, but the average percentage shrinks when combined with the lower fees on larger deals and those transactions to achieve flow and client diversification.

This lack of growth potential is why BR Partners is looking to build the other areas of its business plan as fast as is practicable. It aims to launch a private equity business in January, as well as an asset management business and the addition (acquisition or otherwise) of its planned trading and underwriting capability.

Modular model

"Our model is modular – we have initially started with an advisory business that has low capital requirements – before going into private equity, asset management, becoming a financial institution with trading and underwriting and potentially also getting involved in some fixed-income products," explains Lacerda. "But we will stop at the more capital-intensive areas such as lending or some of the capital-intensive fixed-income products."

20%-25%

BR Partners' target return on investment

The private equity fund has attracted launch capital of R$200 million from 11 anchor families and there are plans to double that number of investors. The fund's first investment is expected to be finalized next month. "We felt that it was very important to get Brazilian capital, from people who know the country and how to navigate volatile markets and are committed to the country in the long term," says Lacerda. Plans are in place to double this launch capital among other Brazilian families, all of which have liquid assets of more than R$200 million, and establish a good domestic track record before seeking out international investors. Lacarda says that raising capital in the market is relatively easy: the challenge is finding good, sound investments. The firm is keen not to raise too much capital with value-for-money investment opportunities scarce.

The term private equity is something of a misnomer for the new fund. BR Partners will be looking for minority, primary capital investments with no leverage in companies with good growth potential. The firm will also take seats on company boards and advise on company development, help recruit chief financial officers, and help develop financial sophistication and corporate governance through to sale, merger or IPO.

"We are going to be much more like the UK merchant banks in the 1980s than today's private equity companies," says Lacerda. "The firm will aim for between 20% and 25% return on investment on token bets – in the range of R$30 million to R$50 million".

Full spectrum

The firm, is, however, determined to keep its focus on being a sell-side operation. Lacerda believes there is a gap in the market for an independent financial institution, created by BTG Pactual's ascendancy into the top tier. "BTG Pactual has very quickly become a very large player – that's very good news for them, but they are now competing in a different spectrum," says Lacerda. "We want to really take advantage of the vacuum that comes below Pactual. We don't think Brazil has an independent player of mid-size that is a full-service financial institution – that's the space we want to occupy."

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