

Brazil's First IPO for 2014 to Break Capital Market Stagnation?

By Tamir Chagal, LLM Candidate 2015 | November 11, 2014

Brazil has been recognized for its rapidly growing economy in recent years. Thanks to its head-turning growth rate, the “B” of the "BRIC" countries is now one of the most noted characters.

The Brazilian economy, however, suffered a staggering blow due to the negative growth indicators in the first two quarters of 2014 and the recent political uncertainty caused by the competitive presidential election. The Brazilian capital market, which used to be one of the main engines of Brazil's economic boost, has in turn remained dormant throughout 2014, as the first IPO of the year debuted only during the fourth quarter of 2014.

Surprising to some, that IPO — which is wishfully expected by many to break the Brazilian capital market standoff — was not conducted by an innovative telecom company (or other type of company more typical to the Brazilian capital market's climate). The company to "break the IPO dry-spell" was Ouro Fino Saúde Animal Participações, a veterinary medicine company that went public last October.

Ouro Fino, together with the company's founders, Jardel Massari and Norival Bonamichi and the private equity arm of BNDES Participações SA, [secured](#) an aggregate amount of \$170 million from both Brazilian and US investors in both primary and secondary offers. On the primary offer, the company issued and sold 3.94 million shares. On the secondary offer, the company's major shareholders sold 11.53 million of the shares already held by them. The price per share for the IPO was set at \$11.02 — the [upper end](#) of the scale portrayed under Ouro Fino's IPO prospectus.

According to Ouro Fino's forecasts, it expected that approximately 45% of its stock would be publicly traded upon the completion of the IPO. As a result, even the relatively high scaled IPO that eventually took place did not cause a change of control of the company's equity stake.

Ouro Fino's economic attractiveness, which enabled it to overcome the market's uncertainty chasm, was generated by two material drivers. First, the company's adjusted EBITDA for the first half of 2014 reflected a 23% increase over the first half of 2013. The second is the company's belief as well as the public trust in Ouro Fino's stability, or at least, the fact that the demand for Ouro Fino's products is inherently inelastic.

In that context it is interesting to compare Ouro Fino's success with JBS SA, the world's largest meatpacker, which [rejected an IPO spinoff](#) of its food operations in Brazil earlier this month. JBS SA rejected the IPO spinoff due to market volatility related concerns, fueled by the political instability that may lead to price falls and in turn affect JBS' operations and stock price. Both JBS and Ouro Fino are of course heavily tied to the meat production and consumption industry, which makes the comparison even more relevant.

At this stage, it is impossible to know whether Ouro Fino's 2014 pioneering IPO is the first sign of the awakening of the Brazilian capital market, or rather a sole voice in an otherwise dormant sector. Now that a new president has been elected, there may be a new hope for the Brazilian capital market to awaken and once more serve as one of the main drivers for the country's economic development.