

A Country
Perspective of
Angel Investment:
**Brazil - Policies
& Practices 2017**

BE
BRASIL

**INVEST
IN BRASIL**

A COUNTRY PERSPECTIVE ON ANGEL INVESTMENT

POLICIES & PRACTICES 2017 – BRAZIL

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INTRODUCTION

In the globalized and competitive world we live in, innovation is a goal that all countries constantly seek, increasingly investing in Education, Research & Development, and Technological Development, since these items are essential to sustain economic growth. However, all these investments only become results for the economy and society when they become tangible products and services through the entrepreneurial initiative. Thus, for Brazil to have continuous strength, in addition to the basic investment for its economic development, it is necessary to encourage the creation and growth of innovative entrepreneurship, the so-called startups, which will generate our wealth in the future.

The economic recovery is one of the greatest challenges we currently have in Brazil, and it is crucial for this recovery to be based on innovation and to remain sustainable in the future. A fundamental player in this is angel investment. Made by entrepreneurs, executives and liberal professionals with their own resources in high-potential startup companies, angel investment adds not only capital, but all the experience, knowledge and relationship network of the investors, thus increasing significantly the chances of success and accelerating business growth.

According to the conclusion of a study by The Organisation for Economic Co-operation and Development (OECD), angel investors have a key role in financing young companies. That is why they must have more attention from policy makers and academics. Examples of companies that had angel investment support in the beginning are: Apple, Google, FEDEX, Intel, Starbucks, etc. and in Brazil: Buscapé, Bematech, etc. Angel investment in Brazil represents more than R\$ 850 million/year, having potential for R\$ 3 billion/year in the short term and even R\$ 5 billion/year in the medium term.

ABOUT APEX- BRASIL

The Brazilian Trade and Investment Promotion Agency (Apex-Brasil) works to promote Brazilian products and services abroad, and to attract foreign direct investments to strategic sectors of the Brazilian economy.

The Agency focuses on foreign companies and projects that offer technological innovation and new business models, strengthen industrial supply chains, have a direct impact on national job creation or improve the volume and diversity of Brazilian exports.

Apex-Brasil has assisted investors and industries from numerous countries in setting up new facilities, playing a key role in directing investments to Brazil. The Agency identifies opportunities for investment in several sectors and presents these opportunities to investors around the world.

Moreover, Apex-Brasil also assists capital investors – limited partners (LPs), such as sovereign funds, corporates, family offices, angel investors, GPs, university endowments and others – in finding profitable investment opportunities in partnership with local investment funds – General Partners (GPs) - or through government concession programs, companies and startups.

The goal is to bring investments to Brazilian companies in order to strengthen their competitiveness, by improving their management capabilities, expansion programs, innovation processes and exports. Apex-Brasil promotes investment rounds with foreign venture capital funds and Brazilian companies and startups, as a strategy to foster development and innovation in the country. The Agency has successfully supported several investors in committing almost US\$ 10 billion to the country, and hundreds of companies through its promotional and matchmaking agenda.

Visit us: www.apexbrasil.com.br

ABOUT ANJOS DO BRASIL

Anjos do Brasil a not-for-profit organization, founded in 2011, for helping the development of angel investment in Brazil. It is the largest angel investor network in Brazil with over 16 affiliated groups spread from south to the north of the country with over 300 active members and represents the sector to at every level of Brazilian government, proposing public policies to foster startup investments.

In order to encourage angel investing in support of innovative entrepreneurial projects, Anjos do Brasil act on three fronts:

- Supporting the formation of investment groups for connecting entrepreneurs and angel investors;
- Sharing knowledge and helping to create a risk capital investment culture; and
- Working with government to formulate and execute public policies in support of innovative entrepreneurial projects.

The guiding principle of our activity is to connect all the agents of the entrepreneurial community.

Visit us: www.anjosdobrasil.net/about-us-in-english.html

BRAZIL: FUNDAMENTALS / HIGHLIGHTS

- 1.779 USD trillion GDP (2016), and an average GDP growth rate of 2.6% since 2000
- Urbanization rate of 86%
- 207.9 million people; median age 29 years old
- Around 70% of the population at working age
- Among the top 10 largest world economies, and the largest in Latin America
- Among the top 10 recipients of FDI in the world, having received over USD 560bn in the last 7 years
- Structuring Reforms: ceiling expenses, labor, social security and tax
- Microeconomic Reforms: sector regulation – efficiency, fiscal control and banking spread reduction
- Medium-high income for emerging markets' standards – such as India, China, Colombia and Turkey
- No religious or ethnic tensions
- Stable democracy and solid institutions

Sources: BACEN, Ministry of Finances, IBGE, UNCTAD -WIR 2017.

A SOLID REGULATION ENVIRONMENT



The Latin America Private Equity & Venture Capital Association (LAVCA) publishes a yearly scorecard, which aims to evaluate ongoing regulatory changes that foster a stable climate for investment in the region. For 2017/2018, Brazil has ranked second, just behind Chile. Considering the performance in the past three years, Latin American countries decreased their score, while Brazil kept the same one.

- **Equal treatment of foreign and national capital***
- **Consolidated banking systems regulation since 1964**
- **Corporate governance practices and transparency requirements**
- **Solid Regulatory agency CVM (Brazilian SEC)**

Sources: LAVCA – Latin America Private Equity & Venture Capital Association, ABVCAP – Brazilian Private Equity & Venture Capital Association.

ENTREPRENEURIAL ECOSYSTEM CONTEXT

Boasting 1,600-2,900 active tech startups, São Paulo is home to the largest and most mature startup ecosystem in South America. The Brazilian tech epicenter is also one of the 15 largest ecosystems in the world. At the same time, São Paulo is among the cities that dropped the most in this year's global ranking, from 12th in 2015 to below the top 20. Economic challenges and political turmoil have undoubtedly weakened the ecosystem, but also strong newcomers from China and Sweden made it impossible not to lose ground in the global ranking. The willingness and energy to reverse this trend is undoubtedly there. The city of São Paulo recently announced a program to reduce the time required to incorporate most types of ventures to less than 7 days. Federal and local government have also led the establishment of Innovatech, a provider of online mentorship, and other service providers. Government leadership remains sparse while private players continue to drive growth. Organizations such as Endeavor Brazil and Dínamo, a movement to promote policy changes to foster innovation and startups, are just two important examples. Startup Farm, one of Brazil's most important accelerators, has already invested \$100 million into well over 200 startups. YouTube Gaming, Instagram and other large technology companies have committed to making São Paulo their Latin American headquarter while Google announced its first batch of resident startups last year.

As a result, the ecosystem continues to produce startup success stories like no other Latin American ecosystem. Real estate startup VivaReal has already raised approximately \$75 million, making it one of the largest Brazilian startups. Rising stars coming out of the ecosystem include DogHero and Exact Sales, which have raised \$3.1 million and \$1.2 million, respectively.

In this year's ranking, São Paulo's strongest factor is Performance- driven by its high number of startups that are performing reasonably well. The Funding environment appears to be a major hindrance, and while the Engineering Talent is low cost, São Paulo does not rank well on the Access sub-factor. The ecosystem's potential is undeniable, but the assessment also outlines that the city can do better at materializing the hype¹.

Brazil's innovation entrepreneurship ecosystem is quite broad and integrated, with several operating associations:

ACCESS TO CAPITAL

- Angel Investors
- Angel Investors Networks
- Seed Funding Investment
- Venture Capital (Abvcap)
- Co-investment Funds
- Government grants (Fapesp, Finep, etc)
- Private banks (Febrabam)
- Equity crowdfunding (Equity)

ENTREPRENEURSHIP SUPPORT ASSOCIATIONS

- Brazilian Association of Science Parks and Business Incubators (Anprotec)
- Brazilian Startup Association (ABStartups)
- Brazilian Trade and Investment Promotion Agency (Apex-Brasil)
- Brazilian Micro and Small Business Support Service (Sebrae)

¹ Source: *Global Startup Ecosystem Report 2017* – pgs. 95, 96

We recommend reading:

<http://www.apexbrasil.com.br/uploads/Investment%20Guide%202017.pdf>

ANGEL INVESTMENT IN BRAZIL

ANGEL INVESTMENT ECOSYSTEM: A BRIEF HISTORY

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The guiding principle of our activity is to connect all the agents of the entrepreneurial community.

2015 – 2017 2ND CYCLE

Several groups of angel investors were formed, with emphasis on groups linked to domestic and foreign Universities.

New regulations are approved and forward demands for asset protection of angel investors.

2011 – 2015 CONSOLIDATION

The number of investors and investee companies increases annually and investments are carried out in a consistent and structured way.

Anjos do Brasil, fostering organization of angel investment is founded, acting as a network of investors to create and disseminate the culture and knowledge on venture capital and public policies.

2002 – 2011 1ST CYCLE

Emergence of the first groups of angel investors. Greater involvement of investors with the VC market.

1994 – 2002 START

Sporadic investments in technology startups through personal contacts by entrepreneurs

STRENGTHS AND CHALLENGES

Brazil currently has more than 7000 ACTIVE Angel Investors.

More than 12 organized Angel Investor Networks are looking to invest in 18,000+ START-UPS in the next 3 years.

With many of them being backed by the 300 Incubators or 30+ accelerator programs in the country.

STRENGTHS

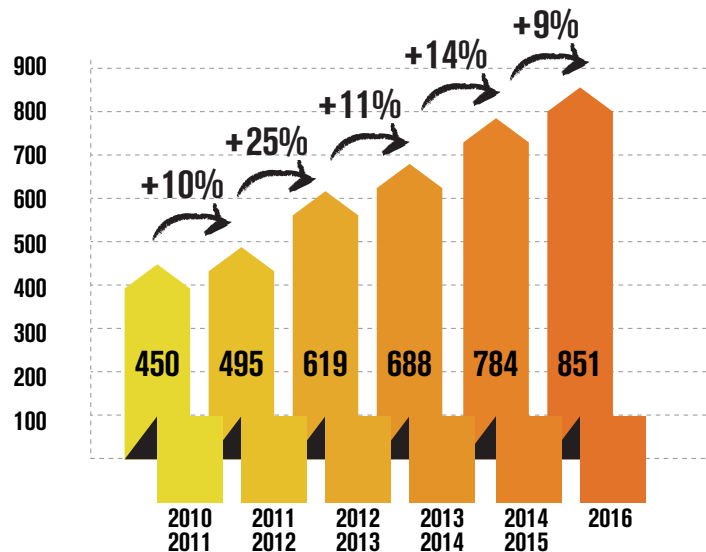
- MARKET WITH MANY REAL OPPORTUNITIES AND LOW COMPETITION FOR INNOVATIVE COMPANIES TO IMPLEMENT THEIR SOLUTIONS
- INTERNAL MARKET GROWTH
- ACTIVE ANGEL INVESTORS HAVE BEEN INCREASING THE VOLUME OF THEIR INVESTMENT IN STARTUPS
- ADVANCES IN THE BRAZILIAN LEGISLATION THAT GIVES LEGAL SECURITY TO THE ANGEL INVESTMENT
- EMERGENCE OF CO-INVESTMENT FUNDS WITH ANGEL INVESTORS

REALITY CHECK

- MOST STARTUPS PRESENT INNOVATIONS ONLY IN THE LOCAL BUSINESS MODEL, BUT CONSIDERING THAT BRAZIL IS A SIGNIFICANT MARKET, THERE IS A LOT OF POTENTIAL.
- NOT ALL ENTREPRENEURS ARE FULLY QUALIFIED TO ATTRACT INVESTMENT.

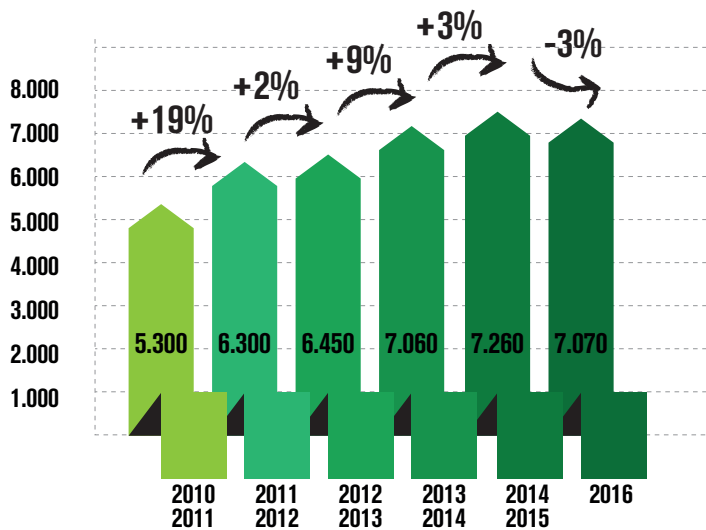
BRAZILIAN ANGEL INVESTMENT GROWTH IN NUMBERS

TOTAL AMOUNT INVESTED IN MILLION R\$



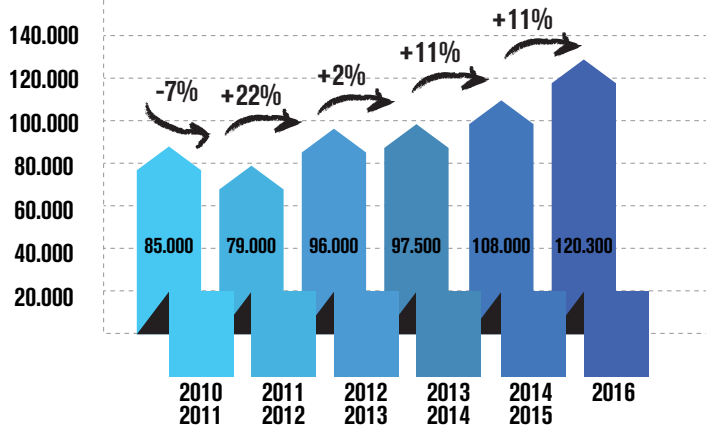
Source: Anjos do Brasil

NUMBER OF ANGEL INVESTORS



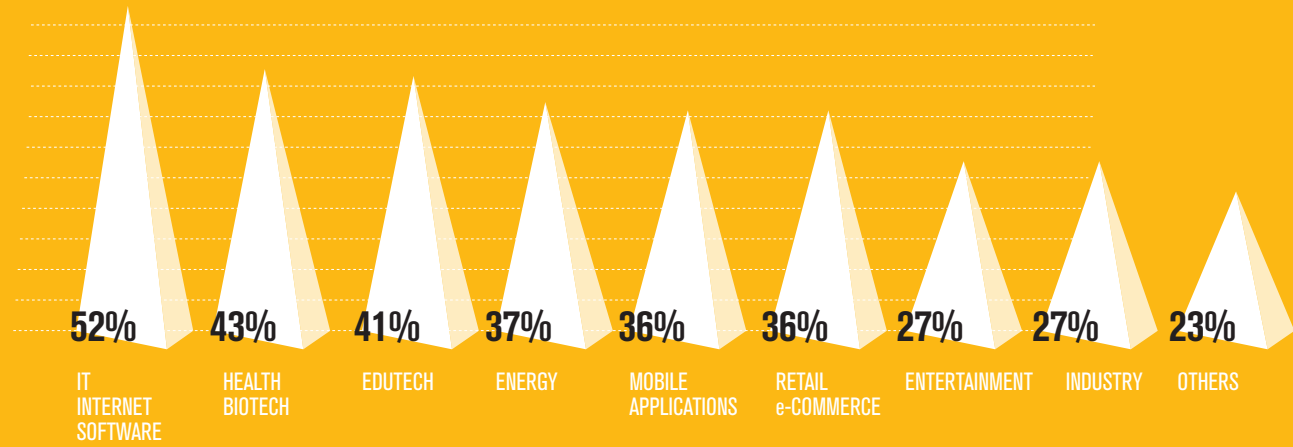
Source: Anjos do Brasil

AVERAGE ANGEL INVESTMENT TICKET SIZE



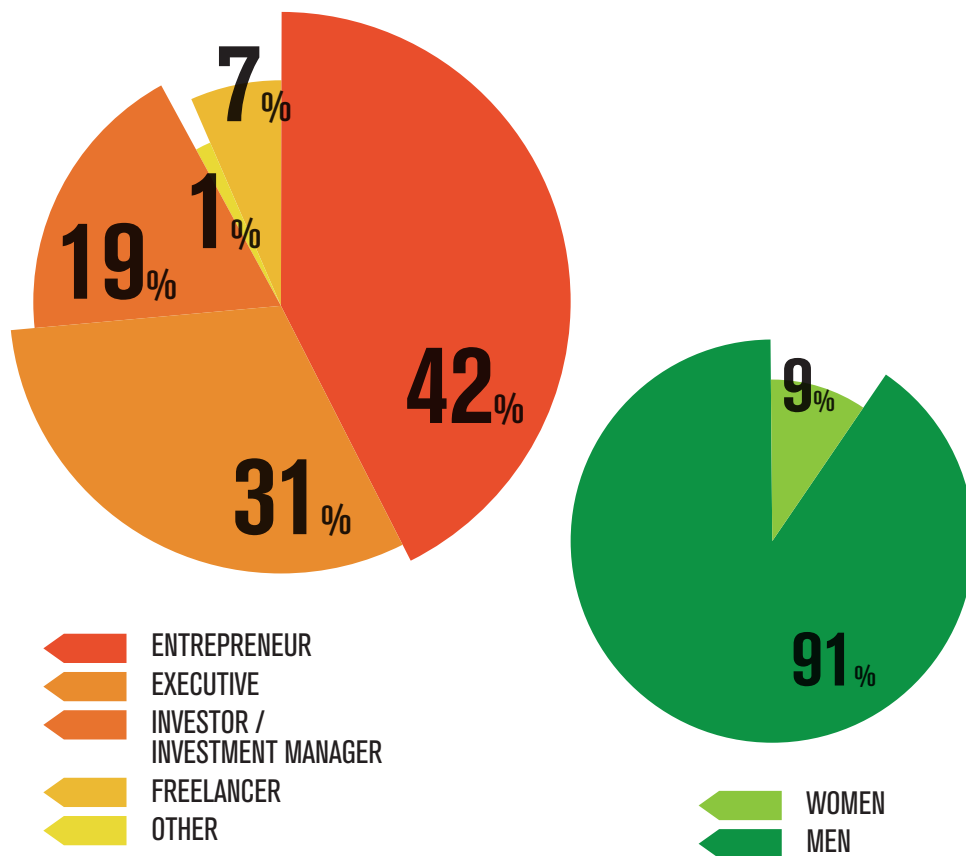
Source: Anjos do Brasil

MOST RELEVANT SECTORS FOR ANGELS TO INVEST



Source: Anjos do Brasil

ANGEL INVESTOR PROFILE OCCUPATION



Source: Anjos do Brasil

BRAZILIAN ANGEL NETWORKS



ANJOS DO BRASIL

Active members
+300

Location: Rio Grande do Sul (RS), Santa Catarina (SC), Paraná (PR), São Paulo (SP), Rio de Janeiro (RJ), Belo Horizonte (BH), Bahia (BA), Amazonas (AM), Distrito Federal (DF), Goiás (GO), Mato Grosso do Sul (MS), Alagoas (AL), Rio Grande do Norte (RN), Ceará (CE)

website: www.anjosdobrasil.net



CURITIBA ANGELS

Active members
40

Location: PR

Website: www.curitibaangels.com.br



GÁVEA ANGELS

Active members
61

Location: RJ

Website: <http://www.gaveaangels.org.br/>



GV ANGELS

Active members
62

Location: SP

Website: www.gvangels.com.br



INSPER ANGELS

Active members
108

Location: SP

Website: https://www.insper.edu.br/empreendedorismo/insper_angels/



ISE BUSINESS ANGELS

Active members
21

Location: SP

Website: <http://ise.org.br/emprese>



LAAS - LATIN AMERICAN ANGELS SOCIETY

Active members
14

Location: SP

Website: <http://laasoc.com/>



VERUS GROUP

Active members
26

Location: SP

Website: www.verusgroup.com.br

**Not exhaustive sample of existing networks.*

SAMPLE OF ANGEL INVESTMENTS 2016-2017

| ANGEL NETWORK | COMPANY NAME | SECTOR |
|---------------------|-------------------|---------------------------|
| Anjos do Brasil | Brasil Mate | Retail |
| Anjos do Brasil | Byond | Industrial |
| Anjos do Brasil | Fhinck | Business |
| Anjos do Brasil | Filho sem fila | Education |
| Anjos do Brasil | GeekHunter | HR |
| Anjos do Brasil | Menu.com.vc | Retail |
| Anjos do Brasil | Pet Anjo | Marketplace |
| Anjos do Brasil | Pluga | SME |
| Anjos do Brasil | Quem cuida | Health Services |
| Anjos do Brasil | Quero Quitar! | Fintech |
| Curitiba Angels | Contabilizei | Accountant |
| Curitiba Angels | DroneMapp | Geoprocessing |
| Curitiba Angels | James Delivery | Delivery |
| Curitiba Angels | QuemCuida | Health |
| Curitiba Angels | Transfeera | Fintech |
| Curitiba Angels | Troco Simples | Fintech |
| Gávea Angels | Ambiente Renovado | Architecture |
| Gávea Angels | Bizut | Digital/HR |
| Gávea Angels | Bizvox | Telecom |
| Gávea Angels | Brazil Pass | Digital |
| Gávea Angels | Cargo BR | Digital/Freight |
| Gávea Angels | Descomplica | Education |
| Gávea Angels | EcoCharge | Social |
| Gávea Angels | Hotel Quando | Tourism |
| Gávea Angels | Nutre Bem | Digital/Food |
| Gávea Angels | Publit | Comunication |
| GV Angels | eStoks | Logistics |
| GV Angels | Expresso | Corporativo reimbursement |
| GV Angels | Standout | Digital Media |
| ISE Business Angels | Canguru | |
| ISE Business Angels | Explorum | Educational |
| LAAS | Job for model | HR |
| LAAS | Justto | Legaltech |
| LAAS | Mobicity | Mobility |
| LAAS | Skore | Digital |
| Verus Group | Convenia | HR |
| Verus Group | Cuponeria | Discount coupons |
| Verus Group | Hands | Mobile Marketing |
| Verus Group | Omiexperience | ERP |

WHO CAN BE AN ANGEL INVESTOR IN BRAZIL

The Brazilian government does not require the registration of angel investors or requires them to be qualified investors. Most angel investor networks have as inclusion criteria:

- Self-declaration stating they can invest more than R\$ 40 thousand/year in the activity.
- Minimum experience of 6 years in relevant position in corporations or as an entrepreneur.

CO-INVESTMENT FUNDS

In 2017, investment fund initiatives arise in Brazil and make co-investment with angel investors, increasing capital availability for startups and reducing the risks for angel investors.

FINEP Startup – <http://finepstartup.finep.gov.br/>

The Finep Startup Program aims to support innovation in knowledge-intensive startup companies through the use of financial resources for the implementation of their growth plans.

The focus of the Program is to cover the in support and financing gap between the contribution made by growth programs, angel investors and crowdfunding and the contribution by Seed Money and Venture Capital Funds.

BNDES

The Brazilian Development Bank (BNDES) announced it will have an investment fund to support startups. The fund resources will be in the amount of R\$ 200 million in the venture debt model, i.e., it will buy debt securities from startups, with the participation of private equity as well.

GOVERNMENT POLICIES TO PROMOTE BUSINESS ANGEL INVESTING

In 2016, the Federal Government issued Complementary Law 155/2016, defining the Participation Agreement as a typical instrument for angel investment.

This law brought major benefits:

1. The protection of the angel investor regarding any liabilities that the company may have. The loss of venture capital is a risk accepted by angel investors; however, one of their major concerns is that besides losing their invested capital – in case the company is charged for debts, especially fiscal and/or labor ones – the Justice would determine the disregard of the legal personality of the company, levying execution upon the property of the partners, including those of the investor. By incise I of the 4th paragraph of art. 61-A it was established that the angel investor “will not be responsible for any debt of the company, including judicial recovery, not applying to him the art. 50 of Law no. 10,406, of January 10, 2002 – Civil Code”; which is what defines the disregarding of corporate entity.

2. Another major benefit brought by the law is the fact that the angel investment no longer disqualifies the company invested from SIMPLES, a simplified tax regime for startup companies. That is, the company will continue to enjoy the benefits of SIMPLES, such as reduced taxes and tax simplification.

Law 155/2106 – Statement on the angel investment:

Art. 61-A. To encourage innovation activities and productive investments, the micro- or small enterprise, under this Complementary Law, may admit the contribution of capital, which will not incorporate the company's share capital. (Included by Complementary Law no. 155/2016)

§ 1st The purposes of fostering innovation and productive investment must be included in the participation agreement, with duration not exceeding seven years. (Included by Complementary Law no. 155/2016)

§ 2nd The contribution of capital can be held by an individual or legal entity, known as an angel investor. (Included by Complementary Law no. 155/2016)

§ 3rd The constitutive activity of the social object is exercised solely by regular partners, in their individual name and under their sole responsibility. (Included by Complementary Law no. 155, 2016)

§ 4th The angel investor: (Included by Complementary Law no. 155/2016)

I – will not be considered a partner or have any right in the department or vote in the administration of the company; (Included by Complementary Law no. 155/2016)

II – will not respond for any debt of the company, including in judicial recovery, not applying to them the art. 50 of Law no 10,406, January 10/2002 – Civil Code; (Included by Complementary Law no. 155/2016)

III – will be paid for their contributions, in accordance with the participation agreement for a period of up to five years. (Included by Complementary Law no. 155/2016)

§ 5th For framing purposes of micro- or small enterprise, contributed capital values are not considered to be revenue of the company. (Included by Complementary Law no. 155/2016)

§ 6th At the end of each period, the angel investor will live up to the remuneration corresponding to the results distributed, according to participation agreement, not exceeding 50% (50%) of the profits of the micro- or small enterprise. (Included by the Complementary Law no. 155/2016)

§ 7th The angel investor may only exercise the repurchase right after at least two years of the contribution of capital, or longer period established in the participation agreement, and the assets will be paid in the form of the art. 1,031 of Law no. 10,406, of January 10, 2002 – Civil Code, not exceeding the amount invested and properly adjusted. (Included by the Complementary Law no. 155/2016)

§ 8th The provisions of § 7th of this article do not prevent the transfer of ownership of the contribution to a third party. (Included by the Complementary Law no. 155/2016)

§ 9th The transfer of ownership of the contribution to third party unrelated to the company will depend on the consent of the partners, except for contrary contractual stipulation. (Included by the Complementary Law no. 155/2016)

§ 10th. The Ministry of Finance may regulate the taxation on withdrawal of the invested capital. (Included by the Complementary Law no. 155/2016)

Art. 61-B. The issuance and ownership of special contributions do not prevent enjoyment of Simples Nacional. (Included by the Complementary Law no. 155/2016)

Art. 61-C. If the partners decide for the sale of the company, the angel investor will have right of preference in the acquisition, as well as the right of tied sale of the ownership of the contribution of capital, on the same terms and conditions offered to regular partners. (Included by the Complementary Law no. 155/2016)

Art. 61-D. Investment funds may provide capital as angel investors in micro- and small enterprises. (Included by the Complementary Law no. 155/2016)



LEGAL TYPES OF STARTUPS IN BRAZIL

In Brazil there are several legal types for companies, the most common for startups are:

- Limited Liability Company (Ltd.): equivalent to the American LLC, it allows multiple partners and its holdings are divided into quotas with no minimum capital; it is the most common type for the initial phase of the startup and more suitable for convertible instruments or participation agreement (see legal models for investment)
- SA Corporation (S/A): equivalent to the American C-Corp, it allows multiple partners and its holdings are divided into shares; it has advanced governance structure through a management council. It is more common for startups that already have an investment fund (seed or VC). Normally the participation of the angel investor is converted into shares.

NICE MODELS FOR INVESTMENT

The most used legal models for angel investment in Brazil are:

- Convertible mutual: equivalent to a convertible note, it is a loan contract with the possibility of conversion into equity interest, and may be have a pre-defined valuation or not.
- Participation Agreement: new contract model set according to Law 155/2016, protects the investor of the liabilities the company may have. It also allows the conversion into equity interest.

In addition to these models, companies under SA Corporation (S/A) can use:

- Convertible debentures: are also equivalent to the convertible note, but used only for S/As. They can be converted into shares.
- Shares: a direct participation in the company, usually with the preference class for angel investors.

Anjos do Brasil provides general guidelines of contract models used in Brazil for angel investment on www.anjosdobrasil.net/guia

We recommend investors and entrepreneurs to always have a legal department or specialized lawyer for the preparation of contracts.

FIRST STEPS FOR INTERNATIONAL ANGELS TO INVEST IN BRAZILIAN STARTUPS

1 JOIN A GROUP OF BRAZILIAN ANGEL INVESTORS

We recommend you to associate with a network or group of Brazilian angel investors in order to access the deal-flow and, especially, to co-invest with a local investor for improved security and business monitoring.

2 OBTAIN YOUR BRAZILIAN TAXPAYER REGISTRY (CPF)

To obtain the Brazilian tax registry (CPF), visit <http://www.receita.fazenda.gov.br/Aplicacoes/ATCTA/CpfEstrangeiro/fcpflng.asp> and follow the instructions; after delivering the required documents, the card will be issued within 24 hours.

3 CONSIGNMENT OF INVESTMENT

The consignment of resources is relatively simple in Brazil, only requiring the invested company's banking information for international consignment. The startup must provide the consignment record along with Brazilian Central Bank through a licensed foreign exchange company.

4 RECEIPT OF DIVIDENDS AND CAPITAL GAIN

Once the startup has profits to distribute or sell its business, the results will be distributed to the partners, including foreign investors, via international consignment of resources; there is no restriction in Brazil for international consignment. The consignment of dividends is usually tax free, and the capital gain is taxed between 15% to 22.5% according to the gain obtained.



MINISTRY OF
FOREIGN AFFAIRS

