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Brazil Exchange Strikes While It's Hot

IPO May Open Door To Latin America, Deals

By ANTONIO REGALADO and AARON LUCCHETTI
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Until now, the race to cash in on stock exchanges -- through initial public offerings and mergers -- has been concentrated in the northern half of the globe. Now, it is Latin America's turn.

Tomorrow's planned \$3.2 billion IPO by São Paulo's stock exchange, Bovespa Holding SA, is drawing attention to Brazil's red-hot IPO market and offering a peek into what could be the next region for deal making among exchanges.

In recent years, public offerings by exchanges in Asia, Europe and the U.S. have set off a wave of modernization as broker associations have morphed into for-profit groups with an eye on expansion. Just this year, the New York Stock Exchange's takeover of European exchange operator Euronext NV formed a company, **NYSE Euronext**, that owns exchanges in six countries and is valued at more than \$20 billion.

Latin America has lagged behind the trend, but several IPOs are awakening strategic interest in the region. In addition to Bovespa, Brazil's main futures and commodities exchange, the Bolsa de Mercadorias & Futuros, and Mexican exchange operator Bolsa Mexicana de Valores, also are planning IPOs.



And in the first foray by a major U.S. exchange into Latin America, Chicago Mercantile Exchange owner **CME Group Inc.** announced plans late Tuesday to acquire about 10% of Brazil's BM&F, which trades things including cotton and currencies, in return for a 2% stake in the Chicago market operator. The swap is valued at about \$700 million.

The 117-year-old Bovespa picked a strategic moment to make its move. Brazil is enjoying a rare spell of stability that stands in contrast to past boom-and-bust cycles. There have been 54 IPOs on the market this year so far and foreign investors seeking emerging-market returns have pushed the market's key index up by 39% since January. The market's success is a big change from the 1990s, when a wave of privatizations shrank the number of listed Brazilian firms.


Demand for the Bovespa IPO has been heavy. And that could make the deal -- which is being underwritten by Goldman Sachs Group Inc. and Credit Suisse Group, among others -- one of the biggest ever for a stock market, as well as Brazil's largest IPO to date. Overall, it could rank as the fifth-largest IPO of

2007 world-wide, just after that of private-equity firm Blackstone Group LP, according to Thomson Financial.

Executives at rival exchanges called the IPO price steep, but Brazil's climbing market put many big investors in a position where they "don't want to miss the boat," says Bernardo Mariano, a partner at financial-advisory firm Equity Research Desk.

Bovespa's offering raises the odds for a deal with other exchanges, although big U.S. operators have so far stayed away. Bob Greifeld, chief executive of **Nasdaq Stock Market Inc.**, which recently made a bid to acquire Nordic exchange operator **OMX AB**, said recently that his priority remained on opportunities in the Middle East and Europe.

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Latin American exchanges, he said, could represent "a second phase" of consolidation.

Deal makers face a number of hurdles in the region. As is common in Brazil, Bovespa's bylaws are structured to poison any takeover attempt. More than 150 banks and brokers own shares in the market, with none currently topping a 6% stake. Mergers and deals "won't be automatic like when the NYSE went public and their biggest shareholders became hedge funds," says Benn Steil, director of international economics at the Council on Foreign Relations in New York.

Latin America also remains divided culturally and politically, which has slowed attempts at consolidation. Three years ago, Bovespa and stock markets in Mexico, Colombia and Chile began working on a strategy to permit each to trade the others' stocks. But that plan has gotten hung up on legalities, according to an official in Mexico.

Observers praise Bovespa for boosting interest in Brazil's stocks. In 2002, it introduced the Novo Mercado, a listing for newly public companies with U.S.-style corporate-governance standards. Partly as a result, foreign investors have bought up 74% of shares in new listings, which have included real-estate companies, banks and ethanol plays.

Indeed, Bovespa's Novo Mercado has been stoking a fever for corporate "transparency" that is helping to remake business in Brazil, and is likely to extend the IPO trend. To go public, closely held family companies are rapidly retooling -- bringing on new management and investors and becoming more efficient. Currently, some 23 additional firms are waiting for regulatory approval for IPOs.


Already this year companies have raised \$19.7 billion in initial offerings on Bovespa, ranking it fourth in the world, after exchanges in London, New York and Hong Kong, according to Thomson.

And some observers think Brazil's exchange could emerge as a low-cost competitor for South American firms looking for dual

listings that might otherwise go to New York or London. In July, an Argentine bank, Banco Patagonia, went public in Brazil, and other Latin American companies have been sounding out the market.

One big draw is the Brazil market's trading activity. It has grown steeply since 2002, when Bovespa's average daily volume was only about \$310 million. Now it averages \$2.4 billion a day, an 88% increase over last year. The exchange's profit is leaping, too -- to \$135 million in the first half of the year.

Still, Bovespa ranked 21st among stock exchanges by the value of trades in the first half of 2007, behind the NYSE, Nasdaq and exchanges in London and Tokyo. Nearly 30% of trades on the exchange involve just two companies, oil



Exchange in the Sun
 São Paulo's stock exchange has raised its profile as one of the world's busiest markets for IPOs (table below). At right, Chairman Raymundo Magliano Filho promotes stock ownership to ordinary Brazilians.

Photos: Bloomberg News/Landov

Country/exchange	IPO proceeds, in billions	IPO market share	Number of IPOs
U.K./LSE	\$33.65	15.1%	48
U.S./ NYSE	26.72	12.0	58
Hong Kong/HKSE	26.53	11.9	59
Brazil/São Paulo SE	19.71	8.9	54
Russia/RTS	14.10	6.3	11
U.S./Nasdaq	13.94	6.3	103
Russia/MICE	13.53	6.1	9
U.K./AIM(LSE)	10.69	4.8	129
Germany/Frankfurt SE	8.27	3.7	36
China/Shanghai SE	7.81	3.5	8

Note: Some IPOs listed on more than one exchange; all data year to date Source: Thomson Financial

giant Petróleo Brasileiro SA, or Petrobras, and iron-ore miner **Companhia Vale do Rio Doce SA**. Such blue chips appeal to investors who want emerging-market returns, but are wary of investing on unfamiliar terrain.

Now predictions are that Bovespa's stock will quickly join the short list of Brazil's bellwethers. "An exchange is a wonderful way to invest in a country without taking the risk of an individual company," says Thomas Caldwell, a Toronto money manager whose firm, Caldwell Financial, has investments in 32 exchange operators.

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