

THE PROFILE OF THE PRIVATE EQUITY PROFESSIONAL IN BRAZIL

Insper Spectra 2GET Analysis – Sep 2016

People are a main concern for institutional investors that commit capital to PE/VC funds. Recurrently investors question PE/VC firms about experience level and the turnover rate of their team. Those worries are amplified when the firm is located in emerging countries like Brazil, with a shorter PE/VC history. Many professionals that want to start a private equity career question themselves if their previous experience is a good fit. Graduating students interested in the area have doubts if it is better to have Private Equity or Venture Capital as their first job.

By investigating the profile of Private Equity and Venture Capital Professionals in Brazil we address these questions. We analyze the level of experience of these professionals by level of seniority, their career path since their first job and academic background.

Our database contains information about 1376 professionals who currently work or previously worked in the industry. The database was built through a partnership between Spectra Investments, 2GET Executive Search and Insper. Spectra Investments is a Brazilian investor in Private Equity and Venture Capital, 2GET is a top ranked executive search focused on senior level executives, and Insper Institute of Education and Research is a top Brazilian Business and Economics School.

Our main findings are:

- Brazilian PE/VC firms have accumulated a significant experience in the activity. The average time a senior professional has been working in the area is 10 years, and an intermediary professional is 5 years.
- Team stability is reasonably high. Seniors have been on average 7.1 years in the current PE/VC company, and professionals at the intermediary level 4.3 years.
- Most of the PE/VC professionals had previous experience in non-financial companies or in the financial market, and the average time they stayed in any of the two areas before starting a PE/VC career is 7 years. Only 16% of them had previous experience in consulting, with an average time of 4.6 years.
- The most probable destiny of a PE professional changing jobs is another PE/VC firm or a non-financial company. This is expected, since experience in the area is a very valuable asset for getting another job in the area, and it is also very usual for PE/VC team members to move for an executive position in a portfolio company, and then move back to the PE/VC firm.
- Considering only PE/VC migrating to another PE/VC, it is more usual to move from large to medium size PE firms than the opposite. One possible explanation is that some senior PE professionals acquired experience in large firms and then decided to open their own PE firm, of a medium size.
- The migration of professionals between PE and VC in any direction is less common. This is probably due to the fact that VC and PE activities require different skills.
- The professionals with technical background is slightly decreasing over time: 37% at the senior level and 30% at the junior level. More than half of the professionals at the senior and intermediary level have a post graduate degree, MBA being the most common, and usually in international schools.

- The percentage of women in the industry is still very low, but it is increasing: 15% at the junior level, compared with 4% at the senior level.

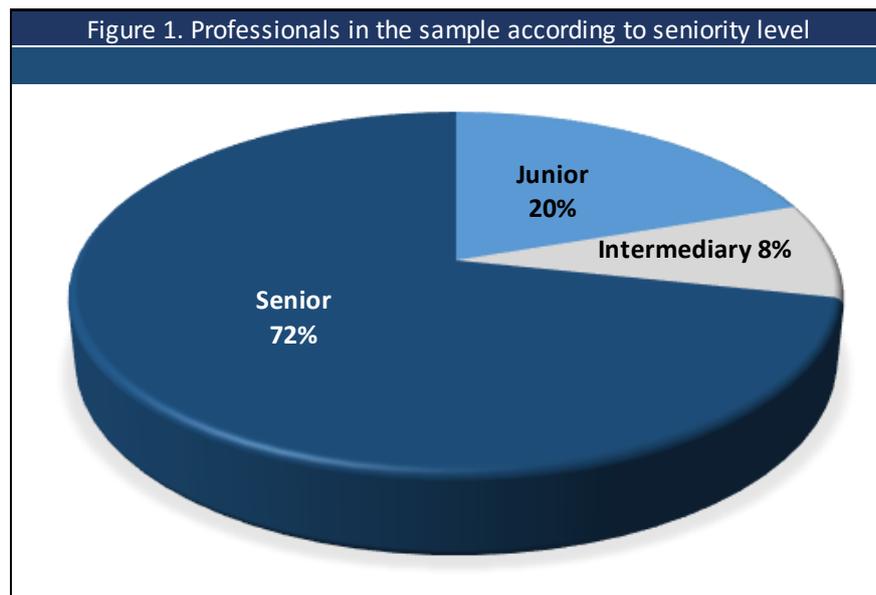
I. Database

Based on 2GET and Spectra proprietary information, and websites of PE and VC firms, we built a list of professionals and collected data about their career and academic background in LinkedIn and Bloomberg. We gathered information about 1376 professionals with experience in the PE and VC industry.

We classify the professionals in three levels according to seniority: junior, intermediary and senior. Table 1 details how we aggregate positions in each level.

Table 1. Positions aggregated in each seniority level	
Level of Seniority	Positions in this classification
Junior	Assistant, Analyst, Associate
Intermediary	Principal, VP
Senior	Managing Partner, Partner, Founder, CEO, CFO, Chairman, Director

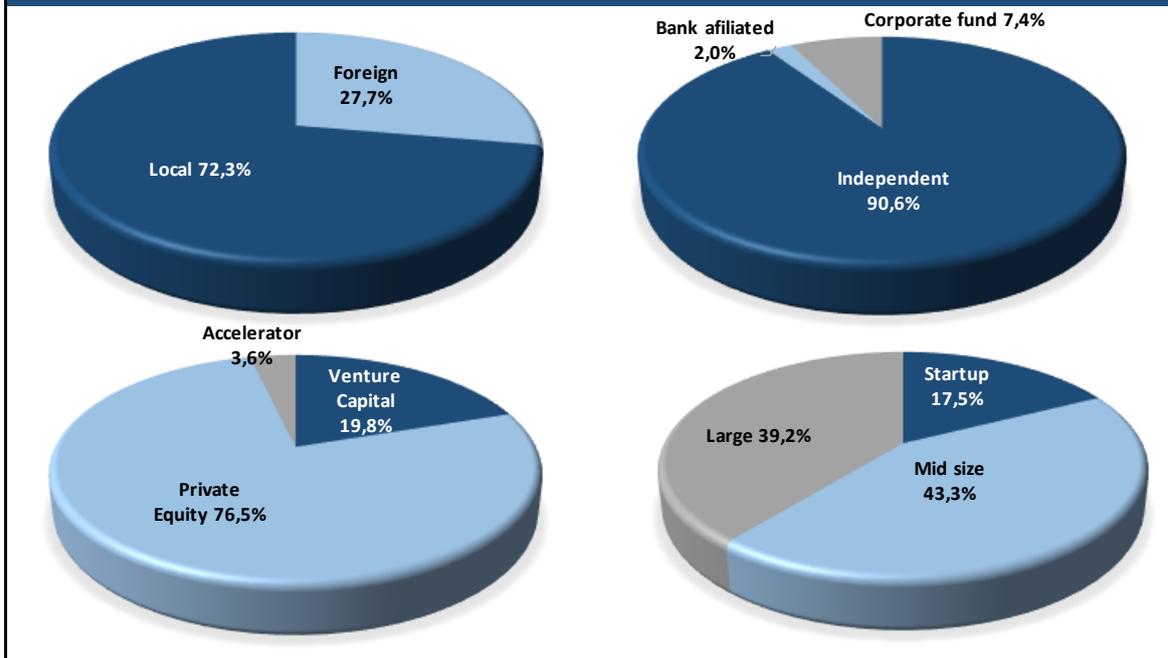
There are 988 professionals in our sample currently working in PE, VC and Accelerators, and the majority of them (72%) are seniors (see Figure 1).



The high percentage of seniors does not represent the reality of the industry, and it is explained by the fact that usually firms' sites and proprietary information like PPM (Private Placement Memorandum) do not disclose the professionals at the junior level, and many times neither at the intermediary level. This bias does not distort our analysis.

Firms that employ the most according to our sample are PE (76.5%), local (72.3%), and independent (90.6%). The majority of employers focuses either in mid-size deals (43.3%) or, in large deals (39.2%), with only 17.5% focusing on startups. See figure 2 for more details. Our sample reflects the Brazilian PE/VC industry.

Figure 2. Percentage of professionals in the sample according to firm characteristics



II. Experience within the PE/VC industry

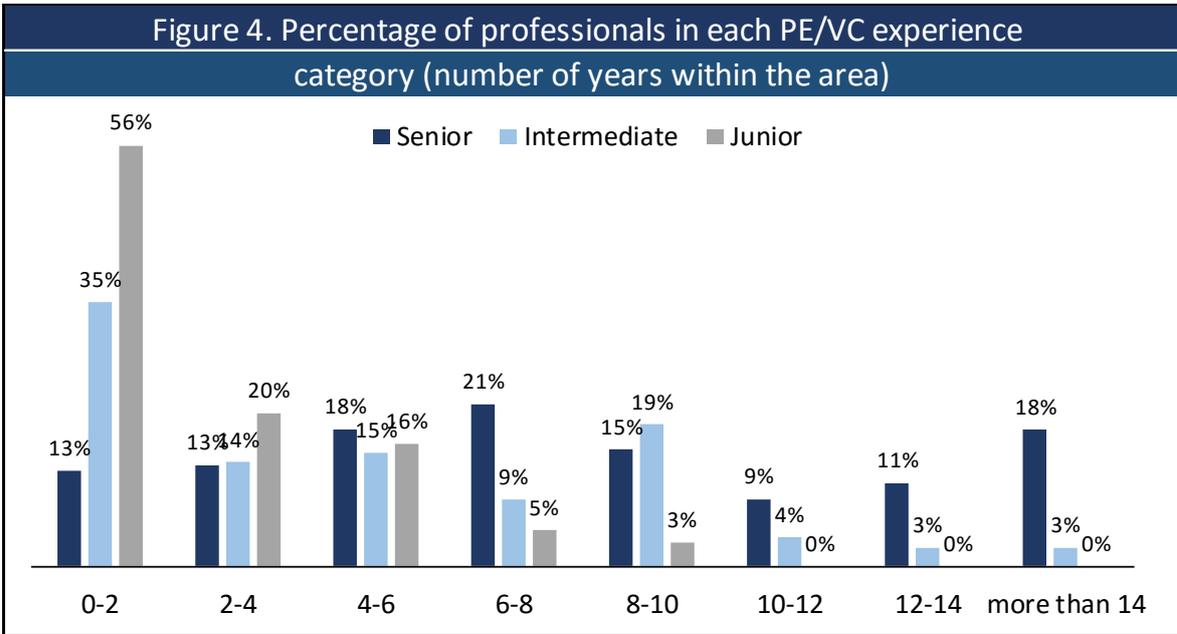
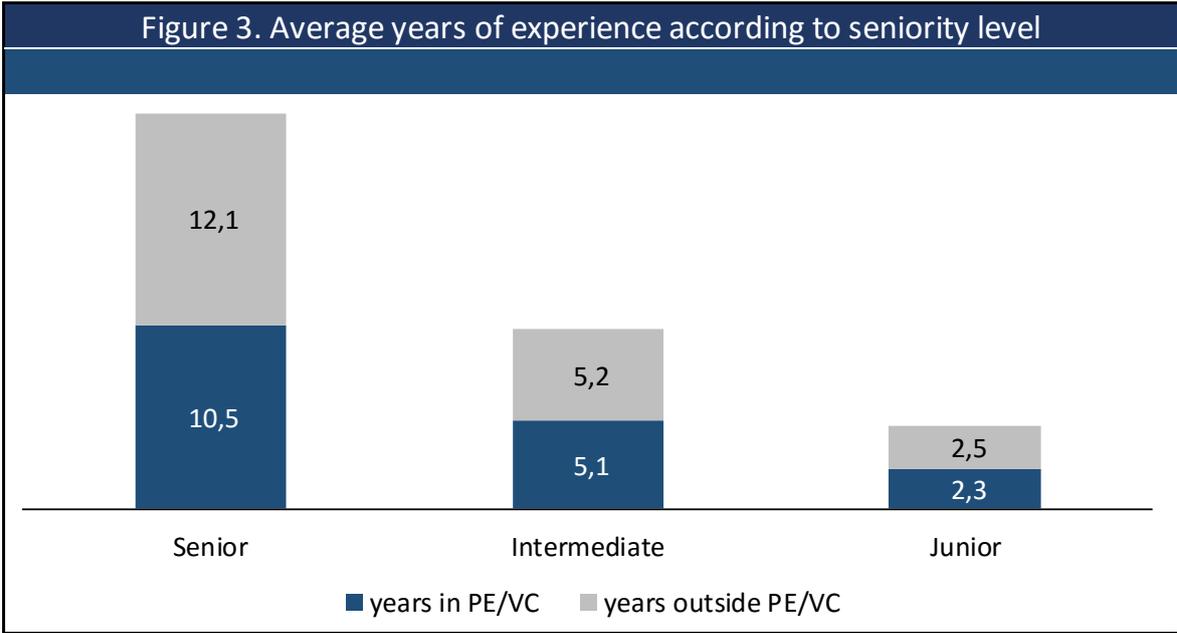
We investigate the number of years a professional has been in the PE/VC area. In this analysis we take into account the current and previous jobs exclusively in PE/VC.

Our results reported in Figures 3 and 4 indicate that there is a significant accumulation of experience in PE/VC activity at the senior level. The average number of years a senior professional has been working in PE/VC is 10.5 year. They have on average 22.6 years of total experience including other areas. More than one quarter of the seniors (29%) have been working for more than 12 years in the area.

At the intermediary level, the average number of years a professional has been working with PE and VC is 5.1 years, and at the junior level, 2.3 years.

We observe that 65% of the professionals at the intermediary level are in the area for more than 2 years, a good sign that the industry is preparing the next generation of seniors. The fact that 35% of the professionals at the intermediary level are in the area for less than 2 years is probably explained by the practice of recruiting graduating MBAs that were previously working in other areas. These professionals are usually recruited as juniors and have a fast promotion to intermediary level.

Unfortunately, most short bios do not disclose information about the evolution within the same firm, and therefore it is not possible to estimate the average time for a promotion and analyze the promotion pattern in the PE/VC area.



III. Stability of team members

Our analysis indicate that the turnover rate is relatively low within the industry. Usually PE and VC funds have vesting schedules for distributing carried interest to partners and intermediaries, and apparently these mechanisms have been effective in Brazil in holding talents in the firm.

Seniors have been on average 7.1 years in the current PE/VC company, and 62% of them are at the current company for 4 years or more. The average PE/VC number of companies in their short bio is 1.3, and for 55% of the professionals the current company represents their first PE/VC job. This indicates that either they founded the PE/VC firm, or they were

promoted within this company. Only 12% of the seniors have experience in 3 or more PE/VC firms.

Professionals at the intermediary level have been on average 4.3 years in the current company, confirming the stability among team members in the firm. They have worked on average in 1.6 PE/VC companies including the current one. The fact that 61% of the intermediaries have their first private equity experience in the current company indicates that they were promoted within the company. Only 18% have worked in more than 3 companies.

See Figures 5, 6 and 7 for more details.

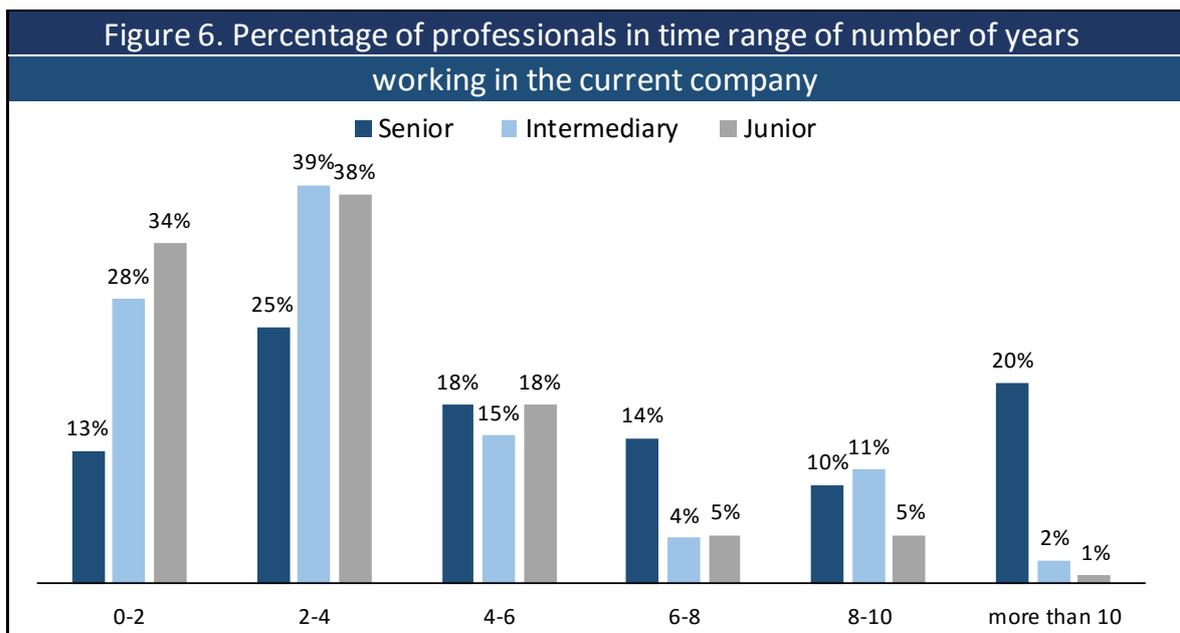
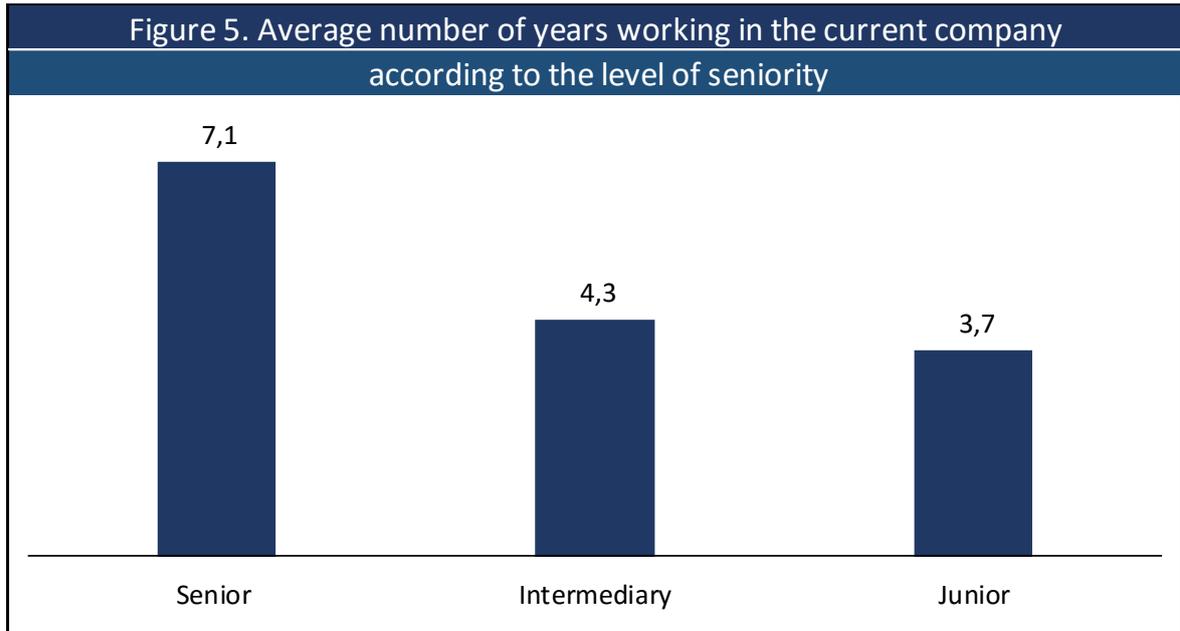
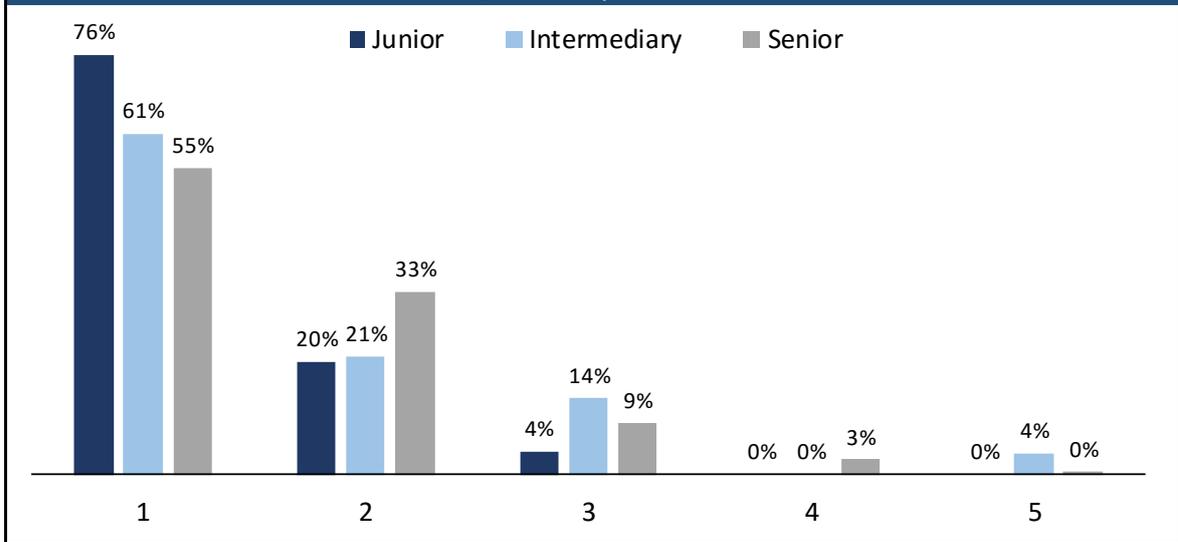


Figure 7. Percentage of professionals in each range of numbers of PE/VC companies in the short bio



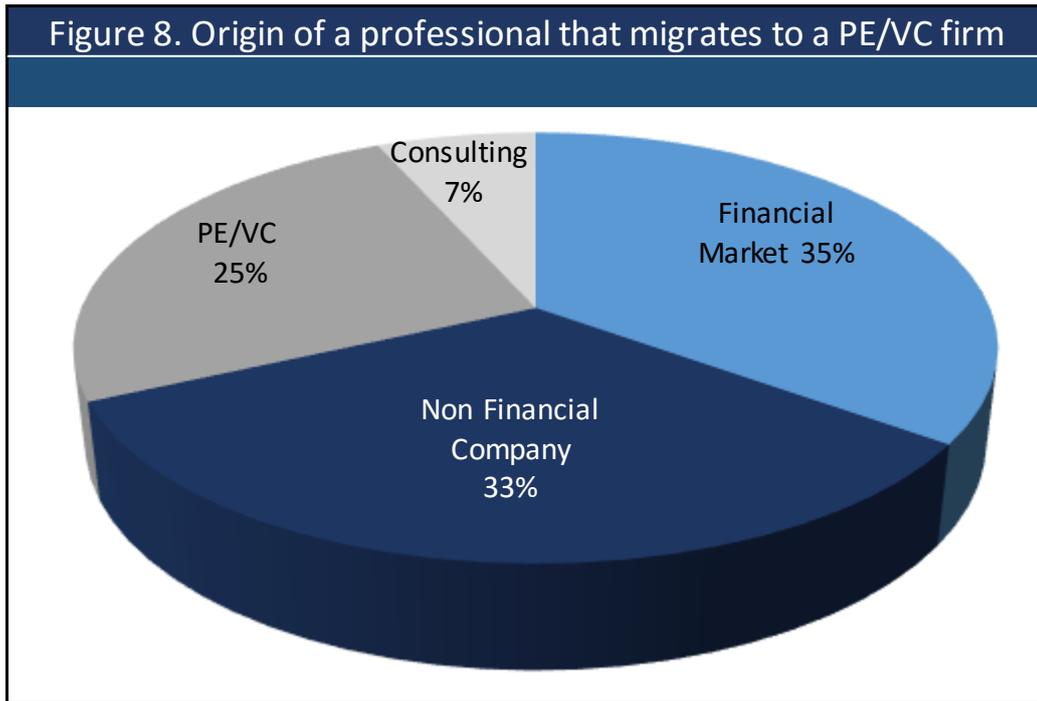
IV. Previous experience of the PE/VC professional

We group all companies (current and previous) listed in the professionals’ short bios in four areas:

- PE/VC: PE and VC firms, accelerators and incubators.
- Consulting: international and national consulting firms
- Financial market: banks, assets, insurance companies, broker houses and other companies in the financial sector, excluding PE, VC and accelerators.
- Non-financial company: all other companies that are not in the financial or consulting sector, including startups and law offices.

We counted all company migrations the professionals declared in their short bio. In this analysis we exclude first time employees, since they had zero migrations. We then consolidate the information by origin and destiny, independently of the seniority level and the number of years each professional stayed in each company.

Figure 8 summarizes the origin of all migrations to the destiny PE/VC. Most of the professionals that work in a PE/VC firm were previously in the financial market, or in a non-financial company. A significant proportion of the professionals also came from another PE/VC firm, but only 7% came from consulting firms.



Figures 9 and 10 complement the analysis by considering the career path of the professionals that are currently working in PE/VC. We see in figure 9 that more than half of the PE/VC professionals had at least once worked in non-financial companies (55%) before joining the current firm. The average time those professionals had worked in non-financial companies was 7 years (see Figure 10). Almost half of the professionals had at least once worked in the financial market, with an average experience of 7 years. One third of the professionals at least once in another PE/VC firm, with an average experience of 4,9 years. The percentage of professionals that had a previous consulting experience is much lower: 16%, with an average experience of 4,6 years. In this analysis, we considered all the previous experiences the professionals had before joining the current PE/VC company.

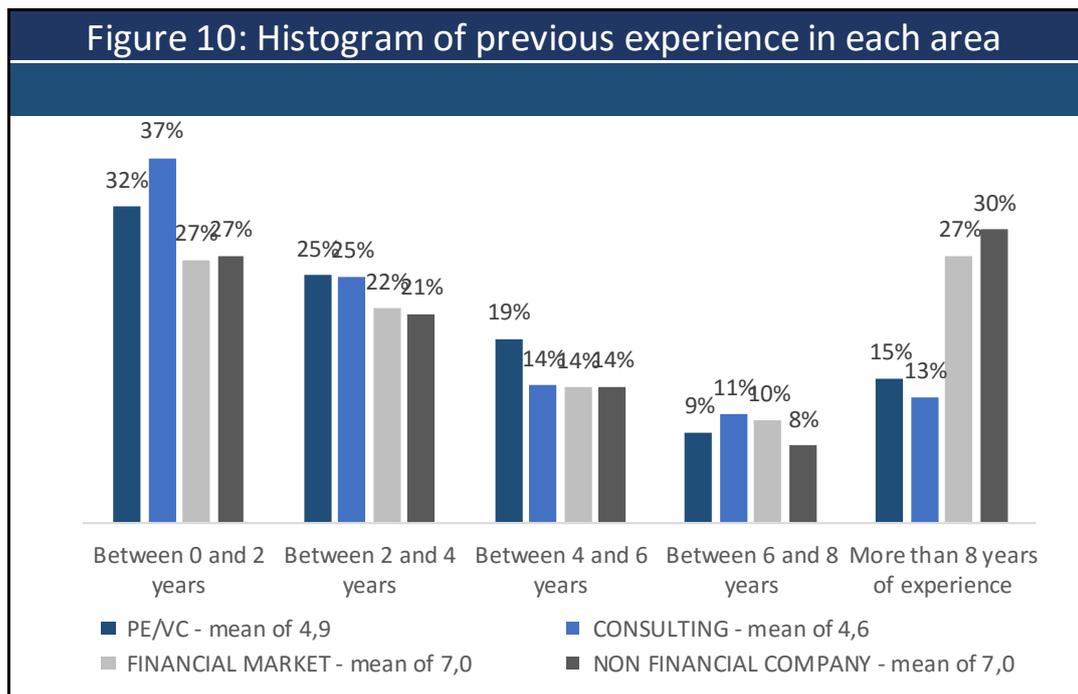
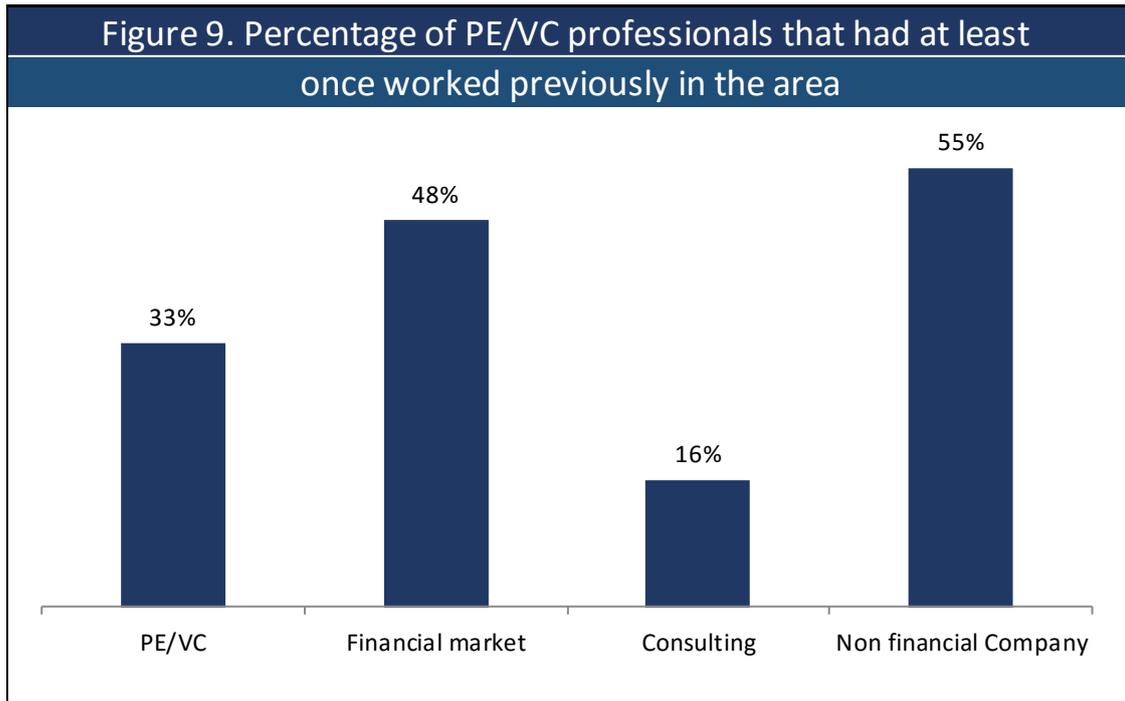
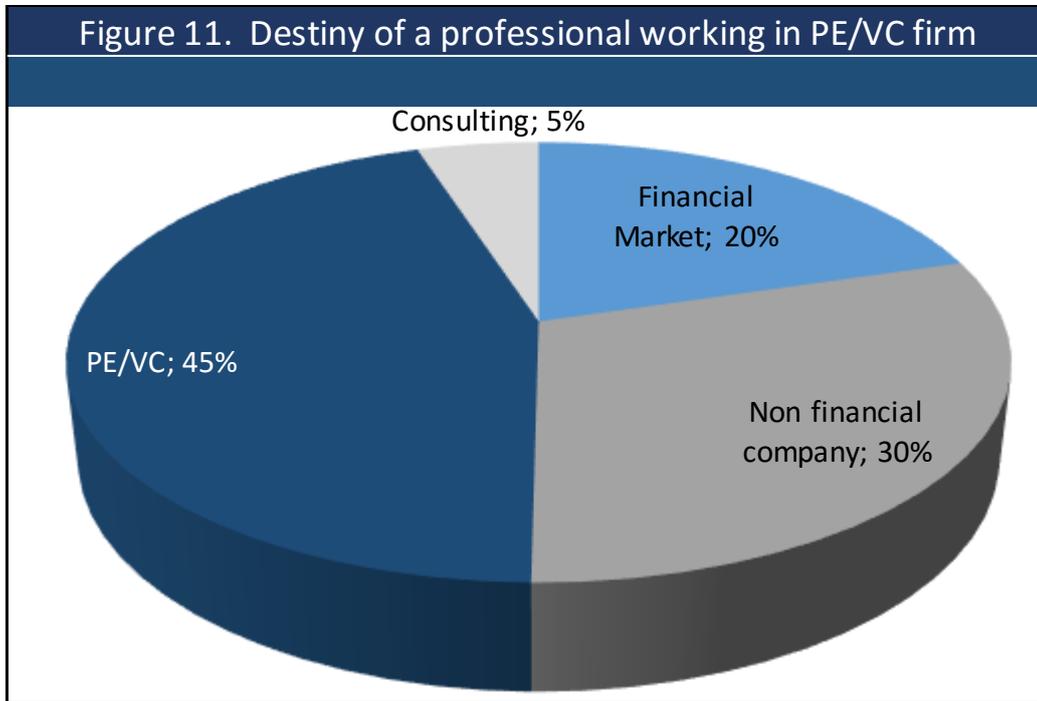


Figure 11 contains information about the migration of professionals that have as origin a PE/VC company. The most probable destiny of a professional working in PE/VC is another PE/VC firm (45%), seconded by non-financial company (30%). This is expected, since experience in the area is a very valuable asset for getting another job in the area, and it is also very usual for PE/VC team members to move for an executive position in a portfolio company, and then move back to the PE/VC firm. Although lower, the migration to the financial market is also significant (20%), probably because there are many activities in

common in both areas, as pipe line generation, valuation, transactions of buying and selling companies. The less probable destiny of a PE/VC is consulting (4.5%).



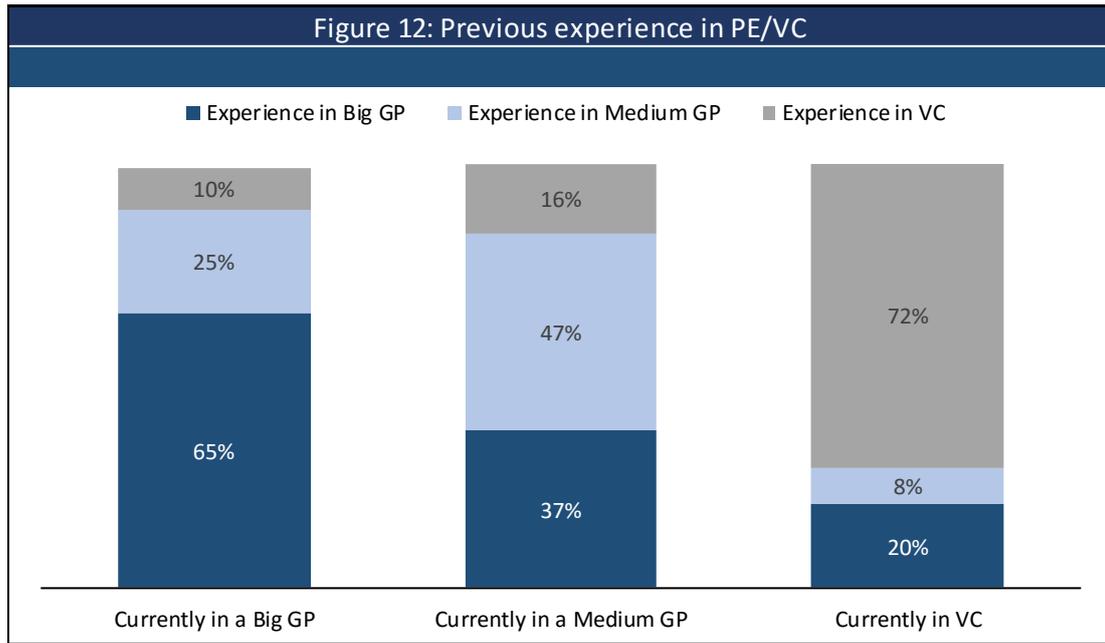
For examining better the migration from a PE/VC to another PE/VC firm, we classified the firms in three categories:

- Large PE firm – GPs with an AUM higher than BRL 1 Billion
- Medium PE Firm
- VC

Figure 12 summarizes our results. We observe that most migrations from a PE/VC firm to another PE/VC firm occurred in the same category. That is, 65% of the PE professionals that were in large PE firms and changed for a job in the same area ended up in another large PE firm, and this pattern was followed by medium size firms (47%) and VC firms (72%).

We observe also that it is more common to migrate from large PE firms to medium PE firms than the opposite. Whereas only 25% migrate from medium to large PE, 47% migrate from large to medium. This is probably explained by the fact that many PE professionals gained experience in large firms and decide to launch its own PE firm.

It is harder for a professional that start as PE, either in a large or a medium firm, to change for a VC firm (28%), as it is the opposite, to migrate from VC either to a large PE or a medium PE. This is explained by the difference in skills required for a VC professional and a PE professional.



V. Academic Background

Figure 13 illustrates the academic background of PE/VC professionals. More than half of them have a degree in business, economics or accounting, and around one third have technical background. Graduation in law and humanities together represent a smaller share (around 10% together). The proportion of technical background has been decreasing with time: 37% of the seniors have a technical background, 31% of the intermediary and 30% of the junior.

Although not mandatory, more than half of seniors have a post graduate degree, being MBA the most usual, as we can observe in figure 14. We also observe that 37% of the juniors have a post graduate degree, being 16% MBA. This may reflect the practice of the industry to recruit MBAs as juniors to start a career in PE/VC, and with a fast promotion to the intermediary level.

We see in Figure 15 that the majority of professionals with an MBA degree is from an international university (79%). The majority of bachelor degree and other post graduations are in Brazilian universities.

Figures 13 Academic background of a PE/VC professional

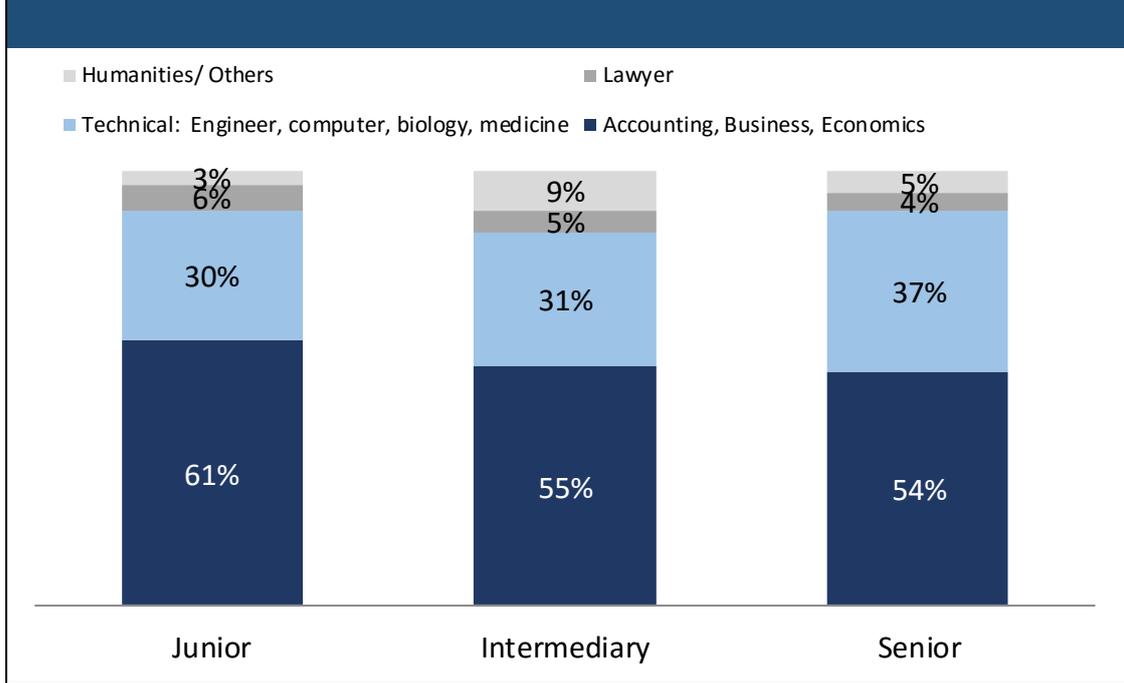
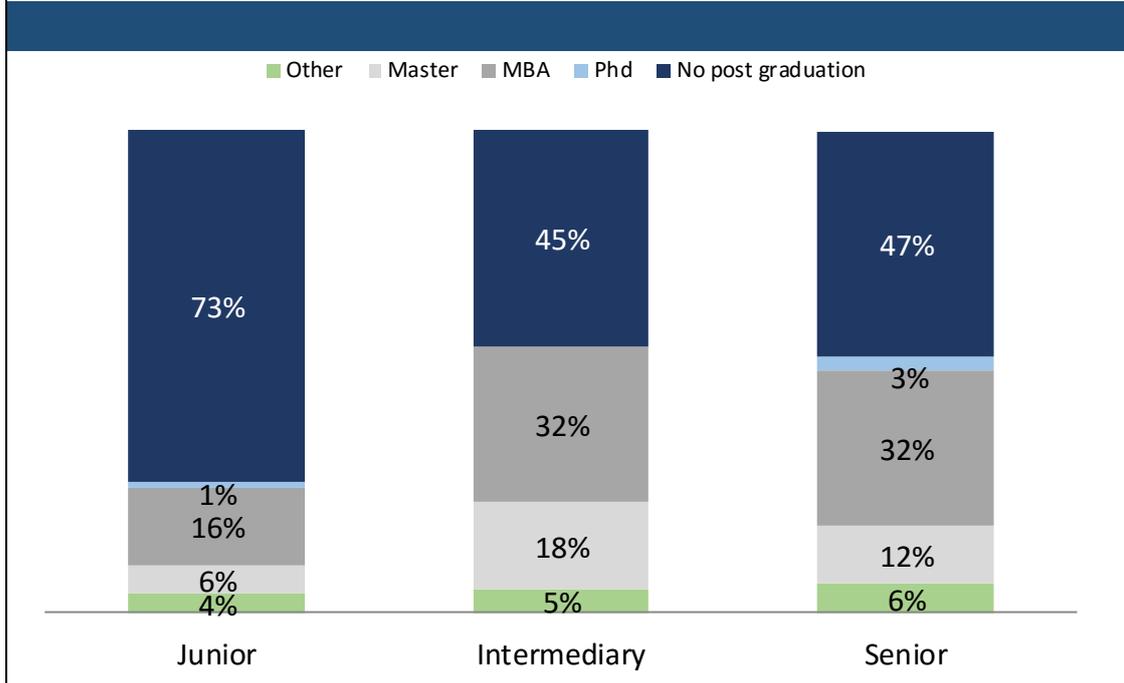
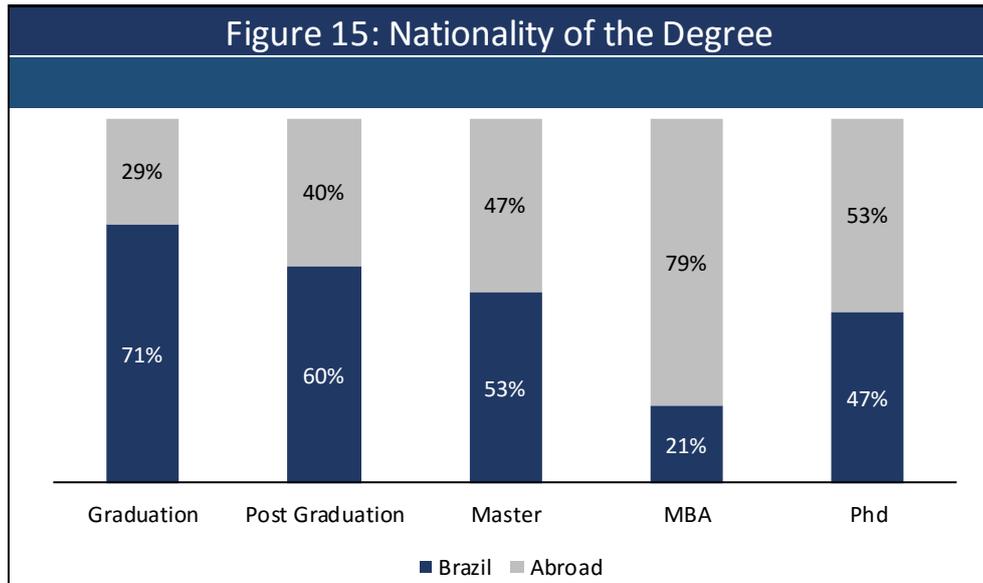


Figure 14. Type of post graduate degree of PE/VC professionals



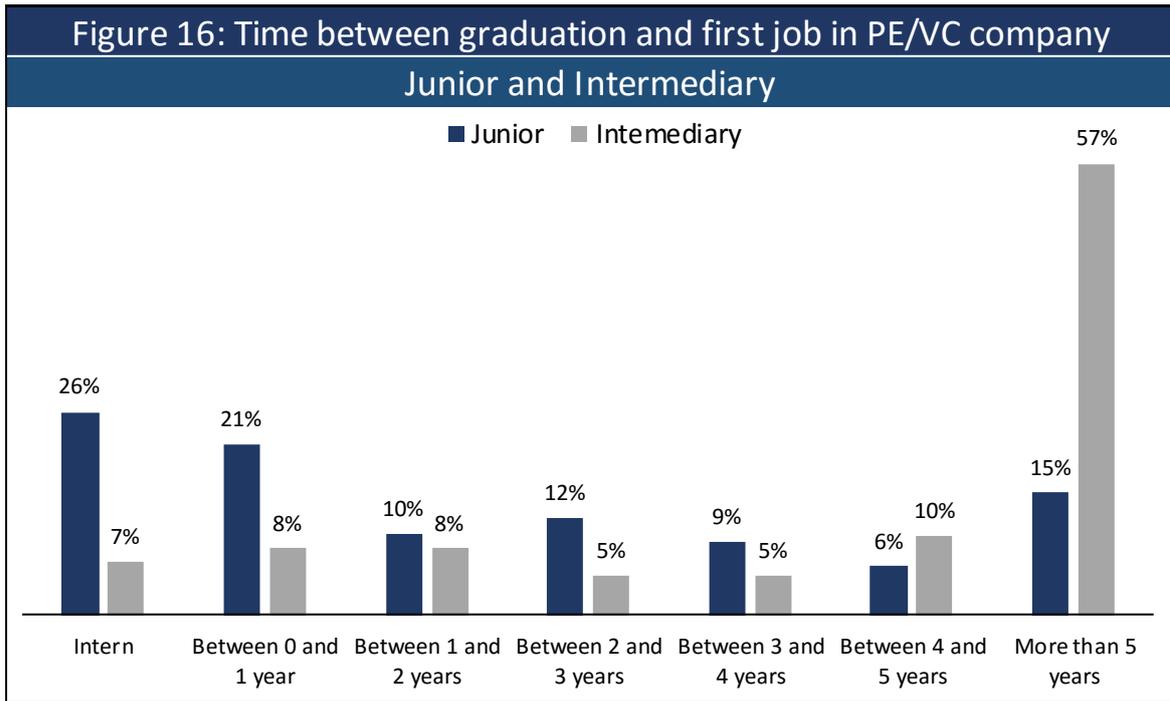


VI. Distance in time between graduation and starting a PE/VC career

We counted the time between graduation and the moment the professionals at the junior and intermediary level enter a PE/VC firm for the first time. Figure 16 summarizes our analysis.

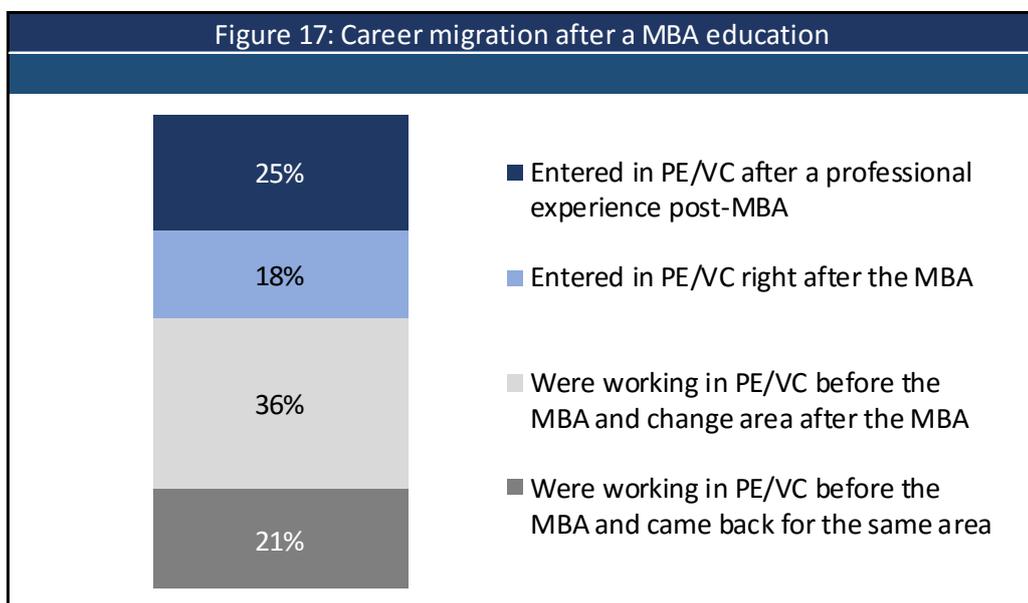
Note that starting a career in PE/VC as an intern or one year or less after receiving a bachelor degree is becoming more usual: 47% at the junior level compared to 15% of the intermediary level. This is a sign that the PE/VC industry in Brazil is becoming more mature and specialized, training professionals and building specific skills in the very beginning of their career.

The majority of the intermediary (57%) take more than 5 years since graduation to enter in a PE/VC career. This may be due to the fact that MBA is also an entry door for PE/VC, and the motivation for doing an MBA in many cases is the possibility of changing career.



To test if the hypothesis that MBA is very useful to change career, we investigate the nature of the job migration of all professionals that has an MBA degree. Figure 17 contains the results of our analysis, and confirm our hypothesis. The majority of professionals changed area after the MBA: 43% were in other area and entered in a PE/VC firm just after the MBA or a while after the MBA, 36% did the opposite: were working in PE/VC and moved to another area.

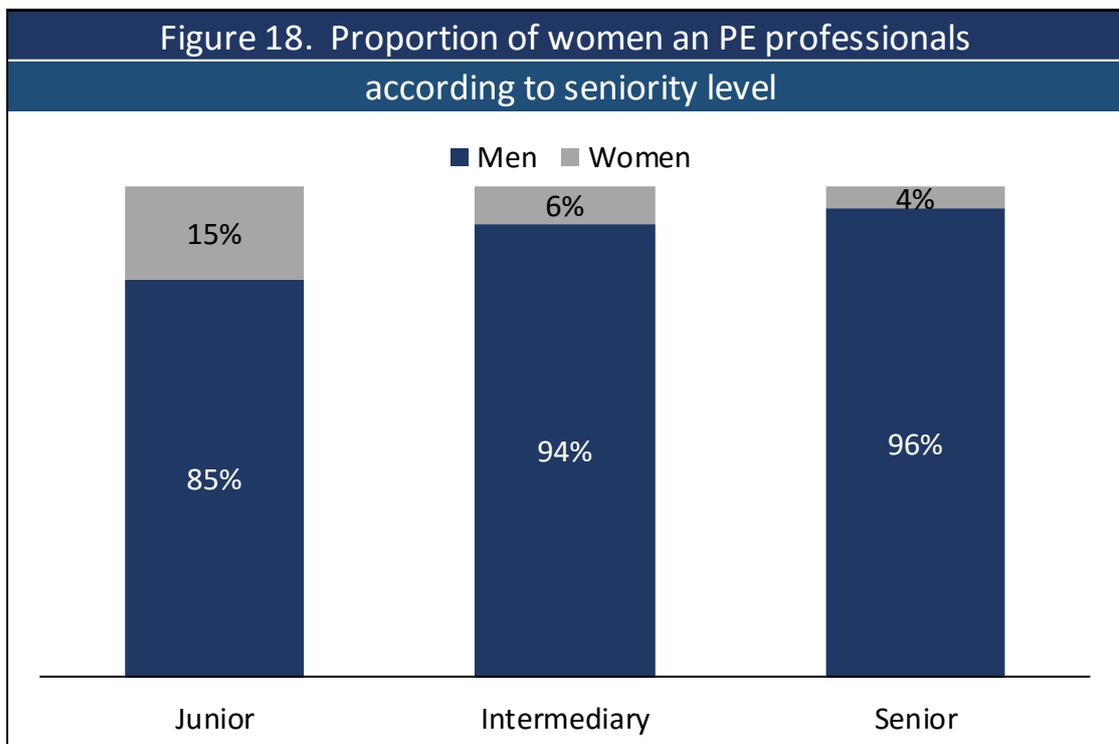
Only 21% of the professionals that was in PE/VC area before the MBA continued in the same area after the MBA. This group may reflect the practice of some PE/VC firms to hire very young professionals, train them for a while, and sponsor an MBA education for having them back in the firm.



VIII. Gender

There are only 4% of women in the senior level, and 6% in the intermediary level. However we observe an increase in the percentage of women at the junior level: 15%.

Although 15% is still not high, we expect to find an increase in the percentage of women in the intermediary and senior levels in future studies, considering they will be given equal opportunity of promotion as men.



X. Conclusion remarks

According to our analysis, there are already a significant number of experts among PE/VC professionals in Brazil (an average senior has been working 10.5 years in the industry) and the turnover rate is relatively low (seniors have been on average 7.1 years in the current PE/VC company). Professionals at the intermediary level are on average 4.3 years in the current company, a sign that the next generation of seniors is being trained.

This is good news, since it indicates that many PE/VC firms have acquired significant knowledge in the practice and networking, and kept it in house. Those firms are well positioned to find good deals, monitor and create value in the portfolio companies.

The most common destiny of a PE professional changing jobs is another PE/VC firm, or a non-financial company (in many cases portfolio companies). This also emphasized that PE/VC professionals are gaining experience in the practice.

We find that there is a change in the academic background in the industry. The percentage of professionals with accounting, business and economics has increased in the junior level compared to the senior level. Although post-graduation is desirable, it is not a pre requisite for a PE/VC career: 45% of the professionals at the intermediary level and 47% at the senior

level do not have a post-graduation degree. As expected, the most common post-graduation is MBA, and from an international university.

PE/VC industry is also getting more mature and specialized in Brazil. It is becoming more often to hire interns or recently graduated professionals to train them very early in the career in the PE/VC activity.

Although we find an increase in the percentage of women in the industry, men still correspond to the vast majority of PE/VC professionals in Brazil.

People involved in this research

Andrea Maria Accioly Fonseca Minardi (Insper)

Ricardo Kanitz (Spectra)

Rafael Bassani (Spectra)

Frederico Wiesel (Spectra)

Luís Arrobas (2GET)

Contacts

Insper - minardi@insper.edu.br

Spectra - estudos@spectrainvest.com

2GET - larrobas@2GET.com