1. Why Capital Markets?

1.1. Role and functions of capital markets

Last updated: September 5, 2022

What is the added value from market-based financing, and why should you consider it as an alternative or complement to bank-based financing?

Capital markets (including private equity, loan funds, trading platforms) play an important role in supporting economic growth as market-based finance enhances the efficiency of the Company financing mix.

With funding sourced from capital markets, either exclusively or as a complement to bank-based financing, your Company can grow quickly and take on new projects and/or expand geographically with more flexible and efficient funding models. These advantages come along with a potential huge appreciation of your brand by clients, suppliers, and other stakeholders. This credibility is usually perceived as a Company´s commitment to more consistency, accuracy and safety. In the case of Equity, your Company may be funded while decreasing leverage, thus mitigating the negative impact on financial ratios and the long-term maturity risk of holding a portfolio entirely composed of loans. Additionally, market-based financing enables risk rebalancing, which will improve the risk profile of the business and better manage the economic cycles.

Market-based finance is also a good option from an environment, social and governance ("ESG") perspective, as it encourages the alignment of your Company´s policies with best market practices in this fields. Capital markets can also be very adaptable to the specific characteristics of each Company and offer great flexibility in terms of pricing and maturity, as well as access to a wider investor base. They can also offer funding for innovation projects with a risk profile that may not fit into the typical models for granting bank loans. Furthermore, with a wide range of funding instruments offered, companies benefit from more financing alternatives, entrepreneurs are able to increase the liquidity of their personal assets, reducing risk and investors in capital markets diversify their portfolios and financial risk. Market-based finance also triggers a virtuous cycle between entrepreneurs, companies and investors.

For companies looking for market-based finance, the process of planning and preparing for market access has many benefits as this process will provide the Company's management with the opportunity to deeper analyze the Company's strategy, as well as, to receive valuable feedback from market players with new perspectives, which ultimately lays the ground for better decision making. This feedback will be received not only during the process, but after it, opening a communication channel with stakeholders, including investors, analysts, and the media. Additionally, the reporting and corporate governance protocols arising from entering the market will encourage greater professionalization, efficiency and transparency, attracting the attention from existing and potential new investors. As consequence of increased transparency, the Company's image and prestige, nationally and abroad, will be boosted, as well as its credibility with clients, suppliers, business partners, and financial institutions.

You may currently be thinking on how you can successfully execute this process to capture the opportunities referred above. This guide was prepared to help you confidently face this process by managing its impacts and choosing the right partners to go along you in this challenging but fruitful path. CMVM will be available for any clarification you may need regarding the matters contained in the guide, as well as a close participant during the process of accessing to the market.

> *Capital markets bring buyers and sellers together to invest and divest in shares, bonds and other financial assets. Market-based finance promotes the transformation of ideas into entrepreneurial initiatives and small businesses into big companies.*

Capital markets have evolved and now offer a wide range of products to fill the different needs of companies, while providing information transparency and legal certainty for all market participants and enhancing liquidity of all products traded.

Their main functions are to:

Finance the economy

Capital markets offer continuous availability of funds to finance companies, by linking companies, savers, and investors, facilitating transaction settlement, promoting saving habits, and channelling part of the savings into new and attractive investment opportunities. Such process contributes to the financing of the economy while improving the effectiveness of capital allocation, supporting innovation, and facilitating entrepreneurship.

Promote liquidity in the markets

Capital markets provide the possibility to invest in securities with different risk profiles, appealing to different investors' preferences. Accordingly, the capital markets facilitate the movement of capital and liquidity, given the possibility to invest and divest through the purchase and/or sale of the securities in the market. Entrepreneurs may find in capital markets an alternative to reduce their risk, as they can transform parts of their business assets into liquidity.

Provide funding alternative

Capital markets minimize transaction and information costs for Issuers and Investors, and provide an alternative source of funding that may be used in addition to bank finance.

Efficient price discovery

Capital markets enable assets' pricing, by having prices determined by matching supply and demand, which is (almost) immediately present, based on the information available on the companies. On some trading platforms, price formation takes place in real time.

1.2. Public market-based financing

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1.2.1. Why choose public market-based financing?

> *Market-based financing refers to a system with multiple entities allowing the transaction of equity and debt financial instruments, in which such instruments supply (companies seeking financing) meets demand (investors, including funds, insurers, etc.) in an organized way.*

Accessing market-based financing enables the Company to raise money from a wide investor pool. Additionally, accessing market-based financing has a positive impact on the conditions in which the Company can obtain further financing, including bank-based, as it provides a more solid standing with financial institutions, that may lead to low borrowing costs through less perceived risk. Furthermore, the diversification of investors (in debt) tends to decrease the cost of financing, due to the relative lower concentration in the counterparty's risk. Presence in capital markets also grants the Company increased recognition, credibility and prestige as this decision is perceived as a Company´s commitment to more consistency, accuracy and safety, which in turn improve the Company's ability to increase market share, reach new markets and attract and retain better talent.

Although the decision to access market-based financing should result from a diligent understanding about the steps of the process and best practices in dealing with investors, regulators, the media and public scrutiny, one of the first steps should be a deep reflection on the benefits that such process can unlock.

The potential benefits that are achievable by accessing market-based financing are:

1. Access to a wide investor pool

Gain access to a broader community of investors, which allows to find those that have interests aligned with the Company's long-term strategy and goals. Market-based financing provides alternatives and greater

flexibility for the Company's management, empowering management to pursue a long-term strategy that will maximize long-term value.

The investor pool normally includes private investors (for example investment funds or insurance companies) which often bring more management knowledge and attentive and professional relationship.

2. Eased internationalization

The process of going public and entering capital markets facilitates companies' international expansion, by granting the Company increased recognition, credibility and prestige, while simultaneously being more visible by clients, suppliers and national and foreign investors.

3. Access and diversification of funding sources

Grants the Company access to funding, not only at initial offer, but also afterwards through easier secondary offers because it benefits from the experience gained from the initial offer and the knowledge obtained from third parties.

The easier access to funding from capital markets after going public generally enables the Company to raise money in a less costly and more efficient way. It also provides access to more flexible financing instruments, giving the Company more freedom to tailor the funding strategy to its specific needs of the business at any given time.

Provides alternative forms of finance to firms, through several capital market sources, improving the efficiency of the funding process, by avoiding the dependence from a single financing source (e.g. the banking system) and increasing resilience by mitigating financial risk. Markets are less exposed to systemic risk and are not directly connected to the payment infrastructure, which means that in some cases, during an economic crisis, it is advantageous and relatively easier to obtain funds in capital markets than by borrowing from financial institutions.

Additionally, Bank-based financing most often implies greater management constraints than market-based financing. Bank debt often imposes restrictive covenants that reduce operating flexibility (covenants are legally binding obligations made by the borrower to always comply with a certain rule or when taking a specific

action) due to the specific prudential needs of that banking entity).

4. Improved liquidity

Securities when traded, more or less frequently, give at each of those moments an indication of their value which is reflected in the transaction price. This price is also the result of the interaction between supply and demand at each moment. When these prices are known – this is the usual situation in transactions carried out on trading venues – there is greater transparency towards third parties of the value attributed by buyers and sellers to the securities.

This transparency is likely to induce greater liquidity by predisposing more buyers and sellers – depending on the investment or divestment strategy they pursue – to want to acquire or dispose of the securities at the price that is known. This increases the likelihood that any investor will more quickly find an available counterparty to buy or sell the securities. This circumstance, which is inherent in the capital markets, also has the benefit for entrepreneurs of allowing them to reduce the risk of their assets when it is significantly concentrated.

Their high liquidity and ease of transaction being makes listed securities more suitable for use as collateral in other financial transactions (e.g. bank-based financing).

In addition, this potential greater liquidity also allows the creation of employee incentive schemes. When these schemes are share-based, including stock option plans and other bonus/rewards, their liquidity and ease of transaction helps to attract and retain talent within the organisation while encouraging employee commitment and motivation in the long term, without incurring immediate additional expense. As an example, many successful companies include stock option plans in their remuneration policy, giving their employees the possibility to buy the company's shares (at a discount) in order to promote their commitment to medium and long-term business performance.

5. Greater efficiency and transparency

Transparency, reporting and corporate governance requirements for the public capital markets encourage greater and a continuous professionalization across companies, including better internal processes of management control and reporting.

The open communication with investors, analysts and the media and provides an opportunity to receive valuable feedback that may support the management team on how to best manage the Company and what direction to follow.

6. Market value

The value of companies that have been financed in the capital markets tends to be easier to determine, which translates into an advantage for most of their counterparties (e.g. clients, suppliers, investors). This circumstance can also be associated to the fact that the opportunity cost of analysing and investing in a company that has not gone through capital markets financing (because it only relied on bank financing) is relatively higher. And in these comparable situations, the market value of the company that is financed in capital markets would be higher.

This expectation is further assisted by the possible higher liquidity and availability of information, which together, contribute to a lower perceived risk. As a rule, investors usually require an additional return for investment in companies not subject to disclosure obligations, in order to compensate for the higher risk inherent to what is unknown.

7. Higher visibility and improved image

Economic agents know that the process of issuing financial instruments demands that the Company has a high level of organization and internal controls.

This common knowledge enhances the Company's visibility and prestige, nationally and abroad, increasing its credibility with clients, suppliers, business partners, employees, and financial institutions, and is heightened by that fact that by going public the Company receives greater media coverage.

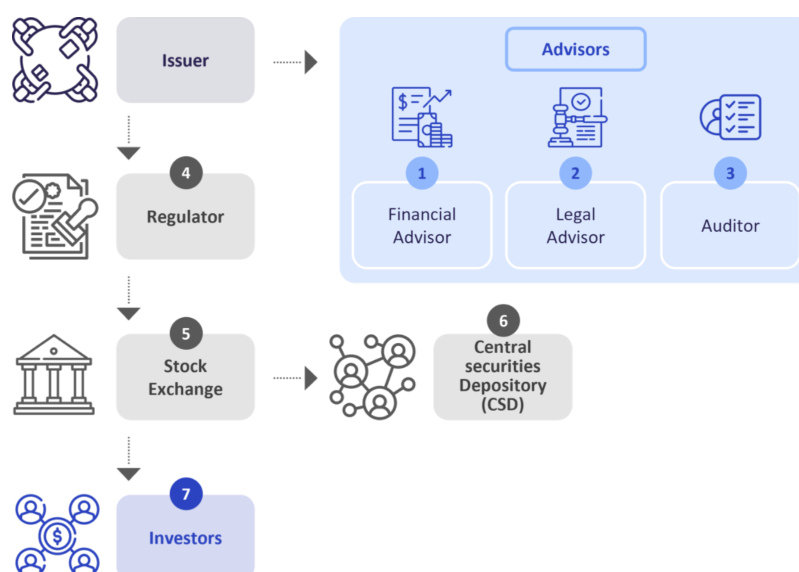
1.2.2. Who are the market agents and key advisors for entering public capital markets?

Accessing market-based finance may require liaising with several parties and performing several steps. This procedure may be relatively simple or considerably more complex, depending on the size of the Company, its development stage in terms of organization and governance structures as well as the complexity of the envisaged offering for the funding of the market-based finance.

If you decide to obtain financing from a Private Equity firm, you may only need to involve Advisors (such as lawyers and financial advisors) to assist you through the process. Nonetheless, if you intend to enter in the public market-based-finance (through an IPO or a Bond Offering) you will also need to liaise with the Market Regulator and the Stock Exchange.

It is common to observe that companies progressively evolve through various stages of financing and complexity of carrying out operations, naturally depending on the financing needs of their projects and on their business ambition.

Bellow we describe a scenario of a public offering involving a large number of entities.



1. Financial Advisor

During an offer and the admission to trading, Financial Advisors (including, but not limited to, investment banks) play several different roles at different stages of the process. They may act as an advisor to the Company, acting as a trusted partner in the implementation process and managing the entire transaction, assisting the Company on the evaluation of the opportunity and the transaction's costs and definition of the offer's strategy, carrying out the Company's valuation, performing the communication around the operations and roadshows for investors, determining the securities price. The Financial Advisor may also assume the underwriter role, acting as an intermediary between the Issuer and investors.

These various roles may be carried out by either a single financial advisor, which may act as a **listing agent or sponsor***, or by several financial advisors. Traditionally the Financial Advisor will execute the following roles:

Leads the process and provides Corporate Finance advisory

The Financial Advisor manages the entire issuance process, providing advice on the best structure and timing for the operation, developing the Equity Story and coordinating inputs from other advisors throughout the process. To do so, the Financial Advisor will have access to private management information of the Company and make an evaluation of the Company's profile to provide advice on the corporate finance aspects of the operation, including, after the operation, accessing potential capital raises and M&A opportunities.

Provides advisory in marketability and prepares the roadshow

The Financial Advisor builds relationships with Institutional Investors and gain deep knowledge about their investment profile. The Financial Advisor will also assume responsibility for preparing the roadshow, sending the Prospectus or Information Document to the Institutional Investing Community, and invite Institutional Investors to submit their bids.

Centralizes the book building process and the placement of the securities

The Financial Advisor centralizes the book building, if applicable, and takes responsibility for the underwriting and/or the placement of the Issuer's securities. If there is a placement or underwriting agreement, between the relevant bank (or banks, in case of a syndicate) and the Issuer, the Financial Advisor will often act as underwriter and subscribe, the totality or part, of the securities. For further information please refer to section "Negotiation agreements and appointment of financial intermediaries" IN SECTION 4.1.1.2.1.4.

*Listing Sponsor and Listing Agent: Some market operators, such as Euronext, require the applicant Company to appoint an intermediary for the purpose of their application for the first admission of shares. This intermediary is usually called a "Listing Agent" (in the case of admission to Euronext regulated markets) and "Listing Sponsor" (in the case of admission to Euronext Growth and Euronext Access). A financial advisor intervening in an offer can assume the role of Listing Agent, without having to engage an additional advisor in the operation.

2. Legal Advisor

The Legal Advisor of the Company will ensure the Issuer complies with all applicable laws and regulations during and after the listing process, by advising on regulatory obligations at all stages of the process.

The Legal Advisor will also be responsible for performing the legal due diligence on the Company, focusing on the impact that the listing will have on important contracts from a legal standpoint, on the analysis of the Company's structure, and on the identification of specific legal risks that investors should be informed of.

The Legal Advisor will also draft, review and update information for the Company's Prospectus or Information Document and listing application, and will assist the Company in any necessary internal restructuring, amendments of the articles of association, structuring of the transaction, preparation of press releases and negotiation of documents and agreements necessary for the successful issuance and admission to trading.

3. Auditor

The Auditor is often the Issuer's auditor (it may however be an auditing firm hired specifically for this process), and will audit, review and report on its financial statements, perform financial due diligence, and assist the Company on becoming listed. The Auditor will summarise and review the Company's financial information for inclusion in the Prospectus, or Information Document, and issue a comfort letter to support financial advisors in their due diligence activities.

The selection of an audit firm with a high reputation is especially relevant by the confidence it conveys to investors that the financial information has been properly prepared, allowing them to save time and resources in their investment decisions.

4. Regulator

Whenever a public offer and/or a listing prospectus is required, it should be subject to the prior approval of the Regulator, which entails with the Issuer a collaborative process and is committed to accommodate the Issuer's timetable. Subsequent to the admission to trading the Regulator also supervises the Issuer, in particular with regard to the disclosure of periodical financial information and information on significant corporate events.

Comissão do Mercado de Valores Mobiliários ("CMVM"), is the Portuguese Financial Markets Regulator.

5. Stock exchange

The stock exchange is a market where securities buyers regularly connect with securities sellers. Euronext Lisbon is the main market operator where Portuguese Companies' securities are negotiated which is comprised of three main markets:

Euronext
(Regulated market)

Euronext Growth
(Multilateral Trading Facility)

Euronext Access
(Multilateral Trading Facility)

Euronext is an EU regulated market for the transactions of major companies that have a great amount resources at their disposal. It has three segments according to companies' market capitalisation:

Compartment A over €1b

Compartment B €150m to €1b

Compartment C less than €150m

Admission on Euronext is recommended for larger, established companies with substantial financing depth.

Euronext Growth/SME growth market is suited to small- and mid- sized companies (SMEs) that want to raise funds to finance growth. Listing requirements are simplified and reporting requirements are lighter and thus offers an alternative route for the funding of companies that find themselves at the growing stages of business development.

Euronext Access is designed especially for start-ups and SMEs that wish to finance their growth and gain the reputational advantages of having their own securities admitted to trading, but do not meet the criteria for admission on the other Euronext markets Euronext Access is regularly seen as the first step in the process of gaining access to the markets Once companies are big enough, they are encouraged to consider transferring to Euronext Access+ or Euronext Growth, and later to the Euronext regulated market.

Euronext Access+

Euronext Access+ is a special compartment of Euronext Access that is tailored to the needs of start-ups and fast-growing SMEs. Euronext Access+ acts as a springboard to other Euronext markets, helping companies transition smoothly and adapt to the more rigorous market practices. Euronext Access+ has its own negotiation criteria, and companies admitted to trading on this market enjoy special assistance and greater visibility when compared to Euronext Access.

6. Central Securities Depository (CSD)

The Central Securities Depository (CSD) is in charge of the management of centralised securities systems. Prior to the listing, the Issuer must register the securities with CSD. Euronext Securities Porto is the Portuguese entity operating as the Central Securities Depository (CSD).

7. Investors

May have various profiles and their roles may vary:

Institutional investors

Retail investors

Entities that invest money on their own behalf or in behalf of other agents. These include asset managers, insurers, mutual and pension funds and sovereign wealth funds. Institutional investors and generally the main contributors to financing rounds and are perceived as more sophisticated than the average retail investor and thus, are suitable to accept a lower degree of information protection by the regulations. As Institutional Investors trade in large volumes, they are usually targeted as a key investor typology in an IPO.

Natural persons or entities who directly invest their own savings or financial surpluses in the purchase of securities for their own personal gain. They often trade in smaller amounts as compared to institutional investors or professionals.

Retail investors regularly execute their trades through banks or brokerage firms. When they trade on a recurrent basis and in aggregated terms retail investors are an important promoting source for market liquidity.

1.2.3. Secondary Markets

1.2.3.1. WHAT ARE SECONDARY MARKETS?

The initial issuance of securities is known as the primary market. Afterwards, the securities can be bought and sold on ***secondary markets, either on stock Exchanges/Trading Venues or outside these***.

Primary market

Primary markets are those where investors may subscribe securities (shares, bonds or others) at the time they are being issued.
An IPO is an example of a primary market issuing, others being rights offerings and private placements in which securities are directly offered to institutional investors such as hedge funds or banks without being publicly available.
In other words, primary markets are those where securities are first made available to investors by the issuing company.

Secondary market

In secondary markets, securities are traded among investors on a physical or electronic trading venue/platform, where buying and selling orders can be placed and securities traded when the price of these orders match.
Specific entities – trading service providers, such as brokers and dealers as well as banks – are usually the ones that interact with the trading venue, executing the instructions received from their clients.
It must be noted that the trading activity outside a trading venue, directly between investors (usually referred to as Over-The-Counter) is also considered as secondary market as well.

1.2.3.2. HOW ARE SECURITIES TRADED IN THE SECONDARY MARKETS IN PORTUGAL?

Market Members

Only companies that have obtained "Membership status" granted by Euronext are allowed to participate directly in the trading activities on Euronext markets. Accordingly, investors cannot trade directly in the Exchange. They require a Member to execute orders on their behalf at the Euronext trading platform. The accredited intermediaries for Euronext Lisbon may be found in Members list | live (euronext.com).

Central Order Book and Trading Platform

Euronext operates an electronic Order Book in which orders entered are held until they are matched, expired or withdrawn. Specifically, Members introduce the buy and sell orders they receive from the investors in the Central Order Book. These orders can be of different types (market orders, limit orders, stop orders, indexed orders) and must comply a series of indications that are described in the Euronext Market Rules. Typically, an order should have an indication, at least, of the price preference, the volume/quantity and the term.

OTC trade ("Over The Counter")

A trade that usually results from a bilateral agreement between a buyer and a seller with no interposition of a trading venue.

Method of trading

Shares are traded in the Euronext Trading Platform either continuously, for shares with sufficient liquidity or at auction for the least liquid shares. For many securities where there may not be a large number of buyers and sellers daily and at all times of the trading session, call auction trading is the most appropriate and efficient way to determine the price of these securities. Bonds trade at auction, but mainly OTC.

> *All orders on Euronext markets are centralised by the central order book in order to achieve an equilibrium price depending on the supply and demand for each security.*

1.2.3.2. THE TRADE AND POST-TRADE STRUCTURE IN PORTUGAL

Trading

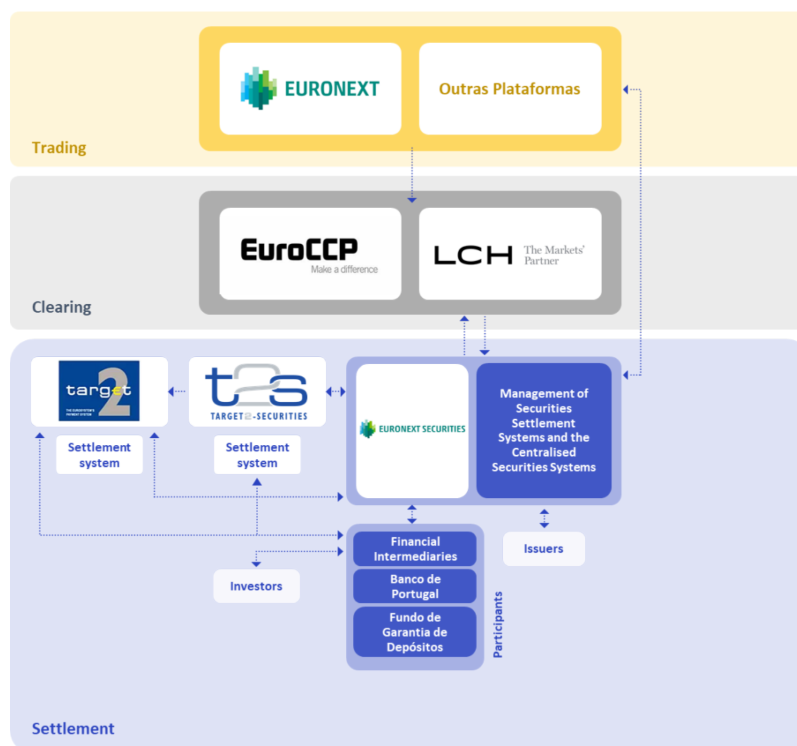
Transactions are executed on trading platforms or OTC and the seller is obliged to transfer the securities to the buyer in exchange for cash.

Clearing

The process of establishing final positions, including the calculation of net obligations, and ensuring the availability of financial instruments, cash or both to ensure the fulfilment of transactions.

Settlement

Actual exchange of securities for cash, when the securities are effectively transferred to the buyer and the money is assigned to the seller.



1.3. Private Equity

Last updated: September 22, 2022

1.3.1. Why choose Private Equity and Venture Capital-based financing?

Private equity ("PE") provides typically medium to long-term committed equity and debt to help Companies grow and succeed. If you are looking to start up, expand, buy into a business buy out a division of your parent Company, turnaround or revitalise a Company, private equity could help you to do this.

Obtaining private equity is very different from raising debt or a loan from a lender, such as a bank. Lenders have a legal right to interest on a loan and repayment of the capital, irrespective of your success or failure.

Private equity is invested in exchange for a stake in your Company and, as shareholders, the investors' returns are dependent on the growth and profitability of your business. Therefore, private equity investment also requires a previous due diligence and certain investment protection mechanisms (e.g. regarding the Company's decision-making process and transfer of the shares).

Venture Capital ("VC") is a form of PE and a type of financing specifically targeted at companies at a very early stage of their activity ("Seed" and "Startup") and at small companies with high growth potential. This type of investment depends on an adequate provision of information since it tends to be riskier. Therefore, VC investors require a high potential of return to compensate the high-risk profile of these businesses (e.g., which are at a very early stage of their economic life cycle and

where a high failure rate is observed).

VC investors can be a good way to reduce business risks, as they are professionals who enable the access to other specialists, provide guidance and support based on their knowledge and experience in managing other businesses that were also in the early stages of the life cycle (i.e. of the business, project or product).

Private equity financing has some distinct advantages over other forms of funding. Here are some of the main benefits:

1. Large amounts of funding

PE firms have deep pockets and can provide the financial resources to fuel growth. Investment amounts can be large and can finance the capital required for large projects, such as expansion into new markets, construction of new facilities, purchase of new equipment, launch of major marketing campaigns, research and development of new products.

In addition, and over time, it is also common to have more than one VC manager financing the business, either to benefit risk diversification or the size of the business.

2. Expertise and connections

Simply being the target of PE attracts more and better talent to your company. In addition, PE firms can easily put you in touch with other experts who can help you achieve your business growth objectives, whether that means avoiding the mistakes others have made in similar situations, moving into new markets or customer segments, launching online distribution, or fulfilling some other essential need to grow your business.

Additionally, PE firms have a strong network in the business community and can support you in finding new opportunities. Tapping into these networks may have tremendous benefits.

3. Aligned incentives

From the moment a PE firm invests in the equity of a company (or in a business) it becomes its shareholder, being able to share the responsibility for how the funds are applied and sharing the return on investment. As such, PEs are willing to get involved and intervene in your business' operations, lending you their skills, expertise and access to useful contacts.

Their involvement could also prove invaluable in helping you make key business decisions and develop an effective strategy, allowing you to benefit from their knowledge and experience. Opening the share capital to PE firms, also allows entrepreneurs to lower their individual financial risk as they reduce the concentration of their investment and assets.

4. Pre-IPO

PE funding may be a preceding-step for an IPO given it will prepare the Company for public exposure since:

Increases the number of investors and stakeholders in the company which tends to increase the diversity of knowledge, competence and competitiveness;
PE investment leads to the professionalization of the management team;
PE investors implement best practices in terms of operations and governance;
PE investors will require the Company to have in place reporting systems and discipline to present to them the Company's results.
The expertise of the PE may also be helpful to enhance your Company's valuation prior to the IPO as well as to navigate the Company into the public offer process.

1.3.2. Private Equity Financing

1.3.2.1. WHAT WILL MAKE MY BUSINESS AN ATTRACTIVE INVESTMENT PROSPECT FOR PRIVATE EQUITY FIRMS?

Some private equity firms manage a range of different funds in which their companies' investment preferences may differ. These preferences are normally presented on the PEs' website.

If you decide to hire a financial advisor for the purpose of obtaining funding, he may be able to introduce you to their Private Equity contacts and assist you in identifying the right Private Equity firm.

The key considerations to assess the best PE to target are as follows:

> The **stage** of your Company's development or the **type** of private equity investment required.

The terms that most Private Equity firms use to define the type of investment are determined by the purpose for which the financing is required.

Seed financing – Very early-stage financing intended to allow for a business concept to be developed, sometimes involving the production of a Business Plan, prototypes and additional research, prior to bringing a product to market and beginning large-scale manufacturing.

Startup financing – Intended to fund the development of the Company's products and/or services and fund their initial marketing. Companies may be in the process of being setup or may have been operating for a short time, but have not established their product commercially.

Early stage financing – Financing still on an early stage, but after the startup phase. Generally intended to increase production scale and/or to initiate marketing and sales in companies that have completed the product development stage but may still not be turning a profit just yet.

Expansion – To grow and expand an established Company. For example, to finance a revamp and increase of production capacity, product development, marketing and to provide additional working capital. Also known as "development" or "growth" capital.

Restructuring/turnaround – To finance a distressed Company and promote a turnaround in the business, usually to save it from bankruptcy.

Bridge financing – A form of temporary financing intended to cover a Company's short-term costs until the moment when regular long-term financing (which can be in the form of Market-based financing) is secured. Thus, it is named as bridge financing since it is like a bridge that connects a company to debt capital through short-term borrowings.

> The **industry** sector in which your Company operates.

Most private equity firms will consider investing in a wide range of industries, provided that the Company meets their other investment preferences or investment criteria. Some PEs specialise in specific industry sectors (e.g. biotechnology, IT and other areas, Real-Estate, etc.).

> The **amount** of finance your Company needs.

Most PE firms have a ticket size preferences that may greatly differ from hundreds of thousand euros to millions euros. This ultimately depends on the investment policy of the funds managed by the PE. Nevertheless, usually Companies seeking smaller amounts of funding are more attractive to PE firms if there is an opportunity for further rounds of private equity investment later down the road.

It should be noted, that in terms of the amount of time and effort PEs need to spend in appraising the business proposal prior to investment, the investment process is fairly similar regardless of the investment amount. Nevertheless, although bigger investments tend to be more scrutinized, they tend to be more attractive for PE investment, as the absolute return is likely to be greater than for smaller investments, and should more easily cover the initial costs.

> The **geographical location** of your Company's operations.

It should be noted that Portugal has a strong presence of local PEs.

Geographical location as an investment factor is much more important for foreign PEs.

In terms of geographical attractiveness for investment, Portugal is seen as a very attractive location, being among the top European destinations for Direct Foreign Investment (FDI).

To these considerations, it also should be added:

The **track record** of the PE firm and its reputation in the market, notably in managing investments similar to the one sought by your Company.
The proposed **financing conditions** and the **perspective of evolution** of the business relationship.
You should approach the entities whose investment preferences match your situation.

1.3.2.2. HOW SHOULD I PREPARE MY BUSINESS IF I'M LOOKING FOR INVESTMENT FROM A PE FIRM?

The first step should be to prepare a Business Plan and to have a clear definition of what is your business' value proposition to present to a new investor.

A Business Plan should be considered as an essential document for potential shareholders as it enables them to assess the future prospects for business performance, review the business' strengths and weaknesses, and to identify critical success factors and what must be done to achieve profitable growth. It can also be used as a basis for identifying the potential need to reorganize internal functions.

Professional advisors can provide a vital role in critically reviewing the draft Business Plan. However, it is you who must take the ownership of the plan when presenting it to any investor.

The Business Plan should cover the following elements:

The market

The product or service

The management team

Business operations

Financial projections

Amount and use of finance required and exit opportunities

You need to show the PE firm that there is a real commercial opportunity for the Company and its products and services. This requires a careful analysis of the market potential for your products or services and how you plan to develop and penetrate the market. Information about the following elements should be provided:

Market analysis

Marketing plan

Pricing

Distribution channels

Promotion

Competition

Explain the Company's product or service in a simple way. If the product or service is technically orientated this is essential, as it has to be readily understood by non-specialists. Emphasise the product or service's competitive edge. You need to convince the PE firm that the product or service is good and fulfilling a market need.

PEs invest in people – people who have run or who are likely to run a successful business. Potential investors will look closely to the members of the management team. This section of the plan should introduce the management team and what its members bring to the business. Include their knowledge and experience, their drive, resilience, and ambition. In this section it should be demonstrated that the Company has the quality of management to be able to turn the Business Plan into reality. In other words, you need to convince the PE firm that the management team is fit to the job.

This section of the business plan should explain how your business operates, including how the Company produces the products or provide the services. It should also outline the Company's approach to research and development.

It should include details on the location and size of the facilities. Factors such as the availability of labour, accessibility of materials, proximity to distribution channels, and the availability of Government grants and tax incentives should be mentioned. Describe the equipment used or planned and, if more equipment is required in response to production demands, include plans for financing it.

These and any other operational factors that might be important to the investor should be included.

Developing a detailed set of financial projections will help to demonstrate to the investor that you have properly thought out the financial implications of your Company's growth plans. PEs will use these projections to determine if:

The Company offers enough growth potential to deliver the type of return on investment that the investor is seeking.
The projections are realistic enough to give the Company a reasonable chance of attaining them.
Investors will expect to see a full set of cohesive financial statements – including a balance sheet, income statement and cash-flow statement, for a period of three to five years. Ensure that these are easy to update and adjust. Do include notes that explain the major assumptions used to develop the revenue and expense items and explain the research you have undertaken to support these assumptions.

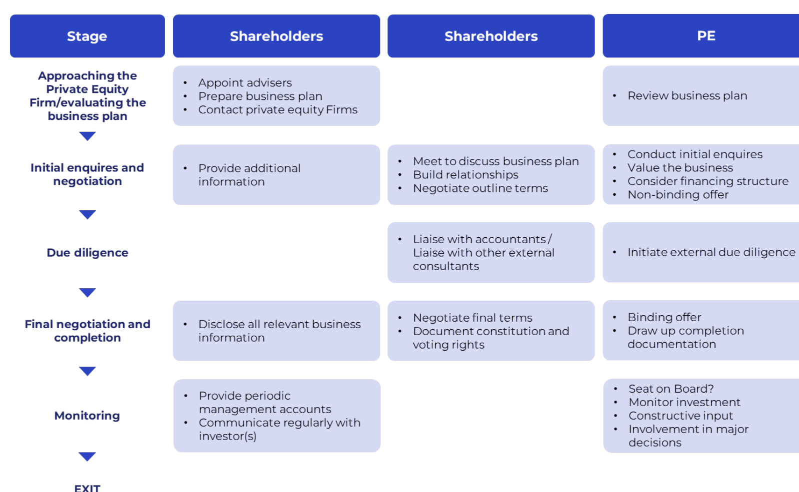
In this section of the Business Plan you need to state how much funding is required by your business and from what sources (current shareholders, PE firm, banks and others) and explain how the funds are expected to be used (fixed assets, working capital, etc.).

Finally include the consideration how the PE investors will make a return, i.e. realise their investment.

1.3.2.3. HOW DOES THE PE INVESTMENT PROCESS THEN TAKE PLACE?

The investment process, from reviewing the Business Plan to actually investing can take a PE firm up to one year, but typically it takes between three and six months. There are exceptions in which deals can be done in extremely short time

frames. Much depends on the quality of information made available to PE firm and the business quality. Bellow you can find a description of the main stages of the PE investment process.



After the agreement is signed and the funds have been transferred, you'll start working with the private equity firm. Normally PEs will have an active approach aiming to add value to your Company.

In addition to advising on strategy, including such matters as entering new markets, developing new products, making new investments for increased production capacity or efficiency, making new acquisitions and hiring new management, the PE will have a strong business network to share with you, possibly including introductions to potential customers, suppliers, acquisition targets and even to other PE firms in connection with syndicating financing rounds.

The PE usually aims to be your partner, someone to be approached for helpful ideas and discussion. Backing from a PE can provide credibility and status in dealing with third parties. However, day-to-day operational control is rarely wanted. In order to provide this support, normally PEs will expect to have seats on your board. The directors may be executives from the PE or external experienced executives.

Additionally, to be able to oversight the evolution of your Company, the PE will expect to:

Receive copies of your management accounts, promptly after each month end.
Receive copies of the minutes of the board of directors' meetings.
Be consulted and involved in, and sometimes have the right to veto, any important decisions affecting the Company's business. This will include major capital purchases, changes in strategic direction, business acquisitions and disposals, appointment of directors and auditors, obtaining additional borrowings, etc.

1.3.2.4. HOW THE PE WILL REALIZE ITS INVESTMENT?

Many shareholders are looking at some point to sell their investment or seek a stock market listing in order to realise a capital gain. PE firms usually also require an exit route in order to realise a return on their investments.

The time frame from investment to exit can be as little as two years or as much as ten. At the time of exit, the private equity firm may not sell all the shares it holds. In the case of an IPO, private PEs are likely to continue to hold the newly listed shares for a year or more. The main exit options are listed below:

Trade sale – The sale of your Company's shares to another investor e.g. institutional investor).
Repurchase – The repurchase of the private equity investors' shares by the Company and/or its management.
Execution of an IPO – In this exit option, is worth mentioning that the Company, upon the PE investment may be better prepared given the reporting systems and discipline will be already implemented in your Company.

1.4. What are investors looking for?

Last updated: September 16, 2022

> *Investors commit their capital with the expectation of receiving financial returns in companies whose prospects for growth and development are convincing over the investment horizon.*

Investors look for key attractive characteristics in companies, such as...

Business performance prospects

Financial features

Transparency and reputation

Environmental, Social and Governance features

High Growth Potential – Investors are attracted by companies with high growth potential. Although a Company's growth can be measured in many ways, the first thing investors assess is the growth the Company is able to achieve by conducting its commercial activity, i.e. organic growth.

Companies with a track-record of high organic growth potential and looking to explore growth opportunities will attract investors, given consistent and sustainable organic growth is a good indicator of the business potential to reach higher future valuations.

Present and expected earnings are an aspect investors and analysts focus on. A Company's earnings are influenced by various factors, including operational expenses, financing, assets, and liabilities. Investors often use metrics as Return on Equity (ROE) and Return on invested capital (ROIC) to measure's the Company's profitability relative to other investment alternatives. These types of measures are employed to assess a Company's efficiency at allocating the capital to profitable investments and accordingly they provide a valuable insight regarding how well a Company is employing its capital to create value. Investors favour companies with higher ROE and ROIC as these are more lucrative.

Industry – Some investors specialize in specific industries and are more willing to invest on companies that operate in those industries. Additionally, some industries are more inherently attractive. Industry attractiveness depends on a number of factors but it is worth considering that when evaluating the industry attractiveness, investors analyze the following factors:

Long run growth rate forecasted for the industry

Industry size and market share among competitors

Attractiveness of the industry (e.g. as measured by Porter's 5 forces analysis)

Regulatory environment

Changes in demand

Trend of prices

Seasonality

Availability of labour

Market segmentation

Sustainable leverage levels – Compared with other funding alternatives, debt is a cheap source of financing. This is accentuated by the fact that interest are deductible for tax purposes. However, high leverage increases the Company's probability of default, namely when the market reverses the positive cycle, which in its turn will increase the cost of new debt. The growing indebtedness of a company is proportionally linked to less flexibility in its financial management and in the balance that must exist between debt and equity.

Even though the adequate leverage level depends on factors which are intrinsic to the Company, investors will compare the leverage of the Company with the average leverage of the industry, as an exercise to assess financial risk.

While some industries tend to have higher levels of debt (e.g. capital intensive companies with more predictable revenues or more mature businesses, such as utility providers), in other industries a high level of leverage is perceived as excessive

financial risk for potential investors. To assure adequate levels of debt, ratios such as debt service coverage ratio, Debt/Equity and Debt/EBITDA must be analysed and compared with similar companies.

(Stable) Cash flow stream – Well managed companies, able to convert earnings into cash on a regular basis. Investors tend to privilege investing in companies with a stable cash-flow stream, especially if generated by recurring operating activity. For investors, a stable cash flow stream is often more valuable than earnings for the following reasons:

Cash flow is more reliable than earnings and profits:
While profits, as reported in the Income Statement are subject to accounting policies, namely revenue and cost recognition practices, cash flow is much harder to adulterate, thus providing a more reliable indication of the business capability to generate cash.
This ability to generate cash, signals to investor that the Company will be able to grow organically and fund the investment needed to achieve growth prospects, making the Company a more attractive investment.
Cash flow allows the Company to fund its own growth/expansion:
The ability to generate cash also signals to investor that the Company will be able to grow organically and fund the investment needed to achieve growth prospects, making the Company a more attractive investment.
Cash flow provides liquidity to pay dividends:
For investors who favour a stable and recurring dividend payout, a stable cash flow stream signals that the Company will have the means (liquidity) to adhere to a highly predictable and stable dividend payout. For some investors this is key, because it enables them to be remunerated for their investment throughout the investment period, without having to sell shares.

Companies may improve their cash flow generating capabilities by:

Organic growth
Increase operating margin through cost management
Restructuring
Working capital management

Accounting records – Investors rely on the Company's disclosed Financial Statements accounts for their assessment of the Company as an investment prospect, thus high quality accounting is a *sine qua non* condition.

Investors' relations – Communication can take many forms, from meetings with potential investors, news releases, annual reports and setting up and maintaining your Company website. The messaging across all channels should be the same and the sole goal is to inform stakeholders about the Company so that they can gain a better understanding about the business, the strategy, governance, financial performance and prospects. In this digital age, there are many methods of communication which can be used for establishing your presence with potential investors.

As a Company is preparing for an IPO—and especially after an IPO—the Investor Relations will play a prominent role in keeping the Company highly valued. If a Company doesn't already have a dedicated investor relations team, then building one should be a priority whether the Company is pre or post IPO. There are several best practices that IR teams should follow:

Knowing Your Investors

This means knowing how to communicate with the different types of investors.

Managing Expectations Properly

In most cases, an IR team is primarily responsible for managing the expectations of investors (institutional, retail, analysts). Expectations are key to investors, who are usually investing because of their belief in a specific future. Not managing these expectations well could lead to unrealistic or excessive scenarios (positive or negative), which could generate lack of credibility and trust. Thus, it is important for companies to have a high degree of awareness about exactly the type of expectations they are creating with every public statement.

Building Credibility Through Transparency

IR teams need to develop good long-term relationships with investors (institutional, retail, analysts). This is done by giving information promptly and by staying available to answer questions and concerns. An IR team's job is to keep the investors' trust (through the bad times), and realistic during the good times. By doing so, long-term relationships of trust can be built, which will hopefully lead to higher and more efficient prices over time.

The integration of Environmental, Social and Governance (ESG) features in the Company's business enables the Company and its investors to assess the wider impact of its operations and long-term strategy.

Investors are becoming increasingly aware of the benefits of ESG investments, and as a consequence, their requirements and expectations of Issuers are increasing. Issuers, looking to improve access to capital and avoid negative activist situations, are expected to build their own ESG roadmap to disclose to investors real and measured KPIs. A relevant ESG strategy leverages the right narrative and ensures long-term financing.

Investors increasingly expect companies to recognise and address, in an accountable way, the short, medium and long-term risks and opportunities in relation to ESG factors that impact long-term value creation. In parallel, Asset Managers consider in their investment criteria, incorporating ESG factors into investment decision-making, and by supporting the allocation of capital to sustainable initiatives.

Early adoption of good governance practices primes companies to respond more effectively to the expectations of their various stakeholders (shareholders, employees, civil society, etc.), as well as increasing their visibility.

Here are some of the main points to consider:

Diversity is key

Diversity is a carefully monitored criteria in good governance practices. In addition to diversity of skills, profiles, personal and from the governance bodies, the proportion of women in managing bodies is also being considered.

Executive pay

Executive pay has become a subject of debate between Issuers and investors. Investors have high expectations in this area. They expect, in particular, increased transparency on variable pay criteria and internal pay gaps. Furthermore, in most listed European companies, ESG criteria are used when calculating the variable portion of executive pay.

Increasing engagement in environmental and social transition

Investors are increasingly holding the management bodies of the Companies accountable, both on environmental issues and social responsibility. Studies have shown that the more a Company applies ESG considerations, the better its share price performs.

Many private companies, especially start-ups, may lack the resources and expertise to develop and implement a strategy to manage ESG risks and opportunities. In such cases, companies may consider, among others, shifting existing staff into ESG-focused roles to develop internal expertise. Corporates may also consider working with consultants to jump-start a sustainability strategy.