Capital Structure of Public Companies in Brazil

The aim of this Box is to examine the financial structure of public companies in Brazil during the 2005-2009 periods, with emphasis on the development of debt and the trend of the composition of ordinary sources of funding.

It is based on a sample of publicly traded companies with shares traded at BM&FBOVESPA S.A. – Securities, Commodities and Futures Exchange (BM&FBOVESPA), over the five-year period ending 2009[1]. The filters used for the construction of the sample mentioned prioritized non-financial companies that reported net operating revenues exceeding R$30 million in the 2009 fiscal year, a total of 147[2] that jointly registered sales of R$287.4 billion in December 2009. These companies are spread across 20 segments of the economic sector classification as suggested by Economática.

Capital structure by maturity, seen in Table 1, shows that short-term liabilities (up to one year), represented by current liabilities of the sample companies, reported relative stability in the five-year period, accounting, on average, for 19.6% of the total of funds in the period. Long-term bonds (over one year), represented by non-current liabilities, comprised, on average, 29.6% of the total, registering a significant increase in the last two years.

Table 1 – Equity structure by maturity

% share

	2005	2006	2007	2008	2009	Average
Third party captital	48.4	47.4	45.9	52.7	51.6	49.2
Current liabilities	19.4	19.7	19.0	20.5	19.4	19.6
Non-current liabilities	29.0	27.7	26.9	32.2	32.2	29.6
Shareholder's equity	51.6	52.6	54.1	47.3	48.4	50.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Debt accounted, on average, for 49.2% of funds raised over the five-year period, while the proportion of shareholder capital, after experiencing a sharp annual fall of 6.8 p.p. in 2008, reached 50.8%. It

1/ Considering that the data analyzed is extracted from the financial statements of companies registered in the Economática system, the analysis will focus on the situation as of December 31 of each year, with 2009 being the latest fiscal year available.

2/ Not including Petrobras and Vale do Rio Doce, which have too great a size discrepancy in relation to other companies.

Table 2 – Equity structure

% annual growth

	2006	2007	2008	2009
Third party captital	6.0	6.9	36.1	11.3
Current liabilities	10.0	6.5	27.9	8.0
Non-current liabilities	3.3	7.2	41.9	13.4
Shareholder's equity	10.2	13.7	3.8	16.6
Total resources	8.1	10.5	18.5	13.8

Table 3 – Financial and non-financial liabilities to third parties

% share

	2005	2006	2007	2008	2009	Average
Financial	47.4	48.3	46.9	53.1	49.6	49.1
Non-financial	52.6	51.7	53.1	46.9	50.4	50.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Table 4 – Financial debt by modalities and terms

% share

	2005	2006	2007	2008	2009	Average
Short-term debt	23.1	24.1	20.4	22.6	23.5	22.7
Financing	20.1	19.3	19.1	20.7	21.2	20.0
Debentures	3.0	4.8	1.3	1.9	2.3	2.7
Long-term debt	76.9	75.9	79.6	77.4	76.5	77.3
Financing	62.5	59.5	61.4	63.8	63.7	62.2
Debentures	14.4	16.4	18.2	13.6	12.8	15.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

Table 5 – Partiicipation of supplier's credit

%

	2005	2006	2007	2008	2009	Average
Suppliers/current liabilities	24.8	26.7	26.8	26.2	23.7	25.6
Suppliers/total resources	4.8	5.3	5.1	5.4	4.6	5.0

is worth emphasizing that this decline reflected, in particular, the impact of the intensifying global crisis in the second half of 2008 on the aggregate net profit of the companies considered, which fell 12% in that year. The resumption of activity in 2009 supported a reversal of this movement, expressed in a 29% annual rise in net profit. The annual trends of debt capital and aggregated shareholder capital are shown in Table 2, highlighting the contrast between the annual growth rates seen in 2008 in debt capital, 36.1%, and in shareholder capital, 3.8%.

Debt capital is composed of non-financial debt, such as supplier credit, various operational credits for payments (salaries, social charges, taxes, services, etc.), and typical financial debts such as loans, financing and debentures. This breakdown, as seen in Table 3, shows the relative stability of the proportions of the two modes in the debt capital total, only registering statistical change in 2008, also associated with the impact of the global crisis.

Table 4 records the breakdown of financial debt by financing and debentures, segmented by length of maturity. On average, short and long-term financing accounted for 82.2% of debt in the period. Regarding debentures – the predominant fundraising instrument within large companies – it is worth mentioning the proportion of long-term transactions.

In parallel, it is worth highlighting the 25.6% average proportion of supplier's credit – a mechanism with no explicit cost – in current liabilities and 5% in the total of resources used for financing, both of which registering relative stability in the recording period (Table 5).

In summary, equity accounted for an average of 50.8% of the funds used for business financing that form the sample over the five-year period ending in 2009, and debt capital make up 49.2%. Specifically with respect to the last segment, the proportion of long-term (non current) and short-term liabilities (current) reached, on average, 60.2% and 39.8% in the period, suggesting a comfortable capital structure with relatively low risk.

The breakdown of debt capital shows that financing debts comprised, on average, 49.1% of these

liabilities, over five years. Additionally, it is worth emphasizing the stability of its share during the period and its concentration in loans and long-term financing.

The worsening of the global financial crisis has created short-lived effects, mostly in 2008, on the capital structure of companies, with emphasis on increased indebtedness, reflecting the expansion of debt and/or the decline in net profits. Additionally, it is important to emphasize that the low risk of financial leverage of the publicly traded companies is an indication that there would be enough room for funding, in relation to new investment opportunities, within a framework of sustainable expansion in the Brazilian economy. The challenge is to ensure a consistent supply of appropriate financing, both in terms of cost and maturity.