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ABSTRACT

We sought to verify whether the SME's IPO allowed an advantage in the crisis year of 2020. What (i) are the common features in the ownership and capital structure of companies listed in 2020 and (ii) how their performance in the stock market behaved. We selected 11 companies with initial offerings in 2020 and compared their performance with those in the B3 SMLL index. We conclude that companies took advantage of the stock market and reinforced their cash by R\$5.9 billion, which brought the advantage of business continuity, in a year in which there was credit restriction, cash destined to reinforce working capital or for good acquisition growth opportunities were taken advantage of. It brought the benefit of financial deleveraging,

Keywords: Small and Medium Enterprises, Deleveraging; Capital Structure; IPO

1. INTRODUCTION

The act of birth of a company is its formalization, which occurs through registration in the established official means that allow the entrepreneur to operate the chosen social object in a broad manner. For the establishment of business achievements, bureaucracy can play a stimulating or discouraging role for the entrepreneur. Dreher and Gassebner (2013) concluded that countries with a high number of procedures for starting a business negatively impact entrepreneurship. The state bureaucracy, according to Castor (1999):

[...] it invents ritualistic norms and cultivates formalism because, somehow, the imposition of such rules (and obviously the ability to waive their requirement or mitigate sanctions for their non-compliance) translate into political power, if not pure and simple corrupt tool. (Beaver, 1999, p. 3)

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Once established and operating, the company needs to have its financial flows organized and then, as its manager, decide and act on the appropriate structure capital to business, sometimes requiring borrowing from bank loans. In this sense, the structure of a country's financial market, with regard to the pricing of its loans by financial institutions, may or may not play a facilitating role for companies.

Zeidan (2020) concludes that Brazil is among the countries with the highest spreads in the world and the factors found in the study range from the conservatism of the Central Bank of Brazil, which requires more regulatory capital than necessary (compared to other countries) to the high banking concentration in the market, which obviously reduces competition. The study also relates the policy of primary interest, kept high over several years, and its impacts on the construction of barriers, creating difficulties in the exercise of entrepreneurship.

In addition, there are many difficulties in Brazil for small and medium-sized companies (SMEs) to access the market directly, through the stock exchange, Brasil Bolsa Balcão (B3). Góes (2018) concluded that the low participation of SMEs in B3 involves the (un)willingness of the partners, discouragement due to the high costs of opening, resistance to the modernization of administrative practices; and it comes, from the perspective of professional investors, to the low liquidity of the papers and greater risk associated with the investment.

Since 2005, B3 has created the "Small Caps" index, whose acronym is SMLL, to track the smallest companies in stock market capitalization, and even though not all are classified as SMEs, we can say that all listed SMEs - that meet the requirements of non-exclusion – participate in this index, accompanied by professional investors, interested in monetizing funds with some space to assimilate variations, but with good long-term prospects.

It is undeniable that 2020 was presented to small and medium entrepreneurs as a year of multiple challenges: maintaining revenues with the drastic reduction in demand in several sectors, ensuring the company's liquidity with the sudden increase in the prudence of banks to lend from March, keep up with regulations that changed in short spaces according to the mortality curves caused by Covid-19, which had undermined nearly 200,000 lives by the end of the year.

More barriers on the credit front were presented to SMEs. With the unprecedented events of the year, caused by the same Covid-19, the sudden interruption of certain activities of companies whose revenues went to zero, the banks provisioned the value in the balance sheets of the first semester. of BRL 65 billion, 80% more than in the same period of 2019 (Banco Central do Brasil [BACEN], 2020).

On June 1, 2020, through Provisional Measure no.975, converted into Law no.14,042, the Federal Government created the Emergency Program for Access to Credit, establishing a Guarantee Fund of R\$20 billion, through the National Bank for Economic Development and Social (BNDES), for bank loans to companies with annual revenues in 2019 of up to R\$300 million. Data updated on 01/06/2021 from BNDES (2021) show that more than 135 thousand operations were contracted and more than 114.5 thousand SMEs were supported, in a volume of R\$92.1 billion in loans. Veiga and McCaheny (2020) had already identified a substantial difference in their study of SME demand and credit supply based on BACEN data, going from 54% in 2014 to 87.5% in 2016.

On the other hand, the capital market witnessed the success of 28 IPOs this year, the highest number in the last 5 years. A first look may lead to thinking that only the unequivocal reduction of the primary interest rate, the Selic, which provides a strengthening of the capital market, was responsible for this performance. Interest rates in Brazil have been dropping since the beginning of the Temer Government, in August 2016. But B3 had 1 IPO process in 2015, 1 in 2016, 10 IPOs in 2017, only 3 in 2018 and 5 in 2019.

Thus, this paper seeks to answer the following research question: Did the IPO in B3 of an SME allow an advantage in the crisis year of 2020?

The objective of the research was to study (i) the common traits in the ownership and capital structure of companies listed in 2020 and (ii) the variation in share prices from the initial month of trading of each company until the end of the year and compared with the variation of the SMLL index of B3 in the same period.

In addition to this introduction, this article is divided as follows: the next section presents the theoretical framework of SME capital structure and market access; the third section, called Stimulus to SMEs, discusses initiatives to stimulate and access SMEs to the capital market in other countries and the B3 initiative with the SMLL index, its definition and importance; in the fourth section, Methodology, it selects the sample of 11 companies among the 28 that completed their initial offerings in 2020 and assesses their sizes and capital structures as well as the comparison of share price variations with those of the B3 index and in the following section the conclusions.

The importance of this study is to provide more information about this important change in the Brazilian capital market, which may also indicate a path for financial managers of companies. An increase in market demand to accommodate new projects with prospects of better return on their investment may indicate a less arduous path for more companies to overcome difficulties and growth barriers, an advantage for SMEs at any time.

2. THEORETICAL FRAMEWORK: CAPITAL STRUCTURE AND MARKET ACCESS

The organization of financial flows and the decision on the adequate capital structure are directly linked to the need to obtain resources for the company's operation and the achievement of its objectives. Since the studies by Modigliani and Miller (1958) it is understood that this discussion would be unnecessary if markets worked perfectly. Bittencourt and Albuquerque (2018) conducted an important work and analyzed 80 national articles published on the topic of corporate capital structure. They brought contrasting opinions and highlighted that, in practice, companies adopt a certain hierarchy of preference (Nakamura, Martin, Forte, Carvalho, Costa, & Amaral. 2007).

Eid Junior (1996) did a pioneering work with companies operating in Brazil and ordered the following behaviors in the decision of the companies' capital structure: (1st) Opportunism, (2nd) Hypothesis of the Pecking Order and (3rd) the Static Relationship Models.

According to Frank and Goyal (2009), the basic idea is that administrators follow the credit and capital market, making use of what is most favorable to them to define funding strategies.

Taking advantage of market opportunities, taking advantage of the favorable winds of 2020, putting resources in cash to overcome the adversities of the year and carry out investment projects, explains the high participation of smaller companies, classified in any of the 3 years prior to going public, as SMEs.

The dilemmas arising in the decision-making process, on the other hand, were outlined by Fama and Jensen (1983) and can be well explained by the agency theory, in which the entrepreneur perceives, on the one hand, the benefits for the execution of his business strategy, differentiating them from accessing the market with more competitive levels of financial expenses, but having to accept a more robust Governance structure, with more executives, offering much more information about your business to the market and competitors. Morellec's (2004) model shows that low leverage ratios observed in practice may be the result of managerial and shareholder conflicts.

Rojo and Sousa (2012) concluded that “stock capitalization would be even more useful to society if recognized as a facilitator of the growth of SMEs”. Chola (2016) highlights the importance of this market access (IPO) for SMEs to reach their optimal capital structure and take advantage of growth opportunities.

Another relevant point to understand is the association that the market in general can make depending on the entrepreneur and partners who entered the initial stages. In Brazil, many IPO processes have been conducted by Venture Capital or Private Equity firms. It is not an uncommon situation, already studied by several authors. Velamuri and Liu (2017) concluded in a research that the relatively recent Chinese stock market – then hampered by problems of lack of transparency and high information asymmetry – that the shareholding structure and the behavior of Insiders can serve as quality signals for investors.

2.1. STIMULUS TO SMEs

Encouraging SMEs' access to the capital market is very important for all countries. The main reason is the relevance that the set of SMEs has in almost all economies, including as employers of labor. This stimulus can come from more accessible regulation or even from the countries' own stock exchanges. Jain, Shukla and Singh (2013) listed several initiatives around the world: in England, the Alternative Investment Market of the London Stock Exchange of 1995; in Hong Kong, since 1999 the GEM – Growth Enterprise Market; in Japan the Mothers (Market of the high Growth and Emerging Stocks, also from 1999; in Australia the NSX focused on listing SMEs; since 2003, ALTX in South Africa; in China, the Shenzhen Stock Exchange since May 2004; Canada has TSX, Singapore with CATALIST; Korea has KOSDAQ, Malaysia has MESDAQ; Nigeria with ASEM (The Alternative Securities Market).

It is important to remember that the simple creation of platforms aimed at IPOs and SME share trading is not enough to increase this market for investors and entrepreneurs. Thakur (2016) concluded that even though the Government of India has supported the creation of two different platforms, there is still a need to increase the number of workshops and outreach programs there in order to increase the recognition of benefits among entrepreneurs and SMEs.

In Brazil, the approval of Law No. 13,043 in 2014 encouraged individuals - with exemption from income tax - to invest in companies with annual sales of up to R\$500 million and market value of up to R\$700 million (among other rules) until 2023. Well before this government initiative, in 2005 the current B3, then the São Paulo State Stock Exchange, created the SMLL, an average performance indicator of asset prices in a portfolio composed of smaller

capitalization companies also as a stimulus to smaller companies launch themselves in the capital market.

Since its first listing, on September 1, 2005 until December 30, 2020, this index appreciated 409% against 325% of the Ibov, the theoretical index of the most traded shares, the main benchmarking of investors in the stock market (B3, 2021a, B3 2021b).

3. METHODOLOGY

3.1. JUSTIFICATION AND SELECTION OF THE COMPANIES

The year 2020 had 28 companies that concluded their IPO process with the movement of more than R\$110 billion in the market, between the primary issue and the purchase of shareholder participation (uncapitalized resources). From this list, we identify those that in any of the 3 years prior to 2020 had an annual turnover of less than R\$300 million. This parameter was based on several previous studies of small and medium-sized companies, such as Riva and Salloti (2015), which considered companies covered by Law 11,638/07, with annual revenues of up to R\$300 million. Of the 28 companies, we eliminated 17 that had revenues above this level in all 3 previous years, leaving 11 in our sample, which moved R\$7.79 billion in their offers.

3.2. EVALUATION OF SIZE AND CAPITAL STRUCTURE

Table 1, located on the next page, provides information on these 11 companies selected for analysis. It is worth noting that out of the 11 companies, 5 control Private Equities funds, which are very relevant players when it comes to SME IPOs. 5 have as the main holder of voting shares the controller(s) in the individual, who made the decision to go public. As for the size, according to the criterion of its Shareholders' Equity, in December 2019, on average, it was R\$ 107 million. By the criterion of sales also in 2019, on average it was R\$ 238 million, within the parameters of widely established SMEs, with the largest earning R\$ 527 million and the smallest R\$ 32 million in the year. The analysis of the capital structure can be done by several indicators. Two indicators were chosen for the purposes of this study, also based on December 2019: the first was Net Debt to Equity, which the higher the ratio denotes the more leveraged structure. On average, companies had an indebtedness of 64.9% of net equity, and if we exclude the outlier Sequoia, this average drops to 41.7%, very comfortable ratios for additional financial leverage. It should also be noted that out of the 11 companies, 4 in

December 2019 had more cash than debt, which may be a sign of conservatism on the part of administrators. And the second indicator is Gross Debt by Assets, indicating that, on average, these companies had 27.3% of their assets financed by gross debt, also with room to increase this leverage, and being considered a good capitalization even for companies in the growth stage. index that the greater the ratio, denotes the more leveraged the structure. On average, companies had an indebtedness of 64.9% of net equity, and if we exclude the outlier Sequoia, this average drops to 41.7%, very comfortable ratios for additional financial leverage. It should also be noted that out of the 11 companies, 4 in December 2019 had more cash than debt, which may be a sign of conservatism on the part of administrators. And the second indicator is Gross Debt by Assets, indicating that, on average, these companies had 27.3% of their assets financed by gross debt, also with room to increase this leverage, and being considered a good capitalization even for companies in the growth stage. index that the greater the ratio, denotes the more leveraged the structure. On average, companies had an indebtedness of 64.9% of net equity, and if we exclude the outlier Sequoia, this average drops to 41.7%, very comfortable ratios for additional financial leverage. It should also be noted that out of the 11 companies, 4 in December 2019 had more cash than debt, which may be a sign of conservatism on the part of administrators. And the second indicator is Gross Debt by Assets, indicating that, on average, these companies had 27.3% of their assets financed by gross debt, also with room to increase this leverage, and being considered a good capitalization even for companies in the growth stage. and if we exclude the Sequoia outlier, this average drops to 41.7%, very comfortable ratios for additional financial leverage. It should also be noted that, of the 11 companies, in December 2019, 4 had more cash than debt, which may be a sign of conservatism on the part of administrators. And the second indicator is Gross Debt by Assets, indicating that, on average, these companies had 27.3% of their assets financed by gross debt, also with room to increase this leverage, and being considered a good capitalization even for companies in the growth stage. and if we exclude the Sequoia outlier, this average drops to 41.7%, very comfortable ratios for additional financial leverage. It should also be noted that, of the 11 companies, in December 2019, 4 had more cash than debt, which may be a sign of conservatism on the part of administrators. And the second indicator is Gross Debt by Assets, indicating that, on average, these companies had 27.3% of their assets financed by gross debt, also with room to increase this leverage, and being considered a good capitalization even for companies in the growth stage.

Table 1
X-ray of the selected sample

		Dec/19			
Name	Largest shareholder with vote Dec/20	PL	Rec (R\$000)	Net Debt/PL (%)	Div Br/Active
3r Petroleum	3r Petroleum Investment Fund in Oe Participation	236.7	32.4	-26.8	0
Alphaville	Patria Brazilian Priv Equ Fund IV FIP A	232.8	164.2	174.3	44.8
Ambipar	Tercio Borlenghi Junior	195.1	484.3	116.3	51.5
I got sick	Ana Luiza McLaren Moreira Maia e Lima	14.9	53.6	-100.5	1.8
lavvi	Cyrela Brazil Realty SA Empr e Part	103.1	193.8	-8.9	15.3
Meliuz	Israel Fernandes Salmen	22.8	81.5	-31.7	7.2
miter	Fabricio Miter	63.2	311.8	138.1	30.8
Neogrid	Yafo - Multi-strategy Equity Investment Fund I	137.2	207.0	73.7	37.8
Priner	Leblon Eq Partners V FI Part Multi	74.3	348.6	55.6	35.9
Sequoia Log	Wp XI C Multi-strategy Equity Investment Fund	86.3	527.2	296.6	56.7
Track Field	Frederick Wagner	12.6	218.1	27.0	18.5

3.3 CHANGES IN THE QUOTES OF THE COMPANIES AND SMLL

The first IPO process on this list took place in February, the next in July, one in September, two in October, three in November and two in December. Table 2 on the next page compares the prices of these shares and the SMLL index in each of the last trading sessions of the respective months in which trading starts with those of the last trading session of the year, on December 30, and their variations are calculated. For this study, this analysis was not carried out for the two December processes, as they are very close to the end of the year.

Table 2

Variation in sample quotations and SMLL indices (last trading of months)

Name	Start of Business	Feb.	Jul.	Sept.	Oct.	Nov.	Ten.	Var %
miter	02/05/20	16.20					17.00	5%
Priner	02/17/20	13.80					8.70	-37%
SMLL		2,617.77					2,822.39	8%
Ambipar	7/13/20		29.59				26.40	-11%
SMLL			2,466.02				2,822.39	14%
lavvi	02/09/20			8.00			7.73	-3%
SMLL				2,303.17			2,822.39	23%
Sequoia Log	10/07/20				13.00		22.70	75%
Track Field	10/26/20				9.05		12.80	41%
SMLL					2,250.59		2,822.39	25%
Meliuz	11/4/20					9.81	15.00	53%
I got sick	11/06/20					9.15	12.70	39%
3r Petroleum	11/10/20					23.95	37.20	55%
SMLL						2625.04	2,822.39	8%
Alphaville	12/07/20						23.60	
Neogrid	12/18/20						7.15	

It should be noted that companies that made their IPOs before the pandemic spread were unable to overcome the variation in the SMLL index. The first companies whose variations surpassed this index were Sequóia and Track&Field, with processes already carried out in October. And all of November also achieved better appreciation than the index, Meliuz, Enjoei and 3R Petroleum.

4. ANALYSIS OF RESULTS

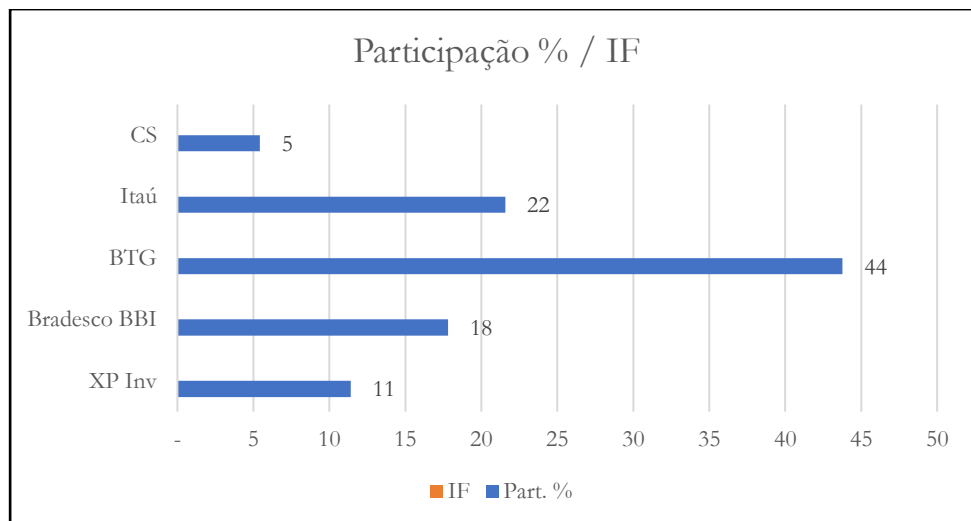
The first analysis to be done is on how much these companies have strengthened their cash, an advantage in times of credit restriction such as working capital reinforcement or to take advantage of growth opportunities through acquisitions. Resources in the order of R\$5.9 billion (B3, 2020) were raised in the primary offerings, with an average of R\$537 million per company. This amount reinforced the shareholders' equity of these companies, which in December 2019 was an average of R\$107 million, and improved the equity structure by another 5x. In addition, of these 11 companies, 10 opted for listing on the Novo Mercado, a superior Governance condition that can guarantee better conditions in credit analysis of national and international banks and suppliers.

Table 3
Sample IPOs: volumes moved and distribution

Name	Listing on offer	Primary Vol. (BRL000)	Secondary Vol. (BRL000)	Total Vol. (BRL000)	Retail	Institutional	Foreigners	Others
3r Petroleum	NM	690,000	-	690,000	8%	57%	17%	18%
Alphaville	NM	305,992	-	305,992	two%	81%	4%	13%
Ambipar	NM	1,082,400	-	1,082,400	10%	60%	30%	0%
I got sick	NM	470,833	515,883	986,717	11%	71%	18%	0%
lavvi	NM	1,027,064	-	1,027,064	15%	71%	13%	0%
Meliuz	NM	334,677	294,718	629,395	10%	63%	26%	1%
miter	NM	958,724	94,003	1,052,727	10%	43%	45%	two%
Neogrid	NM	337,500	85,500	423,000	0%	0%	0%	0%
Priner	NM	173,913	26,086	199,999	38%	57%	3%	3%
Sequoia Log	NM	348,070	557,787	905,857	4%	27%	69%	0%
Track Field	N2	182,391	309,825	492,216	7%	68%	24%	1%

Then, it is understood that the expansion of financial partners with banks whose market share with SMEs is not relevant is also an advantage in times of credit restriction. Credit Suisse, BTG and XP together led 7 IPOs that raised 60% of the volume directed to these companies. Figure 1 on the next page shows the issue coordinating banks:

Figure 1
Leading financial institution and volume handled



5. CONCLUSIONS

This work evaluated the 28 IPO processes with B3 in 2020, a year in which many challenges were imposed on small and medium entrepreneurs by the Covid-19 pandemic, when nearly 200,000 Brazilians lost their lives. Among these companies, the 11 smaller companies were selected, in any of the 3 years prior to 2020, that still had SME revenues. 2020 crisis?

Clearly companies took advantage of the market shareholding and reinforced their cash by R\$5.9 billion, which brought the advantage of business continuity, in a year in which there was credit restriction, cash intended to reinforce working capital or to take advantage of good opportunities for growth through acquisition. . It brought the benefit of financial deleveraging, since the resources from primary issues reinforced the Shareholders' Equity of these companies, which in December 2019 was on average R\$107 million, and improved the equity structure, which was no longer unbalanced, by a further 5x , generating confidence in investors, reflected in the valuations of companies from their initial trading until the last trading session of the year.

The choice of controllers for listings on the Novo Mercado of 10 of the 11 companies ensures greater governance, which leads to more favorable rating conditions in credit analyzes of national and international banks and suppliers, which should bring more competitiveness to these companies. Finally, there was an expansion of the range of partner financial institutions, with no tradition in the market for medium-sized companies, which can also be seen as another competitive advantage, allowing companies better financing conditions.

Additional studies of these companies that are new to B3 in 2020 are recommended, with longer periods and greater presence on the trading floor for better comparison with the performance of the SMLL index. Furthermore, this study did not intend to study the valuation of these companies to understand the impact of initial adjustments to their quotations.

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2020 and the path of SMEs in B3

ABSTRACT

We sought to verify whether the opening of capital by a Pyme allowed a benefit in the year of the 2020 crisis. Which (i) common characteristics in the property and capital structure of listed companies in 2020 and (ii) as its performance in the behavior of the stock market? We selected 11 companies with initial offers in 2020 and compared their performance with the B3 SMLL index. We conclude that the companies benefited from the stock exchange and reinforced their cash in R\$5.9 thousand million, which I wear the advantage of the continuity of the business, in a year of credit restriction, effective to reinforce the working capital for good growth opportunities. by acquisition they took advantage of. Contribute the benefit of financial clearance,

Keywords: Small and Medium Enterprises; Disappearance; Patrimonial Structure; IPO

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