Americanas.com

How the $3.9bn Americanas scandal has shaken corporate Brazil

Mysterious financial hole at heart of retailer has pitted banks against billionaires

Bryan Harris in São Paulo

With dull fluorescent lighting and hodgepodge displays of confectionery, personal care products and cheap electronics, Americanas stores are a staple of the Brazilian high street that rarely elicit much excitement.

Yet since last month a multibillion-dollar accounting scandal at the century-old retailer has gripped corporate Brazil, ensnaring some of the nation's richest men and sparking bitter recriminations and accusations of fraud.

"For me, it is clear there was fraud," said Daniel Gerber, a lawyer representing 20 minority shareholders in Americanas, which in January filed for bankruptcy protection after its cash pile evaporated. The Rio de Janeiro-headquartered company declared debts of R$41bn ($8bn)*.

"The fraud was malicious. It was a procedure orchestrated and accepted by all involved and which generated fantastic profits for the distribution of bonuses for years."

Despite investor anger, much of the case remains unclear, with investigators, regulators and shareholders now attempting to piece together what happened and how exactly the company came to report accounting "inconsistencies" of more than R$20bn ($3.9bn).

With many shareholders facing huge losses and tens of thousands of employees facing an uncertain future, fingers are already being pointed at the company's board, auditing committee and auditor — PwC — for their role in the crisis.

"Certainly the board failed to some extent. It should have used its power to be able to dig deeper. For something like this to have happened on this scale, for so long, a lot of people must have known about it," said André Pimentel, managing partner of da Performa Partners, who was involved in a previous restructuring of Americanas.

Fábio Coelho, president of the Association of Capital Market Investors, said: "We should be looking for answers from those directly involved in approving the accounting documents.

"If we think this is fraud and all clues are now pointing in this direction, we should be asking questions of the auditing company and the audit committee within Americanas."

PwC, which signed off on Americanas' last full set of accounts in 2021, declined to comment on any aspect of the case including allegations of fraud.

In response to all allegations of fraud and accusations that its board and audit committee had failed, Americanas said that its board had "as soon as it became aware of the case, created an independent committee that is investigating the facts with complete autonomy".

It added that "all its bodies [including the board and committees] are working together with the objective of maintaining operations properly and supporting the work of the independent committee".

The scandal emerged when, after just two weeks on the job, chief executive Sérgio Rial disclosed a multibillion-dollar hole in the company's accounts and then promptly resigned.

As the share price plunged, the company became embroiled in a bitter fight with creditors, including Banco Bradesco and investment bank BTG Pactual, which had been forbidden by a Rio court from seizing assets.

Sérgio Rial resigned as Americanas CEO after a fortnight © Patricia Monteiro/Bloomberg

In response, BTG lawyers launched a broadside against the company's three biggest shareholders — billionaires Jorge Paulo Lemann, Marcel Telles and Carlos Alberto Sicupira.

The men, who own 31 per cent of Americanas, had been "caught with their hands in the till", BTG claimed in a court filing.

After two weeks of silence — and days after Americanas filed for bankruptcy protection — the men published a note saying they had never been aware of any accounting issues at the company and would never support any such "manoeuvres".

The trio, who are the founders of investment group 3G Capital (which has no involvement with Americanas), highlighted that the retailer had employed one of the "most respected independent auditing firms in the world, PwC".

Yet analysts believe the scandal will tarnish the men's reputations as kingmakers in corporate Brazil.

"It raises questions about the three billionaires. Could they be doing such a thing at [3G Capital-owned] Kraft Heinz and others?" said Geraldo Affonso Ferreira, chair of the advisory board at asset manager ESH Capital and a corporate governance activist.

The trio did not respond to a request for further comment when asked about this or accusations of a malicious fraud.

Pimentel added: "Everyone in the market was always hesitant to raise questions about Americanas and its executives, mainly because they had this trio of renowned shareholders."

Although the facts are still being established, with the Securities Commission launching multiple investigations, it appears from what the company and Rial have said publicly that the accounting "irregularity" stemmed from an operation common among Brazilian retailers.

Banks, such as BTG or Bradesco, would pay Americanas suppliers in advance, with the company then responsible for the repayment of these loans, including interest payments.

These interest transactions, however, were effectively camouflaged by the company, which did not classify them as financial debts. The practice, which resulted in higher reported profits, is believed by analysts and minority shareholders to have gone on for years.

Established in 1929, Americanas — which reported a $40mn loss in the third quarter last year — was long viewed as an unexciting business. While its share price soared during the pandemic due its ecommerce offerings, the brand found itself in recent years compared unfavourably with its more socially-savvy competitor, Magazine Luiza.

The stock has fallen around 85 per cent since the scandal exploded.

Many expect the investigations into Americanas to go on for months, if not years © Gustavo Minas/Bloomberg

"The Securities Commission needs to investigate not only the management, but the reference shareholders, the auditors and the creditor banks, which, even if unintentionally, helped to structure what some are calling the biggest fraud in the history of Brazilian capital markets," said Felipe Pontes, the chief operating officer of Economatica, a financial data platform.

He pointed out that last year the company approved more than R$300mn in dividends, saying at the time it would not impact their debt position.

"This does not include the bonuses that were distributed — total compensation bordered on $1bn to directors in recent years — based on completely faked numbers," he added.

For Affonso and other corporate governance activists, the scandal demonstrated the need to bolster the capabilities of the Securities Commission, known as the CVM, which like many Brazilian government agencies has been hit by sharp budget cuts in recent years.

It was also a reminder to large institutional investors and asset managers of their stewardship duties, he added.

The CVM said that if any illegality was found "each of those responsible may be duly held responsible with the rigour of the law and to the extent applicable".

Many expect investigations by the CVM into Americanas to go on for months, if not years, and few retail investors are hopeful they can recover much. Small shareholder Rafael Ferri said he had formed a group with 3,000 others to study their "best legal alternative [because] recovering in court in Brazil is difficult".

Americanas' 3,500 stores for now remain open, but the company's prospects look increasingly bleak. Few analysts are optimistic it can restructure adequately and many expect it will struggle to obtain financing following the scandal.

Gerber, the lawyer representing 20 minority shareholders, said he requested that prosecutors freeze the assets of all individuals involved in the scandal.

"When we are facing a R$20bn loss that becomes R$43bn [at bankruptcy], I don't see how we can't hold responsible each and every citizen that was checking the accounts of the company," he added.

Additional reporting by Carolina Ingizza

*This piece has been amended to reflect the fact that Deutsche Bank says it does not have "a lending relationship nor any credit exposure" to Americanas