2013'S ONLY PUBLIC OFFERING SPARKS HOPE FOR M&A

Posted on 12/12/2013

Category: Archive

A recent wave of deals has exposed new-found confidence in domestic and international activity, boosting market hopes for the future

As the market reached its year-end, there are real signs that things are picking up, raising the question of whether the spark is finally set to reignite for Spanish M&A after years of stagnation. Spanish meat producer Campofrío Food Group recently become the target of a takeover battle, which has proved to be the only public offering to happen through the whole of 2013. Mexican company Sigma Alimentos launched a €695m bid for Campofrío in late 2013, fuelling speculation that the target's majority shareholder – China's Shuanghui International Holdings – may launch a counter-bid. The full line-up of advisers is unconfirmed, but Linklaters, led by Alejandro Ortiz, is known to be acting for Sigma, and DLA Piper Spain has advised the fund Oaktree in the sale of its 27.92 percent stake in Campofrío, led by Juan Picón and Ignacio Gómez-Sancha.
Recent data on Spanish M&A does not make great reading for corporate lawyers, at least at face value they say. Thomson Reuters found that 3Q 2013 deal value for M&A with Spanish involvement

stood at $43.51bn (€31.98bn), a 13.1 percent slump on the corresponding period in 2012. Deal volume also dropped to 638 for the year – 155 fewer transactions than the previous year.

However, the Campofrío deal has a number of facets that have boosted confidence, while underscoring some of the key issues still pertinent to the Spanish market, say lawyers. First, it is bidding by international firms for a Spanish target. Indeed, experts say there has been growing disparity between M&A priorities for domestic companies and those international companies investing in Spain.

“Spanish companies have been looking abroad to invest, in places such as the Middle East and Latin America, rather than domestically,” explains José Antonio Sánchez-Dafos, Head of Corporate at DLA Piper Spain. “This has left the door open for international investors to target Spanish assets.”

This point was highlighted further by another deal late in the year. Canadian paper and pulp products maker Domtar Corp agreed to buy privately-held Laboratorios Indas, which produces incontinence products, for a total of €285m. Uría Menéndez were lead advisers and Jones Day were also acting.

The feeling in the market is that such deals are beginning to gain traction as sellers become much more realistic in their expectations. “Sellers are accepting fair valuations for assets rather than keeping prices high and over-valuing the assets,” Sánchez-Dafos explains. “Indeed, many M&A deals include structured purchase price where a proportion of the purchase price is kept back and only provided if the asset hits certain performance targets. Sellers are increasingly satisfied to include such provisions and this helps deals to progress and prices to remain in check.”

To echo the earlier point, while domestic targets have become an inward investment trend, Spanish companies’ outward investments are also increasing. Spanish health care outfit Grifols recently agreed to purchase the diagnostic business of Swiss pharma giant Novartis for $1.7bn (€1.25bn). This deal saw Proskauer Rose and Osborne Clarke acting for Grifols and Allen & Overy for Novartis. Other initiatives include energy company Cepsa agreeing to pay C$2.3bn (€1.59bn) to acquire Houston-based Coastal Energy, which hold various oil and gas assets in Asia, notably Thailand and Malaysia, and Spanish telecoms powerhouse Telefónica has reportedly indicated it is looking towards M&A expansion in Mexico.

As such, the growing list of domestic and cross-border deals is helping to change the perception of the Spanish market. The Thomson Reuters numbers may make the market appear disheartening but, beneath the statistics, lawyers know that deals are in the pipeline that will put M&A advisers in a good position looking at 2014.

“The big M&A has always been around, mainly led by private equity firms and international investors as they have the access to finance,” says Sánchez-Dafos, “but it’s just that many deals end up not happening or not being completed.”

Lawyers, however, agree that the headline transactions clearly show that Spain is no longer seen as a ‘no-go’ market for investors, and confidence is building with high hopes for 2014.