

# ADVENT: THE PRIVATE EQUITY VIEW - BALANCING COMMERCE WITH THE LAW

*Posted on 19/08/2007*



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## **The key investment private equity houses can make is in people, says Juan Díaz-Laviada, Managing Director of Advent in Spain.**

Juan Díaz-Laviada does not fit the stereotypical image of a private equity (PE) investor. It is model galleons, rather than speedboats that interest the managing director of Advent in Spain. He also believes that PE is about investing in people, and not making a quick return on company turnarounds.

With almost 20 years' experience in Spain, and as President of the Spanish Venture Capital Association (ASCRI), perhaps nobody is better placed to comment.

Originally an accountant with Arthur Andersen, Díaz-Laviada went on to co-found the M&A and

private equity boutique Iberfomento, before becoming a founding partner and managing director of Dresdner Kleinwort Capital Spain (DrKC).

While at DrKC he established a joint venture with Advent, before moving across to open Advent's own Madrid office in 2002. One of the world's most significant private equity houses (PEH), Advent International counts offices in 14 countries, and has raised over €8 billion in cumulative capital.

Díaz-Laviada and his team, which include long-term colleagues Jaime Carvajal Urquijo (chairman of Advent Spain) and Luis Camilleri, have between them invested over €1,025 million in 41 companies in Spain, 37 of which have exited.

## **Long tradition**

With over 20 years' experience Díaz- Laviada challenges the perception that PE is a new or even foreign arrival to Spain. "PE has existed here for many years and is a true Spanish success story," he says.

There are many domestic PEHs, while foreign operations, like Advent, have always been led by Spaniards. The last five years have however seen an explosion in PE activity, he says, as a result of the growth in the Spanish economy – now Europe's fifth largest – and a surge in immigration. "PE is not easy in Spain as the market is not large but there are still good opportunities."

Fundamentally he believes that it is people, rather than businesses, in which PEHs invest. "A layer of top quality senior Spanish managers has evolved with the skills, international exposure and experience of making international acquisitions. This is very important to us as ultimately we invest in managers."

The remit of the Díaz-Laviada's office also extends to Portugal, which he says however is organisationally not ideal.

"I have a lot of respect for Portugal, which is not as close to Spain as some people think. But it lacks the critical mass to have lots of operators, and lots of operations now cover Portugal from Madrid. But it is a chicken and egg situation – you need deals before you can open."

Although the Portuguese economy is much smaller, he believes that opportunities will improve and that there is a significant tier of managers there also – some even having considerable success in Spain.

## **Changing times**

Recent independent research for ASCRI illustrates that companies with a PE element are typically more profitable, recruit more people, invest more in R&D, and ultimately pay more taxes.

"People sometimes take a short-term view and don't study the ongoing or longer-term benefits. The fact that the PE industry creates jobs is now beyond doubt. People now understand that PE is good for the economy, including the government," asserts Díaz-Laviada.

Según Juan Díaz- Laviada, Socio Director de Advent en España, y presidente de (ASCRI). la Asociación Española de Capital Inversión, el punto clave del éxito empresarial reside en el desarrollo del personal y no en el rendimiento rápido de los beneficios de la empresa. Según afirma, la industria del capital riesgo crea puestos de trabajos, es positiva para la economía, y, en la actualidad, claramente impulsora de negocios en la Península Ibérica. Díaz-Laviada, cuando se refiere a contratación externa de abogados, es consciente de que aunque se requiere un alto nivel de exigencia y compromiso, para muchas firmas de abogados los grupos de capital riesgo siguen siendo unos clientes muy deseados.

He is clear also that the perception of PE within Iberia's business community has also changed.

"In the past, we had to open meetings with an explanation of what private equity is. PE investments used to be on page eight of the business press, now they are firmly on the front page, the deals have got significantly bigger."

Advent itself has had notable success in recent years, including the acquisition, flotation and expansion (including into Portugal) of Jazztel; the buy-out of construction equipment rental company, Euroloc; the demerger and sale of Alcala Farma; the growth and sale of Human Group; and the acquisition of Parques Reunidos, Spain's first public to private takeover, which was led by Díaz-Laviada – and which it recently sold to Candover for a reported €900 million.

But despite such high profile deals, he feels that PE is ideally suited for smaller and family-owned businesses – particularly if businesses are looking to expand internationally, or where generational changes are leading to diverse or even differing, family interests.

## **Transparency**

With stricter reporting and increasing regulation of areas like money laundering, transparency in the PE industry is becoming less of an issue, believes Díaz- Laviada. "Part of the value we can bring to the table is better corporate governance practices, and improved internal regulation."

Spain's PE terrain he says is now similar to the rest of Europe. ASCRI is advising the government on the access of pension and insurance funds to PE investments, while the introduction of funds-of-funds he believes, has opened up PE investments to smaller investors.

This December will however see Díaz- Laviada stand down as head of ASCRI. His tenure he says has been an enjoyable and largely positive time, although he is aware that storm clouds may be gathering.

A recent report commissioned by The British Private Equity and Venture Capital Association (BVCA), in the face of rising political and union pressure over the way in which they do business, criticised PEHs for their secretive behaviour, suggesting that international buyout houses in particular should be more open and accessible.

Díaz-Laviada acknowledges that PE has sometimes suffered from negative connotations – with uncertainty over the source of funds, and a perception of it as having a short-term perspective.

"We are accused usually of speculation, but if you buy apples and sell apples, that is speculation. If you buy apples and make apple pie that is creating value. We buy companies to improve them and if we don't we fail to make money for our investors."

## **Complimentary**

Díaz-Laviada is complimentary about the lawyers that Advent uses, and those he sees on the other side of deals. "In Spain the quality of advisers in general, and lawyers in particular, has increased enormously over the last 10 to 15 years," he says.

On the recent Parques Reunidos deal, Advent turned to its long-term adviser Uría Menéndez, led by Christian Hoedl, which coordinated a team of lawyers across Europe. Candover instructed Clifford Chance's private equity specialist Javier Amantegui, for its first successful operation in Spain, with financing arranged by the Royal Bank of Scotland and ING Bank, advised by Linklaters.

"As an industry we are good news for law firms – it provides a significant part of the revenue to some. With auctions there is always work advising one of the parties, as one firm or another is often conflicted."

While he clearly recognises that the boom in PE brings firms new opportunities, he also recognises

that it also brings issues. "The market is so hot that agreements are becoming simpler, including representations and warranties, with for example, less ratchets, and earn-out clauses."

A further downside for law firms, he says, is that deal timing is much tighter – due diligence periods are shorter and often now focus on electronic datarooms.

"Lawyers are working under conditions which are not always ideal and, therefore, the risks have increased. Lawyers now have to take a more commercial approach as the concerns they raise may end in their clients losing a bid."

## **Incentives**

While Díaz-Laviada is keen to incentivise his lawyers, he is not a supporter of conditional fees. "I do not think success fees are the best option, as the advice of lawyers may not be totally independent, although that may just be an Advent approach."

The use of adjustments – a bonus if a deal is successful or discount if not – is more usual, he says. "We have to recognise that the role of legal advisors is not like an investment bank who are not paid if a deal fails, and I would not like to see that."

The continuing attraction of Iberia as a deal market is however having an impact on fee rates, he believes, although the Iberian legal market he feels is now sufficiently catered in terms of capable law firms. "Sometimes we need good national firms and other times we need good international firms," he says.

Any new law firm arrivals will have to accept that in Spain, few can justify the very high fees they may be able to charge elsewhere. "One of the problems with international firms, mainly US, is the high fees. Although typically there is a lower fee when working in Spain, US firms that open here have to decide if they want to work with the fees they charge in New York – which is tough."

In any event Díaz-Laviada prefers to put his trust in individuals rather than law firms. "It is very personal – sometimes if you work with a different partner in a law firm it doesn't work." The best lawyers, he believes, will dedicate themselves to a deal, make themselves available, and often initially invest their time free of charge.

## **Significant**

Díaz-Laviada predicts a further maturing of the deal market, with more challenging deals and higher values. Although one area of investment in which he is not keen to venture is in law firms.

"We have always thought it would be a very difficult investment, we call them 'assets with legs', it is based on partners who may decide to go and work elsewhere."

Law firms work best as partnerships, as do PEHs, he believes, and you can't do a leveraged buy-out on a partnership. In any event, his experience tells him that professional qualifications often make people more risk averse. "Oddly enough education can sometimes be a barrier to entrepreneurialism."

With a degree in law and business administration (ICADE), the most popular degree for Spain's top law firms, he could himself have been a lawyer. "I did not have the marks required for some firms, and fortunately I have always preferred business," he jokes. Besides the law might not have offered him the time he needs to dedicate to his galleons.

