BUSINESS AS USUAL? MAKING THE MOST OF NEW OPPORTUNITIES IN PRIVATE EQUITY, MARK HEAPPEY

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Spain's private equity sector must adapt to the new world in which it finds itself or risk potential failure, says Mark Heappey, managing director of 3i in Madrid.

En una reflexión sobre el sector de Capital Riesgo en España, se apunta que los datos son claramente indicativos de la recesión que se aproxima. Mark Heappey, director ejecutivo de 3i en Madrid, afirma que el sector debe adaptarse a la nueva realidad o se arriesga a perderlo todo. Esto significará para el Capital Riesgo mayor escrutinio en sus inversiones y una revisión en profundidad del mercado de la mediana empresa. Heappey insiste en que aí°n hay oportunidades y que no se debe dramatizar respecto a la situación económica actual.
I believe that recent events affecting Spain, and the wider deal and transactional markets, clearly present the private equity profession with challenges. But they also present new opportunities for those that are willing to acknowledge and take advantage of them.

We now have sufficient market data and analysis to strongly suggest that we will likely experience a recession in Spain, which may be more or less worse than observers predict. This raises three clear issues for deal makers:

- The current tighter financing environment would suggest that very big deals are not likely to return to the market for some time.
- The scenario for mid-market deals is however very different – there is money available for deals with realistic valuations, and prospects. The banks and finance houses now know where they stand and how much they are willing to invest.
- Prices may have dropped but this may mean even stronger competition between private equity groups, for the most attractive prospects – there is clearly an over-supply of money.

We may be entering challenging times but I believe firmly that there is no need to talk up the difficulties investors now face.

New approach

Such an environment requires a new approach, even a new philosophy, for the private equity markets.

Deals need to be properly assessed. This means more time for information gathering, and for processes such as due diligence, in order to attain the requisite level of investor comfort.

I believe that the secondary buy-out (SBO) market will inevitably suffer, but that we may see a return to fashion for exits via IPO given the continuing strong demand for quality securities.

This may also mean that while competition between private equity groups for attractive target companies will continue, it will however be a buyers´market and that deals may be less profitable.

If the high times, and high profits, of the last few years are over, this requires us to change both our strategies and expectations. Investors must demand realistic valuations, and profit targets, and place increased emphasis on their relationships with the banks in what is now a tighter and more selective lending market.

Interesting times

We are therefore entering interesting times. Private equity investors have to reassess and assert their space and be willing to say no to opportunities that do not fit this new reality.

We may see funds becoming more focused, on particular sectors or deal markets, as has been the case in the UK and other more mature private equity markets. Sectors such as health and transport may offer interesting opportunities.

It is reassuring for me to listen to my colleagues in London, who have experienced decades of both the good and bad times. What we must remember therefore is that the investment fundamentals have not changed – we simply need to ensure that we place more emphasis on the merits of individual investments and assess them on a case-bycase basis. An effective business plan and quality management team is of course a prerequisite but, increasingly, a proven track record is a must.

The private equity sector in Spain is now without a doubt among the strongest in Europe, and among the most professional. Going forward, we need to ensure that this professionalism is matched however with a confidence in the private equity market. Without the necessary discipline, and by overstating the difficult times in which we now operate we may yet however be driving it to failure.

Mark Heappey heads 3i's Spanish business, of which he became Managing Director in 1998 and has been closely involved in all 3i's major buyouts in the region in recent years, including TCB, Esmalglass and La Sirena, and has also been involved in growth capital deals, AC Hotels and Imaginarium.