COMPANY & CORPORATE REPORT 2013: A PROMISING PIPELINE

Posted on 17/12/2013

Category: [Corporate]

The last year has again been characterised by a tough economic environment. The difficulties to access bank financing persist and 'shadow banking' and alternative financing are on the rise. Mergers have been scarce, and companies continue to focus more on cost cutting and organic growth than on M&A. But the pain may be worth it, say lawyers, as there is a definite light at the end of the Iberian tunnel.

A year ago, the Iberian market was struggling with the survival of the euro, and a flat M&A market that some were worried would never bounce back. However, this year sees the panic turn to something approaching optimism.

Economic indicators are improving for both Portugal and Spain, say lawyers, and there is a confidence that market recovery is closer than before. Lawyers have seen growing investments in both private and quoted companies and transactional activity appears to be making a comeback.

Market on the mend

The macroeconomic situation in Spain improved during the second half of 2013, say lawyers, the banking sector is close to achieving stability, the housing market is gradually bottoming up its prices and the Spanish export sector is one of the strongest in Europe.

"Over the past six months we are seeing a much more positive view of the Spanish economy and market, and the general consensus is towards economic recovery," says José Armando Albarrán,

Head of Corporate & M&A at Freshfields Bruckhaus Deringer, Spain. “However, ‘recovery’ is balanced with ‘fragility’, so we are being cautiously optimistic.”
The deleveraging trend continues in a wave of divestment of non-core assets, say lawyers, and are becoming real opportunities for sophisticated investors and funds say lawyers. “There is much more activity in the pipeline,” says Álvaro López-Jorrín, Co-Head of Corporate at Garrigues, Spain. “Indeed we actually ‘have’ a pipeline, something difficult to say last year.”
If you look at what companies are going through, even the big ones, this shows the realities of the market – they are still suffering, says Pedro Rueda, Corporate & M&A Partner at Araoz & Rueda. “We have huge unemployment and debt, and while we are definitely coping much better than a year ago, we need to be realistic as well. I would wait a little before being prematurely optimistic.”
And as Iván Delgado, Corporate, M&A and Private Equity Partner Pérez-Llorca, points out, private equity investment fell a huge amount in recent years, so even a small rise in numbers can be seen as ‘recovery’.
Chinese companies are also showing interest in some sectors, having already bought important stakes in main utilities companies (namely electricity sector), according to Teresa Anselmo Vaz, Managing Partner of Anselmo Vaz, Afra & Associados. “Indian companies are also interested in buying Portuguese companies/factories in the pharmaceutical sector.” With upcoming privatisations providing appealing opportunities in the public postal infra-structures and services or in waste management and disposal, among others, national and foreign investors are bound to remain engaged, say lawyers.

Back to basics

No one can deny things are very different from last year, say lawyers, and the trends in the markets show that the next 12 months will be better than the last. But to truly revive the M&A market, recovery is first needed in the real economy.
“We see the current situation more as a transition period with neither development nor recession, but there is still a lot to do as to make us feel different about the future of Spanish economy,” says Santiago Gastón de Iriarte, Managing Partner of AC&G Asesores Legales. “It seems that we still need to wait some more time for the clear recovery that will give strength to the transactions in the Spanish market.”
Lawyers, however, identify a huge range of opportunities for the coming year across the Iberian Peninsular, from privatisations and capital markets financing to shadow banking and non-core divestments. And investment is becoming a hot topic again. “It will be some time before we see real private equity activity happening,” says Federico Roig, M&A and Corporate Director at Cuatrecasas Gonçalves Pereira, “but now is the time to invest as Spain has good assets and companies, at very good prices”.
The current situation generates unique opportunities to anyone entering or reinforcing its position in the Portuguese market at this stage, say lawyers. There are many companies selling non-core assets or receptive to partner-up with new investors and many sectors are undergoing structural reorganizations, there is an important privatisation plan and the Government is actively trying to attract foreign investment to Portugal, says Francisco Brito e Abreu, Corporate and M&A Partner at Uría Menéndez-Proença de Carvalho. “In addition to all this, the economic perspectives for the country seem to be improving.”
What lawyers hope is that all the pain that the markets have been through in recent years will result in a healthier M&A market with strong competitive players. And the signs are looking good across Portugal and Spain, and the transactions pipeline looks promising. But to do this, the market needs to adopt a ‘back to basics’ state where finance is just a smart business tool and not the fundamental fuel.

Supporting SMEs

Recovery seems to be coming from the top of the Spanish corporate and financial pyramid, say lawyers, and that real recovery can only be achieved if the small and medium-size companies (SMEs) regain some of their previous market strength. But small to medium-sized companies (SMEs) are still facing problems in getting financing, says Alberto Frasquet, Corporate and Private Equity Partner at Herbert Smith Freehills, Spain, especially as they do not have access to capital markets in the same way as listed and blue chip companies.
To deal with this, the new Alternative Bond Market (MARF) was recently launched for SMEs to limit their dependency on bank financing. The mechanism will allow solvent enterprises to access short-term liquidity, attracting capital from both domestic and foreign institutional investors, says Alvaro Marco, Director of Corporate at BDO Abogados y Asesores Tributarios. "The efficacy of this new model will be seen in the following months."
In terms of costs and requirements, this alternative market could be very attractive say lawyers, in particular as one of its objectives is to facilitate new issues by eliminating certain burdens associated with traditional issues of securities. However, this method of financing is aimed at solvent companies that need access to working capital. Some recent reports point out that candidates must be companies with an annual revenue of at least €50m, a positive EBITDA exceeding €10m and a rating of BB or higher, explains Juan E Diaz, Corporate and M&A Partner at Eversheds Nicea. "Accordingly, most SMEs may not qualify under this criteria to benefit from this form of financing."
The Law on support for entrepreneurs and their internationalisation also recently came into force, which contains the strategic lines for fostering and stimulating an entrepreneurial culture and drive, says Jaime Espejo, M&A and Corporate Partner at Roca Junyent, and facilitating the creation of business, establishing support from the tax and social security authorities and financing for entrepreneurs. This is hoped to encourage business growth and job creation, as well as supporting the internationalisation of Spanish companies.

Non-core divestments

Companies are clearly adopting a 'back to basics' approach and focusing on their core businesses, say lawyers. After having tapped the internal restructuring efficiency increases and cost reductions, says Diogo Leónidas Rocha, Head of M&A, Capital Markets and Banking & Finance at Garrigues Portugal, clients are now also looking at selling non-core assets.
There is a now consolidated tendency towards disposal or externalisation of these assets, and departments, services and business branches, and redirecting efforts to the core business and to foreign markets, in order to avoid or exit a distressed situation. One strategy being followed by some corporates/clients in Spain is divesting from all activities entered during economic expansion for diversification/vertical integration reasons that could be now considered 'non-core'," says Humberto Santillana, Finance & Project Finance Partner at Grant Thornton, Spain.
Companies, especially those with a high degree of debt that have sustained the acquisition of other companies and businesses are focused in going back to their traditional business and to complete their deleveraging process. In restructuring debt, says Alexandre Jardim, a Partner at pbbr, these companies use often distressed assets funds to whom they sell either their non-core businesses (assets deals) or their commercial credits/debits over other companies (clients/providers).
It is evident that do-it-yourself restructuring can accelerate bankruptcy, and simply refinancing is no longer an easy resource. This has brought awareness on the fact that a carefully designed and implemented restructuring, bankruptcy, asset disposal, refinancing or internationalisation strategy may be the right answer, explains Alvaro López-Chicheri, Corporate Partner at Lener, provided it is done through the right external legal and business experts.
However, companies that are trying to sell still have in mind the multiples they used to have few years ago. But these have dropped from 12 to around six, and it is very difficult for owners to accept that drop in value, still lawyers are starting to see deals at these lower prices.