

DESPITE SIGNIFICANT LIQUIDITY IN SPANISH MARKET, ATTRACTIVE ASSETS ARE LIMITED - DENTONS

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Market conditions have led to a 'borrowers market' in which a shortage of good targets for investment means borrowers can be aggressive when negotiating financing

Financiers are struggling to invest in Spain, despite an increased appetite for deal-making, according to Jabier Badiola, partner and head of the finance practice at Dentons in Madrid.

"Nowadays, in the Spanish market we have quite high liquidity," he says. "On the other hand, we are seeing that even if you have significant liquidity, the opportunities and investment targets are quite limited."

The result is a "borrowers' market", according to Badiola, which means they are currently able to get more favourable terms from lenders. "Because the market has few opportunities, with regard to those investments that are seen as really good, many players are interested in investing in them, so borrowers can be a bit more aggressive when negotiating their financing."

'Pent-up demand'

Badiola says the current situation partly reflects pent-up demand following the global economic

crisis. "Financing and acquisition activities slowed down considerably during and in the aftermath of the crisis and many players became more focused on putting their own accounts in order," he explains. "Banks were reluctant to lend."

Badiola says the market remains cautious and there are insufficient high quality targets to satisfy investor appetite. This is because the financial circumstances of some businesses mean they remain unattractive to investors. "Even if companies have been doing better and better over the last few years, some are still not in a [strong enough financial] position to be targeted," he says.

More sophisticated deals

This means that banking lawyers are doing a significant amount of work helping clients structure potential transactions. Badiola says. "This is quite similar to the advice we were offering before the crisis – the difference is that now lenders and investors are looking for even more sophisticated transactions in order to optimise their return."

The increase in liquidity in the market is, in part, due to new market entrants, Badiola says. Some of these new entrants do not face the same constraints as other potential investors. "Insurance companies and pension funds are among several newcomers to the market with an appetite for investment in Spain," he adds. "They have plenty of money and do not have the same capital requirements that the banks have so they are in a position to offer really interesting conditions."

A fintech future?

Private equity firms are also eyeing potential assets. Badiola says such funds have "done their fundraising in the last few years so have a lot of money and they need to start going after investments." Will fintech companies be joining them? "Fintech and crowd funding have yet to be big players in the type of transactions we do, such as syndicated facilities," Badiola says. However, this situation could change in future. "I think fintechs may be joining, but not until the market is a bit more mature and definitely not in the next couple of years – for now fintechs are more a subject for lawyers in regulatory practices."

Banking and finance lawyers currently spend a lot of time dealing with clients who "want to go a step further" and optimise their investments, Badiola says. "They want to explore the possibilities of the products." He highlights borrowers, for example, who want more flexibility in the form of "fewer and lighter covenants." Badiola adds that, as a consequence, lawyers need to "figure out new structures which are more innovative and sophisticated".

Impact of Brexit

Despite global political uncertainty, the outlook is bright for the Spanish economy, according to Badiola. "Brexit, the French elections, those big economic factors affect markets," he argues. "But I feel quite optimistic – the Spanish economy seems to be growing again, companies and banks did their post-crisis job there."

Badiola says that, due to the fact clients are looking for more sophisticated financing structures, lawyers need to think about products that will suit their needs in the future. "So, I am quite optimistic, but let's see how the political situation develops and impacts on the market," he adds. "We have this huge liquidity and few opportunities and at the end of the day the lenders need to lend and the investors need to invest."