ECONOMIC STABILITY AND ATTRACTIVE ASSET PRICES LURING PE TO IBERIA

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Total value of private equity buyouts and exits soared last year, with funds targeting the technology, consumer goods, healthcare and biotechnology sectors

Greater economic stability, the offer of attractively priced assets, and a growing demand for direct lending means that private equity funds are increasingly targeting the Iberian market. Analysts describe Spanish private equity as being in "rude health" and highlight data showing a massive surge in activity, with the total value of buyouts and exits combined having increased by a massive 161.7 per cent compared to 2016. Among the biggest Iberian private equity deals last year was IFM Investors' €2.7 billion acquisition of OHL Concesiones, which was advised by Allen & Overy on the deal.

In 2017, among the most attractive sectors in Spain for private equity investors were technology, consumer goods, healthcare and biotechnology. The majority of private equity deals in the country involved international funds, but Spanish funds' participation in the market was also significant. The real estate sector also continues to attract substantial interest, both in Spain and Portugal.

There are several factors currently making Spain attractive to private equity investors, according to Francisco Martínez Maroto, partner at Cuatrecasas in Spain. “The main drivers are increasing macroeconomic stability, despite certain political tensions, and the expectation that this stability will continue in the medium-to-long term, the increasing number of deals, and the existing liquidity and appetite for investing,” he says.

The fact that Spain has assets available at attractive prices is also proving alluring to private equity funds, which currently have significant liquidity with which to make investments, says Javier Monzón, partner at Freshfields. He adds: “There is also a healthy history of successful investments including successful exits.” Monzón continues: “Iberian markets may be seen as slightly less mature, or slightly more attractive in terms of prices of companies compared to places such as Germany or France. Southern Europe is supposed to be more of an untapped market.”

Direct lending by private equity funds has also become common in Spain. Jose Christian Bertram, partner and co-head of the finance department at Ashurst in Madrid, says: “Direct lending is now more familiar to the Spanish market and is seen as a useful alternative.” Traditional bank financing tapered off due to the financial crisis and the regulatory changes that it heralded, and consequently, direct lending by private equity funds emerged as an alternative means of financing. However, despite this trend, bank financing is becoming more appealing to clients again, according to Jorge Vázquez, partner and head of private equity at Ashurst in Madrid: “Bank debt is quite cheap and relatively easy to obtain these days, so returns required by direct lending funds can be challenging to accept.” Meanwhile, law firms in Spain are also seeing limited partners (LPs) taking a more active role in direct investments and co-investments. Vázquez says: “The dire times where no bank financing was available meant debt funds and LPs would be called in to help fund deals,” he says.

More funds from Far East

Meanwhile, Portugal is also attracting significant private equity investment. This is due, in part, to the country being seen as increasingly stable and also because Portuguese companies need to deleverage. Ricardo Andrade Amaro, partner at MLGTS in Portugal says that currently, many of the private equity funds investing in Portugal are based in London or North America. However, he anticipates increased investment from funds from the Far East. “We have seen firms coming out of Southeast Asia, from jurisdictions such as Malaysia – they are not acquiring yet, but they are getting acquainted with the market.”

Helena Vaz Pinto, partner at Vieira de Almeida, says Portuguese funds have mostly focused on acquiring non-performing loans from banks as well as deals related to restructurings. However, the tide may be changing. Andrade Amaro says: “The major trend I see in private equity in Portugal is the shift from a more restructuring-based type of fund to increased involvement in more open and competitive M&A processes involving assets that are not in need of restructuring.”

Private equity funds are sophisticated and consequently, very demanding clients. Duarte Schmidt Lino, head of private equity at PLMJ in Portugal, sees this as something positive: “It is much easier to do good work when you have intelligent, demanding and sophisticated clients. This allows lawyers to do much more exciting work.”