

FIRMS CAPITALISING ON RECORD SPANISH CAPITAL MARKET DEAL LEVELS

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Category: [Archive](#)



Best ever Q1 to Q3 Spanish capital market deal count generating placement, competition, reporting and regulatory work, but how long will the good times last?

Spain's capital markets are hitting new heights, with law firms circling issuing companies and underwriting banks in an attempt to get a slice of the action. Data from Dealogic shows that there were 33 placements with a combined value of \$21.6bn in the first three quarters of the year – this represents the best ever Q1 to Q3 deal count in the Spanish capital markets. In addition to advising on the placements, law firms are also picking up follow-on work related to compliance, reporting and regulatory obligations. However, with more firms targeting the sector, competition is intensifying with the result that legal fees are dropping.

Big ticket initial public offerings (IPOs) are on the rise with seven sizeable floats this year: Lar Espana Real Estate; Hispana; Logista; eDreams; Applus; Merlin Properties; and Axia Real Estate. The listings

brought in \$6.5bn between them. Call centre company Atento, meanwhile, is looking to float on the New York Stock Exchange.

Javier Redonet, partner at Uría Menéndez, says the last boom in the Spanish IPO market was in 2006 and 2007, when there were around 10 deals a year. "Since then, only a few IPOs have been launched. The main activity in the last few years has been on MAB [Mercado Alternativo Bursátil] – the alternative market, which has closed around 30 small-cap listings. Now, the main board is coming back to pre-recession levels."

Yolanda Azanza, a capital markets partner at Clifford Chance, says the growth in equity capital markets (ECM) volume is mainly driven by improved prospects in the Spanish economy, the high levels of liquidity and investors' increased appetite for risk.

One of the factors in the IPO surge has been private equity firms looking to generate new capital. Rather than selling companies through M&A transactions, some private equity houses are turning to the capital markets as a way of exiting investments. For example, eDreams Odigeo was floated by Permira and Ardian while Applus was listed by a Carlyle-backed fund. Atento is backed by Bain Capital.

Lawyers say international law firms with a local presence and Spanish law firms working together with international law firms are benefiting the most from the IPO surge. Redonet says acting for the issuers is also a good way of securing potential post-IPO follow-on work. "This is because, once listed on the stock exchange, a business has ongoing issues such as compliance, reporting and regulatory obligations," he says. "A law firm acting as the issuer counsel is in a better position to pick-up such work than a law firm advising the underwriters."

Fees dropping 'dramatically'

However, Azanza sounds a note of caution, saying the growth in ECM volume is seeing more firms targeting the sector. "An ECM transaction such as an IPO may involve a huge amount of work," she comments. "However, competition among law firms has made prices drop dramatically so ECM transactions may not be very profitable for law firms... in this context, having a strong expertise and understanding of regulation is crucial. An international network is also a plus taking into account the opportunity offered by the reach of our global resources."

Questions also remain over the sustainability of the IPO flow, especially based on the performance of the stock post-IPO. Out of the seven aforementioned major IPOs, only Hispania and Logista have improved their initial issue price. The other five fell from between three per cent (Merlin) and 60 per cent slump (eDreams).

Redonet is not too concerned though, adding that while there has been some talk about post-IPO stock price performance, four out of the seven recent IPOs aimed to generate capital for financial vehicles – the so-called "blind pools" – that do not have any assets at the outset. "As such, the listings were more of a cashbox than a flotation of a long-established industrial business, so one should not expect major gains or losses in the first months of trading," he claims.