

FUNDS CAPITALISING ON DISTRESSED MARKET

Posted on 30/04/2013



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The recent interest in private equity investments in Spain is seeing international funds finally taking advantage of the distressed assets market and more competitive pricing to buy up important domestic businesses.

The largest deals in recent times include US-based Bain Capital's purchase of business process outsourcing and customer relationship management company Atento from Telefónica for €1.051bn, Singapore-based

Temasek's purchase of a €1.036bn stake in Repsol, and British investor Doughty Hanson & Co just acquired

Spanish hospital operator USP Hospitales from Barclays and Royal Bank of Scotland for €355m. This latter

transaction was the largest to-date in the Spanish health sector, a particular focus of recent investor interest, say

lawyers, capturing 14 percent of last year's investments.

A deal between the American Hospitality Properties Trust (HPT) and NH Hoteles is also currently under negotiations. This would see the Spanish hotel chain received a cash injection of around \$375m. Such transactions, of course, are good for the economy while providing opportunities for law firms. For example, Uría Menéndez and Kirkland & Ellis were amongst the firm's mandated on the Bain/Atento deal, while on the USP Hospitales transaction, Ashurst acted for Doughty and Allen & Overy for the sellers. Lawyers are also seeing funds with renewed interest in developing in the Spanish market. Earlier this year, for example, Blackstone strengthened its practice with the appointment of Inaki Echave, former Partner from Magnum Capital (the largest independent buy-out fund on the Iberian Peninsula), as Managing Director of its private equity group responsible for Spain and Portugal. But while big investments transactions are on the increase, so are those in the mid-market. SMEs are big business, with much investment being made into companies worth less than €5m. As traditional banking funding is scarce, these alternative sources of funding could be the way forward for Spain's companies to boost their liquidity (see our Banking & Finance Annual Report pg27). But this could have wider implications for international interest, not least because of the types of assets being purchased. "We are seeing more funds interested in Spain, although these are not traditional private equity firms looking for leveraged buy-outs," comments Guillermo Yuste, a Banking and Finance Partner at Araoz & Rueda. Law firms point to the growing appetite of funds looking at cut-price distressed assets, usually real estate or bad loan portfolios, and also towards privatisation or industrial assets. As such, there is a more fluid approach by investors – namely for large assets that can provide short-term returns. Concerns have been raised that such an investment pattern – funds buying up troubled assets and selling for short-term gain – could hinder the recovery of the economy. Lawyers, however, take a more pragmatic perspective. "Each investment fund has a different position," one Madrid-based Banking Partner told Iberian Lawyer off the record. "Pension funds, for instance, will take the long-term view and look to the flow of revenues over a 10-year cycle. At present, there is less of that in Spain and we're seeing much more opportunistic investments." As funds can also provide a decent alternative source of liquidity, this provides a much-needed boost to the balance sheet of a company as well as the wider economy. This means that the viewpoint that so-called 'vulture funds' will hinder the market is somewhat unrepresentative, some say. 'Vulture funds' is a term that the private equity market does not like as it implies an outdated model where firms purchase struggling companies, strip the assets, sell for a profit and move on.

It seems like investors are being more opportunistic rather than looking at these transactions in the longterm, but all international investment is beneficial.

Funds may not be looking at the long-term but they can still add value and help restructure businesses.

Spain's Business Competitive Council (CEC) recently visited London to encourage investment in Spain's multinationals with a delegation including Iberdrola's Chairman Ignacio Galan, amongst others. Spain was even cited as a key investment target by former French President Nicolas Sarkozy in relation to his plans to set up a \$100bn fund with the backing of the Qatar Investment Authority.

Even so, Spain still faces a number of hurdles. The problems in the banking and real estate sectors will take a long-time to clear up, while macro-economic factors – such as high unemployment and the continuing concerns over the Euro – are restricting some investors' appetite, say lawyers.

But, they say, all indications are that this interest in the distressed asset market will continue to gain momentum, and that the old private equity adage holds true: where there is risk, there is opportunity.