

# IPOS ON RISE IN SPAIN, BUT WILL LAW FIRMS CAPITALISE?

*Posted on 16/03/2016*

## IPOs: The varying legal costs

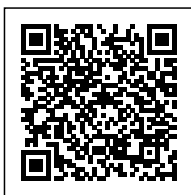
**€1**

The fee reportedly charged by Pérez Llorca for advising Spanish airport operator AENA on its IPO in 2014.

**\$3.54m**

The total fee reportedly charged by Simpson Thacher & Bartlett and Davis Polk & Wardwell for advising on the IPO of First Data, the largest US IPO of 2015.

Category: [Archive](#)



## **IPO activity will triple in Spain by 2020, but with law firms undercutting rivals on price and handling work inefficiently, whether they can profit from such opportunities is in doubt**

It is anticipated that Spain will be the country that experiences the second largest increase in IPO activity by the end of the decade, according to research conducted by Baker & McKenzie in association with Oxford Economics. However, despite predictions that IPO activity in Spain will grow by 232 per cent by 2020, opinions on how profitable such work is for law firms differ.

Spanish capital markets lawyers are indeed predicting a flurry of IPO-related instructions. Iñigo Berricano, managing partner of Linklaters' Madrid office, believes that the increase will be a result of disinvestments made by private equity funds, as well as the potential flotation of companies that were acquired by opportunistic funds and newcomers to the Spanish financial sector. In addition,

Berricano says IPOs will also increase due to the listings of former savings banks, and offerings involving the subsidiaries and businesses of already listed companies.

## Fierce competition

As such, competition for the lead roles on IPOs is fierce, although a headline instruction is not always particularly lucrative. Julio Lujambio, a corporate partner in Pérez-Llorca, claims that IPOs represent “a major opportunity for law firms” in terms of market recognition, rather than fee-earning potential. “IPOs have high visibility, which includes the role of law firms,” he observes. “We are aware that there is only room for a restricted number of law firms to act as advisors on IPOs.” Lujambio says that being part of a select group of law firms advising on an IPO has benefits in terms of raising a firm’s profile in the market. He adds: “Furthermore, we also see IPOs as a very important addition to our high-end private equity work.”

There is a view that IPOs are generally “loss leaders” for law firms and this raises questions about whether firms are doing such work as efficiently as possible. Berricano says that IPO work is important in terms of maintaining key relationships with private equity firms, investment banks and financial advisers, but he adds: “Law firms need, however, to learn to improve certain techniques on efficiency so that the different work streams of an IPO are better planned and carried out in a more efficient manner.”

## Loss leader?

Allen & Overy partner Antoni Valverde argues that whether or not an IPO is a “loss leader” depends on each case. He adds: “Pre-IPO reorganisation or carve-outs are relatively common, adding complexity to the listing. Also, significant pieces of IPO legal work cannot possibly become commodity work and should be remunerated accordingly.”

There is potential for IPO work in Spain to generate “significant revenue” for law firms, argues Ignacio Corujo, a senior associate in Baker & McKenzie’s capital markets department. However, he adds that such opportunities are jeopardised by some firms seeking to undercut rivals by reducing fees. “An IPO, which is a complex process that generally involves several jurisdictions, is an opportunity for firms, especially for international and global firms, to show clients their expertise in a complex deal, that usually requires the coordination of several departments and offices on very challenging schedules,” Corujo says. “There is potential for work on IPOs in Spain, which usually generates significant revenue for law firms, although there are always exceptions that pitch lower fees to try to improve their market share.”

## Attractive work

Market pressure is driving pricing down on such work to levels that are sometimes lower than the true cost to a firm to carry out this work, according to Clifford Chance capital markets partner Antonio Henriquez. However, he adds that firms will continue to be attracted by IPO work for the opportunities that it represents. “For firms with diverse service offerings, IPOs are a major opportunity to deliver high value added advice across a spectrum of legal issues relevant to a multiplicity of jurisdictions affecting companies, selling shareholders and underwriters alike,” Henriquez states.

The numerous challenges facing a company post-IPO also generate significant opportunities for law firms. Juan Aguayo, partner at Cuatrecasas, Gonçalves Pereira, highlights transparency and corporate governance as issues for companies post IPO. “Companies don’t necessarily need to follow all corporate governance recommendations or stick to what the leading corporations do,” he summarises. “Each company is different and needs well adapted rules that respond to its capital

Top 10 Countries by Forecast IPO Activity Growth, 2015-2020	
Country	Percentage
Egypt	324%
Spain	232%
Vietnam	208%
Sweden	171%
France	139%
Nigeria	99%
Belgium	90%
Thailand	84%
United Kingdom	83%
The Netherlands	64%

Source: Baker & McKenzie/Oxford Economics

structure, its decision making process, its sector of activity and investors' real and well-grounded expectations." IL

### **"An IPO is always a great job for a law firm"**

Spanish capital markets are "hitting the heights", according to Allen & Overy partner Antoni Valverde. "Spanish capital markets have become among the busiest in Europe, during 2015," he says. "There were placements for almost €20 billion just in the first three quarters of 2015 – that has been largely driven by capital raising needs to fund growth, a large privatisation (AENA) and by sponsors finding IPO valuations more attractive than going down the M&A exit route." Will this trend continue? "It is difficult to see the 2015 volumes in the coming years but it is reasonable to assume that the trend will continue somehow – large investors seem to be looking into European stocks, following ECB's bond buying programme, and Spain seems attractive, as it is one of the big European economies experiencing growth, but Spain's political situation could, however, become a handicap."

Valverde says an IPO is "always a great job for a law firm". He adds: "This is not only because of its inherent legal and project management complexity but also because it entails a key milestone for the relevant issuer – significant IPO mandates help law firms' market positioning, as well."