

JOINING THE MAJOR LEAGUE

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Spanish corporate law specialists Araoz & Rueda advised on some of the headline deals of 2006. While acknowledging that the M&A boom will not last for ever, they are remaining loyal to their niche.

[mosimage cw=100][mosimage cw=100]While Madrid law firms were celebrating 2006 as one of their best years ever, the festivities at Araoz & Rueda's Paseo de la Castellana offices could well have been louder than most.

As the final M&A 2006 league tables of the year began to circulate, this law firm stood out as a new contender amongst the Madrid corporate heavyweights.

El despacho español Araoz & Rueda representó a clientes en operaciones que fueron titulares en la prensa en 2006. Alejandro Fernández, Pedro Rueda, Francisco Aldavero y Clifford Hendel

comunican a Iberian Lawyer la estrategia de la firma y sus planes de futuro. Pese a reconocer que el boom de M&A no durará eternamente, se mantienen fieles a su de nicho de mercado.

To the surprise of many, the 27-lawyer firm was ranked in value terms by Thomson Financial and Mergermarket above local Spanish giants, like Cuatrecasas and Uría & Menéndez, who are many times larger. Perhaps more significantly, the volume of deals, 29, exceeded those credited to major league players such as the Magic Circle's Allen & Overy, Linklaters and Freshfields.

While some may argue that the €76bn total deal value is somewhat unbalanced by the advice they provided to financiers of the Endesa takeover, the number of deals is impressive.

The firm enjoys being portrayed as a David amongst Goliaths. "Every day we compete against law firms that are much bigger, more structured and more established than we are," says partner Clifford J Hendel.

A record year

The firm has found itself in a good position to benefit from the current upturn in Spanish M&A. Highlights in 2006 included advising Telefónica on its €3.3bn sale of Telefónica Publicidad e Información (TPI) to Yell Group, the largest completed purchase by a trade buyer in the year, and advising longtime client TeliaSonera on its €475m acquisition of Xfera Móviles.

Like other mid-size firms, Araoz & Rueda sees itself well positioned to benefit from the changing nature of M&A, the increasing use of auctions for business sales, as well as the involvement of private equity houses and financing groups, pulling a wider range of law firms into the major deals. As corporate specialists, the firm has grown recently in areas such as labour, tax and finance and projects further growth in these and other areas. But all the while remaining a focus on what they know best – M&A – and further developing that specialism.

Most significant, their competitors say, has been the firm's ability to enter what many see as the current 'Holy Grail' of M&A – private equity.



"Araoz & Rueda are the Spanish boutique I like the most," explains the managing partner of one of Madrid's Magic Circle firms. "They have a very good reputation in private equity."

M&A from the start

Although still a young firm in Spanish market terms, it has taken some time to reach the success it has enjoyed in recent years. The firm was founded in 1994 out of the friendship of the founding partners Pedro Rueda and Alejandro Fernández de Araoz that stretches back to their university years.

Both were strongly influenced by their time in the US on Fulbright Scholarships and absorbed the country's culture of client care which, they felt, contrasted with that of Spain in the early nineties.

Rueda says: "I had the opportunity in 1989 of being with Skadden Arps in New York and I got a bit of the flavor of what the Anglo- Saxon firms were providing their clients."

He illustrates what some Spanish firms were like at the time with the story of the brownie, or marrón, a comical term for a problematic file so old that the fax papers within it have started to turn brown. As a junior lawyer it was not unheard of to find a marrón on your desk with instructions to get the file moving again.

Ever since the firm opened in 1994, client service was to form the central pillar of its philosophy.

Araoz, formerly with the now defunct Estudio Legal, says: "The key was understanding that there was a niche in the market, not because we had discovered rocket science or anything, but we sensed that service was rather poor."

"When we started 13 years ago our philosophy was simple - being on top of issues and returning calls, taking care of the client," he adds.

Bringing in clients was the first priority for the two lawyers. Rueda had agreed with his employer, Gomez Acébo & Pombo, not to target former clients, so they had to start with nothing.

Araoz says: "At the time the idea of leaving a firm and taking clients was really like treason. Now it's different. People come and people go."

It was not all plain sailing. One of their first client pitches took place in Goldman Sachs, where a contact had set up a meeting with a high-ranking banker.

When asked how many lawyers they had, they replied that they had two. Thinking that he had misunderstood, the banker asked again: "No, how many actual lawyers do you have, not partners?" They clarified that they were in fact a two partner firm with only two lawyers, themselves.

A silence hit the room. But the two remained confident of their marketing abilities and in what they saw as a fresh, client-focused style of working.

Private equity

While the charismatic Araoz and Rueda may represent the media face of the firm, their biggest achievement, competitors say, has been in attracting and retaining a group of recognized deal makers.

1996 was a key moment. They persuaded Francisco Aldavero to join from Gomez-Acébo & Pombo, thus enabling the firm to enter the all important private equity market.

A lead M&A partner from within one of Madrid's largest M&A practices told Iberian Lawyer: "Francisco Aldavero is technically one of the best private equity lawyers in Spain."

With Aldavero on board, Araoz & Rueda has solidified a relationship with UK private equity investor 3i, one of the first and historically most active private equity houses to do business in Spain. Now they also advise a number of foreign and, especially, local players. They also advise Spanish industrial buyers, including Yugidar, and prospective buyers who have included NH Hoteles.

"Clients in private equity are demanding and have a sophisticated understanding of legal services", believes Aldavero. "As a result, personal relationships are key. Each private equity client is different," he says, "and you have to invest time to get to know them."

"Track record is critical for them," he adds. "They feel that it is important to rely on known faces."

A year later they were able to attract respected US lawyer Clifford J Hendel, who had spent a decade with White & Case in their New York and Paris offices. Hendel brought with him an international orientation and client base and contacts with leading international firms.

His varied practice – from financial and M&A work similar to his former practice in Paris and New York to his increasing activity in international arbitration both as counsel and arbitrator – has brought an additional element to the firm.

Alongside the founders, many see Aldavero and Hendel as the engine room of the firm. Perhaps as acknowledgement of the firm's democratic approach, they do not have a managing partner, preferring instead active dialogue among the partners.

Former Arthur Andersen tax expert, Alberto Baeza joined the team as their 5th partner in 1998, bringing with him valuable in-house transactional tax expertise.

Baeza says: "Tax issues when structuring a deal are already more important in Spain than in many countries and are becoming increasingly more so."

In addition to private equity and tax, the firm has since developed capacity within employment, competition and real estate with a crop of new partners in 2005 - Alfonso Suárez, Ainhoa Veiga and Lourdes Ayala leading these practice areas, respectively.

More recently, they have promoted to partner Francisco Solchaga, who joined the firm in 2000, to boost the energy, regulating and general corporate/M&A.

Changing times

Rueda says that the legal market has seen some great advances since the firm was set up in the early nineties. "Now things have changed. Everything is much more competitive. The service is better. Even the quality of English provided to international clients is better."

Spanish firms have developed their client service, and UK firms such as Freshfields and Clifford Chance have established themselves as contenders in Spain, ahead of the imminent arrival of new US challengers.

Hendel is less sure. "Despite the trend towards greater competitiveness and higher client expectations," he says, "Spain remains much less demanding and competitive than the markets of the international legal capitals such as New York, London or Paris."

Many assumed that Araoz & Rueda would be one of the first ports of call for the US law firms, like Lathams & Watkins, who were looking to open in Madrid. Araoz acknowledges the compliment, but reveals that they did not receive any invitations from the US. The firm has always made it clear that they are not seeking an international merger. As Rueda explains: "We prefer to be the face of the mouse than the tail of the lion."

The human factor

Although business is booming, recruitment is one area where size can be an advantage. Despite offering competitive salaries, young lawyers are often attracted to the largest firms by tangible and intangible benefits difficult for smaller firm to provide, such as training courses and travel. As a result, the firm has had trouble growing at the rate it would like.

"Araoz & Rueda has excellent partners," says the managing partner of a major Madrid law firm, "although it can be hard work for them as they cannot rely upon a larger team."

Rueda says: "Hiring the right people is important. People here have made it on their own as we are less formal in our approach than the larger firms." However, they hope to attract lawyers and potential partners to the firm by focusing on profitability. Having a relaxed and friendly working environment also helps.

The loss of finance partner Andrés Lorrio – who left Araoz & Rueda in January to join former Linklaters colleagues now at Bird & Bird – was a surprise. Although, in a high profile move, they have persuaded former Bank of Urquijo and JPMorgan Chase legal head Ignacio Trillo Garrigues to join them as a partner to lead the banking and finance practice.

Sticking to strategy

The future of the firm now depends on adapting to a changing market environment. As Aldavero

says: "The M&A market is changing and we have had to respond to that."

While some of its competitors have looked to expand internationally as security against a fall in M&A activity, Araoz & Rueda has stuck to a strategy of specializing in domestic corporate activity.

Former corporate boutique, Pérez-Llorca, has gradually moved towards being full-service, with further plans to add a restructuring capability and white-collar crime practice in the future.

But Araoz & Rueda is clear that being comfortable in their niche does not mean standing still – they need to extend their capacity into new, and related, areas of law.

Top 5 Deals for 2006

Of Araoz & Rueda's 29 recorded 2006 deals, a few stand out for their size, complexity and public profile.

Telefónica instructed the firm on the €3.3bn sale of its directories business, Telefónica Publicidad e Información to Yell Group.

The firm acted for the Italian confectionery group Perfetti Van Melle on the €400m purchase of a 100 % stake in Chupa Chups from the Bernard family.

They advised 3i on the €180m acquisition of the eolic services division of Gamesa.

Araoz & Rueda also worked on Portuguese hospital group José de Mello Saúde's €274m acquisition of 35% of Quiron's Hospital Group.

Tax remains a key element of their strategy. While many question the profitability of providing day to day tax advice, Baeza is confident that it will bring wider benefits to the firm: "If we increase the amount of advisory work that gets us in front of clients and helps us win other transactional work."

Most recently, as client needs have become increasingly industry specific, they have developed a finance practice and increased their litigation/arbitration, public law and energy sector know-how and anticipate growth in these areas. Going forward, they believe that the real estate sector offers great potential as well.

They may yet develop their insolvency capability, which, suggests Hendel "is complementary to our other practices and, as with litigation /arbitration, is countercyclical which is a benefit too."

For now, the firm is content to retain its position as the markets elite specialists, rather than develop many more practice areas and any other offices. Their competitors admit that the business conditions for the corporate boutique in Spain have rarely been better.

Araoz says: "We want to be the top corporate boutique, extremely hard working and extremely focused." They believe the lessons for other law firms competing in this area are to emphasize personal relationships and keep costs down.

The firm may have a different strategy from their competitors in 2007, and there is no sign of that changing as the market remains busy for the moment.



Their private equity practice remains a key strength. "Every day the current private equity houses in Spain are more active and still more are coming to open," says Aldavero. "There is a huge amount of money in the market."

"All ships rise on a rising tide" warns Hendel, sounding a possible note of caution. He questions whether the incredible growth at the top end of the Spanish legal market throughout the firm's history is sustainable.

"The prospects for 2007 look extremely bright, but one day the curve will invert and then and only then will it really be possible to distinguish those firms with sound strategy and solid management from those without," he says.

"That will be our test," he says, "I am confident that we will pass".