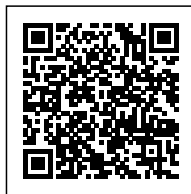


MID-MARKET M&A DEALS DRIVING SPANISH RECOVERY - ARAOZ & RUEDA

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Spain is experiencing a surge in newly incorporated companies with many such businesses keen to buy assets in the country as well as expand their businesses abroad

A dramatic increase in mid-market M&A activity in Spain has been a key factor in the recovery of the market for transactional work, according to Francisco Aldavero, a partner at Araoz & Rueda in Madrid. He adds that the beginning of 2015 was very busy, but that, since then, activity has surged to even greater heights in the second half of the year, with the result that there is a promising pipeline of work for 2016.

Not only have a significant number of new companies been established in Spain, these new companies are also in acquisition mode, according to Aldavero. "Around 80 per cent of our corporate practice focuses on advising mid-sized clients on mid-sized deals, usually valued at between €50 million to €300 million, and we are seeing a lot of activity," he says. Foreign expansion is high on companies' agendas. "I personally have never seen so many newly incorporated companies in Spain, many of which are now looking at buying assets in the country as well as

expanding their businesses abroad."

Assets now reasonably priced

Fellow partner Pedro Rueda points out that, though mid-market M&A is playing a significant role in the economic recovery, it may not always be apparent because of the media focus on the operations of the large listed companies. "The news does not always hit the headlines because it is the small and medium-sized companies that are expanding, but it is fair to say that certain areas, such as Madrid, the north, and north-west of the country, are seeing activity increase."

One of the explanations for this trend is that the price of assets has remained reasonable, with the result that stable prices are creating an environment that is encouraging more mid-market transactions, Rueda says. "When it comes to acquiring companies, it was the case that the asking price of an asset could be some eight times the rate of EBITDA (earnings before interest, taxes, depreciation and amortisation)," he remarks. "Nowadays, this ranges from between five to 7.5 times EBITDA, which represents much better value and leads to more reasonable prices." He adds that this is good news for the year ahead as it creates more stability.

Companies want 'lock box' deals

Meanwhile, Rueda says companies are taking a more professional approach to due diligence regarding assets in the sense that they are including "lock box" mechanisms, for example, in order to adjust the price of an asset on completion of a transaction due to concerns about possible escalating costs.

Aldavero says one effect of the improving market conditions is that there has been a gradual change in the nature of the instructions law firms are receiving. Corporate matters such as shareholder agreements or joint venture structures are giving way to transactional work, such as mergers, acquisitions and disposals.

Aldavero adds that there has been M&A activity in a wide range of industry sectors. "We are seeing more deals across all business streams, including energy, transport, agriculture, IT, consumer and industry," he says. "This is resulting in more consolidation too, with Spanish bus companies and water operators, for example, starting to converge their businesses."

Radical political agenda?

However, maintaining the current levels of stability in the context of political uncertainty, is an area of concern. The 2015 Spanish general election is scheduled for shortly before Christmas, specifically 20 December. "The general election means there is big question regarding stability," Rueda says. He adds that there are concerns that there could be a dramatic change in Spanish politics. "Smaller political parties may have more say, so a more radical agenda could potentially be pursued – if the parties of the left are given power, for instance, then it will be interesting to see the impact on business confidence."

Aldavero says stability is key to Spain's future economic prospects and expresses concern that investors may be deterred from investing in the country if there is major political change. "Stability must be maintained and it is vital to continue with the political and economic changes to keep the Spanish economy growing," he concludes. "We do not want to take a step back and shake confidence in the recovery."