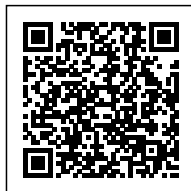


SPAIN FAMILY INVESTMENTS AND COVID-19: RISK MITIGATION

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Although it is still early to have specific reliable data about the real impact of the health crisis on family investments, it can be said that the effect of the pandemic on family portfolios will be significantly negative. We talked with Claudio Doria, founder of Doria Tölle & Asociados, to find out how the COVID-19 has affected this type of investment. Although the halt is undeniable, according to Doria, there is still "money looking for a destination"



Based on your experience, how is COVID-19 impacting family investments?

The information shared in the international lawyers' forums in which I participate, where the impact of the Covid-19 crisis on the evolution of the legal business of the different firms and on the type of operations and investments underway is compared, depending on the different client profiles, it can be said that as had, in almost all countries and in many cases, a significant negative effect. A distinction should be made between family groups and "family offices" (or family holdings), as the types of assets in which they invest are different. The first one, which seeks investments in industrial or service sectors, with greater or lesser risk, but focused on acquiring a significant or controlling stake, in its strategy of inorganic growth to gain market share or participate in a strategic or complementary activity in its sector, or the acquisition of certain assets, has suffered a significant slowdown, affecting negotiations that were in a very initial phase or new operations. Those transactions that were already at an advanced stage, in general, were able to be finalized or formalized in binding agreements, although the process was full of practical difficulties (difficulty in meetings, exchange of documentation, less face-to-face banking operations, restricted notarial intervention, etc.).

Some operations that were highly evolved but stagnant due to lack of agreement on some of their points have simply been discarded even at very advanced stages, given that the Covid-19 crisis has led to a reduction in risk exposure at this time. Many sellers will probably think, in view of what happened, that they could have negotiated differently. Regarding the second ones (family offices or family holdings), with an asset typology focused on investment funds, Socimis (Real Estate investment trusts), leased Real Estate assets or shares in listed companies and, in many cases, with the need to invest due to the pressure of the tax effect on wealth tax, have also been affected. Partly because of the same caution and doubts about the fall in the value of listed assets, restrictions on dividends distribution, the impact of the closure of activities that previously generated a stable, long-term income that today has no income, etc. There's a lot of analysis going on, and apparently money looking for a destination. When the state of alarm is lifted and what is called the "new normal" returns, we will see if these operations are also reactivated soon and what the real impact of this crisis has been. The main concerns that these investors have conveyed to their lawyers during the crisis, in addition to the already mentioned slowing down or postponement of certain investments, have been those related to the possibility of demanding compliance with certain contracts when the counterparty has been affected by the cessation of its activity, or with the assumed risk, in light of the new circumstances, by the entrepreneur which is too onerous, the moratorium on rental income, access to financing to compensate for the decrease in income and ERTE (temporary layoffs).

Which would you say are the most disadvantaged investment sectors and which are the beneficiaries? Where would the business opportunities be?

The most affected, in my opinion, and based on the shared information, have been tourism, restaurants and retail. In the tourism sector, the effect has been dramatic, with all the tour operators unable to offer services, hotels closed, cancellations and internal and external tourism on hold, not only for the duration of the state of alarm but for the rest of the season. Retail, which was already suffering shocks in its business model, had to face total closure, with an uncertain restart. Real Estate and automotive sectors have also been affected. When the state of alarm ends, we will be able to see the significant volume of Bankruptcy proceedings that will be presented in the courts. The recent decrees and their reforms already announce this with the adopted measures. On the other hand, those of the activities in the face of imponderables. This is something that will have to be introduced into every investment process and to which a little more time will have to be devoted. However, this is a question that is difficult for a lawyer to answer; it is up to others to make the analysis of opportunity, the business projection, its risks, the investment volume, the need for financing to undertake it and its return. Having said that, carrying out a Financial, Legal and Tax Due Diligence of human resources and of the main areas and risks of the company or of the assets to be acquired, is not a guarantee of success but a necessary requirement for it. In times like these, a studied and managed negotiation and a contractual framework with the appropriate protections and guarantees depending on the type of operation and assets can also contribute to success. But, as in all investments, understanding the business, properly assessing the management team on hand and the risk that the entrepreneur will take are fundamental elements to take into account. On the other hand, I am convinced that so-called impact investments (those that generate a social or environmental benefit, as well as an economic return) in sectors such as health, education, clean and renewable energies or agriculture, in its broadest sense, will continue. Foundations and other NGOs (as recipients, in part, of such investments, because of their role in the communities) will also have a more relevant role. Increased public/private collaboration, if favoured, can lead to very interesting projects if we learn from what this crisis has been.

The development of applications and technological projects can represent a good objective from the investment point of view. Would you say that innovation is a market to be considered at the present time?

I believe that we will undoubtedly see a significant growth in operations or investments in this type of technological applications or projects, although they also require a certain investment profile, due to the implicit risk involved in innovations. The boom that many of them had due to the confinement suffered during the crisis suggests that they will also attract investment interest, but their course will have to be analyzed as well as whether we will be facing a new technological bubble or not.

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