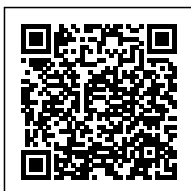


SPANISH M&A ACTIVITY ON THE INCREASE - ARAOZ & RUEDA

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Dealflow increasing in the real estate and renewable energy sectors – with UK, US, Canadian and German investors targeting Spanish assets – but uncertainty in Catalonia is jeopardising future prospects

There has been a significant increase in M&A in Spain in the last 18 months following a major dip in activity due to the uncertainty caused by the December 2015 elections, in which no party was able to secure a majority, according to Pedro Rueda, corporate and M&A partner at Araoz & Rueda in Madrid.

Among the sectors that were sources of large numbers of deals were real estate and renewable energy, Rueda says. He adds that there are a substantial number of foreign investors that are targeting assets in Spain at a time when economic growth in the country is surpassing that of many other European nations.

Although there were few deals in the early part of last year, a return to political stability in Spain in the summer meant deal flow increased dramatically, Rueda explains. "The market reactivated in April, even before the government was formed in July 2016 – we saw a radical recovery in M&A, and

2016 turned out to be an excellent year, despite a slow start, which was the same for all law firms," he says.

Rueda says this positive trend has continued into 2017 and he is confident it will continue in 2018. "In 2017, the recovery has strengthened, and we are very optimistic about 2018, with a lot of operations in the pipeline," Rueda says. "It looks like next year will be a busy one."

There was substantial M&A activity in a range of sectors, according to Rueda, who highlights a strong recovery in the real estate sector, as well as a large number of deals in the renewable energy industry. The increase in activity in renewable energy followed a dip in 2015 when many projects had to be restructured financially, but this had the effect of making assets in the sector more attractive to investors. Rueda says: "As the projects are financed by debt, projects needed to be refinanced as developers went into receivership – there was a readjustment in the calendar or repayments, and that made the projects viable and profitable again; our renewable energy department has seen a very busy 2017."

Inbound investment from investors based outside Spain is a major source of work for law firms, according to Rueda, who says such activity accounts for a high proportion of his firm's work. "We have only one office in Madrid, but more than 60 per cent of our operations come from abroad via direct investment into Spain," Rueda explains. "We advise on acquisitions by companies in countries such as the UK or Germany that are buying into Spain through their affiliates here, and which require local counsel," he says. The firm has also advised clients from the US and Canada on acquisitions in Spain.

Fellow Araoz & Rueda corporate and M&A partner Israel de Diego says: "Now Spain's economy is growing above the European average; we had a major adjustment during the crisis, between 2007-16, especially in terms of employment, but we are now more competitive as a country. We are leaders in many sectors, such as automotive assembly, which leads to growth in other sectors related to vehicle components in various regions of the country."

Catalonian uncertainty: negative impact

Rueda says the Catalonia independence bid has had a negative effect on business opportunities for law firms. For example, Rueda laments the decision by the European Medicines Agency, for example, to relocate from London to Amsterdam. The agency was London-based, and following the result of the UK's referendum on membership of the European Union in 2016, Barcelona had become a candidate for its new headquarters, as the city has many pharmaceutical firms and research centres. However, one of the consequences of the failed independence declaration will be a diversion of investment away from Catalonia.

Yet Rueda believes Brexit will present a considerable number of opportunities for law firms. He says many companies are going to face limitations, both in the movement of capital and people, with travel into the UK set to become "a nightmare" for Europeans, as well as for British citizens travelling to Europe. "Businesspeople will not be making the journey if the entry procedure becomes lengthy, and Brexit presents serious problems such as a flight of companies from the City," Rueda says. However, he argues that Spain is well placed to lure companies looking to relocate, and Madrid is an ideal city to attract businesses.