

THE POSITIVE IMPACT OF PRIVATE EQUITY, ALEJANDRO FERNÁNDEZ

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Alejandro Fernández de Araoz Gómez-Acebo, of Araoz & Rueda, says private equity is helping to build Spain's own Silicon Valley.

There is a popular belief that private equity is only about corporate ownership changing hands and thus it has a neutral impact on the economy.

I disagree. While the concept of private equity is broad ranging and encompasses a variety of different investors, and therefore one should always be cautious when making bold statements about its influence, I do believe that it has a stimulating effect on the economy.

Driven by the need to maximise returns in a relatively short period of time, the majority of private equity funds orchestrate the successful building up of a company while implementing a number of different measures to cut costs and create efficiencies.


Furthermore, as the Spanish economy looks to improve its competitiveness, the role of private equity will I believe become increasingly significant. With traditional industries 'delocalising' to other countries with cheaper labour, we will look increasingly to our SMEs in the new technology areas – life sciences, TMT and nanotechnology and production for example – to grow our economy.

With an attitude to risk that differs from some of the more traditional lenders, private equity funds are prepared to invest at an early stage in such companies. And while Spain is no Silicon Valley, we have tremendous research potential with plenty of young engineers and PhDs eager to find capital to develop their projects.

As an example, we are currently assisting with the NEOTEC project, a €175-220m programme sponsored by the Spanish governmental agency CDTI and the European Investment Fund (EIF). Other examples that highlight activity in this area are UNIRISCO, a new venture capital fund created by some of Spain's leading universities, and ADARA Venture Partners, a recently launched private equity fund which plans to specialise in TMT early stage projects.

As well as stimulating the economy, the arrival of private equity is also encouraging increased activity among corporates. There are a number of reasons for this.

Firstly, in the market for acquisitions, the private equity funds clearly keep the corporate managers 'on their toes' as corporations are repeatedly beaten on price by the private equity funds. Take for example the bidding for Occidental Hotels last year. Our client N H Hotels, an experienced, well-established hotel group, was defeated by a bid from private equity group Carlyle.

Another way in which private equity has facilitated increased activity in the corporate sector is as a  result of joint ventures. Some corporates have teamed up with the private equity groups to do deals they would never have been able to do by themselves. One example of this is Repsol Butano and CVC which have joined forces to acquire BP's worldwide LPG business.

Finally, some private equity groups are now acting as consolidators in certain industries, acquiring various companies to create pan-European groups across a number of different sectors, thus changing forever the competitive environments in these areas.

All of these examples serve to remind us that the impact of private equity on the Spanish economy has been both positive and far-reaching. But I believe the best is yet to come.

An openness to risk and investment in new ideas and technologies is assisting in the transition from our traditional manufacturing base. We should, therefore, acknowledge the role of private equity and encourage further participation from both existing and new funds.