

Julio Lujambio, partner, Pérez-Llorca: ‘Investors are targeting technology and pharma companies’

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Technology and pharmaceutical businesses are becoming increasingly attractive to investors due to their resilience in times of crisis, says Pérez-Llorca’s partner Julio Lujambio.

LEADERS LEAGUE: What has been driving demand for corporate/M&A lawyers in Spain in the last 12 months?

JULIO LUJAMBIO: I would say transactions sponsored by large funds (including infrastructure funds, real estate funds, energy funds, private equity funds and those dedicated to acquiring litigation credits and distressed assets). Spain’s economy is still based around medium-sized family-based companies with high growth potential. Furthermore, many of them have yet to venture out of the Spanish market. These sorts of targets are very attractive to large national and international funds. Such companies, which normally have an interesting business model but lack the financial strength to grow quickly, can benefit from the funds’ financial capacity and experience.

In fact, other than M&A carried out by large Spanish entities to diversify their business or enter into other markets, the majority of M&A transactions we have seen in the past year were carried out by private equity firms, or were build-ups of

prior investments. During the last few years we have seen a lot of interest in the renewable energy sector. Interest has increased over the last twelve months. There are many factors that encourage investment in the renewable sector in Spain – firstly, we have good natural conditions to exploit renewable energy sources (wind, sun, enough space and a long coastline), secondly, we have clear regulations that provide reasonable return expectations that are very easy to predict and, thirdly, we have large utility companies and hydrocarbon entities which have been investing in the renewable energy sector for the last few years.

What impact has the global pandemic had on M&A activity

Obviously, the global pandemic has had a significant effect on M&A transactions in Spain. At the beginning of the pandemic we experienced a very steep fall in the number of transactions. Everyone wanted to understand the magnitude of the pandemic and the potential economic recession before making strategic decisions. Many investors also wanted to adopt measures to control damage to their portfolios before making further investments.

However, once the situation became more stable (or everyone got more used to it), there was an increase in the amount of transactions and a shift in interest among investors. Currently, interest in companies that have proven resilient to the crisis (such as technology-based or pharmaceutical companies) has increased. Furthermore, investors are now starting to search for opportunities to invest in good assets at lower prices.

The valuation of companies has been dramatically affected by Covid-19. In a number of sectors, sellers and buyers are having to look for new methods and payment conditions due to the pandemic.

‘Distressed transactions are likely to increase as investors find companies at lower valuations.’

What will be the major corporate/M&A trends in the coming year?

We expect investors to focus on more dynamic businesses, especially technology-based ones, since their capacity to adapt to the ever-changing circumstances makes them more resilient to crises. Also, the new paradigm of working and studying remotely will offer opportunities to businesses dedicated to online learning or telecoms. Investors are also currently interested in pharmaceutical companies, for obvious reasons, although the number of pharma transactions that will reach a satisfactory conclusion will be lower as few of those companies will be able to profit from the current scenario.

We also believe that the coming years will bring mergers involving major players in specific industries. The world is increasingly becoming a single market and Spanish companies will need to become bigger to be able to compete on a worldwide scale. As such, many companies will prefer to merge with other entities in order to create synergies that allow them to compete with global players.

Acquisitions of renewable energy companies will still be a trend in the coming years. We think that the public’s interest in renewable energies and climate change

is unstoppable and, as such, governments will still favour those energy sources. Furthermore, the public will increasingly shift towards cleaner energy sources as they become cheaper.

It is also undeniable that many companies are struggling to make it through these troubled times. There are those who operate in industries whose revenues have fallen dramatically and who will need liquidity to make it through the coming months, such as companies dedicated to travel and tourism (which were a big part of Spain's GDP). In this regard, distressed transactions are likely to increase from January 2021 onwards, as investors will be able to find companies with valuable assets at lower valuations. Thus, it is expected that investors with sufficient resources will make a profit from the decrease in the valuation of companies, particularly those operating in sectors that have been badly hit by the crisis.

Finally, more traditional and stable industries – such as those that are concession-based and whose investors have a long-term focus – will probably remain active.

What are the biggest challenges clients currently face when making acquisitions in Spain?

The main challenge we are currently facing is legal uncertainty, something we share with many other countries. In addition to the economic uncertainty, the number of laws being passed in industrialised countries – in order to adapt to the new situation and protect the health of the population and the economy – has been astonishing. It has been hard to keep up with the legal changes over the past few months. All law firms have made an effort to provide certainty to their clients regarding the applicable laws.

However, we think that we have moved on from this and that it is more stable now. It is still unknown how many months of uncertainty we have left, but we do not expect as many laws to be passed in the future.