Ander Valverde: "Direct lenders are definitely back in business in Spain"

After a contraction in the direct lending market during the pandemic, growth had returned, giving rise to new opportunities to deploy capital and keep private debt teams extremely busy.

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Leaders League: In addition to the energy sector, in which other sectors could we see more growth in the coming year?

Valverde: In addition to the energy sector, which has remained extremely active in 2021, we are seeing a lot of activity in the food industry, Telecommunications, Media & Technology (TMT), real estate, healthcare, and education.

M&A related to the food industry is flourishing. It goes without saying that this industry has performed very well over 2020-2021. Consumption of food in Spain has not been adversely affected by the pandemic. Food supply chains during the pandemic have proved to be resilient despite the initial disruptions and bottlenecks in labour, processing, transport and logistics. Both international and local sponsors, particularly private equity firms, are targeting family-owned Spanish companies involved in the food industry. A significant number of acquisitions have been closed in this sector. In turn, since sponsors use debt to fund their acquisitions, this has kept our finance team busy with high-profile leveraged deals. We expect this trend to continue in the coming year.

TMT has remained very active and will surely experience growth over the next few years. Large and mid-market M&A transactions have closed in the sector and this has kept the industry busy, with the different players reacting to the corporate transactions of their competitors. In addition, certain telecom companies have diversified their businesses (for example, certain companies are targeting the home and business security and safety businesses) and this has led to joint ventures between companies from these different sectors. More importantly, a significant amount of the temporary recovery funds that have been granted to Spain under the EU Next Generation facility will be allocated by the Spanish government to Spain's digital transition. All of this is keeping Spanish lawyers busy in all areas of the law (corporate, regulatory, finance, etc.).

Thirdly, the real estate sector has remained busy, particularly on three fronts. First: logistics assets. This asset class is booming thanks to the e-commerce and online trends that have substantially increased during the pandemic. In fact, in 2021, we have advised lenders and sponsors on a significant number of deals involving this asset class, including our advice to the lenders on the largest underwriting of debt in a Spanish bank backed by logistics assets.

Second: residential property. Another business model attracting attention from investors is related to property tech companies and online real estate platforms buying, refurbishing and selling residential real estate. We have seen many deals involving venture capital funds as well as international debt funds that are offering creative debt solutions to support business models of this nature (including securitizations, asset-based facilities and structured revolving credit).

And finally: hospitality. Numerous transactions related to hotels and resorts have closed, particularly by international sponsors and high-net-worth Latin American investors who are seizing opportunities in the

Aside from the sponsored loans offered by the Spanish government, what other measures might be necessary to reactivate refinancing and restructuring operations?

The Spanish insolvency law was amended in early 2020. Today, there is proposed legislation to amend certain provisions of the law, specifically in terms of establishing new pre-insolvency instruments that may provide an alternative to filing for insolvency, the sophistication of the institution of insolvency director ("*administrador concursal*"), and certain amendments that purport to improve the position of employees in the context of insolvency proceedings.

"These developments will not necessarily reactivate the market for refinancing and debt restructurings."

These reforms are necessary and praiseworthy. However, these developments, which of course keep us busy as we need to keep abreast of legal changes, will not necessarily reactivate the market for refinancing and debt restructurings. The issue here is that there is a lot of liquidity in the market, interest rates remain very low and money is being poured into the real economy by governments, central banks, banks, debt funds and other alternative finance providers. This means that companies that prior to the pandemic had debt restructuring plans for 2020-2021 have found new sources of liquidity that have enabled them to postpone these plans.

Of course, certain companies that qualify as "terminal patients" find it difficult to secure financing and need to undergo restructuring or even insolvency processes. However, in our view, this is not the general rule as other (perhaps less) financially distressed companies have found sources of financing to survive and postpone their debt restructuring plans.

It is likely that until liquidity cools down and interest rates increase, we will see slightly less refinancing, restructuring and insolvency work and more new money, renewals, and repricing deals.

Do you believe that the current situation favors a return of a significant growth in direct lending?

Direct lenders are definitely back in business in Spain. Following the outbreak of COVID-19, direct lenders experienced a decline in acquisition and growth finance activity. M&A declined in 2020 and growth plans were to some extent postponed. In addition, government-sponsored loans have become another direct lending "competitor". This contraction of the direct lending market occurred at a moment in which debt funds had raised a lot of cash which had to be deployed. Growth is back, giving rise to many opportunities in 2021 for direct lenders to deploy massive amounts of commitments that were raised before the beginning of the pandemic and the cash that continues to be raised among investors. This means that our private debt team is extremely busy again.

In relation to the pandemic, what have been the main changes in cross-border transactions?

There have been certain developments related to Loan Market Association documentation (new clauses addressing the pandemic, etc.). The flow of cross-border deals has remained very healthy and we continue to assist our friends from other jurisdictions with deals originating in London and New York. In particular, we have seen an increase in repricing deals, renewal of multi-borrower facilities, renewal of bond issuances, ABL facilities with a significant Spanish borrowing base, as well as high-end LBO work with a Spanish law component (i.e. Spanish targets). The German finance market is very active too and a lot of cross-border activity is originating from there, particularly on the export finance front. We are very happy about our cross-border deal flow.