

SPAIN & PORTUGAL

Vol. 5

TRANSACTIONAL IMPACT MONITOR

Special Report

1 December 2020

TTR SPECIAL REPORT

TTR's Transactional Impact Monitor is a Special Report combining local knowledge and market visibility from top dealmakers developed to address extraordinary situations affecting the macroeconomic stability and M&A outlook in core markets

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Transactional Impact Monitor: SPAIN

1 December 2020

The Spanish economy will be among the most severely affected by the global crisis that upended life across the world in 2020. Despite a moderate rebound in 3Q20, Spain's GDP was down 8.7% compared to the same nine-month period ending a year prior, according to the International Monetary Fund (IMF). IMF economists project a 12.8% slide by year-end as federal and regional governments impose new restrictions on movement and business activities.

Spanish companies have contracted government guaranteed debt amounting to 7% of GDP to shore-up their finances, but the country's small and medium-size enterprises (SMEs), which account for 70% of overall economic activity, remain highly vulnerable and dependent on fiscal measures to remain solvent. About 37% of the debt contracted by Spanish companies is estimated to be at risk, according to the IMF, foreshadowing impending insolvencies for many in 2021.

"The wave of restructurings is coming," said DLA Piper Spain Senior Partner Iñigo Gomez-Jordana. More troubling than the imminent onslaught of insolvencies, is the persistent lack of clarity where mitigation measures and their duration are concerned, however, Gomez-Jordana said.

New restrictions should be accompanied by guidance on how long they will last so that everybody can set their expectations, he said, noting there was a broad divergence among countries of the EU on approach, with poor coordination between them. "All this just serves to foment uncertainty," he said.

"There's a more pessimistic climate in Spain than in neighboring markets, which is affecting the macro situation," said Norgestión Managing Partner Igor Gorostiaga. The lack of coordination was understandable in March, but the fact that this continues almost nine months later is confounding, Gorostiaga said.

Large companies and banks raised a lot of debt immediately after the lockdown to be solidly positioned in the face of uncertainty. The volume of senior and high yield issuances was very high, and there were plenty of investors ready to buy, Gomez-Jordana noted. Convertible debt issuances were down to a trickle, however, with few companies willing to risk equity at discounted rates amid the volatility, he said.

"I think there's a general conviction that this situation is transitory," said Gomez-Jordana. Of course, it's important that the large companies that employ thousands don't run into

Deal Volume and Aggregate Value in Spain

1 November 2019 - 30 November 2020

Deal Volume



Source: TTR - Transactional Track Record

Aggregate Value (EURm)



problems, and they need to maintain their cash reserves in an uncertain market, he added.

"Where the macro outlook is concerned, I tend to be an optimist," said Portobello Capital Founding Partner Juan Luis Ramirez. "This crisis is better than the last, in that once it's resolved, we're going to return to normal more rapidly, as we have a healthy financial system," he noted. Governments have injected historic sums into the economy, which should ultimately result in inflation to the benefit of debtors, he added.

M&A OUTLOOK

Deal volume in Spain is down 23% to the close of November 2020, while aggregate transaction value is up 37%, according to TTR data. Real estate continues to lead by deal volume, despite a 34% decline over the same 11-month period in 2019, while tech deals, which follow, are up 1%. Financial services is the third-most active sector, despite a 26% decline, while health sector transactions, ranked fourth by deal volume, are down 12% for the first 11 months of the year. Acquisitions led by buyers based in the US, which consistently leads foreign investment in the Iberian market, have fallen by nearly 27%, meanwhile.

M&A DEAL VOLUME AND AGGREGATE VALUE (YTD 1 January - 30 November)

2020		
Total aggregate value (EURm):	107,763	▲ 37.11%
Deal Volume	1,796	▼ 23.28%

▲ ▼ % All the percentages represent a variation relative to the same period the previous year.

Source: TTR - Transactional Track Record

Dealmaking picked up in 2H20, with a lot of new projects kicking off, said Norgestión's Igor Gorostiaga, whose practice focuses on industrial technology, manufacturing, automation and the aeronautical industry, advising companies with an average enterprise value of EUR 25m.

Norgestión has closed six deals YTD, Gorostiaga said, two in first quarter and four between the second and third quarters, with a few more pending close in the last quarter of 2020. "We have a few more in the final phases, but one thing we have learned is that they fall apart more easily now," he said. The deals Norgestión has closed this year involve companies in renewable energy, automation, specialty

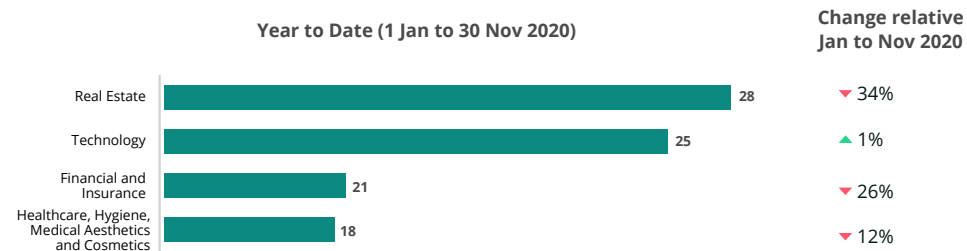
	Inbound M&A Volume from the US	
2020 YTD (1 Jan - 30 Nov)	119	(▼ 26.54%)
2019	162	(▲ 1.25%)
2018	160	(▲ 10.34%)
2017	145	(▲ 46.46%)
2016	99	(▼ 9.17%)

▲ ▼ % All the percentages represent a variation relative to the same period the previous year.

Source: TTR - Transactional Track Record

testing, information, communications and technology (ICT), health, real estate and packaging industries, Gorostiaga noted, with another renewables deal in the pipeline, alongside agribusiness and software transactions. Value-added industries are driving deals, Gorostiaga said, with an emphasis on those that have put a focus on sustainability and digitalization. Despite Norgestión's resilient track record of closing transactions, the

Leading Subsectors by Deal Volume



Source: TTR - Transactional Track Record

uncertainty continues to suppress deal flow, Gorostiaga said.

"It's difficult to value companies under current conditions, in an environment of depressed consumption, based on a business plan that assumes a normal that doesn't exist, and that's impacting the M&A market," explained DLA Piper Spain Senior Partner Iñigo Gomez-Jordana.

Valuations have changed little over the past eight months, however, according to Portobello Capital Founding Partner Juan Luis Ramirez, but there are fewer attractive targets and banks are providing less debt for acquisitions. "Our average EBITDA multiple is 6.5x to 7x, whereas in past years it could have risen to 8x," he said. Deals in Spain have historically attracted lower multiples than other markets of the EU, he noted.

according to Ramirez. There's more of a need for equity financing now and an imbalance between the supply of good deals and the demand for them, which favors financial sponsors, he said. "We're in a strong position to buy companies, elevate them to EU standards, and sell to pan-European funds."

"It's difficult to value companies under current conditions, in an environment of depressed consumption, based on a business plan that assumes a normal that doesn't exist, and that's impacting the M&A market"



IÑIGO GOMEZ-JORDANA
DLA PIPER INTERNATIONAL

DEALMAKER CONFIDENCE (Next 12 Months)

(0-10 lowest-highest):

- Macro Outlook: ●●●●●○○○○ 6
- M&A Forecast: ●●●●●○○○○ 6
- Private Equity Outlook: ●●●●●○○○ 7
- Capital Markets: ●●●●●○○○○ 6
- Crisis Management: no comment

Private Equity - YEAR TO DATE REVIEW

(YTD 1 January - 30 November)

2020

Total aggregate value (EURm): 14,029 ▼ 49.17%

Number of transactions: 149 ▼ 40.64%

▲ ▼ % All the percentages represent a variation relative to the same period the previous year.

Source: TTR - Transactional Track Record

Spain's GDP will fall more than in most other countries of the EU, but 2021 will be a year of transition in which the economy will grow by 10% to 11%; it won't be enough to recover 2020 losses, but by 2022, the country will be back on track at pre-crisis levels, Ramírez predicted.

"For private equity, this means good growth and acquisition opportunities," he said, noting the fund planned to close two or three deals in the coming months. Portobello has already closed four transactions in 2020, buying a natural foods group, an inspection and certification company, a telecom and a precision sensors manufacturer, Ramírez said.

There's a great need among private equity funds to continue doing deals, Norgestión Managing Partner Igor Gorostiaga said. The tweaks that were needed to manage portfolios in the face of the sudden downturn have been carried out, and their focus is now on evaluating acquisition targets, he added. Valuations haven't fallen in the most attractive sectors, where deals continue to be negotiated, he noted, while everybody else is stalling, awaiting the recovery.

Private equity funds haven't necessarily become more imaginative under these atypical circumstances, but definitely more flexible, Gorostiaga said. The

problem isn't a lack of financing, it's the lack of good opportunities, he added. There's a deficit of attractive companies to acquire, which will inevitably lead to more auctions, he said.

Spain's tourism sector, in which Portobello Capital operates with its all-inclusive chain, Blue Sea Hotels & Resorts, represents about 13% of GDP, and with arrivals down from 85m in 2019 to less than 30m in 2020, it's taken a huge hit, Ramírez noted. Blue Sea had to temporarily close all its hotels, but it holds a top-tier position in the three- and four-star value-for-money category, which bodes well for a strong comeback once restrictions are lifted, Ramírez said.

Portobello has doubled its room inventory since acquiring the chain in 2017 and plans to double again to 10,000 room keys over the next few years before exiting, he said. It had reopened seven of its 26 hotels in late summer, before new restrictions were imposed in Spain, but its presence in Mallorca and the Canary Islands is advantageous for the recovery, the latter already forming part of a "safe corridor", with flights resuming from the UK, he said.

Portobello has several potential exits in the near-term pipeline, despite Spain's faltering economy. It had planned to sell smart city management company EYSA when the lockdown put a damper on mobility. "We've recovered almost 100% of the previous traffic, and we're thinking about putting it up for sale again," he said. The fund manager's food businesses have done very well, meanwhile, and could also be sold soon, he said.

With about EUR 1.3bn under management, Portobello historically focused on controlling buyouts of middle market companies with between EUR 10m and EUR 50m in EBITDA in resilient industries like food, industrials, healthcare and

services, with practically no investment in more volatile sectors like retail. It has exited four of nine investments it made with its EUR 375m Fund III raised in 2014, and is now investing from its record-setting EUR 600m Fund IV raised in 2018. Of the nine acquisitions Portobello made with Fund III, it has five remaining in its portfolio to sell by 2024, of which one or two could be sold by mid-2021, he said. Portobello sold five portfolio companies in 2019 and acquired three, and has already returned 1.5x invested capital to its investors in Fund III, Ramírez noted, after returning 2x invested capital to investors in its previous fund, which was closed out in mid-2015.

"When crises hit, entrepreneurs tend to realize they have all their wealth in a single company, and our assistance to consolidate and exit tends to be welcomed"



JUAN LUIS RAMÍREZ
PORTOBELLO CAPITAL

DEALMAKER CONFIDENCE (Next 12 Months)

(0-10 lowest-highest):

- Macro Outlook: ●●●●○○○○○4
- M&A Forecast: ●●●●●○○○7
- Private Equity Outlook: ●●●●●○○○8
- Capital Markets: ●●●●○○○○○5
- Crisis Management: ●●●●○○○○○5

"The truth is, we've had good timing," Ramírez said. Portobello's strategy of rotating its investments quickly and selling promptly when the opportunity arises, has proven wise, he said, but even the most conservative approach can be confounded. It nearly sold the real estate assets of its hotel group before Spain's

tourism market was disrupted in March, he noted. Portobello did manage to sell its rental car business at an opportune time, and issued a bond to solidify its fitness center company before the crisis hit, so overall it has fared well, with minimal exposure to the most vulnerable segments.

In early 2020 the fund manager had its first close for its Portobello Structured Partnerships Fund I, raising about half of the targeted EUR 250m for minority investments, reflecting a new strategy for the group, Ramírez said. In July it closed its first minority stake deal with the acquisition of a 35% stake in AGQ Labs, a family-owned testing and certification business, for some EUR 50m.

"We'd been seeing opportunities for several years where the entrepreneurs weren't ready to relinquish control, and we couldn't invest because of our strict controlling stake mandate," he said. Portobello now has a dedicated team to pursue minority investments. It's an opportune moment to launch this parallel strategy, he noted, as there's a great need for capital and good buy-and-build opportunities. "When crises hit, entrepreneurs tend to realize they have all their wealth in a single company, and our assistance to consolidate and exit tends to be welcomed."

It won't be easy to raise additional funds in the current climate, despite the good investment opportunities on the radar, Ramírez said, as investors tend to be more conservative. Notwithstanding the prevailing uncertainty and tepid investor confidence, however, the future looks bright from Portobello's vantage point, Ramírez said.

Telecommunications services, data security and cloud computing continue to be highly fragmented and attractive industries with good buy-and-build

opportunities, and the fund manager has another EUR 300m to invest by 2022 from Fund IV. Portobello can invest up to 30% of its most recent buyout fund outside of Spain, and has been eyeing opportunities in Italy and Portugal, where food and food ingredients, business services, automation, renewable energy, distributed generation, electric mobility and health-care deals are considered particularly attractive, Ramírez said.

The relatively smaller size of middle market companies in the Iberian Peninsula, which average about 50 employees versus 250 in Germany, spells opportunity for private equity, he said. This, combined with the fact that 65% of GDP is attributable to SMEs, makes for a compelling investment thesis, he added.

CAPITAL MARKETS

Equity issuances have all but frozen over the past six months, and pre-IPO processes remain on ice, according to DLA Piper Spain Senior Partner and Head of Capital Markets Iñigo Gomez-Jordana. “Nobody wants to sell at a distorted price in an uncertain situation,” he said.

Gomez-Jordana said he spent much of the year working on behalf of a Spanish Ibex 35 company’s public takeover offer for an Australia-based listed entity, as well as on a convertible bond issuance for a listed entity, two debt issuances for large Spanish companies, a shareholders dispute and a large restructuring that predates the current crisis. There is activity, of course, but not at the 2019 level, he said.

Norgestión has also seen an increase in debt issuances among clients that had the wherewithal, said Managing Partner Igor Gorostiaga, but IPOs are not high

on the agenda for most. The volatility of equity markets in recent months doesn’t bode well for a rapid recovery in listings, noted Gorostiaga. There is appetite among companies of a certain profile for the BMEGrowth index, as a way to access the public markets and fund deals in the future, however, he said. Norgestión has closed two transactions led by BMEGrowth-listed Atrys Health this year, he noted.

For private equity funds like Portobello Capital, the slump in equity markets could present interesting acquisition opportunities of undervalued assets, according to Founding Partner Juan Luis Ramírez.

HANDLING THE CRISIS

Thanks to the measures imposed to safeguard employment in Spain, the country has thus far avoided mass layoffs. “We’re on the right path,” Gorostiaga said, but the financial assistance measures need to be geared towards making the economy more resilient in the long term by supporting value-added industries, rather than simply plugging holes for the short term. “If we have to make sacrifices, let’s do it rather than subsidize doomed industries with obsolete business models,” he said.

Banks are beginning to see a rise in refinancing applications from their clients, Gorostiaga noted, and heavily indebted companies are at the stage of exploring restructuring for a return to profitability. “We don’t yet see a wave, but it’s on its way,” he said. It will be largely focused on select industries and select companies, rather than generalized like it was in the crisis that hit Spain a decade ago, Gorostiaga noted.

Professional management teams that implemented environment, social and

governance (ESG) policies have fared better in this downturn, and the concept of corporate governance has moved from paper to reality for many more companies amid the dual health and economic crises of 2020, said Gorostiaga. “We’ve seen the importance of good corporate governance and compliance over the past few months. There’s a sense, among private middle market companies especially, that this deserves more attention.” By and large, however, family-owned companies have yet to fully implement the concept of good corporate governance, he noted.

Spain’s move to protect strategic industries with a new law on foreign investment passed in April, which requires prior approval of investments made by companies based outside the EU for a broader range of industries, preempted EU legislation that was set to go into effect in October anyway, DLA Piper Spain Senior Partner Iñigo Gomez-Jordana noted. The sale of the BME to SIX Group was seen as the first test case for the new law, and the deal was quickly approved without hiccups, he noted. The new legislation allows greater state intervention to protect strategic industries, which was reasonable at a time of great uncertainty when equity markets were in free-fall, but this isn’t the time for more intervention, Gomez-Jordana said.

“We need foreign investment, and to say you can’t sell a company is infringing on property rights at some level. What’s better for workers, if a company is sold, or if it dies?” If foreign investment enters the country to keep a company afloat or inject capital, this law can be a disincentive or deterrent, Gomez-Jordana added. At the end of the day, it will be one more element to delay transactions, which ultimately increases costs and increases the risk of failure, he added. “Just look at what happened between Iberia and Air Europa,” he said, referring to a deal that has dragged

on for over a year since being announced on 4 November 2019.

Spain’s lockdowns have been very harmful to the economy, Gomez-Jordana said, and the fear and uncertainty surrounding them made things much worse. “I get the sense that nobody dares to make any declarations on the duration of measures imposed to mitigate the health threat, neither the health nor fiscal authorities,” he said. It’s been a difficult situation to manage, given there was no playbook, but there could have been better coordination, he added. “Perhaps in the first few months it wasn’t possible; but it’s been a long time now, and I don’t see that there’s been any significant improvement,” he said.

“The point is that fear is totally harmful. We don’t need to take it to the extreme,” Gomez-Jordana added. He said he’s been working remotely and had cut his travel dramatically since 1Q20, but wasn’t scared personally. “The fear is not rational, and we’ve been treated like children,” he said. Many people don’t have the same ability to work remotely that he enjoys, he added, making life very difficult for a huge portion of the population. “We need to have confidence that things are going to work out, that this isn’t the end of the world, and keep our spirits high. You don’t fix anything otherwise,” he said.

Spain hasn’t hit its inflection point yet, however, Gomez-Jordana conceded, and the next several months will be complicated by an onslaught of restructurings, with fresh capital injected in those processes.

The crisis has been a tragedy for low-wage workers, and labor will have less bargaining power as unemployment soars, noted Portobello Capital’s Juan Luis Ramírez. “There will be a difficult period, and people will need to learn new skills.” Despite the dramatic rise in unemployment, labor shortages persist, he said, noting there’s

“Human beings have a way of becoming accustomed to the worst of circumstances, and we are becoming accustomed now”



IGOR GOROSTIAGA
NORGESTIÓN

DEALMAKER CONFIDENCE (Next 12 Months)

(0-10 lowest-highest):

- Macro Outlook: ●●●●●○○○○ 6
- M&A Forecast: ●●●●○○○○○ 5
- Private Equity Outlook: ●●●●●○○○○ 7
- Capital Markets: ●●●○○○○○○ 4
- Crisis Management: ●●●●●○○○○ 6

been a dearth of temporary workers to pick fruit, for example. “I’m confident that the labor market situation will improve a lot once there’s a vaccine available,” he said.

It’s true that there are sectors that could have been provided more support, but the regulations allowing companies to furlough employees while they stayed home and collected partial pay, were quite effective in averting mass layoffs and even greater economic devastation, Ramírez said. “This year has proven that anything can happen, and the only way to future-proof a business is to build solid companies with solid management teams and rock-bottom business plans, based on conservative financial structures and a dependable capital base,” Ramírez said.

There’s a vacuum of leadership in the public sector, meanwhile, Ramírez added, which has complicated matters in Spain, but by 2022, life will return to some semblance of normal. “We’ll work remotely more, we’ll eat out less, and there’ll be fewer parties, but hopefully not too few,” he said.

The foreboding sense of mass destruction that gripped the world in late March, won’t pan out to be as bad as feared, said Norgestión’s Igor Gorostiaga. Five out of six companies in the investment bank’s client base will close the year on a solid footing, some with more cash reserves than others, Gorostiaga said. One out of six is facing problems, however, which doesn’t mean it will disappear, but it will need some kind of help, he added.

The auto industry, in particular, is facing challenges amid a shift in technology that requires large capital investments, and suppressed demand, he said. New car sales in Spain will have fallen 25% by the close of 2020 over 2019, Gorostiaga noted. The hit is consistent with the fall in car sales globally for the year, but dis-proportionately affects northern Spain, where the country’s auto industry is based, he said.

Uncertainty about 2021 continues to pose a challenge, but the business environment is favorable, Gorostiaga said. Public investment will help buoy the economy, Gorostiaga added, and consumption is unlikely to fall. Even though there are less people taking public transport, investment in new train lines continues, for example, he noted.

“Human beings have a way of becoming accustomed to the worst of circumstances, and we are becoming accustomed now,” said Gorostiaga. People are learning to live with the health risk, he added. If not, things will get a whole lot worse with three more years of this.”

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Transactional Impact Monitor: PORTUGAL

1 December 2020

The Portuguese economy is projected to contract by 10% in 2020, according to the IMF, with unemployment pushing 14%. A moderate recovery with 5% GDP growth is projected in 2021, with a drop in unemployment to 8.7%. The Portuguese government's stimulus measures aimed at supporting income, preserving employment and ensuring liquidity will amount to nearly 3% of GDP in 2020, according to Banco de Portugal's October Bulletin, not enough to stave off its economic contraction, which outpaced most other markets of the Eurozone in 1H20.

"Currently the economic outlook is negative, but the full extent of the contraction will depend on the severity of the second wave and the measures that might be needed to control it," said Deloitte Partner João Diogo Pinto. "If we don't have full lockdown, we'll be living under constrained economic conditions for the foreseeable future, and we may be heading for a third wave in 2021 as well," Pinto said. The leisure, hospitality and retail industries have been decimated, he noted, with weak prospects for recovery in the near term.

Restaurants are open again, but new government measures in force since mid-October limit the number of people that can congregate to five, and with many working remotely or in rotation at the office, half the customers are completely missing, noted SRS Advogados Partner Paulo Bandeira. The Portuguese government's 2021 budget being resolved in parliament has offered a value-added tax voucher, which will allow patrons to claim back a portion of what they spend in restaurants in 1Q21 the following quarter to encourage consumption and support the sector. Restaurants are happy with the measure, but the effective benefits will only accrue to consumers from April onwards, Bandeira noted. Meanwhile, the government upped its state of alarm and mandated mask wearing in public through the end of 2020 in a new law passed in late October.

M&A OUTLOOK

Transaction volume in Portugal is down 23% YTD over the same 11-month period in 2019, according to TTR data, while aggregate deal value has increased by 36%. Real estate continues to lead by volume, despite a 7% decline over the same period last year. Technology follows, notwithstanding a 30% fall in deal volume, with healthcare down 11% and financial services volume falling 43% YTD. The number of transactions led by buyers based in the US is down 64%, meanwhile.

There is still a lot of uncertainty, and it's taking longer to complete deals, said Deloitte's João Diogo Pinto. "Buyers are demanding earn outs, if not lower valuations, while sellers are still stuck on pre-COVID valuations," he said.

M&A DEAL VOLUME AND AGGREGATE VALUE (YTD 1 January - 30 November)

2020		
Aggregate Value (EURm):	16,295	▲ 36.27%
Deal Volume	333	▼ 23.27%

▲ ▼ % All the percentages represent a variation relative to the same period the previous year.

Source: TTR - Transactional Track Record

Deal Volume and Aggregate Value in Portugal

1 November 2019 - 30 November 2020

Deal Volume



Source: TTR - Transactional Track Record

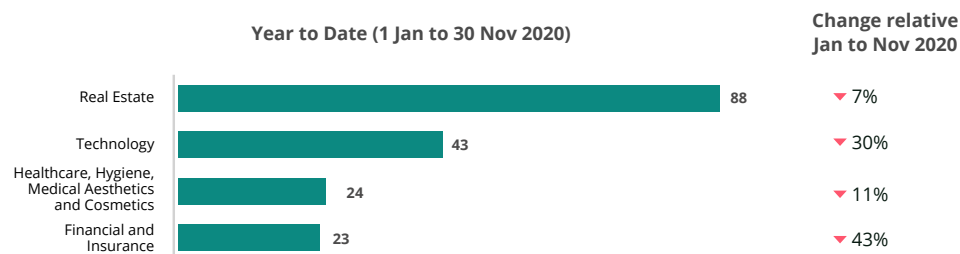
Aggregate Value (EURm)



Deloitte has seen several transactions that were suspended earlier in the year being revived alongside the launch of new deals that were initiated more recently, Pinto said. "I'm moderately optimistic about M&A deal flow and private equity," he said. Restructuring and distressed M&A are on the horizon, but these deals won't gain momentum until late 2021, he added.

Transactions involving online businesses, healthcare and energy companies are progressing well, Pinto said, but overall, there's been a change of landscape that

Leading Subsectors by Deal Volume



Source: TTR - Transactional Track Record

has revealed the fragility of the supply chains of the global economy. The mounting tensions between the US and China will force a reshuffle, Pinto said, and it'll be difficult for the negative macroeconomic outlook to translate into anything positive for SMEs, which are the engine of Portugal's economy.

Deloitte has been kept busy by a number of high profile deals, including the sale of the country's leading toll road operator, Brisa, to a consortium of international pension funds, as well as the sale of Vortal to DOCU Nordic and the sale of Aviludo Group to Metro.

"Buyers are demanding earn outs, if not lower valuations, while sellers are still stuck on pre-COVID valuations"

JOÃO DIOGO PINTO
DELOITTE CORPORATE FINANCE



DEALMAKER CONFIDENCE (Next 12 Months) (0-10 lowest-highest):

- Macro Outlook: ●●●○○○○○4
- M&A Forecast: ●●●●●○○○7
- Private Equity Outlook: ●●●●●○○○7
- Capital Markets: ●○○○○○○○2
- Crisis Management: ●●●●○○○○5

Deal flow is picking up as sale talks on transactions postponed in 1Q20 or 2Q20 resume in cases where things didn't go so bad for the parties involved, and they are now trying to get their bearings to move forward, Pinto said. "In many cases, buyers' concern is that they have already created some expectations on pricing, so they are looking to have earn-outs and manage the risk, with less interest in outright cash deals. What this means is that some of the sellers with whom they were

initially interested in starting the sale process are analyzing the market to see if it still makes sense to proceed," he said.

The acquisition of Vortal, a company that offers electronic sourcing and electronic procurement for public and private companies, along with a number of other deals Deloitte has advised on over the past nine months, engenders confidence that the market will keep moving, even if transactions are taking longer to bring to a close, Pinto said.

The sale of Aviludo, which is based in Portugal's touristic Algarve region and serves the hospitality industry, as well as food retailers and wholesalers, is a good sign and gives some assurance, said Pinto. "People believe that things will improve, or that even if they don't improve, we need to adapt to these new conditions," he said. Though Aviludo has a lot of exposure to the restaurant and hospitality segments, it didn't preclude buyers from continuing to look at growth opportunities to consolidate their presence in the market, he added.

Other sectors in which deals continue to move forward include technology, media and telecom, energy and healthcare, Pinto noted. There are some build-up and opportunistic transactions underway in the health sector, he said, and some industrial plays that are attracting big name international private equity investors based in the UK and France, he added.

PRIVATE EQUITY

Private equity transactions in Portugal have fallen 39% by volume, but the aggregate value of these deals is up 164% to the close of November over the first 11 months of 2019, according to TTR data. Private equity funds active in Portugal

Private Equity - YEAR TO DATE REVIEW (YTD 1 January - 30 November)

2020		
Aggregate Value (EURm):	4,276	▲ 164.19%
Deal Volume	25	▼ 39.02%

▲ ▼ % All the percentages represent a variation relative to the same period the previous year.

Source: TTR - Transactional Track Record

still have a lot of liquidity, noted Deloitte Partner João Diogo Pinto. There's more deal flow being generated by private equity funds than from corporates, he noted. They have dry powder and need to deploy capital, he added, noting some of the best returns are generated on deals made during economic downturns. "In a nutshell, transactions will be harder, but deal flow will continue."

Of course private equity funds are getting pickier, but they have an internal rate of return to achieve and a finite window to invest, said Pinto. "If they stay put, they are destroying value for themselves and their limited partners." Financial sponsors have flexibility on their side, and will either go for different industries, or they will go for smaller tickets, he added. "Instead of making five big transactions, they'll look for eight-to-10 to spread risk," he said, and where valuations are concerned, they'll reduce multiples or go for earn-outs.

A lot of the private equity investment in Portugal's real estate sector is linked to the residential segment, which hasn't slowed down, said SRS Advogados Partner Paulo Bandeira. Real estate pricing has fallen 3% to 4%, but that's not much considering valuations have been increasing dramatically for the past five or six years, he noted. "Real estate is still

	Inbound M&A Volume from the US
2020 YTD (1 Jan - 30 Nov)	12 (▼ 63.64%)
2019	33 (▲ 57.14%)
2018	21 (▲ 31.25%)
2017	16 (▼ 33.33%)
2016	24 (▲ 4.35%)

▲ ▼ % All the percentages represent a variation relative to the same period the previous year.

Source: TTR - Transactional Track Record

“Real estate is still strong, and private equity investment in real estate remains hot”

PAULO BANDEIRA
SRS ADOGADOS



DEALMAKER CONFIDENCE (Next 12 Months)

(0-10 lowest-highest):

- Macro Outlook: ●●●●●○○○7
- M&A Forecast: ●●●●●○○○8
- Private Equity Outlook: ●●●●●○○○8
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strong, and private equity investment in real estate remains hot.” The market is so heated, many residents are being priced out of the most attractive areas, he noted. “We’ve seen foreign people coming in to spend their last years of life in a sunny place with cheaper food and nice beaches, and we still see newcomers coming in for hotels, offices and residences.”

In the more technology-driven sectors, there hasn’t been much of a crisis either, and people haven’t had to take desperate measures, Bandeira noted. “Especially in venture capital and private equity transactions, we have actually seen companies being reinforced by equity financing,” he said. The workload in this area has grown since 2Q20, he said, precisely because startups wanted to focus on the next steps, the next six months and the need to get through this valley, so they’ve pursued funding rounds sooner than previously planned, he said. It means they’ve sold equity for lower prices than they would under normal conditions, but we have not had one client that tried to raise financing and was unable to, Bandeira said. “So there is capital. The money has been flowing into these newborn companies,” he noted.

Government subsidies have also been accessible to these startups, Bandeira said, noting the Portuguese government has been matching foreign investment in local startups with a EUR 200m fund. “There have been a lot of transactions and these companies are coming out stronger.”

Bandeira heads SRS’ startups practice since 2013 and launched Startup Lab SRS, an accelerator that matches budding entrepreneurs with legal assistance, mentors, networking opportunities, co-work space and venture capital investors, in 2018. He now dedicates 70% of his time to SRS’ startups practice, with the remaining 30% focused on more conventional commercial M&A deals, he said. Nurturing Portugal’s young entrepreneurs has been a great learning experience, and the highlight of his career, he noted. “They don’t have a penny in their pockets, but they all think they’re going to be the next Google or Facebook. It’s addicting,” he said. The firm has accumulated a lot of experience related to life sciences and emerging technologies hosting lectures for young entrepreneurs, he noted. “They leave in so much better shape, and most of them actually get funded shortly after.”

CAPITAL MARKETS

The Euronext Lisbon has yet to prove an attractive financing option for Portuguese companies, said Bandeira. The Euronext Growth has been a great success in France, but hasn’t garnered the interest of many Portuguese companies, with only three listings in the past five years, Bandeira noted. There are two factors that have hindered its appeal, he said, one being insufficient financial strength of prospective issuers, and the second being a cultural aversion to going public. “Portugal has four unicorns, only one of which has listed, he noted, and it listed in the US.”

Euronext has made a tremendous effort to educate future IPO candidates with its TechShare program, presenting the market as an attractive financing alternative, but the Portuguese startup community has not responded, Bandeira said. “In Portugal, it hasn’t hit its stride.”

The benefits don’t match the regulatory constraints and the costs involved for local companies, he added, and there have also been a few Portuguese companies that listed and things didn’t go well for them, which has also been a deterrent.

Environment, social and governance (ESG) matters are a concern mostly for Portugal’s largest corporations that can afford to be concerned, Bandeira said. SMEs, which make up the lion’s share of companies in Portugal, have largely operated with the mindset that they can’t afford to address ESG matters, Bandeira said. That’s changing, however, and its not only the handful of listed companies that have implemented ESG policies, he noted. Startups tend to implement ESG policies when they first attract investors, and more and more mature companies are seeing the business case for stronger governance, or see it as a prerequisite for attracting private equity or institutional investors, he said.

“What I would like to see is new listings, and that has only happened twice in the last 10 years,” Bandeira said. “I don’t think we will see more of that within the next few years,” he added. New bond issuances, including green bonds, are more likely, he noted, especially if the government provides incentives to international investors.

HANDLING THE CRISIS

The EU took a different approach than the US in mitigating the economic fallout from this crisis, focusing more on

maintaining employment rather than boosting unemployment benefits, Pinto noted. This served as a lifeline for healthy and struggling companies alike, but it has also masked the severity of the crisis in the private sector, he said. “The true impact insolvencies and restructuring will have will only be measurable later in 2021,” he said. “Now we have a number of zombie companies. There are a number of jobs that have already disappeared, but people don’t know it yet.”

Delaying the pain may not have been the best strategy, Pinto said. While the US approach could be considered more Darwinist, the EU is not accustomed to letting the unfit die, he said. “We don’t have the flexibility or the mind-set,” he added. In the US, people are already investing in jobs of the future, he said. The moratorium on debt servicing until March 2021 was sensible, but the new moratorium until September 2021 might not be so well grounded, he added. Private equity funds are therefore not yet investing in restructuring deals, he said, and owners of doomed businesses that believe they still might have a solution to survive, are not doing themselves a favor. “People are still believing they have a job when they should be searching for another type of employment.”

Everyone will need to adjust to that reality, said Pinto, but many sale processes are driven by succession issues, and owners can’t necessarily wait another two or three years to retire. At the same time, the atypical market conditions have brought other opportunities, and a number of owners that were accustomed to the good times, are now facing challenges as things get rough, and they are thinking it might be good time to sell to live life with less worry, he added.

The hold on payments to banks and creditors, and the special regimes implemented

to prevent layoffs in exchange for commitments from corporates not to fire employees for at least two months after the measures expire, have served as medicine for the economy, but not a cure, agreed SRS Advogados Partner Paulo Bandeira. These measures have served to delay the effects of the crisis, but some companies will die, nonetheless, he said.

"We have some clients considering not renewing layoff measures," Bandeira said. "It extends the agony for a period of months, and then the problem arises again. They want to have their hands free to restructure and downsize," he said.

"We expect an increase in the number of insolvencies in 1Q21," he added, noting traditional sectors important to the Portuguese economy would be heavily impacted, including leisure and hospitality, but also a lot of other industries that have lost clients along the way, and those that serve companies that are going out of business.

Notwithstanding the immediate challenges faced by the industrial sector, Portugal's manufacturing base is poised to emerge from this crisis in an advantageous position, Pinto said. There were discussions that emerged following the global financial crisis a decade ago related to international supply chains, in which an assertion that globalization had gone too far emerged. "There were a lot of discussions about the need for the EU to reindustrialize," he said, adding, "The initial stampede behavior in the procurement of ventilators reinforced the calls for a more regional approach for industries." Thanks to its lower wages, Portugal has maintained a number of industries that no longer exist in other markets of the EU, and the country still has that know-how, which represents a good springboard for recovery, he said.

The jury is still out on the effectiveness of the Portuguese government's fiscal stimulus measures, Pinto said. The government has formulated a strategic plan for the future of Portugal that outlines a long-term vision of where the country should go, but it's still too early to assess how the recovery plan, both locally and at the EU level, will support the companies that drive the economy, Pinto said. "We need to have measures that filter through the entire economy," he said, noting it remained unclear how the various strategic sectors, apart infrastructure, will be supported.

While the details surrounding stimulus funds from the EU remain murky, it's widely expected that a huge amount of money will be dropped in Portugal, Bandeira said. "We definitely need this money, but we do need to use it wisely to create innovative companies, to re-center a lot of things in Portugal and bring back the brains that actually left the country five-to-10 years ago, and to use that money to create new, innovative businesses that bring people back," Bandeira said.

China's role as a major partner and investor in Portugal has also been thrown into question, Pinto said. It's clear that the US views China as a strategic competitor and opposing world power, but the EU has a different stance, and until recently, had considered China a partner for growth. The appetite for Chinese investment has been curtailed in recent months, however, and the future of that relationship is up in the air as the EU reassesses whether the Asian superpower should be treated as a competitor or a partner, Pinto added. "We will need to find an equilibrium," Pinto said, adding, "From a Portuguese perspective, investment from Chinese companies was paramount to our survival during the last financial crisis."

Tourism in Portugal has grown tremendously over the past three-to-four years,

Bandeira noted, fed primarily by foreign tourists. "What we saw this year is cities empty, and hotels in Algarve not empty, but half full in the end of August and the beginning of September when we saw some degree of normalcy."

Tourism will only recover some normality in the summer of 2021, Bandeira said. "There will be opportunities for private equity investments in the interim," he noted. "It's one sector that can move a little bit, mainly because hotel restructuring in Portugal is a process that's been ongoing for the past 10 years, driven by the 2008 crisis. The restructuring was not yet completed. There were still opportunities, and this downturn will free up some of those."

Hotel buyers have been asking around, but these exploratory overtures haven't yet turned into many deals, Bandeira said. There will be opportunities to acquire some of the best hospitality and leisure assets for a significant discount, he said. "Restructuring will be reinforced within the space of one year," he noted, adding, "We are all betting we are moving towards some kind of normality by the end of 2021, stabilizing in 2021 with growth in 2022."

The tenuous future of flagship airline TAP Air Portugal, which went from first in line to receive new deliveries from Airbus to having too many planes in a matter of weeks, reflects the broader challenges facing the country, and especially the tourism sector, which depends heavily on the airlift it provides, Bandeira noted. The Portuguese government will likely seek a new strategic partner within the next few years, he said, after injecting the EUR 1.2bn needed to restructure the business. The government acquired the 22.5% held by Atlantic Gateway in early October, increasing its stake in the airline to 72.5% in a EUR 55m deal, before announcing it would downsize, in terms of both people and planes.

The Portuguese government will likely seek a minority partner so that it can maintain control of the airline, which it considers strategic, not just to provide airlift for tourism, but to maintain a direct connection with other Portuguese-speaking countries, Bandeira said.

Funding for TAP and further stimulus measures is limited, however, and the government is looking to maximize the use of subsidies from the EU so it can minimize its reliance on new debt, Bandeira said. The economic recovery is going to be a painful process, he said. "The money the EU will drop will smooth the impact. Of course it's a political expectation that the country will reach the same level in 2022 as it was at in 2019. The question is: are you using the money wisely, creating a stronger employment market?"

The investment pillars of the last several years will remain largely unchanged, Bandeira said, with a focus on supporting sectors in which Portugal has a competitive advantage, including infrastructure, marine industries, energy, manufacturing and technology. That doesn't mean these industries will be rescued when the moratorium on debt servicing ends, but there will be opportunities among companies that fall for other investors to gain traction, clientele and volume, he said. "It's going to be difficult, and only those that are truly innovative and have some financial muscle or are able to restructure or get an investor, will thrive," said Bandeira.

"There will be a period of struggling, and there will be a reduction in the economy in 1H21, but this is a crisis that we all say is very much temporary. Of course, you will need to keep the economy alive over the next 12 months, otherwise the consequences will be large," he said. ■

DEALMAKER PROFILES*



Igor Gorostiaga
Norgestión
Managing Partner

Igor Gorostiaga has over 20 years' experience in corporate finance and M&A. He has advised dozens of companies across a broad range of industries since joining Norgestión as a founding partner in 2001.



Iñigo Gomez-Jordana
DLA Piper International
Senior Partner

Iñigo Gomez-Jordana has over 25 years' experience in M&A and capital markets transactions. Prior to joining DLA in 2014, he was Managing Partner at Allen & Overy Spain and previously an international Partner with Clifford Chance.



João Diogo Pinto
Deloitte Corporate Finance
Partner, Financial Advisory

João Diogo Pinto has over 20 years' experience in M&A transaction services and restructuring. He has led projects in more than 25 countries in Europe, Asia, Africa and the Americas.



Juan Luis Ramirez
Portobello Capital
Founding Partner

Juan Luis Ramirez is a board member at several leading Spanish companies and former chairman of ASCRI. He worked with Proctor & Gamble before becoming a fund manager with EBN Banco and then Ibersuizas.



Paulo Bandeira
SRS Advogados
Partner

Paulo Bandeira has over 20 years' experience advising companies on corporate matters and M&A. He also leads the SRS Startups team, advising a range of technology and biotech startups, business angels and VC funds.

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What is TTR?

Transactional Track Record (TTR) is a premium financial technology platform that delivers unrivalled transactional data and actionable market intelligence in real time, empowering professionals to seize opportunities and make more informed strategic decisions.

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- Venture Capital
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- Acquisition Finance
- Bonds (soon)
- Debt restructuring (soon)
- Brazil: Debentures, CRI, CRA, LF, NP, FDIC (soon)



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The screenshot displays the TTR web application interface with the following sections:

- Recent Intel (TTR Radar):** A list of news items such as "Backbase appoints Maristela Martins as Country Manager for Brazil" and "Glovo App plans expansion of its last mega round to face the economic crisis due to the health emergency".
- Recent Transactions:** A table listing transactions with columns for DATE, TARGET, and VALUE (USDm).

DATE	TARGET	VALUE (USDm)
17 Apr 2020	Talgrass Energy	3,000.00 (Approx.)
15 Apr 2020	Hemoville - Hemoterapia e Hematologia	USD
15 Apr 2020	Vivona Assessoria Em Saúde	USD
15 Apr 2020	Hotel en Santander	USD
15 Apr 2020	Alu Ibérica	USD
15 Apr 2020	Editora Sonar	11.42
15 Apr 2020	Microbial BioSystems	0.19 (Approx.)
14 Apr 2020	Sytek Solutions	4.17
14 Apr 2020	Via Dia	2.19
14 Apr 2020	Pulmobiocis	2.19
- Recent Publications:** A card for "African Region - Transactional Impact Monitor".
- Deal of the Month / Quarter:** A card for "ESB - Empresa de Energia de Boyacá".
- Recent Dealmaker Q&As:** A section featuring a Q&A with a dealmaker, including a photo and text about Transactional Impact Monitor.
- Transactions:** A line and bar chart showing Total Value (USDm) and Number of Transactions from April 2019 to April 2020.
- Transactions by Geography:** A world map showing transaction activity across different regions.
- Transactions by Size:** A bar chart showing the distribution of transactions by total value in USDm.
- Most Active Dealmakers (Legal):** A list of dealmakers ranked by the number of transactions.

PERSON	NO. TRANSACTIONS
Rodrigo Meneses	47
Guilherme Perez Potenza	37
Pedro Ferreira	36
Iván Mall Floris	28
Iñaki Frias	28
Xabier Álvarez Lombardía	24
Manuel Echenique Sanjurjo	24
Mikel Mendiolaza Oleazar	23
- Exits (Private Equity):** A table listing exit transactions with columns for DATE, TARGET, and VALUE (USDm).

DATE	TARGET	VALUE (USDm)
10 Apr 2020	ACCIONA Energia Internacional	487.14
26 Mar 2020	ASBN - Metais & Metais	USD
25 Mar 2020	Argo Energia Empreendimentos e Participações	662.59
20 Mar 2020	Hospital Armeniud Cancion, Hospital Armeniud Playa del Carmen, Armeniud	USD



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