



Special Edition

FIVE YEARS OF  
**PRIVATE  
EQUITY**

Spain & Portugal

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REPORT 2019 ■ 2023

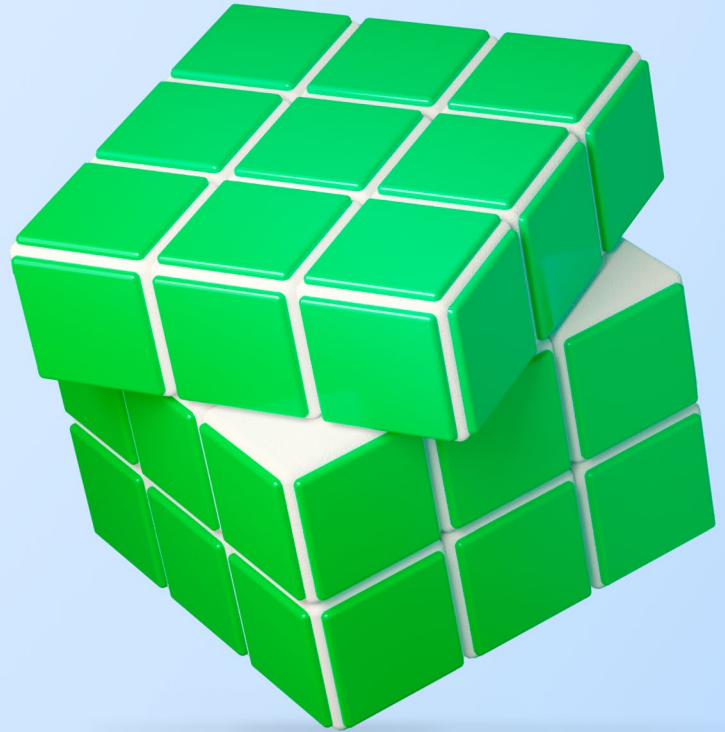
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Special Edition

# FIVE YEARS OF PRIVATE EQUITY

Spain & Portugal

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The special edition of “Five Years of Private Equity in Spain and Portugal”, produced by TTR Data, in partnership with iDeals, sheds lights on the current situation of the Private Equity market in the Iberian market and its perspectives, with knowledge generated by market experts through our Roundtable section, as well as the work of legal and financial firms in mergers and acquisitions, through the publication of special legal, financial rankings in the Iberian M&A market in the Private Equity market in 2023.



## ROUNDTABLE

To extend our support to clients and investors, iDeals is pleased to host an exclusive roundtable with **Javier Gómez de Miguel**, Corporate Partner at Pérez-Llorca, and **Borja Oria**, Managing Partner at Arcano Partners.



### **BORJA ORIA**

**Managing Partner at Arcano Partners**

Borja is the partner in charge of the investment banking division at Arcano Partners. He holds a degree in Business Administration and Management from CUNEF and an Executive Program in RE from Harvard Business School. Previously, he was CEO of Musgo and worked for Rothschild and Socios Financieros. He was President of ACOTEX, of which he is now Honorary President. He is also a member of the board of directors at Grupo Paraguas and Papa Johns, and was Vice-Chairman of the EXIT Foundation until 2019.



### **JAVIER GÓMEZ DE MIGUEL**

**Corporate Partner at Pérez Llorca**

Javier has been a partner in Pérez-Llorca and a resident partner of the firm's New York office since 2021. He holds a degree in Law and Business Administration from the Universidad Carlos III de Madrid and a master's degree in International Business Administration from the Center of Studies for Economy and Trade (CECO). He also lectures at several universities, including the Universidad Carlos III de Madrid, the University Pontificia Comillas (ICADE), and the Instituto Superior de Derecho y Economía (ISDE).

## ROUNDTABLE

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### What are the main factors contributing to the significant decrease in transactions in the first half of 2023?

**Borja** | According to SpainCap data, in the first half of 2023, the number of transactions under €100m has fallen by 40%, and larger transactions by 78%. This decrease in activity is due to **(i)** a lack of financing for large transactions; **(ii)** an increase in interest rates; **(iii)** the gap between seller and buyer expectations in valuations; and **(iv)** the concentration in less cyclical sectors (healthcare, education, etc.). However, in Arcano, our activity has increased compared to last year, having closed 25 transactions so far this year, of which 14 have been sell-side, 3 buy-side and 8 financing.

**Javier** | We are coming from a period of prolonged growth over the last three years, until the end of 2022, when several factors come together to create a complicated scenario at a transactional level. Inflation, rising interest rates, the war in Ukraine, and macroeconomic uncertainty are factors that have

made it more difficult to close deals, especially those in a higher segment (large cap) where these factors have been exacerbated, and it has been more difficult to reach an agreement on price, meaning that these processes tend to take longer than necessary.

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### How are the geopolitical and macroeconomic factors playing a role in the regional market, Javier?

**Javier** | Instability caused by the outbreak of war between Israel and Hamas in the Middle East and the possible escalation of tension in the region also do not bode well for an increase in foreign investment, and especially not for new potential stock market listings (IPOs). There is a growing awareness that volatility and uncertainty are a double-edged sword: on the one hand, they carry risks and threaten the survival of companies, but they also open up new opportunities and are a catalyst for strategic Transformations.

## ROUNDTABLE

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### How does it affect the regulatory environment?

**Javier** | The macroeconomic instability does not help to lighten or reduce regulations on foreign direct investments. The need for governmental approval of many private equity deals have extraordinarily delayed the closing of transactions, with a significant impact on the value of the target companies.

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### What have been funds and companies immediate response to all these challenges?

**Javier** | Funds are focused on generating as much value as possible in their portfolios and companies through add-ons to consolidate the market niche in which the company operates, and divest non-strategic assets to focus on their core business. ESG criteria play an important role in differentiating companies,

especially in today's environment, where generating value is so difficult.

Despite the drop in large private equity deals compared to previous years, there are always funds willing to take advantage of opportunities through public-to-private deals (such as Antin's recent takeover bid for Opdenenergy, or Apollo, I Squared and TDR's for Applus).

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### We have been observing a significant volume of energy deals in Spain on our platform. How is the industry looking from your perspective, Javier?

**Javier** | There are sectors that are less prone to instability, and this is the case for the energy sector. In Spain, investments in the development of renewable energies have been taking place since the beginning of the year, with several transactions led by funds, generally sovereign or infrastructure funds, seeking lower returns than traditional private equity.

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### What is your outlook for the economic conditions and market trends in the second half of 2024, Borja?

**Borja** | The previously mentioned factors will be gradually mitigated, as we expect interest rates to fall, especially in the second half of 2024, as well as a close in the gap of valuation expectations between buyers and sellers.

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### Shifting gears, how are the capital markets looking, or better, who is looking at these opportunities?

**Javier** | After a long period of drought, it seems that several companies are preparing to make the leap to the stock market. These companies are private equity portfolios and large, high-value, family-owned companies. Many funds find the IPO the best way to divest in a context of high-interest rates and high financing costs, while coinciding with a situation of high

stability in the stock markets which had not been the case for a long time.

Many of the companies currently working on the possibility of an IPO do so as part of a dual-track process, where this option is evaluated in parallel to the possibility of a sale (in whole or in part) to a private fund.

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### How are the expectations of sellers and buyers aligning?

**Javier** | Until now, sellers' price expectations were more easily met in the private market than on the stock exchange. With all this, there is a significant pipeline of transactions that are waiting for financing costs to be relaxed so that valuations can be adjusted and transactions can be carried out in the best possible conditions for both buyer and seller. There is still a divergence between the seller's expectations and the price offered by the buyer, but this gap may gradually shrink and adapt to the new reality imposed by financing.

## ROUNDTABLE

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**So the IPOs could peak again in 2024?**

**Javier** | We have been very active in helping some of our clients to prepare for an IPO over the last few years, but when the time came, the stock markets were not open to it.

Hopefully, in 2024 we will see a return of successful IPOs in Spain. Lastly, we are also seeing increasing interest from US and European SPACs in Spanish targets (Codere, Wallbox, QEV Technologies and FC Barcelona, for example). This is another area we expect to be very busy in 2024.

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**What are the key deal drivers for dealmakers and corporate executives in Iberia to watch in the following months?**

**Borja** | Definitely, increased financing with lower interest rates and a reduction of the gap in valuation expectations.

**Javier** | Everything seems to indicate that we may reach a point of stability as far as interest rates are concerned, and although there will still be external factors that will continue to have an impact, we believe that the reactivation may be motivated by several factors that ought to be considered: investors' desire to receive returns on their investments, the maturity of the funds' portfolios and the divestment of large corporations' non-core assets to focus their strategy and investments on more strategic investments.

Despite all this, Spain is one of the fastest-growing European countries and continues to be an attractive market for investment, so it is often the LPs themselves that are pushing the fund managers to divest, and thus shift the direction of the portfolio to be able to undertake new investments, given that the levels of resources available for investment continue to be high.



## ROUNDTABLE

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**Pérez-Llorca has had a remarkable pipeline in the previous year and has somewhat shaped the market in the region. How is 2024 looking for your firm?**

**Javier** | We believe that there will continue to be liquidity to undertake investments and there is still investor appetite (both domestic and international) in Spain, especially in certain sectors or assets that have proven to be more resilient in the current context, such as energy, infrastructure, healthcare and agriculture. We therefore perceive a certain optimism in terms of fundraising and investor confidence in Private Equity in Spain. In our particular case, the new Lisbon office will allow us to accompany our clients and potential clients in their investment plans in the Iberian market and other geographies such as Brazil or the Portuguese-speaking African countries.

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**Can you comment a bit on your work towards ESG criteria?**

**Javier** | ESG criteria will continue to increase in significance within private equity funds' Investment strategies, boosted by EU regulation in this area. At Pérez-Llorca we have a multidisciplinary team specialised in providing comprehensive advice in relation to all relevant legal aspects of the application of ESG criteria and the impact of climate change management. Proof of this is the analysis in the book "Estudios Jurídicos sobre Sostenibilidad, Cambio Climático y Criterios ESG en España y la Unión Europea" (Legal Studies on Sustainability, Climate Change and ESG Criteria in Spain and the EU), written entirely by professionals from the firm, as well as the recent recognition in the Legal 500 Green Guide EMEA 2023 Rankings.

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**Thank you, Javier and Borja, for your contributions in shedding light on the pressing challenges and opportunities.**



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