SPAIN & PORTUGAL

Vol. 3

TRANSACTIONAL IMPACT MONITOR

Special Report

27 May 2020

TTR

Transactional Track Record

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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

27 May 2020

As Spain approaches the 10-week mark since the royal decree was issued declaring a state of emergency on 11 March, the country has begun tiptoeing back to normalcy, or what even the government describes as the "new normal", with a phased approach to the easing of restrictions on business activities and movement.

In phase one, which began 11 May, family members and friends are permitted to gather in groups of up to 10 persons in homes, open-air restaurants and bars, with a limit set at 50% of the normal maximum occupancy. In phase 2, which had a provisional start date of Monday, 25 May, family members will be permitted to visit their relatives in old age homes, one at a time, provided there are no Covid-19 infections among the residents. The limit on the number of persons permitted to congregate will increase to 15 and patrons will be able to sit inside restaurants and bars for table service.

Phase 3 will begin on 8 June, at the earliest, pending continued improvement in the health situation, with the government determining the pace of advancement from one phase to the next independently for each autonomous community. Once in phase three, protocols for workers to be reincorporated into the workplace will be implemented and patrons will be permitted to stand in bars once again. Travel beyond the province of residence will only be permitted after 22 June, at the earliest, and only to other regions of Spain that are in the same phase in the resumption of normal business activities.

Things are slightly better now, commented Écija Partner Emilio Prieto. "From the public health perspective, I believe the worst has passed. From an economic standpoint, however, things will be very tough for Spain," he said.

In the tourism and hospitality industry, for example, which represents nearly 15% of Spain's GDP, 2020 is a lost year, said Prieto, and 2021 will also be very difficult. "For the restaurant industry, where we have seen a lot of investment in recent years, the blow has obviously been nothing less than colossal," he said. To make things worse, the new social distancing norms, which will continue to be enforced post-lockdown, will make several businesses simply inoperable, he added. "These are businesses that normally require a minimum occupancy rate of around 80% to remain viable; the owners of these establishments already know this is out of the question," Prieto said.

Deal Volume and Aggregate Value in Spain

1 May 2019 - 27 May 2020

Deal Volume

Aggregate Value (EURm)

Source: *TTR - Transactional Track Record*

"This situation is so different, similar only to the situation in Spain a century ago. Nobody precisely contemplated this in their contracts"

ANTONIO SÁNCHEZ MONTERO
PINSENT MASONS

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

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

Retail, leisure, hospitality and related sectors are among those suffering most, while deals in the healthcare industry, old age homes and pharmaceuticals, along with financial services, and wealth management, in particular, remain on track, according to Pinsent Masons Partner Antonio Sánchez Montero.

Regardless of what happens, Spaniards will eventually go back to restaurants and bars and those businesses will inevitably bounce back, sooner or later, Prieto said. "We are essentially gregarious people; socializing is in our nature," he noted.

The new normal will look a lot different where the workplace environment is concerned, however, Prieto said. "The only thing we can be absolutely certain of, in the middle of all this anxiety and confusion, is that remote working is here to stay," Prieto said.

"Why should a company pay for a five-story office in the center of Madrid when it can accommodate a portion of its employees in three floors and have the rest working remotely from home?" Prieto said. These remote workers will not only benefit from a much better work-family balance, but the cost savings involved are staggering, Prieto noted. "Some of our international clients are already moving in that direction," Prieto said. "They have renegotiated rent prices and are now planning to sublet part of their space to other tenants and probably vacate part of the total area at the end of their contracts," he said. Real estate will, no doubt, suffer as a result, particularly commercial space and corporate offices, Prieto noted.

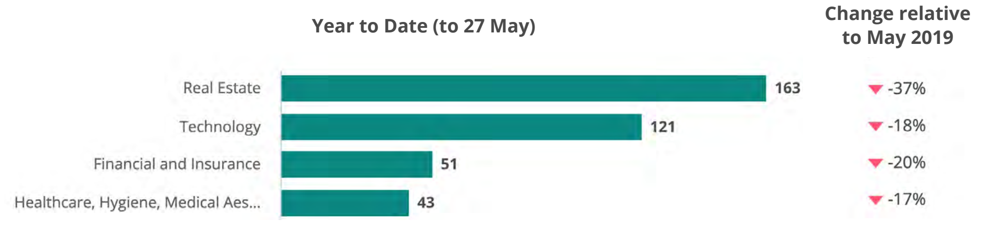
Given the continuing uncertainty, it's impossible to make foolproof macroeconomic projections for the close of 2020, but almost all the indications suggest a fall in GDP of between 7% and 12%, Prieto said.

"So the question, really, seems to be, will things be very bad or simply disastrous?" The key issue now is whether or not there will be a recovery in 2021, said Prieto. In Spain, a country heavily dependent on consumption to drive the economy, there will be economic sectors that suffer tremendously, he said.

"The legal field is privileged in that in times of prosperity, transactional work is in great demand, while in times of crisis, litigious work is in great demand. We saw it 10 years ago, and we are seeing it now," Pinsent Masons Partner Antonio Sánchez Montero noted.

The impact of force majeure on contracts is keeping legal advisors busy at virtually every firm, he added. "This situation is so different, similar only to the situation in Spain a century ago. Nobody precisely contemplated this in their contracts; they are asking how they can amend terms they'd agreed to under completely different conditions." Labor advisors also have their hands full amid all the legislative measures implemented to mitigate a sharp rise in unemployment in the aftermath of the lock-down, said Sánchez.

Leading Subsectors by Deal Volume



Source: *TTR - Transactional Track Record*

M&A OUTLOOK

The transactional market remains in a rut, sources told TTR, but with a dim light at the end of the tunnel. Strategic and private equity-backed deal volume plunged in April to just 67 transactions, less than half the volume of the previous month, with 71 deals to date in May, according to TTR data. Deal volume is down 32% YTD, while the aggregate value of transactions has fallen 63% relative to the same period in 2019. Inbound transaction volume out of the US fell 35% between 1 January and 27 May 2020, meanwhile.

Advisors that managed to close transactions in the midst of the lockdown faced logistical challenges overcome only by utter perseverance. A sales and purchase agreement Oquendo Corporate closed on 31 March, for example, required parties to sign and scan some 300 documents, Partner Iñaki Salazar told TTR. The deal is still subject to approval from competition authorities, with an undetermined timeline for completion as a result. "I just hope they're efficient when they open back," he said.

"Teams, Zoom, Skype, they're phenomenal, but to negotiate an M&A deal, it's not the same as a sit-down meeting at the table," Salazar added. Oquendo made progress on the transactions it had underway by compartmentalizing deals that were each proceeding at their own pace on different fronts, he said. Processes that were at an early stage when the crisis hit have been postponed, he said, noting the investment bank

1 Jan - 27 May	*Inbound M&A Volume from the US*
2016	37 (▲ 15.62%)
2017	69 (▲ 86.48%)
2018	71 (▲ 2.89%)
2019	60 (▼ 15.49%)
2020	39 (▼ 35%)

Source: *TTR - Transactional Track Record*

has strategic transactions in the industrials, consulting and services sectors underway, with both domestic and international bidders engaged.

Leading dealmakers report deflated transactional pipelines, with a tough road ahead. "About a third of the deals we had in the works have been paralyzed, with poor prospects for resuscitation; about a third have been put on hold with a good chance of resuming; and a third are ongoing, but at a much slower pace than normal with the respirator on," noted Pinsent Masons Partner Antonio Sánchez Montero.

"We're not counting on seeing a lot of deals close between June and July, agreed Salazar, "apart from those that were supposed to have closed in March and April." By September, however, activity should resume, Salazar said. Many clients are enduring a tough time at the moment, with earnings hit hard, but with a strong liquidity position, he added. These companies have a positive outlook and consider it a good time to do deals, he said. "We're getting these kinds of calls," he noted, from clients saying, "we don't want to do anything in June and July, but we do in September or December, for which I need to start looking now." Companies will benefit by exploring flexible formulas to implement their medium-term vision towards 2021 and beyond, he said, both in terms of how deals are priced and structured. "That's what we've been discussing."

The new decree restricting foreign investment in strategic sectors of Spain's economy hasn't resulted in any of Pinsent Masons' ongoing deals from falling through, Sánchez said, but there have been consultations about it. The speed with which it was passed, and the ambiguous language describing the sectors of national interest covered, created additional uncertainty, Sánchez noted. "Which is why it's not easy to determine with

"Everything related to data management and artificial intelligence is something tremendously appreciated these days"

EMILIO PRIETO
ÉCIJA

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

- Crisis Management: ●●●●○○○○○○ 4
- Economic Outlook: ●●●●●●○○○○ 6
- M&A Forecast: ●●●●●●●○○○ 7
- Private Equity Outlook: ●●●●●●○○○○ 6

exactitude which it actually affects." The law could remain on the books for a year or two after the restrictions on movement and business activities are lifted, he said, given the economic fallout is likely to last at least as long and could be used to justify maintaining the protective legislation in place.

The slower pace of deals that continue under way is due to both the logistics of transactional activity being hampered by the need to work remotely, as well as the heightened sense of caution parties bring to the negotiations in the midst of a public health threat and a severe economic crisis with uncertain prospects for recovery, said Sánchez. "Telecommuting has been a workable solution, but we are all somehow less efficient than when we had the option of telecommuting or working together in one place," Sánchez said.

Most of Pinsent Masons' smattering of deals initiated post lock-down are opportunistic in nature, or precipitate from regulatory issues or financial stress, said Sánchez. "The deal drivers are different than under normal circumstances," he noted. In one transaction his firm worked on recently, the regulator forced a company to find an investor to resolve its liquidity crunch, for example, he noted. "These are exceptional cases and not a steady flow of deals."

Multinational companies with stronger financial firepower, whether based in Spain, the EU or the US, will move to acquire target companies that have been too expensive to buy, provided there is no second wave of infections, predicted Écija Partner Emilio Prieto.

Though many e-commerce companies have proven their resilience in recent months, the segment will also undergo a purge, Prieto said. Investors and strategic buyers will pay big money for a select number of e-commerce companies that effectively bring high added value, but traditional e-commerce will suffer in the current crisis, he said. "Everything related to data management and artificial intelligence, on the other hand, is tremendously appreciated these days," he added.

"Large companies right now are looking to buy either e-commerce companies that are vertical players in very specific sectors or tech companies that can bring concrete added value to well-established e-commerce players," he said.

There will be an uptick in deal volume by 4Q20 and into 2021 as companies take stock of their losses and reevaluate their market positions, said Oquendo Corporate Partner Iñaki Salazar. Some find themselves in an advantageous position to pursue acquisitions, Salazar said; others are finding they are at a disadvantage and in need of assistance. Generational transitions, meanwhile, will likely be postponed until the crisis has passed, while others will throw in the towel and seek a buyer, he said.

PRIVATE EQUITY

Transactions led by private equity funds in Spain are down 57% by volume and 90% by aggregate value YTD over the same period in 2019, according to TTR data.

Notwithstanding the large amount of cash among private equity funds, financial investors face two big challenges, Écija Partner Emilio Prieto said. On the one hand, all of them are focused on managing their own portfolios, and some

Private Equity - YEAR TO DATE REVIEW
(YTD 1 January - 27 May)

2016		
Total aggregate value (EURm):	4,904.75	▲ 120.84%
Number of transactions:	59	▼ 3.50%
2017		
Total aggregate value (EURm):	12,843.89	▲ 161.86%
Number of transactions:	101	▲ 71.18%
2018		
Total aggregate value (EURm):	11,688.47	▼ 8.992%
Number of transactions:	105	▲ 3.96%
2019		
Total aggregate value (EURm):	19,113.47	▲ 63.52%
Number of transactions:	98	▼ 6.66%
2020		
Total aggregate value (EURm):	2,003.40	▼ 89.51%
Number of transactions:	42	▼ 57.14%

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

Source: *TTR - Transactional Track Record*

of their portfolio companies are highly contaminated because of their exposure to retail, he noted. On the other hand, private equity funds face strong competition from large corporates, which are typically willing to pay more for target companies.

The first thing all the funds did, whether explicitly or implicitly, was to halt their investments, said Oquendo Corporate Partner Iñaki Salazar. They haven't killed these deals, they've just been frozen so that they can address the needs to their existing portfolios. Some of Oquendo's private equity clients have said, "we'll talk when things return to normal," he said, while making it clear that, "if you see something really good that's an obvious fit, we'll look at it."

Funds that have restaurant chains in their portfolios are doing nothing but focusing internally, meanwhile, he said, but there are others beginning to lift their heads up and saying, "I have X amount of cash in hand; if the opportunities are good and make a good fit, we're keen." Not many transactions will close in June and July, but by December and in 2021, I'm convinced things will pick up again," Salazar noted. "We have to continue doing deals," Salazar said, adding, "These are times in which, yes, there's more uncertainty, but the opportunities can be tremendous, when pursued with caution."

Prieto said there was little conformity to the outlook he was privy to among private equity funds he works with between Western Europe and the Middle East. Some are very gloomy and predict an inevitable calamitous economic period through 2021, he said, while others are confident there will be a bounce-back next year and that things will clearly improve because the root of this crisis is extrinsic. "It is all still very disorientating," Prieto said.

Financial crises typically generate consolidation and merger plays, including among listed entities, and the current situation is no exception, Salazar said. Oquendo handles capital markets deals on an opportunistic basis, he noted.

HANDLING THE CRISIS

"These are times in which, yes, there's more uncertainty, but the opportunities can be tremendous, when pursued with caution"

IÑAKI SALAZAR
OQUENDO CORPORATE

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

- Crisis Management: 3
- Economic Outlook: 4
- M&A Forecast: 7
- Private Equity Outlook: 6
- Equity Capital Markets: 4

Spain's economic crisis will be an incredible challenge for many, many companies, said Pinsent Masons Partner Antonio Sánchez Montero. The economic downturn in 1Q20 was worse than expected, and while the country and its financial system had greater liquidity levels going into the lock-down than in the last major economic crisis, it will be 2022, at best, before Spain hits the GDP of 2019 again, he said.

Tourism and hospitality will suffer tremendously, and with rising unemployment and a weak construction industry, Spain faces another uphill battle out of recession, Oquendo Corporate Partner Iñaki Salazar agreed. There will be a reactivation of tourism over the summer, but it will be domestic and tend towards second homes and vacation rentals, rather than hotels and restaurants. Spain's island destinations, meanwhile, could prove to be safe havens as tourism bubbles, given they've contained the public health threat and will have an easier time controlling entry, Salazar said.

The government can take fiscal measures, but I'm not sure they can undertake activities that will really reactivate the economy, he added, noting, "Increasing taxes is not going to help."

In the best of cases, companies may generate more revenue in 2020 than in 2019, but they won't hit the targets they'd projected for this year, Salazar said. "For many companies, 2020 will be a write off." The situation demands more flexibility from all sides, Salazar said, from the banks in terms of how they lend, and from those seeking financing.

In the first weeks of the crisis, protecting public health was key, said Salazar, but now it's time to think hard about the secondary impacts. "There are mountains that are more difficult to descend than to climb. The descent could be really bad if there's a major resurgence in the fall, in terms of public health, for the economy, and at the micro level, within in my sphere," he said.

TRANSACTIONAL IMPACT MONITOR
Special Report

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Coming soon:
Transactional Impact Monitor: Vol. 2

MEXICO

Transactional Impact Monitor: Vol. 1
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Transactional Impact Monitor: PORTUGAL

27 May 2020

Portugal too has begun to implement a phased reactivation of the economy, though the shut down was more limited than in Spain from the outset.

We are still mandatorily working from home until the middle of June, said Abreu Advogados Partner Ana Sofia Batista. “We have this ability to adjust,” said Batista of the Portuguese and local businesses that have faced the current crisis with agility. Notwithstanding, the damage hasn’t been averted, only postponed by the government’s efforts to protect workers, tenants and provide liquidity to the market, she said. The moratorium on commercial and non-commercial rent, for example, is not forgiveness, and rents must be repaid in the first month following termination of the state of emergency.

A similar moratorium extends to companies in a borrowing relationship with the country’s commercial banks, which are in better shape than they were when the global economic crisis hit in 2008. “We think this crisis is very different,” said Batista. The impact is asymmetric, she said, noting certain sectors like energy and health were hardly impacted. “And then you have tourism,” she added, noting there were hotels that probably will be sold and groups that will eventually need to be restructured.

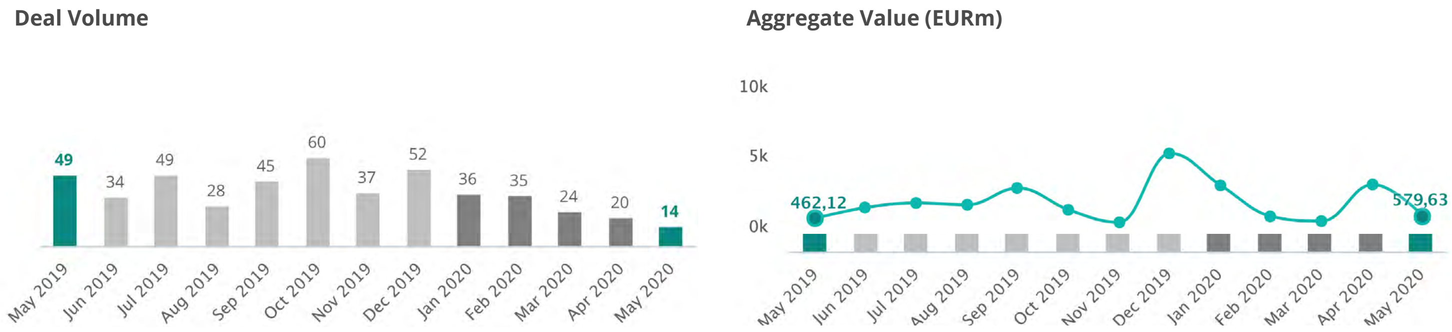
The substantive changes to Portugal’s labor laws and subsequent amendments gave Abreu Advogados a sizeable workload as transactional activity stalled over the past two months, Batista said. “There were very practical issues that needed to be amended and adjusted, which made our work more difficult than it should have been, but it’s natural because legislation was coming out very rapidly,” she explained.

Abreu has been running a series of webinars to keep its clients and broader business network abreast of all the new legislation being enacted. “Things are changing, not day-by-day, but almost,” she said, adding, “We anticipate that many companies will, naturally, suffer.”

Though Portugal has already begun allowing businesses to resume operations according to a phased approach similar to Spain’s, Batista said she sees a wave of restructurings in the latter part of 2020 as the moratorium providing breathing room to corporate borrowers is lifted and creditors take legal action. Judicial administrators will need to act rapidly in 4Q20 to deal with the backlog, she said.

Deal Volume and Aggregate Value in Portugal

1 May 2019 - 27 May 2020



Source: *TTR - Transactional Track Record*

M&A OUTLOOK

M&A DEAL VOLUME AND AGGREGATE VALUE

(YTD 1 January - 27 May)

2020

Total aggregate value (EURm):	7,103	▲ 81.08%
Number of transactions:	129	▼ 26.70%

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

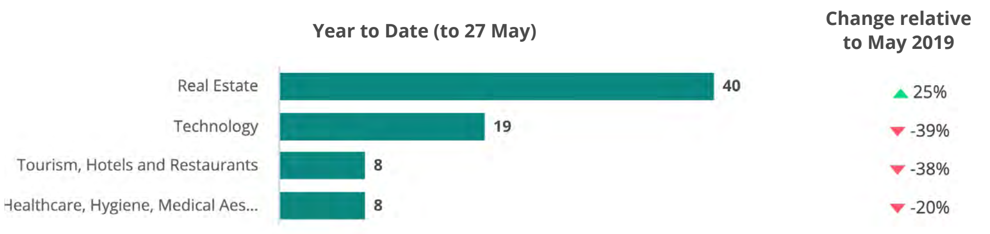
Source: *TTR - Transactional Track Record*

M&A deal volume is down 27% in Portugal YTD over the same period in 2019, while aggregate value is up 81% thanks to an upsurge in real estate transactions and a handful of large deals in other sectors, according to TTR data. Real estate is the leading sector by deal volume with 40 transactions YTD, a 25% increase compared to the same period last year. Tech follows, with 19 transactions YTD, a 39% drop. The country’s eight tourism and hospitality transactions put the segment in third by volume, representing a 38% decrease over the same period last year, while healthcare deal volume is down 20%.

Abreu Advogados has experienced a sharp slowdown, with about half its deals suspended, but not canceled, and several other transactions still in the works, noted Partner Ana Sofia Batista.

Tech, logistics and mall transactions have continued to progress, said Batista, with the firm’s teams covering real estate and finance interconnected more than ever. The firm also has energy and health sector transactions in its pipeline, along with agriculture deals, she said. “You will also see distressed assets; that can be expected as soon as companies start to come back to normal life,” she said.

Leading Subsectors by Deal Volume



Source: *TTR - Transactional Track Record*

In recent weeks, Abreu has begun to see an increase in real estate transactions, including those involving hospitality assets, Batista said, noting this segment was expected to undergo a wave of consolidation in the months ahead.

"You have small hotels and then you have groups of hotels. When they are in good shape, they can go through this process and come out well," said Batista. "And then there are some hotel groups that probably will not be able to survive this crisis and will need more financing and to sell hotels. It's still a little early to say but it's something that we see as an area where we'll see more transactions."

As M&A transactions slowed down, Abreu experienced an upsurge in contract work for real estate clients that needed to adjust to new laws on leases and contracts, Batista said. Portugal's malls remained closed, even as street-facing retailers were permitted to reopen, she noted. The work of Abreu advisors was very much interlinked between financing and contract areas and interlinked with all the legislation that was enacted to face this new set of circumstances, Batista said.

Bison Bank has also experienced a slowdown in M&A transactions with some deals being put on hold for a period of time, according to Head of Investment Banking Gladstone Siqueira, but he also has new transactions in his pipeline, he said. "I don't want to sound cliché, but as normal throughout any crisis, this situation is providing lots of deal opportunities. The point for me, is that it is not an opportunity for all investors, only for those with capital and the ability to find the opportunities and execute transactions in such challenging market conditions." Businesses that have weathered the crisis well and retained their value will make attractive targets, he said.

Bison Bank is advising corporate clients in Portugal and Spain on opportunities related to equity capital raising and sell-side M&A transactions, Siqueira said, as well as serving as a bridge to China via its network of investment banks and asset managers. Clients in Asia are seeking a broad range of opportunities in the EU in diverse industries, with no loss of appetite in the wake of the SARS-CoV-2 threat, he said.

It's very important at a time like this to have a clear opportunity in hand that matches an investor's interest, he said, especially when there's no room for face-to-face meeting. "You don't have the normal situation in place for site visits," he said, noting due diligence has been particularly challenging in recent months.

"When we read the history, it will be a history of "delayed effects"; with transactions being pushed back to the second half of this year, maybe to the last quarter," Siqueira said. If the crisis worsens, on the other hand, a lot of opportunities will be pushed to to 4Q20 or 1H21, he added.

In the meantime, Bison Bank is taking a nimble approach, looking for business opportunities that stand out. As a consequence of the market turmoil, investors will, of course, benefit from a fall in valuations in some cases, he added. "There are some deals that are now outstanding in the market where the companies are reevaluating the figures; everything must be reassessed," he said.

Food and beverage, agriculture, frequent-use consumer products, renewable energy and infrastructure are areas that remain of interest to investors, where little impact will be felt from the crisis, Siqueira said. Bison Bank's clients are more focused on real opportunities related to companies with a stable market presence rather than distressed assets. "Of course there will be bankruptcies – we saw this in 2008-2010 – but I think the market in the EU and financial institutions are much better prepared to face this crisis than they were 10 years ago.

The flood of non-performing loans and distressed assets was more due to the situations of some financial institutions in that stage, he noted, adding, "I don't expect the same flows of non-performing loans, distressed assets, arbitration that we saw after the global financial crisis." If the crisis worsens, this could change, Siqueira cautioned, noting Bison was not fielding interest from any investors interested in distressed assets per se.

"We see lots of opportunities for private equity funds and also for business angels"

ANA SOFIA BATISTA
ABREU ADVOGADOS

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

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

PRIVATE EQUITY

Private-equity deal volume in Portugal is down 58% by volume and 15% by aggregate value YTD, according to TTR data.

Notwithstanding the fall in transactional activity in recent months, private equity funds are demonstrating renewed appetite of late, sources told TTR. "We see lots of opportunities for private equity funds and also for business angels," said Batista. The firm has been contacted by private equity clients keen to invest in tourism assets, she said. "Mostly international firms and Portuguese entities managing international funds; they have been very active with investments," she said. The wave of investment in the Portuguese tourism industry of recent years will be reinvigorated with the preponderance of distressed assets, she said.

Bison Bank works a lot with private equity funds, both based in the US, as well as in Asia via its strategic M&A network, said Head of Investment Banking Gladstone Siqueira.

"We are more or less in a situation in which investors are divided between two different approaches," Siqueira said. "On

Private Equity - YEAR TO DATE REVIEW
(YTD 1 January - 22 May)

2016		
Total aggregate value (EURm):	288.02	▲ 16.20%
Number of transactions:	13	▼ 7.14%
2017		
Total aggregate value (EURm):	4,179.50	▲ 1,350.11%
Number of transactions:	21	▲ 61.53%
2018		
Total aggregate value (EURm):	1,071.62	▼ 74.36%
Number of transactions:	16	▼ 26.80%
2019		
Total aggregate value (EURm):	700.20	▼ 34.65%
Number of transactions:	19	▲ 18.75%
2020		
Total aggregate value (EURm):	806.00	▲ 15.10%
Number of transactions:	8	▼ 57.89%

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

Source: *TTR - Transactional Track Record*

the one hand, there's a flight to safety. On the other hand, fund managers and strategic investors are looking at opportunities in the market for assets that have hold quality, so it's a mix of good opportunities and flight to safety, irrespective of where the funds are based," he said. "For those with capital and a nimble approach, depending on the investors' profile, we are seeing deal flow," he added.

While financial institutions will clearly be less active in providing liquidity for leveraged buyouts, Bison has partnerships with investment banks and commercial banks that are interested in continuing to support Asian investments in Europe, Siqueira said.

The capital markets are moving with quite a gap between equities and the real economy, noted Siqueira, meanwhile. What has happened so far is more a consequence of the stimulus than a consequence of the real economy facing the crisis, he noted.

"We saw some delays in Spain with M&A and also ECM transactions," Siqueira said. While the impact in Spain was one of the most drastic in the EU and the markets became a little stressed, he said he hasn't seen investors withdraw their interest, notwithstanding the limits imposed on foreign investment. "If assets are good, there will appetite for them," he said, "and the country will need foreign investment, so the government will certainly reassess those constraints."

HANDLING THE CRISIS

Though the Portuguese have a reputation for being a bit unruly, strict adherence to government advisories played a big role in mitigating the impacts of the health threat, said Abreu Partner Ana Sofia Batista.

Now, with businesses beginning to reopen, people are adjusting to the "new normal", Batista said. "They are open, but you need to have the masks; it's going to part of our lives now for some time, so it changes the kind of consumption that we do; we will do it again, but in an orderly way; we are people who need to come out on the street," she said.

"If all of a sudden we have many more people killed, they will probably send us home again, so people are being very careful; that would be very complicated

"On the one hand, there's a flight to safety. On the other hand, fund managers are looking at opportunities in the market for assets that have hold quality"

GLADSTONE SIQUEIRA
BISON BANK

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

- Crisis Management: ●●●●●●●●○○ 8
- Economic Outlook: ●●●●●●●○○○ 7
- M&A Forecast: ●●●●●●●○○○ 7
- Private Equity Outlook: ●●●●●●○○○○ 6
- Equity Capital Markets: ●●●●●●○○○○ 6

of the economy and for the people too," Batista added.

The Portuguese government put together a very important package of support, establishing a layoff scheme and helping companies avoid cutting jobs, said Siqueira. The approach has been very disciplined and responsible within Portugal and the country has also kept a very active position in the EU with the finance minister as head of the Euro group making a very strong case alongside his peers," added Siqueira. "We must always think as part of the EU and work alongside the partners in the other states," he said, noting times of crisis demand member states rely on the strength of the union.

Portugal has not imposed restrictions on foreign investment in the face of the SARS-CoV-2 threat like legislators did in Spain, which could make Portugal a relatively attractive market in the short-term, said Batista. Eventually the EU may need to consider similar legislation, however, Batista said. Abreu has continued to see investment interest from abroad, including from China, since the onset of the crisis, Batista noted.

The extended period of confinement has changed some habits for good, Batista noted, with the uptick in e-commerce, and the unavoidable home cooking being prime examples. "We will probably not go every day to the restaurants – our habits are necessarily going to be different."

Another tradition that may have to change is how people take their holidays, which is on everybody's mind with the approach of summer, Batista said. There will be limitations, at the beaches, in restaurants, in the swimming pools, she noted. If clients need support, those concerns will turn out to be futile, she added, as there may be no holidays in the typical July-August period given the backlog of work postponed from the first half of the year.

Notwithstanding the resilience of real estate transactions, Batista said she expects there to be a softening of the corporate and commercial real estate market. "We are seeing that they realize that they can work from home, and that they could spare some money, a lot of money, from offices."

What was until recently a highly constrained market for office space in Lisbon, has become one in which renters have more negotiating power, she said. It's natural that companies start looking at their activities and what they spend. Some areas are not so easy to change from a physical workplace, however, she noted.

As the moratorium on lease payments expires in September, there will be a wave of evictions and litigation, she said. Similarly, when the moratorium on repayment of financing arrangements expires, the liquidity crunch that was postponed will be felt by companies unable to pay, and by their creditors, she added.

It was difficult to endure the lockdown, but it was critical to stall the advance of the health threat, said Batista. "The reaction, in terms of health, was important at the time, and I think we really should try now to open the market and the economy again," she said.

It's easy to criticize and say the authorities could have done more, Batista said, but overall, everybody was working together, from the prime minister and the president, to the pharmaceutical industry and banks. There were many businesses that continued operating, and that's important as well to Portugal's ability to bounce back from the crisis, she said. "I really think that we have been doing things really well. In general we've been quite organized and I think it will pay off," Batista said.

Companies that have coped best are those that were able to adjust and change the way they work, said Batista, whether fundamentally changing what they produce, like making masks instead of umbrellas, or changing how they do what they do, as in the case of professional services firms like Abreu, which have adapted to working remotely.

Bison is following closely how companies resume activities in the local economy and also in Asia, which began lifting restrictions on normal business about a month ago, Siqueira said. "I don't believe it will be a quick resumption of activities; it will take a little longer for the markets to come back," he said, noting the efficacy and sufficiency of the stimulus measures will soon become apparent as economies in the region begin to come back to life.

Even during the height of the crisis Bison Bank participated in what Siqueira described as some very interesting debt capital markets transactions that were 4x-5x oversubscribed. "For me it's clear that the market is slowly realizing that you can have very good quality assets in the midst of a global crisis, and the market in China is improving a lot. It's definitely a good place to be. International investors must have a percentage of their portfolios in China." ■ TTR - Transactional Track Record

THE VIEW FROM MILAN

20 May 2020

"The near future is uncertain and to try to envisage a strategy for 2021 is really tough"

Stefania Radoccia
EY Italy
Managing Partner, Tax & Law and Mediterranean Region Accounts Leader

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

- Economic Outlook: ●●●●●○○○○○ 5
- M&A Forecast: ●●●●●●○○○○ 6
- Private Equity Outlook: ●●●●●●●○○○ 7

It's a challenging time. We still don't know when the lockdown will finish. The near future is uncertain and to try to envisage a strategy for 2021 is really tough.

There is some certainty about the impact of the pandemic on the Italian economy. The estimates now suggest a drop of between 6% and 15% in Italy's GDP.

In the first two months of 2020, prior to the outbreak, we saw bullish M&A activity in Italy. In the subsequent two months we experienced a serious slowdown in deal closings and overall negotiations due to difficulties in managing transactions remotely. Human interaction, the chemistry between sellers and buyers, is a crucial aspect for the success of a deal, so managing deals remotely makes things very hard for our M&A lawyers and tax experts.

In the first month of the crisis, businesses were totally surprised by the virus. No one even dreamed that it would have such an impact on the market. So in the first instance, they reacted immediately to cover all the liquidity problems, the supply chain problems, the problems connected with the lockdown, the health and safety problems, and the privacy problems. We helped many companies on these fronts.

Then those companies were waiting, and they are still waiting, for the stimulus package from the EU and from the Italian Government. What has been announced so far is not enough. The liquidity stimulus, according the business owners, is inadequate. On top of this, the banks are not helping much. Since they are not covered from a criminal liability perspective, they could face charges in the event they provide money and liquidity to entrepreneurs who then declare bankruptcy in the short-term. They are trying to solve this challenge, but in the meantime, there is no financing for entrepreneurs. It's a real problem for the middle market. We are facing a serious risk of an increase in bankruptcies and an increase in unemployment, which for now is temporarily covered by the state during the lockdown.

There are several sectors in which the impact of the crisis will surely accelerate market disruption or consolidation, including:

- Manufacturing and services have for the past two months been totally or partially closed;
- Industrial electricity consumption has fallen compared to 2019;
- Transportation is severely affected by the lockdown, both for cargo and mobility;
- The automotive industry has also been materially affected by the lockdown;
- We are very worried about tourism, which represents 20% of Italy's GDP;
- Construction has been paralyzed and many projects have been put on hold, driven by safety concerns, a constrained supply of materials, and demand uncertainty;
- In the luxury segment, there is some expectancy of a long-term recovery, but the recovery depends on the return to a normal lifestyle.

There are other sectors with a clear long-term outlook and robust financial fundamentals, relatively unhampered by the crisis, namely:

- Food and beverage has grown as consumer spending in this segment increased;
- Pharmaceutical companies are seeing stable growth of their fundamentals;
- Digital infrastructure, including mobile towers, networks and datacenters have been virtually unscathed.

DEALMAKER PROFILES*

Ana Sofia Batista

Abreu Advogados

Partner

Ana Sofia Batista focuses primarily on matters related to M&A, spin-offs, liquidity inflows, share swaps, private equity transactions and project finance with extensive experience advising clients in the health, transport, food and finance sectors.

Antonio Sánchez Montero

Pinsent Masons

Partner

Antonio Sánchez leads the firm's corporate team in Madrid, undertaking a broad range of M&A work, with a particular focus on private equity transactions and broad experience in corporate matters and commercial contracts.

Emilio Prieto

Écija

Partner

Emilio Prieto joined Écija in 2005 after working for two major UK law firms. He focuses on domestic and cross-border tech and industrial transactions for international and Spanish corporates, venture capital and private equity.

Gladstone Siqueira

Bison Bank

Head of Investment Banking

Gladstone Siqueira has more than 35 years within the financial market with more 20 years of Investment Banking, Corporate Banking and M&A experience, having worked at several banks and asset management companies in Brazil, Italy, Portugal and United Kingdom.

Iñaki Salazar

Oquendo Corporate

Partner

Iñaki Salazar has more than 15 years of M&A experience having worked with Bankers Trust - Deutsche Bank's Madrid office where he was involved in a number of domestic M&A and IPO projects.

Stefania Radoccia

EY Italy

Managing Partner, Tax & Law and Mediterranean Region Accounts Leader

Stefania Radoccia has extensive experience in labor and trade union law and advises utilities, food, fashion, IT, insurance, transportation and life sciences clients. She was named Managing Partner Tax & Law in July 2019.

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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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- Equity Capital Markets
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- Private Equity
- Venture Capital
- Asset Acquisition
- Joint Ventures

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- Acquisition Finance
- Bonds (soon)
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