

Capital-backed call centre company Atento is presently reviewing an IPO.

Garrigues' partner José Manuel Martín García remarks: "We are seeing divestments through listings, and this is allowing investors to sell the large companies that they acquired in the booming times, so reasonably large deals are back."

The new capital is powering the surge in transactions, particularly in bank and real estate assets. US funds have been active: Oaktree Capital Management purchased a Spanish real estate portfolio from ING; Blackstone Group paid €6.5bn for a collection of Catalunya Banc's mortgages; and KKR has made \$1.2bn of investments in companies like Inaer, Uralita and Port Aventura.

Linklaters partner Alejandro Ortiz says private equity investors are showing a particular interest in the energy and infrastructure sectors. He adds that "international distressed and special opportunity funds have kept very active this year". Meanwhile, Ortiz says that private equity houses are launching IPOs of their portfolio companies, while real estate investors are launching SOCIMIs [sociedades cotizadas de inversión en el mercado inmobiliario] – the Spanish version of a real estate investment trust – in order to invest in real estate assets.

Francisco Aldavero, a partner at Araoz & Rueda, says the positive Spanish macro-economic figures have boosted PE interest too. "Investments have grown more than 130 per cent during the first quarter of 2014 compared with same period of 2013," he explains. "Despite these figures and the enthusiastic mood, private equity funds are still slow, mainly because financing is not there yet."

In Portugal, funds like Vallis Capital Partners and Apollo Global Management (which was in talks to purchase the insurance unit of BES) are targeting the market. Marcos Sousa Monteiro, a counsel at Linklaters' Lisbon office, adds that Apollo – as well as other PE firms – were also previously bidders in the sale of Caixa Seguros, while the sell-offs of healthcare operator ES Saude and Portuguese Post (CTT) have boosted interest. "Other privatisations include Portuguese waste management firm EGF, where several bidders were also PE firms, and state airline TAP – expected to be re-launched soon – is perceived to be in the radar of international funds as well," he says. In addition, the potential sale of BBVA's Portuguese business is interesting PE funds.

#### Start-ups attracting investment

Activity is increasing the appetite for new business and funds. Ricardo Andrade Amaro, from Moraes Leitão, Galvão Teles, Soares da Silva & Associados, says a significant number of restructuring and turnaround funds have been incorporated and are pursuing opportunities to acquire debt from companies in distress – in particular, those with good growth potential – with the aim of selling those companies at a later date. "In the last

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Linklaters



year we have also witnessed a new trend where a number of start-up funds have started investing in innovative Portuguese start-up companies," he adds.

Íñigo Erlaiz, a private equity partner at Gómez-Acebo & Pombo, expects new regulations in Spain to create more PE opportunities for lawyers. "The implementation of the Alternative Investment Fund Managers Directive (AIFMD), which is soon to be enacted in Spain, and which contains new regulations for private equity and venture capital, is sure to bring more work for law firms."

However, lawyers are warning of potential challenges ahead. With regard to the AIFMD, the draft bill was published in July in Spain and includes reforms such as new closed-ended collective investment undertakings (EICC) and closed-ended collective investment funds (FICC), which are flexible structures that allow funds to invest in a variety of financial and non-financial assets. Other measures include SME private equity entities – which must invest 70 per cent of their net assets into shares, loans or hybrid financial mechanisms – as well as a relaxation of marketing rules (shares and units of firms can be advertised to certain clients and investors).

Úria Menéndez partner Christian Hoedl says extra burdens will be placed on fund managers: "Recently-enacted tax rules have impacted the traditional structure used by private equity investors for leveraged transactions." Specifically, he highlights different restrictions on the deductibility of financing expenses and goodwill, and the application of the special neutrality tax regime. "The implementation of AIFMD will also impact the regulatory framework on the Spanish private equity sector and it is expected to set out additional obligations and requirements on fund managers."

#### Shortage of good assets

Lawyers also warn that it may be difficult to find good assets with growth capacity given the market values, liquidity and increased competition. "The high leverage and depressed EBITDAs [earnings before interest, taxes, depreciation and amortization] on Spanish and Portuguese companies represent in many cases a low incentive for the sellers, since private equities are still trying to buy at low depressed prices," Norton claims.

Erlaiz believes the lack of financing for leverage buy outs forces funds to implement new structures to finance deals or to invest larger equity amounts and assume more risks. "In a difficult environment, many

