IBERIAN LAWYER

Deals on hold due to Spanish election

Concerns about potential changes to labour laws after the Spanish election alarming potential investors – meanwhile, governmental change in Portugal provokes credit rating fears

Uncertainty surrounding the Spanish general election is unsettling investors and has, in some cases, led to a slowdown in deal activity, according to M&A lawyers. Among the major concerns investors have is that a number of politicians campaigned on the promise that changes will be made to employment regulations. In addition, political opposition to new hotel projects is also dampening investor enthusiasm. Consequently, lawyers believe that investors are awaiting the outcome of the election before committing themselves to acquisitions.

Worries about a reduction in deal flow are borne out by data. While figures for the fourth quarter of 2015 are incomplete, statistics compiled by Mergermarket indicate that deals have dropped significantly year-on-year. In the fourth quarter of 2015 (to 3 December), there were 53 deals with a combined value of €5.4 billion in Iberia. This compares to 123 deals with a total value of €16.3 billion in the last quarter of 2014 (see box).

Speaking at the Iberian Lawyer Corporate and M&A roundtable ahead of the election Gómez-Acebo & Pombo partner Fernando de las Cuevas indicated that uncertainty surrounding possible future changes to employment laws as well as doubts about the viability of hotel projects could deter investment in Spain. He added: “Who will win the elections and what changes will they bring to the market? One of the stronger parties is proposing to dismantle the recently approved labour reform. Meanwhile, after the municipal elections the mayors of Madrid and Barcelona expressed negative views about ongoing projects, such as hotels. The lack of a stable investment framework will have a negative impact on investment.”

Investors unsettled

This view was echoed by Roca Junyent partner Jaime Espejo Valdelomar, who said the Spanish elections have had the effect of reducing M&A activity. “I talked to some corporate finance people and they say that their mandate for M&A in Spain has been reduced until elections are held and political stability is ensured,” he said. Meanwhile, Baker & McKenzie partner Maite Diez said the reluctance of local politicians in some areas to encourage hotel developments is affecting investor confidence. She added that, while there has not been a slowdown in investment in the industrial sector, “investors feel a bit unsettled due to recent measures adopted by the major City Halls, such as the temporary suspension of licenses for new hotels in Barcelona”.

However, there is a view that the outcome of the election will have little impact on deal flow and that it is interest rates that will be the major concern. Cuatrecasas Gonçalves Periera partner Federico Roig says that, according to the polls, the general election outcome will not lead to massive change “unlike the local elections” that took place earlier this year. He adds: “However, we don’t know what will happen with the interest rate – if the rate is raised, M&A activity may slow down.”

M&A activity slowing down?

€16.3bn
Total value of M&A deals in Q4 2014

€5.4bn
Total value of M&A deals in Q4 2015

According to DLA Piper partner José Antonio Sánchez-Dafos, the elections only partly explain the decrease in M&A activity in Spain, and that faltering economies in other parts of the world have also had an impact. “While the first half of the year was extremely busy for M&A players, after the summer we have all seen some kind of slow down,” he says. This is arguably due to political uncertainty but it´s also due to the slowdown in other economies such as China and Brazil.”

Yet it is not only Spain that is experiencing a decrease in investor confidence due to political turmoil. Portugal is also facing an uncertain future following a recent change of government that involved the formation of a new socialist coalition, headed by prime minister Antonio Costa. Prior to the formation of the new coalition, concerns had been expressed about the impact on Portugal’s credit rating. Speaking at the Iberian Lawyer corporate and M&A roundtable in Lisbon, Vieira de Almeida partner Cláudia da Cruz Almeida said: “We need a strong banking system, how will banks be affected [by a lower credit rating]?”

However, other lawyers in Portugal argue that astute investors will always spot good investments even in countries experiencing political upheaval. FCB – F. Castelo Branco & Associados partner João Couceiro says: “Political instability in Portugal could create opportunities for private equity funds and venture capitalists.”

http://www.iberianlawyer.com/news/5208-deals-on-hold-due-to-upcoming-spanish-election