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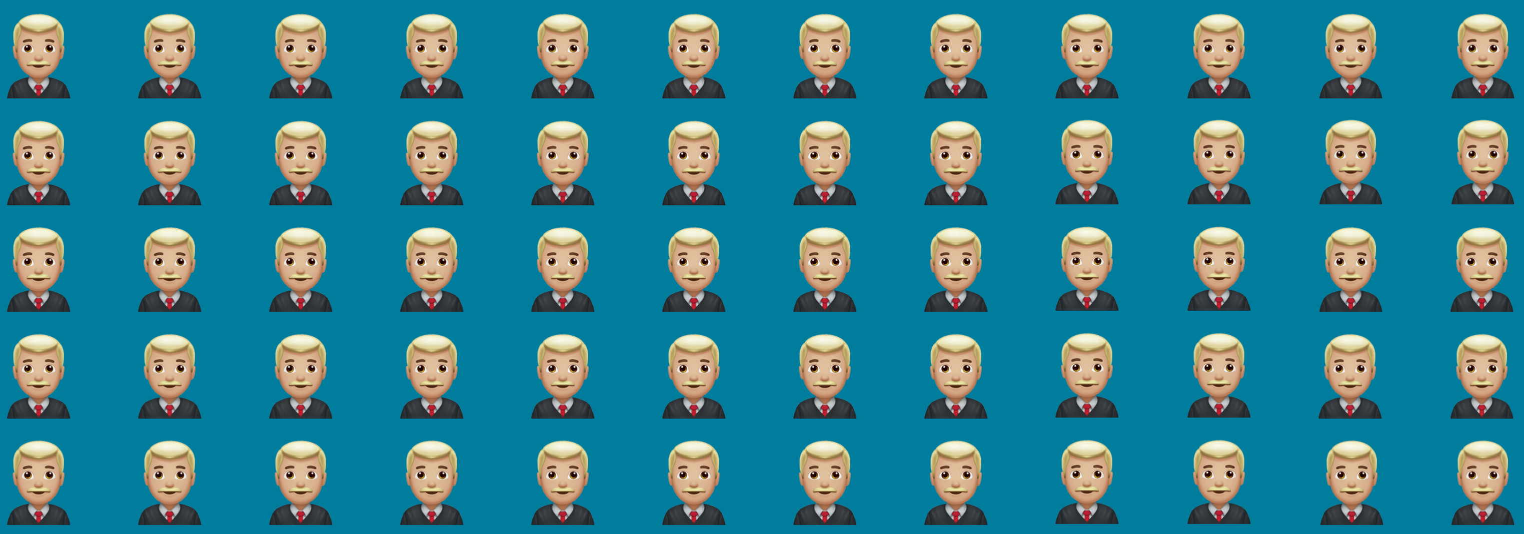
The Silks Issue

MARCH 2021



NEW SILKS, SAME OLD ISSUES

Despite plenty of fine words, the Bar still has a major ethnicity problem

BEATING THE ODDS: PORTUGUESE M&A ENVIRONMENT IN 2020

Despite the pandemic, many big deals were still completed last year, and there is an expectation that 2021 will be even busier as life returns to normal

By Cláudia da Cruz Almeida, partner M&A

The Portuguese M&A market in 2020 followed a pattern identical to the rest of Continental Europe. It began with optimism and confidence, fuelled by a strong deal pipeline, which was broken by the Covid-19 pandemic and the ensuing standstill on economic activity resulting from the general lockdowns in the first quarter.

M&A players were suddenly forced to pause and focus on their immediate organisational needs, in a context where social-distancing, self-isolation, temporary nationwide lockdowns and working from home took a heavy toll. This led to many prospective or recent deals pausing, awaiting clarity and stability. The speed at which individuals and organisations reacted to the initial shock was remarkable. As was the focus on ESG topics, which rose significantly in individuals and corporates' priorities. While the pause led to a stop in deals in sectors worst hit by the crisis, a number of deals continued with virtually no interruption, several second-round processes continued with adjusted calendars and a few round-one processes were prepared to be launched in the end of the second quarter.

A slow but powerful start

Despite the significant slowdown in transactions, the first half of 2020 generated the two largest ones of the year, accounting for close to half the volume of deals completed in the year. The first quarter saw Cellnex investing €1.175bn (£1.03bn) in the Portuguese economy through two consecutive bilateral deals which, combined, were the largest in Q1. First, the acquisition of Omtel – the first independent telecommunications tower company in Portugal with a portfolio of approximately 3,000 sites – at an enterprise value of €800m, completed in the Pre-Covid environment. Then, the acquisition of NOS Towering – with a portfolio of approximately 2,000 telecommunications sites – negotiated and signed entirely during the first lockdown.

The star deal of 2020 – the sale by Arcus and José de Mello Group to a consortium formed by APG, NPS and SLAM of an 81.2 per cent stake in Portuguese toll road operator BRISA – agreed and signed in Q2, tells a different story. This deal, which valued BRISA's equity at more than €3bn, was in the second round of a demanding competitive process when Covid-19 hit Europe. Process-wise, the challenge of bringing together numerous sell-side teams during lockdown and coordinating their interactions with a handful of bidders, each with equally numerous teams, was enormous.

Stepping on the accelerator

As the summer began, M&A in general accelerated and generated a rebound for smaller companies, even in sectors impacted by the crisis. The second half of the year brought a significantly higher number of deals, many of lower volume but still a few sizeable ones. The largest transactions were in the real estate and infrastructure spaces, fuelled by divestment and asset rotation policies which capture the interest of investors with significant dry powder, access to funding and long-term investment strategies.

Renewables remained strong, in keeping with the growing ESG focus. The most significant deals in this space were the acquisitions by Ventient Energy of the Iberwind group for an equity value of €206m, that by Allianz Capital Partners of GALP's 75.01 per cent stake in natural gas distributor GGND for an equity value of €368m, and a number of solar farm acquisitions, including those by FSI-owned Finerge Group, which has been building a considerable solar power portfolio in Spain and Portugal.

Still in the infrastructure space, there was a surge in water concession deals with Antin acquiring a majority stake in the owner of Indaqua, the leading private operator of water distribution in Portugal, reportedly for €700m, and EQT-owned SAUR securing the acquisition of Aquapor.

The other side of the curve

There are good reasons to have an optimistic outlook for Portuguese M&A in 2021. Like 2020, the year began fuelled by a strong pipeline in infrastructure but also in other sectors. Contrary to 2021, the new lockdowns have not significantly impacted ongoing deals nor the preparation of new ones.

In the current cash-rich, low-interest rate environment, there is continued appetite for M&A as a capital deployment strategy but also as part of companies' value story and growth. And, as the end of the loan moratoriums and the start of public funding begin to show, special situations and other opportunistic M&A may arise in parallel with 'regular' M&A. Portugal has proved to be a mature economy, with agile and sophisticated individuals and organisations with deep roots in the market, are well equipped to provide top quality support and local insight to sellers and investors and navigate well the demands of the new way to do business.

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