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peace before the war

Letter from... Iberia

Global pandemic and economic turbulence notwithstanding, *Legal Business* finds lawyers in the Iberian Peninsula in surprisingly high spirits as crisis presents opportunity

THOMAS ALAN

For most, May 2019 will feel like a lifetime ago, and Iberia is little different. When *Legal Business* last visited its legal market, the major talking point was the impact of highly-regarded dealmaker Juan Picón's move from DLA Piper to Latham & Watkins the year before.

Less than 12 months later on 14 March 2020, the Spanish government imposed a national lockdown in response to the Covid-19 crisis. On 29 March, it was announced that, beginning the following day, all non-essential workers were ordered to remain at home for the next 14 days. It quickly became the case that Spain became one of Europe's worst-affected countries, being the second country after Russia to record half a million cases of the disease.

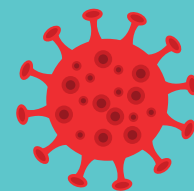
The severe public health impact was compounded by a shock to the economy. Though Spain was Europe's fastest-growing large economy – having recorded three consecutive years of GDP growth above 3% prior to 2018 – that growth was beginning to slow by 2019, with GDP up 2% for the year. According to the European

Commission, the Spanish economy is set to retract 12.4% for 2020, the sharpest decline in Europe (the UK is set for an unwanted second place with a retraction of 11.3%).

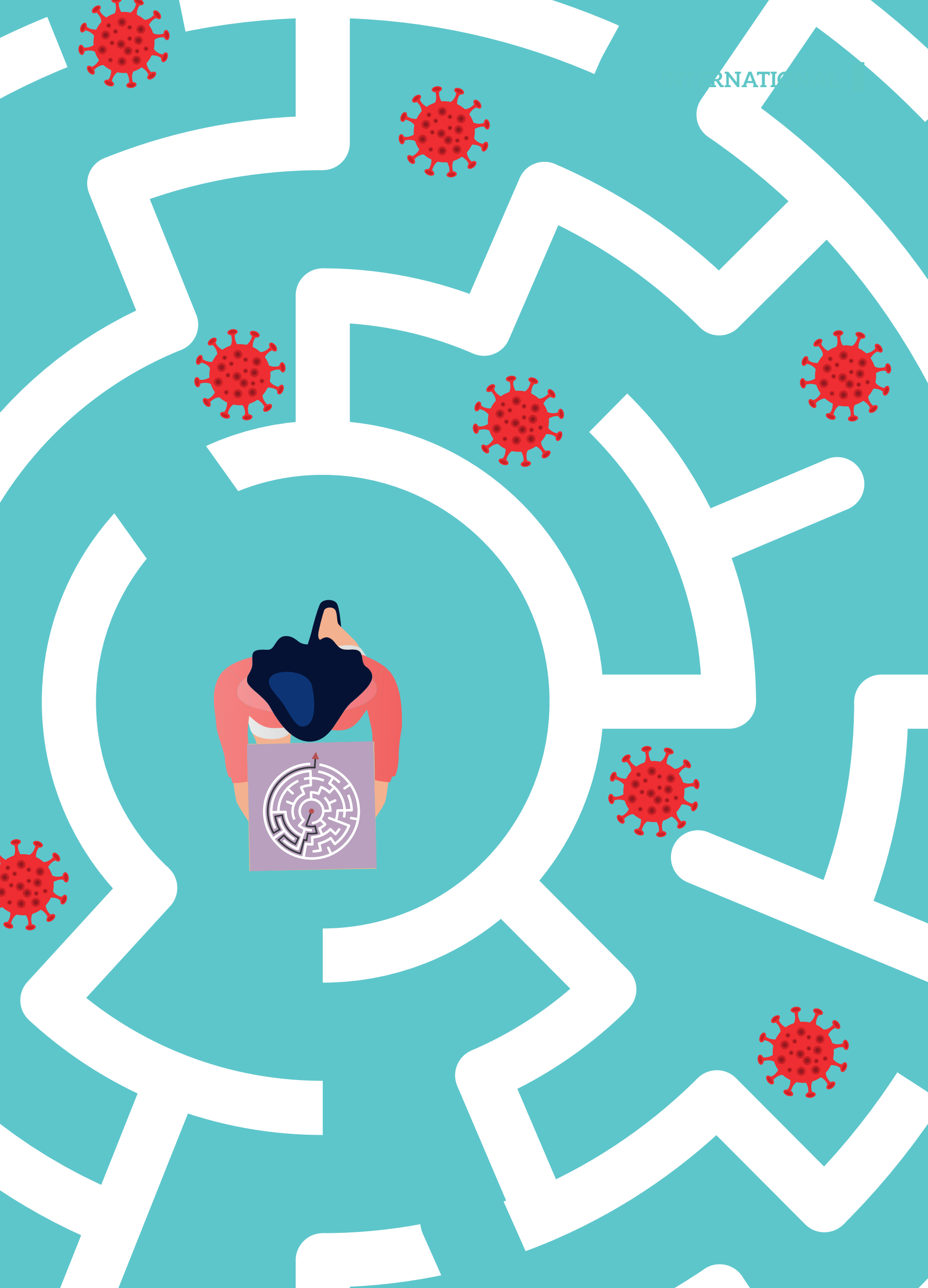
However, while many sectors are being irreparably damaged by the Covid-19 lockdown, we have already seen in the City that Big Law can endure this crisis and there is every reason to believe the Iberian legal market will prove just as resilient.

'We are optimistic about 2021, as far as the legal market goes,' says João Vieira de Almeida, managing partner of Lisbon-based law firm Vieira de Almeida (VdA). 'We believe the economy will rebound in certain sectors, heavily restructure in other sectors and together this will fuel significant economic activity.'

His confidence is not unfounded. Like most European economies, Portugal's GDP retracted heavily over 2020, by 9.3% in fact. However, the country is set to rebound by 5.4% in 2021, according to the European Commission, matching the expected growth rate of neighbour Spain.



INTERNATIONAL



▶ Another Portuguese outfit proving its mettle is Raposo Bernardo. The firm is set to grow 10% over the year, matching its growth rate for 2019. Says managing partner Nelson Raposo Bernardo: ‘The Covid-19 pandemic didn’t affect our results for 2020 and in this year we will even experience a slight growth of 10%. The impact of the pandemic was in the type of work we have developed; there was a shift in the areas more requested and clearly an important change in the type of mandates and work requested by the clients.’

That is not to say there has not been adaptation in Iberia. Though some routine work is continuing, things are not business as usual. It is a sign of the times on the peninsula that VdA’s most recent significant move was for new restructuring and insolvency head Filipa Cotta, who joined the firm from Portuguese counterpart PLMJ.

But survival strategies, opportunistic investments, litigation, and complex financial structures are providing the work now. Recent work for VdA includes advising the main vendor in the €3bn sale of Brisa and the purchaser in the acquisition of mobile operator NOS’ towering network for around €550m. Work such as this means the firm is hoping to up revenue 4% over the year; a significant achievement given the economic context.

Gómez-Acebo & Pombo is another firm in high spirits, coming off the back of a 14% revenue hike in its last financial year, with banking, corporate, and litigation all contributing to the healthy uptick. The firm’s financial year ends in December, but despite 2020 being almost entirely dominated by the Covid-19 crisis, Gómez-Acebo is currently outperforming last year’s growth track.

‘Energy and healthcare are two of the most active sectors,’ says managing partner Carlos Rueda. ‘Also the banking and financial sector is active and we are seeing a new wave of reorganisations in the Spanish banking system through several mergers now in progress. The firm has a long stable base of clients with whom we have been working for many years in a collaborative culture. Our relationships are long term and we want to accompany them in difficult moments by offering flexibility and helping meet their budgets.’

very busy’ financial year, with litigation, energy, and labour work all contributing significantly to the firm’s material output.

‘Certainly labour and energy have been busy, but also M&A generally speaking,’ comments energy and M&A partner Francisco Solchaga. ‘We see special attention to sectors such as education and technology and changes expected to take place over a decade have happened in the space of months.’

Despite the firm’s belligerent showing in 2020, Solchaga concedes 2021 will likely prove

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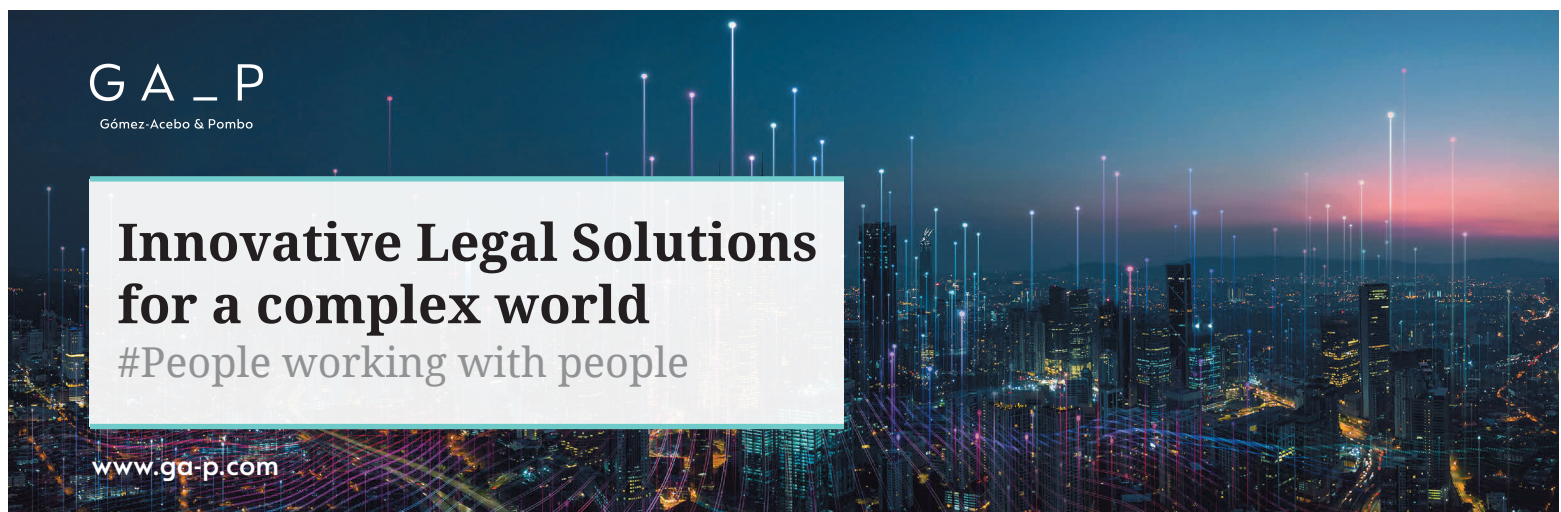
Over the last year, the firm has acted on the merger between Bankia and CaixaBank, the largest deal of the Spanish banking sector this year. The firm is also advising BFA Tenedora de Acciones (a 100% Spanish executive resolution authority – entity and owner of 61.81% of Bankia) on all the aspects related to the aforementioned merger.

Madrid-based Araoz & Rueda is also in a bullish mood off the back of an ‘excellent and

more testing: ‘We did not suffer a real impact because of Covid-19 this year. The pipeline of projects from last year and the increase of cases in certain departments such as labour has mitigated the consequences.’

CONTINUED RESISTANCE

Like elsewhere in Europe, the sternest tests are yet to come for Iberia, with the impact to date softened by extensive government



► intervention. In March, the Spanish government announced a €200bn stimulus package to support the country's ailing economy – that equates to almost 20% of the country's entire GDP. The country's short-time work scheme was benefiting approximately 22% of salaried workers at its peak, according to an International Monetary Fund report. The report concluded in ominous tones: 'It will take several years for the Spanish economy to recover. And the outlook is subject to strong risks.'

As a result, the worst of the damage is yet to be felt. Solchaga provides a sobering reality check: 'We guess that next year will be hard. The first impact of Covid-19 was mitigated by the support provided by the government regulation and the financial system but, as solving Covid-19 is taking more time than expected, damage to business activity is beginning to be permanent.'

There will, of course, be some opportunities as a result of the damage: M&A will likely see instances of larger companies acquiring outfits struggling as a result of the crisis. There is a view among many in the Iberian legal market that in the euphoric period after the public health crisis is seemingly resolved, smaller independent firms will be the ones agile enough to react first.

However, some believe the big independents in the region (notably the trinity of Cuatrecasas, Garrigues and Uría Menéndez) could benefit from the 'winner takes all' climate created by the crisis with smaller independents feeling that oft-cited pressure to consolidate. That is not to say the larger firms have not been impacted; top Spanish law firm Cuatrecasas was forced into raising €20m from its partners over the spring in direct response to economic hardship caused by the pandemic.

However, the prevailing feeling in the market is one of continued resistance. Comments Rueda: 'Spain has a very solid, competitive legal sector. The pandemic will probably accelerate existing trends such as the digital transformation and use of technology and the increasing segmentation of the market. Top-tier firms will probably keep their position while we might see concentration in smaller firms.'

A significant topic of uncertainty is how larger international firms fit into this. Prior to the Covid-19 pandemic, Iberia was proving as popular as ever to UK and US outfits.

Late last year DWF announced the acquisition of 40-partner Rousaud Costas Duran in a deal worth approximately £42.5m. It cemented a relationship of more than a year between the firms, which led to an exclusive association in June 2019. Brexit was the conspicuous



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motivation, with the UK's imminent departure from the European Union making Iberia look more attractive to internationalist firms.

In January of this year DAC Beachcroft (DACB) was another to make significant inroads in Spain with the firm doubling the size of its Madrid office by combining with a three-partner insurance boutique Asjusa. The acquisition makes good on the firm's ambitions to be the largest insurance practice in the country.

Another more recent entrant was employment-focused Littler, which entered its tenth European country through a merger with Spanish firm Abdón Pedrajas, itself a labour law specialist. The move from two experienced employment-focused firms is made all the more eye-catching given myriad workplace issues raised by the pandemic.

But the international outfits have not had it all their own way. DWF suffered a setback in

the region in September of this year after eight employment lawyers, including two partners, left the firm to form their own five-partner boutique law firm Everfine – a move connected to DWF's wider financial woes during the last financial year.

Meanwhile, Kennedys risks losing its brand name in Spain after a court sided with members of the firm's Madrid-based affiliate in its ongoing dispute with the firm's UK limited liability partnership. The dispute revolves around the wind-up of the firm's Spanish entity and who owns the rights to the Kennedys brand in Spain. It comes after the relationship between the Spanish affiliate and UK arm broke down in late 2019.

However, the trend is a clear one: International firms are taking an even greater interest in Iberia. The increasing list of entrants should not be surprising; Spain ►

► continues to provide a return on investment for these firms. Despite being a smaller economy than France or Germany, entrants to the Spanish legal market have traditionally found the local independents easier to work with by comparison. Catalonia in particular remains attractive to investment, with the region making up approximately 20% of the country's GDP and being home to many biotech companies in its hub, Barcelona.

However, irrespective of how many new entrants emerge in the market, independents remain sanguine about their future. Covid-19 has seen firms across the world lean more heavily on their technology which, for an industry often derided as conservative, has proved surprisingly robust. Independents in Iberia feel their technology has been up for the challenge and demonstrates they can serve clients anywhere.

Says Solchaga: 'The technological advances experienced during the last months will be an advantage for us in the future. We will be able to reach companies and places that were more difficult before. You do not need to have an office in different cities of the countries for providing services and creating a relationship with the client.'

Rueda echoes: 'Spain has a very solid, competitive legal sector. The pandemic will probably accelerate existing trends such as the digital transformation and use of technology and the increasing segmentation of the market. Top-tier firms will probably keep their position while we might see concentration in smaller firms.'

Undoubtedly independents have retained much of their appeal to local talent too. In June, local independent Pérez-Llorca managed to lure Dentons' Spanish managing partner and head of real estate Jesús Varela to the firm. The move from Varela came just a year after he took over management of Dentons' Spanish arm and marks a significant blow to the global giant's ambitions in Iberia given Varela enjoys a strong reputation and a profitable practice advising investors and lenders in the Spanish real estate sector.

REASONS TO BE CHEERFUL?

While hopes remained pinned on the development and distribution of a vaccine – the surest way out of the Covid-19 crisis – the Iberian legal market remains optimistic at a time when many industries are expecting a prolonged struggle.

Whenever and however the recovery emerges, it will not be uniform. Rebounds in certain sectors will be accompanied by heavy restructuring in others, with difficulty for some representing opportunistic investment for others who need to put cash to work. Meanwhile, EU



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public funds will be mobilised to revitalise the infrastructure sector and invariably such stimulus sees money put in the pockets of lenders. The result: a plethora of work for international and independent firms in the region.

Rueda summarises the mood: 'There are industries such as retail and hospitality that are currently being challenged in our country. Other sectors like life sciences, financial services and technology are thriving. 2021 is quite uncertain and will be much affected by the availability of an effective vaccine. In any case, we expect a busy year with a likely mix of work ranging from insolvency and reorganisation to projects related with European recovery funds.'

Raposo Bernardo believes, similarly, Portugal is ripe with opportunities: 'Foreign

investment is still active and after a few months of expectation investors have returned not only to the real estate market but also to the M&A market. Many medium and large Portuguese companies have severely suffered during these nine months of the Covid-19 pandemic and are now decapitalised and will gladly welcome equity partners. These can be investment funds or private equity and they can acquire part of the companies' share capital or even acquire control. At this time, there are excellent opportunities for foreign investors in Portugal.'

Lawyers repeatedly tell you it is not the crisis that kills business; it is a prolonged stasis. The good news for the Iberian legal market is 2021 will likely be as kinetic as ever. [LB](#)

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