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SPAIN

The sun also rises

Could Spain's long-awaited distressed boom be just around the corner?

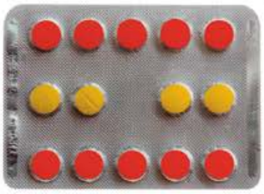
By *Kane Mumford*

Black Toro Capital's purchase of Antibióticos was a coup for the fledgling house. The company's factory in León, in the north west of Spain, employs a third of the city's population and is the largest producer of penicillin in the country. Just a few months before the deal, workers were counting the days until their welfare payments ran out.

"There is a need in Spain for Black Toro. There was certainly a need for it in León," José Manuel de la Infiesta, senior partner at the special situations firm, currently investing its first fund, told *Real Deals*. "In this particular case, we were working together with what were the moral owners of the company, the unions. The unions supported our plan and our investment case and they wanted us to be the new owners of the company."

It is true that special situations houses and distressed investors are thin on the ground in Spain. But that could be because there are so few deals to be done in that space. Madrid-based firm Thesan raised a €200m fund targeting distressed investments in 2008. Deals followed, like the acquisition of Spain's Formula 1 team Hispania Racing, but in nothing like the volume it had hoped for. German buyout house Aurelius has yet to do an Iberian deal since opening its Madrid office last October. In the words of one advisor: "[Spain] has been waiting for a distressed boom for many years and it has never happened."

But figures from CMBOR show the value of deals from insolvency in 2014 was at its highest since before the financial crisis, at €19m, up from an average of around €5m since 2010, when these types of deals started getting done. The number of deals arising from insolvency last year was four, up from two the previous year. Between 2005 and 2010



there were none. De la Infiesta argues that banks are now at a stage of their de-leveraging processes for distressed deals and special situations to start becoming more prevalent.

"With banks, de-leveraging happens on a sequential basis. Banks don't deal with two problems at the same time. It usually goes in order of liquidity. So, first it's the NPLs, then the real estate, now it's the non-core financial assets," he says. "We've seen this elsewhere. When Worldcom and Enron went bankrupt within a month of each other it took the US banking system one year to fix the telecom situation, then they moved onto energy."

Don't call it a comeback

"The big distressed deals have already been done, Pescanova, for example. But there remain some more medium situations that will be handled case by case," says Daniel Galván, director at investment bank GBS Finanzas.

"There are distressed and special situation firms looking for targets in Spain and obviously the indebtedness of the companies means that these guys have been looking around. At the same time, lenders have been active. The cost of financing has been very low, but we agree that there is some room for growth for [distressed funds]."

This gives substance to De la Infiesta's claim that Spanish SMEs are leverage averse and the idea of getting involved with traditional private equity is not something they are entertaining. This reluctance seems to be compounded by the inherent difficulties in stimulating real growth stories in Spain. As one placement agent explains: "Spain is not an homogenous country, you have lots of regions with different ways of doing things and their own businesses. There is no equivalent to Tesco in Spain."

Eusebio Martin of EM Capital concurs. His opinion of the chances of distressed investment ever picking up in Spain are representative of those held by most mid-market firms. "At one point there was this impression that half of the country would be for sale and buyers could acquire companies at very low prices. This hasn't happened as much as expected," he says.

But although most are calling the end of a distressed boom that never happened, Martin sees some prospects for distressed investments, particularly in the renewable energy space.

"The government made a very bold bet on renewable energies and gave a subsidy that was much more generous than the ones that were given in the rest of Europe, but they failed to put a cap on it. The result is that far too many solar plants were sold in Spain, twenty-five billion panels in sixty thousand plants. It became unsustainable," he says.

This is a typical example of a viable business suffering from poor macro-economic conditions, and with a 60 per cent reduction in banking capacity over the last few years, de la Infiesta says Black Toro is betting that there will be more of them: "We have a whole part of the Spanish economy which has not only been abandoned by the traditional Spanish banks, but has been entirely overlooked by traditional private equity, because they don't know how to structure these deals. They wouldn't even think of doing it."

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