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Private equity: Less bank financing but lots of distressed opportunities

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When CVC announced in August it was paying about €1.7bn ($2.3bn) for a 15.5 per cent stake in **Abertis**, the Barcelona-based infrastructure group, there were mutterings of surprise. Most private equity groups prefer deals that bring either management or equity control.

The size of the deal was also anticlimactic, coming after the firm admitted in July to plans for a €11bn-€12bn leveraged buy-out in concert with majority shareholders **ACS**, the Spanish construction group, and Catalan savings banks La Caixa.

This scheme was scuppered partly by lack of bank financing – providing evidence, if more were needed, that the golden age of highly-leveraged buy-outs that ended with the global financial crisis has not returned.

"Mega leveraged buy-out in the traditional mould is still out of vogue," says Juan Díaz-Laviada, managing director of Advent International in Spain.

However, although large deals are hard to execute in today's financial conditions, investor interest in private equity as an asset class remains strong.

"The leverage model and pricing multiples have been reined in, but private equity is one of the few investment classes to survive the financial crisis without real casualties," says Mark Heappey, **3i** partner in Spain.

And although there are isolated cases of unused cash being returned to investors, global, pan-European and Spanish firms have identified opportunities in the country this year.

As elsewhere, activity is dominated by pass-the-parcel acquisitions, where one firm or group of firms sells to another. One recent example is the €250m sale of eDreams, the Barcelona-based online travel portal, to Permira, the pan-European firm, by TA Associates of the US.

With weak pricing and constant turbulence making stock market floats a risky undertaking, financial sponsors have been deprived of a popular exit strategy. But one notable exception is Amadeus, the Madrid-based travel services group taken private in 2005, in Spain's largest-ever LBO. It returned to market in June in a groundbreaking deal valuing it at €4.9bn. However, initial public offerings remain scarce. In any case, the absence of a small- and mid-cap investment culture means the stock market is normally an option only for bigger companies.

There have been casualties: Apax recently lost equity control of Panrico, the Catalan bakery group bought at the height of the credit bubble, after a debt swap by banks. Sales to industrial groups have also been hit by tight financing conditions and a corporate tendency towards deleveraging.

At the same time, this trend is throwing up opportunities, especially for private equity groups interested in energy and transport infrastructure.

"It is the spin-offs, the carve-out and the deleveraging in general where most of the action is at the moment," says Advent's Mr Díaz-Laviada.

Although finally going to specialist infrastructure funds run by **Goldman Sachs**, the recent sale of the gas distribution network of **Endesa**, the Spanish utility, drew interest from conventional private equity firms.

Financial sponsors also took a look at the Spanish ports business of ACS and distribution assets put up for sale by Gas Natural Fenosa, another energy utility. Similarly, the sale of TransMediterranean, the ferry business controlled by energy and infrastructure group Acciona, has drawn some interest from private equity.

It is not just Spain's over-geared energy and infrastructure groups that are shedding non-core assets to reduce debt. Advent is close to agreeing the purchase of Tinsa, a property surveying company controlled by a group of cajas, or savings banks, which are under pressure to improve balance sheets.

The crisis has also shaken the very core of Spain's corporate sector, which is dominated by family-owned companies with annual sales of €100m or less.

Many were caught out by the credit squeeze and ensuing recession, embarking on expansion plans just as consumer demand fell. "The small to mid-sized companies that have not internationalised are often the first to sink when the domestic economy stagnates," says Steven J. Matlin, whose eponymous firm provides advisory services to the sector. "We are seeing opportunities for private equity to invest where banks have stopped lending."

According to 3i's Mr Heappey, this range of often crisis-related opportunities has put private equity in Spain on track for one of its best ever years, in terms of total equity committed, following a disastrous 2008 and 2009.

"Basically, there are two types of investor at the moment," he says. "There are those who see Spain as a tremendous opportunity, and those who remain nervous about putting their money here."