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A new hope

Portugal's European bailout is over and its privatisation programme is winding down. *Legal Business* asks the country's lawyers what happens next

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While the instances in which Europe's ailing economies have been talking up their prospects have been as frequent as rain storms this past year, Portugal has more reason than most to be bullish. It exited the European Union (EU)/International Monetary Fund (IMF) bailout programme at the end of last month; activity levels and employment figures are exceeding expectations; and the government aims to reduce the budget gap further in 2015.

Prime minister Pedro Passos Coelho addressed the nation via television on Sunday 4 May to announce that Portugal would be following in the footsteps of Ireland and exiting its three-year €78bn bailout programme this month without a precautionary credit line, meaning the country would no longer have to answer to foreign creditors after 17 May.

'The Portuguese authorities have established a strong track record of policy implementation to address the country's longstanding structural problems,' said IMF managing director and former Baker & McKenzie chair Christine Lagarde in a statement. 'This bodes well as Portugal exits its EU/IMF-supported programme.'

But as Portugal emerges from the Troika programme that began in 2011, it remains fragile. Consequently, the disposal of prized state assets to reduce the budget deficit continues, despite the initial €5.5bn fundraising target being comprehensively met.

The most recent examples were the successful December 2013 €579m privatisation of the postal service (CTT) and the €1bn January 2014 disposal of state-owned Caixa Seguros e Saúde, SGPS, Portugal's biggest insurance group, to China's largest private conglomerate, Fosun International. Other privatisations planned later this year include the national airline, TAP. But this could be the last year in which the government raises funds by selling public companies, bringing to an end a period that has kept Lisbon's most prominent law firms busy, if not exactly rich.

Nonetheless, the country's lawyers are upbeat about the future flow of M&A work and expect further foreign investment, particularly from China. Not only has the investment by Fosun captured the imagination from a corporate perspective, but Chinese speculators have also taken full advantage of Portugal's 'Golden Visa' programme – giving foreign investors who spend €500,000 on a property in Portugal the right to live in Portugal and to move freely around Europe's Schengen zone.

Moreover, in spite of the recent years' economic turmoil and greater pressure from clients on fees, some Portuguese firms are already reporting double-digit increases ▶

'The Portuguese authorities have established a strong track record of policy implementation to address the country's longstanding structural problems.'
Christine Lagarde, IMF

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▶ in turnover. In 2013/14, Raposo Bernardo managing partner, Nelson Raposo Bernardo, expects more than 10% revenue growth for his firm in Portugal and over 15% in its international operations, while Azevedo Neves, Benjamim Mendes, Carvalho & Associados (ABBC) has declared 12% turnover growth for 2013. Caiado Guerreiro & Associados' turnover grew 18% between 2012 and 2013.

As the Portuguese legal market gears up for a corporate renaissance, the success of those two landmark deals during the last six months has done much to fuel the optimism.

HOT MAIL SALE

The CTT transaction was an oversubscribed sale of a 70% stake in the state-owned postal service, taking Portugal's proceeds from the disposal of national assets to €6.9bn at the end of 2013. The deal was also significant in that it took the form of an initial public offering (IPO) – the first flotation of Portuguese state assets on the Lisbon stock exchange since the listing of renewable energy company EDP Renováveis in 2008. It wasn't unique, however – Royal Mail's IPO on the London Stock Exchange during the summer last year was testament to that.

PLMJ – Sociedade de Advogados picked up a prominent role in CTT's privatisation, with partners Sofia Gomes da Costa, Magda Viçoso and Bárbara Godinho Correia advising CTT on the IPO. The firm worked alongside White & Case, which advised CTT on the private offer to qualified institutional buyers under Rule 144A.

According to managing partner Manuel Santos Vítor, PLMJ has acted in all of the most significant Portuguese privatisations of the last three years – it had roles in airport authority ANA Aeroportos de Portugal's (ANA) sale for €3bn to French construction company VINCI in December 2012; the December 2011 sale of a 21% stake in utility company EDP – Energias de Portugal to China Three Gorges Corporation for €2.69bn; and the February 2012 sale of 40% of Portugal's power and gas grid operator REN-Redes Energéticas Nacionais SGPS for €592m to State Grid Corporation of China and Oman Oil Company.

It was these early state sales that drove the whole privatisation programme, believes Nuno Galvão Teles, a partner at Morais Leitão, Galvão Teles, Soares da Silva (MLGTS), which led the legal advice to the government on the EDF and REN privatisations, acting for the state-owned holding company Parpública SGPS in both cases.

Vieira de Almeida & Associados (VdA) advised Parpública on the CTT transaction, led by João Vieira de Almeida, and including José Pedro Fazenda Martins and Cláudia da Cruz Almeida. Meanwhile, Linklaters advised the underwriting banks, JPMorgan and Caixa BI, with a team led by partners Jason Manketo in London and António Soares in Lisbon.

The privatisation took several months to complete, with the issuer, the banks and the law firms working a dual track, preparing CTT for a possible IPO, while simultaneously working on an eventual direct sale outside the capital markets.

Eventually the government opted for an IPO, comprising a retail offer and an offer to employees in Portugal, combined with a direct sale of shares to institutional investors.

Structuring and implementing an IPO in a country under a bailout programme, where no IPO had taken place since 2008, was particularly demanding, according to PLMJ's Viçoso. 'It required the lawyers to present innovative solutions and adapt old mechanisms to a most challenging environment,' she says.

Abreu Advogados also played a role in the CTT sale, with partner Carmo Sousa Machado performing the employment law due diligence. According to managing partner Miguel Castro Pereira, the CTT sale was not very different from other large transactions, in that there was little time to review a huge amount of information and issue the firm's report.

'We managed the difficulties as we usually do: with a team of skilled and experienced professionals, methodically allocated to the different tasks required, and overseen by a highly qualified and resourceful partner,' says Castro Pereira.

The privatisations have been largely devoid of social tension. Beyond union stirrings, even the possible future sale of Portugal's national airline, TAP, is not expected to be particularly controversial.

‘We managed the difficulties as we usually do: with a team of skilled and experienced professionals.’

Miguel Castro Pereira, Abreu Advogados

▶ The bailout programme significantly impacted on Portugal’s economy, society and day-to-day life, but was accepted by the general population as being part of a larger theme about how the state should respond to the Troika rescue.

CHINA IN YOUR HAND

The Caixa deal was hugely significant for different reasons. It marked one of the largest-ever deals carried out by a Chinese non-state owned entity; represented the purchase of approximately 30% of the Portuguese insurer market; and showcased revived confidence in Portugal’s economy.

Under the terms of the deal, Fosun acquired 80% of the share capital and voting rights of Fidelidade, Multicare and Cares, all fully owned units of Caixa Seguros e Saúde, the holding company of Grupo Caixa Geral de Depósitos’ insurance arm, beating the only other selected bidder, US private

MOVING EAST: INTERNATIONAL EXPANSION CONTINUES

Vieira de Almeida opens first overseas office in oil and gas-rich East Timor

Alongside the revival of Portugal’s economy, the country’s leading law firms have continued to expand internationally.

Vieira de Almeida & Associados (VdA) recently launched its first overseas office in East Timor, sending senior associate Hugo Nogueira Campaniço and project finance associate Filipa Serra to the Asia-Pacific island. Locally, VdA recruited international adviser Maria Ângela Carrascalão.

The opening in East Timor, which is rich in natural resources and oil and gas, and which is launching significant infrastructure projects, and attracting Chinese and Australian investment, was driven by two VdA clients who asked the firm to open there, according to Lisbon partner Jorge Bleck.

Meanwhile, the well-established ties between Portugal and former colonies in Africa continued in the past year, with Miranda Correia Amendoeira & Associados adding Cameroon’s 12-lawyer Abeng Law Firm to its international alliance in July 2013. It became the alliance’s fifth member from Francophone Africa, joining firms from Gabon, Congo Republic and the Democratic Republic of the Congo.

Closer to home, PLMJ – Sociedade de Advogados has also launched new operations. Early this year it opened an office in Lausanne and launched a Swiss desk. Under the leadership of partner Nuno da Cunha Barnabé, this is a multi-disciplinary team, focused on assisting private clients from Portuguese-speaking countries and companies present in Switzerland with interests in these countries. Switzerland is currently the leading European financial centre outside the EU, according to managing partner Manuel Santos Vítor. ‘In line with our ongoing internationalisation policy, we are always looking for new opportunities that arise,’ he says.

By setting up the Swiss desk, the firm is able to put its international specialisation to use, and can provide clients with greater availability that a local presence in Switzerland ensures. ‘This initiative came about as a result of the close and growing work we have been doing with Switzerland since the mid-2000s,’ adds Santos Vítor.

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Manuel Santos Vítor, PLMJ

equity house Apollo Global Management, in the process.

Advising Caixa Geral de Depósitos as seller was MLGTS, led by partners Galvão Teles and Tomás Vaz Pinto. On the other side, DLA Piper's Silicon Valley partner Paul Chen and Hong Kong-based Sheng Wu spearheaded the advice to Fosun, working in Portugal with ABBC, with which it has an association. Corporate partner Nuno Azevedo Neves led the ABBC team.

According to Azevedo Neves, because this was not a deal between two privately owned entities, there were added dimensions at political and legal levels that required high levels of flexibility from all parties.

As such, the deal was six years in the making and, according to Galvão Teles, was a very difficult transaction politically because such a significant chunk of the insurance/finance sector was being disposed of. Legally, it was also very complex, requiring intense internal preparations for the sale and de-merger of Caixa's health management business.

'The M&A market will not sour. This is for the same reason it did not explode while privatisations were ongoing.'
Nelson Raposo Bernardo, Raposo Bernardo

'The deal on the seller side was driven by public interest; and because the government retained 15% of Fidelidade,

▶ this also necessitated further negotiations,' he says.

The transaction also threw up a key financing mandate for the Portuguese arm of Iberian giant Cuatrecasas, Gonçalves Pereira, with Lisbon partner Vasco Bivar de Azevedo advising the Shanghai branch of the Industrial and Commercial Bank of China on the acquisition financing.

The mandate came to Cuatrecasas, which has had a Shanghai office since 2008, off the back of its significant involvement in deals involving Chinese investors over the last few years and was referred the work through European network firm Gide Loyrette Nouel in France.

'It was a complex deal: we had to liaise proactively and efficiently with a client who was not familiar with the Portuguese legal system or with the privatisation environment,' says Cuatrecasas' Lisbon-based co-managing partner Maria João Ricou.

The deal was seen as a watershed for investment by private Chinese entities into Portugal. Although interest in Portugal has been ongoing for some time, the equation changed when the Chinese took large stakes in REN and EDP, argues João Caiado Guerreiro, a partner at Caiado Guerreiro & Associados.

The Golden Visa programme has also drawn investors, mostly Chinese, who have reignited the real estate market. Individual values may be relatively minute, but cumulatively the sums are significant and Portuguese banks have benefited as most of the disposals were used to pay bank loans.

The figures speak for themselves, believes Cuatrecasas' Lisbon-based co-managing partner Diogo Perestrelo. In 2013, foreign investment in real estate in Portugal totalled around €300m, much of it Chinese.

And because of this real estate initiative, foreign investors are also looking at the country's other sectors. 'This is just the beginning of a sustained period of increased investment in our economy,' says Azevedo Neves.

According to João Caiado Guerreiro, foreign direct investment from Chinese investors into a range of sectors, including real estate, mining and energy, has been staggering. 'Chinese investment into Portugal has been by far the largest growth area for our firm,' he says. As such, the firm established a China desk with 12 lawyers in May 2013 and placed a lawyer on the ground in Beijing full time, although it does not have a formal office in China.

MOVING HOUSE: A TURNING POINT FOR LATERAL HIRES IN LISBON

The generally conservative nature of the Portuguese legal market means that lateral hires are rare, a situation exacerbated in recent years by the fragile state of the economy. However, one high-profile partner move in the last financial year could change things significantly.

When Linklaters' Portugal head Jorge Bleck exited for domestic firm Vieira de Almeida & Associados (VdA) in September 2013, it caught the market's attention.

Perceiving Linklaters' youthful partnership structure would prevent him from practising long term, Bleck says he preferred to make himself available to the market now rather than wait too long before moving on.

'When you are 58 years old and one of the oldest partners in a firm worldwide, it is normal to feel that your future would most likely not be at Linklaters.'
Jorge Bleck, Vieira de Almeida

'There is no rule or regulation, but when you are 58 years old and one of the four or five oldest partners in a firm worldwide, it is normal to feel that your future, if you want to continue practising, would most likely not be at Linklaters. That was my personal understanding and something for which only I can be held accountable.'

Linklaters' Portuguese managing partner, Pedro Siza Vieira, commented: 'While Jorge is a significant name in the market, we prepared the transition for quite some time and the impact on our business was minimal. In a firm that has been around for 175 years, it is common for partners to come and to go.'

According to Lisbon-based Diogo Perestrelo, co-managing partner at Cuatrecasas, Gonçalves Pereira, the legal market was very inflexible in the past and it was uncommon to have lawyers moving from one legal practice to another. Moreover, it was definitely rare to have partners moving to a competitor law firm. 'We believe that this scenario has changed for the good of all,' he says.

MORE IN THE PIPELINE

Other major privatisations are tabled for later this year, including the sale of waste management company Empresa Geral do Fomento (EGF). Both Brazilian and Chinese investors are known to be interested.

Raposo Bernardo, led by Nelson Raposo Bernardo, is advising a consortium, comprising an investment fund and a waste management sector multinational, on its bid.

'The model will be more interesting than previous deals, as it involves the privatisation of almost all the capital, with 95% going to the winning bidder and the remaining 5% to EGF's employees,' he says.

Other firms lining up include Cuatrecasas, which says it is advising a potential bidder; and VdA, led by partners Jorge Bleck and Manuel Protásio, which is advising a PRC client.

MLGTS is again acting for the government on the EGF sale. 'This is a unique privatisation because it has a more sophisticated structure and throws up competition law issues,' says Galvão Teles.

Following the completion of ANA's sale in September 2013, the Portuguese government also intends to relaunch the hotly anticipated privatisation of airline TAP, which failed to proceed at the end of 2012 because of an absence of financial guarantees for the only offer on the table.

VdA, led by João Vieira de Almeida and Cláudia da Cruz Almeida, is advising the state on the TAP sale. VdA's Bleck, who joined the firm from Linklaters' Portuguese office in 2013 (see box, 'Moving house', page 8) believes that the privatisation will happen this year – once the government has decided the form the transaction will take, which may not necessarily involve a 100% share offering. Instead, it is considering offering up to 49.9% of the shares, retaining some of the airline itself.

Because the privatisation of TAP was foreseen in the bailout programme, Cuatrecasas' Perestrelo expects it to go ahead, but he warns: 'As far as we are aware, for the time being there are still not many investors interested in acquiring TAP.'

'Privatisation is not as profitable for law firms as it was many years ago as there is considerable pressure on fees.'
Nuno Galvão Teles, MLGTS

Other likely disposals include rail cargo company CP Carga and the sale of a further 11% of REN. Currently advising joint global

THE LEGAL 500 PORTUGAL RECOMMENDED FIRMS

Firm	Total recommendations 2014
Abreu Advogados	16
Cuatrecasas, Gonçalves Pereira	16
Morais Leitão, Galvão Teles, Soares da Silva & Associados	16
PLMJ - Sociedade de Advogados	16
Uría Menéndez	16
Raposo Bernardo	15
SRS Advogados	15
Vieira de Almeida & Associados	15
Azevedo Neves, Benjamim Mendes, Carvalho & Associados	13
Garrigues	13
Linklaters	13

Firm	Top-tier recommendations 2014
Morais Leitão, Galvão Teles, Soares da Silva & Associados	15
PLMJ – Sociedade de Advogados	9
Vieira de Almeida & Associados	9
Linklaters	6
Uría Menéndez	6
SRS Advogados	4
CMS	3
Cuatrecasas, Gonçalves Pereira	3
Garrigues	3
Azevedo Neves, Benjamim Mendes, Carvalho & Associados	2
Pedro Pinto, Bessa Monteiro, Reis, Branco, Alexandre Jardim & Associados – Sociedade de Advogados	2

co-ordinators on REN, Galvão Teles says that the deal is on a tight schedule, aiming for this month.

Despite the flow of privatisation-related M&A and capital markets work that has helped re-energise the country's M&A market, fees wise, the privatisations might not be missed, particularly mandates for the cash-strapped Portuguese government. 'Privatisation is not as profitable for law firms as it was many years ago as there is considerable pressure on fees,' says Galvão Teles.

However, many believe that the economy will stabilise and prosper in the long term. 'We are very confident about the rest of 2014 and the years to come,' says Nelson Raposo Bernardo. European M&A is rebounding, with overall deal values in the first quarter of 2014 significantly higher than 2013, and PLMJ's Santos Vítor says the hope is this increased level will carry over to Portugal.

The privatisation programme has also been hugely important for Portugal as the driving force for further investment into the country, not just from China, and foreign investors are using Portugal as a springboard into other Portuguese-speaking countries.

Santos Vítor tells *Legal Business* that foreign investors have been showing interest in the tourism, manufacturing, agribusiness and real estate sectors, while Caiado Guerreiro has seen enquiries from French, UK and German investors, Brazilian clients looking at Portugal, as well as Mozambique and Angola.

Cuatrecasas' João Ricou is likewise upbeat. She has already seen an increase in traditional M&A and private equity transactions and although it is a tough market, in no way comparable to 2007, M&A has been recovering since the second quarter of 2013, according to Azevedo Neves.

The expected growth in the economy should also bring in more work for private equity lawyers. Such is the expected flow of transactional work, PLMJ announced in February that it was setting up a dedicated private equity team of eight lawyers, led by partner Duarte Schmidt Lino, which would be 100% focused on private equity and venture capital work.

'The M&A market will not sour when the privatisation cycle ends. This is for the same reason that it did not explode or

'As far as we are aware, for the time being there are still not many investors interested in acquiring TAP.'
Diogo Perestrelo, Cuatrecasas

increase significantly while privatisations were ongoing; their value has been high, but in terms of total number of M&A transactions, they have no long-term importance for lawyers in Portugal,' says Nelson Raposo Bernardo.

Just over a year ago, thousands took to the streets of Lisbon not only to commemorate the anniversary of the 1974 Carnation Revolution against the Portuguese dictatorship, but also to protest against widely unpopular austerity measures that were put in place to help the country meet the terms of the Troika bailout. It has been a tough three years but the government has come through it with its reputation largely intact. Portugal's privatisations and its associated work streams are drawing to a close, but the country is back on the international radar and its lawyers primed for what lies ahead. **LB**

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