SPAIN & PORTUGAL

TRANSACTIONAL IMPACT MONITOR

Special Report

8 April 2020

TTR
Transactional Track Record

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TTR SPECIAL REPORT

TTR's Transactional Impact Monitor is a Special Report combining local knowledge and market visibility from top dealmakers developed to address extraordinary situations affecting the macroeconomic stability and M&A outlook in core markets

Transactional Impact Monitor: SPAIN

8 April 2020

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As alarm and panic make way for cautious optimism in Spain's battle with SARS-CoV-2 amid a fall in the daily tally of deaths attributed to the virus, the country's top dealmakers tell TTR of the unprecedented impact containment measures are having on the economy and the transactional market.

The year kicked off strong, private equity firms had a lot of dry powder, but there was a feeling that we were nearing the end of the cycle, said Latham & Watkins Managing Partner Ignacio Gómez-Sancha. "The situation has now changed dramatically from a growth market to a panorama of shock."

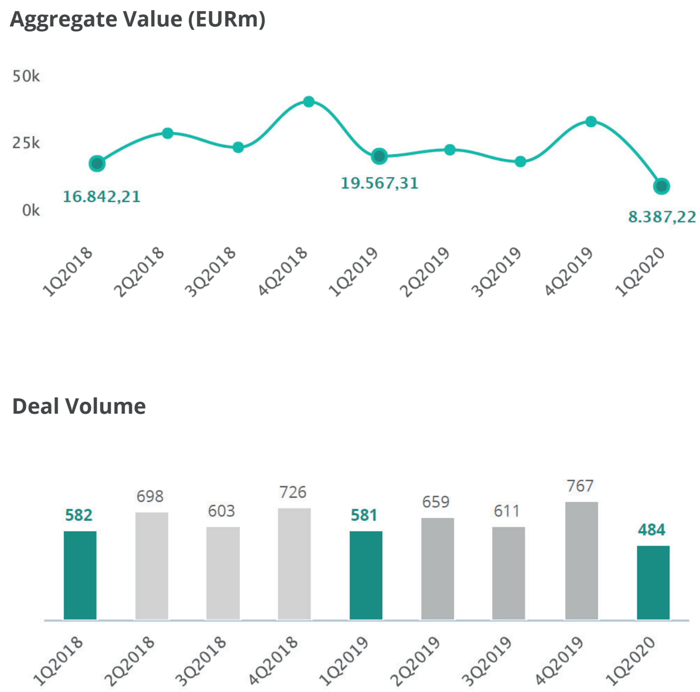
After nearly a month of confinement, which tightened on 14 March with a royal decree that has since been extended through 25 April, countless companies in Spain are reeling, factories are shuttered, restaurants closed, and the bar culture the country is famous for, conspicuously absent.

Spaniards are demonstrating resolve, absolutely convinced of the prudence of adhering to the royal decree for the common good, despite a generalized lack of trust in government predating the crisis, and morale is improving as the number of reported cases reaching the country's hospitals stabilizes. Just like the enhanced security screening at airports in place since 2001, measures imposed to safeguard public health have been accepted as the new normal, said Gómez-Sancha.

The Spanish government has approved some EUR 100bn to support corporates impacted by the shutdown, making EUR 20bn available to date, 50% allocated to loan guarantees and for small and medium-size enterprises. "What is still lacking are concrete measures to implement it," said Gómez-Sancha.

The funds allocated for businesses impacted by the shutdown form part of a broader pledged package of support worth more than EUR 200bn, or nearly 20% of Spain's GDP. Measures include a moratorium on evictions and utility interruptions affecting those whose livelihoods have been interrupted, with corresponding subsidies to service providers. The government has also announced concessional micro financing for consumers and the postponement of social security contributions for the self-employed.

Deal Volume and Aggregate Value in Spain
1Q18-1Q20



Source: *TTR - Transactional Track Record*

M&A OUTLOOK

It's still early to understand the impact the crisis will have on transactional activity in the medium-to-long term, said Pablo Rocamora, CEO of Corporate Finance at Banco Sabadell, but the immediate effect on M&A is clear: Two thirds of the bank's deal flow has been put on ice. Of greater concern is the impact the shutdown will have on the viability of businesses going forward, he said, and more worrying still is the possibility of a prolonged recession if consumption fails to recover quickly once the royal decree is lifted.

"We've been in the situation where a buyer has backed out. If it's a bit of a stretch for the balance sheet, buyers are being more cautious"

JUAN ORBEA
BANCO SANTANDER

DEALMAKER CONFIDENCE (Next 12 Months)
(0-10 lowest-highest):

- Crisis Management: 7
- Economic Outlook: 5
- Private Equity Forecast: 7
- M&A Outlook: 6
- Equity Capital Markets: 4

Despite a positive forecast at the start of 2020, there was a sensation that the end of the cycle was approaching, said Rocamora. "We weren't noting it at all in terms of the M&A appetite from private equity and strategic buyers pre-coronavirus, though, he said. "The outlook was good, really good, with our projects. Obviously that's changed radically."

Rocamora said the bank managed to close two transactions that were in the works since 2019, but M&A volume will fall dramatically in the near term. Transactions that were still in process in February ground to a halt, he said. Deals are difficult to carry forward when personal contact, site visits, management presentations and face-to-face meetings are simply not possible, he noted. Some things can be done remotely, but the process becomes complicated and drawn out. This issue is not the real problem, he said, as we trust there will be an end to the confinement. While this impact is very present and real, it's the least worrying, he said.

A recession, though, would cause many companies to shut down permanently and lay off workers, which would have more serious long-term consequences, he said. "All of us are betting – we want to believe – that the effects will be limited to the current period of confinement."

Banco Santander Head of M&A Juan Orbea shared Rocamora's concern about a turn for the worse in 2Q20. "We started the year very strong, with a lot of deals in the pipeline when this health crisis began," he said. It quickly became evident that the situation would have an impact, though it was difficult to say how much, he said. Banco Santander pushed through deals that were very close to completion, with minimal casualties, he said, but momentum is expected to fall significantly in the months ahead.

Banco Santander is advising SIX Group on its ongoing public takeover offer of Bolsas y Mercados Españoles (BME), which is very much proceeding according to schedule and near closing, Orbea said. In deals that weren't so far along, however, talks became complicated, he said. "We've been in the situation where a buyer has backed out. If it's a bit of a stretch for the

"All of us are betting – we want to believe – that the effects will be limited to the current period of confinement"

PABLO ROCAMORA
BANCO SABADELL

DEALMAKER CONFIDENCE (Next 12 Months)
(0-10 lowest-highest):

- Crisis Management: 6
- Economic Outlook: 6
- Private Equity Forecast: 7
- M&A Outlook: 8
- Equity Capital Markets: 3

balance sheet, buyers are being more cautious," he said.

Santander had a strong 1Q20, despite the onset of the crisis, but the pace of new transactions will slow, and new mandates the bank lands henceforth are unlikely to close this year, he said. It was already going to be a stretch to finish them this year, but now more time will be spent on the preliminary work, and perhaps after summer, depending on what happens with the current situation, they will move forward, he said.

Many M&A deals could end up turning into mergers, meanwhile Rocamora suggested, especially where discord on valuations can be resolved by delaying earn outs. Advisors can try to convert cash deals into mergers to establish a relative price between two companies rather than an absolute price, he said. In addition to addressing the prevailing uncertainty and its impact on valuations, these transactions can help partners gain critical mass, exploit economies of scale and benefit from synergies, all of which could be considered defensive in the face of deceleration. "We have some situations where we see great prospects for this kind of merger," he said.

There's a big difference between how different sectors and companies are being affected, Rocamora noted. Tourism and hospitality, travel and transportation, discretionary retail and entertainment, manufacturing and service industries, are all taking a direct hit, he said. These segments will feature prominently among companies seeking government support, he said. Other industries, like the chemicals sector, face more varied impact, depending on the markets they serve, he noted.

Leisure, transport, especially aviation, but also cruise shipping and ferry services, and hospitality, are the most affected, echoed Gómez-Sancha, citing figures showing a 93% fall in hotel reservations. "There's never been a shock of this magnitude in history," he said.

The confinement order has essentially shuttered many companies and entire industries have seen revenue go to zero, Rocamora noted. Where factories have ceased to operate, the impact will be very real and tangible, he said. It's also a question of time, as there is still no clarity on how long the quarantine order will be maintained, Rocamora pointed out. If the shutdown is fleeting, things could get back on track quickly, and the crisis shouldn't impact the valuation of ongoing transactions, he said.

The healthcare industry will ultimately be bolstered by this crisis, Rocamora said, from nursing homes to hospitals and underlying supply chains, including pharmaceuticals.

"There will be no forgiving underfunding healthcare after this crisis," agreed Gómez-Sancha.

Supermarket chains and food delivery services are doing extremely well, meanwhile, sources told TTR, as are food and medical supply logistics. Food manufacturing and agribusiness are also proving resilient, Rocamora said. “We have a few food industry projects that are still in progress,” he said, while a hospital supplier the bank is advising has put talks on hold simply because it has had to focus on its core business.

Banco Sabadell is very active in the renewable energy market, an industry typically financed by long-term investors that requires relatively few employees for ongoing operations. Electricity rates have fallen alongside a drop in oil prices, and to the extent tariffs go down, renewable projects lose their appeal, but the impact on energy assets long-term should be minimal, Rocamora said.

Distance learning will also gain traction in this crisis, Rocamora said, and will continue to strengthen, as will telecom, e-commerce, online collaboration tools and streaming entertainment beyond the rut. Cisco, or any company in that space for that matter, as small as it may be, will be favored, he said.

The trend toward remote work will definitely gain traction, Rocamora added, and could have some impact on real estate prices, though companies are unlikely to ever completely abandon their headquarter offices. Many companies were already promoting remote work to reduce costs and encourage a better work-life balance, he noted. Now, many other companies are learning to do it and this crisis will accelerate that trend. Companies that were allowing some employees to work from home two days per week might extend this option to more employees, or move to three days a week, but there won’t be a mass exodus from office space, he said.

> **“There are almost no new money M&A deals being initiated and I believe that will very quickly slow down the activity, both for strategic M&A and private equity deals”**

ALEJANDRO ORTIZ
LINKLATERS

DEALMAKER CONFIDENCE (Next 12 Months)
(0-10 lowest-highest):

- Crisis Management: ●●●●●●○○○○ 6
- Economic Outlook: ●●●●●●○○○○ 6
- M&A Outlook: ●●●●●●●○○○ 7
- Equity Capital Markets: ●●●●●●○○○○ 6

“We’re also learning what can’t be done working remotely,” he noted. The growing popularity of remote work had already been built into investment models such that there shouldn’t be much impact on real estate pricing, he said.

In the medium term, M&A could pick up if the prevailing uncertainty encourages shareholders to diversify their holdings and reduce exposure to more vulnerable family businesses, he added. In the short-term, there will be few willing sellers of companies that aren’t distressed if their valuation has been impacted, which will reduce M&A volume, said Rocamora. “If buyers view the current effects as fleeting, there will still be a lot of appetite, and if the containment measures are lifted in April or May, M&A will be very active in 2H20.”

Latham & Watkins has seen many transactions come to a standstill given the indirect impact the crisis has had on parties involved, but other deals, like those in the renewable energy sector, have hardly been affected, Gómez-Sancha said.

About a third of the firm’s deals in Spain have been cancelled, a third had been postponed and a third are still on track, he said. When he closed the Deolo restructuring deal a few weeks ago, he said he signed wearing a mask and gloves. SIX Group’s public takeover of Bolsas y Mercados Españoles (BME), in which Latham & Watkins is advising the seller, is among the firm’s most high profile mandates that haven’t been derailed, he noted.

Linklaters Spain Partner Alejandro Ortiz has seen an even steeper decline in deal activity, especially in those deals that were at a preliminary phase. “There are almost no new money M&A deals being initiated and I believe that will very quickly slow down the activity, both for strategic M&A and private equity deals, however investors continue analising opportunities,” he said.

“Then there are those deals which were halfway through the implementation. Many of them are being closed as agreed, but in others, parties are now looking to see if they can be either renegotiated in order to rebalance the position of the parties based on rebus sic stantibus, or even resolved based on force majeure, although this proves more difficult,” he said. There might be a slight difference to what happened in the last crisis, though, Ortiz said, since in this case there is still the intention to get them back on track once the crisis is over.

The role of the banks is different this time around too, Gómez-Sancha pointed out. “In the previous crisis the banks were the bad guys. Now they’re coming to the rescue.”

PRIVATE EQUITY

Private equity funds face challenges of lesser or greater magnitude based on the composition of their portfolios, according to Banco Santander Head of M&A Juan Orbea. There are those that have a lot

Private Equity
1Q HISTORICAL REVIEW

2017			
	Number of transactions:	59	▲ 103,45%
	Total aggregate value (EURm):	10.638	▲ 829,17%
2018			
	Number of transactions:	61	▲ 3,39%
	Total aggregate value (EURm):	5.876	▼ -44,77%
2019			
	Number of transactions:	62	▲ 1,64%
	Total aggregate value (EURm):	10.042	▲ 70,91%
2020			
	Number of transactions:	32	▼ -48,39%
	Total aggregate value (EURm):	1.273	▼ -87,32%

▲▼ % All the percentages represent a variation relative to the same period the previous year.

Source: *TTR - Transactional Track Record*

"Dry powder is at a historical high. When things revert to normal, there are going to be many opportunities, between restructurings, mergers and capital injections"

IGNACIO GÓMEZ-SANCHA
Latham & Watkins

DEALMAKER CONFIDENCE (Next 12 Months)
(0-10 lowest-highest):

- Crisis Management: ●●●●●●●●○○ 8
- Economic Outlook: ●●●●●●●○○○ 7
- Private Equity Forecast: ●●●●●●○○○○ 6
- M&A Outlook: ●●●●●○○○○○ 5
- Equity Capital Markets: ●●●○○○○○○○ 3

of work to do managing their portfolios, especially those with retail assets that are facing two or three months with no revenue; they are seeking to take advantage of the credit facilities that have been made available.

The private equity market is suffering now, but there will continue to be opportunities, perhaps even greater opportunities post-shutdown than before, and especially in 2021, Rocamora said.

Private equity firms are beginning to talk to bondholders to look at prepackaged restructurings in which investors inject capital and the bondholders take a haircut, said Gómez-Sancha, who remains upbeat about the private equity outlook. "Dry powder is at a historical high. When things revert to normal, there are going to be many opportunities, between restructurings, mergers and capital injections."

Many investors are waiting on the market to hit bottom before going back in, said Gómez-Sancha, but private equity funds are mostly focused on preserving value within their own portfolios, which often requires tough cash management decisions.

When it comes to new investments and exits, the deals we were watching that were coming to market have been postponed, Orbea said.

EQUITY CAPITAL MARKETS

Spain's equity capital markets will definitely see a contraction in deal volume in the short-term, Rocamora said. M&A via the capital markets will recover with public takeovers, but the IPO market is dead for now, he said. Undervalued public companies will become attractive targets for private equity and strategic buyers once there's more visibility about the duration of the economic shutdown, he said.

The fall in consumption will certainly have a significant impact, especially on the credit market, said Latham & Watkins Managing Partner Ignacio Gómez-Sancha. There's some EUR 3trn in investment grade debt and EUR 700bn in high yield debt in the market, he said. About 20% of that EUR 3trn is trading at a 20% discount, he noted, and distressed investors are seeing opportunities to take senior debt at a discount with funds they've already raised, as well as financing they are now raising for the express purpose of investing in distressed assets in Spain and across the globe, he noted.

"Institutional investors that take positions based on confidence in long-term growth and stability will find it difficult to invest in the equity capital markets under current conditions" - PABLO ROCAMORA

Companies that know they are facing grave difficulties to refinance because they have issued high yield bonds are beginning to have conversations with lenders to see how to restructure, Gómez-Sancha noted. Many listed companies are preparing rights issues, he added. For those with no better option, they prefer to dilute the company rather than face a liquidity shortage, he said.

Indeed, Banco Santander's equity capital markets team has begun shifting its focus from IPOs to more sophisticated products, including underwriting capital increase transactions, said Orbea. The bank will underwrite listed companies for a percentage of their market cap so they can pursue these deals, whether to meet operational needs or for a specific opportunity, he said.

"We've seen Amadeus doing a capital increase alongside a convertible bond, an interesting financing," Orbea said. It tells the market that though the company is caught in a difficult situation, it is looking ahead and managing its resources. These are the kinds of transactions that will be happening now as IPOs are postponed, Orbea noted.

It will be very difficult for the IPO market to recover this year, said Gómez-Sancha, and listed companies are unlikely to pursue share buybacks en masse. "In Spain, it's not a common tactic - you see less share buybacks. Even if companies could afford it in the current crisis, for them to be buying back shares and then seeking a rescue from government to survive the crisis could be frowned upon, despite the fact that "it used to be applauded by everybody", he said.

Institutional investors that take positions based on confidence in long-term growth and stability will find it difficult to invest in the equity capital markets under current conditions, said Rocamora. Private equity funds that seek a controlling interest, on the other hand, will find the capital markets more attractive given the enormous liquidity many have at their disposal and the prevalence of distressed situations likely to result from the crisis, alongside depressed valuations.

The epidemic will be controlled and once the confinement is lifted, by summer we will begin to recover, Rocamora said. Where hygiene is concerned, we're likely to see people being more conscientious about hygiene generally and the entire industry will benefit – products and services.

HANDLING THE CRISIS

Many companies have stopped generating revenue but continue to have costs, Ortiz noted. Their focus has shifted to preserving cash, sourcing financing and attending to labor issues. These companies are looking at their balance sheets with a magnifying glass, looking to increase their liquidity so they can survive the crisis, he said.

Many companies are renegotiating their rent and suspending or delaying payments to suppliers, he added. Big law firms are not immune, Ortiz noted, and will be hit by a downturn in M&A, though areas like employment, litigation and banking may see an uptick with all the restructuring activity.

Banks are accessing government guaranteed credit lines at top speed, Orbea said, noting Santander had activated the business aid protocol making EUR 20bn available to SMEs requiring short-term liquidity to mitigate the impact of containment measures on normal business operations. “If this is a crisis in the shape of a V, it’s a matter of financing,” he said.

The energy sector, tech companies and regulated industries will fare best through this crisis, Orbea said. If there are companies that can’t cope, the banks will be part of the solution, he added, echoing Gómez-Sancha’s remarks.

Like many companies, Banco Santander suspended its dividend payment in its general shareholders’ meeting held virtually for the first time on 3 April. Forgoing that dividend payment will make an additional EUR 90bn available to the market, Orbea said. Credit levels at banks have increased tremendously based on recent corporate borrowing, he said, while credit to individuals for large investments in real estate or auto financing has fallen precipitously.

Business leaders are still focused on accessing credit and distressed investors are only just beginning to initiate conversations, Orbea said. Special situations investors that offer flexible instruments, from equity to mezzanine and convertible debt, will have a strong pipeline once the dust settles, Orbea said.

“It’s too early to draw lessons, but I think companies are seeing the benefit of having reserve funds,” concluded Gómez-Sancha.

By and large, corporates are indeed stronger financially this time around than during the global financial crisis that began in 2008, and there’s less leverage than a decade ago, Rocamora said. “That doesn’t mean we won’t face a prolonged recession,” however, he cautioned, “but I’m moderately optimistic. The epidemic will be controlled and provided the confinement is lifted, we could be beginning a recovery by summer.”

Transactional Impact Monitor: PORTUGAL

8 April 2020

The Portuguese government issued a stay at home plea to its citizens on 13 March, the same weekend the royal decree was issued in Spain. A week later, the government declared a state of emergency and ordered all non-essential businesses closed, a measure renewed 3 April for another fortnight. The monetary response to the crisis has been modest by comparison, however, with just EUR 3bn allocated in guarantee schemes for SMEs and midcaps and another EUR 7bn being sought from the European Commission.

SMEs in Portugal will essentially depend on state aid, which at the moment has not matched expectations, according to Vieira de Almeida (VdA) Group Senior Partner and Head of M&A Practice Jorge Bleck. All companies related to tourism in Portugal are having a very rough time, Bleck noted. “It is devastating because it has meant losing almost all revenue in 24 hours. Those activities were effectively providing jobs to many, many people in Portugal.”

“For the most optimistic in the tourism and commercial aviation sectors, 2020 is a lost year,” said PLMJ Partner and co-head of Corporate M&A Duarte Schmidt. “Those who are most pessimistic are worried this might be the start of a very long recession.”

“We were already late in the cycle, so the pandemic was just the trigger of a recession. As in all recessions, the majority of businesses will suffer one way or the other”

JOÃO RODRIGO SANTOS
ATENA EQUITY PARTNERS

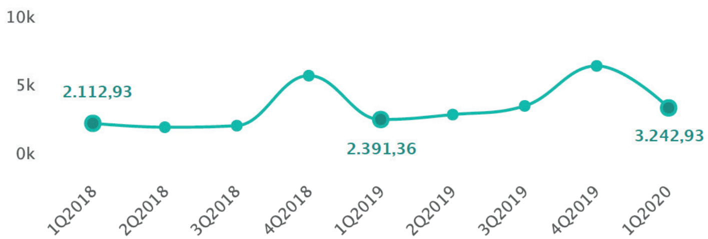
DEALMAKER CONFIDENCE (Next 12 Months)
(0-10 lowest-highest):

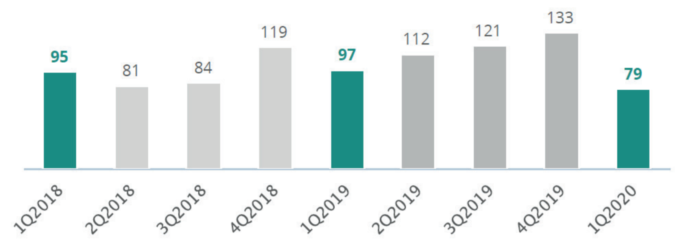
- Crisis Management: ●●●●●●●●○○ 8
- Economic Outlook: ○○○○○○○○○○ 0
- Private Equity Forecast: ●●○○○○○○○○ 2
- M&A Outlook: ●●●○○○○○○○ 3

The timing of this crisis is unfortunate for Portugal, as it hits at a moment of fiscal vulnerability, Bleck said. “People are forgetful, because they were deluded with the increase in GDP and its mathematical effect of reducing the debt-to-GDP ratio,” Bleck said. The overall debt increased, however, he pointed out. “Now that GDP will fall, we will end up with debt levels in the region of 140%,” he said.

Deal Volume and Aggregate Value in Portugal
1Q18-1Q20

Source: *TTR - Transactional Track Record*





The impacts of the SARS-CoV-2 response in Portugal are very different for industrial versus service companies, noted Atena Equity Partners Chairman João Rodrigo Santos. Most service providers are closed for business, whereas industrial companies, especially those that are export-oriented, are still open but probably experiencing a slowdown in new orders, he said.

"Most companies are preparing for a very complicated period ahead by reducing costs and securing rescue financing from banks," Santos said. "We were already late in the cycle, so the pandemic was just the trigger of a recession. As in all recessions, the majority of businesses will suffer one way or the other," said Santos.

Santos is not optimistic about the prospects for a rapid recovery. The consumer discretionary segment is going to suffer more over the next couple of years, both at services and industrial levels, he said.

"Besides being traditionally a very cyclical sector, I believe this time the ramp-up is going to be slower given the likely unprecedented drop in GDP, rising unemployment, and the anti-social trauma this pandemic will create," he warned.

"The consumer discretionary segment is going to suffer more over the next couple of years, both at services and industrial levels" - JOÃO RODRIGO SANTOS

M&A OUTLOOK

Almost all current deals have been put on hold, said Santos, with a likely fall in the level of overall M&A in the next couple

"There will be many companies for sale throughout Europe at very low prices"

JORGE BLECK
VIEIRA DE ALMEIDA (VdA)

DEALMAKER CONFIDENCE (Next 12 Months)
(0-10 lowest-highest):

- Crisis Management: 7,5
- Economic Outlook: 4
- M&A Outlook: 4

of years given the reduction in new leveraged loans, with an increase in the percentage of distressed deals.

"It is a cliché but it is true: every crisis generates opportunities," said Bleck. "There will be many companies for sale throughout Europe at very low prices, he added. "Notwithstanding the imminent crisis, there is still a lot of liquidity in the world. Pension funds still have a lot of cash and they are under pressure to invest it."

"The negative interest rates will be perpetuated for a long time still, and so where will they invest their money? Where the returns are greater, obviously, and there are large returns when you buy valuable assets at cheap prices," Bleck said.

VdA has not yet seen a significant downturn in workload, as the pre-crisis momentum is yet to subside. "Our year was going extremely well, so we are still benefiting from that legacy," Bleck said. The Portuguese economy has already felt the crisis, however, especially those sectors that have been immediately affected by this sudden standstill, he said. "In our case that has not happened yet, but it will happen in two or three weeks, I'm sure," Bleck noted.

"We are already seeing one or two deals cancelled. The big-ticket deals will be suspended and go into 'wait and see' mode for a few months," he noted.

Another few companies that were already in the phase of signing and closing are now hesitating, Bleck noted. Since the deal contracts do not allow them to back out, they are asking if there is any basis under Portuguese law for using material adverse effect as a valid argument to cancel closed deals, Bleck said. It is extremely unlikely Portuguese courts will accept the argument in this circumstance and allow companies to successfully invoke article 437 of the Portuguese Civil Code, however, Bleck said. Portuguese courts have never recognized the 1974 revolution to justify non-compliance with contracts, for example, he said, and are unlikely to now.

PRIVATE EQUITY

As in all downturns, value investors will probably be better positioned than growth investors, said Atena Equity Partners Chairman João Rodrigo Santos. In this particular context, distressed investors are particularly well positioned, he added. "I believe there will be good investment opportunities in the next couple of years," he said.

Private Equity
1Q HISTORICAL REVIEW

Year		Value	Variation
2017	Number of transactions:	12	▲ 71,43%
	Total aggregate value (EURm):	4.038	▲ 2.165,15%
2018	Number of transactions:	10	▼ -16,67%
	Total aggregate value (EURm):	619	▼ -84,66%
2019	Number of transactions:	13	▲ 30,00%
	Total aggregate value (EURm):	688	▲ 11,10%
2020	Number of transactions:	5	▼ -61,54%
	Total aggregate value (EURm):	806	▲ 17,15%

▲▼ % All the percentages represent a variation relative to the same period the previous year.

Source: *TTR - Transactional Track Record*

Atena has already seen a drop in deals in line with the overall market, he said. "Our more traditional LBO pipeline was essentially put on hold, but our distressed pipeline is still strong." Going forward, distressed investments will be favored generally, and traditional LBO investments will resume more focused on less cyclical sectors, he said.

Exits, Santos said, will dry up in the short term, apart from those that were already in progress and haven't been derailed. Fundraising, meanwhile, will likely fall in the short term and be channeled towards more proven teams, he said.

Investors should keep an eye on China and other countries that are more advanced in containing the pandemic to get an idea of how long the ramp-up in consumption will take, Santos suggested.

HANDLING THE CRISIS

The impact is very much dependent on one thing, which is how long will this standstill last, said VdA Senior Partner Jorge Bleck. "The economy cannot stop, or else we will die from the cure," Bleck said, adding, "The balance between saving lives and saving the economy poses a huge dilemma."

The risk of, once again, going through what happened in 2010 is substantial, Bleck added, "with the handicap that we will not have the rest of the world pulling us through, because the rest of the world might find itself in the same situation."

The Portuguese government has also run out of tools to fight the crisis, Bleck contended, with no more room to increase the tax burden and no courage to introduce the necessary reforms to significantly reduce the burden on the state in time. "The Portuguese government

> "Every measure that has been taken to date is still highly insufficient"

DUARTE SCHMIDT
PLMJ

DEALMAKER CONFIDENCE (Next 12 Months)
(0-10 lowest-highest):

- Crisis Management: 7
- Economic Outlook: 6
- Private Equity Forecast: 8
- M&A Outlook: 8

cannot simply pick up the bazooka, like Boris Johnson did in the UK, and say, 'we will cover 80% of salaries', firstly, because our deficit does not allow us that, and secondly, because we sent our cash-printing machine to Frankfurt. Boris Johnson kept his cash-printing machine by his side."

Bleck said he favored use of so called "corona bonds", or indirect financing through an issuance by the European Stability Mechanism. "There are a few ways forward," he said, "otherwise we will see an economic crises in Europe of biblical proportions."

"There is a very big unknown here, which is the issue of the pandemic, agreed Schmidt. Will this get under control, or will we, on the other side, see a double dip? If this turns out to be a problem with a quick solution, yes you will have a monetary and fiscal problem alongside the economic, but you will also have many other countries teaming up to solve it as quickly as possible," he said.

Even if the public health problem is overcome, consumer confidence recovers quickly and people can go back to their normal lives, this will not be a V curve, but rather a U curve, Schmidt said.

If, on the other hand, the lockdown is lifted with the pandemic still raging and people are afraid a second outbreak might occur in 3Q20, that will have an impact on confidence, which will dramatically affect certain sectors, such as tourism, aviation and everything connected with travel, events, shows and restaurants, said Schmidt.

"It will have a very big impact on very large and important sectors. If that happens, we may find ourselves facing a very complicated situation," Schmidt said.

Then there are other factors weighing in, such as the capacity of the Portuguese economy to absorb this, said Schmidt, adding, "I believe it is very limited. Every measure that has been taken to date is still highly insufficient." The UK has some advantages in comparison, Schmidt said. They do not have the fiscal burden we have in Portugal. They don't have the levels of state debt we currently have here, and moreover, they have total control of their monetary policy.

> "The economy cannot stop, or else we will die from the cure" - JORGE BLECK

Large law firms will not be immune from cost-cutting measures and could reduce headcount as the focus shifts from M&A work to litigation, restructuring, finance and labor practice areas, Bleck said. The shift towards remote work will help reduce costs, Bleck said. "That, I think, is here to stay," he said, while adding that companies are unlikely to ever depend entirely on a remote workforce.

Big law firms are flexible and can adapt, agreed Schmidt. "Having said that, I believe this year will probably be a lost year. Some practice areas will rise to the market needs, the heat chart of the busiest practice areas shifts, but the overall sum will not be what everyone was expecting a month ago, before this Covid-19 impact." ■

TTR - Transactional Track Record

THE VIEW FROM MILAN

30 March 2020

Milan-based Linklaters Partner Claudia Parzani spoke with TTR to share a firsthand account of the challenges Italy has faced in its efforts to contain the SARs-CoV-2 virus.

“This is our sixth week at home. National economic activity has been suspended unless it relates to infrastructure, or basic needs such as food, healthcare, or pharmaceuticals”

Claudia Parzani
Linklaters
Western Europe Managing Partner and Global Business Development & Marketing Partner

A Promising Start to 2020

“We were busy, with a balanced portfolio of deals. We were super-active in the private equity sector, in structured finance deals and in real estate. Our outlook was also very good in capital markets with a mix of debt and equity, some IPOs, and some capital increases. On the debt side, banking was very strong. At that time, I saw the lowest number of restructurings since 2008.”

The Impact

Since the onslaught of the SARS-CoV-2 outbreak in February, lingering restrictions have been imposed in Italy. “The restrictions have developed through different phases, the current one is the most restrictive. For the first two weeks, we were still allowed to go to the office. Then we were not allowed to go to the office unless strictly necessary. Now for three weeks there is no access to the office at all, and everyone has to work from home.”

Economic Crisis

“The crisis will be a monster, both in terms of the effect on our GDP and the impact it is having on our small and medium companies. There are sectors that will of course come out almost destroyed - look at all that is related to tourism.”

Uncertainty

“We have yet to touch bottom, and we are not sure when that will happen. I understand there is already some interest from China where they are recovering now and are already starting to look at potential acquisitions. Nevertheless, for the time being, there is no way to enter China or to have any kind of business negotiation.”

Lessons Learned

“The only thing you can do is to try to make the right decisions businesswise: Don’t destroy value. The real heroes are not machines, but people. The people that are starting to invent new ways to make masks, or create ventilators. For every industry the mantra is ‘Take Care of Your People’, try to save jobs as much as you can, because everyone is impacted. It is the time to help all participants in the job chain.”

DEALMAKER PROFILES*

Alejandro Ortiz
Linklaters
Partner

Alejandro Ortiz is an expert in public and private M&A and private equity, with broad experience in banking, leveraged finance, capital markets and restructuring, and a lecturer at Complutense University and ICADE Business School.

Duarte Schmidt
PLMJ
Partner, co-head of Corporate M&A

Duarte Schmidt has over 18 years’ experience in private equity, M&A, corporate law, investment funds and privatization, working both in Portugal and internationally, with a focus on Angola, Brazil and Mozambique.

Ignacio Gómez-Sancha
Latham & Watkins
Managing Partner

Ignacio Gómez-Sancha leads Latham & Watkins corporate department in Madrid where his practice focuses on advising investment funds, corporates and investment banks on equity capital markets transactions, restructuring, special situations and private equity.

João Rodrigo Santos
Atena Equity Partners
Chairman

As Founding Partner, João Rodrigo Santos represents Atena on the board of several portfolio companies. He was previously a Partner at Explorer Investments, managing circa EUR 1bn, and a Consultant at Boston Consulting Group.

Jorge Bleck
Vieira de Almeida
Senior Partner
Head of M&A

Jorge Bleck joined VdA in 2013 after working with Linklaters Portugal since the firm entered the market in 2002. His practice incorporates buy-side and sell-side mandates in M&A, JVs, privatizations and real estate.

Juan Orbea
Banco Santander
Head of M&A

Juan Orbea has been Head of M&A at Banco Santander since 2015. He leads operations in Spain and Portugal, where Santander has become one of the top M&A advisors.

Pablo Rocamora
Banco Sabadell
CEO Corporate Finance

Pablo Rocamora has led Banco Sabadell’s M&A advisory unit since 2005. He previously held positions at Banco Urquijo, NatWest Markets, Bank of America, L’Oréal and IBM, with 27 years of cumulative experience in M&A

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customers@TTRecord.com
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