



IGNACIO APARICIO

# KEYS AND SECTORS OF PRIVATE EQUITY IN 2021

Bearing in mind the economic crisis unleashed by the pandemic during 2020, at Iberian Lawyer we wanted to know what the forecasts are for 2021 at the Private Equity level; continuity or upturn and diversification of investment? What changes or trends brought about by the

pandemic are here to stay and why? And, on the contrary, which will disappear? We talked with Ignacio Aparicio, partner and head of Andersen's Corporate & M&A department in Spain, about these and other questions.

by desiré vidal



## EXPECTATIONS AND NEWS

“We hope that 2021 will be a year in which there is a gradual return to normality, where we can achieve a recovery, with economic growth in the world and in Europe, according to some sources, close to 5%,” **Ignacio Aparicio** begins explaining. “It could be a year, especially in the first part, as we are seeing, with quite a lot of volatility, where news such as possible new confinements, restrictions or concerns with vaccines and their effects, could cause some instability in the markets. We believe that it will be a period where investments in quality and growing companies will prevail. We also foresee a continued preference for various sectors where investment has been widespread in recent months. Investment in the technology sector will continue to rise, consolidating the trend

of recent years and, among other reasons, because of its fundamental role during the pandemic.” Another sector that has come to stay is the one related to the environmental transition, Aparicio confirms. “Another sector that has come to stay is that related to environmental transition, a consequence of the global commitment to sustainability. In our opinion, this will undoubtedly be one of the star sectors,” says Aparicio. “The healthcare and life science sectors will of course also be the object of investments with upward valuations, mainly in everything related to innovative bets.” As the **Andersen** Corporate and M&A partner explains, the pandemic situation “has changed habits in all aspects of life, in the way of contracting, relating, protecting oneself and enjoying leisure. Situations of such change favour innovative solutions, which will attract investment. Finally, another of the novelties we perceive the pandemic has brought is a change in the trend of the investment ticket, which in many cases has lowered its minimum amount, favouring smaller operations and therefore greater risk diversification. In conclusion, diversification of

investments in niche sectors and more and more concentration processes and business reorganisation for the second half of 2021.”

## MILESTONES AND FORECASTS

Despite the fact that, as Ignacio Aparicio says, “For the first quarter of 2021, we predict the same trend as at the end of 2020,” he detects “a greater investment spirit, both because of the expectations brought about by collective vaccination and immunisation, and because the market is adaptive and has learned to function in the new circumstances of the pandemic. These circumstances have, to a certain extent, led to a relativisation of the fear of change and the unexpected, which has helped not to discourage, as a matter of principle, the spirit of investment. In addition, there is investment capacity, money in the market and, as in any crisis situation, many opportunities. Looking ahead to the second half of the year, he adds, “We anticipate a greater number of restructuring and reorganisations as a result of the deferred impact that the end

**ANOTHER SECTOR THAT HAS COME TO STAY IS THAT RELATED TO THE ENVIRONMENTAL TRANSITION, A CONSEQUENCE OF THE GLOBAL COMMITMENT TO SUSTAINABILITY. IN OUR OPINION, THIS WILL UNDOUBTEDLY BE ONE OF THE STAR SECTORS**

of ERTes (temporary layoffs), the expiry of ICOs (Official Credit Institution financing) and/or the application of new aid from, among others, soft financing or the application of Next Generation EU funds may have on the achievement of the objectives that the applicants themselves have set out in their projects. To adequately promote all the above, it is essential that the Government provides a framework of security and stability which favours an attractive investment climate, avoiding excessive regulation and short-term tax and legal policies.”

## FLEXIBILITY AND ADAPTATION

Last year’s calendar affected all sectors almost equally, including Private Equity. “2020 began with

moderate growth due to end-of-cycle forecasts, a pace that stopped dramatically in March due to the declaration of the state of alarm and confinement. There was a cautious rebound during the summer and a further slowdown at the end of the year due to new restrictions,” summarises Aparicio. However, the very nature of investment funds gives them certain special features or advanced properties, so to speak, to cope with change. As Aparicio says: “Investment funds have always been aware of the importance of losing their fear of change, knowing how to adapt to cyclical crises and stay ahead of the curve. This situation is certainly not an exception and we are seeing how, in many cases, private capital is winning the battle for financing from banks or the stock market, knowing how to interpret the best options for mobilising

money.” It is also by this very nature that the capacity to react is greater in this sector; “during the course of this pandemic, we consider that the PE sector has known how to react quickly by adapting its way of investing to the many changes it has brought about. This sector is now focused, as we indicated, on investing in growth, innovation and growth sectors.” Ignacio Aparicio completes his argument by anticipating that “without a doubt, ESG criteria will be of great importance in 2021 when it comes to investment decisions. In short, the Private Equity sector will know how to find investment opportunities, transforming itself to adapt to the new post-COVID panorama and becoming the great ally of the business fabric, as it has always done.”


## ABOUT IGNACIO APARICIO



*Ignacio Aparicio is a partner at Andersen and head of the firm's Corporate and M&A department in Spain, as well as coordinator of the Corporate, M&A and Banking & Finance Service Line of Andersen in Europe and head of the firm's Cuban Desk.*

*He has more than 20 years of experience in which he has specialised in Corporate and M&A, participating in a significant number of company review processes and cross-border transactions in different countries in*

*Latin America, Europe, the USA, Asia and the Middle East. In the area of Alternative Dispute Resolution, he has experience in many judicial and arbitration processes, both national and international, and is a Civil and Commercial mediator.*

*Ignacio Aparicio teaches at various universities and business schools and is listed in several international legal directories. *

## ESG CRITERIA, ALSO IN PRIVATE EQUITY

We asked Ignacio Aparicio to elaborate on this in order to find out what investment formulas we could find with these sustainable criteria he was talking about. “Mainly due to the European Green Deal and the criteria that the EU NextGen funds (focused on promoting, among others, everything related to sustainability), it is foreseeable that one of the sectors that will lead investments in 2021 will be renewable energies and environmental transition (water management, waste management, clean energies, biotechnology and the new mobility sector). It is worth

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noting that this is a sector that, due to the fact that in many cases these are businesses that have just begun and have not yet been consolidated in the market, may have investments that involve a certain amount of risk, but where the innovative component is very present, which as we have indicated before, will boost the investment spirit," he says.

Other sectors to watch out for are those related to the UN calendar of sustainable objectives, such as data protection, spatial computing and digital assets such as the Blockchain.

In addition, Aparicio continues, "with regard to the aforementioned technology sector, due to the needs caused by the COVID crisis and changes in consumer habits, the funds are going to continue to be very interested in continuing to invest in any business, traditional or otherwise, where this component is very present. Companies are strengthening their technological capacities to

create investment opportunities. Such is the boom in this sector that, for example, banks are in the process of creating subsidiaries which specialise, among other things, in analysing technology companies and providing them with financing. Technology consultancies will also have a good year."

In line with this, Aparicio anticipates that "another sector that will have an important presence in this year's investments is the industrial sector, especially everything related to process automation and robotics." And, of course, without forgetting the health sector which, "strengthened in 2020, will continue to experience rising values in 2021."

As for sectors that have historically been very solid in our country such as tourism, real estate or leisure, to mention just a few, "they have stopped leading investments due to the consequences caused by the pandemic such as limitations on travel, continuous perimeter closures, capacity restrictions

or opening of establishments." However, Ignacio Aparicio is optimistic: "We foresee that in the long term, as immunisation advances, starting in the second half of the year, these sectors will be able to progressively recover their strength, without counting on current investments of funds that pursue opportunities in companies in crisis, offering to gain position for when the situation in these sectors becomes normal."

## FOREIGN INVESTMENT

How has the health crisis affected foreign investment in Spain? Aparicio responds that "we cannot forget that Spain was at the forefront of restrictions on foreign investment due to the breadth of sectors it covered with its regulation, unlike other countries that were much more selective in establishing limitations only on sensitive sectors such as health or information. Royal Decree-Law 8/2020 of 17 March suspended the regime of liberalisation of certain foreign direct investments in Spain, where a high component of government discretion was established, since practically all businesses handle personal data. The extent to which these restrictions may have limited investment sentiment at the time cannot be reliably measured." Despite the fact that, he states, "foreign investment fell by more than 80 per cent in terms of investment volume due to the absence of mega-investment rounds," Aparicio is positive, despite the restrictions and uncertainty of this period,



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due to the reactivation of investments in startups in our country, “as during the last quarter of 2020 it was observed that the number of operations in investments by Venture Capital funds grew by 312.9 per cent. In total, according to some sources, some 154 Private Equity and 453 Venture Capital operations were recorded.”

## CUBA, INVESTMENT DESTINATION?

In addition to being the managing partner of Andersen’s Corporate and M&A department in Spain, Ignacio Aparicio heads the firm’s Cuban Desk. So we took advantage of the opportunity and asked him about the situation there at the

### ABOUT ANDERSEN IN SPAIN

Andersen is an international firm providing Legal and Tax services in over 200 locations in 100 countries worldwide through Andersen Global. In Spain it has offices in Madrid, Barcelona, Valencia and Seville, from where it advises its clients, accompanying them in their national and international projects. The more than 250 professionals and 40 partners that make up the team in Spain offer services in all law practices, providing a high degree of specialisation and experience that has led to a distinction in important international directories.

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Offices

# 195

Lawyers

# 40

Members

# €25 million

Turnover 2019

#### Main areas of practice:

- Corporate/M&A
- Tax
- Litigation
- Restructuring and Insolvency
- Banking and Finance
- Arbitration
- Labour
- Public and Regulatory
- Urban Planning
- Privacy, IT & Digital Business

#### Main sectorial areas:

- Real Estate
- Culture
- Agri-food
- Energy
- Transport and logistics
- Family business

**THERE IS NO DOUBT THAT THE ESG CRITERIA WILL BE OF GREAT IMPORTANCE IN 2021 WHEN IT COMES TO INVESTMENT DECISIONS. IN SHORT, THE PRIVATE EQUITY SECTOR WILL KNOW HOW TO FIND INVESTMENT OPPORTUNITIES, TRANSFORMING ITSELF TO ADAPT TO THE NEW POST-COVID PANORAMA AND BECOMING THE GREAT ALLY OF THE BUSINESS FABRIC, AS IT HAS ALWAYS DONE**

investment level. We offer his analysis below.

“2020 has been a very hard year for the world economy and also for Cuba. In addition to the effects of the pandemic and a low level of tourism, there is a lack of liquidity in foreign currency, a widespread shortage of supplies, the problem of delayed payments and the strangulation it has suffered as a result of the US Government’s continuous measures - among others, cuts in the sending of remittances from the USA, the limitations on travel by Americans, the disappearance of American flights and cruises to the island, as well as the effect that the activation of Title III of Helms Burton (the possibility of suing in the US entities that ‘traffic’ in assets confiscated by the Revolution) has generated in the investment climate.

As for relations with the US, we will have to wait for developments and new measures from Biden, who has anticipated that he will return to Obama’s policies and will probably lift many of the sanctions imposed by Donald Trump who, before leaving the White House, again included

Cuba among the countries that sponsor terrorism this January, a list from which Obama removed it in 2015, which will make it even more difficult for the country to gain access to international financing.

The official figures for 2020 are not bad compared to other years. According to the Cuban Ministry of Foreign Trade and Investment, in 2020 the country obtained foreign investment of over \$2 billion through 30 businesses authorised on the island (an amount that corresponds to the average of the last three years according to official figures).

But Cuba faces 2021 full of uncertainties. In addition to the 2020 effect and COVID, it remains to be seen how the monetary reunification that is underway will develop, which will undoubtedly have a major social impact, generating price increases and inflation.

In addition, necessary reforms need to be undertaken to boost the private and cooperative sector and to encourage foreign investment. The replacement of Raúl Castro as leader of the Communist Party as his mandate expires in 2021 is yet

another element in the new scenario the island will find itself in.

If, among others, due to the particularities of its economy and legal regime for foreign investment, Cuba is not a recurrent market for Private Equity, it nevertheless offers many opportunities for medium or long term development in investments linked to production. The Government’s priority is that investment projects should contribute to increasing exports. Sectors such as infrastructure, renewable energies and environmental transition (water management, waste management, biotechnology or clean energies) are some of the sectors that the Cuban Government considers strategic and promotes in its portfolio of opportunities that it publishes periodically and in which it may be interesting to position itself.

The government is seeking to concentrate investment in these strategic sectors, adding that of food production, since considerable sums of foreign currency are spent every year on the purchase of supplies that are insufficient and do not correspond to the population’s demand. In short, another objective is import substitution; domestic shortages also encourage investment in these basic and/or traditional sectors, such as the agri-food industry, but also logistics, technology and industrial equipment, among others. This is without forgetting tourism, recreation and the hotel industry, an industry which is currently in disarray, but which still has great potential for development and growth.” 