IBERIA

New

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The past three years have been nothing but challenging for Portugal and Spain. The neighbours, whose economic and social development are hugely reliant on the hospitality and tourism sectors, were hit hard by the series of government-mandated lockdowns imposed to battle soaring rates of infection in 2020. But fast forward to 2022, and the outlook has shifted dramatically.

Emerging from what could understatedly be described as a turbulent period in 2020, with a 10.8% economic downturn, the Spanish legal sector has successfully regained its footing and competitive outlook. While the pandemic meant a constriction of the economy was inevitable, it ultimately provided an opportunity for significant year-on-year growth.

'These circumstances, together with an environment of low interest rates and high liquidity, reactivated the M&A market, mainly in the renewable energy sector, with a volume of transactions never seen before. Other areas, such as technology and real estate – especially logistics and residential – have also been very active,' notes Jesús Zapata, managing partner of DLA Piper Spain.

Several headline-grabbing deals exemplify Spain's progress over the last two years; EY Abogados and Allen & Overy (A&O) advised American Tower on its multibillion-euro bid for Telxius' European telecoms tower division (with Telefónica, the seller, represented by Garrigues), while IFM's partial takeover bid for Naturgy, where the latter was represented by Freshfields Bruckhaus Deringer, culminated in the purchase of a 10.83% stake in the energy group (A&O advised BNP Paribas in connection with the financing to IFM investors). Elsewhere, Latham & Watkins ushered EIG through its $19bn agreement with Repsol, which was represented by A&O, to acquire a 25% stake in Repsol Upstream.

Predictably, Spain still trumps Portugal in both volume and scale. And yet, belying its size, Portugal's economy continues to be robust. Despite GDP contracting by 8.4% in the first year of the pandemic, the country is on track to make a sound recovery. The relaxation of Covid restrictions and a wave of investments in the infrastructure and energy sectors spurred a 4.9% spike in growth in 2021 (with 2022 growth projections sitting at 5.4%, according to the OECD).

To the surprise of many, the number of insolvency filings in 2020 did not deviate from historical average levels and, in fact, fell slightly during 2021. This came as a shock to those who had predicted a massive surge in insolvencies and restructurings that would have ravaged the bedrock of Portugal's business ecosystem: small and medium-sized enterprises.

'Companies were able to stay afloat, mainly due to government measures adopted to support the economy, such as credit moratoriums, new credit lines, layoffs and the suspension of the obligation to file for insolvency,' says Paula Gomes Freire, who succeeded João Vieira de Almeida as VdA's managing partner in February 2022.

Against this backdrop, private equity houses and international funds drove deal activity to new heights. With ample dry powder and increasing pressure on PE firms to deploy large amounts of capital globally, Portugal's sell-side M&A market remained an attractive option, especially for long-term investors seeking to diversify their portfolios both in terms of location and industries.

Like Spain, Portugal's real estate, technology, infrastructure and energy sectors continue to garner serious attention from both domestic and foreign investors, despite accelerating interest rates and galloping inflation haunting the global markets.

Gomes Freire suggests that an uptick in both strategic and opportunistic M&A may be on the horizon. 'As the inflationary trend continues to spike, we are seeing client activity driven by a desire to use existing liquidity,' she says. 'Market volatility due to inflation, and rising interest rates are favouring investment-grade targets and driving investment into ESG-compliant assets and companies.'

The heightened focus on green energy and decarbonisation globally has put renewables at the forefront of the government's carbon neutrality agenda, making ESG-related compliance increasingly relevant in the Portuguese market.

'The energy sector has also registered greater activity as a result of the energy crisis, which has led to increasing demand and investment in alternative energy sources to reduce the existing dependence on Russia,' says Inês Sequeira Mendes, managing partner of Portuguese firm Abreu Advogados.

In recent years, many Portuguese firms have created ESG-focused departments to address the pressing needs of clients. Transactions are increasingly structured through the lens of environmental concerns. July 2021 saw the largest IPO on the Portuguese stock exchange since 2014, when domestic renewable energy firm Greenvolt raised more than €150m to fund its expansion into Europe. Several months later, Mota-Engil made a public bond issue – the first sustainability-linked bond issue through public subscription from a Portuguese company. VdA acted for the corporates in both instances.

GROWTH AMID CHALLENGES

Despite the adversity, time and again elite independent firms in Iberia have squared up to the challenge. Their breadth of service offering makes them well placed to adapt and reinvent themselves in periods of turbulence: the Eurozone crisis, the Covid-19 pandemic, and the current inflation surge.

Among the top Iberian firms, revenue grew on average by 6.5% in 2021, according to research by El Confidencial. A particular standout in this regard was Pérez-Llorca, which surprised the markets with a 33% increase in turnover. In a market with such strong competition, it is even more impressive to see powerhouses like Garrigues, Cuatrecasas and Uría Menéndez maintain pole position, continuing to report the highest revenues.

But when it comes to growth strategies, Pérez-Llorca has set a standard for Spanish firms looking to expand in Asia after announcing it will become the first to have a presence in Singapore, with a new office set to open in the city state in early 2023. Andersen also bolstered its expansion plans, integrating DA Lawyers and CHR Legal into Andersen Spain, while also consolidating its Portugal presence with the assimilation of Curado, Nogueira & Associados. Meanwhile, Cuatrecasas

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Nelson Raposo Bernardo, Raposo Bernardo

reinforced its position by signing an integration agreement with SLCM – Serra Lopes, Cortes Martins & Associados in October.

While some firms have focused on internal growth, others have sought out talent at rival practices. In Spain, key moves saw Clifford Chance's former employment head Juan Calvente jump ship to Simmons & Simmons in October. Elsewhere, Teresa Zueco left DLA Piper to become Squire Patton Boggs' new Madrid managing partner, as well as head of the corporate, M&A and private equity groups.

'The fierce competition among Spanish law firms to retain and attract talent, not only at senior level, is and will continue to be a key trend in the coming years,' comments Coral Yáñez, co-head of Bird & Bird's Madrid office.

Lateral hires in Portugal have largely held steady over the past year, but top-tier firms have increasingly turned to recruiting former government officials. Assunção Cristas – a former minister of agriculture, sea, environment and territorial planning in Portugal – joined VdA to lead its environmental practice, while PLMJ's finance and corporate groups were bolstered by the arrival of Pedro Siza Vieira, who served as minister of the economy between 2018 and 2022.

STABLE MARKET

Iberia has a relatively stable legal market, particularly at the top end. Well-established independent law firms are at the helm of the most high-profile mandates and consequential transactions in the region. VdA, Morais Leitão and PLMJ dominate the Portuguese market, while in Spain that role is shared by Uría Menéndez, Garrigues and Cuatrecasas, all of which have also managed to establish credible footholds in Portugal.

Save for a handful of Spanish firms, few international outfits have successfully made inroads into the Portuguese market. Among them is Linklaters, the only Magic Circle firm with a tangible presence in the country. But while international players are absent from the market, their impact is still significant.

'Over the past few years, we have seen new entrants such as DLA Piper, CMS and Eversheds Sutherland using their international credentials and competing on scale, sector and local capabilities, while Spanish firms are also trying to capture market share,' comments Gomes Freire. 'This has created increased competition in a very small market where the proportion of high-end, complex, high-value and international work is relatively limited.'

With parliament set to overturn its current ban on multidisciplinary practices (MDPs) and restrictions on regulated professions, Portuguese independent firms are expected to face even tighter competition from new market entrants in the coming years. This reform, which was proposed by the European Commission but put on hold following the dissolution of parliament in late 2021, would make it possible for lawyers and non-lawyer professionals, such as accountants and consultants, to practise together.

This change could herald the biggest shift in the domestic legal market for decades and has fast become the most contentious topic in Portuguese legal circles. Many welcome the opening of the market, though others condemn it on ethical grounds, including concerns around confidentiality. Chair of the Bar Association Luis Menezes Leitão vehemently rejects it, while several Portuguese law firms choose not to comment on the issue.

'Naturally, the entry of MDPs will create a small revolution in the legal market,' says Nelson Raposo Bernardo, managing partner of Portuguese firm Raposo Bernardo. 'We have no doubt that, for clients, a multidisciplinary model will always be the most convenient, but there

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RISE OF THE BIG FOUR

Anticipating the end of the protective regulations, consulting firms spotted an opportunity in the Portuguese legal market as early as 2015. Using its strong foothold in Spain to venture into Portugal, Deloitte was the first to make the move by adding Portuguese firm CTSU Sociedade de Advogados to its legal network. EY followed suit, partnering with Lisbon-based RRP Advogados – founded by a former Linklaters managing associate in 2016. The most recent arrival, PwC, incorporated CCR Legal into its legal network in 2018.

‘We can offer differentiated legal services to clients active across a range of jurisdictions with the certainty there is consistency in terms of methodology, approach, rigour, and innovation, which are all part of Deloitte’s DNA,’ comments Mónica Moreira, managing partner of CTSU, which she says benefits from access to a network of over 2,000 lawyers working across more than 75 countries.

She adds: ‘The ability to provide clients with an integrated global view of the different aspects of their business, their problems and propose solutions is a huge asset. For example, the ability to combine the financial, tax, commercial and legal aspects in an M&A due diligence means added value for the client.’

Boasting deep pockets and longstanding relationships with multinationals, the Big Four legal networks in Portugal have emerged as an attractive alternative for small and medium-sized enterprises seeking cross-disciplinary, document-heavy, and cost-efficient advice. Initially, their efforts were concentrated in areas such as tax, corporate, real estate and compliance, though they are now poised to become a serious contender for work taking place at the intersection of law, technology and automation – a space in which many mid-market and smaller domestic firms find it hard to compete.

Owing to lower profit margins and reliance on work that can be standardised and replicated by consulting firms, it is these firms that are expected to really feel the pressure as the market tightens. However, Sequeira Mendes argues that increasing competition is a natural trend in any legal market, and one that Portuguese independent firms are prepared for. ‘MDPs already exist in many countries, albeit under different models. In none of these markets has this resulted in the disappearance of independent law firms; there will always be room for them,’ she adds.

‘Companies need true 360° advice, with multidisciplinary and highly experienced teams to tackle their challenges from all angles of business law,’ says Fernando Vives, executive chair of Garrigues, which itself merged with the Spanish tax and legal arm of audit company Arthur Andersen in 1997 before becoming independent again following Andersen’s spectacular collapse a few years later.

As they are ranked among the seven-largest law firms by revenue in Spain, the increased pressure from the Big Four is a critical topic of interest for firms operating in the country.

‘They focus on highly standardised, high-volume, mid-market transactions, and in very specific niches in which they have more penetration due to their greater flexibility and ability to add very innovative products to their offer,’ says Zapata.

But while they are exhibiting tremendous growth potential, the Big Four’s penetration of the market does not come without challenges, with conflicts of interest playing a particularly significant role in the scope of their operations.

'They interchange, depending on their exposure or workload due to conflicts of interest that arise from their work as auditors,' says César Albiñana, managing partner of CMS Albiñana & Suárez de Lezo. He believes that traditional law firms still offer a different proposition in the Spanish market: 'These companies provide more due diligence and advisory legal work whereas a law firm covers matters that are more judicial.'

However, Zapata concludes: 'Despite the handicap posed by the incidence of conflicts of interest given their huge number of clients, I believe that in a few years' time these players will be involved in major business law transactions.'

This cautionary stance, stems partially from the fact that the Big Four have also been adding to their workforces. Across all of PwC Spain's business lines, 23 new partners were appointed (eight of these as equity partners) and 895 professionals were promoted. This growth mindset is also shared by Deloitte, where Nicolás de Gaviria has become managing partner. KPMG Abogados grew 7% in terms of headcount, while EY Abogados has seen a 5% increase in its workforce.

With many clients seeking out alternative providers of legal services, a fragmentation of the market is evident, one that traditional law firms will have to adapt to. Consulting firms are already taking advantage of an uptick in diverging demand. As part of its legal managed services (LMS) strategy, EY Abogados integrated Samaniego Law in February 2022, paving the way for one of the first ALSPs (alternative legal service providers) in the Spanish-speaking world.

'In a few years' time the Big Four will be involved in major business law transactions.'
Jesús Zapata, DLA Piper

PROMISING SIGNS

Despite the increased competition faced by traditional law firms in Iberia, the legal sector holds promise. When discussing the future of the Spanish market, Albiñana predicts that 'there will certainly be an increase in revenue, although perhaps not as marked as in the previous year'.

Though 2023 will be marked by uncertainty, lawyers in Portugal are cautiously optimistic. 'We project that the resilience plan will finally be put into practice in a relevant way, and, as a result of this, special attention will be given to the infrastructure, construction, projects and healthcare sectors,' comments Raposo Bernardo.

But perhaps optimism should be tempered. As Vives warns, market players – both new and old – would be remiss to forget that 'geopolitical conflict, the energy market crisis, the tightening of monetary policy and economic contraction' loom around the corner. LB

THE LEADING FIRMS IN PORTUGAL FOR DISPUTE RESOLUTION 2022

TIER ONE

- **Linklaters**
- **Morais Leitão, Galvão Teles, Soares da Silva & Associados**
- **PLMJ**
- **Uría Menéndez – Proença Carvalho**
- **VdA**

TIER TWO

- **Abreu Advogados**
- **CMS**
- **Cuatrecasas**
- **Sérvulo & Associados**
- **SLCM | Serra Lopes, Cortes Martins & Associados**