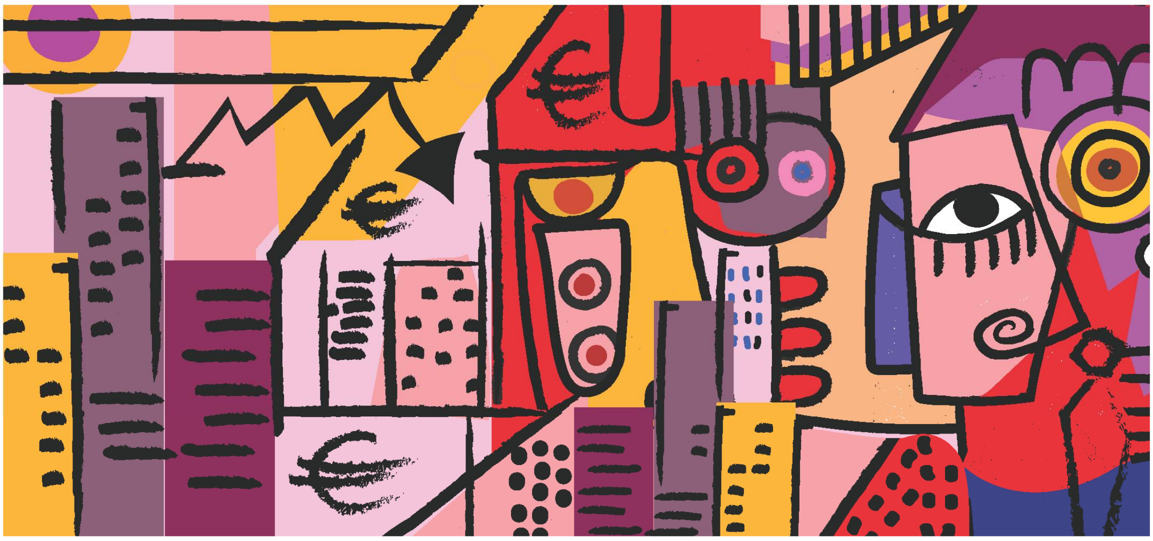

Out the other side

Despite a tentative start to 2023, few in the Iberian market could have predicted how turbulent the past year would be. What next for its independent firms?

DANIELA COSTA AND IMAN TRIBAK

It first appeared that cautious optimism would characterise the Iberian legal market in 2023 but no-one predicted quite how turbulent the year would turn out to be. Rising interest rates, mounting geopolitical tensions in Europe, and a risk-averse investment environment created arduous conditions for deal-making across the continent. Portugal and Spain were no exception.

In 2022, both countries exhibited signs of a robust recovery following the relaxation of pandemic restrictions and a surge in investment in the infrastructure and energy sectors. The year that followed proved to be more challenging. '2023 was not the year for M&A,' says Paula Gomes Freire, managing partner of VdA.

Tougher financing conditions and a mismatch in expectations between buyers and sellers have given rise to prolonged transactional processes and a stark drop in the number of mega deals being negotiated in the peninsula. Already central to both Portugal and Spain's economy, the middle-market became the key driver of M&A activity.

'TMT and real estate were the most active sectors during these past 12 months,' comments Salvador Sánchez-Terán, managing partner of Uría Menéndez. 'As was renewable energy, albeit to a lesser degree than in 2022.'

These trends have been mirrored across the border. According to Nuno Galvão Teles, managing partner of Morais Leitão, the insurance, renewables, real estate, healthcare and technology sectors drove most foreign and domestic investment activity in Portugal. While M&A experienced a slowdown, other more countercyclical practices – namely litigation, restructuring and employment – continued to perform well.

This deceleration in M&A activity dovetailed with a stagnant period for capital markets. The drought of IPOs was particularly acute in Spain. The country experienced its lowest volume of aggregate ECM activity in ten years, failing to attract a single stock market debut in 2023.

Faced with growing uncertainty, and accompanying pressure from shareholders and investors, more and more companies are choosing to delist from the domestic exchange. At the time of writing, at least two Spanish companies are in the process of bailing: Opdenergy, whose IPO took place in July 2022, is to be bought by Antin Infrastructure Partners, while Applus Services has drawn takeover interest from several investors over the past year. With their delisting, they will soon join several other long-established and valuable companies who have exited since 2020, including Zardoya Otis, Mediaset España, Ferrovial, Siemens Gamesa and even Spain's own stock exchange operator, Bolsas y Mercados Españoles (BME).

'What keeps me up at night is the devaluation and the impoverishment of the Spanish market as a whole,' says Pedro Pérez-Llorca, senior partner at Pérez-Llorca. 'We had a dream that this was going to be an important European country with large multinationals conquering the world, and that Madrid would be a decision-making centre. For the last 15 years, that is not what's been going on.'

As alarming as Pérez-Llorca's words sound, he is not without resolve. When asked about how independent firms in Iberia can better prepare for a possible downturn, he proposes two strategies: focus on the core practices or look for growth opportunities. As of late, it is this second strategy that has been a key focus for the firm. The last of the major Spanish independent firms to enter the Portuguese market, Pérez-Llorca opened its Lisbon office in 2023 with the aim of building a versatile team with a 'binational, bilingual and bicultural' approach. Key hires in December and January indicated that the firm was making good on its ambitions.

'Our Madrid office is a window to Latin America. We now have Lisbon, which opens the door to Lusophone legal work, both in Portuguese-speaking Africa and Brazil,' he says.

Portugal is no stranger to Spanish law firms. Well-known players such as Cuatrecasas, Garrigues, Uría Menéndez and Gómez-Acebo & Pombo are longstanding players in the legal market, which is otherwise dominated by domestic independent firms like PLMJ, Morais Leitão and VdA.

With Portuguese firms facing competition from their Spanish counterparts, and those same Spanish firms continuing to battle Global 100 firms for the most prestigious cross-border instructions in the domestic market, talent attraction (and retention) takes centre stage. 'Attracting top talent will continue to be key given our organic growth strategy,' says Sánchez-Terán. 'Beyond this, we believe that the rapid advances that are taking place in the technological field will be the main challenge we face.'

Indeed, to meet evolving client expectations, Iberian firms are now prioritising investment in innovation and the integration of legal tech into their business structure. 'Generative AI is a game changer and will force firms to adapt to a service delivery model based on output and value rather than input and time spent,' says Gomes Freire.

Galvão Teles agrees: 'Firms that invest in innovation are positioning themselves as providing value at a time when clients are strengthening their own in-house legal departments and looking outside only for specialised knowledge.'

Despite the pressures imposed by the accelerated technological race, an intensifying tussle for talent and rising competition in the market, Iberian firms maintain a positive stance when looking to the year ahead. 'M&A is very likely to do better in 2024 and we expect strong activity in the infrastructure, energy and environment sectors fuelled by available public funds under the EU Recovery and Resilience Plan,' says Gomes Freire.

'We foresee a high volume of real estate deals coming in and expect an increase in capital markets transactions, restructurings and a steady flow of M&A deals,' comments Sánchez-Terán.

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Pedro Pérez-Llorca, Pérez-Llorca

The deal pipeline may not be the only thing to worry about. After several years of stability, the Iberian neighbours find themselves staring down respective political crises. Having failed to achieve a majority, Spanish prime minister Pedro Sánchez eventually secured his position in November 2023 after forming a coalition with Sumar, a left-wing alliance, and agreeing to a divisive amnesty deal with Catalan separatists. There is deep scepticism that the government will survive its full four-year term. In Portugal that same month, prime minister António Costa resigned after being the subject of influence peddling and corruption allegations. Parliament was subsequently dissolved, and a snap election called for early March, with many predicting that the socialist party will struggle to repeat its past victories.

Few believe that the current tumult represents a material risk to investor appetite. That said, few were able to predict the extent to which 2023's broader political challenges would depress the market. Cautious optimism is a logical stance. LB

Rank (by Legal 500 ranking)	Firm name	Region	Total lawyers	Total partners	Promotions	Offices	Partner hires
8	**Cuatrecasas**	Iberia	1318	271	10	27	20
9	**Uría Menéndez**	Iberia	705	133	5	12	
12	**Garrigues**	Iberia	1505	334	16	31	6
45	**Pérez-Llorca**	Iberia	327	65	2	8	11
47	**Gómez-Acebo & Pombo**	Iberia	300	51	3	9	2
48	**VdA**	Iberia	269	51	3	3	1
49	**Morais Leitão, Galvão Teles, Soares da Silva & Associados**	Iberia	270	75	4	7	
50	**PLMJ**	Iberia	260	40	3	4	