CDI GLOBAL IBERIA

"SMEs need M&A as much as big companies"

The CDI Global Iberia team at its headquarters in Madrid. From left to right, Carmelo de las Morenas (Managing Partner), Alberto Rojas (Senior Advisor); Eduardo González-Gallarza (Managing Partner), Mónica Corbacho, Administrative Manager, Pablo Martí (Managing Partner), José María Varas (Managing Partner), along with Javier Blasco (Senior Advisor) and Eduardo López (Analyst)..

→ CDI Global Iberia predicts turbulent M&A and private equity markets in Iberia but, at the same time, plenty of opportunities. Mergers and acquisitions will make it easier for small and medium family businesses to cope with the crisis caused by Covid-19, fulfilling its strategic objectives and, above all, allowing them to gain size. Its market niche is operations in the low middle market, a segment of great complexity -such as the merger of Xiomara and Quimi Romar, a double acquisition by GPF Capital-, or advising the Vidal family in the sale of Germaine de Capuccini to Acon Investments and Torreal, projects where the cross-border component can be crucial for growth.

In your niche, the low middle market in Spain, which companies will emerge stronger from this crisis?

In the current crisis, those companies that have carried out previous internationalization work, have improved working capital management, strengthened their balance sheet, incorporated contingency plans, and added new partners will be strengthened. In Spain CDI Global usually works with two situations. We advise mostly small and medium-sized family businesses, which in Spain represent a universe of about 60,000 companies, from about 20 workers up to 250 employees. We also advise companies outside of Spain that want to invest in our country. Our services involve working closely with private equity funds and family offices inside and outside of Spain. Our differential element is that CDI Global offers a leading international network in the lower middle market segment with more than 300 advisors spread over 50 offices in 30 countries with 1,600 closed transactions. Our range in cross border operations is quite wide. The value of some of our most recent transactions is around € 100M, with the average size transaction size between € 10M and € 50M.

What lessons learned from the previous crisis should be applied now?

In the first place, companies, their shareholders, and investors must establish credible and realistic business plans, focused on better management of working capital. Another important element is mergers or integrations. Why do Spanish SMEs need to carry out more corporate development operations? The answer is clear: there is a problem of small size. M&A has become a key instrument to stimulate the growth of SMEs, while making a positive impact on the real economy and employment. The average small and medium-sized Spanish company is making a great effort to achieve the necessary scale to compete globally. We will see in coming years much sectoral consolidations via buy and build, both nationally and internationally.

Before the pandemic, the middle market segment in Spain was particularly dynamic. What is your forecast for the next few months?

We are living in a time of great social pressure due to a substantial increase in unemployment. The business world has its sights set on politicians, to generate confidence in the economic recovery plans. The M&A market has not been immune to the pandemic either. 2020 has been a difficult year for M&A with less activity, but 2021 will be full of opportunities, especially in the most affected sectors, such as retail, hospitality, travel, tourism, leisure, and restaurants. The challenges will be even greater for those companies that are highly leveraged, with ICO loans (government backed loans) and ERTES (temporary extinction of employment) running off or with uncertain cash flows due to the drop in demand. All these factors will make it necessary to strengthen balance sheets, including the entry of new investors. An example of our specialization is complex operations in family companies that need a new partner to grow and have continuity.

Are SMEs increasingly turning to professional experts? Is the market becoming more professional?

Of course. Spanish entrepreneurs increasingly are turning to external advisers, although we are still far from international standards. There are still some businessmen in Spain who are reluctant to discuss any possible changes to their ownership structure. But the reality is that SMEs need M&A as much as big companies. Many Spanish companies, because of their smaller size compared to their European or American counterparts, generate smaller profits, which makes it difficult for them to compete globally. With larger size, gained through mergers, acquisitions and integrations, Spanish SME will become more competitive.

Another of your areas of specialization is MAB (BME growth, Spanish stock market for growth companies) and sectoral expertise in businesses such as telecom / IT, cosmetics, healthcare...

Our sector expertise is focused on healthcare, pharma-biotech, energy, cosmetics, personal care, food and beverages. In more mature markets such as packaging or chemicals we also have an experienced team. In the technology and telecom sectors, we have been at the initial phases of Másmóvil (4th largest telecom operator un Spain), in transactions with Eurona or Adamo and, currently, we are in a process of regional consolidation in the telecom sector. Corporate transactions have also generated a lot of interest in Spanish cosmetic companies, where companies can strengthen the Spanish brand by leading M&A processes. We are also immersed in consolidation operations in the personal care, food, and home cleaning sectors. We believe that consolidations will grow in the coming months. Large industrial groups are also accelerating asset sales and divestments of non-strategic business divisions. For example, we are working on a corporate carve-out mandate in industrial services.

In 2019 they closed operations such as the merger of Xiomara and Quimi Romar, the acquisition of Germaine de Capuccini and the purchase of Metalurgicas Galindo by NBI Bearings...

Envasado Xiomara's mandate was targeted at buying Quimi Romar, a competitor four times its size and controlled by PE, Realza Capital. In addition to the simultaneous sale of both companies, it involved two private equity funds, GPF Capital on the buyer's side and Realza Capital on the seller's, and a debt fund, Oquendo Capital. We believe that the key to a successful transaction was finding the right partner (GPF Capital), Xiomara's synergies with Quimi, and the extensive knowledge that Xiomara's team had both of the sector and of Quimi Romar. In the sale of Germaine de Capuccini, where we advised the Vidal family, was the second investment in Spain of the US fund Acon Investments, after the purchase of Demeter. Germaine de Capuccini fit nicely with its investment strategy—a well-positioned medium-sized family businesses with an international footprint. The challenge was to align the interests of the third generation of the family and, at the same time, successfully close the negotiation.

> **"We are opening offices in Portugal, where we have signed a Partner with extensive experience in M&A and a great knowledge of the Portuguese business fabric."**

José Varas

Managing Director

Areas of expertise: PACKAGING, FOOD, HEALTHCARE and AUTOMOTIVE.

Pablo Martí

Managing Director

Areas of expertise: TMT, CONSUMER GOODS and FOOD.

Carmelo De Las Morenas

Managing Director

Areas of expertise: HEALTHCARE, CHEMICALS, MECHANICAL INDUSTRY and IT.

Eduardo González-Gallarza

Managing Director

Areas of expertise: INDUSTRIAL, INDUSTRIAL & BUSINESS SERVICES and CONSTRUCTION.

We were well acquainted with the North American fund and its interest in investing in Spain, especially in the cosmetic sector, and Torreal once again confirmed its commitment to the Spain brand. With these investments, some close to € 100M in value, we align ourselves with the size of deals in our CDI Global network, without abandoning the low middle market, but entering larger and more complex operations.

Two other strategic markets for CDI Global Iberia are undoubtedly Portugal and Latin America...

Yes, CDI is currently opening offices in Portugal, where we have recruited a partner with extensive experience in M&A and great knowledge of the Portuguese business fabric. In Portugal, we have closed deals in the industrial sector and currently have mandates in food and personal care. We are also firmly committed to reinforcing our presence in LATAM where we already have offices in Mexico, Brazil, Chile, Colombia, Argentina, Uruguay and the State of Florida, an important hub for LATAM.