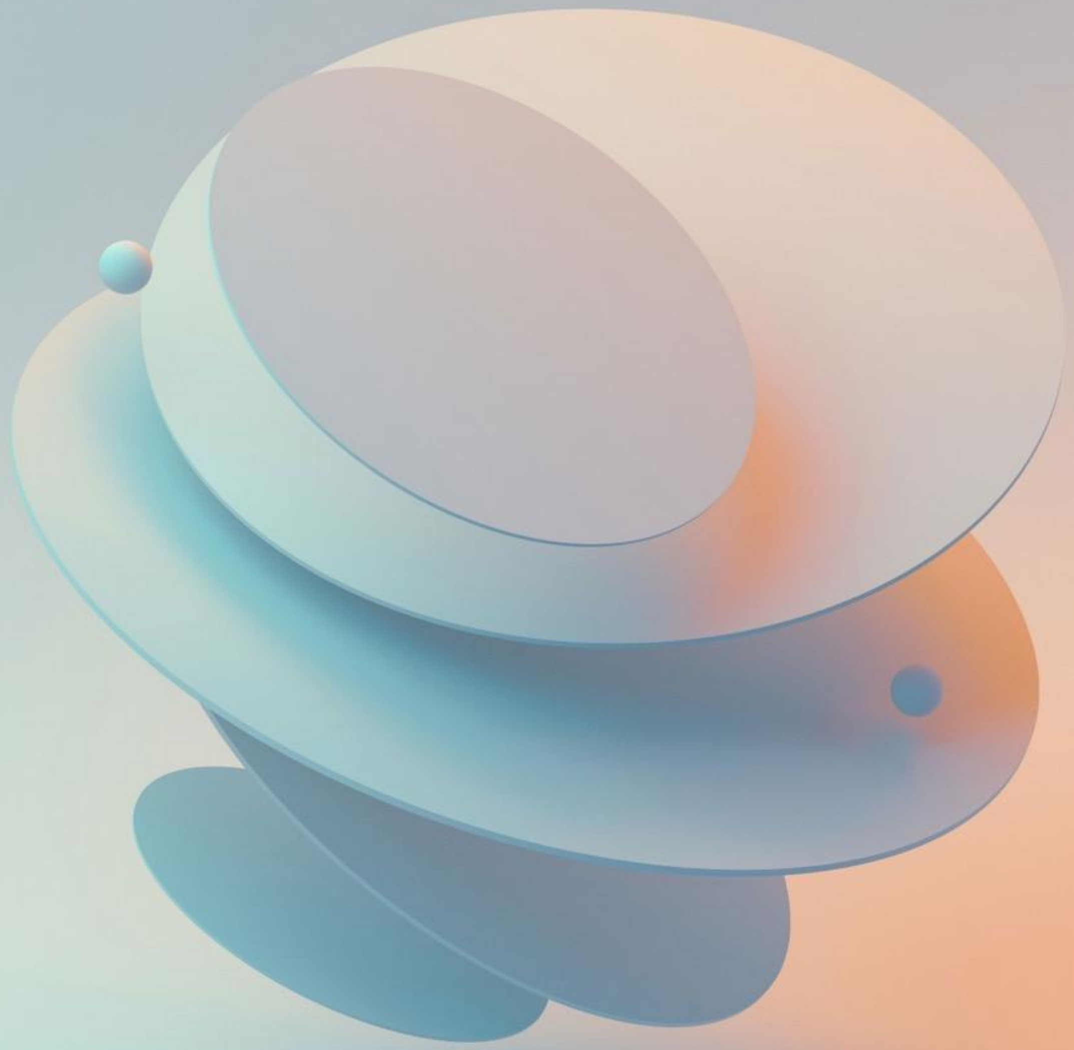
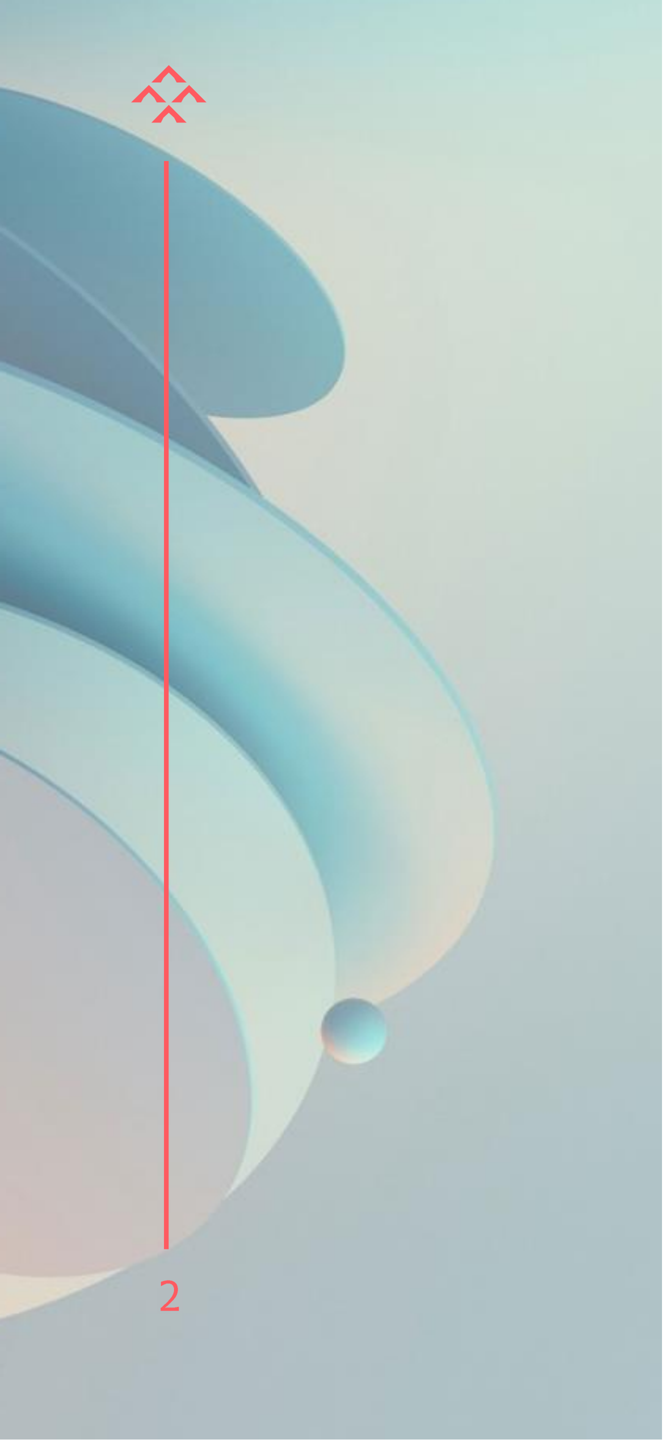
CUATRECASAS

M&A MARKET TRENDS IN SPAIN IN 2024





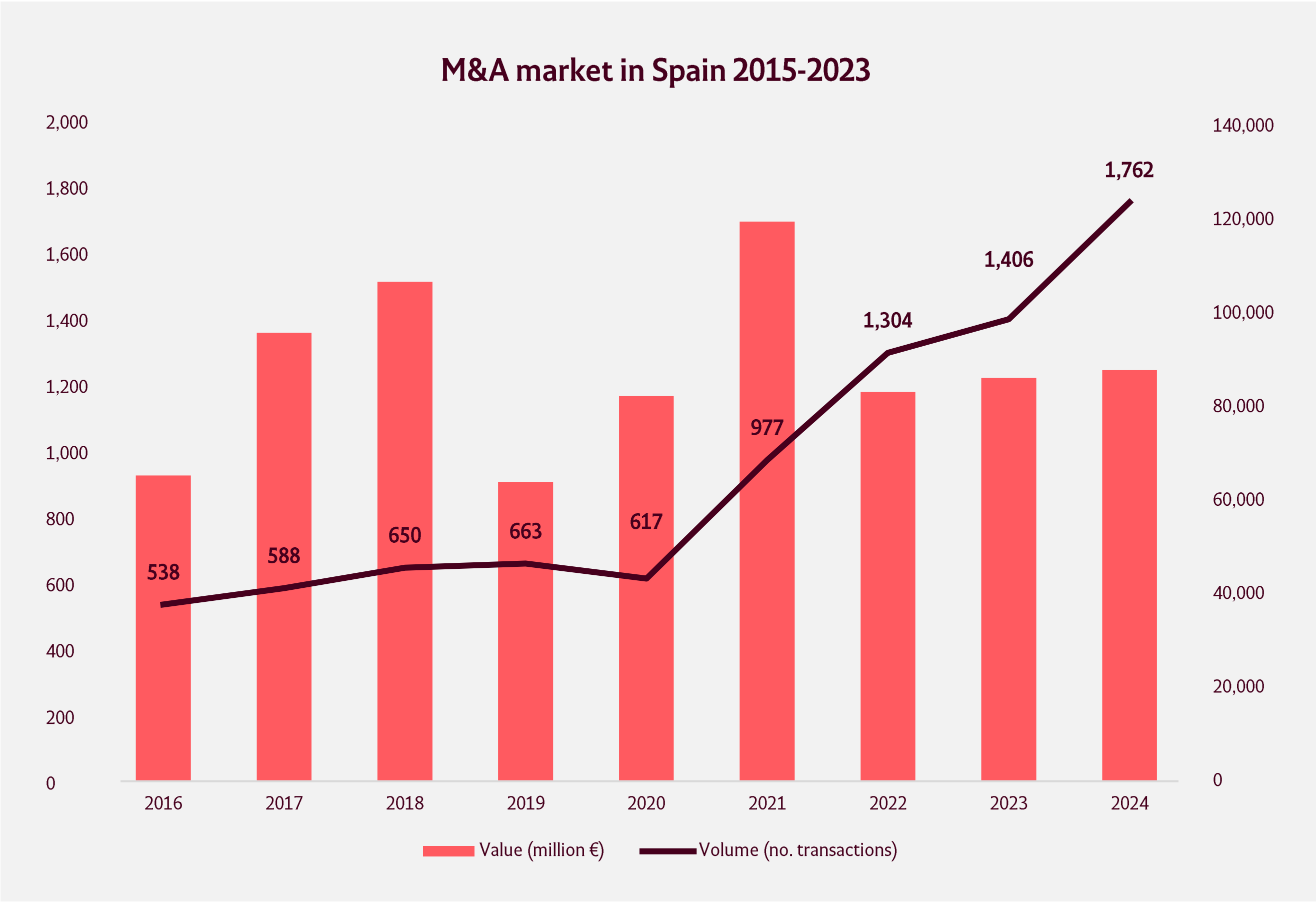
Analysis of the Spanish M&A market

This document analyzes the Spanish M&A market in 2024. It describes the market evolution and identifies the source of investments, providing an overview of the main sectors.

Market overview (i)

In 2024, the Spanish M&A market experienced significant growth in the number of transactions. A total of 1,762 transactions were recorded, representing a 25.3% increase.

The cumulative value of all transactions amounted to €87,571 million (+1.9%), a figure that has remained relatively stable since 2022.

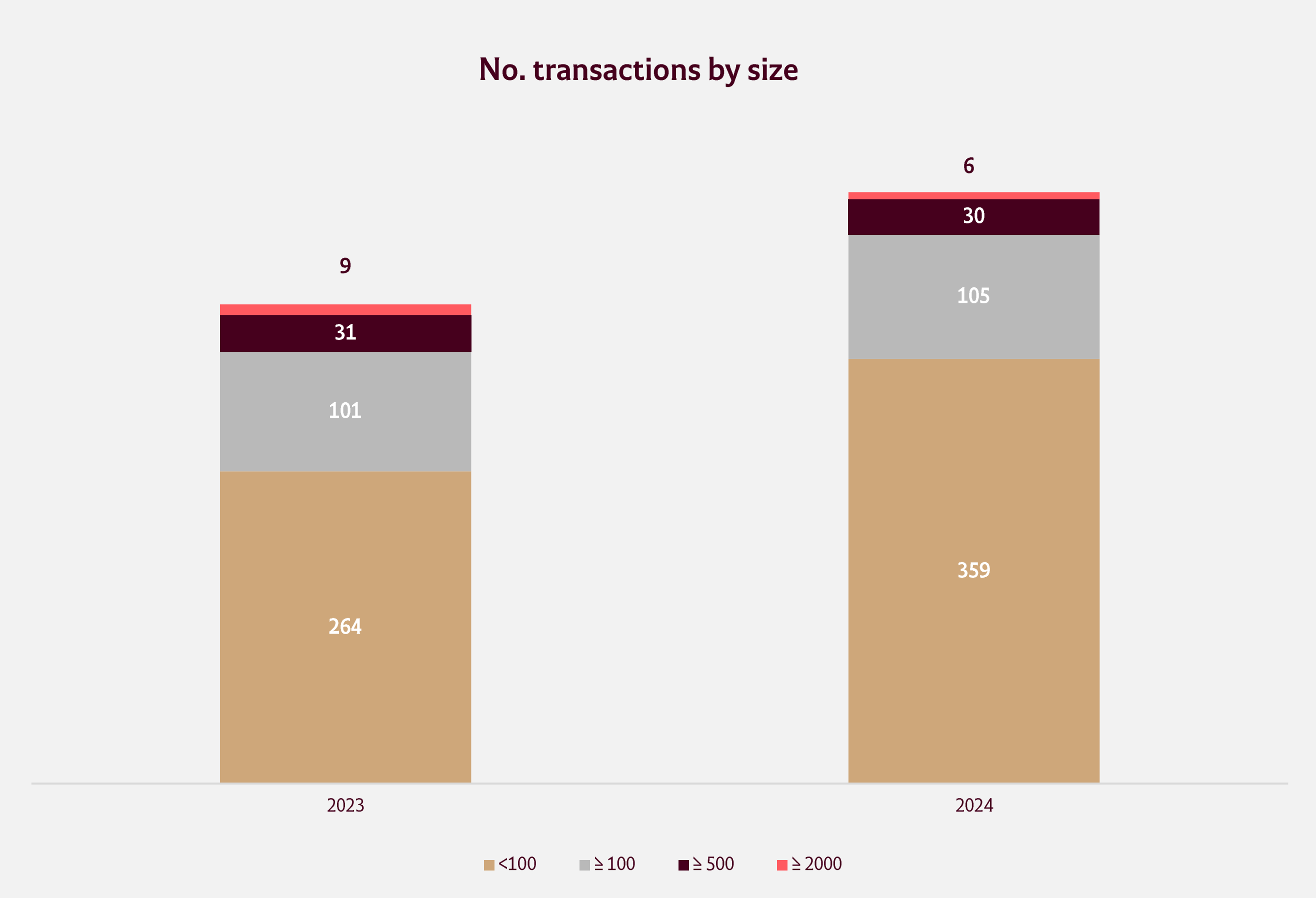


Source: Prepared by the authors based on the data provided by Mergermarket on the publication date of its 2024 league tables (January 8, 2025). Transactions announced between January 1, 2024, and December 31, 2024, involving a target, bidder or seller whose main jurisdiction is in Spain. Canceled or rejected transactions are excluded.

Market overview (ii)

The main increase in activity was driven by smaller transactions, particularly those with no reported value.

The average value of larger transactions is slightly lower than in 2023. However, the total market size has increased due to the growth in the average size of the smaller transactions.



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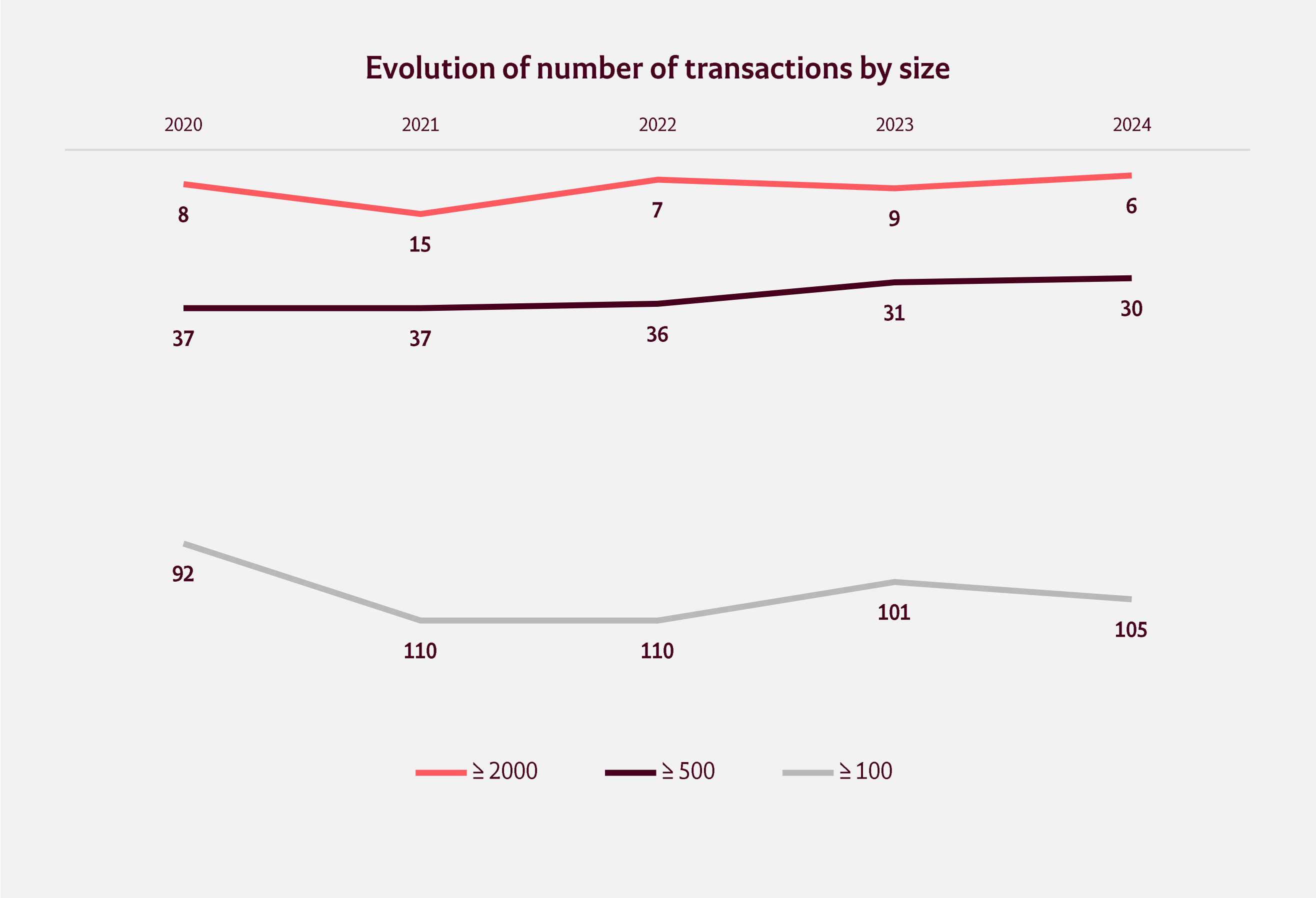
Market overview (iii)

The number of high-end transactions (with a value exceeding €2,000 million) decreased significantly in 2024 compared to 2023, reaching the lowest figure in the last five years.

The number of transactions between €500 million and €2,000 million has also been gradually decreasing since 2020, a year that was marked by the COVID-19 pandemic.

Among the larger transactions, only those in the €100-500 million segment experienced a slight increase.



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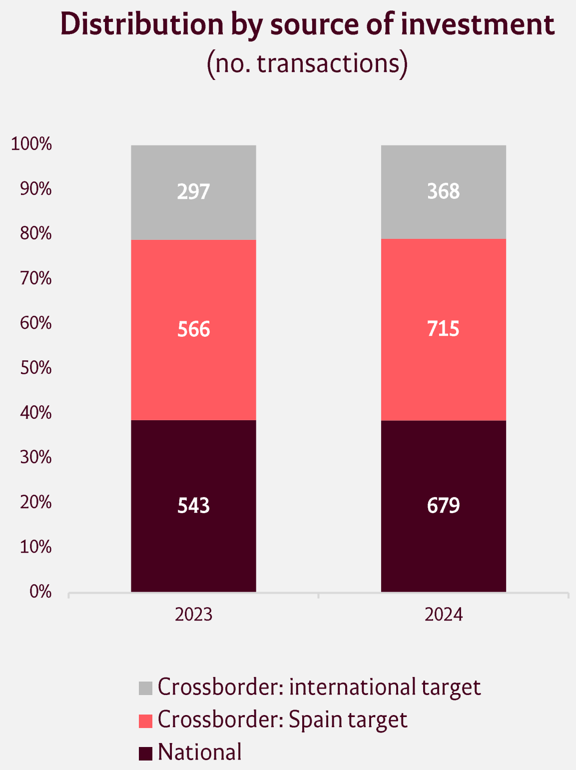
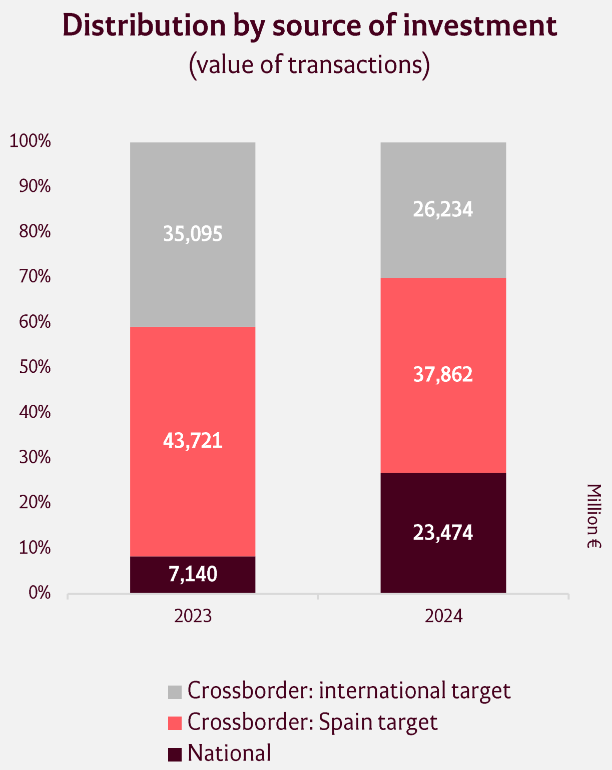
Source of investment

The market structure by number of transactions remains stable: crossborder transactions (61%) predominate, mainly involving inbound investments (Spanish target), which are growing across all segments.

These transactions constitute the highest value segment, accounting for 73% of the total.

The value of domestic transactions (Spanish purchaser and target) grew significantly in 2024 (+229%), mainly due to BBVA's takeover bid for Banco Sabadell.





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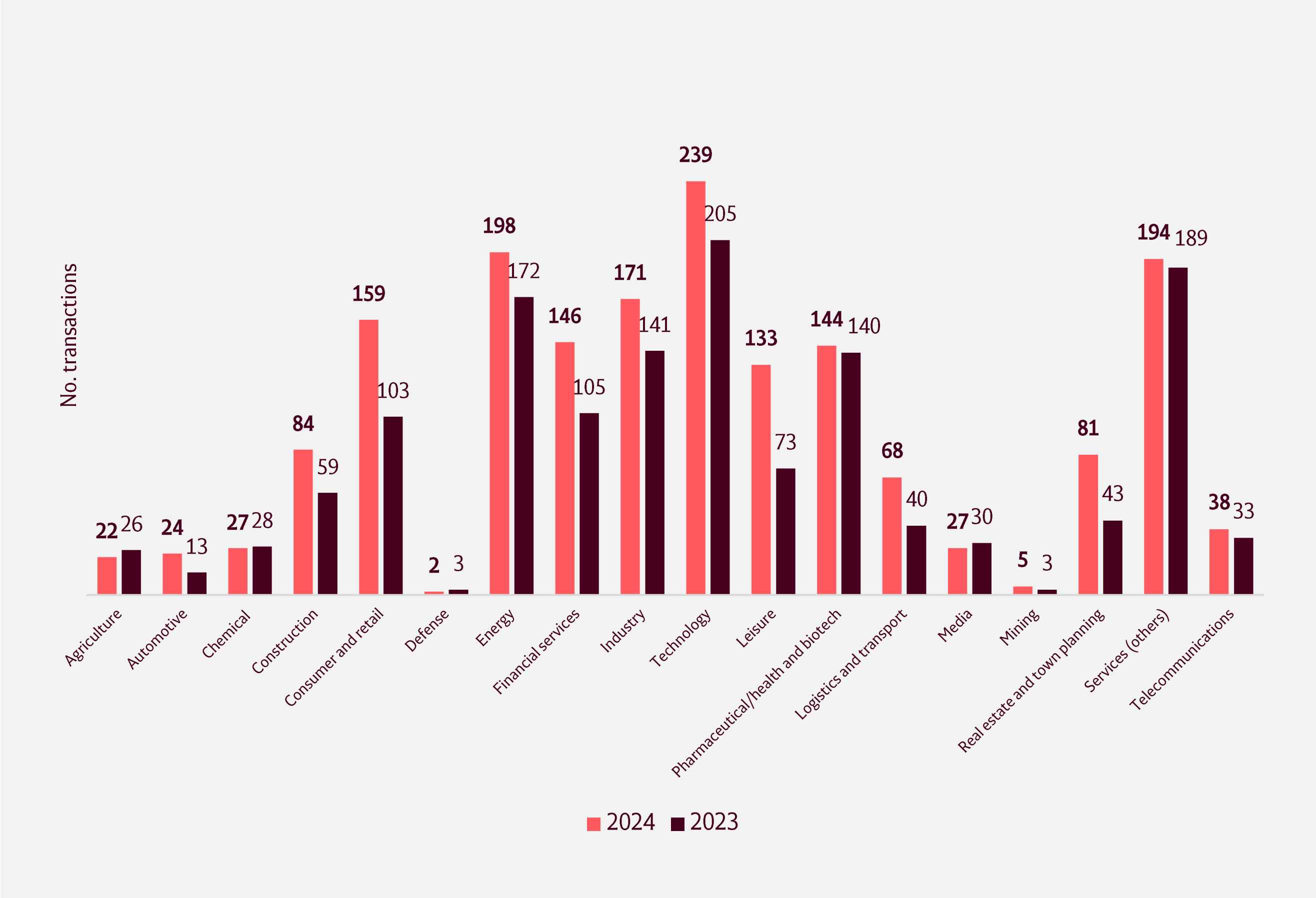
Overview of the main sectors

As in recent years, the technology/internet, industrial, energy, services, and consumer/retail sectors dominated the market in terms of the number of transactions, accounting for more than half of the deals recorded.

M&A activity increased, particularly in the automotive, leisure, real estate and consumer/retail sectors. The agricultural, media, and chemical sectors recorded lower activity compared to 2023.



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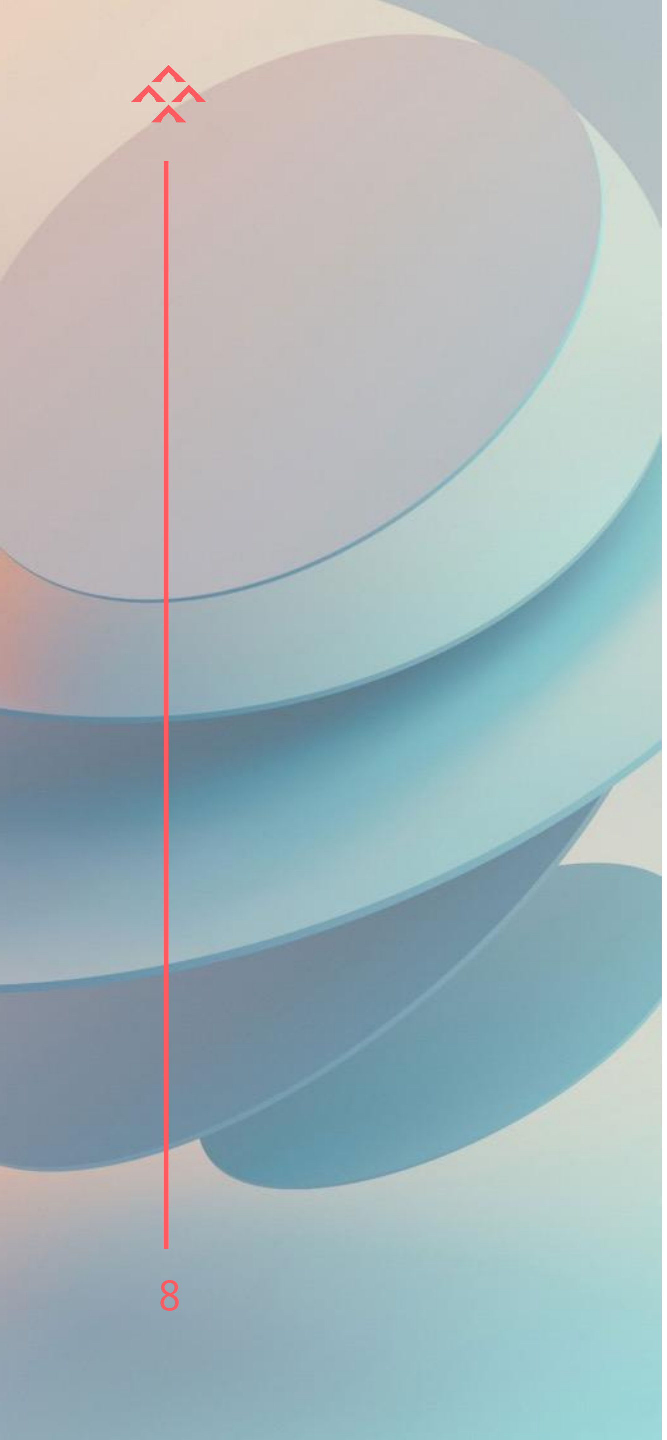


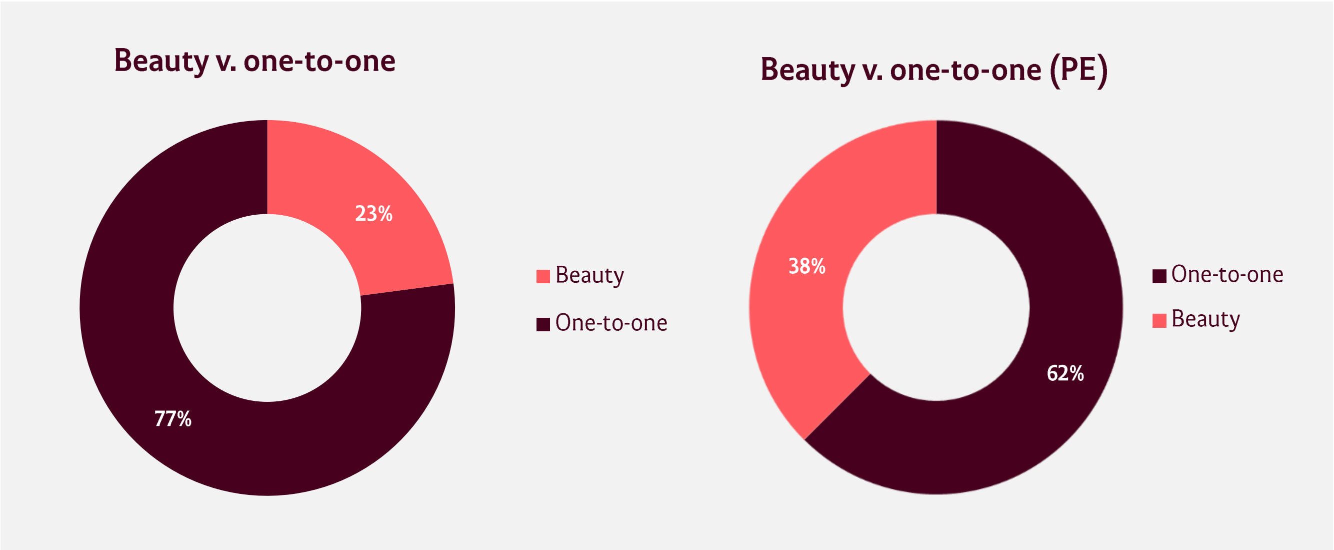
Analysis of M&A transactions

This study reflects the trends in the Spanish M&A market in 2024, based on an analysis of over fifty transactions on which Cuatrecasas advised during that year.

All the transactions examined in this study relate to the purchase and sale of shares in private limited companies and public limited companies, and all of them have a value exceeding €10 million.

1. Auctions

A slight increase is reflected in transactions negotiated within the framework of an auction, which rose from just over 17% in 2023 to 23% in 2024. This sales process structure is the option chosen by the majority of private equity funds for their exits. In fact, if we focus solely on private equity transactions, the percentage rises to 38%.

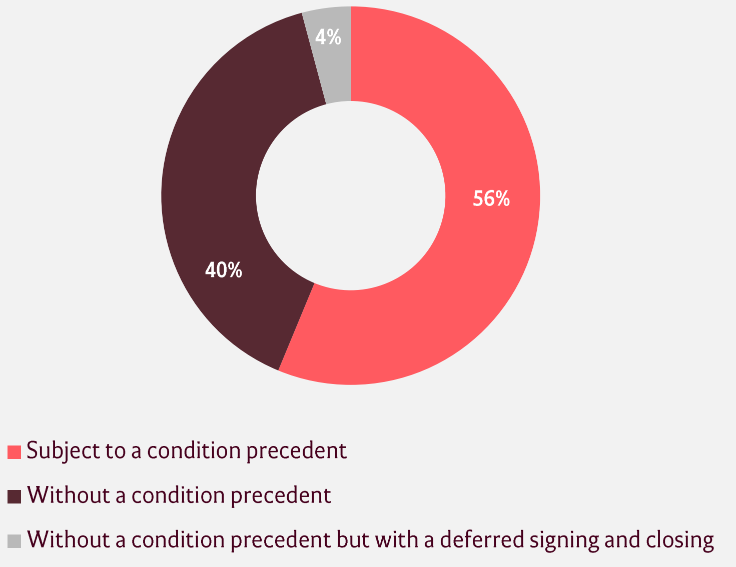


2. Conditions precedent

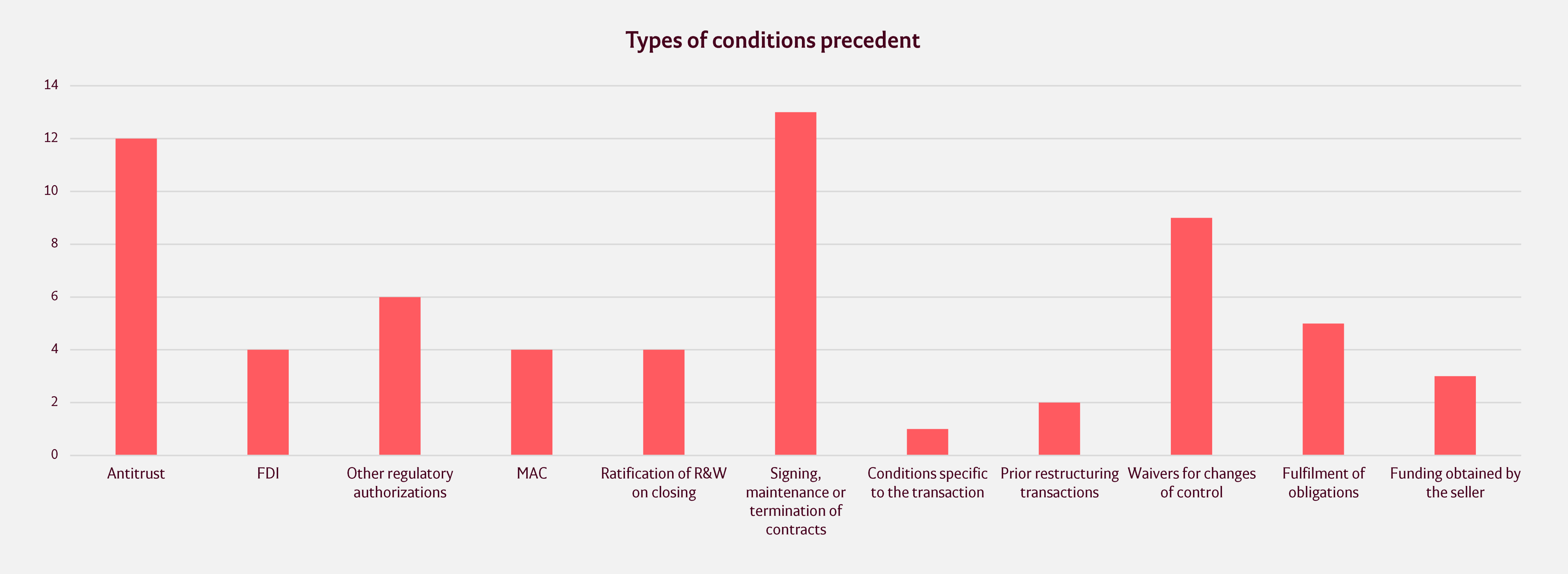
Over half of the transactions had deferred signing and closing due to the inclusion of conditions precedent. If we consider only transactions above €100 million, the percentage is 100%.

As is customary, the conditions precedent governing the agreements come in various forms. The following are noteworthy: (i) regulatory authorizations, particularly antitrust and to a lesser extent in FDI; (ii) those related to the signing, maintenance or termination of certain strategic contracts; and (iii) the provision of waivers for changes of control (e.g., of banks and suppliers).

Simultaneous v. deferred signing and closing



2. Conditions precedent

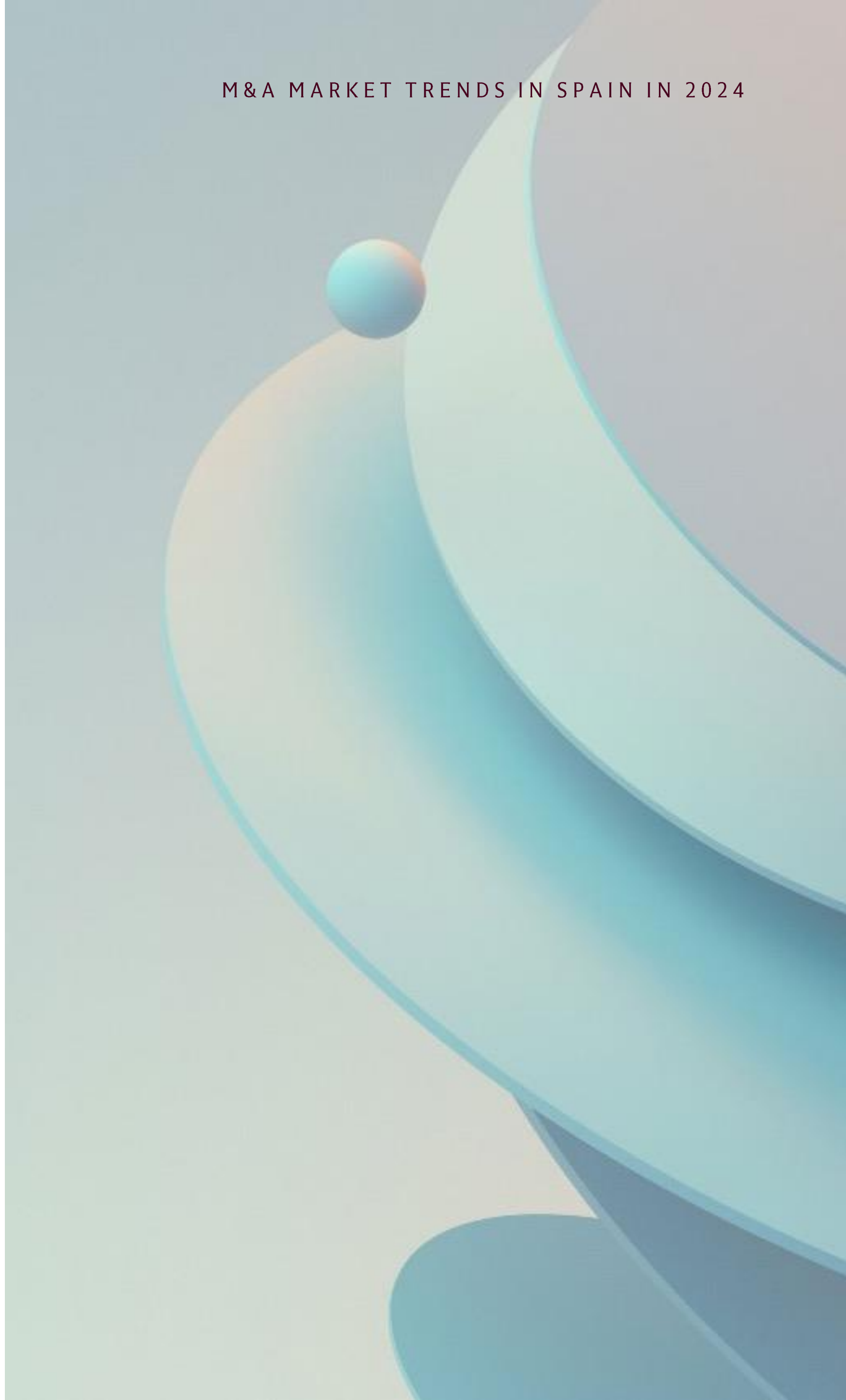


3. Price

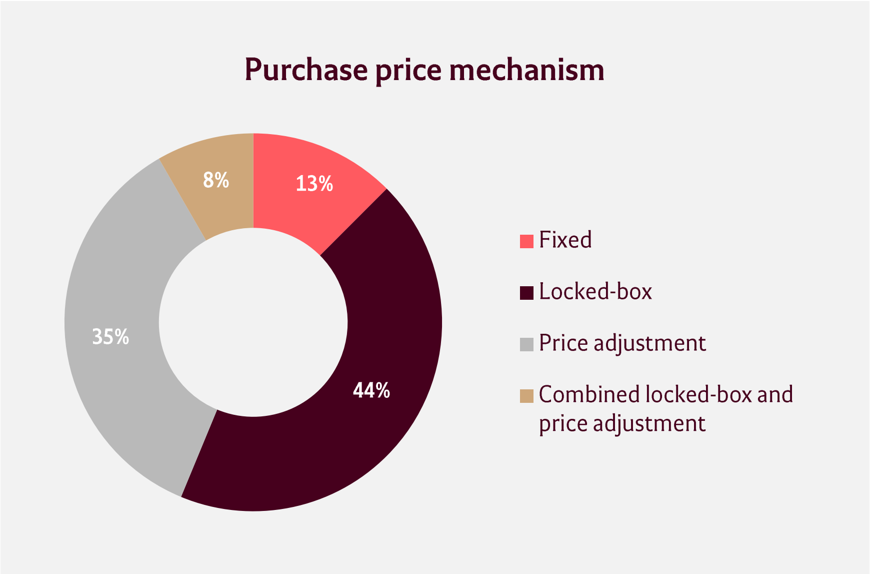
The locked-box mechanism was used more frequently than the price adjustment mechanism with closing accounts (44% of transactions v. 35% of transactions), especially in private equity deals, where it is the predominantly used mechanism.

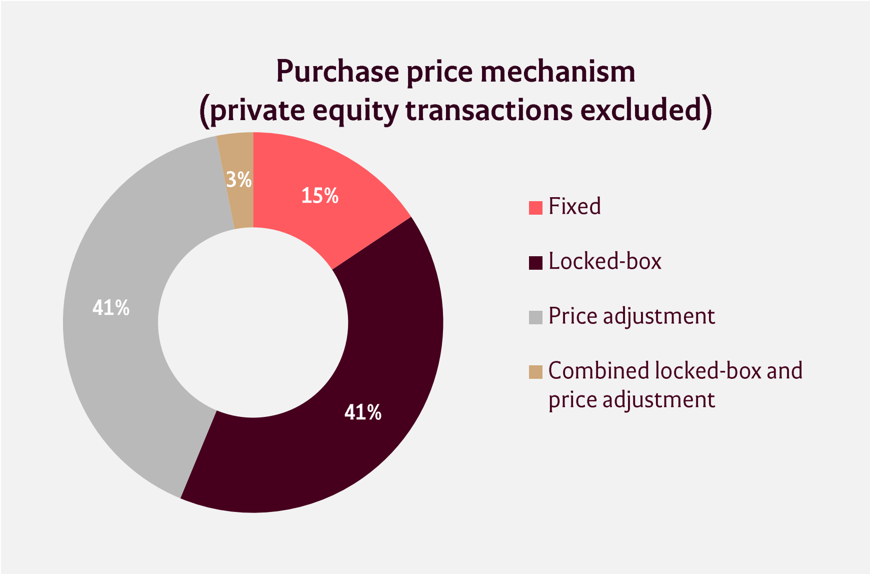
Among the transactions that opted for a locked box, 20% of them included an equity ticker (i.e., interest on the price between the locked-box date and the signing or closing date) or added interest to the leakage amount. Its usage increased compared to 2023, where the parties included it in 14% of the agreements, with these being—almost exclusively—private equity transactions. However, in 2024 it was used in both private equity transactions and non-private equity transactions.

Among the most common financial parameters used for the price adjustment, the most frequent were net debt and the reference to working capital (23% of the transactions used the debt as a parameter for the price adjustment, 10% used working capital, and 33% used both parameters).



3. Price

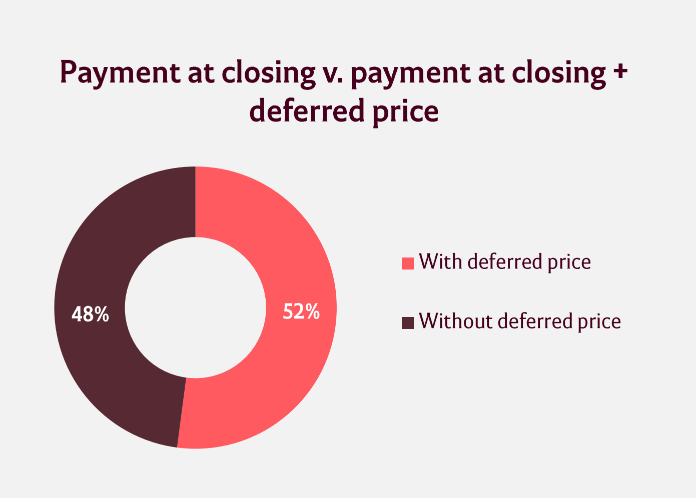

Purchase price mechanism
8%
13%
35%
44%
Fixed
Locked-box
Price adjustment
Combined locked-box and price adjustment

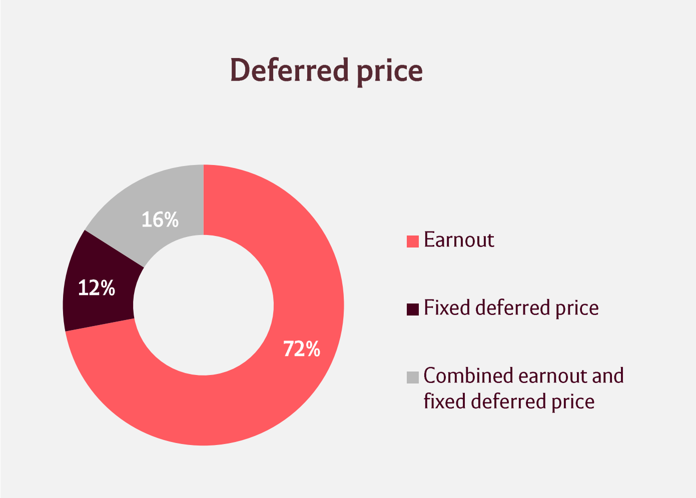

Purchase price mechanism
(private equity transactions excluded)
3%
15%
41%
41%
Fixed
Locked-box
Price adjustment
Combined locked-box and price adjustment

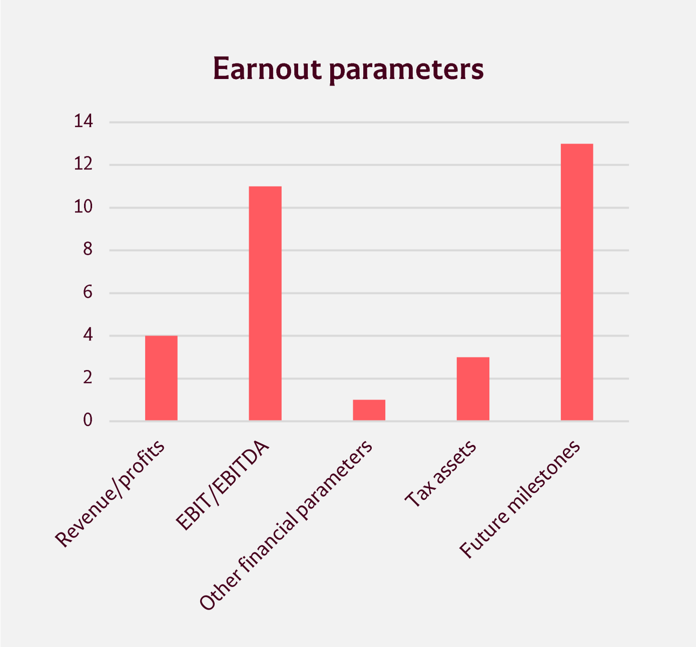
3. Price

Regarding the timing of payment, in more than half of cases, the parties agreed to an initial price and a deferred price. Among the cases involving deferred prices, 72% were earnouts, 16% combined a fixed deferred price with an earnout, and the remaining cases included a fixed deferred price.

The parameter most widely used for calculating the earnout was EBIT and EBITDA, as well as the achievement of a specific milestone (e.g., the resolution of a dispute or the collection of a debt).



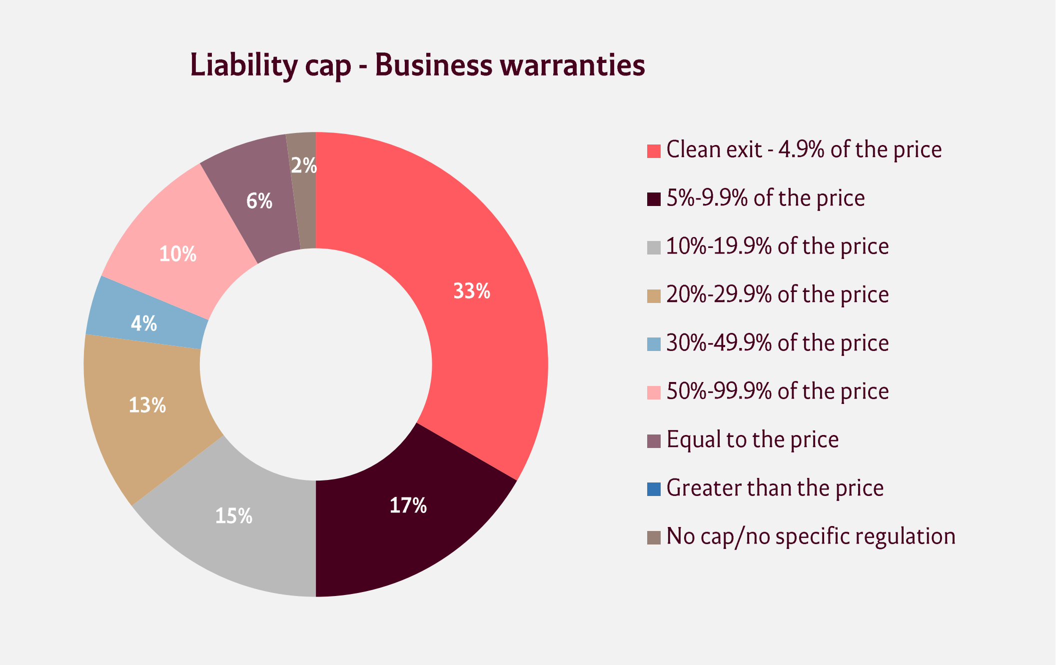


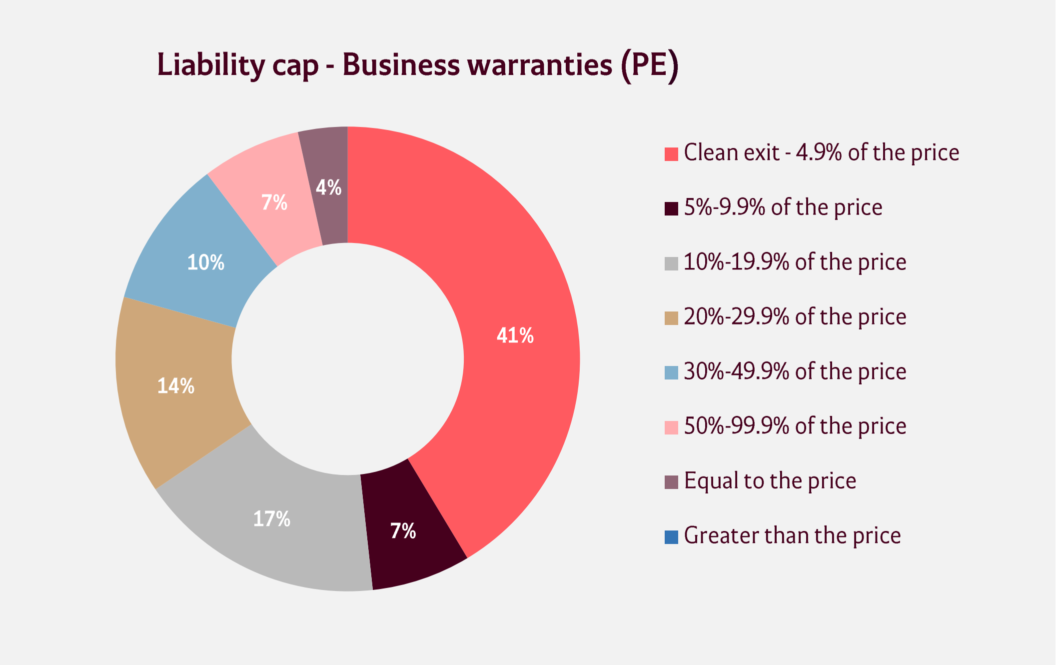


4. Seller's liability (liability cap - Business warranties)

The liability cap for the business representations and warranties given by the seller in the different transactions varied considerably, but the vast majority (82%) were below 50% of the purchase price.

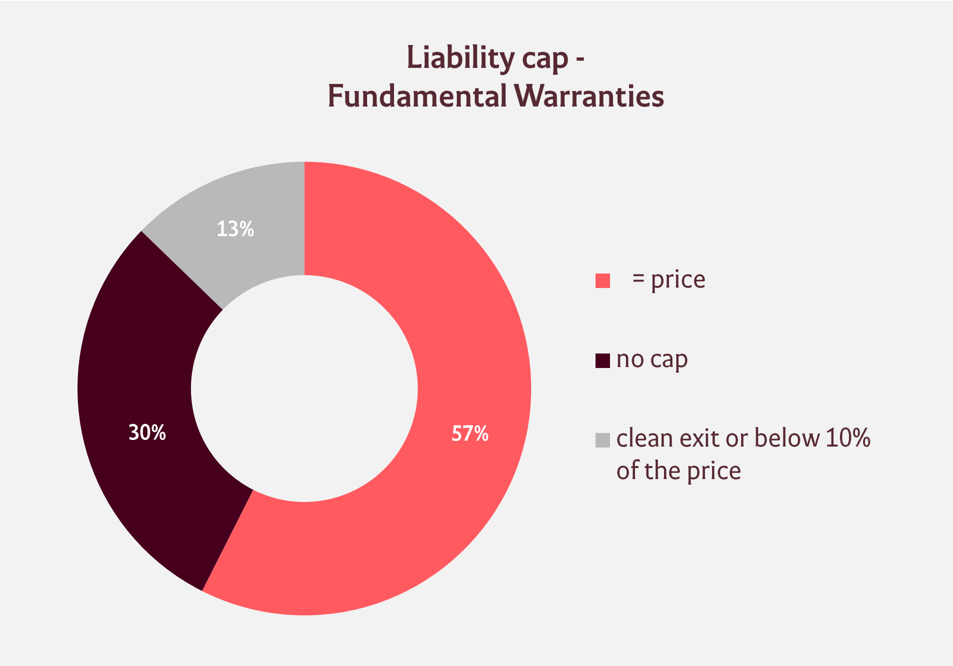
In comparison with solely private equity-related transactions from the last two years, the figures are noticeably similar, although the latter facilitated many more clean exit transactions due to the increasing use of W&I insurance.



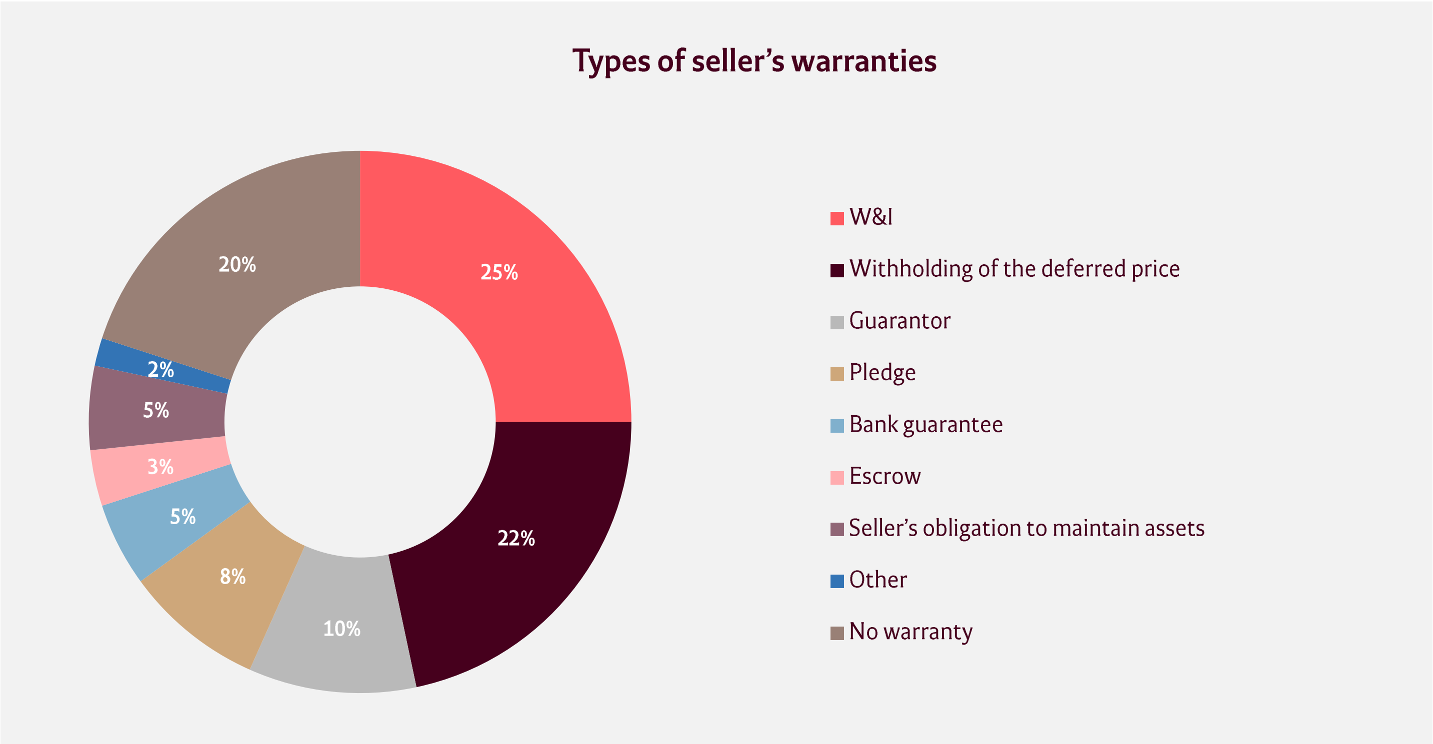


4. Seller's liability (liability cap - Fundamental warranties)

With regard to the seller's liability for breach of fundamental warranties, as is customary, the vast majority of contracts establish a liability cap equal to the sales price or do not include any caps at all.



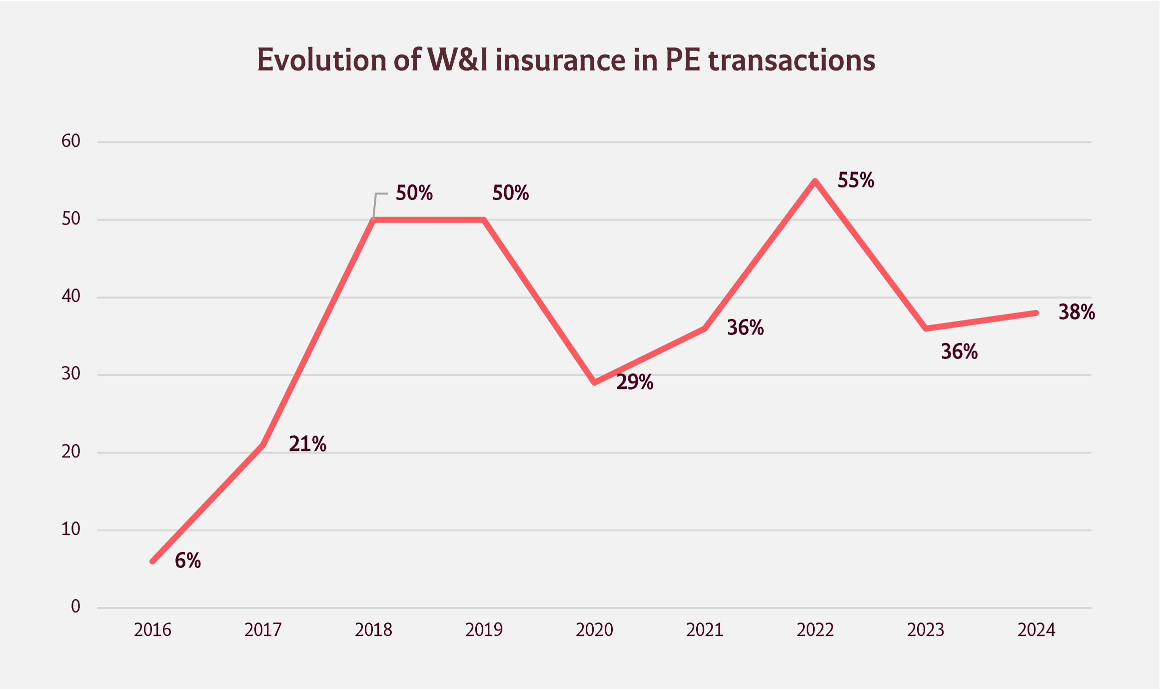
4. Seller's liability (types of seller’s warranties)



4. Seller's liability (W&I insurance)

Unlike private equity transactions where the use of W&I insurance is a common practice (according to our statistics, it was used in more than half of transactions in 2022, 36% in 2023, and 38% in 2024) the percentage decreases to 25% when considering all M&A transactions.

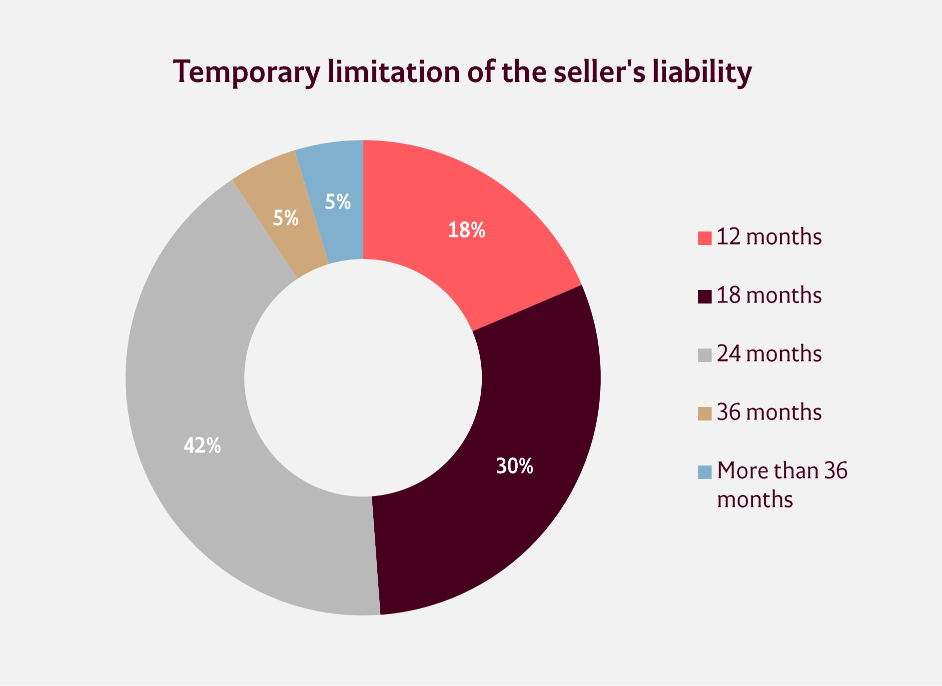
All in all, in 2024, 60% of the transactions that opted for the use of insurance were M&A transactions in which a private equity fund was not involved, indicating that its use is also becoming widespread outside this sector.



4. Seller's liability (temporary limitation of the seller's liability)

Regarding the time limits for the seller's liability, the most common period for business representations and warranties was 24 months (42% of transactions) and 18 months (30% of transactions), with very similar figures to those of 2023.

The limitation period applicable to the fundamental representations and warranties (both as to title and capacity), as well as tax, labor, and social security matters, is typically the statutory limitation period. Depending on the type of transaction and the sector, the extension of the limitation period to the statutory period was also seen in relation to representations and warranties of a criminal or administrative nature and, to a lesser degree, in those relating to intellectual property or data protection.

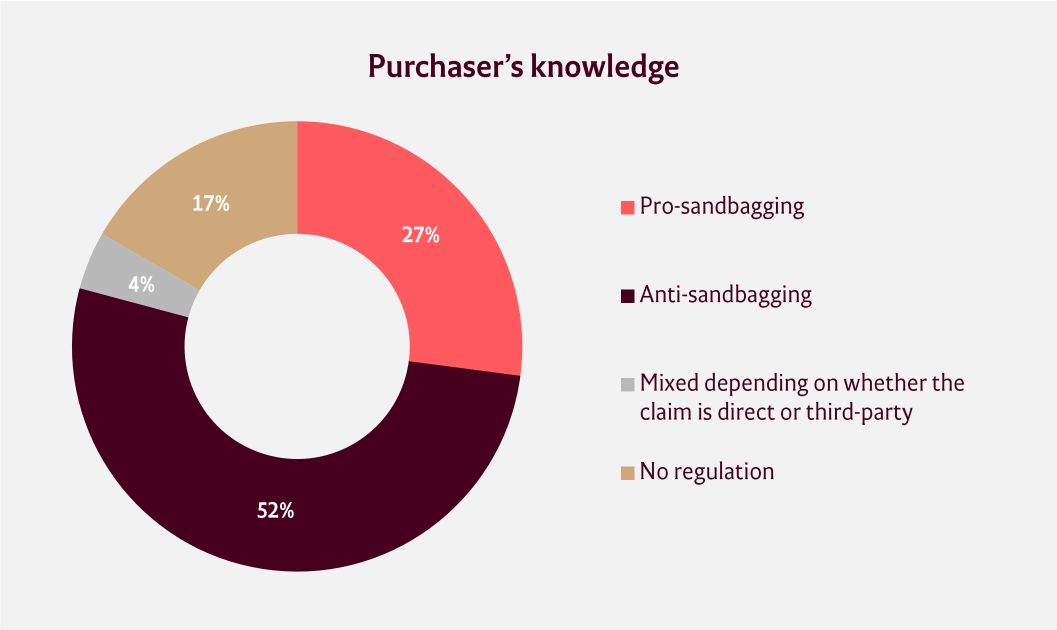


4. Seller's liability (sandbagging)

The vast majority of the agreements regulate the impact that the purchaser's knowledge has on the seller's liability (this occurs in 83% of transactions).

In 52% of cases, an anti-sandbagging clause was agreed upon (i.e., the purchaser's knowledge limits the seller's liability), while in 27% of cases, a pro-sandbagging clause was agreed upon (the purchaser's knowledge does not limit the seller's liability). Sometimes a mixed solution is agreed, whereby the purchaser's knowledge does not exclude the seller's liability in the case of third-party claims, but does exclude its liability in direct claims (4% of transactions).

An increasing trend is that nearly half of the transactions that included an anti-sandbagging clause limit liability to the information fairly disclosed to the purchaser in the due diligence materials or otherwise.

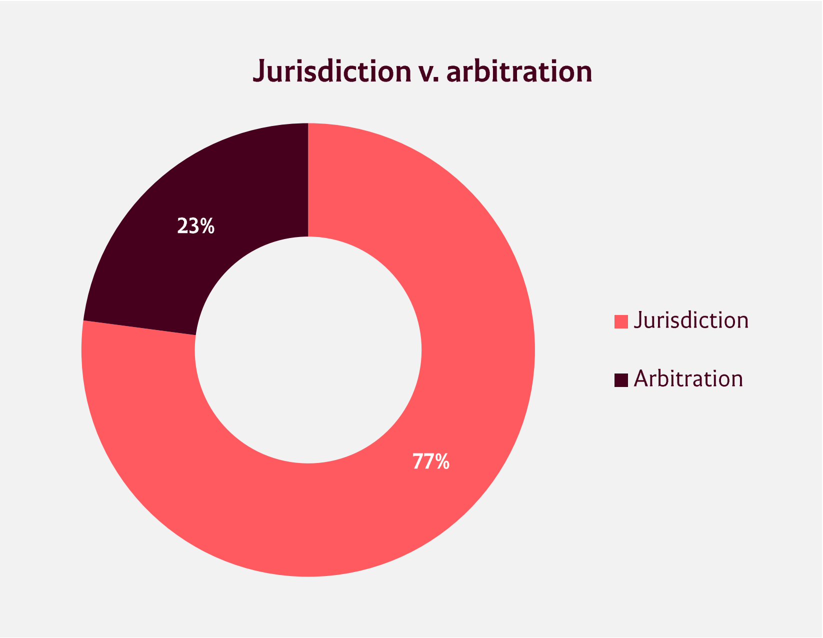


5. Dispute resolution

The use of arbitration as a dispute resolution mechanism has declined, being opted for in 23% of cases in 2024, while in 2023 it was opted for in 30% of cases. Jurisdiction was the option preferred by the parties in 77% of transactions.

In transactions where arbitration was chosen, Madrid (primarily) or Barcelona were the venues selected in virtually all transactions.

The forum selected in two-thirds of the cases was either the International Chamber of Commerce (ICC) (36%) or the Civil and Commercial Court of Arbitration (CIMA) (27%).



What can we expect in 2025?

01.

ACTIVE MARKET

We expect the increase in the value of transactions in 2024 to continue, encouraged by a gradual moderation in inflation and decreasing interest rates. We believe that the price expectations of sellers and the valuations offered by purchasers are gradually beginning to converge.

02.

INCREASE IN PRIVATE EQUITY EXITS

Despite financing costs still being higher than they were when many large investments were made, with interest rates stabilizing we expect to see a surge in divestments by private equity funds. Many funds decided to postpone their exits with the expectation of achieving better results and have focused on maximizing their portfolio. We expect the increase in divestments in 2024 to continue in 2025.

03.

FOCUS ON STRATEGIC SECTORS

We anticipate a continued focus on strategic sectors, such as energy and technology, and also expect an active market in the hotels and food sectors.

What can we expect in 2025?

04.

REGULATORY AUTHORIZATIONS WILL CONTINUE TO CONDITION THE MARKET

Due to the publication of the decisions of the European Commission, we expect a more active and transparent enforcement of the regulations on foreign subsidies and direct investment control. In any case, regulatory authorizations—in matters mainly concerning antitrust, but also in foreign investments and foreign subsidies—will continue to influence transactions.

05.

EARNOUTS

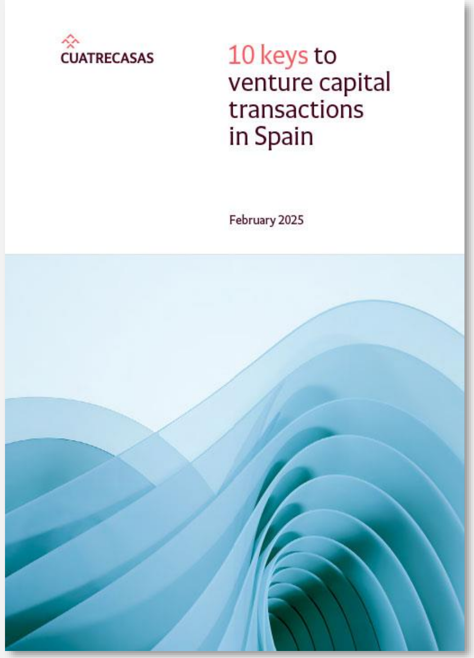
We expect the use of variable pricing or earnouts to continue throughout 2025 (the increase in which was already very significant in 2024), as these types of instruments help the parties to reconcile different expectations regarding the valuation of the target company.

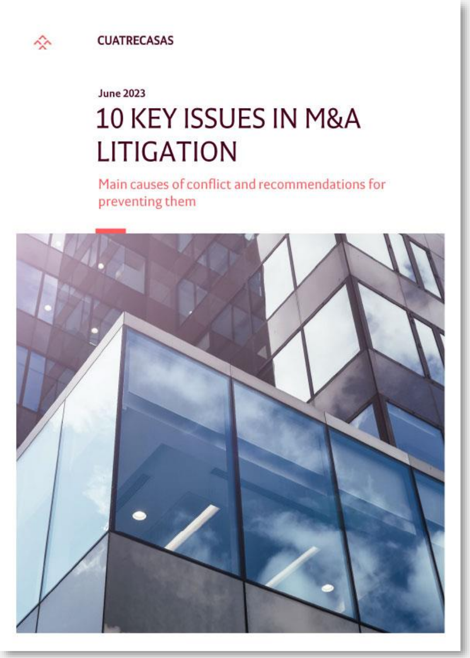
06.

DURATION OF THE TRANSACTIONS

The duration of the transactions has been particularly lengthy in recent years, primarily due to the valuation gaps and uncertainties in the market. The parties are taking longer to reach an agreement on the price to be paid for the target company, and purchasers have divided the due diligence process into several successive phases, investing in them gradually as they obtain certainty about the transaction, rather than conducting the various due diligence phases simultaneously (e.g., financial, technical and legal).

Other publications





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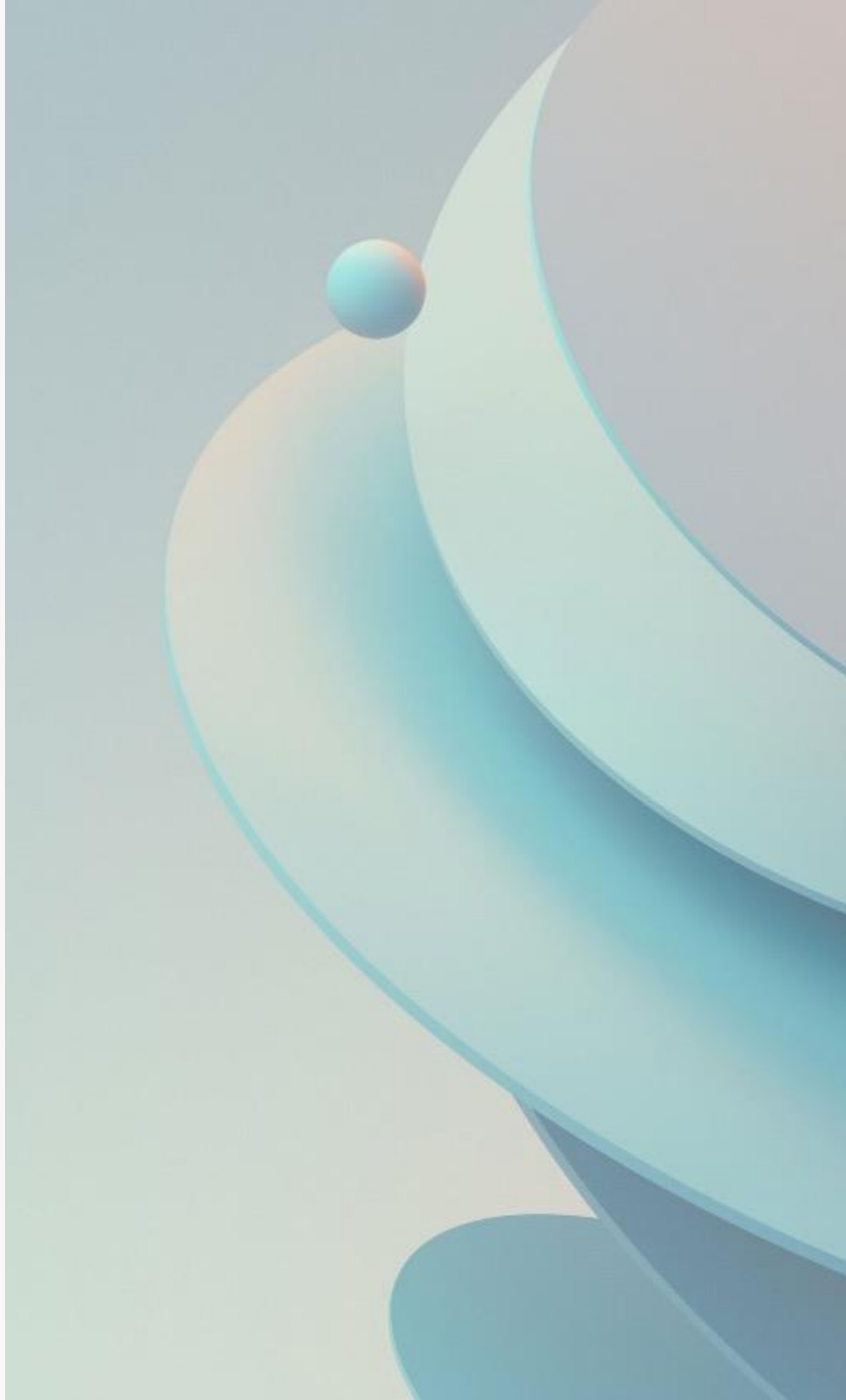

Corporate and M&A

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Bloomberg

"Cuatrecasas combines strong functional knowledge with business understanding and great client management."

Chambers, 2024

Fact sheet

25
Offices

+2000
Lawyers

12
Countries

29
Nationalities and 16 languages

+300
Lecturers and 9 professors

26%
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LACCA

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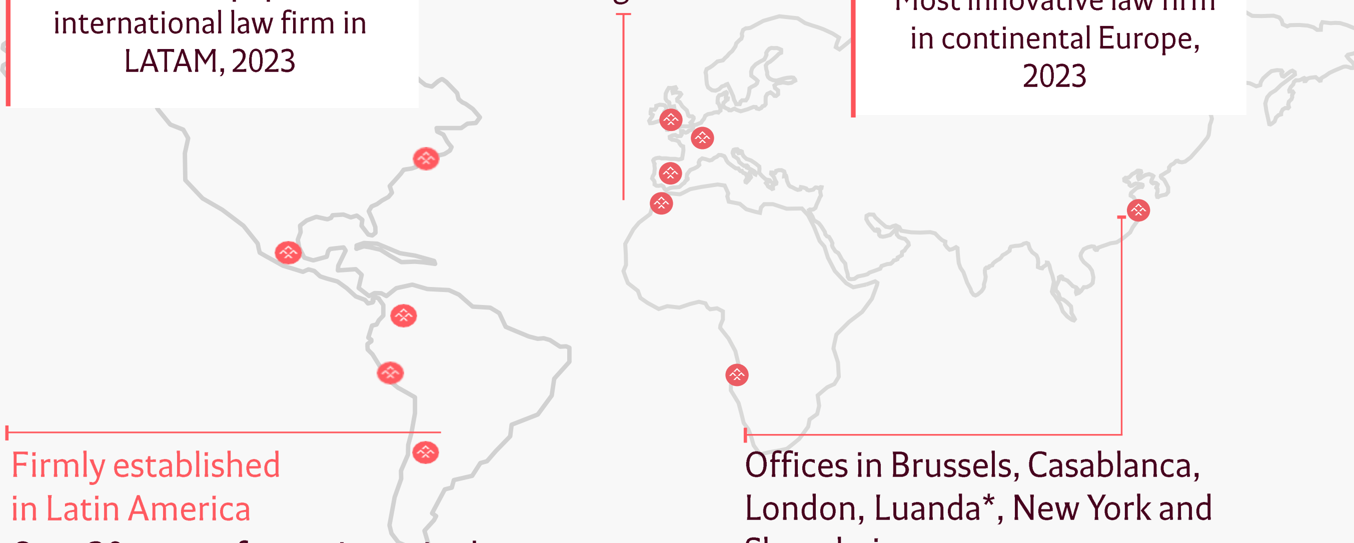
Maximum presence on the Iberian Peninsula
13 offices in Spain and 2 in Portugal

FT INNOVATIVE LAWYERS EUROPE 2023 WINNER

Most innovative law firm in continental Europe, 2023



Firmly established in Latin America
Over 20 years of experience in the Latin American market; offices in Chile, Colombia, Mexico and Peru

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