TIME FOR THE FUTURE

As we approach June and the end of the first semester of 2020, firms are thinking about the rest of the year. The sanitary crisis caused by the pandemic of the new coronavirus caused a halt in businesses in general, and areas like M&A, which include Private Equity, had to readjust schedules and wait for better days.
José Costa Pinto, founding and co-managing partner at Costa Pinto Advogados gives us his view

by patricia cardoso

As the governments start to ease on sanitary measures and companies are getting back on their feet, alternative ways of working and funding emerge. Are we looking at a renewed market, with new opportunities, or is it still too early to make such affirmation?

2019 was a good year for Private Equity. The previous year marked a record fundraising year in terms of capital raised. "European IT deals accounted for €79 billion of the total value in 2019, the highest annual figure for the sector. Nearly 60% of IT deals occurred in the software space. Further, subsectors of business & productivity,

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financial, application, and network management software accounting for most of the total deal count, according to the research “Recent trends & statistics in European Private Equit ”, published in february 2020, in **Venture Exchange**.

At the beginning of the year, according to the study published in april 2020, called “Private Equity 2020 Outlook: The start of a new decade” by Francisco Bolota and Maria Mikolajczyk, members of the **Bocconi Private Equity Club** at Bocconi University in Italy, Private Equity firms had accumulated almost €1.5 trillion in unspent capital, more than three times the total amount of last year’s Private Equity deals (€450 billion according to Bloomberg). “Right now, the competition over a limited number of high-quality assets remains robust – higher amounts of dry powder for the main industry players may cause PE firms to offer higher multiples to surpass the competition from peers and, consequently, deals that can yield lower returns due to the excessive acquisition prices. Since paying high multiples also adds pressure to obtain results, thoughtful consideration can be crucial when considering how to use these record levels of dry powder efficiently,” the study says. And there is a lot of room tho grow. The Private Equity industry currently represents less than 5% of total global assets under management and less than 2% of total investable capital worldwide, leaving plenty of room for investment.

With the world dealing with the current crisis, this set of perfect circumstances was affected, but **José Costa Pinto**, founding and co-managing partner at Costa Pinto Advogados, thinks have not stopped completely. “Even though many businesses have been suspended or even collapsed, I think that those who have to be aware of the market, the opportunities and execute the deals have not exactly stopped,” he says.
For the partner, the pandemic only accelerated an ongoing process. “I believe that most of the businesses that fell were those that, with or without a pandemic, were likely to fall and those that were suspended will generally be completed. What I feel in my professional activity is that the agents are active and working on a return to normality, the natural step being to conclude the business already underway, as well as to look at eventual opportunities that will necessarily arise in the sector.”
“The pandemic has opened new horizons for all of us, just look at the acceleration it has caused in the digitalization of our lives. We, who already thought we had our lives digitally, have created since March habits that we had never thought of before, from working with telematic teams, to gathering general assemblies of companies through digital platforms or negotiating contracts and closing transactions digitally,”he says.
For **George Ralph**, managing director of RFA, this is an accurate assumption. In an article called

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"Private Equity Global Outlook 2020", he talks about the main trends in Private Equity this year and highlights that "the spending on technology will increase (for successful firms anyway). Studies show that profitable firms spend proportionately more on technology than their counterparts with shrinking margins. Interesting that the adage 'spend to accumulate' is appropriate for technology spend too."

> "THE TECHNOLOGY OF RISK MANAGEMENT WILL TAKE CENTER STAGE IN 2020. RISK ASSESSMENTS ARE CRITICAL FOR ALTERNATIVE FUND MANAGERS (GEORGE RALPH)"

Other trends seem to be that the "hybrid and public cloud use will increase as the major vendors continue to add more services. But this will add complexity so managers will need to engage with experts in public cloud management. And the 'digital workspace' will be even more important. Employees expect and will soon demand the freedom, the flexibility and tools to do their jobs well from anywhere without relying on phones or email," the author says. And also that with the current crisis "the technology of risk management will take center stage in 2020. Risk assessments are critical for alternative fund managers." As Iberian Lawyer covered in the past May issue, alternative funds are becoming more and more an option in this area. "Investment funds are a fundamental means of developing our economy, with positive externalities that far exceed the projects in which they invest. They are authentically gunpowder that sets off a set of fundamental circuits in the economy that positively affect businesses and citizens in general. I believe that they deserve to be strongly supported, especially from bureaucratic simplification, as well as tax measures that allow greater flexibility in investments and a return for investors, who are ultimately the ones who have to trust our economy so that it can resume the pace that we all want. Shortly, substantial funds will require more profound diversification, not just across activities, but also across markets and asset classes while minor firms will need to avoid looking at the entire value chain and focus instead on high growth niches. It will become likely to see an even more explicit separation between huge firms and smaller companies," predicts the partner.

As for more traditional markets as Real Estate, José Costa Pinto thinks it is too early to talk about consequences. But always with a positive note. "It's too early to tell the impact on Real Estate. The perception I have of my professional activity is that the projects that were being developed did not stop, even though the start-up of some that was already imminent had been suspended. The 2008 crisis, for example, taught us that quality projects always have space and are always successful, because the market perceives them as reliable investments and this is, as I was saying earlier, an essential asset in these moments."

IS THE WORST STILL TO COME?

For José Costa Pinto it is hard to say that, even if all predictions point for an economic recession this year. "I cannot say that the worst is yet to come. On the one hand, because I am optimistic by nature. On the other hand, because it is my job to counter pessimistic views. Trust is as or more important than liquidity for business to happen, it is up to us to look with confidence at the market and understand that even in times of crisis opportunities arise and must be seized. Difficulties bring realism to analysis and that is, it seems to me, an important ingredient for business to be conducted in a more solid and grounded way than in times of euphoria and a lot of liquidity," he says. And Portugal is still on everyone's mind as a place for investment. "I see it every day when talking to clients, friends, and lawyers mainly from other countries, like Spain. The potential of the country remains, it is necessary to find liquidity solutions and above all trust in the solidity of investments."