
NEWSLETTER FIRST SEMESTER 2025 SEPTEMBER 2025

▪ General Economic Situation

The Spanish economy grew by 2.6%, lower than last year but above the eurozone average. The reasons are a slight slowdown in tourism, weak domestic demand, and a worrying decline in foreign activity due to the recession in France and Germany, our main markets.

This recessionary context in Europe has prompted new interest rate cuts by the ECB. The Fed has not followed this path of reductions, possibly to demonstrate its independence in the face of Trump's attacks on it, but the market takes it for granted that rate cuts will happen soon.

Certainly, inflation in Europe has been brought under control, reaching the 2% target, but this is possibly due to weak demand.

Europe and Spain remain at a crossroads with very serious problems. Energy is extraordinarily expensive, heavily affecting many industrial sectors and, in turn, the rest of the economy. The size and cost of the public sector suffocate companies and families, and the lack of leadership and coordination in many areas is evident. The recent image of Trump lecturing European heads of government at the table is painful for any European. France's political situation is also very worrying.

International geopolitical prospects remain highly uncertain. The wars in Ukraine and Palestine continue. Economically, the most concerning issue is Trump's tariff policy, which has now taken effect. This will have negative consequences for many European industries that will eventually impact Spain, since they are our main clients and tourists, and it will also affect the U.S. and the rest of the world.

Tariffs are a tax on citizens and an incentive for uncompetitive companies. The U.S. remains the world's largest economy, but it seems to have abdicated leadership of the West, entering an autarkic period guided by outdated mercantilist principles and a presidentialism straining the separation of powers. If Alexis de Tocqueville were to rise from the grave, he would not believe what is happening in the United States.

The political actions of the American President, such as attacks on the Fed's independence, sending the army to American cities, using tariffs as a pressure tool, and similar measures... create so much uncertainty that they delay or cancel investment decisions, as they prevent even minimal business planning and lead to inactivity. This is the infamous—and disastrously consequential “*wait and see*”.

It seems we are witnessing the decline of the liberal political and economic model while undemocratic and illiberal countries unite and grow stronger. The recent meetings of the presidents of Russia, China, and North Korea, and the rise of the far right in Europe, are not good news.

However, fortunately, the decisions of true entrepreneurs cannot be analysed solely through the lens of economic reasoning. They are the famous “animal spirits” described by J.M. Keynes. Entrepreneurs are naturally optimistic and think in terms of confidence and the long term.

▪ M&A MARKET

The M&A market has declined across Europe. In Spain, there were high expectations for 2025, which have not materialized in the first half of the year. The number of transactions has dropped significantly, and in terms of value, the decline has been around 30%.

The downturn is attributed to the uncertainty caused by the unfortunate “*liberation day*.” The new U.S. tariff policy and the procedure followed for its implementation have generated considerable uncertainty, putting many transactions on hold or causing them to be cancelled.

However, there are solid reasons to believe that once this uncertainty settles, activity will rebound strongly. The first is the reduction of interest rates, which always helps investment decisions. More specific factors for Spain and the mid-market sector include two very important reasons: many family businesses are on the verge of a generational change, which often triggers corporate movement. The other factor is the need to gain scale. There is a problem of company size compared to the rest of Europe. Many family businesses need to pursue an aggressive organic and inorganic growth strategy, whether by acquiring companies, merging, or considering a sale.

▪ S&E PARTNERS

The first half of the year has not been as good as we had hoped. It is true that we had three consecutive years of record results and double-digit growth.

During this period, we had planned to close two significant transactions. In one case, a U.S. fund decided to cancel the project for internal reasons during *Due Diligence*, and the other, the buyer withdrew due to unforeseen *funding* issues. In both cases, the uncertainty created by the geopolitical situation was a very important factor.

The good news is that both are strong companies, and we continue to work on the mandates. In fact, the *pipeline* of ongoing mandates is the largest in our history, and it is only a matter of time before they come to fruition. We have closed a transaction in the leisure sector and signed two Letters of Intent.

Among the most notable projects, we continue with a buy-side mandate for a European multinational, in advanced discussions with two targets simultaneously, and with two sell-side mandates in the *Life Sciences* sector, as well as one in the distribution sector. Additionally, we completed a strategic plan for the board of a *Life Sciences* company in its natural extracts division.

In our recurring advisory work for a private investment firm that invests in tech startups in Israel, the situation of the companies is very challenging given the difficult operating environment. Despite this, two portfolio companies were successfully sold.

We have welcomed an ESADE graduate with an outstanding resume, as an Analyst, to strengthen our team with the level of projects we have consolidated over the past few years and to allow our Partners to focus more on originating new opportunities.

Entrepreneurs, families, *Private Equity* groups, and multinationals continue to place their trust in S&E Partners due to our professionalism and full dedication. We are proud that many of our clients continue to renew their trust in us and/or refer us to others.

S&E is optimistic. We maintain a strong number of mandates and a solid pipeline. We have established ourselves as a prestigious player in our market segment.

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