

Juan Luis Muñoz and Carlos Paramés

Houlihan Lokey: "Building a National Champion with 17 Autonomous Communities Isn't Easy"

Juan Luis Muñoz and Carlos Paramés, managing directors at Houlihan Lokey in Spain, discuss the challenges of scaling companies in a fragmented regulatory environment with *El Confidencial*.

July 18, 2025 - 05:00 AM

Consolidation is no longer just a market trend; it has become a continental strategy. Europe needs larger, more specialized companies with a pan-European presence to compete in a world dominated by American and Asian giants. This structural pressure, exacerbated by the pandemic, the war in Ukraine, and global trade tensions, is leading investment funds and industrial groups to seek "platforms" that can lead concentration processes in their respective sectors.

"Either you're a platform or you're an add-on," state Juan Luis Muñoz and Carlos Paramés, who lead Houlihan Lokey's M&A team in Spain. In sectors like technology, ingredients, education, or professional services, funds are looking not only for good assets but also for companies that can become the center of an inorganic growth strategy on a European scale.

For this, having a national scale is key. "To have European champions, you first need to have national champions," Muñoz points out. This is an essential intermediate step for companies to gain critical mass, international experience, and attractiveness for institutional capital.

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The problem, Paramés notes, is that neither Spain nor Europe yet has a truly unified market. "Building a national champion with 17 autonomous communities isn't easy." Regulatory differences between regions hinder the scalability of projects, even within the same country. "And when you go to Europe, market dynamics are even more distinct. That's the big disadvantage compared to the United States."

In the US, despite state autonomy, the market is much more homogeneous and allows for models to be replicated with greater agility. "There, someone who is an expert in dental labs can travel across the country and their model works. Here, on the other hand, in some regions they are subsidized and in others they are not. Specific regulations are real barriers to achieving these pan-European consolidations," explains Paramés.

Nevertheless, both express that in this context, Spain has comparative advantages that do not go unnoticed by international investors. Its labor costs, economic growth above the European average, and what is perceived from outside as political stability, even if the

perception from within is the opposite. "Spain is in fashion," summarizes Paramés. "There's growth, there's legal certainty, and there's scale: 100 million tourists a year is no small thing."

Both executives agree that consolidation is advancing rapidly in very specific sectors. And in many of those cases, Spain is not a peripheral player. "We are in that process. In banking or energy, we already have consolidated players, but in technology, for example, it's being built," Paramés notes.

"Technology is now the star sector"

The two bankers agree that the technology sector will become one of the main drivers of M&A in Spain. Not only by volume, but by quality, sophistication, and profitability. Specialized international funds—some with offices already open in Madrid or Barcelona—are carrying out significant operations in verticals such as software, data analytics, automation, and artificial intelligence.

"Technology is now the star sector," Muñoz affirms. "There are sectors like hospitality that were very active before and are now stalled. In contrast, in technology there is enormous energy." The appeal is not limited to well-known names like Idealista or MásMóvil; there are also other companies that fly under the radar and are attracting attention for their ability to grow, scale, and offer record returns to investors.

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"In recent years, a lot has been sown in technology, and that is bearing fruit," explains Muñoz. From their office, Houlihan Lokey has advised on more than 20 technology transactions in Spain in just five years, all of them exceeding 100 million euros.

The rise of artificial intelligence has raised the bar even higher, but with demands. "Before everything was 'digitalization.' Now everything is 'AI.' But we are in a market where buyers are very sophisticated," Muñoz warns. The presence of specific technological due diligence for AI is already common in processes. "If you only have a chatbot, it's detected immediately," Paramés adds.

Even so, multiples skyrocket when technology has a real impact. "We are selling several companies with AI, and the interest is brutal. But you have to lead your niche and demonstrate that it improves your margins or your revenues. Otherwise, it's not worth it," Muñoz summarizes.

The Market Isn't Recovering

Regarding the state of the M&A market in Spain. Unlike 2021, when the market experienced a record year for operations driven by the post-COVID recovery and excessive liquidity, the current environment is more cautious and demanding. Although the volume of some operations may seem high, it is distorted by specific large transactions such as BBVA-Sabadell or Idealista.

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"Transactions take longer to close, valuations don't always align, and many assets were bought in times of euphoria," Muñoz acknowledges. Today, processes that used to take six months can extend to nine or more.

In this context, Muñoz explains that only the highest quality companies manage to close operations on good terms. And that quality is no longer measured solely in revenue or EBITDA, but also in growth, competitive positioning, internationalization, and sectoral resilience. "If you have a very good company, it sells. If not, there's no market," Muñoz concludes. Size helps, but it's not enough.

Despite the complex environment, both executives point out that Houlihan Lokey has managed to grow steadily in Spain since its entry in 2019. Today, its local M&A team consists of 25 people, in a model that combines national presence with global sectoral specialization. "We are part of an international mechanism. We are not just another geographical office," they emphasize.