**RF & CIS Key Specifics in Merger & Acquisition Deals.**

**Indication and Prospectives.**

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**Today, Global M&A market is about $ 4 trillion, that is more than 5% of global GDP. But its dynamics is important. And we can see that negative situation in the world more positive M&A market trends for growth as a big change from organic business development to the synthetic one. These are multidirectional trends. Companies are short of resources for organic growth, which are limited. Global multinational companies do not grow by 40-50% but show much more modest 3-5% within global economic growth. And where there is no organic growth, there comes the stage of mergers and acquisitions.**

**Taking into consideration Russia and the CIS, the market drivers here are mainly natural resources sectors, these are definitely oil, gas, metal industry the specifics for M&A deals is different. We are trying to emphasize the key specifics and trends related to RF and CIS countries.**

**The nature of M&A market has become more aggressive. We are not talking about hostile takeover though it also has place. Previously, when the companies merged the boards coexisted for one, two or three years and only then the one left the company naturally. Today in this case more than a half of the experts lose their jobs. And this process goes very fast – the management becomes nearly “clear” in 3-6 months.**

Let’s start with outlining the key RF & CIS M&A market trends:

1. General transformation of M&A ideology. Now it is not just company assets which merge and are acquired but “value added” in particular: experts, technologies, intellectual property, etc. That's what distinguishes today’s M&A from those 30 years ago. The paradigm change from assets consolidation to people integration success in M&A deals.

2. Specialization. Companies are not only getting globalized but also trying to specialize, to split after M&A and grow the businesses separately. This period is called "annihilation" and has both its advantages and disadvantages. The positive feature is that they develop separately and the negative one – they often merge companies just to sell them.

3. Transaction velocity. If 30 years ago signing contract took a very long time, today we know cases when transactions take 2-3 weeks or a month. It is likely due to the aggressive purposes and the lack of time, since we live in the trade year, and shareholders demand more than the company performance. Therefore, the integration is disregarded at such transaction velocity.

In our practice we have not witnessed the two-week transactions but we've heard from our colleagues about frequent transactions completed within the month. It took place in Internet-projects. Probably here we have private equity deals, company shares deals or drawing investors. In such cases due diligence is within the competence of lawyers but the entire financial part of the deal is completed by the fund itself. And they do not sleep nights to make the deal quickly.

Nowadays because of the fast speed and need for control, companies get in the majority shareholding but do not immediately merge 100% of a company. There still remains some small stake for previous shareholders, i.e. decision-makers, and another 2-3 years are provided for the transaction to be completed. However, de jure the contract has already been executed at the time of its signing and the mechanism of disposal will take more time. For example, in the Russian stock market ''Wimm Bill Dann" had completed the deal on acquisition, financing, buying out and etc. for 8 months. For the market this was a very fast transaction at the cost of $ 5.2 billion.

4. Jump to an acquisition stage. 30 years ago it was integration process leading to an acquisition. So, the first stage was a strategic alliance, the second - a joint venture, then - a consortium, next – a merger, and finally, acquisition. This could have taken 10 years, but it was organic comprehension of mutual business, organic cooperation of companies, and the final effect - acquisition. Now companies do not have time for this, so many of them come to acquisition stage at once.

5. Reverse takeover and, consequently, the focus takeover. Reverse takeover is a situation when de facto buyer is acquired by target company. This is due to the fact that synergy, risks, including cultural, so not just financial risks but also non-financial risks, have not been evaluated appropriately. And that is why companies prior to transaction try to acquire not the entire asset, but the focal, annihilated, separated part they need. Thus, they reduce the risks of non-synergy and reverse takeover.

For example, if you need to localize automobile production in Nizhny Novgorod, you needn't buy the whole GAZ factory. You should buy the company with the assembly lines. Typically, these companies are legally separated. And here is another question – is the GAZ really interested in selling its annihilated part and whether the GAZ could remain without this part of the business. But this trend when many companies face the risk of reverse takeover results in the focus approach - buying what I really need without surplus assets which are not among my core competencies.

A glaring example of reverse takeover in Russia is X5 Retail Group where "Perekrestok" tried to acquire "Pyaterochka" but actually "Pyaterochka" purchased "Perekrestok".

6. Horizontal transactions in non­strategic spheres (and sometimes in strategic ones). Over the post-Soviet space emerging markets have a lot of unconsolidated industries. Therefore, one of the trends is not vertical but horizontal transactions, the consolidation trend in retail and manufacture to increase production capacity.

It is typical for emerging markets, as the world markets has long been consolidated, and we live where consolidation is not yet fully passed. For example, metallurgy in Ukraine was consolidated long ago but the retail is not yet.

In Russia retail consolidation is now rapidly growing, federal retail versus regional one. There increases consolidation of food manufacturers in FMCG sector and non-food sector ... In B2B sector transactions are rather irregular, mostly projects, and large-scale ones if happen.

Specifics of M&A in Russia and CIS are the transactions distinguishing the costs of due diligence from the world ones. It is necessary to ensure you are buying not a shell company but a company that will accomplish all the business processes. It takes a lot of time.

Here almost all companies are opaque. 90 – 100% of the companies are using tax schemes. There is deficient legal framework where company law has not developed yet, and de facto corporate, contract relationships with customers, suppliers, and employees are very different from those on paper.

Ukraine is the largest country in the mainland Europe, Russia is even bigger, and according to this fact, technical and technological audit of assets requires expenses on their inspection and investigation.

Surely, Western companies also perform due diligence. But there you look at it from another viewpoint - not whether the company evaded taxes and what tax risks will be. In Western world due diligence is rather used for value for money examination.

According to the latest industry segmentation of the Russian M&A market (July 2013) in terms of volume of transactions construction and development are 31%, trade is 30%.

By the number of transactions construction and development (there have been 7 deals) and financial institutions have ranked first this month. Therefore, the prime industries today are trade, construction and development, and finance.

The most notable recent deals in Russia are the shopping mall "Metropolis" between CalPERS (buyer) and Morgan Stanley (seller); ''River Mall'' constructing between Bank of Moscow (buyer) and "Praktika Development" (Sergey Gordeev’s company). By the way, there was very interesting deal when retail banking service Citygroup was purchased by Sberbank owned Deniz Bank.

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