

## **ANALYSIS DEVELOPMENT OF RUSSIAN M&A MARKET**

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There is consideration of the development of Russian mergers and acquisitions market. There is comparative analysis of the key features of Russian and the western corporate management. We can identify factors influencing the specificity of mergers and acquisitions in Russia. Consider Russian legislation of the mergers and acquisitions market and also the development of mergers and acquisitions, in the form of hostile takeovers.

Late 90's. XX - beginning of XXI century marked by a significant number of mergers and acquisitions of major international companies. These deals have changed the face of the established leading sectors and national economies of developed countries, primarily the United States and Western Europe. A characteristic feature of the merger was that corporate transformation occurred against a background of profound changes in the production basis, the gradual formation of the developed countries of the new information economy and the accelerating process of globalization.

Mergers and acquisitions (international abbreviation - M&A) of companies have their own characteristics, which are different in some countries and regions of the world. In the countries of the Anglo-Saxon model of corporate management, especially in the United States and UK, to a lesser extent in Canada and Australia, mergers and acquisitions are essential part of everyday business practice, an important part of the traditional mechanisms of corporate control. During 1970-1992 about 82% of all mergers and acquisitions accounted for U.S. firms, UK, Canada and Australia. This is facilitated by the developed stock markets, dispersed share capital, cultural traditions and customs, according to which the company is considered only as a stake for the owner. The bulk of transactions occurred in the United States and UK between the mega-companies strongly monopolized industries, among which stand out particularly telecommunications, financial and banking services, media, pharmaceuticals and biotechnology. A significant activity of firms in these countries in the area of mergers and acquisitions contributed to the financial infrastructure, the

presence of a large number of investment banks and law firms in London, a lot of public companies, which are actively operating and competing on the exchange, the positive experience of mergers and acquisitions, as well as successful restructuring of the economy, carried out in 80-ies.

Consider the evolution of the market of mergers and acquisitions in Russia, which identified the current level of corporate management in Russia.

The first phase - post-privatization (middle 1990 – period of crisis 1998). For this initial phase is typical for individual attempts to use classical methods of mergers and acquisitions. Given privatization transactions, it is precisely in this period, the most widely practiced “takeovers through privatization.” This method was relevant as an independent mechanism, and in the expansion of the first financial-industrial groups (FIG).

In this period, the company created through the division of large plants in the divisions, the provision of basic facilities in separate units (business unit, or division), giving them legal status. Another part was formed through the purchase of a chaotic future owner of all that generates more or less significant financial flow.

It is worth noting that at administrative-planned economy the number of types of enterprises were dozens, while in the market, for example, in the United States, hundreds of them.

In the transitional economy of Russia types of associations is more than a hundred. The results of privatization affected the diversity of structures of Russian companies. If at administrative-planned economy there was a criterion of technological feasibility in the market - the

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criterion of profitability, the criterion that guided the entrepreneurs participating in the privatization is neither the one nor the other. Subjects were guided by a strategic profit, to capture the markets or the acquisition of certain assets.

Commercial firms and financial-commercial groups began buying industrial companies, taking part in privatization, collateral auctions, contests, and create trade and financial-industrial associations. Examples: Menatep, "Alpha", "Onexim," Mikrodin, LogoVAZ.

According to consultants from McKinsey & Company in the early stages of a market economy in Russia methodology for a strategic approach to mergers and acquisitions almost never used Russia's companies. Common to most transactions was the absence of a rigid necessity to construct a deliberate strategic approach to the selection of the object of absorption and integration.

This is conditional on several factors:

- ◆ fully paid transactions were the exception rather than the rule, so absorbing the company did not take significant risks, the corresponding real value of assets;

- ◆ mainly buy the company or with the "guaranteed cash flows, or- significantly undervalued;

- ◆ usually, taking control over the enterprise, new owners did not put the task to develop it, increase the efficiency of management and capitalization, and initially were aimed at draining the assets;

- ◆ expansion is often carried out on non-economic motives.

The second phase - the post-crisis "boom" (from mid 1999 to 2002).

It was during this period is most clearly manifested the specific reasons behind a wave of mergers and acquisitions. The distinct character of the methods employed, some analysts prefer to not even use the term "mergers and acquisitions", limited to the usual – "redistribution of property". During this period the expansion of industrial groups combined with the strengthening process of consolidation of assets.

Many of the diversified company formed, as before, through the placement of free funds - bought the most promising business, or just those businesses that are sold at the moment.

One of the main objectives is to maintain the stability of the holding by creating a business portfolio, balanced in terms of life cycles of various industries and influenced by market conditions.

Most of the vertically integrated companies was built by oil and metal companies. Many horizontally integrated holding companies formed by buying competitors. As a consequence, an increasing share of markets, economies of scale leading to lower unit costs for the development, production and promotion. As a result of these changes, some companies become monopoly on a national scale.

The third stage - the reorganization "recession" (2002 - 3 quarter. 2008.). This phase is characterized by a slowdown in the expansion of existing groups, the completion of the processes of consolidation and incipient transition to a restructuring of groups and legal restructuring.

The fourth stage - the world economic crisis (started on 3 square. 2008.).

As a result of the global economic crisis, many companies find themselves in difficult situations, experiencing a serious shortage of domestic financial resources and borrowing, are forced to seek new sources of funding. Many companies are forced to sell assets at discounted prices. Every day there are more and more open to acquiring companies and assets.

Projected in the second half of 2009 - 2010 growth in the market of mergers and acquisitions take place under the sign of "redistribution of property", many market players will open new opportunities for the acquisition of interests of their assets and companies at prices significantly lower than in previous years.

Characterizing Russia's market of mergers and acquisitions, it should be noted that the trends observed in similar, but more mature markets of mergers and acquisitions in Eastern Europe are also evident in Russia. Firstly, in Russia, also, has already started inter-sectoral capital flows and large investments from prosperous industries (oil and non-ferrous metals) in perspective. Secondly, in mergers and acquisitions are increasingly involved foreign investment and production companies.

In fact, M & A market in Russia is currently divided into two parts. In one sector - medium and large companies, whose policies are similar

to strategies of firms in Eastern Europe. In another there are large and extra-large company. Their tactics in the market of mergers and acquisitions are usually different: the extensive growth and hostile takeovers.

Active participants in Russia's concentration of capital in modern conditions favor the structure, available resources administrative pressure on the owners. This led to the emergence in Russia of companies, primary areas of specialization are escort services mergers and acquisitions, often in the form of hostile takeovers. Russia's largest companies-raiders have become "Alpha groups", Samara SOK Group, the company "Rinaco" in the structure of "MDM Group, a company "Nafta-Moscow" and "Gazprominvestholding". The company of "Alfa-Eco", originally established as a trading, with time beginning to engage in a classic raider business as an intermediary in transactions involving mergers and acquisitions. Through the activities of this company have been successfully carried out the transaction on sale of Achinsk alumina refinery holding "Russian aluminum", the West Siberian metallurgical plant - of the EU and the Taganrog Metallurgical plant - MDM Group, and Korshunov GOK - group "Mechel". Firm "Rinaco" "MDM Group" has implemented the deal on acquisitions "Tagmet", "Kuznetsk Ferroalloys", "Volgograd Tractor Factory". Another raider firm - investment company "Sovlink" of group "Renova" has implemented a number of transactions, including the sale of the Bashkir factory "Caustic", "Orenburgneft" and "Krasnodarneftegaz". Specialists in mergers and acquisitions of large structures occupied the leading position in the market and are already offering their services for the implementation of mergers and acquisitions other companies.

An important feature of recent years was the desire of large Russian companies to buy companies abroad. Start the movement put the oil companies, which in 2001-2003 actively acquire refining capacity in the CIS and Eastern Europe. Later, these operations have begun, and other large domestic companies, among which above all it is worth noting steel and telecommunications. "Severstal" acquired a fifth in production in the U.S. steel company "Rouge Industry" for \$ 280 million. "Novolipetsk Steel company" has become the owner of the factory in Denmark, the steel group "Mechel" of two

factories in Romania and one in Croatia. Norilsk Nickel has bought "Stillwater Mining Corp." - the only significant producer of platinum group metals in the U.S. for 341 million.

On the specificity of mergers and acquisitions in Russia was greatly affected by:

- ◆ especially the formation of modern Russian companies;
- ◆ existing system of corporate control;
- ◆ features of financial system;
- ◆ concentration of share capital;
- ◆ legislation specific.

Among of the main features of Russia's prevailing corporate management should provide:

- ◆ continuous process of redistribution of ownership in corporations;
- ◆ weak and atypical role of traditional external corporate management mechanisms, such as the securities market, bankruptcy;
- ◆ special motivation of senior-management and major shareholders, not so much interested in the effective management of the corporation, but in providing personal control over financial flows and the withdrawal of the company's assets as personal property;
- ◆ large proportion of the State's equity interest in the largest and most financially stable companies in the 90-ies of XX century and the consequent problems of management control;
- ◆ federal structure state and the active role of regional and local authorities as an independent subject of corporate relations and corporate management;
- ◆ ineffective and (or) politicized aspect of the use of administrative resources in dealing of corporate problems;
- ◆ the problem of affiliate relations and beneficial ownership, which distorts the actual organizational structure of ownership and control of financial flows of many large companies in Russia.

The variety and diversity of mergers and acquisitions in the domestic environment have an impact on the legislative framework to establish control over the companies. This is especially true scope of hostile takeovers. Corporate aggressors are trying to use virtually any regulatory subterfuge to achieve the goal. Therefore, to imagine the regulatory framework of mergers and acquisitions, it is necessary to bring a full list of laws and regulations.

The main legislation documents:

- ◆ civil Code of the Russian Federation;
- ◆ the law of Limited Liability Companies;
- ◆ the law of Joint Stock Companies;
- ◆ the law of State-Registration of Legal Entities and Individual Entrepreneurs, 2001;
- ◆ the Land Code of the Russian Federation;
- ◆ the law of competition and limitation of monopolistic activity at commodity markets;
- ◆ the law about privatization of state and municipal-property, 2001;
- ◆ the law of securities market, 1996;
- ◆ the law about protection of the rights and legitimate interests of investors in the securities market, 1999.

In contrast to the foreign experience in Russia has not found a detailed regulation of matters relating to the establishment of control over the business. It should be noted that in some European countries also lacks detailed regulation of corporate matters, and it did not hinder the development of business relations. These countries, unlike Russia have a long history of corporate culture and deeply developed informal rules of doing business. A lot of actions of Russian companies are not usual for civilized foreign enterprises.

Thus, despite the large number of regulations applicable to mergers and acquisitions, the level of legal regulation of this sphere in Russia still can not be called high.

In conclusion, I would like to note that the market for mergers and acquisitions are a recurring phenomenon in the business world. They occur cyclically and are closely associated with sharp changes in the world, which are observed

during any technological breakthroughs, or rapid economic upswings and downturns. One of the fastest growing methods of companies in the world - is the external growth through mergers and acquisitions, in this regard in recent years, Russia's market of mergers and acquisitions is undergoing major changes and acquired all the traits of a dynamic market.

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