

Technical Considerations: Mergers and Acquisitions

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There has been a great deal of discussion recently about a wave of mergers and acquisitions in Russia in the coming months and years, and why not? The West has been inundated by these transactions in recent years, with the targets becoming bigger and bigger over time. It makes sense that this trend would carry over into the Russian market. But while this tendency seems sure to impact business here, the peculiarities of doing business in Russia and the technical expertise needed to carry out these transactions will inevitably color the process. Let's take a look at some of the pitfalls and opportunities that exist from a technical point of view and examine how to avoid the former and maximize the latter.

In the last five years the main drivers of mergers and acquisitions activity in Russia have been in several main sectors: financial services, consumer goods and the manufacturing sector. Despite a significant dip in activity after the financial crisis, the banking sector is still working through a consolidation period that was expected and continues to gather pace. Consumer goods and manufacturing infrastructure also have seen healthy activity in the last few years, with a great deal of interest from mid-sized foreign companies looking to acquire assets in the Russian market. Despite this positive momentum toward consummating deals, however, and a greater level of sophistication in the mergers and acquisition market, we still tend to see a number of areas where both sides, Western and Russian, could improve their understanding of the process. Let's take a look at several issues that can impact a transaction.

Pre-planning: It is common knowledge in the industry that a substantial percentage of the work on any successful agreement is in the planning and preparation stage. Western companies, with a longer track record in these types of activities, are aware of this and see the value that such research and planning can bring to the table and generally retain the services of qualified consultants to assist, whether it be in technical due diligence or economic feasibility studies. Russian companies have become more experienced in this regard

in the last five years and have begun commissioning high-level due diligence studies, but often grudgingly and with little conviction. In speaking with Russian clients I often get the feeling that they know they need to carry out these studies from an oversight point of view (and to get bank approval for projects) but it is clear they feel like they are, as Russians like to say, "throwing money to the wind," and do not see the tangible benefits this process can bring. As time goes by these attitudes will change, but it is a tendency that both sides in a possible merger need to be aware of.

Feasibility and compatibility: Part and parcel of the planning and preparation stage of an acquisition is assessing corporate compatibility and the feasibility of a merger. This is probably the most difficult aspect of any deal as it often involves subjective factors that cannot always be sufficiently quantified. At this point, careful analysis and planning from a qualified agent can make all the difference. From high level market analysis to basic surveys of assets, company analysis studies can significantly improve an investor's understanding of the market and offer insight into further investment opportunities. Understanding a company's core activities and corporate nature is vital to any transaction so that potential investors can understand the nature of the business they are attempting to acquire.

Integration: Company integration is the least understood aspect of mergers and acquisitions, but this process is critical for the success of any transaction. Many companies have neither the time nor the proper personnel to effectively analyze how best to integrate a recently acquired asset. With that in mind, engaging a qualified company that can properly assess elements such as service overlap, best use of resources and personnel integration can make the difference between a smooth integration and less successful one.

While there are many other factors that can appreciably impact any M&A activity, the necessity for careful and accurate technical research remains a constant, and companies that can use this information to be more flexible about investment opportunities will have an advantage. So as we watch M&A activity in the coming months and years, keep an eye on which organizations can effectively navigate this landscape.

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