The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

M&A Market Halves in Size Amid Economic Uncertainty

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August 07, 2013

The Russian merger and acquisition market contracted by 50 percent in the first six months of 2013 compared to the same period a year before, reflecting discomfort over an economic slowdown and uncertainly amid growing state pressure on offshore business arrangements.

The total value of M&A deals closed in the first half of this year fell to $13.4 billion, compared to $27 billion in , making it the slowest start of any year since 2005, according to a report released by Thompson Reuters on Wednesday.

The period's largest deal was VTB Group's purchase of the Russian arm of Swedish telecom company Tele2 in March for $3.6 billion. That the Swedish owner rejected other, larger, offers in favor of the security of a state-backed bank illustrates the hesitancy of business in the current economic climate, said analysts.

"Uncertainly, both political and economic, is the reason many [investors] are currently refraining from M&A deals. The growing possibility that economic stimulus programs in the U.S. will be curtailed, the slow-down of the Chinese economy and continuing crisis in Europe are all weighing on investor's minds. The overall situation does not favor deals that depend on the long-term stability of the world economy and the economies of individual countries and regions," Grigory Birg, co-director of independent analytical agency Investcafe, said Wednesday.

The M&A market is also facing challenges elsewhere in the world. A report released by PricewaterhouseCoopers last month showed a reduction in activity in the U.S., caused by "a constrained supply of assets for sale, and a lack of confidence in executing transactions."

"Buyers remain extremely active in identifying, evaluating and competing to acquire assets in the market. Dealmakers are placing a premium on deal certainty, speed and agility to ensure successful deal outcomes that deliver long term value," the PwC report said.

Dampening the Russian M&A market, in addition to the uncertainly in the world economy, are the crisis in Cyprus and the government's ongoing push for transparency in offshore business, said Pavel Gagarin, chairman of board at Gradient Alpha Audit and Consulting Group.

"All major capital, both in Russia and in the world, is tied up in offshore territories. Currently, the holders of capital are busy devising new ownership schemes and new ways to access [their funds]. In an effort to remain within the law, large parts of this mass of grey money are being transferred from classic offshore zones to countries with a soft tax climate. For example, such jurisdictions as Lithuania, The Netherlands, Ireland, are becoming popular. Because of that, a significant quantity of [possible] deals is simply being postponed until the new rules of play are clear," Gagarin said.

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