



cutting through complexity

Russian M&A

H1 2014

August 2014

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KPMG in Russia and the CIS



Headlines

Russian M&A fell by 36% in H1 2014 to USD27.8bn; the lowest level since the 2009 crisis

- The ongoing geopolitical situation and uncertainty surrounding Russia's economic outlook led the aggregate value of large deals (>USD500m) to fall by 50% to USD17.4bn
- And while the number of mid-size deals (>USD250m<USD500m) remained flat, the value of such deals declined by 11% to USD2.4bn
- However, smaller deals (<USD250m) were seemingly unaffected by the crisis, with a record breaking 160 transactions announced, worth a combined USD8bn

Energy and natural resources sectors continued to dominate Russian M&A, with 48 deals announced worth a combined USD14.1bn in H1 2014

- The USD2.4bn JV between Alliance Oil and Independent Petroleum Co. was the largest deal in the period
- While power generation company Volzhskaya TGK was the biggest spender consolidating four utility companies in deals worth a total of USD4bn

The share of domestic M&A increased from 60% to 76% of Russian M&A in H1 2014, driven by the surge in small deals

- An absence of large privatisations, such as VTB in H1 2013 (USD3.3bn), saw inbound M&A fall by 64% in H1 2014 to USD2.6bn – the USD1bn IPO of supermarket chain Lenta being the largest inbound deal
- Whereas outbound M&A increased by 58% to USD3.8bn; albeit from a low base and driven by Polymetal's USD1bn purchase of Altynalmas Gold and Rosneft's USD1bn acquisition of a 13.1% stake in Pirelli



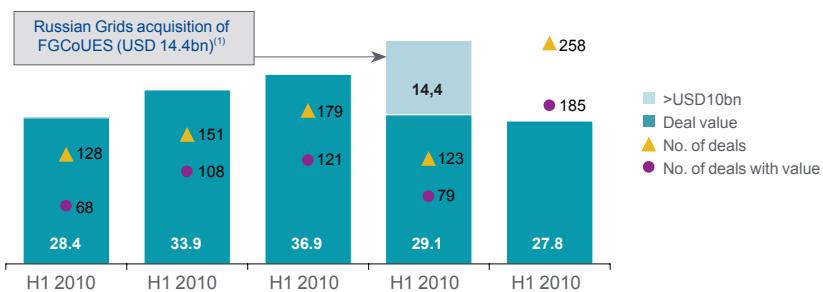
With the exception of small domestic deals, we expect Russian M&A to remain depressed during the second half of 2014, with little expectation of large inbound transactions returning to the market



M&A value at lowest level in 5 years but small deal activity at all time high

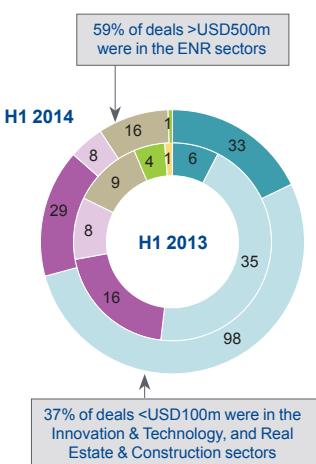


Value (USDbn) and number of deals H1 2010 to H1 2014*

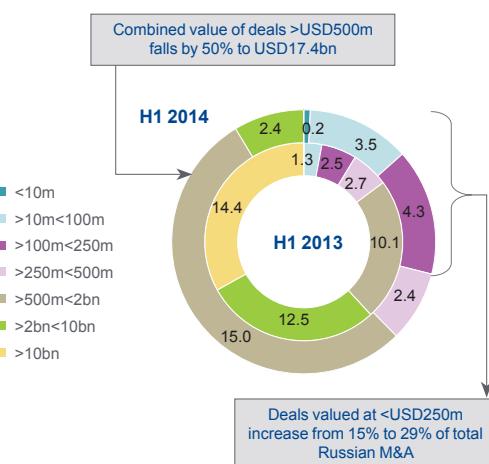


(1) Russian Grids acquisition of Federal Grid Company of Unified Energy System (FGCoUES) was the 9th largest deal globally in 2013

Number of deals by deal size (USD) H1 2014 vs. H1 2013



Deal value by deal size (USD) H1 2014 vs. H1 2013



Largest transactions in H1 2014

Target	Sector	Acquirer	Stake	USDm
1 AO/IPC JV	O&G	Alliance Group/IPC	60:40JV	2,400
2 TGK-9 OAO	P&U	Volzhskaya TGK	100%	1,844
3 Yugragazpererabotka	O&G	SIBUR Holding	49%	1,600
4 Altimo	C&M	LetterOne Group	14.2%	1,150
5 Altynalmas Gold Ltd	M&M	Polymetal International	100%	1,119
6 Pirelli & C. S.p.A.	Auto	Rosneft Oil Company	13.1%	1,041
7 Burneftegaz	O&G	Bashneft ANK	100%	1,000
8 SeverEnergia	O&G	Gazprom Neft	9.8%	980
9 Lenta LLC	CM	IPO investors	22.6%	952
10 TGK-5 OAO	P&U	Volzhskaya TGK	100%	869
Top 10 deals in period				12,955
As % of total deals in H1 2014				47%

*All data presented in the survey is KPMG analysis.

Russian M&A declined by USD15.7bn (36%) in H1 2014 to USD27.8bn; the lowest level since the 2009 crisis

Even excluding Russian Grids USD14.4bn acquisition of Federal Grid Company in April 2013, deal value was down by 4% on last year

Despite this, the number of deals announced more than doubled to an all time high of 258 – deal values were made public for 72% of deals, up from 64% last year

With fewer large deals (>USD2bn) the average deal value fell by 73% in H1 2014, from USD550m to USD150m; a new post crisis low

The 10 largest deals accounted for 47% of total value (H1 2013: 79%), with the largest being the USD2.4bn JV between Alliance Oil and Independent Petroleum Co.

ENR dominates but with high activity in RE&C, I&T, B&I and C&M sectors

The ENR sectors¹ continued to dominate Russian M&A with 48 deals in H1 2014, totalling USD14.1bn, equal to 51% of total deal value

Real Estate & Construction saw the greatest level of activity outside ENR with 47 deals worth USD2.7bn, driven by investment in hotels, retail and office space

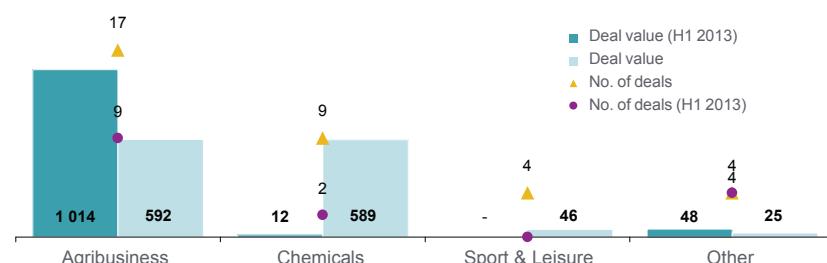
Despite deal activity in the Innovation & Technology sector quadrupling in H1 2014, driven by acquisitions of technology and internet companies, the value of deals fell by 9%

Corporate and retail banking deals drove the Banking & Insurance sector, where there were a total of 29 deals worth USD1.4bn; the largest being Alfa Group's USD304m acquisition of Bank of Cyprus

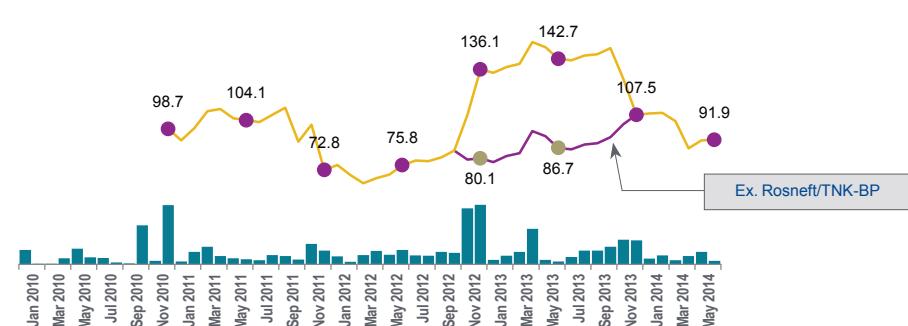
Deal value (USDbn) by sector H1 2014 vs. H1 2013



Number of deals by sector H1 2014 vs. H1 2013



Monthly and LTM deal value (USDbn) 2010 to H1 2014



Number of deals by sector H1 2014 vs. H1 2013

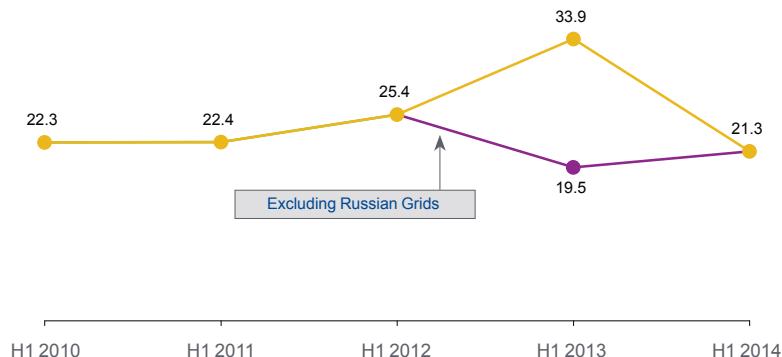


¹ Energy & Natural Resources, comprising the Metals & Mining (M&M), Oil & Gas (O&G) and, Power & Utilities (P&U) sectors.

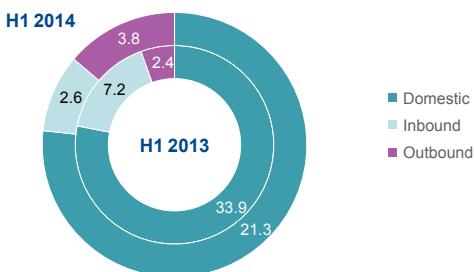
Domestic M&A value falls but with increased activity driven by small deals



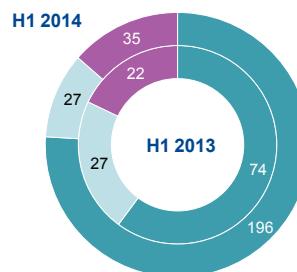
Domestic deal value (USDm) H1 2010 to H1 2014



Deal value (USDbn) by type H1 2014 vs. H1 2013



Number of deals by type H1 2014 vs. H1 2013



Top 10 participants in H1 2014

	As bidder		As seller		Total		
	Company	USDm	No.	USDm	No.	USDm	No.
1	Volzhskaya TGK	3,971	4	-	-	3,971	4
2	Rosneft	1,983	6	1,600	1	3,583	7
3	Gazprom	1,915	9	1,278	3	3,193	12
4	SIBUR	1,600	1	799	2	2,399	3
5	VTB	461	7	1,664	7	2,125	14
6	Bashneft	1,000	2	-	-	1,000	2
7	Millhouse Capital	710	3	-	-	710	3
8	FASPM ⁽¹⁾	-	-	692	10	692	10
9	Sberbank	300	6	28	1	329	7
10	AFK Sistema	321	6	-	-	321	6
Top 10 participants		12,261	44	6,061	24	18,323	68
As % of total deals in H1 2014						68%	
						26%	

(1) Federal Agency for State Property Management

While the value of domestic M&A declined by USD12.6bn (37%) in H1 2014, due mainly to the absence of larger deals such Russian Grids, the share of domestic deals increased from 60% to 77% driven by small deals

The absence of large privatisations, such as the VTB in H1 2013 (USD3.3bn), saw the value of inbound M&A fall by almost two thirds despite stable deal volumes

Conversely, outbound M&A was up by 58% to USD3.8bn following USD1bn deals by both Polymetal (Altynalmas Gold) and Rosneft (Pirelli)

Volzhskaya was the biggest spender, consolidating four utility generating companies in deals worth USD4bn in H1 2014, while VTB was the most active player, being involved in a total of 14 deals

Inbound M&A falls 64% as foreign IPO market dries up for Russian listings



Although the level of inbound M&A fell sharply in H1 2014 to USD2.6bn, its lowest level in four years, the number of deals remained stable

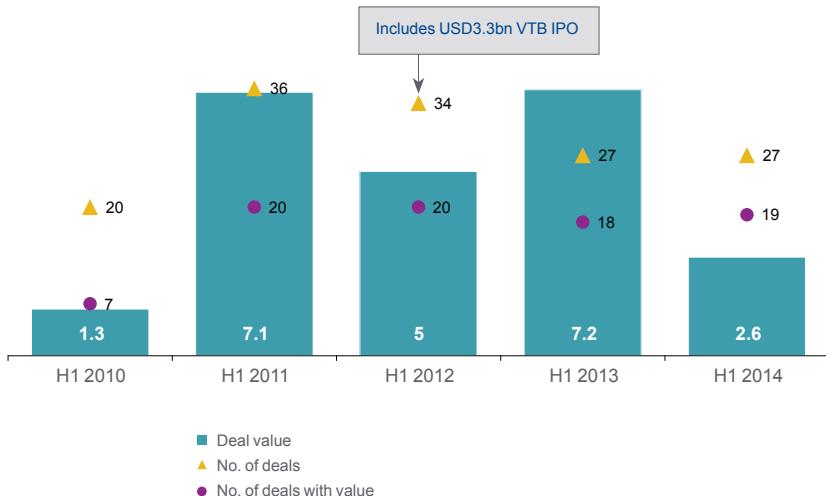
Two deals accounted for 60% inbound M&A in H1 2014:

- USD1bn IPO of Lenta in Moscow and London; and
- USD0.6bn acquisition of Veropharm by US based Abbott laboratories

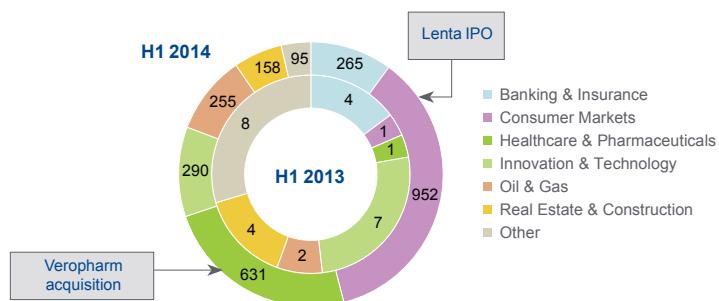
In the wake of deteriorating economic conditions and fresh sanctions, the prospect for further foreign IPO's of Russian companies is remote in the second half of the year

With 16 deals in H1 2014, Europe remained the most active inbound investor. The long awaited influx of capital from Asia-Pacific has yet to materialise though, with only three deals worth USD93m

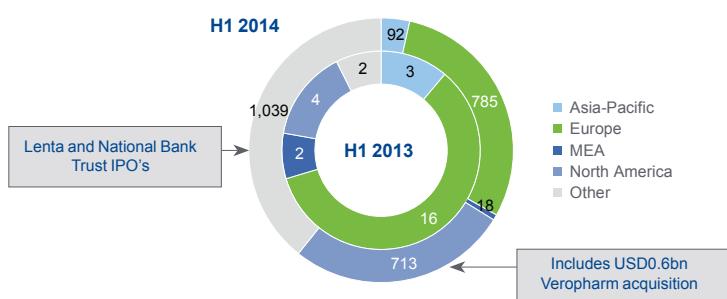
Inbound value (USDbn) and number of deals H1 2010 to H1 2014



Inbound value (USDm) and number of deals by sector H1 2014

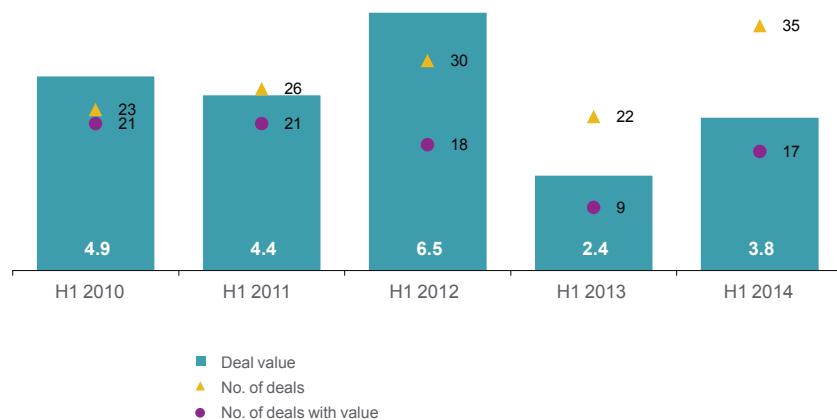


Inbound value (USDm) and number of deals by region H1 2014

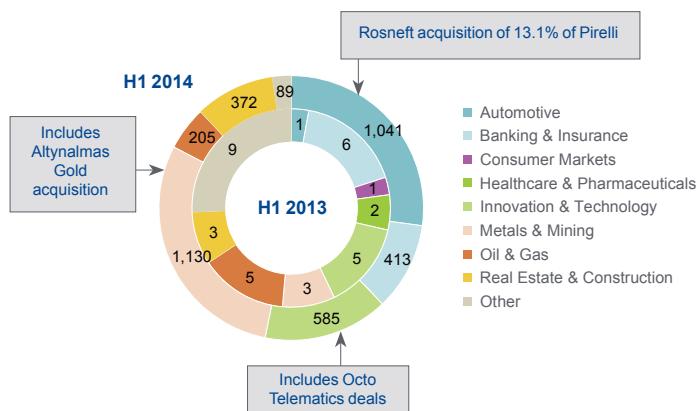


Outbound M&A rebounds by 58% but outlook remains uncertain

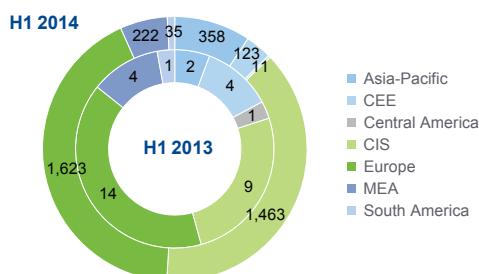
Outbound value (USDbn) and number of deals H1 2010 to H1 2014



Outbound value (USDm) and number of deals by sector H1 2014



Outbound value (USDm) and number of deals by region H1 2014



Outbound M&A increased by 58% in H1 2014 to USD3.8bn driven by three deals:

- Polymetal's USD1.1bn acquisition of Kazakhstan based Altynalmas Gold;
- Rosneft's USD1bn acquisition of a 13.1% stake in Italian tyre manufacturer Pirelli; and
- Renova's USD548m acquisition of Italy's Octo Telematics

Outbound M&A was concentrated on European countries (46% of value and 51% of volume), and CIS member states (38% of value and 26% of volume). The impact of recently announced sanctions on outbound M&A in H2 2014 remains uncertain

PE activity up by 79% but deal value down 64% due to lack of large deals

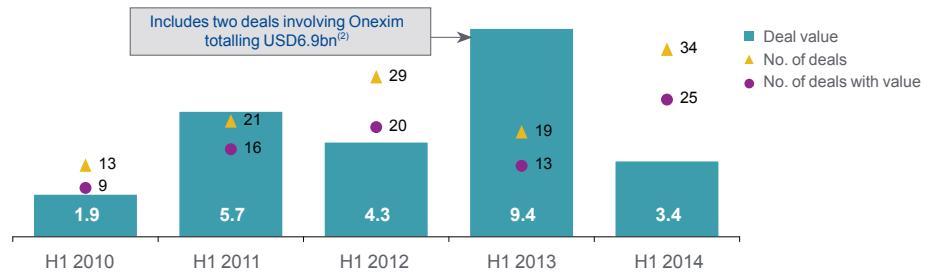
Although deal activity increased, the Russian Private Equity market fell by 64% in H1 2014 to USD3.4bn

However, Onexim participated in two deals worth USD6.9bn in H1 2013 and with the IPO of supermarket chain Lenta the only USD1bn PE transaction in H1 2014, the average deal size fell by 81% to USD138m

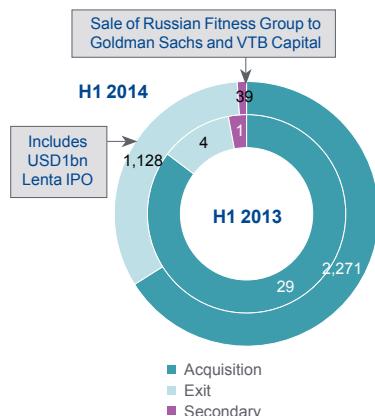
Despite a number funds approaching the end of their investment term, exits remained low given uncertain economic conditions; Interros sale of a 7% stake in Rosbank was the second largest exit

Together with Pharmstandart Millhouse acquired a 70% stake in Biocad for USD700m which together with the acquisition of an LPG terminal at Ust-Luga by an RDIF led consortium, was the joint second largest PE deal

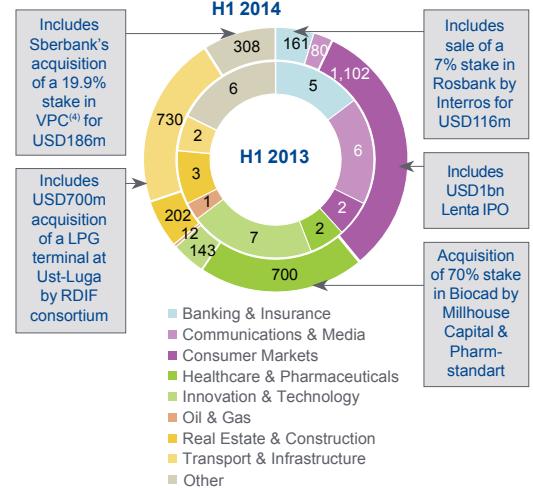
PE⁽¹⁾ deal value (USDbn) and number of deals H1 2010 to H1 2014



PE deal type value (USDm) and number of deals H1 2014



PE deal by sector value (USDm) and number of deals H1 2014



Top 5 PE participants in H1 2014

Company	As bidder		As seller		Total	
	USDm	No.	USDm	No.	USDm	No.
1 VTB Capital ⁽³⁾	39	3	952	1	991	4
2 Millhouse Capital	710	3	-	-	710	3
3 RDIF led consortium	700	1	-	-	700	1
4 AFK Sistema	321	6	-	-	321	6
5 Sberbank Investments	186	1	-	-	186	1
Top 5 participants	1,956	14	952	1	2,908	15
As % of PE deals in H1 2014					85%	44%

(1) Private Equity asset class comprising private equity, venture capital, hedge funds, private investment funds, private and public diversified investment companies

(2) In H1 2013, Onexim Group, a private investment fund, acquired a 37.8% stake in Polyus Gold International for USD3.6bn and was part of the investor group which participated in the USD3.3bn privatisation of 13.8% stake in VTB Bank

(3) Includes the IPO of Lenta by TPG Capital, European Bank for Reconstruction and Development, and VTB Capital

(4) Verkhnekamsk Potash Company

Methodology

Sources

Data included in this document was aggregated from information contained in the Mergermarket and DealWatch M&A deals databases, together with proprietary research of deals valued over USD5m where the dominant geography of the target (inbound), acquirer (outbound) or both (domestic) is Russia

Data from the Mergermarket and DealWatch M&A deals databases is as at 1st July 2014

Deals with undisclosed transaction values are included where the target's turnover exceeds USD10m based on Mergermarket data

Deals are allocated to the following KPMG industry sectors:

- Agribusiness
- Automotive
- Banking & Insurance
- Chemicals
- Communications & Media
- Consumer Markets
- Healthcare & Pharmaceuticals
- Innovations & Technology
- Metals & Mining
- Oil & Gas
- Power & Utilities
- Real Estate & Construction
- Transport & Infrastructure
- Other

Deals are allocated based on the dominant industry of the target, which may involve using judgement and as such, the allocation may therefore be subjective

KPMG has not extensively verified all data and cannot be held responsible for its accuracy or completeness. Analysis of different databases (see opposite) may yield deviating results from those presented in this document

Reconciliation of data

Source	EURm	USDm	No. of deals
Mergermarket Intelligence Alert ⁽¹⁾	12,064	16,560	110
Deals outside Mergermarket criteria ⁽²⁾		1,157	43
Outbound deals from Mergermarket database		3,439	32
DealWatch data included		4,091	66
KPMG proprietary research ⁽³⁾		2,582	7
Russian M&A H1 2014	28,829	258	

(1) As published by Mergermarket on 07-01-2014

(2) Mergermarket data is based on transactions over USD5m, including deals with undisclosed values where the target's turnover exceeds USD10m and deals where the stake acquired is less than 30% provided the deal value is greater than USD100m. Such deals which are included in the Mergermarket M&A deals database by classified as 'out-side of Mergermarket inclusion criteria' have been included where the transaction value exceeds USD5m

(3) Research of deals in the Real Estate & Construction sector, exclusion of deals announced in previous periods and inclusion of deal values for Mergermarket deals with no value based on publicly available information





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