



cutting through complexity

Russian M&A Review H1 2015

July 2015



Headlines



Russian M&A fell 58% to USD22.2 billion in H1 2015; the lowest level for six years



Headline value of M&A flattered by USD7 billion Stroygazconsulting acquisition



Activity virtually halved to 217 deals yet still well above H1 2010–2013 levels



Average transaction size fell by 30% to USD131 million



81% of all deals were valued at less than USD100 million



Indications suggest that M&A may only reach USD32–43 billion in 2015

Headlines

Domestic M&A particularly weak with ENR industries falling to a new H1 low



Innovation & technology was a hot sector, albeit with low absolute M&A investment



Inbound M&A stable at USD5 billion but influx of Asian investment yet to materialise



North America and Europe remained no.1 destinations for outbound investment



Private Equity activity remains high with DST Global and AFK Sistema key players



H1 2015 M&A fell to its lowest level for six years as activity almost halved



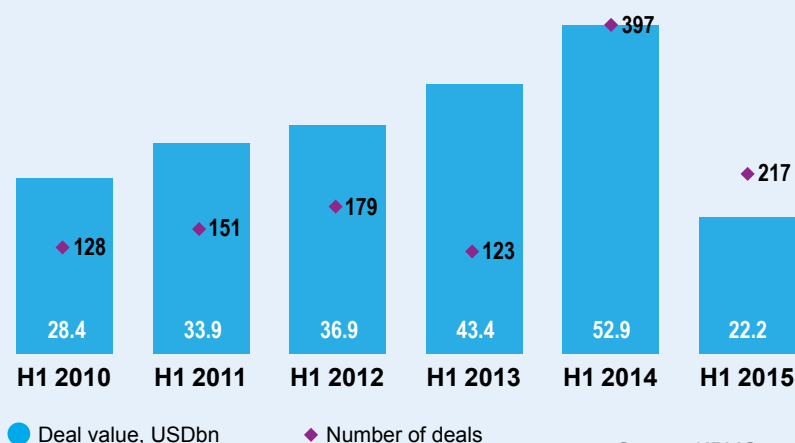
Russian M&A totalled just USD22.2 billion in H1 2015, 58% lower than the prior year. Activity was down by 45% to 217 deals, although this was still well above the level seen in 2010-2013

Q1 2015 saw the value of deals announced fall to the lowest since level since Q3 2010 as confidence in Russia's economy weakened

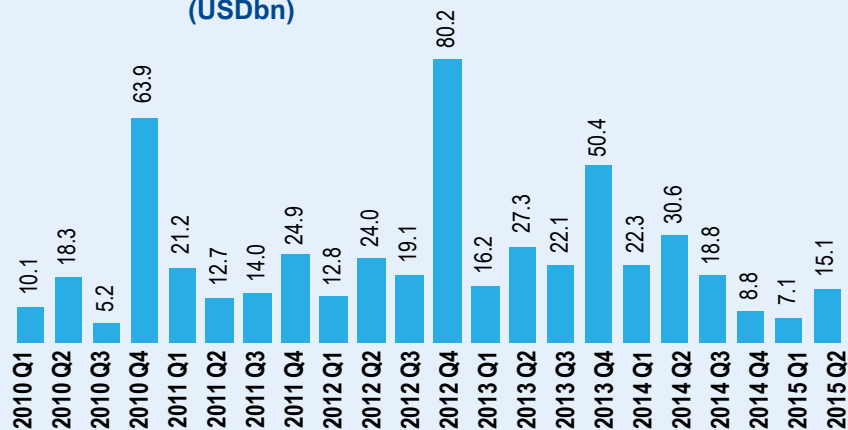
With activity levels on a downward quarter-on-quarter trend since Q4 2014 it remains to be seen if the slowdown in activity continues into the normally quieter summer months



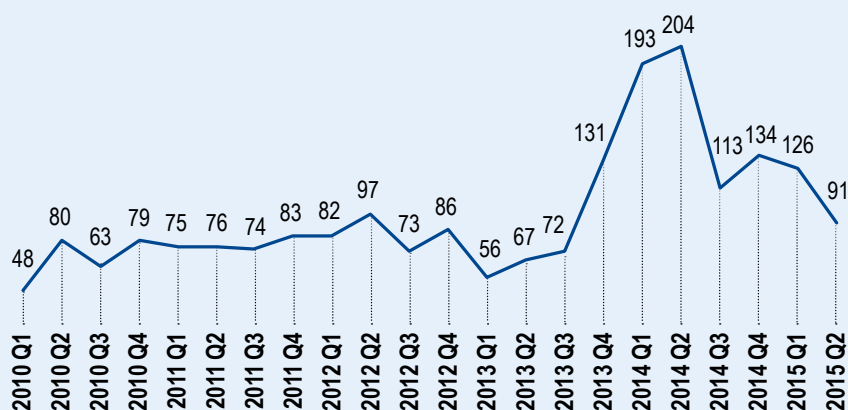
H1 deal value and volume (2010 to 2015)



Quarterly deal value (2010 to 2015) (USDbn)



Quarterly deal volume (2010 to 2015)



Market transparency further improved, although average deal size declined

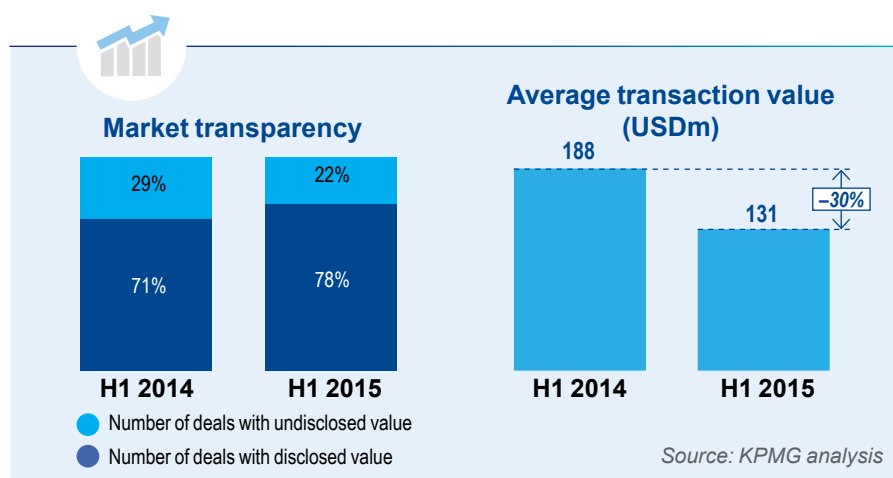
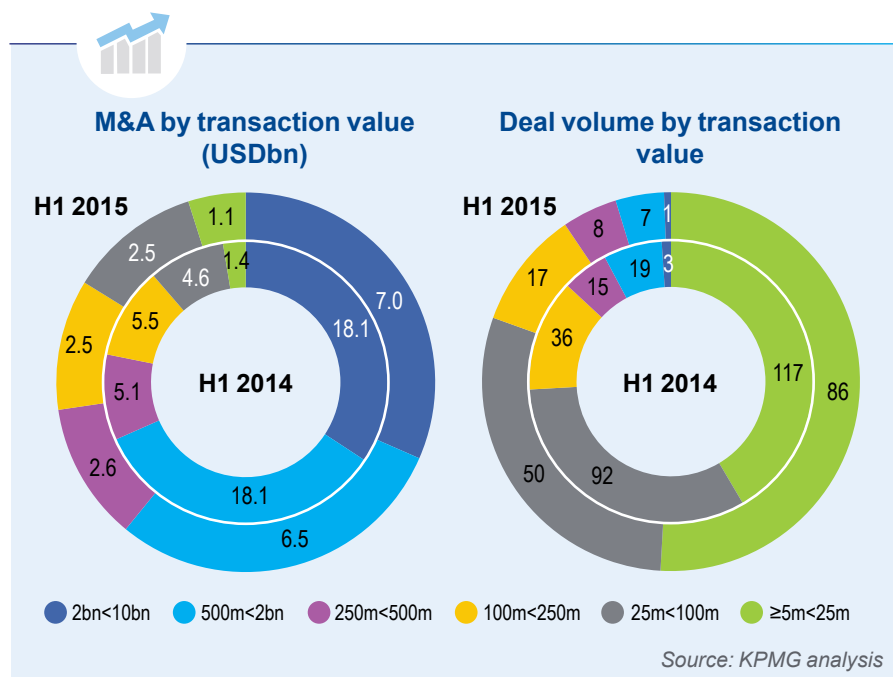


Deals valued above USD500 million accounted for 61% of total Russian M&A (H1 2014: 68%) but just 5% of deal volume with values disclosed (H1 2014: 8%)

Transactions of less than USD100 million accounted for 81% of deals with values disclosed in H1 2015, up from 74% in the prior year

Market transparency continued its improving trend with transaction values disclosed for 78% (169) of all deals in H1 2015, up from 71% (282) in the prior year

However, as the market contracted amongst a small number of large deals, the average transaction value fell by 30% to USD131 million





Deal value was further concentrated amongst a few large deals in H1 2015

The ten largest deals accounted for 65% of total Russian M&A in H1 2015, compared to 52% in the previous year, as the market was weighted toward a small number of larger deals

April saw the largest deal announced, Gazprombank and United Capital Partners USD7.0 billion acquisition of Stroygazconsulting

The oil and gas sector accounted for five of the ten largest deals in H1 2015, including Schlumberger's proposed acquisition of Eurasia Drilling which has yet to be approved by FAS

Yuri Milner's Digital Sky Technologies was involved in USD0.9 billion of investment into the innovation & technology sector in H1 2015

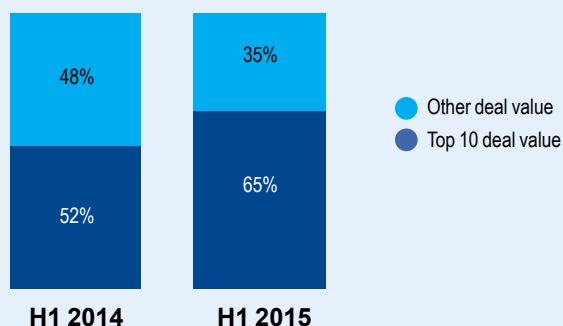
Russian M&A largest deals in H1 2015

#	Target	Sector	Acquirer	Vendor	% acquired	Value USDm
1	Stroygazconsulting	T&I	Gazprombank & United Capital Partners Advisory	Ruslan Baysarov & Ziyad Manasir	100.0%	7,000
2	Eurasia Drilling Company	O&G	Schlumberger Limited	Not disclosed	45.7%	1,474
3	Uralkali	Chem	Uralkali	Not disclosed	11.6%	1,086
4	Orsknefteorgsintez	O&G	Mikhail Gutseriev & Fortinvest	Sermules Enterprises, Igor Shkolnik, & Cipation Holdings	77.2%	1,000
5	RussNeft NK	O&G	Glencore PLC	Mikhail Gutseriev	49.0%	900
6	Tatneft	O&G	Not disclosed	Not disclosed	6.1%	801
7	Taas-Yuriakh Neftegazodobycha	O&G	BP PLC	Rosneft Oil Company	20.0%	750
8	Wish	I&T	DST Global	Not disclosed	16.7%	500
9	Mobile TeleSystems	C&M	Lazard Ltd	Not disclosed	4.7%	439
10	ANI Technologies	I&T	Investor group ¹	Not disclosed	16.7%	400
Ten largest transactions total						14,350
As a % of total Russian M&A						64.7%

Note: (1) DST Global; Tiger Global Management; Falcon Edge Capital; Softbank Corp; GIC Pte Ltd; Accel Partners; Rahul Mehta; Yuri Milner; Steadview Capital Management HK Ltd.



Market concentration

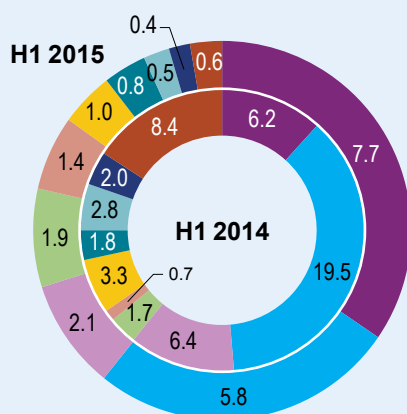


Source: KPMG analysis

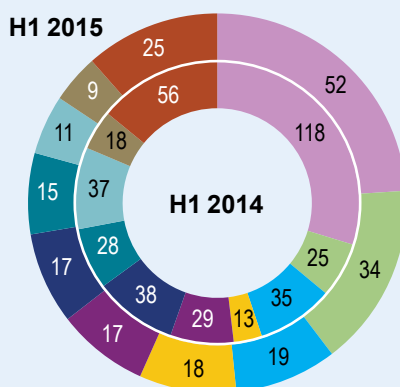
M&A was focused on the transport & infrastructure, and oil and gas sectors



M&A by sector (USDbn)



Deal volume by sector



- Transport and infrastructure
- Oil and gas
- Real estate and construction
- Innovations and technology
- Chemicals
- Metals and mining
- Consumer markets
- Communications and media
- Banking and insurance
- Agriculture
- Other markets

Source: KPMG analysis

The transport & infrastructure, and oil & gas, sectors accounted for 61% of Russian M&A in H1 2015 however, investment was highly concentrated in a small number of large deals:

- The acquisition of Stroygazconsulting accounted for 91% of transport & infrastructure M&A; while
- The five largest deals in the sector accounted for 85% of oil & gas M&A

Real estate & construction remained the most active sector with 52 deals, less than half the H1 2014 volume

Innovation & technology saw a 36% increase in activity, with a total of 34 transactions



Inbound M&A remained stable despite a decline in deal volume



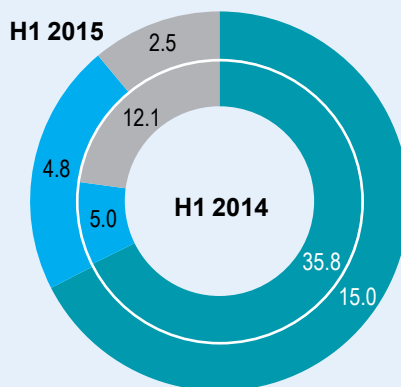
Although domestic M&A continued to account for two thirds of deal value, the total invested declined by 58% to USD15.0 billion as concerns over the economic outlook mounted and activity fell by over half to 144 deals

Although the number of inbound deals declined by 36%, activity returned to the H1 2011 to H1 2013 level, and encouragingly the value of M&A remained broadly stable at USD4.8 billion

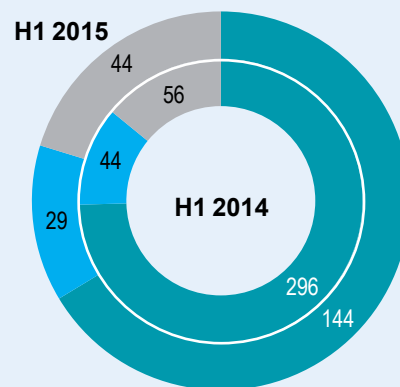
Outbound activity declined by 21% as the value of M&A returned to 2013 levels after the peak of capital outflows in H1 2014 (USD12.1 billion)



M&A market by region



M&A market volume by region



● Domestic ● Inbound ● Outbound

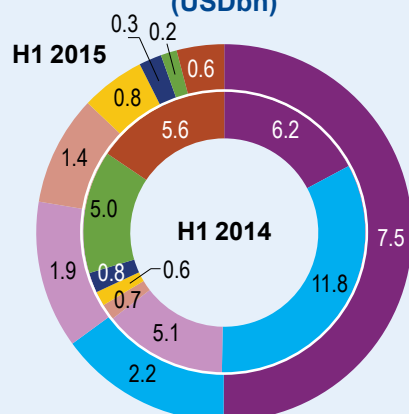
Source: KPMG analysis



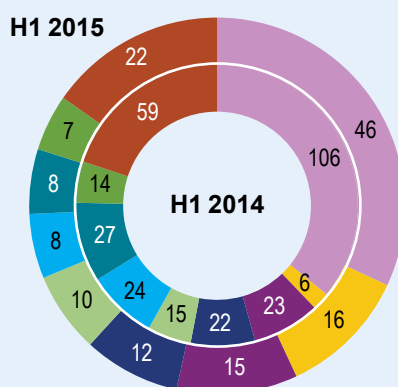
Domestic M&A in the normally strong ENR industries reached a new low



Domestic M&A by sector (USDbn)



Domestic volume by sector



- Transport and infrastructure
- Oil and gas
- Real estate and construction
- Innovations and technology
- Chemicals
- Metals and mining
- Consumer markets
- Communications and media
- Banking and insurance
- Power and utilities
- Other markets

Source: KPMG analysis

The acquisition of Stroygazconsulting accounted for almost half of all domestic M&A in H1 2015

M&A in the ENR industries (metals & mining, oil & gas, and power & utilities) fell by 81% to USD3.3 billion, the lowest level in a decade

Uralkali's USD1.1 billion share buy-back, the largest deal in the chemicals sector, saw Onexim, free-float and treasury shareholders reduce their holding in the company

Mikhail Gutseriev's USD1 billion acquisition of a 77.19% stake in refinery operator Orsknefteorgsintez was the largest in the oil & gas sector

Real estate & construction remained the most active domestic sector, accounting for almost a third of all deals



Inbound M&A remained in line with the recent historic trend



Schlumberger (Eurasia Drilling), Glencore (RussNeft NK) and BP's (Taas-Yuriakh Neftegazodobycha) acquisitions accounted for all but USD0.1 billion of inbound M&A in the oil & gas sector

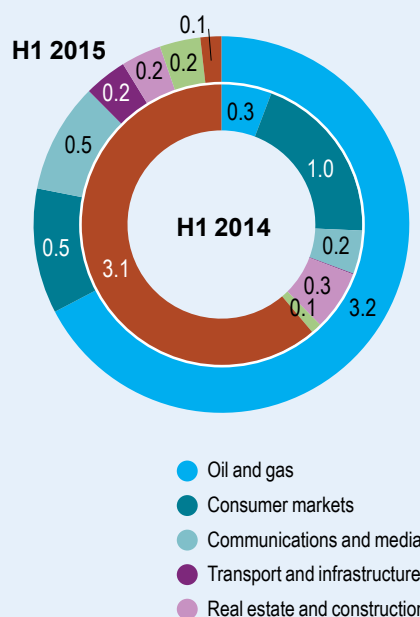
Although the real estate & construction, and innovation & technology sectors saw the same number of deals as the oil & gas sector, the level of investment was far smaller

North America and Europe accounted for 85% and 55% of inbound M&A and deal volume respectively

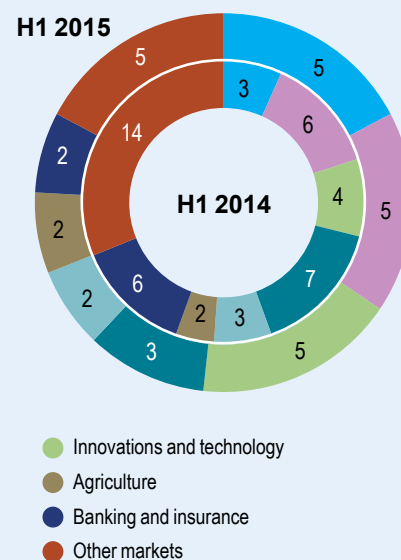
The long-awaited influx of investment from Asia Pacific has yet to materialise, with M&A at USD0.1 billion



Inbound M&A by sector (USDbn)



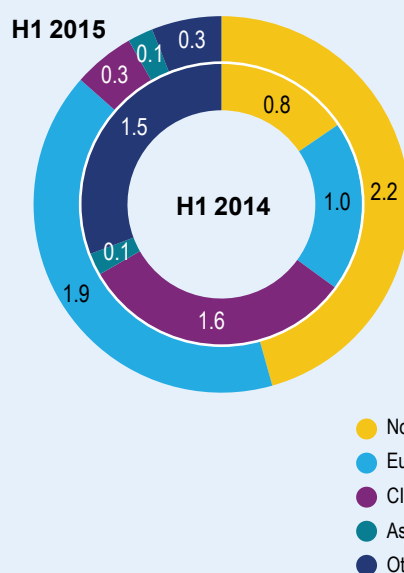
Inbound volume by sector



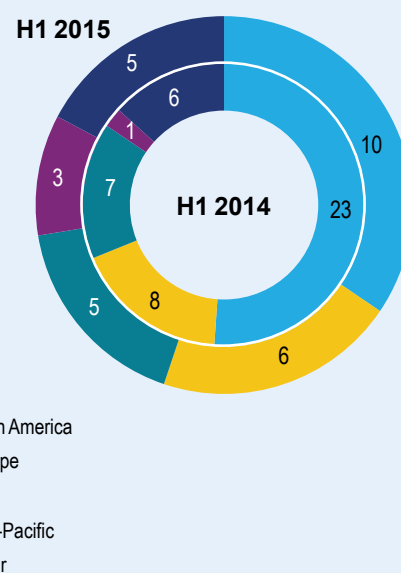
Source: KPMG analysis



Inbound M&A by region (USDbn)



Inbound volume by region

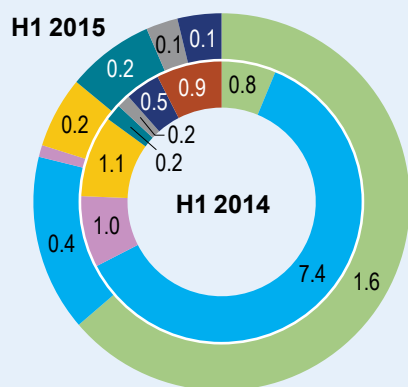


Source: KPMG analysis

Outbound M&A was focused on the innovation & technology sector

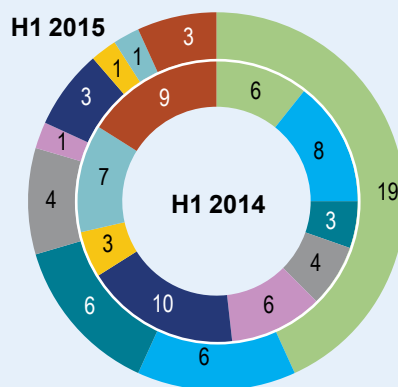


Outbound M&A by sector
(USDbn)



- Innovations and technology
- Oil and gas
- Real estate and construction
- Metals and mining
- Consumer markets
- Healthcare and pharmaceuticals
- Banking and insurance
- Communications and media
- Other markets

Outbound volume by sector



Source: KPMG analysis

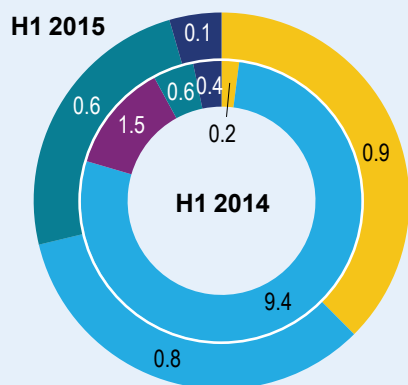
Outbound M&A returned to H1 2013 levels in the absence of large deals seen during H1 2014 such as LetterOne's USD7.1 billion acquisition of RWE Dea (Europe), and Polymetal's USD1.1 billion acquisition of Altynalmas Gold (CIS)

Innovation & technology sector attracted the largest share of outbound M&A, driven by private equity investors who account for all but three deals in the sector

North America and Europe remained the primary destinations for outbound M&A, with investment into Asia Pacific remaining six times greater than the level of inbound M&A

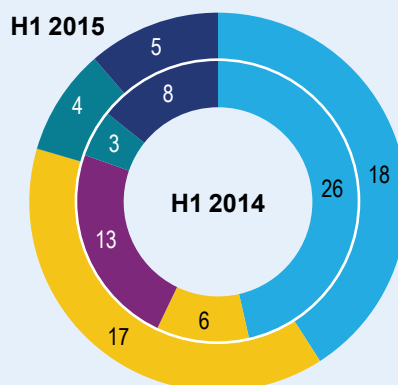


Outbound M&A by region
(USDbn)



- North America
- Europe
- CIS
- Asia-Pacific
- Other

Outbound volume by region



Source: KPMG analysis





Private Equity M&A was flattered by the Stroygazconsulting acquisition

Private Equity (PE) M&A increased by 62% in H1 2015 to USD10.4 billion due largely to the Stroygazconsulting acquisition – with a small increase in deal activity

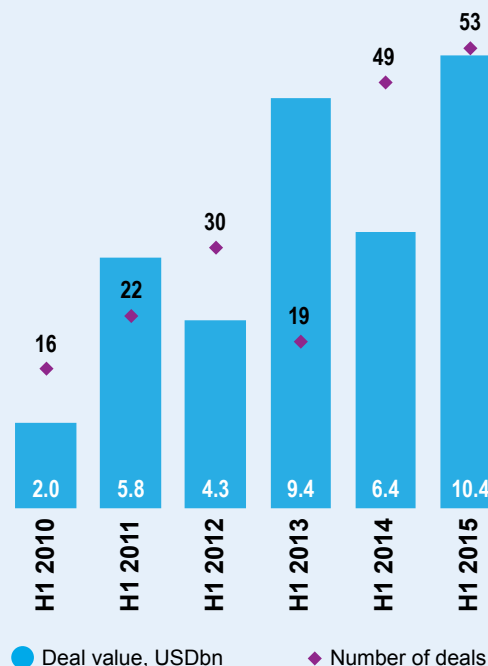
The underlying value of PE M&A, excluding the Stroygazconsulting deal, fell by 47% to USD3.4 billion

Acquisitions accounted for 89% of PE deals, up from 71% in H1 2014. Over half (24) of acquisitions were in the innovation & technology sector, of which two thirds (16) were outbound deals

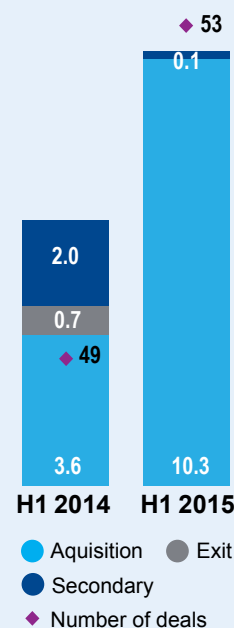
Yuri Milner's DST Global (6) and AFK Sistema (5) were the most active PE investors during the period



H1 Private Equity deal value and volume (2010 to 2015)



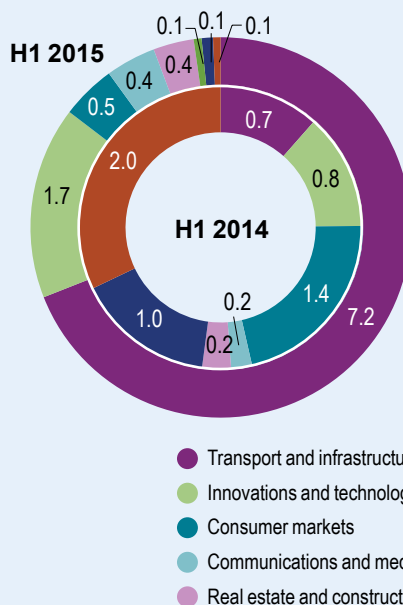
Private Equity M&A by deal type (USDbn)



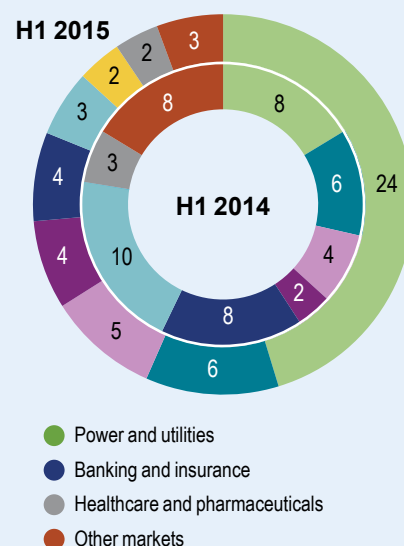
Source: KPMG analysis



Private Equity M&A by sector (USDbn)



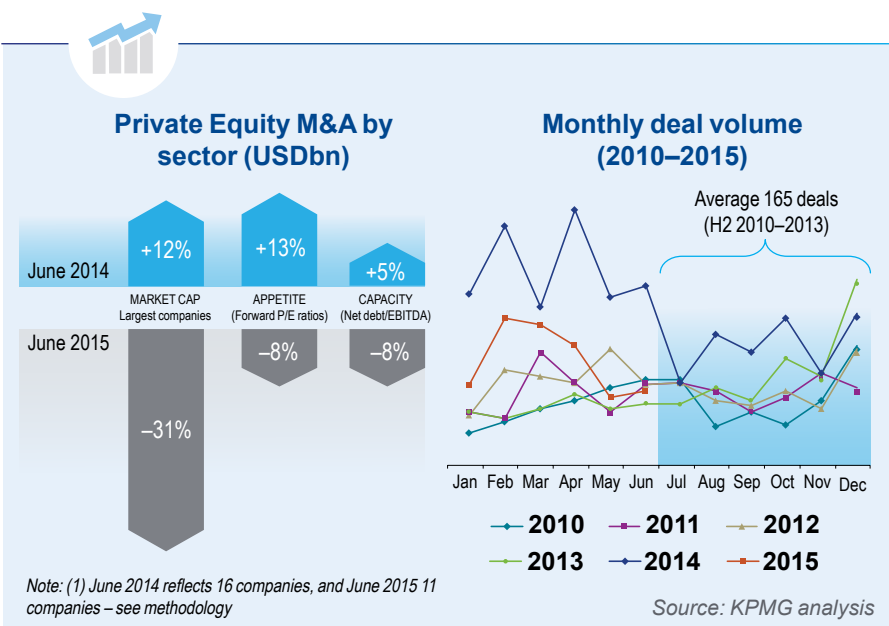
Private Equity volume by sector



Source: KPMG analysis



Indications suggest that M&A may only reach USD32-43 billion in 2015



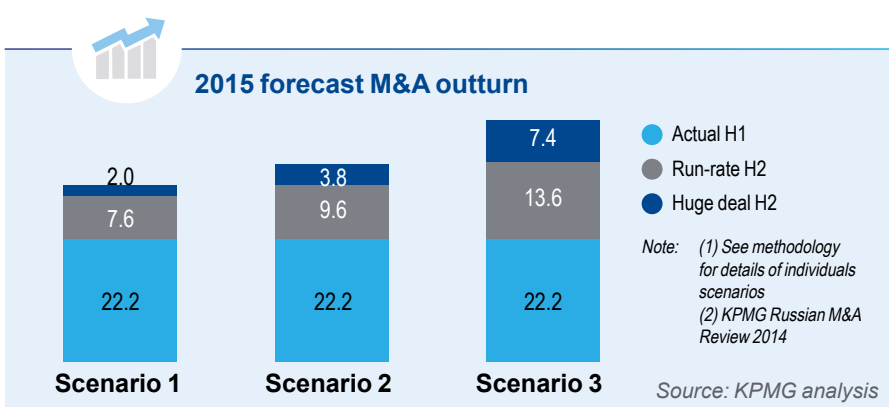
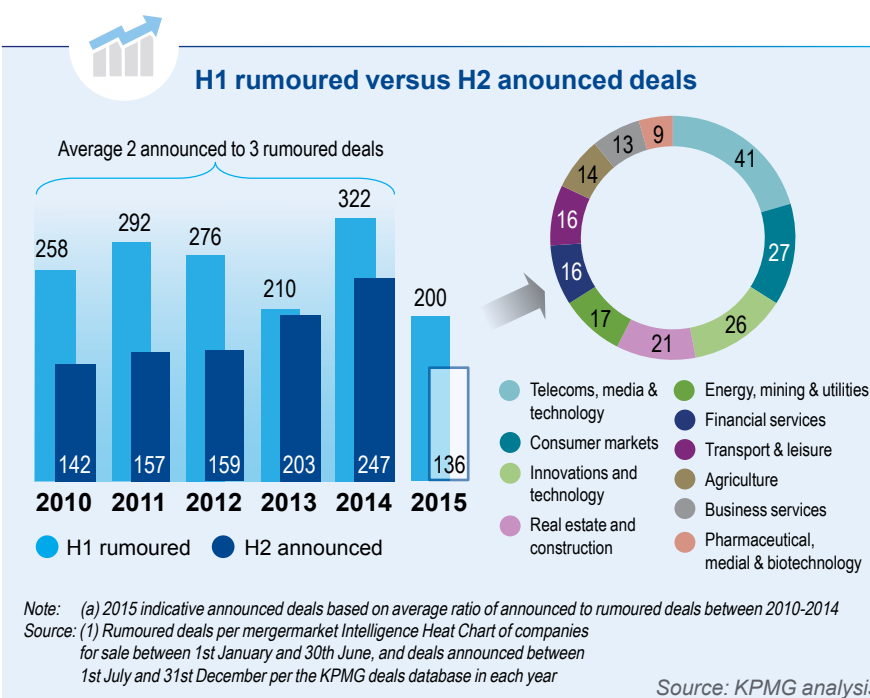
The market cap of Russia's largest companies fell by 31% in the last year, while analysts expect predicted forward P/E and net debt/EBITDA ratios to decline by 8% in the coming year

Monthly deal volumes have fallen sharply, and appear to be heading toward the 2010 to 2013 trend in H2 2015

The number of rumoured deals was 38% lower in H1 2015 than the previous year. Between 2010 and 2014, the ratio of H2 announced to H1 rumoured deals averaged 2:3

At least one deal in excess of USD2 billion has been announced in H2 since 2009

Our analysis indicates that Russian M&A may fall to USD32–43 billion in 2015; below our previous estimate of USD40–50 billion



Methodology

KPMG Russian M&A database

This report is based on the KPMG Russian M&A database which includes transactions where either the target (inbound) or acquirer (outbound) or both (domestic) are Russian.

All data is based on transactions completed between 1st January and 30th June 2015, or announced during this period but pending at 30th June. Historical data may differ from earlier versions of this report as the KPMG Russian M&A database is updated retrospectively for lapsed deals and information subsequently made public.

Data includes transactions valued in excess of USD5 million, as well as transactions with undisclosed deal values where the target's turnover exceeds USD10 million. Deal values are based on company press releases as well as market estimates disclosed in the public domain.

The KPMG Russian M&A database has been compiled over a number of years based on information included in the Mergermarket M&A deals and EMIS DealWatch, together with KPMG desktop research of other sources.

Allocation of deals to industry sectors may involve using our judgement and is therefore subjective. We have not extensively verified all data within the KPMG Russian M&A database, and cannot be held responsible for its accuracy or completeness.

Analysis of different databases and information sources may yield deviating results from those presented in this report.

METHODOLOGY



KPMG M&A Predictor

KPMG's M&A Predictor is a forward-looking tool that looks at the appetite and capacity for M&A deals by tracking and projecting important indicators 12 months forward. The rise or fall of forward P/E (price/earnings) ratios offers a good guide to the overall market confidence, while net debt to EBITDA (earnings before interest, tax, depreciation and amortization) ratios helps gauge the capacity of companies to fund future deals.

The Predictor covers the world by sector and region. It is produced twice a year, using data comprising 1,000 of the largest companies in the world by market capitalization. The August 2014 edition included data for 16 Russian companies, and the August 2015 edition 11. The financial services and property sectors are excluded from our analysis, as net debt/EBITDA ratios are not considered relevant in these industries. All the raw data within the Predictor is sourced from S&P Capital IQ. Where possible, earnings and EBITDA data is on a pre-exceptionals basis.

Mergermarket Intelligence Heat Chart

The Intelligence Heat Chart is based on 'Companies for Sale' tracked by mergermarket in Russia between 1st January and 30th June, each year. Opportunities are captured according to the dominant geography and sector of the potential target company, with predicted deal flow based on the intelligence collected in mergermarket's database relating to companies rumoured to be up for sale, or officially up for sale in Russia.

It is therefore indicative of areas that are likely to be active in the months to come. The intelligence comes from a range of sources, including press reports, company statements and mergermarket's own team of journalist gathering proprietary intelligence from M&A practitioners across the region. The data does not differentiate between small and large transactions nor between deals that could happen in the short or long-term.

Data for Russia was extracted from mergermarket's Deal Drivers EMEA half year edition for 2010, 2011, 2012, 2013, 2014 and 2015.

2015 forecast M&A outturn

During H1 2015, the underlying average transaction value was USD70.3 million (excluding the USD7 billion acquisition of Stroygazconsulting).

Since 2009, 23 huge Russian M&A deals, those valued at >USD2 billion and <USD10 billion, have been announced during H2, with at least one in each year. Over this period, 4 mega Russian M&A deals, those valued at >USD10 billion, were announced. For the purposes of our analysis, mega deals are considered to be exceptional and have therefore been excluded.

We have forecast Russian M&A for H2 2015 based on the following three scenarios:

- **Scenario 1:** run-rate of USD7.6 billion based on the minimum ratio of H2 announced to H1 rumoured deals between 2010 and 2014 (2011: 53.8%) multiplied by H1 2015 rumoured deals (200), multiplied by the underlying H1 2015 average transaction value (USD70.3 million), plus one huge deal based on the smallest H2 huge deal (USD2 billion) between 2010 and 2014
- **Scenario 2:** run-rate of USD9.6 billion based on the average ratio of H2 announced to H1 rumoured deals between 2010 and 2014 (68%) multiplied by H1 2015 rumoured deals (200), multiplied by the underlying H1 2015 average transaction value (USD70.3 million), plus one huge deal based on the average transaction value of H2 huge deals (USD3.8 billion) between 2010 and 2014
- **Scenario 3:** run-rate of USD13.6 billion based on the maximum ratio of H2 announced to H1 rumoured deals between 2010 and 2014 (2013: 96.7%) multiplied by H1 2015 rumoured deals (200), multiplied by the underlying H1 2015 average transaction value (USD70.3 million), plus one huge deal based on the largest H2 huge deals (USD7.4 billion) between 2010 and 2014



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