



# press release

## CMS, Russia

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## Russian M&A market to grow, financial markets to gain momentum in 2009

*According to the majority of respondents, the outlook for 2009 is more positive than one might have expected.*

Results of the survey “Deal Drivers Russia”, published today by CMS in cooperation with *mergermarket*, reveal that despite the gloomy headlines, there remains a stronger level of optimism among Russian corporate decision-makers and overall prospects for the market are more positive than might have been expected.

At the end of 2008 one hundred Russian M&A and corporate finance decision-makers from across all sectors were interviewed on various aspects of the Russian M&A environment and on deal prospects for the coming 12 months.

The majority of those surveyed expect that the level of economic growth will continue to decline over the next 12 months; however, over half believe that Russian M&A activity, including private equity buyouts, will increase during the next 12 months. They also believe that the funding environment will begin to improve at the end of 2009 / beginning of 2010.

### 2009 Outlook: Key findings

- A combined 78% of respondents expect the level of economic growth in Russia to decrease (52%) or to decrease significantly (26%) over the next 12 months. Of the remaining, 8% expect growth will remain the same, while others expect it will increase (12%) or increase dramatically (2%).

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- A combined 51% of respondents expect Russian M&A activity to increase (46%) or increase significantly (6%) over the next 12 months, with 30% expecting a decrease and 3%, a significant decrease.
- A combined 52% of respondents believe the level of private equity buyouts will either increase (40%) or increase significantly (12%) over 2009. Local private equity firms are expected to conduct the majority of Russian private equity activity in 2009.
- The Financial Services sector was cited by 80% of respondents as likely to be among the top three most active sectors in Russia over the course of 2009. Elsewhere, 51% of respondents name the Consumer sector while 42% believe that Energy, Mining & Utilities sector will feature in the top three most active sectors in terms of deal flow in 2009.
- Over 80% of respondents assess that domestic bidders will be the primary acquirers of Russian assets over 2009.
- Over half of respondents (52%) believe the majority of cross-border bidders will originate from Asia over the next 12 months. China, Japan and India are indicated as Asian countries where cross-border bidders will predominantly originate.
- Over three quarters (79%) of respondents identify financing difficulties as the greatest constraint to M&A activity over the next 12 months. 23% of respondents point to risk aversion and uncertainty due to poor market conditions as another one of the greatest constraints.
- Under half of respondents (44%) expect the number of Russian companies listing to at least decrease over the next 12 months, 22% expect the number of listings to remain the same, while a combined 34% take a more positive view and predict listings will increase.
- Over half of respondents believe the funding environment will begin to improve at the end of 2009. Another 39% expect that the recovery will not occur until 2010 and a small share (4%) foresee it occurring in 2011.
- Alternative investments in Russia could witness a lucrative 2009, with infrastructure investments looking particularly strong. Real estate funds could suffer over the course of the year with the wider sector beginning to show some significant weakness.

Commenting on the results of the research, Irene Engel, head of the corporate practice of CMS in Russia, said: "Russia remains a place of great opportunity and the next couple of years will see a return to more realistic prices and a shift from a seller's to a buyer's market, which offers a healthier environment for business."

"As the majority of decision-makers are looking to the end of 2009, or the start of 2010 for the funding environment to improve, we anticipate a strong rebound in debt financing of M&A," said Grant Williams, Head of the Banking and Finance practice of CMS in Russia.

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## Notes for editors

### I. Deal trends 2005 – 2008

- Over 2005-2008, the total number of domestic and inbound M&A deals in Russia amounted to 1,100 valued at €183.7bn. In 2008, M&A activity experienced a sharp deceleration: the volume of M&A transactions fell by over 25% and deal values by over 50% compared to 2007 figures (317 deals worth €75.6bn). The M&A slowdown became more acute as the global financial crisis, precipitated by the collapse of Lehman Brothers in September, worsened over the course of the second half of 2008.
- In 2008, domestic deals accounted for around two thirds of overall deal flow, both in terms of volume (67%) and value (64%). The corresponding average figures for the past four years amounted to 70%. Domestic Energy, Mining & Utilities deals continued to lead the way, accounting for 28% of deal volume and 42% of deal value, followed by Technology, Media & Telecommunications (TMT) and Consumer Goods (17% and 14% of deal volume respectively).
- For the inbound deals, companies from the UK comprised the largest group of investors making acquisitions in Russia in 2008, accounting for 17% of total inbound investments by volume, followed closely by firms from the US at 16%. Proportions of UK and US investments made in 2008 to total acquisitions that year are slightly above trend levels for 2005-2008. However, this is also the case with Cyprus and Finland, the third and fourth most active investors in Russia, under-scoring the tendency for increasing concentration of inbound investment by country. By deal value, Finland and the US led the way, each contributing around one fifth of total deal valuations in 2008.
- Energy, Mining & Utilities remained the leading sector by M&A activity in 2008, with deal flow comprising slightly more than 25% of the total number of transactions and just over 40% of total deal values over the year. Seven of the top 10 Russian M&A deals announced in 2008 took place in this sector. The Consumer sector was the next most active with just under 20% of total deals and about 15% of total deal valuations. The TMT sector accounted for about 15% of deal flow, but only an approximate 4% of total value. The Financial Services sector (12.5% of total deal volumes), was the second largest sector by deal value after Energy, Mining and Utilities in 2008, accounting for just under one quarter of total deal valuations over the year.
- By deal size, small-cap deals (<€100m) accounted for just over 50% of total transaction volume in 2008, but only 11% of total deal value – figures similar to the overall trend for 2005 to 2008 as a whole. Deal volume in the mid-market (€101-€500m) comprised 20% of the overall market in 2008, compared to just 15% over the 2005-2008 period, while the share of such deal values accounted for around 30% of the market (compared with roughly 20% for the 2005-2008 period). Large-cap deals (>€500m) numbered 17 with a value of €21.4bn in 2008, accounting for approximately 7% of deal volume and 60% of deal value in the year, compared with respective proportions of 6% and 70% over 2005-08.

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CMS in Russia comprises over 130 lawyers, including 25 partners. CMS has over 16 years of experience in the Russian market, advising major international and domestic players on all legal aspects of their business. For more information please visit <http://www.cmslegal.ru/>

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