

# The genesis of the Russian mergers and acquisitions market: the role of the industrial sector

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**Abstract.** The article presents the Mergers and Acquisitions quantity and aggregate cost dynamics analysis with the involvement of Russian companies as of from 2001 to 2015. The statistical information on the quantity and volume of M&As in Russia and worldwide was used as an initial benchmark data for the research. The article deduces the conclusion that the dynamics of Russian M&A market development resembles the international one in the whole period up to the year 2014. Starting from 2014 Russian and international M&A markets shows polar trends. This fact connected chiefly to the negative trends in Russian economy due to economic sanctions and weak exportable raw products prices. The article also gives the analysis of Russian M&A market structure from several different perspectives: transactions prices range, capital flow, and integration fields. The main specific features of Russian M&A market are outlined in the light of the reviewed aspects: almost a half of M&A market value is formed through major transactions; internal transaction dominance (sellers and buyers are Russian companies); most of the deals are conducted with involvement of industrial enterprises. The results of this study can be used in forecast development of Russian M&A market trends.

**Keywords:** Merges and acquisitions, Business combinations, Russia, Industry

## 1 Introduction

Mergers and acquisitions markets of Western countries have been researched for more than one hundred of years. M&A market in the USA is the most thoroughly researched market. The first major review of its trends was conducted by R.L. Nelson in his work [1]. Nelson summarized the segmentary pieces of information contained in multiple works of the first half of the XX century, devoted to research of the USA M&A market dynamics. J.C. Narver's monograph was published ten years later [2]. In this monograph USA M&A market was researched on the grounds of US Federal Trade Commission annual reports. Since 1963 W.T. Grimm & Co, and later its legal successors (now it is Business Valuation Resources), have started to collect statistical data on publicly announced mergers and acquisitions and publish the Mergerstat Review bulletin, which contain the statistical data on M&As with the involvement of USA companies [3]. Starting from 1980s the activity of European M&A researchers [4-11], and from 2000s the activity of the Asian ones [12-17], has increased. Nowadays there are a lot of scientific papers devoted to the research of global and several national M&A markets trends. A classification of such papers is covered in M. Martynova, L. Renneboog [18], and P.A. Gaughan [3] publications.

Russian M&A market is one of the most dynamically developing markets in the world, and it takes up 2-3% of the international market. Several hundreds of major M&As of public companies happen annually and it is extremely difficult to estimate the amount of transactions between lesser non-public companies [19]. However Russian M&A market research works are hardly presented at all in the international academic literature. The author has conducted the analysis of the Scopus peer-reviewed literature database and this analysis showed a really small amount of such publications [20-22]. The aim of this article is to locate the trends of Russian M&A market development and introduce it to the international professional association.

## 2 Methodology and results

The title is set in bold 16-point Arial, justified. The first letter of the title should be capitalised with the rest in lower case. You should leave 35 mm of space above the title and 6 mm after the title. The author summarized the annual research results of integration transactions of the Institute for Mergers, Acquisitions and Alliances – IMAA (<https://imaa-institute.org>), of the “Mergers and Acquisitions in Russia” analytical project (<http://mergers.ru>), and KPMG group ([www.kpmg.com](http://www.kpmg.com)). On the basis of the mentioned data author conducted the

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analysis of Russian M&A market trends, that were active during the 2001 and 2015. Table 1 contains the data on quantity and aggregate cost of M&As in Russia and worldwide (according to the IMAA annual research data).

**Table 1.** The volume and quantity of M&As in Russia and worldwide in 2001-2015.

Year	International M&A market volume, bln USD	The number of transactions on international market	Russian M&A market volume, bln USD	The number of transactions on Russian market
2001	1871	31205	3	398
2002	1243	27456	9	400
2003	1413	29773	35	488
2004	2094	33151	25	398
2005	2859	36206	63	469
2006	4070	41668	52	654
2007	4960	47821	159	966
2008	3097	45747	82	1716
2009	2198	41282	36	3285
2010	2745	43901	109	3684
2011	2657	43090	88	3209
2012	2530	40703	115	2532
2013	2523	38816	67	2019
2014	3936	43008	18	1914
2015	4679	46167	31	1760

Volume percent of Russian M&A market from international market varies from 0.16% in 2001 to 4.54% in 2012. Median rate comprises 2.20%. Quantity percent of Russian M&A market from international market varies from 1.28 in 2001 to 8.60% in 2010. Median rate comprises 3.44%.

As a whole, the dynamics of Russian M&A market development had been showing trends similar to the international one up until the 2014. There was a steady growth that reached its peak value in 2007, that turned into a decline, and then the rate reached its minimum value in 2012-2013. The largest mega transaction in the history of Russian M&As influenced the statistical data of 2012 heavily. It is when the “Rosneft” have bought the “TNK-BP” holding company for 53.9 bln USD (according to IMAA). If it wasn't for this mega-transaction, the market in 2012 would continue to decline. Statistical analysis confirms this deduction. Pearson product-moment correlation coefficient between the shift in the quantity of the transactions in the Russian and international markets over the same period comprised 0.56. This means that there is a direct connection between the variations under consideration. The author deduced the Pearson product-moment correlation coefficient between the shift in the quantity of the transactions in the Russian and international

markets in 2002-2013 (the sixth wave of M&As in the international market) and it comprised 0.72. This means that there is a strong and direct correlation between the reviewed variations.

The author has built the equations, that show trends in change of the amount of transactions in international and Russian markets in 2002-2013. A polynomial form of the growth curve was chosen, because in the most cases it gave the highest coefficient of determination.

The dynamics of the amount of transactions in the global market is described by the equation

$$y = -389.4x^2 + 6209.5x + 19865 \quad (1)$$

Determination coefficient  $R^2$  amounted to 0.8887.

The dynamics of the amount of transactions in the Russian market is described by the equation

$$y = -16.621x^2 + 497.89x - 684.32 \quad (2)$$

Determination coefficient  $R^2$  amounted to 0.6703.

Adequate trend models of changes in the transactions volume on Russian and global markets appeared to be impossible to compose. The main reason for that is the significant amount of the world-largest mega transactions on Russian M&A market, and those transactions influence its aggregate volume massively.

Fig. 1 shows the fluctuations dynamics of integrative transactions mean prices in Russia and worldwide in 2001-2015.



**Fig. 1.** Fluctuations dynamics of transactions mean prices in Russian and global M&A markets in 2001-2015.

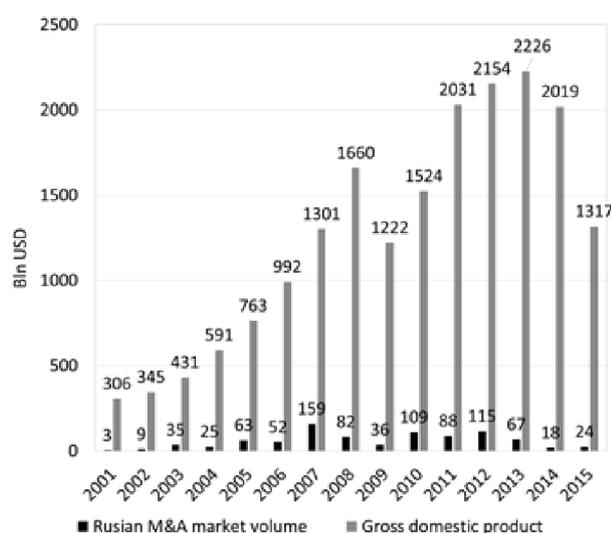
Mean price of the transaction on the global market scale varied from 45.3 mln USD in 2002 to 103.7 mln USD in 2007. In Russia from 7.5 mln USD in 2001 to 405.7 mln USD in 2012. Median rate comprised 63.2 mln USD and 165.7 mln USD respectively. Such substantial difference could be caused by the large number of mega-transactions in 2005-2013, which constituted 43% and 85% of the market volume.

Starting from 2014, Russian and global M&A markets show polar trends. Substantial decline of Russian market performance contrasted with the record-breaking growth of the global market performance in

2014-2015. It is connected to the influence of the two major factors, according to the majority of experts:

- economic sanctions against Russia in light of the events in the Ukraine, that exert the negative effect on the investment environment in the country;
- global raw materials prices decline (especially oil), that leads to absence of free cash in the hands of extractive industry companies, and they are traditionally the most active Russian acquiring companies.

Fig. 2 shows the fluctuation of Russian M&A market volume dynamics in the light of changes in GDP of the country. The author re-estimated the GDP in bln USD, by reference to the official data of the Census Bureau on GDP amount, in roubles and annual average rouble's rate to the dollar according to The Bank of Russia's data.



**Fig. 2.** Fluctuation of Russian M&A market volume dynamics in the light of changes of GDP in Russia.

The conclusion can be drawn from the given data on the fact that the M&A market is a significant constituent part of the Russian economy and it amounts to 5% of the GDP in general (median rate – 4.81%). In the estimation of specialists, that were presented in overviews of the project “Mergers and acquisitions in Russia” such correlation is roughly corresponds with worldwide average. However, in 2014-2015, the volume of M&A market was declining with priority rate to the GDP decline (0.89% in 2014 and 1.82% in 2015).

Table 2 contains the data on quantity structure of M&A in Russia in various price spectrum. Y.V. Ignatishin [23] has thoroughly studied the researches of the Russian M&A market structure in the early XXI century. It is clear from his studies that analytical reviews, published until 2004, never covered all market and was conducted via different approaches. That's why they can't be associated to the data of the subsequent researches. The “Mergers and acquisitions in Russia” project was created in 2004 and it conducted research of the Russian M&A market annually using the unified methodology. The reviews of this project served as the data source for 2004-2012. In 2013 this project ceased to

conduct such researches, and therefore, the data source for 2013-2015 became the annual analytical overviews of KPMG group. It tends to segment the price range of transactions, but apart from this fact, its methodology is similar to the “Mergers and acquisitions in Russia” project. So, the author remade the price ranges of transactions into the comparable forms and re-estimated the shares of quantity and transactions amounts in every range.

**Table 2.** Evaluation of the Russian M&A market quantity structure in 2004-2015.

Market share	Transaction amount				Total:
	More than 500 mln USD	100 mln USD - 500 mln USD	10 mln USD - 100 mln USD	Less than 10 mln USD	
2004	37.1%	30.9%	27.4%	4.6%	100.0%
2005	55.6%	25.6%	16.5%	2.3%	100.0%
2006	43.4%	35.4%	18.6%	2.6%	100.0%
2007	69.9%	20.7%	8.1%	1.3%	100.0%
2008	65.1%	24.3%	9.5%	1.1%	100.0%
2009	67.9%	20.8%	9.6%	1.7%	100.0%
2010	56.2%	27.2%	14.9%	1.7%	100.0%
2011	69.7%	18.4%	10.6%	1.3%	100.0%
2012	63.0%	23.4%	12.5%	1.1%	100.0%
2013	85.2%	11.3%	3.5%	0.0%	100.0%
2014	62.9%	25.2%	11.3%	0.6%	100.0%
2015	61.5%	26.3%	11.3%	0.9%	100.0%

According to the given data, the author noted the stable predominance of the transactions from the low-range and mid-range price segment. Almost 80% of all the transactions are conducted in the range up to 100 mln USD (in 2013 this tendency was violated due to the big number of mega-transactions). An increase of the amount of transactions in the upper-range price segment in 2013-2015 is connected to the general increase of the amount of this kind of transactions and also to the various entry thresholds of the minor transactions into the analytical overviews of the “Mergers and acquisitions in Russia” project and KPMG group. In the first case this threshold comprised 1 mln USD, and in the second case – 5 mln USD.

Table 3 contains the data on structure of the aggregate value of M&As in Russia in different price ranges.

A consistent tendency of Russian M&A market became the composition of almost a half of its volume with major transactions (more than 500 mln USD). Median rate of such transactions in 2006-2015 amounted to 62.9%.

**Table 3.** Evaluation of the Russian M&A market cost structure in 2004-2015.

Market share	Transaction amount				Total:
	More than 500 mln USD	100 mln USD - 500 mln USD	10 mln USD - 100 mln USD	Less than 10 mln USD	
2004	37.1%	30.9%	27.4%	4.6%	100.0%
2005	55.6%	25.6%	16.5%	2.3%	100.0%
2006	43.4%	35.4%	18.6%	2.6%	100.0%
2007	69.9%	20.7%	8.1%	1.3%	100.0%
2008	65.1%	24.3%	9.5%	1.1%	100.0%
2009	67.9%	20.8%	9.6%	1.7%	100.0%
2010	56.2%	27.2%	14.9%	1.7%	100.0%
2011	69.7%	18.4%	10.6%	1.3%	100.0%
2012	63.0%	23.4%	12.5%	1.1%	100.0%
2013	85.2%	11.3%	3.5%	0.0%	100.0%
2014	62.9%	25.2%	11.3%	0.6%	100.0%
2015	61.5%	26.3%	11.3%	0.9%	100.0%

Table 4 shows the quantity structure of Russian M&A market from capital transfers perspective. Internal integration is understood here as a purchase of a Russian company by a Russian buyer, export integration is a purchase of a foreign company by a Russian buyer, and import integration means a purchase of a Russian company by a foreign buyer.

**Table 4.** Quantity structure of the Russian M&A market in 2004-2015 from capital transfers perspective.

Market share	Integration direction			Total:
	Internal (in Russia)	Export (from Russia)	Import (to Russia)	
2004	85.6%	8.6%	5.8%	100.0%
2005	82.7%	11.2%	6.1%	100.0%
2006	82.0%	9.3%	8.7%	100.0%
2007	79.6%	11.0%	9.4%	100.0%
2008	78.8%	11.7%	9.5%	100.0%
2009	80.9%	10.3%	8.8%	100.0%
2010	83.8%	9.2%	7.0%	100.0%
2011	81.0%	10.5%	8.5%	100.0%
2012	84.0%	8.6%	7.4%	100.0%
2013	69.1%	12.0%	18.9%	100.0%
2014	76.2%	12.4%	11.4%	100.0%
2015	71.4%	14.9%	13.7%	100.0%

Table 5 gives the cost structure of the Russian M&A market from a capital transfer perspective.

**Table 5.** Cost structure of the Russian M&A market in 2004-2015 from capital transfers perspective.

Market share	Integration direction			Total:
	Internal (in Russia)	Export (from Russia)	Import (to Russia)	
2004	73.6%	10.8%	15.6%	100.0%
2005	72.9%	14.4%	12.7%	100.0%
2006	68.5%	18.3%	13.2%	100.0%
2007	58.9%	20.7%	20.4%	100.0%
2008	61.0%	19.1%	19.9%	100.0%
2009	64.0%	14.3%	21.7%	100.0%
2010	65.6%	15.1%	19.3%	100.0%
2011	57.8%	23.8%	18.4%	100.0%
2012	74.0%	11.0%	15.0%	100.0%
2013	81.4%	4.0%	14.6%	100.0%
2014	72.4%	17.6%	10.0%	100.0%
2015	64.7%	15.4%	19.9%	100.0%

As the tables above show, the strategy of internal integration prevails in Russia and it is hardly surprising. From the one hand, Russian economy shows the high level of corruption and bureaucracy, so the foreign investors aren't sure in the stability of the rules for "the game" in long-range perspective. From the other hand, the rate of return of business abroad is lower than the same rate in Russia.

Table 6 gives the quantity structure of the Russian M&A market from an integration fields perspective.

**Table 6.** Quantity structure of the Russian M&A market in 2006-2015 from an integration fields perspective.

Integration field	Market share, %									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Industrial sector	27.8	28.7	24.8	23.6	25.4	26.9	28.9	23.4	17.2	19.0
Agricultural sector	14.2	11.3	10.6	13.0	12.1	10.7	14.4	4.7	5.3	5.2
Property development	7.7	6.7	11.6	12.0	13.0	13.4	10.8	19.9	31.3	17.5
Telecom. and media	16.9	20.5	22.2	20.1	18.4	19.1	16.3	9.2	9.1	10.1
Financial sector	11.2	12.3	11.9	10.5	13.5	10.5	8.4	10.4	9.5	12.3
Trade and services	18.3	15.7	14.0	15.9	13.2	12.0	16.6	5.7	8.0	9.5
Transport sector	3.9	4.8	4.9	4.9	4.4	7.4	4.6	10.4	6.6	9.1
Other economic sectors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	16.1	13.0	17.3
Total:	100	100	100	100	100	100	100	100	100	100

The data on the 2004-2005 time period, contained in "Mergers and acquisitions in Russia" project analytical overviews can't be matched to the subsequent data

because of the fundamental differences in organization of the fields into groups, so the analysis of this time period wasn't conducted. The data on 2006-2012 time period ("Mergers and acquisitions in Russia" project) and 2013-2015 (RPMG group) was consolidated into 8 aggregative groups of fields.

Table 7 gives the cost structure of the Russian M&A market from an integration fields perspective.

**Table 7.** Cost structure of the Russian M&A market in 2006-2015 from an integration fields perspective.

Integration field	Market share. %									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Industrial sector	52.0	75.5	61.1	77.9	40.6	47.0	30.0	50.0	50.7	49.2
Agricultural sector	4.3	3.5	3.2	2.2	8.3	9.0	7.2	0.9	1.3	2.5
Property development	2.8	3.2	6.5	6.8	7.6	8.1	3.0	7.8	15.2	13.4
Telecom. and media	16.2	5.1	11.5	3.9	24.1	16.3	17.7	15.5	6.3	5.2
Financial sector	9.3	5.5	9.1	4.5	7.0	10.5	14.9	5.2	4.8	4.5
Trade and services	12.4	5.6	6.1	3.6	9.6	4.8	9.9	0.9	5.1	3.2
Transport sector	3.0	1.6	2.5	1.1	2.8	4.3	17.3	9.5	9.9	16.5
Other economic sectors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.3	6.7	5.5
Total:	100	100	100	100	100	100	100	100	100	100

Analysis of the industry specific characteristics of Russian M&A market showed that quantitative structure of the market is quite stable and is characterized by the low volatility (standard deviation in 2006-2015 hovers from 1.1% for the transport sector to 2.6% for the property development field). However, the cost structure is less stable and is characterized by low volatility (standard deviation in 2006-2015 hovers from 2.3% for the property development field to 17.7% for the industrial sector). It is connected for the most part to the annual conclusion of transactions, which cost is above the mean rate. For example, in 2009 three large mergers were conducted with the total amount of more than 9 bln USD in Fuel-power complex. In the setting of the general market decline it spiked the industrial sector share in the sectoral structure of M&A market. Following on from the data from table 6 and 7 the author makes the conclusion that industrial sector is the key sector for the Russian M&A market: median rate of the cost market share is 50.3%, quantity rate is 25.1%.

### 3 Practical relevance of research and conclusion

An integration between enterprises is the most important feature of the modern economy. Mergers and acquisitions in XXI century become more and more trans-border and more and more countries get involved in global M&A market. The

results of this research prove that the M&A market occupies the major place in the Russian economy and the dynamics of its development is similar to the global one (exception in 2014-2015 time period). It allows to make the following assumption: when Russian economy will finally adapt to the new conditions of economic sanctions and low prices on exported materials, its M&A market will show the steady growth following the global trend. Another important conclusion is in the fact that the development of Russian M&A market largely influences the industrial sector and integrational processes in this sector, in its turn, largely influence the volume and quantity structure of the market. So, the increase of integrational processes effectiveness in industrial sector is a relevant objective, that has high socio-economic and business importance for the whole country.

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