

## **Too many cooks?**

How many parties are there to an M&A transaction in Russia? More than the ordinary theory suggests!

In the majority of developed economies, the authorities would only be involved in a transaction where antitrust regulation comes into play. In Russia, the state can be involved more often but at a more, shall we say, 'informal' level. Some deals are more welcome than others and therefore a seller may be more inclined to accept a lower price from, what is known as, a more "resourceful" buyer in return for a smooth transaction.

There is often a fourth party – the management. Many companies have a seemingly low price because the management has extensive control of the business and extracts most of the profits. In some cases, a new owner may face a corporate conflict and run up additional costs in order to gain real operational control of the business.

A potential buyer may also face problems where the seller tries to retain influence of the business post-transaction. A recent example was where the owners of a retail chain proposed a deal structure that would allow them, after the sale, to retain key elements of the business (the brand, proprietary software, supply infrastructure, etc.) and lease them back to the buyer. In this particular case the deal failed once the due diligence had been completed. If the owners' terms had been met, there would have been very little left for the buyer.

Although these issues suggest that M&A transactions in Russia are less profitable than elsewhere, a wide and ever-expanding domestic market provides attractive opportunities and strong return for investors when risks are duly managed.