ANALYSIS OF MERGER AND ACQUISITION MARKETS COMPETITIVENESS

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Businesses are constantly expanding. Competitiveness in the national arena is now forcing business to go global. The days of regional differentiation are over. Now companies don't try to "survive in a niche".

One of the most important situations that they eventually face is the key to their survival: acquire or be acquired. M&A deals are one of integration processes in global economy.

Merger is the combining of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock. It is a financial tool that is used for enhancing long-term profitability by expanding companies' operations. Mergers occur when the merging companies have their mutual consent unlike acquisitions, which can take the form of a hostile takeover [1, p. 244].

The business laws in the US vary across states and hence the companies have limited options to protect themselves from the hostile takeovers. One way for a company to protect itself from hostile takeovers is by planning shareholders rights, which is alternatively known as "poison pill". This name was given due to the historic facts that very few mergers have actually added to the share value of the acquiring company. Corporate mergers may promote monopolistic practices by reducing costs, taxes etc.

Such activities may go against public welfare therefore they are subject to a thorough control by the antimonopoly authorities. In the US the history of state control over M&A has begun with the Sherman Act 1890, now any merger requires the prior approval of the Federal Trade Commission and the Department of Justice. [2, pp. 483-493].

The state control over transactions is important for any country's economy, because its absence can lead to economy recession. International Mergers and Acquisitions (M&A) investment has shown resilience in the face of recent economic turmoil, including the unfolding sovereign debt crisis in Europe and persistent economic weakness in the United States.

International M&A investment in 2011 reached $822 billion as at 21 October. If this pace is sustained, international M&A will top $1 000 billion by the end of the year, a 32% increase over 2010 (figure 1).

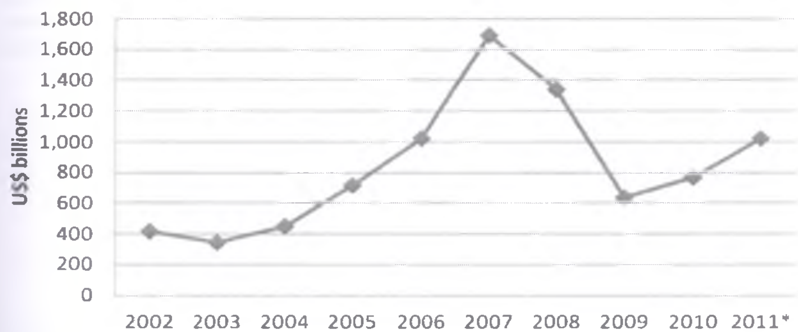

Figure 1. International M&A: 2002 – 2011*

* Linear projection based on data through 21 October 2011

Source of Data: Dealogic

This would match the third highest level ever reached in 2006. Even if M&A activity were to come to a stop in Q4, 2011 levels will still be 7% higher than those reached in 2010.

Most international investment continues to originate from either North America or Western Europe. However, the emerging markets have become important new sources of international investment in recent years. China (including Hong Kong) in particular has become a major international investor, ranking as the fourth largest source of international M&A in 2011(figure 2a).

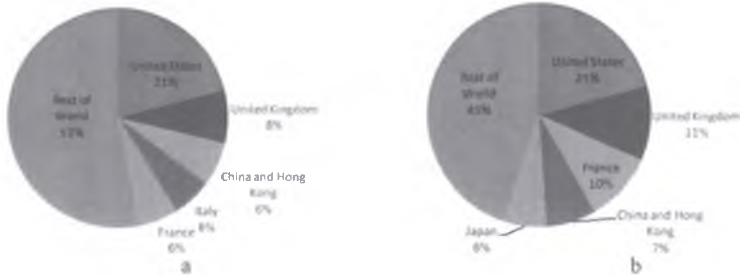

Figure 2: Top 5 sources of international M&A (a) and top 5 destinations of international M&A (b): 2011

Source: Dealogic

In 2010 China ranked second with 10%, while in 2007 less than 3% of international M&A originated from China. China accounts for a third of international M&A from emerging economies, which accounted for 20% of the global total in 2011.

The United States and the United Kingdom are the top destinations for international M&A, followed by China, Italy, and France, each with 6% of the world total (figure 2b). Brazil received $44 billion in international M&A, making it the 6th most popular target, while India received $21 billion (12th place) and Russia $18 billion (16th place). As a group, the emerging and developing economies received $182 billion in M&A investment, 22% of the global total in 2011.

In 2011, international M&A continued to be dominated by deals in the financial sector even though the pace was much slower in comparison with 2010 when finance accounted for 28% of all international M&A.

In 2011 the oil and gas sector ranks the second and healthcare – the third. Both sectors account for 10% of total international M&A. Mining and the utilities and energy sectors have both experienced strong growth in 2011. International M&A deals in mining are up 67%, from $34 billion in 2010 to $57 billion in 2011, with over two months remaining in the year. International investment in the utilities and energy sector more than doubled in 2011, growing from $23 billion in 2010 to $50 billion in 2011 (fig. 3).

Figure 3: Mid-market deal value by sector: 1H 2009 & 1H 2010

Source: PwC analysis, mergermarket

The analysis of the Russian M&A market allows to conclude that the Russian M&A mid-market witnessed robust growth up until 2H 2008, when the global financial crisis hit and rapidly reduced M&A activity, both in Russia and across the globe. The world M&A market has not yet recovered, but investor confidence is returning and macroeconomic forecasts are positive.

The M&A mid-market was less affected by the crisis than other types of M&A activity. According to statistics the share of mid-market deals in the overall M&A market value increased from 22% in 2009 to 27% in 1H 2010.

The number of mid-market M&A deals declined to only 47 in 1H 2010, as compared to 64 in ill 2009 – almost a 27% decrease (fig. 4). In value terms, the decrease was similar: the value of mid-market deals was USD 5.1 billion in ill 2010, as compared to USD 7 billion in 1H 2009.

Figure 4: Mid-market M&A deal activity in Russia: 2007-1H 2010
Source: PwC analysis, mergermarket

Over the last year, the average size of a mid-market deal has slightly decreased, from USD 110 million in 1H 2009 to USD 109 million in 1H 2010 (fig. 5). The number of deals at the lower end of the mid-market segment (below USD 100 million) has slightly decreased, from 59% in 2009 to 57% in ill 2010.

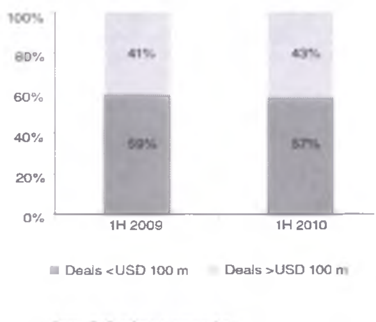

Figure 5: Percentage of mid-market deals by value: 1H 2009 and 1H 2010
Source: PwC analysis, mergermarket

Domestic deals still dominated in 2009- lH 2010, accounting for about 65% of the total number and 66% of the total value of mid-market M&A deals. Also, the number of inbound deals was over 2 times higher than the number of outbound deals in 2009-1H 2010 – this is a reflection on the developing nature of Russian companies.

M&A mid-market sector composition differs from overall M&A market, which is dominated by Russia's leading industries such as oil & gas and utilities. The mid-market has a more balanced sector composition, and historically sectors such as retail & consumer, real estate, utilities, and banking have contributed most to the M&A mid-market.

As compared to lH 2009, the sector composition of mid-market deals in lH 2010 saw a shift towards companies in the utilities, real estate and retail & consumer sectors. The retail & consumer and real estate sectors witnessed the largest increase. The oil & gas sector share significantly decreased in lH 2010 as compared to lH 2009, while the shares of other key sectors remained approximately the same. In lH 2010, the utilities, real estate and retail & consumer sectors together accounted for 45% of M&A mid-market value. These sectors represented 20%, 14%, and 11% respectively of overall mid-market deal value.

According to our forecasts if the Russian economy continues its recovery, and GDP and real disposable income gradually increase, the retail & consumer sector will continue to make up a significant share of the M&A mid-market and remain attractive both to domestic and foreign investors, being competitive with the M&A markets of other countries.

Despite further contraction of M&A activity last year, the M&A mid-market showed greater resilience to the crises – during 2009 – 1H 2010 in contracted less than the overall M&A market. The mid-market is expected to stabilise in the near future and there are reasons to believe that the M&A mid-market will recover faster than the market overall. One reason consists in high potential for consolidation in several industries, such as retail & consumer and pharmaceutical. Next reason is that many potential sellers are experiencing constrained liquidity as a result of the crisis and will need external capital to realize growth potentials. That fact that private equity in Russia is expected to increase also allow us to believe in M&A market fast development.

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DETERMINANTS OF FOREIGN DIRECT INVESTMENT FLOWS AND DISTRIBUTION IN RUSSIAN REGIONS

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There are many theories which attempt to explain the determinants of foreign direct investment (FDI). These theories are significant steps towards the development of a systematic framework for the emergence of FDI. However, the capacity of each of them to serve as a self contained general theory, which could explain all types of FDI (i.e., outward as well as inward FDI at the firm, industry, and country level), has been questioned in the works of various scholars. Agarwal (1980), Parry (1985), Itaki (1991) can be given as examples.

Dunning (1993) describes three main types of FDI based on the motive behind the investment from the perspective of the investing firm. The first type of FDI is called market-seeking FDI, which aim is to serve local and regional markets. It is also called horizontal FDI, as it involves replication of production facilities in the host country. A second type of FDI is called resource-seeking: when firms invest abroad to obtain resources not available in the home country, such as natural resources, raw materials, or low-cost labour. The third type of FDI, called efficiency-seeking, takes place when the firm can gain from the common governance of geographically dispersed activities in the presence of economies of scale and scope.