GETTING THE DEAL THROUGH: PRIVATE EQUITY 2020 (RUSSIA CHAPTER)

10 December 2020 | Moscow
Legal Briefings – By **Graeme McIntyre, Alexei Roudiak, Stefan Kecman and Sergei Eremin**

Market conditions in Russia had been improving in 2018 and 2019, with commentators reporting an overall increase in the number of private equity deals, and this trend had been expected to continue in 2020. However, in line with other major economies, the Russian economy sharply contracted in the first half of 2020, driven largely by the impact of the global covid-19 pandemic, and this has led to a decline in private equity activity in 2020.

After growing 1.6 per cent in the first quarter of 2020, according to preliminary data released by the Federal Statistics Service in August 2020, the Russian economy suffered an annual 8.5 per cent reduction in the second quarter of 2020 (a 9 per cent drop was predicted in a Reuters poll of analysts in late June 2020). Only Russia’s agriculture sector grew in the second quarter, with commodity, retail, transport and the services sectors being the hardest hit. According to a World Bank report published in July 2020, Russia’s 2020 GDP growth is projected to contract by 6 per cent, an 11-year low, with a moderate recovery projected in 2021 to 2022.

In addition to the impact of the global covid-19 pandemic, the Russian economy has also been challenged in 2020 by the sharp decline in oil prices (which has had a substantial impact on Russia as a leading global energy exporter) and the depreciation of the Russian rouble against other major currencies in the first half of 2020. Furthermore, the risk of US and EU sanctions (while not escalating recently) remains. Finally, the President announced in early 2020 the renegotiation of double tax treaties with what Russia considers to be transit jurisdictions to dramatically increase withholding tax on dividends and interest sourced from Russia.

These negative trends, and the associated uncertainty for the Russian economy, are likely to depress private equity activity in Russia and, in particular, investors are likely to adopt a 'wait and see' approach to major transactions during 2020, deferring these decisions into the first quarter of 2021.

At the same time, the current situation has also presented new opportunities in stressed and distressed private equity transactions, and certain sellers have also been exploring the acceleration of anticipated disposals of non-core or underperforming businesses to raise cash.

Unlike in other jurisdictions, an initial public offering (IPO) is not a common exit strategy for private equity in Russia and therefore there is not a particularly strong correlation between changing stock market valuations and private equity activity. The only notable IPO in 2019 and the first half of 2020 was the listing of HeadHunter (a leading Russian online job search portal) on the NASDAQ exchange and while there were numerous negotiated private equity exits during this period, it remains a challenging market to successfully exit from a private equity investment.

Overall, the Russian private equity market faces a tough period and we are unlikely to see a major uptick in transaction activity or new fundraisings in the next 12 months.

Read the full chapter

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.

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