



But the acquisition game was taken to a whole new level last December when Coke's main rival PepsiCo paid \$3.8bn for a 66% stake in Wimm Bill Dann, to become Russia's single biggest dairy producer overnight.

The Pepsi-WBD deal opened the flood gates and a slew of other strategic investors have either bought out their partners or ramped up investment in Russia. Danone followed hot on the heels of Pepsi, with the buyout of St Petersburg-based dairy Unimilk in 2010. And this summer Yum! Foods, owner of KFC, bought out Rostik Group, its partner of over five years in a fried chicken restaurant chain, and has since started re-branding all the outlets with the Colonel Sanders logo.

And there seems to be no let up in the pace. In just the first two weeks of October, Unilever announced it would buy 82% of Russian shampoo maker Kalina for \$535m and Italy's De Cecco closed a deal to take over Russia's First Pasta Company.

The volume of mergers and acquisitions (M&A) has led the broader recovery. M&A volumes totalled \$55bn in the first three quarters of this year, reports Mergermarket, up 58.8% from the same period a year earlier, making it the second busiest period since the record-breaking 2007 at the height of Russia's

Exits open as investment pours into Russia

Ben Aris in Moscow

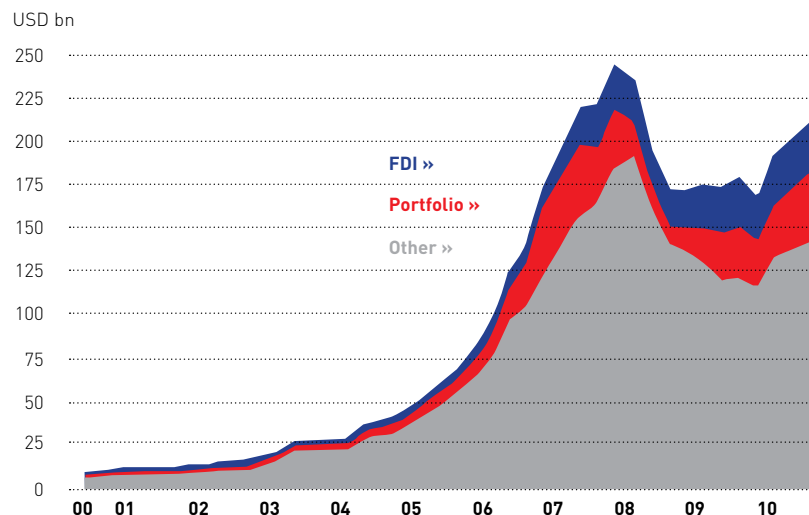
It's every entrepreneur's dream: you set up a company, spend a decade building up the business, and finally sell out to a strategic investor, pocketing billions of dollars. That dream is coming true for an increasing number of Russian business owners: in the last 12 months, a slew of multinationals have taken the plunge and spent billions of dollars buying a slice of the Russian consumer market.

Apart from a brief window in the first half of this year, the equity markets have been largely closed to owners and private equity funds that have wanted to exit their businesses, but as the crisis forces companies to go global strategic deals have mushroomed.

The world's biggest companies with long-term horizons have always been in Russia, but their acquisitions have come piecemeal for most of the last two decades. Coca Cola was among the first of the multinationals to arrive with its purchase of juice maker Multan in 2005 and then

Lebedyansky in 2008. But many have remained queasy about buying expensive Russian companies; Wal-Mart baulked at the high prices and abandoned its efforts to buy into Russia's retail sector earlier this year after a decade of dithering.

FOREIGN INVESTMENTS IN RUSSIA



Source: Reuters EcoWin, Danske Markets

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boom. In only the third quarter of this year, there were \$15.7bn of deals, the second busiest quarter on record.

The price is right

All this activity has been partly driven by falling asset prices and partly by the sluggish, but inexorable, economic recovery. "At the start of the crisis, owners remained confident that Russia would rebound, but the crisis got worse suddenly as the economy went into a tailspin and the fear took hold," says Martin Diggle, co-founder of Vulpes Investment Management. "Prices suddenly fell, although they have started to recover more recently."

During this, foreigners have played a disproportionate role, with foreign investment up an astounding 923% over the first nine months of the year to \$26.6bn, while Russian investment abroad was \$5.6bn, up 13% on the previous year.

In general, the headline rate of foreign direct investment (FDI) is recovering nicely (but still off from its \$80bn peak) and was expected to top \$31bn, according to preliminary estimates for the first nine months of this year, Economic Development Minister Elvira Nabiullina told reporters in October. But this doesn't capture the frenetic activity going on in the retail sector, where FDI by some estimates has tripled.

And those multinationals that weren't in the market to buy Russian companies

have nevertheless been ratcheting up their commitment to Russia. Coca-Cola said it would invest another \$3bn into Russia, Siemens launched a \$1.37bn investment plan that will run to 2014, brewer SABMiller transferred its \$1.9bn Eastern European business to Russia to become the second biggest producer in the country, and French supermarket chain Auchan committed itself to about \$200m to develop its Russian business, to name a few of the announcements made in the last two months.

At the same time, a string of companies that have never had Russian operations chose this summer to enter the market: in the space of about two months, Burger King, Wendy's and Dunkin' Donuts all arrived and Moscow is currently plastered with hamburger adverts as these firms vie to gain a toehold in this new market. "The international crisis has been described as a perfect storm, but now as the crisis recedes we have the perfect conditions for entering Russia," argues Roland Nash, chief strategist with Verno Capital. "Asset prices have come off the crazy valuation levels of the boom years, but the economy, and especially Russian incomes, are still going up. At the same time, Russian owners' expectations have changed. Before the crisis, all they could see was never-ending growth, but now some of them have reassessed and decided maybe taking out a couple of hundred million is a good idea after all. But more than anything the buyers are looking at their home markets and can't see any growth for years to come so they have to move into the emerging markets." ●

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