



## Recent legal trends in Russian private equity deals

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## **“A New Dawn in Dealmaking” – joint report from Mergermarket and Goltsblat BLP on Russian M&A activity**

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- **Valuations** are up, deal activity has increased
- **Banks** are lending again.....cautiously
- 76% of respondents predict **increased activity** - broadly in line with global trends
- **Sectors:** TMT; Energy, mining and utilities; Financial Services; Consumer; Industrial & Chemicals; Transportation; Construction; Pharma, medical & biotech
- Different drivers though - some positive; others negative, e.g. Financial Institutions divesting underperforming businesses and non-core assets
- **EBRD** continues to heavily invest in Russia - c.620 projects across a variety of sectors
- Rise & rise of the **Russian Banks**

# Important recent deals

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- **Vimplecom's** merger with **Kievstar**
- **Mars** acquisition of **Wrigley**
- **Danone's** merger of its Fresh Dairy Product business with **Unimilk**
- Acquisition of **Uralkali**
- **Rusal's** Hong Kong IPO

# Recent legal developments

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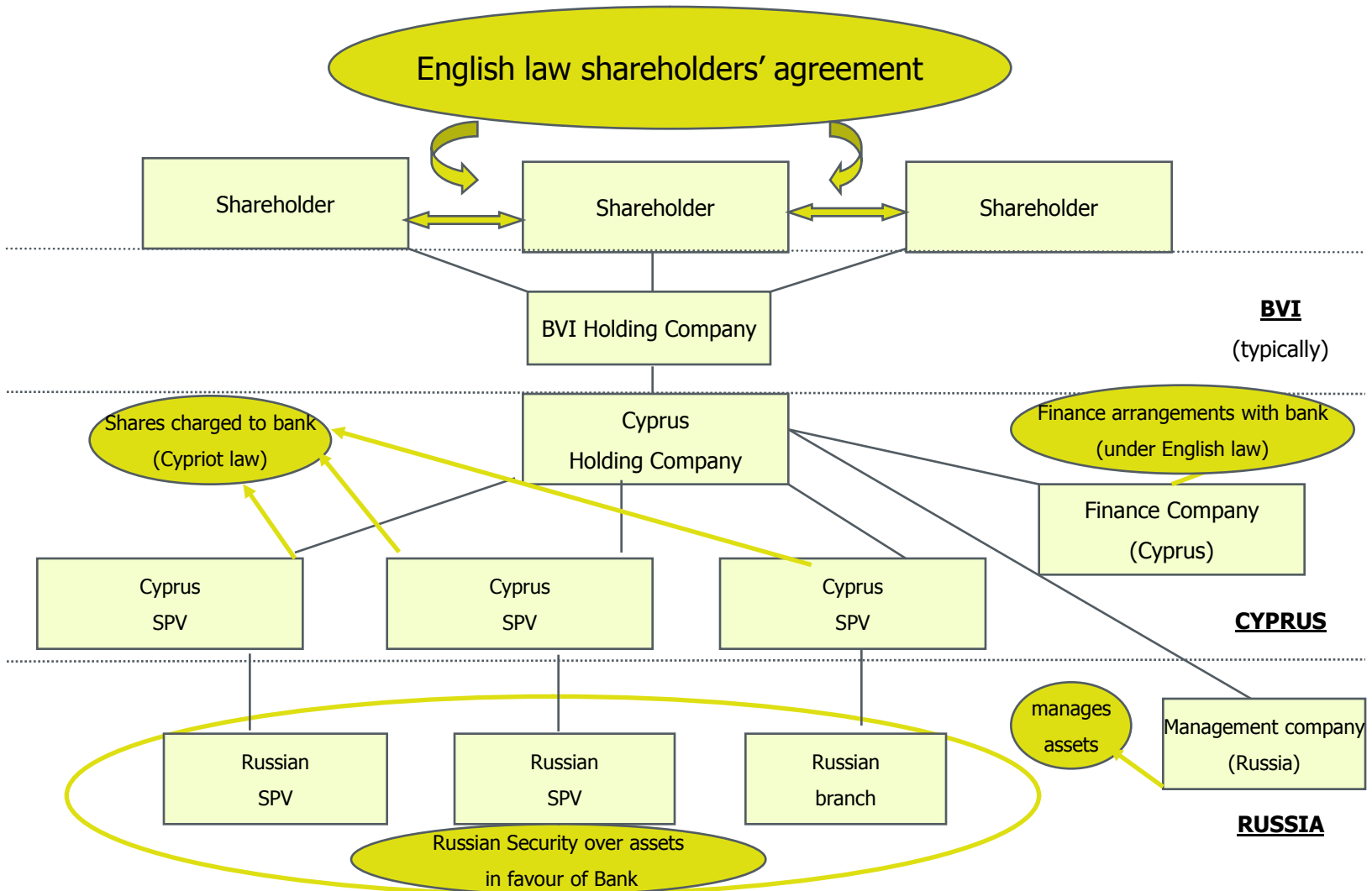
- Increased use of **Russian corporate law** on deals
- Clarifications in relation to Russian law **shareholders' agreements**
- Changes to **bankruptcy laws**
- Development of **court practices** and **enforcement** procedures
- Continued reliance on **English law** and **off-shore structures** for many M&A and financing deals

# **Why is English law still widely used?**

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- **Historic** and **structural** reasons
- Preference for **English courts** and **arbitrations**
- Many **legal concepts** still developing under Russian corporate law, e.g.:-
  - - **representations, warranties** and **indemnities**
  - - **put** and **call** options
  - - **tag** and **drag** along rights
  - - **negative covenants**

# Typical off-shore structure



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# Financing the deals - debt

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- Leveraged finance – typical multiples of **3-times EBITDA** (7-10 times in 2007)
- Very few syndications. Emphasis on **club deals**. 3-5 banks.
- Typically, maximum **Euro 30m senior debt** from any one bank. Most club deals not >Euro 60-90m of senior debt.
- Margins **3-5% over LIBOR** (1-1.5% in 2007)
- Arrangement fees **1.5-2%** (0.5-0.7% in 2007)
- Seeing more deals done entirely with equity



# Debt Finance

## – trends in legal documentation

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- The end of **covenant-lite**?
- Extensive **covenant** packages now standard.
- **Debt buy-back** very restrictive.
- **Equity cure** remains, but more restricted.
- **Assignment rights** for the bank as standard.
- New documentary features have evolved:-
  - - the “**defaulting lender**” clause!

# Contact details

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