

UDC 338

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**FINANCIAL FEATURES OF TRANSACTIONS TO STOP BUSINESS IN RUSSIA:  
CONSEQUENCES FOR INTERNATIONAL CORPORATIONS AND THE NATIONAL  
ECONOMY**

*Abstract:*

The article analyses the main features of transactions to stop business in Russia. The paper examines multiple cases of international companies leaving the Russian market and transferring their assets and business operations. It has been established that when concluding an agreement companies create opportunities for coming back. Based on the results of research, using the method of comparative analysis and case study, a table was compiled with the main results of the financial features of transactions to stop business in Russia with implications for international companies.

*Keywords:*

Russian market, foreign international companies, assets selling, leaving the country, case study.

**Introduction**

On February 24, 2022, there was an event that led to a massive withdrawal of foreign companies from Russia. Experts of IBC Real Estate agency conducted a research which resulted in a statement that a total of 419 international companies were included into the list compiled by analysts which decided to stop business in Russia. As further research showed, only 139 of them decided to leave the country. Experts noted that this is only a third of the total number. In this study, we will examine the main scenarios for the departure of companies from Russia on the example of several large and, in our opinion, significant firms.

**1. General statistics**

At the beginning of our research, we have looked into the statistics of firms that have left the Russian market. We found out that only 30% out of 419 firms decided to leave the country. Another 19% of companies transferred the business to local top managers and they continued working under new brands. 6 percent partially suspended operations (e.g., pharma companies that supply only essential drugs), 4% refused to invest, 1% nationalized the companies, and the remaining 1% resumed operations. From August 2022 to March 2023, the number of companies that have announced

the suspension of business in Russia, but have not decided what to do with it next, dropped from 65% to 36%. Experts predict that by the end of the year they will finally decide whether to continue operating in the country and what to do with their assets [1].

One of the reasons for such low figures are obstacles on the part of the Russian government. The reason is the fact that the Russian authorities have established a number of conditions for business representatives of "unfriendly" countries, which they must fulfill in order to leave the country. First of all, they must obtain permission to sell assets. It is issued by a specially formed government commission. In addition, international companies, having decided to sell their business, must give the buyer a 50% discount, as well as either pay 10% of the proceeds to the Russian budget or provide installment payments. But this is the overall procedure for all companies, and we are more interested in the details of how exactly and under what specific conditions foreign companies left Russia. That is why now we will look at several cases [2].

## **2. IKEA case**

Net profit of Swedish retailer IKEA on the results of 2022 financial year decreased twice against the background of the withdrawal from the Russian market and amounted to €710 million. The company explained the decline in profit by rising costs for purchasing raw materials and transporting goods due to the strengthening of the energy crisis and the worsening geopolitical situation in the world because of the escalating conflict in Ukraine. Over 22 years of work in Russia, the company has invested 4 billion euros in local business.

The company announced the suspension of work in Russia at the beginning of March 2022, and in June it began looking for new owners for its production facilities. It took about a year to sell its assets. The new owners were Slotex by Evgeny Osipov and Luzales by Maria Semenyuk. Both deals were approved by a specially created rights commission for the control of foreign investment, which is supposed to supervise deals with foreign assets in Russia. In this case, the new owners received only the production facilities - Ikea's product design was not included in the deal and remains the property of the company [5].

In addition to selling its assets, IKEA is facing a lawsuit concerning the protection of consumer rights. According to the opinion of Rospotrebnadzor, the company violates consumer rights by suspending imports into Russia and production in Russia of goods and spare parts for them. Thus, IKEA's withdrawal from Russia deprives customers of the opportunity to repair, replace, or return goods.

Ikea itself admitted back in the middle of 2022 that it might return to the Russian market, but so far, the new owners of its plants claim that there were no agreements on a buy-back in the current deals.

## **3. McDonald's case**

Another interesting case for us is how popular fast-food restaurant McDonalds decided to sell their business to one of its franchisees, a 61-year-old businessman from Novokuznetsk, Alexander Govor. At the beginning of 2022 McDonald's had 850 restaurants in 62 regions. The company has only three franchisees, and they own 132 locations [3].

For at least two years, the new owner must retain employee jobs on the same terms. This is one of the conditions of the sale put forward by McDonald's Corp. The buyer has also agreed to finance the salaries of corporate employees working in 45 regions of the country and pay off current obligations to suppliers, landlords, and utilities before the deal closes [4]. The agency noted that the deal would not restrict competition in the food service market and would preserve jobs for employees and ensure the continued operation of the backbone organization within the country. In addition, McDonald's LLC will change its name to Sistema PBO LLC. An interesting fact is that McDonald's may return to Russia. Within 15 years the company may buy back its business on market terms and this allows us to make optimistic forecasts about this company.

## **4. H&M case**

At the end of fiscal year 2022, H&M had a total of 4,465 stores worldwide. This is 336 less than a year earlier. Among the chain stores closed during the year, 172 were in Russia, 3 were in Belarus. The last H&M stores in Russia were closed on November 30<sup>th</sup>.

Russia was H&M's sixth-largest market before the 24th of February, representing about 4 percent of group sales, while Ukraine and Belarus generated 0.2 percent and 0.1 percent of total sales respectively. And represented more than 2 billion kronor in revenue as of 2021's last quarter [6].

Before leaving the Russian market entirely, H&M opened its final sale in August to sell excess inventory at a 50% discount on everything. Their employees were to receive a compensation of about 500 thousand rubles, and annual insurance was to be provided for each employee. However, the application of special offers when they buy from HM was not implemented.

After stopping sales in Russia in March, H&M announced in July that it would withdraw from Russia at a cost of 2.1 billion Swedish kronor (about 193 million euros). Without the closures, H&M said sales would have increased 15 percent and 8 percent, respectively [7].

Swedish retailer H&M has released its financials for the fourth quarter and the entire fiscal year 2022 ending November 30, 2022. CEO Helena Helmersson said net income fell 68% to SEK 3.6 billion (\$350 million). A year earlier, this figure was \$1.1 billion. In the fourth quarter, when H&M finally curtailed its business in Russia, the company received a loss of 864 million Swedish kronor (\$84 million). The company's total sales for the year increased by 12% (6% in local currencies) and amounted to \$22 billion [8].

## 5. Danone

is one of the world's largest manufacturers of dairy products and other food products. The company has been operating in more than 140 countries of the world, in the Russian Federation since 1992. The Danone company in Russia in 2020-21 was one of the leaders and had a market share in terms of turnover of 7.56% [9].

The Danone Russia group included 19 factories, which employed more than 100,000 employees. They produced mainly dairy and sour-milk products, as well as baby food and vegetable milk analogues.

In early March, 2022 Danone announced the suspension of investment projects in Russia. The decision did not concern the production and distribution of food products. The company also donated 500,000 euros to the International Red Cross for humanitarian aid to Ukraine.

However, later in that year the company announced transfer of control in business for production of dairy products in Russia. At the same time, control over the production of baby food (Istra-Nutritsia plant, Nutrilon, Malyutka and Malysh brands) was not planned to be transferred. It was clarified that Danone write-offs in the Russian Federation will amount to up to 1 billion euros.

In February, 2023 Danone offered potential investors 75% and more of its assets in Russia with the possibility of repurchase. The company intends to retain its share and seat on the board of directors of the former Russian subsidiary. Moreover, the contract will allow the new owners to use only Russian brands of the company, such as "Prostokvashino", "Bio Balance", "Actual", "Smeshariki", "Tyoma" and not the international brands [10].

## 6. Results

The summary of our research is presented in Table 1.

Table 1 – The main features and consequences of transactions to stop business in Russia<sup>26</sup>

Name of the company	Main features	Consequences
Ikea	Sold assets – production facilities (product design not included). Might return back.	Net profit decreased twice and amounted to €710 million. Lawsuit concerning the protection of consumer rights.
McDonald's	Sold assets. Might return back in 15 years. New owner must retain employee jobs on the same terms.	Profits fell about \$1.2 billion.
H&M	Employees were to receive a compensation about 500 000 rubles, and annual insurance for each employee.	Financial losses (\$84 millions).
Danone	Has offered potential investors 75% and more of its assets in Russia with the possibility of repurchasing. The new owners can use only Russian brands of the company.	Expected exit cost amounts to \$975 million; 5% net sales decrease.

## Conclusion

To conclude our research, it was established that in most cases, a foreign business that decides to leave Russia does so by selling the Russian division to a new owner (usually from among Russians or representatives of friendly countries). At the same time, about a third of such transactions provide for the possibility of returning the unit to the original owner (for example, through a buyback option, or retaining some seats on the board of directors).

The decision by foreign businesses to leave the country on a national scale is not having a devastating effect on the Russian economy. At the same time, in certain industries it may have an impact on the number of jobs and the employment rate (catering, food industry, car manufacturing, IT) as well as access to sophisticated technologies (automotive industry, heavy industry, electrical equipment).

Unfortunately, it is difficult to make any predictions because of the high degree of uncertainty, but even if foreign companies do not return, our import-substituting technologies are developing fast enough to be able to meet the needs of consumers and the country.

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