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Yandex Warns of Oligarch Takeover

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Yandex processes about 65 percent of Russian search requests, with Google coming second at 22 percent. **Maxim Stulov**

Yandex, the country's most popular Internet search engine, cautioned potential investors about the possibility of a takeover by oligarchs and potential negative influence by the state in its prospectus for an upcoming initial public offering on Nasdaq.

President Dmitry Medvedev has put the Internet and technology high on the list of the country's priorities during his term, often promoting the idea of a state-owned Russian-language search engine and controlling the degree of foreign investment in Russian Internet companies.

Having a national search engine "is the question of not only national prestige, but of identity. ... This is a question of culture, not just of the country's independence or something else," Medvedev said at the meeting with the members of the Public Chamber in January.

In 2009, state-run Sberbank purchased a "golden share" in Yandex, following comments by

Medvedev on the importance of retaining control over the Russian Internet. The stake allows Sberbank to veto sales in excess of 25 percent of Yandex shares to an individual buyer.

Preparing its potential investors for the possible risks and giving them a brief outline of the current political situation, Yandex stated in the prospectus, "High-profile businesses in Russia, such as ours, can be particularly vulnerable to politically motivated actions."

"Other parties" may also perceive Yandex's news service "as reflecting a political viewpoint or agenda, which could subject us to politically motivated actions," the document said.

The company also acknowledged the risk of a takeover by oligarchs.

"Well-funded, well-connected financial groups and so-called 'oligarchs' have, from time to time, sought to obtain operational control ... in attractive businesses in Russia by means that have been perceived as relying on economic or political influence or government connections," the Yandex prospectus said.

Yandex declined to comment on who among Russian billionaires could pose a potential threat to the company.

In 2008, the company fended off an attempt by billionaire Alisher Usmanov, co-owner of Metalloinvest, to acquire a 10 percent stake.

Usmanov is now considered one of the most savvy Russian investors in Internet companies and owns a significant share in Mail.ru Group, which went public in November last year on the London Stock Exchange and raised $912 million.

Yandex filed with the U.S. Securities and Exchanges Commission late last week and will float by May 23 on Nasdaq.

The price range of the floated shares will be officially announced by Victory Day, May 9, according to sources close to the IPO, Reuters reported. Yandex, whose value is estimated to be between $6 billion and $9 billion, is planning to sell between 10 percent to 20 percent of its shares and raise about $1 billion.

Some analysts dismissed the significance of the Yandex comments in the prospectus, saying that companies always list potential risks when going public.

"Even aliens could be put on the risks list," said Konstantin Chernyshyov, an analyst at UralSib.

But others pointed out that the risk of oligarch takeover and state meddling were not mentioned in the prospectus by Mail.ru Group — whose stock price plummeted nearly 20 percent late last week, shortly after Yandex announced its IPO and Mail.ru Group's founders sold their stake in their company.

Chernyshyov said Internet companies are very attractive, despite the fact that Yandex will be only the second Russian Internet company to be publicly listed.

Yandex, which relies on contextual advertising — which is specifically targeted based on web

site preferences — for the majority of its profits, processes about 65 percent of search requests from Russian IP addresses, with Google coming second at 22 percent.

The domestic market of contextual advertising on the Internet is projected to grow by 27 percent between this year and 2015, reaching $2.5 billion, making the IPO especially interesting for investors, and possibly distracting them from Mail.ru Group, Chernyshyov said.

Mail.ru Group owns shares in Facebook, a private company, which has given Mail.ru Group investors a feeling that they are putting their money in Mark Zuckerberg's empire.

Recent reports suggest that Facebook is growing faster than expected, which means a possible IPO, and therefore a potential exodus of Mail.ru Group investors who had only been attracted to the company by its Facebook stake.

Such investors would then be looking for their next good deal, and could end up buying into Yandex, Chernyshyov said.

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