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Tinkoff Scraps $5.5Bln Deal With Yandex, Shares Plunge

Mega deal cancelled after two sides fail to agree terms of takeover.

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The sale has fallen through just three weeks after being publicly announced. **Vladimir Gerdo / TASS**

The proposed megamerger between Russia's leading technology company Yandex and fast-growing challenger bank Tinkoff has been scrapped after the bank's billionaire founder Oleg Tinkov walked away from the negotiations.

In an announcement to the London Stock Exchange — where Tinkoff's holding company TCS is listed — the bank said negotiations between the two sides had been "terminated, effective immediately."

Yandex and Tinkoff previously announced they had reached an "agreement in principle" for the tech giant to take over the bank in a $5.5 billion cash-and-shares deal.

Shares in both companies plunged Friday morning. Tinkoff lost more than 6% while Yandex dropped back by almost 4%.

Signs that the deal was in trouble emerged earlier this week, as The Bell reported Tinkov had approached half a dozen outfits about buying the upstart lender — which posted around $500 million in profits last year — over the last 18 months. The latest potential suitor was rumored to be MTS, a telecoms firm which also has a small bank of its own, MTS Bank.

In a separate statement issued to the media, Tinkoff dismissed the idea that it would be sold to another company now the Yandex deal was off the table. "We are not negotiating with anybody. Tinkoff will continue to develop independently," it said.

Related article: Yandex vs. Sberbank: Battle of the Russian Tech and Finance Giants Begins

Forbes Russia reported that the main sticking point in the negotiations was over the role that Tinkov — who is currently being treated for acute leukemia in London and battling U.S. extradition charges over an alleged $1 billion in unpaid taxes — would play in the bank once it was integrated with Yandex. The outspoken billionaire wanted to stay involved and have an active role in the bank's development — an idea which Yandex were opposed to, the magazine reported.

Tinkov told the bank's employees that he made the decision to cancel the negotiations. In an email to staff sent Friday and cited by The Bell, he said: "Today, I decided to cancel the potential deal with Yandex. Why? We started talking about merging, a search for synergies and rapid growth of customers. They wanted to build the largest private company in Russia."

"In fact, it turned into a sale. They just wanted to buy Tinkoff, with all the resulting negative consequences for us. Tinkoff will not be sold to Yandex or MTS."

Yandex confirmed personal disagreements with Tinkov were behind the failure.

"Yandex regrets to confirm that it has not been able to agree definitive transaction terms with the core shareholders of Tinkoff, and accordingly that the parties have mutually agreed to terminate discussions," the company said in an official statement to the stock market.

In an email to employees, Yandex deputy CEO Tigran Khudaverdyan said: "We agreed that after the deal Oleg [Tinkov] would have participated in the management of the bank and helped Yandex. It was logical, because after the deal Oleg would have become a major shareholder in Yandex."

"Unfortunately, after every stage of the negotiations, more and more requirements appeared. Therefore, when we learnt today that Oleg decided to back out of the deal, we were not surprised."

Related article: Russia's Tinkoff Banking on Rapid Expansion

In another development, Russia's Central Bank said Friday it would check both firms for signs of potential insider trading around the saga.

"We conduct a preliminary analysis of all unusual transactions in order to establish signs of insider trading," Valeriy Lyakh, head of the regulator's department for countering misconduct told the TASS news agency. The bank said it would publish its findings following the investigation.

According to information published on Tinkoff's own website, the volume of share transactions involving Tinkoff's global depository receipts (GDRs) — a financial instrument that represents shares in the group and is traded on the London Stock Exchange with a secondary on the Moscow Exchange — jumped above 1.8 million on Monday. That was the second-highest daily level of activity since unprecedented global volatility struck financial markets in March — behind only the day when Tinkoff and Yandex announced they had reached a preliminary deal in September.

The proposed tie-up had been warmly cheered by market analysts, who count both Yandex and Tinkoff as among the most successful Russian startups of the last two decades. Yandex ended a decade-long partnership with state-owned bank Sberbank in the summer. That divorce paved the way for them to branch out into the financial services sector — the missing piece of Yandex's sprawling empire which stretches from online advertising and e-commerce to driverless cars, taxis and food delivery.

Khudaverdyan said Yandex remains committed to developing its fintech arm, adding that the company would continue to look for new partners and was prepared to put its $3 billion cash reserves to use.

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