



New world disorder

The effect of the war in Ukraine on global investment could be even worse than that of the pandemic, warns **Jon Moulton**

So, the Russians invaded Ukraine again in February. Amid the escalating tragedy, the resistance of the people has been inspiring to see, although it comes from a place of abject fear. It'll be a long, long time before we see a reversion to 'normal' there – if ever.

The financial effects of this outrage will be numerous – and bigger and more wide-reaching than those of COVID-19. Russian acquisitions or investments in most of the world will cease.

There'll be liquidity crunches in Russian-owned entities, forcing reconstructions. There may be a need for very special powers to transfer voting and control from Russian shareholders and directors. This would enable restructuring deals to go ahead and protect jobs and the economy in a number of countries.

Energy prices are already volatile and rising. These are filtering through to consumers of all kinds and will seriously fuel inflation – which, as I pointed out in February's *Corporate Financier*, is by no means always a bad thing for private equity and property investors. But it'll be bad for companies that lack the ability to pay inevitably higher interest rates, as well as facing higher prices for energy and other inputs.

Inflation in high single digits, or worse, rapidly makes a mess of historical cost accounts and taxation. It's far from impossible that changes in accounting standards will become urgent.

Energy rethink?

There's a serious risk of blackouts in countries that rely on Russian gas for electricity generation and heating, which would reduce net-zero momentum.

Some governments will undoubtedly turn to coal rather than see industry and consumers suffer power rationing. Security of supply has jumped up the political agenda. The selfless reduction in carbon dioxide emissions will find itself coming second best. Coal mines will almost certainly stop closing, and mines and generating plants might well be reactivated. However, there'll also be a rush to add more wind and solar domestic generation mix. And high energy prices will encourage more rapid adoption of energy-saving measures.

Corporate reporting now mandates that businesses cut carbon emissions regardless of

the consequences. Those actions will now most likely be more measured.

It's very likely that things will generally be volatile for an extended period. Exchange rates, commodity prices, interest rates and areas of regulation – especially sanctions-related – will be fairly unpredictable and difficult to live with.

Uncertainty has already resulted in changes in the behaviour of stock market investors. Growth companies are losing ground to the safe havens of 'value' stocks (low growth, mostly large cap). In the UK, small-cap and AIM indices have dropped by around 20% in the past six months, while the FTSE 100 is up a little (2%) over the same period. Smaller IPOs are less attractive now than last year, which is reflected in the share prices of UK stockbrokers.

Tech tide turns

In the absence of usable profit multiples for typical growing companies, stock market investors and VCs have increasingly relied on revenue multiples as a quick way to value things. This was always a bad plan in my view. The idea of selling at a gross loss to increase your valuation is really not a great idea.

Companies where the cost of acquiring customers exceeded their lifetime value were potentially rewarded with high valuations. Now that we're rapidly finding much more focus on boring things, such as return on capital and cash flows, in my view this tide will turn.

For the corporate finance world, the agile will still find opportunities. For those readers who have money, weak green tendencies and an eye for a bargain, Russian-owned jets trapped outside the country have moved into an attractive price range.

Joking aside, these are seriously concerning times. I sincerely hope resolution is found quickly.

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