



CHINA M&A SECRETS

中国并购的秘密

THE RIGHT ADVICE

ANYWHERE





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Tosh is a Managing Director and founder of DC Advisory's Asia Access team, which provides dedicated Chinese and Japanese transaction expertise to facilitate deals between Asia and Europe/North America – bridging the cultural, transactional and linguistic gaps for success. Tosh has specialised in cross-border transactions for

over 24 years, with recent transactions involving Hitachi, Daikin, Panasonic, NEC and Mitsubishi Electric. He holds a Master's degree in Physics from Oxford.

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Endong Zhai **Executive Director**

Endong is an Executive Director and leads the China practice of the Asia Access team. Endong is one of the earliest practitioners on China cross border transactions in London. He joined DC Advisory in 2015 and since that time has built a strong pipeline of activities in conjunction with the Chinese investment community – across sectors

including industrials, technology, automotive, education, consumer and healthcare. Endong's most recent transactions involved: Midea Group, IDG Capital, Sailing Capital etc. He holds a PhD degree in Engineering from Cambridge.

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China M&A Secrets

China's rapid economic growth is no secret. China's dry powder is no secret. The art of successfully executing M&A transactions with China, however, remains elusive. DC Advisory's dedicated Asia Access team reveals some of the key tools required for M&A transactions with China, including:

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Current Chinese M&A landscape

#1

Number 1 country for industrial output, globally

#2

GDP ranking worldwide

£1bn

3.5% of outbound deals exceed value of 1bn Sterling (1)

NO1.

Europe ranks as No.1 destination for Chinese outbound transactions

OUTBOUND DEAL VOLUME

#2 country for outbound deal
volume - 827 in total for 2017

as shown below

SECTORS OF INTEREST

Technology, industrial
and consumer most
interesting sectors
for China

NO.2

China was the No.2 country
for outbound deal value in
2017 - \$121bn

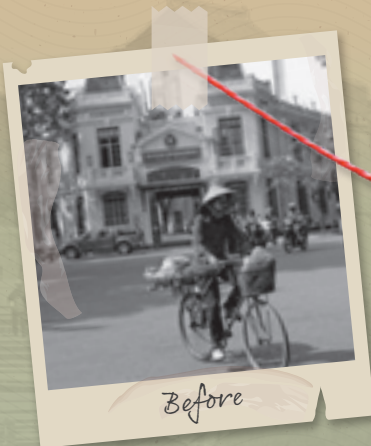
Chinese capital: the profile

As recently as five years ago, Chinese capital was deemed 'dumb money'. It was characterised by being:

- Unsophisticated
- Inexperienced in western processes
- Largely interested in trade parties
- Cash stuck in China and government-driven
- Targeting industries first, assets second



In 2013, 3/4 of announced deals were led by state-owned enterprises



Today, Chinese capital has progressed and is viewed as much 'smarter'. Characteristics include:

- Much more experienced
- Increasingly happy to play in processes, and capable of doing so
- Increasingly flexible – minorities / JVs etc.
- An increase in number of financial institutions (including offshore funds)
- Discerning of assets within target industries



In 2017, 3/4 of announced deals were led by privately owned enterprises



After

The pitfalls of Chinese M&A

China's capital profile is appealing, particularly for businesses operating within the sectors of interest. But often, processes can fall down for simple reasons, for example:

- Assuming the same time frames as a classic European PE transaction
- Assuming the same deal-making criteria and concerns as western buyers
- Complex and extensive regulatory approval processes
- Assuming all Chinese investors behave the same way
- Literal language barriers (ineffective translation of processes)



China diagnostics: is my business sale-able?

So what is it that makes the Chinese companies interested in a business? There are several 'sale-able' factors that companies should consider, including:

- Whether the business is in a promising or growing sector, such as advanced manufacturing, education, outdoor sports
- What the future growth potential of the product or service is in China
- If the business possesses strong entry barriers, such as the accumulation of IP and brand equity
- Management buy-in to the 'China story'
- If the business fits with the themes of Chinese investment (e.g. Belt & Road, China 2025)



China's western journey in action: Rossignol and IDG Capital China

In July 2018, the Rossignol transaction with IDG Capital China became symbolic for Chinese investment into European assets - and the mutual benefits achieved for all parties.



ROSSIGNOL

1) Rossignol is a 111-year old heritage brand, in a mature and stable global ski equipment market



20%

2) Meanwhile, China is experiencing a 'consumption upgrade' – the continual increase in personal income and living standards – which has been driving sharp growth in the Chinese winter sports arena



3) DC Advisory was mandated by Rossignol to seek smart Chinese money to support its

expansion into China

4) Through its deep understanding of Rossignol and potential Chinese partners' requirements, DC Advisory secured a structure and partner in IDG Capital China, who were offered 20% ownership of the company



5) The mutual benefits:

a. IDG will use its Chinese expertise

to support the expansion of Rossignol into the Chinese market, in return for a stake in the company's offering of its winter sports heritage in the fast-growing space

b. Rossignol has also received a capital injection to support their significant growth plans in and outside of China

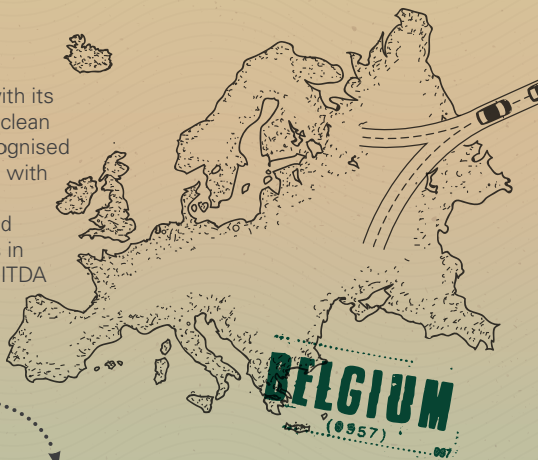
China's western journey in action: Punch Powertrain and New Horizon Capital

Belgian company Punch Powertrain – developers and manufacturers of transmissions, hybrid powertrains and electrical drive systems – wanted to develop growth into Asia with the help of a local partner.



2014

- Punch Powertrain, with its energy-efficient and clean technology, was recognised as highly compatible with Chinese objectives. Punch Powertrain had relatively small sales in China, and €25m EBITDA



- DC Advisory leveraged its understanding of the Chinese investment market to secure ten partnership offers. Ultimately, offering to New Horizon Capital a 30% stake – with the rest being retained by three European PEs



Now

- Punch Powertrain enjoys \$65m EBITDA, mainly from Chinese custom and the opening of two new factories in China. The company's EBITDA is projected at over €90m, and the three European PEs and one Chinese PE have exited fully to Yinyi Group of China for a €1bn EV



About DC Advisory's Asia Access team

We are a leading corporate finance advisor with specific expertise in cross-border transactions. See our recent transactions:



 <p>IDG Capital invested a significant stake in Rossignol</p>	 <p>ChangedEDU Holdings invested in Gateway Education</p>	 <p>Refinancing with Cath Kidston's shareholder Baring PE Asia</p>	 <p>Andon acquired eDevice</p>
 <p>Elegant Jubilee consortium acquired Global Switch with a deal value of £2.4bn</p>	 <p>Advised the family owners of Clivet on the sale to Midea</p>	 <p>Sailing Capital acquired Astrum Education from Sovereign Capital</p>	 <p>Zhejiang Haers Vacuum Containers acquired SIGG Switzerland from Riverside</p>
 <p>Glenwood and Baring PE Asia acquired LaFarge Halla Cement</p>	 <p>IEE and its Chinese Shareholders acquired ALL Circuits</p>	 <p>New Horizon Capital acquired a stake in Punch Powertrain NV</p>	 <p>Lite-On Technology Corporation acquired a Minority Stake in Epyon</p>
 <p>Balance sheet restructuring of Borsodchem and €1.2bn sale to Wanhua Industrial Group</p>	 <p>€240m balance sheet restructuring of EMAG and sale to Jinsheng Industry Co. Ltd.</p>	 <p>H&H Group has acquired Good Gout from its shareholders</p>	



NOTES



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