The Nation

The Nation
Circulation: 68,200
Ad Rate: 1,500

Section: CHINA DAILY/China Business
Date: Friday 22 March 2013
Volume: 4 **No:** 11 **Page:** 20(Center)
Col.Inch: 103.80 **Ad Value:** 155,700 **PRValue (x3):** 467,100 **Clip:** Full Color
Headline: Outbound M&As mount VENTURE CAPITAL AND PRIVATE EQUITY TO PLAY INCREASINGLY...

Outbound M&As mount

VENTURE CAPITAL AND PRIVATE EQUITY TO PLAY INCREASINGLY IMPORTANT ROLE IN COMING YEARS

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Outbound mergers and acquisitions (M&As) were an unknown concept to many Chinese companies before 2008 when the financial crisis engulfed the global economy and caused many overseas assets to depreciate against the yuan, making them more affordable.

Failures and successes proved to be valuable experiences for Chinese entrepreneurs, developing their deal-making skills, say industrial experts. Many predict growth in M&As will continue to be strong in 2013, especially in the manufacturing sector in the European market.

Although the number of deals dropped unexpectedly, the value of outbound M&As by Chinese mainland companies grew on an annual basis by 54 percent to reach a new record high of $65.2 billion in 2012, according to a report by PricewaterhouseCoopers (PwC) this year.

The report says privately owned enterprises (POE) took on larger deals last year.

One of the largest POE deals in 2012 came when Chinese entertainment conglomerate Dalian Wanda Group paid $2.6 billion for AMC Entertainment, the world's second largest theater chain.

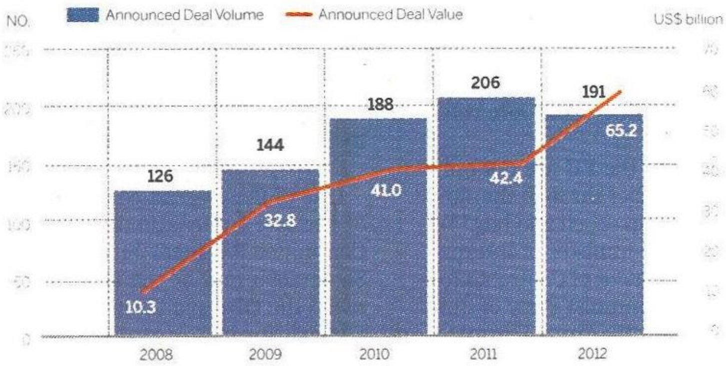
AMC's investors included the Carlyle Group, Apollo Global Management and Bain Capital.

"We worked closely with Dalian Wanda to make sure that government officials at the state level and local level in the US welcomed the investment and understood it was positive for them," Carlyle Managing Director David Marchick tells *China Daily*.

Marchick says that it was a good example of communication because the company's chairman Wang Jianlin met government officials at different levels and made a firm commitment that Wanda would be a good cooperative partner.

Wanda retained the AMC management and let Hollywood know it would continue to buy its films.

CHINESE MAINLAND OUTBOUND DEALS, FROM 2008 TO 2012



STRATEGIC BUYER DEALS, FROM 2008 TO 2012

Source: Thomson Reuters, China Venture and PwC analysis

LI YI / CHINA DAILY

AFP

CNOOC's deep-water oil drilling rig departs from Qingdao Port, Shandong province. The company recently completed a $15.1 billion takeover of Canadian oil and gas company Nexen, the largest outbound M&A deal in China.

Employees were assured they would have a prosperous future with the company.

Other large outbound M&A deals included CNOOC Ltd's $15.1 billion takeover of Canadian oil and gas company Nexen, appliance maker Haier Group Corp's offer of 869 million New Zealand dollars ($702.7 million) in September to buy Fisher & Paykel Appliances and China's Wanxiang Group's bid of $260 million for assets of US-based car battery maker A123 Systems.

"It was obvious that POEs made a difference in the Chinese outbound M&A market in 2012. The sectors in which deals were made were more diversified and the integration of the assets for Chinese buyers was more challenging," says Leon Qian, transaction services leader at PwC Northern China.

Qian took part in one of the earliest Chinese outbound M&A deals. He announced in February 2003 that BOE Technology had acquired a business division of South Korean HYDIS Technologies, manufacturer of thin-film transistor liquid crystal displays, for $380 million.

Qian says many of the foreign companies Chinese investors bought in 2012 have operations in different countries; so it is challenging to deal with multinational issues.

"Traditionally, State-owned enterprises have been the main drivers of China's outbound investments. More recently, we have seen POEs and Chinese private equity firms becoming much more active in the pursuit of overseas assets," Robert Ashworth, a managing partner at international law firm Freshfields Bruckhaus Deringer, tells *China Daily*.

Europe challenged North America as the most important overseas destination for Chinese buyers in 2012. The importance of mature Western markets reflects the search for advanced technology and know-how, the PwC report shows.

Asian deals declined sharply, primarily due to a fall in Japan transactions from 16 in 2011 to just 3 in 2012.

Ashworth says assets prices in the West have fallen. At the same time, China is rebalancing its manufacturing-oriented economy and developing its service sector.

"So we expect to see an increasing number of Chinese companies buying internationally, not just for financial reasons but because it makes good business sense — whether to grow market share, acquire a complementary brand or build out a business offering," he adds.

The PwC report says there are many outbound M&A deals in the pipeline. The accountants expect this growth will continue strongly, creating another record year in 2013.

"Chinese POEs including TCL will continue to be positive in 2013," says Li Dongsheng, chairman of Chinese leading electronics manufacturer TCL Corp.

TCL was an early starter in terms of going abroad to look for M&As. As early as 2003, TCL and Thomson of France announced the creation of a joint venture to produce televisions and DVD players worldwide.

Although the integration of the two companies met many problems, Li says they garnered useful experience. TCL will continue its globalization strategy utilizing its professional talents.

"Outbound M&As help a company to step on to the global stage, demonstrate it is an industry leader and maintain its competitiveness," Li adds.

Li feels there are opportunities for M&As with South Korean, Japanese and Taiwanese businesses but careful evaluation should first be made.

"Europe is also a good destination," the chairman says. "There are not many M&A opportunities in the US but cooperative opportunities exist."

"It seems Europe is the region Chinese companies like the look of and are confident to go to," says Qian of PwC Northern China. "European companies are usually small and medium-sized companies with unique technology suitable for Chinese investors to buy and manage."

According to him, Chinese investors would also like to look for assets in Japan but because of political issues, it is difficult to go there at the moment.

"Companies in the US are usually very large and their industry chains are long with many stakeholders involved, so it is not easy for Chinese companies to do M&A deals in the US," he says.

Qian adds that an M&A deal in the overseas market may fail because of various reasons, including a stakeholder's opposition or government disapproval.

Marchick feels the US is open to Chinese investment. He says while there are controversial cases involving Chinese acquisitions in the energy sector, most other investments go through without a problem.

"There has been a trend of investment in the US in automotive parts and the transportation and real estate sectors," he says, adding that Chinese companies are also very free to invest in retail and agriculture.

Ashworth says there is interest across a wide range of sectors, including natural resources, traditional and renewable energy sources, utilities, financial institutions and technology.

"We anticipate the healthcare and chemical sectors will be particularly active in 2013," he remarks.

"Deals in the manufacturing sector will be very popular in 2013," says Qian, adding that in addition to resources, Chinese companies have long had a strong demand for manufacturing technology and patents. As they get more experienced in conducting such deals, activity in the sector will pick up.

M&A deals by Chinese companies linked to their own industry sector will also become increasingly popular in 2013, according to a report by ChinaVenture Group, a private equity and venture capital research agency.

Because private companies require funds to go abroad for M&A deals and face some obstacles when they try to get loans from banks, venture capital and private equity firms will play a more important role in helping these companies — as well as State-owned ones — over the next few years, the report says.

"The ultimate success of any transaction depends on strong planning and execution but also integration and communication after the deal closes," says Ashworth.

He adds that while every deal is different, it is necessary for Chinese companies to plan how the deal will work after it is closed. It is important for them to think about the important intellectual property issues, build the right organizational structure, incentivize the management team and consider how the operational functions will work.