

Chinese businesses look to scale new heights in Europe

Introduction

It is clear that Chinese direct investments in western Europe have been growing consistently over the last 10 years. In fact, indicators point to an acceleration of such investments in the coming years. We believe this is just the beginning of what will be a long term direction for Chinese capital in the years to come.

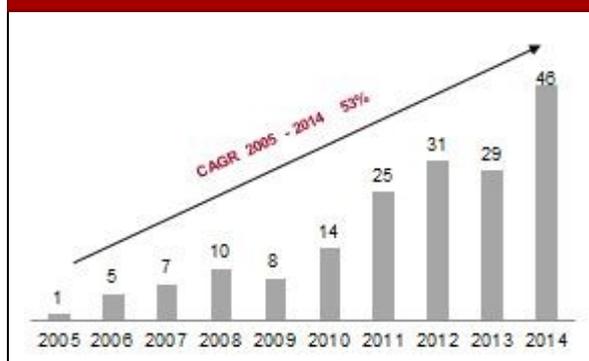
General Outlook

The number of large transactions (>100 Mil. US\$) has grown at a 53% CAGR over the last decade, from 1 transaction only in 2005 to 46 in 2014.

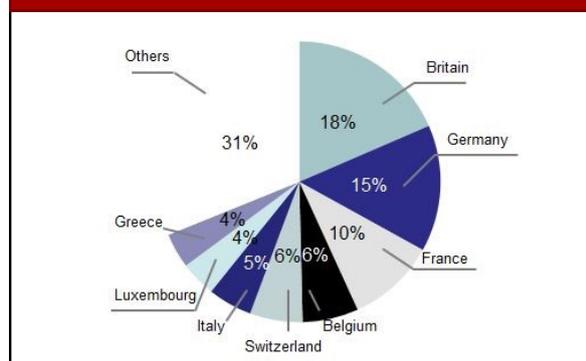
The United Kingdom, Germany and France have not surprisingly been the target countries for most of the Chinese investor companies.

While most acquisitions to date have been motivated by a strategic rationale, the recent decline of the Euro against the RMB is now making European targets even more attractive.

No. of acquisitions over USD 100 Mln in Europe by Chinese companies



Breakdown by country



The exchange rate of EUR to CNY over the last 5 years



Strategic Rationale for Acquisitions in Europe

The large majority of all Chinese FDI (on a worldwide basis) has been focused on Energy and Resources industries, and therefore are directed to resource rich geographies such as North America and Africa. As far as Europe is concerned, there are currently 4 strategic rationales attracting Chinese buyers:

- **Technology and Know-how:** Despite the fact that most Chinese companies have made huge efforts (often with tangible results) to narrow the technology gap with their western competitors, the latter in many cases still enjoy a technological and know-how advantage. An acquisition can therefore be a more effective way to rapidly close such a gap.
- **Distribution channel:** Despite its buoyant growth, the China domestic market is characterized by fierce competition. Moving abroad Chinese companies therefore know well that if they want to penetrate the western European market they need first to establish a local presence and develop distribution channels. An acquisition can significantly reduce the time and effort needed to do this.
- **Products/Services to be brought to the Chinese market:** The consumption patterns of Chinese urban consumers are also changing. Many products and services typical of western countries are becoming well known to Chinese consumers, this extends now as far as their choice what they eat and drink (most recently the surge in coffee consumption). Some of the deals in Europe are made just to secure products and brands that can then be developed in the Chinese market.
- **Infrastructure:** Investments in infrastructure are strategic and serve as platforms to the expansion of other businesses. In most of these deals Chinese State Owned companies are involved.

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Selected cases

Case 1  **WISCO** →  **ThyssenKrupp Lasertechnik and ThyssenKrupp Tailored Blanks**

WISCO is one of the oldest China's steel producers and the sixth largest in the world, with subsidiaries and sales offices in more than 10 countries. In 2012, it acquired ThyssenKrupp Lasertechnik GmbH, the market leader in laser-welded tailored blanks for the automotive industry with a market share of about 40%, annual sales of 700 million Euros and 950 employees worldwide.

The deal also included the sale to WISCO of ThyssenKrupp Lasertechnik GmbH which supplies laser welding equipment as well as systems for materials and parts handling, automation, assembly, and quality control.

Case 2  **Geely** →  **Manganese Bronze**

Geely is a Fortune 500 privately held automotive company. In 2013 Geely completed the acquisition of Manganese Bronze, the manufacturer of the iconic London black cab. Geely now hold 100% shares of Manganese Bronze.

Since 2012 Manganese Bronze had been the sole distributor of Geely cars in the UK, managing sales and aftersales services. Geely strategic intent in this acquisition was to get full control of the distribution channel to better support commercial development. After the acquisition, Geely also transferred the production of MB cars to China to reduce production costs

Case 3  **Bright Food** →  **Salov**

Bright Dairy is one of the largest Chinese food companies, second largest player in dairy market. In October 2014, it became the majority shareholder of Salov Group, an Italian producer of olive oil, well known for its Berio brand.

Though still a niche, the Chinese olive oil market is rapidly growing and Bright Foods decided to position itself to capture this opportunity.

Case 4  **Symboise** →  **Toulouse airport**

Symboise is a newly established JV invested by Shandong High-speed Group (55%) and Friedmann Pacific Investment Group (45%). In December 2014, they reached an agreement to acquire 49.9% of Toulouse airport from the French Government. Home of Airbus headquarters, Toulouse is a major district of the European aerospace industry.

The core business of Friedmann Pacific being airplane leasing, they needed an infrastructure in Europe to expand their business there. Shandong High-speed is a Chinese State Owned railway producer; the acquisition speeds up their internationalization pace.

Future trends

So far Chinese State Owned companies, following the Chinese government policy have been the most active investors abroad. In the future more and more private companies will look for opportunities to expand overseas and enhance their capabilities. Chinese cross-border Private Equity funds also are expected to play a major role.

Medium-size companies with advanced technology or leading market positions will likely be the most sought after targets.

About Battaglia Advisory Services

BAS is an advisory firm dedicated to support foreign companies in their development in China and Asia as well as Chinese companies in approaching overseas markets. We work side by side with our clients to understand the market, define the most appropriate strategy and implement it. In our projects we dedicate our best efforts to solve business needs of our clients and deliver quality.

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