



Oaklins



Voice from China

Quarterly update on the
M&A market in China

1ST EDITION 2019





ANGELA CHEN

Managing Director

Shanghai, China

+86 21 5012 0990

a.chen@hfg.oaklins.com



Introduction

Despite headwinds from low growth and Sino-US trade tensions, China's 2018 M&A activity remained reasonably strong.

Chinese outbound M&A was a mixed bag in 2018. Although it continued to decline from its 2016 peak for the second year in a row, the volume of activity increased a little over 2017 and the value of the deals struck remained higher year-for-year than it was from 2009 through 2014.

Inbound deal volume also rose slightly compared with the prior year, as China's government continued to open the door further for foreign investment.

Outbound M&A, China 2009-2018¹

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number	136	181	183	176	145	194	283	361	311	256

Inbound M&A, China 2009-2018²

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number	349	470	260	218	198	163	204	201	165	174

¹ Factset

² Factset

HERE'S OUR TAKE ON THE KEY FACTORS THAT SHAPED OUTBOUND INVESTMENT ACTIVITY IN 2018:

- **Technology, brands and distribution were all central themes, as the Chinese government** encouraged acquisitions of a strategic nature. Underlying this was the authorities ongoing effort to restructure and squeeze costs out of China's manufacturing sector, and more than half of the outbound transactions that took place involved high-end manufacturing and smart manufacturing. Great Star Industries, for example, acquired a 100% stake in Lista Holding AG, a Swiss professional workshop and warehouse furnishings manufacturer.
- **Always inclined to chase after big names,** Chinese buyers also struck some big deals to acquire companies with strong brand equity. Shandong Ruyi, for instance, purchased a controlling stake in Bally, the highly regarded Swiss maker of luxury shoes and accessories, in order to improve its product lineup and bolster its international image. Other well-known Chinese clothing brands, such as Zhejiang Semir Garment and Shanghai La Chapelle Fashion, made similar deals for apparel companies with international brand appeal.
- Much of the overseas M&A activity that took place in 2018 was aimed at extending the Chinese buyers' distribution reach to new geographies. One of the 10 largest transactions for which the terms were disclosed, for example, was Qingdao Haier's acquisition of Candy, with the Chinese consumer electronics and home appliance giant purchasing a 100% stake in the Italian electronic appliance manufacturer to gain quick access to the Western European market.
- The popularity of European assets rose to new heights among Chinese buyers, as the US-Sino trade war made them more cautious towards investing in the US. Meanwhile, attracted by the region's low labor costs and efforts to displace China as the world's factory of choice, Southeast Asia also emerged as a hot spot for Chinese investors.
- The volume and value of Chinese acquisitions along the route of China's Belt and Road initiative increased significantly. Among these countries, India, Singapore and Israel were the most popular destinations.⁴
- Making it more difficult for Chinese firms to undertake acquisitions abroad, the capital markets were tighter than expected in 2018, as the government responded to the depreciation of the RMB by placing stricter controls on foreign currency. China's domestic capital market, meanwhile, experienced a severe slump in the second half of 2018, due largely to structural deleveraging.
- As opposed to state-owned entities, private enterprises were the main drivers of Chinese outbound M&A activity for the year, accounting for 85.16% of the total.⁵



“During 2019, we expect China's outbound M&A activity to remain strong across-the-board, as the Chinese authorities continue to encourage strategic acquisitions. Inbound M&A should also increase, as the government continues to woo foreign investment.”

ANGELA CHEN
MANAGING DIRECTOR,
OAKLINS, CHINA

³ http://www.sohu.com/a/285178151_618572

⁴ https://mp.weixin.qq.com/s?__biz=MjM5Mjc2Njk1NQ==&mid=2650254431&idx=1&sn=551e5cfd4b4c3704ab99be2b1882835c3&chksm=bea2bf8b89d5369d9a732e2b7306c61c51fe0674c16ae9f4046c8a7e2d7ee248c2981b12e713&mpshare=1&scene=1&srcid=0211R0typGld4VOaZLpaKfhl#rd

⁵ <http://www.morningwhistle.com/info/48625.html>

THESE ARE THE CHIEF FACTORS THAT WILL DRIVE OUTBOUND M&A THIS YEAR:

- We expect the RMB to stabilize in 2019, following last year's decline. And with China's financial authorities relaxing their funding policies to support the flagging economy, it should become easier for Chinese companies to obtain funding for outbound deals.
- Alongside technology, the infrastructure sector will become a major focus for outbound M&A, even as distribution and brand-related transactions continue to predominate. With growth slowing and trade frictions with the US ongoing, the Chinese authorities will do all they can to boost the economy. Given that infrastructure-related construction has an outsized impact on GDP, we expect the government to strongly endorse outbound investment in this sector in the context of its Belt and Road initiative.
- The flow of outbound M&A to Southeast Asia will continue to accelerate due to the region's cheaper labor, setup and operational costs.

Inbound M&A is also likely to thrive, as the global supply chain continues to be reorganized and multinationals, especially in the manufacturing sector, seek to divest their Chinese operations. Multi-Fineline Electronix, a wholly-owned subsidiary of Suzhou Dongshan Precision Manufacturing Co., for example, has recently entered into an agreement with Flex's Multek subsidiary to acquire the latter's China-based operations.⁶

More generally, with the authorities continuing to liberalize the policies governing foreign investment in China, we expect inbound acquisitions to flourish in 2019 — especially in the auto and financial sectors. A case in point is the latest policy adjustments issued last June, which further relaxed foreign ownership restrictions in several industries, including finance, auto and agriculture. For many types of Chinese financial institutions, the government raised the limit on foreign ownership to 51%. Similarly, limits on ownership were raised for many types

of manufacturers in the auto sector, and once overseas investors become aware of these changes, there is liable to be a significant upswing in inbound M&A activity.

With the authorities continuing to liberalize the policies governing foreign investment in China, we expect inbound acquisitions to flourish in 2019.

CONCLUSION

Despite a low-growth environment, a tight monetary policy and an expanding trade war with the US, Chinese M&A activity remained reasonably strong throughout 2018. Much of this was due to the Belt and Road initiative and other moves aimed at reorganizing the global supply chain.

From the standpoint of M&A, 2019 is likely to live up to its reputation for optimism as the Year of the Pig. Foreign capital flows to China will be lured by a much friendlier investment environment and readier access to funds, while strategic outbound M&A focused on technology, brand equity and distribution will also be

strongly supported by the Chinese government. New outbound investments in the infrastructure sector should receive a major boost from the authorities as well.

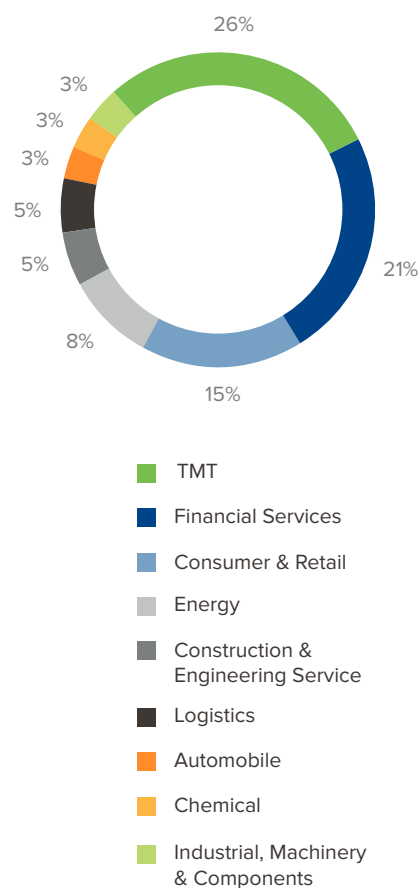
⁶ <https://www.prnewswire.com/news-releases/flex-to-divest-multeks-china-operations-to-multi-fineline-electronix-inc-mfex-300619846.html>

Recent M&A transactions

Thirty-nine Chinese outbound transactions closed in the fourth quarter of 2018, compared with 35 during the final quarter of 2017, as the country's overseas M&A activity continued to thrive despite significant economic headwinds and regulatory hurdles.

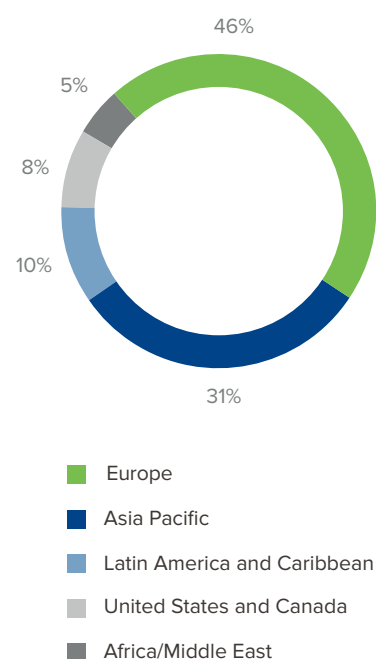
During the last quarter of the year, technology, media and telecom was the top sector for Chinese outbound investment (26%), followed by financial services (21%), and consumer & retail (15%).

Transactions by industry



The lion's share of these deals took place in Europe (46%), followed by Asia Pacific (31%) and Latin America and the Caribbean (10%).

Transactions by region






Among these transactions, 26 disclosed the deal's value, with the largest pegged at US\$1.6 billion (SINA Corp.; Yunfeng Financial Group Ltd.; City-Scape Pte Ltd.; Giant Investment (HK) Ltd.; Ant Financial Services Group Co., Ltd. (Hong Kong); MassMutual Asia Ltd. /Private Group/; Meiyu International Co., Ltd.; Sheen Light Development Ltd.; Harvest Billion International Ltd. - MassMutual Asia Ltd.).

Q4 2018 26 disclosed transactions by value

Transaction size (US\$m)	Number of transactions
< 50	11
50 – 100	4
100 – 250	4
250 – 500	2
500 – 1,000	2
1,000 – 2,000	3

Four transactions disclosed valuation multiples

Target company	Target country	Target industry	Buyer companies	Transaction value (US\$m)	Implied EV/ revenue	Implied EV/ EBITDA
Kidiliz Group SAS		Consumer & Retail	Zhejiang Semir Garment Co., Ltd.	131.52	0.26x	N/A
Dr. Panda Ltd.		TMT	TAL Education Group	N/A	1.75x	8.98x
Radisson Hospitality AB		Consumer & Retail	City of Shanghai; Jin Jiang International (Holdings) Co., Ltd.; Radisson Hospitality AB /Private Group;/ SINO-CEE Fund	342.23	0.64x	5.20x
CPFL Energias Renováveis SA		Energy	CPFL Energia SA; Government of China; State Grid International Development Co., Ltd.; State Grid Brazil Power Participações Ltda.	1,287.33	9.10x	14.01x





Spotlight on: **Furnishing**

INDUSTRY OVERVIEW AND M&A DYNAMIC

Benefitting from the rapid growth of new middle-class households with greater purchasing power, the Chinese furnishing market is booming. According to the National Bureau of Statistics, in 2017, total sales by furniture manufacturers grew 10.1% year-over-year to RMB 905.6 billion, while total profits grew 9.3% year-to-year to RMB 56.52 billion.⁷ During the past few years, new leading players have emerged in each segment of the industry. Nine new Chinese furnishing companies were listed in 2017, and that number quadrupled during the second half of 2018.

Yet, despite the size of this RMB 3 trillion-plus market, there are no truly dominant players. At the same time, among listed companies, only a

handful have a market capitalization in excess of RMB 10 billion. These include Jason Furniture (Hangzhou) Co., Ltd. (RMB 20,533.8 million) and Suofeiya Home Collection Co., Ltd. (RMB 16,723.30 million).⁸

The next three years is seen as a critical period for the industry. Tremendous consolidation is expected to take place, and the companies that survive this free-for-all will come out the other side as tier-1 players with over RMB 10 billion in market capitalization. Any remaining players will either be bought out or will exit the market gradually. Under these circumstances, most Chinese furnishing companies, especially those that are listed, are expected to resort to cross-border M&A to accelerate their expansion.

During 2018, the sector engaged in frequent outbound M&A deals for which financing was readily available, and the expectation is that this will continue – and even accelerate – over the next two years.⁹ These deals generally aim to accomplish three things:

- 1) Raise brand awareness and grow market share by acquiring well-known foreign brands.
- 2) Expand the buyers' product portfolio and gain cross-selling opportunities through vertical integration.
- 3) Reduce cost structures and improve profit margins through horizontal integration.

⁷ National Bureau of Statistics; <https://en.kukahome.com/support/kuka-acquires-rolf-benz.html>

⁸ As of 29 January 2019

⁹ <http://www.jia360.com/new/48586.html>

This was reflected in deals struck by four of China's leading furnishing companies last year:

Markor International Home Furnishings Co., Ltd.

Markor International Home Furnishings Co., Ltd. sells furniture-making materials and services, such as its solid wood and sand collection, as well as retail household goods. In January 2018, Markor announced it had acquired a 60% stake in M.U.S.T. Holdings Ltd. for US\$4.92 million in an all-cash deal.

Company Strategy: Markor plans to optimize its supply chain by leveraging M.U.S.T.'s Vietnamese manufacturing facilities to lower its production costs. At the same time, it hopes to raise its brand awareness by adding M.U.S.T.'s well-known Jonathan Charles furniture line to its product portfolio.

- Market cap: US\$1,097.18m
- Revenue: US\$607.85m
- EBITDA: US\$104.81m

QuMei Home Furnishings Group Co., Ltd.

QuMei Home Furnishings Group Co., Ltd. designs, produces and sells home furniture products made from a variety of hardwoods. In August 2018, QuMei Home announced a successful tender offer for a 98.36% stake in Ekornes ASA for US\$630 million.

Company Strategy: Taking advantage of Ekornes' premium product line and strong brand awareness, QuMei plans to help it quickly enter the Chinese market in order to capture additional market share.

- Market cap: US\$474.57m
- Revenue: US\$306.91m
- EBITDA: US\$49.24m

Nature Home Holding Co., Ltd.

Nature Home Holding Co., Ltd. is an investment holding company engaged in the manufacture and sale of high-end home decoration products. It also operates a trademark and distribution network. In May 2018, it announced that it had acquired Wellmann from Alno AG for an undisclosed amount.

Company Strategy: Nature Home targets the high-end of the furnishings market through acquisitions, and Wellmann is a maker of luxury kitchen furnishings. In this case, Nature Home and Wellmann already had a close business relationships since 2015.

- Market cap: US\$588.94m
- Revenue: US\$607.17m
- EBITDA: US\$60.92m

Jason Furniture (Hangzhou) Co., Ltd.

Jason Furniture (Hangzhou) Co., Ltd. ("Kuka") designs, manufactures and sells living room and bedroom furniture, including sofas, dining tables, beds, chairs and mattresses. In January 2018, it announced a joint venture with Natuzzi to expand Natuzzi's retail network in the Greater China region. Kuka invested EUR 65 million for a 51% share of the JV. In March 2018, Kuka acquired all equity of another company, Rolf Benz AG, for US\$51 million.

Company Strategy: Kuka seeks to improve its international positioning and brand awareness through synergistic acquisitions.

- Market cap: US\$3,050.64m
- Revenue: US\$9676.31m
- EBITDA: US\$133.28m



Case Study:

Jason Furniture (Hangzhou) Co., Ltd. (“Kuka”)

In March 2018, Jason Furniture (Hangzhou) Co., Ltd., trading as Kuka Home, agreed to acquire RB Management AG and a 99.92% stake in Rolf Benz AG & Co. KG from Locom GmbH & Co. KG for EUR 41.6 million (US\$50.7 million).

ABOUT THE TARGET

Founded in 1964, Rolf Benz is the best-known upholstered furniture brand in Germany (GfK Brand Awareness Study 2016), and the company’s three major brands, Rolf Benz, Huelsta Sofa, and Freistil, offer consumers a wide range of different styles and price points. Over 80% of Rolf Benz’s sales are in Europe, and all of their sofas are produced by their parent company’s plant in Nagold, in the southwest German state of Baden-Württemberg.¹⁰

EVALUATION

On 28 February 2018, The Hong Kong unit, wholly owned by Kuka, signed an equity acquisition agreement with Locomore GmbH, Rolf Benz’s underlying shareholder. The deal’s valuation is based on 8.5 times the underlying company’s 2016 audited EBITDA of EUR 4.89 million, and net of disposal of its bedding business. In order to justify the price, Kuka Group Chairman Gu Jiangsheng noted that “Made in Germany” represents a major asset to Kuka, which it plans to capitalize on going forward.

On April 5 2018, the German Regulatory Authority approved the transaction.¹¹

The acquisition complements Kuka’s existing portfolio of living room and bedroom furniture.



“Kuka intends to increase investment in the Rolf Benz brand – and not just financially. We can support them with our knowledge and network of the Chinese market. We are confident that this will enable Rolf Benz to grow more quickly and more profitably in the Chinese market as well as in other markets.”¹²

GU JIANGSHENG
CHAIRMAN, KUKA GROUP

¹⁰ Factset

¹¹ Factset

¹² https://press-en.rolf-benz.com/en/pressarchive/detail.html?unique_id=1228

APPENDIX: 39 OUTBOUND TRANSACTIONS CLOSED BETWEEN OCTOBER AND DECEMBER 2018

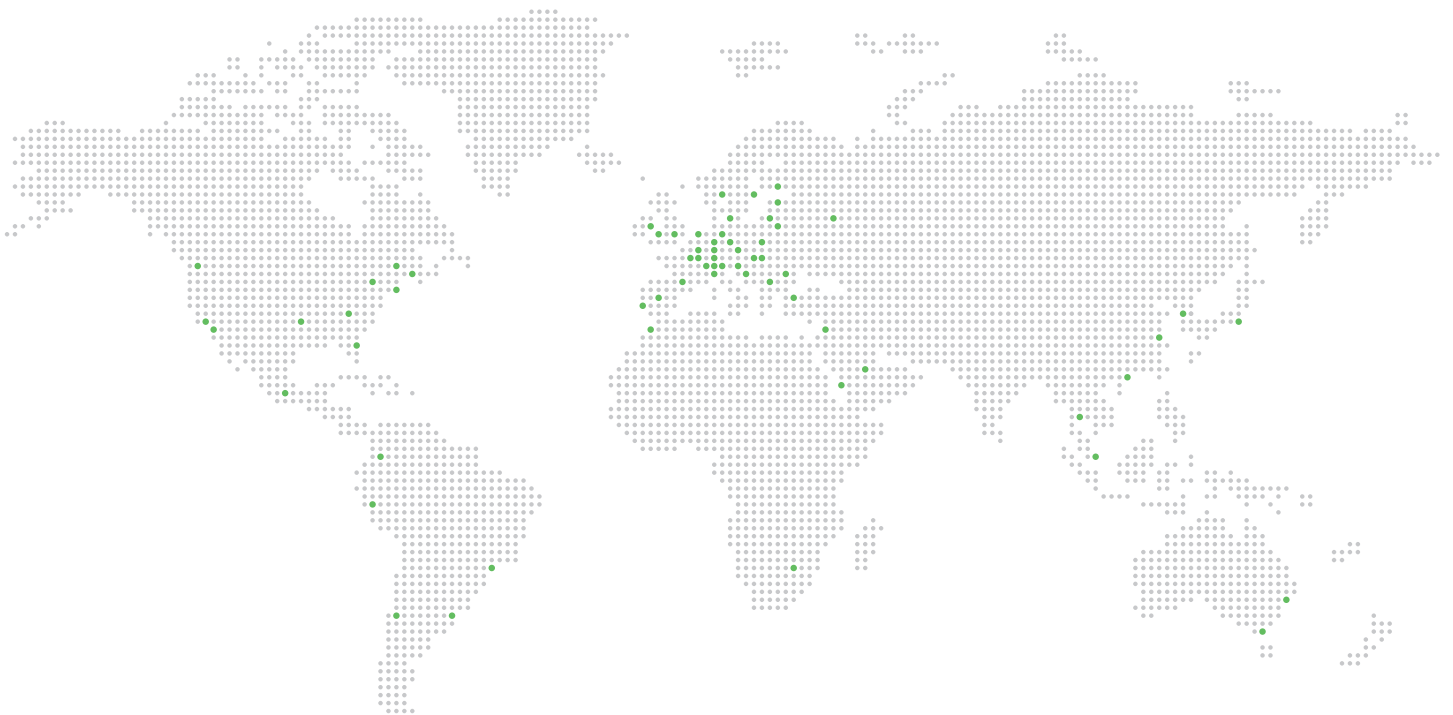
Date	Acquirer	Target	Target country	Industry	Transaction value (US\$m)
2-Oct-2018	Zhongneng Vehicle Group Co., Ltd.	Moto Morini Srl		Automobile	11.58
3-Oct-2018	Zhejiang Semir Garment Co., Ltd.	Kidiliz Group SAS		Consumer & Retail	131.52
9-Oct-2018	TAL Education Group	Dr. Panda Ltd.		TMT	-
9-Oct-2018	QuMei Home Furnishings Group Co., Ltd.	Ekornes ASA		Consumer & Retail	700.92
19-Oct-2018	China Singyes New Materials Holdings Ltd.	Huabei Ltd.		Financial Services	7.24
22-Oct-2018	China Infrastructure Construction Corp.	America's Advanced Wellness Centers LLC		Healthcare	-
26-Oct-2018	Shanghai Aohua Photoelectricity Endoscope Co., Ltd.	WISAP Medical Technology GmbH		Healthcare	-
30-Oct-2018	Highsun Holding Group Ltd.	Fibrant BV		Chemical	241.62
1-Nov-2018	Temasek Capital Pte Ltd.; Beijing Hosen Investment Management LLP; Billy + Margot Ltd.	Benyfit Natural Pet Food Ltd		Consumer & Retail	-
1-Nov-2018	Shanxi Jianlong Industry Co., Ltd.	Eastern Steel Sdn. Bhd.		Financial Services	0.00
5-Nov-2018	Huadong Medicine Co., Ltd.	Sinclair Pharma Plc		Healthcare	238.35
5-Nov-2018	Fosun International Ltd.; Fosun Property Holdings Ltd.	Guide Investimentos SA Corretora de Valores		Financial Services	94.07
5-Nov-2018	Norinco International Cooperation Ltd.	Energija Projekt dd		Energy	38.14
9-Nov-2018	COFCO Biochemical (Anhui) Co., Ltd.	COFCO Bio-Chemical Investment Co., Ltd. /3 Subsidiaries/		Financial Services	1,398.68

Date	Acquirer	Target	Target country	Industry	Transaction value (US\$m)
9-Nov-2018	NVC Lighting Holding Ltd.	Elec-Tech Solid State Lighting (HK) Ltd.		TMT	142.64
12-Nov-2018	Noblelift Intelligent Equipment Co., Ltd.	Savoye SA		TMT	-
12-Nov-2018	Patron Ltd. /Wang/	Patron Ltd.		Financial Services	15.13
13-Nov-2018	City of Shanghai; Jin Jiang International (Holdings) Co., Ltd.; Radisson Hospitality AB /Private Group/; SINO-CEE Fund	Radisson Hospitality AB		Consumer & Retail	342.23
16-Nov-2018	SINA Corp.; Yunfeng Financial Group Ltd.; City-Scape Pte Ltd.; Giant Investment (HK) Ltd.; Ant Financial Services Group Co., Ltd. (Hong kong); Massmutual Asia Ltd. /Private Group/; Meyu International Co., Ltd.; Sheen Light Development Ltd.; Harvest Billion International Ltd.	MassMutual Asia Ltd.		Financial Services	1,641.01
17-Nov-2018	Eurocrane (China) Co., Ltd.	Ruth Voith, Beteiligungs-gesellschaft mbH		Logistics	-
17-Nov-2018	Eurocrane (China) Co., Ltd.	Ruth Voith Holding-GmbH		Logistics	-
22-Nov-2018	EDP-Energias de Portugal SA; China Three Gorges Corp.; Hydro Global Investment Ltd.	Macquarie Development Corp / CO Subs (2)/		Construction & Engineering Service	-
26-Nov-2018	Yantai China Pet Foods Co., Ltd.	The Natural Pet Treat Co., Ltd.		Consumer & Retail	-
26-Nov-2018	Yantai China Pet Foods Co., Ltd.	Zeal Pet Foods New Zealand Ltd.		Consumer & Retail	-
26-Nov-2018	CPFL Energia SA; Government of China; State Grid International Development Co., Ltd.; State Grid Brazil Power Participações Ltda.	CPFL Energias Renováveis SA		Energy	1,287.33
27-Nov-2018	Mingma Shanghai Biotechnology Co., Ltd.	Genomics Medicine Ireland Ltd		TMT	-

Date	Acquirer	Target	Target country	Industry	Transaction value (US\$m)
27-Nov-2018	Brighten Ocean International Ltd.	Benchmark Trade Ltd.		Financial Services	12.80
30-Nov-2018	Zoomlion Heavy Industry Science & Technology Co., Ltd.	Wilbert TowerCranes GmbH		Construction & Engineering Service	-
30-Nov-2018	Chifeng Jilong Gold Mining Co., Ltd.	MMG Laos Holdings Ltd.		Energy	274.97
3-Dec-2018	CDH Investments Management (Hong Kong) Ltd.; Hony Capital (Beijing) Co., Ltd.; Playtika Ltd.; Shanghai Yunfeng Investment Management Co., Ltd.	Wooga GmbH		TMT	100.00
4-Dec-2018	Hakim Health Technology Co., Ltd.; Hakim International Development Co., Ltd.; Golden State Medicare Health Plan/ Private Group/	Golden State Medicare Health Plan		Healthcare	33.51
5-Dec-2018	Sequoia Capital India Advisors Pvt Ltd.; Zhejiang Ant Small & Micro Financial Services Group Co., Ltd.; Zomato Media Pvt Ltd.; Vy Capital Management Co., Ltd. (Venture Capital); Info Edge India Ltd. / Venture Capital/	TechEagle Innovations Pvt Ltd.		TMT	-
5-Dec-2018	TAL Education Group	CodeMonkey Studios, Inc.		TMT	20.00
10-Dec-2018	LightInTheBox Holding Co., Ltd.	Ezbuy Holding Co. Ltd.		TMT	85.55
15-Dec-2018	BORQS International Holding Corp.	KADI Technologies Ltd.		TMT	9.75
18-Dec-2018	Zhuzhou Cemented Carbides Group Corp. Ltd.; Zhuzhou Cemented Carbide Cutting Tools Co., Ltd.	HPTec GmbH		Industrial, Machinery & Components	21.30
26-Dec-2018	Hangzhou Venus Medtech Co., Ltd.	Keystone Heart Ltd.		Healthcare	100.00
26-Dec-2018	Shanghai Moons' Electric Co., Ltd.	Technosoft Motion AG		TMT	31.54
28-Dec-2018	Qingdao Tianhua Institute Chemistry Engineering Co., Ltd.	China National Chemical Equipment Luxembourg SARL		Financial Services	942.69

Deep local roots, global commitment

Oaklins brings you opportunities from across the world and we meet you with our expertise wherever you are



Oaklins disclaimer

This report is provided for information purposes only. Oaklins and its member firms make no guarantee, representation or warranty of any kind regarding the timeliness, accuracy or completeness of its content. This report is not intended to convey investment advice or solicit investments of any kind whatsoever. No investment decisions should be taken based on the contents and views expressed herein. Oaklins and its member firms shall not be responsible for any loss sustained by any person who relies on this publication.

© 2019 Oaklins. All rights reserved.

Oaklins is the collective trade name of independent member firms affiliated with Oaklins International Inc. For details of the nature of affiliation please refer to www.oaklins.com/legal.