

Guideline for Companies in China

Successful Takeover of European Companies

Munich, June 2013

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1. Why are Chinese Companies Buying European Companies?

Acquisitions are a way for successful company growth

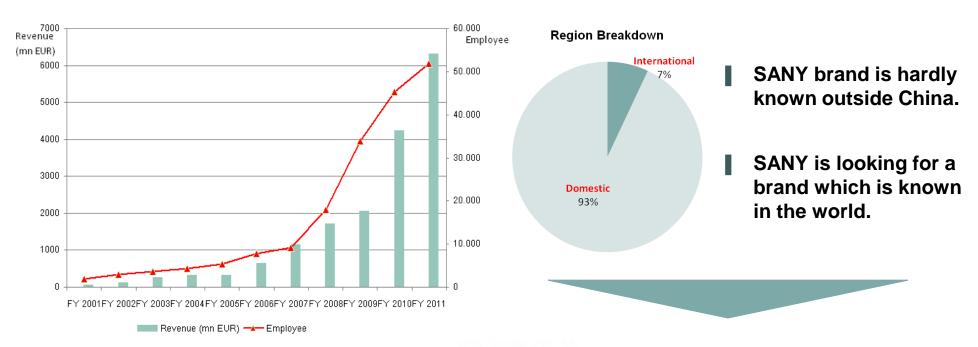


- Acquisition of a company (buying of an existing company) is a way for quick growth.
- In general, the acquisition and disposal of companies is an important instrument for the development of companies.
- "M&A" ("Mergers & Acquisitions") means buying and selling of companies, part of companies, formation of joint ventures or merging two or more companies (please see the glossary at the end of this paper).
- M&A is involved with chances, opportunities, risks and substantial amounts of money. Therefore, a professional approach is necessary to make M&A transactions a success.

Example SANY takeover of German Purcease







Source: SANY annual report; Raffel CD

April, 2012 SANY → takes over → Putzmeister of China of Germany

Turnover: 500 mn EUR

Purchasing price: 324 mn EUR

With the acquisition of PUTZMEISTER, SANY is able to expand on the world sales.

Example **ZOOMLION** takeover of Italian **CIFA**



中联重科并购CIFA三年"挂果"技术与市场都给力

文章来源:证券日报 更新时间: 2012-02-06 01:55

Headline: Economic and Technical Synergy of Zoomlion's Acquisition of Italian CIFA

Post Date: 06-02-2012

Source: Security Daily

In 2008 Zoomlion purchased 100% shares of the Italian company CIFA (€ 271 million) with Goldman Sachs, Mandarin Capital and Honey Future Investment (Zoomlion obtained 60% in € 163 million). CIFA has successfully eliminated negative impact of economic crisis and began to make profit in 2011. On the other hand, Zoomlion received the support of advanced technology and international marketing network.

ZOOMLION takes over

of China

Turnover: 300 mn EUR (2007)

of Italy

Turnover: 5,790 mn EUR

Purchasing price: 163 mn EUR

Source: MelchersRaffel Research



Why do Chinese companies take over European companies?



Example of Objects of Chinese Companies

1. Growth the world market outside China

- 2. Access to technology which is new or not yet common in China and marketing of that technology on Chinese or Asian markets
- 3. Access to key clients of the industry
- 4. Acquisition of brands (consumer goods, luxury goods, industrial goods etc.)

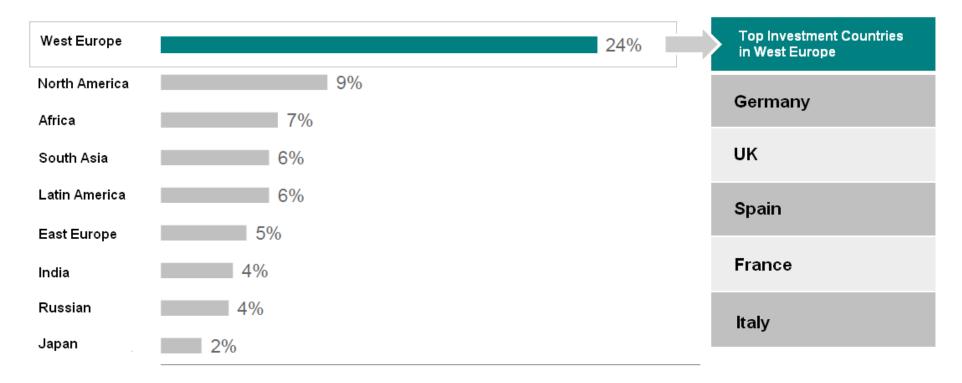
Example of a Possible Transaction

- Takeover of a European company known on world markets (like the transaction SANY - PUTZMEISTER)
- 2. Takeover of a European company with a strong technology base and r&d capabilities
- 3. Acquisition of client relationships together with the purchased company
- 4. Takeover of a European brand and marketing of the products in China

West Europe – and Germany – are Number One Regions for Future Investments



" Do you plan to invest in following regions? "



Source: Study in which 400 Chinese managers (large) companies participated (2012)

Germany lists in No. 1 in focus countries for Chinese companies.



2. How to Buy a European Company?

Main points for a successful company acquisition



- 1. Right strategy and objectives
 - What to do with the company after takeover?
- 2. Right price for the shares of the company
 - What is the value and the price to be paid?
- Right project mangement and process of the acquisition
 - What are the steps required?
- 4. Right "post merger integration"
 - How to integrate the acquired company?

Required:

Tools, techniques and know-how for successful acquisitions (process overview on following pages)

Overview: Process of a company acquisition (please refer to the glossary)



1. Start of the process

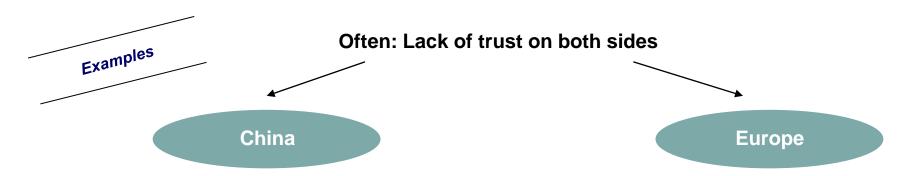
2. Evaluation of the acquisition opportunity

- 3. Due diligence
- 4. Negotiation of the Contract
 - 5. Signing & Closing

- Getting in touch with the company to be acquired ("acquisition target")
- Information about the acquisition target (facts and figures)
- First negotiations with the owners of the acquisition target
- "Letter of Intent"
- Legal, financial and commercial due diligence
- In-depth-check of the acquisition target
- Final company valuation
- Negotiation of conditions such as price of company, warranties of seller and purchaser, terms of payment etc.
- sometimes complex negotiations
- Signing of the contract of both parties
- closing of the transaction

For company acquisitions in Europe, building trust is important





- "Can I trust the European company owners?"
- "How will the company perform after the transaction?"



- "Can I trust the Chinese buyers?"
- "What will they do with my company after the transaction?"

For successful China-Europe transactions, a solid bridge is necessary.



3. What is the Role of M&A Consultants?

A successful company transaction requires professional consultants



Role of consultants in company transactions (overview)

- project management: co-ordination of all parties involved (owners + managers of buyer and seller, lawyers, auditors etc.)
- 2. finding the right value for the acquisition target
- 3. negotiation of price and all other conditions of the transaction
- 4. conflict solving
- 5. "building bridges"

How to hire an M&A consultant

- it is strongly advised to make use of a consultant for M&A transactions (acquisition or disposal of companies)
- 2. a professional consultant will work for either the buyer or the seller and not for both parties at one time
- 3. consultants usually will ask for a monthly fee plus a success based fee after signing of the contract.

Consultants will help with the main problems



Main Problems of Chinese Companies when investing abroad (USA, Europe etc)



All of the main problems stated by Chinese managers can be eliminated with the help of consultants.

Source: Study in which 400 Chinese managers (large) companies participated (2012)

In future, Chinese companies intent to hire consultants for international transactions.

MelchersRaffel is the company for successful Euro-China transactions









- Know-how and network of 1,700 employees in technology, consumer and luxury markets in Europe and in 25 offices in Asia
- Experience from 150 years of successful business in China
- Offices in Shanghai, Hongkong, Singapore and Munich, Germany
- Client Service:
- Strategy
 Business Development
 Designing Business Models
- M&A
 Acquisition and Desinvestment of Companies
 Structuring Joint Ventures and Alliances
- Contact:
- o www.melchersraffel.com
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- Founded: 1806 in Bremen, Germany
- Group Companies: more than 50 in the world focusing on Europe, Southeast Asia, and Greater China
- Branches and representative offices in Asia: 25
- Other locations: South Africa, Ethiopia
- Employees in Europe: ca. 600 (ca. 500 in Germany)
- Employees worldwide: 1,700 (1,000 in Asia).



- Experience in advising companies in the larger middle class. The employees of Raffel CD have both industrial and consulting experience in the international environment.
- For M&A activities (purchase and sale of companies and business units), Raffel CD combines the necessary M&A technique, strong strategy and market expertise. This allows the creation of outstanding value for the customer.