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Voice from China

Update on the M&A market in China

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Introduction

To state the obvious, 2020 was an unusual year — marred by a trade war, rising international tensions and a global pandemic. Although the site of COVID-19's initial outbreak, China has fared better than most nations, and the government's strict measures to control the disease have resulted in the number of new cases remaining stable.

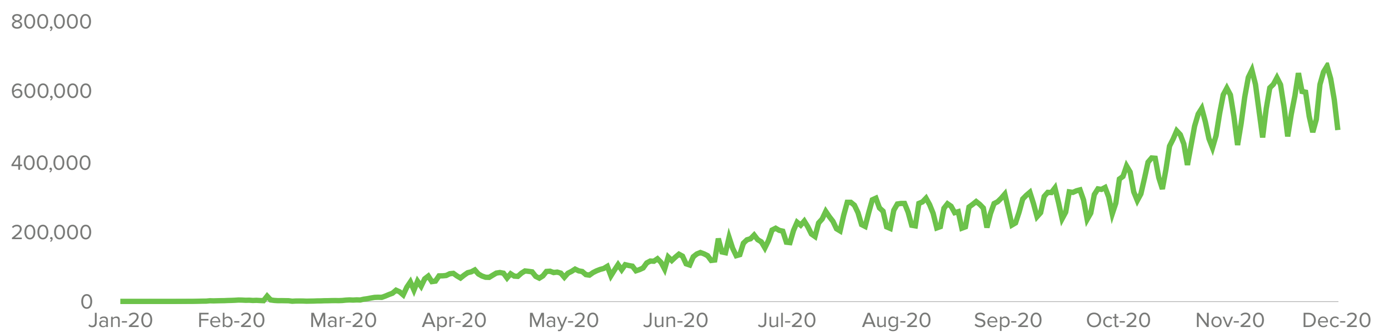
With a net positive GDP for the year, the country is now on a solid recovery track. The new year, meanwhile, has begun on a hopeful note with the introduction of vaccines and a promising shift in the world's leadership dynamic — and we are optimistic that 2021 will be a much better year.

For the first three quarters of 2020, China's GDP grew at a rate of 0.7% — the only country among the world's 15 largest economies to achieve positive growth for the period. For the full year, the International Monetary Fund expects the country to register growth of 1.9%, surging to 8.2% in 2021.

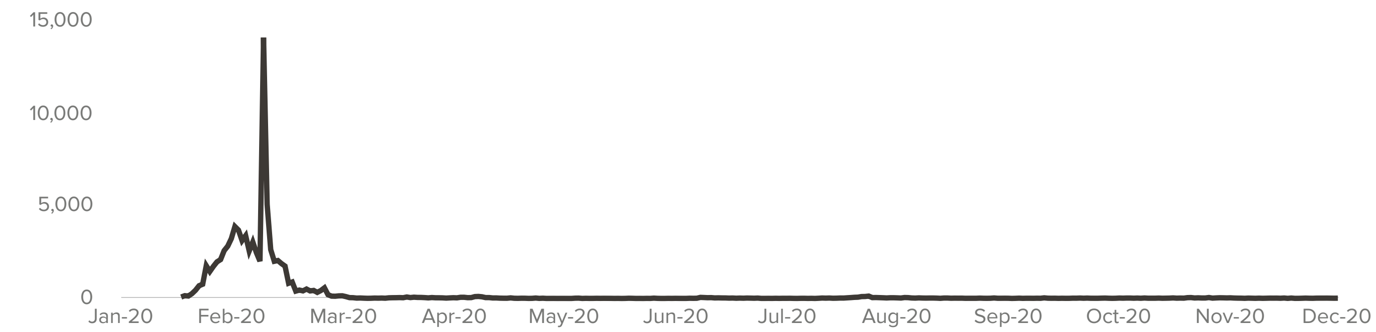
GDP growth rate by countries

	Q1 2020	Q2 2020	Q3 2020	2020 annual forecast	2021 annual forecast
	-6.80%	3.20%	4.9%	1.9%	8.2%
	0.50%	-9.6%	-2.8%	-4.3%	3.1%
	-3.70%	-14.7%	-4.3%	-8.30%	5.2%
	-	-	-	-4.40%	5.2%

COVID-19 new cases per day (global)



COVID-19 new cases per day (China)



Source: WHO

ATTRACTING FOREIGN CAPITAL

Home to the fastest-growing major economy, China is attracting international investment, and while the total number of inbound mergers and acquisitions are still down from prior years, the value of these deals is on the rise.

To wit, during the first five months of 2020, the total deal value of inbound M&A activity surpassed the total deal value of outbound M&A for the first time in 10 years. This was mainly driven by US and European multinationals — especially those that already had a presence in China and were seeking to expand it.

US-based Goldman Sachs is a case in point. Last March, the investment bank increased its position in Goldman Sachs Gao Hua Securities Company Limited — a joint venture with Gao Hua Securities — from 33% to 51%, and now plans to acquire the remaining 49%.

Another example: assisted by Oaklins China, the Eton Corporation (ETN) recently agreed to acquire a 50% stake in Huanyu Group Zhejiang High Tech Co. Ltd. ETN entered into the agreement to expand its footprint in the low-voltage electrical appliances market.

Inbound M&A

	Q1 2020	Q2 2020	Q3 2020
Number of deals	45	54	61
Change year-on-year (YoY)	-28.6%	-18.2%	-19.7%
Deal value (US$ million)	1,738.3	6,777.1	11,175.3
Deal value change YoY	-27.8%	387.3%	49.8%

China's market has become more attractive to foreign-based multinationals that are seeking a growing market to offset the global slowdown. They have also been encouraged by government policies that have become more favorable to foreign investors.

In particular, once the Chinese government increased the stake that a foreign entity could hold in a Chinese company, many foreign companies began acquiring additional shares in the joint ventures in which they already held a minority position. This was what prompted the most recent wave of inbound M&A activity in China, although the growing maturity and transparency of Chinese companies is also making them more attractive to foreign capital.

CHINA STANDARDS 2035

Although the pandemic continues to interfere with outbound M&A, (e.g. travel restrictions make it difficult to conduct site visits and engage in due diligence), the size and number of these deals began to tick upwards in November, possibly signaling a reversal of 2020's downward trend. In terms of deal value, Chinese outbound M&A grew by 118.2% compared with the same month a year earlier, while the number of outbound transactions matched those of the prior period.

Outbound M&A

	Q1 2020	Q2 2020	Q3 2020	November 2020
Deal number	43	61	50	24
Number change YoY	-39.4%	3.4%	-37.5%	-
Deal value (US$ million)	2,774.3	3,067.9	9,068.1	1,010.6
Deal value change YoY	-65.5%	-35.6%	-37.0%	118.2%

Underlying much of China's outbound investment is the government's China Standards 2035, an ambitious 15-year plan to set global standards for the next generation of technologies. Within this national framework, Chinese enterprises are incented to look abroad for new technologies and market opportunities.

Officially launched on 1 March 2018, China Standards 2035 was given additional impetus this November when the Chinese government issued a variety of proposals aimed at promoting 5G, artificial intelligence (AI) and the Internet of Things.

Although other leading countries, including the United States and Germany, have instituted policies that limit or prohibit foreign stakes in strategic technology companies — particularly those working with 5G and AI — there are other opportunities for Chinese companies to acquire less sensitive technologies, especially in light of the incoming US administration's more relaxed views on cross-border investment and trade.

USA foreign direct investment (FDI) policy

The United States has imposed strict restrictions on China's high-tech companies, including Huawei and ZTE.

German FDI policy

For defense-related industries, if a foreign entity stands to acquire more than 10% of the assets or voting rights in a German company, the Federal Ministry of Economics (BMWi) must be notified and the proposed transaction must be approved within two to seven months in order to take place. Defense-related sectors include those involving critical infrastructures, telecommunications, healthcare and the media.

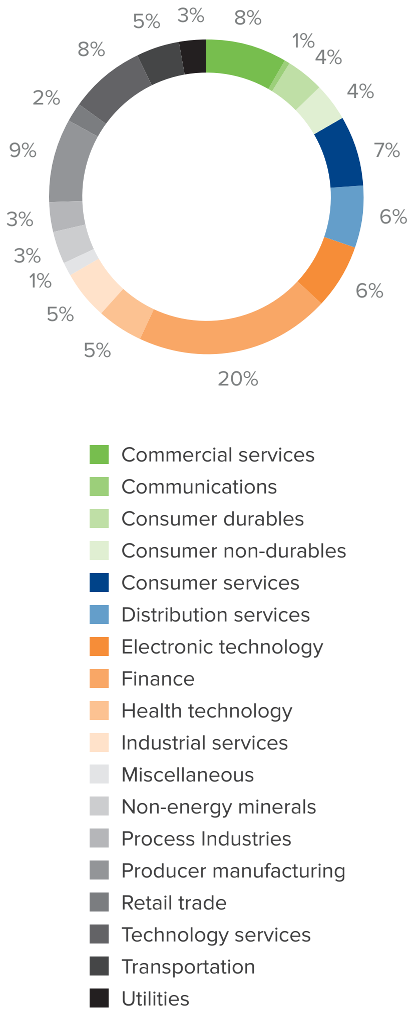
Recent M&A activity

- During the first three quarters of 2020, 154 outbound acquisitions were disclosed, representing a 5.5% year-on-year drop in M&A activity. During the same period, 160 inbound acquisitions of Chinese companies were disclosed, representing a year-on-year decline of 22.0%.
- During the same period, 1,358 domestic M&A transactions were disclosed, representing a year-on-year increase of 4.1%.
- For the third quarter alone, while cross-border transactions were still heavily impeded by the COVID-19 pandemic, there was a 19.7% year-on-year fall in inbound transactions and a 37.5% drop in outbound transactions. But domestic transactions rose by 12.1% year-on-year.

OUTBOUND M&A BY SECTOR

Approximately one out of five (20.1%) outbound transactions took place in the finance sector, with 8.44% taking place both in the commercial services and producer manufacturing sector.

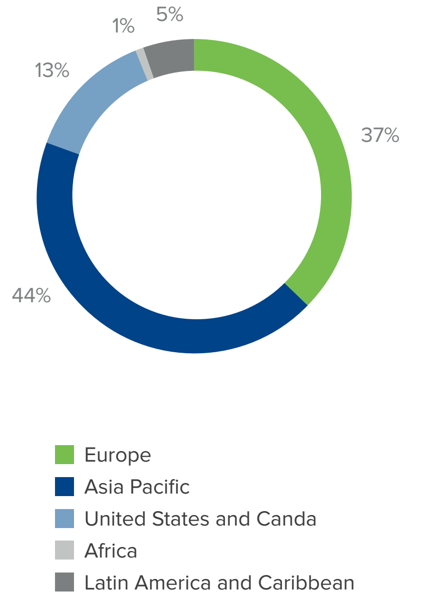
Transactions by industry



OUTBOUND M&A BY REGION

Asia Pacific (43.5%) is the favorite region for Chinese acquirers, followed by Europe (37.0%) and the United States and Canada (13.0%).

Transactions by region



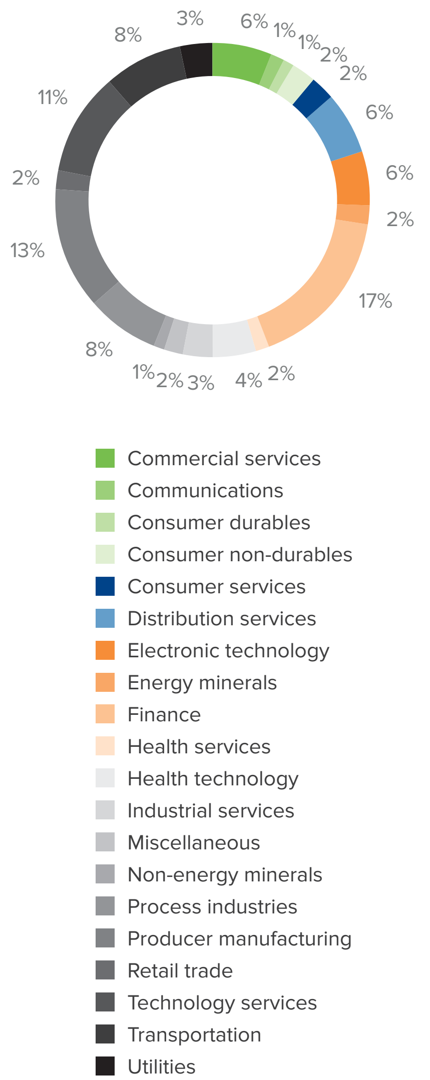
Transaction values were disclosed for 90 outbound transactions

Transaction size (US$m)	Number of transactions
<50	56
50–100	9
>100	25

INBOUND M&A BY SECTOR

For the first three quarters of the year, 16.9% of inbound M&A transactions took place in the finance sector, followed by 12.5% in producer manufacturing.

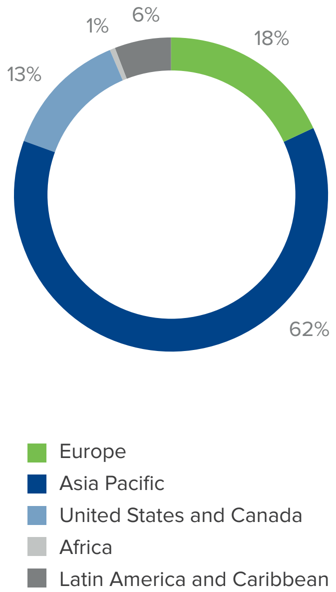
Inbound by industry



INBOUND M&A BY REGION

Asia Pacific was the most active region in the Chinese M&A market with 62.5% of the deals, followed by Europe with 18.1% and the United States and Canada with 13.1%.

Inbound by region



Transaction values were disclosed for 95 inbound transactions

Transaction size (US$m)	Number of transactions
<50	64
50–100	7
>100	24

Source: Factset M&A database

Note: All transaction data is for Mainland China. Both completed and pending transactions are included.

Spotlight on:
Facility management

Facility management in China is often referred to as property management, which traditionally related to the timely collection of rents and an ability to minimize tenant complaints. Services, limited to the common areas of a building, include cleaning and security. However, a modern integrated facility management (IFM) solution provides more comprehensive services to help companies to achieve greater efficiency. These value-added services include interior renovation, space management, reception services, gardening services, etc.

The Chinese facility management market is fragmented among approximately 118,000 companies. As urbanization continues, the total market size in China was estimated to be 1.2 trillion RMB (US$185 billion) in 2018. Residential properties — the principal target clients — represent 70% of market share, while the non-residential properties accounting for the other 30% include schools, hospitals, transport hubs, office buildings, public facilities and retail business malls. The total gross floor area (GFA) in China has reached two billion square meters, and the current urbanization level in China is around 60% — far behind that of the United States and Japan, which have an urbanization level of 82% and 91%, respectively. Western China is the focus of urbanization, with 66% of real estate projects completed in 2018 carried out in Tier 3 and 4 cities.

In China, 70% of facility management services are carried out in-house, with third-party facility management companies servicing only 30% of the market. However, as awareness of efficient management methodology increases, more companies will be willing to accept modern FM solutions, thus paving the way for massive IFM growth. Price is no longer the determining factor when choosing facility management providers. Today, more companies are paying attention to IT infrastructure, compliance and quality of service. The COVID-19 pandemic has also driven demand for high-quality facility management services, given the need to sanitize potentially hazardous areas, manage space effectively and maintain rigorous security control.

In order to capitalize on the trend of modern IFM solutions, major companies have begun to consolidate the regional players to achieve economies of scale. This is playing out in three ways:

1. Real estate groups are looking to acquire professional facility management service providers. Over the past three years, Vanke, Country Garden, Colour Life and A-Living have all been very active in the M&A market. Vanke, for example, has announced the acquisition of over 20 facility management companies since 2016.
2. Facility managers backed by private equity funds are pursuing horizontal expansions to increase their scale. China Shine, with the backing of the renowned global private equity firm EQT, has acquired several other facility managers in Shanghai to enhance their local presence. SKYFM, meanwhile, which is owned by CITIC Capital, has also completed several transactions during the past few years, aimed at expanding its customer base.
3. Although heightened competition has led some international facility

management companies to exit the Chinese market, others with strong capital support are seeking to acquire suitable targets and expand their presence. France's Sodexo, for example, recently acquired China's Meican, a catering company that provides meals for corporate employees.

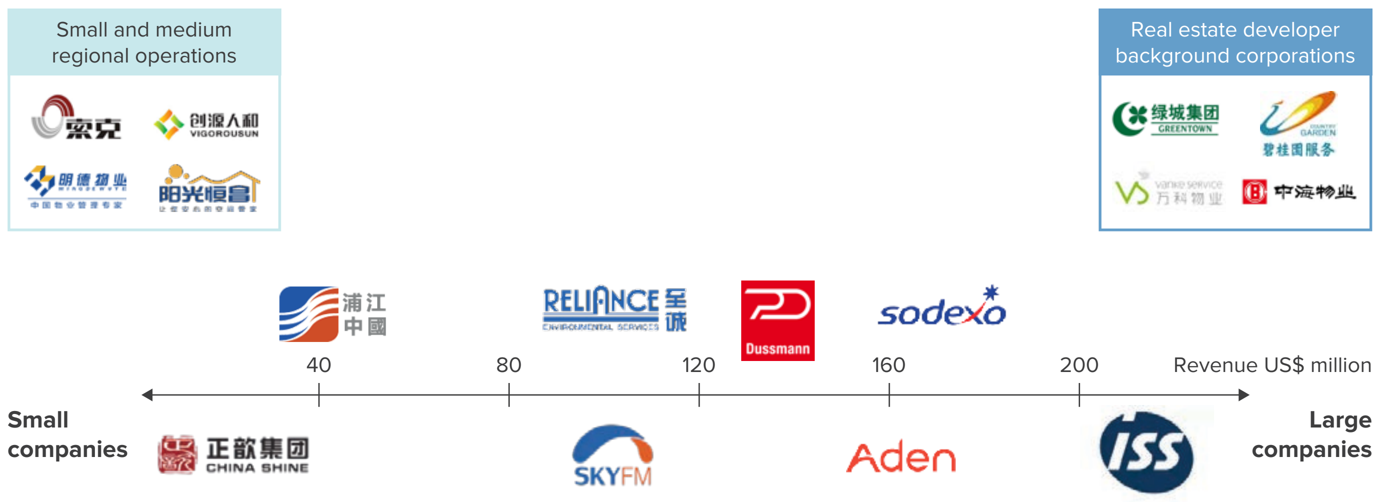
Given rising standards of service and more stringent compliance requirements, some smaller regional facility management companies with more limited technology, less experienced staff and inconsistent quality control find themselves at a disadvantage. This has made them prime acquisition targets, and China's facility management market has been steadily concentrating during the past five years.

Synergies can be achieved by facility management companies expanding horizontally and real estate developers with property management businesses going upstream.

Buyers typically have two major objectives for their acquisitions:

- **To diversify their customer portfolio.** China's booming education sector provides a good example. As the education market grows, the number of private schools is increasing and they are demanding higher standards of facility management service. A buyer can quickly gain new clients and market expertise by acquiring a facility manager that is already active in this sector.
- **To broaden their lines of service.** Buyers can expand their offerings and enlarge their market by acquiring a facility manager that has a special license. Each Chinese province, for instance, has its own security license and requirements. Purchasing a company that holds one of these licenses allows the buyer to rapidly enter a new provincial market and a new line of service.

Competitive facility management landscape



From Oaklins HFG China's
IFM dealbook

ABOUT THE TARGET

Dussmann China was founded in 1998 and has grown into one of the country's leading facility management companies. Headquartered in Shanghai, Dussmann has almost 2,500 employees, and branches in nine different cities nationwide. Dussmann Service Hong Kong Limited was founded in 1996 and has about 1,600 employees. Both companies provide cleaning, catering, security and technical services, primarily for corporate customers.

ABOUT THE BUYER

CITIC Capital Partners specializes in control buy-out opportunities worldwide and has completed many investments in Chinese facility management companies.

SYNERGY

The Dussmann acquisition has helped CITIC and its portfolio companies gain greater access to blue-chip multinational clients in the Chinese and Hong Kong markets. In addition, greater bargaining power and shared administrative expenses have lowered the combined company's operating costs.

> "Oaklins' team in Shanghai understood our vision and strategic criteria. Their access to local investors in the Chinese market, expertise of working international processes and collective team effort have made a contribution to the successful completion of the transaction."
>
> **SEBASTIAN BAHNSEN**
> HEAD OF M&A, DUSSMANN GROUP

Project Property

ABOUT THE TARGET

GSN was founded in Shanghai in 1996. The company developed seven additional branches across Eastern and Northern China and built an extensive client portfolio that includes multinational corporations, foreign embassies and international schools.

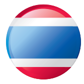
ABOUT THE BUYER

The buyer is a leading property management company that primarily focuses on residential and commercial building development.

SYNERGY

The acquisition has helped the buyer enter the foreign embassy and international school markets and further diversify its customer portfolio. The transaction has also improved the buyer's financial position, allowing it to accelerate its plans for an initial public offering.

30 OUTBOUND ACQUISITIONS BY CHINESE COMPANIES CLOSED BETWEEN JULY AND DECEMBER 2020

Date	Acquiror	Target	Target country	Industry	Transaction value (US$m)
22-Dec-20	Shanghai Wanye Enterprises Co. Ltd.	Compart Systems Pte Ltd.		Commercial services	398.00
21-Dec-20	KBS Fashion Group Ltd.	Flower Crown Holding		Finance	0.68
02-Dec-20	Shandong University	Gale Publishing Co.		Commercial services	-
19-Nov-20	Tencent Music Entertainment Group	WaveXR Inc.		Technology services	-
18-Nov-20	ReneSola Ltd.	Nova Development Management /DG Project		Technology services	3.80
02-Nov-20	Domino Asia Pacific Co. Ltd.	Dominos Thailand Co. Ltd. /Pizza Restaurant Business		Consumer services	-
30-Oct-20	Ningbo Meishan FTPZ Rongchang Eqty Invt Ptp	Geoswift Asset Management Ltd.		Finance	2.38
30-Oct-20	Yatsen Holding Ltd.	Galénic Cosmetics Laboratory SAS		Consumer non-durables	-
28-Oct-20	China Infrastructure Construction Corp.	Pharmacology University Inc.		Commercial services	-
23-Oct-20	HangKan Group Ltd.	P B Group Ltd. /KY		Finance	1.03
22-Oct-20	Forgame Holdings Ltd.	Spacevision Co. Ltd.		Finance	3.75
15-Oct-20	ADAMA Ltd.	FNV S.A.		Distribution services	-
14-Oct-20	Virtuos China Ltd.	IMPD Productions Inc.		Technology services	-
01-Oct-20	Tencent Holdings Ltd.	After Impact AB		Technology services	-
22-Sep-20	Hengyang Petrochemical Logistics Ltd.	Hengyang Holding Pte Ltd.		Transportation	5.33

Date	Acquiror	Target	Target country	Industry	Transaction value (US$m)
11-Sep-20	China Automation Group Ltd.	Flow Control Technologies S.A.		Commercial services	-
10-Sep-20	Nobo Automotive System Co. Ltd.	Motus Headliner GmbH		Producer manufacturing	-
07-Sep-20	Bluestar Adisseo Co.	Fra®melco B.V.		Finance	-
19-Aug-20	China Mobile Payment Technology Group Co. Ltd. / Jingjing	China Mobile Payment Technology Group Co. Ltd.		Finance	0.01
18-Aug-20	Chuantie Electric (Tianjin) Group Co. Ltd.	Centum Adetel Group S.A. /Energy Division		Utilities	11.63
14-Aug-20	Wise Road Capital Ltd.	UTAC Holdings Ltd.		Producer manufacturing	-
14-Aug-20	FAWER Automotive Parts Ltd. Co.	ABC Umformtechnik GmbH & Co. KG		Distribution services	15.01
04-Aug-20	Zhejiang Dingli Machinery Co. Ltd.	Teupen Maschinenbau GmbH		Producer manufacturing	-
03-Aug-20	Shenzhen Goodix Technology Co. Ltd.	Dream Chip Technologies GmbH		Industrial services	-
27-Jul-20	Cang Bao Tian Xia International Art Trade Center, Inc.	Zhi Yuan Ltd.		Finance	262.50
23-Jul-20	Fibocom Wireless, Inc.; Rolling Wireless (H.K.) Ltd.	Sierra Wireless, Inc. /Automotive Embedded Product Line		Producer manufacturing	165.00
21-Jul-20	Semir Group Co. Ltd.	Sofiza SAS		Finance	97.12
16-Jul-20	Changshu Automotive Trim Co. Ltd.	Way Business Solutions GmbH		Commercial services	-
14-Jul-20	Prosten Development Ltd. /Li	Prosten Development Ltd.		Distribution services	0.62
08-Jul-20	Advion Inc.; Inner Mongolia Junzheng Energy & Chemical Group Co. Ltd.; Interchim Instruments SAS / Private Group	Interchim Instruments SAS		Health technology	-

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