

InterChina

China Business Forecast 2021
“Decoupling and Alignment”

November 25, 2020

China partner of  CLEARWATER
INTERNATIONAL

InterChina



英特华

InterChina: A well-respected China-focused cross-border advisory firm

Who We Are

China Leader

26 years in the market

50 Advisors

Independent Partnership

Global Reach

Clearwater International

23 global offices

200 advisors

~1,500 transactions with total value of EUR 70+ bn

Our Clients

Multinationals F1000.

Private Equity

Chinese Listed & POE

Sector Specialist

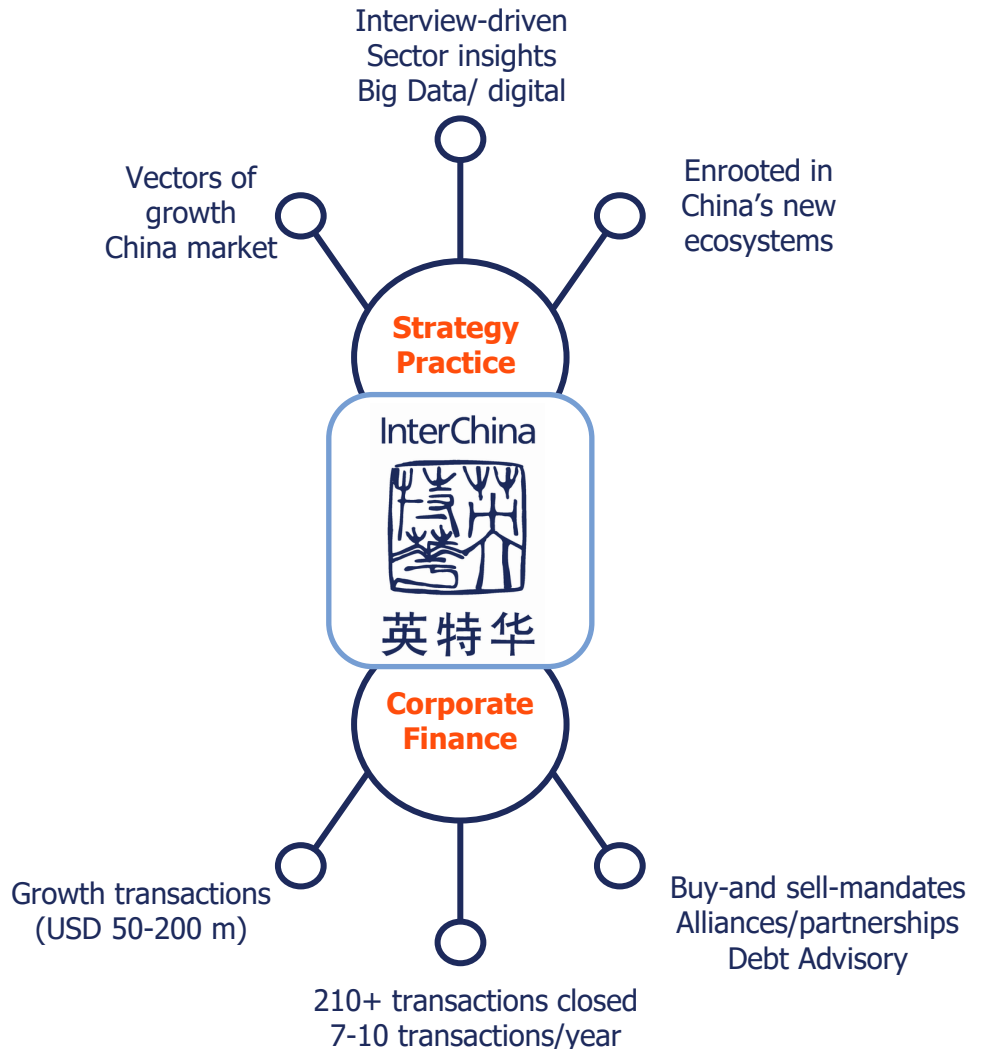
Industrials

Healthcare

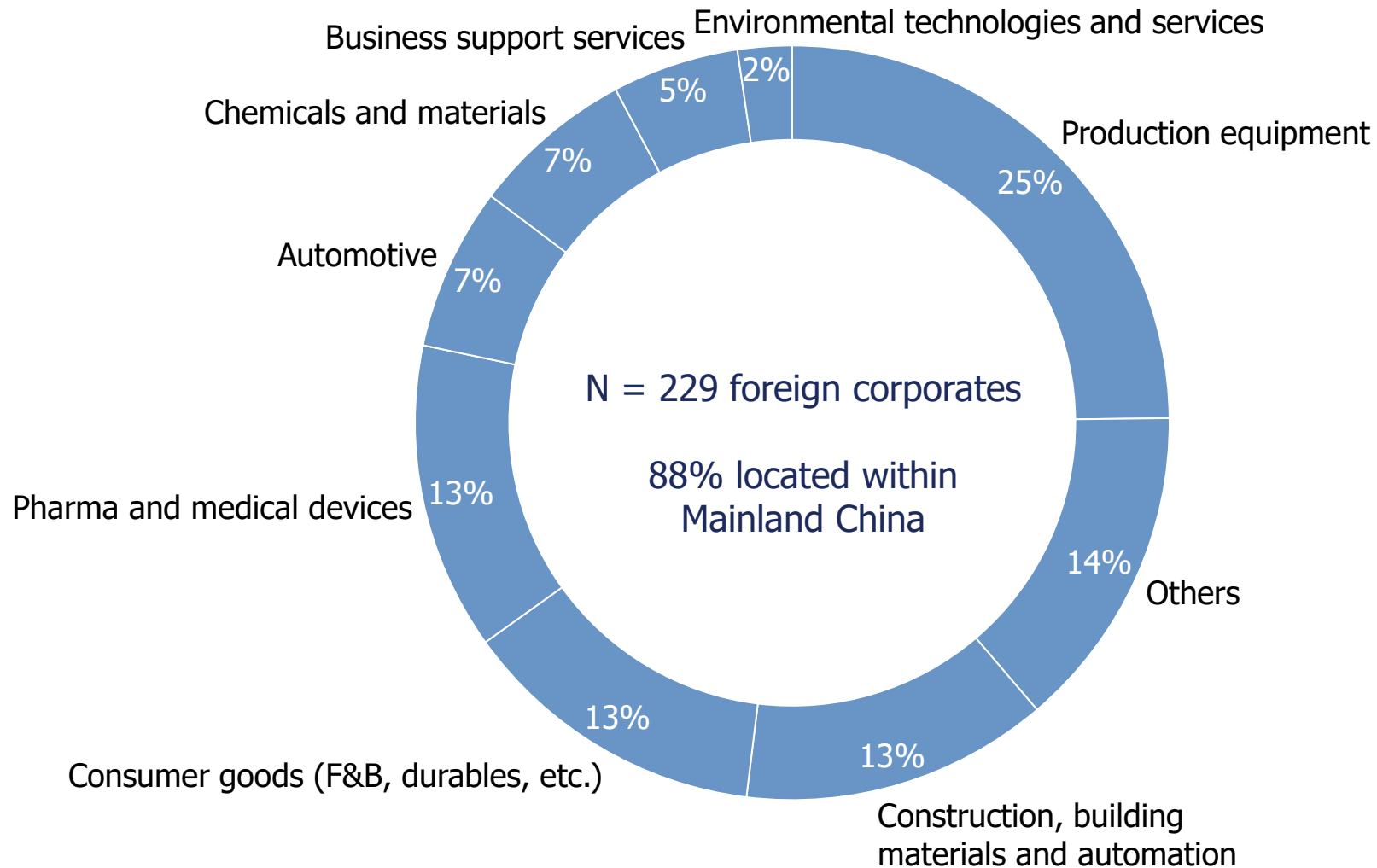
Chemicals

C&R

Business Services



Sources of this Report (1/3): Survey of 229 China based executives (October 2020)



Sources for this Report (2/3): Our Clients' strategic needs during 2020...

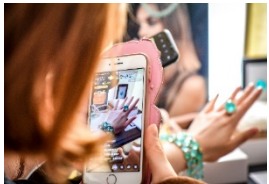
Sector hot-spots



Production automation



Agricultural value chain modernization



Imported consumer goods



Green tech, environm. services



Medtech

Our clients' needs and objectives

How can we **diversify** into **adjacent technology offerings**?

To remain competitive in China, what does it really mean to **"be local"**?

How to create a **concerted strategy** of both **online and offline channels**?

How can we **find local partners** in China to commercialize key technology from overseas?

Sources for this Report (3/3): Our M&A Transactions in 2020

InterChina's 2020 Transactions

Oct 2020		
		
Sept 2020		
Sept 2020		
Mar 2020		
Jan 2020		
Jan 2020		

Transaction drivers

Foreign co's seek **access the mid-tech market...** and do so by acquiring suitable Chinese players

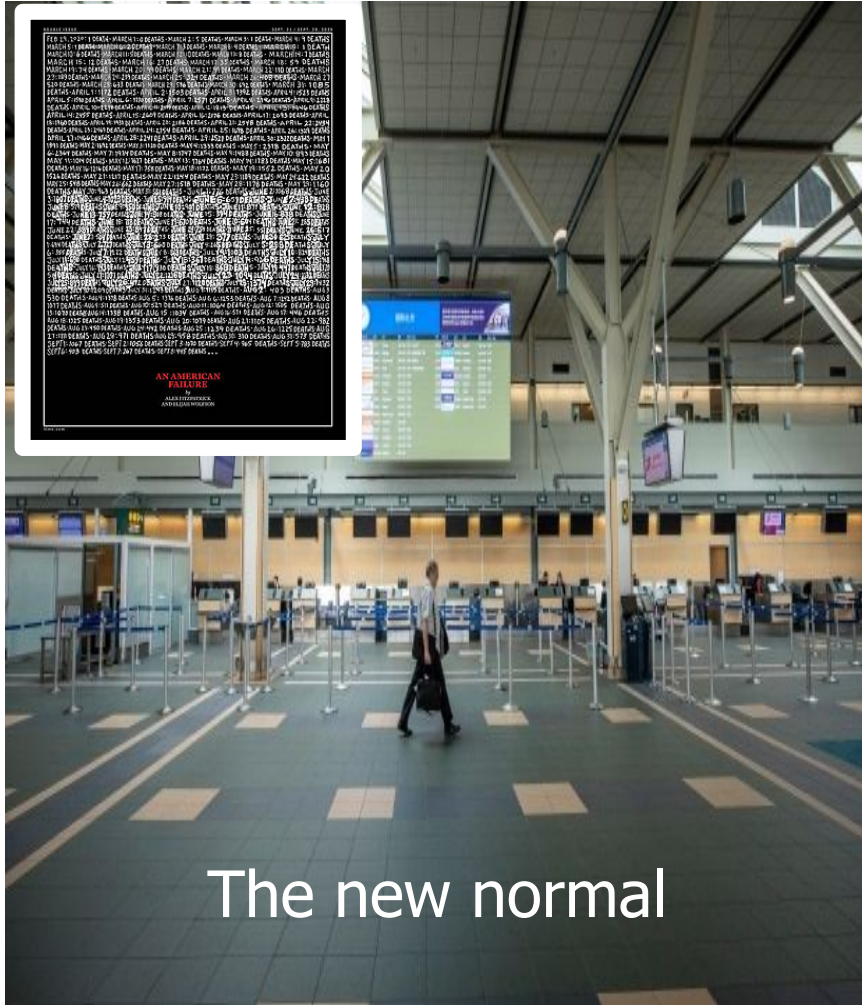
Consolidation is now really happening in most sectors – driven by listed co's, yet MNCs don't want to miss out

Restructuring China operations (exit non-competitive or non-performing sectors)

Acquiring license and manufacturing capabilities in China
Localization

Looking back on 2020: What a year...

The West



The new normal

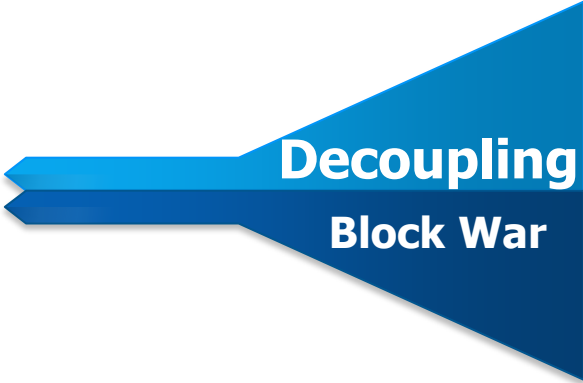
China



Back to business

Looking Ahead: Business in China will never be the same...

3 key themes for China 2021

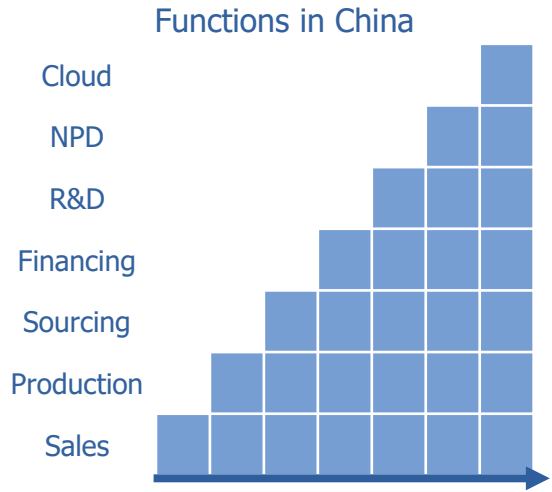


**Decoupling
Block War**

1

Politics Becomes Business

Functions in China



Function	2016	2017	2018	2019	2020
Sales	1	2	3	4	5
Production	2	3	4	5	6
Sourcing	3	4	5	6	7
Financing	4	5	6	7	8
R&D	5	6	7	8	9
NPD	6	7	8	9	10
Cloud	7	8	9	10	11

2

Full-scale or nothing "the battle for relevance"



3

New, disruptive sectors

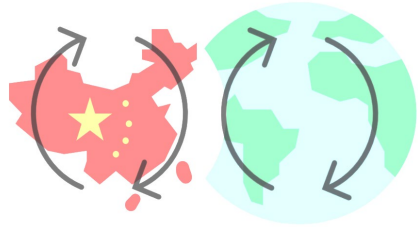
1

Politics becomes business
... and vice versa ...

Internally, China is looking for a new growth model for the next decade

What to expect from the 14th FYP?

Dual Circulation Strategy



Increased local consumption & services

Digitalization Tech upgrades



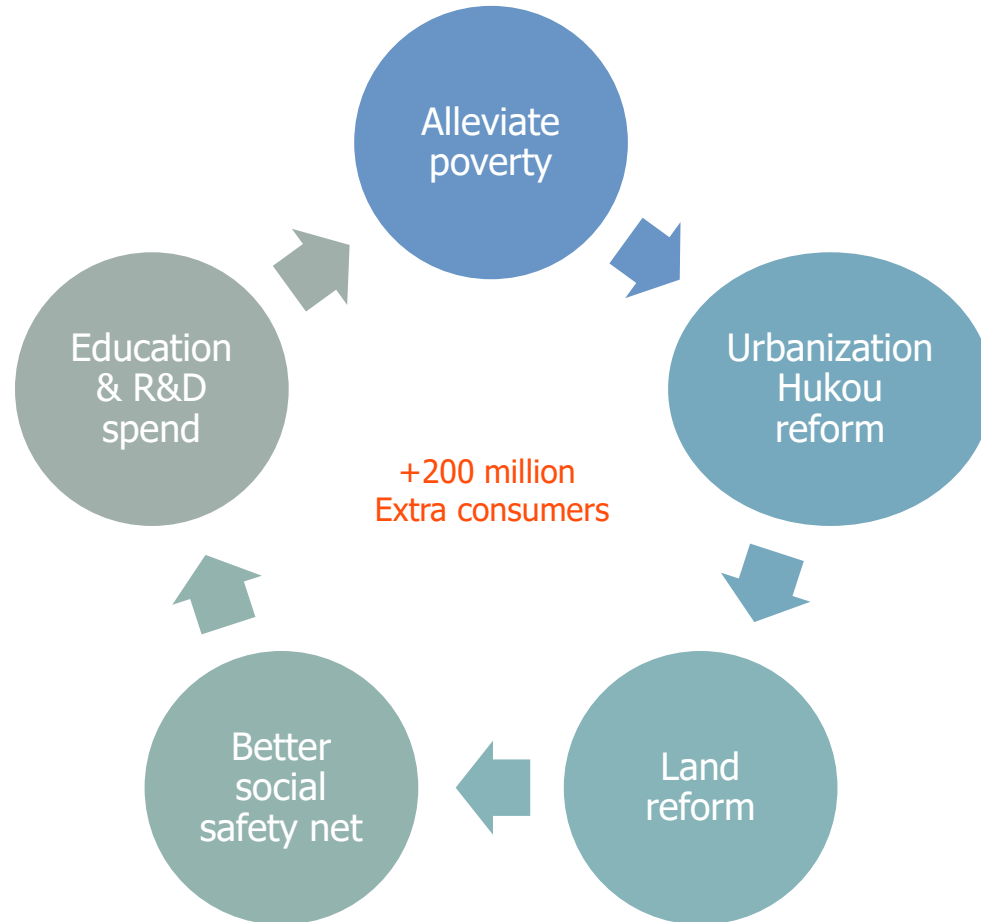
5G, AI, IOT
¥1tn
infrastructure
Self-sufficiency

Governance



Mixed ownership
More competition
... but also:
National security

A massive suite of reforms



Going green



Energy transition
Plastic ban
Circular economy

Externally, 'Business as usual' is gone forever... Decoupling is here to stay

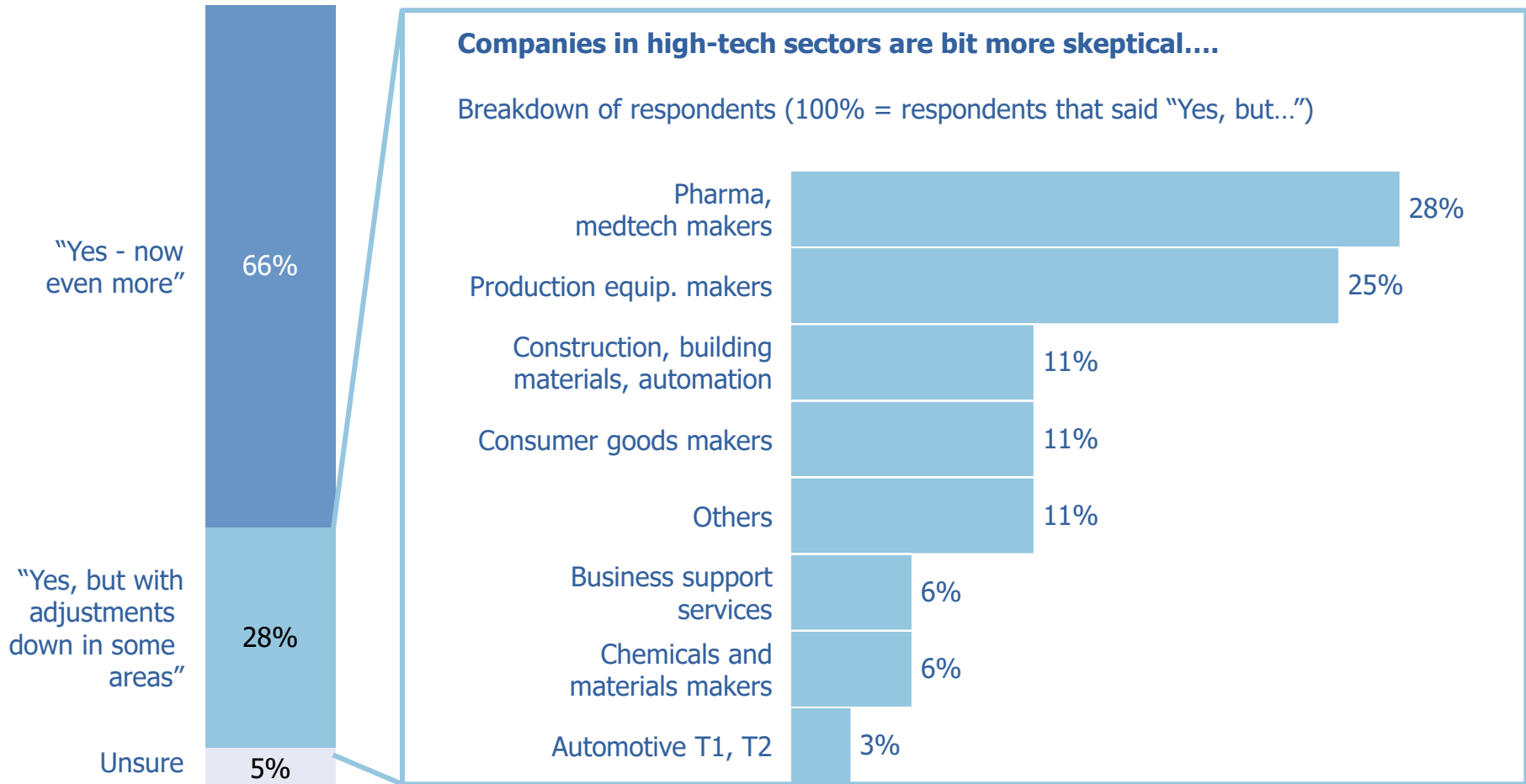
Scenarios for the future

Scenario / Probability	Characteristics	Role of Foreign Investors
 <p>"Constructive decoupling" 60% (most likely)</p>	<ul style="list-style-type: none">• Semi-friendly, gradual, pragmatic decoupling• Coop. and unilateral dev't simultaneously	<ul style="list-style-type: none">• Continued relevance• Techn. and know-how needed
 <p>Hardcore decoupling 30% (less likely)</p>	<ul style="list-style-type: none">• Constant crises and antagonistic attitudes• Trade barriers increase fast• Speed up of regionalization	<ul style="list-style-type: none">• Increased uncertainty...• ... as MNCs are political targets
 <p>Conflict 10% (unlikely)</p>	<ul style="list-style-type: none">• As above, plus military crises / armed conflicts• Trade blockade, radical disruptions of standards	<ul style="list-style-type: none">• Meltdown• Full-scale boycotts

95% of co's believe that China will continue its quest for self-sustainability as set 5 years ago in its Made-in-China 2025 goal

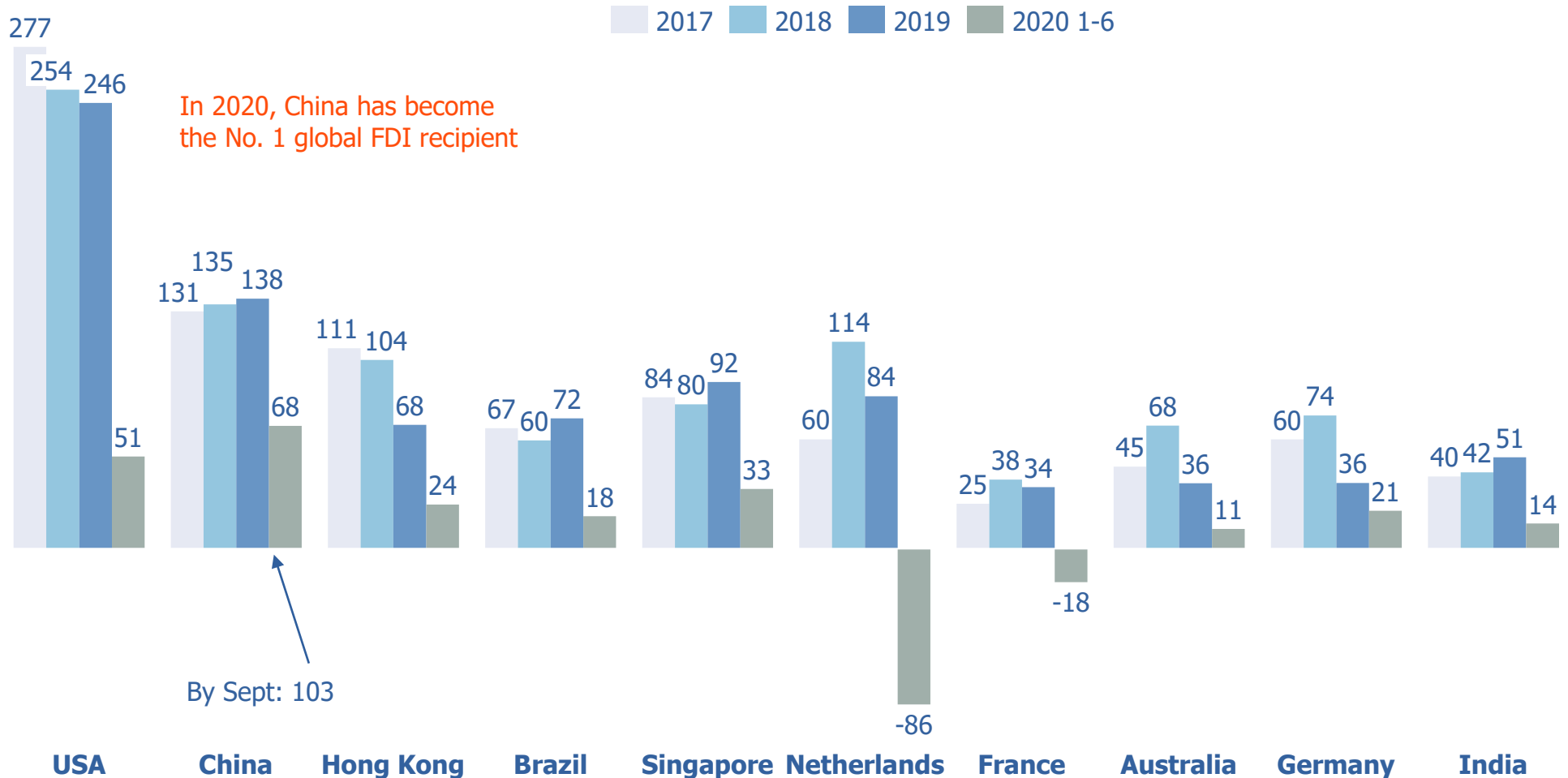


Will China stay on course with its Made-in-China 2025 program?



Role for foreign players? China won't shut its doors entirely but will be more self-reliant, yet with room for FIEs to operate

Global Top 10 FDI recipients, in USD bn

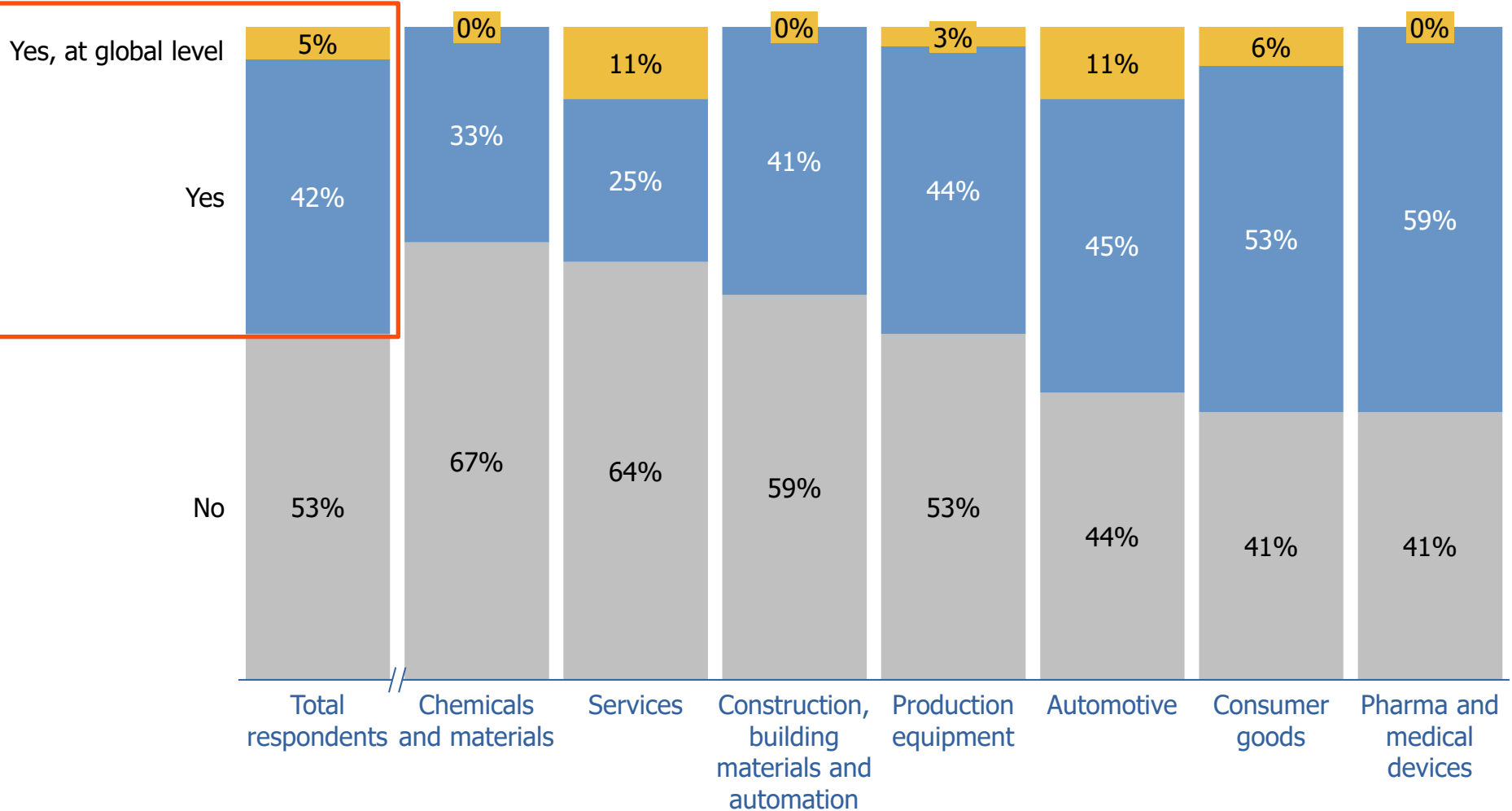


Defensive M&A? Half of surveyed co's consider partnering with local co's via M&A in the near future to protect their businesses

Do you consider partnerships with powerful Chinese companies to provide protection in China?



% of respondents by sector












US Sanctioned IP & Technology? Especially in sensitive areas (e.g. Semiconductors)

“ A Chinese vendor that is acquired by a foreign player could be considered as “local”... yet, a trend toward demanding domestic IP registration”

Customers' (5 semicon makers, Sept 2020)
acceptance of suppliers of different origins

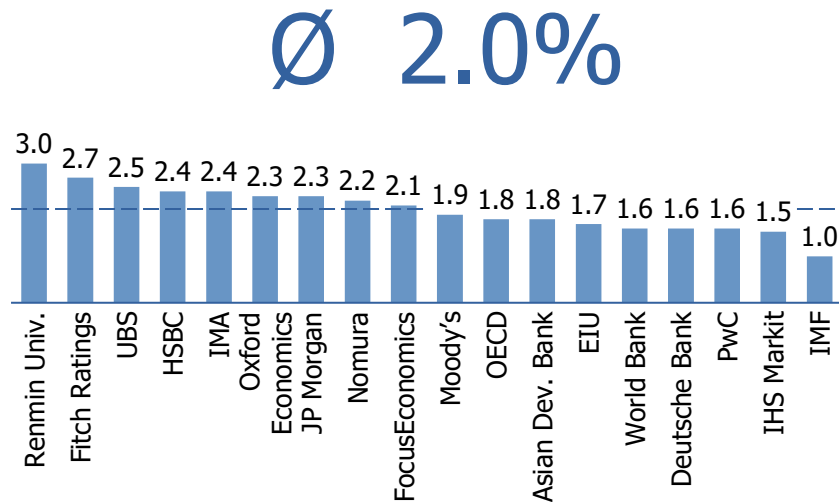
Supplier origin identity

	Co 1	Co 2	Co 3	Co 4	Co 5
 Chinese co's where a foreign co' owns minority share	●	●	●	●	●
 Chinese co's where a foreign co' owns majority share	●	●	●	●	●
 Taiwanese co's	●●	●	●	●	●●
 US co's	●	●	●	●	●
 US co's with HQ in Asia	●	●	●	●	●
 US co's listed in China or HK	●	●	●	●	●
 European co's	●	●	●	●	●
 EU co's with HQ in Asia	●	●	●	●	●
 EU co's listed in China or HK	●	●	●	●	●

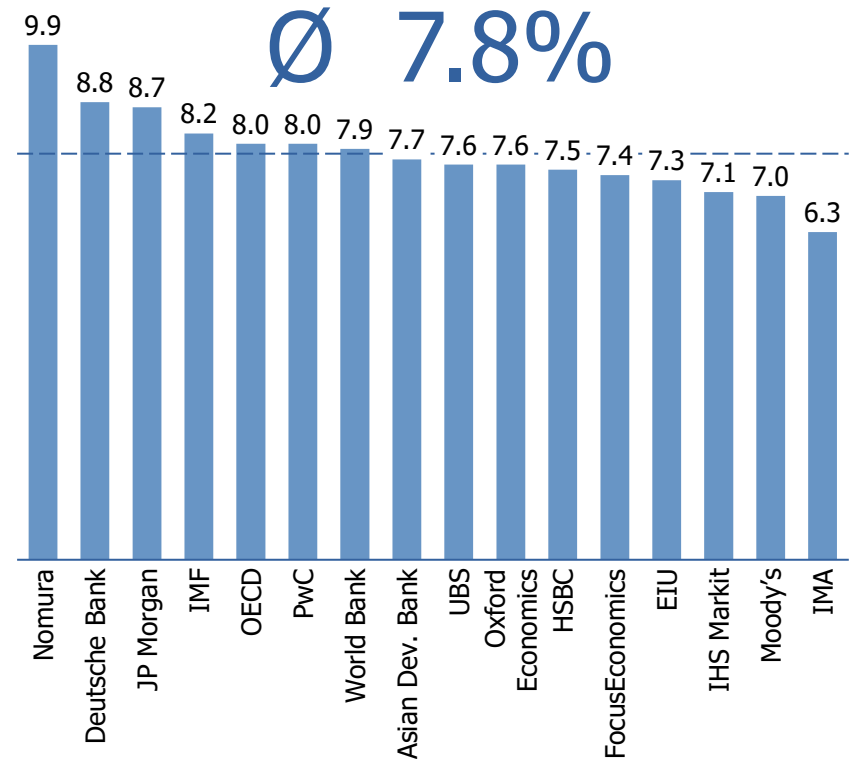
- If the brand/tech is not from China → “foreign company”.
- If the brand/tech is not from China, but vendor's majority/minority share is owned by Chinese → “Chinese company”.
- If the company's tech/management is originated in China, no matter how the ownership looks like → “Chinese company”.
- Many Chinese customers put US and EU suppliers into the same bucket.
- Taiwanese co's are seen as “foreign companies”, not as Chinese companies.

Get ready for quick growth: China is expected to emerge strongly next year

2020 China GDP growth estimate, % yoy



2021 China GDP growth forecast, % yoy

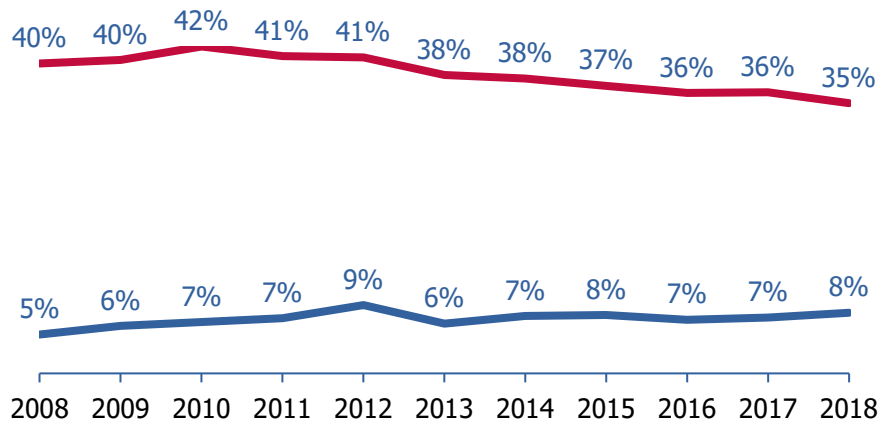


All this depends on China boosting its domestic demand in 2021 and onwards... is this achievable?

— China
— US

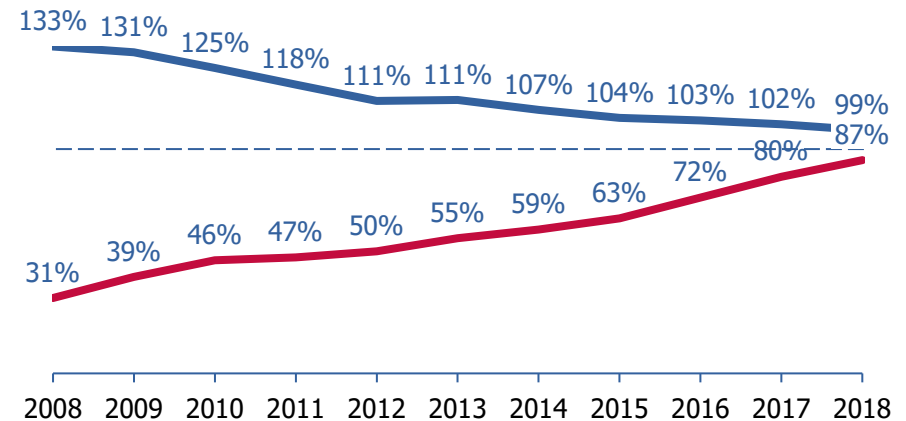
China saves less, and spends more...

Personal saving rates China vs US, as a % of disposable income



... and taking on more debt

Personal debt rates China vs US, as a % of disposable income



... AND continues to have a lot to give

China's urban households' average net worth is USD 200,000 – that's **twice as wealthy** as US households.

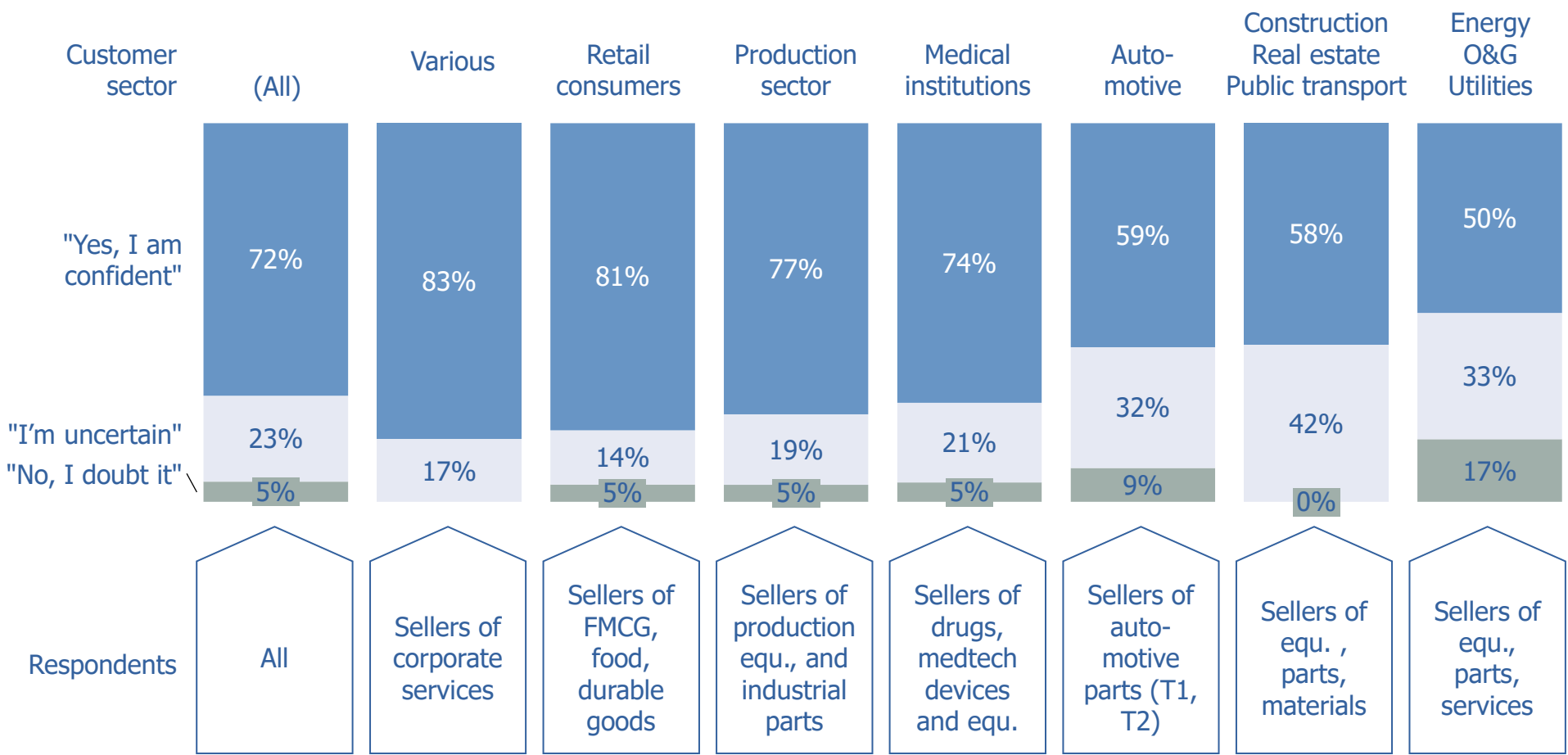
... and this represents a household universe comprising **831 m people**

HuKou Reform and Rural Land Ownership Reform could bring **+200 million** new lower middle class customers to the map.

Surveyed MNCs are confident that China will boost local consumption in 2021 – however, a new consumer profile



Will China be able to achieve a strong local consumption growth in 2021 to enable its dual circulation strategy?



China CEO Agenda 2021: Politics becomes business

1

Will my current **value chain** remain viable? **Should I decouple?**

2

What does it mean “to be Chinese”, from a geopolitical view?

3

Can I survive alone, or **do we need a Chinese partner?**

4

Am I (and HQ) ready for committing enough resources for China?

5

Communication with HQ

2

Full-scale or nothing

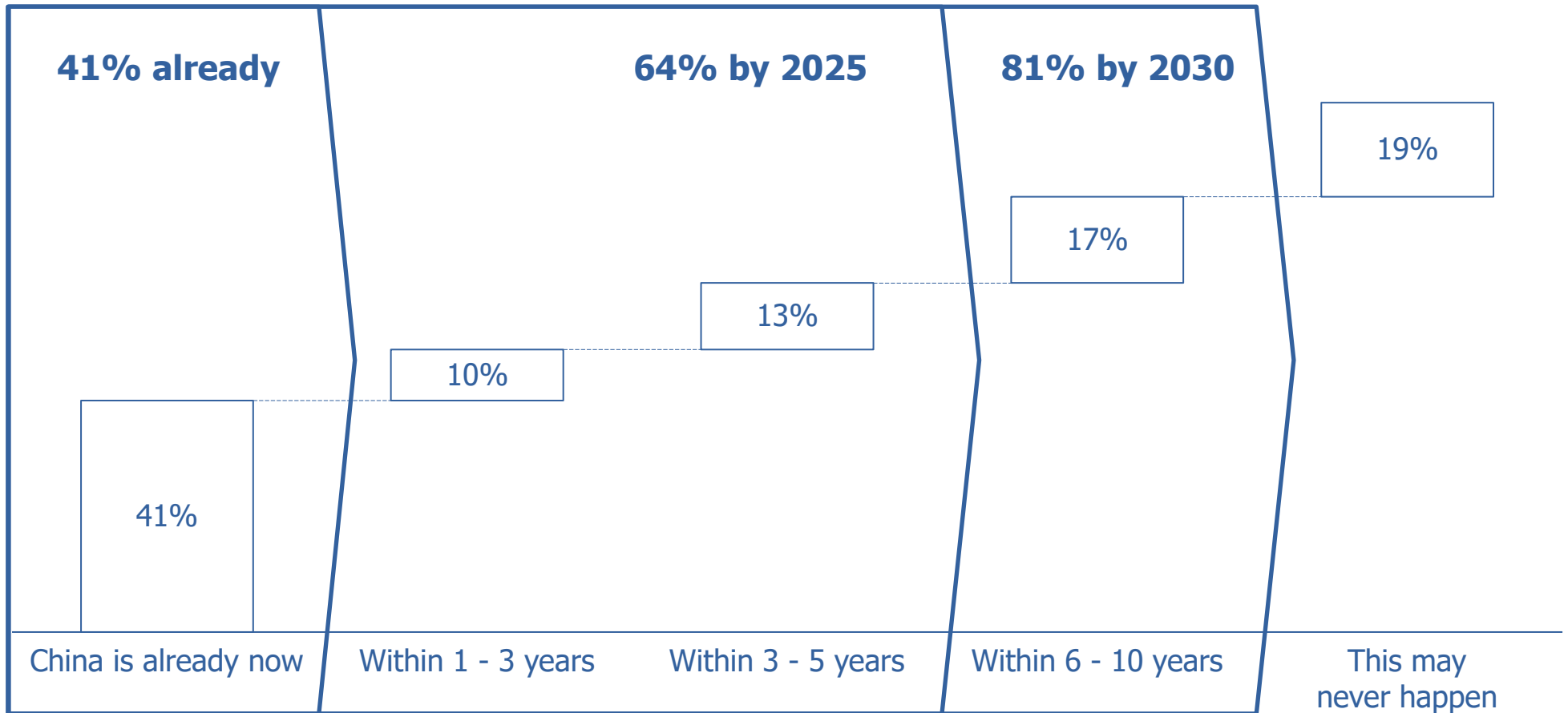
“The Battle for Relevance”

81% of MNCs say that by 2030, China is / will be the top priority



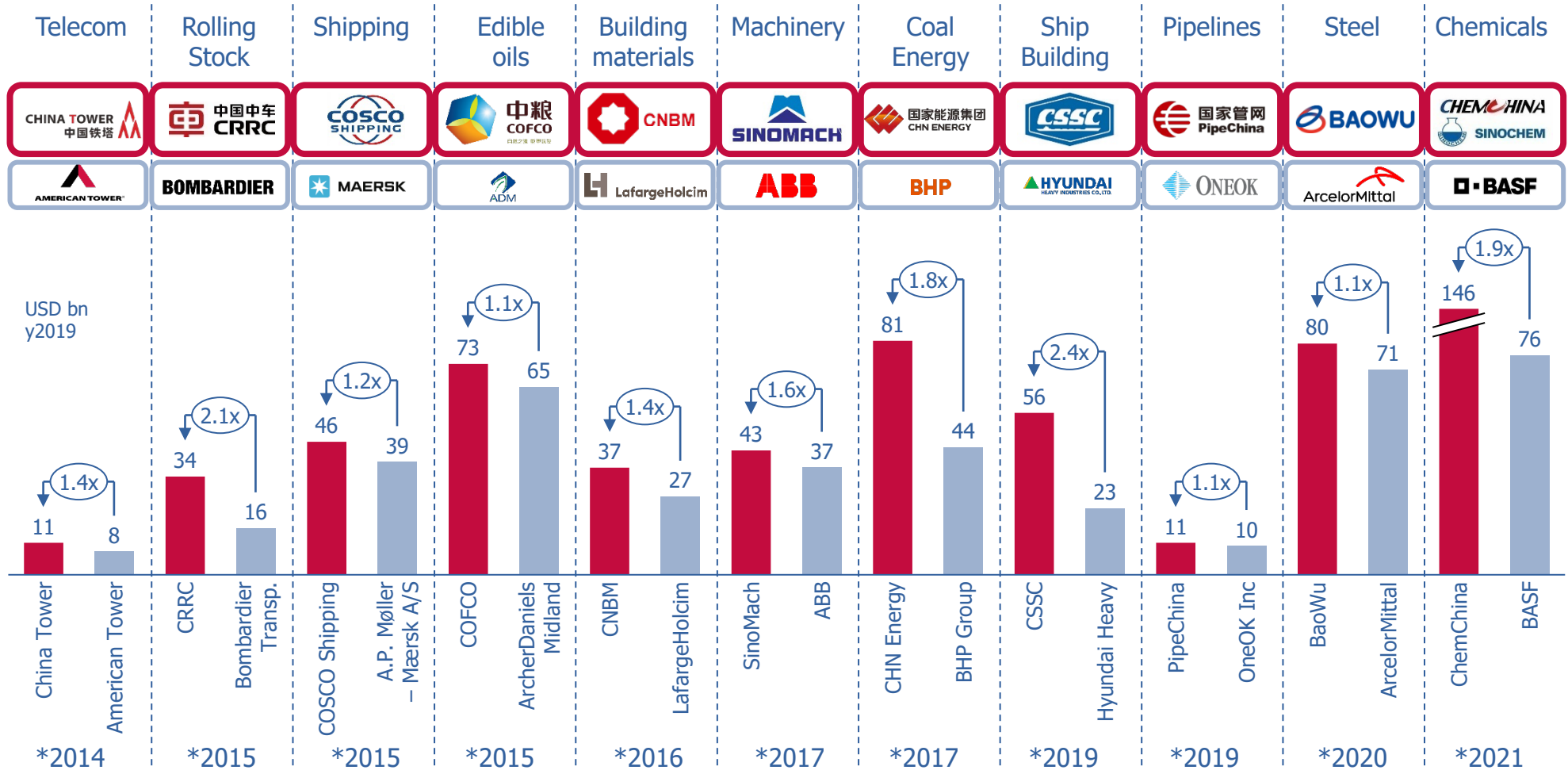
How long will it take until China is your company's global no. 1 or no. 2 market?

No. of respondents, as % of total respondents surveyed



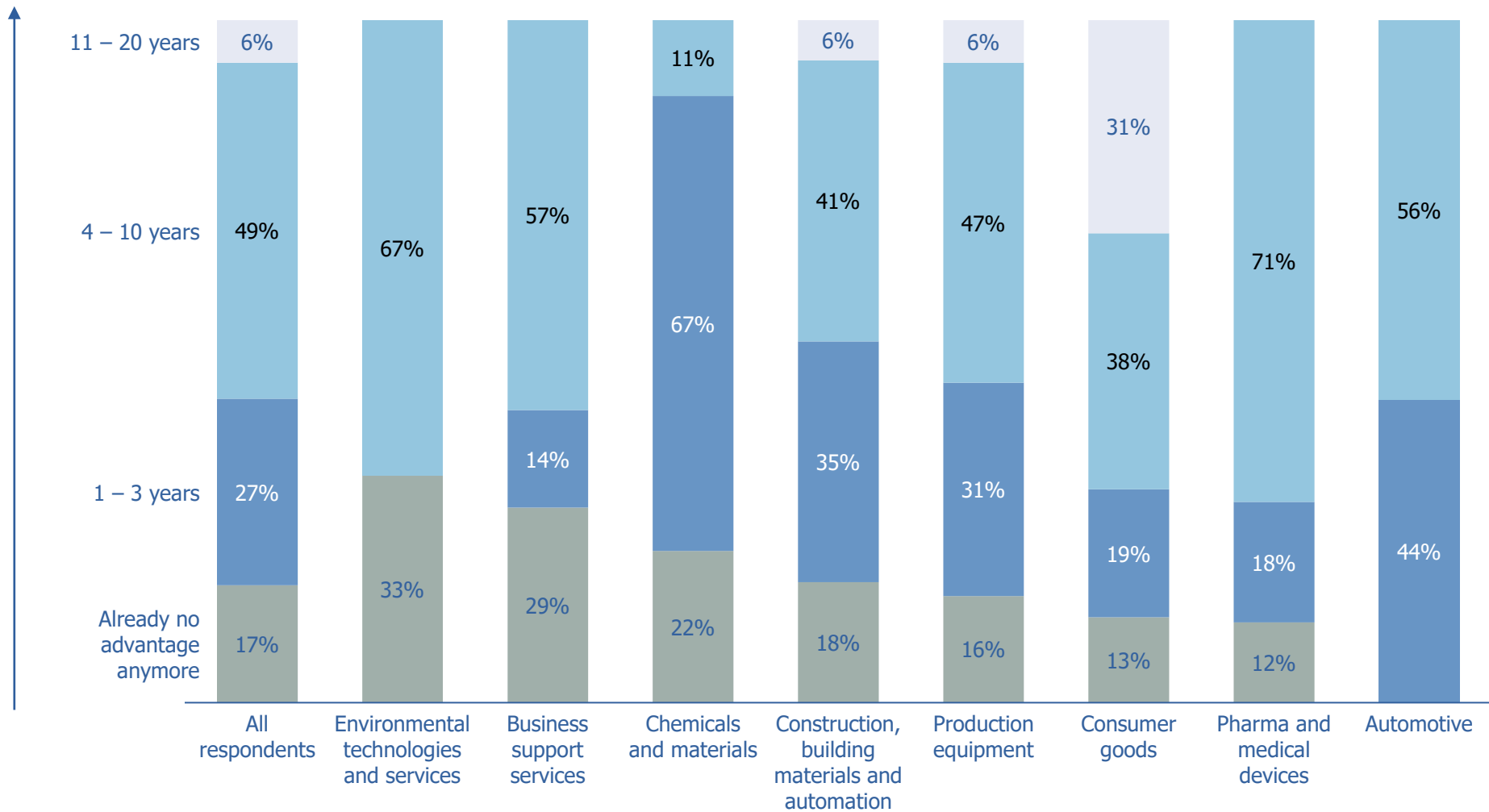
Size will be a Key Success Factor for most foreign players...
The only way to face the challenge of local "heavy-weights"

Chinese National Champions vis-à-vis their next global MNC competitors, USD bn sales 2019



94% of respondents expect to lose their advantage of being a foreign brand in the Chinese market by the end of this decade

How long will it your product's international brand equity continue to provide you with a significant advantage in the Chinese market?

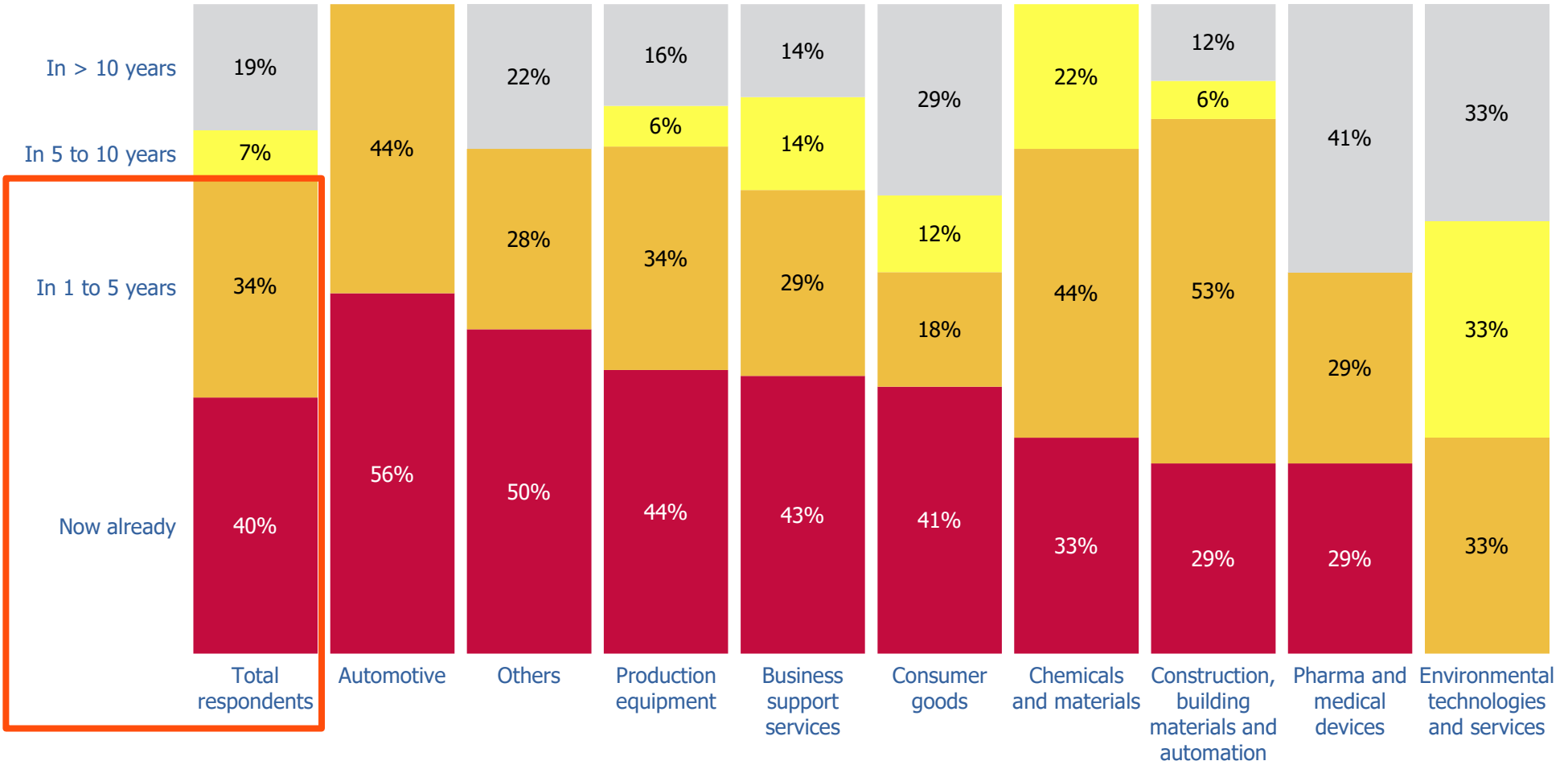


Hence, three quarters of surveyed companies strive for full-scale China operations by 2025



When will a full-scale China operation (fully localized) be necessary for your co'?

% of respondents in each respective sector.



Localization in China is achieving a new level

Survey Results by InterChina:

The localization trend has accelerated, more and companies need to adapt

Business aspect	Pre Covid-19 needs	Post Covid-19 needs	2021 needs / focus
Supply chain raw materials	+	+	/
Supply chain components	+ / -	++	Fill the gap transactions
R&D and local innovation	+	++	R&D and product development
Locally adapted manufacturing	++	++	Scale
Regional coverage (Tier 1 – Tier 4 cities)	+ / -	+	Scale
Financing	-	+	/
Corporate governance (local decision making)	-	+	JV & Alliance

Most MNCs move on M&A opportunities now.. Main Goal: Fill localization gaps; be an active player in the consolidation

Despite IPO prospects, local targets are open to join MNCs

Result of a recent target search



- Target open to divest majority of shares
- Target open to divest minority of shares
- Target interested in commercial coop.

Opportunity to acquire at reasonable prices

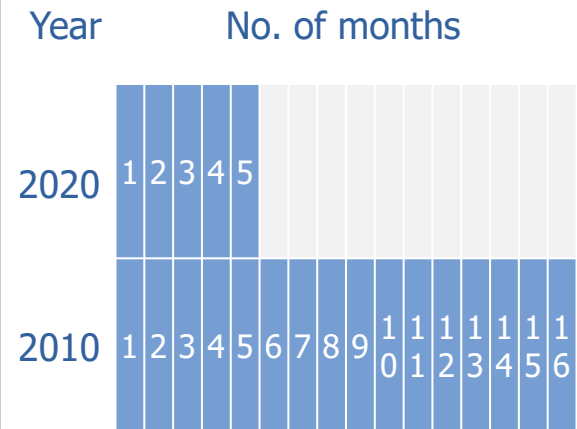
Typical transaction multiple closed by InterChina in 2020

8 – 10x EBIDTA

- Not 100% buy-out
- Original business owners stay for some time

Shorter time to deal compared to 10 years ago

Avg Negotiation timeline



Trend towards Divestments: For many 'market followers', it's now about "up or out"... and many will decide "out"

Date	MNC	China Exit
Nov 2020	Experian	Plans to exit Chinese market
Oct 2020	Auchan	Sells Sun Art Retail to Alibaba/ Taobao
Oct 2020	Fonterra	Sells dairy farms in China to Youran Dairy Group
Sept 2020	Arcelik	Sells Changzhou washing machine factory to Jiangsu Konka
Sept 2020	Renault	Sells stake in Dongfeng Renault JV
July 2020	Nestle	Contemplates sale of bottled water and porridge (Yinlu) businesses
June 2020	Superdry	Withdraws from Chinese market
May 2020	GlobalFoundries	Halted JV operations (chip manufacturing) in China
Feb 2020	Tesco	Exits JV with China Resources, affecting 131 stores
Feb 2020	Old Navy	Closing of all online and offline stores, exiting the Chinese market
Dec 2019	ALD Automotive	Sells China leasing and renting business to Nanjing Lixing
Oct 2019	Metro	Sells 90% of Metro Jinjiang Cash & Carry to Wumart Stores
May 2019	Oracle	Start of large-scale layoffs in China

China CEO Agenda 2021: Full-scale or nothing

1

How to be relevant in my playing field? **What happens if I cannot be relevant?**

2

How do I play the Consolidation Game?

3

What does it mean to be local for me? What is my balance btw localization and control?

4

Do I need a partner to grow? Which type, which partnership? For China or for Global?

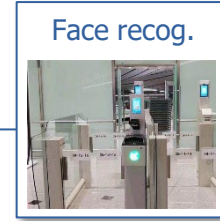
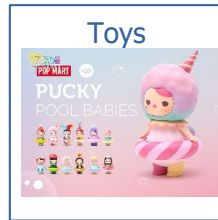
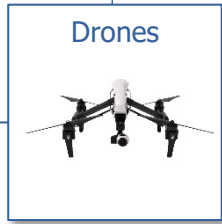
5

Is my local team ready? Do skills learned in the past 10 years apply for the next decade?

3

New, disruptive sectors

From "Sectors" to "Vectors"

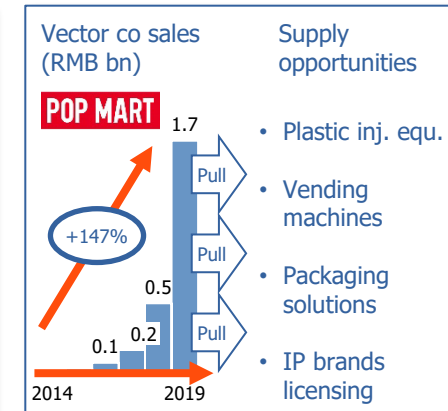
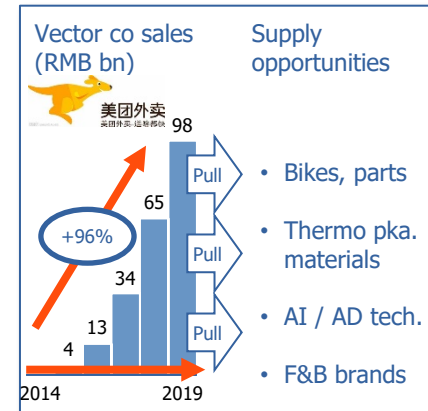
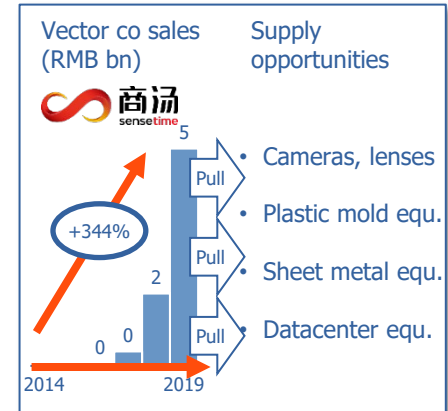
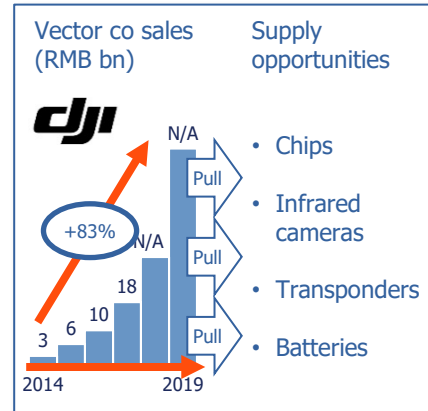


Local companies that come out of nowhere and grows very fast ...

... creating a new supplier eco-system behind it



- Pull → Raw materials
- Pull → Consumables
- Pull → Equipment
- Services
- Pull → Support systems



We're actively engaged in 12 vector areas: New ecosystems that mix market, investment, operations and.. Speed!

Consumer goods & retail

New proteins



Value Chain Disruption



Smart manufacturing

Smart factories



X as a Service



Healthcare

AI imaging




E-prescription



Semicon solutions



Sensor solutions



Smart systems

IOT / wearables



AD / drones



Batteries, fuel cells



Private space co's



Smart Mobility

Examples of local vector companies






Autonomous driving hardware and software

	Xiaopeng Motors	www.xiaopeng.com
	Shenzhen Robosense	www.robosense.cn
	Ofilm Tech	www.ofilm.com
	Navinfo	www.navinfo.com
	Beijing Autoroad Tech	www.autoroad.com

Semicon systems and equ.

	Advanced Micro-Fabrication	www.amec-inc.com
	Beijing Huafeng Test & Control	www.accotest.com
	Hangzhou Chang Chuan	www.hzcctech.com
	Shanghai Micro Electronics Equ.	www.smee.com.cn
	NAURA Technology	www.naura.com

Alternative proteins

	HongChang Bio-Tech	www.hongchangfood.cn
	Green Monday	www.greenmonday.org
	Starfield	www.starfieldcn.com
	Zhen Meat	www.zhenmeat.com
	Z - Rou	www.youkuaifood.com

Digital medtech (AI imaging, e-marketing)

	Wanlicloud	www.wlycloud.com/
	Ucloud	www.united-imaging.com/cn/product/ucloud/
	Neusoft Medicloud	www.medimagecloud.com
	Ding Xiang Yuan	www.dxy.cn
	Medlive	www.medlive.cn

Vector co's are a different kind of customer, making it often an unprecedented and difficult experience for vendors



Example: Tesla China...

... means for T1 parts and equ. suppliers:

- **No standard in China** (no copy/paste), existing relations w. Tesla US not useful
- **Quick delivery time** is key
- Sometimes buy **already-used equ.**
- Demonstrate cost savings, future upside.



Example: Automated e-commerce distribution centers of Alibaba (Cainiao) and JD.com...

... mean for advanced automation solutions vendors:

- Prefer **local solutions** over foreign
- Very cost sensitive, much **shorter payback** horizon
- Request more **flexible** solutions, low-automation degrees for most activity steps
- Easy and **immediate spare parts availability**

China CEO Agenda 2021: New, disruptive sectors

1

Are there any new emerging sectors impacting me (threat, opportunity)?

2

How to compete in such sectors? What do I need to change?

3

How do I play a new ecosystem? Acquire or partner up with an emerging tech co'? Corporate Venture Capital?

4

China for Global? Are there local players with great tech that I **could take global**?

5

What **new governance structure** do I need to drive this forward?

Conclusions

It has never been more pressing than now to go for “In China, for China”...

... and have the complete support of different internal interest groups

BU Matrix

HQ

Global Division



A question without a definite answer but that needs a reply: What does it mean to be “local” for foreign players in China?

Complete separate China block operation
(duplicated and separate supply chain, IP,
production and sales operations)?

Move HQ to Shanghai
HK or Singapore?

Acquire a local
company / brand?

Get listed in
domestic stock
markets?

Having a Chinese company as a JV partner?

Full use of local suppliers (“local content”) instead of
import components? Local product development?

In-country production operations (= local WFOE subsidiary incl. local plant)?

This will happen for sure in 2021... and will impact the world

Q1 2021

Q2 2021

Q3 2021

Q4 2021



Huawei adds HarmonyOS 2.0 on >200 m phones, replacing Google Android platform



Siemens Energy delivers first megawatt green hydrogen production solution in Beijing.



Tesla starts to export made-in-Shanghai 3s models to Europe



5G penetration 83%. 60% of 5G smart phone shipments in China cheaper than USD 400.



Beyond Meat's Zhejiang plant starts producing plant-based beef, pork, and chicken.



DeepRoute and Cao Cao Mobility launch robotaxis in Hangzhou.



Universal Theme Park opens doors in Beijing



Comac C919 enters service. C919 has 815 unit orders from 28 (mostly domestic) airlines.



Expanded Central Bank's digital currency pilot programs, starting to replace bank cards.



China continues to build out IOT satellite network ("Xingyun") from 2 to 80 satellites by 2023.



ABB opens its most advanced robotics plant (USD 150 m) in Shanghai



BASF's USD 10 bn smart Verbund first plant in Guangdong nears completion.

Audience Flash Survey: Please scan the QR code

1. Is decoupling your value chain in China a real option for you?

- Yes, totally
- Yes, partially
- No, does not apply

2. Are you planning to participate in the consolidation in your sector?

- Yes, is very important
- Yes, opportunistic
- No, not relevant

3. Describe your expectations for 2021 in one word:

- Challenging
- Unpredictable
- Fun
- Fantastic
- Nerve-wrecking
- Tough
- Exciting

QR CODE

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