



# China Investment Environment and M&A Trends 2022

Survey June 2022

Prepared by: InterChina

Date: July 10<sup>th</sup>, 2022

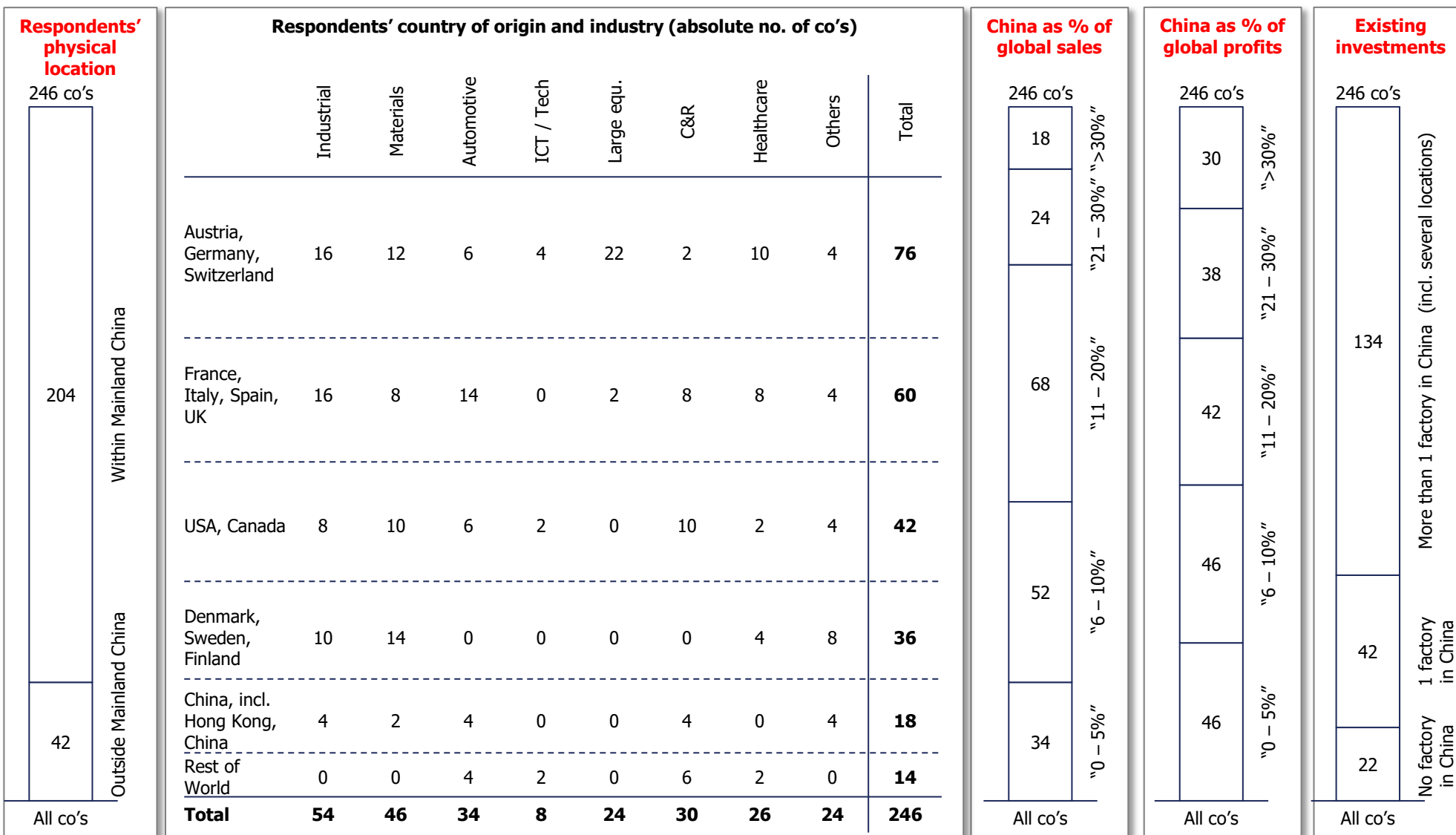
28 YEARS  
ANNIVERSARY

InterChina



英特华

# Our annual survey (June 13<sup>th</sup> 2022) focuses on CEO level respondents across industries and nationalities. We collected the response of 246 companies with relevant sales and profit generation from China.



Industrial: Industrial parts, assemblies, light equipment. Materials: Chemicals, metals, composites, textiles). Automotive: Vehicle makers, components. Large equ.: Large equipment (power generation, machine tools, automation). C&R: Consumer goods (food & beverage, durables, retail). Healthcare: Pharma, medical devices, diagnostics Others: Environmental technologies and services, private equity, business services incl. testing, logistics, financial.

The media claim that investment confidence of MNC's in China is drastically dropping... but our survey provides a more nuanced picture



Finance & economics | Mood swings

## Foreign investors are fleeing China

Xi Jinping's policies are having a profound impact on markets—and a painful one

Economy / China Economy



South China  
Morning Post

## As more of China's foreign firms, investors mull exodus amid zero-Covid controls, what can Beijing do?



April 30, 2022 3:21 AM  
Ralph Jennings

## Foreign Businesses Consider Leaving China Amid Lockdowns



European Chamber  
欧洲商会

"23% of European businesses consider shifting current or planned investment in China to other markets"

EUCCC Flash-Survey  
April 2022

European Chamber  
Flash Survey

COVID-19 AND  
THE WAR IN UKRAINE:  
THE IMPACT ON EUROPEAN  
BUSINESS IN CHINA

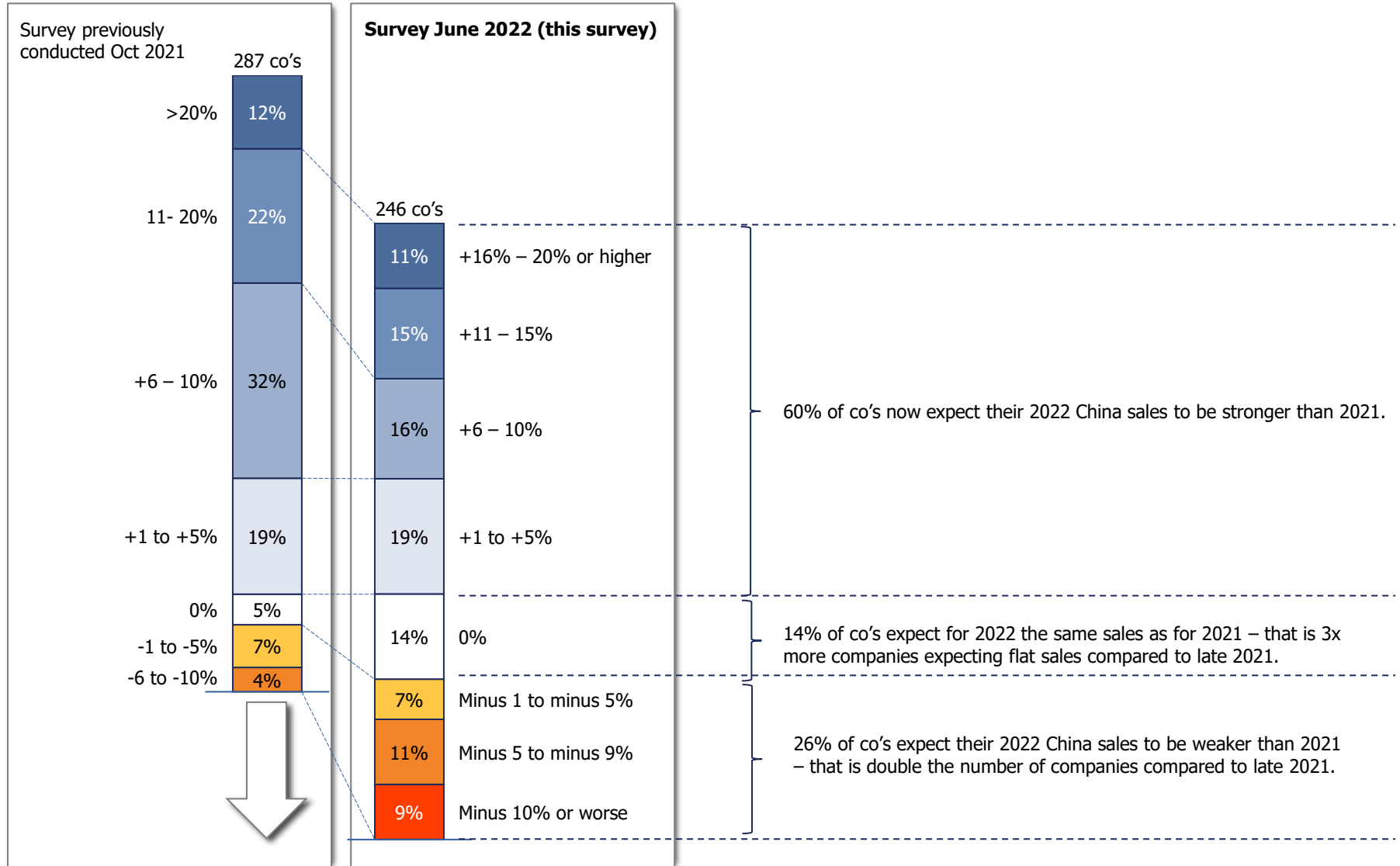


- **Most companies (60%) foresee a 'constructive decoupling scenario'** where China and the US (and RoW) engage economically amidst increasing political tension. 11% plan for a "Hard Decoupling" and only 1% consider a Conflict Scenario. 29% find it difficult to interpret the future scenario for China.
- The **main concern** for MNC's are short term uncertainties about **China's economy** (in connection to Covid restrictions) rather than geopolitics. 60% of companies still expect growth compared to 2021, however, the Shanghai lockdown has lowered growth expectations for 2022.
- **Board commitment remains very high** for 80% of companies, with 6% 'not very committed' and the rest (14%) uncertain. The communication challenge between China and HQ emerges as a key issue. 41% of companies are taking measures to improve this.
- In terms of **Investment Commitment**:
  - **Over 80% of respondents maintain their investment strategy**, but for many there is a reorientation to risk-sharing (M&A, partnerships) and/or more localization (R&D, additional production sites in China)
  - Around **13 % have postponed investments** to 2H 2022 or later; this often implies reassessing or refocusing investments (see above)
  - **4 % have taken drastic decisions such as investment cancelations or diversifying/moving** production outside China.

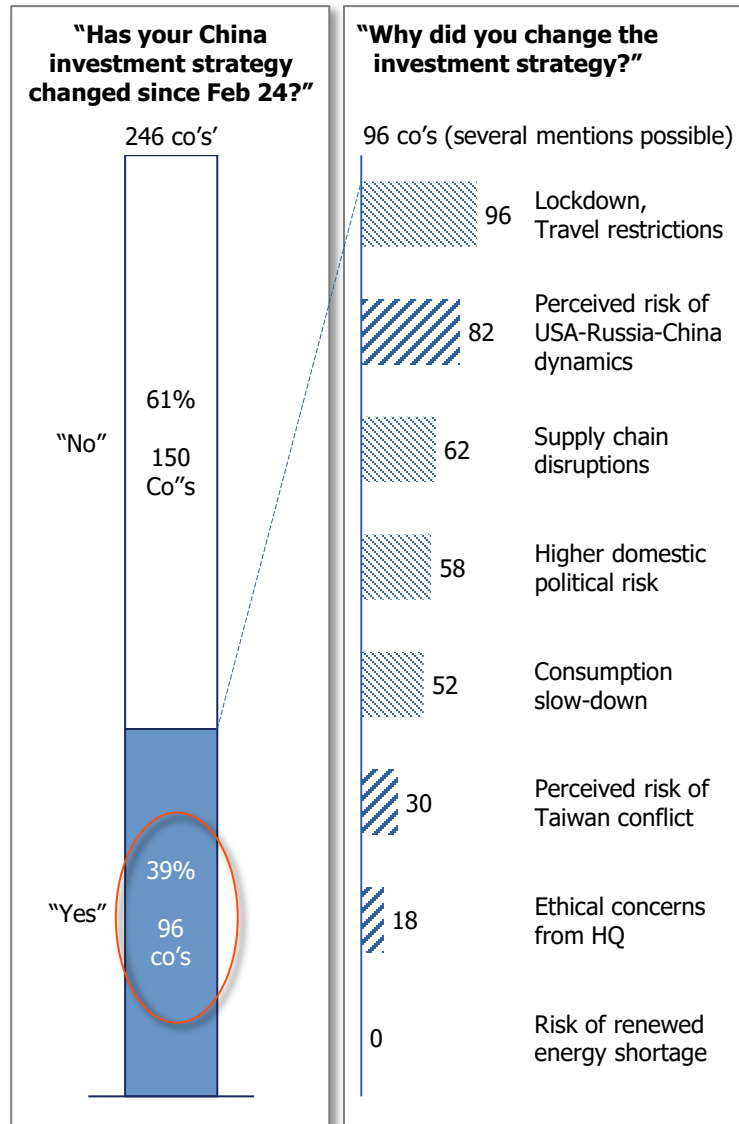
- **An Emerging Trend of De-risking Global from China:** 39% of companies are changing their China investment strategy to cope with the new reality – the majority by refocusing investment towards a more diversified production footprint across China, accelerated local R&D activities, and partnerships.
- **Inorganic growth now a key strategy:** 75% of companies are pushing M&A or partnerships. 39% are conducting multiple acquisitions in parallel. Market share (scale), market access and a developing a more local offering (local presence, product and service) are the major objectives
- **Flexible Deal Structures adapted to the new environment:** 51% of MNC are open to a partial buy out (two stage or even minority), while 49% remain focused on 100%. 29% are open to consider minority deals through “ecosystem partners”.
- **Consolidation of Partnerships and Joint Ventures: Increasing** openness to partnerships across most industries. Most companies are open to JVs (while keeping control). Minority JV is becoming an emerging trend in some industries (Healthcare, Tech, Auto).
- **Valuations have gone down in 2022:** No obvious impact by Covid lock down in valuations. However, a general trend of lower multiples. Most valuation are in the plateau of 8-12xEBITDA (40%), compared with last year’s where most transactions were in the >12xEBITDA range.
- **M&A Barriers:** Valuation expectations and Availability of good targets are still top barriers. Compared with 2021, valuations have easing somewhat while internal M&A structures (travel restrictions, HQ support) are now much more challenged.
- **Portfolio Divestments,** continue to be a common factor among MNCs. 38% of respondents are considering divesting one or more assets/businesses in China, in most cases (50%) to refocus their business portfolio and improve competitiveness.

# The Q2 lockdowns have lowered sales expectations for 2022... .... But 60% still expect higher sales than in 2021

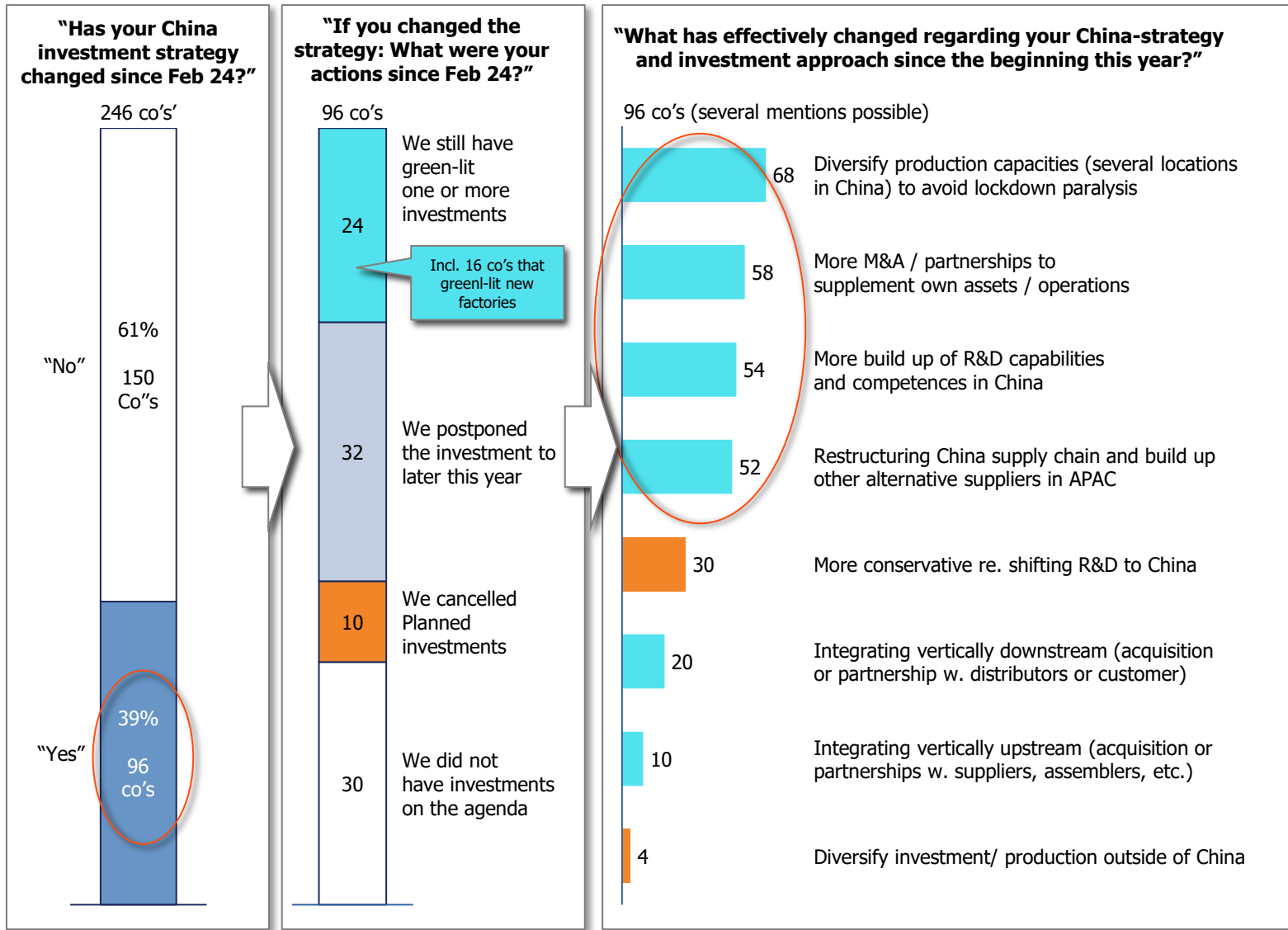
**What is your 2022 sales growth expectation?**



In 1H 2022 nearly 40 % changed their China investment strategy. Both lockdown impact and geopolitics were the main drivers for the changes.

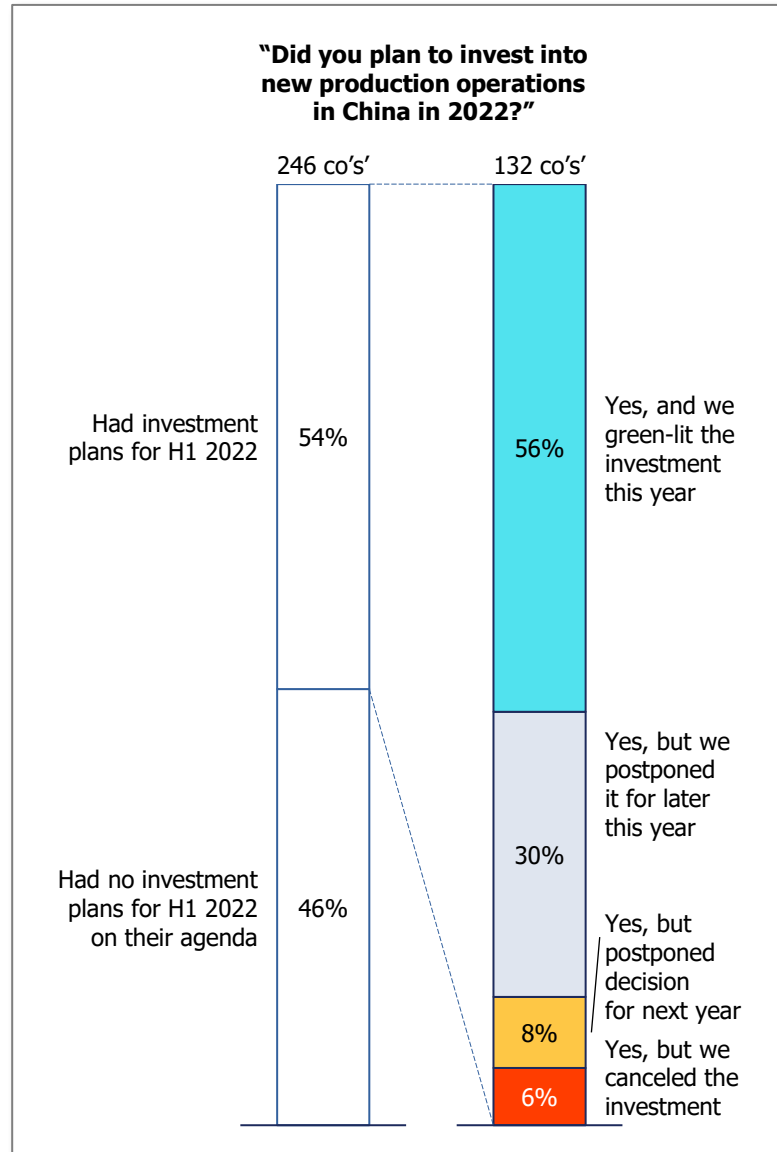


For most the new strategy aims to add production locations, more M&A and partnerships, more local R&D. Only 4 (<2%) plan to diversify production outside China.

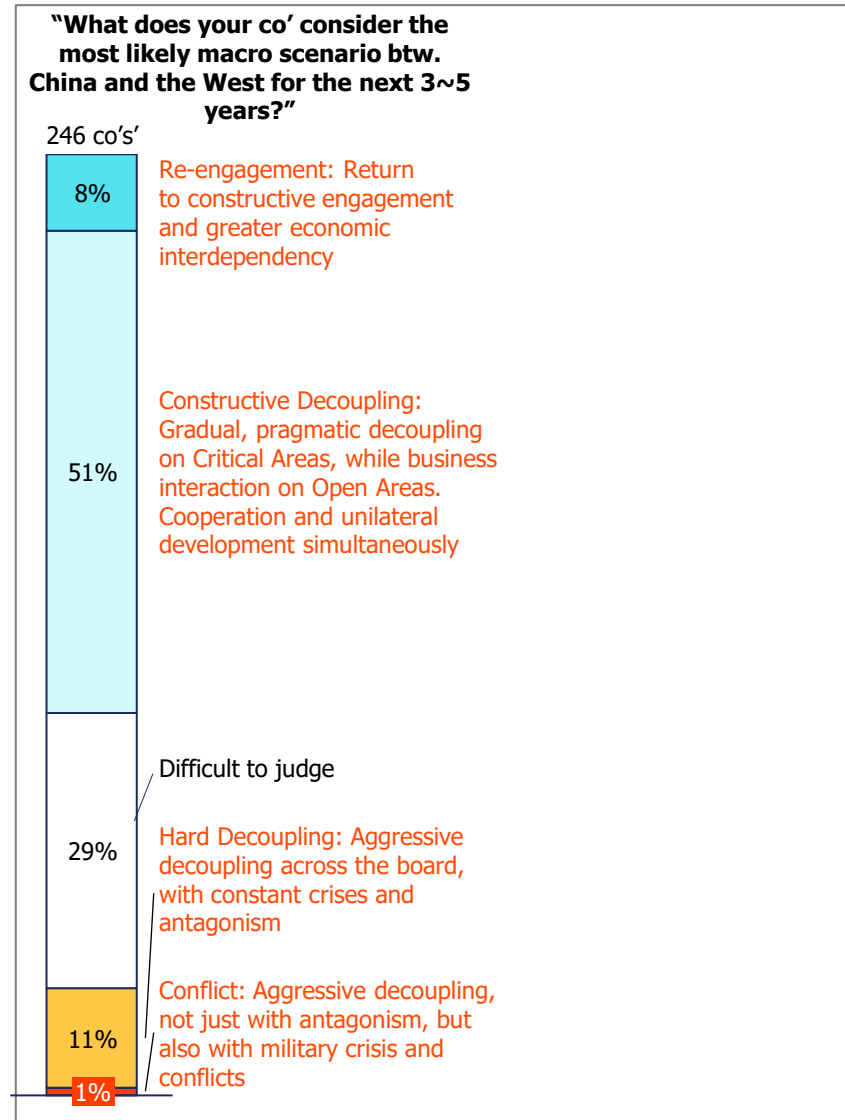




In terms of CAPEX, 56% of companies that had plans to invest in H1 2022 went ahead. 38% postponed. 6% canceled.

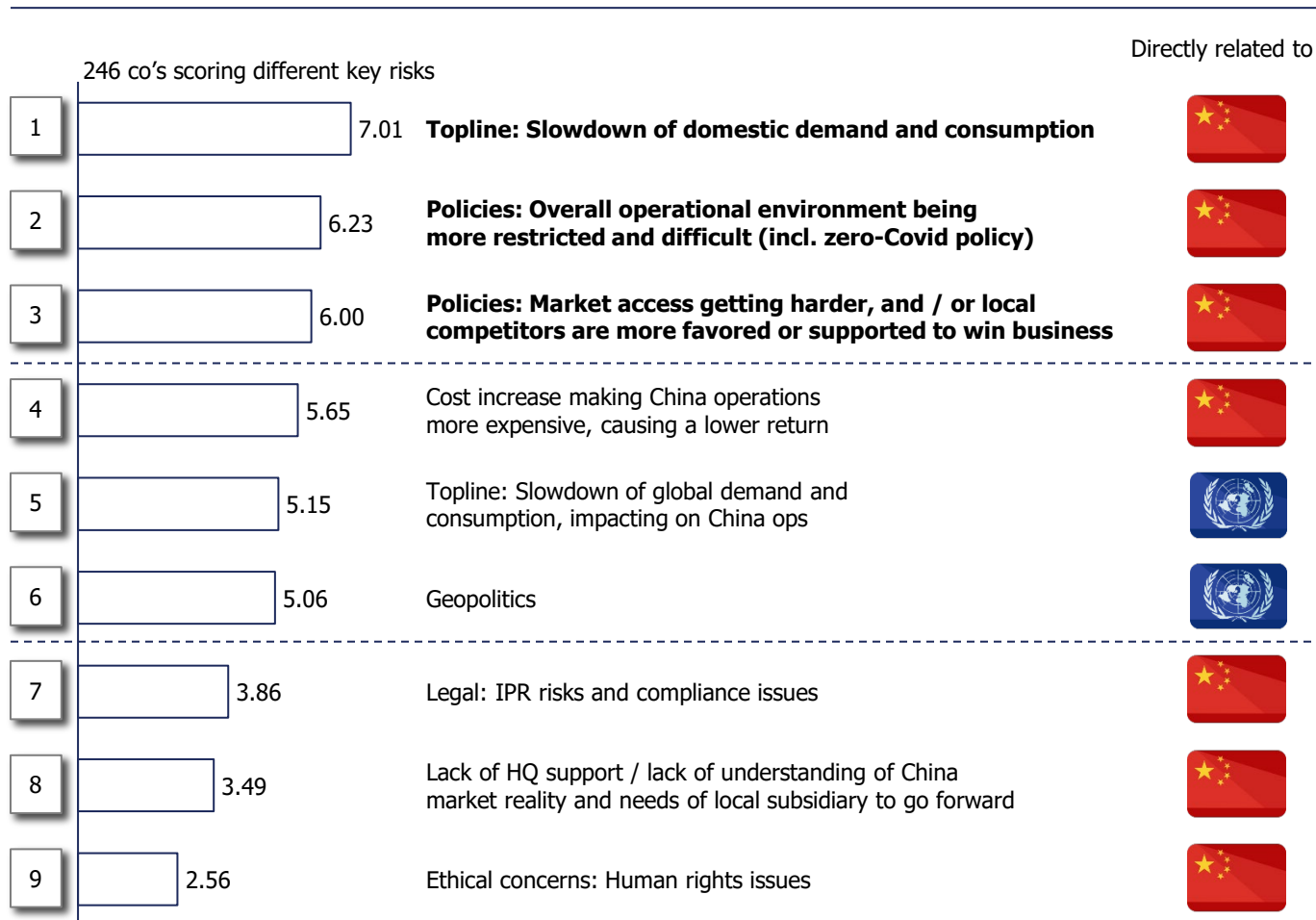


Global Exco/ Board Scenario Planning. 60% plan for “Constructive Decoupling” or “Re-engagement”. 11% plan for “Hard Decoupling”. Only 1% consider a Conflict scenario.

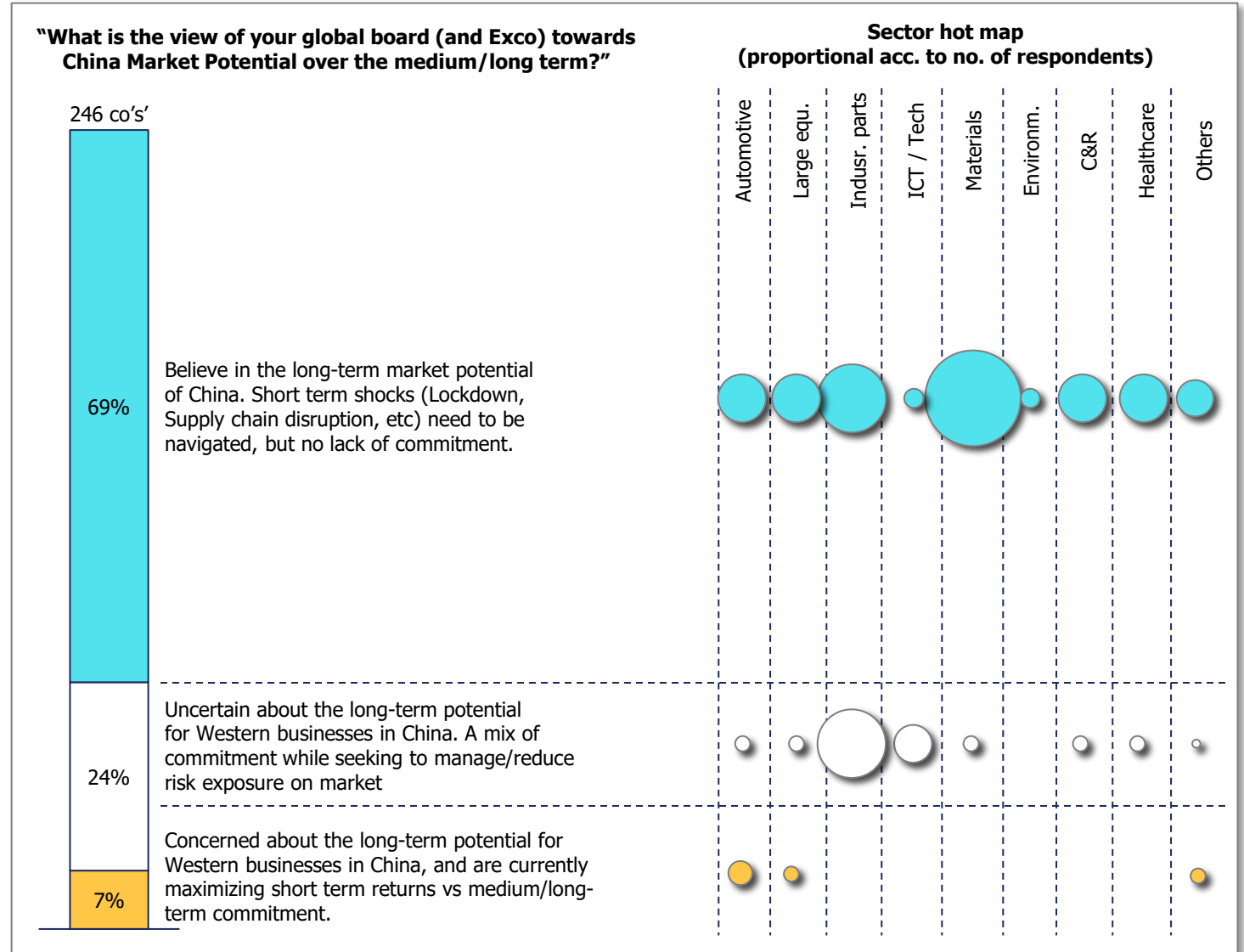
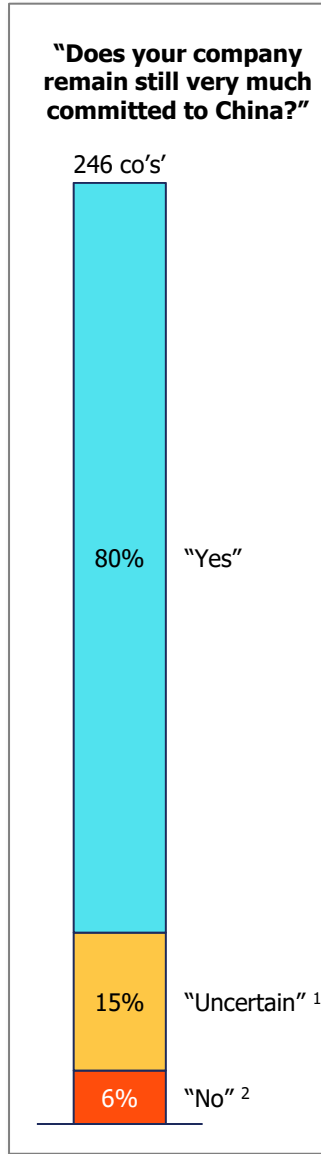


# Sales and the Chinese economy (and policy) are the top concerns, rather than geopolitics.

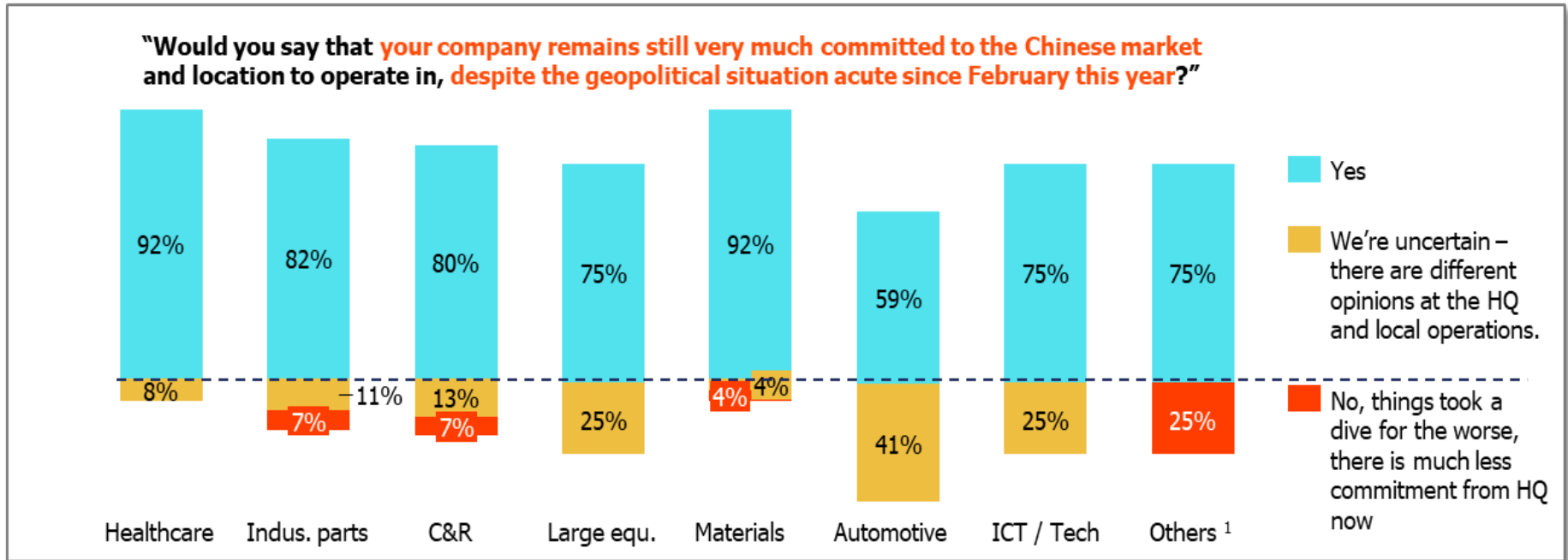
**"As of right now, what is your No. 1 concern that worries your company the most re. China / China investment strategy?"**



The vast majority (80%) remains strongly committed to China. 69% of HQ believe in long term potential. 24% are uncertain and 7% are concerned.



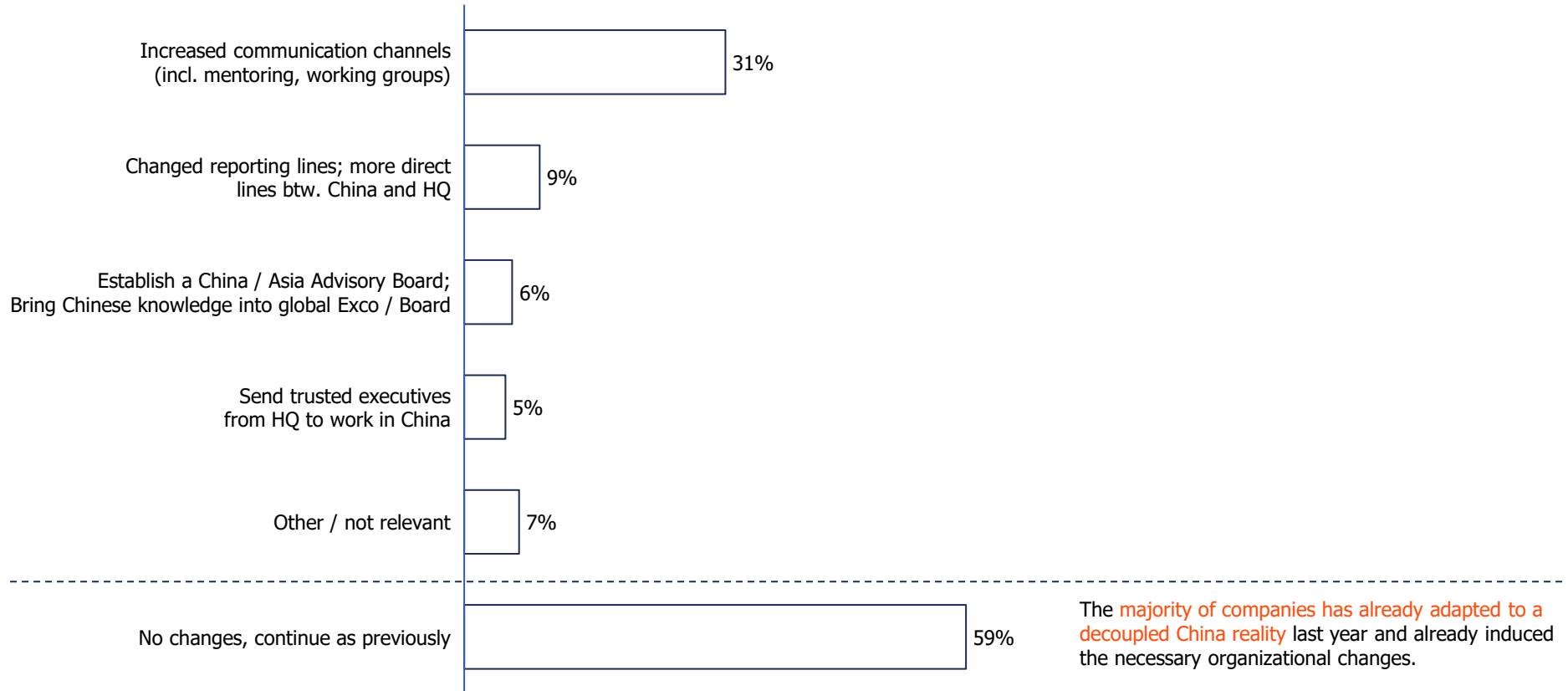
# Commitment to the Chinese market across industries.



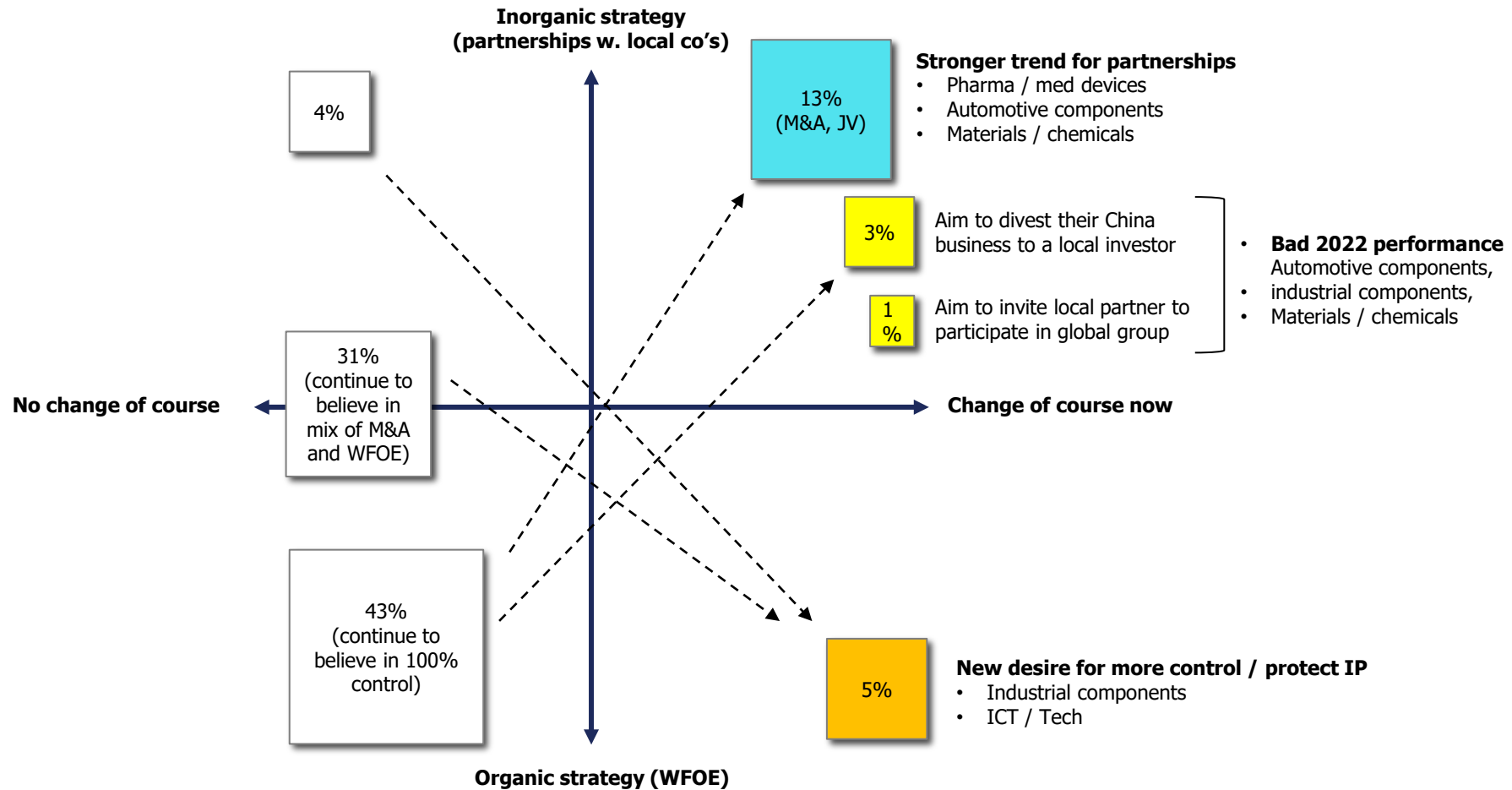
<sup>1</sup> Others: Environmental technologies and services, private equity, business services incl. testing, logistics, financial.

# "We have to talk". Stronger communication channels are essential to increase trust between HQ and China entity.

**"How is your company maintain and building communication between HQ and China leadership?"** (multiple responses possible)

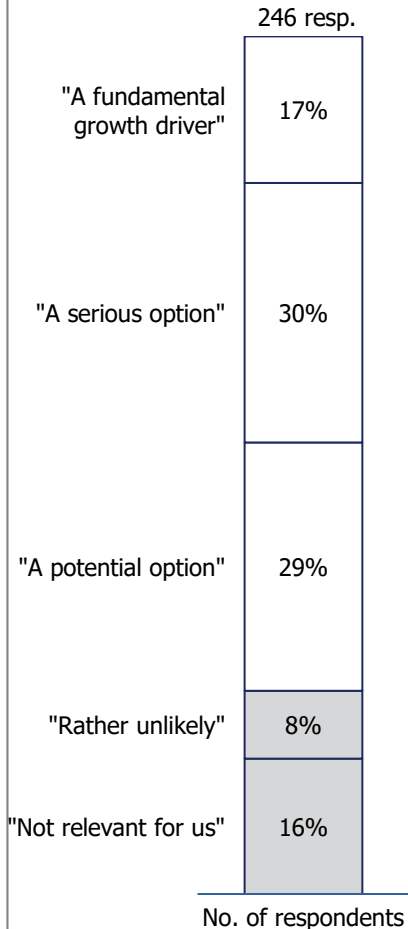


**"Impact of recent events on inorganic growth strategy: Did your China growth strategy change this year?"**  
in % of total co's (100% = 246 companies)

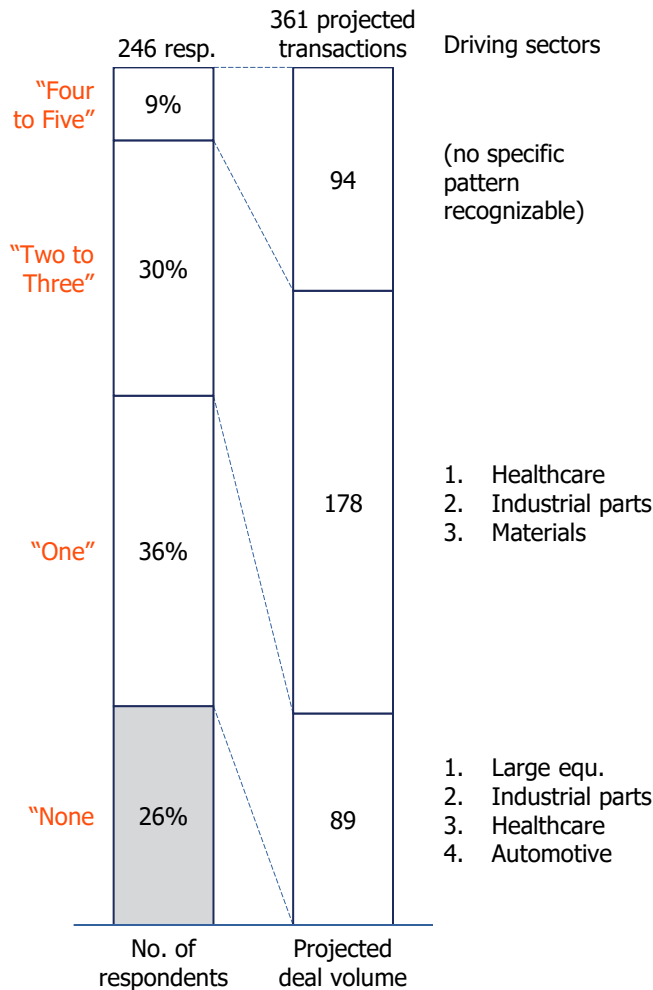


75% of co's have M&A ambitions (single or multiple deals). 47% consider inorganic as a growth driver. Scale, Access and Localization are the main objectives.

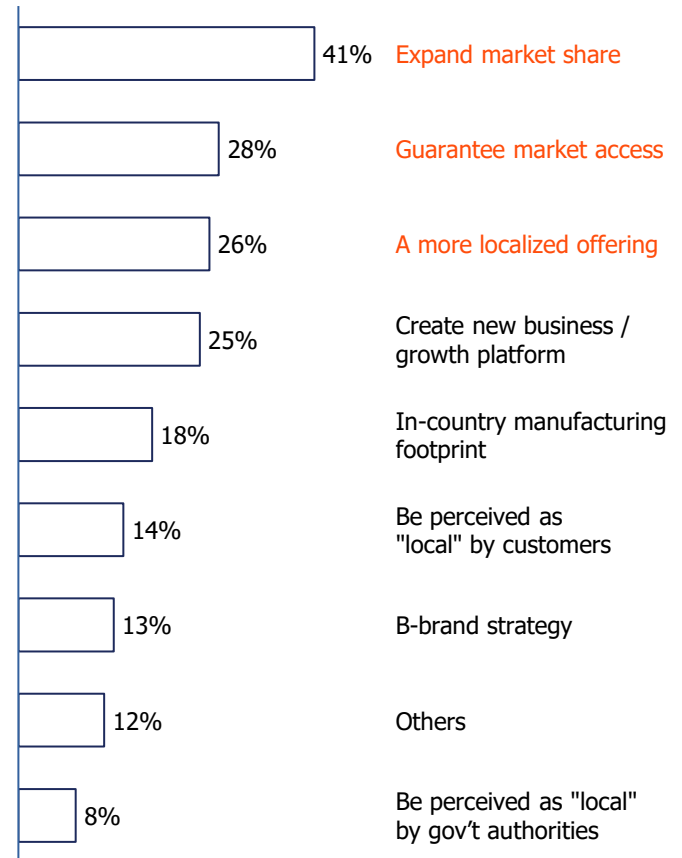
**"How important will inorganic growth be for your company in the coming years?"**



**"How many M&A transactions (acquisitions, JVs, divestments etc.) do you foresee to close in the next 2~3 years?"**



**What are your main strategic motives for M&A/ JVs in China?"**  
(multiple responses possible)

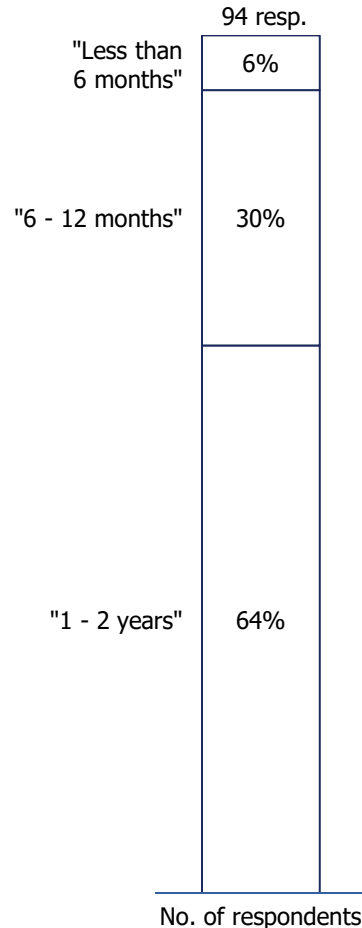




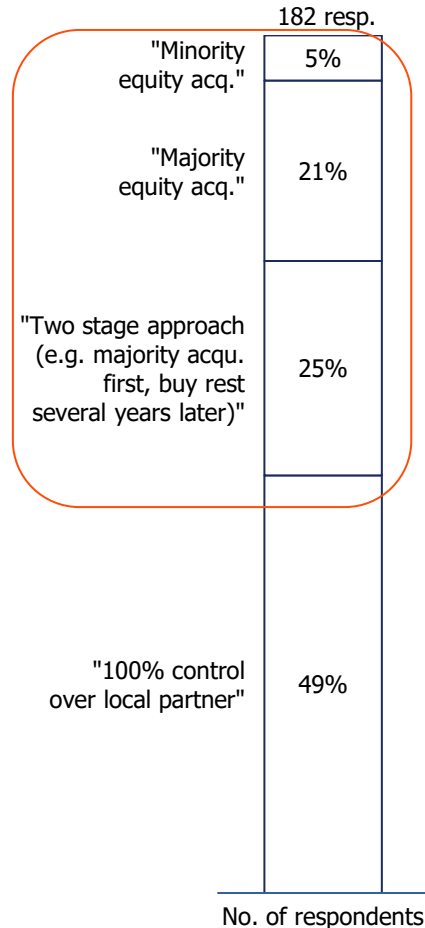
## Deal Structure

51% of MNC are open to a partial buy out (two stage or even minority), while 49% require 100% ownership. 29% are open to consider minority deals with "ecosystem partners".

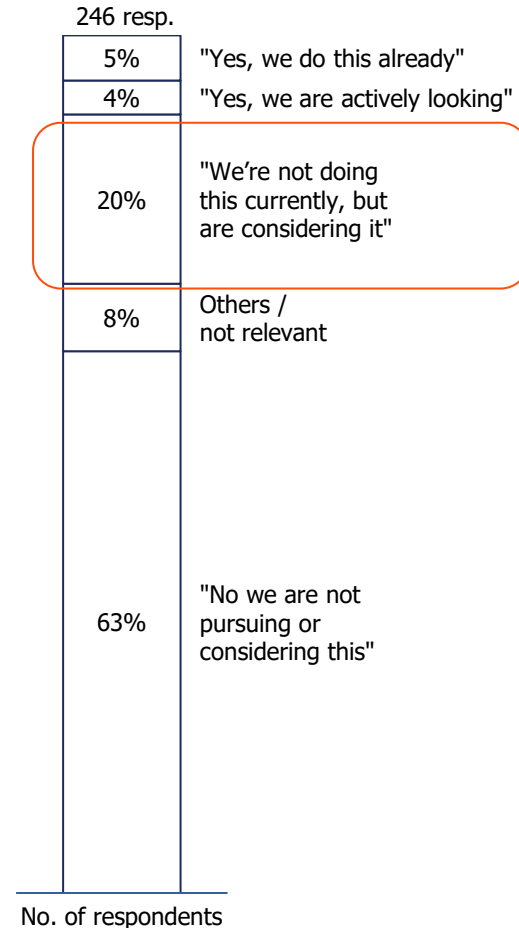
**"How long is your typical deal cycle from the first negotiation round to a definite agreement?"**



**"What is your preferred deal structure approach for realizing M&A / JV?"**

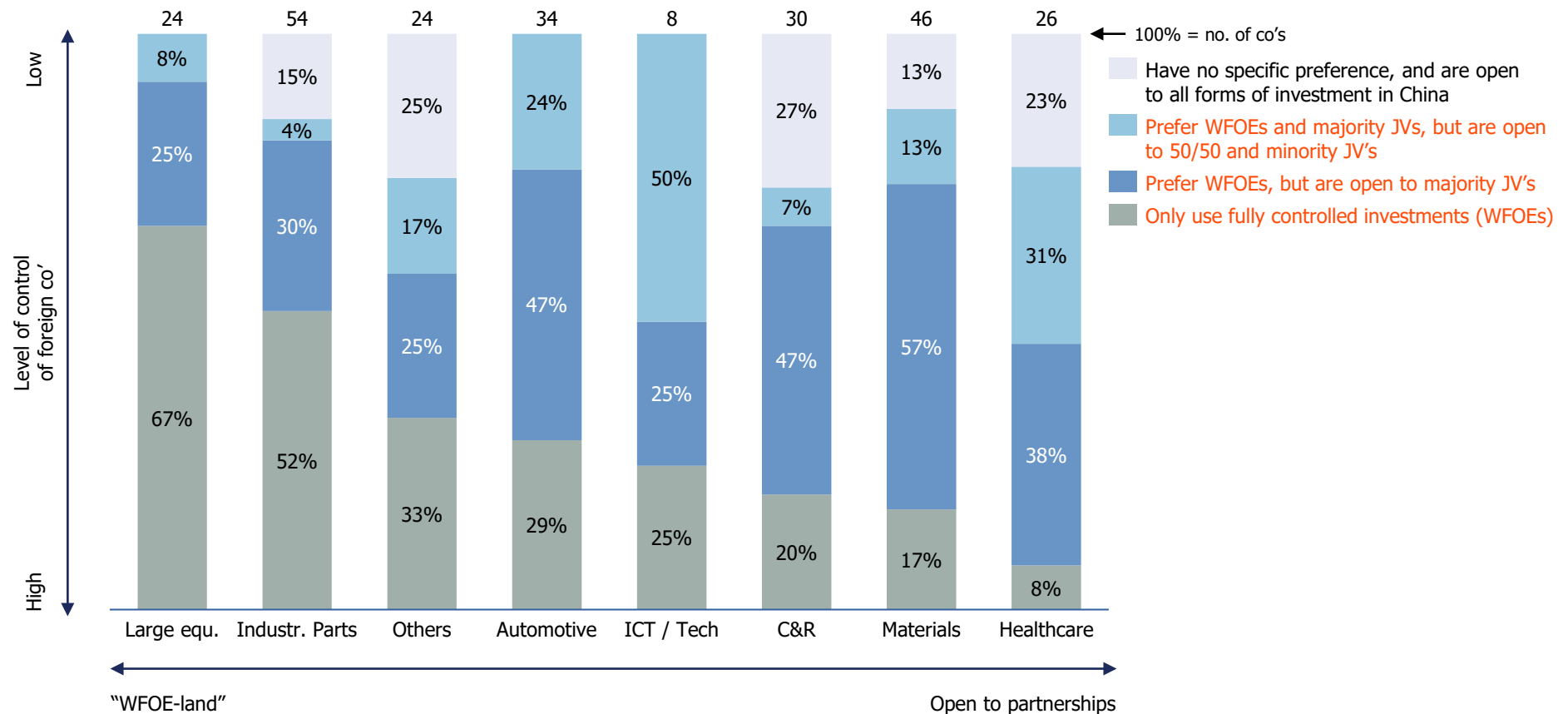


**"Given the rapid evolution of new technologies and ecosystems in China, some international co's are pursuing minority / venture capital investments in Chinese companies. Is your company doing this?"**

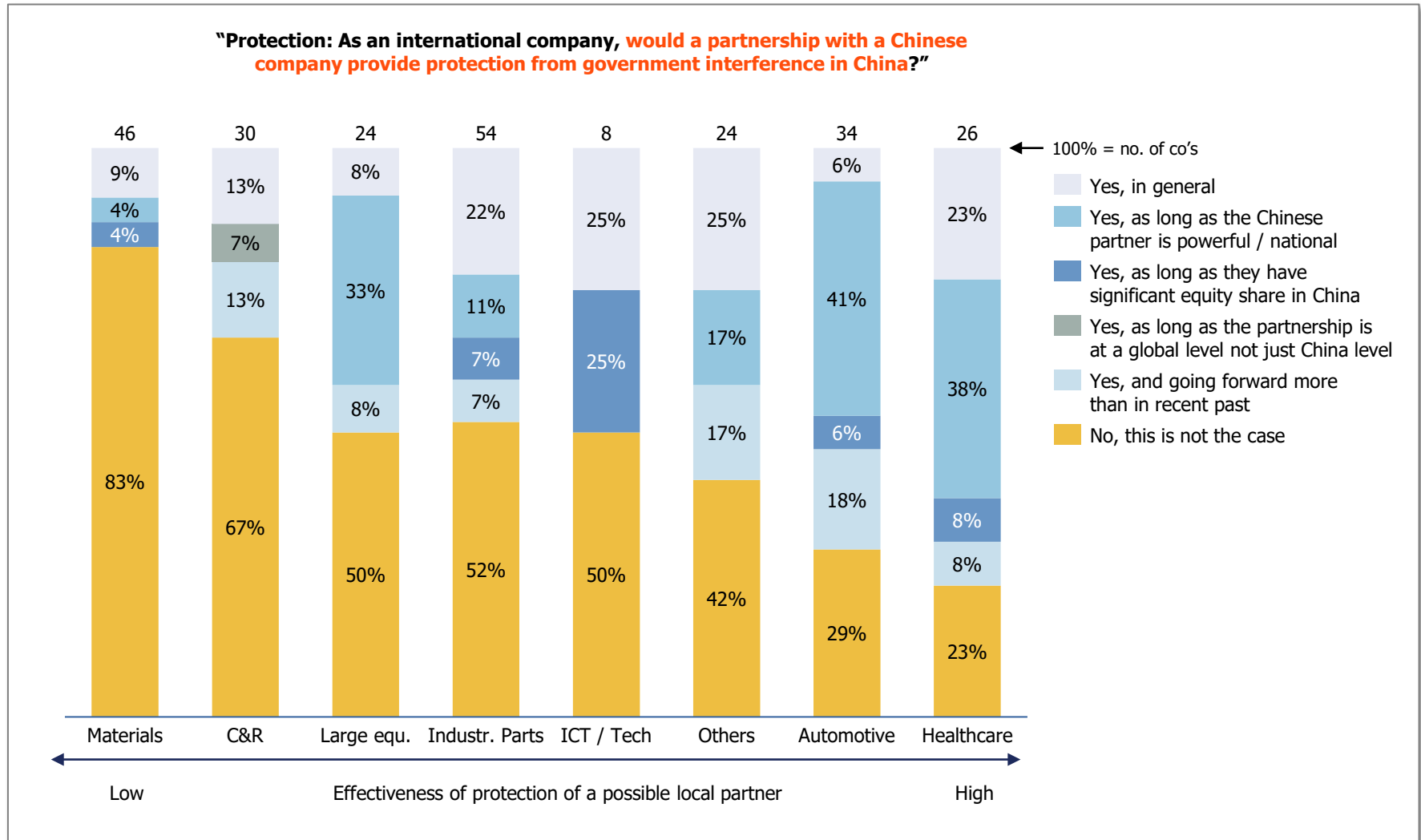


# Increasing openness to partnerships across most industries. Most companies are open to JVs (while keeping control). Minority JV an emerging trend in some industries (Healthcare, Tech, Auto)

**"Equity Share: What is your approach to equity partnerships with Chinese companies?"**  
(by sector)

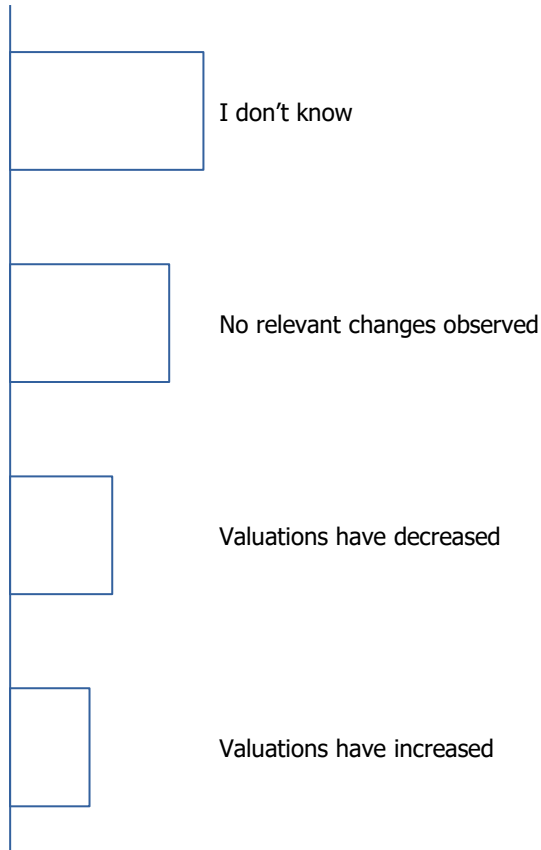


# A key motivation behind the emergence of partnerships is the increasing need of some companies to find shelter/protection



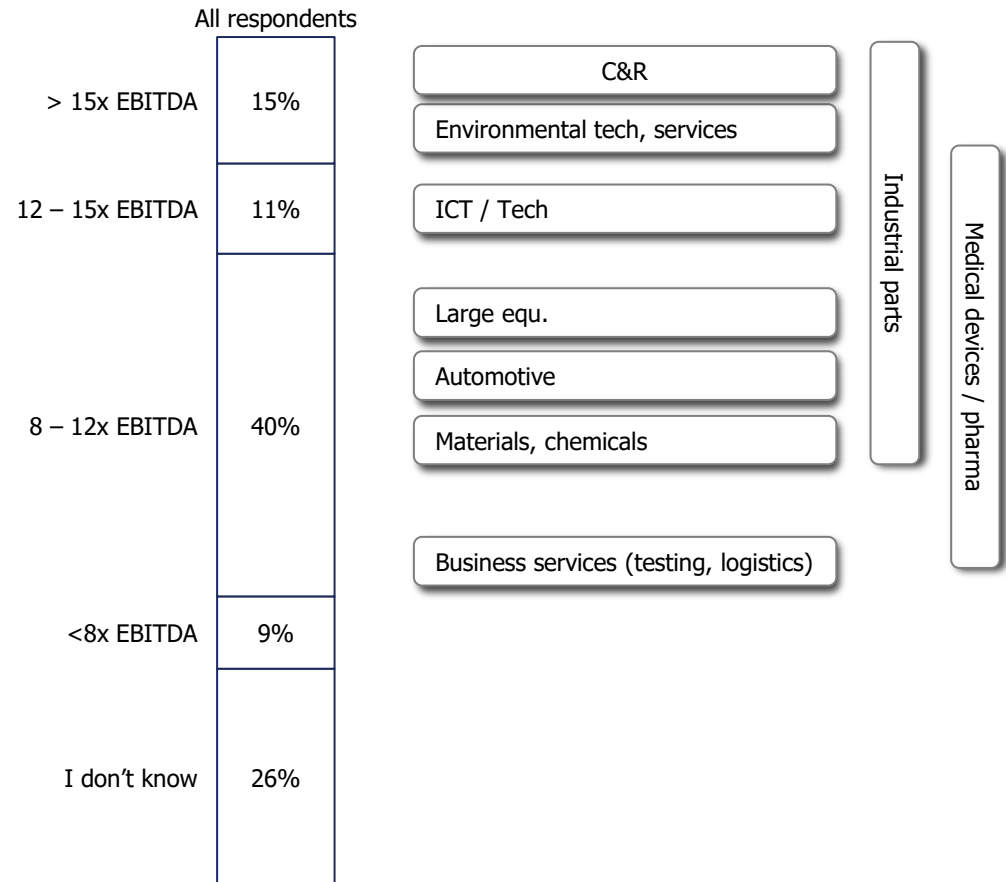
# A good time for M&A? Valuations of Chinese targets may have decreased rather than increased

**"Since Feb 2022, have you observed a notable change in valuations and target valuation expectations?"**  
(no. of times mentioned)

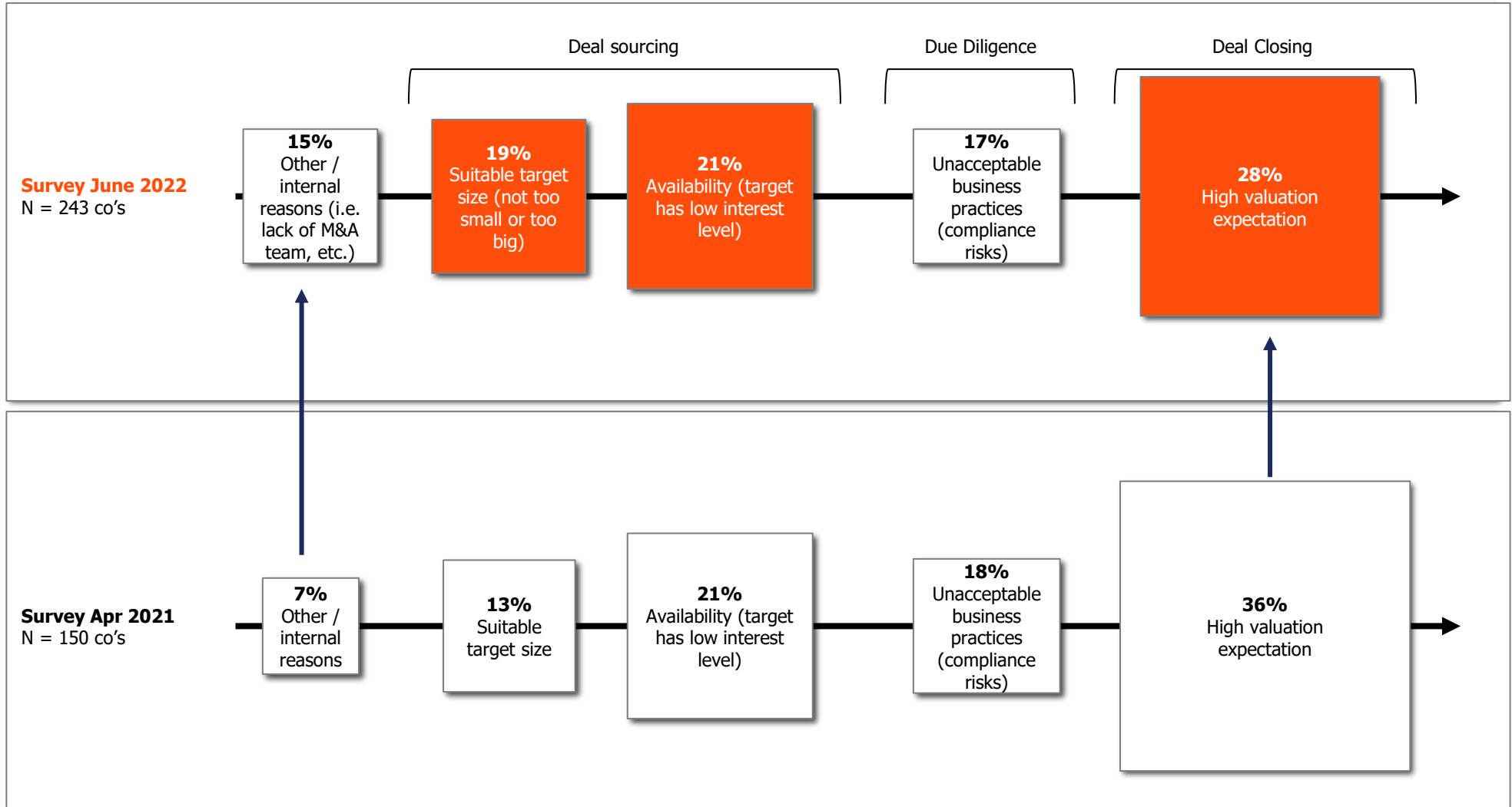


**"Multiples: What do you think is the average multiple in your sector?"**

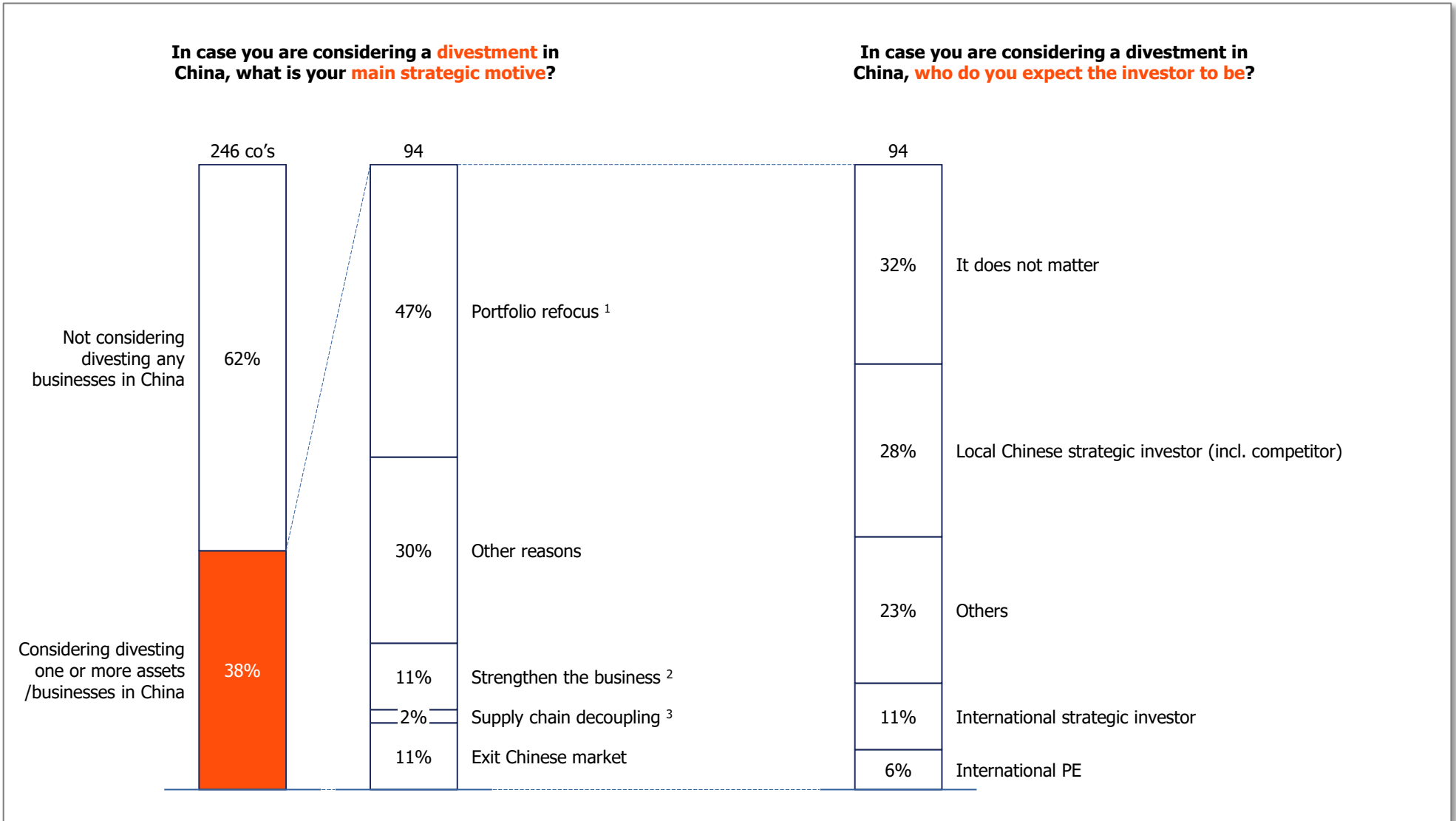
Mainstays by sector (majority of answers by sector)



"M&A challenges: What keeps you from realizing more deals in the Chinese market – what is your main challenge?" (Only one response is possible.)



# Co's looking to divest part of their businesses are not exiting China, but want to become more competitive



## **Appendix**

InterChina Partners Overview

# InterChina Partners

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

## Who We Are

### Global Reach

Clearwater International  
23 global offices  
200 advisors  
~1,500 transactions with total  
value of EU 70+ bil

### China Leader

**28 years** in the market

**50 Advisors**

Independent (Partnership)

### Our Clients

Multinationals F.1000.  
Private Equity  
Chinese Listed & POE

### Sector Specialist

Active access to top  
stakeholders and strategic  
trends  
in 5 industry vectors

## Our Performance

**USD 8+ bil**

in total transaction value by  
2020

**210+**

transactions successfully  
closed since 1994

**6-10**

Transactions closed each year.  
80-200 million USD range.

**50%**

of transactions are Strategic  
acquisitions, 50%  
Divestments.



# Our Services

We are among the preferred advisors for mid-market transactions in China

Advisory is all we do on a daily basis

InterChina closes an average of **6-12 transactions on yearly basis**, with an average value of 50-300 million USD per transaction.

We are a fully integrated Financial Advisor.

50% of our work is Buy Side Advisory, 40% is Divestments, 10% is outbound Chinese related deals.

Strong local reach, deep sector relationships and independence are the foundation of our business

## Mergers & Acquisitions

- Buy-side advisory
- Sell-side advisory
- Joint ventures / Strategic alliances
- Roll-up strategies

## Divestments & Restructurings

- Asset sales & disposals
- Bankruptcy sales
- Minority / Majority recapitalizations
- Management buy-outs / buy-ins

## Financial Sponsors & Capital Raising

- Portfolio acquisitions / bolt-ons
- Private placements
- Debt financings
- Project financings

## High-level of Professionalism & Integrity Forging Long-term Relationships

### Extensive knowledge and relationship of potential buyers and partners

InterChina leverages its significant expertise and deep relationships it has built through continuous dialogues over the years to meet client objectives

### Industry experience through numerous transactions in the relevant sectors

Unrestricted access to InterChina advisors with relevant deal and project experience

### Search for potential buyers and partners worldwide

Contacts and relationships from professionals in 40+ countries are available at short notice through InterChina, CWI and SL's existing network

### Total discretion and objective advice free from conflicts

Total commitment, discretion and dedication from start to finish, and after; we continue the dialogue to build a long-lasting relationship

# Senior Leadership Team

A strong seasoned team of Western and Chinese professionals

## Corporate Finance Leadership



**Barry Chen.** Partner in Charge, Head of Corporate Finance, Shanghai

- 25+ years (15 years with InterChina) of corporate development, consulting, corporate finance, and strategic planning experience
- Led and advised on 200+ acquisitions and divestitures in Asia Pacific, North America, and European regions, across a wide range of sectors
- Formerly with the global M&A group at UPS and PwC Corporate Finance



**Eduardo Morcillo.** Managing Partner, Head of Shanghai office

- 20+ years with InterChina, having advised 100+ M&A deals, strategic alliances and investment projects, across a range of sectors.
- Formerly, with Sinclair Roche & Temperley & Credit Suisse Asset Management



**Kent Ng.** Partner, Head of Divestment Advisory, Shanghai and Hong Kong

- 20+ years experience in M&A advisory and capital raising with a large number of corporate and private equity clients in the automotive, consumer/F&B, healthcare and services sectors.
- Formerly with PwC and BDA Partners
- CFA charter holder



**Huang Qingbo.** Partner, Shanghai

- 23+ years with InterChina, focusing on Strategic Alliances with Chinese enterprises and institutions and cross border deals. Specialist in chemical transactions as well as JVs & restructurings
- Formerly, regional head of foreign beverage company & senior team leader in investment management consultancy

## Sector Leadership



**Jan Borgonjon**  
Founder & President  
Head of Industrials



**James Sinclair**  
Partner  
Head of Consumer & Retail



**Franc Kaiser**  
Partner  
Head of Healthcare



**Simon Zhang**  
Partner  
Head of Chemical

Focused and deep sector access at the right stakeholder level

# Sector specialist focusing on 5 Segments, working over the past 26 years with the leading global strategic investors

90% of our **engagements** are concentrated in 5 industry sectors

Partner-led **sector teams** that consolidate our experience, insight and contact networks

**Our data base is extended and alive..**  
We meet 1000+ **executives** per annum for the past ~25 years

Sector **thought leadership pieces** distributed to 10,000+ readers in our InterChina Insight newsletter

**Board of senior advisors** that have 30+ year corporate careers in China



# Our latest 12-month track record.

## China's leading boutique M&A firm by # transactions



**Acorn International**  
 Leading global consumer brands group  
 US

divest ownership of Babaka brand and operation to



**Cofee Medical**  
 Household medical devices manufacturer  
 China

*Acorn International was advised by InterChina*



**Mondragon Assembly**  
 An international group specialized in the automation and assembly solutions  
 Spain

acquired



**Visual Automation Equipment**  
 A China based automation equipment manufacturer  
 China

*Mondragon Assembly was advised by InterChina*



**Piab**  
 Industrial Machinery Manufacturer  
 Sweden

Acquired a majority stake in



**Airbest (Changxing)**  
 Industrial Machinery Manufacturer  
 China

*Piab was advised by InterChina*



**Sandvik Coromant**  
 The global leading supplier of cutting tools and services to the metal cutting industry  
 Sweden

acquired



**Chuzhou Yongpu**  
 China based premium solid round tools manufacturer  
 China

*Sandvik Coromant was advised by InterChina*



**Mycronic**  
 When passion meets innovation

A leading global electronics manufacturing equipment supplier  
 Sweden

acquired a majority stake in



**Shenzhen Huan Cheng Xin Precision Manufacturer Co., Ltd.**  
 A supplier of solder paste printing solutions in the SMT industry  
 China

*Mycronic was advised by InterChina*



**Grupo Antolin**  
 Tier 1 Automotive Supplier  
 Spain

established a JV with



**Shanghai NAEN Auto Technology**  
 High-tech player in the Automotive electronics space  
 China

*Grupo Antolin was advised by InterChina*

A China state-owned company

sold



**Innovative Systems Hainichen**  
 The world's number one supplier of aluminium hinges for automotive applications  
 Germany

to



**MUTARES**  
 An international private equity investor  
 Germany

*The China state-owned company was advised by InterChina, CWI*



**Evoca Group**  
 Coffee machine Manufacturer  
 Italy

acquired a majority stake in



**Guangzhou MACAS Electronics Technology**  
 Coffee Machines Manufacturer  
 China

*Evoca was advised by InterChina*




**Bystronic**  
 Sheet Metal Cutting And Bending  
 Switzerland

acquired the remaining 30% stake in




**Shenzhen DNE Laser Equipment**  
 Laser Cutting Machinery Maker  
 China

*Bystronic was advised by InterChina*



**Odfjell**  
**Odfjell Terminals China**  
 Leading Global Tank Storage Service Provider  
 China

divested its equity holdings in Odfjell terminals (Dalian) to



**VTTI B.V.**  
 Fast-growing independent provider of energy storage worldwide  
 The Netherlands

*Odfjell was advised by InterChina*

## Corporate Finance

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