Best Practices for Chinese Investors Entering Europe

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Chinese investment interest in Europe is at a record high.

There are several key steps to help generate the most strategic and valuable outcomes for sellers and buyers.

Chinese investment into Europe is on a roll. In the first half of 2018, China invested nine times more into Europe than North America, reaching $20 billion in deals, according to Baker Mackenzie.

Why the emphasis on Europe? European companies can offer leading technologies, well-qualified employees and a loyal customer base. Alternatively, Chinese investors promise fresh capital and better access to one of the largest and fastest growing markets in the world.

While a cross-border investment can benefit both partners, many Chinese investors are unsure how to maximize investment into Western companies. Indeed, Chinese investors' long-term, strategic perspective is increasingly attractive, but as with any cross-border deals, there are numerous procedural and communication challenges that can impede a transaction.

HERE ARE BEST PRACTICES WE RECOMMEND FOR CHINESE BUYERS INVESTING IN EUROPE:

Get Visible

Sellers are looking for serious investors to maximize their time and minimize the number of bidders with access to sensitive company information. They want to know who's in the process, but in our experience, the limited information available online can make it challenging to provide a full profile of potential Chinese investors. By introducing themselves and their interest to an internationally operating M&A advisor ahead of a process, Chinese investors can improve their success rate.

Bring the Right Team

In addition to an M&A advisor with global experience, Chinese investors should bring a full international team to the table. International due diligence advisors and a global law firm will help minimize common communication and cultural issues. For example, in a recent transaction, a seller had documents in five languages covering five different jurisdictions in their data room. Without advisors with local footprints in each market, a proper audit of the data room would have been impossible. In addition, international lawyers are well-positioned to identify standard contract designs in each country and negotiate to build credible bridges between the two parties. Put simply: having the right people in the room allows management to focus on the economics and strategic advantages of the deal, rather than getting bogged down in the nuances.

Trust the Process

Every deal is different, and Chinese investors should work with their advisor to assess the desired speed of the buyer. For example, listed companies often want to sign a transaction before the end of their fiscal year. In a deadline-driven environment, speed and reliability of the buyer can be even more important than the price of the offer. It's also critical to understand when you, as the investor, are entering the process. In some transactions, Chinese investors are brought in early to give them an advantage, but other times, a late-stage investor may spark interest. It's critical to adjust course based on the timeline. A buyer who starts later in the process, for instance, should consider streamlining due diligence. Global M&A advisors can help minimize risk and point to factors, like strong German warranty claim laws, that will offer buyers protection even in an accelerated timeline.

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The more complex the deal, the more critical it is to have transparency and informed communications between both parties. With interest in Europe-China deals high, both investors and sellers can outperform if they bring the right team of international advisors to the table and are open, credible and committed to the process.