China M&A Deal Reader

Q2 2018

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Lincoln INTERNATIONAL

Selected deals of Lincoln International

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LEONI has sold its electrical appliance assemblies business to BizLink

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Deal insights for European sellers

How Chinese buyers participate in a cross-border auction process

Zhongzheng He & Sa Li

Since China's outbound direct investment exceeded inbound investment into the country in 2014, Chinese investors including state-owned companies, listed companies and private companies have been speeding up the global expansion via active involvement in cross-border M&A transactions.

On the one hand, Chinese buyers are quite diverse due to different levels of process knowledge, M&A experience and internal decision processes. On the other hand, they still share some common characteristics. Based on our best practice, we have summarized the following key aspects for the European sellers, who are dealing or will deal with Chinese buyers in a process.

Educating Chinese buyers with the auction process

Participating in an auction process is new to many Chinese companies. Therefore, dealing with unfamiliarity is fundamental for a successful transaction. Chinese buyers usually need clear instructions to follow. As sell-side advisor, not only do we introduce projects to Chinese buyers, but also proactively educate and equip them with process knowledge.

In this respect, an introductory document which illustrates the whole sale process, including definition of each deal document (teaser, NDA, CIM, SPA, etc.), description of each deal stage, roles and importance of advisors, enables Chinese buyers to better understand a deal process in general.

Furthermore, a face-to-face meeting at the early stage of a process will effectively help Chinese buyers to digest relevant information and establish mutual trust.

Valuation metrics and guidance

When analysing a target, Chinese buyers are often interested in the target company's sales percentage in China. If a European company aims to sell itself to Chinese buyers, it should make more market sounding efforts in the Chinese market prior to the transaction to be strategically prepared for the process.

Moreover, almost all Chinese investors will have a close look at net income, instead of EBITDA in terms of profitability indicator, as in China, P/E ratio is the most prevalent valuation multiple, especially among public companies who care about EPS post transaction. As sell-side advisor, we also conduct post acquisition P/E ratio analysis when discussing projects with Chinese public companies.

Additionally, Chinese investors tend to ask for valuation guidance prior to submitting the non-binding offer. With respect to valuation guidance, there are always pros and cons. Whether valuation guidance should be given depends on the specific transaction and the seller's wishes.

Accelerating decision-making

The speed of the decision-making hinges on the buyer types. For state owned enterprises, internal approval and compliance processes can be time-consuming. Some companies cannot file for internal approval until receiving a CIM. On the opposite, public companies tend to make decision more quickly, under the condition that the project is introduced to the key decision-maker, mostly the CEO.

To accelerate the decision-making process, a roadshow or coffee meeting can be very helpful. We will share more details about our roadshow in the coming issues of the China M&A Deal Reader. In fact, Chinese buyers have great potential to adhere to tight timelines as long as they clearly understand the situation and decide what to pursue.

Be well prepared for the regulatory issues

Prior to approaching Chinese buyers, European sellers should first check whether the company is allowed to sell to Chinese buyers. If yes, the next question will be whether there is any sensitive part which needs a carve-out according to local regulations. This should be communicated at the early stage of a process.

Additionally, European sellers should also know that in spite of largely simplified regulatory process (ODI) in China, Chinese buyers are still subject to a number of key regulatory requirements, which include approval/filing at National/Regional Development and Reform Commission (NDRC), and National/Regional Ministry of Commerce (Mofcom), and registration at State Administration of Foreign Exchange (SAFE). In practice, it will take approx. 2-3 months in total to complete all regulatory procedures for a general process.

Selected deals of Lincoln International

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Deal insights for Chinese buyers

Preparation for a successful acquisition in the DACH & Benelux region

Sa Li

Lincoln International has established close relationships with Chinese buyers. Merely in 2017, we successfully closed 10 deals globally with Chinese buyers, of which 5 deals are in the DACH & Benelux region, incl. the sale of Romaco to ChuTian Group and the sale of Cotesa to AT&M. Moreover, almost in each deal process, potential Chinese buyers are involved in various deal stages.

Although Lincoln International acts as the exclusive sell-side advisor in most deal process in the DACH and Benelux region, we are delighted to share the best practice with Chinese buyers to prepare you for success. Following are questions frequently asked by Chinese buyers in our daily work. You may also find answers to those questions below.

Q: We would like to have a look at targets in the fields of robotics, health care, automation etc. Do you have these projects?

A: Lincoln International DACH / Benelux successfully closed 39 deals in 2017. About 50 projects are usually ongoing. We understand deeply that technology leadership is a key investment angle for Chinese buyers. However, potential buyers should avoid "bandwagon effect", which means a buyer locates the potential targets merely because all other Chinese companies are looking for the same targets. The best target is always the one which will have potential synergies with the buyer. Before participating in a M&A process, it would be recommended for a Chinese buyer to conduct a detailed analysis to see which kind of targets best fits the buyer's core business and suits the buyer's vision and strategy in the future.

Q: Could you please share all teasers of the ongoing projects with us?

A: Before sending out a teaser to the potential buyer, we always need to discuss with the seller, because the potential buyer could be a customer, supplier or direct competitor of the target company, which could have conflicts of interest. We will only send the teaser to a buyer if the acquisition rationale is justified. This approach is also the best way to avoid information leakage to the market.

Q: Then how can we know which project is currently on the market?

A: It would be most efficient, if you share your acquisition interest with us, so that we could include you in any suitable processes. The acquisition interest should be concrete. For example, "having interest in automotive components" is too vague. It would be better to state which components exactly interest you. The acquisition criteria should also be specified, namely which company size would you like to acquire, what are the "must-haves" of the target company e.g. leading technology, double-digit margin and so on.

Q: Could you offer us exclusivity in the deal process, since the due diligence cost is high?

A: Generally no. Firstly, attractive targets are always pursued by a couple of buyers. As a result, there will be an auction process. Secondly, an auction process is necessary for the seller to justify the valuation and to identify the right buyer. It is especially the case if a company for sale has multiple owners. Without an auction process there would always be disagreements between the owners regarding the best buyer and the price. We understand that nobody would like to invest time and money without winning the deal in the end. To improve the success rate, we highly recommend you to prepare well and ask experienced and trustworthy advisors to support you during the process.

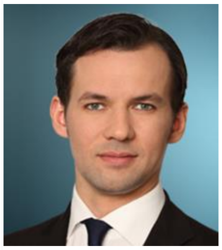
Q: What is your recommendation for Chinese buyers, if we want to get the transaction done?

A: The success always starts with better understanding of own acquisition needs (which kind of company, size, criteria etc.). Lack of thorough upfront analysis often leads to indecisiveness and twists in the deal process. The buyer would either miss the deadline or raise doubts to the seller.

Secondly, Chinese companies usually have several subsidiaries which could be the acquirer. The funding structure could also be complicated. Thinking about which entity will be used, what is the transaction structure and communicate it in time is necessary.

Thirdly, working with experienced advisors together and being equipped with process knowledge regarding bidding dynamics, capital transfer out of China and regulatory procedures is also indispensable for a successful deal.

Deal experience: BizLink acquired the LEONI electrical appliance business



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Lessons learned from a successful cross-border transaction

Many Chinese investors are uncertain how to invest in Western companies. But a cross-border investment can have many advantages, from which both sides can benefit. European companies often offer leading technologies, well-qualified employees and a good and loyal customer base. On the other hand, Chinese investors promise better access to one of the largest and fastest growing markets in the world and, of course, fresh capital. It has been well noticed in Germany that Chinese investors have a long-term, strategic perspective and are therefore often willing to dig deeper into their pockets for a good asset. This is bringing Western shareholders and M&A advisors to increasingly "woo" Chinese investors for their processes. Nevertheless, there are numerous procedural, cultural and communicative pitfalls that can torpedo the conclusion. A good case study for a successful cross-border transaction is the acquisition of the electrical appliance business of the German company LEONI AG by the Taiwanese BizLink Group.

LEONI AG is a listed German manufacturer of cable and cable systems for in particular the automotive industry. The company is headquartered in Nuremberg (Nuremberger rib steak sausage or Nuremberger Lebkuchen), generates annual revenues of around EUR 5 billion and has roots dating back to 1569. Its former electrical appliance assemblies business produces cable assemblies and harnesses for well-known electrical appliance manufacturers. It has locations in several European countries as well as in China. The buyer BizLink produces interconnect solutions especially for customers from the IT and automotive industry and produces both in Asia and North America. The company was founded in Taiwan in 1996, is headquartered in Silicon Valley, USA, and went public in Taiwan in 2011. It is still run by the company's founders.

After LEONI AG decided to focus on its core business and to disinvest its peripheral business, LEONI mandated Lincoln International with the structured sales process of the electrical appliance division. Characteristic of the transaction were the preparation of the carve-out as well as the widely scattered production and business locations in 5 different countries. The Lincoln team advised the seller and the management in all project matters, from the preparation to the last steps towards the closing.

The preparation included in particular the identification of potential buyers. Here, Lincoln was able to rely on a multitude of contacts and experience through its local presence in China and the dedicated China Desk in Germany. The seller was interested in properly assessing the seriousness of expressed interest as soon as possible to assign the available capacity accordingly and to limit the misuse of sensitive company information. By contrast, only limited information about the Chinese bidders can often be found on the Internet. A market approach therefore relies on its M&A advisor's contact to potential buyers. As a consequence, Chinese investors could increase their success rate by introducing themselves and their interest to an internationally operating M&A advisor ahead of a process.

In the LEONI process, the division for sale was introduced to Asian buyers in advance. Since Asian investors had a special status in the process, they were given the opportunity to personally meet the management before the broader sales process began.

Lincoln prepared a roadshow in Asia with a selective group of Chinese and Taiwanese companies. The delegation was kept small with three people to facilitate an informal meeting with investors' decision-makers (the CEO of the target as well as the responsible M&A managers from LEONI and Lincoln). BizLink belonged to the privileged group and was thus able to get direct contact with the management at an early stage. The lead time was also given to BizLink to initiate internal decision-making as soon as possible in order to catch up later with the often much faster Western companies and especially financial investors.

After starting the broad market approach including also Western investors, BizLink was invited to submit an indicative offer. Based on its competitive offer, BizLink, together with other bidders, had again the opportunity to meet the management and was now able to visit the plants in China as well as in Europe. In this second phase, BizLink could also conduct due diligence on the target through an electronic data room and expert calls. The discussion between the management and BizLink went very well. In particular, BizLink was able to build trust.

During the auction, there is information asymmetry between the two parties. While the management and the company for sale uncover themselves relentlessly during the due diligence, there is often only limited information available about the Chinese investors. For the seller the process reliability with the new investor is especially in the foreground. BizLink was able to convince with its own presentation in the second meeting in Europe. The acquisition would allow the acquirer to enter the European market while simultaneously leveraging the target's Chinese presence. Later, it has been shown that the target maintains long-standing and very stable relationships with its customers. A market entry without acquisition would have been difficult. BizLink collected sympathy points. It "sparked" with the management. In addition, it had spent money on own advisors from the very beginning and thus signaled the seller to have serious interest.

Beyond M&A advisors, who can professionalize the process, Chinese investors should mandate international due diligence advisors as well as an international law firm in the second phase. In the data room, BizLink was confronted with documents in 5 different languages relating to 5 different jurisdictions. A proper audit of the data room without advisors having local offices in the respective countries would have been impossible. Moreover, the usual contract design under German law may be irritating for investors who are used to international law. For example, in Germany, the entire electronic data room is usually attached to the purchase contract in the form of a storage medium. A local law office can help to build credible bridges between the parties. BizLink hired an international law firm with offices both in Taiwan and in Germany. In the contract negotiations there were initially very different ideas. BizLink could verify internally through its legal advisor which points are common in the German M&A environment and which can be seen as controversial. Thus it could concentrate more on the economic points.

LEONI accepted BizLink's binding offer submitted after the second phase and also agreed with BizLink in the contract negotiations. After successfully signing the sales contract, closing conditions still had to be fulfilled. In this transitional phase, Lincoln assisted in smoothing communication with LEONI's key customers. Each customer took up the change of ownership differently. While some took it as a normal process, the others were worried about a change of contact persons and general quality reduction. The CEO of BizLink addressed these fears early by visiting selected key accounts personally. By doing this, Bizlink could convincingly convey that nothing will change for the customers, but that the company as a whole will benefit from the acquisition.

Lincoln accompanied the trip and supervised the handover. Thus, the last stumbling block in the process was overcome.

Overall, transparent communication with all stakeholders in the process as well as a properly prepared sales process supported by international advisors on the buy-side have been key success criteria in the process.

INTERVIEW

Li: Mr. Gryga, what is the most decisive factor for a Chinese bidder in a process from your point of view?

Gryga: *Of course the price. Basically, this should be high enough to be considered competitive for the process. A premium also compensates the seller for the lower process reliability compared to Western bidders. However, the price should be robust.*

Li: Money makes the world go round. Is a high price enough?

Gryga: *It is definitively a decisive factor. But I have also experienced a situation in which a Chinese investor with a much higher final offer did not win the deal.*

Li: For what reason would a seller reject a higher offer? Is price not that his primary interest?

Gryga: *As a general rule, the price is the most decisive factor. However, if the Chinese bidder acts so slowly that it significantly disrupts the broad sales process, the seller will risk losing credible competition. The seller is not willing to take on that risk, the less it can judge the robustness of the Chinese offer.*

Li: You mentioned a case earlier when a Chinese investor was turned down. Was that the reason?

Gryga: *Indeed, it played a crucial role. In the mentioned case, there was competition especially between a European financial investor and a Chinese strategic buyer. The Chinese company offered about a 50% higher price. Both stayed in the process for as long as possible. Nevertheless, the seller finally chose the European investor, who promised a faster and more reliable process.*

Li: The price difference is immense. Why was process speed and reliability so important to the seller?

Gryga: *The seller was a listed company, aiming to sign the transaction by the end of that financial year. The Chinese investor entered the process later and did not take this into account. In addition, there were doubts about its solvency. The decision was made, when the Chinese buyer admitted in the last second that he was not able to deposit in an escrow account, since its financing had not yet been secured.*

Li: Interesting. What lessons can the Chinese investor take from this example?

Gryga: *If a Chinese buyer starts late in the process, it should streamline the due diligence. Many warranty claims are already covered by German law. Finally, the Chinese buyer should be able to demonstrate its ability and willingness to pay in a credible way.*

M&A in the automotive and industrial sensor market

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Focus: Market trend for Chinese investors

An unprecedented consolidation wave is sweeping through the automotive and industrial sensor markets. It is driven by the enormous opportunities and rising challenges suppliers are facing in developing viable solutions for ADAS, EV-mobility and industrial IoT applications.

Intel buying Mobileye from Israel for USD 15.4 billion is on the extreme side of the spectrum in terms of deal size where as ZF's acquisition of Astyx, a small radar sensor spin-off from the former MBB / Airbus D&S conglomerate in Munich is on the small side. What both have in common is that they involve multi-billion strategic buyers with taste for full control arming themselves for the digital car battleground, and targets whose technology is emanating from the Defense technology ecosystems.

The active consolidators

Four strategic buyer groups driving the consolidation can be identified: semiconductor majors (e.g. Intel, NXP/Qualcomm), Tier 1 electronic system suppliers (e.g. ZF, Aptiv), connector specialists (TE Connectivity, Molex, and Amphenol) and specialized sensor groups (e.g. Sensata). In addition, Chinese and Japanese players are increasingly keen to secure state-of-the-art sensing technology. Furthermore, consumer electronic majors are moving into the mobility sector or adding to existing auto technology via multi-billion platform deals (e.g. Samsung/Harman, LG/ZKW and Panasonic/Ficosa).

The sensor target landscape from low tech to high tech

A sensor is a critical part of the IoT system. It picks up light, heat, sound, pressure, magnetism or a particular motion (physical stimuli) and transmits a resulting impulse for use controlling the machine/vehicle.

The spectrum of sensor technology thus spans a broad range from relatively low-tech fuel level and temperature sensors across pressure sensors for the powertrain or occupant (seat) sensing or Hall Effect sensors to more sophisticated silicon-based MEMS or magnetoresistive (MR) sensors for angle and current inputs. Radar, camera and laser sensors are going through an even more dynamic development as the use cases for ADAS are becoming extremely important; in these systems, sensor data processing and sensor fusion capabilities add a particularly complex layer of value-added.

Factors affecting the relative valuation differentials

Public company and M&A transactions are mirroring the level of technological complexity of the sensor assets while the relative valuation differentials are also driven by factors such as (a) critical size (b) relative competitive position and uniqueness as well as (c) relevant applications or use-cases. As a case in point, large sensor portfolio assets such as Measurement Specialties or GE Sensors have had a highly strategic value as these enabled new-entrants such as TE Connectivity and Amphenol. In the case of Mobileye's acquisition by Intel, the narrow focus on the ADAS application and the uniqueness of Mobileye's value proposition created a fertile ground for a truly outlier valuation.

Today, listed sensor players of scale – even non-pure plays such as Amphenol and TE Connectivity - are trading at a premium (2.5 and 3.75x EV/Sales respectively) to electronic system suppliers such as Continental or Aptiv (1.0 a nd 2.0x EV/Sales respectively). These sensor and connector majors are generating EBITDA margins well in excess of 20% whereas electronic systems suppliers maintain margins of around 15%.

The case of the Chinese players

The consolidation of the sensor industry has, for now, been centered on western targets and consolidators. However, there are strong signs that the effects of the "Made in China 2025" Plan, drawn up in 2015, make its way into the mainstream M&A arena. The acquisition of IEE (occupant sensing) by a Chinese consortium around SAIC in 2013 was an early case of Chinese interest. Today, we observe an ever increasing interest and focus on senor-related assets by Chinese strategic buyers. Some of these come from a rather "low-Tec" environment and want to upgrade their technology proposal, some – as the SOE-backed groups – have substantial backing from the government and ambitions that will eventually make them successful buyers. It remains to be seen as to whether China can catch up in creating players with critical mass in the field of sensors via M&A to compete.

Selected M&A transactions in the sensor market

Date	Acquirer	Target	Rationale
May-17	CTS	Noliac	Achieving critical size within sensor segment
Mar-17	Kaney Aerospace	BVR Technologies	
Dec-15	Sensata	CST	
Oct-14	TE Connectivity	Measurement Specialties	
Aug-14	Sensata	Schrader	
Dec-13	Sensata	Wabash Technologies	
Apr-13	Measurement Specialties	Spectrum Sensors & Contr.	
Oct-10	Sensata	Honeywell Controls	
Mar-17	Mahle	Nagares	Additional sensor/electronic capabilities for Tier 1 suppliers
Mar-17	ZF	Astyx	
Aug-16	ZF	Ibeo	
Jan-13	Consortium led by SAIC	IEE Int'l Elect. & Engineering	
Apr-11	Ningbo Joyson Automotive	Preh	
Feb-11	PKC Group	SEGU-Systemelektrik	
Feb-11	Valeo	Niles Co	
Sep-08	Autoliv	Tyco radar business	
Jul-07	Continental	Siemens VDO	
Jun-06	Continental	Motorola ACES	
Nov-15	AMS	CMOSIS	Sensor capabilities for semiconductor manufacturers
Oct-11	Murata	VTI	
Jul-11	Maxim	Sensor Dynamics	
Jun-11	AMS	TAOS	
Jun-18	Ametek	Motec	New entrants
Jul-17	OSRAM	LeddarTech	
Mar-17	Intel	Mobileye	
Sep-14	Amphenol	Casco Automotive	
Nov-13	Amphenol	GE advanced sensor business	
Apr-13	Littelfuse	Hamlin & Accel	
Nov-12	Curtiss Wright	Williams Controls	

Semi | Sensors | Control systems

Selected M&A transactions of Lincoln International in sensors and electronics

Camera systems
Motec Heavy-Duty Camera Solutions
has been sold to
AMETEK
June 2018

Eng. services
TNO
has sold
tass international
to
SIEMENS
August 2017

Eng. services
itk ENGINEERING
has been sold to
BOSCH
January 2017

Sensors
The Carlyle Group
PAI partners
have sold
CST
sensing portfolio
to
Sensata Technologies
December 2015

Actuators
EGERIA
has sold
mci
to
FLEXTRONICS
June 2015

Connectors
Commonwealth Venture Funding Group
has sold
Antaya Technologies Corporation
to
DELPHI
October 2014

Sensors
an affiliate of
Sun Capital Partners, Inc.
has sold
Wabash Technologies
to
Sensata Technologies
January 2014

Wire harnesses
Saturn Electronics & Engineering, Inc.
has been sold to
FLEXTRONICS
December 2012

Connectors
Steadfast Capital
has sold
FEP
to
Amphenol
November 2011

Cable systems
AMERIGON
has acquired a majority interest in
June 2011

Electro. parts
Tyco Electronics
has sold its Pretema Business to
POSSEHL
September 2010

Relays
ALCOA
has sold
AFL Stribel Production GmbH
to
flex
December 2009

Guest speaker: Clifford Chance

Dr. Joerg Rhiel is Partner at Clifford Chance Germany.

Joerg has advised a broad range of clients on domestic and cross-border transactions including deals between Prolimity and RIGDON, Omni Bridgeway and ROLAND ProzessFinanz, Grohe and LIXIL, KUKA and Midea Group.

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Dr. Qian Ma, LL.M. is Director and Co-Head of China Desk at Clifford Chance Germany.

Qian has advised many renowned Chinese deals including transactions between CK Infrastructure (CKI) and ista, KUKA and Midea Group, Zhengzhou Coal Mining Machinery (ZMJ) and Bosch Group, MLS and Lendvance, Fosun and Hauck & Aufhaeuser.

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Impact on China's new outbound investment regulations

Focus: New outbound investment regulations - Order No.11

China's National Development and Reform Commission (NDRC) has introduced new rules aiming to streamline outbound investments and increasing scrutiny of outbound investments that may have sensitivity to China.

The Administrative Measures for Outbound Investment of Enterprises (Order No. 11) came into force on 1 March 2018 and replace previous legislation (Order No. 9), following a public consultation, which were recently supplemented by the NDRC notice on "Frequently Asked Questions on Outbound Investment" dated 5 June 2018.

The NDRC – China's economic planning body – says that the new rules will encourage innovative outbound investments, promote cooperation in global production capacity and reduce administrative burdens for Chinese outbound investors.

The main topics are as follows:

SIMPLIFYING APPROVALS, FILING AND REPORTING

- Sensitive and regulated investments subject to approval

Only outbound investments involving sensitive countries/regions (countries with no diplomatic ties to China or which are at war) or sensitive industries including research, development, production and maintenance of weapons, cross-border water resources and news media require NDRC approval. Order No. 11 also includes a catch-all provision which gives the NDRC the flexibility to adjust the scope of sensitive investments if national policies change.

It should be noted that sensitive industries also include outbound investments classified by other regulations previously issued by the State Council of China as "restricted." These include, for example, real estate, hotels, cinema, entertainment, and sport clubs. Advanced manufacture industries, however, are definitely not included in any of the listed sensitive industries.

- Threshold for outbound investments subject to filing

Non-sensitive outbound investments are required to be filed with NDRC at either central level or local level as follows: Non-sensitive investment initiated by a central state-owned enterprise or a financial institution under the administration of the Chinese central government must be filed with the central NDRC; a non-sensitive investment initiated by a local enterprise should either filed with the central NDRC or with the relevant local NDRC.

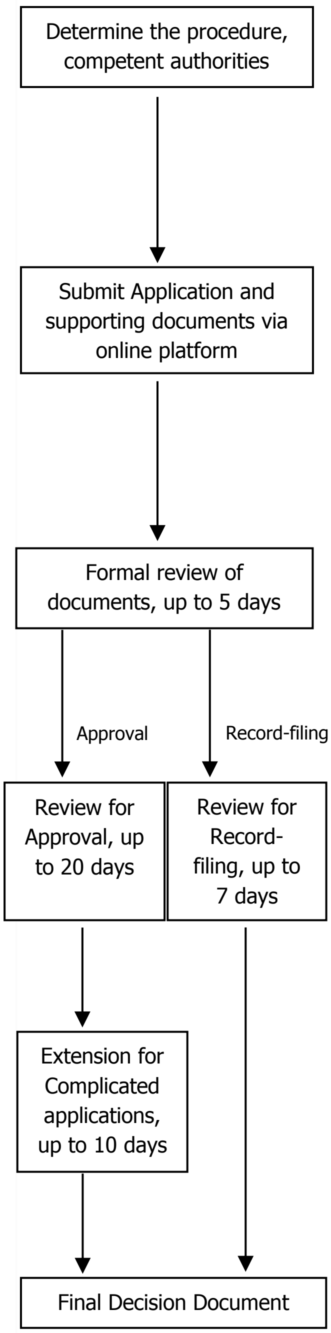
- Outbound investments via offshore entities may subject to reporting

If a Chinese investor intends to make, via its controlled offshore entity, a non-sensitive investment of more than US$ 300 million, a Large Amount Non-sensitive Investment Report must be submitted to the NDRC. Non-sensitive investments of less than US$ 300 million are not subject to any approval, filing or reporting procedures with the NDRC.

- Abolition of confirmation letters

Under Order No. 9, outbound investments and auction sale bids valued at US$ 300 million or above were subject to a requirement to supply information to the NDRC and the obtaining of a confirmation letter prior to the entry into of a binding agreement, provision of a binding offer or application to an offshore authority for governmental approval. Order No. 11 has removed the requirement to obtain such confirmation letter.

NDRC Approval and Record-filing procedure



Note that project reviews for approval may involve a third-party assessment procedure that takes up to 90 days, this assessment period, however, is not included when calculating the time limits.

THE SCOPE OF OUTBOUND INVESTMENT REGULATIONS

- Regulating outbound investments via controlled offshore entities

Order No. 11 expands the scope of the NDRC regime to cover outbound investment activities carried out by Chinese investors indirectly via their controlled overseas entities. Chinese investors must submit a project report to the NDRC before closing any outbound investment of US$ 300 million or more through their controlled overseas subsidiaries.

- Diversity of PRC investors

The new regime applies to Chinese financial institutions which are therefore not only subject to the approval by their own industry regulatory authorities (CBIRC, CSRC), but also the approval or filing of the NDRC, in terms of their outbound investments.

- In-progress and post-investment monitoring

The NDRC will supervise and inspect outbound investment through online monitoring, interviews or through random checks. Chinese investors should report material adverse events during the transactions and the completion of closing if investments are subjected to approval or filing; any non-compliance of the new rules will result in penalties for the Chinese investors.

IMPACT ON OUTBOUND M&A

- Impact on efficiency of a deal

Removing the requirement for obtaining a pre-signing confirmation letter is intended to alleviate the procedural burden on Chinese investors for outbound investments, reducing transaction costs and, importantly, enable them to accelerate transactional work at the initial stage of an outbound deal, in particular, in the case of a bidding process. However, in practice we note that Chinese companies still approach NDRC prior to entering into binding agreements in order to obtain the authority's view on the intended investment on an "unofficial basis".

- Impact on certainty of a deal

Sensitive industries, restrictions and thresholds, procedural time schedules are all clearly listed in documents related to Order 11, including an outbound investment negative catalogue, which should provide certainty for the deal. The new regulations would also allow the Chinese investors and all other parties involved in the transaction to better estimate and plan these transactions. On the other hand, it remains to be seen how the new NDRC regime affects the approval procedure of regulatory authorities such as CBIRC or CSRC, which are to be carried out in parallel with the NDRC procedures.

- More complicated structure for the deals

As China tightens the usage of shell companies and SPVs, it is very likely that the investments made by Chinese investors will feature more complex structures and arrangements, which would require time and effort on the respective seller's side to understand the intended investment scheme. However, since Chinese investors are rapidly gaining expertise on the global M&A market, such development is expected to happen regardless of the new regulations.

Generally, Order No. 11 indicates NDRC's approach of simplifying and relaxing regulation of outbound investment activities and encouraging rational outbound investment, but the long-term effect remains to be seen in the future.

OTHER REGULATIONS

In addition to NDRC, the Ministry of Commerce, the State Administration of Foreign Exchange and some other PRC government authorities are also involved in the regulation and administration of Chinese investors' outbound transactions. Future amendments in their own regulatory regimes would also impact the Chinese outbound M&A market.

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Chinese M&A activity in the Benelux

Focus: Past and present Chinese activity in the Benelux market

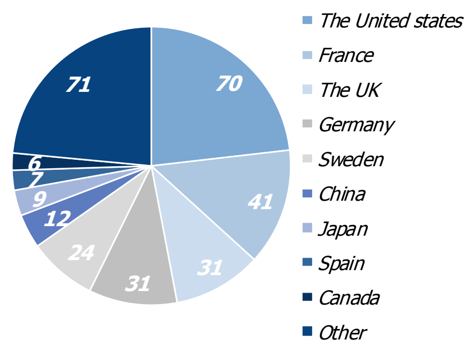
In 1999, The Chinese government implemented the 'Going Global' strategy which strongly focuses on increasing Chinese Direct Foreign Investment. In 2002, A.S. Watson acquired Kruidvat, a Dutch chain of health and beauty stores, for a sum of EUR 1,300m, in what can be rightfully called the first Chinese megadeal in the Benelux. Although this deal was not a direct consequence of the Chinese government implemented strategy, many expected there would be more investments to come in the Benelux. Few would have assumed that it would be the 'megadeals' that would be drawing attention rather than the amount of transactions.

Since 2013, acquisitions of Benelux companies by Chinese buyers have made up around 1% of all total acquisitions of Benelux companies. The majority of the transactions that took place were sizeable deals with transactions values exceeding EUR 300m. Chinese corporates and investors prefer the 'bigger fish' when it comes to acquisitions in the Benelux region. Landmark deals such as the acquisition of the Dutch NXP RF semiconductor business Nexperia by JianGuang Asset Management for EUR 2,750m and Belgian Punch Powertrain by Ningbo Oriental for EUR 950m highlight the Chinese appetite for businesses active in innovation and manufacturing.

In spite of these transactions, Chinese M&A activity remains quite modest compared to other countries. There were a total of 302 inbound M&A transactions in the Benelux in 2017 of which China only acquired 12 targets. This is in stark contrast to other major economies such as The United States (70 acquisitions), France (41 acquisitions) The United Kingdom (31 acquisitions) and Germany (31 acquisitions). Moreover, in 2018, Chinese activity on the Benelux is seemingly cooling down with respect to the record years of 2016 and 2017 with only 2 transactions this year thus far.

Is there a significant reason why China seems to lag behind other major economies? There could be many factors contributing to this and so there is no clear explanation for this phenomenon. What is clear though is that Chinese corporates and Private Equity leave significant opportunities on the table when it comes to the Benelux market. Especially now that the Chinese government has announced a crackdown[1] on acquisitions from non-essential industries and overpaying for targets, it is noteworthy that China seems to overlook the Benelux market for acquisition targets. The most important and innovative sectors in the Benelux are agriculture and food, creative industries, chemicals, energy, high tech, horticulture, life sciences & health, logistics and water, most of which are not on the restricted list. The aforementioned industries all represent industries in which China could benefit from acquiring leading and innovative companies. Therefore, the potential argument that the reduced Chinese activity is simply due to a lack of viable targets does not hold up when, just this year,

# of Benelux inbound acquisitions in 2017



Source: Lincoln International research, CapitalIQ

we saw the sale of companies like Expereo, Allego, Evoswitch and IPCOM; each innovative and leading companies in their respective industries. These companies would surely have been an interesting investment opportunity for Chinese corporates and Private Equity investors alike.

In the auctions that we run in the Benelux, Chinese buyers are regularly approached and take part in many of our sales processes. It is not unthinkable that the Chinese corporates and private equity groups across the board simply had an unlucky H1 2018 in the Benelux. From a sell-side perspective, the general view on Chinese buyers has changed in recent years for shareholders and

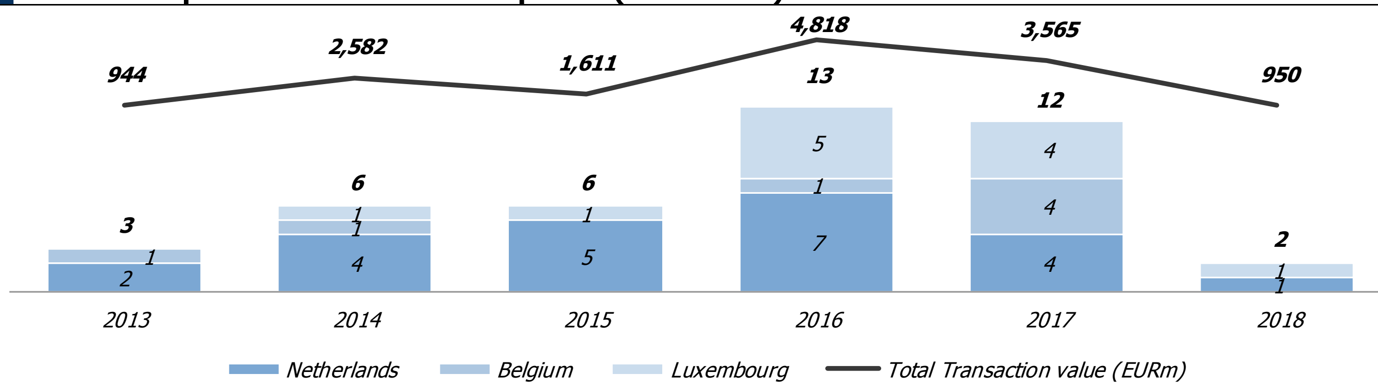
[1] Any transacting party acquiring a target from a restricted industry, including but not limited to real estate, hotels, entertainment, sport clubs, and "outdated industries", or that has a transaction value above EUR 300m needs to submit a 'projects information report' to the NDRC.

incumbent management teams. Sellers initially had the expectation of a high selling price, paired however, with a significant amount of deal uncertainty when it came to Chinese buyers. This is a thing of the past.

Chinese buyers have been changing their image as fickle buyers to being increasingly sophisticated and educated when it comes to valuation, the structure of the sales process and communication with involved parties. However, improvements can still be made when it comes to meeting international timelines in auctions with respect to important issues such as financing, pre-approvals and managing internal processes.

Chinese corporates and Private Equity groups would benefit from establishing a relationship with an investment bank with a high level of engagement, deep knowledge concerning the Benelux market and specialization in competitive auctions. This kind of relationship will provide interested Chinese buyers with a steady pipeline of potentially interesting targets, timely guidance on managing timelines and communication with involved parties prior to a competitive auction.

Chinese acquisitions of Benelux companies (2013-2018)[1]



Source: Lincoln International research, Capital IQ
Note 1: Based on announcement date
Note 2: Minimum total transaction value based on available transaction values

Selected China-Benelux M&A Transaction Recap 2013-2018 (in EUR million)

Date	Target Company	Target Description	Target Industry	Buyer Company	Transaction Value
Pending	Fibrant B.V.	Produces caprolactam and related products	Chemicals	Highsun Group	200
Jan-18	NovEnergia	Operator of renewable energy assets	Energy	China Datang	750
Dec-17	Louis Dreyfus	Engages in merchandizing of precious metal	Metals & Mining	NCCI Natural Resources	380
Sep-17	China National	Manufactures chemical processing machinery	Industrials	Qingdao Tianhua Institute	681
Sep-17	Banque International	Provides banking and financial products and services	Financial services	Legend Holdings	1,500
May-17	Knightslight Property	Operates real estate properties	Real Estate	Chinese Estate Holdings	200
May-17	Double Tree Hilton[1]	Offers lodging services	Leisure	Anbang	352
May-17	Abercrombie & Kent	Operator of Luxury and adventure tours	Leisure	Zhonghong	269
Feb-17	Nexperia	Manufactures Semiconductor RF products	Electronics	JianGuang Asset Management	2,750
Jan-17	Ferrexcube	Manufactures electromagnetic interference products	Industrials	Chilisin Electronics	130
Sep-16	OEP 10	Provider of digital library management systems	TMT	Biiteca Cultural Technology	254
Aug-16	BCP Meerwind	Operates offshore wind power projects	Energy	China Three Gorges	455
Aug-16	Tpc Holding	Produces textile processing chemicals and solutions	Chemicals	Transfar Zhilian	110
Mar-16	Punch Powertrain	Manufactures powertrain solutions for vehicles	Automotive	Ningbo Oriental Yisheng	950
Jan-16	IEE S.A.	Develops specialized sensing systems	TMT	Aerospace Hi-Tech	195
Dec-15	KMG International N.V.	Engages in oil and gas refining	Oil and Gas	CEFC China Energy	596
Jul-15	Orangefield Group	Provides corporate, administrative, and trust services	Business services	Baring Private Equity Asia	300
Feb-15	VIVAT	Provides insurance products	Financial services	Anbang	700
Dec-14	Delta Lloyd Bank	Provides personal and private banking services	Financial services	Anbang	220
Aug-14	BWI Europe Company	Manufactures and markets suspension products	Automotive	Billion Million	106
May-14	Nedfast Investments	Manufactures cold forged components	Automotive	Shanghai Prime Machinery	194
Feb-14	Nidera B.V.	Distributes commodities for agricultural markets	Business services	COFCO	2,053
Aug-13	AVR Afvalverwerking	Converts residual waste into energy	Energy	Cheung Kong	944

Source: Lincoln International research, Capital IQ
Note 1: Amsterdam

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Lincoln International's China Desk in DACH and Benelux

Strategy and USPs of Lincoln International's China Desk

Lincoln International's China Desk was established in October 2016. Based in Frankfurt and Amsterdam, we cover the transactions in the DACH region (Germany, Austria and Switzerland) and the Benelux region (The Netherlands, Belgium and Luxemburg).

The daily work of the China Desk includes organizing general meetings with Chinese strategic buyers and private equities, identifying potential buyers for ongoing projects and pitches, preparing teasers in Chinese, organizing calls between the potential Chinese buyers and the seller during the deal process and accompanying sellers to conduct roadshows in China.

The China Desk works closely with Lincoln International's Beijing office and has achieved excellent performance during the past years. In 2017, Lincoln International successfully completed 10 China outbound transactions. Among them, 4 transactions were German sell-sides, 1 transaction was China buy-side. The German sell-side deals include the sale of Romaco to China Chutian Group and the sale of Cotesa to AT&M. The strong deal flow enables us to gain valuable insights into the China market and accumulate extensive deal experience with Chinese buyers.

Aiming to be the leading mid-market investment bank, we are not doing Chinese cross-border deals opportunistically, but we have a clearly-defined strategy.

Firstly, Lincoln International AG focuses on sell-side transactions. In this field, we work closely with Lincoln International in China. We maintain long-term relationships and keep an ongoing dialogue with Chinese buyers. Through this approach, we have quickly enlarged our customer relationship pool and effectively established contact with key people of many companies.

Secondly, Lincoln International always has new ideas to do things differently in the market. Driven by this idea, we are proud to be the first sell-side investment bank to join in the M&A delegation organized by the CIPA committee, which is under the Ministry of Commerce of China in October 2017, and visit Foshan, Shenzhen and Taicang. We introduced Lincoln International among Chinese enterprises and funds, conducted site-visits in well-known enterprises such as Midea Group and enlarged our buyer base quickly.

In 2018, we decided to issue the China M&A Deal Reader. The recipients of our deal reader will not only be the strategic companies and private equities in the DACH and Benelux regions but also the most active Chinese strategic buyers and private equities. We are eager to share our market insights and deal experience to facilitate the deal process between China and Europe. In the deal reader, we will share our insights and trends of the currently discussed topics.

Thirdly, we work actively on leveraging our network and establishing key relationships with Chinese buyers not only in DACH but also in the Benelux region. The Benelux region has high-quality assets. Both the size and the investment angle would be interesting for Chinese buyers. Currently, several advisory companies have a China Desk in Germany, but very few focus on the Benelux region. We as Lincoln International will help both sellers and buyers to explore more.

Finally, Lincoln International's China Desk provides a platform for Chinese companies and European companies to work together. As a member of the China Desk, we are active during the whole deal process. Meanwhile, each colleague at Lincoln International works on deals which include potential Chinese buyers. No one is limited to a certain region. This process enables all of us at Lincoln International to gain insights in the complete transaction process, understand the deal dynamics of international buyers better and guide them smoothly through the process. I am very proud of my colleagues who have successfully closed China cross-border deals. All of them are enthusiastic, open-minded and go the extra mile to get things done though language and cultural barriers. Due to them, our China Desk is not only a desk, but a whole integrated team.

Lincoln International's Beijing office

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Connecting Western and Chinese companies via daily execution

Lincoln International entered the Chinese market in 2008 via a joint-venture with China Everbright Group. With execution of experienced bankers in Hong Kong and support from Lincoln global offices, Lincoln International China completed several remarkable transactions in first years, including the sale of Goss International to Shanghai Electric, the sale of Inalfa to BHAP and the acquisition of Tedrive by Wanxiang Group.

In 2013, Lincoln International established a physical office in Beijing to further develop the presence in the Chinese market. Lincoln International China benefited from the growth momentum with 5 deals closed in 2016 and 10 deals closed in 2017. Led by ex-Morgan Stanley professionals, the Lincoln International China team consists of bankers with abundant experience in cross-border M&A.

As a core part of Lincoln global, the LI China team is experienced in co-executing sell-side projects with other offices, especially helping global offices identify potential buyers from Greater China region and approach them during marketing process. With accumulated communication and experience in past decade, LI China team maintained close and long-term relationship with thousands of Chinese companies, including both state owned companies and family enterprises, public companies and private conglomerates. Leveraging very good customer relationships and Chinese companies' increasing M&A appetite, LI China is closely involved in global projects in terms of buyer recommendation, buyer outreach, and detailed execution. LI China observes that in addition to active Chinese players, more and more Chinese companies have made their outbound investment strategy while lacking knowledge regarding the auction process and the key considerations in a cross-border acquisition. To help those companies understand M&A basics, LI China not only cooperates with local governments to give public speeches during specialized forums in which major regional companies participate, but also proactively helps potential buyers walk through cross-border M&A processes when contacting them during on-going projects.

Apart from global sell-side mandates, Lincoln International China also assists Chinese private companies in selling majority stakes to buyout funds and multinational corporations (MNCs). We notice a trend that besides IPO, M&A is becoming an option for private companies' owners to exit, and that both domestic and global private equity funds are increasing their buy-out investment in mainland China. Thanks to Lincoln's global footprint in 15 countries, LI China also gains unparalleled advantages in terms of assisting MNCs in exiting their Chinese business. The China team is able to organize a full sell-side auction process and deliver a favorable outcome. Representative transactions in the past two years include the sale of Zhejiang R.G.B, a Chinese private textile company to British buyout fund Actis, and the sale of Zhejiang Hisyn, a subsidiary of Portugal pharmaceutical company Hovione, to a Chinese public company Starry.

In addition, LI China provides buy-side advisory services both to Chinese companies on acquiring overseas targets and to foreign companies on acquiring Chinese assets. The regulatory issues for Chinese companies' outbound investment are quite complicated and require close attention in any project. With years of buy-side advisory experience in assisting Chinese companies and private equity funds participating in global transactions, LI China is familiar with all regulatory requirements including filing/approval at National (Regional) Development and Reform Commission, filing/approval at National (Regional) Ministry of Commerce and registration at State Administration of Foreign Exchange. Among the buy-side experiences, in 2018 LI China successfully advised SDIC Zhonglu Juice on acquiring Appol, the largest apple juice producer in Poland, which is the first investment in the Polish agriculture sector by Chinese investors.

Lincoln International China is an essential bridge connecting Western and Chinese companies. The team also helps Chinese investors proactively approach overseas acquisition targets, which are usually portfolios of private equity funds, and in a reverse aspect. Meanwhile, LI China also assists foreign companies in testing the Chinese market via pre-emptive roadshows. Besides M&A advisory, Lincoln International China is experienced at assisting MNCs in establishing joint-venture business in China, acting as a global project leader.

With 10 years of execution experience, Lincoln International China has become one of the leading global investment banks who perfectly understands the Chinese market and maintains profound relationships with major Chinese M&A participants. The team is confident about the potential of the Chinese market and will continue to act as a key connector in the future.

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Infrastructure
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Tokyo
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Debt Advisory
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About Lincoln International

Lincoln International specializes in merger and acquisition advisory services, debt advisory services, private capital raising and restructuring advice on mid-market transactions. Lincoln International also provides fairness opinions, valuations and joint venture and partnering advisory services on a wide range of transaction sizes. With twenty offices in the Americas, Asia and Europe, Lincoln International has strong local knowledge and contacts in key global economies. The firm provides clients with senior-level attention, in-depth industry expertise and integrated resources. By being focused and independent, Lincoln International serves its clients without conflicts of interest. More information about Lincoln International can be obtained at www.lincolninternational.com.

Lincoln International China Coverage

DACH and Belenux

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