

**China outbound M&A activities in Europe and North America**  
Trend and Forecast

August 2017

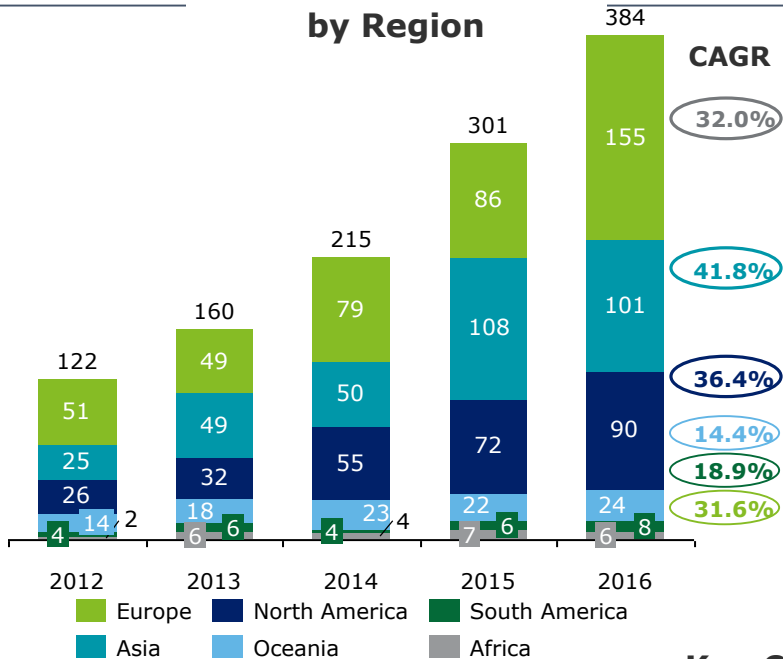


Making another century of impact  
德勤百年庆 开创新纪元

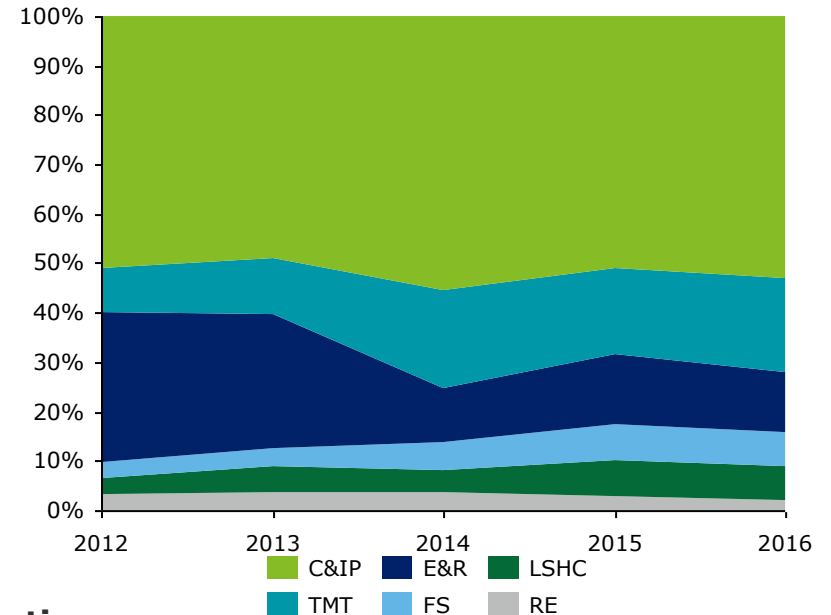
# China outbound M&A trends

China outbound M&A activities have experienced astounding growth in the past 5 years

**Outbound Deal Count by Region**



**Outbound Deal Count by Industry**



## Key Observations

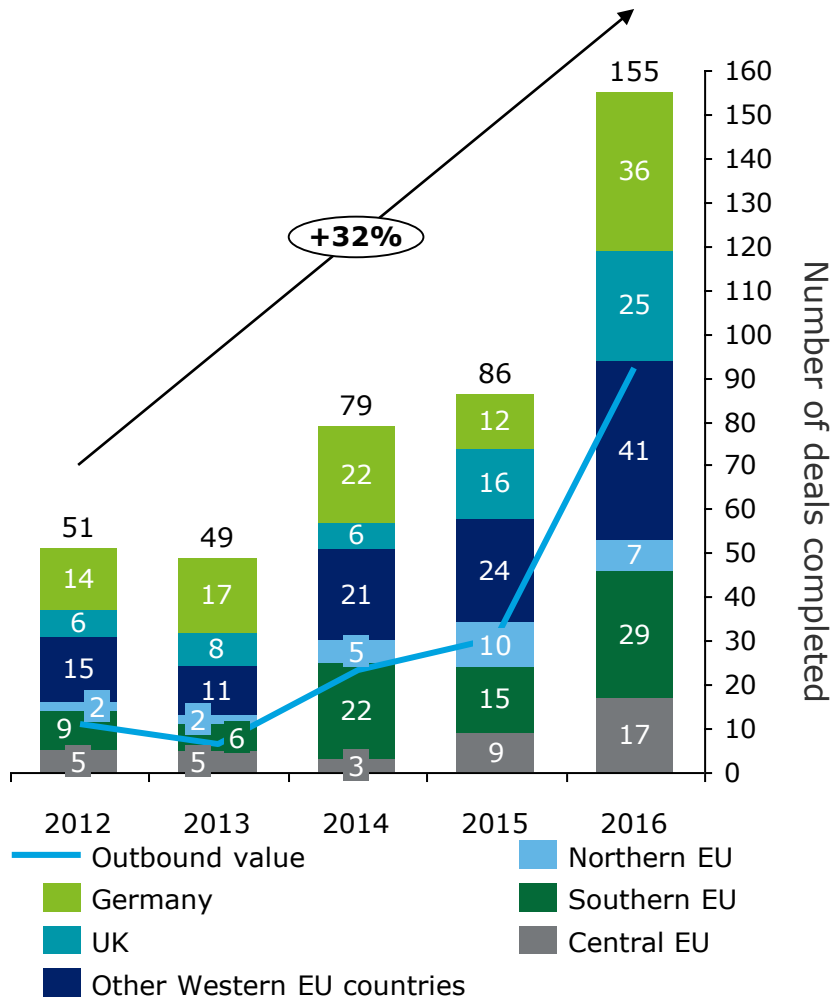
- Europe and North America have been the preferred target regions for Chinese buyers since 2012, with Europe taking up 28.6% - 41.8% of deal volume in the past 5 years with a CAGR of 32% between 2012 and 2016; and North America taking up around 23% of deal volume in the past 5 years with a CAGR of 36.4% within the same period
- C&IP has remained the top targeted industry, growing rapidly and accounting for ~50% of the annual deal volume; TMT, LSHC and FS industries have seen strong volume growth while E&R is gradually shrinking
- Investors became increasingly interested in the TMT sector; deal volume has surpassed investment in E&R, becoming the 2<sup>nd</sup> most active industry for M&A activities. This is mainly due to the transformation in China's economic structure where the service industry has replaced manufacturing in becoming the strongest driver for economical growth; additionally, growth in disposable income, along with the uprising trend of digital connectivity, has led to investors targeting the high tech, healthcare, and financial service sectors

Source: MergerMarket

Note: The data includes deals made by enterprises registered in Hong Kong but are SOEs or private owned with major operation in China

# China - Europe outbound M&A trends

China - Europe M&A transactions have accounted for most of China's outbound investment activities



## Key Drivers

- A** Chinese companies engage in outbound M&A deals primarily due to **Internal Business Growth Needs**
- Key capability or asset acquisition
  - Rapid market entry
  - Business portfolio expansion
  - Market share increases and profitability improvements
  - Market share protection through defensive competition strategy adoption
- B** **The Chinese government** outlined three top-level **strategies** that provide a policy environment supportive of overseas investments
- "Going Out" policy
  - "The Belt and Road (B&R)" initiative
  - Supply-side reform
- C** **European investment environment** is generally favorable despite its risks
- Depreciation of the British Pound
  - Attractive enterprise valuations
  - Low interest rates
  - Tax incentives
  - Open business environment
  - Less competition in European M&A market

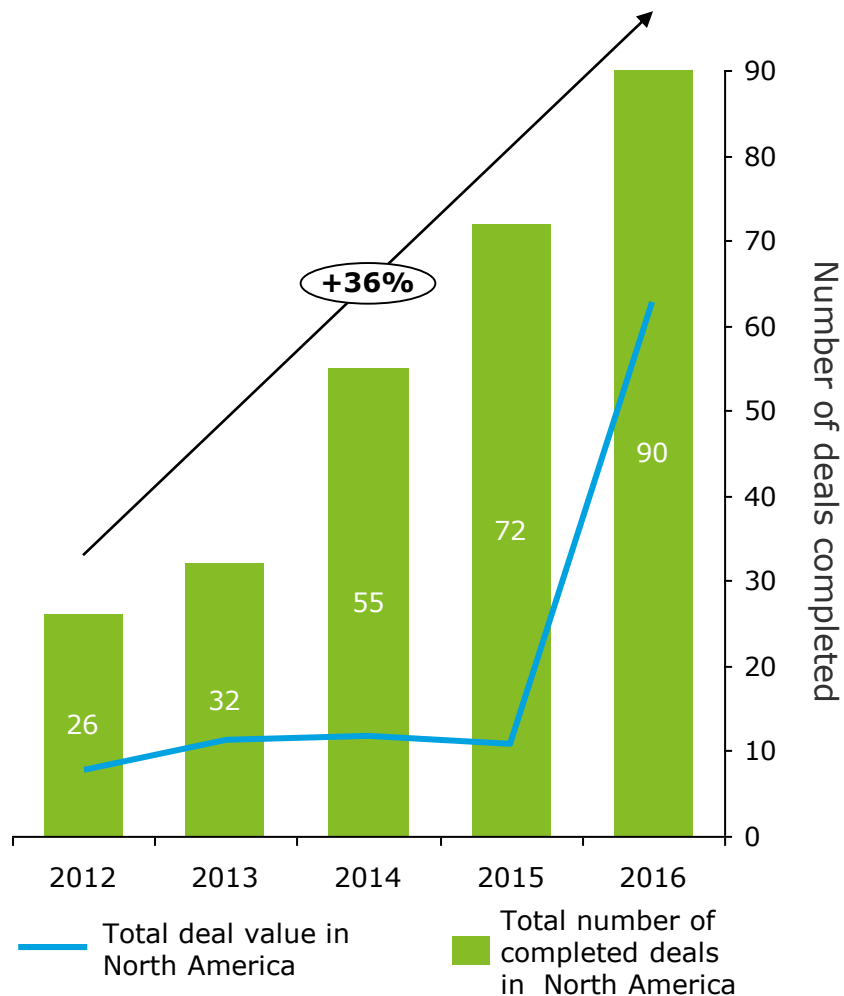
Source: Deloitte Analysis

Note: Breakdown of geographic region and industry sectors can be found in appendix

© 2017. For information, contact Deloitte China.

# China - North America outbound M&A trends

North American market has also been active, with transaction volume closely following the Europe market



## Key Drivers

- A** Chinese companies engage in outbound M&A deals primarily due to **Internal Business Needs**
  - Key capability or asset acquisition
  - Rapid market entry
  - Business portfolio expansion
  - Market share increases and profitability improvements
  - Market share protection through defensive competition strategy adoption
- B** **The Chinese government** outlined top-level **strategies** that provide a policy environment supportive of overseas investments
  - “Going Out” policy
  - Supply-side reform
- C** **Investment environment in North America** is generally favorable despite its risks
  - Innovative atmosphere
  - Low interest rates
  - Open business environment
  - Talent access
  - Strong protection of IP

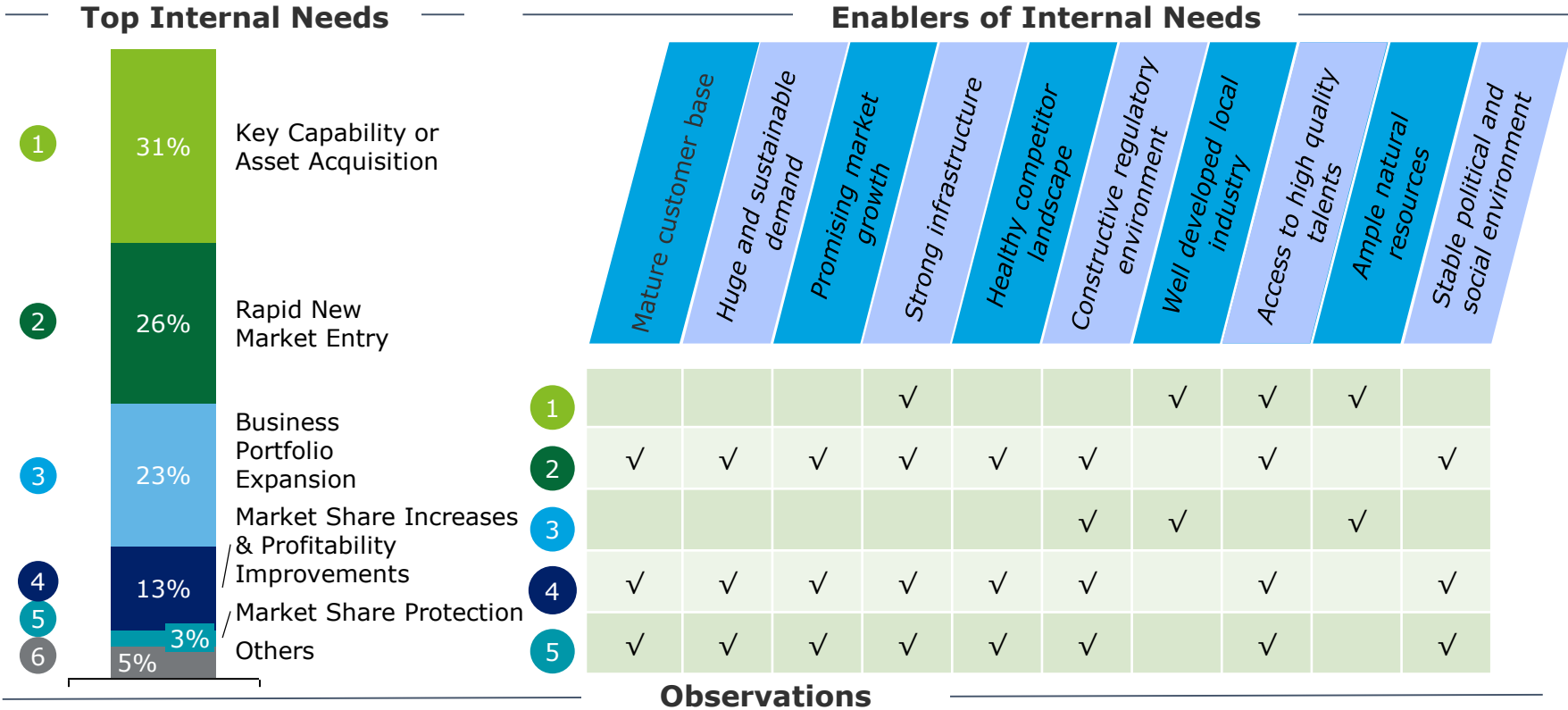
Source: Deloitte Analysis

Note: Breakdown of geographic region and industry sectors can be found in appendix

© 2017. For information, contact Deloitte China.

# A Internal business growth needs (1/2)

The ideal market environment of European and North American countries is able to meet the growth demand of many Chinese investors



- Research shows acquisitions of key capacities and assets, rapid growth in new markets, portfolio enhancement as well as increase market shares have been the four major drivers behind outbound investments
- In terms of outbound investment motivation, SOE, private enterprise as well as WFOE are driven by acquisitions of key capacity and assets, while PE/VC is motivated by rapid market entrance
- From an industry perspective, FS and E&R industries look for portfolio enhancement, CP&S is attracted by the potential revenue increase, while auto, IP&S, LSHC and RE industries focus more on capacity building

Source: Expert Interviews, Deloitte Analysis

Note: Breakdown of geographic region and industry sectors can be found in appendix

# A Internal business growth needs (2/2)

Each region offers its own differentiated advantage to attract Chinese investors

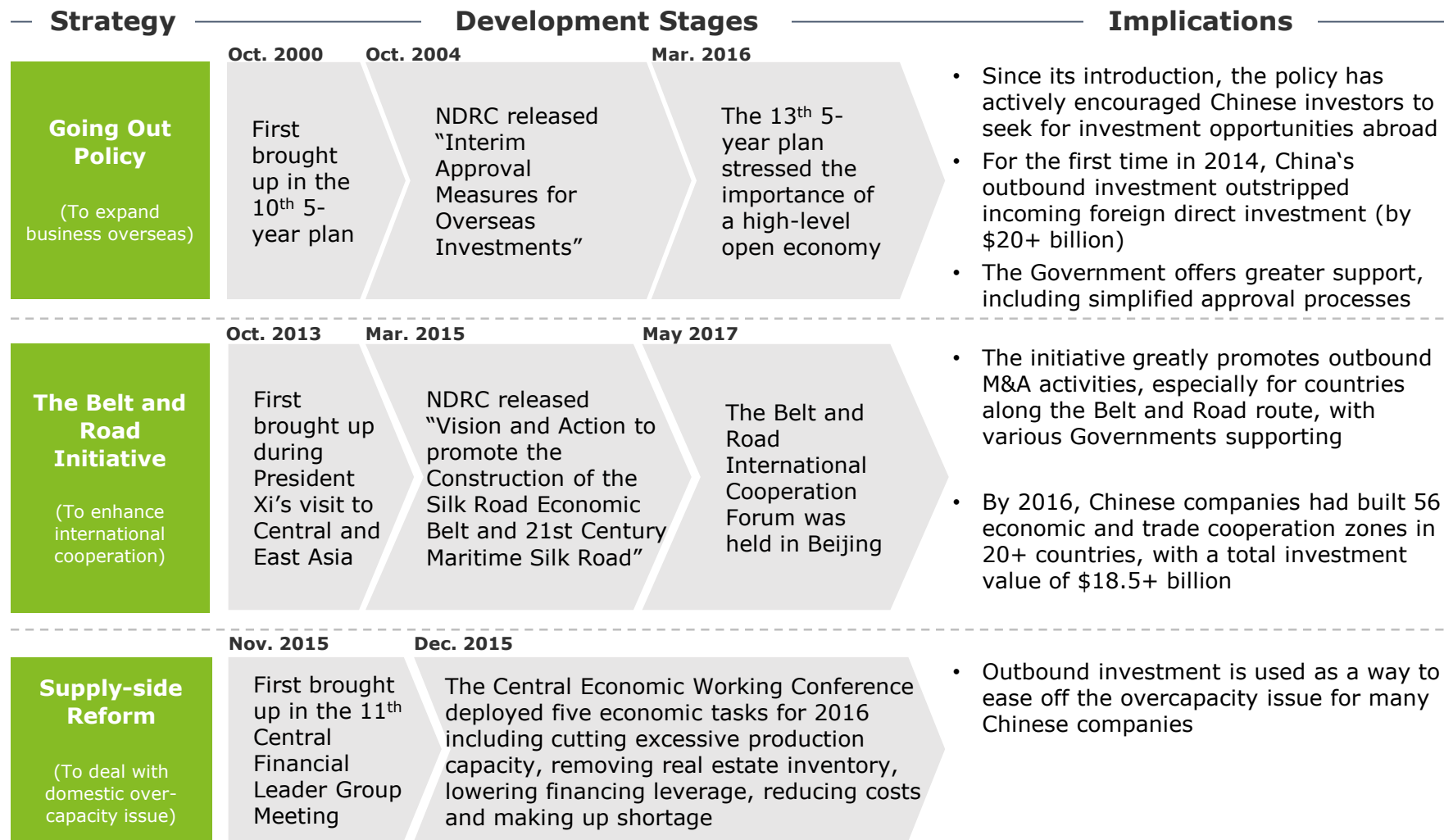
| Region                              | Features  | Implications  |
|-------------------------------------|---|---|
| <b>North America</b>                | <ul style="list-style-type: none"> <li>• Certain industries lead their respective worldwide markets, especially TMT and LSHC</li> <li>• Mature customer groups provide sustainable market demand and a reliable base for company development and expansion</li> <li>• Companies generally have high quality talent and management teams</li> <li>• Well developed infrastructure creates a good investment environment</li> <li>• Competition environment is open and healthy</li> </ul>  | <ul style="list-style-type: none"> <li>• US will continue to be a preferred country for outbound investment</li> <li>• Likely to see faster M&amp;A growth in TMT and LSHC</li> </ul>   |
| <b>Western Europe</b>               | <ul style="list-style-type: none"> <li>• Certain industries lead their respective worldwide markets, such as Auto, IP&amp;S, CP&amp;S and LSHC; commercial real estate has also been huge in the UK due to a plummeting pound</li> <li>• Mature customer groups provide sustainable market demand and a reliable base for company development and expansion</li> <li>• Companies generally have high quality talent and management teams</li> <li>• Well developed infrastructure creates a good investment environment</li> <li>• Competition environment is open and healthy</li> </ul> | <ul style="list-style-type: none"> <li>• Western Europe will continue to be the hottest region for outbound investment; Germany and the UK will be the most sought out countries</li> <li>• Likely to see faster M&amp;A growth in TMT, LSHC, and RE</li> </ul>         |
| <b>Northern Europe</b>              | <ul style="list-style-type: none"> <li>• TMT and E&amp;R are particularly attractive to foreign investors</li> <li>• Demand is sustainable and growth is promising due to its stable economy</li> <li>• Regulatory environment encourages foreign investment. For example, foreign companies are free to make direct investments in Sweden without any approval requirements and investment amount restrictions</li> <li>• There are ample natural resources, such as petroleum and natural gas</li> </ul>  | <ul style="list-style-type: none"> <li>• Northern Europe will experience growth in M&amp;A deal volume as China is vigorously developing its high-tech industry</li> <li>• The friendly investment environment is also a major attraction for Chinese buyers</li> </ul> |
| <b>Southern Europe</b>              | <ul style="list-style-type: none"> <li>• CP&amp;S industry is well developed especially in the luxury products sectors</li> <li>• Regulatory environment is friendly towards foreign investors</li> <li>• Investments are active in new energy resources, such as solar energy</li> </ul>   | <ul style="list-style-type: none"> <li>• CP&amp;S and E&amp;R will continue to be Southern Europe's most attractive industries</li> </ul>   |
| <b>Central &amp; Eastern Europe</b> | <ul style="list-style-type: none"> <li>• This region is abundant in energy and mining resources such as natural gas, iron, and gold</li> <li>• Governments provide various incentives, including tax incentives and grants to attract capital inflow</li> <li>• Market is expected to grow quickly in the future</li> </ul>   | <ul style="list-style-type: none"> <li>• M&amp;A activities are expected to emerge especially in E&amp;R and CP&amp;S, largely fueled by the Belt and Road Initiative</li> </ul>  |

Source: Expert Interviews, Deloitte Analysis

Note: Breakdown of geographic region and industry sectors can be found in appendix

## B Chinese government strategies

The Chinese Government outlined three top-level strategies steering the overall cross-border investments






Source: MergerMarket, Belt and road portal, Ministry of Commerce "Landmark year as ODI set to exceed FDI"

Note: Breakdown of geographic region and industry sectors can be found in appendix



## B Chinese government policies (1/2)

Within the strategic policies are detailed overseas investment regulations supporting outbound M&A activities

| Regulation                                | Main Content  | Implications   |
|---|---|--|
| <b>Tax Service Facilitation</b>           | <ul style="list-style-type: none"><li>• In April 2015, the State Administration of Taxation introduced seven measures to better support outbound investment activities, including:<ul style="list-style-type: none"><li>- Provide stronger support in signing and amending tax agreements</li><li>- Further strengthen bilateral negotiations on tax related disputes</li><li>- Establish a tax service website for the Belt and Road Initiative</li><li>- Hold training courses for companies seeking outbound investment</li><li>- Set up a tax service hotline</li><li>- Conduct face-to-face coaching on new taxation measures and policies</li><li>- Establish an communication platform to discuss tax related topics</li></ul></li></ul> | <ul style="list-style-type: none"><li>•  Greatly expedites the process of signing and amending tax conventions (7 signed in 2016 alone)</li><li>• Offers various conveniences for tax payers involved in outbound investments</li></ul> |
| <b>Simplification of Approval Process</b> | <ul style="list-style-type: none"><li>• In April 2016, National Development and Reform Commission (NDRC) adjusted regulations to simplify the cross-border investment approval process:<ul style="list-style-type: none"><li>- Overseas investment projects of \$1 billion or more need NOT be approved by NDRC</li><li>- Overseas investment projects of \$2 billion or more need NOT be approved by the State Council</li></ul></li></ul>   | <ul style="list-style-type: none"><li>•  Facilitates outbound investments by continuously deepening investment management reform</li></ul>  |
| <b>Financing Support</b>                  | <ul style="list-style-type: none"><li>• To support its strategic plan, the Government has set up several policy funds and overseas investment companies, including:<ul style="list-style-type: none"><li>- Integrated Circuit Industry Investment Fund</li><li>- Guoxin International Investment Corporation</li><li>- CIC Overseas Direct Investment Corporation</li></ul></li></ul>   | <ul style="list-style-type: none"><li>•  Offers great financial support particularly for deals aligning with policy directions</li></ul>  |

Note: Breakdown of geographic region and industry sectors can be found in appendix

## B Chinese government policies (2/2)

However, the government has also started putting more restrictions on capital outflow

### Regulation

### Main Content

### Implications

#### Capital Control

- In Nov. 2016, State Administration of Foreign Exchange (SAFE) required all capital outflow transactions greater than \$5 million to be submitted for retroactive approval, and stepped up its review of currency exchanges in large overseas M&A deals, including those that had previously been granted quotas
  - Regulators mandated that the following types of outbound transactions cannot be filed or approved without approvals from relevant departments:
    - Extra-large foreign acquisitions valued at \$10 billion or more per deal
    - SOEs intending to build or invest in overseas properties valued at \$1 billion or more per deal
    - Chinese companies seeking to invest \$1 billion or more in overseas entities unrelated to their core businesses
    - Direct overseas investments made by limited partnerships
    - Investments in companies listed overseas that are less than 10% of the investors' total equity
    - Chinese capital trying to participate in the delisting of Chinese companies listed overseas
  - In Jan. 2017, SAFE added a new performance index in its risk assessment titled "Annual Rate Changes in the Ratio of Cross-border Payments to Total"
  - In July 2017, Ministry of Commerce announced its amendment on the record-filing requirements for the establishment and changes of foreign enterprise in China, under the new policy, foreign investors acquiring domestic listed company through equity transfer of its foreign listed shares will no longer need to be approved by MOFCOM, this is seen as a way to ease off the current pressure on capital outflow
-  Introduces more requirements on authenticity and compliance reviews to avoid capital flight and irrational overseas investments
- Negatively affects deals with high valuations
  - In the short term, capital control may slow down cross-border investments. However, M&A activities will stay active for Chinese buyers in the long run

Source: Ministry of Commerce "Amendment on record-filing requirement for the establishment and changes of foreign enterprise in China"

# US's investment environment (1/2)

US's environment is generally favorable for outbound investments

|   | <b>US's Environment</b>  | <b>Implications</b>   |
|---|--|---|
| <b>Innovative Atmosphere</b>                      | <ul style="list-style-type: none"><li>US embraces leading innovative atmosphere worldwide, cultivating various high-tech and internet companies with advanced technologies</li></ul>               | <ul style="list-style-type: none"><li>The well-established innovation environment undoubtedly serves a major attraction for Chinese investors, especially for those seeking core technologies</li></ul> |
| <b>Talent Access</b>                              | <ul style="list-style-type: none"><li>Most US companies possess a huge pool of talent with abundant management experience and leading industry knowledge</li></ul>                                 | <ul style="list-style-type: none"><li>M&amp;A of US companies offers Chinese investors the opportunity to access high quality talent, an important driver for outbound M&amp;A</li></ul>                |
| <b>Lower Interest Rates</b>                       | <ul style="list-style-type: none"><li>The mature capital market in US provides lower interest rates compared with those of domestic markets, which is favorable for Chinese buyers</li></ul>       | <ul style="list-style-type: none"><li>Lower financing costs will enhance the attractiveness of US targets</li></ul>   |
| <b>Strong Protection of Intellectual Property</b> | <ul style="list-style-type: none"><li>US government provides strong protection of intellectual property with stringent laws and sound administrative management</li></ul>                          | <ul style="list-style-type: none"><li>The well-developed intellectual property protection system creates a favorable environment for company operation and development</li></ul>                        |
| <b>Open Business Environment</b>                  | <ul style="list-style-type: none"><li>US has an open business environment in which most transactions can be carried out in an open and transparent manner with clear legal repercussions</li></ul> | <ul style="list-style-type: none"><li>US's inclusive business environment will continue to fuel its M&amp;A activities</li></ul>  |

Source: Expert Interviews, Deloitte Analysis

© 2017. For information, contact Deloitte China.

# c US's investment environment (2/2)

However, certain risks may slow down the pace of M&A activities

|   | <b>US's Environment</b>   | <b>Implications</b>   |
|---|---|---|
| <b>Obstruction by Local Authorities</b> | <ul style="list-style-type: none"><li>US is putting more constraints on cross-border investments out of antitrust and national security considerations. In 2016, 10 transactions totaling \$59B with the US were canceled, accounting for about 80% of the total cancelled deal value</li></ul> | <ul style="list-style-type: none"><li>The relatively protectionist stance on trade with China will have a negative impact on M&amp;A activities, drastically lowering the likelihood of obtaining necessary approvals</li></ul> |
| <b>Stringent Labor Laws</b>             | <ul style="list-style-type: none"><li>Rigid labor laws in Europe set an unavoidable barrier for Chinese investors who are generally unfamiliar with the laws and their implications</li></ul>   | <ul style="list-style-type: none"><li>The legal environments differences between Europe and China may cause certain deals to fail if investors don't make properly plan</li></ul>   |
| <b>Union Bargaining Power</b>           | <ul style="list-style-type: none"><li>Unions, even as independent third parties, have a strong voice over the decision-making processes of companies in North America</li></ul>   | <ul style="list-style-type: none"><li>Unsuccessful negotiations with unions will cause deals to fall through before and after deal closures</li></ul>   |
| <b>Appreciation of US Dollars</b>       | <ul style="list-style-type: none"><li>The value of the US Dollar increased dramatically in 2016, setting back many companies to invest in US</li></ul>  | <ul style="list-style-type: none"><li>In the short term, there will be concerns for Chinese investors targeting US companies</li></ul>  |
| <b>Slow Economic Recovery</b>           | <ul style="list-style-type: none"><li>US economy remains sluggish as a continuation of the long term economic downturn with few signs of economic turnaround in the near future</li></ul>   | <ul style="list-style-type: none"><li>Slow economic recovery may give rise to Chinese buyers' worry about the future profitability of US companies</li></ul>  |
| <b>Uncertain Political Environment</b>  | <ul style="list-style-type: none"><li>Trump's China policy may cause more restrictions for Chinese companies seeking investment opportunities in US, especially for those targeting high-tech industry</li></ul>  | <ul style="list-style-type: none"><li>Sino-US economic and trade areas will undoubtedly usher in new challenges. Chinese investors may be subject to more stringent review from CFIUS</li></ul>                                 |

Source: Expert Interviews, Deloitte Analysis

© 2017. For information, contact Deloitte China.

# C European investment environment (1/2)

Europe's market environment has also been favorable for Chinese investors

|   | European Environment  | Implications  |
|---|---|---|
| <p><b>Devaluation of the British Pound</b></p>  | <ul style="list-style-type: none"> <li>The value of the British Pound dropped dramatically in 2016, attracting many investors to UK companies</li> </ul>  | <ul style="list-style-type: none"> <li>In the short term, there will be a rise in the number of Chinese investors targeting UK companies; however, the Pound's devaluation may also raise profitability concerns amongst investors</li> </ul> |
| <p><b>Attractive Valuations</b></p>             | <ul style="list-style-type: none"> <li>Compared with domestic valuations, those of European targets are lower and more reasonable</li> </ul>  | <ul style="list-style-type: none"> <li>Lower valuations make outbound investments more attractive for Chinese investors</li> </ul>  |
| <p><b>Lower Interest Rates</b></p>              | <ul style="list-style-type: none"> <li>Europe's mature capital market provides lower interest rates compared with those of domestic markets</li> </ul>  | <ul style="list-style-type: none"> <li>Lower financing costs will boost the attractiveness of European targets</li> </ul>   |
| <p><b>Tax Incentives</b></p>                    | <ul style="list-style-type: none"> <li>Many European countries offer tax incentives to attract inbound investments. For example, the UK Government provides various tax deduction items and is dedicated to maintaining a low tax rate</li> </ul> | <ul style="list-style-type: none"> <li>Favorable tax policies will continue to appeal to Chinese investors</li> </ul>   |
| <p><b>Open Business Environment</b></p>         | <ul style="list-style-type: none"> <li>Europe has an open business environment in which most transactions can be carried out in an open and transparent manner with clear legal repercussions</li> </ul>  | <ul style="list-style-type: none"> <li>Europe's inclusive business environment will continue to fuel its M&amp;A activities</li> </ul>  |
| <p><b>Less Competition in Merger Market</b></p> | <ul style="list-style-type: none"> <li>Compared with that of the US market, competition is less fierce in the European merger market, which is advantageous for Chinese buyers in securing a successful bid</li> </ul>                            | <ul style="list-style-type: none"> <li>The European market will continue to attract overseas investors due to its lower levels of competition and abundance of high-quality targets</li> </ul>  |

Source: Expert Interviews, Deloitte Analysis

© 2017. For information, contact Deloitte China.

# C European investment environment (2/2)

Similarly, risk factors may also slow down the pace of investment activities

| European Environment                    |  | Implications  |
|---|--|---|
| <b>Obstruction by Local Authorities</b> | <ul style="list-style-type: none"> <li>Some European countries are putting more constraints on cross-border investments out of antitrust and national security considerations. For example, the European Commission held that the aggregate turnover and revenue of all Chinese SOEs in the same industry that don't have decision-making autonomy, should be consolidated for purposes of determining the jurisdiction of the Commission</li> </ul> | <ul style="list-style-type: none"> <li>The relatively protectionist stance on trade with China will have a negative impact on M&amp;A activities, drastically lowering the likelihood of obtaining necessary approvals</li> </ul> |
| <b>Political Uncertainty</b>            | <ul style="list-style-type: none"> <li>The Political environment remains uncertain as a result of Brexit, growing populism, and high risk of terrorism attacks</li> </ul>  | <ul style="list-style-type: none"> <li>Political uncertainty in Europe may slow down the pace of outbound investment</li> </ul>   |
| <b>Stringent Labor Laws</b>             | <ul style="list-style-type: none"> <li>Rigid labor laws in Europe set an unavoidable barrier for Chinese investors who are generally unfamiliar with the laws and their implications</li> </ul>  | <ul style="list-style-type: none"> <li>The legal environments differences between Europe and China may cause certain deals to fail if investors don't make properly plan</li> </ul>   |
| <b>Work Council Bargaining Power</b>    | <ul style="list-style-type: none"> <li>Work councils, even as independent third parties, have a strong voice over the decision-making processes of European companies</li> </ul>   | <ul style="list-style-type: none"> <li>Unsuccessful negotiations with work councils will cause deals to fall through before and after deal closures</li> </ul>  |
| <b>Cultural Diversity</b>               | <ul style="list-style-type: none"> <li>European culture is vastly diverse, making it challenging for investors seeking a successful deal</li> </ul>  | <ul style="list-style-type: none"> <li>Culture integration is an important part of overseas investments, meaning Chinese investors should make preparations in-advance</li> </ul>   |
| <b>Slow Economic Recovery</b>           | <ul style="list-style-type: none"> <li>The European economic recovery remains sluggish and many countries need capital injection</li> </ul>  | <ul style="list-style-type: none"> <li>Although inbound investments are welcomed to stimulate the economy and boost employment, the weak economy may reduce buyers' willingness to invest</li> </ul>                              |

Source: Expert Interviews, Deloitte Analysis

© 2017. For information, contact Deloitte China.

# Projection of China-to-US outbound M&A

Despite the complex factors influencing outbound M&A, Chinese investors remain positive towards the US market

| Key Influencing Factors                      | Impact |
|--|--------|
| <b>Economic Environment in US :</b>          |        |
| • Strengthening US Dollars                   | ☹️     |
| • Lower Interest Rates                       | 😊      |
| • Strong Protection of Intellectual Property | 😊      |
| • Innovative Atmosphere                      | 😊      |
| • Slow Economic Recovery                     | 😐      |
| • Open Business Environment                  | 😊      |
| <b>Political Environment in US :</b>         |        |
| • Obstruction by Local Authorities           | ☹️     |
| • Political Uncertainty                      | ☹️     |
| • Stringent Labor Laws                       | ☹️     |
| <b>Social Environment in US :</b>            |        |
| • Union Bargaining Power                     | ☹️     |
| • Cultural Differences                       | ☹️     |
| <b>Chinese Policies:</b>                     |        |
| • Tax Service Facilitation                   | 😊      |
| • Approval Process Simplification            | 😊      |
| • Financing Support                          | 😊      |
| • More Stringent Capital Control             | ☹️     |

😊 Positive   😐 Neutral   ☹️ Negative

Note: Breakdown of geographic region and industry sectors can be found in appendix

© 2017. For information, contact Deloitte China.

## Projection

### • Region

- In general, the amount of cross-border deals between China and US are expected to increase
- US will continue to attract investors looking to acquire advanced technology
- A strengthening US dollar may dampen Chinese investors' enthusiasm
- The uncertainty caused by Trump's administration may slow down the pace of M&A activities between China and US

### • Industry

- CP&S will remain the top active sector for China outbound investment
- Due to strong interest in acquiring core technologies and increasing market share, the TMT sector should see more deal growth
- The LSHC industry is likely to see a growth in M&A activities aimed at strengthening businesses and diversifying portfolios
- Deal activity will increase as the FS industry seeks to transform business models, increase revenue, and enter new markets

# Projection of China-to-Europe outbound M&A

Similarly, Chinese investors also hold an optimistic view towards the future China – Europe market regardless of various risk factors

| Key Influencing Factors   | Impact  |
|---|---|
| <b>Economic Environment in Europe :</b> <ul style="list-style-type: none"> <li>Weakness of the British Pound</li> <li>Attractive Valuations</li> <li>Lower Interest Rates</li> <li>Tax Incentives</li> <li>Slow Economic Recovery</li> <li>Open Business Environment</li> <li>Less Competition</li> </ul> | <br><br><br><br><br><br> |
| <b>Political Environment in Europe :</b> <ul style="list-style-type: none"> <li>Obstruction by Local Authorities</li> <li>Political Uncertainty</li> <li>Stringent Labor Laws</li> </ul>  | <br><br>   |
| <b>Social Environment in Europe:</b> <ul style="list-style-type: none"> <li>Work Council Bargaining Power</li> <li>Cultural Differences</li> </ul>  | <br>   |
| <b>Chinese Policies:</b> <ul style="list-style-type: none"> <li>Tax Service Facilitation</li> <li>Approval Process Simplification</li> <li>Financing Support</li> <li>More Stringent Capital Control</li> </ul>   | <br><br><br>  |

😊 Positive   😐 Neutral   ☹ Negative

Note: Breakdown of geographic region and industry sectors can be found in appendix

## Projection

### • Region

- In general, the amount of cross-border deals between China and Europe is expected to increase
- Germany will continue to attract investors looking to acquire advanced technology
- A weakening pound will drive investments in the UK but the investors' enthusiasm may be dampened by Britain's uncertain political environment
- The Belt and Road Initiative will continue to encourage outbound investments to Central and Eastern Europe

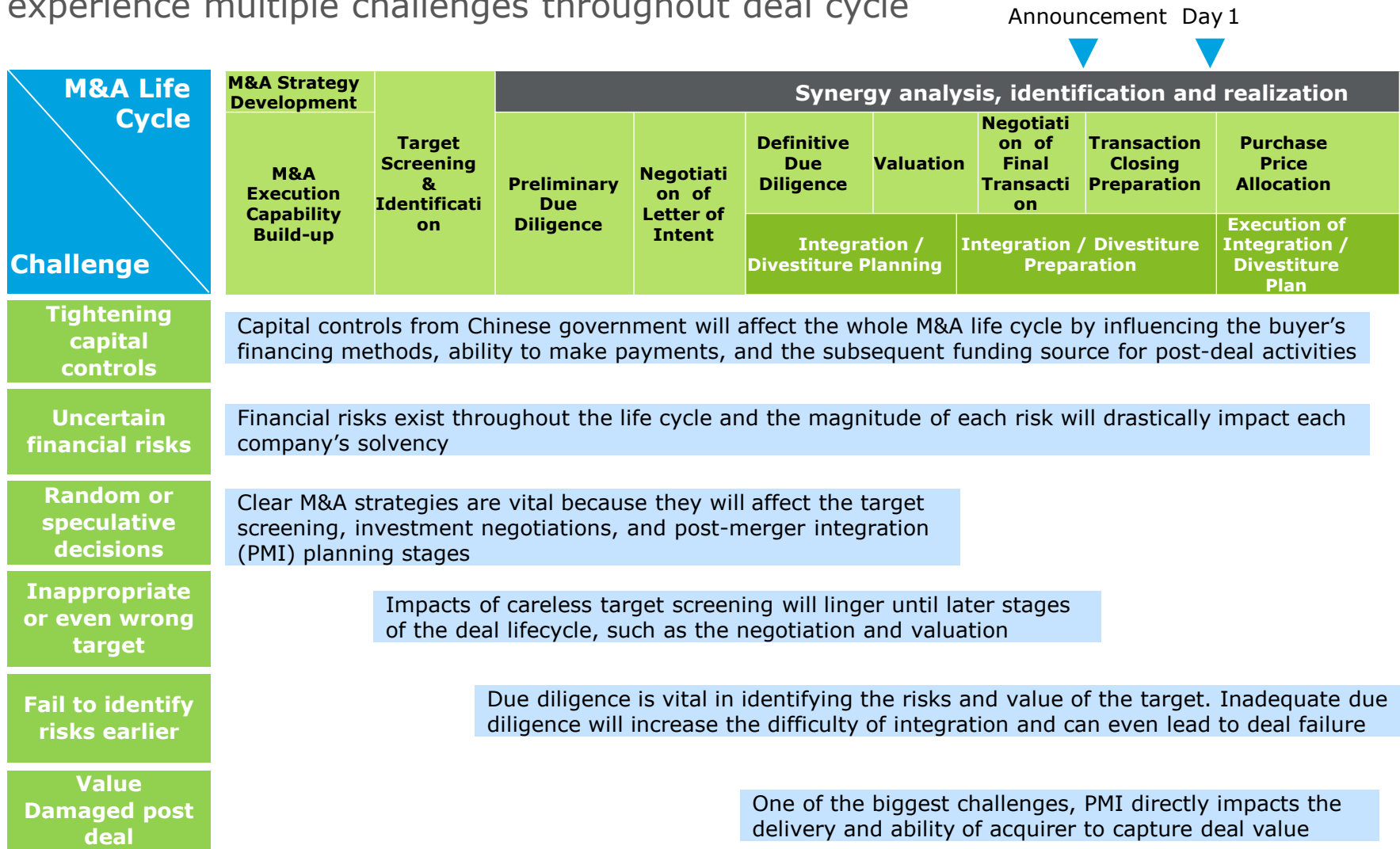
### • Industry

- CP&S will remain the top active sector for China outbound investment
- Due to strong interest in acquiring core technologies and increasing market share, the TMT sector should see more deal growth
- The LSHC industry is likely to see a growth in M&A activities aimed at strengthening businesses and diversifying portfolios
- Deal activity will increase as the FS industry seeks to transform business models, increase revenue, and enter new markets



# Main challenges to Chinese outbound M&A (1/2)

Despite Chinese investors' active presence in the past years, they continue to experience multiple challenges throughout deal cycle



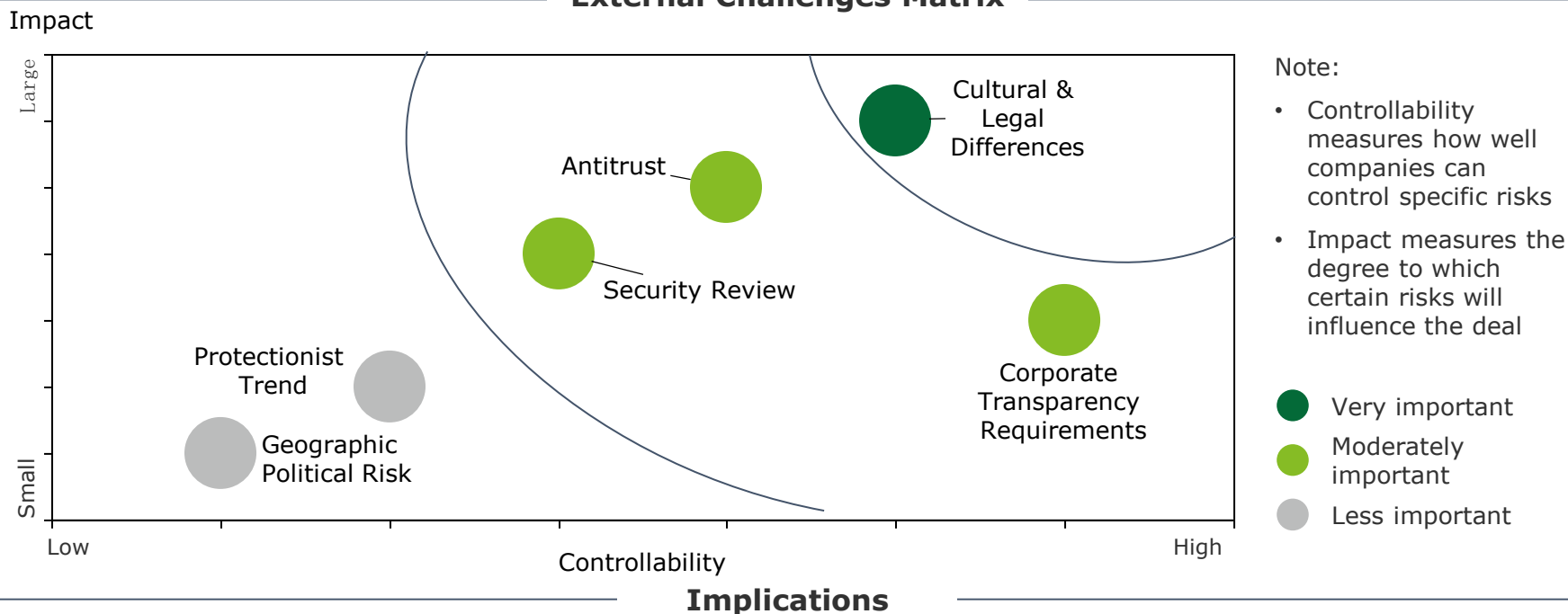
Source: Expert Interviews, Deloitte Analysis

© 2017. For information, contact Deloitte China.

# Main challenges to Chinese outbound M&A (2/2)

Moreover, Chinese investors are expected to encounter increasing restrictions and obstacles due to growing resistance on a global level in the years ahead

**External Challenges Matrix**



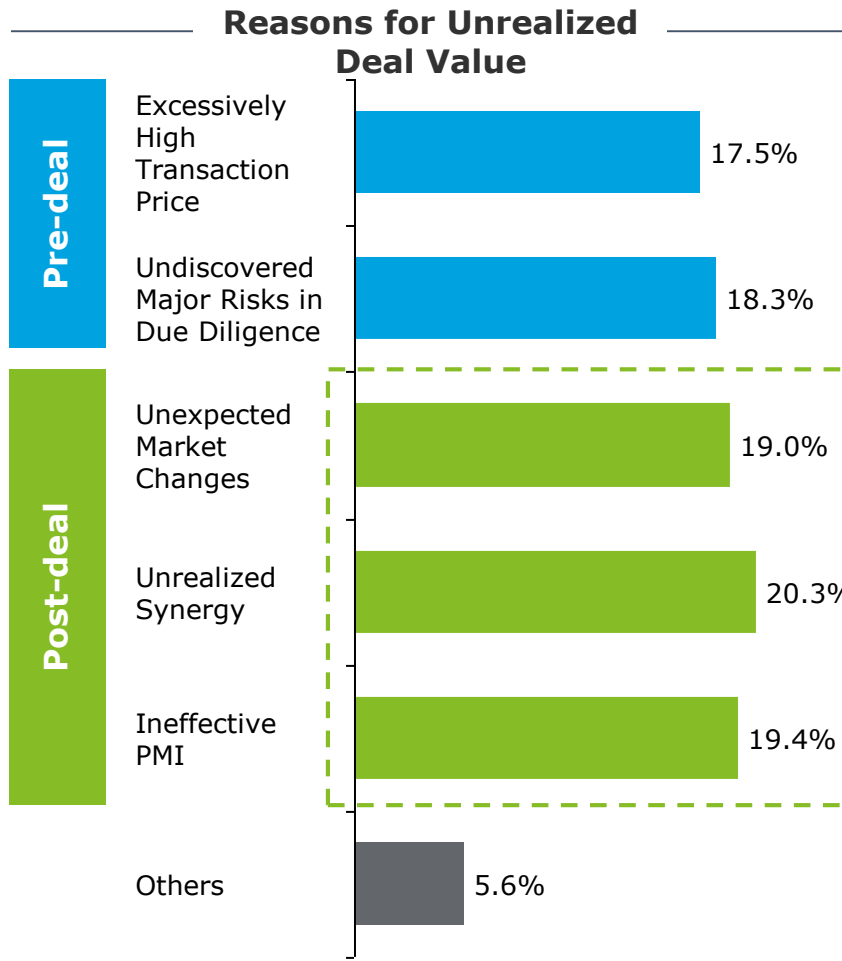
- **Cultural and legal differences** come as the top challenge in terms of controllability and impact. Therefore, this factor should attract the most attention from Chinese buyers
- Compared with antitrust and security review, **corporate transparency requirements** are highly controllable but have less of an impact on the success of M&A transactions. Thus, investors may be more concerned about the former factors during a deal
- Although **political risks and protectionist trends** are generally unavoidable, these two challenges are the smallest concerns because of their low impact. Besides, before entering the deal, these two challenges should be fully considered and addressed in order to mitigate risks

Source: Expert Interviews, Deloitte Analysis

© 2017. For information, contact Deloitte China.

# Importance of effective PMI

Deloitte's study reveals that 60% of China outbound M&A deals that don't realize proposed deal values are a result of ineffective post-deal activities



## Values of Effective PMI

- Mergers have a tendency to disrupt business momentum, drag on without producing expected synergies, and lead to compromised long-term strategic positioning
- Therefore, it's critical to execute PMI which helps companies maintain existing business momentum, achieve synergetic goals, and establish platforms for competing in the future
- However, successful PMI is not easy to achieve. Given the complexity of PMI, investors will often seek out professional support and expertise from leaders like Deloitte.

Source: China Outbound M&A Deal Survey conducted by Deloitte China M&A Services Group

# Global M&A services fact sheet

Deloitte's unprecedented breadth of services delivered seamlessly globally, provides a partner capable of extracting maximum value from a transaction

## Stages of M&A Lifecycle



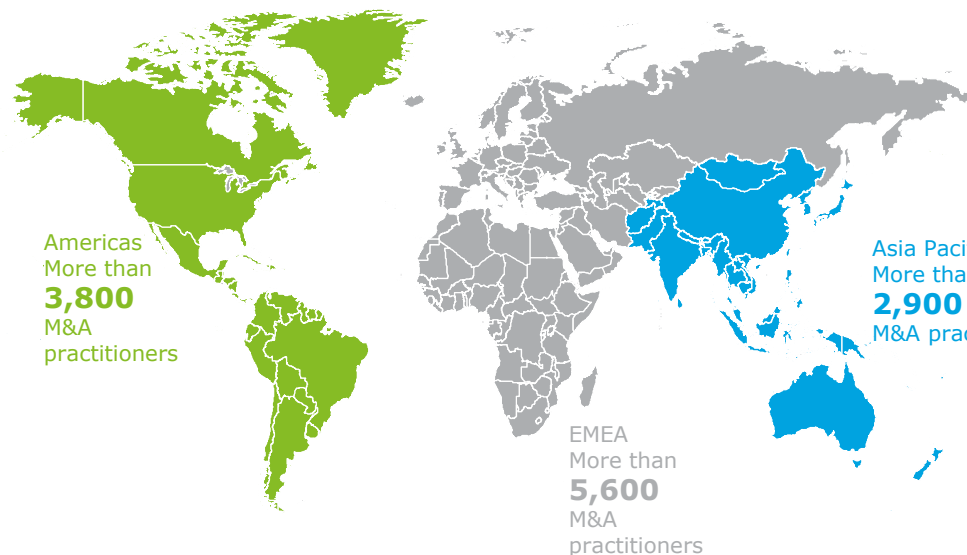
*Identify  
the Right Deal*



*Execute the  
Deal  
Successfully*



*Deliver the  
Promised  
Returns*



- Over 12,000 M&A professionals globally
- Offices in 150 countries and over 230 cities
- Only advisory firm able to provide top class end to end transaction support
- Advisors based where deals are done
- Global and regional industry experts
- Deep understanding of global and local regulatory matters affecting transactions

Deloitte believes its role as advisors is to customize services to our clients needs, providing in depth expertise, while continuing to deliver the advantages of having one integrated M&A advisor

# Deloitte is your reliable and trusted partner along the outbound M&A journey

## Deloitte's Unique Qualifications



### People

- Strong presence in both China and Europe
- Global talent network with senior practitioners equipped with unmatched expertise and knowledge of the local market, regulations and culture



### Approach

- A value oriented approach - our approach is designed to maximize your M&A transaction value
- Emphasis on knowledge sharing and willingness to help grow your M&A capabilities



### Eminence

- Thought leadership in all aspects of M&A transactions
- Deep industry expertise



### Experience

- Substantial experience on China outbound M&A transactions with deep understanding of specific challenges faced by Chinese investors

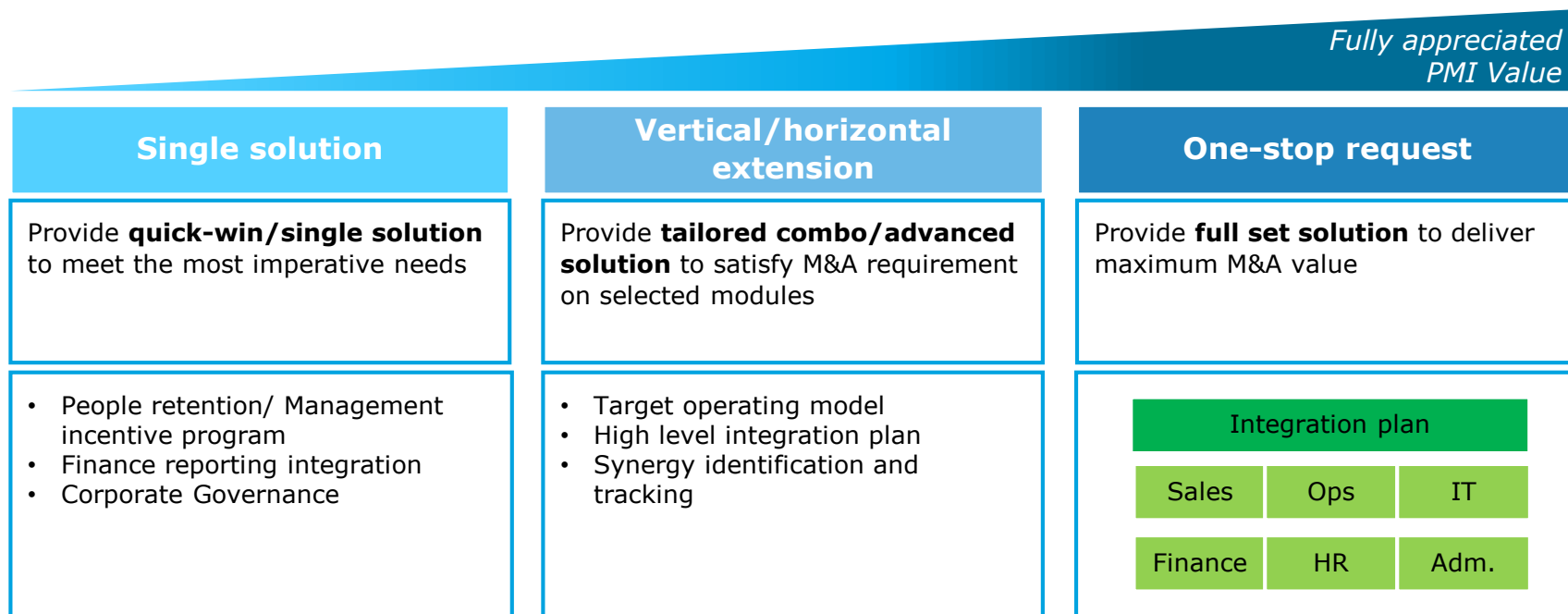
# Deloitte's service offering

Based on a value oriented approach, China M&A's service team provides customized solutions to meet your unique needs and achieve a successful PMI

———— **Resource limitations is the major hurdle for Chinese buyers wanting to conduct PMI** ————

- 30% Chinese buyers don't have a sufficient budget to conduct a full-scale PMI
- 34% Chinese buyers lack the necessary knowledge, experience and capabilities to conduct PMI work
- 20% upper management of Chinese buyers are not fully aware of the value of PMI

———— **Deloitte's customized PMI service offerings can meet your various needs** ————



# Contact



**Larry Hitchcock**

**Partner, M&A Consulting Service  
Deloitte Consulting (US)**

Phone: +1 (312) 486-2202

Email: lhitchcock@deloitte.com



**Keat Lee**

**Partner, M&A Consulting Service  
Deloitte Consulting (China)**

Phone: +86 21 2316 6324

Email: klee@deloitte.com.cn



**Victor Chen**

**Director, M&A Consulting Service  
Deloitte Consulting (China)**

Phone: +86 21 2316 6413

Email: vicchen@deloitte.com.cn

# Appendix



# Appendix

## Geographic region

| Region                            | Countries  |
|-----------------------------------|--|
| <b>Western Europe</b>             | Germany, Great Britain, France, Austria, Ireland, Switzerland, Belgium, Holland, Luxemburg   |
| <b>Northern Europe</b>            | Denmark, Finland, Sweden, Norway, Iceland  |
| <b>Southern Europe</b>            | Turkey, Italy, Spain, Portugal, Malta, Greece  |
| <b>Central and Eastern Europe</b> | Russia, Poland, Hungary, Georgia, Czech Republic, Slovenia, Romania, Bosnia, Croatia, Serbia |

Note: Only contains countries with Chinese investment between 2012 - 2016

© 2017. For information, contact Deloitte China.

# Appendix

## Industry sectors

| Industry Sector                                  | Definition   |
|--|--|
| <b>Automotive</b>                                | Auto   |
| <b>Consumer Products and Services (CP&amp;S)</b> | Agriculture  |
|  | Chemical Products                                  |
|  | Food and beverages                                 |
|  | Others   |
|  | Retail   |
|  | Leisure products                                   |
|  | Manufacturing (others)                             |
|  | Services (others)                                  |
|  | Transportation                                     |
|  | Other  |
|  | <b>Industrial Products and Services (IP&amp;S)</b> |
| Industrial product and services                  |  |
| Electronic products                              |  |
| <b>Energy and Resources (E&amp;R)</b>            | Energy   |
|  | Mining   |
|  | Hydro and Electronics                              |

| Industry Sector                                       | Definition                     |
|---|--------------------------------|
| <b>Life Science and Healthcare (LSHC)</b>             | Bio technology                 |
|   | Healthcare                     |
|   | Pharmacy                       |
| <b>Technology, Media and Telecommunications (TMT)</b> | Digital related services       |
|   | Computer Software              |
|   | Computer Hardware              |
|   | Semiconductor                  |
|   | Media                          |
|   | Telecom operators              |
|   | Telecom hardware               |
|   | Internet and e-commerce        |
|   | <b>Financial Services (FS)</b> |
| <b>Real Estate (RE)</b>                               | Real Estate                    |
|   | Construction                   |
| <b>Public Sector (PS)</b>                             | National defense               |
|   | Government                     |

## About Deloitte Global

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a more detailed description of DTTL and its member firms.

Deloitte provides audit & assurance, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 245,000 professionals make an impact that matters, please connect with us on [Facebook](#), [LinkedIn](#), or [Twitter](#).

## About Deloitte China

The Deloitte brand first came to China in 1917 when a Deloitte office was opened in Shanghai. Now the Deloitte China network of firms, backed by the global Deloitte network, deliver a full range of audit & assurance, consulting, financial advisory, risk advisory and tax services to local, multinational and growth enterprise clients in China. We have considerable experience in China and have been a significant contributor to the development of China's accounting standards, taxation system and local professional accountants. To learn more about how Deloitte makes an impact that matters in the China marketplace, please connect with our Deloitte China social media platforms via [www2.deloitte.com/cn/en/social-media](http://www2.deloitte.com/cn/en/social-media).

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively the "Deloitte Network") is by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.



Making another century of impact

德勤百年庆 开创新纪元