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Challenges to Integration in an Expanding M&A Environment

# Survey on China Outbound Activities and Post-deal Integration

August 2017

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

# Executive summary

- The volume of China's outbound M&A deals has increased rapidly during the past five years, with the main drivers for Chinese outbound M&A activities being: new market entry opportunities, market share expansion, as well as business portfolio enhancement. Close to 90% of respondents anticipate M&A activities to continue growing, though at a slower pace. We expect Chinese investors to continue their activities mainly in the European and American regions, and to focus on targets within their operating industry and relevant sectors

- Key factors that negatively impact the outcome of outbound transactions include failed negotiation or identification of major risk issues during the due diligence stage, usually resulting in deals being discontinued

- Reasons for not achieving a projected deal value may vary, however, inappropriate integration planning, execution lag, major changes in the macro environment as well as the inability to fully identify synergies are major difficulties that Chinese investors face

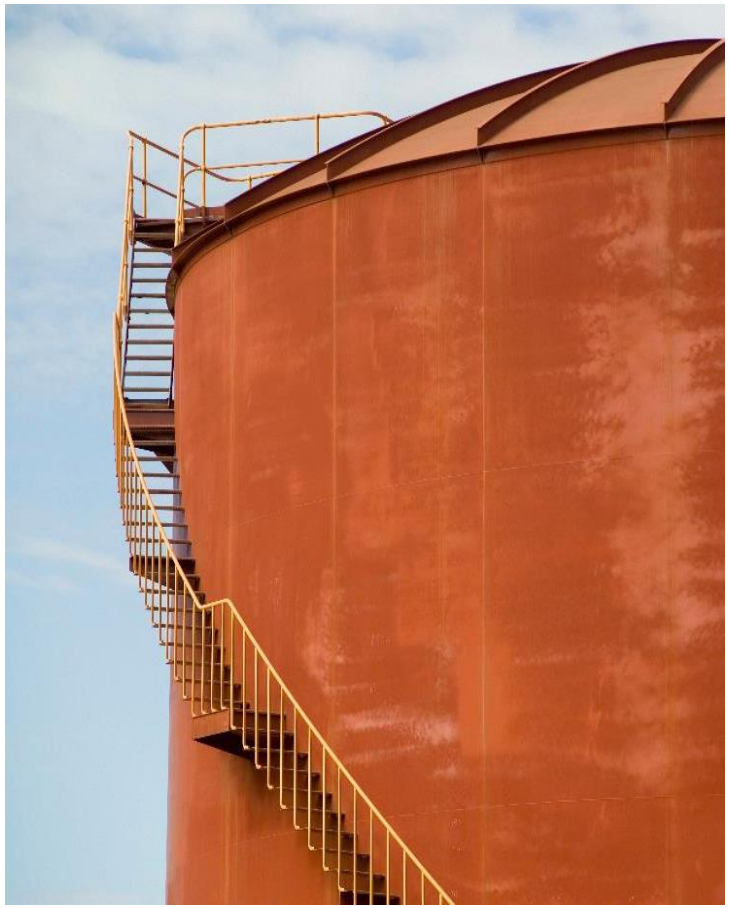
- Among the multiple stages throughout the M&A deal cycle, pre-deal strategy design, target screening, valuation and negotiation as well as integration planning are some of the key challenges for Chinese investors. Thus, investors are more likely to seek third party expertise on these topics

- An integration strategy that aligns with the business' long term development plan, agreement and support by senior leadership as well as a practical plan that can be accomplished on schedule are some of the major challenges during post merger integration

- Chinese enterprises seek third party professional expertise and support on legal and financial advisory, human capital as well as cultural integration during the post merger integration phase

# Contents

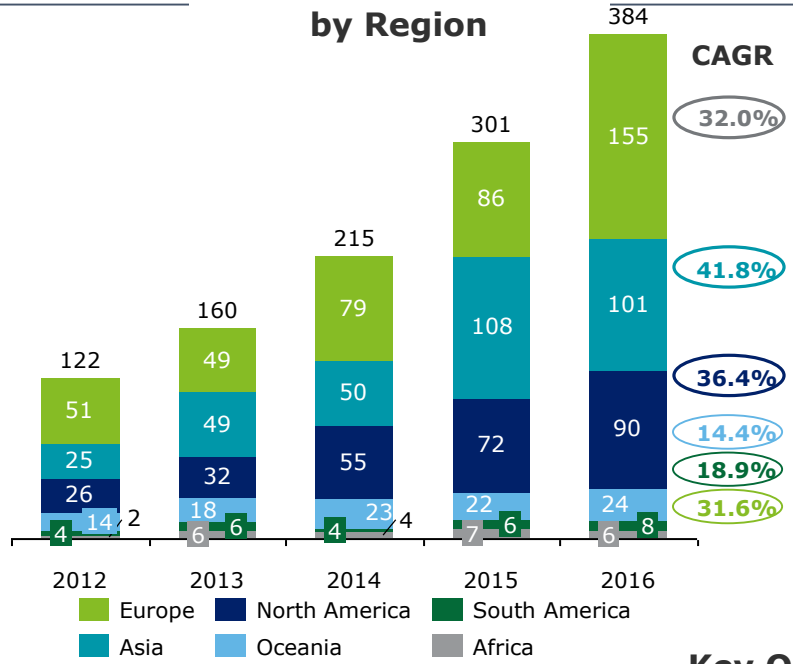




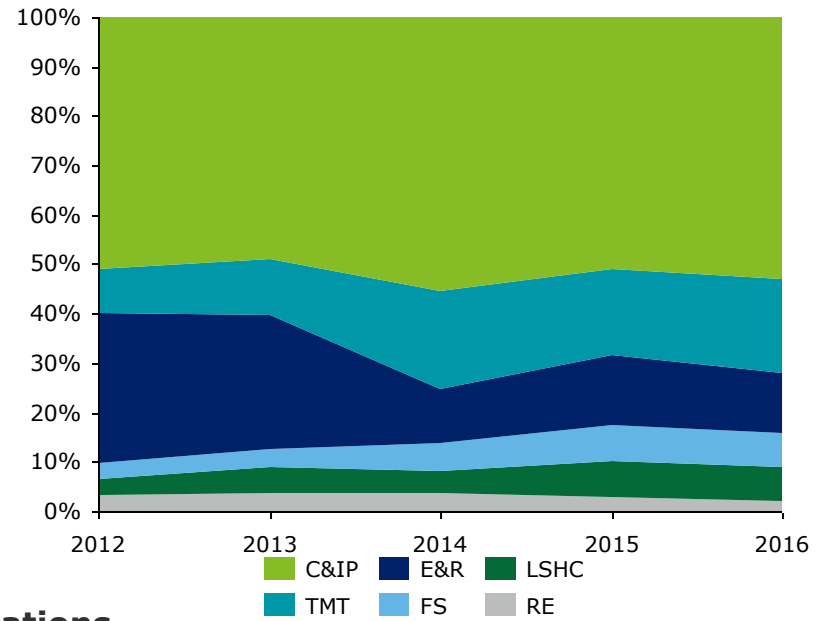
# Current trend on China outbound M&A and its driving forces (2012 – 2016)

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

## Outbound Deal Count by Region




## Outbound Deal Count by Industry



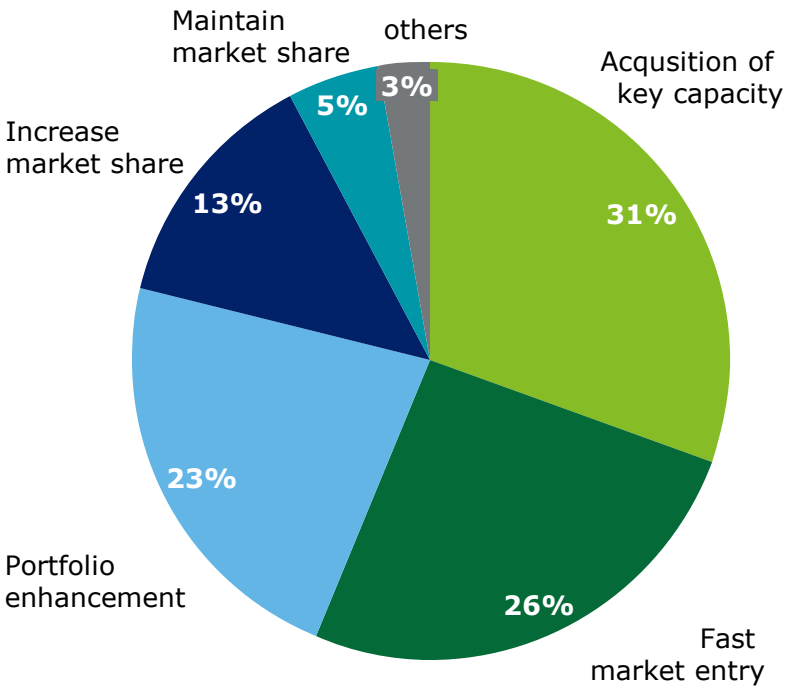

## Key Observations

- 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 2nd 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, Deloitte analysis
Note: The data includes deals made by enterprises registered in Hong Kong but are SOEs or private owned with major operation in China

# The astonishing growth of China's outbound M&A activities is primarily driven by the internal growth demand of the business

## Key drivers of outbound M&A activities




## Observations

- 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 growth in new market
- From an industry perspective, FS and E&R industry looks for portfolio enhancement, CP&S is attracted by the potential revenue increase, while the auto, IP&S, LSHC and RE industries focus more on capacity building

Source: Interviews with Chinese Corporate Executives, Deloitte analysis
Note: Breakdown of geographic region and industry sectors can be found in appendix

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

| Strategy | Development Stages | | | Implications |
|---|---|---|---|---|
| | Oct. 2000 | Oct. 2004 | Mar. 2016 | |
| **Going Out Policy** (To expand business overseas) | First brought up in the 10th 5-year plan | NDRC released "Interim Approval Measures for Overseas Investments" | The 13th 5-year plan stressed the importance of a high-level open economy | • Since its introduction, the policy has actively encouraged Chinese investors to seek for investment opportunities abroad<br>• For the first time in 2014, China's outbound investment outstripped incoming foreign direct investment (by $20+ billion)<br>• The Government offers greater support, including simplified approval processes |
| | Oct. 2013 | Mar. 2015 | May 2017 | |
| **The Belt and Road Initiative** (To enhance international cooperation) | First brought up during President Xi's visit to Central and East Asia | NDRC released "Vision and Action to promote the Construction of the Silk Road Economic Belt and 21st Century Maritime Silk Road" | The Belt and Road International Cooperation Forum was held in Beijing | • The initiative greatly promotes outbound M&A activities, especially for countries along the Belt and Road route, with various Governments supporting<br>• By 2016, Chinese companies had built 56 economic and trade cooperation zones in 20+ countries, with a total investment value of $18.5+ billion |
| | Nov. 2015 | Dec. 2015 | | |
| **Supply-side Reform** (To deal with domestic over-capacity issue) | First brought up in the 11th Central Financial Leader Group Meeting | The Central Economic Working Conference deployed five economic tasks for 2016 including cutting excessive production capacity, removing real estate inventory, lowering financing leverage, reducing costs and making up shortage | | • Outbound investment is used as a way to ease off the overcapacity issue for many Chinese companies |

Source: MergerMarket, Belt and road portal, Ministry of Commerce "Landmark year as ODI set to exceed FDI" , Deloitte analysis
Note: Breakdown of geographic region and industry sectors can be found in appendix

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

| Regulation | Main Content | Implications |
|---|---|---|
| **Tax Service Facilitation** | • In April 2015, the State Administration of Taxation introduced seven measures to better support outbound investment activities, including:<br>- Provide stronger support in signing and amending tax agreements<br>- Further strengthen bilateral negotiations on tax related disputes<br>- Establish a tax service website for the Belt and Road Initiative<br>- Hold training courses for companies seeking outbound investment<br>- Set up a tax service hotline<br>- Conduct face-to-face coaching on new taxation measures and policies<br>- Establish an communication platform to discuss tax related topics | • Greatly expedites the process of signing and amending tax conventions (7 signed in 2016 alone)<br>• Offers various conveniences for tax payers involved in outbound investments |
| **Simplification of Approval Process** | • In April 2016, National Development and Reform Commission (NDRC) adjusted regulations to simplify the cross-border investment approval process:<br>- Overseas investment projects of $1 billion or more need NOT be approved by NDRC<br>- Overseas investment projects of $2 billion or more need NOT be approved by the State Council | • Facilitates outbound investments by continuously deepening investment management reform |
| **Financing Support** | • To support its strategic plan, the Government has set up several policy funds and overseas investment companies, including:<br>- Integrated Circuit Industry Investment Fund<br>- Guoxin International Investment Corporation<br>- CIC Overseas Direct Investment Corporation | • Offers great financial support particularly for deals aligning with policy directions |

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

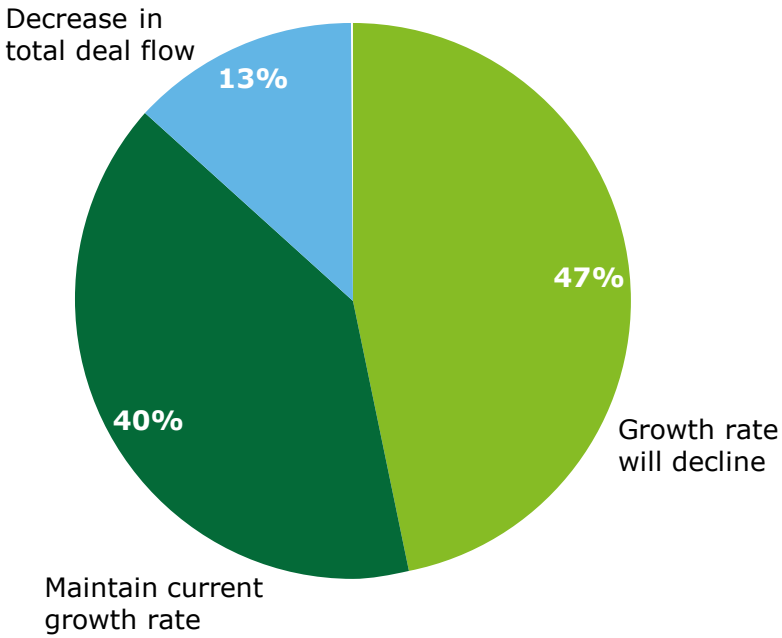
# However, the government has also started putting more restrictions on capital outflow

| 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<br>• Regulators mandated that the following types of outbound transactions cannot be filed or approved without approvals from relevant departments:<br>- Extra-large foreign acquisitions valued at $10 billion or more per deal<br>- SOEs intending to build or invest in overseas properties valued at $1 billion or more per deal<br>- Chinese companies seeking to invest $1 billion or more in overseas entities unrelated to their core businesses<br>- Direct overseas investments made by limited partnerships<br>- Investments in companies listed overseas that are less than 10% of the investors' total equity<br>- Chinese capital trying to participate in the delisting of Chinese companies listed overseas<br>• 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"<br>• In July 2017, Ministry of Commerce announced its amendment on the record-filling 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<br>• Negatively affects deals with high valuations<br>• 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-filling requirement for the establishment and changes of foreign enterprise in China"
Note: Breakdown of geographic region and industry sectors can be found in appendix

# Survey result indicates that China outbound M&A activity level will continue to grow in the near future yet growth rate is expected to decline

## Future Forecast of Outbound deal activity level



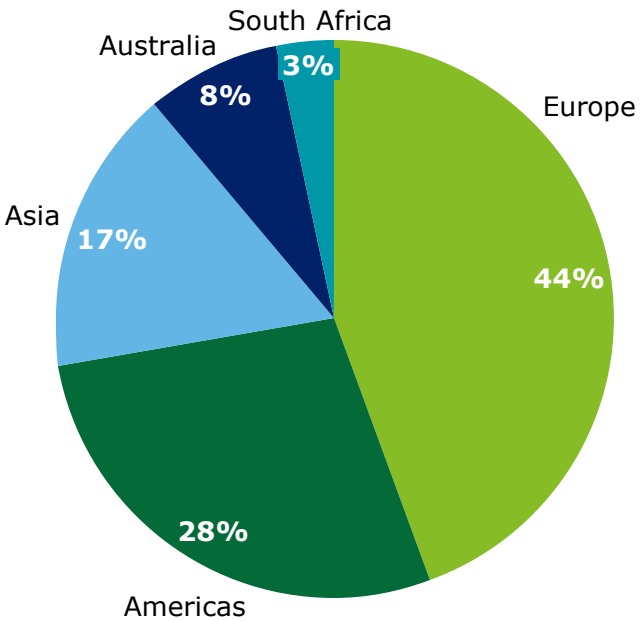

## Observations

- Close to 90% of respondents expect M&A activity to stay the same or ramp up; out of which 47% believe the it will grow at a slower pace, and 40% hold a more optimistic view, anticipating that rapid growth of merger activity would continue in the future
- 13% of respondents foresee deal flow to decrease

Source: Interviews with Chinese Corporate Executives, Deloitte analysis
Note: Breakdown of geographic region and industry sectors can be found in appendix

# Developed economies remain attractive, Europe and North America are expected to be the two most active M&A deal arenas for Chinese investors

## Target Outbound Investment Destination




- More than 40% of respondents target European region for future outbound M&A activities; many see Germany and UK being the most attractive
- Among the Americas, the key focus is North America (U.S and Canada)

## Targeted industries

| | Auto | CP&S | IP&S | TMT | LSHC | FS | E&R | RE |
|---|---|---|---|---|---|---|---|---|
| Auto | | | | | | | | |
| CP&S | | | | | | | | |
| IP&S | | | | | | | | |
| TMT | | | | | | | | |
| LSHC | | | | | | | | |
| FS | | | | | | | | |
| E&R | | | | | | | | |
| RE | | | | | | | | |

- Acquirers usually target within their operating industry and its relevant sectors

Source: Interviews with Chinese Corporate Executives, Deloitte analysis
Note: Breakdown of geographic region and industry sectors can be found in appendix

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

| Key Influencing Factors | Impact |
|---|---|
| **Economic Environment in Europe :** | |
| • Weakness of the British Pound | 😐 |
| • Attractive Valuations | 🙂 |
| • Lower Interest Rates | 🙂 |
| • Tax Incentives | 🙂 |
| • Slow Economic Recovery | 😐 |
| • Open Business Environment | 🙂 |
| • Less Competition | 🙂 |
| **Political Environment in Europe :** | |
| • Obstruction by Local Authorities | ☹ |
| • Political Uncertainty | ☹ |
| • Stringent Labor Laws | ☹ |
| **Social Environment in Europe:** | |
| • Work Council Bargaining Power | ☹ |
| • Cultural Differences | ☹ |
| **Chinese Policies:** | |
| • Tax Service Facilitation | 🙂 |
| • Approval Process Simplification | 🙂 |
| • Financing Support | 🙂 |
| • More Stringent Capital Control | ☹ |

🙂 Positive 😐 Neutral ☹ Negative

## 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

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

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

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

☺ Positive 😐 Neutral ☹ Negative

## Projection

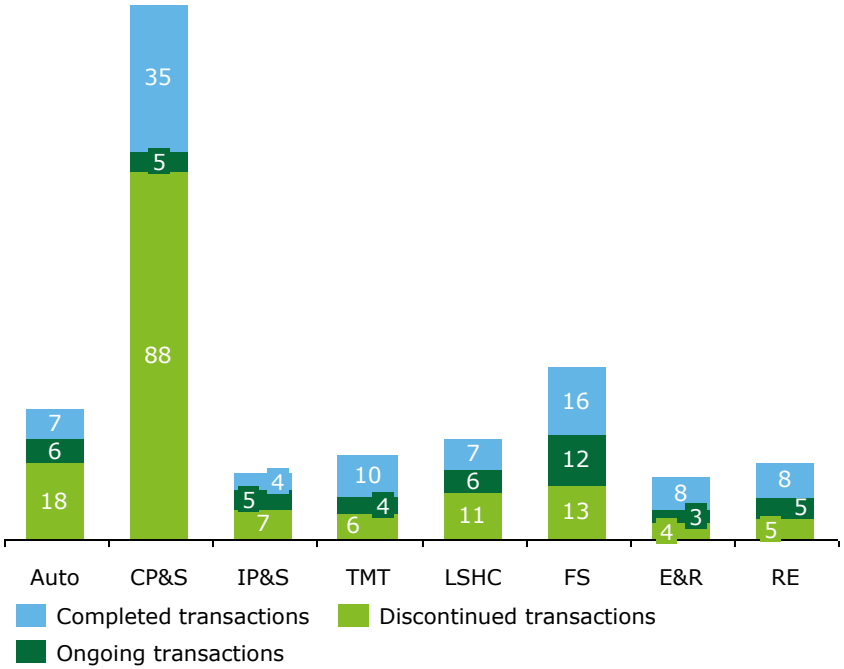
- **Region**
  - In general, the amount of cross-border deals between China and US are expected to increase
  - US will continue to attract investors looking to acquire advanced technology
  - A strengthening US dollar may dampen Chinese investors' enthusiasm
  - The uncertainty caused by Trump's administration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

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

# Key factors influencing outcome of the transactions

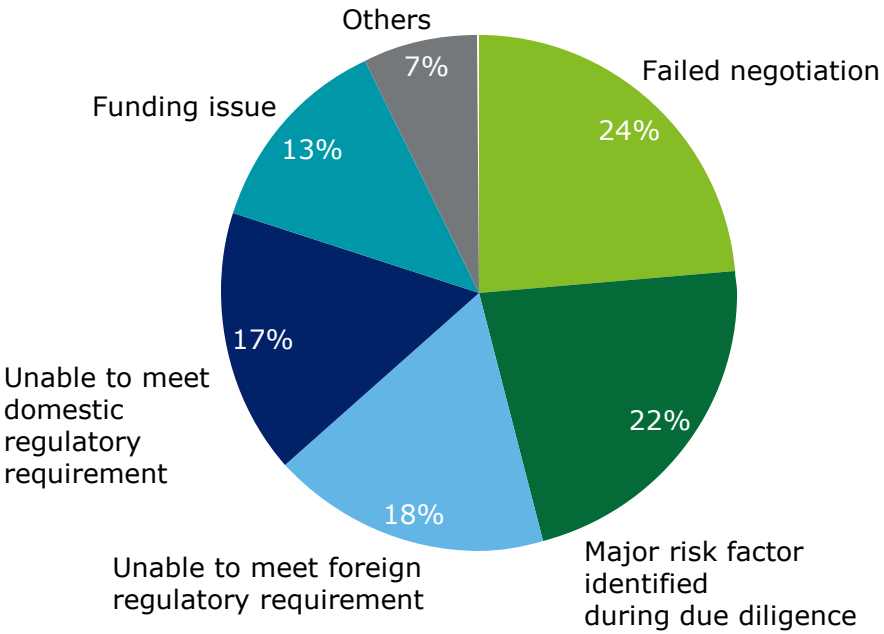
# Due to various reasons such as failed negotiation and inability to meet foreign regulatory requirements, outbound transactions have not always been successful

## Outbound M&A transaction Status




- Research results indicate transaction failure rate is extremely high among Chinese buyers
- Approximately 44% of outbound deals have been interrupted and left incomplete; failure rate among CP&S and Auto industry are as high as 69% and 58%

## Reasons for discontinued transactions

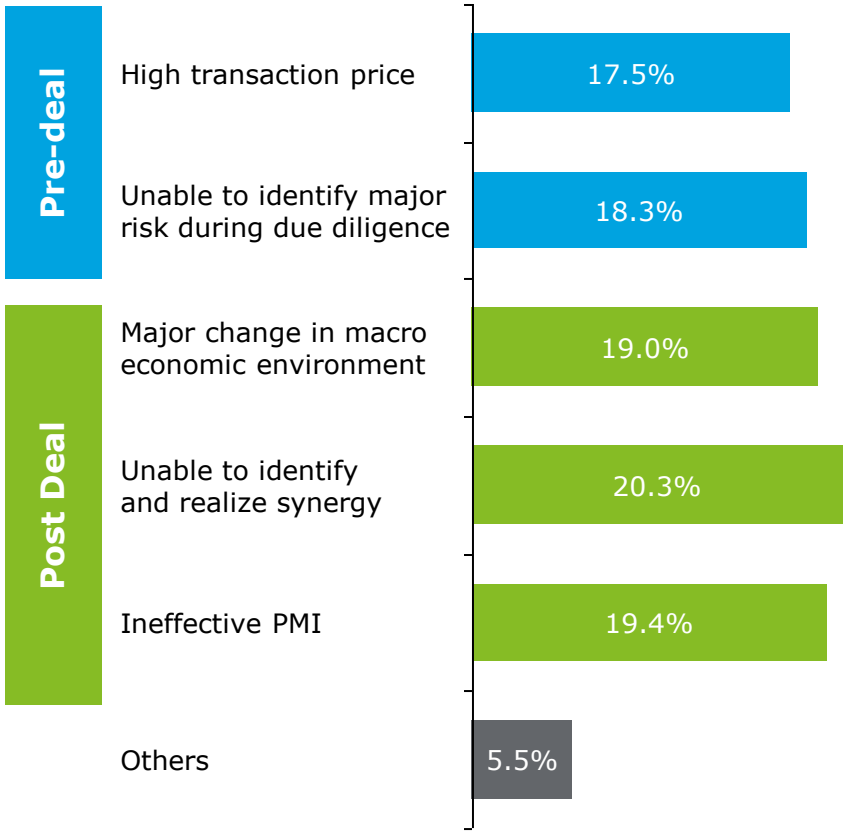



- Top two reasons for hindered transaction: 1) fail to reach to an agreement during negotiation 2) major risk factor identified during due diligence phase
- For TMT industry, failure to meet foreign regulatory requirements is one of the biggest obstacles

Source: Interviews with Chinese Corporate Executives, Deloitte analysis
Note: Breakdown of geographic region and industry sectors can be found in appendix

# Investors continue to experience the persistent challenges in deriving value even if they successfully completed the transactions

## Factors for failed realization of proposed deal value




## Observations

- Research indicates that failure to achieve proposed synergy and meet financial targets among Chinese buyers are due to common reasons

**By enterprise type**

- Lack of post-merger integration (PMI) planning and implementation are the two main reasons for failures among SOE and private enterprises
- For WFOE, inability to identify and realize full synergy value are the key risk factors
- For PE/VC buyers, the challenge is whether major risk factor can be identified early during due diligence stage

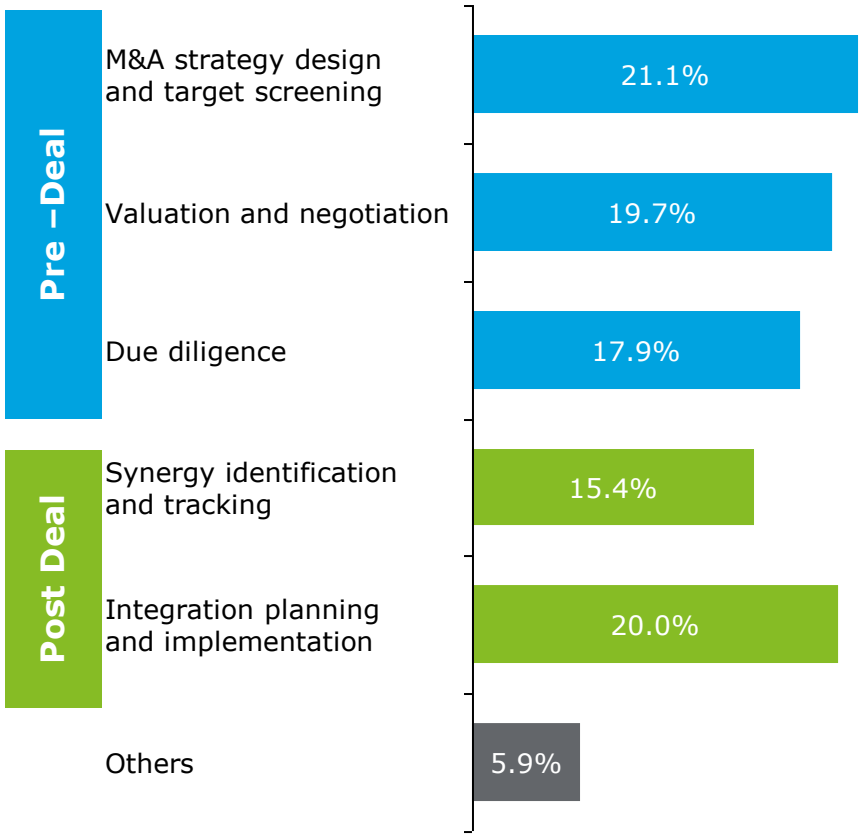
**By industry**

- Incomplete and inappropriate integration planning are the major challenge for Auto and RE industry
- Unpredictable changes in the macro environment leads to high failure rate in the IP&S, E&R ,RE industry
- For FS and CP&S, failure is usually caused by inability to identify and achieve synergy

Source: Interviews with Chinese Corporate Executives, Deloitte analysis
Note: Breakdown of geographic region and industry sectors can be found in appendix

# Major pain points include pre-deal strategy development and target screening, PMI planning and implementation, deal valuation and negotiation

## Pain points for outbound M&A




## Observations

- An analysis of the major challenges in outbound M&A provided insight to what caused deals to stumble

**By enterprise type**

- M&A strategy development and target screening are the two major challenges identified by SOE investors
- Private enterprises see post deal integration planning and implementations as the main pain points

**By industry**

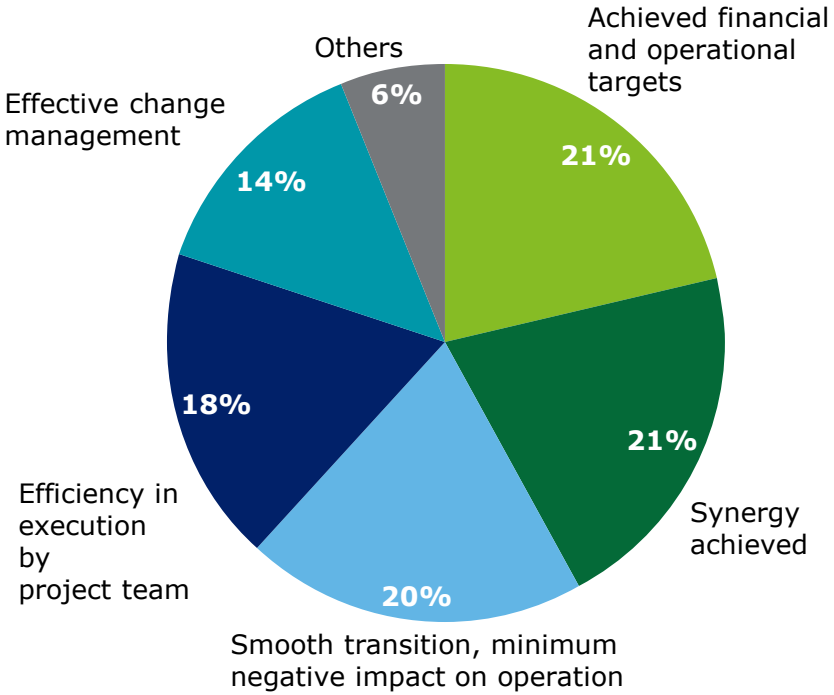
- Auto, FS and E&R industry identified major challenge in the integration planning and implementation stage
- CP&S, LSHC as well as RE industry are usually challenged during valuation and deal negotiation
- IP&S and TMT industry views pre-deal strategy design and target screening being the most challenging stages in the deal cycle

Source: Interviews with Chinese Corporate Executives, Deloitte analysis
Note: Breakdown of geographic region and industry sectors can be found in appendix

# Major challenges during post merger integration

# Chinese investors have a clear understanding of the key criteria that indicate successful post merger integration

## Indicator of Successful PMI




## Observations

- Results show effective PMI is indicated by 1) achievement of proposed operational and financial targets, 2) successful measurement and achievement of synergy, and 3) a smooth transition throughout deal cycle

**By enterprise type**:

- For SOE and WFOE, achieving synergy and proposed deal value are the two strongest indicators for successful PMI
- For private enterprise and PE/VC buyer, effective PMI is reflected through achieving proposed targets and a smooth business transition

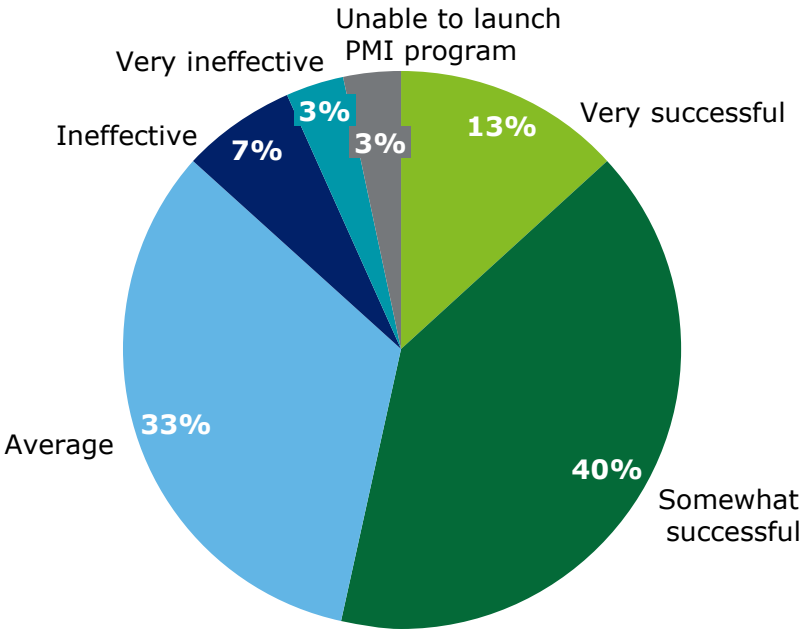
**By industry:**

- Auto, LSHC and RE emphasis more on whether proposed operational and financial targets are achieved
- IP&S, TMT and E&R industry values the ability to successfully identify and measure synergy created
- CP&S industry views a smooth transition and minimum negative impact on overall business operation being more important

Source: Interviews with Chinese Corporate Executives, Deloitte analysis
Note: Breakdown of geographic region and industry sectors can be found in appendix

# Based on such criteria, close to half of post merger integrations are seen as unsuccessful and ultimately fell short of their initial synergy target

## How effective was the PMI




## Observations

- Approximately 50% of respondents describe their PMI as unsuccessful

**By enterprise type**

- In general, results of PMI among WFOE and PE/VC buyers are more effective than SOE and private enterprises
- Private enterprise demonstrates the highest number of average performing and/or failed cases among all types of enterprises

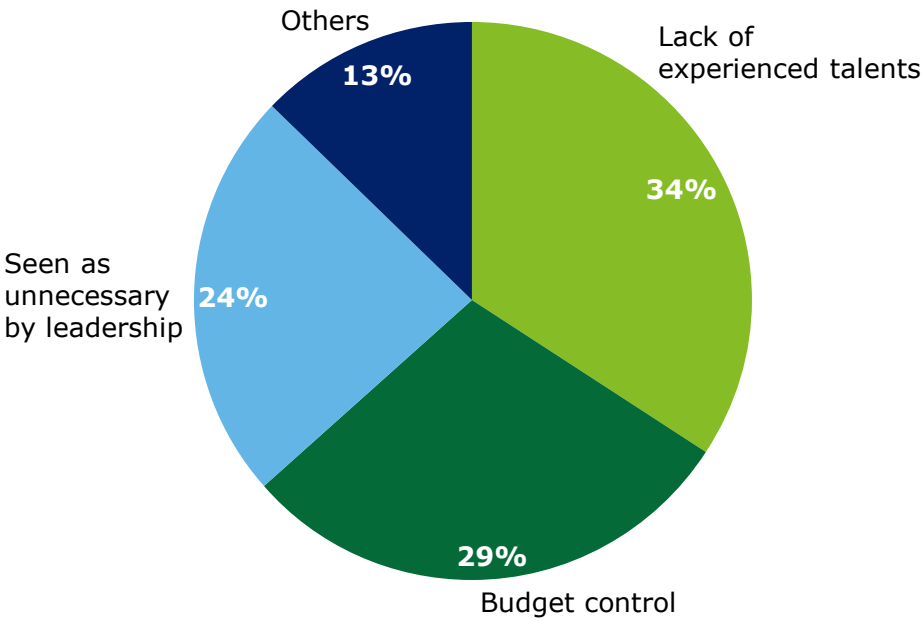
**By industry**

- Success rate is generally higher in the RE, E&R and LSHC industries
- TMT industry has the lowest success rate for effective PMI

Source: Interviews with Chinese Corporate Executives, Deloitte analysis
Note: Breakdown of geographic region and industry sectors can be found in appendix

# Failure to launch a PMI program is sometimes caused by the lack of relevant experiences and talent within the enterprise

## Reasons for not launching a PMI program




## Observations

**By enterprise type**

- For SOE, private enterprise as well as WFOE, lack of relevant talent and experiences are the main reasons for not launching a PMI program
- For PE/VC buyers, budget control is the main challenge

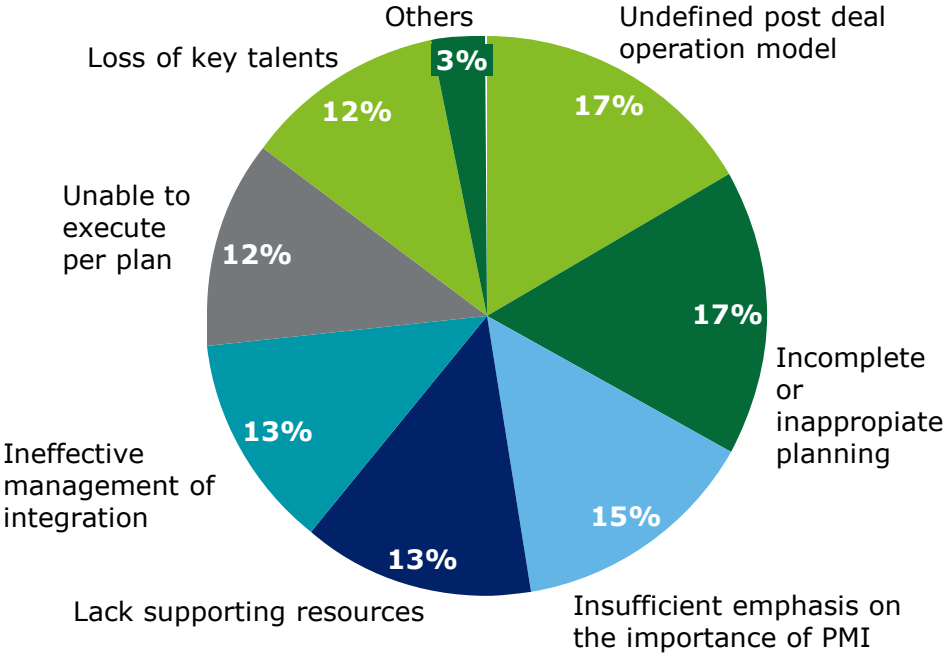
**By industry**

- Reason for not launching a PMI program in the auto, IP&S, TMT as well as LSHC industry is usually due to the lack of relevant talent and experiences
- Senior management in the RE and E&R industries tend to see a PMI program as unnecessary

Source: Interviews with Chinese Corporate Executives, Deloitte analysis
Note: Breakdown of geographic region and industry sectors can be found in appendix

# Failure to achieve synergy value after launching a PMI program is mainly due to an undefined post deal operation model and incomplete PMI planning

## Why didn't you achieve proposed deal value targets?




## Observations

- Research shows there are multiple reasons behind an ineffective PMI

**By enterprise type**

- Unclear post deal operation structures and incomplete PMI planning are the two main reasons why SOE, private enterprise as well as PE/VC buyers fail to meet their targeted result
- For WFOE, incomplete PMI planning, delay and unpreparedness are the main reasons

**By industry**

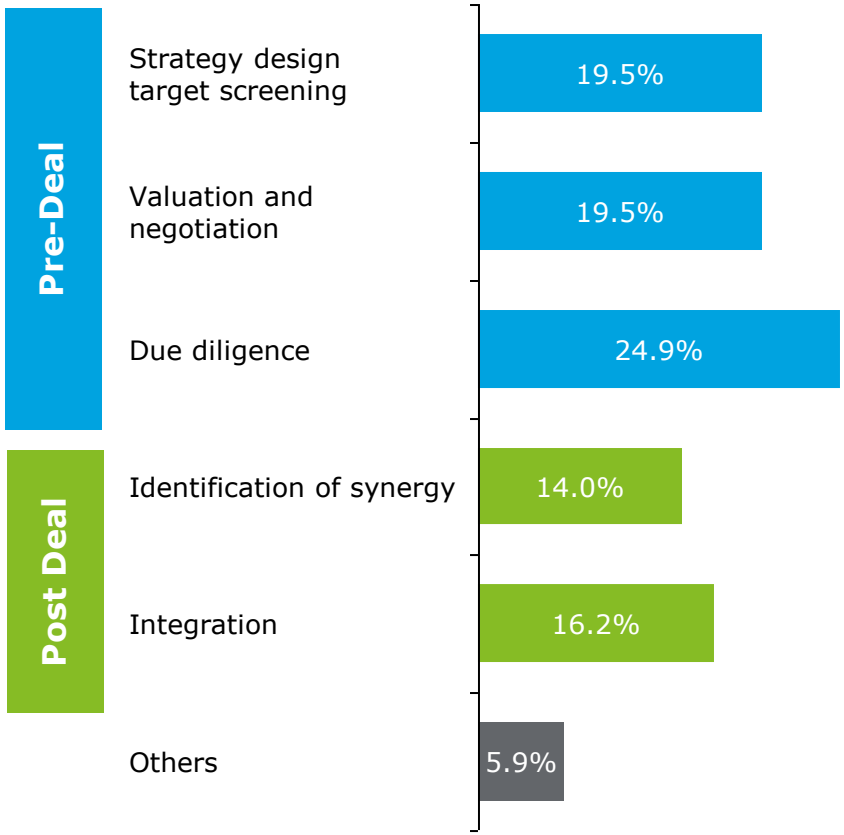
- An undefined post deal operation model is the number one reason for ineffective PMI in the auto, IP&S and FS industries
- For CP&S, LSHC, E&R and RE industries, unsuccessful integration is usually due to inappropriate or incomplete planning
- For the TMT industry, lack of financial and talent resources lead to failed PMI

Source: Interviews with Chinese Corporate Executives, Deloitte analysis
Note: Breakdown of geographic region and industry sectors can be found in appendix

# Value of third party professional servicer during PMI

# To overcome these challenges, enterprises actively seek help from external partners who bring experiences and can accelerate the value capture efforts

**At what stage of the deal cycle do you seek third party service help**




## Observations

- Research shows due diligence, M&A goal setting and target screening as well as deal valuation are the top ranked areas where Chinese enterprises seek expertise from third party service providers

**By enterprise type**:

- Demand for due diligence expertise is commonly shared by all types of investors
- PE/VC buyers seek most help in M&A strategy goal setting and target screening

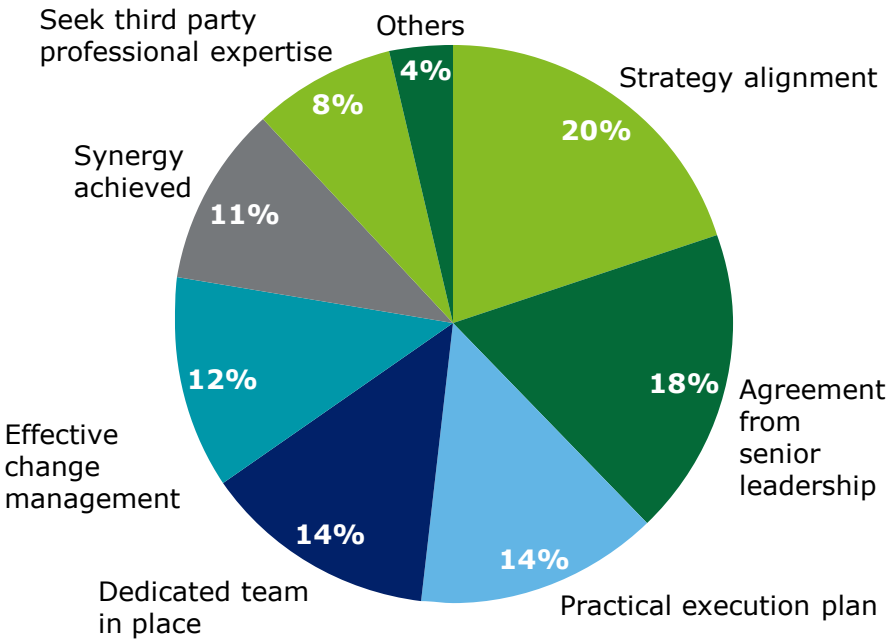
**By industry**

- All major industry except E&R values third party expertise the most during due diligence stage
- E&R industry is most likely to seek for third party professional service during post deal integration phase

Source: Interviews with Chinese Corporate Executives, Deloitte analysis
Note: Breakdown of geographic region and industry sectors can be found in appendix

# Among all critical factors that lead to successful integration, Chinese investors place great emphasis on integration strategy, agreement among senior leadership and practical planning

## Critical factors for effective PMI




## Observations

- A defined integration strategy that meets the enterprise's long term business plan, agreement among senior leadership and a practical execution plan are the three top ranked factors by Chinese investors in achieving successful post merger integration

**By enterprise type**

- An integration strategy that aligns with the enterprise's long term plan is the most critical influential factor in the effectiveness of PMI; a plan that can help senior leadership achieve their targeted goal is more likely to receive relevant support and thus more likely to succeed

**By industry**

- FS and RE industries emphasize on whether the senior management agrees to the proposed integration plan and provide sufficient resources to support
- Other industries focus on whether the proposed strategy meets the long term planning of the enterprise

Source: Interviews with Chinese Corporate Executives, Deloitte analysis
Note: Breakdown of geographic region and industry sectors can be found in appendix

# To effectively integrate post deal operations, business functions that rank high on prioritization and complexity are more likely to require third party expertise

## Priority rank

| Function | 1st | 2nd | 3rd |
|---|---|---|---|
| Sales and Marketing | 20.0% | 13.3% | 16.7% |
| Supply Chain | 6.7% | 6.7% | 13.3% |
| Manufacturing | 0.0% | 3.3% | 6.7% |
| R&D | 10.0% | 10.0% | 10.0% |
| IT | 3.3% | 10.0% | 6.7% |
| Finance/Taxation | 23.3% | 13.3% | 20.0% |
| Human Resource | 13.3% | 33.3% | 16.7% |
| Change Management | 23.3% | 10.0% | 6.7% |
| Others | 0.0% | 0.0% | 3.3% |

## Complexity rank

| Function | 1st | 2nd | 3rd |
|---|---|---|---|
| Sales and Marketing | 13.3% | 10.0% | 16.7% |
| Supply Chain | 3.3% | 3.3% | 13.3% |
| Manufacturing | 6.7% | 3.3% | 3.3% |
| R&D | 10.0% | 16.7% | 23.3% |
| IT | 3.3% | 10.0% | 0.0% |
| Finance/Taxation | 6.7% | 3.3% | 13.3% |
| Human Resource | 10.0% | 40.0% | 23.3% |
| Change Management | 43.3% | 13.3% | 6.7% |
| Others | 3.3% | 0.0% | 0.0% |

## Observations

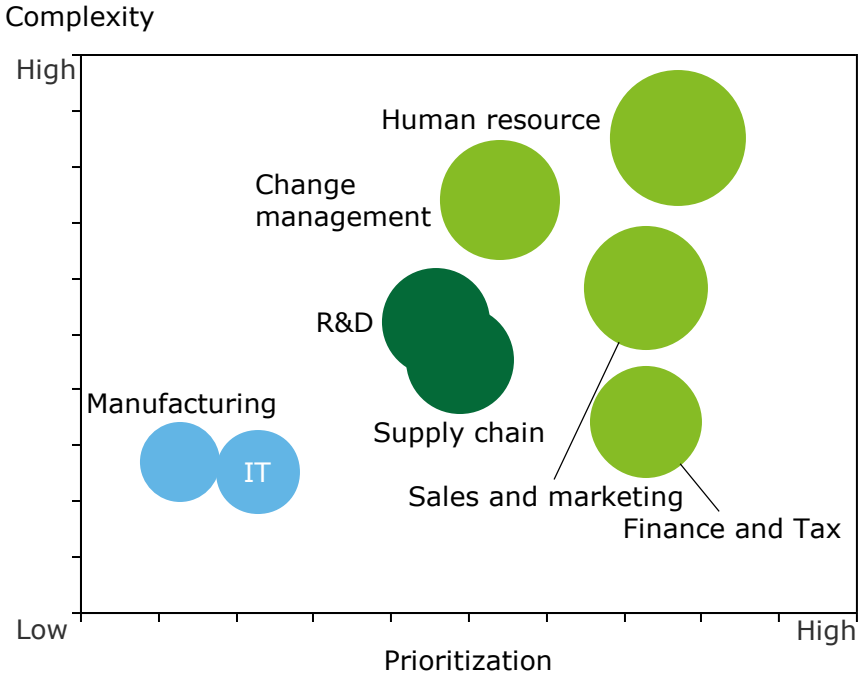
- In terms of priority, finance & taxation, change management and sales & marketing are the top ranked work streams by respondents; more than 20% selected one of the three as their highest priority
- 1/3 enterprises place human resource as their 2nd highest priority work stream

- More than 40% respondents believe change management is the most complex work stream
- Similar to prioritization, 40% of respondents place human resource as the 2nd most complex work stream

Source: Interviews with Chinese Corporate Executives, Deloitte analysis
Note: Breakdown of geographic region and industry sectors can be found in appendix

# To effectively integrate post deal operations, business functions that rank high on prioritization and complexity are more likely to require third party expertise

## Prioritization versus complexity metric




Remarks:

- Complexity and priority are calculated through weighted average from market study results
- Bubble size represent the degree of demands for third party professional practitioners ( = complexity * Priority * 100)

## Observations

- Human resource, sales & marketing, change management and finance are the top four highest ranked functions in terms of prioritization as well as complexity and therefore demand the most help from third party professional service providers
- In general, results show manufacturing and IT are the fields that demand the least help from professional service providers

Source: Interviews with Chinese Corporate Executives, Deloitte analysis
Note: Breakdown of geographic region and industry sectors can be found in appendix

# Top three focus area for external partner involvement during post deal phase include legal and financial advisory, human capital and integration planning

## How do you expect third party service provider to help during PMI


## Observations

**By enterprise type**

- For SOE, financial and legal advisory services and integration planning that focuses on cultural integration are the most helpful
- In additional to legal and financial advisory, private enterprise also seeks help on human resource management

**By industry**

- Auto, CP&S and FS industries are more likely to seek help on financial and legal advisory
- TMT industry seeks third party expertise on cultural integration
- IP&S generally seeks professional service on integration planning

- Chinese enterprises are less likely to seek professional advisory service on risk management, org structure design, governance and union relations, however due to the complexity nature of these work streams, third party help is sometimes necessary

Source: Interviews with Chinese Corporate Executives, Deloitte analysis
Note: Breakdown of geographic region and industry sectors can be found in appendix

# Deloitte’s service offering

# 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**

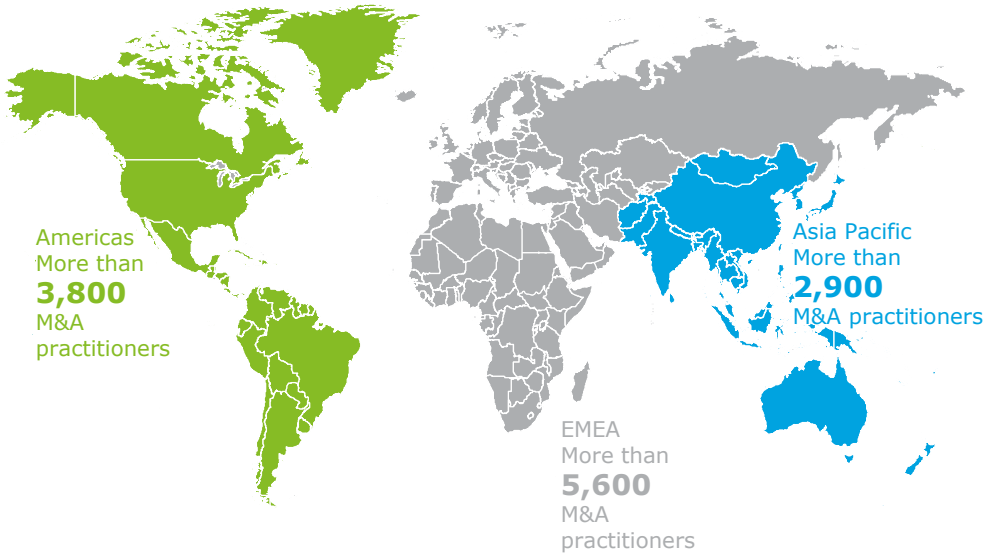
- Substantial experience on China outbound M&A transactions with deep understanding of specific challenges faced by Chinese investors

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

**Stages of M&A Lifecycle**

**M&A Strategy** → **Transaction Preparation** → **Transaction Advisory and Diligence** → **Transaction Completion** → **Post Deal**

***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

# 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

*Fully appreciated PMI Value*

| Single solution | Vertical/horizontal extension | One-stop request |
|---|---|---|
| Provide **quick-win/single solution** to meet the most imperative needs | Provide **tailored combo/advanced solution** to satisfy M&A requirement on selected modules | Provide **full set solution** to deliver maximum M&A value |
| • People retention/ Management incentive program<br>• Finance reporting integration<br>• Corporate Governance | • Target operating model<br>• High level integration plan<br>• Synergy identification and tracking | Integration plan<br>Sales, Ops, IT<br>Finance, HR, Adm. |

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# Appendix

# Appendix
## Geographic region

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

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

# Appendix

## Industry sectors

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

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

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