



CHINA RESEARCH Vol. 1 / Q4 2019

# Is Europe the new Friend of China?



M&A | Financing | Principal Investments

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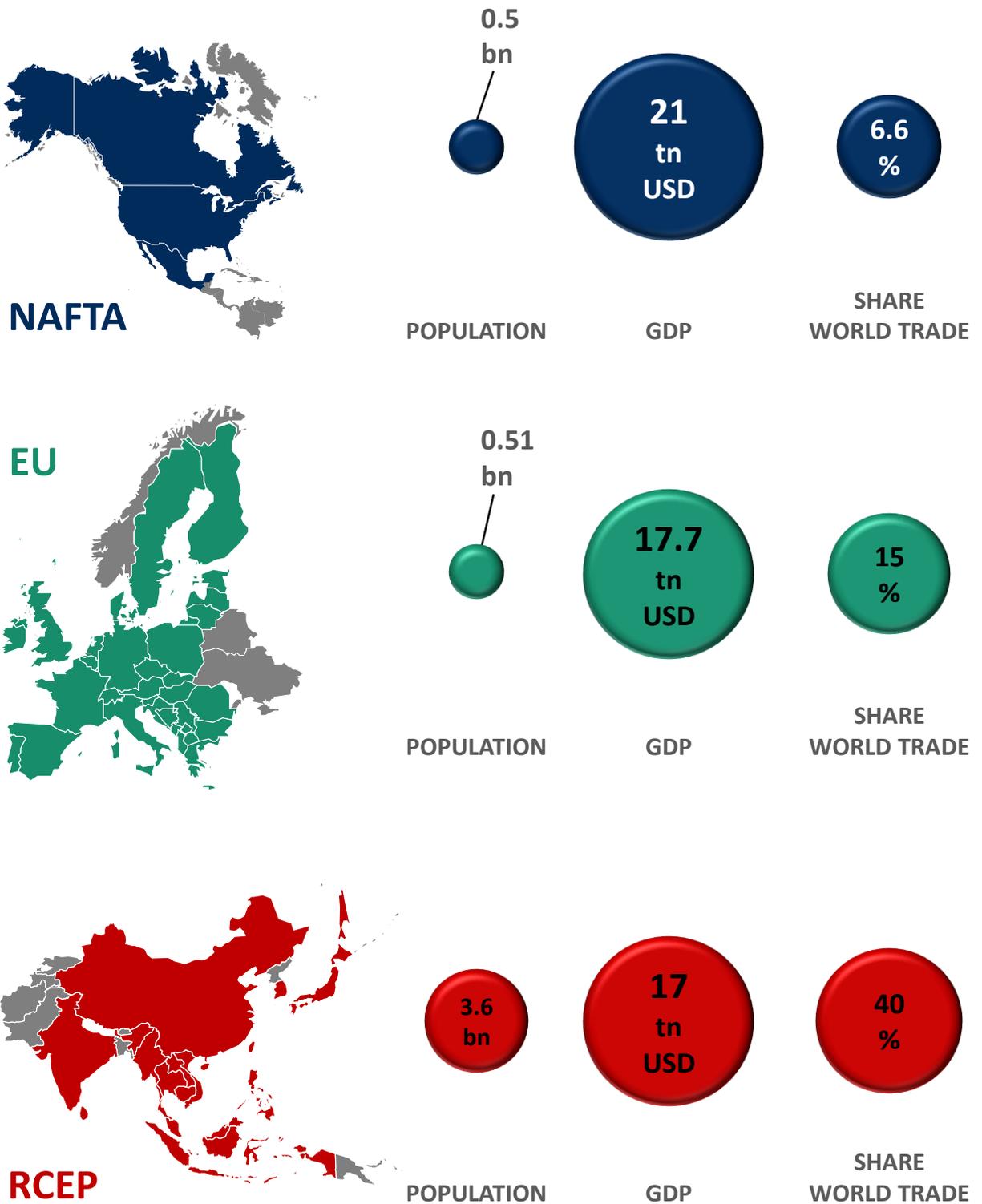
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# Global Market Trends

## CHINA'S INNOVATION POWER

**OF THE 3.3 MILLION PATENTS** registered worldwide in 2018, almost one in two now comes from China. That is almost three times more applications than from the USA, indicates the recently published report by World Intellectual Property Indicators. The average Chinese works 8.4 hours a week longer than the average German. Or how Ephraim Kishon would state it: "The Asians have conquered the world market with unfair methods - they work during working hours". <sup>1</sup>

## FREE TRADE ZONES NAFTA VS EU VS RCEP <sup>2</sup>



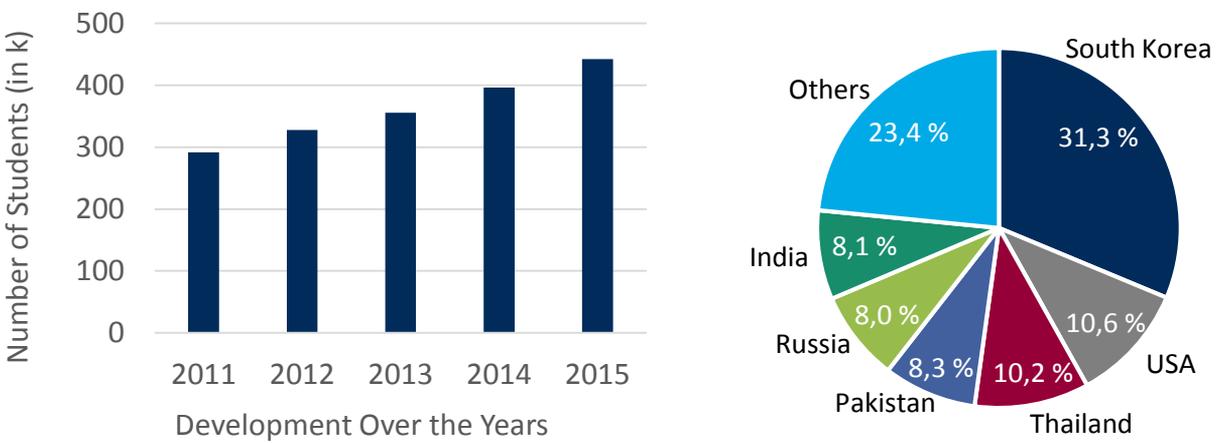
Sources: <sup>1</sup> IEG Global Research Team - November 2019, <sup>2</sup> Gabor Steingart - November 2019

# War of Education

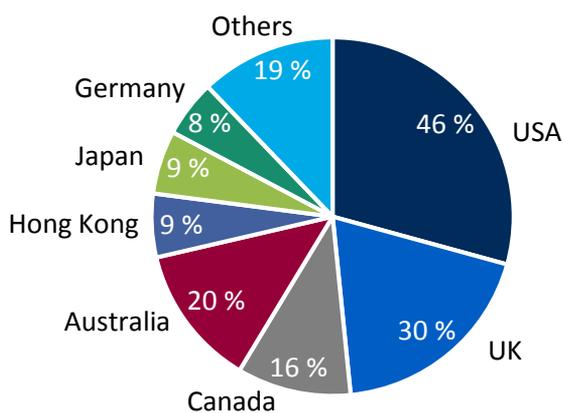
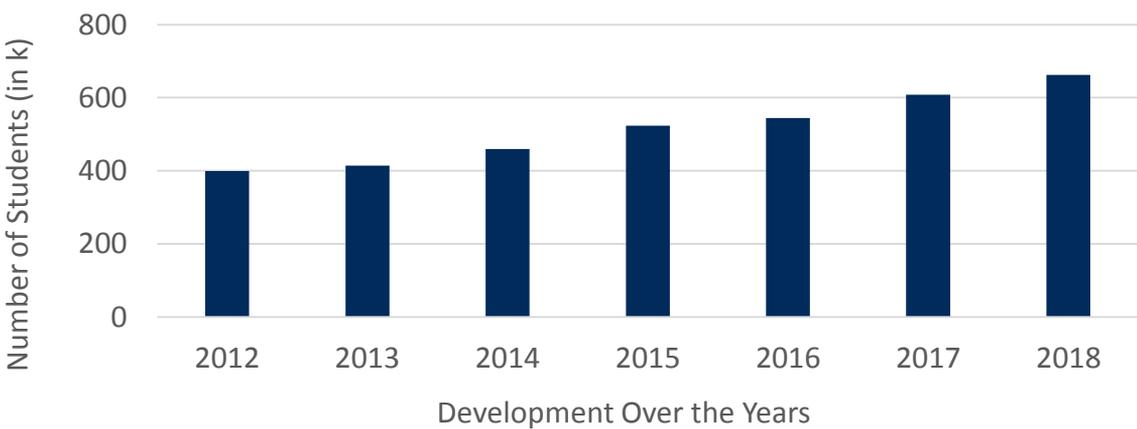
## CHINA = EDUCATION HUB

**THE “WAR” IS NO LONGER** fought simply regarding technology leaderships or access to natural resources. The focus is on future generations and their education. China has developed into a “Educational Hub” over the last decade with more than 600,000 students studying abroad, mainly in the US and the UK, but also with more than 400,000 students coming to China mainly from the neighboring countries. The number of Americans coming to China to study decreases and Europeans are still hesitant to come to China for their education.

## INTERNATIONAL STUDENTS IN CHINA & THEIR ORIGINS <sup>3</sup>



## CHINESE STUDENTS STUDYING ABROAD <sup>4</sup> & THEIR DESTINATIONS <sup>5</sup>



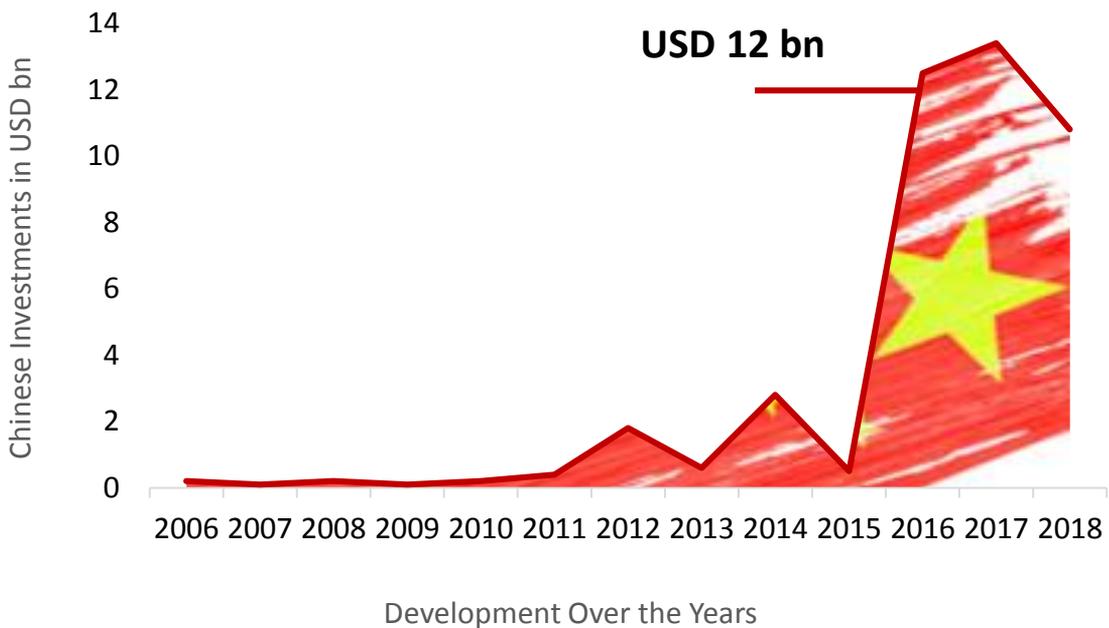
Sources: <sup>3</sup> Ministry of Foreign Affairs China - 2016, <sup>4</sup> Statista - 2019, <sup>5</sup> Wind Dataroom - 2019

# China Deal Trends

## CHINA AS KEY DRIVER FOR TRANSACTIONS IN EUROPE

**IN THE LAST 12 YEARS**, China has become one of the key investors in Europe. Germany for example experienced an increase of 7,000% in investment volume from China since 2006.

### CHINESE INVESTMENTS IN GERMANY <sup>6</sup>



## CHINA'S INTEREST IN HIGH-VALUE B2B REMAINS STRONG

**SINCE THE BEGINNING OF 2019** however, only a little bit more than 80 China - Europe acquisitions have been successfully closed. This is a decrease by 30 % in comparison to last year. Correspondingly, the investment volumes have fallen significantly. In comparison to the big boom year of 2016 with an investment volume of USD 85bn, the volume decreased down to USD 2.4bn in the first half of 2019. In Germany, this is reflected in 11 deals concluded with an investment volume of only USD 550m. The main reasons for this decline are the impact of the ongoing trade conflicts with China and the USA, further geopolitical issues as well as China's focus on its slowing domestic market growth. <sup>7</sup>

**ALTHOUGH, INVESTMENTS HAVE DROPPED** on high levels in 2019, the Chinese demands for attractive European business will further grow in short to mid-term. Yet, this Chinese interest is more focused and differentiated than ever before. IEG can confirm that Chinese companies are still highly interested in high-value B2B business models to get access to the attractive European markets and customers, solidly engineered and well-known local premium B2B brands. The prejudice of buying cheap manufacturing equipment

# China Deal Trends (Cont.)

to transfer to China is history. Although fundamentally different in many aspects to Europe, China has become one of the most innovative countries worldwide (e.g. Artificial Intelligence, Robotics, Battery Tech, Clean Tech, Government and Network Tech, and many more) and this is just the beginning. <sup>8</sup>

## THE OUTLOOK IS PROMISING

**CHINESE INVESTORS HAVE ALWAYS HAD** a more long-term approach in investing compared to Europe or the US. A good example is Geely's most recent investment in Volocopter, the flying car developer with the intention to bring airborne cars to China. Given the political struggle between China and the US, IEG strongly believes that Europe can benefit from that situation if they are able to keep their economic freedom.

**BY 2030, CHINA WILL DOMINATE** the global economy with an expected GDP of 2x compared to the US and nearly 10x compared to Germany's GDP. The most recent decision by the German government in mid-October to allow Huawei to participate in the construction of their high-speed 5G network – despite heavy pressure from the US against it – is a clear indicator that an economic-friendly situation with Europe and China will continue.



*"Since the USA no longer wants to sell to China, this seems to me to be an opportunity for Europe to develop more strongly."*

Ren Zhengfei, Founder Huawei Technologies <sup>9</sup>

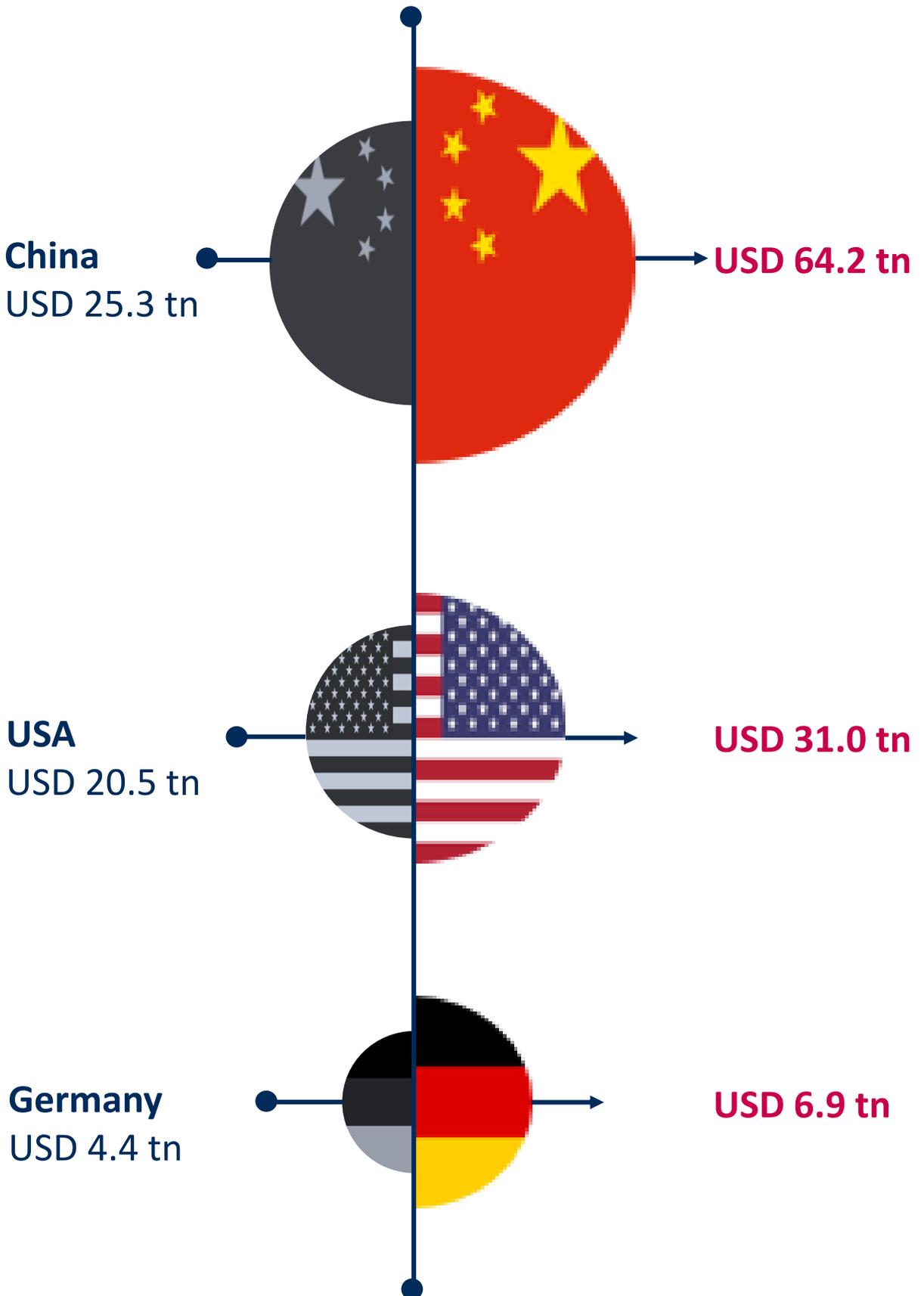
Last but not least, another important change in China will lead to an increase of overall investments from China into Europe. Chinese state-owned enterprises (SOEs) received updated KPIs as performance indicators. One very important KPI update includes the percentage of revenues from overseas in relation to total group revenue. Based on our information, many SOEs will only be able to achieve these KPIs by successful foreign acquisitions. Consequently, we see an increasing number of China - Europe deals to come. <sup>10</sup>

# China Deal Trends (Cont.)

## GDP (PPP) OF CHINA, USA AND GERMANY <sup>11</sup>

2018

2030



# Deal Making in China

## CROSS-BORDER EXCELLENCY

**GERMAN SPECIALTY CHEMICALS COMPANY LANXESS AG** sells its chrome chemicals business' main operations in South Africa to Brother Enterprises, a Chinese leather chemicals producer for EUR 83m. IEG acted as exclusive financial advisor to Brother Enterprises on this cross-border transaction.

#DEALIVERER

**LANXESS**  
Energizing Chemistry

Sale of Chrome Chemicals Business

**brother**

AUGUST 2019



*“It was a strategic decision of Brother and an exemplary global success of a Chinese company through a bidding process. With this transaction, Brother will become the global leader in respective leather chemical and pharmaceutical business.”*

Robert Shan, Managing Director, IEG - China

## LESSONS LEARNT



**PROCESS EXCELLENCY** directly from the start and specific industry knowledge as a must have!



**CLEAR COMMUNICATION** and solid explanation are essential in China | Europe transactions to manage expectations and to create the required level of trust!



Having **LOCAL TEAMS** who speak the language and understand the back-ground of both counter-parties is key to overcome and bridge potential cultural gaps! <sup>12</sup>



*“Despite decreasing deal volumes, this successfully China - Europe transaction is a strong indicator that there is still a huge transaction potential with China.”*

Mirko Heide, Executive Director, IEG - Germany

# What Else is New?

## PE | VC EXPERT JOINS IEG SHANGHAI OFFICE

**LAWRENCE WANG IS AN EXPERT** within the Private Equity and Venture Capital scene in China. He joined IEG earlier this year as Director and focuses especially on the industries: SaaS, AI, Fintech, Machine Learning, Big Data and Services to Business (S2B). He most recently advised the AI-company Tongdun during its Capital Raise.



*“I joined IEG because I’d like to seek the opportunity between China and Europe. There is a trend of more and more Chinese companies looking to expand the business scope and coverage to Europe. I have foreseen the trend and want to participate and accelerate the process and assist clients to grow.”*

Lawrence Wang, Director, IEG - China

## STEFAN HEILMANN AS VENTURE PARTNER FOR CHINA

**SINCE JULY 2019, STEFAN HEILMANN** is also Venture Partner at awesome capital.

**AWESOME CAPITAL WAS FOUNDED IN 2018.** It is a dedicated Venture Capital fund bridging Europe and China, which is managed by a passionate and experienced European and Chinese partner team and its investment focus lies on selected early-stage and growth companies with mature digital technology in Western Europe.



**awesome**  
CAPITAL  
Berlin - Beijing

**STEFAN HEILMANN HAS MORE THAN 25** years of experience in global technology M&A, financings and capital market transactions. He is an Asia expert since the late 90s due to the expansion of IEG into Asia with its own subsidiaries and JV since 2001 as well as several successful cross-border transactions between Asia and Europe. Furthermore, he has close relationships with leading politicians, investors and corporates.

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