

Unlocking Value with Strategic Corporate Divestments in China

April 2022



- Since 2017, multinational corporations (“MNCs”) have realized nearly US\$100bn from divestitures of PRC-based assets, with ~90% of transactions concluded with Chinese buyers
- In 2022, the appetite of PRC corporates/sponsors for quality China operations is at an all-time high
- BDA is highly-experienced in such transactions – and well-placed to help you plan and execute a successful sale of a non-core China business

In recent years, moderating GDP growth, fierce competition from local players, rising geopolitical tensions, major regulatory changes, and management constraints stemming from the COVID pandemic have led many MNCs to consider taking a step back from China.

This re-evaluation is seeing prized assets, once central to long-term PRC strategies, being increasingly monetized. The two largest MNC divestments since 2017, Auchan’s exit from the Sun Art grocery store and Reckitt’s sale of its China infant formula business, both occurred in the past 18 months. Relatedly, the mean transaction size of MNC exits in 2020-2021 was US\$133m – a 65% uptick vs the 2017-2019 average of US\$80m.

Largest MNC Divestments in China (2017-2021)*

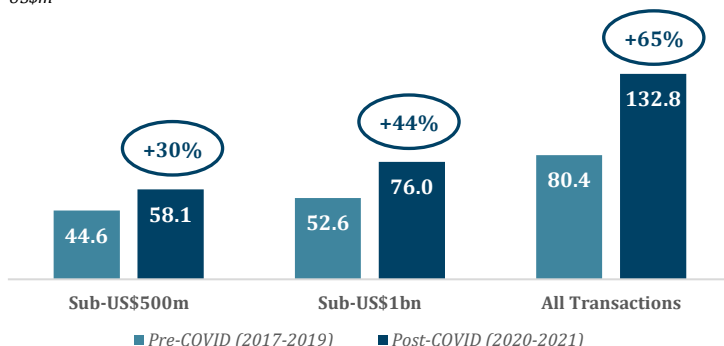
Date	Asset	Acquirer	Seller	Transaction Value (US\$m)	Stake %
Oct 2020	Sun Art Retail Group Ltd	Alibaba Group Holding Ltd	Auchan Holding SA	4,287	43%
Jun 2021	Mead Johnson Nutritionals (China) Ltd	Primavera Capital	Reckitt Benckiser Group plc	2,200	100%
Jan 2017	McDonald’s China Management Ltd	CITIC Capital, CITIC Ltd, Carlyle Group	McDonald’s Corp	2,080	80%
Oct 2019	Metro Jinjiang Cash & Carry Co Ltd	Wumart Technology Group	Metro AG, Minority Shareholder	1,677	80%
Apr 2017	Shanghai SECCO Petrochemical Co Ltd	Sinopec, Gaoqiao Petrochemical Co Ltd	BP plc	1,470	50%

Importantly, this trend is not limited to a handful of blockbuster transactions each year: it extends to the many middle-market exits that make up the majority of MNC divestment deal flow.

Since the outset of COVID, the mean transaction size of mid-market MNC divestments increased 44%, from US\$53m in 2017-2019 to US\$76m in 2020-2021, and increased 30% for transactions under US\$500m.

This clear trend signals that **MNCs of all sizes and profiles are rationalizing ever-larger portions of their China portfolios in reaction to the growing challenges of remaining in the PRC.**

Mean MNC Divestment Transaction Sizes (Pre- vs –Post-COVID)
US\$m



Consistent Appetite from PRC Corporates and Financial Sponsors for Quality MNC Assets

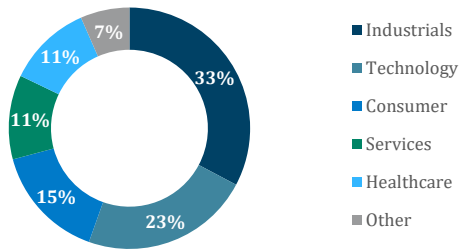
With outbound M&A increasingly difficult to execute and manage, PRC-based corporates have turned their eyes back to China. MNC carve-outs in China represent quality alternatives to overseas acquisitions: not only are they well-suited to serve local market demand, but also offer much easier integration and subsequent management. Though typically smaller-scale and lacking the fanfare – and full technology portfolio – of an international acquisition, the right target can drive significant interest from Chinese buyers, particularly ones that offer:

- Differentiated technology / capabilities / intellectual property;
- Established brands, customer bases and channels; or
- Scarce licences and quality facilities, due to restrictions on greenfield from environmental concerns.

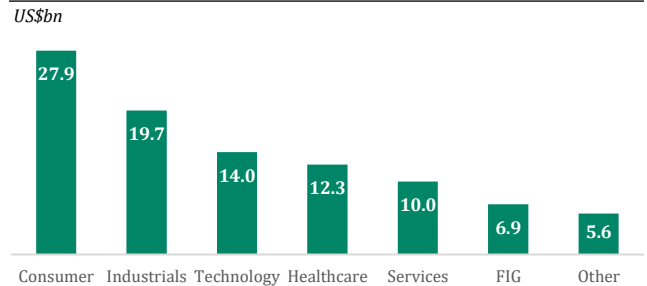
* Excludes real estate transactions. Source: Dealogic

Industrials, Technology and Consumer MNCs have been the most active sellers of China-based assets, accounting for over 70% of recent transaction volumes and over 60% of aggregate transaction value since 2017. Over the same timeframe, groups from Taiwan (172), the USA (135), Japan (135) and Singapore (102) have been particularly active in exiting their PRC holdings.**

MNC Divestment Volume – By Sector ('17-'21)*



MNC Divestment Value – By Sector ('17-'21)*



Overall, Chinese parties have acquired a steady ~90% of all MNC divestments in the PRC since 2017.

Process Expertise is Critical in Maximizing Value with Chinese Buyers

While Chinese buyer appetite for MNC carve-outs is high, a bumper valuation is by no means a certainty. Securing a strong outcome requires not only extensive upfront work in defining the carve-out, but also a well-crafted M&A process to maximize competitive tension as well as thoughtful selection/management of buyers.

For example, in one recent transaction a PRC investor identified by BDA saw substantial long-term potential in a pre-revenue asset but was initially unable to meet the seller’s valuation. Given a chance to pre-empt a broader auction, BDA worked closely with the Chinese investor to understand the concerns of key stakeholders and the company’s internal decision-making roadblocks, then guided them in crafting a thoughtful milestone/guarantee structure which supported a sufficiently strong offer to secure the asset.

It is also critical to understand and be able to adapt to the requirements of unique buyer classes in China. For instance, State-owned enterprises (“SOEs”) benefit from strong governmental support in terms of funding but need to follow rigid valuation rules prescribed by SASAC, their supervisory governmental agency, and often require significant coaching to remain competitive in an auction process.

In another recent corporate divestiture, BDA designed a bespoke, dual-track process to provide SOE buyers ample time to conduct their mandatory approval procedures, while allowing faster buyers to move at a more natural pace to maintain competitive tension. This process flexibility helped to build trust with the winning SOE bidder, as BDA guided them continuously from the outset through to a successful final offer.

For companies facing weakening competitive advantages, eroding brand equity, or other strategic inefficiencies in their China portfolio, the potential to monetize local assets should not be discounted. If properly channeled, the appetite from domestic buyers for quality corporate carve-outs in China can deliver substantial returns for an asset with diminishing strategic value.

BDA has extensive experience helping MNCs such as Henkel, International Paper, Pfizer, Terex and Toshiba maximize shareholder value in the sale of non-core assets in both China and across Asia. If you would like to discuss a potential divestiture, please reach out to one of the contacts below:

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* Excludes real estate transactions. Source: Dealogic
 ** Rankings exclude sellers from Hong Kong

Recent Greater China Transactions

IEQT

Divested ELEVATE to

LRQA

2022



ATLAS HOLDINGS

Divested ASG Print to

IEQT gpa GLOBAL

2021



hemovent

Was acquired by

MicroPort

2021



NAVIS

Divested Amazon Papyrus to

THE LONGREACH GROUP

2021



SUMMA EQUITY

Divested Hytest to

mindray

2021



American-Sino
OB/GYN/Pediatrics Services
美華婦兒服務

Was acquired by

DCP 德弘資本

2021

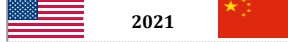


HEXION™

Divested China phenolic resins plant to

Red Avenue 彤程新材

2021



Bristol Myers Squibb™

Divested its commercial production platform in Switzerland to

药明康德 WuXi AppTec

2021



MUTARES

Divested majority stake in STS Group to

Adler Pelzer Group

2021

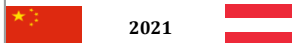


KOKIDO®
Pool Product Innovations

Was acquired by

BWT BEST WATER TECHNOLOGY

2021



MMC DELTA PARTNERS

Divested Neoss to

CARECAPITAL 松柏投资

2020



Platinum Equity

Divested Compart Systems to

万业企业

2020



方源資本 FOUNTAINVEST PARTNERS

Divested significant stake in Kehua Bio-Engineering to:

格力地产 GREE REAL ESTATE

2020



actis

Divested a casual dining restaurant chain to

GreenTree Inn

2020



Henkel

Divested Asian electronic cleaning chemicals business to

NIPPON KAYAKU

2020



徽记

Divested controlling stake in Sichuan Huiji Foods to

草根知本 CAOGEN

2020



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Global Coverage

