

Cross-Border M&A Transactions Between the US and China

By: Jack Z. Chen
Founder and CEO
Transworld Capital Group

A faint, light-colored background image of a traditional Chinese lion sculpture (shishi) is visible in the bottom right corner of the slide.

Introduction

- » Transworld Capital Group (TCG) specializes in cross border M&A (US and China) advisory and direct investment
- » TCG advised Chinese buyers on two of the largest overseas acquisitions of US auto parts companies
- » Wall Street Journal reported on the Nexteer deal twice, and Paulson Institute has just published a case study on the transaction
- » Focus of today's presentation: the inter-related political, economical, regulatory and competitive environment surrounding cross-border M&A transactions and lessons to learn from recent transactions

Background - Pre 2007/2008 Era

- » US experienced unprecedented prosperity driven by easy credit and loose regulatory oversight
- » M&A market had lots of US strategic and financial buyers willing and able to offer high price (12 to 16 x EBITDA) supported by eager lenders
- » Chinese buyers were priced out of the market due to lack of access to cheap credit in the US
- » Chinese buyers focused on two types of deals at that time: 1) companies that no one in the US wanted; and, 2) resource deals that were way over priced – red flags!
- » For most part, very few sellers took Chinese buyers seriously
- » Even though Chinese companies were motivated to buy access to the US market, technologies and brands, very few deals were done after 30 years of open policy in China

Post 2007/2008 Era

- » Financial melt down froze the capital market in the Western world
- » Over-leveraged US strategic and financial buyers had to fight for their own survival and could no longer finance new acquisitions or investments
- » Chinese buyers were among the very few available options – they were considered “strategic/financial” buyers because they had access to capital and the growing China market

Challenges

- » Regulatory barriers from “End to End”: China – NDRC and MOFCOM → US – CFIUS
- » Lack of track record: failed deals got lots of publicity – CNOOC/Unocal, Huawei/3Leaf, Tenzhong/Hummer
- » Public misperception: Chinese buyers will take technologies and move jobs overseas, and some politicians take advantage of the sentiment for their own political gain
- » Competition: US competitors (competing buyers), using public misperception, team up with politicians to gain competitive edge over Chinese competitors

Overcome Regulatory Hurdles- US & China Must Work Together

- » Break the “End to End” chain of regulatory hurdles – modify rules, increase transparency, and reduce approval time required
- » “Special M&A Virtual Zone” in China (similar in concept to the “Shanghai Free Trade Zone”)
- » Get politics out of the way – Through strategic dialogs, US and China governments should come up with a general guideline of behaviors, so the players know what to do and what not to do – the case of Huawei and ZTE

Public Education

- » Moving technology and job overseas are easy to say but very hard to do now, because 1) those, who should move out, have moved out already; 2) US customers demand JIT delivery; 3) technology is useless without people; and 4) eco-system is important to keep innovating
- » US and China cross border deals are not a “zero sum game”, instead, they could be a “win-win”
- » Union can be an alliance: the union is willing to compromise in order to keep its member’s job security, and Chinese buyers need the workers’ skills and stability
- » Understand US politicians’ issues and needs – they want credit and support of their constituents

For Chinese Buyers

- » Learn from Sun Tzu (孙子) – know who you are dealing with and their needs: seller, competitor, politicians and regulators
- » Don't wait for regulations to change, instead, trying to shape the regulations by being actively involved in the legislation process
- » Don't go to politicians asking for help only when you need them, instead, trying to build long term relationships with them
- » Sellers will feel more comfortable dealing with buyers, who understand how to manage the process in order to get the deal done – if you can't change the environment, then manage it
- » Let people know who you are and what you want to do. Be a trusted friend of the community with a good sense of social responsibility
- » Competitors will find it hard to derail a transaction if the buyer gets its bases covered

The Role of Public Policy Think Tank

- » Being a member of the China Leadership Board at the 21st Century China Program, I think we can do a lot to facilitate mutually beneficial cross-border investments between US and China
- » Use our public forum to bring together all stakeholders, such as bankers, accountants, lawyers, investment firms, trade associations, consulting firms, policy makers, local government officials, and think tanks, in order to share their point of view, and help shaping the regulatory environment to benefit cross border investments
- » 21st Century will be a US/China Century, not US or China Century

Thanks you!