

InterChina Consulting: The Leading Strategy and M&A Advisory Firm in China's Machinery and Industrial Sector

Prepared by: InterChina Consulting

Date: April 2012

InterChina



英特华

Strategy | M&A Advisory

IMAP China





Introduction by Jan Borgonjon, President, InterChina Consulting: How to assure continuous rapid sales growth in China?

For many machines and applications, China is not only the world's largest market, but also the fastest growing one. However, for many international machinery makers China is not their largest market, and sales growth is below average market growth. Why?

Many machinery companies are not sufficiently tailored towards the ever-changing local market requirements, struggle to win against Asian competitors, and have not allocated sufficient and adequate resources to the Chinese market. In addition, the Chinese market is a moving target: leadership or outstanding performance, does not guarantee success in 1 or 2 years time.

Over the last 17 years, InterChina has worked with leading machinery makers in over 150 projects, helping them to effectively master the challenges of the Chinese market, to strengthen their position in China, and – above all – to achieve above average, sustainable, sales growth.

InterChina has become a leading and preferred advisory companies for machinery companies in China, be it for a hands-on market strategy, identifying partners, and negotiating partnership or acquisitions.

If you face issues similar to those described in the following pages, we would be very happy to talk to you about how we may be able to help.

Jan Borgonjon
President





- Our Value

- China specialist.
- Strategy and M&A advisory
- Sector expertise.
- Retained 16 years experience.

- Our People

- Bicultural partnership.
- 50 consultants & advisors.
- Chinese, senior, industrial, technical.
- Located in China, EU, US offices.



- Our Clients

- Medium-sized to Fortune 500.
- 500 strategy projects.
- 150 transactions (USD 3 bn).
- 2/3 of projects are returning clients

- Our Reach: IMAP

- Global mid-market M&A organization.
- 44 offices, 30 countries, 400 professionals.
- Over 200 transactions per annum.
- Exclusive China partner since 2006.

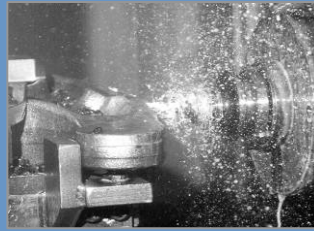


Sector Expertise

Experience, insight and networks in China's major growth sectors



Energy &
Infrastructure



Machinery &
Equipment



Chemicals



Automotive &
Components
















Healthcare



Consumer & Retail
(Food & Beverage)



InterChina has realized over 150 projects with machinery clients.

Machine types InterChina has been advising on:	Machine tools					Production Machinery				Other Machinery			
	Milling	Machining Center	Turning Lathes	Grinding	EDM	Presses, Forming Bending	Constr. equ.	Mining equ.	Textile equ.	Mass- prod. equ.	Paper, Pka, Print equ.	Testing equ.	Others*
													

Origin of clients

Germany 

Switzerland 

Italy 

Spain 

USA 

- **Over 150 projects realized:** In the last 15 years, InterChina has executed 150 projects – and counting - with machinery clients in China.
- **Working with leaders:** InterChina has been working with global market leaders, whether cross-application or in niche segments, for improving their position in China.
- **Understanding our clients:** We are close to our clients' origins and cultures, via our client liaison offices in Spain, Italy, USA, and via our consultants speaking English, Spanish, Italian, and German.

Note: * Others include components and services, such as Turrets, Engines, Pumps, Machinery leasing and financing, Mold & Die, Elevators and escalators, Propulsion systems, Waste treatment, Renewable energy machines.



Profiles of key members of InterChina's Machinery Sector Group

Jan Borgonjon

Belgium
President
Beijing



- China resident for 30 years, co-founder of CEIBS (China's leading MBA school), and InterChina.
- Managed >100 projects, especially in machinery and components.
- Top level negotiation and lobbying, incl. establishment of the Sino-Spanish Machine Tool Training Center in Tianjin.

Long Nanyao

Chinese
Founding Partner
Beijing



- Engaged in more than 30 machinery-related consulting projects since 1994 for InterChina
- Project experience involving various metal cutting and metal forming machine tools, construction machinery and components, etc.

Franc Kaiser

Swiss
Director
Shanghai



- 10 years of China work experience.
- Manager of multiple machinery-related projects.
- Advised European machinery companies on China entry and expansion strategies, incl. DMG, EMAG, Koerber-Schleifring, Bobst.

Kim Woodard

US
Principal
Beijing



- 30 years of consulting and executive experience in China, including senior positions w. John Deere, and AMP Inc
- Founded A.T. Kearney in China.
- Experience and expertise in industrial equipment sector, ranging from energy over construction to production machinery.

Robert Zhang

Chinese
Manager
Beijing



- Ph.D Industry Automation; MBA Vlerick Leuven Gent
- Former senior channel manager with Siemens Industry Sales, China
- Project manager with Sinotrust China
- Expert in sales & distribution strategy, as well as in sales of industry automation in China.

Barry Chen

Chinese
Director
Shanghai



- Over 15 year's corporate development, consulting, corporate finance, and strategic planning experience, with significant M&A assignments in the Asia Pacific region, formerly with the M&A Group of UPS.
- Diversified industry experience in logistics, consumer products, manufacturing and machinery.

Raymond Su

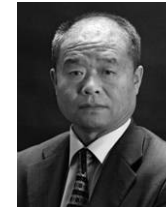
Chinese
Sr. Manager
Shanghai



- Over 8 years in Assurance and Corporate Finance.
- Intensive and diversified industry experience in various sectors, such as machinery, automobile, and food & beverage,
- In-depth expertise in Due Diligence, Acquisition Financing, M&A, Financial Restructuring, and Financial Modeling.

Chen Zhaolin

Chinese
Principal
Beijing



- Fmr. Deputy Director with the Department of Science and Technology with the Chinese Ministry of Machinery Building.
- Director of Exe. Management and Gov't Liaison with Bosch (China).
- Advisor on outbound investment projects (Chinese machinery players acquiring overseas companies).

Tom Han

Chinese
Principal
Shanghai



- Financial Controller for many foreign invested companies in China, including Siemens -Nixdorf, Nabisco Food, and AES Generating.
- Solid management background, >20 years of experience in financial, accounting and strategy development.
- Experience in machinery and machine tool related transactions.

James Tang

Chinese
Consultant
Shanghai



- Formerly with Frost & Sullivan, China.
- Specialist in Industry Consulting, has provided service to Top500 in industry analysis and value chain analysis.
- Sectors of expertise: Industry automation, electronics, machinery, semi-conductors, motion control systems, and machine tools (lathes, milling systems).



Typical issues our clients (machinery producers) have in China

"We have been in Chinese market for years, but our market share hasn't increased in the last 3 years – How can we **expand our overall market share** in China?"

A US mining machinery company

"We have a strong offering in the high-end market. But are too over-engineered to **address the middle segment** to achieve the sufficient volumes to justify local production.

A mass-production equip. company

" We are uncertain about our way to market. Our agent in China is no help for our strategic decision making, but we have to find the **right distribution model for China.**"

A turning machine tool builder

"We are doing well in China, but we need our sales in China to be a top market within our global market portfolio. How can we **double our China sales** within 3 years?"

A European machine tool company

" We have a diversified product portfolio covering different applications. We want to **listen to the voice of Chinese customers in downstream industries** to offer the right level of service".

A milling machine tool company

"We plan to bring more models to be produced at our China plant. We need to **listen to the Chinese customers** to be able to **design the right machine** for Chinese mass market."

A grinding machine tool builder

"Our sales from China are worse than expected – we need to address our problems in China and **define the action plan to secure more orders for our China plant**".

A forming machine tool builder

" We are considering to **localize another machinery line** in our China factory, but are not sure what the **sales potential** could be, and whether we should rather think about **acquiring a local competitor**"

A machinery testing system builder

"Our sales in China have dropped a lot. We need to **solve the problem with our Chinese JV partner** and **define an action plan to boost our sales in China**".

An EU machine tool builder



Our services address these challenges so that our clients stay ahead of the curve

Our Offering

Growth Strategy

Rationale and benefit

The Chinese market is growing fast, but great companies grow faster than that and outperform their direct competitors. We help our clients to find the right way forward to make China a top market, with focused and cost-effective actions to reach the maximum possible.

Multi-Industry Downstream Analysis

Many machines have multiple applications and are sold to various industries. This means chances across different sectors, but also requires focus on the most important ones. We understand most of the customer industries and point our clients into the right direction.

2nd Brand Strategy

The emerging mid-market poses new opportunities for int'l players, but also new challenges. We have been working with several clients on defining the right strategy forward, including the facilitation of acquisitions of local players to enable a second brand strategy.

Partner Search To Increase Global Competitiveness

The global markets require machinery players to be ahead of the curve in cost control, and Chinese companies can offer savings when producing components or the entire machines. We help clients to find the right partners and advise them on the right cooperation schemes.

Localization and Adaptation

Assembly or production in China is a logical step for many companies once the Chinese market is a top priority. We help clients to define locally-made machines and to adapt them to customer requirements in price, technological features, functions, and service packages.

Reorganization of China Operations

Many China (sales) operations of int'l companies suffer from under-investment and differences between the local team and HQ / overseas factories. We help to find the optimum structure for faster growth, and assist in the change of processes and teams.

Anticipation and Forecast

A fast changing business and policy environment promises that things won't be the same in 5 or 10 years from now. Companies need to consider impacts of local purchasing behavior and various levels of protectionism, and how those will impact on their business in China.

Typical projects

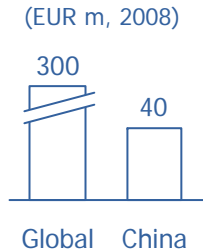
- "How to double sales in China"
- "Growth perspectives 2009 - 2013"
- "Turnaround of low sales in China"
- "New distribution strategy for China"
- "Analysis of 5 customer industries"
- "Find and diversify into new applications / customers industries"
- "Focus on fastest-growing sectors"
- "Buy mandate for local competitor"
- "Accessing the mid-market in China"
- "Acquisition of local player"
- "Due diligence on target XXXXX"
- "Strategic partner search"
- "Analysis of local company XXXXX"
- "Negotiation support for OEM agreement"
- "Sale of business unit to Chinese co."
- "Customer requirement survey"
- "Defining the techn. features and price for locally made machine ABC"
- "Feasibility study for local plant"
- "Restructuring of sales team"
- "Streamlining sales process for China"
- "Build up of stronger agent network"
- "Forecast on protectionistic trends"
- "Cost anticipation study 2015"
- "Managing future risks in China"



Growth Strategy: With our advise, our clients boosted their China sales manifold and outperform their direct competitors

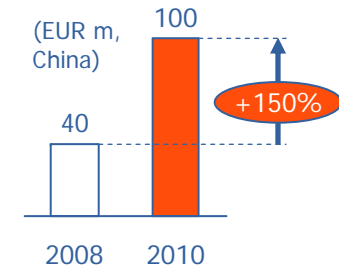
3 example Clients **Client's sales before engaging InterChina** **The Client's problem** **InterChina's solutions and recommendations** **China sales after engaging InterChina**

- Machine tool maker
- EU company
- Milling, grinding, turning machines
- Assembly in China
- Imports from EU
- Diversified markets

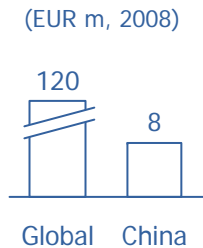


- In need of strategic growth opportunities along various sectors, including existing and 'new' sectors.
- Unclear prioritization of machine portfolio.

- Identification of markets and applications currently neglected by Client (growth opportunities).
- SWOT of Client against Chinese market and direct competitors, finding levers for growth.
- Prioritization of markets and machine types.

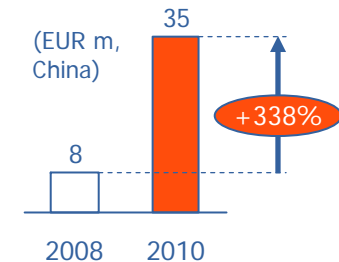


- Machine tool maker
- EU company
- Forming, presses
- Newly built factory in China
- Mainly selling to automotive market

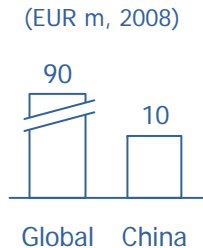


- Sales way below factory capacity.
- Most production for exports, but failed to break-through in the Chinese market.

- Identification of quick-wins via customer prioritization and focus of sales efforts.
- Key account management system, stronger sales team.
- Improved service offer.
- Marketing actions.

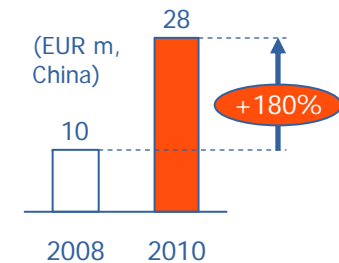


- Machine tool maker
- EU company
- Milling machines
- Production JV in China
- Diversified markets



- High costs of sales (agent commission).
- Differences with local JV partner.
- Sales of local production JV remain below expectations.

- Introd. of a "China Man".
- Strengthen sales team.
- Better after-sales services.
- Changes on locally assembled machine technology.
- Constructive settling of differences with local partner.





Customer Analysis: We understand our clients' downstream industry applications and customer dynamics in China

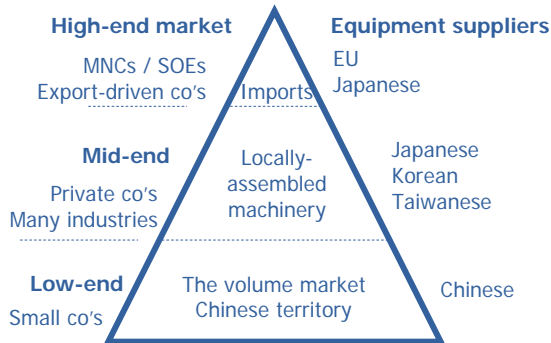
Machine types InterChina has been advising on:	Machine tools						Production Machinery				Others		
	Milling	Machining Center	Turning / Lathes	Grinding	EDM	Presses, Forming, Bending	Constr. machines, equipment	Mining machinery	Textile machinery	Mass-production machines	Paper, packaging, print eq.	Testing / measuring machinery	Components and services
Customer industries / applications we have been analyzing:													
Aeronautics	✓	✓	✓		✓							✓	✓
Railway			✓	✓		✓							✓
Automotive		✓	✓	✓		✓							
Mold & Die	✓	✓		✓	✓	✓							
Energy (incl. wind mill)	✓	✓			✓	✓							✓
Construction & Mining	✓		✓	✓		✓							✓
Machine tool, machine OEM	✓	✓	✓	✓		✓							✓
Shipping	✓			✓									
Agriculture													✓
F&B, FMCG									✓	✓	✓		
Home appliances, electronics		✓			✓	✓					✓		

- **Listen to customer needs:** We understand the machines' applications and customer industries in China. Our work often focuses on customer dynamics, purchasing decision making, and opportunities arising for our Clients.
- **Practical and reliable:** We conduct over thousand personal interviews p.a. with market players, resulting in reliable market information for clients who face a difficult opaque market environment.
- **Industry portfolio approach:** As many machines are sold to various different industries, each segment offers different characteristics, which need to be integrated into the machine makers' decision making.
- **Learning cross-link:** We can draw from our experience and contacts with customers from previous engagements with clients in customer industries.

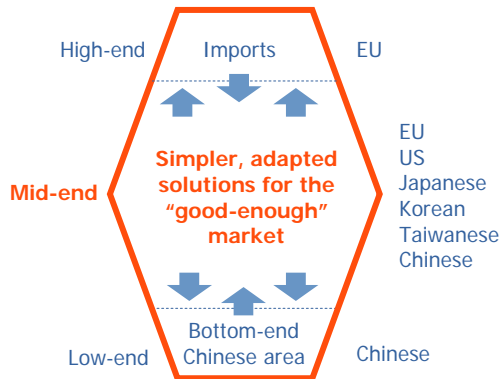
Second Brand Strategy and M&A: We design the right strategies to break into mid-quality segments and implement M&A deals

The problem...

The Chinese market changes its shape from the classical pyramid ...

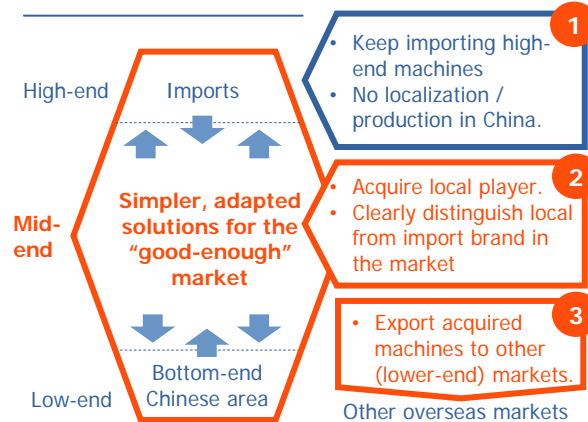


... to a mid-end dominant structure



The Strategy...

Acquiring a local brand / player to break into mid-end markets



The Acquisition...

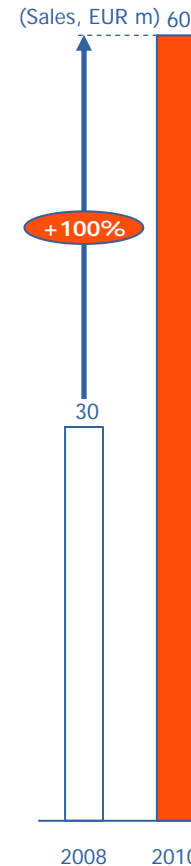
Identification and selection of acquisition targets

	Strategic fit	Cultural fit	Price expectation
Target 1	●	◐	Too high
Target 2	◐	◐	Within range
Target 3	◐	◐	Low

- Due diligence
- Valuation
- Negotiations
- Deal structuring and closure

... and the Result

Example of packaging machinery client acquiring mid-market player



- Successful acquisition of local player.
- Immediate break into mid-quality market segment in China.
- Overall, doubled market share in China.
- Effective protection in international markets against Chinese threat.
- Exports of locally produced machines to other markets with similar quality requirements.
- Creating synergies where sensible: Sharing technologies and after-sales service network in China.
- Clear positioning towards different customers.



We are getting deals done: Selection of recent M&A deals in the machinery sector by InterChina Consulting



Joy Global

Mining Equipment and Machinery
Milwaukee, UNITED STATES

ACQUIRED 100% OF SHARES
AND CERTAIN ASSETS OF

Wuxi Shengda Machinery Co. Ltd.

Mining Equipment
Wuxi, CHINA

Advisor to the parties

InterChina



BLM Group
Machine Tool
ITALY

ACQUIRED MAJORITY OF

Shanghai Sano Automatic Machine Co. Ltd.

CHINA

Advisor to the Buyer

InterChina



Bobst Group

Leading packaging machinery
company in Europe
SWITZERLAND

ACQUIRED A MAJORITY OF
FOR A "ACQUIRED A MAJORITY"

Shanghai Eternal Machinery Co.Ltd

Flat bed diecutting & creasing machine
manufacturer, CHINA

Advised the Buyer

InterChina

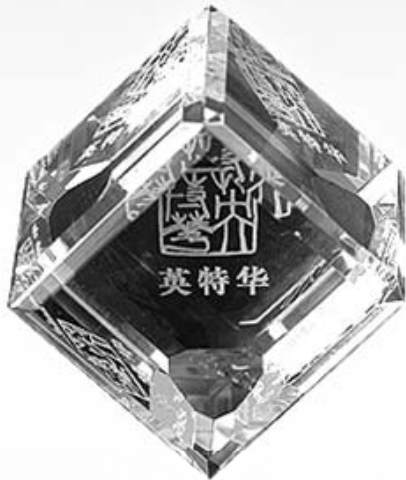




Website

www.InterChinaConsulting.com

www.IMAP.com



Beijing	Eduardo Morcillo Managing Partner	t +86 10 8451 2088 e eduardo.morcillo@interchinaconsulting.com
Shanghai	Franc Kaiser Director	t +86 21 6341 0699 e franc.kaiser@interchinaconsulting.com
Madrid	Pedro Conesa Director	t +34 91 411 9302 e pedro.conesa@interchinaconsulting.com
Washington D.C.	David J. Hofmann Director	t +1 202 463 7735 e davidj.hofmann@interchinaconsulting.com
Strategy Practice	James Sinclair Managing Partner	t +86 21 6341 0699 e james.sinclair@interchinaconsulting.com
M&A Advisory Practice	Barry Chen Director	t +86 21 6341 0699 e barry.chen@interchinaconsulting.com

InterChina



英特华