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Mid-sized Acquisitions in East Asia

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Mid-sized acquisitions will represent a large part of total M&A deals in East Asia in the coming years

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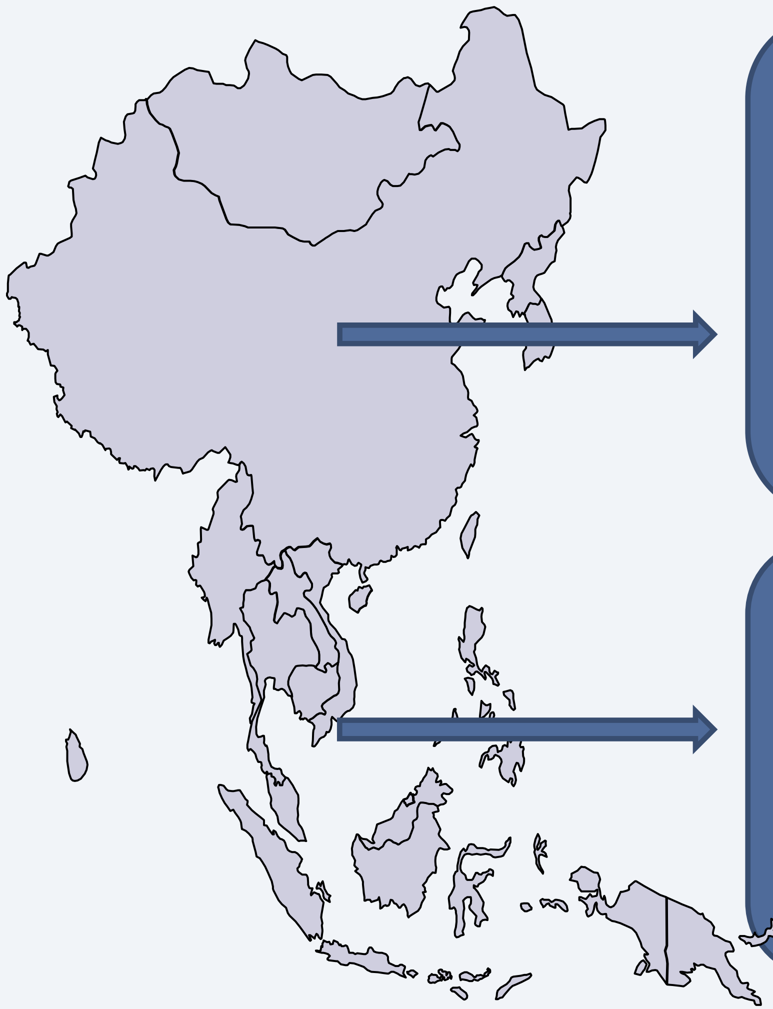
"**Mid-sized**" = EV between 10m to 100m (USD)

"**Acquisitions**" = Buy-side focus

Our "**East Asia**": Southeast Asia (ASEAN) and Greater China



China: many first generation businesses created after China's opening are reaching their first "succession" stage. The majority are mid-sized.

Southeast Asia: lack of regional integration means that many market leaders in specific niches are mid-sized

Many mid-sized Chinese companies are facing their first succession stage and are ready targets

- Created in the late 80's or early 90's by entrepreneurs then in their early thirties => founders are now around **55 years old**
- **Privately-owned**, or listed with a majority shareholding still held by the founder(s)
- **Slowing growth**: "future value" does not appear anymore "certain" to be so much above " current value"
- Usually one principal owner with one child (sometimes two)
  - **Child unwilling to take over** (e.g., living aboard, unwillingly to take over owner's tough work, unwillingly to live outside the big cities, etc.)
- Often owner faces **health issues** (age and business lifestyle)

A sale to solve the succession issue is a likely outcome

Southeast Asia is home to many mid-sized companies that can be acquired

- Southeast Asia, despite the efforts of ASEAN, is not a well integrated market - many of the sectorial markets are dominated by **national players**
- Top players in Southeast Asia therefore tend to be **mid-sized**
- They tend to be privately-held or listed with majority **family ownership** (most likely 2nd, 3rd or even 4th generation)
- As competition globalizes, such players **need to internationalize** to survive in the medium term but this is **not easy** (lack of resources: financial and people)

Many owners can be convinced to sell if the approach to them is handled properly

Handling such mid-sized targets presents many challenges

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- Owners of mid-sized targets are typically not sophisticated at all in finance or M&A – they **do not understand the M&A process**
- Target **financials are in poor shape**:
  - Lack of "good enough" accounting system
  - Manipulation of results for tax reasons (especially for privately-held companies and depending on the country)
  - "Fake sales" in China
- Significant **cultural differences** between multinational acquirers and local targets
- Smaller deal size => **less resources** available to solve these issues

Listening, understanding and a humble approach are key steps to success

What does the owner want? What will make the owner decide to sell? How to make the owner agree to price, structure and detailed terms?

- **Listen** to what the owner says … rather than being the banker who already knows everything
- **Understand** what the owner and other stakeholders are looking for … rather than trying fit the situation into a standard M&A template
- **Accept** to work within the owner's reality … rather than impose without explanation best practices that the owner does not understand

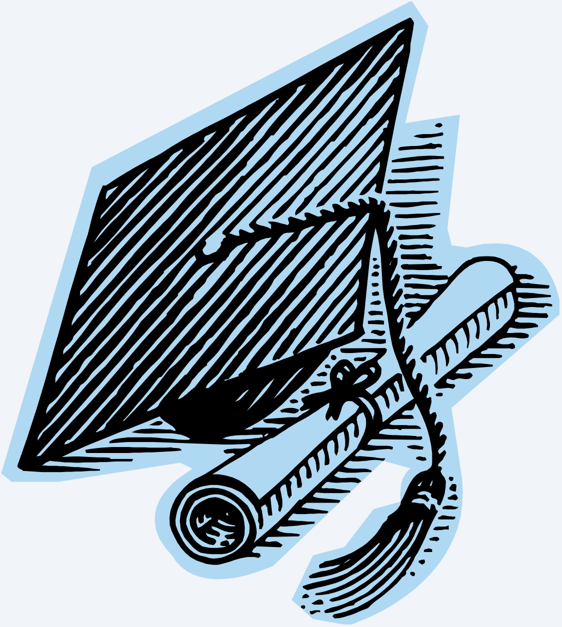
This requires the help of locals who can help surface hidden agendas and decipher coded messages

At the same time, following a world-class best practice process on the buyer side is crucial

- Mid-sized East Asian targets present **huge potential rewards** for large acquirers in terms of future realized synergies
  - Mid-size “bolt-on” acquisitions have traditionally been more value creating for acquirers than large transformational deals
  - East Asian mid-size targets can benefit from the expertise and reach of the MNC acquirers
- However, these acquisitions also present **significant execution risks** due to the target’s past practices and the **foreseeable integration difficulties**
  - Due diligence and mitigation of risks by other means is key (e.g., asset deals or “modified asset deals”, owners kept financially interested in the success of the target, etc.)
  - Effective preparation and carrying out of the integration is key

The bankers for these deals must combine local understanding and global knowledge

- **Local understanding** to effectively communicate with owners
- Solid base education giving **problem-solving skills** to tackle complex situations: M&A is about many disciplines applied together to the multi-faceted issues facing the target business and its acquirer
- Ability to **think well under severe pressure** (time or otherwise)
- Excellent **hands-on understanding of M&A best practices** (start in a place where these are known and practiced!)
- **Integrity**, which is necessary to develop long term trusted relationships with clients and partners



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