Trend

CHINA’S GOES WEST
- THREAT OR OPPORTUNITY TO NORWAY?
Threat or opportunity to Norway?

(1) it’s a much bigger threat than opportunity

(2) it’s a much bigger opportunity than threat

(3) it’s about equally a threat and opportunity
Richard Lesser, global president and chief executive of the Boston Consulting Group.

"The more the world changes, the more you can't use the past to guide the future.

To win in this world of uncertainty, there is no magic bullet, but just

'learning, learning and learning'; 'adapting, adapting and adapting',"
In 2012 and 2013, ~32% of the Non-Financial ODI took place in Q4, if the same holds true for 2014, Non-financial ODI will reach ~USD 110 billion this year.

MOFCOM estimates total ODI to exceed USD 120 billion in 2014, up from USD 108 billion in 2013.

In 2013, 59% M&A, 41% Greenfield. Total investment stock abroad: USD660.00.

Source: China MOFCOM via Global Times
M&A's share of Non-financial ODI

Source: Dragon Index & China MOFCOM via China.org
Chinese investments by value and number in EU

Figure 17: Chinese Direct Investment in the EU-27, 2000-2011

Number of deals and USD million

Source: Rhodium Group. For a detailed explanation of sources and methodology, please see Appendix.
### Selected acquisition by Chinese co.

<table>
<thead>
<tr>
<th>Year</th>
<th>US Co.</th>
<th>US CN Co.</th>
<th>Value/%</th>
<th>EU Co.</th>
<th>EU CN Co.</th>
<th>Value/%</th>
<th>DK Co.</th>
<th>DK CN Co.</th>
<th>Value/%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>IBM PC division</td>
<td>Lenovo</td>
<td>USD 1.75b / 100%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>Volvo</td>
<td>Geely</td>
<td>USD 1.5b / 100%</td>
<td>Weetabix</td>
<td>Bright Foods</td>
<td>USD 1.2b / 60%</td>
<td>Vestas' DK Tower</td>
<td>Titan Wind Energy</td>
<td>?? /100%</td>
</tr>
<tr>
<td></td>
<td>InterGen N.V.</td>
<td>China Huaneng Group</td>
<td>USD 1.2b / 100%</td>
<td>Precision Technologies</td>
<td>CQME</td>
<td>USD 32m / 100%</td>
<td>Kaleido Tech</td>
<td>AAC Acoustic Tech</td>
<td>Undisc./32%</td>
</tr>
<tr>
<td>2011</td>
<td>AMC Entertm't Inc.</td>
<td>Dalian Wanda</td>
<td>USD 2.6b / 100%</td>
<td>Putzmeister</td>
<td>Sany</td>
<td>EUR 324m/90%</td>
<td>B&amp;O</td>
<td>Sparkle Roll/AC</td>
<td>DKK177m /8.4%</td>
</tr>
<tr>
<td></td>
<td>Smithfield</td>
<td>Shuangui</td>
<td>USD 4.7b / 100%</td>
<td>Energias de Portugal</td>
<td>China Three Gorges</td>
<td>USD 3.5b / 21%</td>
<td>Metropol</td>
<td>Shangtex</td>
<td>EUR2m/50%</td>
</tr>
<tr>
<td>2013</td>
<td>Nexen (CA)</td>
<td>CNOOC</td>
<td>USD 15.1b / 100%</td>
<td>Oerlikon</td>
<td>Jiangsu Jingshen</td>
<td>EUR 0.7b /100%</td>
<td>OPDI Tech.</td>
<td>O-Net Comm.</td>
<td>Undisc./40%</td>
</tr>
<tr>
<td></td>
<td>IBM x86 servers</td>
<td>Lenovo</td>
<td>USD 2.3b / 100%</td>
<td>UPP Group</td>
<td>Gingko Tree Investment</td>
<td>EUR 0.9b /40%</td>
<td>Dynaudio</td>
<td>GoerTek</td>
<td>USD41.5m / 83%</td>
</tr>
<tr>
<td></td>
<td>Waldorf Astoria</td>
<td>Anbang</td>
<td>USD 1.95b /100%</td>
<td>Peugeot PSA</td>
<td>Dongfang</td>
<td>EUR 0.8b /14%</td>
<td>Scanspeak</td>
<td>Eastern Asia Tech.</td>
<td>(DKK 40m / 100%</td>
</tr>
<tr>
<td></td>
<td>Motorola Mobility</td>
<td>Lenovo</td>
<td>USD 2.9b /100%</td>
<td>Sunseeker UK</td>
<td>Wanda</td>
<td>GBP320m/92%</td>
<td>Libratone</td>
<td>Undisclosed</td>
<td>DKK XXXm/85%</td>
</tr>
</tbody>
</table>
Chinese investments by sector and region

CHINA'S OUTBOUND INVESTMENT FROM 2005 TO 2013 H1 (%)

- **Europe**: $80.24 billion
  - Energy: 20%
  - Metals: 9%
  - Finance: 9%
  - Real Estate: 11%
  - Agriculture: 45%
- **Asia**: $66.64 billion
  - Energy: 14%
  - Metals: 8%
  - Finance: 10%
  - Real Estate: 6%
  - Agriculture: 6%
- **North America**: $91.24 billion
  - Energy: 6%
  - Metals: 8%
  - Finance: 6%
  - Real Estate: 6%
  - Agriculture: 10%
  - Transportation: 48%
- **Middle East**: $22 billion
  - Energy: 77%
  - Metals: 9%
- **Africa**: $57.69 billion
  - Energy: 41%
  - Metals: 39%
  - Finance: 3%
  - Real Estate: 3%
- **Oceania**: $57.77 billion
  - Energy: 39%
  - Metals: 51%
- **Latin America**: $54.85 billion
  - Energy: 29%
  - Metals: 55%

Source: Heritage Foundation

Dias
Chinese investments into the EU

2.6% of the total flow of FDI into EU in 2012 came from China

China invested €7.6 billion in EU in 2012

Chinese companies in the EU employ around 50,000 people

Chinese Direct Investment in the EU-27, 2000-2011
Accumulated deal value from 2000-2011, USD million
Chinese Investments in Denmark

- 80 Chinese companies are present – approx. 20 are active
- 2010-2012: 32 Chinese investments into Denmark
- 2013: 11 Chinese investment into Denmark
Figure 1. Global GDP Growth Projections

Source: EIU Global Forecasting Service

mlarrazabal.com
The Chinese challenge

Many Chinese companies are under pressure:

- Overcapacities and competition
- Insufficient technologies and innovation
- Changing consumer behavior (middle class)
- Dependency on one market (China)
- New policies/standards (quality growth)

How to respond:
To innovate and expand geographically
A SCANDINAVIAN SME IN CHINA

Accepting shared ownership of mother-company as a new market-entry strategy
Brief introduction
Elevator brief of Across Partners

This is what we do

We represent our Chinese investors in North Europe. We mediate their M&A transaction and cooperation agreement by bridging the differences in culture, communication, market knowledge and resources to create a smooth and effective process.

This is why we are unique

The answer is twofold; one, in Denmark there are no direct competitors with our specialization doing exactly what we do; two, partners in Across have unique backgrounds and profiles to execute shared-ownership partnerships between Chinese investors and the N. European companies.

This is the market

The volume for Chinese investments in N. Europe is still limited. The reason is twofold; one, the M&A service infrastructure is inadequate to meet Chinese investors’ needs; two, the Chinese have only recently begun to seriously consider overseas M&A in fields other than raw materials and resources, but the trend is very easy to spot.

This is our position

We are the missing link and the catalyst of more deals. We believe we have read the market right, and we offer the necessary proactive and innovative approach with strong client focus and operation flexibility to meet Chinese investors’ M&A process expectations.

This is what we want to achieve

Build loyalty with active Chinese clients; obtain select market dominance measured by number of deals with Chinese investors; achieve high market returns for investors; establish subsidiaries in several N. European countries within two years; and become well-known and respected amongst stakeholders.
Education:
BSc. (Econ.) – University of South Denmark
MBA (Int. Business) – Berkeley Armstrong University

Executive education:
Negotiation - Stanford Graduate School of Business
Strategy - London Business School
Corporate Finance - Copenhagen Business School
Chongqing
– the biggest city you have never heard of
Can a Scandinavian SME *build* and *sustain* success in China?

*My mission for 6 yrs: Make Danish SME’s big in China*

**Challenges of foreign SMEs in China:**
1. Technology and price
2. Service range and quality
3. Culture and communication (organisation / senior staff!)
4. Government relationship
5. Intransparency, dealing with risk and incomplete information
6. Strategic planning – mindset, making short-term decisions
7. Financing aggressive growth

**Key skills to succeed:**

*Patience – Adaptation – Courage – Tolerance (PACT)*
SME best-practice China business plan

1. Getting my **products** right while outsourcing non-essentials
2. Building my organisation while considering local customers’ perspectives
3. **Pricing** tactically to build momentum
4. My first Chinese **partner** is vital, choose carefully
5. Making of a **great business plan** for China

**The European challenge**

**PARTNER = the key**
## Market inefficiency, but easy to spot the synergy

<table>
<thead>
<tr>
<th></th>
<th>Scandinavian SME</th>
<th>Chinese company</th>
<th>Synergy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Finance</strong></td>
<td>Weak</td>
<td>Strong</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Risk profile</strong></td>
<td>Averse</td>
<td>Willing</td>
<td>✓</td>
</tr>
<tr>
<td><strong>IP/R&amp;D</strong></td>
<td><strong>High tech</strong></td>
<td>Low-mid tech</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td><em>Innovate to Europe, Understand Europe</em></td>
<td><em>Innovate to China, Understand China</em></td>
<td></td>
</tr>
<tr>
<td><strong>Markets</strong></td>
<td>Small size (niche) Low growth</td>
<td><strong>Large size (mass)</strong> High growth Few markets</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Customers</strong></td>
<td>Small, but high margin</td>
<td>Large, but low margin</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Factory</strong></td>
<td>High costs, low volume <em>Europe-based</em></td>
<td><strong>Low costs, high volume</strong> <em>China-based</em></td>
<td>✓</td>
</tr>
<tr>
<td><strong>Organisation</strong></td>
<td>Small</td>
<td>Large, incl. local service team</td>
<td>✓</td>
</tr>
</tbody>
</table>
An SME growth structure for China:
- Shared company ownership

**IN EUROPE**

Scenario 1: 10-49%

Scenario 2: 51-100%

**IN CHINA**

Shared information structure and inseparability/unity are key strengths of the growth model - creates a competitive advantage

Capital in three ways:
For owners, for company, for China market expansion
Thank you for your attention.

Any questions?
Threat or opportunity? – or both

(1) it’s a much bigger threat than opportunity

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