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Dragons and Tigers Hunting in Germany:

Chinese and Indian acquisitions of German firms 2002 – 2012

BGM Associates is a specialized Strategy Consulting partnership based in Berlin, Germany. The founders are Prof. Dr. Gert Bruche, Prof. Dr. Hans Maier and Dipl.-Ing. Friedrich-W. Gause. BGM Associates' Asia office is in Seoul, Korea. The firm's geographical focus is global with an emphasis on the Asia-Pacific Region, where the founders have built personal and business relationships for more than two decades.

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Gert Bruche*, Managing Partner
Bernhard Wallner, Business Analyst

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Executive Summary

Based on BGM's database of all acquisitions by Chinese and Indian firms in Germany in the period 2002-2012 the report finds a generally rising trend in M&A activities. The 59 Chinese firms put a strong focus on machinery & equipment industries whereas the 69 Indian firms cover a broader industry spectrum. 'Cherry picking' strategic assets of hidden champions, knowledge absorption, and gaining access to high end markets are major strategic intentions behind the M&As. After the acquisition, the acquirers usually pursue a ‚light touch' approach by leaving the structures and management intact. Such a move not only reflects their strategic intentions, but also their often limited M&A integration capabilities.

A massive surge in outward foreign direct investment and in M&As from India and China can be expected in the coming years until 2020. German companies should prepare themselves for these changes by ‚dressing the bride' in case owners look for an exit strategy, or tackle the new challenges through alliance and competitive investment strategies. In parallel, European policy initiatives should ensure greater symmetry in the market rules for corporate control between Europe, China and India.

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* For related journal publications by Gert Bruche on the topic of Emerging Multinationals from China or India see:

Bruche, G./Wäldchen, D. (2012) Racing to the Top? Catch-up Strategies of Chinese and Indian Independent Car Manufacturers. International Journal of Automotive Technology and Management. Forthcoming: Vol 12, No.4 , 2012

Becker-Ritterspach, F./Bruche G. (2012), Capability Creation and Internationalization with Business Group Embeddedness – The Case of Tata Motors in Passenger Cars. European Management Journal , No. 3, Vol. 30, 232-247

Bruche, G. (2012) Emerging Indian Pharma Multinationals: Latecomer Catch-up Strategies in a Globalised High Tech Industry. European Journal of International Management, Volume 6, Issue 3, 2012, pp. 300-322

Introduction

From the news one could get the impression that leading firms from China and India are on an acquisition spree to take over the world. Headlines like 'China Buys up the World' (Economist, 2010), 'In the Dragon's Mouth' (Wirtschaftswoche, 2010), 'Chinese Push into Germany's Heart and Soul' (Financial Times, 2012), 'India Takes on the World' (Time, 2006) as well as 'Indian World Conquerors' (FTD, 2007), are reminiscent of a similar surge of attention 30 years ago when 'Japan Inc.' invested heavily in Western countries. Although these headlines are overstatements, it is true that not only 'South-South acquisitions' (firms from emerging economies take over firms from other emerging economies) but also 'South-North acquisitions' (firms from emerging economies take over firms from advanced countries) have risen at a remarkable pace over the past decade .

Among the Fortune Magazine's list of the world's 500 largest corporations China and India rank number one and number two respectively with regard to companies from emerging economies (Fortune, 2012). The annually published list of 'challengers' which selects the 100 most dynamic multinationals from all emerging economies contains 61 companies from China alone followed by India with eight companies (Verma, 2011). In the following we combine these two groups of Chinese and Indian firms, which together represent by far the majority of important emerging market firms active in the international acquisition market, under the term 'Chindian' companies.

In this report we investigate one subdomain of the surge in outward foreign direct investment (OFDI) from China and India: the *acquisitions of German firms by Chindian companies*. Although Germany does not offer any significant opportunities to acquire firms in the sector of raw materials or energy – where Chindian challengers already account for a large share of global M&A activities – the largest European economy has experienced an increasing inflow of Chindian capital and numerous takeovers during the past decade. Based on our database covering, to the best of our knowledge, *all relevant M&A events* for this period, we identified *128 acquisitions in the period 2002 - 2012* (for details see the remarks on methodology at the end of the report). Our report aims to understand the key characteristics of these M&As, to portray important strategic features and implications and, in the final section, offer recommendations for firms and policy makers.

Germany at the core of Chinese foreign direct investment in Europe

While the inflow of foreign direct investments increased rapidly from the early 1990s onwards China's outward foreign direct investment (OFDI) was almost negligible until the turn of the millennium. After the Chinese Government introduced the 'zou chuqu' (going out) policy in 2000 and China joined the WTO in 2001, the country's OFDI started to take off around the middle of the decade growing at a CAGR of 43% from 2000 to 2011 (UNCTAD, 2012).

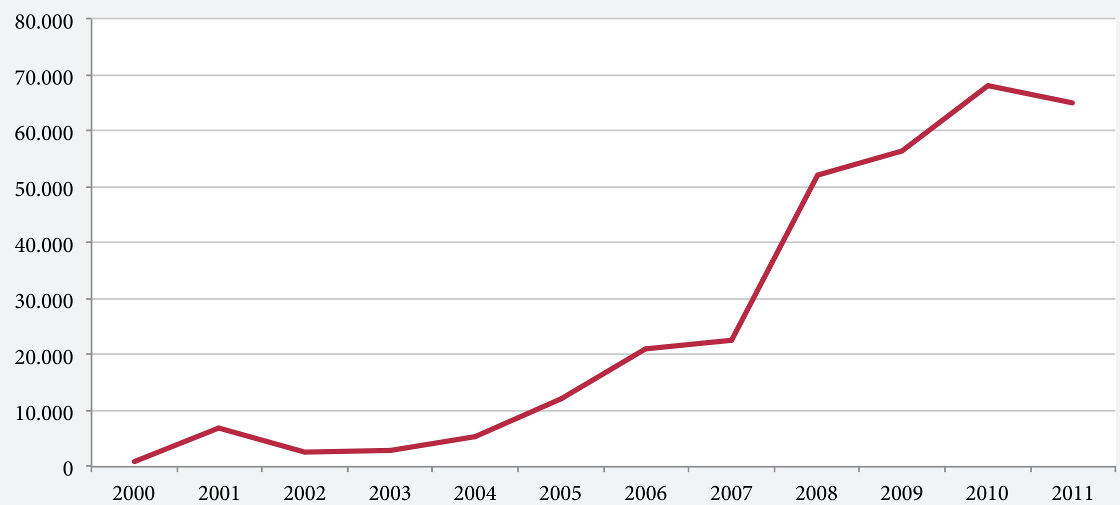
At USD 68.8 billion, China's OFDI flows accounted for 5.2% of global OFDI, putting China fifth highest in the rankings of OFDI flows in 2010. The largest amount of Chinese OFDI between 2004 and 2010 went to Hong Kong followed by the offshore financial centres (OFCs) British Virgin Islands and Cayman Islands (MofCom, 2011). One can assume that a great share of the investments to OFCs continues to travel. Determining the final destination of Chinese OFDI is, however, a major challenge (for a discussion on this topic see UNCTAD's World Investment

Report 2012). Barring these OFCs, the prime destinations of Chinese OFDI were Singapore, followed by USA, South Africa, Russia and Germany (MofCom, 2011).

Chinese OFDI flows to the EU-27 have boomed lately, tripling between 2009 and 2011 to reach EUR 7.4 billion. Although investments in Germany by Chinese companies are a relatively recent phenomenon, China was already the largest investor in Germany in 2011, followed by the USA, Switzerland and France (GTAI, 2012). According to the German Central Bank Chinese FDI flows into Germany were growing at a CAGR of 16% over the past ten years (Bundesbank, 2012). In 2011, Germany already accounted for 20% of the entire value of Chinese M&As in the EU (PwC, 2012). According to a recent survey by Ernst & Young (2012) every fourth Chinese manager views Germany as one of the most attractive investment destinations in the world, with the most appealing German industries being industrial machinery & equipment as well as the automotive industry.

As China's OFDI-stock-to-GDP ratio of only 5% is still significantly below the world average of 33% a *continued sharp growth of China's OFDI including investments to Germany are very likely*. A study by the Rhodium Group expects cumulative OFDI from China to amount to USD 1-2 trillion between 2010 and 2020 (Hanemann and Rosen, 2012). A significant part of these investments can be expected to take the form of M&A.

Exhibit 1 Chinese OFDI flows (million USD)
Source: UNCTAD, 2012

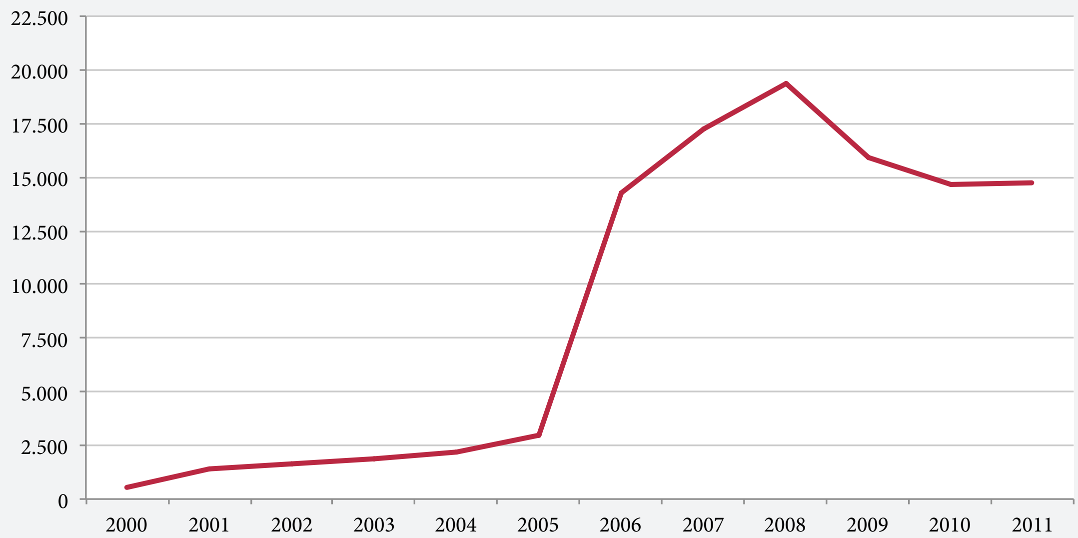


Germany as a special location for India's OFDI

India was ranked 20th among the countries with the highest OFDI flows in 2010, while among emerging economies, it weighs in as number two after China. India's OFDI flows took off in the middle of the past decade, resulting in a CAGR of 32% between 2000 and 2011 (UNCTAD, 2012). OFDI flows reached USD 15 billion in 2011, accounting for 3.8% of OFDI flows from developing economies (UNCTAD, 2012).

The largest receivers of Indian OFDI between 2002 and 2009 were Singapore (20.8%), the Netherlands (15.4%), Mauritius (8.1%), Channel Islands (7.9%) and UK (7.6%) which shows again the important role of Offshore Financial Centers (Satyanand and Raghavendran, 2010). As one would expect, Indian companies are heavily focused on M&As for investments in advanced countries whereas they tend to use greenfield ventures to break into developing countries. Of the total value of Indian cross-border M&As between 2000 and 2009 advanced markets accounted for 83% (Sauvant and Pradhan, 2010).

Exhibit 2 Indian OFDI flows (million USD)
Source: UNCTAD, 2012



While Germany is not among the top destinations of Indian OFDI flows the country still plays quite a significant role in terms of acquisitions by Indian firms. One of the largest cross-border acquisitions ever by an Indian company outside the resource sector was the takeover of Germany's wind turbine manufacturer REpower. Estimates put India's OFDI stock in Germany at about EUR 4 billion in mid-2010. The number of Indian multinationals operating in Germany reached 134 in 2010 and the number of subsidiaries 190 (Tiwari and Herstatt, 2010).

Chinese prime targets: industrial machinery & equipment manufacturers

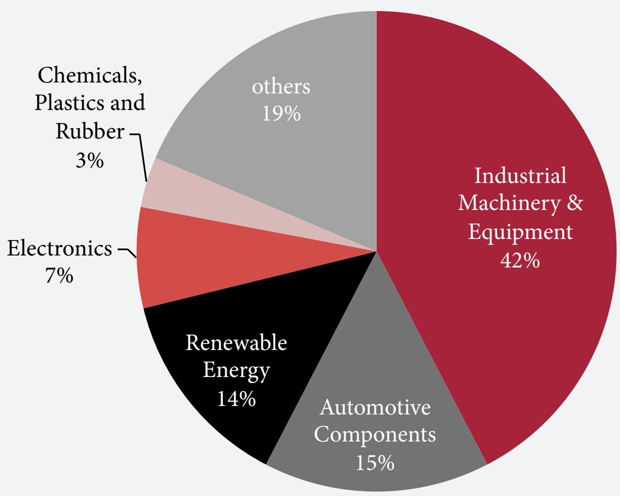
Of the 128 Chindian companies which acquired German firms between 2002 and 2012 46% are from China and 54% from India. Almost half of all German target firms operated in the automotive components and the industrial machinery & equipment industries. However, a more detailed analysis shows that the industrial sectors in the two countries have a different focus.

Since Germany enjoys a high reputation for its engineering capabilities and China is strong in low-cost manufacturing but lacks innovation capabilities, it is not so surprising to find over 40% of companies acquired by Chinese corporations operating in the *industrial machinery & equipment industries*. Many of the German target companies in this study are known for belonging to Germany's 'hidden champions', those highly specialized companies that are global market leaders in their niche (Simon 2007; Langenscheidt and Venohr 2010).

Examples for such hidden champions acquired by Chinese companies in the industrial machinery & equipment industry include Schiess AG acquired by Shenyang Machine Tool Corporation, Putzmeister acquired by Sany Heavy Industry and Waldrich Coburg acquired by Bejing No. 1 Machine Tool Plant to just name but a few.

15% of Chinese companies acquired German firms in the *automotive components industry*, 14% in the *renewable energy industry*, 7% in the *electronics industry* and 3% in the *chemicals, plastics and rubber industry*. Prominent M&As include among others Chongqing Light Industry & Textile Holding acquiring SaarGummi (automotive components), LDK Solar acquiring Sunways (photovoltaic industry) and Lenovo acquiring Medion (electronics). In contrast, Chinese acquisitions of US companies between 2003 and 2010 focused on Software & IT (17), Financial Services & Insurance (15) and Industrial Machinery, Equipment & Tools (9) (Rosen and Hanemann, 2011).

Exhibit 3 Chinese acquisitions of German firms by industry
(2002-2012; based on number of M&As)
Source: BGM Associates Research



Indian prime targets: automotive, IT and healthcare

Almost one third of all German firms acquired by Indian companies operate in the automotive components industry. Germany, which is home to a number of the world's most successful car manufacturers and automotive suppliers, is well-known for its strong competence base and advanced automotive clusters in this sector.

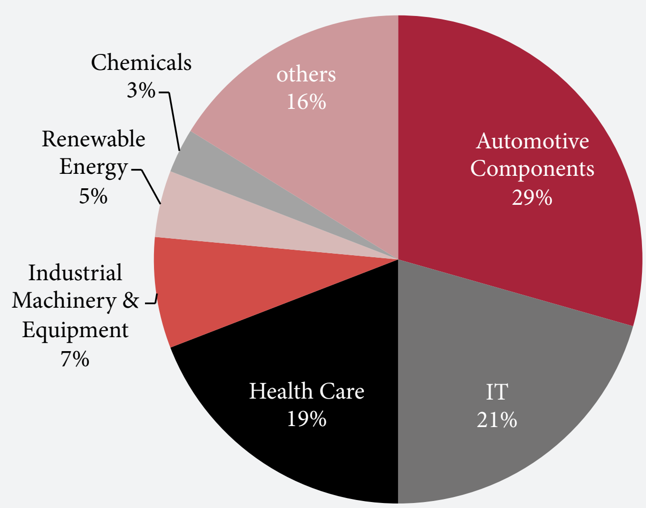
Over the past decades the Indian Government has strongly focused on developing a local automotive components industry (GOI, 2006). The acquisition of German automotive components firms not only gives Indian firms access to advanced knowledge and technologies, but also to relations with leading German car manufacturers. Examples include Mahindra & Mahindra's takeover of the forging company Jeco Holding AG, Tata Autocomp Systems' takeover of automotive plastics parts producer Wünsch-Weidinger and Bharat Forge's purchase of Carl Dan Peddinghaus, making Bharat Forge one of the leading forging companies in the world.

India's very strong IT capabilities – especially in the fields of software development, IT processes and business process outsourcing – are well known , with the country already establishing a worldwide reputation in this field. *IT and BPO-related industries* accounted for 21% of acquisitions by Indian firms in Germany. M&As in this sector include Tata Interactive Systems' acquisition of e-learning provider

Tertia Edusoft, the purchase of a 60% stake by Megasoft of IT service company Beam AG and NIIT Technologies acquiring IT solutions company SofTec. Third, with 19%, is the *healthcare industry* where Indian companies, such as Dr. Reddy's, Ranbaxy and Piramal have significantly developed during the past decade. On their way to become globally competitive companies, all three companies undertook acquisitions in Germany.

In contrast to China, the industrial machinery & equipment sector plays only a minor role for Indian companies acquiring German businesses, followed by renewable energy industries accounting for 7% and 5% of Indian acquisitions respectively. Although M&As in the renewable energy sector account for only a small share of the total number of acquisitions by Indian companies in Germany, the largest acquisition of Chindian companies in Germany between 2002 and 2012 – Suzlon acquiring the wind turbine manufacturer REpower for EUR 1.35 billion – has taken place in this industry. Other examples for relatively large acquisitions by Indian companies include Dr. Reddy's buying Betapharm (pharmaceuticals) for EUR 480 million and Mahindra acquiring Jeco Holding AG (automotive components) for EUR 140 million.

Exhibit 4 Indian acquisitions of German firms by industry
(2002-2012; based on number of M&As)
Source: BGM Associates Research



Rising trend, fluctuating numbers and still low average deal value

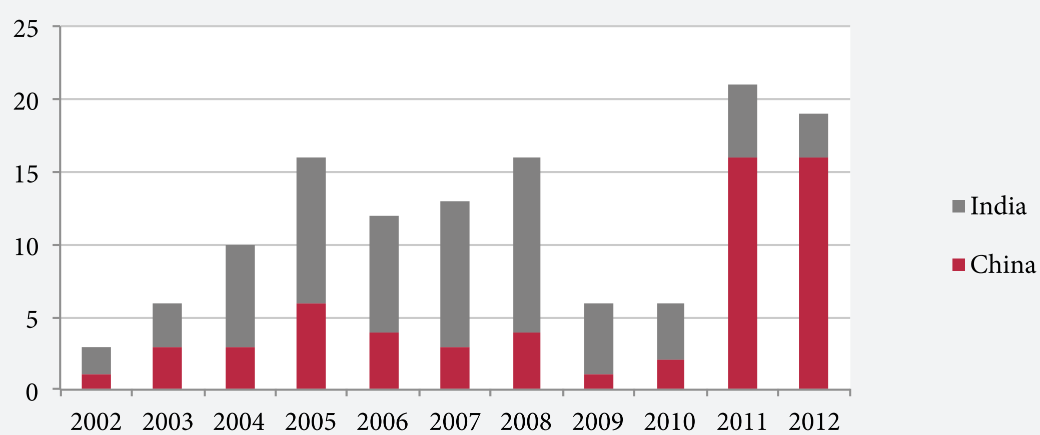
Despite fluctuating numbers, one can discern a *rising trend in the number of deals* of Chindian challenger firms in Germany since 2002 if one takes the crisis years of 2009 and 2010 as an exception. The year 2011 has so far been the year with the highest number of Chindian acquisitions in Germany. Moreover, in the same year for the first time more acquirers came from China than from India (16 from China, 5 from India). In 2012 this trend continued with 16 acquirers from China and only 3 from India.

In general, *deal values* of Chindian acquisitions in Germany from 2002 to 2012 were relatively small. The average deal value was only EUR 104 million. The great majority of acquisitions were between EUR 1 million and EUR 100 million. About

36% of deals were between EUR 1 million and EUR 10 million, 45% were between EUR 11 million and EUR 100 million and only 15% of all deals were larger than EUR 100 million[1]. The year 2012 might mark a turning point towards larger average deal values as it was the year with the highest total value of all deals, when 19 Chindian M&As in Germany accounted for almost EUR 2.7 billion.

Large M&As during 2012 inlcude China's Weichai Power acquiring a 25% stake in industrial trucks manufacturer Kion Group for EUR 738 million, India's Rain Commodities buying coal tar distilling company Rütgers for EUR 702 million and Sany Heavy Industry purchasing concrete pump manufacturer Putzmeister for EUR 360 million. The largest Chindian M&A so far, was, however, India's wind turbine manufacturer Suzlon acquisition of REpower for EUR 1.35 billion which took place from 2007 to 2012. Other major deals include Lenovo's EUR 620 million takeover of the consumer electronics company Medion in 2011 and Dr. Reddy's EUR 480 million acquisition of generic drug producer Betapharm in 2006. More large acquisitions – especially by Chinese companies in the industrial machinery & equipment industry – can be expected. For lists of the 25 largest Chinese and Indian acquisitions see exhibits 6 and 7 at the end of the report.

Exhibit 5 Number of Chindian acquisitions in Germany per year
Source: BGM Associates Research



Targeting bankrupt firms is out, but 'bargains' are still in

Of all the German target firms 23% were insolvent at the time of acquisition and a number of companies were – although not insolvent – *severely ailing*. The acquisitions of these insolvent firms are almost evenly split between Chinese and Indian acquirers. Insolvent target firms taken over by Chinese companies include consumer electronics producer Schneider Electronics bought by TCL International, gas cylinder producer Welz Gas Cylinder purchased by Huapeng Trading and precision tool company Kelch GmbH acquired by the Harbin Measuring & Cutting Tool Group. Acquisitions of insolvent targets acquired by Indian corporations include the purchase of the automotive plastics solutions company Schenk by the Ashok Minda Group and Kiri Dyes acquiring dyes producer Dystar. One might think that Chindian acquirers seized the opportunity to take over a large number of bankrupt companies in Germany during the financial crisis, but the major share of insolvent companies was actually bought during the boom years 2004 and 2005.

1 It should be noted that deal values were only available for 49% of the M&As in this study.

Targeting insolvent or ailing companies is regarded as one of the major missteps of Chinese companies in their earlier cross-border acquisition phase (Williamson and Raman, 2011). Even the Chinese Government suggested that acquirers should rather focus on profitable companies. The declining number of acquisitions of insolvent companies can therefore be seen as the result of a *learning process*. On the other hand, this change in behaviour has not deterred a number of Chindian challengers from grasping the opportunity of taking over companies that found themselves in difficulties as a result of the crisis of 2007 and 2008. These companies were not insolvent but hit by a sharp drop in sales and in need of liquidity for further growth. Moreover, a few German family businesses faced succession problems and, as a result, were receptive to a Chindian saviour.

The issue of state-owned firms as buyers

A concern raised by policy makers, journalists, and scholars alike was and still is the fact that many of the Chinese acquirers are *state-owned enterprises* (SOEs). The main arguments against the takeover of important local firms by Chinese SOEs is that they have intransparent governance systems and are controlled by the Chinese Communist Party and thus are direct strategic instruments of the state, which may pursue agendas beyond those of normal market players (McGregor, 2010). This may for instance include the wider sharing of firm proprietary information for dual use technologies with a military application.

Indeed, acquisitions from state-owned enterprises account for a stunning *72% of the total deal value of all Chinese acquisitions in Europe*. This can, however, be mainly attributed to a few large scale acquisitions in capital intensive industries such as China Investment Corporation's acquisition of the exploration business of the French electric utilities company GDF Suez for EUR 2.3 billion (Berton, 2011; Hanemann and Rosen, 2012).

In terms of acquisitions of German companies, *34% of the Chinese companies were state-owned*. Acquisitions by state-owned enterprises play a much greater role outside Germany, especially since such firms are often focused on extractive industries. The largest acquisition of a German firm by a Chinese company was an investment of EUR 738 million by state-owned Weichai Power, owned by the province of Shandong, to acquire a 25% stake in Kion. Other state-owned companies purchasing German firms include Dalian Machine Tool, Harbin Measuring & Cutting Tool Group, wind turbine manufacturer Xinjiang Goldwind and construction machinery manufacturer XCMG. As one could have expected, *none of the Indian companies* that acquired companies in Germany between 2002 and 2012 were state-owned.

Strategic asset seeking, leapfrogging and dual strategies

The analysis of the database underlying this report of the 128 Chindian acquisitions in Germany points to primarily *strategic asset-seeking motives* combined with *seeking access to advanced markets*. Whereas the Chindian acquirers were usually large firms or part of big conglomerates, the German target firms were relatively small, operating in a niche in which they have superior knowledge. Moreover, a number of German targets were even global leaders in their niche. In general, it can be said that what most Chindian acquirers were targeting was the inherent knowledge of the target firms held by the employees in the form of e.g. engineering capabilities or process know-how, the knowledge embodied in its technological assets like products, machines and plants, the brand in terms of reputation and customer relationships as well as the worldwide distribution and service assets.

The acquired strategic assets of the target companies do not only allow Chindian companies to leapfrog over an otherwise incremental and lengthy resource accumulation phase; in a number of cases the acquisition offered the opportunity to instantly achieve global player status. Sany Heavy Industry, for instance, titled itself "A Global Market Leader is Born" after its acquisition of Putzmeister (Sany Heavy Industry, 2012, p.1). But even if immediate global player status is not achieved , the combination of the Chinese or Indian low cost and market base with distribution networks and R&D resources in Germany and other advanced markets can provide a *springboard* to the rank of strong or even dominant global player status (see case 1: Suzlon-Repower).

In a number of cases the newly combined companies pursue a *dual brand strategy* by selling the German products under its high-end premium brand and the products from China or India as 'good-enough products'. An example for such an approach has been realized by Beijing No.1 Machine Tool Plant and its target firm Waldrich Coburg (see case 2: Beijing No.1-Waldrich Coburg.

Case 1 Combining complementary assets for worldwide positioning

Acquirer	Target
Suzlon	**REpower**
India's leading and the world's fifth largest wind turbine manufacturer, with a worldmarket share of 9,8%	One of Germany's leading wind turbine manufacturers with a global presence and advanced technology

Suzlon's first subsidiary in Germany was established in 2001. The company's first major collaboration with a German company was already launched in 1995 when the German company Südwind licensed its latest technology to Suzlon. In 2011 Suzlon already had 65 subsidiaries outside India and generated a turnover of USD 4.36 billion. The Hamburg-based company Repower generated EUR 460 million in 2006, already had operations in all major wind energy markets (and is meanwhile the producer of the '6M', the world's largest wind turbine).

In 2007 Suzlon acquired 34% of REpower and fully completed the acquisition in 2012. The takeover was the third largest ever by an Indian corporation at that time. Apart from the position of the COO, the top-management of REpower remained German. The acquisition helped Suzlon expand into the European market for wind energy especially to Germany, the UK and France and to own a well-respected brand. Moreover it allowed Suzlon to make first inroads into the large-turbine offshore segment, which complements Suzlon's low to medium capacity and to gain access to REpower's advanced technology know-how. Suzlon is now running six R&D centers in Germany, three of them through REpower.

The integration into the Suzlon group significantly decreased REpower's dependence on its suppliers, which had often led to delays in the past. Now, it could source from Suzlon, which follows a vertically integrated business model. After the acquisition, REpower's turnover increased to a CAGR of 17.6% to EUR 1.2 billion in FY 2012/11.

Sources: Repower Annual Reports 2007, 2008, 2011, 2012; Suzlon Annual Reports 2012a, 2012b, 2012c; Vietor and Seminerio, 2008;

Post-merger integration with a 'light-touch'

A number of acquirers in our database are only engaged in *minimal functional post-merger integration*, disrupting the target firm as little as possible and keeping it almost as a completely separate organisation with the original management and brand name. The head of XCMG (China's No 2 Construction machinery company), for instance, announced after the acquisition of concrete pump manufacturer Schwing that the German management would remain in charge (Schuetze and Wollrab, 2012). Tang Xiuguo, the president of Sany Heavy Industry, told the Financial Times in an interview that the company wants Putzmeister "to operate as a largely independent company, responsible for manufacturing and sales of concrete-related equipment around the world" (Marsh, 2012, p.1) (see case 3: Sany-Putzmeister)

It is a significant challenge – especially for those Chindian companies that have no experience in cross-border M&As – to integrate a company from an unfamiliar environment that might, in many respects, be more advanced than the acquirer. Many among the 128 acquisitions by Chindian companies, such as Citic Dicastal Wheel Manufacturing's acquisition of car part supplier KSM Castings or Beijing No. 1 Machine Tool Plant's acquisition of machine tools manufacturer Waldrich Coburg, had no prior cross-border M&A experience at all. Thus, one can understand that those companies did not rush to cut costs and realize synergies but focused

Case 2 Managing with a Dual Brand Strategy

Acquirer

Beijing No. 1 Machine Tool Plant

Chinese machine tool manufacturer owned by the Beijing City Government. With a turnover of USD 100 million in 2007 it was the third largest machine tool company in China at the time of the acquisition

Target

Waldrich Coburg

German machine tools producer whose US parent company became insolvent in 2003

The two companies had already been involved in business relationships since 1984. The acquisition of Waldrich Coburg in 2005 was the very first cross-border acquisition for Beijing No. 1. Already before the acquisition the Chinese company was interested in technology transfer and exchange of experiences.

The postmerger period of the Waldrich Coburg acquisition is a prime example for the 'light touch approach'. The new parent ploughed the profits generated by Waldrich Coburg back into the German company and was very careful with interfering into the German business to avoid disturbing existing long-term relations with customers. The German management as well as the reputable brand name were kept; the number of employees was even doubled. The companies now sell their products on a global basis following a dual brand strategy with Waldrich Coburg covering the premium segment and Beijing No.1 targeting the 'good enough' segment. Moreover, the acquisition of a German premium manufacturer gave Beijing No. 1's reputation a boost in its home market. The careful integration process followed by Beijing No. 1 proved to be extremely successful as Waldrich Coburg was able to triple its turnover to EUR 170 million and increase its profit by factor ten.

Sources: Lee and Lynton, 2012; FAZ, 2012; Sohm et al 2009 first on becoming familiar with their acquisition. In a number of cases the Chindian acquirer was severely behind the target firm in respect to managerial capabilities, process know-how as well as technological know-how. Liu and Woywode (2012) noted that a Chinese machine tool company that acquired a German company was still using Excel whereas the Germans were already using an enterprise resource planning programme and were thus clearly one (if not two) step(s) ahead.

Thus in plenty of the M&A cases included in the database underlying this report the acquirers pursued what has been called a '*light touch*' postmerger integration. It simply makes more sense to concentrate on absorbing the knowledge of the newly acquired firm than to rush the integration process. It is therefore plausible that Chindian companies pursue a light-touch integration after the acquisition only in a *first stage* in order to become familiar with their new business and the respective environment. In a (much) later *second stage* – after the familiarization process is completed – a more far-reaching integration process might then be undertaken.

Even with fuller integration of the German target company the maintenance of a manufacturing presence in Germany may still be considered useful in order to maintain the '*made in Germany*' reputational advantage. On the other hand, the takeover of ailing or insolvent companies does normally not fit well with a ‚light touch' approach as it requires intervention and restructuring. This may have been beyond the capabilities of acquirers and one of the reasons that these acquisitions were rarely successful.

Case 3 A ‚Light-Touch Approach' to post-merger integration

Acquirer

Sany Heavy Industry

China's leading construction machinery manufacturer with revenues of EUR 10 billion in 2011, 30 overseas affiliates and a staff of 60,000

Target

Putzmeister

One of the world's leading concrete pump manufacturers with a peak turnover of USD 1bn in 2007

In 2009 Sany established an own bridgehead in Germany: for 100 million Euro it set up a R&D and manufacturing centre. Putzmeister saw a sharp drop in its sales during the European financial crisis and had to cut hundreds of jobs. Sany Heavy Industry's EUR 360 million acquisition of Putzmeister in early 2012 – one of the leading concrete pump manufacturers – was the company's first ever cross-border acquisition.

During the postmerger integration process the Chinese company followed the strategy of minimally integrating its newly acquired target. Sany allowed Putzmeister to operate almost as an independent entity: management was kept, the number of employees in Germany is to be increased and the line of products extended. Moreover, the Putzmeister brand will be boosted by Sany letting the German company be the main brand on the world market – even taking over Sany's global customers – while Sany is concentrating on China. One of the key advantages of this M&A is that it allows the companies to use each other's distribution network.

Sany's light touch on Putzmeister seems to be very promising as the revenue of the German company already increased drastically only a few months after the acquisition. The Chinese firm has big plans for Putzmeister as it expects the company's revenue to reach EUR 2 billion by 2016, a figure exceeding the entire current concrete pumps market. In July 2012, Sany made its second purchase in Germany when it purchased truck mixer manufacturer Intermix for EUR 8.1 million through Putzmeister.

Sources: Bryant, 2012; Gräfe, Handelsblatt, 2012; 2012 Marsh, 2012; Mayer-Kuckuck, 2012; Putzmeister, 2012; Sany, 2012b

What should German firms, Germany and the EU do?

The analysis of the 128 Chindian M&As in Germany between 2002 and 2012 confirms Germany as the *major target country for Chinese acquirers in Europe*, but less so for Indian acquirers. The target firms are in traditional strongholds of German industry (mainly industrial machinery & equipment and automotive components). The overall value and average deal size of the acquisitions is still relatively small, but they probably herald a major expansion of Chinese investments in the coming decade. Indian OFDI and foreign M&A activity will also grow rapidly, but may not affect Germany as much as it has a different sectoral footprint.

The Chindian acquirers have sought access to strategic assets which facilitate a faster progress or even 'leap' at a more advanced level of technology, mostly in conjunction with improved access to the German and other advanced markets. They have tended to combine their location advantages (usually low cost and growth opportunities of their home markets) with the location advantages of their targets (cluster integration, country of origin advantages, access to high end talent, and brand recognition). As the acquirer companies often had only limited M&A experience and were less advanced than their target firms they pursue a light touch approach to post-merger integration and a dual brand strategy. This might be interpreted as a necessary first learning phase which may be replaced later by a more integrative stance.

With the foreseeable volume of Chinese and Indian M&A almost certain to rise in the coming years, acquisitions will extend more and more to Germany's (and Europe's) industrial core. It is therefore reasonable to ask if and how German companies, in particular German SMEs, should address this development and what might be reasonable approaches at policy level.

At the level of potential German target firms we propose three strategic considerations:

First, despite their core strengths in global niche areas many German SMEs are confronted in the medium term with either a competitive challenge due to market consolidation and the integration of their competitors into larger multinational companies, or with a management succession problem in the case of family owned and managed firms, or with both. The owners of these companies might consider an *exit from the business by selling their firm* to a potent acquirer. In this case, the coming upsurge in Chindian M&A may provide a *unique opportunity* to obtain a good deal. At the same time, this may help to protect the integrity of their life‘s work - at least to a greater extent than if they sold to a Western multinational acquirer pursuing the typical ‚100 day post-merger integration‘ route where cost savings through synergies are often at the top of the agenda.

To take advantage of the upcoming opportunities, the owners should ‚*dress the bride*‘ through forward looking activities such as clarifying corporate legal structures, alliance and contractual relationships, identifying and documenting relevant IP positions, preparing strategic market and customer data to demonstrate the growth potential of the firm, or engaging experienced advisers at an early stage in a strategic dialogue.

Second, German SMEs which are in global competitive segments and have not yet addressed the ‚Chindia challenge‘ should develop or extend their ‚relational capabilities‘ and experiences by engaging in alliances with larger Chindian challengers, but increasingly also with Chindian SMEs where the relationship is more one between equals. *Cross-border alliances between Chindian and German SMEs* could thus become a way to secure long-term survival in very competitive environments. They may, however, also successfully lay the groundwork for a later sale to the Chinese or Indian alliance partner - a considerable number of M&As in our database were preceded by longstanding cooperative relationships between the eventual buyer and the target company.

Third, German companies, but especially SMEs in the respective fields (e.g. machine tools, second & third tier automotive suppliers) which have not yet secured their position through a manufacturing presence in China or India need to consider investments in these locations also with a view to *neutralize the location advantages* of their Chinese or Indian challengers. If their challengers enter into the premium segments of their markets, for instance by acquiring their German or international competitors, one might consider, in turn, entering their home turf by addressing what has been called the markets for ‚good-enough' products, since this usually represents the main market volume in various categories in China and India. Such a move, for instance, might be initiated through joint ventures which at a later stage could be followed by an acquisition of the partner's shares.

On the *policy side*, the upcoming increase in M&A from China and India should primarily be addressed at EU rather than individual country level alone. The EU should emphasize (and especially in the case of China which is more advanced in many respects than India) the need for mutuality: if Chinese firms are given free access to more and more 'crown jewels' of German industry, China and India would have to further open up their FDI regime and the possibilities for M&A in their territories. Since Chinese companies in Europe are entering sectors often restricted in China, this has become a core disputed issue in the envisaged EU-China Bilateral Investment Treaty which, despite significant efforts, has not yet moved forward to the negotiation stage. The negotiations between the EU and India on a Free Trade Agreement which started in 2007 have still not reached a conclusion due to similar disagreements.

Overall, it can be said that, in a majority of cases, the 128 acquisitions by Chindian firms in Germany between 2002 - 2012 have proved positive for participating parties as well as for Germany as an industrial location. The upcoming further surge in M&A from China and India will provide new exit opportunities for owners of German SMEs and challenge remaining SMEs, which need to prepare for competition with strengthened Chinese or Indian firms that may become challengers in the German and advanced international markets. Policy initiatives at EU level should be pursued vigorously to make sure that the increasing M&A of Chindian firms in Germany and Europe are counterbalanced by a parallel removal of obstacles for German/European firms in their operations in China and India.

Exhibit 6 **The 25 largest corporate acquisitions and investments by Chinese companies in Germany 2002-2012**

Source: BGM Associates Research

German company	Chinese acquirer	Sector	Year of takeover	Transaction value in EUR mm*
Kion Group	Weichai Power	Industrial machinery & equipment	2012	738
Medion	Lenovo	Electronics	2011	629
Putzmeister	Sany Heavy Industries	Industrial machinery & equipment	2012	360
KSM Castings	Citic Dicastal Wheel Manufacturing	Automotive	2011	300
Thyssenkrupp Tailored Blanks	Wuhan Iron and Steel Group	Automotive	2012	300
Schwing	Xuzhou Construction Machinery Group (XCMG)	Industrial machinery & equipment	2012	300
Kiekert AG	CNGC Hebei Lingyun Industrial Group	Automotive	2012	250-300**
Emag	Jiangsu Jinsheng Industry	Industrial machinery & equipment	2010	100**
FPM Flughafen Parchim	LinkGlobal Logistics	Other	2007	96
SaarGummi	CQLT	Automotive	2011	64
KHD Humboldt Wedag	AVIC International Beijing Company Limited	Industrial machinery & equipment	2011	45
Vensys Energy	Xinjiang Goldwind	Renewable energies	2008	41
Aweco	Zhejiang Sanhua	Other	2012	38
KSL-Kuttler Automation Systems	Suntech Power	Renewable energies	2008	34
Waldrich Coburg	Beijing No.1 Machine Tool Plant	Industrial machinery & equipment	2005	30-40**
Dürkopp Adler	SGSB (Shanggong)	Industrial machinery & equipment	2004	28
Sellner GmbH	Ningbo Huaxing Electronics	Automotive	2011	19
Kelch	Harbin Measuring & Cutting Tool Group	Industrial machinery & equipment	2005	9
Schneider Electronics	TCL International	Electronics	2002	8
Intermix GmbH	Sany Heavy Industries	Industrial machinery & equipment	2012	8
Schiess AG	Shenyang Machine Tool	Industrial machinery & equipment	2004	8
Wumag Texroll	Fudi (Zhejiang)	Industrial machinery & equipment	2012	8
Zhafir Plastics Machinery	Haitian International	Industrial machinery & equipment	2007	7
Assyst/Bullmer/ TopCut	Zhejiang New Jack Sewing Machine Company	Industrial machinery & equipment	2009	5
Welz Gas Cylinder	Huapeng Trading GmbH	Industrial machinery & equipment	2003	4

*Rounded figures;**Estimate by BGM Research

Exhibit 7 **The 25 largest corporate acquisitions and investments by Indian companies in Germany 2002-2012**

Source: BGM Associates Research

German company	Indian acquirer	Sector	Year of takeover	Transaction value in EUR mm*
REpower Systems	Suzlon Energy	Renewable energies	2007	1,350
Rütgers	Rain Commodities	Chemicals, plastics and rubber	2012	702
Betapharm	Dr. Reddy's	Healthcare	2006	480
Jeco Holding AG	Mahindra & Mahindra	Automotive	2006	140
Intermet Europe GmbH	Sakthi Auto Component	Automotive	2007	95
Präzisisionsschmiede GmbH (ThyssenKrupp)	Sona Okegawa Precision Forgings	Automotive	2008	91
Trevira	Reliance Industries	Other	2004	80
Hormosan Pharma	Lupin	Healthcare	2008	72.2
Agenda Glas	Hindustan National Glass	Other	2011	50
Dystar	Kiri Dyes and Chemicals	Chemicals, plastics and rubber	2010	50
Axicorp GmbH	Biocon	Healthcare	2008	40
Amann Druckguss	Endurance Technologies	Automotive	2006	34
Carl Dan Peddinghaus	Bharat Forge	Automotive	2003	33.9
Escada	Megha Mittal (Mittal Family Trust)	Other	2009	30
Danstoker/Omnical Kessel	Thermax	Industrial machinery & equipment	2010	29.5
Gumasol Werke	Pawan Kumar Ruia Group	Automotive	2010	25
Eisenwerke Erla	Sanmar Group	Automotive	2007	21
Zelter GmbH	Amtek Auto	Automotive	2005	19.6
Arexera	Aftek	IT	2005	18
TUI Infotech GmbH	Sonata IT	IT	2006	18
KHD Humboldt Wedag	McNally Bharat Engineering	Industrial machinery & equipment	2009	16
Peiner Umformtechnik Gmbh	Sundaram Fasteners	Other	2005	13.8
Eurocor GmbH	Opto Circuit	Healthcare	2005	11.2
Conradty Group	Graphite	Industrial machinery & equipment	2004	11
Esparma's Sales and Marketing Operations	Wockhardt	Healthcare	2004	9

*Rounded figures;**Estimate by BGM Research

Methodology

In our database which covers the period 2002 until 2012 we have included 128 acquisitions of German companies (or business units) by Chindian firms. In order to find these M&As the authors searched German business and trade journals, national as well as regional newspapers, online sources and two professional M&A databases: zephyr from Bureau van Dijk and Thomson Reuters. The compiled database underlying this study includes the name, origin and industry of target as well as acquirer, the ownership structure of the acquirer, the size of the acquired stake, the solvency status of the target at the time of the acquisition, the deal value and the date of announcement of the M&A. Moreover, where information was available, the postmerger integration process of the acquisition was analysed as well. One should note that this database also includes acquisitions that were formally not made directly by firms incorporated in China or India, but by foreign investment vehicles of these firms. Mahindra & Mahindra, for example, acquired the German forging company Schöneweiss through its subsidiary in Mauritius. As this is mainly for financial reasons, the takeover can still be reasonably seen as Indian-German although it is formally recorded as a 'Mauritian' acquisition (Mahindra, 2007). Tata Autocomp Systems – like so many acquirers of German firms – created a German subsidiary just for the purpose of acquiring the automotive plastic parts producer Wünsch-Weidinger. As a result, this M&A is formally German-German and not even a cross-border acquisition (Tata, 2005).

Considerable care is needed in interpreting OFDI figures, especially in the case of China. First, OFDI figures can often be misleading due to the extensive use of, e.g. Offshore Financial Centres (OFCs), round-tripping, transfer pricing and other tax optimization approaches. Second, OFDI figures vary considerably between sources such as Eurostat, OECD, UNCTAD and nationally published statistics by the Government or Central Bank. In the case of China only the centrally approved foreign investments are part of the OFDI statistic published by the Chinese Ministry of Commerce (i.e. not the ones at provincial or local levels). To complicate matters further, figures on Chindian OFDI in Europe and more specifically in Germany published by UNCTAD, Eurostat, Deutsche Bundesbank, Rhodium Group and MofCom, to just name but a few, differ substantially from each other. Thus it is difficult to understand the real size of Chindian foreign investments and especially the role of acquisitions. According to the Rhodium Group about 25% of the money invested in the EU-27 was used to acquire companies (Hanemann and Rosen, 2012).

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For further contact

Prof. Dr. Gert Bruche
Managing Partner
gert.bruche@bgmassociates.com

Andreas Schreiber
Associate
andreas.schreiber@bgmassociates.com

Berlin office
Phone +49 30 7024 2958

BGM ASSOCIATES

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