

CHINESE M&A IN GERMANY TRUST AND CONTROL

Analysis of the new transaction logic, illustrated using the example of Sany's taking over Putzmeister

Based on a Master's thesis by Robin Lawless

„...the basis of this transaction is
,Meet and Trust' – the point is trust,
entrepreneurial trust...“

Dr. Renate Neumann-Schäfer
CFO, Putzmeister Holding

CHINESE M&A: GOT THE HANG OF GERMANY AT LAST?

In his Master's thesis, „Chinese investments in Germany – an analysis of the new transaction logic,“ Robin Lawless examines the ways in which mergers and acquisitions (M&A) by Chinese investors in Germany have changed and developed over the past years. He focuses his analysis on private companies, who are becoming increasingly active in Germany.

Based on the thesis, we have written this practice oriented essay, in which we pick up some of the core themes of the thesis and put in into a practical perspective.

In his thesis, Mr. Lawless first gives a cross-sectional view of existing literature on Chinese investments in Germany. Among others, he quotes Berners Consulting's 2012 COI study, in order to understand the motives of Chinese investors and the challenges facing them.

In his primary source work, Mr. Lawless examines the most important Chinese M&A transaction in Germany to date: the takeover of Putzmeister by Sany. The basis are two in-depth interviews with Dr. Neumann-Schäfer, CFO of Putzmeister, and Christian Atzler, Partner at Baker & McKenzie. Dr. Neumann-Schäfer was part of the key deal team involved on the Putzmeister side of the transaction, together with Putzmeister's founder Karl Schlecht and CEO Norbert Scheuch. Mr. Atzler was the China expert on the legal team that supported Putzmeister in the short but intense deal preparation on site.

Berners Consulting supported the creation of the Master thesis and accompanied Mr. Lawless throughout the process.

THE TAKEOVER OF PUTZMEISTER BY SANY...

...in 2012 was the largest and most important acquisition of a Germany company by a Chinese group up to that date. The transaction attracted attention not only because of its size, but also because of the position in the respective markets: On the one side Putzmeister, most Swabian of Germany's medium-sized companies, world market leader in a challenging construction equipment segment. On the other side Sany, Chinese model company, led by one of China's richest men, who at the same time is one of China's few entrepreneurs inside the country's political elite.

The transaction was initiated within a few weeks and concluded within a few months. Putzmeister's founder, Mr. Karl Schlecht, personally made the sale decision. He has been withdrawn from active business since several years.

HYPOTHESIS: TRUST SUPERSEDES CONTROL

On the basis of literature review as well as primary source work, Mr. Lawless derives the hypothesis that Chinese takeovers have developed a new pattern and logic. This pattern differs from the established patterns perceived by the Western stakeholders. More recent Chinese M&A, while still striving for majority interests, increasingly shift from a control orientation toward a strategic cooperation view, which is founded on a completely different mechanism: trust. The consequence of a trust based, less control oriented M&A transaction is a cooperation form in which the investor strengthens the target company while allowing for a large degree of autonomy. The rationale for the high degree of autonomy is simple: it is the lesson learned by the Chinese investors that a successful acquisition target will only continue to be successful if the existing success factors are not impacted. As the success factors often depend heavily on the existing management and other key staff, a central approach is to give autonomy to the proven management. The following quotes from Putzmeister's CEO, Dr. Neumann-Schäfer, illustrate the degree to which autonomy played a role in the Putzmeister transaction and post-merger running of the company.

„Mr. Liang of course had recognized that he does not have management in China that could be transferred to Germany and that would be capable of a) telling us how to handle product development and b) telling us how to handle customer relationships and c) telling us how to finance and run the entire company.“

„In this regard, the motif that only the Whole would be bought, including the management, is one of the most crucial success factors at all.“

The preservation and autonomy of the existing management as a success factor – this is a lesson that a number of Chinese investors have already learned and

successfully applied to takeovers in Germany. In the case of Putzmeister, this also means autonomy in future M&A decisions, as long as those projects are in healthy proportion to Putzmeister's size.

„...when we are dealing with smaller acquisitions that Putzmeister, with 700 million Euro annual revenues, can do by itself, then we are free to handle it our way. There is no discussion about this.“

The autonomy referred to above depends on the degree of trust between the respective decision makers. In the case of Putzmeister-Sany, much has changed since the interview with Dr. Neumann-Schäfer in June 2013. CEO Mr. Norbert Scheuch left the company at the beginning of September 2013. Disagreements with Mr. Liang regarding potential takeover targets seem to have played a significant part in this development. The autonomy, therefore, depends on the basic trust that the Chinese owners have in the German management.

Already the takeover of Putzmeister also illustrates clearly the essential role of trust between the parties, especially „entrepreneurial trust“ between the owners. The following quote describes the now-famous „watch exchange“ between the owners of Putzmeister and Sany:

„[There was a problem with the documents.] But our founder said, ‚Doesn't matter, from my point of view, this deal is done anyway. We'll shake hands, as is proper among business people, and then the lawyers will work out the details. And to put some weight to my words, I'll hand over my golden Rolex to Mr. Liang, and he gives me his, and when we close the transaction, we'll exchange them back, and then the deal is closed.‘“

“In the end, the basis of this transaction is ‚Meet and Trust‘ – the point is trust, entrepreneurial trust.“

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Christian Atzler

Partner, Baker & McKenzie, Frankfurt

„OUR FOUNDER SAID: ‚I WILL NOT SELL TO A STATE-OWNED COMPANY. IF I SELL, I WILL SELL TO AN ENTREPRENEUR. I ALSO DON'T WANT TO SELL TO A MULTINATIONAL, IN WHICH I WILL BE A SMALL DIVISION AFTERWARDS THAT HAS LITTLE SAY IN THINGS.

IN THE SPIRIT OF ENTREPRENEURSHIP AND ENTREPRENEUR-LEADERSHIP, I WANT TO SELL MY COMPANY AND PUT IT IN HANDS THAT ARE MADE OF THE SAME STUFF AS MINE.’ “

INCREASING PROFESSIONALISM & OUTLOOK

Trust is gaining weight in Chinese-German transactions. This does not mean, however, that the Chinese are taking a *laissez faire* attitude. On the contrary: Mr. Lawless observes that Chinese investors are becoming increasingly professional. They are more likely now to hire specialists and consultants, and they have refined their tactics after learning their lessons from the dozens of transactions in the past decade. The Putzmeister deal was initiated, set up, and closed at an unusually fast pace. At first sight, this might look unprofessional, but the following quote from the CFO shows the well thought-out tactics used in this high-speed due diligence process:

“The Chinese turned around the [usual due diligence] process and said: ‘Here we have the CEO and the CFO; let them present the risks themselves.’ So they turned the tables and said: ‘We have to do it exactly the other way around than normally, because we want to take over those executives as well.’

So as an executive, you are being told, ‘We will conduct the retention negotiations with you. Please tell us the risks inherent in this transaction, so we can close the deal fast.’ Very smart move.”

From the German seller’s point of view, the autonomy and the increasing professionalism of the Chinese investors bear both challenges and opportunities. The latter can contribute to reducing the hesitation prevalent in Germany when it comes to Chinese investors. A takeover by a Chinese industrial company can be seen as an opportunity for global growth, while preserving the company’s autonomy. And we do, in fact, see a generally increasing openness and willingness to trust on the German side. Says Christian Atzler, Partner at Baker McKenzie:

„What we see is that more and more companies, especially family companies, are now much more open to the idea of selling to a Chinese buyer.“

This is congruent with our own observations in the past years. No matter whether the topic is M&A, joint ventures, or technology partnerships: German medium-sized companies are increasingly welcoming the idea of cooperating with a Chinese private company. The foundation of any such discussion is trust between the entrepreneurs – a direct reflection of Mr. Lawless’s hypothesis. This trust can only be built up directly between the people; analyses and contracts can only serve to augment and solidify this trust, but they cannot replace it.

CHINESE M&A IN GERMANY

Chinese takeovers in Germany are gaining importance. At the same time, the overall volume is still quite small, and single transactions can greatly influence the overall picture. For example, in 2012, the large purchases of Putzmeister by Sany, Schwing by XCMG, and Kion by Weichai, with a total volume of more than one billion Euro, have approximately doubled the stock of Chinese investment in Germany.

A selection of the past years' deals:

Year	Target	Investor	Industry
2013	PFAFF Industriesysteme und Maschinen	ShangGong Group	Machine building
2013	Thielert Aircraft Engines	AVIC International Holding	Aviation
2012	Viseon Bus	China Youngman Automobile Group	Commercial vehicles
2012	Kion	Weichai Power	Commercial vehicles
2012	Sunways	LDK Solar	Solar energy
2012	Schwing	XCMG	Construction equipment
2012	Putzmeister	Sany	Construction equipment
2011	Preh	Joyson Holding	Automotive supplier
2011	Kiekert	Hebei Lingyun	Automotive supplier
2011	Saargummi	Chongqing Light Industry & Textile	Automotive supplier
2011	Medion	Lenovo	Computers
2011	Eterna AG	China Haidian	Watches

„CHINESE PRIVATE
ENTREPRENEURS ARE VERY
SIMILAR TO OUR GERMAN
MEDIUM-SIZED COMPANIES.
PERSONALLY, I AM CONVINCED
THAT COOPERATIONS, CAPITAL
BASED PARTNERSHIPS AND
CORPORATE TAKEOVERS WILL BE
INCREASLY SEEN AS A FEASIBLY
OPTION BY BOTH SIDES.“

Miriam Fritz

Senior Consultant, Berners Consulting GmbH

ABOUT THE THESIS AUTHOR

Robin Lawless is independent M&A consultant in Frankfurt. In his consulting practice, he supports owners of small and medium-sized companies in industry and life science with their M&A transactions. Previously, Mr. Lawless worked on M&A projects for Lincoln International and US legal firm WilmerHale, both in Frankfurt. He holds a degree in economic law from FH Mainz. Before his university study, he founded a lifestyle company, whose eventual partial sale became his inspiration to make a career in M&A.

Since 2013, Mr. Lawless is cooperation partner of Berners Consulting.



The Master's thesis introduced in this essay was chosen as one of the year's best theses by the Frankfurt School of Finance and was presented on the **M&A and Private Equity Conference** in September 2013.

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ABOUT BERNERS CONSULTING

Berners Consulting specializes in consulting and supporting German, Chinese, and Brazilian companies in cross-border activities. With close to two dozen consultants and project managers on three continents, we do more than just analysis and concept design: we support our clients actively with implementation in the target markets. Our unique combination of technical-commercial foundation, relevant line and project management experience, and solid country knowledge and language skills make us the preferred choice for medium-sized companies and multinational groups in all three markets.



Mr. Lutz Berners, Managing Director, leads Berners Consulting's global China activities. With more than a decade of experience with Chinese-Western cooperation, he supports our clients with basic considerations for market entry and corporate establishment, partnership topics, and cross-border cooperation. His focus is on corporate strategy, negotiations, and sales. Mr. Berners received his Bachelor's degree in mechanical engineering and economics from Yale University and his Master in Public Affairs from Princeton University. He speaks, reads, and writes Chinese, English, and German fluently.



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