

Oaklins

Voice from China

Update on the
M&A market in China

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Introduction

The Year of the Tiger has come to an end with the unexpected sudden cancellation of the national zero-COVID policy. We are now in the Year of the Rabbit, bringing the hope of spring during this chilly winter.

In the past almost three years, with the Chinese government's zero-COVID-19 policy making physical movement difficult, an economic slowdown, mounting geopolitical tensions and a mood of caution sweeping the investment community, China's domestic and cross-border M&A activity has declined year-on-year, and this continued throughout 2022 as well, unsurprisingly.

Despite the significant termination of the zero-COVID policy, the most important influence on the M&A market

in the coming year will be the roadmap for economic growth set out by the 20th National Congress of the Chinese Communist Party (CCP). The shift in government-supported industries laid out by the congress will make internal circulation (hardcore technology) and the dual carbon economy the likely focus of future M&A dealmaking.

WHAT TOOK PLACE AT THE 20TH NATIONAL CONGRESS?

At the 20th National Party Congress in October, Xi Jinping was re-elected to a third term as General Secretary of the CPC and chairman of the party's Central Military Commission. Together with the unveiling of China's new leadership lineup, Xi's continuation made it clear that political power is becoming more centralized and no big changes to the country's leadership ranks were in the offing.

From an economic standpoint, zero-COVID has put enormous downward pressure on China's GDP. According to Reuters, the government was on track to spend more than US\$52 billion in 2022 on testing, new medical facilities, monitoring equipment and other anti-COVID measures. But despite the stimulative effect of this spending, much of the country's commercial activity has been brought to a standstill due to travel restrictions and lockdowns. As a result, we expect 2022 GDP growth to fall well below the 5% forecast by the government. The general consensus from economists puts it at around 3% for the year.

To sustain growth despite the lockdowns and in the face of growing barriers to international trade, the 20th National Congress emphasized three economic policies: internal circulation, dual carbon economy and SOE economy.

INTERNAL CIRCULATION

The policy of internal circulation is aimed at building local, comprehensive and self-supporting supply chains to replace the trans-border supply chains

and foreign dependencies that have been disrupted by the pandemic and international conflicts. Industries that provide critical import and potential

bottleneck technology substitutions, such as those listed here, will have strong government backing:

Bottleneck industries				
Lithography	Semi-conductor	Operating systems	Feeler sensors	Mobile phone RF devices
Microsphere	Blunderbuss knife	Lidar	Airworthiness standards	Heavy duty gas turbines
ITO	Photoresist	Core algorithms	Aeroengine Nacelles	Aviation steel
High-end capacitance and resistance	Database management systems	Vacuum evaporators	Epoxy resin	ICLIP
High-pressure plunger pumps	High-end bearing steel	Ultra-precision polishing	Underwater connectors	Lithium battery diaphragms
Scanning electron microscopes	Aeronautical design software	Projection electron microscopes	High-pressure common rail systems	Medical imaging equipment components
High-strength stainless steel	Core industrial software	High-end welding power supplies	TBM main bearings	Key fuel cell materials

Source: Science and Technology Daily

CHINA'S DUAL CARBON OBJECTIVES

China's dual carbon goals of achieving peak carbon production by 2030 and carbon neutrality by 2060, were first set by President Xi at the 75th session of the UN General Assembly in 2020. They were given further emphasis during the 20th National Congress as one of China's most important economic aims and global commitments. Given these national objectives, the government will prioritize support for the industries shown on the right.

STATE-OWNED ENTERPRISES

State-owned enterprises (SOEs) are also slated to receive additional government resources, as part of a reprioritization of China's public and private sectors. Going forward, this may encourage more private companies to forge strategic partnerships and cooperation with SOEs.

Industry	Representative companies
Wind power	Zhejiang Windey; Dajin Heavy Industry
Hydropower	China Yangtze Power; Huaneng Lancang River
Solar power	Zhejiang Jinggong Science and Technology; Jinko Solar; Jolywood
Hydrogen energy	Sinosynergy; Doright; Jinhong Gas
Green building	China Sinoma International Engineering; SKSHU Paint; Zhongyan Technology; Myhome Real Estate Dev
Thermal management	Zhejiang Yinlun Machinery; Zhejiang Sanhua Intelligent Controls; Shanghai Jialeng Songzhi
New energy vehicles	Nio; Xpeng; BYD; Li Auto
Kinetic and storage power cells	CATL; BYD; Gotion
New materials	Qingdao Gon Technology; Crerax; Zhongfu Shenying Carbon; Sinoma Energy
Carbon absorption	Haohua Chemical Science; SPIC Yuanda Environmental

Source: WIND

The impact on cross-border M&A

EXPECTATIONS FOR SOES

Although COVID-19 lockdowns and the economic slowdown will continue to impose strong headwinds on cross-border M&A activity, we believe two groups of businesses will continue to seek inbound and outbound dealmaking opportunities.

SOEs may be getting more support than private enterprises, but they will also carry the burden of greater expectations on the part of the central government. In particular, public enterprises will be expected to play a major role in supporting China's internal circulation policy and developing comprehensive supply chains that are independent of foreign entities.

At the same time, they will also be expected to strengthen the country's export and foreign investment activities through the central government's "One Belt One Road" global infrastructure initiative. This was reflected during the first three quarters of 2022, when SOEs and companies in which SOEs hold equity positions were extensively engaged in outbound M&A, as shown below.

	Number of outbound M&A deals	Disclosed transaction value (US\$m)	% of total number of M&A deals	% of disclosed transaction value
SOEs	18	1,167.9	22.0	44.8
Company with SOEs' equity	23	590.9	28.0	22.7
Private enterprise	41	849.0	50.0	32.5
Total	82	2,607.8	100.0	100.0



THE PUZZLE FOR MULTINATIONALS

“To stay or to go” seems to be the question currently facing foreign-owned multinational corporations (MNCs) — especially those with an established presence in China. During the first three quarters of 2022, there were a total of 29 transactions for a total value of

US\$1.16 billion in which MNCs acquired Chinese companies for a total value of US\$1.16 billion. Please see below for a summarized list of transactions by MNCs with an existing presence as of Q3 2022 and a list of major greenfield investments by MNCs.

In the first three quarters of 2022, there were a total of 34 transactions that saw MNCs divest their business in China with a total transaction value of US\$1.27 billion. On page 10 is a summary of Chinese divestitures as of Q3 2022.

Chinese acquisitions by MNCs, Q1–Q3 2022








Chinese target	MNC acquiror
On Gear Trading Co., Ltd./Two subsidiaries	Iwaki Co., Ltd.
Mountain China Resorts (Holding) Ltd.	Sunski BC Holdings Ltd.
HYSOUND Group	Sonova Holding AG
Donghai Temple Auto Parts (Shanghai) Co., Ltd.	Sumitomo Riko Co., Ltd.
Shanghai Anda International Trading Co., Ltd.	Everlight Chemicals (Singapore) Pte Ltd.
Tianjin Zhiyun Erling Technology Co., Ltd.	Ultra Best Global Ltd.
Alsco Pte Ltd./Chinese operations	Lindström Oy
Le Coq Sportif (Ningbo) Co., Ltd.	Descente Ltd.
Shanghai Jinhuiercheng Technology Co., Ltd.	Visionary Education Technology Holdings Group, Inc.
Shandong Bozhong Vacuum Technology Co., Ltd.	Atlas Copco AB
Wuhan Show Life Convenience Store Co., Ltd.	Smart Globe Holdings Ltd.
Suzhou Since Gas System Co., Ltd.	Atlas Copco AB
Charter Automotive (Changzhou) Co., Ltd.	Park-Ohio Holdings Corp.
Shanghai Hanye Air Purifying Technology Co., Ltd.	Ingersoll Rand, Inc.
Clean Energy Associates (China) Ltd.	Intertek Group plc
Hanwha Techwin (Shanghai) Co., Ltd.	Hanwha Corp.
Wanhui (Suzhou) Digital Technology Co., Ltd.	Deluxe Trading (HK) Co., Ltd.
Huahong Construction & Engineering Co., Ltd.	CIL Holdings Ltd.
Xianning Xiangtian Energy Holding Group Co., Ltd.	Planet Green Holdings Corp.
Jiangmen Dacheng Medical Equipment Co., Ltd.	Gentherm, Inc.
Glory Star New Media Group Holdings Ltd.	Cheers, Inc.
Shenzhen Great Wall Asia Intl Equity Invts Fd Mgt Ltd.	Gransing Securities Co., Ltd.
Focus Seiki Corp./Processing machine business	Sogotec Precision Co., Ltd.
Jiangyin Uni-Pol Co., Ltd.	Doncasters Group Ltd.
Real Jade Ltd.	Mudajaya Group Bhd.
Jiangsu Sterlite Tongguang Fiber Co., Ltd.	Sterlite Technologies Ltd.
Shandong Jinggong Pumps Co., Ltd.	Atlas Copco AB

Chinese target	MNC acquiror
ZW Soft Co., Ltd.	Barclays Bank plc; UBS AG; Schroder Investment Management (Hong Kong) Ltd.; JPMorgan Securities plc; Nuode Asset Management Co., Ltd.; Aegon-Industrial Fund Management Co., Ltd.; China Galaxy Securities Co., Ltd.; others
Jinjiang Jicheng Light Industry Co., Ltd.	Kam Wai Hing Wong Group Co., Ltd.
Wiredcraft Co., Ltd. (China)	Publicis Groupe SA
Chengdu Shengwang Yuanbo Hearing Aid Sales Co., Ltd.	Demant AS
Shenzhen Kewei Robot Technology Co., Ltd./12 subsidiaries	Guardforce AI Co., Ltd.
Lingwang Container Temperature Control (Suzhou) Co., Ltd.	Trane Technologies European Holding Co. BV
Anguo Huagang Gas Co., Ltd.	Towngas Investments Co., Ltd.
Shenzhen Kewei Robot Technology Co., Ltd./Seven subsidiaries	Guardforce AI Co., Ltd.
Beijing Wanjia Security System Ltd.	Guardforce AI Co., Ltd.
Blufu Water (Xinmin) Co., Ltd.	Greenspace Enviro Pte Ltd.
Jiaxing Da'en Supply Chain Management Co., Ltd.	Alperon Global (HK) Ltd.
Changshu Rongtong Supply Chain Management Co., Ltd.	Century Elite Developments (HK) Ltd.
Changshu Shenzhoutong Industrial Real Estate Dev Co., Ltd.	Dream Up Investments HK Ltd.
Benq Guru Software Co., Ltd.	Sysage Technology Co., Ltd.
Dumex Baby Food Co., Ltd.	Danone Asia Pacific Holdings Pte Ltd.
ArtSci Biology Technologies (Hangzhou) Co., Ltd.	Firmenich SA
Jiangsu Huineng Electric Co., Ltd./Circuit breaker business	Eaton Corp. plc
ImmersionRC Ltd.	Orqa d.o.o.
Endeavor China	Endeavor Group Holdings, Inc.
Luyang Energy-Saving Materials Co., Ltd.	Unifrax Asia-Pacific Holding Ltd.
Safeguard Supplies	Corporate Trade Supplies UK Ltd.
World Fashion Logistics	Fiege Logistik Holding Stiftung & Co. KG
Quantum Hi-Tech (Guangdong) Biological Co., Ltd.	Tate & Lyle Investments Ltd.
Bojun Education Co., Ltd.	Honesty Virtue International Ltd.
Shanghai Superbag Co., Ltd.	Superbag Co., Ltd.
Front Network Co Ltd.	Havas SA
Lvqi Trading (Shanghai) Co., Ltd.	Green Future Food Hydrocolloid Marine Science Co., Ltd.
Hebei Zhongxing Automobile Co., Ltd.	Hybrid Kinetic Group Ltd.
UBS Securities Co., Ltd.	UBS Group AG
Shanghai iColor Biotech Co., Ltd.	Gotha Cosmetics SRL
China United Resources Group Ltd./Two subsidiaries	Glory Mark Hi-Tech (Holdings) Ltd.
Wing Pet Food	Symrise AG
Brilliant Acquisition Corp.	Nukkleus, Inc.
Zhenjiang Dongfeng Garment Co., Ltd.	TST International Group Ltd.
Aica Kogyo Co., Ltd./Three Wilsonart Sub Rem stakes	Aica Kogyo Co., Ltd.

Chinese target	MNC acquiror
Shanghai Zhiguan Polymer Materials (PMP)	Arkema SA
Zhongshan Yaosheng Electrical Appliance Manufacture Co., Ltd.	Trendzon Holdings Group Ltd.
Hefei Special Biological Technology Co., Ltd.	Fancy Ascent Ltd.
Wuxi Sanwa Plastics Co., Ltd.	FPK Nakatake Co., Ltd.
Youbeiqin (Guangdong) Medical Technology Co., Ltd.	Central Wealth Group Holdings Ltd.
Blockchain News/Chn	Hong Kong Digital Asset Ex Ltd.
Zhengzhou Fortune Bioscience Co., Ltd.	Sorrento Therapeutics, Inc.
Komatsu (Dalian) Machine Tool Corp	Komatsu NTC Ltd.
Santroll Automotive Components	BorgWarner, Inc.
Joway Health Industries Group, Inc.	JHP Holdings, Inc.
Suzhou Jiecheng Medical Technologies, Inc.	Genesis MedTech International Pte Ltd.
Shanghai Chargedot New Energy Technology Co., Ltd.	ABB Ltd.
Shanghai TOMI Electronic Material Co., Ltd.	SENKO Group Holdings Co., Ltd.
Print100 Ltd.	Cirtek Holdings Ltd.
Jiangsu Ahno Precision Cutting Tool Technology Co., Ltd.	Walter AG
Suzhou Ahno Cutting Tool Technology Co., Ltd.	Sandvik Aktiebolag
Shenzhen Xinhang Information Technology Ltd.	In Technical Productions Ltd.
Victoria's Secret & Co./China business	Regina Miracle International Ltd.
RockStock Equities, Inc.	CoinAnalyst Corp.
Shiseido China Co., Ltd./Za and Pure&Mild brands	Denka Co., Ltd.
Suning Consumer Finance Co., Ltd.	BNP Paribas Personal Finance SA; Bank of Nanjing Co., Ltd.; Suning Consumer Finance Co., Ltd./Private group
Shenzhen Keweien Robot Service Co., Ltd.	Guardforce AI Co., Ltd.
Shanghai Linde Eryanghuatan Co., Ltd.	Nyac Corp.
Arena Shanghai Industrial Co., Ltd.	Descente Ltd.
Evergreen Packaging International LLC/Carton business	SIG Schweizerische Industrie-Gesellschaft AG
Yangzhou Leader Powder Metallurgy Co., Ltd.	PMG Holding GmbH
SK Future Energy (Shanghai) Co., Ltd.	SK ON Co., Ltd.
Anewcos	Axilone SAS

Source: FactSet database

Chinese joint-venture agreements by MNCs, Q1–Q3 2022

Company name	Country	Investment in China
BASF		On 19/7/2022, BASF announced that the company would invest US\$10,9 billion to set up a new integrated production base in Zhanjiang, Guangdong by 2030.
Merck Group		Merck Group put its first production facility for OLED materials in China into service.
INEOS Group		On 28/7/2022, INEOS Group signed a series of agreements with SINOPEC for future co-development of advanced chemical industry facilities.
Shell		On 13/9/2022, CNOOC and Shell signed an agreement to co-develop phase III of an ethylene project.
TotalEnergies		TotalEnergies signed a memorandum with the Hainan Provincial Bureau of International Economic Development to co-develop clean energy businesses and technologies in Hainan.
Covestro		On 8/7/2022, Covestro announced plans for two new factories in Shanghai to expand its PUD and TPU production capacity.
Invista		Invista announced plans to work with the Anhui Haoyuan Chemical Group and Chemtex on a new continuous polymerization production line with an annual capacity of 400,000 tonnes of Nylon 66.

Source: Internet



But also during the first three quarters of 2022, there were 29 transactions for a total value of US\$1.16 billion in which MNCs divested their business in China.

Divestments of Chinese businesses by MNCs, Q1–Q3 2022

MNC	Company divested by MNC	Acquiror
Alsco, Inc.	Alsco Pte Ltd./Chinese operations	Lindström Oy
Charter Manufacturing Co., Inc.	Charter Automotive (Changzhou) Co., Ltd.	Park-Ohio Holdings Corp.
Daiichi Sankyo Co., Ltd.	Daiichi Sankyo Pharmaceutical (Beijing) Co., Ltd.	Chongqing Yao Pharmaceutical Co., Ltd.
Geomatec Co., Ltd.	Geomatec (Wuxi) Co., Ltd.	Xiamen Hualong Investment Management Co., Ltd.
Trammo GmbH	Jiangsu Andefu Energy Development Co., Ltd.	Jiangsu Adefu Investment Co., Ltd.
Pier Augé Produits de Beauté SA	Pier Auge Produits De Beaute SA/ Chinese business	SYoung Group Co., Ltd.
Shiseido Co., Ltd.	Shiseido China Co., Ltd./Za and Pure&Mild brands	Denka Co., Ltd.
Pactiv Evergreen, Inc.	Evergreen Packaging International LLC/ Carton business	SIG Schweizerische Industrie-Gesellschaft AG
Sime Darby Bhd.	Weifang Sime Darby Port Co., Ltd.	Spg Bohaiwan Port Group
STX Offshore & Shipbuilding Co., Ltd.	STX Dalian	Hengli Heavy Industry Group
GobiMin, Inc.	Xinjiang Weifu Mining Co., Ltd.	Zijin Mining Group Co., Ltd.
RENA Technologies GmbH	Rena Technologies GmbH/Two subsidiaries	Valuevale Investment Ltd.
SK Innovation Co., Ltd.	SK Future Energy (Shanghai) Co., Ltd.	SK ON Co., Ltd.
C. Steinweg Warehousing (F.E.) Pte Ltd.	Tianjin Handelsveem International Logistics Co., Ltd.	Yongtaiyun Chemical Logistics Co., Ltd.
Chinlink International Holdings Ltd.	Real King International (Xi'an) Information Tech Co., Ltd.	Shaanxi Tianheng Investment Co., Ltd.
Athenex, Inc.	Athenex, Inc./Two subsidiaries	TiHe Capital (Beijing) Co., Ltd.
On Gear Trading Co., Ltd.	On Gear Trading Co., Ltd./Two subsidiaries	Iwaki Co., Ltd.
Right Way Industrial Co., Ltd.	Rightway Autoparts (Fuzhou) Co., Ltd.	Rightway Autoparts Fuzhou Co., Ltd./ Private Group; Fujian Hongsheng Investment Co., Ltd.; Fujian Dongyu Investment Co., Ltd.
Gudeng Precision Industrial Co., Ltd.	Suzhou Wujiang Xinchuang Automobile Trading Co., Ltd.	Suzhou Wujiang Xinchuang Automobile Trading Co., Ltd./Private group; Jiaxing Fengmiao Trading Co., Ltd.; Suzhou Cheng Feng Corp.
Focus Seiki Corp.	Focus Seiki Corp./Processing machine business	Sogotec Precision Co., Ltd.

MNC	Company divested by MNC	Acquiror
New Universe Environmental Group Ltd.	Taixing Xin Xin Resources Co., Ltd.	Grammy (Jiangsu) Guye Co., Ltd.
Cihc Singapore Pte Ltd.	Agribands Purina (Xinjiang) Feed Mill Co., Ltd.	Shanxi Changrong Agricultural Science & Technology Co., Ltd.
Nihon Yamamura Glass Co., Ltd.	Yamamura Glass Qinhuangdao Co., Ltd.	Ningbo Houhe Investment Management Co., Ltd.
China United Insurance Service, Inc.	Jiangsu Law Insurance Brokerage Co., Ltd.	Jiangsu Law Insurance Brokerage Co., Ltd./Private group; Xuzhou Guosheng Furui Asset Management Co., Ltd.; Jiangsu Zhongbozhixin Financial Service Outsourcing Co., Ltd.; Xuzhou Xinrui Service Outsourcing Co., Ltd.
Stellantis NV	PCMA Automotive Components (Guangzhou) Co., Ltd.	Shanghai Carthane Co., Ltd.
Hanwha Aerospace Co., Ltd.	Hanwha Techwin (Shanghai) Co., Ltd.	Hanwha Corp.
Honley Auto Parts Co., Ltd.	Changchun Ceck Auto Parts Co., Ltd.	Changchun Engley Automobile Industry Co., Ltd
Qisda Corp.	Benq Guru Software Co., Ltd.	Sysage Technology Co., Ltd.
Tokyo Koki Co., Ltd.	Wuxi Sanwa Plastics Co., Ltd.	FPK Nakatake Co., Ltd.

WHO'S COMING AND WHO'S GOING?

We see that MNCs with deep roots in China, particularly European manufacturers, are doubling down on their Chinese presence.

This is primarily due to three factors: 1) lower energy costs — especially compared with Europe as a result of the Russia-Ukraine war; 2) more comprehensive supply chains compared with those of other Asian countries; and 3) sizable local demand in China.

In comparison, MNCs with smaller investments and a less pronounced competitive advantage are seeking an exit from China — especially those companies for which China represents a high level of geopolitical risk.

Recent M&A activity

During the first three quarters of 2022, 112 inbound acquisitions of Chinese companies were announced, a decrease of 22.8% YoY. Of these transactions, 59 involved foreign investors with an existing presence in China, compared with 85 acquisitions by investors with an established Chinese presence during the same period in the previous year. In other words, while MNCs continue to expand their presence in China, they are doing so more cautiously than before.

Meanwhile, a total of 20 inbound transactions were made by foreign companies without a substantial presence in China — slightly more than the 17 acquisitions made by companies new to the Chinese market during the same period the year before. However, the countries of origin of these new acquirors changed significantly. In 2022, only six of the new acquirors came from North America and Western Europe, while it was 14 in the same period of 2021. Most of the new acquirors in 2022 came from Asian countries, especially Japan and Singapore.

Inbound M&A

	As of Q3 2022
Number of deals	112
Change YoY	-22.8%
Deal value (US\$m)	17,047.23
Deal value change YoY	48.3%

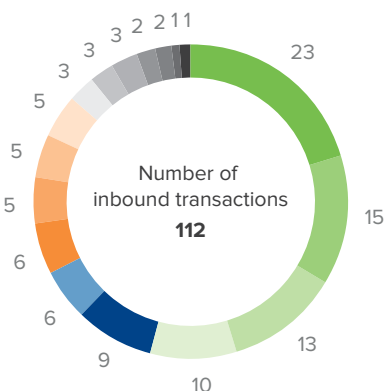
Of the 112 inbound transactions, 59 disclosed deal values. The total deal value of these transactions surged by 48.3% YoY.

This increase was due to eight mega special purpose acquisition company (SPAC) transactions for a combined value of US\$13 billion. But excluding these investments by SPACs, the total value of disclosed transactions decreased by 62.1% YoY.

INBOUND M&A BY SECTOR

The greatest number of inbound transactions took place in the producer manufacturing (20.5% of all deals) and technology service (13.4% of all deals) sectors.

Inbound transactions by sector

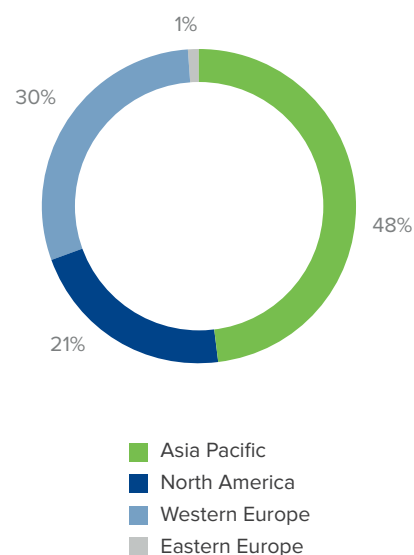


- Producer Manufacturing
- Technology Services
- Finance
- Consumer Non-Durables
- Commercial Services
- Process Industries
- Health Technology
- Retail Trade
- Consumer Durables
- Distribution Services
- Electronic Technology
- Industrial Services
- Transportation
- Non-Energy Minerals
- Consumer Services
- Health Services
- Communications

INBOUND M&A BY REGION

During this period, acquirors from Asia Pacific closed the largest number of inbound deals (48.2%), followed by Western Europe (29.5%) and North America (21.4%).

Inbound transactions by acquiror region



Disclosed transaction values for inbound transactions as of Q3 2022

Transaction size (US\$m)	Number of transactions
<50	36
50–100	6
>100	17

Source: Factset M&A database

Note: Chinese transaction totals are for mainland China only; both completed and pending transactions are included.

Outbound M&A

	As of Q3 2022
Number of deals	100
Change YoY	-18.0%
Deal value (US\$m)	3,240.19
Deal value change YoY	-74.1%

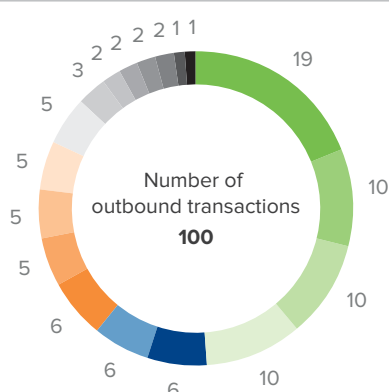
During the first three quarters of 2022, Chinese companies announced 100 outbound acquisitions, 18% fewer than for the same period in the previous year. Deal values were disclosed for half of these transactions, and the total value was 74.1% below that of the same period

in the year before. Compared with the same period last year, more transactions took place in North America and Western Europe, while the number of acquisitions in the Asia Pacific region remained the same.

OUTBOUND M&A BY SECTOR

The largest number (19%) of outbound M&A transactions were in the technology services sector, followed by the health technology and commercial service sectors, which each had 10% of the total.

Outbound transactions by sector

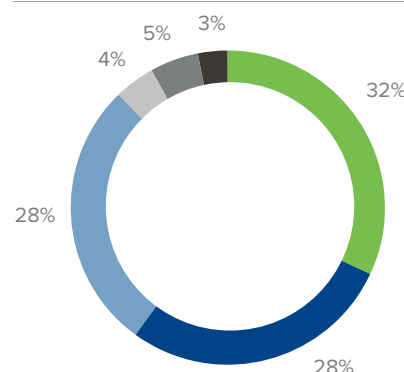


- Technology Services
- Health Technology
- Producer Manufacturing
- Commercial Services
- Finance
- Distribution Services
- Non-Energy Minerals
- Electronic Technology
- Transportation
- Consumer Durables
- Consumer Services
- Retail Trade
- Industrial Services
- Process Industries
- Consumer Non-Durables
- Utilities
- Communications
- Health Services

OUTBOUND M&A BY REGION

The largest number of outbound transactions took place in Asia Pacific (32.0%), followed by North America and Western Europe (28.0% each).

Outbound transactions by target region



- Asia Pacific
- North America
- Western Europe
- South America
- Eastern Europe
- Africa

Transaction values for outbound transactions as of Q3 2022

Transaction size (US\$m)	Number of transactions
<50	34
50–100	5
>100	11

Source: Factset M&A database

Note: Chinese transaction totals are for mainland China only; both completed and pending transactions are included.

Spotlight on the **electric vehical** **batteries sector**

Batteries are a core component of electric vehicles (EV), accounting for 30–40% of a vehicle's manufacturing cost. With the EV industry entering a stage of intense growth, demand for high-performance EV batteries is strong. The global market for them is estimated to have been around US\$46 billion as of 2021 and is expected to reach US\$560 billion by 2030, expanding at a CAGR of 32%. China is the world's largest car manufacturer, and in 2021 it accounted for more than two thirds of global EV battery production.

Currently over 99% of EV batteries are lithium-ion-based, but the market is divided between two main types: lithium iron phosphate (LFP) batteries and ternary lithium batteries. Compared to ternary lithium batteries, LFP batteries have a lower energy density and less resistance to low temperatures, but they are also less expensive, safer to operate and have a longer life cycle. During the first half of 2022, the market share for LFP batteries leapt to 59% from 40% in 2021, reflecting concerns over soaring raw material prices and the number of battery-related accidents.

While Chinese players have a clear lead in the LFP segment, with an edge in technology and a dominant market share, South Korean manufacturers have concentrated on the ternary lithium battery sector.

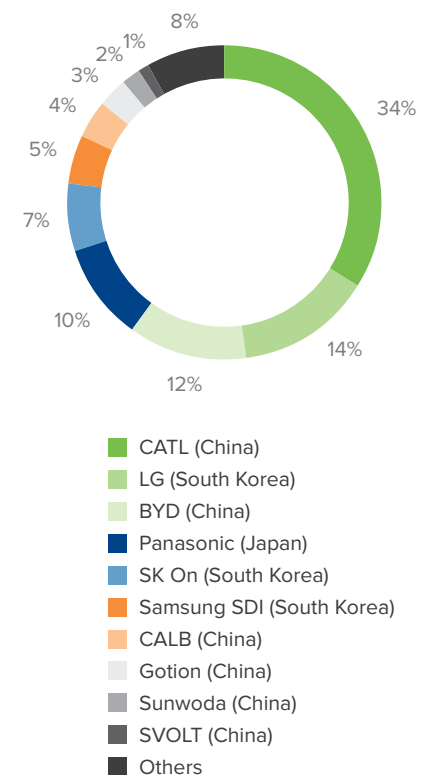
With the EV industry rapidly growing and enjoying strong support from the government, China's EV battery market is expected to continue expanding.

Domestically, two Chinese companies — CATL and BYD — control 65% of the market. But they are facing a serious challenge from smaller Chinese players, like CALB and Sunwoda, which have posted astounding YoY growth exceeding 200%. As the competition intensifies, the leading players are attempting to secure a stable supply of raw materials and form downstream partnerships to maintain their competitive advantage. Two examples of this are: last May, CATL partnered with Solaris, Europe's leading electric bus manufacturer, to promote the electrification of city transportation in Europe; and BYD is planning to buy six lithium mines in Africa, according to media reports.

Looking ahead, we see an active M&A market in the EV battery sector, driven by three key imperatives:

1. Chinese battery companies will invest abroad to secure a supply of lithium and other resources. While most lithium mines are located in Africa and Latin America, many of their operators are from developed countries.
2. Traditional automotive companies will seek to acquire EV battery companies in China, as they try to catch up with the market.
3. Chinese battery companies will look to expand their production capacity and international sales through cross-border acquisitions.

EV global battery market share, 1H 2022



CASE STUDIES

Gotion

In July 2021, Gotion High-tech acquired Robert Bosch GmbH's plant in Göttingen, Germany to expand its EV battery production in Europe.

Gotion is a leading Chinese manufacturer of EV and energy storage batteries, along with power transmission and distribution equipment. The company currently operates 10 production facilities in China and eight R&D centers in China, the USA, Japan, Singapore, Germany and India.

Built in 1960, the Robert Bosch plant was designed to produce spare parts for the automotive aftermarket. The 170,000-square-meter facility has more than 40,000 square meters of floor space and employs around 300 people.

Gotion plans to modify the plant and train the workforce for the manufacture of EV battery products.

Volkswagen Gotion

In December 2021, Volkswagen increased its stake in Gotion. The German auto manufacturer has become the largest shareholder of the Chinese battery maker through a US\$1.2 billion buy-in of 26.47% of Gotion's shares.

Gotion is the world's eighth-ranked EV battery supplier, accounting for 3% of the global market during the first half of 2022.

Volkswagen is seeking to vertically integrate its EV operations. The auto maker's goal is to reduce vehicle emissions by 40% from 2018 levels by 2030.

Gotion and Volkswagen plan to build Volkswagen's first unified battery cell factory in Salzgitter, Germany. The unified cell production facility will significantly reduce Volkswagen's EV battery complexity and costs, while increasing the range and charging performance of the auto maker's electric vehicles.

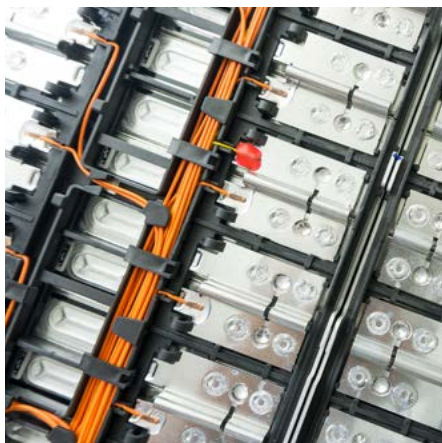
CATL

In September 2021, CATL moved to acquire Canadian mining company Millennial Lithium for US\$297.3 million. By November, however, the company was outbid by Lithium Americas and received a US\$20 million contract termination penalty from Millennial.

Founded in 2011, CATL specializes in the manufacture of batteries for electric vehicles and energy storage systems, in addition to battery management systems. With a market share of 34% as of the first half of 2022, CATL is the world's biggest producer of lithium-ion EV batteries.

Millennial controls over 20,000 hectares of prime land in the heart of Latin America's famed "Lithium triangle", home to the world's most prolific lithium mines. In Argentina, Millennial owns two lithium projects located within an emerging mining district that is the site of several world-class lithium mines and in-development deposits.

Although CATL failed to close the deal with Millennial, the company is still aggressively seeking other opportunities for vertical integration. By acquiring an upstream player, CATL seeks to lock in a long-term supply of lithium and reduce the risk it faces from price fluctuations.



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