

China

2020

China 2020

Time to Double Down

Exclusive China member of  CLEARWATER
INTERNATIONAL

InterChina



英特华

Strategy | Corporate Finance

www.InterChinaConsulting.com

www.InterChinaPartners.com

InterChina: Founded in 1994

Confidential

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Our Value

- China specialist.
- Strategy and Corporate Finance.
- Focused on 5 sectors.
- 25 years of experience (founded 1994).



Our People

- Located in Beijing and Shanghai.
- Multicultural partnership.
- 50 professionals.
- Chinese, senior, industrial background.



Our Clients

- Medium-sized to Fortune 500.
- 600+ strategy projects.
- 170+ transactions (USD 8+ bn).
- 2/3 of projects are returning clients.

Focused on 5 Sectors

Experience, insight and networks in China's major growth sectors

Strong Sector Understanding & Knowledge...

- InterChina has undertaken 600+ strategy projects and 170+ mandates since its founding in 1994 and >90% of our clients are from the five sectors we focus on.
- Our sector focus ensures that our knowledge of market dynamics and transaction interest within each area is current.



...Lending Valuable Commercial Insights

- 2,000+ executive meetings have been conducted each year by InterChina with Chinese and foreign corporations active in China.
- We manage a proprietary database network containing thousands of contacts established over the last twenty years.





Information Sources of our annual Forecast Report

Based on 100+ recent interviews with China-based senior executives, together with our own project work ...

26 years

of doing business in China.

50

dedicated staff members, in Shanghai, Beijing and London.

EUR 8.8+ bn

...the value of **close to 200 transactions** we have been involved in.

8 M&A deals to be closed in 2019.

27 Ongoing mandates in our execution pipeline

30 strategy consulting projects on top-line growth issues in 2019.

"In 2019 we have conducted over **2,000** executive level interviews related to **35** M&A mandates and **30** strategy consulting projects"

Top 5

independent advisory firm in China.

Big Picture for 2020

Politics are key in China – stability and clarity for the next 10 years



Xi Jinping's leadership consolidated

POLITICAL FOCUS: STABILITY

In the first place social stability

Control, and incentives (e.g. accessible health care)

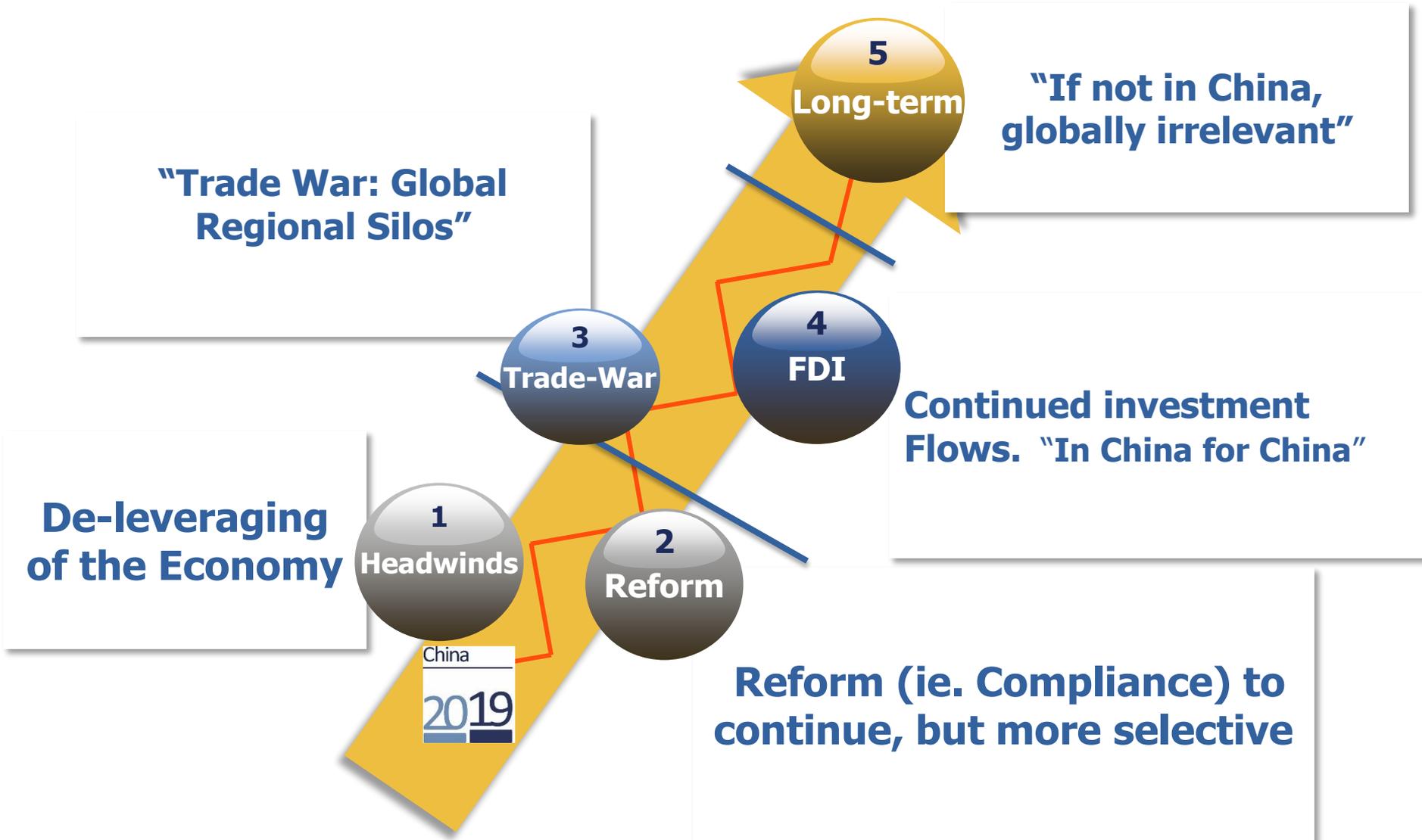
Change of Economic Model: GDP no longer the only parameter; financial stability, environment and innovation.

Global Projection: Focus ASEAN, OBOR

Slow and Steady Reform

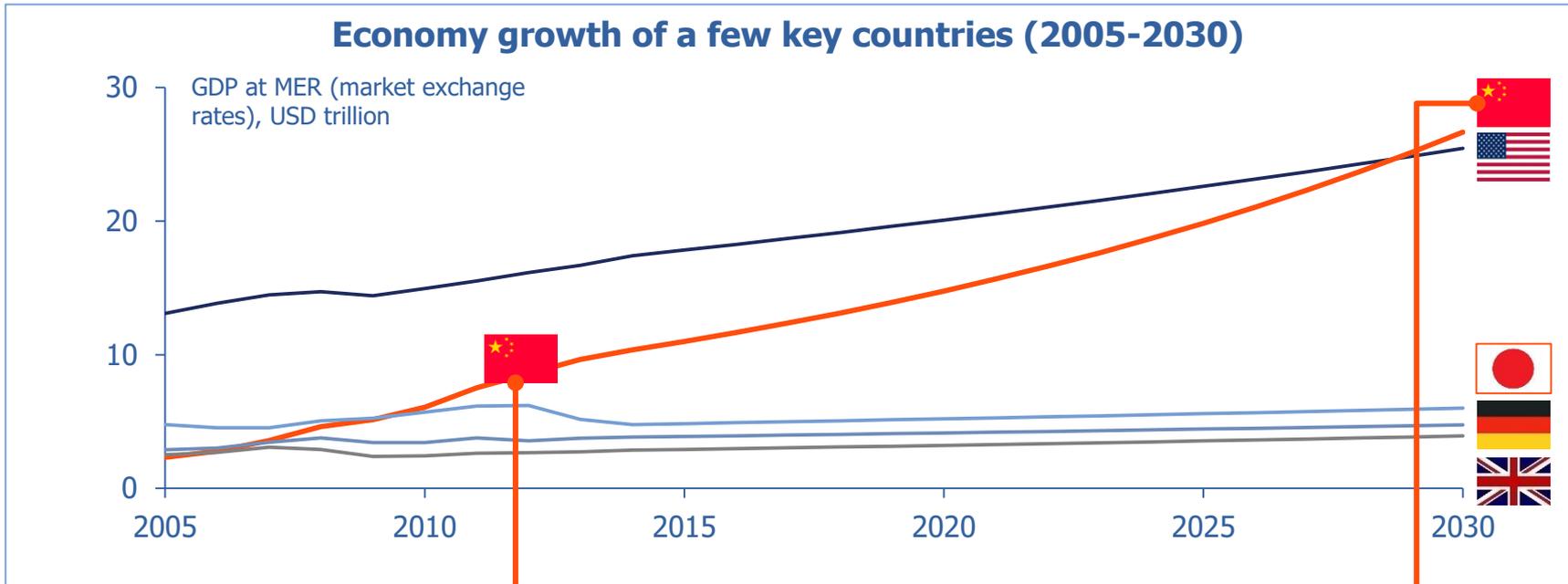


Economics: 2020 looks good, but uncertainty increasing in the short term. Confidence in the medium to long-term prospects



Long Term: China will become the world's largest economy around 2030...

Economy growth of a few key countries (2005-2030)



China's Old Model (1990s – 2012)

Exports	Over-capacity
Fixed-Asset Investment	Low-End Manufacturing

China's New Model (2012s Onwards)

Domestic Consumption	Service Sector Development	Industrial Upgrading
Green Development	Financial Reform	Fair Competition

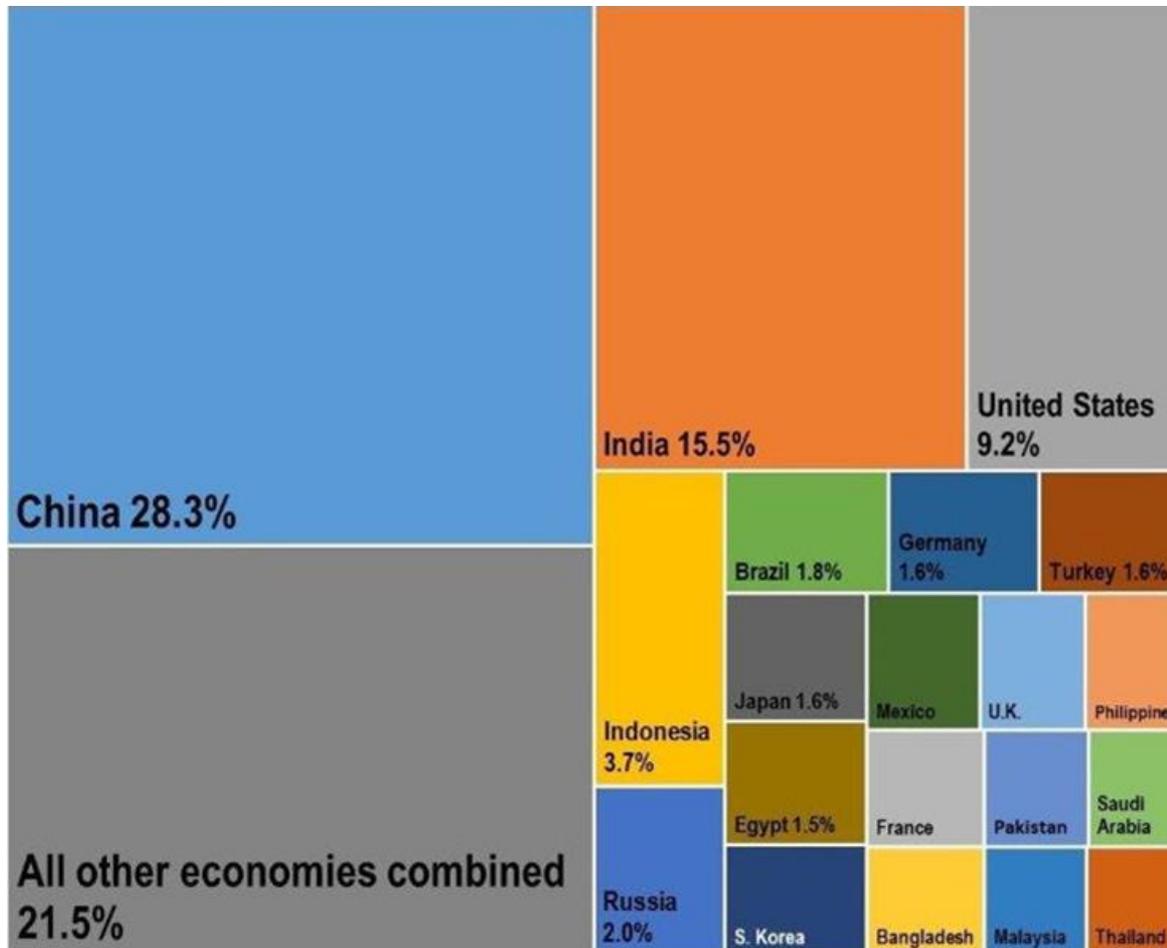
2030 Indicator

- **3% – 5%** GDP growth.
- **70%** Urbanization Rate.
- **RMB 115,000** Nominal GDP per capita.

Notes: GDP at MER (market exchange rates): GDP converted from national currency to USD based on market exchange rate..



.... And the main contributor to global growth – example 2024
China contributes nearly 30% of the 2024 world GDP growth



Source: Bloomberg analysis of IMF data

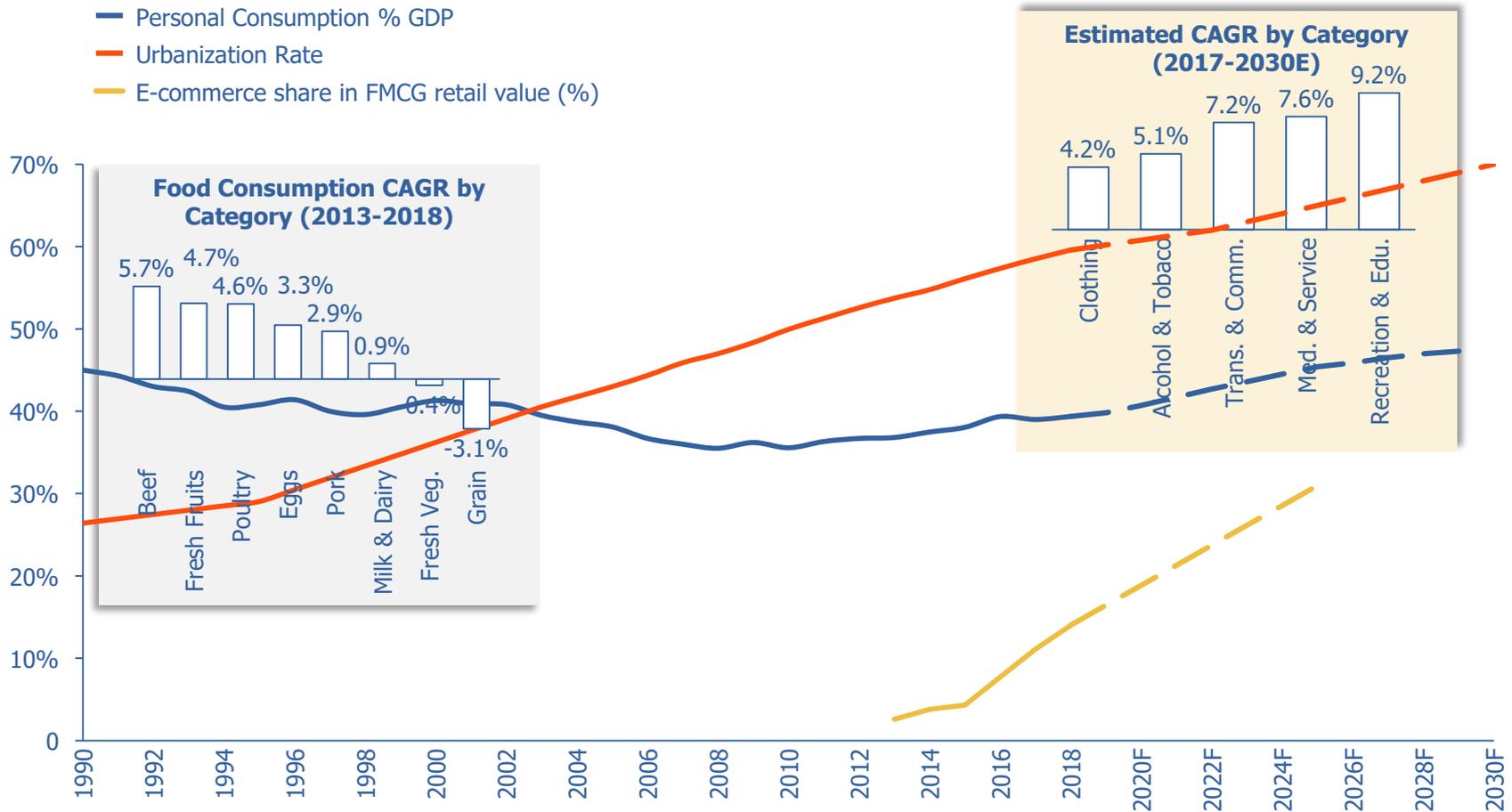
Note: Economy's 2023-2024 growth of GDP as a share of world GDP growth.

Growth contribution shown for No. 1-10 contributors. Purchasing power parity-based.

Consumption main driver of growth, supported by urbanization

Shift to higher value goods, broader range of services, with higher e-commerce penetration

China Personal Consumption % GDP vs. Urbanization Rate vs. e-commerce penetration (main charts)
With Shift From Basic Consumption to Service/Alternative Goods Consumption (two mini charts)



In spite of increased protection in certain sectors, in many sectors we see a 'more level playing field'

Market Forces

- **Natural Trend to Upgrading: Higher Demand for Quality**
- **Service driven approach is becoming relevant**
- **Price Trend upwards: Excess capacity reduction**

Still protectionism... more focused

- **Key State Owned Segments** (Energy, Infrastructures, Basic Financing, Education)
- **China 2025 will continue** in different shapes
- Cybersecurity and **Data**
- **Social Control**



Government Reform Open Up

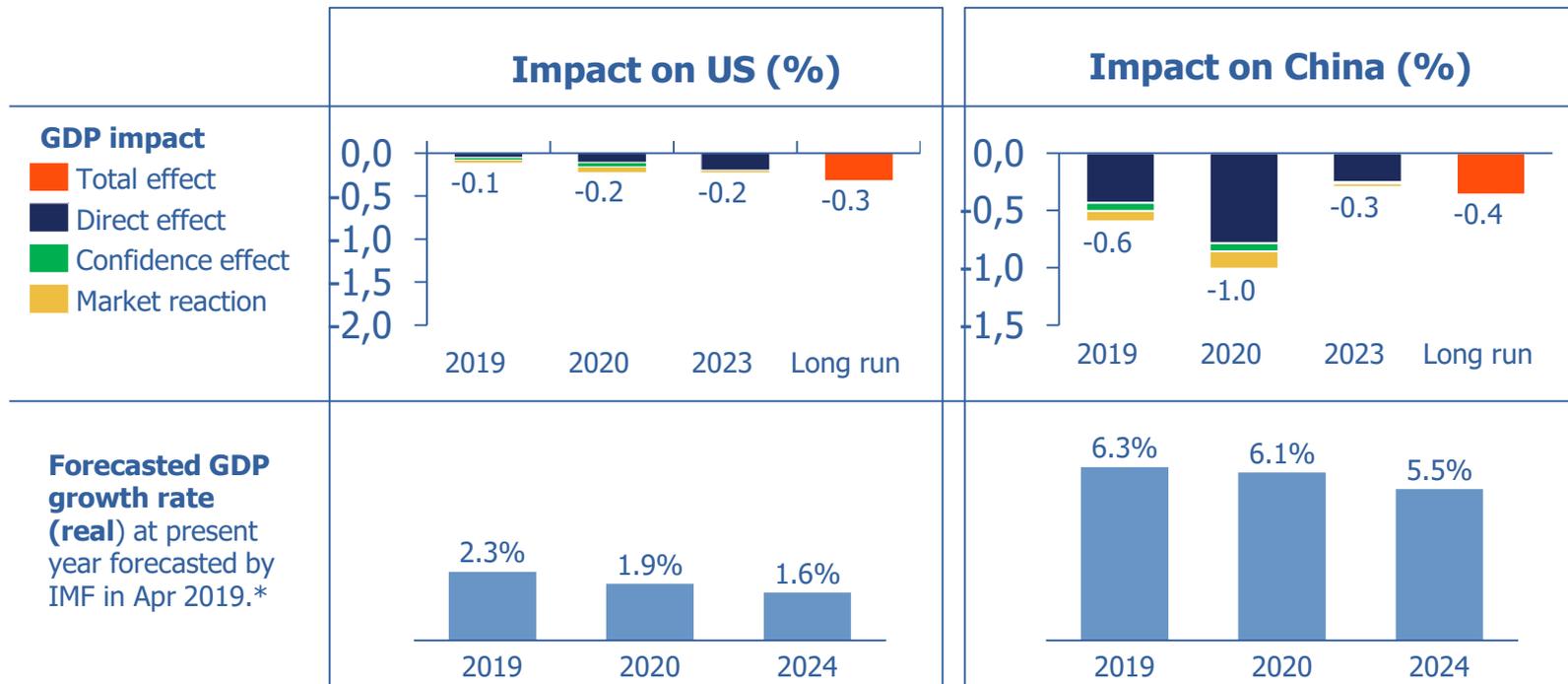
- **Lifting of JV restrictions** (auto, finance, railway, healthcare).
- **Compliance** will be positive to MNC (ie. Corporate Social Credit System)
- **IPR Protection is working better**
- Foreigners are accessing **R&D Subsidies**.

"70% of China is being further liberalized, while the remaining 30% will be more protected... in the long run China will further liberalize as it consolidates its role of a global leader"

- APAC President, Chemical.

US-China Trade War: China's growth will sustain even in tough scenarios

Real GDP impact of new U.S./China tariff announced and envisaged in May 2019 (deviations from baseline; % difference)



* Excluding the marginal impacts (deviations from baseline) shown in the charts



Actual impact of the current trade conflict seems limited... could change as the conflict escalates

Most industrial conglomerates move a small portion of business out of China

Many cases with partial operation out of China...



"Move all production of US. bound refrigerators from China"



"Move some production to other countries"



"Moving Kindle e-reader and digital assistant Echo out of China"



"Expanding production elsewhere in Asia"

...with limited cases of significant action



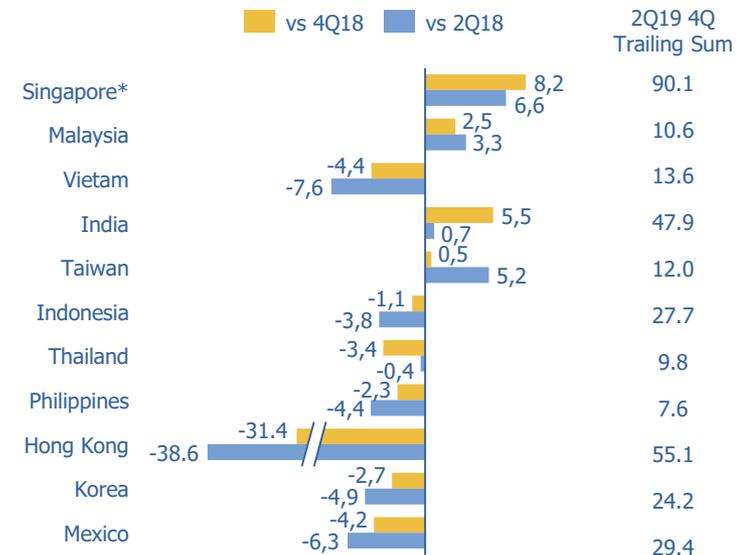
(Samsung Electronics only)
"Closing last factory in China"
(But Samsung announced to have 60mil mobiles via ODM from China late Oct.).



"Move up to 30% of notebook production out of China"

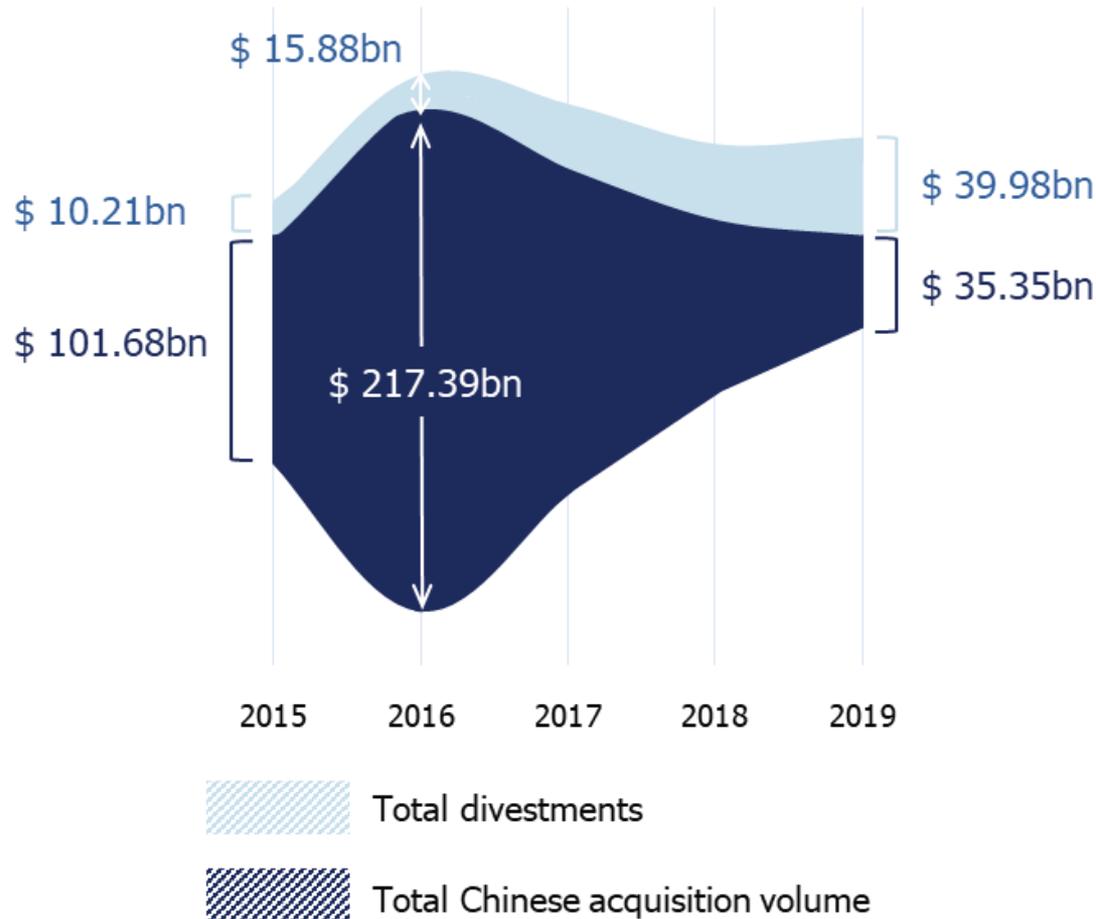
Most of ASEAN and Mexico don't have faster FDI inflow yet after US-China trade-war

How much gross FDI inflows in 2019/2Q have accelerated or slowed down before/after US-China Trade-war (CAGR is based on 4Q trailing sum in USD bn)



*2019/1Q 4Q trailing sum only

Chinese Outbound Investment: Big Shift and Change of Approach. Less, but better quality. Divestments.

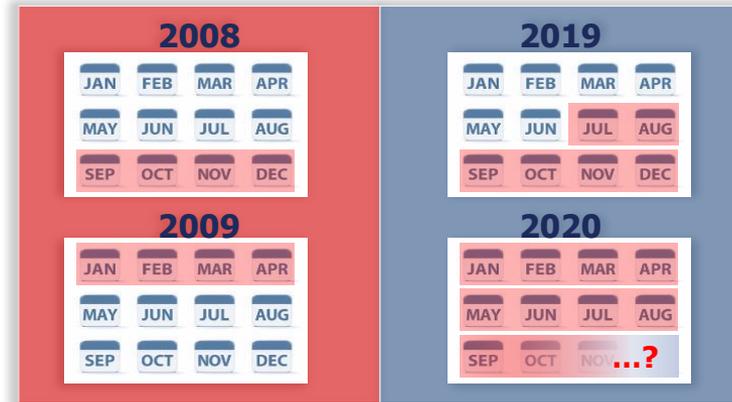


2020: Not a crisis, but a slower growth with experienced stakeholders (government, corporates etc.) with the will to overcome the challenge

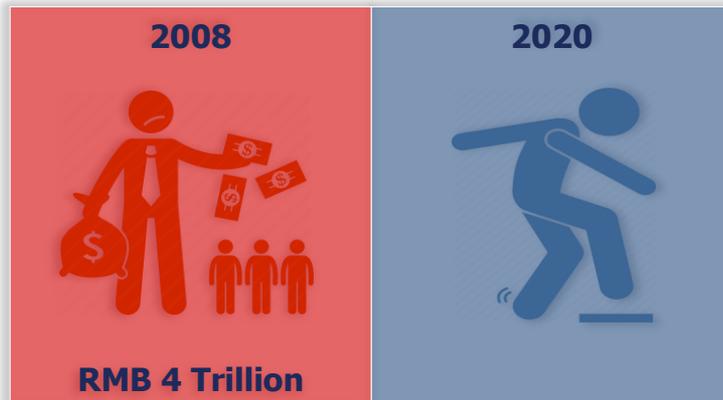
GDP Growth: No shocking "collapse" now



Economic Downturn Cycle: Will be longer than 2008 with only <1 year



Policy: Careful policy fine-tuning now vs 4 Trillion of monetary flooding



Investment Environment For MNC: Much more improved in China now



Note: *World Bank Ranking Of "Ease Of Doing Business"



Summary 2020: Base case is continuation of positive trends. A more negative scenario is possible in the medium-term if reforms stall

Economic Performance

GDP
Growth
5.5-6%

Inflation
2.5– 4%

RMB Aprec.
5-9%

Labor
Cost
4– 6%

Rebuilding of Momentum

- Limited **stimulus** (investment, liquidity, subsidies, PPP).
- Increasing competitiveness.
- Slow but steady financial reform.
- Continued **consolidation**
- **Evolving consumption** patterns



Sector Highlights for 2020

	Healthcare / Medtech	Food & Beverages	Industrial Equipment	Chemicals / Materials
Overall	Growth	Growth	A mixed bag	Strained
Drivers	Faster approvals & reimbursement Central procurement	E-commerce / single-serve units, social media promotion	↓ Cars, 3C ↑ Food, Pka, Textile, Railway, Constr.	Open up of restricted sectors: E.g. hydro-cracking, VCM PVC) Go green, less >capac.
What's hot	Genetic / Endocrinology, oncology, bacterial/viral infectious, CV. Wearable devices, 3-D, implants, (bio-material) dental, advanced genetic based diagnostic kits for specific diseases; big data	Alternative proteins Service disruptors (indep. kitchens, online delivery) Joint NDP, incubators Big data	Application diversification Services, after-sales Component makers 3D Print AD, EVs, H2	Quality trade-up IIoT New distribution models
Structure	Consolidation of local companies	Processing, supply chains, divestitures	Need to further localize; CN co's buy foreign co's	M&A / consolidation

Business & Corporate Strategies.

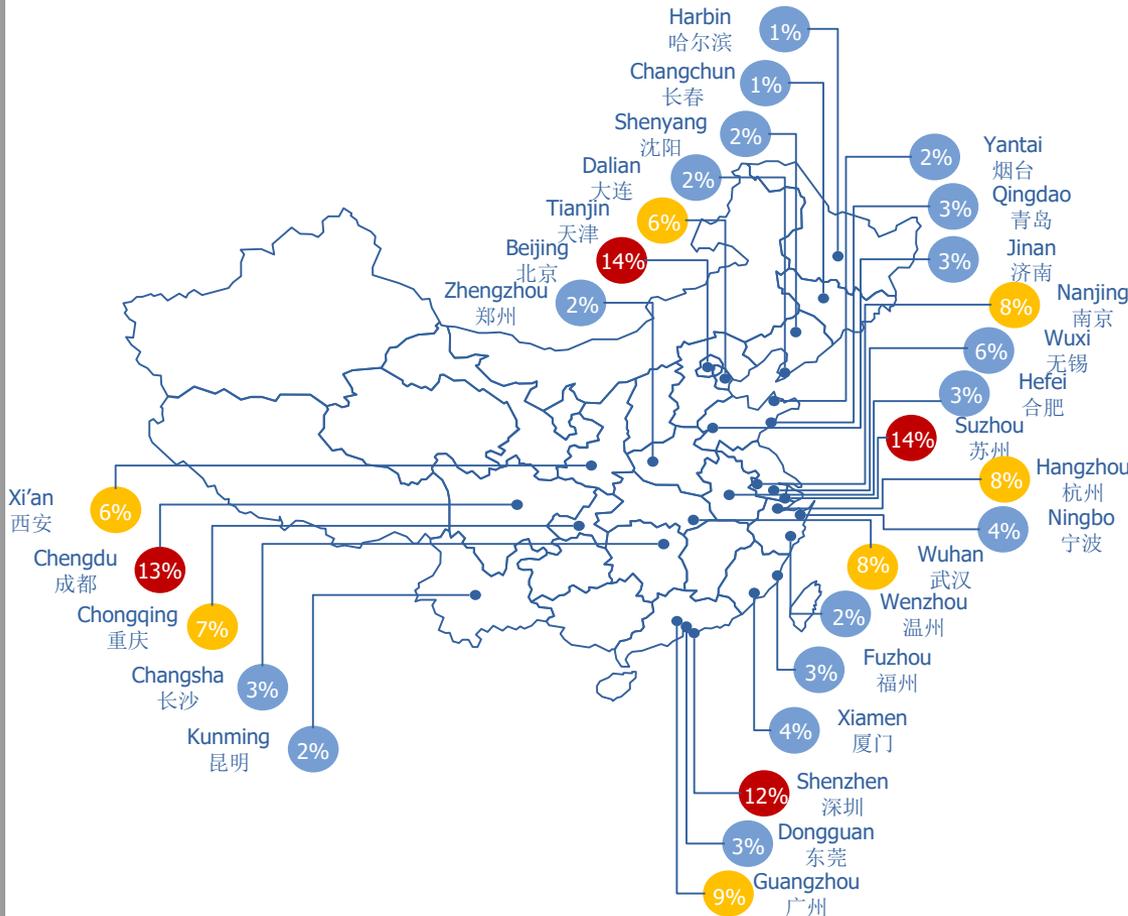
Double Down
(The Search for Relevance)

....

Or Restructure

1. Multi China Approach- Geographical Penetration: Diversified regions for expansion, Proximity to markets and ad hoc "County Level" strategies

Amcham Shanghai Survey: Which cities does your company plan on investing in or expanding to outside Shanghai?



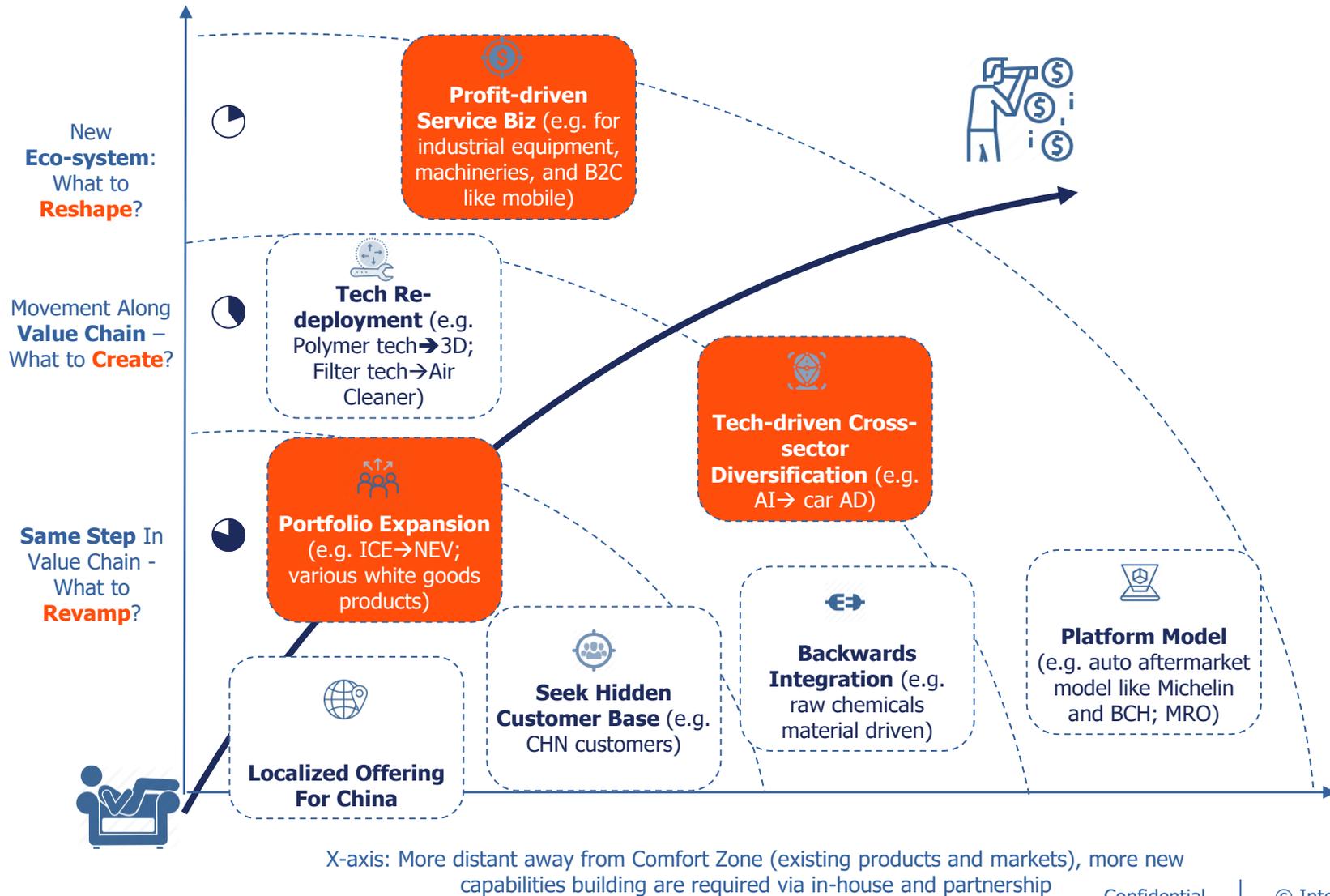
Demand tops decision-making now,

Amcham Shanghai Survey: Top 3 factors that positively influence the company's investment and expansion outside Shanghai



2. Portfolio Revamp & Diversification (“Reinventing Business Model”)

China is amplifying this change, due to its Size, Speed, Technology and Competitive Landscape.





3. Traditional Industries into Digital/ E-Commerce/IoT:

IoT likely to reach 2% of GDP in the medium term, re-shaping many established sectors

China as global basis
for new Customer
Engagement Models

A shift in ICxC R&D
activity towards
disruptive technologies

Start Up Network and
Integration Initiatives

Industrial IoT (IIoT)



Smart Manufacturing
(no-man factory)



Predictive Maintenance



Smart Supply Chain

Consumption- related



Connected Healthcare



Smart Home



Smart Retail



Smart Agriculture

Smart City



Smart Building



Smart Utility

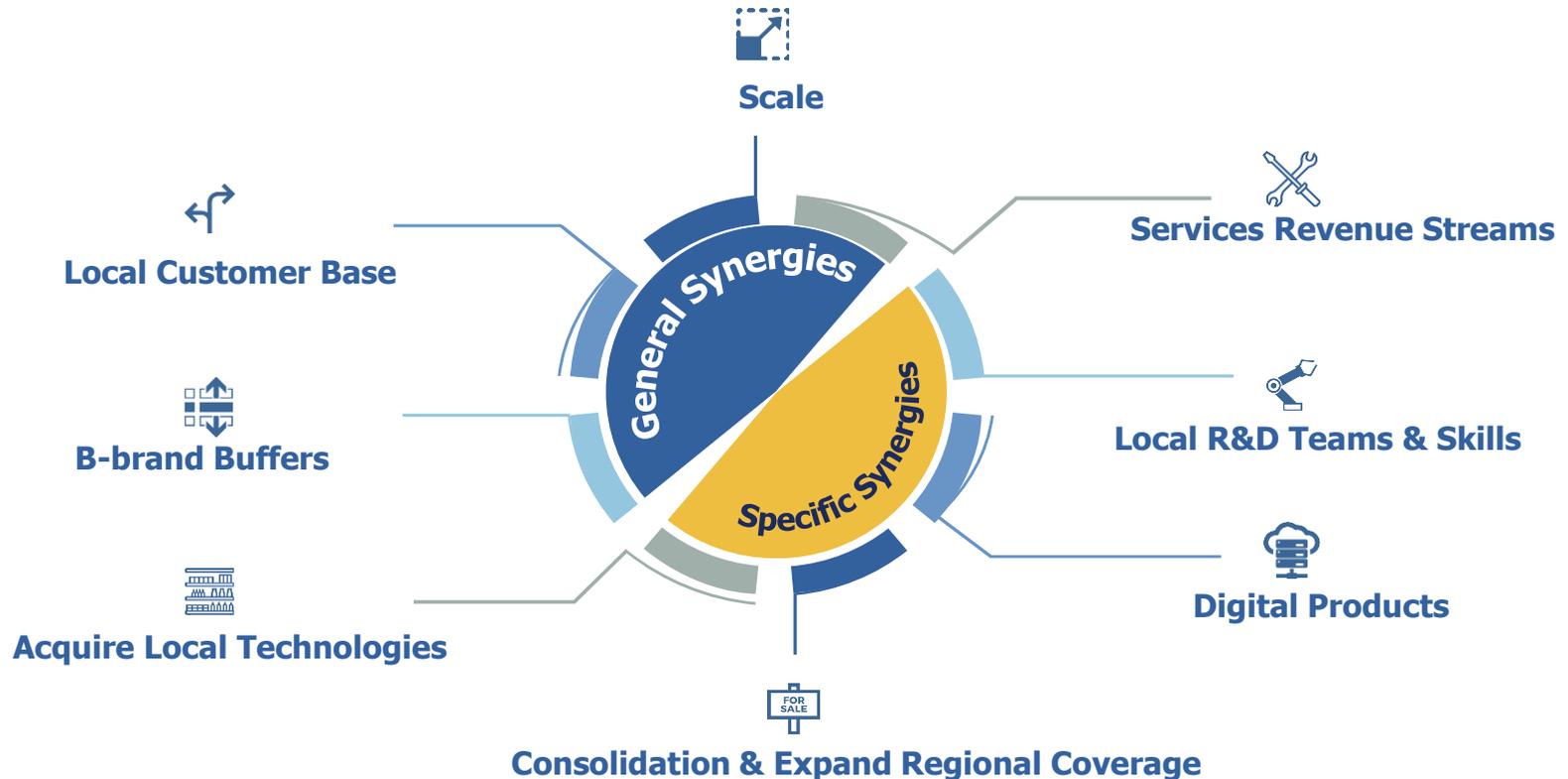


Connected Vehicle



Smart Security

4. Consolidation Times: A majority of companies aggressive M&A plans for 2020. Scale, Local Technologies and Regional Expansion are main drivers



Source: InterChina Survey of 100 China/APAC CEOs.

5. Re-Emergence of JVs:

New JV partner profile offers long-term synergies, and less IP risk

Traditional JV Profile

- Privately-owned.
- Self-made, first generation entrepreneur.
- Very early stage of co' development.
- Nothing to lose, everything to gain.

The New JV Profile

- Listed or to be listed, SOE
- Cash rich, critical mass, national sales cov.
- Localized products and brands. .
- Still led by traditional leaders, but run by a second tier of professionalized managers.

What synergies are new partners looking for?

- Protect its stock price: Quality technologies and product mix to increase sales channel value.
 - CAPEX/process to face growing China cost and green compliance.
 - Investment for growth need; globalization.

Source: InterChina Interviews & Analysis

6. Divestitures: to cut losses, optimize management time or finance growth

Divestitures

2000
to 2013

1,225

Since
2013

> 3,000

Consumer



Healthcare, Chemicals, Tech



Industrial/Auto



Source: InterChina Interviews & Analysis

Changes require bold leadership

New Normal: slower growth, China-US rivalry, shift to consumption, upgrading, services

At a corporate level, uncertain times:

2020-2022 period will call for leadership and vision as difficult choices will have to be made in China

“I see a fundamental shift in all key dynamics-competitive landscape, consumption patterns, disruptive technologies... The China we know today will not be anything close to the one coming in 2025, and I am doing my best to transfer this reality to my HQ, so we can be part of this process” (APAC President, EU Industrial Group)

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