

## Chinese Companies' Acquisitions Trends: Some Evidences

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Global mergers and acquisitions reached about \$5 trillion in 2015. The Asia Pacific region played a key role. It doubled acquisitions between 2013 (\$748 billion) and 2015 (\$1.5 trillion). Especially, Chinese buyers increased three times purchases of foreign firms over the 2013-2015 period (JP Morgan, 2017). There were many factors underlying Chinese enterprises' overseas acquisitions until 2017. First, the Chinese government encouraged and supported companies' overseas investments. Second, China changed its economic focus from export manufacturing to technology and consumption. Third, there were good financing options for Chinese companies to acquire foreign firms. The main body of China's overseas acquisitions has transitioned from state-owned to private enterprises. In addition, industry distribution of overseas acquisitions has changed. The proportion of energy and resources industries has begun to decline, while the proportion of science and technology services, consumer goods industry accelerated. This research paper analyzes five Chinese companies' overseas acquisitions in 2009-2017: Haier, Wanda, Tencent, Midea, and Bright Food.

Keywords: Mergers and acquisitions, Chinese companies, Evidences

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## INTRODUCTION

Global mergers and acquisitions reached about \$5 trillion in 2015. The Asia Pacific region played a key role. It doubled acquisitions between 2013 (\$748 billion) and 2015 (\$1.5 trillion). Especially, Chinese buyers increased three times purchases of foreign firms over the 2013 – 2015 period (JP Morgan, 2017). Foreign Direct Investment (FDI) from China went up at a rapid pace while the US outward FDI declined since 2011, see Figure 1 (Appendix). By 2016, China was among leading countries by outward FDI, see Figure 2 (Appendix)<sup>1</sup>. There are many factors underlying Chinese enterprises' overseas acquisitions until 2017. First, the Chinese government encouraged and supported companies' overseas investments. In early 2000s, Chinese global market share was small. The firms were not competitive due to lower technological level and lack of global brands. The internationalization of business was in the primary and intermediate stages. In 2011, Chinese government first stated the idea "Made in China 2025" which mentioned this problem and made a point to face it. A more detailed plan of actions was unveiled in 2015. The goal of the "Made in China 2025" initiative is to better the Chinese industries and to have a share in advanced stages of worldwide production processes (Kennedy, 2015). Second, China changed its economic focus from export manufacturing to technology and consumption. Chinese enterprises acquired companies in developed countries to boost technological skills and to obtain high-value brands and customers. Third, there were good financing options for Chinese companies to acquire foreign firms. The People's Bank of China has employed monetary easing measures to deal with China's slower economic growth. This offered more ways for Chinese companies to borrow money and invest overseas.

There were new trends for China's overseas acquisitions. The main body of China's overseas acquisitions has been changed from state-owned to private enterprises. In addition, industry distribution of overseas acquisition has changed. The proportion of energy and resources industry has begun to decline, while the proportion of science and technology services, consumer goods industry accelerated. This research paper analyzes four private and one state-owned companies' overseas acquisitions in 2009-2017: Haier, Wanda, Tencent, Midea, and Bright Food.

## HAIER

The development of the domestic household electrical appliance production, increasing competition, and rising domestic labor costs force some Chinese appliance companies to expand internationally.

One of examples of such global growth is Haier. It was founded in 1984. Currently, it is one of the biggest household electrical appliance companies in China. Haier had 22.3% of total retail volume in 2010. In 2015, Haier had a huge home appliance market share in the world of about 9.8% (Haier News & Press, 2016). The US consumers know its compact refrigerators and window air-conditioning units. The Haier's goal is to turn into the preferred brand of global consumers. To achieve the goal, Haier uses research, adapts manufacturing, and modifies marketing in foreign markets. Its

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<sup>1</sup> The outward FDI data were downloaded from the World Bank's database "World Development Indicators".

products are sold in more than 100 countries and regions (Haier, 2017).

In 2009, Haier bought 20% stake in Fisher & Paykel, a New Zealand appliances company, to learn its marketing and research and development of appliances. F&P Appliance is famous for its multi-temperature refrigerators and double-drawer dishwashers.

In 2010, Haier was ranked the first in global production of refrigerators with 13% share, second in manufacturing washing machines accounting for 9% of worldwide market (Agence France-Presse, 2011). To become competitive in household electrical industry, on October 18, 2011, Haier purchased three Sanyo's units: washing machine, refrigerator and 'White goods' business, worth \$1.3 billion (GMA News, 2011). This is the first case of a Chinese company to buy the big production lines from a famous Japanese producer. The acquisition gave great opportunities for Haier to boost its sales in Japan and Southeast Asia by offering appliances and televisions under the Sanyo name.

In November 2012, Haier purchased additional shares of Fisher & Paykel and achieved 90% ownership (Howard, 2012). With the Fisher & Paykel acquisition, Haier gained new technology of dishwashers and expanded its market in New Zealand, Australia, and US.

In January 2016, Haier purchased General Electric's appliances business for \$5.4 billion (Dealogic, 2016). This purchase helped Haier expand its market share in the US.

From 2009 to 2017, Haier has been extending globally and gained access to advanced appliance technologies through acquisitions of overseas companies. In three main acquisitions, Haier expanded its market to Japan, Southeast Asia, New Zealand, and the US. In addition, Haier's mastering of advanced technologies in home appliances improved its competitive position worldwide.

## **WANDA GROUP CO**

Wanda Group Co was founded in 1988. By 2017, Wanda became the world level private property developer and owner and the biggest cinema chain operator worldwide. The Group extends over many businesses: commercial properties, culture, internet, and finance. In 2015, it was included in the Fortune Global 500 list (Wanda, 2017).

In May 2012, Wanda bought the AMC movie chain, worth \$2.6 billion. AMC is one of the largest movie theater chains in the US and Canada, has 346 theaters totaling above 5000 screens (Deadline Team, 2012). Wanda invested additional \$500 million in AMC to make cultural fusion, to modernize its technologies, and to pay off a portion of debt (Kung and Back, 2012). This was a good chance for China to accelerate development of its own film and animation industries. This acquisition gave Wanda intellectual property rights and experiences of making movies. It entered the North American movie market, became the major operator of IMAX screens worldwide, and broadened ways to spread the Chinese culture to the world.

In 2015, Wanda acquired Infront Sports & Media AG, a Swiss company, for \$1.2 billion (Burkitt, 2015). Infront has over 25 offices in 13 countries and controls rights on international sports events broadcasting and marketing, especially in winter sports, football, summer sports and active lifestyle. This acquisition helped boost sports in China.

Wanda acquired large entertainment companies: Legendary Entertainment in May

2016, which cost \$3.5 billion (Fritz and Burkitt, 2016). Legendary Entertainment is a US media company. It collaborates with Warner Bros. and Universal Studios in production and financing of films. In this deal, Wanda not only bought the firm, but also intellectual property about theme parks, such as “Godzilla”. Legendary creates the Godzilla sequels, movie adaptations of the Warcraft game and co-produced “The Great Wall” film. Purchasing intellectual property rights helped Wanda to strengthen its role in the international movie industry.

With the economic development, Chinese amusement consumption is increasing. It is a big change of consumption concept in China. China begins to focus on their own culture and technology to integrate into the world. With these three main acquisitions, Wanda entered the international market gradually. It increased access to theater chains in the world, expanded sports field and joined film-making that promotes Chinese culture, technology and integrates into the world amusement market.

## **TENCENT**

Tencent was founded in 1998. Currently, it is among the biggest Internet and gaming companies in China. It offers many services: media, entertainment, payment systems, internet and online advertising services. In late 2000s-early 2010s, Tencent paid more attention to investments and acquisitions of game companies. From 2006 to 2016, Tencent purchased 25 game companies for RMB17.8 billion (\$2.6 billion). Among these acquired companies, 16 are PC game companies, 16 are mobile game companies, one is host game company, and one is web game company (Youxiputao, 2016). Two especially notable acquisitions are Rito Games and Clash of Clans.

In 2011, Tencent bought Rito Games (League of League) for \$400 million (Murphy, 2011). Rito Game company was founded in 2006, and focuses on developing competitive PvP online games. The famous game of the company is League of League.

Tencent acquired Clash of Clans in 2016 (Yan, 2016). It paid \$8.6 billion. Clash of Clans is a popular game in Supercell. Supercell was founded in 2010 in Finland, and it is a mobile game development company. Clash of Clans can be downloaded for free, and users can gain an edge by buying perks or special items.

These two main acquisitions helped Tencent compete with Alibaba and Baidu in gaming and content by moving PC game to popular mobile games. Tencent expanded the European and American market shares through acquisition of League of League and Clash of Clans. In addition, Tencent develops online games and attracts more game players through QQ and WeChat which are two main media services of Tencent. This strategy was successful: Tencent had \$21.9 billion annual revenue in 2016, a growth of 48 percent comparing to 2015. Especially, PvP and RPG genre mobile games played an important role in the growth. Online games revenue grew by 16 percent (Brautigam, 2017).

## **MIDEA**

Midea is another appliance manufacturer in China. The main business of Midea is production of residential appliances and large-scale air conditioners. In order to enter global market, Midea acquired foreign companies. For example, in 2016 Midea

completed three overseas acquisitions.

On June 21, 2016, Midea acquired 80 percent stake in Italy's Clivet (Qiu, 2016). Clivet was founded in 1989. It is popular in Europe for cooling, heating, air ventilation and purification systems. This was a win-win cooperation. Midea gained new technology and reinforced its presence in the European markets through the acquisition. Clivet increased production capacity and profits.

Midea acquired Toshiba Lifestyle Products & Services Corporation (TLSC) on June 30, 2016 for \$473 million (ChinaDaily, 2016). Toshiba is a Japanese multinational conglomerate. Through the acquisition, Midea obtained the rights to manufacture under the Toshiba brand name for 40 years and 5,000 home appliance's patents and licenses to use. This significantly improved the competitive position of Midea in Asia and globally.

On July 4, 2016, Midea acquired the German industrial robot maker Kuka for \$13.4 billion (Wu et al, 2016). Kuka is a big competitor in industrial automation. Robot is a new market in China, and more Chinese companies start studying it. Upon completion of the acquisition, Midea got advanced technology from Kuka, expanded field of robot and enhanced popularity in China's market.

To expand into international market share, Midea acquired Italy's Clivet, Toshiba Lifestyle Products & Services Corporation, and German industrial robot maker Kuka. Midea learned their successful experience, advanced technologies, and expanded international market shares.

## **BRIGHT FOOD**

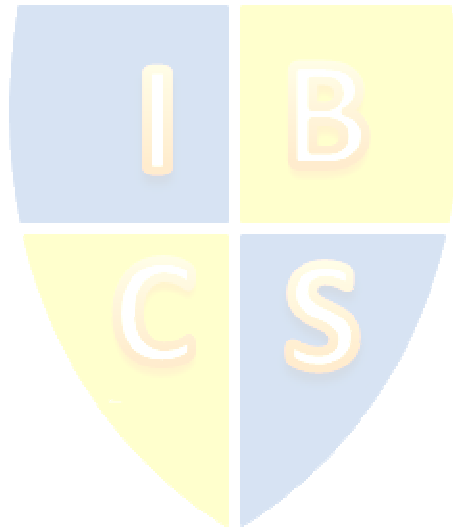
The Bright Food company's history originates in 1954. Right now the firm is owned by the Chinese government. It produces food items and beverages, offers pure and more nutritious dairy. The goal of Bright Food company is to offer nutritive and fresh dairy what demands higher price than other dairy companies. Since most of the Chinese customers have a cheaper consumption view, Bright Food company's growth is limited in China. To improve the competition, Bright Food company started acquiring foreign companies (Wiki, 2017a).

In 2010, Bright Food completed the first acquisition in dairy industry - Synlait Milk from New Zealand for \$530 million. It was a successful acquisition for Bright Food as it gained high quality raw milk, enhanced credibility, entered foreign markets, and obtained greater profits. Bright Food got ¥90 million (\$13.3 million) profits from October to December in 2010, which increased 25% compared to the July - September period (Xie and Chang, 2014).

In May 2014, Bright Food purchased Israeli Dairy producer Tnuva for \$2.5 billion. This was the biggest foreign acquisition in the Chinese dairy industry. Tnuva's sales account for 70% of the country's dairy market as well as sales of meat, eggs and packaged food (Wiki, 2017b). This acquisition helped Bright Dairy expand abroad, and brought Tnuva's high-end dairy products and production technology into the Chinese market.

## CONCLUSIONS

As China's economy grew fast, competition increased. Lacking advanced technologies, Chinese companies were accounting for smaller global market shares. Through acquiring abroad, Chinese companies not only improved international competitiveness, but also learned advanced technologies and management experience. Examples of Haier, Wanda, Tencent, Midea, and Bright Food demonstrate how companies expand with overseas' acquisitions, get access to advanced technologies, and enter global markets.



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APPENDIX

Figure 1. Outward FDI. China, Netherlands, United States

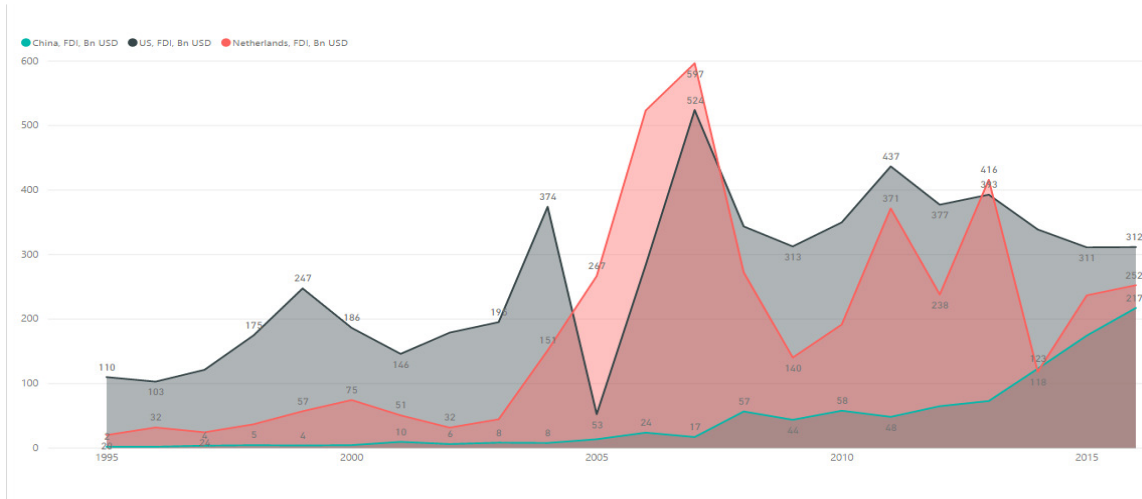


Figure 2. Countries with Highest Outward FDI, 2016

