CHINESE INVESTORS ARE STEALING DACH’S AUTOMOTIVE CROWN JEWELS. OR ARE THEY?
Two political and economic initiatives announced in the aftermath of the financial crisis exemplify China’s objective to move up the value chain from the world’s factory to its leading (automotive) high-technology development center: “Belt and Road” and especially “Made in China 2025”.

From four transactions in 2011, totaling approximately EUR 1bn in revenues and 10,000 employees, the “golden years” of 2016 and 2017 stand out with 19 and 17 deals respectively, revenues of EUR 5.5bn and more than 25,000 employees involved each year.

Though CASE (Connected, Autonomous, Shared, Electrified)-related automotive acquisitions by Chinese investors are gaining traction, such “high technology” takeovers do not account for the majority of investments into DACH (Germany, Austria, Switzerland) auto companies.

To deliver on MIC 2025’s initiatives, Chinese strategists see little benefit in short-term financial gains but are rather on the lookout for access to the European market. The latter functions as a counterweight to the volatile domestic automotive sector and as the breeding ground of the quality and technological capabilities honed by DACH’s “hidden champions”.

While the lack of reciprocity between Chinese and DACH investment opportunities is a recurring theme in many public discussions, the auto-industry playing field is more balanced when viewing both the magnitude of Chinese investments into DACH targets, and the size of DACH companies under Chinese control, on a relative scale.
“Hide our capabilities and bide our time, never try to take the lead” was a dictum of Deng Xiaoping, de facto leader of the People’s Republic of China until the late 1990s. Fast forward 20 years and the activities of the Middle Kingdom both at home and abroad paint a somewhat different picture of Chinese ambitions. In particular, the increase in China’s financial “extroversion” has caught the attention of politicians, businessmen and the public alike. In Germany, the takeover of robotic specialist KUKA, as well as the failed coups to buy chip equipment maker Aixtron and 50Hertz, one of Germany’s primary high-voltage electricity network operators, has sparked a fierce debate about the fruitfulness of Chinese foreign investments for everyone to the west of Xinjiang.

The hiding is over. While some welcome Chinese investments as a much-needed source of capital to stem the costs of the fourth industrial revolution, others fear the buyout of high-tech and the rising influence of a foreign superpower. As the most important German industry, the automotive sector has not remained untouched by Chinese monetary interest. Daimler, Grammer and in-tech are but a few examples of DACH (Germany, Austria, Switzerland) companies having welcomed Chinese investors into their homes.

Are Chinese investors here to stay or will they swiftly leave with DACH’s crown jewels? What motivates the Chinese to move into the DACH region rather than invest on their home turf? How do Chinese investments compare to the magnitude of DACH manufacturers’ exploits in the Far East? Looking beyond the polemic headlines, this Berylls paper aims to separate the myths from the facts based on an analysis of 82 investments by Chinese buyers into DACH companies over the last 14 years (to some of which Berylls directly contributed). #monochrome off – this story won’t be black and white.
Reversing Xiaoping’s dictum to go from “hider” to “seeker” didn’t happen overnight. Rather, it took a string of well-sequenced initiatives: first, nurturing domestic players to seek global competitiveness in a coordinated market economy; and secondly, cementing global leadership through foreign market entries and investments.

**Hiding.** Xiaoping’s reforms in the late 1970s and early 1980s were instrumental in transforming China from an agrarian society to an industrial bulwark. Allowing farmers to sell their produce in local markets, companies to retain their profits, and foreign capital to enter China encouraged the country’s urbanization, along with tremendous increases in productivity and GDP. The upswing in the automotive industry – from an annual production volume of below 1m cars in the late ’80s to above 18m by 2010 – exemplifies the stark growth of many Chinese industries. The auto hype was not only spurred by the rising purchasing power of Chinese customers but also by the easing of regulations to allow international manufacturers to enter into joint ventures with China’s biggest OEMs – FAW, SAIC and Dongfeng Motors. Such joint ventures were not a one-way street: As American, German, Japanese and Korean manufacturers, in particular, came to dominate Chinese highways, FAW, SAIC and Dongfeng produced cars for the West in China. On the one hand, this resulted in a transfer of knowledge, technology and production capabilities from Western manufacturers to their Chinese partners and, on the other hand, filled the Chinese auto-industry coffers for what was still to come.
Starting with the announcement of its “Go-Out Policy” in 2000, the shift in Chinese economic strategy from investment- to innovation-focused became increasingly apparent. Two initiatives announced in the aftermath of the financial crisis epitomize China’s objective to move up the value chain from the world’s factory to its leading high-technology development center: While the Belt and Road Initiative aims to ensure the required infrastructure, raw material supplies and trading routes – both on land (“belt”) and sea (“road”) – for China’s expansion along its ancient silk route towards Europe and Africa, “Made in China (MIC) 2025” outlines China’s geopolitical and economic strategy to emerge as the victor of the fourth industrial revolution. The pillars of “MIC 2025” are structured along nine initiatives to be implemented in 10 key industries in which China is to dominate by 2025. Initiatives can be broadly clustered into a) internationalization – to reap higher returns abroad and to hedge the adverse domestic effects of an ageing population, rising labor costs and cooling economic growth, b) improvement of product and production quality & capabilities (“go premium”), and c) the bolstering of innovation capabilities. To deliver on the government’s ambitious targets and tight time schedule, Chinese companies had to gear up in terms of foreign market access as well as capabilities. Both firms and governments understood this task was not going to be an organic quest; a significant uptick in Chinese FDI (foreign direct investment) after the financial crisis and particularly shortly before the announcement of MIC 2025 has been the logical consequence. In Germany alone, Chinese FDI displayed a near 10-fold increase from 2007 to 2017 (see Figure 1) and overtook German investments in China by 2016. Yet Chinese investments swiftly sparked uproar regarding an alleged “buyout” of German core technologies and prompted calls for greater regulation. Looking at the pinnacle of German industry, the automobile, we need to ask: Is the “core technology buyout” tag warranted or could Chinese investments constitute a viable and much-needed source of capital to stem the costs of the fourth industrial revolution?

Two political and economic initiatives announced in the aftermath of the financial crisis exemplify China’s objective to move up the value chain from the world’s factory to its leading (automotive) high-technology development center: “Belt and Road” and especially “Made in China 2025”.

### FIGURE 1 – FDI STREAMS BETWEEN GERMANY AND CHINA (2004 – 2017), IN BN US DOLLARS
(Source: Bertelsmann Foundation, p.9)
In line with the patterns of Chinese FDIs into the DACH region, the flow of money between Chinese investors and DACH auto companies was negligible prior to the turn of the decade and picked up thereafter. The number of Chinese acquisitions of DACH auto companies, as well as the number of employees and revenues involved, saw a significant uptick from 2010 onwards and particularly since the announcement of MIC 2025 in 2015. From four transactions in 2011, totaling approximately EUR 1bn in revenues and 10,000 employees, the “golden years” of 2016 and 2017 stand out with 19 and 17 deals respectively, revenues of EUR 5.5bn and more than 25,000 employees involved each year (see Figure 2). However, despite this noteworthy aggregate development, three questions inevitably follow: What type of companies do Chinese auto-investors acquire? Who is behind the Chinese investments and what intentions do they have for their targets? How do Chinese activities in the DACH region compare to DACH endeavors in the Far East?

From four transactions in 2011, totaling approximately EUR 1bn in revenues and 10,000 employees, the “golden years” of 2016 and 2017 stand out with 19 and 17 deals respectively, revenues of EUR 5.5bn and more than 25,000 employees involved each year.

**FIGURE 2 - CHINESE INVESTMENTS IN DACH AUTO COMPANIES (2011 - Q1/2019)**
in #targets, EUR m revenues and #employees, n = 79

<table>
<thead>
<tr>
<th>Year</th>
<th>#TRANSACTIONS</th>
<th>REVENUES</th>
<th>#EMPLOYEES</th>
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</thead>
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<tr>
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<td>4</td>
<td>1,167</td>
<td>9,800</td>
</tr>
<tr>
<td>2012</td>
<td>5</td>
<td>1,303</td>
<td>5,519</td>
</tr>
<tr>
<td>2013</td>
<td>4</td>
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<tr>
<td>2016</td>
<td>19</td>
<td>5,664</td>
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<tr>
<td>2018</td>
<td>11</td>
<td>3,174</td>
<td>18,459</td>
</tr>
<tr>
<td>2019 (Q1)</td>
<td>2</td>
<td>280</td>
<td>1,800</td>
</tr>
</tbody>
</table>

**AUTO-SEGMENTATION: WHAT TYPE OF COMPANIES DO CHINESE INVESTORS Acquire?**

MIC 2025’s industrial focus vis-à-vis the automotive industry rests on energy-efficient vehicles and autonomous driving. Adding the other two CASE elements, connectivity and shared mobility, to the picture highlights that acquisitions with a clear CASE focus account for approximately one quarter of transactions from 2015-2018 as well as ca. 20% of the number of employees and revenues involved (see Figure 3).
Though there has been a clear increase in absolute terms since the 2011-2014 period, in relative terms only the CASE share of the total number of deals has witnessed a significant uptick – of 15%. Distributing Chinese investments along the automotive value chain reveals that investors are particularly interested in two elements: production technology and – even more notably – component production (see Figure 4).

Within the component production bucket of 52 deals, EUR 13.5bn revenues and 82,000 employees acquired between 2011 and 2019, manufacturers of ICE components (focusing on fuel management systems), electric / electronics (focusing on information, navigation and connectivity) and advanced materials have been of particular interest to Chinese investors (17%, 17% and 26% of total deals, respectively). Though CASE-related automotive acquisitions are gaining traction with Chinese buyers, such “high technology” takeovers do not account for the majority of investments into DACH auto companies.

In terms of the type of companies acquired, two trends can be identified: First, Chinese investors predominantly focus on financially successful companies with a strong market position (e.g. in terms of brands, quality, technologies, customer base). Secondly, buyers from the Far East tend to target bigger companies – the average DACH companies targeted by Chinese investors are around 30% bigger (in terms of annual revenues) than the overall average.
Unlike Western financial investors, some of whom have painted a rather negative picture of foreign investments in DACH companies, their Chinese counterparts are predominantly “strategists” with longer-term intentions. Suppliers and conglomerates accounted for more than three-quarters of the 79 deals executed between 2011 and 2019, while the cumulative share of private equity and venture capital houses just surpassed the 10 per cent mark (see Figure 5).

**CHINESE AUTO-INDUSTRY COFFERS: WHO INVESTS AND WITH WHAT INTENTIONS?**

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China’s recent introduction of restrictions on capital outflows, part of a move to prevent further destabilization of the Yuan and “capital flight”, may offer an explanation as to why some Chinese investments display limited financial success. Governmental restrictions on real estate investments and large foreign acquisitions, as well as Chinese investors’ ability to repatriate profits and serve foreign loans, has limited the opportunity set of Chinese “extroverts”. With automotive companies of the DACH “Mittelstand” being one of the few remaining safe havens for abundant Chinese capital, the matching of such targets with Chinese investors is in some cases less technologically- / capability-driven than suggested by MIC 2025, but rather constitutes a pairing that is primarily motivated by financial necessity.
While the lack of reciprocity between Chinese and DACH investment opportunities is a recurring theme in many public discussions, the auto-industry playing field is more balanced when viewing both the magnitude of Chinese investments in DACH targets, and the size of DACH companies under Chinese control, on a relative scale. The rising quantity and share of Chinese investments in DACH companies coupled with China’s regulatory stance on foreign investments has sparked the criticism of many European governments and businessmen. As a central piece of China’s regulatory framework, the “Negative List” defines those industries in which access for foreign investors is either “prohibited” or “restricted”. As one of the 48 on the list, the Chinese automotive sector has been subject to restrictions most prominently in terms of limits to the foreign capital share ratio (“joint venture requirement”), as well as the number of joint ventures foreign vehicle manufacturers have been able to set up. Though Chinese officials have to a certain extent eased such restrictions in recent years (e.g. lowering of car imports from 25% to 15%, and planned removal of the JV requirement for all vehicle manufacturing until 2022), China’s trade policies have fueled the argument regarding the number and size of Chinese controlling takeovers of DACH auto-firms dwarfing its DACH-Chinese counterpart. A more differentiated “look in the mirror” may reveal a somewhat more balanced playing field in the Chinese-DACH automotive arena.

Firstly, on aggregate, foreign investments – including those from China – only play a secondary role in the DACH region. From 2015 to 2018, the share of Chinese investments of total investments into DACH companies was approximately 9%. A share which, except for a noteworthy hike in 2016, has been decreasing from 2015 onwards and is but a fraction of the 50% achieved by DACH investors over the same time period. Nevertheless, its rank in international terms is undisputable; China has, on average, been the biggest foreign auto-investor in the DACH region over the last four-year period (see Figure 7).
Secondly, one benefits from viewing the influence of Chinese investors over the German automotive industry in relative terms. While Chinese auto investors have certainly extended their reach in the DACH region, their clout is still small compared to that of Germany’s “big three” alone. In 2018, Bosch’s, Continental’s and ZF’s combined revenues (ca. EUR 32bn) as well as the number of employees (ca. 250,000) in Germany alone significantly exceeded the respective metrics of all DACH firms that have been acquired by Chinese investors since 2011 (EUR 20bn in revenues; 109,000 employees at the respective date of transaction). Furthermore, while some may argue that the following is comparing Vitos with A-Classes, one has to bear in mind that the market share of German OEMs in the Chinese automotive industry stood at 22.4% in 2018 – not to mention the 315 facilities and more than 100,000 employees of German suppliers in the Far East. How many cars did Chinese OEMs sell on German turf? In 2018, this figure is unlikely to have surpassed the four-figure mark.

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Are Chinese investors buying out DACH’s core automotive technologies? Based on the analysis of 82 transactions by Chinese investors into DACH companies over the last 14 years, we believe “no”. China-DACH auto-investments a) are witnessing a slowdown in the second half of the decade, b) predominantly focus on non-CASE technologies, c) pay attention to the preservation of DACH hidden champions’ core capabilities and people, and d) are nowhere near dominating the DACH auto arena on a relative level. Nevertheless, we have also shown that Chinese auto investments are – at least to some extent – underpinned by clearly formulated geopolitical and economic strategies aiming to propel China to the forefront of the fourth industrial revolution. An uptick in both the number of transactions and a stronger focus on CASE-related sectors since the announcement of these strategies may be early signals that things are going to change. Whether or not the warning cries on Chinese investments prove to be valid over the long term will depend on a number of factors – some of which go beyond the automotive arena: How will China’s economic growth develop, also in light of the ongoing tensions with the US? How will DACH-China trade relations evolve, considering stronger protectionist tendencies in Europe? Will China be able to build up the required infrastructure to support the EVs making up 10%-plus of cars on Chinese streets and thus continue to invest into EV technologies? Chinese investors are not (exclusively) targeting DACH’s auto crown jewels just yet. Is it our time to hide? Time will tell.
For us, making DACH-China investments a mutual success story for everyone involved is a function of three factors: M&A and automotive expertise, on-site personal interaction and an understanding of each other’s needs and priorities.

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Transaction data includes transactions with the “buyer country” Hong Kong and Taiwan; employee and revenue data for ca. 10% of transactions has not been made available at the time of transaction.

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