



ASIAN

Horizons

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Dealmakers in Technology

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Dealmakers in Technology

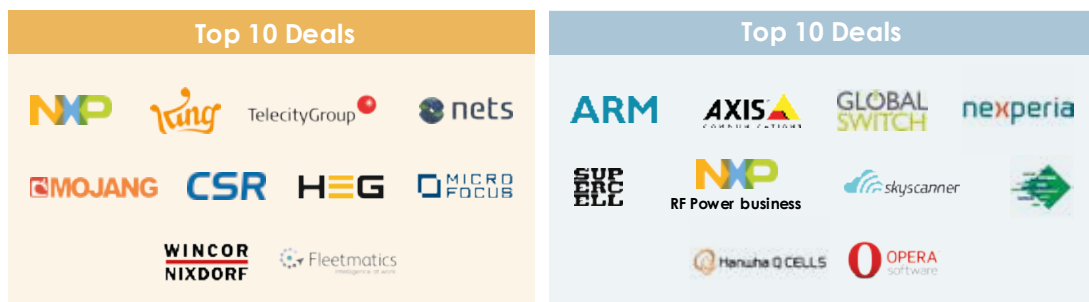
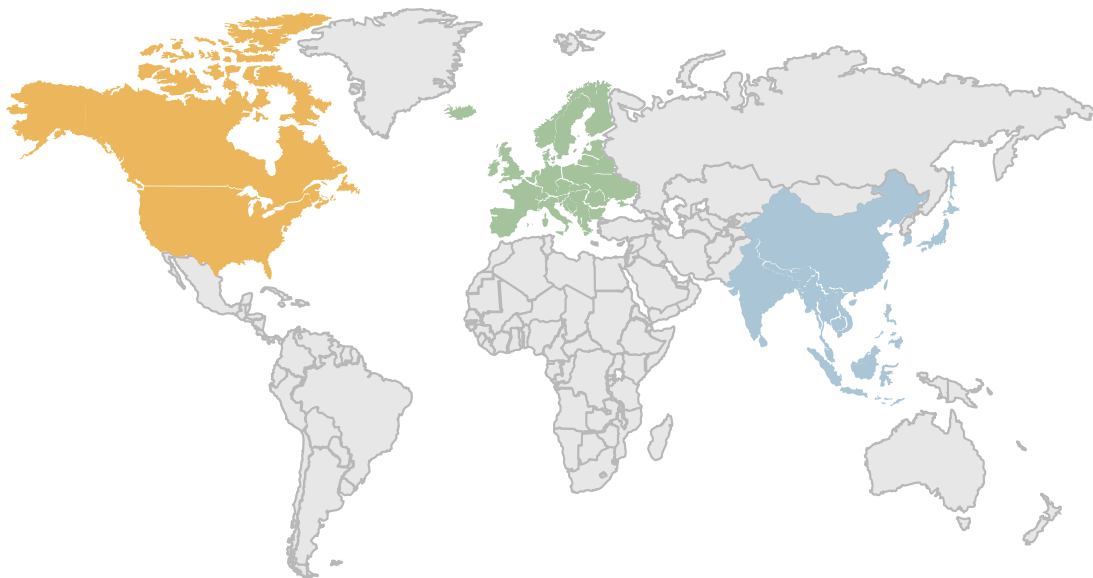
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THE RACE FOR *European Technology Assets*

The weight of American and now Asian capital floods into Europe

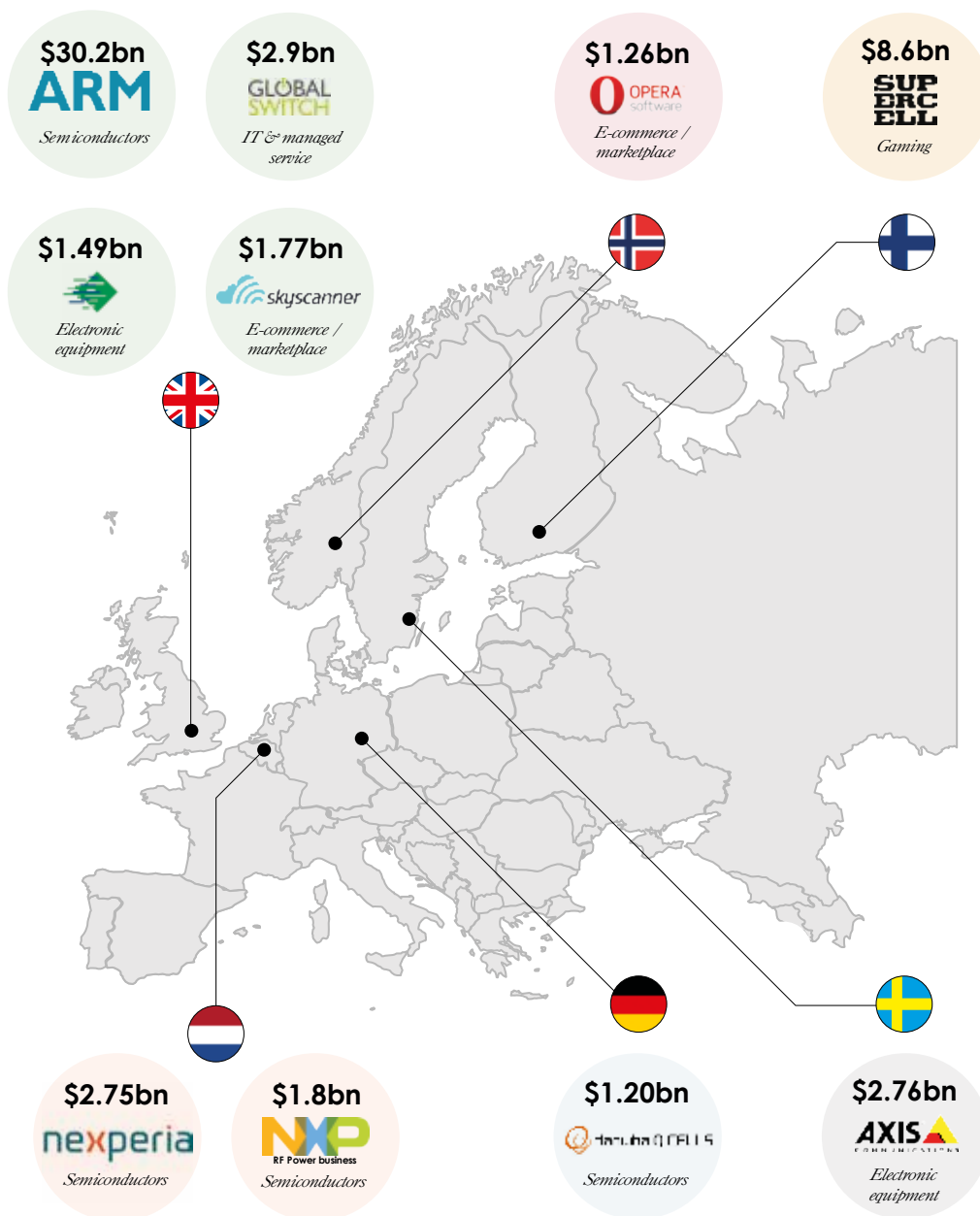


Source: Mergermarket, all relevant majority technology deals with disclosed values 2010 - April 2017



THE MEGA Deals

Top ten deals over \$1bn from Asia into Europe



Source: Mergermarket, all relevant majority technology deals with disclosed values 2010 - April 2017



THE VIEW

From GP Bullhound

Per Lindtorp

Director

Asian acquisitions of European technology companies more than doubled from 2014 to 2016 from 22 deals to 49 and the deal value increased 30 times to \$50.4bn. This added to the already strong appetite from the US for European tech. The main drivers for this growth are Softbank's major strategic bets and the rise in both the volume and the size of acquisitions by Chinese buyers, running in parallel to China's digital economy strategies. This fast-developing landscape presents new opportunities and challenges for the growing European tech ecosystem.

The rise of Asia-to-Europe technology M&A

Asian appetite for European technology acquisitions has been growing strongly since 2014 and in 2016 came close to the level seen from North America by deal value, thanks to the acquisitions of ARM Holdings by Softbank and the acquisition of Supercell by Tencent. North America nevertheless also remains a voracious acquirer of European technology companies, with 210 deals in 2016, compared to 49 companies acquired by Asian buyers.

Japan and China account for the majority of Asia-to-Europe M&A. Historically, Japan has been the largest acquirer of European technology businesses and although the underlying activity has slowed recently, no one can ignore the impact of Softbank's recent bold moves in the market, its appetite for risk and global ambitions.

Chinese outbound M&A activity, accounted for seven of the top ten Asia-to-Europe deals from 2014 to date. We expect this trend to continue despite a tightening of regulations designed to control Chinese capital outflows. Although the new regulations are likely to cause delays, high-tech acquisitions are a key part of China's development strategy, these are encapsulated in policies such as "Internet Plus", "Made in China 2025" and the "National IT Development Strategy". Technology M&A activity is complementary to the explosive growth seen in homegrown Chinese technology companies, with China now starting to catch up the US in the speed at which it produces new billion-dollar tech businesses.

Favoured M&A targets

UK-based companies are the primary targets for Asia-to-Europe M&A, with 30 deals from 2014 to date, worth a disclosed value of \$37.4bn, followed by the Nordics at 20 deals and a disclosed deal value of \$13.5bn. This

largely mirrors the buying patterns seen amongst North American acquirers and reflects the relative size and advanced status of the digital economies of those European regions.

Asian buyers are prolific across multiple sectors, as illustrated by the variety seen in the top ten megadeals, from ARM in microprocessor IP, Supercell in gaming, Axis in video surveillance to Domino Printing Sciences. Following these is a raft of smaller deals across a range of technology sectors and verticals, most notably semiconductors, application software, e-commerce, digital services, media & advertising and gaming & visualisation.

Seeking synergies between European tech and Asian partners

Asia-to-Europe technology M&A is part of a broader global trend, driven by a quest for growth, technology convergence, the rising pace of innovation, the race for intellectual property and talent and the low cost of capital. So what differentiates an Asian buyer from any other and what are the different benefits and synergies an entrepreneur can expect from partnering in the region?

There is no clear evidence that Asian buyers systematically pay more for European tech, although they often see European tech as 'good value'. Rather, strategic drivers are at the heart of these transactions, including access to each other's markets, cross-pollination of innovation and consolidation of sector expertise and the value chain.

Furthermore, Asia arguably has something different to offer from Silicon Valley as a new reference point for technology companies. Asia has many mobile-first consumers and applications, as well as ultra-fast adoption of new technologies. The attractiveness of these opportunities will vary from company to company



but for a business such as Skyscanner, access to first the Japanese and then Chinese outbound travel markets represented step-changes in the company's prospects.

Asia-to-Europe dealmaking in technology is still in its relative infancy and networks and relationships are still being built. There is no doubt that there can be challenges on both sides to identify the right partners but the starting point should be the identification of clear commercial benefits. As a result, partnerships and supply chain relationships can often be the springboard to M&A and the results can be a powerful expansion of market opportunity for both parties.

The challenges for the European technology ecosystem

The future economic prosperity of Europe partly rests on the success of its technology companies. As our regular research on European billion dollar companies shows, the region has a steady production line of growth businesses, increasingly capable of attracting significant capital. There are nevertheless challenges for Europe in catching up with the US and Asia in building billion dollar companies, as well as growing a proportionate number of companies valued over \$10bn. Global investment and M&A sometimes helps and sometimes hinders this progress. It is a major policy challenge to find the right balance between an international outlook and open capital system whilst maintaining the talent, intellectual property and value within the region to support its long-term future as a technology powerhouse.

We will therefore doubtless continue to hear the debate in Europe about whether barriers should be erected in the market, in the same way that the US has now made it harder to receive CFIUS (Committee on Foreign Investment in the United States) approval. Our view is that 'more options' typically equate to 'better choices' and that indeed some of Europe's challenges can be addressed more directly through factors such as a focus on training and skills, investment in digital infrastructure and the efficiency of local capital markets.

No substitute for local knowledge - GP Bullhound establishes our first office in Asia

At GP Bullhound, we focus on advising leading technology companies on M&A and investments. We pride ourselves on our deep domain expertise, support for European growth businesses in particular and our global perspectives. Our key objective is to remain at the forefront of these trends and to bring together the world's best entrepreneurs and investors.

A clear message that also comes through all our contacts is the necessity of regular trips to and face-to-face engagement in Asia, to best understand the opportunities available and navigate local complexities. At GP Bullhound we believe there is no substitute for a local presence. **We are delighted to announce the establishment of our first office in Asia, based in Hong Kong.** It is a response to substantial Asian investor interest in the European technology landscape and the curiosity of our extensive network of European technology companies about their opportunities in this exciting region.



REGIONAL DYNAMICS

Asian Buyers & European Targets

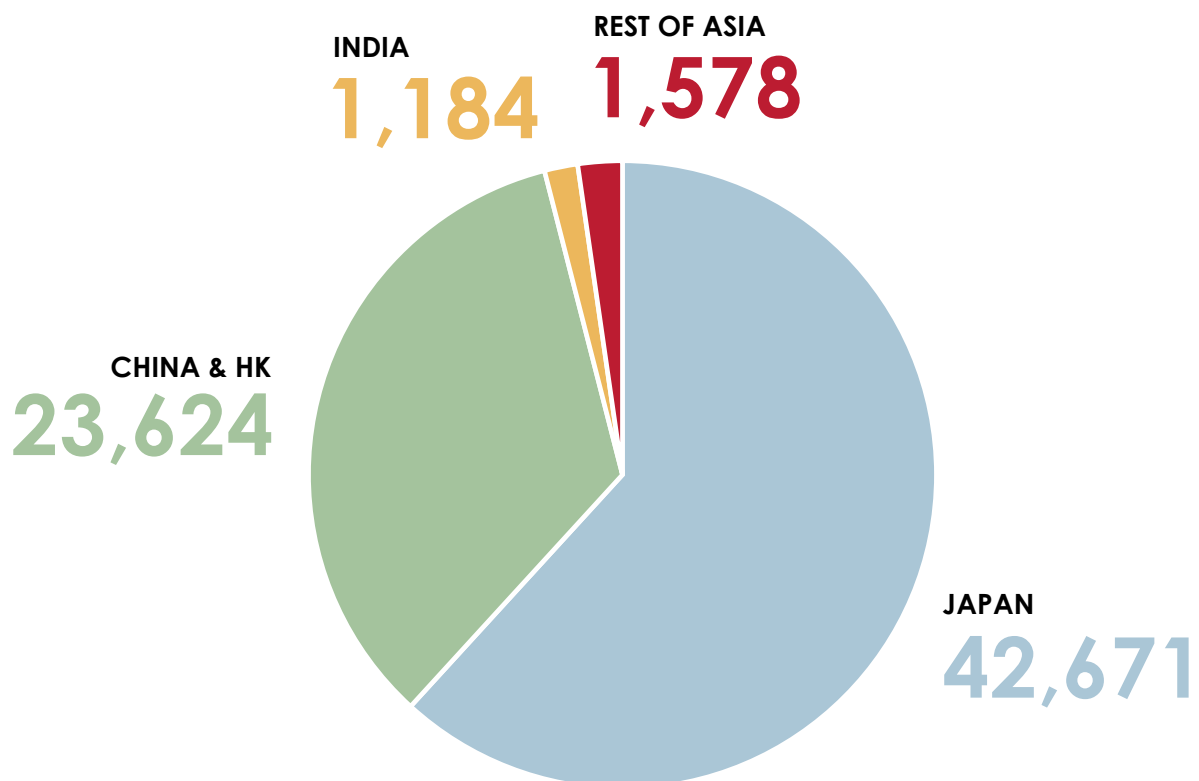
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CUMULATIVE DEAL VALUE (\$M)

By Country (2010-April '17)

- » **Japan** has **historically** been the **dominant** country of origin of Asia-to-Europe M&A, despite a recent slowdown in deal volume over the last 2 years
- » Now Japan's **Soffbank** has emerged as a **major strategic** acquirer with its surprise \$30bn acquisition of **ARM Holdings**
- » Whose recent **\$93** billion, Saudi-backed, Vision Fund also took a minority investment in the UK's Improbable



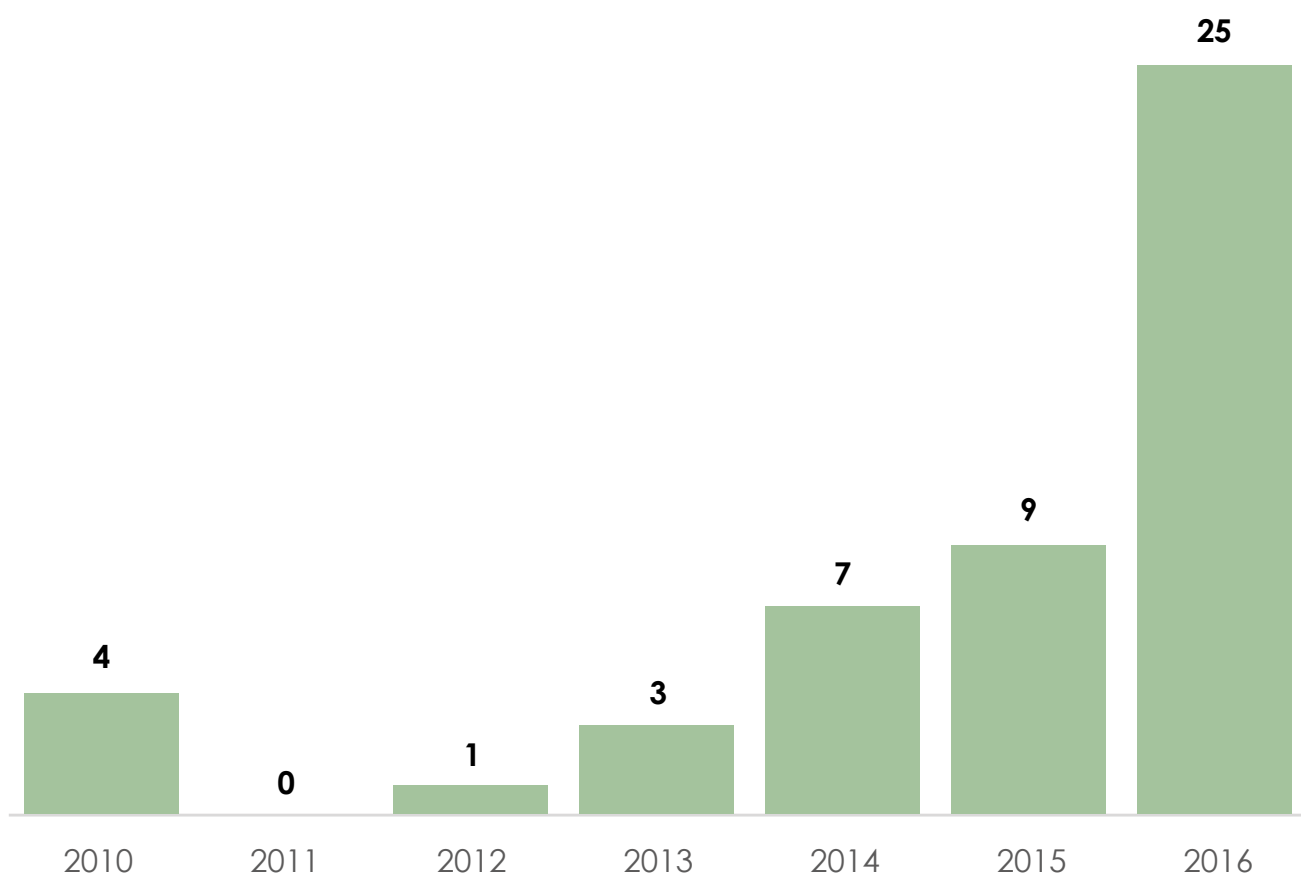
Source: Mergermarket, all relevant majority technology deals with disclosed values 2010 - April 2017



NUMBER OF TRANSACTIONS

Chinese Buyers

- » **China** has taken the lead as the **most active buyer** of European tech businesses by deal volume
- » Of the **top ten** largest Asia-to-Europe deals since 2014, **seven** emanated from **China**
- » Chinese buyers are actively seeking **European** technology companies for: Intellectual Property, Customer Base, Brand



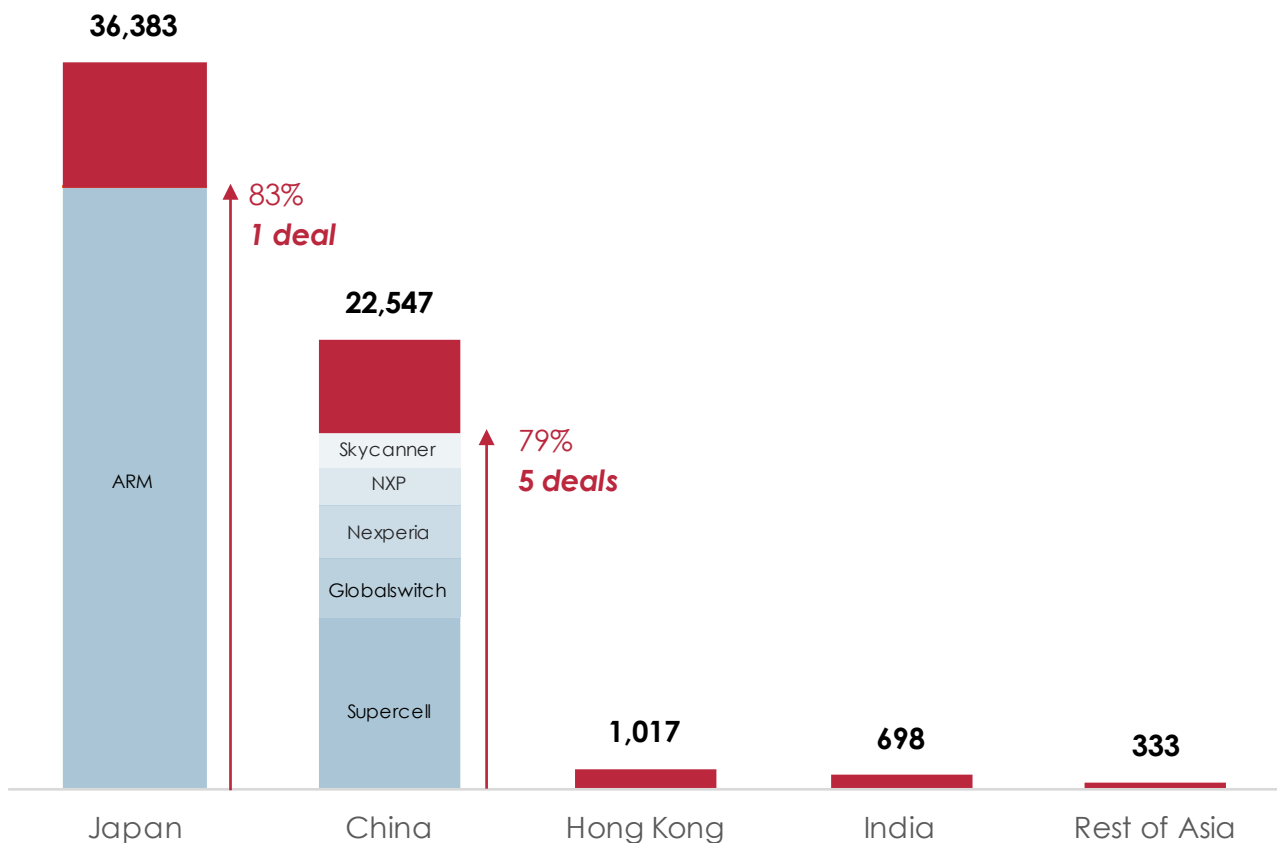
Source: Mergermarket, all relevant majority technology deals with disclosed values 2010 - April 2017



CUMULATIVE DEAL VALUE (\$M)

By Country (2014-17)

- » The Top 10 largest acquisitions by an Asian bidder account for 90% of the total over the last three years
- » Asian buyers have acquired some of Europe's market leaders, across diverse sectors
- » Asian buyers are prepared to take large strategic bets in a global race for technology assets. Softbank paid a 43% premium to ARM's share price to acquire the company

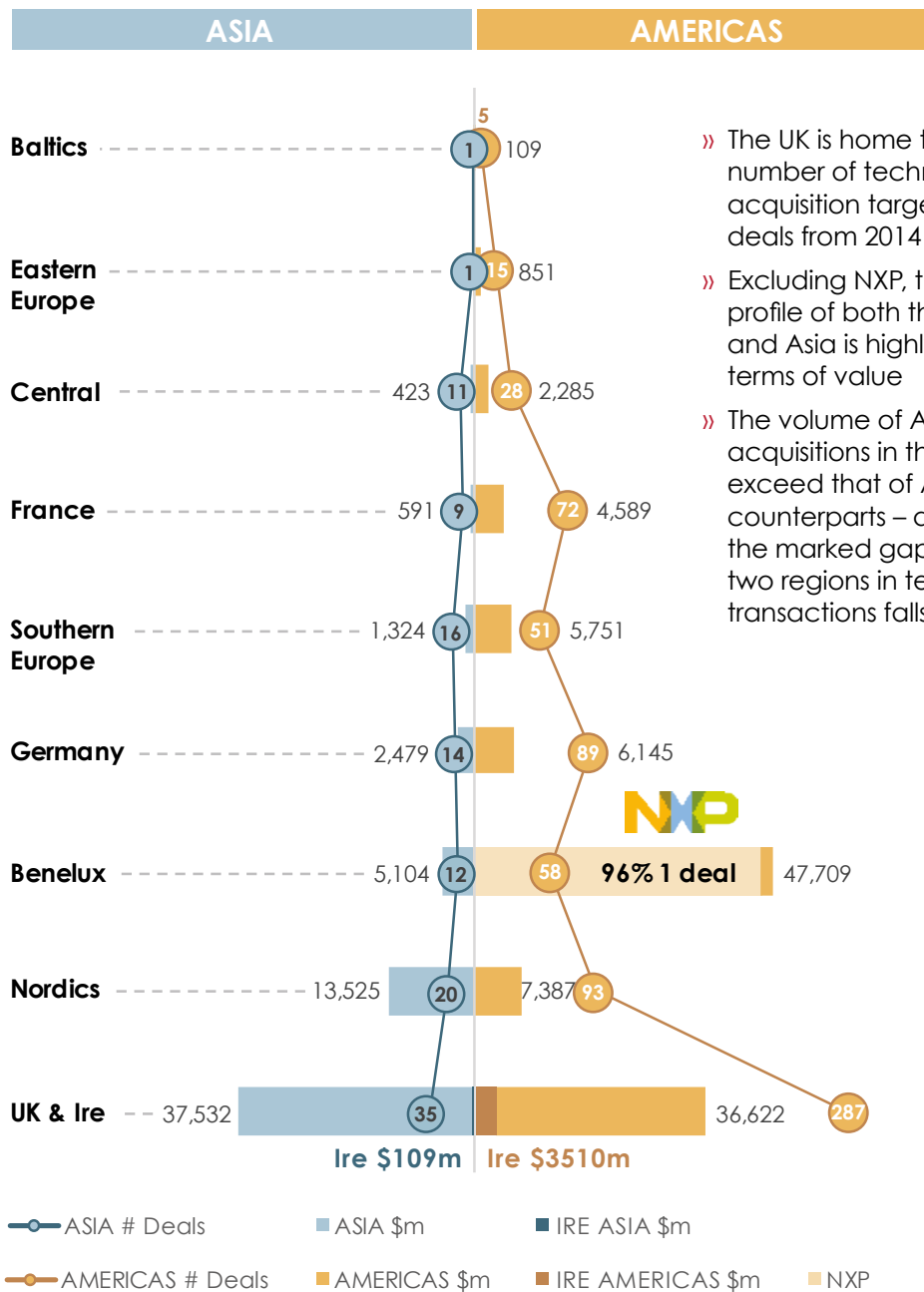


Source: Mergermarket, all relevant majority technology deals with disclosed values 2010 - April 2017



ASIAN INVESTMENT HOTSPOTS

Deals in Europe by Value & Number



- » The UK is home to the largest number of technology acquisition targets, with 30 deals from 2014 to date
- » Excluding NXP, the investment profile of both the Americas and Asia is highly correlated in terms of value
- » The volume of American acquisitions in the UK far exceed that of Asian counterparts – and is where the marked gap between the two regions in terms of total transactions falls

Source: Mergermarket, all relevant majority technology deals with disclosed values 2010 - April 2017



China and Japan dominate the Asian buyer landscape – accounting for 67% of the deals we reviewed and 97% by disclosed value since 2014. China has taken the lead over the last two years as the most active buyer and we expect this to continue despite tightened capital controls. However, Japan’s Softbank continues to make a splash, with its \$30.2bn acquisition of ARM and \$500m minority investment into the UK’s Improbable. Expect much more to come. As for Europe, it is indeed the UK that is home to the the largest number of technology acquisition targets, followed by the Nordics.

Japan has historically been the dominant country of origin of Asia-to-Europe M&A, making acquisitions from a broad range of sectors where there is strong overlap in terms of economic focus and maturity, from media to e-commerce to electronics. The pattern since 2014 has been for bolt-on transactions by large Japanese tech companies. Excluding ARM, total disclosed deal value across 24 technology transactions from 2014 to date was around \$6.2bn. However, Japan’s Softbank broke this trend, emerging as a major strategic acquirer with its surprise \$30.2bn acquisition of FTSE 100 company ARM Holdings and its plans for the \$93 billion, Saudi-backed Vision Fund. Softbank is prepared to make ambitious moves, as its minority investment into UK-based Improbable demonstrated.

However, China has taken the lead as the most active Asian buyer since the start of 2016, accounting for 19 (48%) of Asia-to-Europe M&A deals over that period, worth \$19.2bn of disclosed deal value. This equates to 37% of total Asia-to-Europe disclosed deal values including ARM, but 90% excluding ARM.

Chinese buyers accounted for seven of the top ten largest Asia-to-Europe deals from 2014 to date. These included Tencent’s acquisition of Supercell, taking the latter to close to the top of the European tech company leaderboard by valuation. In our experience, Chinese buyers are actively seeking European technology companies whose Intellectual Property, customer base and brand provide opportunities to move up the value chain, reach customers outside China with existing products or better serve Chinese consumers.

This activity runs in parallel to the explosive growth of homegrown technology companies, serving the new domestic needs in enterprise and consumer markets but also increasingly looking to international markets. It should certainly be seen in the context of China’s Digital Economy strategies, which include Internet Plus, Made in China 2025 and the National IT Development Strategy, described later in this report.

A second key driver for Chinese buyers has been the strong growth in capital outflow from the country in recent years, as investors seek risk diversification. Capital controls introduced in late 2016 have slowed the pace of outbound M&A. However, as we discuss later in this report, deals that are good for the development of China have been backed time and again. It is our belief that many technology deals will continue to fall into this category.

India is the third most active buyer in the region, completing 18 deals since 2014, but worth a disclosed deal value of just \$0.7bn. Indian outbound M&A is particularly concentrated in consulting services and e-commerce, with key buyers including Tech Mahindra and Wipro. We wait to see whether Indian acquisitions of European businesses heat up given the headwinds in the outsourcing market.

The UK is home to the largest number of technology acquisition targets in our analysis, with 30 deals from 2014 to date, worth a disclosed value of \$37.4bn and reflecting in particular the relative size of the UK’s digital economy, which is the largest in the G20*.

The UK is also home to the highest number of European Unicorns according to GP Bullhound research. The Nordics follow in second place, with 20 deals, at a disclosed deal value of \$13.5bn, again reflecting the advanced status of its digital economy*. However, it would be incorrect to paint Asia-to-Europe M&A as concentrated into certain countries and regions, this is merely a sector skew. Across all economic sectors, the picture is different. Germany, for example, is the currently main recipient of Chinese investment into heavy industrial tech/engineering, which we exclude from our analysis.

These buying patterns have inevitably stirred debate amongst politicians in Europe, who are as keen as Asian policy-makers to support high-growth 21st century industries but also have an open approach to international capital. Market-watchers are still in the early stages of assessing the impact of investment from the Asian buyer group on the European tech ecosystem.

* In 2015, the UK’s digital economy accounted for 10.4% of GDP, the highest proportion amongst the G20 group of nations. Source: BCG

* This region is classified as having the most advanced digital economy in Europe according to the Digital Economy and Society Index, 2017

A photograph of two hikers standing on a rocky mountain trail, looking out over a vast, hazy landscape. The hiker in the foreground is wearing a teal shirt and blue jeans, with a black backpack. The hiker behind him is wearing a camouflage shirt and light-colored pants, also with a backpack. The background shows rolling hills and mountains under a cloudy sky.

WHICH TECH SECTORS *Are Most Attractive to Asian Buyers?*

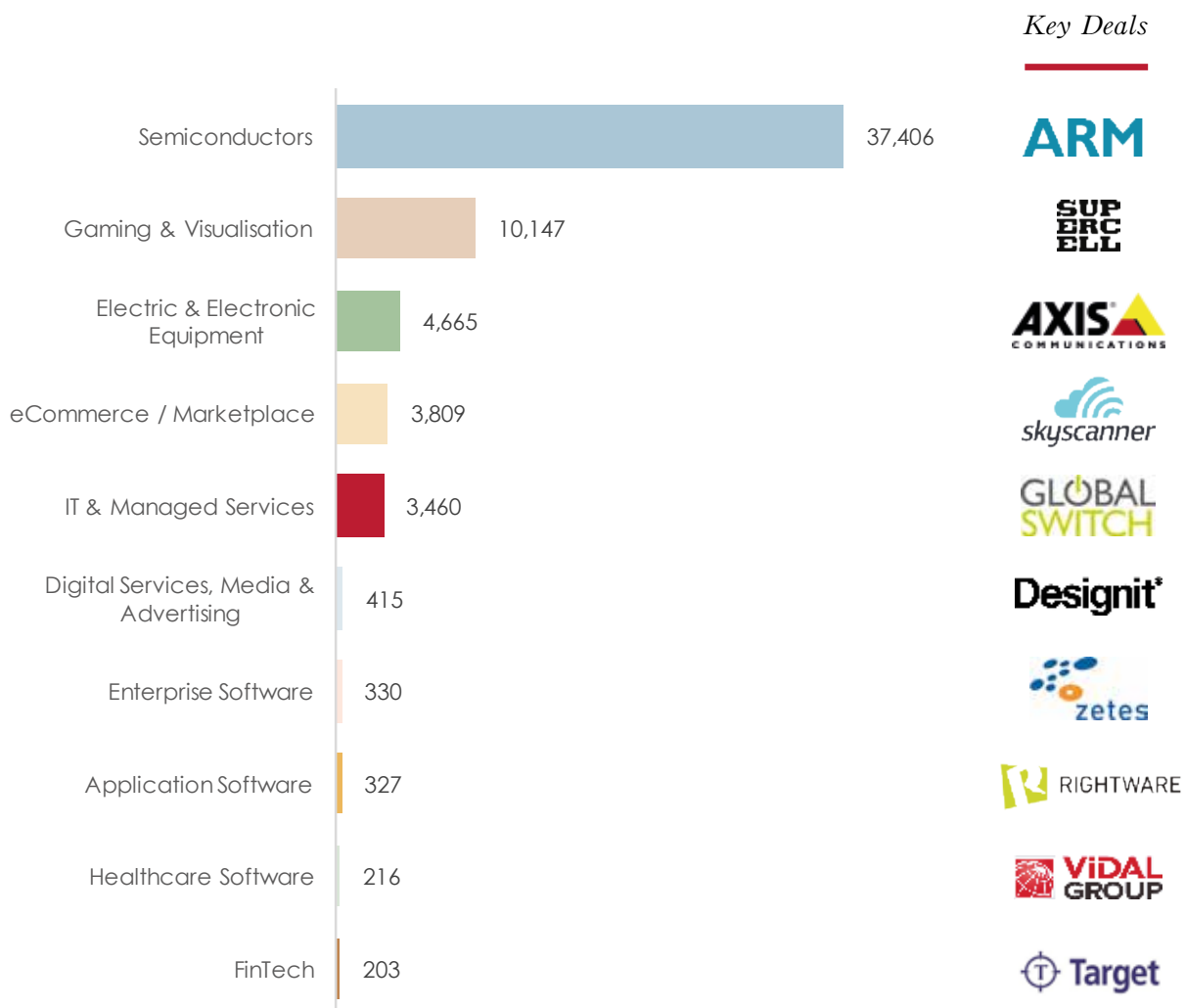
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CUMULATIVE VALUE OF ASIAN TECH M&A (\$M)

By Sector

- » Asia-to-Europe technology deals since 2010 reveal the depth and breadth of both European technology and Asian M&A appetite, with acquisitions of sector leaders across multiple sectors
- » There is strong appetite for semiconductor businesses within the hardware sector
 - » Within the software sector, segments such as gaming and visualisation, e-commerce and marketplaces and digital services are areas of strong interest



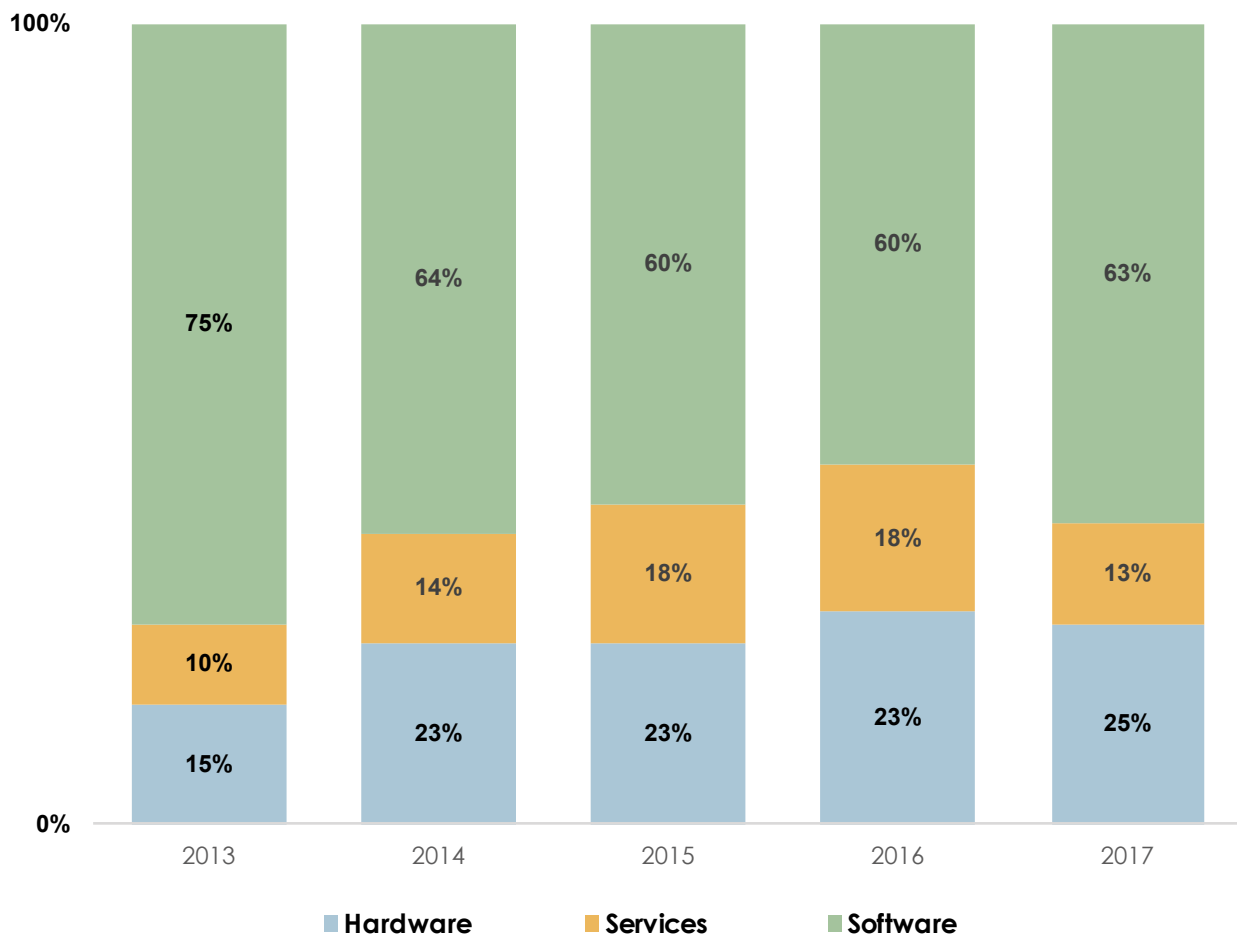
Source: Mergermarket, all relevant majority technology deals with disclosed values 2010 - April 2017



SPLIT BY BUSINESS MODEL

Hardware, Software and Services

- » Majority of Asia-to-Europe deals are in the Software sector, accounting for 63% of transactions
- » Although Hardware deals are in the minority, the proportion is nevertheless materially higher than Americas-to-Europe M&A, where only 7% of deals were in this sector and 80% in Software
 - » Services deals are skewed towards India



Source: Mergermarket, all relevant majority technology deals with disclosed values 2010 - April 2017

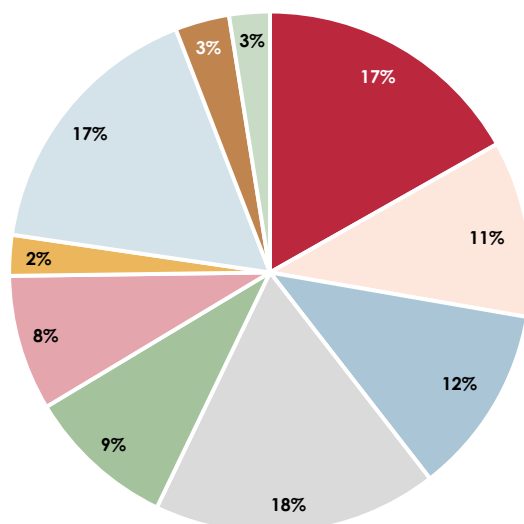


The top ten Asia-to-Europe technology deals since 2014 reveal the depth and breadth of both European tech and Asian M&A appetite, with sector leaders from ARM, in microprocessor IP, Supercell in gaming, Axis in video surveillance to Domino Printing Sciences. Following these is a raft of smaller deals across an even broader range of technology sectors and verticals.

The majority of Asia-to-Europe deals are in the Software sector, accounting for 70 transactions, or 59% of the deals we reviewed over the period 2014 to date. There were 29 Hardware deals (24% of the total) and 20 Services deals (17% of total), the latter weighted towards India.

Within the Software segment, Asian acquirers are very active across a broad range of end markets:

- » Application software deals cover a very wide variety of end verticals and attract Japanese and Chinese buyers in equal measure
- » E-Commerce and marketplace deal activity is high, with Japanese and Chinese buyers both very active. The standout deal in the sector, Skyscanner, went to the Chinese acquirer, Ctrip
- » Digital Services, Media & Advertising attracts a higher proportion of Indian buyers as part of the 'digital transformation' services trend
- » Gaming & Visualisation shows an increasing amount of activity, with strong Chinese interest during 2016, including Tencent's acquisition of Supercell



When we map this buying activity onto the European billion dollar company landscape, we find a strong correlation with the frequency of European billion dollar companies active in these segments and we would expect Software acquisitions to continue rising as a proportion of total Asia-to-Europe dealmaking. The one notable exception, where Asian buying is low, but European billion dollar companies are emerging fast, is Fintech. We attribute this to the very different requirements of Asian versus European consumers and strength of homegrown Asian Fintech businesses.

Hardware deals primarily comprise semiconductor acquisitions, weighted towards buyers from China and Hong Kong. Although Hardware deals are in the minority, the proportion is nevertheless materially higher than North America-to-Europe M&A, where only 7% of deals were in this sector and 80% in Software over the same period. In absolute terms, North American buyers still acquire more European hardware businesses but there is nevertheless a story to tell around Asian buyers consolidating their strong manufacturing base and supply chain.

In combination with the buying activity from North America, this represents a significant challenge to the European hardware ecosystem, and to the semiconductor industry in particular, at a time when the European Union has ambitious aims to grow global market share. Indeed, NXP was the only European semiconductor company to make the global top 10 leader board in 2016 and is currently going through a merger with US giant Qualcomm, with its RF Power division sold to the Chinese investment company Jianguang Asset Management Co. for \$1.8bn.

- Semiconductors
- eCommerce / Marketplace
- Enterprise Software
- FinTech
- Gaming & Visualisation
- IT & Managed Services
- Application Software
- Electric & Electronic Equipment
- Digital Services, Media & Advertising
- Healthcare Software



SYNERGIES BETWEEN

European Tech & Asian Investors

GP.Bulldog



High-growth technology businesses operate in fast-moving, highly competitive and converging markets. Free of geographical constraints, Asian and European companies are increasingly seeking ways to collaborate - and deliver mutual benefits.

We believe that the most significant strategic drivers for Asia-to-Europe M&A are:

Access to each other's markets. European businesses are often very comfortable with the concept of adapting their offerings across different markets, given the nature of operating across the European continent. Asia represents a series of large market opportunities for European growth businesses but the importance of local knowledge, partnerships and channels are clear. At the same time, Asian buyers are looking for market-leading brands and cutting-edge technologies that they can roll out in their domestic markets and ultimately expand to international markets. Acquisitions of well-known consumer brands include Geely's acquisition of Volvo Cars, Wanda's acquisition of Sunseeker Yachts and Hong Kong-based Trinity's acquisition of fashion brands Cerruti and Gieves & Hawkes.

"I think Ctrip.com invested in Skyscanner because of our approach to having a global international footprint, rather than simply because we are 'a European tech business'."

– Colin McLellan, CFO, Skyscanner

"Firstly, China was already one of the largest markets for Rightware and Thundersoft had significant growth in the local market. What's more, partnering with a Chinese company has also allowed us to act as a domestic player in the market and has given us an advantage in the surrounding countries."

– Jonas Geust, CEO, Rightware

Complementary skillsets, workforce diversification and increased rates of innovation. Whilst not without its challenges for management, there are clear opportunities to leverage core areas of expertise and best practice, whether in engineering, manufacturing, marketing or customer service. These opportunities appear to be increasing in China, in particular as the economy develops, with some market segments – such as digital payments - arguably advancing faster than in western markets.

"It helps when you find a partner that brings complementary skills to the task at hand. Over the last four years, we had been told that our technology was market-leading but our implementation team needed improvement. Thundersoft had highly-skilled engineers with vast experience of implementation, but it had struggled to adequately understand customer requirements, architecture and concepts – areas that Rightware was strong in."

– Jonas Geust, CEO, Rightware

"Asian tech businesses think about things from a different perspective from the one we have in Europe and America, which is really fresh. Couple that with the fact that these businesses have achieved huge scale in a short amount of time with customers that have, in my experience, a higher expectation from e-commerce, and you have market leaders in customer service, workflows, and other essential operations. Rather than this situation being an outlier, I think that it is a leading indicator of where global expectation will go in terms of apps, products and customer service."

– Colin McLellan, CFO, Skyscanner

Consolidation of domain expertise and the supply chain. Technology convergence and the rise of new or fast-changing markets, for example in IoT or Automotive, are key drivers of consolidation. Where European companies can see opportunities for accelerated market adoption compared to their home markets – whether because of legacy systems or long-established and difficult to penetrate supply chains – Asian collaboration may look very attractive.

"Our discussions with Thundersoft began because we wanted to radically alter our business model. We were proud of what we achieved in our segment in the automotive industry, but we wanted to do more. Working with Thundersoft has allowed us to grow from a business that supplies technology and components to the automotive industry to one capable of building a fully customisable, off-the-shelf software platform for all car manufacturers."

– Jonas Geust, CEO, Rightware



Jonas Geust
CEO, Rightware

THE DEAL

A Snapshot

In 2016, Thundersoff acquired Rightware for €68m

Jonas Geust, Rightware: Our discussions with Thundersoff began because we wanted to radically alter our business model. We were proud of what we achieved in our segment in the automotive industry, but we wanted to do more.

Working with Thundersoff has allowed us to grow from a business that supplies technology and components to the automotive industry to one capable of building a fully customisable, off-the-shelf software platform for all car manufacturers.

The experience has been incredibly rewarding, but obstacles still arose along the way. Primarily, these revolved around Chinese regulations and their tendency to change at short notice. For example, part way through our acquisition a rule changed and we had to adjust everything we were doing. Unfamiliar markets can do that to you, but take a deep breath, seek advice and you will get back on track.

There are also cultural differences that, left unaddressed, can develop into cultural problems. I will always remember someone from Thundersoff saying to me, "We work really hard but you, at Rightware, you work really smart." It can be hard to balance these different ways of working so, in Helsinki, we made sure that members of the team developed honest, constructive relationships with their counterparts in China.

There is no substitute for face-to-face meetings. Get yourself out there, you do not do business in Asia without a physical presence. This entire partnership started with Larry and I meeting for dinner in Helsinki a year ago, sharing thoughts on all walks of life. From there, we met the rest of the Thundersoff team and shared views on how to run the business. Go see your new partners, live in the market if you can. This way, when issues arise, you trust each other to solve them.

Larry Geng, Thundersoff: A key challenge for us was raising awareness of who we were and what we did. Many Chinese companies struggle to build a reputation and credibility among European businesses because there are few channels to do so. Equally, many Chinese companies are still young and need more experience engaging with European companies. At Thundersoff, we rely on ecosystem partners and our customers to facilitate introductions as we seek our own channels to find preferred companies.

Jonas Geust, Rightware: Of course, it helps when you find a partner that brings complementary skills to the task at hand. Over the last four years, we had been told that our technology was market-leading but our implementation



team needed improvement. Thundersoft had a highly-skilled engineers with vast experience of implementation, but it had struggled to adequately understand customer requirements, architecture and concepts – areas that Rightware was strong in.

We were able to create simple synergies and resolve our challenges with complementary skills on both sides of the deal. What's more, partnering with a Chinese company has also allowed us to act as a domestic player in the market and has given us an advantage in the surrounding countries.

Larry Geng, Thundersoft: Our priority when looking to Europe for investment and acquisition opportunities is companies that have their own IP or product and are leaders in the areas where we operate: mobile, automotive and IoT. European entrepreneurs are transforming the automotive industry and pioneering the development of IoT technologies, so it is an ideal investment destination for us.

Jonas Geust, Rightware: A decade ago I did a lot of work in China on behalf of a Scandinavian telecoms company. Returning in recent years, I have seen the extent to which the market has matured. While regulation remains slightly unpredictable it is beginning to settle and the overall business culture is far more accessible for foreign firms than just ten years ago.

Increasingly, the Rightware team is spending time in China with Thundersoft – reinforcing the respect for how both sides do things. I believe in the potential of international collaboration when both parties make a decision to act like global companies. Do not enter China thinking you can act exactly as you do in Finland, the UK or Spain. Adapt to the cultures and practices that surround you, whilst bringing the best of home with you.

Larry Geng, Thundersoft: Our goal in the next five years is to be a global leader in smart device operating systems and technology platforms. To this end, Asia is still the largest and most important market for us, and we believe we can help European entrepreneurs to bring their technologies to Asia.

Nonetheless, we know that cutting-edge technology will be informed by worldwide expertise, so we are keen to back collaboration between European and Asian companies wherever possible. Asia is growing faster and faster and will need the market-leading expertise of European entrepreneurs to support its growth.

At Thundersoft, we are optimistic for the future collaboration between Asia and Europe in the technology market. However, there are differences between the business cultures of Europe and Asia – that is the next challenge we would like to overcome.

Jonas Geust, Rightware: As parts of the world move towards protectionist policies, we should be working together to foster innovation through global partnerships. At Rightware, we knew finding the right strategic partner would help us reach our goals, the same could be true for you.



Larry Geng
CEO & Co-founder,
Thundersoft





TAKING FLIGHT

Skyscanner's Asian Expansion

Colin McLellan

CFO, Skyscanner

It may seem simple, but Asia is not one market but a complex set of individual countries that each offers a different set of opportunities and challenges for European technology businesses. For anyone looking to expand into Asia, you have to understand the benefits and nuances of each individual market; do not simply pay lip service to them.

We chose to launch Skyscanner Japan, our joint venture with Yahoo! Japan, to tap into the third largest travel market in the world. The expansion posed a straightforward opportunity for growth and Yahoo! Japan offered an ideal partner – with over 65 billion page views a month it is the dominant search engine in the country. It was, however, the softer, cultural side of overseeing the expansion into Japan that taught me the most about doing business in Asia.

There is a phrase that was made popular by lean production and management book *The Toyota Way*, from the aforementioned Japanese car manufacturing giant. It is 'genchi genbutsu', which roughly means 'actual place, actual thing', or 'go and see for yourself'. In the Toyota respect, it applies to the manufacturing floor, but the same principle can apply to many areas of business. If you are the person who has been tasked for expanding your business in a particular Asian market, there is no substitute for going there, seeing and experiencing the market for yourself.

Simply transplanting a Western-created product and expecting it to work as successfully in vastly different markets across Asia is both naïve and the first step to failure. Instead, you must go and observe local consumer behaviours, understand how your product or service should be tailored to best serve local needs. For example, many Asian markets are 'mobile first', and some mobile-only – desktop doesn't compute. Is your product as seamless to use on a small mobile screen as it could be? Does it support local payments methods, like QQ QR codes in the likes of China? It shouldn't feel like a transplant into the ecosystem – it should be indistinguishable in ease of use from local offerings. Those who don't take the time to do so are instantly recognisable.

The same applies in ensuring you understand local customs and behaviours when doing business in Asia. A perfect example of this would be my experience of

business cards in Japan. When you first meet with a new business partner, you present your business card with two hands and you look them in the eye.

That little token of understanding, and why it is important to Japanese people, gives an insight into working with Japanese teams.

A key consideration in any international partnership is not to approach it assuming your way of working is right. At Skyscanner, we have tended to embrace a lean, agile, start-up culture, with very little hierarchy. We believe in 'fail-fast': try an idea, if it doesn't work, learn from it quickly, iterate, try again. In Japan, a flat working structure is highly unusual, and that embracing of risk and potential failure is less common.

For Skyscanner, those lean and agile working practices are our go-to approach to innovating at scale. Yet, there were routes to innovation that we would never have spotted in Skyscanner Japan if we had not entered this partnership with an open mind.

A quote I like from Abraham Lincoln is: "If I had six hours to chop down a tree I'd spend the first four sharpening my axe." That reminds me of business in Japan, where typically a significant amount of time is spent planning detail and making sure all stakeholders are aligned. Initially this can feel at odds to a startup culture. Yet there is a lot of merit in taking time to meticulously strategize in this manner.

That way, when you press the button and execute a project, it tends to happen a lot quicker because everyone is clear on the objectives and on the same page. Not assuming our particular method of working was the right way enabled us to adapt, to learn valuable new approaches to innovation and even to bring these strategies back to our European offices with us.

Do not assume your way of working is the only approach and that everything else is a barrier. Equally, don't fall into the 'one-size-fits-all approach' to your product or service: really seek to understand and adapt to market nuances. There are vast opportunities to accelerate growth and innovation if you adapt the way you work and learn from different cultures across Asia.



ATTRACTING & CLOSING

Investment

GP.Bullhound



PREPARING FOR

Partnerships

Asian buyers have a diverse appetite when it comes to technology companies, and the stage or status of the target company – private or listed – seems to rarely pose problems. In the current climate, it is easy to find strategic alignment with the economic goals of governments and buyers across the region. Nevertheless, it remains a path less well-trodden and companies must still occasionally grapple with immature networks, changing regulatory frameworks and cultural differences.

Alignment with strategic goals

As we have shown, there is a broad-based appetite for European technology companies by sector and by size. Moreover, lower risk-aversion can be seen in investments in leading-edge technologies that have yet to gain market traction, or indeed in the acquisitions of publicly-listed companies. With Asian buyers, it seems that nothing is off the table.

Turning to China as the largest acquirer of European tech businesses, the country is seeking intellectual property to accelerate China's technological catch-up with developed economies and to serve its growing economy of enterprises and consumers. Economic development strategies, including "Internet Plus", "Made in China 2025" and the "National IT Development Strategy" provide the framework for understanding the country's high tech priorities and scale of its ambitions.

INTERNET PLUS

Announced in March 2015, the policy focuses on domestic technology adoption in order to boost domestic growth by decreasing China's dependency on foreign imports and non-domestic technology innovations. The Internet Plus action plan aims to digitise the economy and society beyond the traditional internet by integrating mobile internet, cloud computing, big data and the Internet of Things with modern manufacturing, to encourage the development of e-commerce, industrial networks and internet banking, and to drive internet-based companies to increase their presence internationally.

MADE IN CHINA 2025

In 2015, the Chinese Government initiated Made in China 2025, with the aim of turning the country into a production hub for high-tech products and one of the leading industrial countries by 2049. This major industrial revamp focuses on information technology, computerised machines, robots, energy-saving vehicles, medical devices as well as high-tech equipment for aerospace technology, maritime and rail transportation. According to the plan, the domestic market share of Chinese suppliers for "basic core components and important basic materials" is intended to increase to 70% by 2025.

NATIONAL IT DEVELOPMENT STRATEGY

Announced in July 2016, China's National IT Development Strategy is a ten-year IT plan that lays out a broad set of information technology goals and signals a continuing commitment to increasing government oversight and control in cyberspace. The strategy sets its sights high, mapping out a series of progressively more ambitious targets that will enable China eventually to surpass global tech leaders such as the United States.





THE ENTREPRENEUR'S

View

Tom Adeyoola

Founder & CEO, Metail

It has often been taken for granted that Silicon Valley should be the growth market of choice for young and ambitious technology start-ups. I would suggest that people shift their view instead east to Asia. Over the last decade, Asia has developed a robust investment economy that identifies fast-growth, high potential companies from across the globe and provides them not only with the capital to scale at speed, but also the fastest growing middle class market in the world.

From our perspective, as a fashion tech scale-up that works in Singapore and Korea as well as London and Cambridge, Asia's great strength is its ability to create an attractive investment environment for new businesses. As an ambitious UK-based company you should aim to find the right smart money for your business. We found ourselves looking eastward for investment, naturally drawn away from risk averse European VCs, because Asia is the home of clothing manufacturing. It is ripe with investors for whom investing in technology to progressively drive and manage the accelerating and turbulent disruption in their industry is both urgent and important. More generally, we've experienced that Asian investors are looking to back exceptional potential as well as experience and as such, most young, European firms with global ambitions should consider investment from the region.

The Asian investment ecosystem developed initially from families who manufactured and traded most of the goods that we have long since taken for granted in the west. It has since grown exponentially, at least in part, by the ballooning domestic demand from the Chinese consumer market, which shows no signs of curtailment of an insatiable appetite for goods and services. As a point of comparison, the Chinese retail industry is estimated to hit the \$1 trillion mark by 2018, eclipsing a United States market that is set to reach only \$500 billion the same year. For outward looking firms like Metail, this means looking to developing economies – like China and India - to underwrite a long-term strategy for growth, whilst also looking to the same regions for the capital to expand into those same areas.

The eastern economies are also an attractive place to start, as well as scale. In Singapore, the government works to make sure new businesses can

grow to the stage where they can attract significant second-stage investment. As part of a programme to establish the company as a regional tech hub, the government has developed an initiative to subsidise the wages of employees in early stage ventures. In the city-state, more than half of new companies survive for more than five years, compared to 42 per cent in the UK.

By embracing advances in new technology, Asian businesses are developing into fearless firms that are more receptive to cutting-edge innovation, further compounding their attractiveness to potential investors. Alibaba is a pin up to high-growth firms everywhere, with over 454 million active users globally. The group also owns the cloud-computing service Aliyun, which provides the ecommerce giant with data mining and processing capacity to better understand its customer base to respond to their changing demands. Furthermore, Alibaba is also looking to grow and develop the Hong Kong technology ecosystem by investing directly into firms looking to set up a base there.

Asia is the market of the early adopter. In 2015, Metail went viral in South Korea with a mobile demonstration of our platform for House of Holland at London Fashion Week. The experience made it clear that Asian companies – which exist without corporate legacies like western counterparts – have a willingness to embrace new technologies and disrupt the status quo.

This potent mix of cultural and technological factors helped us make the decision to build on our existing Asian operation, consolidating our presence in the region to secure long-term growth. With a solid customer base in place, we are now looking to the east to support our business as we take our next steps in the region and beyond.

In a time when the west is preoccupied with issues like Brexit and Trump, the East is continuing to dramatically grow its middle-class market unabated. And in the current era of cloud computing it has never been easier to be global and put your technology in the fastest growing markets to increase your chances of success, reduce your risk of failure and raise investment accordingly in those very same markets.



SCOUTING AND SECURING

The Deal

Investor activity

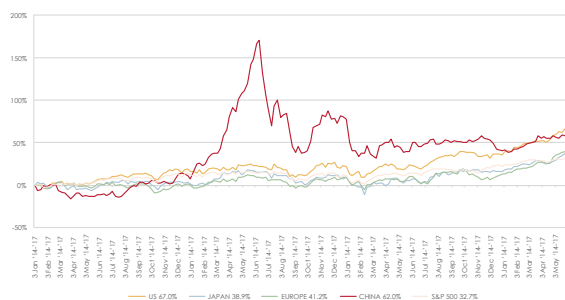
In addition to the growth in Asia-to-Europe technology M&A, we are also seeing a strong growth trend in minority investments into European technology companies by strategic investors such as Tencent, family offices including Jeneration Capital and the Alibaba-connected Blue Pool Capital, as well as investment groups such as Fosun.

Chinese state-backed investment groups such as SILK Ventures (featured in this report) with its new \$500m fund are also pursuing investments in companies where they have an opportunity to help open up the Chinese markets to European companies. In our discussions with SILK Ventures it says the focus is on "deep tech and deep science investment opportunities in companies that can be transformational to China and offer real advantage in China's desired industrial upgrade." Specific sectors include: AI, Fintech, Robotics, Life Sciences, IoT, New Materials, New Energy and Autonomous vehicles.

Valuation arbitrage

In terms of valuations, we have not yet found evidence that Chinese buyers systematically pay more, although they often see European tech as 'good value'. Where markets stand currently, Chinese tech stocks, in our analysis, trade at broadly similar levels to the US, with Europe on an approximately 12% discount¹. However, it is no coincidence that the rise in tech M&A in 2016 followed a period of massive outperformance in the Chinese indices in 2015 (see Figure 1), which has now settled and continued outbound M&A will of course be sensitive to relative valuations and stock market volatility.

Figure 1. Performance of publicly traded technology stocks by region



Source: Capital IQ; top 50 companies classified as information technology by the country of exchange

1. Our basket of 50 leading technology stocks listed in each region show current median CY2017 PER valuations of: China 25.5x, US 26.0x, Europe 22.4x, Japan 19.9x

Dealmaking in practice

Chinese investors come in all shapes and forms. Large corporations such as Baidu, Alibaba and Tencent operate in a broadly similar fashion to the large US strategic technology acquirers, staffed with experienced M&A teams and with access to significant funds outside China. In addition, there is a second tier of listed companies that are also aggressively seeking foreign acquisitions to strengthen their offering in the domestic market or to expand outside China.

Our experience in dealing with these mid-sized companies is that it pays to ensure that the Chinese decision-makers are involved early in the process and meet the founder or CEO of the European company in to establish a personal bond before entering into any formal negotiation. This strong personal buy-in was immensely valuable in successfully close a number of deals we have advised on, including the sale of Rightware to Thundersoft and also the sale of the Danish audio company Libratone to a group of Chinese investors.

We always advise clients looking to China to start building personal relationships prior to starting a formal deal process.

There are a multitude of avenues open for establishing contact with a potential Chinese investor or acquirer and many Asian strategic acquirers are using advisors and agents to search the market. However, in our experience, the value of some intermediaries is hard to establish, as they may be far removed from the decisionmakers and indeed sellers may risk losing both time and potentially valuable IP if not handled in the right way. Furthermore, an introduction by a non-trusted party may shut doors rather than open them. Our preferred route is to do a deep analysis of the relevant strategic or financial parties and connect directly with the ultimate decision makers in order to build trust and achieve a speedy process.

Once strong relationships are established, our experience is that Chinese investors and buyers can and want to act very quickly – subject to any regulatory hurdles (see next section). Even though speed can be regarded as a positive, it is nevertheless important to keep the Chinese counterparty within a structured sales process and to make it clear that certain rules apply if they want to participate. The role of a trusted advisor in these processes is critical, particularly if they include parallel bidders from the US, Europe and Asia – all with their particular ways of working.

Our experience is that European sellers are sometimes concerned due to perceived or real lack of transparency of the Chinese process, even when Chinese bidders are offering to pay more or have a strong strategic rationale. Personal rapport and face-to-face meetings are critical – negotiation over the phone or over email between Europe and China is, in our experience, not a successful route. Chinese investors, once they have decided to complete a deal, tend to be flexible in terms of break fees and other mechanisms that can improve deal certainty for the seller.



THE INVESTORS' *View*



Matthew Brandt
Operating Partner,
SILK Ventures



Jake Watkin
Consultant,
SILK Ventures

What are your strategic investment priorities in Europe?

SILK Ventures is seeking 'deep tech, deep science' investment opportunities in companies that have the potential to be transformational to China and play a positive role in the country's industrial upgrade.

The usual SILK Ventures criteria of course applies: world-class, likeable teams with an impressive track record; preferably businesses that are growing with tangible intellectual property and existing market penetration.

All game changers are welcome but in terms of sectors, we focus on: AI, Autonomous Vehicles, Robotics, IoT (with industrial applications), New Energy and Health Tech, among many more. The key is to make us and our partners say 'wow'.

How do you go about identifying the best companies to target in Europe?

We highly value our long-standing relationships with accelerators, VC funds, entrepreneurs, universities, governments, Chambers of Commerce. Of course, we hope to be identified as much as identify.

Our team is global, rapidly growing and it's subject to the same tests as our investee companies – we hope that the expertise per niche, per nuance or per territory will impress the entrepreneurs that we work with as much as they impress us!

What particular specialisms do you think set Europe apart as an investment opportunity for Asian firms?

The frank answer is that Europe is not set apart any more than North America or the Middle East. We should all be working together to proliferate the best global technology for the global greater good.

If technologies have already successfully penetrated European markets and made their mark then hopefully some of the teething problems are gone. The greater concentration of tech innovation at present remains in Silicon Valley, and it makes sense for Europe to host the first major tests of breakthroughs before global roll out.

What are the characteristics of the Asian technology sector that you view as most appealing to European businesses?

From the SILK Ventures perspective, China's market size is absolutely the main attractor. Directly behind market size is the quality of the partners on offer and the access to capital.

What are the most important synergies between European companies and Asian investors?

Like-minded values and intent, of course. If this question had been asked in 2009, the self-evident answer would have been that European companies were "tech rich, capital poor" in the aftermath of the financial crisis. As a result, these businesses sought Asian capital perhaps through necessity rather than synergy.

The world has changed significantly since then. Tencent, Alibaba, Baidu and others have emerged as global tech leaders, innovators and sponsors in their own right. Western companies have recognised the potential and maturity of the addressable markets from China to South East Asia, with sophisticated finance and innovation hubs from Hong Kong to Singapore and soon-to-be leaders, such as Shenzhen.

So for us it's not a synergy as such, it's the fading of fear, the embrace of multinational teams and skillsets and the recognition of mutual opportunity.

How can European businesses prepare themselves for entry into Asian markets?

The practical advice is to: register your trademark, lock down your R&D centre on home turf, divide your process across different regional centres and employ seasoned professional to manage the process.

While acknowledging these simple, nuts and bolts essentials, we want to work with exceptional entrepreneurs that have asked themselves the following questions: is my technology going to solve a tough problem, deliver a great efficiency or create something new in China? Is my business stable enough to allow your team the proper time to 'go for it' in Asia? Have I made myself properly aware of the domestic and regional competition?

Do you think that there will be an increase in the number of Asian and European businesses working together in the next five years?

Absolutely. The appetite on both sides is massive but what could let us down is the lack of the 'bridging' element that brings it all together.

Ten years ago, Asian-European cooperation was centered around corporate mergers and Government cooperation; Mandarin wasn't a common language in the coffee houses of Old Street and Dutch infographers were not a common site in Chengdu. Now we don't 'bat an eyelid' at any of this.

We are doing all we can to have this continue and we are incredibly optimistic about future collaboration opportunities. We truly believe that cynics will be left behind – we wouldn't be in this business otherwise.



CHINESE OUTBOUND

M&A regulation tightened

GP.Bullhound



REGULATORY CONSIDERATIONS & *Political Support*

Tighter control on outbound M&A, but continued support for high-tech acquisitions

In November 2016, the Chinese government put in place regulations designed to control capital outflow and support the Renminbi. A Chinese privately held enterprise that wants to make an outbound acquisition needs to get approval or file an application with the National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM). A Chinese state-owned enterprise may also need approval from the State-owned Asset Supervision and Administration Commission. The additional tightening now also means that anyone that intends to remit \$5m or more from China will need approval from State Administration of Foreign Exchange (SAFE) before they can transfer funds offshore.

Meeting minutes from a high-level government authority were leaked to the market in November 2016 with a number of additional restrictions on outbound investments. The meeting minutes have not been officially confirmed, but actions from Chinese regulators indicate that this is the norm for now. Media reports indicate that the Chinese regulators will no longer approve deals involving investment of more than \$10bn, nor deals valued at more than \$1bn that fall outside a Chinese investor's core business. A number of regulators also held a press conference in December 2016 where they stated that they had seen irrational investments in real estate, hotels and the entertainment industry and said that investments in these sectors would be more closely scrutinized.

Although the new regulations are likely to cause delays, mid-sized high-technology acquisitions are a key part of China's "Made in China 2025" strategy. Investments in non-strategic areas for China are tougher to get through, while investments into technology companies which enhance China's competitive position are likely to continue to receive support.

In recent months, we have also seen a tougher approvals process in the US, with many Chinese deals coming under scrutiny by CFIUS. Discussions with Chinese buyers indicate that their investment searchlight is now more focused on Europe as a result.

GP Bullhound's most recent experience of transactions involving Chinese buyers is that internal decision-making is fast but that regulation changes have meant some additional uncertainty around regulatory approval and extended the time to deal closure. However, since regulatory approval tends to be viewed as a formality by the buyers, they are often prepared to provide material break-fees to provide comfort to the sellers. There is also a perception among Chinese buyers that they will have to provide a price premium to mitigate the potential risk of transacting with a Chinese buyer.





THE LAWYER'S

View

Terence Foo

*Co-Managing Partner,
Clifford Chance, Beijing*

It can often seem like Chinese buyers are big spenders, but that they come with regulatory uncertainties and cultural differences. For European entrepreneurs that can ring alarm bells; the key is not to be unsettled by unfamiliar approaches to doing business. In fact, the recent changes in the Chinese regulatory landscape prove the agility of lawmakers and a willingness on the behalf of government to embrace innovation.

Any business with Chinese interests needs to appreciate the importance of the government's strategic direction for the economy. In May 2015 it announced the launch of Made in China 2025, a national initiative to upgrade its manufacturing industries, focusing on quality over quantity and delivering technological innovation.

Practically speaking, this means those mergers and acquisitions that take place in sectors designated as innovative – such as robotics, nanotechnology, clean energy and AI – are likely to pass government approval. Investments and deals in less strategic areas such as online gaming, entertainment and sports are, for now, facing stricter scrutiny from the Chinese authorities. If your deal does not reflect the strategic direction of the Chinese economy, it is likely that Chinese buyers may face more challenges when seeking regulatory approval.

Overseas buyers and sellers need to consider the motivations behind such an approach. Not only is the Chinese government committed to grand initiatives such as Made in China 2025 or the Belt and Road Initiative, it has been keeping a watchful eye over its foreign exchange reserves. If you consider the dip in foreign exchange reserves levels last year in China and the government's swift response to restrict capital outflow, this can be interpreted as an entirely rational reaction. Still, we view this as a temporary situation and the long-term trajectory is towards an open and amenable attitude to dealmaking with foreign companies.

Meanwhile, we are seeing a good pipeline in the volume of M&A deals, particularly involving Chinese state-owned buyers. Why? Because there is usually a clear strategic angle to these deals.

For those seeking to sell to Chinese buyers, make sure you do your due diligence. For example, if you are approached by a Chinese buyer, know where the funds are coming from: if the funds need to move from onshore to offshore, you need a clear understanding of the regulatory approvals required and how long it would take to obtain, in order to minimize surprises further down the road.

Secondly, get to know the Chinese firm and its people. We often work with European businesses that start out hesitant to engage with the Chinese market because they have read the headlines and believe they are entering a business environment where regulation makes no sense – if it exists at all.

If this is the case and you feel like you are stepping slightly into the unknown, the role of a trusted, international adviser is key. From your lawyers to your accountants, your bankers to your consultants, bringing in external advice to support you through the dealmaking process is invaluable.

Also, remember that negotiations are often built on face-to-face contact. It is amazing how a simple, frank conversation with a potential partner can dispel so many fears. Even then, some of the issues that you encounter during your discussions will not necessarily be resolved at the negotiation table, but over dinner. Know who the decision makers are; they may not be the ones who turn up at the negotiation table.

The most basic piece of advice that I could leave you with is this: don't panic! It may seem like you are heading into unknown territories, but partnering with Asian businesses offers clear, strategic advantages. Simply match transparency with expert advice and you are setting yourself up for a smooth transaction, and a great price for your product.



METHODOLOGY

- » *Technology companies headquartered in Europe*
- » *Receiving investment from an Asia headquartered buyer.*
Asian countries included are China, Hong Kong, India, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam
- » *Focusing on majority transactions (>50% acquired)*
- » *Mergermarket data for transactions since 2010 until April 2017, with a focus on 2014 onwards for trends with disclosed deal sizes*

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ABOUT US

GP Bullhound

GP Bullhound is a leading technology merchant bank, providing transaction advice and capital to the best entrepreneurs and founders in Europe and beyond. Founded in 1999, the firm today has offices in London, San Francisco, Stockholm, Berlin, Manchester, Paris and Hong Kong.

MERGERS & ACQUISITIONS

We act as a trusted adviser to many of Europe's leading technology companies in competitive international sale and acquisition processes. The firm has completed over 120 M&A transactions to date with a total value of over \$3.5bn.

CAPITAL TRANSACTIONS

We have advised companies and their owners on more than 120 capital related transactions including venture capital, growth capital, acquisition funding, secondary block trades and Initial Public Offerings. The firm has raised over \$1.5bn of financing for European technology companies to date.

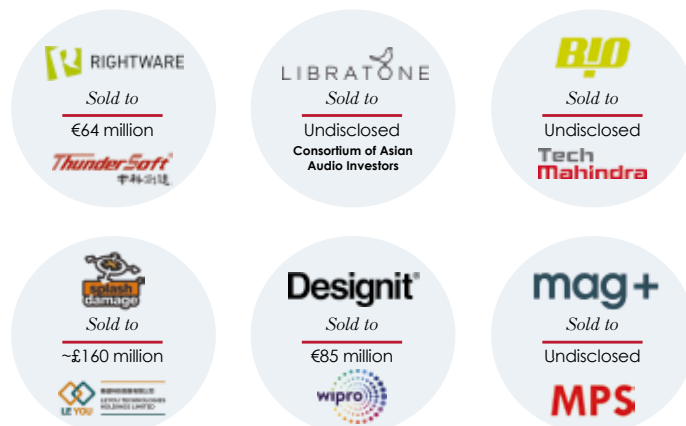
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EVENTS & RESEARCH

Our events and speaking activities bring together thousands of Europe's leading digital entrepreneurs and technology investors throughout the year. Our thought-leading research is read by thousands of decision-makers globally and is regularly cited in leading newspapers and publications.

OUR MARQUEE CREDENTIALS IN ASIA





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