

Chinese Outbound Automotive

Q1 2014 saw four Chinese outbound automotive investments – all within the month of February. In light of the increased volume, as well as the various M&A tactics employed, we chose to add an Appendix to this document specifically on these transactions. While we discuss each in some detail, we also decided to highlight key points/tactics which we feel are relevant for companies/managements considering transactions with Chinese partners.

Wanxiang/Fisker

Wanxiang, founded in 1969 in a bicycle repair shop, is China's largest auto parts supplier. It entered the US in 1994 and as of 2013 produced USD 2.5bn revenues from operations employing 6,000 in 14 states. Fisker, founded in 2007, built electric cars from a former General Motors plant in Delaware. Funding of a reported USD 1bn was provided by a number of sources, including a loan from the US Energy Department.

California based Fisker Automotive Holdings ("Fisker") specialised in plug-in hybrid luxury sedans (Karma) with a price point of around USD 100,000. It started selling Karma's in 2011, with a goal of selling 11,000 by 2012. In 2011, it sold only 1,800 before suspending production in July 2012. This led to Fisker filing bankruptcy in November. At the time of filing, Fisker's creditors were hoping for a price of USD 25m for Fisker's assets.

In 2013, as reported in COI Volume 20, Wanxiang successfully acquired the assets of A123 Systems from bankruptcy. A123 made batteries for Fisker.

During the first two months of 2014, the Bankruptcy Courts conducted a three day auction of Fisker's assets. During this auction, there were 19 rounds of bidding with Wanxiang besting a business owned by Richard Li (of Hong Kong) which had previously acquired the Energy Department Loan. Wanxiang's winning bid of USD 149.2m included 18 existing patents, 18 pending patents and the former General Motors plant.

Wanxiang plans to recommence producing Karma's luxury sedans within a year in the US and consider taking these to China in the future. There is also discussion around launching a second model – Atlantic – a mid-sized gasoline-electric hybrid sedan which has a much lower price point.

It is interesting to note that once the Bankruptcy Court finalised the transaction, Wanxiang announced that it was in discussions with Bob Lutz to blend the Karma body and brand with a Corvette like power train to build a petrol use car which can hit speeds of 320 km/hr.

From our perspective, this deal represents another case of defusing the myth that Chinese companies do not participate in auctions.

Atieva/Beijing Automotive

Atieva, a new energy firm based in Silicon Valley, is an early stage developer of battery packs for plug in cars. Atieva works on software monitoring individual battery cells, mechanical packaging and controls for vehicle battery packs. The goal is to produce customized packs primarily for smaller, independent car companies and cars such as the Tesla Roadster, Chevrolet Volt and the Audi R8.

In 2009, China Environment Fund (managed by state backed Tsing Capital) made an investment in Atieva with a commercial goal to sell a number of the battery packs for Chinese buses as well as to introduce them to Chinese automakers.

In February, Beijing Automotive Group, one of China's largest automotive companies, announced a deal to acquire 25.02% of Atieva. In 2013, Beijing Automotive established a branch company for new energy vehicle development. Three years after the completion of the acquisition, the two organisations plan to launch a new high level electric car.

We believe that this transaction is another example of a Chinese strategic party investing in a company which has been a successful investment for another Chinese entity.

Peugeot-Citroen/Dongfeng

Chinese automaker Dongfeng and the French Government announced plans to each invest USD 1.1bn into French car manufacturer PSA Peugeot Citroen ("Peugeot") for a 14% stake in Peugeot. Peugeot, founded in 1810, is France's largest (and one of France's oldest industrial dynasties) and Europe's 2nd largest automaker (behind Volkswagen). The two investments, combined with a new equity raised from existing shareholders, would inject over USD 4bn into loss making Peugeot. This new equity permits refinancing options from Banco Santander, an important lender to Peugeot.

Following the share offering, the Peugeot family will see its ownership reduced from 25.4% (and 38% voting rights) to 14%, the same as Dongfeng and the French Government. All three parties will have equal voting rights, and each have two Board seats. This deal in effect ends control by the Peugeot family.

In 2012, Peugeot closed a major French based manufacturing plant. As part of the investment, the French Government mandated that there will be no additional French plant closures.

Peugeot and Dongfeng have been assembling vehicles in China since 1992, so this is an extension of a 20+ year strategic partnership. This JV is hoping to raise production by two thirds to 750,000 by 2015 and to sell 1.5 million vehicles per year from 2020. It will also develop a research and development centre in China as well as a distribution unit focused on Southeast Asia.

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Emerald Automotive/Zhejiang Geely

Geely, a Fortune 500 company, which previously acquired Volvo (2010) and Manganese Bronze (2013), announced the acquisition of Emerald Automotive ("Emerald"), a UK (Coventry) based electric-vehicle manufacturer. Emerald, which has 25 staff and bases in Essex and the US, develops prototypes of light-weight hybrid electric vans. Geely stated that the primary reason for the acquisition was to provide technology for next generation taxis, including electric taxis.

Although the purchase price was not disclosed, Geely agreed to invest a minimum of USD 200m over the next five years to develop Emerald's new vehicles. It also agreed to maintain Emerald's existing loans with two Missouri based institutions. One such local agreement requires Emerald to build 4,000 delivery vans in Missouri by the end of 2017, in the process creating 300 new jobs. Emerald has until the end of 2018 to pay back the loans. *Finally, Geely agreed to keep all of Emerald's existing management in place.*

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