

CASE STUDY

Techcent's acquisition of 100% of shares in Bilfinger Water Technologies GmbH

Background

In February 2016, Chengdu Techcent Environment Co Ltd (TC), a Chengdu-based environmental technology company listed on the Shenzhen stock exchange, acquired 100% of shares in German company Bilfinger Water Technologies GmbH (BWT). The transaction took place against the background of a limited auction process involving over 30 interested parties.

BWT is a global leader in the supply of systems, components and services in the water and wastewater technology sector, generating revenues of about €300 million in 2015 and employing 1,600 staff.

BWT was sold to TC by Bilfinger SE, a leading German engineering and service group listed on the Frankfurt stock exchange, which is currently undergoing a major strategic repositioning and restructuring. The transaction was financed by North East Securities, a China-based financial institution, who acted as sponsor to TC and bridge financing provider. The ultimate financing of the transaction will be provided through a capital increase and a share issuance at the Shenzhen stock exchange.

Insights

The deal is a prime example of the continuing wave of Chinese direct investments into the EU – and in particular Germany. Transactions like these show that China's recent economic slowdown has not hurt Chinese interest in Europe, in particular focusing on high-tech areas such as the environmental, industrial, automotive and chemical sectors. Among the main drivers of this megatrend is China's aim to modernize its local

economy and lift it to a higher, more globalized standard with the help of German technology, production know-how and brands. To facilitate this, the Chinese government has implemented an aggressive reform agenda to create leading companies in selected global markets in order to improve China's growth prospects.

By investing in BWT, TC acquired specific, market-leading technology and know-how in an area that is gaining more and more weight for China – the environmental sector. Water treatment and purification technologies are key in an economy that has to deal with a population of more than 1.3bn people and the resulting environmental challenges. In addition, BWT offers TC access to a global production and distribution network with presences in Europe, the Americas, Africa and Asia/Australia, while at the same time enabling BWT to distribute its high-tech products widely across the vast Chinese market through TC's sales network. In addition, combining BWT's and TC's production capacities is expected to create substantial economies of scale and other synergies. TC's stock price is expected to reflect this outlook, clearly trending upward before the trading was suspended in connection with the BWT

transaction and offering TC an efficient way to refinance the transaction through a share issuance.

A further lesson to be learned from the BWT transaction is the fact that Chinese companies – even deal-experienced and dynamic ones such as TC – still have to overcome a substantial number of challenges and hurdles when competing for attractive targets such as BWT. Not only will bidders have to observe Chinese and European governmental requirements (the BWT transaction required filing obligations in China and anti-trust filings abroad), but financing these kinds of transactions typically also proves to be challenging due to a number of factors, including the need to transfer funds from China at an early stage in the process in order to show financial capability. Moreover, Chinese investors looking into Germany face a highly competitive environment, with a large number of other bidders chasing the same targets, including manifold financial investors (PE), international strategic investors and other Chinese suitors. TC managed to handle all these barriers by working together closely with the combined Chinese / German KWM deal team, thereby keeping a close eye on the timeline and liaising closely with the authorities as well as key individuals at the sell-side at all times.

