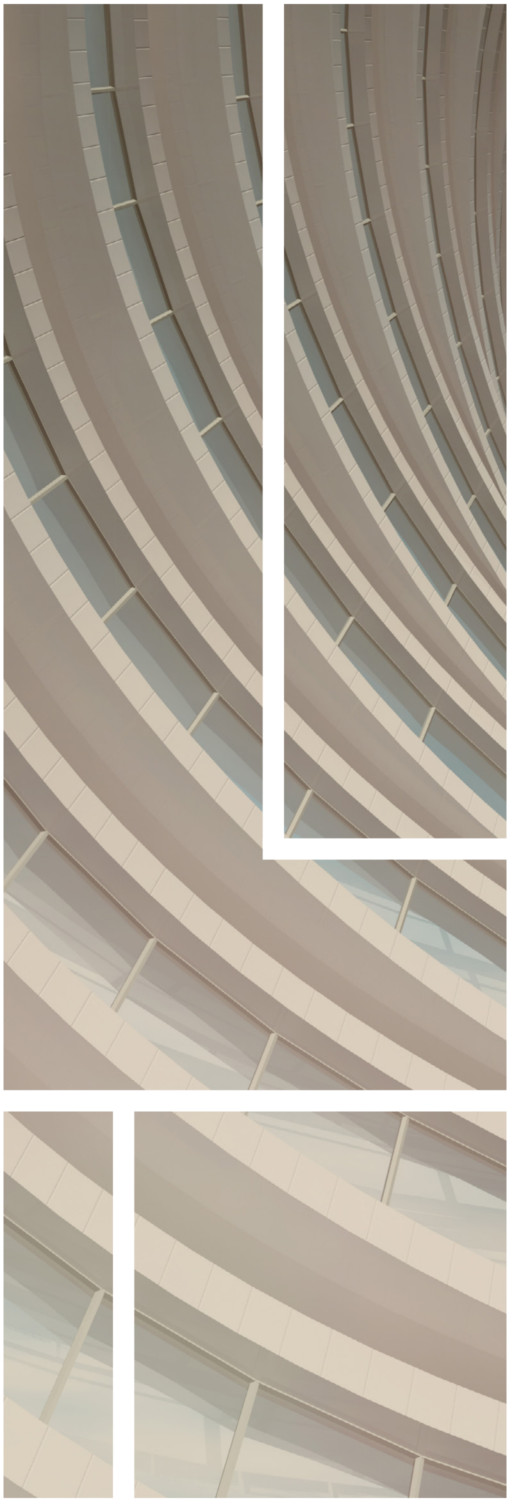
When Chinese Consumers Buy Western Brands, Chinese Investment Follows



When Solid Gold, a U.S.-headquartered pet food brand, began selling its gut-healthy pet food through e-commerce giants JD.com and Tmall.com in China, little did they know that they might have struck gold themselves.

Their premium brand was flying off the virtual shelves in China, buoyed by secular trends such as the explosive growth of the Chinese middle-class, the premiumization trends within pet and consumer focus on health and wellness—for both themselves and their pets.

When Solid Gold turned to Lincoln to find the right buyer, bids from China-based investors overshadowed European and North American investors. Ultimately, the business was purchased by a Chinese strategic for a multiple that outstripped non-Chinese investors: 23.7X LTM EBITDA.

While Solid Gold had a number of investor suitors, Chinese investors were able to reflect the true potential of their own domestic market—not just today, but five years down the road.

THE RISE OF THE CHINESE CONSUMER

This deal was Lincoln's latest in a series of four cross-border transactions involving U.S.- or Europe-based consumer brands and Chinese investors. It is an example of the systemic trends that are driving Chinese consumer demand for Western brands—and attracting the attention of Chinese investors in foreign companies.

Growing Chinese middle class: For years, global brands have courted Chinese consumers due to the country's massive population and growing purchasing power. Brands are recognizing that Chinese consumers are on track to become global trendsetters. Today, 20% of the world's middle-class lives in China. The middle-class in China has been growing exponentially year-over-year and has been projected to hit as many as 1.2 billion people by 2027. China's middle-class also outspends other nations, with its middle-class estimated to have spent a cumulative $7.3 trillion in 2020.

Premiumization of Western brands: In China, American- and European-made products often carry a reputation for quality. This has increased the allure of Western imported goods. As Chinese consumers earn more, we expect that they will become increasingly willing to pay a premium for high quality goods imported into the country.

Emphasis on Consumer Health & Wellness: China's population is aging; by 2030, 223 million consumers in China will be 65 or older—compared to just 75 million in the United States. With this aging demographic comes an increased emphasis on health and wellness and growing demand for health-centric products. The COVID-19 pandemic has further accelerated this trend in China and on the global stage.

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LINCOLN PERSPECTIVE: APPEALING TO CHINESE INVESTORS

Ultimately, to appeal to Chinese investors, Western brands typically need to have traction with Chinese consumers. Chinese investors—from strategics to private equity—often pay higher prices than anywhere else in the world given the size of the market opportunity within China. Plus, recent stock market surges in China indicate that consumer spending has finally bounced back in China, surpassing pre-pandemic levels.

Top consumer sectors drawing Chinese investment interest include food & beverage, health supplements, juvenile products, personal care/beauty and branded pet food. Consumer products with an e-commerce angle will be particularly attractive given COVID-19 shopping habits have turbocharged online buying. The following tips can aid Western consumer brands in these sub-sectors looking to solicit Chinese investor interest:

1 Demonstrate Chinese consumer appeal

Western consumer brands that capitalize on the secular trends mentioned above to build a proven customer base in China can attract the attention of Chinese investors. As part of the growth strategy and in advance of a potential sale process, demonstrate that your product and brand have caught the attention of Chinese consumers. Even initial momentum in China will be valuable, as Chinese investors will see potential for additional growth in the next years. However, if you have not yet established brand recognition among Chinese consumers, Chinese investors still may be interested in a minority stake to help explore that growth opportunity.

2 Establish distribution channels in China

Ensure your product has a clear distribution strategy in China that will provide access to the key channels and consumers you are targeting. Options include building out your own local infrastructure or finding a local experienced distributor partner. Either strategy could have advantages, but the challenges – especially for a company with limited experience or capability in China – should not be underestimated.

3 Consider setting up or converting an existing WFOE (Wholly Foreign Owned Enterprise) into a joint venture

A Chinese partner can bring invaluable knowledge of local tastes, quality distribution and supply chain and the ability to deal with local officials. Chinese government encouragement of local employment and research and development also boosts the joint venture company's attractiveness to local investors for potential future expansion or advantageous exit.

4 Consider the regulatory hurdles to market your products in China

With trade wars and increased scrutiny of Chinese investment in Western assets, brands often worry that regulatory approval will be challenging. China's Two Sessions 2021 and recent 14th Five Year Plan provide further insight into the future business climate for foreign brands in China. Consider: What are the regulatory requirements to sell your products in China? Do you have the team and advisors to work through these requirements? Note navigating these challenges can often take 12 months+ and needs to be understood in parallel with any strategy targeting the China market. Non-critical industries without defense implications do not face as many hurdles—and having a well-connected local partner onboard can act as a significant accelerator.

COMPLETED FOREIGN BRAND AND CHINESE INVESTOR TRANSACTIONS

VMG Partners	Heineken	Kohler	Weston Presidio	Whalen	AAC Capital Partners / parcom capital
has sold	has formed a partnership with	has sold	has sold	has been sold to	has sold
solid gold	華潤啤酒 CR Beer	Baker / Milling Road / McGuire	evenflo	Li & Fung	inalfa sunroofs
to		to	to		to
H&H Group inspiring wellness		Samson Holding	gb		北京海纳川汽车部件股份有限公司 BEIJING HAINACHUAN AUTOMOTIVE PARTS CO. LTD.
Sell-Side	Joint Venture Create	Sell-Side	Sell-Side	Sell-Side	Sell-Side

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