



Department of Business and Management Chair: Structured Finance

**Cross Border M&A Activity Between Italy and China: An Empirical
Analysis of Recent Case Studies**

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ACADEMIC YEAR 2015 — 2016

Abstract

This thesis is an empirical analysis of the M&A transactions between Chinese and Italian markets. The Chinese M&A market has developed a lot since 2013 in terms of the deal's number and values. The cross-border M&A transactions of Chinese companies have taken more and more important role with the increasing number and values. This kind of outbound deals are always with higher values compared with the inbound ones. The Italian market works as one of the hot destinations for the Chinese outbound deals. The Italian M&A transaction market has experienced the slowdown after 2008 financial crisis and the European debt crisis and then has rejuvenated from 2013. The Italian government and companies also welcome the rich Chinese investors to do deals in Italy to not only solve the financial distress for Italian companies and afford stable financial support, but also to improve the whole economic situation in Italy. Sometimes, the deals are related to the privatization of the Italian state-owned companies. From the previous case studies, we could find that the main deals happened in the industries of energies & chemicals, manufacturing, and heavy industries. These cases would also have some common patterns for us to refer to in the future deals.

In this thesis, I will briefly introduce the current situation of M&A markets both in China and Italy, including the reasons for the booming of Chinese market, the reasons for the rejuvenation of Italian market, including the regulations, government supports, the macro-economic situation, and so on, the deal's number and values in the past years in China and Italy, the deals conducted between China and Italy, and then through three typical cases—Pirelli, Ferretti and CIFA, to come to the common patterns of the deals between two countries, including the introduction of the bidders and targets, the rationalities behind the deals—it could be financial or strategic reasons, the process of the deals, and at the end the conclusion part—the future trend of deals between two countries based on the analysis and the common case patterns.

Key Words: M&A transaction, Chinese market, Italian market, cross-border transaction, reasons for booming & rejuvenation, Pirelli, Ferretti, CIFA, future trend

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Introduction

As we all know, there is a big development in the Chinese M&A transaction market in the recent years, including the transactions among national companies, and also these among the international companies, which is to say, the cross border transactions. Europe, which is still struggling to survive from the severe debt crisis, as we can see from large quantities of data, has been one of the hot spots as the investment targets of the Chinese companies. M&A transactions, as one of the major financial investment activities, takes a more and more important role. Italy, a country as the leader of the fashion industry and luxury products, inevitably, cannot escape from being involved within the European debt crisis, which is triggered by the Greek debt crisis with the Greek sovereign debt rating to “junk” status and started from the end of 2009. The European sovereign debt crisis has a tragic influence on Italian national economics. Although, with the EU emergency reactions, the help from the Fed and other countries, and also the quick rescue reactions of the Italian government, Italy would be expected to progress to the turnaround stage in spring, 2013 or in mid-2013, Italian national economy is still on the downhill path. In August, 2013, the unemployment rate in Italy was 12.2%¹. In 2015, the unemployment is still 12%.² In spite of these, the technologies and brands of Italy have the fatal attractions to the Chinese companies and investors. Italy, gradually, has become one of the largest target countries of the M&A activities of the Chinese companies.

This thesis will focus on the analysis of the M&A transactions between Italy and China through detailed case studies, which will lead to the conclusion and also the prospects about the future development of cross border transactions between these two countries. So in this thesis, firstly, I will give a brief introduction of the current situations of the Chinese and Italian M&A market respectively. Secondly, I will state the current transactions between these two markets, with the support of the quantities of data, including the reasons why the cross border transactions between China and Italy are so popular, the total transaction volumes, the market size, and so on. Then I will analyze some specific cases, to discover the internal pattern or regulations, or the strategic rationality behind these cases. These cases will be CIFA, Ferretti and Pirelli. The last part will be the conclusion part. From all the analysis and presentation above, I will give a clear expectations for the future development in M&A activities for both countries, including the future trend and also the government regulations or support, like this.

¹ Data from “New York Times”, report “Tracking the Euro Zone’s Crisis”, January, 14, 2014

² Data from “Ministry of Commerce of the People’s Republic of China”, <http://data.mofcom.gov.cn/channel/gbsj/gbsj.shtml>;

1. The brief introduction of the current situation of the Chinese M&A transaction market

1.1 Data evidence for the Chinese current M&A situation

Nowadays, Chinese M&A markets has become the second largest M&A market in the world, just following after the American market. The year 2013 is regarded as “the first year of a new era for the Chinese mergers & acquisitions”. With the support of the Chinese government and under the background of the market willingness for the M&A activities, there came the new era for the Chinese M&A market. According to the report < PwC M&A 2015 Review and 2016 Outlook> by David Brown, Transaction Services Leader, PwC China and Hong Kong, and Christopher Chan, Advisory Partner, PwC China and Hong Kong, the total number and values of the M&A deals in the Chinese market in 2013 reached 4,448 and \$255.9 billion, whose year-on-year growth rate were 7.75% and 24.89%.³ Besides, the number of the M&A transactions closed in 2013 is 1,232, and the year-on-year growth rate was 24.3%. Among these activities, 1,094 cases took place among the national companies, and the values were \$41.74 billion, which composed 44.8% of the total transaction values. The left, 99 cases, were finished by both the national and foreign companies, which referred to be the cross-border transactions. And the related amounts were \$38.495 billion, 41.3% of the total amount.⁴ From the data we can see, even if the number of the cross border transactions was relatively small, compared with the inbound transactions, the average size of each transaction was much larger than that of the inbound ones. This situation continued in the M&A activities in 2014 and 2015. The reason for this phenomenon is because the M&A deals between Chinese companies and foreign companies usually happen between two or several companies with big names and important influence in the domestic or worldwide markets so it’s obvious the deals among these companies require much more capitals than other regular deals.

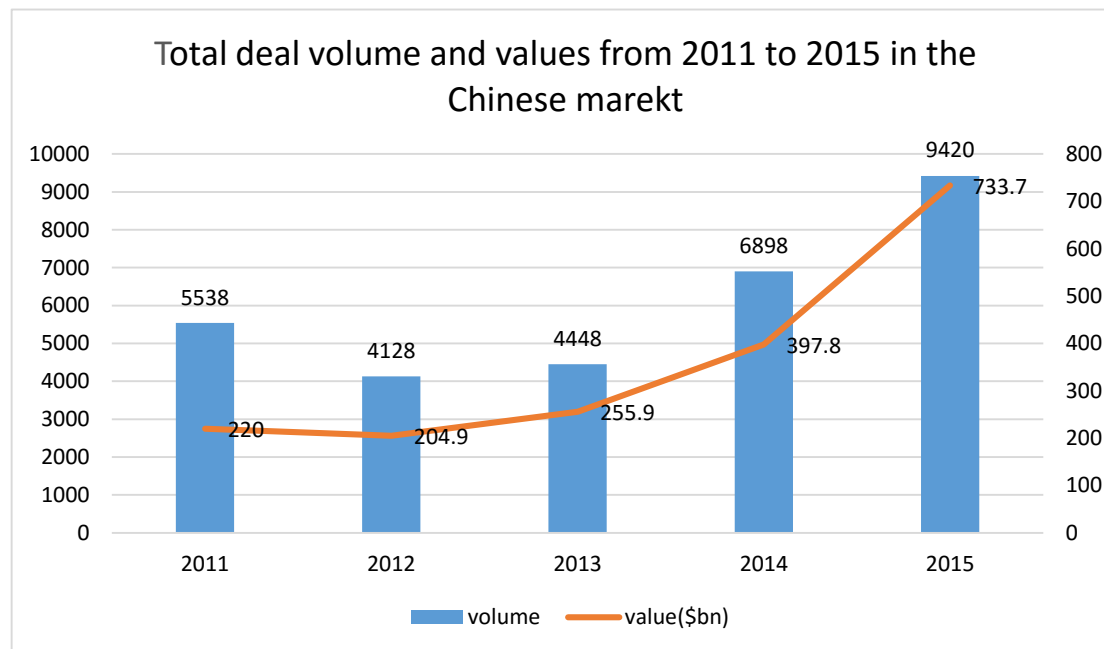
The year 2014 has continued the prosperities in the Chines M&A market of 2013. According to the PwC’s report mentioned above, the number of the M&A transactions has reached 6,898, with the total values of \$397.8 billion. The year-on-year growth rates, respectively, were 55.08% and 55.45%. Among these transactions, the closed ones reached 2,574, with the year-on-year growth rate of -3.67%, a slight decrease. But the finished transaction size reached \$189.802 billion, which guaranteed a 6.83% year-on-year growth

³ Data from the report < PwC M&A 2015 Review and 2016 Outlook>, by David Brown, Transaction Services Leader, PwC China and Hong Kong, and Christopher Chan, Advisory Partner, PwC China and Hong Kong, on 26th, January, 2016;

⁴ Data from the article “summary of 2013 ‘the first year of M&A market’—ten big events to refer to” on “International Business Daily”, A6, <http://epaper.comnews.cn/read-1502-31596.html>

rate, if compared with the market performance of 2013.⁵ In 2015, the number and also the values of M&A deals in Chinese markets reached a new record, respectively 9,420 and \$733.7 billion. The total values almost doubled compared with 2014.

From the graph below, we can see the trend and changes in the M&A deal numbers and values in a more distinct way.



The graph shows the trend of increase in the near future. The dramatic increase of 2015 could be explained by the economic transformation in the domestic market, the consolidation and restructure in certain industries under the guidance of the Chinese government and also the stable business and politic environment.

1.2 The industries which have had outstanding performance regarding to M&A activities

If we dig into the specific industries, in which the most transactions took place, we would find out that even though the traditional industries has still occupied an important position in the whole Chinese M&A market, the newly emerging industries, like bio-technology industry, internet industries (especially, BAT—Baidu, Alibaba and Tencent) have obviously played a more and more important role. According to the report of “2013 Chinese M&A market analysis”, from the aspect of the number of the closed M&A transactions, in 2013, the first three industries were all the traditional ones, which were energies & mineral industry, the real estate

⁵ Data from the report “the transaction size of 2014 has hit a new high and the profit return of the exit of M&A transactions is 190%” of ChinaVenture, Research Institute, Author: Liu Boyu, 6th, Jan, 2015; <http://www.chinaventure.com.cn/cmsmodel/report/detail/968.shtml>

industry and the financial industry. The numbers of the closed transactions in these three industries were 152, 148 and 112, with the percentage of 12.3%, 12% and 9.1%, respectively. From the aspect of the transaction values the first three industries were still the ones above with the same order, values of each were \$29.518 billion, \$14.275 billion and \$13.544 billion, with the percentage of 31.7%, 15.3% and 14.5%. Several transactions with significant values in these three industries has led to this result. In the first, third and fourth quarters, three large transactions in the energy industry were finished, including the China National Offshore Oil Corporation (CNOOC) acquiring Nexen (a global energy company located in Canada) with \$15.1 billion, Sinopec Group acquiring 1/3 of the Egyptian branch of Apache (an American energy company) with \$3.1 billion, and also the China National Petroleum Corporation (CNPC) acquiring BHP Billiton Ltd. (a multinational energy & mineral company in Australia) with \$1.712 billion. These three were all cross border transactions. In 2014, there was a big change in the industries taking the first three places, in which the most transactions took place. From the aspect of the transaction number, the first three industries were manufacturing, internet technology and energy & mineral industry. The finished transaction numbers for each are 388, 319 and 276, with the percentage of 15.07%, 12.39% and 10.72%. When considering from the aspect of transaction values, the comprehensive industry, the financial industry and the energy & mineral industry took the first three places, with values of \$40.884 billion, \$20.187 billion and \$17.818 billion, and the corresponding percentages were 21.28%, 10.64% and 9.39%.⁶ In 2015, there were big improvement in the deals value in the sectors of high technologies and financial services, the values were almost doubled. And in the sector of energy & power, the values were almost tripled, according to the PwC report mentioned.

1.3 The reasons for the enormous blowout in the Chinese M&A market since 2013

So why has there been such an enormous blowout in the Chinese M&A market since 2013? If we want to understand the current situation deeply and widely and to give better forecasts about the future development about the Chinese M&A transaction market, analyzing the reasons which lead to this blowout is important and essential.

From the aspect of the external macro-environment, government regulations and policies have played an important role. Ministry of Industry and Information Technology of the PRC, National Development and Reform Commission and the Ministry of the Foreign Affairs jointly published the “the advices on implement

⁶ Data from the report “the transaction size of 2014 has hit a new high and the profit return of the exit of M&A transactions is 190%” of ChinaVenture, Research Institute, Author: Liu Boyu, 6th, Jan, 2015; <http://www.chinaventure.com.cn/cmsmodel/report/detail/968.shtml>

of encouragement and guidance to the private enterprises to conduct the overseas investment". On 22nd, January, 2013, a new document for regulating the market named "the guideline for accelerating mergers and reorganization of the companies in the key industries" was published by Ministry of Industry and Information Technology of the PRC, National Development and Reform Commission, State-owned Assets Supervision and Administration Commission (SASAC) and other ministries and commissions of the PRC. In the guideline, it clearly states the targets and missions of the mergers and reorganization of the companies in nine industries, including "automobile, steel, cement, ship, electrolytic aluminium, rare earths, electronic information, medicine and agriculture". Besides, since on 8th, October, 2013, there has been a differential audit system for the mergers, acquisitions and reorganizations for companies by China Securities Regulatory Commission (CSRC) according to their financial consultants' practice ability, the standardized operations of listed companies, their credit conditions, the different industries and transaction types. For the applications which are qualified for the standards there will be an advantage of an exemption or a quick assessment. Under this condition, the efficiency for the assessment of the applications would have been improved in an extreme degree. The second reason for the rapid development of the M&A market is also related to the financial market's regulation. The primary IPO has been suspended from time to time by CSRC. Therefore, M&A has become the main way for the private equities and venture capitals to exit from the market and receive the investment return. According to the data supported by the Qingke Research Center, in 2013 there were 446 M&A transactions supported by PE/VC, while at the same time the IP transactions supported by PE/VC was only 27. And M&A has taken 33% of the market exit for VC and for PE was 27.2%. Compared with the market exit as IPO, M&A also has its own advantages, for example, it's more time-saving and constrains about the financial performance, types of the companies are less. Usually, the acquirer would obtained high leverage profits from the transactions.

The third reason would be the rise of the emerging industries in the market. Among this, the internet industry has the extraordinary activity, especially the BAT giants, which refer to Baidu, Alibaba and Tencent. With the desire of retaining their market position and increasing their market shares, the three giants acquired small companies in the industries. Among the 44 transactions closed in 2013, the main acquirers are the BAT. For example, in January, Alibaba planned to purchase 100% of Xiami (a music website) and in April, Alibaba successfully purchased 18% of the Sina Weibo; in August, Baidu acquired 91 wireless service with 1.9 billion dollars, and in September, Tencent acquired 36.5% shares of Sogou. The year-on-year growth rate for 2013 for this segment was 37.5% in terms of the transaction number. When it came to the transaction amounts, the growth rate increased to 922.7%, from 0.269 billion dollars in 2012 to 2.751 billion dollars in 2013. From the

data, it's obvious that the development in the internet industry has made a great contribution to the booming of the M&A market, especially from the aspect of the transaction amounts.

The fourth reason is that the rapid development of the buyout funds. The PE industry has experienced a booming since 2009 and attracted large amounts of hot money. But as the time passed by, the investment return of PE has decreased gradually. So comes the buyout fund. According to the data from Qingke Research Center, in 2013, there were 19 buyout funds set up in PE and 2.507 billion dollars have been raised through these buyout funds. This kind of fund is usually organized simultaneously by real enterprises and PE companies, where the PE companies work as the financial consultants rather than the traditional role in its own segment. Another reason is that the consolidation of the whole industry value chain has become a mainstream and companies achieve growth not only by improving the inner condition of themselves, but also by expanding in the whole industry value chain, through the horizontal and vertical integration, like extension of product lines, entrance of new markets, manufacture of raw materials, acquisition of the distribution channel, and so on.

The last but not the least reason is the influence of globalization. With the global economic integration, the internationalization of the Chinese currency RMB, and also the large amounts of the foreign exchange reserves, the Chinese companies are eager to enter into the foreign new markets to obtain growth. In 2013, there were 99 successful cross border transactions, where one side was the Chinese market participants. They composed 8.0% of the total transactions. And in 2014, there were in total 219 closed cross border M&A transactions with Chinese participants. Among them 175 were the outbound activities with 31.425 billion dollars, which possessed 16.56% of the total amounts.⁷ The Chinese participants would benefit a lot by obtaining new or rare resources, advanced high technologies and entering into new markets, which guarantees companies' growth. As the QE VI of the Federal Reserve (FED, USA) has been gradually tightened, the interest rate of US dollar has increased and US dollar has appreciated. China could make fully use of the foreign exchange reserve of the US dollar. Besides, the exchange rate of RMB would not go up or even it would decrease, so for a long period in the near future, it would be wise for capital export for the Chinese enterprises. From this aspect, we could expect that in the near future, the cross border transactions will increase, both in the number and in the amounts.

⁷ Data from the report "the transaction size of 2014 has hit a new high and the profit return of the exit of M&A transactions is 190%" of ChinaVenture, Research Institute, Author: Liu Boyu, 6th, Jan, 2015; <http://www.chinaventure.com.cn/cmsmodel/report/detail/968.shtml>

2. The brief introduction of the current situation of the Italian M&A transaction market

2.1 Brief introduction to the European debt crisis and its influence to the European and Italian financial markets

The Italian financial market has been severely affected by the European sovereign debt crisis, which broke out, firstly, in Greece, later spread to Italy, Portugal and Spain, and then had bad influence throughout almost the whole Europe. With the downgrade of Greek sovereign debt, which led to the downgrade of the government bonds' credit of a majority of the countries in the Euro zone, except Austria, France, Germany and Holland, the credit crisis in the Europe also widespread broke out. The credit default happened frequently, which led to the increase of the financing costs and had negative impact on the investment activities and consumption behaviors. People were down on the expectations of the market development and national economies. Therefore, the European financial market has been also negatively affected.

The European debt crisis raised more risk aversion of the global investors, so the countries and regions with more positive economic development and safe capital investment environment attracted the majority of the invested capital in the world. For example, in the fourth quarter of 2011, the net capital inflow of the American securities investment was 160 billion dollars, which in the PIIGS countries, the private capital inflow decreased, and even there was only net capital outflow. In Italy, from the first quarter to the fourth quarter in 2011, the private net capital inflow decreased from \$34.8 billion to \$6.6 billion. After the debt crisis happened, the wages in Italy had hit a 25-year low and consumption had also fallen to the level of 1950, which means a severe internal devaluation caused by the crisis. From 2010-2012, the average growth rate of GDP in Italy was around -3% as a result of the debt crisis. The macro-economic environment, therefore, has been ruined at large extent by the crisis. The development of the financial markets, including the domestic M&A transaction market, was blocked at that time. So was the same situation in the European M&A markets. According to the data offered by the "Merger market", in 2009 and 2010 the values of the European M&A market was in total of \$467.8 billion and \$637.8 billion, which were much lower than that of 2008, equal to \$1,003.9 billion.⁸

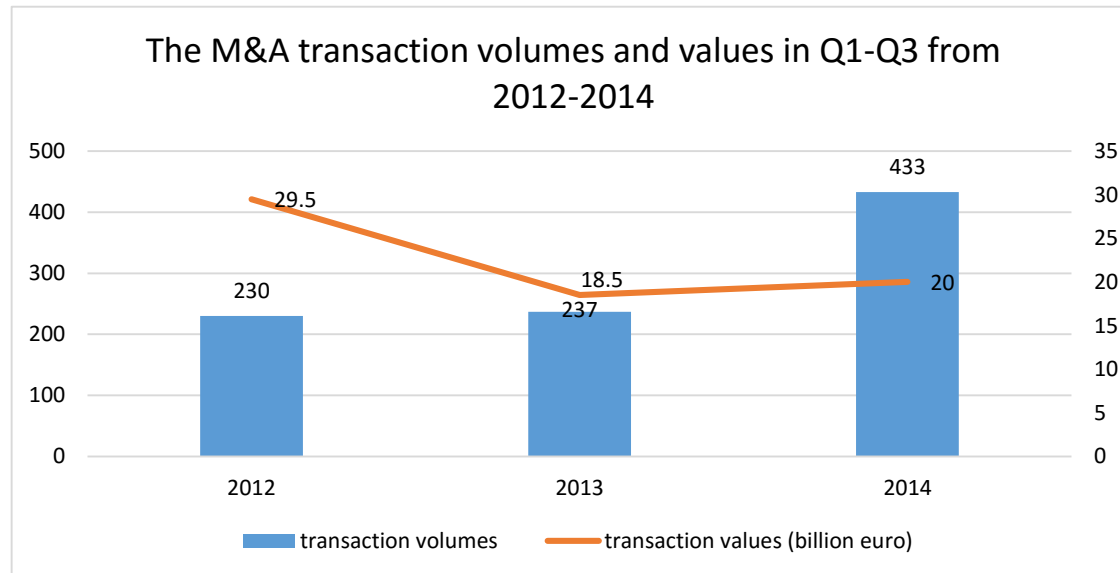
Thereafter, with the EU emergency measures, including the help of IMF, World Bank, EFSM, EFSF and so on, the economic situation in Europe has been gradually improved. The financial market also rejuvenated. The

⁸ Data from "Mergermarket Trend Report, Q1 2016"

European M&A market has had a slow but steady growth since then. The market size of 2011, 2012 and 2013 was \$729.4, \$722.8 and \$641.4 billion. Finally, in 2015, the total value of the M&A market deals firstly exceeded the amount of 2008 and reached \$1,095 billion. It consisted of 25.7% of the total M&A transaction values in the whole world. This percentage in the first quarter of 2016 has risen to 29.2%.⁹ From the data, we can see that the European M&A market has played an even more important role in the global M&A market. The European financial market has taken back its position in the whole world after the crisis.

2.2 Data evidence for the resurgence of the Italian M&A markets

Italy's national economies were expected to progress to the turnaround stage in the first half year of 2013, which gave an impulse to the Italian financial market, including the M&A market. According to Francesco Gianni, Founder and Senior Partner of Gianni Origoni Grippo Cappelli & Partners, "This year's edition takes place in an exciting time of the M&A cycle. There are several signs indicating that companies with sound fundamentals are now in the best position to take advantage of the market opportunities".¹⁰ The Italian M&A market has experienced growth since the downhill in 2009, even earlier than the macro-economies. We can compare the Italian market data and find that there was a moderate growth, generally.

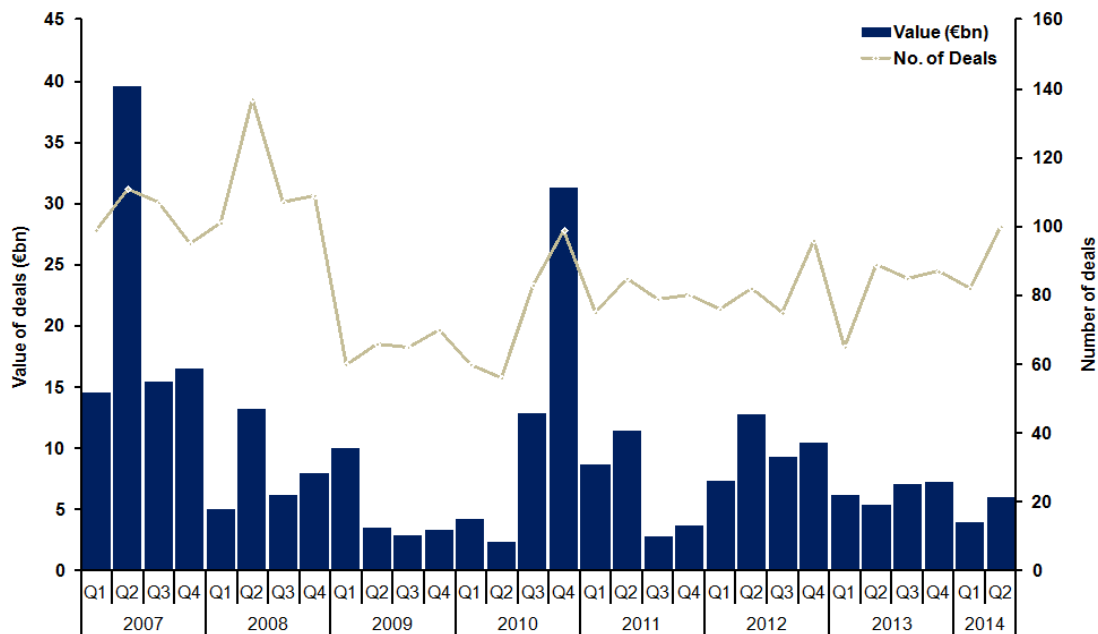


Even the deals' volumes increased year by year, the total values of the deals shrank a lot. This was because of the absence of the mega deals, which referred to the deals with large transaction values. "In the first nine months of the year, the middle market has given some encouraging signs. We need some large deals to boost

⁹ Data from "Mergermarket Trend Report, Q1 2016"

¹⁰ Cited from "Italian ECM and Corporate M&A are leading the way", on 24th October, 2013, "Mergermarket", <http://www.mergermarket.com/info/2013/10/24/italian-ecm-and-corporate-ma-are-leading-the-way/>;

the market”, said Max Fiani, partner at KPMG.¹¹ The absence of the mega deals could result from Italian investors’ lower confidence to the investment returns with the under-performing macro-economic environment. Investors were not willing to bet on large quantities of capitals. Besides, if we look at the market data before the European debt crisis, we could find that the market performance was still lower than that before the crisis, especially from the aspect of the value of the deals. Here below is the data collected by the “Merger market” to prove what I just mentioned.



Data source: from

“Merger market” trend report¹²

According to the report contributed by Giliberti Pappalettera Triscornia e Associati, the number of Italian M&A market transaction deals has reached a four-year high since 2008 with 352 deals, whose average value was €28.7 million. This was a result of the economic turnaround from the end of the first half year of 2013. But the values of deals were still relatively low compared with that of 2008. The way to convert this situation fundamentally would be improve the national economics and the financial market situation.

In 2015, there were 506 M&A deals closed in the Italian market, whose total worth was €50.1 billion, while the number and values of M&A deals in 2014 were 543 and €50 billion. Over half of the transaction amounts in 2015 were signed by the foreign investors, which were equal to €26 billion and related to 179 operations. We can see that the average transaction value signed by the foreign investors was much higher than that of the other transactions. The percentage of the cross-border transaction value (Here the cross-border transaction refers to the deal in which the Italian company is purchased by the foreign investors, partially or total.),

¹¹ Cited from “Italian M&A deals reach €20 billion, foreigners lead”, by Carlo Festa, on 1st October, 2014, from “ItalyEurope 24”; <http://www.italy24.ilssole24ore.com/art/markets/2014-09-30/italian-ma-deals-reach-20-billion-foreigners-lead-121123.php?uuiid=ABIT5ZyB;>

¹² Graph from “Mergermarket Trend Report, H12014, Italy”

calculated with the numbers above, 55%, has increased slightly compared with that of the 2014, which was 53.4%.¹³ Among the top ten deals, from the perspective of value, there were five deals were carried out by the foreign investors, who were, in particular, interested in the so-called big “national champions”—the market leader of the industry segment in whole the country. For example, in 2015, China National Chemical Corporation acquired the tire maker Pirelli, French media group Vivendi had stake in Telecom Italia with acquisition of the 20% of the company with €3 billion. The foreign investors also played a leading role in 2014. In the first three quarters of 2014, 149 deals happening in the Italian M&A market with €6.7 billion were signed by the foreign investors, which consisted 35% of the total deal values in 2014 for the whole Italian market. According to Max Fiani, one partner of the KPMG in Italy, “Big players of the global economy find in our productive system interesting assets in terms of brands and productive know how”. The rich foreign investors were willing to throw money to Italian companies in exchange for the advanced technologies, management methodologies, and other resources worldwide, for example, Chinese investors. Besides the transactions mentioned above, the left consisted of the transactions between the domestic players and also the other kind of the cross-border transactions—in which the Italian companies acquire part of, or the whole entity of the foreign companies. Among the left, the inbound transactions were 242 with the total amount of €12 billion, which the cross-border ones were worth €9.9 billion with only 85 deals. So in a word, the cross-border deals’ value was much higher than that of the inbound ones. This situation was just the same with that in Chinese market. The only different was that the Chinese ones played the contrary role with the Italian ones. As referring to the specific industries, which had a prominent performance in 2015, we can see that there was a strong growth—the growth rate was 25%—in the consumer market sector in the aspect of the transaction value, from €9.7 billion to €12.3 billion, compared with that of 2014; in 2014, the consumer market transactions also occupied a leading position in the whole market, whose percentage was 30% in the first nine months of 2014. The transactions in the industrial market segment shrank from 144 to 116 in the terms of deals’ number while in the aspect of the values there was an increase from €6 billion to €10.4 billion. In the first half year of 2014, Industries & Chemicals companies attracted the most deals and the highest values. In the financial services segment there were growths both in the terms of the deal number and values, respectively from 53 to 61 and from €7.6 billion to €11.5 billion.¹⁴ From the aspect of deals’ value, namely, the growth rate was in excess of 50%.

¹³ Data from the report “Italy’s M&A deals reached €50.1 bn, half of which by foreign investors”, Carlo Festa, on 31st, December, 2015, on “ItalyEurope 24”; <http://www.italy24.ilsole24ore.com/art/markets/2015-12-28/bilancio-2015-ma-193457.php?uud=AC8I7x0B>;

¹⁴ Data from the report “Italy’s M&A deals reached €50.1 bn, half of which by foreign investors”, Carlo Festa, on 31st, December, 2015, on “ItalyEurope 24”; <http://www.italy24.ilsole24ore.com/art/markets/2015-12-28/bilancio-2015-ma-193457.php?uud=AC8I7x0B>;

2.3 The reasons for the Italian M&A market's resurgence

As for the reasons why the Italian M&A market comes back to life since 2009, it's not only because of the improvement of the domestic macro-economies, but it's also due to the financing availability in the market to support the deals. There were several different kinds of financial instruments available for deals, like international funds, hybrid equity, bonds and so on, and also the foreign financial institutions, which took place of the national financial institutions to give support to the deals, for example, French and German banks instead of the Intesa Sanpaolo and Unicredit. According to the data offered by the “statista”, in the league table of the financial advisors for deals in Italy, the first three were Goldman Sachs, Morgan Stanley and Deutsche Bank, then following Lazard and Mediobanca with deals' values in 2015. These advisors could also afford the financial aids for deals, which brought them more profits.

Another reason for the steady growth in the Italian M&A market is that some regulations by the Italian government have positive impact on the development of the M&A market. There are no special tax regulations enacted by the Italian government for the M&A activities. According to the report offered by KPMG Italy¹⁵, there are two main significant relevant amendments introduced by Law Decrees NO. 145/2013 and Law No. 147/2013, which influence the M&A transactions conducted in Italian market.

1. *For 2014, 2015, and 2016, the deductible percentage for the notional interest deduction on equity injections (ACE) has been set at 4, 4.5 and 4.75 percent, respectively.*
2. *The 0.25 percent substitute tax on medium and long-term bank loans is no longer compulsory.*

As we all know, the M&A deals can be sorted into two categories—an asset deal and a share deal. If the target company has significant contingent tax liabilities, it's better to use “the asset deal model” since more tax could be deductible under this taxation law and therefore the risk from the transaction has been reduced. Here in this case, the sell-side could obtain a taxable capital gain, which is equal to the difference between the sale price and the tax basis of the business entity, while for the buy-side, an increase in the tax basis of the assets purchased in the same time is realized. In other words, the future effective tax rate for the buyer is, generally, lower in an asset deal than in a share deal. Besides, in a share deal, the sell-side could realize a capital gain of 95% tax-exempt, if the tax exemption requirements are satisfied. Even if there is no deductible parts between the difference of the underlying asset values and the actual amount paid, in the post-merger period between the target company and the bid company, the tax-deductible effects may occur, since the losses of the target company and the profits of the bid company can be offset in each year in the terms of the taxable income. “Tax

¹⁵ From “KPMG INTERNATIONAL—Taxation of Cross-Border Mergers and Acquisitions, Italy”, kpmg.com;

*losses may be offset against up to 80 percent of taxable income in each year. Any difference can be carried forward indefinitely. If tax losses are incurred in the first 3 years of activity and they refer to a new business, they can be offset against 100 percent of the taxable income. Losses may not be carried back.*¹⁶ The even much higher deductible percentage on the taxable basis has given incentives for companies to merge. Political factor is also important for the development of the M&A market. The political situation has been always stable in the recent years, which reduced the political risks for companies to run the businesses in Italy, especially for the foreign investors. But this factor might be slightly affected in the near future, as the terrorists are active in Europe since the explosion in Paris last November and another explosions in Belgium in this March. Besides, Italy has been announced to be one of the targets of the terrorists. Until now, there is no obvious signal to show the effects on the M&A market in Italy. But we cannot deny that the foreign investors would consider the severity of the terrorism in the whole Europe and then make the investment decisions.

2.4 The expectations of the future trend in the Italian M&A market

With all the relevant data and information mentioned above, we could say that the outlook for the Italian M&A market still remains positive, even with the negative external factors and the unstable growth rate.

The global economy will maintain the positive momentum, provided that there are no disasters on a global scale, including wars, pandemics, terrorism and so on. So are the situation of the European economies. Furthermore, the favorable elements which have promoted the recovery of the performance in the Italian M&A market will remain in the same situation and even be improved, including the foreign investors' strong interests in the know-how and brands of Italian style, the regulations, the availability of the financing instruments, the development of the PE investors and so forth. Under this circumstance, there will be the prosperity for the Italian M&A market, which would go far beyond the performance of the market before the outbreak of the debt crisis

As for the composition of the participants for the M&A activities, except for the domestic companies and private equity institutions, the foreign investors, especially the foreign companies in Asia, like China, India and other developing Asian economic entities, will occupy a more and more important position, no matter in terms of the values of deals and also the numbers. Because the market in these developing countries and regions are almost saturated and companies in these areas are eager to go abroad to find new opportunities, to

¹⁶ From "KPMG INTERNATIONAL—Taxation of Cross-Border Mergers and Acquisitions, Italy", kpmg.com;

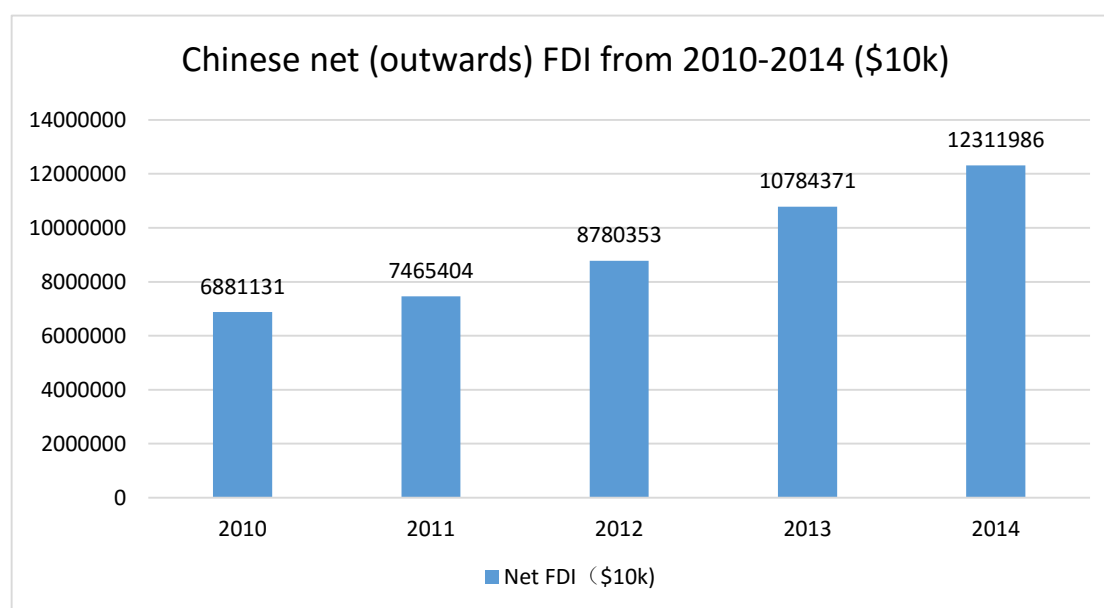
obtain new resources, like human resources, brands, materials and technologies, while they have abundant amounts of capital but they are short of the scarce resources, like high technology personnel, advanced technologies etc.

Based on the current situation of the M&A situation in Italy, we could expect that the privatization of the giant state-owned enterprises would also be continued, and the foreign investors with rich capitals would still like to participate in this process further.

3. The current situation of the M&A transactions between Italy and China

3.1 The current situation of Chinese outwards FDI

Since the Chinese investors are more eager to go abroad with the development of the Chinese economies, the support of the government, the capital surplus, the saturation of the domestic markets, the desire for the resources and advanced technologies, and so on, the Chinese investors make more and more outbound foreign direct investment (FDI) in the oversea markets. The table below shows the amount of the net FDI of Chinese investors from year 2010 to 2014. The total amount increased dramatically, and the amount of 2014 almost doubled of that in 2010. At the same time, the FDI amount in the whole world has decreased in 2014, while under the guide of the “The Belt and the Road” (Yi Dai Yi Lu) proposed by the Chinese government, the Chinese companies were willing to go out and the FDI amount achieved growth again. The government support is one of the main reasons that the Chinese outbound FDI still performed well while the left parts of the world were performing under expectations.



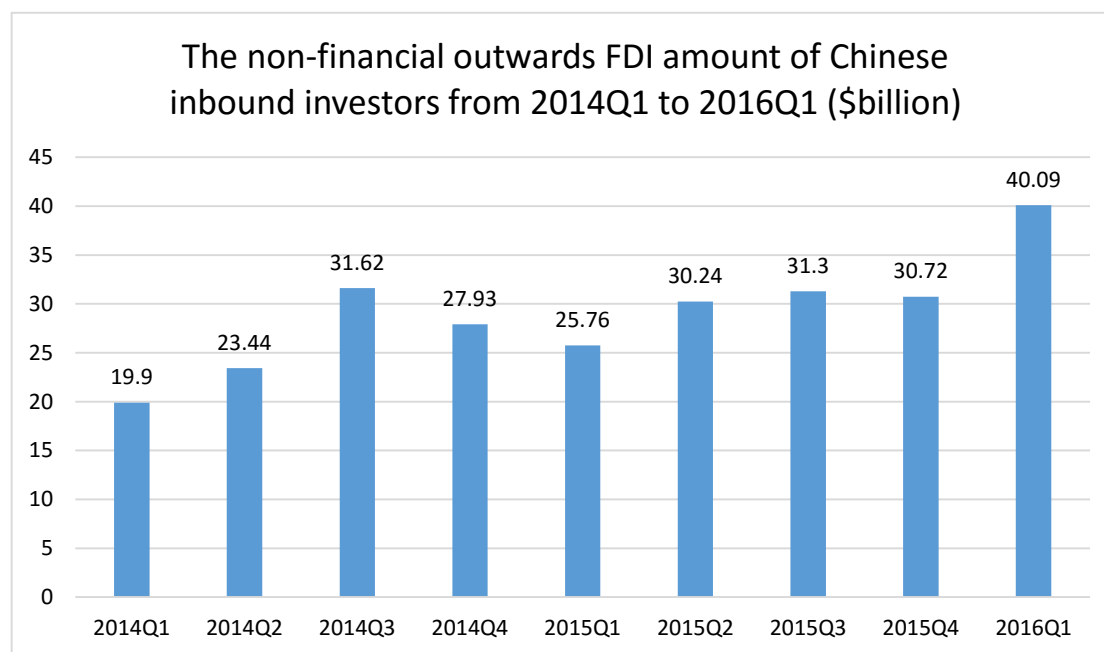
Data resource: National Bureau of Statistics of China¹⁷

From the data we could see that there has been a steady increase in the Chinese net outbound FDI in the recent years. Chinese investors, therefore, have been playing a more and more important role in the world financial markets as participants and capital suppliers with the support of the Chinese government and the desire to go abroad.

Besides, in 2015, the inbound investors have finished the non-financial outward direct investments to 6,532

¹⁷ Data from “National Bureau of Statistics of China”, <http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A060G01&sj=2014;>

foreign companies in 155 countries and regions in the whole world and aggregated amount of 735.08 billion RMB (which is equal to \$118.02 billion, the average exchange rate of dollar in 2015 equal to 6.2284\$/¥) have been signed in these investments. The year-on-year growth rate was 14.7%, compared to the one of 2014.¹⁸ In the first quarter of 2016, which just passed by, the amounts of the non-financial outward direct investment are 261.74 billion RMB (which were equal to \$40.09 billion, the average exchange rate of US dollar equal to 6.5288\$/¥) finished by the Chinese inbound investors to 2,726 companies in 149 countries and regions in the whole world. The year on year growth rate is 55.4%, compared the investment amount in the first quarter of 2015.¹⁹ The table below shows the related data.



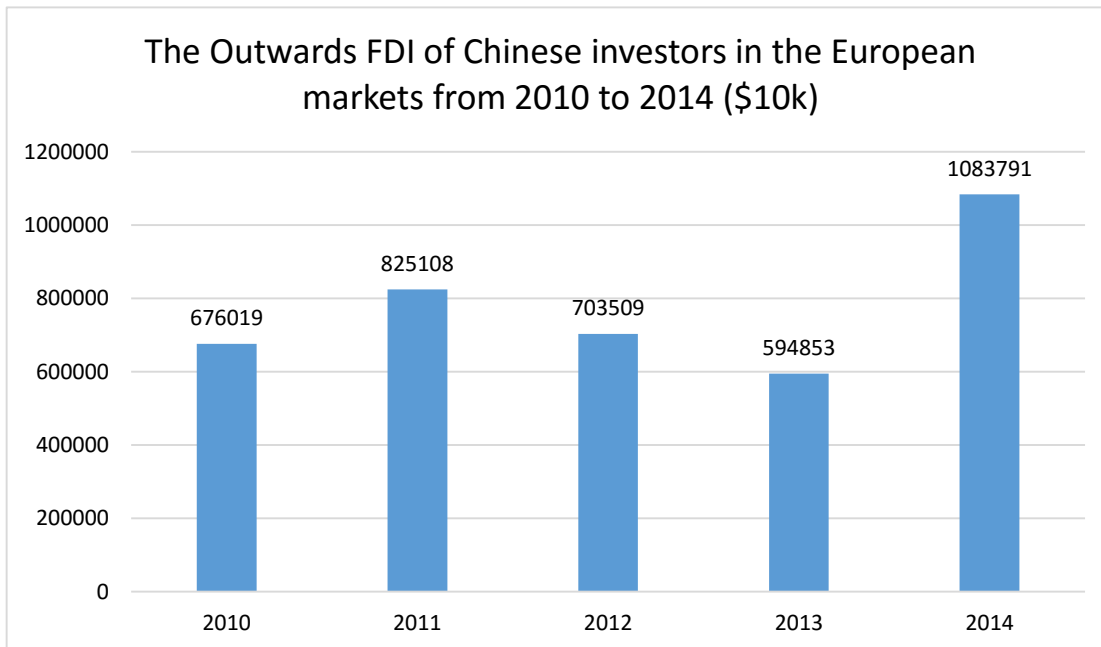
Data source: Ministry of Commerce of the People's Republic of China

Although there is up and down for the non-financial FDI amount in each quarter in the recent 3 years, the overall trend is increasing. The Chinese investors are keen on the foreign markets.

Among all the FDI amount of the Chinese investors in the foreign markets, the amounts invested in the European markets has also been rising in the recent years. Europe has been the hot spots as destinations of capitals from China. Here below is the table shows the FDI amounts in European markets from 2010 to 2014.

¹⁸ Data from "Ministry of Commerce of the People's Republic of China", <http://www.mofcom.gov.cn/article/tongjiziliao/dgzz/201601/20160101239873.shtml>;

¹⁹ Data from "Ministry of Commerce of the People's Republic of China", <http://www.mofcom.gov.cn/article/tongjiziliao/dgzz/201604/20160401302143.shtml>;



Data source: National Bureau of Statistics of China²⁰

Comparing the data, we could find that although the proportion of the FDI in the European markets is almost keeping the same, which is around 8% to 10% (except for the percentage in 2011, 11% and 2014 5.5%), while the total amounts, in general, have been rising steadily. European is always one of the most important destinations for the Chinese FDI. Among the European countries, Italian market holds an important position and, therefore, is one of the main markets for the Chinese FDI.

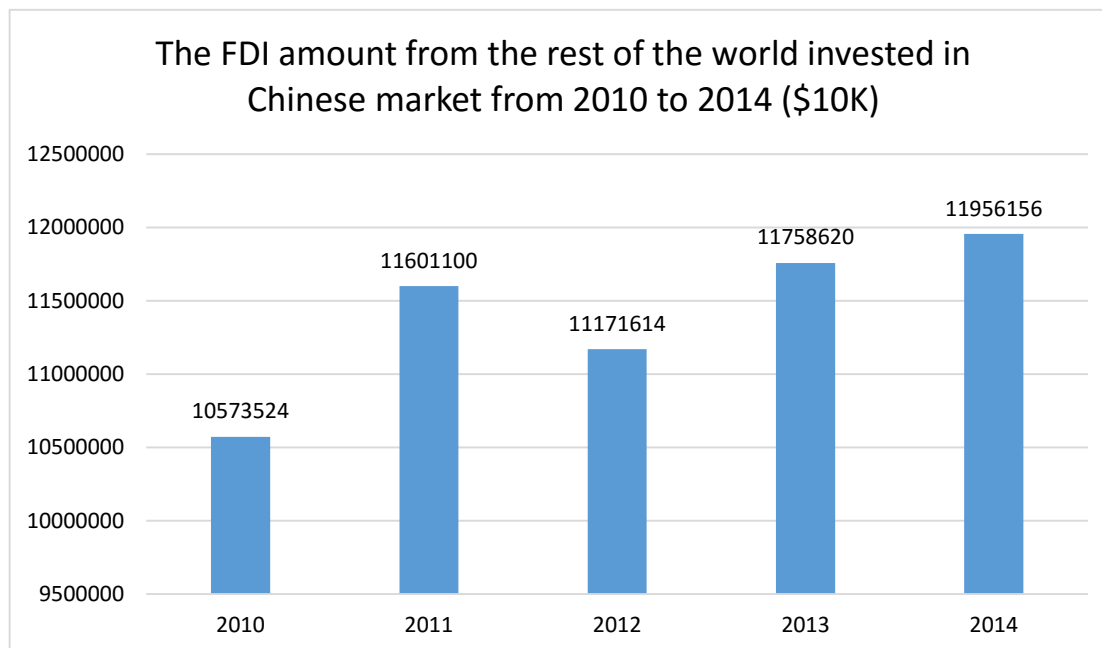
3.2 The inwards FDI to Chinese market

Not only Chinese investors are interested in the foreign markets, but also the Chinese market attracts the foreign investors a lot. The FDI amounts that the Chinese companies make use of in the recent years has been increased steadily, although not with a fast growth. So is the situation with the FDI from Europe to Chinese market.

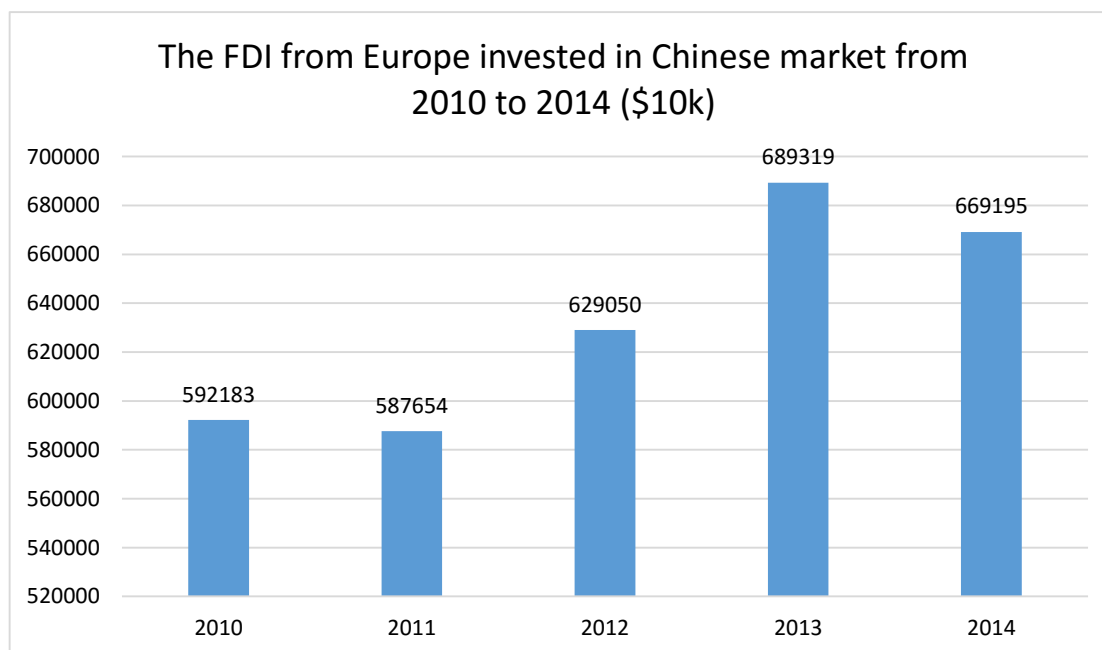
In recent 30 years, European Union has always been the economic entity with the largest outward FDI scale, while China has gradually become one of the countries which attracted the most investments in the world. Since EU is the largest economic entity in the world and China is the fast-rising economic entity, who has surpassed Japan and become the second largest economic giant, globally, the outward FDI from EU to China has significant benefits to the economic growth, development of trading and improvement of technologies of both sides.

²⁰ Data from "National Bureau of Statistics of China", <http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A060G01&sj=2014;>

Here below are the graphs presenting the data evidences.



Data source: National Bureau of Statistics of China²¹



Data source: National Bureau of Statistics of China²²

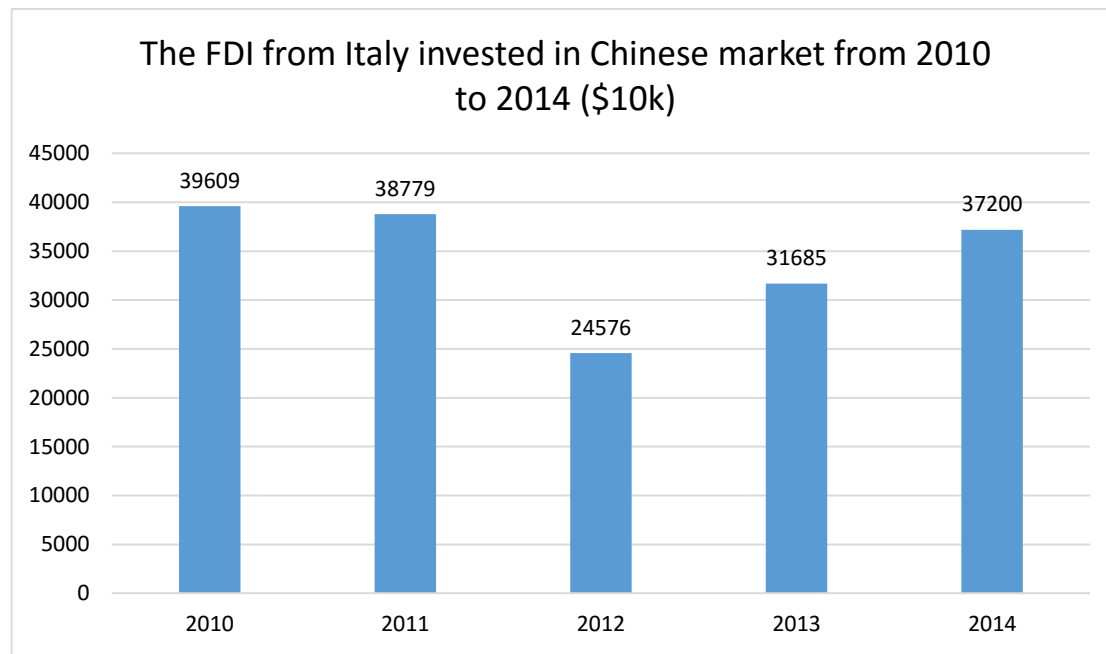
Analyzing data above in the graph, we can see that the proportion of the total FDI amounts invested in the Chinese market from Europe is keeping almost the same, 5% to 6%. The European debt crisis didn't affect the European investors' enthusiasm to the Chinese market and Chinese enterprises. This may be the reason that the financial situation in the Chinese market was still steady while in the western countries the financial markets performed badly. The macroeconomic environment in China was positive and healthy. Besides, the

²¹ Data from "National Bureau of Statistics of China", <http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A06050203&sj=2014;>

²² Data from "National Bureau of Statistics of China", <http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A06050203&sj=2014;>

inbound FDI from other countries, especially from the developed economic entities are always welcomed by the Chinese government. Among these European investors, how about the Italian investors' attitude to the Chinese market?

If we dig into the data, we could find that the FDI amounts from Italian investors in China from 2010 to 2014 hasn't changed a lot with a slight deduction. But in terms of the investment amounts in China, Italy still ranked 5th in the European countries in 2014.



Data source: National Bureau of Statistics of China²³

Analyzing the data, it's obvious that the FDI from Italy in the first two years after the outbreak of the European debt crisis is relatively higher than that in another three years. It may be that the terrible economic environment and the perishing financial market in the domestic and even in the European countries made the Italian investors afraid of failure of the inbound investment or investment in the European markets. Since Italy is one of the countries which is belong to the stricken areas with the most severe situation of the debt crisis, along with Greece, Ireland, Spain and Portugal. And the situation changed from 2013, since the domestic economic situation has turned around and the Italian market has rejuvenated, and so is the overall European markets. But at the same time, the Italian investors haven't given up the Chinese market since they may have benefited from the investment in China and they would like to continue this behavior. In the near future, the Italian FDI to China may be slightly increase, according to the trend indicated by the data above.

²³ Data from "National Bureau of Statistics of China", <http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A06050203&sj=2014;>

3.3 From outwards FDI to outbound M&A activities conducted by Chinese investors—

EU as a main destination

Since the M&A activity is one of the main means of the FDI, the Chinese outbound M&A deals are now continuing to rise, with the rising of the total FDI amounts. “Chinese firms are more confident in making outbound mergers and acquisitions (M&A), despite volatility in the international financial markets”, according to the consultancy Deloitte.²⁴ According to the data offered by PwC in 2014, the mature markets in North American and European are still the most important destinations for the Chinese outbound M&A activities, and at the same time, the Asian markets are also gaining the attention of the Chinese investors in the global economies for the Chinese cross-border M&A deals.²⁵ For example, in 2014 and 2015, the outbound M&A transactions initiated by the Chinese investors in North American were 95 and 113 transactions, and in European markets were 82 and 110, while in Asian markets were 64 and 107, in which the growth rate was obvious and higher than that of the North American and European markets.²⁶ In the European markets, Italy has become one of the most attracting destinations for the Chinese companies. If we rank the markets in each countries and regions according to the value of the total M&A deals, in 2014, Italy was the sixth largest destination for the Chinese M&A activities, and the value included was around \$4 billion and the respective proportion of the total Chinese outbound M&A in the whole world value (\$56.9 billion) was 7%, approximately.²⁷

In the past 5 years before the acquisition of Pirelli, the total value of the M&A deals in Italy from Chinese companies had reached €10 billion. And in 2014 one third of the M&A activities conducted by the foreign investors in Italy were finished by Chinese.

Until now, Chinese companies have finished several M&A deals with Italian companies, especially the giants in the industries, with huge deal's value. For example, CIFA (Compagnia Italiana Forme Acciaio S.p.A.) was 100% acquired by Zoomlion Heavy Industry in 2008 with €375.5 million; in 2012, 75% of the shares of Ferretti Group has been acquired by Shandong Heavy Industry Company with €374 million; 35% shares of Italian deposit energy company was acquired by State Grid Corporation of China (SGCC) in 2014 with \$2.63 billion; also in 2014, People's Bank of China purchased, respectively, 2.018%, 2.001% and 2.081% of total

²⁴ Cited from “Chinese outbound M&A transactions continue rising: Deloitte”, on 26th, September, 2014, “English.new.cn”; http://news.xinhuanet.com/english/china/2014-09/26/c_133674519.htm;

²⁵ Cited from “The Outbound Investment Insights”, by PwC, November, 2014;

²⁶ Data from “M&A 2015 review and 2016 outlook”, by PwC, January, 2016;

²⁷ Cited from “2014 Statistical Bulletin of China's Outward Foreign Direct Investment”, Ministry of Commerce the People's Republic of China, National Bureau of Statistics of the People's Republic of China, State Administration of Foreign Exchange;

shares of Prysmian Group, Fiat Chrysler Automobiles (FCA) and Telecom Italia with €670 million and earlier also in 2014 purchased 2.102% and 2.071% of shares of Eni and Enel;²⁸ Pirelli was intended to be acquired 100% by China National Chemical Corporation (CHEMCHINA) with €7.1 billion in 2015. From the past case analysis, we could find that the main industry in which the deals happened is manufacturing, energies & chemicals and heavy industries. But Chinese investors are also interested more in other industries. For example, this year, Suning Commerce Group and Alibaba, two biggest retailers in China, have showed their interests in Inter Milan and AC Milan, two Seri A soccer clubs in Italy. Alibaba has announced the intention to acquire 70% of the stake of AC Milan with €400 million this year and next year the left 30%.

So why Italy has become the hot destination for the Chinese investors? The reason could be from different aspects.

First of all, from the aspects of the technologies, the Italian companies always have the advanced manufacturing technologies in some specific segments, which the Chinese peers urgently need. Secondly, from the strategic aspect, the Chinese companies need the influence and benefits brought by the famous Italian brands and worldwide reputation. Chinese could also use the Italian companies' resources, like distribution system, customer services system and management methodologies after deals. Thirdly, the M&A activities are also supported by the governments from both sides. In 2014, the new President of the council of ministry of Italy, Matteo Renzi, and the Prime Minister of China, Li Keqiang, have completed the high-level reciprocal visits between two countries and cosigned 26 cooperative agreements, covering areas of trading, energies, aviation, infrastructure, finance, tourism, technology innovation and so on, where the total amounts agreed were over 10 billion euros. Soon afterwards, Italy announced to join the Asian Infrastructure Investment Bank (AIIB), which is initiated by China, in early 2015, and has benefited from the national strategy of China—"One Belt and One Road", which promotes the relations between two countries. Besides, there are also other reasons for the Chinese investors' interest in Italian companies. For example, the Expo in Milan in 2015 has triggered the Chinese investors' enthusiasm for the Italian market further since it offered an opportunity for investors to know Italy better.

Although the M&A activities between Chinese investors and Italian companies are always with large scale and deal amounts and with powerful and cash-rich investors, there are still some restrictions for the M&A activities, such as the Antitrust law, the heavy tax burdens, the cultural integration, resource consolidation and so on. But the M&A activities in Italy initiated by Chinese investors will not just stop with these difficulties.

²⁸ Data from the report "Chinese capital accelerate the acquisition of Italian large-scale enterprises", from "CRI online", 6th, August, 2014, edited by Liu Hongyu; <http://gb.cri.cn/42071/2014/08/06/5931s4642909.htm>;

With the support from governments of both sides, the rich experiences, and also the reasons mentioned above, there will be more and more successful deals in the future between China and Italy.

Although Italian companies invest with large amounts in China, the information about that the Chinese companies are merged or acquired by the Italian companies is really few, since there is not so much things of Chinese companies to attract the Italian companions with large amounts of capital. But with the development of the domestic economy and technologies, the Chinese companies will be more and more attractive, for example, the attraction could be the exchange of technologies, the Chinese companies' influence in the emerging markets, especially the Asian markets—Italian companies could also make use of the distribution system and service system set up by Chinese companies. Maybe in the near future, there would some Italian companies acquire Chinese ones.

4. Case Studies—from cases to see the pattern of M&A activities between Italian and Chinese markets

4.1 CIFA's acquisition by ZOOMLION (2008)

4.1.1 Brief introduction about Zoomlion²⁹

Zoomlion (Zoomlion Heavy Industry Science and Technology Co. Ltd.) was founded in 1992 and specialized in the developing and manufacturing the infrastructure equipment for the construction, energies, environment, transportation projects and so on, which kind of projects need the new and advanced technology equipment. It's the leading company in the industry of engineering machinery equipment manufacturing in China. The main product range of Zoomlion is covering 10 categories, including 73 product series and more than 1,200 kinds of detailed products. For example, batching plants, city pumps, placing booms, stationary pump, truck mounted mixers and truck mounted pumps in the concrete category, bulldozer and excavator in the earthmoving category, compression transfer station complete equipment, hook-lift refuse collection and transfer vehicle, refuse compression collector, road sweeper, road washer, sewage disposal vehicle, sewer dredging cleaning vehicle and snow sweeper in the environmental & sanitation category, water fire vehicle, water & foam fire vehicle, CAFS foam vehicle, robot arm fire fighter, aerial ladder, aerial platform, illuminating tower and emergency rescuer in the category of fire-fighting. Except theses, there are also other categories like forklift, foundation, lifting and road. In terms of two categories—concrete machinery and hoisting machinery, Zoomlion ranks among the best companies in the whole world. In China it ranks first in two categories including engineering machinery and environmental & sanitation machinery and ranks third in the category of agricultural machinery. According to the annual report 2015, the revenues of 2015 have reached 20,753 million yuan with a little decrease compared with that of 2014, which were equal to 25,851 million yuan. And the corresponding total assets of the whole company of 2015 were 93,683 million yuan, in contract, with a small amount of increase compared with that of 2014, reaching 93,718 million yuan.

Zoomlion's manufacturing bases are located around the world. In China, there are more than 20 manufacturing bases including like Zoomlion Technology Park, Zoomlion Ligu First Industrial Park, Ligu Second Industrial Park, Zoomlion Wangcheng Industrial Park, Zoomlion Quantang Industrial Park, Zoomlion Guanxi Industrial

²⁹ Information from the official website of ZOOMLION and Baidu Encyclopedia "ZOOMLION";

Park and so on. In the overseas countries and regions, Zoomlion possesses Italian CIFA Industrial Park, German M-TEC Industrial Park, Indian Industrial Park, Brazilian Industrial Park and the Industrial Park in Beralus. Furthermore, Zoomlion has subsidiaries, marketing organizations and scientific research institutions in more than other 40 countries and regions and creates values for clients in more than 80 countries in 6 continents in the global with the perfect sales networking and strong customer serving system covering the whole world. Persuade to the business strategy and business plan in the near future, the company will consolidate the overseas resources and capital investments further, to establish more complete accessory centers in Europe, South Asia and West Asia, to build more advancing manufacturing bases in Europe, South Asia, West Asia, Southeast Asia and North America, and also to set up the research & development centers in Europe, South America, South Asia and East Asia to satisfy the clients' needs better.

Zoomlion has been listed successively in Shenzhen and Hong Kong exchange stocks. And it's the first machinery equipment manufacture company in China for the listing.

Zoomlion is the Chinese ancestor in the industry of engineering machinery in consolidating the overseas resources. With the capital leverage, it integrate the excellent resources in the world to realize the rapid expansion and construct the global networking for manufacturing, sales and services. Until now, Zoomlion has successively acquired Powermole of British Britain, CIFA of Italy, M-TEC of Germany, Raxtar of Holland and Ladurner of Italy, which all obtained remarkable results. Among them, the acquisition of CIFA has made Zoomlion the pioneer and leader for internationalizing the Chinese engineering machinery.

4.1.2 Brief introduction about CIFA

CIFA (Compagnia Italiana Forme Acciaio S.p.A.) was founded in 1929 located in Senago, Italy, is an engineering manufacture specialized in design, production, technology innovation in the area of engineering construction. It ranks third in the industry of concrete machinery industry in the whole world. CIFA's product range cover the mixers, truck mounted pumps, mixer pumps, portable pumps, batching plants, formworks, spritz system and mine mixers. Before the acquisition by Zoomlion in 2008, the best seller among all the products were concrete pumps, truck mounted concrete mixture, concrete delivering pump, whose main clients were located in Europe, Africa and the Middle East areas.

In the previous years before the acquisition in 2008 by Zoomlion, CIFA has experienced a good performance in terms of the finance and market expansion. According to the data in 2007, the business segments of truck mounted concrete mixers and truck mounted concrete pumps took, respectively, 80% and 70% market shares in Italy, 23% and 20% in Western Europe, 15% and 20% in the Eastern Europe, and even 10% and 8% in the

Middle East areas. The compounded growth rate from 2005 to 2007 reached 20%. As a result, the sales income of 2007 was up to \$470 million.³⁰

The business of CIFA has already reached the most areas in the global. Its sales networking covers more than 70 countries with 58 independent dealers and 24 agencies in Italy to sell CIFA's products to Western Europe, Eastern Europe, the Middle East and African countries. In addition, in the markets of North America, Australia and some countries of South America, there are also distribution channels for CIFA.

The price of the products offered by CIFA is relatively lower than the products offered by the two German countries ranking the first and second in the industry. Moreover, in early phase, CIFA had entered into the Chinese engineering machinery manufacturing field. Some Chinese companies tried to import the CIFA's technologies and products but without outstanding effects, since the domestic giants in this industry could afford the products with the similar quality but much lower price (15% to 20% lower) for example, like SANY (SANY Heavy Industry Co.) and Zoomlion, whose market shares in total were over 80% in China. It was very difficult for the overseas companies to compete with them.

4.1.3 How is the acquisition completed and how is financed?

In July, 2006, CIFA was acquired by the joint investors led by Magenta, who is an Italian privately owned fund company for investments. Thereafter, CIFA experienced a series of internal integration, optimization of the production process and quality control standards, and also the reorganization of the purchase process. As a result, there was an improvement in the sales revenues and market shares. However, Magenta and two shareholding families announced to sell CIFA because of the need for cash flows to pay back debts in October, 2007. In January, 2008, CIFA sent the acquisition invitation and materials of brief introduction about itself to Zoomlion. During the acquisition of CIFA, Zoomlion and SANY had severe competition between themselves and they were not willing to compromise. At last, the Development and Reform Commission of Hunan Province interfered, and commanded SANY to give up this chance, since if the competition between Zoomlion and SANY continued, the price of the acquisition would be too high, which might be higher than the real market valuation of CIFA. In March, 2008, when Zoomlion submitted the bid documents of the second round to CIFA, it promised to CIFA that: "firstly, CIFA and ZOOMLINE combine a big family; secondly, CIFA and Zoomlion will continue to exist as independent brands; thirdly, three basic principles will be stuck to, which are the stability of CIFA's management teams and employments, the independence of CIFA's operation by

³⁰ Data from an essay of a student—Liang Boquan—from South China University of Technology, "A Comparative Mergers & Acquisitions Study of SANY Heavy Industry and Zoomlion Heavy Industry—the effects of different motives and integration methods on their M&A results"; 15th, June, 2014;

itself and also the realization of the resources sharing between the two companies in the global market. In June, 2008, Zoomlion and CIFA signed the acquisition contract with the deal amount of €271 million. At the end of September, 2008, the two companies completed the handover of CIFA's shares.

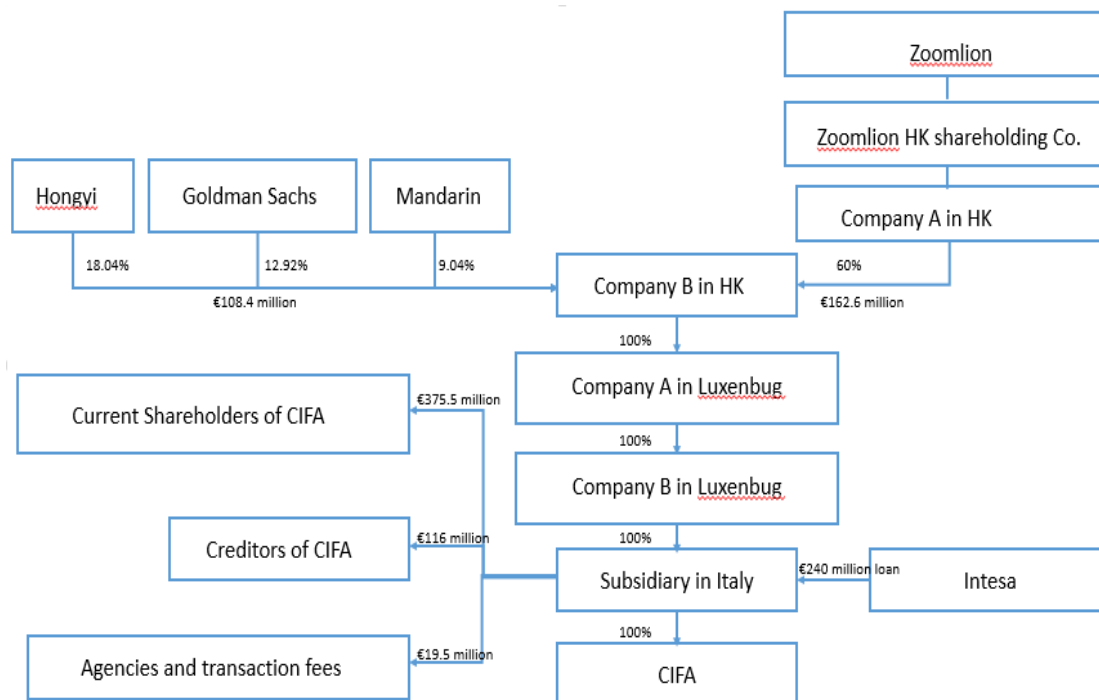
The acquisition was not completed by Zoomlion alone, since Zoomlion was only experienced with the domestic acquisition, and now it was a cross-border acquisition and the deal's amount was too much. Hence, Zoomlion turned to external partners for help. The 60% of the deal amount was financed by Zoomlion, and the left 40% was afforded by Goldman Sachs, who is rich in the cross-border acquisition experiences and could offer advisory services for Zoomlion, and by a Chinese private equity company—Mandarin and also Hongyi Capital, who was the second largest shareholder of Zoomlion and purchased 18.02% shares of CIFA at last. Addition to these, Zoomlion obtained a loan worth €162.6 million from the Export-Import Bank of China, who recommended the Mandarin fund company to Zoomlion as one of the joint investors. The reason to include Hongyi was because Hongyi was one of the Chinese domestic funds with the international horizon and could balance the cultural conflicts during the integration process after the acquisition; besides, Hongyi could also offer financial support to Zoomlion during and after the acquisition on the basis of the partnership with Zoomlion.

The transaction structure was complicated. Zoomlion set up a wholly-owned subsidiary in Hong Kong—Zoomlion Hong Kong holding company, and then the Hong Kong subsidiary set up its wholly-owned subsidiary in Hong Kong, called company A. Then, company B was founded jointly with company A, Hongyi, Goldman Sachs and Mandarin with the corresponding shares of 60%, 18.04%, 12.92% and 9.04%.³¹ The company B set up another wholly-owned subsidiary in Luxemburg, called Luxemburg company B, which built a wholly-owned subsidiary in Italy. This Italian subsidiary acquired 100% of shares of CIFA. After the completion of the acquisition, the Italian subsidiary was integrated into CIFA. This kind of acquisition structure was designed to lower the future cost of operation for the joint investors, convenience the capital flows into Europe and the backflow of the dividends, and also arrange the tax issues more efficiently and reasonably according to the international taxation regulations. Here the graph below shows the acquisition structure.³² The total deal amount of the transaction was worth €375.5 million, including the payment to the current shareholders of CIFA, to the creditors of CIFA and the agency fees and the transaction fees. The Italian leading bank Intesa offered a loan to this acquisition. After the acquisition, the ownership of CIFA was 60%

³¹ Data from <10 Cross-border M&A Cases of Chinese Companies> , by He Zhiyi, Ke Yinbin etc., 2010, the first edition, Shanghai, by Shanghai Jiaotong University Press;

³² Information from an essay of a student—Liang Boquan—from South China University of Technology, "A Comparative Mergers & Acquisitions Study of SANY Heavy Industry and Zoomlion Heavy Industry—the effects of different motives and integration methods on their M&A results"; 15th, June, 2014;

by Zoomlion, 18.04% by Hongyi, 12.92% by Goldman Sachs and 9.04% by Mandarin. Among the €271 million offered by the joint investors, €124 million would be paid by CIFA in the future from the normal operational incomes.



4.1.4 The reasons for the acquisition for both Zoomlion and CIFA

During the period 2007 to 2010, the domestic economy increased steadily, and the growth rate for the GDP, CPI and trade surplus was higher than the expectation. In addition, the real estate investment, rural infrastructure construction and national important project construction also increased. A series of national strategies, including the RMB exchange rate, the revitalization of industries, series of investment plans, to “expand the internal demand, keep the growth”, have also been published. The engineering machinery industry benefited a lot directly from these strategies. At the same time, the domestic concrete machinery market was experiencing the high growth, and the market potential for future growth was relatively high. As a result, this situation attracted many players into this industry. With the increase in the competition and the production capacity of the whole industry, the overcapacity problem would rise in the domestic market in the near future. So it was necessary and urgent for Zoomlion to open up the foreign markets from that time on.

On the other hand, the real estate industry in America and Europe continued to deteriorate as the results of the subprime crisis which broke out in America. Successively, the demands in the American, European and Japanese engineering machinery decreased, while the demands of that in the emerging markets, like markets in India, Russia, South America and Africa increased.

Under this situation, the image of the Chinese made products was still “low price with low quality”. The Chinese made concrete machinery just entered the global markets and were not widely recognized with the low market shares in the overseas markets. The Chinese companies urgently need the help from a foreign distinguished company in order to occupy a position in the overseas markets. The acquisition of CIFA rightly offered such an opportunity for Zoomlion.

With the relative advantage of CIFA’s products with lower price and the same quality compared with the products offered by Putzmeister and Schwing in the Eastern European areas and Russia, CIFA could help Zoomlion to expand in the emerging markets.

For Zoomlion, the acquisition improved its market competition position dramatically. The concrete business was the second largest segment for Zoomlion and before the acquisition the incomes from the concrete machinery took 40% of the total incomes of Zoomlion. With the similar products species and marketing strategies, and same headquarter location, the main competitor for Zoomlion in China, the competition between Zoomlion and SANY was fierce. The acquisition of CIFA could help Zoomlion expand its production scale, lower the production cost and took more market shares.

The acquisition also improved the technical level of Zoomlion rapidly. Although Zoomlion was leading in the domestic markets, in the overseas markets, it could not catch up with the companies from the developed markets. After the acquisition, Zoomlion could directly absorb the advanced technologies from CIFA, whose product design, manufacturing technologies were all in the leading position in the whole world.

The acquisition could also improve the management of Zoomlion for operation and production. During the process of integration, Zoomlion could learn the management methods from CIFA and improve the management level of its own company to the international level.

Zoomlion could also “borrow” other resources of CIFA, like the marketing and sales networking in the global and the reputation of CIFA. With these excellent resources from CIFA, Zoomlion could enter into the foreign markets conveniently with relatively lower cost. And it could also help to improve the brand awareness in the world.

We could cite the speak from Mr. Zhan Chunxin, Chairman and CEO of Zoomlion, “The addition of CIFA will enable Zoomlion to expand its markets leadership in concrete machinery to the mature European markets and to capture fast emerging markets such as Russia and India. CIFA’s strong international brand and innovative technology combined with Zoomlion’s dominant market position in China and efficient manufacturing expertise will enhance our ability to sustain the phenomenal growth rate we’ve achieved in the

past.”³³

The Italian economy was affected severely by the debt crisis. With the need to pay back debts and maintenance of the domestic employment, the Chinese acquirers were welcomed by the Italian government. For CIFA, it needed cash flows to pay back its debt, which was the main reason for Magenta and two other shareholding families of CIFA to sell it. With the capital from the acquisition, CIFA could avoid to be reorganized and avoid the job cut. In addition, if CIFA wanted to penetrate into more emerging markets, it needed a strong partner. From this aspect, Zoomlion was a proper candidate, who had a strong presence in China and had abundant cash flows to support further development. Since CIFA was experiencing a sales decline in the European markets, the revenues in the Chinese markets could compensate this loss. It could also enjoying the resources of Zoomlion in China. According to Davide Cipolla, CIFA managing director, “after being bought by Zoomlion in 2008, CIFA has gained clear benefits from the deal. Most importantly, it allows us to enter China, a market that we had never explored. By launching a series of new products and cooperation, Zoomlion made us integrate into the Chinese market and thrive in it. Another advantage we have gained from the deal is that we can now ask Zoomlion’s plants in China to custom-make components for certain products and then import them directly to Italy. In addition to those two benefits, it has also brought us more investments.”³⁴

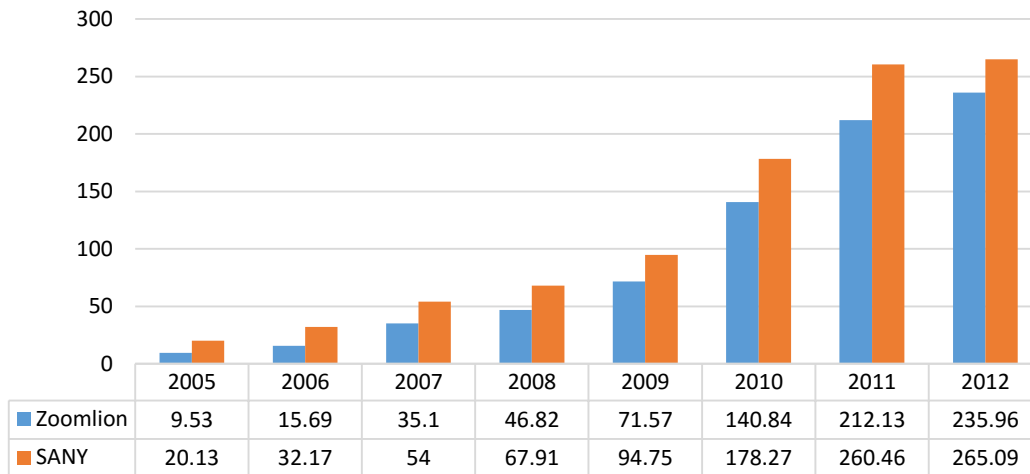
4.1.5 The development after the acquisition

The acquisition has brought an obvious positive outcome for Zoomlion. Since SANY is the main competitor for Zoomlion in the domestic market, so we compare the operating situation of Zoomlion with that of SANY before 2013, because there was no acquisition activity of SANY until the end of 2012. Before the acquisition in 2007, the incomes from concrete machinery of Zoomlion were just 65% of that of SANY, but in 2012, the percentage increased to 89.01% and their market shares for concrete machinery were almost the same. We can use the data to show this improvement.

³³ Cited from the article “Leading Construction Equipment Manufacturer Zoomlion to Acquire Leading Italian Concrete Machinery Maker CIFA” from Hony Capital, on 25th, June, 2008; <http://www.prnewswire.com/news-releases/leading-construction-equipment-manufacturer-zoomlion-to-acquire-leading-italian-concrete-machinery-maker-cifa-57539457.html>;

³⁴ Cited from the “Italy-CIFA CEO Interview” for the China Central Television (CCTV), on 26th, May, 2015;

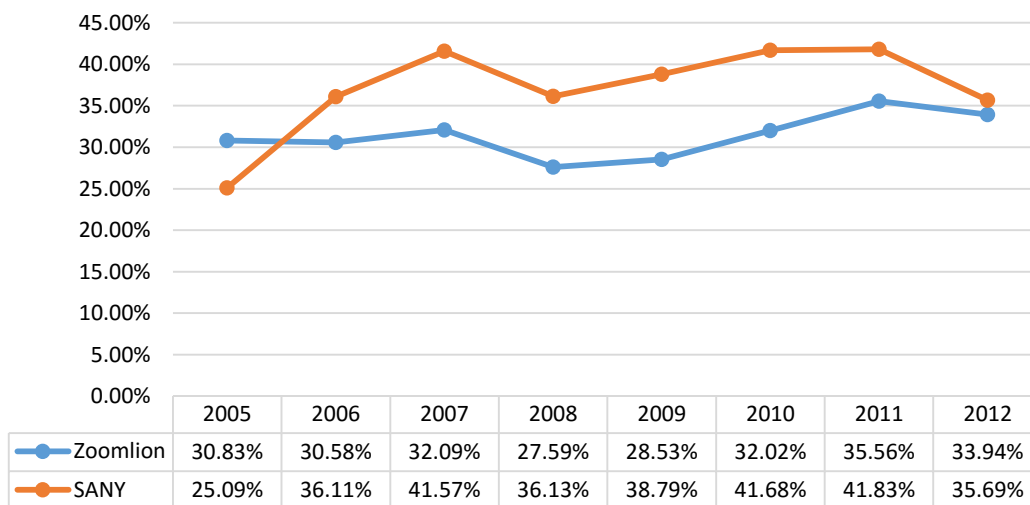
Concrete Machinery Revenues from 2005 to 2012 for Zoomlion & SANY (€ million)



Data source: annual reports of Zoomlion and SANY

In addition to the increase in the sales of the products, there was also an increase in the profit margin for Zoomlion compared still with SANY. Benefited from the CIFA's advanced technologies, Zoomlion launched new products and lowered the cost of production. The table below could illustrate this problem well.

Profit Margin of Concrete Machinery for Zoomlion & SANY from 2005 to 2012



Data source: annual reports of Zoomlion and SANY

Since the good results of the acquisition rising in the first several years, Zoomlion decided to purchase the remaining 40% shares from other three shareholders who participated in the acquisition with the total value of €236 million on September, 2013. This transaction boosted Zoomlion in the team of the world's top concrete machinery companies.

4.2 Ferretti's acquisition by Shandong Heavy Industry Group—Weichai Group (2012)

4.2.1 Brief introduction about Shandong Heavy Industry Group & Weichai Group³⁵

Shandong Heavy Industry Group (SHIG) was set up on 18th, June, 2009 by Weichai Holding Group, Shandong Engineering Machinery Group, Shandong Automobile Industry Group and also other several state-owned companies with. Therefore, SHIG is controlled by the State-owned Assets Supervision and Administration Commission of Shandong Provincial Government. SHIG is not only the leader in the equipment manufacturing industry in Shandong Province, but also occupies an important role in this industry in China and has an obvious influence in the whole world. It has integrated the resources of the most excellent dynamical system and construction machinery. The group had seven subsidiaries before the acquisition of Ferretti, including Weichai Holding Group, Shantui Construction Machinery, Shandong Automobile Industry Group, Strong Construction Machinery, Shantui Machinery, Strong Financial Leasing and Shandong Heavy Industry Group Finance. Now the subsidiaries have reached eight, adding Ferretti Group, in which SHIG has 75% capitals. The business of SHIG can be sorted into 5 segments, which are Powertrain Systems, Construction Machinery, Commercial Vehicles, Yachts Business and other key components for the commercial vehicles and construction machinery. SHIG is interested in exploring the overseas markets and has left its footprints in many countries and regions in the whole world, for example, in France, Italy, Germany, Russia, Brazil, South Africa, East Africa, West Africa, Dubai, India and Singapore. The presence in the North America.

SHIG has set up 3 operating centers in China, which are in Jinan, Huaifang and Shanghai. Until the end of 2010 before the acquisition of Ferretti, the total assets of SHIG reached 74.625 billion yuan, and the year on year growth rate was 49.27%, whereby the state-owned assets were valued at 4.061 billion yuan and the growth rate is 8.61%; and the operating revenues reached 80.982 billion yuan and the net income was 9.264 billion yuan with the corresponding growth rates of 76.24% and 102.01%.

The strategic positioning of SHIG is to be a global leading and sustainable equipment manufacturing group with key technologies and enter into the Fortune 500. At the same time, the strategic goal is to achieve the sales revenues over 300 billion yuan in 2020 and develop the five business segments.

Weichai Holding Group, which was founded in 1956, is the largest wholly-owned subsidiary of SHIG. Weichai now is the one of the biggest automobile and equipment manufacturing groups in China. In 2015, it has achieved the sales revenue of 107.5 billion yuan and ranked 115th of China top 500 enterprises. Weichai has

³⁵ Information from the official website of SHIG & Weichai and Baidu Encyclopedia "SHIG" and "Weichai";

four business segments including vehicle machine, powertrain, luxury yacht and key parts manufacturing. It has expanded its subsidiaries not only in China, but also in overseas locations like in Europe, North America and Southeast Asia.

In January, 2012, Weichai participated in the reorganization process of Ferretti, and through this it entered into the luxury yachts segment. Besides, in September, 2012, Weichai signed the cooperation contact with KION Group, which mean that Weichai has controlled the most advanced technologies in this segment.

4.2.2 Brief introduction about Ferretti Group³⁶

Ferretti S.p.A. is an Italian multinational yacht making company targeting at the luxury yachts markets, which was founded in last century, 1968, in Bologna, Italy and whose Headquarter is located in Forli, Italy. It's the second largest yacht maker in Italy and the world largest luxury yacht maker. "Passion, innovation, excellence" is the slogan for Ferretti. Corresponding with its slogan, Ferretti is specialized in the design, construction and sale of the upper-class motor yachts and pleasure vessels. The distinguished brands under the control of Ferretti are: Ferretti Yachts, Riva, Pershing, Itama, Mochi Craft, CRN with the corresponding divisions and subsidiaries: Pershing S.p.A., Ferretti, Itama Cantieri Navali S.p.A., Riva S.p.A., Mochi Craft division, CRN S.p.A.. The detailed business segments of the group are high performance open cruisers, fly-bridge motor-yachts, open motor-yachts, lobster boats, maxi yachts in composite materials from 39 to 43 meters and also steel mega-yachts from 46 to 120 meters. Ferretti has expanded his marketing and sales networking system in over 80 countries and regions in the whole world with 60 distributors in the primary strategic markets. Apart from the Headquarter in Italy, Ferretti still has the subsidiaries and offices in America, Ferretti Group America, and Asia, like Ferretti Group Asia Pacific Ltd. in Hong Kong and in representative offices and sales office in Shanghai, Hong Kong and also in Qingdao. These organizations, together with the Headquarter in Italy and other representative offices in the rest of the world, offer not only the high-end yachts with "outstanding quality, great safety and excellent performance at sea", but also the distinguished customer services. The revenues published before the acquisition by SHIG was €500 million in 2010, and the EBITDA was €30 million. There was an improvement compared the results with that of 2009, when the company was suffered from the heavy debt. In 2009, Ferretti restructured a debt with €1.1 billion from a bank syndicate.

The shipyards of Ferretti are based in Forli, Cattolica, Ancona, Mondolfo, Sarnico and La Spezia with its most advanced production system.

Ferretti has been keen on the improvement and innovation of the design, the raw materials for manufacturing

³⁶ Information from official website of Ferretti and Wikipedia "Ferretti Group";

and also the manufacturing technologies, to make products have a better performance, which makes Ferretti is always the industry leader in the high-end markets.

On 10th, January, 2012, Ferretti agreed on the acquisition contract by SHIG through its subsidiary Weichai. The latter acquired 75% of Ferretti's stakes with €374 million as a participant of Ferretti's restructuring process.

4.2.3 How to complete and finance the acquisition

On 10th, January, 2012, Ferretti, the debt-laden Italian top luxury yachts maker, announced that it accepted the acquisition offer made by SHIG through its wholly-owned subsidiary Weichai with the total deal amount of €374 million to acquire 75% stakes in Ferretti Group in its debt restructuring procedures, including Ferretti's trademarks, shipyards, technologies for luxury yachts and its sales networks in the whole world. Among the total deal amounts that SHIG paid, €196 million belonged to debt financing while the rest were the equity investments. After the acquisition, the total debt of Ferretti would be reduced to €120 million from €685 million, which was a relative reasonable level compared with the high unbalanced debt-equity ratio before the acquisition, and there would be an equity increase of €100 million. Weichai Group held 75% of the total stakes of Ferretti, and the rest 25% would be held by the existing stakeholders (previous lenders before the acquisition)—the Royal Bank of Scotland Group Plc. and Strategic Value Partners LLC, through a €25 million equity injection and debt to equity swaps. Each of them holds half of the rest capital stakes, which is to say 12.5% capital stakes for each company.

SHIG received financial advisory services from Citigroup Inc., Houlihan Lokey and ICBC International Holdings Ltd., legal advices from King & Wood, Bonelli Erede Pappalardo and Akerman Senterfitt. Besides, the other two participants Royal Bank of Scotland Group Plc. and Strategic Value Partners LLC received advisory services from Rothschild, Ernst & Young LLP, Ashurst and Clifford Chance, the latter two for the legal issues.

This acquisition would be approved by the Italian regulators after 3 to 6 months. And it would must be approved since the severe debt situation of Ferretti.

After the completion of the acquisition, Weichai, who is listing in Hong Kong and Shenzhen Stock Exchanges would like to initial an IPO for Ferretti and list it in Hong Kong in 5 years. Until the end of 2017, we could see if the IPO is successful or not. The key management team would remain the same as before and the Headquarter and key manufacturing bases would still stay in Italy. SHIG would not interfere the management and operations of Ferretti too much. Ferretti would still be the largest luxury yachts with Italian style, but just with a more stable and abundant capital supporting source, which was a big improvement considering the

catastrophic financial situation as a result of decreasing sales caused by the financial crisis in 2008.

4.2.4 The reasons for the acquisition for both SHIG (Weichai) and Ferretti

After learning about the details of the case, it's also important to learn about the incentives for both SHIG (Weichai) and Ferretti to complete this acquisition.

Firstly, from the aspects of the SHIG (Weichai), the most important reason I think is that acquiring Ferretti is accorded with its corporate strategy for further development. SHIG (Weichai) chairman Tan Xuguang commented, "Developing the yacht business is one of the group's strategic goals for the next five years. Ferretti, which possesses iconic international brands, state-of-the-art manufacturing technologies, products of the highest quality and an extensive sales network, is an ideal partner with strong strategic values."³⁷ With the existing market influence and market position of Ferretti, SHIG (Weichai) could easily access into the yachts markets, especially the luxury yachts markets. All the corporate resources of Ferretti could be used by SHIG (Weichai), including the marketing and sales network system in the whole world, the mature manufacturing bases, the mature premium technologies, the after-sale services center, the existing customer basis and also the operating system. It makes SHIG (Weichai) could take a market position conveniently even if this is the first market entry, especially for the markets in China and other developing markets, like the markets in Asia. There is a big market potential in China and also other emerging markets. According to Tan, "Ferretti is a high-end brand and Chinese consumers have not yet evolved to such high-end consumption. Over the next five to ten years there will be great potential for yachts in China."³⁸ In a word, acquiring Ferretti is not only strategic fit for SHIG (Weichai) but also a must step for SHIG (Weichai) to have more active performance in the platform of global markets and strengthen its presence in the western countries with its abundant capital and resources. From the financial aspects, it was also reasonable to acquire Ferretti at that time. At that point, Ferretti was burdened with the heavy debt and it was eager to do the reorganization procedures to avoid the bankruptcy. SHIG (Weichai) stretched its olive branch to Ferretti, and creditors of Ferretti would be willing to accept the offer. From this aspect, it was easier to have the price advantages for SHIG (Weichai). Besides, it's a good way to make full use of the abundant capitals to acquire the existing resources, which may cost more to develop by itself from the start. It's more efficient and economical in terms of the financial considerations.

From the aspect of Ferretti, the most important reason to accept the deal was the financial reason. After the

³⁷ Cited from the article "IN THE NEWS: Ferretti sold to Chinese company" from the Magazine <Yachts>; <http://www.yachtsinternational.com/builders/ferretti/breaking-news-ferretti-sold-to-chinese-company/>;

³⁸ Cited from the article "Superyacht Builder Ferretti Sold to Chinese Bulldozer Maker", on 10th, January, 2012, from Bloomberg; <http://www.bloomberg.com/news/articles/2012-01-10/shandong-heavy-to-buy-controlling-stake-in-yachtmaker-ferretti>;

financial crisis in 2008, the business of Ferretti has been severely negatively affected. The market demands for yachts, especially for the luxury yachts, shrank dramatically in the developed markets, which were the main customer locations for Ferretti. As a result, the sales revenues decreased a lot, which trapped Ferretti into the financial plight. At that time, many companies in the yacht industry sought help and cash-rich partners from the developing countries, and this trend continued as the European debt crisis broke out. One subsidiary with a famous brand Riva of Ferretti was almost bankrupt with the slump in sales after the financial crisis in 2008. Thereafter, in 2009, Ferretti even failed a loan payment on debt, which pushed it to lose its control to the lenders. In 2009, Ferretti even had a debt restructure through both a cash infusion and debt for equity swap. In 2012, Ferretti was in a new debt restructuring procedure. The financial balance sheet was extremely unbalanced with the debt-equity ratio. The percentage of debt was too high. It trapped Ferretti with the bankruptcy risk. When Ferretti accepted SHIG (Weichai)' offer, it could improve the situation of the balance sheets, increasing the equity value and decreasing the debt amounts to keep it at a reasonable and acceptable range. Apart from this, SHIG (Weichai) is an enterprise with rich cash and stable operating incomes, so there would be a stable financial support for Ferretti to continue the business further.

In terms of the strategic reason, it's also perfect for Ferretti to accept the deal. As we have mentioned before, the yacht demands have been reduced since the 2008 financial crisis, while in the emerging markets, in particular, in the Chinese market, the demand for the yacht and also the luxury yacht has increased a lot before the acquisition took place. According to BCG (Boston Consulting Group), until 2010 the number of the millionaires in China has reached 1.11 million. They were all the potential customers for Ferretti. Besides, from 2009 to 2010, the yachts imported to China increased to threefold. These all indicated that the Chinese yacht market not only merely affected by the crisis, but also increased the demand. To conquer the Chinese yacht market, other overseas and domestic companies also started the yacht business in China, for example, Azimut Yachts, Sunseeker International Ltd., Brunswick Corp., and Xiameng Hangsheng Yacht Building Company. If Ferretti could start its business in China with the help of SHIG (Weichai), who has strong influence in China, it would be easier for Ferretti to compete with other players in China and directly make use of the resources of SHIG (Weichai) in China. Besides, it's also much easier to step into the other Asian markets.

4.3 Pirelli's acquisition by ChemChina (2015)

4.3.1 Brief introduction about ChemChina³⁹

ChemChina is the largest chemical company in China. It's a state-owned company that is run under the control of the Chinese State-Owned Assets Supervision and Administration Commission (SASAC). The full name of ChemChina is "China National Chemical Corporation" and it's found on the basis of reorganization on 9th, May, 2004 by Blue Star Group, Haohua Chemical Group and so on, which were under the direct supervision of the original Ministry of the Chemical Industry. In 2013, the annual total assets reached 272.5 billion RMB (which was equal to US\$43.907 billion) and the annual sales revenue was 244 billion RMB (which was equal to \$39.315 billion). ChemChina is on the list of Fortune 500 companies and in 2015 its ranking is 265 on the list with 2015's operating income of around \$45 billion. According to the introduction on the official website, ChemChina has developed its production factories and research & development (R&D) bases in 150 countries and regions globally and owns the perfectly established the marketing & sales network system. The group controls 6 professional companies, 2 subordinated units, 112 enterprises for production and operation, 9 overseas divisions. Besides, it controls 9 listed companies of A-share and establishes 26 R&D bases and design institutes. It's the national innovative enterprise with 9,025 effective patents until the end of 2015.

ChemChina develops six business segments including new chemical materials, basic chemical materials, oil processing, agrochemicals, rubber products and chemical equipment. Tire business belongs to the segment of "rubber products", whose main business areas can be further divided into auto tire, special tire, non-tire rubber products and latex products. The annual production capacity of tire has reached 12 million pieces of all kinds of tires and belongs to the top one player in the domestic market and possesses 15th place in the global markets. The capability for the production of latex products like medical gloves and weather balloons takes the first place in Chinese market. The wholly owned subsidiary for the tire segment business is the China National Tire & Rubber Co. Ltd (CNTR). And CNTR is the largest manufacture of OTR tires, special tires and aircraft tires. The best-known brand of tire before ChemChina acquired Pirelli is Aeolus. It also has the tire brands like Yellow Sea, Torch, Double Happiness.

The development goal of the whole group in the near future is that until 2020, the group can achieve the so-called "5531" strategy goal, which is to achieve the main business operating income of 500 billion RMB, the total assets scale of 500 billion RMB and net profits of 30 billion RMB; and also to enter into the first 100 companies in the Fortune 500 list and to complete 10 giant projects.

Under the guideline of "going global" strategy and with the desire of exploring the overseas markets, and

³⁹ Information from the official website of ChemChina and Baidu Encyclopedia "ChemChina";

searching for the domestic and international cooperation partners ChemChina has left its footprints in the whole world and operated several acquisition cases successfully. The important cases are like the acquisition of Adisseo Group in France, Qenos Holding Limited in Australia in 2006, Rhodia Global Silicone in France in 2007, Elkem in Norway, Makhteshim Agan in Israel in 2011, REC Solar in USA, Pirelli in Italy in 2015. And it has announced to acquire KraussMaffei Group in Germany and 12% of Mercuria Energy Trading in Switzerland.

4.3.2 Brief introduction of Pirelli

Pirelli is the world famous tire company, which is found by Giovanni Bttista Pirelli in 1872 in Milan, Italy. Its Headquarter is located now still in Milan. Pirelli was listed on the Milan Stock Exchange since 1922 and was delisted in November, 2015. Ranked with tire sales revenues, Pirelli has become the world fifth largest manufacture since 1985. Currently, the four companies ranking before Pirelli are, respectively, Bridgestone of Japan, Michelin of France, Goodyear of USA and Continental of Germany. The business segments of Pirelli are tires for cars, SUVs, motorcycles, trucks and buses and commercial vehicles. The tires manufactured by Pirelli have been used for famous automobile brands including Auto, Bentley, Ferrari, Lamborghini, BMW, Mercedes Benz and so on. Pirelli is also the sponsor for many worldwide sport events, like Formula One Championship, Formula One Superbike Championship since 2007, British Superbike Championship from 2008 to 2010, World Rally Championship from 2008 to 2010, the Italian football team “Internationale” and the Chinese Super League—the China’s top tier football league. In 2015, Pirelli has reached the revenues of €6.31 billion and operating income of €850 million, and also achieved the net profits of €384 million. Until 2015, it has 36,753 employees worldwide and 24 factories in 12 countries and regions including USA, China, Canada, Brazil, Russia etc., and around 10,000 distributors and retailers in the global channel network system. The subsidiary company for the tire business is Pirelli Tyre S.p.A.

Pirelli’s industry plan is that to be an increasingly premium company, which focuses on most profitable products and processes. “Premium is ingrained in Pirelli DNA. It’s not only a product, but also an attitude to create value”, according to Marco Tronchetti Provera in the “Industrial Plan Announcement” in London. Pirelli could strengthen itself through focusing on the top of the product range, expand in rapidly developing markets and build a new organization model. The macro-economic target of Pirelli is that in 2017, it could achieve a profitability higher than 15%, the ROI of 28%, cash generation ability of 1.6 mld per euro and net debt of 0.3 times EBITDA.⁴⁰

⁴⁰ Data from official website of Pirelli, http://www.pirelli.com/corporate/en/about_us/profile/aboutUs-target-value/default.html;

On 23th, March, 2015, Pirelli agreed an acquisition of €7.1 billion by ChemChina. Now the ChemChina holds 65% of total shares of Pirelli, and hence becomes the largest shareholder of Pirelli.

4.3.3 How to complete and finance the acquisition

On 23th, March, 2015, Pirelli announced that it accepted the acquisition deal of €7.1 billion, offered by ChemChina. It's one of the largest overseas acquisitions made by a state owned company by Chinese government in recent years. ChemChina paid €1.8 billion to Cam Finanziaria (Camfin S.p.A.) for the acquisition of 26.2% of the total capital shares of Pirelli. So the valuation of the whole Pirelli enterprise reached €8.3 billion. The deal agreement was conducted through the wholly owned subsidiary of ChemChina—CNTR. The acquired shares were valued at €15 per stock which was listed in Milan Stock Exchange. Thereafter, ChemChina, Camfin and some other stakeholders of the still remaining shares in Pirelli initiated a joint tender offer.

So how ChemChina completed this acquisition with a huge amount? It finished it with only own cash flow or with other financing methods? This takeover bid was bankrolled by J.P. Morgan with a €6.8 billion bridge loan, which is referred as “a short-term loan that is used until person or company secures permanent financing or removes an existing obligation. This type of financing allows the user to meet current obligations by providing immediate cash flows. The loans are short-term (up to one year) with relatively high interest rates and are backed by some form of collateral such as real estate or inventory.”⁴¹ It's much better for the bank or the syndicated banks to offer bridge loan to the clients, since they can be paid more than the advisory fees when just offering the advisory services for the M&A activities. Banks are nowadays are more willing to do so. This kind of financing method is also a different step for the acquisition initiated by the Chinese companies. It's an innovation in transactions. Persuade to other bankers, who didn't participate in Pirelli's acquisition, in the previous M&A deals with large transaction amounts, the banks involved didn't yield large amounts of fees with only the advisory services. The reason in this case, ChinaChem adopted this financing method, is that maybe the transaction amounts are too large, or it just followed the new trend, which attracted the banks more. Even we are not quite clear about the exact reason, we can image or predict that it would continue or happen again, in the future M&A deals, especially the cross-border deals, which are always involved large amounts. The tender offer after the purchase of the shares from Camfin would also offer the share price of €15 to purchase the remaining shares in the market, which was higher than the Pirelli's trading price in the Stock Exchange as usual. For example, this tender offer price is 28% higher than the trading price in the past 6

⁴¹ Definition of “bridge loan” from “INVESTOPEDIA”.

months before the acquisition and 18% higher than that in the past 3 months before the acquisition. But the tender offer price was slightly lower than the price on last Friday, which was €15.23, before the first step acquisition because the information about the acquisition was leaked. So it seemed that at that time, the remaining investors in the market were not willing to sell their shares. An Italian joint stock company was set up for the tender offer bid, which is totally controlled by CNTR and Camfin, the respective stakes are 50.1% for CNTR and 49.9% for Camfin.

During the whole acquisition, the advisory banks and organizations for CNTR are J.P. Morgan, for ChemChina are Rothschild and ChemChina Finance, and for Camfin are Lazard, which is one of the best investment banks in recent years and tycoon in the Wall Street.

After the acquisition, the management team of the Pirelli would not change, only the company strategies would be anew defined to adopt to the development requirements of both ChemChina and Pirelli and create a new NO.5 tire company in the whole world or maybe in the future would catch up with the forth company—Continental of Germany. It's a new Chinese owned tire company with Italian style. ChemChina takes 65% shares of Pirelli until now and it intended for the privatization of the Pirelli. In November, 2015, Pirelli has delisted from the Milan Stock Exchange. But another IPO would be expected in the fourth year after the acquisition closed.⁴²

4.3.4 The reasons for this acquisition for both ChemChina and Pirelli

What's the strategic rationality behind this acquisition for both ChemChina and Pirelli? From the aspect of ChemChina, the direct benefit of this acquisition is that it is allowed to access the advanced and premium technology for the tire design and manufacturing. From the introduction of Pirelli mentioned above, Pirelli is keen on the technology preeminence, especially in recent years, it has focused more on the high-end tires also with high margins. It ranks first in the segment for the premium tires. After ChemChina acquired Pirelli, it can use Pirelli's technologies directly, which saves a large amount of R&D expenses for ChemChina. The second reason for the acquisition for ChemChina would be that, with the majority stake in Pirelli, CNTR could make use of the marketing and sales networking of Pirelli in the whole world, especially in the European high-end markets, which makes CNTR much easier and more convenient to enter into these markets. Pirelli's presence in the world could gradually be transferred as CNTR's presence, which helps CNTR to compete with other high-end tire manufactures in the world. Persuade to Swiss bank UBS, "if successful, the deal will create a

⁴² Cited from article "ChemChina to Buy Controlling Stake in Pirelli" on "THE WALL STREET JOURNAL", by Eric Sylvers, on 22nd, March, 2015; <http://www.wsj.com/articles/china-national-chemical-corp-to-buy-controlling-stake-in-pirelli-1427065364>;

global leader with a market share of 10 percent.”⁴³ The combination of CNTR and Pirelli has also other strategic benefits for CNTR. The business segment of truck and industrial tire is integrated into CNTR’s business unit “Aeolus”, which could double the production capacity for Aeolus.

From the aspect of Pirelli, the biggest gains from this acquisition is that it could have a better and stable position in the Asian market against its competitors like Michelin and Continental, notably, in the business segment of not so premium tires, like passenger tires and truck tires. Michelin (France) and Bridgestone (Japan) have been trying to take shares of this two segments in Chinese market, but it brought little effect. The combination of Pirelli and ChemChina has created a big problem for this two companies.

According to Mr. Marco Tronchetti Provera, who was the Chairman and CEO of Pirelli before the acquisition, “the partnership with a global player like ChemChina, through its affiliates, represents a great opportunity for Pirelli. CNRC’s approach to business and strategic vision guarantees Pirelli’s development and stability.”⁴⁴ Through this acquisition, Pirelli not only could keep a stable position in Asian markets but also could expand its product categories. Since the main business segments of Pirelli fall into the high-end products, after the acquisition and through the cooperation with CNTR, Pirelli could also step into the low-end and medium-end tire markets, which could also bring large quantities of revenues for Pirelli.

Except for the strategic reasons, financial reasons are also important for the deal. Since in 2015, the European markets were still in the economic stagnation after the European debt crisis, the Euro was still in the slump. In the first quarter in 2015, the exchange rate of Euro/US dollar decreased accumulated 11%, which was the maximum dropdown since the birth of Euro. Chinese companies could save a lot from this low exchange rate of Euro. It could pay less if the target company is valued with Euro. From another aspect, the ownership of Pirelli in recent years has changed a lot, which may cause the potential un-stability of the company. And the trading price of Pirelli before the acquisition was also much lower than the price during and after the acquisition. So when acquired by ChemChina, the unstable situation could be improved and the market value of the Pirelli would increase if valued with the stock prices. If there is IPO in the near future, the stock price would be higher than that before the acquisition.

This acquisition show the return of the Chinese state-owned enterprises into the overseas M&A markets after the new Chinese President Xi Jinping proposed the new guideline for anti-graft crackdown, targeting not only the officials in the government departments and organizations, but also the officials in the SOEs. It indicates

⁴³ Cited from the article “ChemChina to buy into Italian tire maker Pirelli in \$7.7 billion deal” on “PEUTERS” by Paolo Arosio and Danilo Masoni on 23th, March, 2015; <http://www.reuters.com/article/us-pirelli-chemchina-idUSKBN0MI0PQ20150323>;

⁴⁴ Cited from the report “ChemChina and Camfin Signed Share Purchase Agreement with respect to Pirelli”, on the official website of ChemChina, 23th, March, 2015; <http://www.chemchina.com.cn/en/sj/webinfo/2015/03/1427071078820022.htm>;

that in the future, the Chinese SOEs will take more active role in the global deal markets. Since these enterprises, supported and controlled by the Chinese government, always are abundant of capital and are eager for the advanced technology and entrance of the global premium markets, the deal amounts would be relative large than other kind of acquisition. And the location for the target companies would almost in the developed markets, like the markets in Europe and North America.

4.4 The similar pattern of these cases

Since we have analysed three typical and representative M&A deals between Italian and Chinese companies, including the background of companies, the financial method for acquisitions, the deal amounts and the reasons for acquisition, we could find out some similar patterns from these three cases.

Firstly, we can see that in these acquisitions the deal amount is relatively high compared with the domestic acquisitions for both Chinese and Italian players. And always the companies from the Chinese side are partially state-owned, which are rich in capital with the support of the Chinese government.

Secondly, Chinese investors are favour of the Italian companies with world leading technologies, which are difficult for the Chinese acquirers to develop by themselves and which are important if the acquirers want to enter into the developed markets and take market shares in overseas markets. With the advanced technologies acquired, the Chinese companies could improve their own products with cost-savings and time-savings.

Thirdly, these three cases all took place in the heavy manufacturing industries, which require the leading technologies and innovation.

Fourthly, the reasons for the acquisitions are mostly that the Chinese companies want to expand in the new markets, want to make use of the target companies' brands and reputation to improve their own reputation in the global markets. In addition, the other resources of the target companies, including the market shares in worldwide markets, the network for marketing and sales, the excellent customer services, the developed management theory and so on.

Fifthly, during the acquisition, the bidders would like to turn to external resources for help regarding to the financial and advisory aspects, even if sometimes, they are able to acquire target companies by themselves alone, out of the reason that they are not experienced with this kind of cases or that they just need the professional guidance on the acquisition. From the aspect of the advisors, they provide not only the pure advisory services, but also the financial supports to earn more fees from deals.

Sixthly, when Chinese companies want to acquire the targets, they would not acquire with the parent

companies themselves. They may choose to set up a subsidiary, which is intended just for the acquisition. And after the acquisition, this kind of subsidiary could exist continuingly or could be integrated into the acquired companies. The reason for the setup of this kind of subsidiary is that to avoid the potential legal issues and lessen the heavy tax burdens in the cross-border acquisitions under Italian regulations. Sometimes the parent companies may do the deals also through the existing subsidiary to expand new business segment or new market.

Seventhly, after the acquisition, although the Chinese side has taken over the ownership of the Italian company, but the Chinese players always leave the management still in the hand of the previous Italian personnel and just redefine the company strategies.

The last characteristic could be that the target companies were in the financial distress and intended to avoid bankruptcy, so they would be willing to accept the help from the foreign cash rich investors. Or sometimes, although there were not financial problems, they still were willing to accept acquisition offer because of some difficulties to in the business operations or the changes in the macro-economies.

5. The expectations on the future trend of the M&A deals between Italy and China

5.1 The positive factors for conducting M&A deals between Italian and Chinese markets in the future

Since we have analysed the current situation of M&A transactions in Chinese market, the current situation of M&A transactions in Italian market, the current situation of the M&A deals between Italian and Chinese market, including the FDI situation from China to Europe and Italy and also the FDI situation from Europe and Italy to China in details in the previous chapters, we could infer the future trend of M&A transactions between Italian and Chinese companies. Moreover, the cases analysis, covering the representative three cases of Pirelli, Ferretti and CIFA, also shows some specific patterns of the M&A deals, which helps to better understanding the expectations about the future development of the relationship between the Italian and Chinese M&A markets.

Since the situation of the Italian national economies and financial markets has been gradually improved since the turnaround of the negative effects of the European debt crisis in since 2009 and the subprime debt crisis since 2008 in the first half year of 2013 with the fiscal support from not only the Italian government but also from the EU and other international organizations. Italy would continue to be an attractive destination for Chinese investors, not only the destination for the outwards FDI from the Chinese investors, but also the destination for the M&A activities, since the Italian domestic economic and political stability.

Furthermore, the Italian government and the Chinese government are all willing to witness the M&A deals happening between two countries, since the Chinese government want to further develop the domestic economy and change the image of Chinese companies defined before, while the Italian government also needs the foreign investments to continue to boost the domestic economies to keep the country more stable through improving the economic growth rate and lowering the unemployment; in addition, it needs more capital out of the needs of payment of debts, and also to rescue some companies in the financial distress. M&A deals is one of the effective ways for the Italian state-owned firms to achieve privatization.

Since now after so many M&A deals between these two markets, both sides are experienced with how to deal with the M&A issues rising in the process of the deals. Companies who want to conduct the M&A activities in the future between Italy and China could analyse the previous cases and get to the best way to design and complete deals. It would be easier for the successive players to do deals.

There are abundant company resources appeal to the Chinese peers in the same industry or in the similar

industry, for instance, as discussed above, the distinguished Italian brands, the world leading technologies, market presence of Italian companies in the global and so on. Another positive factor for the future M&A transactions between Italian and Chinese companies could be that the Chinese companies are eager to learn the world leading technologies to improve the existing products and launch new products to attract more customers, to compete with the domestic players. Chinese companies could also make use of the distribution channel of the target companies, improve the reputation of its own with the Italian famous brands, and also expand the overseas markets, especially the markets in the developed countries, which always have higher requirements than the markets in the emerging countries. Except for strengthening the market position in the existing business segment, the acquirers could also enter into a totally new business segment, which the target companies have, just like the case—Ferretti's acquisition by SHIG (Weichai). The relatively advanced management method of western style would also continue to attract more Chinese investors.

For the Italian companies, who are willing to accept the acquisition offer by the Chinese peers, the most important reason can be the supplement of the rich capital. Chinese investors are rich in capital and they could afford the amount to rescue the Italian companies from the financial distress (like the case of Ferretti) and make them to avoid of job cut (like the case of CIFA), restructure or bankruptcy. Another important reason from the aspect of the Italian companies is that they could strengthen their market presence in the emerging markets (like the case of CIFA), especially in China, since China is now become the second largest economic entity in the world. And as discussed before, the Italian investors are increasing to conduct FDI activities in China.

5.2 The future trends of the M&A activities between Italy and China—the Chinese companies to acquire the Italian ones

The future trends of the M&A activities between Italy and China could be inferred from the case analysis above and also the detailed situation of economies and financial market performance in both Italy and China. The characteristics of the M&A deals in the near future could be described as following:

- a) The Chinese players of the most deals are partially or wholly state-owned, since in China, the most private enterprises are not as rich as the state-owned ones, and the former ones don't always have so much resources for cross-border acquisitions as that of the latter ones, including the experiences, the good relationship with government, also the good relationship with the agencies, who offer the advisory services

and financial help.

But the percentage of the private enterprises to conduct the M&A transactions must increase in the near future since the support from the Chinese government, which has been talked before. These private enterprises not only refer to the non-financial ones but also refer to the financial ones.

- b) The Italian side could be the companies that are in the financial distress and need much capital, like the case of Ferretti, or could also be the companies with emerging business performance and want to expand its market shares in the emerging markets, especially want to appeal to the Chinese clients and also the customers in the emerging markets, like the case of CIFA. No matter with which situation, the Italian companies should be the leader in the industry of have distinguished presence. The state-owned Italian companies could be the perfect targets since the privatization of the Italian state-owned enterprises is carrying on. Sometimes, the Italian ones are not in the financial distress, but need some help in the business operation. For case Pirelli, these two reasons both worked.
- c) In the near future, the industries chosen to do the deals will still be the manufacturing heavy industry and the chemicals and energies. These traditional industries always require the leading technologies and heavy capital investment. Additional to this, other industries, like customer products industries, in particular industry for the high end products, since Italy is the kingdom of luxury goods, like clothing, shoes and bags. While in China, there is no world famous clothing or leather bag companies. If Chinese companies want to establish own world leading brands in this segment, it could acquire an Italian luxury goods company.

Besides, M&A deals could also happen in other industries, like entertainment. We have mentioned Suning and Alibaba have interests in Inter Milan and AC Milan—two top soccer teams of Italy. The entertainment, which has big market potential in China, would also attract the attention of the rich Chinese investors.

- d) The deals between these two markets will be of high value and large amounts, since the targets are the leading ones in its areas.
- e) Expanding the business segment category will also another reason for the Chinese companies to acquire Italian companies according to the company strategies, like the case of Ferretti, except for the reason of strengthening the market position and presence in its existing business segment. Of course, this is might also the same reason for the Italian ones.
- f) To avoid the legal issues and lessen the tax burdens, Chinese companies will not acquire by the parent company, rather they would like to establish a subsidiary, exclusively for the M&A deals.
- g) In the near future, the syndicate banks or other financial organizations will not only advisory services for

acquisitions but also offer the financial services, like offering a loan to acquirers, like the case Pirelli and CIFA. This can help the syndicate to earn more and after the acquisition, acquirers will still get help from the syndicate.

5.3 The future trends of the M&A activities between Italy and China—the Italian companies to acquire the Chinese ones

The amount of inwards FDI in China from Italian investors is large. According to the data of the statistics bureau of China, although the Italian percentage in European outwards FDI to China has decreased from 2012 to 2014, in 2014 it still ranked 5th place among the European economic entities.

Although there is little information about the acquisition of Chinese companies by Italian ones, we could imagine in the near future there would be, with the improvement of the Italian economies and financial markets.

If there were acquisitions of Chinese companies initialled by Italian ones, under my understanding, the most likely industry would be the internet industry, since the internet business in Italy lags behind the Chinese one. Or it could be the industries with absolute advantages compared to Italian ones.

The Italian acquirers could be PE since they have conducted a lot of inbound M&A deals in Italy and they have the sources for the capital needed for deals. If the acquirers are in the industries with absolute advantages, they may want to acquire some specific technology or enter into a new segment, in which the Italian ones don't have presence. Or sometimes the Italian ones just want to acquire manufacturing bases for themselves, because the Chinese targets at most time don't have more advanced technologies and new product design but they could work as the manufacturing basis with the relative low labour cost.

And if we consider the macro-environment, since the exchange rate of Euro to RMB has been increasing since this year, this would increase the interest of Italian companies to conduct the M&A deals actively while the Chinese ones would be reluctant since the high exchange rate increases the relative costs for deals.

Conclusion

The cross-border M&A transaction is always a hot topic as China is playing a more and more important role in the worldwide financial market and can impose an obvious influence on the world economy. M&A activities have become one of the main ways for Chinese companies to stand on the world economic platform. Italy will still be the hot destination for Chinese investors with its advanced technologies, distinguished brands, worldwide reputation and awareness, market presence and so on.

As discussed above, the M&A deals between China and Italy have been mainly initiated by Chinese investors. In the near future, the situation will keep the same, when jointly considering the financial capability, the underlying rationality for M&A activities, the strategic needs, the macro-economic environment, and also other related factors. Also, the main characteristics and the future trend expectations of the cross-border M&A transactions between China and Italy have been discussed.

There are still some problems which should be paid attention on. Firstly, the regulation issues in M&A transactions between two countries should be further improved, including the legal issues like antitrust, the heavy tax burdens. Deals would fail or sometimes acquirers should build a special complicated acquisition subsidiary because of these. Transaction costs caused by regulations are always too high. Secondly, the main participants of the deals until now are big companies from China and Italy. In the near future, this kind of situation will continue. How to involve more small and private companies both from China and Italy into transactions is also a problem. Could small or private companies change this situation through developing new technologies, seeking for government's support and help? Thirdly, the main industries related to deals now are still the manufacturing, heavy industry and chemicals & energies industry which require large quantities of capitals and advanced technologies. Also the entertainment industry has a signal to be enrolled in deals this year. How to expand industries in which M&A deals take place is another problem should be discussed and solved. Thirdly, the follow-up development after the completion of deals is important, too. How to integrate two companies more efficient, including the resources, strategies and cultural differentiations, needs further discussions, also research and analysis based on the past experience and changing conditions.

M&A deals between China and Italy will gain more attention and popularity in the near future, which requires not only the participation of companies from two countries, the professional institutions which offer financial and also advisory services and support, but also the governments from both sides. Every stakeholder should make great efforts to solve the existing problems and complete more healthy and successful deals in a more broad industry category and involving different kinds of bidders and target companies.

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Acknowledgements

I would like to express my gratitude, firstly, to the Supervisor Professor Bruno Riccardo, Co-Supervisor Cassetta Ernesto, Professor Dario Cenci for course structured finance from LUISS University and also Professor Li Zhiguo of Fudan University for their help, including the advices, guidance and encouragement for my thesis during the whole period.

Secondly, I would like to express my gratitude to Fudan University and LUISS University, for giving me a chance like this to study in the multicultural environment. In these two universities, I have not only obtained the professional knowledge, but also harvested friendship with international classmates and multicultural communication experience.

Thirdly, I am also grateful for the professors who gave us lessons and also stuffs who have supported our study and daily life in universities.

Fourthly, thanks should also be given to the friends and classmates who have offered help during my studies and life, and also during the process of writing this thesis.

Finally, sincere gratitude would go to my families. They have always support me, encourage me and help me in my life.

Summary

This thesis is an empirical analysis of the M&A transactions between Chinese and Italian markets. The Chinese M&A market has developed a lot since 2013 in terms of the deal's number and values. The cross-border M&A transactions of Chinese companies have taken more and more important role with the increasing number and values. This kind of outbound deals are always with higher values compared with the inbound ones. The Italian market works as one of the hot destinations for the Chinese outbound deals. The Italian government and companies also welcome the rich Chinese investors to do deals in Italy to not only solve the financial distress for Italian companies and afford stable financial support, but also to improve the whole economic situation in Italy. Sometimes, the deals are related to the privatization of the Italian state-owned companies. From the previous case studies, we could find that the main deals happened in the industries of energies & chemicals, manufacturing, and heavy industries. These cases would also have some common patterns for us to refer to in the future deals.

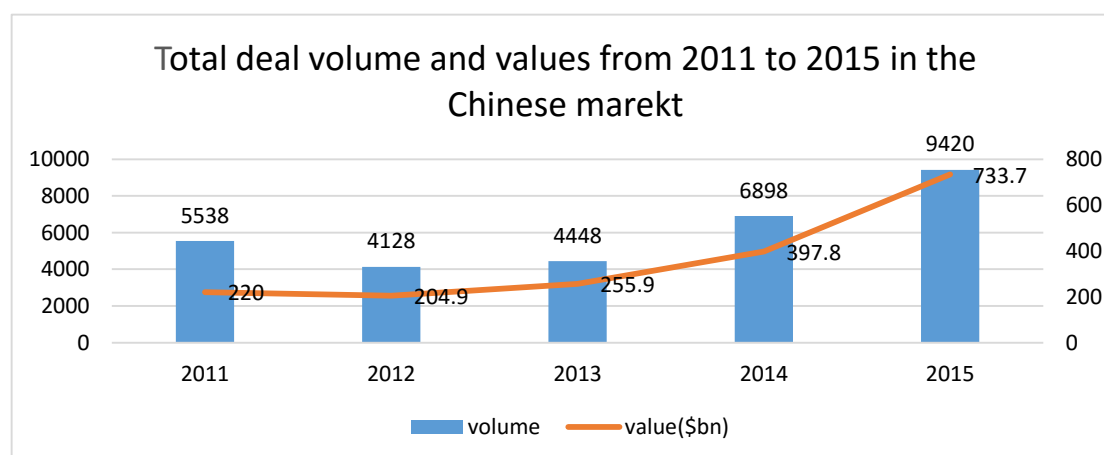
So the whole thesis will be organized into five parts. The first part is the brief introduction of the current situation of Chinese M&A market after the introduction part. In this part, it states the data presenting the market performance in the recent years since 2013, including the deal's number and values, then the industries in which deals have been closed most frequently, and at last the reasons why there is the M&A booming since 2013 in China, from the aspect of regulations, macro-economic environment and so on. The second part is the brief introduction of the current situation of Italian M&A market. In this part, it introduces firstly the European debt crisis and its influence to the Italian financial market, including the M&A market, then it explains why the Italian M&A market has resurged, from the aspect of improvement of the domestic economies, the availability of the financial instruments for deals, the support from the financial advisors and also the regulations. At last it gives the expectations of the future trend in the Italian M&A market based on the analysis above. The third part is the brief introduction about the current situation of the M&A transactions between Chinese and Italian markets. Since the data direct to the transactions between these two countries, so the this part starts with the brief statement of the current situation of Chinese outwards FDI, especially to Europe and Italy, then the inwards FDI to Chinese market, also paying attention to the inwards FDI from Europe and Italy. Then it converts the FDI data to the M&A deals analysis, and gives a short listing of important deals between China and Italy with large deal values. The fourth part is an important part of the thesis. It gives three typical M&A deals between two countries, which have been already closed. They are acquisition of CIFA by Zoomlion, acquisition of Ferretti by SHIG and acquisition of Pirelli by ChemChina. When analyzing the cases, there are

brief introduction of both bidders and target companies, the procedures of the deals, the reasons for both companies to close the deals in the terms of the financial and strategic reasons. After the analysis, it concludes the common patterns of these three cases. The last part is the conclusion part, in which the expectations on the future trend of the M&A deals between these two markets are given. Firstly, it lists the positive factors for conducting M&A deals between China and Italy, then the future trend when Chinese companies acquire Italian ones, and also the future trend when Italian ones purchase Chinese ones.

Brief introduction of the current situation of the Chinese M&A transaction market

Data evidence for the Chinese current M&A situation

Nowadays, Chinese M&A markets has become the second largest M&A market in the world, just following after the American market. The year 2013 is regarded as “the first year of a new era for the Chinese mergers & acquisitions”. With the support of the Chinese government and under the background of the market willingness for the M&A activities, there came the new era for the Chinese M&A market.



So from the graph, we could see the positive growth rate both in the deal’s number and values. We should also expect in the near future, there would still be positive growth both in terms of numbers and values.

Besides, the outbound deals although has a relative small number but with rather high values.

Industries which have had outstanding performance regarding to M&A activities

If we dig into the specific industries, in which the most transactions took place, we would find out that even though the traditional industries has still occupied an important position in the whole Chinese M&A market, the newly emerging industries, like bio-technology industry, internet industries, have obviously played a more and more important role. In 2013, the industries where the most M&A deals happened and where the most values were closed were energies & mineral industry, the real estate industry and the financial industry with

cross-border transactions with significant values. In 2014, the industries where the most deals happened were manufacturing, internet technology and energy & mineral industry and where the most values were closed were the comprehensive industry, the financial industry and the energy & mineral industry. In 2015, there were big improvement in the deals value in the sectors of high technologies and financial services, the values were almost doubled. And in the sector of energy & power, the values were almost tripled.

Reasons for the enormous blowout in the Chinese M&A market since 2013

From the aspect of the external macro-environment, government regulations and policies have played an important role. Several documents to promote the development of the M&A market were published by different bureaus and ministries of China, including “the advices on implement of encouragement and guidance to the private enterprises to conduct the overseas investment”, “the guideline for accelerating mergers and reorganization of the companies in the key industries”.

The second reason for the rapid development is related to the financial market’s regulations. The primary IPO has been suspended from time to time by CSRC. Therefore, M&A has become the main way for the private equities and venture capitals to exit from the market and receive the investment return.

The third reason would be the rise of the emerging industries in the market. Among this, the internet industry has the extraordinary activity, especially the BAT giants, which refer to Baidu, Alibaba and Tencent.

The fourth reason is that the rapid development of the buyout funds. The PE industry has experienced a booming since 2009 and attracted large amounts of hot money. But as the time passed by, the investment return of PE has decreased gradually. So comes the buyout fund.

The fifth reason is that the consolidation of the whole industry value chain has become a mainstream and companies achieve growth not only by improving the inner condition of themselves, but also by expanding in the whole industry value chain, through the horizontal and vertical integration, like extension of product lines, entrance of new markets, manufacture of raw materials, acquisition of the distribution channel, and so on.

The last but not the least reason is the influence of globalization. With the global economic integration, the internationalization of the Chinese currency RMB, and also the large amounts of the foreign exchange reserves, the Chinese companies are eager to enter into the foreign new markets to obtain growth, which led to a series of outbound M&A deals.

Brief introduction of the current situation of the Italian M&A transaction market

Brief introduction to the European debt crisis and its influence to the European and Italian financial

markets

The Italian financial market has been severely affected by the European sovereign debt crisis. The credit default happened frequently, and the European financial market has been also negatively affected.

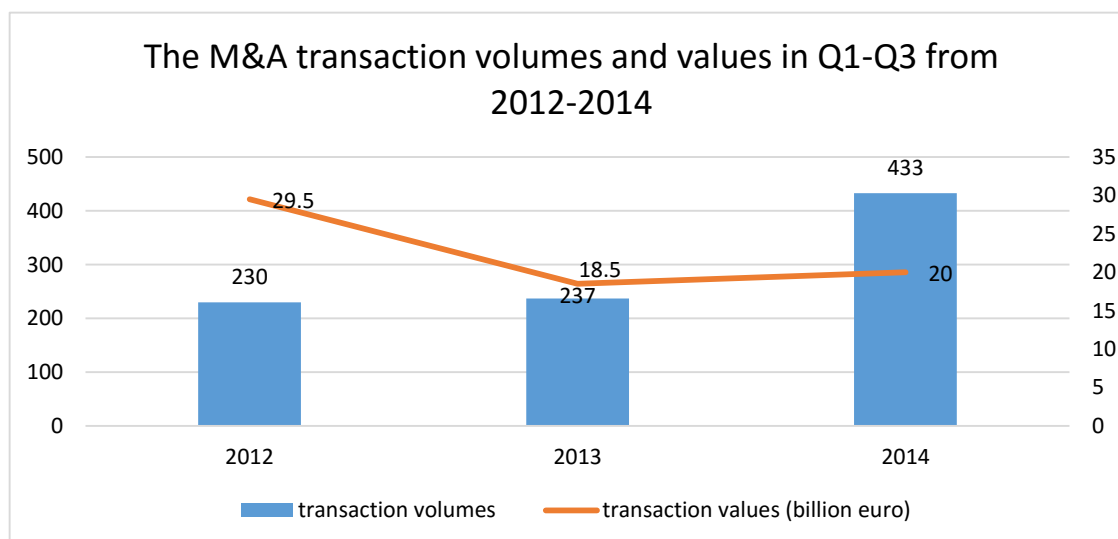
The European debt crisis raised more risk aversion of the global investors, so the countries and regions with more positive economic development and safe capital investment environment attracted the majority of the invested capital in the world. The development of the European financial markets, including the domestic M&A transaction market, was blocked at that time.

The economic environment and also the financial markets of Italy were negatively affected by the European debt crisis, together with other European countries and markets. From 2010-2012, the average growth rate of GDP in Italy was around -3% as a result of the debt crisis. Besides, from the first quarter to the fourth quarter in 2011, the private net capital inflow in Italy decreased from \$34.8 billion to \$6.6 billion.

Thereafter, with the EU emergency measures, including the help of IMF, World Bank, EFSM, EFSF and so on, the economic situation in Europe has been gradually improved. The financial market also rejuvenated.

Data evidence for the resurgence of the Italian M&A markets

Italy's national economies were expected to progress to the turnaround stage in the first half year of 2013, which gave an impulse to the Italian financial market, including the M&A market. Data in the graph below could show this result.



Even the deals' volumes increased year by year, the total values of the deals shrank a lot. This was because of the absence of the mega deals, which referred to the deals with large transaction values. The absence of the mega deals could result from Italian investors' lower confidence to the investment returns with the underperforming macro-economic environment. Besides, the market performance was still lower than that before

the crisis, especially from the aspect of the value of the deals.

In 2015, there were 506 M&A deals closed in the Italian market, whose total worth was €50.1 billion, while the number and values of M&A deals in 2014 were 543 and €50 billion. Over half of the transaction amounts in 2015 were signed by the foreign investors, which were equal to €26 billion and related to 179 operations. We can see that the average transaction value signed by the foreign investors was much higher than that of the other transactions. As referring to the specific industries, which had a prominent performance in 2015, we can see that there was a strong growth—the growth rate was 25%—in the consumer market sector in the aspect of the transaction value, from €9.7 billion to €12.3 billion. The transactions in the industrial market segment shrank from 144 to 116 in the terms of deals' number while in the aspect of the values there was an increase from €6 billion to €10.4 billion.

Reasons for the Italian M&A market's resurgence

As for the reasons why the Italian M&A market comes back to life since 2009, it's not only because of the improvement of the domestic macro-economies, but it's also due to the financing availability in the market to support the deals. There were several different kinds of financial instruments available for deals, like international funds, hybrid equity, bonds and so on, and also the foreign financial institutions, which took place of the national financial institutions to give support to the deals.

Another reason for the steady growth in the Italian M&A market is that some regulations by the Italian government have positive impact on the development of the M&A market. There are no special tax regulations enacted by the Italian government for the M&A activities, but there are two main significant relevant amendments introduced by Law Decrees NO. 145/2013 and Law No. 147/2013, which influence the M&A transactions conducted in Italian market.

3. *For 2014, 2015, and 2016, the deductible percentage for the notional interest deduction on equity injections (ACE) has been set at 4, 4.5 and 4.75 percent, respectively.*
4. *The 0.25 percent substitute tax on medium and long-term bank loans is no longer compulsory.*

Expectations of the future trend in the Italian M&A market

With all the relevant data and information mentioned above, we could say that the outlook for the Italian M&A market still remains positive.

The global economy will maintain the positive momentum, provided that there are no disasters on a global scale, including wars, pandemics, terrorism and so on. So are the situation of the European economies.

Furthermore, the favorable elements which have promoted the recovery of the performance in the Italian M&A market will remain in the same situation and even be improved, including the foreign investors' strong interests in the know-how and brands of Italian style, the regulations, the availability of the financing instruments, the development of the PE investors and so forth.

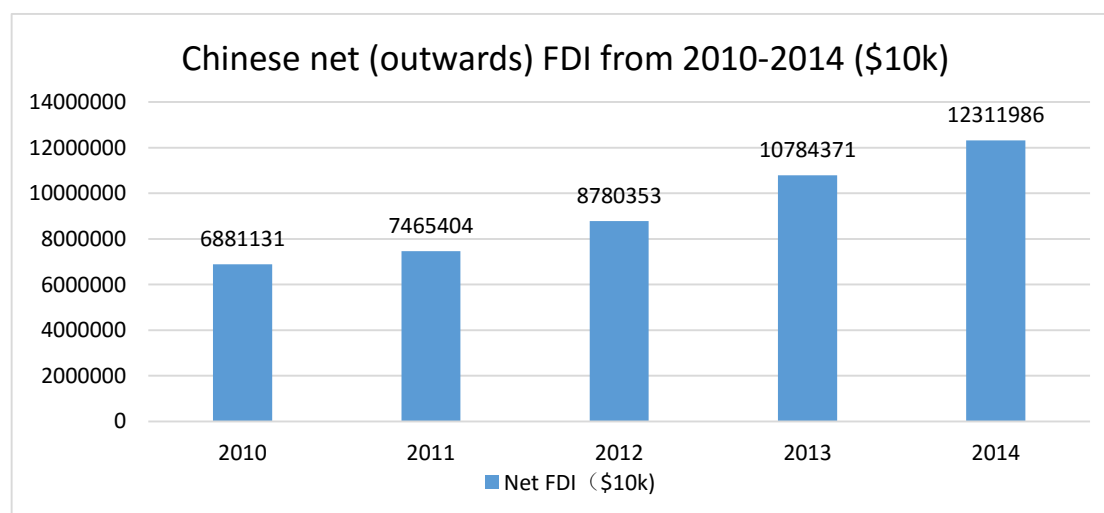
As for the composition of the participants for the M&A activities, except for the domestic companies and private equity institutions, the foreign investors, especially the foreign companies in Asia, like China, India and other developing Asian economic entities, will occupy a more and more important position, no matter in terms of the values of deals and also the numbers.

Based on the current situation of the M&A situation in Italy, we could expect that the privatization of the giant state-owned enterprises would also be continued.

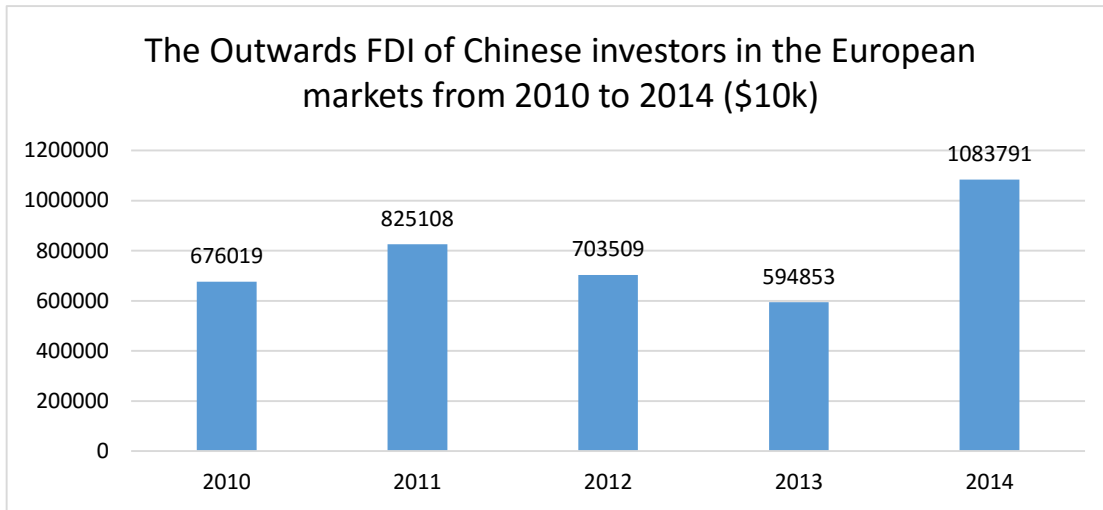
Current situation of the M&A transactions between Italy and China

Current situation of Chinese outwards FDI

Since the Chinese investors are more eager to go abroad with the development of the Chinese economies, the support of the government (guide of the “The Belt and the Road” (Yi Dai Yi Lu)), the capital surplus, the saturation of the domestic markets, the desire for the resources and advanced technologies, and so on, the Chinese investors make more and more outbound foreign direct investment (FDI) in the oversea markets. The amount of 2014 almost doubled of that in 2010. At the same time, the FDI amount in the whole world has decreased in 2014.



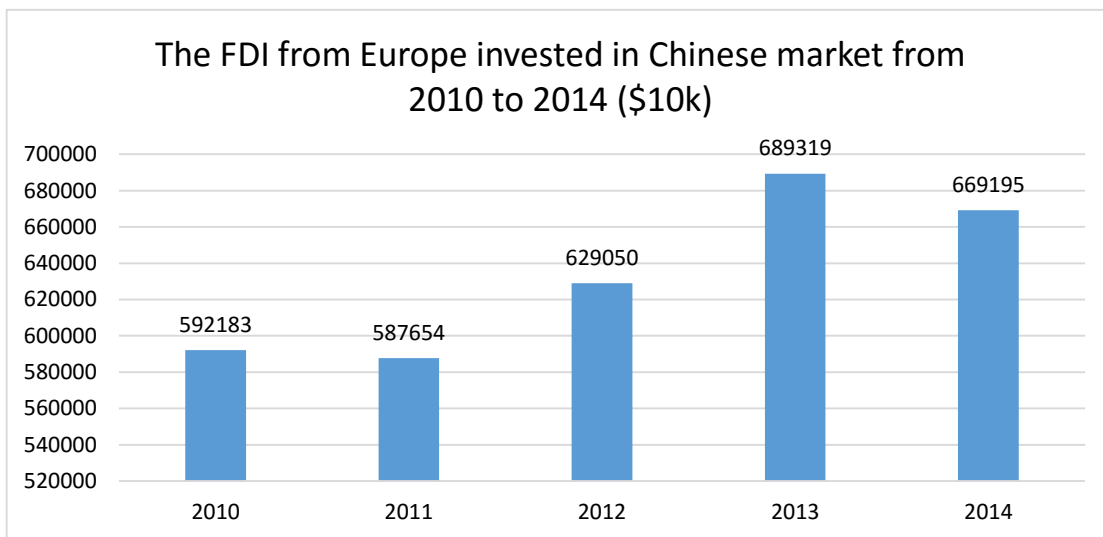
Chinese investors, therefore, have been playing a more and more important role in the world financial markets as participants and capital suppliers with the support of the Chinese government and the desire to go abroad.



Comparing the data, we could find that although the proportion of the FDI in the European markets is almost keeping the same, which is around 8% to 10% (except for the percentage in 2011, 11% and 2014 5.5%), while the total amounts, in general, have been rising steadily.

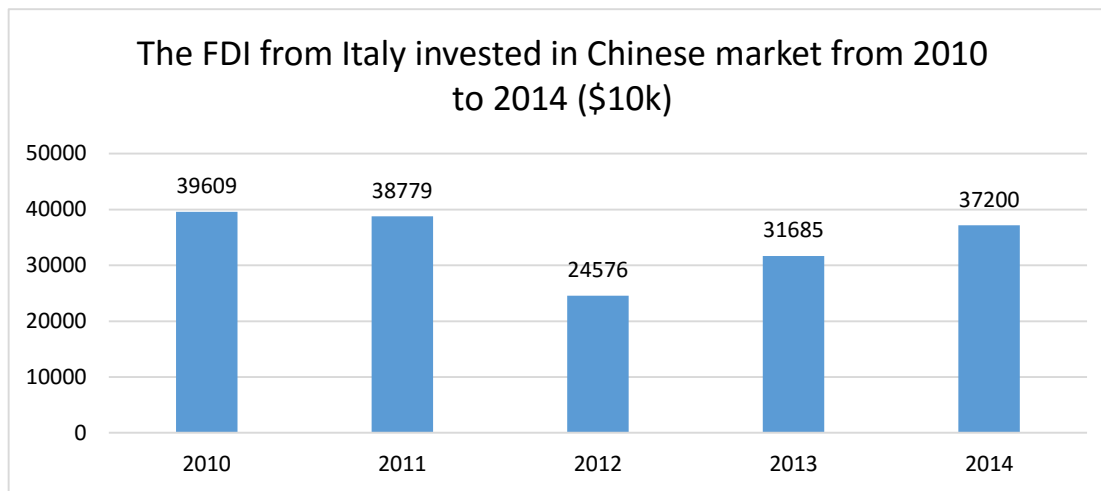
Inwards FDI to Chinese market

Since EU is the largest economic entity in the world and China is the fast-rising economic entity, who has surpassed Japan and become the second largest economic giant, globally, the outward FDI from EU to China has significant benefits to the economic growth, development of trading and improvement of technologies of both sides. Here below are the graphs presenting the data evidences.



The proportion of the total FDI amounts invested in the Chinese market from Europe is keeping almost the same, 5% to 6%, calculated with the total inwards FDI to China from the world.

Besides, the FDI amounts from Italian investors in China from 2010 to 2014 hasn't changed a lot with a slight deduction. But in terms of the investment amounts in China, Italy still ranked 5th in the European countries in 2014.



From outwards FDI to outbound M&A activities conducted by Chinese investors—EU as a main destination

Since the M&A activity is one of the main means of the FDI, the Chinese outbound M&A deals are now continuing to rise, with the rising of the total FDI amounts. In the European markets, Italy has become one of the most attracting destinations for the Chinese companies. If we rank the markets in each countries and regions according to the value of the total M&A deals, in 2014, Italy was the sixth largest destination for the Chinese M&A activities, and the value included was around \$4 billion.

In the past 5 years before the acquisition of Pirelli, the total value of the M&A deals in Italy from Chinese companies had reached €10 billion. And in 2014 one third of the M&A activities conducted by the foreign investors in Italy were finished by Chinese. Important acquisition deals between China and Italy are: CIFA's 100% acquired by Zoomlion in 2008, Ferretti's 75% acquisition by SHIG in 2012 and Pirelli's 100% acquisition by ChemChina in 2015. There are also signs for the deals in entertainment industry except for the traditional industries.

Case Studies—from cases to see the pattern of M&A activities between Italian and Chinese markets

CIFA's acquisition by ZOOMLION (2008)

Zoomlion is a state-owned company, specialized in the developing and manufacturing the infrastructure equipment for the construction, energies, environment, transportation projects. CIFA is an engineering manufacture specialized in design, production, technology innovation in the area of engineering construction and ranked third in the industry of concrete machinery industry in the whole world.

In September, 2008, CIFA was acquired by Zoomlion through a newly built subsidiary. The acquisition was

closed jointly with other acquirers—Goldman Sachs, a Chinese private equity company—Mandarin and also Hongyi Capital, who were experienced in cross-border transactions and could also offer financial support. The total deal amount of the transaction was worth €375.5 million, including the payment to the current shareholders of CIFA, to the creditors of CIFA and the agency fees and the transaction fees. The Italian leading bank Intesa offered a loan to this acquisition. After the acquisition, the ownership of CIFA was 60% by Zoomlion, 18.04% by Hongyi, 12.92% by Goldman Sachs and 9.04% by Mandarin. Among the €271 million offered by the joint investors, €124 million would be paid by CIFA in the future from the normal operational incomes.

The reasons for Zoomlion to acquire CIFA could be various, including the desire to gain reputation, brand awareness and market shares quickly in the world market, make use of resources of CIFA including technologies, existing market presence, the distribution channels, management methodology, also the need to change the company image in the world. With the stable and increasing domestic economic environment together with the prosperity in the real estate market, the market demand for construction equipment increased at large extent. It was also the reason of acquisition for Zoomlion. Besides, the acquisition could also help Zoomlion compete with the major domestic competitor—SANY.

For CIFA, the reasons could be pay back debts and maintenance of employment, the desire to penetrate into emerging markets with the decreasing demand in the developed markets.

The acquisition has brought an obvious positive outcome for Zoomlion. Hence, Zoomlion decided to purchase the remaining 40% shares from other three shareholders who participated in the acquisition with the total value of €236 million on September, 2013. This transaction boosted Zoomlion in the team of the world's top concrete machinery companies.

Ferretti's acquisition by Shandong Heavy Industry Group—Weichai Group (2012)

SHIG, controlled by the Chinese government, is a leader in the equipment manufacturing industry not only in Shandong, but also in China and even has influence in the whole world. Weichai Holding Group, the largest wholly-owned subsidiary of SHIG, now is the one of the biggest automobile and equipment manufacturing groups in China. Ferretti S.p.A. is an Italian multinational yacht making company targeting at the luxury yachts markets.

On 10th, January, 2012, Ferretti, the debt-laden Italian top luxury yachts maker, announced that it accepted the acquisition offer made by SHIG through its wholly-owned subsidiary Weichai with the total deal amount of €374 million to acquire 75% stakes in Ferretti Group in its debt restructuring procedures, including Ferretti's

trademarks, shipyards, technologies for luxury yachts and its sales networks in the whole world. SHIG received financial advisory services from Citigroup Inc., Houlihan Lokey and ICBC International Holdings Ltd., and also received the legal advices from King & Wood, Bonelli Erede Pappalardo and Akerman Senterfitt. After the completion of the acquisition, Weichai would like to initial an IPO for Ferretti and list it also in Hong Kong in 5 years.

The reasons for SHIG to acquire Ferretti were various. Firstly, it would be accorded with its corporate strategy for further development. With the existing market influence and market position of Ferretti, SHIG (Weichai) could easily access into the yachts markets, especially the luxury yachts markets. SHIG could also make use of Ferretti's resources directly. From the financial aspects, it was also reasonable to acquire Ferretti with a not so high price since Ferretti was eager to step out of the financial distress. Besides, it's a good way to make fully use of the abundant capitals to acquire the existing resources, which may cost more to develop by itself from the start.

For Ferretti, the most important reason to accept the deal was that it was in the severe financial distress and was in the process of debt restructure. The strategic reason for Ferretti to accept the deal was the desire to enter into the emerging markets, especially the Chinese market, since the sales in developed markets decrease dramatically as the result of financial crisis and debt crisis.

Pirelli's acquisition by ChemChina (2015)

ChemChina is a state-owned company and is the largest chemical enterprise in China. Pirelli is the world famous tire company and has become the world fifth largest manufacture since 1985 with tire sales revenues. On 23th, March, 2015, Pirelli announced that it accepted the acquisition deal of €7.1 billion, offered by ChemChina. It's one of the largest overseas acquisitions made by a state owned company by Chinese government in recent years. This takeover bid was bankrolled by J.P. Morgen, who offered advisory services for ChemChina, with a €6.8 billion bridge loan. This kind of combination services are more attracted to the financial institutions since they could earn more in deals. ChemChina, together with Camfin, initiated a tender offer after the acquisition with the share price of €15 per stock to acquire the remaining shares in the market. After the acquisition, the management team of the Pirelli would not change, only the company strategies would be anew defined to adopt to the development requirements of both ChemChina and Pirelli and create a new NO.5 tire company in the whole world

The reasons for ChemChina to acquire Pirelli were various, too. The most direct benefit of this acquisition is that it is allowed to access the advanced and premium technology for the tire design and manufacturing, since

Pirelli ranks first in the segment for the premium tires. The acquisition could save large quantities of R&D costs. The second reason was that with the majority stake in Pirelli, CNTR could make use of the marketing and sales networking of Pirelli in the whole world, especially in the European high-end markets, which makes CNTR much easier and more convenient to enter into these markets. Another reason is the financial reason. Since the exchange rate of Euro/US in the first quarter in 2015 decreased accumulated 11%, which was the maximum dropdown since the birth of Euro, the exchange rate of Euro to RMB also decreased a lot. Chinese companies could save a lot from this low exchange rate of Euro. It could pay less if the target company is valued with Euro.

From the aspect of Pirelli, the biggest gains from this acquisition is that it could have a better and stable position in the Asian market against its competitors like Michelin and Continental, notably, in the business segment of not so premium tires, like passenger tires and truck tires. After the acquisition and through the cooperation with CNTR, Pirelli could also step into the low-end and medium-end tire markets, which could also bring large quantities of revenues for Pirelli. Another reason for Pirelli was that the ownership of Pirelli in recent years has changed a lot, which may cause the potential un-stability of the company and the trading price of Pirelli's stock was also relatively low. The acquisition could afford a stable foundation for Pirelli and increase its market capitalization.

Similar pattern of these cases

Some similar patterns from these three cases could be dig out.

Firstly, we can see that in these acquisitions the deal amount is relatively high compared with the domestic acquisitions for both Chinese and Italian players.

Secondly, Chinese investors are favour of the Italian companies with world leading technologies, which are difficult for the Chinese acquirers to develop by themselves and which are important if the acquirers want to enter into the developed markets and take market shares in overseas markets.

Thirdly, these three cases all took place in the heavy manufacturing industries, which require the leading technologies and innovation.

Fourthly, the reasons for the acquisitions are mostly that the Chinese companies want to expand in the new markets, want to make use of the target companies' brands and reputation to improve their own reputation in the global markets, or want to make use of the resources of Italian companies.

Fifthly, during the acquisition, the bidders would like to turn to external resources for help regarding to the financial and advisory aspects, out of the reason of the transaction experience or the financial ability.

Sixthly, when Chinese companies want to acquire the targets, they would not acquire with the parent companies themselves, rather through an existing subsidiary or a newly one.

Seventhly, after the acquisition, although the Chinese side has taken over the ownership of the Italian company, but the Chinese players always leave the management still in the hand of the previous Italian personnel and just redefine the company strategies.

The last characteristic for deals is that maybe the Italian ones are in the financial or operational distress. Sometimes, they may just want to explore the emerging markets.

Expectations on the future trend of the M&A deals between Italy and China

Positive factors for conducting M&A deals between Italian and Chinese markets in the future

The positive factors for conducting M&A deals between two countries will still exist in the near future. The situation of the Italian national economies and financial markets has been gradually improved since the turnaround and this positive phenomenon will continue. With the financial and economic stability, Italy would continue to be an attractive destination for Chinese investors, not only the destination for the outwards FDI from the Chinese investors, but also the destination for the M&A activities.

Furthermore, the Italian government and the Chinese government are all willing to witness the M&A deals happening between two countries, since the Chinese government want to further develop the domestic economy and change the image of Chinese companies defined before, while the Italian government also needs the foreign investments to continue to boost the domestic economies to keep the country more stable through improving the economic growth rate and lowering the unemployment; in addition, it needs more capital out of the needs of payment of debts, and also to rescue some companies in the financial distress. M&A deals is one of the effective ways for the Italian state-owned firms to achieve privatization.

Besides, with so many closed deals, companies from two countries are experienced with how to do M&A deals. There are still abundant company resources appeal to the Chinese peers in the same industry or in the similar industry, for instance, as discussed above, the distinguished Italian brands, the world leading technologies, market presence of Italian companies in the global and so on. The Chinese ones want to compete with the domestic and international competitors, strengthen the existing market positions and explore the new markets.

For the Italian companies, they are also willing to build partnerships with companies in the emerging markets and abundant of capitals, which will help them to penetrate into the emerging markets with the solid financial support.

The future trends of the M&A activities between Italy and China—the Chinese companies to acquire the Italian ones

- a. The Chinese players of the most deals are partially or wholly state-owned (in all of the three cases discussed above). The percentage of the private Chinese companies to conduct the M&A transactions must increase in the near future under the support from the Chinese government.
- b. The Italian side could be the companies that are in the financial distress and need much capital, like the case of Ferretti, or could also be the companies with emerging business performance and want to expand its market shares in the emerging markets, especially want to appeal to the Chinese clients and also the customers in the emerging markets, like the case of CIFA. Sometimes, the target companies may in the operational difficulties, like the case of Pirelli. The state-owned Italian companies could be the perfect targets since the privatization of the Italian state-owned enterprises is carrying on.
- c. In the near future, the industries chosen to do the deals will still be the manufacturing heavy industry and the chemicals and energies. These traditional industries always require the leading technologies and heavy capital investment.

Additional to this, other industries, like customer products industries, in particular industry for the high end products, since Italy is the kingdom of luxury goods, like clothing, shoes and bags. The entertainment industry has also begun to attract the attention from the Chinese investors, like Alibaba's and Suning's interests in AC Milan and Inter Milan.

- d. The deals between these two markets will be of high value and large amounts, since the targets are the leading ones in its areas.
- e. Expanding the business segment category will also another reason for the Chinese companies to acquire Italian companies according to the company strategies, like the case of Ferretti, except for the reason of strengthening the market position and presence in its existing business segment. Of course, this is might also the same reason for the Italian ones.
- f. To avoid the legal issues and lessen the tax burdens, Chinese companies will not acquire by the parent company, rather they would like to establish a subsidiary, exclusively for the M&A deals.
- g. In the near future, the syndicate banks or other financial organizations will not only advisory services for acquisitions but also offer the financial services, like offering a loan to acquirers, like the case Pirelli and CIFA. This can help the syndicate to earn more and after the acquisition, acquirers will still get help from the syndicate.

The future trends of the M&A activities between Italy and China—the Italian companies to acquire the Chinese ones

The amount of inwards FDI in China from Italian investors is large. And although there is no information about the acquisition of Chinese companies by Italian ones, we could imagine in the near future there would be, with the improvement of the Italian economies and financial markets. If there were acquisitions of Chinese companies initiated by Italian ones, under my understanding, the most likely industry would be the internet industry, since the internet business in Italy lags behind the Chinese one. Or it could be the industries with absolute advantages compared to Italian ones.

The aim of the Italian companies to initiate M&A deals may be the desire to enter into the emerging markets, the need for some specific technologies, or maybe just the need for manufacturing bases.

With the appreciation of Euro, it will be more financially economic for Italian ones to initiate deals. Therefore, we can expect the increasing trend of deals by Italian ones.

In conclusion, the M&A activities will mainly be conducted by the Chinese companies, when jointly considering the financial capability, the underlying rationality for M&A activities, the strategic needs, the macro-economic environment, and also other related factors.

Conclusion

Four problems for further discussions:

- 1) The regulation issues in cross-border M&A deals between Italy and China, like legal issues and taxes should be further improved.
- 2) How to involve more small and private companies into this kind of deals is also a problem for both countries.
- 3) How to expand industries where M&A transactions take place requires more discussion.
- 4) The integration after acquisitions, including integration of resources, strategies and culture, should be discussed based on the past experience and the changing environment.