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A New Approach for the VC / Buy-outs Segment: CROSS-BORDER INVESTING IN THE EMERGING ECONOMIES OF ASIA: CHINA?

Invest in mid-market buy out opportunities in China only through cross-border strategic investment vehicles that will invest and obtain control simultaneously in local companies located BOTH in China and in North America presenting substantial synergies.

Upon completing the M&A exercise, the Western company will contribute state-of-the-art management, processes & systems to the China entity, as well as access to Western markets, becoming a vehicle for an IPO in a suitable Western stock exchange.

Background – China and other emerging economies in Asia have become highly attractive to international investment management firms. However, few investment candidates in these countries have the management and operational standards Western Private Equity investors expect.

Main consideration – Furthermore, the typical Western model of assigning a new turnaround leader to the invested company in China/emerging Asia is unlikely to work. Operational capabilities of the Asian target are likely to be excessively undeveloped, i.e., totally inefficient and ineffective, often just inexistent altogether, for a single person or even a full new management team to execute a turnaround in any sensible period of time.

Risk minimization – Investments in China/emerging Asia are less risky if made through a *suitable* strategic partner, e.g., a North American company that will provide managerial resources, install proven operational processes & systems, training both locally in Asia and back home, and facilitate access to international markets, including market intelligence, strategy and channels. Simultaneously, the Western partner is likely to benefit from existing sourcing & manufacturing operations in, and access to China and other Asian markets.

Preferred structure – This structure requires a cross-border investment vehicle that will originate investments simultaneously in two synergistic local/regional companies in two continents, China/Asia *and* North America (or Europe). Currently, investment funds are practically continent-centric. Their geography-driven operations often prevent their investment managers from considering simultaneous related investments in two different continents, hence the need to create a new vehicle.



Investment execution – The investment process will entail two parallel efforts. One initiative will focus on identifying a suitable Western company, which may possibly be suffering stagnation or lack of growth, but with well-established, efficient operations, brand and market share. In parallel, another effort will focus on screening emerging China/Asia companies with high investment potential, which have reached maximum potential locally on their own, and are ready to partner with/acquire a foreign entity to go to the next level, i.e., an international expansion, through an M&A / RTO initiative funded by this cross-border investment vehicle.

Value generation – Rigorous operational M&A due diligence will ensue. The investments will be structured and executed generating untapped value resulting from the M&A effort, implementation of efficient Western systems & management, and both entities growing in new markets. Exit alternatives will be assessed, including IPO potential in a capital market valuing this Asia – North America model, or strategic sales.

Conclusion – This innovative model, while conceptually quite straightforward, requires extensive strategic expertise in identifying the investment targets, their synergies, opportunity for value creation, structuring the transaction, and overall planning and execution of the investment and subsequent M&A exercise. The opportunity for value creation in our global economies is immense, but the challenge is not insignificant either.



The Author, Jordi George Argente is an experienced professional working at the Board-level, with over 20 years of international management experience, including a large-scale turnaround for a State-owned enterprise in China. Mr. Argente has developed innovative concepts for private equity groups managing global VC & mid-market buy-out funds wishing to invest in China and other emerging economies.

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