投资界
PEdaily.cn
电子周刊
MAGAZINE
NO.0492
2011-07

China's FMCG Undergoing M&A Boom in Alcohol, Dairy & Daily Chemical

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China's FMCG Undergoing M&A Boom in Alcohol, Dairy & Daily Chemical

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In China, the FMCG "Fast Moving Consumer Goods" market is a sunrise industry following the economic recovery, with huge potential of growth. Jointly pushed by a number of favorable factors including high-growth national economy, active market investment, improving consumption capability, increasing disposable income of consumers, intensified market competition and bigger input by foreign-funded enterprises in China's market across recent years, China's FMCG industry develops rapidly and moves in a fast lane. The overall growth momentum is tremendous as many segments such as drinks, alcohol, snack food and daily chemicals all maintain fast expansion. At present, China's FMCG industry sees increasingly improving concentration and gradually upgrading M&A deals. Over the past year, M&As in the industry were too many to count. The news of COFCO's victories keeps pouring in as it acquired such excellent private enterprises as Mengniu Dairy and Baoning vinegar and marched into the "full industrial chain"; Bright Food Group went abroad and continued its pace in M&A despite defeats; the daily chemical industry is filled with fierce battles as local brands moved with difficulties while international giants like P&G, Johnson & Johnson and Coty made aggressive presence. With continuous large-scale reorganizations through M&As, super-large enterprises will gradually emerge and the era of occupation by a number of players for China's FMCG industry may come to an end.

I. M&A and Investment Hotspots in China's Alcohol Sector

1. High-end Liquor Brands Come to the Fore.

(1) A High Profit Star, Investment Hotspot

China's Liquor sector boasts attractive high profit and extensive development prospect. Statistic data show many top-end liquor products make a gross profit of 60.0% at least. According to the data released by the National Bureau of Statistics, from January to November 2010, liquor's brewing industry realized RMB234.65B of sales value, an increase of 33.81% year-on-year, indicating that it has been increasing at a steady pace. A group of industry forecast data shows the export of China's liquor sector will increase up to 5.0%-10.0% and make profit up to 20.0% in the coming ten years. It is predicted that by 2012, the annual growth rate of China's liquor market profit will reach around 31.8%. Although it is a slack season for the sales of alcohols at present, above-mentioned data indicate that the liquor sector reports brisk business undoubtedly. According to the group of data, it is estimated that China's liquor sector has still a large room for profit growth. For these reasons, many investors intend to make a fortune in the liquor sector.

(2) Tier II and III Liquors Have Large Potential

Currently, high-end liquor market is monopolized by a small number of brands, such as Moutai, Wuliangye, Guojiao 1573, Swellfun and Jiannanchun. Moutai and Wuliangye have achieved a total of 30,000 kiloliters of annual production and sales volume and accounted for 75.0% of market shares. The overall high-end liquor price is also in a semi-monopoly state. In the near future, more high-end products will come to seize the liquor market. Tier II regional brands are gradually rising, which helps speed up the progress of industry integration. Some liquor SMEs will be continuously merged by aircraft carrier-level enterprises in the sector. For instance, COFCO, as a mature food enterprise, pays much attention to the liquor sector. To date, it contacts many liquor enterprises nationwide and has successively negotiated with Gujing Distillery, Tuopai, Yanghe and Confucius Family Liquor. Recently, it has negotiated with COFCO and Shaanxi Du Kang Liquor Group Co., Ltd. about acquisition.

To date, the liquor sector presents more high-end products after rounds of reshuffling. As more liquor brands tend to participate in M&As, low-end brands have less space for existence. As the law of the jungle accelerates industry integration, some nameless low-end liquor brands without cultural basis are destined to have a gloomy prospect and become M&A targets of powerful brands.

(3) Foreign Enterprises Covet Share of China's Liquor Market

In the wake of acceleration of economic globalization, more foreign alcohol enterprises and brands swarm into China. Meanwhile, various types of overseas and local capital are also active in China's alcohol sectors. They have entered into rivalry with local state-owned and private capitals and gradually grown into an important force in China's alcohol sectors. In the days to come, most M&A restructurings in the liquor sector will be derived from capital out of the sector or foreign capital. For example, Diageo achieved the first inbound M&A deal in the liquor sector after swallowing Swellfun. The transaction provided a platform to Diageo to significantly break into China's liquor market and grab market shares. Ever since the signing date of the acquisition deal, Chinese liquors have entered international capital market. It is also proved by the fact that some world well-known tycoons including Hennessy and Absolut Vodka also merged with such Chinese liquor enterprises as Wenjun Liquor and Jiannanchun by means of capital access. However, it is not easy for foreign enterprises to merge or acquire famous and high quality liquor brands, because Chinasets restrictions on M&As between foreign enterprises and famous and high quality liquor brands, and most famous Chinese enterprises such as Wuliangye and Moutai are absolutely held by SASAC, they own powerful capital and technological strength and are not desired for expanding international market so much as expected by others. In face of emerging international alcohol capital, local alcohol enterprises are suggested to capitalize on the incremental amount of international capital to liquidize remnant domestic assets, so as to maximize the competitiveness of the national alcohol producers in the global alcohol market.

2. Beer & Wine Embrace the Era of M&As

China's beer market is more active than its liquor market and has a huge room for

development, because young people are big drinkers. Besides, imported wine is well received by those fashion-minded consumers. In particular, wine is more and more popular among Chinese people and even integrated into Chinese liquor culture, and thus their prices are closely related with tastes.

(1) M&A Combats in Wine Sector Are Hot up

The wine sector has a promising development prospect. According to statistic data, China's per capita wine consumption is only 0.38 liter, accounting for less than 2.0% in alcoholic drinks and indicating a big gap compared with such developed countries as Japan and ROK. It is predicted that China's per capita wine consumption would double in the coming five years. By 2011, the figure is expected to increase to 828.00 million liters. That is to say, Chinese wine consumers drink more than 1.10 billion bottles of wine each year.

In the wine sector, enterprises scramble for producing areas of brewing raw materials, expand sales channels and broaden sales volume in the market by means of M&A. Through capital market or M&A restructuring, they expand market shares and secure their positions in the market.

Leading Chinese wine enterprises have sped up to merge or acquire high quality international wine resources. In February 2011, COFCO Wines & Spirits Co., Ltd. has purchased Ch ? teau de Viaud situated in Bordeaux, France, with RMB100.00M after negotiations for three years and signed the formal agreement recently, becoming the first Chinese famous wine enterprise that achieves overseas acquisition for the purpose of production. Its affiliated brand Great Wall Wine is the No.1 brand in China's wine sector. Great Wall Wine's acquisition and integration of overseas premium producing area resources are of more significance to embrace advantageous resources and enhance the brand's influence in the world.

On the other hand, foreign enterprises have long attempted to acquire wine sales channels in China through M&As. In September 2009, Suntory Wine Co., Ltd. affiliated to Suntory Group acquired 70.0% share holding in China's largest imported wine company ASC Fine Wines for RMB350.00M and became its controlling shareholder. After holding ASC Fine Wines, Suntory has taken an almost unassailable position in the field of imported wine.

(2) Beer Enterprises Stage a Wave of M&As

In recent years, the competition among China's top four beer tycoons has become fiercer. The latest data released by market research institutions show that China Resources Snow, Yanjing Beer, Budweiser Beer and Tsingtao Brewery occupy nearly 60.0% of total market shares, representing small enterprises are more difficult in existing. It is an inevitable trend to concentrate and integrate the beer sector. From 2010 to early this year, Yinmai, Yuequan, Jiahe, Yueshan Beer, Weixue, Santai and Aoke were successively acquired. In early this March, China Resources, the parent company of China Resources Snow Beer, acquired 21.37% of shares of Kingway Beer with HK $1.26B, in order to consolidate its strength in South China market and expand to Tianjin, Chengdu and Xi'an markets by Kingway's influence.

As leading beer enterprises of various areas are swallowed by tycoons, Chinese beer sector is hard to make a breakthrough after white-hot M&As. Future integration of domestic beer sector will be dominated by national monopoly of large brands in middle-to-high-grade beer as well as regional monopoly of local powerful brands in middle-to-low-end beer. With the gradual growth of domestic large beer enterprises, beer SMEs in various areas have to develop their own characteristics or wait for being merged or acquired.

II. M&A and Investment Hotspots in China's Dairy Sector

1. Policies Propel Trend of M&A Integration

From the perspective of policy, in 2009, the Ministry of Industry and Information Technology and NDRC formulated the Industrial Policy for the Dairy Product Industry to encourage domestic dairy enterprises to integrate processing resources and improve industry development through asset restructuring, merger and acquisition and win-win partnership. The 12th 5-year Plan suggests transforming China's dairy sector from extensive type to quality and efficiency-oriented. The promulgation of these policies undoubtedly played a role in promoting integration of the dairy sector, especially they focus on SMEs. Under the context of fierce competitions in the dairy sector, some SMEs face elimination. In the zero-sum game, it is the only way for enterprises who do not want to exit the market to work with large enterprises. Most SMEs can take a favorable turn from capital shortage, small size of market and rising costs only by means of M&As. Through

M&As by large enterprises or between SMEs, they can integrate advantageous resources, expand market shares and enhance their risk resistance capacity. In November 2010, Mengniu and Junlebao successfully set off a new upsurge of M&As in China's dairy sector.

2. Dairy Enterprises Scramble for Milk Sources through Overseas M&As

The soaring price of imported raw milk propels domestic dairy enterprises to press on overseas investments. In July 2010, Bright Dairy subscribed for over 26.00 million additional common stocks of New Zealand's Synlait Milk by increasing capital and acquired 51.0% of its shares, indicating the first overseas M&A of domestic dairy enterprises was closed. In turn, well qualified Synlait Milk was also suited to act as an important chess piece of Bright Dairy in overseas layout. Additionally, Yili, Yashili and Bright also expressed to invest in international raw milk through capital operation. In other words, dairy enterprises open the door of high profit by means of overseas M&As and achieve rapid upgrade.

III. M&A and Investment Hotspots in China's Daily Chemical Sector

1. Daily Chemical Product Market Has a Large Room for Growth

With the development of global economy and substantial increase of consumers' disposable income, daily chemical products have turned

from luxuries to daily necessities, which significantly drives the market demand for daily chemical products including cosmetics, detergents, hair conditioner, hair dyes and hairsprays. As China becomes a large producer and major exporter of daily chemical products, its overseas market size has steadily grown and market structure has also been optimized over the years. Currently, per capita consumption of daily chemical products is around RMB100.00 in China every year, while the figure reaches US$80.00-US$100.00 in Europe and the US. With the continuous improvement of people's living standards, China's daily chemical product market has a large room for growth. To date, China's daily chemical sector has boasted the market size exceeding RMB200.00B, but it is still relatively weak in terms of technical innovation, product R&D, intellectual property protection, independent brand creation and building and going global strategy.

2. Daily Chemical Sector Facing Challenges from Foreign Competitors

As one of the industries that has witnessed the fastest growth and opened to the outside world the earliest after reform and opening-up, global daily chemical tycoons have already regarded China's daily chemical sector as the most important part of their strategic market domain. Specifically, foreign daily chemical enterprises represented by P&G and Unilever broke into China's market and heavily hit local daily chemical enterprises. According to fmcg.com.cn, the gap between international and local daily chemical enterprises have been widened in local daily chemical sector in recent years, as evidenced by the fact that foreign brands occupy exceeding 70.0% of market shares at present and over 90.0% of sales volume. Local daily chemical brands that were once famous have been acquired by foreign enterprises; some of them are homogenized, while others are permanently hidden.

We can take cosmetics as example.

Currently, China's cosmetic enterprises are enslaved to international daily chemical tycoons in terms of product patent and intellectual property. To date, it has been hard to find China-made commodities in cosmetic counters of tier-1 cities and all of homemade cosmetics that were acquired by foreign enterprises have also stepped off the stage of history. China's cosmetic sector is close to be sunk completely. Specifically, 4,000 Chinese cosmetic companies only control 10.0% of market shares in Chinese mainland, whereas 90.0% are under the control of the foreign enterprises. In this case, a war of defense is triggered in the cosmetic sector

3. Foreign Enterprises Swallow China's Daily Chemical Market through M&As

To date, middle-to-high-end daily chemical markets have been overwhelmingly dominated by foreign brands, while local brands perform weak power. Among top three foreign daily chemical brands, P&G's annual sales amount in China exceeds RMB20.00B, the figure for Unilever and L'Oreal is around RMB10.00B. However, sales amount of most domestic daily chemical companies is below RMB100.00M. Exceptionally, Shanghai Jahwa, Whitecat and Liang Mian Zhen are among a small number of local enterprises capable of competing with transnational enterprises in an all-round way, but they have been hard to maintain a tenacious vitality indeed. At the same time, other local brands tend to establish joint ventures with foreign enterprises or be acquired by them and are subsequently hidden after acquisitions. Almost all of state-owned daily chemical enterprises do not escape from these joint venture activities and grant brand and market resources. In face of the encirclement strategy of international daily chemical tycoons, such as P&G, Johnson & Johnson and Unilever, local daily chemical enterprises are hard to keep walking. In the past decade, P&G acquired Liangqi and Panda; Unilever purchased Zhonghua and Maxam; Henkel acquired Sea Gull; L'Oreal acquired Mininurse; Beiersdorf merged and acquired C-bons Daily Chemical and Dabao was acquired by Johnson & Johnson. In January 2011, China's local brand TJOY and the world's first perfume manufacturer Coty Inc. announced to come to a stock purchase agreement. Coty acquired most shares of TJOY Holdings. This indicates that another middle-to-low-end Chinese daily chemical brand was purchased by a foreign enterprise.

4. State Regulatory Authorities Pay Much Attention to Daily Chemical Sector and Strive to Foster Localized Tycoons

In front of the competitive situation that foreign capital occupies more than half of market shares in the daily chemical sector, China takes positive measures to protect and improve local daily chemical products. Accordingly, 15 ministries and commissions including the Ministry of Science and Technology jointly established the National High-tech Daily Chemical Industrialization Committee with the purpose of promoting integration and technological innovation in China's daily chemical sector and fostering a high-tech industrial cluster in accordance with China's Twelfth Five Year Plan. Meanwhile, the National High-tech Daily Chemical Industrialization Committee was established in Beijing. As an extended institution of government authorities, the committee is affiliated to the China High-tech Industrialization Cooperation Organization that was jointly founded by 15 ministries and commissions including the Ministry of Science and Technology, State Administration for Industry & Commerce, State Intellectual Property Office and Ministry of Commerce. After establishment, the National High-tech Daily Chemical Industrialization Committee implemented China's Twelfth Five Year Plan and promoted integration, technological innovation and intellectual property protection of China's daily chemical sector. Additionally, it built a public technology R&D platform to achieve effective allocation and rational linkage of innovative resources and share intellectual properties, and probed into the integration of daily chemical sector chain to break industry barrier, so as to drive the development and innovation of the daily chemical sector. ■

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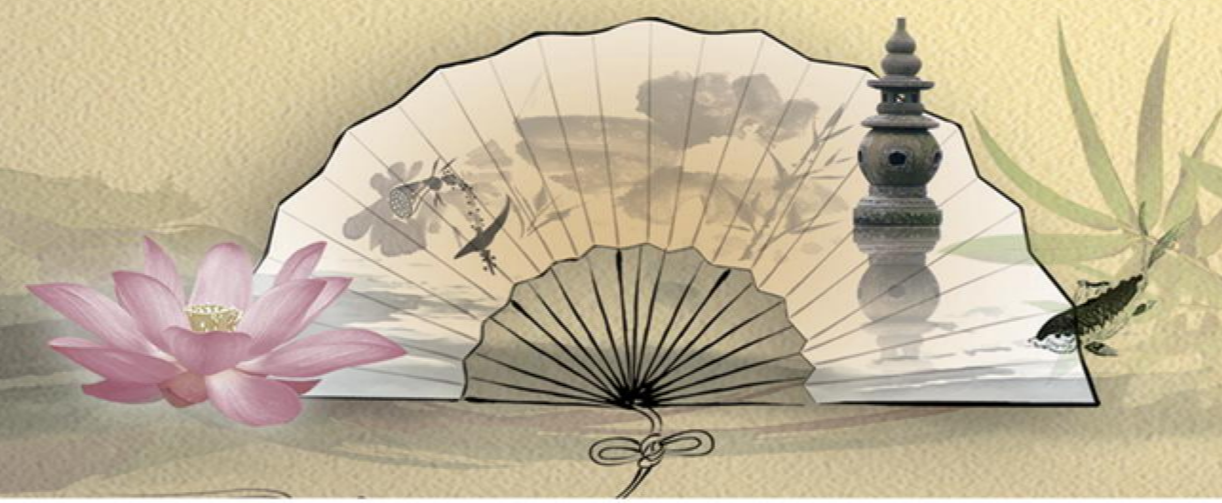

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ABC & Wuxi Government Sets up RMB15B PE Fund

Jun. 30, PEdaily.cn, Christina Chao

Agricultural Bank of China and Wuxi Municipal Government jointly founded a PE fund with a size of RMB15B that is projected to focus on the investments in the high-growth fields like the Internet of things, energy saving and environmental protection.

It was reported AgBank (Wuxi) Private Equity Fund was jointly established by ABC International and Wuxi Guolian Finance Group, the two strategic investors of the fund. The fund adopted limited partnership model and planned to raise RMB5B in the first closing.

The fund aims at conducting the M&As novative operational models and in some emerging strategic industries, such as the Internet of things, energy saving and environmental protection, information, biomedicine, software and service outsourcing, etc. ■

QVOD Plans to Launch New Round of Financing

Jun. 30, 2011, It.sohu.com

On Jun. 29, Wang Xin, Chairman of QVOD, said in an interview, QVOD will launch a new round of financing and its users are expected to number 200M by the end of this year.

Wang Xin said that QVOD materialized the balance between income and expenditure in 2009 and garnered proceeds of nearly RMB100M in 2010. He held although QVOD is not in the red, fierce competition makes QVOD feel compelled to gather sufficient financial strength. Therefore, QVOD will launch the new round of financing. However, he said it is still not early for QVOD to get listed at present when talking about the listing planning of the company.

Wangxin revealed that the users of QVOD has numbered 130M, calculated by the numbers of ID, and one of the major targets ment from SAIF Partners, but no detailed information concerning investment amount was disclosed. ■

Shanghai Automobile Industrial Fund Plans to Raise RMB30B

Jun. 30, 2011, Wenweipo, Zhang Xiaoming

It was reported Shanghai Automobile Industrial Fund has entered into preparation period with the fundraising target of RMB3M. The funding raised will primarily go to automobile services, finance, and industry cluster district and circulation service fields. The fund is China's first industrial fund adopting joint management and will effectively integrate various factors in automobile industrial upgrading.

It was said the industrial fund was jointly launched by China Machinery Industry Federation and Shanghai Jiading District Government. The fund I, with a scale of RMB5B, will act as a PE fund as well as operate and manage under the name of CMIF Equity Investment Fund. ■

TrustBridge Partners Invests Millions USD in Golimi's Series A Financing