



SUMMER ATLANTIC  
— CAPITAL —

# Strategic Joint Ventures in China

How & Why They Work

2021

[www.SummerAtlantic.com](http://www.SummerAtlantic.com)





## OVERVIEW

Summer Atlantic Capital Ltd. is an active manager/investor that brings innovative solutions to bridge the challenges experienced by companies seeking to enter the Chinese market. Summer Atlantic Capital is not your typical consulting firm; we help companies with novel technology expand into China by providing financial support and access to our established and trusted network of manufacturers, distributors, and service providers required for a successful Chinese expansion.

## THE OPPORTUNITY

Over the last decade, China has seen transformational change evolving from a sourcing destination with low labor costs to the second-largest consumer market in the world driven by an emerging middle class. Entering China is no longer about benefiting from low-cost manufacturing alone, but also about strategically reaching hundreds of millions of additional consumers with continuously rising incomes and net worth. According to [WorldBank.org](https://www.worldbank.org), From 2010 to 2019, China's GDP grew from \$6.08 trillion to \$14.34 trillion, an increase of over 235%, with China's middle class growing from 44 million to 374 million over the same period (according to McKinsey Global Institute). In 2020, China overtook the US as the worlds leading destination for foreign direct investment, receiving \$163B of capital inflow, compared to \$134B by the USA (according to Reuters).

While companies pursue a Chinese expansion due to its rapid growth, foreign companies entering China without a local partner frequently encounter issues including a lack of legal/regulatory knowledge, a limited understanding of Chinese consumers, an absence of local business knowledge, insufficient capital, and other challenges. Summer Atlantic Capital understands these hurdles and has developed a process working with companies with advanced technologies for establishing a successful expansion in China.

# WHY JOINT VENTURES?

Although there are multiple paths to global expansion, history has proven Joint Ventures as the most successful and resilient vehicle when entering China. Many of the top Fortune 500 companies enter China through Joint Venture partnerships, including companies such as Amazon, Boeing, Tesla, Abbot Laboratories, and HP. As outlined in the chart below, expanding into China alone not only requires a larger capital outlay, but it also exhibits slower market penetration.

## Alone, M&A, or Joint Venture?



Low: Low probability of Success

High: High probability of Success

## OTHER JOINT VENTURE BENEFITS

In addition to tapping into the growing Chinese market, other Joint Venture benefits include:

- Expanding your customer base worldwide by lowering manufacturing costs
- Increasing margins in primary distribution markets
- Replicating the entire entity in China, and receive the benefits of a secondary public listing (China/ Hong Kong)
- Raise additional capital without diluting core shareholders of the primary listing
- Expand the market cap of your primary listing by incorporating your percentage of the JV ownership on your company's balance sheet

# JOINT VENTURES PROVE TO BE SUCCESSFUL

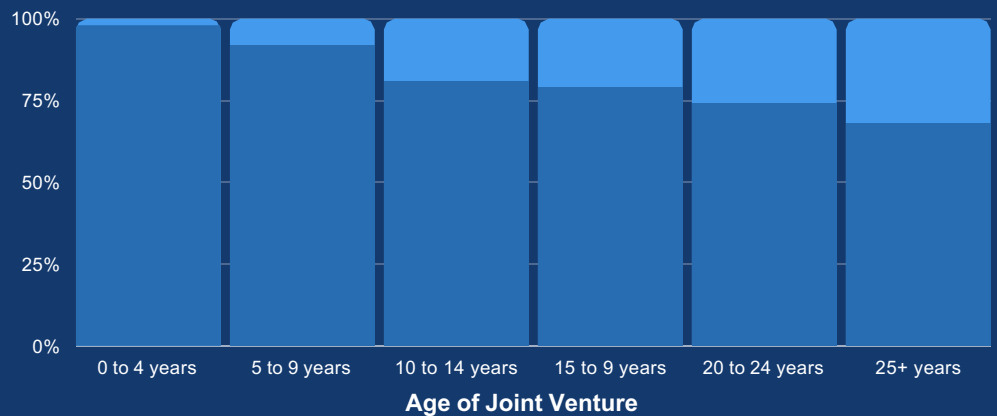
The right JV partner will help you ensure the best path and processes are chosen when dealing with critical business decisions such as:

- Regulatory guidance/government approvals
- Expansion capital
- Sales and distribution
- IP protection
- Manufacturing and production
- Licensing
- Staffing

The success of Joint Ventures, as illustrated below, is attributed to the correct execution of the identified components above which most often occurs when partnering with a local stakeholder.

## Survival Rate of Joint Ventures in China

The chart indicates the survival rate of international JVs in mainland China with Fortune 500 Global companies over the past 35 years, divided by age group. While the percentage of JV increases over time, the majority of JVs are still in operation today. Over 90% of JVs less than 15 years old are still in operation, and close to 70% after 25 years.



Still in Operation Out of Operation

Source: Deloitte, Qichacha (2020)

## JOINT VENTURES STATISTICS

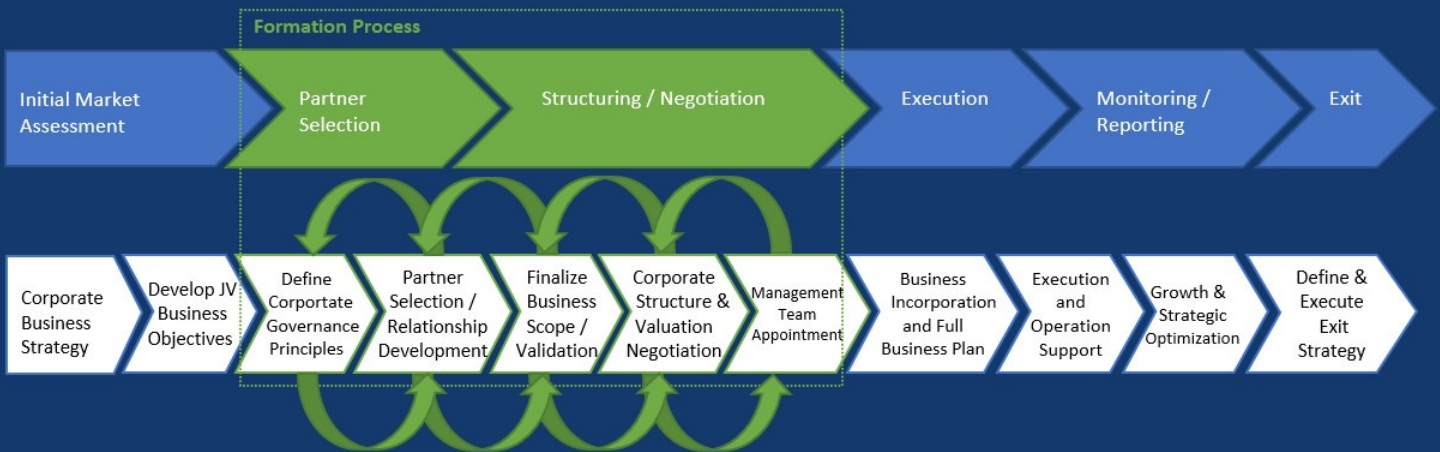
- Close to 70% of Joint Ventures are still operating after 25 years
- According to the National Bureau of Statistics in China, since 2010 roughly 40% of foreign funded capital into China has come via Joint Ventures
- The National Bureau of Economic Research states that Joint Ventures are about 30% more productive than firms that expand into China without a Joint Venture
- According to the CIA's Factbook, China's GDP overtook the USA's in 2019 when adjusted for Purchasing Power Parity. China's PPP adjusted GDP in 2019 was above 23 trillion, while the United States was over 19 trillion

# START YOUR JOURNEY WITH SUMMER ATLANTIC CAPITAL

Summer Atlantic Capital will help you navigate through all of the challenges when expanding into China. Through our established and trusted relationships, we can help you find the right partners, reducing your time to market, while simultaneously building a more profitable entity. All of this can be accomplished with a minimal capital investment.

Joint Ventures are our preferred investment vehicle because they encompass the whole suite of our services and thus where we can add the most value. We understand that Joint Ventures are not the most suited expansion vehicle for every company, and while we can assist these companies by providing regulatory guidance, investment capital, secure distribution agreements, or source the right strategic/manufacturing partner, we ideally look to partner with companies with proprietary technology that could be further monetized by reaching the Chinese market.

## Our Joint Venture Process



Summer Atlantic Capital will spearhead your expansion into China through a Joint Venture if our initial market assessment verifies your technology's potential success in the Chinese market. After we negotiate the JV's financial and operational structure, we secure the necessary financing while sourcing the right strategic and manufacturing partners. We develop a licensing/ regulatory approval plan, secure the distribution agreements, establish the operational structure (banking, legal, HR). Summer Atlantic Capital stays active throughout the life of the JV including the development and execution of an exit strategy for key investors.



# FINDING THE RIGHT JV PARTNERSHIPS

The ideal partner must have the capabilities to perform all critical operations, aligned goals, trustworthiness, transparency, and be a good fit overall. The figure below identifies Summer Atlantic Capital's Joint Venture partner requirements:

 <h2>Knowledge / Resources</h2> <ul style="list-style-type: none"><li>◆ Ability to satisfy government regulations</li><li>◆ Own regulatory permits, licenses, and patents Connected to both government and non-government organizations</li><li>◆ Access to raw materials, products, services, or tech</li><li>◆ Knowledgeable about the local market</li><li>◆ Managerial labor skills</li></ul>	 <h2>Management Criteria</h2> <ul style="list-style-type: none"><li>◆ Proven track record/ favorable past relationships with partners</li><li>◆ Analysis of the firm's market share, size, and industry position</li><li>◆ Display seriousness, commitment, and enthusiasm for the opportunity</li><li>◆ Financial health and long term outlook</li><li>◆ Highly reputable and trustworthy</li><li>◆ Shares values and goals</li><li>◆ Provides transparency</li></ul>
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Summer Atlantic Capital China has deep relationships with state-owned enterprises, investment funds, as well as other strategic corporate and private investors giving us access to virtually unlimited capital to complete cross-border transactions.

Unlike other consulting firms that utilize third-party resources, our in-house team is composed of highly experienced and established individuals with a proven track record of success. With our list of internally verified partners, you can expand rapidly into the Chinese market with confidence.

# LAYERS OF GOVERNANCE

Outlining the respective layers of governance in China is essential to a long-term successful JV. Summer Atlantic Capital utilizes the process below to ensure that an optimal corporate structure is built. The corporate governance structure for a company established in China is distinctive due to the company chop. The company chop is a seal that essentially acts as a signature. Your specific legal or financial chop is required to legally approve each respective documents. The Approval Matrix must outline who controls each various chop and the original business license.

1. JOINT VENTURE	The Joint Venture Agreement outlines the duties / responsibilities of each party within the JV.
2. SHAREHOLDER COMMITTEE	Approves business and investment plan, along with annual budget and profit distribution. Votes on changing the Board of Directors.
3. BOARD OF DIRECTORS	A list of board reserved matters that require unanimous board approval should be clearly outlined and developed.
4. BOARD SUB-COMMITTEES (OPTIONAL)	Board sub-committees will have authority in their individual key areas.
5. OPERATING MANAGEMENT COMMITTEE	Drafts the Joint Venture's official business plan, with medium and long term goals in mind.
6. APPROVAL MATRIX	Overarching business rules that govern what decisions can be made at every single level of the organization. This includes the company's chop management protocol.

## CONCLUSION

Expanding into China through a Joint Venture partnership provides access to hundreds of millions of additional customers while potentially allowing your business at home to expand margins, develop a quicker path to profitability, and overall improve its valuation profile. With a minimal capital investment and the right partner to provide the local experience, Joint Venture opportunities in China have continuously proven to be the most successful and effective way of entering the Chinese market. With that said, Summer Atlantic knows Joint Ventures aren't suited for everyone. If your company has a novel technology that can benefit the Chinese economy, Summer Atlantic can arrange other structures, including distribution partners and licensing deals. With our guidance and know-how, along with our careful and intensive due diligence, and a rich government framework, we can help you navigate through all of the challenges associated with building a successful operational structure in China, developing a long-term, sustainable source of profits while expanding into one of the worlds largest and fastest-growing economies.



## WHO IS SUMMER ATLANTIC CAPITAL?

Summer Atlantic Capital through our sister company, Summer Atlantic Capital China, has been establishing relationships with state-owned enterprises, investment funds, as well as other strategic corporate and private investors giving us access to virtually unlimited capital to complete cross-border transactions. Unlike other consulting firms that utilize third-party resources, our in-house team is composed of highly experienced and established individuals with a proven track record of success.

A partnership with us will allow your company to access capital and our extensive network of top-tier resources to expand efficiently into the Chinese market while allowing your business at home to expand margins, enhance your path to profitability, and overall increase your valuation profile. It's no secret that having strong relationships play a critical role when entering the Chinese markets; Summer Atlantic Capital prides itself on the depth of its business and political rolodex. We have a vested interest in every Joint Venture and the majority of our compensation is structured so that our success is driven by the company's results, aligning our financial interests with yours. Our extensive network allows us to execute more efficiently than our competitors since, usually, we will have the appropriate specialist on staff rather than having to hire external consultants.

[Summer Atlantic Capital LLC](#), Summer Atlantic's US entity, helps innovative Chinese and Hong Kong-based companies expand internationally into the US and EU markets. Through our strategic partners, which include some of the largest distributors in China, Summer Atlantic gains access to cutting-edge technologies in all sectors including medical, automotive, alternative energy, artificial intelligence, supply chain, environment, and information technologies along with others. If you are interested in learning more about these opportunities or have an interest in a specific technology to add to your portfolio, contact us for more information.

Start your global expansion journey today.

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# SUMMER ATLANTIC

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