



Chinese investments in Slovenia

November 2021



This report highlights the economic relationship between Slovenia and China in key areas such as: trade, foreign direct investments and company transactions (mergers and/or acquisitions).

China is an important economic partner to Slovenia. Both import and export CAGR has been increasing from FY16 to FY20. China has made significant FDI amounting to €356m in FY18 and €325m in FY19.

Transactions involving Chinese and Slovenian companies have achieved high multiples. Chinese companies tend to view investment in Slovenia with a long-term trajectory and have acquired some of the most well-known Slovenian companies.

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Methodological approach

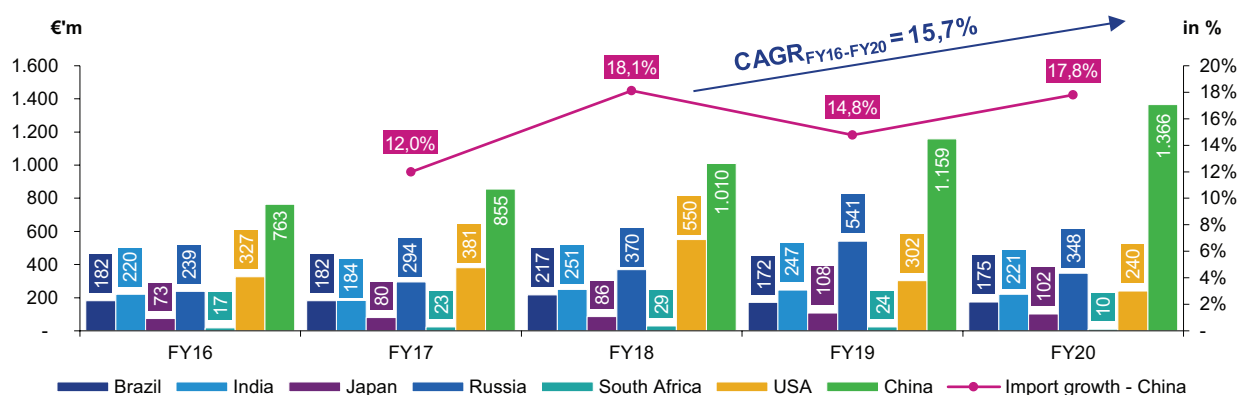
Methodological approach

- The aim of this report is to analyse and present the economic relationship between China and Slovenia in the key areas:
 - Trade relationship
 - Foreign direct investment (FDI)
 - Company transactions (mergers and /or acquisitions of Slovenian companies)
- We used qualitative research methods in the data analysis and creation of this report. The report is based on secondary data. The data was selected mainly on the basis of relevance to the selected topic and reliability.
- Focus was put on trade relationship data (import/export data) and how it fluctuated through the analysed period. Secondly, we focused on the direct investments in China and Slovenia and how companies in Slovenia usually benefit from receiving FDI. Moreover, we managed to identify several transactions between Chinese and Slovenian companies. Additionally, the report also features a brief description of Slovenian companies that have subsidiaries, branch offices or factories in China or have established cooperation agreements with Chinese companies/universities and/or have established joint-ventures with Chinese companies.
- The data was mostly sourced from the Statistical Office of Republic of Slovenia (SURS), Economist Intelligence Unit (EIU), Bank of Slovenia, Capital IQ (CIQ), Mergermarket, companies' financial statements and various news reports.

Slovenian and Chinese trade

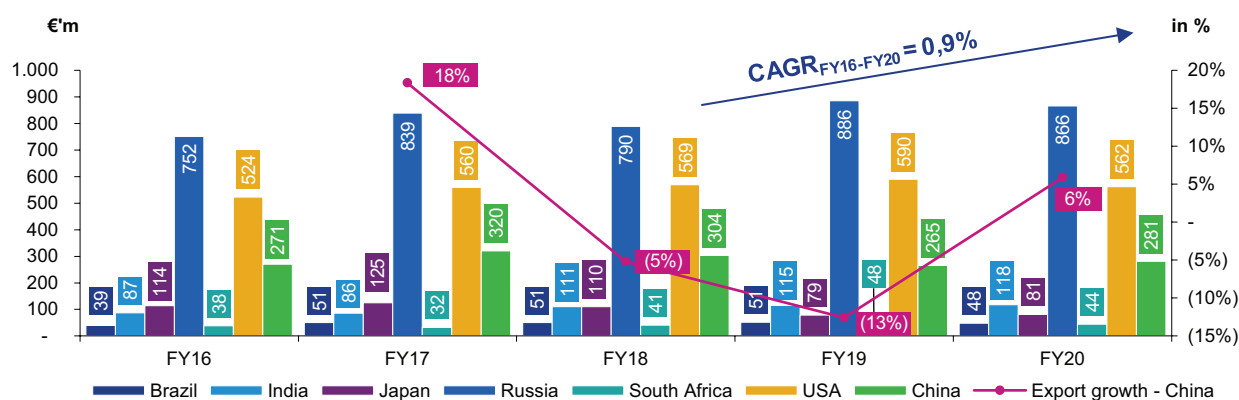
China represents a significant import partner to Slovenia. Throughout the analysed period the value of import from China to Slovenia has been growing at a CAGR of 15,7%. Slovenia's export has a much smaller role in China's economy, however many well-known Slovenian companies export their goods and services to China.

Import in Slovenia



Source: SURS. KPMG Analysis.

Export from Slovenia



Source: SURS. KPMG Analysis.

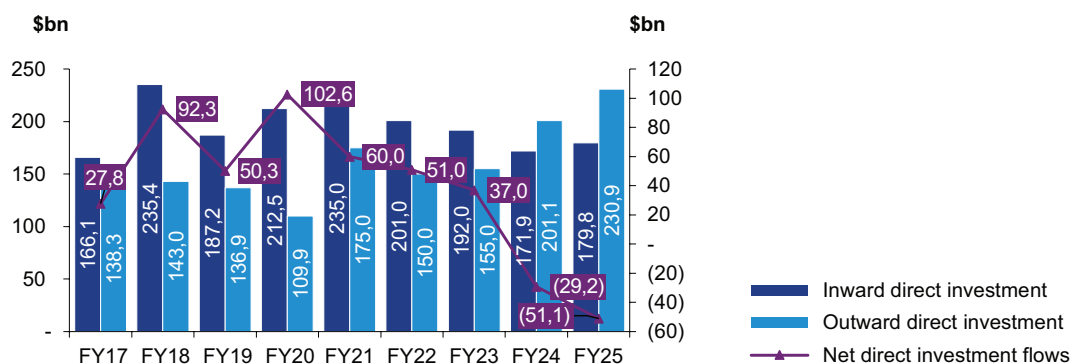
Slovenia's economic relations with China

- China is one of Slovenia's most important import partners. The value of Slovenia's imports from China has been steadily increasing since 2000. In FY19, **China represented the eight most important import partner**, moreover it was the **second most important non-EU import partner (the first being Switzerland)**.
- Chinese import has, from Slovenia's accession to the EU to the end of FY19, increased in value by as much as seven times. In FY19 import from China has reached its highest value and **amounted to 12,6% of all Slovenian import from non-EU countries**.
- In FY19 the export of goods to China was about four times lower than import from China. Slovenia exported to China €265,3m or 3,0% of total export of Slovenian goods to non-EU countries.
- The most imported goods in FY20 were: electrical machinery and equipment, audio and video equipment (26% of total imports, €357.413k), organic chemical products (18% of total imports, €245.177k), boilers, machinery and mechanical appliances (14% of total imports, €196.672k).
- The most exported goods in FY20 were: electrical machinery and equipment, audio and video equipment (21% of total imports, €58.167k), boilers, machinery and mechanical appliances (17% of total imports, €48.246k), vehicles, excluding trains and trams (16% of total imports, €44.832k).
- China adopted strict restrictive measures to contain Covid-19, introduced in January 2020. Restrictions were immediately seen in trade balances as in February 2020, Slovenia imported 34,8% less in value of goods from China than it did in January 2020. Imports rebounded in April 2020 and amounted to €150,6m.
- Import in FY20 increased mostly due to the growth of import various protective equipment and medical devices.
- **The Covid-19 epidemic did not have any major negative impact on Slovenia's exports to China.** In the first eight months of FY20, Slovenia's export to China was 3,5% higher than in the same period in FY19.

Overview of Foreign direct investments in China and Slovenia

China has a significant FDI presence in Slovenia. China's FDI, as the ultimate investing country, amounted to €356m in FY18 and €325m in FY19. Slovenia's impact on FDIs in China was not that significant, mostly due to Slovenia's relatively small economy compared to China's.

Inward and outward direct investment in China

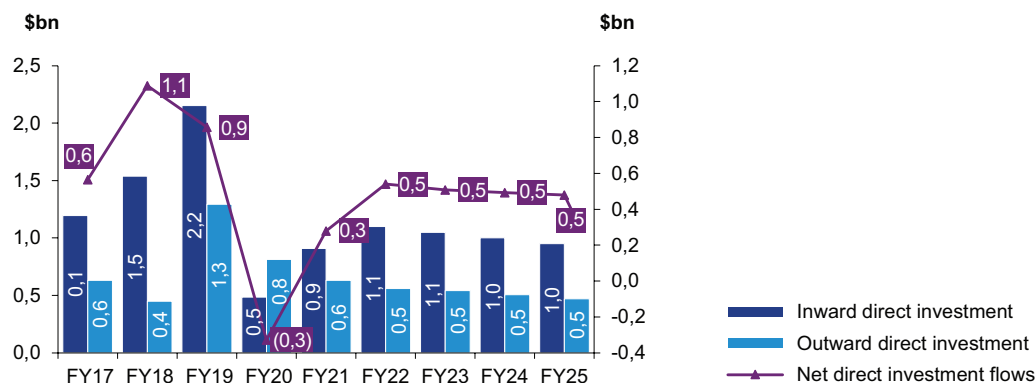


Source: EIU. KPMG Analysis

FDI in China

- FDI inflows in China continued to increase mostly because of the liberalization plans, the rapid development of the high-tech sector and the establishment of free trade zones.
- In FY20 inflows from the US and Europe have dropped, but regional investment has continued to increase as flows from ASEAN countries grow.
- In FY20 China was ranked the **world's second largest FDI recipient after the United States** and before Hong Kong.
- Several important Slovenian companies are present have subsidiaries or other ventures in China including Krka, the largest pharmaceutical company in Slovenia.

Inward and outward direct investment in Slovenia

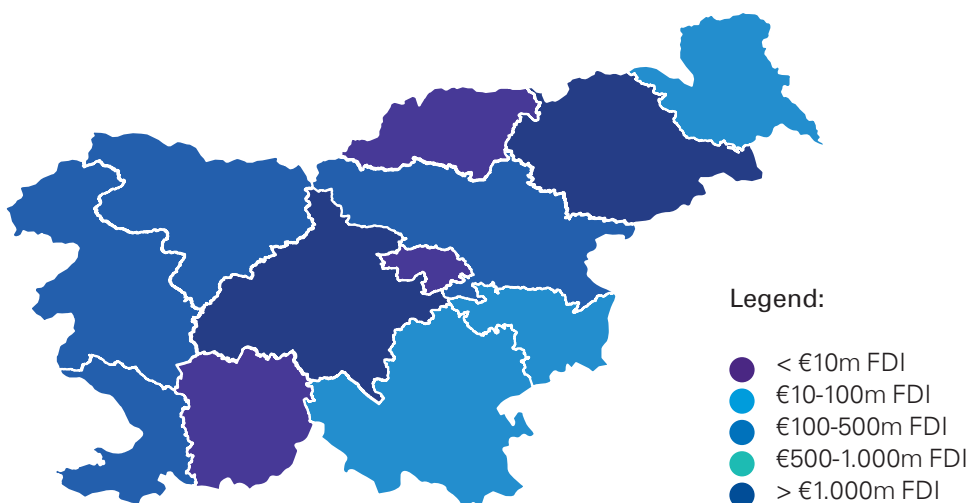


Source: EIU. KPMG Analysis

FDI in Slovenia

- Inward FDI stock reached \$20,4bn in FY20. In regional terms, the highest concentration of FDI inflow is in the region of Central Slovenia.
- According to data by OECD, the majority of FDI stocks to Slovenia come from Austria, Luxembourg, Switzerland and Germany. However, Germany holds the majority of indirect investments in Slovenia via Austrian subsidiaries.
- US is also an important investor, with the majority of the investments being held indirectly via subsidiaries in other countries.
- **China invested in Slovenia mostly through acquisitions of ownership in Slovenian companies** presented in the following slides. China usually invests in Slovenia through companies in other countries, mainly Luxembourg.

Foreign direct investment in Slovenia by region in FY19



Source: Bank of Slovenia. KPMG Analysis

Foreign direct investments in Slovenia

Firms with FDI represent an important part of the Slovenian economy. China is becoming an important investor in Slovenia, mostly through its branches and subsidiaries in Luxembourg. Several renowned Slovenian companies such as Alpina, Krka, Cosylab, Dewesoft and Pipistrel have established subsidiaries, factories and joint-ventures in China.

Most significant FDI in Slovenia								
€'m	FY16		FY17		FY18		FY19	
Countries	Immediate partner country	Ultimate investing country	Immediate partner country	Ultimate investing country	Immediate partner country	Ultimate investing country	Immediate partner country	Ultimate investing country
1. Germany	1.108	1.869	1.152	1.990	1.365	2.282	1.355	2.276
2. Austria	3.197	1.356	3.504	2.037	3.657	2.057	3.961	2.275
3. Italy	1.146	1.119	1.130	1.293	1.189	1.321	1.263	1.505
4. United States	54	1.795	19	1.812	81	1.483	172	1.484
5. Switzerland	1.381	1.068	1.425	1.091	1.593	1.227	1.826	1.340
15. China	11	n/a	10	2	4	356	4	325

Source: Bank of Slovenia. KPMG Analysis.

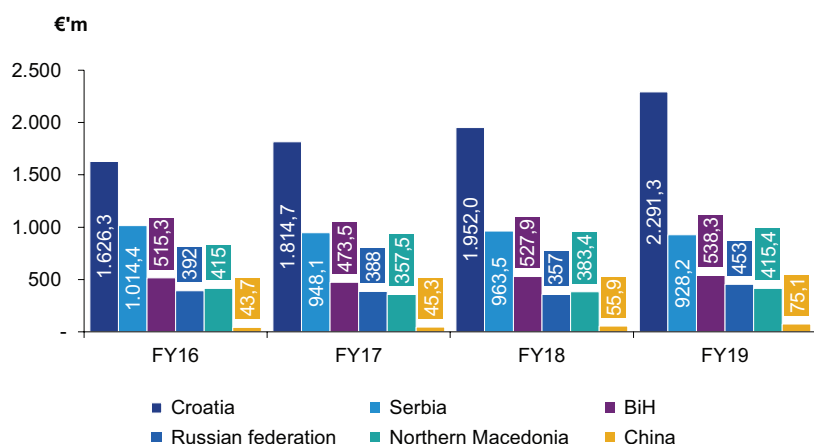
FDI trends in Slovenia

- The breakdown of inward FDI in Slovenia with regard to the ultimate investing country rather than first counterpart country provides insight into where control actually resides. **However, it needs to be emphasized that there are extensive limitations in identifying the ultimate country of origin**, as not all companies disclose detailed ownership schemes of their owners.
- US, Germany and UK frequently invest in Slovenia indirectly via other countries, however Austria, Switzerland, Luxembourg and the Netherlands are the countries via which the ultimate investors most frequently make their investments. FDIs of top 5 countries in terms of ultimate investing country have been gradually increasing in recent years, except of USA, in line with growing overall FDIs in Slovenia.
- In terms of relative importance as ultimate investing country compared with first counterpart country, there are also significant advances by China, mostly via branches in Luxembourg (€0,3bn). **Reported Chinese FDI as the ultimate investing country drastically increased in FY18** with the acquisition of Gorenje by Hisense, positioning China at 15th place as at FY19 with enormous potential for future growth.

Companies with FDI in Slovenia

- At the end of FY19 firms with FDI accounted for 1,8% of the all Slovenian firms, excluding financial intermediaries.
- Companies with FDI in Slovenia have an important role in the Slovenian corporate sector. These companies represent 24,3% of capital (compared to 24,0% in FY18), 25,8% of assets (compared to 24,7% in FY18) and 23,8% employees (same as in FY18) of the entire corporate Slovenian sector.
- ROE at firms with FDI amounted to 9,6% in FY19, which was 1,1 percentage points higher than in firms without FDI in FY19.
- Firms with FDI had 9,5% higher wages than the average wage and 7,6% higher value-added per employee.

Most significant Slovenian direct investment abroad as at 31 Dec



Source: Bank of Slovenia. KPMG Analysis.

Slovenian outward FDI

- At the end of FY19, the largest recipients of Slovenian outward FDI are 4 former Yugoslav countries and Russia. Together they represent 69,7% of all Slovenia's outward FDI.
- According to the latest available figures, the largest stock of FDI in Croatia was held by Slovenian households in the form of real estate (estimated at €1.053m).
- CAGR for Slovenian outward FDI in China amounts to 19,8% which indicates a growing presence of Slovenian companies in the Chinese market.

Companies present in the Chinese market

Cooperation of Slovenian and Chinese businesses

- The following Slovenian companies have subsidiaries, branch offices or factories in China or have established cooperation agreements with Chinese companies/universities and/or have established joint-ventures with Chinese companies:

ALPINA d.o.o.



- Alpina is a Slovenian footwear company, focused on sport, urban casual style and leisure time footwear for women, men and children.
- Alpina d.o.o. has created the company Zhongshan Alpina Footwear Co. in Zhongshan, China in FY05. Majority of the company is owned by Alpina. Zhongshan Alpina Footwear produces sporting footwear including ski boots, cross-country ski boots and trekking and hiking shoes. Alpina Group is also purchasing a lot of materials through Alpina Zhongshan.

CABLEX d.o.o.



- CABLEX Group develops and supplies wire harnesses, plastic and silicone components and various mechanical assemblies.
- In FY11, Cablex started a company in Xuzhou, Jiangsu Province, China named CABLEX-CN Electronics Co., Ltd. that is 100% owned by CABLEX d.o.o. Cablex CN employs around 400 employees and produces goods mostly for the Chinese market.
- The municipality of Mežica (where Cablex Group is headquartered) and the city of Xuzhou signed a memorandum of cooperation.

COSYLAB JSC, CONTROL SYSTEM LABORATORY



- Cosylab is producing control systems for the more complex machines like nuclear accelerators, optical and radio telescopes, fusion reactors, cancer therapy systems.
- In FY12, Cosylab has started a company (Suzhou Cosylab Control S. Kitajska) that focuses for proton cancer treatment with an accelerator particles in China with Chinese partners. Cosylab provides the software. Suzhou Cosylab Control S. Kitajska is 100% owned by Cosylab d.d.

DEWESoft d.o.o.



- Dewesoft is a software developer and manufacturer of precision measuring devices used in the advanced laboratories.
- Dewesoft created a company in China (Dewesoft China) and owns 51% of Dewesoft China.

DOMEL, d.o.o.



- Domel, d.o.o. is a global development supplier of electric motors, vacuum motors, blowers and components.
- DOMEL Electric Motors Suzhou Co., Ltd. Is a subsidiary of Domel, located in Suzhou. The company focuses on producing vacuum cleaner motors.
- Domel Electric Motors Suzhou Co. Ltd. has received a new ISO 9001 certificate, an international standard for quality management.

DONIT TESNIT, d.o.o.



- DONIT TESNIT, d.o.o. is a manufacturer of sealing plates, seals and provider of solutions in the field of sealing.
- In FY12, Donit Tesnit d.o.o. established a subsidiary, Suzhou Donit Sealing Materials Import and Export Co., Ltd. in China.
- Donit Suzhou focuses its manufacturing on products for shipyards.

Gostol TST d.d.



- Gostol TST d.d. is a manufacturer of blasting machines with representatives in more than 20 countries and companies in Russia, India and China.
- Gostol TST's company in China (Gostol CN) was established in FY15. Gostol CN is 51 % owned by Gostol TST d.d.

PIPISTREL d.o.o.



- Pipistrel d.o.o. is manufacturing ultra light motor gliders, gliders with auxiliary engine and electric aircrafts.
- In FY16, Pipistrel and Chinese company Sino GA Group Co. signed a Memorandum on long-term cooperation in the field of light and general aviation in China, East Asia. Pipistrel will invest €350m in the seven-year cooperation project.
- In FY18, Pipistrel started to build an aircraft factory in the Chinese city of Jurong, near a larger city of Nanjing. In addition, Pipistrel built a larger residential area with a shopping centre. Additionally, the certification process of the four seat airplane Panthera in China.

EKWB d.o.o.



- EKWB d.o.o. is a liquid cooling solutions provider. Founded in FY03, the company is considered a pioneer in PC liquid cooling.
- EKWB d.o.o. is a sole owner of a company in EK Cooling Solutions LLC in USA and EKWB Co, Ltd in China

Hidria d.o.o.



- Hidria is manufacturing products for automotive and industrial applications.
- Hidria has several business units (manufacturing plants) in Slovenia, additionally it is also present in Germany, Hungary, USA and China.
- Suzhou Hidria Diesel Cold Start Technologies Co., Ltd. is part of the business unit Hidria Dieseltec that, among other things focuses on, glow plugs, air and fuel heaters, used mostly in personal vehicles, cargo vehicles and industrial diesel engines.

KRKA, d.d.



- Krka develops, manufactures and sells own-brand generic prescription pharmaceuticals, non-prescription products and animal health products.
- Krka's products are present in more than 70 countries. In FY19, Krka has invested €21,1m in the increase in capacity of their production facilities in Russian Federation, Croatia, Germany and China.
- In FY17, Krka and Ningbo Menovo together established a new company Ningbo Krka Menovo (NKM). NKM is 60% owned by Krka and 40% by its Chinese partner.
- In FY21, Krka receives exclusive right for selling the drug Pregabalin, an antiepileptic, to hospitals and pharmacies in the 7 provinces in China. The drug is going to be produced entirely in Ningbo Krka Menovo Pharmaceutical Co. Ltd., a company that is a part of Krka Group.

LE-TEHNIKA, d.o.o., Kranj



- Le-Tehnika produces and sells goods in 4 main markets: telephony, cryogenics, hydraulics and pneumatics, and production of LED road lights.
- In FY02, Le-Tehnika created a joint-venture with Iskra Mehanizmi and Iskra Zascite named Sinoslo Technology SIP Co., Ltd in China.
- Sinoslo Technology is a production company engaged in producing various electrical and mechanical components. It's goal is to bring exceptional products from Slovenia to Chinese market.

TT OKROGLICA d.d.



- TT OKROGLICA d.d. manufactures and sells technical textiles for the automotive and cable industries. TT OKROGLICA is part of FORI Group that owns several other companies operating mainly in the automotive and cable industries.
- In FY06, TT OKROGLICA established Qingdao Sinositec Engineering Textile in China that produces waterproofing tapes and technical textiles for the cable industry.
- In FY11, the company signed an agreement with Qingdao Development Zone to start of construction of a new production facility. The investment is valued at €3,5m.

UNIOR d.d.



- UNIOR d.d. manufactures and sells forging products used in the automotive industry, hand tools and machines used in large-scale processing of raw materials from steel, aluminium or other castings.
- UNIOR Group is comprised of 16 subsidiaries and 6 associated companies, including, in FY05 established, NINGBO UNIOR FORGING Co.Ltd. Yuyao located in China.

VIP VIRANT, d.o.o.



- VIP VIRANT, d.o.o. offers configurations, system solutions for cable harnesses, cable stes, connection cables and mechatronic concepts for specific applications in automotive, machinery and medicine technology.
- The company is present in 12 locations world-wide, since FY15 also in Hong Kong (VIP-VIRANT HK Limited).

Cooperation of Slovenian and Chinese universities

- University of Ljubljana, Faculty of Mechanical Engineering has signed an agreement with Guangdong University of Petrochemical Technology detailing the knowledge transfer from Slovenia to China worth €300k.
- Faculty of Mechanical Engineering and Guangdong University of Petrochemical Technology are going to collaborate on the field of mineral wool. The agreement also includes the establishment of advanced material intelligent manufacture research institute (AMIMRI) in Maoming, Guangdong province, by FY23.
- The main goal of the agreement is to transfer the knowledge from the Faculty of Mechanical Engineering to the Chinese academic and business environment, establishing a experimental laboratory in the AMIMRI, creating a PhD programme on studying mineral wool technology, partnering on research studies and creating patents.
- Collaboration between Faculty of Mechanical Engineering and Guangdong University of Petrochemical Technology also entails market studies of the mineral wool market in China reaching out to companies who would benefit from the collaboration with AMIMRI.

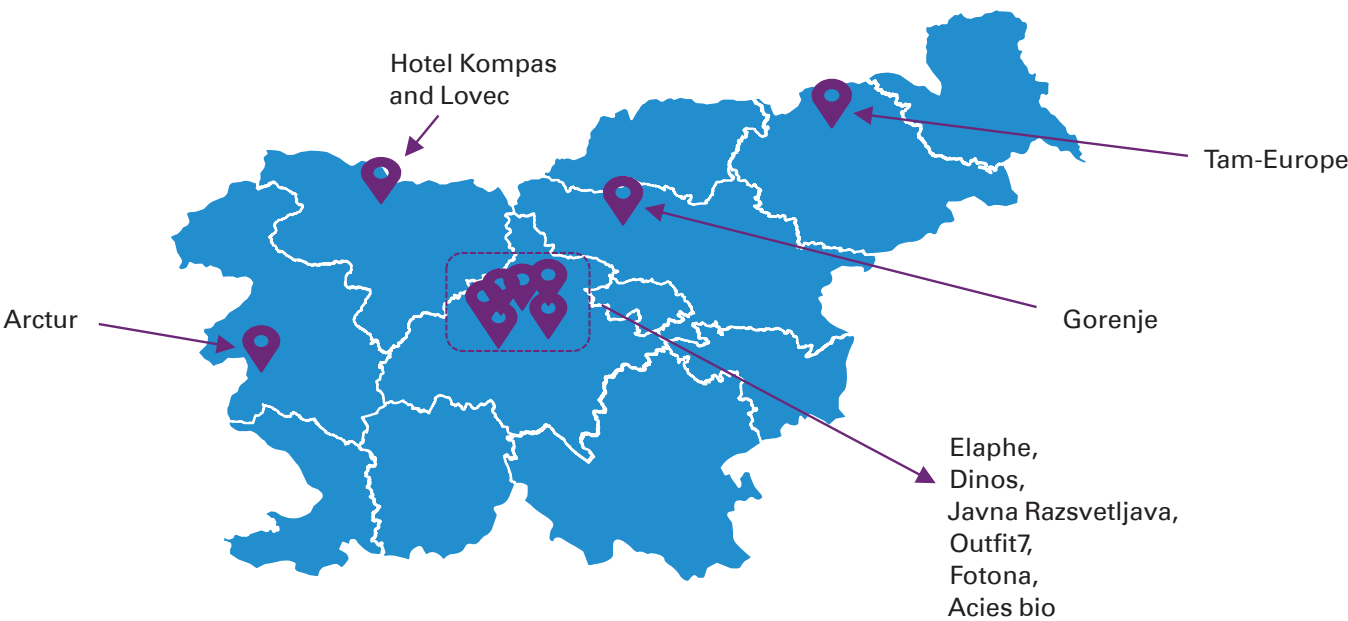
Transaction involving Chinese investors in Slovenian companies

Transactions presented below include Chinese companies acquiring Slovenian companies or real estate in Slovenia. High multiples have been achieved in most transactions between Chinese and Slovenian companies. Many of the Chinese owners are still present in the acquired companies, having the long-term investing horizon.

Transaction involving Slovenian companies and Chinese investors								
Date announced	Closing date	Target	Acquiror	% Acquired stake	Implied EV (€m)	EV/Sales	EV/EBITDA	EV/EBIT
27.07.2015	n/a	ELAPHE pogonske tehnologije d.o.o.	Zhejiang Asia-Pacific Mechanical & Electronic Co., Ltd	20,0%	10	8,3x	35,1x	38,7x
2016	2016	Arctur	Sugon, Beijing	n/a	n/a	n/a	n/a	n/a
30.08.2016	16.12.2016	Scholz Holding GmbH (parent company of Dinos)	Chiho Environmental Group Limited	n/a	459	0,2x	10,4x	n/a
10.12.2016	9.04.2018	TAM-EUROPE d.o.o.	China Hi-Tech Group Corporation	97,8%	1	0,1x	n/a	n/a
10.01.2017	10.01.2017	Javna razsvetljava d.d.	CEE Equity Partners Ltd; The China-Central and Eastern Europe Investment Co-Operation Fund	84,0%	n/a	n/a	n/a	n/a
20.01.2017	20.01.2017	Outfit7 Investments Limited	Consortium led by Ou Yaping	n/a	913	9,9x	12,7x	13,8x
20.04.2017	20.04.2017	Fotona d.d.	AGIC Capital	100,0%	n/a	n/a	n/a	n/a
2018	2018	Acies bio	Desano, Shanghai	22,0%	n/a	n/a	n/a	n/a
2018	2018	Hranilnica Lon	Kylin Prime Capital	16,0%	n/a	n/a	n/a	n/a
9.05.2018	3.09.2018	Gorenje, d.d.	Hisense Visual Technology Co., Ltd.	95,4%	697	0,5x	13,6x	244,0x
2.09.2019	n/a	Hotels Kompas and Lovec	Golden Forest	n/a	n/a	n/a	n/a	n/a
Arithmetic mean						3,8x	18,0x	98,9x
Median						0,5x	13,2x	38,7x

Source: CIQ, Mergermarket, News reports. KPMG Analysis.

Geographic presentation of the Chinese investment in Slovenia



M&A case studies

AGIC Capital acquires Fotona d.o.o.



Key financial indicators (FY19):

Revenue – €54.996k

EBITDA – €14.918k

Source: Ebonitete. KPMG Analysis.

- Fotona is producing laser devices for defence, optical communications, industrial, dental and medical applications. **Fotona is a market leader and on the cutting edge of technology development in its field.**
- Fotona Group has companies in USA, Slovenia, China and Germany. Fotona's global distribution network spans over 70 countries, ensuring comprehensive support and service for its users.
- In FY17, AGIC Capital acquired Fotona from Gores Group LLC, a private equity firm, and Technology4Medicine. AGIC Capital plans to accelerate Fotona's growth in the Asian markets, particularly in China.
- The unofficial purchase price according to Slovenian sources was between €80m and €120m.
- Currently, AGIC Capital is looking to dispose of a majority interest in Fotona and values the group at €700m. Post transaction AGIC will remain a minority shareholder.

Qingdao Hisense Electronics Co., Ltd. acquires Gorenje, d.d.



Key financial indicators (FY19):

Revenue – €1.230.776k

EBITDA – €29.132k

Source: Ebonitete. KPMG Analysis.

- Gorenje, d.d., together with its subsidiaries, produces and sells household appliances. The company sells its products under the Gorenje, Asko, Atag, Pelgrim, Mora, Etna, UPO, and Körting brand names. It is also involved in the sale of heating appliances, and kitchen and bathroom furniture of other producers.
- Gorenje one of the most important Slovenian companies with a long tradition and an established brand recognition throughout Europe.
- Hisense was selected as the best bidder to acquire 95,4% stake in Gorenje, d.d. for approximately €280m on 9 May 18.
- As of to 28 June 2018, Hisense Electric owns 95,42% stake in Gorenje. Owning more than 90% of the company, Hisense was able to squeeze out small shareholders. The deal was finalized on 2 Sept 18.
- In Jan 2021, Gorenje expanded its operation into a new production facility. Company hired 350 additional employees, and plans to hire 170 more to achieve full capacity.

United Luck Group Holdings Limited acquires Outfit7

United Luck Group



- Outfit7 is a software and digital entertainment company that developed several mobile games, most notably the game Talking Tom & Friends. The company was founded by Samo and Iza Sia Login in FY09. Outfit7 later moved its headquarters to Cyprus and UK, however remained under the ultimate ownership by Slovenian citizens. Ekipa2 d.o.o. is the company's subsidiary in Slovenia.
- Outfit7 has grown from an instant app success into a media franchise that includes free mobile apps and games, a CGI animated series and web shorts, and a global licensing and merchandising program. **The Talking Tom and Friends apps have more than 5,6bn downloads, 10,3bn video views of its projects online and over 300m active monthly users.** The group has offices in the UK, Slovenia and Cyprus.
- In FY17, United Luck Group Holdings Limited, a Hong Kong holding company, acquired Outfit7 for \$1bn. United Luck Group Holdings Limited represents a consortium of Asian investors, led by Chinese businessman Ou Yaping.

China High Tech Corporation acquires TAM-Europe



- TAM-Europe is a bus and commercial vehicle manufacturer from Maribor. It specializes in buses used in the airports, coaches and electric buses. TAM-Europe is one of only four European bus manufacturers to manufacture vehicles on its own chassis.
- **TAM is a renowned Slovenian company that had a significant impact in the Štajerska region.**
- In FY16, China Hi-Tech Corporation Group signed an equity transfer agreement to acquire 97,76% stake in Tam-Europe for CNY 9,9m. The transaction was completed in FY18.
- In FY17, China Hi-Tech Group Corporation bought the production facilities in Maribor that it previously leased.

Joint-venture between TAB d.d. and Haidi Energy Technology Co. Ltd.

- TAB tovarna akumulatorskih baterij d.d. (TAB d.d.) manufactures lead-acid and lithium-ion batteries and is one of the largest producers of batteries in Europe.
- In FY21, TAB d.d. partnered with Haidi Energy Technology Co. Ltd. to establish a joint-venture named TAB-Haidi d.o.o. in Slovenia.
- TAB-Haidi d.o.o. is going to produce lithium-ion cells in FY22, with an annual capacity of 500 MWh.
- According to TAB's management, the project is worth €100m and is going to create 300 jobs.

Glossary

ASEAN	Association of Southeast Asian Nations
BiH	Bosnia and Herzegovina
bn	Billion
COVID-19	Coronavirus disease 2019
CAGR	Compound annual growth rate
EV	Enterprise Value
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EU	European Union
FY	Financial Year
FDI	Foreign direct investment
k	Thousand
m	Million
M&A	Mergers & Acquisitions
OECD	Organisation for Economic Co-operation and Development
ROE	Return on Equity
US, USA	United States of America
UK	United Kingdom

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