Profiler Talk: ShawKwei & Partners' Kyle Shaw on Yongle Tape exit
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***ShawKwei & Partners**, the Hong Kong-based Asian private equity fund, has agreed to sell **Yongle Tape Company**, a Zhuozhou, Hebei-based Chinese PVC and other specialty tapes manufacturer mainly used in the global automotive industry, to **Avery Dennison** (NYSE: AVY), for USD 190m on February 6, 2017, with additional earnouts of up to USD 55m to be paid based on the achievement of certain performance targets over the next two years.*

ShawKwei's Founder and Managing Director Kyle Shaw traced back the investment history and its exit.

Shaw's full list of deals and relationships can be found on Profiler app - Kyle Shaw. Download the app here to check profiles of M&A individuals before meeting them.

Exit: find the best strategic fit

ShawKwei got in touch with Avery two years ago when it reached out to the management through an introduction by Lach Hough, a ShawKwei advisor based in the US.

ShawKwei and Avery started discussing Chinese market opportunities first and later came up with the idea of a possible merger between Avery and Yongle.

The official process lasted 7 months. Since signing the letter of intent, both sides proceeded smoothly with the merger process, including due diligence and legal documentation issues, until the deal was closed.

Without running an auction process, ShawKwei had approached a variety of buyers, including major global players from Europe, North America and Asia. Avery turned out to be the best strategic fit for Yongle.

Avery Dennison is a leading US company in labeling solutions for the retail market. Based in Glendale, California, it has a long history and a well-known reputation since it was founded in 1935.

Avery Dennison has a strong presence in China, targeting major customers in consumer and retail packaging, apparel and graphical display and logistics. On the other hand, Yongle, as one of the largest PVC tape manufacturers globally, is largely focused on the automobile and industrial markets, both of which aren't Avery's strong points. ShawKwei believed that both companies' businesses, markets and customer bases are a natural fit. While Avery, with its deep understanding of the industry, could take Yongle's business a step further, Yongle could strengthen Avery's position in the industrial market.

At the same time, Avery's familiarity with the Chinese market and culture, given that it entered China around 20 years ago, has led ShawKwei to believe that it could be the best partner for Yongle.

As a selective and responsible vendor, ShawKwei turned down the idea of seeking an A-share IPO or a trade sale to an A-share listed company, which may provide a higher price for Yongle.

Yongle has been a positive cash-flow generating company and there's no need for it to line up in the crowded, sometimes volatile, A-share IPO market to raise capital, according to Kyle. While at the same time, it thinks it should be responsible to Yongle's employees, clients, the local government and the community and therefore could only sell to a buyer that could help its strategic development in the future.

The transaction, giving Yongle an estimated 18x P/E ratio of valuations, has received a very good response as Avery's shares rose substantially since the deal was announced. Yongle has generated an estimated USD 169m in revenues last year.

Investment: re-fuel the company with new brand and new facilities

Yongle, previously named **China Huaxia Technology** (CHT), was delisted from the Singapore Stock Exchange in 2012, with ShawKwei investing USD 66m in the privatization deal together with Wong Fung, the Chairman and founder, after the global markets suffered a severe financial crisis since 2007.

CHT, the largest Chinese PVC maker at the time, had seen its shares sliding significantly and received little attention on the stock market. Meanwhile, as a local Chinese company based in a town in the Hebei Province, it could not effectively react to the Singapore market, which uses English as its official language.

ShawKwei saw the opportunity and decided to re-fuel this long term top PVC player within five years.

It used Yongle, one of its top and renowned tape product brands, to replace CHT as the company's name in 2014. The previous name was less recognized and outdated while the new name, sounds "more fashion[able] and 21st-century", said Kyle. Along with it, ShawKwei has made a new logo, new brand, new website, new uniforms, and new packaging materials to separate the company from its past, giving a brand new image and vision to both clients and employees.

At the same time, it brought in a new CFO and introduced advanced accounting and operating software, such as SAP, to improve work efficiency and cost-control ability.

On the operations side, it helped Yongle build new facilities with 80,000 square meters of space in 2014, enabling staff to move out of the 20-year-old office. It also spent USD 30m in capex to bring in advanced new equipment imported from Europe. These moves further improved the productivity and production quality of Yongle, achieving the goal that ShawKwei had set from the beginning, turning the company into a cost-competitive, effective industry player and secure its leading position.

It also helped Yongle develop new products, bring in Tier 1 auto suppliers to the US and Europe as new clients and expanded its global market share.

Before ShawKwei came in, Yongle had USD 47m in net debt, but it has been greatly reduced since as Yongle has generated surplus operating earnings in the last few years.

Asked what was the most valuable experiences that could be learnt from the deal, Kyle said it was the communication between two totally different companies. One was a historical, large, public listed US company and the other a smaller, locally-based company, but which was more efficient and flexible in decision-making. "The different cultures and expectations added certain challenges to the deal," said Kyle. "But overall, it is a smooth and efficient deal with no particular difficulties."

Shaw on Profiler

According to our relationships' app Shaw is associated with six deals on total value of USD 539.37m. Most often being advised by Jeanette Chan from Paul Weiss who is related to 52 deals on Profiler.

The Advisers

Bidder: Avery Dennison was advised by **Citi** as the investment bank and **PwC** as the accounting firm and **Clifford Chance** providing legal advisory led by Kelly Gregory.
Target/Vendor: ShawKwei & Partners was advised by Jeanette Chan, David Lee of **Paul Weiss** and Anna Yu, Partner of **Han Yi Law Offices** as the legal advisors. Eric Lau, Hong Kong Partner, and Jerry Wang (Shenzhen) from **KPMG** acted as acounting advisors for ShawKwei & Partners. ShawKwei did not use an investment bank for the deal.