Case Study 1.2

Chinese M&A in Latin America

Jiangsu Yanghe Distillery's Stake Acquisition in VSPT Wine Group in Chile

Ignacio Tornero

1 Overview

In 2018, *baijiu* giant Jiangsu Yanghe Distillery Co., Ltd. acquired 12.5% of one of the most well-established and largest global wine conglomerates in Chile, VSPT Wine Group (Viña San Pedro Tarapacá S.A.), for US$65 million. The transaction was the first of its kind in the South American country, in which a Chinese *baijiu* producer purchased a stake in a Chilean wine company listed on the Santiago Stock Exchange. The transaction involved considerable strategic and business planning and the support of experienced legal and financial advisors in both China and Chile. As a window into Chinese companies' strategic entries into emergent markets, this case study first analyzes how a change in alcohol consumption habits in China was a critical factor for Yanghe in deciding to carry out the transaction and the rationale behind choosing a target from the "new wine world" instead of the "old wine world." It then explores how the Chile-China Free Trade Agreement (FTA) has increased the amount of wine exported to China and how Chilean wine is perceived as "value for money" among Chinese consumers. Finally, it discusses how this transaction is an example of how Chinese state-owned enterprises (SOEs) have learned rapidly from their outward foreign direct investments (FDIs) and how Chinese investors are increasingly using experienced advisors to help inform their overseas investments.

2 Introduction

Toward the end of 2016, on a cold winter day in Beijing, I was sitting in my office located in the Central Business District when I received a phone call from an unknown number. On the end of the phone was Mr. Tom Li, who introduced himself as the investment director of Jiangsu Yanghe Distillery Co., Ltd. ("Yanghe").[1] He told me that he had received my contact information from

[1] All real names of advisors and executives that worked in the transaction have been replaced by fictitious names for confidentiality reasons. Just the names of the buyer and seller are disclosed in the case. In addition, data and certain information are not limited to that available

 https://doi.org/10.1017/9781009457859.004

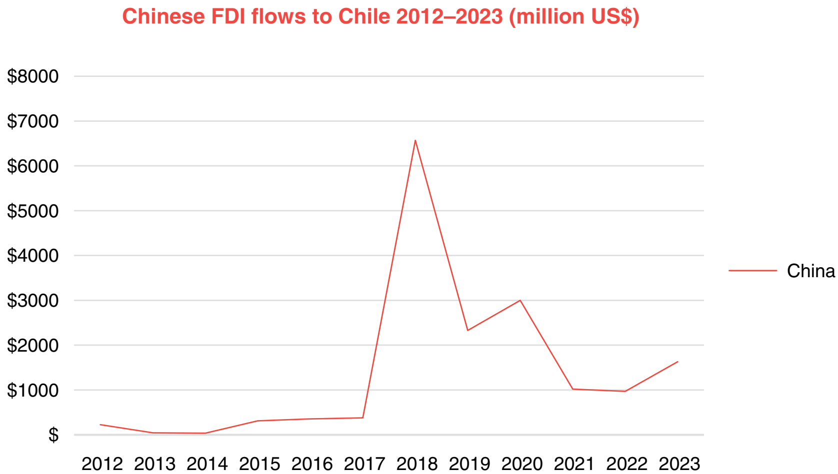

Figure 1.2.1 Evolution of Chinese FDI into Chile

South Pagoda Law Firm, a leading Chinese law firm that had worked with Yanghe for more than fifteen years. He also mentioned that they knew that I had spent some time at their Beijing office on secondment a few years ago representing Chile Andes Law Firm. Mr. Li told me that there was an urgent matter that they wanted to discuss, and he asked whether I would be able to go to Nanjing in the coming days. He would meet me at the train station so he could drive me to Yanghe's offices and explain the company's idea. He also told me that, as part of the Chinese tradition, they would host a lunch for their guest afterward and that this would be a good chance for me to meet Yanghe's vice president and the wider team.

Initially, I could not believe what had just happened. I had been working hard to attract Chinese investment into Chile for years, investment that had been almost nonexistent prior to 2016, and it seemed that the first transactions were just starting to materialize (see Figure 1.2.1). I also felt that there was a certain degree of coincidence in this invitation, not just considering where the referral was coming from but also because I had spent time at Nanjing University studying Mandarin. I went back to my computer and bought a train ticket to Nanjing for the following week to meet Mr. Li and Yanghe's team.

This case study tells the story of how Chinese *baijiu* company Yanghe planned and executed its entry into the Chilean VSPT Wine Group (Viña San Pedro Tarapacá S.A., hereinafter, "VSPT"), in which it acquired a minority stake of 12.5% for US$65 million. The case covers the early conversations during 2016 to the closing of the transaction in 2018. In doing so, it provides interesting information for a number of reasons. First, it sheds light on how Chinese

until the transaction took place. Post-acquisition data is also sometimes included to provide a more complete overview of the industry and trends addressed in this case. For confidentiality reasons, some facts and/or events of the case have been modified.

companies (both private and SOEs) follow consumers' changes in habits and preferences when designing their global strategies (as a business dimension). Second, it provides insights into how policy elements – like the Chile-China FTA – can impact the direction of Chinese outward FDI. Finally, it provides a practical resource for analyzing how Chinese enterprises are increasingly becoming more sophisticated in their outbound investment activities by relying on specialist advisors (i.e., legal services).

The case is structured as follows: (1) an introduction to the *baijiu* market, Yanghe, and VSPT; (2) a description of the change in alcohol consumption habits among Chinese buyers; (3) an overview of the Chile-China FTA and how it has increased the amount of wine sold to China and its competitive position in the Chinese market; (4) a summary of the preliminary conversations of the transaction; (5) an explanation of the execution and closing of the deal; and (6) a general reference to the integration phase and a conclusion.

3 The Case

3.1 What Is *Baijiu*?

Baijiu ("clear or white liquor") is a traditional Chinese alcohol that has been enjoyed throughout China's history. Even though there is no clear date as to when *baijiu* production started in China, some historical records trace it to before the second century BCE.[2] *Baijiu* is usually produced from sorghum, but it can also be made from other grains such as rice. It can be categorized following different criteria (e.g., distillation techniques, fermentation starters, etc.), but it is most commonly classified based on its aroma (e.g., strong aroma, sauce aroma, light aroma, and rice aroma). Even though *baijiu*'s alcohol content has a wide range of 35–60% alcohol by volume (ABV), it is usually above 50% ABV.[3] *Baijiu* has a special significance in Chinese society because it is closely related to its local culture and traditions, and it has been a unique symbol of people's social and business interactions for centuries. *Baijiu* production is localized in different provinces in China by different liquor manufacturers.

3.2 Jiangsu Yanghe: An Iconic *Baijiu* Producer

Yanghe is one of China's largest *baijiu* producers (Table 1.2.1) and, along with Moutai and Wuliangye, it is one of the top *baijiu* brands in China.[4] The official

[2] Xiao-Wei Zheng and Bei-Zhong Han, 'Baijiu (白酒), Chinese Liquor: History, Classification and Manufacture' (2016) 3 Journal of Ethnic Foods 19–25 https://doi.org/10.1016/j.jef.2016.03.001.

[3] Tammie Teclemariam, 'Baijiu, the World's Most Popular Spirit You May Never Have Heard Of' (WineEnthusiast, 28 June 2018) www.wineenthusiast.com/culture/chinese-baijiu/.

[4] Jiangsu Yanghe Distillery Co., Ltd., *Annual Reports* (2020–2022) www.chinayanghe.com/article/type/207-1.html.

Table 1.2.1 Main producers of *baijiu* in China, 2020–2022

Company	Year	Production volume (ton)	Operating revenue (CNY)	Net profit (CNY)
Yanghe	2022	197,590	¥ 30,104,896,186	¥ 9,377,832,429
Wuliangye	2022	129,328	¥ 73,968,640,704	¥ 26,690,661,397
Moutai	2022	91,885	¥ 124,099,843,771	¥ 62,716,443,738
Yanghe	2021	204,332	¥ 25,350,178,204	¥ 7,507,682,797
Wuliangye	2021	188,717	¥ 66,209,053,612	¥ 23,377,074,353
Moutai	2021	84,721	¥ 106,190,154,843	¥ 52,460,144,378
Yanghe	2020	161,498	¥ 21,101,051,131	¥ 7,482,228,633
Wuliangye	2020	158,831	¥ 57,321,059,453	¥ 19,954,809,594
Moutai	2020	75,160	¥ 94,915,380,916	¥ 46,697,285,429

US$ to RMB exchange rate (January 2024) 1 US$ = 7.1 RMB.
Source: Prepared by author with data from companies' annual reports for 2020–2022. Ranked by production volume.

origin of the company goes back to 1949 when the group was established; but Yanghe's distillery has been producing *baijiu* for hundreds of years following an ancient recipe. The company is located in Suqian, a prefecture-level city in northern Jiangsu Province that has a long tradition in the production of liquor and is considered to be one of the three most famous wetland liquor-producing areas in the world. This unique location gives Yanghe access to specific qualities of water, soil, and air crucial for *baijiu* production. As such, these conditions produce a beverage that is similar to whisky in Scotland in terms of its quality and popularity.

The Yanghe group has more than 19,500 employees at the parent level and throughout all its subsidiaries. In the "2023 Fortune China 500" it ranked 430,[5] and 53 in the "2023 BrandZ's Top 100 Most Valuable Chinese Brands."[6] Yanghe was listed on the Shenzhen Stock Exchange in 2009 (code 002304).[7]

3.3 VSPT

VSPT has also been a key player in the alcohol industry albeit not for hard alcohol but for wine. The company was established in Chile in 1865 and has since become one of the largest producers and oldest exporters of Chilean wine. It has a presence across several valleys in Chile that have a long tradition of wine production (e.g., the Maipo, Colchagua, and Casablanca valleys) and has an international presence in the Uco Valley, Argentina (Mendoza). The company

[5] Fortune China, '2023 Fortune China 500' (25 July 2023) www.fortunechina.com/fortune500/c/2023-07/25/content_436290.html.

[6] Kantar, *BrandZ Most Valuable Global Brands 2023 Report* (2024) www.kantar.com/campaigns/brandz-downloads/kantar-brandz-most-valuable-global-brands-2023.

[7] Shenzhen Stock Exchange, *Jiangsu Yanghe Brewery Joint-Stock Co., Ltd. (002304 洋河股份)* www.szse.cn/certificate/individual/index.html?code=002304.

is considered among the top-twenty world producers of wine. Its portfolio of brands includes Altaïr, Sideral, Cabo de Hornos, Kankana del Elqui, Tierras Moradas, 1865, Castillo de Molina, and GatoNegro 9 Lives. In June 2023, the company announced the strengthening of its international presence – it already had offices in the United States and the United Kingdom – and commitment to the Chinese market through the opening of an international office in Shanghai.[8] Based on the information gathered by the Chilean Customs Office, VSPT ranked second – behind Viña Concha y Toro S.A. – in the total exported volume of bottled wine between January and November 2023: 4,618,838 boxes (of nine liters each) with a total value of US$114,017,736. In relation to the Chinese market – for the same period – VSPT ranked in seventh position with a total volume of 119,665 boxes and a total value of US$4,227,564 (these figures represent an important decline from previous years).[9] The company is listed on the Santiago Stock Exchange.[10]

3.4 *Baijiu* Consumption and New Trends

I arrived at Nanjing South Railway Station early in the morning and was met by Mr. Li. After having exchanged a few words, I quickly realized that my companion was a very experienced executive. His English was great, he had obtained an MBA at a US Ivy League business school, and he had worked in the industry for more than a decade. I felt excited about what was going to happen. Once at the Nanjing offices of South Pagoda Law Firm, Mr. Li introduced to me the managing partner of the law firm, Mr. Fred Wang, and they explained the proposed deal.

Mr. Li started the conversation by introducing Yanghe's history and current position in the Chinese market. He told me that sales for the previous year (2015) had reached more than RMB 16 billion, that the net profit attributable to shareholders was more than RMB 5 billion, and that the company was expected to produce close to 200,000 tons of *baijiu*.[11] He also told me that Yanghe was the market leader in the premium segment (with a market share of more than 20%), the segment that was forecast to experience the highest growth in the coming years (expected to be more than 15%).[12] He also mentioned that

[8] Eloise Feilden, 'VSPT Furthers International Expansion with Shanghai Office' (8 June 2023) www.thedrinksbusiness.com/2023/06/vspt-furthers-international-expansion-with-shanghai-office/.

[9] Chilean National Customs Office Data (*Servicio Nacional de Aduanas*) www.aduana.cl/aduana/site/edic/base/port/estadisticas.html.

[10] Santiago Stock Exchange Data (*Bolsa de Comercio de Santiago*). *VINA SAN PEDRO TARAPACA S.A. (VSPT ISIN: CL0002209253)* www.bolsadesantiago.com/resumen_instrumento/VSPT.

[11] Jiangsu Yanghe Distillery Co., Ltd., *Annual Report 2017* www.chinayanghe.com/article/type/207-1.html.

[12] Anne Ling and Mark Yuan, *Yanghe: Consolidator of Premium Liquor* (2018) Deutsche Bank Research.

Yanghe benefited from a consolidated portfolio of brands. Another comparative advantage of the company was the number of its salespeople and distributors. In the former, it had more than 5,000, compared to less than 600 in Wuliangye and less than 700 in Moutai. Regarding its strong distribution network, it had more than 8,000 distributors, while Moutai had just over 3,000 and Wuliangye just over 1,100. This gave Yanghe access to a wide, flat, and very efficient network of distributors. He also explained that Yanghe, unlike some competitors, offered a diversified portfolio of products and that it was constantly developing new ones to meet changing consumer tastes thus providing a unique corporate culture of continuous innovation.[13]

Mr. Li ended this brief introduction by saying that the aspiration of the company was to become a market leader in the alcohol industry in general and not limit itself to *baijiu*. This would enable the company to maintain sustainable future growth and to keep serving customers' changing preferences. In this regard, he thought that there was considerable room to keep expanding the wine business in China and continue diversifying the company's offering and revenue source, since wine represented less than 2% of the total revenue of Yanghe.[14] He added that Chile and its wine were not new to the company as it had launched its Sidus private label in 2012 through a cooperation with Chilean wineries. If the company already had a wide network of distributors and selling points, the strengthening of the wine category could create strong synergies to the current offer.

Mr. Wang then joined the conversation by saying that he had noticed that Chinese people's alcohol consumption habits have been changing; younger generations were not drinking as much *baijiu* as more senior Chinese people do and they prefer alternatives such as wine, whisky, and vodka. He also referred to how the industry had been affected by the anti-corruption campaign started by President Xi in 2012, a policy that limited the hosting of luxurious banquets in which expensive *baijiu* was regularly drunk. This situation reaffirmed the idea that Yanghe needed to prepare for the future and that wine from the new world (like Chile) could be one solution.

Mr. Li emphasized that the key behind this move was to understand the preference of younger generations, who represented less than 30% of *baijiu* sales – a figure that has been decreasing.[15] One of the reasons that Chinese millennials do not enjoy drinking as much *baijiu* as older generations, he said, is because they associate it with a more banquet/business environment, usually with a government component as well. In those dinners, it is quite common to see people finishing their glasses of *baijiu* at once (*ganbei*) and that situation usually ends up leaving many "in trouble." Millennials, in general, do not like this and often prefer drinking alcohol on other occasions like relaxing at home, during vacations, and at social gatherings. There is also interesting data that shows that many Chinese

[13] ibid. [14] ibid.
[15] Daxue Consulting, *China's Wine & Spirit Industry Barometer Report* (2022).

consumers prefer lower-alcohol alternatives and that they tend to see wine as a healthier option and therefore a lifestyle choice. In addition, younger Chinese consumers are more open-minded than before; some of them have traveled or lived overseas while many international brands are now available in China. As a result, Chinese people are increasingly willing to try different products and experiences.[16]

After all this, Mr. Li told me that the intention of Yanghe was to make a minority investment into one of Chile's leading wineries. "What are your thoughts on this idea?" he then asked.

3.5 The Importance of the Chile-China Free Trade Agreement and the Appeal of the New World Wine

When responding to this question, I reminded Mr. Li and Mr. Wang that the strong relationship between Chile and China relied on certain key historical milestones. Chile was the first South American country to establish formal diplomatic relations with China in 1970 and the first Latin American country to support the entry of China into the WTO in 1999. Chile was the first country in the region to recognize China as a market economy in 2004 and the first single economy in the world to sign an FTA with China in 2005. This last point was of critical importance for the matter under discussion.

I then provided additional background of the process to conclude the FTA. I mentioned that before this FTA with Chile, China had just signed a framework agreement with the Association of Southeast Asian Nations (ASEAN) in November 2002,[17] and that China proposed this idea to Chile in the middle of 2002 considering, in part, the important milestones achieved with the South American country in the previous decades.

I then explained that official discussions started in January 2005 in Beijing, and that there were five rounds of discussion that ended in October of that year. One of the reasons for the speed of the negotiation process was the fact it was structured in stages: a first agreement for the trade of goods was signed in November 2005 and entered into force on 1 October 2006; a supplementary agreement regarding the trade of services was signed in April 2008 and entered into force in August 2010; and a final agreement regarding investments was signed in September 2012 and entered into force in February 2014.[18]

16 Ran Guo, 'Why Chinese Millennials Are Saying Bye to Baijiu' (CBBC, 11 June 2022) https://focus.cbbc.org/why-chinese-millennials-are-saying-bye-to-baijiu/; ibid.

17 Association of Southeast Asian Nations, *ASEAN-China Economic Relation*, www.asean.org/wp-content/uploads/images/2015/October/outreach-document/Edited%20ACFTA.pdf.

18 Carlos José Villegas Trommer, 'El Tratado de Libre Comercio Chile-China y su Incidencia en las Exportaciones Chilenas' (The Chile-China FTA and its Implications for Chilean Exports), Repositorio Académico Universidad de Chile (December 2015) https://repositorio.uchile.cl/handle/2250/136837.

Table 1.2.2 Schedule of tariff reduction in the Chile-China FTA

Category	No. of items	% of items	Exports to China 2004 (US$ thousands)	% US$ amount
Immediate	2,805	37	2,953,478	92
Year 1	1,947	26	489	0
Year 5	973	13	11,251	0
Year 10	1,611	21	221,300	7
Exclusions	214	3	23,384	1
Total	**7,550**	**100**	**3,209,902**	**100%**

Source: Prepared by author with data from Chilean Congress National Library.

Afterward, I pointed out that one of the critical measures included in the FTA was a progressive elimination of tariffs based on a set schedule (Table 1.2.2). For this purpose, five categories were established and in the case of Chilean exports the category "Immediate" stipulated a zero tariff for 37% of the products exported to China that represented 92% of the total US dollar amount from the date that the FTA entered into force.[19] This was a considerable reduction in the tariff rate in force prior to the FTA when the average tariff in China was 10%.[20] Wine was included in the category "year 10," so in 2015 it started entering the Chinese market tariff-free.

I kept emphasizing the importance of the FTA and the elimination of tariffs in the wine industry for building a more competitive global product. I showed evidence of how Chilean wine exports to China increased after the execution of the FTA (Figure 1.2.2).

Mr. Li agreed that the elimination of tariffs on Chilean wine had been a critical consideration for Chinese consumers when choosing options from an increasing number of choices from different countries. Chilean wine has been consolidating this perception that it is "value for money"; it is as good as more traditional players like French wine but, at the same time, is considerably more affordable. While the average price for a case (9 liters) of Chilean wine is around US$31 (free on board [FOB]) the price for French wine is approximately 50% higher, with an average price of US$47 (FOB).[21] But price isn't everything, he then added. Chilean wineries have also proven to be flexible and creative players by designing private labels pursuant to

19 ibid.

20 History of Supreme Decree Law No. 317 of Chile (Approves the Free Trade Agreement between the Governments of Chile and the People's Republic of China and Its Annexes) www.bcn.cl/historiadelaley/historia-de-la-ley/vista-expandida/5213/.

21 Decanter China, 'New China Wine Import Figures: France and Australia Lead the Growth in First Quarter' (5 May 2016) www.decanterchina.com/en/news/china-wine-import-figures-france-and-australia-lead-the-growth-in-first-quarter.

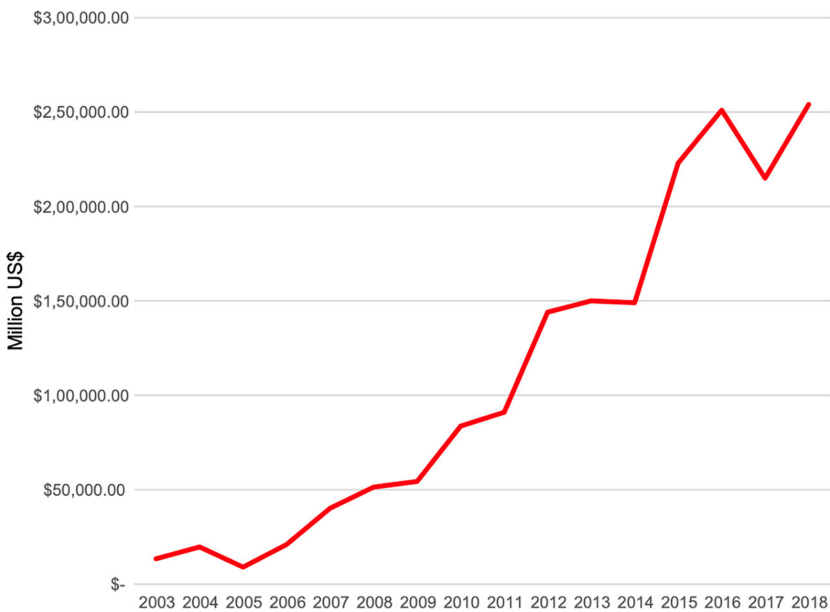

Figure 1.2.2 Increase in wine exports from Chile to China, 2003–2018 (in US$)

clients' requests,[22] and by launching very strong localized marketing campaigns. Another important factor has been good public–private coordination, and the role that the Chilean wine association (Wines of Chile) has played in supporting the image and consistent value proposition of Chilean wine in China and the rest of the world.[23]

"Well, let's find a target for Yanghe then," I said.

3.6 The Transaction

I was aware that this represented a great opportunity for my law firm in terms of a potentially iconic transaction within the wine industry. However, Chinese companies were new players with respect to FDI in Chile and there were considerable risks involved. During my previous research, I had noted that some studies put Chinese M&A failure rate as high as 70%,[24] and that there were several common mistakes made by Chinese companies in their overseas operations (Table 1.2.3), many of which I had witnessed in the past such as the lack of proper and timely use of professional advisors. In order to enable a successful M&A operation, careful planning was required.

[22] The Economist, 'Why Chinese Tipplers Like Chilean Wine' (2 January 2021) www.economist.com/the-americas/2021/01/02/why-chinese-tipplers-like-chilean-wine.

[23] Wine of Chiles, www.winesofchile.org/.

[24] Xuedong Ding and Chen Meng, *From World Factory to Global Investor: A Multi-Perspective Analysis on China's Outward Direct Investment* (1st edn, Routledge 2018).

Table 1.2.3 Main risks and challenges faced by Chinese companies in their ODIs

1. Enter the project too late; slow to act.	7. Focus only on targets which are "for sale."	13. Inadequate tax structuring or postponed too late in process.	19. In emerging markets, rely more on government support, not legal documents.	25. Fail to ensure compliance with regulations governing operations.
2. Do not have a clear international investment strategy or plan.	8. Reluctant to pay retainer to financial advisor to conduct search.	14. Negotiate MOU without help of external advisors.	20. No decision maker at negotiating table.	26. No post-closing integration plan.
3. Unfamiliar with international deal structures.	9. Fail to make persuasive case to seller on buyer's strategic goals.	15. Inadequate due diligence.	21. Long gaps between negotiating sessions with no updates.	27. Lower negotiation success rate compared to international standard.
4. Do not utilize external advisors effectively.	10. Chinese buy-side introductory materials not up to international standard.	16. Let seller's lawyers draft the deal documents.	22. Inadequate transparency as to internal process and timing.	28. Risk of non-completion results in sell-side demanding a "China premium."
5. Overreliance on government officials to find targets.	11. Not sufficiently familiar with international business practices.	17. Fail to utilize the protections under the SPA [Sale and Purchase Agreement] fully.	23. Retract concessions made in prior rounds of negotiations.	29. Because slow to act, lose out on good investment opportunities.
6. Use inexperienced overseas Chinese "finders."	12. Acquisition funds not in place up front.	18. Sometimes ignore applicable legal requirements on FDI.	24. Significant communication and culture gaps.	30. Fail to achieve anticipated synergies/incur heavy losses.

Source: Robert Lewis, 'Rules of the Game of Global M&A: Why So Many Chinese Outbound Investments Fail' (China Machine Press 2017). Reproduced with permission.

At this preliminary stage, and after convincing Yanghe to formally retain our law firm, I suggested two actions: (1) find and retain a financial advisor in Chile and (2) start looking for potential suitable targets. Regarding this last point, Yanghe was searching for a top-ten player in Chile with a prestigious brand that could be easily sold to the Chinese market. I was happy to see that Yanghe acknowledged its lack of prior M&A experience in South America and that it was looking for experienced advisors that could help it with the transaction's structure and execution. This was, from my point of view, a good starting point that could bring the required expertise and flexibility to achieve the intended objective.

Mr. Li stated that he was very satisfied with the outcome of this first meeting and that it was time to enjoy a good Chinese lunch and meet the rest of the team. He asked that I brief my firm about the potential work, start preparing a formal proposal, introduce a reputed financial advisor, and also initiate preliminary market research to identify suitable companies in Chile for Yanghe to consider. They agreed to meet in a couple of months to review all this.

After receiving approval from my firm to move on, I proceeded as agreed with Mr. Li. I introduced to Yanghe one of the most respected investment banks in Chile (Chile Patagonia Financial Advisors) so they could also start preliminary conversations with Yanghe. At the same time, our team and I conducted some preliminary research identifying around ten potential targets that may be willing to sell a minority stake to the *baijiu* giant. This was challenging as many of the largest Chilean players with a long tradition in the industry were not for sale or were not listed companies. One senior partner at Chile Andes Law Firm started making a few phone calls to some of his contacts to explore whether there were chances for this project to become a reality.

Contact with Yanghe moved quickly. Both the law firm and Chile Patagonia Financial Advisors were formally engaged by Yanghe, so detailed planning could start. Chile Andes Law Firm explained to the client the general steps involved in an M&A in Chile (Figure 1.2.3) and introduced the list of potential targets available together with the likely chances of acquiring a minority stake in each of them. After a detailed review of the potential targets, Yanghe decided to pursue VSPT after considering its history, brand, and sales. In addition, VSPT was a listed company on the Santiago Stock Exchange, so the chances of entering into partial ownership of the winery by acquiring a certain percentage from minority stakeholders were more feasible than for other alternatives. VSPT was a great target itself; it had become the second largest Chilean wine exporter after the merger of San Pedro Winery and Tarapacá Winery in 2008 and was a leader in premium wine in the domestic Chilean market. Additionally, VSPT was aligned with the definition of China as a "priority market" by Wines of Chile.

The whole deal required close coordination between the work of Chile Andes Law Firm, South Pagoda Law Firm, Chile Patagonia Financial

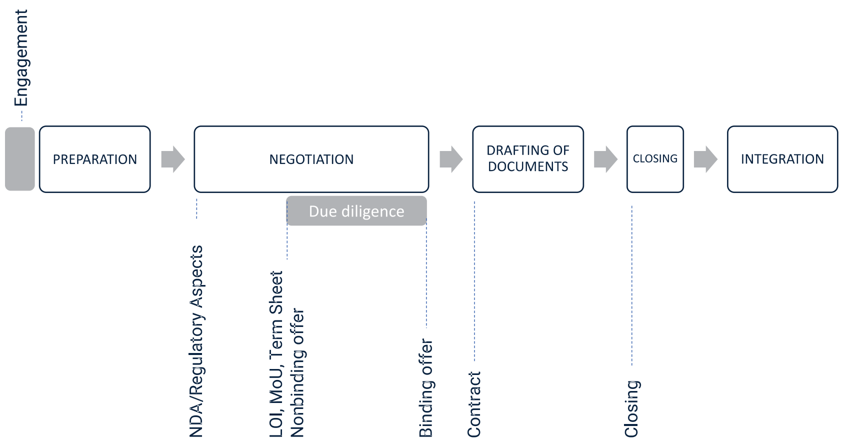

Figure 1.2.3 Main steps of M&As in Chile

Advisors, and the preparation of documents and approvals in China by Yanghe. The advisors prepared a very detailed plan divided into three main parts: pre-acquisition, acquisition, and post-acquisition steps (Figure 1.2.4). This allowed Yanghe to have a very clear roadmap of the transaction, including estimated timelines, areas of responsibility, the required information/documents, and the current status of each stage. As of 31 December 2017, the main shareholders of VSPT and their ownership were the ones listed in Table 1.2.4.

The advisors considered different plans for Yanghe to acquire the required ownership in VSPT in order to obtain a seat on the board and thus have a certain degree of decision-making power inside the company. One alternative was to purchase shares on the Santiago Stock Exchange from minority stakeholders, another was to buy a certain proportion from the main shareholder (Compañía de las Cervecerías Unidas, CCU), and an alternative was to perform a capital increase. The advisors also analyzed the benefits and disadvantages of different financing structures (equity, debt, or equity/debt). They also informed Yanghe about the possibility of a potential mandatory public offer of shares by CCU and the corresponding tender price, which is the scenario that ultimately happened.

On 12 December 2017, CCU acquired 1 million additional shares in VSPT, thus triggering the legal provision that required it to launch a mandatory public offer of shares for the remaining shares (33% approximately) in VSPT not owned by CCU, as a result of owning two-thirds or more of the shares issued by a publicly traded company. CCU carried out the formalities of announcements and the publication of the prospectus, including a tender price of CLP 7.80 per share. VSPT's directors also issued their personal opinions in relation to the tender as required by law. The offer lasted from 28 December 2017 to 26 January 2018 and CCU acquired 6,310,613,119 additional shares in VSPT resulting in an ownership increase to 83.01% interest in the company. In the

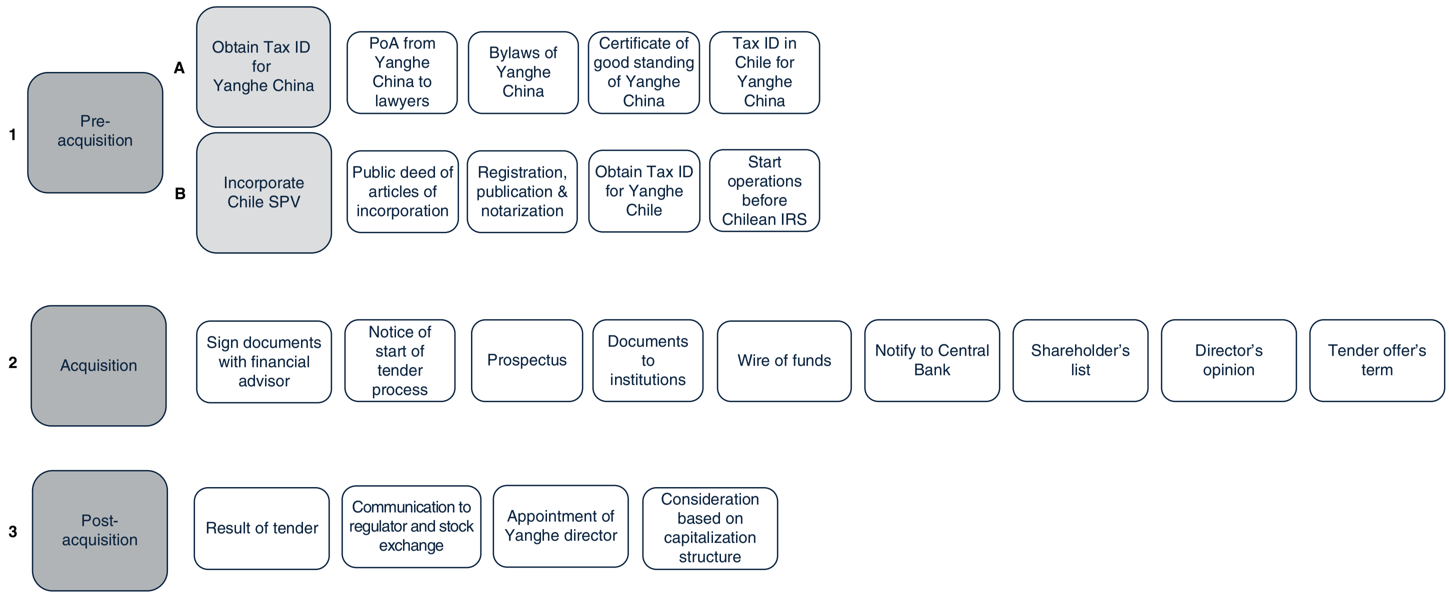

Figure 1.2.4 Roadmap of the project

Table 1.2.4 Main shareholders of VSPT as of 31 December 2017

Shareholder name	No. of shares	Ownership (%)
CCU Inversiones S.A.	26,866,493,503	67.22
Compañía Chilena de Fósforos S.A.	2,794,649,759	6.99
Bank of Chile (on behalf of nonresident foreign investors)	1,988,796,991	4.98
Bank Itau Corpbanca (on behalf of nonresident foreign investors)	1,385,536,989	3.47
Bank Santander (on behalf of nonresident foreign investors)	1,376,502,915	3.44
Compass Small Cap Chile Fondo de Inversión	1,264,834,547	3.16
Siglo XXI Fondo de Inversión	660,769,848	1.65
Fondo de Inversión Santander Small Cap	491,906,385	1.23
Larrain Vial S.A. Corredora de Bolsa	477,368,885	1.19
BCI Small Cap Chile Fondo de Inversión	397,191,944	0.99
BTG Pactual Small Cap Chile Fondo de Inversión (Cuenta Nueva)	260,162,716	0.65
MBI Arbitrage Fondo de Inversión	207,039,548	0.52
Total	**38,171,254,030**	**95.49**

Source: Prepared with data from VSPT Annual Report 2017.

meantime, Yanghe informed the regulators that it had acquired 4,996,212,080 shares (12.5%) of VSPT at CLP 7.90 per share from Compañía Chilena de Fósforos S.A. and other minority shareholders.[25]

4 Conclusion

Yanghe's aim of acquiring an interest in one of Chile's main wineries was ultimately successful. This case study shows how Yanghe used expert market analysis by its Chilean advisors to inform its decisions and how it sought to anticipate changing consumer trends in the *baijiu* business by investing in VSPT. It also provides considerations for a policy discussion on how the Chile-China FTA was a critical factor in allowing Chilean wine to become an appealing product to Chinese consumers. Finally, it highlights the importance of detailed planning and execution and the need to rely on experienced advisors in order to carry out a successful M&A operation.

Can Yanghe claim victory? At least not yet. The last phase of the M&A process is in its initial stage: the integration. This is when partners usually

[25] The Chilean Financial Market Commission (*Comisión Para el Mercado Financiero*), *VIÑA SAN PEDRO TARAPACA S.A.* www.cmfchile.cl/institucional/mercados/entidad.php?mercado=V&rut=91041000&grupo=0&tipoentidad=RVEMI&row=AAAwy2ACTAAABy2AAC&vig=VI&control=svs&pestania=1.

encounter the biggest challenges to building a sustainable approach and where skillful advisors are needed to guarantee a good fit. In addition, the wine sector has been heavily affected by the COVID-19 pandemic, and whether the industry is able to return to pre-COVID levels of sales is an ongoing question.

5 Discussion Questions and Comments

The case "Yanghe – VSPT" provides insights into Chinese approaches to outbound investment from law, policy, and business perspectives. When reading the case, consider the following:

- Exploring how changes in consumer behavior in China may redefine Chinese companies' strategies and their outbound activities.
- Analyzing the importance of bilateral trade agreements as suitable frameworks for increasing international trade.
- Showing how Chinese companies (private and state-owned) have become more sophisticated in their M&A strategies by relying on experienced legal and financial advisors.

In relation to this last point, Chinese companies' familiarity with international transactions has not always been the norm. As shown in Figure 1.2.3, Chinese overseas M&A has not been exempt from challenges, and there is abundant evidence of certain common pitfalls faced by Chinese enterprises in their early outbound activity across different jurisdictions.

For example, in 2012, during one of the first attempts by a Chinese company to acquire a hydropower asset in Chile, the Chinese party was unable to complete the deal due to different mistakes made. In that transaction, the Chilean legal advisor was approached by a well-renowned international financial advisor based in Chile. This advisor had, in turn, been hired by a reputable Chinese financial advisor in order to assist a Chinese SOE in the acquisition of energy assets located in the south of Chile on sale by a Chilean private company. The acquisition process was structured as a private competitive tender process. The potential Chinese buyer was the international arm of a Chinese central SOE that had some previous international experience in other acquisitions worldwide.

Unlike the Chinese financial advisor, who proved to be very familiar with international best practices and standards in the M&A industry, the Chinese client lacked basic skills required for this type of international transaction. For instance, some of the decision makers who attended the negotiation sessions that took place in Chile did not have the required language skills (spoken English), seemed to be unfamiliar with international M&A processes, and had a political background rather than a technical or business one. One of the biggest challenges faced during the acquisition was the poor communication between the team of advisors and the Chinese company. In addition, decision-making inside the potential buyer was considerably slower than for other participants in the tender, and it required multiple regular approvals from the headquarters in Beijing. This circumstance was not duly understood by the Chilean seller and caused miscommunication and even some distrust throughout the sale.

During the final stage of the selling process, it was expected that some assets were going to be awarded to a British company participating in the tender and the other to the Chinese buyer. However, due to circumstances that were never made clear, the Chinese party suddenly "disappeared" from the negotiation table. Therefore, all assets were acquired by the British offeror. This example is just one of many that demonstrates how far Chinese companies have come in their overseas M&A transactions.

5.1 For Law School Audiences

1. How is the approach adopted by Yanghe different from other transactions carried out by Chinese firms overseas that you know of (including, for example, the 2012 case mentioned above)? What are the most common mistakes made by Chinese firms in their overseas transactions?
2. Can you provide any examples of Chinese M&As that have failed due to a lack of proper legal or financial structuring?
3. If you were advising Yanghe and VSPT in their integration strategy, what would your plan be to guarantee that the cooperation is successful in the long term?

5.2 For Policy School Audiences

1. Why has the Chile-China FTA been a critical tool for positioning Chilean wine in China? Can you provide a comparative example in your country that illustrates this?
2. What is the specific competitive advantage granted by the FTA? Did this happen upon its execution or at a later stage?
3. Do you think that FTAs are effective policies to promote international trade? Could the Chile-China FTA be *adversely* affecting the wine industry in Chile?

5.3 For Business School Audiences

1. If *baijiu* is still the most consumed liquor in the world, why did Yanghe decide to acquire a minority stake in a Chilean wine group?
2. What were Yanghe's comparative advantages that placed it in a good position to diversify its business? What were the synergies that the company could benefit from in purchasing a stake in VSPT?
3. Why did Yanghe not acquire a winery from France, considering that French wines are well positioned within the global market, perceived as high quality, and have a higher average price than Chilean wines?