

WINNER - LARGE-CAP

# KKR: Qingdao Haier



White goods manufacturer Qingdao Haier was already a leading name in the Chinese consumer electronics market when KKR acquired a 10 percent stake in June 2014 for \$603.5 million, one of the largest private equity deals by KKR in China at that time.

The Shanghai-listed company was looking for a global partner to expand and accelerate its growth ambitions as domestic competition increased. The KKR deal offered the most compelling vision for its future – a global network and industry expertise, as well as operational improvements and transaction integration led by KKR Capstone, a team of 60 full-time expert operating professionals across the Americas, Asia and Europe dedicated to support the firm's portfolio companies.

In just four years KKR significantly grew company revenue from 88.8 billion yuan (\$13 billion; €11

billion) to 159.3 billion yuan, a compound annual growth rate of 21.5 percent. The company also further expanded into Europe, East Asia, South Asia and Australia.

One transformative M&A was that of Louisville, Kentucky-based GE Appliances. Qingdao Haier bought the unit from parent company General Electric for \$5.4 billion in 2016, one of the largest overseas transactions by a Chinese company at that time. The acquisition brought a number of strategic benefits to the company – an expansive distribution network, wide product portfolio, and most notably, a US presence that would provide Qingdao Haier with a key market for white goods supply and demand.

Cathy Cai, a director of KKR Capstone, notes that this was the highlight of the transaction.

“It was a landmark deal where a Chinese company was able to buy a

world renowned brand. This would not have happened 30 years ago.”

The deal resulted in approximately 10 billion yuan in revenue synergies and 1 billion yuan in cost synergies. “We basically put everything into several buckets – legal/compliance, finance, HR, production and manufacturing, procurement and supply chain, sales and marketing, and channel distribution network and collectively decided to start refining our governance model, as well as integrating procurement and the supply chain network.”

In line with KKR's commitment to ESG, the firm led Qingdao Haier's brand transformation into building smart and more environmentally-conscious products. The team oversaw investment in product research and development to design, manufacture and sell products that are more efficient and cost-effective.

From 2014 to 2017 the firm's other notable operational initiatives also included a two-year material cost reduction plan in which KKR Capstone worked alongside Haier to consolidate its expansive supply chain network for its air conditioning manufacturing unit, as well as implementing large-scale cost resource bidding. Under KKR, Qingdao Haier also launched at least one new high-tech and high-performance product every year in six major categories.

KKR has been offloading its stake in the last year and continues to hold minority ownership. ■



**21.5%  
CAGR**

Top-line revenue growth



**14.8%  
CAGR**

EBITDA growth



**41.7%**

Increase in employee numbers by exit

\*Figures from 2014 to 2017



*Qingdao: a high-end brand with environmental focus*