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Grohe to snap up China rival

FRANKFURT. German sanitary fittings maker Grohe is buying its largest Chinese rival in a move aimed at tackling product piracy by Chinese companies. The maker of premium bathroom and kitchen fittings announced on Monday that it would launch a tender offer for all outstanding shares of rival Joyou, leader by sales in its home market of China.

David Haines, Grohe's chief executive, told the Financial Times that the primary goal of the deal, which values Joyou at €324m (\$437m), was to tap the market potential of Asia's rapidly growing middle class. "This also enables us to come to grips with the issue of plagiarism, although this is more of a side-effect of the deal."

Joyou, which has been listed on the Frankfurt stock exchange since March last year, has a market share in China of 12 per cent and boasts 3,600 points of sale, which compares with Grohe's tally of just 200 in the country.

Grohe, owned by private equity funds run by TPG and Credit Suisse, is Europe's largest maker of sanitary fittings by sales.

Its revenues rose by almost a fifth to €980m last year, while operating profit climbed almost 30 per cent to €200m. Germany's small- and medium-sized companies have repeatedly complained about product piracy by Chinese rivals.

Engineering companies in Europe's largest economy lost €6.4bn in

revenues in 2009 as a result of mostly Chinese copies of their products, VDMA, the sector's lobbying association, estimates. "To buy the Chinese market leader seems a good way to help protect the original products," said Marc Wiesner, legal adviser at VDMA.

In a 2010 survey by the engineering association, four-fifths of companies asked named Chinese rivals as the main source of copied products. But as the best Chinese companies have gone upmarket and moved from copying to innovating in the past few years, intellectual property protection has gained more importance in their home market. Last year the German customs authorities for the first time appropriated more copied products from Thailand than from China.

Grohe's owners were reported earlier this month to be considering an initial public offering for the company. TPG and Credit Suisse bought Grohe for €1.5bn in 2004 and sparked controversy in Germany by loading the company with debt.

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