



SUMMER ATLANTIC
— CAPITAL —

Licensing and Distribution in China

How & Why They Work

2021

www.SummerAtlantic.com



OVERVIEW

Summer Atlantic Capital Ltd. along with our sister company, Summer Atlantic China are active managers/investors who bring innovative solutions to bridge the challenges experienced by companies seeking to enter the Chinese market. Summer Atlantic Capital is not a consulting firm; Our team assist companies that possess novel technologies expand into China by providing financial support and know-how along with direct access to our established and trusted network of manufacturers, licensees, distributors, service providers as well as access to key regulators and government officials that are required for a successful Chinese expansion.

THE OPPORTUNITY

Over the last decade, China has seen transformational change evolving from a sourcing destination with low labor costs to the second-largest consumer market in the world driven by an emerging middle class. Entering China is no longer about benefitting from low-cost manufacturing alone, but also about strategically reaching hundreds of millions of additional consumers with continuously rising incomes and net worth. According to Statista, from 2010 to 2020, China's GDP grew from \$6.03 trillion to \$14.72 trillion, a growth of over 244%. Also, China's middle class has grown from 44 million in 2010 to 374 million in 2019 (according to McKinsey Global Institute). In 2020, China overtook the US as the worlds leading destination for foreign direct investment, receiving \$163 billion of capital inflow, compared to \$134 billion by the USA. (according to Reuters).

While companies pursue a Chinese expansion due to its rapid growth, foreign companies entering China without a local partner frequently encounter obstacles including a lack of legal / regulatory knowledge, a limited understanding of Chinese consumers, an absence of local business knowledge, insufficient capital, unvetted local participants and a lack of key government relationships along with many other challenges. Summer Atlantic Capital understands these hurdles and has developed a rigorous framework to enable companies with advanced technologies to successfully expand in China via Licensing and Distribution arrangements.

WHY LICENSING AND DISTRIBUTION?

Although there are multiple paths to global expansion, including JV (Joint Venture) partnerships, however licensing and distribution are one of the most successful and convenient ways to enter a market. Many Fortune 500 companies have entered the Chinese market via Licensing and Distribution arrangements such as Netflix, AstraZeneca, and Diageo.

The Chinese market is growing rapidly through Licensing and Distribution arrangements. Licensing deals in China have surged dramatically in the past few decades. Also, distribution in China is currently dominated by large Asian conglomerates, with Chinese distributors taking the most significant market share. All these points indicate that Licensing and Distribution need to be considered as serious options for entering and succeeding in China.

WHEN TO CHOOSE LICENSING?

Licensing can be the best mode of entering a foreign market in the below-given situations:

- When there are barriers to import and foreign investment in the target market
- When a company wants to enter the target market without investing any of its capital
- When the company wants to bear the least operational and financial risk of entering into a foreign market
- When a company has no problem with sharing its patents, trademarks, manufacturing expertise with another company in the target market

WHEN TO CHOOSE DISTRIBUTION?

Distribution can be considered by a company, for entering into a foreign market in the below-given situations:

- When the company finds it hard to comply with the local business and regulatory requirements in the target market
- When the company wants to cede the control of strategic marketing decisions to the local partner in the target market
- When the company wants to benefit from distributor's unique expertise and knowledge of their markets
- When the company wants to have a well-established distribution system in the target market without making any huge capital investment and without giving up control of its intellectual property (IP).

MAJOR ADVANTAGES OF LICENSING AND DISTRIBUTION

PENETRATION

It enables a company to enter a market that might have direct / indirect restrictions on foreign companies.

LIQUIDITY

The licensor / supplier company's capital is not tied up in foreign operations.

DIVERSIFICATION

The licensor / supplier company can move into several markets at one time.

CO-INVESTMENT

Under the license agreement, the licensor has the option to expand into the market further by investing in the licensee company at a later date.

NETWORK

These methods allow businesses to leverage local expertise, knowledge and local relationships.

SPEED

Working with a local distributor / licensee to grow your business means instant market familiarity and exposure.

OTHER BENEFITS OF LICENSING AND DISTRIBUTION

BENEFITS OF LICENSING

- Political risk is minimized as the licensee is usually 100% locally owned
- Rapid expansion without the high risk and capital investment. Specifically helps in the market value of public companies.
- Great way to recoup and faster amortize initial development costs around the technology.
- Shows additional value to shareholders by identifying an additional demand and accessing the market to fill that demand.
- The Chinese market, though massive, is usually not on the immediate need-to-access list. Moving it higher on the list can move the company's success forward in years.
- Chinese revenue can be structured legally to minimize tax liabilities.

BENEFITS OF DISTRIBUTION

- In general, distributors have processes and teams in place that know how best to sell to their customers while dealing with local customs and regulatory requirements. This helps businesses increase sales and make significant financial savings since they do not have to acquire additional locations and increase staff.
- In China, many foreign companies are marketing their brands beyond the major cities to meet growing demand. More than 160 Chinese cities have populations of at least 1 million. Larger corporates utilize the distributor models to penetrate these small cities efficiently and cost-effectively.

LICENSING AND DISTRIBUTION PROVE TO BE SUCCESSFUL

LICENSING

- **China Licensing Activity has Skyrocketed:** In the year 2014, there was roughly one high net worth deal a month being announced on an average in China. However, in 2018, more than five high net worth licensing deals in a month were being announced, on average in the country. In 2019 alone, Chinese companies signed 85 major licensing deals to obtain rights for cutting-edge technologies developed abroad ranging from drug discovery platforms, immuno-oncology therapies, state-of-the-art medical devices, and a wide variety of other leading technologies. All of these figures prove an unquestionable degree to which licensing activities are increasing in China.
- **The Value of Licensing Activity in China has also Risen:** In the decade from 2008 to 2017, the average deal value was \$89.7M inclusive of milestones and sales royalty payments. However, during the year 2018, the average deal value inclusive of both milestones and sales royalty payments was \$96.8 million.
- **Protection of Intellectual Property has Improved Substantially:** China has a modern intellectual property regime and provides full enforcement of patents on many commercial goods, especially on medicines and healthcare products. Also, China offers 25 years of protection on newly filed drug patents versus 20 years in the United States and Europe.
- **Big Business Houses Entering China via Licensing Agreement:** Many global business houses have entered China in the past years via licensing agreements and have proven to be successful in the Chinese market. Netflix, AstraZeneca and Diageo are some of the other big names that found Licensing an attractive way to enter and learn about the Chinese market. Thus, all the big MNCs entering into China via licensing agreement proves the efficacy of this mode of market entry over others.

DISTRIBUTION

- **China- An Emerging Market:** China is the second-largest economy in the world, after the USA. The Chinese economy has been growing rapidly, presenting a significant and rare international business environment. The import market in China is around 25% of its GDP. It is a large market for exporters, who in most cases need a sales agent or local distributor.
- **Rising Third-Party Logistics Market in China:** According to the Global Supply Chain Council, third-party logistics is more than \$8.8 billion (¥60 billion) market in China. As logistics outsourcing grows, competitive advantages for third-party logistics providers—namely in service and efficiency—will lead to greater integration for business operations.
- **Huge Distribution Industry:** According to Nordea Trade, mass distribution in China is dominated by large Asian groups, with Chinese distributors taking the most significant market share. According to the USDA Foreign Agricultural Service, only the top ten national retailers' combined sales reached \$88.4 billion in 2019.
- **China's Huge Medical Device Market:** Healthcare spending in China has crossed a trillion dollar mark and the medical device industry accounts for almost \$100 billion. The sector has been growing at a rate of more than 20% each year, for the past several years. Apart from the overall medical devices market, the medical device distribution market in China is also vast. There are more than 13,000 private medical device distributors in the country and the supply network is often multi-tiered and managed by large or mid-sized distributors.
- **Improved Chinese Regulations Making the Medical Device Market More Attractive:** In the year 2019, National Medical Products Administration (NMPA) in China announced new regulations for the medical devices industry. These new regulations now allow device designers to work with local contract manufacturers in China, without compromising on their intellectual property. Also, these new regulations have reduced the certification approval time for the market-players, along with reducing some other restrictions on marketing jurisdictions for the market players in the medical device industry.

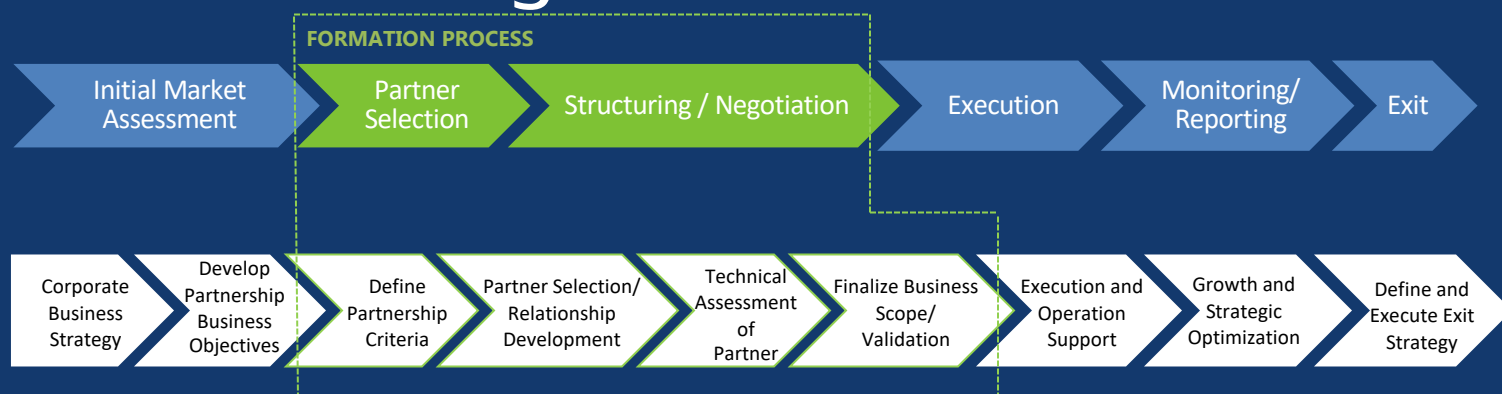
START YOUR JOURNEY WITH SUMMER ATLANTIC CAPITAL

Summer Atlantic Capital will help you navigate through all of the challenges when expanding into China. Through our established and trusted relationships, we can help you find the right partners in the form of licensees and distributors, reducing your time to market and with minimal capital investment.

Despite all the benefits, there are some risks associated with taking one's business to China. But with Summer Atlantic Capital's expertise, you can negate the risks associated with Licensing and Distribution arrangements in China.

Summer Atlantic Capital provides the most productive route for international companies to access the Chinese market through the bespoke entry method. We understand that Licensing and Distribution arrangements are not the most suited expansion vehicles for every company, and while we can assist these companies by providing regulatory guidance, secure distribution agreements, or source the right strategic partner, we ideally look to partner with companies with proprietary technology that could be further monetized by reaching the Chinese market.

Our Licensing and Distribution Process



Summer Atlantic Capital will spearhead your expansion into China through a Licensing or Distribution arrangement if our initial market assessment verifies your technology's potential success in the Chinese market. After we negotiate the financial and operational structure of the licensee or the distributor, we develop a licensing / regulatory approval plan, secure the distribution agreements, establish the operational structure (banking, legal, HR). Summer Atlantic Capital stays active throughout the life of the licensing and distribution agreement including the development and execution of an exit strategy for the licensors / suppliers. In addition to this, Summer Atlantic Capital's sister company, Summer Atlantic Capital China, will be a direct participant in the process / transaction. Summer Atlantic Capital China has all the necessary resources including investment capital, regulatory advisors, strong government relationships, and a team of highly successful, proven individuals who have participated in some of the largest cross-border transactions into China.

FINDING THE RIGHT LICENSEES AND DISTRIBUTORS

The ideal partner must have the capabilities to perform all critical operations, aligned goals, trustworthiness, transparency, and be a good fit overall. The figure is given on the next page, below identifies Summer Atlantic Capital's Licensing / Distributing partner's requirements:



Knowledge / Resources

- ♦ Ability to satisfy government regulations
- ♦ Own regulatory permits, licenses, and patents
- ♦ Channels which the partner uses currently to reach the target market
- ♦ Access to the required services or tech
- ♦ Knowledgeable about the local market
- ♦ Managerial labor skills



Management Criteria

- ♦ Proven track record/ favorable past relationships with partners
- ♦ Analysis of the firm's market share, size, and industry position
- ♦ Display seriousness, commitment, and enthusiasm for the opportunity
- ♦ Financial health and long term outlook
- ♦ Highly reputable and trustworthy
- ♦ Shares values and goals
- ♦ Provides transparency

Summer Atlantic Capital China has deep relationships with state-owned enterprises, investment funds, as well as other strategic corporate and private investors giving us access to virtually unlimited capital to complete cross-border transactions.

Unlike consulting firms that utilize third-party resources, our in-house team is composed of highly experienced and established individuals with a proven track record of success. With our list of internally verified partners, you can expand rapidly into the Chinese market with confidence.

Our team has vast experience and knowledge of scaling up international businesses. One of our core team members is Mr. Savio S. Chan, who is co-founder and CEO of US China Partners Inc., a cross-border business development firm specializing in Market Entry, Joint Ventures, and Mergers & Acquisitions. Mr. Yuan Haiying, the founder of Yuan Associates, is also one of our most experienced team members, whose clients include many renowned names such as Amazon China, Walmart, BP, Disney, Starbucks, Caterpillar, Porche, and many others.

Dr. Michael Cheah, who has nearly 30 years of experience in senior management consulting in the medical and health industry, has experience in multiple pharmaceutical joint ventures. He has also served as the president of Xi'an Janssen Pharmaceutical Company, Johnson and Johnson's largest subsidiary in China. These partners along with our other experienced professionals will try to cover each aspect of your Chinese market expansion. We are based in Asia, but we have a deep network of partners in the US as well.

WHY CHINA?

China holds massive market potential being the world's fastest-growing developing economy. From technology and infrastructure to pharma and medical science, this growing market presents an unparalleled market development opportunity with a massive consumer base. Being the world's largest population and the second-largest economy, China is expected to see a rapid increase in demand for new technology and innovative products / services.

China is considered a complex market for international businesses. Undoubtedly, local information, networks, and expertise are essential to succeed in the China market. But when placed with all the advantages, the challenges of foraying into the Chinese market seem worthwhile.

WHY SUMMER ATLANTIC CAPITAL?

Just like in any new market, entering into China comes with certain risks. In the past, many overseas firms have tried to enter the Chinese market, but most such attempts have been futile. Understanding and entering the Chinese market and then thriving in it requires clear and dependable professional guidance, which we offer here at Summer Atlantic Capital through the following.

- **Business Intelligence:** With world-class resources, Summer Atlantic Capital can help you negate all risks associated with licensing and distribution into China. We offer the safest and most efficient way to access the Chinese market. With our understanding of the Chinese financial and economic system, our clients have been able to make a successful debut on Chinese soil.
- **Networks & Partnerships:** Summer Atlantic Capital is a reliable entryway for licensing and distribution in the Chinese market. With some of the largest distributors in China by our side, we can guarantee sales activation even before regulatory approval. Our strong ties with powerful state-owned enterprises and investors enable us to handle vast capital outlays and carry out seamless cross-border transactions.
- **Strategic Assistance:** With Summer Atlantic's initial market evaluation, you'll be able to assess your product's viability for the Chinese market and find the most lucrative Distribution and Licensing arrangements in China. We also offer efficient channel strategy, resources, and partnerships that can help with the distribution of products at all scales across all industries, reducing both time and cost.

Although risks are inevitable, Summer Atlantic Capital can minimize the risk exponentially, leading to mass distribution with guaranteed sales into the fastest growing, most complex market in the world.

CONCLUSION

Expanding into China through a Licensing / Distributorship arrangement provides access to hundreds of millions of additional customers while potentially allowing your business to expand margins and develop a quicker path to profitability without massive capital investment. Public companies can benefit from a significant increase in their market valuation under the right structured cross-border transaction.

The selection of the right partner in the local market on the basis of having the best local expertise; business licensing and distribution arrangement opportunities in China have continuously proven to be one of the most successful and effective ways of entering the Chinese market.

With that said, Summer Atlantic knows Licensing or Distributorship arrangements aren't suited for everyone. If your company has a novel technology that can benefit the Chinese economy, Summer Atlantic can arrange other structures, including Joint Venture deals.

With our guidance and know-how, along with our careful and intensive due diligence, and a strong governance framework, we can help you navigate through all of the challenges associated with building a successful Licensing and Distribution partnership in China, developing a long-term, sustainable source of profits while expanding into one of the worlds largest and fastest-growing economies.



WHO IS SUMMER ATLANTIC CAPITAL?

Summer Atlantic Capital through our sister company, Summer Atlantic Capital China, has been establishing relationships with state-owned enterprises, investment funds, as well as other strategic corporate and private investors giving us access to virtually unlimited capital to complete cross-border transactions. Unlike other consulting firms that utilize third-party resources, our in-house team is composed of highly experienced and established individuals with a proven track record of success.

A partnership with us will allow your company to access capital and our extensive network of top-tier resources to expand efficiently into the Chinese market while allowing your business at home to expand margins, enhance your path to profitability, and overall increase your valuation profile. It's no secret that having strong relationships play a critical role when entering the Chinese markets; Summer Atlantic Capital prides itself on the depth of its business and political Rolodex. We have a vested interest in every Licensing / Distributorship arrangement and Joint Venture & the majority of our compensation is structured so that our success is driven by the company's results, aligning our financial interests with yours. Our extensive network allows us to execute more efficiently than our competitors since, usually, we will have the appropriate specialist on staff rather than having to hire external consultants.

Summer Atlantic Capital USA, another sister company of Summer Atlantic, helps innovative Chinese and Hong Kong-based companies expand internationally into the US and EU markets. Through our strategic partners, which include some of the largest distributors in China, Summer Atlantic gains access to cutting-edge technologies in all sectors including medical, automotive, alternative energy, artificial intelligence, supply chain, environment, and information technologies along with others. If you are interested in learning more about these opportunities or have an interest in a specific technology to add to your portfolio, contact us for more information.

Start your global expansion journey today.

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