

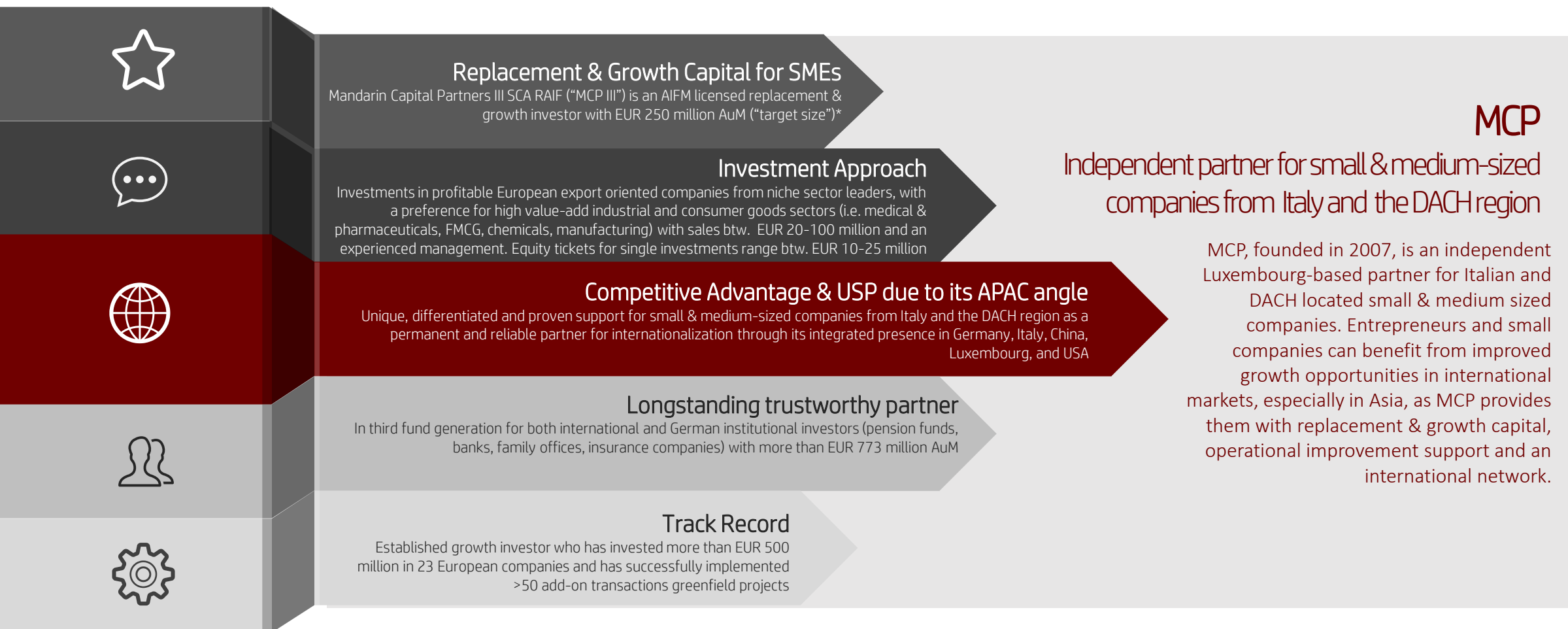


MCP –

Financing issues, operational optimization and business initiation in the Chinese e-commerce market



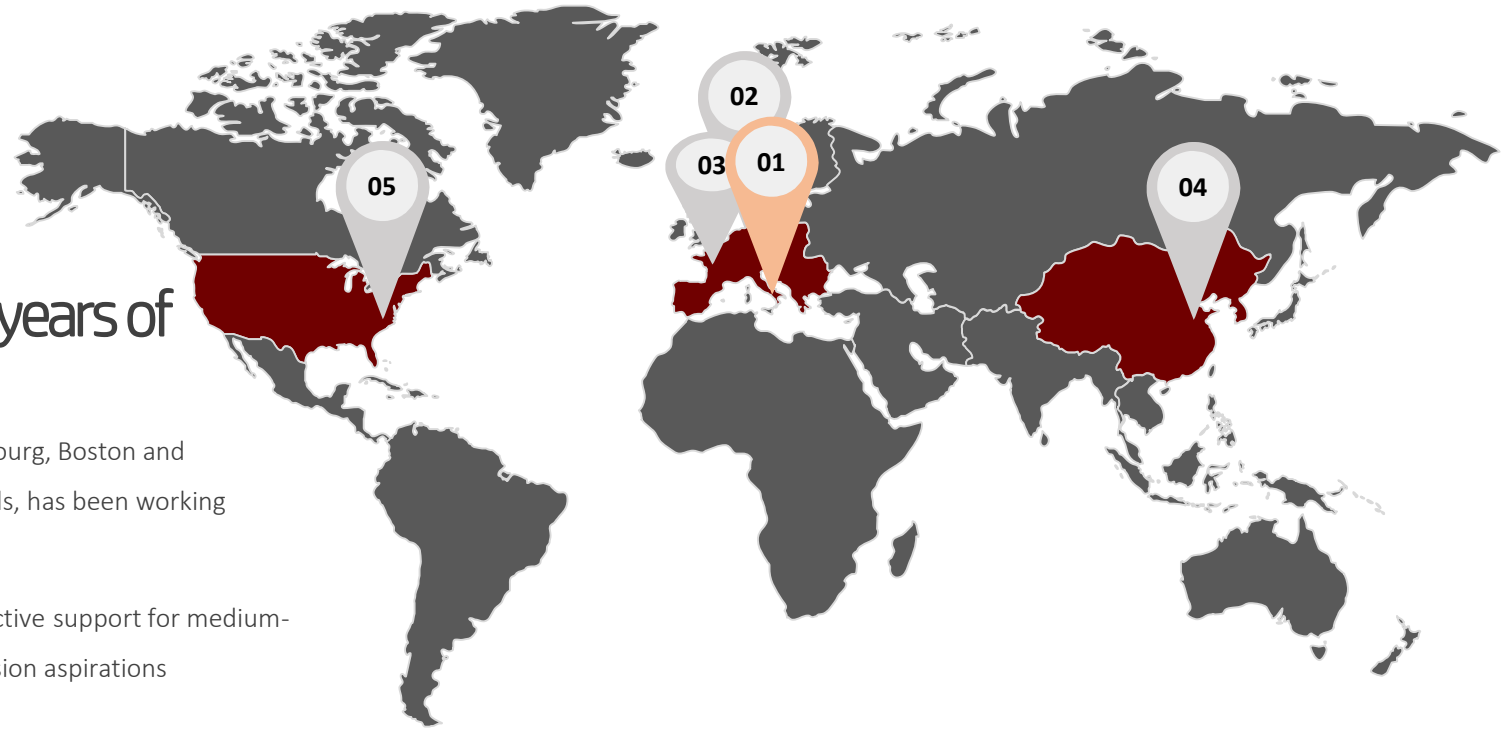
MCP – Replacment & Growth Capital for small & medium- sized companies from Italy and the DACH region



* Target size of MCP III, committed capital as of today EUR 183.3 million

MCP – global presence with several years of expertise in Asian markets

- Spread over five international offices in Milan, Frankfurt, Luxembourg, Boston and Shanghai, the MCP team, consisting of 17 investment professionals, has been working together continuously since 2007
- Cross-boarder presence in Europe, Asia and the USA ensures effective support for medium-sized companies to support their growth and international expansion aspirations



01

MCP Italy – Milano

Headquarter
Investment Team
Deal Sourcing
Portfolio Management
Fund Raising

02

MCP Germany – Frankfurt

Investment Team
Deal Sourcing
Portfolio Management
Fund Raising

03

MCP Lux – Luxembourg

Fund Administration
Risk Management
Compliance
Accounting

04

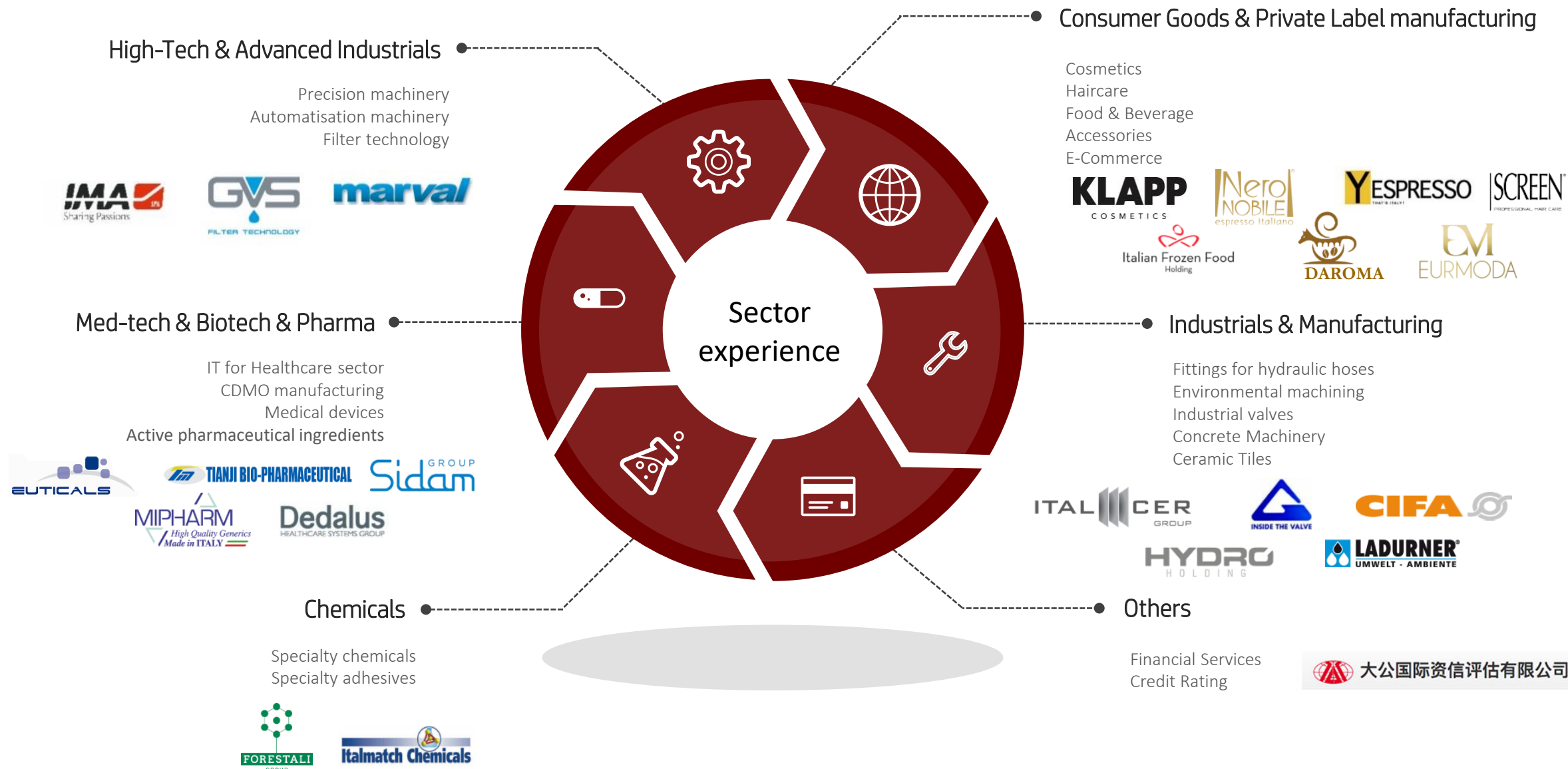
MCP China – Shanghai

Investment Team
Portfolio Management

05

MCP US – Boston

Deal Sourcing
Fund Raising





MCP – Financing issues, operational optimization and business initiation in the Chinese e- commerce market

Private Equity - Enabling sustainable growth for SME 's by creating long-term value



Financing



Operational



China Market Entry

Difficulties for SME 's



Lack of profitability and sufficient cash flow to self-finance investments and growth (i.e. digitalization need)



Lack of sufficient capital market and credit financing access due to size



Expensive cost of capital



Lack of collateral assets or capital as well as data



Regulatory pressure on banks lead to the need to find alternative financing solutions (i.e. factoring, mezzanine capital, etc.)



Lack of transformational motivation to constantly adjust business model



Inefficient work-flows due to non-digitalized, non-automated and non-data driven business processes and technology



Lack of trend-scouting expertise and digital/ technological know how beyond processes (i.e social media, HR, e-commerce)



Family Businesses often struggle with management topics (too long CEO tenure, unqualified successors, demotivated external managers)



Lack of China competencies & experiences in-house



High regulatory & bureaucratic challenges and entry requirements



Lack of market access & consumer preference knowledge



Increased competition from local companies



Intellectual property risks

Private Equity 's Competences



Financing growth in exchange for shares for up to 7 years – with no interest



Actively support internationalization, which many banks are skeptical about



Actively support inorganic growth strategy to scale up businesses fast



Extensive financing access due to improved capital structure



In-house and external industry experts enable efficient & rational operations



Proven management expertise, leveraged by interim managers if needed



Transformation & efficiency at the core of Private Equity 's competences



















































Most PEs do not offer sufficient China competence



MCP capitalizes on its 13+ years of China experience and its own local operational team including extensive APAC network

MCP – Value creation strategies

 Buy & Build execution	 Corporate Governance & ESG	 Strategy	 Digital Transformation	 Operating improvements	 Growth initiatives
 Target identification to strategically strengthen market positioning  Quantitative and qualitative analysis of companies  Negotiations of add-on acquisitions and strategic mergers/demerges (<i>assisted 41 portfolio acquisitions in Europe and Asia</i>)  Access to replacement & growth capital, debt financing and other sources of capital	 Implementation of an experienced and committed management team with a long-term perspective through management incentives  Enhancement of corporate governance functions (i.e. set up of internal control environment, code of conduct and policies)  Implementation of ESG ("Environmental, Social, Governance") principles	 Strategic input at board level by MCP professionals and industry experts (i.e. Digital Advisory Board)  Sparring partner of the senior management to enhance the business model	 Implementation of transformation projects to digitize the business model across the entire organization (i.e. Marketing, Sales & Services, R&D, Supply chain, Production, Finance, ...)  Introduction of new data driven products and services to increase customer convenience and disrupt markets  Increase efficiency and effectiveness across the organization by investing into IT Infrastructure, SaaS, on-prem solutions and data security  Implement more flexible working models and promoting agile working	 Active monitoring of operational improvement  Investment planning, financial management and cost reduction as well as the optimization of working capital management and risk management  Transparency measures through development of the internal and external reporting structure and introduction of systems and tools  Strengthening banking relationships and balance sheet optimization	 Market expansion / development through internationalization, diversification into new segments or innovation of new applications  Expansion of sales channels by gaining new strategic partners and customers  Identification of greenfield projects (<i>five projects successfully implemented in China</i>)  Establishment of joint ventures and local partnerships (<i>successful implementation of five JVs in Europe and China</i>)
  	    	 	 	 	      

Case Study – KLAPP Cosmetics

Investment rationale and value creation by MCP post-closing till today



Investment Rationale

- Stable B2B2C business model of the professional brand segment with limited downside risk
- Clear USP's in innovation & product management
- Excellent platform for buy & build in Germany & Italy
- International presence with strong potential in ASIA (> 50% sales generated abroad)
- Strong growth potential in the private label segment, online and in retail (B2C)
- Significant financial and operational improvement potential



Post-Merger Value Creation

- Completed PMI by integrating 9 operating entities under the roof of the newly established management holding (i.e. tax unity, MSA, ...)
- Set up corporate governance functions and established an advisory board including an expert panel of industry veterans
- Secured financing from banks and re-negotiated significant better financing terms by decreasing cost of capital by 205 bps
- Hired an experienced transformation manager as CFO / COO from a leading German cosmetics and industrial group
- Developed a long-term value creation action plan for the group together with the management and industry experts
- Established HR department to execute growth strategy (i.e. Head of R&D and Regulatory Affairs from a leading CDMO, Head of Sales from a global cosmetics group)
- Established PMO organization ("Project Management Organization") and kicked-off value creation workstreams to transform and digitalize the organization (i.e. re-branding, social media, CRM, B2B online shop)
- Invested into a cloud based financial reporting and accounting solution modernizing the legacy system and streamlining financial process

China Value Creation

- Successfully sourced a manufacturer for hand sanitizers in China securing major deals with leading retail customers (raw materials have been sold out in Europe) in the Private Label segment
- Formulated go-to-market KLAPP Brand strategy for China and identified potential online distribution partners enabling China growth strategy
- Negotiated long-term distribution contract with a leading and well-known Chinese TP (T-Mall Partner) in order to boost e-commerce sales across various Chinese online platforms, securing significant order increase in the upcoming years
- Renegotiated minimum order quantities with the existing Chinese offline distributor and set-up collaboration between KLAPP and all Chinese distribution parties
- Hired experienced Business Development / Sales Director to set up group supporting functions, re-organize the export sales department and run sales initiatives across APAC region
- Drove procedure of setting up China subsidiary (WFOE) in order to support marketing and sales activities and ease product registration and IP/trademark rights processes including tax considerations
- Increased sales by 4x beyond EUR 2m (based on YTD sales and current order backlog) in 2021 compared to EUR 0.5m in 2019
- Ongoing communication and monitoring support of Chinese distributors and Research activities of the Chinese cosmetic's market and trend-scouting

Digital Transformation

- Rejuvenated B2B B2C online / e-commerce strategy including affiliate program for beauticians
- Built-up KLAPP Social-Media and E-commerce Team by hiring experienced E-Commerce Manager, Senior Social Media Manager and Digital Content Creator
- Implemented on-prem accounting & reporting solution to increase digital accounting workflows across the organization
- Implemented on-prem personal management and time management suite

Buy and Build Execution

- Identified three potential CDMOs in Germany to foster Buy & Build strategy, supporting the management on valuation, deal structuring, negotiation and M&A process



Best Practise – KLAPP Cosmetics

Case Study – KLAPP Cosmetics

Segment overview



KLAPP Cosmetics

- KLAPP Cosmetics is a Germany-based manufacturer of professional high-end skin care products for beauty salons and cosmetic institutes
- The company founded by Gerhard Klapp has more than 40 years of experience in skin care
- With "Made in Germany" as a quality promise, the company has also grown strongly in international markets
- The group employs 233 people (as of Oct. 2020; increase of 6.4% since MCP investment)
- More than 5,000 customers in over 60 countries worldwide. Partnerships with more than 35,000 beauty institutes and hotels
- Products range from creams, body lotions, facial oils, face masks, scrubs, serums, sunscreens, gels for men to hand creams with a clear focus on facial care for women
- Branded products are mostly sold through beauty salons (B2B2C business model)



Private Label Segment

- Skinovators is a Germany-based manufacturer of premium skin care products for retail offering private label branded products
- The products are mainly sold as special or promotional items
- Customers can choose from over 400 cosmetic formulas or develop an individual solution (including products for anti-aging, skin protection, eye care, pigmentation disorders, color cosmetics, ampoules or clean cosmetics with sustainable ingredients)
- As a full-service OEM, Skinovators offers holistic concepts from product design to display design, from label and packaging design to product development, filling and packaging
- Also offers strong sales concepts that promise satisfaction, repeat purchases and customer loyalty
- Skinovators serves ~ 26 customers worldwide (including EDEKA, ALDI, Rossmann or Mercadona)



Other Brands

- In the "Other Brands" segment, further innovative and functional skin-care brands are being conceptualized and sustainably developed to market them via various distribution channels in Germany and abroad
- From conventional over apparatus cosmetics to technologically based treatment concepts are developed in niche sectors, which are traditionally not occupied by KLAPP brand



€ 27.7 Mio.
Revenue 2020



€ 3.3 Mio.
adj. EBITDA
2020

SKINATIVE



~ 233
Employees



2
Production &
Commercial Units

Case Study – KLAPP Cosmetics

Professional heritage brand “KLAPP Cosmetics”

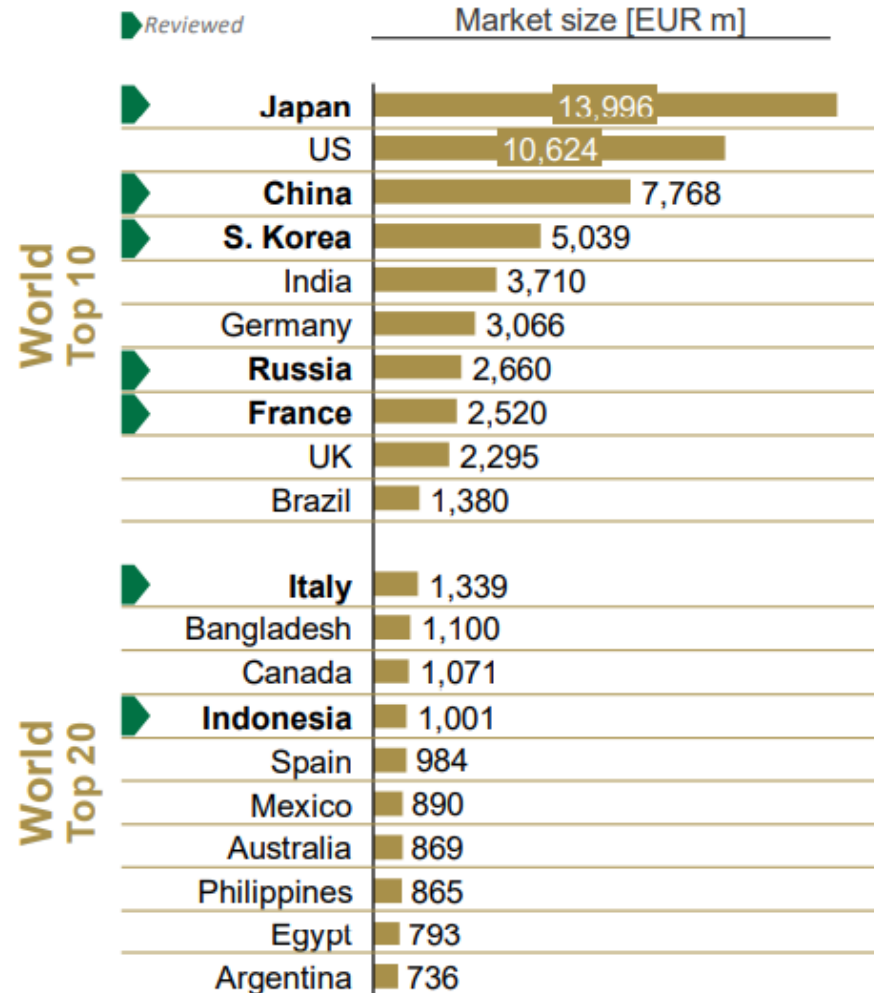


40 years of
Innovation
&
professional
experience

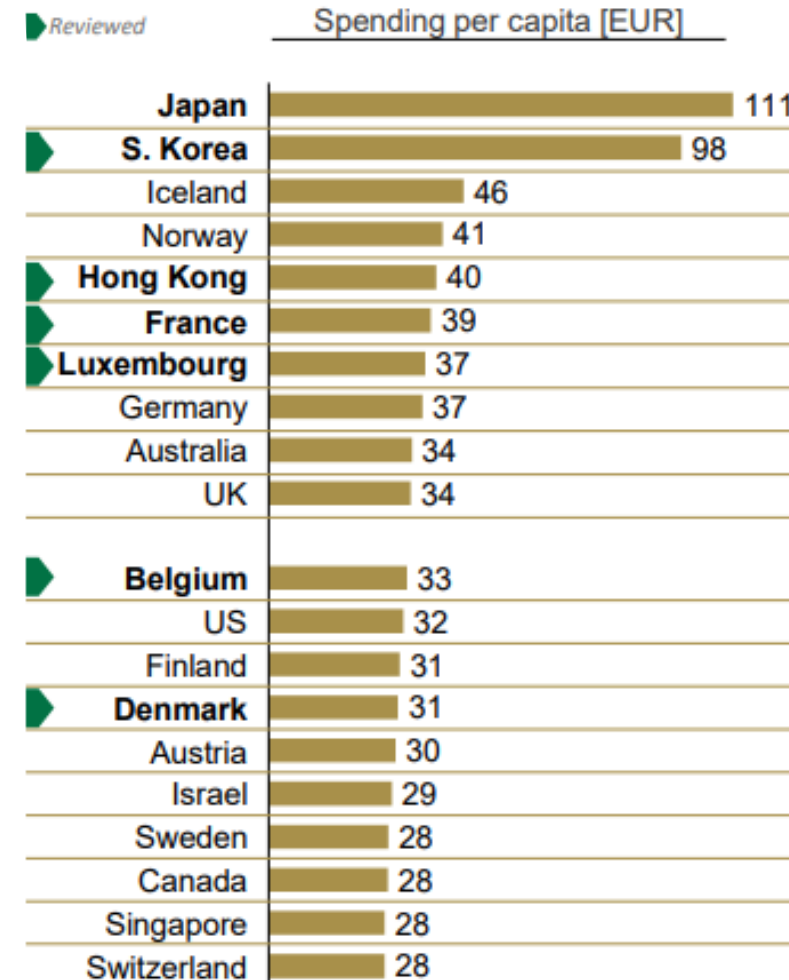
Case Study – KLAPP Cosmetics

Top 20 markets in terms of sales volume and expenses per capita in 2020

Top 20 face care markets by total market revenue

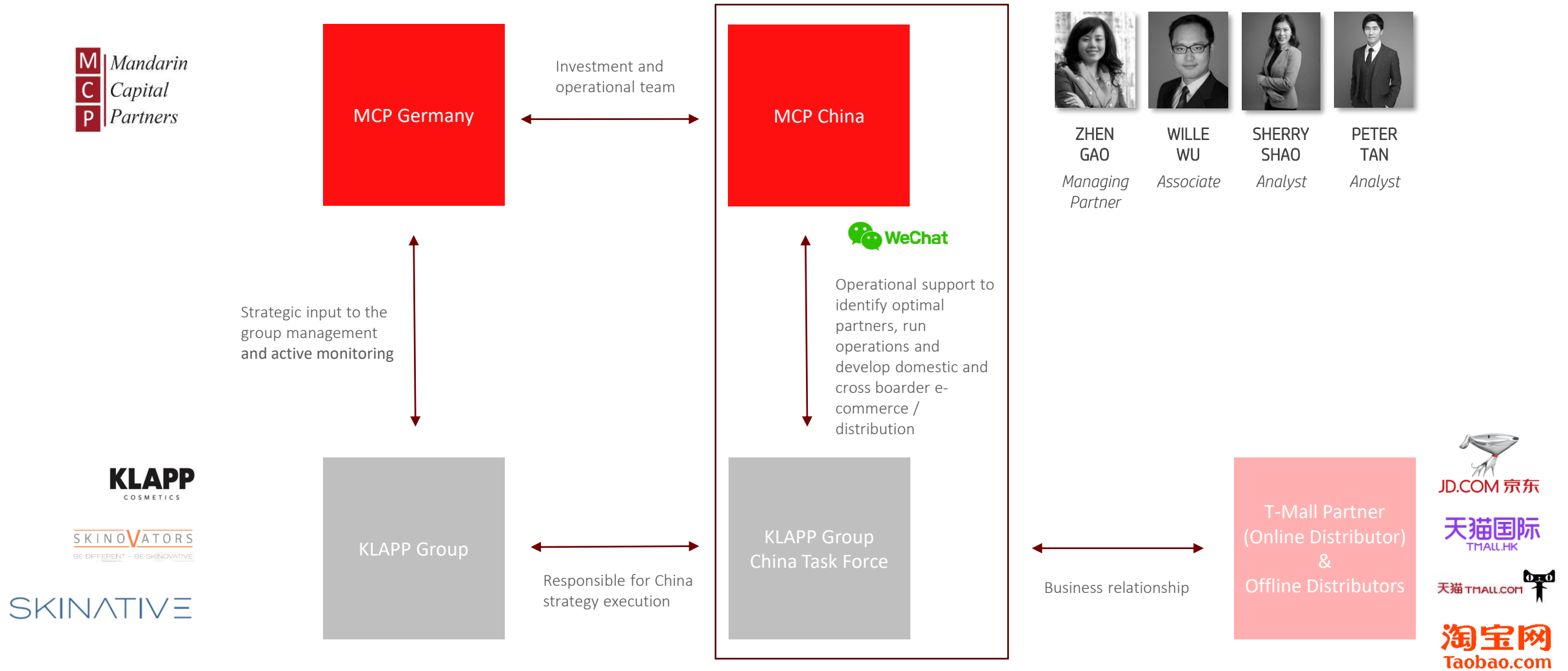


Top 20 face care markets by spending per capita



Case Study – KLAPP Cosmetics

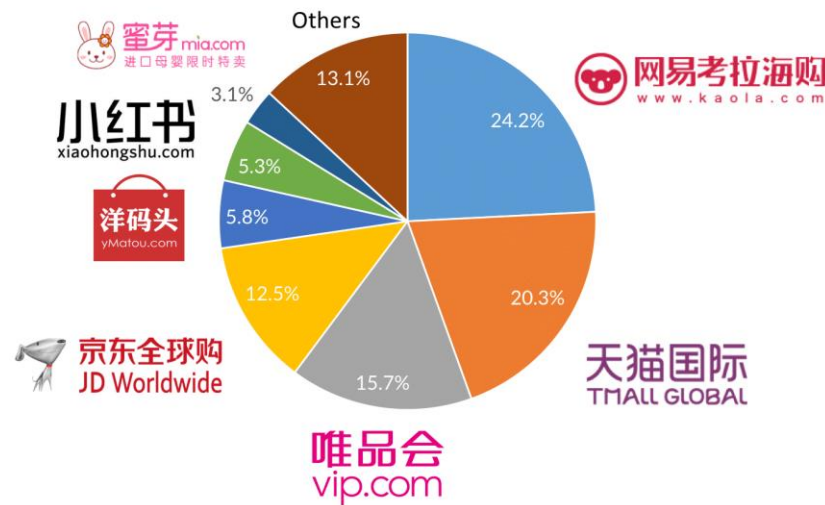
MCP – Operational portfolio support enabling China growth



Case Study – KLAPP Cosmetics

Enter China market via cross-boarder e-commerce

Market share of main e-commerce players in China



天猫国际
TMALL.HK

- Sister website of China's largest online market place TMALL or Taobao (Chinese name)
- Launched in 2014, TMALL Global sells exclusively important merchandise from foreign countries into the China market
- TMALL Global has today more than 14.500 registered brands from all around the world (Germany among the top 3 most popular countries)
- Approx. 80% of those selling to China for the first time
- TMALL Global allows international brands without China domestic registration to directly sell to Chinese consumers by setting up an official TMALL Global store
- Since 2015 they require to do this through so called TPs (TMALL Partners) in form of a partner ship model
 - Brands reasonability: product, marketing and strategy
 - TPs responsibility: daily operations
- TMALL Global has strong requirements and it takes time and resources to prepare for registration
 - Officially registered entity outside of Mainland China
 - Retail and trade licences
 - Brand owner or authorized distributor
 - Ensure customer service in Mainland China
 - Ensure that products refunds and returns are handled in Mainland China
- Store registration on TMALL Global is my invitation only → priority is given to international brands that are not selling in Mainland China as well as brands with turnover of more than 1 Million RMB p.a.
- Security deposit of 150-300 thousand RMB depending on your product category
- Annual platform fee of 50-60 thousand RMB depending on your product category as well as a commission fee up to 5% as well as 1% transaction fee for ALI PAY

Case Study – KLAPP Cosmetics

Build-up and develop domestic sales and e-commerce channels

KLAPP
COSMETICS

MCP Mandarin
Capital
Partners

Chinese offline distributor

- Contract with Chinese off-line distributor with limited topline evaluation in past years
- Difficulties to develop online channels due to lack of experience
- Lack of capital and Chinese market knowledge in order to sufficient support distributor

Re-negotiated existing contracts and selected Online Partner

Step 1

- Renegotiated contract with offline distributor lined up on new strategy (focus on the east cost tier 1 cities and gradually move to tier 2, 3 and 4 cities for deep Chinese market penetration)
- Run pitch with several TPs and selected ideal partner
- Negotiated 3 years contract with leading Chinese TP to set up

Develop Chinese E-commerce channels via cross boarder platforms

Step 2



Set-up of a Wholly Owned Foreign Enterprise (WFOE)

Develop Chinese domestic market channels online and offline

Step 3



Develop Chinese Social Commerce Platform channels

Step 4



Develop Local Chinese E-Commerce Platform & Reseller Platforms /CRM

Step 5



2015-2019

Since 2020

2021

2022

2024

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