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CASE STUDY: Joint Venture Establishment

Our client was a European lingerie and swimsuit brand selling through retailers. With demand for its products in China growing quickly, our Client established a Branch in Shanghai to commercialize through a franchising network (initially represented by three shops), as well as to control the quality of those products designed in Europe but locally made. However, our Client soon discovered that differently from Europe, in China lots of complementary accessory were usually distributed through the same channel/shops; those were not currently produced by our Client, who preferred to focus on its core traditional portfolio where it maintained a distinct design identity and expertise.
Therefore, in order not to loose the potential synergies and be able to provide a comprehensive offer, our Client decided to establish a Joint Venture with a local company that produced the other accessories it was lacking. We were asked to assist throughout the whole process, including target search, due diligence, evaluation and negotiation support.

Following a systematic search and screening process, we reduced a long list of potential Joint-Venture targets down to a short list of desirable targets, and selected one with which to begin negotiations. However, several difficulties soon emerged:

- The managers of the target company had very little understanding of these deals
- The target company's CEO was used to making rapid decisions without necessary asking for permission/suggestions from other stakeholders
- There was a serious risk of misbehavior in terms of accounting practices
- It was unclear whether the company actually owned some of the patents and brands they wanted to be paid for
- It was unclear whether the commercial success of the company was sustainable or was due to copy-cat practices

After conducting a deeper investigation, we found out that a long history of financial transactions had been excluded from the official financial statements, to avoid paying taxes. The solution was therefore the following: the target company agreed to undergo a restructuring process, by establishing a new entity in Joint Venture with our client, where certain selected assets were transferred and subject to evaluation by using international standard practices. In the meantime, the two companies agreed to establish a contractual agreement, granting our Client immediate access to the target company's product portfolio.