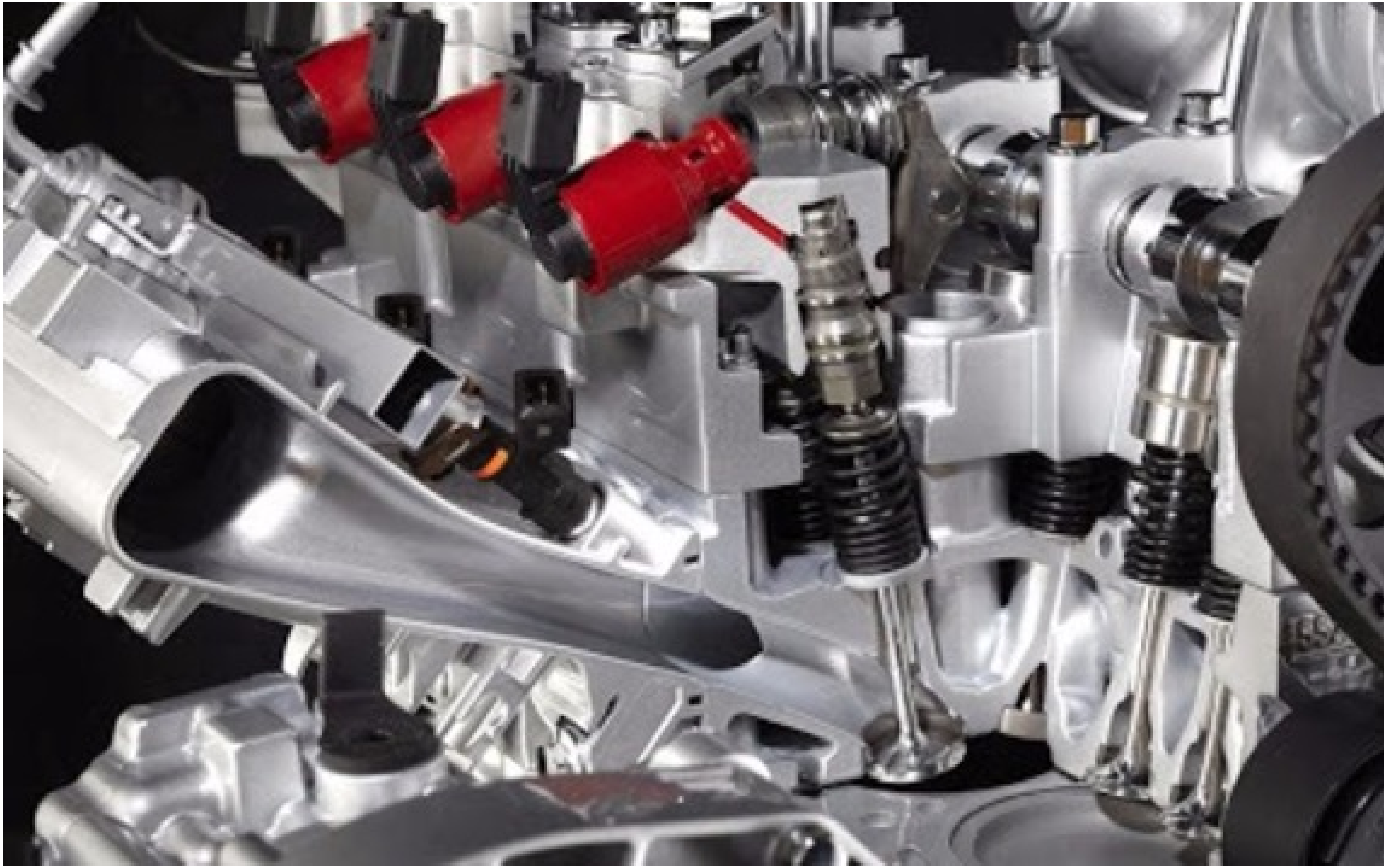
# Mandarin sees Chinese future for Italian machinist



Justin Niessner

15 March 2016

**When Italian machine parts manufacturer Marval came to Mandarin Capital Partners with an investment opportunity, the private equity firm had been quietly enhancing its profile on a canvass of multiple macro developments.**

Mandarin Capital saw an opportunity to benefit from the economic and political uncertainty in Italy, which in recent years had devalued some of the country's top industrial performers versus peers in Germany. But perhaps more interestingly, the private equity firm identified in Marval a trend among European companies whereby remote Chinese divisions have begun to outshine the founding businesses back home.

Indeed, Marval's Chinese subsidiary, ChangSha XiMai Mechanical Construction, boasts more than twice the number employees as there are on the parent company's Italian properties with 244. In the 2014 financial year, ChangSha generated sales of EUR41.3 million ($45.9 million) compared to the EUR26.8 million in the two Italy-based plants.

As part of the deal that will see Mandarin Capital Partners II - which closed late last year on just under EUR200 million - take a 27% stake in Marval for a total commitment of up to EUR18 million, the company will continue this China transition. Leadership will transfer to ChangSha and a China IPO is expected within three years. The investment is said to value Marval at 4-5 times EBITDA.

"You pass a tipping point where you cannot manage a growing Chinese business from faraway headquarters," says Alberto Forchielli, managing partner at Mandarin Capital. "If you want to keep going, make money and exit, you need to be determined to move the brain from Europe to China."

He adds that this strategy is particularly inviting to Western companies that operate in niche segments, typically characterized by levels of quality and customization and low volumes. As a precision engine components manufacturer, Marval fit the bill perfectly.

"The Chinese market would value a company like Marval more highly than Western financial markets because there's a greater appreciation for technology," Forchielli says. "And as a Chinese company, it will be able to grow much faster."

Mandarin Capital's commitment to Marval comprises about $13.3 million in capital investment and purchased shares as well as a pledge to inject a further $6.7 million to support further business development needs. Working with current owner and CEO Nicola Marchiando, the GP will also leverage its networking channels to help the company expand both organically and through acquisitions in China. In addition to expansion within China, there are opportunities to push into untapped European markets.

Forchielli estimates that Marval is already larger in value than the average small and medium-sized enterprise (SME) listed in Shenzhen and he believes a domestic IPO could deliver an IRR or up to 30%. "I know I can always do a trade exit - that company is like a check, it is money in the bank," Forchielli says. "I know I can always sell it. But I want to aim for something better."