

## How Carlyle Creates Value

Deep industry expertise. Global scale and presence. Extensive network of Operating Executives. And a wealth of investment portfolio data; we call it The Carlyle Edge. These are the four pillars of Carlyle's value creation model. By leveraging these core capabilities and resources—Carlyle has established a 30-year overall track record of investing in companies, working to make them better and serving our investors' needs.



Carlyle professionals worked closely with Yashili's management team on a number of key strategic initiatives to rebuild its brand image following the melamine incident in China, and facilitate the company's internationalization.

### About Yashili and the Transaction

Carlyle acquired a 29.2% stake in Guangdong Yashili Group Co., Ltd., one of China's largest infant formula companies, in September 2009 and July 2010 through two tranches of investment. Carlyle's stake was diluted to 24.4% post the company's IPO in Hong Kong in 2010. In August 2013, Carlyle exited the investment through a sale to China Mengniu Dairy Company Limited, the No. 1 liquid milk manufacturer and the second largest dairy product manufacturer in China.

Headquartered in Chaozhou, Guangdong Province, Yashili has more than 6,200 employees and manages a nationwide sales network. With a range of product offerings from milk powder, cereal, soy milk to rice powder, Yashili is committed to product quality and corporate integrity for sustainable growth, while building its capabilities in quality control and R&D. The company has achieved industry-wide quality standards, such as ISO9001 and HACCP, as well as certifications by various national authorities, including the China Food Safety Committee and China's General Administration of Quality Supervision, Inspection and Quarantine.



## AT A GLANCE

**Guangdong Yashili Group Co., Ltd.**

**Industry:** Consumer & Retail

**Region/Country:** China

**Fund:** Carlyle Asia Partners III

**Acquired:** September 2009

**Status:** Exited

### Key Value Creation Metrics

- Strengthened the management team by recruiting experienced talent
- Improved corporate governance through a Hong Kong listing and implemented a management stock option plan
- Rebuilt the company's brand image following the melamine incident by strategically switching to 100% imported raw milk powder
- Enhanced food safety protocols by introducing the Food Quality and Safety Advisory Committee comprising international and domestic experts

# HK\$2,705 million

With Carlyle's support, Yashili successfully executed an IPO on the Hong Kong Stock Exchange in November 2010, raising approximately HK\$2,705 million.

#### About The Carlyle Group

The Carlyle Group (NASDAQ: CG) is a global investment firm with deep industry expertise that deploys private capital across four business segments: Corporate Private Equity, Real Assets, Global Credit and Investment Solutions. With \$223 billion of assets under management as of June 30, 2019, Carlyle's purpose is to invest wisely and create value on behalf of its investors, portfolio companies and the communities in which we live and invest. The Carlyle Group employs more than 1,775 people in 33 offices across six continents.

Set forth herein is a selected case study that Carlyle believes illustrate its ability to create value at, and improve the performance of, its portfolio companies. The performance of these portfolio companies is not necessarily indicative of the performance of all of Carlyle's portfolio companies. The information provided herein is for informational purposes only and is not and may not be relied on in any manner as advice or as an offer to sell or a solicitation of an offer to buy interests (the "Interests") in any fund or other product sponsored or managed by T.C. Group, L.L.C. or any of its affiliates (together, "Carlyle"). Any such offer or solicitation shall only be made pursuant to a final confidential private placement memorandum (as amended and/or restated from time to time) and the applicable fund's subscription documents, which will be furnished to qualified investors on a confidential basis at their request for their consideration in connection with such offering.

- Explored upstream investment opportunities overseas, which resulted in a major investment to build an infant formula production facility in New Zealand

#### Rebuilding Brand Image to Restore Consumer Confidence

Like many infant formula companies in China, Yashili faced challenges following the nationwide melamine incident in 2008. With strong determination to restore consumer confidence in the industry, Yashili's management worked closely with Carlyle to rebuild its brand image. In addition to introducing stringent standards and strict quality control, Yashili made a major strategic decision to procure 100% imported raw milk powder from high-quality overseas dairy sources and established product testing collaborations with top-tier international laboratories to strengthen product quality and safety control. The Carlyle-Yashili partnership set a good example for the industry to rigorously transform itself and elevate its product quality to international standards.

#### Establishing Food Quality and Safety Advisory Committee to Implement Industry Best Practices

With Carlyle's assistance, Yashili established the Food Quality and Safety Advisory Committee (FQSAC), the first of its kind in the Chinese dairy industry. The committee, chaired by former U.S. Food and Drug Administration director Dr. Robert E. Brackett, comprises individuals from major academic institutions and industry associations who have extensive experience working with authoritative regulatory bodies around the world.

With FQSAC's strategic guidance on policies and procedures, Yashili further improved the safety and quality of its products, implemented product quality control protocols and introduced enhanced internal control systems. For example, Yashili's production baseline audit was conducted by certified auditors from an American auditing company NSF International in accordance with the Safe Quality Food Standard (SQF); and its product testing was also carried out by certified labs in the US, New Zealand and Hong Kong.

#### Strengthening Management Team to Lead Yashili Towards Further Success

Carlyle worked with Yashili to strengthen the management team by recruiting experienced talent to lead the company towards further growth and success. Carlyle helped recruit a Chief Quality Advisor to oversee implementation of product quality control protocols; a Chief R&D Officer to lead new product development; and a Chief Financial Officer to strengthen internal control and systemize financial reporting practices. Carlyle also helped formulate a management incentive plan to align long-term shareholder value.

#### Executing Successful IPO and Investing Overseas

With Carlyle's support, Yashili successfully executed an IPO on the Hong Kong Stock Exchange in November 2010, raising approximately HK\$2,705 million. The listing helped strengthen Yashili's corporate governance and provided the company with new capital to expand production capacity and fund business expansion. Following the IPO, Carlyle continued to assist the management team in exploring upstream investment opportunities overseas, which resulted in a major investment to build an infant formula production facility in New Zealand, providing greater assurance to the supply and quality of Yashili's products as well as potential for further product premiumisation.