M&A 2014 Mid Year Review and Outlook Press Briefing

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**Foreword – explanation of data shown in this presentation (1 of 2)**

- The data presented is based on information compiled by Thomson Reuters, ChinaVenture and PwC analysis unless stated otherwise.
- Thomson Reuters and ChinaVenture record announced deals. Some announced deals will not go on to complete.
- The deal volume figures presented in this report refer to the number of deals announced, whether or not a value is disclosed for the deal.
- The deal value figures presented in this report refers only to those deals where a value has been disclosed (referred to in this presentation as “disclosed value”).
- “Domestic” means China including Hong Kong and Macau.
- “Outbound” relates to mainland China company acquisitions abroad.
- “Inbound” relates to overseas company acquisitions of Domestic companies.
- “Private Equity deals” or “PE deals” refer to financial buyer deals with deal value over US$10mn and/or with undisclosed deal value but invested by PEs.
Foreword – explanation of data shown in this presentation (2 of 2)

- “VC deals” refer to financial buyer deals with deal value less than US$10mn and/or with undisclosed deal value but invested by VCs
- “Strategic buyer” refers to corporate buyers (as opposed to financial buyers) that acquire companies with the objective of integrating the acquisition in their existing business
- “Financial buyer” refers to investors that acquire companies with the objective of realizing a return on their investment by selling the business at a profit at a future date and mainly, but not entirely, comprise PE and VC funds
- In order to exclude foreign exchange impact, deal values from previous years were adjusted based on 1H2014 average Rmb/US$ exchange rate
Key messages
Key messages – China M&A in first half of 2014 (1 of 3)

**Overall**
- China M&A value soared to US$183 billion in the first half of 2014.
- The number of deals remained broadly flat overall compared to the second half of 2013.
- But deal sizes were bigger with 30 deals larger than US$1 billion.

**Domestic and Foreign-Inbound Strategic**
- The value of strategic M&A in H114 remained close to the record highs seen in the second half of 2013 with a total of 15 deals greater than US$1bn in size.
- Investment in real estate continued to grow as Chinese property developers sought access to capital markets through back-door listings; there were also a number of sizeable technology (including internet – led by “BAT”) and FS deals.
- The value of foreign inbound M&A reached a record high in recent years as multinationals looked to refine their China strategies and increase their local China presence.
Private Equity

- New fundraising by PE investors continued at healthy levels, though Renminbi denominated fundraising has declined
- PEs are becoming more successful in finding larger deals; the value of new investments hit a record high in H114 with 9 deals bigger than US$500 million – also a record
- As anticipated, technology and consumer focussed businesses have been important for PE, but – as for strategic investors – we have also seen an increase in deals related to real estate including commercial and logistics-related property
- In terms of exits, as expected there has been a rebound in PE-backed IPOs, but the level of trade sales and secondary exits is somewhat lower than we had anticipated
- Hong Kong and New York bourses have shown healthy growth with some IPOs switched offshore in response to difficulties in the A-share markets
- But the cumulative overhang of new investments compared to exits remains the number one challenge for the PE industry
Key messages – China M&A in first half of 2014 (3 of 3)

**China Outbound**

- China outbound M&A continued to track close to the somewhat elevated levels seen in the second half of 2013, but without touching new highs overall; there were 11 deals greater than US$1 billion, but no mega-deals in the period.

- POEs continue to be an important source of outbound activity - deal values for POE outbound M&A increased to levels bettered only once previously: SOE outbound growth was slower, perhaps due to more domestic focus on SOE-reforms.

- Telecommunications, technology and real estate were important sectors for POEs going overseas; POEs are seeking new markets for growth, technologies to bring back to China and diversified investment opportunities.

- Developed markets in the US and Europe continue to attract investment from Chinese buyers; in particular they meet many of the investment criteria of POEs.
Overall China M&A
The value of China M&A soared to US$183 billion in the first half of 2014

Total deal volume and value, from 1H11 to 1H14

|               | 1H11   | 2H11   | 1H12   | 2H12   | 1H13   | 2H13   | 1H14   | % Diff
|---------------|--------|--------|--------|--------|--------|--------|--------|--------
| Strategic buyers |        |        |        |        |        |        |        |        |
| domestic      | 1,570  | 56.9   | 1,692  | 64.2   | 1,177  | 35.9   | 1,490  | 54.6   |
| foreign       | 267    | 8.4    | 215    | 9.4    | 152    | 4.1    | 134    | 5.3    |
| Total Strategic buyers | 1,837 | 65.3   | 1,907  | 73.5   | 1,329  | 40.0   | 1,624  | 59.8   |
| Financial buyers |        |        |        |        |        |        |        |        |
| Private Equity | 239    | 17.6   | 263    | 15.3   | 164    | 8.9    | 168    | 15.2   |
| VC            | 533    | 1.1    | 370    | 0.8    | 229    | 0.5    | 253    | 0.5    |
| Total Financial buyers | 772  | 18.7   | 633    | 16.1   | 384    | 9.4    | 421    | 15.7   |
| China mainland Outbound |        |        |        |        |        |        |        |        |
| SOE           | 21     | 5.0    | 27     | 29.0   | 26     | 16.6   | 22     | 24.2   |
| POE           | 79     | 3.4    | 79     | 6.3    | 79     | 8.2    | 73     | 18.0   |
| Total China mainland Outbound | 100  | 8.4    | 106    | 35.3   | 96     | 24.8   | 95     | 42.3   |
| HK Outbound   | 94     | 4.5    | 89     | 3.9    | 67     | 1.9    | 99     | 11.3   |
| Total         | 2,803  | 96.9   | 2,735  | 128.8  | 1,876  | 76.2   | 2,239  | 129.0  |

* Excluding Citic Pacific’s acquisition of Citic Limited with value of US$36.6bn

Source: ThomsonReuters, ChinaVenture and PwC analysis
The number of deals remained broadly flat overall compared to the second half of 2013 ...

Deal volume by main category

Source: ThomsonReuters, ChinaVenture and PwC analysis
... But deal sizes were bigger with 30 deals larger than US$1 billion

Deal value by main category

Source: Thomson Reuters, ChinaVenture and PwC analysis
Strategic buyers
The value of strategic M&A in 1H14 remained close to the record highs seen in the second half of 2013 with a total of 15 deals greater than US$1bn in size.

Strategic buyer deals, from 1H11 to 1H14

Source: ThomsonReuters, ChinaVenture and PwC analysis
Investment in real estate continued to grow as Chinese property developers sought access to capital markets through back-door listings; there were also a number of sizeable technology (including internet – led by “BAT”) and FS deals.

Strategic buyer deal value by industry sector

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Source: Thomson Reuters, China Venture and PwC analysis
The value of foreign inbound M&A reached a record high in recent years as multinationals looked to refine their China strategies and increase their local China presence.

Foreign strategic buyer deal value by region of origin

Source: ThomsonReuters, ChinaVenture and PwC analysis

* Includes OCBC’s US$5bn acquisition of Wing Hang Bank
PE/VC deals
New fundraising by PE investors continued at healthy levels, though Renminbi denominated fundraising has declined.

**PE/VC fund raising for China investment**

* Excludes global funds investing in China

Source: AVCJ and PwC analysis
PEs are becoming more successful in finding larger deals; the value of new investments hit a record high in 1H14 with 9 deals bigger than US$500 million – also a record

Private Equity deals, from 1H11 to 1H14

Source: ThomsonReuters, ChinaVenture and PwC analysis
As anticipated, technology and consumer focussed businesses have been important for PE, but – as for strategic investors – we have also seen an increase in deals related to real estate including commercial and logistics-related property.

Source: ThomsonReuters, ChinaVenture and PwC analysis
In terms of exits, as expected there has been a rebound in PE-backed IPOs, but the level of trade sales and secondary exits is somewhat lower than we had anticipated.

PE/VC backed deal exit volume by type

Source: AVCJ and PwC analysis
Hong Kong and New York bourses have shown healthy growth with some IPOs switched offshore in response to difficulties in the A-share markets.
But the cumulative overhang of new investments compared to exits remains the number one challenge for the PE industry.

PE/VC deal volume vs. No. of exits

Source: ThomsonReuters, ChinaVenture and PwC analysis
China mainland outbound
China outbound M&A continued to track close to the somewhat elevated levels seen in the second half of 2013, but without touching new highs overall; there were 11 deals greater than US$1 billion, but no mega-deals in the period.

China mainland outbound deals, from 1H11 to 1H14

Source: Thomson Reuters, ChinaVenture and PwC analysis
POEs continue to be an important source of outbound activity - deal values for POE outbound M&A increased to levels bettered only once previously: SOE outbound growth was slower, perhaps due to more domestic focus on SOE-reforms

Strategic buyer deals, from 1H11 to 1H14

Source: ThomsonReuters, ChinaVenture and PwC analysis
Telecommunications, technology and real estate were important sectors for POEs going overseas; POEs are seeking new markets for growth, technologies to bring back to China and diversified investment opportunities.

China mainland outbound deals by industry sector
– By value of deals (US$ billion), 1H14 vs. 2H13

Source: ThomsonReuters, ChinaVenture and PwC analysis
Developed markets in the US and Europe continue to attract investment from Chinese buyers; in particular they meet many of the investment criteria of POEs.
Outlook
**Overall**

- The healthy trends in China M&A will continue into the second half of 2014
- **Drivers for M&A activity include:**
  - Growth in domestic M&A with SOE reform a key source of larger transactions
  - POE-led outbound M&A; and
  - An active PE market, including exit-related activity

**Key industry sectors**

- Technology, especially internet
  - BAT-led, both domestically and outbound;
  - Looking to expand ecosystems, acquire user traffic, acquire new business models, and improve user experience;
  - Increasingly centred around mobile, location-based services and social network-services; and
  - Hardware deals are largely outbound as Chinese companies move up the value chain
Outlook – the next six to twelve months (2 of 4)

Key industry sectors (continued)

- Financial services:
  - Inbound interest in P&C insurance and money lenders (leasing, micro-finance, guarantee companies)
  - Outbound activity around banks, insurance, asset management and leasing targets for brand differentiation and product enhancement
  - Many Chinese institutions are refining their overseas expansion strategy and are increasingly setting up platforms in Hong Kong to do this

- Real estate:
  - Developers seeking access to capital markets through back door listings;
  - Interest in commercial and logistics-related property, less so residential;
  - Some distressed transactions; and
  - Outbound
Outlook – the next six to twelve months (3 of 4)

Domestic and Foreign-Inbound Strategic

- Domestic M&A will show steady single digit growth driven by:
  - Continuing consolidation in many industries to remove excess capacity;
  - SOE reforms – which will lead to some large transactions;
  - A-share listed companies looking for inorganic growth; and
  - Back-door listings in response to difficulties in achieving new IPOs

- Technology (especially internet), FS and Real Estate are hot sectors

China Outbound

- POEs will continue to lead growth in China outbound chasing:
  - New markets for growth;
  - Technologies, brands and know how to bring back to China market; and
  - Diversified investments

- SOE outbound may slow a little, as many SOEs focus on domestic reform

- SOEs in particular are increasingly building presence in Hong Kong as a platform for future outbound activity
Outlook – the next six to twelve months (4 of 4)

Private equity

• PE activity will remain robust in the second half

• Trends in the market over the next six to twelve months will include:
  — More larger sized deals and buyouts;
  — PE involvement in outbound transactions;
  — PE participation in SOE reforms as a source of diversified capital;
  — Deals involving A-share listed companies, both as targets and as buyers of PE held assets; and
  — More exit activity from IPOs, strategic trade sales and – eventually – secondary PE sales
Data compilation methodology
Key messages – disclaimer

Statistics contained in this presentation and the press release may vary from those contained in previous press releases. There are three reasons for this: ThomsonReuters and ChinaVenture historical data is constantly updated as deals are confirmed or disclosed; PricewaterhouseCoopers has excluded certain transactions which are more in the nature of internal reorganisations than transfers of control; and exchange rate data has been adjusted.

### Included Deals
- Acquisitions of private/public companies resulting in change of control
- Investments in private/public companies (involving at least 5% ownership)
- Mergers
- Buyouts/buyins (LBOs, MBOs, MBIs)
- Privatisations
- Tender offers
- Spinoffs
- Splitoff of a wholly-owned subsidiary when 100% sold via IPO
- Divestment of company, division or trading assets resulting in change of control at parent level
- Reverse takeovers
- Re-capitalisation
- Joint Venture buyouts
- Joint Ventures
- Receivership or bankruptcy sales/auctions
- Tracking stock

### Excluded Deals
- Property/real estate for individual properties
- Rumoured transactions
- Options granted to acquire an additional stake when not 100% of the shares has been acquired
- Any purchase of brand rights
- Land acquisitions
- Equity placements in funds
- Stake purchases by mutual funds
- Open market share buyback/retirement of stock unless part of a privatisation
- Balance sheet restructuring or internal restructuring
- Investments in greenfield operations
- Going private transactions
Thank you!

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