

M&A 2014 Mid Year Review and Outlook Press Briefing

26 August 2014

*David Brown, Transaction Services Leader, PwC China and Hong Kong
Christopher Chan, Advisory Partner, PwC China & Hong Kong*



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

- The data presented is based on information compiled by ThomsonReuters, 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*

Key messages – China M&A in first half of 2014 (2 of 3)

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

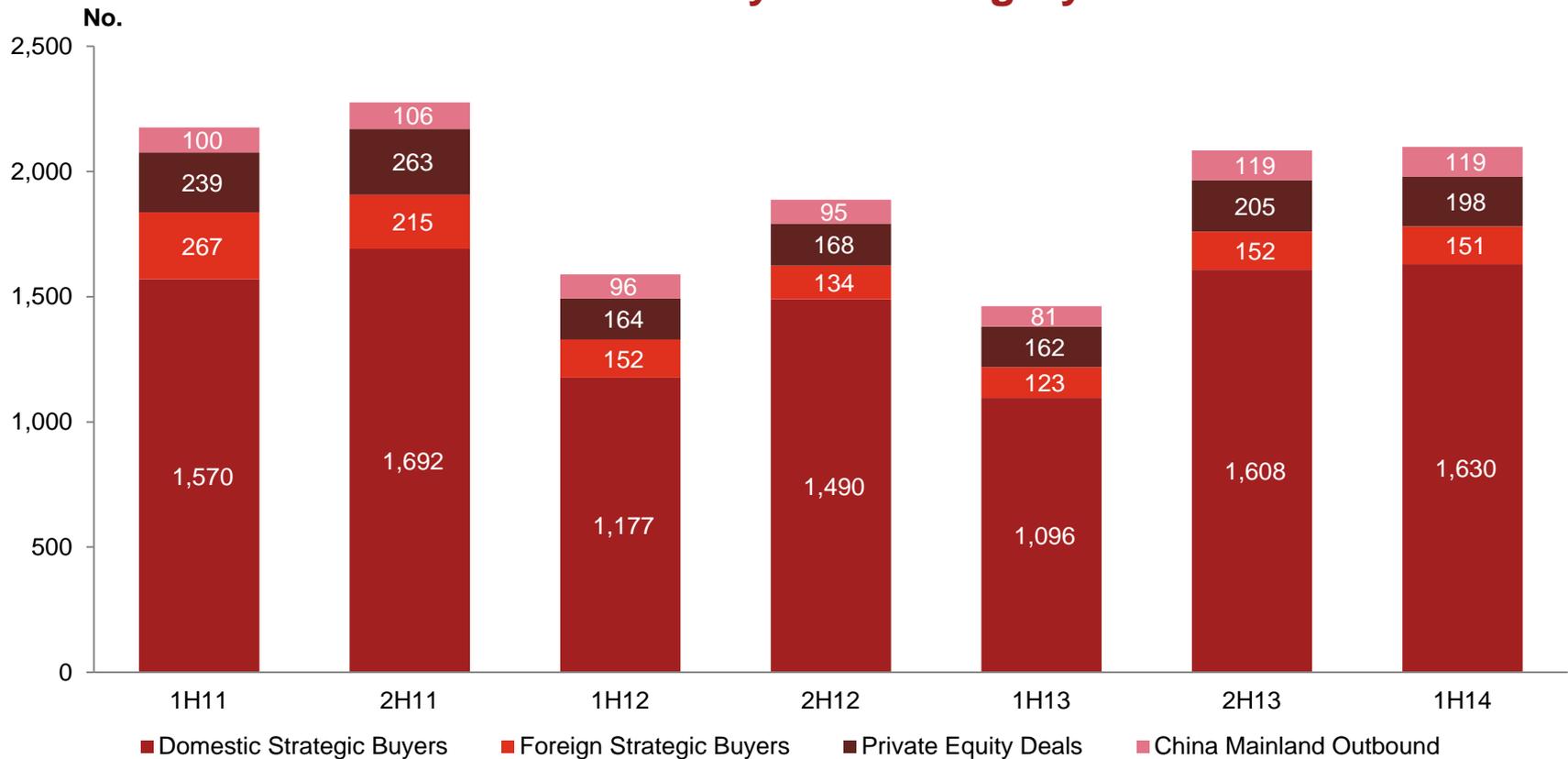
	1H11		2H11		1H12		2H12		1H13		2H13		1H14		% Diff volume 1H14 vs. 2H13	% Diff value 1H14 vs. 2H13
	Volume	Value (US\$bn)														
Strategic buyers																
domestic	1,570	56.9	1,692	64.2	1,177	35.9	1,490	54.6	1,096	50.1	1,608	99.5	1,630	98.4	1%	-1%
Foreign	267	8.4	215	9.4	152	4.1	134	5.3	123	6.8	152	8.5	151	13.0	-1%	52%
Total Strategic buyers	1,837	65.3	1,907	73.5	1,329	40.0	1,624	59.8	1,219	56.9	1,760	108.0	1,781	111.4	1%	3%
Financial buyers																
Private Equity	239	17.6	263	15.3	164	8.9	168	15.2	162	18.7	205	16.7	198	27.4	-3%	65%
VC	533	1.1	370	0.8	220	0.5	253	0.5	276	0.5	462	0.4	450	0.5	-3%	17%
Total Financial buyers	772	18.7	633	16.1	384	9.4	421	15.7	438	19.1	667	17.1	648	27.9	-3%	63%
China mainland Outbound																
SOE	21	5.0	27	29.0	26	16.6	22	24.2	28	18.3	31	19.0	35	20.9	13%	10%
POE	79	3.4	79	6.3	70	8.2	73	18.0	53	7.9	88	4.3	84	13.7	-5%	219%
Total China mainland Ou	100	8.4	106	35.3	96	24.8	95	42.3	81	26.2	119	23.3	119	34.6	0%	49%
HK Outbound	94	4.5	89	3.9	67	1.9	99	11.3	88	3.9	76	5.8	100	9.2	32%	59%
Total	2,803	96.9	2,735	128.8	1,876	76.2	2,239	129.0	1,826	106.1	2,622	154.2	2,648	183.1	1%	19%

* 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 ...

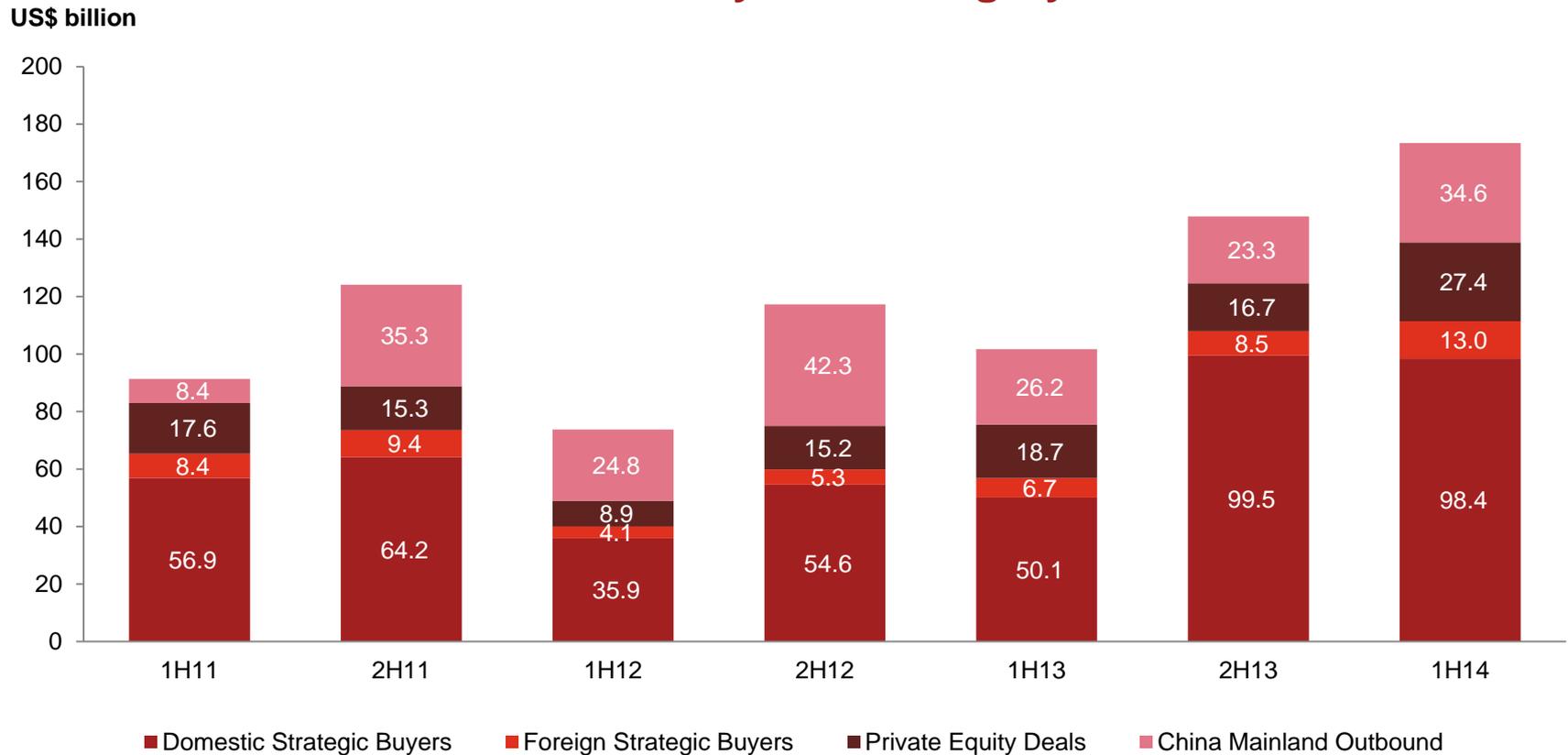
Deal volume by main category



Source: ThomsonReuters, ChinaVenture and PwC analysis

... But deal sizes were bigger with 30 deals larger than US\$1 billion

Deal value by main category

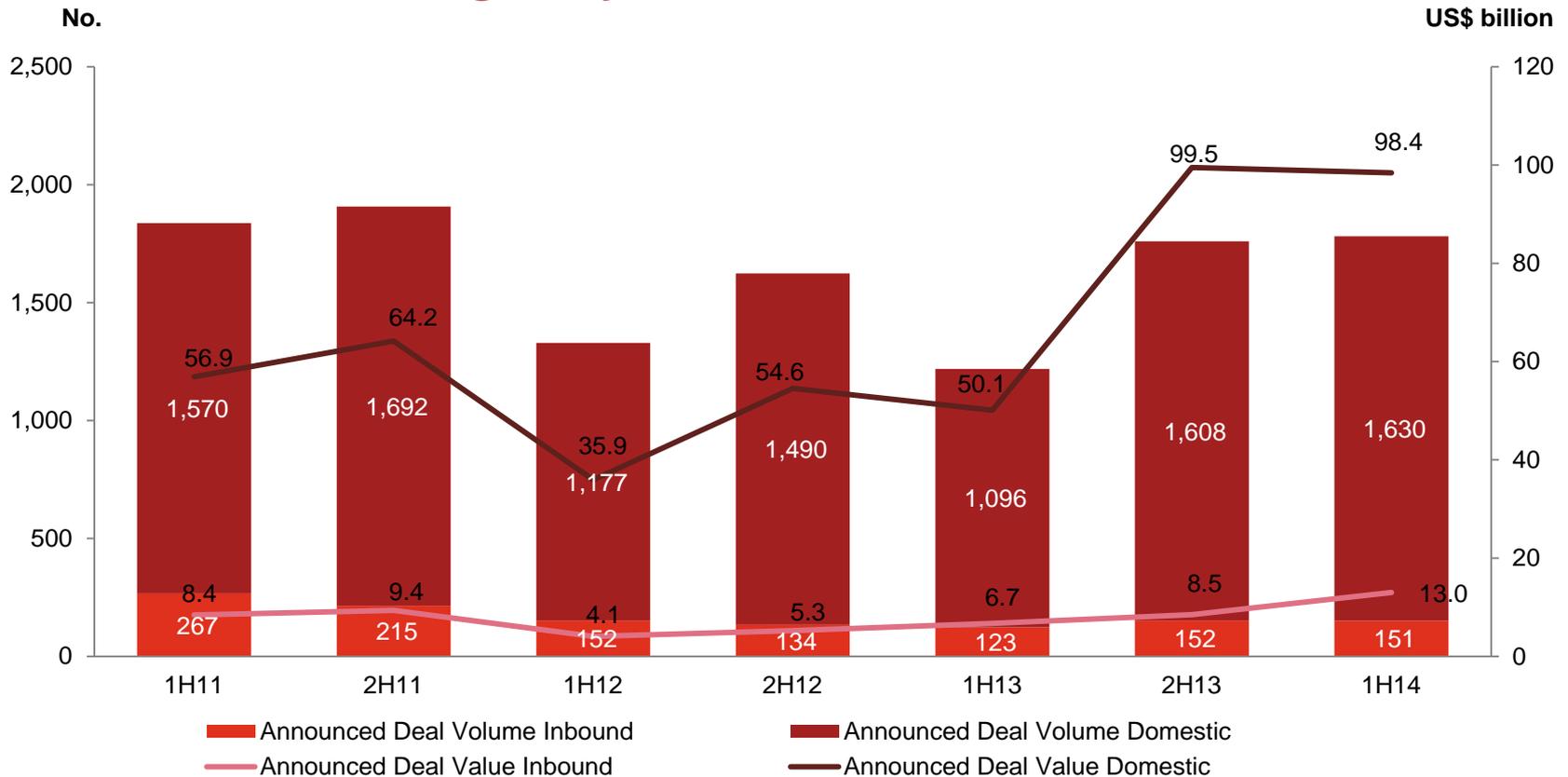


Source: ThomsonReuters, ChinaVenture and PwC analysis

Strategic buyers

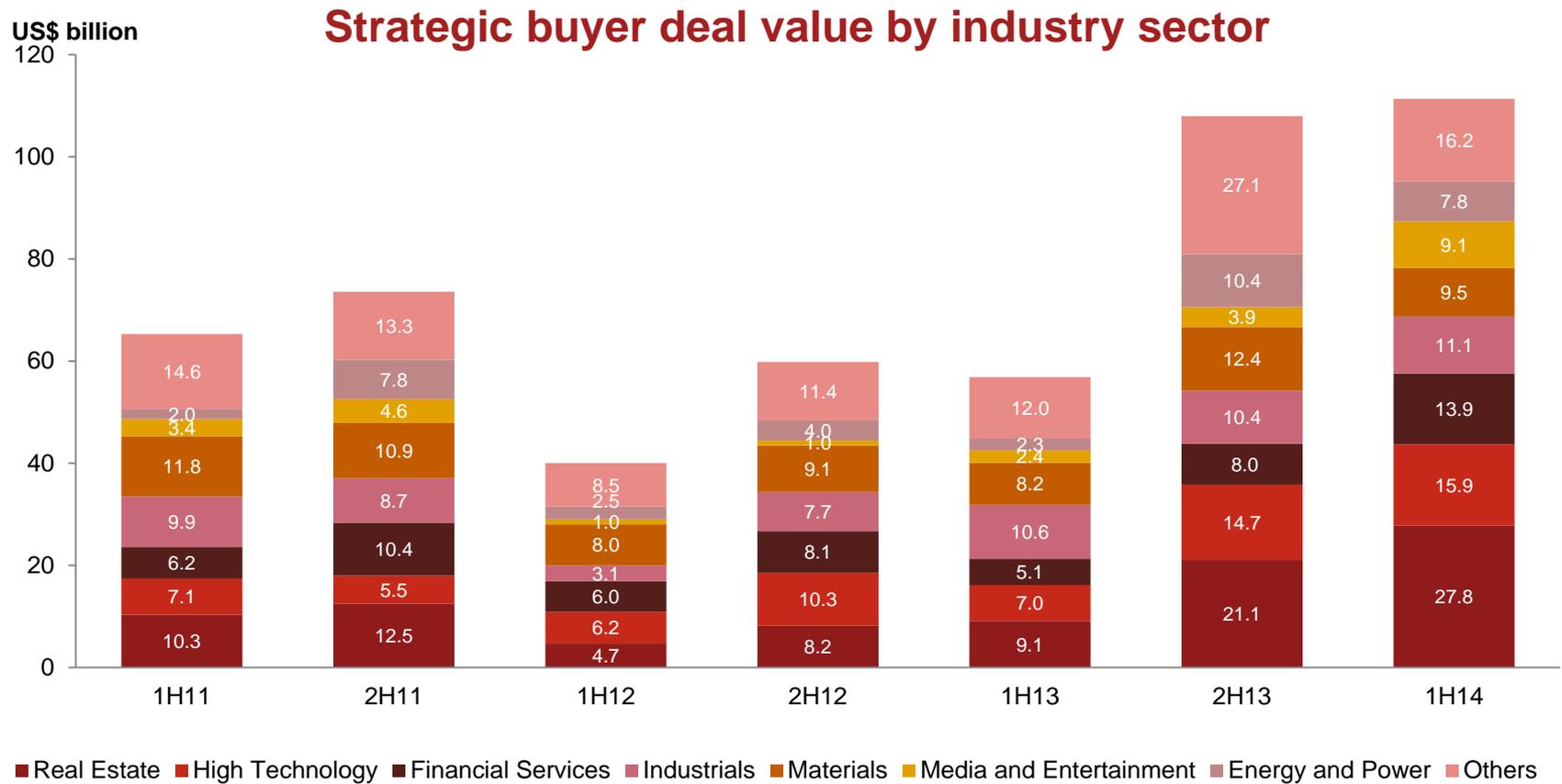
The value of strategic M&A in 1H14 remained close to the record highs seen in the second half of 2013 with a total of 15 deals greater than US\$1bn in size

Strategic buyer deals, from 1H11 to 1H14



Source: ThomsonReuters, ChinaVenture and PwC analysis

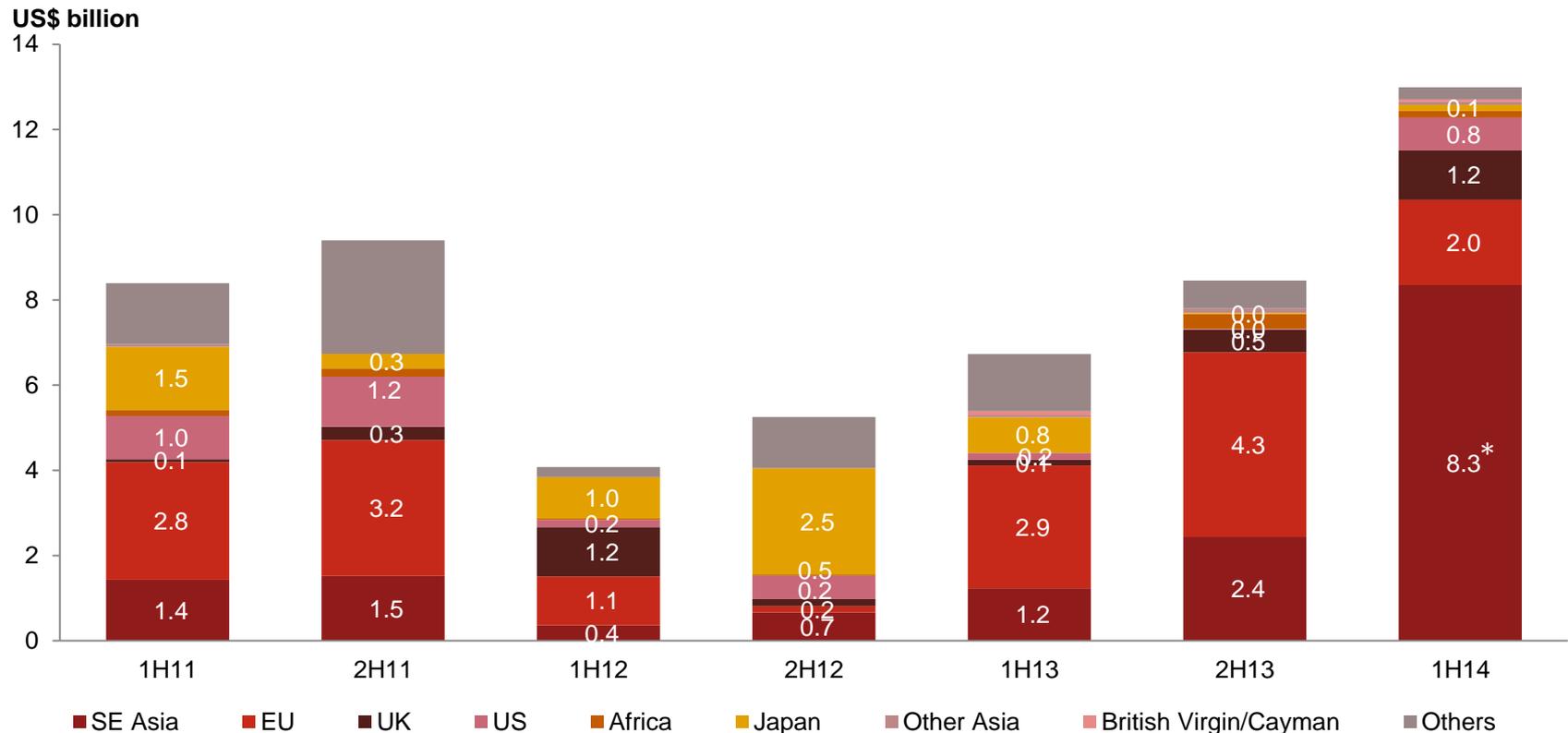
Investment in real estate continued to grow as Chinese property developers sought access to capital markets through back-door listings; there were also a number of sizeable technology (including internet – led by “BAT”) and FS deals



Source: ThomsonReuters, ChinaVenture 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



* Includes OCBC's US\$5bn acquisition of Wing Hang Bank

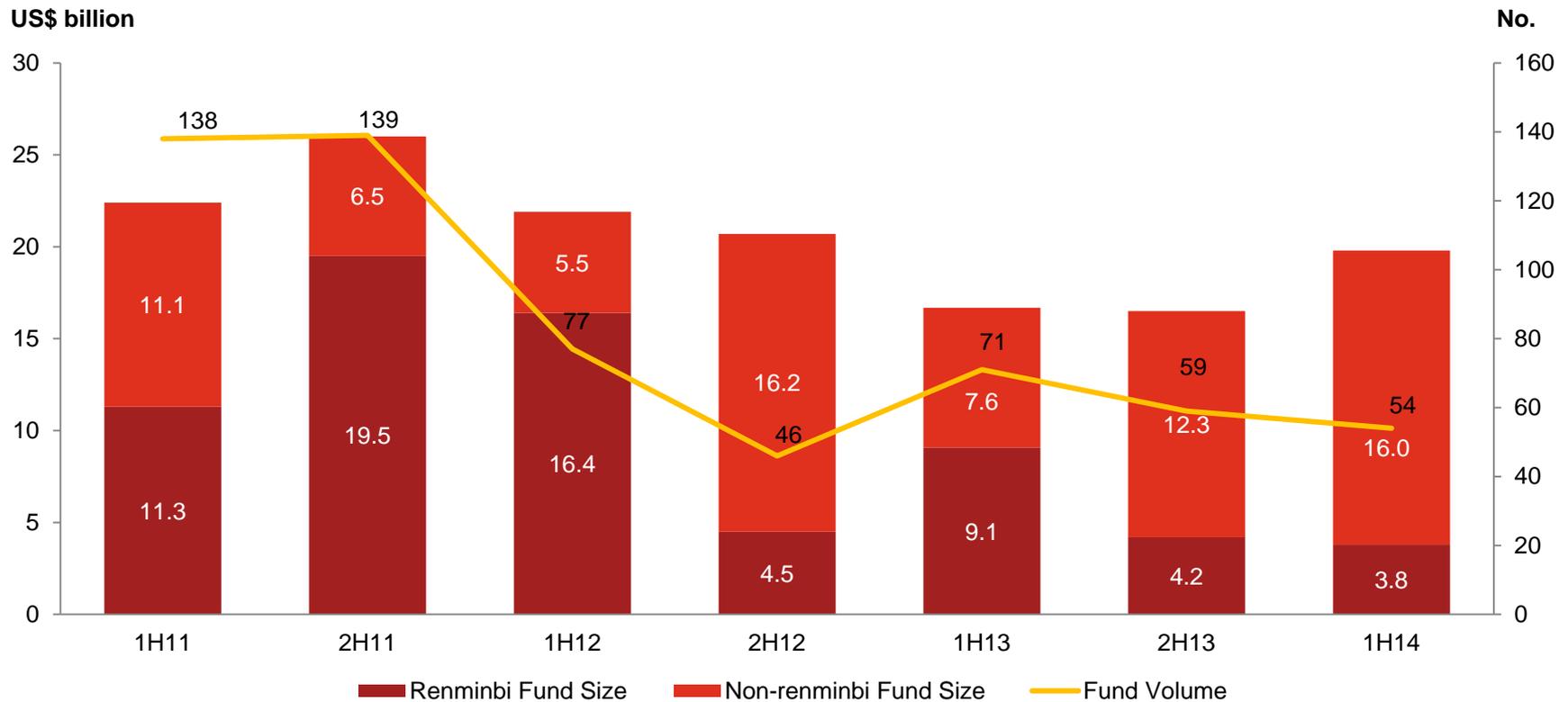
Source: ThomsonReuters, ChinaVenture and PwC analysis

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

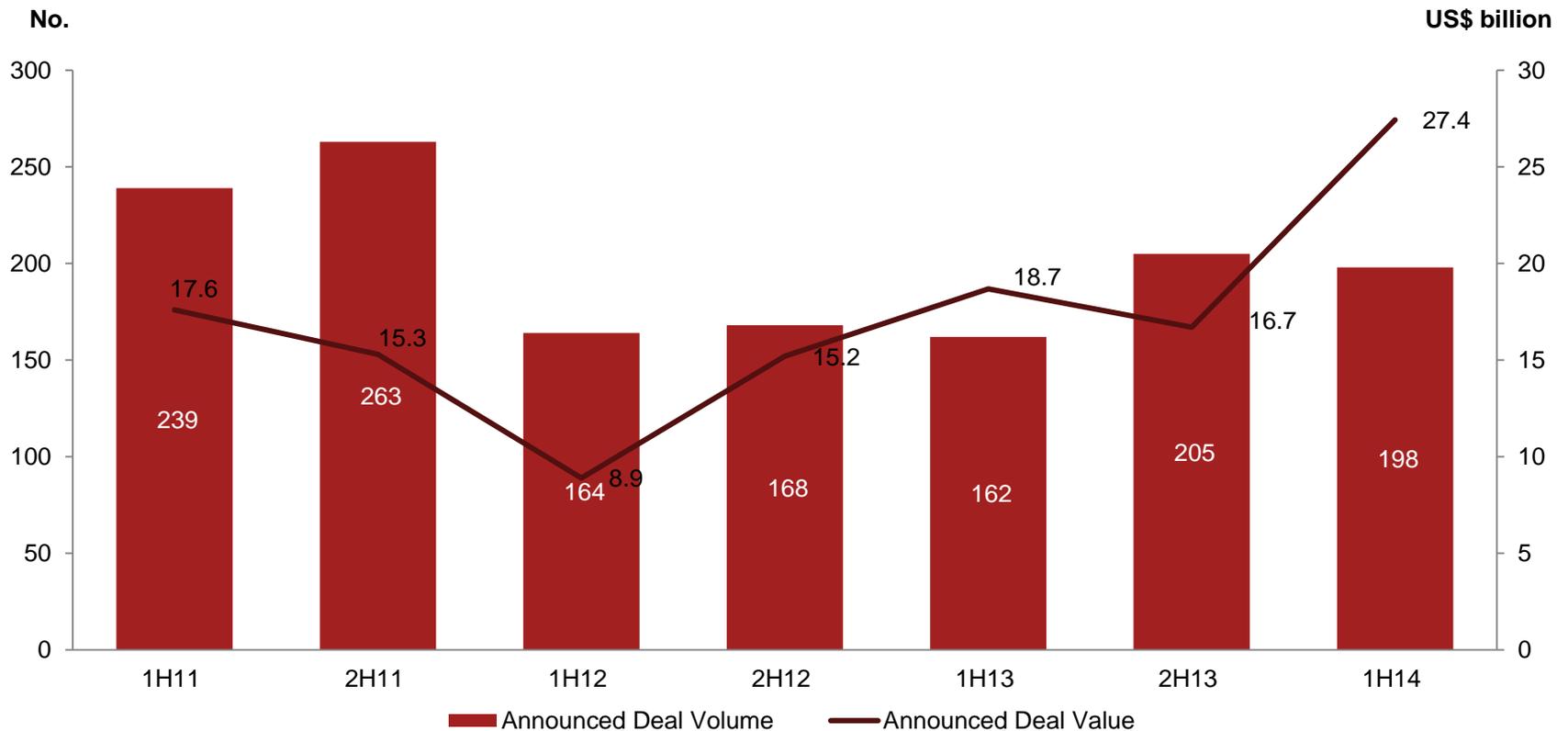
* Excludes global funds investing in China



Source: AVCJ and PwC analysis

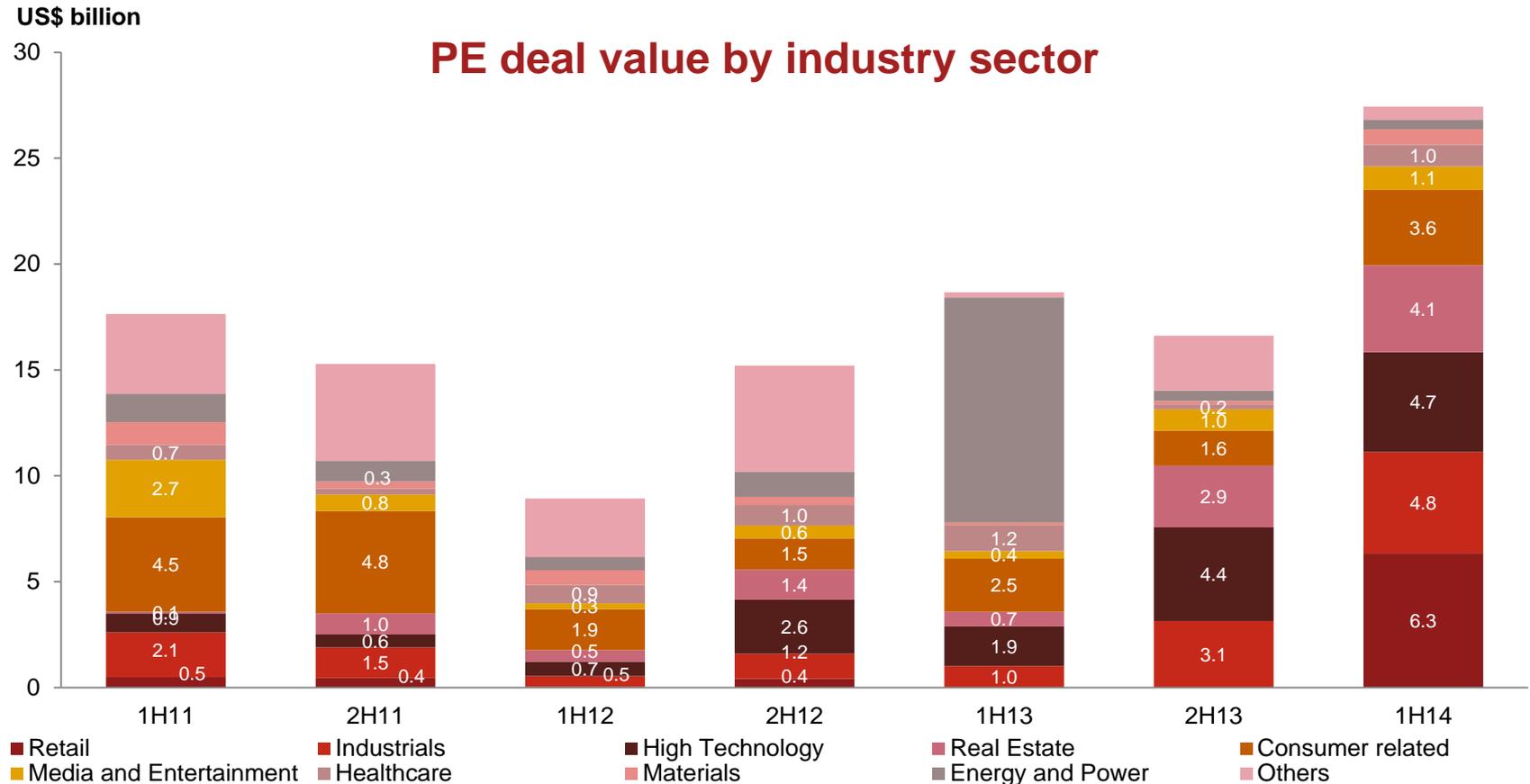
PEs are becoming more successful in finding larger deals; the value of new investments hit a record high in 1H14 with 9 deals bigger than US\$500 million – also a record

Private Equity deals, from 1H11 to 1H14



Source: ThomsonReuters, ChinaVenture and PwC analysis

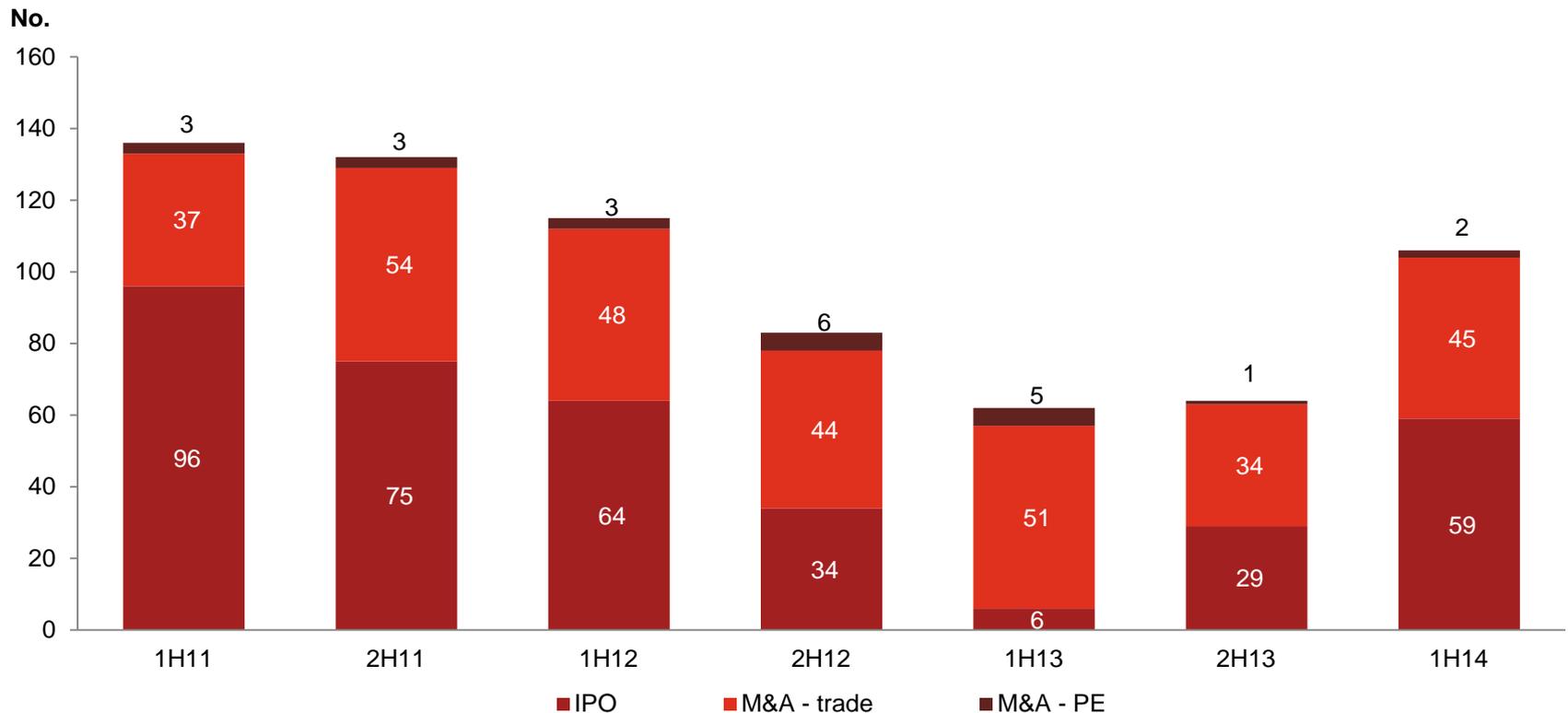
As anticipated, technology and consumer focussed businesses have been important for PE, but – as for strategic investors – we have also seen an increase in deals related to real estate including commercial and logistics-related property



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

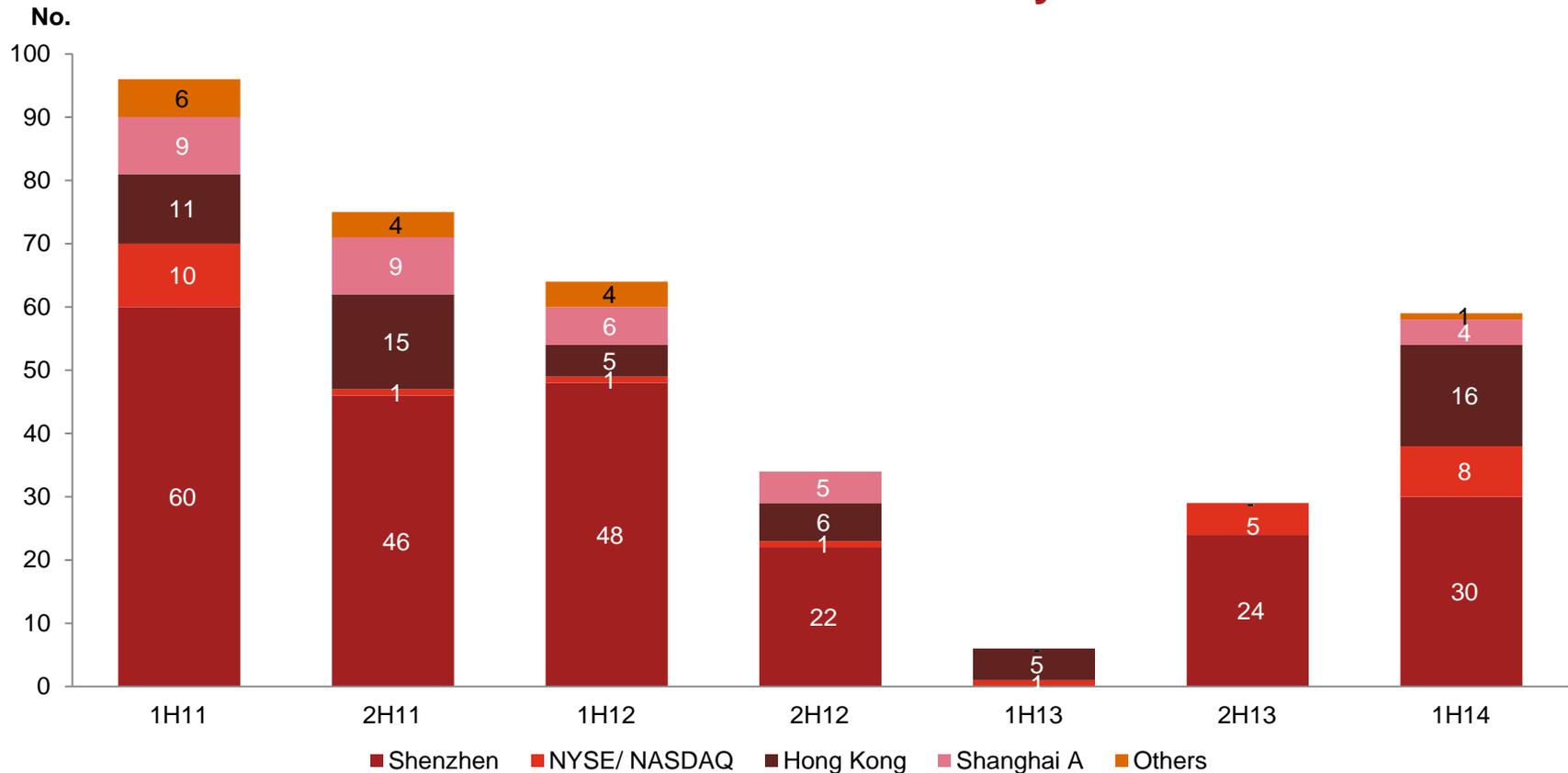
PE/VC backed deal exit volume by type



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

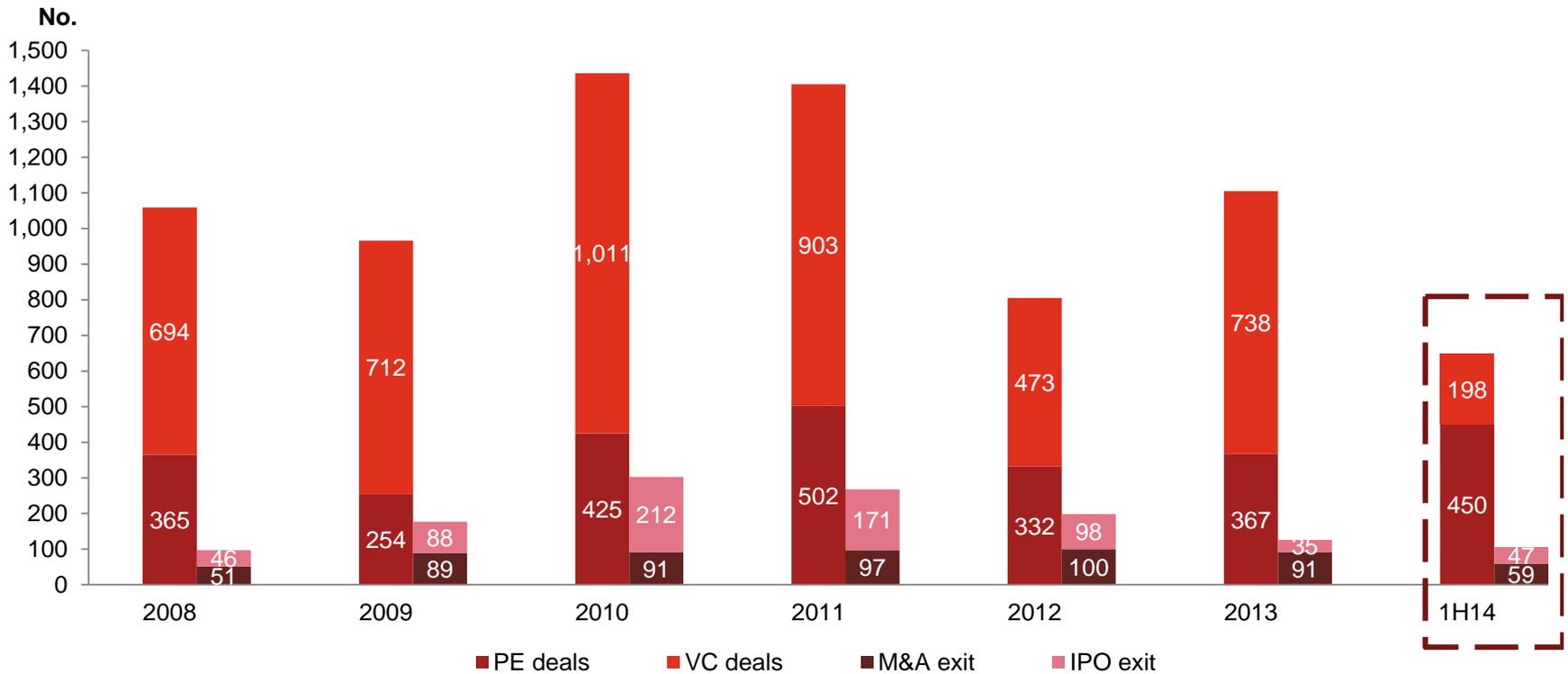
PE/VC backed IPO exit volume by bourse



Source: AVCJ and PwC analysis

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

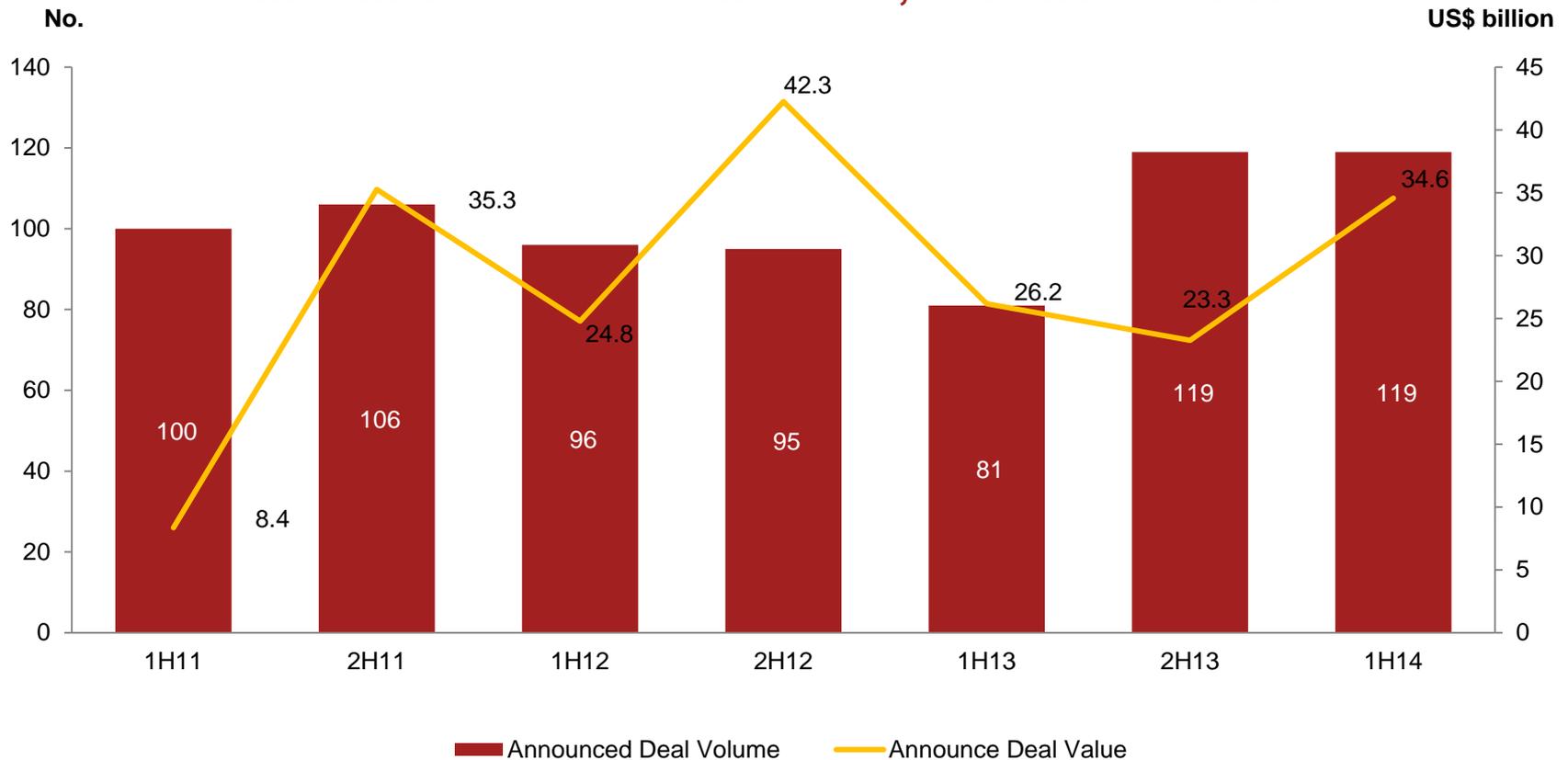


Source: ThomsonReuters, ChinaVenture and PwC analysis

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

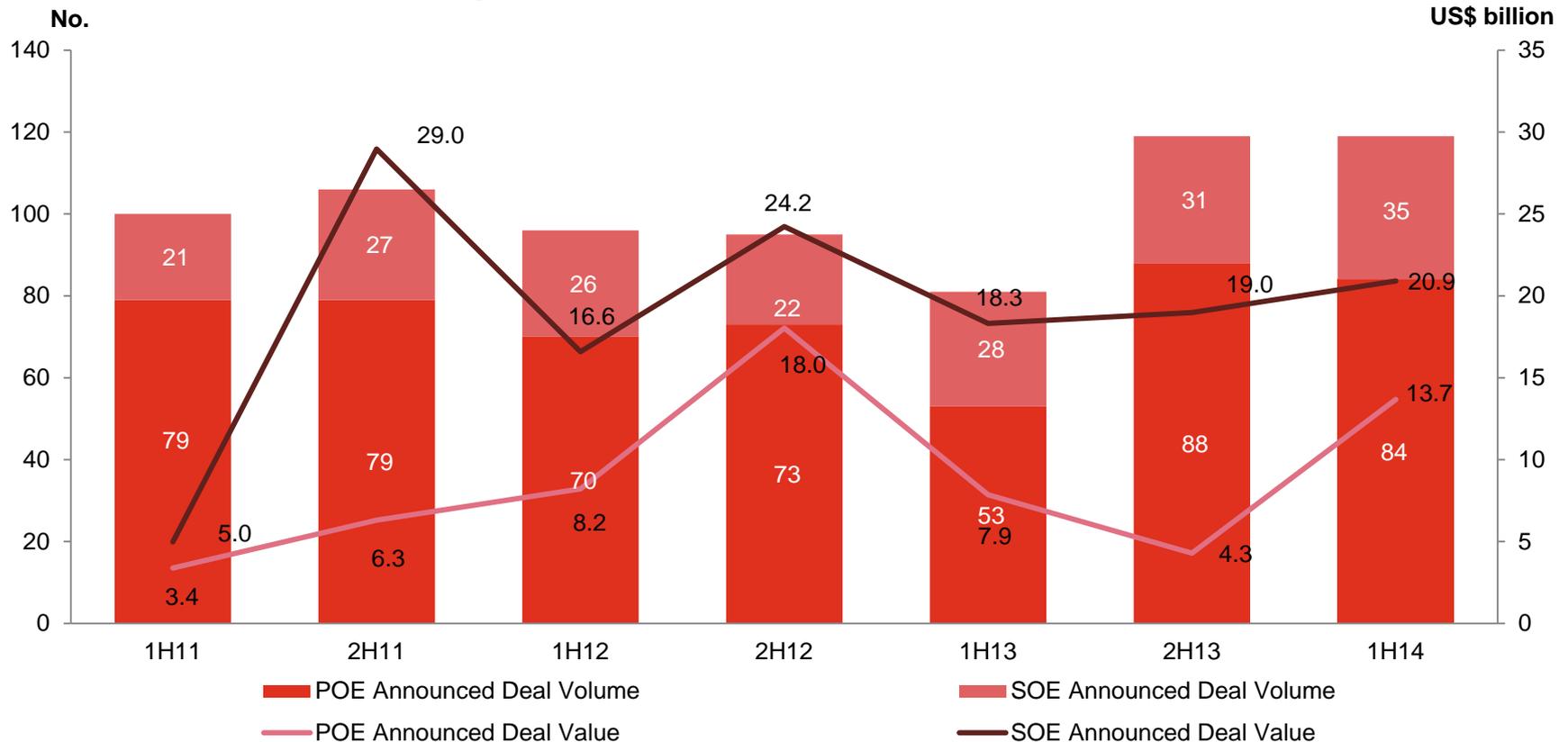
China mainland outbound deals, from 1H11 to 1H14



Source: ThomsonReuters, 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

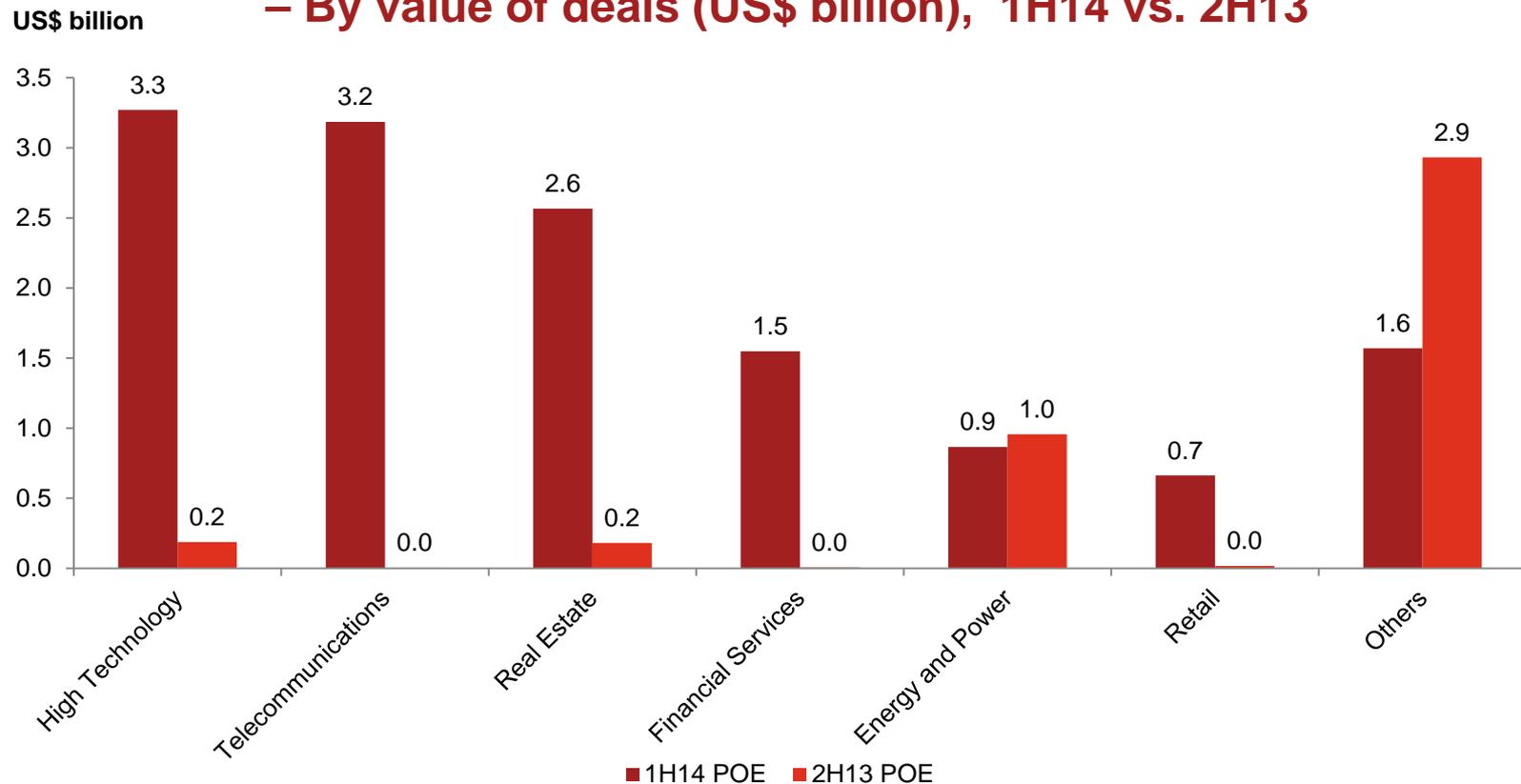
Strategic buyer deals, from 1H11 to 1H14



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

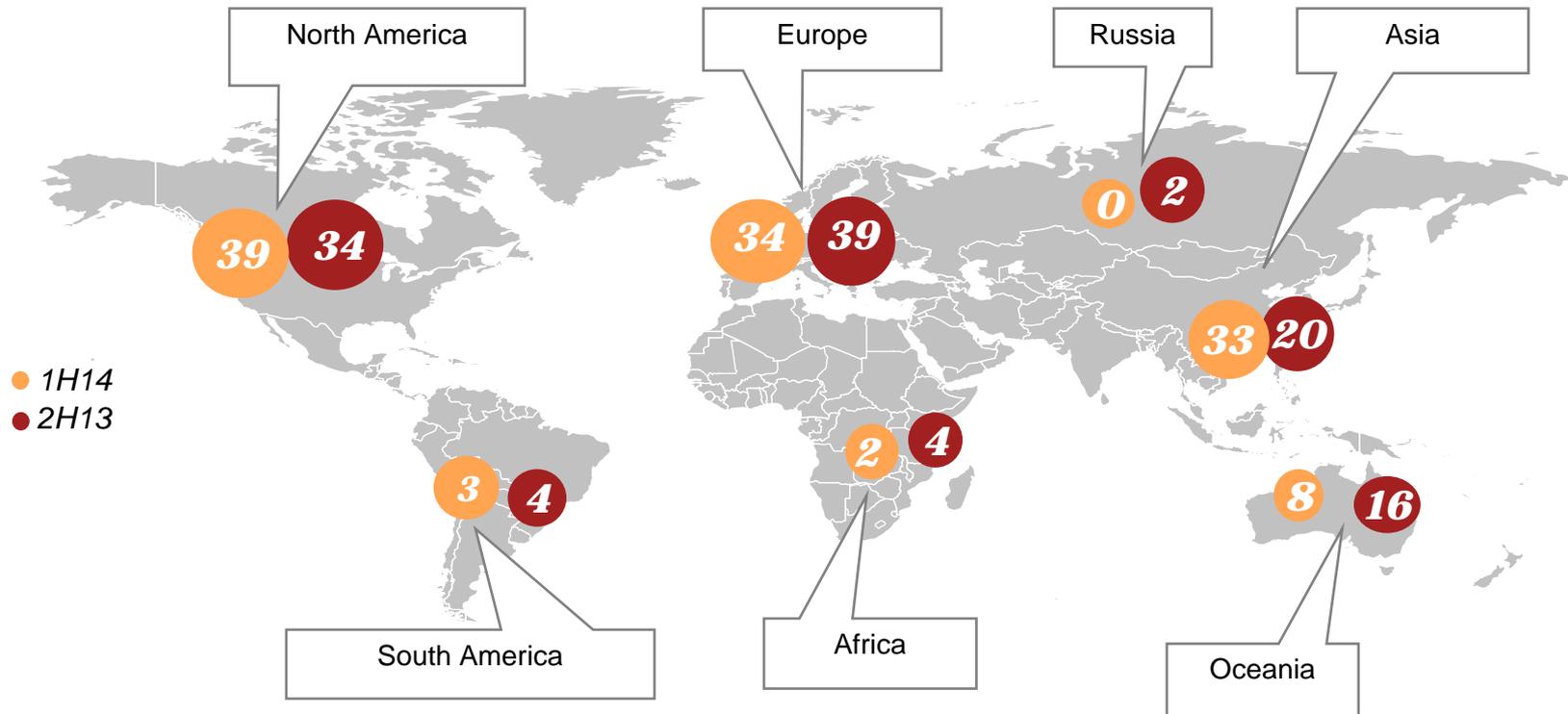
**China mainland outbound deals by industry sector
– By value of deals (US\$ billion), 1H14 vs. 2H13**



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

Outbound M&A deal volume by region of destination 1H14 vs. 2H13



Source: ThomsonReuters and PwC analysis

Outlook

Outlook – the next six to twelve months (1 of 4)

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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