

# *PwC M&A 2012 Review and 2013 Outlook*

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# *Overview*

**Overall 2012 China M&A decreased 26% by volume and 9% by value, with only Outbound deals showing growth (in value terms); we expect mainland China M&A activity to rebound in all sectors in 2013, with Outbound activity continuing to grow especially strongly**

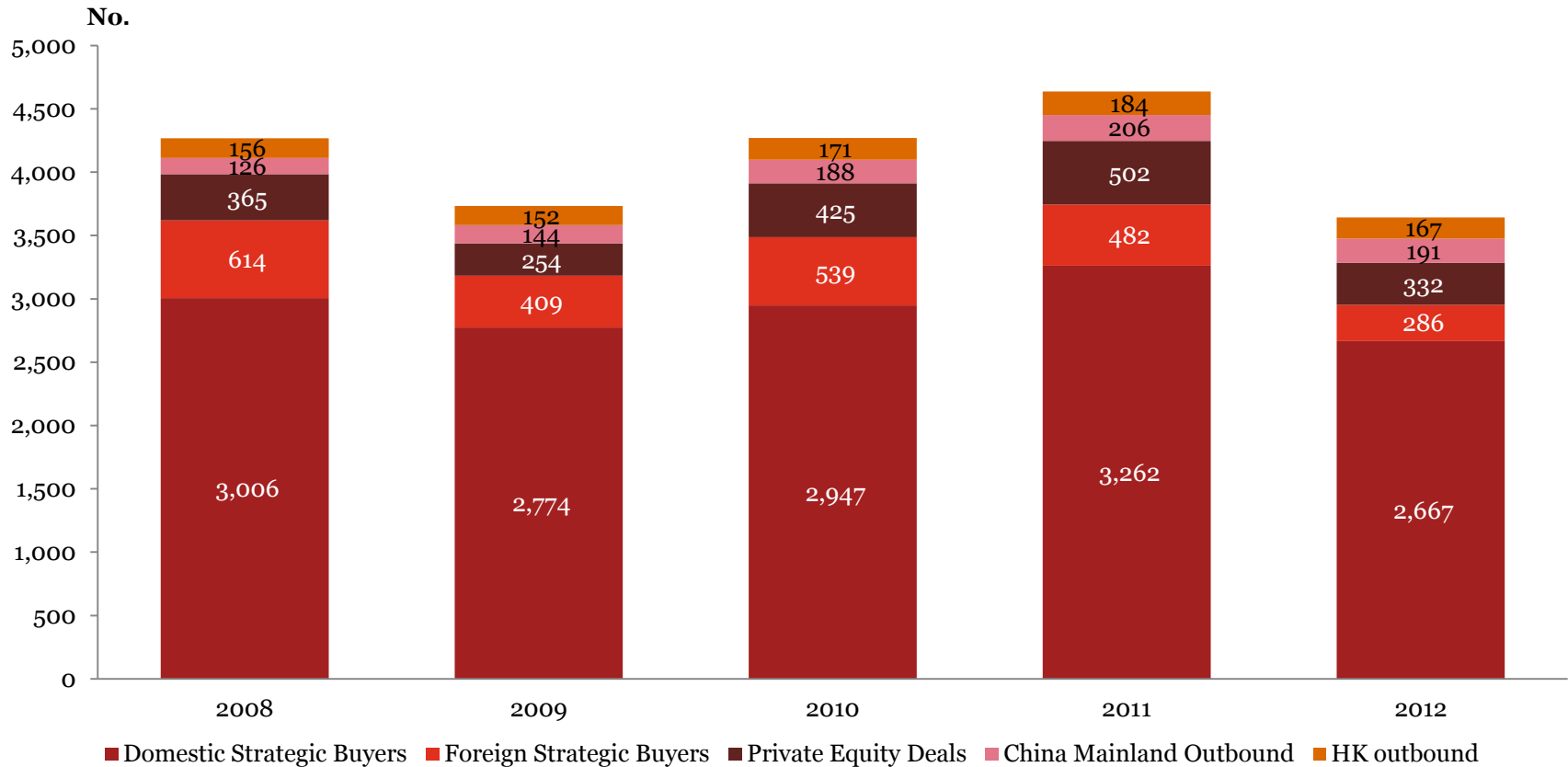
**Total deal volume and value, from 2008 to 2012**

	2008		2009		2010		2011		2012		% Diff e 2012 vs. 2011	% Diff value 2012 vs. 2011
	Volume	Value (US\$bn)	Volume	Value (US\$bn)	Volume	Value (US\$bn)	Volume	Value (US\$bn)	Volume	Value (US\$bn)		
<b>Strategic buyers</b>												
Domestic	3,006	150.5	2,774	100.3	2,947	140.1	3,262	117.6	2,667	88.0	-18%	-25%
Foreign	614	19.3	409	11.3	539	18.0	482	17.3	286	9.1	-41%	-47%
<b>Total Strategic buyers</b>	<b>3,620</b>	<b>169.8</b>	<b>3,183</b>	<b>111.6</b>	<b>3,486</b>	<b>158.1</b>	<b>3,744</b>	<b>134.9</b>	<b>2,953</b>	<b>97.1</b>	<b>-21%</b>	<b>-28%</b>
<b>Financial buyers</b>												
Private Equity	365	22.0	254	22.3	425	24.9	502	32.0	332	23.5	-34%	-27%
VC	694	1.7	712	1.8	1,011	2.5	903	1.8	473	0.9	-48%	-48%
<b>Total Financial buyers</b>	<b>1,059</b>	<b>23.8</b>	<b>966</b>	<b>24.1</b>	<b>1,436</b>	<b>27.4</b>	<b>1,405</b>	<b>33.8</b>	<b>805</b>	<b>24.4</b>	<b>-43%</b>	<b>-28%</b>
<b>China mainland Outbound</b>												
SOE	27	6.8	45	26.3	64	34.5	48	33.0	48	39.7	0%	20%
POE	99	3.6	99	6.5	124	6.4	158	9.4	143	25.5	-9%	171%
<b>Total China mainland Outbound</b>	<b>126</b>	<b>10.3</b>	<b>144</b>	<b>32.8</b>	<b>188</b>	<b>41.0</b>	<b>206</b>	<b>42.4</b>	<b>191</b>	<b>65.2</b>	<b>-7%</b>	<b>54%</b>
<b>HK Outbound</b>	<b>156</b>	<b>6.6</b>	<b>152</b>	<b>6.2</b>	<b>171</b>	<b>18.8</b>	<b>184</b>	<b>16.2</b>	<b>167</b>	<b>14.9</b>	<b>-9%</b>	<b>-8%</b>
<b>Total</b>	<b>4,961</b>	<b>210.6</b>	<b>4,445</b>	<b>174.7</b>	<b>5,281</b>	<b>245.3</b>	<b>5,539</b>	<b>227.2</b>	<b>4,116</b>	<b>201.6</b>	<b>-26%</b>	<b>-11%</b>

Source: ThomsonReuters, ChinaVenture and PwC analysis

## Deal volumes decreased across all major categories ...

Deal volume by main category

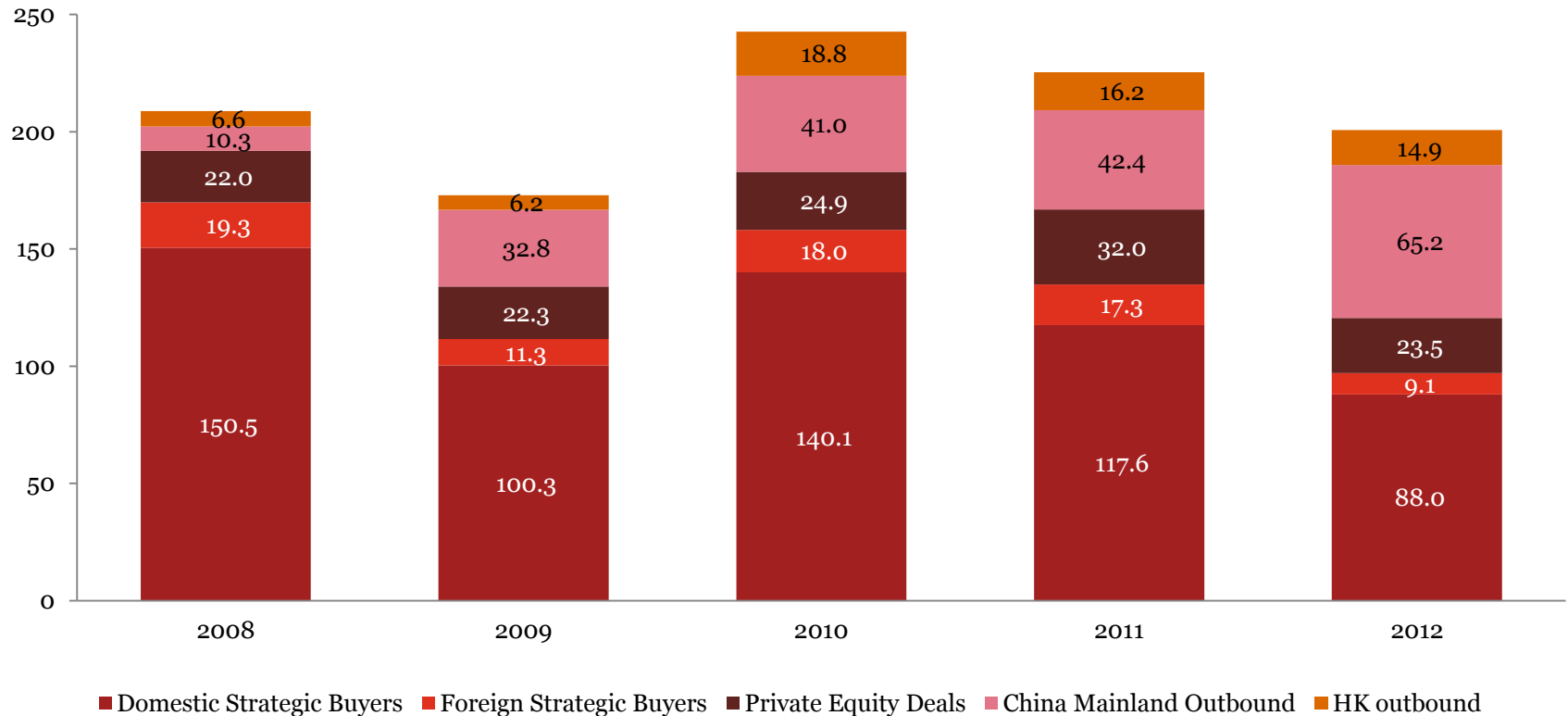


Source: ThomsonReuters, ChinaVenture and PwC analysis

**... But mainland China Outbound deal values grew by 54% and now comprise more than a third of overall M&A activity measured by value, by far the highest proportion ever**

**Deal value by main category**

US\$ billion

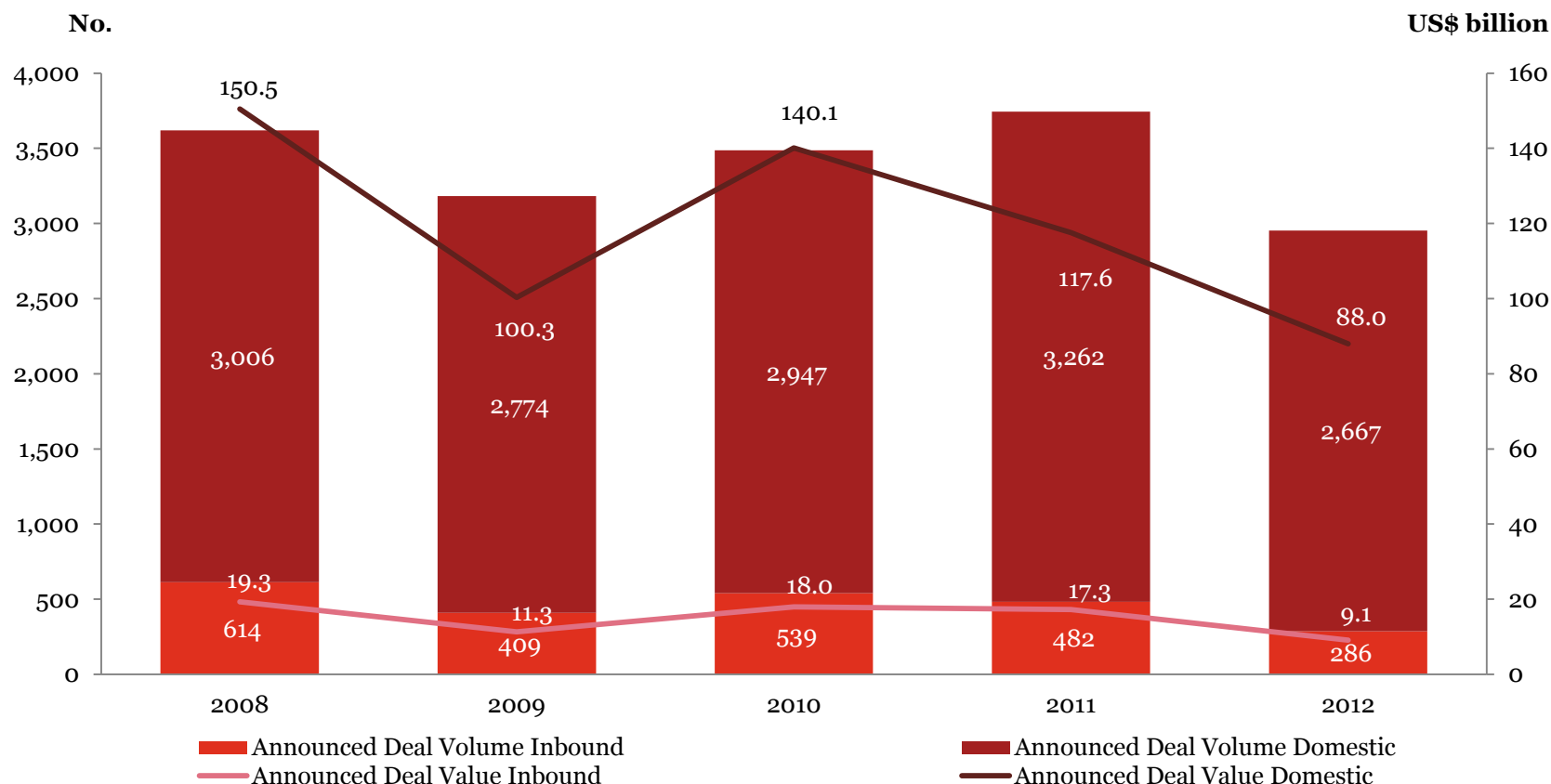


Source: ThomsonReuters, ChinaVenture and PwC analysis

# *Strategic buyers*

***Both Domestic and Foreign-Inbound Strategic buyer deal activity fell to their lowest levels in the last five years with declines greater than those seen after the global financial crisis; we think activity will rebound in 2013 as the direction of the Chinese economy becomes clearer, industry consolidation accelerates, domestic leadership changes take effect, and foreign economies start to emerge from their stressed states***

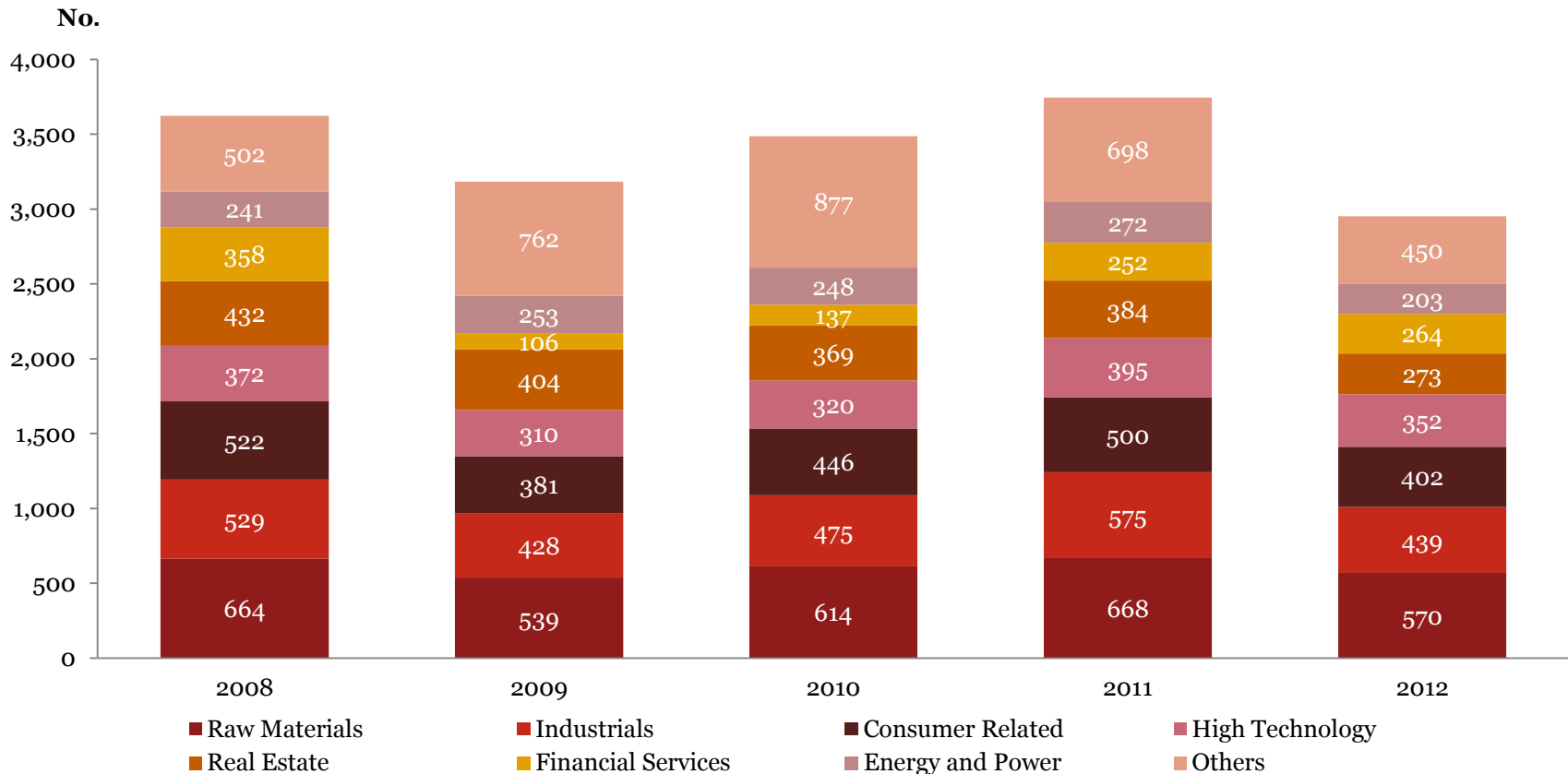
**Strategic buyer deals, from 2008 to 2012**



Source: ThomsonReuters, ChinaVenture and PwC analysis  
PwC

# Nearly all industry sectors posted declines, both in terms of volumes ...

## Strategic buyer deal volume by industry sector

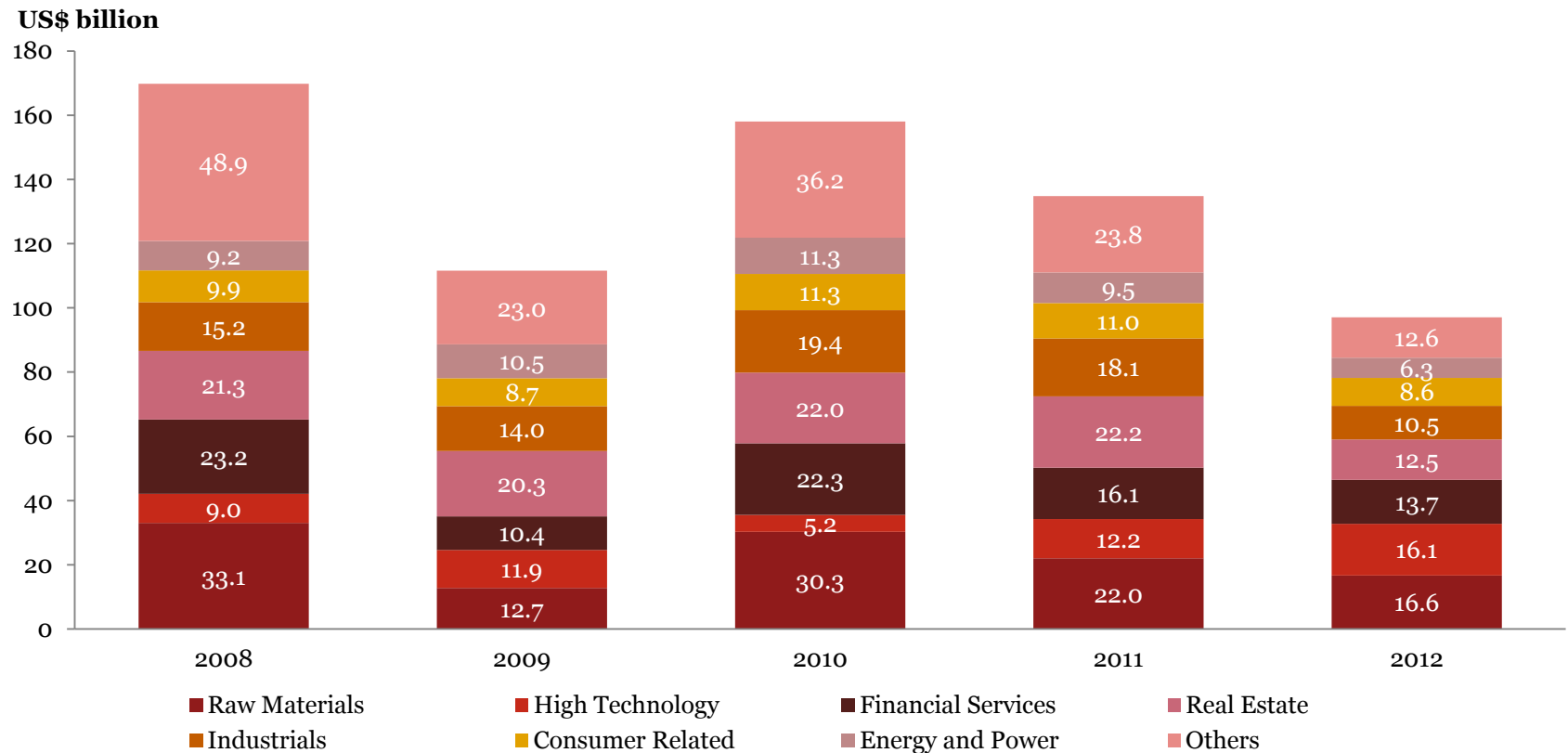


Source: ThomsonReuters, ChinaVenture and PwC analysis



## ... And values

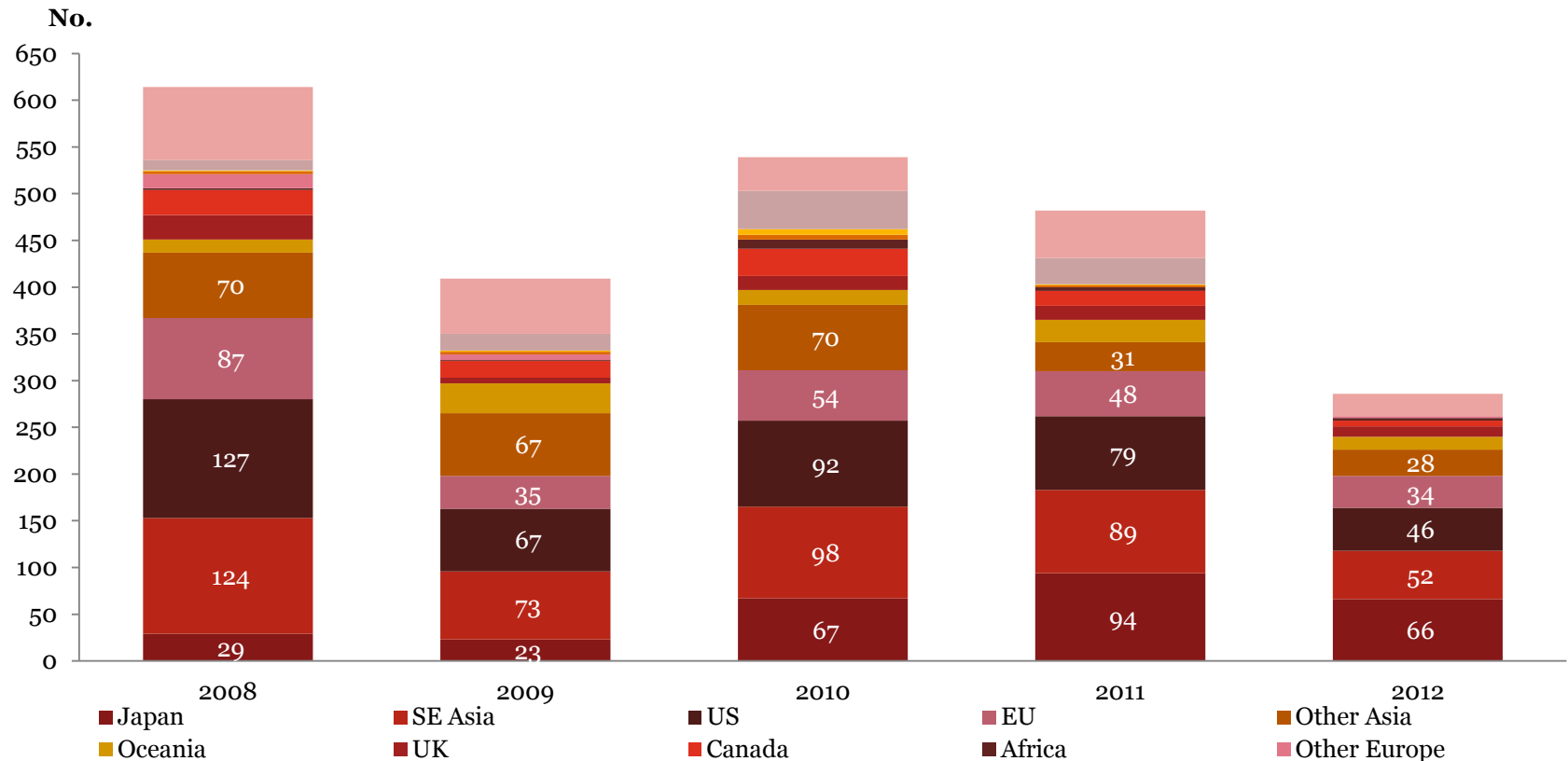
### Strategic buyer deal value by industry sector



Source: ThomsonReuters, ChinaVenture and PwC analysis

***Japan remains the most active Foreign-Inbound M&A investor for the second year running, but we saw several deals put on hold in the second half year of the year in response to the Diaoyu Islands crisis; US and European deal numbers have steadily declined since their 2010 high ...***

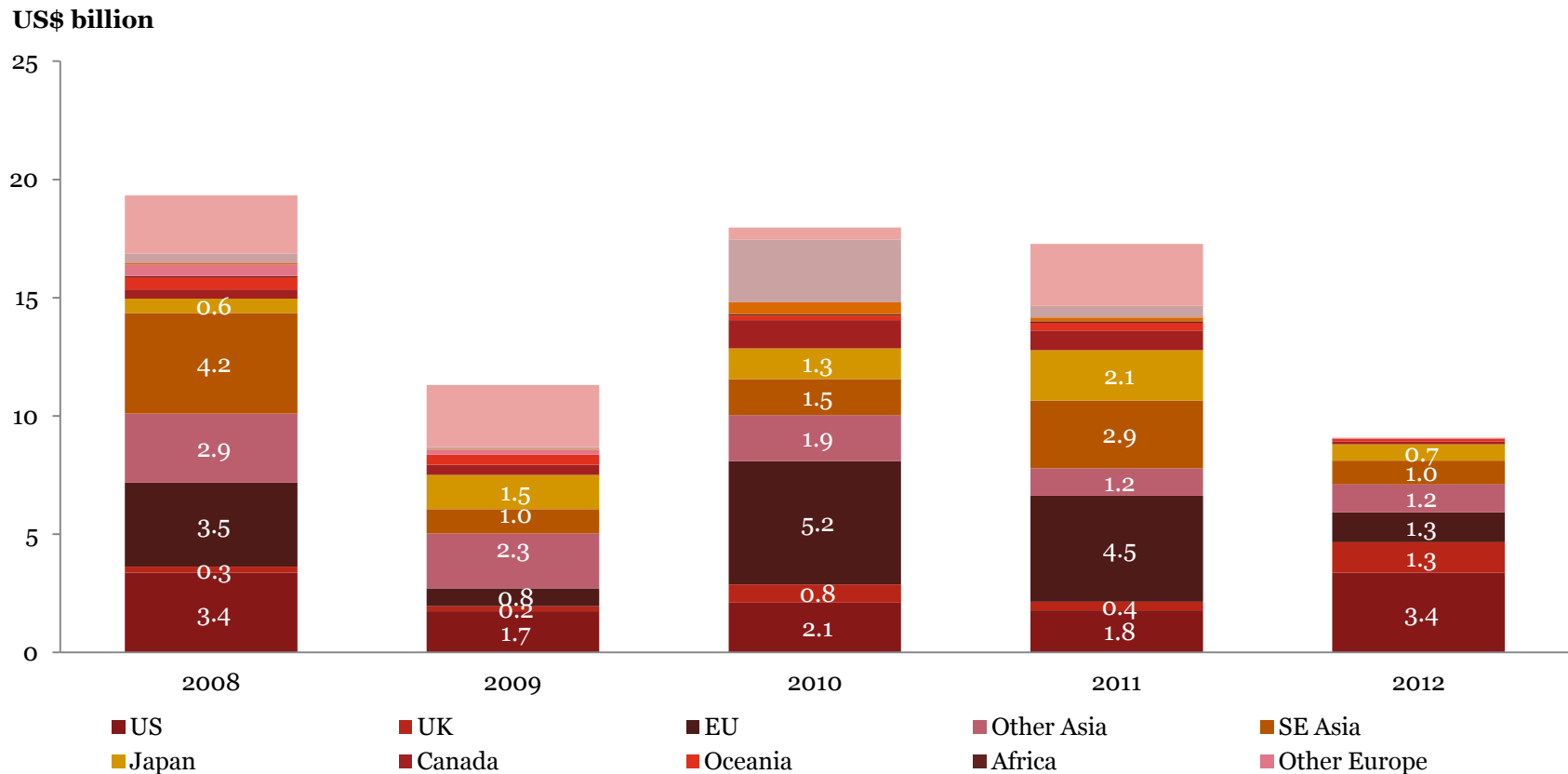
**Foreign strategic buyer deal volume by region of origin**



Source: ThomsonReuters, ChinaVenture and PwC analysis

**... However, the biggest deals are still coming from US and European buyers; we expect Foreign-Inbound deal activity to rebound 2013 as European and US economies start to recover allowing MNCs to deploy cash reserves with greater confidence, implementing their China market entry or growth strategies**

**Foreign strategic buyer deal value by region of origin**



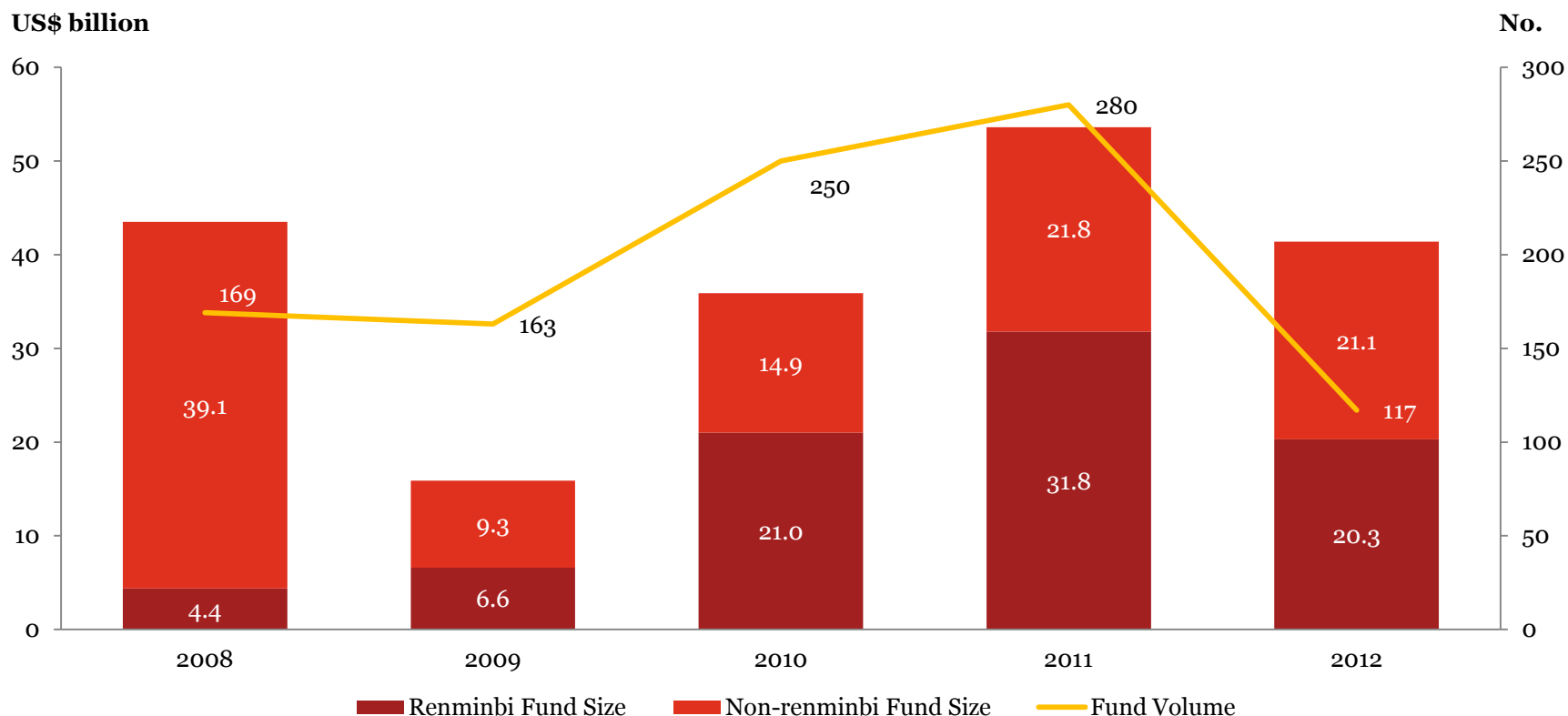
Source: ThomsonReuters, ChinaVenture and PwC analysis

# *PE/VC deals*

**PE and VC fundraising for China investment in 2012 trailed 2011's record levels by less than we expected; however, if we look closer we see much fewer individual fund raisings but there were some large funds raised by many of the leading and established PEs including KKR (\$6bn), PAG (\$2.5bn), Hony (\$2.4bn), Bain (\$2.3bn) and Fountaininvest (\$1.4bn); there will be winners and losers in the sector - high quality, professional PEs will thrive, but the bubble is already bursting for many of the plethora of renminbi funds raised over the last few years**

### PE/VC fund raising for China investment

\* Excludes global funds investing in China

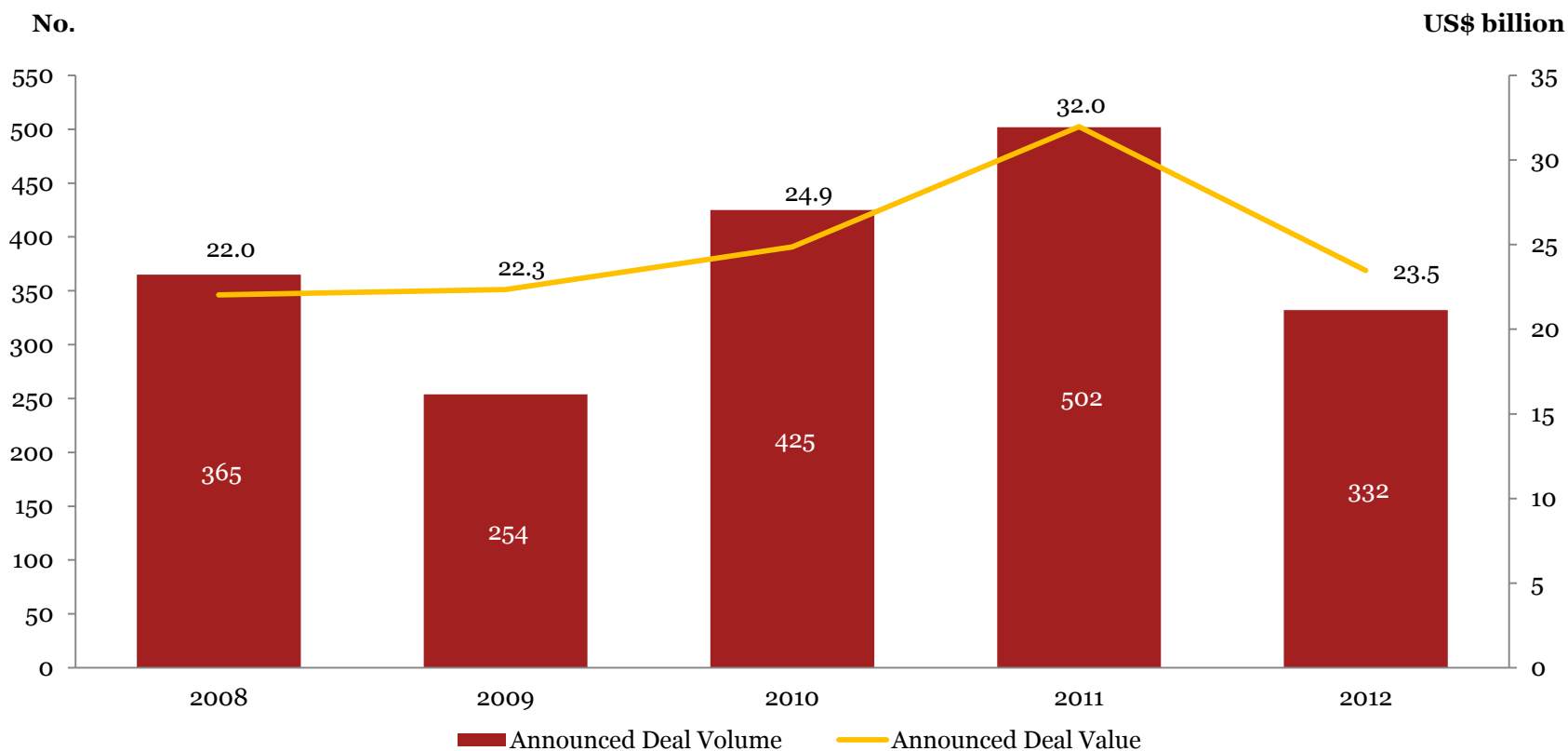


Source: AVCJ and PwC analysis

PwC

**2012 was a poor year for PE deal numbers, though deal sizes are trending upwards; we think that deal volumes will recover starting from 2Q of 2013 and average deal sizes will continue to trend upwards; however, within China, the days where PEs could throw money at deals and expect a “rising tide to float all boats” have gone; careful and professional diligence is vitally important; fraud risk is high; PEs should be prepared to walk away from opportunities if sellers will not accommodate diligence**

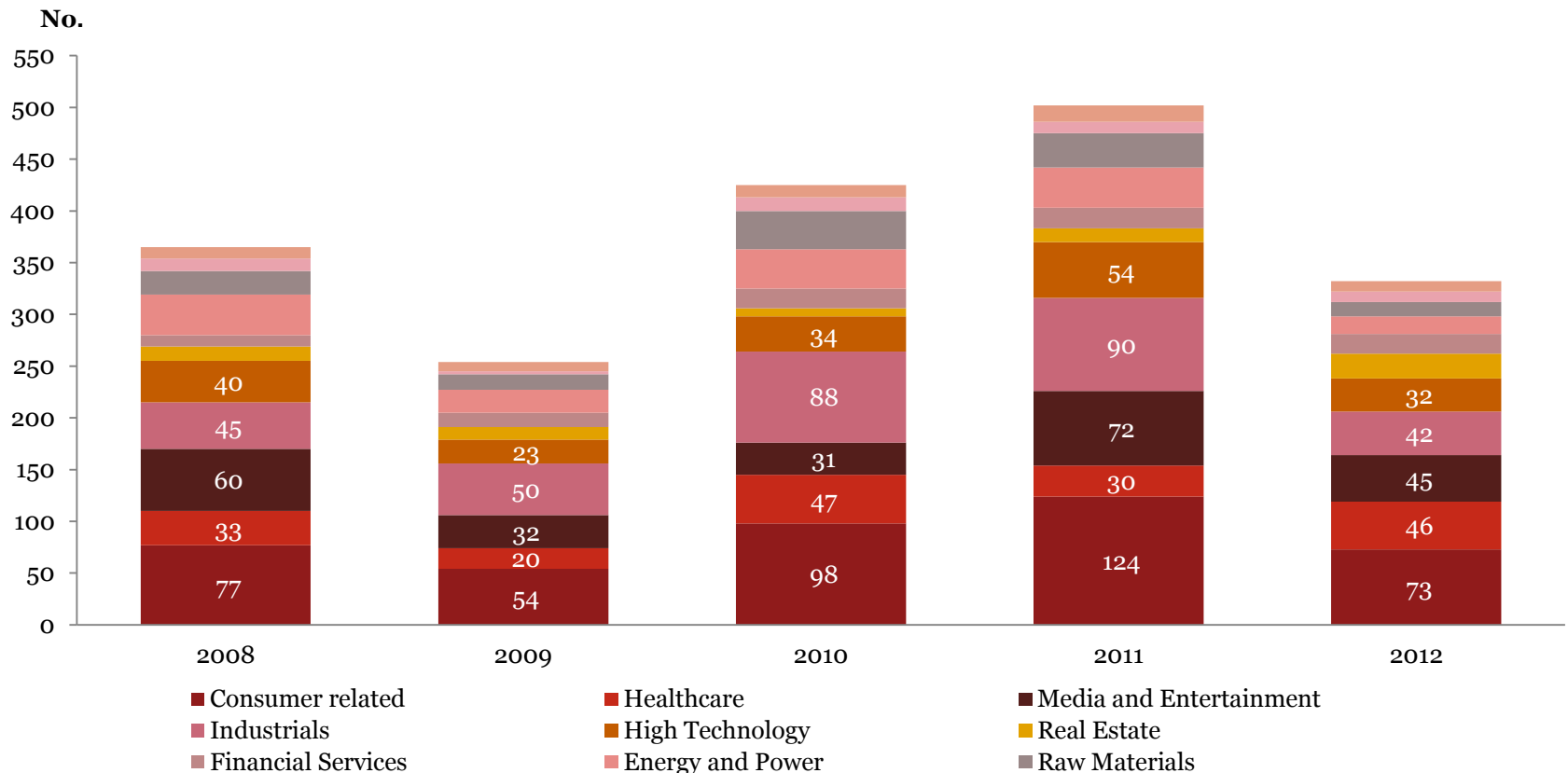
### Private Equity deals, from 2008 to 2012



Source: ThomsonReuters, ChinaVenture and PwC analysis

**PEs tend to target industries that are “on strategy” for China, including consumer-linked, healthcare, media and entertainment, technology, and service industries**

**PE deal volume by industry sector**

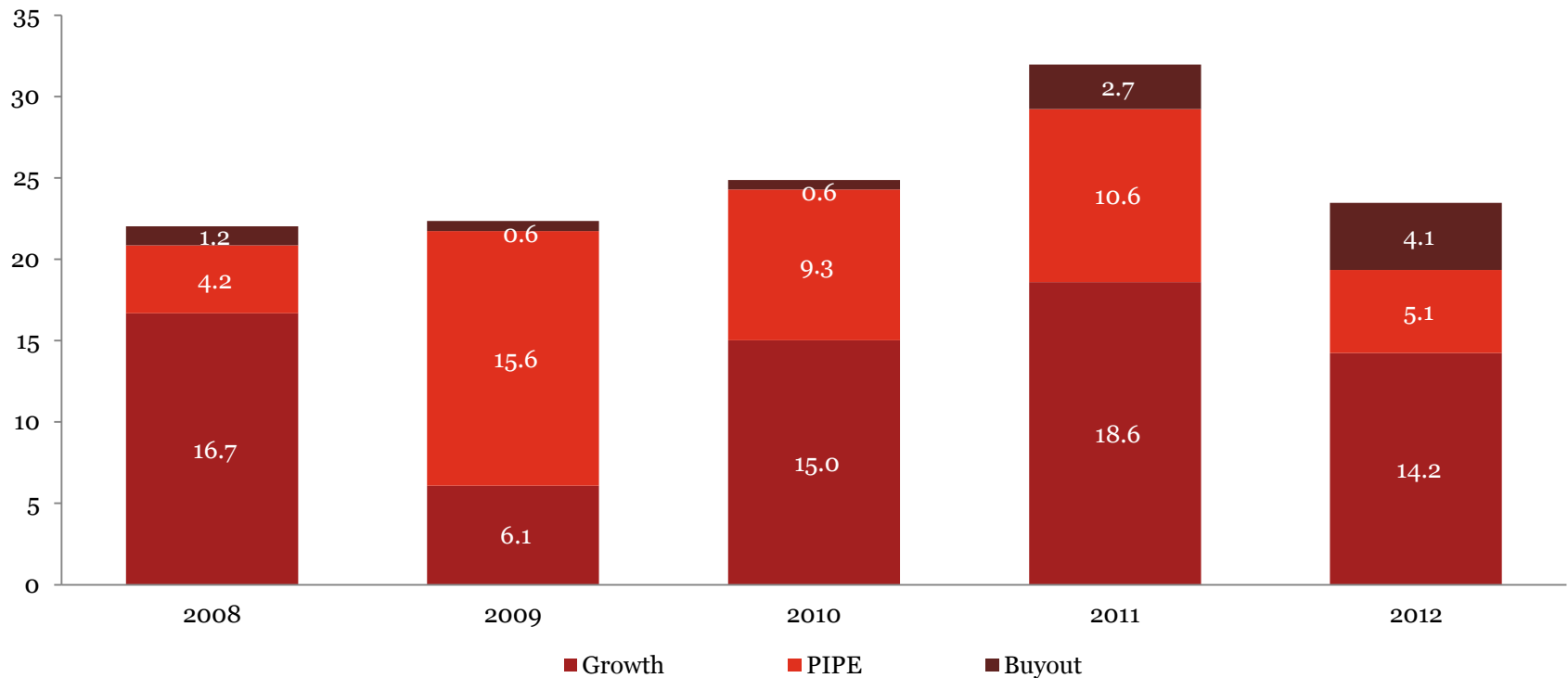


Source: ThomsonReuters, ChinaVenture and PwC analysis

***Growth capital deals predominate, but PIPE (private investment in public equity) deals are important and we are seeing a buy-out market starting to emerge; we expect the nascent trend towards buy-outs to strengthen over the medium term***

### PE deal value by type

US\$ billion

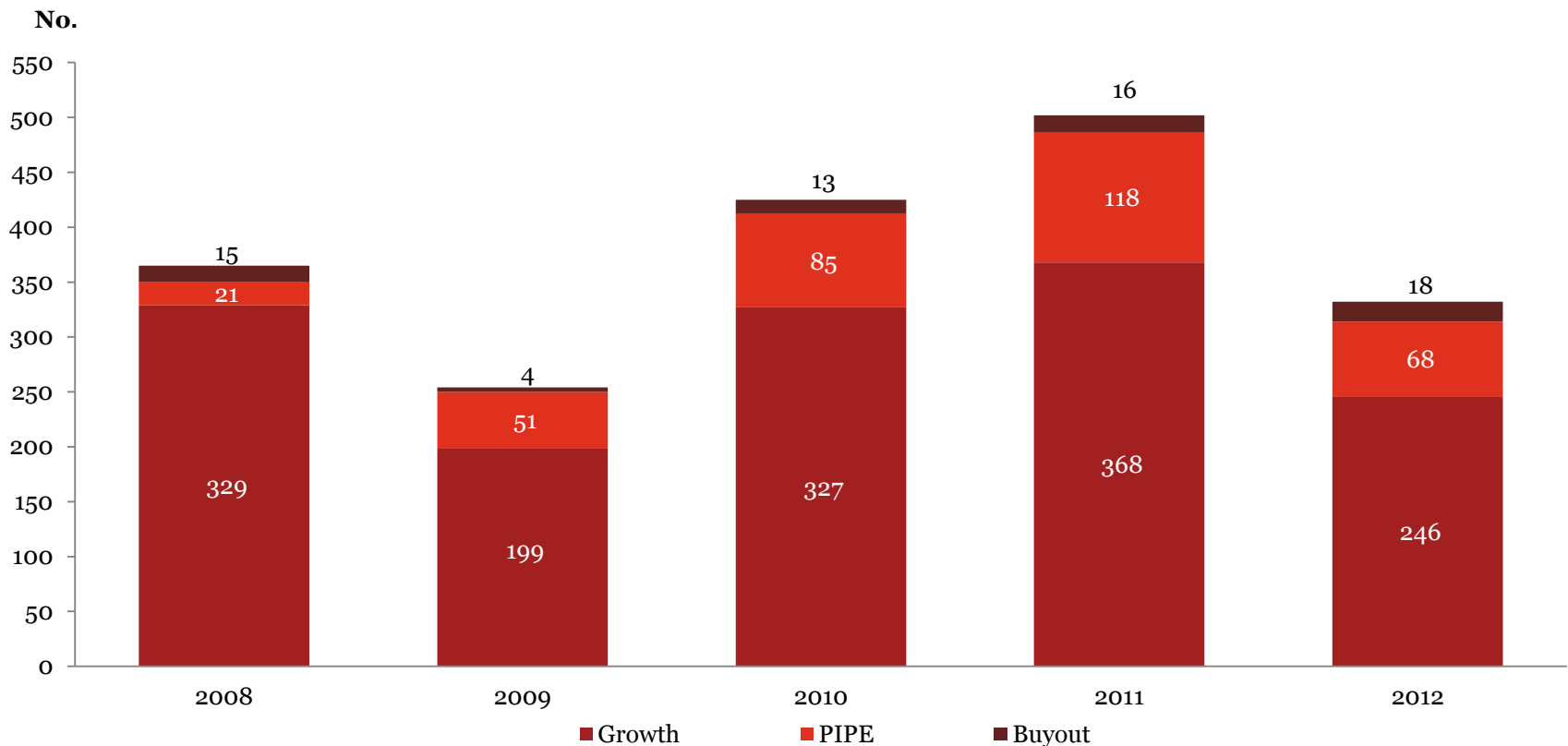


Source: ThomsonReuters, ChinaVenture and PwC analysis



***If we look at the same statistics in terms of deal volumes (rather than values) the dominance of growth capital is very evident; PE has emerged as a key provider of capital to the liquidity starved private sector of the economy in China with real policy support - this demand for capital is driving strong market growth and activity***

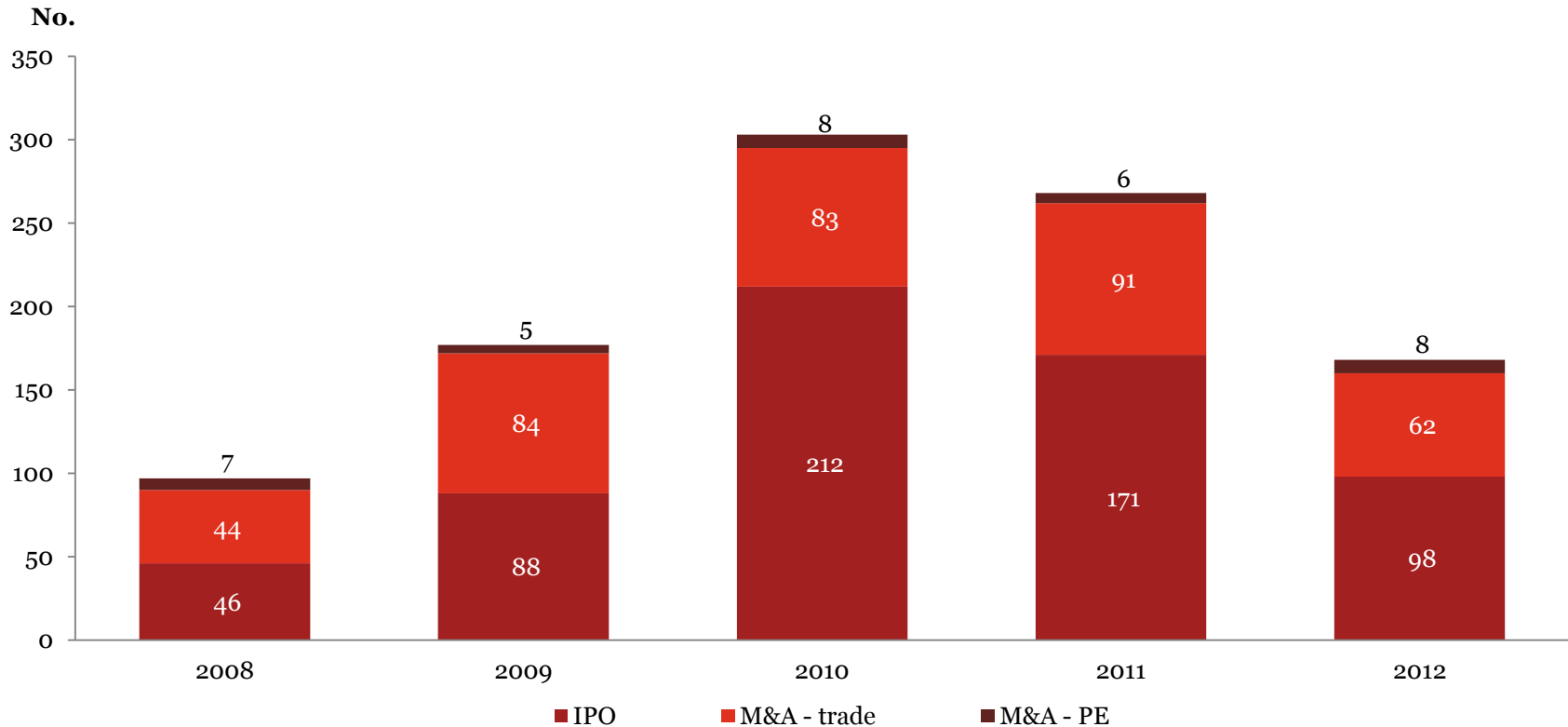
### PE deal volume by type



Source: ThomsonReuters, ChinaVenture and PwC analysis

***The PE industry in China is notable in that most exits have been by IPO; predictably, there has been a significant decline in 2012; there is a growing pipeline of future exits, perhaps more than the market can handle – this will be a challenge for the PE industry over the next few years***

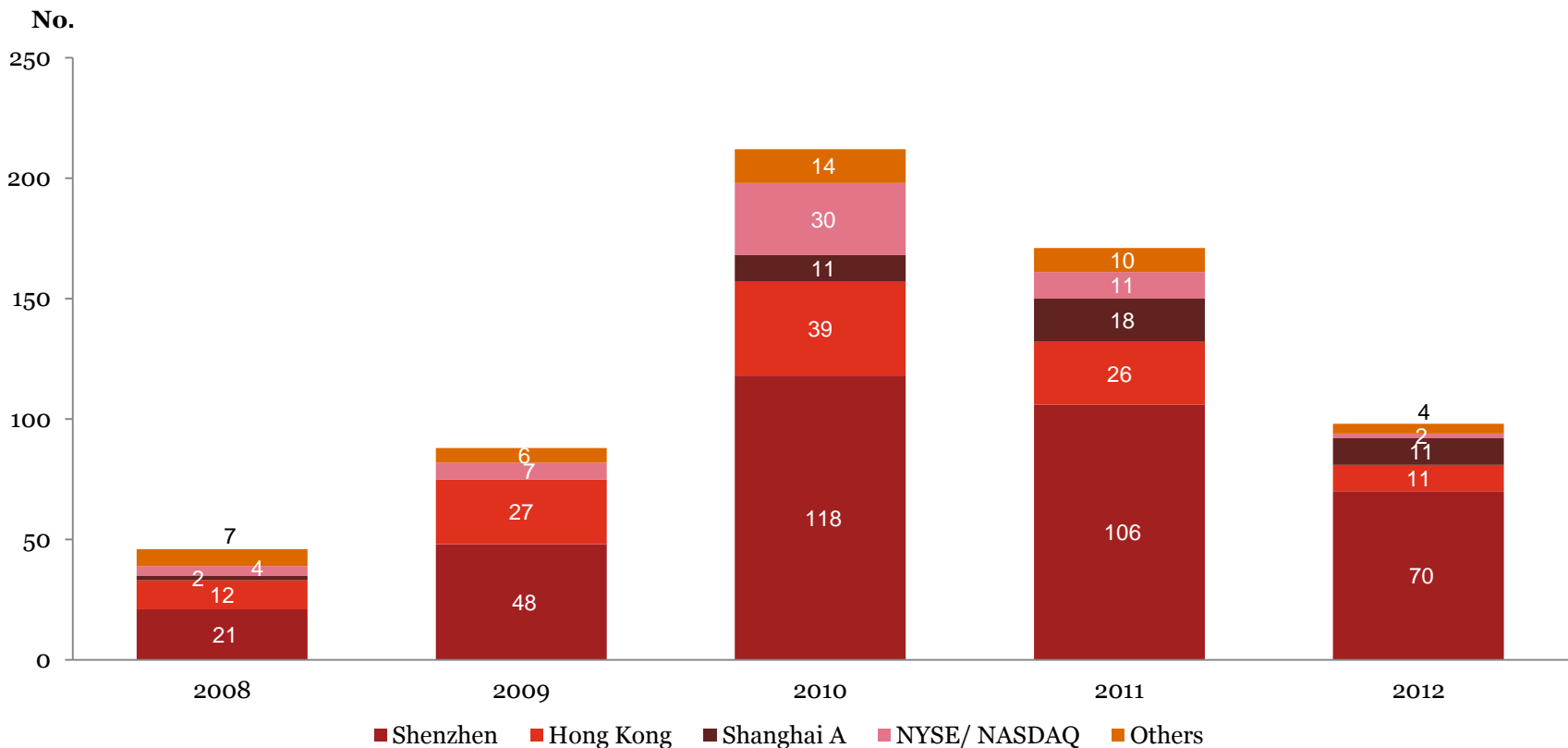
**PE/VC backed deal exit volume by type**



Source: AVCJ and PwC analysis

***PE backed IPOs in offshore markets such as HK and New York in 2012 were the lowest in the last three years; we think that PE backed IPO activity must increase markedly in the short to medium term when capital markets return to normal functioning; the domestic A-share markets has been and will continue to be an important exit route for PE despite its many challenges***

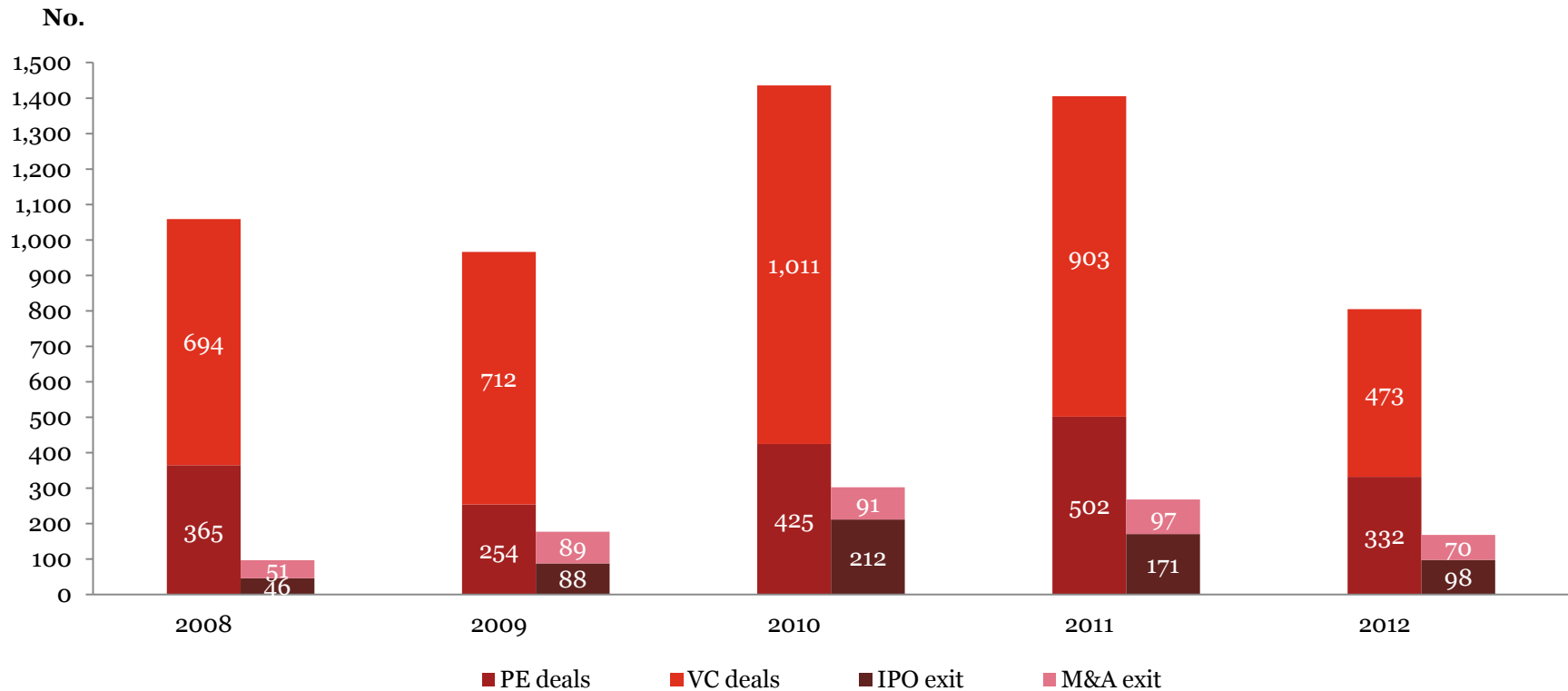
**PE/VC backed IPO exit volume by bourse**



Source: AVCJ and PwC analysis

**Overall, there is a huge overhang of Chinese PE and VC-backed enterprises waiting to come to market either by IPO or by M&A exit; the industry as a whole is moving into “exit phase” and the backlog of exits represents a real challenge; it is more than IPO markets can absorb, and trade and secondary sales by M&A will become more frequent; the quantum step-up in exit activity will be a key driver of future activity from this sector**

**PE/VC deal volume vs. No. of exits**

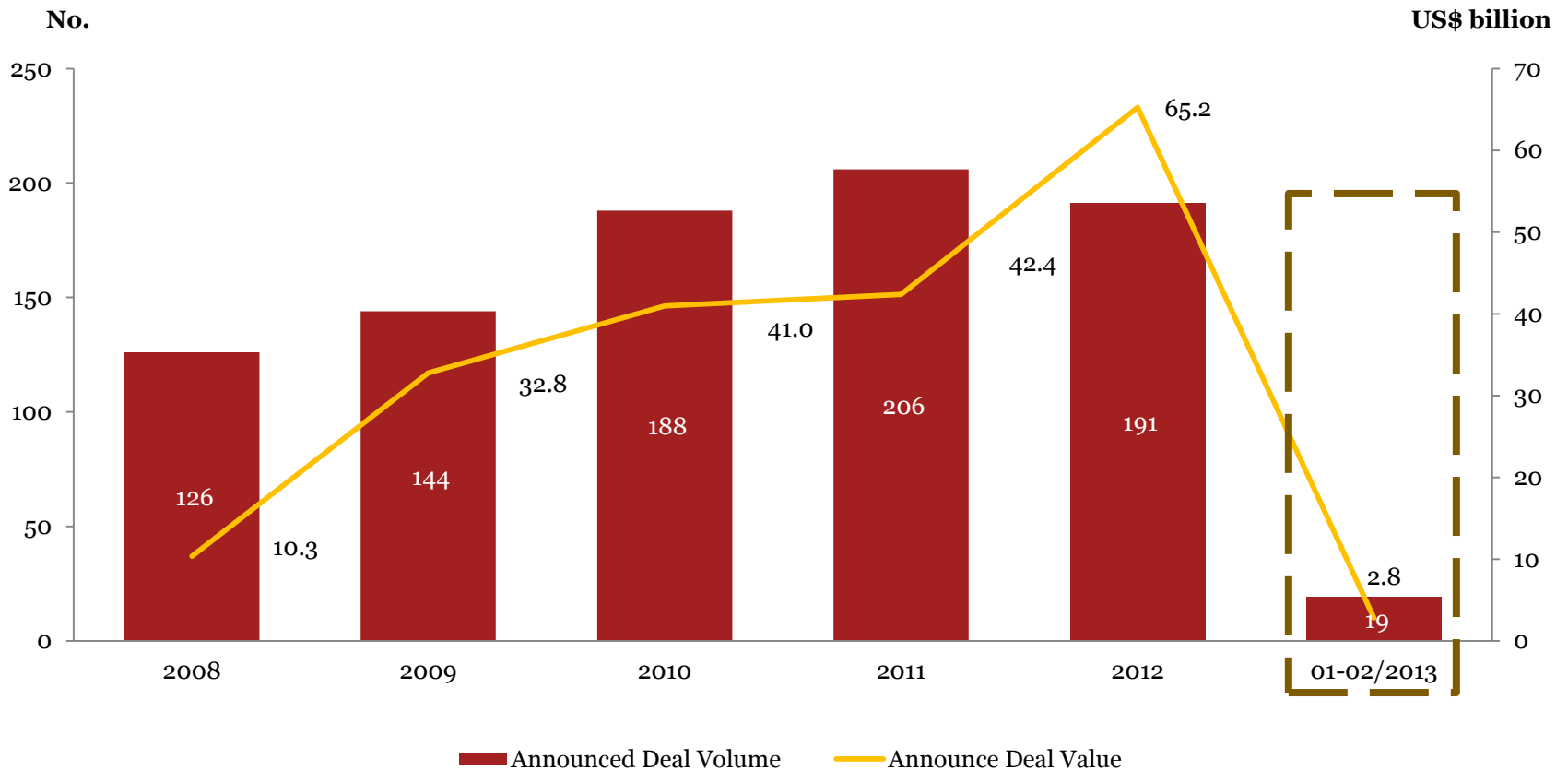


Source: ThomsonReuters, ChinaVenture, AVCJ and PwC analysis

# *China mainland outbound*

**Although deal volumes surprisingly showed a small decline, China Outbound deal values grew by 54% to reach a new record high of US\$65.2 billion; we see many more deals in the pipeline and expect this growth trend to continue strongly with another record year in 2013**

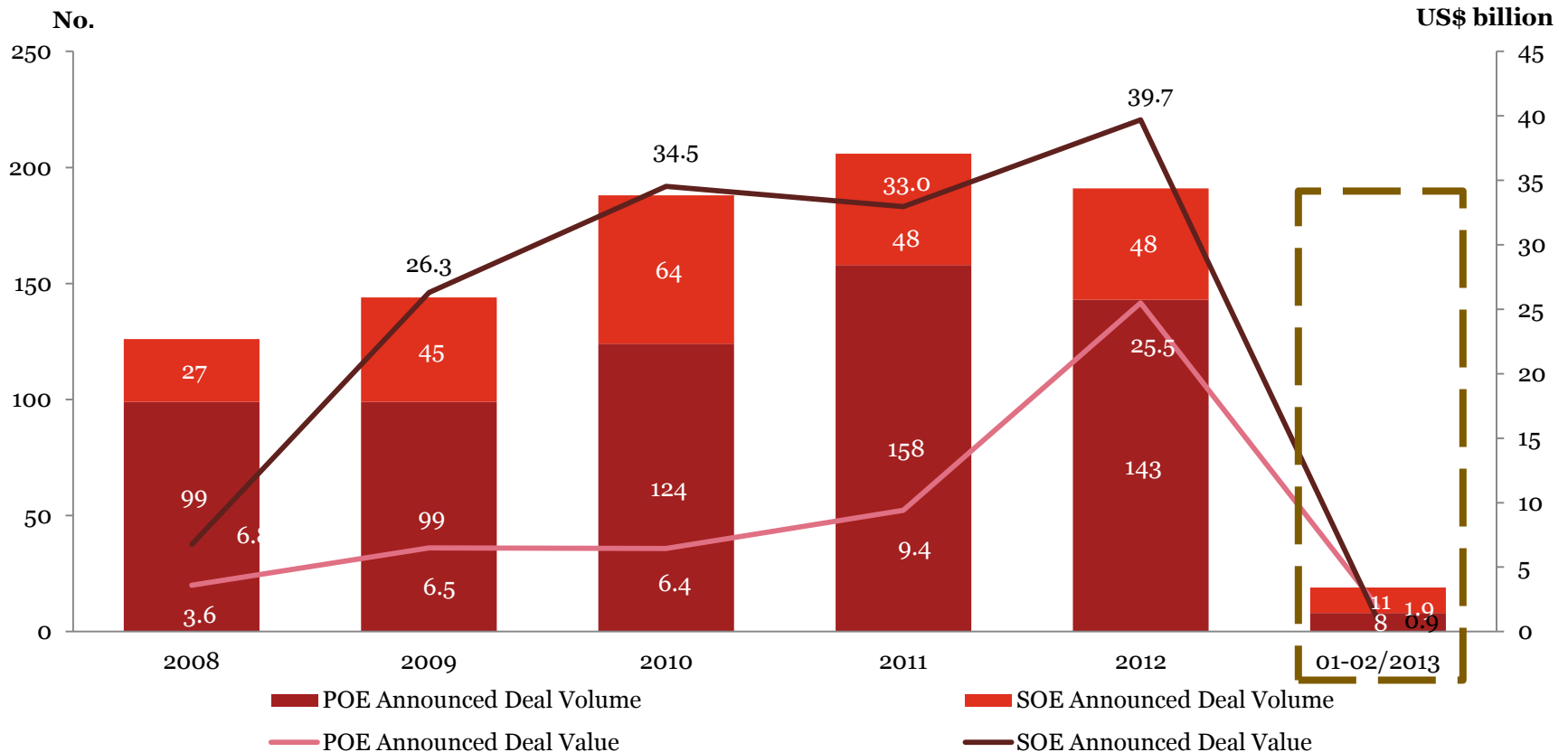
**China mainland outbound deals, from 2008 to 01-02/2013**



Source: ThomsonReuters, ChinaVenture and PwC analysis

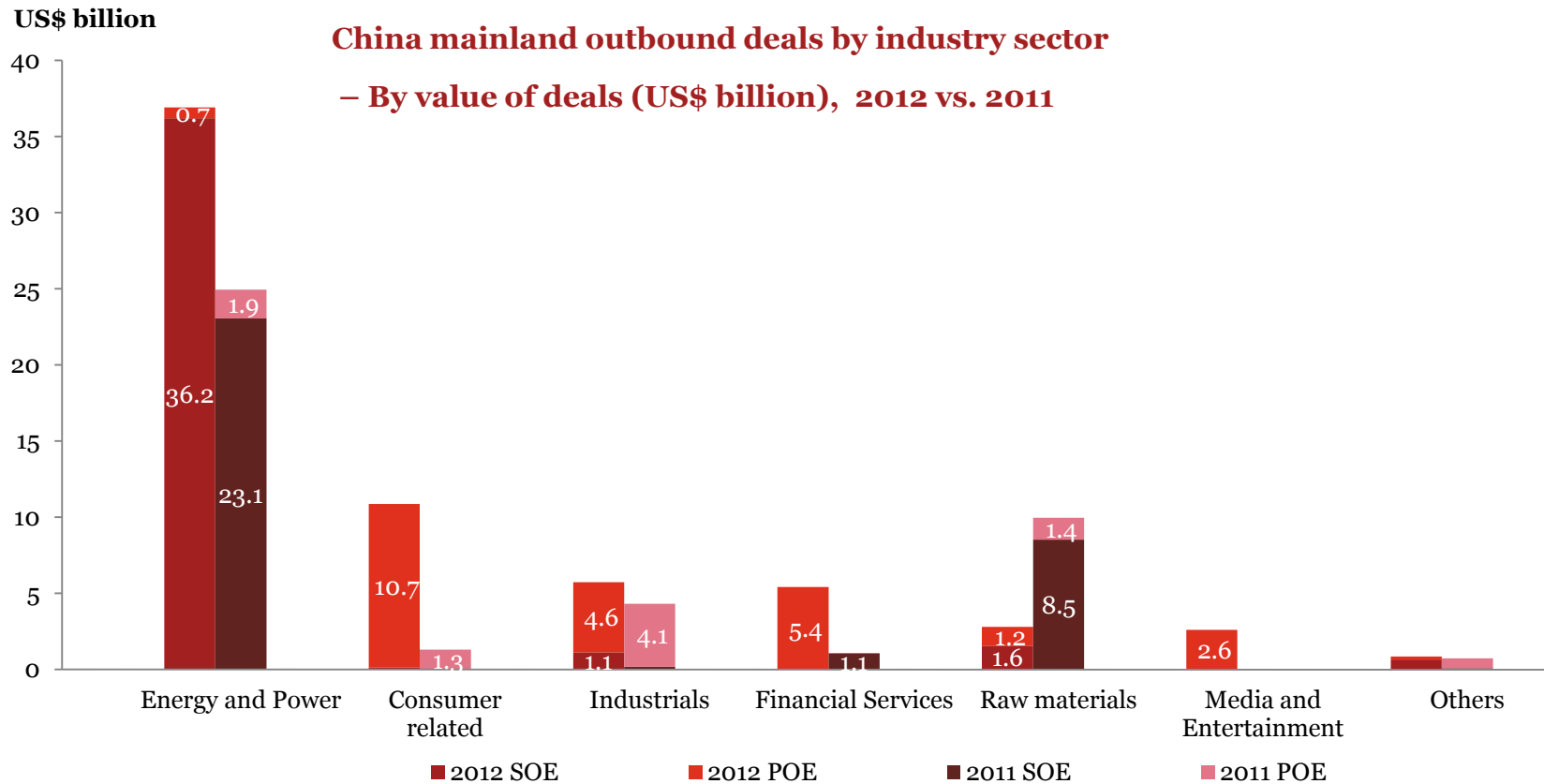
***We are seeing privately owned enterprises (POEs) taking on larger deal sizes; we think that private sector companies will be key drivers in the future growth of China Outbound M&A***

**China mainland outbound deals, from 2008 to 01-02/2013**



Source: ThomsonReuters, ChinaVenture and PwC analysis

***Although the state sponsored push to secure energy and resources is evident from deal value statistics ...***



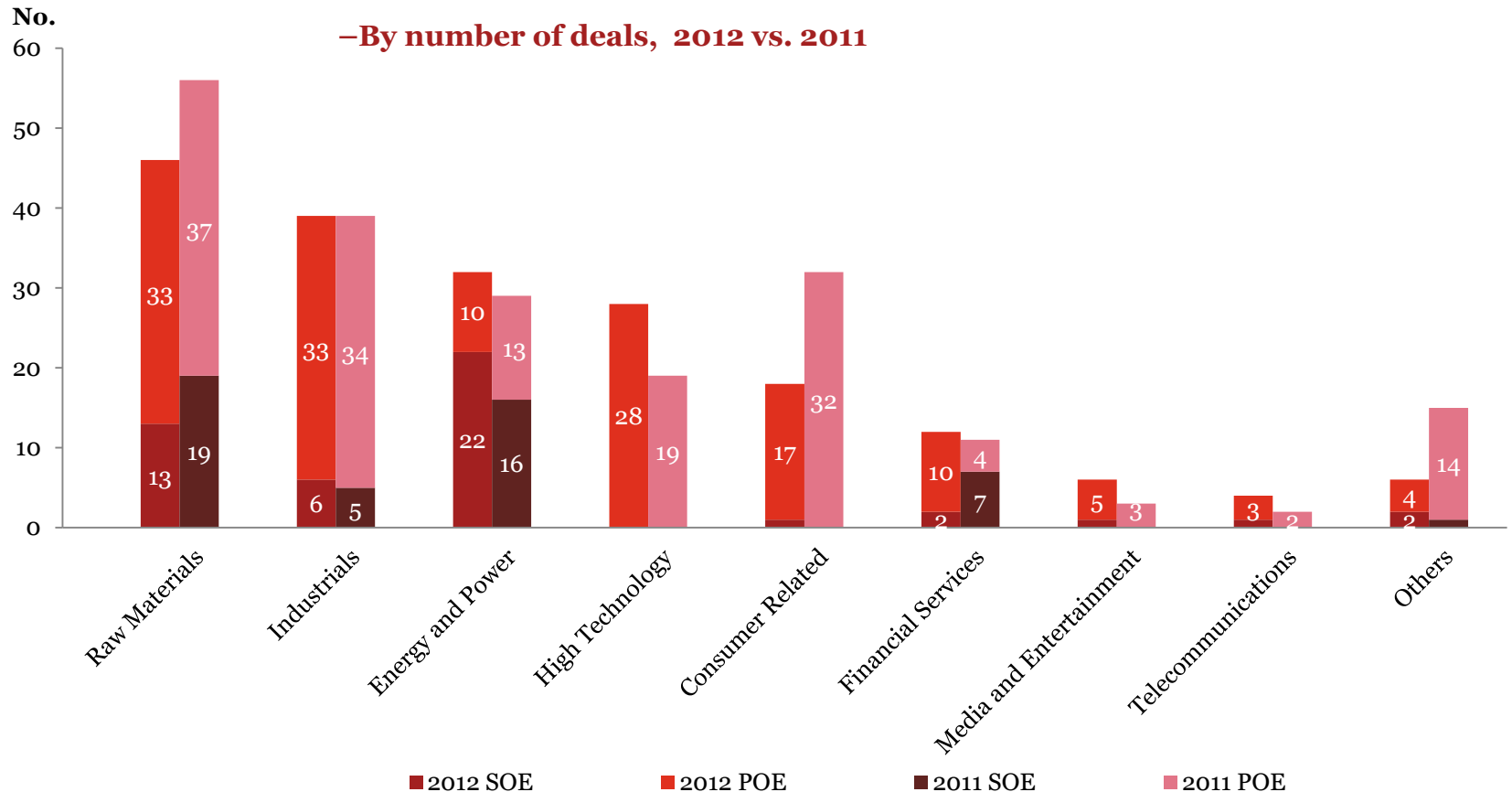
Source: ThomsonReuters, ChinaVenture and PwC analysis



**... The growing activity of private sector buyers in acquiring industrial technologies and consumer-linked businesses overseas is an important trend; many of these deals are aimed at bringing advanced western technologies, know-how, IP and brands back for use in the Chinese domestic market; we are also seeing some POEs using overseas M&A to go global in addition to concentrating on the domestic market**

**China mainland outbound deals by industry sector**

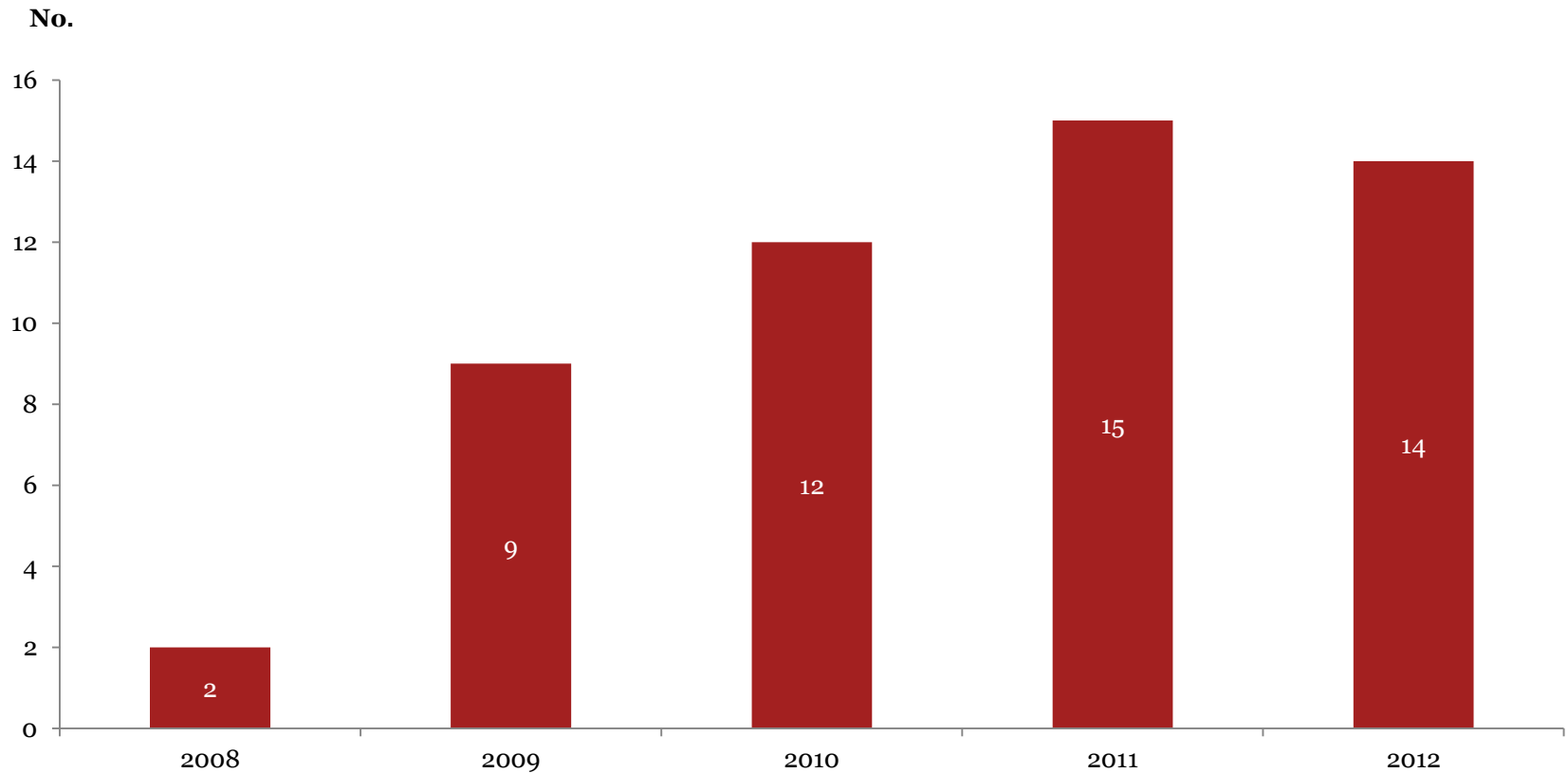
**–By number of deals, 2012 vs. 2011**



Source: ThomsonReuters, ChinaVenture and PwC analysis

***The number of China Outbound deals greater than US\$1 billion in 2012 remained broadly consistent with 2011***

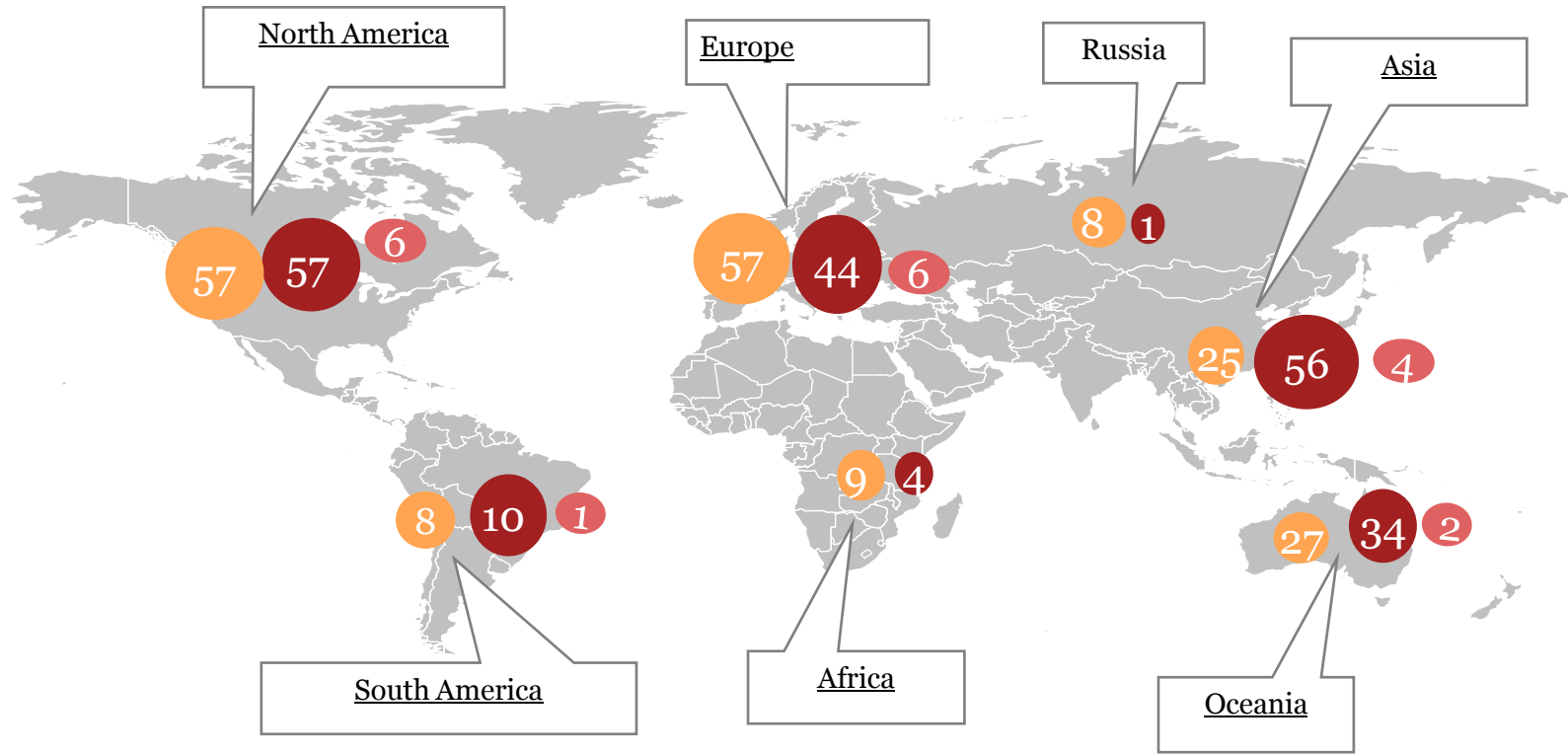
**China mainland over US\$ 1 billion outbound deal number**



Source: ThomsonReuters, ChinaVenture and PwC analysis

**Europe now challenges North America as the most important overseas destination for Chinese buyers; the importance of mature western markets reflects the search for advanced technologies and know-how ; Asian deals have declined sharply, primarily due to a fall in Japan transactions from 16 in 2011 to just 3 in 2012**

**Outbound M&A deal volume by region of destination 2012 vs. 2011**

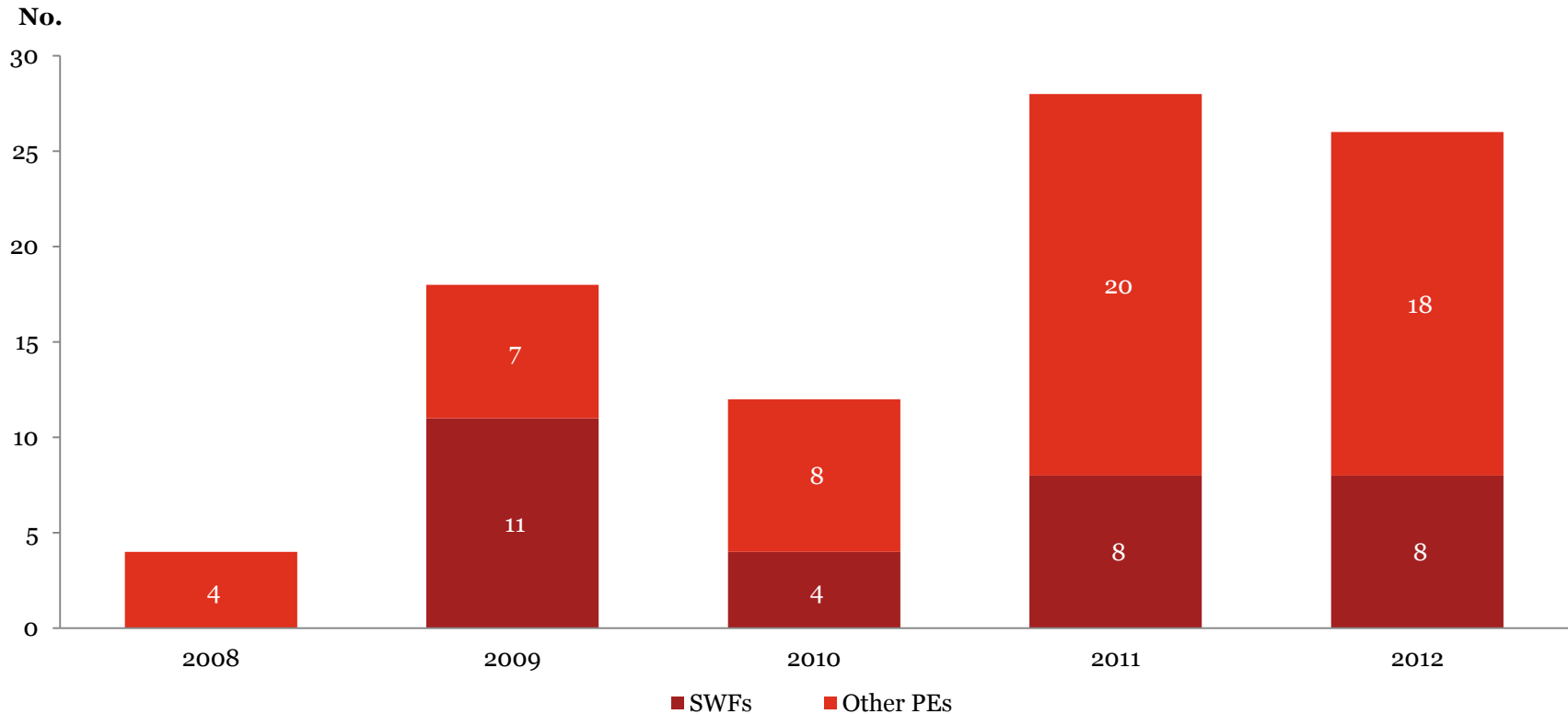


- 01-02/2013
- 2012
- 2011

Source: ThomsonReuters and PwC analysis

***PE is emerging as a player in Outbound deal activity; the TPGs and Bain Capitals of China will emerge to compete with their global peers; we are already seeing a step-up in Outbound M&A involving some of the pre-eminent Chinese PEs and the Outbound trend is happening much faster than many people predicted or even realise***

**China mainland PE backed outbound deal volume by PE category**

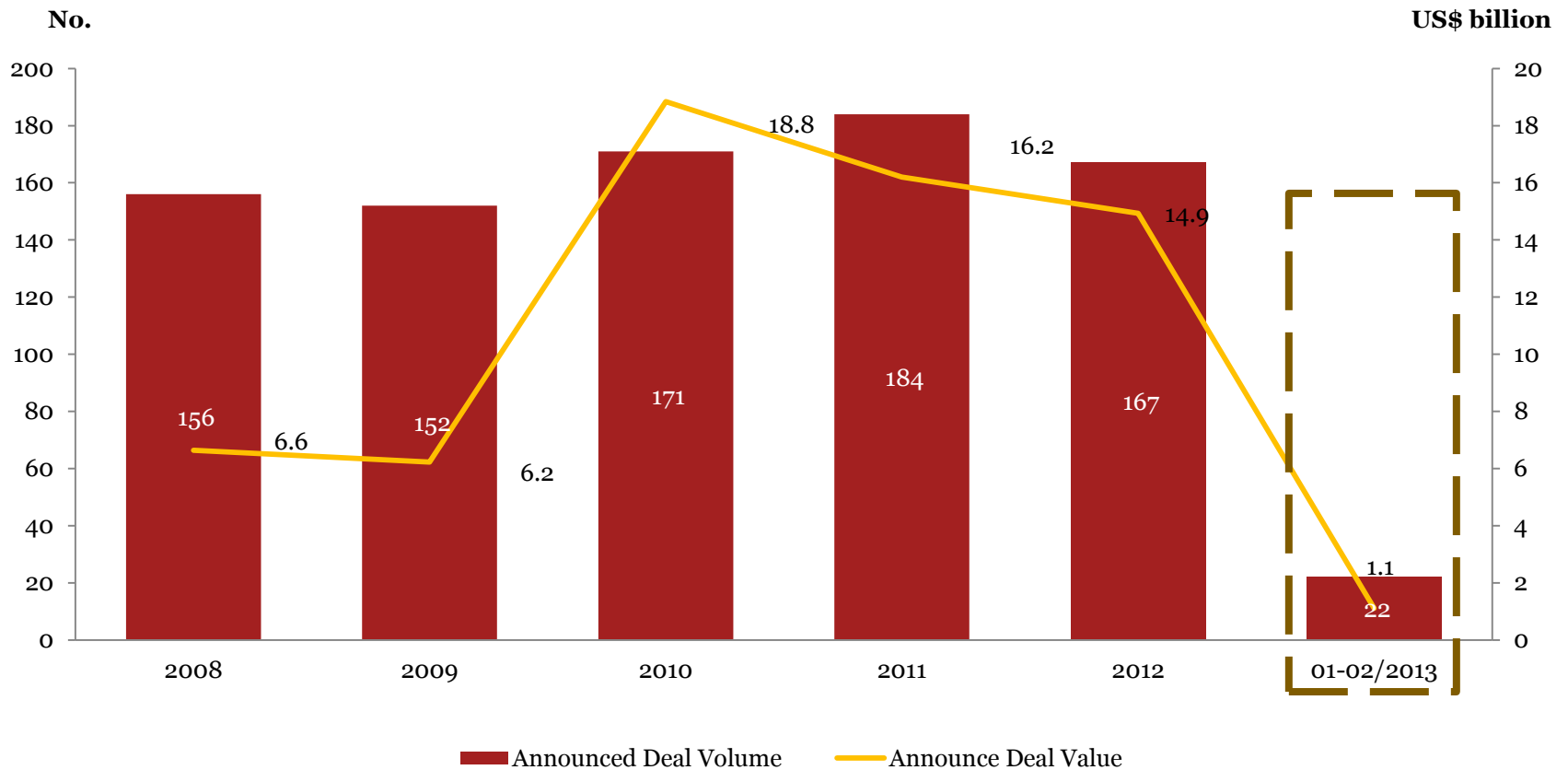


Source: ThomsonReuters, ChinaVenture and PwC analysis

# *HK outbound*

***HK Outbound deal volume has been fairly stable over the last five years, but deal sizes tend to be smaller than those staged by mainland Chinese buyers, with fewer mega-deals***

**HK outbound deals, from 2008 to 01-02/2013**



Source: ThomsonReuters, ChinaVenture and PwC analysis

## ***Mainland Chinese buyers accounted for eight out of the top 10 largest sized China and Hong Kong Outbound deals in 2012***

<b>Announced date</b>	<b>Acquirer</b>	<b>Acquirer region</b>	<b>Target company</b>	<b>Target Sector</b>	<b>Target nation</b>	<b>Deal value US\$ billion</b>
23-Jul	CNOOC	Mainland China	Nexon	Energy and Power	Canada	15.1
10-Sep	Haier	Mainland China	Fisher and Paykel Appliances	Consumer related	New Zealand	7.6
9-Dec	New China Trust Co Ltd, China Aviation Industrial Fund, P3 Investments Ltd and ICBC International	Mainland China	International Lease Finance	Industrials	United States	5.3
24-Jul	Cheung Kong Infrastructure	Hong Kong	MGN Gas Networks(UK)Ltd	Energy and Power	United Kingdom	3.0
20-May	Dalian Wanda Group Corp Ltd	Mainland China	AMC Entertainment Inc	Media and Entertainment	United States	2.6
19-Nov	Tiptop Energy Ltd	Mainland China	OML 138 Block	Energy and Power	Nigeria	2.5
3-Jan	Sinopec Intl	Mainland China	Devon Energy Corp-Assets	Energy and Power	United States	2.5
15-Jun	Hong Kong Exchanges and Clearing Ltd	Hong Kong	London MetalExchange Ltd	Financial Sevices	United Kingdom	2.1
3-May	Bright Food(Group)Co Ltd	Mainland China	Weetabix Ltd	Consumer related	United Kingdom	1.9
20-Jan	CIC	Mainland China	Thames Water PLC	Energy and Power	United Kingdom	1.8

Source: ThomsonReuters, ChinaVenture and PwC analysis

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# *Key messages*



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## **Key messages (1 of 2)**

### **Overall**

- *Overall 2012 China M&A decreased 26% by volume and 9% by value, with only Outbound deals showing growth (in value terms); we expect M&A activity to rebound in all sectors in 2013, with Outbound activity continuing to grow especially strongly*

### **China Outbound**

- *Although China Outbound deal volumes surprisingly showed a small decline, deal values grew by 54% to reach a new record high of US\$65.2 billion comprising more than a third of overall M&A activity measured by value, by far the highest proportion ever; we see many more deals in the pipeline and expect this growth trend to continue strongly with another record year in 2013*
- *We are seeing privately owned enterprises (POEs) taking on larger deal sizes; we think that private sector companies will be key drivers in the future growth of China Outbound M&A*
- *The growing activity of private sector buyers in acquiring industrial technologies and consumer-linked businesses overseas is an important trend; many of these deals are aimed at bringing advanced western technologies, know-how, IP and brands back for use in the Chinese domestic market; we are also seeing some POEs using overseas M&A to go global in addition to concentrating on the domestic market*

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## **Key messages (2 of 2)**

### **Domestic and Foreign-Inbound Strategic**

- *Both Domestic and Foreign-Inbound Strategic buyer deal activity fell to their lowest levels in the last five years with declines greater than those seen after the global financial crisis*
- *We think activity will rebound in 2013 as the direction of the Chinese economy becomes clearer, industry consolidation accelerates, domestic leadership changes take effect, and foreign economies start to emerge from their stressed states allowing MNCs to deploy cash reserves with greater confidence implementing their China market entry or growth strategies*

### **Private Equity**

- *In the PE sector there will be sharp consolidation across the industry, and the backlog of exits represents a real challenge for the sector*
- *PE has emerged as a key provider of capital to the liquidity starved private sector of the economy in China with real policy support - this demand for capital is driving strong market growth and activity; there are exceptionally strong tailwinds for the PE industry in China over the medium term*
- *We think new deal and exit activity will accelerate strongly from 2Q13 as pricing expectations adjust, 2012 results become available, IPO markets re-open, and China's leadership transition takes effect*