

PwC M&A 2014 Review and 2015 Outlook

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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, mainly invested by private equity GPs but also including direct investments by financial institutions and conglomerates which are of the nature of private equity type investing

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, but invested by venture capital funds
- “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 2008 to 2012 were adjusted based on 2014 average Rmb/US\$ exchange rate

Key messages

Key messages – China M&A in 2014 (1 of 3)

Overall

- *China M&A surged by 55% in both volume and value terms to reach record levels in 2014*
- *Nearly all sub-sectors achieved new volume records - led by domestic strategic M&A which increased by nearly two thirds compared to the prior year*
- *Deals sizes were also bigger in nearly all sub-sectors – 2014 China M&A at US\$407bn was more than half as much again as the previous high set in 2013*

Domestic and Foreign-Inbound Strategic

- *Strategic M&A surged 52% by volume and 63% by value to reach record highs; ongoing consolidation in China's maturing domestic economy and firms seeking equity capital through reverse takeovers of listed shells were key drivers*
- *Technology, consumer-related and financial services deals were important industry sectors, reflecting to some extent the development of the broader economy, but real estate continued to attract the biggest dollar numbers with developers seeking new sources of capital*
- *Foreign-inbound strategic M&A also hit a record high in value terms with some sizable deals in banking and FS in particular*

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

Private Equity

- *Fundraising by PEs remained healthy, with the strongest US\$ fundraise since 2008 and a slight uptick in Renminbi fundraising despite some disintermediation of domestic GPs*
- *2014 was a banner year for new investments by PEs and financial-buyers with record volumes (up 51%) and values (up 101%); participation in SOE reforms and - for the first time at scale - outbound deals involving Chinese GPs and financial buyers underpinned this performance*
- *PE deals in technology and consumer-related sectors accounted for more than half the total reflecting investment plans intended to align with the strategic direction of the wider economy; a similar trend was seen in deal values: in total there were 15 PE / financial-buyer deals valued at more than US\$1bn in 2014, another record*
- *Outbound investment by local PEs and financial buyers almost doubled in volume terms and outbound deal values also reached a record high; PEs typically look for overseas businesses which have a strong China-angle in their growth strategies*
- *As expected, there was a rebound in the number of PE exits; trade sale exits by M&A hit a record high, but IPO activity – although at a three year best - remains well below the levels seen in 2010/11*
- *A-share listings, although rebounding, nevertheless remain somewhat challenging and overseas listings in Hong Kong and New York are important exit routes*
- *The longer term overhang of new investments compared to exits continues to present a challenge to the PE industry*

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

China Outbound

- *The number of China outbound deals surged by more than a third to reach a record high; at US\$56.9bn, outbound transaction values have been exceeded only once (in 2012) despite a lack of mega-deals*
- *There was strong outbound investment activity in all three sub-sectors, but M&A activity from privately owned enterprises continues to lead the way in terms of deal numbers with financial buyers and PEs making a meaningful contribution to the numbers for the first time*
- *SOEs continue to do deals in the industrials, resources and energy sectors; POEs are looking for technologies and brands to bring back to the China market; PEs and financial buyers have backed some of these strategic deals as well as investing on their own account*
- *Chinese buyers in particular tend to favour developed markets where advanced technologies and brands can be found*

Overview

China M&A surged by 55% in both volume and value terms to reach record levels in 2014

Total deal volume and value, from 2008 to 2014

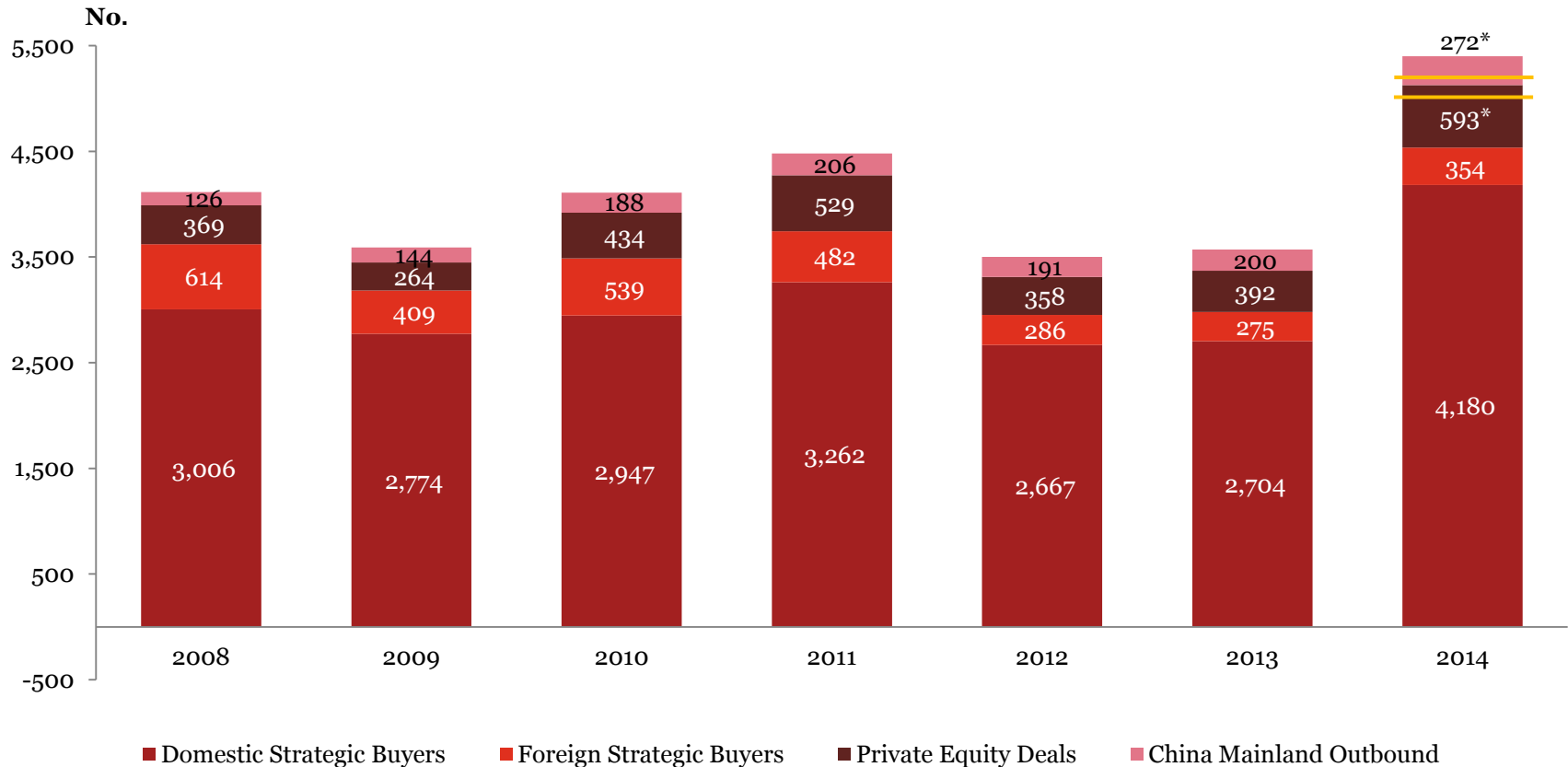
	2008		2009		2010		2011		2012		2013		2014		% Diff volume 2014 vs. 2013	% Diff value 2014 vs. 2013
	Volume	Value (US\$bn)	Volume	Value (US\$bn)	Volume	Value (US\$bn)	Volume	Value (US\$bn)	Volume	Value (US\$bn)	Volume	Value (US\$bn)	Volume	Value (US\$bn)		
Strategic buyers																
Domestic	3,006	150.4	2,774	101.9	2,947	143.9	3,262	120.8	2,667	90.3	2,704	149.2	4,180	243.6	55%	63%
Foreign	614	19.3	409	11.5	539	18.5	482	17.7	286	9.3	275	15.2	354	24.0	29%	58%
Total Strategic buyers	3,620	169.7	3,183	113.4	3,486	162.3	3,744	138.5	2,953	99.6	2,979	164.4	4,534	267.6	52%	63%
Financial buyers [※]																
Private Equity	369	22.0	264	22.8	434	27.0	529	41.0	358	34.3	392	36.4	593	73.2	51%	101%
VC	694	1.8	712	1.8	1,011	2.6	903	1.9	473	1.0	738	0.9	1,334	1.4	81%	63%
Total Financial buyers	1,063	23.8	976	24.6	1,445	29.5	1,432	42.9	831	35.3	1,130	37.2	1,927	74.6	71%	101%
China mainland Outbound																
SOE	27	6.8	37	23.3	60	34.1	40	29.1	40	36.7	57	39.4	78	27.9	37%	-29%
POE	95	2.0	97	6.3	119	6.8	139	6.2	125	19.9	118	11.4	145	14.7	23%	29%
Financial buyers [※]	4	1.7	10	3.7	9	1.4	27	8.2	26	10.3	25	1.1	49	14.3	96%	1200%
Total China mainland Outbound	126	10.4	144	33.3	188	42.1	206	43.5	191	66.9	200	51.9	272	56.9	36%	10%
HK Outbound	156	6.7	152	6.3	171	19.4	183	8.5	166	13.1	164	9.7	215	22.4	31%	131%
Total	4,961	208.9	4,445	173.9	5,281	251.9	5,538	225.1	4,115	204.6	4,448	262.1	6,899	407.2	55%	55%

※ Some financial buyer backed outbound deals are also recorded in private equity deals, but they are not double counted in the total deal volume and deal value in the table above

Source: ThomsonReuters, ChinaVenture and PwC analysis

Nearly all sub-sectors achieved new volume records - led by domestic strategic M&A which increased by nearly two thirds compared to the prior year

Deal volume by main category



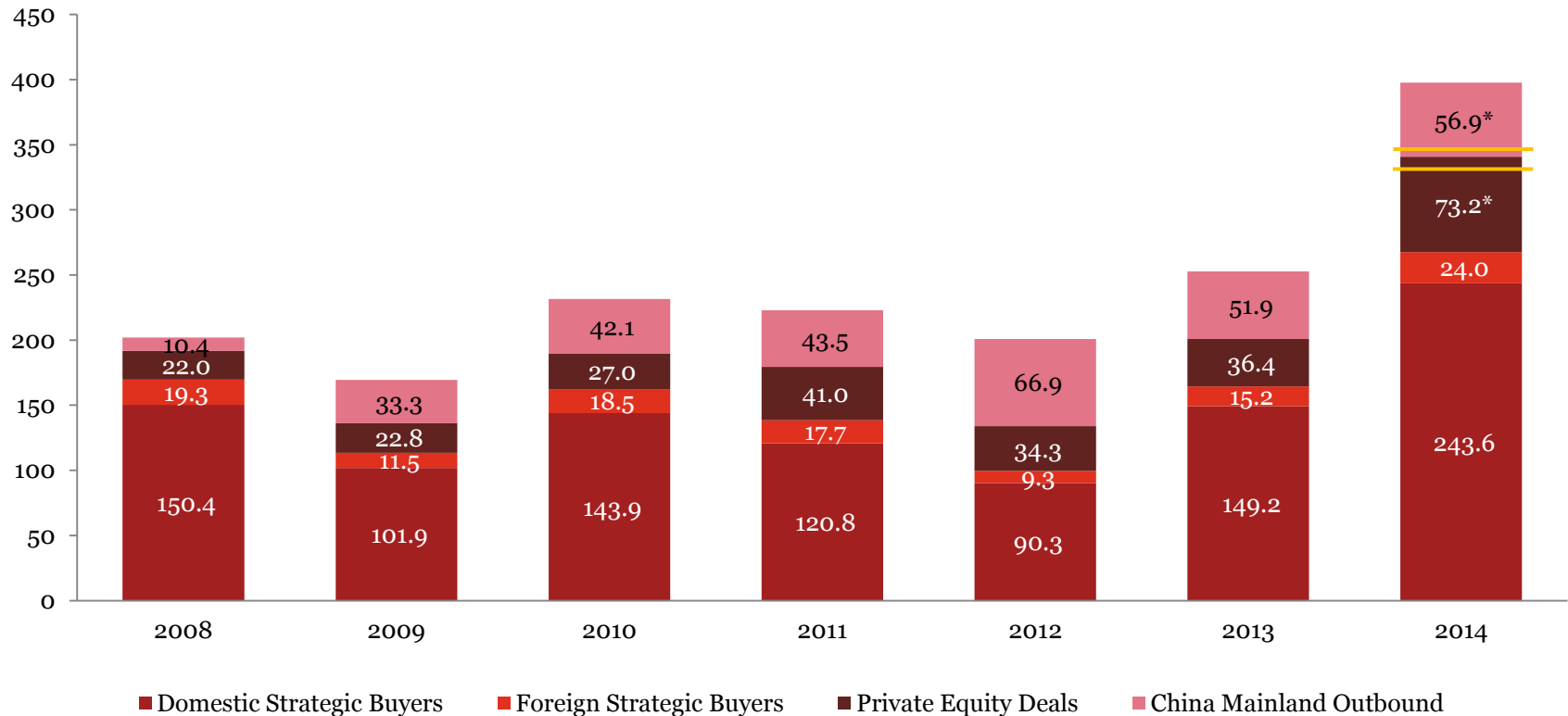
* 49 financial buyer backed outbound deals are also recorded in private equity deals

Source: ThomsonReuters, ChinaVenture and PwC analysis

Deals sizes were also bigger in nearly all sub-sectors – 2014 China M&A at US\$407bn was more than half as much again as the previous high set in 2013

Deal value by main category

US\$ billion

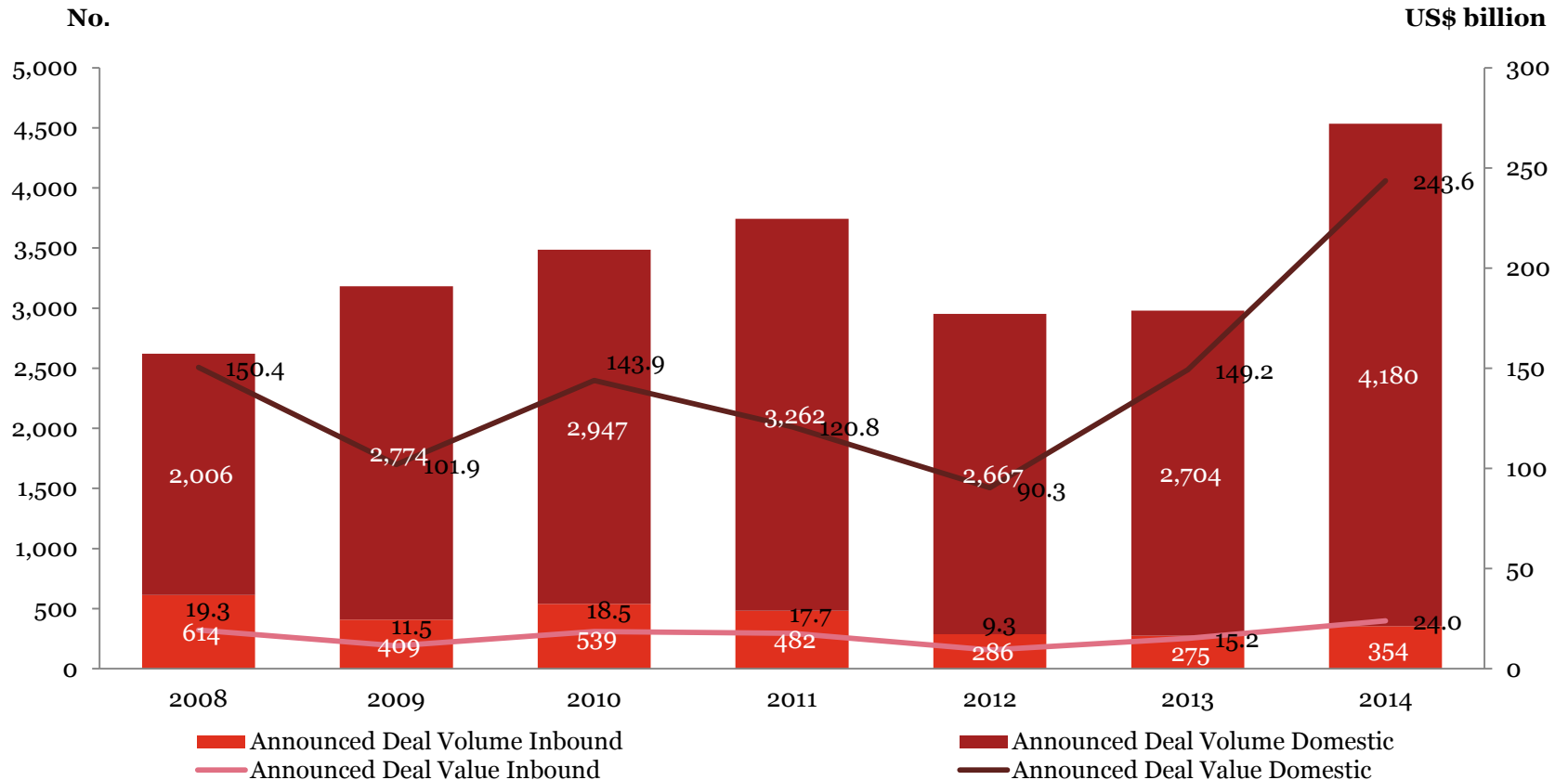


* US\$14.3bn of financial buyer backed outbound deals are also recorded in private equity deals
 Source: ThomsonReuters, ChinaVenture and PwC analysis

Strategic buyers

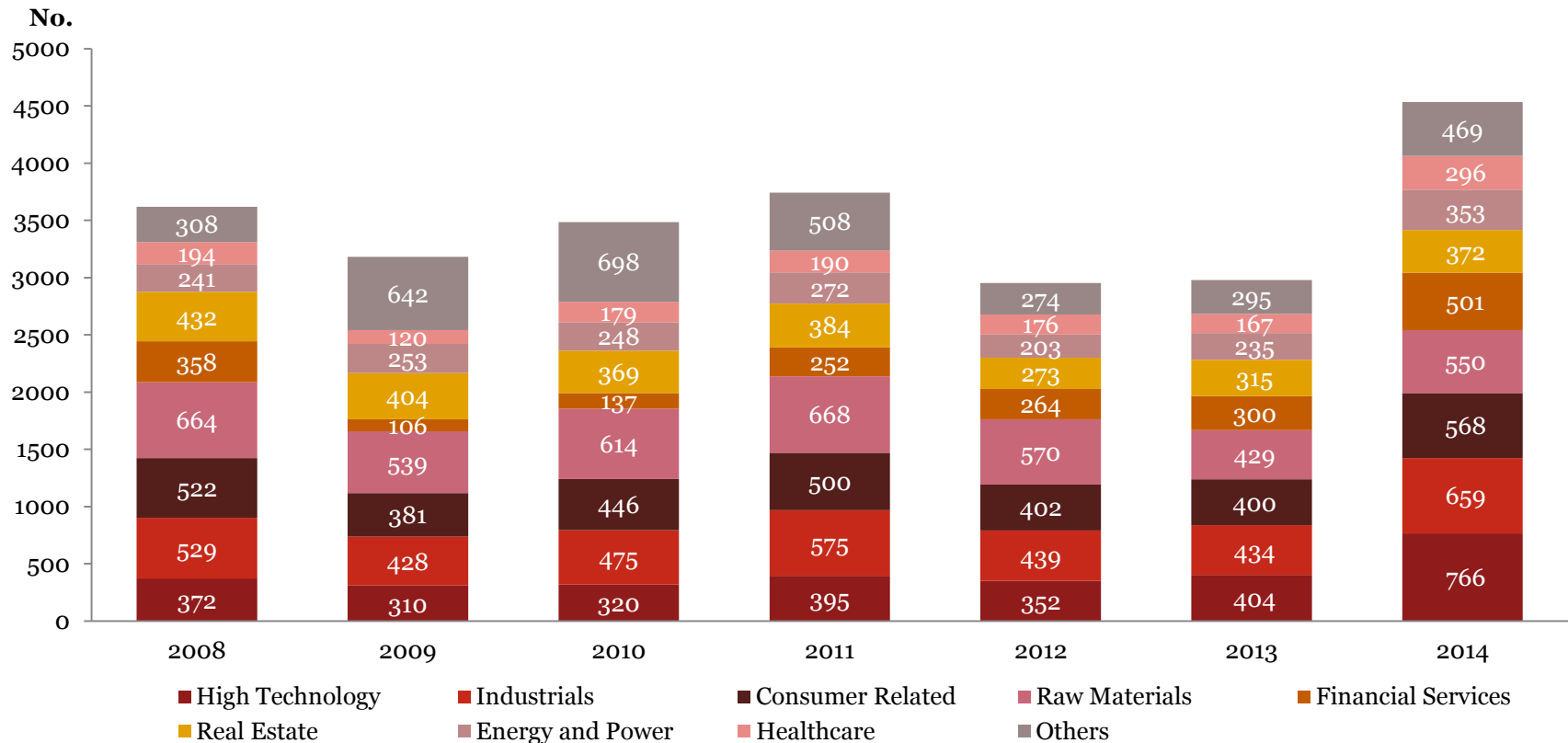
Strategic M&A surged 52% by volume and 63% by value to reach record highs; ongoing consolidation in China's maturing domestic economy and firms seeking equity capital through reverse takeovers of listed shells were key drivers

Strategic buyer deals, from 2008 to 2014



Technology, consumer-related and financial services deals were important industry sectors, reflecting to some extent the development of the broader economy ...

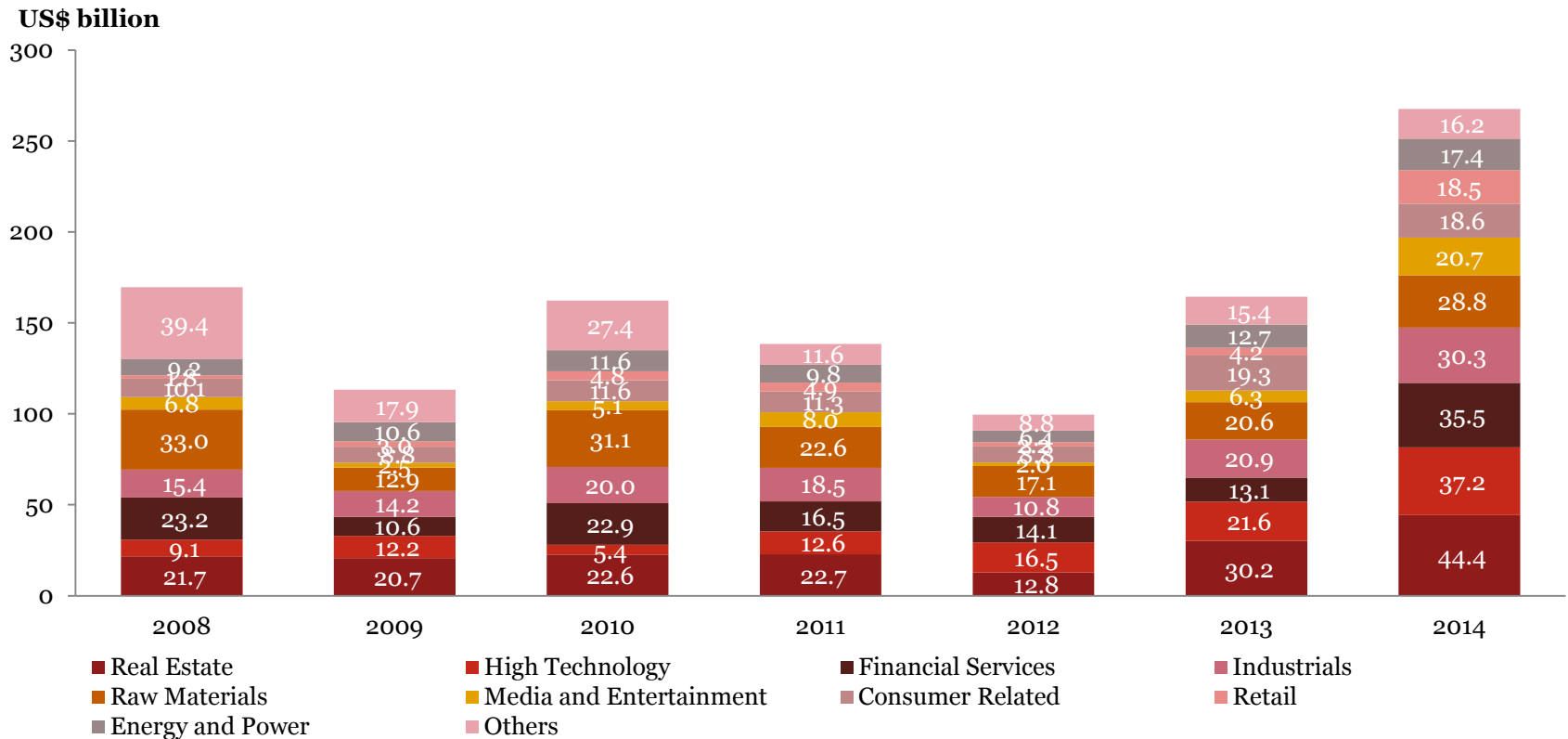
Strategic buyer deal volume by industry sector



Source: ThomsonReuters, ChinaVenture and PwC analysis

... but real estate continued to attract the biggest dollar numbers with developers seeking new sources of capital

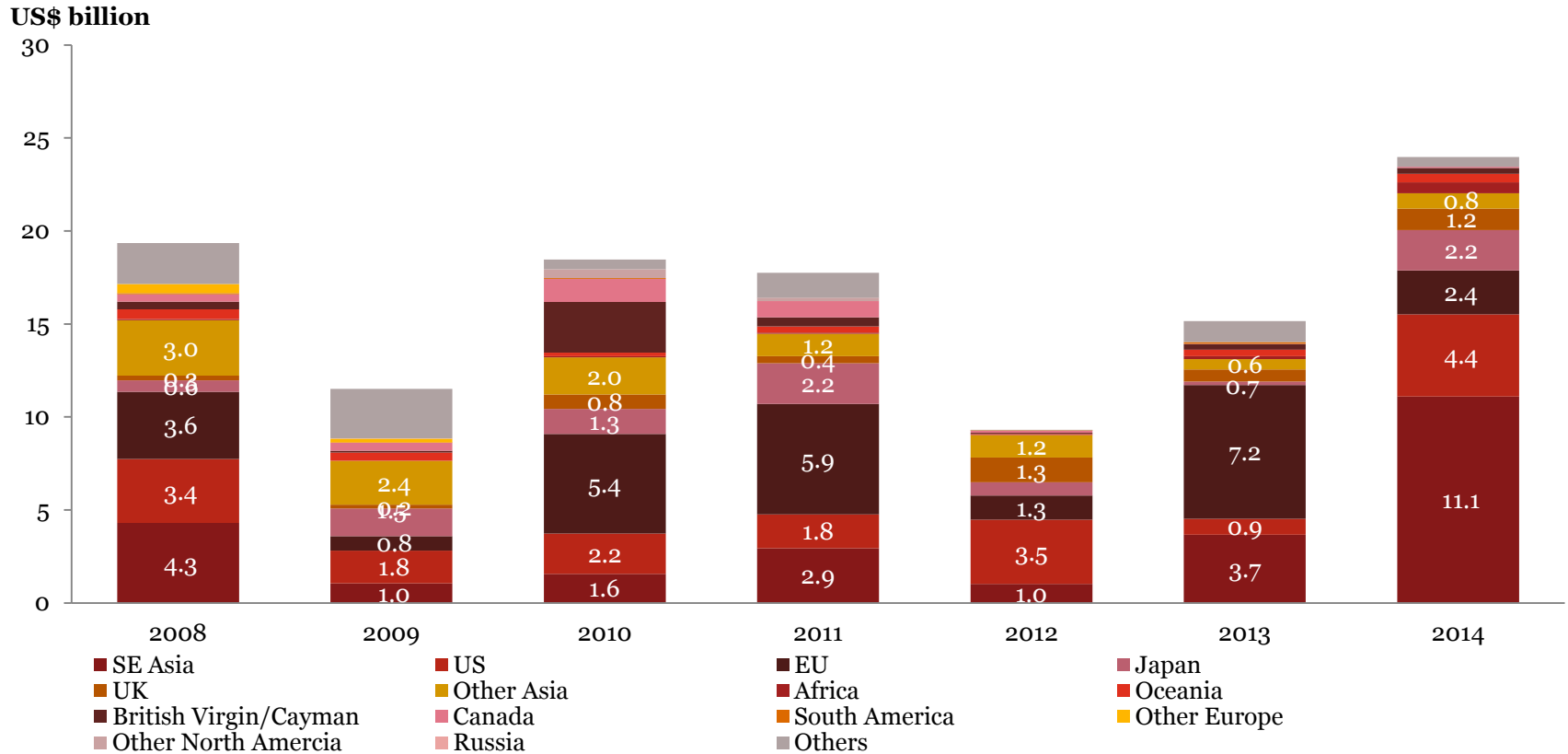
Strategic buyer deal value by industry sector



Source: ThomsonReuters, ChinaVenture and PwC analysis

Foreign-inbound strategic M&A also hit a record high in value terms with some sizable deals in banking and FS in particular

Foreign strategic buyer deal value by region of origin



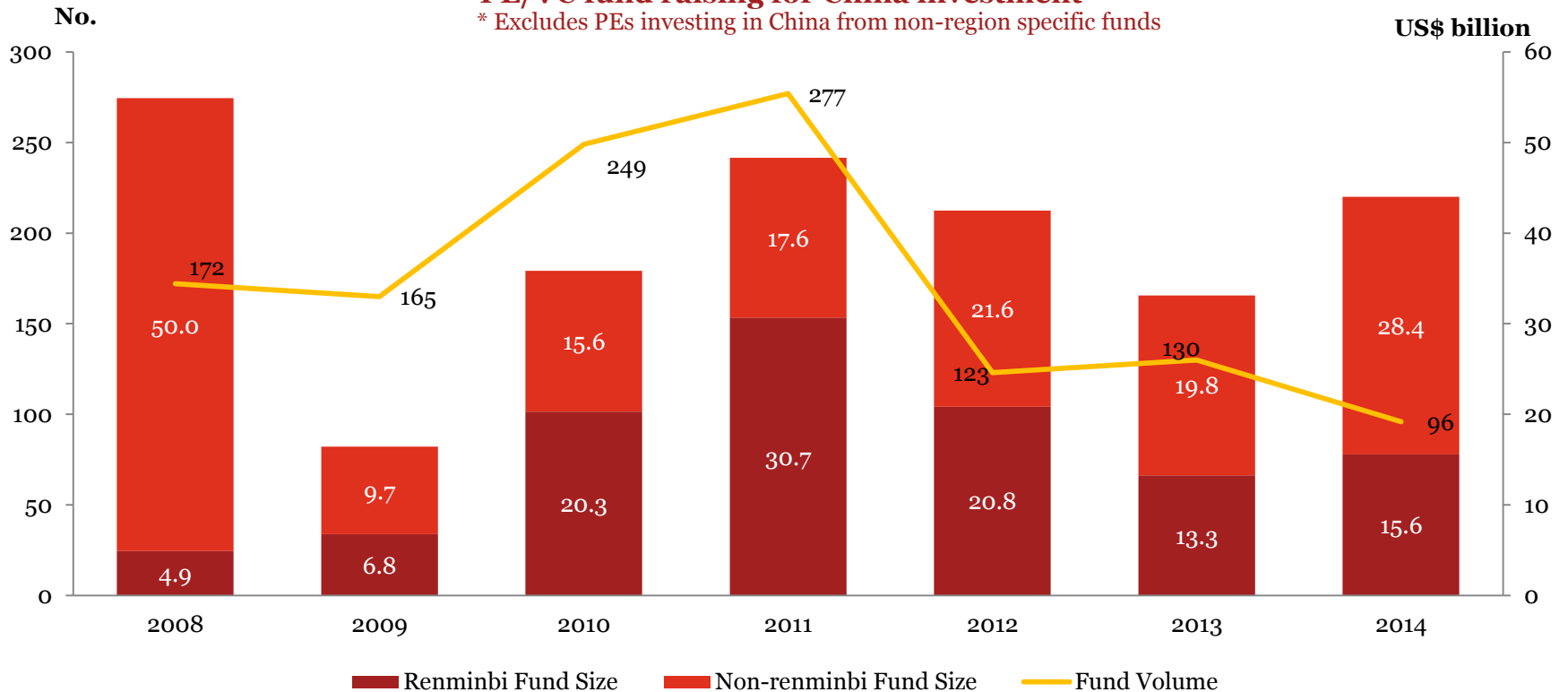
Source: ThomsonReuters, ChinaVenture and PwC analysis

PE/VC deals and financial buyer deals

Fundraising by PEs remained healthy, with the strongest US\$ fundraise since 2008 and a slight uptick in renminbi fundraising despite some disintermediation of domestic GPs

PE/VC fund raising for China investment*

* Excludes PEs investing in China from non-region specific funds

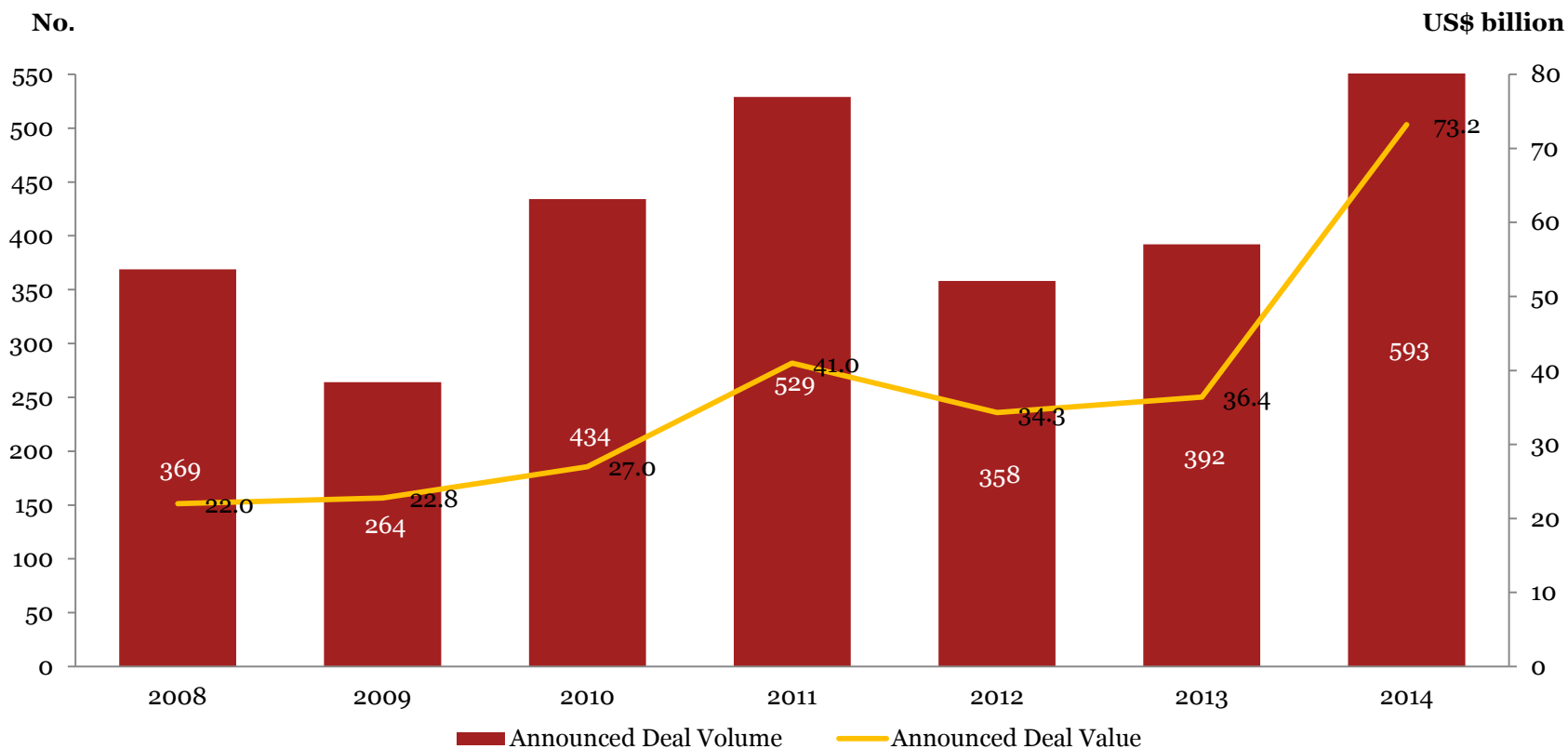


Source: AVCJ and PwC analysis

PwC

2014 was a banner year for new investments by PEs and financial-buyers with record volumes (up 51%) and values (up 101%); participation in SOE reforms and - for the first time at scale - outbound deals involving Chinese GPs and financial buyers underpinned this performance

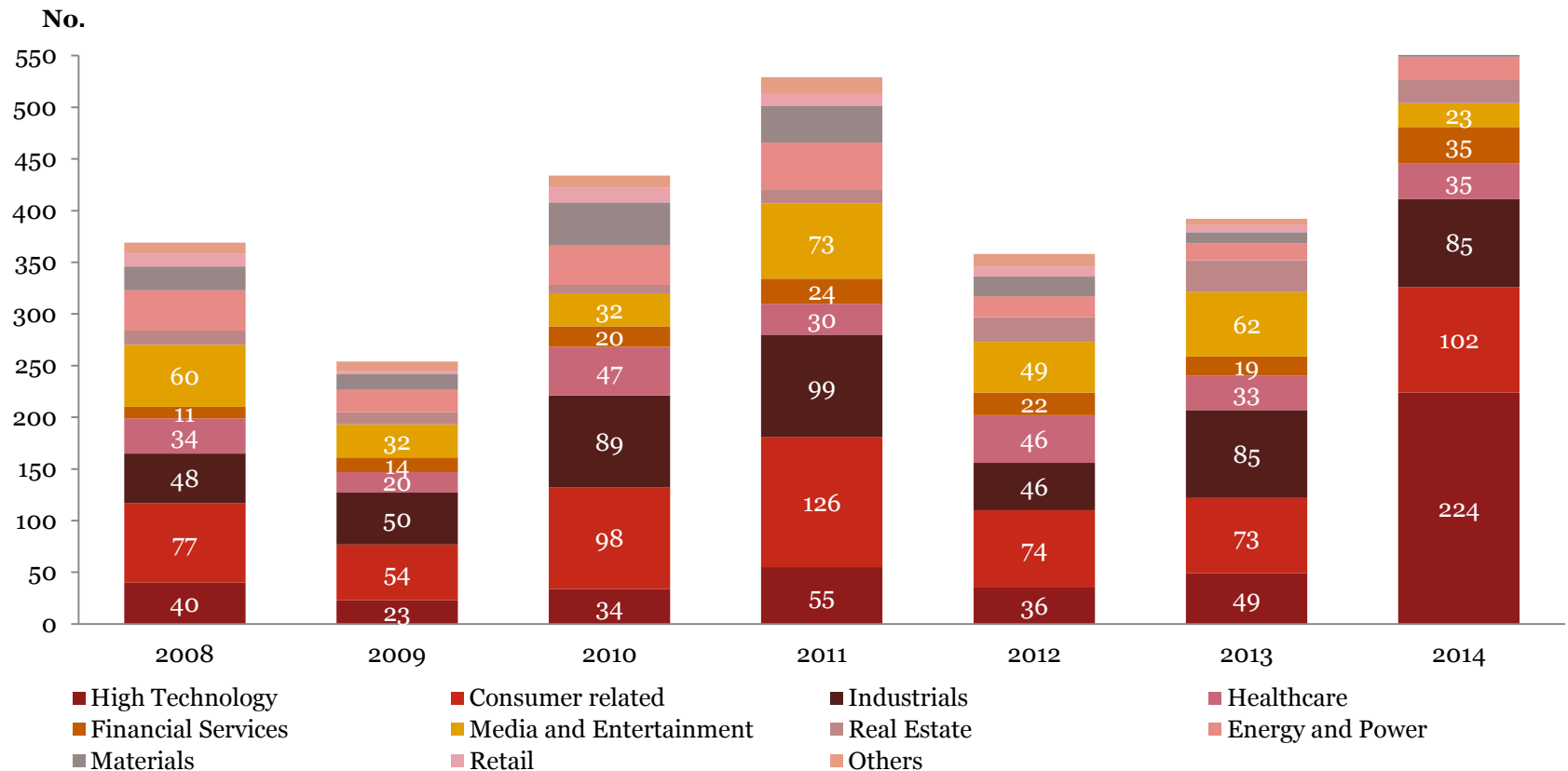
Private Equity deals, from 2008 to 2014



Source: ThomsonReuters, ChinaVenture and PwC analysis

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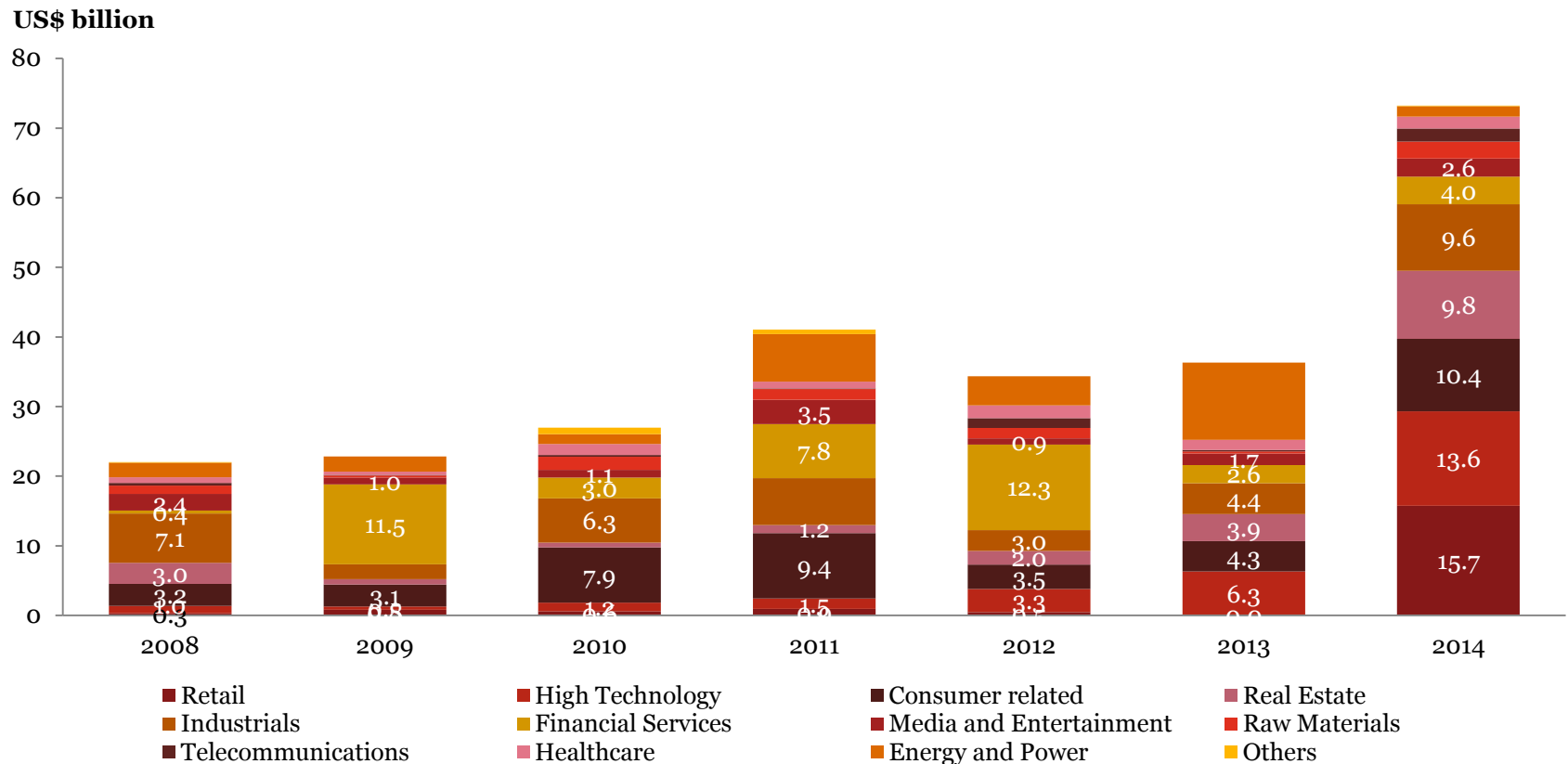
PE deal volume by industry sector



Source: ThomsonReuters, ChinaVenture and PwC analysis

... and a similar trend was seen in deal values: in total there were 15 PE / financial-buyer deals valued at more than US\$1bn in 2014, another record

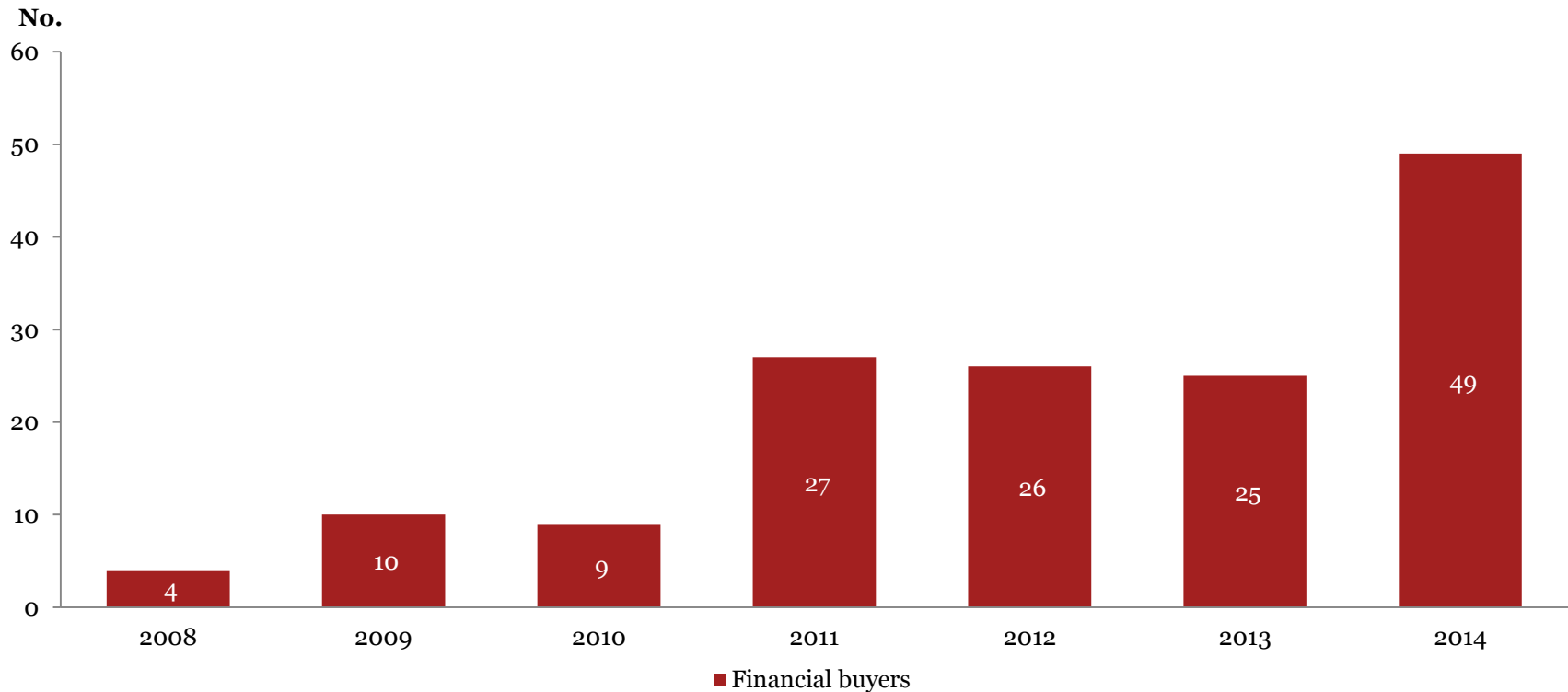
PE deal value by industry sector



Source: ThomsonReuters, ChinaVenture and PwC analysis

Outbound investment by local PEs and financial buyers almost doubled in volume terms ...

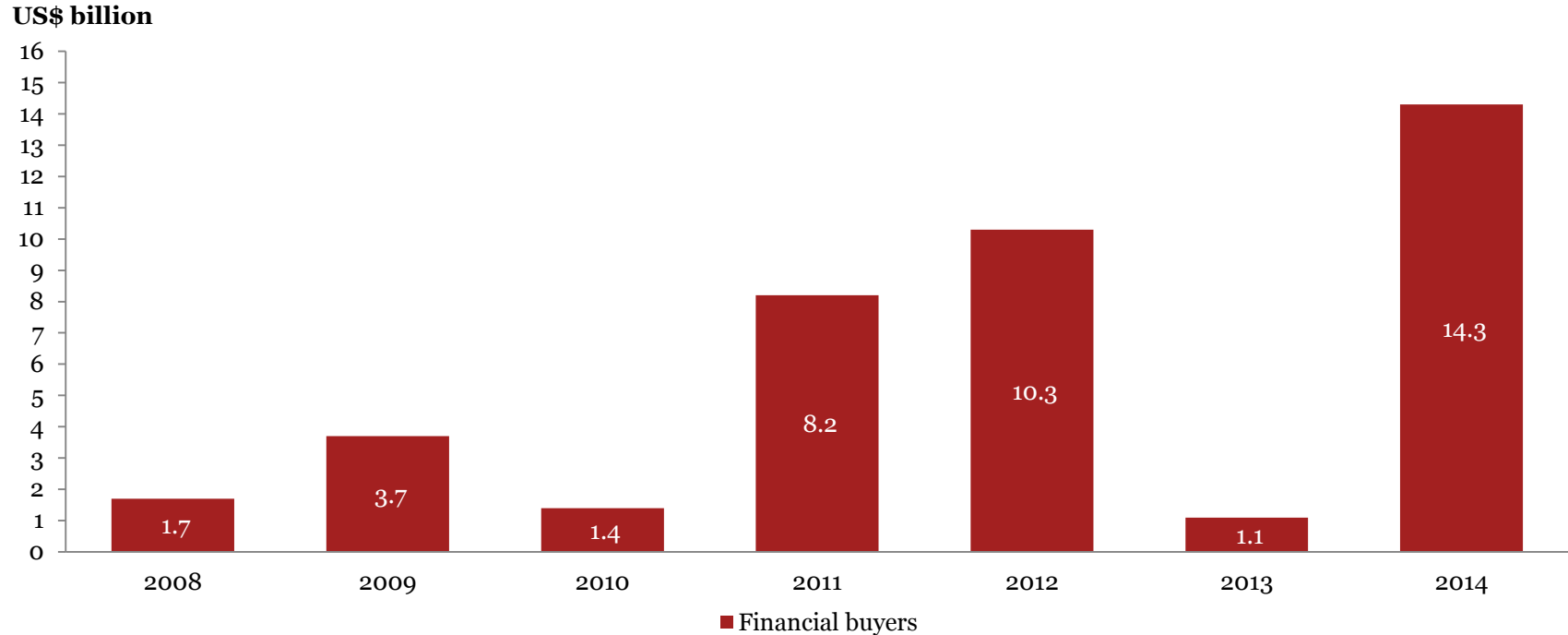
China mainland PE/Financial buyer backed outbound deal volume



Source: ThomsonReuters, ChinaVenture and PwC analysis

... and outbound deal values also reached a record high; PEs typically look for overseas businesses which have a strong China-angle in their growth strategies

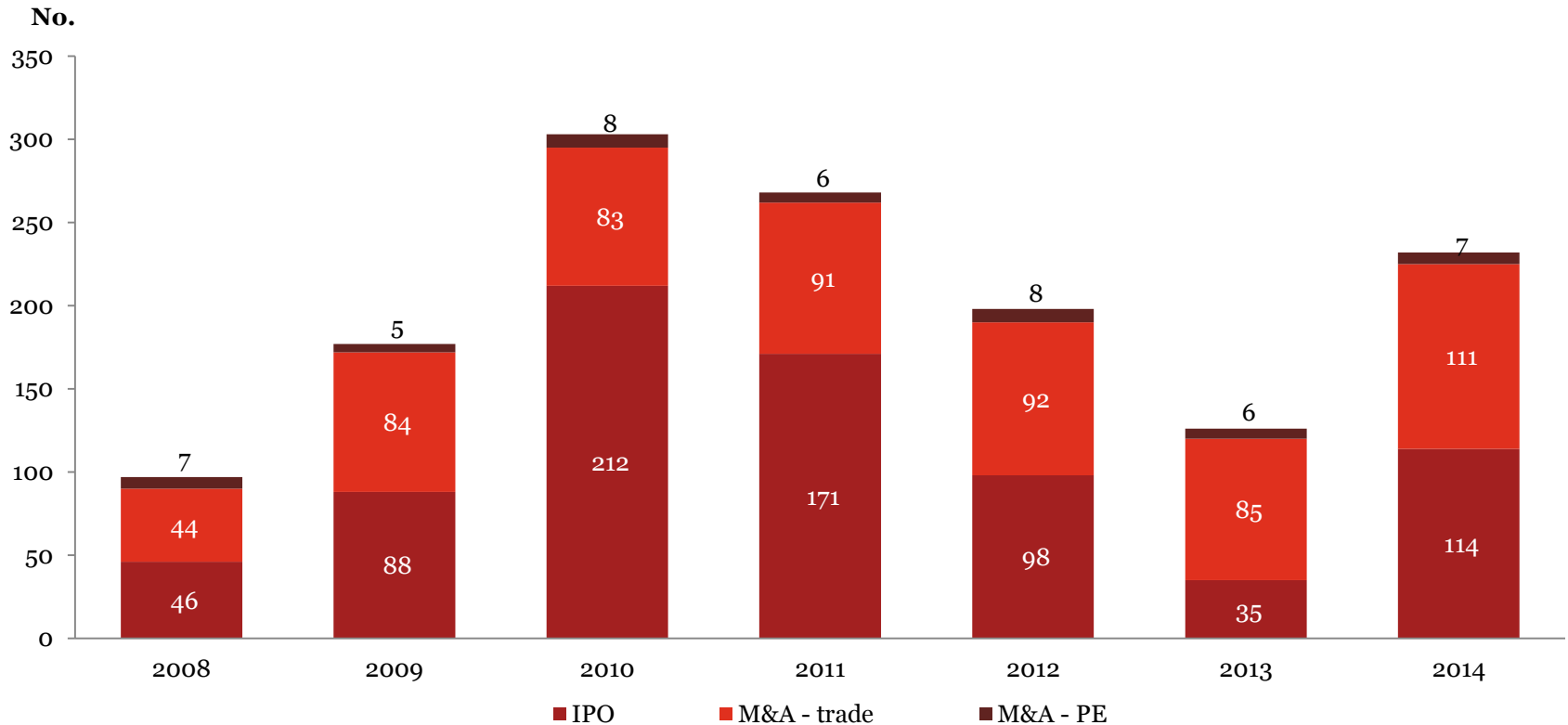
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As expected, there was a rebound in the number of PE exits; trade sale exits by M&A hit a record high, but IPO activity – although at a three year best - remains well below the levels seen in 2010/11

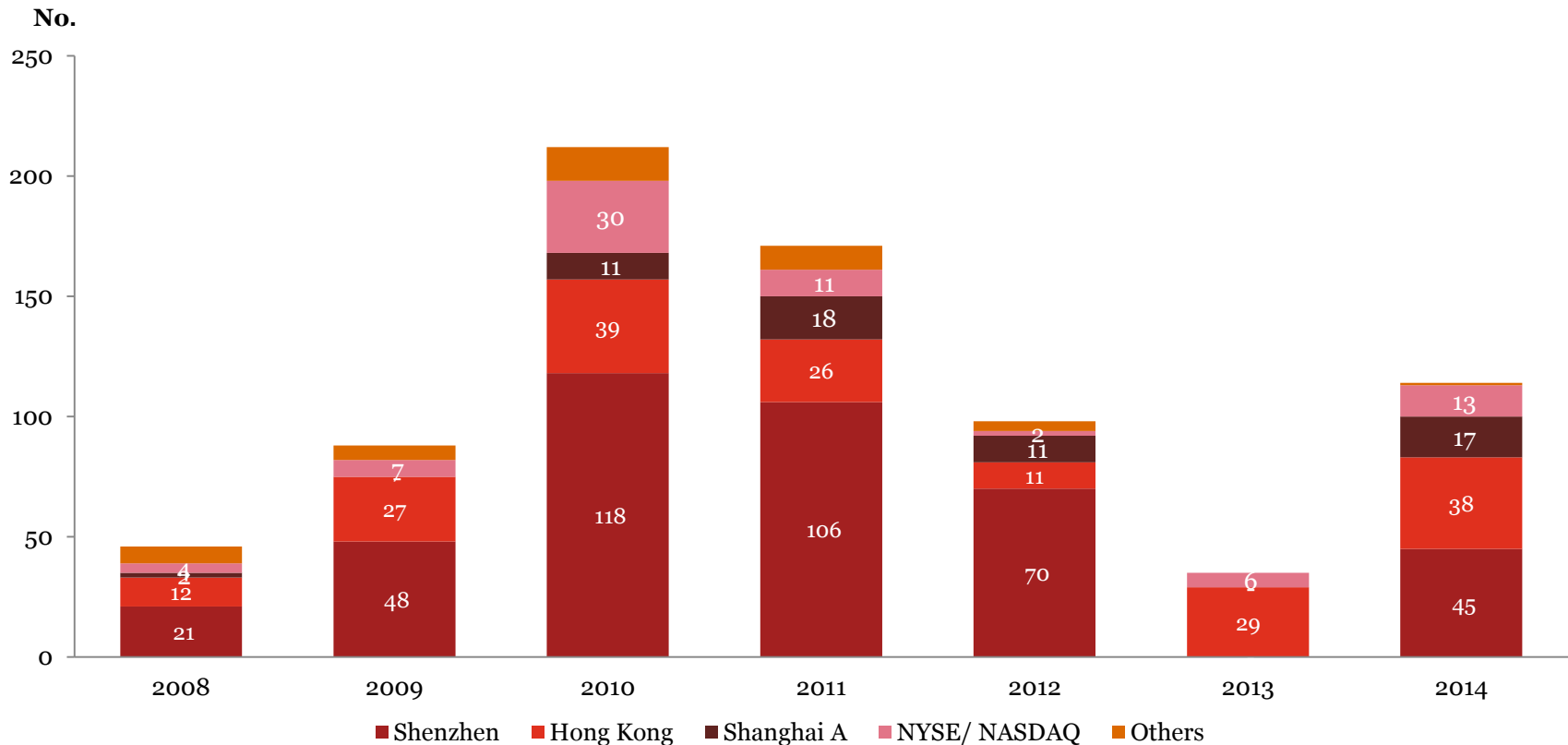
PE/VC backed deal exit volume by type



Source: AVCJ and PwC analysis

A-share listings, although rebounding, nevertheless remain somewhat challenging and overseas listings in Hong Kong and New York are important exit routes

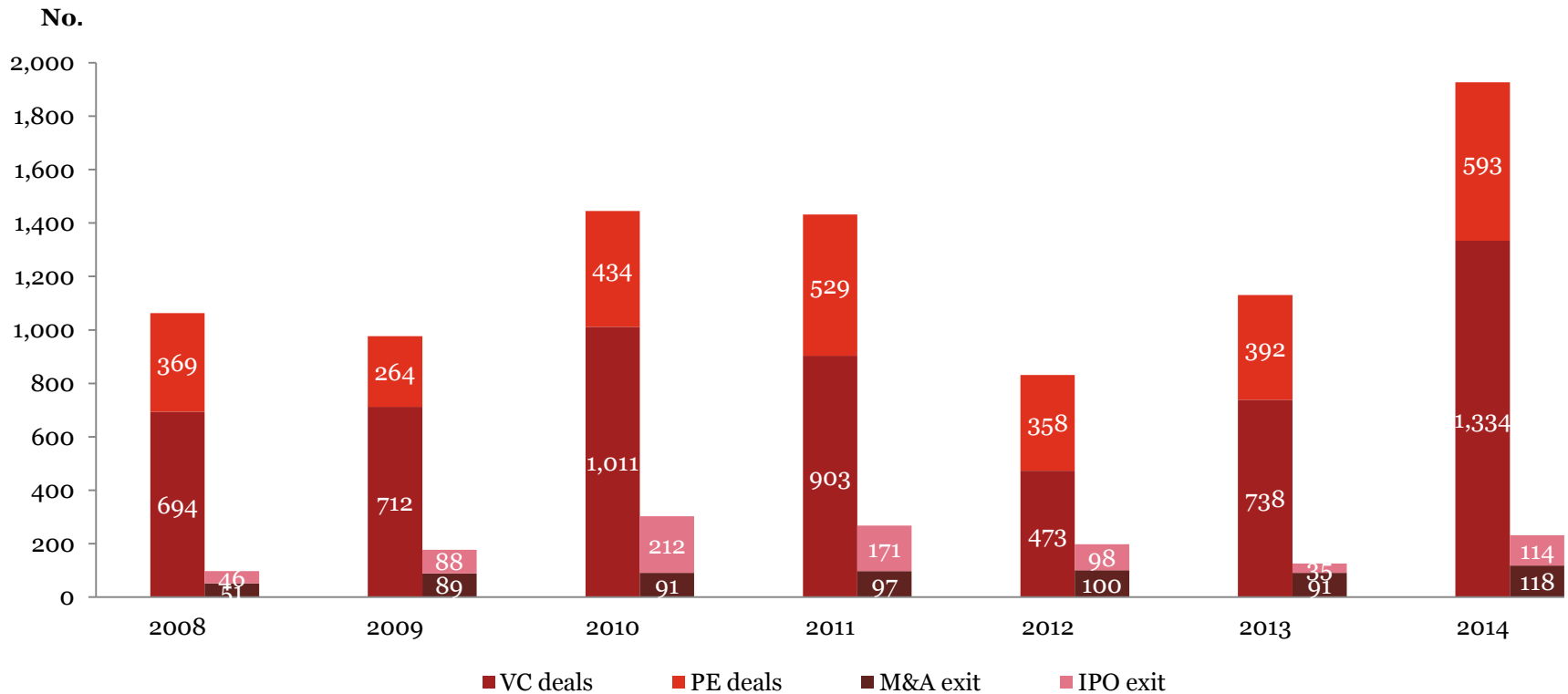
PE/VC backed IPO exit volume by bourse



Source: AVCJ and PwC analysis

The longer term overhang of new investments compared to exits continues to present a challenge to the PE industry

PE/VC deal volume vs. No. of exits

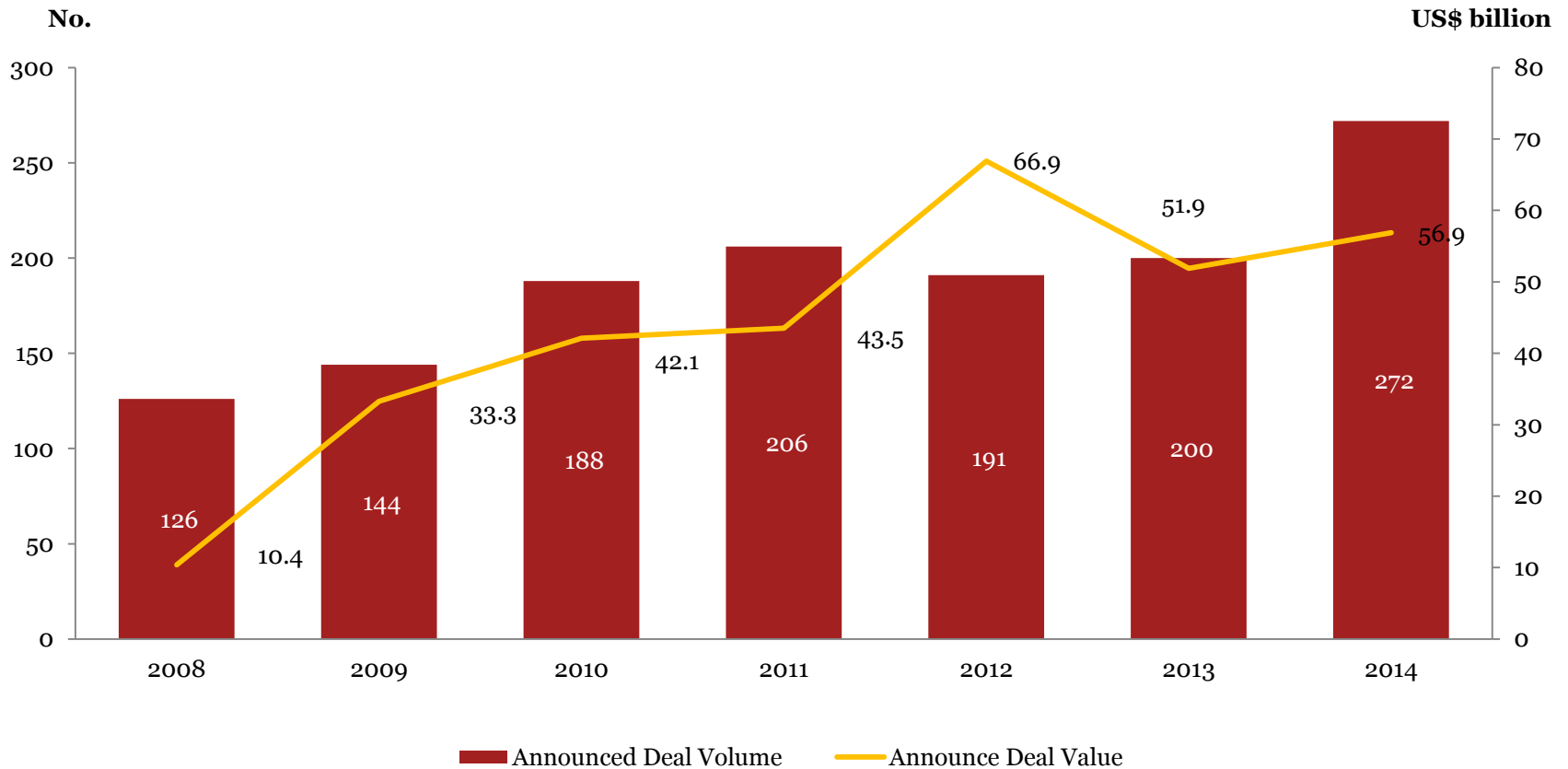


Source: ThomsonReuters, ChinaVenture, AVCJ and PwC analysis

Mainland China outbound

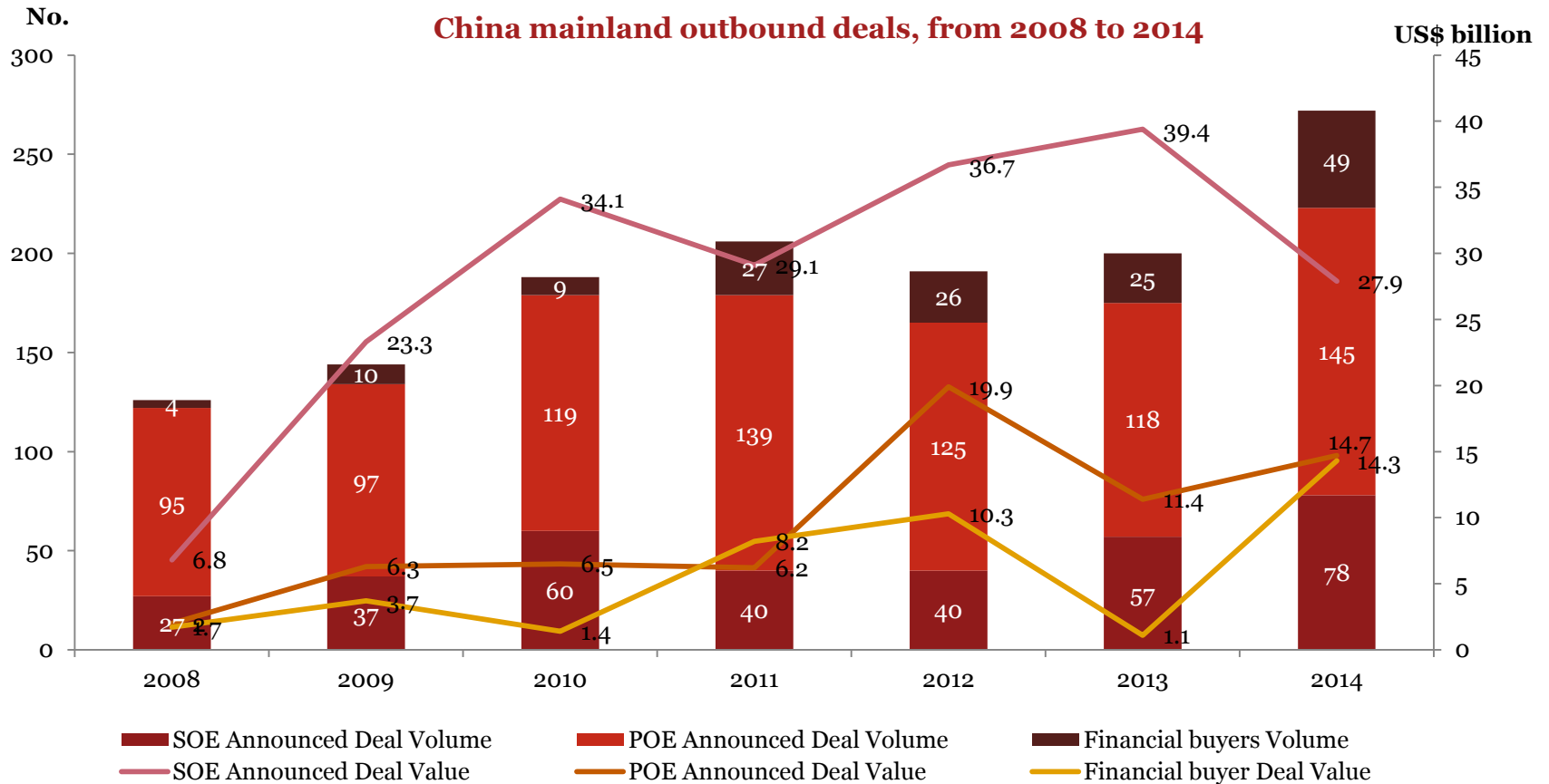
The number of China outbound deals surged by more than a third to reach a record high; at US\$56.9bn, outbound transaction values have been exceeded only once (in 2012) despite a lack of mega-deals

China mainland outbound deals, from 2008 to 2014



Source: ThomsonReuters, ChinaVenture and PwC analysis

There was strong outbound investment activity in all three sub-sectors, but M&A activity from privately owned enterprises continues to lead the way in terms of deal numbers with financial buyers and PEs making a meaningful contribution to the numbers for the first time

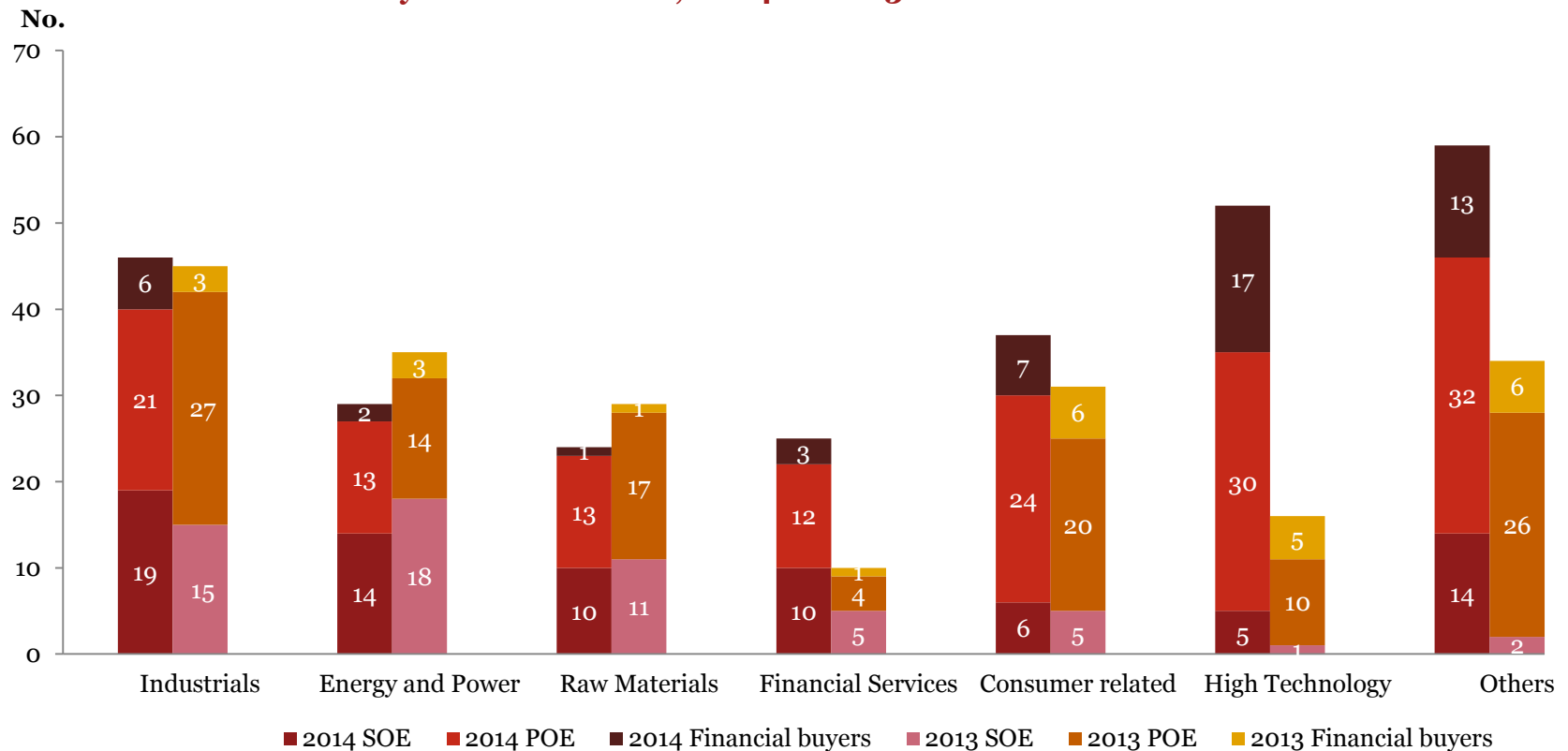


Source: ThomsonReuters, ChinaVenture and PwC analysis

SOEs continue to do deals in the industrials, resources and energy sectors; POEs are looking for technologies and brands to bring back to the China market; PEs and financial buyers have backed some of these strategic deals as well as investing on their own account

China mainland outbound deals by industry sector

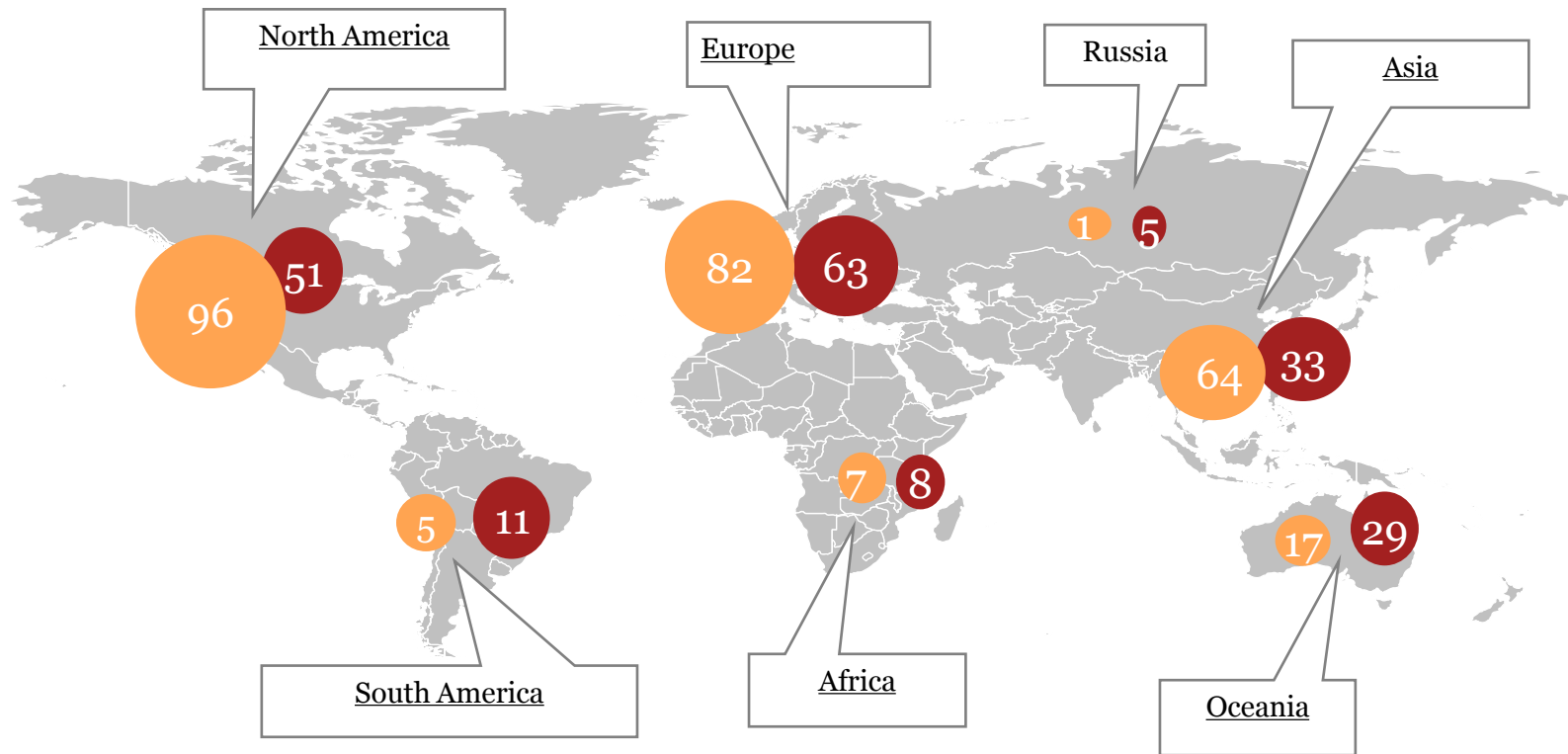
–By number of deals, 2014 vs. 2013



Source: ThomsonReuters, ChinaVenture and PwC analysis

POEs and financial buyers in particular tend to favour developed markets where advanced technologies and brands can be found

Outbound M&A deal volume by region of destination 2014 vs. 2013



● 2014
● 2013

Source: ThomsonReuters and PwC analysis

Outlook

Outlook for 2015 (1 of 5)

Overall

- *The healthy trends in China M&A will continue into 2015*
- *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, with increasing involvement of PE and financial buyers*
 - *An active PE market, including exit-related activity*

Key industry sectors

Technology, especially internet:

- *The BAT group will continue to lead deal activities both domestically and outbound*
- *Hot sub-sectors include internet, eCommerce, media and semi-conductors*
- *M&A activity will be increasingly centred around mobile, location-based services and social networks, as well as opportunities around O2O*
- *We expect TMT to continue to be a hot sector in 2015*

Outlook for 2015 (2 of 5)

Key industry sectors (continued)

Financial services:

- *We anticipate inbound interest in P&C insurance (especially specialty insurance) and money lenders (leasing, micro-finance, guarantee companies) which are driven by the expected rapid growth in the SME and retail lending sectors*
- *With the fast evolving electronic media channel providing efficiencies in market coverage and customer analytics, we expect significant inbound and domestic interest in third party payment platforms and internet banking platforms*

Retail and consumer:

- *R&C generally is expected to be an active sector for M&A in 2015*
- *Active sub-sectors tend to be changeable, but we expect activity in the following areas*
 - *Education*
 - *Healthcare*
 - *Restaurants*
 - *Food related sectors including agriculture and businesses related to food quality and safety*
 - *Technology, electrical, home appliance products*
 - *Consumer targeted e-commerce*

Outlook for 2015 (3 of 5)

Key industry sectors (continued)

Real estate:

- *We expect M&A activity in real estate to be driven by a number of factors including group restructurings, back door listings to access capital, funding requirements, growth, etc*
- *Liquidity of developers will become more challenging*
- *We think more distressed assets will become available in 2015, especially in tier-2 and tier-3 cities*

Healthcare:

- *Healthcare sector is attracting investment from SOEs, POEs and PE, but less so from MNCs at this stage*
- *We expect investment interest in the full industry value chain of “Big Healthcare” with special focus on public and enterprise owned hospital*
- *There are some challenges, however, including:*
 - *Longer investment return periods*
 - *Defining sustainable business models*
 - *Post deal management and exit*
 - *The sensitive nature of the sector (policymakers must consider how to monitor and manage investments activities in order to balance economic interests with social responsibility and the interests of various stakeholders involved)*
- *We also expect to see some outbound activity around healthcare*

Outlook for 2015 (4 of 5)

Domestic and Foreign-Inbound Strategic

- *Domestic M&A will show steady single digit or low double digit growth driven by:*
 - *Continuing consolidation in many industries to remove excess or competitive capacity*
 - *SOE reforms – which will lead to some large transactions*
 - *A-share listed companies looking for inorganic growth*
 - *Back-door listings in response to difficulties in achieving new IPOs*
- *Technology (especially internet), FS, retail and consumer, and real estate are hot sectors; healthcare is also a focus, albeit smaller*

China Outbound

- *POEs will continue to lead double digit growth in China outbound chasing:*
 - *New markets for growth*
 - *Technologies, brands and know-how to bring back to China market*
 - *Diversified investments*
- *SOE outbound should also be strong as domestic reform plans work through*
- *SOEs in particular are increasingly building presence in Hong Kong as a platform for future outbound activity*
- *Financial investors and PEs will also drive growth in outbound M&A as a means to diversify investment portfolios, whilst usually seeking foreign companies with a China angle in their growth strategies*

Outlook for 2015 (5 of 5)

Private equity

- *PE activity will remain robust in 2015*
- *Trends in the market 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 (trade sale exit)*
 - *More exit activity from IPOs, strategic trade sales and – eventually – secondary PE sales*

Data compilation methodology and 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