

M&A 2015 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 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 refer 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 value, 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 realising a return on their investment by selling the business at a profit at a future date and mainly, but not entirely, comprises PE and VC funds
- In order to exclude foreign exchange impact, deal values from 2008 to 2014 were adjusted based on 1H2015 average Rmb/US\$ exchange rate

Key messages

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

Overall

- *China M&A activity surged to \$352bn in the first half of 2015, by far the highest half year total and up by 57% on the previous six months*
- *Domestic (intra-China) M&A continues to drive the overall China M&A growth story, up by 60%; and private equity deal value also grew strongly, up 62%*
- *The overall number of transactions - at 4,559 - also grew, exceeding by 10% the record levels hit in the second half of 2014*

Domestic and Foreign-Inbound Strategic

- *Domestic (intra-China) strategic M&A surged in the first half of the year; key drivers included surging equity capital markets, sector consolidation and SOE reforms*
- *Technology, financial services and real-estate were hot sectors – each nearly doubling in size since last year; important factors included: government support for technology and innovation as transformers of the economy, RE developers' need for capital, and FS deals in the consumer / retail space to support growing liquidity needs in the local retail and SME markets*
- *Foreign (inbound) strategic buyers remained active*

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

Private Equity

- *In the PE sector, the rebound back to Renminbi fundraising continued, on the back of a (temporarily) hot A-Share market; Renminbi activity was likely higher than shown in Chart 17 due to a proliferation of project-based, A-share backed, and other “non-traditional” domestic investors*
- *The value of PE M&A surged by 63% to \$62.4bn, another half-year record; Renminbi denominated funds were active, with the A-share market back in favour as a source of future exits; there were a number of US take-privates also driven by this trend*
- *There is a real focus on technology plays, especially internet-related, as this sector is seen as “on-strategy” for China; it continues to mature, attracting larger equity cheques in later round fundraisings*
- *Exit activity continued to grow, with IPO again the dominant route to liquidity as stock market multiples soared, although M&A and secondary exit activity was unexceptional*
- *Soaring A-share multiples provided a window for exits on Chinese stock markets, although that window appears to have been short lived*
- *The cumulative overhang of investments over exits continues to persist*

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

China Outbound

- China outbound M&A grew by 17% to a new record of 174 deals for the half year; values were up 24% on the previous period*
- Privately owned enterprises again led the charge, up 50% by number and 148% by value*
- POEs looked overseas for products, technologies and industrial upgrades to bring back into an increasingly consumer-driven domestic market, but also as a way to grow by expansion into overseas markets; there were also a number of sizable outbound deals in the insurance sector*
- Advanced economies continue to be a major source of targets for Chinese acquirers; Asia and Australia are often the “first step” of choice for emerging Chinese MNCs*

Overall China M&A

China M&A activity surged to \$352bn in the first half of 2015, by far the highest half year total and up by 57% on the previous six months

Total deal volume and value, from 1H12 to 1H15

	1H12		2H12		1H13		2H13		1H14		2H14		1H15		% Diff volume 1H15 vs. 2H14	% Diff value 1H15 vs. 2H14
	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	1,177	36.0	1,490	54.7	1,096	50.2	1,608	99.8	1,636	99.8	2,544	145.1	2,556	232.3	0%	60%
Foreign	152	4.1	134	5.3	123	6.7	152	8.5	151	13.1	203	11.0	188	12.4	-7%	12%
Total Strategic buyers	1,329	40.1	1,624	60.0	1,219	57.0	1,760	108.3	1,787	112.9	2,747	156.1	2,744	244.6	0%	57%
Financial buyers																
* Private Equity	173	11.9	185	33.0	167	19.2	225	17.3	213	35.4	380	38.2	425	62.4	12%	63%
VC	242	0.5	244	0.5	276	0.5	462	0.4	561	0.5	773	0.9	1,141	1.3	48%	44%
Total Financial buyers	415	12.4	429	33.6	443	19.7	687	17.7	774	35.9	1,153	39.1	1,566	63.7	36%	63%
China mainland Outbound																
SOE	23	15.8	18	23.0	27	20.8	30	18.8	32	16.2	46	11.9	40	12.3	-13%	3%
POE	64	6.1	60	4.8	49	7.4	69	4.0	75	11.1	70	3.6	105	8.4	50%	135%
* Financial buyer	9	2.9	17	7.5	5	0.5	20	0.6	16	7.9	33	6.5	29	6.5	-12%	1%
Total China mainland Outbound	96	24.9	95	35.4	81	28.7	119	23.4	123	35.3	149	22.0	174	27.2	17%	24%
HK Outbound	67	1.9	99	11.3	88	3.9	76	5.8	100	9.3	114	13.2	104	22.5	-9%	71%
Total	1,898	76.4	2,230	132.7	1,826	108.8	2,622	154.6	2,768	185.4	4,130	223.9	4,559	351.5	10%	57%

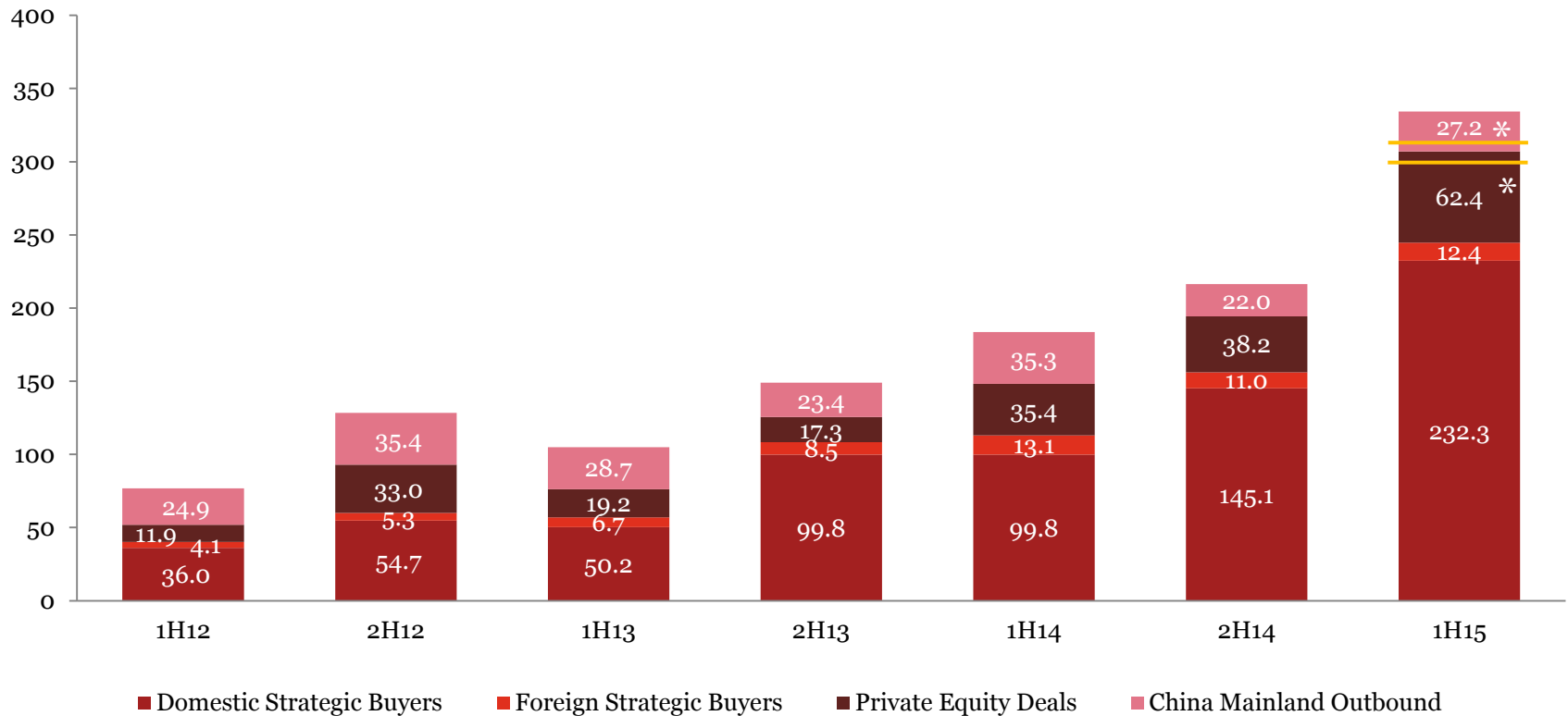
* Some financial buyer backed outbound deals are also recorded in private equity deals, but they are not double counted in the total deal volume and deal value in the table above

Source: ThomsonReuters, ChinaVenture and PwC analysis

Domestic (intra-China) M&A continues to drive the overall China M&A growth story, up by 60%; and private equity deal value also grew strongly, up 62%

Deal value by main category

US\$ billion

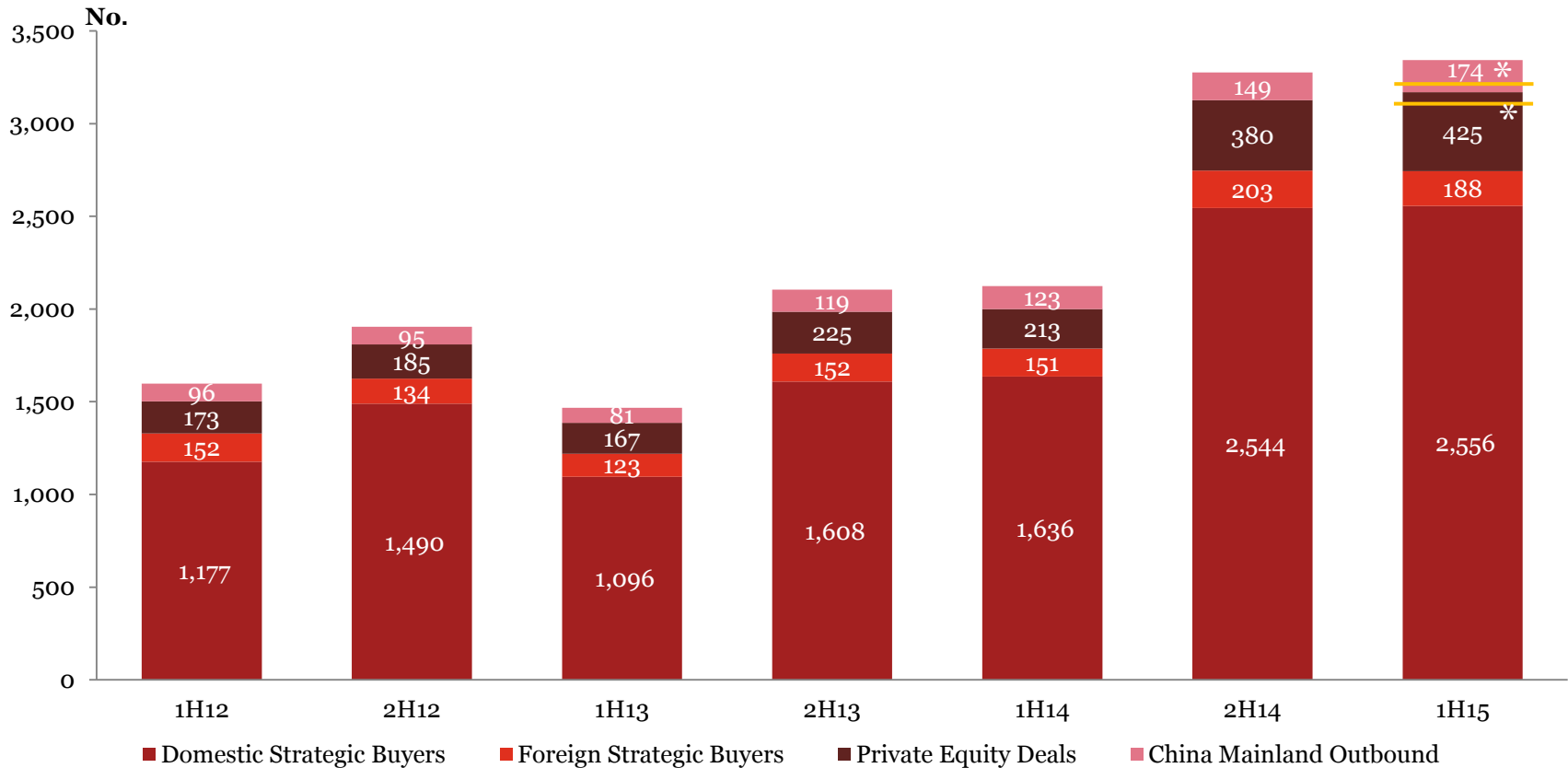


* US\$6.5bn of financial buyer backed outbound deals are also recorded in private equity deals

Source: ThomsonReuters, ChinaVenture and PwC analysis

The overall number of transactions - at 4,559 - also grew, exceeding by 10% the record levels hit in the second half of 2014

Deal volume by main category



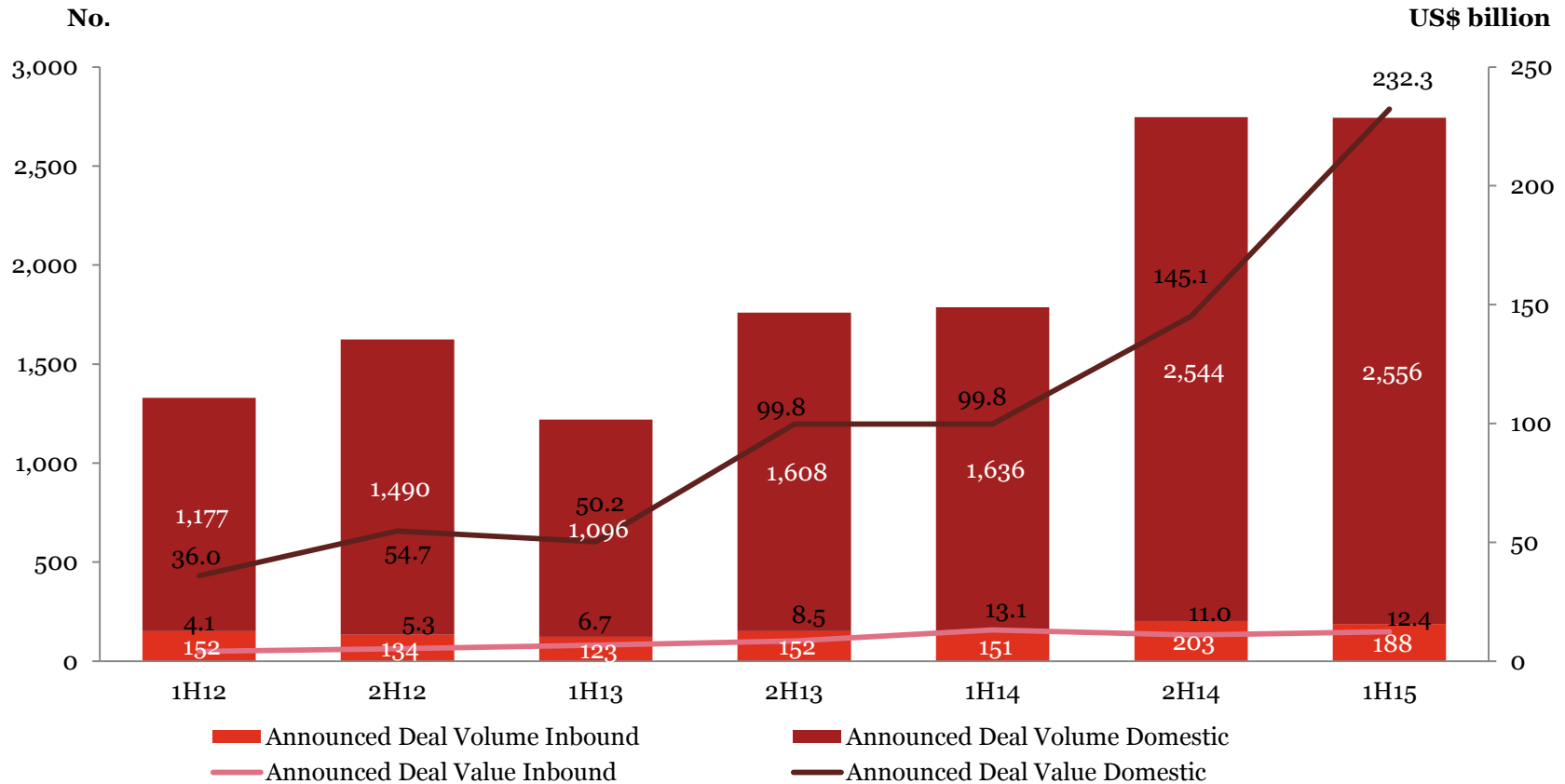
* 29 financial buyer backed outbound deals are also recorded in private equity deals

Source: ThomsonReuters, ChinaVenture and PwC analysis

Strategic buyers

Domestic (intra-China) strategic M&A surged in the first half of the year; key drivers included surging equity capital markets, sector consolidation and SOE reforms

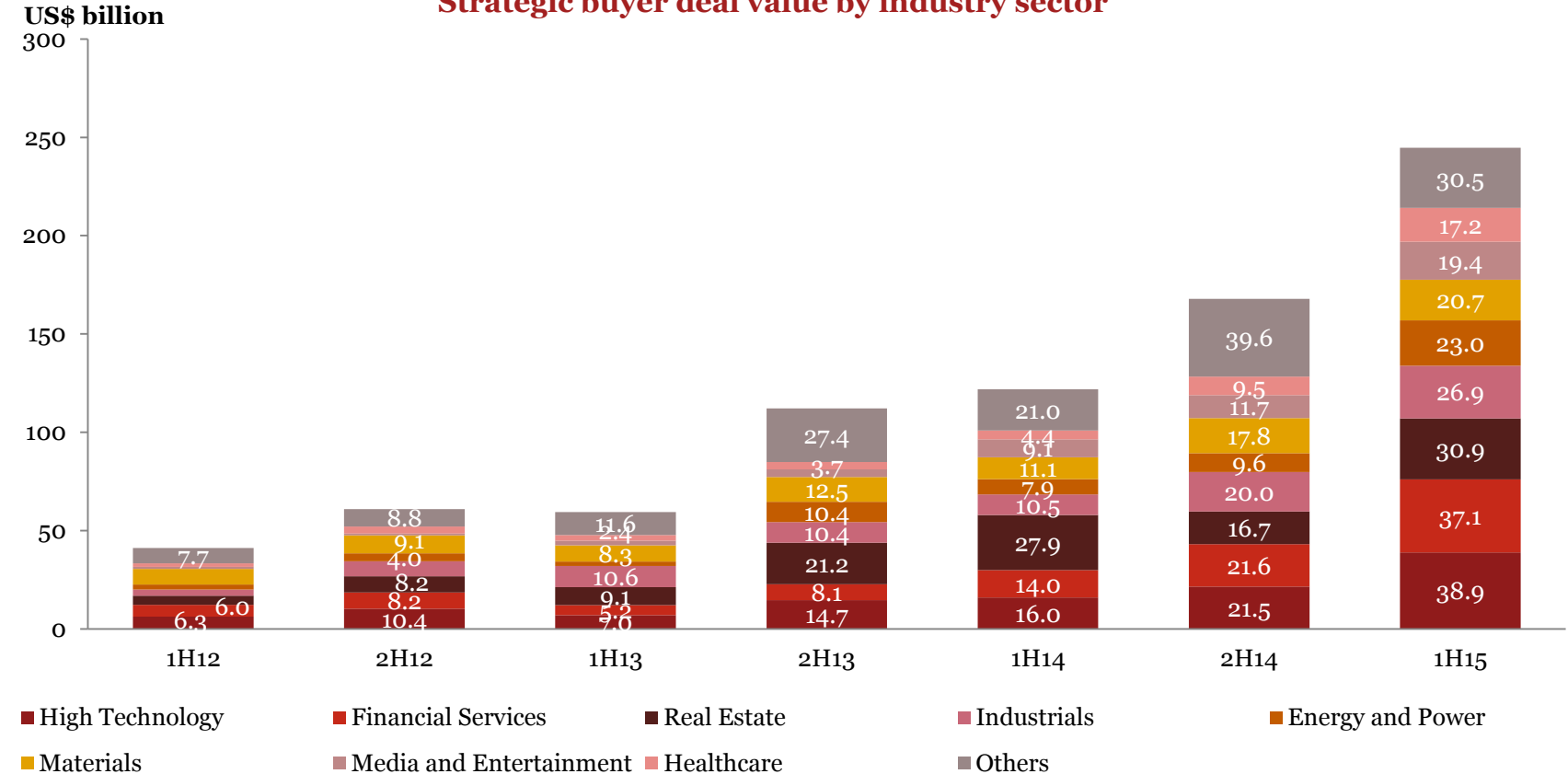
Strategic buyer deals, from 1H12 to 1H15



Source: ThomsonReuters, ChinaVenture and PwC analysis

Technology, financial services and real-estate were hot sectors – each nearly doubling in size since last year; important factors included: government support for technology and innovation as transformers of the economy, RE developers’ need for capital, and FS deals in the consumer / retail space to support growing liquidity needs in the local retail and SME markets

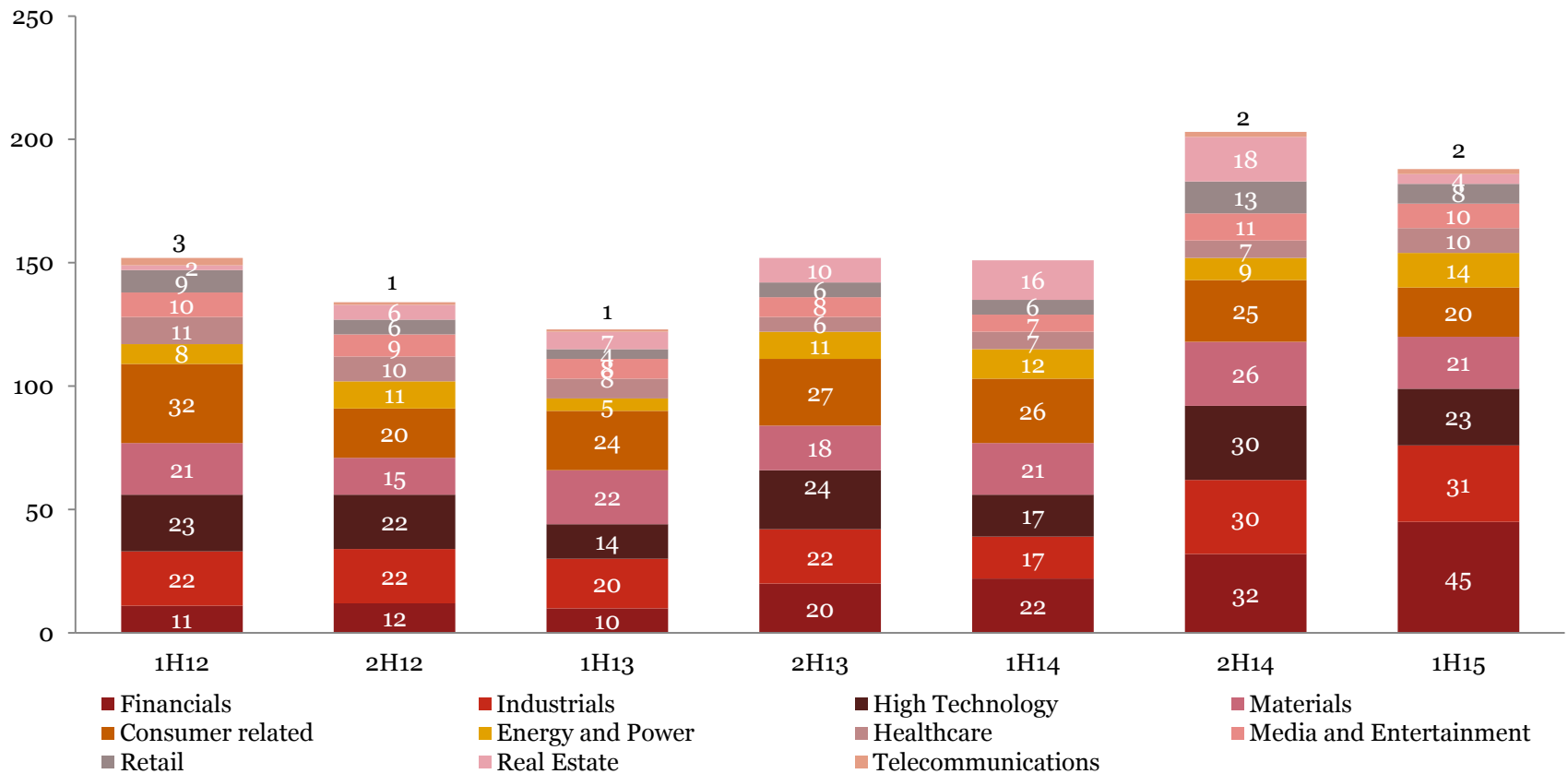
Strategic buyer deal value by industry sector



Source: ThomsonReuters, ChinaVenture and PwC analysis

Foreign (inbound) strategic buyers remained active

Foreign strategic buyer deal number by industry



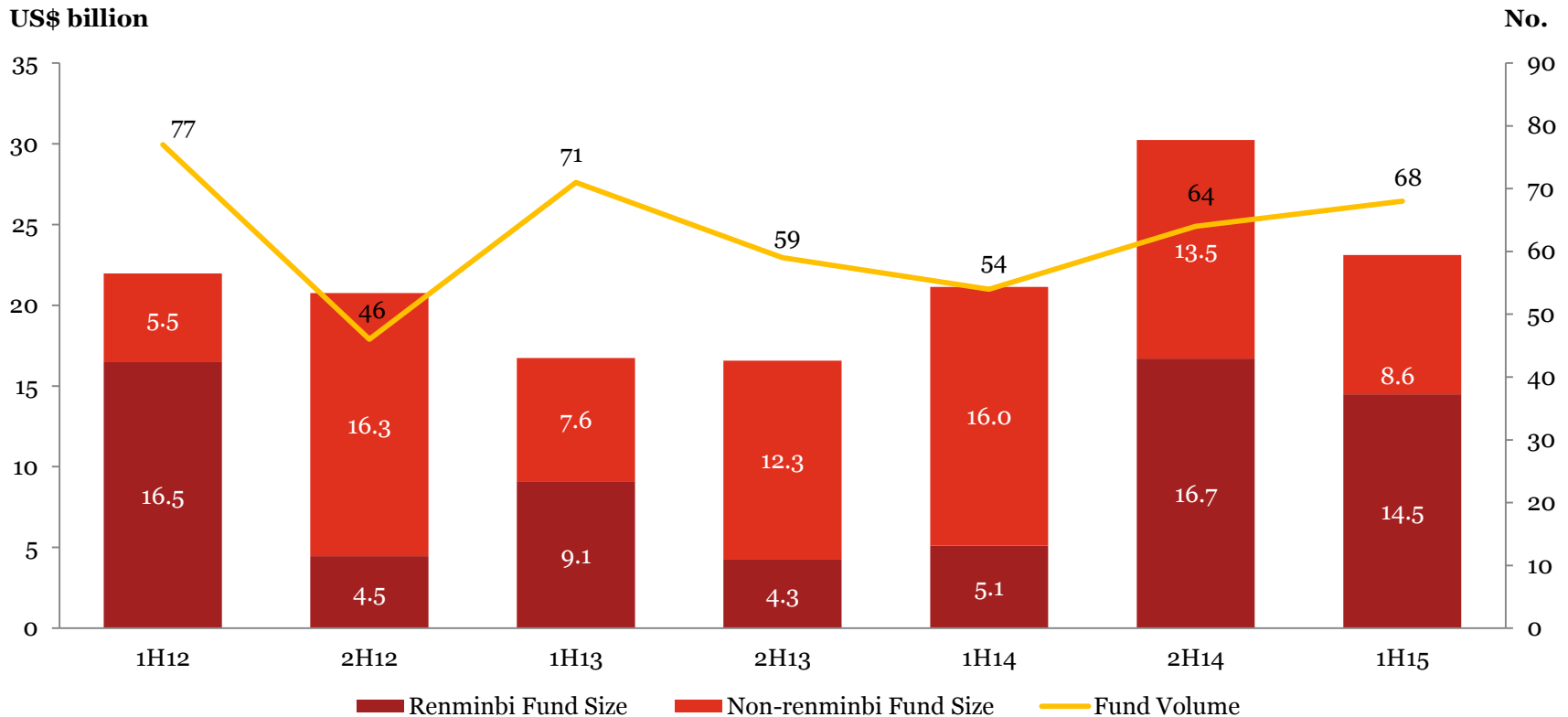
Source: ThomsonReuters, ChinaVenture and PwC analysis
PwC

PE/VC deals

In the PE sector, the rebound back to Renminbi fundraising continued, on the back of a (temporarily) hot A-Share market; Renminbi activity was likely higher than shown in the chart due to a proliferation of project-based, A-share backed, and other “non-traditional” domestic investors

PE/VC fund raising for China investment

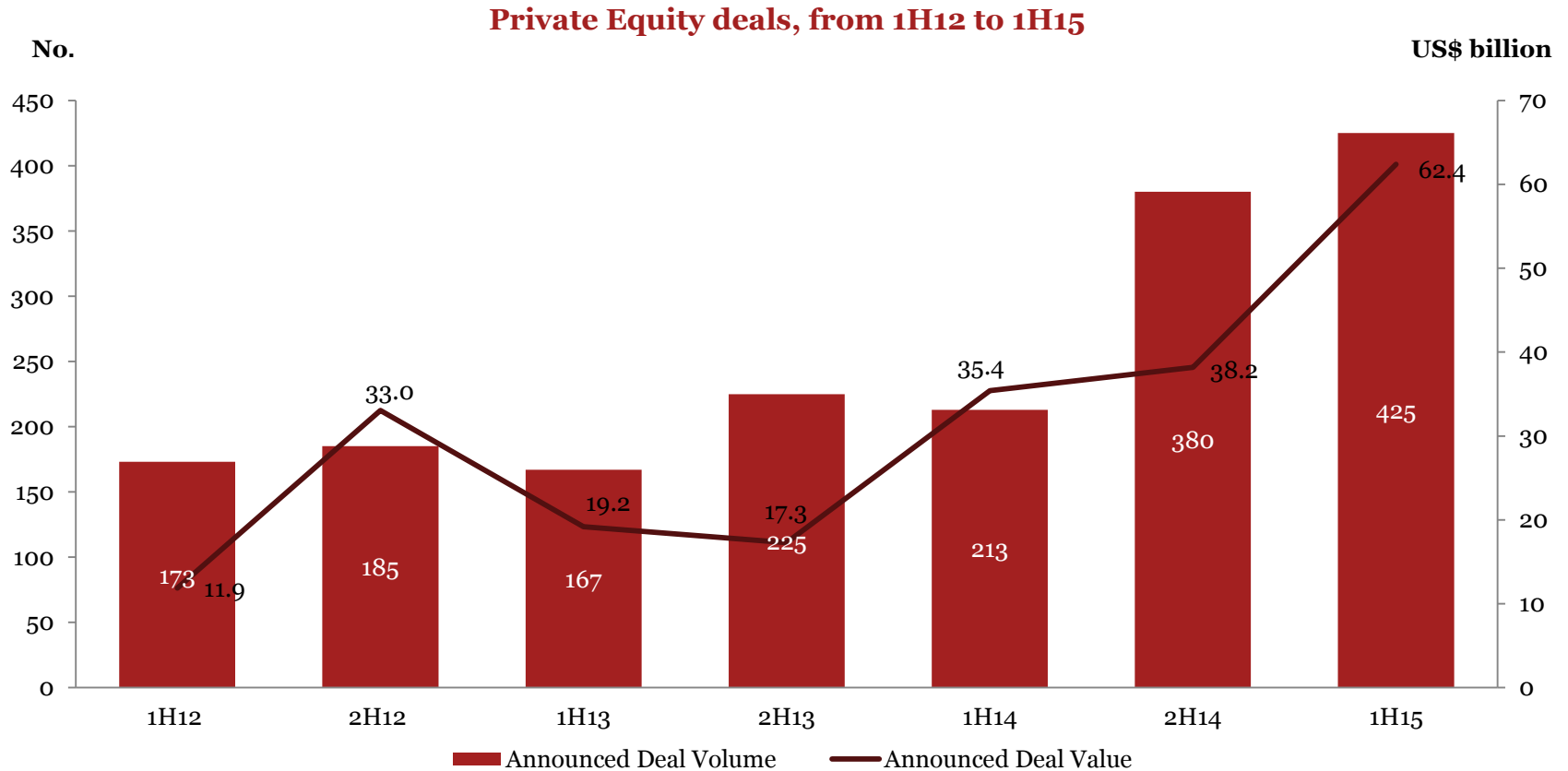
* Excludes global funds investing in China



Source: AVCJ and PwC analysis

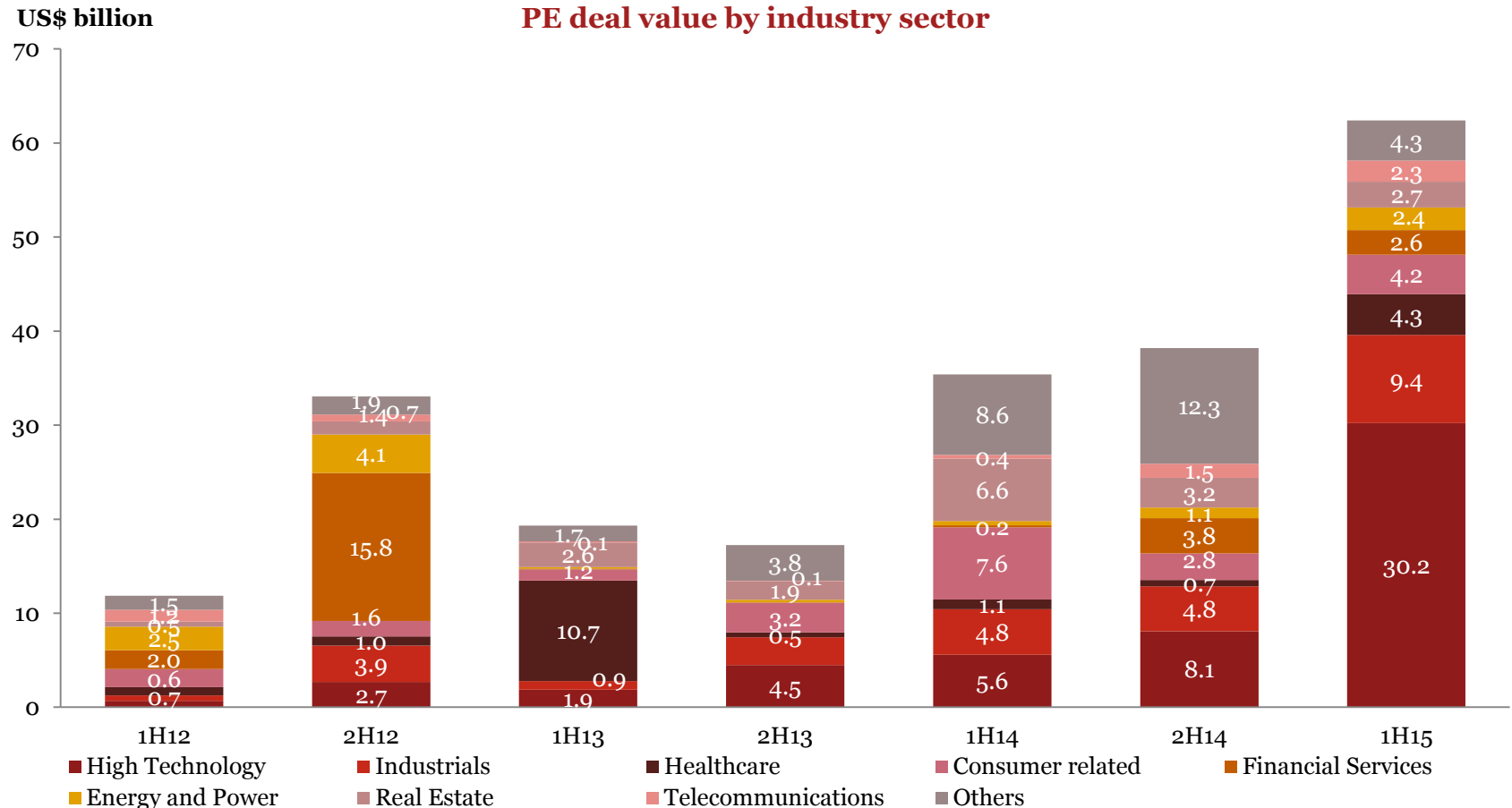
PwC

The value of PE M&A surged by 63% to \$62.4bn, another half-year record; Renminbi denominated funds were active with the A-share market back in favour as a source of future exits; there were a number of US take-privates also driven by this trend



Source: ThomsonReuters, ChinaVenture and PwC analysis

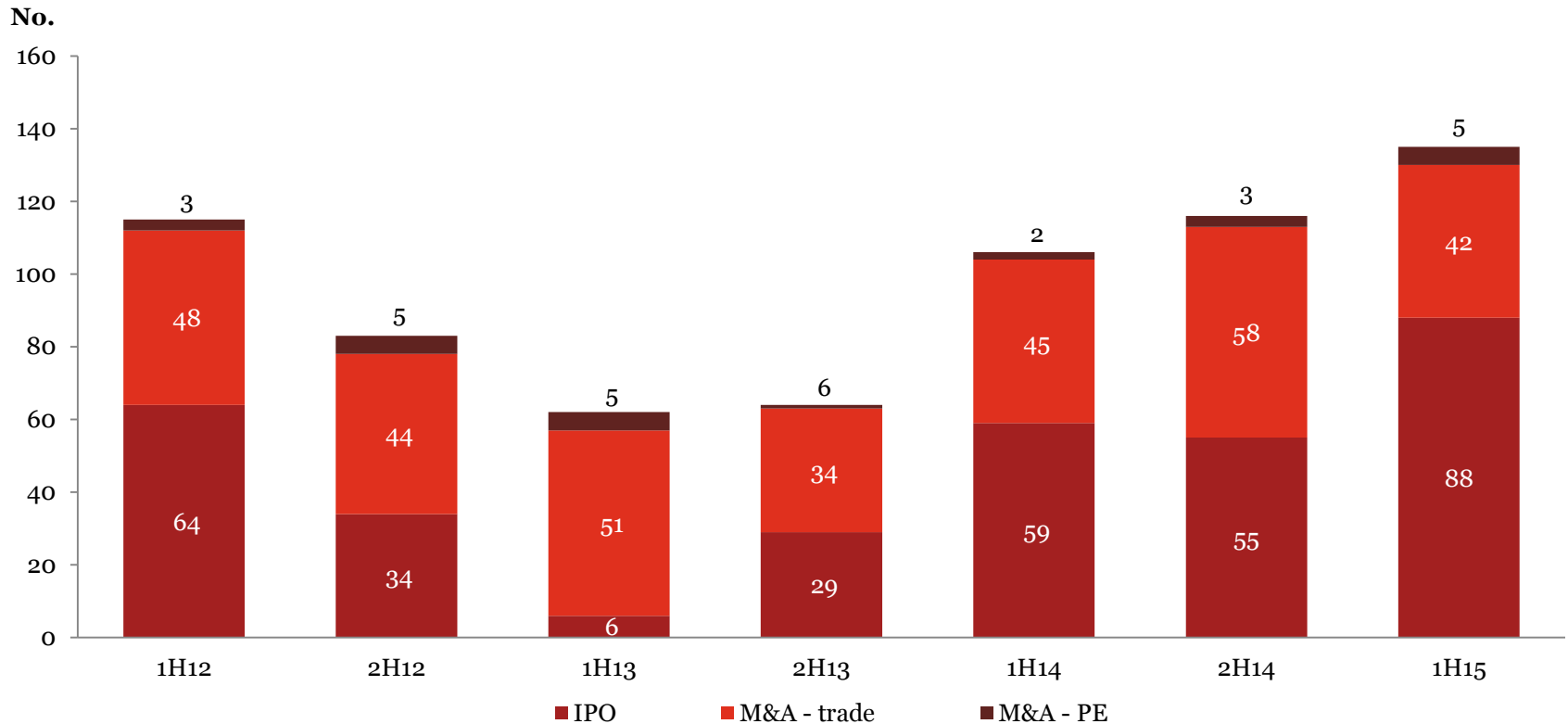
There is a real focus on technology plays, especially internet related, as this sector is seen as “on-strategy” for China; it continues to mature, attracting larger equity cheques in later round fundraisings



Source: ThomsonReuters, ChinaVenture and PwC analysis

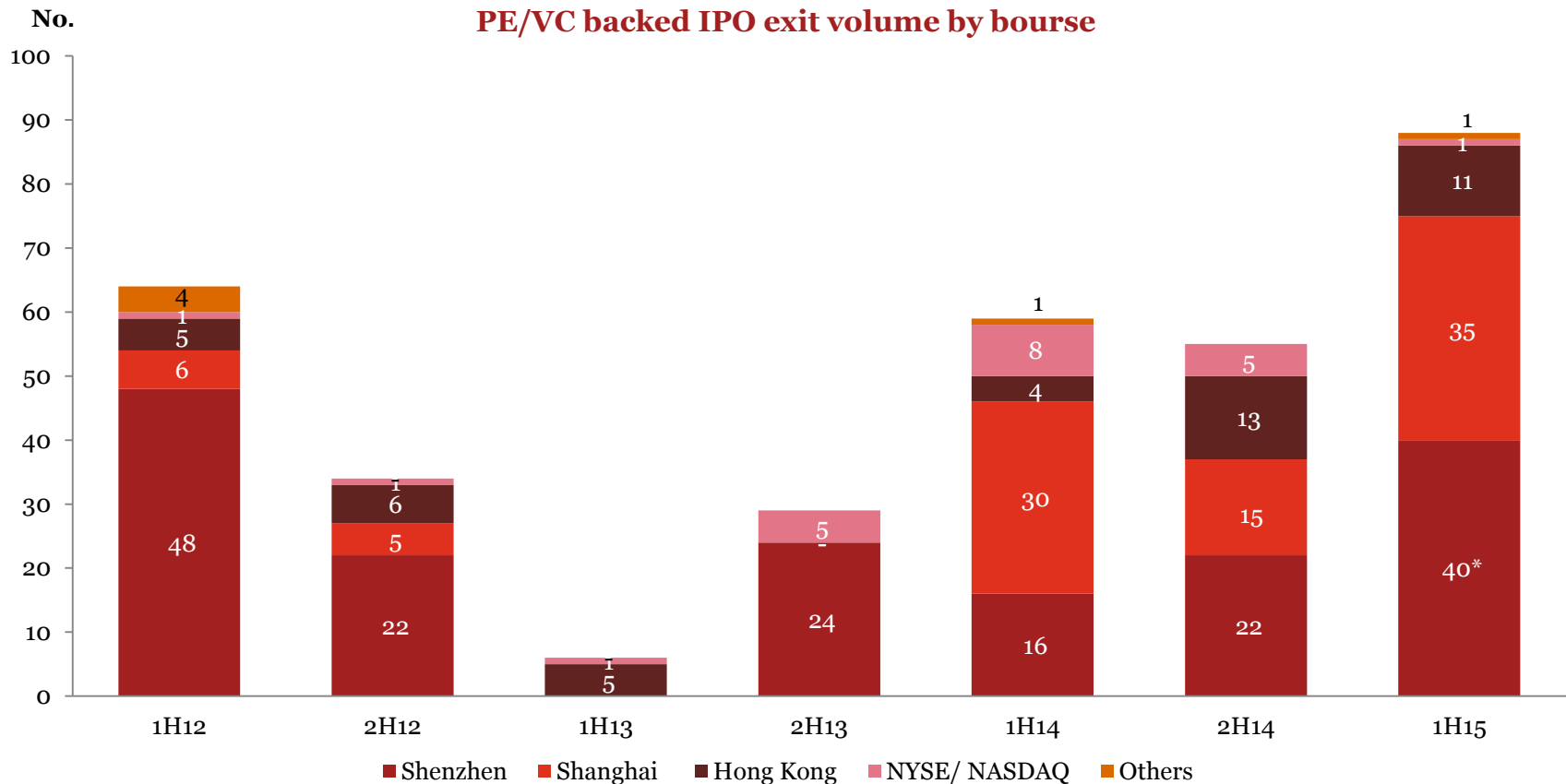
Exit activity continued to grow, with IPO again the dominant route to liquidity as stock market multiples soared, although M&A and secondary exit activity was unexceptional

PE/VC backed deal exit volume by type



Source: AVCJ and PwC analysis

Soaring A-share multiples provided a window for exits on Chinese stock markets, although that window appears to have been short lived

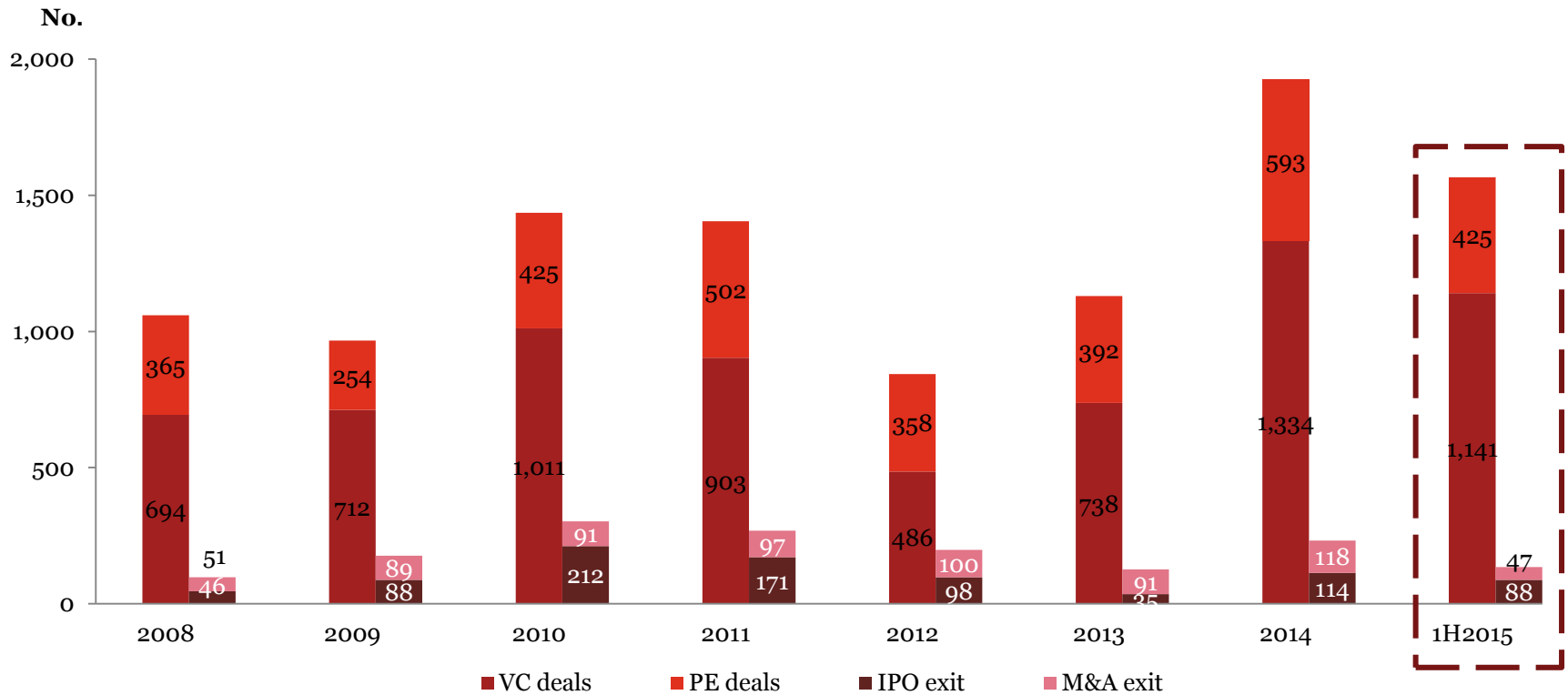


* Includes 29 IPOs on GEM market

Source: AVCJ and PwC analysis

And the cumulative overhang of investments over exits continues to persist

PE/VC deal volume vs. No. of exits

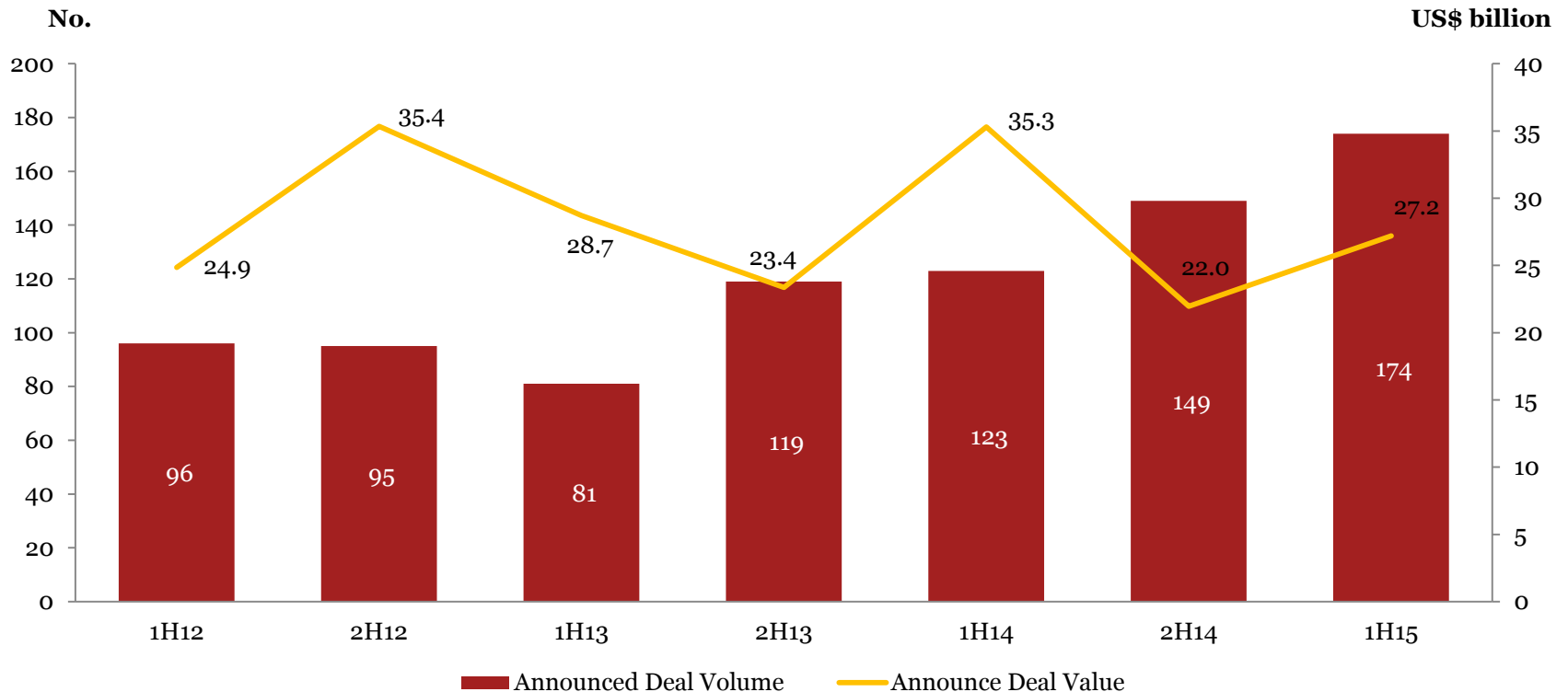


Source: ThomsonReuters, ChinaVenture, AVCJ and PwC analysis

China mainland outbound

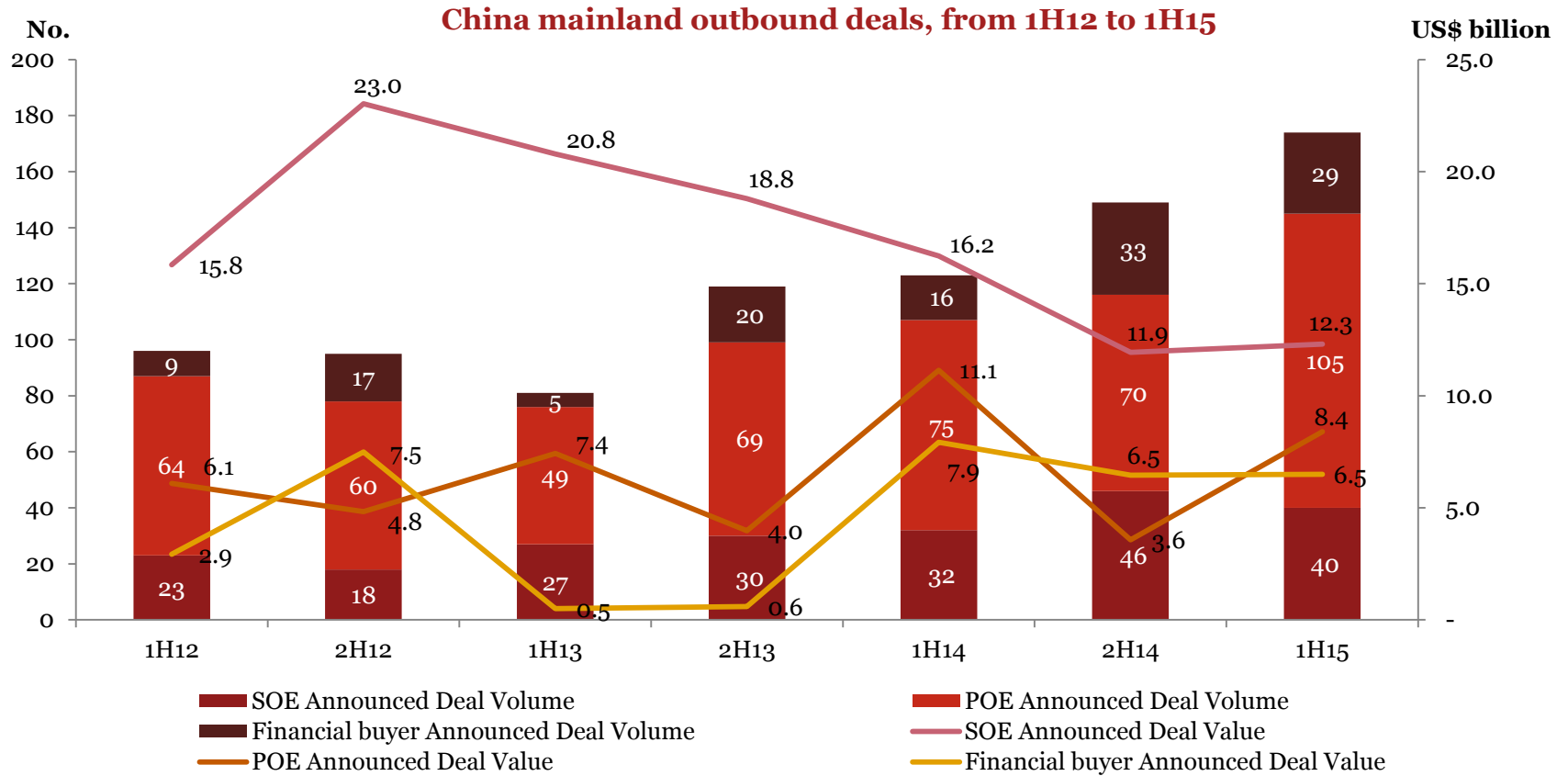
China outbound M&A grew by 17% to a new record 174 deals for the half year; values were up 24% on the previous period

China mainland outbound deals, from 1H12 to 1H15



Source: ThomsonReuters, ChinaVenture and PwC analysis

Privately owned enterprises again led the charge, up 50% by number and 148% by value

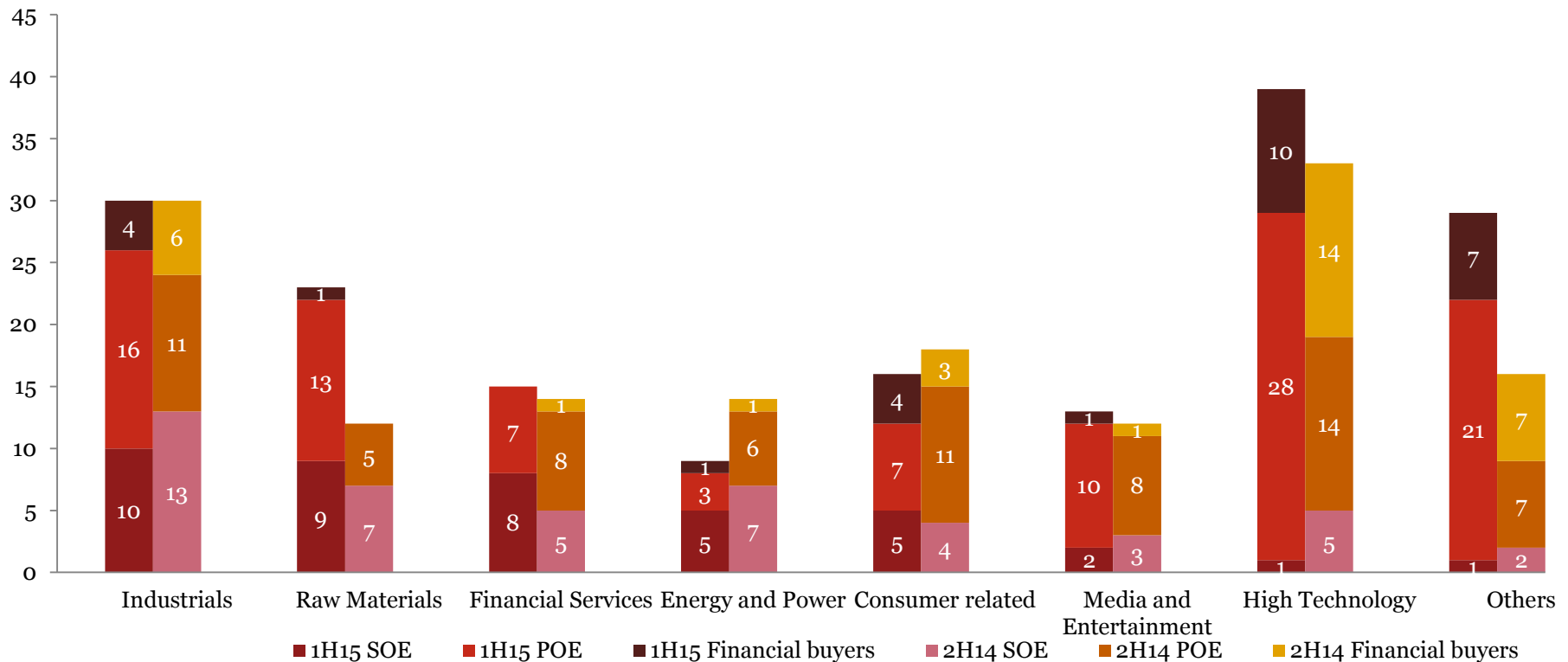


Source: ThomsonReuters, ChinaVenture and PwC analysis

POEs looked overseas for products, technologies and industrial upgrades to bring back into an increasingly consumer driven domestic market, but also as a way to grow by expansion into overseas markets; there were also a number of sizable outbound deals in the insurance sector

China mainland outbound deals by industry sector

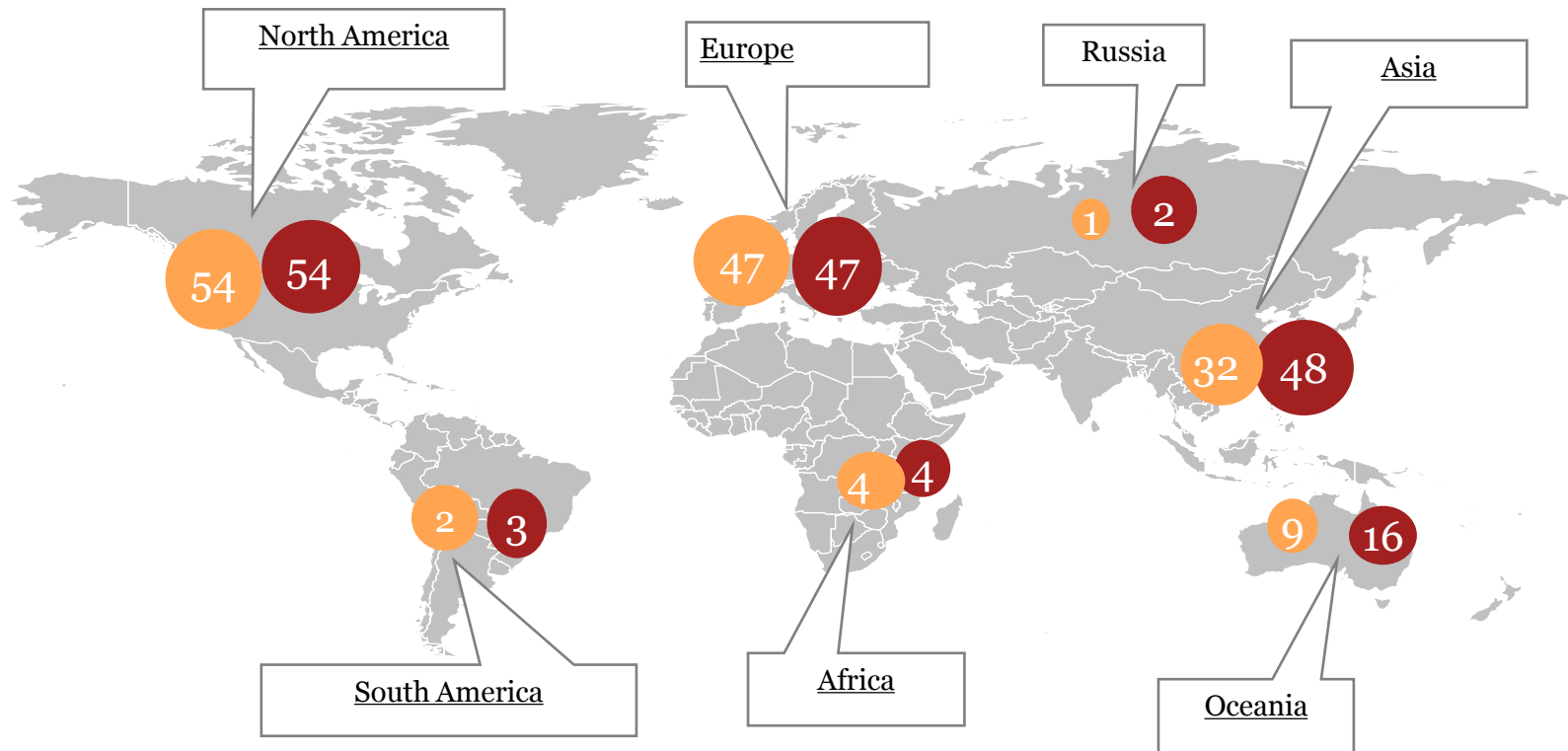
– By number of deals, 1H15 vs. 2H14



Source: ThomsonReuters, ChinaVenture and PwC analysis

Advanced economies continue to be a major source of targets for Chinese acquirers; Asia and Australia are often the “first-step” of choice for emerging Chinese MNCs

Outbound M&A deal volume by region of destination 1H15 vs. 2H14



- 1H15
- 2H14

Source: ThomsonReuters and PwC analysis

Outlook

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

Overall

- We think that the rate of China M&A activity may slow slightly in the second half because of problems in the equity capital markets, although full-year 2015 is likely to be a record year overall

Key industry sectors

- Technology deals will remain hot, driven by:
 - Government support for technology and innovation as enablers of the transformation of China's economy
 - Active private equity and VC involvement in the sector
 - Sector consolidation and M&A growth strategies led by industry leaders such as Baidu, Alibaba and Tencent
- Activity in Financial Services will also be healthy, driven by:
 - Strong outbound activity: for example, we expect to see Chinese banks expanding abroad to support the increasingly global activities of their domestic customers
 - Restructuring of the domestic FS market, in particular to serve liquidity needs in retail and SME markets
 - Continuing IPO activity involving AMCs, banks and funds, which give rise to pre-IPO cornerstone investment opportunities

Outlook – the next six to twelve months (2 of 4)

Domestic and Foreign-Inbound Strategic

- We think domestic strategic M&A will be slower in the second half because of turbulence in the A-share markets
- This may retard reverse takeover activity, acquisitions by A-share companies, and transactional activity generally involving listed companies because of uncertainty on pricing
- However, longer term drivers of growth remain in play, including: sector consolidation and restructuring; SOE reforms; and inorganic growth strategies
- Overall we still expect full year 2015 to be a record year for domestic strategic M&A
- Foreign inbound M&A is less affected by the domestic equity capital markets and will remain firm

Outlook – the next six to twelve months (3 of 4)

China Outbound

- China outbound M&A will continue to grow steadily in the second half
- There is a sizeable cadre of increasingly experienced mainland Chinese acquirers of overseas assets and they will remain active
- Longer term drivers such as going-out to bring-back, and overseas M&A as a source of inorganic growth, remain in play
- We expect to see some larger transactions in FS, and ongoing growth in the number of financial (not only strategic) investments
- Over time, outbound M&A will grow very strongly to support the emergence of true Chinese MNCs

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

Private equity

- A-share turbulence could dampen PE investment activity in the second half
- Exits are also likely to slow, for the same reasons
- But we expect outbound PE and financial buyer investment to continue to grow
- And closure of the A-share markets will also have some positive effect, as SMEs turn to private equity as an alternative source of equity capital
- Longer term drivers include: a cashed-up PE industry; greater participation by domestic PE investors; general demand for equity capital in China; more buy-out opportunities; PE participation in SOE reforms; and a higher level of M&A exit activity to clear backlogs, all remain in play.
- Overall, full-year 2015 will be a record year for PE

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