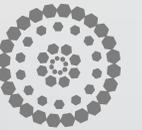
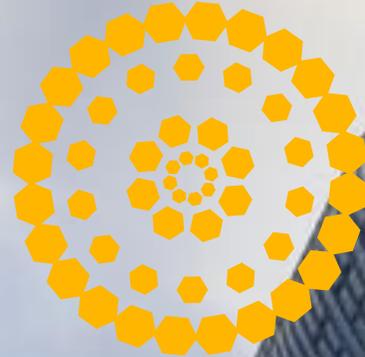
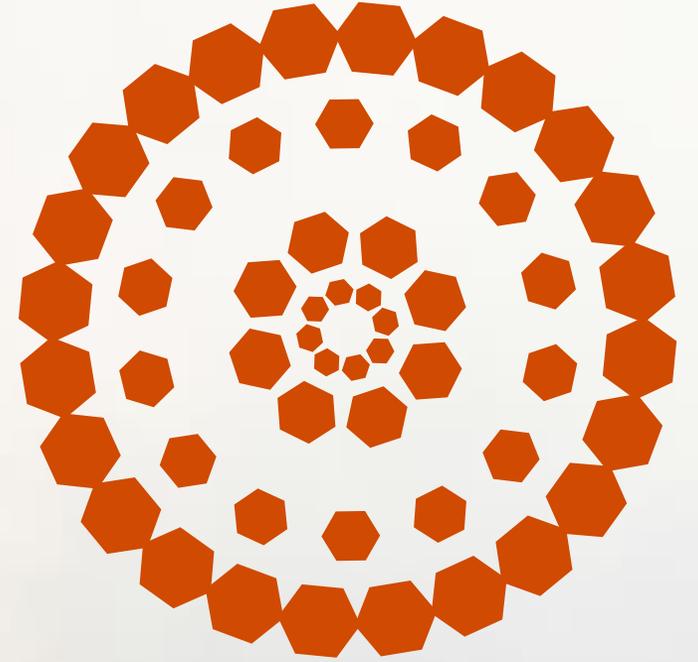


PwC M&A 2022 Review and 2023 Outlook

February 2023



Foreword

Explanation of data shown in this presentation (1/2)



- The data presented is based on information compiled by ThomsonReuters, CV Source, AVCJ, public news and PwC analysis unless stated otherwise
- Thomson Reuters and CV Source 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, Macau and Taiwan
- “Outbound” relates to 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 invested mainly by private equity GPs but also including direct investments by financial institutions and conglomerates which are of the nature of private equity type investment

Foreword

Explanation of data shown in this presentation (2/2)



- “VC deals” refer to financial buyer deals with deal value of less than US\$10mn and/or with undisclosed deal value, but invested by financial buyers
- “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 2018 to 2021 were adjusted based on the 2022 Rmb/US\$ exchange rate



1

China M&A

Overview



2022 China M&A fell to its lowest level since 2014 at US\$486bn – down 20% compared to 2021. The decline would have been nearer to 25% but for the positive impact of some large SOE reform transactions (35 SOE-reform mega deals valued at US\$101bn in 2022 vs 22 at US\$65bn in 2021).

Total deal volume and value, from 2018 to 2022

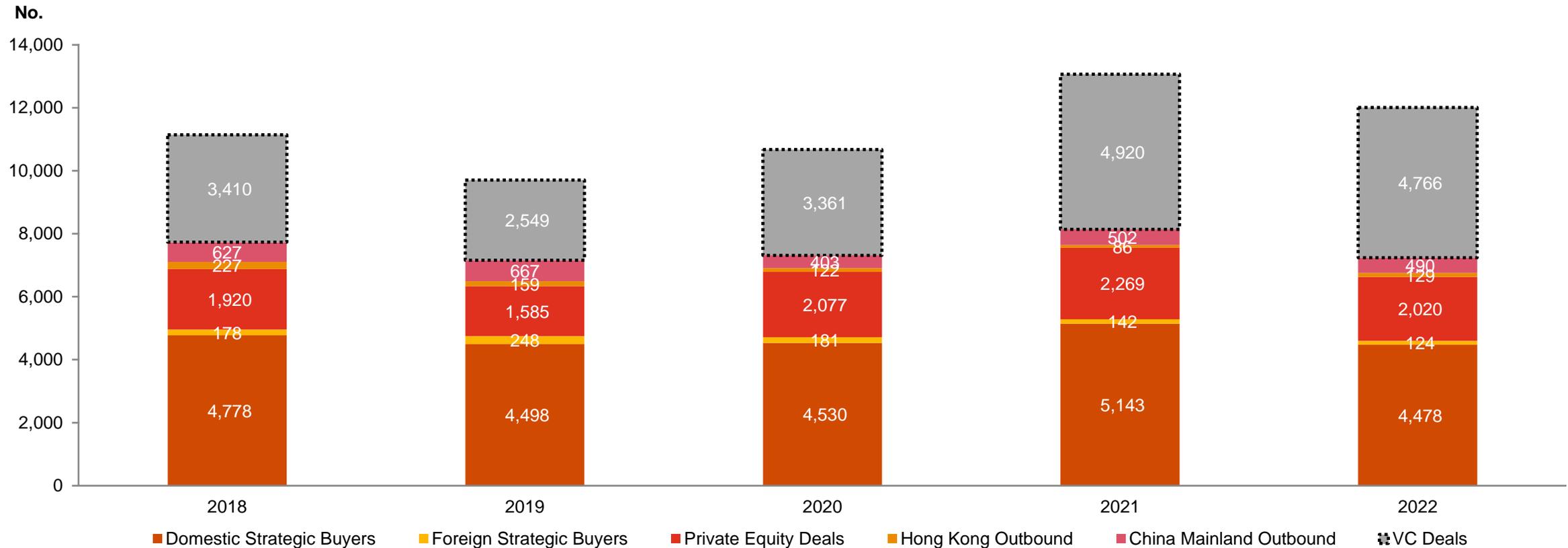
	2018		2019		2020		2021		2022		% Diff vol. 2022 vs. 2021	% Diff val. 2022 vs. 2021
	Volume	Value (US\$bn)	Volume	Value (US\$bn)	Volume	Value (US\$bn)	Volume	Value (US\$bn)	Volume	Value (US\$bn)		
Strategic buyers												
Domestic	4,778	329.1	4,498	281.3	4,530	356.5	5,143	249.7	4,478	201.8	-13%	-19%
Foreign	178	20.4	248	21.5	181	14.9	142	19.0	124	14.6	-13%	-23%
Total Strategic buyers	4,956	349.5	4,746	302.8	4,711	371.4	5,285	268.7	4,602	216.4	-13%	-19%
Financial buyers												
Private Equity	1,920	219.8	1,585	212.9	2,077	339.0	2,269	317.2	2,020	245.5	-11%	-23%
VC	3,410	7.2	2,549	2.7	3,361	2.8	4,920	3.5	4,766	5.7	-3%	61%
* Total Financial buyers	5,330	227.0	4,134	215.6	5,438	341.9	7,189	320.7	6,786	251.2	-6%	-22%
Mainland China Outbound												
SOE	64	20.9	60	16.6	27	6.5	19	4.7	30	5.5	58%	18%
POE	310	50.6	384	27.1	253	22.3	211	9.0	172	7.7	-18%	-14%
* Financial buyers	253	21.7	223	15.4	123	14.2	272	34.1	288	31.2	6%	-8%
Total Mainland China Outbound	627	93.3	667	59.1	403	43.1	502	47.7	490	44.4	-2%	-7%
HK Outbound	227	24.3	159	14.5	122	6.5	86	5.2	129	5.0	50%	-3%
Total	10,887	672.4	9,483	576.7	10,551	748.6	12,790	608.3	11,719	485.8	-8%	-20%

• Financial buyer-backed mainland China outbound deals are also included in financial buyer deals, but they are not double counted in the total deal volume and deal value in the table above.

Source: ThomsonReuters, CV Source and PwC analysis

Announced deals fell only 11% (excluding VC) in volume terms. This is most likely reflective of high levels of confidential deal-process activity in the first half of the year translating into announcements in the second (i.e. we believe there to be a lag effect which will show more in 1H23)...

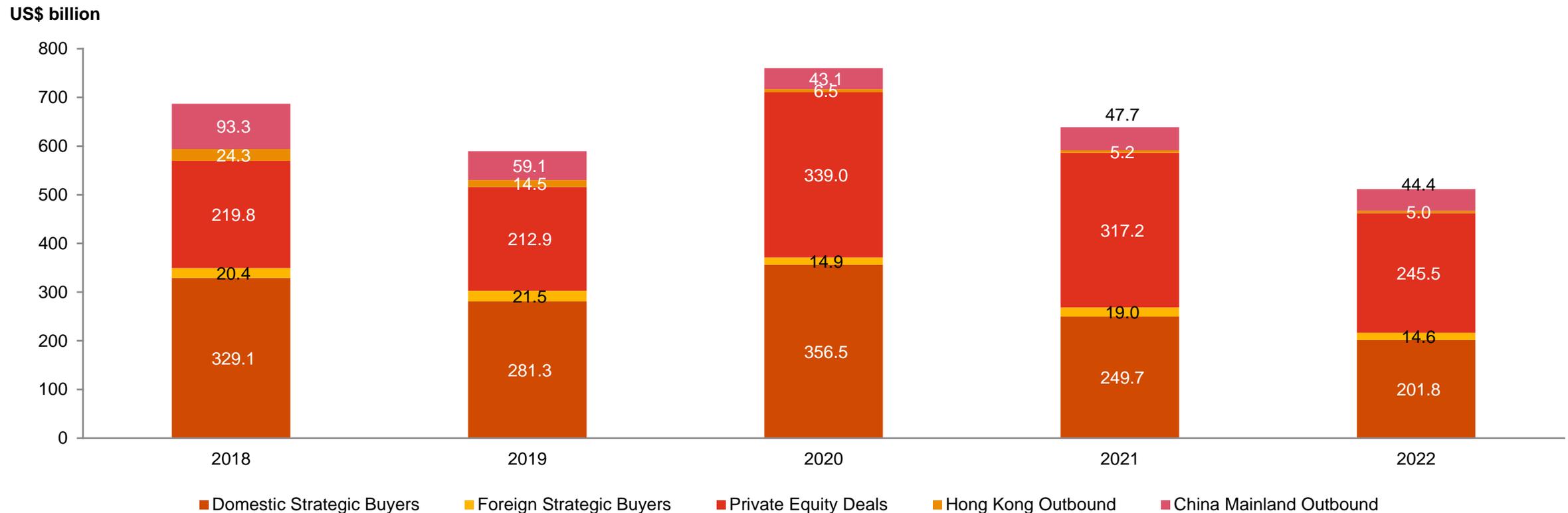
Deal volume by main category



• 167 financial buyer-led mainland China outbound deals are also recorded in private equity deals, 121 are included in VC deals
 Source: ThomsonReuters, CV Source and PwC analysis

...but even factoring in some lag-effect, deal values fell sharply to eight-year lows with a significant reduction in ‘mega deals’ (greater than US\$1 billion – see next page). For the second year, PE deals were nearly half the total and the largest single category overall, despite falling by 23%.

Deal value by main category (excludes VC)



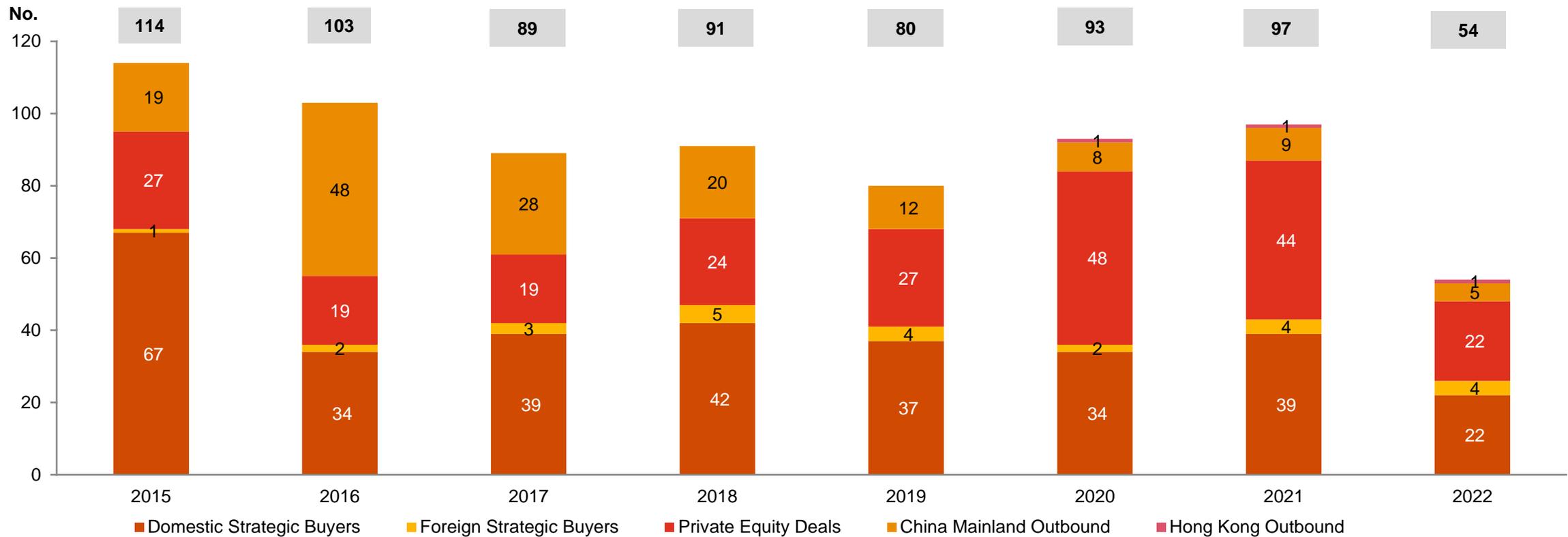
* US\$31.0bn of financial buyer-backed mainland China outbound deals are also recorded in private equity deals. US\$0.2bn are recorded in VC deals (excluded from this chart).

Source: ThomsonReuters, CV Source and PwC analysis

There were only 54 mega-deals (> US\$1bn) in 2022 – nearly half the long-term annual average. Of these, 35 were related to SOE reform – up from 22 in 2021.

SOEs were involved in 19 out of 22 domestic strategic mega-deals, and 12 out of 22 PE mega-deals

Number of deals with value > US\$ 1 billion



* Defined as > US\$1bn
Source: ThomsonReuters, CV Source and PwC analysis

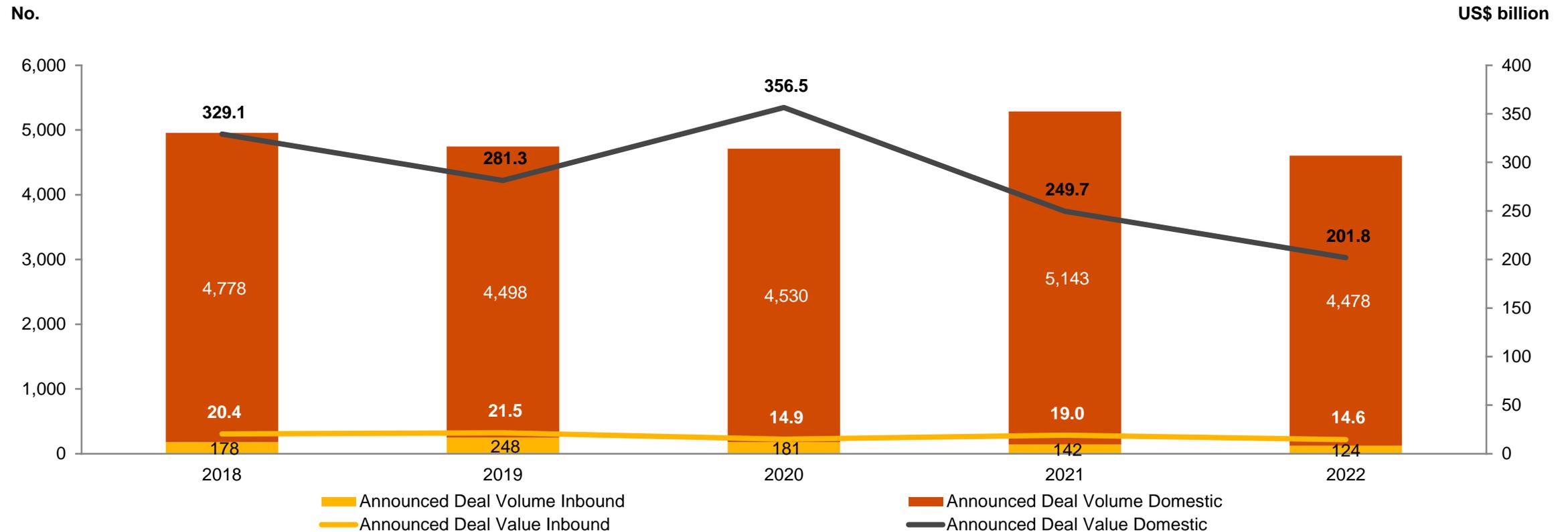
2

Strategic
buyers



Domestic strategic M&A fell 19% by value. It was held up somewhat by ongoing SOE reform, but nevertheless touched the lowest levels since 2014. Larger deals in particular were affected by Covid lockdowns, restrictions on the tech, internet and gaming-sectors, and geo-political and other uncertainties. Together these resulted in very weak public equity markets and generally low levels of confidence

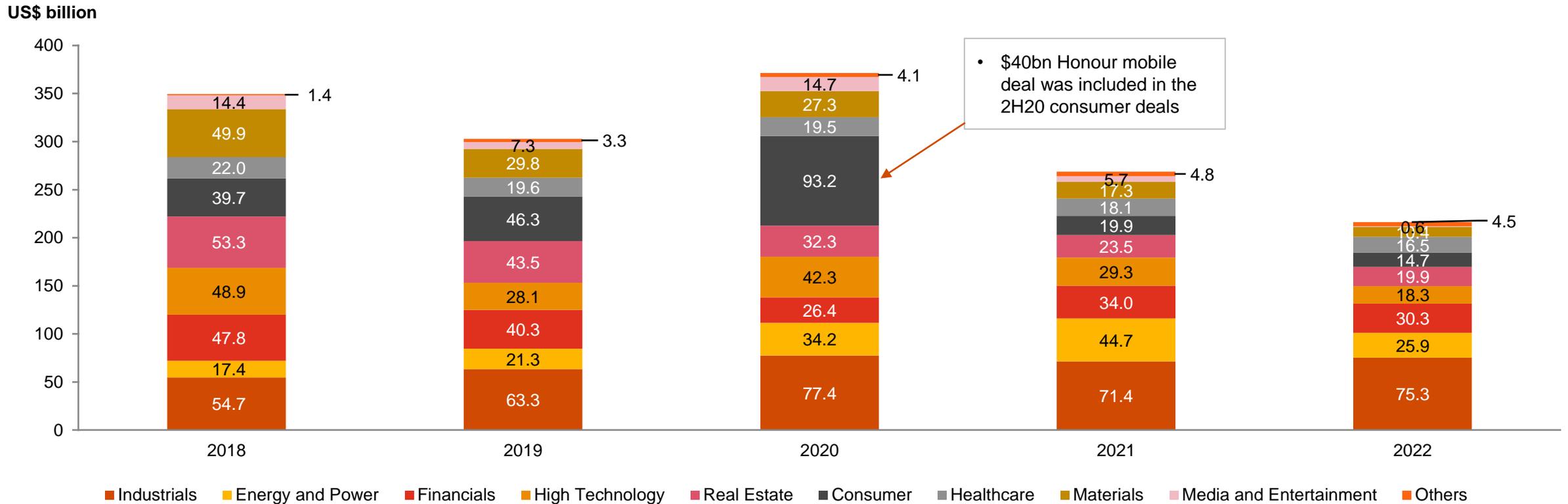
Strategic buyer deals – Domestic & Foreign



Source: ThomsonReuters, CV Source and PwC analysis

Deal values fell in almost all sectors, mitigated only by some uptick in industrials-related deals, many of which focused on SOE reforms, SOE-driven industrial upgrades, re-capitalisations and integrations between large SOE groups. Domestic M&A activities were significantly influenced by government policies with a strong focus on industrials upgrades, whilst high tech (e.g. tech & internet), real estate and consumer products trended down.

Strategic buyer deal value by industry sector

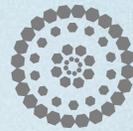


Source: ThomsonReuters, CV Source and PwC analysis

3

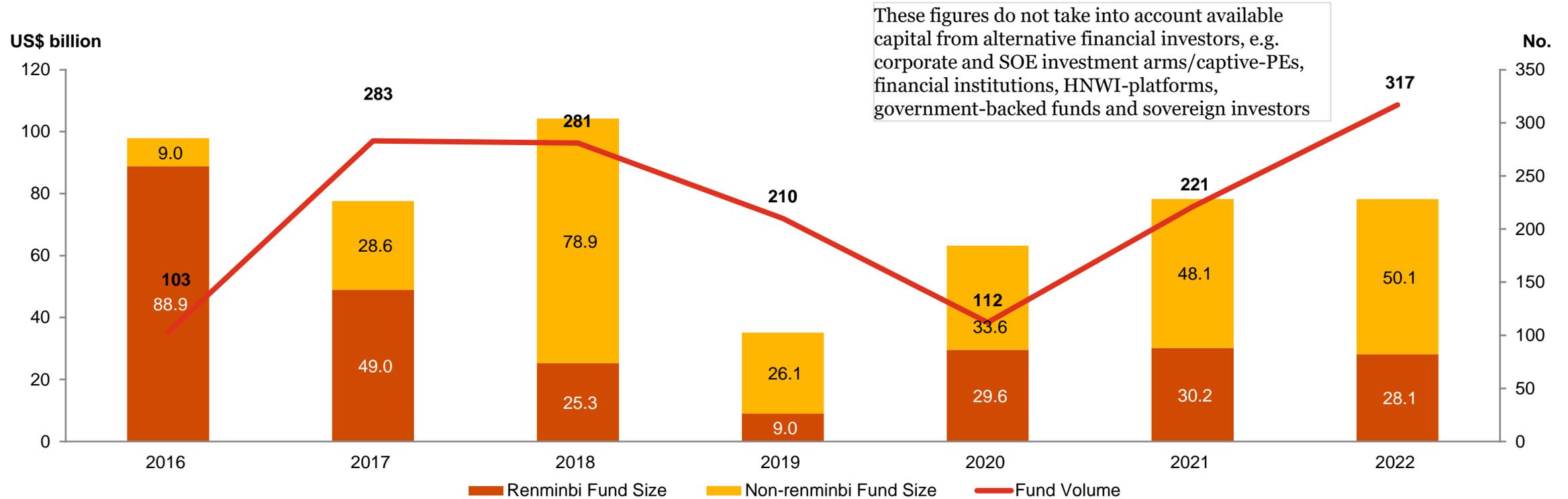
PE/VC and

financial buyer deals



Apparently strong activity in PE fundraising reflected buoyant market conditions in 2021 and early 2022 (again, some lag effect) but the fundraising environment cooled appreciably towards the end of 2022 – especially for foreign currency raises.

PE/VC fund raising for China investment

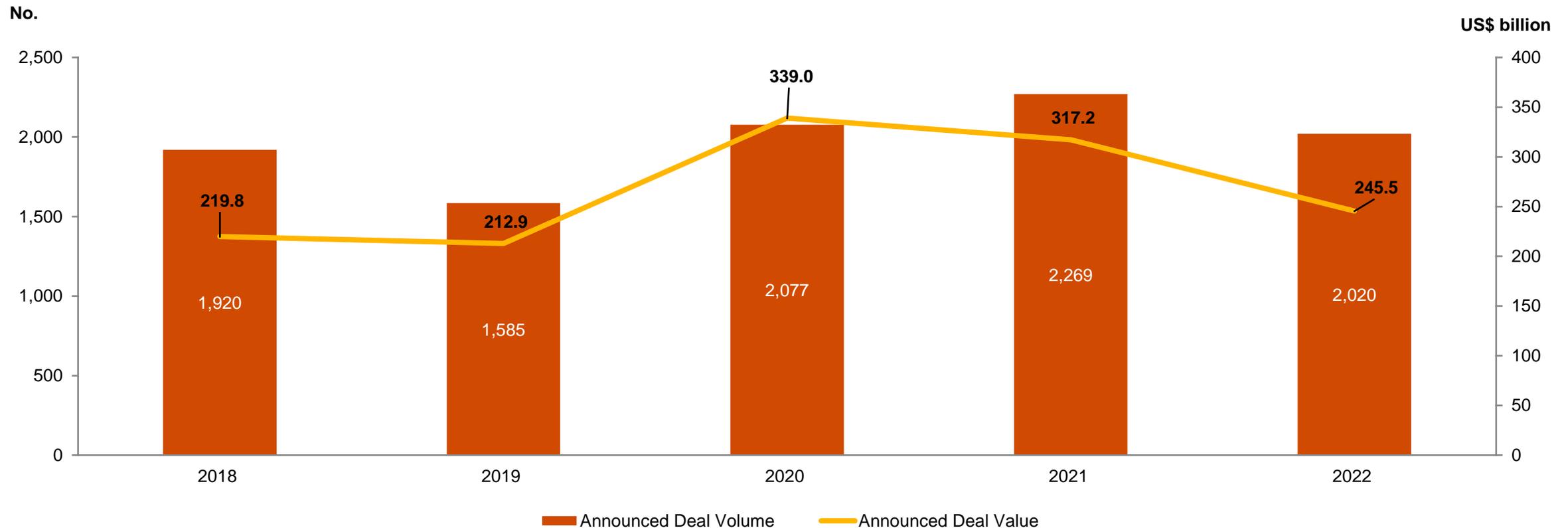


Source: AVCJ and PwC analysis

The value of PE investment declined 23%, although again we believe the decline in deal processes (vs announced deals) to have been much more marked than this in the last few months of the year. Anecdotally, most PEs professed to be waiting on the sidelines in the second half, citing myriad significant uncertainties (even more so for US\$ funds) and declining valuations.

* among the 22 mega-deals (total deal value: US\$56 bn), there were five (US\$14bn) related to US-listed SPACs in high-tech, NEV, and digital healthcare sectors and 12 (US\$32 bn) driven by SOE reform, or involving SOEs.

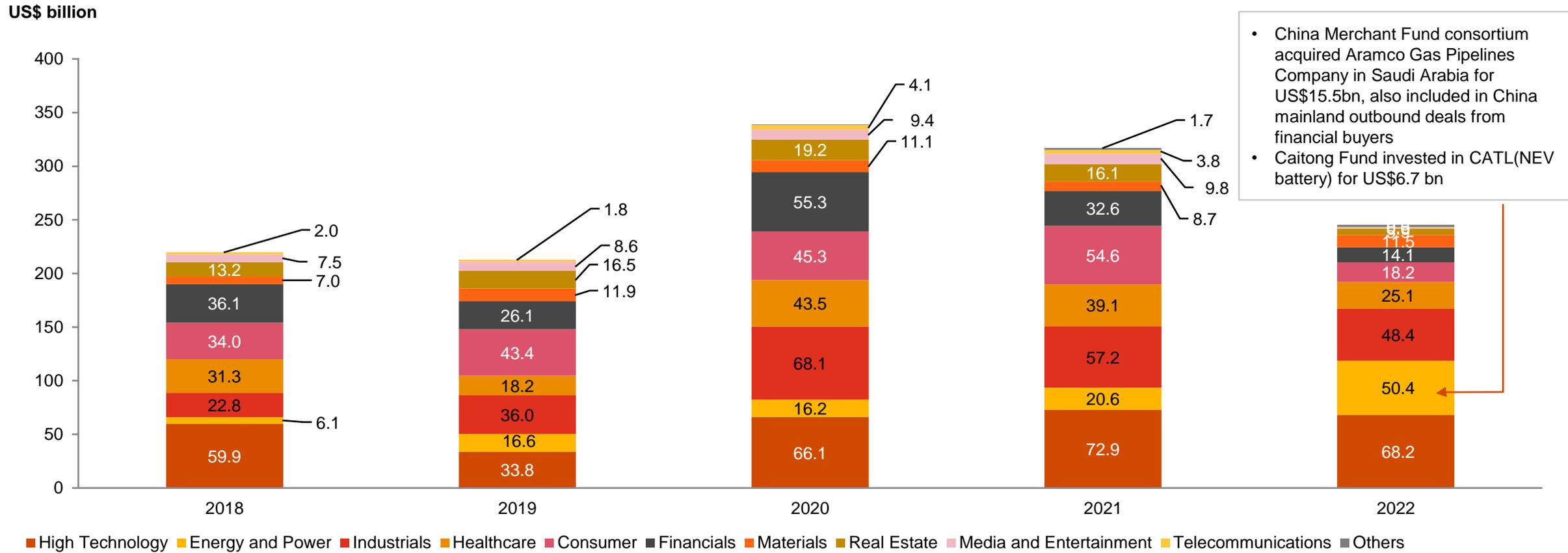
PE deals overview



Source: ThomsonReuters, CV Source and PwC analysis

There was a significant decline in dollar terms in almost all sectors except for energy and power, with several mega-deals buoyed by state-backed investments.

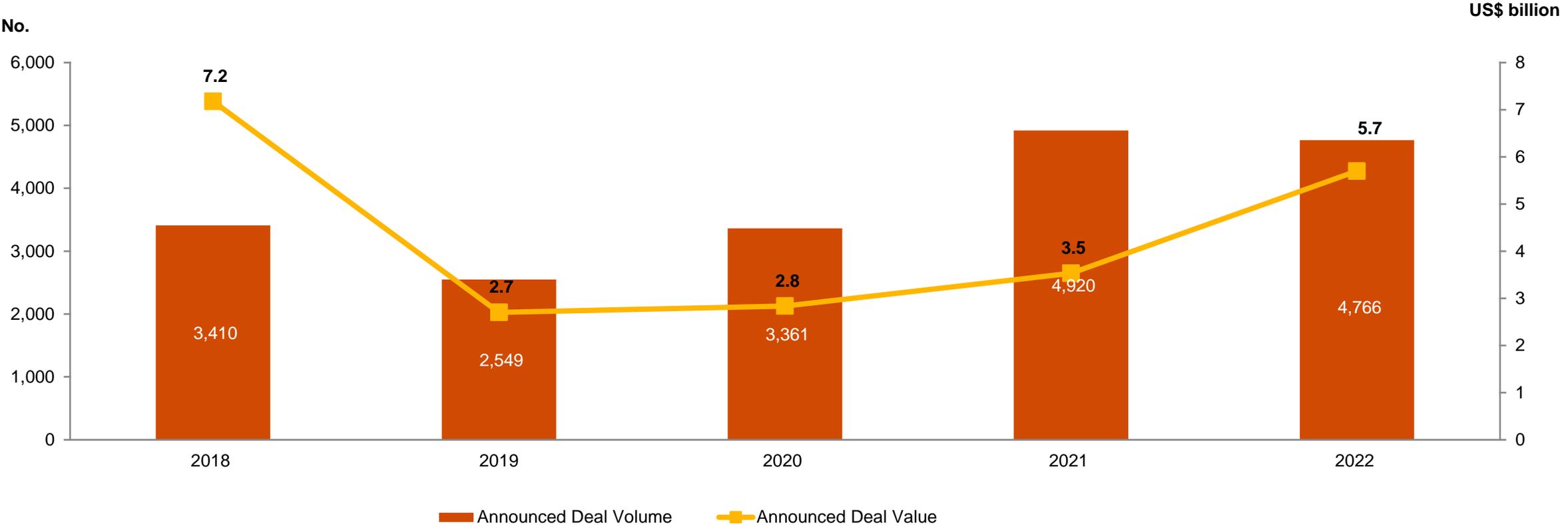
PE deal value by industry sector



Source: ThomsonReuters, CV Source and PwC analysis

The volume of venture capital investment, on the other hand, fell by only 3% despite uncertainties in the sector. The relatively strong performance was probably because VC funds were under pressure to keep their investment portfolio growing even in unfavourable market conditions and early-stage deals were less affected by the external environment

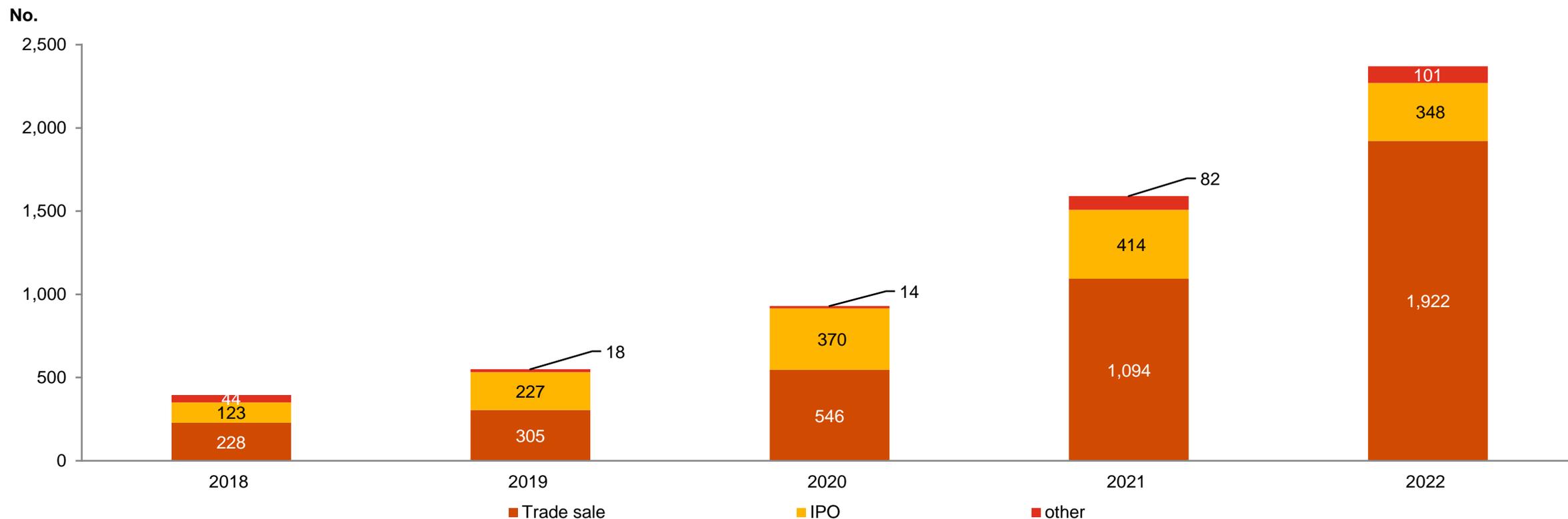
Venture Capital Deals



Source: ThomsonReuters, CV Source and PwC analysis

PE/VCs took advantage of frothy M&A market conditions and relatively healthy public- and private-market valuations in the first half to initiate exits from their growing portfolios, with exits including an increasing number of PE-to-PE secondary transactions.

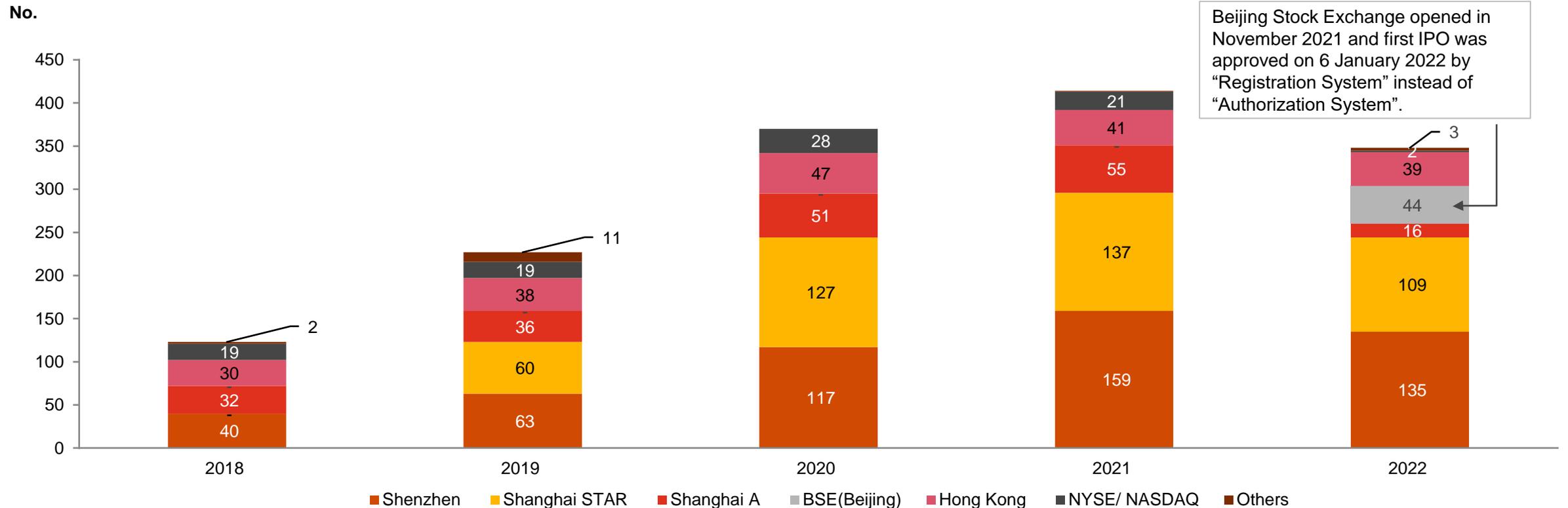
PE/VC-backed deal exit volume by type



Source: CV Source and PwC analysis

In general, China’s capital market was lukewarm in 2022 (especially in the second half). Regulatory issues affecting Chinese issuers continued to take US equity markets largely out of play, while Hong Kong was also soft with lower valuations. Mainland China’s Shenzhen and Shanghai STAR markets retained their dominant positions as IPO exit venues for PEs and the new Beijing Stock Exchange came online in 2022 with 44 new listings in the year.

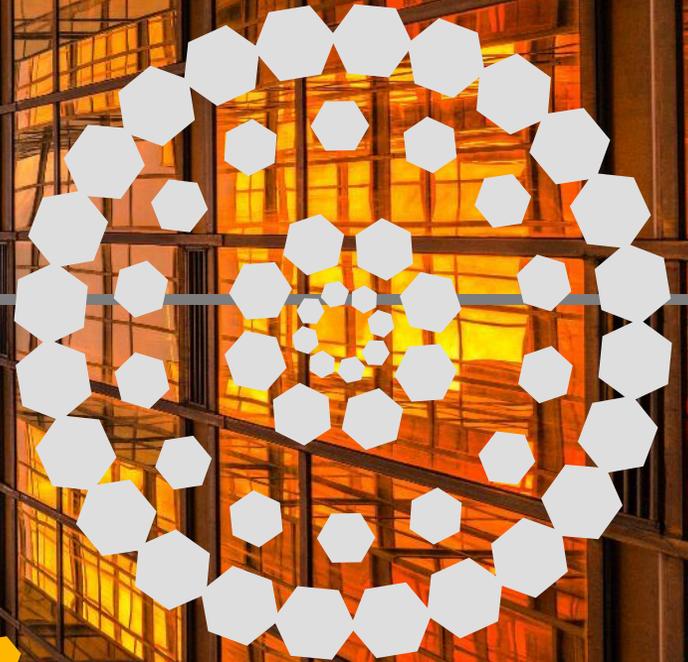
PE/VC-backed IPO exit volume by bourse



Source: CV Source and PwC analysis

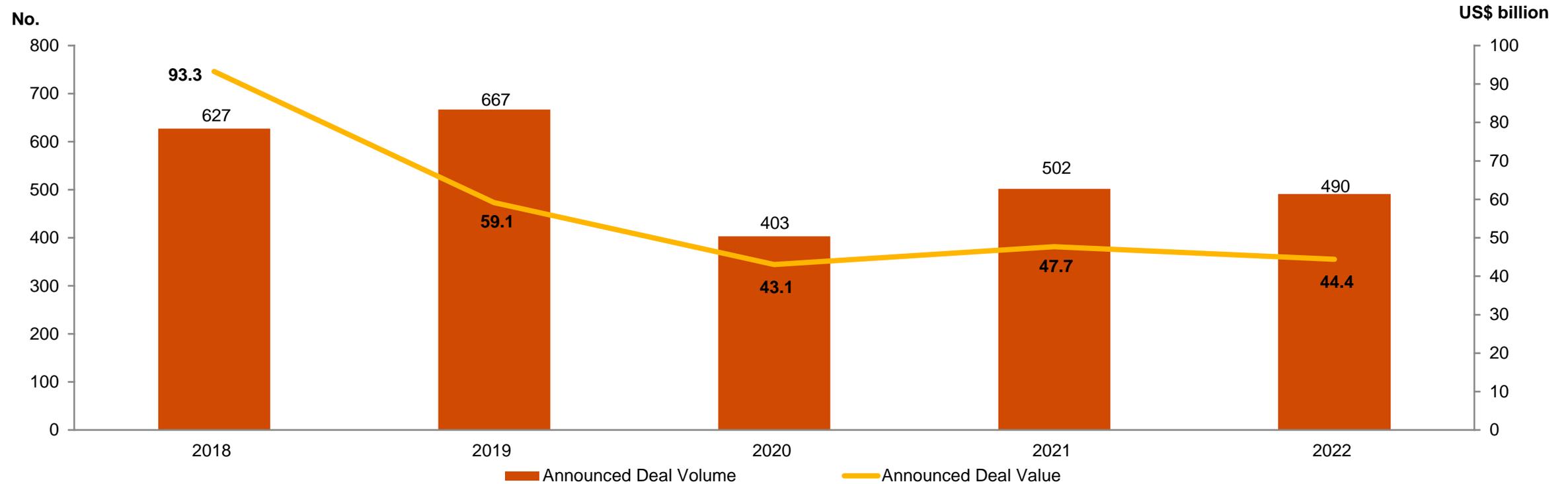
4

Mainland China
outbound M&A



Outbound M&A activity continued to be moribund, with severe travel restrictions and geopolitical issues affecting the ability and confidence to pursue large-sized outbound transactions.

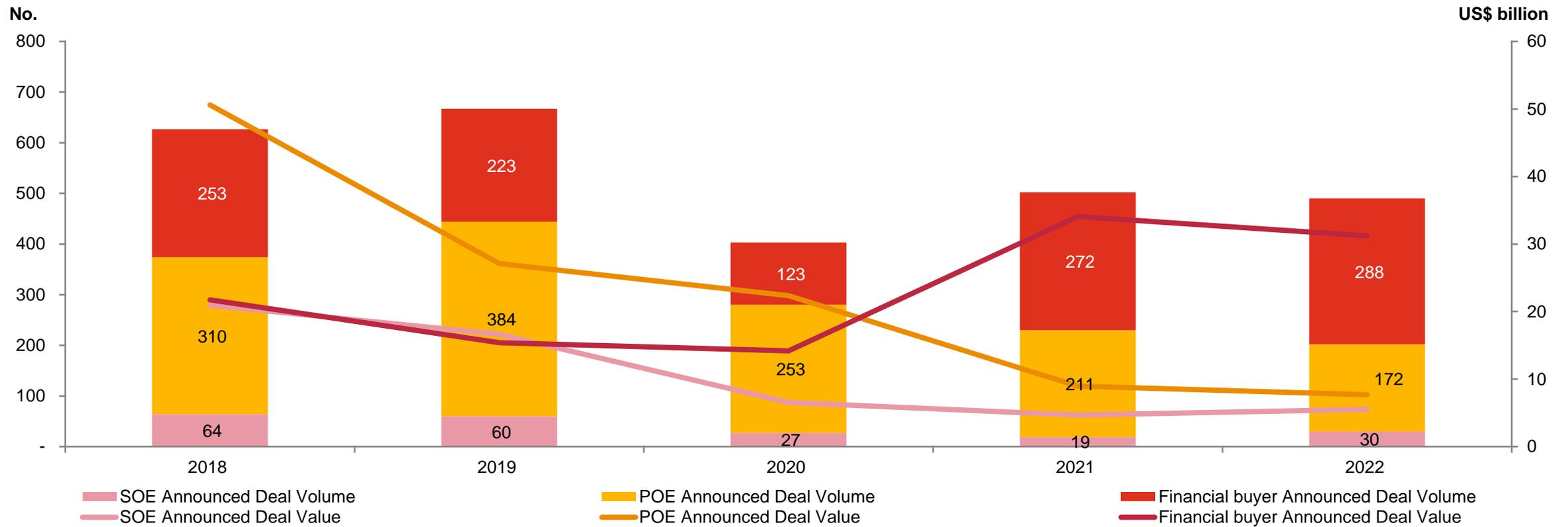
Mainland China outbound deals



Source: ThomsonReuters, CV Source and PwC analysis

Financial buyers' outbound deals were again the highest category both in value and volume terms, with very low levels of SOE outbound activity.

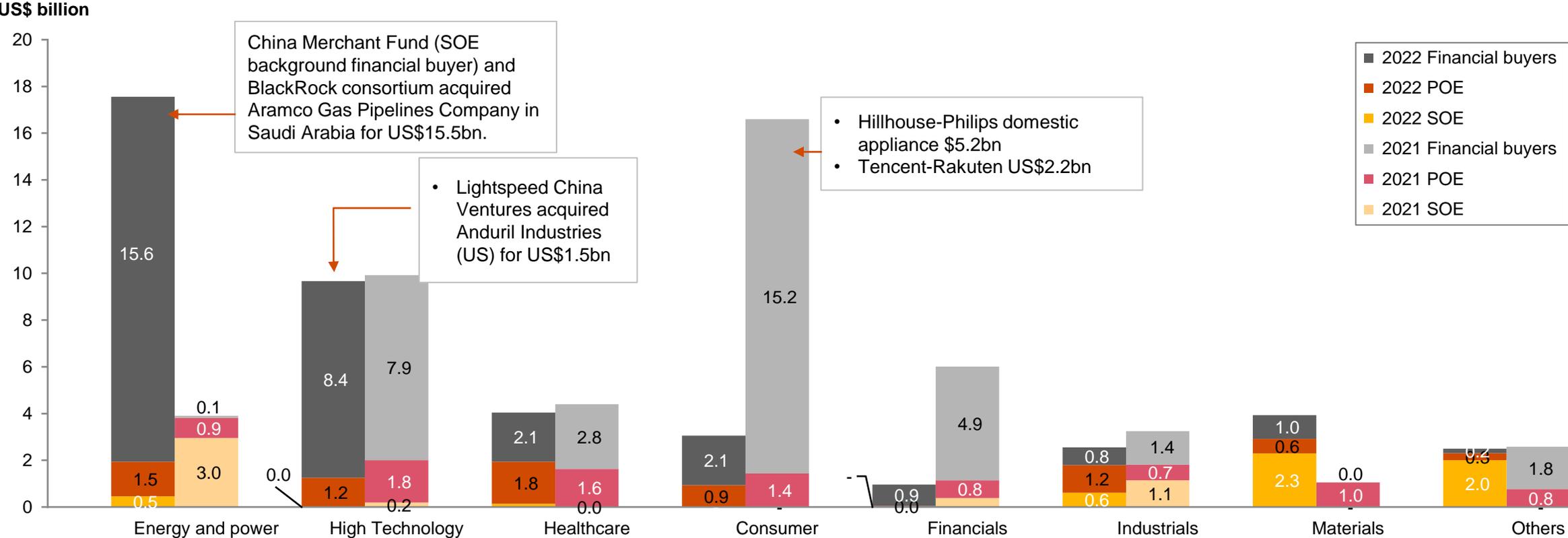
Mainland China outbound deals by investor type



Source: ThomsonReuters, CV Source and PwC analysis

The analysis of outbound M&A by sector showed China's strong investment interests in energy and power, high technology and healthcare industries.

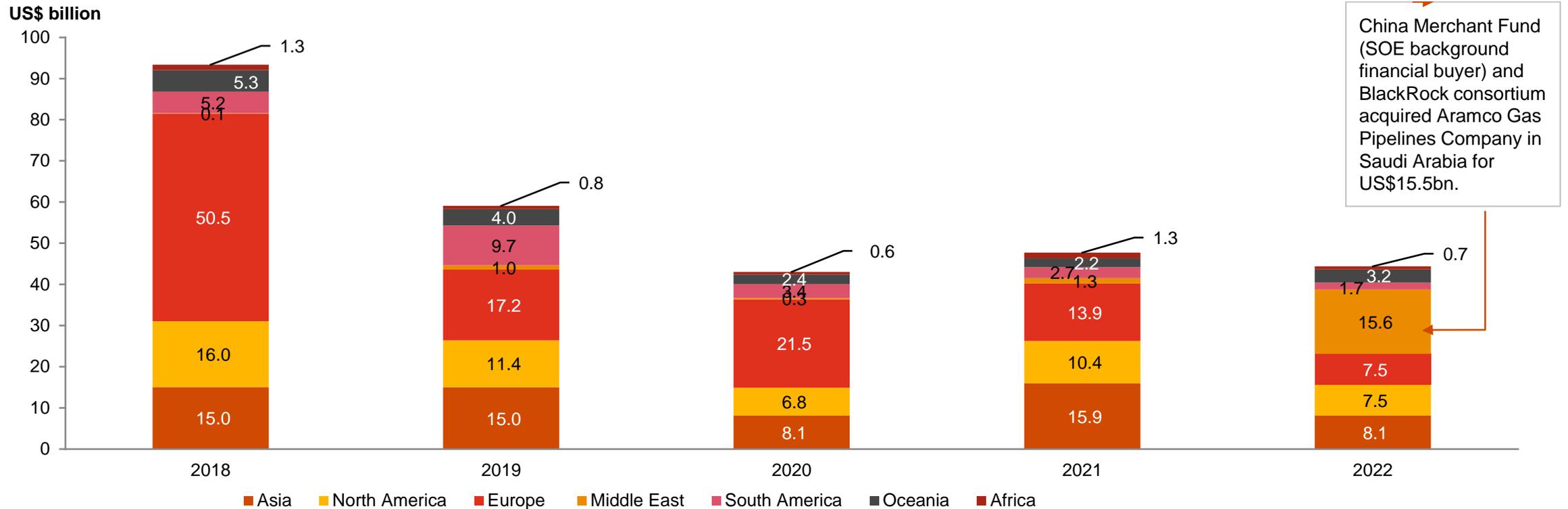
Mainland China outbound deals by industry sector – value



Source: ThomsonReuters, CV Source and PwC analysis

Deal values into the Middle East increased significantly due to a large investment in Saudi Arabia's Aramco Gas Pipelines Company.

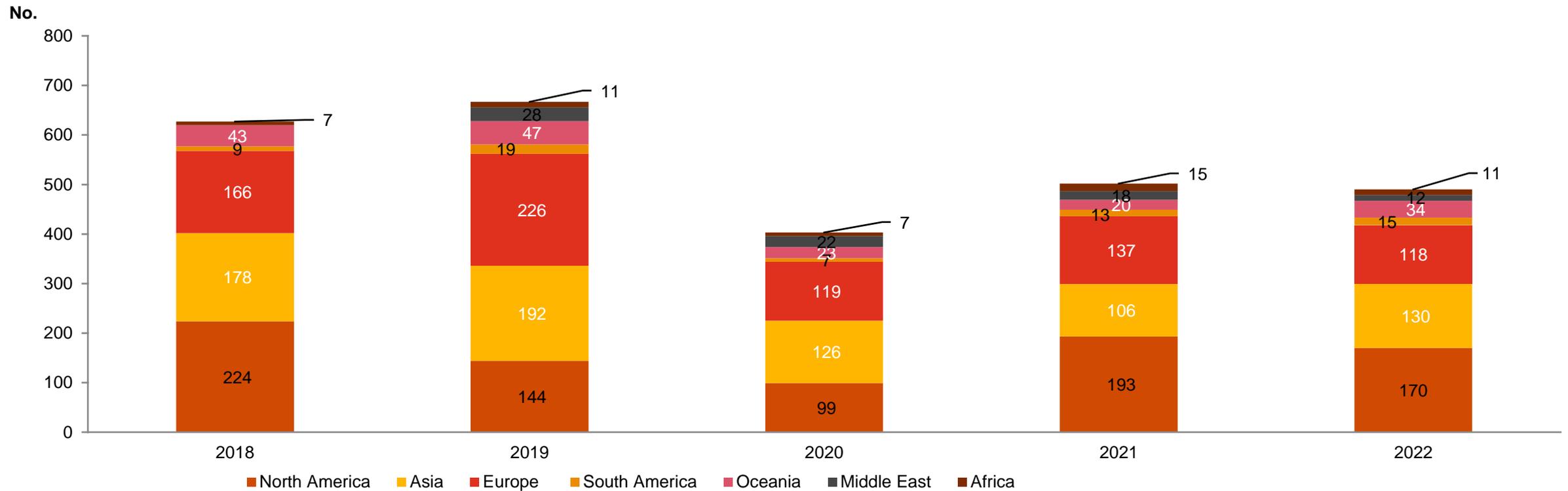
Mainland China outbound deals by region – value



Source: ThomsonReuters, CV Source and PwC analysis

In volume terms, deals are still happening in the US and Europe, although they tend to be much smaller in dollar terms and therefore less likely to receive political or regulatory attention. Asia became the second most popular destination for outbound investments.

Mainland China outbound deals by region – volume



Source: ThomsonReuters, CV Source and PwC analysis

5

Key

messages



Key messages

China M&A in 2022 (1)



Overall

- 2022 China M&A fell to its lowest level since 2014 at US\$486bn, down 20% compared to 2021. The decline would have been nearer to 25% but for the positive impact of some large SOE reform transactions (35 SOE-reform mega-deals valued at US\$101bn in 2022 vs 22 at US\$65bn in 2021).
- Announced deals fell only 11% (excluding VC) in volume terms. This is most likely reflective of high levels of confidential deal-process activity in the first half of the year translating into announcements in the second (i.e. we believe there to be a lag effect, which will show more in 1H23)...
- ...but even factoring in some lag-effect, deal values fell sharply to eight-year lows with a significant reduction in mega-deals (>US\$1bn). For the second year, PE deals were nearly half the total and the largest single category overall, despite falling by 23%.
- There were only 54 mega-deals in 2022 – nearly half of the long term annual average, of which 35 (2021: 22) related to SOE reform.

Domestic and Foreign Inbound Strategic

- Domestic strategic M&A fell 19% by value, held up somewhat by ongoing SOE reform, but nevertheless touching the lowest levels since 2014. Larger deals in particular were affected by Covid lockdowns, restrictions on the tech, internet and gaming sectors, and geo-political and other uncertainties which together resulted in very weak public equity markets and generally low levels of confidence.
- Deal values fell in almost all sectors, mitigated only by some uptick in industrials-related deals, many of which focused on SOE reforms, SOE-driven industrial upgrades, re-capitalisations and integrations between large SOE groups; domestic M&A activities were significantly influenced by government policies with a strong focus on industrials upgrades, whilst high tech (e.g. tech & internet), real estate and consumer products trended down.

Key messages

China M&A in 2022 (2)



PE/VC and financial buyer deals

- Apparently strong activity in PE fundraising reflected buoyant market conditions in 2021 and early 2022 (again, some lag effect) but the fundraising environment cooled appreciably towards the end of 2022, especially for foreign currency raises.
- The value of PE investment declined 23%, although again we believe the decline in deal processes (vs announced deals) to have been much more marked than this in the last few months of the year. Anecdotally, most PEs professed to be waiting on the sidelines in the second half, citing myriad significant uncertainties (even more so for US\$ funds) and declining valuations.
- There was a significant decline in dollar terms in almost all sectors except for energy and power, with several mega deals buoyed by state-backed investments.
- The volume of venture capital investment, on the other hand, fell by only 3% - despite uncertainties in the sector. The relatively strong performance was probably because VC funds were under pressure to keep their investment portfolio growing even in unfavourable market conditions and early-stage deals were less affected by the external environment.
- PE/VCS took advantage of frothy M&A market conditions and relatively healthy public- and private-market valuations in the first half to initiate exits from their growing portfolios, with exits including an increasing number of PE-to-PE secondary transactions.
- In general, China's capital market was lukewarm or outright cold in 2022 (especially in the second half). Regulatory issues affecting Chinese issuers continued to take US equity markets largely out of play while Hong Kong was also soft with lower valuations. Mainland China's Shenzhen and Shanghai STAR markets retained their dominant positions as IPO exit venues for PEs and the new Beijing Stock Exchange came online in 2022 with 44 new listings in the year.

Key messages

China M&A in 2022 (3)



Mainland China Outbound

- Outbound M&A activity continued to be moribund, with severe travel restrictions and geopolitical issues affecting the ability and confidence to pursue large-sized outbound transactions.
- Financial buyers' outbound deals were again the highest category, both in value and volume terms, with very low levels of SOE outbound activity.
- The analysis of outbound M&A by sector showed China's strong investment interests in energy and power, high technology and healthcare industries.
- Deal values into the Middle East increased significantly due to a large investment in Saudi Arabia's Aramco Gas Pipelines Company.
- In volume terms, deals are still happening in the US and Europe, although they tend to be much smaller in dollar terms and therefore less likely to receive political or regulatory attention. Asia became the second most popular destination for outbound investments.

6

Outlook



Outlook for 2023 (1 of 2)



- 2022 announced M&A statistics do not fully reflect exceptionally soft conditions for deal processes activity seen in the last few months of 2022 and so we expect the number of announced deals in the first half of 2023 to continue to fall due mainly to this lag effect
 - In terms of new processes, we do expect to see some improvement as China's reopening after zero-covid starts to take effect, but we think this effect will be rather cautious, somewhat gradual and perhaps volatile with a few stops and starts due to the various uncertainties in play
 - Geopolitical considerations will have some braking effect on M&A and this may take some time to play through, with considerable uncertainties at both the macro level and affecting particular sectors
 - We think these uncertainties will especially impact the larger global PEs investing through US\$ funds. Their willingness to return quickly to the market is questionable at this time
 - As a result, we think that the M&A market in China will become even more domestically orientated, at least in the short term, albeit there is demand for capital and so access to foreign capital and investment remains important
 - Whether or not, and to what extent, the large global PEs return to the market at scale depends a lot upon ongoing developments in the relationship between China and the US in particular – which are themselves difficult to predict.
- Nevertheless, there are some positive influences for M&A, including:
 - The release of some pent-up demand after the removal and work-through of Covid-19 restrictions in the run-up to Chinese New Year;
 - New measures from leadership to address the real estate crisis, relax curbs on the internet economy and generally to re-prioritise economic growth;
 - Various government measures to stimulate investment, including some immediate overseas trips organized after the release of Covid-19 restrictions by regional governments to win orders and stimulate trade and investment momentum;
 - Some positive breakthroughs in late 2022 pertaining to the status of Chinese companies listed in the US;
 - Consequential generally improving sentiment and a sharp uptick in public-market valuations – which will be positive for M&A;
 - An expectation of more active IPO markets in 2023;
 - Overall ongoing record levels of dry powder for financial sponsors, and pressure to deploy this capital;
 - For foreign PEs, a general shortage of viable alternative investment markets for large scale capital deployment in Asia-Pacific and the risk of FOMO if China rebounds;

(cont'd on next page)

Outlook for 2023 (2 of 2)



(cont'd)

- The various economic dislocations associated with Covid-19 and geo-political trends will also give rise to transactional and transformational activity – including related to distressed situations;
 - Ongoing SOE reform;
 - More robust A-share capital market M&A activities, in particular driven by state-owned and controlled listed companies; and
 - We do expect to see increased demand for outbound investment, especially into the Asia-Pacific region.
- Taking all of these positive and negative factors into account – and also working in the lag effect of the much reduced processes in 2H22 – we think the best case for 1H23 would be flat on 2H22, but a further decline in announced deals is probably more likely as the M&A pipeline will need to re-build again first;
 - Further recovery and growth into 2H23, and therefore for 2023 as a whole, will be heavily impacted by the extent to which foreign-funded PE re-engages at scale, with geopolitical uncertainties perhaps the most significant variable of concern;
 - If public equity markets continue to improve we do expect to see:
 - More M&A driven by A-share companies, especially state-owned and controlled; and
 - More exit activity from PE most likely coming through in the 2H23 numbers (lag effect) with processes kicking off in Q2
 - We do expect a spike in outbound M&A, with Asia-Pac and maybe the Middle East favoured destinations;
 - Net-net, we expect full-year 2023 numbers to be close to 2022 with a (probably) weaker first half but stronger in the second.

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 CV Source historical data is constantly updated as deals are confirmed or disclosed; PricewaterhouseCoopers has excluded certain transactions which are more in the nature of internal re-organisations 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/buy-ins (LBOs, MBOs, MBIs)
- Privatizations
- Tender offers
- Spinoffs
- Split-off 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
- Rumored 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 privatization
- Balance sheet restructuring or internal restructuring
- Investments in greenfield operations
- Going private transactions(with no new investors)

Thank you

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