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# PwC M&A 2018 Review and 2019 Outlook

*19 February 2019*

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# *Foreword — explanation of data shown in this presentation (1 of 2)*

- The data presented is based on information compiled by Thomson Reuters, China Venture, AVCJ, PE data, and PwC analysis unless stated otherwise
- Thomson Reuters and China Venture 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 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$10mn and/or with undisclosed value, but invested by private equity and venture capital funds
- “Financial buyer” refers to investors that acquire companies with the objective of realizing a return on their investment by selling the business at a profit at a future date and mainly, but not entirely, comprises PE and VC funds
- “Strategic buyer” refers to investors that acquire companies with the objective of integrating the acquisition in their existing business
- In order to exclude foreign exchange impact, deal values from 2014 to 2017 were adjusted based on 2018 average Rmb/US$ exchange rate

# Overview

## 2018 China M&A remained flat at $678bn with record PE activity offsetting a 23% decline in outbound M&A

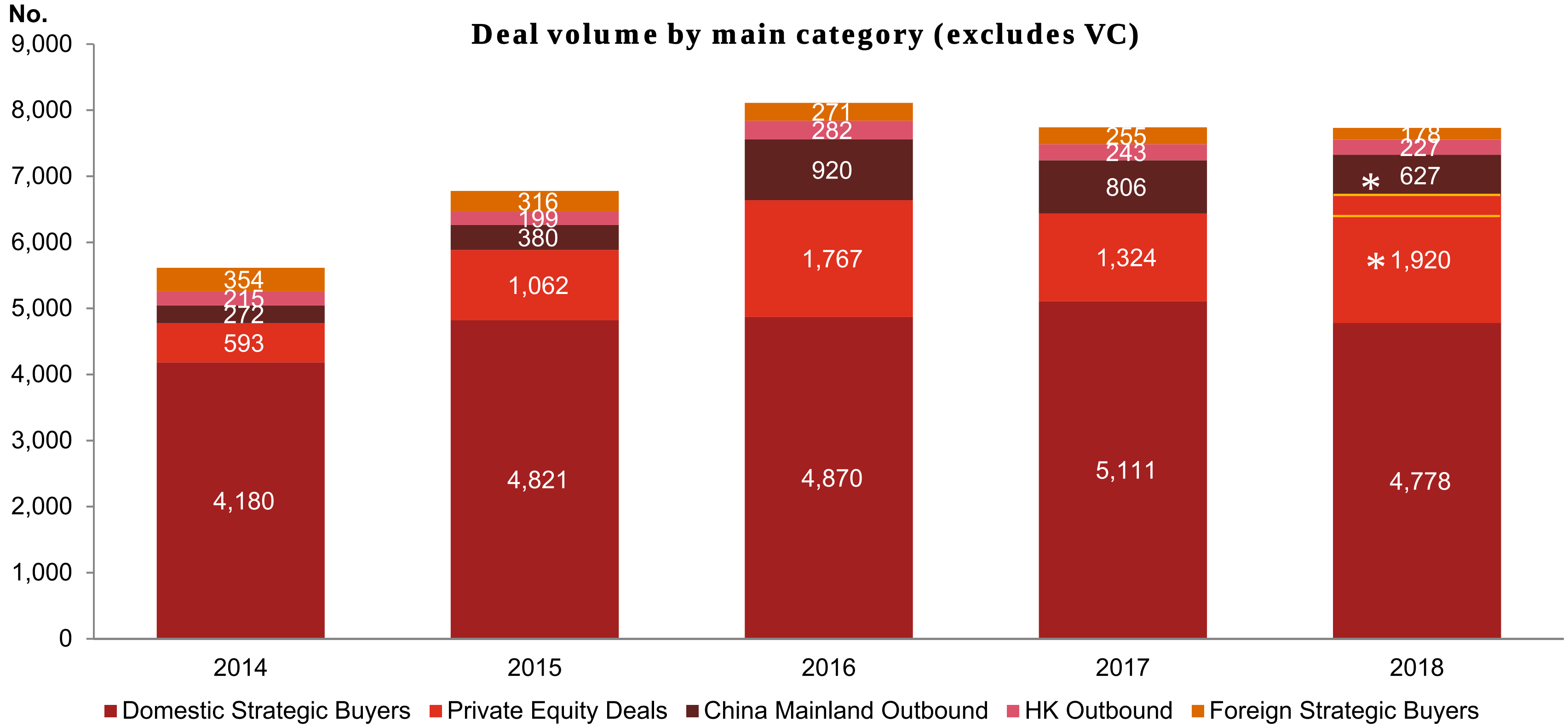
### Total deal volume and value, from 2014 to 2018

| | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | | % Diff vol. 2018 vs. 2017 | % Diff val. 2018 vs. 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Volume | Value (US$bn) | Volume | Value (US$bn) | Volume | Value (US$bn) | Volume | Value (US$bn) | Volume | Value (US$bn) | | |
| **Strategic buyers** | | | | | | | | | | | | |
| Domestic | 4,180 | 223.5 | 4,821 | 418.1 | 4,870 | 330.0 | 5,111 | 376.9 | 4,778 | 332.0 | *(7%)* | *(12%)* |
| Foreign | 354 | 22.0 | 316 | 13.4 | 271 | 7.0 | 255 | 14.4 | 178 | 20.6 | *-30%* | *43%* |
| **Total Strategic buyers** | **4,534** | **245.5** | **5,137** | **431.6** | **5,141** | **337.0** | **5,366** | **391.3** | **4,956** | **352.6** | ***(8%)*** | ***(10%)*** |
| **Financial buyers** | | | | | | | | | | | | |
| * Private Equity | 593 | 67.1 | 1,062 | 178.1 | 1,767 | 220.8 | 1,324 | 181.3 | 1,920 | 221.8 | *45%* | *22%* |
| VC | 1,334 | 1.3 | 2,735 | 4.1 | 3,492 | 5.8 | 2,338 | 3.1 | 3,410 | 7.2 | *46%* | *131%* |
| **Total Financial buyers** | **1,927** | **68.4** | **3,797** | **182.2** | **5,259** | **226.7** | **3,662** | **184.5** | **5,330** | **229.0** | ***46%*** | ***24%*** |
| **China mainland Outbound** | | | | | | | | | | | | |
| SOE | 78 | 25.6 | 79 | 23.8 | 116 | 65.9 | 101 | 28.1 | 64 | 21.1 | *(37%)* | *(25%)* |
| POE | 145 | 13.4 | 207 | 20.8 | 609 | 106.9 | 467 | 59.9 | 310 | 51.1 | *(34%)* | *(15%)* |
| * Financial buyers | 49 | 13.1 | 94 | 12.8 | 195 | 37.7 | 238 | 34.4 | 253 | 21.9 | *6%* | *(36%)* |
| **Total China mainland Outbound** | **272** | **52.2** | **380** | **57.5** | **920** | **210.4** | **806** | **122.5** | **627** | **94.1** | ***(22%)*** | ***(23%)*** |
| **HK Outbound** | **215** | **20.5** | **199** | **24.7** | **282** | **23.4** | **243** | **12.9** | **227** | **24.5** | ***-7%*** | ***90%*** |
| **Total** | **6,899** | **373.5** | **9,419** | **683.1** | **11,407** | **759.8** | **9,839** | **676.6** | **10,887** | **678.3** | ***11%*** | ***0%*** |

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

Source: Thomson Reuters, China Venture and PwC analysis

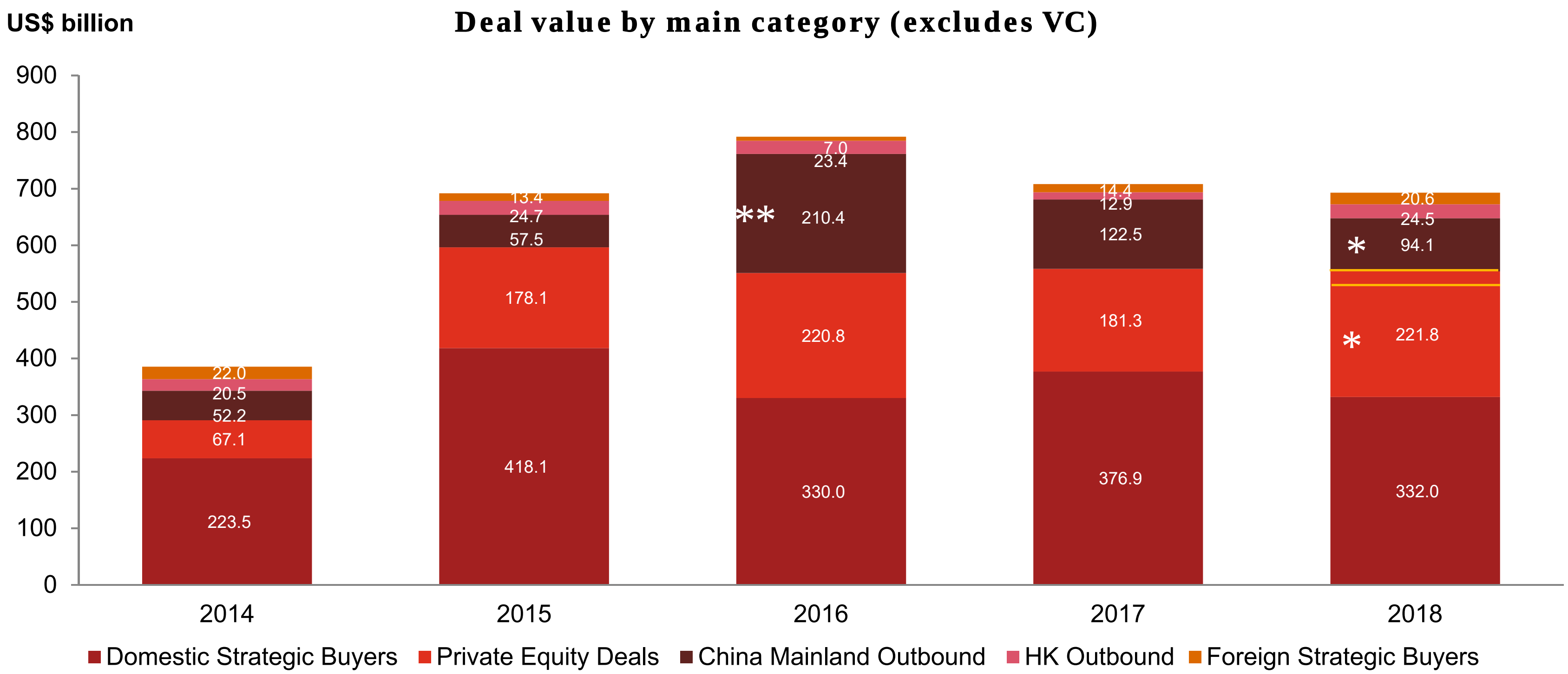
## *Overall deal <u>volumes</u> have held broadly steady for the last three years, increasing by 11% year-on-year but still short of the 2016 peak*




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

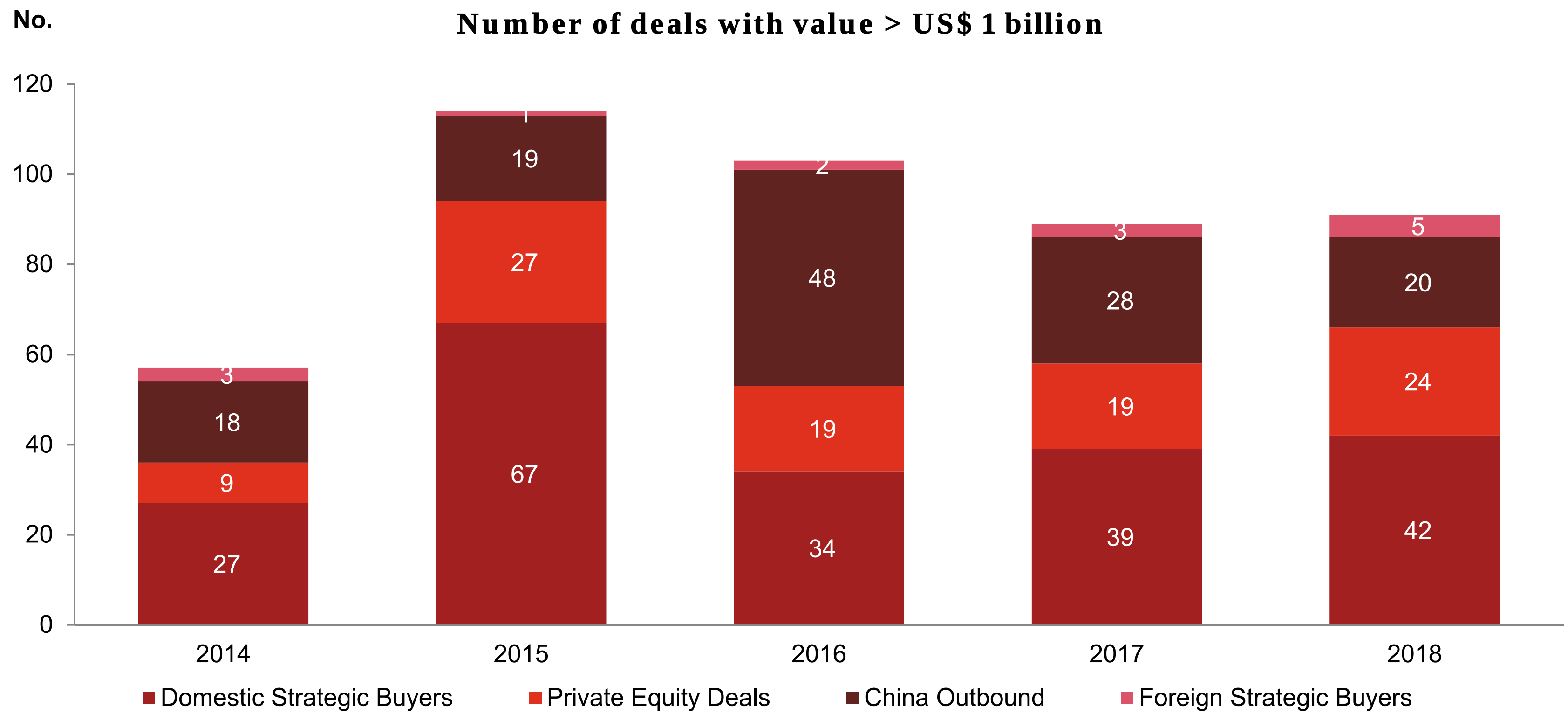
Source: Thomson Reuters, China Venture and PwC analysis

## *Deal values were flat year-on-year and remain 11% off the 2016 peak due almost entirely to China outbound M&A dropping by more than half compared to 2016 records (and by a quarter compared to 2017)*




* US$21.9bn of financial buyer-backed China mainland outbound deals are also recorded in private equity deals
** US$43bn Chem China-Syngenta deal is included in 2016 outbound value
Source: Thomson Reuters, China Venture and PwC analysis

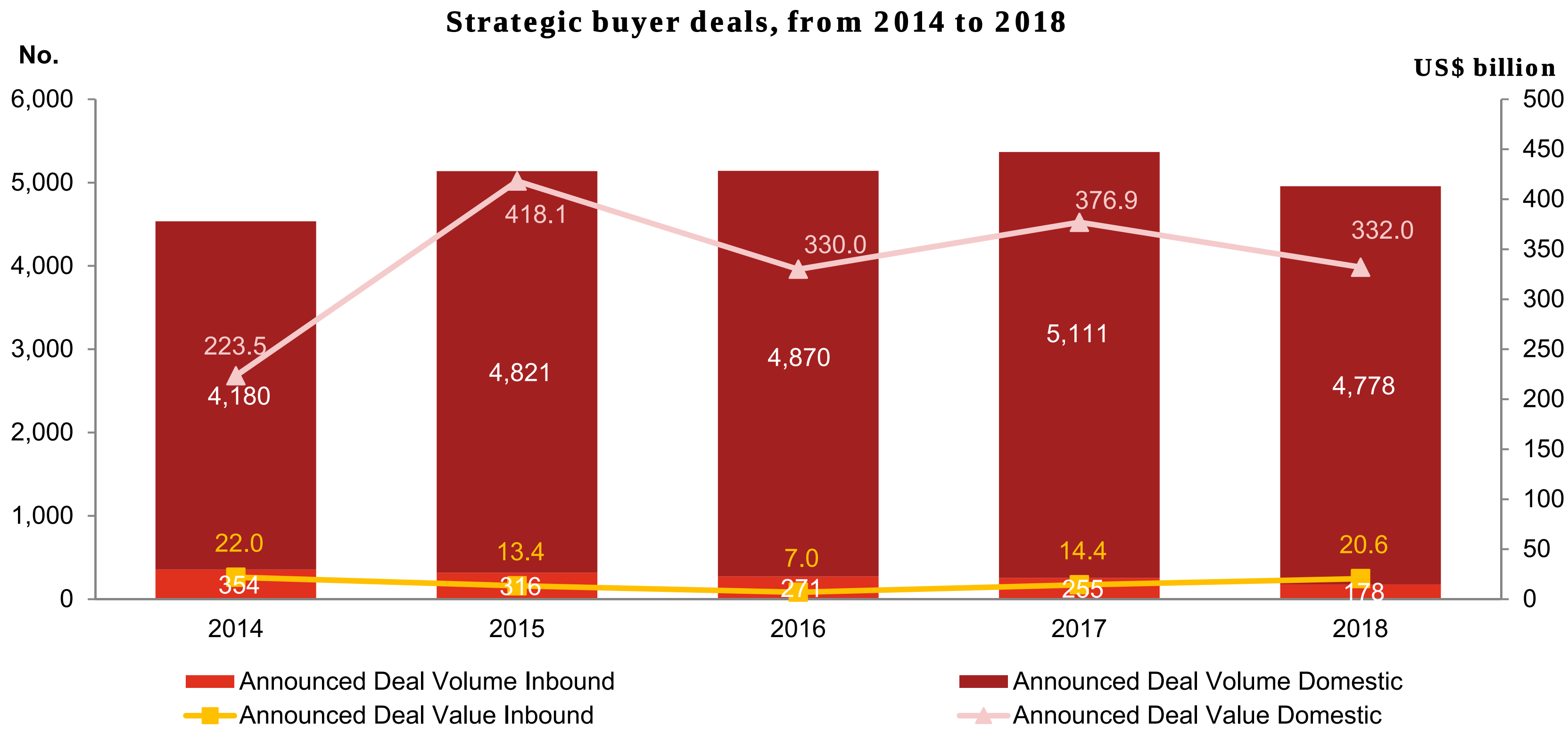
## The number of mega-deals (> US$1bn) in 2018 also remained flat, with significantly fewer large China outbound transactions (down 60% compared to 2016 and 29% on prior year) offset by a moderate increase in the number of mega-deals from PE and domestic strategic players




Source: Thomson Reuters, China Venture and PwC analysis

# Strategic buyers

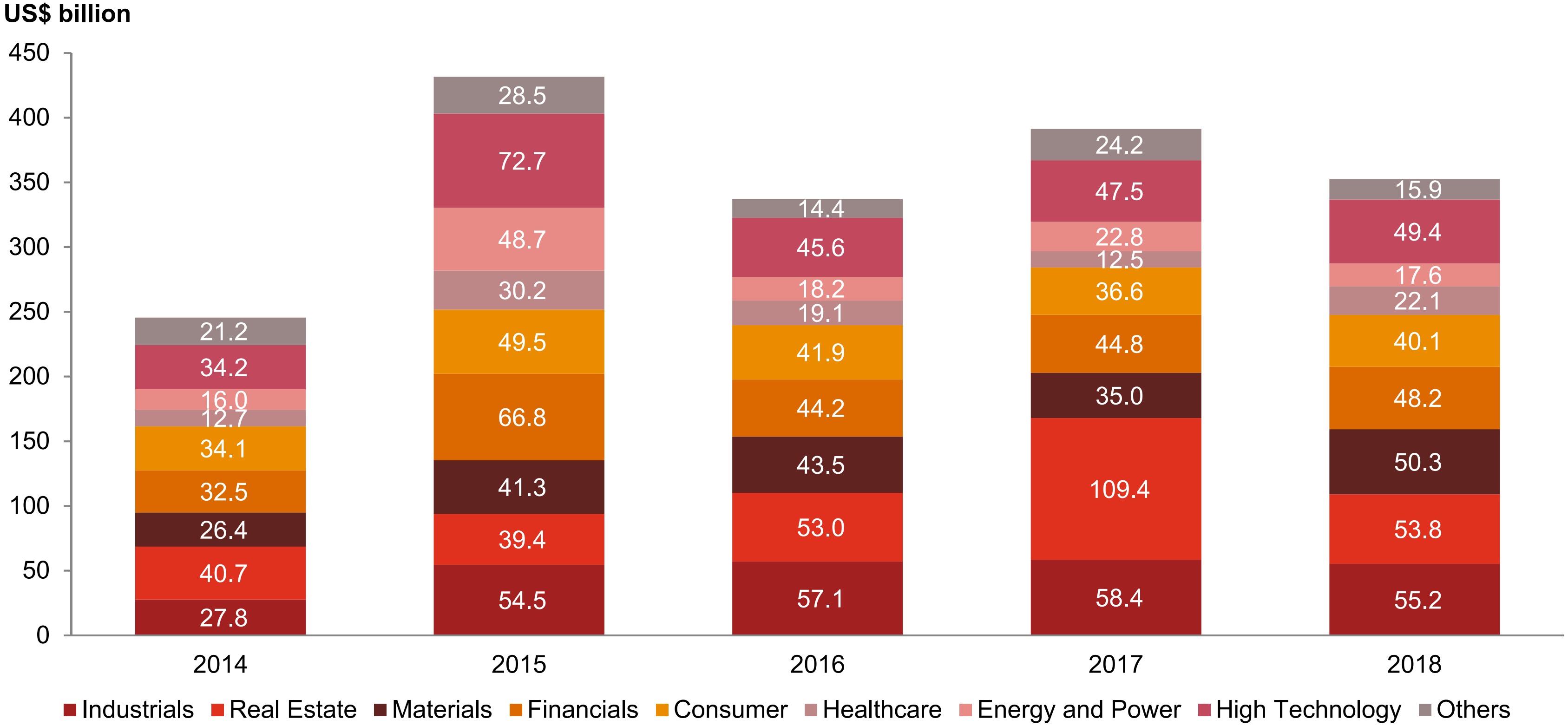
## *Domestic strategic deal volume and value decreased by 7% and 12% respectively but have held at broadly comparable levels for 4 years now; inbound (foreign buyer) strategic deal volumes fell by 30% but with 43% higher value (due to several larger sized transactions) albeit the inbound numbers are much smaller*




Source: Thomson Reuters, China Venture and PwC analysis

## Sector activity was largely comparable to 2017 with the exception of real estate which fell back to more normal levels after several exceptionally large real estate deals in 2017

### Strategic buyer deal value by industry sector

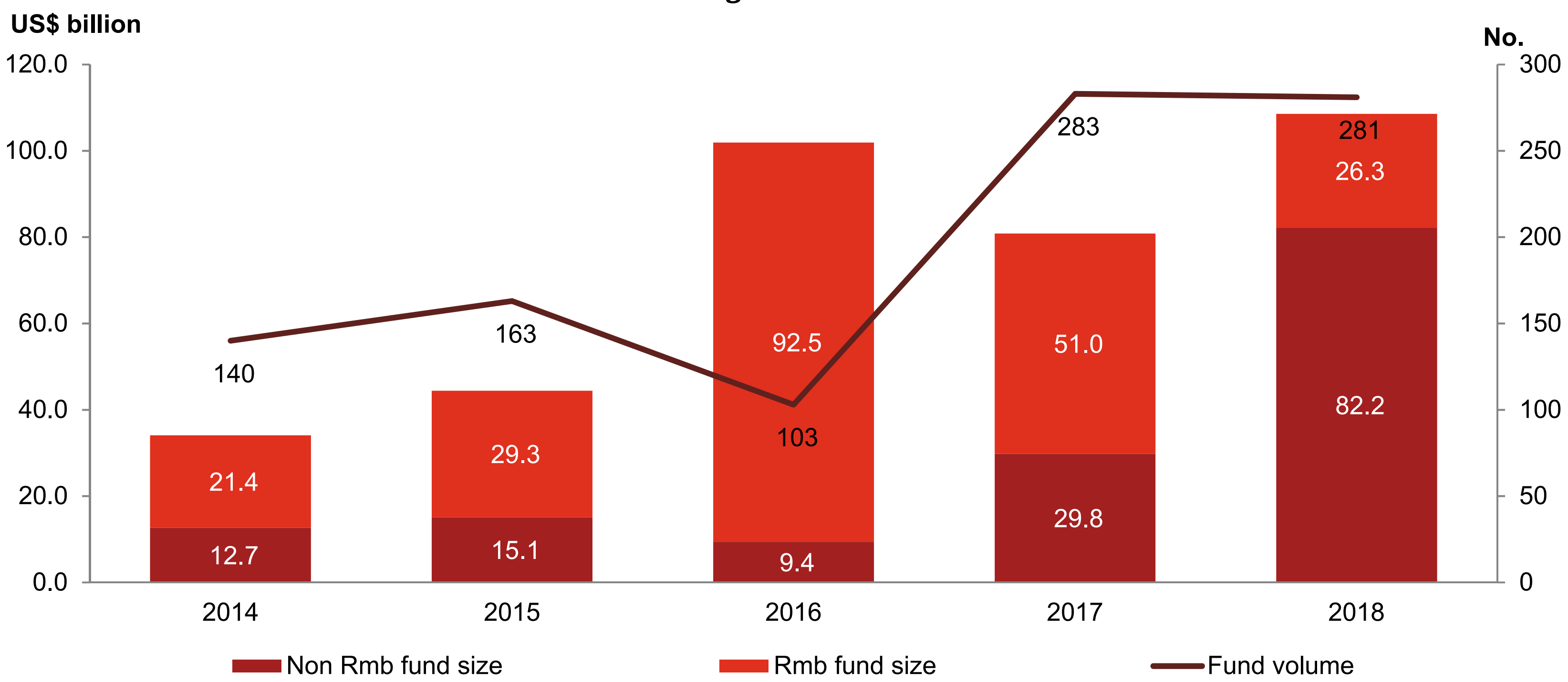



Source: ThomsonReuters, ChinaVenture and PwC analysis

# *PE/VC and financial buyer deals*

## *Fundraising:* *Access to Renminbi funding was a choke point for the industry in 2018 with many smaller and less established funds withdrawing from the market; but US dollar funding is back in vogue in a sharp reversal compared to 2016*

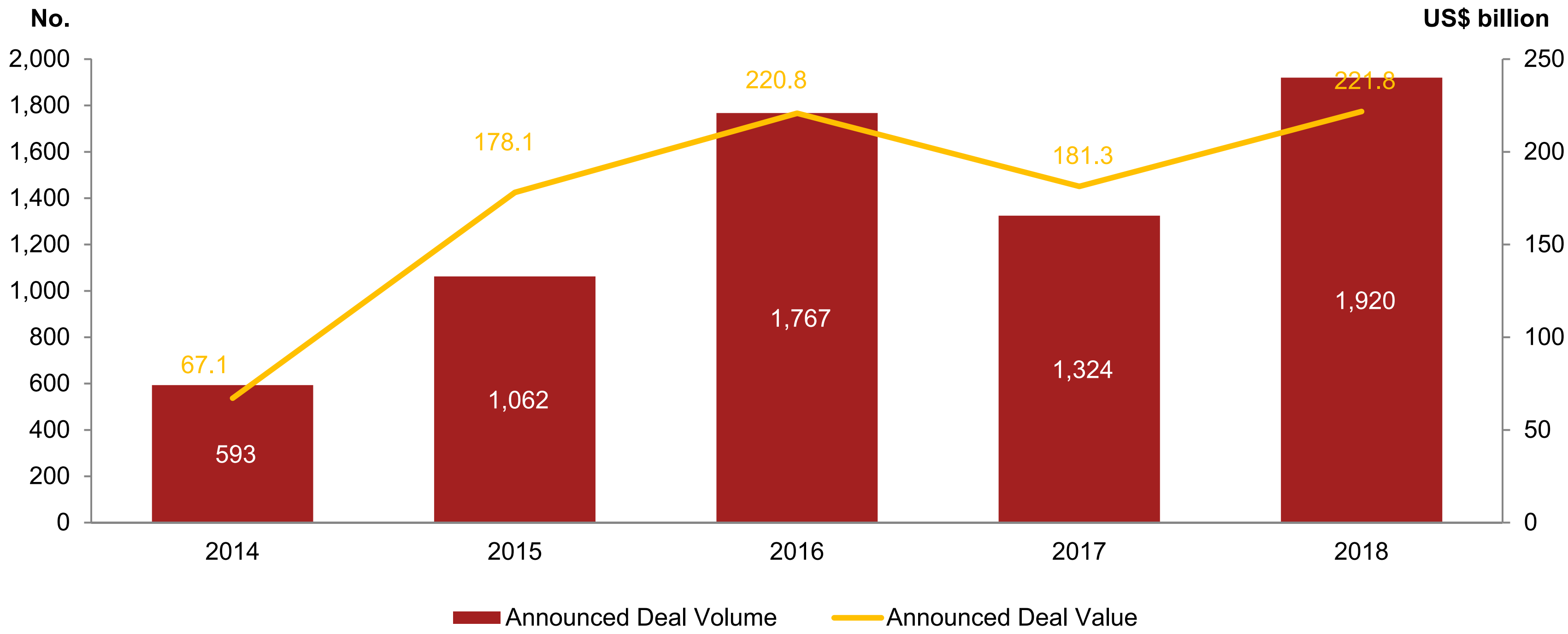
**PE/VC fund raising for China investment**




Source: AVCJ and PwC analysis

## *PE investment activity hit new records in 2018 at $222bn, marginally ahead of the previous peak in 2016, reflecting high supply of available capital meeting high demand for funding in the private sector and a hot tech and fin-tech sector featuring several mega-deals**

**Financial buyer deals**, from 2014 to 2018**



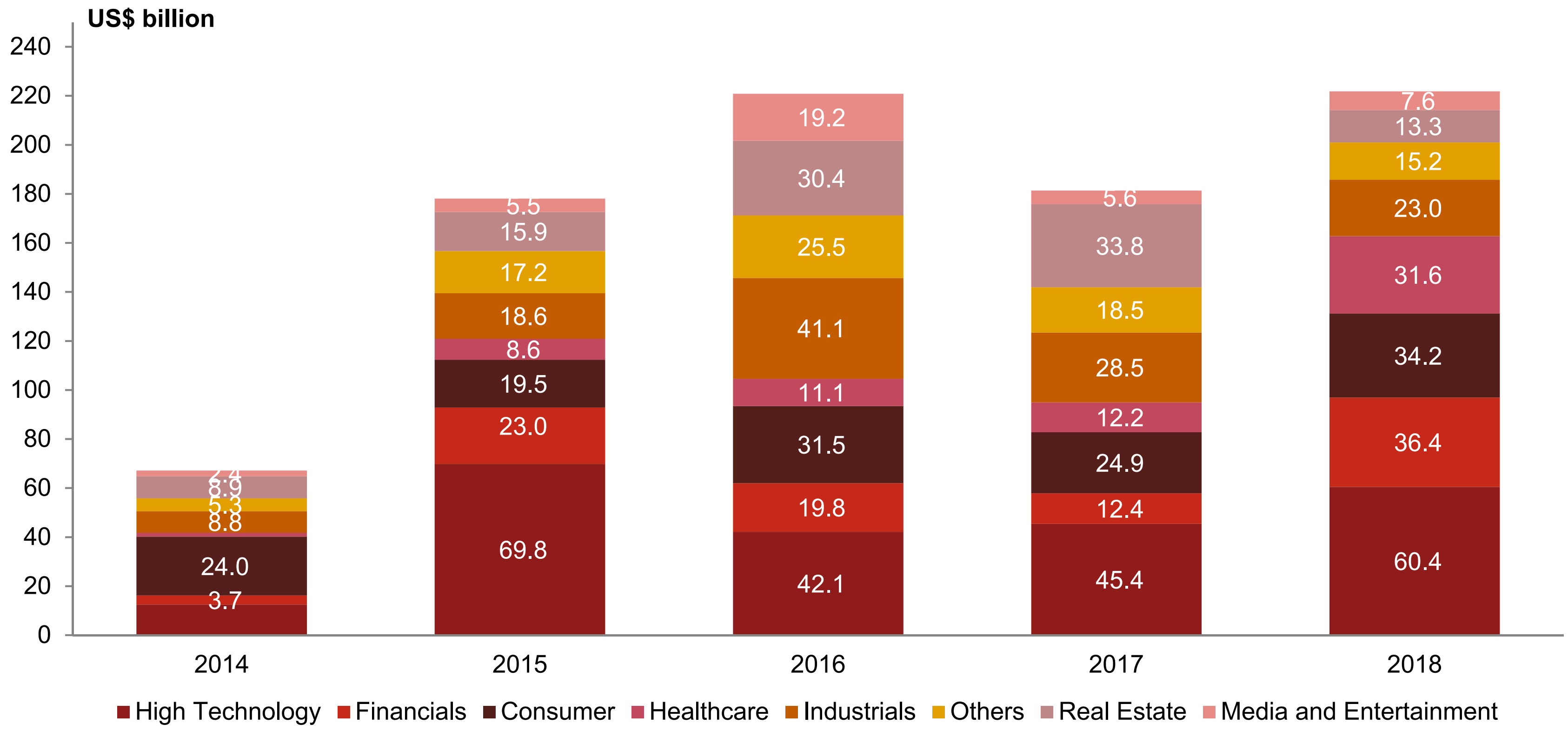

* Including the $14bn funding round by Ant Financial, the largest ever private fund-raising globally

** Financial buyer-backed China mainland outbound deals are also included in the above numbers / VC not included

Source: Thomson Reuters, China Venture and PwC analysis

## *The tech and fin-tech sectors were active in the year and the $14bn funding round by Ant Financial was the highest ever by a private company globally*

**Financial buyer deal value* by industry sector, from 2014 to 2018**

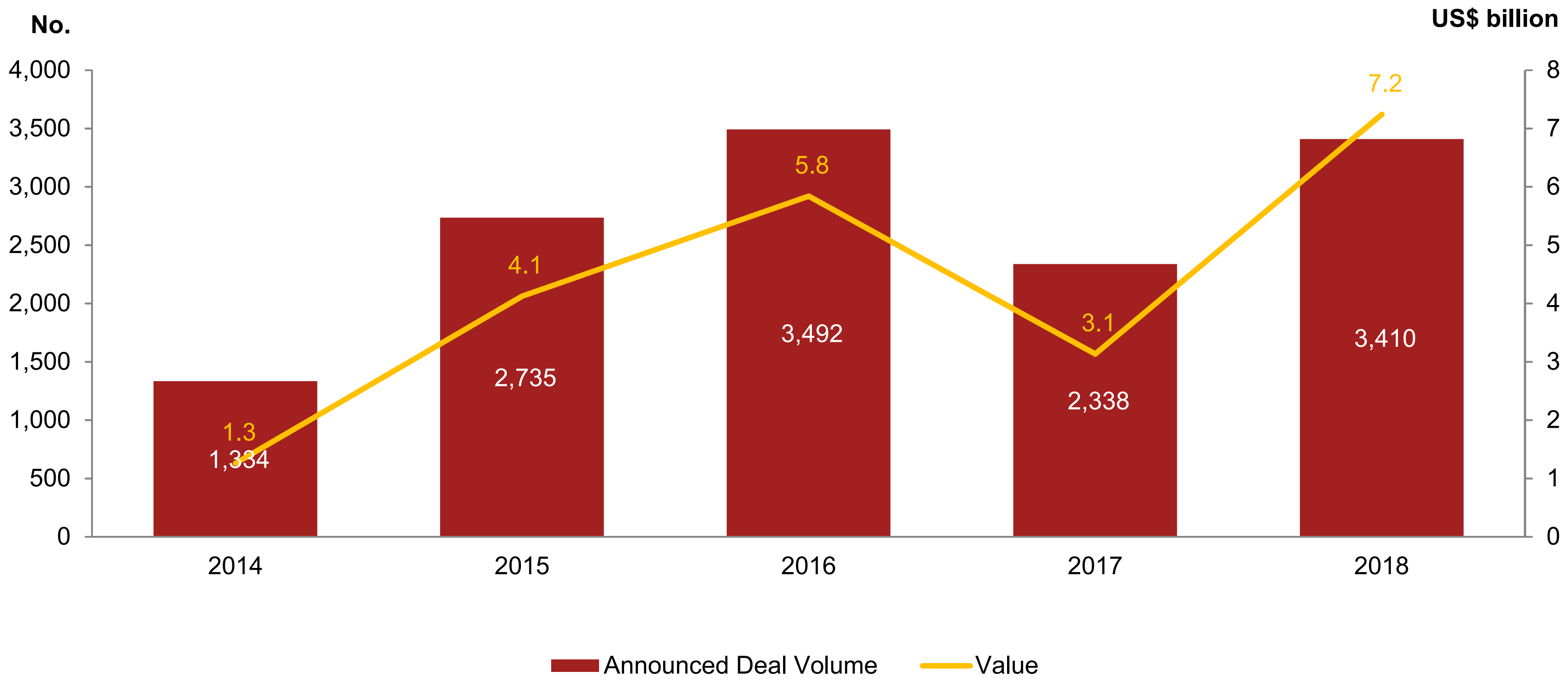



* VC not included (comprises a further US$7.2bn of mainly tech-sector investment)

Source: ThomsonReuters, ChinaVenture and PwC analysis

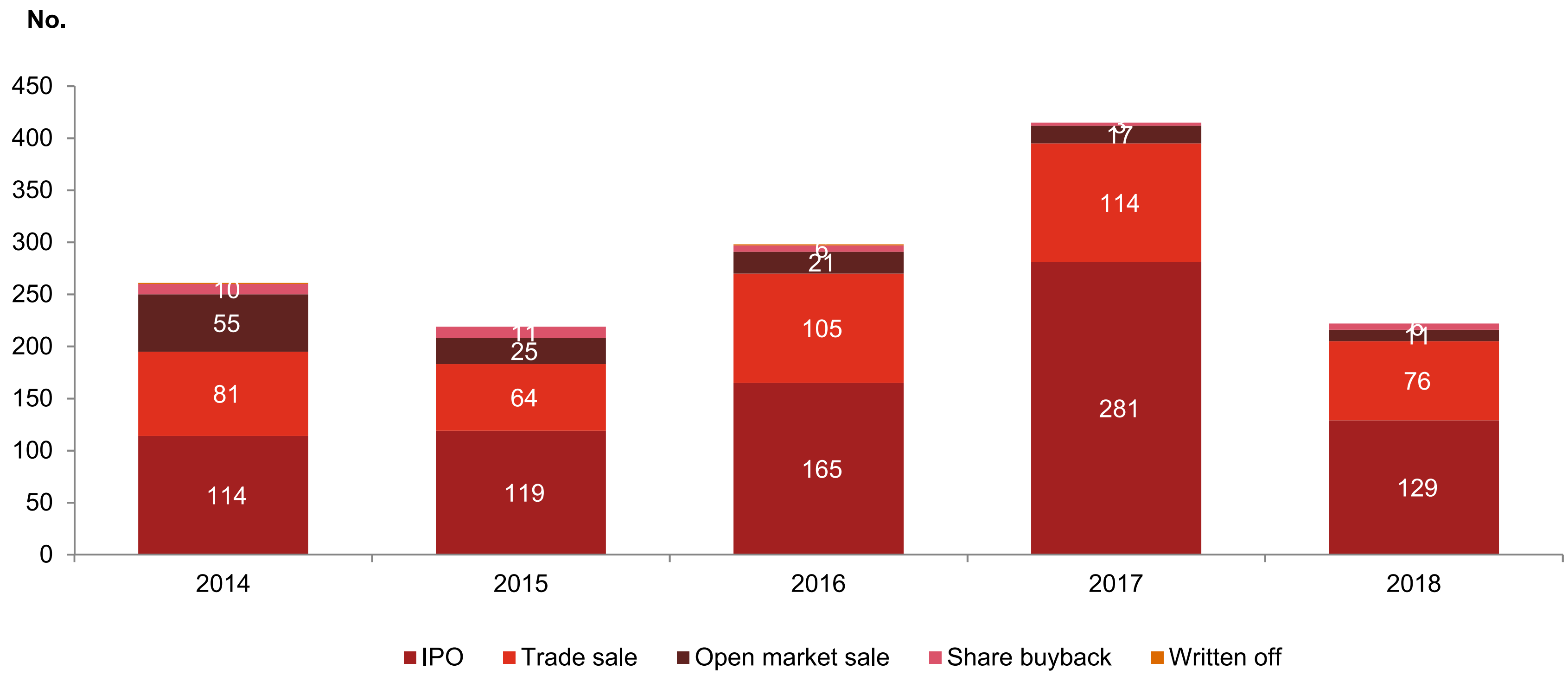
## *The venture capital industry also rebounded strongly with just over 3,400 investments, only just behind the 2016 record (and higher than 2016 - at $7.2bn - in value terms)*

**Venture Capital deals volume, from 2014 to 2018**



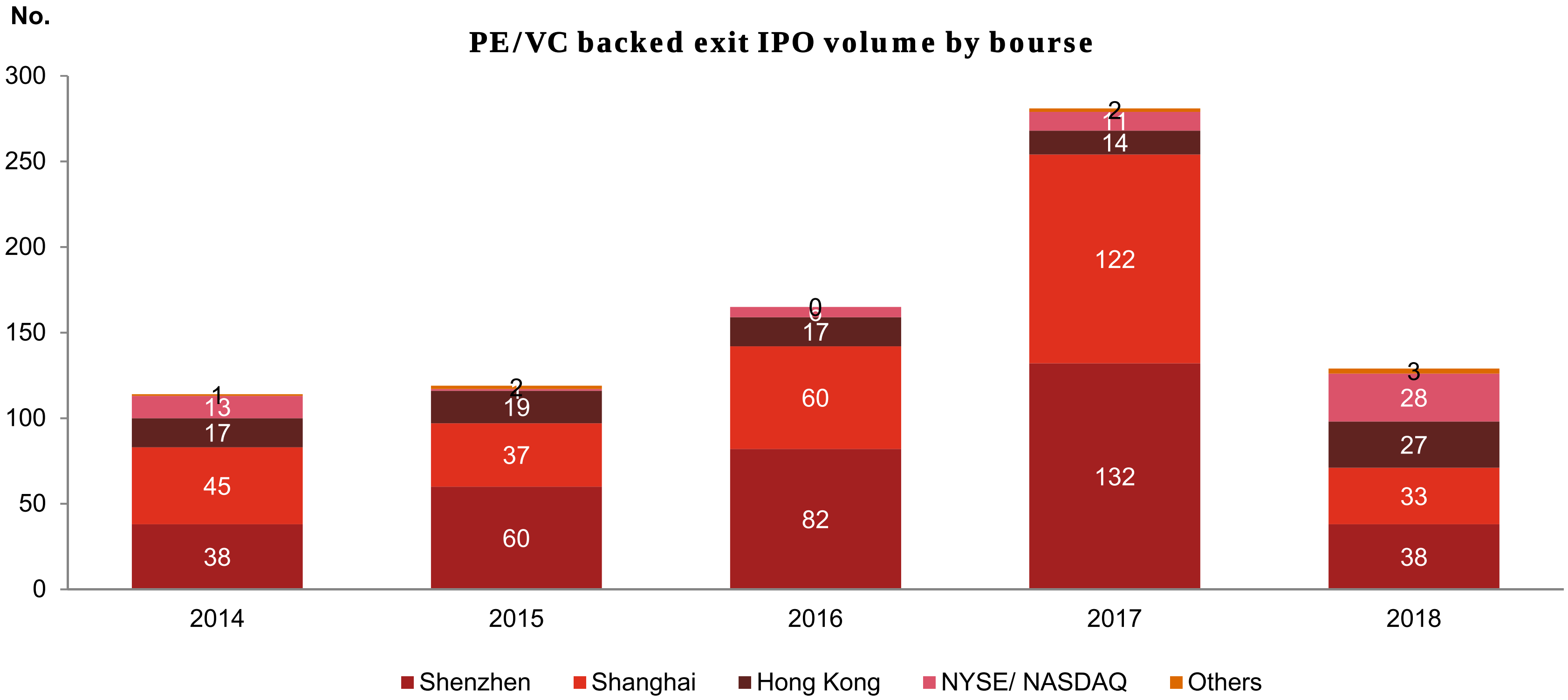

Source: ThomsonReuters, ChinaVenture and PwC analysis

## *Exits:* But China's equity capital markets were challenging leading to a sharp fall in PE-backed IPOs and trade sales were also soft as sellers fretted about expectation gaps on valuations




Source: AVCJ, China Venture and PwC analysis

## PE-backed IPOs in China mainland stock markets fell to levels not seen in the past 5 years with long waiting lists and a very low approval rate; many investors preferred to exit in Hong Kong (new listing rules favourable to tech companies) and the US (superior liquidity)



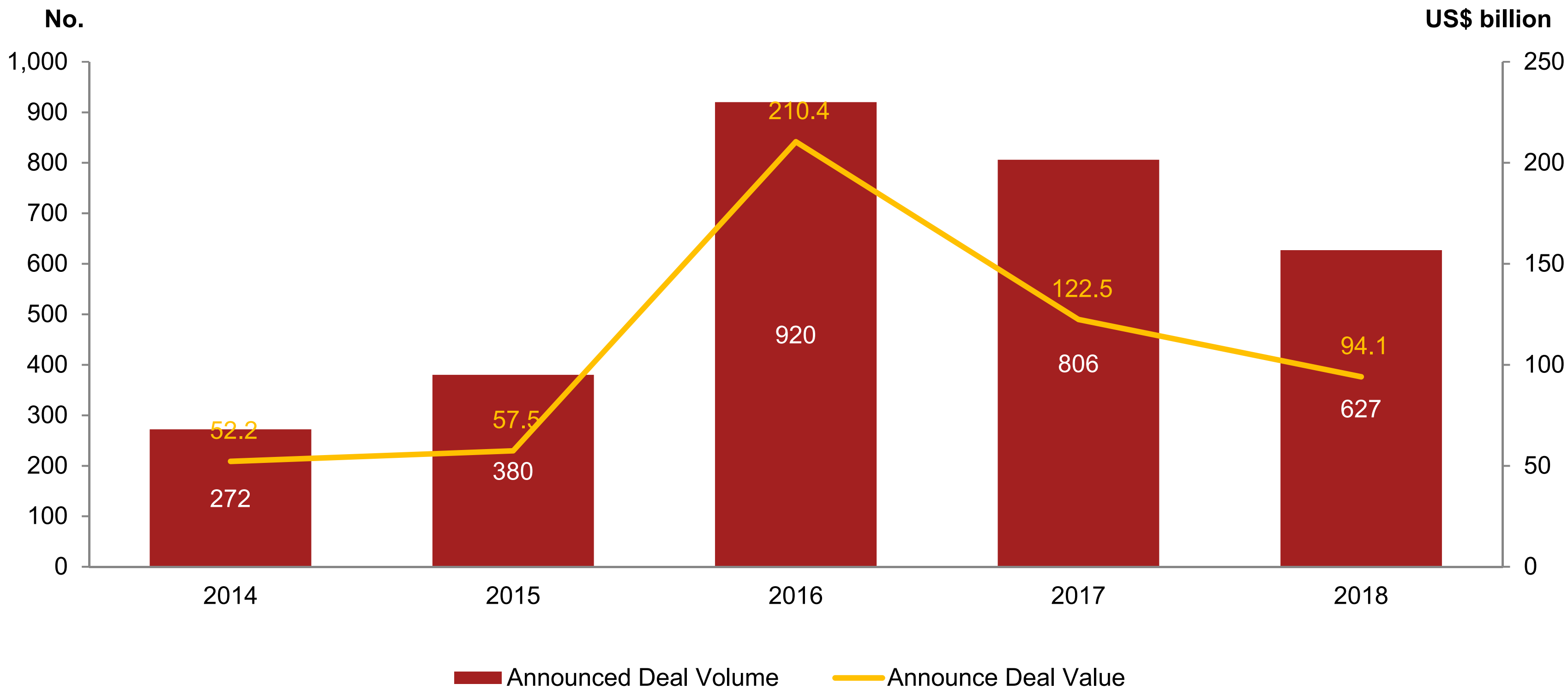

Source: Pedata and PwC analysis

# *Mainland China outbound*

## *China outbound fell for the 3rd straight year* from the 2016 mega-year, affected by: policy factors ruling out some classes of investment; difficulties around both access to M&A financing and access to foreign currency; greater scrutiny of large cross-border M&A in many jurisdictions; and a generally uncertain environment for overseas deal-making*

**** Yet it should be noted that China outbound M&A is still considerably larger than it was up to as recently as 2015***

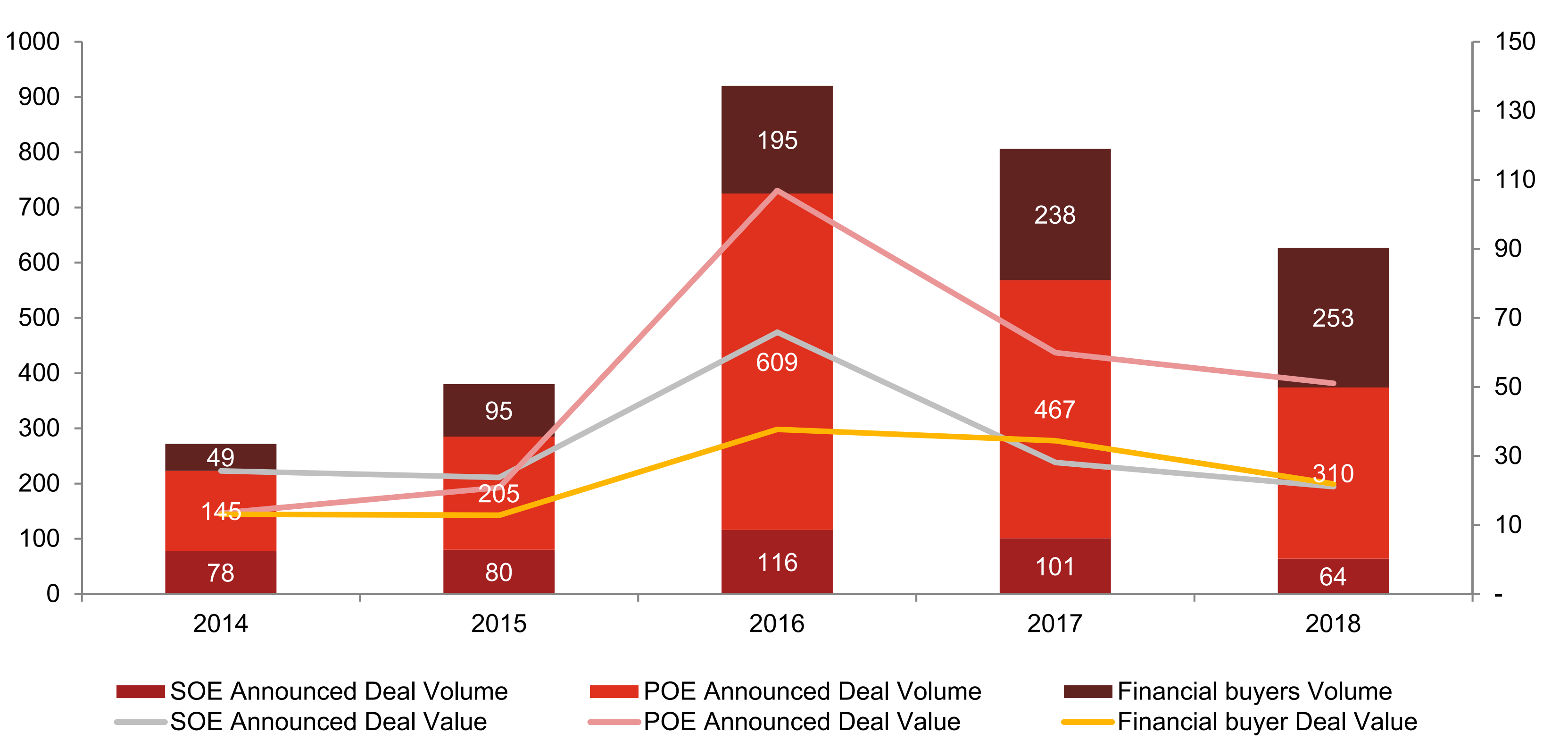
**Mainland China outbound deals, from 2014 to 2018**




US$43 bn Chem China-Syngenta deal is included in 2016 outbound value
Source: Thomson Reuters, China Venture and PwC analysis

***SOEs did fewer overseas deals and spent less money doing them than at any time since 2014 focusing instead on internal restructuring and the domestic market; for the 3rd year running, POEs outspent their state-owned counterparts (by a factor of nearly 2.5x) although they too were less active than in prior years; but financial buyers now account for 40% of outbound deal volumes, hitting a new record by number in 2018, reflecting their ability to provide capital on deals***

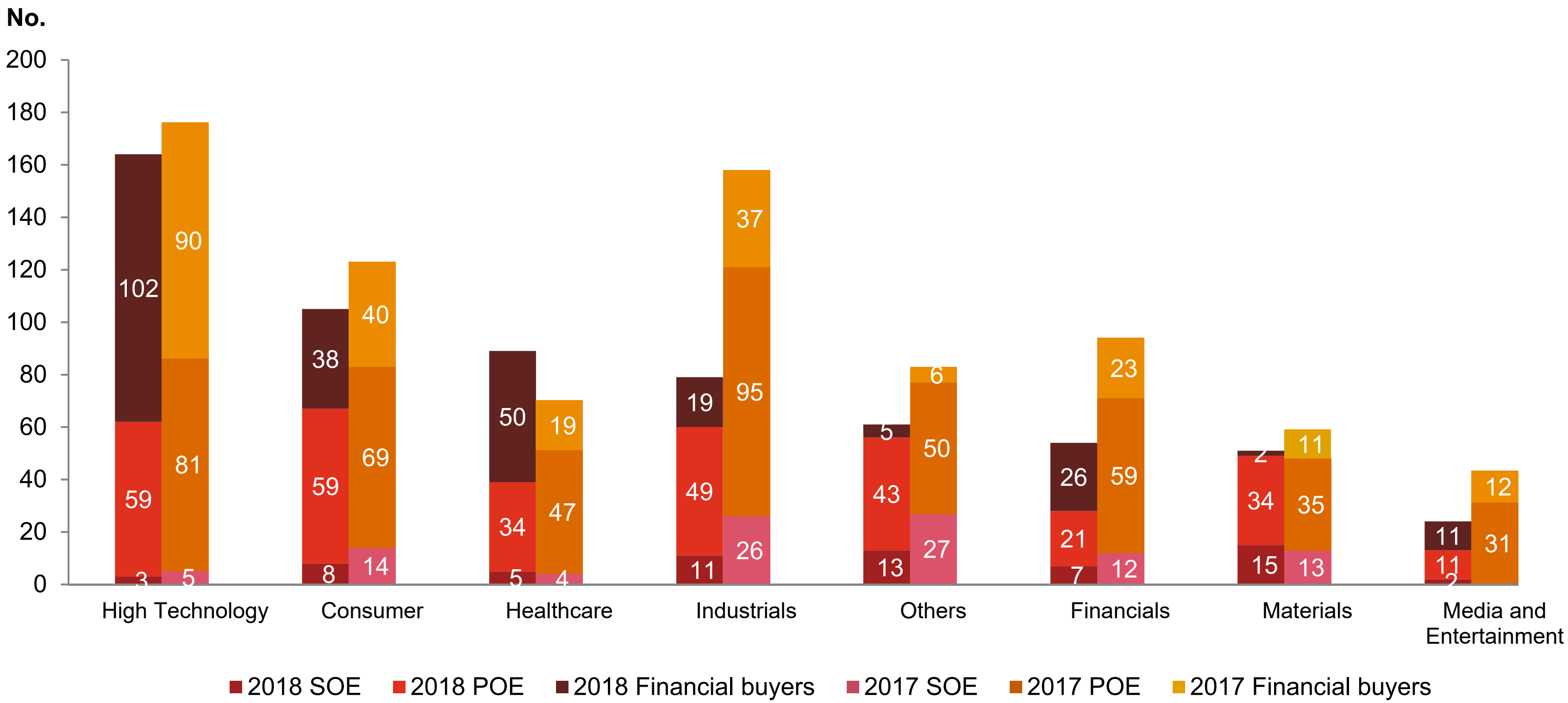
**China mainland outbound deals, from 2014 to 2018**




Source: Thomson Reuters, China Venture and PwC analysis

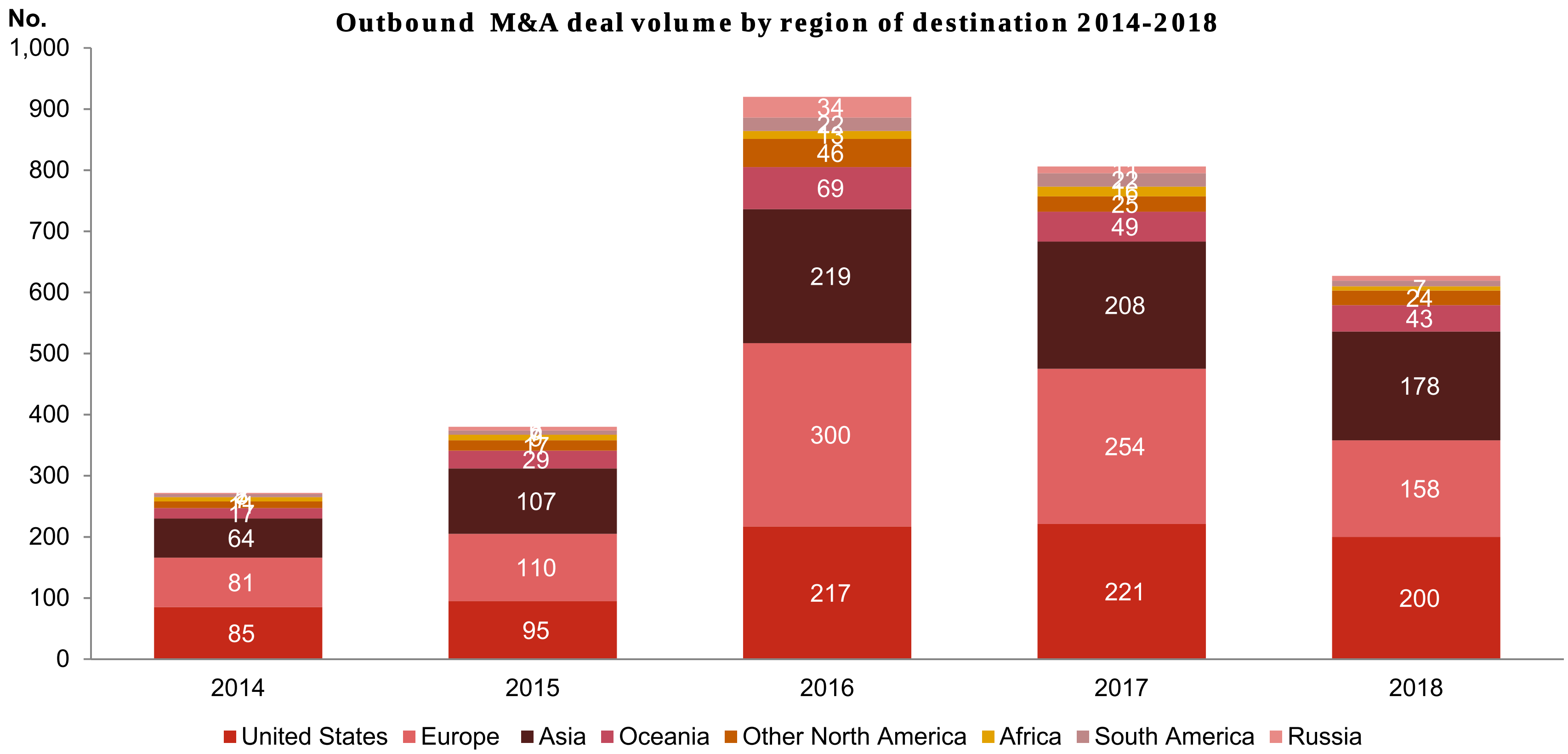
## Technology and consumer related deals continue to attract the lion's share of activity in line with government policy to encourage the introduction of foreign technologies, brands and consumer goods into the China market

**China mainland outbound deals by industry sector – volume, 2018 vs. 2017**



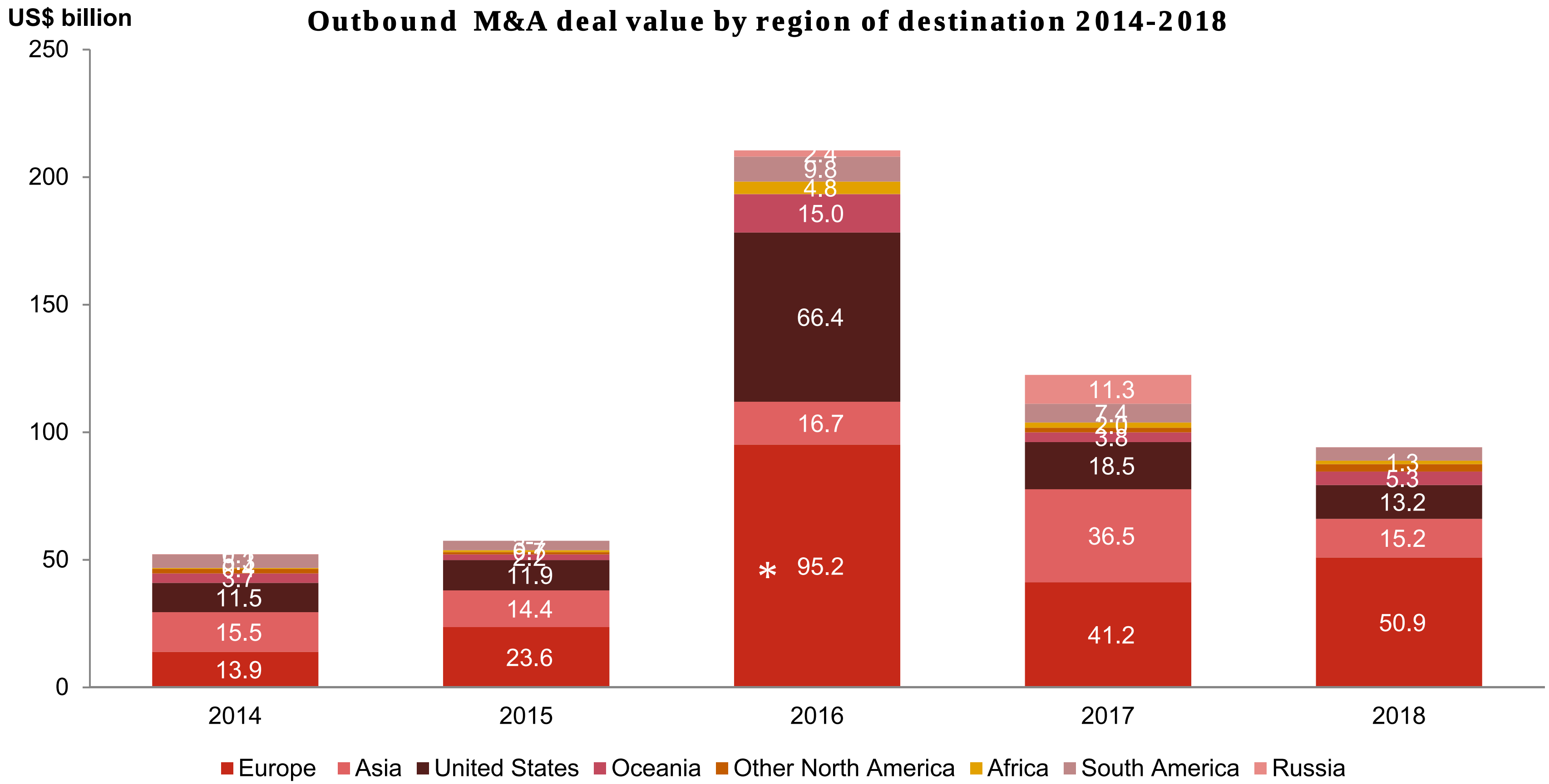

Source: Thomson Reuters, China Venture and PwC analysis

## *The search for technology and brands means that developed markets in the US and Europe - as well as some parts of Asia - are still the biggest destination for Chinese buyers in terms of deal volumes*




Source: ThomsonReuters, China Venture and PwC analysis

## *Europe continues to attract the highest dollar amounts, while Chinese buyers' deal value in the US decreased for the second year running*

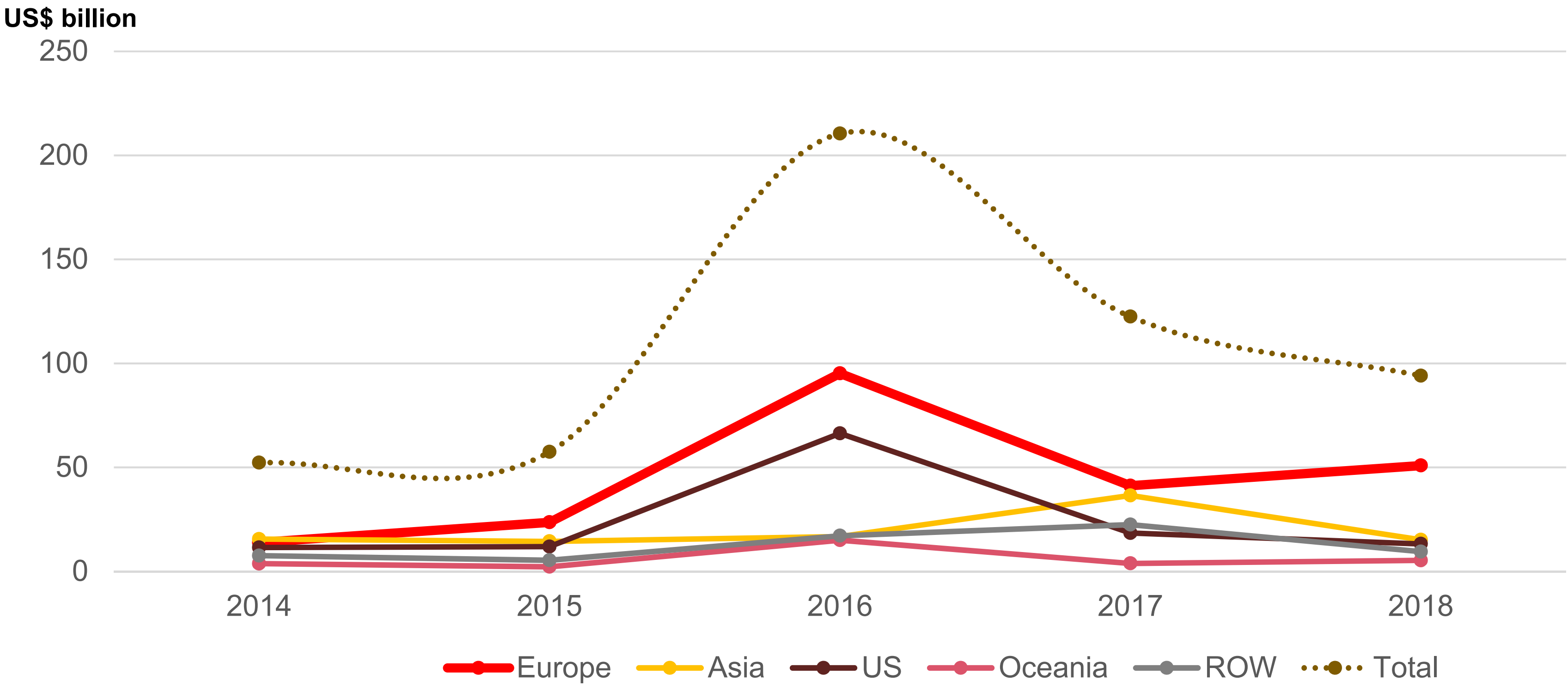



*US$43 bn ChemChina-Syngenta deal is included in 2016 outbound value
Source: Thomson Reuters, China Venture and PwC analysis

## *In fact, the decline in investment in the United States accounts for a large portion of the overall decline in China's overseas mergers and acquisitions since the 2016 peak**

**** Especialy if we strip out the very large one-off $43bn Syngenta deal which accounts for most of the European decline from peak***

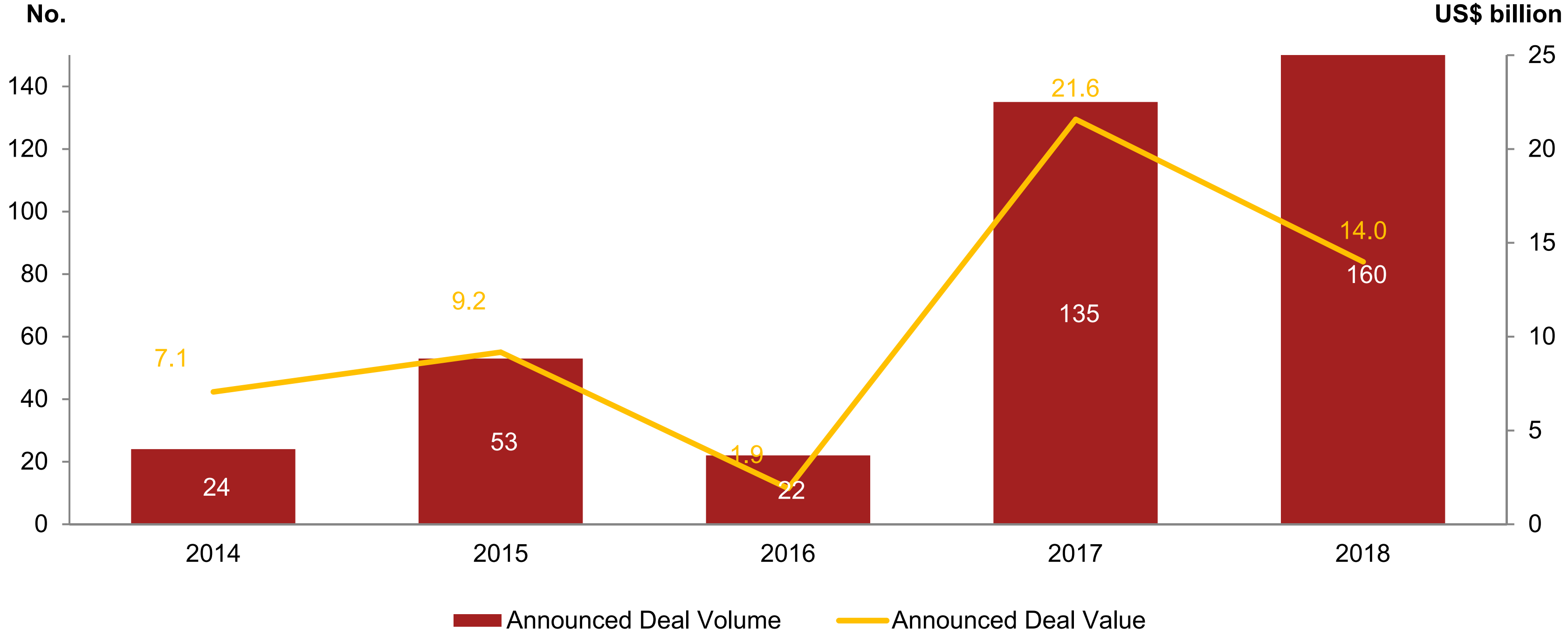
**Outbound M&A deal value by destination 2014-2018**




Source: ThomsonReuters and PwC analysis

## *The volume of outbound M&A transactions in the Belt & Road countries continued to grow (although not all transactions were directly attributable to the initiative and there was a fall in dollar amounts)*

**China outbound to B&R, by value and volume from 2014 to 2018**




B&R (Belt and Road) includes 66 countries around 3 continents.

Source: ThomsonReuters, ChinaVenture and PwC analysis

# Key messages

# Key messages — China M&A in 2018 (1 of 4)

## Overall

- 2018 China M&A remained flat at $678bn with record PE activity offsetting a 23% decline in outbound M&A
- Overall deal <u>volumes</u> have held broadly steady for the last three years, increasing by 11% year-on-year but still short of the 2016 peak
- Deal <u>values</u> were flat year-on-year and remain 11% off the 2016 peak due almost entirely to China outbound M&A dropping by more than half compared to 2016 records (and by a quarter compared to 2017)
- The number of mega-deals (> US$1bn) in 2018 also remained flat, with significantly fewer large China outbound transactions (down 60% compared to 2016 and 29% on prior year) offset by a moderate increase in the number of mega-deals from PE and domestic strategic players

## Domestic and Foreign-Inbound Strategic

- Domestic strategic deal volume and value decreased by 7% and 12% respectively but have held at broadly comparable levels for 4 years now; inbound (foreign buyer) strategic deal volumes fell by 30% but with 43% higher value (due to several larger sized transactions) albeit the inbound numbers are much smaller
- Sector activity was largely comparable to 2017 with the exception of real estate which fell back to more normal levels after several exceptionally large real estate deals in 2017

# *Key messages — China M&A in 2018 (2 of 4)*

## PE/VC and financial buyer deals

- **Fundraising:** Access to Renminbi funding was a choke point for the industry in 2018 with many smaller and less established funds withdrawing from the market; but US dollar funding is back in vogue in a sharp reversal compared to 2016
- PE investment activity hit new records in 2018 at $222bn, marginally ahead of the previous peak in 2016, reflecting high supply of available capital meeting high demand for funding in the private sector and a hot tech and fin-tech sector featuring several mega-deals
- The tech and fin-tech sectors were active in the year and the $14bn funding round by Ant Financial was the highest ever by a private company globally
- The venture capital industry also rebounded strongly with just over 3,400 investments, only just behind the 2016 record (and higher than 2016 - at $7.2bn - in value terms)
- **Exits:** But China's equity capital markets were challenging leading to a sharp fall in PE-backed IPOs and trade sales were also soft as sellers fretted about expectation gaps on valuations
- PE-backed IPOs in China mainland stock markets fell to levels not seen in the past 5 years with long waiting lists and a very low approval rate; many investors preferred to exit in Hong Kong (new listing rules favourable to tech companies) and the US (superior liquidity)

# *Key messages – China M&A in 2018 (3 of 4)*

## Mainland China Outbound

- China outbound fell for the 3rd straight year from the 2016 mega-year, affected by: policy factors ruling out some classes of investment; difficulties around both access to M&A financing and access to foreign currency; greater scrutiny of large cross-border M&A in many jurisdictions; and a generally uncertain environment for overseas deal-making
- SOEs did fewer overseas deals and spent less money doing them than at any time since 2014 focusing instead on internal restructuring and the domestic market; for the 3rd year running, POEs outspent their state-owned counterparts (by a factor of nearly 2.5x) although they too were less active than in prior years; but financial buyers now account for 40% of outbound deal volumes, hitting a new record by number in 2018, reflecting their ability to provide capital on deals
- Technology and consumer related deals continue to attract the lion's share of activity in line with government policy to encourage the introduction of foreign technologies, brands and consumer goods into the China market
- The search for technology and brands means that developed markets in the US and Europe - as well as some parts of Asia - are still the biggest destination for Chinese buyers in terms of deal volumes
- Europe continues to attract the highest dollar amounts with China buyers steering clear of large sized transactions in the US for the second year running

# *Key messages – China M&A in 2018 (4 of 4)*

## Mainland China Outbound (Continued)

- In fact, the decline in investment in the United States accounts for a large portion of the overall decline in China's overseas mergers and acquisitions since the 2016 peak
- The volume of outbound M&A transactions in the Belt & Road countries continued to grow (although not all transactions were directly attributable to the initiative and there was a fall in dollar amounts)

# Outlook

# *Outlook for 2019 (1 of 3)*

### *Overall*

- Softer in first half due to:
  - Continued slowing of outbound (see next page)
  - A number of uncertainties causing a wait-and-see effect
- Some rebound in the second half as uncertainties clear with a comparable year to 2018 for the year as a whole – albeit with activity loaded into the last 6-8 months

### *Domestic Strategic*

- Broadly steady at existing high levels over the full year, but may be relatively slower in the first half pending outcomes from the Second Session of the Thirteenth National People’s Congress in March and more clarity on the impact of the ongoing US trade negotiations
- China’s government likely to continue to focus more on domestic economy to deal with various challenges
- Some increase in debt restructuring situations, due to:
  - De-leveraging
  - Ongoing SOE reform
  - Maturing of banking sector / unwinding of shadow banking
  - State sponsored debt-for-equity swaps.

# Outlook for 2019 (2 of 3)

### *Foreign inbound*

- May be some uptick due to:
  - More openness in response to US trade negotiations
  - Opening up in some specific sectors such as automotive, FS and technology

### *China outbound*

- Some decline in first half due to:
  - Impact of ongoing US trade war (although incremental effect limited, as deal values to US at low levels for last 2 years already)
  - Increased scrutiny of larger / sensitive / high profile deals in other jurisdictions, too – including Europe – especially around technology or other assets now regarded as strategic in nature
  - Uncertainties around the impact of Brexit on both the UK and the rest of Europe
  - Ongoing tight access to M&A financing and foreign currency
  - Pending outcomes from Second Session of the Thirteenth National People's Congress in March
- If there are favourable developments on these factors, we do anticipate some rebound in the second half as the fundamental drivers of Chinese outbound M&A remain in play
- But we think that political scrutiny of large cross-border M&A will persist as nations protect strategic assets and this will reduce the number of mega-deals
- Overall we see only a moderate increase in China outbound over the full year

# Outlook for 2019 (3 of 3)

### *Private equity (and other financial investors)*

- Steady – continuing at or slightly below existing record high levels, due to:
  - Historically high amounts of capital to be defrayed
  - US dollar funds in particular are very cashed up and will be active – but non-core Renminbi funds less so
  - Continued involvement in outbound activity, including as a source of US$ financing partnering with strategic buyers.
  - But some pause at the start of the year, partly driven by valuation expectations, which may result in a slightly lower total for the year as a whole

# 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

# *Thank you!*