

PwC M&A 2019 Review and 2020 Outlook

February 2020



Foreword – explanation of data shown in this presentation (1 of 2)

- The data presented is based on information compiled by ThomsonReuters, ChinaVenture, AVCJ, public news 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, Macau and Taiwan
- “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, 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 of 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 2015 to 2018 were adjusted based on the 12/31/2019 Rmb/US\$ exchange rate

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Overview

China M&A fell 14% to US\$559 billion, the lowest since 2014

Total deal volume and value, from 2015 to 2019

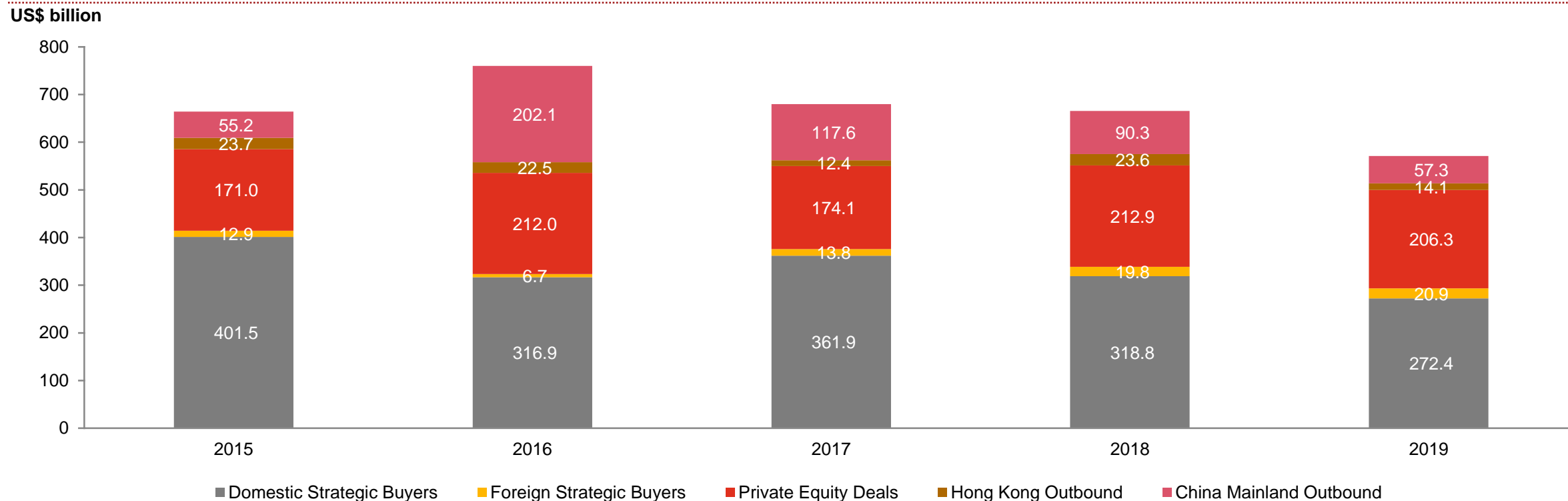
| | 2015 | | 2016 | | 2017 | | 2018 | | 2019 | | % Diff vol. 2019 vs. 2018 | % Diff val. 2019 vs. 2018 |
|--------------------------------------|--------------|-------------------|---------------|-------------------|--------------|-------------------|---------------|-------------------|--------------|-------------------|---------------------------------|---------------------------------|
| | Volume | Value (US\$bn) | Volume | Value (US\$bn) | Volume | Value (US\$bn) | Volume | Value (US\$bn) | Volume | Value (US\$bn) | | |
| Strategic buyers | | | | | | | | | | | | |
| Domestic | 4,821 | 401.5 | 4,870 | 316.9 | 5,111 | 361.9 | 4,778 | 318.8 | 4,498 | 272.4 | -6% | -15% |
| Foreign | 316 | 12.9 | 271 | 6.7 | 255 | 13.8 | 178 | 19.8 | 248 | 20.9 | 39% | 6% |
| Total Strategic buyers | 5,137 | 414.4 | 5,141 | 323.6 | 5,366 | 375.7 | 4,956 | 338.6 | 4,746 | 293.3 | -4% | -13% |
| Financial buyers | | | | | | | | | | | | |
| Private Equity | 1,062 | 171.0 | 1,767 | 212.0 | 1,324 | 174.1 | 1,920 | 212.9 | 1,585 | 206.3 | -17% | -3% |
| VC | 2,735 | 4.0 | 3,492 | 5.6 | 2,338 | 3.0 | 3,410 | 7.0 | 2,549 | 2.6 | -25% | -62% |
| * Total Financial buyers | 3,797 | 174.9 | 5,259 | 217.7 | 3,662 | 177.1 | 5,330 | 219.9 | 4,134 | 208.9 | -22% | -5% |
| China mainland Outbound | | | | | | | | | | | | |
| SOE | 79 | 22.8 | 116 | 63.2 | 101 | 27.0 | 64 | 20.3 | 60 | 16.1 | -6% | -21% |
| POE | 207 | 20.0 | 609 | 102.6 | 467 | 57.5 | 310 | 49.0 | 384 | 26.3 | 24% | -46% |
| * Financial buyers | 94 | 12.3 | 195 | 36.2 | 238 | 33.1 | 253 | 21.0 | 223 | 14.9 | -12% | -29% |
| Total China mainland Outbound | 380 | 55.2 | 920 | 202.1 | 806 | 117.6 | 627 | 90.3 | 667 | 57.3 | 6% | -37% |
| HK Outbound | 199 | 23.7 | 282 | 22.5 | 243 | 12.4 | 227 | 23.6 | 159 | 14.1 | -30% | -40% |
| Total | 9,419 | 655.9 | 11,407 | 729.6 | 9,839 | 649.7 | 10,887 | 651.3 | 9,483 | 558.7 | -13% | -14% |

* Financial buyer-backed China mainland 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, ChinaVenture and PwC analysis

The principal drivers of the 14% decline in deal values were the domestic and outbound sectors; PE held up reasonably well, and there was strong foreign inbound M&A (although this sector is smaller)

Deal value by main category (excludes VC)



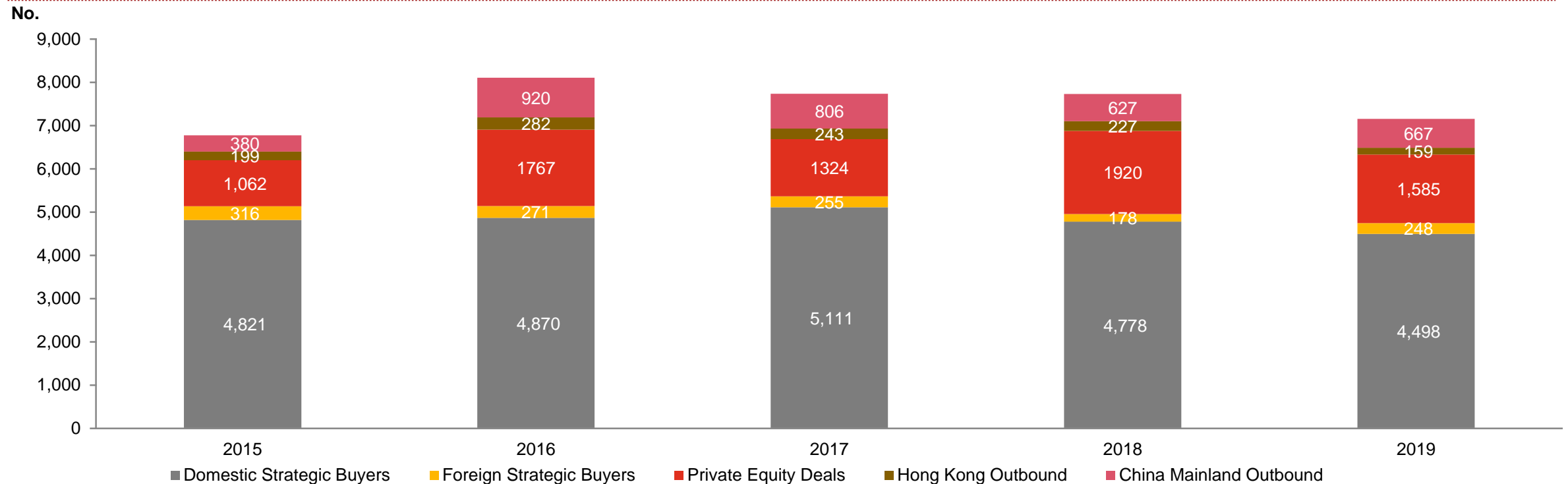
* US\$14.8bn of financial buyer-backed China mainland outbound deals are also recorded in private equity deals, US\$0.1bn are recorded in VC deals(excluded from this chart)

Source: ThomsonReuters, ChinaVenture and PwC analysis

There was a significant decline in deal volumes* for domestic and PE M&A (although PE did larger deal sizes on average), whilst outbound tracked at close to 2018's lower levels; overall deal activity returned to volumes last seen in 2015

* Excluding VC

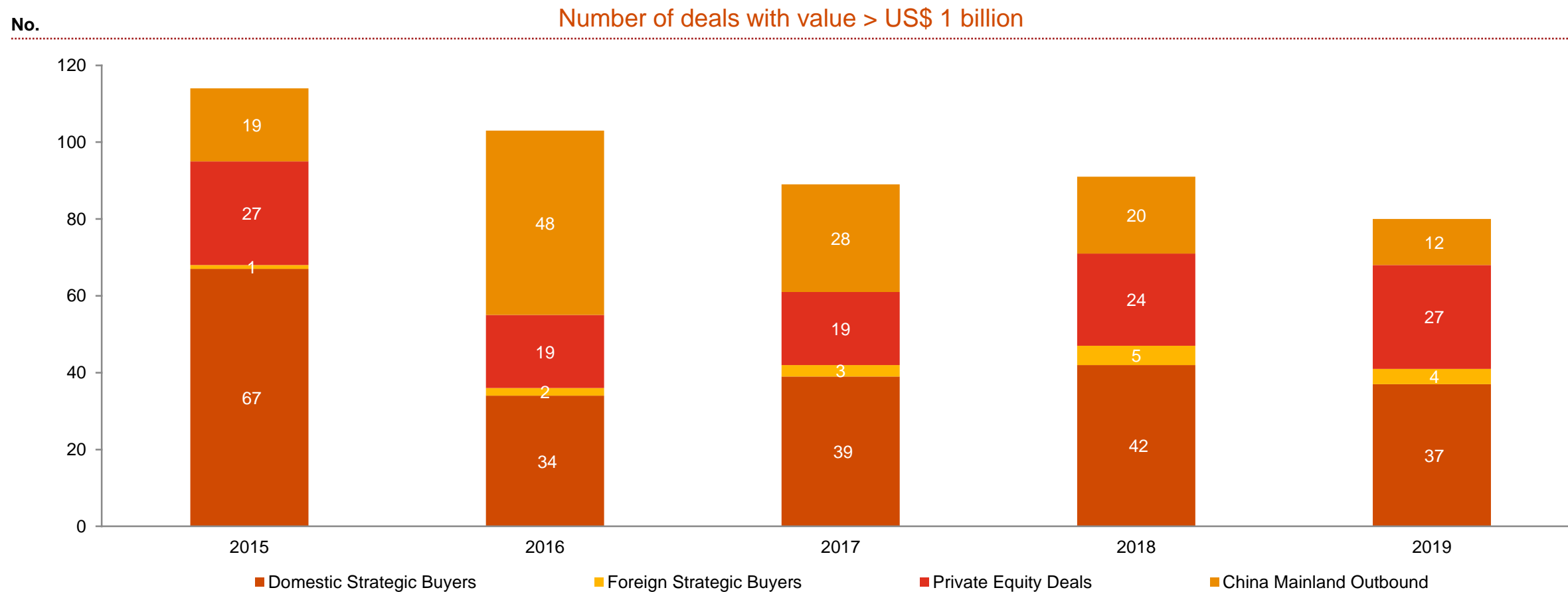
Deal volume by main category (excludes VC)



* 111 financial buyer-led China mainland outbound deals are also recorded in private equity deals, 112 are included in VC deals(excluded from this chart)

Source: ThomsonReuters, ChinaVenture and PwC analysis

The PE sector saw a significant number of mega-deals*, but there were much fewer big outbound transactions and the number of mega-deals overall fell to their lowest levels since 2014



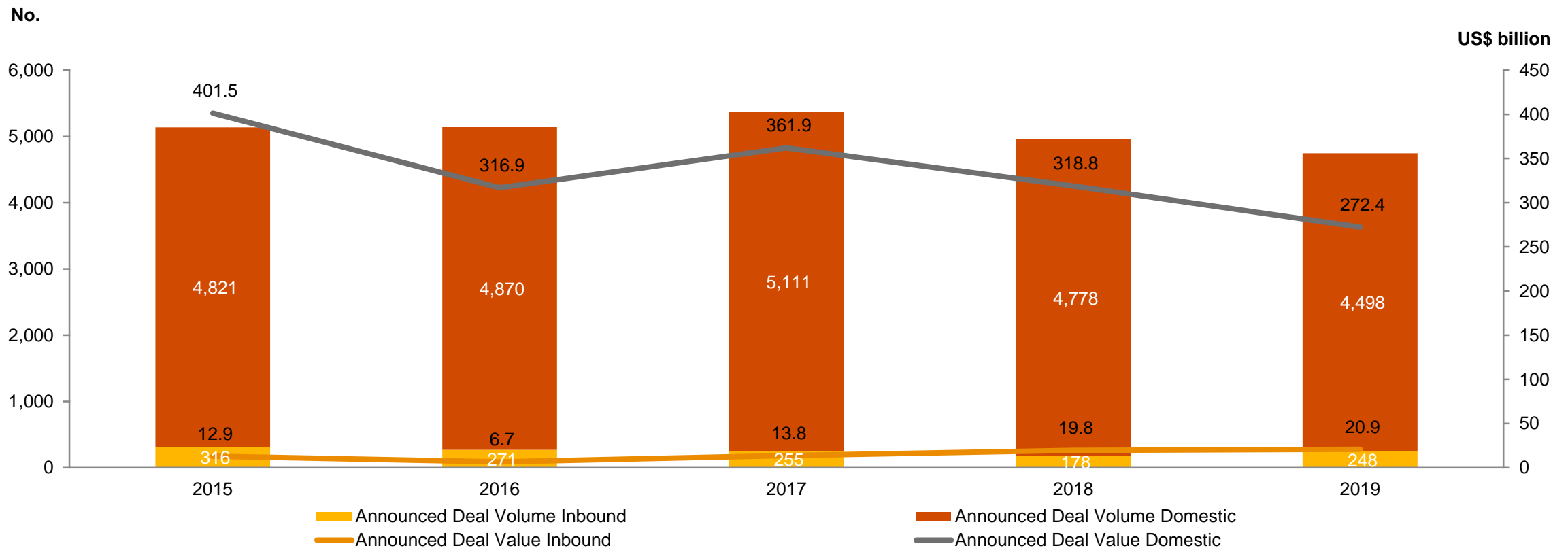
*Defined as > US\$1bn
 Source: ThomsonReuters, ChinaVenture and PwC analysis

2

Strategic buyers

The considerable market uncertainties, together with a China-wide deleveraging process which restricted access to financing, resulted in a sharp decline in domestic M&A (both value and volumes) which fell to levels last seen in 2014; but foreign inbound M&A – although much smaller overall – increased to its highest ever with some big inbound transactions in the healthcare sector

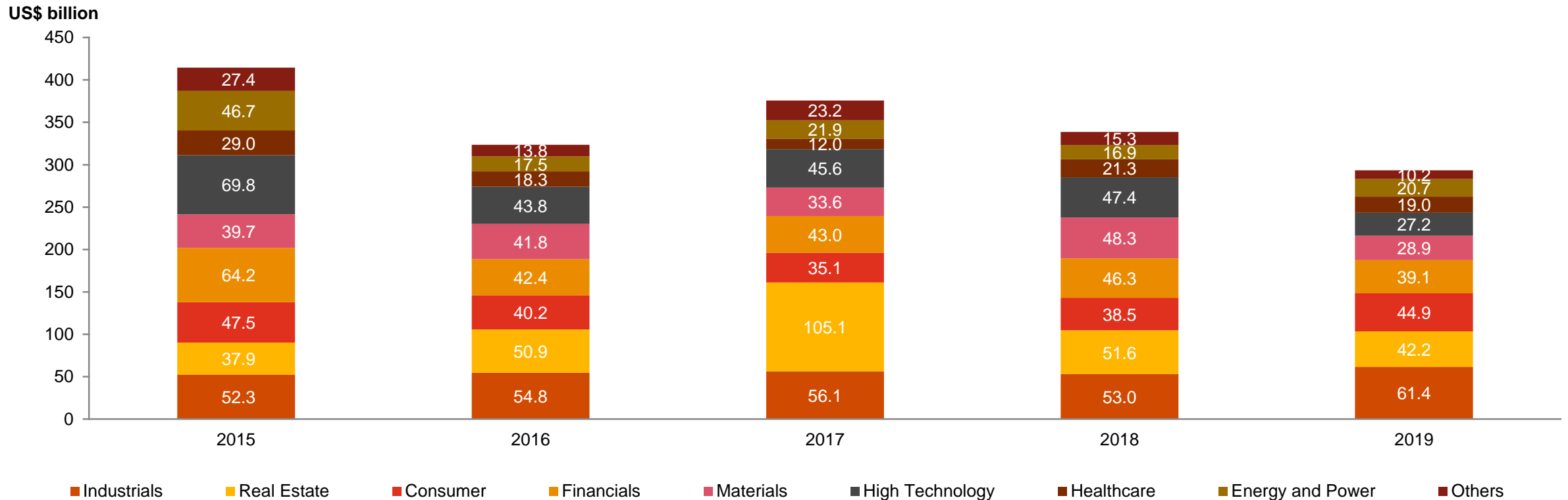
Strategic buyer deals – Domestic & Foreign



Source: ThomsonReuters, ChinaVenture and PwC analysis

Real-estate M&A values declined for a third straight year off the back of the wave of consolidation in the sector; other sectors were also mainly down, though offset to a small extent by some uptick in industrials and consumer M&A

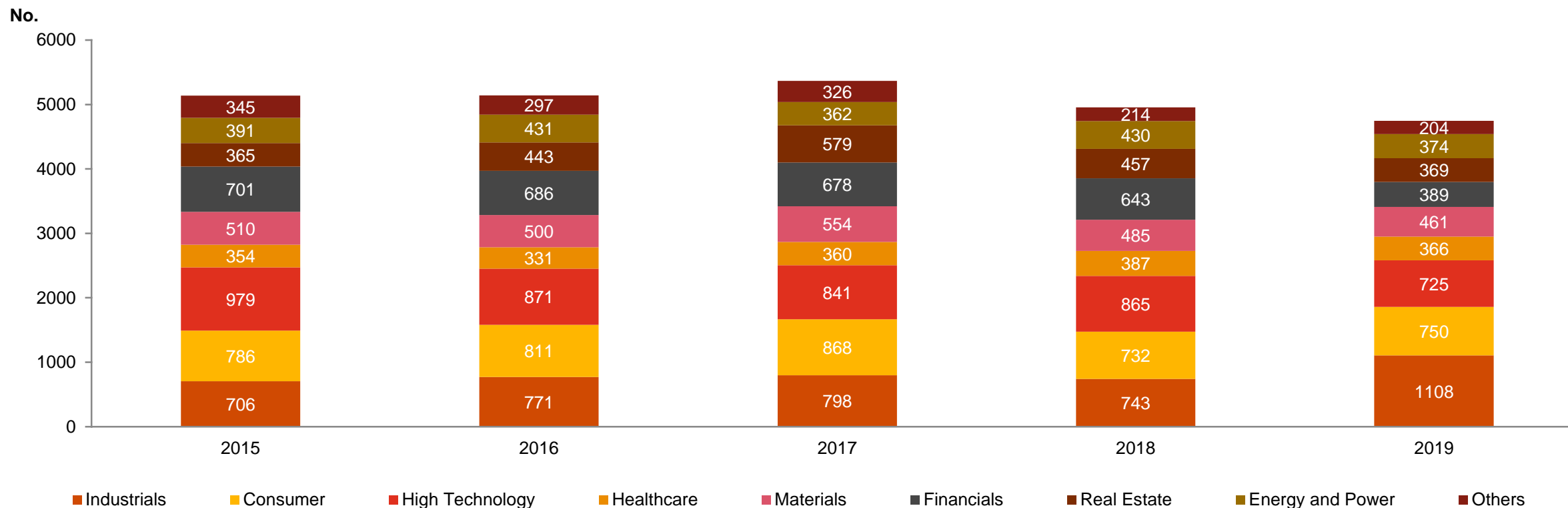
Strategic buyer deal value by industry sector



Source: ThomsonReuters, ChinaVenture and PwC analysis

In deal volume terms the stand-out was again industrials which hit a record high, perhaps boosted by various supportive policy measures in the sector; most other sectors were flat or declining

Strategic buyer deal volume by industry sector



Source: ThomsonReuters, ChinaVenture and PwC analysis

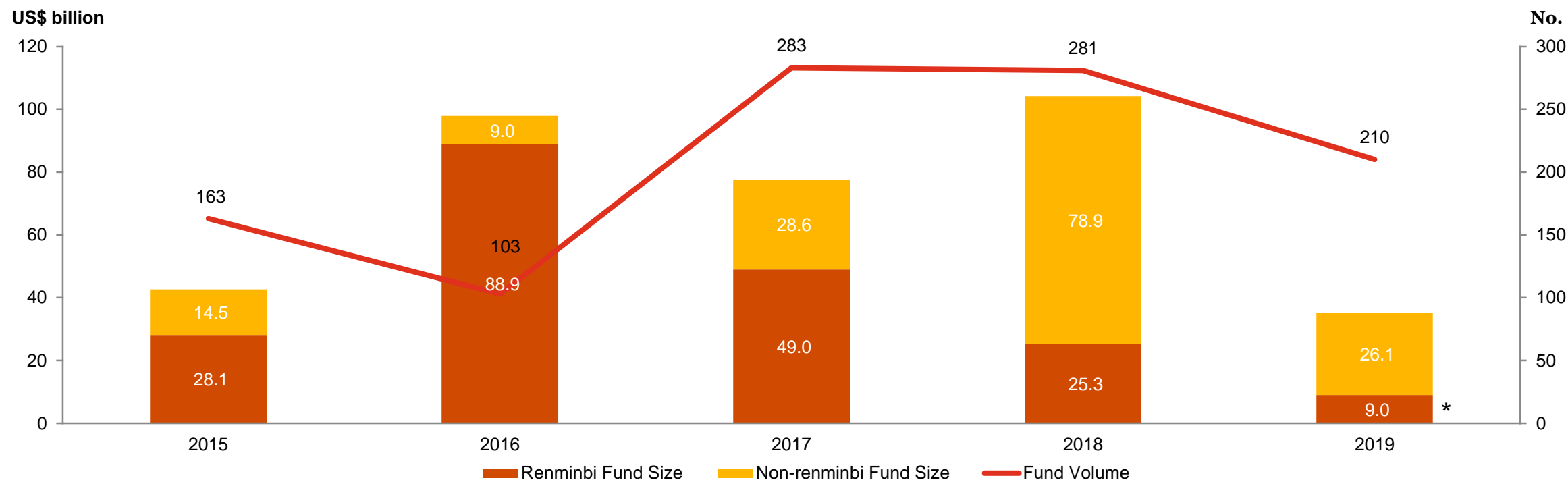
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PE/VC and financial
buyer deals

The PE/VC sector is generally well-capitalized after several strong years so there was some decline in new fund-raising* in 2019; Rmb fundraising continues to face difficulties, declining to its lowest level for several years

* These figures do not take into account available capital from alternative financial investors, e.g. corporate and SOE investment arms/captive-PEs, financial institutions, HNWI-platforms, government-backed funds and sovereign investors

PE/VC fund raising for China investment



Source: AVCJ and PwC analysis

* Not including reported Rmb200bn (US\$28.5bn) injected into the state-owned National Integrated Circuit Industry Fund (Big Fund II) that was set up to support the development of the semi-conductor industry in China.

Despite the market uncertainties, PE remained under pressure to deploy capital and deal values – also buoyed by state-backed investments - stayed at high levels as a result; but the PE industry as a whole continues to consolidate and mature with a general trend towards fewer (but better quality) market participants and therefore fewer (but bigger) deals overall

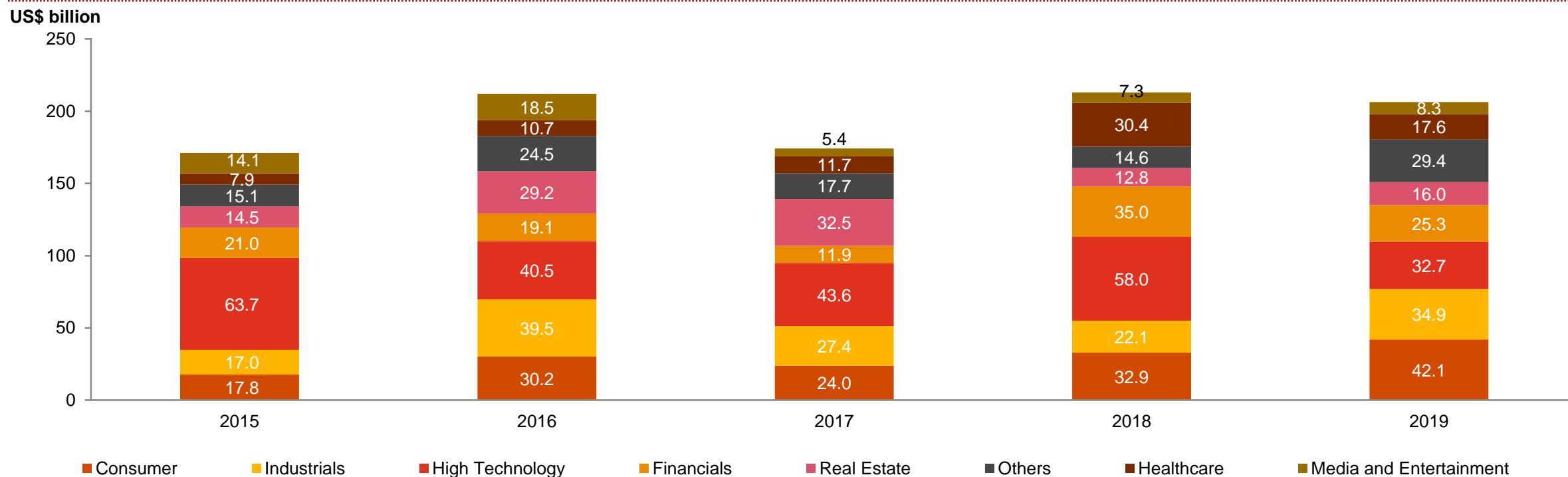
PE deals overview



Source: ThomsonReuters, ChinaVenture and PwC analysis

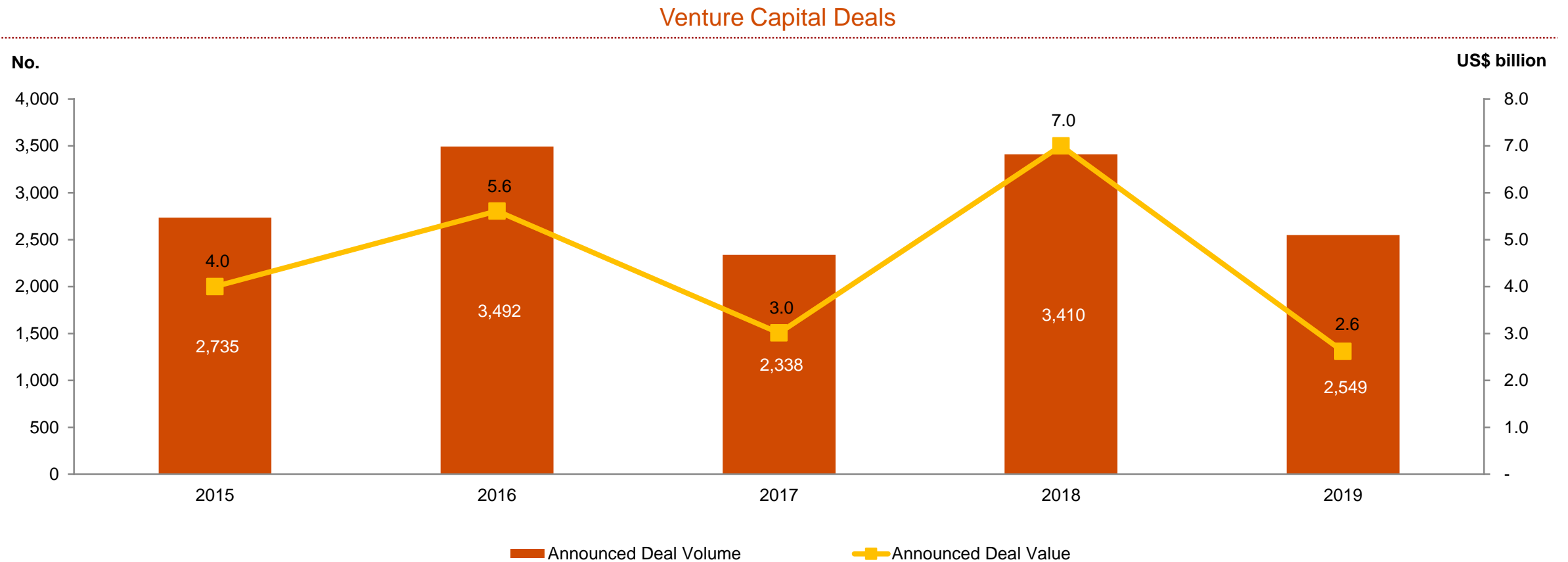
PE were also active in industrial and consumer sectors, but there was a sharp decline in high-tech deals with much fewer mega-deals (2 valued at US\$2bn in total compared to 9 at US\$17bn in 2018) exacerbated by valuation concerns

PE deal value by industry sector



Source: ThomsonReuters, ChinaVenture and PwC analysis

VC activity was subdued due to valuation concerns and a number of Rmb players exiting the market

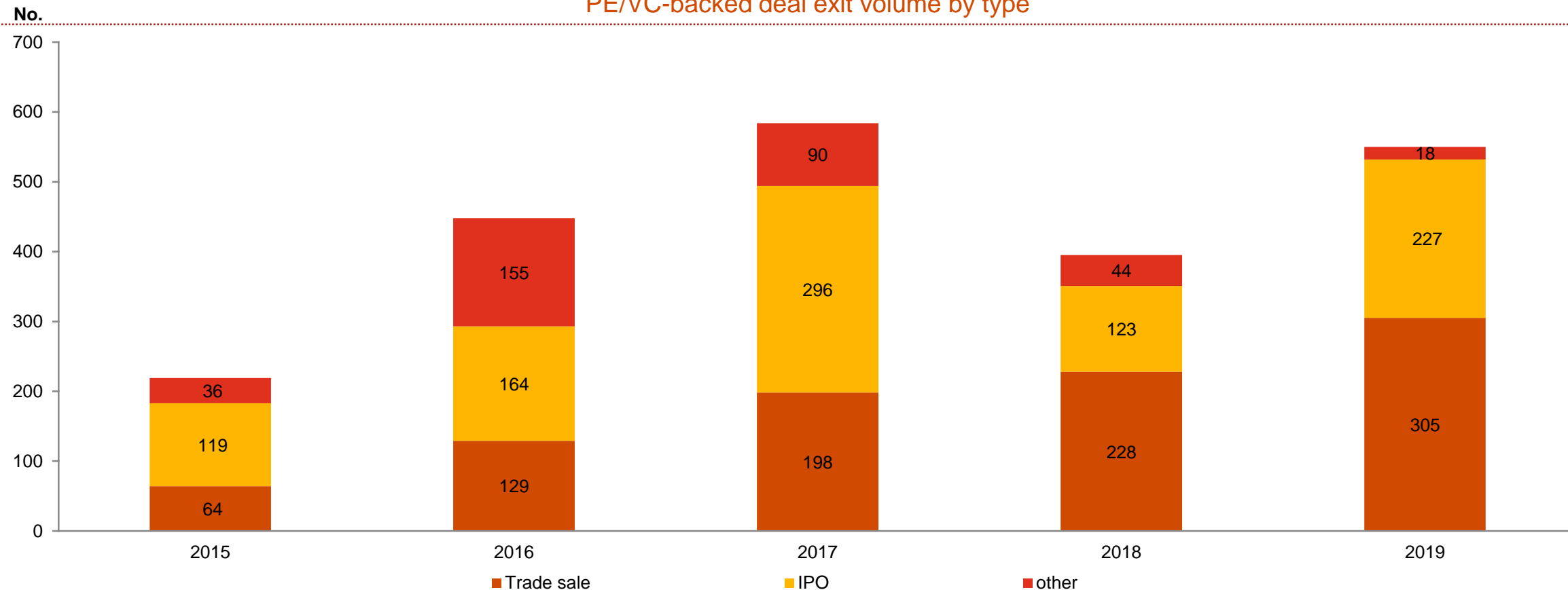


Source: ThomsonReuters, ChinaVenture and PwC analysis

PEs faced pressure to sell in 2019 resulting in a significant number of exits and PE-backed IPOs; the number of PE trade-sales was a record with an increasing number of secondary (PE to PE) transactions*

* Secondary transactions are included as “trade sales” in the charts below

PE/VC-backed deal exit volume by type

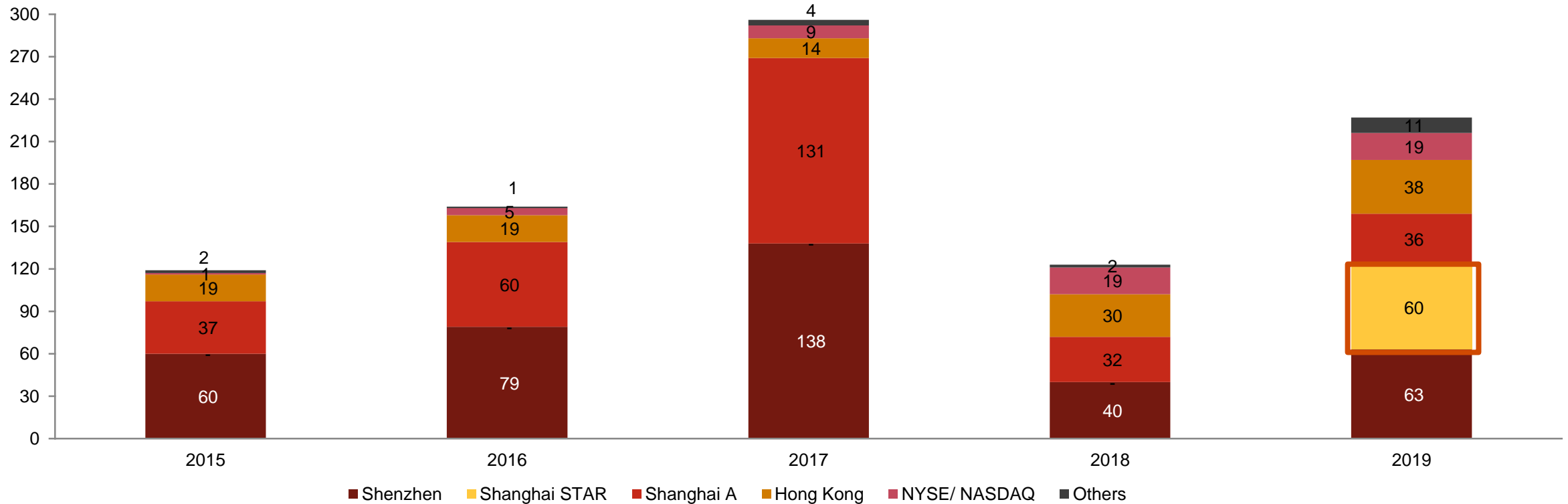


Source: ChinaVenture and PwC analysis

PE-backed IPO activity almost doubled compared to 2018 with a strong contribution from the new STAR market in the second half of the year; overseas markets such as HK (which opened up to more tech- and biotech-companies) and US were also active

PE/VC-backed IPO exit volume by bourse

No.



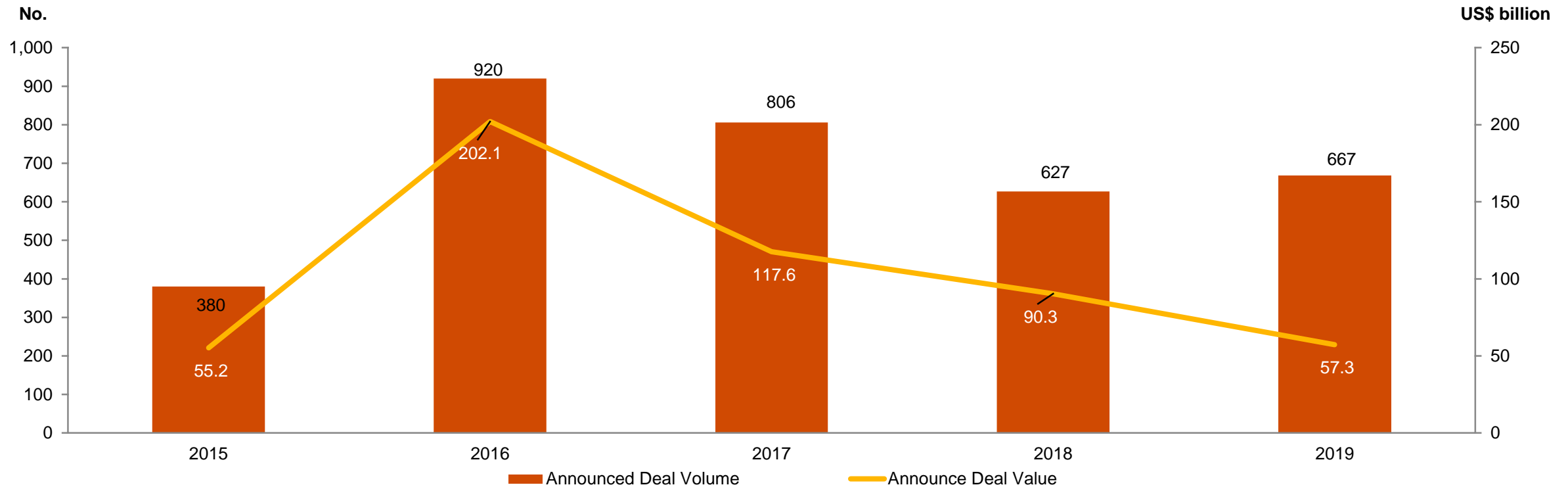
Source: ChinaVenture and PwC analysis

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Mainland China
outbound M&A

China outbound fell back to 2015 levels in value terms, with various factors combining to severely curtail large-sized cross-border transactions, as had been expected; however, there is still a solid body of smaller-sized outbound transaction with overall deal volumes holding up and even increasing slightly

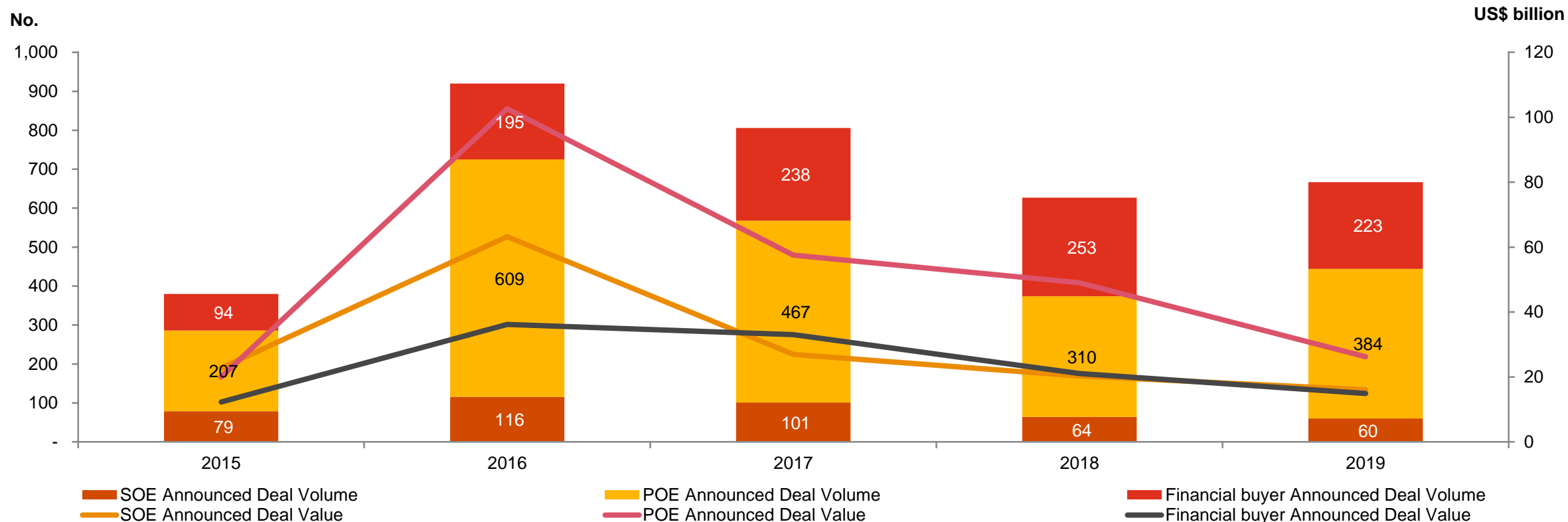
China mainland outbound deals



Source: ThomsonReuters, ChinaVenture and PwC analysis

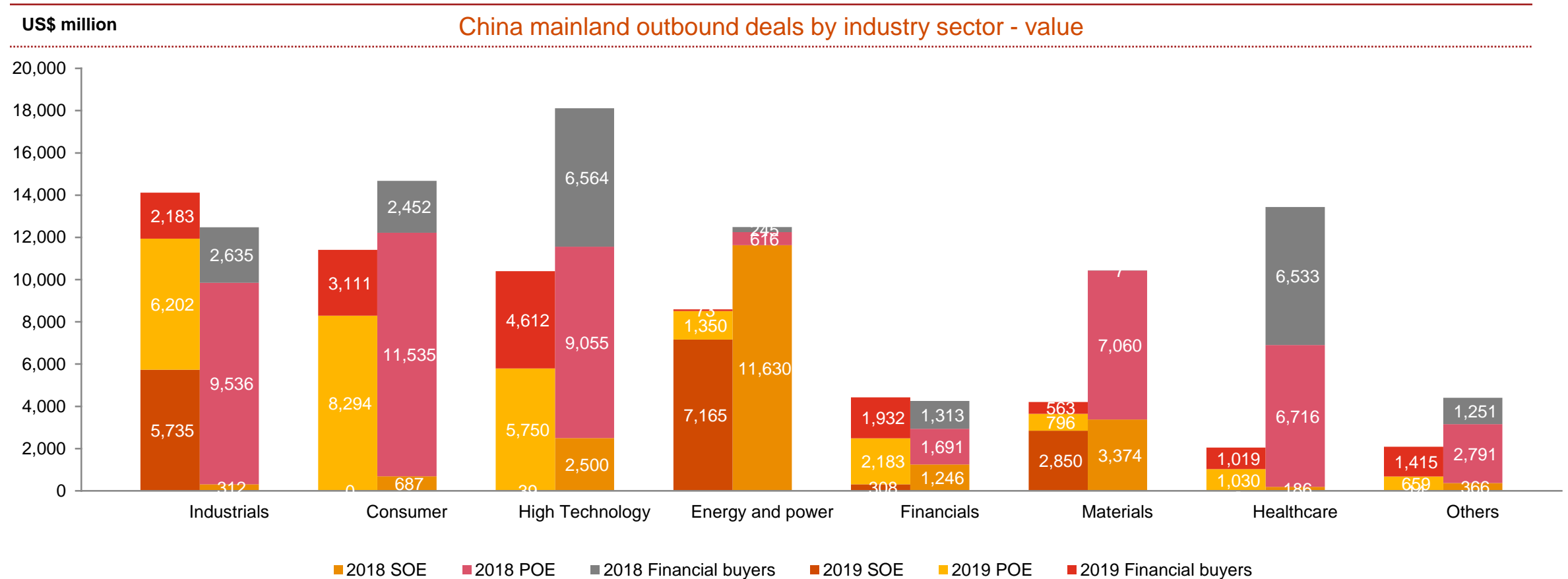
POEs remained the most active overseas buyers in volume terms although the overall value of those deals fell markedly with considerably fewer mega-deals

China mainland outbound deals by investor type



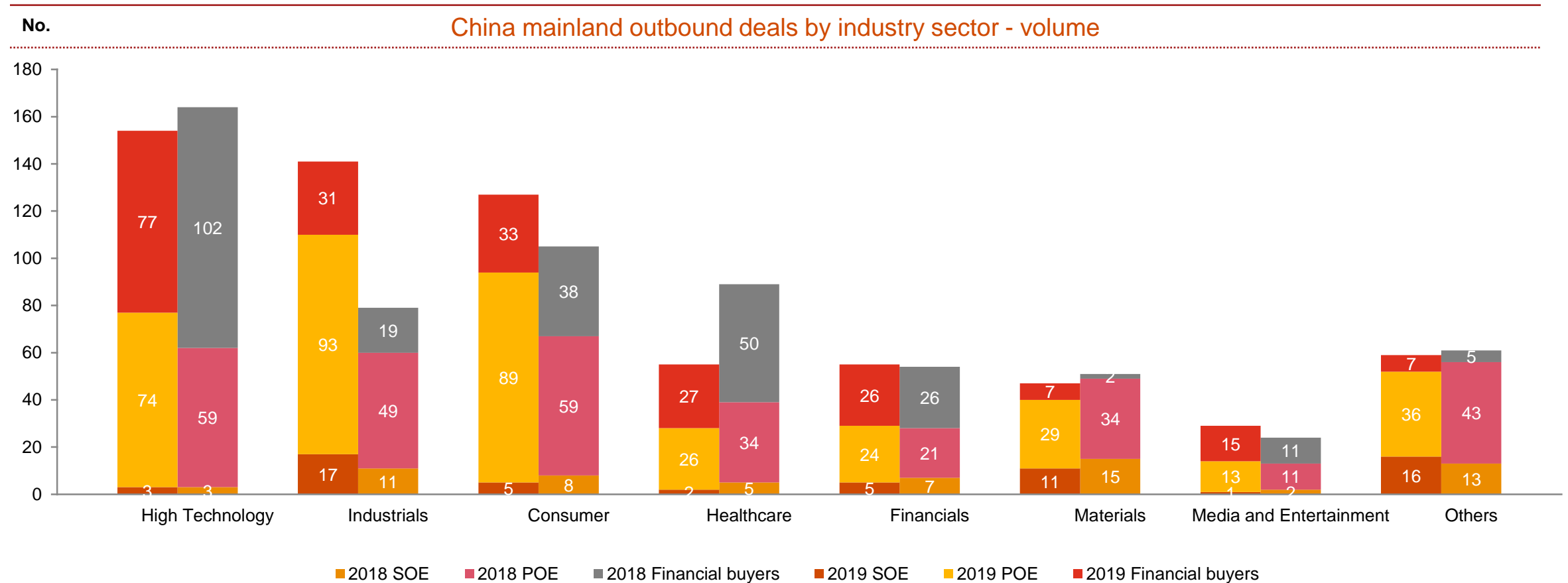
Source: ThomsonReuters, ChinaVenture and PwC analysis

Mirroring the domestic scene, deal values were strongest in the industrial and consumer sectors, but larger-sized high-tech deals took a significant hit due to the various sensitivities in this vertical



Source: ThomsonReuters, ChinaVenture and PwC analysis

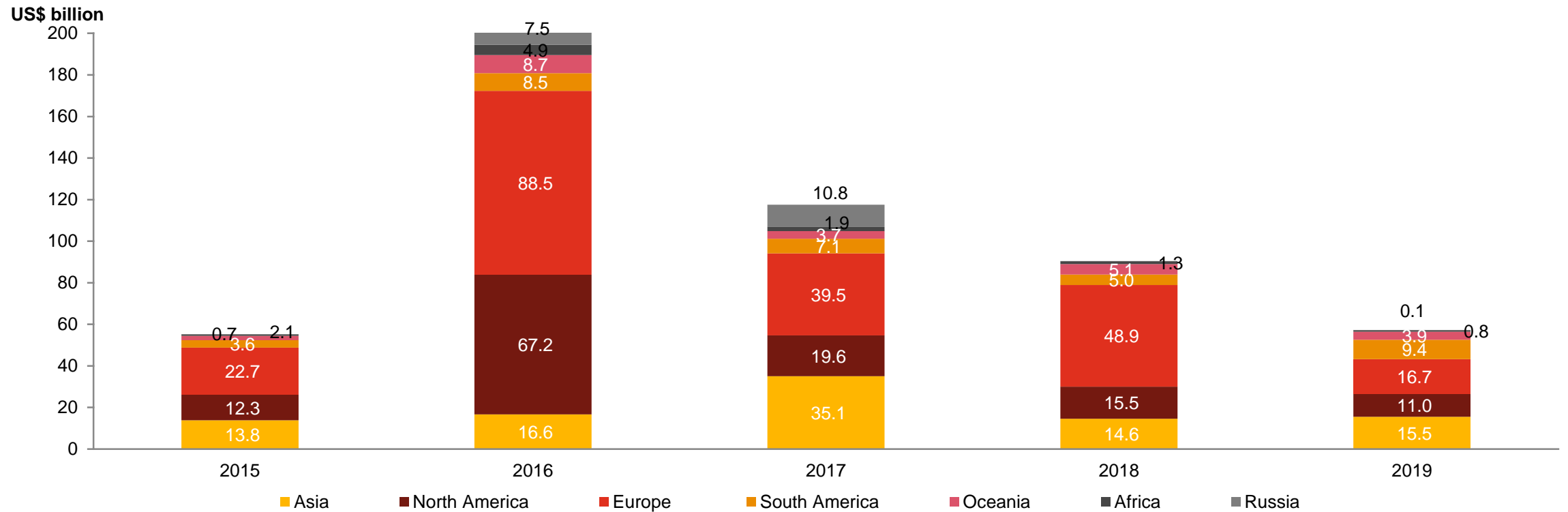
However, in terms of deal volumes, outbound activity continues to be reasonably robust with smaller transactions less affected; China's strategy to acquire technology, know how, IP and brands to put to use in the China market is continuing despite the headline declines in big deals



Source: ThomsonReuters, ChinaVenture and PwC analysis

In terms of geographies, the squeeze in outbound deal values is now evident in Europe with significant declines in the bigger markets of Germany (US\$6.5bn from US\$11bn in 2018) and UK (US\$1.4bn from US\$4.5bn in 2018)

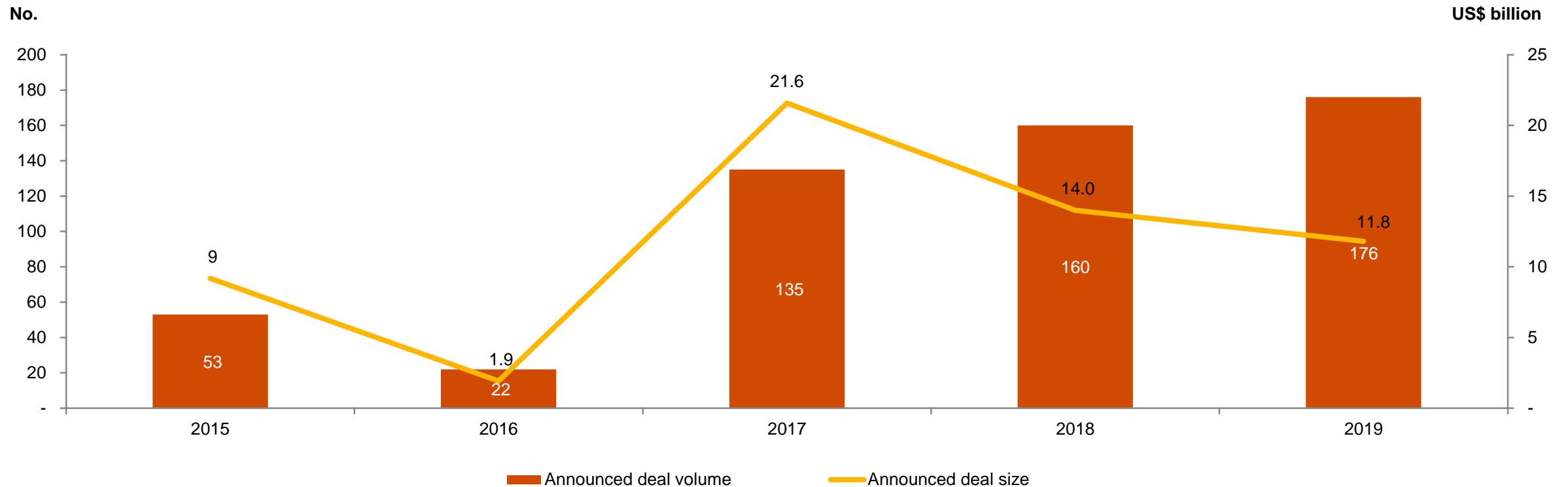
China mainland outbound deals by region - value



Source: ThomsonReuters, ChinaVenture and PwC analysis

Outbound activity to Belt & Road countries held up reasonably well in the context of the otherwise significant declines in deal values seen elsewhere

China outbound to B&R - value and volume



Belt & Road: including 66 countries across three continents

Source: ThomsonReuters, ChinaVenture and PwC analysis

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Key messages

Key messages – China M&A in 2019 (1 of 3)

Overall

- China M&A fell 14% to US\$559 billion, the lowest since 2014
- The principal drivers of the 14% decline in deal values were the domestic and outbound sectors; PE held up reasonably well, and there was strong foreign inbound M&A (although this sector is smaller)
- There was a significant decline in deal volumes for domestic and PE M&A (although PE did larger deal sizes on average), whilst outbound tracked at close to 2018's lower levels; overall deal activity returned to volumes last seen in 2015
- The PE sector saw a significant number of mega-deals, but there were much fewer big outbound transactions and the number of mega-deals overall fell to their lowest levels since 2014

Domestic and Foreign-Inbound Strategic

- The considerable market uncertainties, together with a China-wide deleveraging process which restricted access to financing, resulted in a sharp decline in domestic M&A (both value and volumes) which fell to levels last seen in 2014; but foreign inbound M&A – although much smaller overall – increased to its highest ever with some big inbound transactions in the healthcare sector
- Real-estate M&A values declined for a third straight year off the back of the wave of consolidation in the sector; other sectors were also mainly down, though offset to a small extent by some uptick in industrials and consumer M&A
- In deal volume terms the stand-out was again industrials which hit a record high, perhaps boosted by various supportive policy measures in the sector; most other sectors were flat or declining

Key messages – China M&A in 2019 (2 of 3)

PE/VC and financial buyer deals

- The PE/VC sector is generally well-capitalized after several strong years so there was some decline in new fund-raising in 2019; Rmb fundraising continues to face difficulties, declining to its lowest level for several years
- Despite the market uncertainties, PE remained under pressure to deploy capital and deal values – also buoyed by state-backed investments - stayed at high levels as a result; but the PE industry as a whole continues to consolidate and mature with a general trend towards fewer (but better quality) market participants and therefore fewer (but bigger) deals overall
- PE were also active in industrial and consumer sectors, but there was a sharp decline in high-tech deals with much fewer mega-deals (2 valued at US\$2bn in total compared to 9 at US\$17bn in 2018) exacerbated by valuation concerns
- VC activity was subdued due to valuation concerns and a number of Rmb players exiting the market
- PEs faced pressure to sell in 2019 resulting in a significant number of exits and PE-backed IPOs; the number of PE trade-sales was a record with an increasing number of secondary (PE to PE) transactions
- PE-backed IPO activity almost doubled compared to 2018 with a strong contribution from the new STAR market in the second half of the year; overseas markets such as HK (which opened up to more tech- and biotech-companies) and US were also active

Key messages – China M&A in 2019 (3 of 3)

Mainland China Outbound

- China outbound fell back to 2015 levels in value terms, with various factors combining to severely curtail large-sized cross-border transactions, as had been expected; however, there is still a solid body of smaller-sized outbound transaction with overall deal volumes holding up and even increasing slightly
- POEs remained the most active overseas buyers in volume terms although the overall value of those deals fell markedly with considerably fewer mega-deals
- Mirroring the domestic scene, deal values were strongest in the industrial and consumer sectors, but larger-sized high-tech deals took a significant hit due to the various sensitivities in this vertical
- However, in terms of deal volumes, outbound activity continues to be reasonably robust with smaller transactions less affected; China's strategy to acquire technology, know how, IP and brands to put to use in the China market is continuing despite the headline declines in big deals
- In terms of geographies, the squeeze in outbound deal values is now evident in Europe with significant declines in the bigger markets of Germany (US\$6.5bn from US\$11bn in 2018) and UK (US\$1.4bn from US\$4.5bn in 2018)
- Outbound activity to Belt & Road countries held up reasonably well in the context of the otherwise significant declines in deal values seen elsewhere

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Outlook

Outlook for 2020 (1 of 2)

Overall

- The impact of the coronavirus creates significant short-term uncertainty around M&A activity which makes predictions over the whole of 2020 difficult
- However, we do expect subdued activity and further declines in the first-half, largely as a consequence
- Assuming that the medical situation is resolved, we then expect to see some rebound in the second-half, due to:
 - More acceptance of the “normalization” of the trading relationship with the US
 - Government stimulus measures
 - Significant dry-powder, and also exit activity for PE
 - The release of pent-up demand from transactions previously being put on hold
- On balance, we expect 2020 M&A activity to be broadly comparable to 2019 overall

Domestic and Foreign-Inbound Strategic

- Same comments as for overall
- Foreign inbound should remain strong with some policy opening, and potential for some larger sized deals especially in FS

Outlook for 2020 (2 of 2)

PE/VC and financial buyer deals

- Continued pressure to defray existing new dry powder will drive ongoing activity
- Exits will also be active, including more larger size trade deals and PE-to-PE transactions
- We think 2nd half will be strong for PE, but first half will be negatively affected by short term factors mentioned above

Mainland China Outbound

- The phase 1 trade deal is a positive, though not a game changer and political sensitivity to large sized cross border transactions remains high, and not just in US
- Trade uncertainties will continue to have an impact in the US and also Europe with ongoing Brexit negotiations
- With this kind of macro-picture as well as the short term factors described above, it is difficult to predict a strong rebound in outbound M&A in 2020

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/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
- 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 privatization
- Balance sheet restructuring or internal restructuring
- Investments in greenfield operations
- Going private transactions

Thank you

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