



China M&A 2023

Review and Outlook

February 2024



Foreword

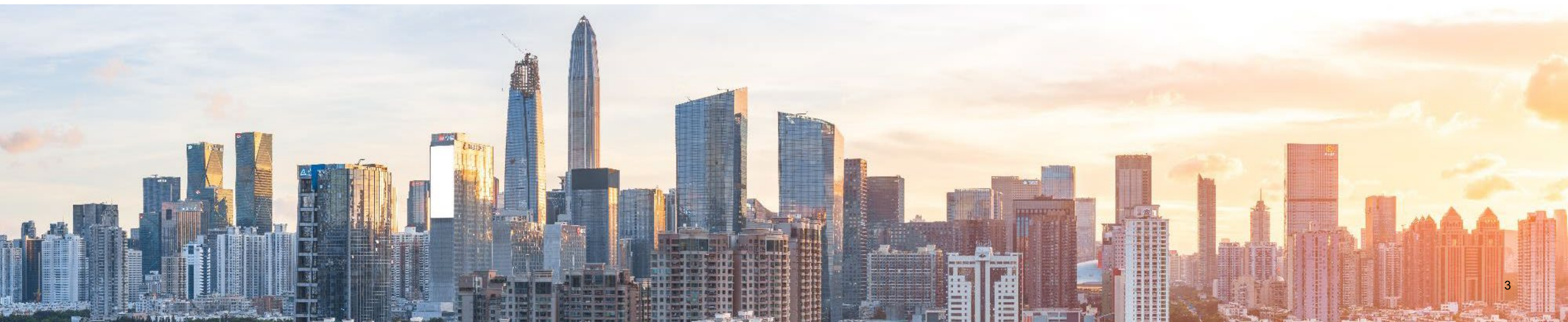
Explanation of data shown in this presentation (1)

- The data presented is based on information compiled by Refinitiv Eikon (formerly named “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 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 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)

- “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 previous years were adjusted based on monthly average Rmb/US\$ exchange rate in 2023



1

China M&A

Overview



China M&A fell to multi-year lows in 2023, down 28% to US\$333bn; however outbound investments by privately-owned enterprises bucked the trend rebounding by 13% in volume and 62% in value compared to the 2022 lows

Total deal volume and value, from 2019 to 2023

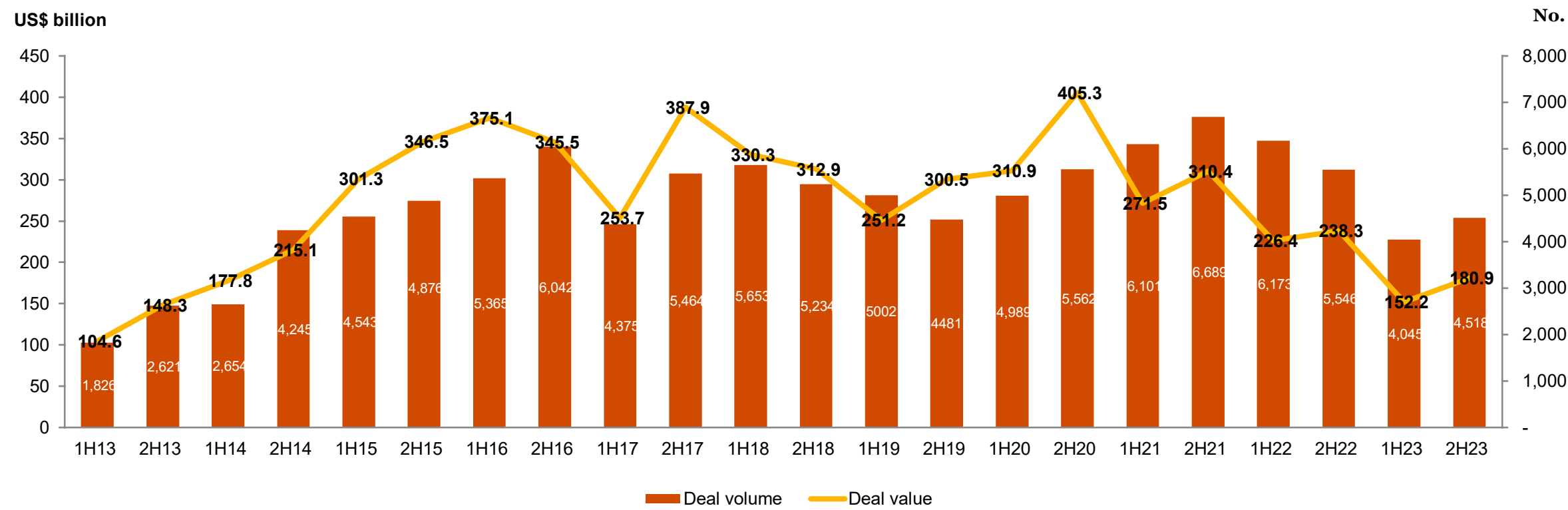
	2019		2020		2021		2022		2023		% Diff vol. 2023 vs. 2022	% Diff val. 2023 vs. 2022
	Volume	Value (US\$bn)	Volume	Value (US\$bn)	Volume	Value (US\$bn)	Volume	Value (US\$bn)	Volume	Value (US\$bn)		
Strategic buyers												
Domestic	4,498	269.1	4,530	341.0	5,143	238.9	4,478	193.0	3,240	147.1	-28%	-24%
Foreign	248	20.6	181	14.2	142	18.2	124	14.0	80	14.6	-35%	4%
Total Strategic buyers	4,746	289.7	4,711	355.2	5,285	257.1	4,602	207.0	3,320	161.7	-28%	-22%
Financial buyers												
Private Equity	1,585	203.7	2,077	324.3	2,269	303.4	2,020	234.8	1,168	148.3	-42%	-37%
VC	2,549	2.6	3,361	2.7	4,920	3.4	4,766	5.5	3,766	3.0	-21%	-45%
* Total Financial buyers	4,134	206.3	5,438	327.0	7,189	306.8	6,786	240.3	4,934	151.3	-27%	-37%
Mainland China Outbound												
SOE	60	15.9	27	6.2	19	4.5	30	5.3	23	3.7	-23%	-30%
POE	384	25.9	253	21.4	211	8.6	172	7.4	195	12.0	13%	62%
* Financial buyers	223	14.7	123	13.6	272	32.6	288	29.8	136	3.3	-53%	-89%
Total Mainland China Outbound	667	56.5	403	41.2	502	45.7	490	42.5	354	19.0	-28%	-55%
HK Outbound	159	13.8	122	6.2	86	4.9	129	4.8	91	4.4	-29%	-8%
Total	9,483	551.6	10,551	716.0	12,790	581.9	11,719	464.8	8,563	333.1	-27%	-28%

• 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: Refinitiv Eikon, CV Source and PwC analysis

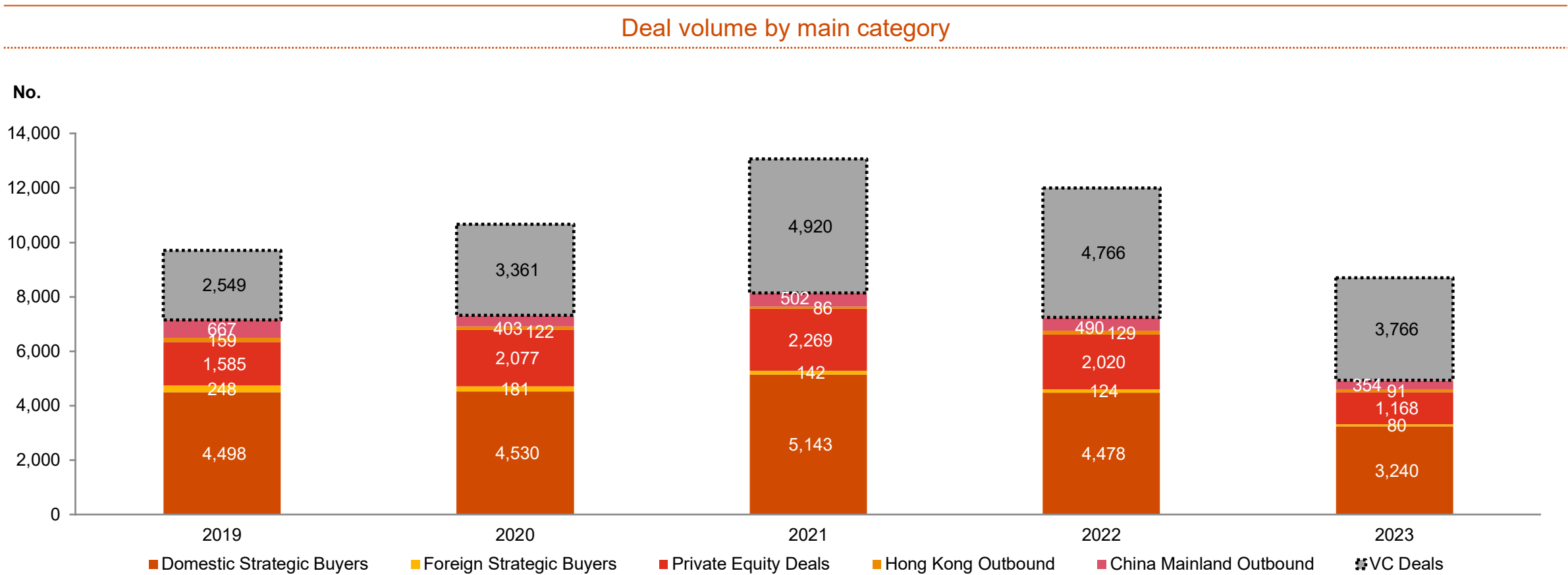
Although deal levels hit 10-year lows in 2023, the second half of the year did show some improvement over the first half, up 19% in value terms and 12% by volume

Total deal volume and value, from 2013 to 2023



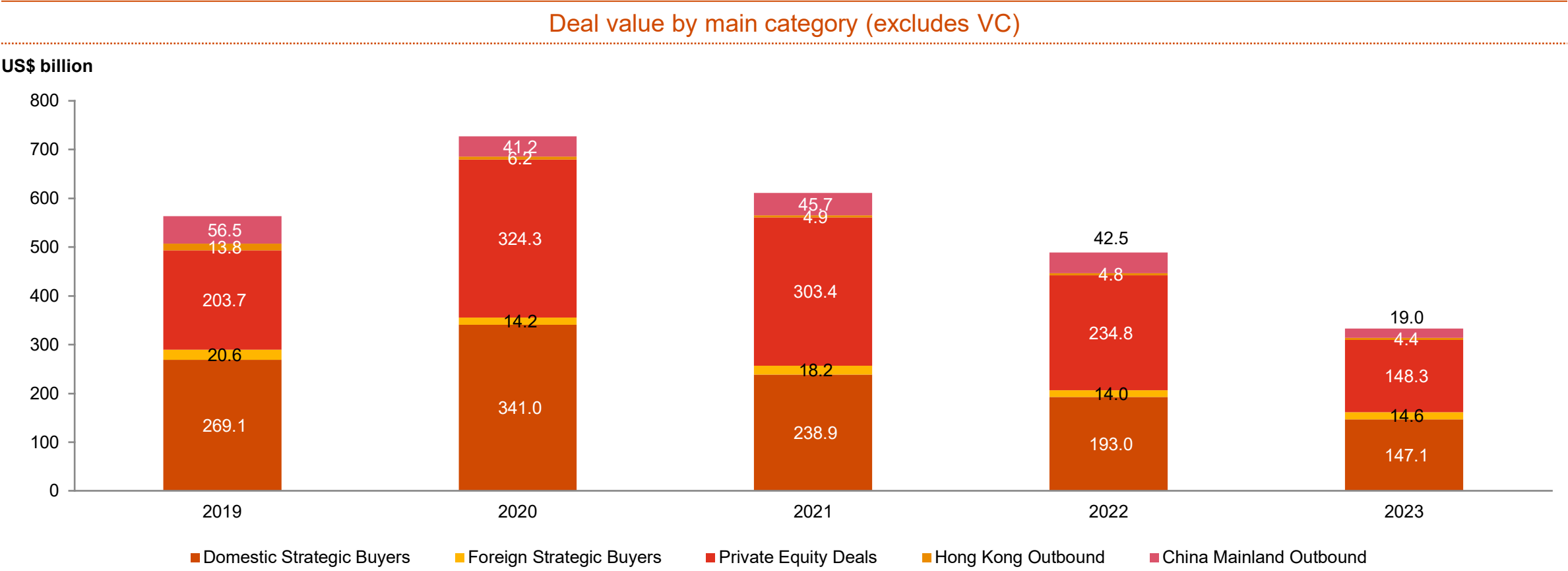
Source: Refinitiv Eikon, CV Source and PwC analysis

In volume terms, domestic strategic deals fell by 28%, PE by 42% and VC by 21%



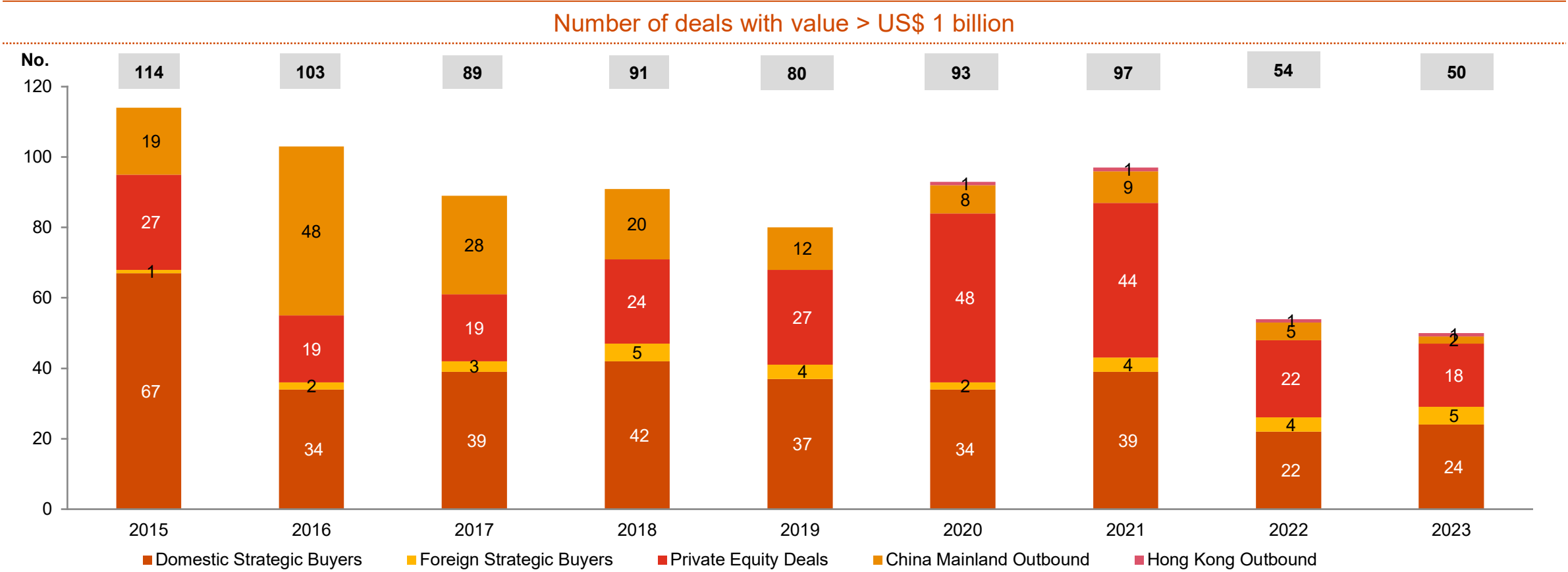
• 55 financial buyer-led mainland China outbound deals are also recorded in private equity deals, 81 are included in VC deals
Source: Refinitiv Eikon, CV Source and PwC analysis

Deal values fell to multi-year lows with domestic strategic M&A down by 24% and PE dropping by 37%



* US\$3.1bn 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: Refinitiv Eikon, CV Source and PwC analysis

There were only 50 mega-deals (> US\$1bn) in 2023 of which 28 were related to SOEs; the mega deals were highly concentrated in the key sectors in the 14th 5-year-plan; four sectors accounted for 41 out of 50 mega deals, being industrials (13), high tech (11), financials (9) and energy & power (8)



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

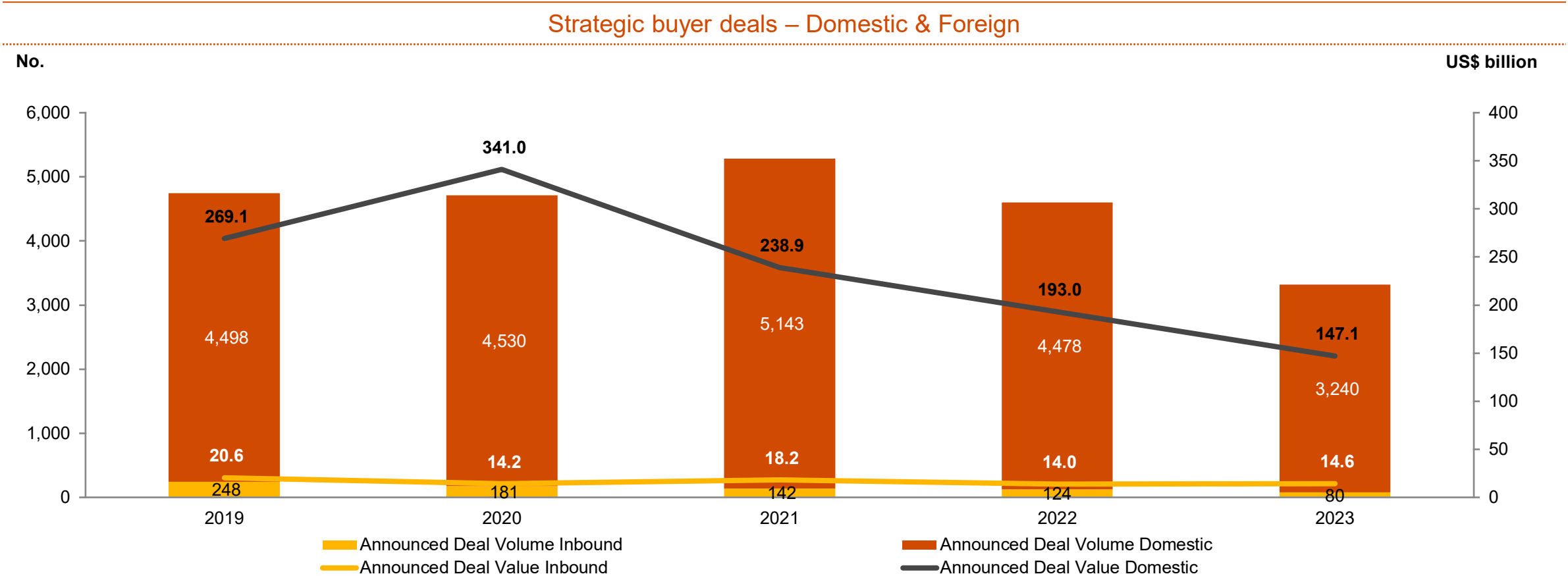
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Strategic

buyers

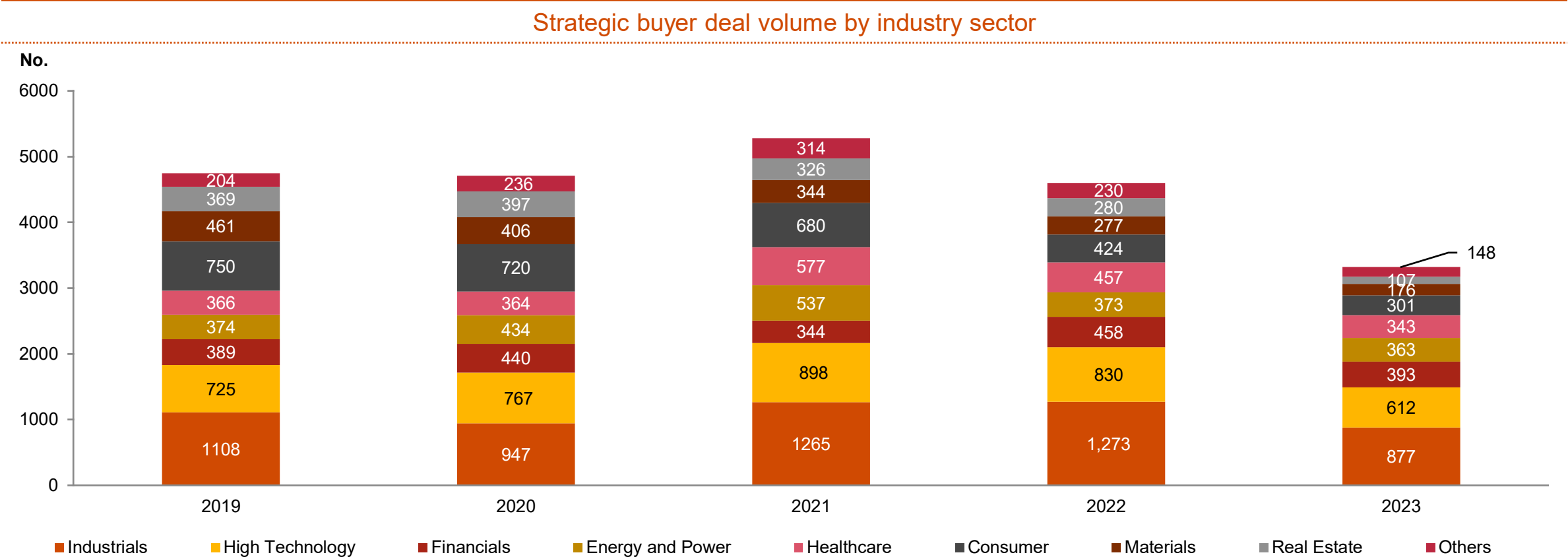


Domestic strategic M&A fell 28% in value affected by multiple negative factors in the wider environment including slower than expected economic recovery, policy uncertainties, geopolitical tensions, global interest rate effects, deleveraging, real-estate and equity market declines among others; these factors combined to sharply reduce asset valuations and led to a lack of confidence in dealmaking



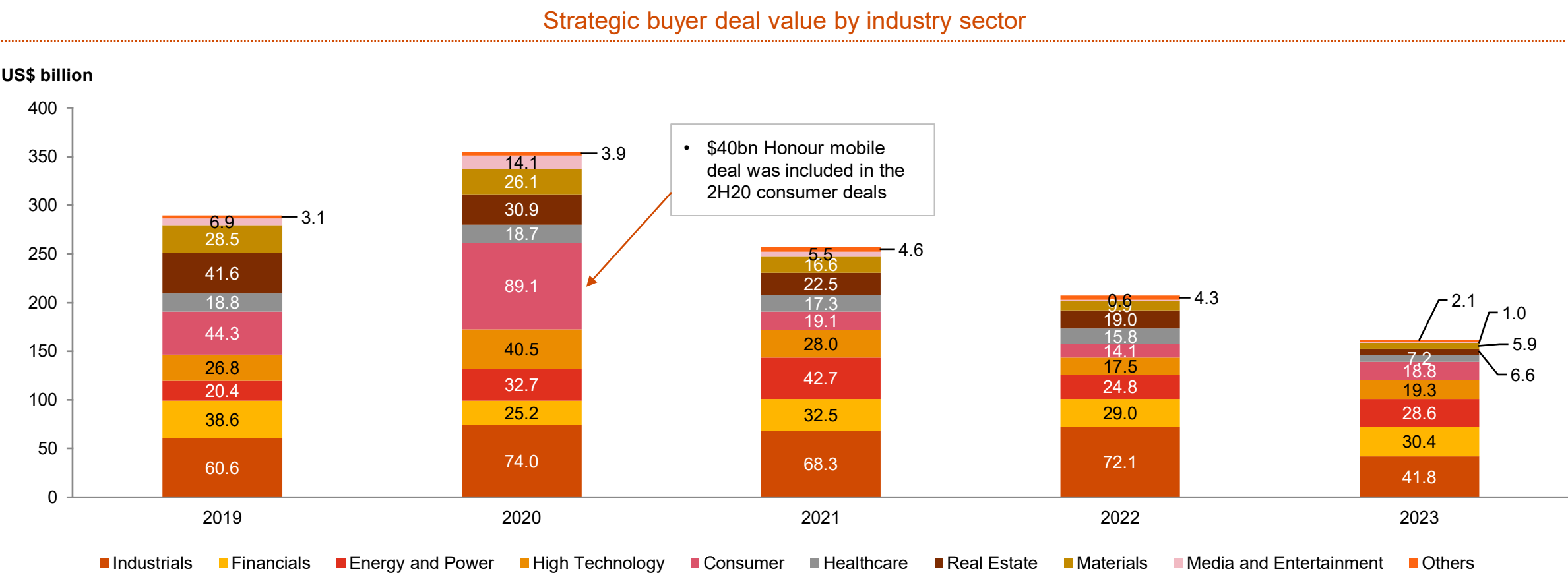
Source: Refinitiv Eikon, CV Source and PwC analysis

Deal volumes also fell, although industrials and high technology sectors were still the biggest sectors overall, as many of the industrial deals were focused on SOE reforms, SOE-driven industrial upgrades, re-capitalisations and integrations between large SOE groups; government policies tended to encourage activities in industrials, high tech and energy & power sectors



Source: Refinitiv Eikon, CV Source and PwC analysis

In value terms, mega deals were mainly concentrated in financial service sectors, NEV (recorded in industrials), ESG/energy transition (recorded in energy & power), and semiconductors (recorded in high technology); 16 out of 24 mega-deals in domestic strategic M&A involved SOEs; inbound deal values actually increased by 4% compared to 2022 with 5 mega deals in various sectors



Source: Refinitiv Eikon, CV Source and PwC analysis

A blurred background image showing two people in business attire shaking hands, symbolizing a deal or agreement.

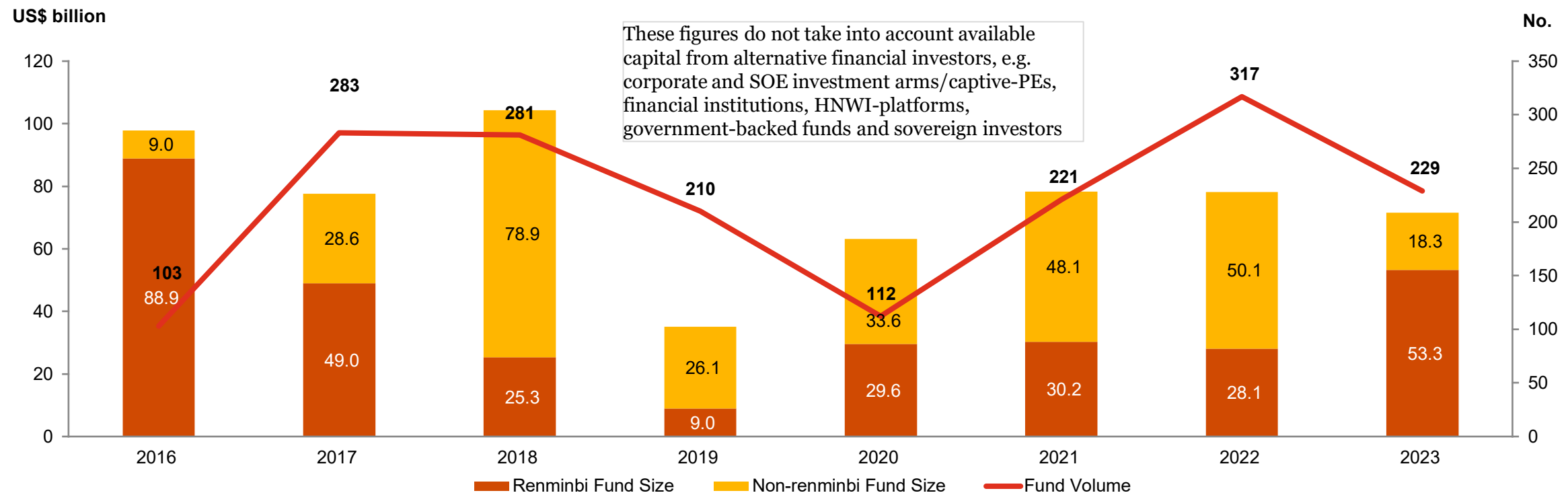
3

PE/VC and
financial buyer deals



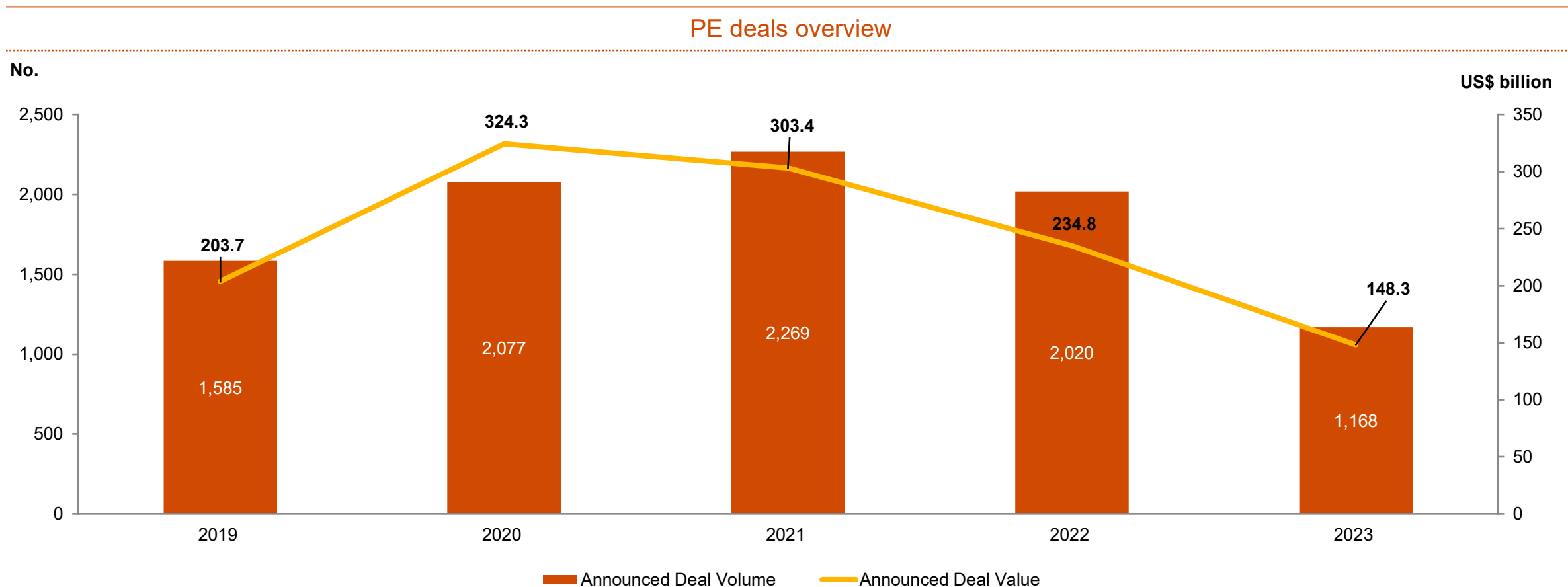
PE fundraising swung sharply in favour of renminbi raises with dollar funds generally struggling to raise capital specifically for China investment affected by geo-political issues, economic weakness, and uncertainties around policies and regulations affecting certain sectors; a perceived benefit in investing from domestic capital pools was a clear factor in the market

PE/VC fund raising for China investment



Source: AVCJ and PwC analysis

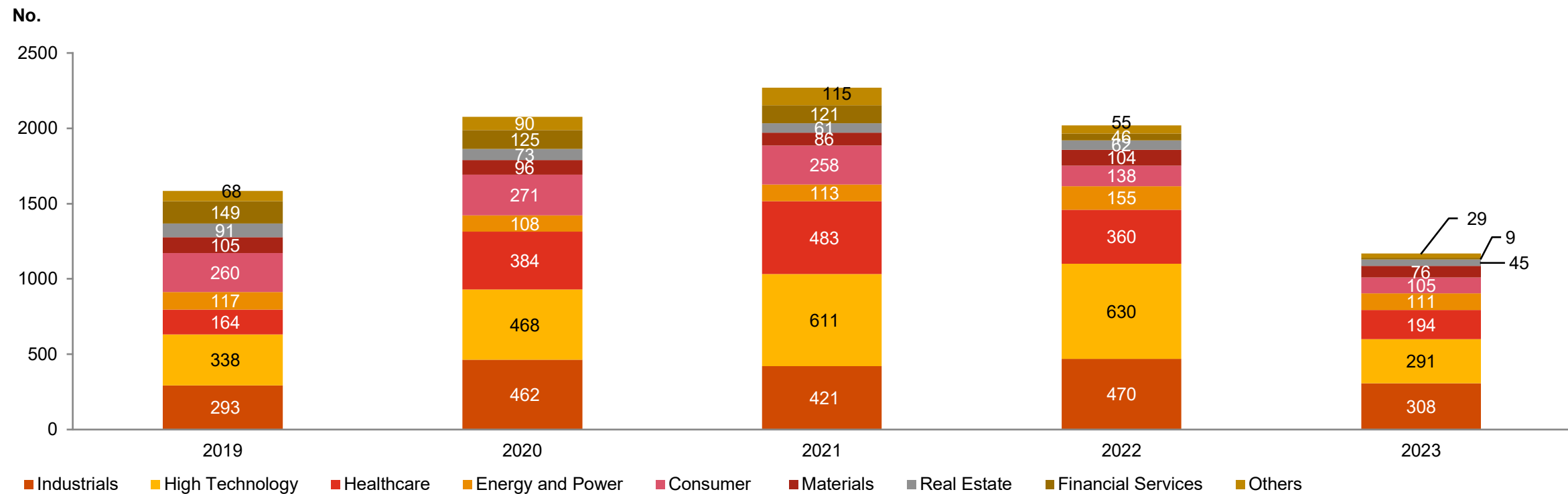
However, investment volumes and values from PE fell sharply by 42% and 37% with pricing concerns resulting in a lack of willing sellers and foreign PEs in particular inclined to sit on the sidelines waiting for market uncertainties to become clearer; there were 18 mega-deals involving PE (vs 22 in 2022) of which 11 involved SOEs



Source: Refinitiv Eikon, CV Source and PwC analysis

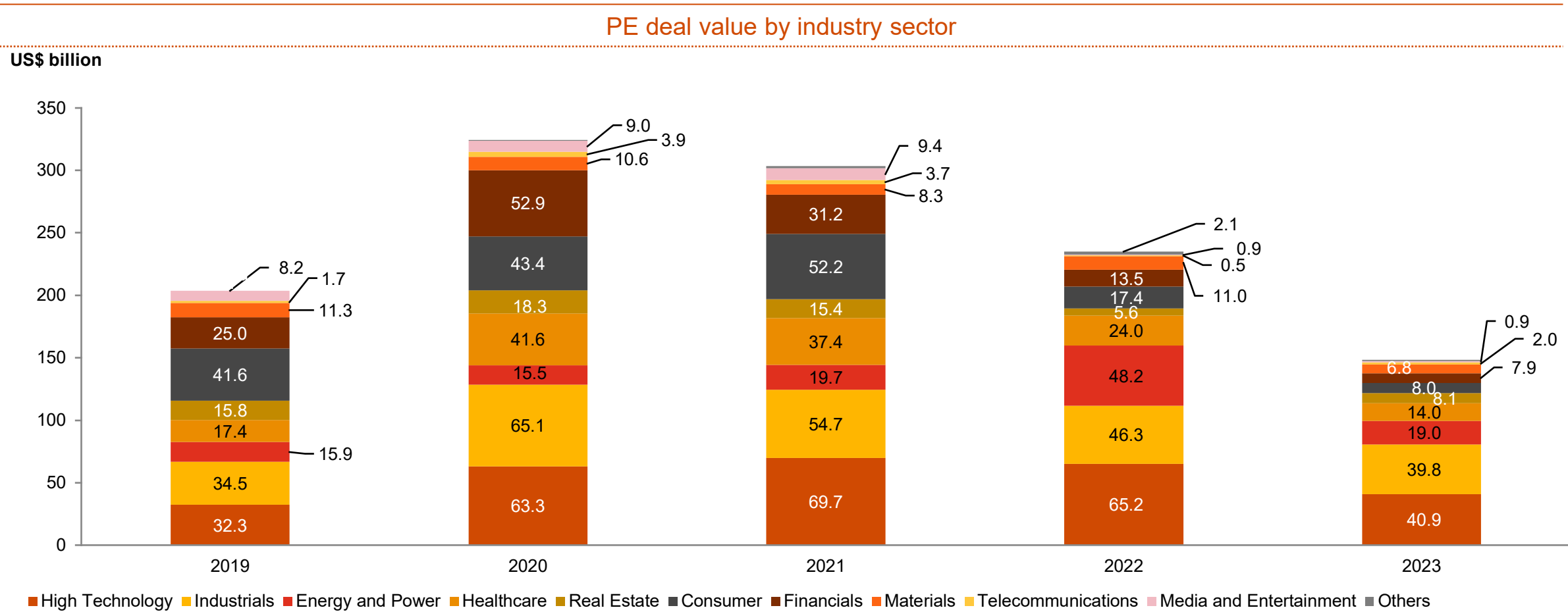
In terms of volumes, industrials, high tech and healthcare continued to be top three most favored sectors; while consumer deals continued to trend down

PE deal volume by industry sector



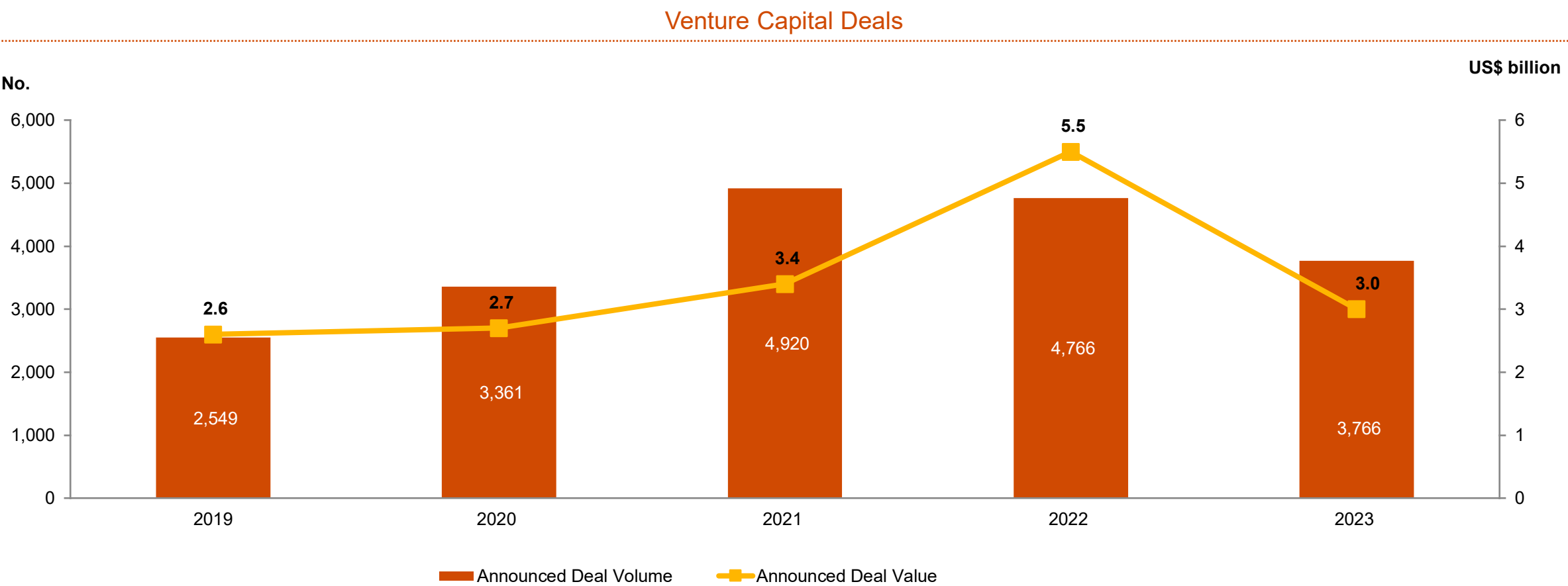
Source: Refinitiv Eikon, CV Source and PwC analysis

There was a decline in dollar terms in almost all sectors and the few mega deals were focused on government encouraged themes, such as high tech, industrials, and ESG/energy transition



Source: Refinitiv Eikon, CV Source and PwC analysis

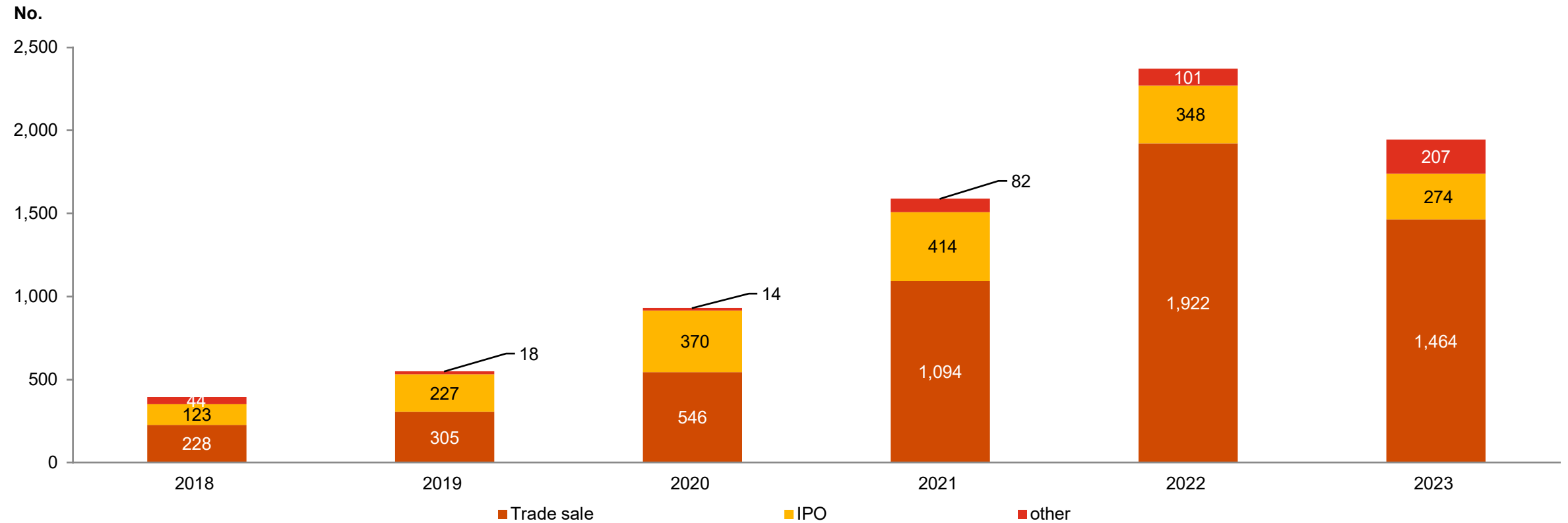
Venture capital investment volumes also declined further, off by 20% from their peaks in 2021



Source: Refinitiv Eikon, CV Source and PwC analysis

PE exit data were impacted by the unfavourable IPO market and asset prices generally in 2023, although this is one area which is not at multi-year lows reflecting the ongoing maturing of PE activities in China; in fact there has been focus in the market on preparing PE-held assets for exit but a general reluctance to launch processes given the continuing softness in asset values

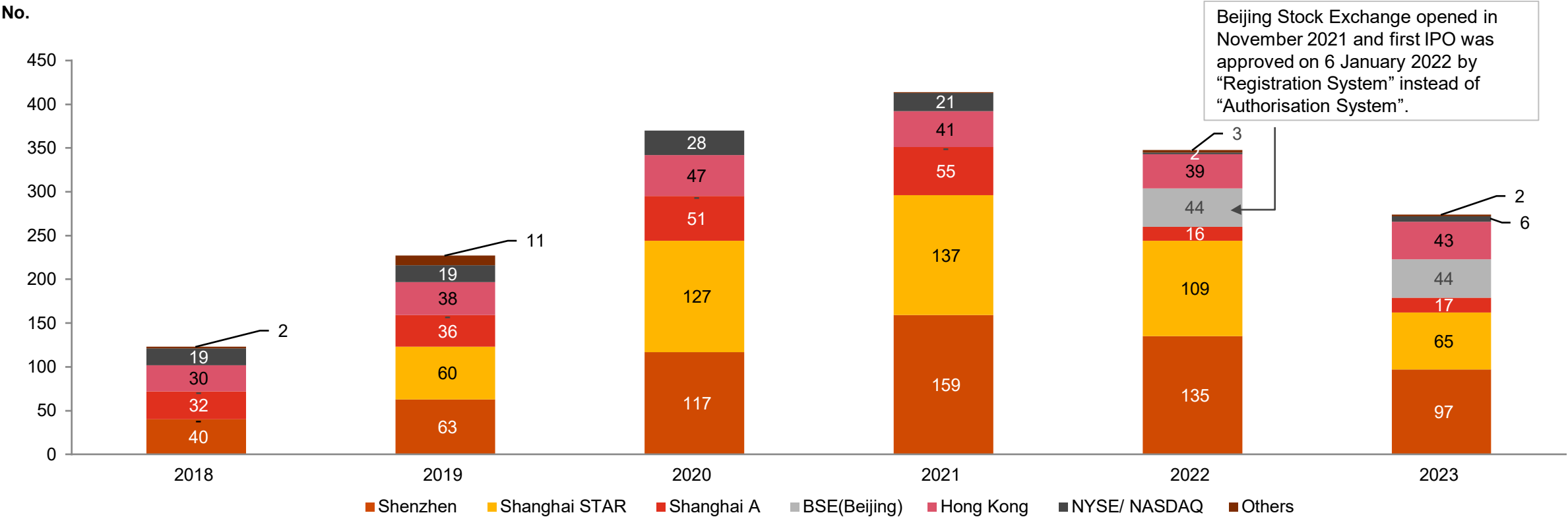
PE/VC-backed deal exit volume by type



Source: CV Source and PwC analysis

For the same reasons, PE-backed IPO activity was subdued with the mainland China markets again dominating

PE/VC-backed IPO exit volume by bourse



Source: CV Source and PwC analysis

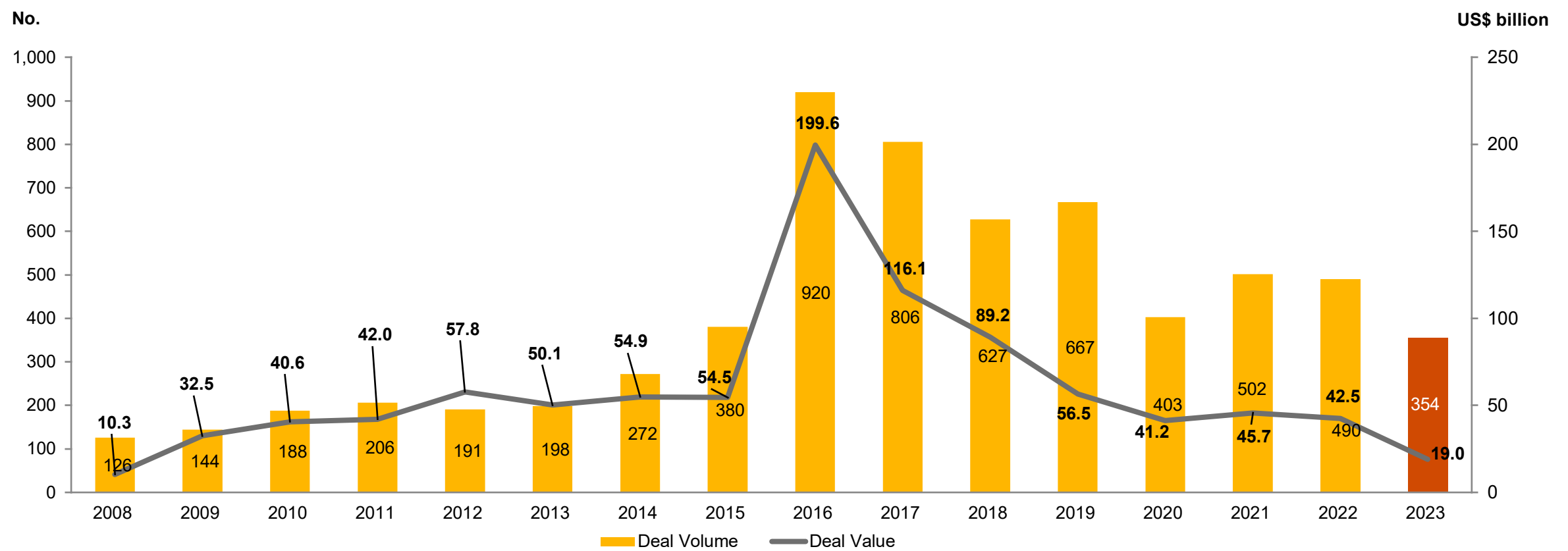
4

Mainland China outbound M&A



Mainland China outbound M&A deal value continued its long decline since the peaks of 2016 falling to only US\$19bn – the lowest level since the global financial crisis in 2008; however, behind the scenes we have seen more recent enquiries about Chinese outbound deal opportunities

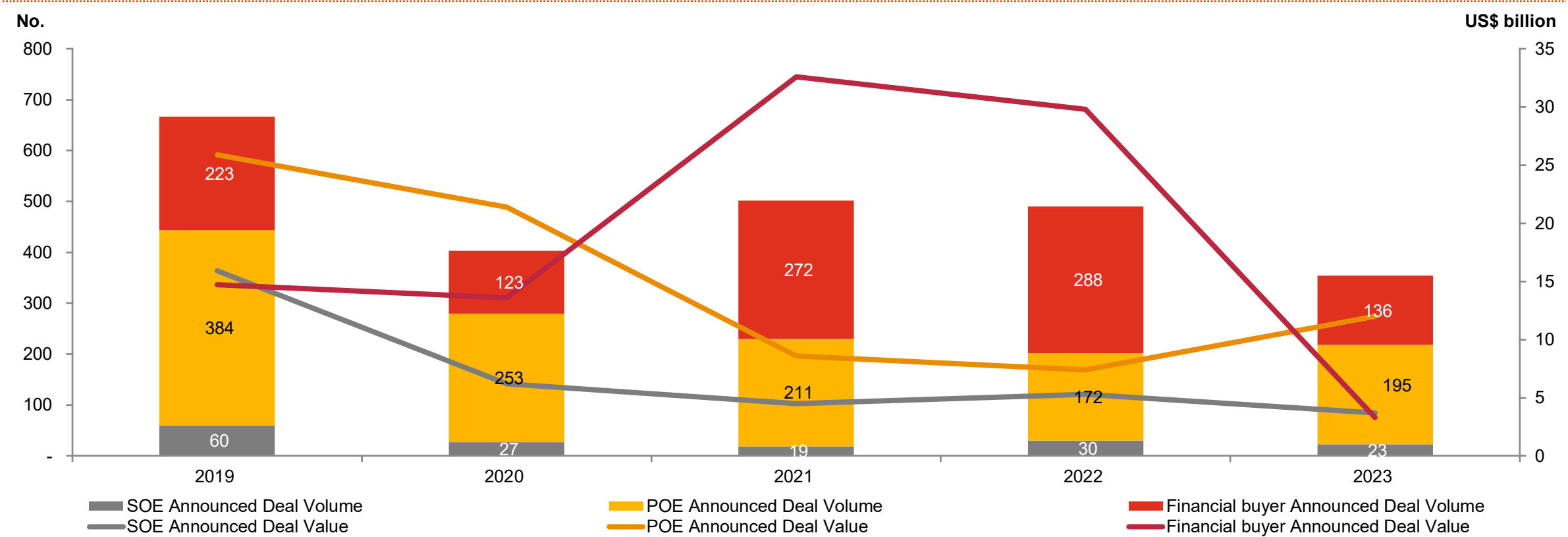
Mainland China outbound deals



Source: Refinitiv Eikon, CV Source and PwC analysis

Although in general the outbound activities were at a low level, investments by privately-owned enterprises increased both in volume and value, albeit off relatively low bases

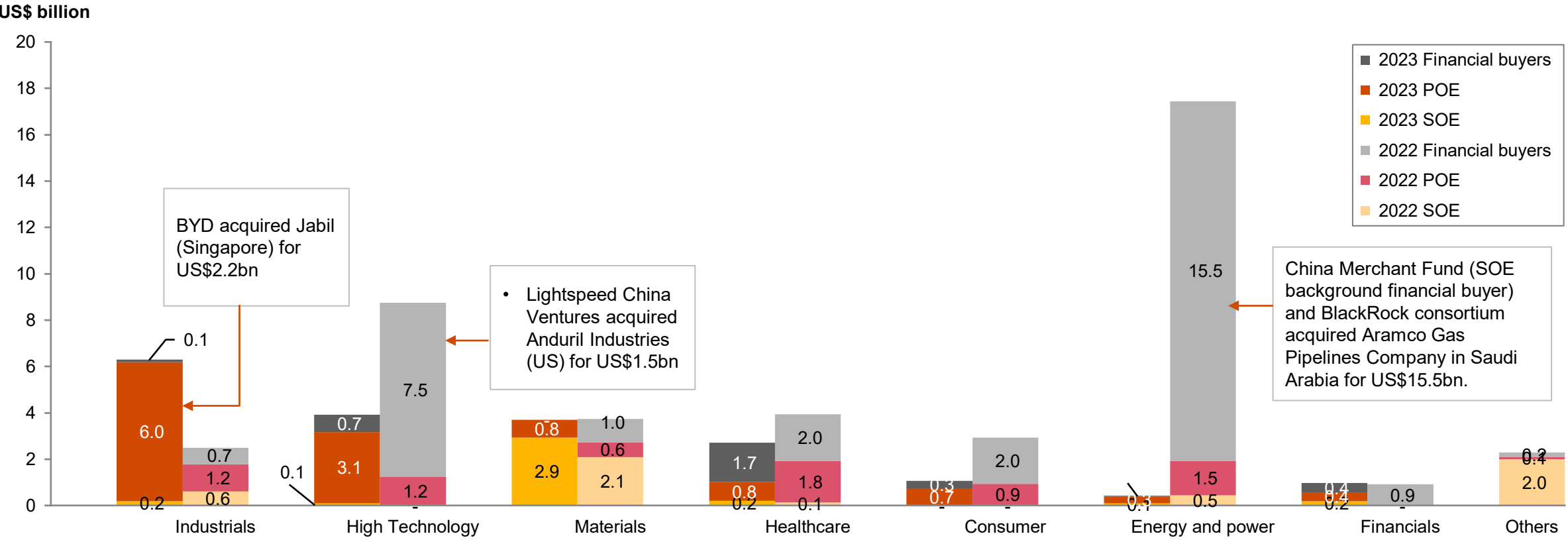
Mainland China outbound deals by investor type



Source: Refinitiv Eikon, CV Source and PwC analysis

Two outbound mega deals were announced in the second half of 2023; industrials, high tech and materials were the top three sectors by value

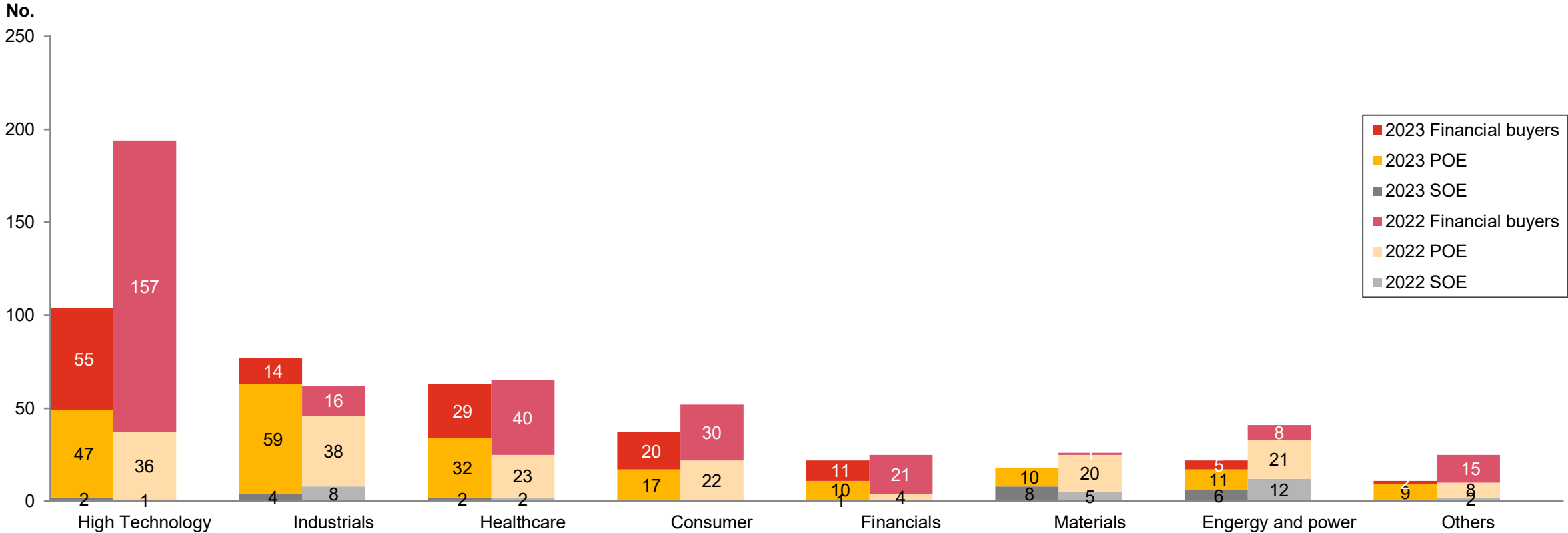
Mainland China outbound deals by industry sector – value



Source: Refinitiv Eikon, CV Source and PwC analysis

And high technology, industrials and healthcare were the top three sectors by volume

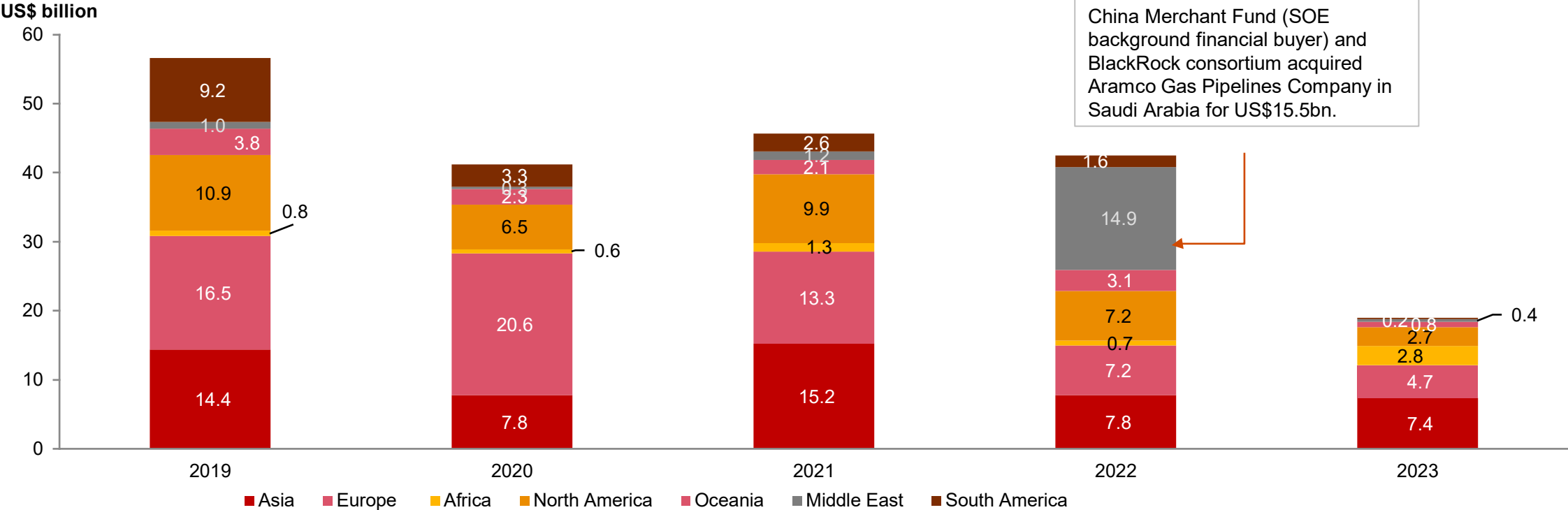
Mainland China outbound deals by industry sector – volume



Source: Refinitiv Eikon, CV Source and PwC analysis

Deal values were at low levels; Asia was the most-favored destination by deal value

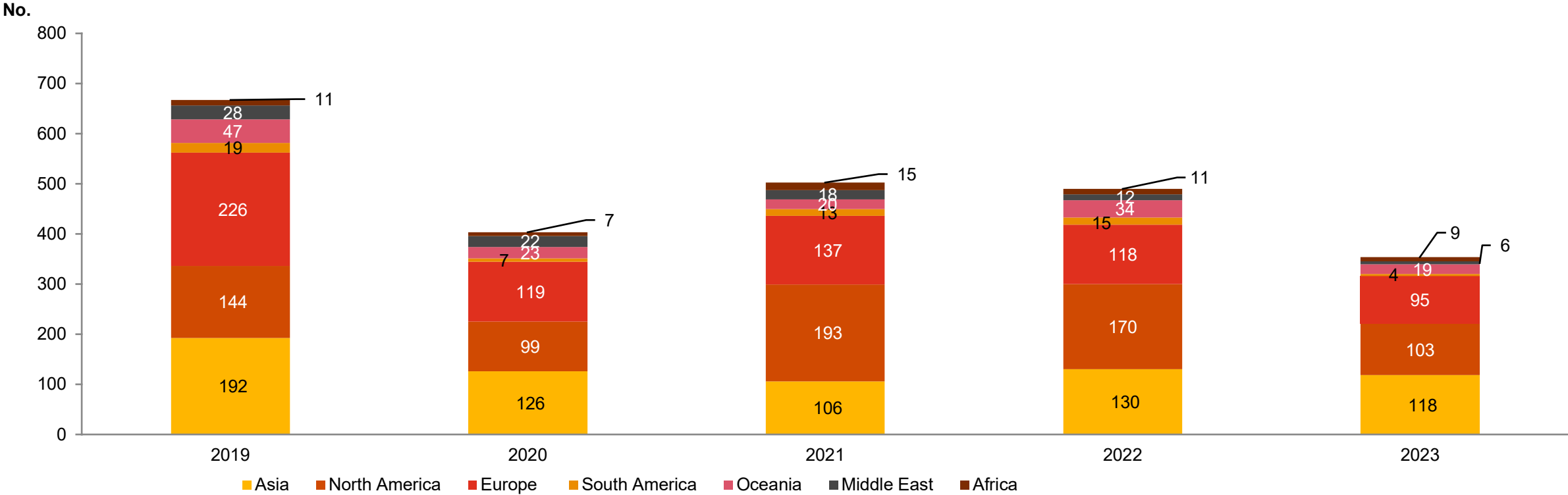
Mainland China outbound deals by region – value



Source: Refinitiv Eikon, CV Source and PwC analysis

Asia, US and Europe were the top three investment destination in volume terms

Mainland China outbound deals by region – volume



Source: Refinitiv Eikon, CV Source and PwC analysis



5

Key

messages



Key messages

China M&A in 2023 (1)

Overall

- China M&A fell to multi-year lows in 2023, down 28% to US\$333bn; however outbound investments by privately-owned enterprises bucked the trend rebounding by 13% in volume and 62% in value compared to the 2022 lows
- Although deal levels hit 10-year lows in 2023, the second half of the year did show some improvement over the first half, up 19% in value terms and 12% by volume
- In volume terms, domestic strategic deals fell by 28%, PE by 42% and VC by 21%
- Deal values fell to multi-year lows with domestic strategic M&A down by 24% and PE dropping by 37%
- There were only 50 mega-deals (> US\$1bn) in 2023 of which 28 were related to SOEs; the mega deals were highly concentrated in the key sectors in the 14th 5-year-plan; four sectors accounted for 41 out of 50 mega deals, being industrials (13), high tech (11), financials (9) and energy & power (8)

Domestic and Foreign-Inbound Strategic

- Domestic strategic M&A fell 28% in value affected by multiple negative factors in the wider environment including slower than expected economic recovery, policy uncertainties, geopolitical tensions, global interest rate effects, deleveraging, real-estate and equity market declines among others; these factors combined to sharply reduce asset valuations and led to a lack of confidence in dealmaking
- Deal volumes also fell, although industrials and high technology sectors were still the biggest sectors overall, as many of the industrial deals were focused on SOE reforms, SOE-driven industrial upgrades, re-capitalisations and integrations between large SOE groups; government policies tended to encourage activities in industrials, high tech and energy & power sectors
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Key messages

China M&A in 2023 (2)

PE/VC and financial buyer deals

- PE fundraising swung sharply in favour of renminbi raises with dollar funds generally struggling to raise capital specifically for China investment affected by geo-political issues, economic weakness, and uncertainties around policies and regulations affecting certain sectors; a perceived benefit in investing from domestic capital pools was a clear factor in the market
- However, investment volumes and values from PE fell sharply by 42% and 37% with pricing concerns resulting in a lack of willing sellers and foreign PEs in particular inclined to sit on the sidelines waiting for market uncertainties to become clearer; there were 18 mega-deals involving PE (vs 22 in 2022) of which 11 involved SOEs
- In terms of volumes, industrials, high tech and healthcare continued to be top three most favored sectors; while consumer deals continued to trend down
- There was a decline in dollar terms in almost all sectors and the few mega deals were focused on government encouraged themes, such as high tech, industrials, and ESG/energy transition
- Venture capital investment volumes also declined further, off by 20% from their peaks in 2021
- PE exit data were impacted by the unfavourable IPO market and asset prices generally in 2023, although this is one area which is not at multi-year lows reflecting the ongoing maturing of PE activities in China; in fact there has been focus in the market on preparing PE-held assets for exit but a general reluctance to launch processes given the continuing softness in asset values
- For the same reasons, PE-backed IPO activity was subdued with the mainland China markets again dominating



Key messages

China M&A in 2023 (3)

Mainland China Outbound

- Mainland China outbound M&A deal value continued its long decline since the peaks of 2016 falling to only US\$19bn – the lowest level since the global financial crisis in 2008; however, behind the scenes we have seen more recent enquiries about Chinese outbound deal opportunities
- Although in general the outbound activities were at a low level, investments by privately-owned enterprises increased both in volume and value, albeit off relatively low bases
- Two outbound mega deals were announced in the second half of 2023; industrials, high tech and materials were the top three sectors by value
- And high technology, industrials and healthcare were the top three sectors by volume
- Deal values were at low levels; Asia was the most-favored destination by deal value
- Asia, US and Europe were the top three investment destination in volume terms



6

Outlook

Outlook for 2024 (1)

- Deal flows in China in 2023 were impacted by a slower than expected economic rebound and ongoing regulatory, economic and geopolitical uncertainty
- Behind the scenes we have seen PE investors and some MNCs starting preparatory work for sale processes but it is still unclear as to what extent these will be launched into the market in the first half of 2024
- For foreign investors, including US\$-funded PE, it appears that the investment landscape in China has narrowed somewhat with certain sectors likely out of bounds at least in the near term
- As part of this, investors are also wary of pending rules from US lawmakers which may constrain overseas deployment of US capital, again likely to be sector-specific; the appetite of foreign LPs for China investment allocations is also questionable at this time.
- Nevertheless, there continue to be some positive influences for China M&A, including:
 - There is a pipeline of pent-up demand, and processes have been building somewhat behind the scenes (i.e. not in the numbers yet) in the second half of 2023;
 - China's leadership has indicated intentions to re-prioritise economic growth; support the private sector and the internet/platform economy; take measures to stimulate domestic consumption; make accommodations and work-outs around real-estate (albeit this remains a significant risk and drag on growth); and attract foreign investment;
 - There are some signs of rapprochement in the US-China relationship, with some recent high-profile visits from US officials into China and meetings between the two leaders;
 - Globally, there are hopes that inflation is coming under control and that interest rates may have peaked. Public market asset valuations have been improving in markets outside China. Any rebound in global M&A would also be positive for China deal activity;
 - There are still record levels of dry powder for financial sponsors, and pressure to deploy this capital;

(cont'd overleaf)

Outlook for 2024 (2)

(cont'd)

- For foreign PEs, there is a general shortage of viable alternative investment markets for large scale capital deployment in Asia-Pacific and the risk of FOMO if China rebounds;
- PEs are also likely to be active sellers as they look to return capital to LPs to enable future fund-raising rounds;
- Domestic (renminbi funded) PEs are generally active with strong fundraising in 2023;
- SOE reform will continue to drive some larger scale M&A;
- We anticipate more robust A-share capital market M&A activities, in particular driven by state-owned and controlled listed companies;
- MNCs are revisiting their China strategies and structures and taking steps to optimise their portfolios; and
- We are already seeing increased demand for outbound investment, especially into the Asia-Pacific region.

- In summary the M&A market needs an injection of confidence. Investors are looking for:
 - More consistently positive economic indicators;
 - Substantive government support or stimulus;
 - Sustained improvement in public equity valuations; and
 - More stabilisation of the relationship between China and the US
- If some or all of these factors start to emerge over the summer then we would hope to see a stronger second quarter of 2024 leading into more robust and sustained deal activity for the second half of 2024
- In this scenario, growth areas are likely to include:
 - PE exit activity;
 - MNC portfolio optimisation;
 - Ongoing SOE reform;
 - A-share capital market M&A; and
 - Domestic (renminbi funded) M&A
- Making predictions is difficult in this environment, but on balance we do expect a double digit increase in M&A numbers in 2024 compared to 2023

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: Refinitiv Eikon 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)
- Privatisations
- 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 privatisation
- Balance sheet restructuring or internal restructuring
- Investments in greenfield operations
- Going private transactions(with no new investors)

Thank you

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