China M&A trends of consumer market industry:
2022 review and 2023 outlook

Gearing for expected recovery in 2023

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Preface

Explanation of data shown in this report

The data and analysis in the report are M&A deals data only in the China consumer sector*. Unless noted, all deals are equity deals and do not include asset deals.

- The data in the report is based, unless noted, on information provided by Thomson Reuters, CV Source and PwC analysis;
- Thomson Reuters and CV Source only record announced deals. Not all announced deals will close;
- The deal volume figures presented in the report refer to the deal volume announced, whether or not a value is disclosed for the deal; the deal value figures presented in the report refer only those deals where a numerical value has been disclosed (referred to in this presentation "disclosed value");
- "Domestic" refers to Mainland China, Hong Kong, Macau and Taiwan;
- “Outbound M&A" refers to mainland Chinese company acquisitions abroad;
- "Inbound M&A" refers to overseas acquisitions of domestic companies;
- "Strategic buyers" refers to corporate buyers that acquire companies with the objective of integrating the acquisition into their existing operations (as opposed to a "financial buyers");
- "Financial buyers" means investors, including, but not limited to, PE and VC funds, who undertake M&A to making a profit from future sales;
- The dollar amounts used in the report are translated from non-dollar deals values for the current period using the exchange rate at the end of each half-year.

Industry Description

To better analyse M&A activities and trends in the consumer industry, PwC has divided the consumer industry into the following sectors.

- Food & Beverage: mainly refers to food, beverage, catering and other related industries.
- Apparel & Beauty: mainly refers to apparel, shoes and hats, beauty and fashion industries.
- Household durables: mainly refers to furniture, home appliances, home textiles and other industries.
- Travel & leisure: mainly refers to leisure places, tourism, hotels, travel and other industries.
- Household essentials: mainly refers to various daily necessities, consumer electronics, pet-related products and other industries.
- General retail: mainly refers to retail, general consumer goods trading, etc.

*This industry M&A data does not include deals in the education, logistics, and professional services sectors.

Overview

- Globally, 2022 brought a gradual recovery to the consumer market with the easing of COVID-19 pandemic restrictions. The economic respite was short lived, however, as pandemic headwinds were replaced by political and supply chain uncertainties spearheaded by the geopolitics and U.S. interest rate hikes with the intentions of stemming the rising inflation rates. Affected by the resurgence of COVID-19 case in 1H and Q4, the annual Chinese GDP growth reported a slowdown from 8.4% to 3% throughout the course of the year.
- In the first half of 2022, the bricks and mortar economy was greatly affected due to the pandemic. The unemployment rate increased while consumer confidence suffered in the second half amidst the new wave of the pandemic. Despite pandemic controls being lifted in December, normal consumer activities took time to recover.
- The investment and financing market struggled more in 2H 2022 than 1H 2022 (the deal volume in 2H was only about 60% of 1H).
- Regarding investor profiles, Private Equity (PE) and Venture Capital (VC) firms dominated most of the acquisitions. These institutions tended to stick within their industries of expertise given the market volatility and displayed an increased sense of caution when analysing potential assets.
- The Food and Beverage (F&B) sector maintained it's position as the most attractive M&A market with the largest influx of capital in terms of both volume and value. Household essentials also saw a steady increase in deal volume.
  - **Food and Beverage**: A popular industry in the eyes of investors for years, the F&B market remained so in 2022. The pandemic brought increased interest in quick-service restaurants (investment value doubled YOY in 2022). The beverage sector also remained strong, with categories catering to younger customers such as coffee and low-alcohol drinks gaining prominence.
  - **Apparel & Beauty**: A pandemic-induced reduction in travel rates in 2022 correlated with a reduction in both the volume and value of M&A transactions in footwear, beauty and accessories.
  - **Household Durables**: influenced by the pandemic and real estate adjustment, the number and value of M&A deals in home decoration, furniture and building materials both dropped significantly compared with 2021. The deal volume in home appliances remained stable, but the deal value decreased significantly compared to 2021, with small and early-stage investments dominating.
  - **Travel & Leisure**: this sector includes tourism, hotels, leisure venues, etc. In 2022, due to the recurring pandemic, the activity of T&L dropped significantly as the sector underwent structural changes. However, with the recent re-opening, trading activities of T&L are expected to experience a quick rebound.
  - **Household Essentials**: M&A activity within daily necessities, consumer electronics and pet-related products remained stable, with personal care, pet and outdoor sporting goods sought after by capital.
  - **General retail**: Brick-and-mortar retail performance deteriorated due to the pandemic restrictions, while the luxury sector proved resilient.
- **PwC's take**: We are optimistic about the recovery of the M&A market in China's consumer market.

Overview of Consumer Market Trends in 2022

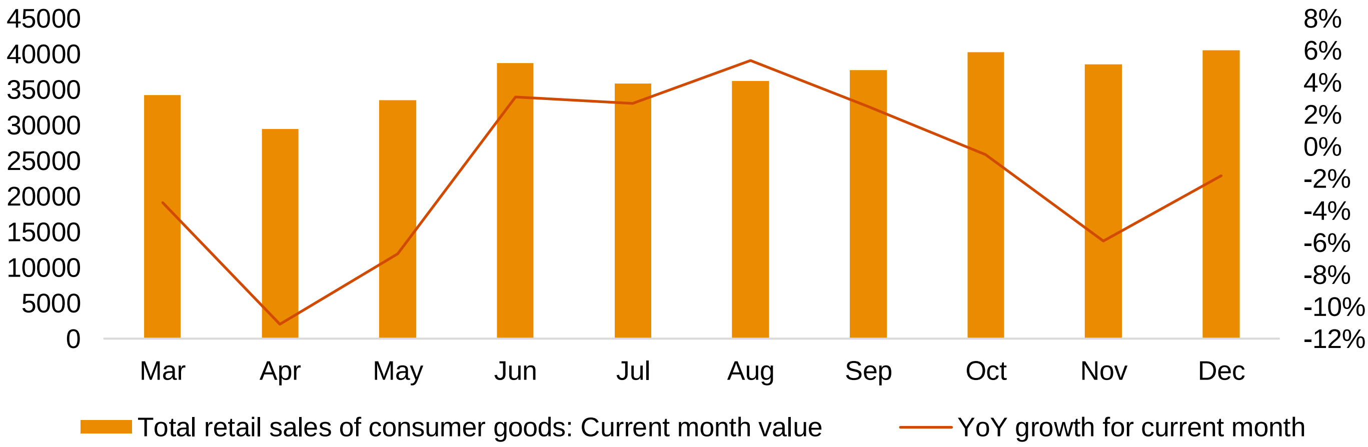
Volatility in the consumer market amid nationwide resurgence of the pandemic

The resurgence of the pandemic in China has had a considerable impact on consumption, evidenced by the negative YoY growth rate of total retail sales of consumer goods in 2022. After the "10 new measures" were implemented in December, residents initially had concerns about going out and restricted consumption scenarios at first, which was expected to gradually return to normal. On a full-year basis, total retail sales of consumer goods in 2022 was similar to that of 2021 (down by merely 0.2%), indicating a stable and resilient consumer market.

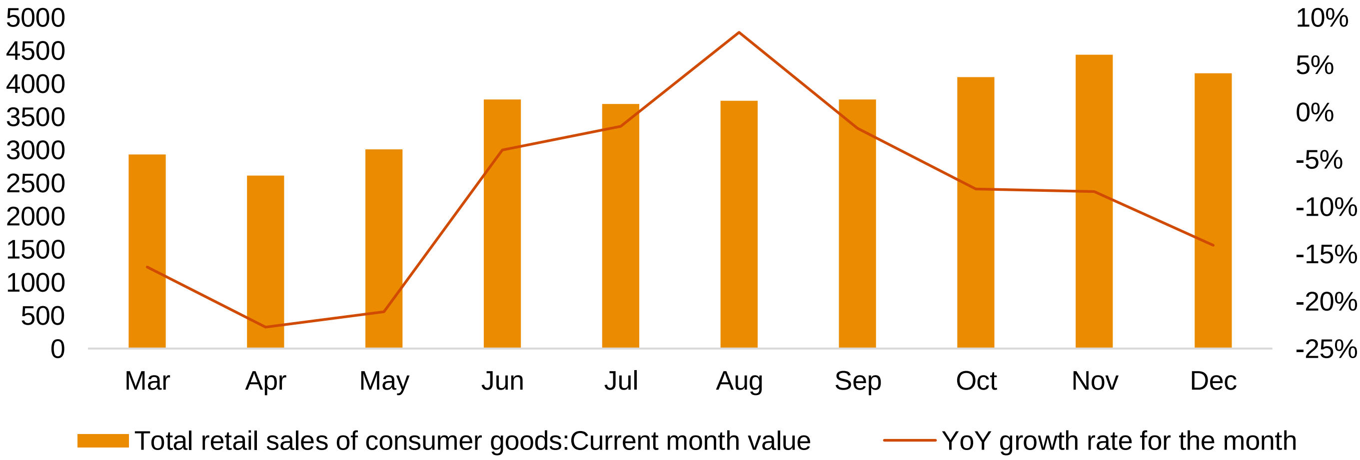
Catering, as the most representative service consumption industry, was dominated by offline consumption and was severely impacted by the pandemic. The national monthly restaurant revenue in March-May 2022 was suffering double-digit year-on-year decline compared to last year. In November-December, affected by the temporary panic after the pandemic control and alleviation of control across the country, the national restaurant revenue dropped significantly. However, on a full-year basis, restaurant revenues nationally fell by 6% compared to last year, reflecting the industry's resilience. It is expected that after the initial adaptation period of easing restrictions, it will be the first to recover ahead of other industries and return to pre-pandemic levels relatively quickly.

Since the mitigation of the pandemic prevention and control policy, provinces and cities across the country have successively introduced policies in a bid to stabilise consumption, such as issuing consumption vouchers, shopping exemptions, car purchase tax exemptions and home appliance subsidies. Leveraging larger-scale consumer demand, the market is expected to be revitalised and consumer confidence boosted in the short term,.

Total retail sales of consumer goods - Monthly value (RMB in 10k) and growth rate



Total revenue of restaurants- Monthly value (RMB in 10k) and growth rate



China’s grey- hair economy: a blue ocean

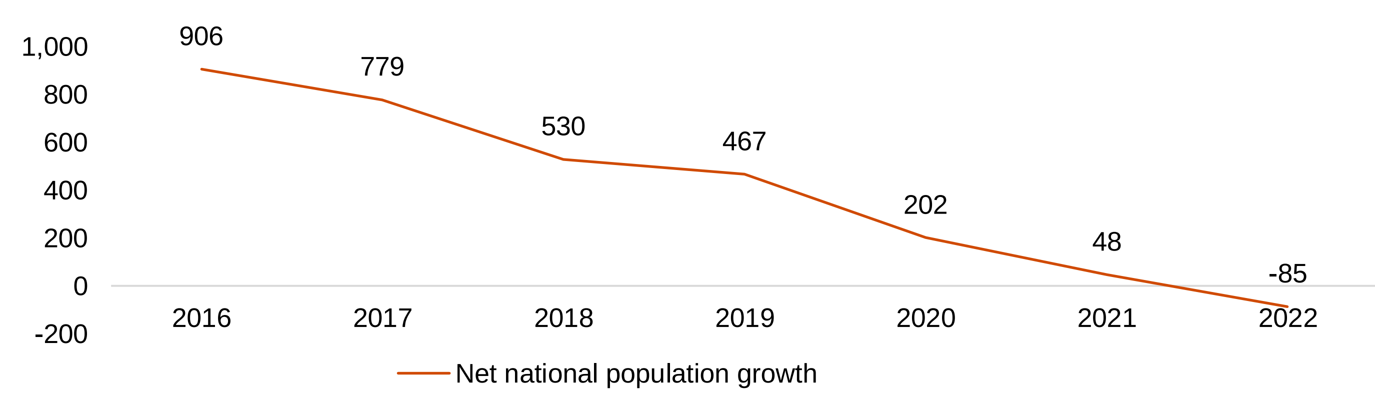
According to the 7th census data and relevant data from the National Bureau of Statistics, there are 264 million people aged 60 or above living in China, accounting for 18.7% of the total population, of which 191 million people are aged 65 and above, accounting for 13.5% of the total population. China faces the stark reality of accelerated ageing as it is moves towards a moderately ageing society. Meanwhile the number of births in China is decreasing, resulting in a rapid decline in the net annual population growth, resulting in the negative population growth in 2022.

The declining fertility rate and the increase in average life expectancy have led to accelerated ageing in China. The ageing population will continue to increase in the future. With the characteristics of "large size", "high income level" and "high education level" of the elderly population, we believe that the development of silver hair economy will be greatly promoted:

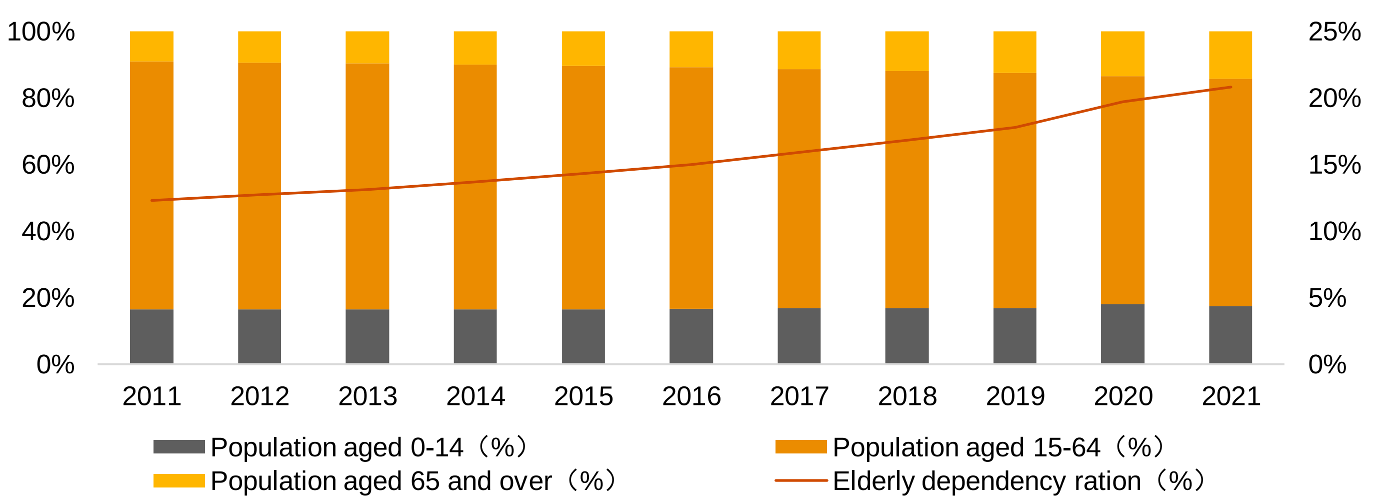
- The elderly group is energetic and has sufficient consumption vitality. After decades of economic reform, retired seniors have accumulated wealth and are willing to consume. The silver hair economy sectors such as senior food, senior assistive devices and elderly services have great development potential.
- In Japan, where the society is super-aged, cultural entertainment and tourism and leisure are the main industries for senior consumption such as senior hot springs, senior game halls, senior tour groups and so on. However, China's current senior cultural entertainment and tourism leisure market has yet to reach maturity with a wide gap in product content. We are optimistic about the growth of the scale of the tourism and leisure industry brought by the accelerated aging of the population and the growth potential of the culture and entertainment market that has not yet been fully developed.

The silver hair economy is booming in the aging era. We expect more high-quality targets to emerge in the silver hair economy investment and financing market in the future.

Net national population growth (10k)



National population structure and elderly dependency ratio in the past 10 years (%)



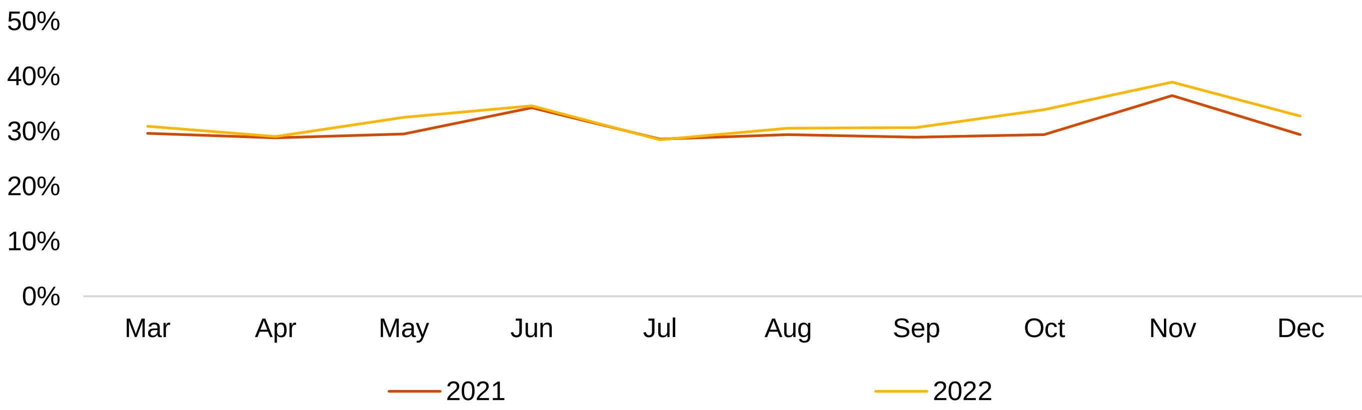
Online channels see weakening "double 11" growth rates and diversified traffic

Traditional offline consumption channels were pummelled by the recurring pandemic and containment policies in 2022, as consumers continued to rely on online shopping. The contribution of online retail sales to total retail sales of consumer goods increased in 2022 compared to 2021, peaking at 39.0% in November 2022.

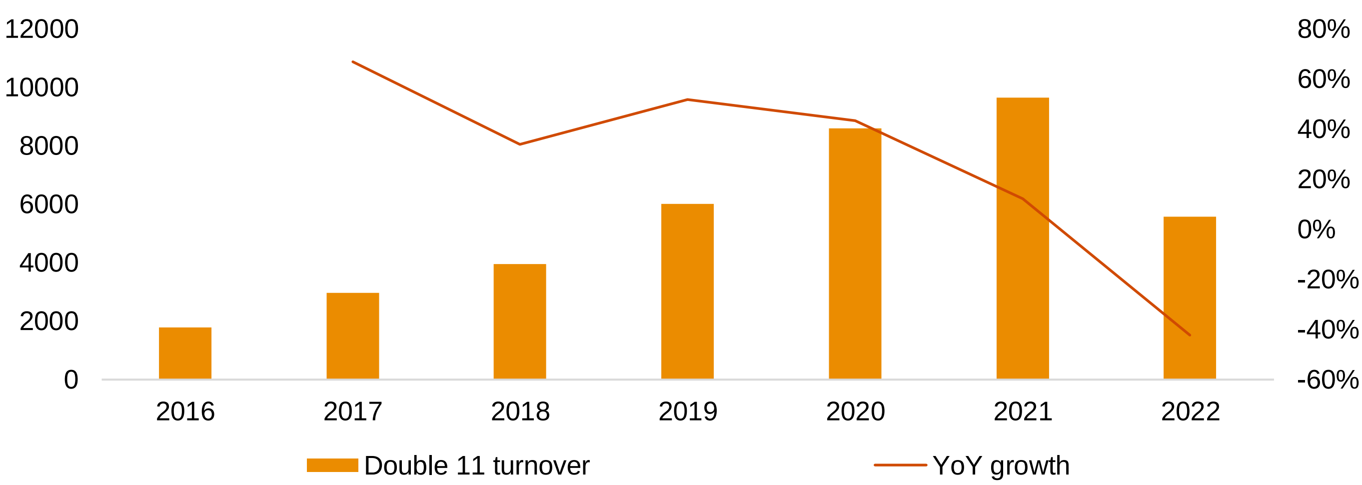
While the scale of online channels continued to expand, 2022 "Double 11" cooled down. Take Tmall's "Double 11" as an example, the "Double 11" GMV growth rate in 2021 was only 8.5%, while in 2022 the growth rate continued to languish. As brands and channels were beset by growth bottlenecks, e-commerce platforms and merchants increasingly launched promotion activities, including shopping festivals like "Double 12", "618", "818" in addition to "Double 11", and normalised subsidies on platforms such as Pinduoduo. Such a flood of promotion activities, not only greatly enriched shopping options providing good prices, but also weakened the original cost-effective advantage of "Double 11". At the same time, the recurring pandemic has brought uncertainties in economic activities and income, causing consumers to hold off on spending, reduce impulse consumption and turn to rational consumption.

In “Double 11" atrophy, short video platforms such as Tiktok, Kuaishou, and WeChat channels, have been growing rapidly and become the essential new forces of the live e-commerce platforms. Looking ahead, the diversified trend of e-commerce traffic will help further promote investment and cooperation in online retail.

Contribution of online retail sales to total retail sales of consumer goods



2016-2022 "Double 11" turnover (RMB in 10k) and growth rate



Consumers are willing to trade up for healthy and sustainable products

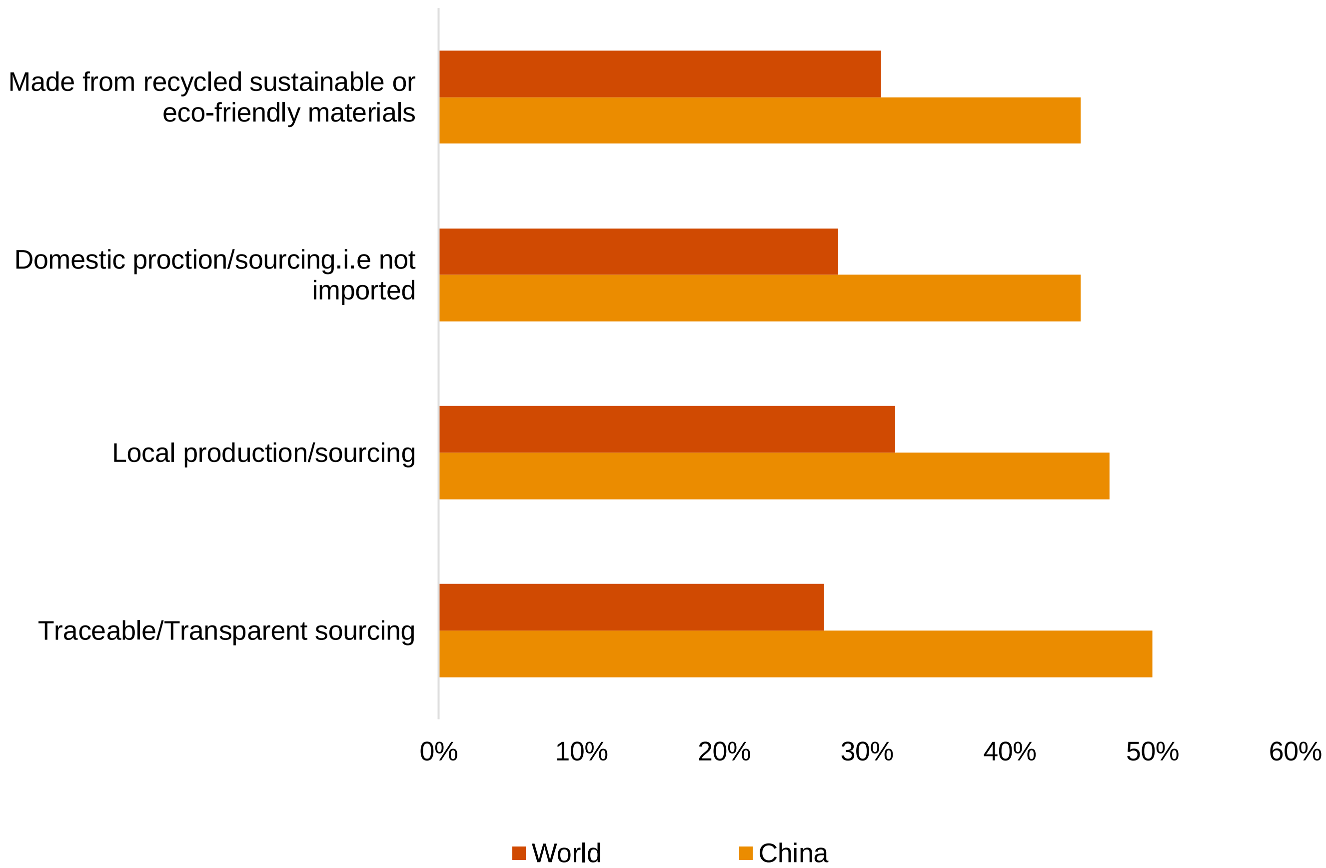
The three-year long pandemic has dramatically changed the Chinese consumers' attitude and behaviour towards health and wellness, with health anxiety growing more prevalent in the post-pandemic era. They are increasingly interested in healthy foods, health supplements and other products that can boost their immunity. According to publicly available information, health food and dietary supplements reported the fastest growth rate in T-mall tier-1 category in terms of sales in 2022, demonstrating the huge consumer demand for health and wellness.

In terms of consumption behaviour, COVID-19 has led Chinese consumers to pursue healthier and sustainable products. According to the PwC 2022 Global Consumer Insights, 50% of the respondents were willing to pay a higher price for products with traceable and transparent sources, and 45% would pay more than the average for products made from recyclable, sustainable or environmentally friendly materials. This indicates that Chinese consumers are willing to pay higher prices for sustainable products and becoming more assured with the safety standards of locally sourced food products.

As Chinese consumers are attracted to brands and products with sustainable concept, socially conscious consumerism will continue to grow. Brands have been actively publicising through the press, media and other channels their achievements in carbon neutrality and design of eco-friendly packaging for products to reaffirm their commitment to sustainability. These promotion measures further boost consumer acceptance of sustainable products, and indirectly encourage more brands to participate in a healthy and sustainable virtuous cycle.

Factors for consideration when paying an above average price

Q: To what extent would you be willing to purchase products with the following attributes at above-average prices



2022 M&A review of Consumer Market

M&A deal volume

2022 witnessed a total of 1,063 deals, 1,240 deals in 2021

Down 14%

M&A deal value

Announced deal value **plunged 61%** in 2022 to $27.7 billion, down from $71.9 billion in 2021

Down 61%

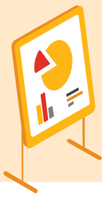
Average deal size

2022 reported an average deal size of approximately $57 million, plummeting 57% from $132 million in 2021

Down 57%

M&A mega-deal

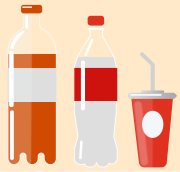
3 mega-deals with a size of more than $1 billion were announced in 2022, with a total deal value of approximately $4.1 billion. Mega-deals as a percentage of total deal value hit a six-year low



M&A Activity Review of China's Consumer Industry

Key sector

F&B proved to be the most popular sector, in particular the beverage sub-sector, which has seen rising deal value



Major investors

Domestic investment by financial buyers (PE funds) continued to be the most dominant investor, with nearly 640 deals (about 60%) in 2022, which was second only to last year.

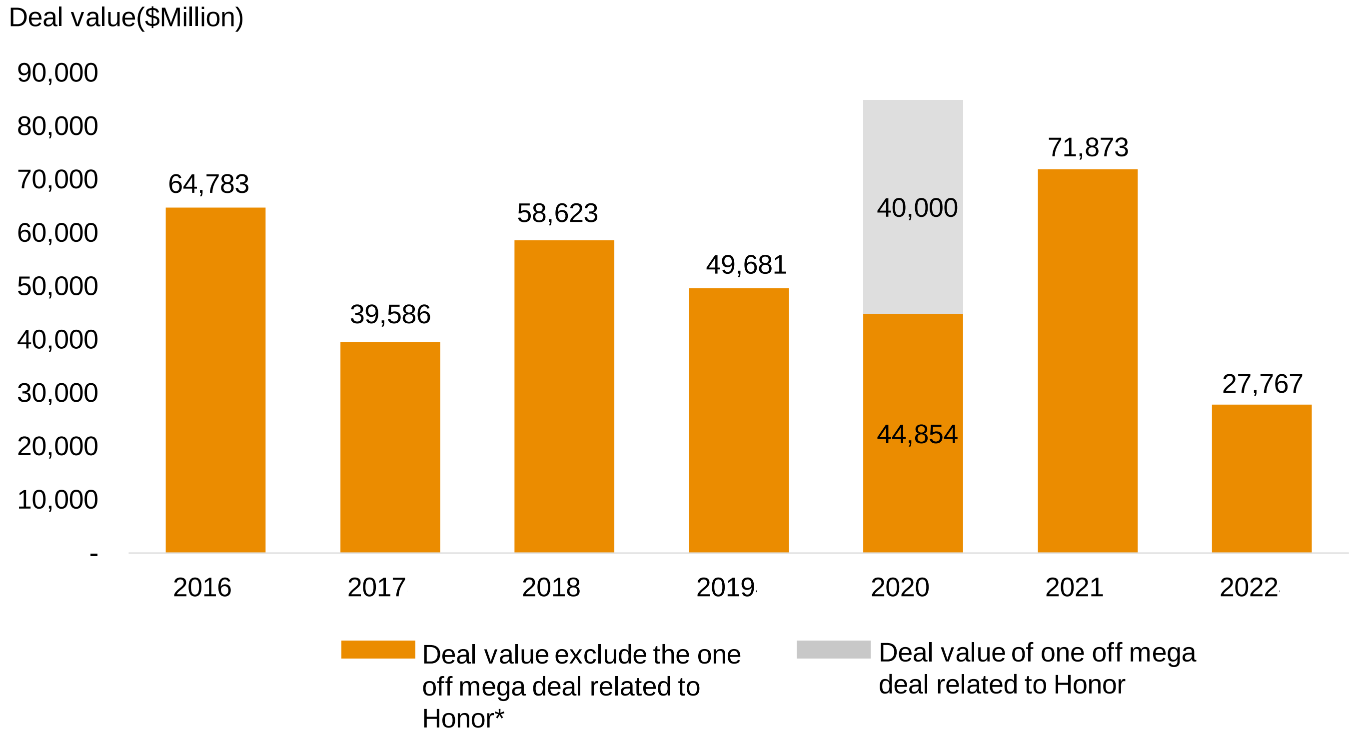
Outbound M&A

Outbound M&A was largely stable with 52 deals in 2022, an uptick from the 44 in 2021

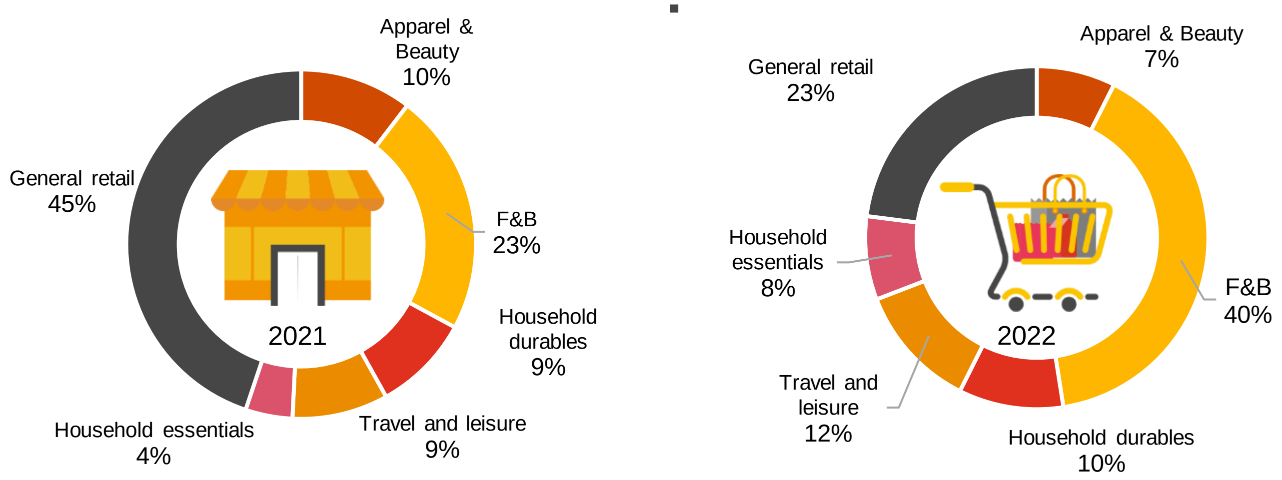
Outbound investment

Outbound investments have been gravitating towards emerging markets in Southeast Asia.

M&A deal value during 2016-2022



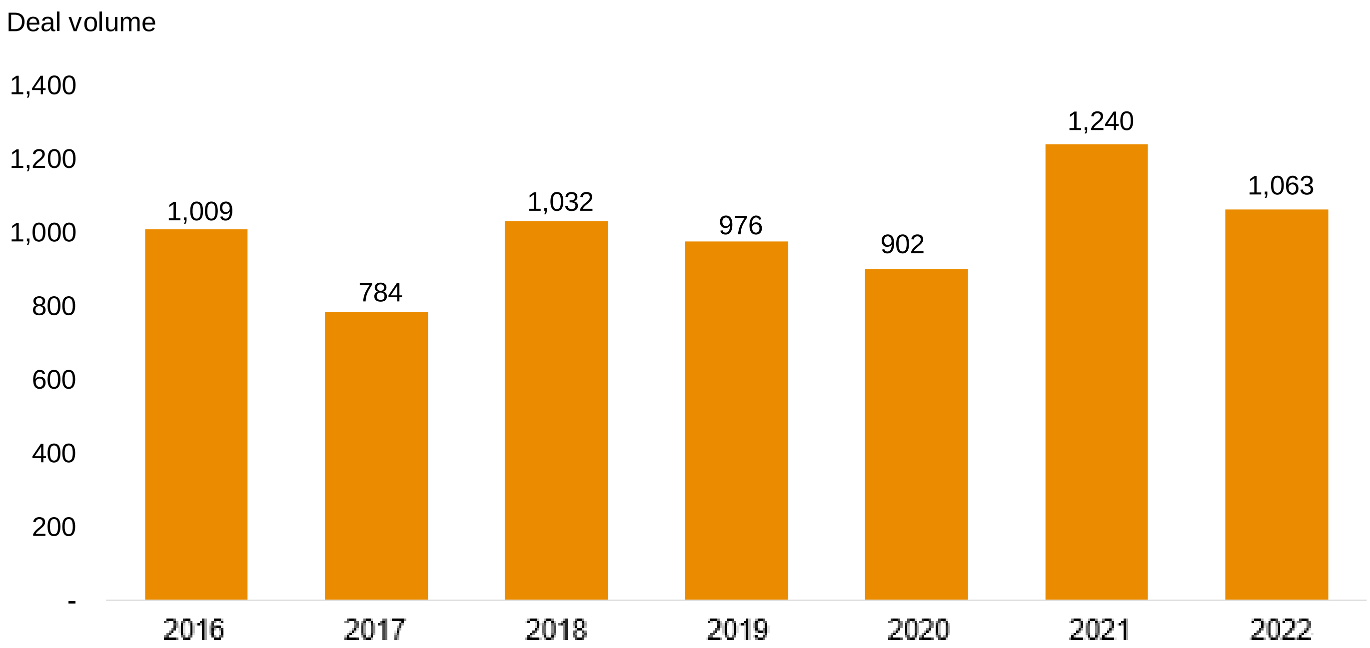
Deal value by industry sector



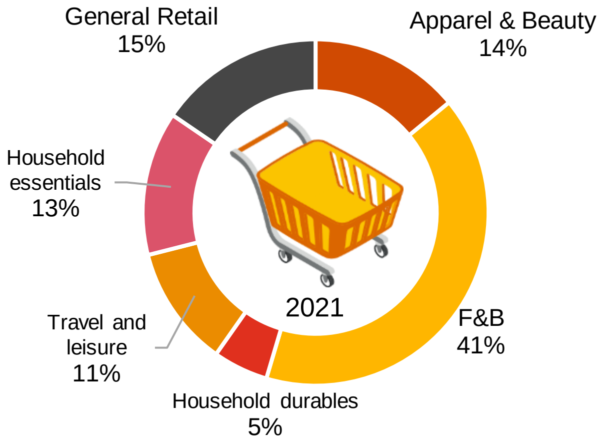
Note : The grey portion of the left chart represents a mega-deal in FY20 for Huawei to sell its business related to the Honor brand for $40 billion. We excluded the impact of this mega-deal from the share of each industry segment in the right chart.

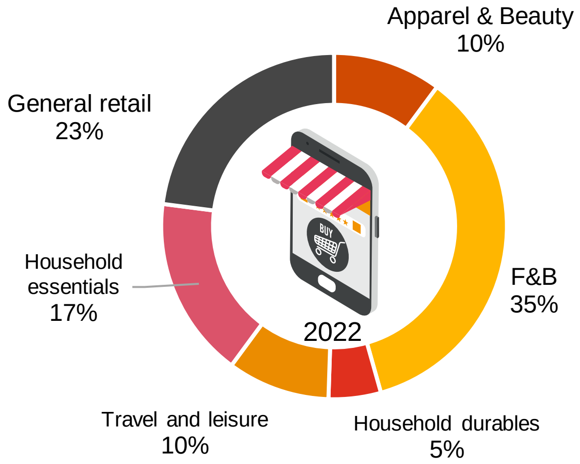
Source: ThomsonReuters, CV Source and PwC analysis

M&A deal volumes during 2016-2022



Deal volumes by industry sector

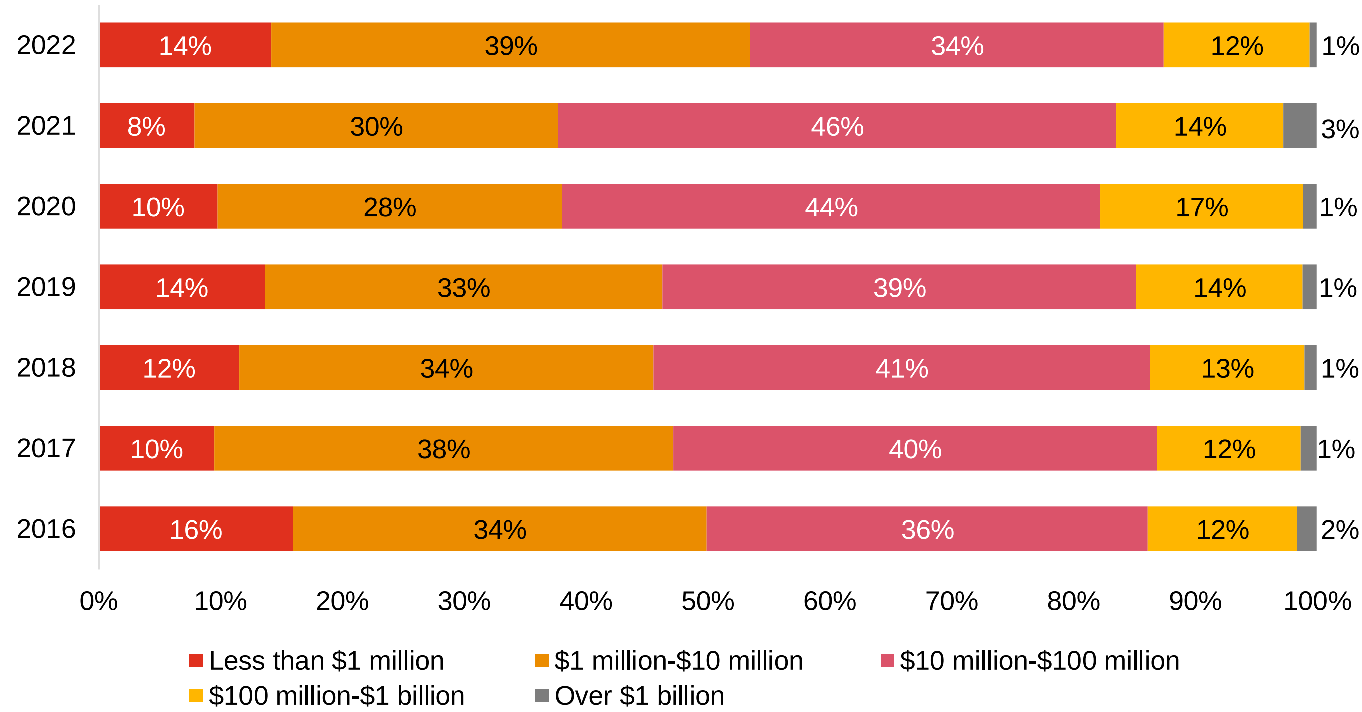




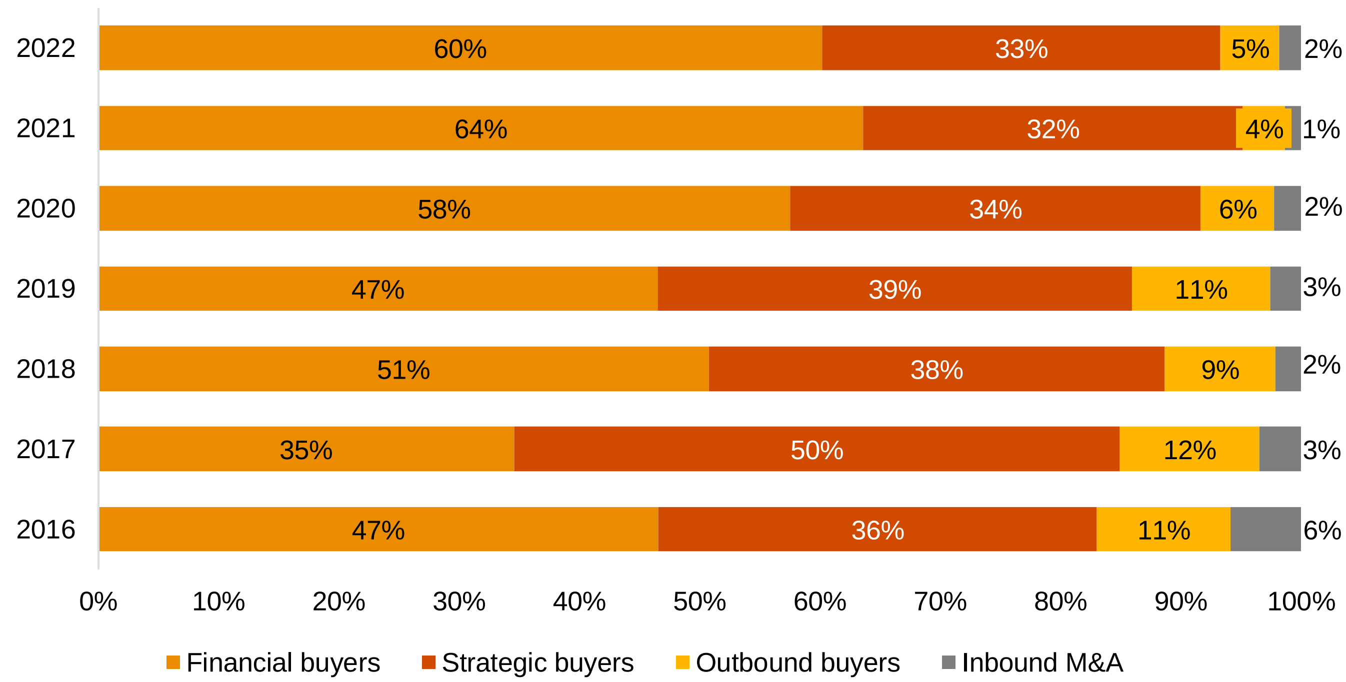
Note: deals value are not disclosed in some deals, so there is no relationship with the Deal volumes .

Source: ThomsonReuters, CV Source and PwC analysis

The proportion of deal volumes from 2016 to 2022



The proportion of deal volumes by types of investors from 2016 to 2022



Source: ThomsonReuters, CV Source and PwC analysis

Investors and corporates took a wait-and-see approach amidst economic outlook uncertainties in 2022

Following the bull consumer market in 2021, the primary financing market cooled down rapidly in 2022.

In terms of deal volume, according to Thomson Reuters, 1,064 deals were completed in the consumer industry in 2022. In comparison, the number was 1,240 in 2021 and 902 in 2020. While investments and financing in the consumer industry were down to a historical low in 2022, capital has not completely lost confidence: Deals in the consumer industry may have dropped in 2022 compared to that 2021, but were still greater than that in 2020.

In terms of deal value, the disclosed deal value in 2022 dropped significantly compared to 2020 and 2021, and the average disclosed deal value hit a five-year low of $59 million, with a YoY decrease of 55%. Mega-investments were rare with only 3 deals of $1 billion or more, compared to 15 deals in the same period last year. In a relatively sluggish environment, capital has become more prudent:

- Some of the new consumer listed brands such as Perfect Diary and Naixue, underperformed in the secondary market, creating doubts over the previous over-valuation of new consumer brands. As a result, the investment activities in consumer industry cooled down gradually.
- In essence, some new consumer brands generally lack strong core barriers without strong products and R&D capability, and are overly dependent on online traffic and marketing to drive sales growth. It is difficult to obtain follow-on investment after the high valuation due to the weak growth.

Strategic mergers and controlling acquisitions accounted for 40% of all investment and financing deal value in 2022, twice as high as that of last year. As the market cools down, powerful investment institutions and top players in the market often tend to consolidate the market through M&A, mainly for the following reasons:

- When the market is confronted with a bottleneck, strong players often choose to lay out promising niche tracks in advance to seize the opportunity and wait for the market to rebound.
- Many companies or brands with low valuation can acquire cost-effective companies or brands at proper prices, and create higher value and ROI through M&A deals.

In 2022, 44% of the deals were angel seed rounds and A rounds, a new high in recent years, yet the proportion of the deal value accounted for only 5% of the year. It shows that investors are not completely pessimistic, and are actively looking for new tracks and brands with potential. The new consumer sector is under unabated development and more new brands will emerge in the new consumer sector in the future. However, the decrease in the proportion of early-stage financing deals proves that investors are becoming more rational and prudent about mega-deal in the early stage.

Based on information available, most of the brands that were able to obtain large amounts of financing were in the late stage of financing or being strategically merged and acquired for control, and most capital was invested in the top brands with greater long-term value. The institutions involved in the financing were mostly old shareholders of the relevant brands or deep investors of corresponding tracks, with limited willingness for capital expansion and limited space for trial and error. Fanqie Capital, for example, has invested intensively in new restaurant brands such as Jixiang Wonton, Mazhuazhua and Commune, while Sinovation Ventures has bet on offline collection stores such as Outllets and Wow Colour.

Cost optimization and efficiency improvement has become a consensus in the midst of economic uncertainties

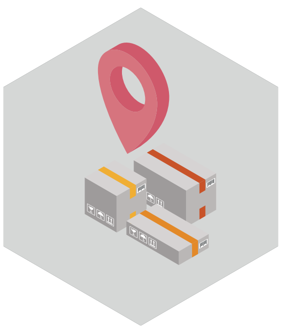
Many consumer enterprises have suffered in 2022 due to recurring pandemics and adjustments made to follow the prevention and control policies. In addition, consumer-related enterprises are confronted with downstream consumers' weak demand due to reduced income and rising supply chain and raw material costs. Therefore, it is not surprising that revenue growth is sluggish and profits plummet frequently.

Amid the new wave of the pandemic across the country in 2022, many F&B chain brands shut down, stemming from a sharp drop in offline traffic and the high cost of rent. While takeaway became an alternative for increased orders, the high costs widened the losses in many stores, let alone generate profits.

While favored by capital, many contemporary tea beverage brands and Chinese bakery brands have experienced a tough year, with widening losses and deteriorating sales performance. In the wake of the resurgence of the pandemic, some tea beverage stores and bakery stores had to slow down their pace of store openings, while others shut down.

The beauty market was no exception. Most domestic beauty enterprises rely on flow-based products to quickly gain fame and market share, with previous growth highly dependent on KOL promotion, with extremely high marketing costs and limited profit margins. With the fading of online traffic, growth became sluggish. Coupled with the pandemic limiting offline traffic, offline stores' turnover and conversion continued to fall, yet still had to pay high rents, leading to a further decline in profit margin.

In addition to the depressed market, the previous high costs also set barriers for consumer enterprises to make a profit. In order to adapt to the new market environment, "cost reduction" and "efficiency improvement" has become the consensus of enterprises:



- Amid the frequent lockdown across the country because of the pandemic, the fresh food e-commerce industry had to strategically shrink to cope with the additional expenses and material damage in transportation and warehousing to reduce operational costs. For example, Dingdong announced its withdrawal from several cities such as Tangshan, Zhongshan and Zhuhai, while Freshippo and Xingsheng decided to pull out from several markets and sites to save expenses in the last year.
- Leading offline restaurant chains such as Yum China, Haidilao and Helens, an upstart tavern brand, also announced the closure of several stores across the country to cope with reduced offline traffic and increased rental expenses and labour costs due to the pandemic.
- Cosmetics brands such as Perfect Diary decided to close some unprofitable offline stores and gradually refine their operations in terms of pricing, gross margins and channels improve efficiency and profitability. Maybelline also closed its offline stores in China last year, planning to focus on the online business to avoid the high rent and labour cost.
- The leading new-style tea brands, Heytea and Naixue entered the low-end market by reducing the price of a single cup and increased the profit per cup by adjusting the pricing model and other ways. For example, Heytea introduced the new standard cup (500ml) and MAX cup (650ml) where customers need to add RMB4-5 to upgrade to a MAX cup instead of paying for the standard 650ml cup before. Additionally, the original frothy topping in many products were removed in which it is now required to pay extra to add the frothy topping which has increased from RMB5 to RMB7.

For consumer industry enterprises, the key is to reduce costs and improve efficiency to survive in a market full of uncertainties. For brands experiencing a business crisis, there is a silver lining if they can seize the opportunity to solve important issues such as branding, operational capabilities and food safety management.

Supply chain resilience and automation are key to drive sustainable growth

The main formula for the rise of new consumer brands in the past few years is “marketing" + "traffic", by creating sensations and investing in marketing to get traffic, so as to drive the brand's subsequent attraction and repurchase. From Perfect Diary and Kans to Beneunder and Chicecream, no matter which sub-sector they are in or when they started, new consumer brands always rely on marketing to get recognized. However, the rising cost of placement and the massive amount of brand placement in the past few years, the ROI of KOL marketing has been significantly reduced.

Realizing the fall of the marketing era, new consumer brands have to convert into long-term operations, thus, supply chain will take the lead in highlighting its value. Actively investing in product R&D and logistics supply chain will secure the enterprises’ supply-side, and enhance the enterprises‘ ability to cope with external supply chain uncertainties or risk, control cost and stabilize capacity.

In the capital market, many supply chain enterprises of consumer goods are also favoured – in 2022 there was a tide of suppliers that went public. In February last year, Sanyuan Biotechnology, an upstream supplier of erythritol, the raw material for the "sugar-free" concept for many modern tea drinks, successfully landed and raised nearly RMB3.7 billion on the Shenzhen Stock Exchange. The prospectus revealed that Chi Forest was the biggest customer in 2021. Heytea, Coca Cola and Nongfu Spring were also on the customer list.

In June, Tianye Innovation Co., which supplies fresh fruit, frozen fruit, juice concentrate and NFC and other raw materials for Naixue, Chabaidao, ALittle Tea and Auntea Jenny, submitted its IPO application to Beijing Stock Exchange. In addition, Delthin Beverage, ingredient supplier of Luckin Coffee, and Hengxin Life, packaging material supplier of Heytea filed an IPO application with the Shenzhen Stock Exchange main board and GEM respectively.

In July, Bolex Food, which provides seasonings to KFC, Pizza Hut, McDonald's, Dicos, Burger King, Domino’s Pizza and other restaurant chains, also successfully landed on the A-share market and was listed on the main board of the Shanghai Stock Exchange

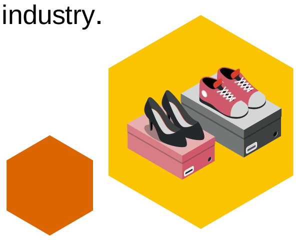
Based on financial indicators, these supply chain enterprises’ profitability are competitive with new consumer brands, some of which have their profit margins climbing year by year. The prospectus shows that Tianye Innovation Co.'s net profit attributable to shareholders of parent company for FY21 surged by 195.45% year-on-year to RMB65 million. In spite of the slight decline last year, its net profit margin and operating profit margin were still considered a high level compared to the industry standard.

These enterprises plan to go public, which shows that the value of supply chain cannot be ignored. With online marketing no longer effective, new consumer brands have to return to the essence of the industry and retain customers through high-quality goods and services. A solid supply chain can help control cost and stabilise capacity.

Gradually realizing the importance of the supply chain, new consumer brands take shares in supply chain enterprises or build their own supply chain teams, and combine the supply chain with digital intelligent management to carry out comprehensive reforms in raw material procurement and transportation, store operations, personnel management and other processes:

- Mixue Ice Cream & Tea established a wholly owned subsidiary, Xuewang Xingji Technology Co., to carry out R&D of intelligent robots.
- Naixue has worked to improve efficiency of tea drink production and the standardisation of stores through R&D of automatic milk tea machines.
- New Ruipeng Pet Healthcare Group provides supply chain empowerment for its pet track by integrating Runhe Supply Chain Group, as well as e-commerce, product data and logistics segments.

Although the new consumer industry was hard hit in 2022, the rise of long-termism is definitely a gain in the cold winter. Since marketing strategies fail to be effective, the supply chain, self-built factories, and intelligent equipment/systems will undoubtedly shoulder the future of the new consumer industry.



Outdoor sports: a rising star

Since the outbreak of the pandemic in 2020, travelling far has been off the table with cross-provincial and cross-border restrictions. As such, local and peripheral travel has become the mainstream, while outdoor sports are gradually heating up. As opposed to the "professionalism" and "challenge“ in traditional outdoor sports, domestic consumers prefer relaxing and engaging in social intercourse from outdoor sports, with a focus on appearance and style of equipment. In line with this trend, younger, urban and female sports enthusiasts participate in the outdoor sports. Hot sports such as camping, frisbee, surfing, skateboarding and flag football have gained popularity:

- Strong social attributes: Young people often participate in these sports through clubs, communities or hobby groups, where they make new friends with similar interests.
- Satisfication of the desire to share: These outdoor sports are often widely reposted and spread by young people on social media such as Xiaohongshu and Tiktok, thus attracting more traffic and attention.
- Low entry barrier: The rules of frisbee, flag football and other sports are easy for ordinary young people, especially white-collar women, and are also friendly to beginners.

The publicly disclosed investment and financing data in the past year shows that many outdoor sports brands have received capital support. Among them, outdoor camping equipment brands such as Naturehike and Moodlab, and campground operator ABC Camping have all received a new round of financing, with the participation of top players such as Cyanhill Capital, Sequoia Capital - Seed Fund and Eastern Bell Capital.

In the skiing arena, Snowyowl Tech – THE WHIP, Moodlab and Surpine obtained financing in 2022. These brands focus on both functionality and fashion, while pursuing futuristic tech and comfort.

Snowyowl Tech offers two sub-brands: THE WHIP and Overide Halo. THE WHIP is positioned in the concept of "sport tech + high luxury", with snowboards priced at RMB65,000, with high-end ski suits slated for launch shortly. Overide Halo is built on based on the concept of "sport tech + trend", with products priced at RMB2,500-4,800, focusing on "Chinese fashion trend".

Surpine, which offers a full set of professional sport base layer equipment, is expected to expand its offerings from skiing to other sports, to meet the needs of all-season outdoor sports, urban sports, fitness training and other full-scene sports.

2022 outdoor track financing excerpts

Scene	Target	Investor	Date	Deal Value	Round
Ski	Snowyowl Tech	Sequoia Capital - Seed Fund, APlus Partners, RED	2022.4	Undisclose d	Angel+ round
Ski	Surpine	5Y Capital	2022.10	Tens of millions	Angel round
Ski	Moodlab	Lingbu Zhanfang, K2	2022.4	Approx. 10 million	Angel round
Camping	Naturehike	Eastern Bell Capital	2022.4	Approx. 100 million	Strategic financing
Camping	ABC Camping Country	Cyanhill Capital	2022.4	Millions	Strategic financing

2023 Outlook

Industry consolidation

The consumer industry has witnessed the "Matthew Effect" in the past year: Many middle-tier brands failed to survive, while top brands continued to grow market shares and consolidate the market.

- In catering, Heytea's Zaokong Beverage made equity investment in FEW (12% stake); Ningji Lemontea acquired RUU COFFEE, a Changsha coffee brand; Sexytea invested in Juaner Beverage; Naixue invested in Huhu Coffee, He (Studio) and Jiowenqian Catering.
- For the cosmetics sector, DOCUMENTS was invested by L'Oreal's Shanghai Meicifang Investment Co., Ltd. to consolidate its position in the local high-end fragrance segment. FUNNY ELVES focused on developing long-lasting foundation products catered to Asian skins and building an exclusive real skin texture database.

The economic volatility created opportunities for corporates to expand through M&A. This has led to industry consolidation and reshaped the market landscape. We expect the consolidation trend for this industry to continue into 2023.

Trading-up and trading-down

Prior to 2021, the consumer industry had shown a trend of trading-up along with rising income and growing expectation on product and services. People were willing to pay more for better product quality and more premium brands. However, in 2022, with the recurring pandemic, we see that consumers became more rational and cautious in their spends:

- The incomes of high-net-worth individuals were barely affected by the pandemic, evidenced by the continued robust growth of top luxury brands, such as Hermes. Hermes launched a bike priced at Rmb165,000 last year, which was quickly snapped up.
- Middle-class and below consumers were more cautious and looked for value for money. Rapidly expanding coverage through franchising and offering high value-for-money products, Miniso has gained the favour of a large number of young and cost-conscious consumers. The past year has also seen the rise of snack food stores, such as Snack for You and Snacks Are Very Good, which have achieved high sales per square feet with budget offering, and are continuing to expand in the competitive market.

We believe that brands need to carefully target their consumer segments and offer their products/services with the right value proposition.

Driven by market recovery and pro-growth policies, consumer market M&A activities are expected to rebound

After the short-term pain during the liberalization of the prevention and control at the end of 2022, the consumer market has fully rebounded:

- Consumption during the Spring Festival: the national sales revenue of consumer industry increased by 12.2% during the Spring Festival holiday in 2023 compared with last year; domestic tourism revenue during the Spring Festival holiday achieved RMB375.843 billion, with 30% YoY growth.
- Film box office: China's film box office exceeded RMB10 billion in January, setting a new annual record for the fastest to break RMB10 billion, highlighting the strong vitality of the film market.
- E-commerce service industry for local life : Based on data released by Meituan, the average daily consumption scale in the first 6 days of the Spring Festival holiday increased by 66% compared to the last year.
- Tourism industry: the Ministry of Culture and Tourism released data showing that Chinese residents made 308 million domestic trips during the 2023 Spring Festival holiday, with YoY growth of 23.1%, recovering to 88.6% of the same period in 2019.

To promote the recovery of the consumer market, many places intensively introduced measures to expand and stabilize consumption, including the issuance of consumption coupons, shopping subsidies, car purchase tax exemptions, home appliances going to the countryside, etc., which has brought obvious short-term boost to the consumer market.

Thanks to these stimulus policies and the keynote of expanding domestic demand and promoting the economy, income and income expectations are gradually improving, while consumption is expected to achieve long-term growth beyond the original level.

With Generation-Z gradually entering society, their pursuit of diversity, individuality, personalized and experiential consumption is influencing the consumer market. They will serve as the mainstream of segments, like outdoor sport, pet, new-style wine and beverage, coffee and others. The ageing of China's population has led to the emergence of the "silver economy", and health care products, consumer goods for old people and elderly care service are gaining attention.

During the three-year pandemic period, China's residents' savings rate appears to rise significantly, with the savings rate in 2022 rising by more than 5% compared with the historical average, and residents' saving willingness is still to be released. Entering the new era after the pandemic, residents' expectations have changed, and their consumption ability and willingness may rebound somehow. Coupled with the policies set to spur domestic demand and promote consumption, excess savings are expected to flow to consumption, thereby boosting consumption.

With the vitality of the domestic economy, demographic structure, favourable consumption-promoting policies and little inflationary pressure, we believe that after a brief fluctuation for a quarter, the pent-up consumer demand in the early period is expected to gradually release and enter a stable recovery phase driven by policies to promote consumption and stabilise growth. The overall consumer market is expected improve and recover in the second quarter of 2023.

After the pandemic, investment and financing in consumer market has resumed its journey based on a more rational and long-term consumption trend. We are optimistic about the new momentum in investments and financing in China's consumer industry in the post-pandemic era.

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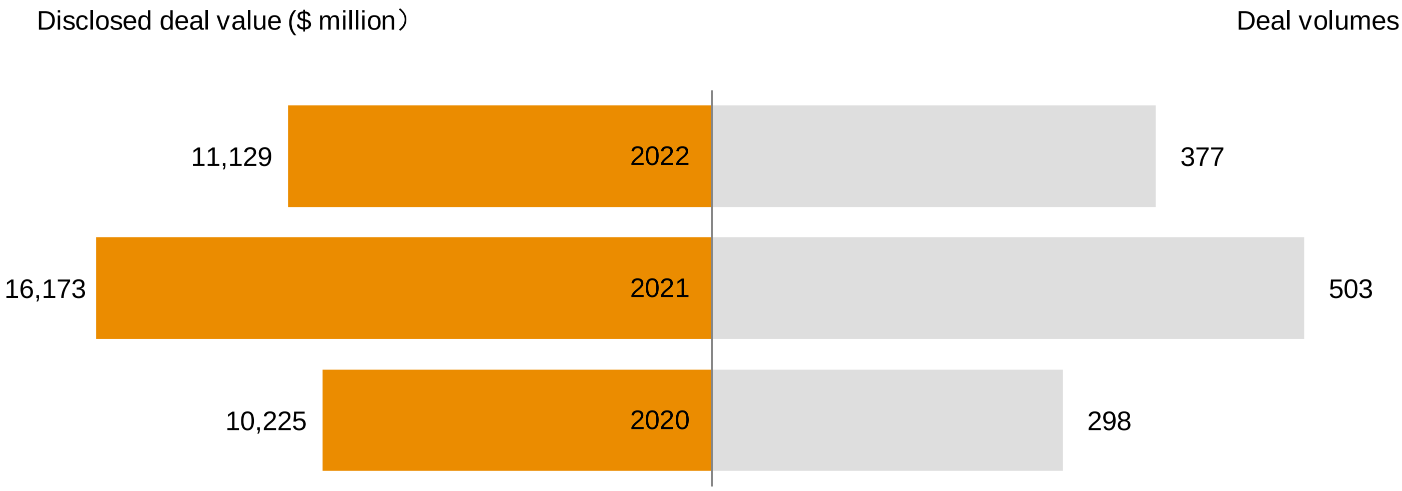
Long-term positive trend remains in China's M&A market of consumer industry

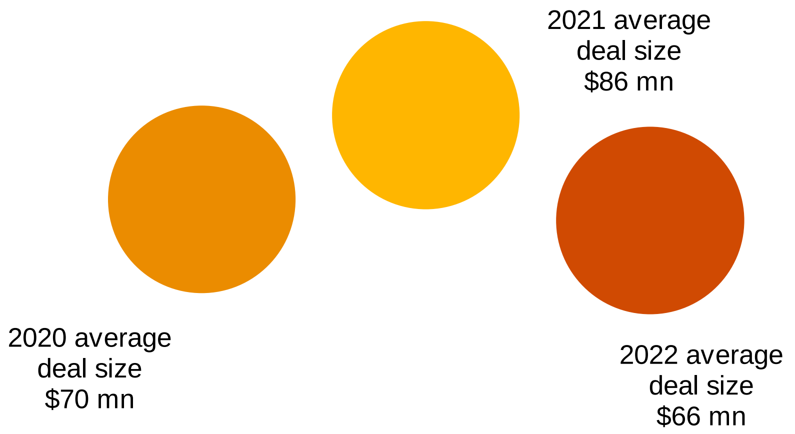
2022 M&A Trends by Sector

Food & Beverage

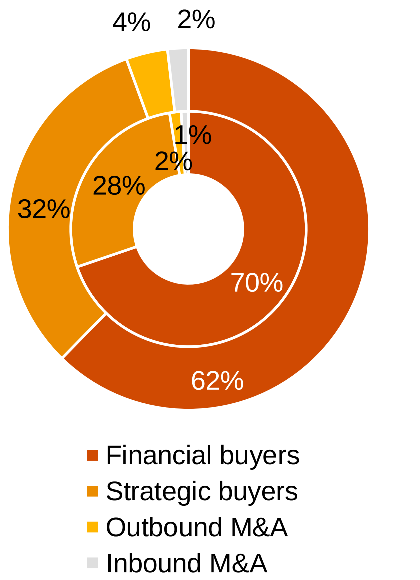
M&A Deal Volumes and Value in Food & Beverage (2020 - 2022)



Disclosed Average Single Deal Size (2020 - 2022)



Deal Volume by Investment entity (outer ring for 2022, inner ring for 2021)



Note: Some deals do not disclose the deals value, so there is no corresponding relationship with the deal quantity.

Source: ThomsonReuters, CV Source and PwC Analysis.

At a glance

1. Market activity

In terms of the deal volume, Food & beverage boasts a lion's share of the consumer market, and the number of M&A deals has shown a continuous upward trend since 2019. In 2022, although the share has dropped slightly, it was still the track with the largest deal volume, accounting for 35% of the overall consumer market deals. In a year full of market uncertainty, food & beverage was still favoured by investors for its immediate needs, high frequency, and low chain degree.

As for disclosed deal value, food & beverage reported a growing share, rising from 26% in 2019 to 39% in 2022.

2. Deal size and round

From 2019 to 2021, the average single deal value for the food & beverage industry was about $70-90 million, and the average single deal value in 2022 was about $66 million, a slight decrease compared to previous years.

According to the disclosed deal rounds, from 2019 to 2022, Round Seed Angel and Round A rose significantly, which means more new brands with capital recognition continued to emerge.

3. Investment entity

Since 2020, the financial investors were the main force of "food & beverage" investment, accounting for more than 60% total deal volume. While deals in 2022 witnessed a decline in deal volume compared to the previous year, it nonetheless accounted for more than 60% of total deal volume.

4. Deal hotspot

In 2021, the deal volume in the catering, agricultural and side-line products and beverage segments ranked among the top three in the food & beverage. Overall, the deal volume and deal value of each sector have declined compared to last year, except for the beverage track, which is still growing against the trend.

- Catering: The catering sector has room for creativity and innovation in the pandemic period. Catering snacks is the current trend, many snacking baked goods, snacks, marinated products, etc. received financing. Moreover, segments with high relation to supply chain concept also gained growth.

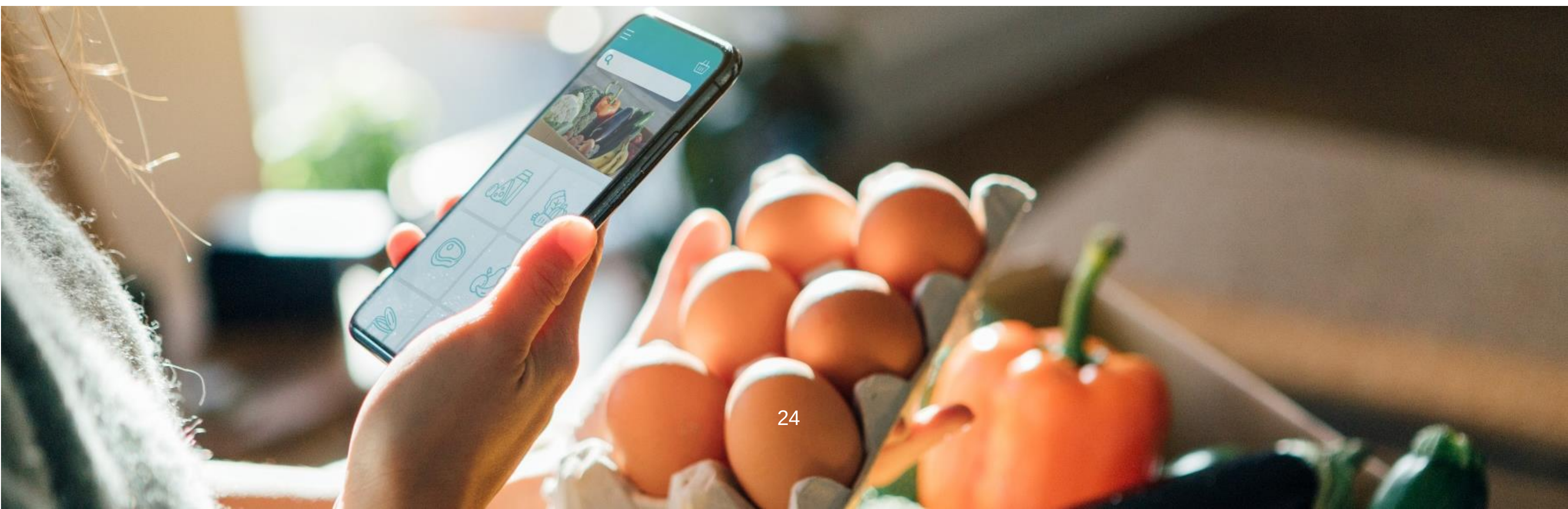
- Agricultural and sideline products: Farms, green food processing, dairy plants, etc. were gaining popularity. At the same time, as the upstream industry of catering and food & beverage, agricultural and sideline products saw stable number of deals and M&A in 2022.

- Beverage: low alcohol drinks, new tea drinks, boutique coffee were the three mainstays of the beverage track. However, coffee, a market far from being saturated, was still more favoured by capital. Coffee is characterised by high frequency and high consumption and strong brand stickiness. Affordable boutique coffee will likely witness the most active consumption in 2023.

5. Mega-deal

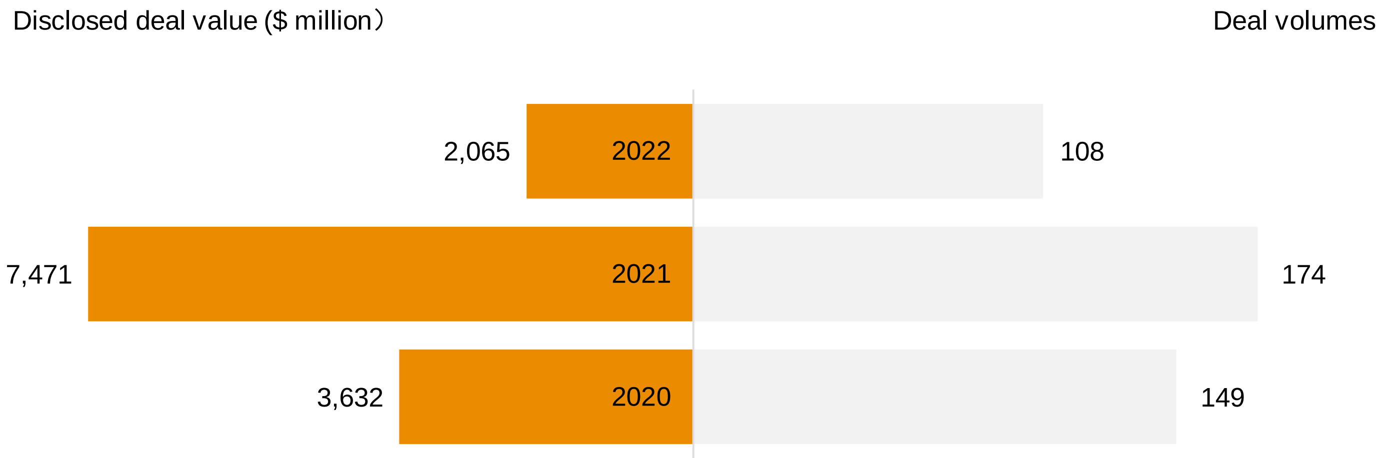
China Resources Beer acquired Guizhou Jinsha Jiaojiu Liquor for $1.7 billion (approximately RMB12 billion).

Swire Group announced the acquisition of Coca-Cola's bottling plant systems in Vietnam and Cambodia for approximately $1 billion (approximately RMB700 million).

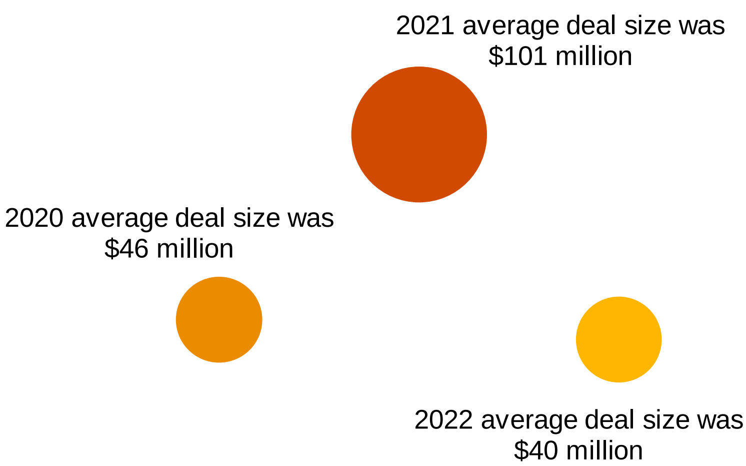


Apparel & Beauty

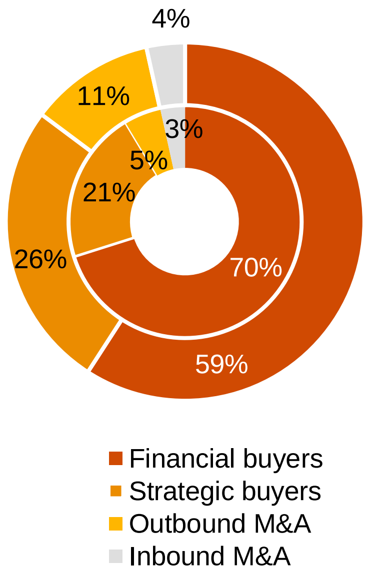
M&A Deal Volumes and Value in Apparel & Beauty (2020 – 2022）



Disclosed Average Deal Size (2020 - 2022)



Deal Volume by Investment entity (outer ring for 2022, inner ring for 2021)



Note: Some deal do not disclose the deals value, so there is no corresponding relationship with the deal quantity.

Source: ThomsonReuters, CV Source and PwC Analysis

At a glance

1. Market activity

In 2022, the deal volume in Apparel & Beauty decreased significantly compared to 2021. Footwear and beauty still accounted for about 80% of the total deal volume. In addition, other niche tracks such as second-hand luxury goods trading and new beauty retail increased compared to previous years.

The value of deals in 2022 plummeted from that in 2021 and before, with not a single mega-deal of more than USD 1 billion.

2. Deal size and round

In 2022, the disclosed average single deal value fell to $40 million and the deal value of the shoe and apparel, accessories & luggage, and beauty tracks all drop significantly from the previous two years.

From 2020 to 2022, the number of Round Angel Seed and Round A deals showed an upward trend. Meanwhile, the share of M&A was also increasing, and industry reshuffling was intensifying.

3. Investment entity

Financial investors were the main force of the Apparel & Beauty investment, but the proportion of the previous year fell significantly. The proportion of domestic M&A and outbound M&A increased.

4. Deal hotspot

In 2022, the beauty track was in "distress“. The trend of industry consolidation in the footwear track was intensifying, and the accessories and luggage track was dominated by early stage minor financing.

- Beauty: Since 2H 2021, financing in the field of beauty has continued to be weak. Since 2022, the trend remains lukewarm, with few financing mainly focused on skin care and color cosmetics segmentation track, such as the pure beauty brand "Dewy Lab" received investment from Xiaohongshu. In the long run, China's per capita beauty consumption is only one tenth of the market in Europe, America and Japan and South Korea, so the industry still has huge room for imagination. After the beauty industry enters the era of efficacy and ingredients, the investment and financing market will likely be hot again.
- Shoes & clothing: The shoes & clothing sector in 2022 continued the trend of industry consolidation. For example, the second-hand consumer Internet platform, Zhuanzhuan, invested in the second-hand luxury platform, Hongbulin; Dazzle Fashion participated in the international trendy sports brand, Starter; Youngor invested in the luxury brand, Alexander Wang, etc.

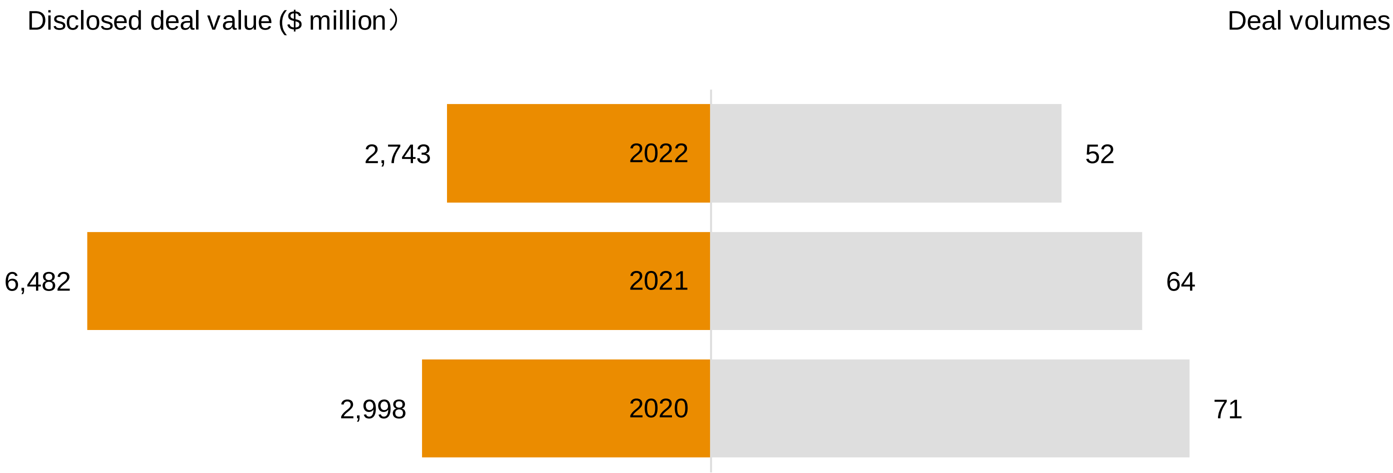
5. Mega-deal

In January 2022, beauty new retail brand Harmay closed its Round C and Round D financing of nearly $200 million, with Round D financing led by QY Capital.

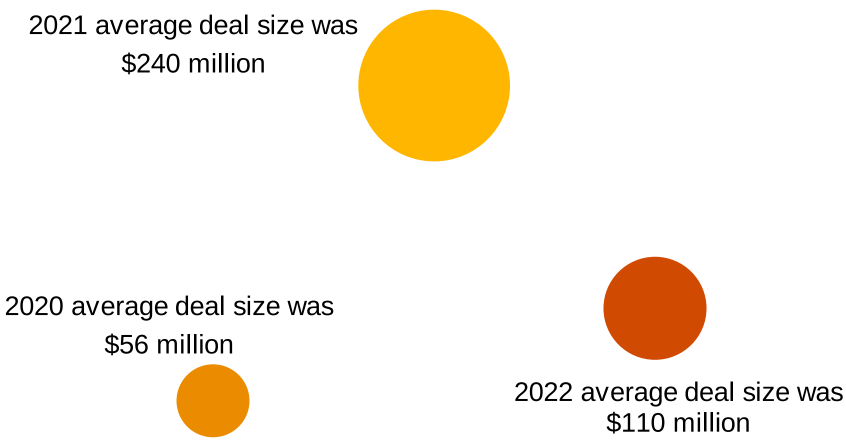
In June 2022, Capvision Capital acquired apparel giant Giordano for an offer of $296 million.

Household Durables

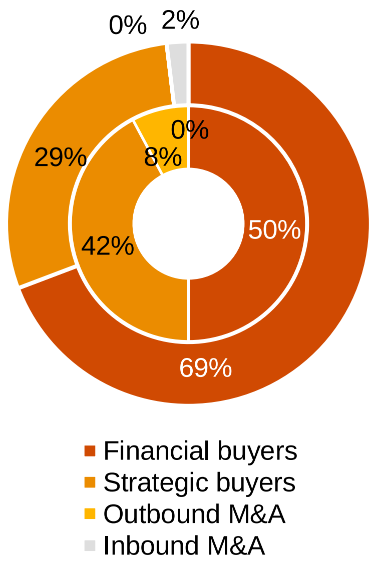
M&A Deal Volumes and Value in Household Durables (2020 – 2022）



Disclosed Average Deal Size (2020 - 2022)



Deal Volume by Investment Entity (outer ring for 2022, inner ring for 2021)



Note: Some deal do not disclose the deals value, so there is no corresponding relationship with the deal quantity.

Source: ThomsonReuters, CV Source and PwC Analysis

At a glance

1. Market activity

From 2020 to 2022, the deal volume in Household durables decreased slightly, accounting for a small change, while the deal volume in the furniture and home appliances track is relatively stable. The deal volume in the home decoration and building materials tracks declined due to the impact of the real estate industry.

In 2020, there were no mega-deals. In 2021, Philips was acquired by Hillhouse. The deal value, as a result, increased compared with that in the previous year.

2. Deal size and round

The average deal value disclosed for the 2020-2022 in housing track was driven primarily by the mega-deal from Hillhouse Capital in 2021 and a direct offering from TCL in 2022. After excluding the two mega-deals, the average deal amount was not much different.

In terms of deal rounds, Round Angel Seed and Round A financing account for about 33% and Aquisition accounted for about 17%. Besides, other financing such as direct offering of listed companies also followed a rebounding trend.

3. Investment entity

Domestic companies accounted for the majority of deals, about 70%, and M&A deals accounted for about 30%.

4. Deal hotspot

In Household Durables, the distribution of deals in home appliances, furniture, home decoration, home textiles and other subdivision tracks were relatively even, and the hot spots of investment and financing were focused mainly on small home appliances and smart home which were not yet saturated in the market.

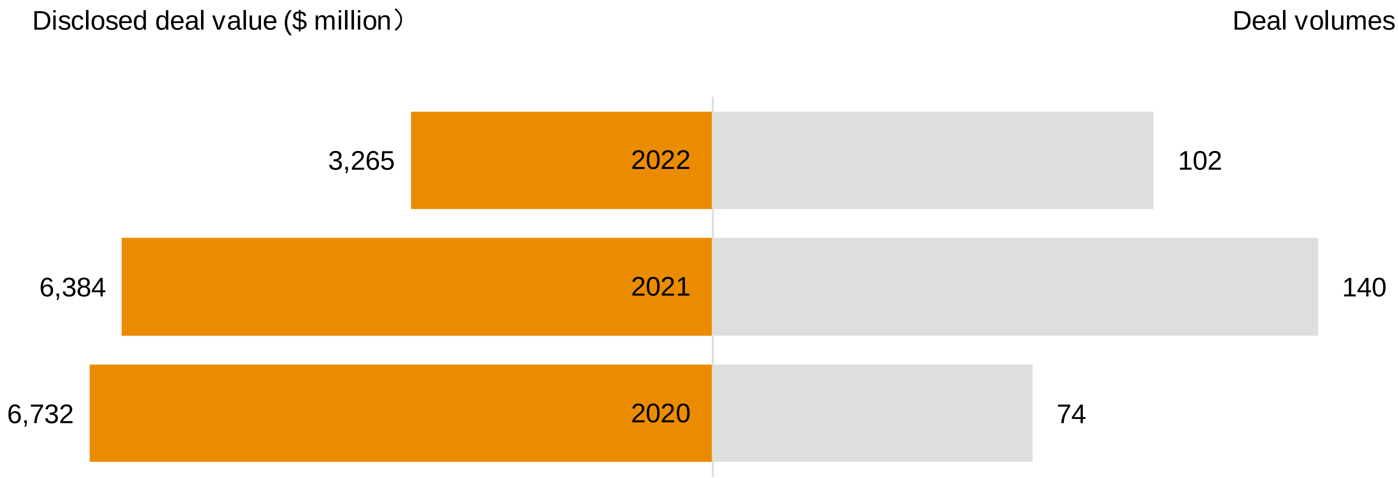
- Home appliances: Smart small home appliances have become a relatively active track. Sweeping robot, smart door lock and other areas attracted attention from consumers and capital.
- Furniture: Technology furniture brand Orvibo received Round E financing from CR Capital, and its various products such as intelligent control platform and remote control panel are loved by consumers.
- Home textiles: Companies that deal with digital home design and whole house customisation were more favoured by capital.

5. Mega-deal

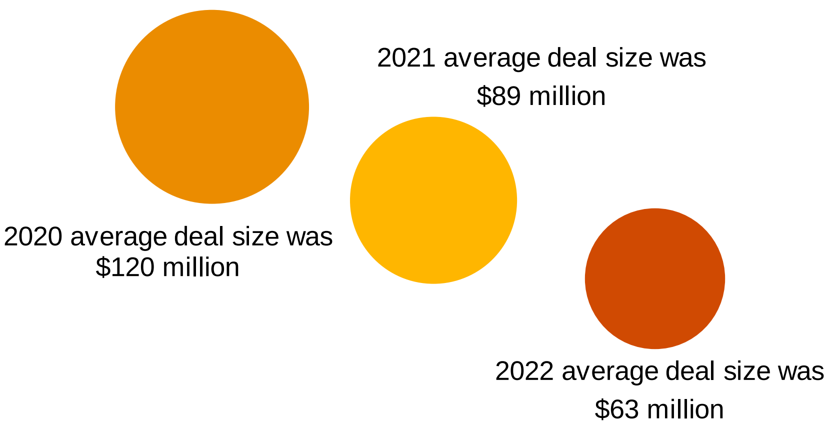
In December 2022, TCL Technology disclosed that a total of RMB9.597 billion was raised in a closed-end offering, with a total of 2.806 billion shares at an issue price of RMB3.42 per share, and 19 placement subscribers, among which RMB560 million was allotted to GY Asset, RMB960 million to CITIC Securities, RMB673 million to UBSAG, RMB643 million to Caitong Fund and RMB640 million to GF Securities.

Travel & Leisure

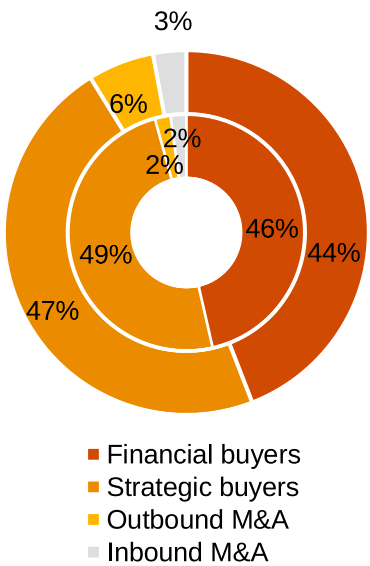
M&A Deal Volumes and Value in Travel & Leisure (2020 – 2022）



Disclosed Average Deal Size (2020 - 2022)



Deal Volume by Investment Entity (outer ring for 2022, inner ring for 2021)



Note: Some deal do not disclose the deals value, so there is no corresponding relationship with the deal quantity.

Source: ThomsonReuters, CV Source and PwC Analysis

At a glance

1. Market activity

Due to the impact of the pandemic, the number of M&A deals in the Travel & leisure in 2022 declined more than in 2021, but the deal volume was still above the level seen in 2020, indicating that the immediate demand for travel was still there, and the travel market was not completely saturated.

In 2022, the disclosed deal value declined sharply compared with previous years, only about half of last year's amount, mainly due to the recurring pandemic, which affected travel platforms such as Didi and other business, high market uncertainty, and investors being more cautious about the Travel & Leisure.

2. Deal size and round

The single deal value disclosed in 2022 averaged $62 million, down from that in 2021, with no single deal with a size of $1 billion or larger.

3. Investment entity

In terms of deal volume, Travel & Leisure showed a split between financial investors and domestic strategic investors, with each accounting for nearly half of the total.

4. Deal hotspot

Leisure venues, travel, tourism and other sectors reported declining deal volumes, whereas the hotel sector saw a contrasting trend owing to integration trend and the rising number of M&A.

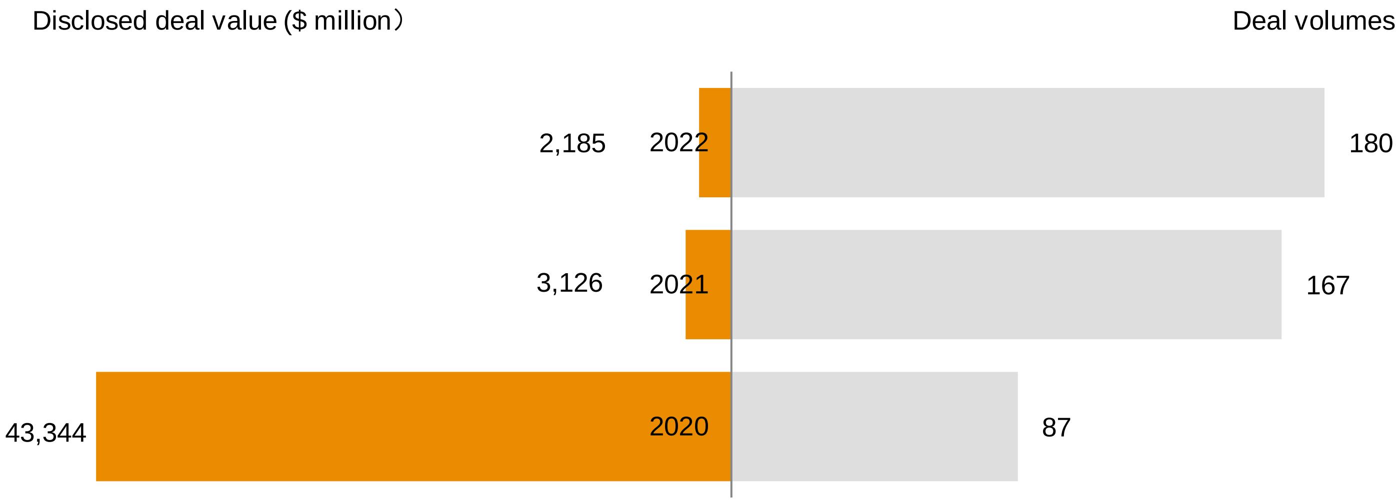
- Leisure venues: In 2022 strict domestic pandemic control policies further increased with recurring pandemics. In the depressed market, there were also some cross-industry players who laid out the track in advance, such as Maohua Shihua's acquisition of Beijing Oceanarium.
- Tourism: The tourism sector, which was hardest hit during the pandemic, is in urgent need of financing transfusion. The pent-up demand is expected to be released gradually in the post-pandemic era, leading to a rapid recovery of travel and tourism.
- Hotel segment: Also hit by the pandemic, the hotel segment was experiencing a strong demand for consolidation.

5. Mega-deal

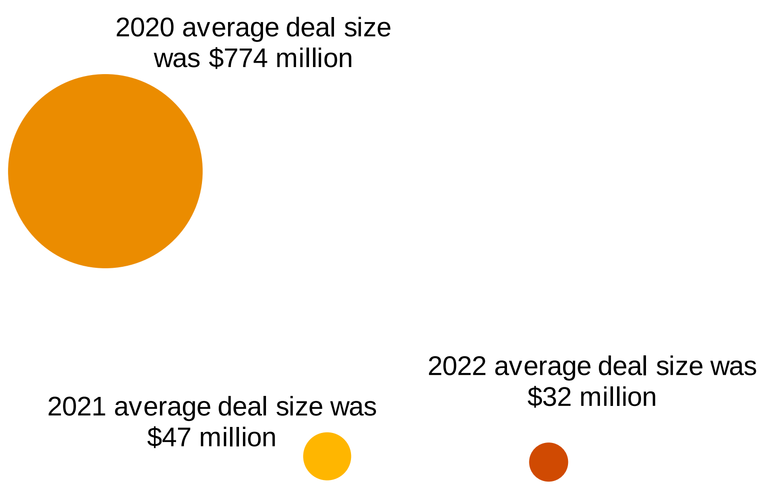
In August 2022, Hong Kong private equity giant Pacific Alliance Group (PAG) announced that it planned to acquire Japan's largest theme park, Huis Ten Bosch, for approximately $720 million.

Household Essentials

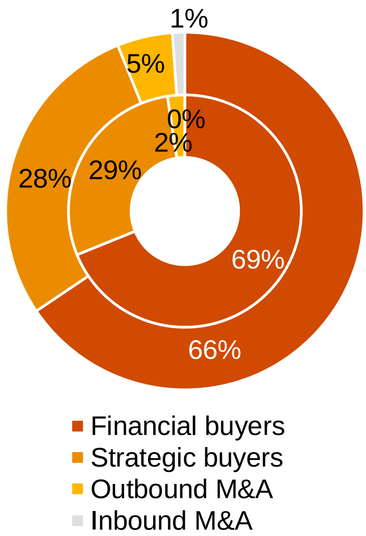
M&A Deal Volumes and Value in Household Essentials (2020 – 2022）



Disclosed Average Deal Size (2020 - 2022)



Deal Volume by Investment Entity (outer ring for 2022, inner ring for 2021)



Note: Some deal do not disclose the deals value, so there is no corresponding relationship with the deal quantity.

Source: ThomsonReuters, CV Source and PwC Analysis

At a glance

1. Market activity

Household essentials saw stable deal volumes in 2022 compared to last year.

The disclosed deal value of Household essentials in 2022 decreased by about a third from that in 2021, mainly due to the lack of mega-deals of over $1 billion.

2. Deal size and round

The mega-deal of Honor in 2020 led to a significant increase in the average value of a single deal disclosed in that year, and the average deal size in 2022 decreased slightly compared to 2021 and remained the same as the pre-pandemic 2019.

The distribution of deal rounds was relatively scattered, with the proportion of Round Angel Seed and Round A investments rising compared to 2021, reaching about 50%, and the proportion of M&A deals broadly unchanged from that in the last year.

3. Investment entity

Household essentials had a relatively large share of financial investments in terms of deal volume, accounting for about 66% in 2022, which was largely in line with the past two years.

4. Deal hotspot

The deal hotspot was concentrated in the consumer electronics and pet-related sectors.

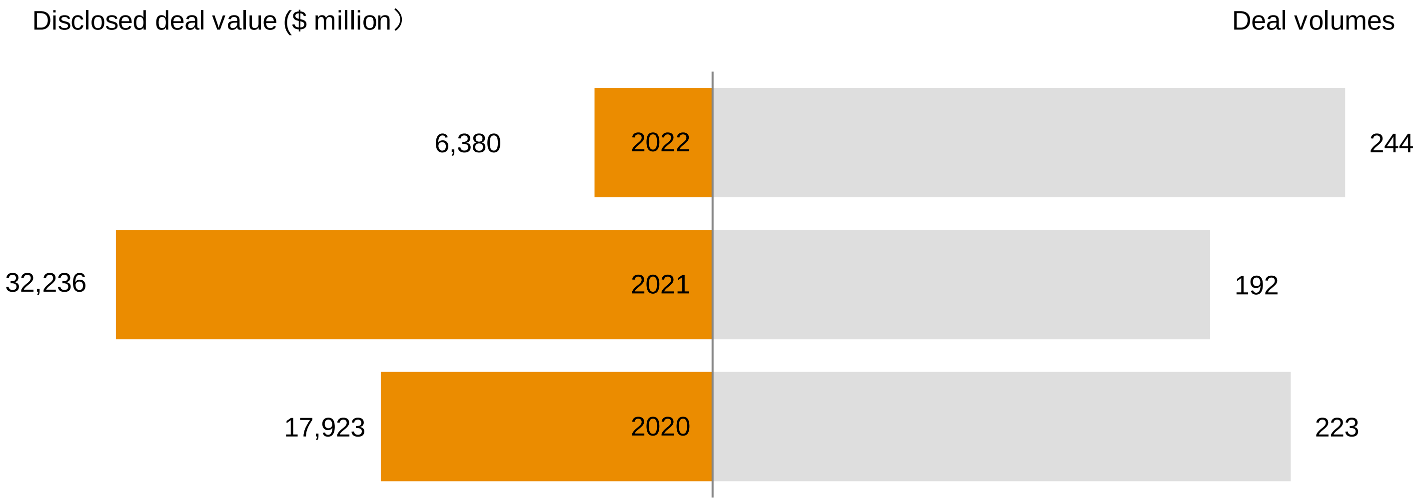
- Consumer electronics: The number of financing deals in consumer electronics rose sharply in 2022 compared with previous years, as home consumer electronics products such as VR glasses, drones, smart cleaners and other products were hotly sought after.
- Pet-related: With the further growth of the pet-related track in China, many pet-related sectors such as pet supplies investment and financing market was more active. In 2022 we saw a lot of pet supplies associated with the pet scenarios to get financing, such as smart cat toilet, pet feeder, pet cat cleaning supplies, etc. We believe that the pet-related market growth rate is still very high, and the market is fragmented and far from saturation. More trading activities are expected going forward, with a high likelihood of early quality subjects obtaining financing.

5. Mega-deal

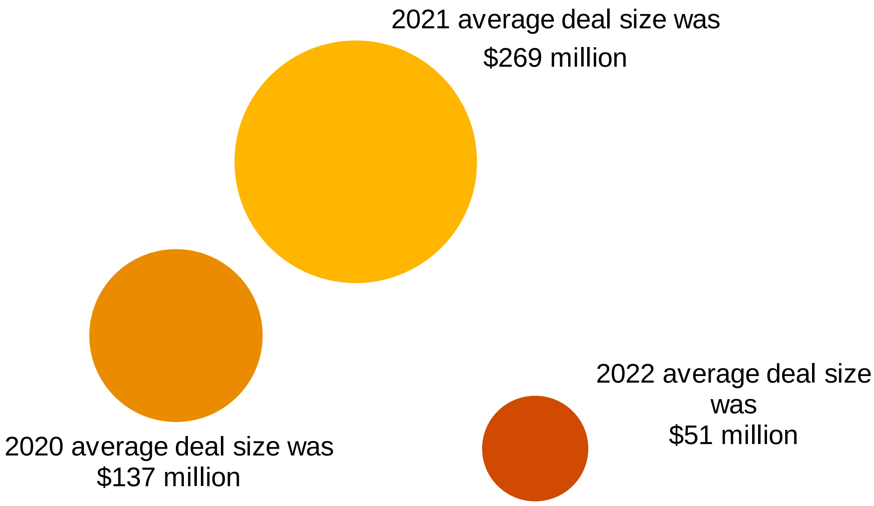
In January 2022, Tencent acquired Black Shark Technology, a gaming phone company established with capital investment from Xiaomi, for $470 million.

General Retail

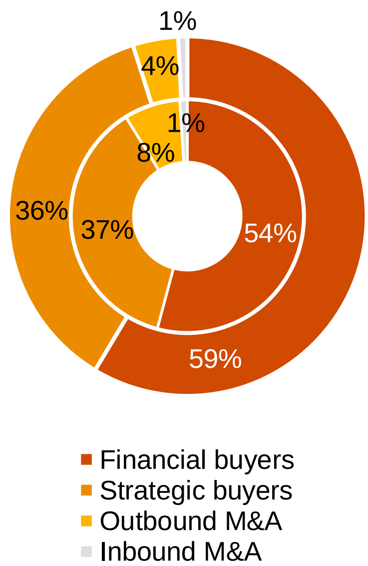
M&A Deal Volumes and Value in General Retail (2020 – 2022）



Disclosed Average Deal Size (2020 - 2022)



Deal Volume by Investment Entity (outer ring for 2022, inner ring for 2021)



Note: Some deal do not disclose the deals value, so there is no corresponding relationship with the deal quantity.

Source: ThomsonReuters, CV Source and PwC Analysis

At a glance

1. Market activity

In 2022, the number of M&A deals in the General Retail sector showed an upward trend compared with previous years, amid the gradual saturation of the domestic consumer Internet industry and the impact of the pandemic, which led to a trend of continuous market consolidation and frequent strategic mergers and control acquisitions. At the same time, tracks such as education and training for civil servant exams, community supermarket chains, unmanned retail, and overseas e-commerce platforms also received more attention from investors.

However, in complete contrast to deal volume, disclosed M&A deal value showed a significant downward trend. Despite the increase in deal volume, the deals were mostly early financing and M&A with limited size, lacking mega-deals.

2. Deal size and round

Compared with previous years, the average value of disclosed single deals in 2022 showed a significant downward trend, there were eight $1 billion+ deals in 2021, but none in 2022. In terms of deal rounds, the percentage of deals on Round A increased significantly.

3. Investment entity

Financial investors accounted for about 58% of the deal volume and intercompany M&A accounted for about 37%.

4. Deal hotspot

The Internet retail segments generally showed a decline in the deal volume and a sought-after segmented e-commerce platform. Brick and mortar integrated retailing mainly reflected the trend of M&A between industries.

- Internet retail: The number of Internet retail deals declined significantly in 2022, but segments such as second-hand luxury goods e-commerce, community fresh food and new retail e-commerce, and second-hand electronic product trading platforms received much attention.
- Brick-and-mortar integrated retail: traditional brick-and-mortar integrated retail business was affected by Internet retail squeeze and pandemic prevention and control policies, and industry consolidation became the main melody of deals in 2022, such as the acquisition of Carrefour in Taiwan and that of several shopping centers of Shanghai Bailian.

5. Mega-deal

- In July 2022, Ton Yi acquired the remaining 60% stake in Carrefour Taiwan for approximately $970 million.
- In August 2022, China Duty-Free Group successfully went public in Hong Kong, raising HK$18.39 billion, making it the largest IPO on the Hong Kong Stock Exchange in 2022.

Overview of block deals (no less than USD 500 million) in 2022

No.	Target company	Sector	Investor	Disclosed date	Deal value (in $100 million)	Description
1	Jinsha Wine	Food & Beverage	China Resources Beer	2022.10.25	17.16	In October 2022, China Resources Beer announced that it had entered into an agreement to acquire 55.19% of Guizhou Jinsha Cellar Wine & Spirits Co., Ltd. by way of capital increase and share purchase, with the total amount of capital increase plus share purchase being approximately RMB12.3 billion. After the completion of the deal, China Resources Beer will become the largest shareholder of Jinsha Wine.
2	TCL Technolog y	Housing Durables	GY Asset, China Life Asset, Taikang Asset, Zhengyuan Investment, CITIC Securities, etc.	2022.12.22	13.77	In December 2022, TCL Technology disclosed its fixed issue report and received 19 subscriptions for the placement, with the amount of RMB9.597 billion being placed and the issue price of RMB3.42 per share. There were 19 issue targets, and GY Asset was allotted RMB450 million, with participation from CITIC Securities, Foresight Fund, Nuode Fund, UBS AG, and China Life Asset.
3	Coca-Cola Indochina Pte Ltd	Food & Beverage	Swire Coca-Cola, Swire Beverages	2022.07.18	10.15	In July 2022, Swire announced that as at the date of this announcement, Swire Coca-Cola and Swire Beverages Holdings entered into an agreement with the seller, Coca-Cola (Japan) Co. Accordingly, Swire Coca-Cola agreed to purchase and the Seller agreed to sell the Sale Shares, being all the shares in the Target Company, Coca-Cola Indochina Pte.
4	China Resource s Kirin Beverage s	Food & Beverage	Plateau Consumer Fund	2022.02.16	10.00	In February 2022, Japanese beverage major Kirin Holdings announced that it had agreed to sell 40% of its stake in China Resources Kirin Beverages, a joint venture with Chinese company China Resources Group, to investment house Plateau Consumer Ltd for approximately $1 billion. The company said the sale of China Resources Kirin Beverages was part of a review of the company's business portfolio and that it expected the deal to bring in approximately $337.4 million in proceeds.
5	Carrefour Taiwan	General Retail	Ton Yi Industrial Corp.	2022.07.19	9.70	In July 2022, Carrefour announced that it had sold 60% of its stake in Carrefour Taiwan to its long-term partner and co-shareholder, Ton Yi Industrial Group.
6	Anjoy Foods	Food & Beverage	Allianz Global Investors, China Merchants Fund, Hongde Fund, etc.	2022.02.22	8.47	In February 2022, Anjoy Foods issued a report on the issuance of non-public offering shares, determining the issue price of the non-public offering to be RMB116.08 per share with the number of shares issued at 48,884,900 shares, raising total funds of approximately RMB5.675 billion (including the amount subscribed by natural persons). The issue object was finally determined to be 19 entities, with the participation of Allianz Global Investors Singapore, China Merchants Fund, Hongde Fund and Harvest Fund.
7	China Duty-Free Group	General Retail	Chengtong Mixed-ownership Reform Fund, COSCO Shipping (HK) Galaxy Capital, Chengtong Fund, etc.	2022.08.25	7.95	In August 2022, China Duty-Free Group announced its plan to list on the Hong Kong Main Board. Previously, the company had filed an application on June 30, 2022. The IPO was expected to offer 103 million shares, including a Hong Kong public offering of 5,138,200 shares, an international offering of 97,623,700 shares, and an over-allotment of 15,414,200 shares.

Source: Public market information, ThomsonReuters, CV Source and PwC analysis

No.	Target company	Sector	Investor	Disclosed date	Deal value (in $100 million)	Description
8	Huis Ten Bosch Co.	Travel & Leisure	PAG	2022.08.30	7.24	In August 2022, Japanese travel agency giant H.I.S., the majority shareholder of Japan's largest theme park "Huis Ten Bosch", announced the sale of the Dutch theme resort Huis Ten Bosch Co. (Huis Ten Bosch Co.) to Hong Kong private equity giant PAG. The purchase price was said to be 100 billion yen (about RMB5 billion, $720 million).
9	Shenzhen MTC	Household Durables	Shenzhen Capital, Yixin Investment	2022.02.28	6.91	In July 2022, Shenzhen MTC announced that Nanchang Zhaotou, the controlling shareholder of the Company and Gu Wei, the person acting in concert with it and the de facto controller, signed a Share Transfer Framework Agreement with Shenzhen Capital Group and its wholly-owned subsidiary, Yixin Investment. On 26 May, the above parties signed the Share Transfer Agreement, under which Nanchang Zhaotou intended to transfer to Shenzhen Capital Group and Yixin Investment its shares of the Company in circulation for unlimited sale, a total of 893,165,400 shares of the Company held for unlimited sale, accounting for 19.73% of the total shares of Shenzhen MTC.
10	Lanvin Group	Apparel & Beauty	Primavera Capital Acquisition Corp.	2022.03.23	5.44	In March 2022, Lanvin Group and Primavera Capital Acquisition Corp. (PCAC) announced that they had entered into a definitive merger agreement that would result in the listing of Lanvin Group on the New York Stock Exchange under the symbol "LANV ("LANV"). The deal had an estimated enterprise value of approximately $1.5 billion and an estimated post-merger market capitalisation of approximately $1.9 billion.

Source: Public market information, ThomsonReuters, CV Source and PwC analysis

Investment hotspots in 2023

Growing Pet Market

According to PwC calculations, amid the Covid-19 pandemic and global economic slowdown, China's pet market has still managed to maintain an annual growth rate of over 18% in the past few years. With rising pet keeping and pet consumption, the pet industry shows potential for further growth alongside consumption upgrade. Investors should focus on investment opportunities in the following areas:

- Domestic brands with independent R&D and production capabilities and strong marketing and marketing capabilities. In spite of the higher valuation, such brands tend to possess strong growth and sustainability. A typical case is L Cartterton's investment in Pure Nature.
- Sophisticated OEMs with specific R&D capabilities are preferred, especially those with more advanced production technologies such as freeze-dry technology. As the pet food industry enters a mature phase, growth will hinge more on product quality instead of expansion and increase in channels or media placement, which means that many brands that started out online will propose to acquire sophisticated OEMs to supplement their production and R&D shortcomings.
- Pet smart devices, such as smart feeders, provide consumers with comfortable scenarios for pet keeping, showing some growth potential with increased product penetration.

Foreign brands regain interest in China market

While China has been repeatedly facing pandemic control policies over the past three years, it continues to be one of the world's largest consumer markets, owing to a large consumer base, rising income levels, and world-leading digital infrastructure construction, garnering the attention of many foreign brands. We have observed that foreign brands in many market segments are looking to enter the Chinese market. In the past 1-2 years, yogurt brand Chobani, coffee brand Blue Bottle, L'Oréal's La Roche-Posay, Vichy and Peller Estate among others, have successively entered the Chinese market. We believe investors should focus on the following:

- Over the past three years, global brands have been competing to enter the Chinese market, and imported cross-border e-commerce has maintained a high growth rate, which serves as an important growth engine for China's consumer market. Investors should focus on cross-border e-commerce operators such as SCI Ecommerce, Baiteng Science & Technology or some local store operators or e-commerce agency operators which can empower foreign brands to land in China's local channels and help them explore the market
- To increase brand exposure online, foreign brands need sophisticated marketing agencies to provide them with solutions to driving online traffic and conducting onsite marketing. Third-party marketing providers with sophisticated media operations and marketing solutions for foreign brands will be favoured.

Opportunities in Coffee segment

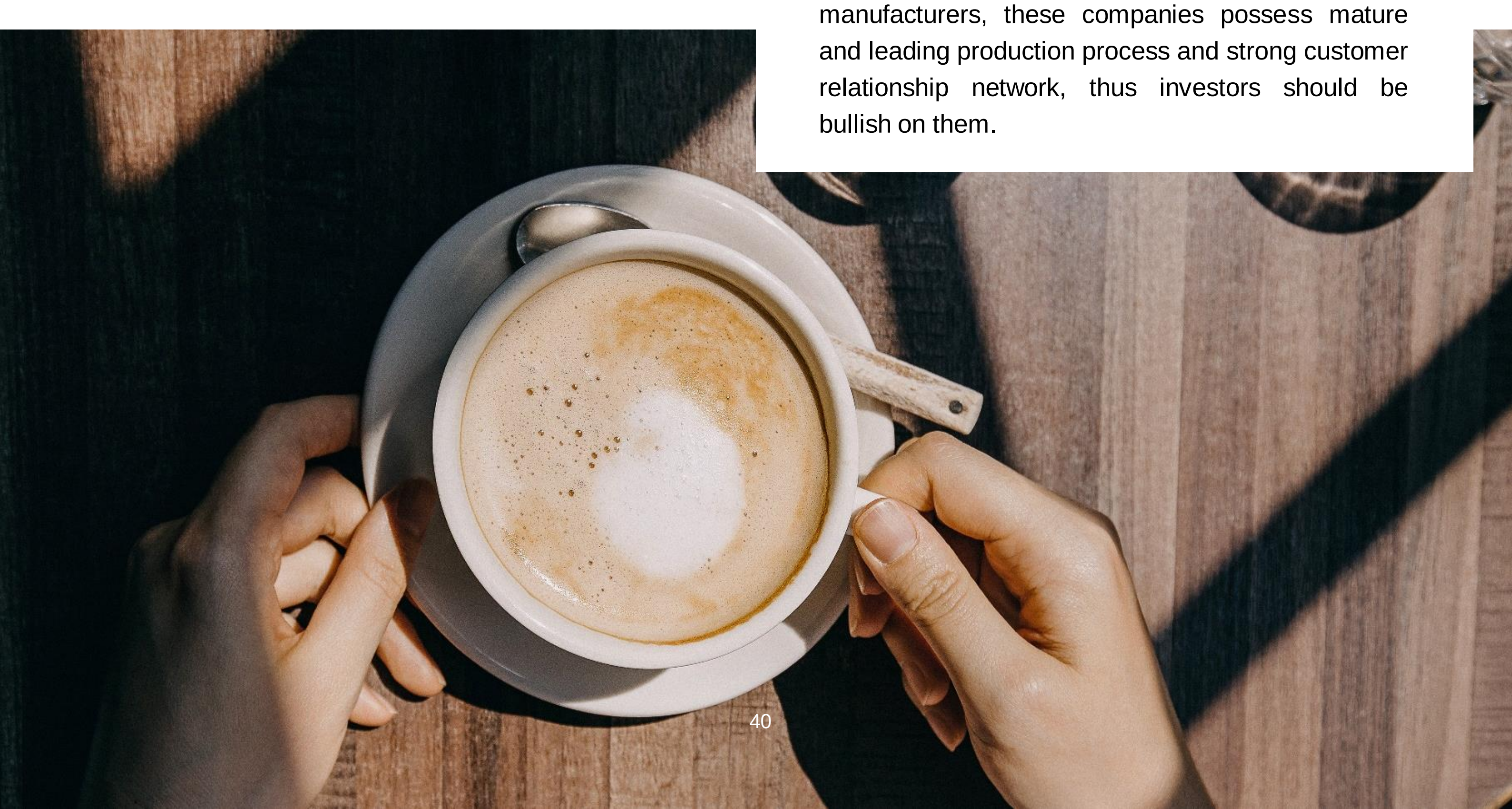
Investments and financing in coffee remained hot in 2022, including Seesaw Coffee, Cha Latte and other popular projects of the last round of investment, as well as a number of new brands such as Hinichijou and Bestar Coffee which underwent angel round financing, in October and November when the pandemic was in full swing. With the improvement in market education, the rising penetration of fresh ground coffee into the sinking market and the increase of coffee drinking scenarios, the coffee market is yet to be saturated and possesses vast potential. We believe investors should focus on the following areas:

- The upstream and downstream industries of coffee track. Brands among smart coffee machines, coffee caterers, and online coffee shopping platforms received new investments in 2022. We expect investors to focus more on the upstream and downstream industries of coffee track in 2023 as industry penetration increases further.
- High-quality coffee brands with distinct differentiation and price advantages will be favored by investors. In recent years, coffee consumption trends are changing and consumers are pursuing higher coffee quality, such as coffee flavor, coffee bean origin, etc.. Therefore, brands that focus on product development with differentiated nature, and bring consumers an enhanced experience will have higher competitiveness.

Growing demand for outdoor sports and Health & Wellness products

China's outdoor industry ushered in a high-speed growth period after the pandemic. However, in terms of the participation rate, there is still a lot of room for improvement compared to Europe and the United States with high outdoor sport popularity rate, and the industry is expected to maintain a high growth rate in the future. More young, urban, and female sports enthusiasts are becoming mainstream in the outdoor sport wave, with glamping, winter sports, frisbee, surfskate gaining the most popularity. As the core of outdoor sport track, the whole industry chain of outdoor supplies benefits from the sensation of outdoor sports, while there are still favorable investment opportunities in many segments.

- Segment brands and retailers: High-quality targets includes Snowyowl Tech, a skiing technology brand, Mobi Garden, a leading camping tent OEM brand, and Sanfo, a professional outdoor retailers. The market layout of each segment at present is still relatively fragmented, while brands with first-mover advantages and product competitiveness are more likely to stand out.
- Upstream raw material manufacturers and OEMs: High-quality targets include Zhejiang Natural Outdoor Goods, a leading outdoor products processing company, Huasheng Technology, a domestic leading drop stitch fabric manufacturer, Zhejiang Zhengte, an outdoor leisure furniture supplier. As mature OEMs and raw material manufacturers, these companies possess mature and leading production process and strong customer relationship network, thus investors should be bullish on them.



Data Compilation Methodology and Disclaimers

The data set forth in this presentation and press release may differ from the data in the prior press release. There are three main reasons for this: ThomsonReuters and CV Source periodically update their historical data as deals are finalized or completed; PwC excludes some deals that are not in essence a transfer of control but are closer to an internal corporate restructuring; and PwC's previous data is from another source.

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 Offer
- Asset Spin-Off
- Spin-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
- Re-capitalisation
- Joint venture buyouts
- Joint Ventures
- Receivership or bankruptcy sales/auctions
- Tracking stock

Excluded Deals

- Real Estate/ Property for individual properties
- Rumored deals
- Options to acquire additional equity interests offered in the absence of a 100% equity acquisition
- Purchase of trademark 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
- Investment in greenfield operations
- Going private deals
- Reverse takeover

Contact us

Waikay Eik

Mainland China and Hong Kong
Deals Leader
PwC China

+852 2289 2199

waikay.eik@hk.pwc.com

Michael WY Cheng

Asia Pacific, Mainland China and Hong Kong Consumer Markets Leader

PwC Hong Kong

+852 2289 1033

michael.wy.cheng@hk.pwc.com

Jennifer Ye

Mainland China Consumer Markets Leader

PwC China

+86 (21) 2323 3325

jennifer.ye@cn.pwc.com

Waldemar WF Jap

Mainland China and Hong Kong, Consumer Markets Deals Lead Partner

PwC Hong Kong

+852 2289 1892

waldemar.wf.jap@hk.pwc.com

Ken Zhang

Deals Partner

PwC China

+86 (21) 2323 3120

ken.zhang@cn.pwc.com