

PwC M&A 2013 Review and 2014 Outlook

22 January 2014

David Brown

Transaction Services Leader, PwC China and Hong Kong



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

- The data presented is based on information compiled by ThomsonReuters, ChinaVenture and PwC analysis unless stated otherwise
- Thomson Reuters and ChinaVenture record announced deals. Some announced deals will not go on to complete
- The deal volume figures presented in this report refer to the number of deals announced, whether or not a value is disclosed for the deal
- The deal value figures presented in this report refers only to those deals where a value has been disclosed (referred to in this presentation as “disclosed value”)
- “Domestic” means China including Hong Kong and Macau
- “Outbound” relates to mainland China company acquisitions abroad
- “Inbound” relates to overseas company acquisitions of Domestic companies,
- “Private Equity deals” or “PE deals” refer to financial buyer deals with deal value over US\$10mn and/or with undisclosed deal value but invested by PEs

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

- “VC deals” refer to financial buyer deals with deal value less than US\$10mn and/or with undisclosed deal value but invested by VCs
- “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 realizing a return on their investment by selling the business at a profit at a future date and mainly, but not entirely, comprise PE and VC funds
- In order to exclude foreign exchange impact, deal values from 2008 to 2012 were adjusted based on 2013 average Rmb/US\$ exchange rate

Overview

Key messages (1 of 2)

Overall

- China deal numbers recovered from multi-year lows in the first half of 2013, **increasing by more than 40% in the second half**; nearly all categories of M&A showed strong growth
- On an annualised basis – despite the quiet first half – overall deal volumes grew by 8% and values by 28% in 2013 compared to 2012; **deal values reached a record high at US\$260 billion** with 43 deals greater than US\$1 billion in 2013, compared to 30 in 2012

China Outbound

- China outbound M&A recovered with **more deals announced in the second half of 2013 than in any earlier half-year period**; and on a full-year basis, outbound M&A compared well with the last few years, although the soft first half meant no new records in 2013
- POE activity was surprisingly low in the first half but **rebounded to a new six-month high** with 88 announced deals in the second half, whilst SOE activity was robust and deal values held up well
- SOEs continued to focus on E&P, resources (raw materials) and industrial sectors, whilst POE activity was more diversified covering also industrial technologies, consumer related businesses and high-tech
- Destination markets were remarkably similar to 2012 with much of the POE money targeting established technologies, know-how, IP and brands in mature markets such as the US and Europe

Key messages (2 of 2)

Domestic and Foreign-Inbound Strategic

- Domestic strategic M&A **recovered strongly in the second half** of 2013, although full year numbers were less spectacular due to the slow first half which was affected by political and economic uncertainties
- **Foreign inbound M&A was flat**; Japanese investment has declined sharply over the last two years as has investment from the US

Private Equity

- **Renminbi PE fundraising declined** for the second straight year as the domestic Chinese PE industry continued to consolidate; **US\$ denominated fundraising has been consistently healthy** over the same period
- The number of new investments **recovered in the second half** of the year and, on a full year basis, deal values held up well
- Growth capital deals declined as **the PE industry shifted focus** towards PIPE and, increasingly, buy-out transactions whilst PE interest in outbound deals continued, albeit still at low levels in absolute terms
- PE-backed IPOs showed some recovery in the second half of 2013 off a very low base but it was the **third straight year of decline for PE exits**, almost entirely attributable to problems in the equity capital markets; 2013 was the first year that IPO was not the dominant exit-route
- The **overhang of new investments compared to exits** remains the number one issue affecting the PE and VC industry

Outlook

- We anticipate strong growth in **China outbound**, both from SOEs and POEs; **2014 will be a record year** driven by increasing experience and sophistication of Chinese buyers, underpinned by government support and direction (including SOE reform – see below)
- **Domestic M&A will also grow to new highs**, driven by industry consolidation and sector reforms which will increase competitive pressures; A-share listed companies will be important drivers of this activity
- **Foreign inbound investment will also grow** as confidence returns in overseas markets especially in Europe and the US, and as MNC's realign their China strategies resulting in both sale and purchase of business units and an increasing number of JVs with Chinese partners
- **PE exits will rebound strongly** as IPO markets re-open, but sale by M&A will also grow and we expect to see more secondary (PE to PE) activity; we also think that the number of **new investments will increase** with the trend to buy-outs continuing; although smaller in number, we will see more outbound PE deals and we expect to see some PE interest in investing in SOEs (see below) and in A-share listed companies
- **SOE reform**, including market liberalisation, specialisation, globalisation and diversified shareholding **will drive M&A activity** across several of the sectors described above
- In summary, we see strong tail-winds for M&A in China: **the record trends seen in the second half of 2013 will continue into 2014**
- **Drivers of this activity** will include: further liberalisation of markets; SOE reforms; government support for M&A generally – especially outbound; increasing direct investment activities of large financial institutions; market-driven industry consolidation; increasing sophistication of Chinese buyers; and recovering equity capital markets

China deal numbers recovered from multi-year lows in the first half of 2013, increasing by more than 40% in the second half; nearly all categories of M&A showed strong growth

Total deal volume, 2013 vs. 2012 (half yearly)

	1H12 Volume	2H12 Volume	1H13 Volume	2H13 Volume	% Diff 2H13 vs 2H12	% Diff 2H13 vs 1H13
Strategic buyers						
Domestic	1,177	1,490	1,096	1,608	8%	47%
Foreign	152	134	123	152	13%	24%
Total Strategic buyers	1,329	1,624	1,219	1,760	8%	44%
Financial buyers						
Private Equity	164	168	162	205	22%	27%
VC	220	253	276	462	83%	67%
Total Financial buyers	384	421	438	667	58%	52%
China mainland Outbound						
SOE	26	22	28	31	41%	11%
POE	70	73	53	88	21%	66%
Total China mainland Outbound	96	95	81	119	25%	47%
HK Outbound	67	99	88	76	(23%)	(14%)
Total	1,876	2,239	1,826	2,622	17%	44%

Source: ThomsonReuters, ChinaVenture and PwC analysis

On an annualised basis – despite the quiet first half – overall deal volumes grew by 8% and values by 28% in 2013 compared to 2012; deal values reached a record high ...

Total deal volume and value, from 2008 to 2013

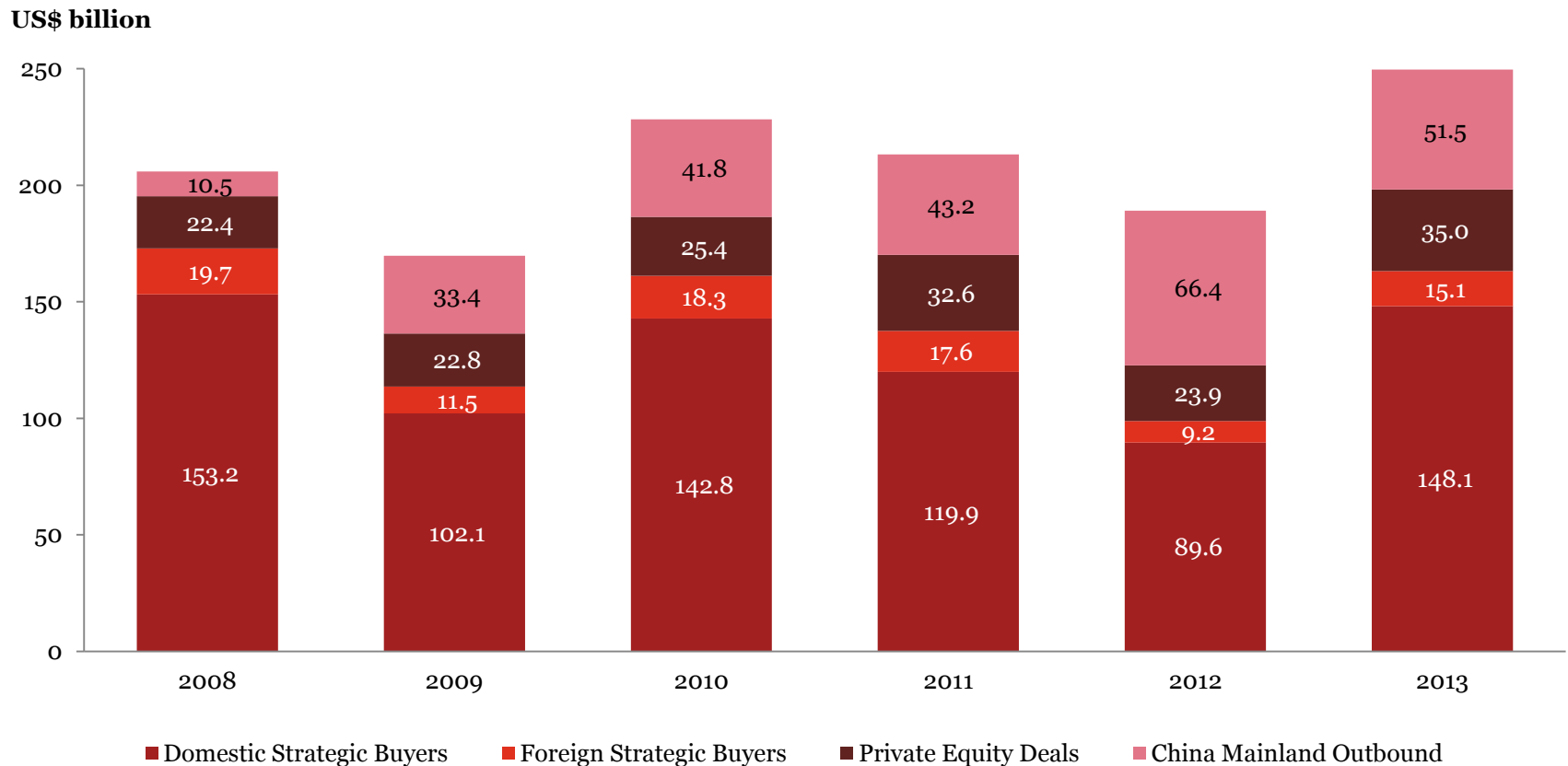
	2008		2009		2010		2011		2012		2013		% Diff volume 2013 vs. 2012	% Diff value 2013 vs. 2012
	Volume	Value (US\$bn)	Volume	Value (US\$bn)	Volume	Value (US\$bn)	Volume	Value (US\$bn)	Volume	Value (US\$bn)	Volume	Value (US\$bn)		
Strategic buyers														
Domestic	3,006	153.2	2,774	102.1	2,947	142.8	3,262	119.9	2,667	89.6	2,704	148.1	1%	65%
Foreign	614	19.7	409	11.5	539	18.3	482	17.6	286	9.2	275	15.1	-4%	63%
Total Strategic buyers	3,620	172.9	3,183	113.6	3,486	161.1	3,744	137.5	2,953	98.8	2,979	163.2	1%	65%
Financial buyers														
Private Equity	365	22.4	254	22.8	425	25.4	502	32.6	332	23.9	367	35.0	11%	46%
VC	694	1.8	712	1.8	1,011	2.6	903	1.9	473	1.0	738	0.9	56%	-12%
Total Financial buyers	1,059	24.2	966	24.6	1,436	27.9	1,405	34.5	805	24.9	1,105	35.9	37%	44%
China mainland Outbound														
SOE	27	6.9	45	26.8	64	35.2	48	33.6	48	40.4*	59	39.5	23%	-2%
POE	99	3.7	99	6.6	124	6.6	158	9.6	143	26.0	141	12.0	-1%	-54%
Total China mainland Outbound	126	10.5	144	33.4	188	41.8	206	43.2	191	66.4	200	51.5	5%	-22%
HK Outbound	156	6.8	152	6.3	171	19.2	183	8.4	166	13.0	164	9.6	-1%	-26%
Total	4,961	214.4	4,445	177.9	5,281	250.0	5,538	223.5	4,115	203.1	4,448	260.2	8%	28%

* CNOOC's US\$15 bn Nexon deal was announced in 2012 and so is included in 2012 numbers, although it was completed in 2013

Source: ThomsonReuters, ChinaVenture and PwC analysis

... deal values reached a record high with 43 deals greater than US\$1 billion in 2013, compared to 30 in 2012

Deal value by main category

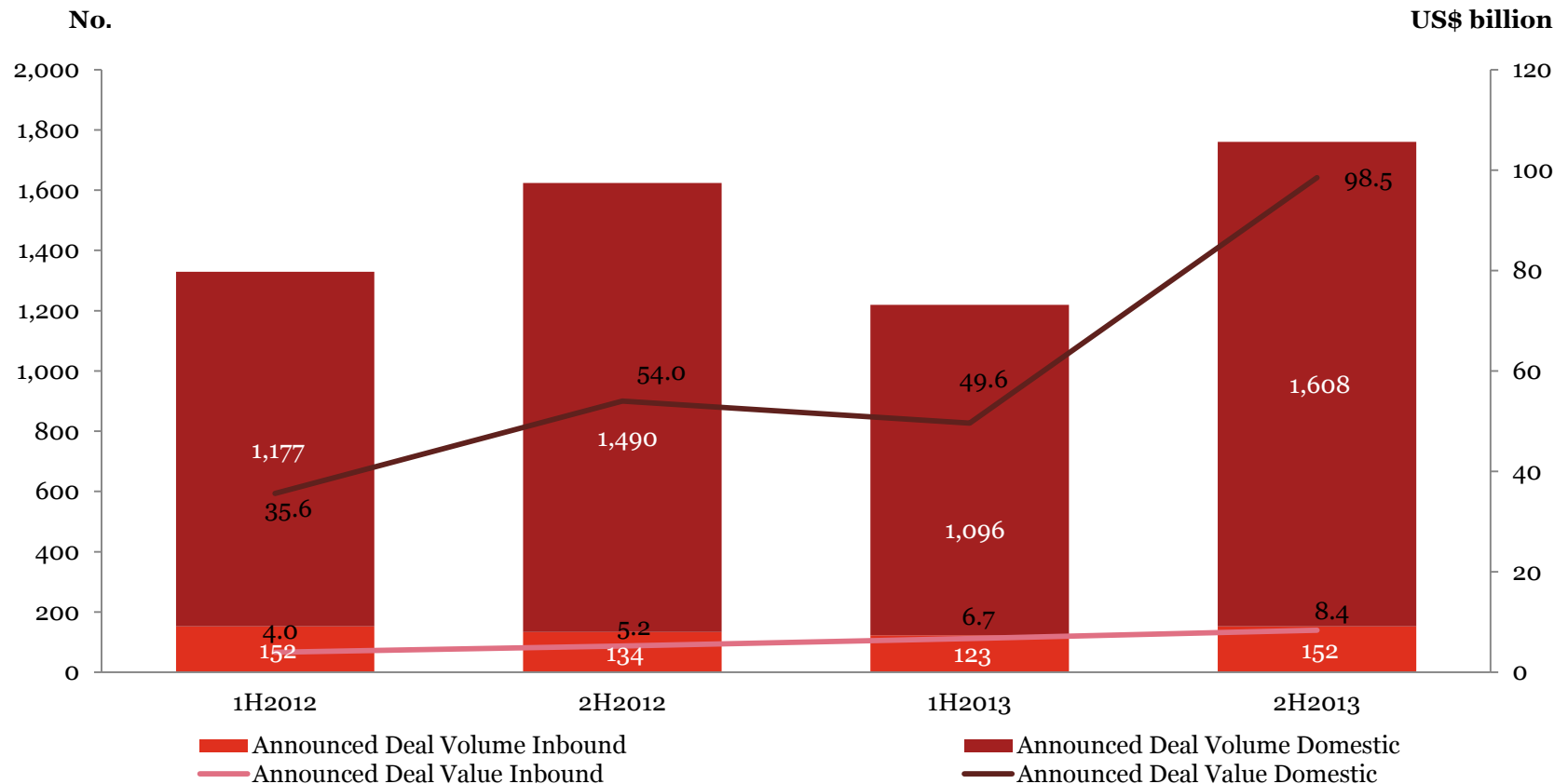


Source: ThomsonReuters, ChinaVenture and PwC analysis

Strategic buyers

Domestic strategic M&A recovered strongly in the second half of 2013 ...

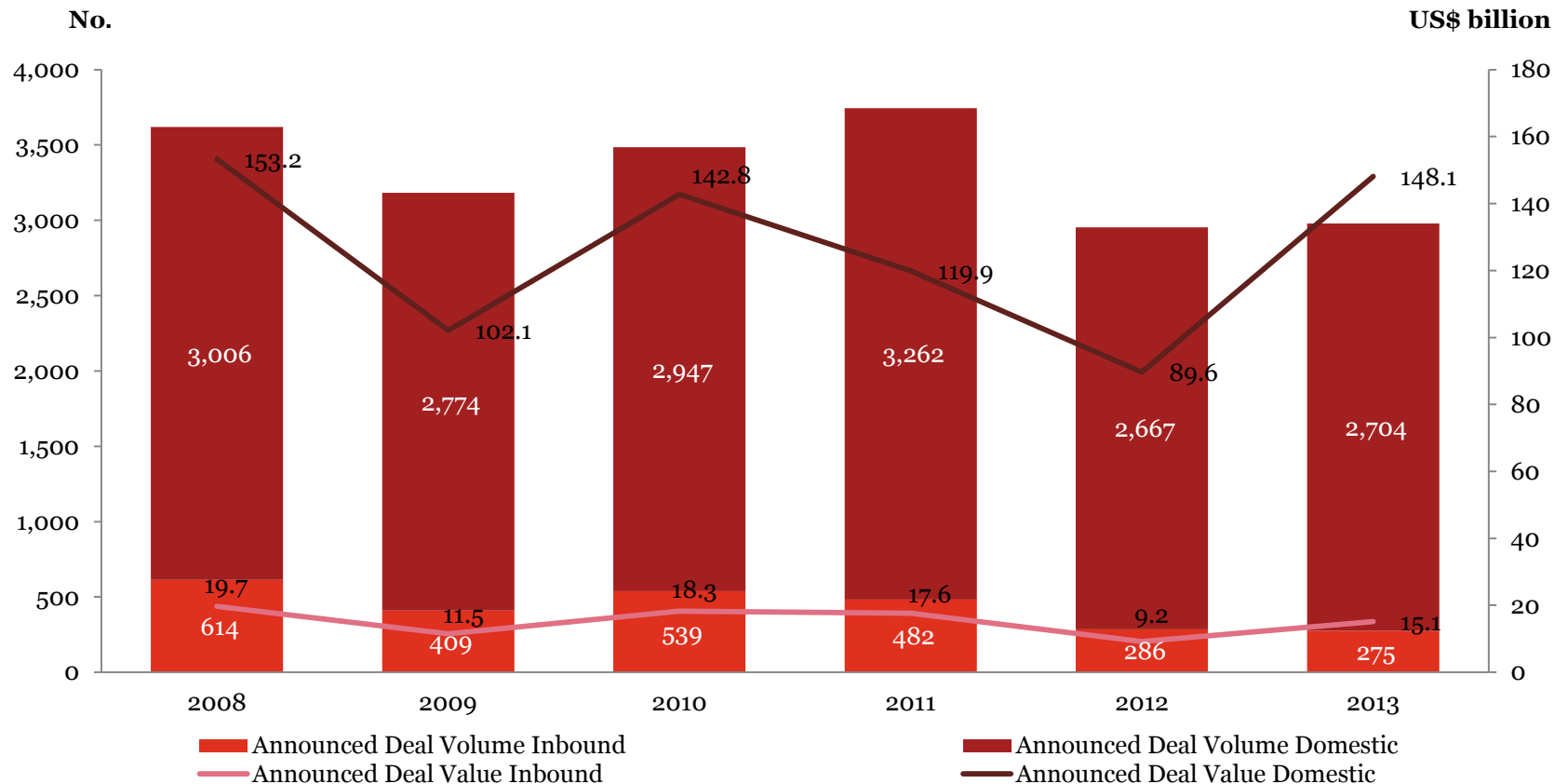
Strategic buyer deals, 2013 vs. 2012 (half yearly)



Source: ThomsonReuters, ChinaVenture and PwC analysis
PwC

... although full year numbers were less spectacular due to the slow first half which was affected by political and economic uncertainties

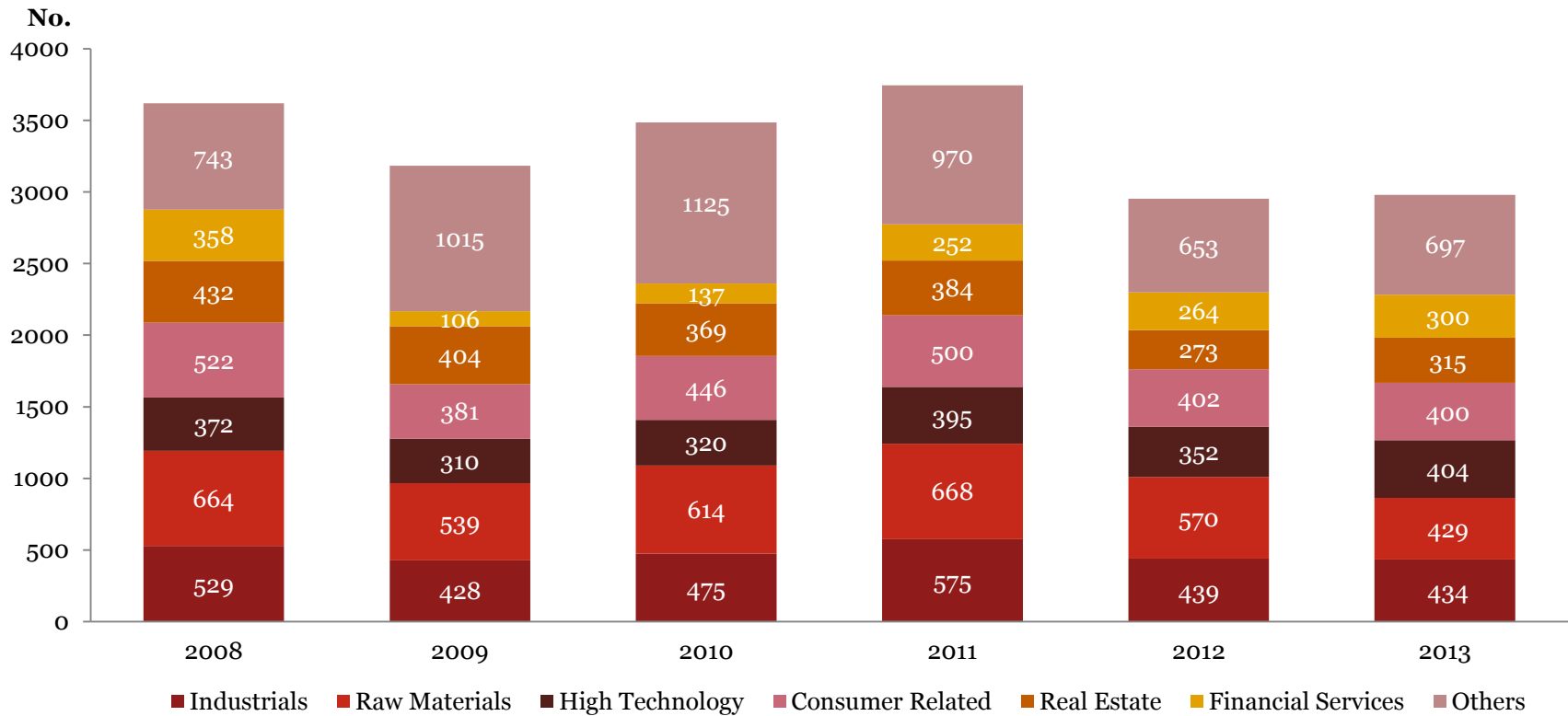
Strategic buyer deals, from 2008 to 2013



Source: ThomsonReuters, ChinaVenture and PwC analysis
PwC

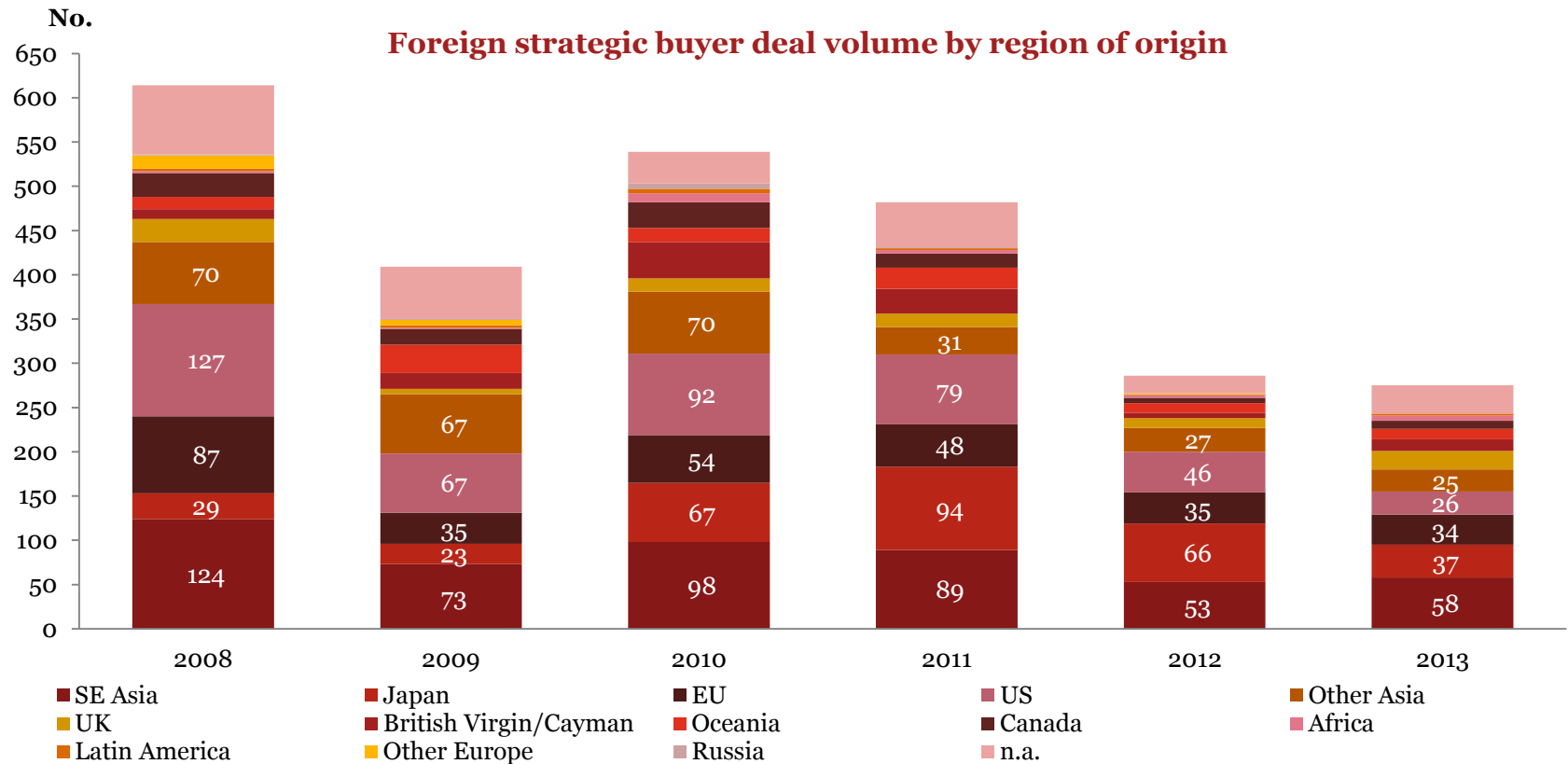
Strategic M&A activity by industry was broadly consistent with earlier years, although technology and financial services deals showed some upward trends

Strategic buyer deal volume by industry sector



Source: ThomsonReuters, ChinaVenture and PwC analysis

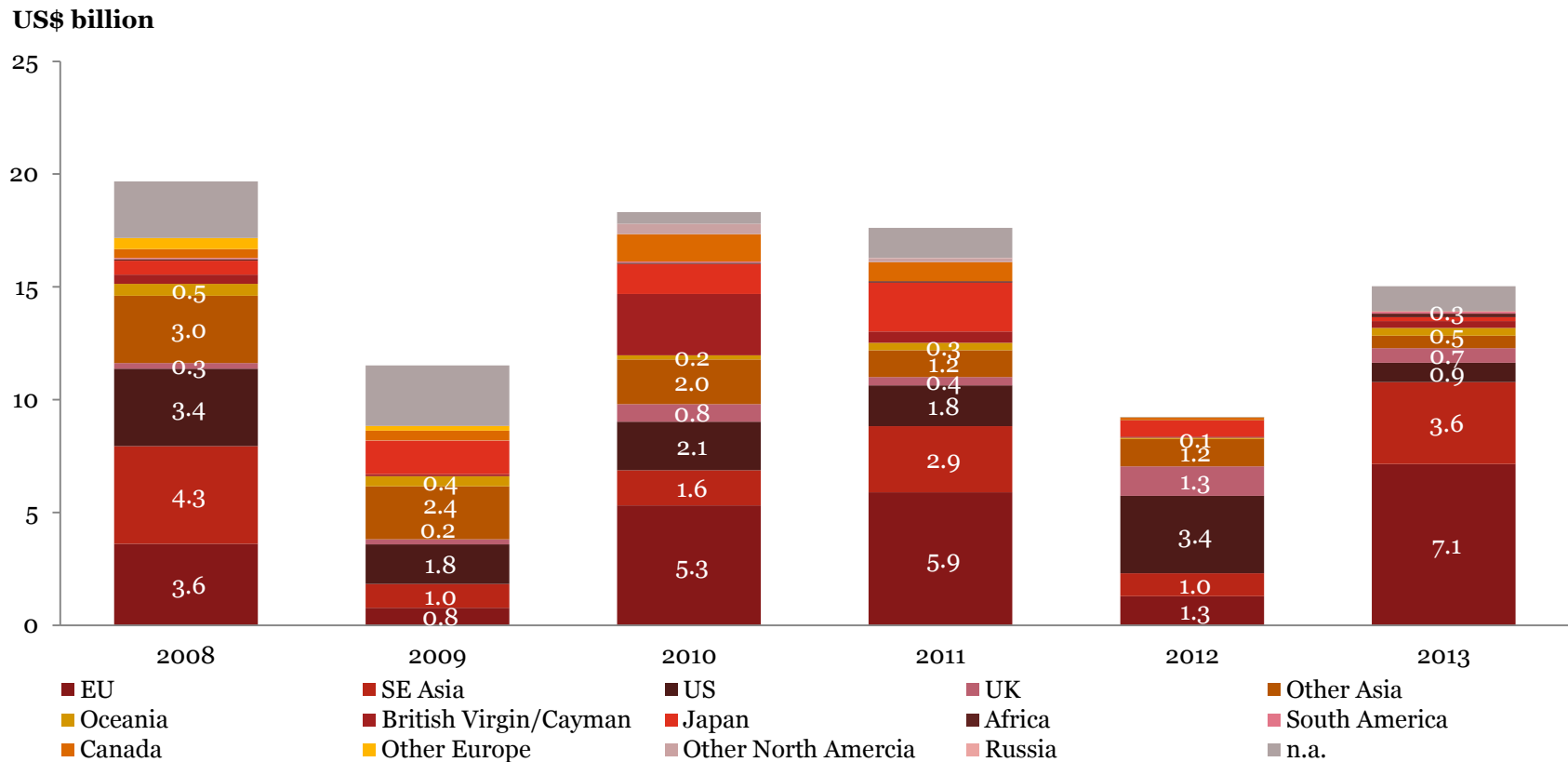
Foreign inbound M&A was flat; Japanese investment has declined sharply over the last two years as has investment from the US



Source: ThomsonReuters, ChinaVenture and PwC analysis

European investors did the biggest value inbound deals, as they have for three out of the last six years

Foreign strategic buyer deal value by region of origin



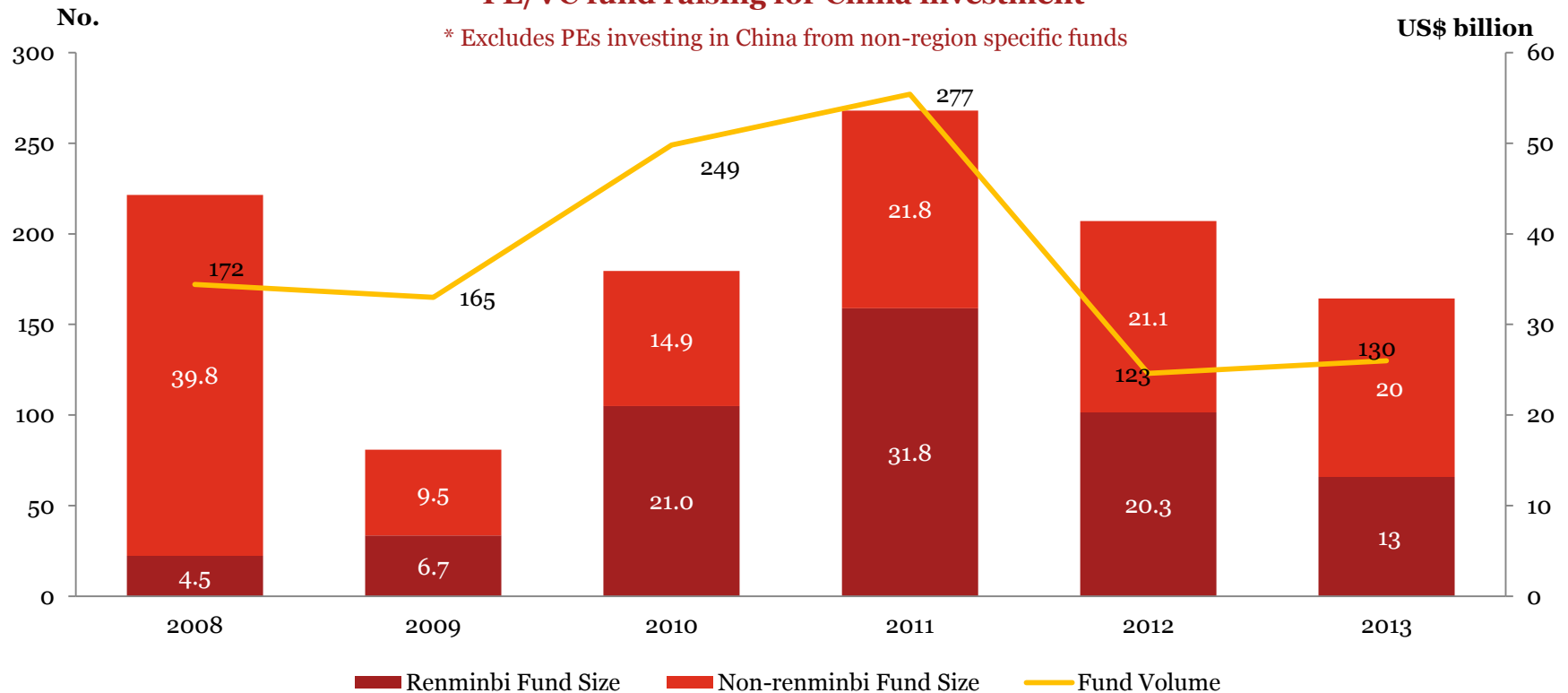
Source: ThomsonReuters, ChinaVenture and PwC analysis

PE

Renminbi PE fundraising declined for the second straight year as the domestic Chinese PE industry continued to consolidate; US\$ denominated fundraising has been consistently healthy over the same period

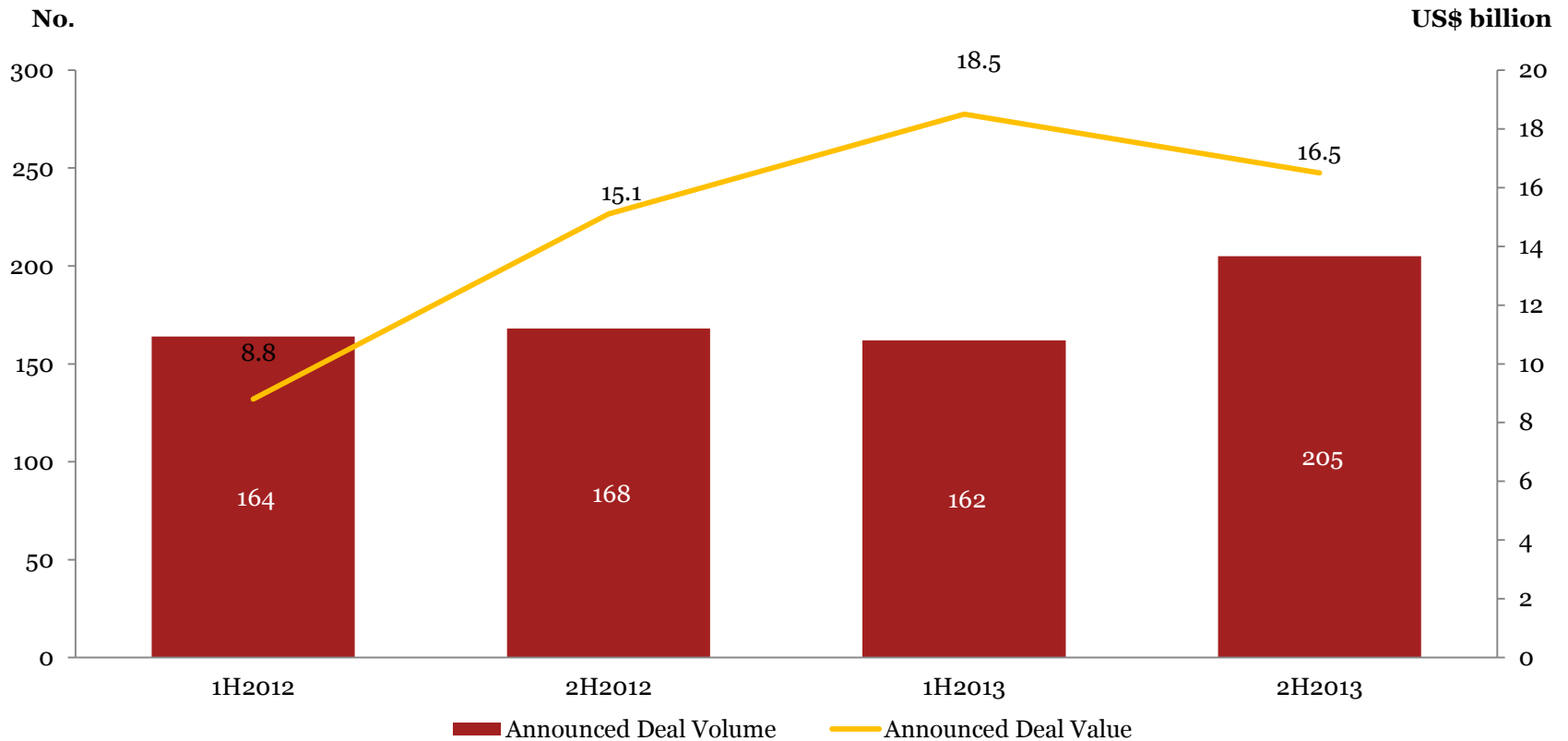
PE/VC fund raising for China investment*

* Excludes PEs investing in China from non-region specific funds



The number of new investments recovered in the second half of the year ...

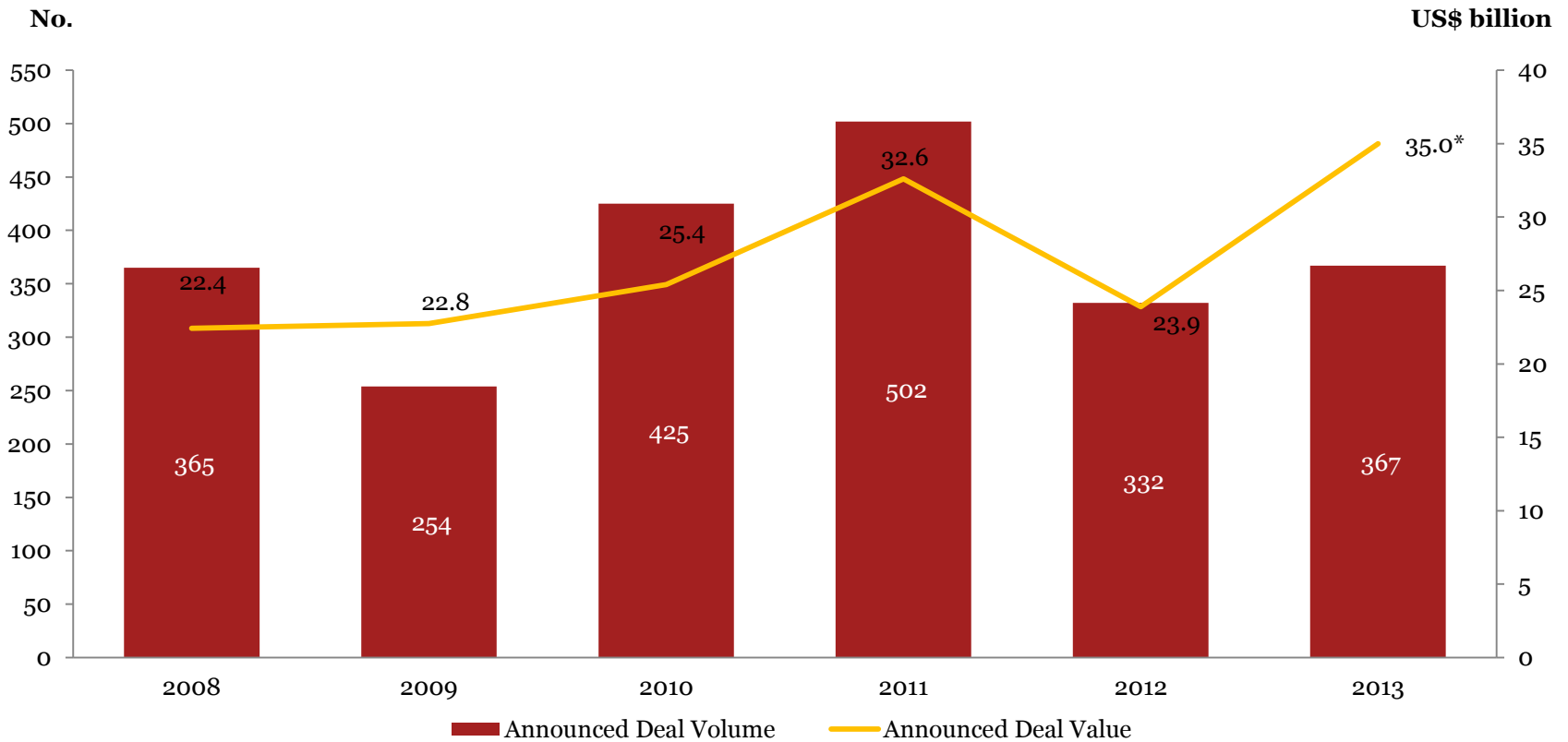
Private Equity deals, 2013 vs. 2012 (half yearly)



Source: ThomsonReuters, ChinaVenture and PwC analysis

... and on a full year basis, deal values held up well

Private Equity deals, from 2008 to 2013

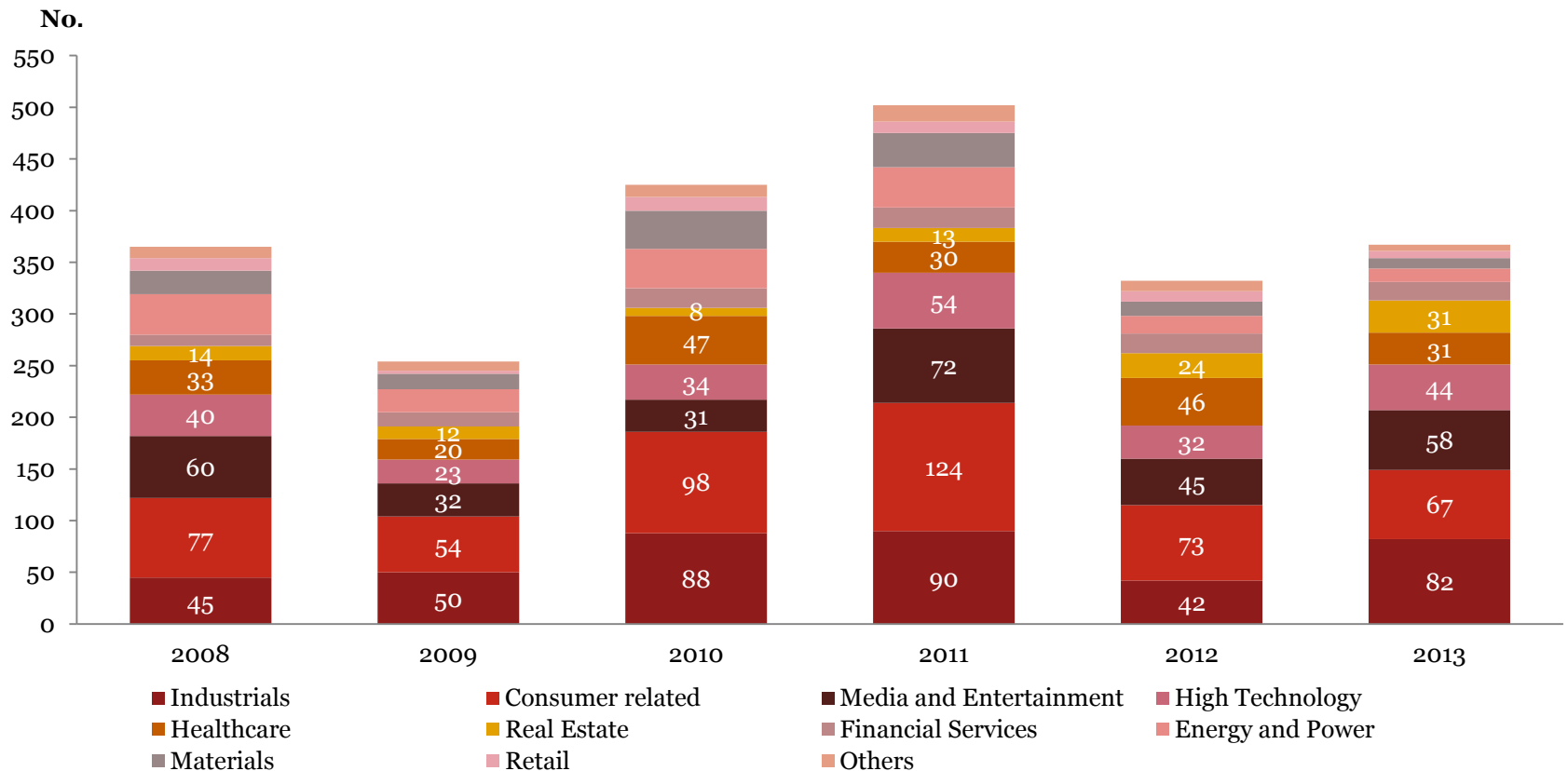


* Includes US\$9.8 bn Taikang and Guolian investment in Petrochina's West Pipeline JV

Source: ThomsonReuters, ChinaVenture and PwC analysis

PE investors' industry focus was broadly consistent with earlier years; we think TMT and healthcare sectors will grow in importance

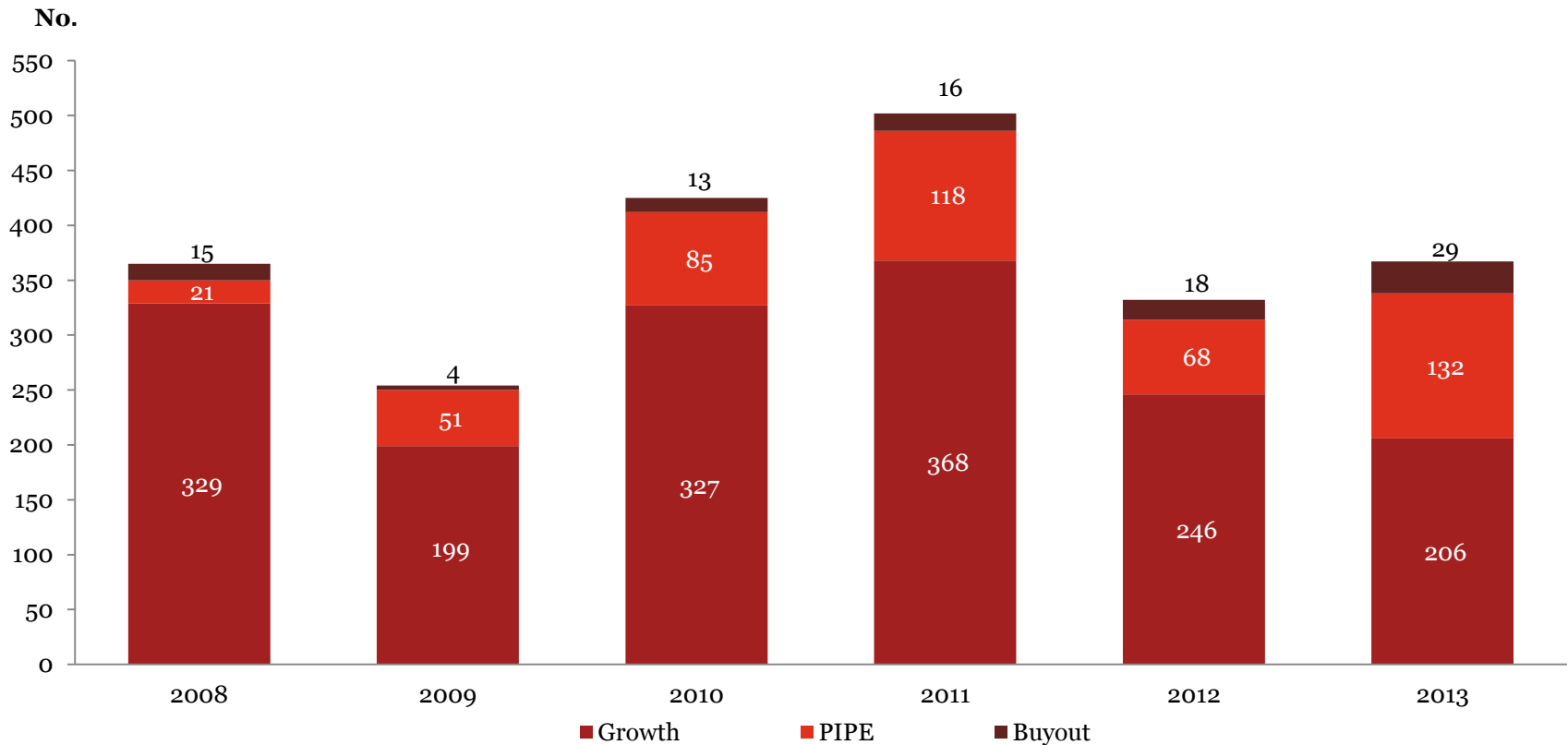
PE deal volume by industry sector



Source: ThomsonReuters, ChinaVenture and PwC analysis

Growth capital deals declined as the PE industry shifted focus towards PIPE and, increasingly, buy-out transactions ...

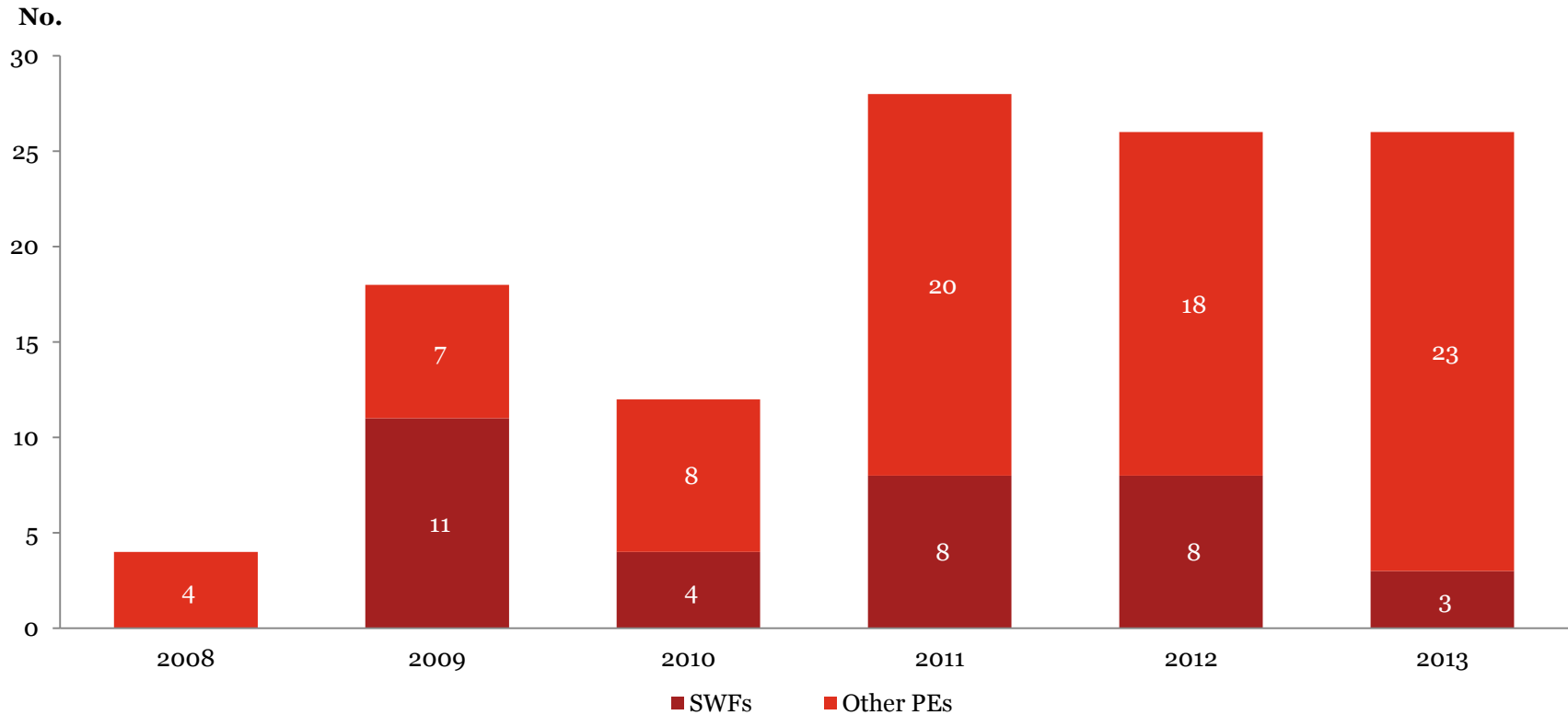
PE deal volume by type



Source: ThomsonReuters, ChinaVenture and PwC analysis

... whilst PE interest in outbound deals continued, albeit still at low levels in absolute terms

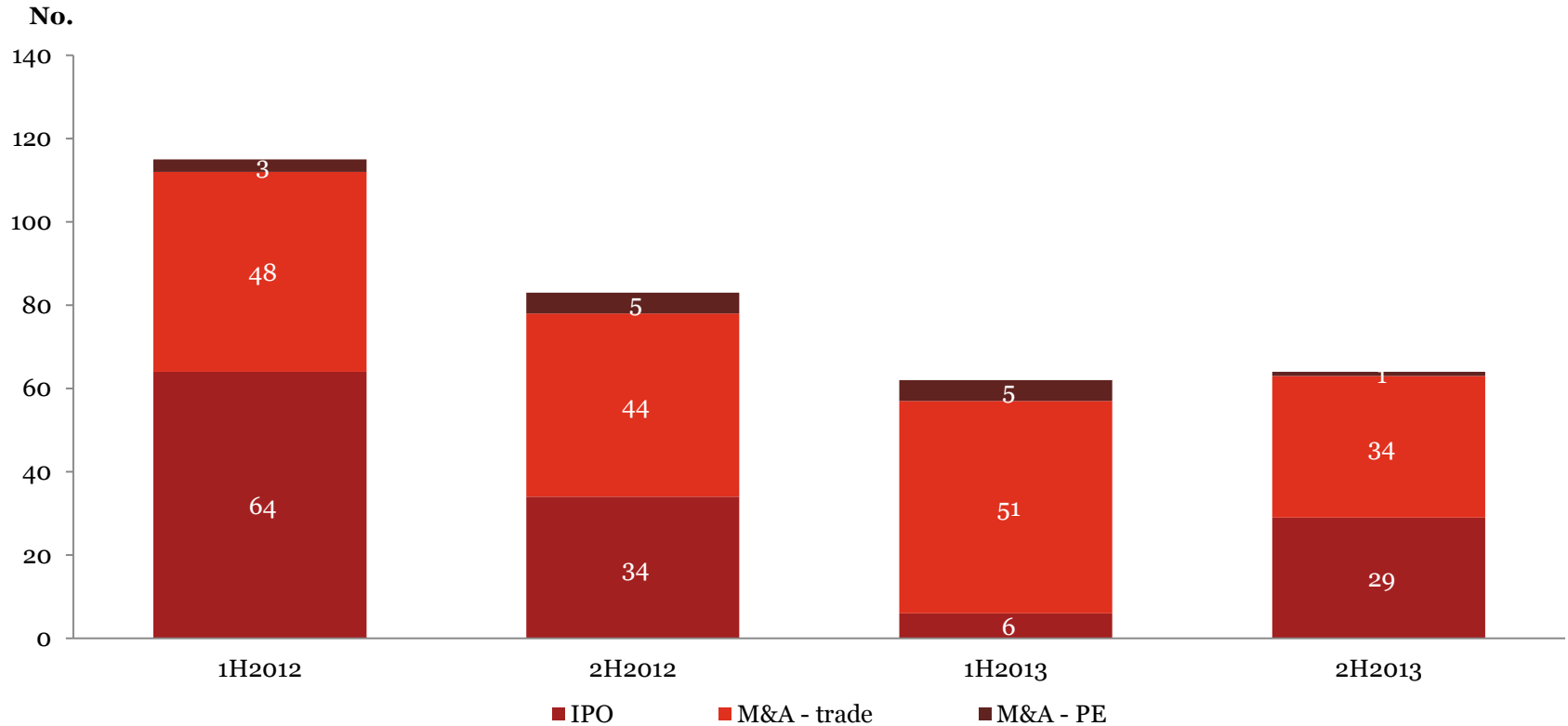
China mainland PE backed outbound deal volume by PE category



Source: ThomsonReuters, ChinaVenture and PwC analysis

PE-backed IPOs showed some recovery in the second half of 2013 off a very low base ...

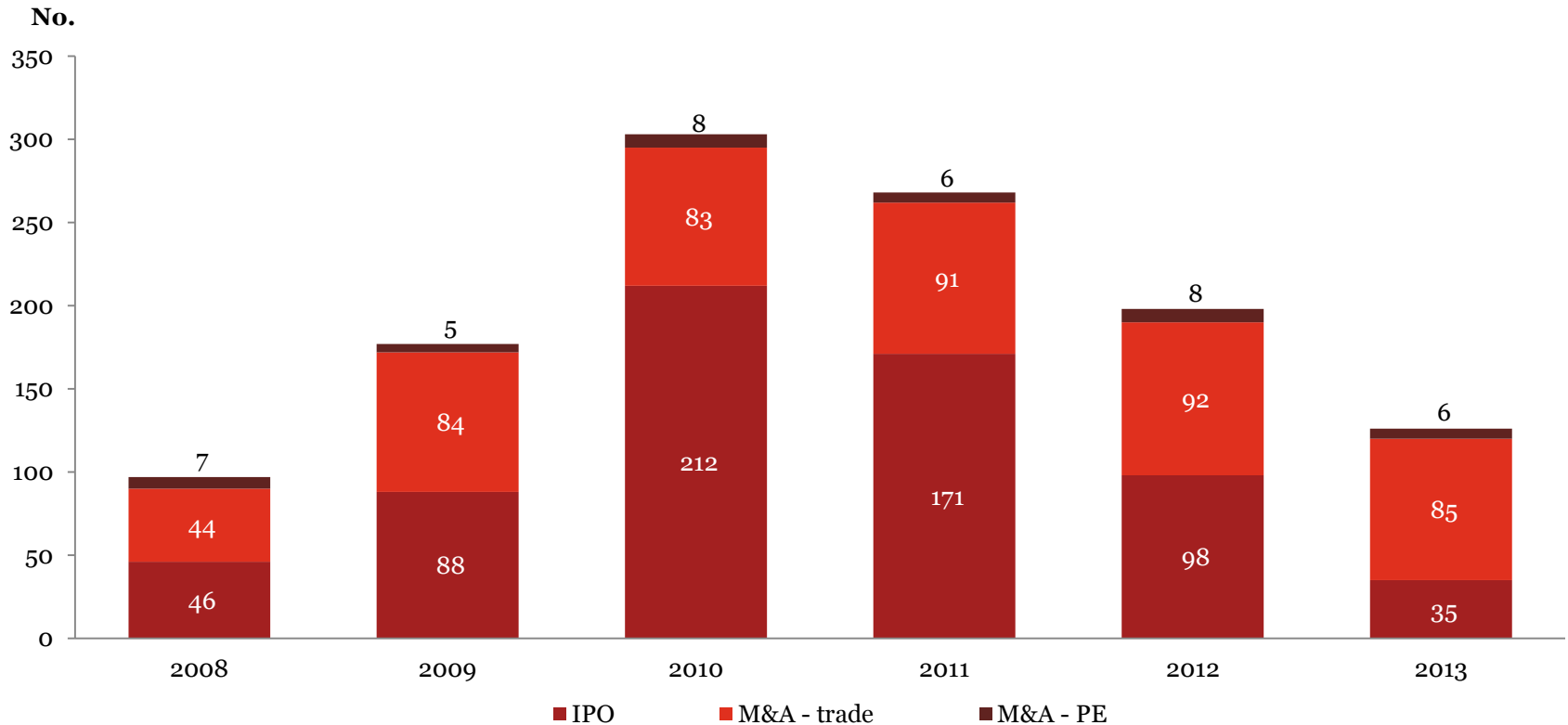
PE/VC backed deal exit volume by type, 2013 vs. 2012 (half yearly)



Source: AVCJ and PwC analysis

... but it was the third straight year of decline for PE exits, almost entirely attributable to problems in the equity capital markets; 2013 was the first year that IPO was not the dominant exit-route

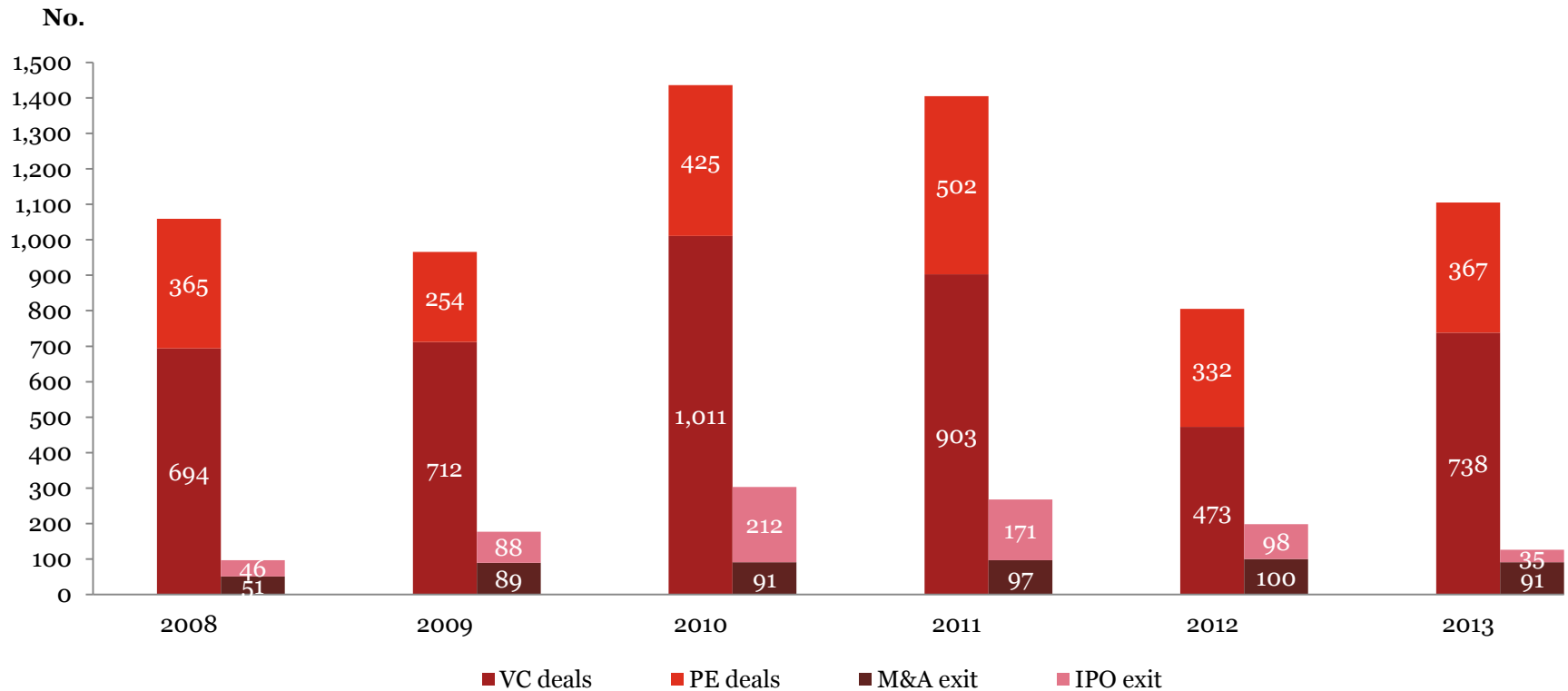
PE/VC backed deal exit volume by type



Source: AVCJ and PwC analysis

The overhang of new investments compared to exits remains the number one issue affecting the PE and VC industry

PE/VC deal volume vs. No. of exits

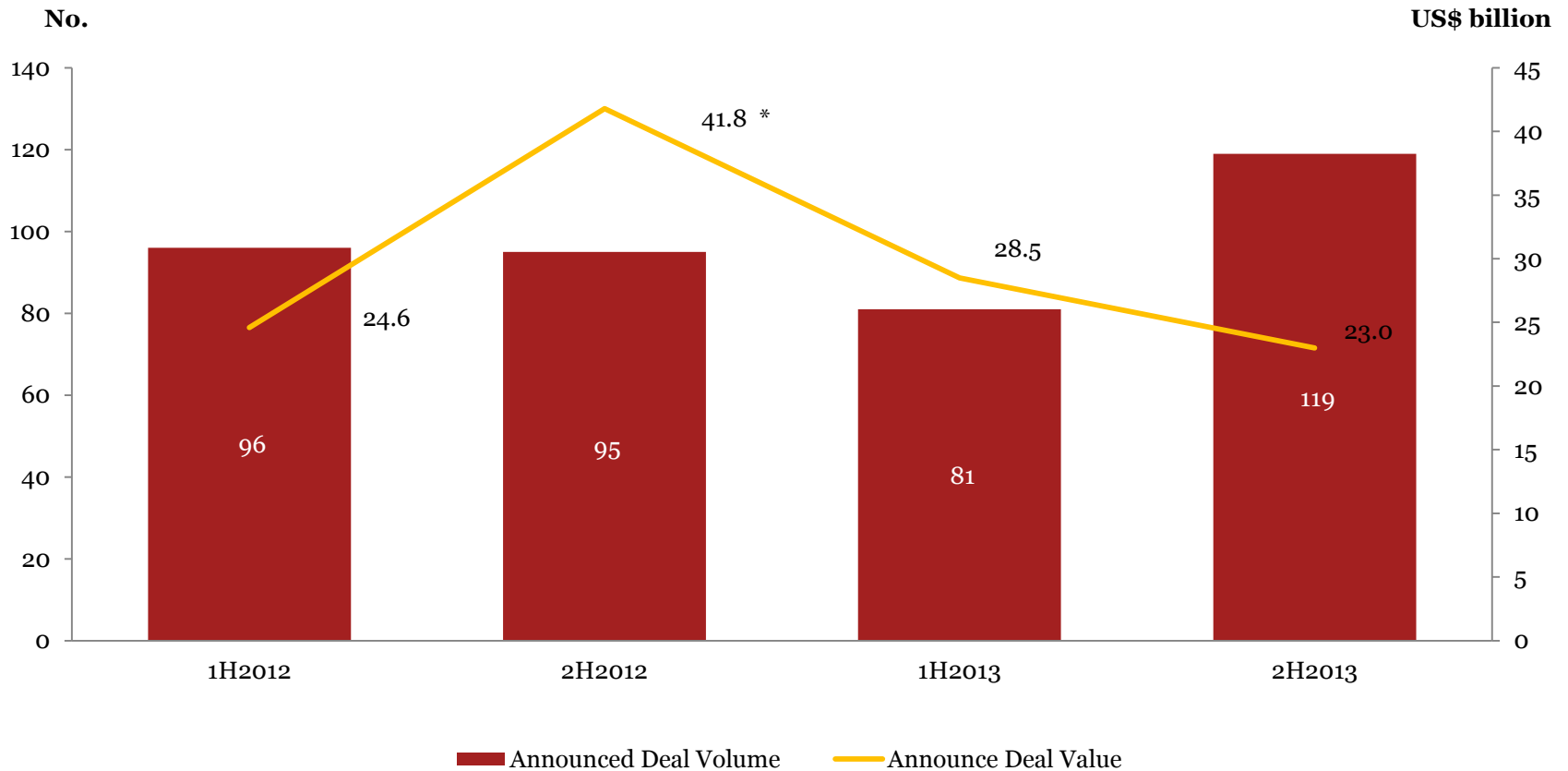


Source: ThomsonReuters, ChinaVenture, AVCJ and PwC analysis

China mainland outbound

China outbound M&A recovered with more deals announced in the second half of 2013 than in any earlier half-year period ...

China mainland outbound deals, 2013 vs. 2012 (half yearly)

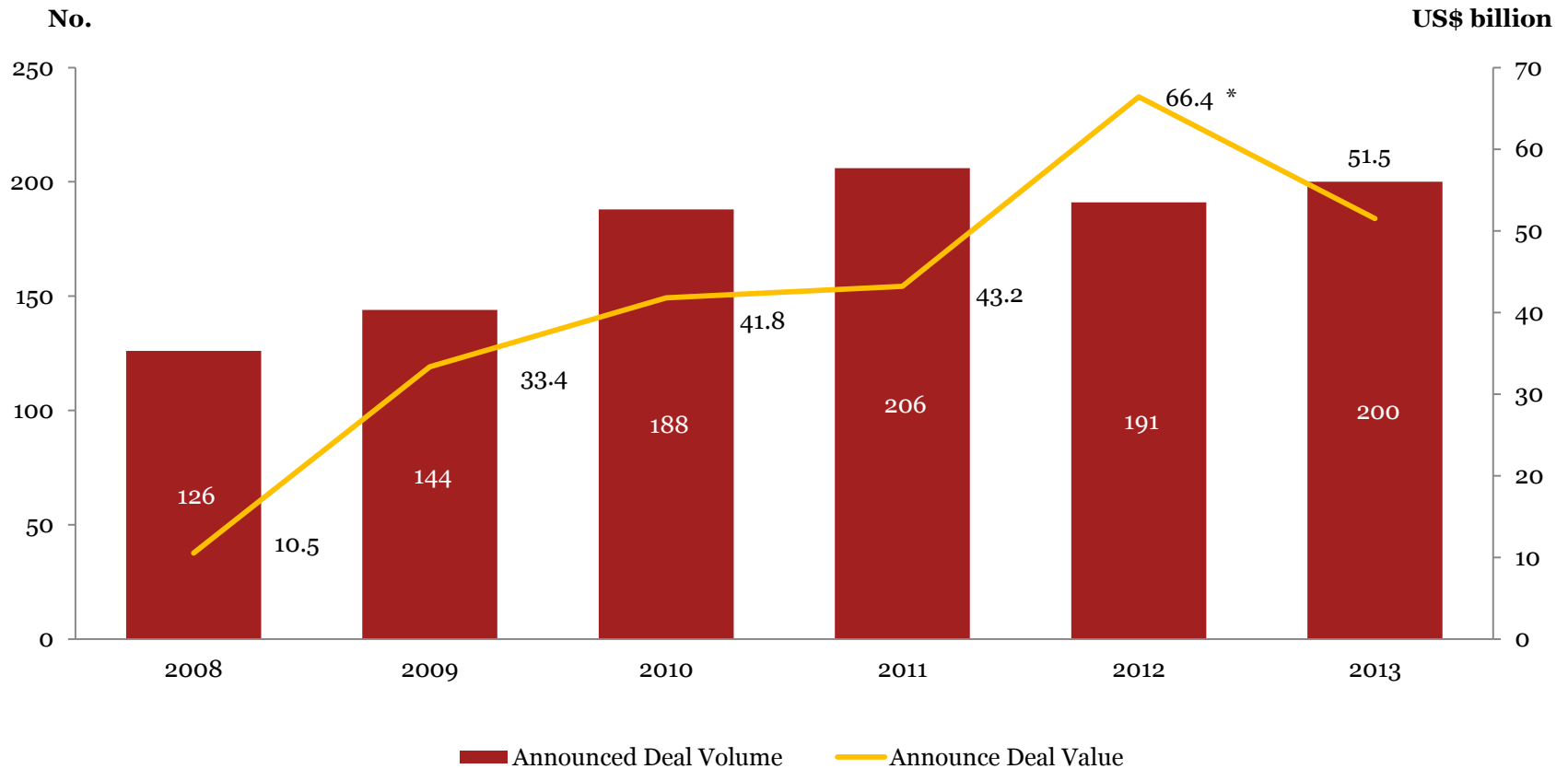


* Includes US\$15.1 bn CNOOC – Nexus transaction

Source: ThomsonReuters, ChinaVenture and PwC analysis

... and on a full-year basis, outbound M&A compared well with the last few years but the soft first half meant no new records in 2013

China mainland outbound deals, from 2008 to 2013

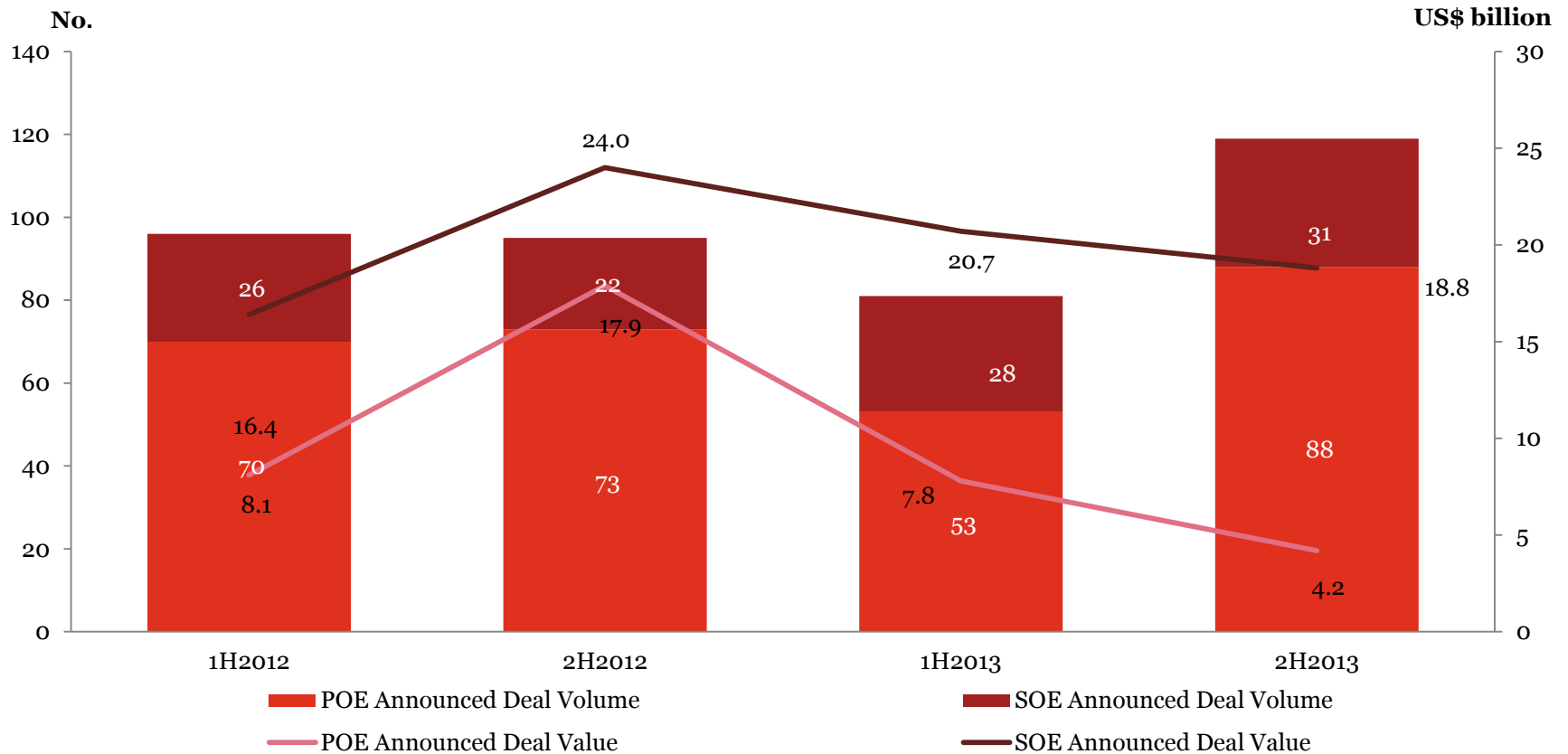


* Includes US\$15.1 bn CNOOC – Nexus transaction

Source: ThomsonReuters, ChinaVenture and PwC analysis

POE activity was surprisingly low in the first half but rebounded to a new six-month high with 88 announced deals in the second half ...

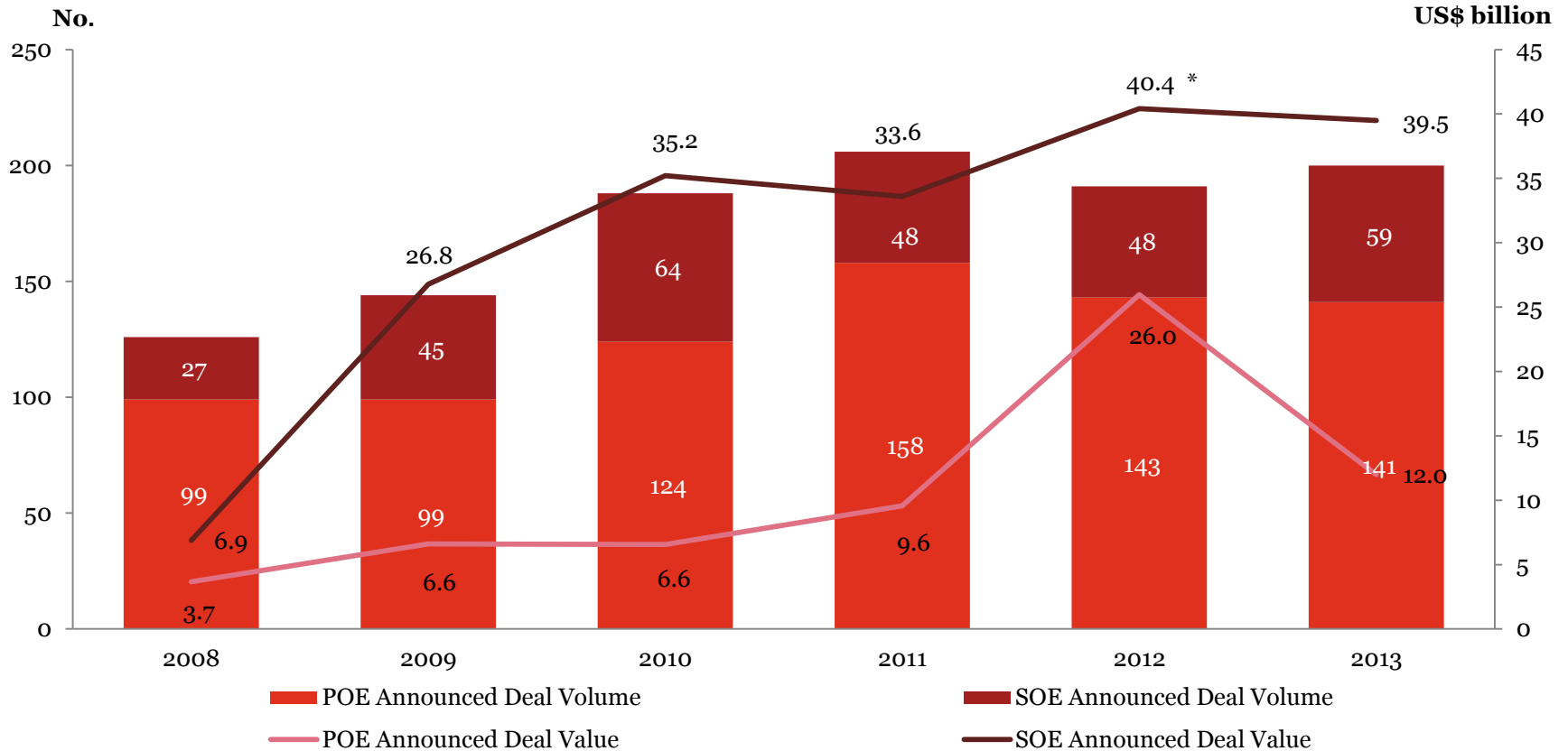
China mainland outbound strategic buyer deals, 2013 vs. 2012 (half yearly)



Source: ThomsonReuters, ChinaVenture and PwC analysis

... whilst SOE activity was robust and deal values held up well

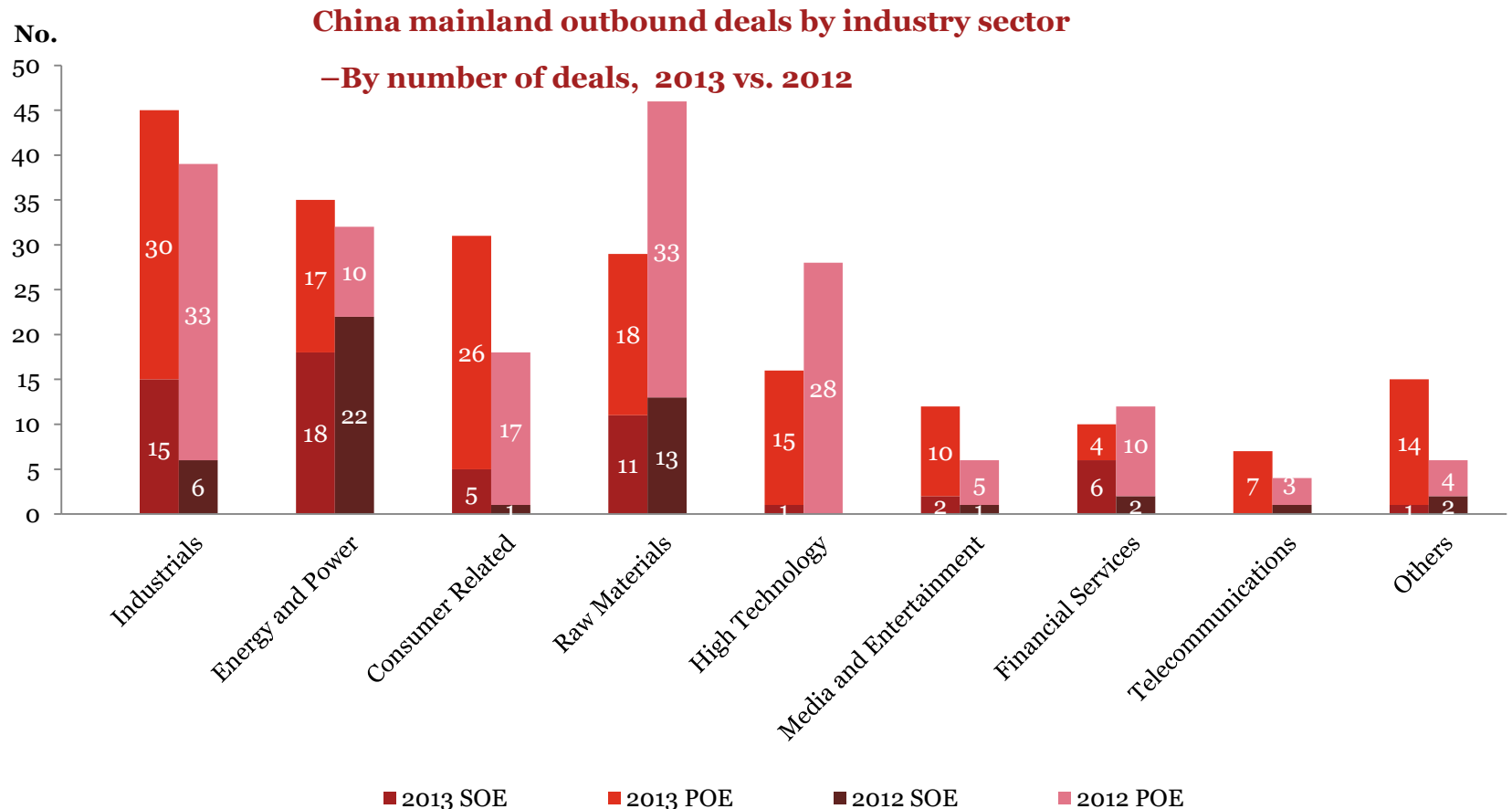
China mainland outbound strategic buyer deals, from 2008 to 2013



Source: ThomsonReuters, ChinaVenture and PwC analysis

* Includes US\$15.1 bn CNOOC – Nexus transaction

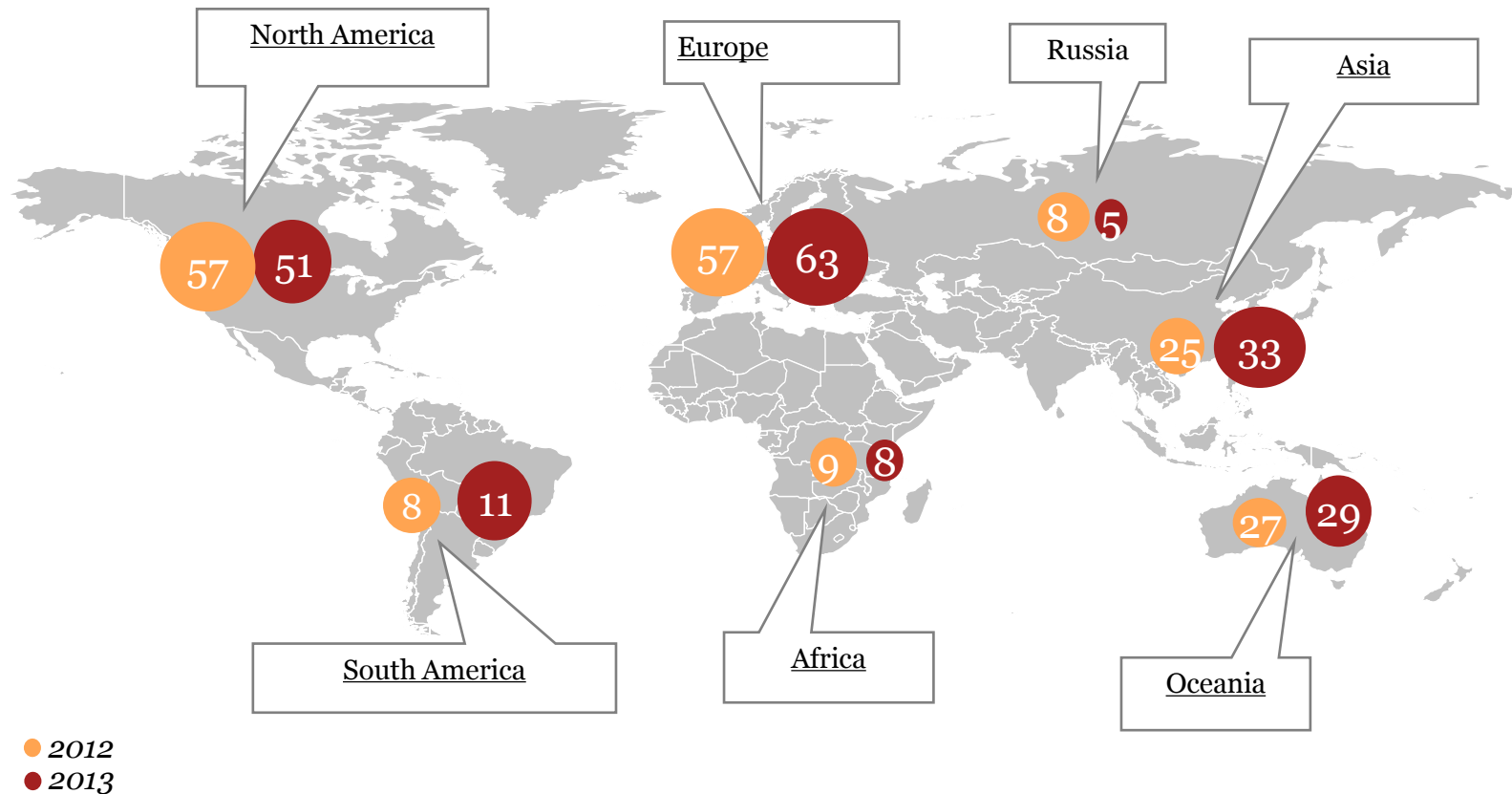
SOEs continued to focus on E&P, resources (raw materials) and industrial sectors, whilst POE activity was more diversified covering also industrial technologies, consumer related businesses and high-tech



Source: ThomsonReuters, ChinaVenture and PwC analysis

Destination markets were remarkably similar to 2012 with much of the POE money targeting established technologies, know-how, IP and brands in mature markets such as the US and Europe

Outbound M&A deal volume by region of destination 2013 vs. 2012



Source: ThomsonReuters and PwC analysis

Key messages and 2014 outlook

Key messages (1 of 2)

Overall

- China deal numbers recovered from multi-year lows in the first half of 2013, **increasing by more than 40% in the second half**; nearly all categories of M&A showed strong growth
- On an annualised basis – despite the quiet first half – overall deal volumes grew by 8% and values by 28% in 2013 compared to 2012; **deal values reached a record high at US\$260 billion** with 43 deals greater than US\$1 billion in 2013, compared to 30 in 2012

China Outbound

- China outbound M&A recovered with **more deals announced in the second half of 2013 than in any earlier half-year period**; and on a full-year basis, outbound M&A compared well with the last few years, although the soft first half meant no new records in 2013
- POE activity was surprisingly low in the first half but **rebounded to a new six-month high** with 88 announced deals in the second half, whilst SOE activity was robust and deal values held up well
- SOEs continued to focus on E&P, resources (raw materials) and industrial sectors, whilst POE activity was more diversified covering also industrial technologies, consumer related businesses and high-tech
- Destination markets were remarkably similar to 2012 with much of the POE money targeting established technologies, know-how, IP and brands in mature markets such as the US and Europe

Key messages (2 of 2)

Domestic and Foreign-Inbound Strategic

- Domestic strategic M&A **recovered strongly in the second half** of 2013, although full year numbers were less spectacular due to the slow first half which was affected by political and economic uncertainties
- **Foreign inbound M&A was flat**; Japanese investment has declined sharply over the last two years as has investment from the US

Private Equity

- **Renminbi PE fundraising declined** for the second straight year as the domestic Chinese PE industry continued to consolidate; **US\$ denominated fundraising has been consistently healthy** over the same period
- The number of new investments **recovered in the second half** of the year and, on a full year basis, deal values held up well
- Growth capital deals declined as **the PE industry shifted focus** towards PIPE and, increasingly, buy-out transactions whilst PE interest in outbound deals continued, albeit still at low levels in absolute terms
- PE-backed IPOs showed some recovery in the second half of 2013 off a very low base but it was the **third straight year of decline for PE exits**, almost entirely attributable to problems in the equity capital markets; 2013 was the first year that IPO was not the dominant exit-route
- The **overhang of new investments compared to exits** remains the number one issue affecting the PE and VC industry

Outlook

- We anticipate strong growth in **China outbound**, both from SOEs and POEs; **2014 will be a record year** driven by increasing experience and sophistication of Chinese buyers, underpinned by government support and direction (including SOE reform – see below)
- **Domestic M&A will also grow to new highs**, driven by industry consolidation and sector reforms which will increase competitive pressures; A-share listed companies will be important drivers of this activity
- **Foreign inbound investment will also grow** as confidence returns in overseas markets especially in Europe and the US, and as MNC's realign their China strategies resulting in both sale and purchase of business units and an increasing number of JVs with Chinese partners
- **PE exits will rebound strongly** as IPO markets re-open, but sale by M&A will also grow and we expect to see more secondary (PE to PE) activity; we also think that the number of **new investments will increase** with the trend to buy-outs continuing; although smaller in number, we will see more outbound PE deals and we expect to see some PE interest in investing in SOEs (see below) and in A-share listed companies
- **SOE reform**, including market liberalisation, specialisation, globalisation and diversified shareholding **will drive M&A activity** across several of the sectors described above
- In summary, we see strong tail-winds for M&A in China: **the record trends seen in the second half of 2013 will continue into 2014**
- **Drivers of this activity** will include: further liberalisation of markets; SOE reforms; government support for M&A generally – especially outbound; increasing direct investment activities of large financial institutions; market-driven industry consolidation; increasing sophistication of Chinese buyers; and recovering equity capital markets

Data compilation methodology

Data compilation methodology:

Statistics contained in this presentation and the press release may vary from those contained in previous press releases. There are three reasons for this: ThomsonReuters and ChinaVenture historical data is constantly updated as deals are confirmed or disclosed; PricewaterhouseCoopers has excluded certain transactions which are more in the nature of internal reorganisations than transfers of control; and exchange rate data has been adjusted.

Included Deals

- Acquisitions of private/public companies resulting in change of control
- Investments in private/public companies (involving at least 5% ownership)
- Mergers
- Buyouts/buyins (LBOs, MBOs, MBIs)
- Privatisations
- Tender offers
- Spinoffs
- Splitoff of a wholly-owned subsidiary when 100% sold via IPO
- Divestment of company, division or trading assets resulting in change of control at parent level
- Reverse takeovers
- Re-capitalisation
- Joint Venture buyouts
- Joint Ventures
- Receivership or bankruptcy sales/auctions
- Tracking stock

Excluded Deals

- Property/real estate for individual properties
- Rumoured transactions
- Options granted to acquire an additional stake when not 100% of the shares has been acquired
- Any purchase of brand rights
- Land acquisitions
- Equity placements in funds
- Stake purchases by mutual funds
- Open market share buyback/retirement of stock unless part of a privatisation
- Balance sheet restructuring or internal restructuring
- Investments in greenfield operations
- Going private transactions

