PwC M&A 2015 Review and 2016 Outlook

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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, mainly invested by private equity GPs but also including direct investments by financial institutions and conglomerates which are of the nature of private equity type investing

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

- "VC deals" refer to financial buyer deals with deal value less than US$10mn and/or with undisclosed deal, but invested by venture capital funds
- "Strategic buyer" refers to corporate buyers (as opposed to financial buyers) that acquire companies with the objective of integrating the acquisition in their existing business
- "Financial buyer" refers to investors that acquire companies with the objective of realizing a return on their investment by selling the business at a profit at a future date and mainly, but not entirely, comprise PE and VC funds
- In order to exclude foreign exchange impact, deal values from 2008 to 2012 were adjusted based on 2015 average Rmb/US$ exchange rate

Overview

2015 was a record year for China M&A with deal volumes up 37% and values up 84% at US$734 billion

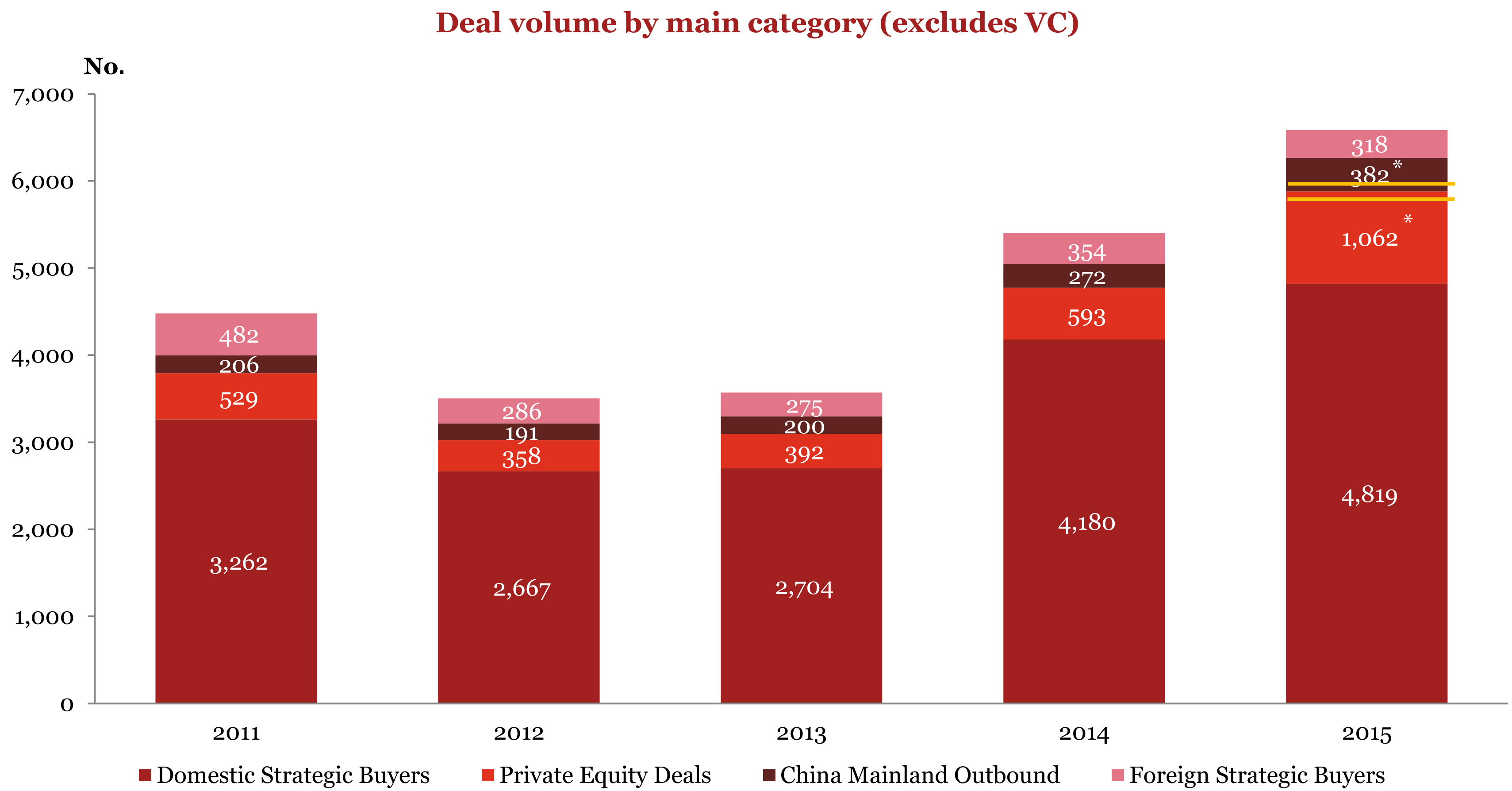
Total deal volume and value, from 2011 to 2015

	2011		2012		2013		2014		2015		% Diff volume 2015 vs. 2014	% Diff value 2015 vs. 2014
	Volume	Value (US$bn)	Volume	Value (US$bn)	Volume	Value (US$bn)	Volume	Value (US$bn)	Volume	Value (US$bn)		
Strategic buyers												
Domestic	3,262	118.0	2,667	88.2	2,704	145.8	4,180	238.0	4,819	445.3	*15%*	*87%*
Foreign	482	17.3	286	9.1	275	14.9	354	23.4	318	14.3	*-10%*	*-39%*
Total Strategic buyers	**3,744**	**135.3**	**2,953**	**97.3**	**2,979**	**160.6**	**4,534**	**261.4**	**5,137**	**459.6**	***13%***	***76%***
Financial buyers												
* Private Equity	529	45.4	358	45.4	392	35.4	593	71.5	1,062	192.1	*79%*	*169%*
VC	903	1.8	486	1.0	738	0.8	1,334	1.3	2,735	4.4	*105%*	*227%*
Total Financial buyers	**1,432**	**47.3**	**844**	**46.4**	**1,130**	**36.3**	**1,927**	**72.9**	**3,797**	**196.5**	***97%***	***170%***
China mainland Outbound												
SOE	40	23.1	41	37.8	57	38.5	78	27.4	80	29.1	*3%*	*6%*
POE	139	6.0	124	10.6	118	11.1	145	14.3	207	22.2	*43%*	*55%*
Financial buyers	27	13.3	26	11.9	25	1.1	49	14.0	95	16.1	*94%*	*15%*
***Total China mainland Outbound**	**206**	**42.5**	**191**	**60.3**	**200**	**50.6**	**272**	**55.7**	**382**	**67.4**	***40%***	***21%***
HK Outbound	**183**	**8.3**	**166**	**12.8**	**164**	**9.4**	**214**	**21.8**	**199**	**26.3**	***-7%***	***21%***
Total	**5,538**	**220.0**	**4,128**	**204.9**	**4,448**	**255.9**	**6,898**	**397.8**	**9,420**	**733.7**	***37%***	***84%***

** Some financial buyer backed outbound deals are also recorded in private equity deals, but they are not double counted in the total deal volume and deal value in the table above*

Source: ThomsonReuters, ChinaVenture and PwC analysis

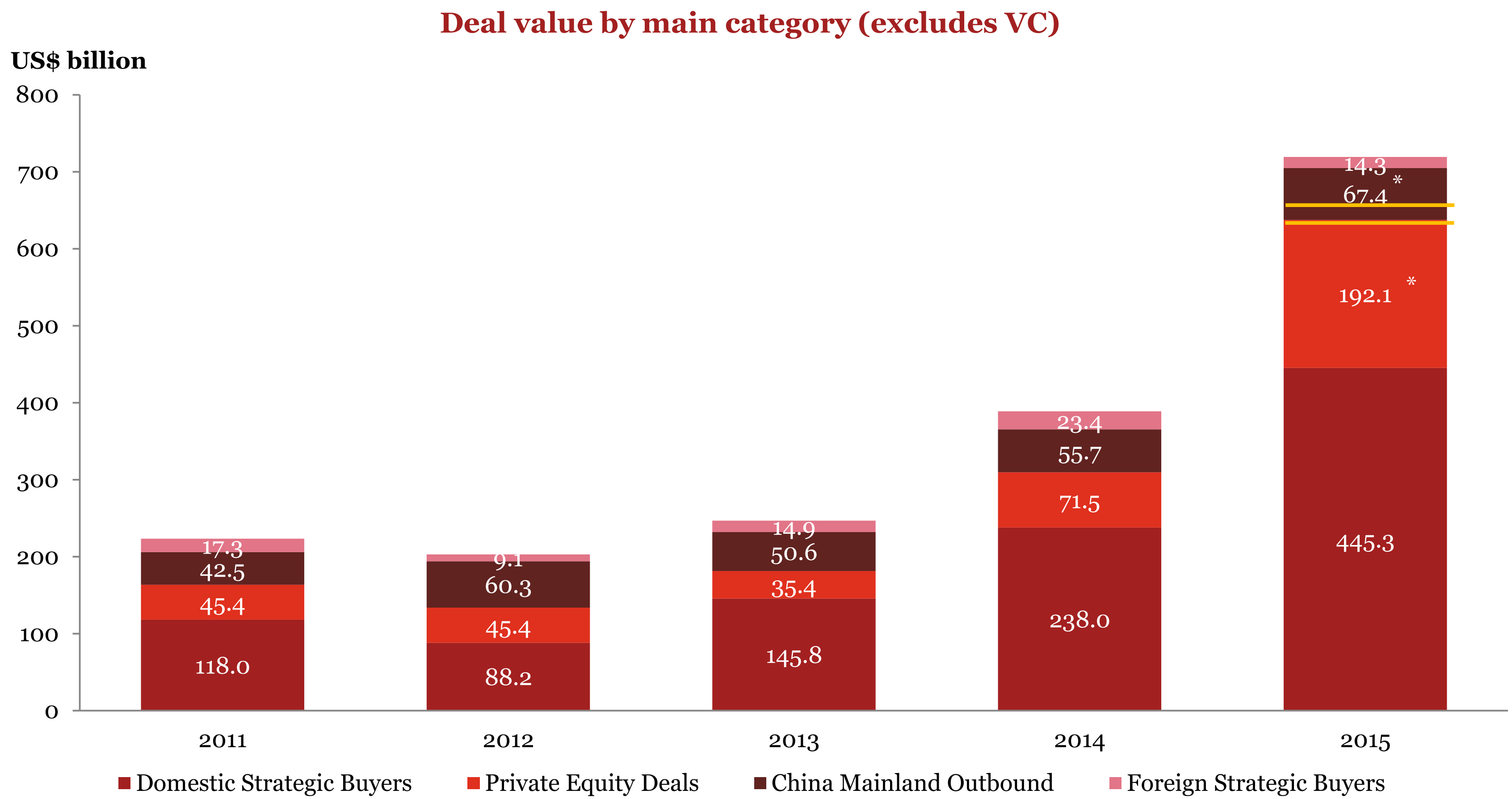
Domestic, PE and Outbound M&A activity all grew strongly …



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

Source: ThomsonReuters, ChinaVenture and PwC analysis

… and, with more than 114 deals over US$1 billion (a record) deal values advanced by 84%



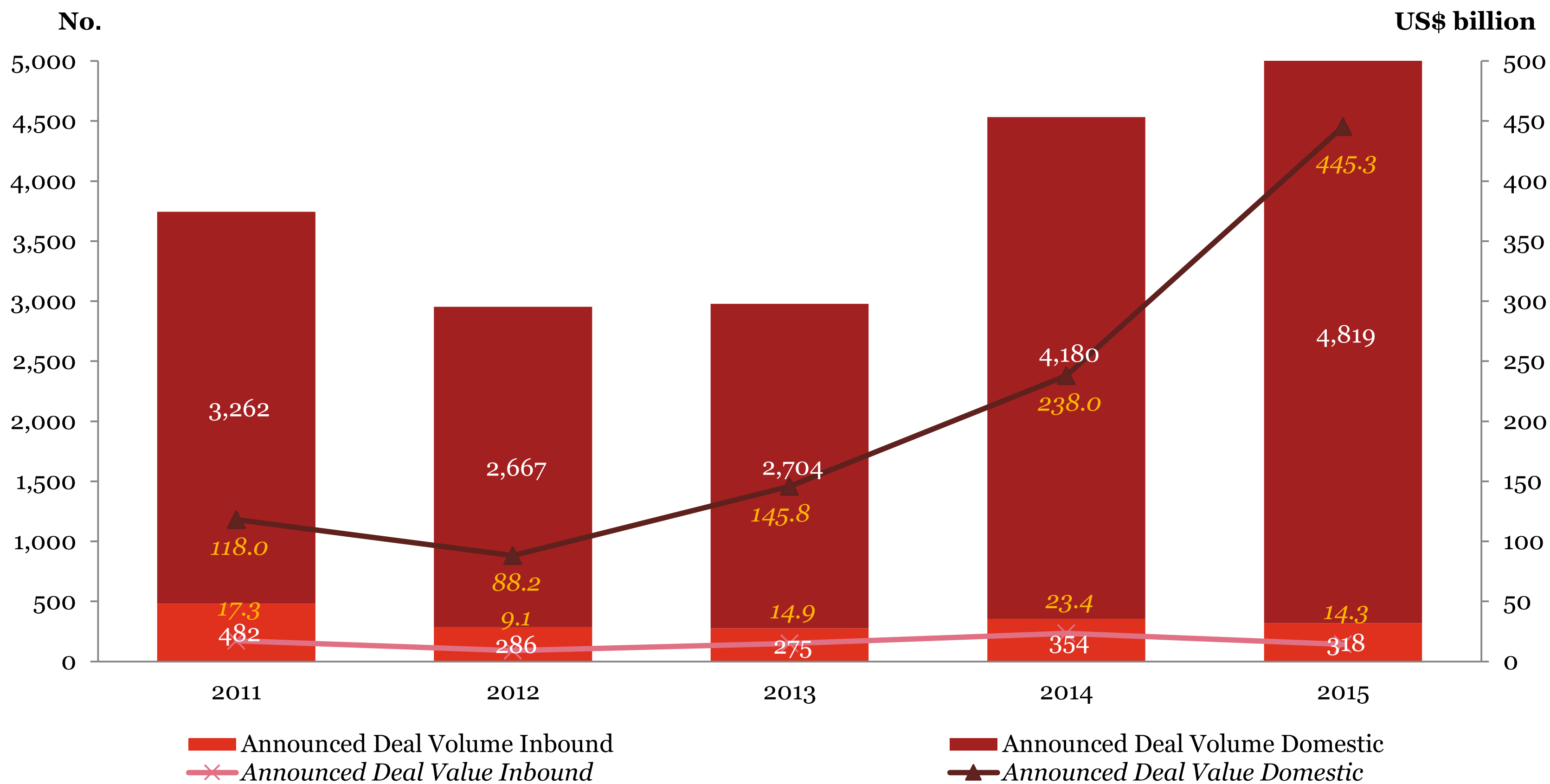
* *95 financial buyer backed outbound deals are also recorded in private equity deals*

Source: ThomsonReuters, ChinaVenture and PwC analysis

Strategic buyers

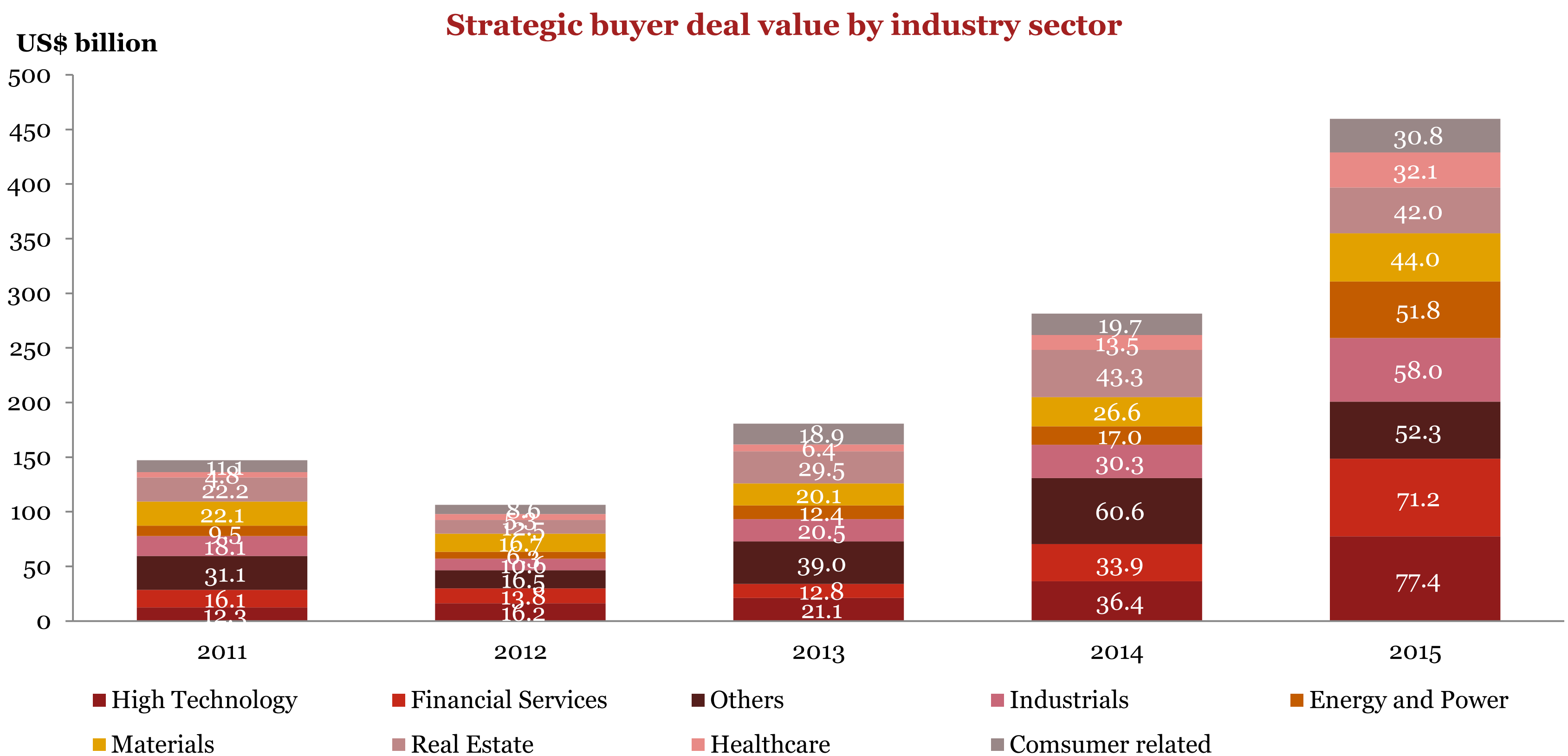
Domestic strategic M&A grew strongly driven by economic transformation, some (although still nascent) sector consolidation, restructuring and inorganic growth strategies as the domestic M&A market matures; on the other hand, foreign inbound M&A appears to have reached a broadly steady state, declining somewhat year on year

Strategic buyer deals, from 2011 to 2015



Source: ThomsonReuters, ChinaVenture and PwC analysis

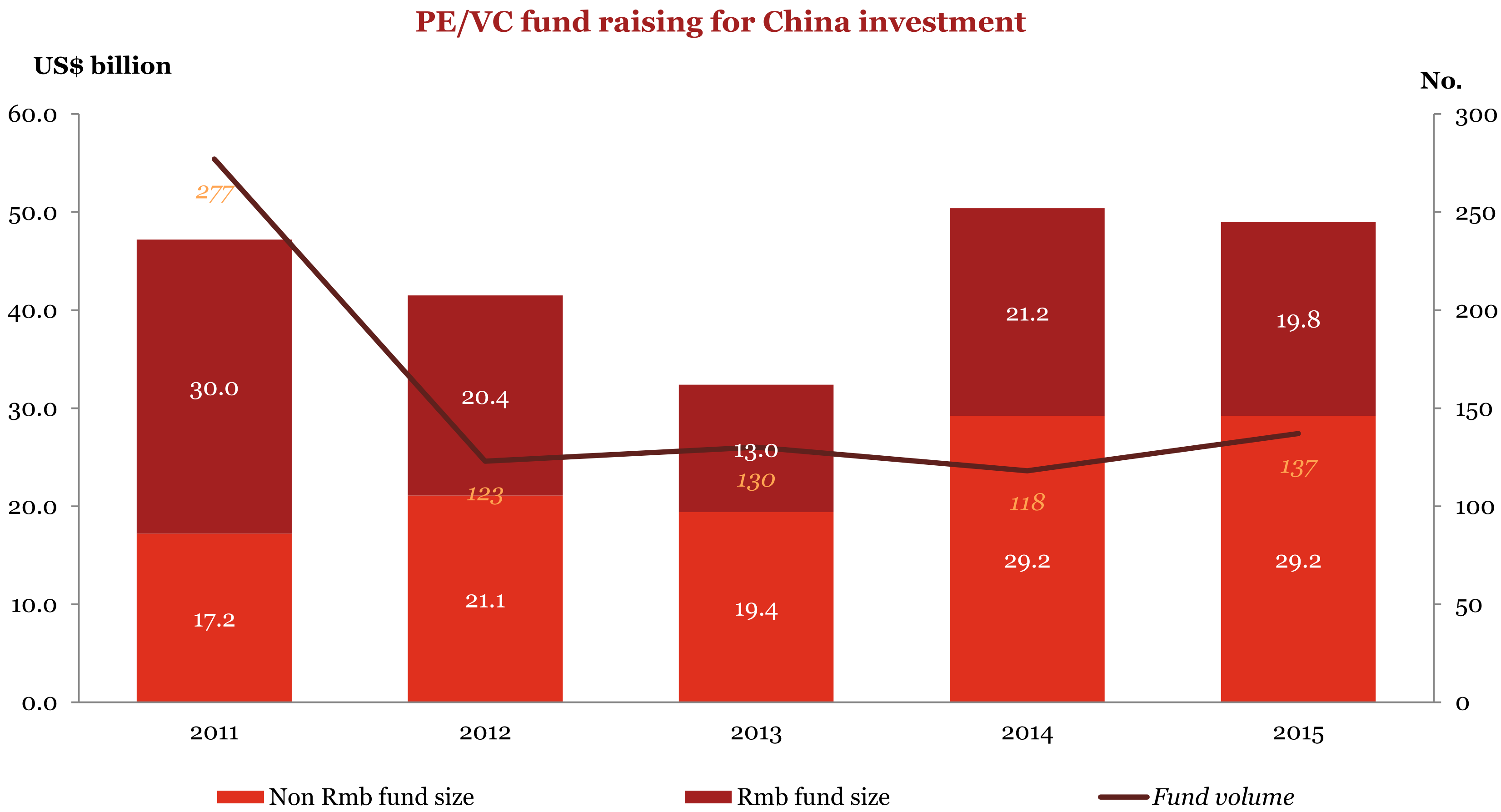
Technology and FS were particularly hot sectors in 2015 due mainly to higher growth expectations for the tech sector, some industry consolidation in tech, and significant pace of development and capital raising for fintech and payments businesses in China



Source: ThomsonReuters, ChinaVenture and PwC analysis

PE/VC and financial buyer deals

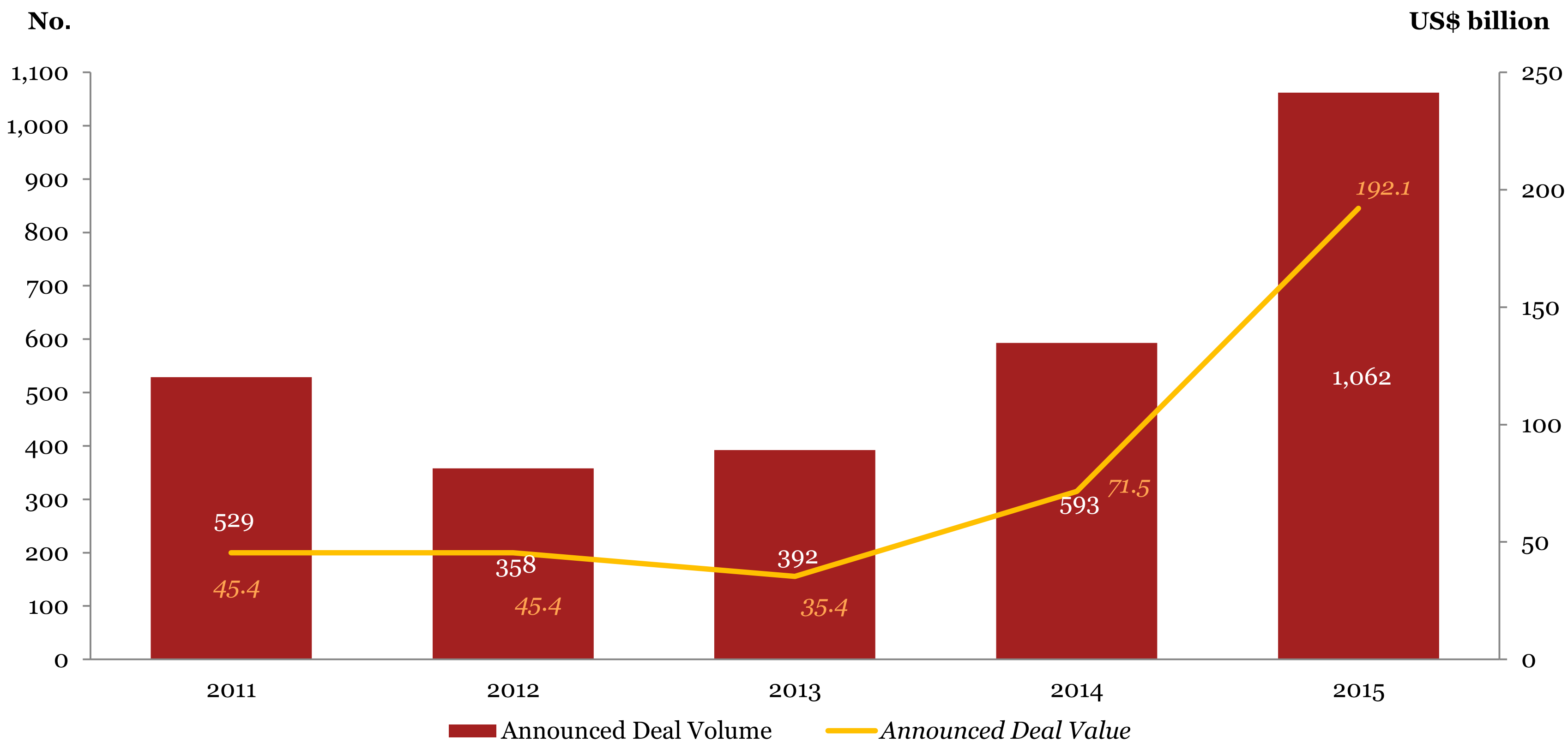
PE and VC fundraising remained at healthy levels; the capital available for financial investing is considerably greater than implied by these numbers because of the direct investment activities of insurers (and other financial institutions); government and industry funds; SOE funds; private-company funds; and HNWI vehicles



Source: ThomsonReuters, ChinaVenture and PwC analysis

With so many financial investors active, the number and value of "PE" deals (which includes other categories of financial investors) increased 79% (by volume) and 169% (by value); domestic investors were especially active and it was a generally tougher environment for foreign PEs; there were 27 PE deals in excess of US$1 billion (another record) as the trend towards larger deal sizes continues

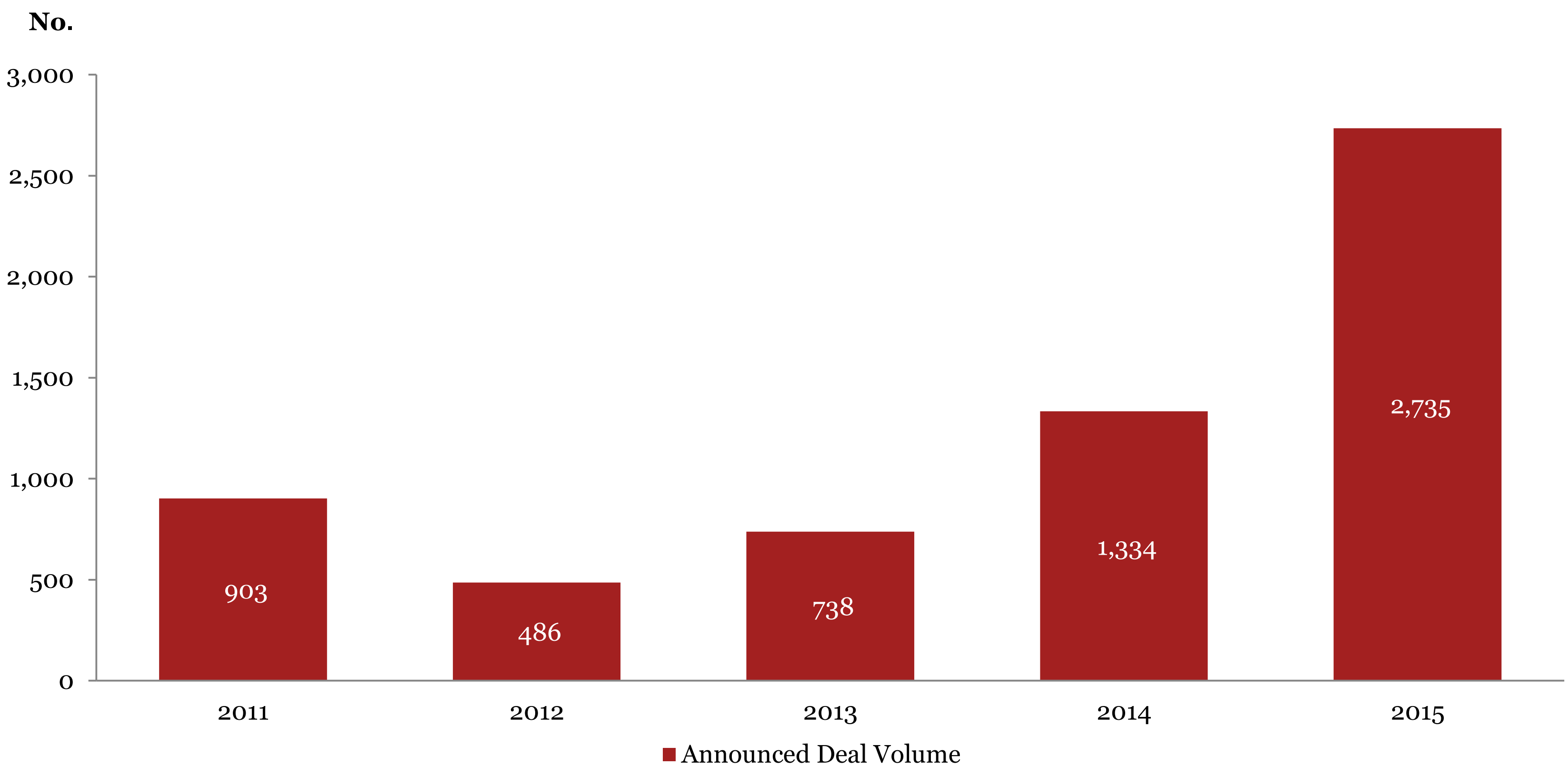
Private Equity deals, from 2011 to 2015



Source: ThomsonReuters, ChinaVenture and PwC analysis

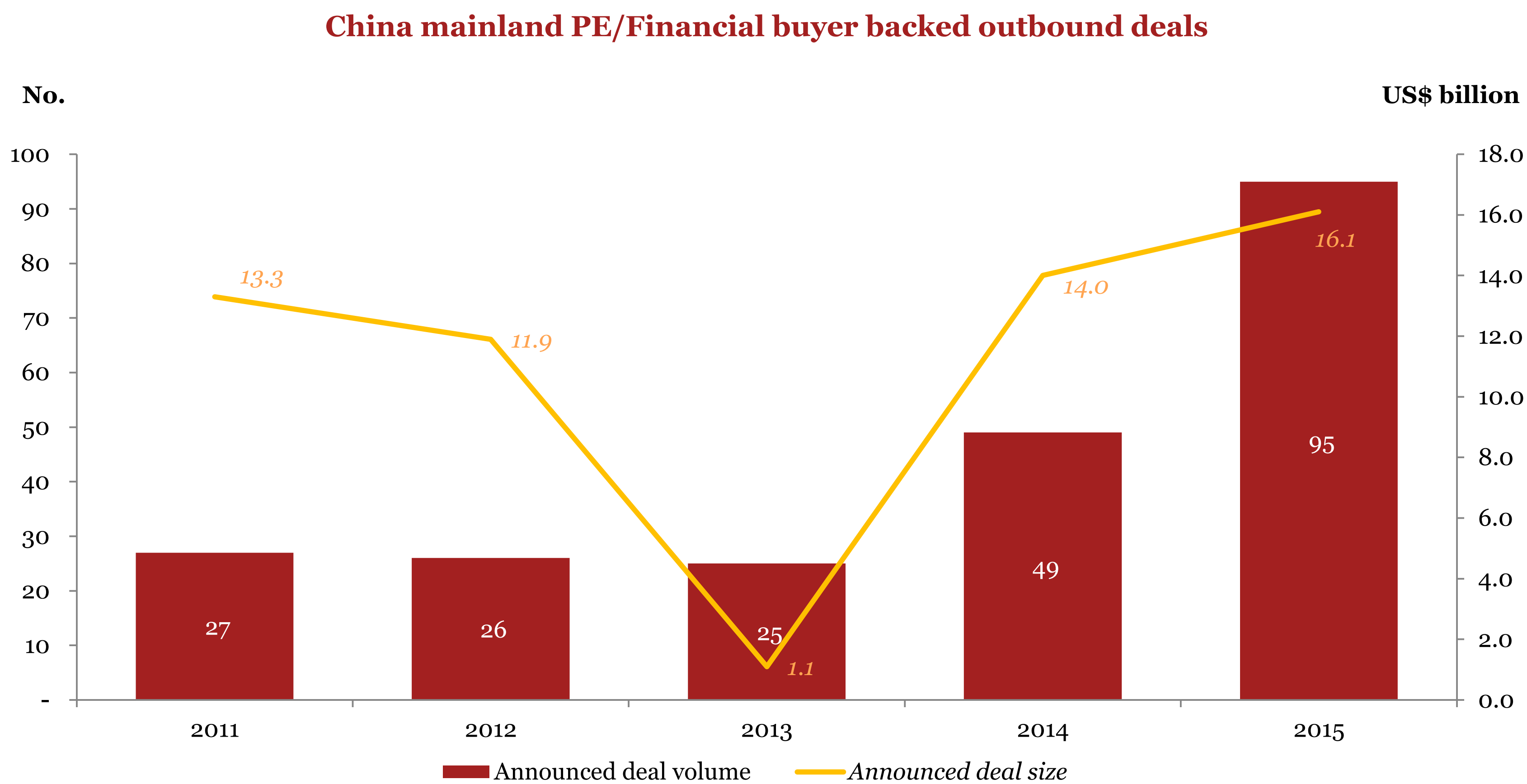
The VC industry (and tech investing generally) was especially hot with investors chasing tech opportunities in China in search of perceived high growth opportunities as the general economy slowed; early through late stage funding rounds were closed, with some larger deals (recorded in our "PE" numbers) coming from consolidation in the tech sector

Venture Capital deals volume, from 2011 to 2015



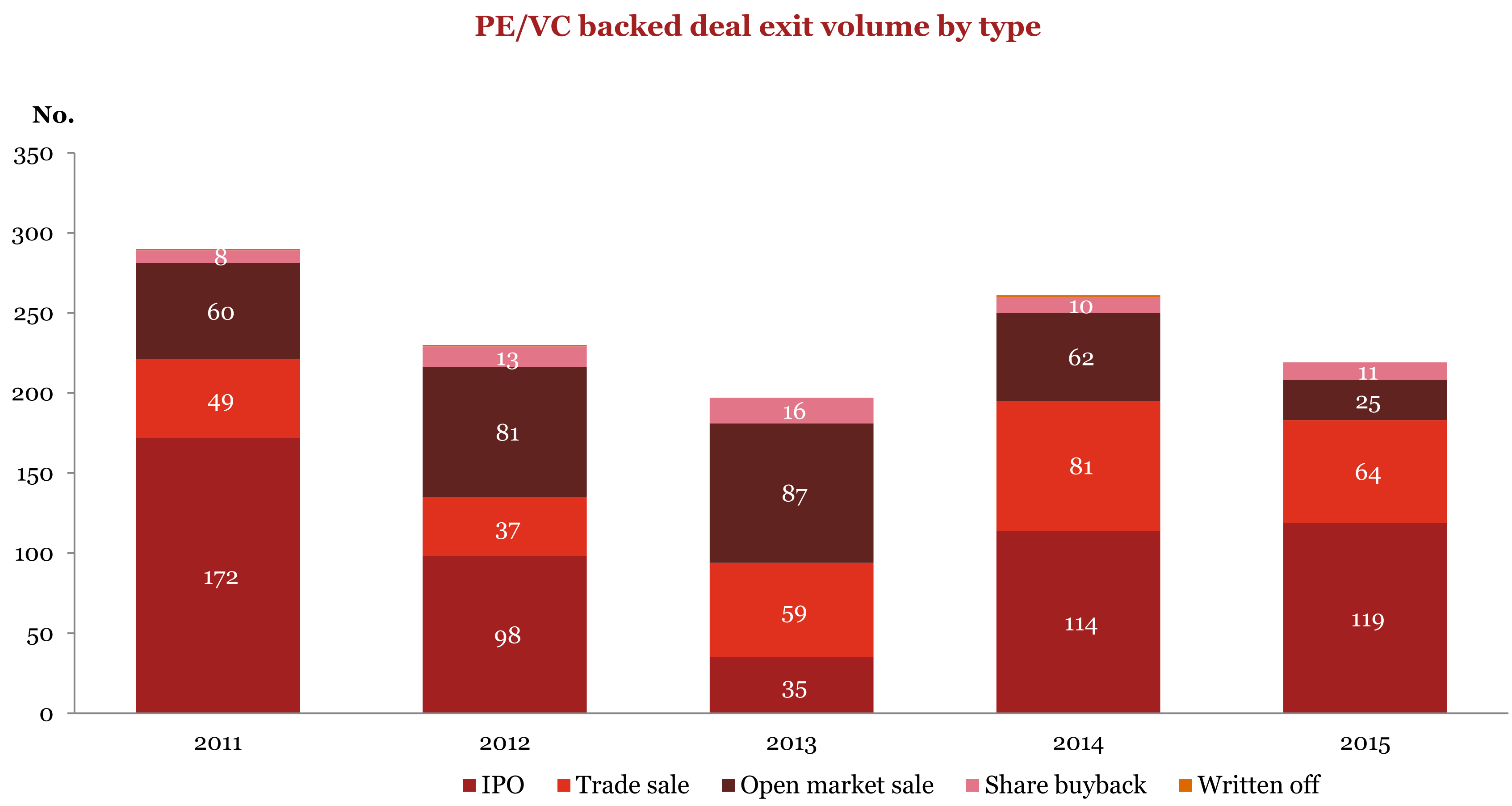
Source: ThomsonReuters, ChinaVenture and PwC analysis

The outbound trend for PEs and financial buyers is now well established, almost doubling in number in 2015 from the previous high; these investors are mainly seeking overseas assets with "a China angle"



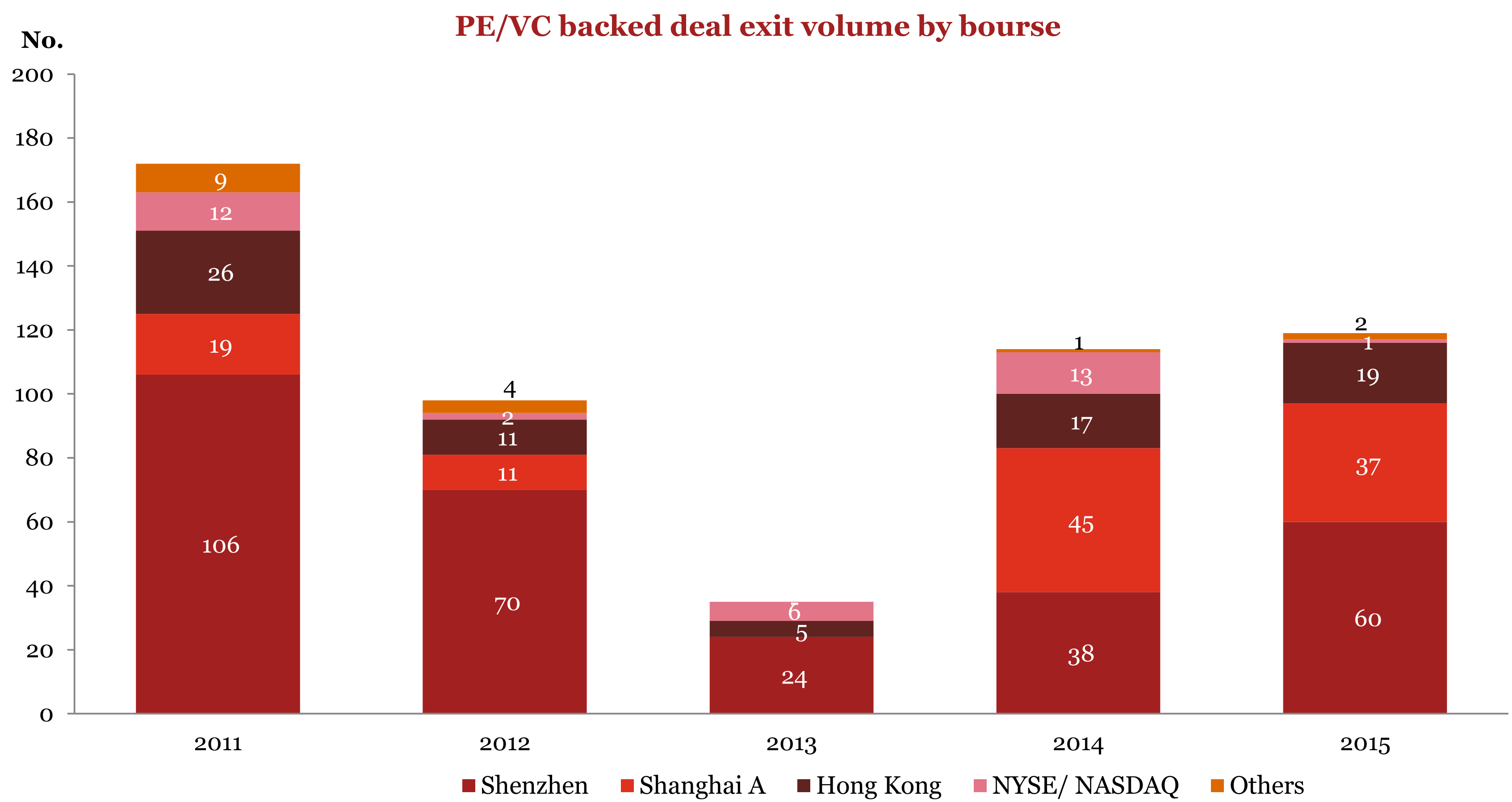
Source: ThomsonReuters, ChinaVenture and PwC analysis

Exit activity was lower than expected, due mainly to turbulence in the equity capital markets



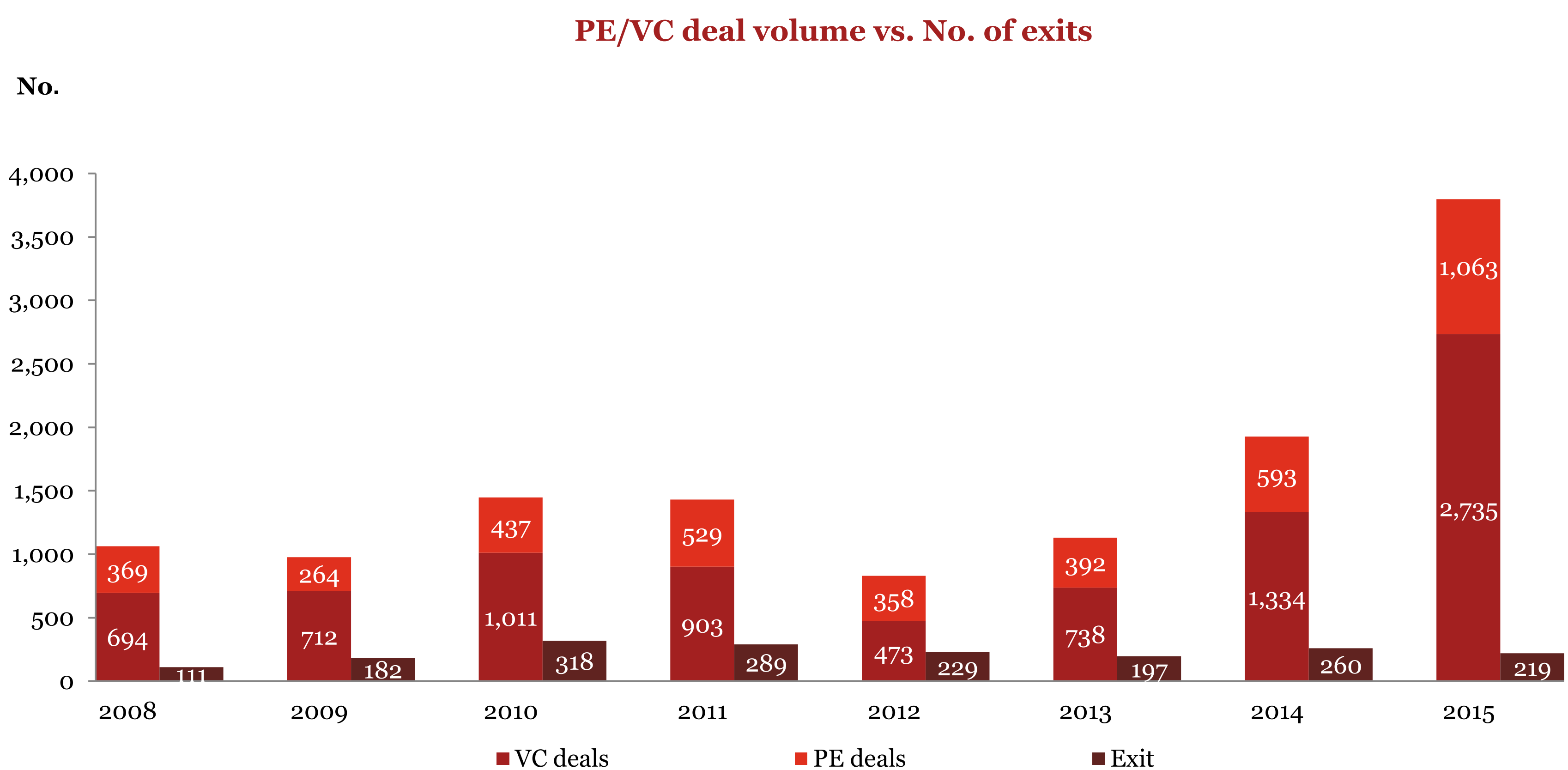
Source: AVCJ and PwC analysis

Domestic (A-Share) IPOs continue to be the preferred exit route, with both HK and especially US markets less popular for PE-backed issuers seeking to maximize valuation multiples



Source: AVCJ and PwC analysis

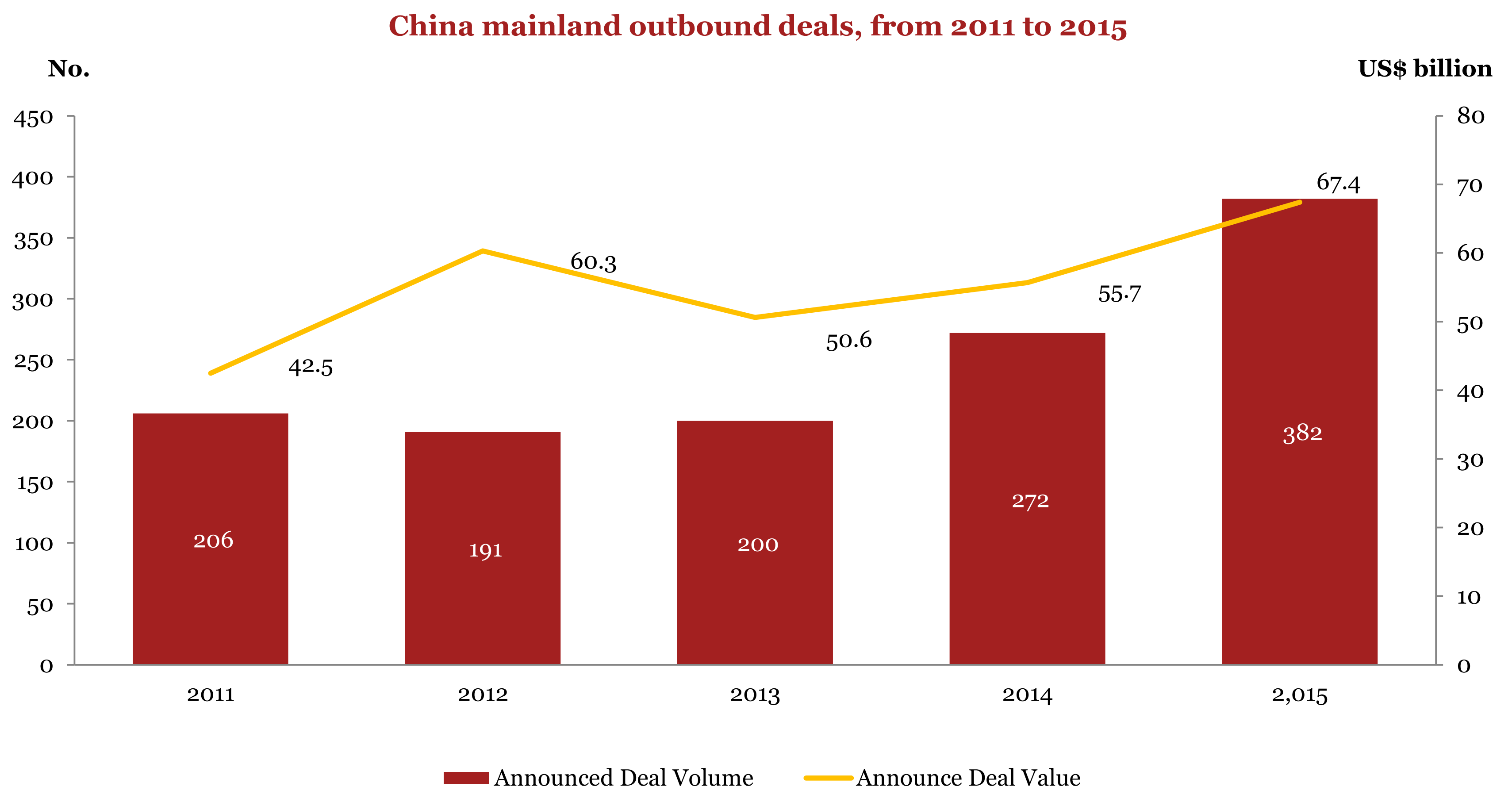
The cumulative overhang of investments to exits remains a problem for the industry, even after taking into account a normal population of failed deals and the impact of longer term investors



Source: ThomsonReuters, ChinaVenture, AVCJ and PwC analysis

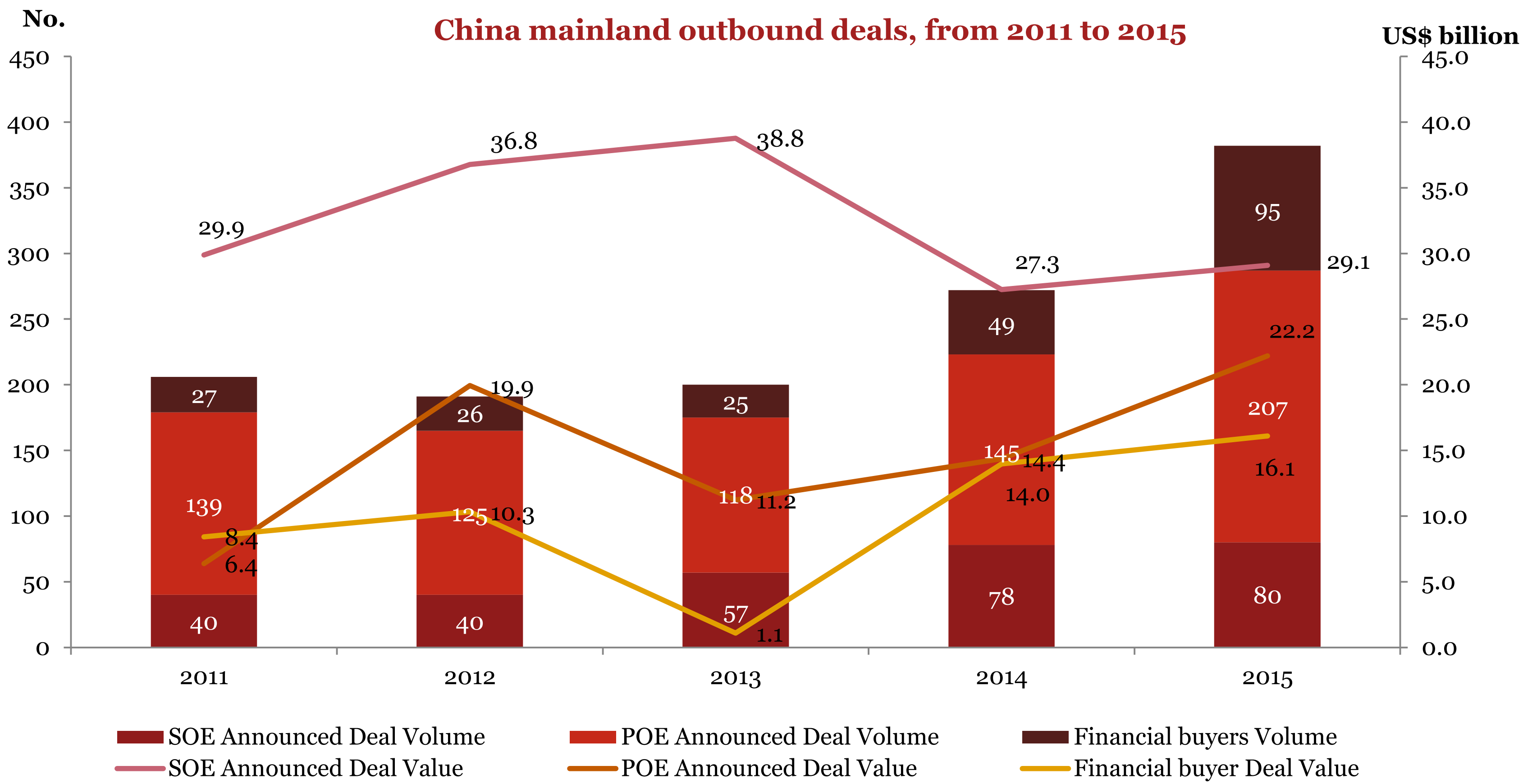
Mainland China outbound

China outbound activity grew 40% (by volume) and 21% (by value) to reach new record highs



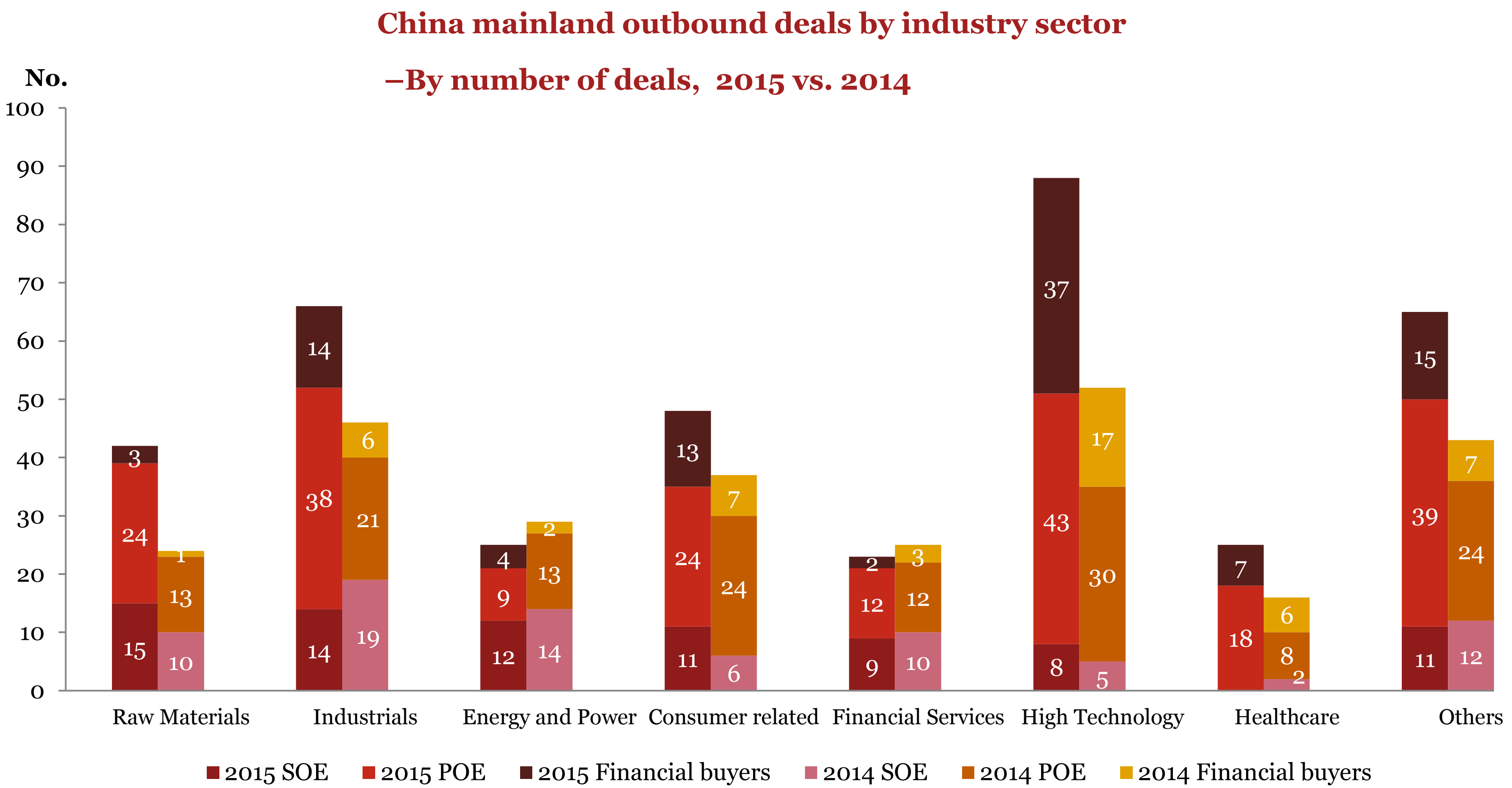
Source: ThomsonReuters, ChinaVenture and PwC analysis

Privately owned enterprises continue to lead the charge; financial buyers and PEs were also very active, but SOE participation continued to be somewhat subdued affected by domestic priorities in the state sector



Source: ThomsonReuters, ChinaVenture and PwC analysis

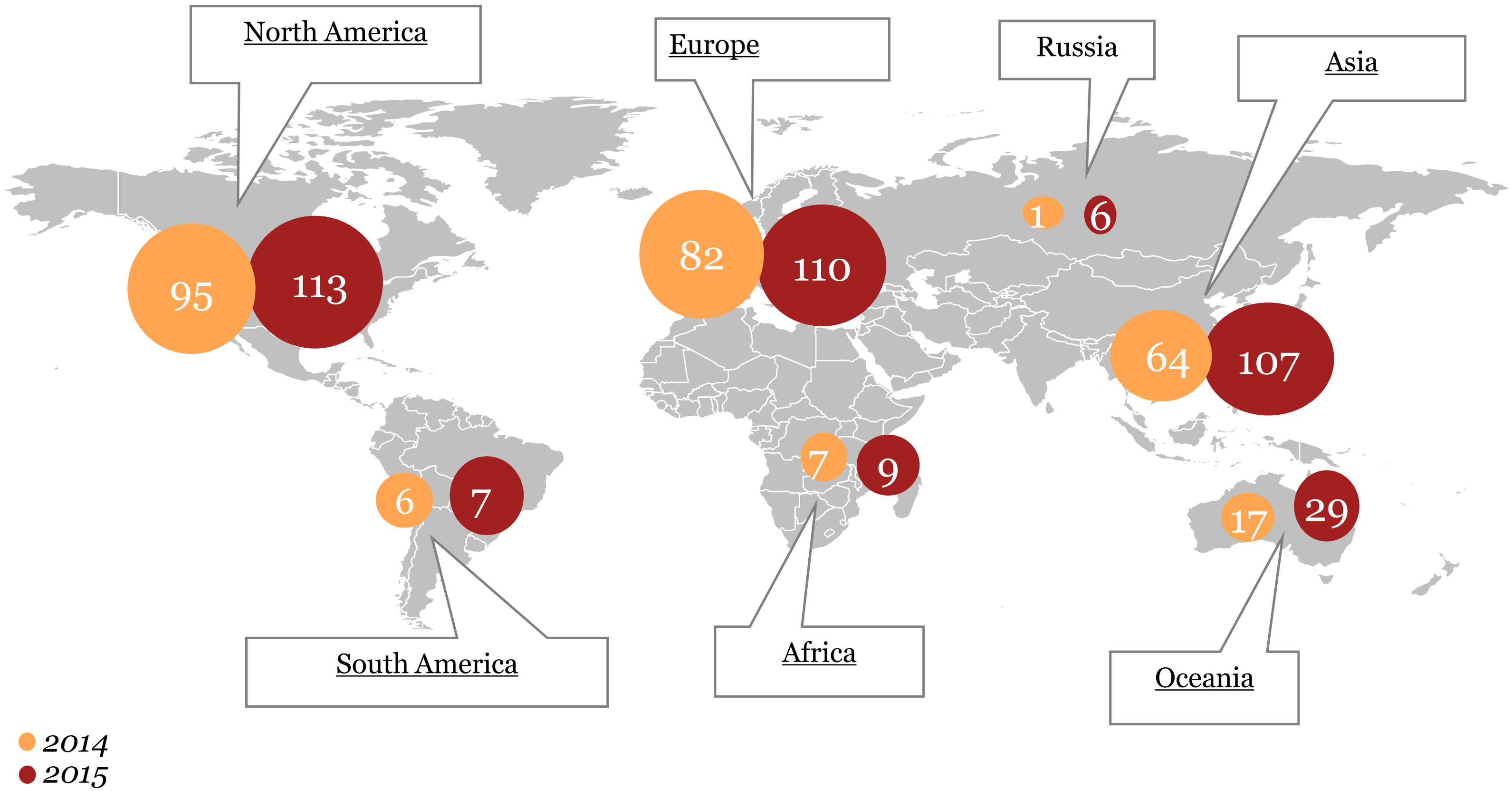
China's overseas M&A tends to pursue technologies, brands and know-how to bring back to the China market; implementing inorganic growth strategies; and – although still a nascent trend – building geographically diversified investment portfolios



Source: ThomsonReuters, ChinaVenture and PwC analysis

Accordingly, developed economies are favoured destinations; Chinese companies have also focused on Asian opportunities, in part in response to the One Belt One Road initiative

Outbound M&A deal volume by region of destination 2015 vs. 2014



Source: ThomsonReuters and PwC analysis

Key messages

Key messages – China M&A in 2015 (1 of 3)

Overall

- *2015 was a record year for China M&A with deal volumes up 37% and values up 84% at US$734 billion*
- *Domestic, PE and Outbound M&A activity all grew strongly and, with more than 114 deals over US$1 billion (a record) deal values advanced by 84%*

Domestic and Foreign-Inbound Strategic

- *Domestic strategic M&A grew strongly driven by economic transformation, some (although still nascent) sector consolidation, restructuring and inorganic growth strategies as the domestic M&A market matures; on the other hand, foreign inbound M&A appears to have reached a broadly steady state, declining somewhat year on year*
- *Technology and FS were particularly hot sectors in 2015 due mainly to higher growth expectations for the tech sector, some industry consolidation in tech, and significant pace of development and capital raising for fintech and payments businesses in China*

Key messages – China M&A in 2015 (2 of 3)

Private Equity

- *PE and VC fundraising remained at healthy levels; the capital available for financial investing is considerably greater than implied by these numbers because of the direct investment activities of insurers (and other financial institutions); government and industry funds; SOE funds; private-company funds; and HNWI vehicles*
- *With so many financial investors active, the number and value of "PE" deals (which includes other categories of financial investors) increased 79% (by volume) and 169% (by value); domestic investors were especially active and it was a generally tougher environment for foreign PEs; there were 27 PE deals in excess of US$1 billion (another record) as the trend towards larger deal sizes continues*
- *The VC industry (and tech investing generally) was especially hot with investors chasing tech opportunities in China in search of perceived high growth opportunities as the general economy slowed; early through late stage funding rounds were closed, with some larger deals (recorded in our "PE" numbers) coming from consolidation in the tech sector*
- *The outbound trend for PEs and financial buyers is now well established, almost doubling in number in 2015 from the previous high; these investors are mainly seeking overseas assets with "a China angle"*
- *Exit activity was lower than expected, due mainly to turbulence in the equity capital markets*

Key messages – China M&A in 2015 (2 of 3)

Private Equity

- *Domestic (A-Share) IPOs continue to be the preferred exit route, with both HK and especially US markets less popular for PE-backed issuers seeking to maximize valuation multiples*
- *The cumulative overhang of investments to exits remains a problem for the industry, even after taking into account a normal population of failed deals and the impact of longer term investors*

Key messages – China M&A in 2015 (3 of 3)

China Outbound

- *China outbound activity grew 40% (by volume) and 21% (by value) to reach new record highs*
- *Privately owned enterprises continue to lead the charge; financial buyers and PEs were also very active, but SOE participation continued to be somewhat subdued affected by domestic priorities in the state sector*
- *China's overseas M&A tends to pursue technologies, brands and know-how to bring back to the China market; implementing inorganic growth strategies; and – although still a nascent trend – building geographically diversified investment portfolios*
- *Accordingly, developed economies are favoured destinations; Chinese companies have also focused on Asian opportunities, in part in response to the One Belt One Road initiative*

Outlook

Outlook for 2016 (1 of 6)

Overall

- We think that the rate of China M&A activity will continue to grow at double-digit pace, led by domestic strategic and outbound activity, as well as robust financial-buyer activity (even if not necessarily mainstream PE)

Key industry sectors

- Technology deals will remain hot, driven by:
  - Government support for technology and innovation as enablers of the transformation of China's economy
  - Investor expectations of high growth
  - Active private equity and VC involvement in the sector
  - A vibrant start-up environment
  - Sector consolidation and M&A growth strategies led by industry leaders such as Baidu, Alibaba and Tencent

Outlook for 2016 (2 of 6)

Key industry sectors (cont'd)

- Activity in Financial Services will also be healthy, driven by:
  - Strong outbound activity, for example
    - Chinese banks expanding abroad to support China's overseas infrastructure (including One Belt One Road), trade flows and the increasingly global activities of their domestic customers
    - Insurers, fintech and payments companies to acquire financial product manufacturing capability and brands
    - Domestic payment companies stepping up their international expansion to capture China inbound and outbound cashflow businesses
  - Ongoing restructuring of the domestic FS market, in particular to serve liquidity needs in retail and SME markets

Outlook for 2016 (3 of 6)

Domestic Strategic

- Longer term drivers of growth remain in play, including: transformation of the economy, sector consolidation and restructuring; SOE reforms; and inorganic growth strategies – we expect that these factors will override slowing economic condition and volatile equity capital markets facilitating continuing double-digit growth

Foreign Inbound Strategic

- Foreign inbound M&A will remain at or around levels seen over the last few years, with the uncertainties in the global markets somewhat dampening the enthusiasm for inbound investment, although the continuing higher levels of growth in China still attract attention from overseas buyers
- Joint venture activity will remain strong and the preferred route for many overseas investors with CEOs continuing to cite this as a good way to operate in the China market with the right Chinese partner
- Existing foreign investors are restructuring their operations providing some opportunities for carve out transactions and disposals of non-core assets

Outlook for 2016 (4 of 6)

China Outbound

- China outbound M&A will continue to grow by more than 20% in 2016
- There is a sizeable cadre of increasingly experienced mainland Chinese acquirers of overseas assets and they will remain active
- Longer term drivers such as going-out to bring-back, and overseas M&A as a source of inorganic growth, remain in play, and the One Belt One Road initiative is also driving some outbound M&A activity
- We expect to see ongoing growth in the number of financial (not only strategic) investments, most of which will be focused on acquiring foreign companies with a “China angle” in their strategic plans; in addition, some Chinese investors are also starting to invest overseas in order to build geographically diversified portfolios
- Over time, outbound M&A will grow very strongly to support the emergence of true Chinese MNCs

Outlook for 2016 (5 of 6)

Private equity (and other financial investors)

- Traditional PE faces increasing competition from other classes of direct financial investors including insurers (and other financial institutions); government and industry funds; SOE funds; private-company funds; and HNWI vehicles
- Despite ongoing disruption in the domestic equity capital markets, A-share related exits are often preferred due to better multiples, and this tends to favour domestic PEs over their foreign counterparts
- A-Share turbulence could dampen PE investment activity but can also have a positive effect as SMEs turn to private equity as an alternative source of equity capital
- We expect outbound PE and financial buyer investment to continue to grow
- We do expect exits to increase especially if markets stabilise, and also with more secondary (PE to PE) activity
- Longer term drivers include: a cashed-up PE industry; greater participation by domestic PE investors and "non-traditional" direct investors; general demand for equity capital in China; more buy-out opportunities; PE participation in SOE reforms; and a higher level of M&A exit activity to clear backlogs - all remain in play.
- Overall, full-year 2016 will likely be a record year for financial M&A, albeit not necessarily for traditional PE taken alone.

Outlook for 2016 (6 of 6)

Venture capital

- The technology space will continue to be a hot sector (see earlier comments)
- However, we think VC activity – whilst remaining strong in absolute terms – will decline slightly from the super-high levels seen in 2015 as valuations become more challenging and investors somewhat more circumspect

Data compilation methodology and disclaimer

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

Included Deals

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

Excluded Deals

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

Thank you