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PwC Private Equity/Venture Capital 2014 Review and 2015 Outlook

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pwc

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Table of contents

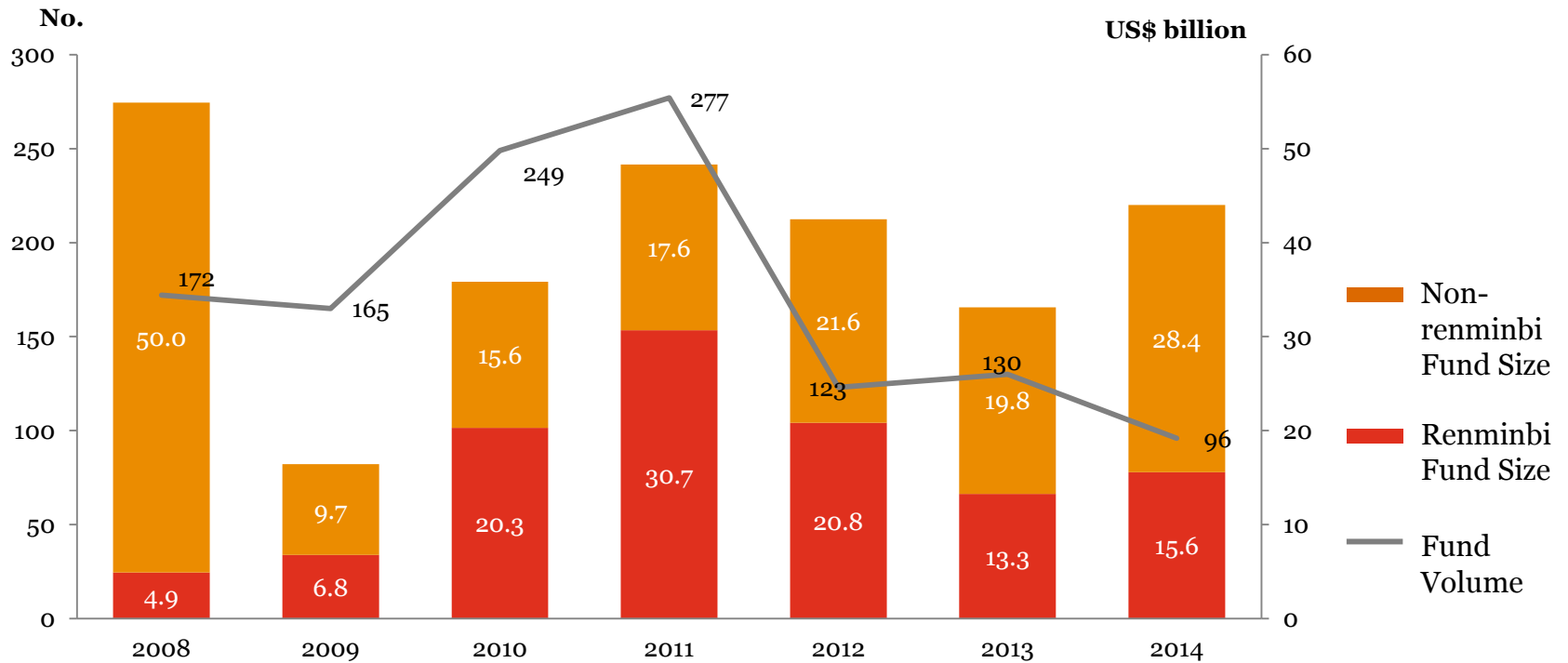
Fundraising	3
Investments	8
Exits	17
Key messages	24
2015 outlook & eight mega-trends	27

Fundraising

Fundraising by PEs remained healthy, with the strongest US\$ fundraise since 2008 and a slight uptick in renminbi fundraising.

PE/VC fund raising for China investment*

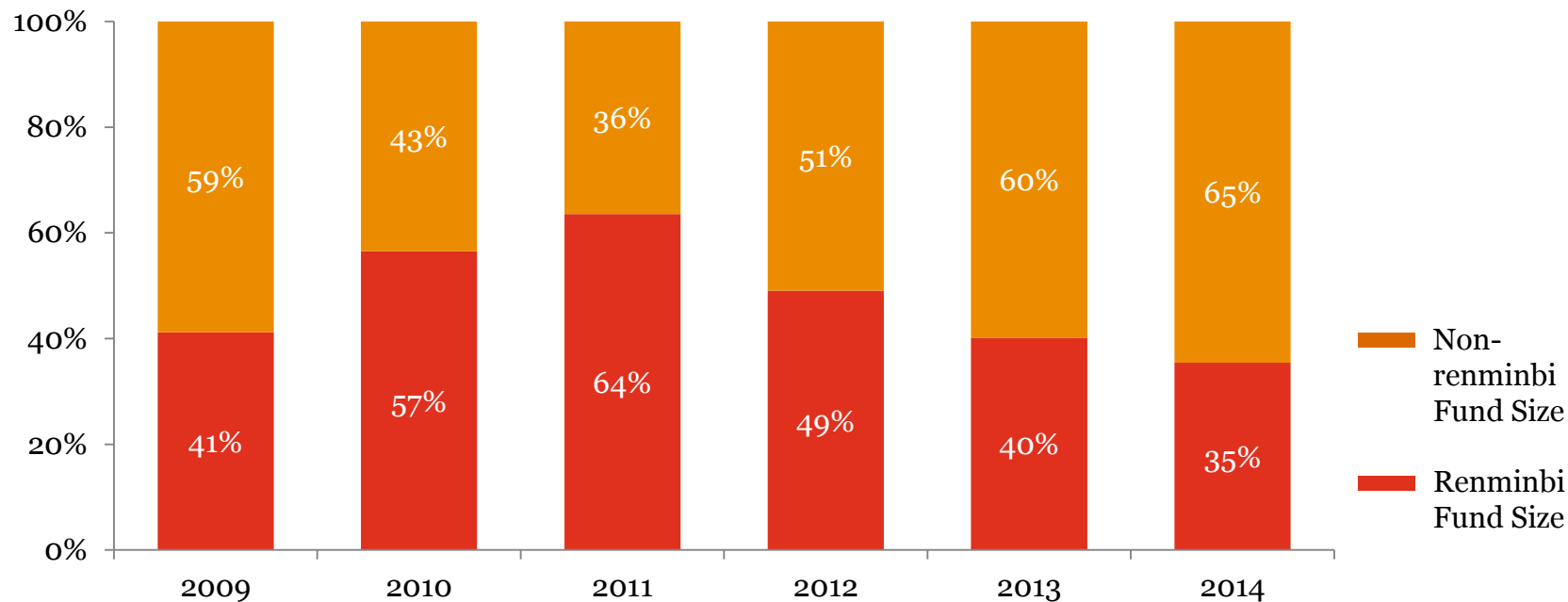
* Excludes PEs investing in China from non-region specific funds



Source: AVCJ and PwC analysis

In 2014, the volume of fundraising went down. However, the renminbi fund size increased by 17% compared to 2013, while the non-renminbi fund size grew by a solid 43% YoY. Non-renminbi funds has rebounded more rapidly than renminbi funds in terms of fundraising value since 2011. As a whole, the proportion of renminbi fundraising has gone down.

Funds: The growth of Renminbi funds (2009 – 2014)

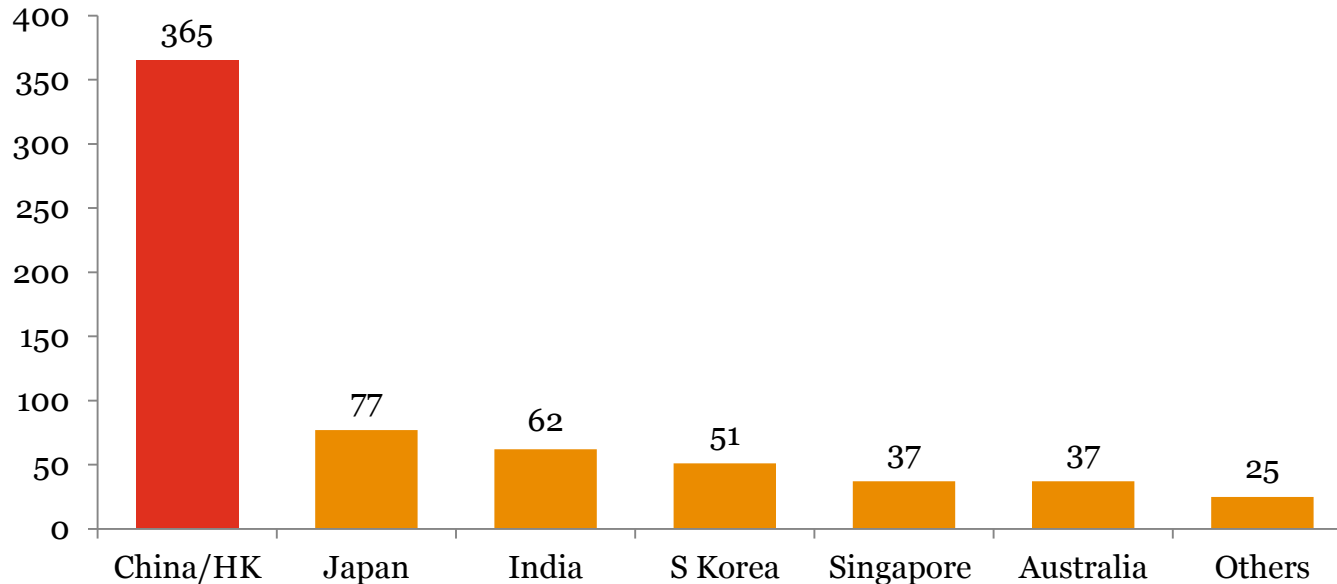


Source: AVCJ and PwC analysis

2004 - 2014, Fundraising for the China and Hong Kong markets dominate Asian PE with *around US\$365 billion raised (not including allocations from non-China specific funds).*

Total funds raised by fund country, with geographic preference in Asia (2004 - 2014)

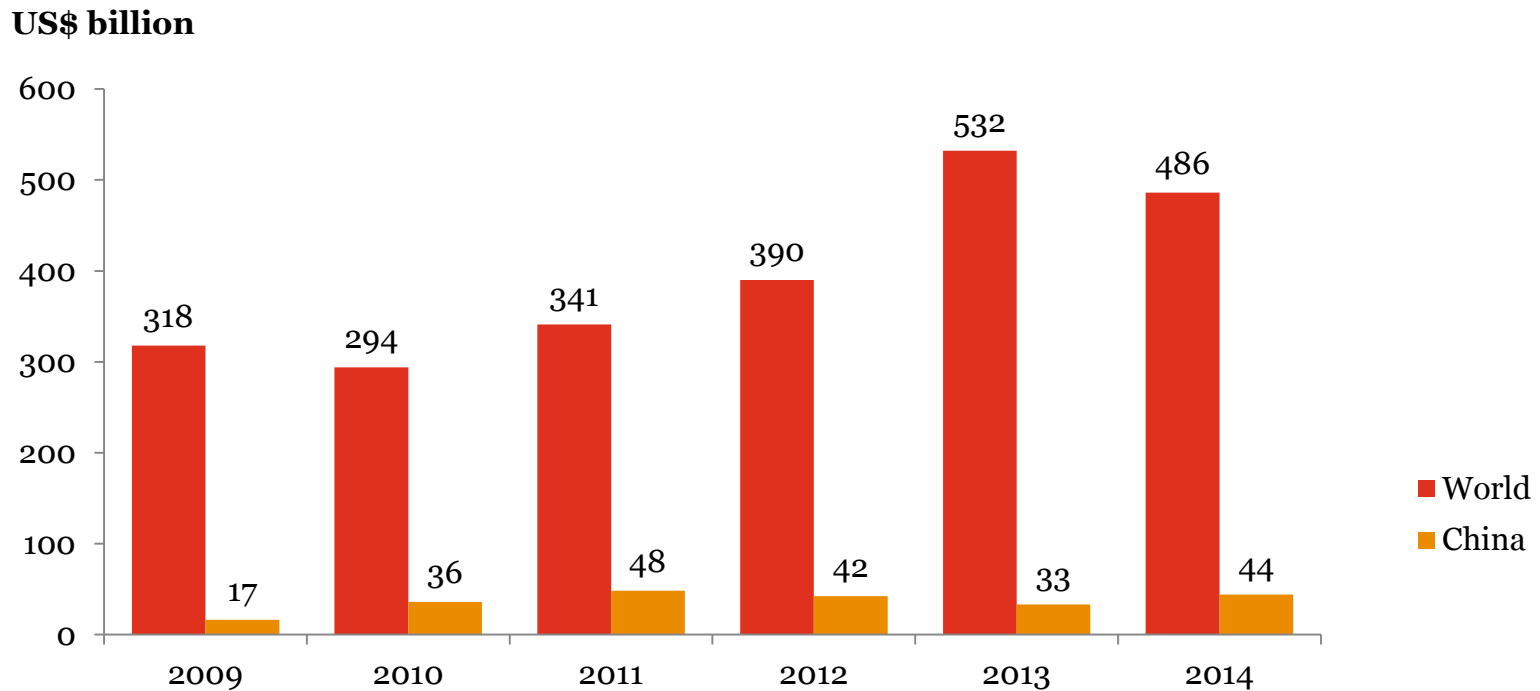
US\$ billion



Source: AVCJ

2014, funds raised in China accounted for 9% of the fund raised globally, three percentage points up compared to 2013, almost back to 2012 levels.

Funds: PE/VC funds raised in China vs ROW (2009 – 2014)

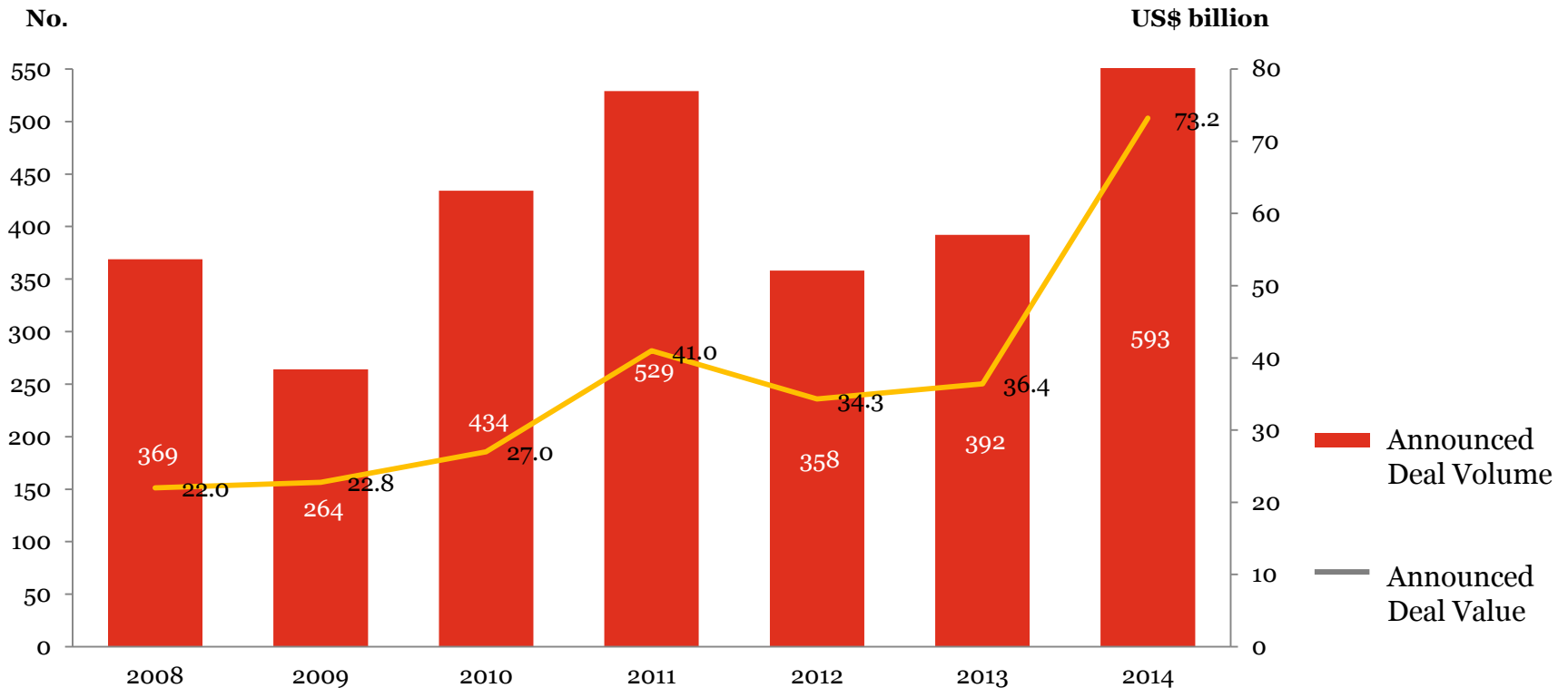


Source: AVCJ, Preqin and PwC analysis

Investments

2014 was a banner year for new investments by PEs with record volumes (up 51%) and values (up 101%); participation in SOE reforms and - for the first time at scale - outbound deals involving Chinese GPs and financial buyers underpinned this performance.

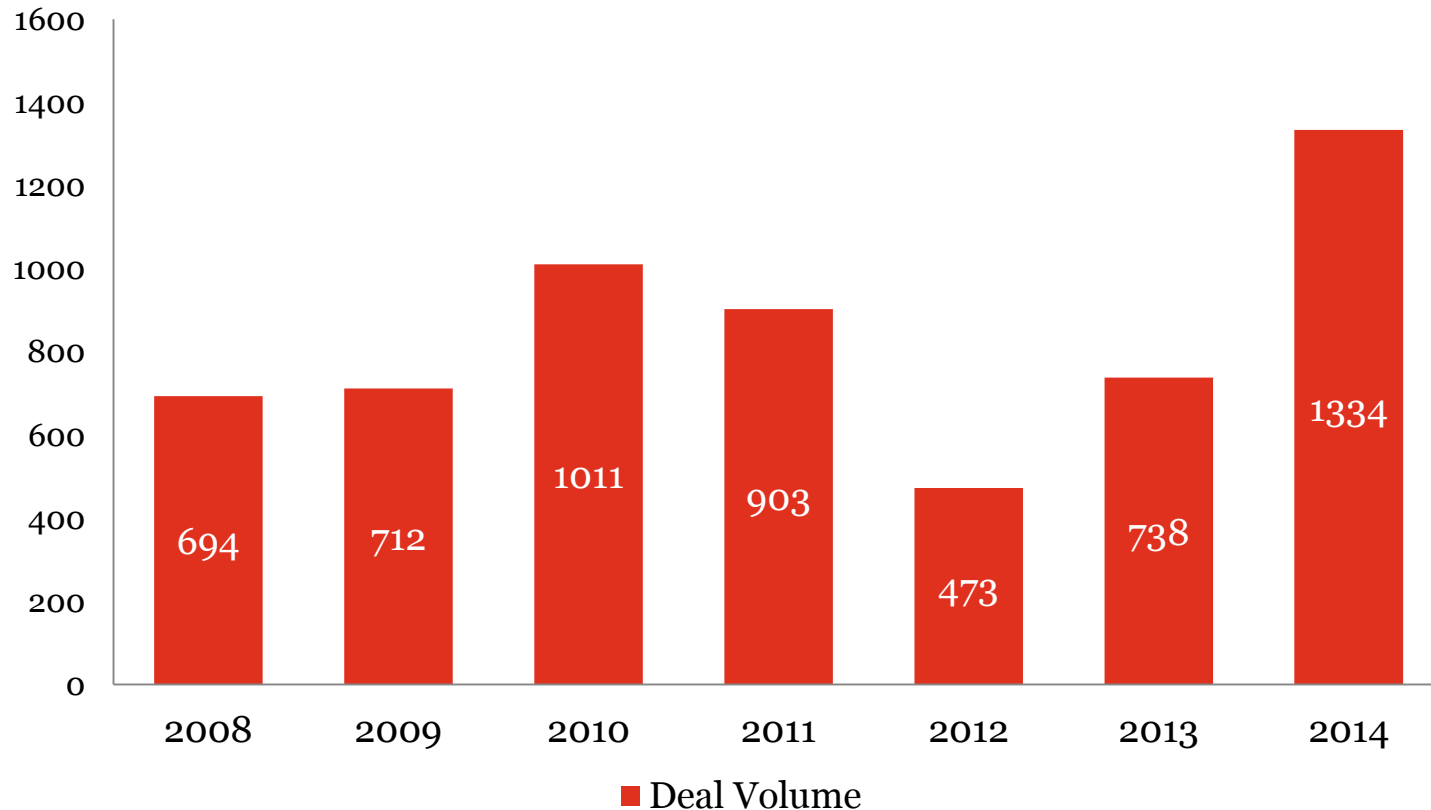
Private equity deals (2008 – 2014)



Source: ThomsonReuters, ChinaVenture and PwC analysis

... In 2014, the total VC deal volume shot up by 81% compared to a year ago, reaching a record high since 2008.

Venture Capital deals by volume (2008 – 2014)

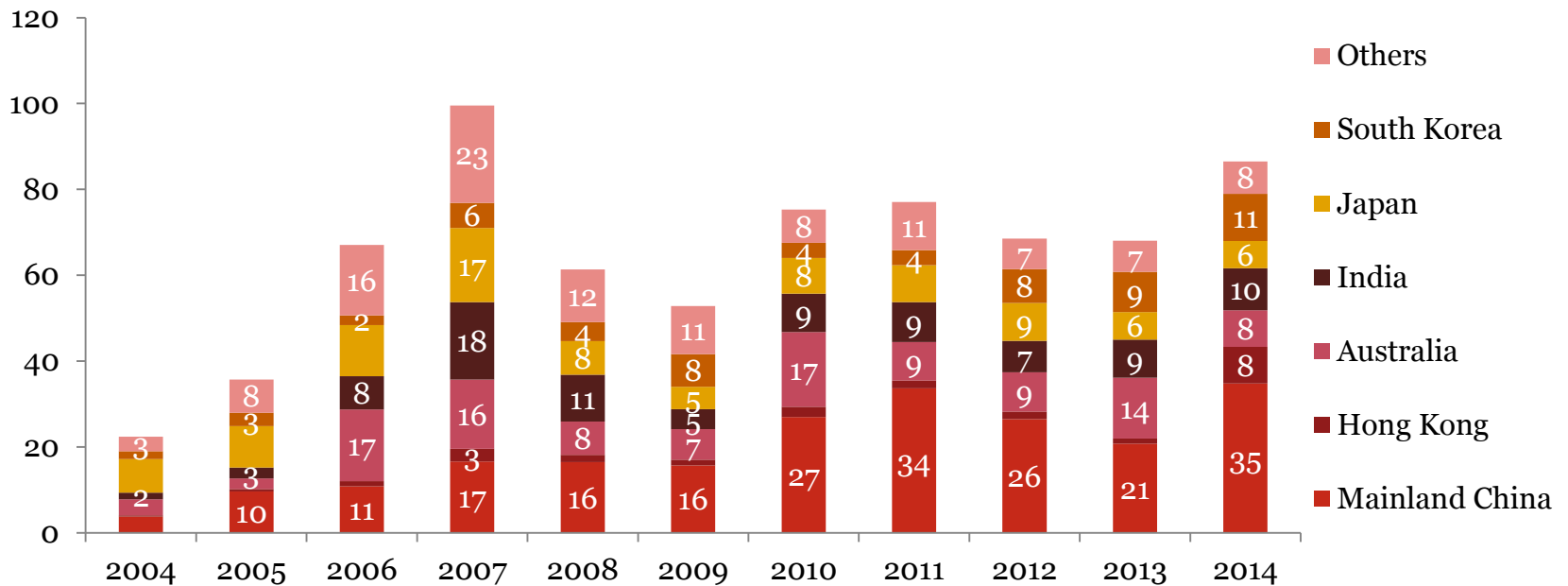


Source: Thomson Reuters, China Venture, AVCJ, and PwC analysis

China has been the single largest PE investment destination in Asia since 2008 and accounted for 41% of Asian PE deal values in 2014.

Deals: Deal values by Asian country (2004 – 2014)

US\$ billion

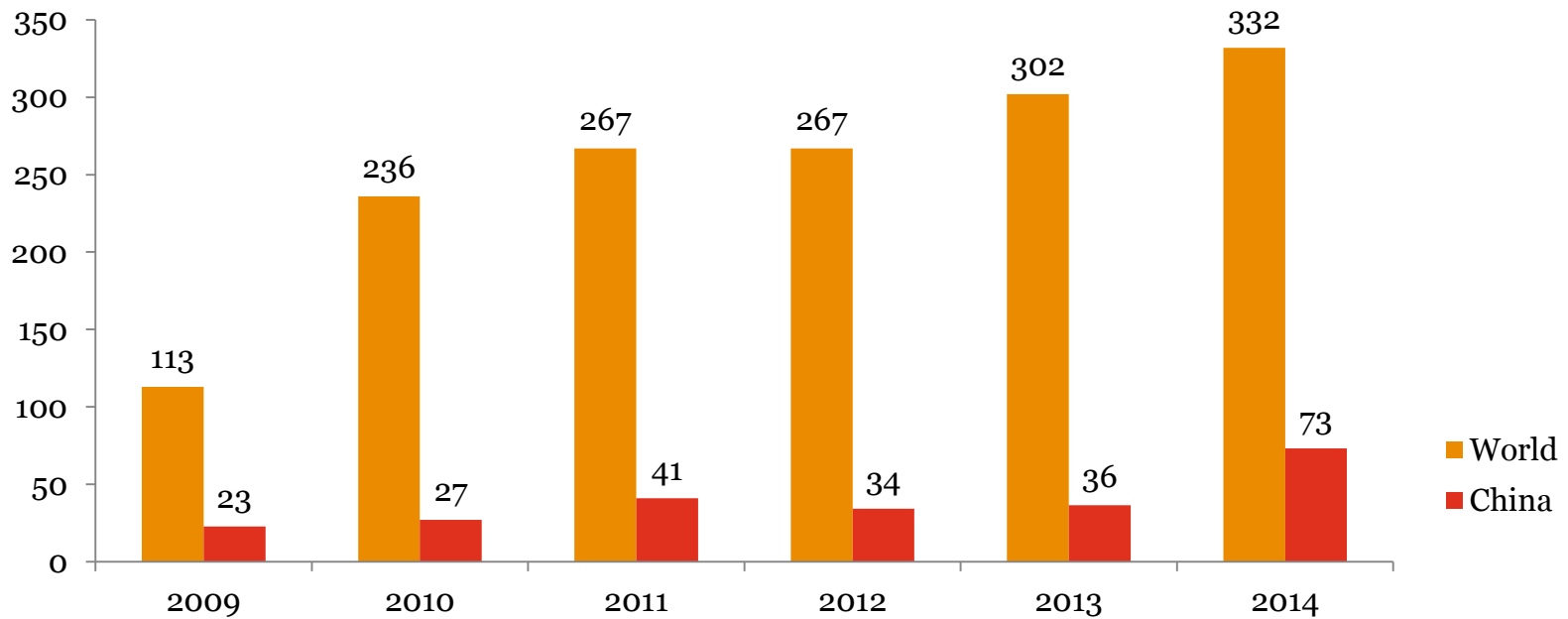


Source: AVCJ

Although, globally, China has a much smaller share. China deal value increased by 103% in 2014 compared to 2013. Meanwhile, globally, there was only a 10% increase in deal value.

Deals: Deal values China vs ROW (2009 – 2014)

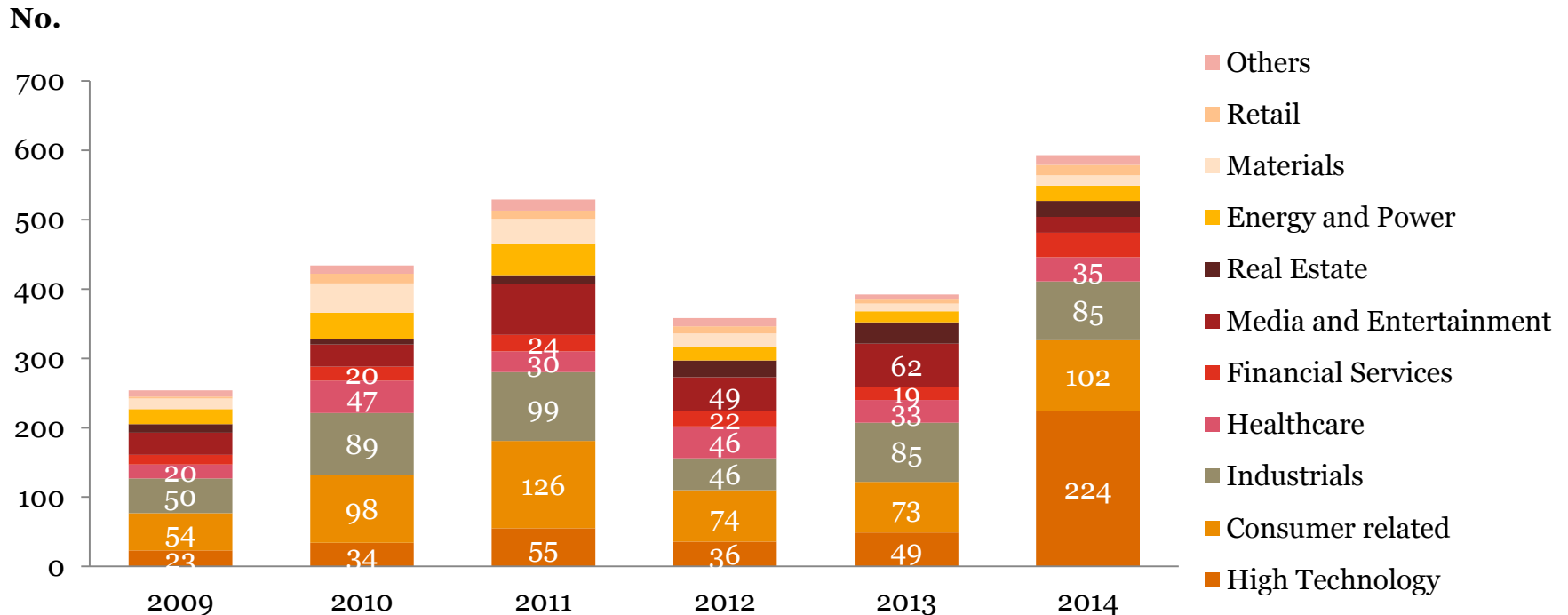
US \$ billion



Source: AVCJ, Preqin and PwC analysis

PE deals in technology and consumer-related sectors accounted for more than half the total reflecting investment plans intended to align with the strategic direction of the wider economy ...

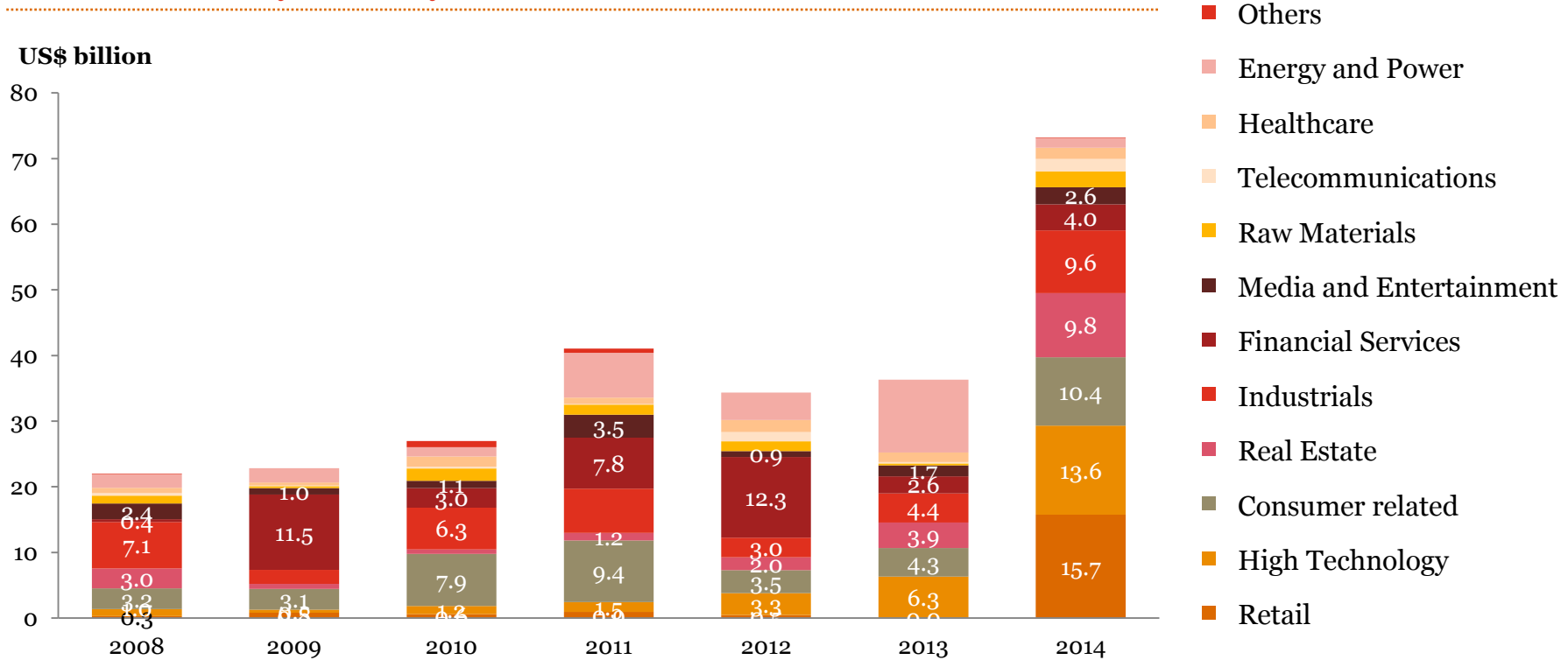
PE deal volume by industry sector



Source: Thomson Reuters, ChinaVenture and PwC analysis

... and a similar trend was seen in deal values: in total there were 15 PE deals valued at more than US\$1bn in 2014, another record.

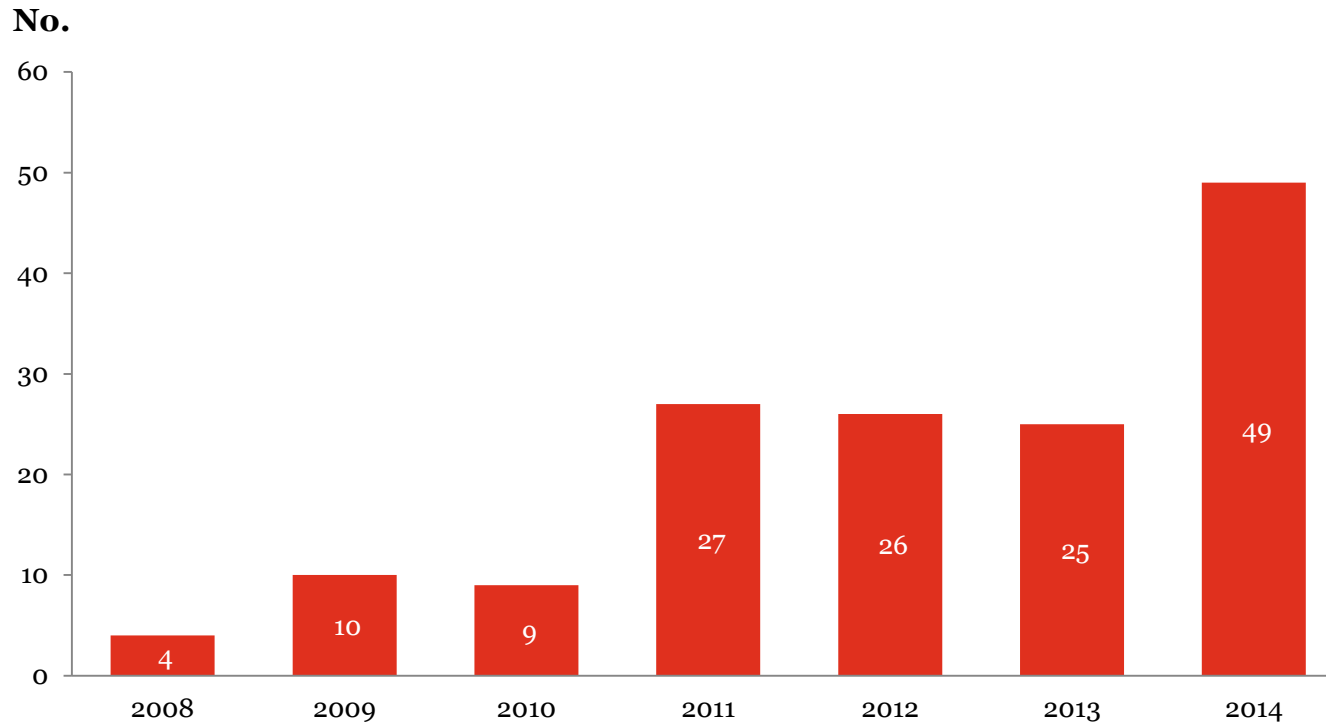
PE deal value by industry sector



Source: Thomson Reuters, ChinaVenture and PwC analysis

Outbound investment by local PEs almost doubled in volume terms ...

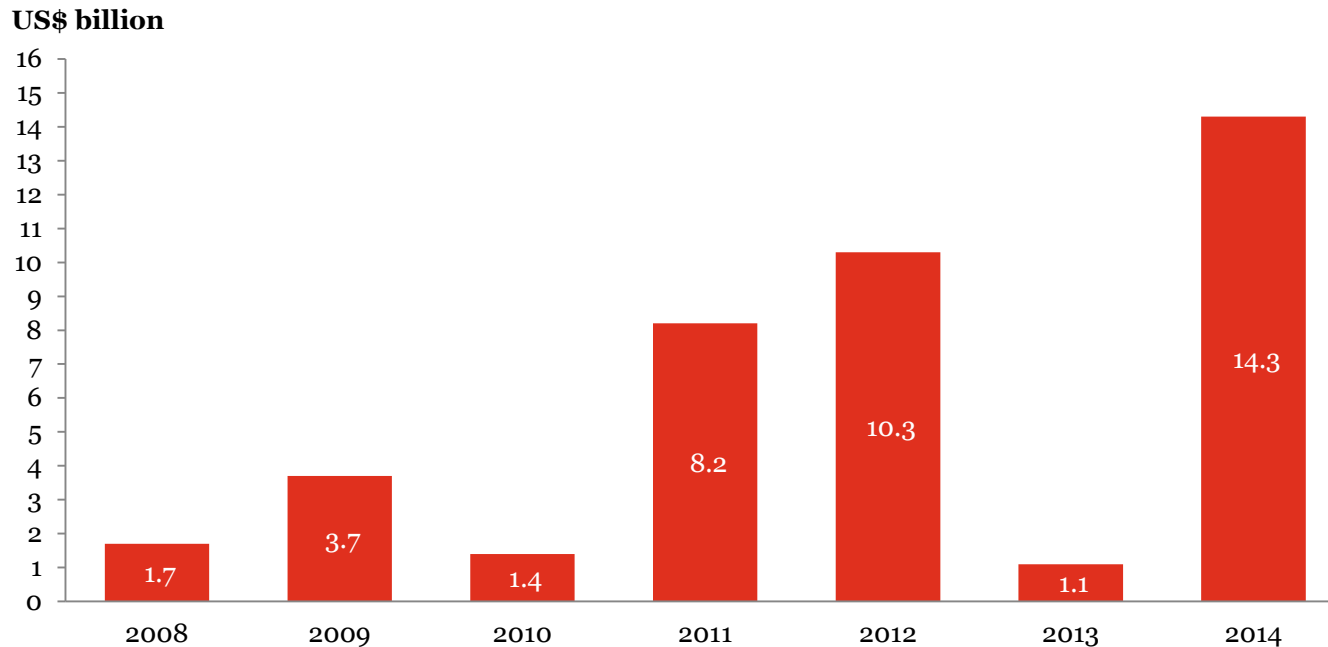
China mainland PE backed outbound deal volume by PE category



Source: Thomson Reuters, ChinaVenture and PwC analysis

... and outbound deal values also reached a record high; PEs typically look for overseas businesses which have a strong China-angle in their growth strategies.

China mainland PE backed outbound deal value by PE category

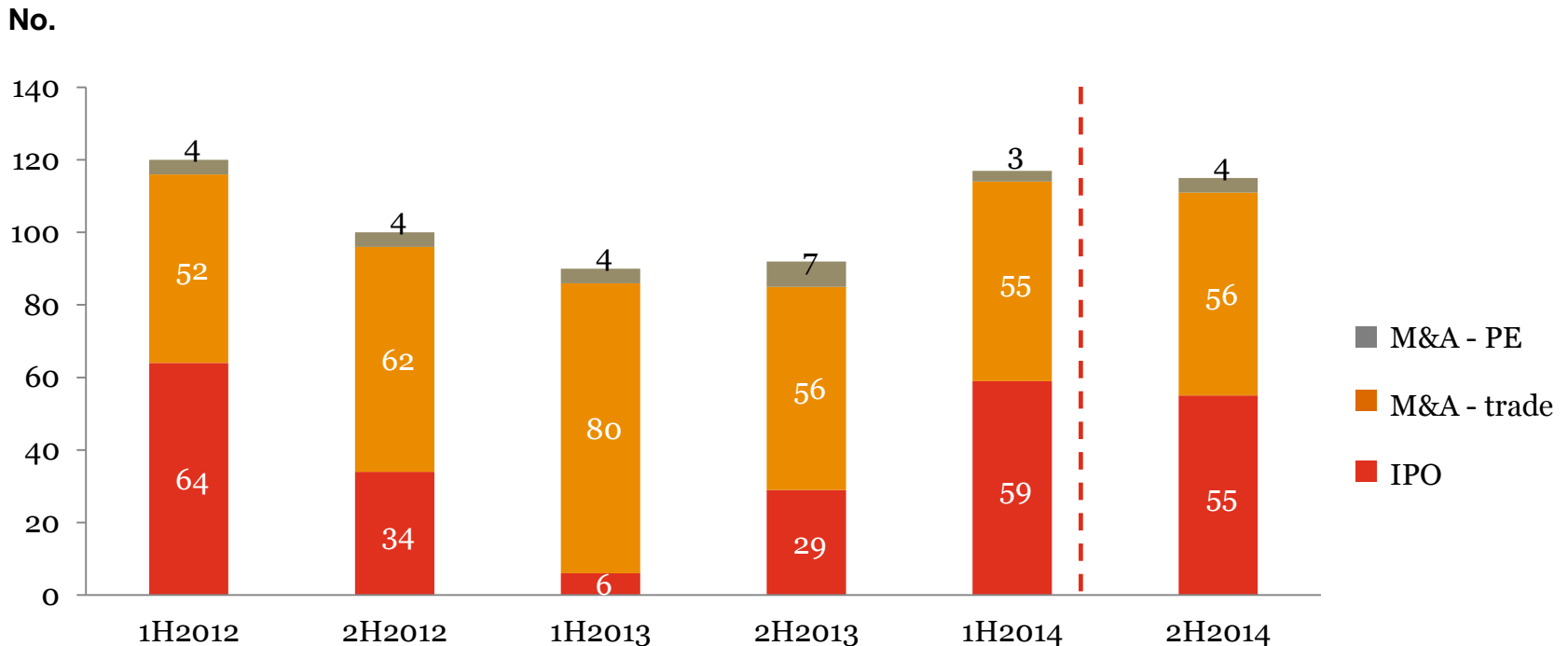


Source: Thomson Reuters, ChinaVenture and PwC analysis

Exits

The second half of 2014 saw a performance equal to the first half. However, if we see it as a whole, the cross-board IPOs backed by PE funds made a strong comeback in 2014. Noticeably, overseas IPOs took the majority of the proportion.

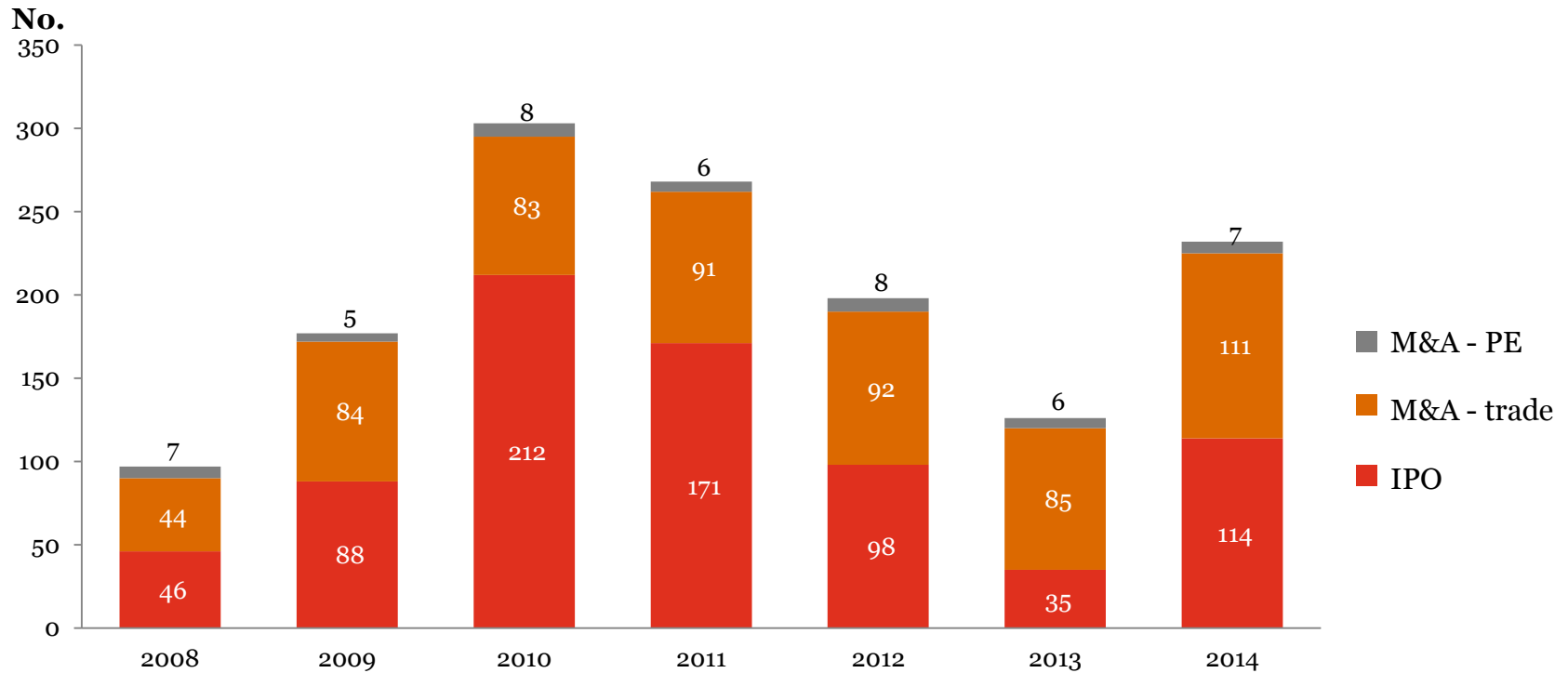
PE/VC backed deal exit volume by type (2012 – 2014 half yearly)



Source: AVCJ and PwC analysis

As expected, there was a rebound in the number of PE exits; trade sale exits by M&A hit a record high, but IPO activity – although at a three year best - remains well below the levels seen in 2010/11.

PE/VC backed deal exit volume by type

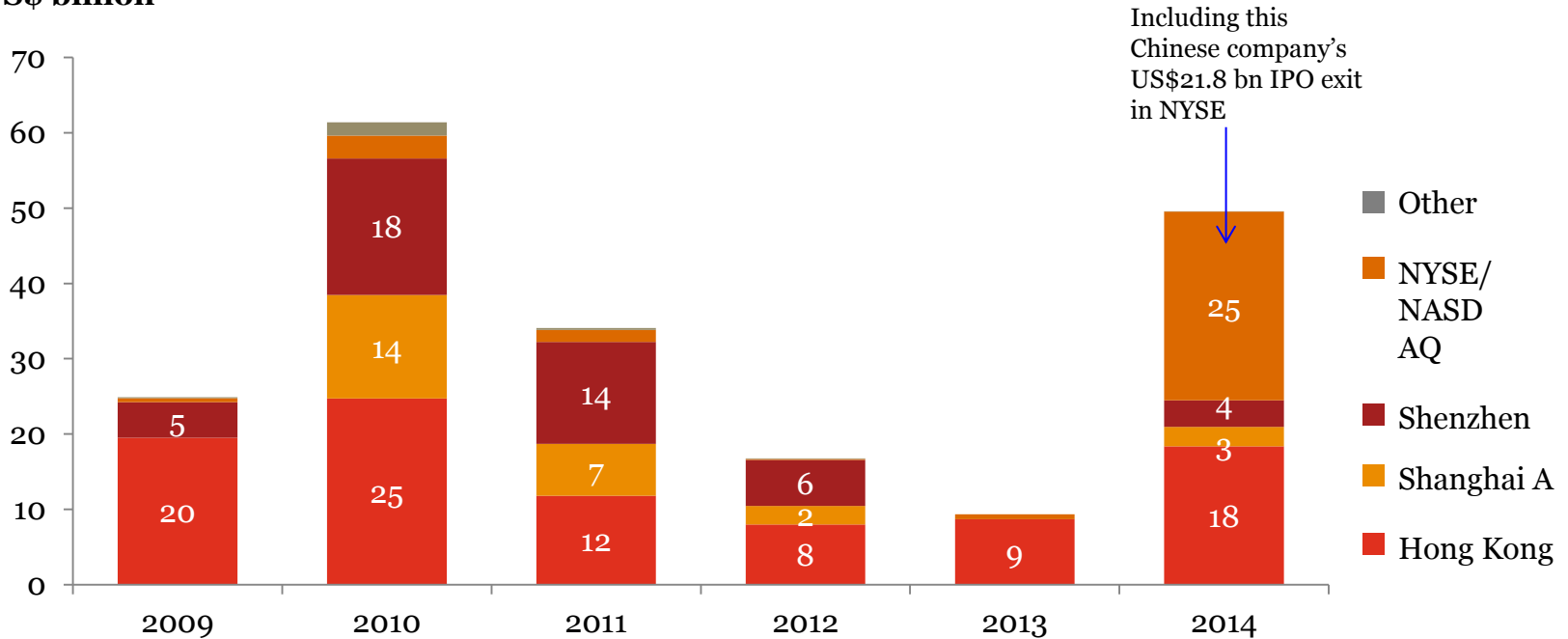


Source: AVCJ and PwC analysis

The resurgence of Chinese IPOs was due to the CSRC lifting the listing freeze. However, the world's biggest IPO, a Chinese company, listed on NYSE rather than one of the Chinese exchanges.

Exits: China PE/VC backed IPO exits — amounts raised by bourse (2009 – 2014)

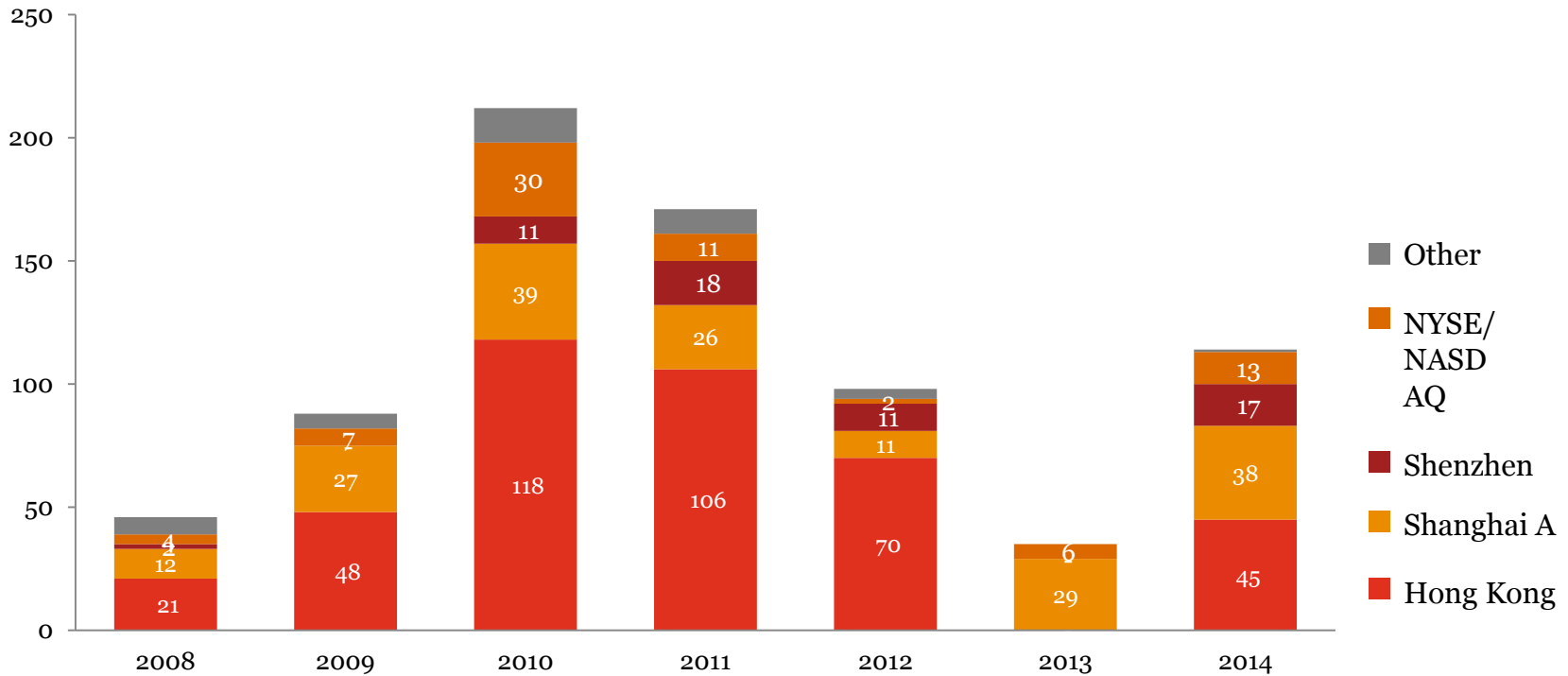
US\$ billion



Source: AVCJ

A-share listings, although rebounding, nevertheless remain somewhat challenging and overseas listings in Hong Kong and New York are important exit routes.

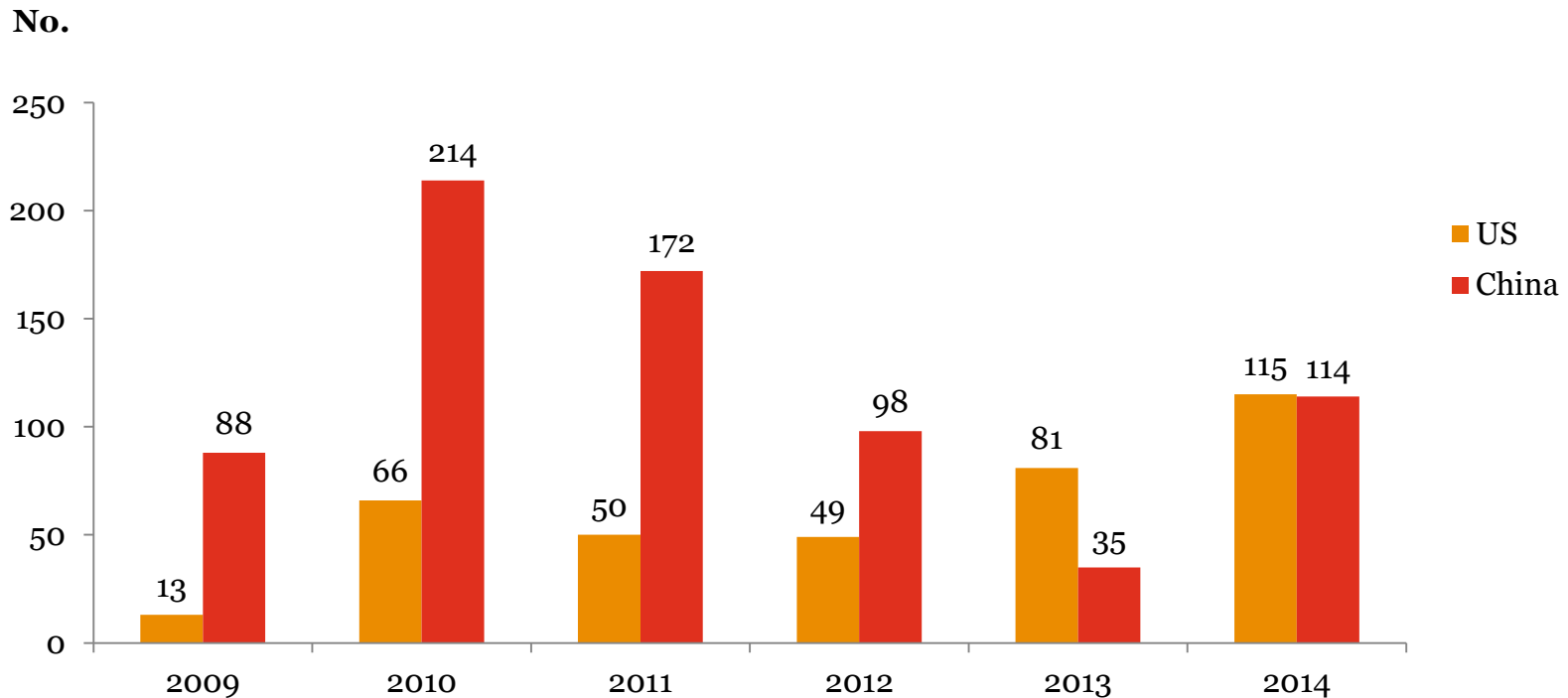
Exits: China PE/VC backed IPO exits — number of exits by bourse (2009 – 2014)



Source: AVCJ

In 2014 China bounced back to join level with the US in terms of volume of PE /VC backed IPOs after a fall in 2013.

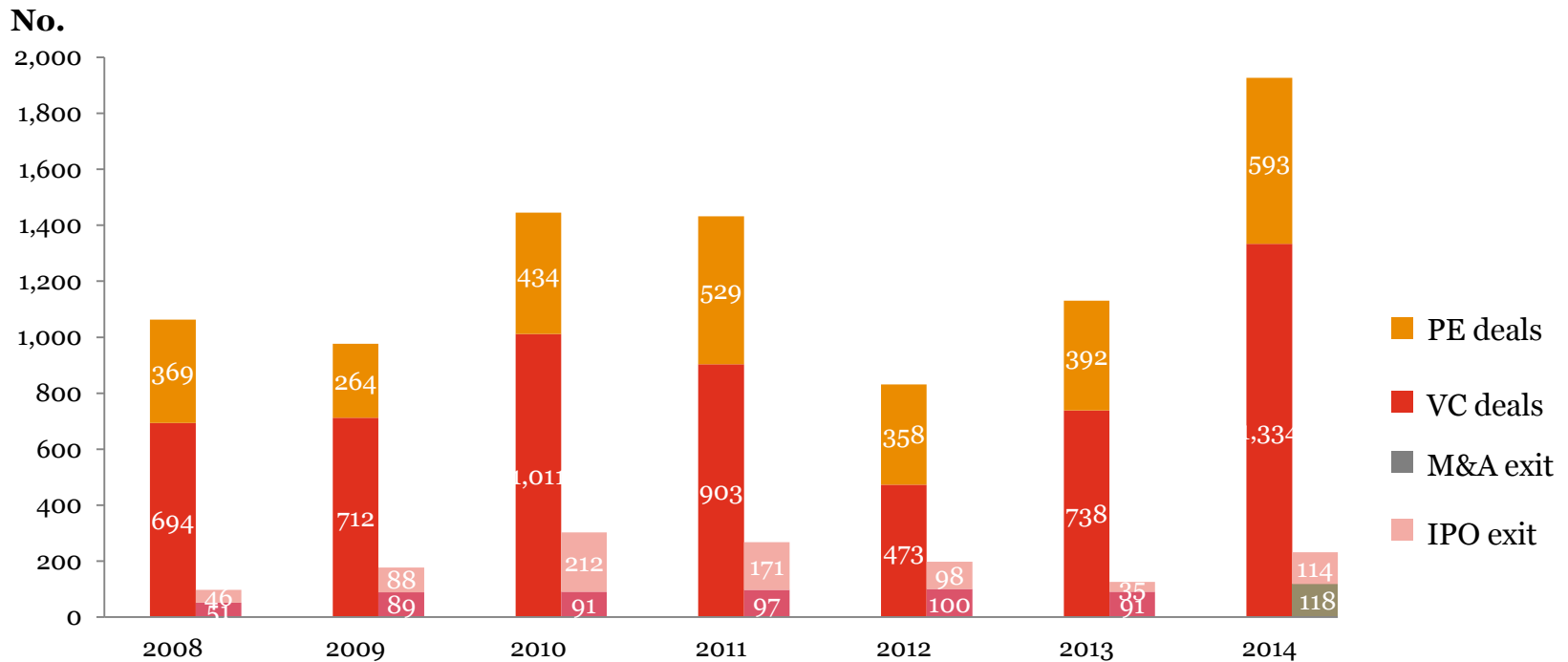
Exits: PE/VC backed IPO exits China vs US (2009 – 2014)



Source: AVCJ, Thomson Reuters and NVCA

The longer term overhang of new investments compared to exits continues to present a challenge to the PE industry.

PE/VC deal volume vs number of exits



Source: Thomson Reuters, ChinaVenture, AVCJ and PwC analysis

Key messages

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Fundraising

- Fundraising by PEs remained healthy, with the strongest US\$ fundraise since 2008 and a slight uptick in renminbi fundraising.
- 2004 - 2014, Fundraising for the China and Hong Kong markets dominate Asian PE with **around US\$365 billion** raised (not including allocations from non-China specific funds).

Investments

- 2014 was a banner year for new investments by PEs with record volumes (up 51%) and values (up 101%); participation in SOE reforms and - for the first time at scale - outbound deals involving Chinese GPs underpinned this performance.
- In 2014, the total VC deal volume shot up by 81% compared to a year ago, reaching a record high since 2008.
- Although, globally, China has a much smaller share. China deal value increased by 103% in 2014 compared to 2013. Meanwhile, globally, there was only a 10% increase in deal value.
- PE deals in technology and consumer-related sectors accounted for more than half the total reflecting investment plans intended to align with the strategic direction of the wider economy; a similar trend was seen in deal values: in total there were 15 PE deals valued at more than US\$1bn in 2014, another record.

Key messages

Exits

- As expected, there was a rebound in the number of PE exits; trade sale exits by M&A hit a record high, but IPO activity – although at a three year best - remains well below the levels seen in 2010/11.
- In 2014 China bounced back to join level with the US in terms of volume of PE or VC backed IPOs after a fall in 2013.
- The longer term overhang of new investments compared to exits continues to present a challenge to the PE industry.

2015 outlook & eight mega-trends

The scale of PE activity in China will remain robust in 2015. There are exceptionally strong tailwinds for the PE industry in China over the medium term (1 of 2)

The eight mega-trends

- ***Demand for capital in China's private sector:*** PE has emerged as a key provider of capital to the liquidity starved private sector in China with real policy support as well as new regulations. The state-owned sector may also start to come into play as part of the ongoing SOE reforms.
- ***Consolidation:*** But there will be winners and losers in the sector - high quality, professional PEs will thrive.
- ***Flight to quality:*** Within China, the days where PEs could throw money at deals and expect a “rising tide to float all boats” have gone; careful and professional diligence is vitally important.
- ***Outbound, and emergence of China's home grown global PEs:*** Yuan denominated PE fund raising is here to stay and the big players in China will emerge to compete with their global peers; we are already seeing a step-up in outbound M&A involving some of the pre-eminent Chinese PEs and the outbound trend is happening much faster than many people predicted or even realise

The scale of PE activity in China will remain robust in 2015. There are exceptionally strong tailwinds for the PE industry in China over the medium term (2 of 2)

- ***The buy-out trend:*** there are an increasing number of buy-out opportunities and more PEs are looking to do control transactions.
- ***Quantum leap in exit activity:*** The industry as a whole is moving into an “exit phase”; the backlog of exits represents a real challenge for the sector; it is more than IPO markets can absorb, and trade and secondary sales by M&A will become more frequent.
- ***Importance of A-shares:*** The A-share market has been and will continue to be an important exit route for PE.
- ***The “wall of money”:*** Unlike in developed markets, Yuan denominated PE fundraising has hitherto been dominated by retail investors; this is changing as institutions in China including securities and insurance companies are granted permission to invest in PE; the resulting theoretical “wall of money” which could become available for PE investment over the medium term is measured in hundreds of billions of renminbi.

Thank you