

# *PwC M&A 2017 Review and 2018 Outlook*

David Brown, Transaction Services Leader,  
PwC China and Hong Kong

Christopher Chan, Advisory Partner,  
PwC China and Hong Kong

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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, AVCJ 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 refer only to those deals where a value has been disclosed (referred to in this presentation as “disclosed value”)
- “Domestic” means China including Hong Kong 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

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## ***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 value, but invested by venture capital funds
- “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, comprises PE and VC funds
- “Strategic buyer” refers to investors that acquire companies with the objective of integrating the acquisition in their existing business
- In order to exclude foreign exchange impact, deal values from 2013 to 2016 were adjusted based on 2017 average Rmb/US\$ exchange rate

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# *Overview*

## ***2017 China M&A fell 11% to US\$671bn off the record highs of 2016, as China pursued a more strategic approach to outbound M&A***

### **Total deal volume and value, from 2013 to 2017**

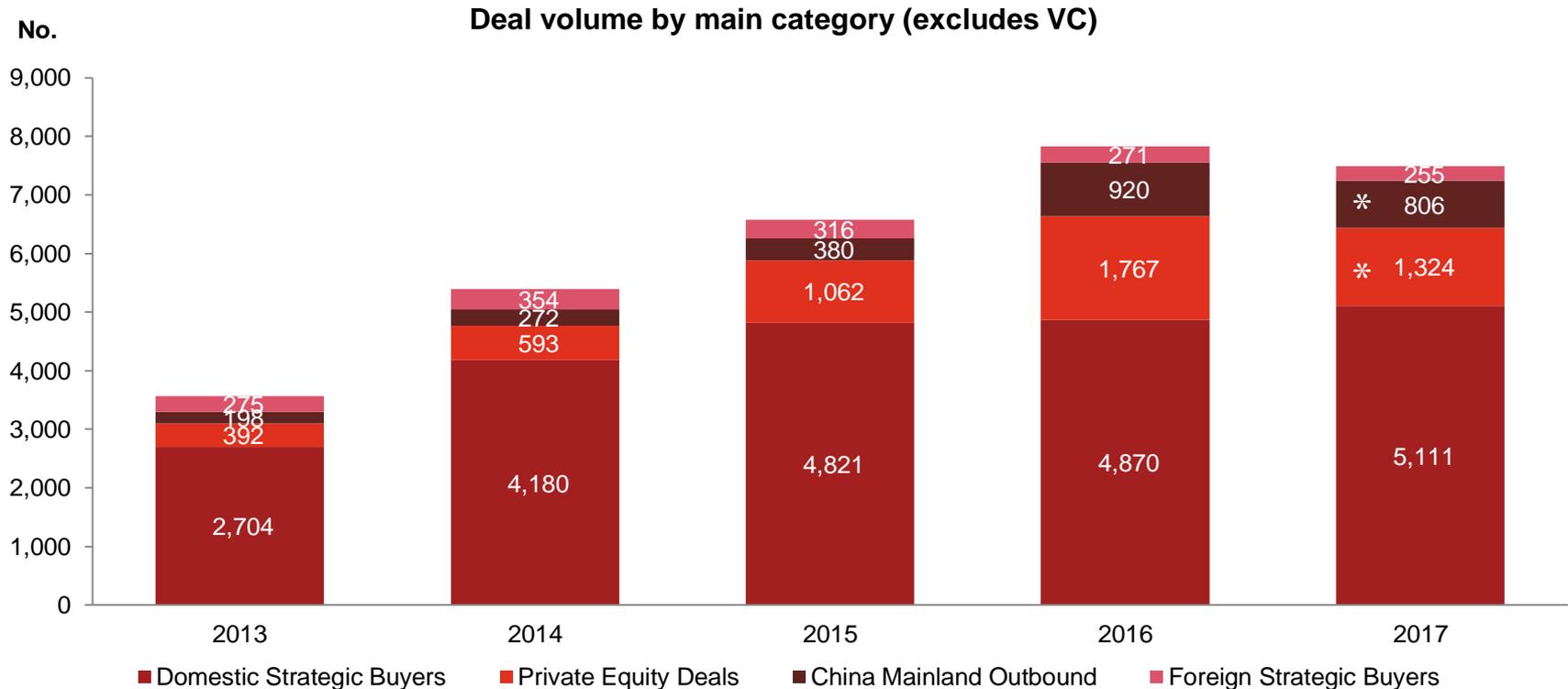
|                                      | 2013         |                   | 2014         |                   | 2015         |                   | 2016          |                   | 2017         |                   | % Diff<br>vol.<br>2017<br>vs.<br>2016 | % Diff<br>val.<br>2017<br>vs. 2016 |
|--------------------------------------|--------------|-------------------|--------------|-------------------|--------------|-------------------|---------------|-------------------|--------------|-------------------|---------------------------------------|------------------------------------|
|                                      | Volume       | Value<br>(US\$bn) | Volume       | Value<br>(US\$bn) | Volume       | Value<br>(US\$bn) | Volume        | Value<br>(US\$bn) | Volume       | Value<br>(US\$bn) |                                       |                                    |
| <b>Strategic buyers</b>              |              |                   |              |                   |              |                   |               |                   |              |                   |                                       |                                    |
| Domestic                             | 2,704        | 135.7             | 4,180        | 221.6             | 4,821        | 414.7             | 4,870         | 327.3             | 5,111        | 373.8             | 5%                                    | 14%                                |
| Foreign                              | 275          | 13.8              | 354          | 21.8              | 316          | 13.3              | 271           | 6.9               | 255          | 14.2              | -6%                                   | 105%                               |
| <b>Total Strategic buyers</b>        | <b>2,979</b> | <b>149.6</b>      | <b>4,534</b> | <b>243.5</b>      | <b>5,137</b> | <b>428.0</b>      | <b>5,141</b>  | <b>334.2</b>      | <b>5,366</b> | <b>388.0</b>      | <b>4%</b>                             | <b>16%</b>                         |
| <b>Financial buyers</b>              |              |                   |              |                   |              |                   |               |                   |              |                   |                                       |                                    |
| * Private Equity                     | 392          | 33.0              | 593          | 66.6              | 1,062        | 176.6             | 1,767         | 219.0             | 1,324        | 179.8             | (25%)                                 | (18%)                              |
| VC                                   | 738          | 0.8               | 1,334        | 1.3               | 2,735        | 4.1               | 3,492         | 5.8               | 2,338        | 3.1               | (33%)                                 | (46%)                              |
| <b>Total Financial buyers</b>        | <b>1,130</b> | <b>33.8</b>       | <b>1,927</b> | <b>67.8</b>       | <b>3,797</b> | <b>180.7</b>      | <b>5,259</b>  | <b>224.8</b>      | <b>3,662</b> | <b>182.9</b>      | <b>(30%)</b>                          | <b>(19%)</b>                       |
| <b>China mainland Outbound</b>       |              |                   |              |                   |              |                   |               |                   |              |                   |                                       |                                    |
| SOE                                  | 55           | 35.8              | 78           | 25.4              | 79           | 23.6              | 116           | ** 65.3           | 101          | 27.9              | (13%)                                 | (57%)                              |
| POE                                  | 118          | 10.4              | 145          | 13.3              | 207          | 20.7              | 609           | 106.0             | 467          | 59.4              | (23%)                                 | (44%)                              |
| * Financial buyers                   | 25           | 1.0               | 49           | 13.0              | 94           | 12.7              | 195           | 37.4              | 238          | 34.1              | 22%                                   | (9%)                               |
| <b>Total China mainland Outbound</b> | <b>198</b>   | <b>47.2</b>       | <b>272</b>   | <b>51.8</b>       | <b>380</b>   | <b>57.0</b>       | <b>920</b>    | <b>208.7</b>      | <b>806</b>   | <b>121.4</b>      | <b>(12%)</b>                          | <b>(42%)</b>                       |
| <b>HK Outbound</b>                   | <b>164</b>   | <b>8.8</b>        | <b>215</b>   | <b>20.4</b>       | <b>199</b>   | <b>24.5</b>       | <b>282</b>    | <b>23.2</b>       | <b>243</b>   | <b>12.8</b>       | <b>-14%</b>                           | <b>-45%</b>                        |
| <b>Total</b>                         | <b>4,446</b> | <b>238.4</b>      | <b>6,899</b> | <b>370.4</b>      | <b>9,419</b> | <b>677.5</b>      | <b>11,407</b> | <b>753.5</b>      | <b>9,839</b> | <b>671.0</b>      | <b>-14%</b>                           | <b>-11%</b>                        |

\* Financial buyer-backed China mainland outbound deals are also included in private equity deals, but they are not double counted in the total deal volume and deal value in the table above

\*\* US\$43 bn ChemChina-Syngenta deal is included in 2016 outbound value

Source: ThomsonReuters, ChinaVenture and PwC analysis

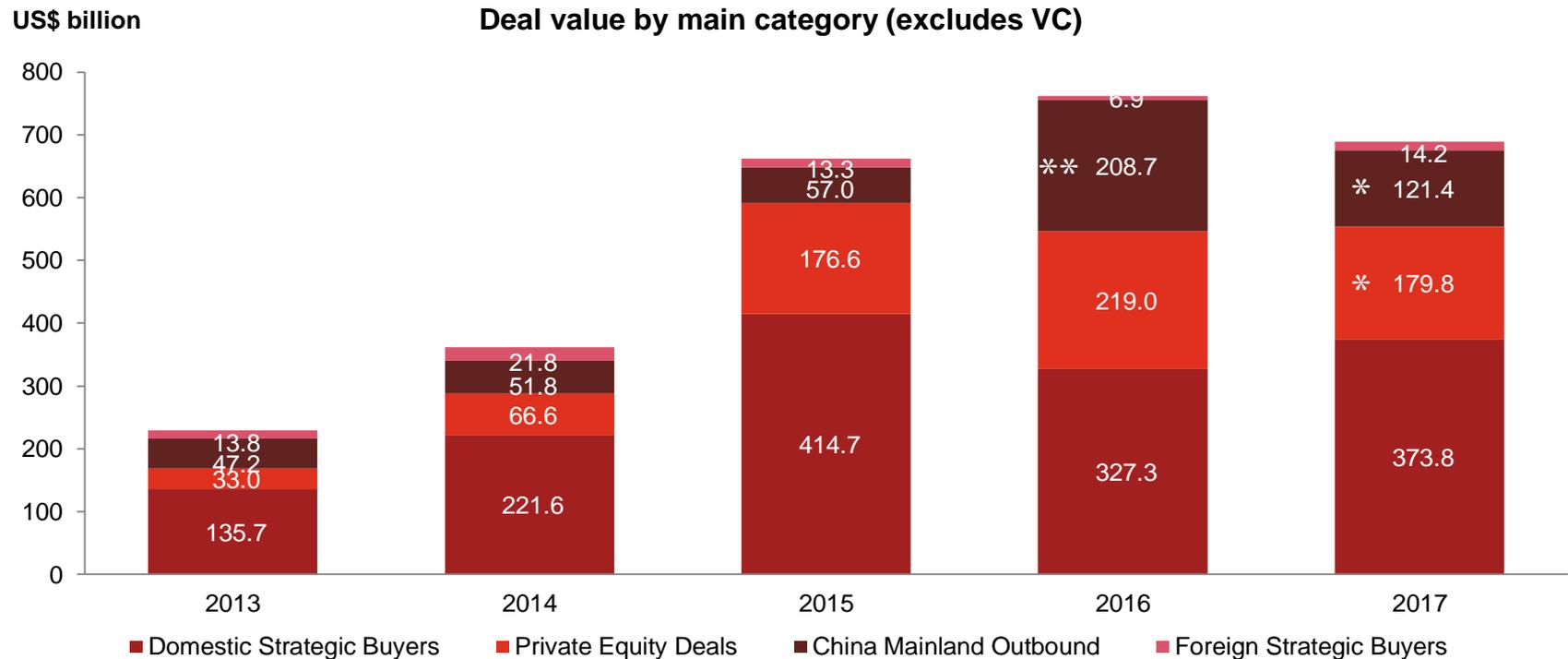
***Deal volumes declined by 14% overall, but the number of transactions was still the second highest ever annual total, and domestic strategic deals rose by 5% to a new record***



\* 238 financial buyer-backed outbound deals are also recorded in private equity deals

Source: ThomsonReuters, ChinaVenture and PwC analysis

***Deal values also declined for outbound, foreign inbound, and financial-buyer deals, but domestic strategic deals increased by 14% with some large transactions in the real estate sector***

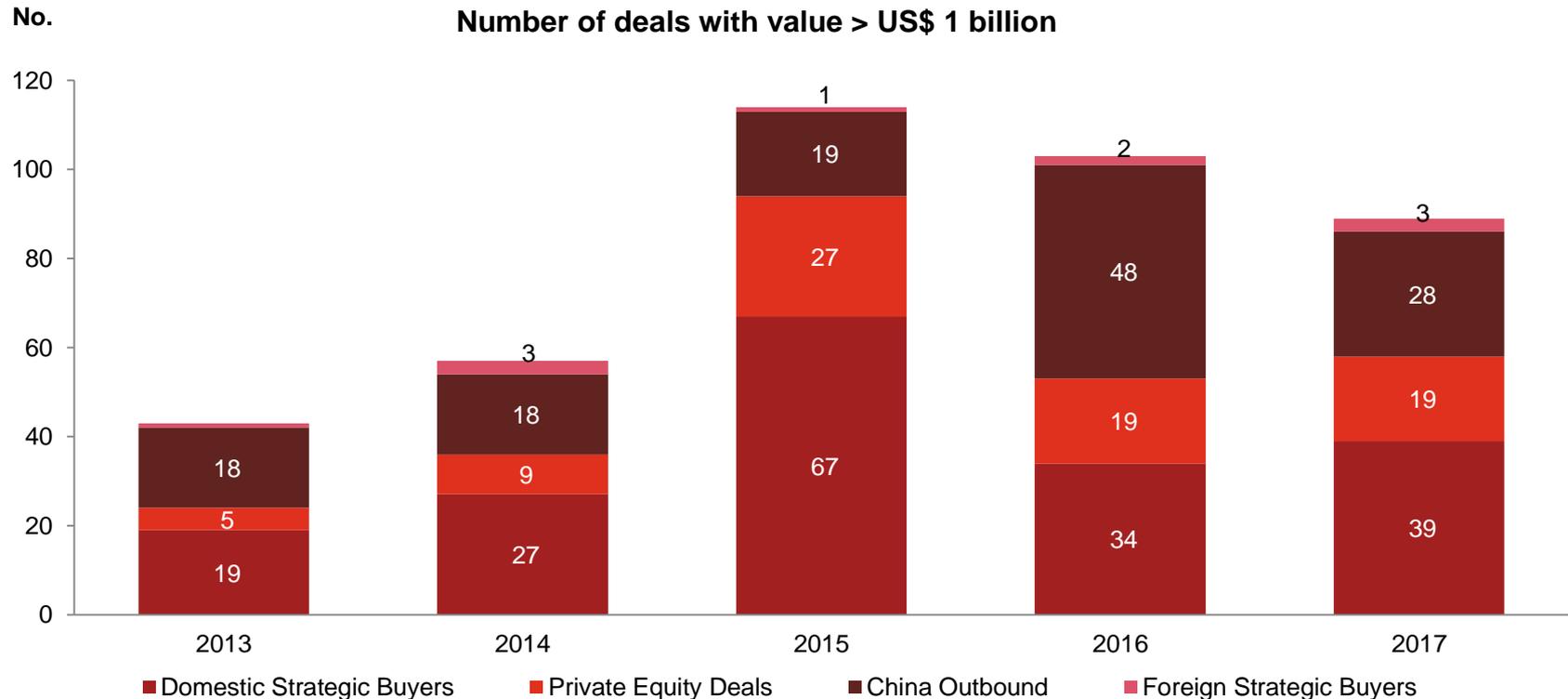


\* US\$34.1bn of financial buyer-backed China mainland outbound deals are also recorded in private equity deals

\*\* US\$43 bn ChemChina-Syngenta deal is included in 2016 outbound value

Source: ThomsonReuters, ChinaVenture and PwC analysis

***There were fewer mega-deals (> US\$1bn) in 2017 compared to the previous two years, in particular reflecting the tightening and rationalization of outbound activities by government authorities***



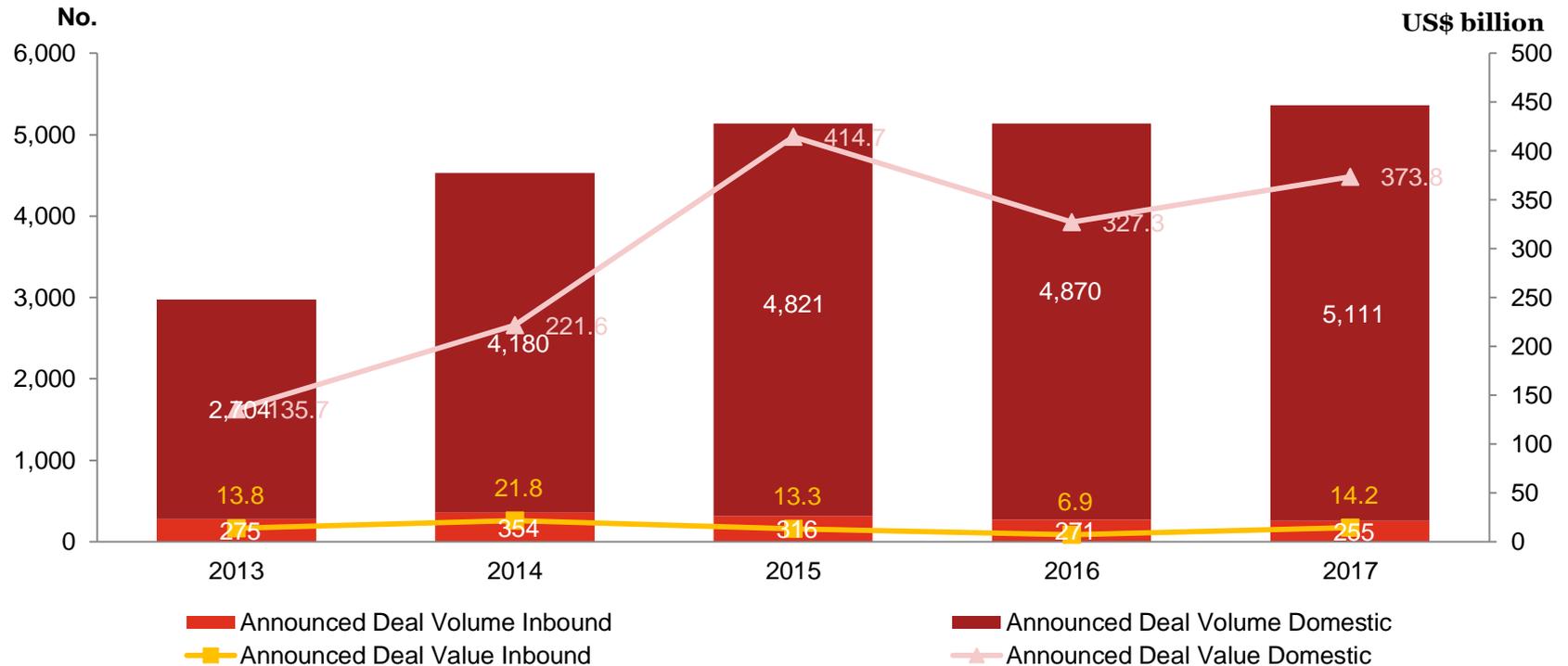
Source: ThomsonReuters, ChinaVenture and PwC analysis

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# *Strategic buyers*

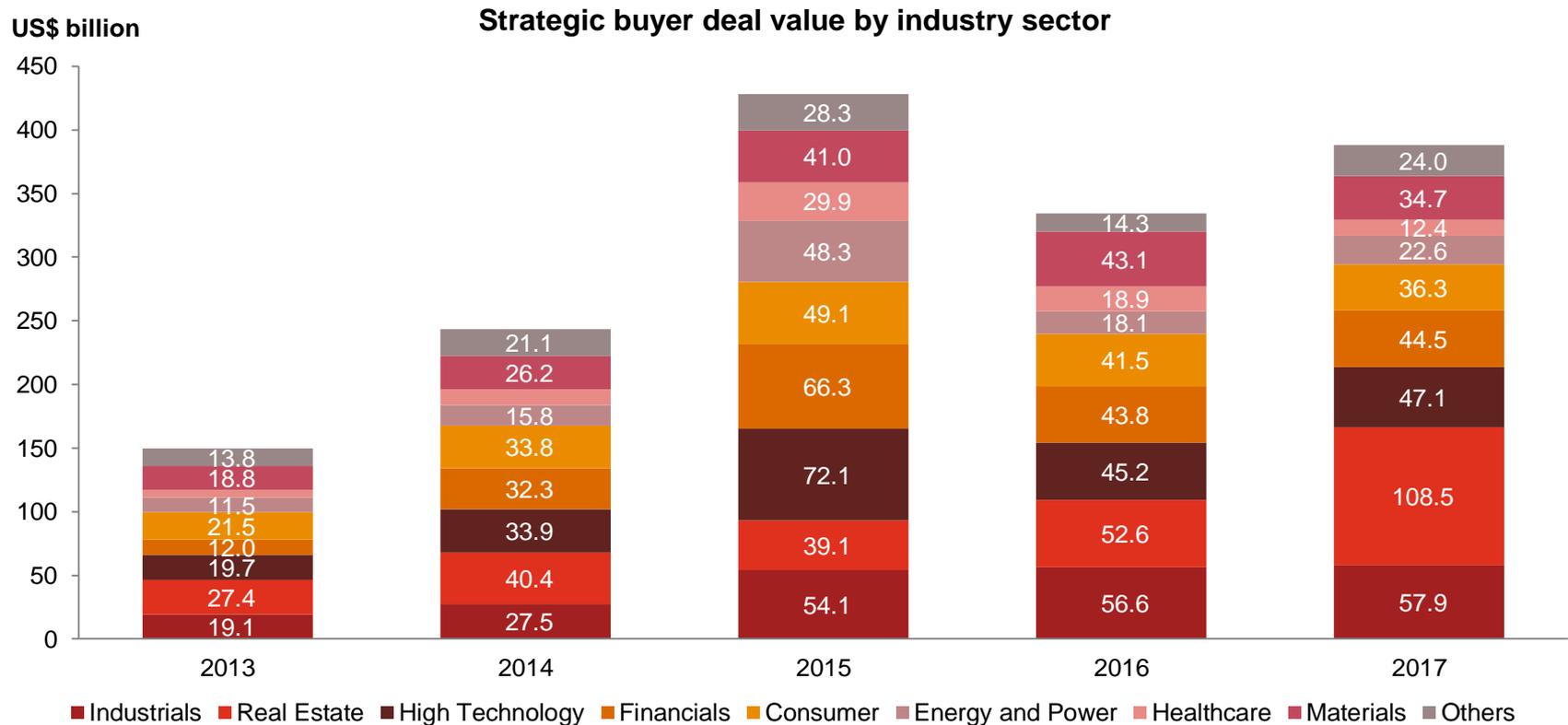
***Domestic strategic deal volumes reached a new high in 2017 – continuing an unbroken year-on-year track record of increases. Part of this increase can be attributed to some buyers refocussing on internal transactions due to headwinds around outbound activity; deal values increased by 14% on 2016, largely due to strong activity in the real-estate sector***

Strategic buyer deals, from 2013 to 2017



Source: ThomsonReuters, ChinaVenture and PwC analysis

***Real estate M&A hit a record high, mainly because of unbalanced regional development, policy constraints and funding restrictions, which encouraged market consolidation in the sector; industrials, technology, FS and consumer were also active***

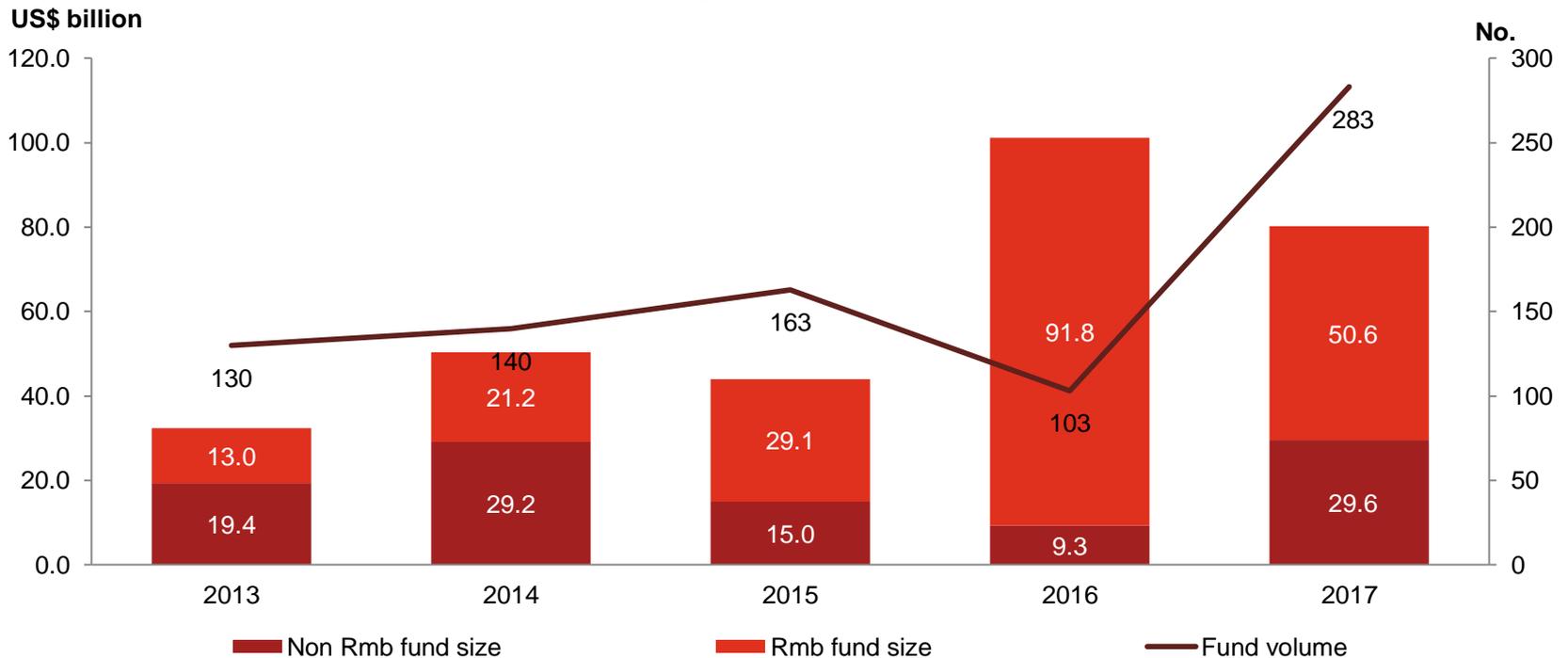


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# *PE/VC and financial buyer deals*

***Fund-raising by traditional PE remained strong – but these figures do not take into account huge volumes of available capital from alternative financial investors (so-called “Big Asset Management” or “BAM”) comprising: corporate and SOE investment arms/captive-PEs, financial institutions, and government-backed funds; the Asset Management Association of China reported US\$1.5tn of assets under management by private equity funds in China at the end of 2017 – a nearly 7-fold increase over the last 3 years***

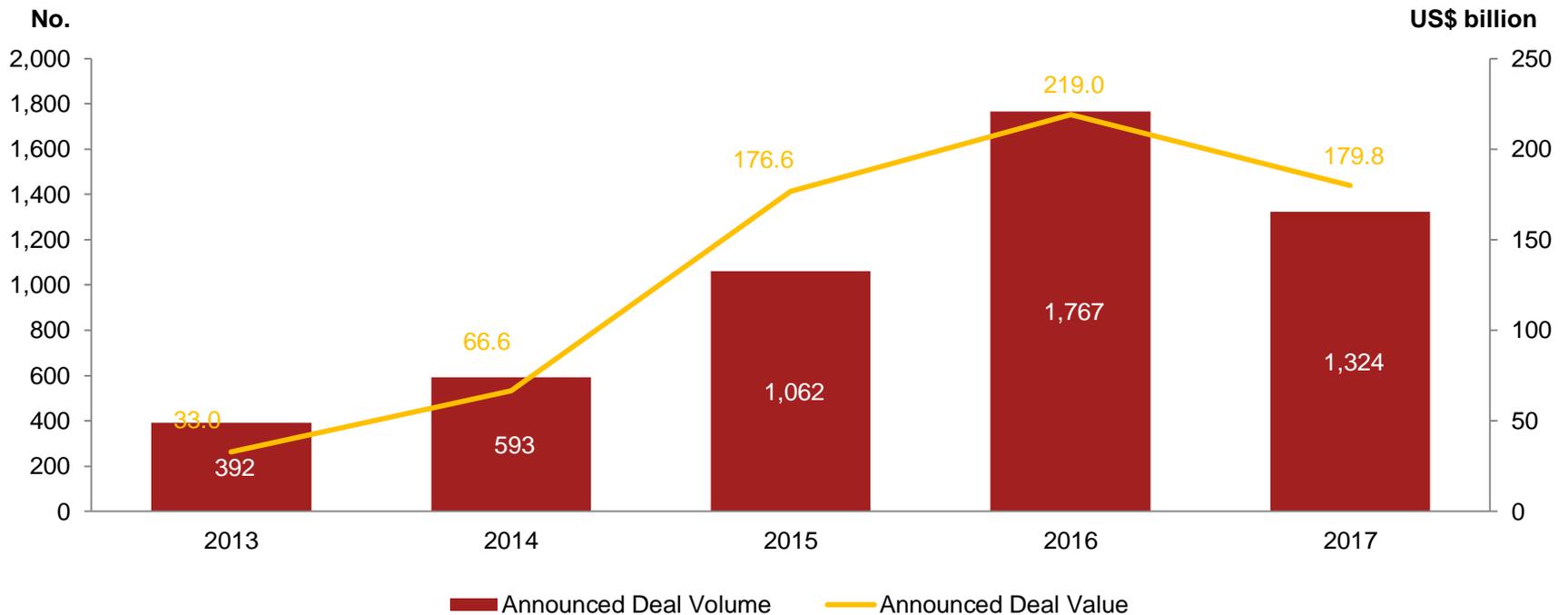
**PE/VC fund raising for China investment**



Source: AVCJ and PwC analysis

***Financial buyer investment activity declined from the boom year of 2016, but both domestic and foreign PEs were active, with deal volumes still 25% higher than in 2015***

**Financial buyer deals\*, from 2013 to 2017**

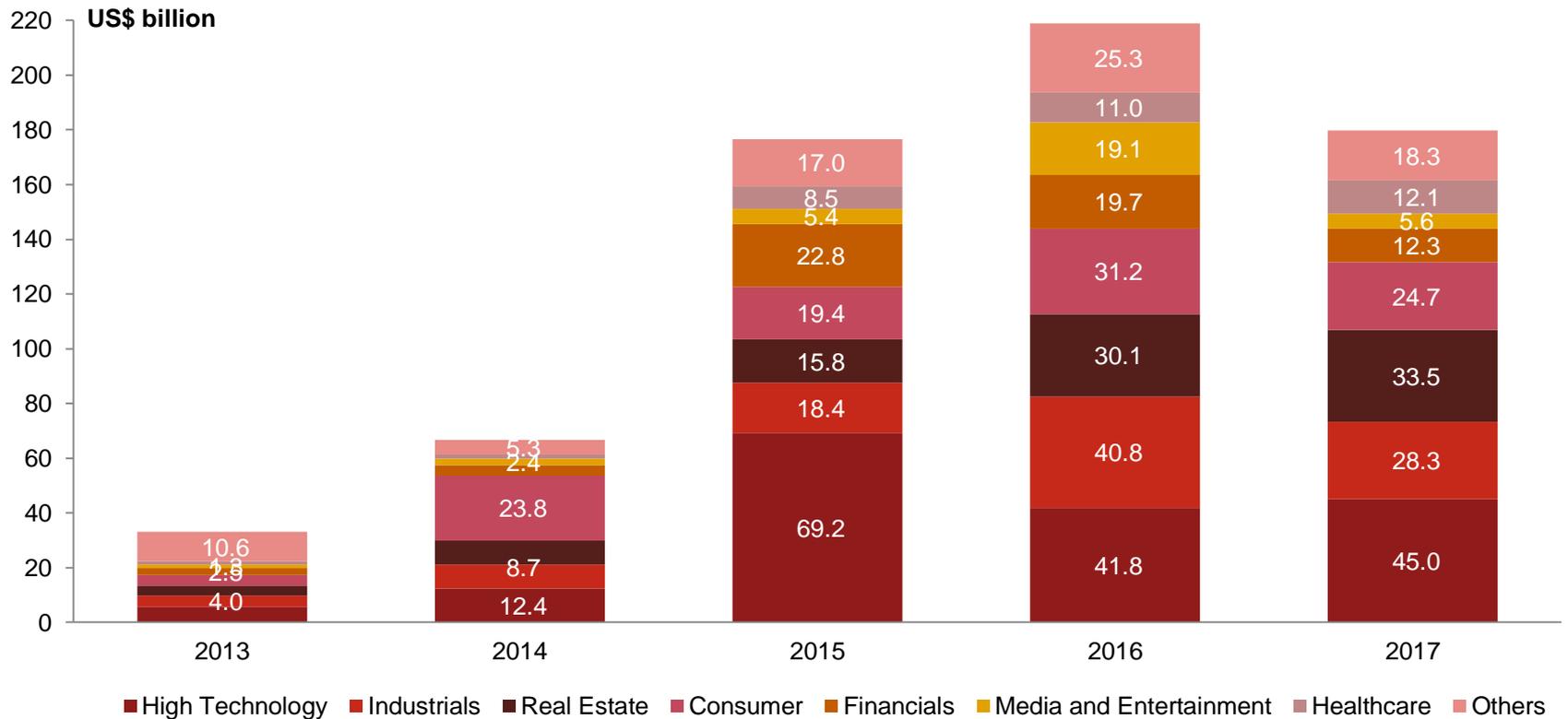


\* Financial buyer-backed China mainland outbound deals are also included in the above numbers / VC not included

Source: ThomsonReuters, ChinaVenture and PwC analysis

**Technology and real-estate related investment activity remain most important for financial buyers, accounting for 43% by value compared to 32% in 2016**

Financial buyer deal value\* by industry sector, from 2013 to 2017

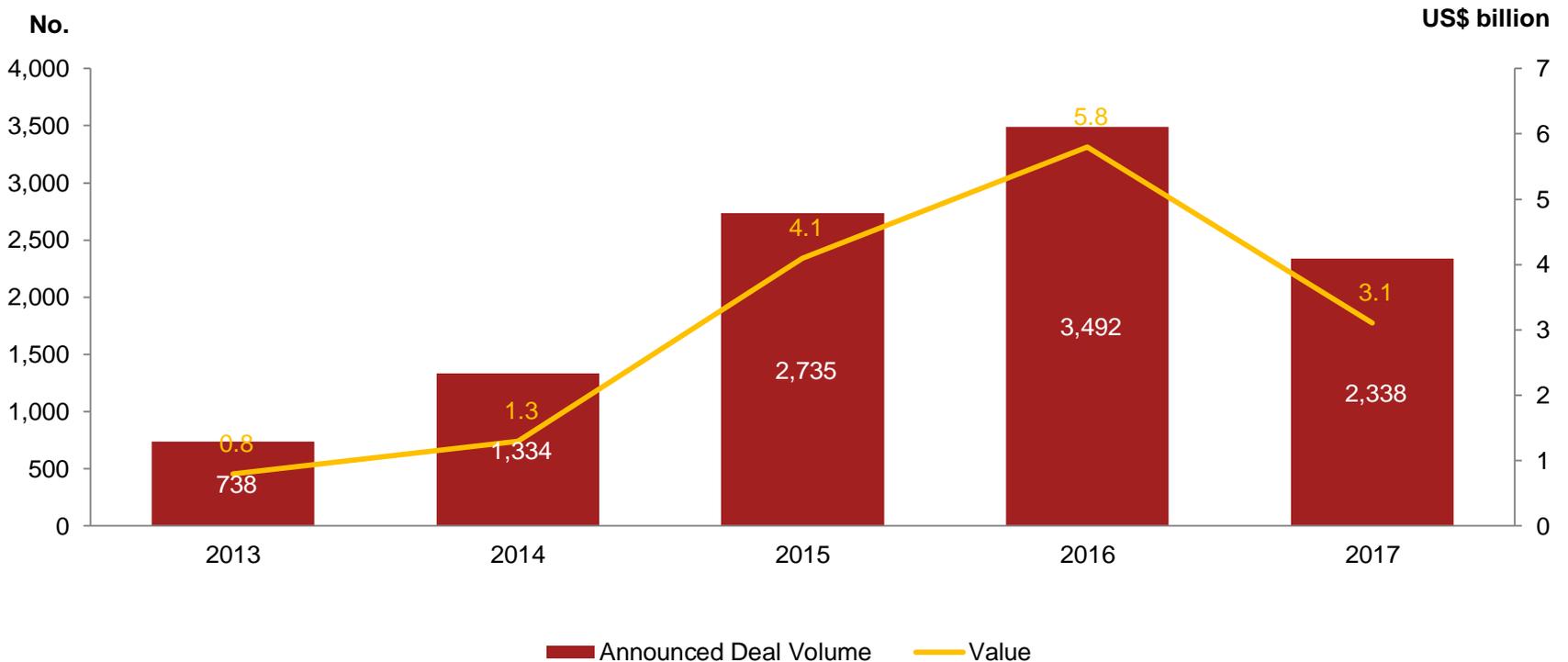


\* VC not included (comprises a further US\$3.1bn of mainly tech-sector investment)

Source: ThomsonReuters, ChinaVenture and PwC analysis

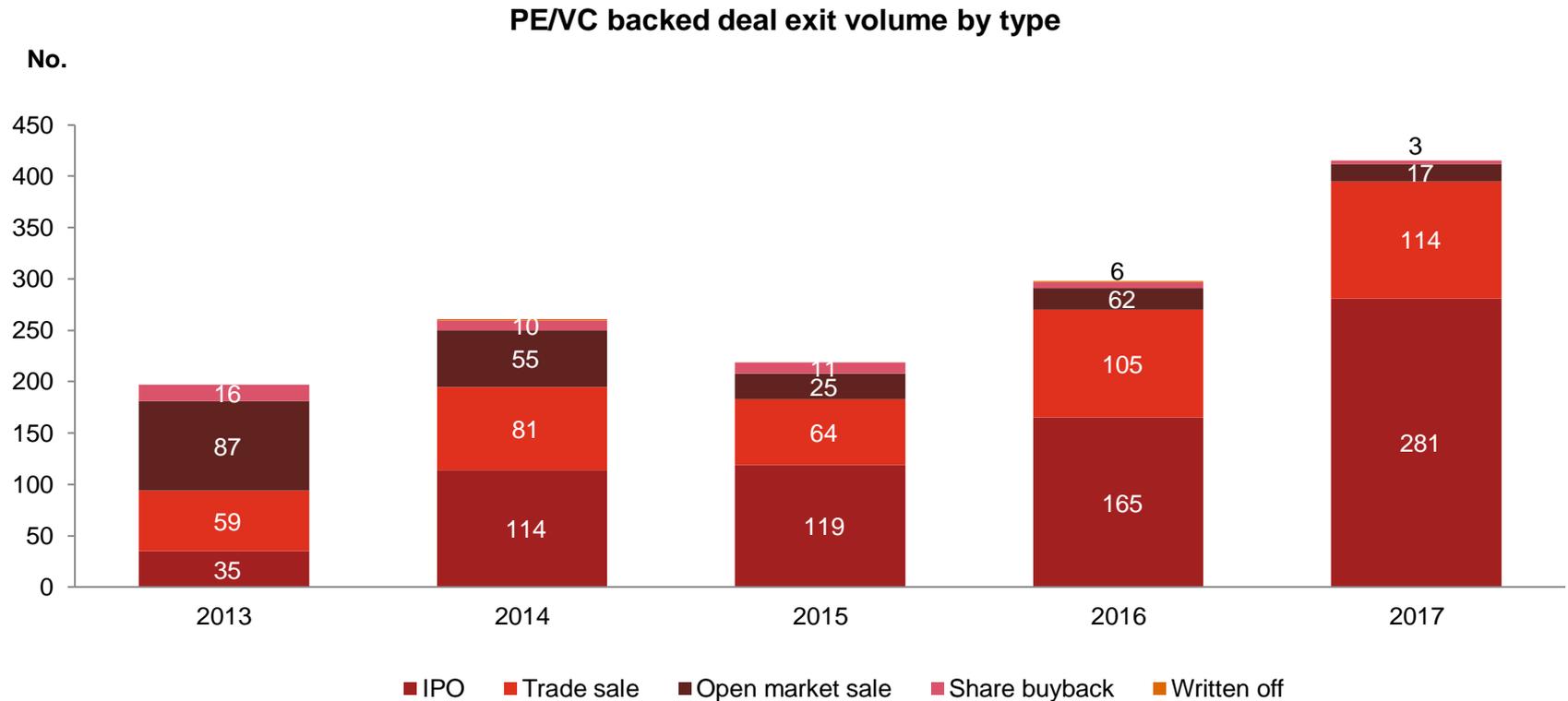
***Venture capital players, although still highly active, also declined off prior year peaks***

**Venture Capital deals volume, from 2013 to 2017**



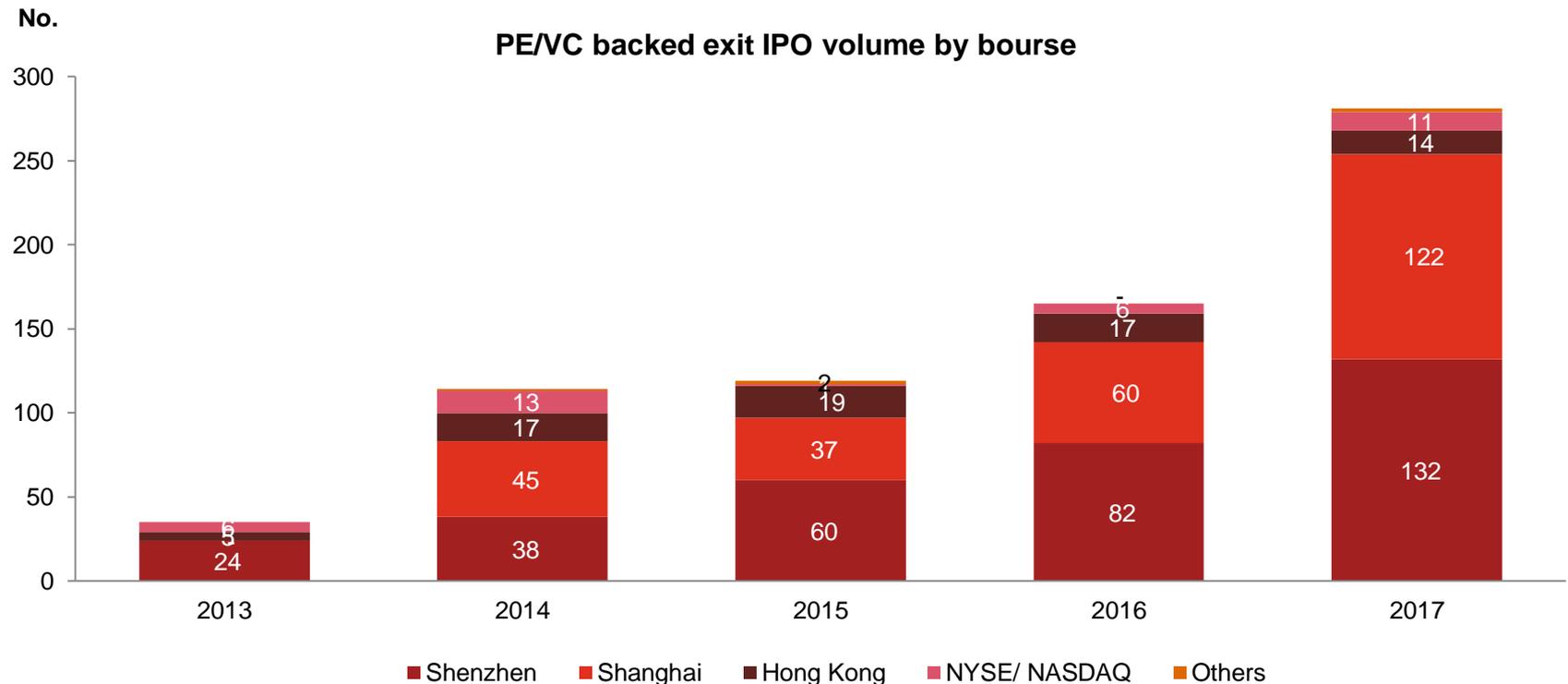
Source: ThomsonReuters, ChinaVenture and PwC analysis

***The much anticipated step-up in exit activity was seen for the first time in 2017, with a record number of both IPO and trade-sale exits***



Source: AVCJ, CV Source and PwC analysis

***China's stock markets saw record numbers of IPOs overall and were the main route to liquidity for PEs – their higher valuations make them attractive compared to offshore markets, but HK also saw a healthy level of PE-backed offerings and there was a rebound of interest in the US***



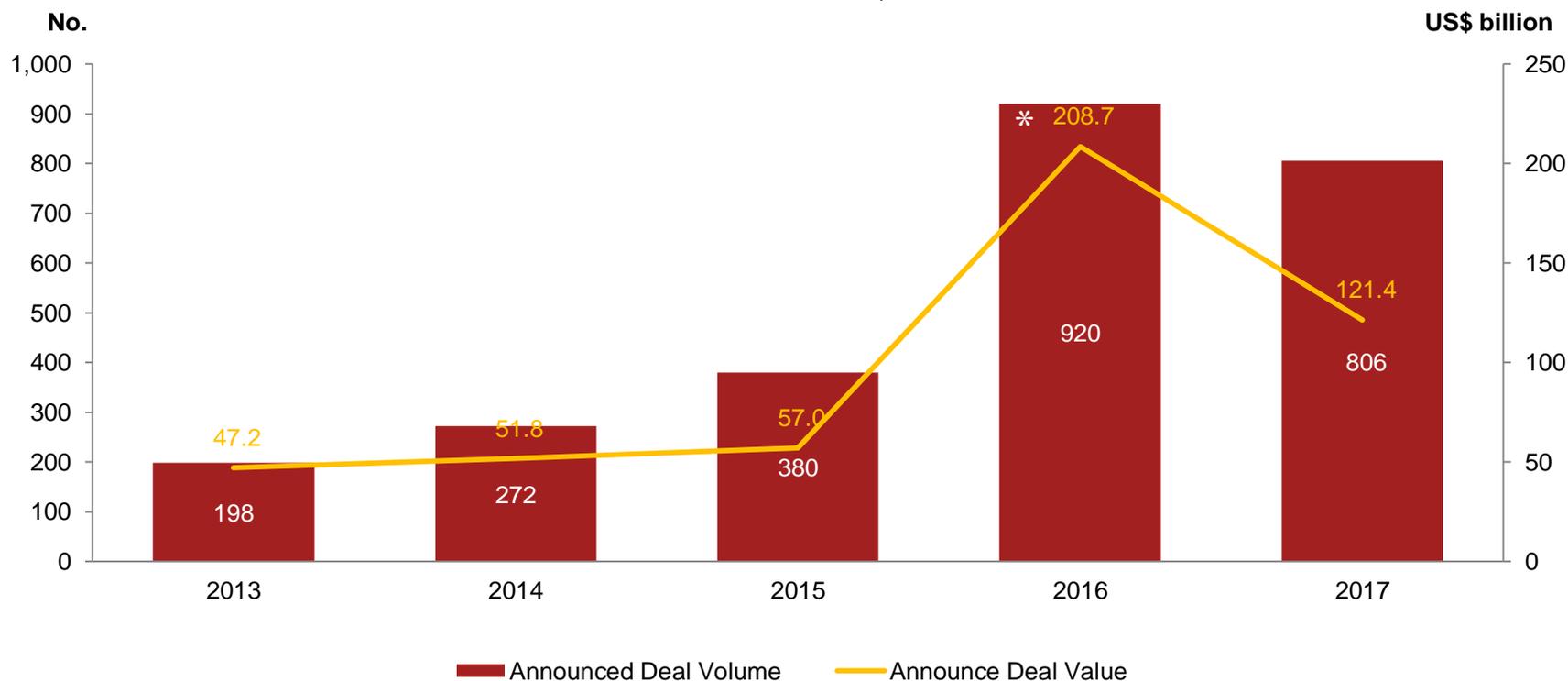
Source: ChinaVenture and PwC analysis

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# *Mainland China outbound*

***As expected, China outbound M&A declined from the super-peak of 2016, with government policy guidance resulting in a re-focusing of outbound investment towards strategic deals and away from passive and trophy assets; there were fewer mega-deals, with access to foreign currency an issue for many buyers, and overseas regulators also had some impact on deal activity. Nevertheless, the total value and volume of outbound transactions was higher than 2014 and 2015 combined (and the value decline is less dramatic if adjusted for the massive Chemchina-Syngenta transaction in 2016)***

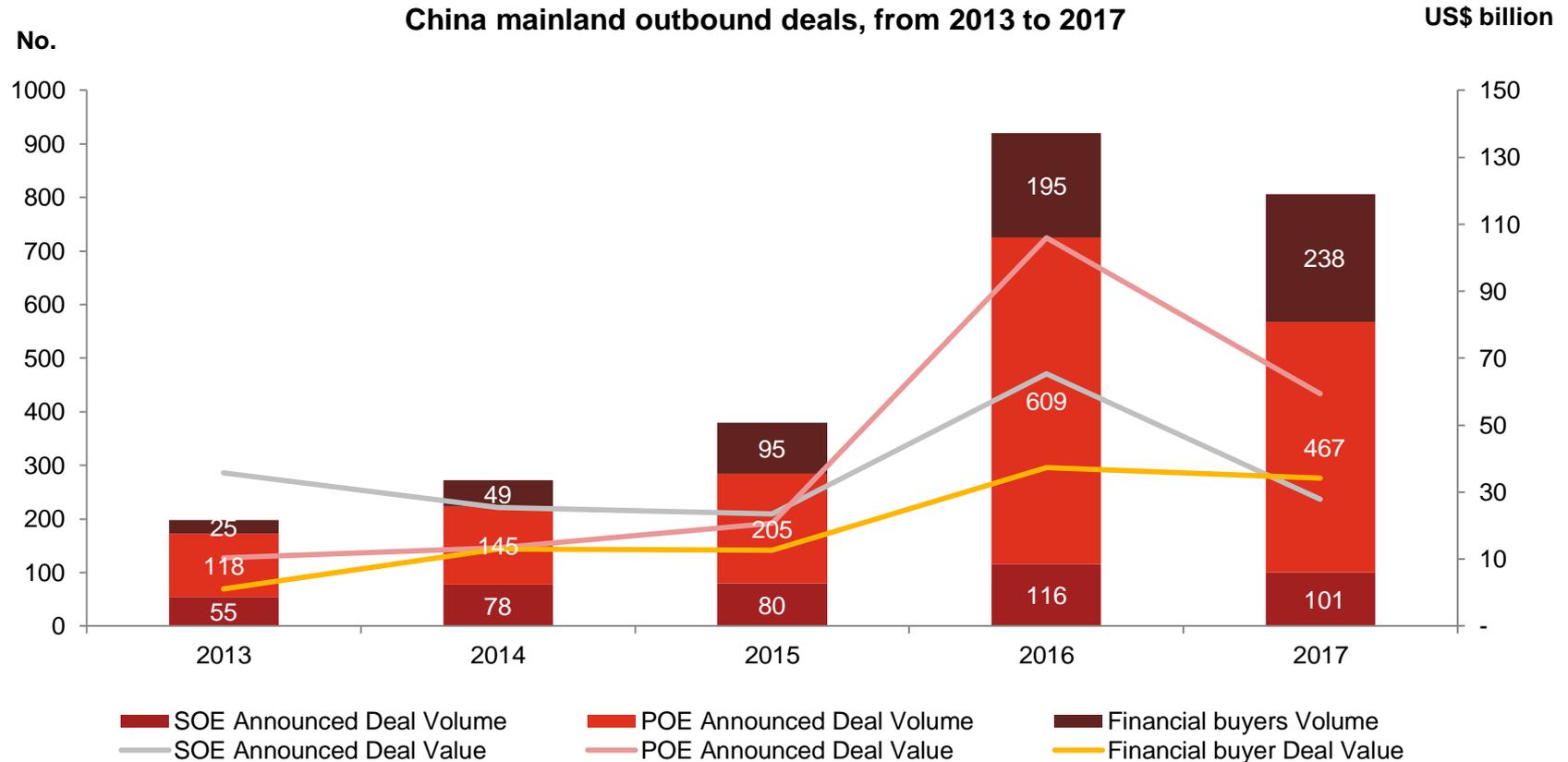
**Mainland China outbound deals, from 2013 to 2017**



\*US\$43 bn ChemChina-Syngenta deal is included in 2016 outbound value

Source: ThomsonReuters, ChinaVenture and PwC analysis

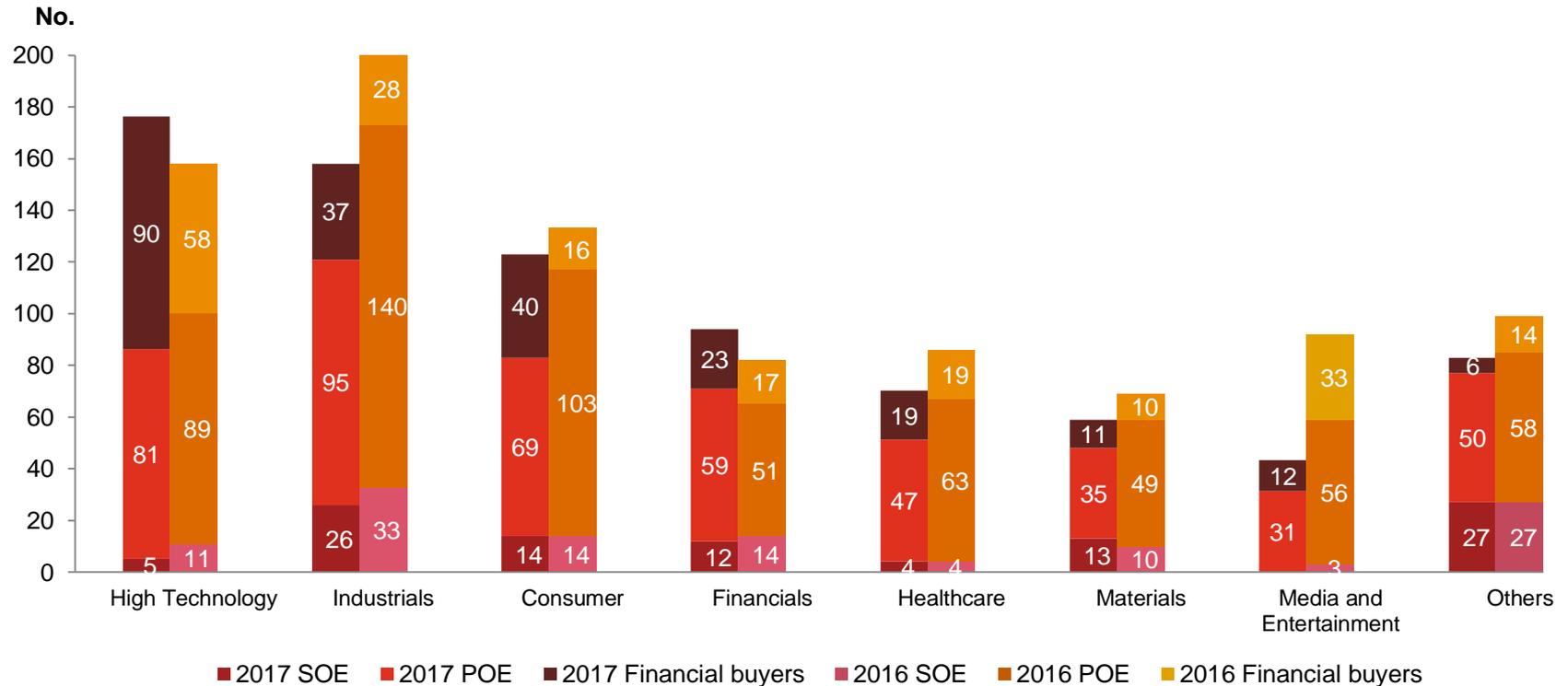
**Both POE and SOE investors were less active, but POEs continue to be the driving force under the “going out” strategy, with 60% of the total number of deals. It was the second straight year where the dollar value of POE deals exceeded their SOE counterparts; financial investor participation in outbound activity is now well established – accounting for nearly 30% of transactions**



Source: ThomsonReuters, ChinaVenture and PwC analysis

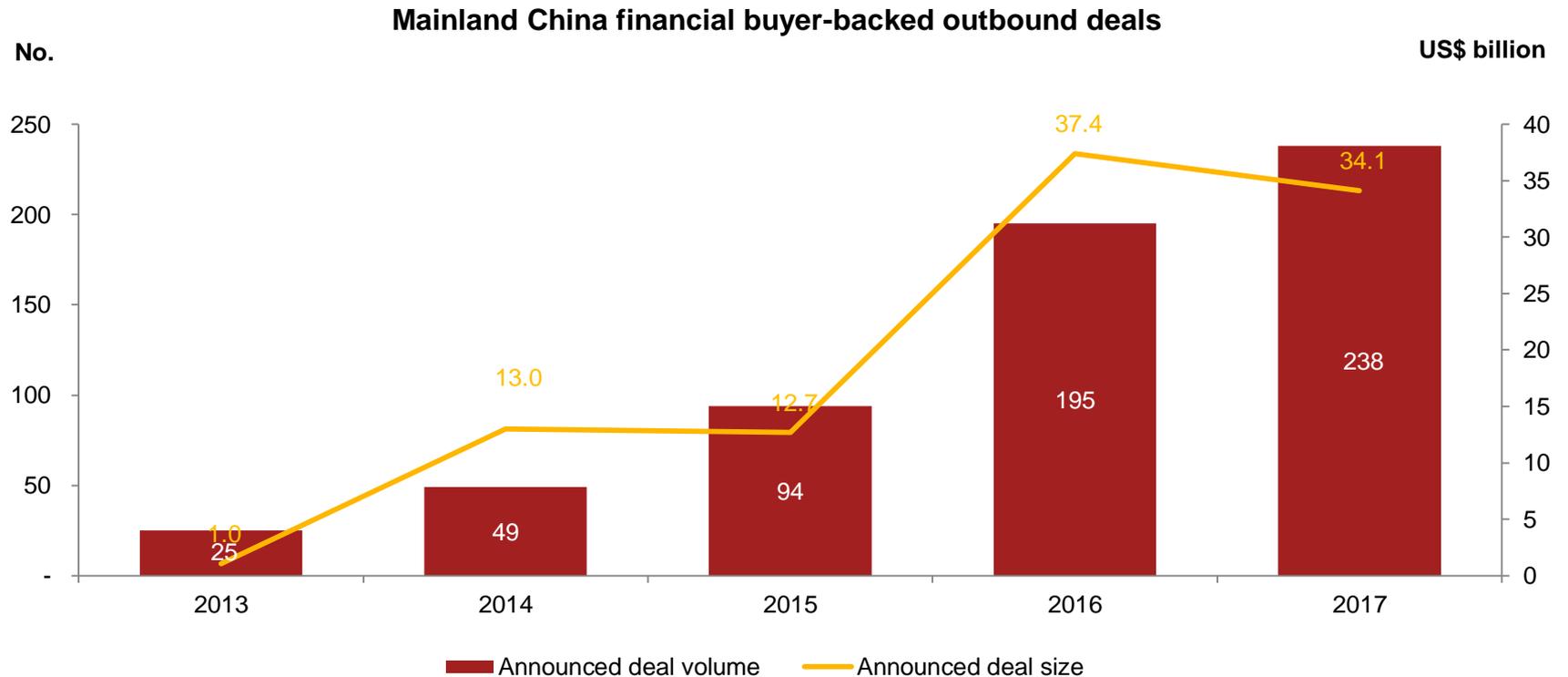
**Technology and industrials products (often also higher specification) are still the most active sectors, with consumer products also important: this aligns with the strategy of going out to bring back technologies, advanced industrial know-how (“industrial upgrade”), IP, brands and consumer products to the China market**

**China mainland outbound deals by industry sector – volume, 2017 vs. 2016**



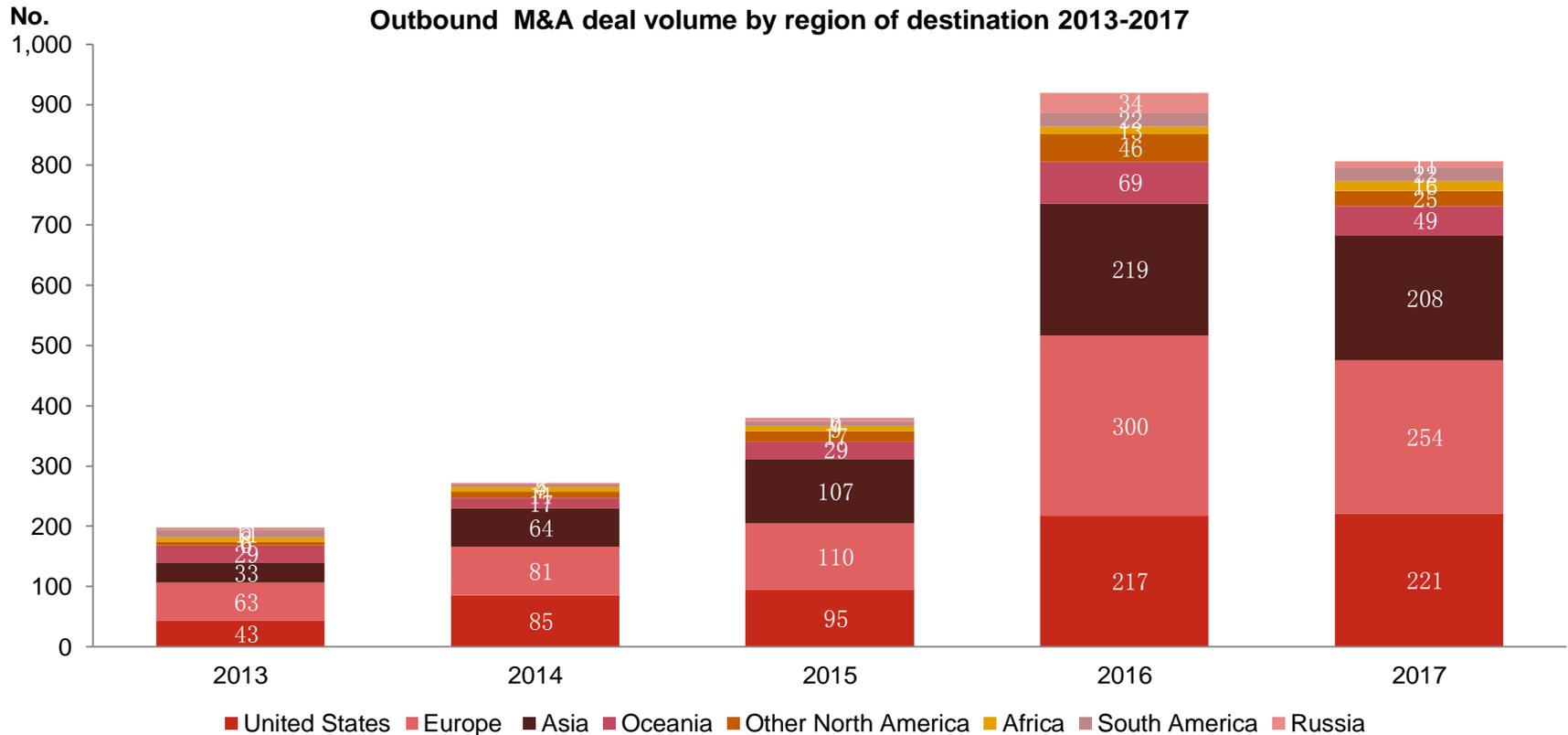
Source: ThomsonReuters, ChinaVenture and PwC analysis

***The participation of financial buyers in outbound M&A continued to grow – up by 22% by number on 2016; financial buyers have partnered with corporates, as well as investing on their own account, usually looking for businesses with a “China-angle” in their business plan***



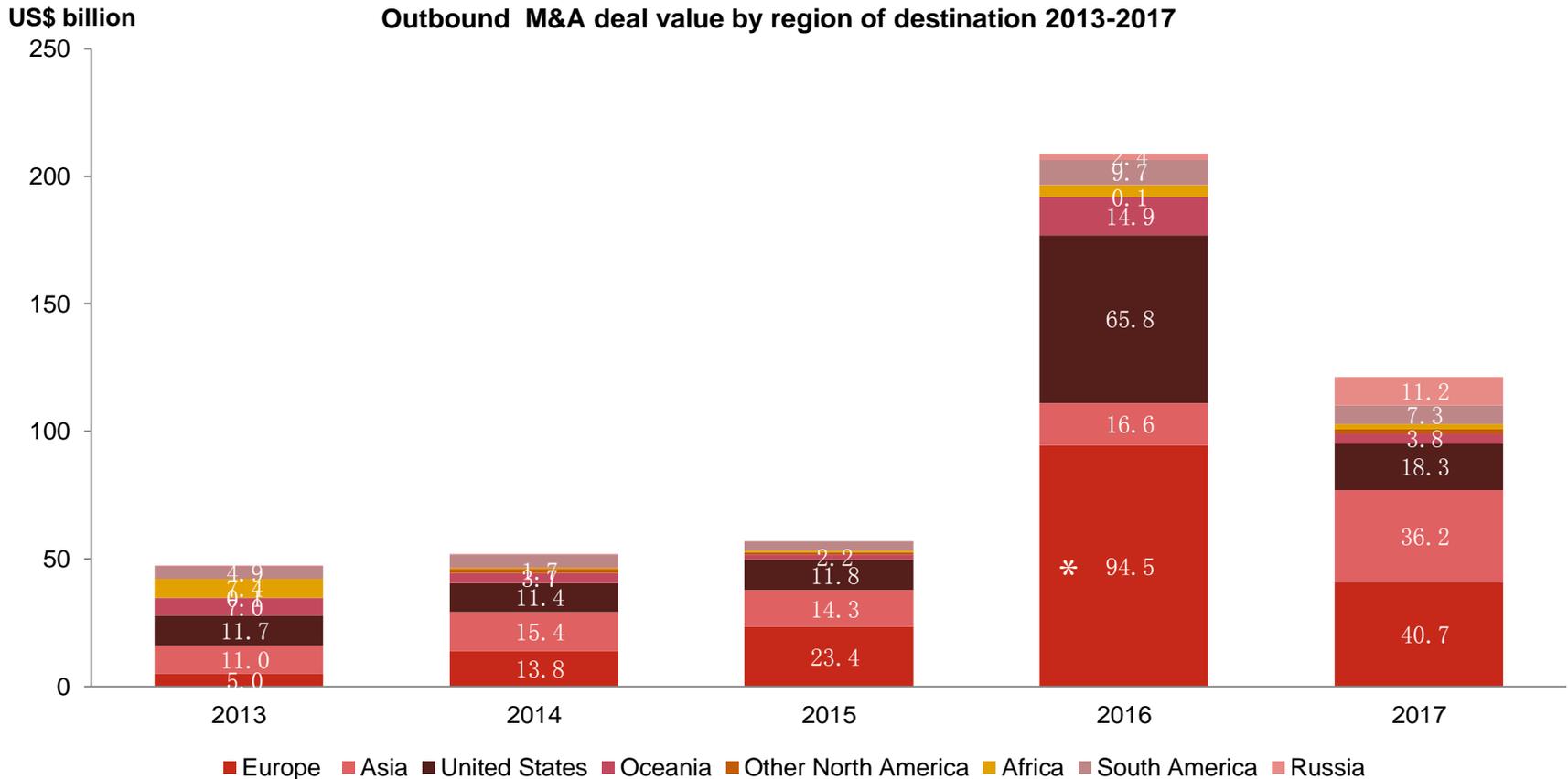
Source: ThomsonReuters, ChinaVenture and PwC analysis

***The search for advanced technologies and established brands mean that developed markets in the US and Europe – as well as some parts of Asia – remain the largest destinations for Chinese buyers; despite the much publicized impact of security reviews by CFIUS and the Trump government’s ambivalent attitude towards Chinese investment, the number of deals in the US actually increased slightly to a new record (but see next slide); Asia is also popular, with the Belt & Road Initiative having some impact***



Source: ThomsonReuters, China Venture and PwC analysis

**However, geographical analysis of outbound deals by value shows that the dollar amount invested in the US has declined significantly, with Europe also down (but note impact of ChemChina-Syngenta deal in comparatives), and Asia making up some of the shortfall**

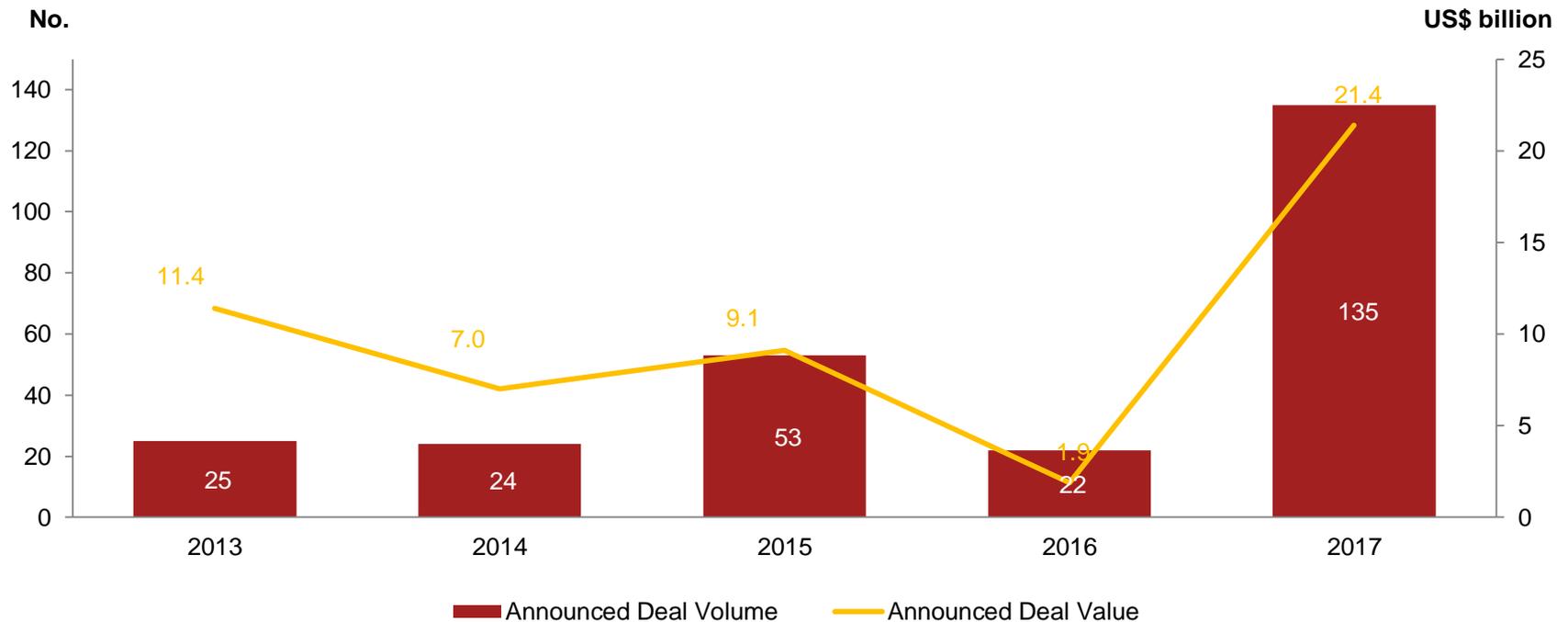


\*US\$43 bn ChemChina-Syngenta deal is included in 2016 outbound value

Source: ThomsonReuters, ChinaVenture and PwC analysis

## ***Outbound M&A to Belt & Road countries surged (although not all deals are directly attributable to the initiative)***

**China outbound to B&R, by value and volume from 2013 to 2017**



B&R (Belt and Road) includes 66 countries around 3 continents.

Source: ThomsonReuters, ChinaVenture and PwC analysis

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# *Key messages*

# Key messages – China M&A in 2017 (1 of 4)

## Overall

- 2017 China M&A fell 11% to US\$671bn off the record-highs of 2016, as China pursued a more strategic approach to outbound M&A
- Deal volumes declined by 11% overall, but the number of transactions was still the second highest ever annual total, and domestic strategic deals rose by 14% to a new record
- Deal values also declined for outbound, foreign inbound, and financial-buyer deals but domestic strategic deals increased by 14%, with some large transactions in the real estate sectors
- There were fewer mega-deals (> US\$1bn) in 2017 compared to the previous two years, in particular reflecting the tightening and rationalization of outbound activities by government authorities

## Domestic and Foreign-Inbound Strategic

- Domestic strategic deal volumes reached a new high in 2017, continuing an unbroken year-on-year track record of increases – part of this increase can be attributed to some buyers refocussing on internal transactions due to some headwinds around outbound activity; deal values increased by 14% on 2016, largely due to strong activity in the real-estate sector
- Real estate M&A hit a record high, mainly because of unbalanced regional development, policy constraints and funding restrictions which encouraged market consolidation in the sector; industrials, technology, FS and consumer were also active

## *Key messages – China M&A in 2017 (2 of 4)*

### **PE/VC and financial buyer deals**

- Fund-raising by traditional PE remained strong – but these figures do not take into account huge volumes of available capital from alternative financial investors (so-called “Big Asset Management” or “BAM”) comprising: corporate and SOE investment arms/captive-PEs, financial institutions, and government-backed funds; the Asset Management Association of China reported US\$1.5tn of assets under management by private equity funds in China at the end of 2017 – a nearly 7-fold increase over the last 3 years
- Financial buyer investment activity declined from the boom-year of 2016, but both domestic and foreign PEs were active, with deal volumes still 25% higher than in 2015
- Technology and real-estate related investment activity remain most important for financial buyers, accounting for 43% by value compared to 32% in 2016.
- Venture capital players, although still highly active, also declined off prior year peaks
- The much anticipated step-up in exit activity was seen for the first time in 2017, with a record number of both IPO and trade-sale exits
- China’s stock markets saw record numbers of IPOs overall and were the main route to liquidity for PEs – their higher valuations make them attractive compared to offshore markets, but HK also saw a healthy level of PE-backed offerings and there was a rebound of interest in the US

# *Key messages – China M&A in 2017 (3 of 4)*

## **Mainland China Outbound**

- As expected, China outbound M&A declined from the super-peak of 2016, with government policy guidance resulting in a re-focusing of outbound investment towards strategic deals and away from passive and trophy assets; there were fewer mega-deals, with access to foreign currency an issue for many buyers, and overseas regulators also had some impact on deal activity. Nevertheless, the total value and volume of outbound transactions was higher than 2014 and 2015 combined (and the value decline is less dramatic if adjusted for the massive ChemChina-Syngenta transaction in 2016)
- Both POE and SOE investors were less active, but POEs continue to be the driving force under the “going out” strategy, with 60% of the total number of deals. It was the second straight year where the dollar value of POE deals exceeded their SOE counterparts; financial investor participation in outbound activity is now well established, accounting for nearly 30% of transactions
- Technology and industrials products (often also higher specification) are still the most active sectors, with consumer products also important: this aligns with the strategy of going out to bring back technologies, advanced industrial know-how (“industrial upgrade”), IP, brands and consumer products to the China market

# *Key messages – China M&A in 2017 (4 of 4)*

## **Mainland China Outbound (Continued)**

- The participation of financial buyers in outbound M&A continued to grow – up by 22% by number on 2016; financial buyers have partnered with corporates as well as investing on their own account, usually looking for businesses with a “China-angle” in their business plan
- The search for advanced technologies and established brands mean that developed markets in the US and Europe – as well as some parts of Asia - remain the largest destinations for Chinese buyers; despite the much publicized impact of security reviews by CFIUS and the Trump government’s ambivalent attitude towards Chinese investment, the number of deals in the US actually increased slightly to a new record; Asia is also popular, with the Belt & Road Initiative having some impact
- However, geographical analysis of outbound deals by value shows that the dollar amount invested in the US has declined significantly, with Europe also down (but note impact of ChemChina-Syngenta deal in comparatives), and Asia making up some of the shortfall
- Outbound M&A to Belt & Road countries surged (although not all deals are directly attributable to the initiative)

# *Outlook*

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# ***Outlook for 2018 (1 of 6)***

## ***Overall***

- We think overall China M&A for 2018 will show some growth over 2017 – tracking close to, and perhaps exceeding, the records of 2016
  - With greater policy clarity, we believe outbound M&A will restart its growth trend
  - Domestic activity will remain strong as the economy continues to mature and develop
  - PE and financial buyer activity will grow (both domestically and outbound) under pressure to defray large amounts of capital.

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# *Outlook for 2018 (2 of 6)*

## *China Outbound*

- China issued new rules on 26th December 2017, to streamline administrative procedures and strengthen regulation over outbound investment – although not a major policy change compared to recent practice, we think this brings welcome clarity and will result in a more orderly cross-border M&A scene in 2018
- Foreign exchange availability has been relaxed somewhat, but will continue to have a role as a mechanism by which the new policies are enforced, necessitating early communication and planning by Chinese buyers
- With the new guidance and the China National Congress now behind us, we think that Chinese investors can embark on overseas deals with more certainty than in 2017 and it is possible that we will see a strong first half of 2018 in particular, with some backlog released and buyers having one eye on available currency quotas
- On-strategy outbound M&A (including going-out-to-bring-back, industrial upgrade, and Belt & Road) continue to be encouraged by government policy, and the stabilisation of the Renminbi, availability of capital (including from PE and BAM) and positive valuation arbitrage for A-share listed buyers, all point to continuing strong activity
- Synergistic deals around industrial value chains, industrial upgrade and advanced manufacturing, consumption upgrade, metals-mining-resources, aerospace and energy industries will be important contributors to activity; and we expect China's large technology companies to be active on the global stage
- However, investment in non-strategic or passive assets in sectors such as sports, entertainment and real-estate are likely to decline
- Overall, we expect a modest increase over 2017, with stronger growth continuing in the next few years.

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# ***Outlook for 2018 (3 of 6)***

## ***Domestic and Foreign-Inbound Strategic***

### ***Domestic strategic***

- Domestic strategic activity will continue at existing robust levels of activity driven by:
  - General maturing, consolidation and restructuring in the economy
  - A-share listed companies and POEs taking advantage of multiples arbitrage and searching for inorganic growth in a slower organic growth environment
  - Active industry sectors including technology, real-estate, financial services and healthcare
  - Ongoing SOE reform

### ***Foreign-Inbound strategic***

- Inbound strategic deals are expected to remain at reasonable activity levels both from continued restructuring of existing businesses in China as well as inward investment in various sectors, including automotive and pharma.

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# ***Outlook for 2018 (4 of 6)***

## ***Private equity (and other financial investors)***

- Unprecedented amounts of capital are now in play from “Big Asset Management”, including insurers (and other financial institutions); government and industry funds; SOE funds; and private-company funds
- With pressure to defray this wall of money, we expect financial buyer activity to continue to increase in the mid to long term, with outbound M&A a particular driver of growth – as in 2017
- We expect exit activities to keep their momentum with good activity in both A-share and offshore (HK and NY) IPOs, and further growth in trade sales
- Overall, we think full year 2018 investment will be higher than in 2017, perhaps re-approaching the peak of 2016.

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# *Outlook for 2018 (5 of 6)*

## *Key industry sectors*

- Real estate
  - M&A strategy in real estates sector is not only market driven, but also the result of tighter regulatory policy: unbalanced regional development, policy constraints and funding restrictions caused domestic M&A activities and market consolidation in the real estate sector, and are likely to increase further
  - However, traditional real estate outbound M&A activity is expected to decrease in the near future for reasons described earlier
  - With improving macro-economic trends, more stable growth in the real estate market is anticipated, and corporations that have sufficient land and capital reserves may grow rapidly in a highly competitive domestic market.

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# ***Outlook for 2018 (6 of 6)***

## ***Key industry sectors (cont'd)***

- Technology
  - E-commerce and online platforms will continue to be of interest to some of the tech majors
  - Cross-over has a profound impact on various industries, such as retail, education, real estate (lease) etc., as the TMT companies evolve from a service platform to gradually acquire assets and operate the underlying business. The cross-over between financial services and technology is also an area of interest and we expect activity around payment platforms, crypto-currencies and blockchain
  - New technology such as AI, IoT and blockchain continue to be a focus of investors
  - The favorable policy change by the HK Stock Exchange offers more flexible exit alternatives, which will further boost M&A activities
  - Increasing scrutiny of overseas security review / approval and outbound investment guidance have cooled down activity levels in the US and Europe, and focus is being shifted somewhat to the Asia market.

# 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

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# *Thank you!*

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