

# *Mid-year M&A Review and Outlook Press Briefing*

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## ***Foreword – explanation of data shown in this presentation***

- 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

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## ***Foreword – explanation of data shown in this presentation (continued)***

- “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
- FYXX means 12 calendar months of 20XX
- 1HXX means first six calendar months of 20XX
- Growth percentages for 1H11 compared to FY10 are calculated using FY10 data divided straight line by 2 (to reduce some distortion caused by half year data cut-off errors)
- 1QXX means first three months (first quarter) of 20XX, 2QXX means second quarter, and so on

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## *Key messages*

- **Outbound M&A** by mainland Chinese buyers powered ahead with a 14% increase in announced deals in the first half of 1H11
- The number of industrial and consumer related **outbound transactions** doubled, with Europe increasing in popularity as a destination for Chinese investment
- Larger size (>US\$10 million) **Private Equity transactions** increased by 31% in 1H11
- **Domestic strategic transactions** grew at a pace of 10% to a half year record of 1,616 announced deals
- After a rebound in FY10, **foreign strategic transactions** plateaued
- Despite recent turmoil in global markets, PwC believes that, with the possible exception of foreign strategic investment, the growth trends will continue into the second half year of 2011 and 2012

# 1H11 saw strong growth in **Outbound, Domestic Strategic** and larger size **Private Equity** transactions

## Total deal volume and value, FY08 to 1H11

	FY08		FY09		FY10		1H11		%Diff volume 1H10* vs. 1H11
	Volume	Value (US\$bn)	Volume	Value (US\$bn)	Volume	Value (US\$bn)	Volume	Value (US\$bn)	
<b>Strategic buyers</b>									
Domestic	2,998	136.6	2,772	92.4	2,947	130.6 <sup>(1)</sup>	1,616	54.4	10%
Foreign	617	17.7	409	10.4	539	16.8 <sup>(2)</sup>	262	6.1	-3%
<b>Total Strategic buyers</b>	<b>3,615</b>	<b>154.3</b>	<b>3,181</b>	<b>102.9</b>	<b>3,486</b>	<b>147.4</b>	<b>1,878</b>	<b>60.5</b>	<b>8%</b>
<b>Financial buyers</b>									
Deal size > US\$10 million	195	17.0	163	25.9 <sup>(3)</sup>	199	16.3	130	14.2	31%
Deal size < US\$10 million	83	0.4	104	0.4	242	0.9	57	0.3	-53%
Deal size undisclosed	101	-	80	-	136	-	40	-	-41%
<b>Total Financial buyers</b>	<b>379</b>	<b>17.3</b>	<b>347</b>	<b>26.2</b>	<b>577</b>	<b>17.3</b>	<b>227</b>	<b>14.5</b>	<b>-21%</b>
<b>Outbound</b>	<b>126</b>	<b>9.4</b>	<b>144</b>	<b>30.3</b>	<b>188</b>	<b>38.2 <sup>(4)</sup></b>	<b>107</b>	<b>9.6</b>	<b>14%</b>

\* Note: FY10 divided by 2

Source: ThomsonReuters, ChinaVenture and PwC analysis

(1) Including 1 banking deal and 1 auto deal total for US\$9.9 bn

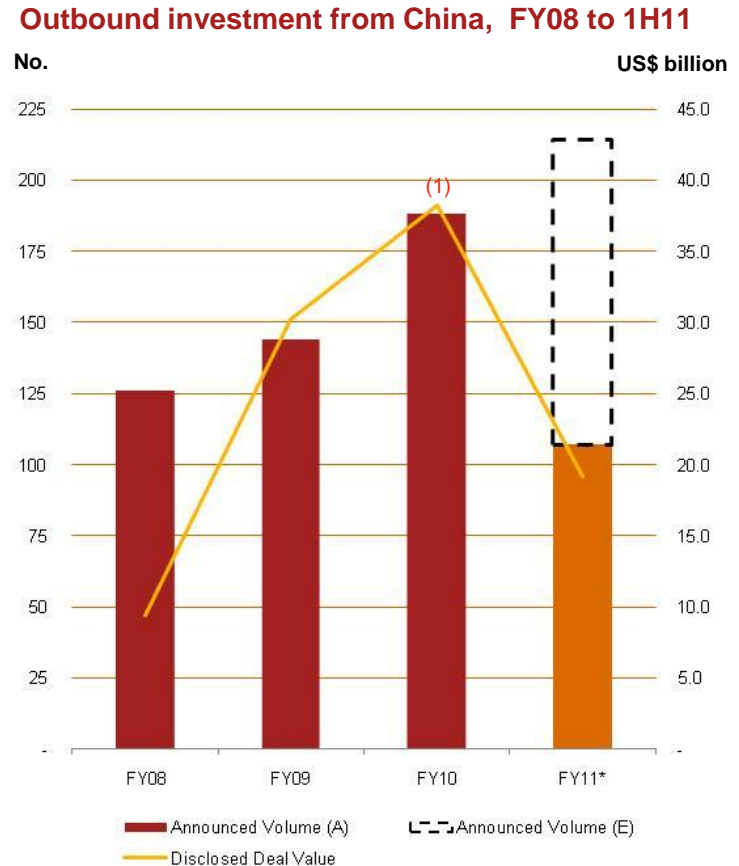
(2) Including 1 conglomerate deals for US\$1.3 bn

(3) Including 2 banking deals for US\$9.7 bn

(4) Including 3 energy deals for US\$10.8 bn

***Outbound M&A powered ahead with a 14% increase in the first half of 2011; there were fewer large value deals although we expect some high value transactions to be announced in the second half***

- Outbound activity by mainland Chinese buyers continued to grow strongly
- With 107 transactions in 1H11 this was another record half year in terms of deal volume
- Although only 3 deals with a value exceeding US\$1 billion were announced in 1H11 compared to 12 for FY10, we expect that a number of larger deals will be announced in the second half of the year

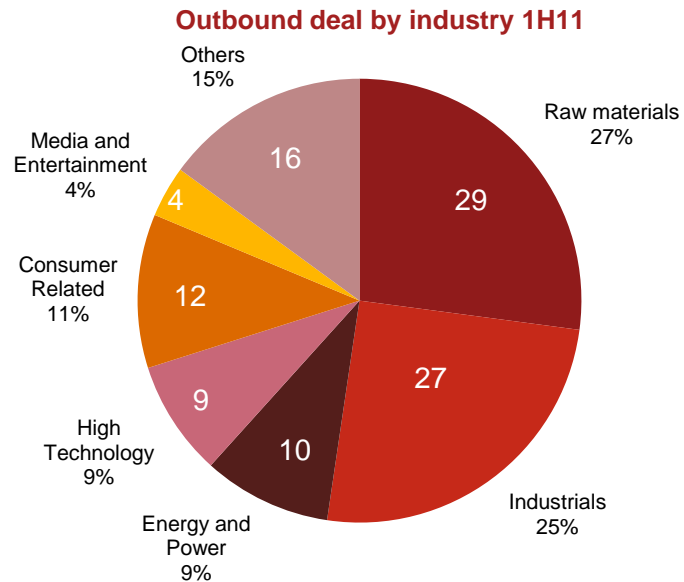
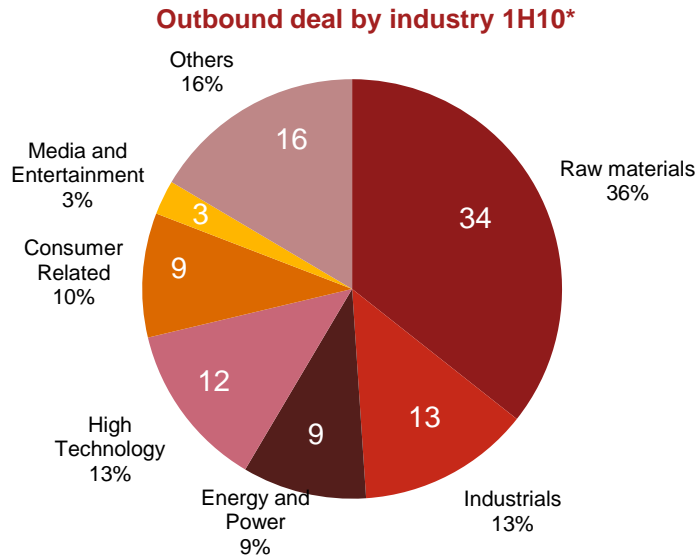


\* Note: 1H11 multiplied by 2

Source: ThomsonReuters and PwC analysis

(1) Including 3 energy deals for US\$10.8 bn

*Chinese companies continued to bring technology, know-how and consumer brands back to China and the number of deals in the industrial and consumer segments nearly doubled*



\* Note: FY10 divided by 2

Note: Raw materials include mining, metals and chemicals.

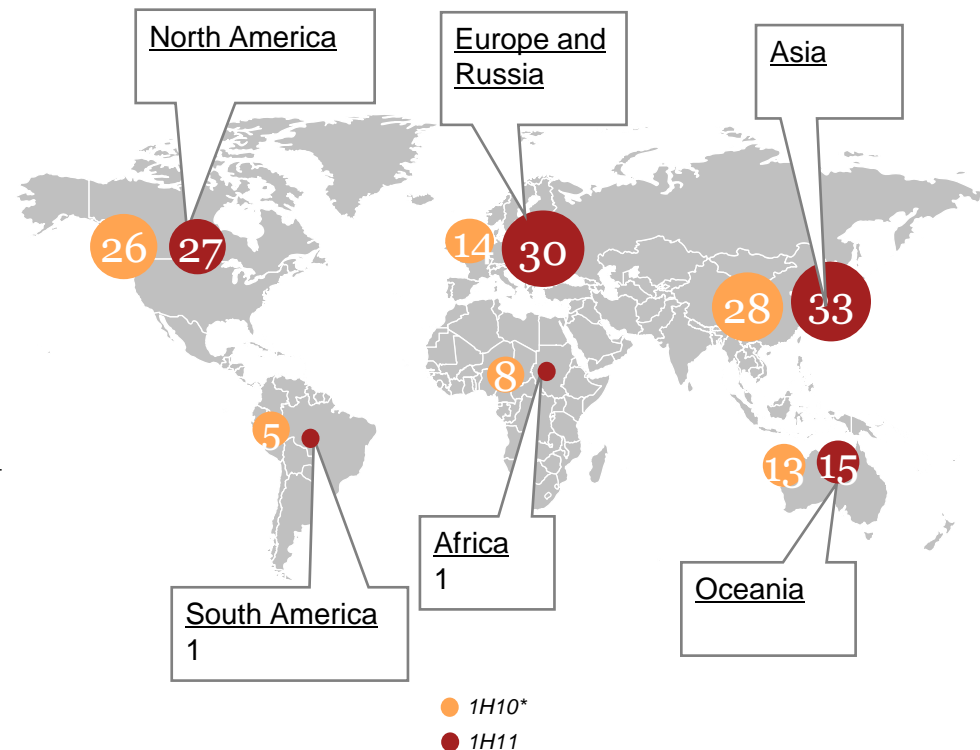
Source: ThomsonReuters and PwC analysis

- The number of acquisitions of machinery and equipment manufacturers and consumer related companies increased significantly in 1H11 as Chinese companies look to bring technology, industrial know-how and consumer brands back to China
- Deals in the resources sector represented a lower proportion of total deals; this trend in proportion will continue as the scope of Chinese outbound M&A activity widens, but the number of resources deals will remain strong in absolute terms and we see more in the pipeline for the second half of 2011

## *With 30 announced transactions in 1H11, **outbound investments into Europe** more than doubled compared to FY10*

- With 30 announced transactions in the first half of 2011 compared to 27 for the whole of 2010, Chinese companies were very active in doing M&A deals in Europe, reflecting the trend towards industrial and consumer deals
- With 33 deals announced Asia (especially Japan and Singapore with 9 and 7 deals respectively), Asia remains the largest Chinese outbound M&A investment destination in 1H11
- North America remained a popular outbound deal destination, but there were relatively fewer transactions in the southern hemisphere as the level of resources transactions fell slightly

**Outbound investment by region 1H10\* vs. 1H11**



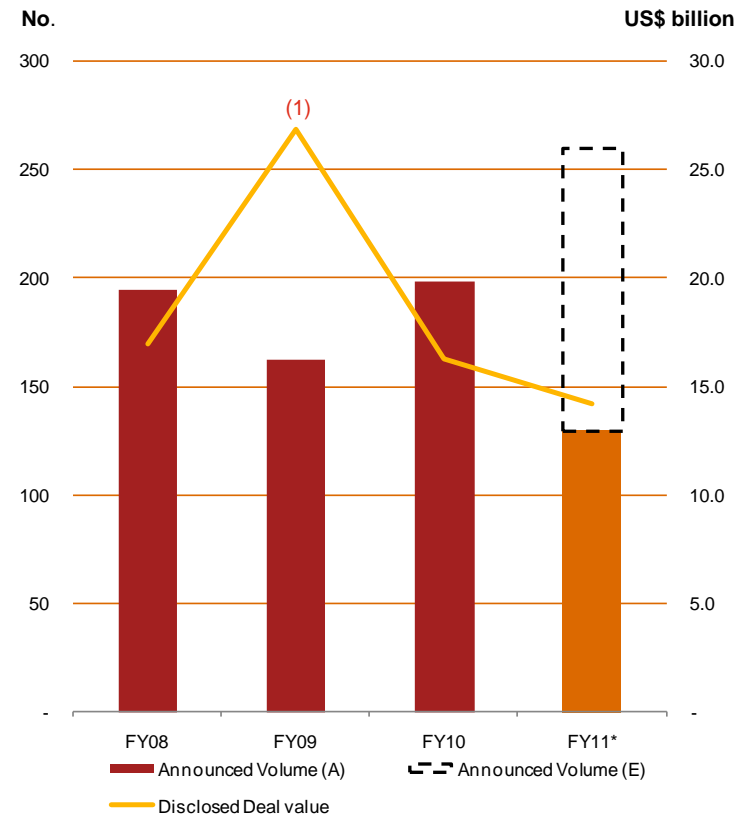
\* Note: FY10 divided by 2

Source: ThomsonReuters and PwC analysis

## *Private Equity transactions are getting larger in 1H11 with 31% more announced deals over US\$10 million compared to FY10*

- The number of deals with a value exceeding US\$10 million increased by 31% to 130 announced transactions in 1H11
- There were 27 deals larger than US\$100 million announced in 1H11 compared to 44 for the whole of FY10
- Nearly 80% of the financial buyer deals were initiated by domestic funds as the PE and VC industry continues to localise within mainland China, but foreign funds remain interested and active especially in relation to the larger transactions
- The number of smaller VC transactions apparently fell markedly, but this could be a consequence of half year inconsistencies in data for these smaller transactions

**Total financial buyer deals > US\$10 million, FY08 to 1H11**



\* Note: 1H11 multiplied by 2

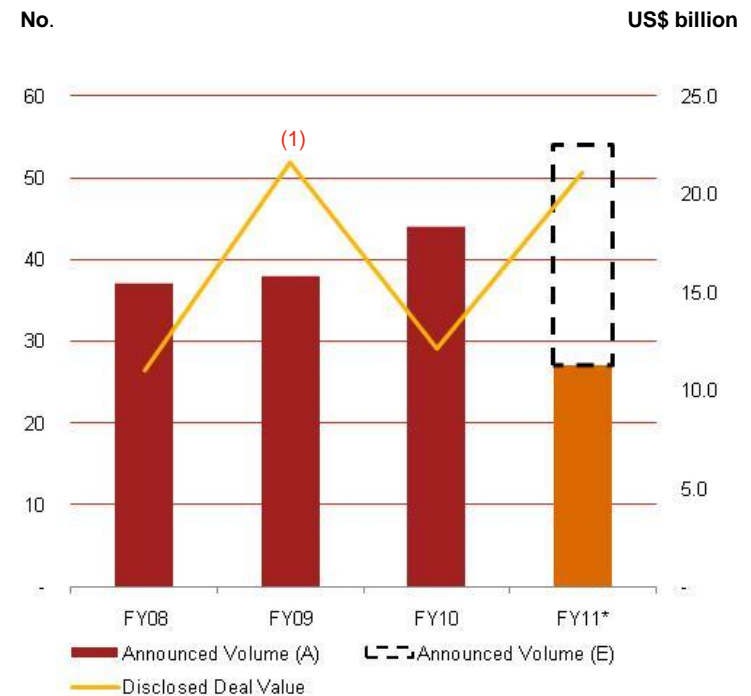
Source: ThomsonReuters, ChinaVenture and PwC analysis

(1) Including 2 banking deal for US\$9.7 bn

## *The number of mega deals (exceeding US\$100 million) announced by **Private Equity** continued its steady growth trend*

- Since FY08 the number and total value of announced private equity transactions with a value over US\$100 million has increased each year
- 27 PE deals with a value exceeding US\$100 million were announced in the first half of 2011 compared to 44 for the whole of FY10 and the total value of such transactions increased by 73%

**Total PE deals > US\$100 million, FY08 to 1H11**



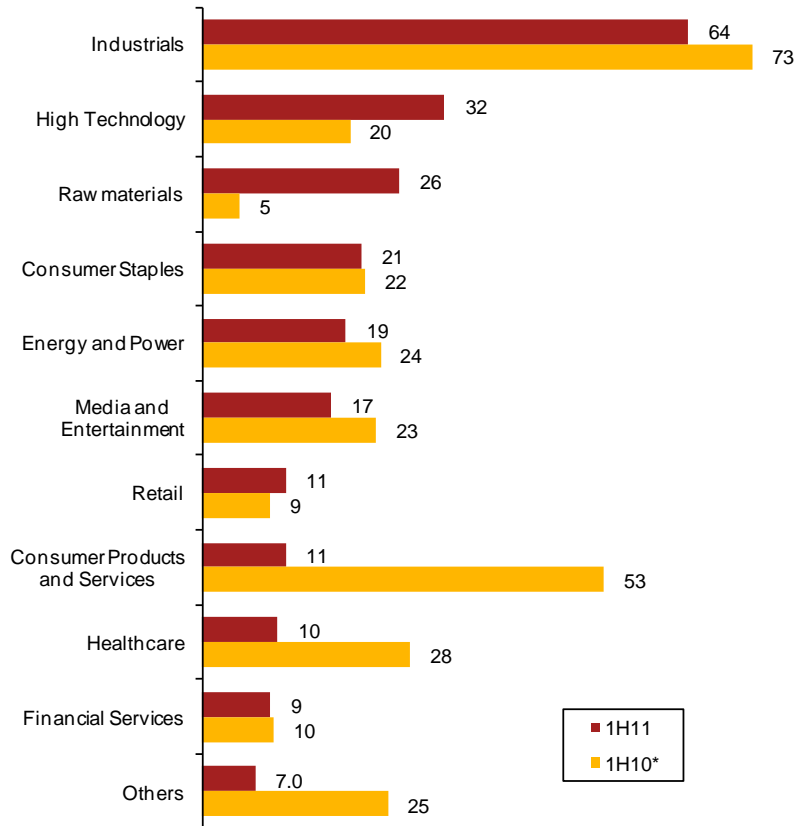
\* Note: 1H11 multiplied by 2

Source: ThomsonReuters, ChinaVenture and PwC analysis

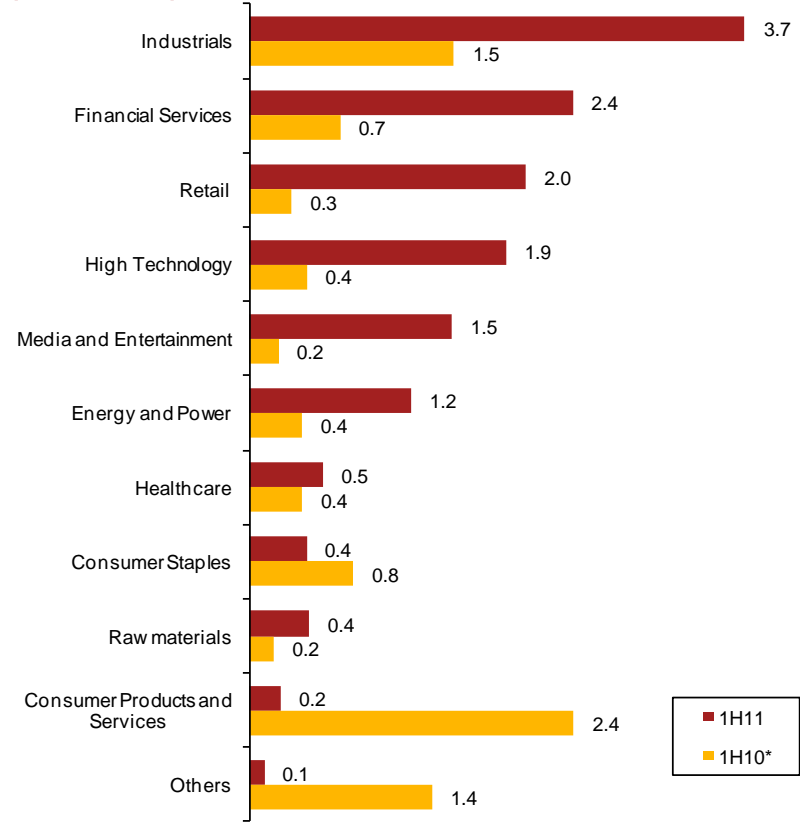
(1) Including 2 banking deal for US\$9.7 bn

# Private Equity continued to invest broadly across many industries

**Financial buyer Deals – Top 10 sectors by number of deals, 1H10\* vs. 1H11**



**Financial buyer Deals – Top 10 sectors by deal value (US\$ billion), 1H10\* vs. 1H11**

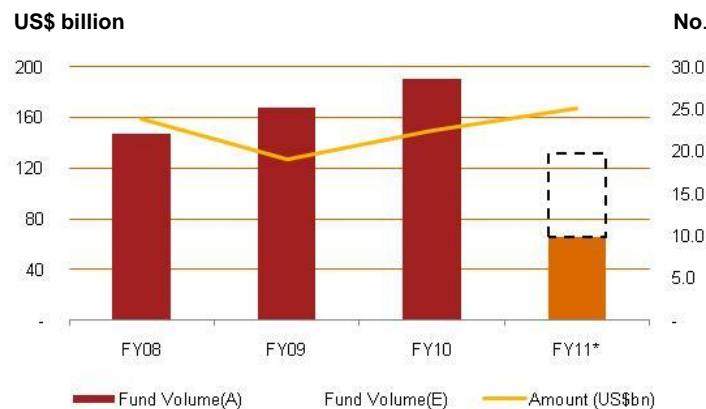


\* Note: FY10 divided by 2  
 Note: Raw Materials include mining, metals and chemicals.  
 Source: ThomsonReuters, ChinaVenture and PwC analysis

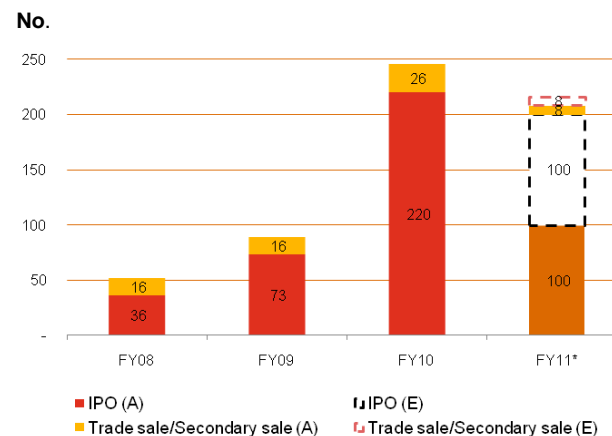
# Robust *Private Equity* fund raising in 1H11

- 66 PEs raised US\$12.5 billion of funding for Chinese investments in 1H11
- 76% of these were Renminbi denominated, accounting for 40% of the funds raised
- Chinese authorities continued to promote the PE and VC industry as an important provider of growth capital to the SME sector of the economy, with favourable new regulations governing foreign participation in Renminbi fund raising and widening the scope of domestic entities entitled to participate in PE-type investments
- IPO continues to be the preferred exit route with 100 PE/VC backed IPOs in the first half of the year, broadly on track with FY10's record highs
- The Shenzhen Chinext bourse remains the most favoured IPO market for smaller VC transactions

PE/VC fund raising for Chinese investment in FY08 to 1H11



PE/VC backed IPO's and exits by type in FY08 to 1H11

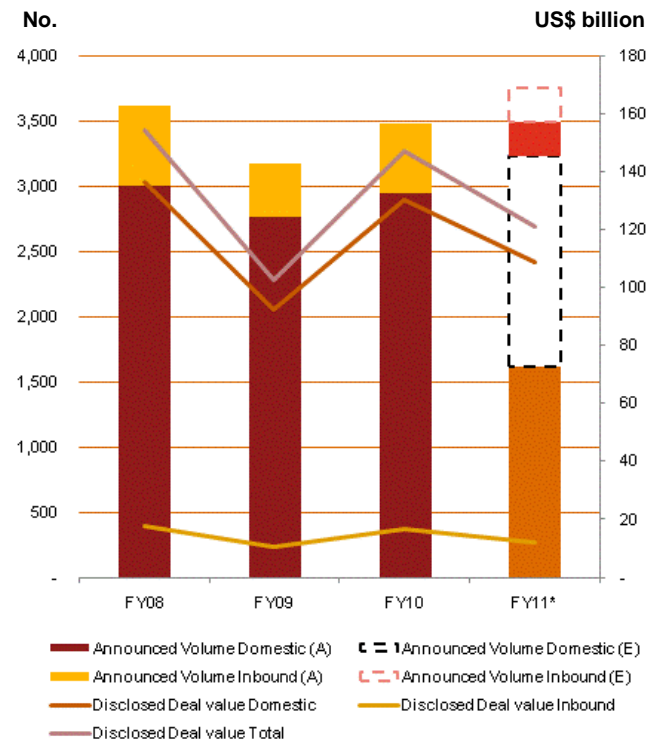


\* Note: 1H11 multiplied by 2  
Source: China Venture

*China's **domestic strategic transactions** grew at a pace of 10% to a record level of 1,616 deals announced in 1H11; **Foreign strategic buyers' inbound M&A activity** plateaued*

- **Strategic (corporate)** transaction levels grew by 8% to 1,878 compared to 1H10
- **Domestic strategic** M&A still dominates, accounting for 86% of the total strategic deal volume, with 1,616 transactions, up 10% over last year, 1H11 volumes were at a record level
- The number of strategic transactions announced by **foreign corporates** remained at similar levels to FY10

**Strategic buyers deal volume and value, FY08 to 1H11**

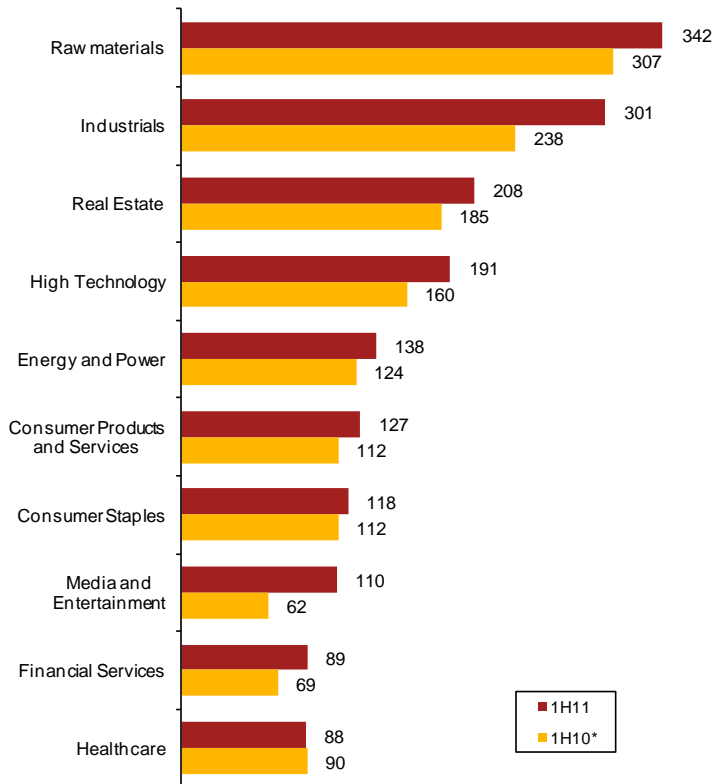


\* Note: 1H11 multiplied by 2

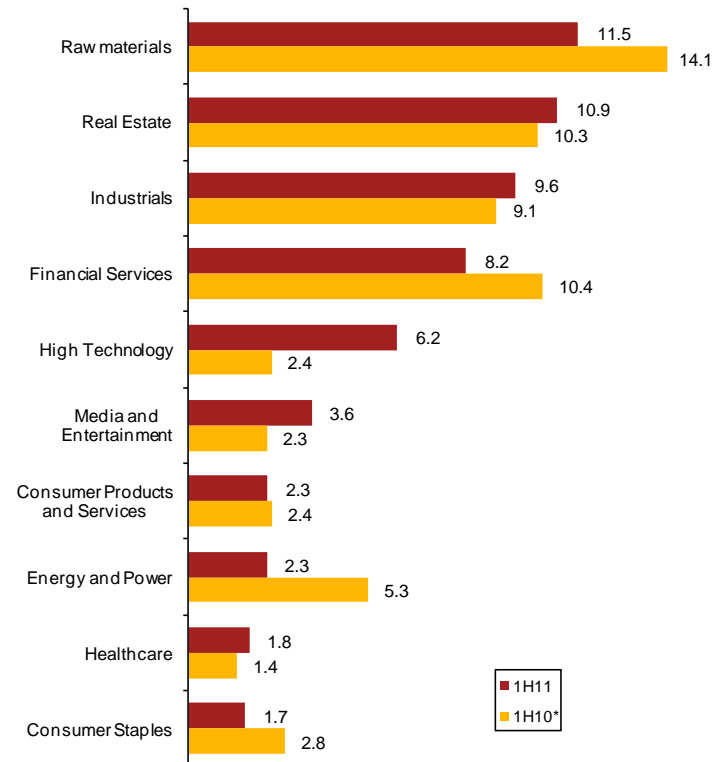
Source: ThomsonReuters, China Venture and PwC analysis

# Strategic buyer deals continue to be broadly spread across industry sectors with most sectors experiencing growth

Strategic buyer Deals – Top 10 sectors by number of deals, 1H10\* vs. 1H11



Strategic buyer Deals – Top 10 sectors by deal value (US\$ billion), 1H10 vs. 1H11



\* Note: FY10 divided by 2

Note: Raw Materials include mining, metals and chemicals.

Source: ThomsonReuters, ChinaVenture and PwC analysis

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## ***Outlook: Growth in China related M&A is anticipated to continue***

### **Overall**

- Predictions are difficult given turmoil in global markets, however continuous growth in China related M&A is still expected in 2H11 and FY12

### **Outbound**

- Outbound investment expected to grow at double digits:
  - Further resource deals anticipated and larger value deals in the second half of 2011
  - A second Global Financial Crisis could stall some deals in the pipeline, but on the other hand could represent a buying opportunity for China
  - Know-how, technology and brand acquisition growing in importance

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## ***Outlook: continued***

### **Private Equity**

- PE will see good growth in large size deals
  - Tightening of liquidity in China (or globally) is an opportunity for PE
  - PE is seen as a key provider of capital for growth for China's privately owned SME's - a key plank of the economy

### **Strategic**

- Domestic strategic M&A will continue to grow at a steady pace; foreign buyers may retreat until global disruptions subside

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## *Key messages*

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# Key messages- 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 PricewaterhouseCoopers has used different data vendors in the past.

## 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
- National Social Security Fund acquisitions

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# *Thank you*