

M&A 2013 Mid Year Review and Outlook Press Briefing

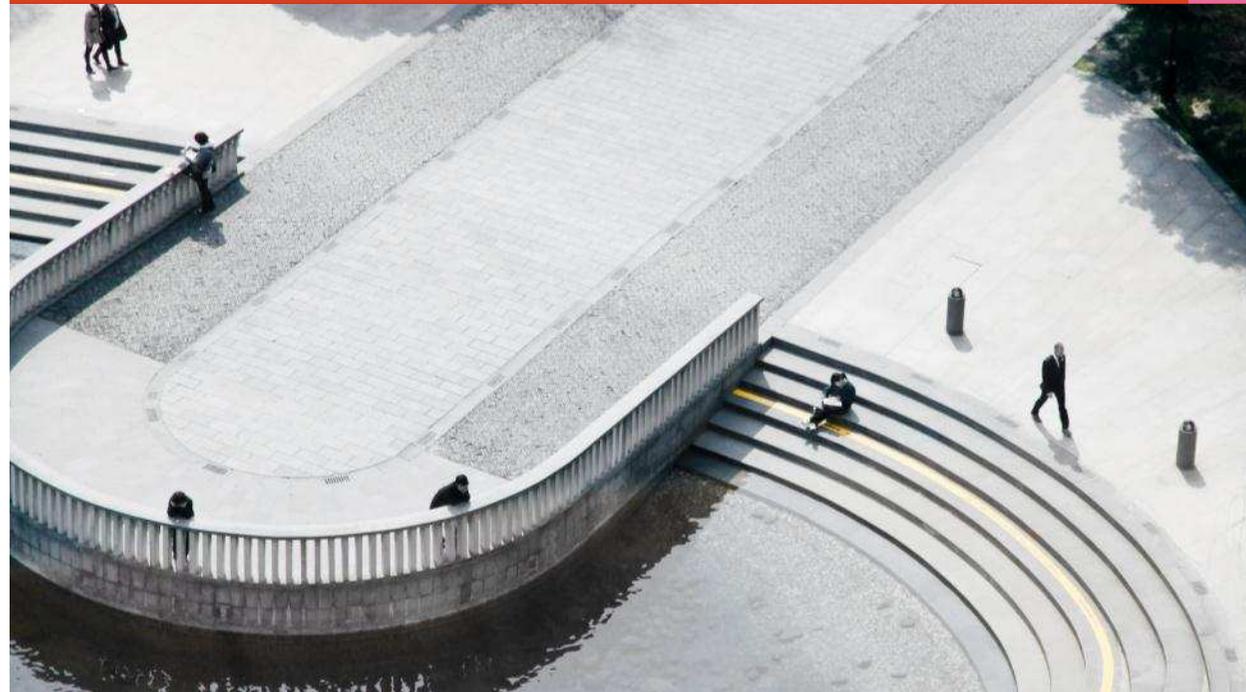
29 Aug 2013

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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 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 reduce the impact of foreign exchange rates, deal values from 2008 to 2011 were adjusted based on the 2012 average Rmb/US\$ exchange rate

Key messages (1 of 4)

Overall

- China deal activity remained subdued in the first half of 2013 as the leadership transition, changes in policy direction, tightening credit conditions and slowing growth in China resulted in a “wait and see” response from dealmakers
- Deal numbers and values declined by 5% and 6% respectively compared to the second half of 2012 and remain below previous year highs; although they increased by 13% and 60% respectively compared to first half of 2012
- China domestic strategic M&A is still by far the largest part of overall China M&A (65% of overall activity), but deal volumes, at 1,375 transactions, are below previous highs
- However, we have seen some larger sized transactions, so deal values at US\$119.5 billion overall look relatively more healthy
- We think that the slowing growth and expectations of ongoing policy tightening will cause this cautious approach to continue in the second half

Key messages (2 of 4)

Domestic and Foreign-Inbound Strategic

- Strategic buyers have remained cautious and we have not seen a rebound in activity in the second quarter after the leadership changes took effect; with new policy direction erring towards de-leveraging and slower growth, both domestic and inbound strategic buyers have been more selective and focused in their investment activities
- Foreign inbound strategic deal volumes are holding recent lows; investment from elsewhere in Asia including Japan exceeds US and European sourced transactions although the biggest value deals came from European buyers including carmakers Volvo and Daimler

Private Equity

- PE new fund raising declined by 46% following some sizeable new fund raises by several of the big names in 2012, and with the PE industry focused now on spending existing dry powder and on exiting previous investments
- A predicted rebound in PE investment activity failed to materialise (deal numbers were broadly flat) with PEs remaining cautious on policy direction and the softening of the China economy in general; PEs are also dealing with the transition from growth capital to buy out (with fewer buy out opportunities, and minority deals not favoured because of concerns over ability to exit)

Key messages (3 of 4)

Private Equity (cont'd)

- However, the apparent step-down in PE deal activity since 2011 is partly due to the exit from the market of the profusion of opportunistic renminbi funds, leaving a core cadre of higher quality PEs – a development that is likely to be favourable to the market overall
- As anticipated, we have seen an increasing number of buy out transactions with minority growth capital activity declining sharply as the market changes focus; investments by PE in publicly listed companies continues to be important
- In relation to PE exits, with A-share markets effectively closed, and overseas bourses unreceptive, IPO exits have slowed to a trickle; we expect M&A sales by PEs to strategic investors to grow, although exiting minority stakes through M&A may not be a viable option in many cases
- The cumulative overhang of investments to exits remains the number one challenge for the PE industry as many funds near the end of their contracted lives

Key messages (4 of 4)

China Outbound

- China mainland outbound M&A, surprisingly, declined in the first half of 2013 with only 78 transactions, compared to 95 in the previous six months
- Privately owned enterprises were much more cautious than we had anticipated, with many of them instead focusing on addressing challenges in the difficult domestic market; also local debt financing for M&A has become more difficult to obtain for POEs
- SOE investments in materials and resources are still the big drivers of outbound deal values, whereas POEs look for consumer products, brands, know-how and technologies that can be brought back and put to use in China – reflecting this, and despite the slowdown, developed markets like North America and Europe were still the most popular destinations for Chinese outbound POEs

PwC sees the following key trends for the rest of the year and into 2014:

- Deal makers are expected to continue to adopt a generally cautious approach to China M&A activity because of slowing growth, tighter credit conditions and expectations of ongoing policy changes
- In the near future, we expect an uptick in domestic strategic M&A leading to consolidation in industry sectors in China; we also anticipate an increase in domestic debt-restructuring situations as non-performing borrowers are unable to refinance or roll over their loans – these trends, both of which will be encouraged by policymakers as a means of squeezing excess capacity out of the economy, may be more visible into 2014
- We expect to see some recovery in foreign inbound strategic deal activity in the second half of 2013; more so in 2014
- The apparent step-down in PE M&A statistics reflects the consolidation of the PE industry in favor of a core cadre of high quality PEs; the gradual transitioning away from minority-stake growth capital towards harder-to-find buy out deals has also caused deal numbers to stall; we think buy out activity will increase slowly but steadily and M&A activity with PEs as sellers will strengthen this growth trend; demand for capital from China's private sector SMEs together with a surfeit of PE dry powder is another medium term driver of growth, albeit tempered by cautious investing on behalf of the PEs
- Caution remains the watch word also for mainland China outbound investors, but we think the decline in the first half is a hiccup and steady growth, from what is still a relatively low base overall, will resume in the rest of 2013 and into 2014

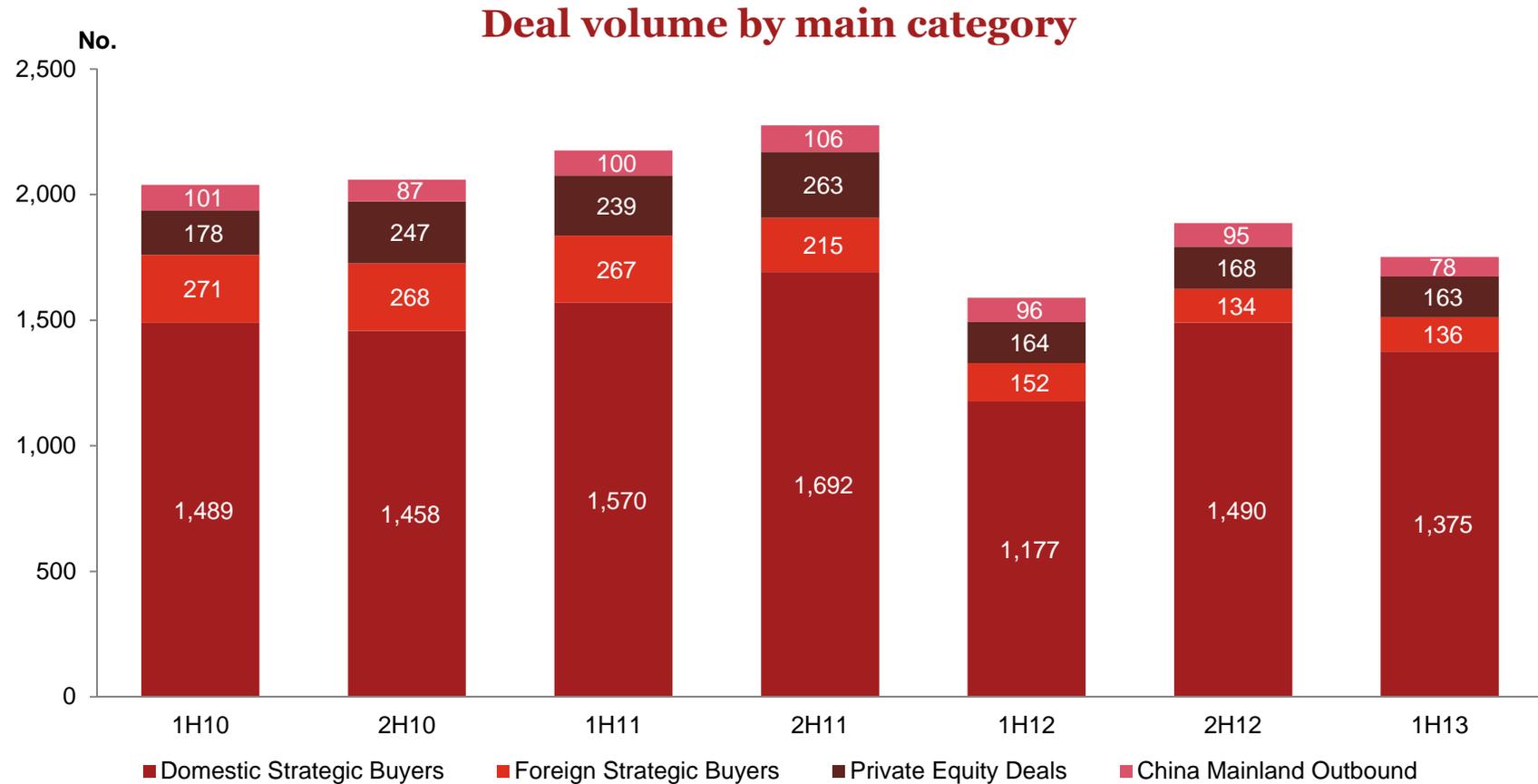
China deal activity remained subdued in the first half of 2013 as the leadership transition, changes in policy direction, tightening credit conditions and slowing growth in China resulted in a “wait and see” response from dealmakers; deal numbers and values declined by 5% and 6% respectively compared to the second half of 2012 and remain below previous year highs; although they increased by 13% and 60% respectively compared to first half of 2012

Total deal volume and value

	1H10		2H10		1H11		2H11		1H12		2H12		1H13		% Diff volume 1H13 vs. 2H12	% Diff value 1H13 vs. 2H12
	Volume	Value (US\$bn)														
Strategic buyers																
Domestic	1,489	67.4	1,458	74.4	1,570	55.9	1,692	63.1	1,177	35.3	1,490	53.6	1,375	61.6	-8%	15%
Foreign	271	7.9	268	10.3	267	8.3	215	9.2	152	4.0	134	5.2	136	6.9	1%	33%
Total Strategic buyers	1,760	75.2	1,726	84.7	1,837	64.2	1,907	72.2	1,329	39.3	1,624	58.8	1,511	68.5	-7%	17%
Financial buyers																
Private Equity	178	10.0	247	15.1	239	17.3	263	15.0	164	8.8	168	14.9	163	18.5	-3%	24%
VC	466	1.1	545	1.4	533	1.1	370	0.8	220	0.5	253	0.5	276	0.5	9%	0%
Total Financial buyers	644	11.2	792	16.5	772	18.4	633	15.8	384	9.3	421	15.4	439	19.0	4%	23%
China mainland Outbound																
SOE	34	18.8	30	16.1	21	4.9	27	28.5	26	16.3	22	23.8	27	20.2	23%	-15%
POE	67	4.0	57	2.5	79	3.3	79	6.2	70	8.1	73	17.7	51	7.4	-30%	-58%
Total China mainland Outbound	101	22.8	87	18.7	100	8.2	106	34.7	96	24.4	95	41.5	78	27.6	-18%	-34%
HK Outbound	85	3.7	86	15.4	94	4.5	89	3.9	67	1.9	99	11.1	90	4.5	-9%	-60%
Total	2,590	112.9	2,691	135.2	2,803	95.2	2,735	126.6	1,876	74.8	2,239	126.7	2,118	119.5	-5%	-6%

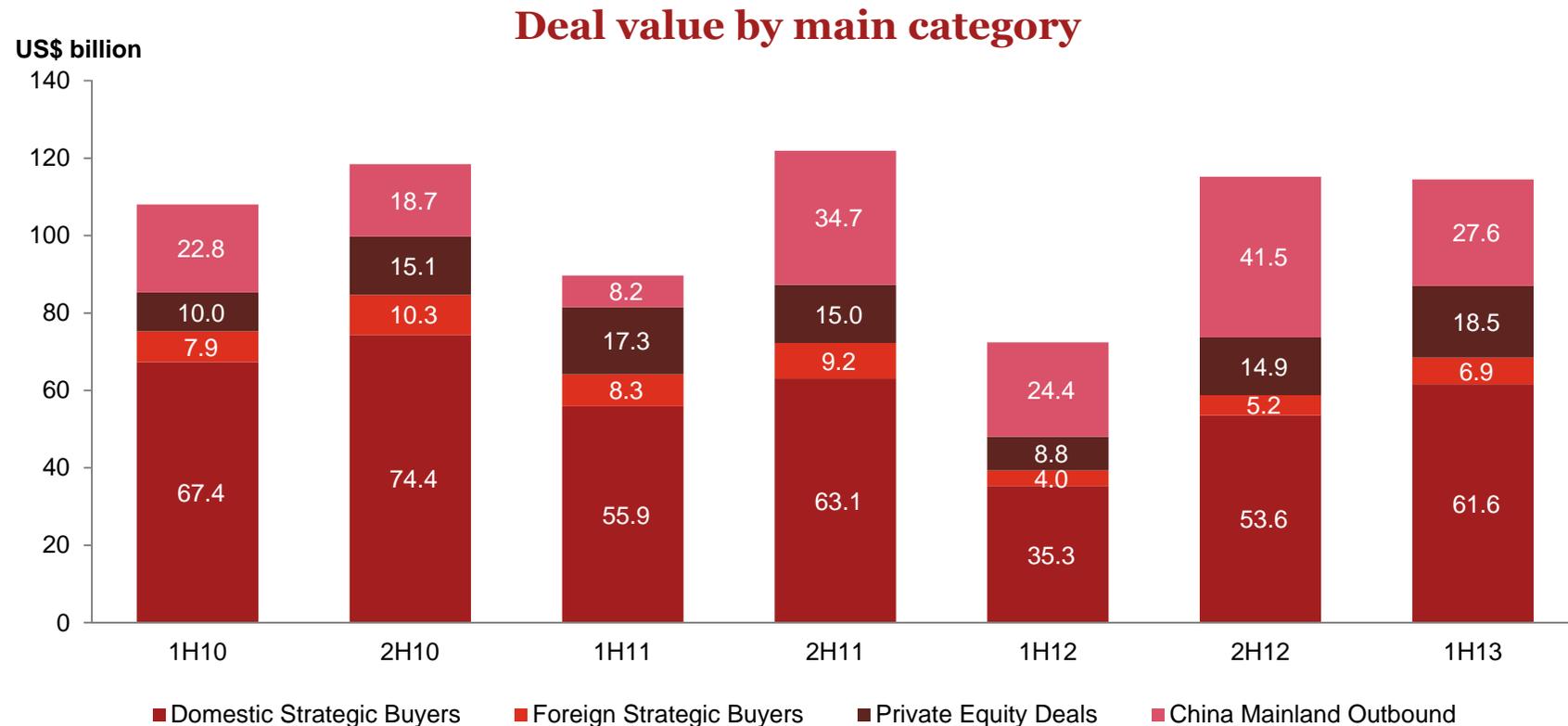
Source: ThomsonReuters, ChinaVenture and PwC analysis

China domestic strategic M&A is still by far the largest part of overall China M&A, but deal volumes are below previous highs ...



Source: ThomsonReuters, ChinaVenture and PwC analysis

... Although we have seen some larger sized transactions, so deal values look relatively more healthy



Source: ThomsonReuters, ChinaVenture and PwC analysis

Strategic buyers

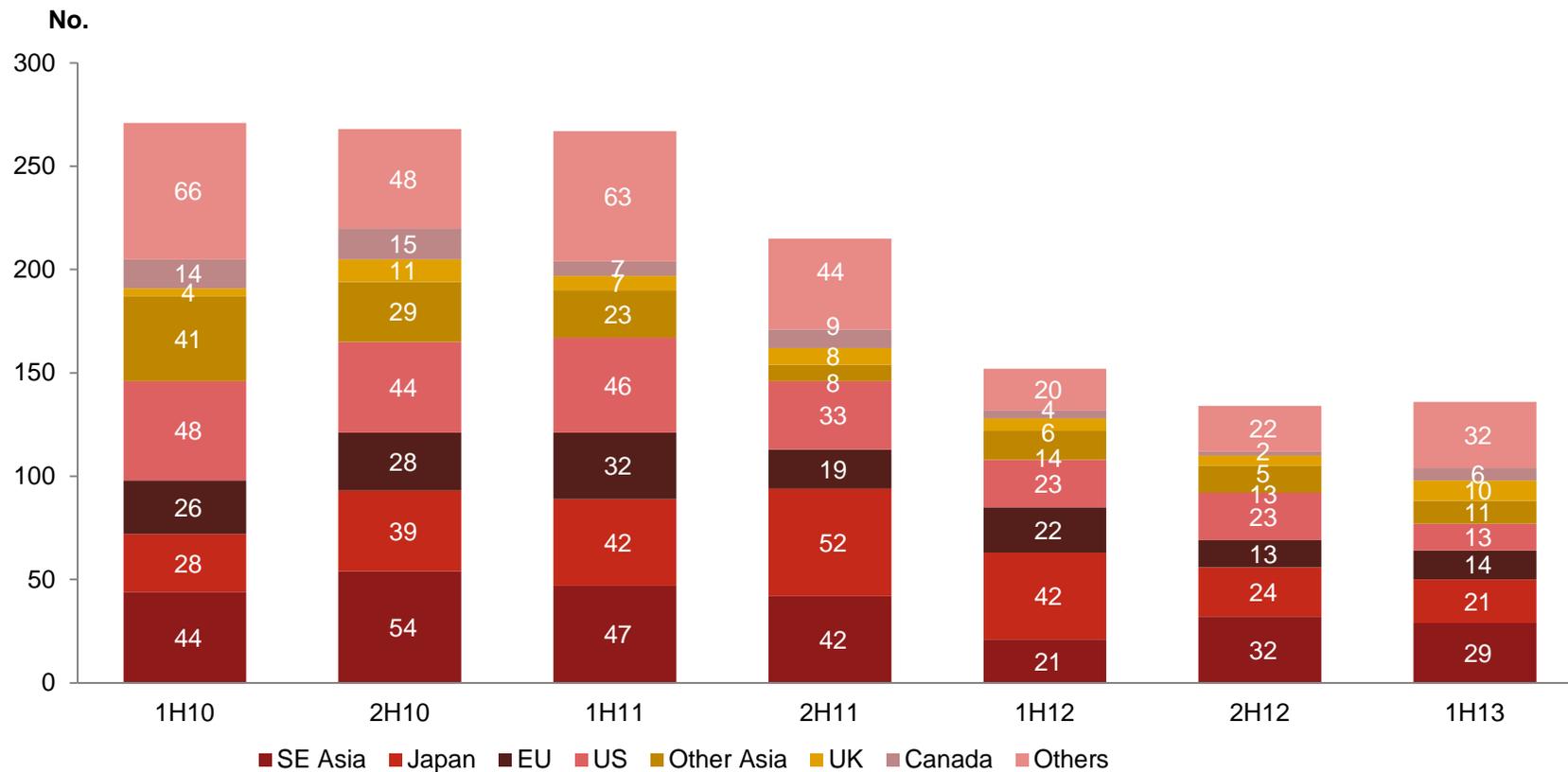
Strategic buyers have remained cautious and we have not seen a rebound in activity in the second quarter after the leadership changes took effect, with new policy direction erring towards tightening and slower growth; both domestic and inbound strategic buyers have been more selective and focused in their investment activities



Source: ThomsonReuters, ChinaVenture and PwC analysis

Foreign inbound strategic deal volumes are holding recent lows; investment from elsewhere in Asia including Japan exceeds US and European sourced transactions

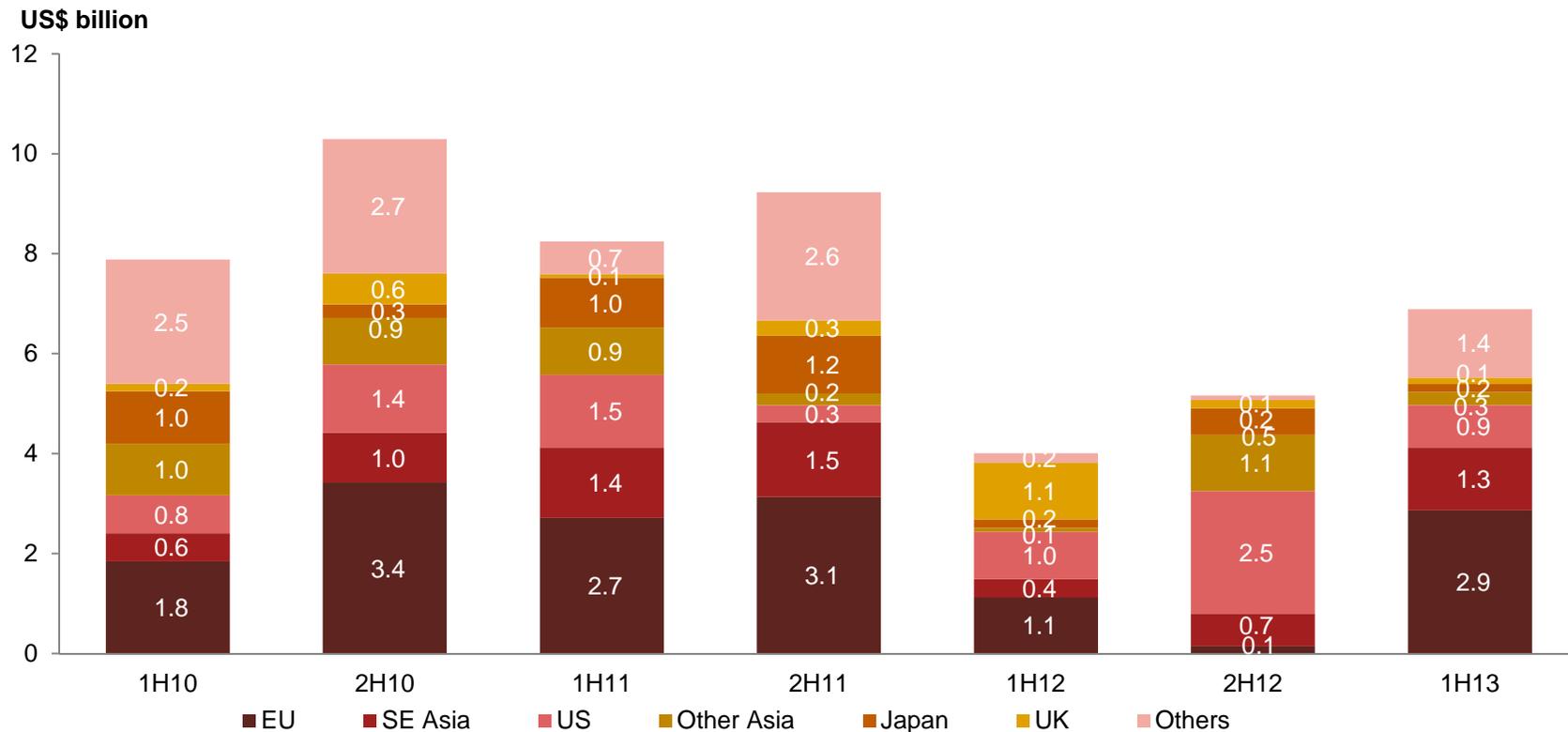
Foreign strategic buyer deal volume by region of origin



Source: ThomsonReuters, ChinaVenture and PwC analysis

However, the biggest deals came from European buyers including carmakers Volvo and Daimler

Foreign strategic buyer deal value by region of origin

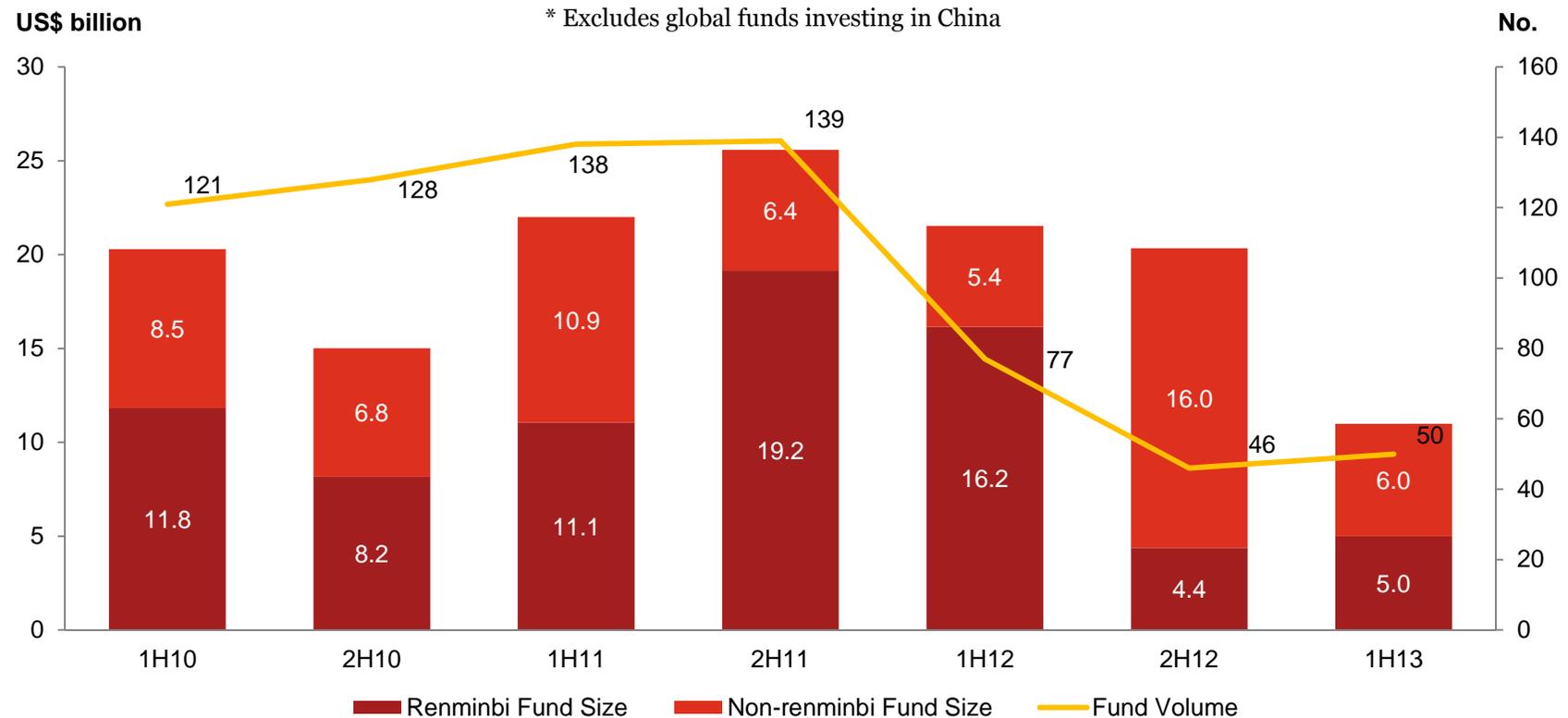


Source: ThomsonReuters, ChinaVenture and PwC analysis

PE/VC deals

PE new fund raising declined by 46% following some sizeable new fund raises by several of the big names in 2012, and with the PE industry focused now on spending existing dry powder and on exiting previous investments

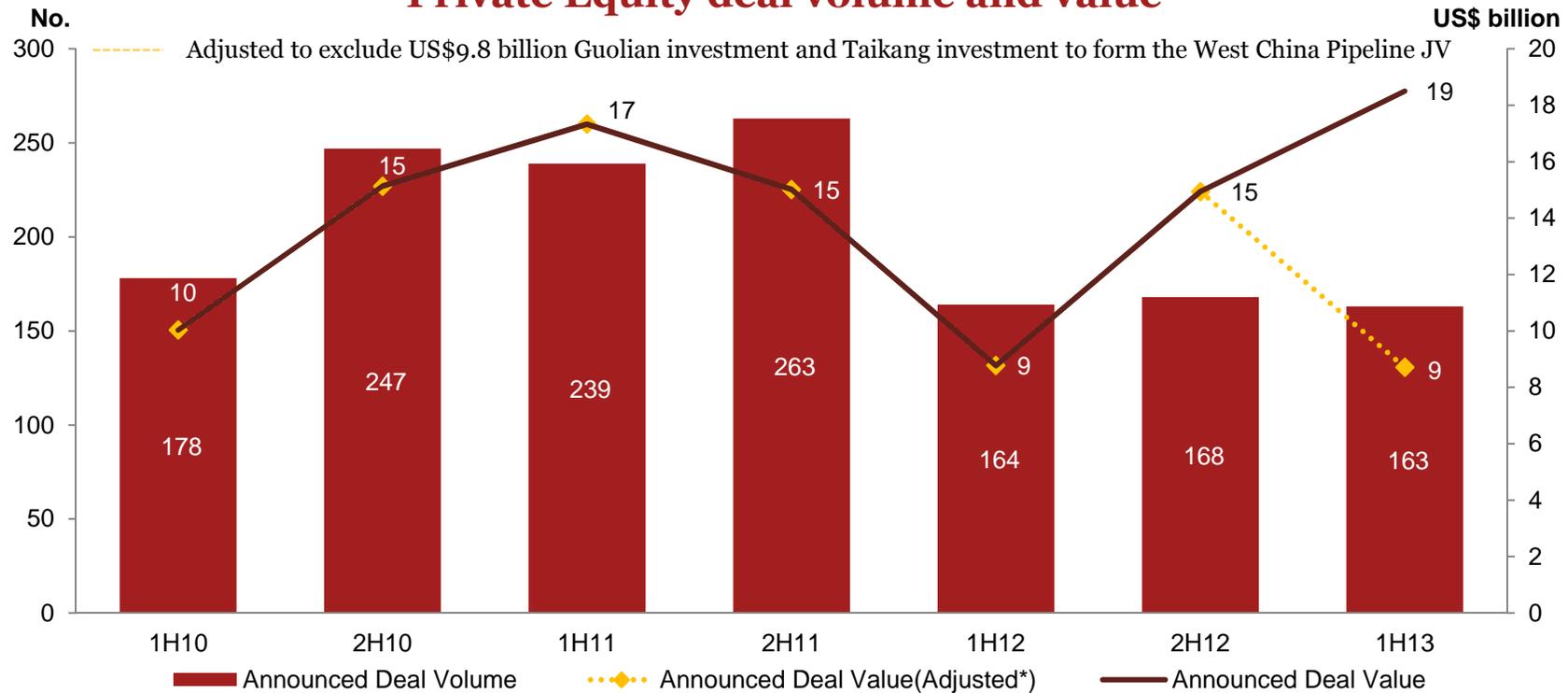
PE/VC fund raising for China investment (*)



Source: AVCJ and PwC analysis

A predicted rebound in PE investment activity failed to materialise (deal numbers were broadly flat) with PEs remaining cautious on policy direction and the softening of the China economy in general; PEs are also dealing with the transition from growth capital to buy out (with fewer buy out opportunities, and minority deals not favoured because of concerns over ability to exit) ...

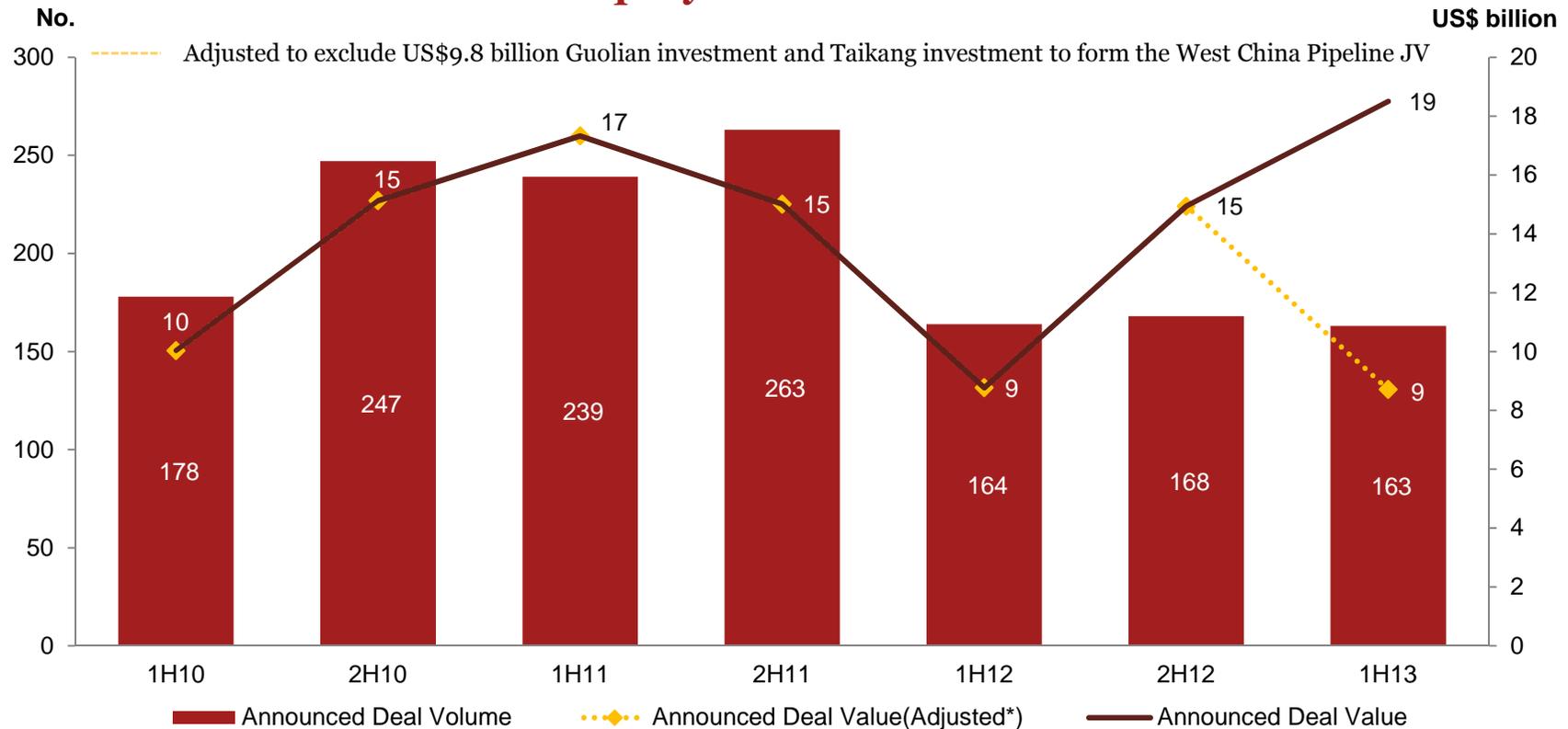
Private Equity deal volume and value



Source: ThomsonReuters, ChinaVenture and PwC analysis

... However, the apparent step-down in PE deal activity since 2011 is partly due to the exit from the market of the profusion of opportunistic renminbi funds, leaving a core cadre of higher quality PEs – a development that is likely to be favourable to the market overall

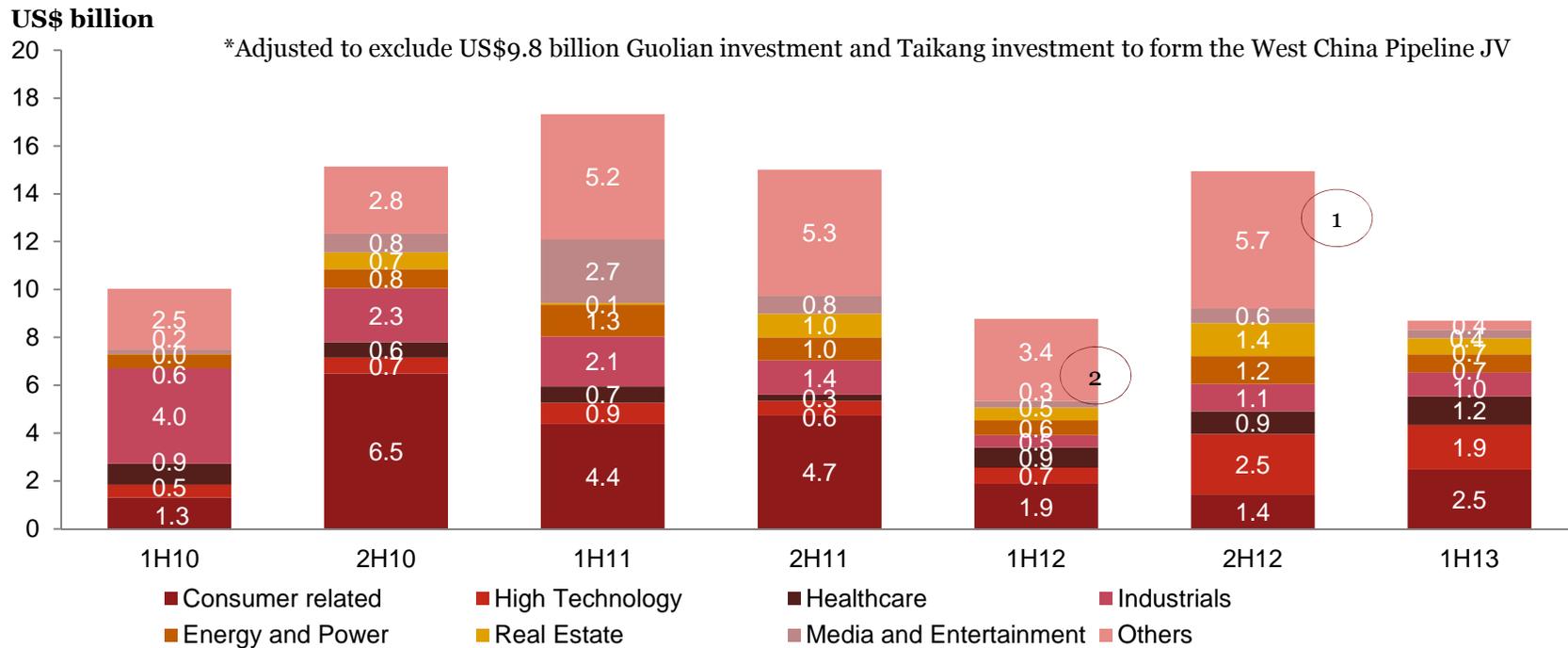
Private Equity deal volume and value



Source: ThomsonReuters, ChinaVenture and PwC analysis

Consumer and technology sectors continued to attract the most PE dollars

PE deal value by industry sector (*)

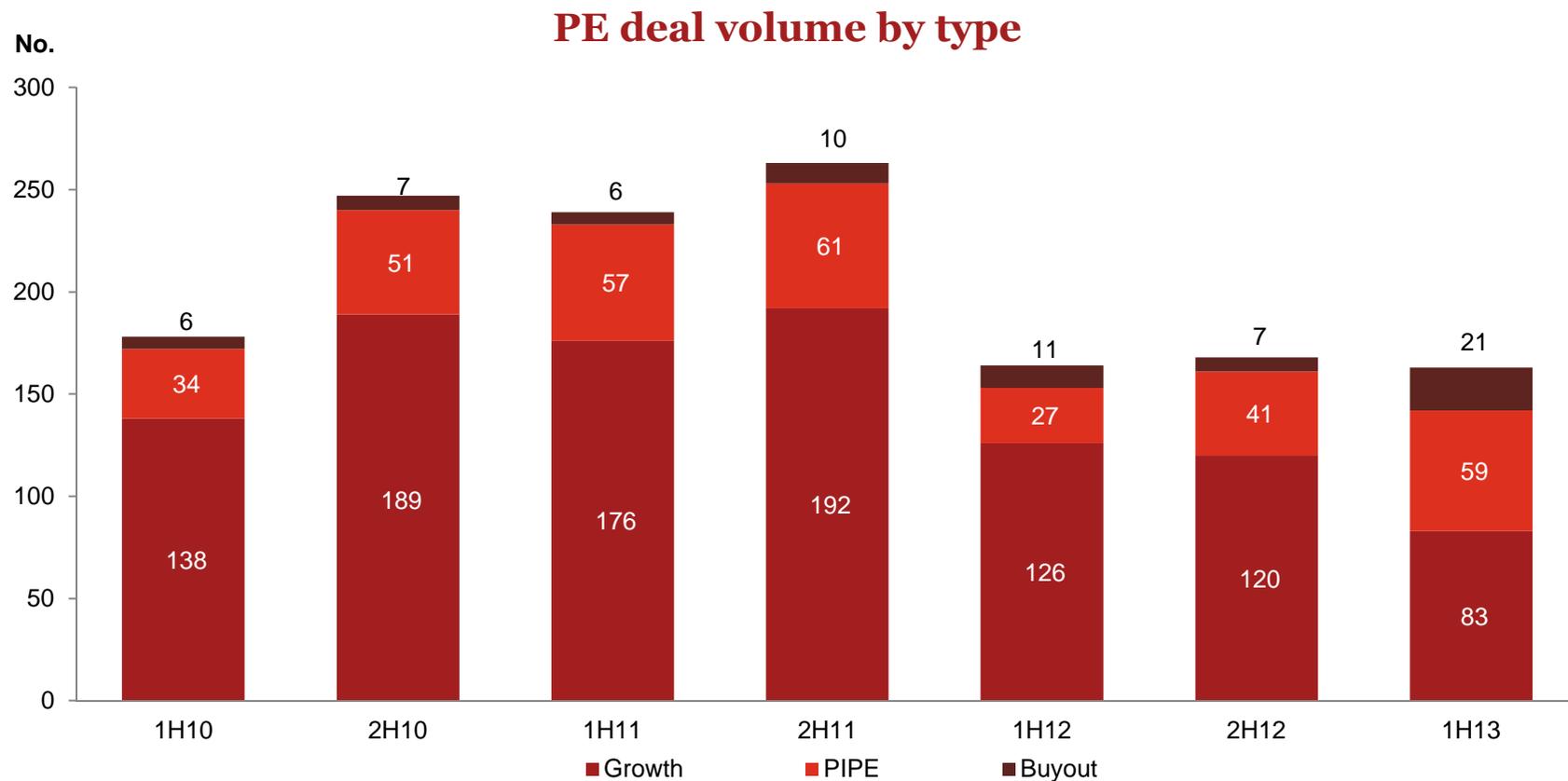


Note 1: including two FS deals with value of US\$4.1bn – CIC's investment in China Export and Credit Insurance for US\$3.2bn; GIC, ADIA and Norges Bank's investment in China Pacific Insurance for US\$860mn.

Note 2: including one FS deal with value of US\$1.8bn – Social Security Fund, Standard Chartered Bank, Citic Capital and UBS's investment in Cinda Asset Management

Source: ThomsonReuters, ChinaVenture and PwC analysis

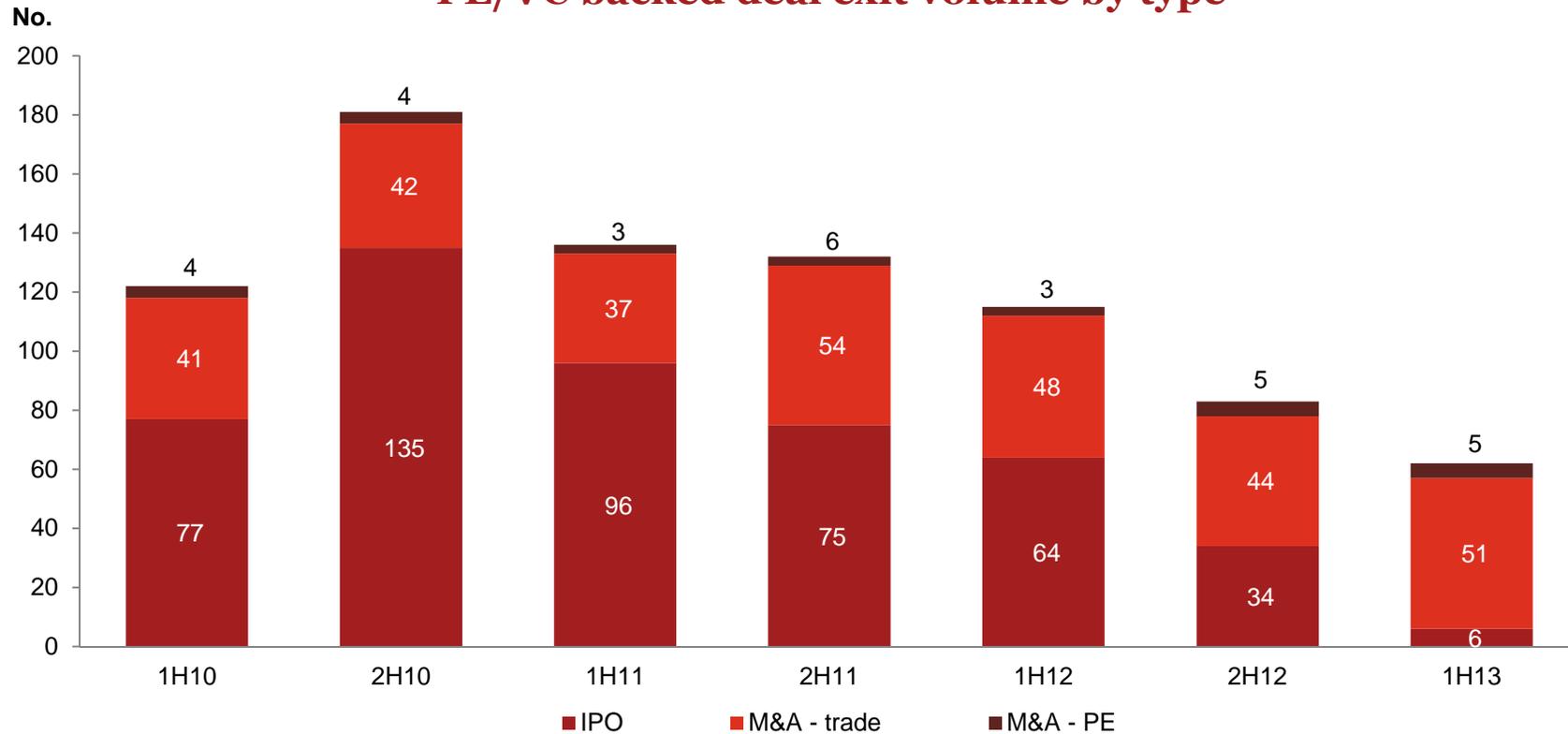
As anticipated, we have seen an increasing number of buy out transactions with minority growth capital activity declining sharply as the market changes focus; investments by PE in publicly listed companies continues to be important



Source: ThomsonReuters, ChinaVenture and PwC analysis

PE exits: With A-share markets effectively closed, and overseas bourses unreceptive, IPO exits have slowed to a trickle; we expect M&A sales by PEs to strategic investors to grow, although exiting minority stakes through M&A may not be a viable option in many cases

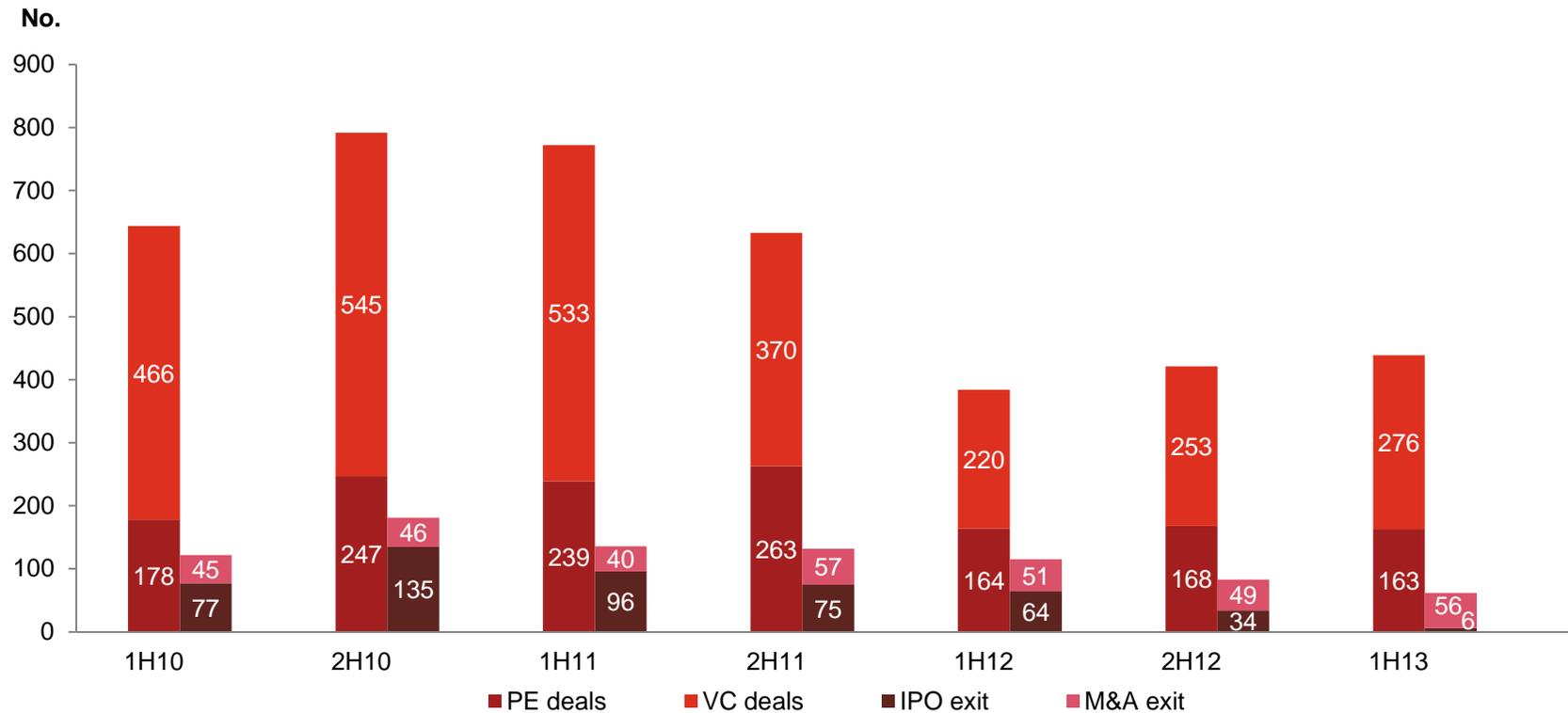
PE/VC backed deal exit volume by type



Source: AVCJ and PwC analysis

The cumulative overhang of investments to exits remains the number one challenge for the PE industry as many funds near the end of their contracted lives

PE/VC deal volume vs. No. of exits

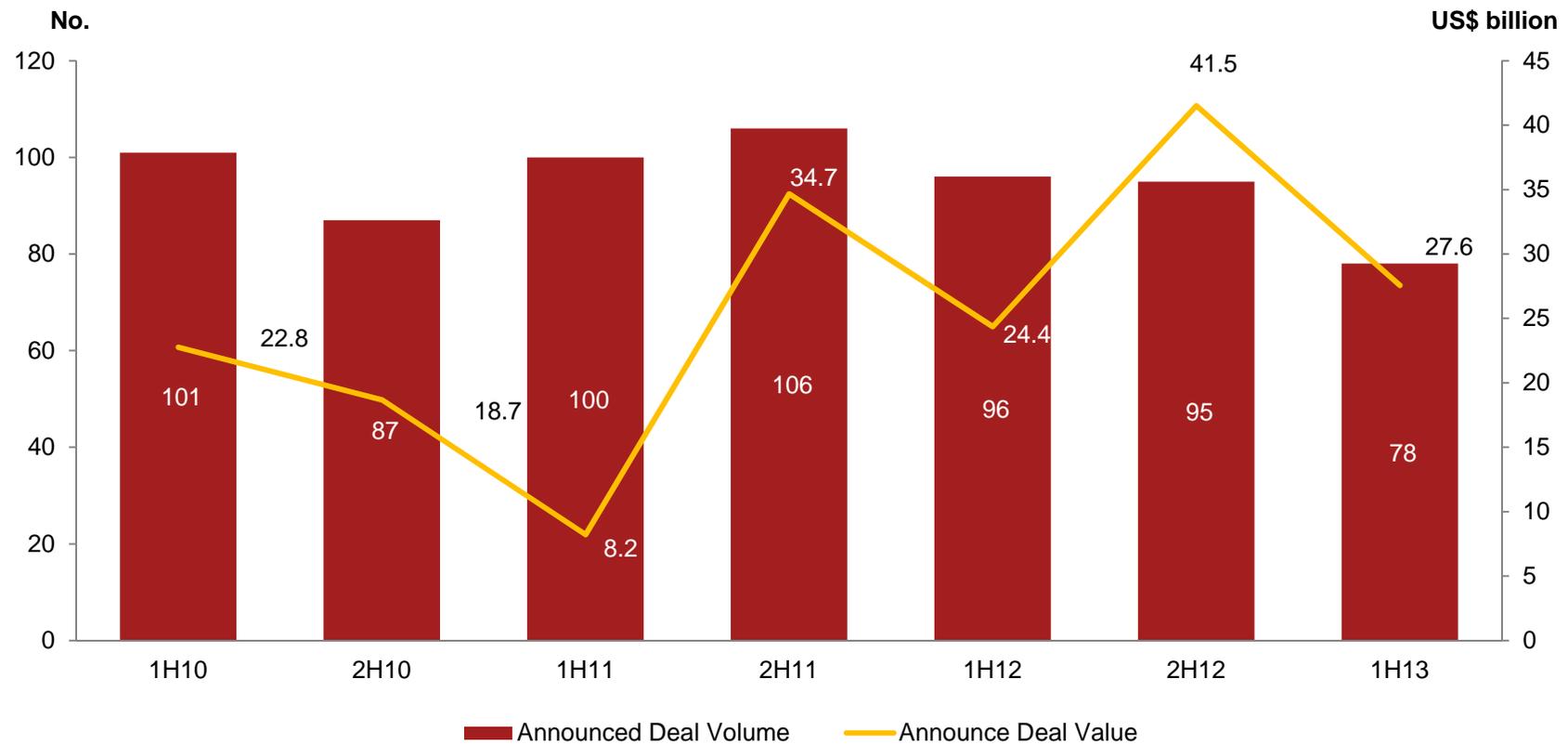


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China mainland outbound

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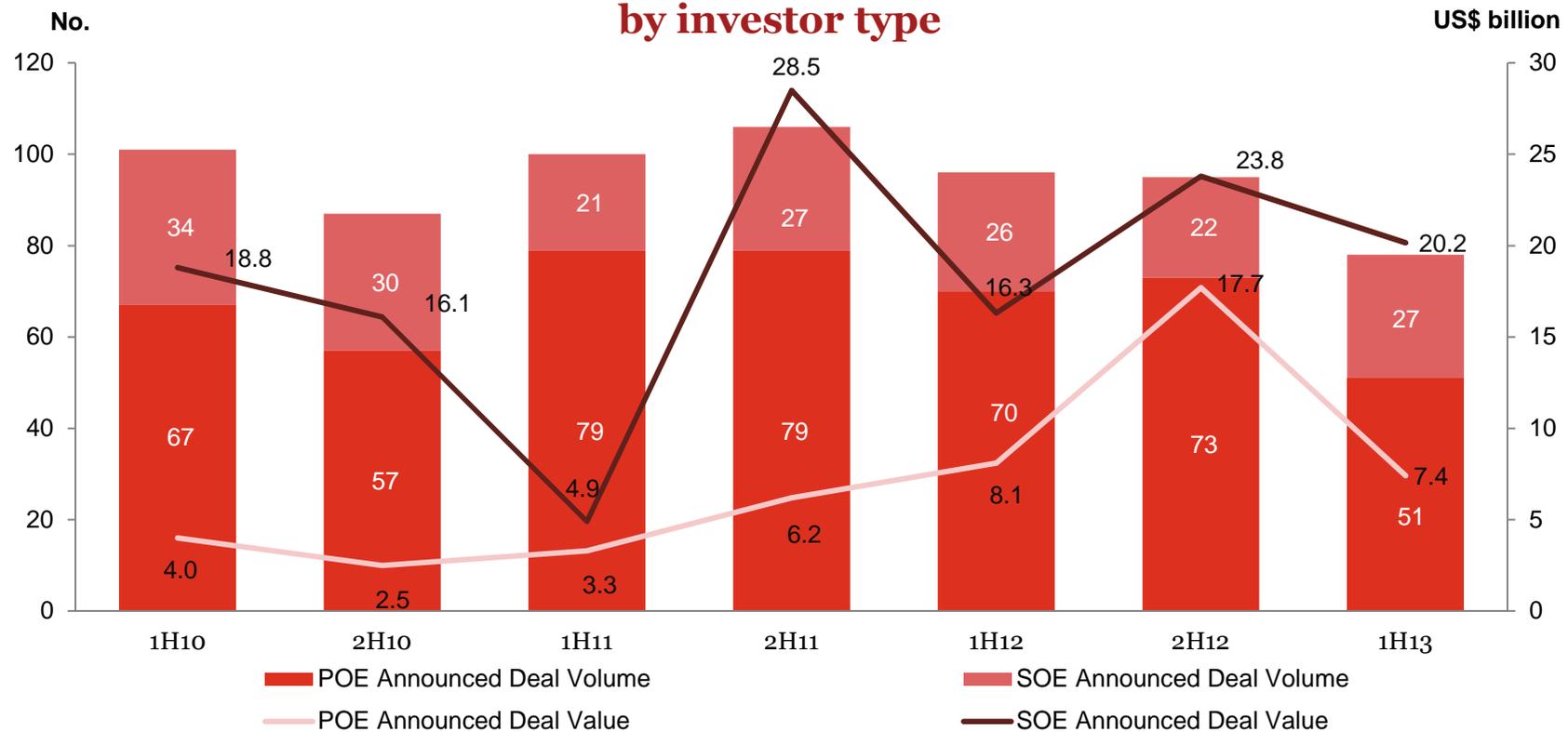
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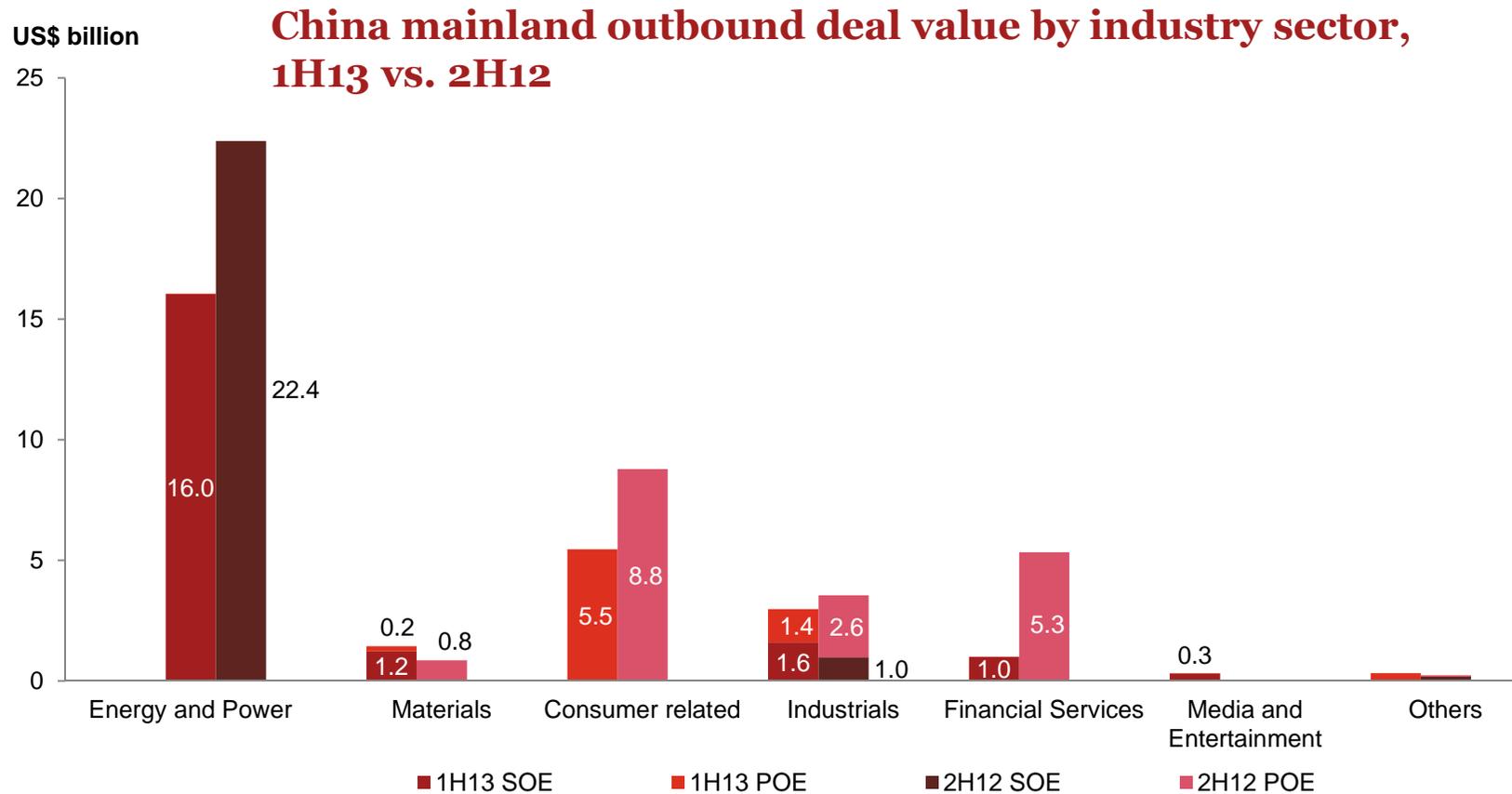
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China mainland outbound deal volume and value by investor type



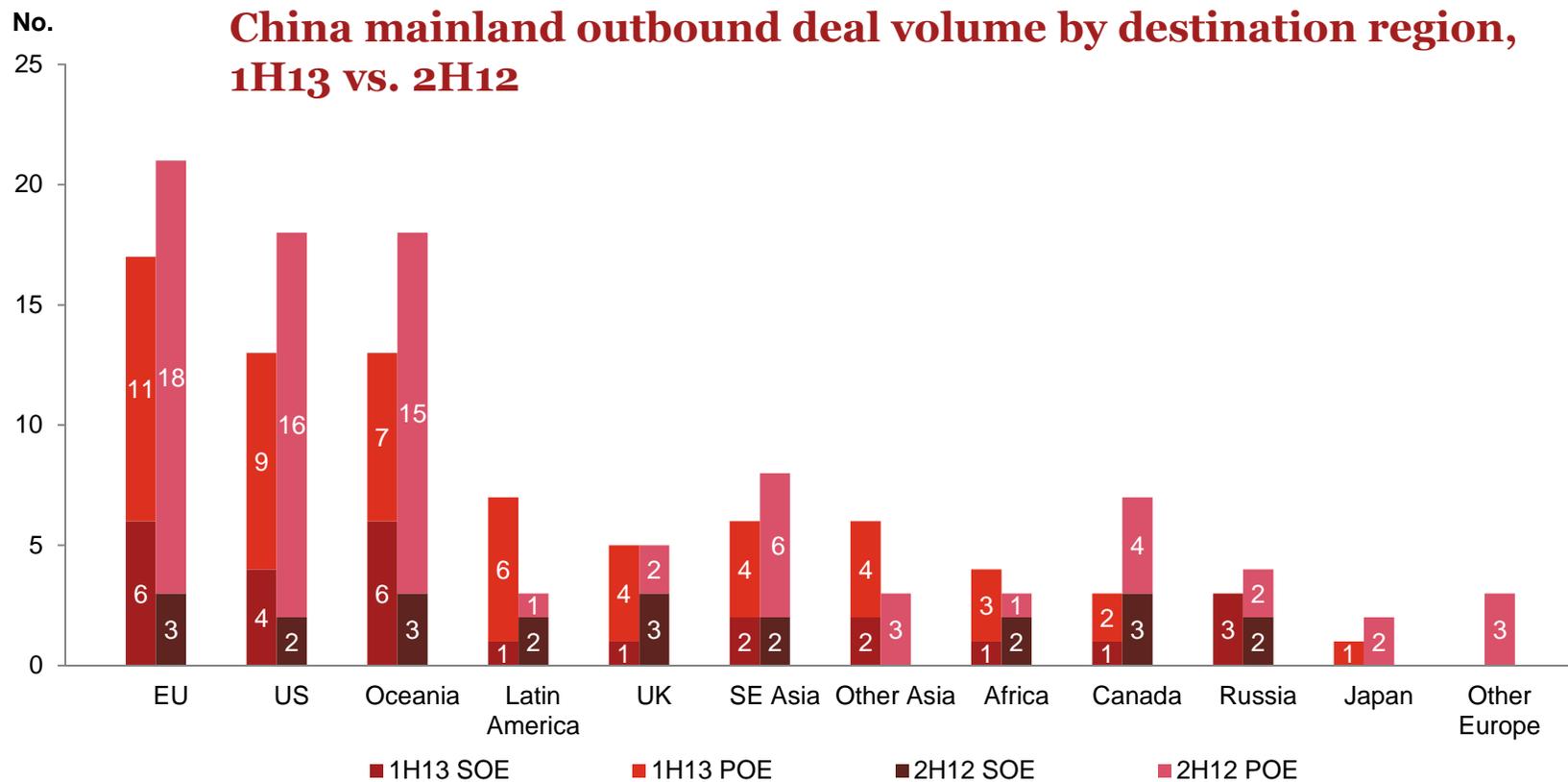
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SOE investments in materials and resources are still the big drivers of outbound deal values, whereas POEs look for consumer products, brands, know-how and technologies that can be brought back and put to use in China ...



Source: ThomsonReuters, ChinaVenture and PwC analysis

... Reflecting this, and despite the slowdown, developed markets like North America and Europe were still the most popular destinations for Chinese outbound POEs



Source: ThomsonReuters, ChinaVenture and PwC analysis

Key messages (1 of 4)

Overall

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- Deal makers are expected to continue to adopt a generally cautious approach to China M&A activity because of slowing growth, tighter credit conditions and expectations of ongoing policy changes
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Data compilation methodology

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 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

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