The M&A market in China

February 2021

HONG KONG | BEIJING | SHANGHAI

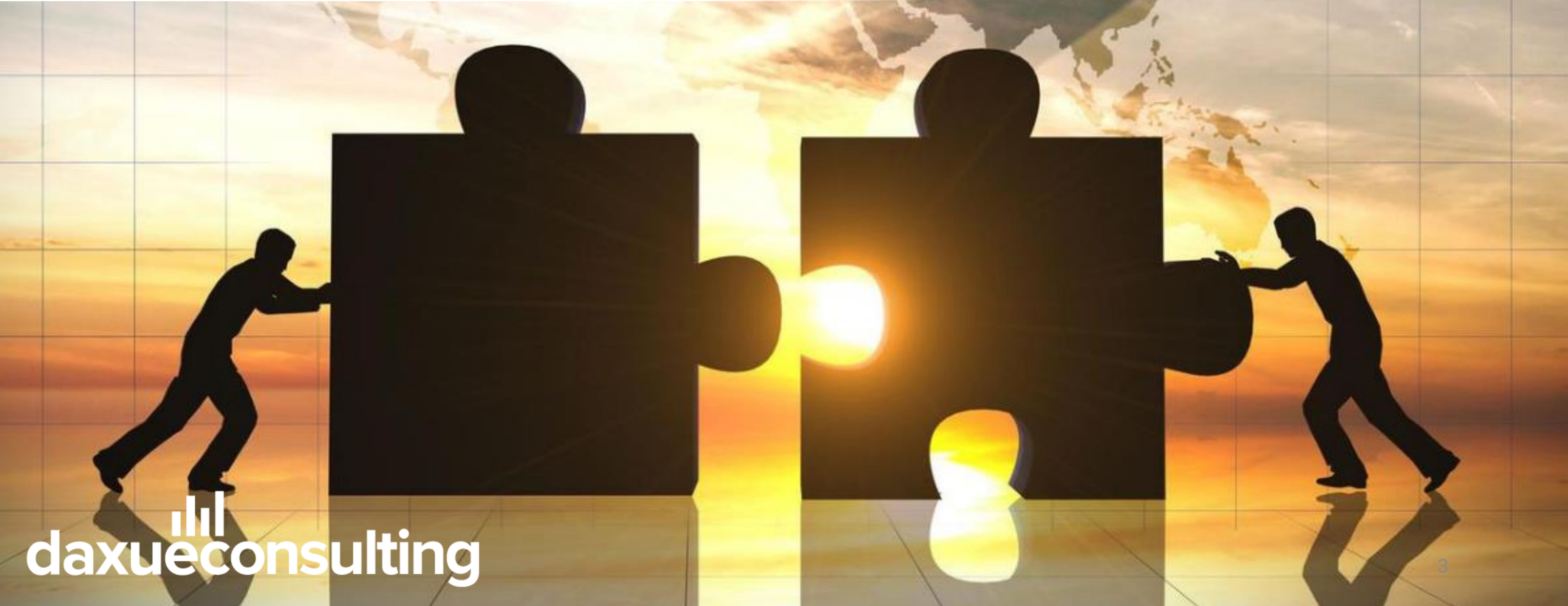
www.daxueconsulting.com

daxueconsulting

CONTENT OUTLINE

1

M&A market dynamics



daxueconsulting

China-related M&A transactions rose significantly in 2020

- In 2020, the value and number of China M&A increased by 31.3% and 11.3% respectively compared to 2019, the average value of M&A deals increased about 16%. It means there were more large deals in 2020 than 2019.
- M&A deal of financial buyers is the major growing segment as strong government investment support.

Total number and value of M&A deals in China

(2016-2020)

	2016		2017		2018		2019		2020	
	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value
Strategic buyers		(USDbn)		(USDbn)		(USDbn)		(USDbn)		(USDbn)
Domestic	4,870	316.9	5,111	361.9	4,778	361.9	4,498	272.4	4,530	349.4
Foreign	271	6.7	255	13.8	178	13.8	278	20.9	181	14.6
Total strategic buyers	**5,141**	**323.6**	**5,366**	**357.7**	**4,956**	**338.6**	**4,746**	**293.3**	**4,711**	**364.0**
Financial buyers										
Private equity	1,767	212.0	1,324	361.9	1,920	212.9	1,585	206.3	2,077	332.4
VC	3,492	5.6	2,338	13.8	3,410	7.0	2,546	2.6	3,361	2.8
Total financial buyers	**5,259**	**217.7**	**3,662**	**177.1**	**5,330**	**219.9**	**4,134**	**208.9**	**5,438**	**335.2**
China mainland Outbound										
SOE	116	63.2	101	27.0	64	20.3	60	16.1	27	6.3
POE	609	102.6	467	57.5	310	49.0	384	26.3	253	21.9
Financial buyers	195	36.2	238	33.1	253	21.0	223	14.9	123	13.8
Total China mainland outbound	**920**	**202.1**	**806**	**117.6**	**627**	**90.3**	**667**	**57.3**	**403**	**42.0**
HK outbound	**282**	**22.5**	**243**	**12.4**	**227**	**23.6**	**199**	**14.1**	**122**	**6.4**
Total	**11,407**	**729.6**	**9,839**	**649.7**	**10,887**	**651.3**	**9,483**	**558.7**	**10,551**	**733.8**

Source: PWC, designed by daxue consulting

M&A deals quickly rebounded after COVID-19's critical period

There was a drop of M&A deals in February 2020 due to the impact of COVID-19, however, the number of M&A deals strongly rebounded in the next a few months and kept good growth momentum in 2020H2.

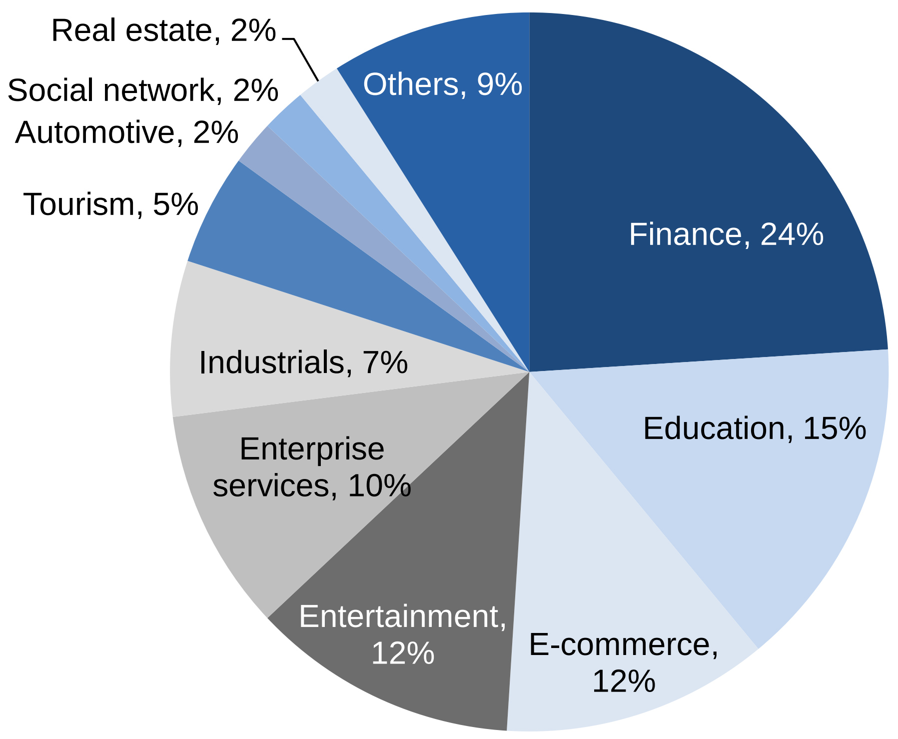
Source: ThromsonRe, PWC, designed by daxue consulting

Nearly a half million Chinese companies declared bankruptcy in 2020 Q1

- During COVID-19, many Chinese companies had to declare bankruptcy due to operating losses, this was mostly in the finance, education, e-commerce and entertainment industries. 55% of these companies were startups under three years old.
- At the meantime, the registration of new firms between January and March 2020 fell 29% from a year earlier.

The distribution of bankrupt companies in China by industries

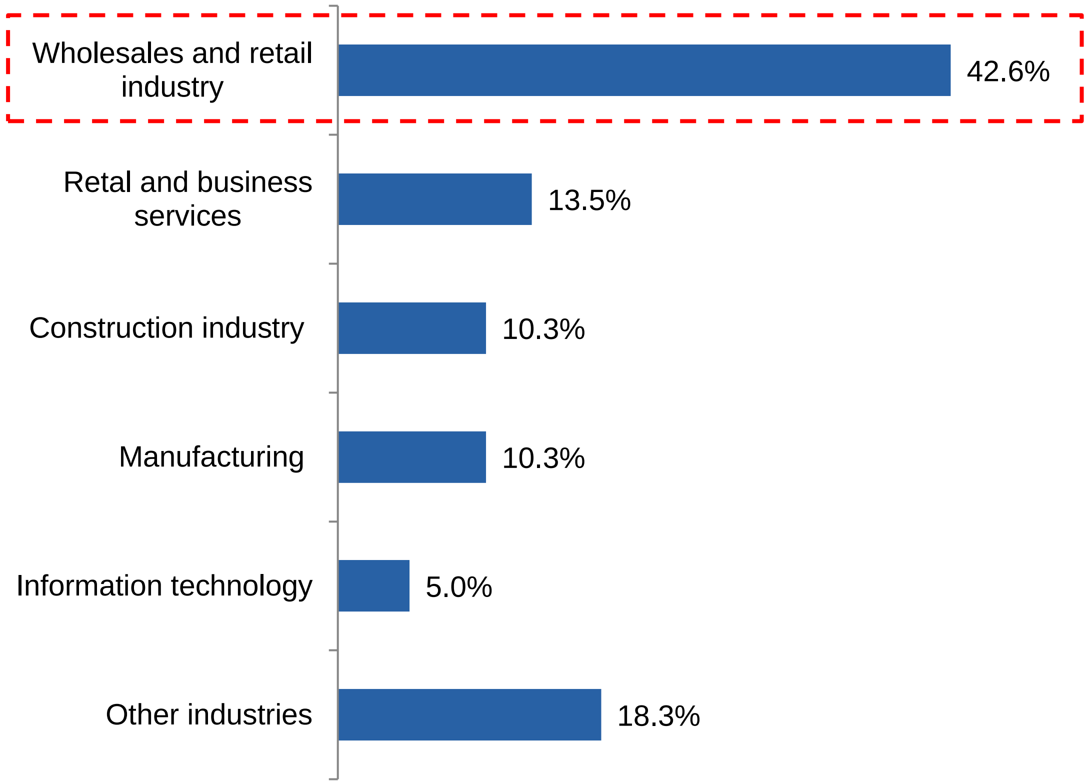
(2020Q1)



Source: IT桔子, designed by daxue consulting

The distribution of new companies in China by industry

(February-April 2020)



Source: Qcc (企查查), designed by daxue consulting

M&A barriers and drivers during the global COVID-19 pandemic

- ✓ Limited face-to-face meetings make it difficult to seal deals, especially large deals which require more prolonged face-to-face meetings.
- ✓ Companies are facing a lack of debt-financing and an unpredictable stock market.
- ✓ Companies decide to focus on internal handling of the pandemic over making deals.

During the epidemic, stock market was unpredictable and there were more difficulties for face-to-face communication, which made companies conservative on large deals.

Barriers

VS

Drivers

Many industries need funds and other financial support as they lost much revenue during COVID-19, which created opportunities for mergers.

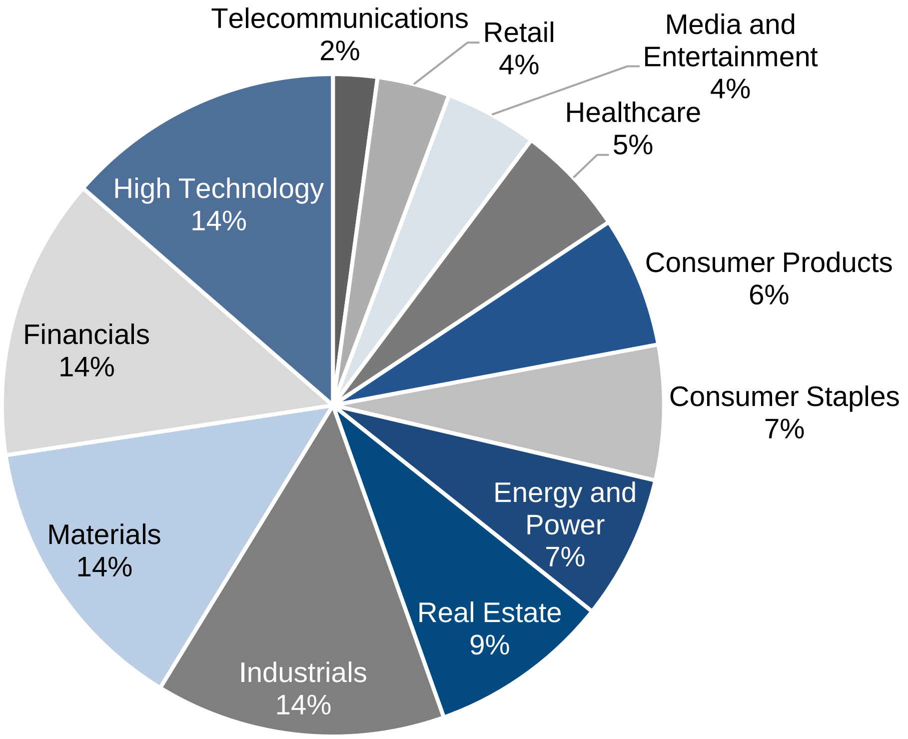
- ✓ Companies in the travel, hospitality and entertainment industries may be looking for buyers, and many other industries may also face consolidations.
- ✓ Research by BCG has shown that the total shareholder return is often higher for deals made during an economic downturn.
- ✓ For those in a position to acquire, it could be a strategic time to acquire IP, talent and capabilities, which could help long-term resilience.

daxueconsulting

Financials and materials industries have been historically active in M&A

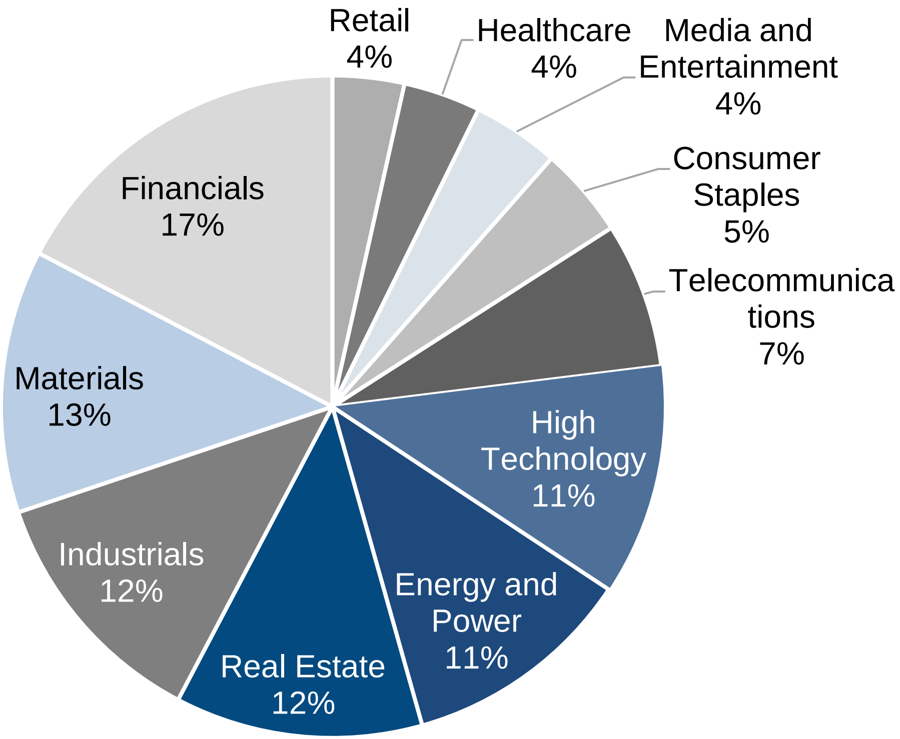
- The industries with the largest M&A activity in China were the financial, materials and industrials sectors in terms of both transaction value and quantity during 2000-2016.
- Newly active industries such as high-tech, media and entertainment were also on the rise.

Number of announced M&A deals in China by industries
(2000-2016)



Source: IMMA Institute, designed by daxue consulting

Value of announced M&A deals in China by industries
(in billion USD, 2000-2016)



Source: IMMA Institute, designed by daxue consulting

daxueconsulting X S.J. GRAND Accounting Tax Finance

Top domestic M&A deals in 2019

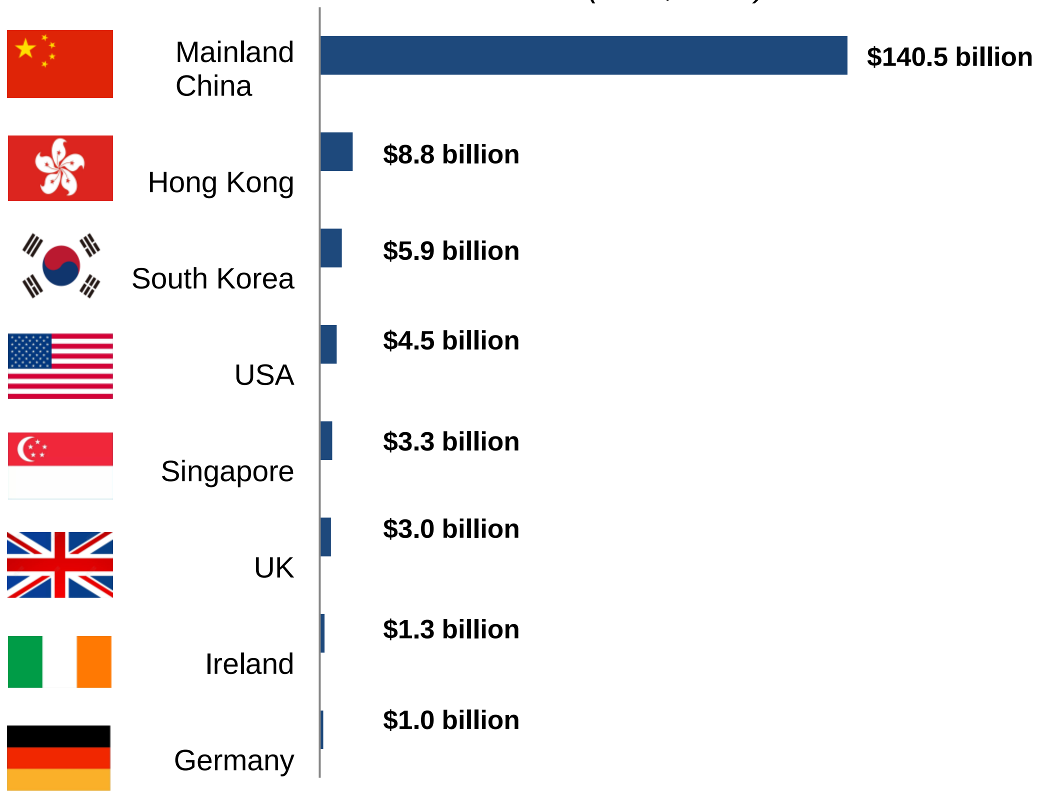
Date	Target	Acquirer	Acquirer origin	Industry	Value (US$ billion)
Jan 2, 2019	Xingcheng Special Steel	CITIC Group’s Daye Special Steel Co., Ltd.	Huangshi (Hubei Province)	Steel	**3.43**
April 8, 2019	Gree Electric Appliances, INC. of Zhuhai	Hillhouse Capital Group	Beijing	Investment corporation & Electric appliances	**6.16**
June 2, 2019	Linxens Group‘s Beijing Ziguang Liansheng Technology Co., Ltd.	Unigroup Guoxin Microelectronics Co., Ltd.	Beijing	Chip, semiconductor & Information technology	**2.66**
August 13, 2019	NetEase’s Kaola	Alibaba Group	Hangzhou (Zhejiang Province)	Ecommerce	**1.83**
September 31, 2019	Sempra Energy’s Luz del Sur(Peru）	China Yangtze Power Co., Ltd.	Yichang (Hubei Province)	Electricity	**3.59**

Source: SCMP, designed by daxue consulting

Domestic M&A involving both Chinese buyers and targets leading all deals

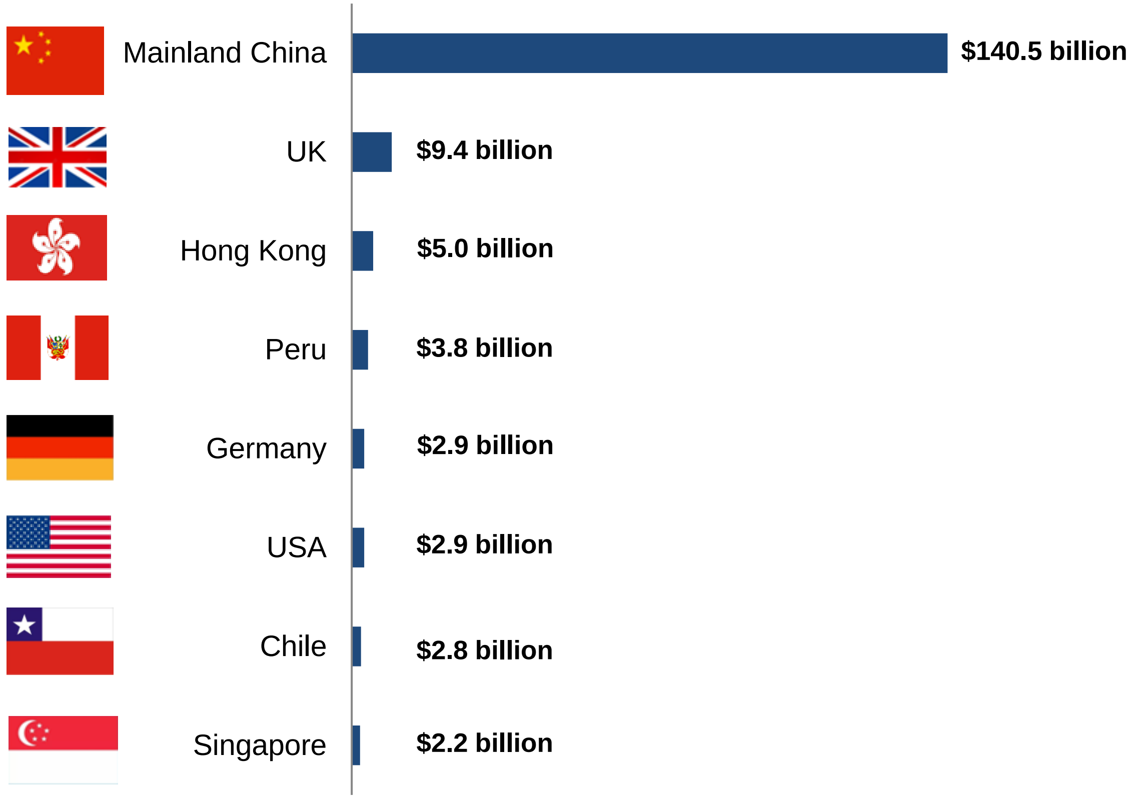
Domestic M&A deals takes up to 80% of all M&A deals involving a Chinese player. Hong Kong – Mainland deals have been slightly impacted in the second half of 2019 due to political tensions.

M&A acquisitions of Chinese targets by acquirer area/country
(USD, 2019)



Source: Bloomberg Law, designed by daxue consulting

Chinese M&A acquisitions by target area/country
(USD, 2019)



Source: Bloomberg Law, designed by daxue consulting

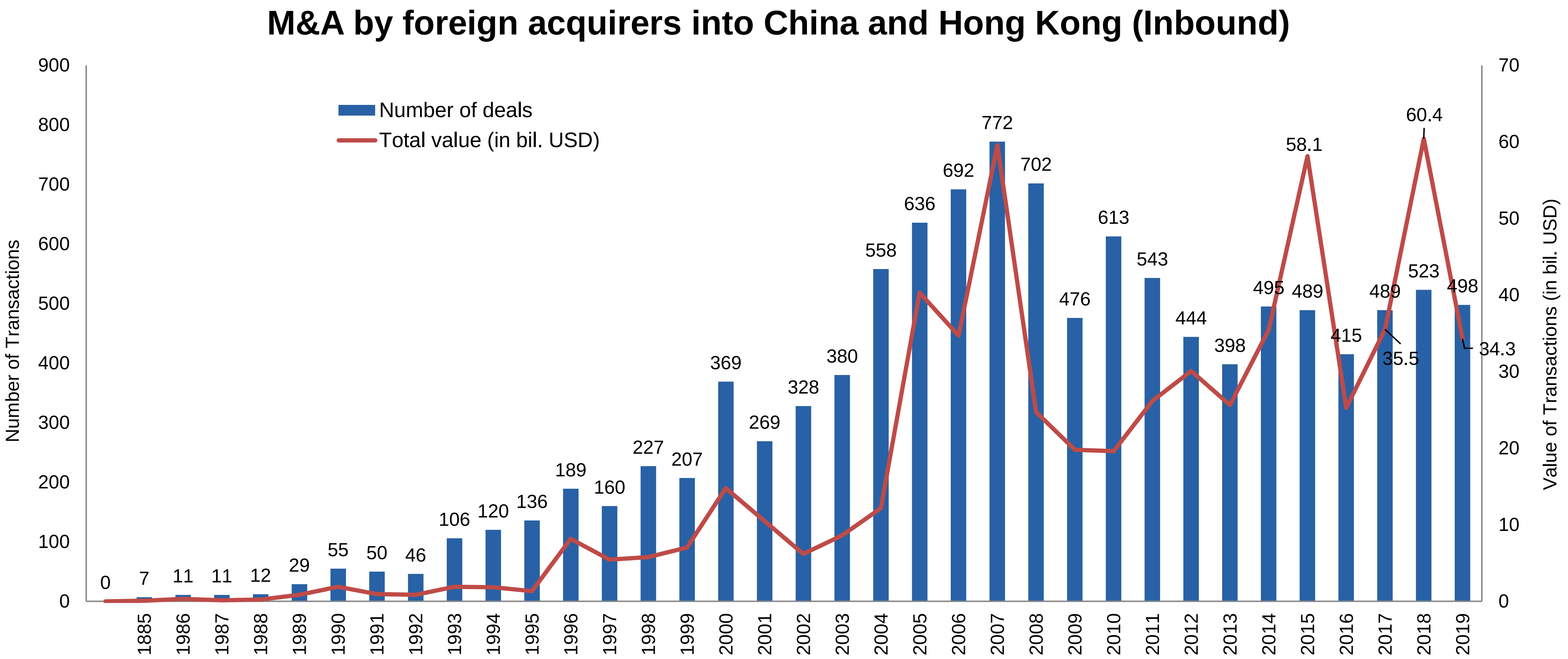
Top China inbound M&A deals in 2019

Date	Target	Acquirer	Acquirer origin	Industry	Value (US$ billion)
October 31, 2019	BeiGene	Amgen Inc	United States	Biotechnology	**2.78**
March 1, 2019	JD.com Inc – Modern Logistics Facilities	JD Logistics Properties Core Fund	China + Singapore	Logistics	**1.63**
November 25, 2019	Huatai Insurance Group	Chubb Tempest Reinsurance	United States	Insurance	**1.53**
February 28, 2019	Chehaoduo Used Motor Vehicles Brokerage Beijing	SoftBank Vision Fund	United Kingdom	Internet and catalog retailing	**1.50**
July 30, 2019	Healthy Harmony	NF Unicorn Acquisition LP	Hong Kong	Healthcare providers & services	**1.33**

Source: SCMP, designed by daxue consulting

China inbound M&A has proved resilient

During the past decade, China's inbound M&A has averaged 20-25 billion USD per year. However, the inbound M&A market has fluctuated since the 2008 financial crisis. Since then, less deals at a higher value signifies that foreign companies have an appetite for large M&A deals as they are driven by China's policy liberalization and matured enterprises.



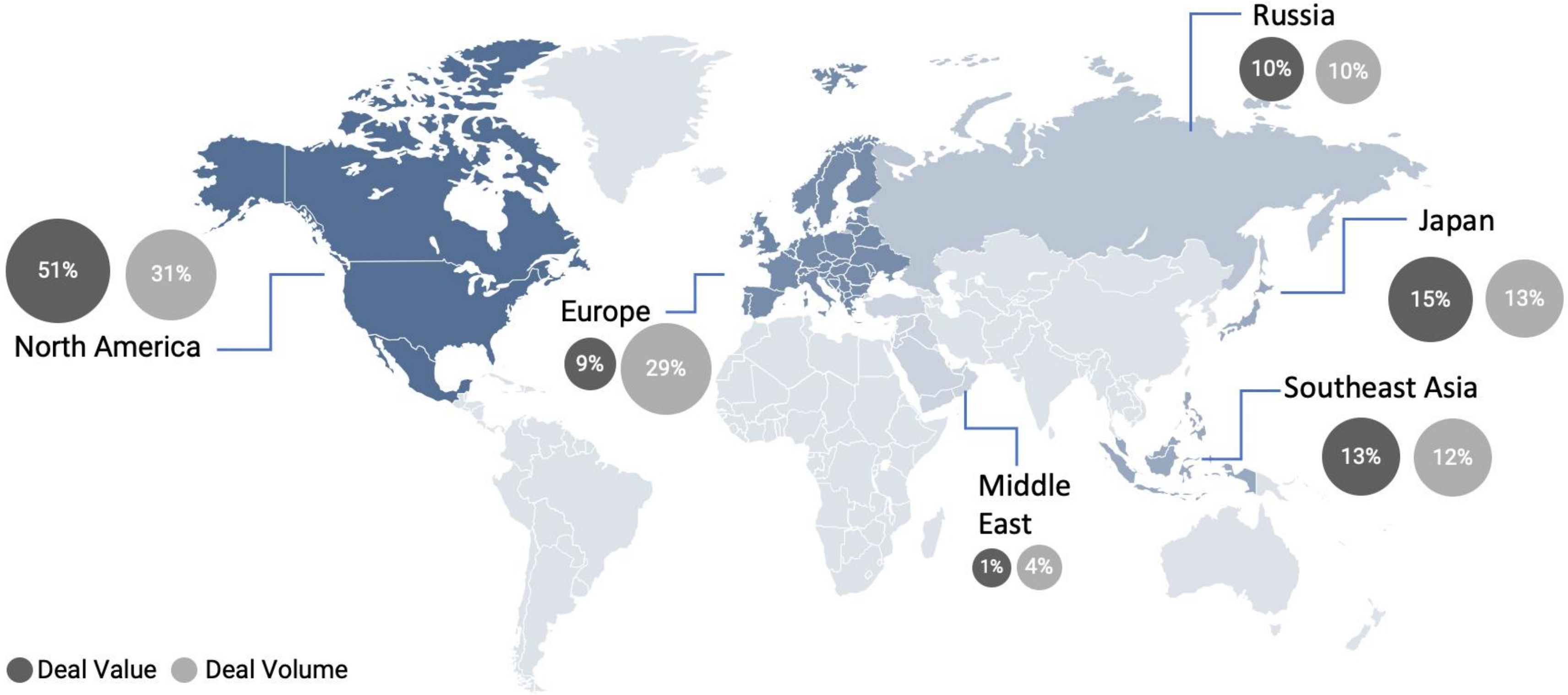
Source: PWC, imaa, designed by daxue consulting

daxueconsulting X S.J. GRAND Accounting Tax Finance

China's inbound M&A deals mainly come from North America

In 2019, the USA was the largest source of China's inbound M&A, both value and number. There were also many acquirers from Europe, but the value was obviously low. It means most acquirers from Europe focused on small deals.

Source regions/countries of China's inbound M&A deals
(Q1-Q3 2019)



Source: Merrill, designed by daxue consulting

#1 USA
- 21 deals
- 5.3 billion US dollars
- Main industries: Consumer, Construction, Industrials & Chemicals

#2 Japan
- 13 deals
- 1.9 billion US dollars
- Main industries: TMT, Real Estate, Industrials & Chemicals

#3 Singapore
- 10 deals
- 1.5 billion US dollars
- Main industries: Real Estate, Transport, TMT

daxueconsulting X S.J. GRAND Accounting Tax Finance

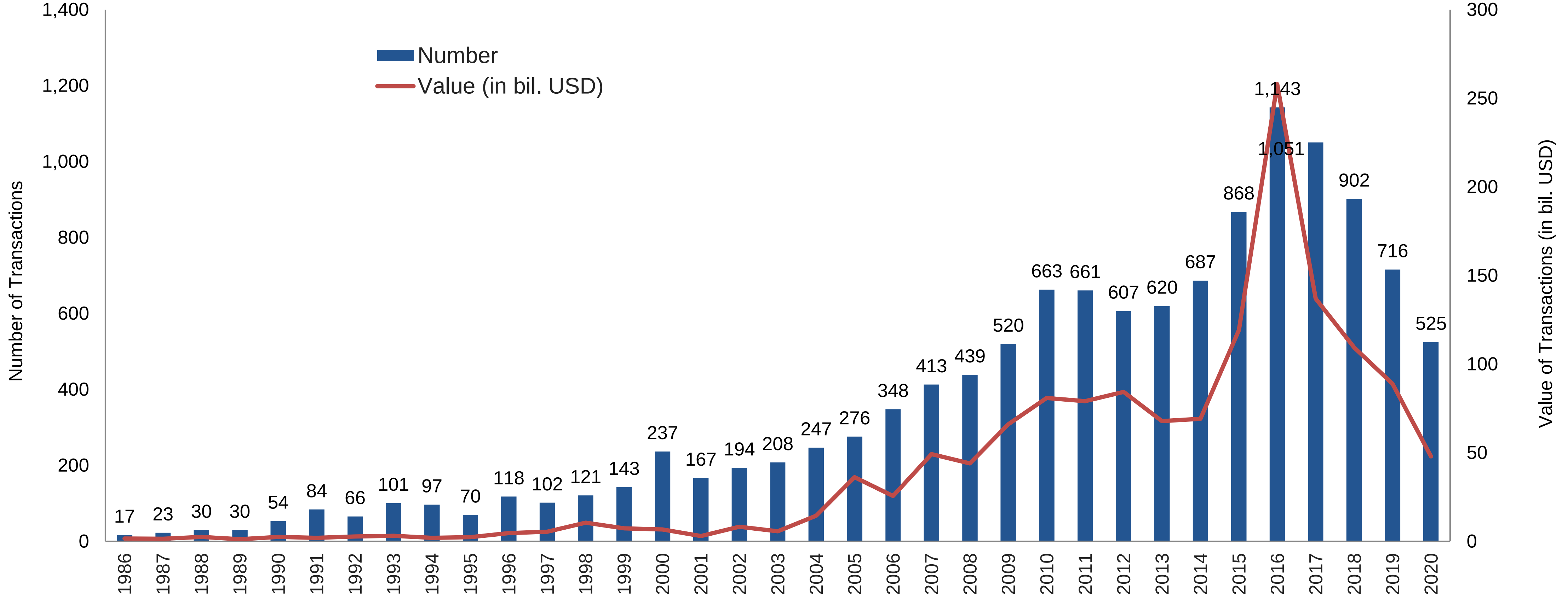
“When the legal and financial due diligences conducted by the purchaser on the Chinese target reveal significant risks or liabilities (tax issues, pending proceedings, labor issues, etc.), it may be preferable for the investor to purchase the target's assets directly to house them in a new local entity specifically implemented for the purpose of the transaction.”

Maxime Ponsan, Lawyer at UGGC Avocats

China's outbound M&A declined due to the increased security reviews

- Since 2016, China's outbound M&A value and number both are on the decline, but the value fell was faster than the number fell, hence large deals fell more than small deals.
- The main driver of the decline includes the increased security scrutiny in North America and Europe, and the uncertainty from antitrust regulators globally. Therefore, early planning and engagement with regulators in the cross-border M&A market is important.

M&A from China and Hong Kong to abroad (Outbound)



Source: PWC, designed by daxue consulting

“In China, acquiring equity has multiple advantages when compared to asset deals. Asset deals requires approvals for each asset held within the company and comes with risks such as the potential renegotiations of commercial contracts, leases, application for new permits, facilities etc. PRC.”

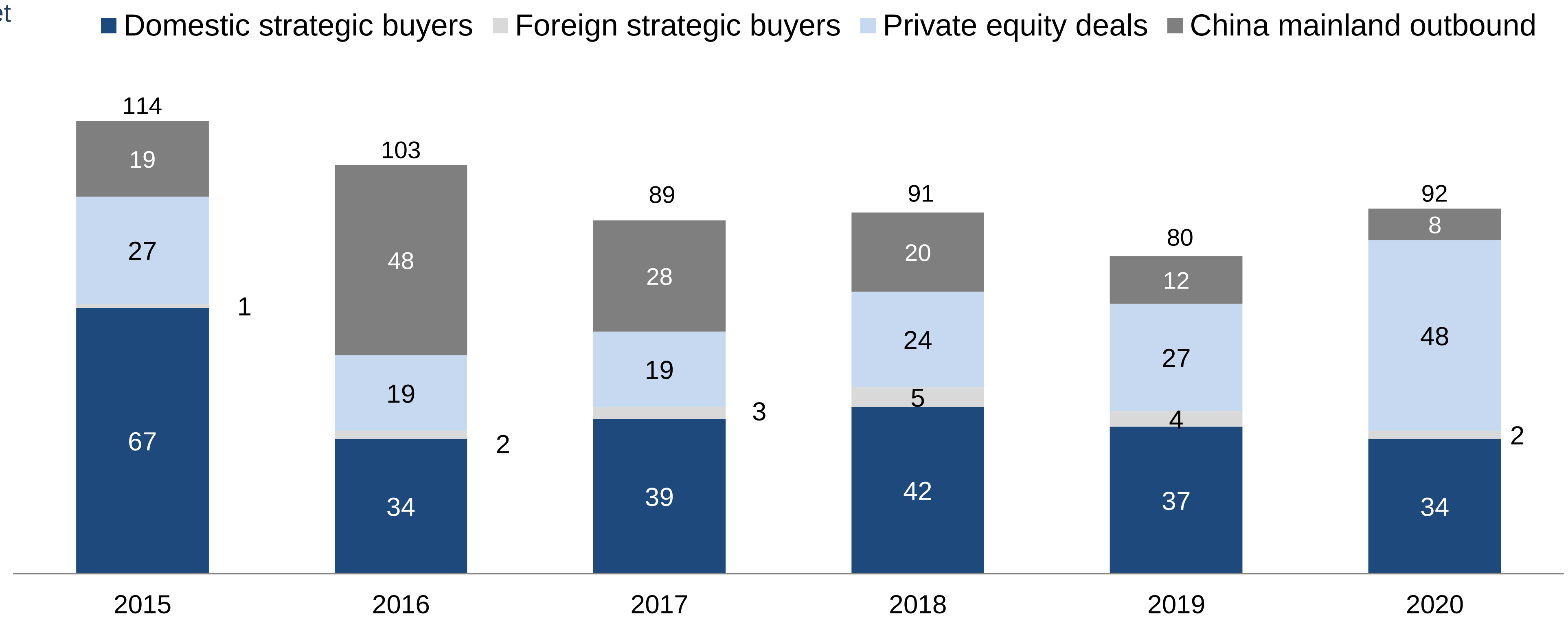
Maxime Ponsan, Lawyer at UGGC Avocats

The private equity (PE) market continues to garner interest

The total value of PE deals in China reached US $332.4 billion in 2020, which was much higher than 2019 and the number of PE deals also increased a lot. PE held up reasonably well and there was strong foreign inbound M&A, although this category is relatively small PE deals were high in industrial, consumer and high-tech sectors.

A strategic buyer is a buyer who is already operating in the same industry as the target company. Often, strategic buyers are competitors, suppliers, or clients of the acquisition target.

Number of China's M&A deals with value > 1 billion USD

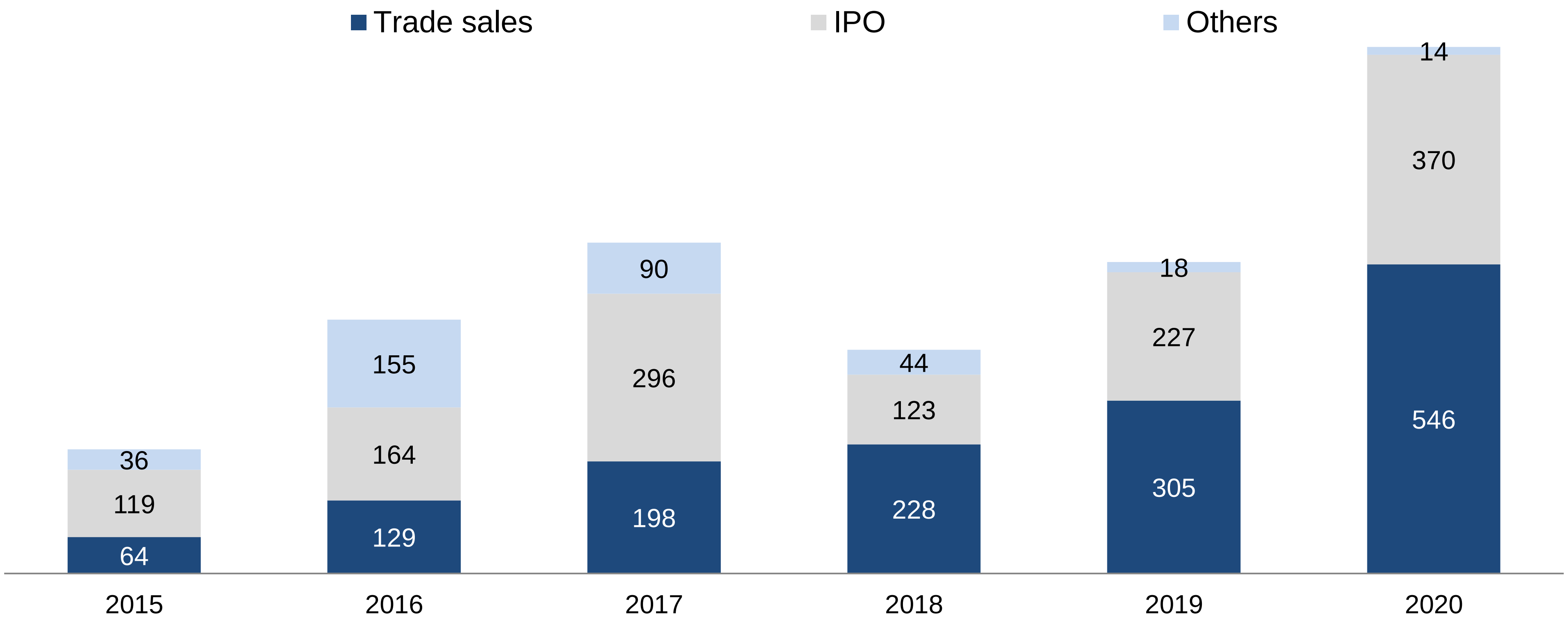


Source: PWC, designed by daxue consulting

Increasing PE exits in China

Due to the increasing pressure of financing in past 3 years, there was a large number of PE exits and PE-backed IPOs in China, especially the PE trade-sales of secondary transactions.

Number of PE/VC-backed deals exit by types in China
(2015-2020)

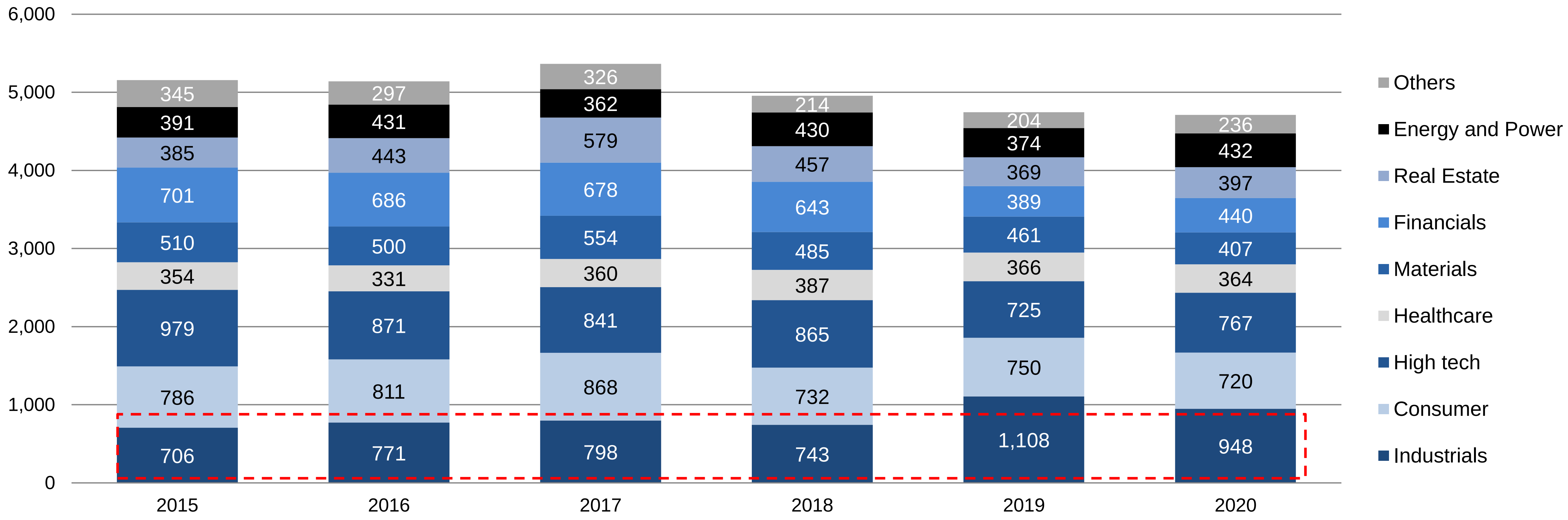


Source: ThomsonReuters, ChinaVenture, PWC, designed by daxue consulting

Less M&A strategic buyer deals

In 2020, there has been a decline in number of M&A strategic buyer deals in many sectors due to the short-term impact of COVID-19. However, the M&A deals value increased during the same period since the government policies "Dual Circulation" and "Industrial Upgrade" drove some large M&A deals in advanced industries.

Number of strategic buyer deal in China by industry sector



	2015	2016	2017	2018	2019	2020
Others	345	297	326	214	204	236
Energy and Power	391	431	362	430	374	432
Real Estate	385	443	579	457	369	397
Financials	701	686	678	643	389	440
Materials	510	500	554	485	461	407
Healthcare	354	331	360	387	366	364
High tech	979	871	841	865	725	767
Consumer	786	811	868	732	750	720
Industrials	706	771	798	743	1,108	948

Source: ThomsonReuters, ChinaVenture, PWC, designed by daxue consulting

The Foreign Investment Law allows Joint-Venture parties more decision power

- Enacted on January 1st 2020, according to UGGC Avocats, the main impact of the New FIL is to strengthen the powers that a foreign investor may have within a Joint-Venture.
- The law eliminates the distinction that has been used for decades between the three forms of foreign-owned companies: WFOE (Wholly Foreign Owned Enterprise), EJV (Sino-foreign Equity Joint-Venture) and CJV (Sino-foreign Cooperative Joint-Venture)

Changes in the decision making organ after the FIL passed

The change of policy and law	Before	Now
Highest decision making organ of Join-Ventures	Board of directors	Shareholders' meeting
No. of people in the board of directors	Must be composed of least 3 members	Can include just one executive director
Requirements to make amendments	Unanimous approval	2/3 approval

daxueconsulting X UGGC AVOCATS

"Under the New FIL and the company law in force, matters shall be approved by shareholder(s) representing at least two-thirds (2/3) of the 'voting rights.' In short, it means that a Chinese partner of a Joint-Venture in which the foreign investor owns at least 2/3 of the equity and the voting rights shall have no more veto right on the abovementioned decisions."

Maxime Ponsan, Lawyer at UGGC Avocats

daxueconsulting X UGGC AVOCATS

Laws foreign companies planning to acquire a Chinese company must know

In addition to the New FIL, foreign companies are mostly abiding by the followings laws when acquiring a Chinese company:

Regulation	Publication date
“Foreign Investment Law of the People's Republic of China”	March 15, 2019
“Regulation for Implementing the Foreign Investment Law of the People’s Republic of China”	December 26, 2019
“Company Law of the People's Republic of China” (the “Company Law”)	October 26, 2018
“Measures for the Reporting of Foreign Investment Information”	December 30, 2019
“Interpretation of the Supreme People's Court on Several Issues concerning the Application of the Foreign Investment Law of the People's Republic of China”	December 26, 2019
“Notice by the State Administration for Market Regulation of Effectively Completing the Registration of Foreign-Funded Enterprises for the Implementation of the Foreign Investment Law”	December 28, 2019

daxueconsulting x UGGC AVOCATS

“In the current pandemic context, few companies have made these changes and there have not been any major Joint-Venture projects, so it is difficult to measure the actual effect of the new law on the market. Furthermore, local authorities still have a significant discretionary power when applying for the registration of a Joint-Venture. It will therefore be necessary to be vigilant in the way they welcome the new law and the greater flexibility offered to foreign investors.”

Maxime Ponsan, Lawyer at UGGC Avocats

daxueconsulting X UGGC AVOCATS

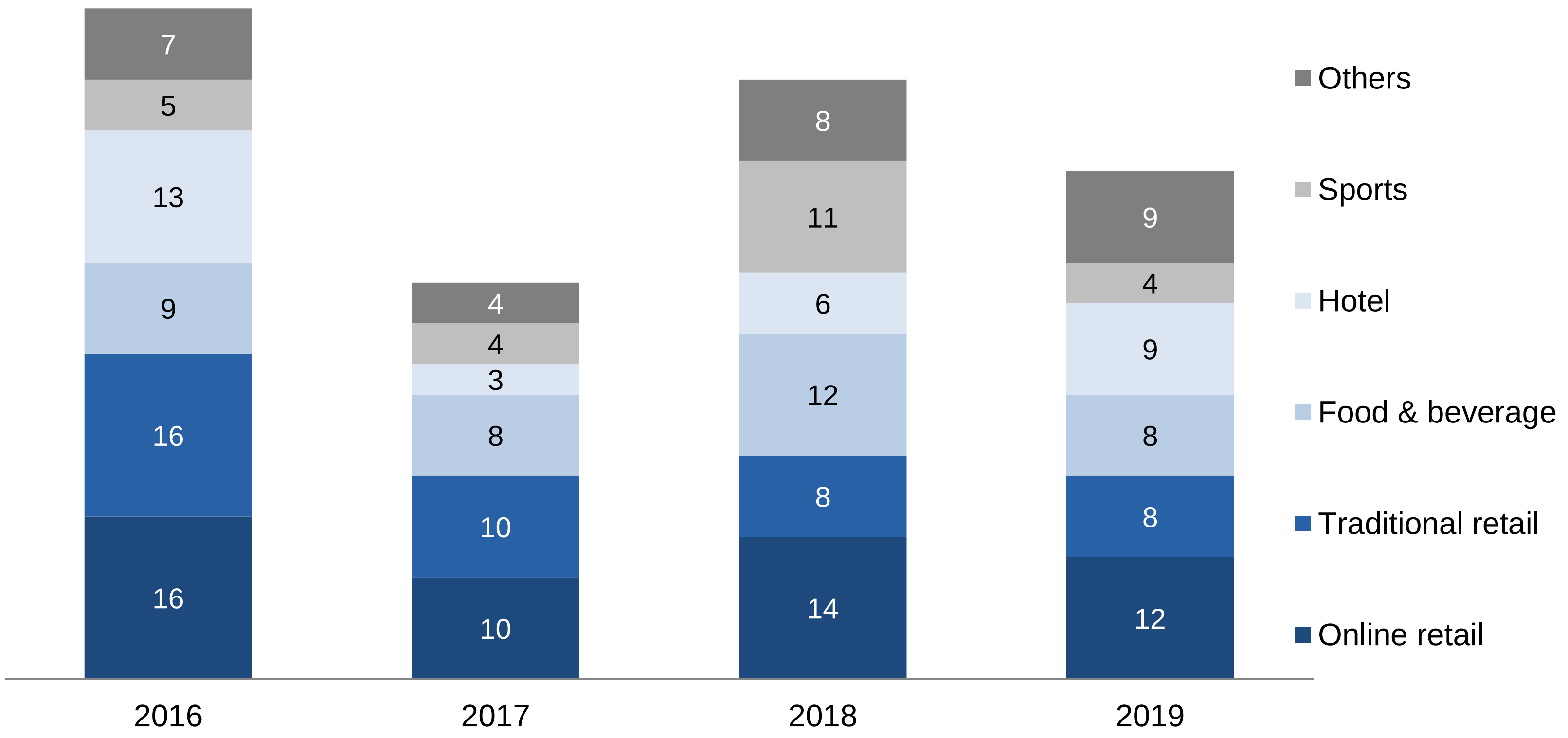
2 Retail & consumer sector

daxueconsulting

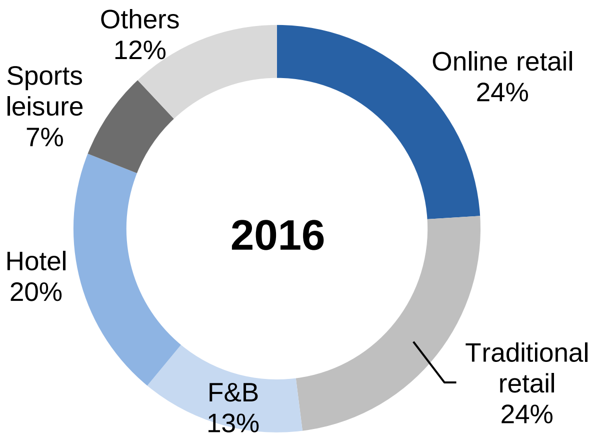
Size and quantity of M&A deals in the retail and consumer sector (R&C)

From 2016 to 2019, China's M&A value in **online retail** surpassed **traditional retail,** although the whole M&A size showed a decreasing trend in retail and consumer sector.

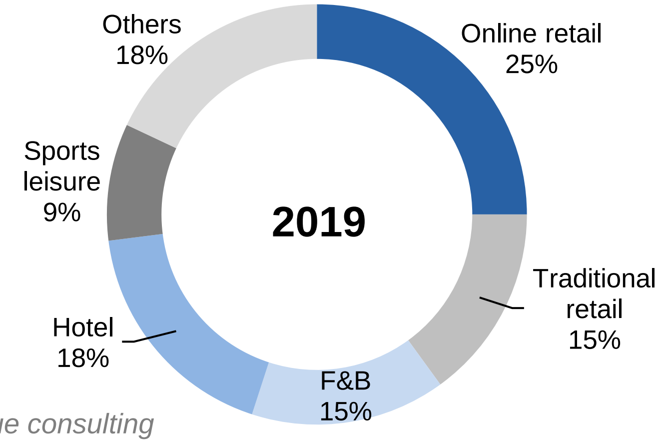
The value of retail and consumer M&A deals in China
(billion USD)



Share of total value



Share of total value



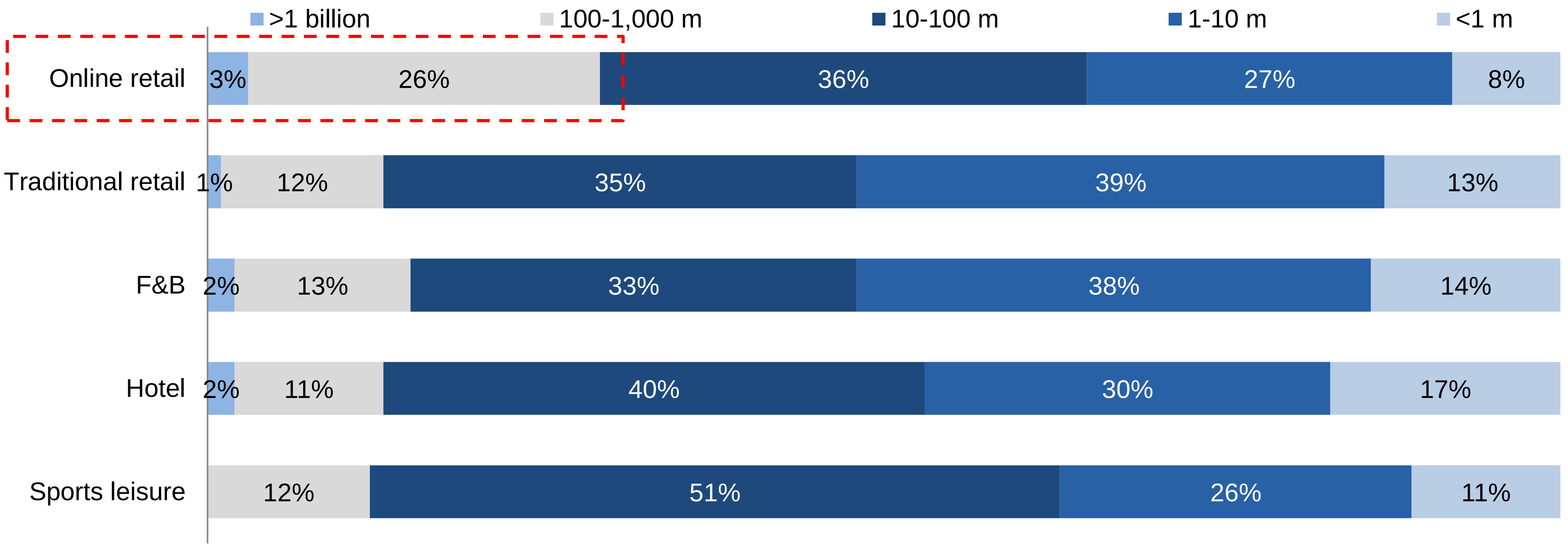
Source: Thomson Reuters, ChinaVenture, PWC, designed by daxue consulting

2019 R&C deals by subsector

In 2019, the value of M&A deals in China's retail and consumer sector were concentrated between 1-100 million USD. The online retail sector M&A deal were larger in size than other subsectors, as ecommerce giants (like Alibaba and JD) largely expanded their businesses through M&A.

The total value of China's R&C deals by subsector

(USD, 2019)

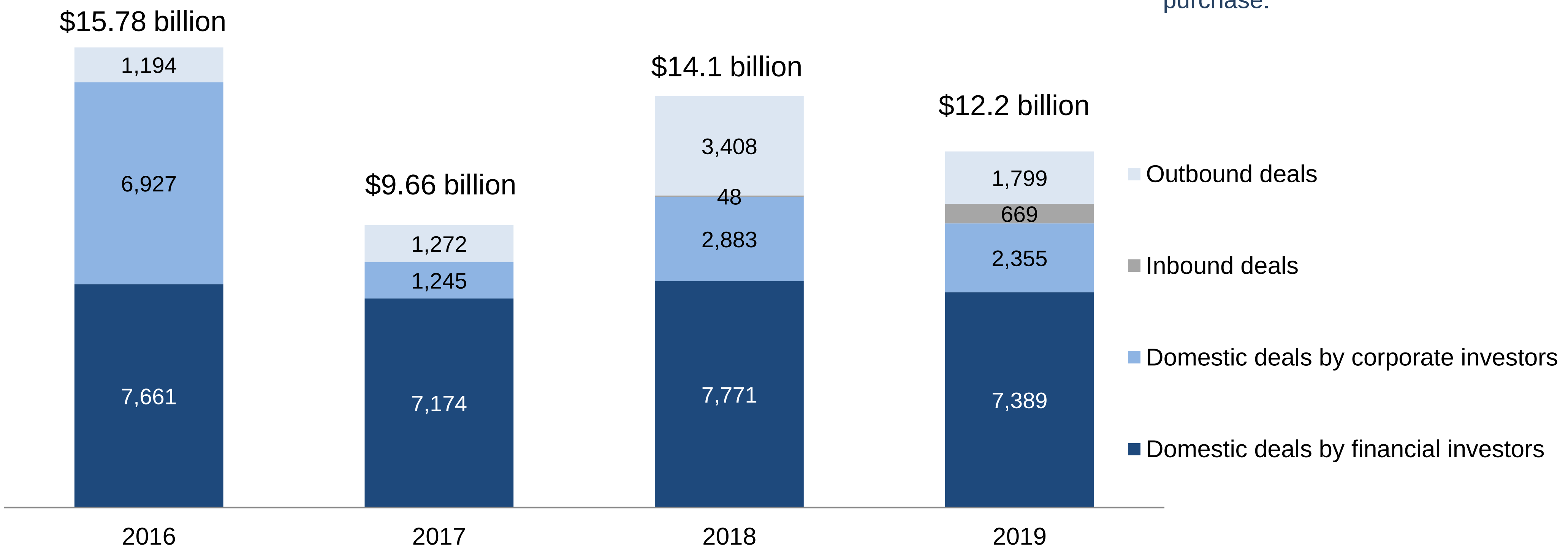


Source: Thomson Reuters, Investment China, PWC, designed by daxue consulting

Online retail M&A market in China: Inbound is a new growth point

- Online retail is the most active segment for investment since the rise of new retail, financial buyers are the main force of online retail deals.
- The large deals among domestic online retail enterprises slumped after 2016 while many foreign companies are attracted to the market in 2019 along with the development of China's new retail market. The inbound M&A deals could be a new growth point.

China's online retail M&A deals value
(million USD)



Financial buyer refers to investors in an acquisition that is primarily interested in the return that can be achieved from the purchase.

Source: Thomson Reuters, Investment China, PWC, designed by daxue consulting

Alibaba leads cross-border ecommerce by acquiring Kaola

Kaola

- Kaola was a cross-border ecommerce platform under NetEase.
- It focuses on selling imported consumer goods in China.
- In the first half of 2019, NetEase Koala remained the #1 player in the cross-border import retail e-commerce market with 27.7% market share.

Alibaba

A Chinese tech giant that specializes in e-commerce, internet, and AI technology.

The Acquisition

In September 2019, Alibaba and NetEase announced that Alibaba is acquiring Kaola for 2 billion USD.

Alibaba Group 阿里巴巴集团

网易考拉

Acquisition Rationale:

- As the cross-border market in China rises, the acquisition will allow Alibaba to combine Kaola's expertise in self-operated business with its own strength in supply chain and technology.
- Even though Alibaba already has T-mall Global in the same market, its presence isn't as strong as Kaola. Therefore, the acquisition would allow Alibaba to establish its leadership in cross-border import e-commerce market.
- Meanwhile, selling Kaola would allow NetEase to optimize cost and focus on its specialized markets.

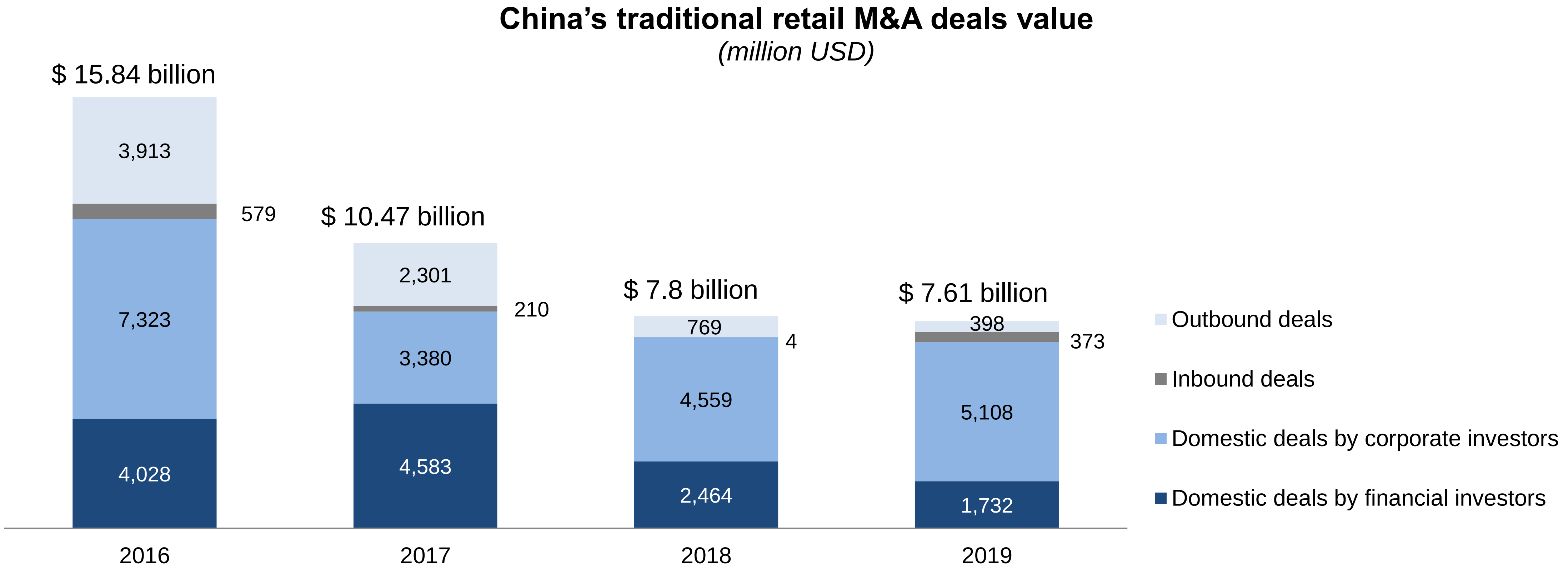
Post-Acquisition Plans:

Kaola will continue to run independently, but Tmall's Import and Export General Manager, Alvin Liu has joined the management board as the new CEO.

Source: XinhuaNet, Sina Tech

Traditional retail M&A market: E-commerce companies drive the market

- As the second largest M&A sector in retail, traditional retail deals are dropping year by year. Between 2016 and 2018, there were less and less large domestic and outbound deals in the market, most deals were small ones.
- In 2019, all large deals were e-commerce companies purchasing offline retail companies. It means there is further integration between China's online and offline retail markets



Source: Thomson Reuters, Investment China, PWC, designed by daxue consulting

Su Ning combined online + offline channels by acquiring Carrefour China

Carrefour China

- Carrefour is a French supermarket retailer that entered China in 1995.
- At its peak, it was the fastest growing foreign retailer in China, opening 10+ stores each year.
- Carrefour has recently been less successful and closed many of its stores. Prior to the acquisition, the company had 210 stores still open in China.

Su Ning

Su Ning is one of the largest retail companies in China.

The Acquisition

In September 2018, Su Ning acquired 80% equity stake in Carrefour China for 620 million EUR (~4.8 billion RMB)

Acquisition Rationale:

Su Ning has strong logistics and technology capabilities. Its previous acquisition moves show that the company is trying to develop a comprehensive retail model. Carrefour's FMCG experience and supply chain capabilities would be greatly valued in Suning's smart retail plan.

Post-Acquisition Plans:

- Carrefour's Chinese brand and operation will be independent of Su Ning while integrating Su Ning's competency in the cloud model and technology to reach the lower-tier markets.
- Plans to transform Carrefour into providing a seamless online-offline supermarket experience. There are also plans to incorporate Su Ning's other services, such as movie theaters and mother-infant stores, with Carrefour's supermarkets to create a one-stop community center.

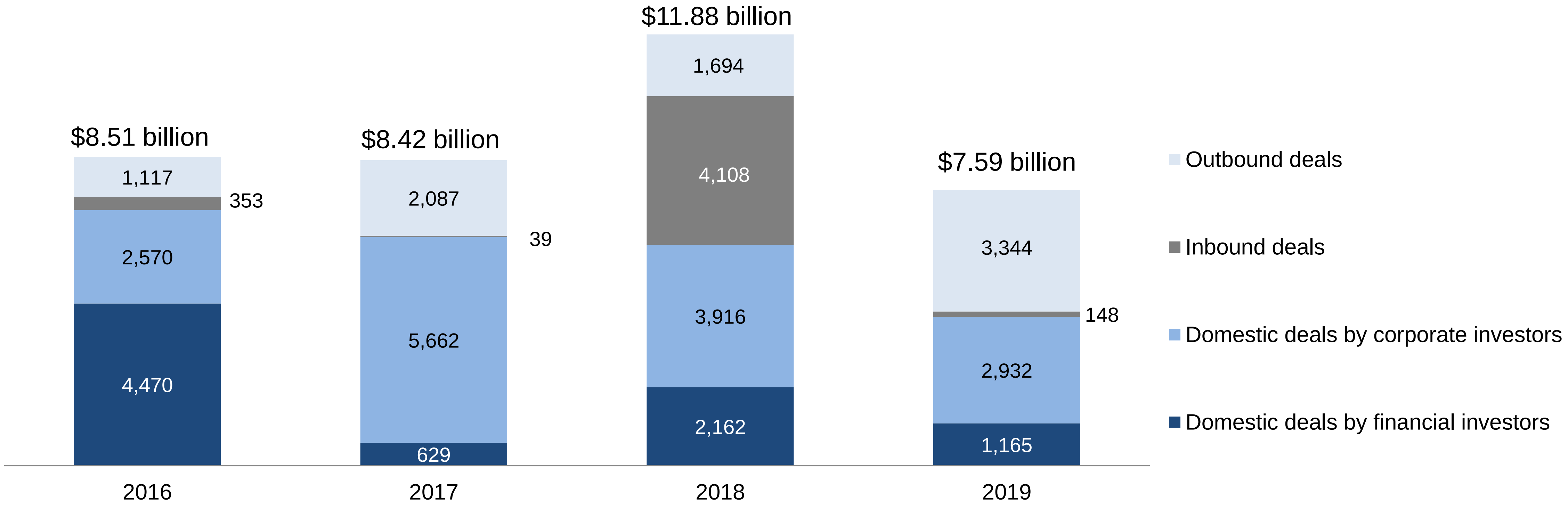
Source: XinhuaNet, Sina Tech

Food and beverage M&A market: Driven by domestic investors

- M&A deals from domestic investors occupied 80% of the total deals in China's F&B sector, domestic capital plays the main force of M&A in the market. However there were a few large deals from foreign companies 2018 and those deals focused on beer and spirits sectors.
- In the F&B market, most M&A deals target dairy and alcohol companies.

China's food and beverage M&A deals value

(million USD)



Source: Thomson Reuters, Investment China, PWC, designed by daxue consulting

PepsiCo expanded its snack market by acquiring Be & Cheery

Be & Cheery

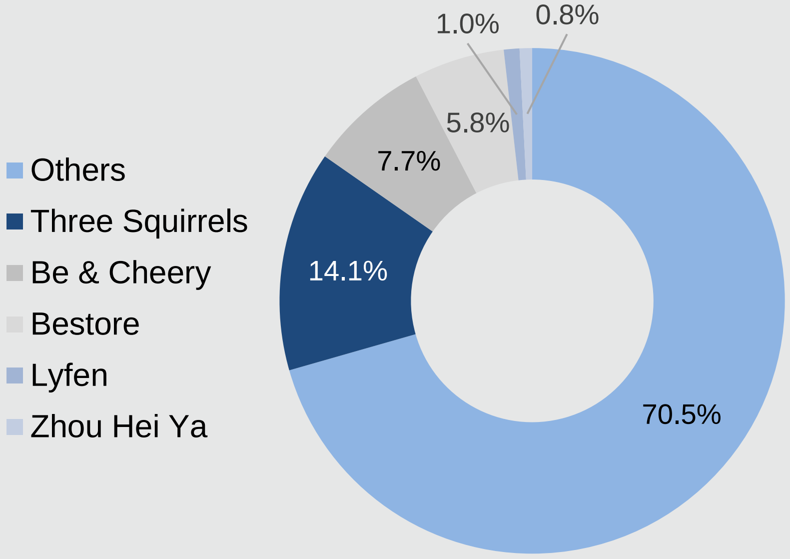
- Be & Cheery was founded in 2003 in Hangzhou. It is a leading snack-food company with more than 1,000 SKUs.
- The company was acquired by Haoxiangni Health Food in 2016 for 960 million RMB.
- Haoxiangni 2019 mid year report shows that Be & Cheery's revenue represents more than 70% of Haoxiangni total revenue. In 2019, Be & Cheery contributed a total revenue of 4.99 billion RMB.

The Acquisition

In June, PepsiCo has completed the acquisition of Be & Cheery by paying 705 million USD (~3.95 billion RMB) in cash.

China's snack market share on Taobao & Tmall

(2019)



Source: Taosj (淘数据), designed by daxue consulting

Acquisition Rationale:

PepsiCo is a leader in F&B agriculture, production, and global procurement. Meanwhile, Be & Cheery is successful with its asset-light supply chain and e-commerce centric business model. PepsiCo believes that Be & Cheery's experience in direct-selling could add to the company's online retail capabilities in China.

Post-Acquisition Plans:

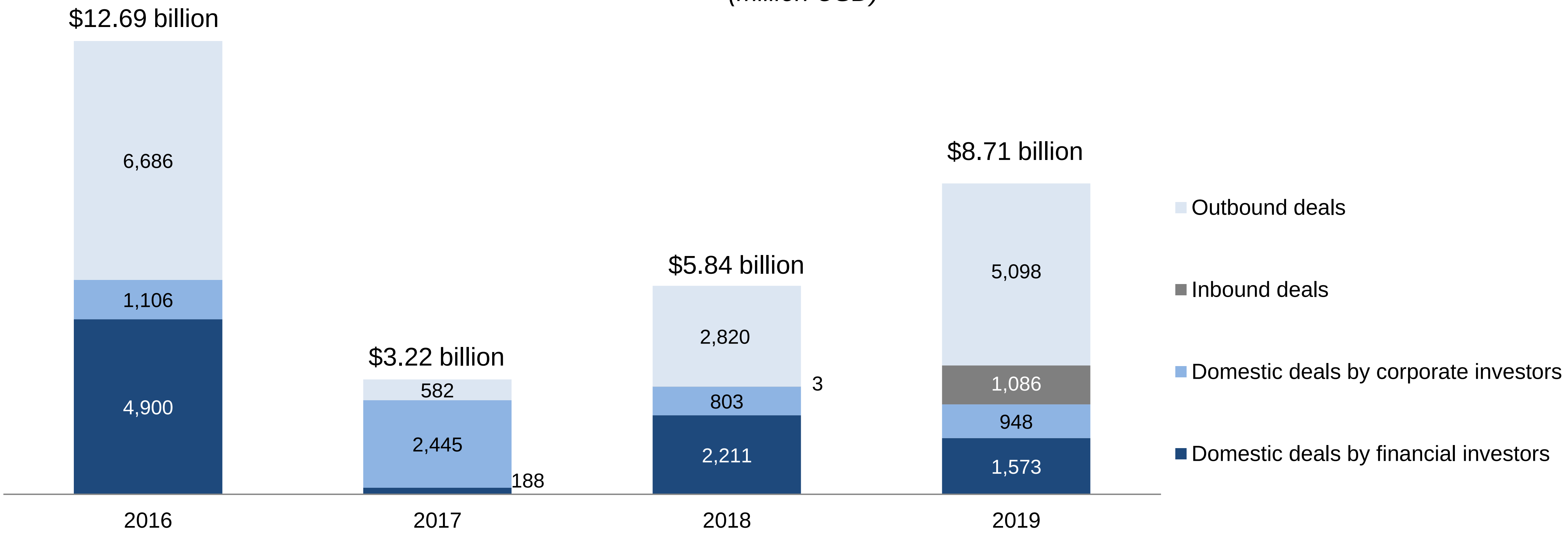
Be & Cheery will run as an independent brand. The management and business model would remain unchanged.

Source: XinhuaNet, Sina Tech

Hotels, dining, and leisure M&A market: Inbound deals surged in ‘19

- After 2 years’ decline, the M&A value had a growth spurt, growing 49% in 2019.
- Outbound deals occupy a large part of the total M&A deal, Chinese companies and investors are keen on overseas investment, especially in tourism (outbound) and catering sectors.
- Inbound deals value also jumped up in 2019

China’s hotel, dining and leisure M&A deals value
(million USD)



Source: Thomson Reuters, Investment China, PWC, designed by daxue consulting

Yum China improved supply chain by acquiring Huang Ji Huang

Huang Ji Huang

- Huang Ji Huang, founded in 2003, is a Chinese restaurant chain. It is famous for its “Huang Ji Huang Three Sauce Simmer Pot”.
- Has over 600 restaurants worldwide.

Yum China

- Yum! Brands is a fortune 500 American fast-food company. It entered China in 1987 as Yum China.
- Some of Yum China’s subsidiaries are Pizza Hut, KFC, and Little Sheep.
- The company has presence in 1,300 Chinese cities with over 9,200 restaurants.

The Acquisition

In April 2020, Yum China announced that it has completed the acquisition. The financial details were not disclosed.

YumChina

黄記煌

Acquisition Rationale:

- Huang Ji Huang, being China’s largest “simmer pot” brand, will help Yum China to better understand the market and supply chain for Chinese catering. Huang Ji Huang will also be able to contribute its rich franchise network and strong R&D capabilities. Yum China can use these assets to improve the operation its other Chinese catering brands.
- Huang Ji Huang also benefits from Yum China’s large scale and technology capabilities.

Post-Acquisition Plans:

- Yum China will establish a Chinese food business unit to include three main Chinese dining brand: Little Sheep, East Dawning and Huang Ji Huang.
- Planning to improve digital R&D, digital marketing, operational efficiency and consumer experience for the Huang Ji Huang chain.

Source: XinhuaNet, Sina Tech

2019 top deals in the R&C sector

Date	Target	Acquirer	Acquirer origin	Sector	Value (US$ billion)
February 12, 2019	Wanda Department Stores Co., Ltd.	Suning.com Co., Ltd.	Nanjing (Jiangsu Province)	Shopping mall	**1.165**
June 23, 2019	Carrefour, China	Suning International Group Co., Ltd.	Nanjing (Jiangsu Province)	Supermarket & grocery retail	**0.709**
August 13, 2019	NetEase's Kaola	Alibaba Group	Hangzhou (Zhejiang Province)	Ecommerce	**1.825**
October 11, 2019	Metro AG, China	Wu Mart	Beijing	Supermarket & grocery retail	**2.254**
February 23, 2020	Be & Cheery Co., Ltd.	Pepsi Cola China	Shanghai	Snack & drinks	**0.705**

Source: SCMP, designed by daxue consulting

Retail and consumer M&A outlook and takeaways

- Traditional and online retail is now more integrated thanks to **New Retail**. Driving M&A deals between online and traditional retailers, especially supermarkets. **Supply chain integration** becomes more and more critical, especially with fresh food.

- The hospitality sector will continue to be under pressure due to the pandemic. This could lead to a 'flight to quality' where the strongest players survive. Companies are likely to look for **equity financing**.

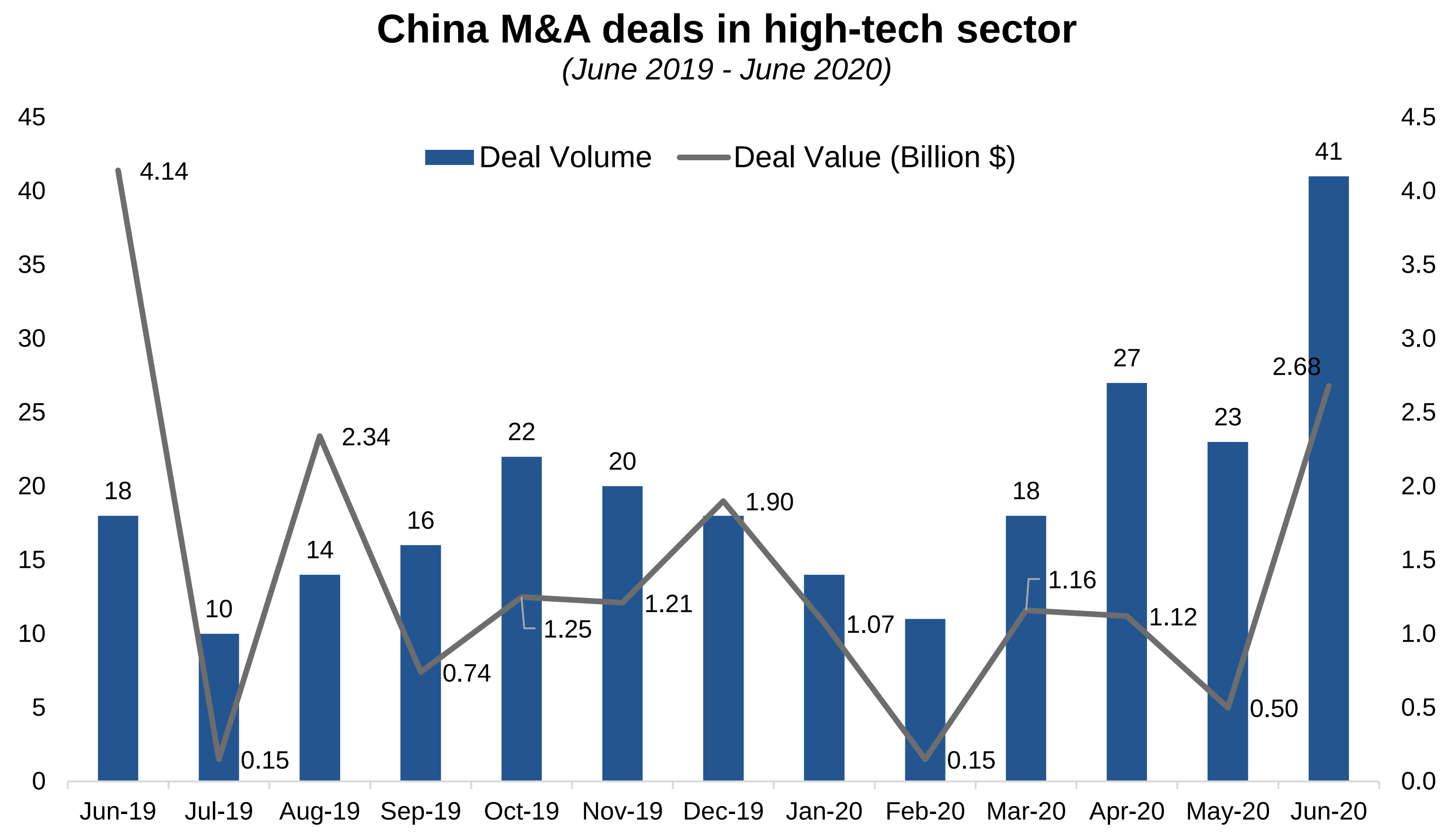
- The initial impact of COVID-19 is conducive to **industry consolidation**, leading brands are expected to increase their domination

- China's economy is becoming more consumer-driven. This will lead to more M&A activity in the retail and consumer sector in the long term.

3 High-tech sector

daxueconsulting

M&A deals see steady number but low value in the high-tech market



Source: Verdict, pwc, designed by daxue consulting

High-tech inbound M&A ranks **first in number** in comparison to other industries, with most deals being small transactions.

- number has been steady as China continues to invest in its technology sector. Many companies are looking at expansion through M&A.
- There have been few mega M&A deals both inbound and outbound – leading to the low overall transaction value. This phenomenon is mostly caused by uncertainties over political tensions in the ongoing trade war. There are also risks and fluctuations in the valuation of Chinese technology firms.

Inbound & Domestic deals in the high-tech sector

Date	Target	Acquirer	Acquirer origin	Reasoning	Value (RMB)
April 2020	Beijing Chen'an Technology	China Telecom Group	China	Better integration of Smart City services	**250.6M**
June 2020	Redfinger	Baidu	China	Smartphone Cloud Technology	**Not Disclosed**
March 2019	Teambition	Alibaba	China	Inclusion of SaaS in its business model	**~680M**
April 2018	Ares Robot	Megvii	China	To enter AI+IOT Market	**Not Disclosed**

Source: Verdict, Sina Tech

Hot M&A sectors within the high-tech market

Artificial Intelligence (AI)

AI is one of the most popular high-tech topic in China. Chinese Tech giants such as BAT (Baidu, Alibaba, Tencent) are all expanding into this area through various investments, R&D and M&A deals.

E-commerce

Even though Chinese E-commerce has slowly reached maturity, most firms are still looking at opportunities to grow, especially into the global markets. Therefore, there are many outbound M&A deals.

Virtual Reality (VR)

The VR market in China is also seeing new domestic and inbound partnerships, ventures and investments. BAT is also being active by collaborating with content partners.

E-sports/Gaming

China is one of the leaders in the E-sports/gaming industry. Big players such as Alibaba and Tencent are investing in and acquiring new technology and platforms.

Who are the major domestic buyers?

Large Tech Companies (BAT)

Large tech companies do M&A because they want to expand their business or to tackle previous shortcomings. Obtaining a product or technology through M&A is a low-cost and efficient method.

State-owned Enterprises

Central enterprises are interested in acquiring technology startups that may be performing poorly financially but are strong in a specific technical field.

Tech-focused China A-Shares

Some technology-focused China A-Shares look for M&A because their current revenue streams and profits cannot support their market value.

Top players in Niche Technological Division

The top players in a specific technological division look for M&As to implement a comprehensive value chain, or to enter new markets.

Laiye merged with UiBot to develop new products and services (1/2)

Laiye Networktechnology

- An AI related startup company founded in 2015. Its main product “Wulai” utilizes AI technology to help corporate customers to improve service efficiency, increase sales revenue and transform marketing abilities.
- Completed Series B Funding at the end of 2017.

UiBot

- A Robotic Process Automation (RPA) focused Chinese startup founded in 2015.
- Its products allow users to generate customized robot through its platform.

The new Laiye UiBot, as a result of this merger, would provide corporate customers with robotic solutions that have both “Hand Work” (Robotic process automation) and “Head Work” (Machine Learning) to improve operation efficiency and reduce R&D costs.

Source: 36Kr, Laiye

Laiye merged with UiBot to develop new products and services (2/2)

Merger Rationale

a) RPA+AI is becoming a trend as UiPath, the top firm in the RPA field, began to launch products that integrate AI functions.

b) The merger allows the resulting company to enter the rising Chinese RPA+AI market.

Key Merger Information

a) Financial details were undisclosed. However, The resulted company completed a Series B+ Funding of 35 Million USD immediately following its merger.

b) Laiye's CEO and UiBot CEO continues to serve as Co-CEOs.

Post-Merger Performance

a) The new Laiye UiBot received more than 300 thousand downloads, 30 thousand users in 6 months.

b) In 2020, Laiye UiBot completed a Series C Funding of 42 Million USD, the largest single round of financing so far in the domestic RPA+AI field.

Source: 36Kr, Laiye

Baidu acquired Redfinger for its cloud tech (1/2)

Baidu

- A Chinese tech giant specializing in internet related services and artificial intelligence.
- Baidu released its "Cloud Phone" in April 2020, providing a cloud platform for virtual phones through its self-developed cloud server and ARM virtualization technology.

Hunan Weisuan Hulian Information Technology (Redfinger)

- A leading company in the field of cloud gaming platform in the Chinese mobile game market
- Its "Red Finger Mobile Phone Cloud Platform" has more than 5 million registered users, and there are more than 1 million monthly paying users.

Industry experts believes that Baidu's acquisition of Redfinger is an early step in Baidu's ambition to become a market leader in the Chinese cloud games, cloud applications, cloud VR and cloud office industries.

Source: Sina Tech, Redfinger

Baidu acquired Redfinger for its cloud tech (2/2)

Merger Rationale

a) Due to COVID 19 and the general market trend, the demand for online games has surged in China, providing an opportunity for investors and R&D.

b) Redfinger has a more mature ARM virtualization and Mobile Cloud Tech capabilities.

Key Merger Information

a) The financial terms of the acquisition were not disclosed to the public.

b) The senior management positions of Redfinger were all changed with the current Baidu CTO Wang Haifeng appointed to the committee.

Post-Merger Plans

a) Baidu plans to consolidate with the existing Red Finger Mobile Phone Cloud Platform to provide new products to corporate and individual users.

b) To improve Baidu's market competitiveness in industries such as gaming, VR and online office.

daxueconsulting

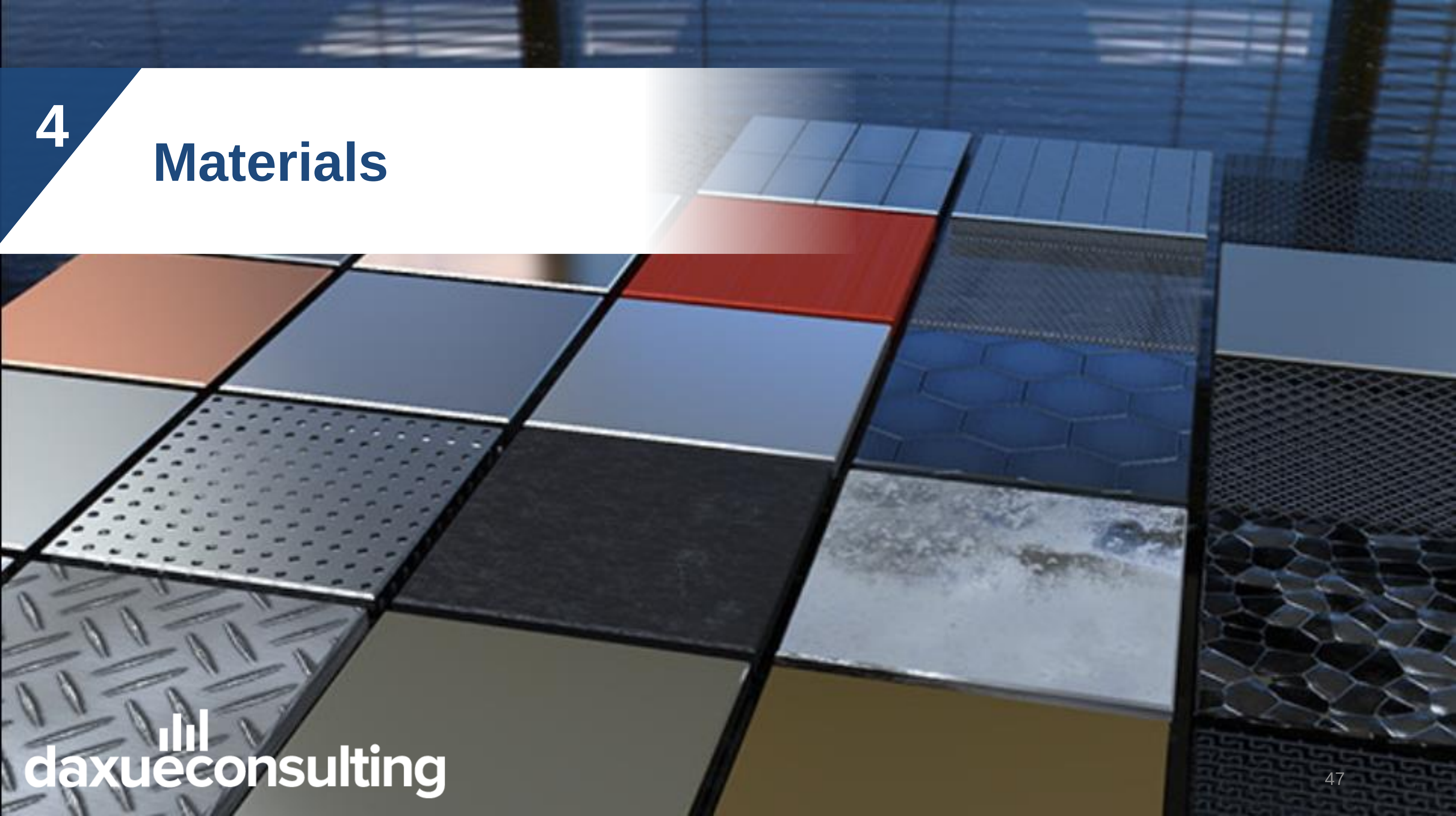
High-tech M&A outlook and takeaways

As China grows to become one of the leaders in the technology field, there is a higher **number** of domestic and inbound M&A deals. However the value of the deals are limited due to **political interventions** and **uncertainties regarding valuation**.

AI, VR, E-sports and E-commerce are the current hot M&A sectors within Chinese Tech. The recent cases of Laiye's merger with UiBot and Baidu's acquisition of Redfinger show that Chinese companies are actively working to become leaders in these fields.

Large tech companies, state-owned enterprises, tech-focused China A Shares and top players in niche technological division are all looking at possible M&A opportunities for their tailored needs.

Experts believe that China hasn't reached the peak of Technology M&A yet as the industry in general is still far from maturity. China is facing a new wave of technology with the Government **heavily investing in 5G and AI.** Therefore, a new round of acquisition and merger opportunities are arising.

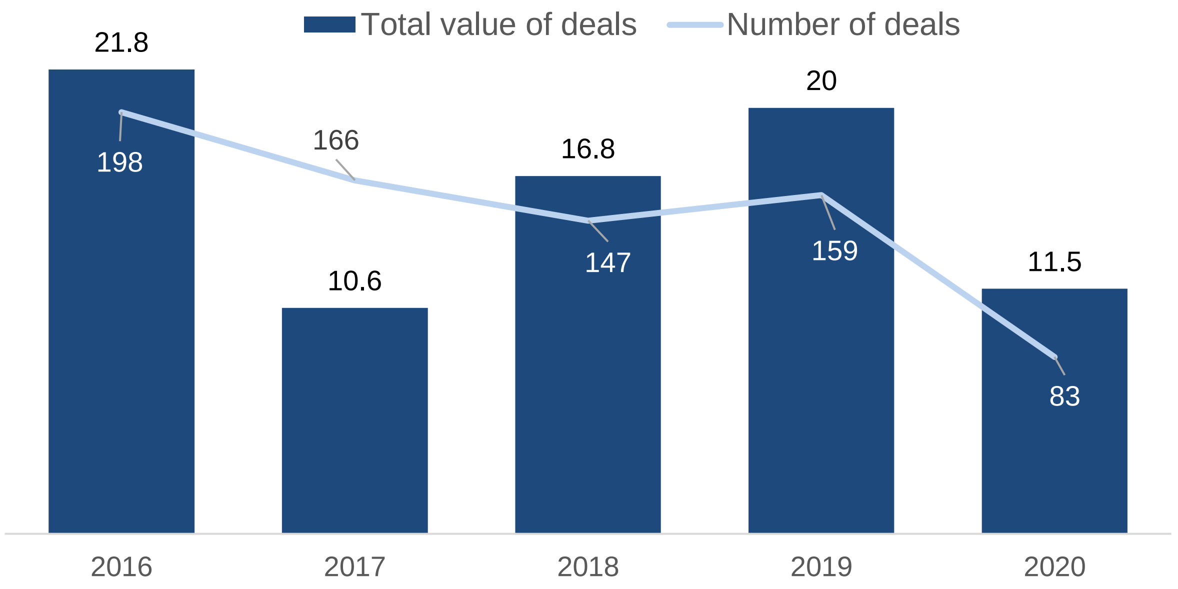


4 Materials

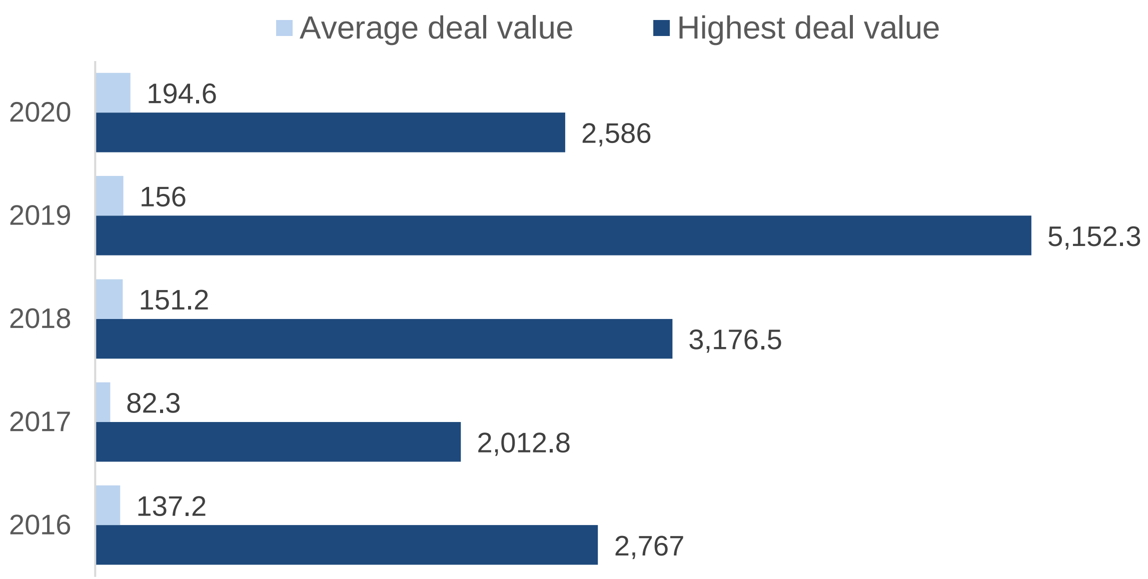
Material industry M&A in China is highly dependent on policy

- In China's material industry, minerals have a grave need in the new energy car market. Coal and cement are highly dependent on the government's policy as most large players are state owned enterprises (SOE).
- China's 14th Five-Year Plan requested SOEs to introduce capital or M&A to upgrade production technologies and enlarge the capacity. The policy initiated a series of large inbound M&A deals, such as Baosteel acquired 3 companies to increase its production capability.

Mineral and energy M&A deal number and total value
(US$ million)



Mineral and energy M&A average deal value
(US$ million)



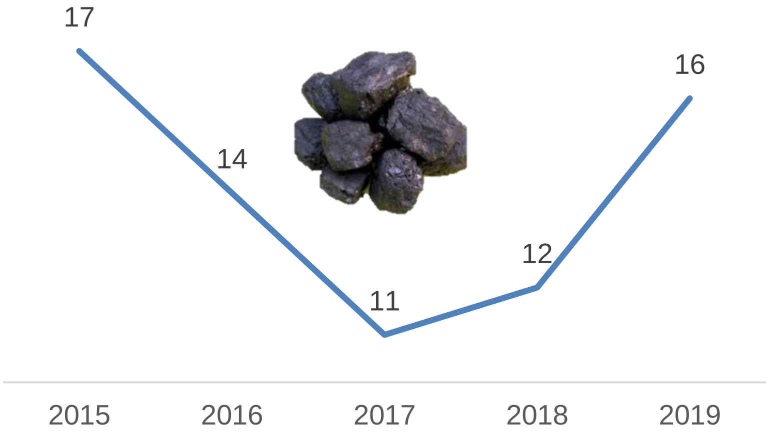
Source: CIN, designed by Daxue consulting

China’s coal mining sector is restructuring

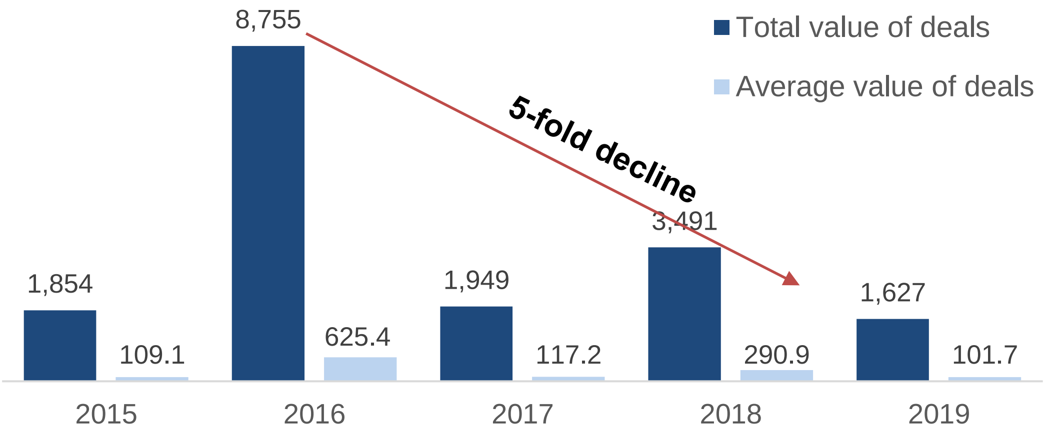
The sector is dominated by several large SOEs. However, the Chinese government released a series of policies to have less carbon emissions, which led to the fall of large M&A deals while small companies faced the urgent problem of reorganization.

Distribution of M&A deals by type
(2019)

Number of M&A deals
(2015-2019)



The value of M&A deals
(US$ million 2015-2019)



Source: EMIS insights designed by Daxue consulting

- The value of coal mining M&A deals in China fell to **$1,627** million in 2019, from **$8,755** million in 2016.
- The remaining businesses are small and medium-sized companies, which as a result of **ongoing industry restructuring,** are expected to be subject to takeovers and intensified M&A activity.

Top M&A deals in China’s coal mining sector (2018 - July 2020)

Date	Target	Acquirer	Acquirer origin	Industry	Value (US$ million)
April 27th, 2018	Tongmei Datang Tashan Coal Mine Co., Ltd.	Datang Coal Industry Co., Ltd.	China	Coal mine	392.9
June 1st, 2018	Shanxi Coal Import & Export Group Hequ Old County Open-pit Coal Industry Co., Ltd.	Shanxi Coal International Energy Group Co., Ltd.	China	Coal production	369.5
June 13th, 2018	Shanxi Meijin Group Jinfu Coal Industry Co., Ltd.	Shanxi Meijin Energy Co., Ltd.	China	Mining construction	307.1
December 3rd, 2019	Elion Energy Co., Ltd.	Undisdosed Investor(s)	N/A	Chemical products and coal business	312.6

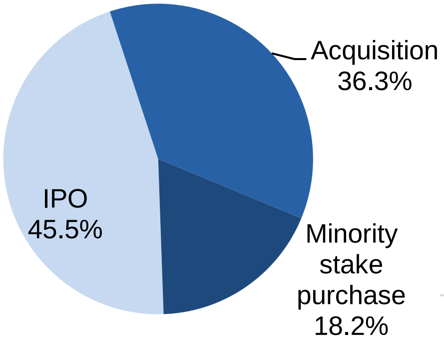
Source: Xueqiu fortune, CIN designed by Daxue consulting

Iron & steel M&A: a trend of growth before COVID-19

Before COVID-19, M&A deals in the iron & steel sector had a growth trend under the policy supported by the government.

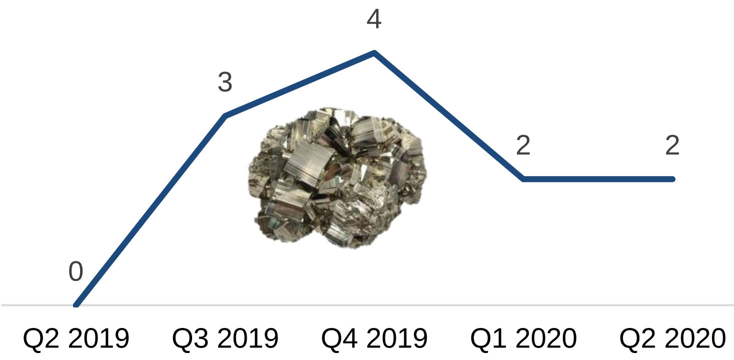
Distribution of M&A deals by type

(Q2 2019-Q2 2020)



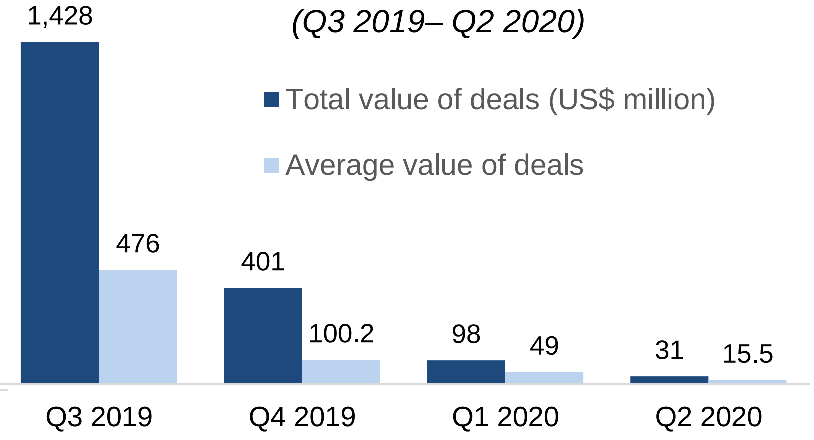
Number of M&A deals

(Q2 2019-Q2 2020)



Value of deals in China

(Q3 2019– Q2 2020)



Source: EMIS insights designed by Daxue consulting

Top M&A deals in China's iron and steel sector (Q2 2019 – Q2 2020)

Date	Target	Acquirer	Acquirer origin	Industry	Value (US$ million)
September 7th, 2019	Yangchun New Iron and Steel Co., Ltd.	Hunan Xiangtan Valin Iron and Steel Co ltd; Hunan Valin Steel Co., Ltd.	China	Iron and steel	232.3
November 12th, 2019	Vanadium Manufacturing Branch of Pangang Group Xichang Steel and Vanadium Co., Ltd.	Pangang Group Vanadium Titanium &Resources Co., Ltd.	China	Steel	893
April 23rd, 2020	Hegang Yueting Iron and Steel Co., Ltd.	HBIS Co., Ltd.	China	Iron and steel	141.3
June 3rd, 2020	Fujian Luoyuan Minguang Iron and Steel Co., Ltd.	Sansteel MinGuang Co., Ltd. Fujian	China	Iron and steel	302.6

Source: Xueqiu fortune, CIN designed by Daxue consulting

- The number of M&A deals and company closures in the sector increased, as some low-efficiency companies are unable to bear higher costs.
- Consolidation in the sector is being encouraged by the government in pursuit of its industrial upgrading plan.

Case study: Baosteel surpassing ArcelorMittal through M&A

In four years, Baosteel surpassed ArcelorMittal with 400% increase in its productivity through M&A.

Company introductions

BAOSTEEL

Bao Steel
State holding company
The global largest steel producer, ranked 149th among fortune global 500 companies.

Wuhan Iron & Steel
State owned enterprise
Rank in 11th on the World Steel Association in 2015

MA STEEL

MA Steel
Acquired 51% by Baowu in 2019
Owned by government.

Chongqing Iron & Steel
Established before China found
State owned company

The Acquisition

Baosteel acquired 3 enterprises and establish a new corporation company to achieve a 400% capacity increase.

2016
Steel Group acquired Wuhan Iron company by $4 billion

2016
Established China Baowu Steel Group Corporation Ltd. (Baowu)

Became the **largest steel** manufacturer in China
The **second largest** globally after ArcelorMittal

2019
Acquired Maanshan Iron and Steel Co., Ltd. (Masteel)

Increased steel production capacity by **20 million tpa to 90 million tpa**

2020
Acquired Chongqing Iron and Steel Co., Ltd.

Achieved the target to expend steel production capacity to **100 million tpa**

In 2019
It became the world's largest steel producer

11.1% YoY
Production of long span steels

2.5% YoY
Production of hot-rolled carbon steel sheets and coils

3.5% YoY
Production of other iron and steel products

Acquisition Rationale

To accomplish the 14th Five-Year Plan in 2016, state owned enterprises reformed through joint ventures and M&A. They solved overcapacity and upgraded product's structure.

Post Acquisition

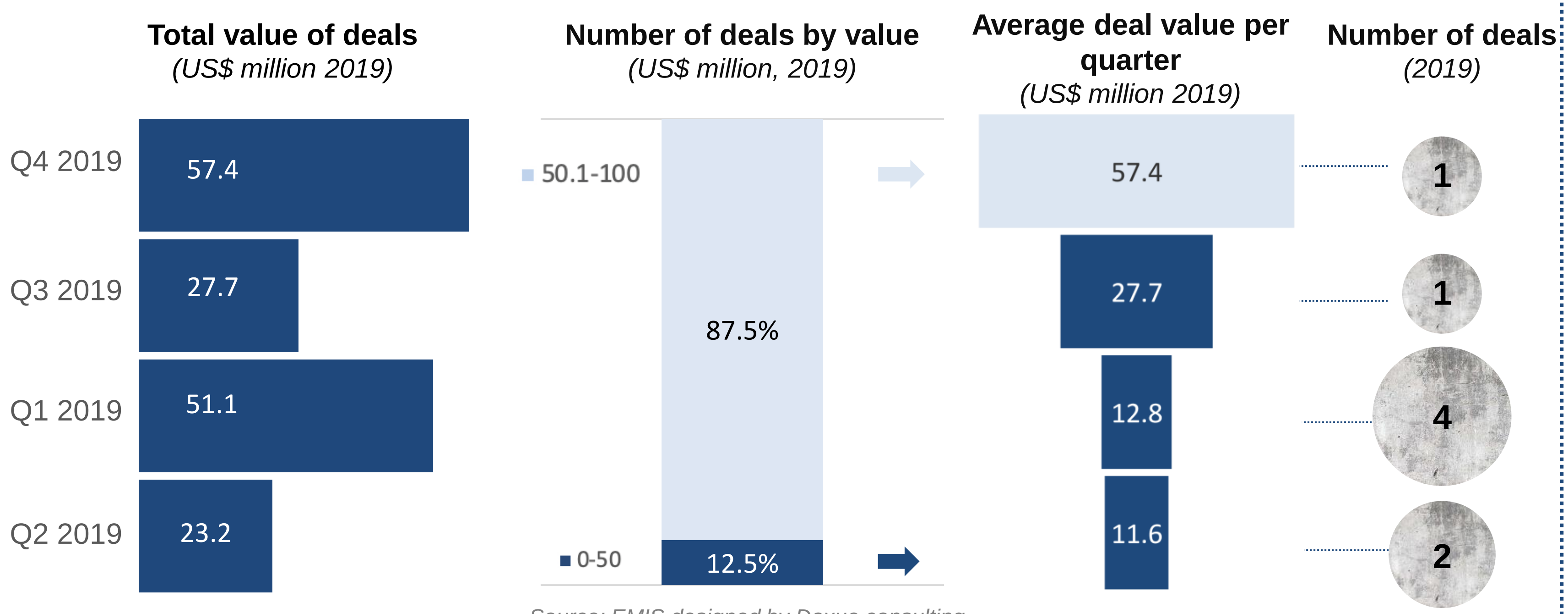
Baosteel raised its steel capacity from 29 million tpa to 100 million tpa in 4 years by the support of Chinese government. The company expanded new markets in Southeast Asia, Australasia, Europe and Africa to solve overcapacity issue.

Source: Company data, EMIS insights designed by Daxue consulting

daxueconsulting

Cement sector M&A is a local battlefield

Due to overcapacity of local companies, consolidation is encouraged in the sector.



Source: EMIS designed by Daxue consulting

- China is the largest cement producer in the world, accounting for 57.8% of the global cement output. The cement sector in China is characterized by overcapacity, a large number of enterprises and fierce competition.
- The Chinese government is encouraging deals among local companies, so that a larger share of the market can be concentrated in the hands of the top domestic players after M&A. In 2018, the share of China's top 10 cement companies in terms of clinker capacity rose to 64%, compared to 52% in 2015.

Top M&A deals in China's cement manufacturing sector (2018 – November 2019)

Date	Target	Acquirer	Acquirer origin	Industry	Value (US$ million)
May 4th, 2018	Tianjin Building Materials Group Holding Co., Ltd.	BBMG Corp	China	Transportation & Logistics	632
June 20th, 2018	Southwest Cement Co., Ltd.	China National Building Material Co., Ltd.	Hong Kong SAR, China	Cement	296.3
October 30th, 2019	YCIH Green High-Performance Cocrete Co., Ltd.	Zoom Heavy Industry Science and Technology Co., Ltd.; China Resources Cement Holdings Ltd.; Public Investor(s)	China; Hong Kong SAR, China	Concrete	57.4

daxueconsulting

Case study: a M&A deal for improving production technology

Under the policy support of the government, China's state-owned companies upgraded production technology by M&A.

Company introductions

China National Materials Group
China National Materials Group is fused by China National Materials Co., Ltd. and China National Building Material. They are both the large SOEs in China. After consolidation, the group hold **8** cement subsidiaries.

Xinjiang Tianshan Cement Co., Ltd.
A cement subcompany of China National Materials Group, the main business is on the northwest.

The Acquisition

July 25th, 2020 — Xinjiang Tianshan Cement Suspended shares, and public notice of M&A plan on Shenzhen securities exchange.

August 7th, 2020 — Xinjiang Tianshan cement Co., Ltd. Proposed M&A scheme, plan to acquire China United Cement Corporation 100% share, South Cement Company Co., Ltd. 99.93% share, Southwest Cement Co.,Ltd. 95.72%, and Sinoma Cement Co.,Ltd. 100% share. By way of issuing shares to China National Building Material and other deals.

Officially submitted the M&A proposal to China Securities Regulatory Commission.

Post Acquisition

10.2 Times Capacity
The 4 target companies' capacity are **394** million tons. Tianshan Cement's clinker capacity is **39** million tons.

16 Times Asset
The 4 target companies' assets are **$37.7** billion. The total assets of Tianshan cement is **$2.3** billion.

70% Debt Ratio
After M&A, Tianshan Cement debt ratio will grave erode gross margin.

Acquisition Rationale

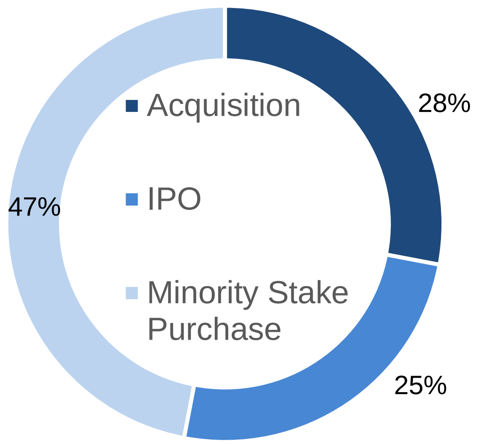
- According to the Chinese 14th five year plan, state-owned companies are encouraged to introduce individual companies joint venture, and use M&A to obtain advanced technology.
- Based on the government work report in May 2020, the government started to focus on rural construction, renovation of old residential communities and other large projects such as railway construction.
- Therefore, the two policies directly promoted the M&A deal between the 2 companies.

Source: Shenzhen securities exchange, China Securities Regulatory Commission designed by Daxue consulting

Sluggishness in the chemical M&A market is boosted by government support

M&A number and value both dropped sharply due to COVID-19, however, the market started to revive after Q1 2020.

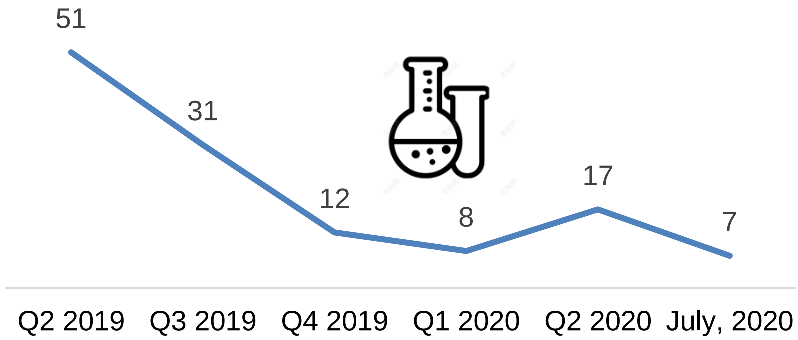
Number of deals by type
(Q1 2020 – July 2020)



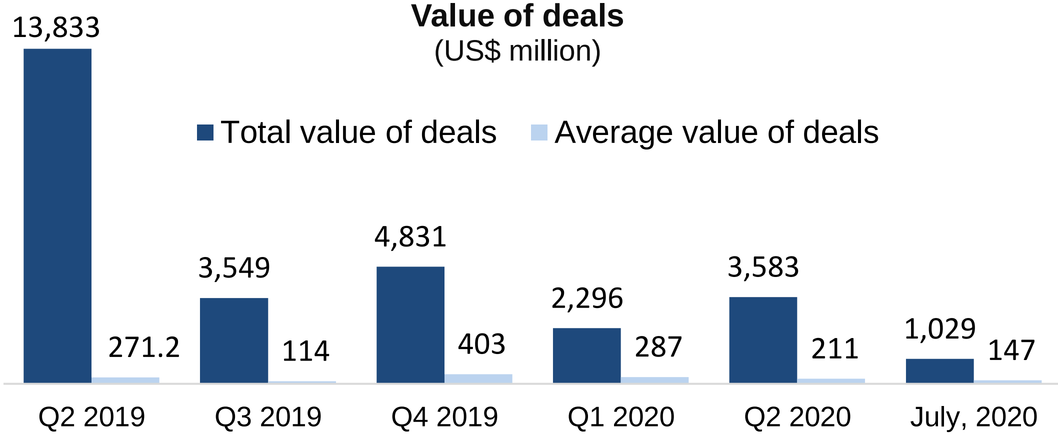
Source: EMIS designed by Daxue consulting

In order to increase its competitiveness, the Chinese government supports the M&A of the chemical sector. The competition is mainly among the large players in the sector, while the small and medium-sized producers are encouraged to pursue M&As in order to increase their efficiency.

Number of deals



Value of deals
(US$ million)



Source: EMIS designed by Daxue consulting

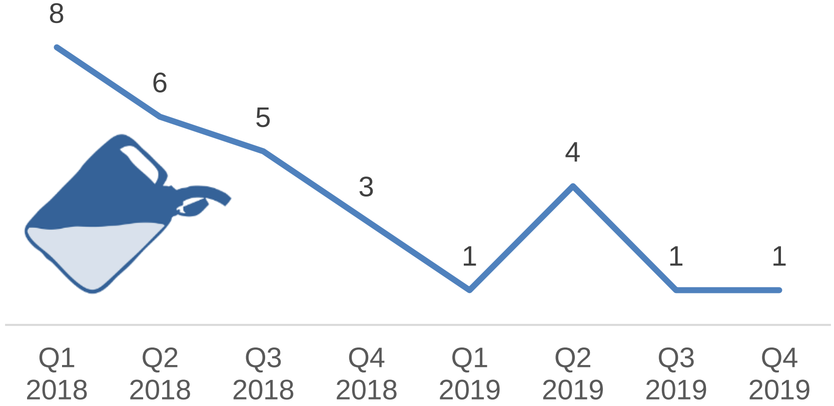
Top M&A deals in China's chemical sector (Q1 2020 – July 2020)

Date	Target	Acquirer	Acquirer origin	Industry	Value (US$ million)
January 6th, 2020	Shenzhen Sanshun Nano New Materials	Cabot Corp	USA	Nano materials	115
March 28th, 2020	Guizhou Chitianhua Tongzi Chemical Co., Ltd.	Undisclosed Buyer(s)	N/A	Agriculture chemicals	131.7
July 16th, 2020	Yunnan Dawei Ammonia Production Co., Ltd.	Yunnan Yuntianhua Co., Ltd.	China	Ammonia	134.1
July 21st, 2020	Nanjing Cosmos Chemical Co., Ltd.	Institutional Investor(s)	N/A	Cosmo chemicals	123.4

Oil & gas industries: less deals and half were via minority stake purchase

China's oil and gas industry is seeking overseas M&A opportunities to meet its needs for upgrading technologies.

Number of Deals

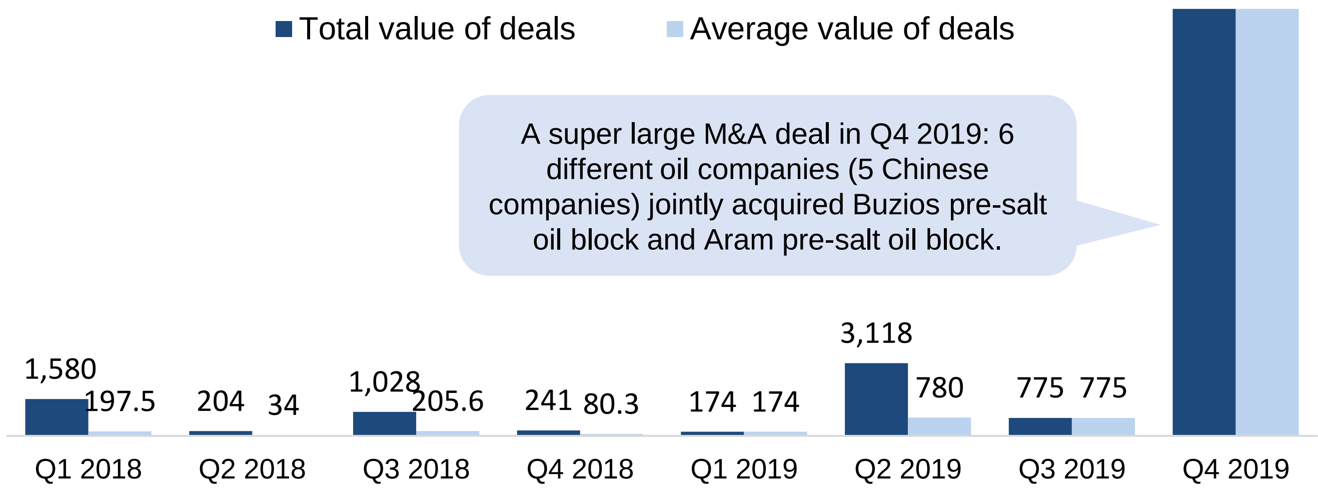


Top M&A deals in China's oil and gas sector (Q1 2018 – Q4 2019)

Date	Target	Acquirer	Acquirer origin	Industry	Value (US$ million)
January 18th, 2018	Chongqing Shengbang Gas Co., Ltd.	Shandong Shengli Co., Ltd.	China	Gas	102.2
August 19th, 2019	China United Coalbed Methane Co., Ltd.	CNOOC Ltd.	China	Coalbed Methane	775

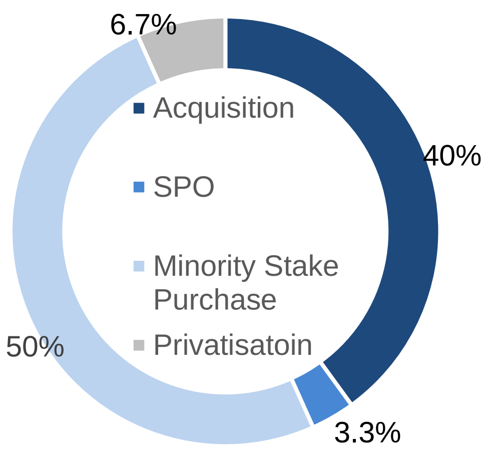
Value of deals

(US$ million)



Number of deals by type

(Q1 2018 – Q4 2019)



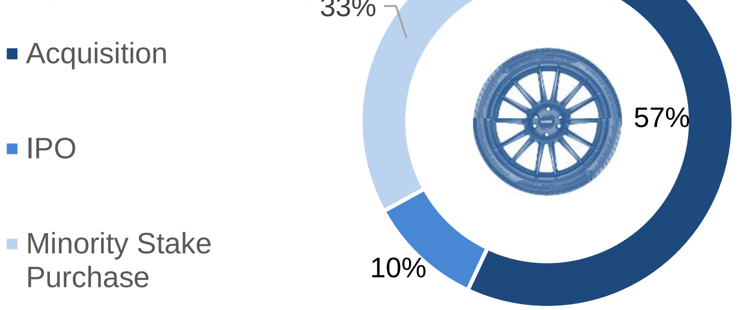
- The oil & gas industry in China kept rising in 2019. But the entire sector was facing technical issues, such as unconventional drilling and inefficient capacity.
- That was why the government opened the outbound investment funnel in the oil & gas sector to introduce technology and capacity.
- At the meantime, in order to meet the demand for petroleum in China's industrial development, Chinese state-owned companies intended to upgrade technologies, which drove large M&A deals.

Source: EMIS designed by Daxue consulting

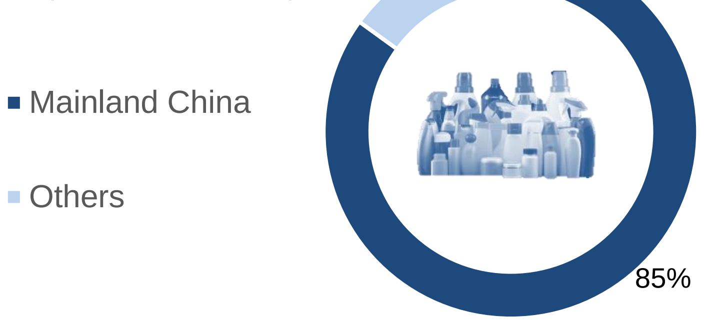
Numerous M&A participants in the rubber and plastic industry

Through M&A, large players made up their weakness of production technologies and maximized production capacity.

Number of deals by type
(Q1 2018 – Q3 2019)

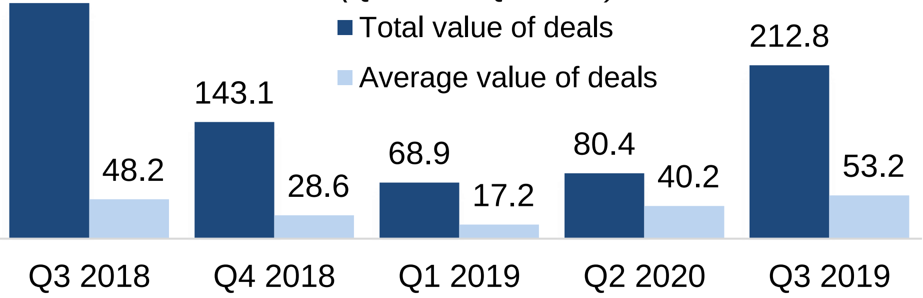


Deals by region of investors
(Q1 2018-Q3 2019)

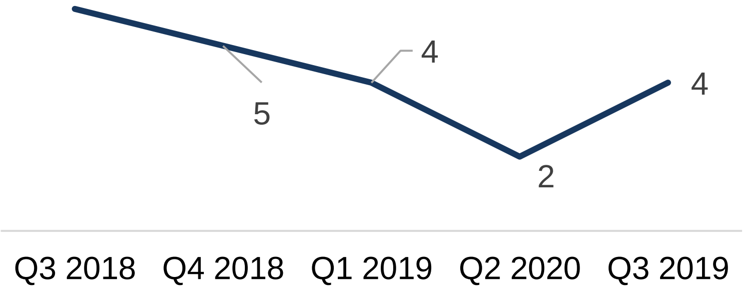


- China's rubber & plastic industry is fiercely competitive. The world's top ten tire manufacturers all have plants in China and there are more than 18,621 enterprises in the sector.
- The fierce competition raised the sector's entry barriers and drove M&A deals in this industry.

Value of deals
(Q3 2018-Q3 2019)



Number of deals
(Q3 2018-Q3 2019)



Top M&A deals in China's rubber and plastic sector (Q3 2018 – Q3 2019)

Date	Target	Acquirer	Acquirer origin	Industry	Value (US$ million)
September 7th, 2018	Qingdao Haier New Materials Development Co., Ltd.	Shandong Dawn Polymer Co., Ltd.	China	Fr-HIPS Supplier, PVC, ABS	38.5
September 28th, 2018	Zhejiang Yongsheng Film Technology Co., Ltd.; Zhejiang Juxing Chemical Fiber Co., Ltd.	Rongsheng Petrochemical Co., Ltd.	China	Chemical fiber	88.4
July 10th, 2019	Jiangsu Aidefu Latex Products Co., Ltd.	China Hainan Rubber Indutstry Group Co., Ltd.	China	Latex	53.3
August 28th, 2019	Beijing Tianyuan Aote Rubber and Plastic Co., Ltd.	Changzhou Tenglong Auto Parts Co., Ltd.	China	Rubber and plastic	51.5

Source: EMIS designed by Daxue consulting

Rongsheng vertically acquired textile factories to solve overcapacity issue

Via vertical M&A in the fiber and plastic sectors, Rongsheng enriched its product types and avoided horizontal competition.

The Acquisition

On September 27th 2018, Zhejiang Rongsheng Petrifaction acquired Yongsheng and Juxing chemical fiber's stock by $115 million cash.

Acquisition Rationale

Rongsheng petrifaction's main business is petroleum production, but the company is facing oil overcapacity. Thus, it tried to develop new products and extend into a new market.

By acquiring Yongsheng and Juxing, Rongsheng reached its goal and avoided horizontal competition.

Post Acquisition

After the M&A, the sales of Zhejiang Rongsheng's film products increased by 8.44% in 2019. But in H1 2020, the film products sales reduced 27.8% YoY due to COVID-19.

Source: Rongsheng annual report, official website designed by Daxue consulting

Company Introduction

浙江荣盛控股集团 ZHEJIANG RONGSHENG HOLDING GROUP

Zhejiang Rongsheng
Rongsheng group contains the full range of the industrial chain, such as petrochemical, real estate, logistics and others.

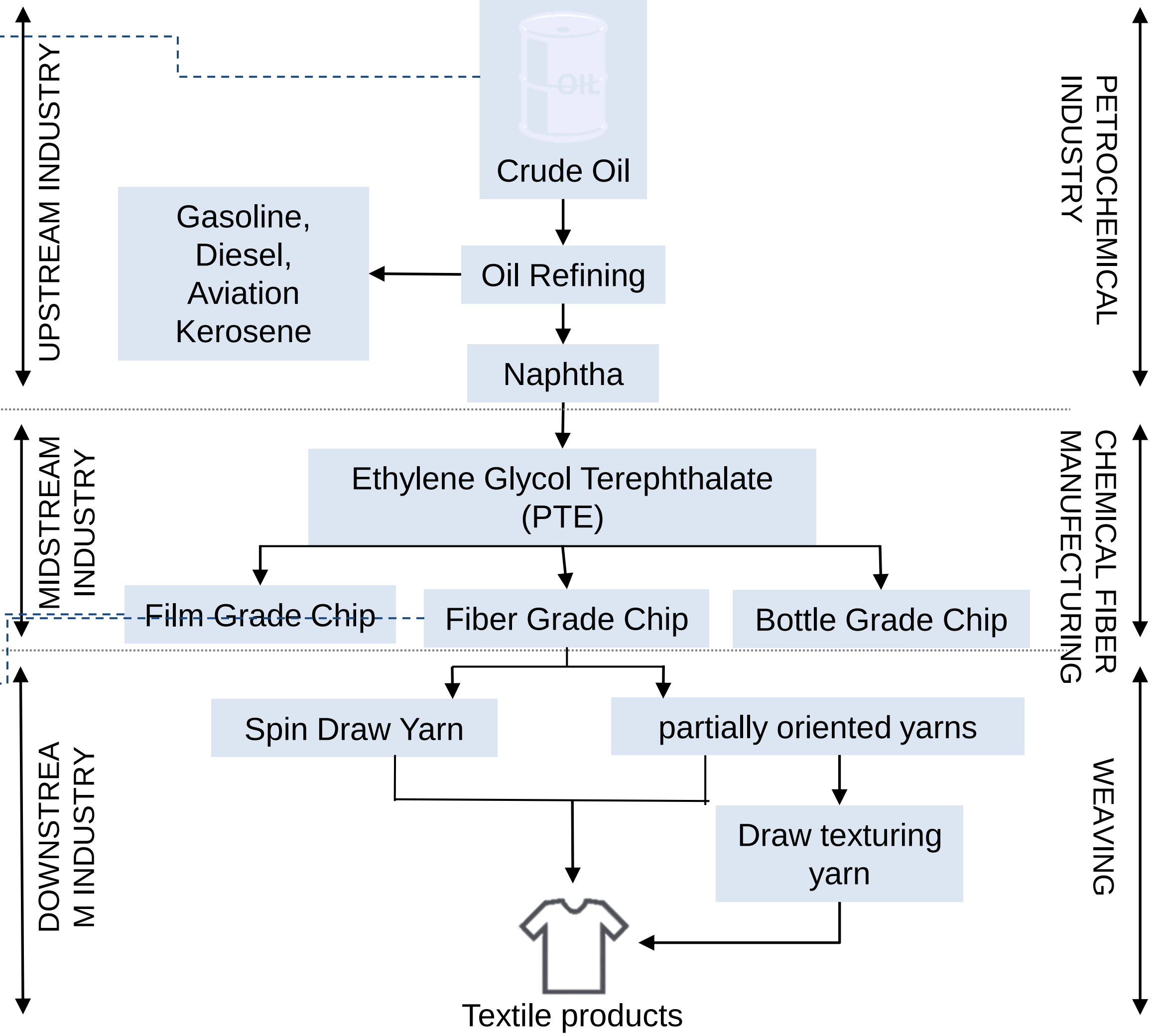
永盛薄膜 YONGSHENG FILM

Yongsheng Film
Produces and sells BOPET film, PET film-grade chip
Total asset: $116 million

聚兴化纤

Juxing chemical fiber
Produces and sells polyester
Total asset: $41 million

Rongsheng's petrochemical products chain



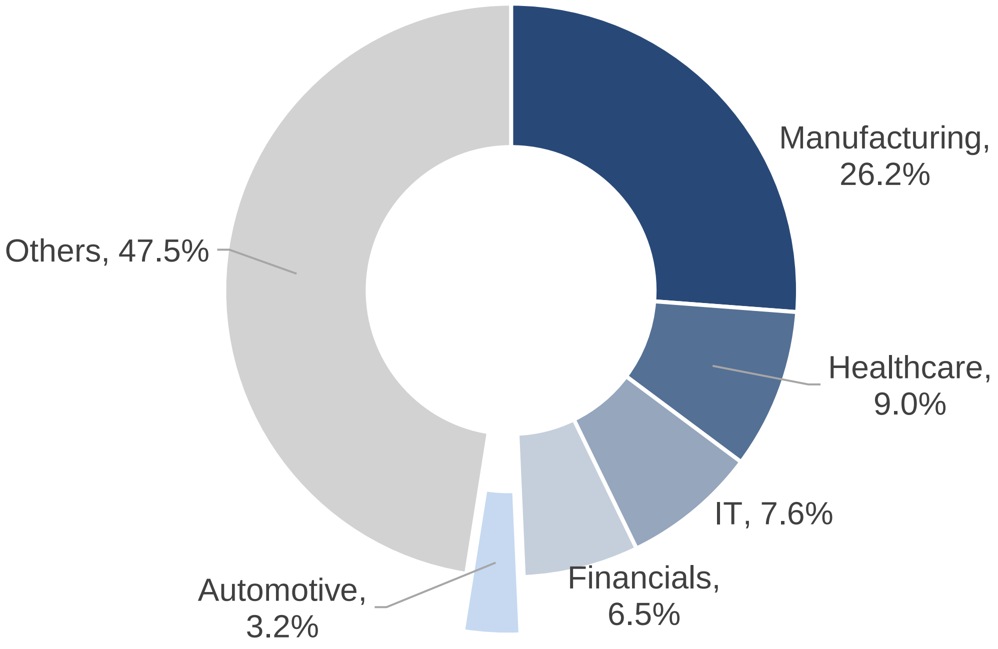
daxueconsulting

5 Automotive

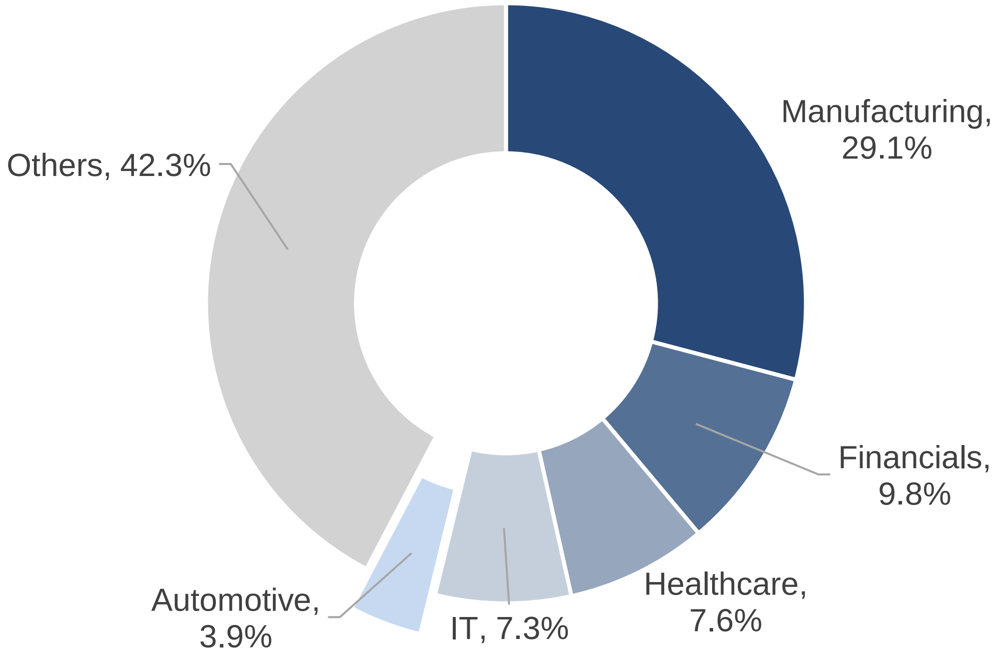
Automotive M&A is steadily rising in China

- Due to COVID-19, China's auto industry has encountered difficulties in supply chain recovery and a sharp decline of consumer demand. M&A has been an option for auto enterprises to deal with the crisis.
- At the mean time, the Chinese government pushed the development of new energy vehicles, traditional auto enterprises started to gain access to new energy technologies by M&A.

The distribution of M&A deals in China in 2019



The distribution of M&A deals in China in Q1 2020

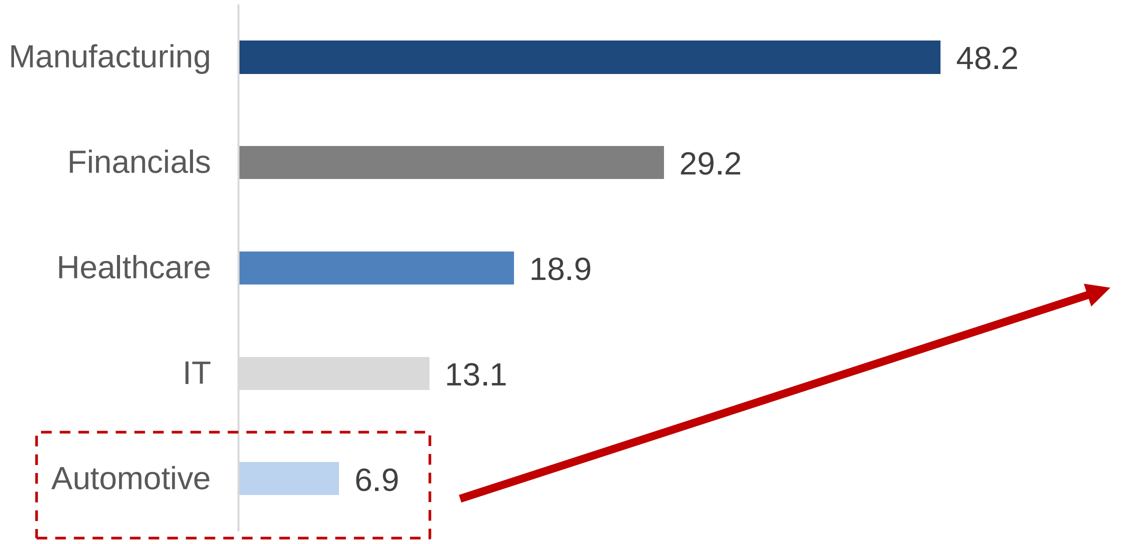


Source: China venture, designed by Daxue consulting

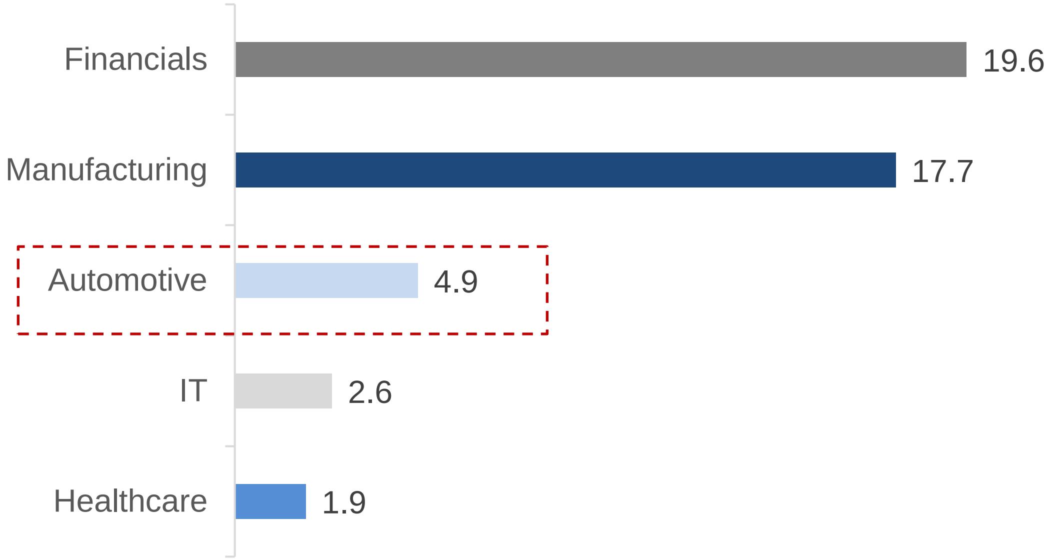
Automotive M&A value squeezed into the top 3 of all industries

- In Q1 2020, the Chinese automotive M&A value was 4.9 billion USD, which is 71% of 2019's value, notably, FAW Car acquired FAW Jiefang for 4 billion USD in Q1 2020.
- The total value in 2019 Q1 decreased compared to 2018, because private equities withdrew their funds to prepare to pass through the pandemic and the number of mid-sized company deals reduced by half from Q1 2018.

The value of completed M&A deals of Chinese companies in 2019
(billion USD)



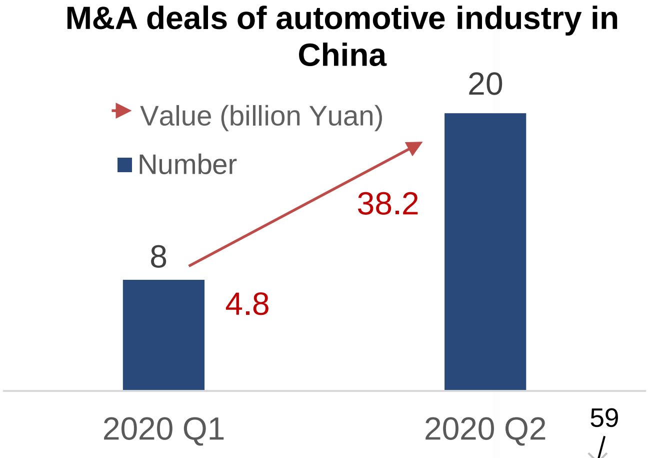
The value of completed M&A deals of Chinese companies in 2020 Q1
(billion USD)

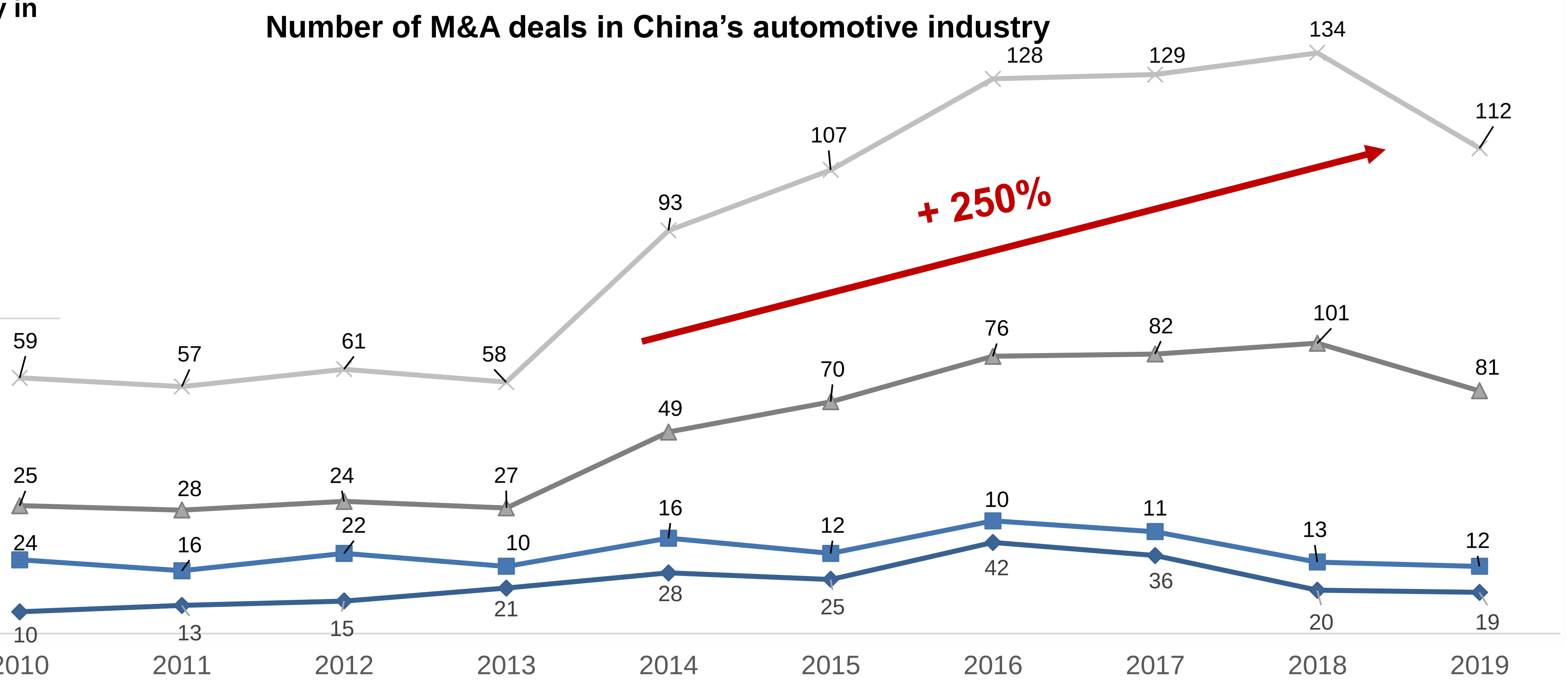


Source: China venture, designed by Daxue consulting

Chinese automotive M&A value and number are both rising

- From 2013, the total number of M&A deals drastically increased . Due to changes in macroeconomic conditions such as the China-US trade war and the reduction in consumer demand and the disruption in supply chain amid COVID-19, the number of M&A deals in automobile industry declined significantly in 2019.
- 2020 Q2 saw automotive M&A value increased eight-fold and the number of deals more than double of Q1. This strong recovery is supported by the need of restructuring, consolidation, and transformation in the automotive industry.





Source: Pedata, designed by Daxue consulting

Case study: Great Wall Motors increased productivity by acquring Jingmen

Through M&A, Great Wall Motors increased capacity and a produced a more efficient logistics system.

The Acquisition

Jingmen local government transferred Jingmen Vehicle Production Base's equity to Great wall motors, to introduce vehicle enterprises in Jingmen.

Company Introduction

Great Wall

- Car manufacturer.
- 2003 went public in HK.
- Business and factories located many Asian countries.

Jingmen Vehicle Production Base

- The Jingmen local government fund and construct.
- Company's production equipment is imported from Germany and Switzerland.

Great Wall Motors sales

(Oct. 2020)

- In October 2020, Great Wall Motors sold 136 thousand vehicles.
  - **YoY raised 18%.**
  - **QoQ raised 15%.**
- Great Wall Motors overseas sold 10,804 cars.
  - **YoY raise 148%.**
  - **QoQ raise 39%.**

Acquisition Rationale

- As retail sales continue to rise, Great Wall Motors intends to increase its productivity.
- Build production and logistics bases in the central area of China to have more sales in the area.
- Jingmen local government wanted to introduce a vehicle enterprise.

Post Acquisition Plan

- Great Wall Motors leveraged Jingmen's the location advantage to pave the market in China's central region.
- Increased capacity achieved more sales.

Source: Great Wall Motors official website designed by Daxue consulting

Half of global top 10 plug-in new energy car brands are Chinese

In recent years, Chinese new energy auto brands have started to gain global traction, but COVID-19 seriously affected sales.

Global top 10 plug-In new energy automotive brands sales and market share

	2018			2019			January, February 2020		
Car Group	**Rank**	**Number of sales**	**Market share**	**Rank**	**Number of sales**	**Market share**	**Rank**	**Number of sales**	**Market share**
Tesla	1	245,240	12%	1	367,849	17%	1	28,268	11%
BYD	2	229,338	11%	2	25,757	10%	12	10,304	4%
Renault-Nissan-Mitsubishi Alliance	3	192,711	9%	3	183,299	8%	4	16,632	6%
BAIC Group	4	165,369	8%	4	163,838	7%	20	3,900	1%
BMW Group	5	142,217	7%	5	145,815	7%	2	21,027	8%
SAIC Group	6	123,451	6%	7	137,666	6%	9	11,379	4%
Geely Group	7	113,516	5%	9	121,802	6%	Out of Top 20	Null	Null
Hyundai Motor Group (Hyundai, Kai)	8	90,860	4%	8	126,436	6%	8	11,867	4%
Volkswagen Group	9	82,685	4%	6	140,604	6%	3	18,563	7%
Chery	10	65,798	3%	Out of Top 10	Null	Null	Out of Top 20	Null	Null
Top 10 Total		1,451,185	70%		1,468,221	75%		121,940	45%
Others		489,407	25%		489,407	25%		146,687	55%
Total		2,089,930.3	100%		1,957,628	100%		268,627	100%

- Chinese automotive manufacturing started to slow down in 2018. However, automotive technologies advanced fast.
- One important reason is that many players started to acquire companies with new energy tech to make up the shortage of technology.
- In the global top 10 new energy car brands, around half of them were Chinese in 2018 and 2019. But most of these brands fell out of the top 10 due to COVID-19.

* Highlight are Chinese new energy automotive companies. /Some of the number of sales and total sales in 2019 and 2020 are speculate by exciting numbers, they might have wispy error.

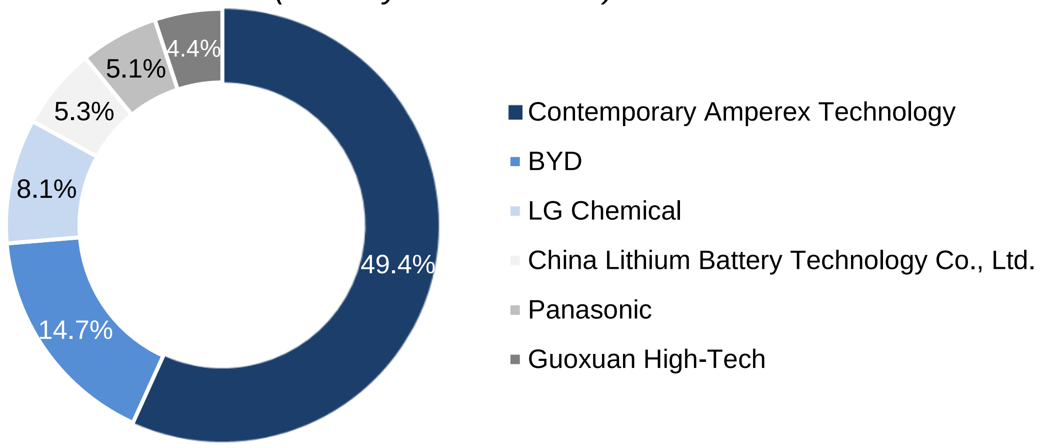
Source: Insideevs, EV sales designed by Daxue consulting

daxueconsulting

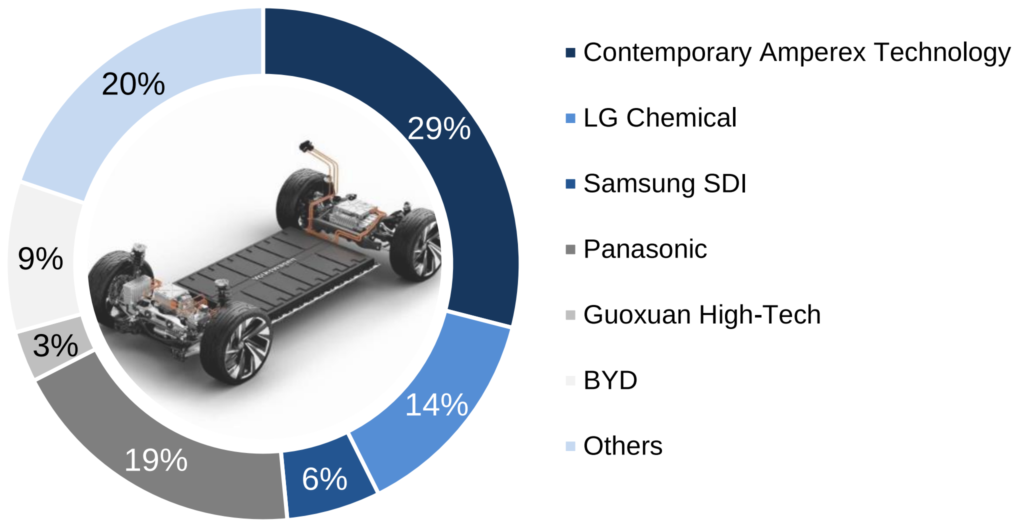
Large demand for new energy vehicles drives power battery sales

Contemporary Amperex Technology Co., Ltd. occupied a great market share in both the domestic and international power battery markets because of its large battery capacity and longer single battery life.

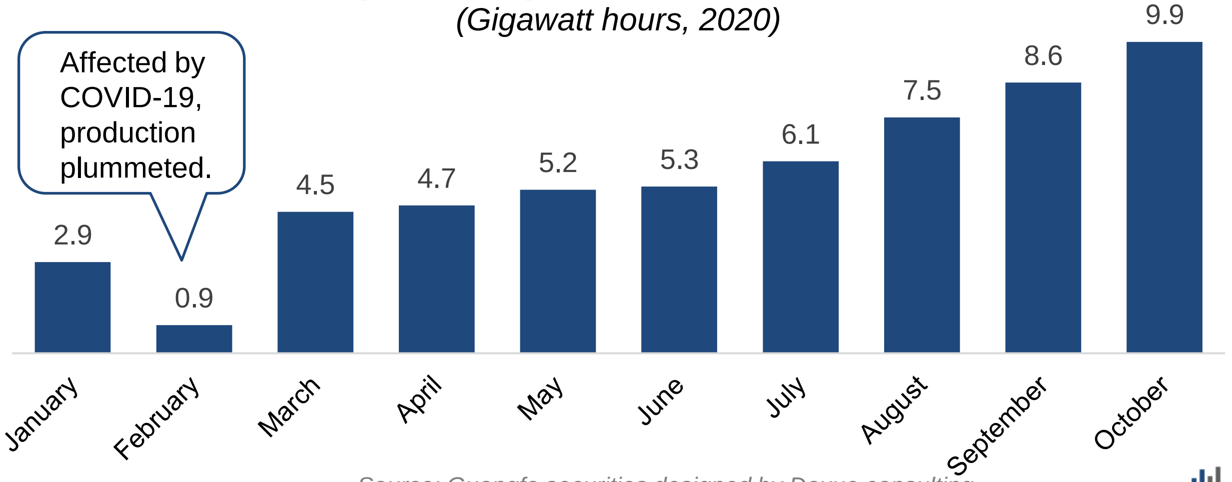
Market share of power battery capacity for new electric vehicles sold in China
(January-October 2020)



Global power battery market share
(2019)



Capacity of power battery in China
(Gigawatt hours, 2020)



- COVID-19 seriously influenced the production of new energy vehicle battery in early 2020, however the capacity quickly recovered after the epidemic situation has been eased.
- The fast growth of power battery production in the 2nd half year of 2020 implied the huge demand for new energy vehicles in China.
- Contemporary Amperex Technology (CATL) was far ahead of other players in China as it is pioneering technology.

Source: Guangfa securities designed by Daxue consulting

daxueconsulting

How China is pushing NEV vehicles even further

The government renewed its policy in 2020: China Corporate Average Fuel Consumption & New Energy Vehicles Credit Regulation (CAFC & NEV) Credit Regulation.

A carmaker needs 12% of their produced amount in Credits

A company who makes **100,000** cars needs to earn **12,000** credits

Each NEV is worth 0-6 credits depending on how far the vehicle's charge efficiency

Manufacturing low charge capacity NEV can not meet the policy requests (the lowest credit is 0 per unit)

These credits can be earned by manufacturing **2,000** of the highest quality NEV

Small companies‘ standard has reasonable reduced. The credit between Offshore companies' China subsidiaries can exchange

If the company has excess credits it can **sell** to other manufacturers

Since Covid-19, companies allow to use 2021 credits to supplement uncompleted part in 2020

The manufacturers making the most efficient NEV become more **profitable**

Source: China Automotive Technology & Research Center designed by Daxue consulting

Highest value deals in China's automotive M&A market

- In China, most of the automotive industry's M&A cases are related to new energy vehicles. The main reasons are: 1) Chinese companies are trying to stay ahead of competitors on the technological curve. 2) China Corporate Average Fuel Consumption & New Energy Vehicles Credit Regulation (CAFC & NEV) Credit Regulation was released, this policy required more credits from new energy vehicles for car manufacturers.
- New energy related M&A activity will continue, as Chinese automotive companies tend to save their research and development time by having other companies' new energy techniques through M&A.

All of these large M&A deals are related to new energy vehicles.

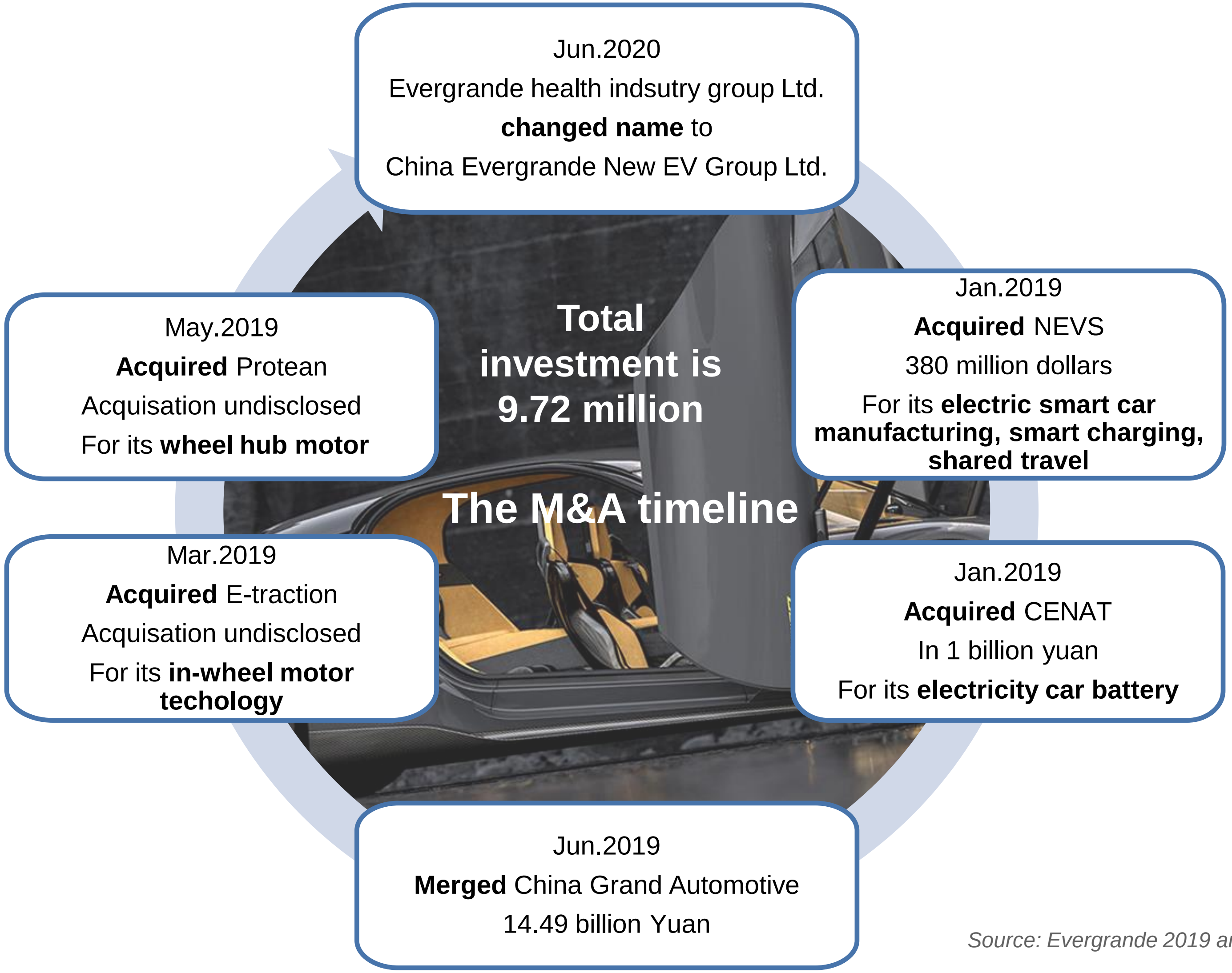
Date	Target	Acquirer	Acquirer origin	Industry	Value (US$ Million)
Jan.2019	CENAT	Evergrande group (恒大集团)	China	Batteries	156
Apr.2019	Grammer AG	Jifeng Co.,LTD. (继峰集团)	Germany	Car interior seats	474.8
Jun.2019	China Grand Automotive (广汇汽车)	Evergrande group (恒大集团)	China	Automotive	225.6
Oct.2019	Shengtun mine Co., Ltd. (盛屯矿业)	Guangdong Weihua Co., Ltd. (广东威华股份)	China	Lithium mine	140.2
Dec.2019	FAW Jilin (一汽吉林)	Baoya EV Co., Ltd. (宝雅新能源)	China	EV	227.9
Oct.2020	Jingmen Vehicle Production Base	Great Wall Motors (长城汽车)	China	Production base	Undisclosed

* Evergrande group and Great Wall Motors undisclosed the acquisition price. Evergrande group plans to contribute EV empire by acquisition the greatest motors industry's companies in the world.techno

Source: auto company's official announcement designed by Daxue consulting

Case study: Evergrande expanded business to the auto industry by M&A

As a real estate group, Evergrande entered the new energy vehicle market by M&A.



中國恒大集團
CHINA EVERGRANDE GROUP

Acquisition Rationale

- The Chinese policy strongly supports automobile companies to produce new energy vehicles.
- Evergrande Group intended to enter the new energy industry.
- In 2020, they planned to produce new energy vehicles in the next two years.

Post Acquisition

- In March 2020, Evergrande Group teamed up with Koenigsegg to publish the new energy supercar-Gemera.
- In March 2020, the company developed 6 new energy vehicle models.

Source: Evergrande 2019 annual report designed by Daxue consulting

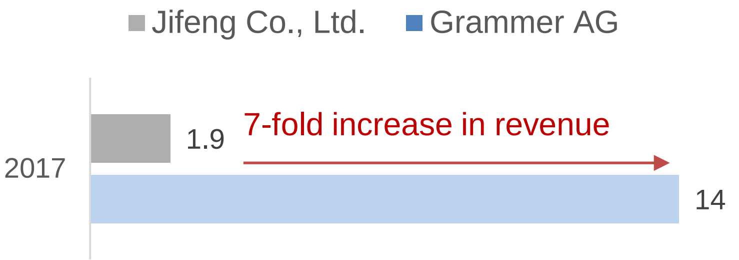
Case study: Jifeng gained new tech by acquiring Grammer AG (1/2)

Through the acquisition, Jifeng gained technology to produce new energy vehicles and opportunities to expand to overseas markets.

Company Introduction

Jifeng and Grammer revenues

(Billion Yuan 2017)



继峰股份
JIFENG CO.,LTD.

- Major business is car components.
- Provides both traditional fuel cars and new energy cars collocation components.
- Went public in 2015.

GRAMMER

- The main business is car components and system.
- Listed on the Frankfurt Stock Exchange Regulated Market.

Acquisition Strategy

Feb. 2017

JAP GmbH (a company owned by Jifeng) agreed to buy Grammer Mandatory convertible bond for **468.5 million Yuan,** about **9.2%** of Gremmer's share.

Oct. 2017

JAP GmbH purchased 25.56% Garmmer's stock in the **secondary market**, which exceeded the Hastor family in becoming the largest shareholder of Grammer.

May 2018

Jifeng formally initiated **the tender offer** for Grammer.

Aug. 2018

The result of the tender offer came through, Lifeng possessed **84.23%** of Garmmer's stocks.

Sept. 2018

Jifeng's overseas subcompany **finished** the stock settlement.

Source: Jifeng official announcement designed by Daxue consulting

daxueconsulting

Case study: Jifeng gained new tech by acquiring Grammer AG (2/2)

The main reasons for a drop in the share price of Grammer are:

- High level of Grammer’s own debt ratio before the acquisition. According to Wind, Grammer's asset liability ratio reached 69.5% by the end of 2017.
- Loss of potential growth of Grammer. The automotive industry has gradually moved from a period of development to a period of maturity since 2018, meanwhile, COVID-19 has seriously affected cars sales in 2020.

Acquisition Rationale

- **Jifeng:** To increase technical manufacturing level and expand into new energy automobile market.
- **Grammer**: Breaking away from the control of the primary major shareholder, Hastor.

Grammer stock trend after the acquisition

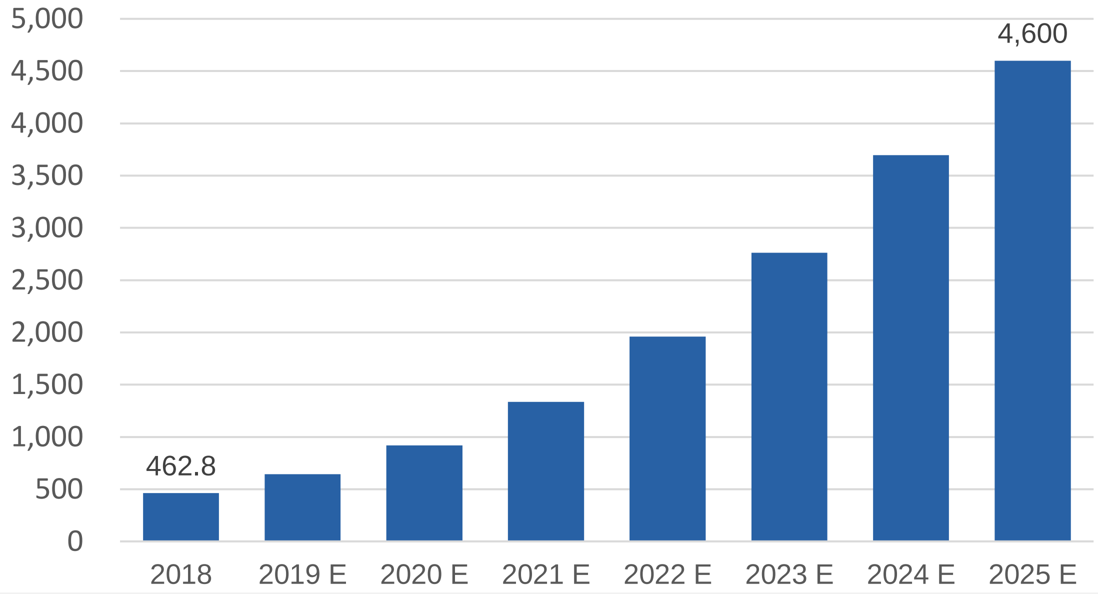
(Euro, 2016-2020)

Source: Bloomberg. Grammer investor relations designed by Daxue consulting

China's automotive AI software market has huge potential

In recent years, more AI technology started to be used in Chinese vehicles, including AI systems in cars.

Automotive HMI software sales
(US$ Million 2018-2025)



There are 3 ways to develop AI software and self-driving vehicles:

- First is horizontal corporation among automotive head companies, such as AVCC, which associated with Arm, Bosch, Continental, DENSO, General Motors, NVIDIA, NXP Semiconductors and Toyota.
- The second is vertical acquisition, seen in Chinese electronic technology companies Baidu and Huawei, which absorbed AI enterprises in different fields to great the next AI golden decade.
- The last method is creating an automotive company with AI technology, such as Tesla and NIO.

Self-driving car components
(McKinsey's report)

Vehicle cab
Steering, Braking, and acceleration

Cloud
Learning and updating high-definition maps, including traffic data, as well as algorithms for object detection, classification, and decision making

Perception and object analysis
Object and obstacle detection, classification, and tracking

Drive control
Converting algorithm outputs into drive signal for mechanisms

Decision making
Planning vehicle path, trajectory, and maneuvers

Localization and mapping
Data fusion for environment mapping and vehicle localization

Analytics
Platform for monitoring autonomous system's operation, detecting faults, and generating recommendation

Middleware or operating system
Middleware and real-time operating system to run algorithms

Computer hardware
High-performance, low-power-consumption system on a chip (SOC) with high reliability

Sensors
Multiple sensors, including lidar, sonar, radar, and cameras

Source: Tractica, McKinsey, aminer designed by Daxue consulting

Case study: Thunder Soft acquired its sole competitor to improve AI tech

Thunder Soft established technical advantages in China’s automotive AI system market through M&A.

The Acquisition

Since 2015, Thunder Soft started to build corporation with MM Solutions to upgrade its AI tech. In March 2018, Thunder soft announced that it acquired MMS Solutions with $37.1 million.

Acquisition Rationale

- MM Solutions is the only competitor of Thunder in China’s AI visibility camera field.
- Acquiring MM Solutions can help Thunder soft compose the largest intelligent vision platform in the world, and help terminal manufacturers break the technology's barrier.
- Intelligent vision is a blue ocean market in China, Thunder Soft intends to be an early mover in the area.

The Acquirer

Thunder Soft

- Intelligent operation system developer.
- Recent focus on automotive AI system development.

The Target

MM Solutions (MMS)

Global leader in mobile phones imaging, video and audio

Post Acquisition

- Thunder Soft’s long-term clients raised from 2 to more than 35, and includes BMW, Audi, Nio and BYD.
- In February 2020, Thunder Soft signed strategy cooperation agreement with Didi to build intelligent system in vehicles.
- In November 2020, Huawei officially marched in automotive intelligent software market by its new AI system HiCar, Thunder Soft is one of its main technology suppliers.

Source: Cnstock designed by Daxue consulting

Auto market M&A drivers

Many Chinese car companies are seeking M&A opportunities to improve manufacturing technology

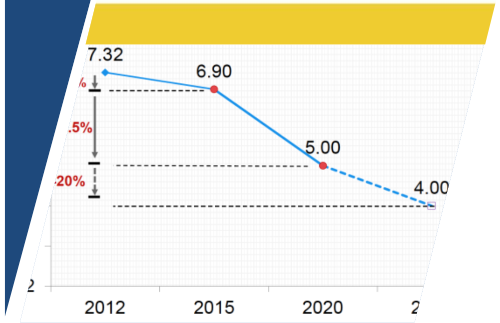
Many cases showed that Chinese automobile companies and capital are interested in manufacturers with advanced equipment and production technologies. Through M&A, some Chinese car companies shorten the technical and logistic gap to those first-tier new energy vehicle companies.

Covid-19 boosted the integration in China’s automobile industry

- Impacted by COVID-19, there was a sharp decline in China’s vehicle sales in 2020H1. Many car companies badly needed to develop products and open up new opportunities, M&A is a good option for them.
- Due to the weakness of offline car retail during COVID-19, many small companies run into difficulties, which also drives M&A deals.

M&A is a good choice for international automotive companies to catch the last Chinese new energy train

- Since 2018, China further relaxed the limitation of foreign investment in the auto market. This is helpful for overseas companies to enter the Chinese auto market by M&A.
- Renault group joint 50% share to Jiangling motors, and BMW holding B.V. joint 20% stock to BMW brilliance Automotive Ltd.



China’s CAFAC & NEV Credit Regulation on the new energy vehicle industry stimulated M&A

The regulation’s purpose is to replace fuel with electric energy and promote China's technology innovation in the new energy area.

- In order to enter the new energy vehicle market, which is supported by the government, many traditional vehicle manufacturers started to create related technologies, M&A is a fast way for some.
- Auto companies already in the market are now facing more intense competition due to many new players, thus, developing more advanced new energy tech is an urgent task. M&A has been used as a solution.

Source: Government data

6

Fashion

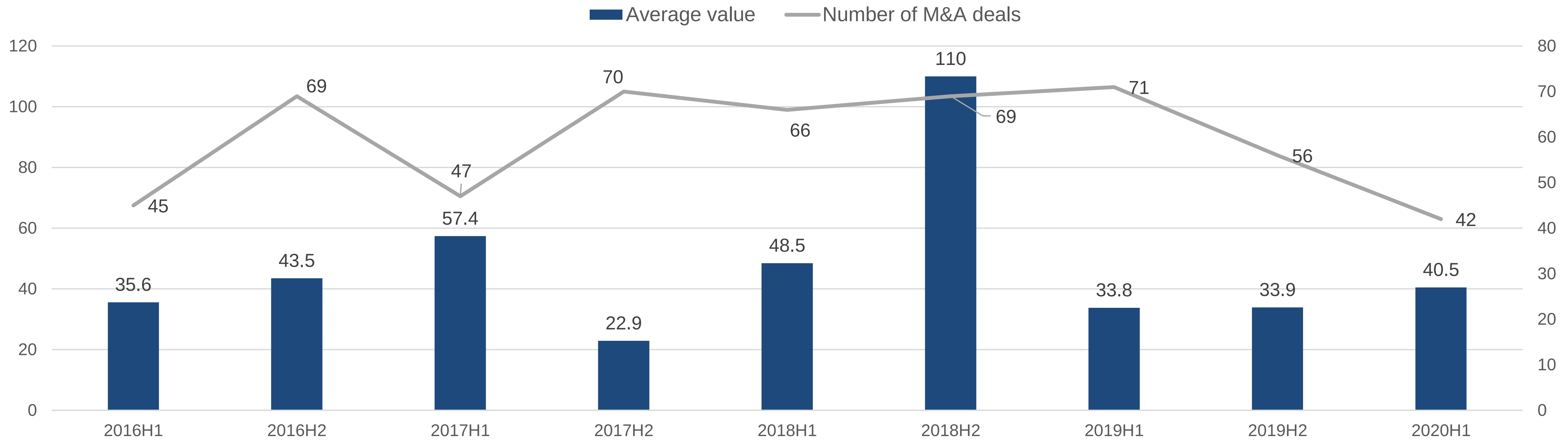
daxueconsulting

M&A in China's textile and apparel sector entered a downturn

In 2019H1, the average value of M&A deals sharply dropped in China's textile and apparel sector as few mega-deals exceeded $500 million. Then, the number and total value both decreased since 2019H2. The main reasons are 1) textile and apparel exports declined 2) price wars lead to more fierce domestic market 3) raw materials (chemical fiber) price rose and the total profit of textile and apparel sector declined.

Total number and average value of M&A deals in China's textiles and garments industry

(million USD)



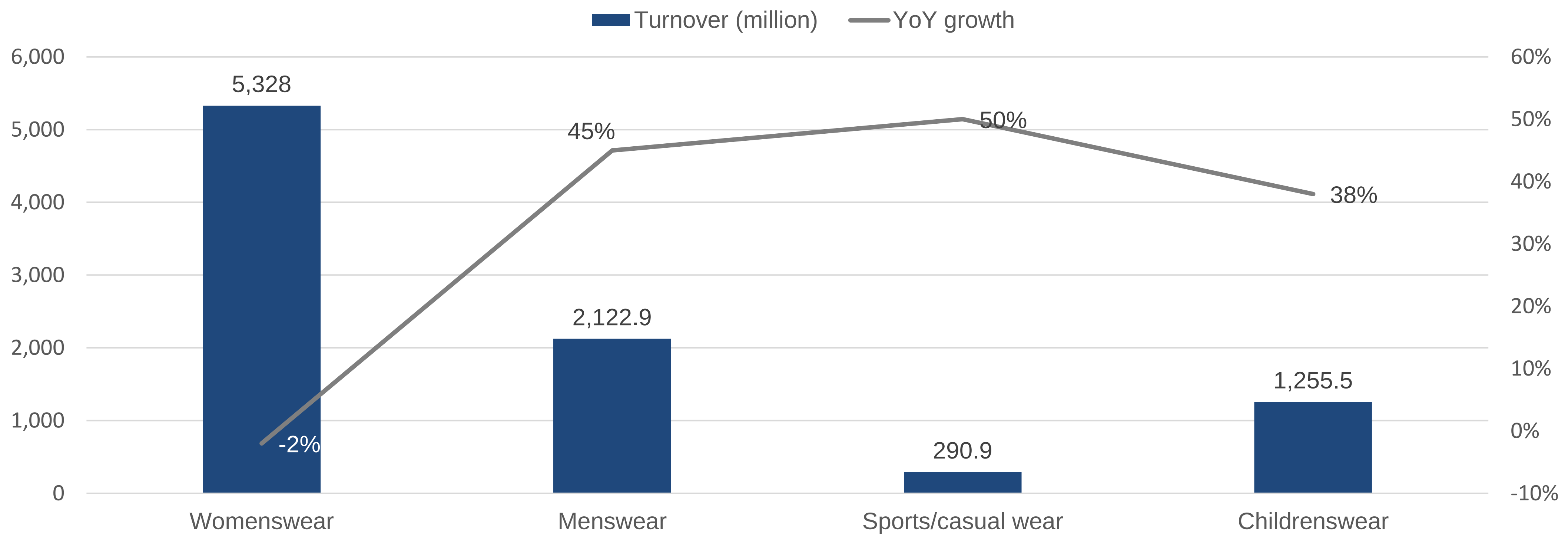
Source: PWC, designed by Daxue consulting

daxueconsulting

Womenswear remains dominant while sports and casual wear grow

- Even though womenswear's turnover is far ahead of the other sectors, it was the only sector where turnover had decreased 2%.
- On the other hand, sports and casual wear have more growth potential. Sportswear is a global fashion trend, and most of Chinese treat casual wear as both street wear and work clothes.

Fashion industry turnover and YoY growth on Taobao
(September 2020)



Source: Huano.com (Huano research center), designed by Daxue consulting

Case study: Fosun Fashion acquired Lanvin

Fosun expanded its fashion retail business while Lanvin rescued its brand image and is decreasing revenue through acquisitions.

The Acquisition

In February 2018, Fosun Fashion invested 851.5 million yuan in Lanvin, becoming the controlling shareholder with 65.6% share. The previous holders Wang Xiaolan and Ralph Bartel will keep minor stocks.

Acquisition Rationale

Fosun Fashion wants to contribute to the Chinese luxury emperor through M&A to reach China's middle class consumers, since they are the largest luxury consumption group. Between 2013 to 2019, they acquired 3 luxury companies.

The Acquirer

FOSUN 复星

Fosun Fashion Group

- Holds 3 luxury brands
- Belongs to Fosun international

The Target

LANVIN
PARIS

Lanvin Fashion Company

- French multinational high fashion house
- Founded by Jeanne Lanvin in 1889

Post Acquisition

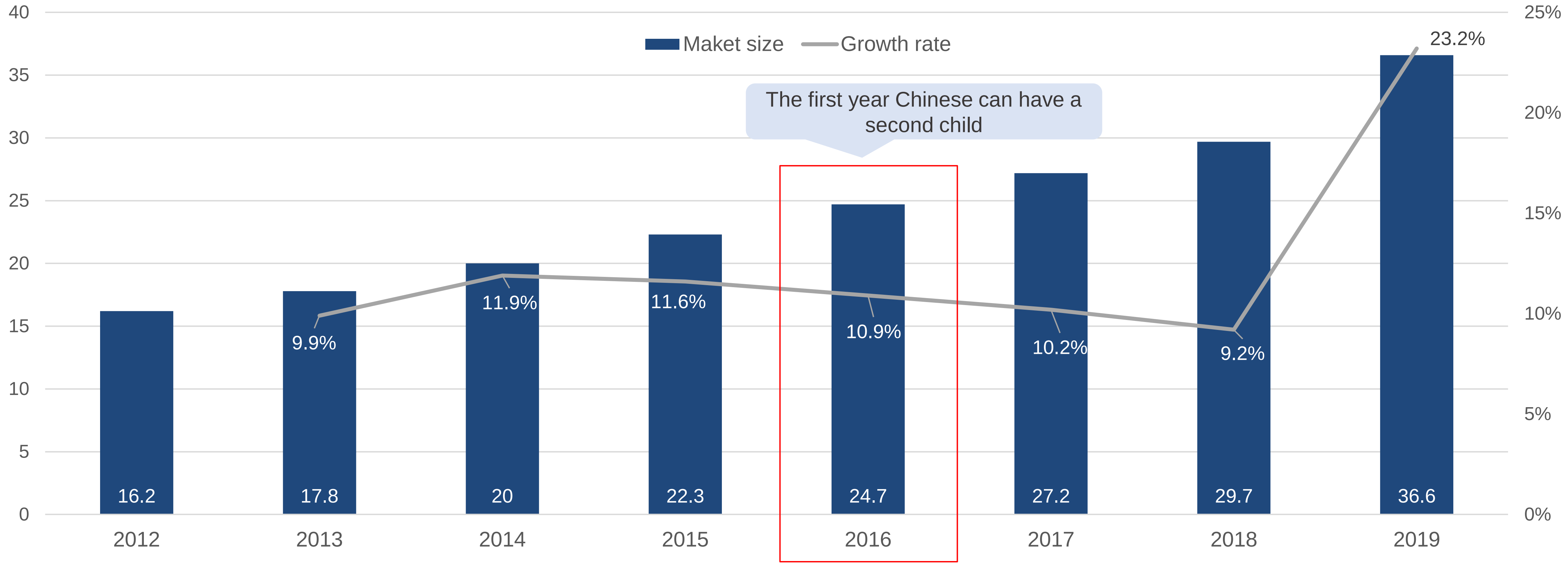
- Lanvin's mainland business grew by more than 200%. Fosun helped it to accelerate digital transformation. Fosun Fashion owned China online streaming and e-commerce advantages.
- Lanvin launched a store on WeChat mini-programs.
- During the 2020 pandemic, Lanvin streamed a runway show using VR technology which had 1 million visitors and reached 126 million potential audience members.

Source: Fosun annual report, Fosun Fashion official website designed by Daxue consulting

Children's wear continues to grow every year

- Members of China's post-90's generation are starting families, causing the demand for children's wear to continuously increase.
- The Chinese government released the two-child policy at the end of 2015. Which gave more room for market growth. In 2019, the market grew 14% from 29.7 billion USD to 36.6 billion USD.

China childrenswear market size
(US$ Billion)

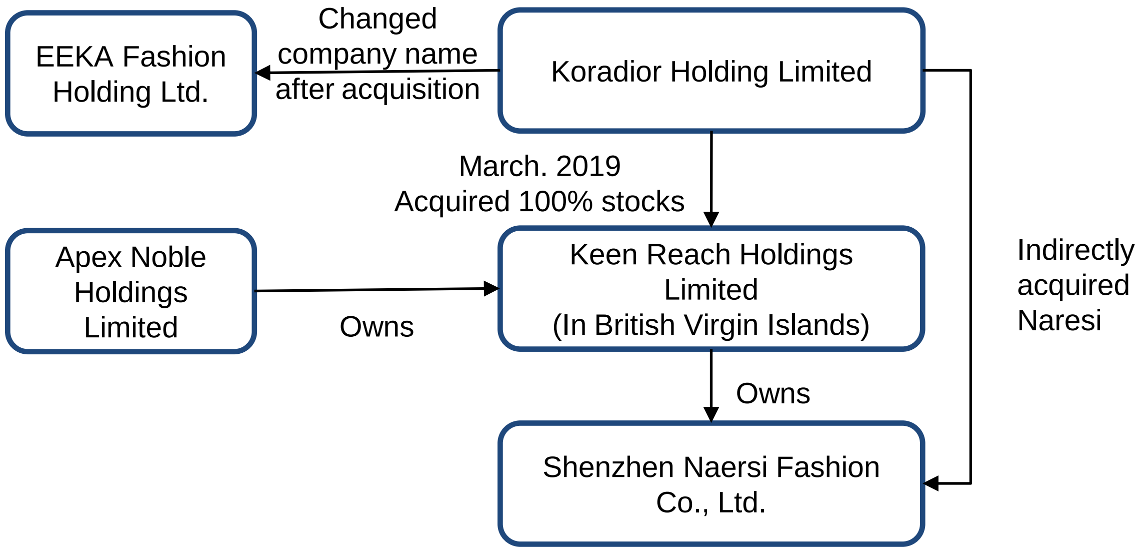


Source: Huano.com (Huano research center), designed by Daxue consulting

daxueconsulting

Case study: Koradior acquired Keen Reach

Continuous expansion of China's consumer goods market, structural adjustment and consumption upgrading make multi-brand operation and development the only way for middle and high-end women's wear brands. Utilizing the existing network and resources of Keen Reach will help Koradior reduce procurement costs.



The Target

Keen Reach

- Investment holding company in the British Virgin Islands, it owns Shenzhen Naersi Fashion Co., Ltd.
- Its brands include Naersi, Nexy.Co and Naersiling.

The Acquirer

Koradior Fashion Co., Ltd.

- A Chinese leading womenswear fashion group
- Net profit $41.7 million in 2018
- Owns fashion brands Koradior, La Koradior, CADIDL, DE KORA

The Acquisition

- In March 2019, Koradior Fashion Co., Ltd. bought all issued share capital of Keen Reach who owned by Apex Noble Holdings Ltd. for $308.3 million.
- After the deal, Koradior Fashion changed company name as EEKA Fashion Holdings Limited.

Acquisition Rationale

- The company owns a womenswear brands matrix as women are the strongest consumer group in fashion.

Post Acquisition

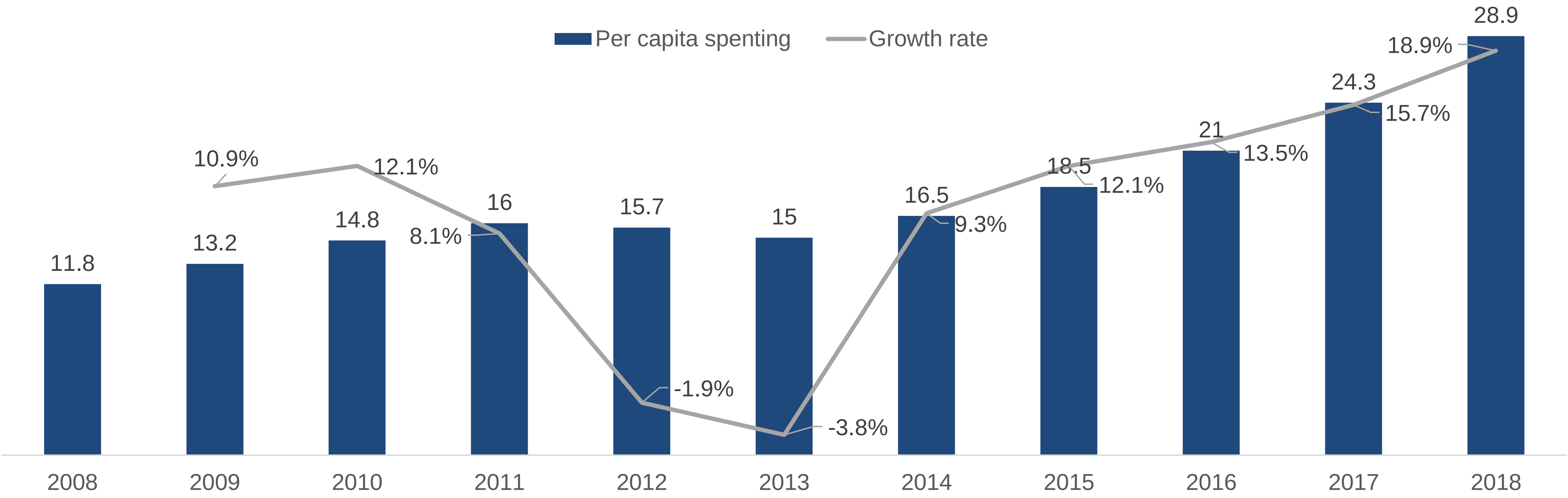
- EEKA Fashion Holdings Limited owns 8 womenswear brands Koradior, La Koradior, Koradior elsewhere, NAERSI, NAERSILING, NEXY.CO, CADIDL, DE KORA, and two Korean agent brands Obzee and O'2nd.
- The renamed company was established in the Cayman Islands.
- In 2020, after the acquisition, EEKA's stock leaped by 52%.
- In H1 2020, EEKA's revenue was $306.9 million, YoY growth 27.6%, net profit was $226.1 million, YoY growth 52.6%. H1 2019 revenue was $204.9 million, net profit was $148.2 million.

Source: Koradior, designed by Daxue consulting

Sportswear entered a stage of rapid development

- The per capita expenditure in China's sportswear market had a fluctuating upward trend in recent years, following the rising demand for fitness and sports in the country.
- However, China's per capita expenditure is still only 2/3rd of the global per capita expenditure, and 1/4th of Japan's, 1/5th of Germany's, 1/6 of the UK's and 1/12th of the US's. Hence, there is huge room for future growth.

China sports wear per capita spending
(US$)



Source: Euromonitor, designed by Daxue consulting

Case study: Anta acquired Amer

Anta group wanted to complete a comprehensive brand upgrade from this acquisition to enhance its international status.

The Acquirer

Anta Sports Products Limited

- The world's third-largest sportswear company by revenue as of 2019
- After this acquisition, Anta owns more than 25 sub-brands

The Target

Amer Sports Oyj

- Finnish sporting goods company
- Including brands Salomon, Arc'teryx, Peak Performance, Atomic, Suunto, Wilson, Precor, Armada, ENVE Composites, Louisville Slugger, DeMarini and Sports Tracker

The Acquisition

- In March 2019, Anta Sports associated with invest financial groups Fountainvest Partners (Tencent joint part), and Anamered Investments Incorporation (hold by Mr. Chip Wilson, the founder of Lululemon) called Mascot Bidco Oy.
- It started with a voluntary proposal to make a public cash offer to acquire **all issued** and outstanding shares of Amer Sports. The offer price per share was **$48.6** in cash, a **43%** premium to its three-month undisturbed volume-weighted average transaction price.
- Finally, Anta dealt **$5.7 billion**, which is Anta's **2 years revenue** ($2.6 billion in 2017).
- After the acquisition, Amer still could keep its individual operation with the CEO Heikki Takala.

Acquisition Rationale

- Anta is a local sports apparel company, their domestic distribution reaches rural cities and villages. Acquiring Amer which supports X-sports could help Anta reach the upper class customers and global market.
- In the meantime, Amer hadn't developed in China's market, which is an extremely profitable area for both Amer and Anta.

Post Acquisition

- On March 26th 2019, Anta reduced holding share of Mascot Bidco Oy from 100% to 57.95%. Adding more capital players, such as FountainVest SPV, and Baseball Investment Limited.
- In 2019, Anta planned Amer future strategy by creating '1 billion Euro brands' (Arc'teryx, Salomon, and Wilson) to realize 1+1>2 effect.
- On Sept, 2020, Arc'teryx opened flagship store at Shanghai.

Source: Anta annual report, designed by Daxue consulting

Case study: Gangtai group acquired Buccellati

Gangtai group will use its strong capital strength and appeal in the Chinese consumer market to help Buccellati upgrade and further improve its strategic layout of global expansion.

The Acquisition

In 2017, Gangtai successfully defeated Richmond, Valentino, and Mayhoola, acquiring 85% shares of luxury jewelry brand from post holder Clessidra, Buccellati with $236.4 million (Buccellati market value $278.1 million in 2017) by promising to help the brand open 88 boutiques over world and to invest $241.9 million.

The Acquirer

Gangtai Group

- Involved in real estate, mining and jewelry
- In 2019, broke capital chain and defaulted $66.9 million

The Target

Buccellati

- Italian fine jewelry brand founded in 1919
- Owned by Buccellati family, Clessidra, Gangtai Group respectively
- Currently held by Richmont Group

Acquisition Rationale

- For Gangtai, the company can get in the luxury jewelry industry and the European market directly after acquisition.
- For Buccellati, Gangtai drew a promising blueprint for the unexplored Chinese market. Held by the largest China jewelry company, the deal gave the brand as much possible room to develop, which other buyers could not offer.

Post Acquisition

- Since Gangtai announced bankruptcy in 2019, it was forced to sell Buccellati. However, Gangtai drew a wonderful blueprint for both Buccellati and itself.
- In November 2017, Gangtai helped Buccellati open the first China flagship store in the Shanghai Henglong shopping mall, which is also the headquarters of LVMH China branch. Gangtai planned a China market strategy for Buccellati, extended perfume and watch lines, and designed more entry-luxury priced jewelry for Chinese customers.
- In 2019, the brand peacefully transferred to Richmont group, the most experienced luxury jewelry group in the world who just bought Net-a-porter, a global luxury e-commerce platform, it can help the 100 year old jewelry brand shared its gorgeous products in all of corners in the world.

Source: Jingdaily, designed by Daxue consulting

ABOUT

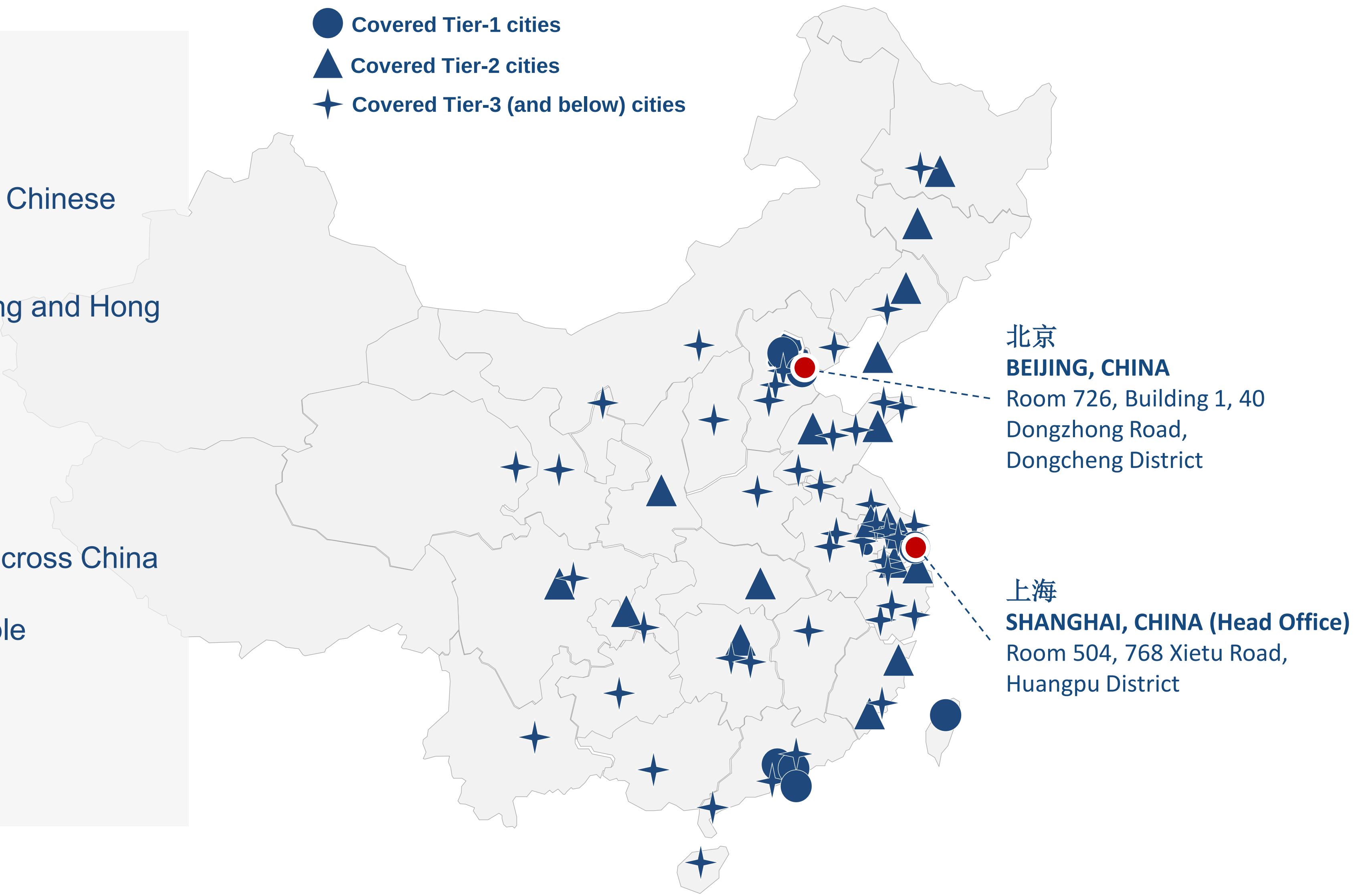
daxueconsulting
beijing shanghai

Who we are

Your Market Research Company in China

We are **daxue consulting**:

- A market research firm specializing on the Chinese market since 2010
- With 3 offices in China: in Shanghai, Beijing and Hong Kong
- Employing 40+ full-time consultants
- Full, complete, national coverage
- Efficient and reliable fieldwork execution across China
- Using our expertise to draw precise, reliable recommendations
- With key accounts from around the world



daxueconsulting

Our past and current clients

350+ clients with 600+ projects for the past 7 years

A recognized expertise on the Chinese market

Regularly featured and quoted in global publications

Daxue latest quotations in recent publications

WeChat

To get weekly China market insights, follow our WeChat account

LinkedIn

https://www.linkedin.com/company/daxue-consulting

Newsletter

https://daxueconsulting.com/newsletter-2/