

Quarterly Review

China Mergers & Acquisitions

季度回顾 · 中国并购

Q2 2020

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Market Trends

During Q2 2020, the global economy experienced a general slowdown across most markets. Trade tensions between the U.S. and China continue to put pressure on export-reliant countries. Low oil prices reinforce downward pressure on inflation. Germany and the Euro-area countries face headwinds of an economic slowdown, in part due to reduced trading with China. The COVID-19 pandemic caused significant drop-offs in business activity in both developed and developing economies.

Emerging markets in Latin America, Africa and Southeast Asia generally observed slower economic growth in Q2 2020 on par with global economic indicators.

In the United States, the effects of the COVID-19 pandemic weighed on the economy in Q2 2020, contributing to diminished consumer demand, an increase in corporate defaults and a reduction in general business activity.

Elevated asset prices and tighter credit spreads generally sustain mergers and acquisition activity in China. At the same time, domestic regulatory

developments and adverse macro-political dislocations can reduce China's M&A volume, including both intra-China M&A transactions and cross-border M&A transactions possessing a commercial nexus to China.

Heightened volatility in China's financial and capital markets—coupled with ongoing trade tensions between the United States and China—continue to contribute to uncertainty among North American multi-national companies and private investment firms in terms of assessing cross-border M&A transactions with a nexus to China.

M&A Recap

China M&A activity offered a mixed picture in Q2 2020. China M&A activity experienced increases in outbound China M&A, while inbound China M&A decreased. Intra China M&A experienced an increase in aggregate deal value and deal volume. The number of private equity investments in China similarly decreased in Q2 2020, relative to Q2 2019 buyout activity in China.

Intra-China M&A deals in Q2 2020 increased approximately 31% in volume and approximately 21% in deal value relative to Q2 2019.

Outbound China M&A transactions in Q2 2020 increased approximately 10% and aggregate deal value fell 8% relative to outbound M&A activity in Q2 2019. Inbound China M&A transactions in Q2 2020 fell 18% and aggregate deal value climbed 168% relative to inbound M&A activity in Q2 2019.¹

Inbound China private equity deal transactions and aggregate deal value fell 26% and 38%, respectively, relative to Q2 2019.

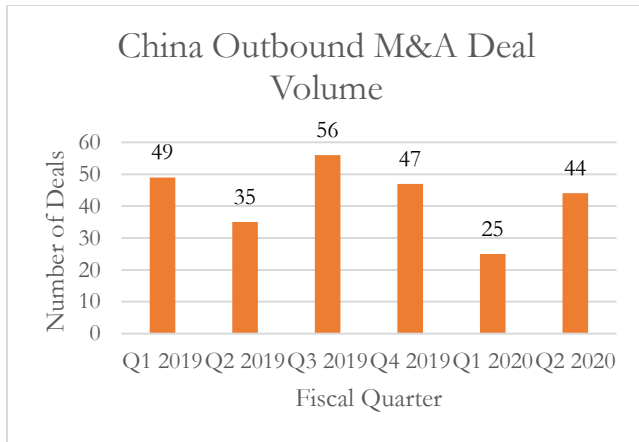
Target EV/EBITDA valuations in China M&A transactions increased by 1% in Q2 2020, relative to Q2 2019.

Q2 2020 China M&A transactions materialized across major industry verticals in the region, particularly within real estate, manufacturing and distribution, healthcare, finance technology, and industrials. These M&A transactions generally reflected buyers' appetite for attractively valued assets and businesses that are fundamental to core infrastructure.

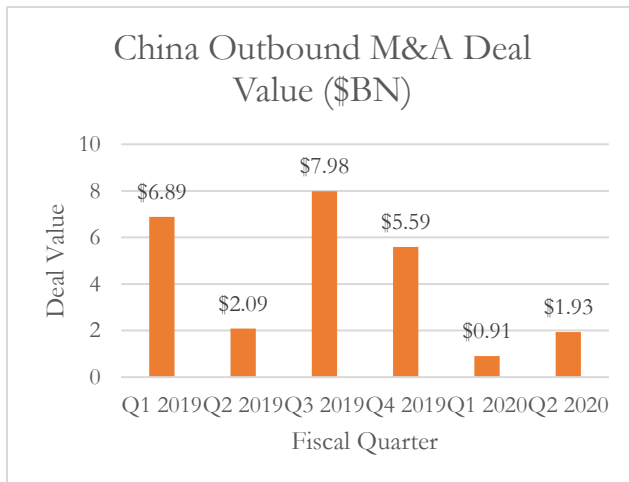
¹ MERGERMARKET

Deal Volume

Outbound China M&A transactions in Q2 2020 totaled 44, representing an increase of approximately 26% relative to the number of outbound transactions (35) in Q2 2019.



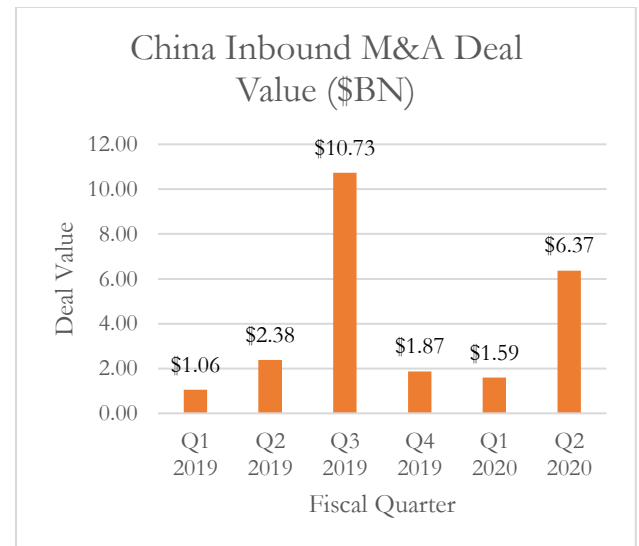
Outbound China M&A value totaled US\$1.93BN, representing a decrease of approximately 8% relative to the value of outbound transactions (US\$2.09BN) in Q2 2019.²



Inbound China M&A transactions in Q2 2020 totaled 33 representing a decrease of approximately 18% relative to the number of inbound transactions (40) in Q2 2019.



Inbound China M&A value totaled US\$6.37BN, representing an increase of approximately 168% relative to the value of inbound transactions (US\$3.38BN) in Q2 2019.³



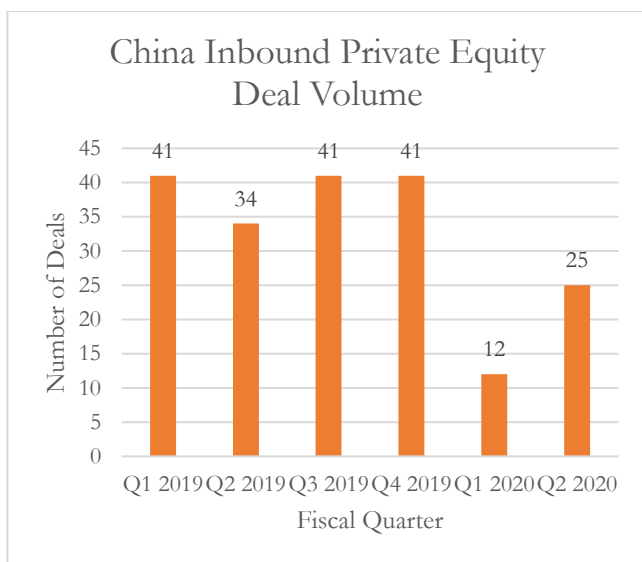
In Q2 2020, 286 deals materialized in domestic China M&A, amounting to an aggregate deal value of US\$23.27BN. Average adjusted enterprise value/EBITDA was 26x. The same period in 2019 observed 219 announced deals for a total deal value of US\$20.05BN, with an average adjusted enterprise value/EBITDA of 8.8x.

Total China and Hong Kong M&A transactions in Q2 2020 amounted to 770 deals for an aggregate deal volume of US\$56.09 billion. This represents a meaningful increase over levels observed in Q2

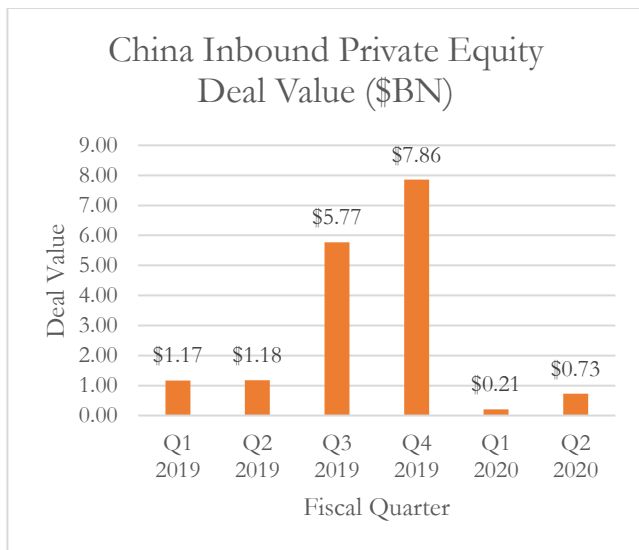
² Ibid.
³ Ibid.

2019, when China and Hong Kong M&A transactions totaled 588, amounting to an aggregate deal volume of US\$37.01BN, representing a 31% increase in deal volume and a 52% increase in deal value.

Finally, cross-border private equity with China also observed fewer transactions and a larger aggregate deal value relative levels in Q2 2019.



In Q2 2020, 25 inbound private equity deals materialized, representing a 26% decline (9 deals) relative to Q2 2019 for an aggregate deal value of US\$0.73BN.



Total inbound private equity deal value amounted to US\$0.73BN, representing an increase of 38% (US\$0.45BN) relative to Q2 2019.

Notable Transactions

Notable China M&A transactions in Q2 2020 include the following:

On June 22, 2020, China Maple Leaf Educational Systems Ltd agreed to acquire Canadian International School Pte Ltd, a portfolio company of Southern Capital Group Pte Ltd and Headland Capital Partners Ltd for SGD680 million (US\$487.1 million). The transaction expands the footprint of China Maple Leaf Educational Systems Ltd internationally. Canadian International School Pte Ltd is located in Central Singapore and provides educational courses and services.

Announced on June 15, 2020, a private investment group led by Warburg Pincus Asia LLC, General Atlantic Singapore Fund Pte Ltd, Shanghai Ocean Link Investment Management Co Ltd, Mr. Jinbo Yao, chairman and CEO of 58.com Inc., and Internet Opportunity Fund LP, entered into a definitive agreement to acquire the remaining 85% stake not yet owned in 58.com Inc. for RMB51 billion (US\$7.2 billion) in cash.

On June 12, 2020, Zijin Mining Group Co Ltd acquired Guyana Goldfields Inc for CAD322.9 million (US\$238.3 million) in cash. Zijin Mining Group Co Ltd offers CAD1.85 (US\$1.3715) per share in Guyana Goldfields Inc, representing a premium of approximately 35% to the offer under the Silvercorp Arrangement Agreement. On June 3, 2020, Guyana Goldfields Inc announced that it had received a binding proposal to be acquired by a foreign mining company for CAD322 million (US\$239.42 million) in cash by way of a plan of arrangement.

Beijing Kangchen Biological Technology Co Ltd, a subsidiary of Beijing Konruns Pharmaceutical Co Ltd, acquired NT Pharma International Ltd from NT Pharma Overseas Holding Co Ltd, owned by China NT Pharma Group Co Ltd, for HKD984 million (US\$127 million) in cash. The acquisition enhances Beijing Kangchen Biological Technology's existing business. Founded in 2015, NT Pharma International Ltd is based in Hong Kong and engages in pharmaceutical preparations.

In April 2020, Linen Investment Ltd, a subsidiary of Tencent Holdings Ltd, acquired an additional 7.5% minority stake in HUYA Inc from JOYY Inc for RMB1.9 billion (US\$262.6 million) in cash. Following

the transaction, Tencent Holdings Ltd held a 36.9% stake in HUYA Inc. HUYA Inc is based in Guangzhou, China and develops live streaming platforms.

On May 26, 2020, Genesis Medtech Investment (HK) Ltd acquired an 80% majority stake in Minitech Medical (Jiangsu) Ltd from Livzon Pharmaceutical Group Inc (19.99%), Zijin Zhonghao Zhejiang Investment Co Ltd (17.73%), Yu Yong Yi (17.6%), Wu Guang Ming (8.33%) and other shareholders (16.35%) for RMB637.4 million (US\$89.3 million) in cash. Livzon Pharmaceutical Group will sell its 19.99% minority stake for RMB121.5 million (US\$17 million) in cash. Founded in 2011, Minitech Medical (Jiangsu) Ltd is based in Wuxi, Jiangsu, China and manufactures medical devices.

On May 29, 2020, Spectron Enterprises Ltd, a subsidiary of CIFI Holdings (Group) Co Ltd, acquired an additional 5% minority stake in Ever Sunshine Lifestyle Services Group Ltd from Elite Force Development Ltd for RMB722.8 million (US\$101 million) in cash.