

Quarterly Review

China Mergers & Acquisitions

季度回顾 · 中国并购

Q4 2019

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Market Trends

During Q4 2019, the global economy experienced a general slowdown across major markets. Trade tensions between the United States and China continued to exert pressure on export-reliant countries. Low oil prices reinforced downward pressure on inflation. Germany and the Euro-area countries faced headwinds of an economic slowdown, in part due to reduced trading with China. Meanwhile, economic growth in the U.K. hinged on successful implementation of economic policy following Brexit negotiations.

Emerging markets in Latin America, Africa and Southeast Asia generally observed slower economic growth in Q4 2019, on par with global economic indicators.

In the United States, the economic recovery continued into its tenth year, with robust growth levels observed in Q4 2019 across major macroeconomic indicators. Consumer spending increased steadily during Q4 2019 along with total personal income.

Elevated asset prices and tighter credit spreads generally sustain mergers and acquisitions 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 decreased significantly in Q4 2019, relative to Q4 2018, in both overall deal volume and aggregate deal value. China M&A activity experienced reductions in both inbound and outbound China M&A. Intra-China M&A experienced a significant decrease in aggregate deal value, while the number of transactions remain robust. The number of private equity investments in China similarly decreased in Q4 2019, relative to Q4 2018 buyout levels.

Intra-China M&A deals in Q4 2019 increased approximately 5% in volume and decreased approximately 29% in value relative to Q4 2018. Average adjusted enterprise value/EBITDA decreased from 16.8x in Q4 2018 to 10.7x in Q4 2019, representing a 36% decrease.

Outbound China M&A transactions in Q4 2019 decreased approximately 10% and value fell 56% relative to outbound M&A activity in Q4 2018. Inbound China M&A transactions in Q4 2019 fell 14% and value declined 55% relative to inbound M&A activity in Q4 2018.¹

Inbound China private equity deal transactions fell 13% and aggregate deal values grew 62% relative to Q4 2018. Target EV/EBITDA valuations in China M&A transactions decreased by 80% in Q4 2019, relative to Q4 2018.

Q4 2019 China M&A transactions materialized across major industry verticals in the region, particularly within real estate, manufacturing and distribution, healthcare, finance technology and industrials. China

¹ MERGERMARKET

M&A transactions generally reflected buyers' appetite for attractively valued assets and businesses that are linked to core infrastructure initiatives in China.

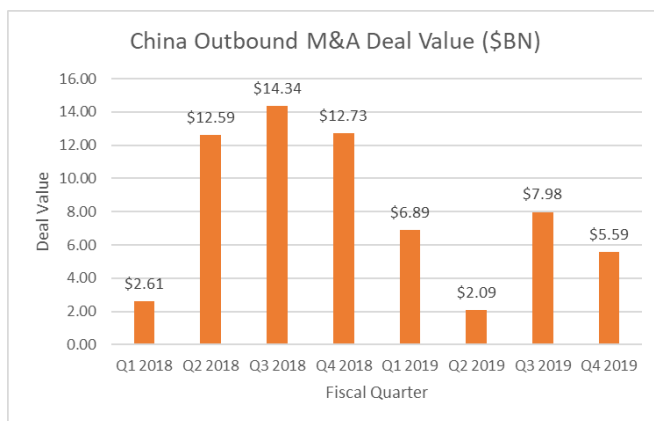
Deal Volume

In China, overall M&A deal volume and aggregate M&A deal value decreased in Q4 2019, relative to Q4 2018 levels.

Outbound China M&A transactions in Q4 2019 totaled 47, representing a 10% decrease relative to the number of outbound transactions (52) during Q4 2018.

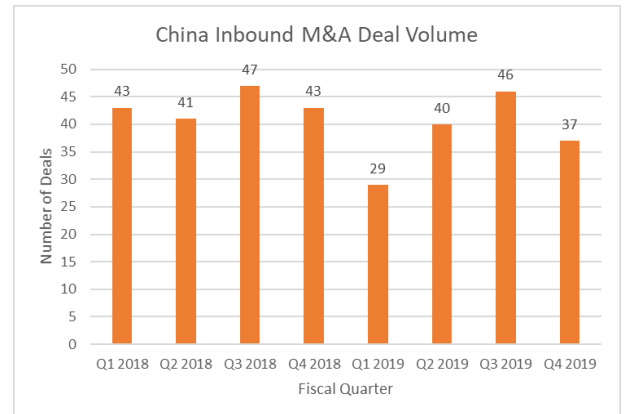


Outbound China M&A value totaled US\$5.6BN, representing a 56% decrease relative to the value of outbound transactions (US\$12.7BN) during Q4 2018.²

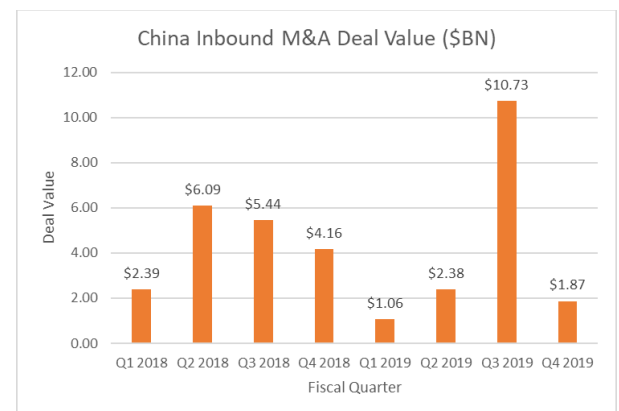


Inbound China M&A transactions in Q4 2019 totaled 437, representing a decrease of approximately

14% relative to the number of inbound transactions (43) in Q4 2018.



Inbound China M&A value totaled US\$1.9BN, representing a decrease of approximately 55% relative to the value of inbound transactions (US\$4.2BN) in Q4 2018.³



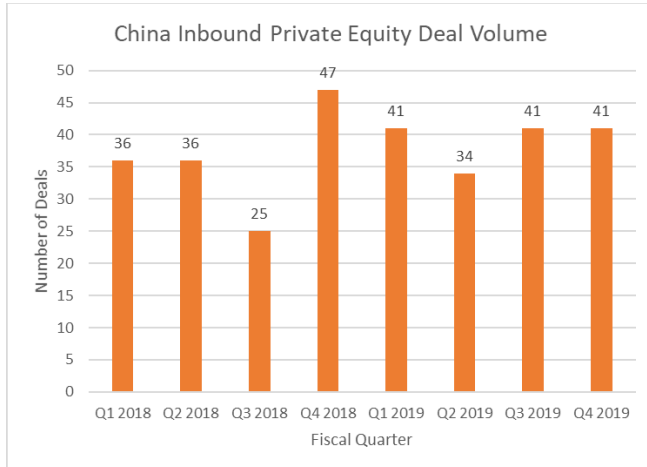
In Q4 2019, 385 deals materialized in domestic China M&A for a total deal value of US\$19.4BN. Average adjusted enterprise value/EBITDA was approximately 10.7x. The same period in 2018 observed 365 deals for a total deal value of US\$27.3BN.

In Q4 2019, 964 M&A transactions materialized in Greater China and Hong Kong, for a total deal volume of US\$59.7BN, representing a 2% increase in deal volume and a 38% decrease in deal value compared to levels observed in Q4 2018.

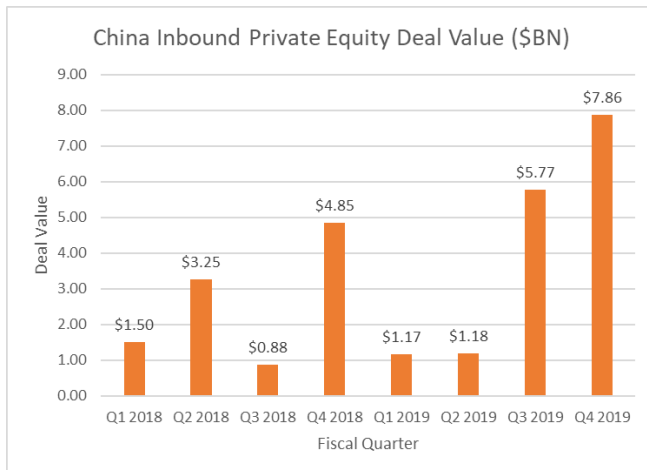
Finally, cross-border private equity in China also experienced fewer transactions and a larger aggregate deal value relative to Q4 2018.

² Ibid.

³ Ibid.



In Q4 2019, there were 41 inbound private equity deals in China, representing a 13% decline (6 deals) relative to Q4 2018 for a total deal value of US\$7.9BN.



Total deal value was US\$7.9BN, representing an increase of 62% (US\$3.0BN) relative to Q4 2018.

Notable Transactions

China’s long-term domestic commercial strategy is a key driver for M&A activity in the region. In conjunction with its “Made in China 2025” initiative (中国制造 2025 年, *zhongguo zhi zao 2025 nian*), the Chinese government has formally implemented a policy of committing resources and personnel in order to boost China’s capabilities in 10 important industries: electric cars (电动汽车, *diandong qiche*), information technology (信息技术, *xinxi jishu*), artificial intelligence (人工智能, *rengong jineng*), agricultural technology (农业技术, *nongye jishu*),

aerospace engineering (航空航天工程, *hangkong hangtian gongcheng*), new synthetic materials (新型合成材料, *xinxing hecheng cailiao*), biomedicine (生物医药, *shengwu yiyao*), advanced electrical equipment (先进电气设备, *xianjin dianqi shebei*), high-end rail infrastructure (高端铁路基础设施, *gaoduan tielujichu sheshi*) and high-tech maritime engineering (高科技海事工程, *gao keji haishi gongcheng*).⁴

Notable transactions during Q4 2019 include the following:

On October 29, 2019, Hillhouse Capital announced that its investment fund successfully bid to acquire a 15% stake in Gree Electric Appliances Inc. for US\$5.6BN. Gree Electric Appliances Inc. is China’s largest manufacture of air conditioners.

On December 20, 2019, Pacific Green Technologies Inc acquired China-based Shanghai Engin Digital Technology Co. Ltd (“ENGIN”) for US\$11.5M. ENGIN is a development, design and engineering company focused primarily on concentrated solar power, salt water desalination and waste-to-energy technologies. Pacific Green consummated the acquisition in two steps: first, its 75% stake-build in the company, acquiring the stake from Beijing Shouhang Resources Saving Technology Company Ltd.; second, an acquisition of the remaining 25% stake from investors Liu Tao and Liang Qi for RMB 2M.

On December 12, 2009, EdTechX Holdings, a London-based special purpose acquisition company, agreed to acquire and merge for astock consideration of approximately US\$607.6M with Meten Education, a China-based company that offers English language-learning services for students and professionals. The combined entity will operate as Meten EdtechX Education Group Ltd.

On December 31, 2019, Ascential, the specialist global information company, announced plans to acquire Yimian Data, a leading AI-powered digital commerce data solutions provider in China, for US\$38.7M.

On November 1, 2019, Wealthbridge Acquisition Limited announced that it entered into a definitive agreement to acquire and merge for approximately US\$170.8 million with Scienjoy Inc., a leading live entertainment mobile streaming platform in China.

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⁴ J. McBride and A. Chatzky, *Is ‘Made in China 2026’ a Threat to Global Trade?*, COUNCILONFOREIGNRELATIONS (Mar. 17, 2019), <https://www.cfr.org/background/made-china-2025-threat-global-trade>