

Oaklins

Voice from China

Update on the
M&A market in China

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ANGELA CHEN

Principal

Shanghai, China

T: +86 21 5012 0990

a.chen@hfg.oaklins.com



Introduction

China closed out the Year of the Ox exceeding expectations with GDP growth of 8.1% for the year.

But with Q3 and Q4 2021 growth down to 4.9% and 4% respectively, the Year of the Tiger has not started with a roar. Main Street expectations are for GDP growth of around 5% due to concerns over a slowdown of:

1) the real estate industry, one of the main drivers of China's GDP growth; 2) domestic consumption, caused by travel restrictions; as well as 3) exports, with supply chains recovering from the pandemic in other countries.

We would expect China's GDP growth in 2022 to move in two directions from 5%.

GDP growth may move in a positive direction if the COVID pandemic is controlled and normalized in 2H 2022, and effective results are achieved with

the government's positive fiscal policy and the RCEP (regional comprehensive economic partnership).

However, it may move in a negative direction if the Omicron situation worsens and the Chinese government continues its net-zero COVID policy. Domestic demand will be further inhibited and the supply chain disrupted.

2021 was also a better-than-expected year for the cross-border M&A market. Deal values for inbound M&A soared by 90.1% over 2020, while outbound deal values rose by a strong but more sedate 60.6% year-on-year. We anticipate that both in- and outbound M&A will continue to grow at a pace similar to that of last year, barring extreme circumstances such as a worsening of the pandemic.

We expect outbound M&A to continue growing this year as a result of several factors. These include:

- The Q1 interest rate cuts by the People's Bank of China, which will likely free up more capital for outbound transactions;
- Greater participation by China's private equity firms in M&A-related activities. During the first three quarters of 2021, these firms were responsible for roughly half of all outbound transactions where the deal size exceeded US\$500 million;
- The possibility that the government will ease up on its net-zero COVID policy, which would remove travel restrictions and other hurdles for potential transactions.

With the Chinese government's favorable policies for encouraging foreign investment and the motivation for multinationals to look into the world's second-largest economy to buttress their growth, we also anticipate that the volume of inbound transactions will continue to rise in 2022.

CHINA'S CHANGING GROWTH STRATEGY

The Year of the Tiger falls at the midpoint of China's 14th Five-Year Plan (FYP), which began in 2020. The plan de-emphasizes traditional drivers of the

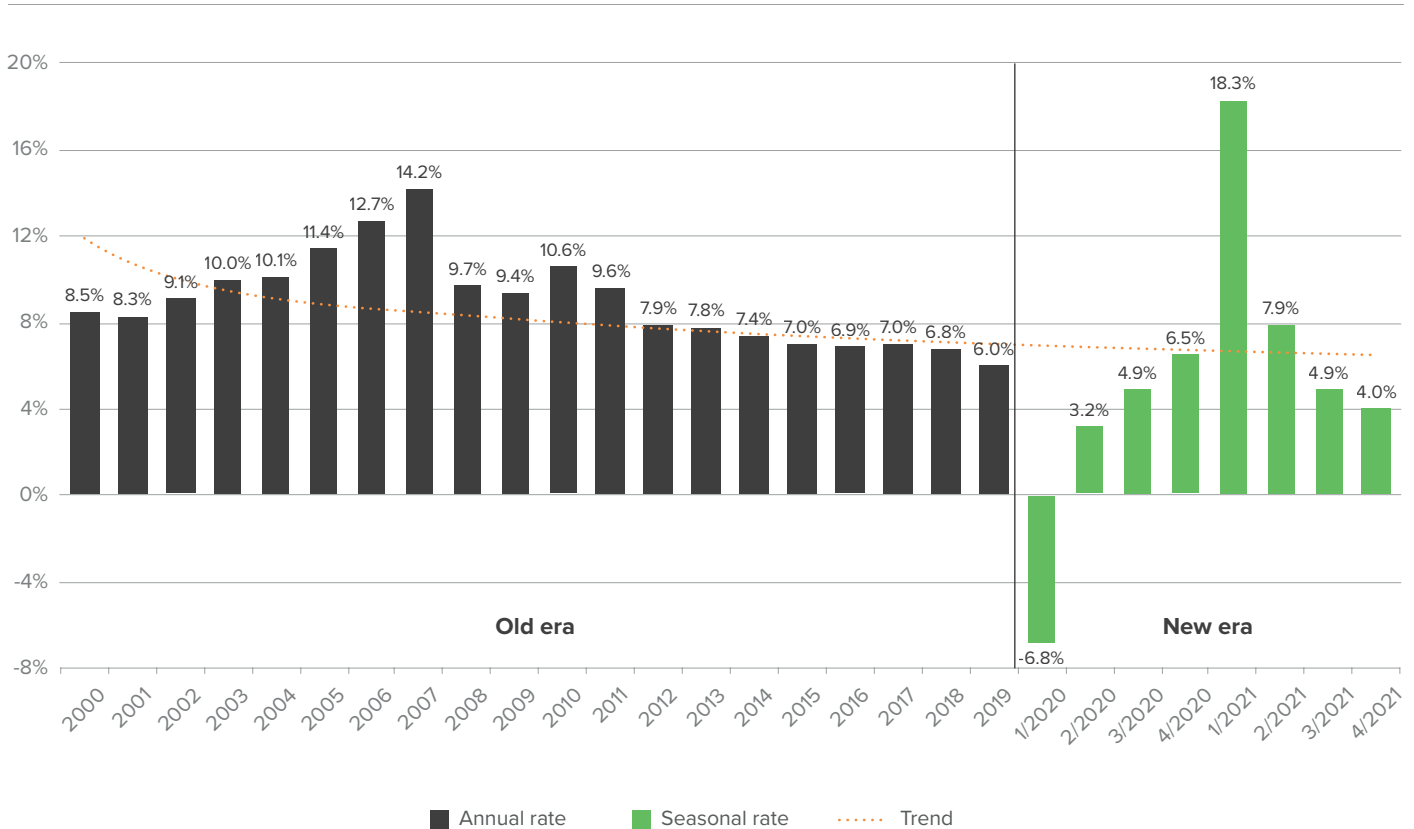
Chinese economy, such as real estate and e-commerce, in favor of high-tech industries and industries that support the government's goals for carbon-neutral growth (see table below). While real estate alone was responsible for 14.5% of GDP in 2020, the hope is

that the new industrial priorities will make China less dependent on foreign suppliers for critical components and give its international competitiveness a significant boost.

China's GDP: Major Sources of Growth

Leading GDP Contributors pre-2020	Representative Companies	Related Policies
Real estate	<ul style="list-style-type: none"> – Evergrande Group – Greenland Holding – Vanke Co., Ltd. 	Notice by the People's Bank of China of Real Estate Loans for Banking Financial Institutions, which established funding thresholds for real estate developers and consumers.
E-commerce	<ul style="list-style-type: none"> – Alibaba Group – Tencent Holdings – NetEase Inc. – Meituan Inc. 	Anti-monopoly rules issued by the State Administration for Market Regulation (SAMR).
Fossil fuel-based energy	<ul style="list-style-type: none"> – China Huaneng Group Co., Ltd. – China Petroleum & Chemical Corporation (Sinopec) 	China's 13 th Five-Year Plan for Ecological & Environmental Protection (2016-2020).
K-12 education	<ul style="list-style-type: none"> – New Oriental Education & Technology Group Inc. – TAL Education Group – Hailiang Education Group Inc. 	Opinions on Further Reducing the Burden of Homework and Off-Campus Training for Compulsory Education Students, which prohibited for-profit training institutions from targeting K-12 students.
Carbon-neutral energy	<ul style="list-style-type: none"> – China Three Gorges Corporation – Xpeng Motors – JinkoSolar Holding Co., Ltd. 	<p>President Xi Jinping's September 2020 announcement at the general debate of the 75th session of the United Nations General Assembly that China is aiming to cap CO₂ emissions by 2030 and achieve carbon neutrality by 2060.</p> <p>The 13th Renewable Energy Development Five-Year Plan (2016–2020).</p> <p>The low carbon objectives included in the 14th Five-Year Plan.</p>
High-tech industries	<ul style="list-style-type: none"> – Huawei Technologies Co., Ltd – Semiconductor Manufacturing International Corporation 	<p>President Xi's May 2021 address to the Chinese Academy of Sciences, the Chinese Academy of Engineering and the National Congress of the China Association for Science and Technology on achieving greater self-reliance in science and technology.</p> <p>"Made in China 2025" — a set of government policies aimed at reducing China's dependence on foreign technology by promoting Chinese development and manufacturing of high-tech products.</p>

China 2000–2021 GDP Growth Rate



Source: National Bureau of Statistics

M&A PROSPECTS IN THE YEAR OF THE TIGER

A looser monetary policy together with new sources of capital should help stimulate M&A activity in this Tiger Year.

We expect outbound M&A to accelerate with the widely anticipated loosening of travel restrictions and the launch of a new special purpose acquisition company (SPAC) on the Hong Kong Stock Exchange (SEHK). Other new sources of M&A investment include new buy-out funds, corporate venture capital (CVC) and commercial banks. Likely targets will be companies in sectors that align with the goals of the

14th FYP, although these will be subject to the various restrictions put in place by different countries.

In line with this, we anticipate that more outbound acquisitions will be initiated by private equity firms during the next few years, and that many of these will be leveraged buy-outs. A recent example of this is Primavera Capital's purchase of infant formula-maker Mead Johnson Nutrition in June 2021 for US\$2.2 billion. The deal was financed by a seven-year loan from China Merchants Bank at a leverage ratio between six and seven.

Despite the pandemic and growing geopolitical tensions, foreign direct

investment in China continued to increase in 2021 compared with the year before. Multinationals appear to be doubling down on China and its large population — especially those in the finance, consumer and manufacturing sectors. An example is DuPont de Nemours Inc.'s recent investment in China's Laird Performance Materials, which supplies high-performance thermal interface solutions.

But there is also a countertrend, as some multinationals have quit China due to rising labor costs and other concerns. A well-known example is Samsung and its divestiture of its LCD business in 2020.

Recent M&A activity

Specifics for 164 inbound acquisitions of Chinese companies were disclosed in 2021, a year-on-year increase of 17.2%. During the same period, 225 outbound acquisitions by Chinese companies were disclosed, signifying an 8.8% year-on-year decline.

Inbound M&A

	2021
Number of Deals	280
Change YoY	17.2%
Deal Value (US\$m)	39,769.65
Deal Value Change YoY	90.1%

As noted earlier, inbound deal value increased in 2021 by a remarkable 90.1% over 2020. This huge rise was mainly due to DuPont de Nemours, acquisition of Laird Performance Materials last March for around US\$2.3 billion year.

Outbound M&A

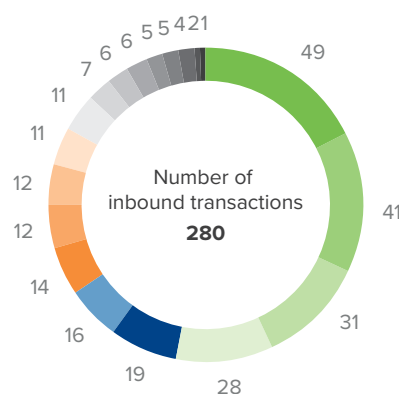
	2021
Number of Deals	374
Change YoY	-8.8%
Deal Value (US\$m)	57,010.45
Deal Value Change YoY	60.6%

Deal value for outbound M&A also grew at a very healthy rate — 60.6% compared with the previous year.

INBOUND M&A BY SECTOR

The most popular sectors for inbound transactions were finance (17.5% of all deals) and technology services (14.6% of the inbound deal total).

Inbound transactions by sector

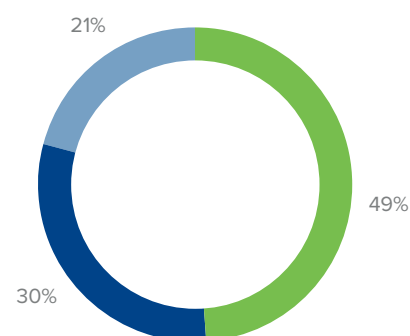


- Finance
- Technology Services
- Commercial Services
- Producer Manufacturing
- Distribution Services
- Process Industries
- Transportation
- Consumer Services
- Electronic Technology
- Consumer Non-Durables
- Health Technology
- Industrial Services
- Consumer Durables
- Utilities
- Health Services
- Retail Trade
- Non-Energy Minerals
- Communications
- Miscellaneous

INBOUND M&A BY REGION

During this period, acquirors from Europe closed the largest number of inbound deals (48.9%), followed by Asia Pacific (30.4%) and North America (20.7%).

Inbound transactions by acquiror region



- Europe
- Asia Pacific
- USA and Canada

Transaction values for 2021's 164 inbound transactions

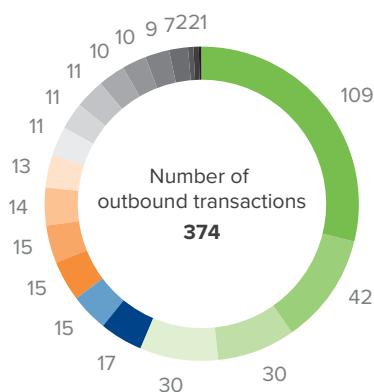
Transaction size (US\$m)	Number of transactions
<50	100
50-100	15
>100	49

Source: Factset M&A database

OUTBOUND M&A BY SECTOR

The pattern was similar for Chinese outbound transactions, with the lion's share (41.1%) taking place in the finance sector, followed by technology services (15.8%).

Outbound transactions by sector

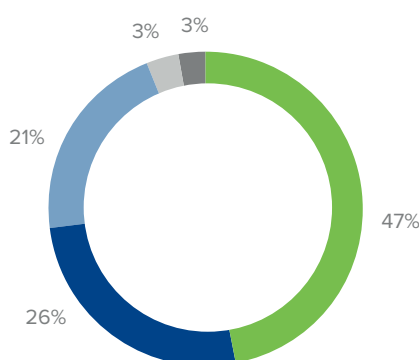


- Finance
- Technology Services
- Commercial Services
- Producer Manufacturing
- Health Technology
- Consumer Services
- Health Services
- Non-Energy Minerals
- Electronic Technology
- Consumer Durables
- Distribution Services
- Process Industries
- Transportation
- Consumer Non-Durables
- Retail Trade
- Utilities
- Industrial Services
- Energy Minerals
- Miscellaneous
- Communications

OUTBOUND M&A BY REGION

The largest number of outbound transactions took place in Europe (47.0%), followed by Asia Pacific (26.1%), and North America (21.0%).

Outbound transactions by target region



- Europe
- Asia Pacific
- USA and Canada
- Africa
- Latin America and Caribbean

Transaction values for 2021's 225 outbound transactions

Transaction size (US\$m)	Number of transactions
<50	123
50-100	27
>100	75

Source: Factset M&A database

Note: Chinese transaction totals are for mainland China, Hong Kong, Macau and Taiwan; both completed and pending transactions are included.

Spotlight on the **Technical Textile Sector**

Technical textiles (TT) are defined as textile materials and products used primarily for their technical performance and functional properties rather than their esthetic or decorative characteristics. As of 2020, the global market for TT was estimated to be around US\$265 billion, with an expected CAGR of 4% between 2018 and 2025.

In China, technical textiles are better known as industrial textiles and represent a relatively new industrial sector. Compared with clothing textiles and home textiles, where China already holds a dominant share of the world's market, the country's share of the TT sector was US\$50 billion in 2020, only a 19% share of the global total.

Viewed as strategically important by the Chinese government, the TT sector is comprised of 16 different applications or sub-sectors, the largest of which is medical and hygiene (representing 22% of the total in 2020, up from 11% in 2019 before the pandemic began), followed by tarpaulin and canvas (14% of the total).

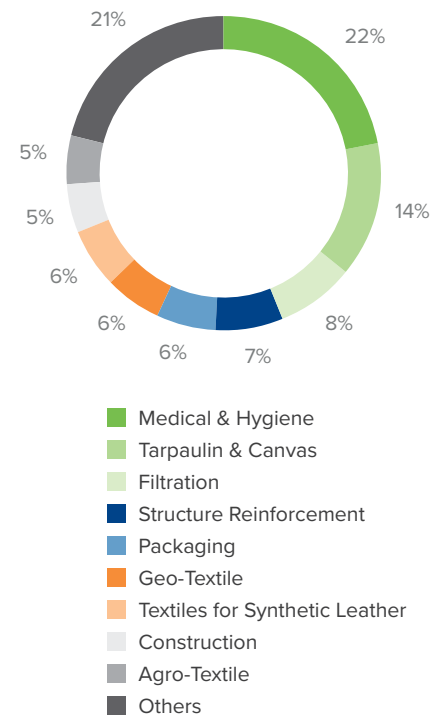
The TT sector can also be divided into two distinct segments based on how the materials are produced. These are referred to as woven and nonwoven. The nonwoven segment predominates with many premium products and a production process that is easier to scale. But woven products require less capital to produce, provide better tear strength and are more readily customized.

In the nonwoven segment, over the past decade giant multinationals like the Freudenberg Group and Berry Global Inc. have been seeking to consolidate the market through mergers and acquisitions. In the woven segment, where the cost of market entry is lower and pricing pressure is greater, production has been migrating to lower-cost regions and this has been a major driver of M&A activity.

In China, the TT sector remains highly fragmented, with large public companies mostly active in the medical and hygiene sector. Compared to the global market, where there have been a great many transactions, Chinese M&A activity has been relatively muted. As this sector continues to grow, however, we expect an upswell of transactions on the part of both local Chinese companies and multinationals attempting to expand their presence in the Chinese market. These deals will be characterized by:

1. Large Chinese textile groups seeking entry into the faster-growing TT sector.
2. Attempts to achieve a cost advantage through economies of scale, leading to greater industry consolidation.
3. Chinese players looking to purchase US and European competitors for their know-how.
4. Multinationals seeking to expand their production capacity and secure a greater share of the Chinese market.

Technical textile applications (2020)



CASE STUDIES

JOFO Nonwoven

In May 2020, JOFO Nonwoven Ltd. acquired the PFN Nonwovens Group's production plant in Wuxi, China for an undisclosed amount.

Fast-growing JOFO is one of China's leading producers of nonwovens for hygiene and industrial applications, and its purchase of the PFN plant gave it entry into the rapidly expanding medical sector.

PFN is a global producer of nonwoven textiles with operations in Europe, the USA and Africa. Following the transaction, it continues to supply nonwovens to retail and healthcare customers worldwide for absorbent hygiene applications, including premium infant care, adult incontinence, feminine hygiene and medical protective products.

Freudenberg

In April 2019, Freudenberg Group acquired 75% of Apollo Air-Cleaner Co., Ltd. to complement Freudenberg's portfolio of filtration solutions for indoor air and water purification. The value of the transaction was not disclosed.

Apollo is a leading Chinese provider of air and water filtration solutions with extensive production expertise and strong industry networks. Prior to the transaction, Apollo was established and wholly-owned by Apollo Trading Corporation, a Japan-China trading and manufacturing company that specializes in filters for air conditioners, air and water purifiers, and other types of filtration systems.

Freudenberg is a German-based TT manufacturer of nonwovens and fiber products. The company entered China in the early 1990s and has expanded its presence during the last decade. By acquiring Apollo, Freudenberg aimed to strengthen its position in China's rapidly growing market for filtration solutions.

JOFO Nonwoven

In July 2021, JOFO Nonwoven Ltd. acquired a 70% stake in Saudi Arabia Advanced Fabrics Factory Company (SAAF) for US\$81 million.

SAAF is a leading supplier of melt-spun nonwovens for medical and health applications. Its parent company, Takween, is a top-grade Saudi Arabia manufacturer of plastic packaging products and nonwoven fabrics.

JOFO is a fast-growing Chinese nonwovens producer. This is the second acquisition by JOFO in two years. After entering the medical sector through a previous acquisition in 2020 (see far left), this latest transaction allows JOFO to increase its capacity and expand its offerings to clients in the medical sector.

DEAL OBJECTIVE

Buyer gained entrance into the rapidly growing worldwide market for medical textiles.



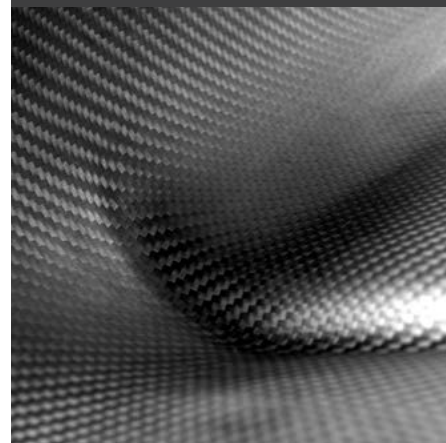
DEAL OBJECTIVE

The buyer acquired additional technology, expertise and market share to support its filtration solutions business.



DEAL OBJECTIVE

The buyer sought to expand in the growing medical textile sector and accelerate its global expansion.



27 OUTBOUND ACQUISITIONS BY CHINESE COMPANIES CLOSED BETWEEN JULY AND DECEMBER 2021

Date	Acquiror	Target	Target country	Industry	Transaction value (US\$m)
31-Dec-21	Fidelidade Companhia de Seguros S.A.	Seguradora Internacional de Moçambique		Multi-Line Insurance	53.03
3-Dec-21	Beijing Sailex International Technology Co., Ltd.	Silex Microsystems AB		Electronic Production Equipment	61.65
27-Nov-21	CloudWing NetWork Technologies Co., Inc.	Finastra International Ltd. (China Summit Business)		Packaged Software	65.00
11-Nov-21	Tencent Holdings Ltd.	Wake Up Interactive Ltd. (Japan)		Packaged Software	44.00
7-Nov-21	ShawKwei & Partners (Hong Kong) Ltd.	CR Asia Pte Ltd.		Engineering & Construction	74.81
21-Oct-21	Busy Bees Day Nurseries (Trading) Ltd.	Provincial Education Group Ltd.		Other Consumer Services	115.19
18-Oct-21	True Star Capital	Intramco Europe B.V		Electrical Products	87.04
1-Oct-21	Delta International Holding Ltd.	Infinova (Canada) Ltd.		Miscellaneous Commercial Services	114.00
23-Sep-21	China Tobacco International (HK) Co., Ltd.	China Tabaco Internacional do Brasil Ltda.		Tobacco	63.40
23-Sep-21	Blackstone Real Estate Partners	Condor Hospitality Trust, Inc. (15 Hotels)		-	305.00
23-Sep-21	Shengwei Zhiyuan International Co., Ltd.	Salta Exploraciones S.A.		Other Metals/ Minerals	37.67
15-Sep-21	Docusavvy Technologies Ltd.	AccountSight		Packaged Software	28.00
25-Aug-21	Xiaomi Corp.	DeepMotion Tech Ltd.		Packaged Software	77.37
23-Aug-21	China Three Gorges Corp.	Alcazar Energy Partners Ltd.		Alternative Power Generation	500.00

Date	Acquiror	Target	Target country	Industry	Transaction value (US\$m)
22-Aug-21	Health & Happiness (H&H) US International, Inc.	Zesty Paws		Food: Specialty/ Candy	610.00
19-Aug-21	Globe Net Wireless Corp.	STEMTech Healthsciences, Inc.		Medical Distributors	87.09
13-Aug-21	Affinity Equity Partners (HK) Ltd.; GS Retail Co., Ltd.; Permira Advisers Ltd.; Delivery Hero Korea Co., Ltd. (Private Group)	Delivery Hero Korea Co., Ltd.		Miscellaneous Commercial Services	688.94
10-Aug-21	Wuthelam Holdings Ltd.	Nippon Paint Holdings Co., Ltd. (3 Subs)		Industrial Specialties	168.65
9-Aug-21	Baring Private Equity Asia Ltd.; Betaine B.V.	Hinduja Global Solutions Ltd. (Healthcare Services Bus)		Miscellaneous Commercial Services	1,200.00
4-Aug-21	ESR Cayman Ltd.	ARA Asset Management Ltd.		Investment Managers	5,269.04
29-Jul-21	Animoca Brands Corp. Ltd.	Fugu Raw Pty Ltd.		Packaged Software	25.68
29-Jul-21	Chuanglian Financial Technology Ltd.	Leading Fortune Global Group Ltd.		Financial Conglomerates	21.34
28-Jul-21	XCC Poland Investment Sp zoo	FLT Polska Sp zoo		Metal Fabrication	21.13
22-Jul-21	Pacific Alliance Equity Partners Ltd.	Acme Formulation Pvt Ltd.		Miscellaneous Commercial Services	145.00
19-Jul-21	Tencent Holdings Ltd.	Sumo Group plc		Packaged Software	1,172.87
15-Jul-21	Ekornes QM Holding AS	Ekornes Holding AS		Home Furnishings	84.84
5-Jul-21	Nexperia B.V.	Newport Wafer Fab Ltd.		Industrial Machinery	86.84

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