

M&A Market Briefing – China and Hong Kong

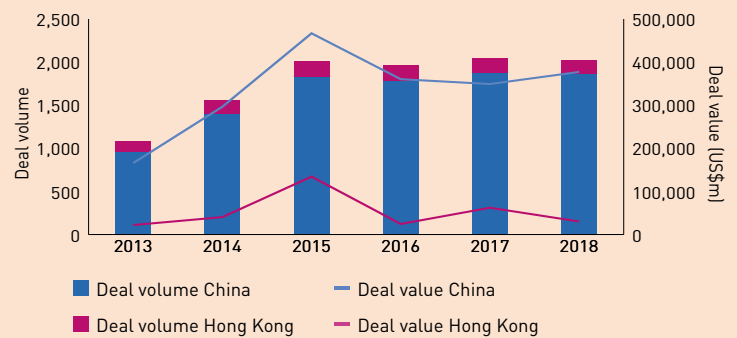
Investor confidence remains relatively strong toward China and Hong Kong. In 2018, M&A dealmaking in China and Hong Kong remained flat year on year, although noticeably higher than activity five years ago. While deal values and volumes posted marginal annual declines of 1% each, they avoided much deeper downtrends amid China's trade tensions with the US and economic growth uncertainties at home.

As dealmakers look for opportunities in everything from AI and advanced manufacturing to fintech and healthcare, Industrials and Technology amongst other sectors show signs of robust growth. At the same time, foreign inbound M&A is breaking records, reaching US\$49.1bn, a 51% increase in values from 2017 and the highest on record according to Mergermarket figures. Mergermarket intelligence shows that acquiring Chinese and Hong Kong-based companies is allowing foreign firms, such as those from Japan, to gain local market share and acquire frontier tech assets to drive growth in their home markets.

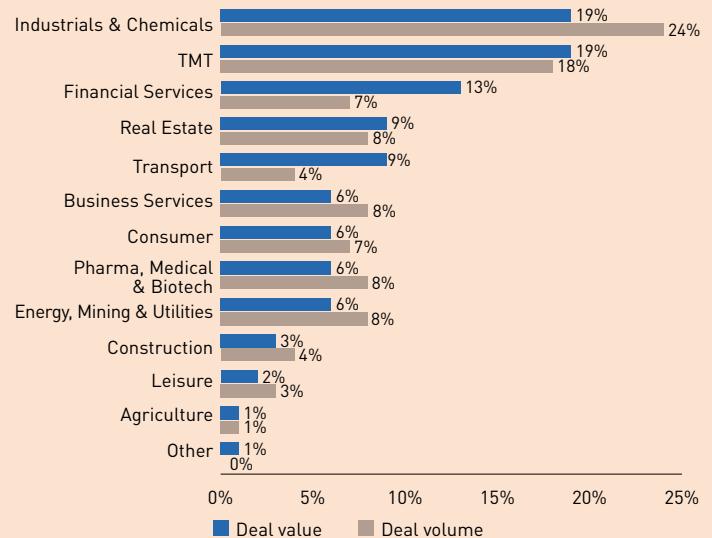
On the regulatory front, China has begun a campaign to ease restrictions on foreign investment as it continues to open up the market. This could result in further inbound M&A, particularly from the US should there be a thaw in trade negotiations currently taking place.

Private equity and venture capital (PE/VC) investment was also strong in 2018. Although overall PE/VC investment decreased 8% in volume terms and 7% by value, totals were among the highest in recent years and could remain robust as the government encourages further innovation in key industries and as the country's start-up ecosystem expands.

China and Hong Kong M&A: Domestic and foreign inbound deals



China and Hong Kong M&A: Target sectors (2018)



M&A year-on-year comparison

2018	
2,019 deals	worth US\$407bn
2017	
2,046 deals	worth US\$411.2bn
Overall M&A in China and Hong Kong decreased 1% in volume and value terms	

M&A totals in China and Hong Kong (2018)

CHINA	Deal value	Deal volume
	US\$377bn	1,866
HONG KONG	Deal value	Deal volume
	US\$30bn	153



FOREIGN INBOUND M&A IN 2018

Foreign inbound deals accounted for:

12%

of deal value in 2018

8%

of deal volume

Compared to 2017:

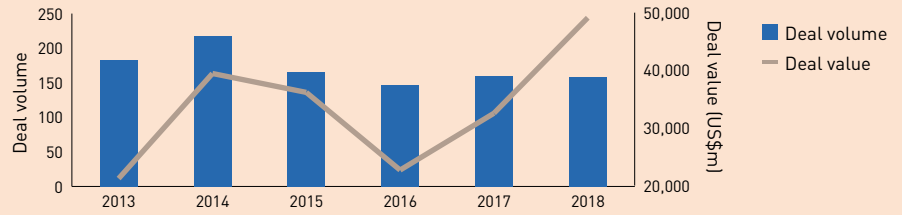
8%

of deal value

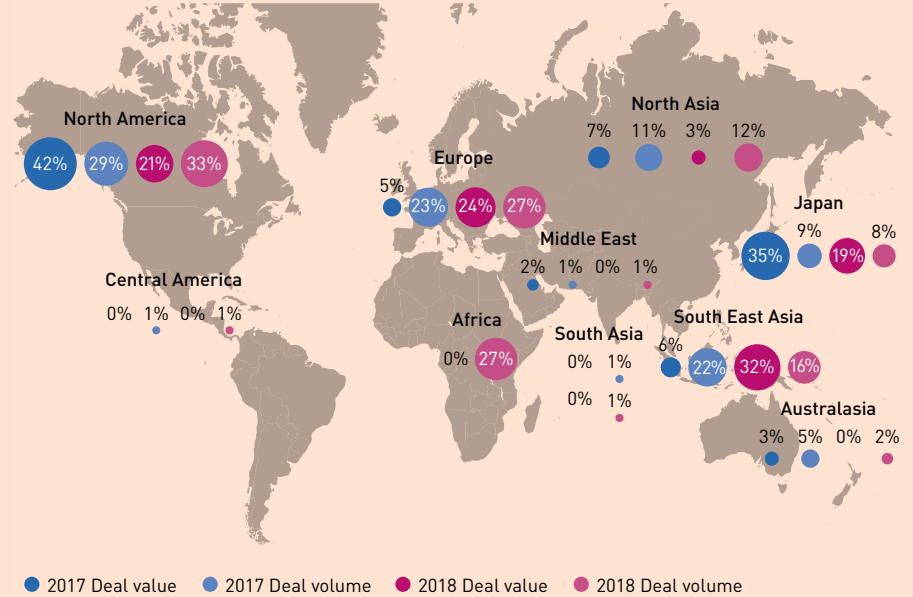
8%

of deal volume

China and Hong Kong M&A: Foreign inbound M&A trends



Foreign inbound M&A: Bidder regions (2017 & 2018)



PE/VC INVESTMENT YEAR-ON-YEAR COMPARISON

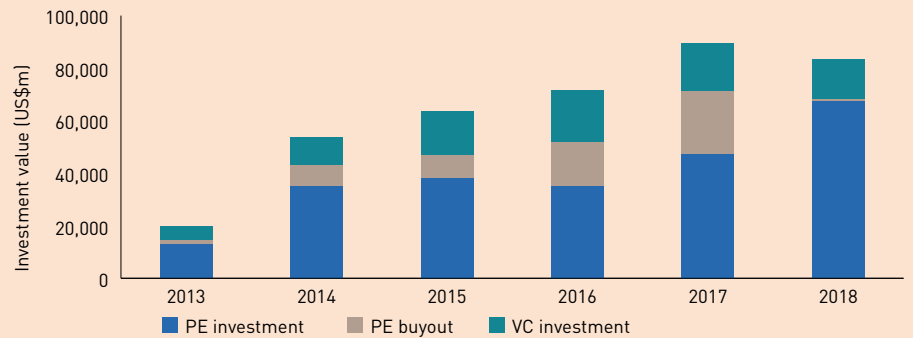
2018

1,728 worth **US\$83.1bn**
investments

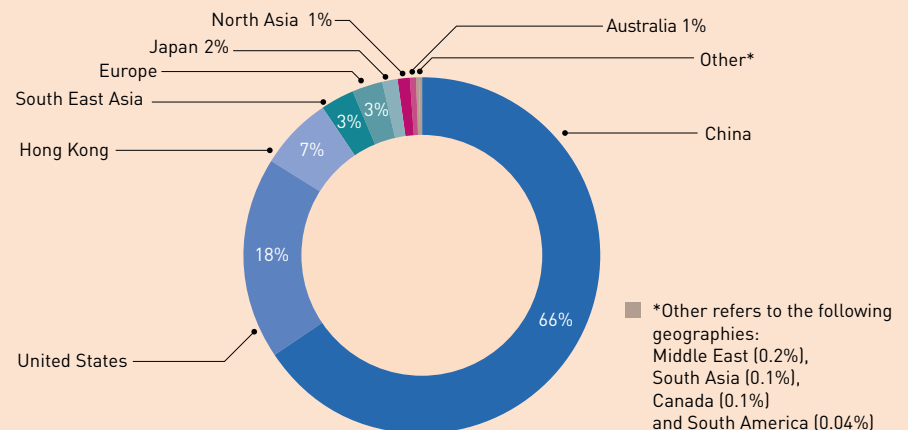
2017

1,875 worth **US\$89.5bn**
investments

PE/VC investment trends (by deal value US\$m)



PE/VC fund/investor domicile geography (by number of investments in 2018)



Overall PE investment in China and Hong Kong **decreased 8%** in volume and **decreased 7%** in value



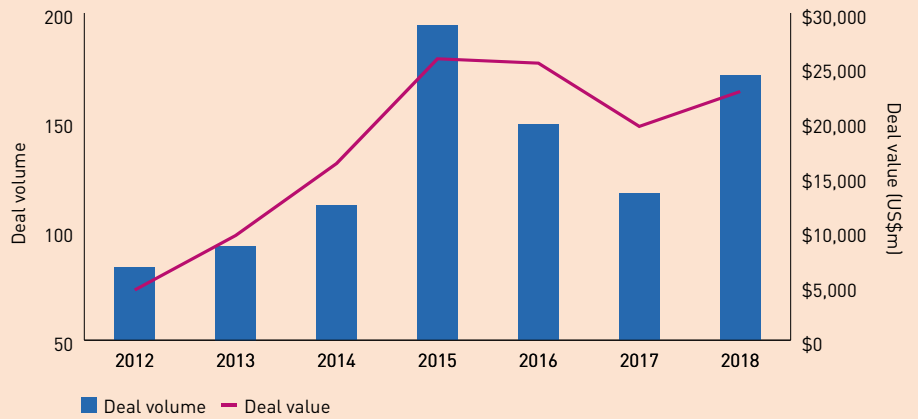
Sector spotlight: Healthcare and life sciences in China and Hong Kong

Healthcare and life sciences is slated to become a US\$1 trillion industry by 2020, driven by demands for better medical services from China's emerging middle class and policy actions to develop the country's healthcare infrastructure. In Hong Kong, sweeping reforms of listing rules are positioning the city to become a hub for pre-revenue Chinese biotech firms, a recent change that has already seen several high-profile IPOs and rising expectations of further listings.

Upbeat on this growth potential and positive policy changes, investors and buyers are taking notice. In 2018, US\$24.3bn in healthcare and life sciences M&A deals were announced, the second highest since 2012 and an 80% uplift in value from 2017. According to Mergermarket intelligence, China is in a "golden age" for biotech and pharma innovation which is driving this trend, although concerns exist that the market may be overheated and faces valuation corrections.

Private equity and venture capital has also been active, with US\$5.5bn in investments in 2018 (24% higher than 2017). While PE buyouts have marked a sharp decline in values since 2015, expansion and growth capital and early-stage/start-up investments have both increased precipitously. Particularly in biotech, PE and VC funds are intensively investing and spending heavily in every stage of the drug innovation process, from discovery to clinical trials, according to Mergermarket intelligence.

China and Hong Kong healthcare and life sciences M&A trends



US\$24.3bn

in M&A deal value
(164 deals) in 2018



80% increase

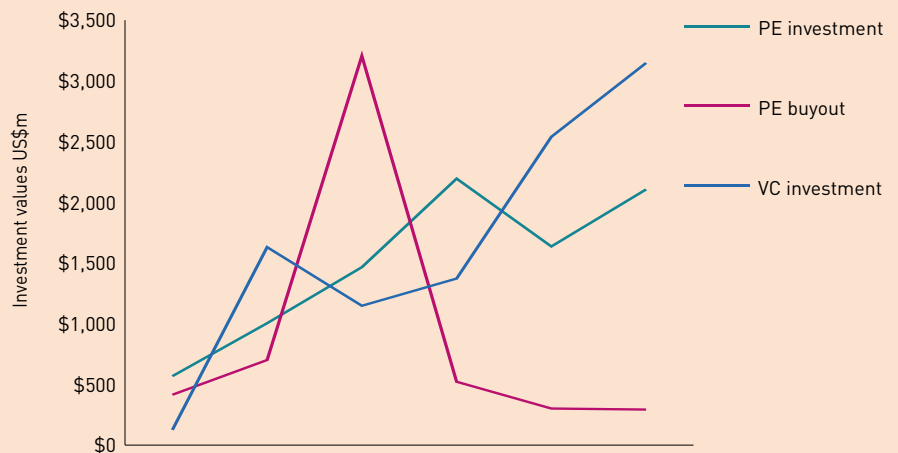
in deal value from
2017



11% increase

in deal volume from
2017

Healthcare and life sciences PE/VC investments



Healthcare and life sciences M&A: Sub-sector totals (2018)

	 Biotechnology	 Medical (Hospital management, health institutions, medtech, etc)	 Pharmaceuticals
Value (US\$m)	3,237	5,621	15,417
Deal volume	28	71	65

Top healthcare and life sciences M&A deals in 2018

Announced Date	Target Company	Target Sector	Target Country	Bidder Company	Bidder Country	Deal value US\$m
02/11/2018	Yunnan Baiyao Holding Co., Ltd.	Pharmaceuticals	China	Yunnan Baiyao Group Co., Ltd.	China	\$7,312
05/01/2018	Beijing Tide Pharmaceutical Co Ltd (24% Stake)	Pharmaceuticals	China	Sino Biopharmaceutical Limited	Hong Kong	\$1,649
26/03/2018	iKang Healthcare Group, Inc.	Medical	China	Consortium for iKang Healthcare Group Inc	China	\$1,479
10/07/2018	Jiangsu Aosaikang Pharmaceutical Co., Ltd.	Pharmaceuticals	China	Beijing New Oriental Star Petrochemical Engineering Co., Ltd.	China	\$1,154
13/11/2018	Liuhe Fengling Healthcare Industry Park Co., Ltd. (state-owned enterprise property rights, equity and other assets); Dunhua Kanping Investment Co., Ltd. (20% equity of Jilin Zixin Pharmaceutical Industrial Co., Ltd. and other assets)	Pharmaceuticals	China	Liuhe Shunchi Medical Healthcare Industry Group Co., Ltd.	China	\$618

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