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MERGERMARKET

Asia-Pacific M&A Barometer

ISSUE 2 FEATURING SPECIAL GUEST INTERVIEW WITH EY'S BOB PARTRIDGE ON PRIVATE EQUITY IN ASIA-PACIFIC

TRENDS IN 1H 2014

1,619
Number of deals

US$300bn
Deal value

Top three countries by number of deals:

574 China
246 Australia
182 Japan

Top three sectors by number of deals:

20% Industrials & chemicals
18% TMT
12% Consumer

Top three sectors by deal values:

15% Energy, mining & utilities
14% Other
14% TMT

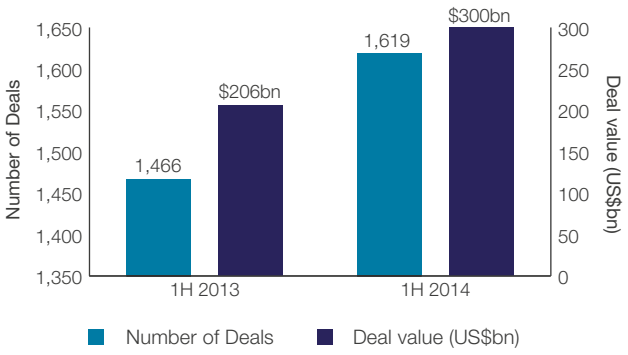
53%
Number of deals valued below US$50m as a percent of total regional deal volume

39%
Number of deals valued between US$51m and US$500m

Mergers and acquisitions (M&A) activity in the first half of 2014 (1H 2014) for Asia-Pacific continues to build on momentum from the previous year, exemplifying a trend of significant growth as the M&A market returns with force.

Deal values for the region totaled approximately US$300bn with 1,619 deals in 1H 2014, outpacing 1H 2013 which had 1,466 deals worth US$206bn. The resurgence in deal activity and pipeline prospects is unfolding as investor confidence and risk appetites continue to grow, particularly for acquisitions in Asia's emerging markets. Stable valuations have also contributed to the rebound in M&A across the region.

Asia-Pacific M&A volume and value comparison



Top 5 deals for 1H 2014

Target Company	Target Sector	Target Country	Bidder Company	Deal Value (US$m)
CITIC Limited	Other	China	CITIC Pacific Limited	$36,501
Shanghai Greenland (Group) Co Ltd	Real Estate	China	Shanghai Jinfeng Investment Co Ltd	$10,572
Queensland Motorways Pty Limited	Transportation	Australia	Transurban Group; AustralianSuper Pty Ltd; Tawreed Investments Ltd.	$6,195
Oriental Brewery Co. Ltd.	Consumer	South Korea	Anheuser-Busch InBev NV	$5,800
A.S. Watson & Co Limited (stake acquisition)	Consumer	Hong Kong	Temasek Holdings Pte Ltd	$5,666

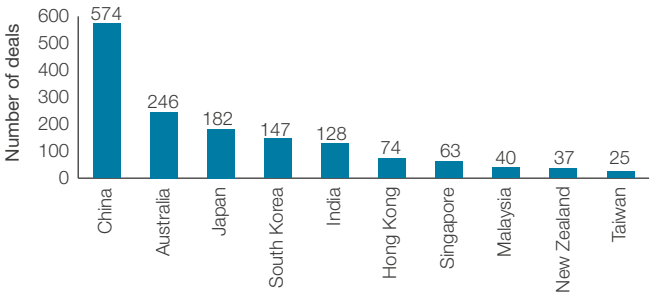
Geographic split across Asia-Pacific

Unsurprisingly, China was the most favored market for M&A in Asia-Pacific. With 574 deals worth US$128.4bn – accounting for 36% of deal volume and 43% of deal value in the region – the massive Chinese market overshadowed the second largest M&A jurisdiction, Australia with 246 deals valued at US$44bn, by a noticeable margin.

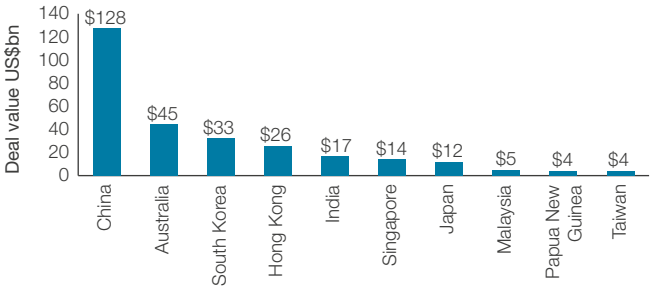
China's deals were led by the domestic market, a trend that will be interesting to follow as China continues to streamline bureaucracy and encourage M&A to consolidate industries facing overcapacity issues. In July, the China Securities Regulatory Commission eased restrictions governing buying, selling or swapping of listed companies' assets. Under the new guidelines, listed firms no longer need regulatory approval engaging in such dealings so long as they're not conducted for back-door listings. China will also allow listed companies to fund their mergers and acquisitions with a greater variety of financing instruments, such as preferred stocks or private placements of convertible bonds.

M&A in India witnessed a significant jump in the first six months of this year to US$17.1bn, up over 45% year on year. Two of the largest deals originated from UK-based bidders, Diageo and Vodafone Group.

Asia-Pacific deal volumes (Top 10 jurisdictions)



Asia-Pacific deal values (Top 10 jurisdictions)



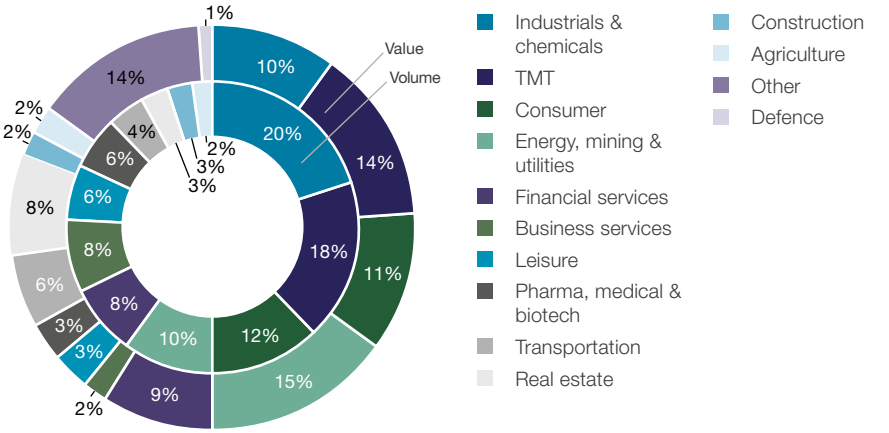
Sector breakdown

The leading sector in terms of volume was the traditionally deal-heavy industrials and chemicals, with 323 deals (20% of deal volume) valued at US$29bn. Energy, mining and utilities had the most deal dollars with US$43bn (14.5% of deal value) in 167 transactions.

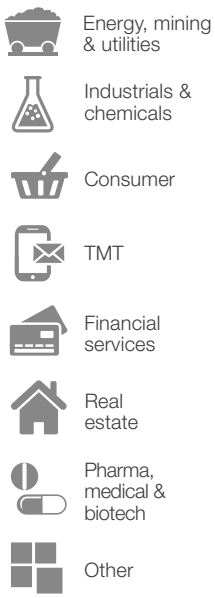
The TMT sector accounted for noteworthy portions of the region's M&A pie for 1H 2014, taking 18.5% of deal volume and 13.8% of deal dollars. Driving deal activity in the sector, Alibaba Group made a series of deals in 2014 as the Chinese Internet giant prepares for an initial public offering, which analysts speculate could be the largest in history.

In January, Alibaba and Yunfeng Capital bought a majority stake in Citic 21CN Co., a Chinese pharmaceutical data management company, through a vehicle owned by Alibaba for US$171m. In July, Alibaba added a new function to its mobile shopping and payment applications that allows people to check the authenticity of drugs by scanning the package bar codes with smartphone cameras. Alibaba, which is preparing for an IPO in the US, said in its IPO filings that it invested in Citic 21CN in part to advance consumer trust through the sale of genuine pharmaceuticals through the company's verification and authentication technology.

Asia-Pacific sector breakdown (1H 2014)



Key



1H 2014 Top Sectors

By number of deals

By value of deals

ASCENT PARTNERS INSIGHTS

Private equity firms have been amassing record sums in unspent capital in the past year. Now, with ample cash reserves, private equity led M&A activity is expected to increase its already promising upward trajectory. EY Managing Partner for Transaction Advisory Services and Private Equity for Greater China and Asia-Pacific Bob Partridge elaborates on these trends and others in Asia's private equity industry.

Private equity activity has posted a substantial rebound in 2014, particularly in buyout terms which saw figures jump from US$16bn in H1 2013 to close to US$40bn in H1 2014. Where are we seeing the most activity in the region?

China has and continues to take up a large piece of the private equity pie. This has been especially true in the past half year after the country's A-share IPO market reopened, offering private equity participants optimism about another means to exit investments. Deals continue to leave the pipeline giving GPs new confidence that their investments wil one day be able to list on the Chinese exchanges.

In terms of buyouts, the amount of capital deployed toward these transactions between the first half of 2013 and the first half of this year increased substantially, from US$2bn to almost US$10bn. Other forms of investment have been equally high in volume and value terms as talks of a "soft landing" subside and confidence in the Chinese market begins to return.

While activity in China may be increasing, we're still seeing most investments revolve around minority interest deals. Regulatory and industry-specific restrictions have, in some cases, prevented larger buyouts from happening. In other cases, some sellers simply do not want to lose control. However, opportunities are arising in the mid-market as family-owned enterprises face succession issues and look for new owners to carry on their legacy companies.

What sectors stand out as offering the most opportunities?

One of the hot sectors at the moment is the healthcare industry, especially in China. This includes deals involving investments into hospitals, medical device manufacturers, healthcare service providers and a variety of other industry related services.

Growth in the sector is expected as the country and broader region's middle classes accrue more disposable income while developing greater concerns for their health. Pollution is a growing issue, as are food quality issues, and as greater awareness of these concerns grow, more people will be demanding higher quality, affordable health services.

As competition for limited targets increases, what can PE firms do to secure deals in Asia?

It's not always capital that wins the deal. In many cases, it's how general partners and private equity professionals can add value to the companies they are investing in. Company owners in Asia, specifically family-owned enterprises, are less willing to sell to the highest bidder and more likely to work with professionals who can ensure their businesses will be maintained and not just sold off piece by piece.

Another factor that will give private equity firms -- especially international firms or those engaging in cross-border transactions -- an edge is having a direct presence in their target markets. You have to get seasoned deal originators into those markets and have the right boots on the ground to develop the networks necessary to finding quality deal opportunities.

What does H2 2014 and early 2015 have in store for private equity in Asia-Pacific?

Investment into the region is likely to remain strong going into the year's second half and even into the early months of 2015. Even when you strip away the larger megadeals, like sovereign wealth fund Temasek Holding's US$5.7bn agreement to acquire a 25 percent stake in Hong Kong retailer A.S. Watson Group or its US$5.1bn stake acquisition in CITIC Pacific, we expect to see investment volumes increase 20 percent in the second half of 2014.

The reason for this is that we're seeing very little uncertainty as the market recovers. Private equity firms and investors are becoming more confident, and many are eager to boost allocations as they begin looking for opportunities in China and Southeast Asia. Oceania is looking equally robust. We will also be seeing more of the domestic houses, those based in China, looking abroad and completing their own overseas transactions.

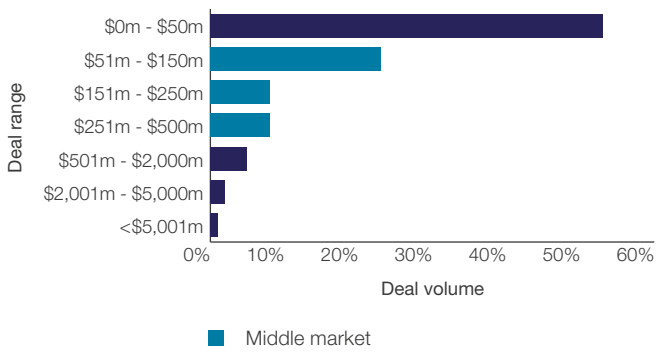
Deal breakdown

A majority of deals fell below the US$50m mark as quality acquisitions and high-value targets become difficult to find. These deals accounted for 53% of transactions for 1H 2014 in Asia-Pacific.

Deals in the middle market – those valued between US$51m and US$500m – accounted for 39% of deal volume. Mega deals valued above US$2bn numbered just 6 and accounted for 3% of deals.

Domestic transactions accounted for the vast majority of deals in the region. Domestic accounted for 1,132 deals while Inbound accounted for 486 deals. 1H 2014 versus 1H 2013 saw domestic deals grow in volume but remained the same proportion at 70% with 30% coming from inbound deals.

Deal size breakdown 1H 2014



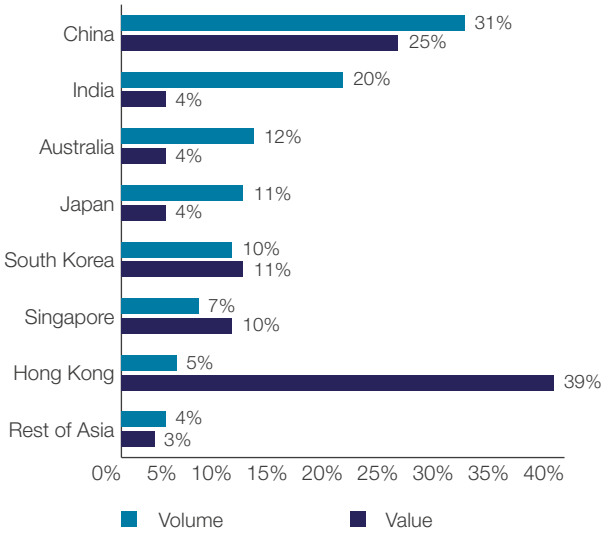
Private equity buyouts

Private equity buyouts in 1H 2014 saw an increase on a year-on-year basis, from 134 transactions valued at US$16bn to 174 at US$50bn. Buyouts were led by the TMT sector taking a 34.7% share in volume.

Broken down by geography, China led overall volume. Though Hong Kong only saw a small number deals (8 in total), they were large-cap transactions that tipped the territory ahead in terms of dollar value. Hong Kong claimed the largest value of the pie at US$15.6bn. The biggest private equity deal in that jurisdiction was the acquisition of a 24.5% state in Watsons A.S. Watson & Co Limited by Singapore-based Temasek Holdings Pte Ltd worth US$5.7bn.

China-focused M&A reached a value of US$9.8bn with 51 deals. Khangai Company Limited acquired a 30.3 stake in China-based real estate firm Iowa China Offshore Holdings for US$2.1bn. Khangai is a China-based consortium formed by Bank of China Group Investment Limited, Hopu Investment Management Co Ltd other state-owned companies and institutional investors.

Private equity buyout activity

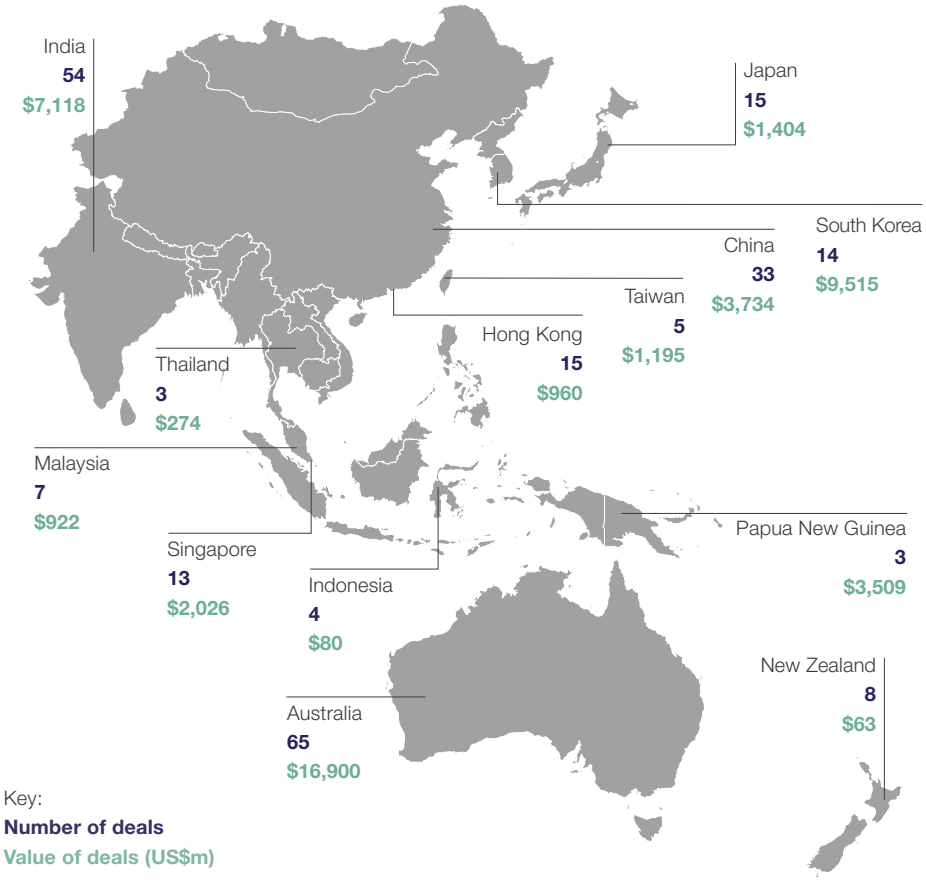


Inbound transactions

Australia and South Korea led the way with inbound M&A deals for the second quarter of 2014 taking 34.3% and 19.3% of total value respectfully.

Papua New Guinea (PNG) has become a target for oil and gas companies looking to cash in on the nation's natural gas reserves. PNG ranked fifth on the list of inbound M&A in Asia-Pacific for 2Q 2014, with three deals valued at US$3.5m, taking 7.1% of the pie. One deal saw UAE's International Petroleum Investment Company buy a 13.2% stake in Oil Search Limited from the government of PNG. Another deal saw Oil Search Limited acquire a 23% sake in the PNG based PRL15 gas fields of Singapore-based Pacific LNG Group Companies. Oil Search Limited is a major partner in Exxon Mobil Corp's natural-gas project in Papua New Guinea; and that deal came as Exxon Mobil Corporation began a significant expansion of its processing facilities in the area.

Inbound M&A



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