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2011 Saw China Taking the Lead in Global M&A Market and Unprecedentedly Abundant Exits via M&As

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2011 Saw China Taking the Lead in Global M&A Market and Unprecedentedly Abundant Exits via M&As

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In the wake of its plunge in 2008 and low ebb in 2009, the global M&A market has been back on its track to prosperity. The spring of 2011 witnessed stronger growth. Global M&As have seen steady recovery with a new round of M&As to kick off. Yet, the M&As in emerging markets are still the focus of world attention. The global battle for energy and minerals continues unabated. Let's shift our attention to the Chinese market where large deals of M&As kept emerging while overseas acquisition maintains its great momentum. In the context of favorable policies and abundant capital, M&A initiated by foreign capital has gradually come back on track. What's more, VC/PE-backed M&As advances with vigorous strides and are expected to be in the spotlight.

As the data of Zero2IPO Research Center show, Q1'11 saw a total of 227 M&As, up 48.4% year on year and 22.0% over the previous quarter. Among them, 202 cases disclosed the combined US$14.152B M&A value, up as much as 162.5% from US $5.39B year-on-year or 11.9% from US$12.644B in the previous quarter. There were 186 domestic M&As taking place with US$5.82B involved and 19 outbound M&As involving US$5.58B. In addition, the number of inbound M&As reached 22 whose deal value stood at US$2.75B.

Global M&As Warm up

Zero2IPO Research Center concludes that there exist following development trends in the global M&A market in 2011 through careful research on recent M&A market in combination with the rules concerning M&As.

I. Global M&As steadily recovered with a new upsurge in the day ahead.

Table 1 Quarter-on-quarter Comparison of M&As in Chinese Market in Q1'08-Q1'11

Quarter	No. of M&As	No. of M&As with Disclosed Value	M&A Value (US$M)	Average M&A Value (US$M)
Q1'08	35	24	2,220.40	92.52
Q2'08	53	38	18,769.54	493.94
Q3'08	49	32	9,872.92	308.53
Q4'08	48	31	5,979.85	192.9
2008 Total	**185**	**125**	**36,842.71**	**294.74**
Q1'09	86	66	4,733.22	71.72
Q2'09	63	55	4,809.08	87.44
Q3'09	67	53	13,798.75	260.35
Q4'09	78	61	9,806.28	160.76
2009 Total	**294**	**235**	**33,147.34**	**141.05**
Q1'10	153	116	5,390.89	46.47
Q2'10	138	110	9,142.32	83.11
Q3'10	145	111	7,625.73	68.7
Q4'10	186	164	12,643.86	77.1
2010 Total	**622**	**501**	**34,802.80**	**69.47**
Q1'11	227	202	14,151.84	70.06

Source: Zero2IPO Research Center

As global economy recovered step by step, the confidence of M&A enterprises has grown with sufficient capital liquidity and relatively low financing cost. The year of 2010 saw an increase of nearly 22.9% in global M&As, the first annual increase since 2007. Only in Q1'11, the global M&As totaled US$716.30B, a year-on-year increase of 16.0%. In the post-financial crisis period, as the haze of financial crisis faded away, global economy warms up. Thus the confidence in M&As was boosted, enterprises were increasingly enthusiastic about M&As. Besides, relatively relax currency policies are pursued in developed economies with strong market liquidity. To control risks, enterprises across the world reinforced capital reserve as they have recognized the importance of the availability of abundant cash flow. As the data show, the total amount of cash owned by S&P 500 companies has risen by over US$100.00B since Lehman declared bankruptcy. The large amounts of cash hoarded by enterprises during the financial crisis renders it possible for large-scale M&A. Based on this, M&As across the world are projected to embrace another boom.

II. M&As are brisk in emerging markets; Chinese market stands out.

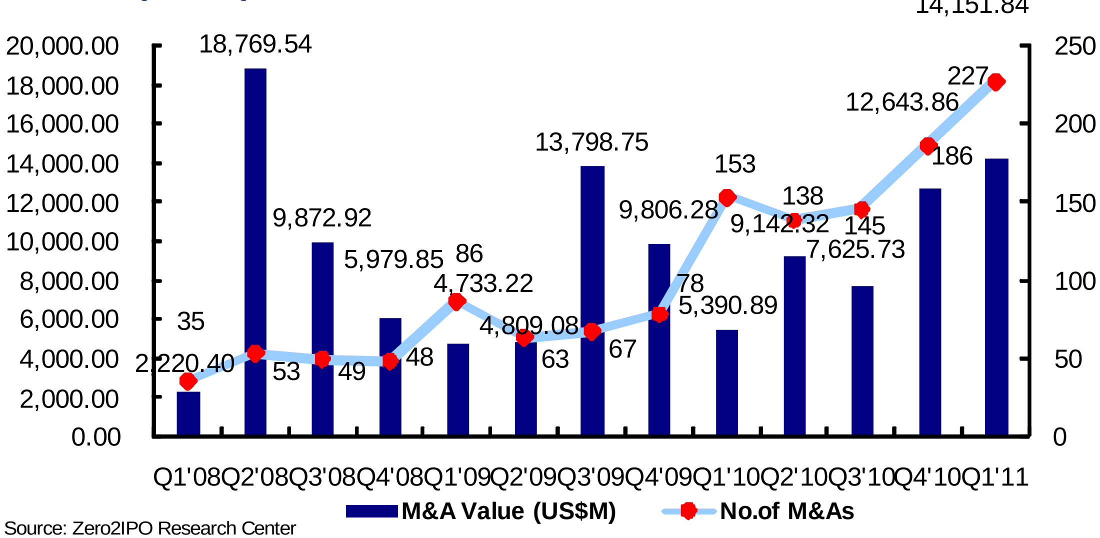
Among the global M&A markets, emerging markets like China, Brazil and Spain are always in the limelight. Last year, the M&A value contributed by emerging economies accounted for a bigger proportion in the total, with the actual amount reaching a record high of US$806.3B. It was even more than one third of the total, a marked increase of 76.0% over the same period of 2009. In the first quarter of 2011, the total M&A value of BRICKs, namely, Brazil, Russia, India and China, reached US$118.40B, making up a vast majority of the total of emerging economies that are on the track of fast development. Their role in the world economy is strengthening along with their growing economic strength. Many of them, such as China, have adopted policies that are in favor of mergers and acquisitions. For instance, China has issued an array of policies to encourage and promote mergers and acquisitions. This is a big pushing force behind M&As. With the rise of emerging economies, enterprises in these countries are increasingly ambitious to expand overseas. Hence, we can conclude emerging economies will remain as glaring stars in the global M&A market.

Table 2 Comparison of M&As in Chinese Market in Q1'11 by Type

M&A Type	No. of M&As	% of Total	No. of M&As with Disclosed	M&A Value (US$M)	% of Total	Average M&A Value
Domestic M&A	186	81.9%	171	5,824.27	41.2%	34.06
Outbound M&A	19	8.4%	15	5,578.03	39.4%	371.87
Inbound M&A	22	9.7%	16	2,749.53	19.4%	171.85
Total	**227**	**100.0%**	**202**	**14,151.84**	**100.0%**	**70.06**

Source: Zero2IPO Research Center

Figure 1 Quarter-on-quarter Comparison of M&As in Chinese Market in Q1'08 - Q1'11



Source: Zero2IPO Research Center

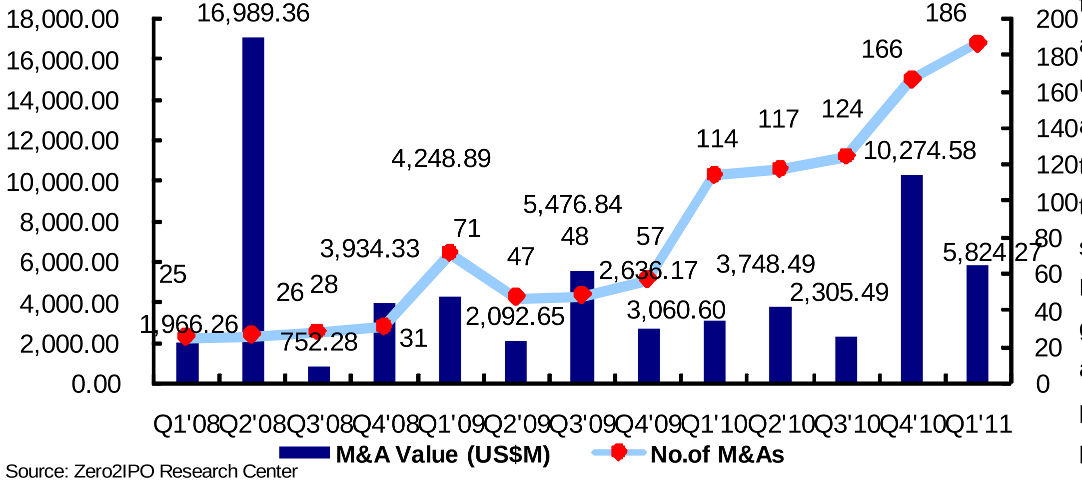
III. Battle for energy and minerals continues unabated with limitless potential for M&As.

As a strategic resource, energy has been the target that the economies across the world scramble for. With the accelerating economic globalization, the shortage of oil and gas is becoming more and more acute with the oil prices remaining high. In the recent years, energy enterprises across the world have been active in mergers and acquisition. They took the lead in terms of both the total number and trading volume of M&As worldwide in recent years. In 2010, energy and mineral industry was ahead of other industries in M&A value which was as high as US$540.00B, 25.9% of the total amount. Financial industry and chemical industry rank second and third respectively, with their respective M&A value being US $291.80B and US $119.60B. In the late period of the financial crisis, all countries are slowly recovering, which leads to a huge demand for energy. Thus, it's predictable that energy and resource will remain a focus for the M&A industry.

M&As in China Are in Full Swing

M&As in China reached 10.0% of the global total in the previous year, making China the biggest M&A market in Asia, 23.0% of the total, ahead of India, Russia and Brazil. It demonstrates that China has become one of the countries that have a mature M&A environment. According to the research done by Zero2IPO Research Center, there were 622 M&As in China, a year-on-year increase of 111.6%. Among them, the 501 M&As disclosed a total trading volume of US$34.80B, up 5.0% year on year, on a par with that of 2009. As the newly released data in Q1'11 indicate, there were 227 M&As completed in China, up 48.4% year on year and 22.0% quarter on quarter. There were 202 M&As disclosing a total value of US$14.15B, up as much as 162.5% from US$5.39B a year earlier. And compared with US$12.64B in the previous quarter, it rose by 11.9%.

Figure 2 Quarter-on-quarter Comparison of Domestic M&As in Chinese Market in Q1'08-Q1'11



Source: Zero2IPO Research Center

A robust M&A market in China is attributable to the gradual recovery of the global economy and sound economic operation at home. The two combined to result in a good operational platform for enterprises to participate in M&As. In terms of policies, it is expected that the state shall make vigorous effort to promote a series of policies and measures to facilitate mergers and restructuring. And more favorable policies shall be issued. This year, the state shall adhere to industrial structure restructuring to eliminate backward production facilities and speed up industrial concentration through restructuring. Moreover, guiding and supporting policies shall be further implemented to accelerate enterprises' mergers and restructuring, such as tax preferential policies, M&A loan business from commercial banks and finance discount from local governments, in order to pave the way for M&As.

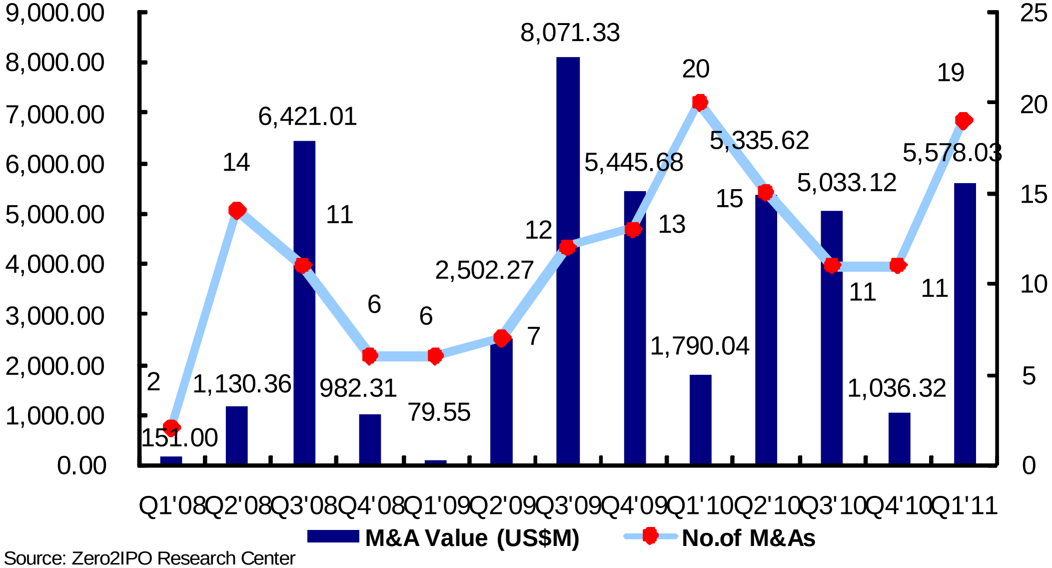
On the basis of the macroeconomic tendency and M&A market situation in China in Q1'11, Zero2IPO Research Center concludes that M&A market of China in 2011 shall take on the following features:

I. Large-scale M&As keep emerging and public companies play a key role.

Guided by the strategic goal of "promoting transformation of economic pattern and restructuring economic structure", M&A is set to be in full swing in 2011 as a key channel and pushing force behind structure restructuring.

The recent years saw drastic reforms on state-owned key enterprises. By the end of February 2010, the number of state-owned key enterprises in the list released in the website of the SASAC has dropped to 122 from 196 in 2003 when the SASAC was established. Yet, in line with the Guidance on Structure Adjustment of State-owned Key Enterprises issued by the SASAC, state-owned key enterprises decreased to 80-100 through asset restructuring. So the SASAC would continue to push forward restructuring. It expressed that the reform direction for state-owned key enterprises is overall listing or at least overall listing of their core business. It intends to push 40 state-owned key enterprises to go public abroad, which means further expansion of investment scope in the integration process of state-owned key enterprises. In the next phase, the SASAC plans to turn its effort to build up state-owned key enterprises and enhance its comprehensive strength through improving their management structure, so that they can take an active part in global competition. By doing so, 30-50 large enterprise groups shall finally be fostered with international competitiveness. In this context, some state-owned key enterprises that have completed integration still have the potential of mergers. Private and foreign-owned enterprises and local SASACs at various levels are also to be involved in restructuring state-owned key enterprises and play an active part in promoting their listings. Therefore, the integration between state-owned key enterprises shall occupy an important position in Chinese M&A market in 2011. With the development of economic restructuring, some backbone enterprises in some high-tech industries like machinery, electronics, metallurgy and chemical are expected to be the focuses in the restructuring campaign of state-owned key enterprises.

Figure 3 Quarter-on-quarter Comparison of Outbound M&As in Chinese Market in Q1'08-Q1'11



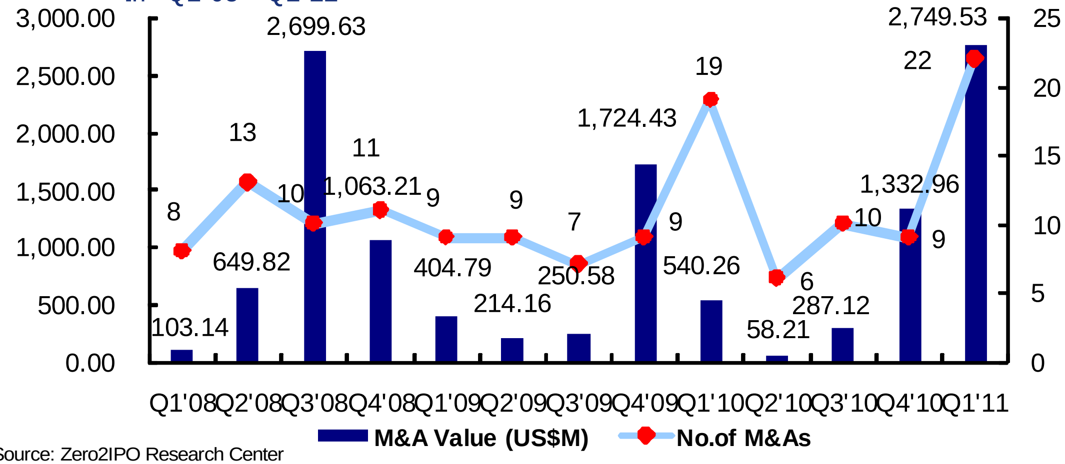
Source: Zero2IPO Research Center

In addition, public companies are increasingly involved in M&As. In the recent years, the CSRC has been making vigorous efforts to promote the establishment of fundamental system for capital market and support qualified enterprises to partici pate in M&As, facilitating industrial integration and upgrading of listed companies. Significant achievement has been made in M&As that aim at "structure restructuring and industry development", with the completion of reform of the shareholder structure, further improvement in the market function of allocating resources and growing number of listed companies that are involved in M&As in a larger scale and more varied form. After the split-share reform, the circulation problem of non-tradable shares on the A share market has been solved. The M&As in the secondary market are simpler and cheaper. Listed companies will participate in more M&As. The driving force behind the counter purchase of big stockholders is growing under this background. Besides, undervaluation of shares makes the intention for M&As stronger. At present, the average P/E ratio in such sectors as information ser vices, financial services, extractive, iron and steel and home appliances is at a low level with great profits. M&As have evolved from simple acquisitions and security shell restructuring to a systematic project guided by industry chain and value chain and based on the company's intrinsic value evaluation and applying various finan cial instruments. All these are factors that are good for M&As which are expected to embrace boom in 2011 with list ed compa nies as major players.

II. China ranks second in overseas M&As that continue unabated.

In recent years, Chinese enterprises have been playing an active role in the global M&A market with the marked increases in the number and trading value of M&As. The first quarter of 2011 saw a swift rise in M&As by Chinese enterprises. By the end of this quarter, there have been a total of 19 overseas M&As. Among them, 15 enterprises have disclosed the trading value standing at US$5.58 B in total, 39.4% of the total in this quarter, or US $372.00M on average. The total value of overseas M&As surged by as much as 438.3% over the previous quarter and was up by 211.6% over the previous year. The number of M&As soared by 72.7% compared with the previous quarter. It is growing year by year in an increasingly larger scale. The financial crisis that swept across the world provided a superb opportunity for Chinese enterprises to participate in overseas M&A. China's overseas M&As were rejuvenated. Recently, large-scale oversea M&As concentrated on the energy & mineral sector. In the meantime, a growing number of creative and vibrant private enterprises began to go global actively in overseas M&As. According to the Yellow Paper of World Economy released by the Chinese Academy of Social Sciences in November 2011, Chinese enterprises have been transforming form the targets to the acquirers with their trading value only next to the US.

Figure 4 Quarter-on-quarter Comparison of Inbound M&As in Chinese Market in Q1'08 - Q1'11



Source: Zero2IPO Research Center

Overseas M&As are expected to continue thriving in 2011 due to the following factors. Global economy is recovering on the whole. As an emerging economy and one of the BRICs, China kept a strong development momentum in the post-financial crisis period with its comprehensive strength improving swiftly. In contrast, developed economies are rallying relatively slowly with the unemployment rate remaining at a high level and consumption and investment at a sluggish state. With the favorable state policies in place that encourage competitive enterprises to "go global", Chinese enterprises that boast solid capital position will speed up their integration into international market through M&As. Energy & mineral industry will still dominate overseas M&As while machinery manufacturing is projected to speed up overseas M&As. In addition, overseas hi-tech and clean technology enterprises and some well-known companies will also become the targets of M&As. In the context that global economy is recovering tardily while China is growing rapidly, Chinese enterprises are expected to maintain a robust momentum with the number and trading volume of M&As, surpassing those of 2010.

III. Inbound M&As are picking up gradually thanks to favorable policies and abundant capital.

In the first quarter of 2011, inbound M&As shot up in terms of the number and trading value of M&As. There were altogether 22 inbound M&As, 16 of which have disclosed their trading value of US$2.75B, making up 19.4%

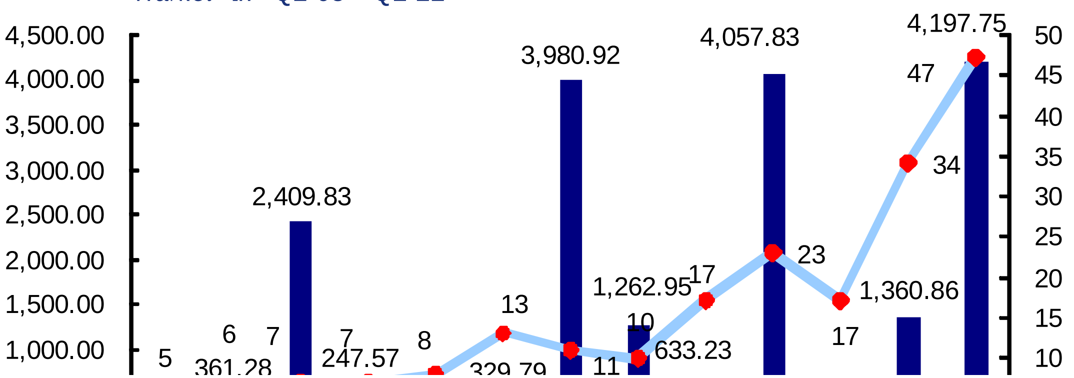
of the total of this quarter. The average value reached US$172.00M. The total value involved in inbound M&As rose by 106.3% over the previous quarter and even 408.9% year on year. The number of M&As rose by 144.4% over the previous year. Thanks to the recovering global economy and supportive state policies, inbound M&As are expected to maintain the momentum of recovery.

It is expected that inbound M&As are about to pick up due to abundant liquidity and favorable policies. In the post-financial crisis period, quantitative easing policies are pursued in developed economies, which leads to the marked increases in capital liquidity. Much capital is looking for investment channels. A host of large transnational corporations have a large amount of capital in hand ready to participate in M&As. Emerging economies, China included, are first choice for them. In addition, supportive policies are issued that encourage absorbing foreign investments, for example encouraging foreign capital to be involved in M&As of domestic enterprises, broadening financing channels for foreign-owned enterprises in China and guiding financial institutions to give credit aid to them, in order to create a more liberal policy environment that is conducive to inbound M&As.

IV. VC/PE-related M&As increase by leaps and bounds; Exits via M&As are in the spotlight.

In the past few years, a host of VC/PE institutions have reaped high ROI through IPOs in ChiNext. While the high ROI in the listings attracted investors

Figure 5 Quarter-on-quarter Comparison of VC/PE-related M&As in Chinese Market in Q1'08-Q1'11



Based on the research result of Zero2IPO Research Center, there were 47 VC/PE-related M&As in the first quarter, up 176.5% year on year and 38.2% quarter on quarter. Among them, 42 M&As disclosed their deal value which stood at US$4.20B, an upsurge of 562.9% year on year or 208.5% quarter on quarter.

The two major exit channels for VCs/PEs are M&A and IPO. The exits of VCs/PEs in mature markets are realized via M&As instead of IPOs. Currently, IPO and stock transfer are at a dominant position on the Chinese market with M&A in a secondary status. It was mainly because ROI of IPOs is much higher than M&As. It determines that listing is the first choice for venture capital investors. Still, M&A enjoys much room for fast development as not all enterprises are qualified to go public or rise in value after listing successfully. Owing to increasingly stricter examination over enterprises that apply to go public, the chances of listings are limited. Part of VCs/PEs are shifting to M&As as their way of exits. It is predicted that Chinese market shall follow this international pattern that is featured by the M&As as the primary channel for exits. The