

BAIRD

Global Investment
Banking

**BAIRD'S PERSPECTIVE ON
ECONOMIC AND M&A ACTIVITY**

China M&A Market Update



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Executive Summary

Baird has an established investment banking presence in China with a dedicated team of professionals in Shanghai. Our capacity to address China's M&A market extends to experienced practitioners in the U.S. and Europe. Baird's China M&A team has successfully partnered with companies in various industries. This report summarizes issues relevant to China's economy and cross-border M&A activity.

China Market Overview

Key macro-economic issues include:

Expansion. Reform, globalization, investment, and consumption growth have driven 40 successive years of GDP expansion, including a 10-year CAGR of 7.8%.

Central Government Role. The government's large economic influence includes a five-year plan (for 2016-2020) designed to rebalance China's economy, shifting emphasis from investment toward consumption.

Foreign Direct Investment (FDI). Record outbound M&A fueled China's first year of net capital outflows during 2016, resulting in tighter regulatory scrutiny for outflows. As a result, China posted net capital inflows in each quarter since Q4 2016.

Currency. After rising 6.7% versus the U.S. dollar in 2017 amid tighter control of capital outflows, the yuan declined 5.4% in 2018. Foreign currency reserves have stabilized since early 2017 following the 20%+ decrease in 2015-2016.

2019 GDP Expectations. China reportedly will set a GDP growth target of 6.0-6.5% in 2019 after a target of "around 6.5%" in 2018, when China's reported growth fell to a 28-year low of 6.6%, including 6.4% in Q4 2018. China is expected to implement stimulus measures to support growth in 2019.

Trade Activity. Exports increased 9% in 2018 (vs. +9% in 2017) including 7% growth in 2H18 despite rising trade tensions between China and the U.S. Progress for domestic consumption was evident in recent periods, as imports increased 16% per year in 2017 and 2018.

Policy Adjustments. Monetary/fiscal policies have reflected low inflation and targeted steady growth. Selected stimulus programs have been implemented to boost growth. China's central bank is expected to provide support to the economy during 2019.

Lending Controls. The central bank has pushed China's banking system to strengthen risk controls to rein in concealed and complex transactions. Several years of low inflation have allowed for measures designed to enhance economic growth, such as lower bank reserve requirements.

IPO Activity. After record activity in 2017, the domestic IPO market was sluggish in 2018 amid weakness in equity markets. M&A remains an appealing option for firms unable to complete IPOs amid periods of regulatory and policy changes as well as due to volatility in China's equity markets.

China M&A Analysis

Cross-border M&A considerations include:

Geographic Expansion. Local entities facilitate entry into geographic markets by cross-border acquirors.

Technology Capabilities. Acquisitions allow Chinese companies to add technology development capabilities to proven manufacturing and distribution practices.

Access to Brands. Outbound M&A allows Chinese companies to secure brands whose value would be difficult to replicate.

Natural Resources. Many outbound acquisitions have secured rights to critical resources needed to support growth.

Private Equity. Government rule changes have fueled foreign sponsor interest in China. Domestic private equity firms often partner with Chinese corporates in pursuing outbound M&A.

Exit Strategies. Avenues for overseas private equity firms to exit investments in Chinese companies have opened, particularly with secondary buyouts becoming more common.

Strong Economic Growth. China's growth potential is a powerful draw for overseas acquirors, particularly those seeking access to China's rising middle class.

Regulatory Controls. China has implemented tighter regulations on certain outbound M&A deals since late 2016.

Recent Cross-border M&A Data

- Outbound M&A metrics: deal total -13%, dollar value -9%, falling for the second straight year from 2016's peaks.
- In 2018, outbound dollar volume into Europe rose sharply, while outbound volume into the U.S. was flat amid tighter regulatory controls for inbound M&A into the U.S.
- Inbound deal metrics were nearly unchanged in 2018, with the deal count near flat and dollar volume down 2%.

China's Current Outbound M&A Environment

Key outbound M&A themes have shifted relative to the past couple of years. Whereas a tighter regulatory regime for outbound M&A weighed on activity starting in late 2016, the current outbound M&A outlook is largely influenced by China-U.S. tensions along with China's economic slowdown.

- China is increasingly turning to Western Europe for deals given the current discord between China and the U.S.
- Weaker investment in the U.S. also reflects stricter regulatory controls via CFIUS for inbound M&A plus the poor performance of China's stock markets limiting the ability of Chinese buyers to pay up for U.S. targets.
- The process of deleveraging led by China's government has raised the hurdle for obtaining financing for M&A.
- Some SOEs have limited appetite for outbound M&A due to needing to focus internally, while others remain keen on M&A in advanced manufacturing and technology.

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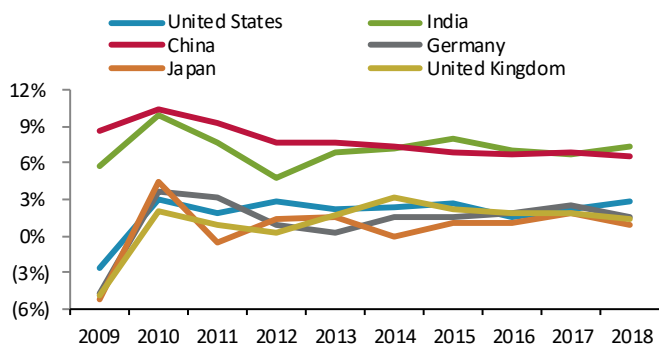
Market Overview

ECONOMIC SNAPSHOT

As indicated by trends over the past several years, China's economy has a direct impact on its M&A activity. Below we provide background information on several aspects of the country's economy, followed by discussion of current themes of interest among M&A participants.

Ongoing Economic Expansion. The economic success story of China includes superior growth rates and emerging global leadership. The country has experienced 40 consecutive years of GDP expansion, which has been driven by a combination of reform, investment, globalization, consumption growth, and urbanization. China's growth has led other large economies by a wide margin. From 1980 through 2018, annual real GDP growth in China averaged 9.4%, nearly triple the worldwide rate of 3.3%. Over the past 10 years through 2018, GDP increased at a compounded annual growth rate (CAGR) of 7.8% versus the global average of 3.2%.

Real GDP Growth



Source: International Monetary Fund (IMF) and CIA World Factbook.

China is a growth engine for the worldwide economy, fueling global expansion via higher output and trading relationships with other nations as well as greater contributions from domestic consumption.

- Over the past 10 years, China represented 20% of global economic expansion, leading all countries.
- Increased trade activity fueled GDP expansion in 2018, when reported growth of 6.6% outpaced other major economies by a wide margin despite representing a 28-year low for economic expansion in China.
- Based on its anticipated 2019 GDP growth target of 6.0-6.5%, China is expected to account for 21% of global GDP growth in 2019.
- China's economy is the world's second-largest since surpassing Japan in 2010. China's GDP could exceed the U.S. figure within the next 10-20 years in a scenario of continued rapid economic expansion.

Exports to other countries have played a large role in China's economic expansion. From 2008 to 2018, the CAGR for exports was 5.7%, including a 9% increase in 2018, bringing the annual total to \$2.49 trillion. Imports rose 16% to \$2.14 trillion in 2018, with a 10-year CAGR of 6.5%.

Central Government Role. The central government retains tremendous influence on economic matters in China. The government has focused on strengthening its controls on the economy in order to maintain a stable trend of growth. This report cites instances of government decisions and orders, and the impact of their implementation. For example, government stimulus measures enhanced GDP growth in 2009-2010 and in more recent periods, while monetary tightening limited growth in 2011-2012. Over the long term, we expect the government to promote greater domestic consumption to drive output growth.

China's Five-Year Plans outline goals and objectives for social and economic growth and industrial planning in key sectors and regions. In late 2015, the Communist Party of China (CPC) approved the guiding principles of China's 13th Five-Year Plan for National Economic and Social Development for 2016-2020. Economic targets include 6.5% annual GDP growth (below historical levels) as a means of doubling per capita income from 2010 to 2020. The plan is representative of China's efforts to rebalance its economy, shifting emphasis toward consumption and services from investment and exports in view of increased labor costs. Planned economic growth drivers also include innovation and entrepreneurship, which are critical to creating a more dynamic private sector. China aims to improve social welfare and support consumption growth by prioritizing stronger social safety nets and social infrastructure. In response to demographic challenges, key policy changes include shifting from the one-child policy to allow all couples to have two children.

Over the long term, the government is expected to promote additional reforms as needed to transform China from an export-driven economy toward a domestic consumption-oriented model. In 2013, China's leaders unveiled a reform agenda designed to bring about a "decisive" role for markets over the following decade. The 13th Five-Year Plan advocates objectives set out in prior plans to accelerate the business reform process. China has indicated intentions to reduce the government's role in the economy by opening up more industries to private capital, with certain reform measures introduced during the last few years.

Government programs also include the Belt and Road Initiative, a major infrastructure and investment project designed to promote commerce among China and other parts of Asia as well as Africa, the Middle East, and Europe.

Market Overview

RECENT THEMES OF INTEREST

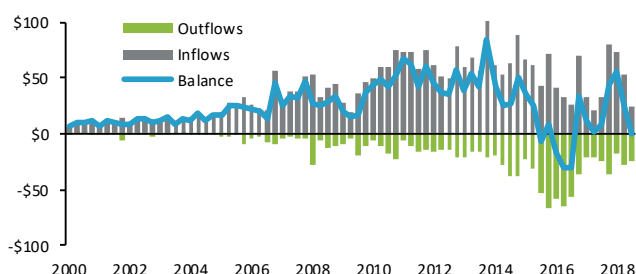
The following pages elaborate on several macro-economic issues that are relevant to the current M&A environment.

Foreign Direct Investment. Historically, China has experienced healthy inflows growth for foreign direct investments (FDI). The FDI inflow metric measures the control-level ownership of assets by foreign buyers such as companies, individuals, and government bodies. Among types of FDI, mergers and acquisitions are most relevant to this report. Points of note regarding historical FDI inflows:

- FDI inflows surged for several years after China joined the World Trade Organization in 2001.
- After dipping amid the global economic recession in 2009, FDI inflows growth was robust in 2010-2011.
- In 2012-2015, changes in annual FDI inflows were relatively modest.
- Inflows declined significantly in 2016 and in 1H17 before rising during 2H17 and 1H18; inflows were down moderately in Q3 2018 (latest data available).

Foreign Direct Investment Flows

(Quarterly data, \$ in billions)



Source: State Administration of Foreign Exchange (SAFE).

FDI outflows became a larger factor due to record outbound M&A activity in 2015-2016. This dynamic, combined with reduced FDI inflows, resulted in China's first year of net capital outflows in 2016, exerting downward pressure on the yuan. As a result, China's government pursued tighter regulatory focus on certain outbound M&A transactions while seeking to attract more inbound investments by further improving the investment landscape. Net capital inflows returned in each quarter from Q4 2016 through Q3 2018.

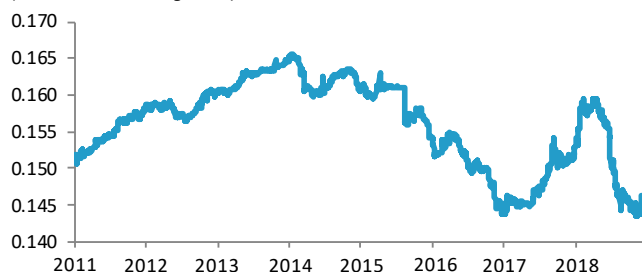
Currency. Historically, foreign currency reserves have provided China with a strong foundation for offshore investments and room to adjust policies to support its currency. Softening in the yuan beginning in mid-2015 resulted in more use of reserves for currency support, leading to a reduction in reserves during 2015-2016 before a modest recovery in 2017. Reserves were down slightly in 2018.

Among historical data for China's currency:

- After China removed a strict dollar peg in 2005, the yuan gained 20%+ until a de facto peg was installed in 2008.
- In mid-2010, China allowed revaluation; the yuan then appreciated about 10% through mid-2015.
- This approach cut inflation from 5.4% in 2011 to 2.0-2.7% in 2012-2014 and 1.4% in 2015. Inflation has remained low: 2.0% in 2016, 1.6% in 2017, and 2.1% in 2018.
- In August 2015, China's central bank lowered its yuan guidance rate. The yuan declined 4.5% versus the dollar in 2H15. The yuan depreciated another 6.5% in 2016.
- The yuan was up 6.7% versus the slumping dollar in 2017 amid tighter controls of capital outflows.
- In 2018, the yuan decreased 5.4% versus the dollar, including a decline of 8.9% from the early-year peak.

Yuan (RMB) to U.S. Dollar Exchange Rate

(RMB / USD exchange rate)

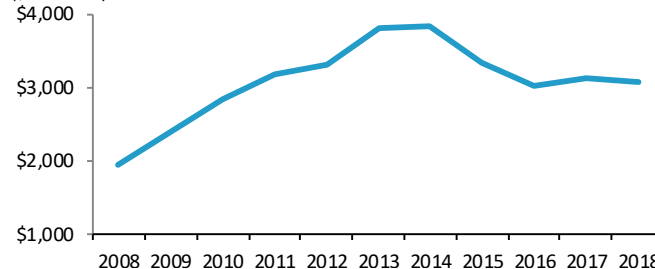


Source: Capital IQ.

After foreign currency reserves nearly doubled from 2008 to 2014, reserves fell 13% in 2015, when China used reserves to boost the yuan. Reserves declined to \$3.0 trillion in 2016, reflecting efforts to support the yuan, reduced exports, and lower FDI inflows. With steps being taken to restrict capital outflows and boost currency reserves, relative stability for reserves has been evident since early 2017. Restrictions on capital outflows add to the uncertainty of transacting with a Chinese buyer relying on onshore financing sources.

Foreign Currency Reserves

(\$ in billions)



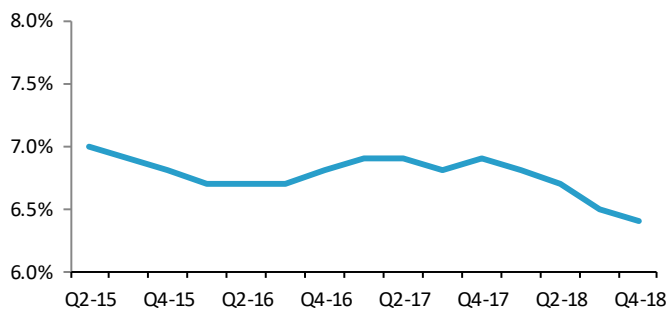
Source: IMF and CIA World Factbook.

Market Overview

GDP Growth. China historically has reported GDP growth near or above official targets. For 2004 through 2011, China's government announced an economic growth target of 8%, a pace seen as translating to job creation and enhanced social stability.

- The 8.7% growth reported for 2009 benefited from the government's \$586 billion stimulus package.
- Acceleration to 10.4% expansion in 2010 was due to a major exports rebound, increased property investment, and faster retail sales growth.
- Despite monetary policy tightening in 2011, GDP rose 9.2% on significant export growth, investment increases, and upper-teens gains for retail sales.

Real GDP Growth by Quarter



Source: World Bank. Quarterly figures represent rates as initially reported.

- China targeted 2012 GDP growth of 7.5%, below the prior 8% benchmark due to weakness in other regions. Reported GDP growth of 7.7% was well below the 2011 level based on below-plan export growth and less robust domestic consumption.
- For 2013, China's government again set a GDP growth target of 7.5%. After GDP increased 7.6% in the first half, growth accelerated slightly in the second half, resulting in full-year growth of 7.7%.
- In 2014, the GDP expansion target remained 7.5%, with reported growth on track in 1H14. Despite a series of stimulus measures, growth slowed in 2H14, resulting in full-year expansion of 7.3%.
- In 2015, the GDP expansion target was lowered to "about 7%." Expansion dipped to 6.9%, with slight deceleration in 2H15 amid reduced trade activity, a softer housing market, and sluggish consumption.
- For 2016, China's government set a GDP growth target of 6.5-7%. China reported GDP growth of 6.7% in Q1-Q3 on contraction for exports and deceleration for retail sales growth. Announced Q4 growth represented a slight uptick to 6.8%, resulting in full-year expansion of 6.7%.

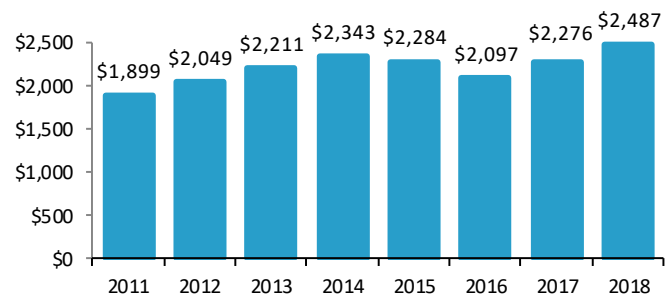
- China set a GDP growth target of "around 6.5%" for 2017. China reported GDP growth of 6.9% in 2017, announcing quarterly increases of 6.8-6.9% amid renewed expansion for exports as well as relatively stable retail sales growth.
- For 2018, China again established a GDP expansion target of "around 6.5%." Reported GDP increased 6.8% in Q1 and 6.7% in Q2 before dipping to 6.5% in Q3 and 6.4% in Q4, resulting in full-year expansion reported at 6.6%, in line with the target but the lowest rate in 28 years. Growth partly reflected continued gains for exports amid U.S.-China trade tensions. Expansion was hindered by efforts to reduce corporate and regional government debt.

Exports. China's exports have rebounded impressively from rare declines in 2015-2016 on the heels of nearly doubling over the prior five years.

- Exports were down 2% in 2015, well below the trade growth target of 6%.
- Weak activity continued in 2016, when exports shrank by 8% due to reduced demand from global trade partners.
- Export growth returned in 2017 with a 9% increase, helped by the decline in the yuan leading into 2017 along with solid economic growth for trade partners.
- In 2018, exports were up 9%, including growth of 12% in 1H18 and 7% in 2H18.
- China's export activity will be watched closely due to current trade tensions between China and the U.S., which is China's top trading partner at about 20% of exports.
- At year-end 2018, the yuan was down nearly 9% from its February 2018 peak, at least partly as a function of efforts by China's government to support exports due to tariffs in the U.S. market.

Export Dollar Volume

(\$ in billions)



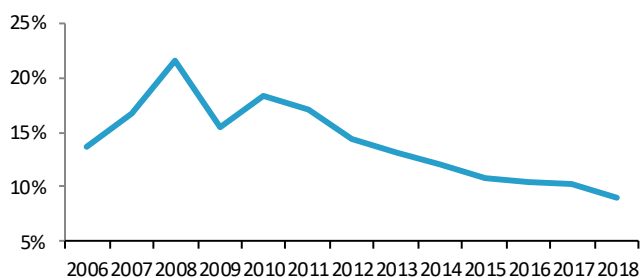
Source: National Bureau of Statistics, Bloomberg.

Market Overview

Consumer Spending. China continues to target greater contribution from domestic spending in an economy historically fueled by exports and capital investments. Consumption represents slightly over one-third of GDP, well below the levels of advanced economies such as the U.S.

- After retail sales increased 17.1% in 2011, growth decelerated over the following five years.
- Retail sales growth fell to 10.4% in 2016, as slower economic expansion hindered consumer spending.
- Growth held relatively steady at 10.2% in 2017, contributing to above-plan GDP growth.
- Retail sales growth decelerated to 9.0% in 2018, factoring into the dip in GDP expansion.

Retail Sales Growth



Source: National Bureau of Statistics.

Imports represent another key indicator of domestic consumption.

- After imports rose 7% in 2013, growth slipped to 1% in 2014, suggesting slack in consumer demand, along with commodity cost deflation.
- Softness continued in 2015, when imports dropped 14%, and in 2016 (imports -6%).
- Imports rebounded in 2017, rising 16%.
- Momentum continued during 2018, when imports again increased 16%.

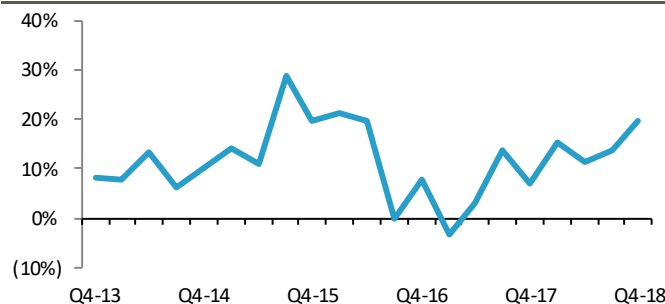
Achieving balanced long-term growth depends on more contribution from consumption. Growth in per-capita income (far below the global mean) will lead to large gains in living standards and consumer spending. Consumption would be enhanced by extension of the social safety net, whose limited reach factors into a savings-oriented culture. With foreign investors focused on China's consumer sector, the increasing number of high-quality products and retailers catering to domestic preferences should lift consumption.

Monetary Policy Transitions. China's government shifted monetary policy several times in recent periods.

- The People's Bank of China (PBOC), China's central bank, raised benchmark interest rates for the first time in three years in 2010 to combat rising inflation and soaring asset prices, followed by four more increases through mid-2011.
- With inflation dropping to multi-year lows in mid-2012, the PBOC cut interest rates twice to support GDP growth.
- Further inflation reductions enabled the PBOC to lower interest rates six times in Q4 2014 and 2015 in an effort to enhance growth and relieve debt burdens.
- The PBOC shifted to a modest tightening bias in early 2017 after the U.S. Federal Reserve increased benchmark interest rates, with several small reverse repurchase rate increases since then. However, the PBOC is expected to provide support to China's economy during 2019.

Lending Controls. The government has strived to normalize bank lending activity in recent periods. After aggressive state-directed lending growth of 95% in 2009, lending fell 12% per year in 2010-2011. Lending increased an average of 10% per year during 2012-2017, with annual growth ranging from 7% to 20%. In 2018, bank lending growth was 20%.

Bank Lending Growth – Rolling LTM Basis



Source: Bloomberg.

In order to manage liquidity, inflation, and real estate speculation, China raised the required deposit reserve ratio for banks to a record level in 2010, with six more increases in 2011. Amid lower inflation, China eased bank reserve requirements in late 2011 and 2012, and again in 2015-2017. In 2018 and early 2019, the PBOC cut targeted reserve ratios in order to enhance funding for small businesses.

In recent periods, China's authorities have undertaken efforts to enhance the stability of the financial sector and reduce systemic risks in view of increased overall debt levels, including in the less regulated "shadow banking" segment. For example, the PBOC has pushed China's banking system to strengthen risk controls in an attempt to rein in concealed and complex transactions and limit nonperforming loans.

Market Overview

Volatile Equity Markets. The performance of China's stock markets influences M&A activity. The two mainland exchanges (Shanghai, Shenzhen) list more than 3,600 firms with a combined market capitalization approaching \$7 trillion. The Hong Kong exchange also ranks among the world's leaders. Trends for equities affect the ability of companies to raise capital via stock offerings or to use shares as M&A consideration (for domestic deals). Valuation differences relative to other markets are relevant to cross-border activity. China's equity markets are sensitive to government policies, which impact the supply and demand for shares.

3-Year Stock Market Performance



Source: Capital IQ.

China's equity markets have experienced substantial volatility over the years.

- After the mainland indexes jumped over 200% in 2007, share prices plunged in 2008 amid the global economic crisis and slower domestic growth.
- In 2009, the Shanghai and Shenzhen indexes nearly doubled due to China's economic improvement.
- Performance was mixed in 2010, with the Shenzhen index up 5% and the Shanghai market down 14%.
- In 2011, the Shanghai and Shenzhen indices dropped 27% on average, followed by 1-3% gains in 2012-2013.
- In 2014, the Shanghai index rose 53%, while the Shenzhen index gained 33%, helped by greater retail investor demand after interest rate cuts.

China's equity markets have seen several dramatic swings since 2015, with stocks often influenced more by investor sentiment than by economic fundamentals.

- From the start of the 2015 through the mid-June 2015 peak, the Shenzhen and Shanghai indices produced an average gain of 80%.
- The average index decline from the peak to the mid-September 2015 bottom was 45%.
- The mean index return was 25% in 2015, including +28% from mid-September through year-end.
- Indices declined 24-28% in January-February 2016 before rebounding to fall 14% on average in 2016.
- Amid lower volatility, indices remained in a narrow range in rising an average of 5% in 2017.
- During 2018, the Shenzhen and Shanghai indices declined an average of 28%, with many listed companies down 30-40%. Investor sentiment seemingly was hurt by depreciation for the yuan, slowing economic growth, and the potential impact of tariffs involving trade with the U.S.

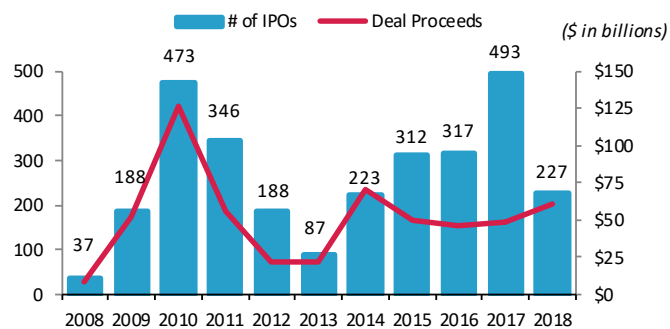
The China Securities Regulatory Commission (CSRC) has taken steps intended to support stocks, with inconsistent results. Amid downturns, the CSRC has implemented rules such as closing markets and limiting sales by large shareholders. At times, the CSRC has encouraged companies to raise dividends, repurchase stock, and pursue M&A in an attempt to boost shares.

Market Overview

IPO Activity. While closed at times in the past decade, China's IPO market generally has been open.

- After the CSRC suspended IPO reviews in 2008 to support sagging markets, the IPO market re-opened in mid-2009. In 2010-2012, more than 1,200 IPOs priced, including a then-record year in 2010.
- In October 2012, the CSRC halted new listing approvals due to concerns about pressure on equity values, causing a five-year low for activity in 2013.
- After the CSRC lifted the IPO moratorium in late 2013, 200+ IPOs priced in 2014.
- In 2015, stock market gains fueled a four-year high for IPOs. However, the CSRC suspended pricings for four months after a steep slide in equities.
- Steadier equity markets in 2H16 led to a pick-up in IPOs and drove a five-year high for pricings in 2016.
- Momentum for IPO pricings carried through 2017, as the number of IPOs reached an all-time high.
- In 2018, the number of IPOs fell to a four-year low, with pricings dampened by weakness in the equity markets. The more challenging IPO market has largely impacted smaller issuers, as 2018 IPO proceeds were moderately above the levels of each of the prior three years despite a large decline in activity.

IPO Activity



Source: Dealogic.

Excludes IPOs under \$15 million and with undisclosed values.

Points of interest on China's IPO market:

- CSRC tightened its process for IPO approvals in 2018, resulting in more rejections of applicants. Reports indicate that more than 200 companies await approval to list.
- Among firms seeking to go public, state-owned entities (SOEs) and larger issues typically are prioritized in the approval process.
- In 2015, China announced a forthcoming shift in the IPO rules, away from the CSRC approval process and toward registration with China's stock exchanges, in an effort to facilitate market-based pricings; however, reports since then have suggested a later timeframe for the new IPO process.
- The IPO backlog would expand if an international board for listing large multi-nationals in Shanghai opens, as this would allow foreign companies to sell shares in Chinese currency.

The Growth Enterprise Market was launched by the Shenzhen Stock Exchange in late 2009 to allow more small and mid-sized companies to access the public markets. The launch included 28 IPOs that raised about \$2 billion for newly listed companies. The total number of IPOs on the exchange (also known as ChiNext) reached 117 by the end of 2010, with total capital raised exceeding \$14 billion, showing capital-raising potential for a substantial number of smaller entities. The ChiNext exchange entered 2019 with more than 700 listed companies, many of which are technology firms. ChiNext enhances the appeal of pre-IPO investments due to the improved outlook for exit opportunities. In addition, IPO proceeds supply issuers with capital for potential M&A transactions.

Although the majority of IPOs are listed on the Shenzhen and Shanghai exchanges, offshore listings for China-based companies are commonplace. IPO activity since 2009 included 600+ Hong Kong-listed IPOs, plus nearly 150 listings on the NYSE or NASDAQ. This group included the NYSE listing of the massive Alibaba Group IPO in 2014 amid a resurgence of U.S. listings for China-based technology firms.

Among the benefits of offshore listings are:

- Access to foreign currency (e.g., to fund international expansion).
- The prestige of listing on the NYSE and (particularly for technology companies) NASDAQ exchanges.
- A more straightforward, transparent, disclosure-based listing process compared to the less visible process of listing in China, where an issuer's chance of listing is dependent on the decisions of the CSRC.



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M&A Themes

M&A Themes

The following pages provide analysis and data related to China's M&A market. Our data set consists of M&A deals involving companies headquartered in China, Hong Kong, or Taiwan. This section focuses on outbound and inbound M&A activity, as corporations and financial sponsors across the world have greater interest in cross-border acquisitions involving China.

M&A DRIVERS

Before presenting the M&A data, we review drivers of M&A activity in China. Given the large and dynamic nature of China's M&A market, many factors have influenced acquisition activity over the last 10+ years. Some drivers have applied throughout this period, while others have become more relevant recently. This section reviews issues applying mainly to outbound or inbound activity. Outbound M&A drivers include:

- New Market Entry
- Technology Capabilities
- Access to Brands
- Natural Resources
- Private Equity Partnerships
- Government Support

Inbound M&A drivers include:

- Strong Economic Growth
- Geographic Expansion
- Regulatory Shift
- Foreign Private Equity
- Range of Exit Strategies
- More Viable Targets

Outbound M&A Drivers

New Market Entry. For Chinese firms looking overseas for growth and diversification, M&A often is a superior option to the costly and time-consuming alternative of building internally. Chinese buyers are increasingly seen as a key group for overseas sell-side processes, expanding outbound opportunities. Through outbound M&A, Chinese firms gain distribution, market share, a local team, and closer ties to customers in foreign markets. Cases of new market entry and newer market expansion include:

- In January 2019, Qingdao Haier Co., Ltd. acquired Italy-based appliances maker Candy S.P.A. for \$552 million in a deal designed to enhance the competitiveness of both companies in the European and global markets.
- In September 2018, CK Hutchison Holdings Limited acquired the remaining 50% stake in Italy-based telecommunication services provider Wind Tre S.p.A. in a transaction valued at \$17.1 billion.
- In August 2018, Ningbo Jifeng Auto Parts Co., Ltd. acquired the remaining 73.7% stake in Germany-based Grammer AG, a manufacturer of automotive interior components, for \$777 million.

Even amid the stricter regulatory regime, China's government has supported outbound M&A geared to key strategic targets such as geographic market development, including in countries that are part of the Belt and Road Initiative.

Technology Capabilities. Chinese firms often acquire in order to access technology capabilities, which have gained relevance as cost advantages versus other Asian nations have narrowed. Indeed, Computers & Electronics ranked as the top outbound target sector over the past 10 years. Buying established technology avoids hefty development costs, enables satisfaction of demanding certification requirements, and may bring patent protection.

- In November 2018, Shanghai RAAS Blood Products Co., Ltd. signed a letter of intent to acquire U.S.-based Grifols Diagnostic Solutions Inc., a provider of transfusional diagnostics and immunology services, from Spain-based Grifols, S.A. for \$5.0 billion.
- In November 2018, Huadong Medicine Co., Ltd. acquired London-based pharmaceuticals company Sinclair Pharma plc for \$244 million.

M&A Themes

Access to Brands. Outbound M&A allows Chinese domestic companies to secure brands whose value would be difficult to replicate. For example:

- In December 2018, Legend Grace International Limited and IDG Capital Partners agreed to acquire a 41% stake in Sweden-based Acne Studios Holding AB, a manufacturer of women's and men's apparel, shoes, and accessories, for \$203 million.
- In September 2018, a consortium including ANTA Sports Products, FountainVest Partners, and Tencent Holdings Limited agreed to acquire Amer Sports Corporation, a Finland-based sporting goods company with brands covering a wide range of sports, for \$6.5 billion.
- In September 2018, Foxconn Interconnect Technology Limited acquired U.S.-based Belkin International, a manufacturer of consumer electronics, smart home technologies, wireless networking products, and charging and power products for smartphones and tablets, for \$850 million.

Strategic buyers and private equity funds are acquiring overseas-based brands capable of penetrating China's consumer and manufacturing markets, which are benefiting from urbanization and middle-class growth. Robust outbound M&A in Agribusiness and Food & Beverage reflects efforts to capitalize on the changing dietary habits of China's middle-class consumers.

Natural Resources. Many acquisitions have obtained rights to and stakes in the resources and infrastructure needed for China's industrial operations, energy generation, and food production. In addition, resource sector investments by state-owned firms and China's sovereign wealth fund diversify immense foreign currency reserves. As evidence of China's focus on natural resources, China's top outbound target sectors since 2009 include Mining (ranked 2nd) and Oil & Gas (ranked 4th), with related outbound activity also including specialty chemicals as well as key infrastructure assets.

- In January 2019, Zijin Mining Group Company Limited acquired Canada-based Nevsun Resources Ltd., a mining company with stakes in gold, copper, zinc, and silver properties, for \$1.5 billion.
- In December 2018, Tianqi Lithium Corporation acquired a 23.8% stake in Sociedad Química y Minera de Chile S.A., a specialty chemicals provider claiming to be the world's largest lithium producer, from Nutrien Ltd for \$4.1 billion.
- In September 2018, United Energy Group Limited acquired Kuwait Energy plc, an oil & gas exploration and production company with assets in the Middle East region, in a transaction valued at \$1.2 billion.

Private Equity Partnerships. Chinese private equity firms have become more active in outbound M&A, often partnering with Chinese strategic acquirors. Due to China's stricter capital controls, Chinese strategic buyers are increasingly looking to team up with private equity firms having offshore funding capabilities. Based on their M&A expertise and understanding of western cultures and practices, Chinese financial sponsors are well positioned to assist strategic partners in navigating the complex cross-border M&A process, sometimes preempting an auction process in order to increase the probability of a deal's success.

China's financial sponsors are targeting, on their own or in partnership with U.S./European sponsors, U.S. and European businesses with potential to expand in China. Chinese private equity firms can accelerate the growth of western targets in China by leveraging their business networks, operating expertise, and familiarity with the local market. In recent examples:

- In November 2018, Beautiful Mind Investment Management Ltd (which was established in early 2018 in partnership with the sovereign wealth fund of Shanghai) acquired Germany-based CORDENKA GmbH & Co. KG, a manufacturer of industrial rayon used in high-performance tires, with the new ownership expected to help CORDENKA develop its business in China.
- In September 2018, Australia-based Sirtex Medical Limited, a developer of medical products for the treatment of liver cancer, was acquired by CDH Investments and China Grand Pharmaceutical and Healthcare Holdings for \$1.4 billion, with potential for relisting Sirtex in Hong Kong over the next three years.

Government Support. The government has fueled outbound M&A by Chinese companies via its "going out" strategy, which involves supporting firms looking to invest overseas. Over the years, adjusted regulations facilitated access to acquisition financing for potential buyers. China has encouraged buyers to acquire in the advanced manufacturing, auto technology, business services, consumer, education, and healthcare sectors. Outbound investments remain subject to prior review, as detailed on page 13.

Inbound M&A Drivers

Strong Economic Growth. The growth potential of China is a draw for overseas acquirors. Foreign buyers, often responding to pressure from boards, have targeted Chinese companies in order to participate in an economy with a recent history of upper single-digit GDP expansion and substantial prospects for long-term growth. The appeal of entering China via acquisition contributed to inbound M&A dollar volume for 2015-2018 equaling the total of the prior four years despite a fall-off in the inbound M&A deal count.

Outside buyers are attracted to the benefits of owning a high-growth Chinese company serving the expanding market for domestic consumption. Exports and fixed asset investments, which represent substantial portions of China's economic activity, feed the buying power of individuals and businesses purchasing and using products domestically. Some inbound buyers are shifting to onshore production to address the local market, acquiring lower-tier suppliers in smaller deals.

For buyers targeting successful domestic businesses, China represents a fertile end-market that capitalizes on rising standards of living. In recent examples:

- In October 2018, Japan-based Hitachi, Ltd. agreed to acquire the remaining 88.3% stake in Yungtay Engineering Co., Ltd., which sells and distributes Hitachi elevators. The acquisition is intended to drive growth in Hitachi's elevator business in China and elsewhere in Asia.
- In July 2018, Japan-based Terumo Corporation agreed to acquire Shanghai Kinetic Medical subsidiary Essen Technology, a developer of drug-eluting stents, for \$129 million plus potential milestone-based payments.

Geographic Expansion. Acquirors entering China realize the benefits of a broader presence in a global marketplace. Inbound acquisitions allow buyers to reach new geographic markets and diversify customer bases. For overseas companies looking to expand into China, M&A is a viable means of acquiring assets that are difficult to develop internally, including local workers, brands, and distribution. Partnerships with local entities enable entrants to navigate China's markets (through established channels) and government regulations. For companies supplying products to domestic manufacturers based in China as well as the Chinese operations of multi-national corporations, the enhanced ability to service customers is a competitive advantage. Through cross-border M&A, companies can obtain valuable local enterprises that would be challenging to build on an organic basis.

In recent examples of geographic expansion:

- In November 2018, France-based healthcare technology company bioMérieux S.A. acquired a 54% stake in SuZhou Hybiome Biomedical Engineering for \$115 million, adding to the stake (percentage undisclosed) purchased in July 2018 in its first acquisition of a company based in China.
- In May 2018, U.S.-based Jet Aviation, a unit of General Dynamics, acquired Hawker Pacific Airservices Limited for \$250 million, citing the deal as a major step in expanding its capabilities in the Asia-Pacific and Middle East regions.

Regulatory Shift. Although past policies often favored domestic entities over foreign capital, the government increasingly supports inbound M&A.

- In 2015, China's Ministry of Commerce (MOFCOM), which formulates policy on trade, FDI, and market competition, published a draft Foreign Investment Law to introduce a more market-based regulatory regime for foreign investments into China.
- In mid-2017, China's National Development and Reform Commission (NDRC) and MOFCOM released the 2017 Catalogue for the Guidance of Foreign Investment Industries, which reduced "prohibited industries" and increased encouraged areas of foreign investment.
- In June 2018, the NDRC announced further easing of curbs on inbound investments, reducing the number of industries with limited or prohibited foreign investment to 48 from 63. Sectors with easing foreign ownership regulations include financials, autos, ship/aircraft manufacturing, power grids, and the breeding of crops.
- In January 2019, the NDRC indicated further plans of opening up China to outside investments. Foreign investors are to be granted more access to sectors such as automotive, financial services, agriculture, healthcare, and telecommunications. China will also eliminate joint venture requirements for foreign investments, paving the way for investments such as Tesla's new Shanghai manufacturing plant, which broke ground in early 2019.

Foreign Private Equity. Changes in regulations have intensified interest in China among foreign private equity firms. Modified rules have lifted the number of foreign firms with yuan-denominated equity investment entities, which can raise funds from Chinese individuals, pension portfolios, and domestic enterprises. Updated rules reduce taxes and offer incentives for yuan-based funds, which face fewer regulatory obstacles than U.S. dollar-based funds. Evolving regulations have helped private equity fundraising in China. Yuan-based funds have been launched by leading firms such as Carlyle Group, KKR, Blackstone, TPG, Warburg Pincus, Goldman Sachs, Morgan Stanley, and JPMorgan Chase.

M&A Themes

Among recent private equity deals:

- In November 2018, Warburg Pincus LLC acquired the China-based pharma, consumer health, and medical device businesses of DKSH Holding Ltd. for \$101 million.
- In April 2018, China-based eHi Car Services agreed to be acquired by a buyer group including MBK Partners, Baring Private Equity Asia, Redstone Capital Management (Cayman) Limited, and certain existing shareholders for \$954 million. The deal underscores the recent trend of sponsors seeking to take U.S.-listed Chinese companies private due to the potential to achieve higher valuations if relisted in China or Hong Kong.

Range of Exit Strategies. Foreign private equity buyers have several future paths out of investments in Chinese firms. Cross-border M&A has gained acceptance, enabling purchase and subsequent exit activity. China has welcomed foreign private equity as part of efforts to attract foreign direct investment inflows into China. Secondary buyouts have become more common, with financial buyers attracted to targets vetted by another private equity firm. As an example, in January 2018, Affinity Equity Partners acquired Trimco International Holdings Limited from Partners Group Holding for \$520 million.

More Viable Targets. Several factors have increased the number of targets for overseas buyers. Worthwhile targets include a growing number of enterprises with sufficient size, scale, and technology capabilities following an extended period of economic growth in China. Also among prospective targets are businesses owned by aging first-generation entrepreneurs with children who are not interested in taking over for their parents.

CROSS-BORDER M&A CHALLENGES

Approval Process. The approval process for cross-border deals involving China can be complex and drawn-out. Cross-border M&A entails regulations in countries on both sides of the deal and (at times) elsewhere. Inbound M&A requires approval from several government authorities in China, with the lengthy process restricting majority-stake purchases by foreign capital. In 2011, the government began reviewing foreign investments in Chinese companies for national security purposes, lengthening the deal cycle and increasing completion risk.

Large outbound deals require approval from several government entities, as detailed on page 13. Indeed, following a period of massive growth for outbound M&A activity through 2016, tighter regulations have since been in effect.

Perceived national security risks can lead to intervention in outbound deals by overseas regulators such as the Committee on Foreign Investment in the United States (CFIUS). Since 2016, several proposed outbound acquisitions by Chinese entities were abandoned or blocked following reviews by CFIUS, with targets in rejected deals including Philips LumiLeds, MoneyGram, Western Digital, Lattice Semiconductor, and Aixtron. Recently passed U.S. legislation broadens the reach of CFIUS to include minority-stake deals and joint ventures while expanding the definition of emerging and foundational technologies seen as sensitive to being transferred to other countries. Page 15 includes more details on the impact of CFIUS on inbound M&A activity into the U.S., including from China.

Complex Due Diligence and Integration. Effective due diligence and integration of cross-border targets are essential to improving operations. An Economist Intelligence Unit survey cited due diligence and integration as the two elements most critical to a cross-border deal's success. Acquirors lacking experience in the target's home country must account for language barriers, cultural practices, and local issues. We believe buyers of China-based companies have found the integration process to be demanding but worthwhile.

Securing Financing. Securing debt capital for a complex, cross-border deal can be challenging. Since the global credit crunch of 2008-2009, access to credit has expanded for larger buyers of high-quality assets. Nonetheless, the lack of free currency convertibility limits the use of equity financing by Chinese firms.

Valuation Gap. Historically, the multiple disparity between China's public companies and counterparts abroad affected deal-making in certain situations. For example, with public-company comparables as a benchmark, higher multiples may have hindered inbound activity, even as the sale of Chinese companies often proves appealing when an IPO is not viable. In addition, Chinese acquirors often have viewed lower overseas valuations as an attractive opportunity. That said, room for valuation arbitrage has been reduced due to the potential cap that might be suggested by approval authorities for multiples paid by Chinese public companies and also as a result of recent lagging performance for equities trading on China's main stock exchanges.

The background of the slide features a photograph of traditional Chinese architecture. It shows dark wooden beams, intricate carvings, and several red lanterns with long tassels hanging from the ceiling. A semi-transparent red rectangular box is overlaid on the left side of the image, containing the title and subtitle text.

BAIRD'S PERSPECTIVE ON
ECONOMIC AND M&A ACTIVITY

Outbound Filings and Approvals

Current Outbound Filing and Approval Process

China's outbound investment regime has been simplified in recent years, although the principle remains that any outbound investment must be subject to some level of prior review. Onshore Chinese buyer entities that need to transfer funds out of mainland China will therefore need to have SPA (sale and purchase agreement) conditionality in any outbound deal. The filing and approval cycle for outbound M&A typically takes two to three months and involves the regulatory bodies listed in the opposite column, as detailed below:

- Application process is conducted with NDRC and MOFCOM in parallel.
- Once a deal is signed, its completion is subject to verification by NDRC, with the filing process taking up to three months.
- NDRC verification can either be a filing process or a more complex approval process.
- NDRC verification approval process is required for targets in "sensitive regions or industries"; State Council approval is also required for "sensitive" deals valued over \$2 billion.
- Any outbound investment requires a MOFCOM filing, which can take up to one month; "sensitive" deals require a more complex MOFCOM approval process.
- For SOEs, additional filings and approvals may be needed with SASAC, with the filing process taking up to two months, and the approval process more complicated and lengthy.
- Foreign exchange registration verification process has been delegated by SAFE to authorized commercial banks.
- Ad hoc SAFE verifications take place to distinguish illegal capital outflows from real and genuine outbound investments.

In January 2018, NDRC introduced new rules for outbound investments, aiming to simplify approvals, filing, and reporting:

- Abolished the NDRC confirmation letter that was required to be obtained prior to the signing of a legally binding agreement for investments of more than \$300 million.
- Eliminated provincial NDRC review for investments subject to central NDRC approval.

NDRC

The National Development and Reform Commission implements macroeconomic policies, including China's strategic goals.

MOFCOM

The Ministry of Commerce formulates policy on foreign trade, foreign direct investments, and the negotiation of trade agreements.

SASAC

The State-owned Assets Supervision and Administration Commission manages and drafts laws for SOEs.

SAFE

The State Administration of Foreign Exchange governs foreign reserves and foreign exchange market activities, including transfers outside China.

State Council

The State Council is the Central People's Government and the chief administrative authority of China, chaired by the Premier.

BAIRD'S PERSPECTIVE ON
ECONOMIC AND M&A ACTIVITY

Future Activity



Outlook for China's Outbound M&A

Key themes for China's outbound M&A environment in the near term have shifted relative to the past couple of years. Whereas a tighter regulatory regime for outbound M&A weighed on activity starting in late 2016, the current outbound M&A outlook is largely influenced by China-U.S. tensions along with China's economic slowdown.

Political and trade frictions between China and the U.S. have a significant impact on China's outbound M&A activity.

- China is increasingly turning to Western Europe for deals given the current discord between China and the U.S. Indeed, 2018 dollar volume for China's outbound M&A into Europe totaled \$82 billion, well above \$15 billion for China's outbound M&A into the U.S. Pages 9-10 and 41-42 include numerous examples of recent outbound M&A deals involving targets based in Western Europe.
- Weaker investment in the U.S. is largely a function of the Trump administration imposing tighter regulatory controls via CFIUS for inbound M&A, particularly from China (detailed further on page 15). The resulting failure of multiple announced deals has discouraged other Chinese acquirors from pursuing U.S.-based targets.
- Of note, Chinese investment into a European business with a significant U.S. presence is also subject to CFIUS review. For example, Fosun International's 2018 acquisition of Germany-based FFT is still in CFIUS review.

The outlook is mixed for SOEs as outbound M&A buyers.

- We expect to see SOEs continue to perform a key role in reforms, growth, and developing strategically important industry sectors in 2019, with SOEs still encouraged to move up the value chain. However, we believe many of the large SOEs that previously were active in outbound M&A have had less appetite for M&A over the past year due to focusing on restructuring, mergers, and integration of acquired overseas businesses.
- SOEs that are able to focus on outbound M&A remain keen on acquisitions in advanced manufacturing and technology, with emphasis on the semiconductor, industrial automation, and high performance materials sectors.
- SOEs are becoming more selective and conservative in cross-border M&A, with its appeal potentially dampened by a new regulation (effective August 2018) that makes government officials accountable for investment losses.
- Large SOEs with financial strength and leading market positions are in an advantageous position to pursue the increasing number of domestic M&A targets, as the valuation expectations of sellers have been lowered by slower economic trends and the substantial sell-off in China's equity markets.

Many of China's listed companies may not be able to prioritize outbound M&A in the near term.

- China equity markets suffered large declines in 2018, when the stock prices of many listed companies plunged by 30-40%. Some listed companies that were previously active in cross-border M&A are now facing liquidity issues and will therefore need to focus on improving their balance sheets before gearing up for M&A again.
- Publicly listed Chinese companies that are in healthier financial positions should continue to build outbound deal pipelines, anticipating government support for those transactions that will allow them to strengthen their core competencies globally.

As detailed in preceding reports, China tightened regulations on outbound M&A following a wave of overseas deal-making into late 2016. After stringent regulatory controls led to reduced outbound M&A and stabilizing currency reserves in 2017, China appeared to become more supportive of overseas expansion in 2018, with the NDRC's early-2018 introduction of new rules intended to streamline outbound investments and reduce administrative burdens. Nevertheless, regulations around outbound M&A (detailed further on page 13) are stricter than a few years ago, as evident in the number of outbound M&A transactions declining again in 2018.

Many drivers supporting robust levels of outbound M&A activity in 2015-2018 remain in place today:

- Globalization strategies of China's SOEs (to the extent allowed by management capacity) and privately-owned enterprises (POEs).
- Widespread need to acquire technology, intellectual property, management know-how, and established brands to build core competencies and fuel future growth.
- Cash-rich Chinese companies and private equity firms (some with offshore offices/U.S. dollar funds) under pressure to develop new growth engines and to deploy dry powder.

In addition, the success of Chinese enterprises in reaching deal agreements with overseas parties since 2015, including in western-style processes for targets in developed markets such as North America and Europe, has given these entities more confidence and experience in pursuing overseas targets.

Impact of U.S. Regulations on China's Outbound M&A into U.S.

The ability of China's acquirors to invest in U.S. targets, particularly in technology sectors, has also been limited by the current U.S. regulatory environment.

U.S. inbound M&A is facing increasing intervention from the Committee on Foreign Investment in the U.S. (CFIUS), a multi-agency government panel that reviews investments in U.S. businesses by foreign entities for potential national security implications. Although CFIUS reviews can apply to investments from any foreign country, scrutiny of China's investments has been pronounced recently.

CFIUS focuses its reviews on transactions where a foreign entity's control of a U.S. company involves issues of national security. As a result, the panel is most likely to scrutinize investments in sectors such as semiconductors, telecommunications, artificial intelligence, data mining, aerospace/defense, and transportation infrastructure.

CFIUS reviews can be initiated either at the request of the transaction parties through voluntary notice given to the panel or when CFIUS independently starts a review, often due to perceived concerns over national security risks. Reviews can result in required changes that limit foreign control or access to sensitive U.S. technologies. Transaction parties typically withdraw deals if unable to mitigate the national security concerns of CFIUS, in order to avoid the alternate scenario of the panel referring the transaction to the President of the U.S. with a recommendation to reject the deal.

CFIUS was especially active in 2017 (latest year with data available), when it reviewed about 240 cases, well above the 2016 level and more than double the amount in 2013. Greater CFIUS activity has included a substantial increases in blocked/abandoned deals, investigations, proposals of mitigation steps, repeat reviews, and review cycle times.

While applying broadly across geographies, the increased CFIUS activity of recent years has included inbound deals involving China-based entities, with such transactions representing the largest number of reviews and abandoned/blocked deals.

- According to legal advisory services provider Pillsbury Winthrop Shaw Pittman LLP, the CFIUS clearance rate for China's investments in the U.S. fell to under 60% from the start of 2017 through Q3 2018, down from 90%+ in the preceding three years.
- Greater CFIUS scrutiny of Chinese deals since 2016 has reflected peak levels of Chinese investments in the U.S. triggering concerns over national security, with the perception that Chinese investors act on behalf of China's government.
- The wide range of deal sizes in the following table highlights the extent of the panel's reach.

Selected China Outbound M&A Blocked by CFIUS

Date	Target	Target Sector	Proposed Acquiror	Deal Value (\$ mil)
Mar 2018	Waldo Farms	Biotechnology/Genetics	Beijing Dabeinong Technology	\$17
Feb 2018	Xcerra	Semiconductors	China IC Industry Investment Fund	\$601
Jan 2018	MoneyGram	Digital Payments	Ant Financial Services	\$1,200
Sep 2017	Lattice Semiconductor	Semiconductors	Canyon Bridge Capital	\$1,402
Dec 2016	Aixtron (company w/U.S. sub)	Semiconductors	Grand Chip Investment	\$560
Feb 2016	Western Digital	Data/Information	Unisplendour	\$3,775

Source: Capital IQ.

Lattice / Canyon Bridge transaction was blocked by President Trump.
Aixtron / Grand Chip transaction was blocked by President Obama.

In August 2018, the U.S. federal government passed legislation to broaden the reach of CFIUS. The Foreign Investment Risk Review Modernization Act (FIRRMA) increases the jurisdiction of CFIUS to include greater authority to review minority-stake deals while expanding the definition of emerging and foundational technologies seen as sensitive to being transferred to China and other countries from a national security or technological leadership perspective. The legislation also specifies more national security factors to be considered by CFIUS and extends the review timeline. Of note, CFIUS review backlogs reportedly have increased following the enactment of FIRRMA, with backlogs lengthening further during the U.S. government shutdown.

The U.S. is believed to be considering additional limits on foreign investment, with certain limitations applying specifically to China. Contemplated restrictions include broader curbs on inbound investments in industrially significant technology sectors, with focus on protecting intellectual property in fields such as robotics, artificial intelligence, and electronic vehicles. In view of China-U.S. trade tensions, the potential for further tightening of U.S. regulations on China's inbound investment activity should be monitored.

Despite the increased challenges of achieving CFIUS clearance and the enactment of FIRRMA, U.S.-based sellers should continue to include buyers from all countries, including China, in sellside processes. This is particularly true for businesses that are less relevant to national security and for businesses not involved in advanced technologies, sensitive data, or proximity to U.S. government facilities. Indeed, despite intensified scrutiny, most foreign investments in the U.S. are being completed, including 1,300+ M&A transactions that closed in 2018, with nearly 100 coming from China. In addition, Chinese buyers are in position to be opportunistic whenever market volatility caused by trade frictions and regulatory concerns lead to attractive valuations for targets.



BAIRD'S PERSPECTIVE ON
ECONOMIC AND M&A ACTIVITY

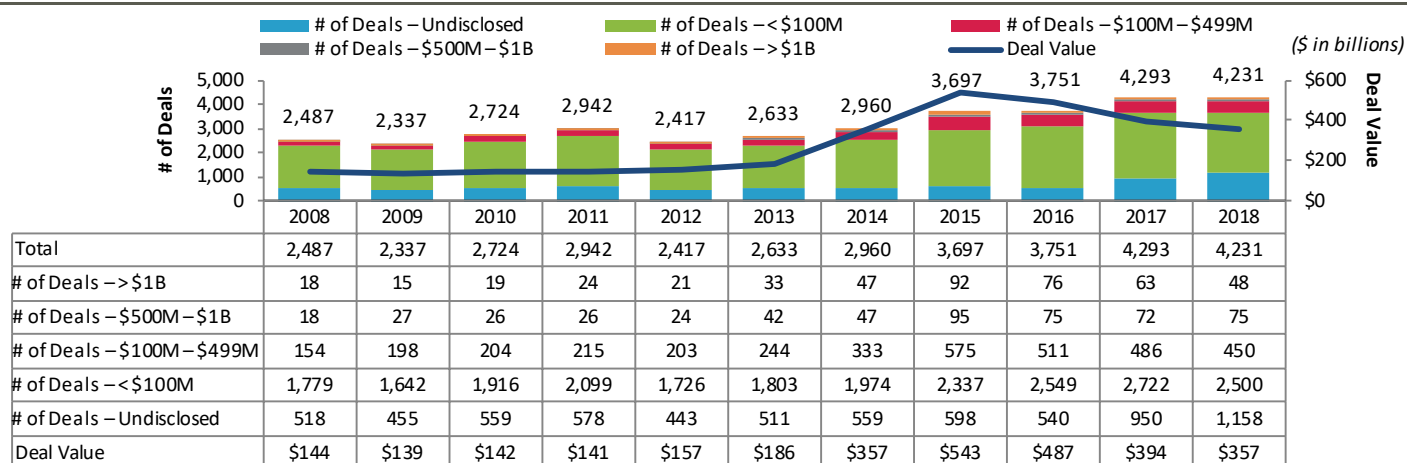
M&A Analysis

M&A Analysis

China Majority-Interest M&A

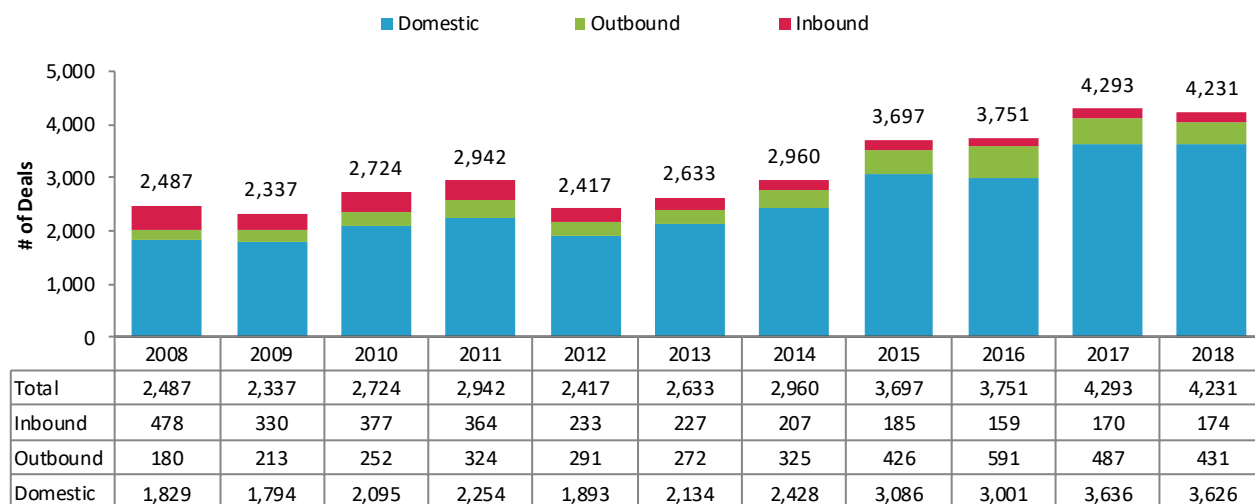
- For the 10 years that ended in 2018, the number of majority-interest deals increased at a CAGR of 5.5%. The average annual increase in deal value for majority-interest transactions over the same time period was 9.5%.
- Majority-interest deals have been more common than minority-interest transactions. Since 2008, majority-interest deals represented 59% of all transactions and outpaced the minority-interest deal count in each year.
- Domestic transactions continued to account for most of China's M&A activity, as 86% of majority-interest deals in 2018 involved two China-based companies.
- For an extended period through 2011, cross-border activity was led by foreign acquisitions of Chinese targets. However, this trend reversed in 2012-2018, when the number of outbound majority-stake transactions more than doubled the inbound deal count.
- The 2018 majority-stake deal count in China dipped 1.4% from the all-time high of 2017. Dollar volume fell 9.3% to a four-year low.

China Majority-Interest M&A Deals



Source: Dealogic.

China Majority-Interest M&A Deals (Domestic/Outbound/Inbound)



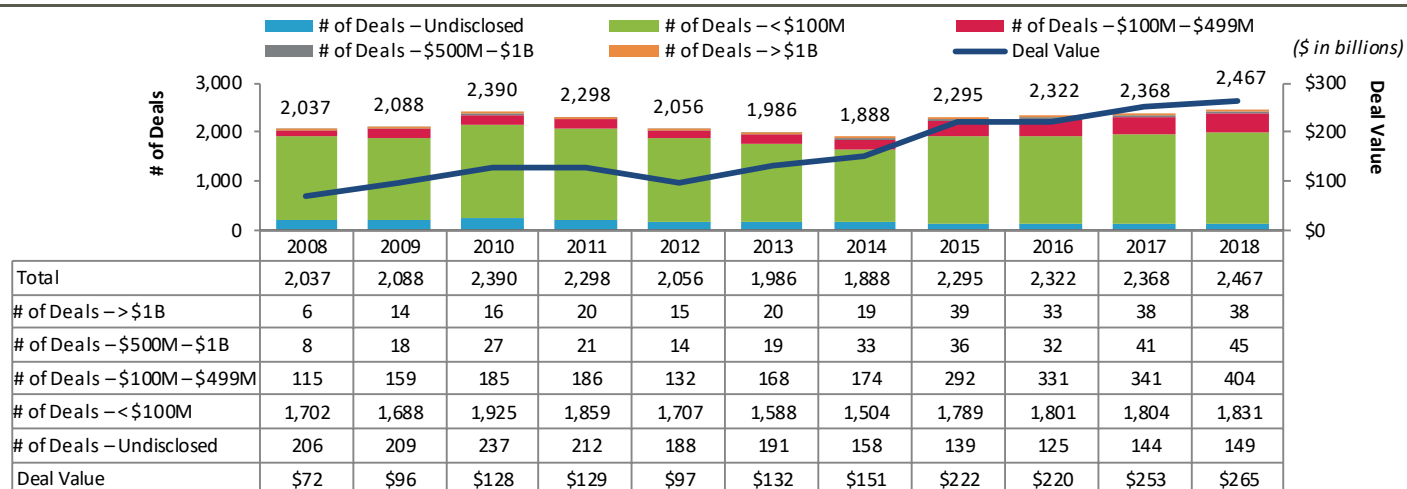
Source: Dealogic.

M&A Analysis

China Minority-Interest M&A

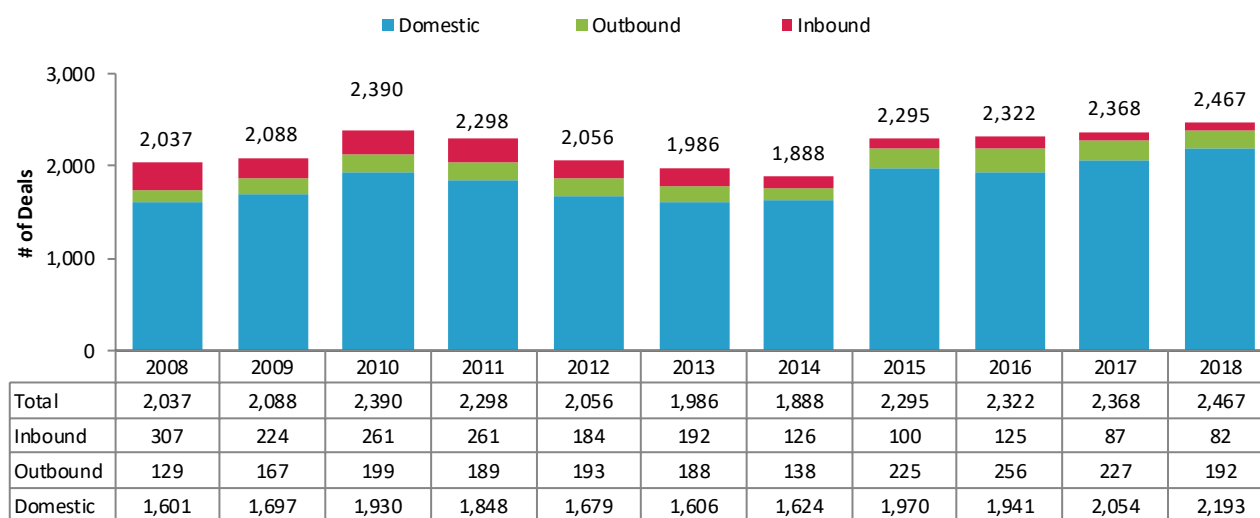
- For the 10 years ended in 2018, the number of minority-interest deals grew at a mean annual rate of 1.9%, and reported deal value for minority-interest transactions increased 14.0% per year on average.
- Minority-interest transactions represented 37% of China's deal count and 43% of reported deal value in 2018. Since 2008, minority-interest transactions have comprised 41% of the deal count and 37% of deal value.
- The strong desire of local entrepreneurs to remain with their businesses has dictated a preference for selling a minority stake in many cases.
- After minority-stake M&A activity reached an all-time high in 2010, the deal count declined for four consecutive years before rising significantly in 2015 and increasing modestly in each of the past three years through 2018. Following a record year for minority-stake dollar volume in 2017, volume in this segment rose 4.7% to a new all-time high of \$265 billion in 2018.

China Minority-Interest M&A Deals



Source: Dealogic.

China Minority-Interest M&A Deals (Domestic/Outbound/Inbound)



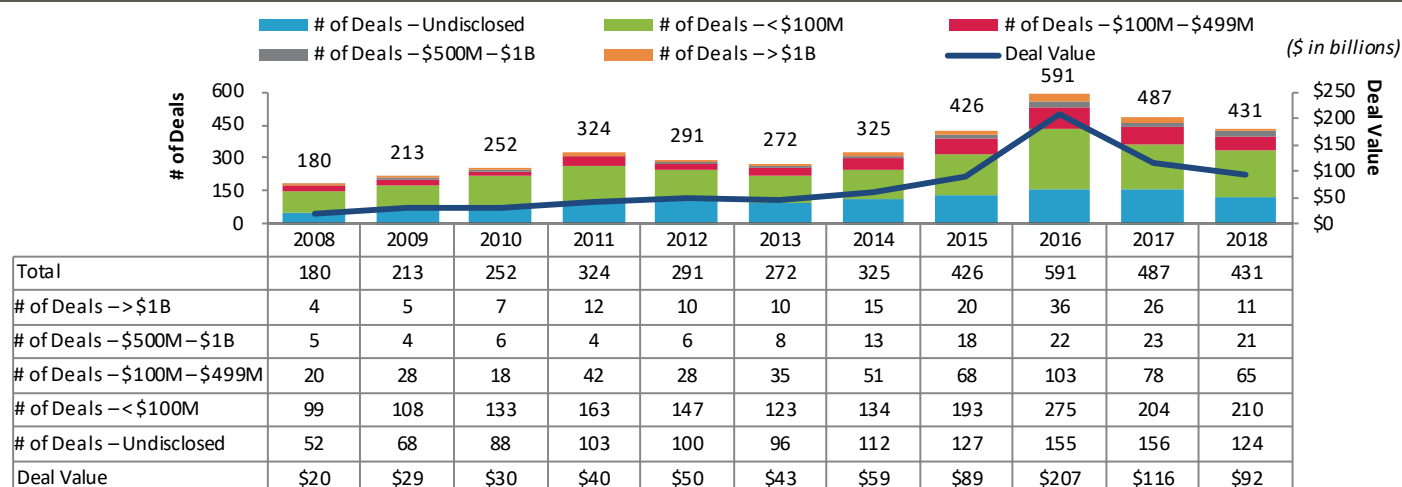
Source: Dealogic.

M&A Analysis

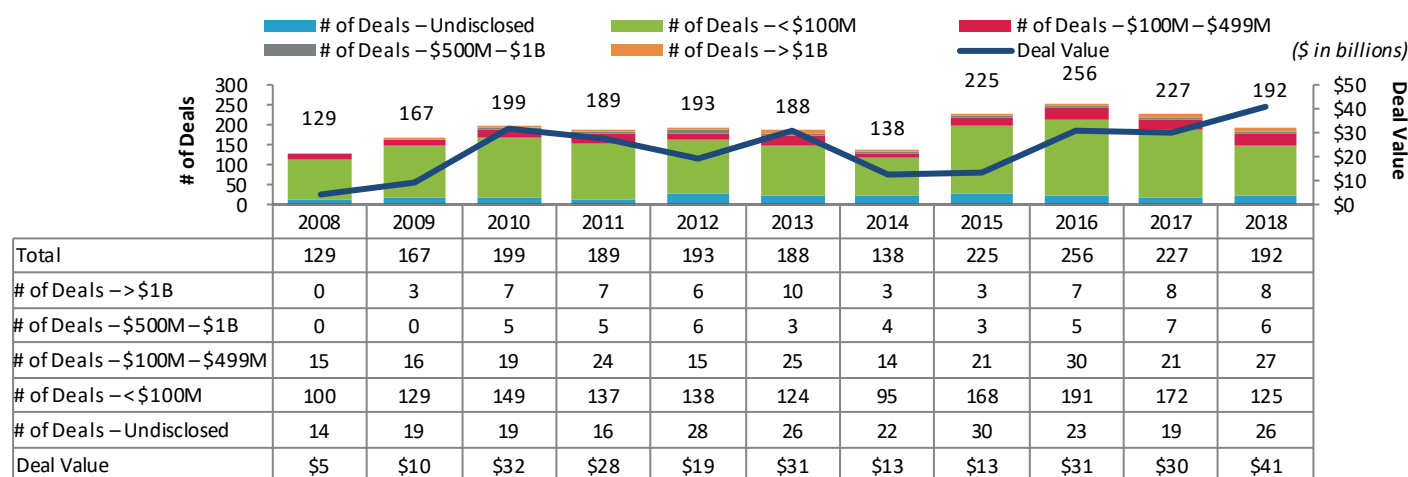
China Outbound M&A

- The 10-year compounded annual growth rate for outbound M&A activity was 7.3%. Since 2008, outbound M&A dollar volume has risen at an average rate of 18.4%.
- Chinese companies have preferred to take majority stakes when involved in outbound deals. Since 2008, 64% of outbound deals have been majority-stake acquisitions, and dollar volume for this segment represented 75% of the reported deal value.
- China's outbound transaction total of 622 for 2018 was 12.7% below the 2017 level. Dollar volume of \$134 billion in 2018 contracted 8.6% while representing the third-highest annual volume. Outbound M&A metrics have declined from the peak levels of 2016 as a function of the stricter regulatory regime for capital outflows from China as well as tighter regulations for inbound M&A into the U.S.
- Through acquisitions of overseas targets, Chinese companies continued to actively pursue opportunities to increase their geographic presence, industry expertise, technology base, and intellectual property.
- Enabled by overseas purchases, Chinese buyers are rolling out offerings domestically in China to meet increasing demand from the rising middle and upper classes for higher-end products, services, and lifestyle brands.

China Majority-Interest Outbound M&A Deals



China Minority-Interest Outbound M&A Deals



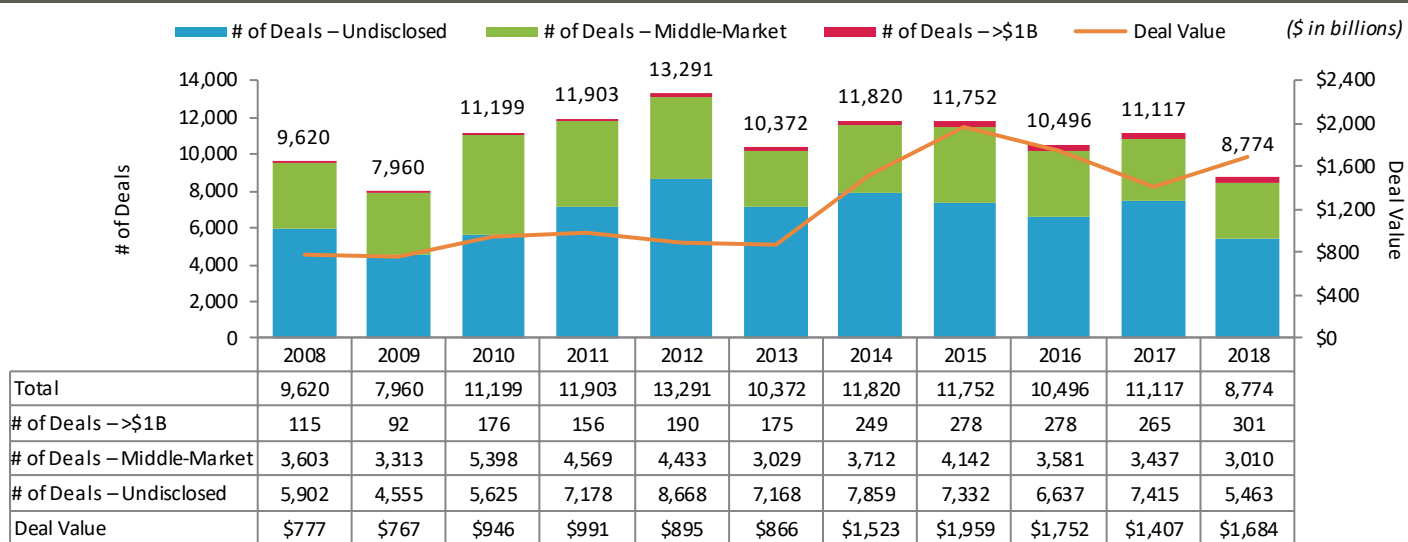
Source: Dealogic.

M&A Analysis

U.S. M&A Activity

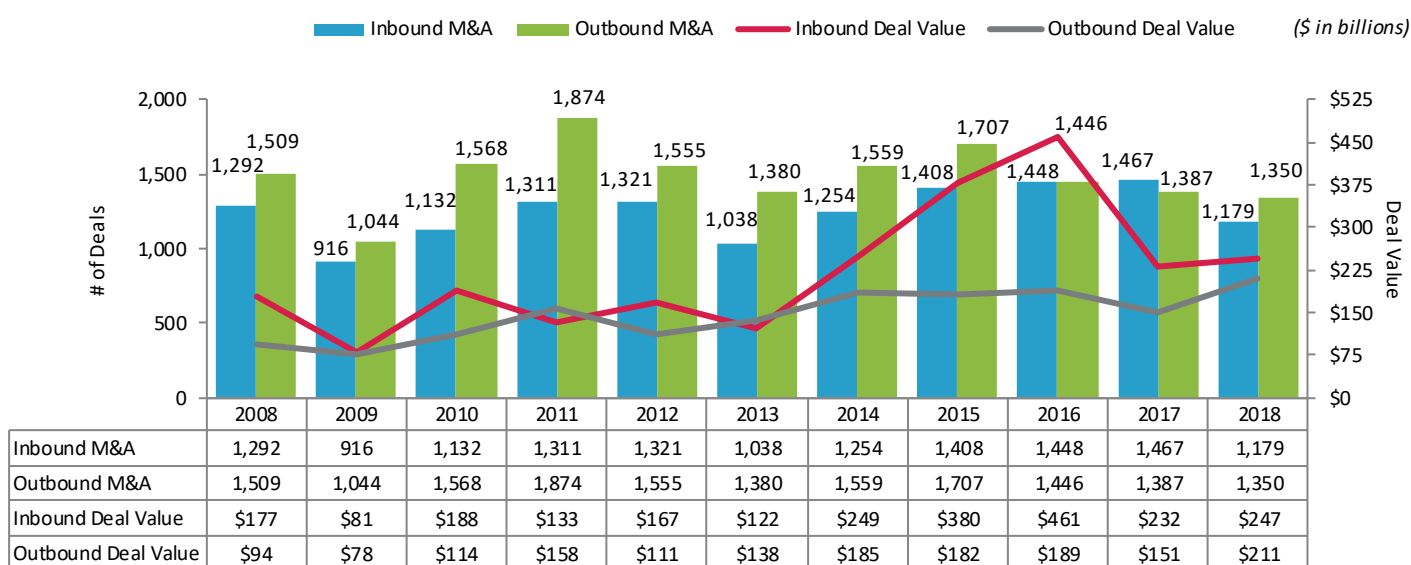
- Pages 19-20 include data on the M&A markets of the U.S. and Europe in order to provide context for pages 21-22, which include data on China's outbound M&A activity into the U.S. and Europe.
- In the U.S. M&A market, the transaction total was down 21.1% to 8,774 in 2018. Full-year dollar volume rose 19.7% relative to 2017, representing the third-highest volume on record. Dollar volume for billion-dollar-plus deals climbed 26.5%.
- In the U.S. middle market, the deal count declined 12.4% to 3,010 in 2018. Dollar volume edged up 1.0% to \$384 billion.
- Cross-border activity contributed less to the deal value gains for the U.S. M&A market in 2018, with increases for inbound and outbound deal value from the levels of 2017.

U.S. M&A Activity (Majority-Interest Only)



Source: Dealogic. Note: Middle-market transactions defined as those with a disclosed transaction value of less than \$1 billion.

U.S. – Inbound and Outbound M&A Activity (Majority-Interest Only)



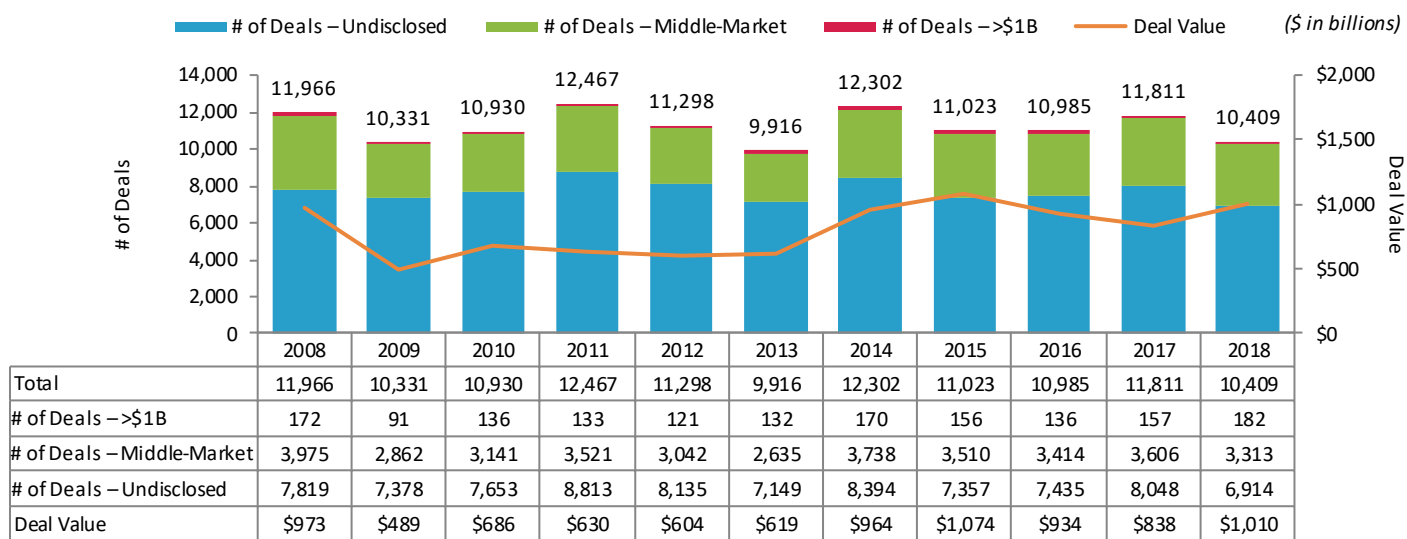
Source: Dealogic.

M&A Analysis

Europe M&A Activity

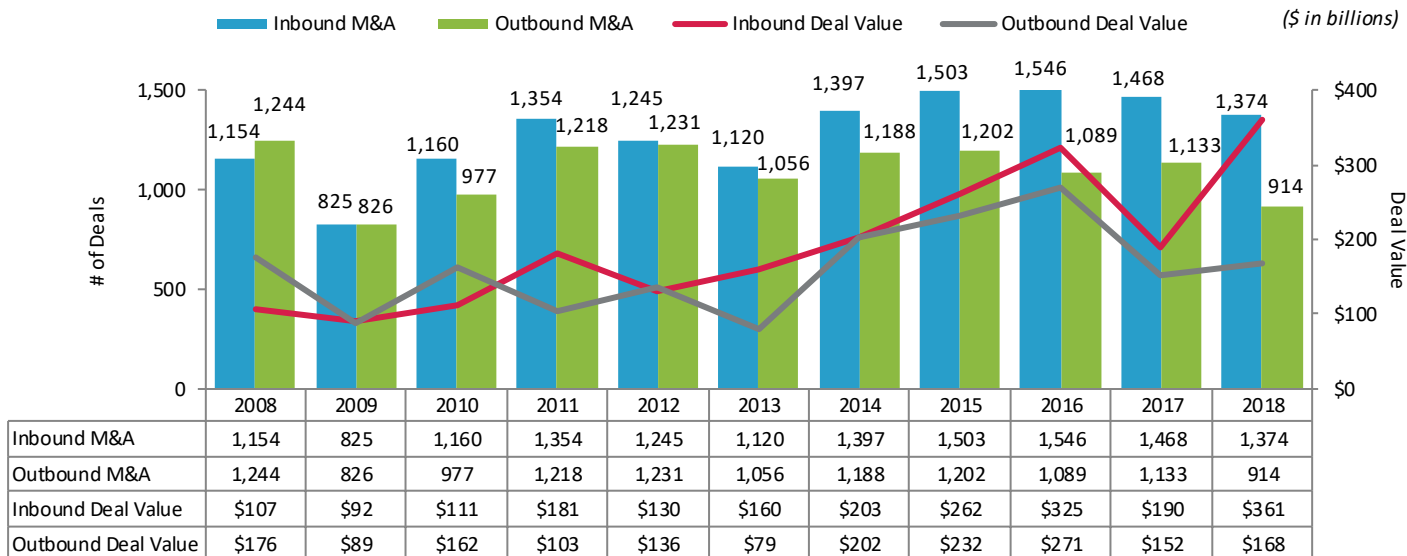
- In Europe's M&A market during 2018, the transaction total decreased 11.9%. In contrast, announced dollar volume was up 20.5% in 2018.
- In Europe's middle market, the number of transactions was down 8.1% in 2018, whereas dollar value increased 2.1% versus the 2017 level.
- Although Europe's M&A market experienced lower cross-border deal counts in 2018, inbound and outbound dollar volumes rose substantially.

Europe M&A Activity (Majority-Interest Only)



Source: Dealogic. Note: Middle-market transactions defined as those with a disclosed transaction value of less than \$1 billion.

Europe – Inbound and Outbound M&A Activity (Majority-Interest Only)



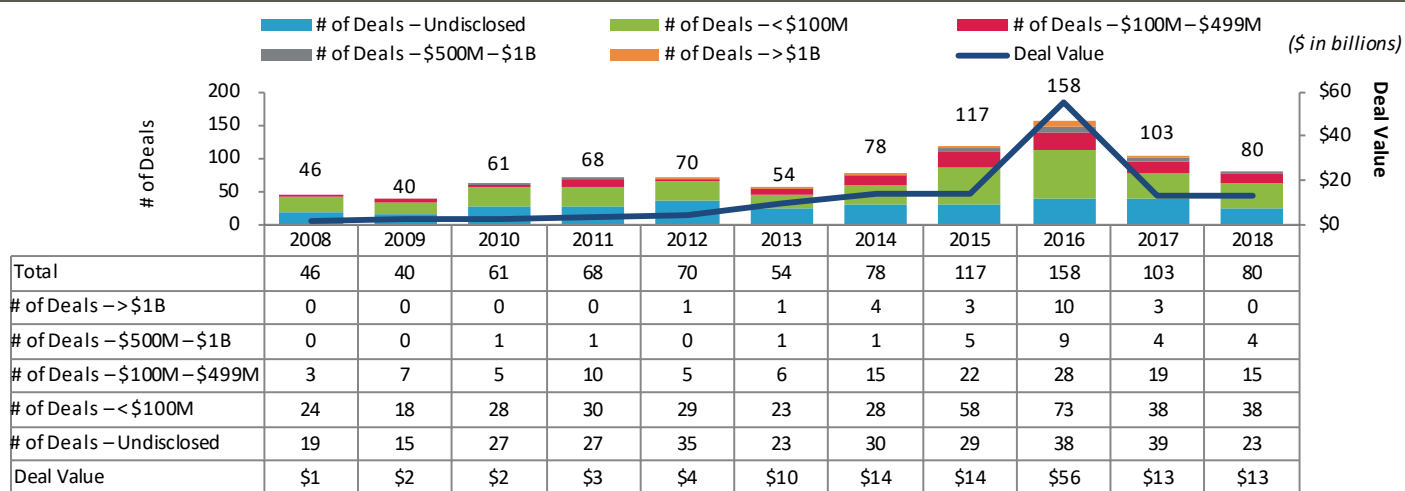
Source: Dealogic.

M&A Analysis

China Outbound M&A into the U.S.

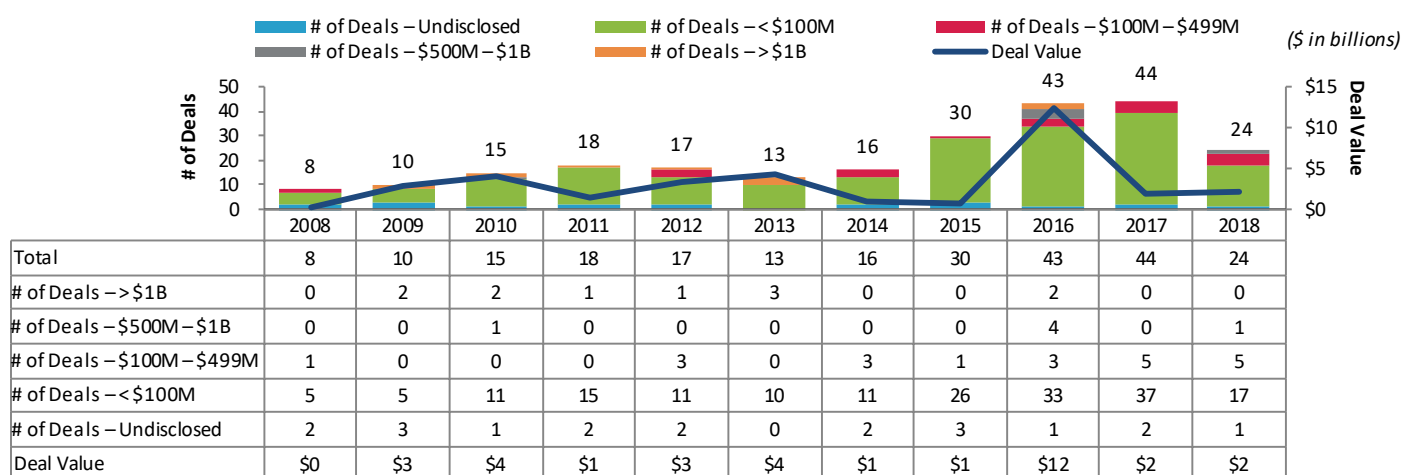
- Outbound M&A from China into the U.S. has been a key contributor to growth in overall outbound activity over the past 10+ years. Through 2018, the 10-year CAGR for the number of acquisitions into the U.S. was 6.8%.
- Reported dollar value for China's outbound acquisitions into the U.S. was \$15 billion in 2018, in line with the 2017 figure while far below the \$68 billion total in 2016 and at the high end of the \$5-15 billion range for 2009-2015.
- The number of outbound M&A acquisitions into the U.S. during 2018 was roughly half of the all-time high of 2016, with reduced activity largely a function of tighter regulatory controls in the U.S. for inbound M&A from China as well as more stringent capital controls for outbound M&A from China.

China Majority-Interest Outbound M&A Deals into the U.S.



Source: Dealogic.

China Minority-Interest Outbound M&A Deals into the U.S.



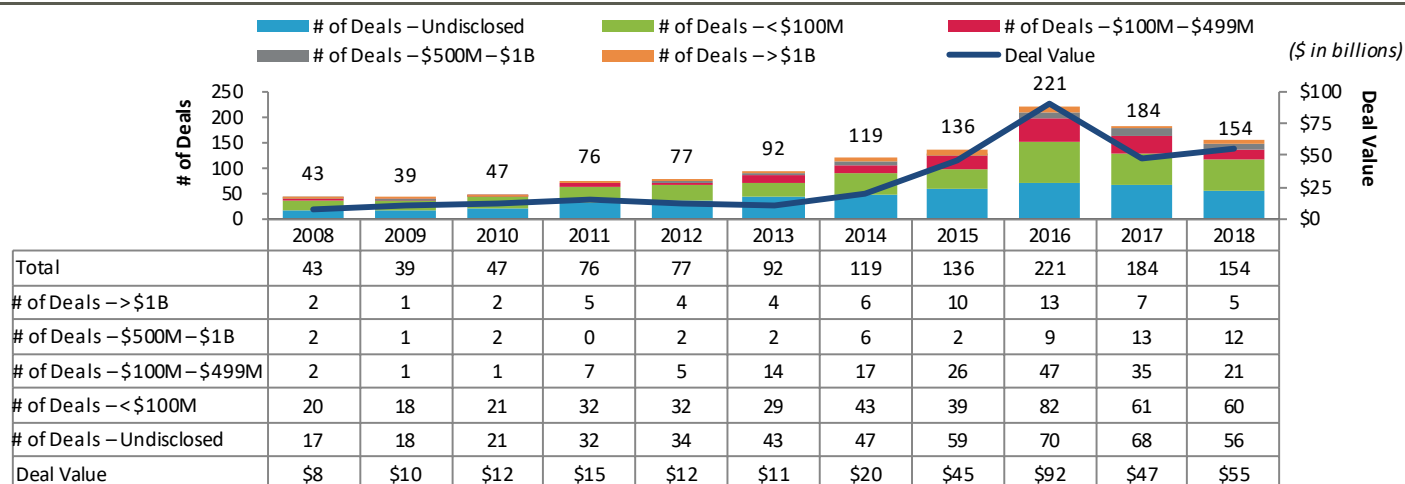
Source: Dealogic.

M&A Analysis

China Outbound M&A into Europe

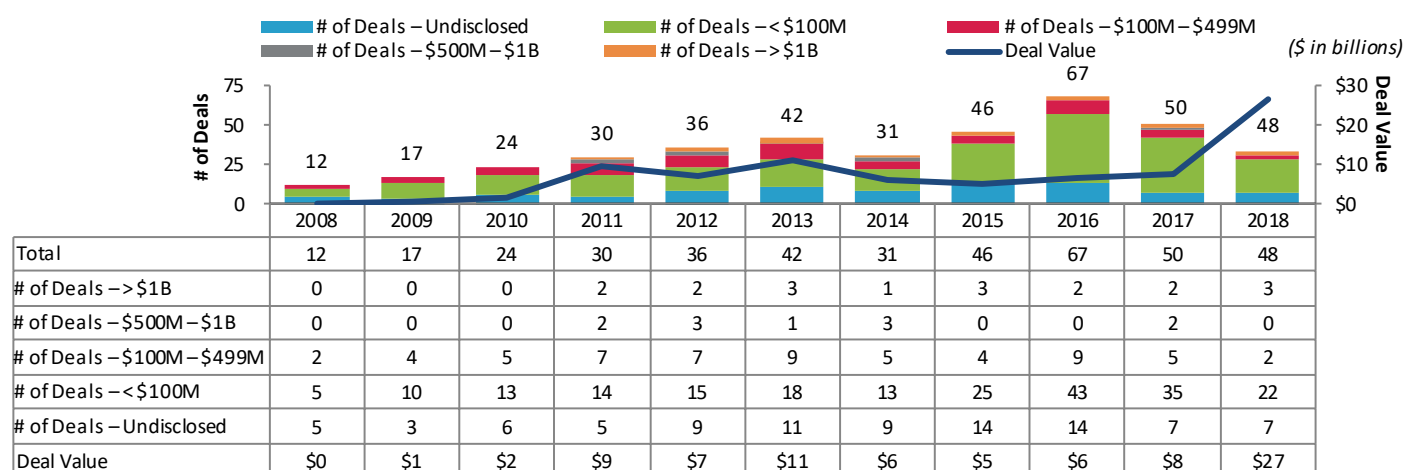
- Outbound M&A from China into Europe has fueled growth in overall outbound activity over the last 10 years. Through 2018, the 10-year CAGR for the number of acquisitions into Europe was 13.9%, and dollar value increased an average of 26.3% per year over this period.
- As with acquisitions into the U.S., China's outbound M&A activity into Europe during 2017 and 2018 fell short of the all-time highs registered for deal count in 2016.
- In 2018, dollar volume for this segment rose to \$82 billion, well above the \$55 billion total of 2017, as China's acquirors allocated a significant portion of outbound M&A funds toward Europe amid stricter regulatory controls for inbound M&A in the U.S.
- Of note, more than half of the 2018 deal value for outbound M&A into Europe was derived from two transactions: China Three Gorges / EDP – Energies de Portugal (\$35.3 billion) and CK Hutchison / Wind Tre (\$17.1 billion).

China Majority-Interest Outbound M&A Deals into Europe



Source: Dealogic.

China Minority-Interest Outbound M&A Deals into Europe



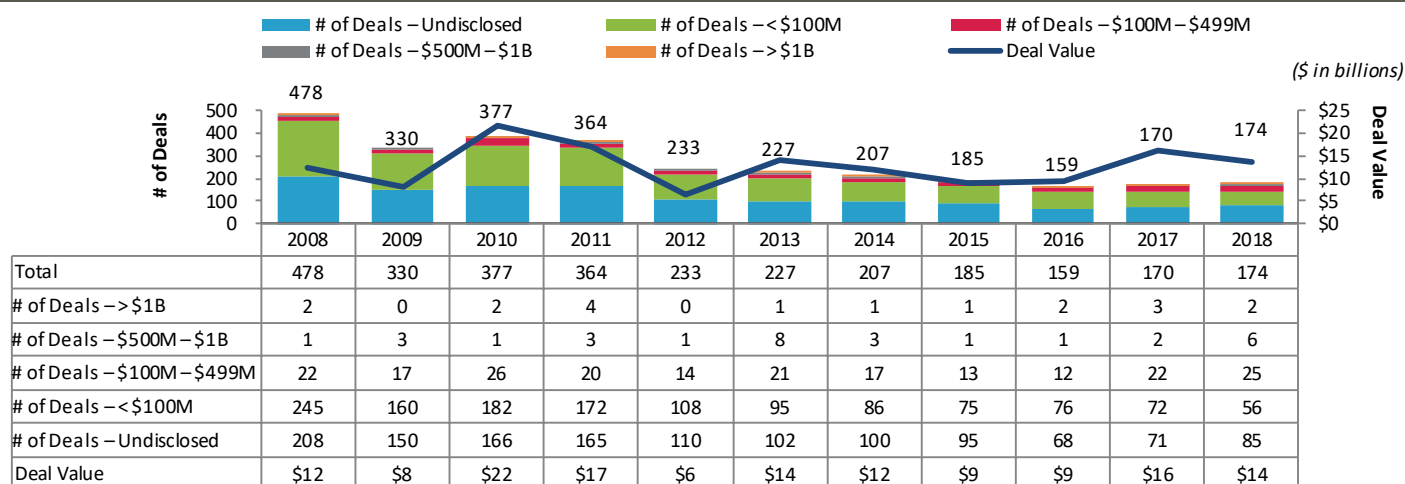
Source: Dealogic.

M&A Analysis

China Inbound M&A

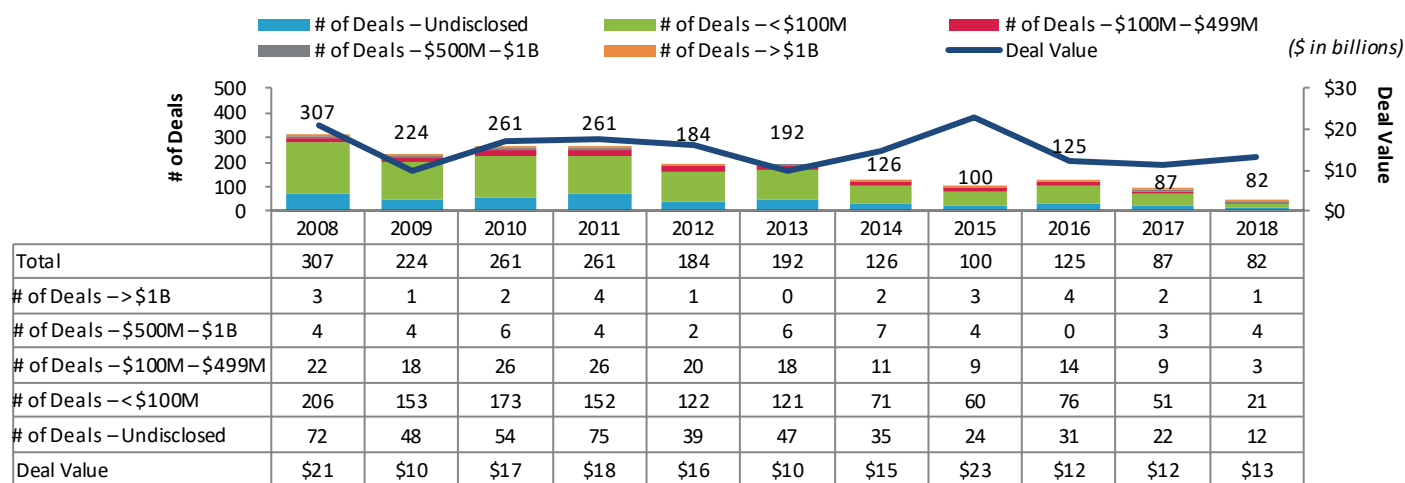
- Inbound M&A deal counts have fallen dramatically since peaking in 2007-2008, while inbound dollar volumes have held up relatively well. The 10-year CAGR through 2018 was negative 10.6% for the transaction total and negative 2.1% for reported deal value.
- Despite the complexities of taking a control-level ownership position of a Chinese company, majority-stake inbound activity exceeded the number of minority-interest deals in each of the past 11 years.
- Large inbound majority-stake deals have been rare: only 18 valued above \$1 billion since 2008, versus 23 such minority-interest deals. Since 2008, nearly 90% of inbound deals were valued below \$100 million or had an undisclosed value (typically associated with deals of lower value).
- The 2018 inbound deal count dipped 0.4%, continuing an extended downtrend that has seen the number of inbound transactions drop to less than one-third of the all-time high of 2007. Inbound dollar volume edged down 2.4% in 2018.

China Majority-Interest Inbound M&A Deals



Source: Dealogic.

China Minority-Interest Inbound M&A Deals



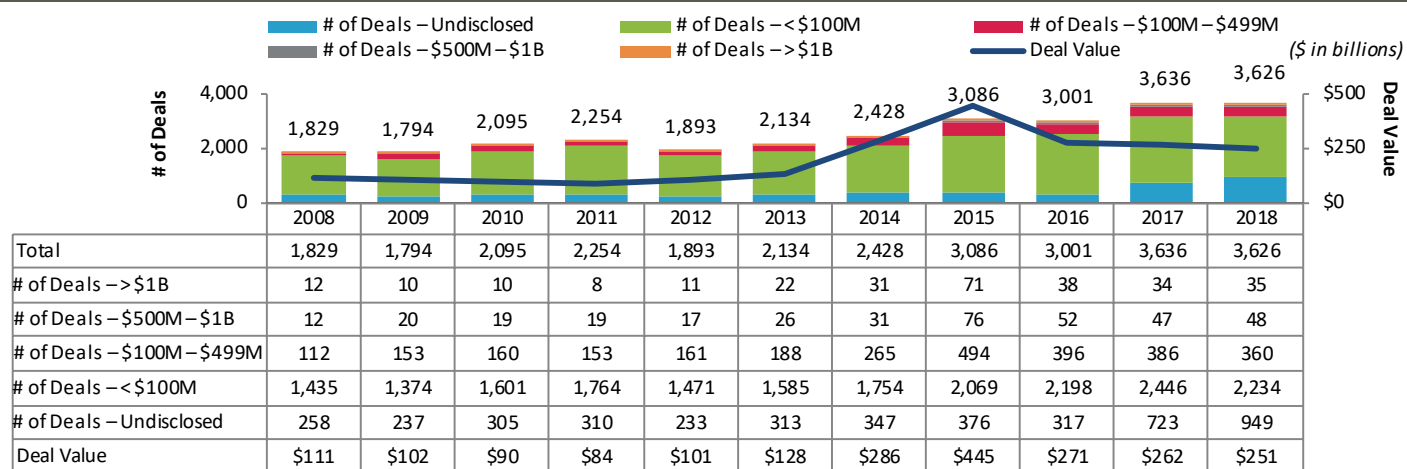
Source: Dealogic.

M&A Analysis

China Domestic M&A

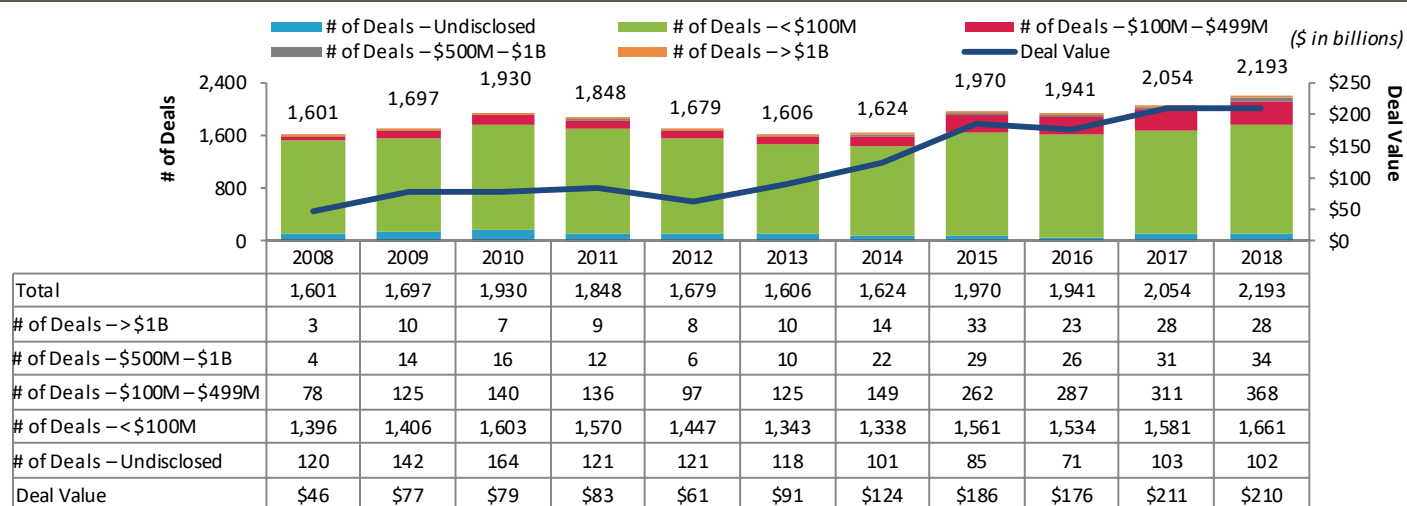
- Domestic M&A activity has experienced substantial growth over the past 10 years. The 10-year CAGR for the domestic deal count was 5.4%. For reported deal value, the average annual growth rate was 11.4%.
- Majority-interest acquisitions have represented 58% of the domestic deal count since 2008. In each of the past 11 years, majority-interest deals accounted for over half of the domestic total, including 62% in 2018.
- In 2018, the number of domestic transactions rose 2.3%. The majority-interest domestic M&A total was down 0.3%, while minority-interest domestic M&A increased 6.8%. Aggregate dollar volume for domestic M&A declined 2.5% in 2018.

China Majority-Interest Domestic M&A Deals



Source: Dealogic.

China Minority-Interest Domestic M&A Deals



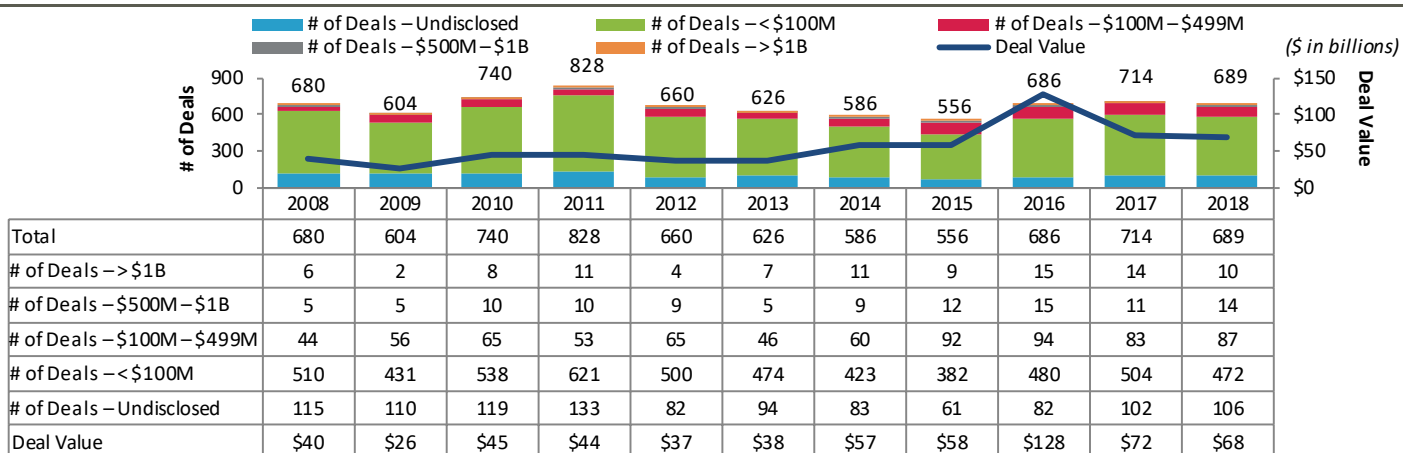
Source: Dealogic.

M&A Analysis

China Industrial M&A

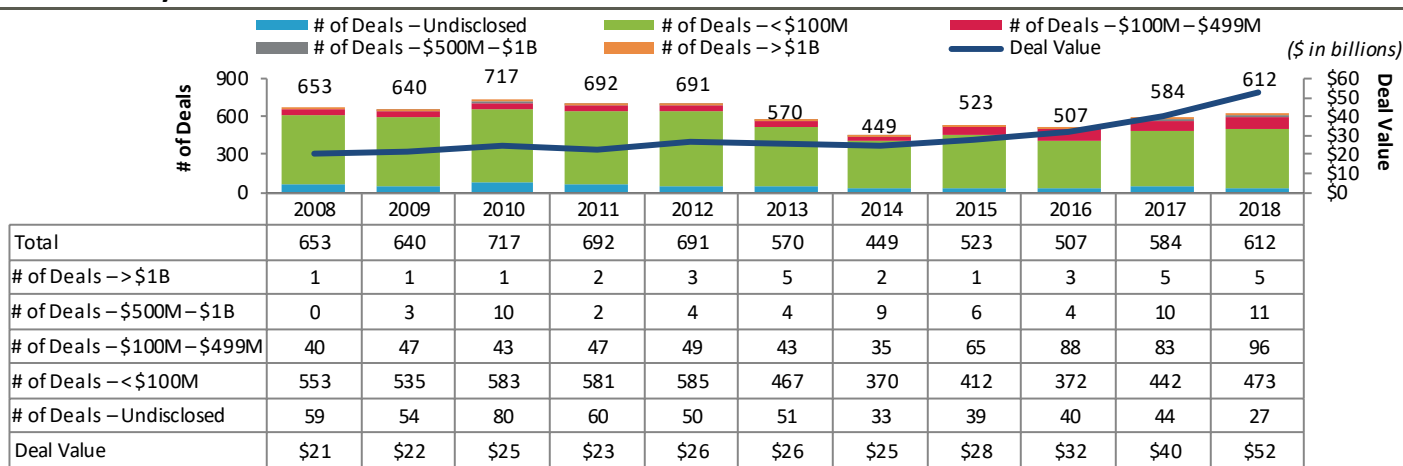
- In 2018, Industrial deals represented 19% of China M&A activity and 19% of total reported deal value. We have categorized transactions involving companies in the following sectors as Industrial deals: Aerospace, Agribusiness, Auto/Truck, Chemicals, Construction/Building, Defense, Machinery, Metal & Steel, Mining, and Forestry & Paper.
- The number of Industrial deals in 2018 was modestly below the 2008 level, while reported deal value expanded at an average annual rate of 7.1% over the past 10-years period.
- In most years, both majority-stake and minority-interest transactions represented close to half of the Industrial deal count, while deal value has typically been weighted toward majority-interest transactions.
- In 2018, the number of majority-interest Industrial M&A transactions was down slightly, partly due to reduced outbound activity (detailed on following page).
- Consolidation in China's Industrial sector is expected to continue given its magnitude and relevance during the ongoing build-out of public infrastructure as well as strong interest in further development of China's industrial technology capabilities. Our analysis provides additional details on Industrial M&A activity due to its importance in China and Baird's long history of working with Industrial companies in a wide range of sectors.

China Majority-Interest Industrial M&A Deals



Source: Dealogic.

China Minority-Interest Industrial M&A Deals



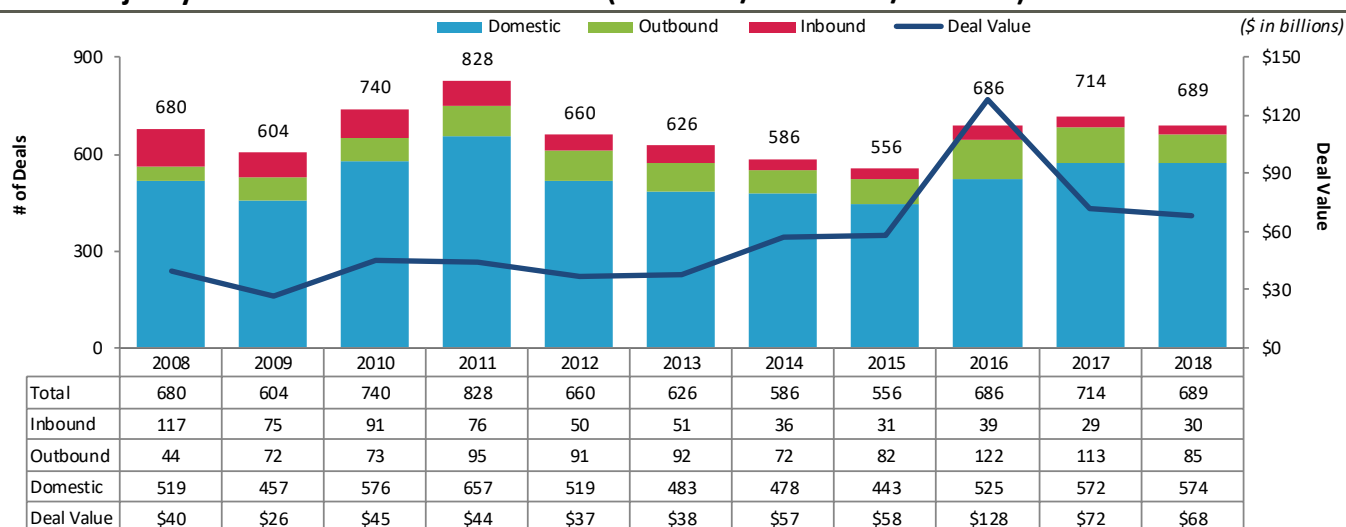
Source: Dealogic.

M&A Analysis

China Cross-Border Industrial M&A

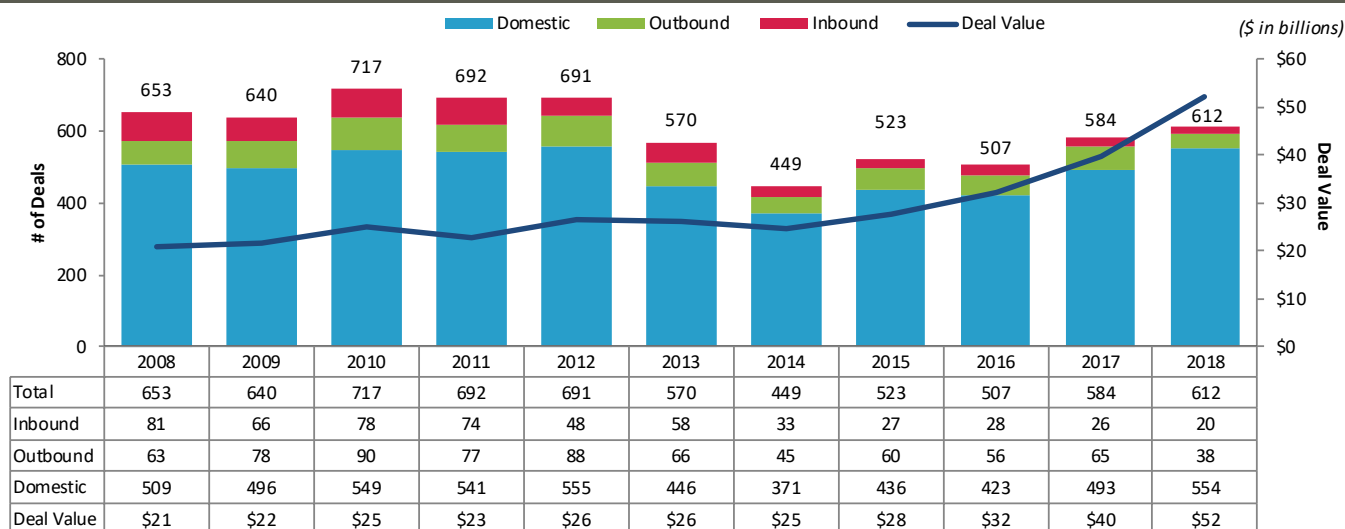
- Domestic deals accounted for 87% of Industrial deal activity in 2018, compared to domestic activity representing 87% of the overall M&A market in China during 2018. Industrial deal activity remained a leading contributor to cross-border M&A, representing 20% of the outbound total and 20% of the inbound total in 2018.
- Chinese industrial companies have been facing a market slowdown (e.g., profits declined in November-December 2018), increasing competition, overcapacity, and lower profitability in certain subsectors. As a result, Chinese industrial companies are seeking to use M&A to transform their businesses, move up the value chain, and establish global leadership in their subsectors.
- Chinese buyers have demonstrated interest in enhancing their market positions in industrial automation, automotive/electric vehicles, aerospace, energy and environmental technology, industrial machinery, advanced materials, and semiconductors and electronics.

China Majority-Interest Industrial M&A Deals (Domestic/Outbound/Inbound)



Source: Dealogic.

China Minority-Interest Industrial M&A Deals (Domestic/Outbound/Inbound)



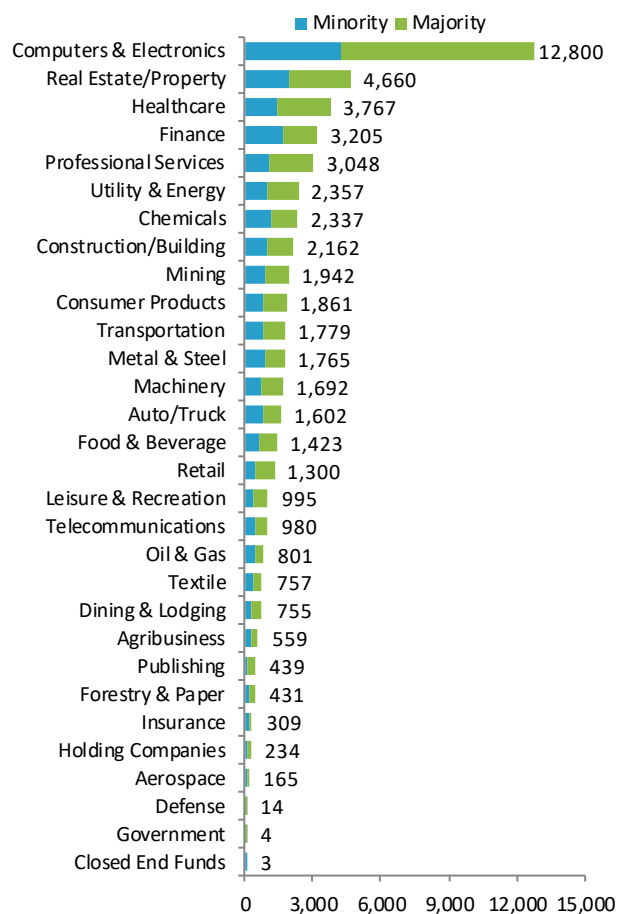
Source: Dealogic.

M&A Analysis

China M&A Activity by Sector

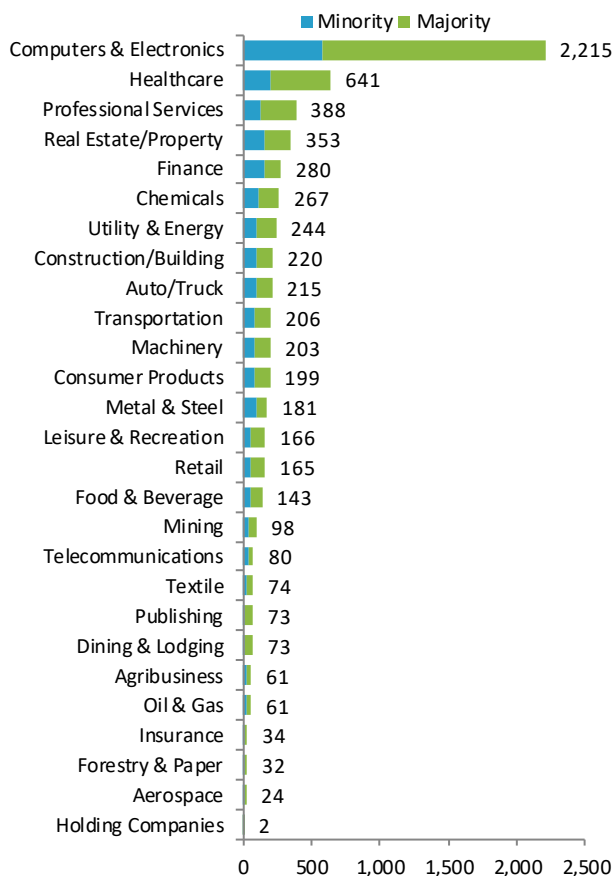
- Computers & Electronics (i.e., Technology) was the leading individual sector, by a large margin, for the number of M&A transactions over the past 10 years, representing 24% of the total. Computers & Electronics remained the leading sector in 2018, accounting for 33% of the total deal count.
- Our M&A data provider defines Computers & Electronics deals as transactions involving companies operating in the following categories: personal computers, mainframes, software, semiconductors, semiconductor capital equipment, components, networks, memory devices, peripherals, and technical services.
- Industrial deals accounted for 23% of China M&A activity during the period of our analysis. We have categorized transactions involving companies in the following sectors as Industrial deals: Aerospace, Agribusiness, Auto/Truck, Chemicals, Construction/Building, Defense, Machinery, Metal & Steel, Mining, and Forestry & Paper.
- Among the top 10 sectors during 2018, Auto/Truck posted the biggest increase in the deal count ranking relative to 2009-2018.

China Sector M&A Activity – 2009-2018



Source: Dealogic.

China Sector M&A Activity – 2018



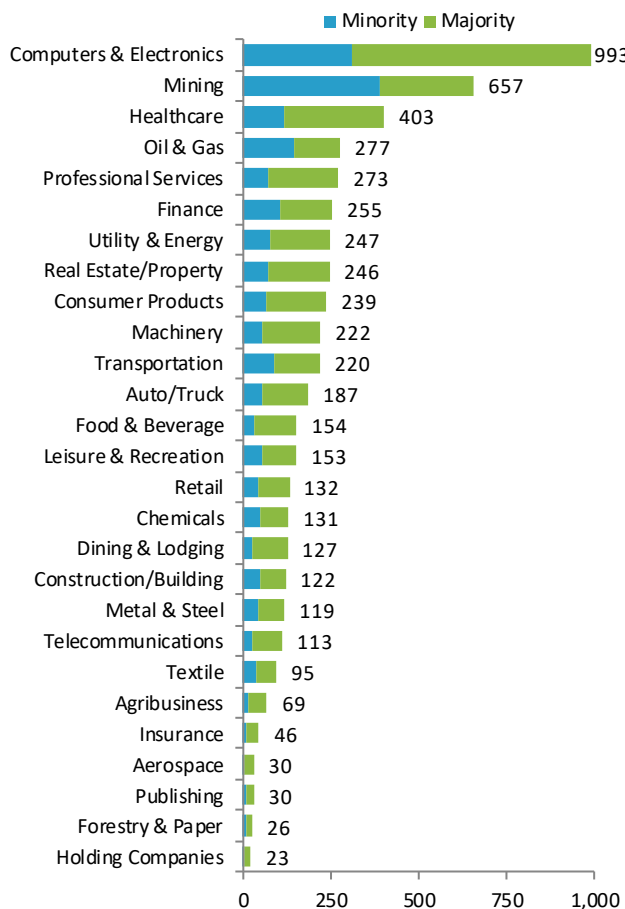
Source: Dealogic.

M&A Analysis

China Outbound M&A Activity by Sector

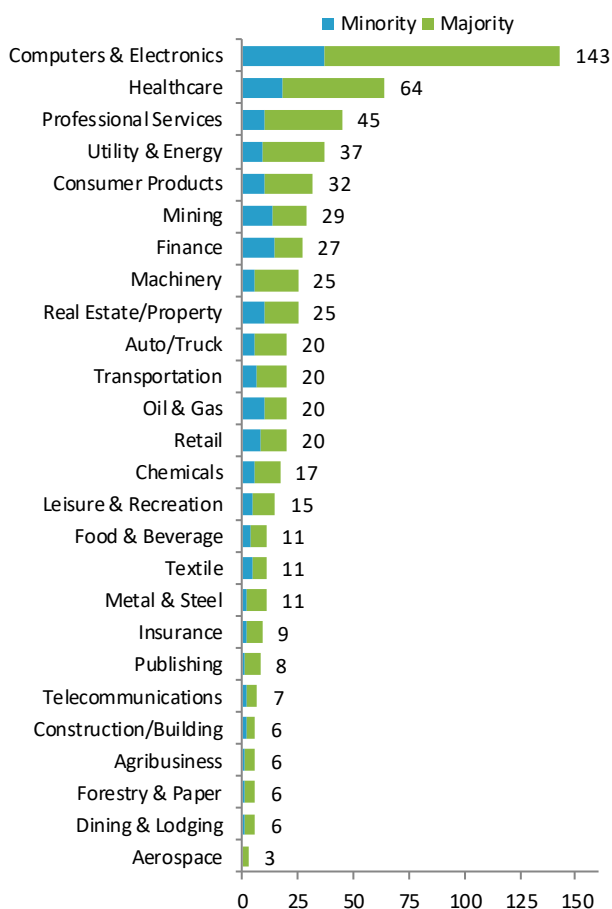
- Among outbound target industries, Computers & Electronics was the leading sector since 2009, followed by the Mining sector. These two industries comprised 30% of all outbound M&A activity since 2009.
- In 2018, Computers & Electronics was the leading outbound target sector, comprising 23% of the outbound M&A activity.
- Among the top 10 sectors during 2018, Consumer Products and Utility & Energy registered the largest gains in deal count rankings relative to the 2009-2018 period.

China Outbound M&A Activity by Sector – 2009-2018



Source: Dealogic.

China Outbound M&A Activity by Sector – 2018



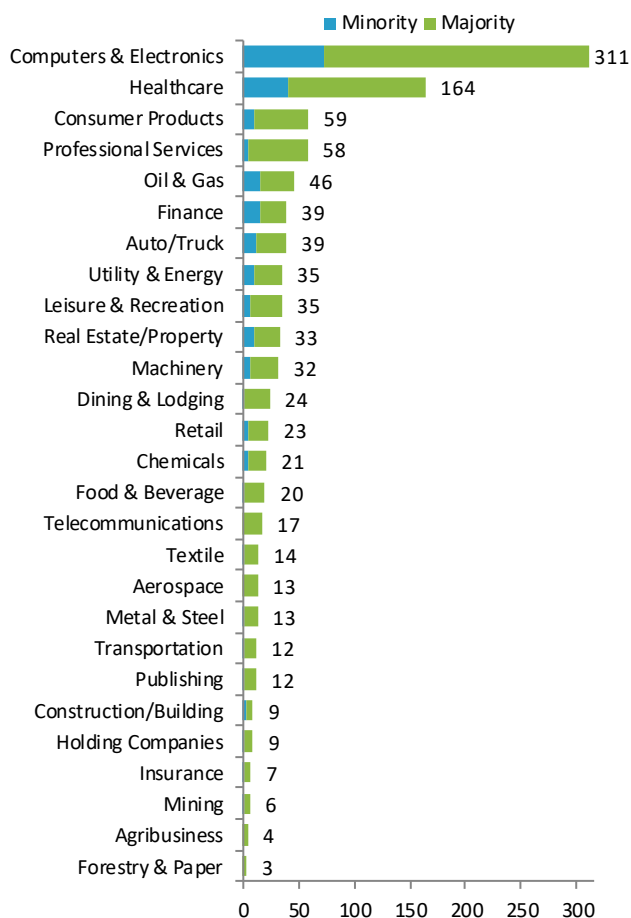
Source: Dealogic.

M&A Analysis

China Outbound M&A Activity into the U.S. by Sector

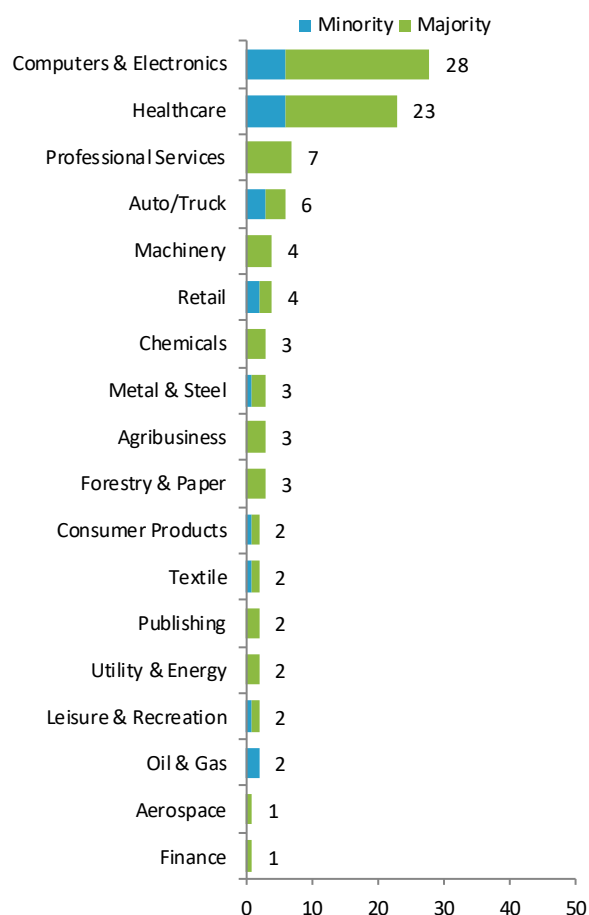
- Among outbound deals into the U.S., Computers & Electronics was the leading individual sector, by a wide margin, for the number of M&A transactions over the past 10 years, accounting for 29% of the total. Computers & Electronics remained the leading sector in 2018, representing 29% of the total deal count, while Healthcare gained share at 23% of China's outbound acquisitions into the U.S.
- Sectors representing at least 5% of the 10-year deal total included several with high levels of brand importance and value-added, including Computers & Electronics, Healthcare, Consumer Products, and Professional Services.

China Outbound M&A into U.S. by Sector – 2009-2018



Source: Dealogic.

China Outbound M&A into U.S. by Sector – 2018



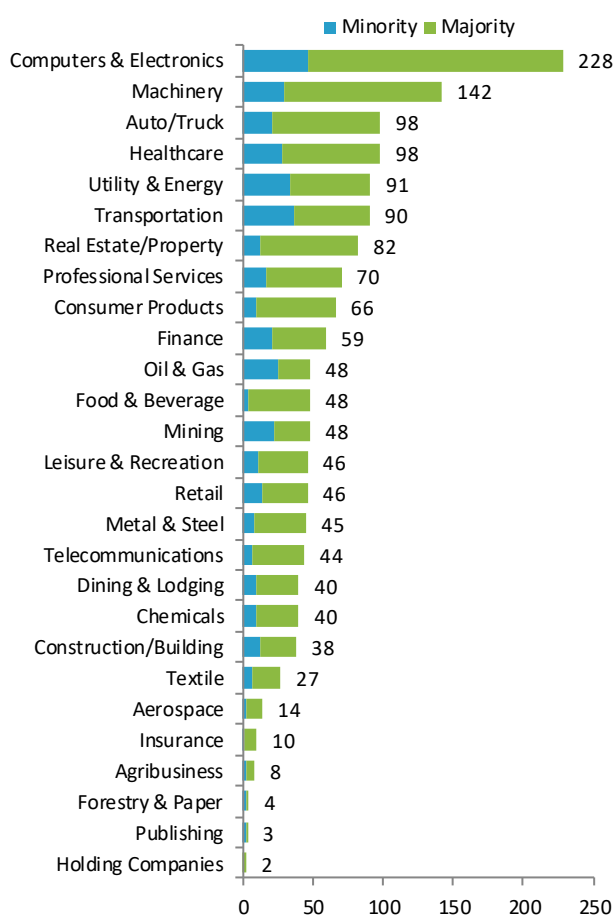
Source: Dealogic.

M&A Analysis

China Outbound M&A Activity into Europe by Sector

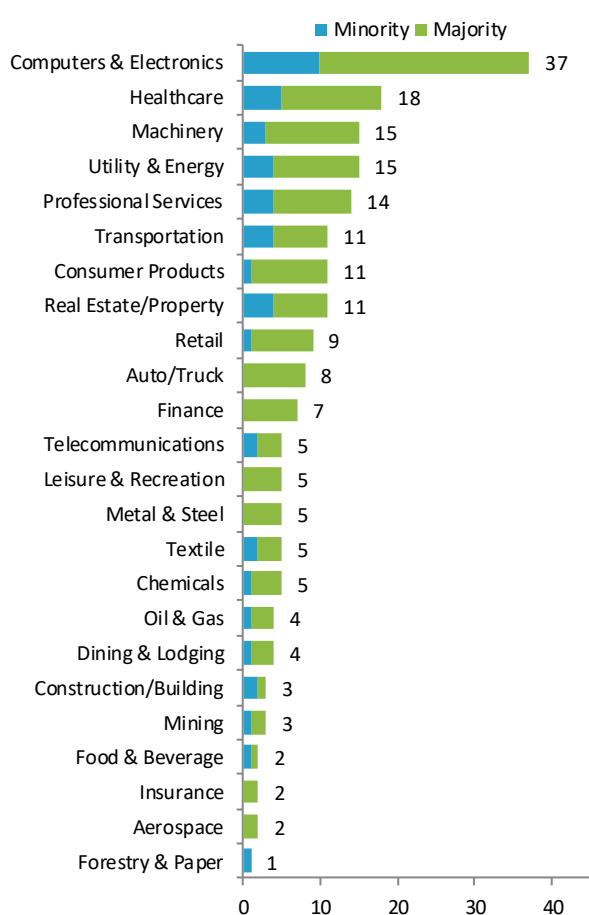
- Relative to China's outbound acquisitions in the U.S., its outbound activity in Europe is far more diverse. Over the past 10 years, nine different sectors represented at least 4.0% of the China-into-Europe deal count, compared to only five sectors for China into the U.S.
- In addition, the leading sector over the 10-year period – Computers & Electronics – accounted for 15% of the total, far below the 29% figure for this sector among China-into-U.S. deals.
- Among the top 10 sectors during 2018, Professional Services and Retail posted the largest increases in transaction count rankings relative to the 2009-2018 period.

China Outbound M&A into Europe by Sector – 2009-2018



Source: Dealogic.

China Outbound M&A into Europe by Sector – 2018



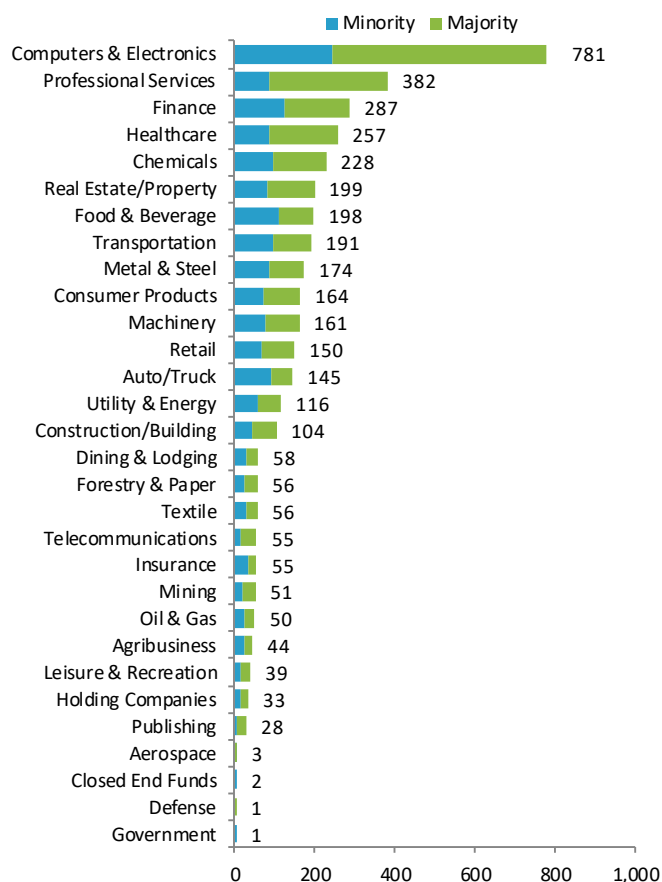
Source: Dealogic.

M&A Analysis

China Inbound M&A Activity by Sector

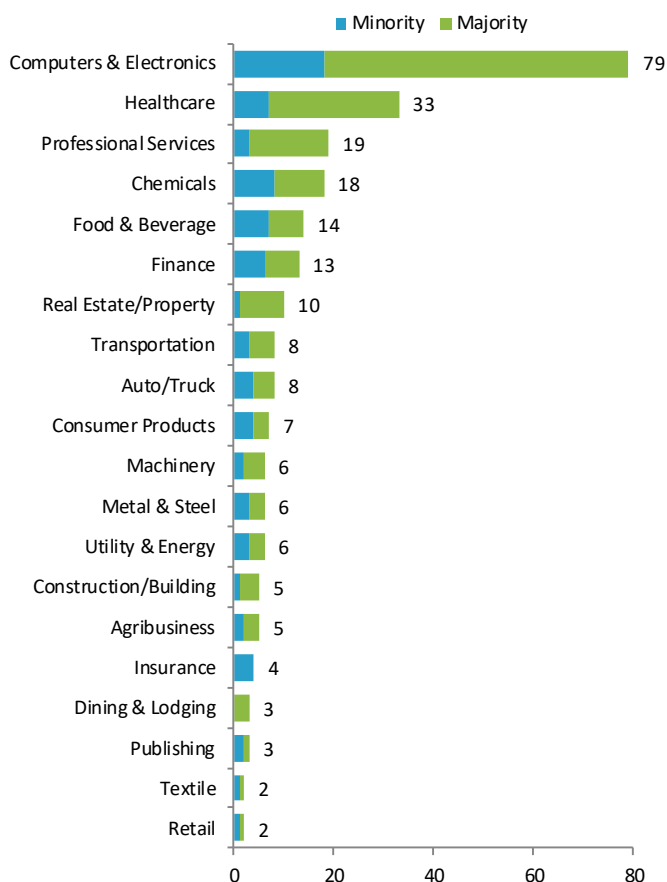
- For inbound M&A, the top three sectors over the past decade have been Computers & Electronics, Professional Services, and Finance, as foreign companies have favored M&A in high-tech and high-value sectors.
- Fifteen sectors have represented over 2.5% of deal activity since 2009, highlighting the variety of inbound M&A activity in China.
- In 2018, companies in the Computers & Electronics sector again were the most popular targets for foreign acquirors, comprising 31% of all inbound M&A activity. Among the top 10 sectors, Auto/Truck and Food & Beverage made the biggest jumps in the deal count ranking in 2018 relative to the 10-year period.

China Inbound M&A Activity by Sector – 2009-2018



Source: Dealogic.

China Inbound M&A Activity by Sector – 2018

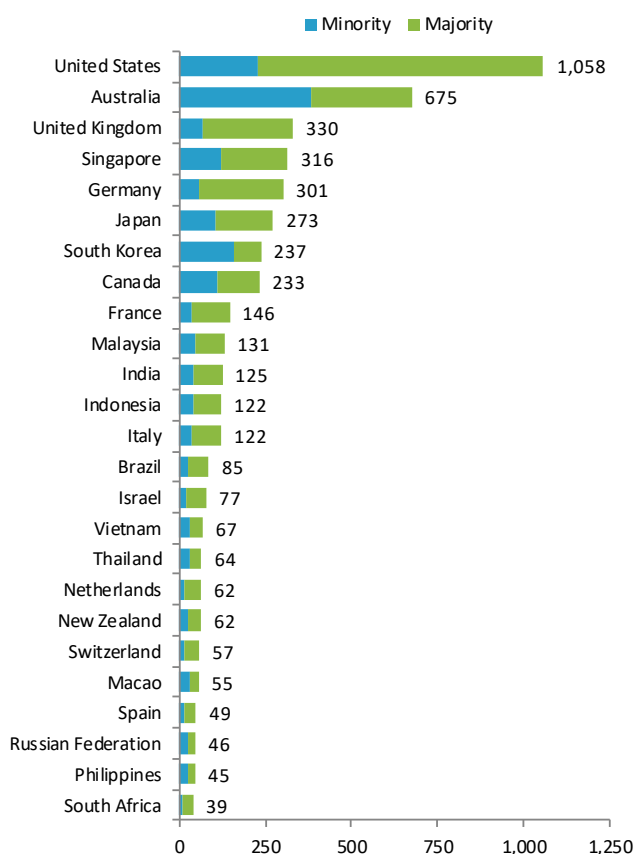


Source: Dealogic.

China Outbound M&A Activity by Target Country

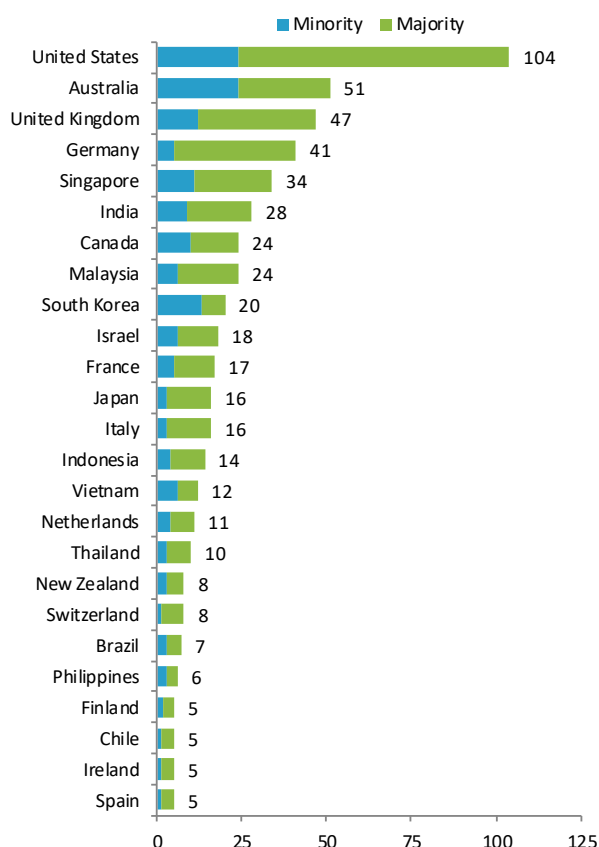
- Companies in the U.S. historically have been the most frequent targets of Chinese entities. Since 2009, 19% of outbound deals involved targets headquartered in the U.S.
- Deals with Australian targets represented the second-highest share of outbound M&A over the past decade and in 2018, as China has sought to secure access to Australia's attractive assets and capabilities in energy, mining, and utilities.
- Several leading economies in Europe, such as the U.K. and Germany, gained share as a percentage of outbound deals in 2018 relative to the last 10 years, indicating increased appeal for sophisticated businesses based in Europe.
- Thirteen nations have accounted for at least 2% of outbound deal activity since 2009, highlighting the range of regions targeted by China.

China Outbound M&A Target Country Breakdown – 2009-2018



Source: Dealogic.

China Outbound M&A Target Country Breakdown – 2018



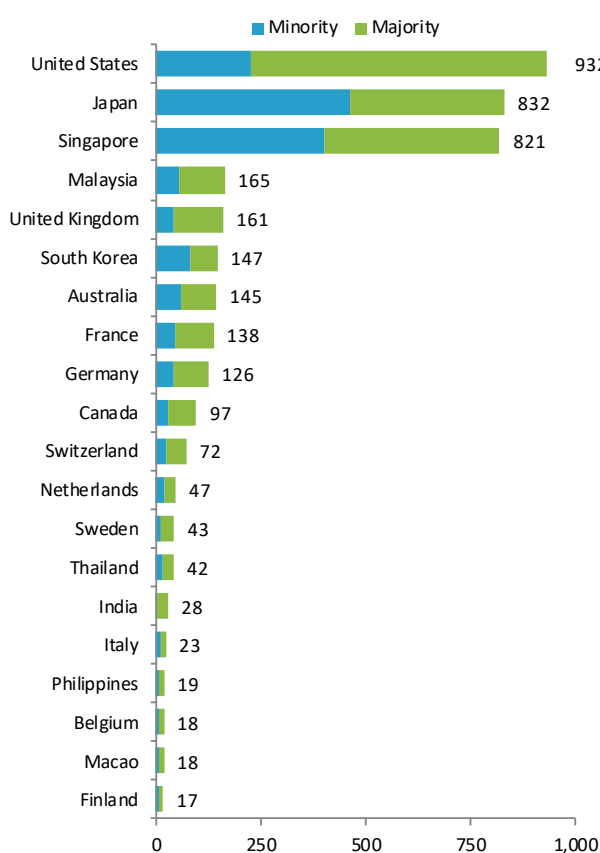
Source: Dealogic.

M&A Analysis

China Inbound M&A Activity by Acquiror Country

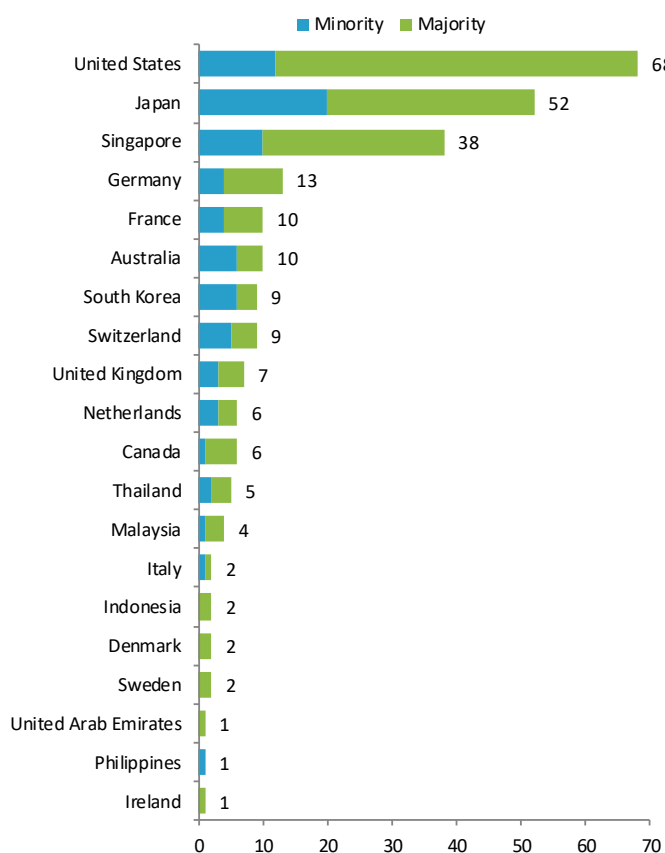
- For inbound M&A activity, the United States has been the most common source of inbound acquisition partners for China-based targets. Since 2009, companies based in the U.S. were the acquirors in 23% of China's inbound transactions.
- Firms based in Asia have also been frequent buyers of Chinese companies. Singapore, Japan, Malaysia, and South Korea are listed among the top six for home countries of acquirors of Chinese companies during 2009-2018. These countries represented 48% of all inbound M&A activity.
- The list of home countries for companies involved in inbound acquisitions has been largely stable since 2009. Among the top 10 acquirors in 2018, Germany and France experienced the largest increases in percentage share of total inbound M&A relative to the 10-year period.

China Inbound M&A Acquiror Country Breakdown – 2009-2018



Source: Dealogic.

China Inbound M&A Acquiror Country Breakdown – 2018



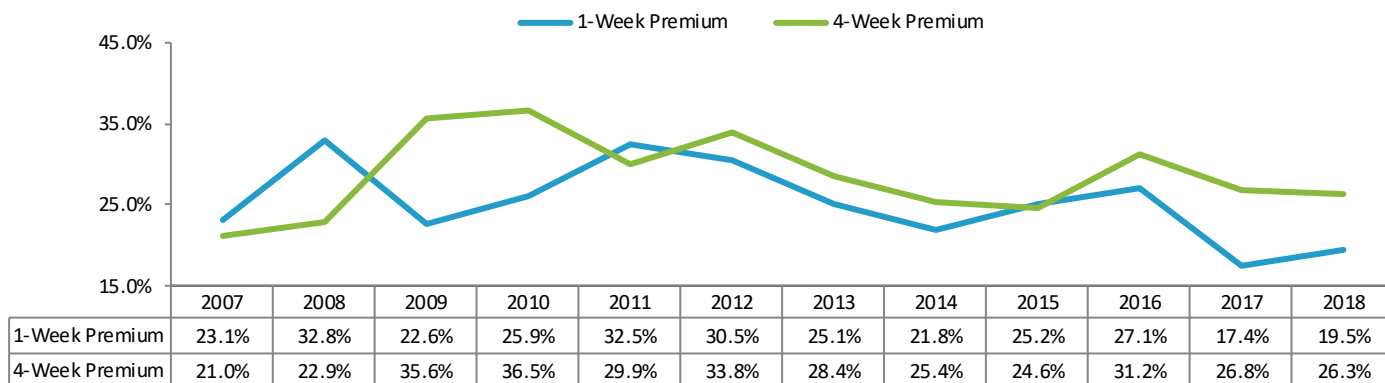
Source: Dealogic.

M&A Analysis

China M&A Premiums

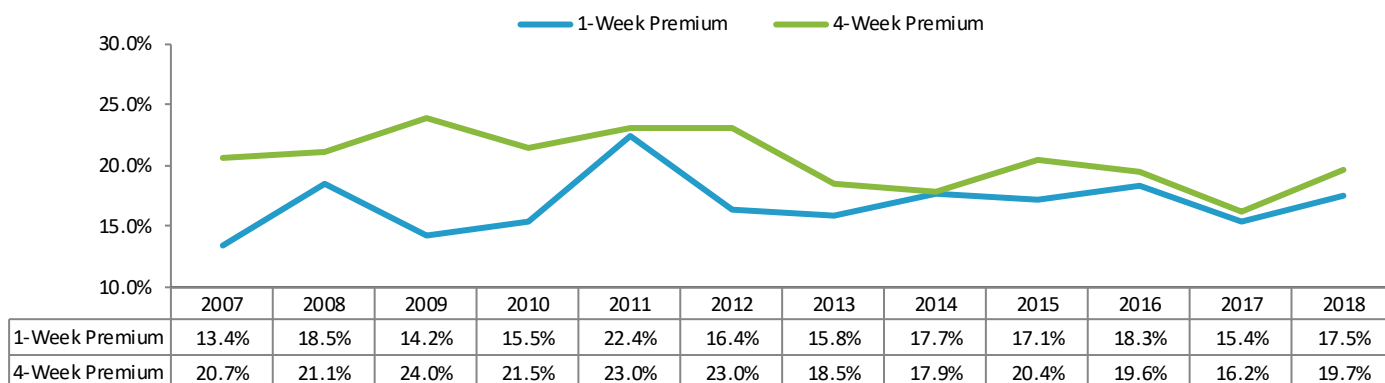
- The figures below provide premiums for domestic, inbound, and outbound acquisitions of publicly traded companies, relative to stock prices one week and four weeks prior to the deal announcements.
- In each year presented below, majority-stake premiums exceeded premiums associated with minority-interest deals.
- For majority-interest acquisitions from 2007 through 2018, the median one-week premium was 25.2%, and the median four-week premium was 27.6%.
- For minority-stake transactions from 2007 through 2018, the median one-week premium was 16.8%, and the median four-week premium was 20.5%.

China Majority-Interest Median Acquisition Premiums



Source: Dealogic.

China Minority-Interest Median Acquisition Premiums



Source: Dealogic.

M&A Analysis

China M&A Valuations

- On an overall basis for deal activity with reported valuation ratios, the median transaction EV/EBITDA multiple (on EBITDA for the trailing 12 months) increased during 2018 and was at the highest levels seen in the last 11 years.
- Consistent with other geographic regions, middle-market multiples have generally been slightly below overall valuations due to higher ratios for bigger deals. However, the discount for middle-market deals has been modest in recent years, including in 2018.
- Outbound multiples for 2018 trailed those of the overall market while remaining above historical averages, highlighting the desire of Chinese companies to acquire attractive assets like the technology capabilities, natural resources, and consumer brands of other regions.
- In 2018, inbound EV/EBITDA multiples were below valuation levels for overall M&A activity in China.
- Minority-interest transactions registered median valuations that were comparable to those of majority-stake acquisitions for most of the past nine years.
- Over the years, valuations for Industrial transactions have been somewhat volatile, reflecting variations in commodity costs, manufacturing trends in China and other major markets, and uncertain prospects for global construction and infrastructure spending.

China M&A Median Enterprise Value to EBITDA and Revenue Multiples											
Transaction Type	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
EV/EBITDA											
Overall	9.1x	8.7x	8.2x	7.7x	8.2x	8.8x	9.2x	10.5x	9.2x	11.2x	11.4x
Middle Market	8.5x	8.6x	7.8x	7.6x	7.9x	8.7x	9.2x	10.5x	8.7x	11.7x	11.3x
Outbound	11.3x	8.0x	7.8x	8.0x	8.3x	8.5x	7.8x	8.3x	10.0x	11.8x	10.6x
Inbound	7.6x	7.1x	7.4x	7.7x	7.8x	7.9x	9.6x	10.5x	9.0x	12.5x	10.2x
Majority Interest	7.3x	9.4x	8.3x	7.9x	7.8x	9.1x	8.8x	8.5x	8.9x	11.0x	10.9x
Minority Interest	10.9x	8.3x	8.4x	7.7x	8.3x	8.7x	9.5x	11.0x	9.3x	11.3x	11.9x
Industrial	7.8x	11.2x	8.0x	6.5x	9.8x	9.7x	9.9x	9.8x	8.8x	10.7x	10.5x
EV/Revenue											
Overall	0.92x	0.85x	0.90x	0.87x	0.88x	0.98x	1.01x	1.19x	1.15x	1.29x	1.40x
Middle Market	0.90x	0.78x	0.90x	0.84x	0.84x	0.96x	1.01x	1.18x	1.13x	1.29x	1.38x
Outbound	0.63x	1.45x	0.73x	0.64x	0.64x	1.02x	0.83x	1.27x	1.23x	1.02x	1.25x
Inbound	0.86x	0.50x	0.81x	0.89x	0.88x	0.80x	0.85x	1.15x	1.14x	1.22x	1.24x
Majority Interest	0.88x	0.67x	0.77x	0.76x	0.68x	0.88x	0.92x	1.12x	1.12x	1.16x	1.24x
Minority Interest	1.03x	1.02x	1.09x	0.96x	1.12x	1.12x	1.11x	1.25x	1.19x	1.39x	1.50x
Industrial	0.78x	1.07x	0.74x	0.88x	0.76x	0.88x	0.89x	1.19x	1.03x	1.30x	1.29x

Source: Capital IQ.

BAIRD'S PERSPECTIVE ON
ECONOMIC AND M&A ACTIVITY

Transaction Spotlight



Baird Transaction Spotlight



Target Company	WorldStrides	
Headquarters	Charlottesville, Virginia	
Financial Sponsors	Metalmark Capital	Silverhawk Capital Partners
Headquarters	New York, New York	Greenwich, Connecticut
Acquiring Companies	Eurazeo SE	Primavera Capital Group
Headquarters	Paris, France	Beijing, China
Industry Sector	Technology & Services	
Transaction Overview	WorldStrides (“WorldStrides” or the “Company”), a portfolio company of Metalmark Capital and Silverhawk Capital Partners (“Silverhawk”), completed a strategic investment with Eurazeo SE (EPA: RF), in partnership with Primavera Capital Group. The terms of the transaction were not disclosed.	
Target Company Description	WorldStrides is the largest educational student travel and study abroad organization in the U.S. The Company was founded in 1967 to provide middle school travel programs to Washington, D.C., and has grown to provide educational programs for 400,000+ students annually from 7,000+ universities and K12 schools to 100+ countries. WorldStrides’ full suite of programs are tuned to learners at stages from elementary through post-graduate levels, and feature specializations like performing arts, sports, and study abroad. The Company has 1,300+ employees in 58 offices on six continents.	
Financial Sponsors Description	<p>Metalmark Capital is a leading private equity firm whose principals have a long track record of successful investing in targeted sectors, with particular expertise and focus in business services, growth industrials, energy, and healthcare. Metalmark Capital seeks to build long-term value through active and supportive partnerships with the companies and management teams in which it invests.</p> <p>Silverhawk Capital Partners is an independent investment group established in 2005 to invest in management buyouts and other private equity transactions in the growth industrial, energy/natural resources, and business service sectors. Silverhawk partners have invested as a team and operated businesses since 1989 and have successfully deployed \$1.3+ billion of capital at high rates of return.</p>	
Acquiring Companies Description	<p>Eurazeo SE is one of the leading listed investment companies in Europe. Eurazeo SE’s purpose and mission is to identify, accelerate and enhance the transformation potential of the companies in which it invests. Eurazeo SE covers most private equity segments through its five business divisions – Eurazeo Capital, Eurazeo Croissance, Eurazeo PME, Eurazeo Patrimoine, and Eurazeo Brands. Eurazeo SE’s solid institutional and family shareholder base, robust financial structure free of structural debt, and flexible investment horizon enable Eurazeo SE to support its companies over the long term.</p> <p>Primavera Capital Group is a China-based investment management firm employing a flexible investment strategy of control/buy-outs, growth capital, and cross-border transactions. Primavera Capital Group’s investments capitalize on China’s emergence as the world’s biggest consumer market. Primavera Capital Group targets investments in the financial services, consumer, education, health care, and TMT sectors, where it has significant expertise and experience. Primavera Capital Group has built a high-quality portfolio of leading companies in some of the world’s fastest-growing and most innovative industries.</p>	
Advisory Role	Baird served as advisor to WorldStrides on this transaction.	

Baird Transaction Spotlight



Target Company Headquarters	Stratford School, Inc. <i>Saratoga, California</i>
Financial Sponsor Headquarters	Warburg Pincus LLC <i>New York, New York</i>
Financial Sponsor Headquarters	Quad Partners <i>New York, New York</i>
Acquiring Company Headquarters	Primavera Capital Group <i>Beijing, China</i>
Industry Sector	Technology & Services
Transaction Overview	Stratford School, Inc. ("Stratford" or the "Company"), a portfolio company of Warburg Pincus LLC ("Warburg") and Quad Partners ("Quad"), was acquired by Primavera Capital Group. Terms of the transaction were not disclosed.
Target Company Description	Founded in 1999, Stratford School, Inc. is an independent operator of premier preschool through 8th grade private schools throughout the San Francisco Bay and Los Angeles areas, serving over 6,000 students across 22 campuses. Stratford offers a high-quality education with positive outcomes at affordable tuition rates, providing a unique and exceptional value to students and parents.
Financial Sponsor Description	Warburg is a leading global private equity firm focused on growth investing with more than \$44 billion in private equity assets under management. Warburg's active portfolio of more than 140 companies is highly diversified by stage, sector, and geography. Warburg is an experienced partner to management teams seeking to build durable companies with sustainable value. Founded in 1966, Warburg has raised 16 private equity funds which have invested more than \$60 billion in over 780 companies in more than 40 countries.
Financial Sponsor Description	Quad is a private equity firm specializing in the education industry. Quad currently has 15 companies active in its portfolio. The firm primarily invests in small and mid-sized privately owned companies in the United States. Quad Partners was founded in 2000.
Acquiring Company Description	Primavera Capital Group is a China-based investment management firm employing a flexible investment strategy of control/buy-outs, growth capital, and cross-border transactions. Primavera Capital Group's investments capitalize on China's emergence as the world's biggest consumer market. Primavera Capital Group targets investments in the financial services, consumer, education, health care, and TMT sectors, where it has significant expertise and experience. Primavera Capital Group has built a high-quality portfolio of leading companies in some of the world's fastest-growing and most innovative industries.
Advisory Role	Baird served as exclusive financial advisor to Stratford School, Inc. on this transaction.

Baird Transaction Spotlight



Target Company	The Ritedose Corporation	
Headquarters	Columbia, South Carolina	
Financial Sponsor	Olympus Partners	
Headquarters	Stamford, Connecticut	
Acquiring Companies	AGIC Capital	Humanwell Healthcare (Group) Co.,Ltd.
Headquarters	Hong Kong, China	Wuhan, China
Industry Sector	Healthcare	
Transaction Overview	The Ritedose Corporation ("Ritedose" or the "Company"), a portfolio company of Olympus Partners ("Olympus"), was acquired by a consortium led by AGIC Capital ("AGIC") and Humanwell Healthcare (Group) Co.,Ltd. ("Humanwell").	
Target Company Description	Ritedose is a pharmaceutical company specializing in inhalation and ophthalmic drugs. The Company is the industry leader in Blow-Fill-Seal technology, a manufacturing process by which a container is formed, filled, and sealed in a continuous process inside a sterile, enclosed machine. The Company also conducts research and development activities aimed at product development and process improvement.	
Financial Sponsor Description	Founded in 1988, Olympus Partners is a private equity firm focused on providing equity capital for management buyouts and for companies needing capital for expansion. Olympus is an active, long-term investor across a broad range of industries, including restaurants, consumer products, healthcare services, financial services, and business services. Olympus manages in excess of \$5.5 billion primarily on behalf of corporate pension funds, endowment funds, and state-sponsored retirement programs.	
Acquiring Companies Description	<p>AGIC Capital is a European-Asian private equity fund, which focuses on investing in fast growing companies in Europe and the United States. Investment opportunities are focused on five industry sectors: intelligent production, high-end systems and components, advanced materials, medical equipment, and environmental protection technologies. AGIC supports its portfolio companies in the execution of their buy-and-build strategies, organic growth initiatives, and operating improvements. AGIC strongly supports the concept of investing with a business purpose and working closely with the top management of its companies. AGIC closed Fund I, its debut fund, in December 2016 with \$1 billion successfully raised.</p> <p>Humanwell Healthcare (Group) Co.,Ltd. is a fully integrated China-based healthcare solutions provider. Since its establishment in 1993, Humanwell has endeavored to bring safe and effective medicines to the world through the quality of its products and integrity of its people.</p>	
Advisory Role	Baird served as a financial advisor to The Ritedose Corporation on this transaction.	

Baird Transaction Spotlight



Target Company	Mayborn Group
Headquarters	Cramlington, United Kingdom
Financial Sponsor	3i Group Plc
Headquarters	London, United Kingdom
Acquiring Company	Shanghai Jahwa (Group) Co., Ltd
Headquarters	Shanghai, China
Industry Sector	Consumer
Transaction Overview	Mayborn Group (“Mayborn” or the “Company”), a portfolio company of 3i Group Plc (“3i”) (LSE: III), was acquired by Shanghai Jahwa (Group) Co., Ltd (“Jahwa Group”), the parent company of leading Chinese consumer products organization, Jahwa United Co. Ltd. Jahwa Group is wholly owned by the Ping An Insurance Group (“Ping An”). Terms of the transaction were not disclosed.
Target Company Description	Mayborn is the owner of award-winning global baby brand Tommee Tippee – Number one in the U.K. and Australia and one of the top 5 worldwide. Mayborn has offices worldwide, including Boston, Hong Kong, Paris, and Melbourne. The company has factories in Morocco, China, and Mansfield, England and employs over 1,200 people globally. Under 3i’s ownership, Mayborn has experienced rapid growth through international expansion, including the highly successful launch of Tommee Tippee in the U.S. in 2010, growing local sales to almost \$40 million in 2015. Other key strategic developments include setting up a direct company owned operation in Australia in 2012, as well as the acquisition of Tommee Tippee’s French distributor in 2013.
Financial Sponsor Description	3i is a leading international investment manager focused on mid-market private equity, infrastructure, and debt management across Europe, Asia, and North America. It has approximately £13.5 billion of funds under management, of which around £3.8 billion is invested through its private equity business. 3i is a FTSE 100 company.
Acquiring Company Description	Shanghai Jahwa (Group) Co., Ltd is the parent company of leading Chinese consumer products organization Jahwa United Co. Ltd. Jahwa Group is wholly owned by Ping An Insurance Group – one of the world’s largest insurance and investment companies.
Advisory Role	Baird served as the exclusive financial advisor to Mayborn Group on this transaction.

Baird Transaction Spotlight



Target Company	Modern Metal Precision Die Casting
Headquarters	Hong Kong
Divestor	The Fung Family
Financial Sponsor	EQT Greater China II
Headquarters	Stockholm, Sweden
Acquiring Company	JD Capital
Headquarters	Beijing, China
Industry Sector	Industrial
Transaction Overview	JD Capital has completed the acquisition of a controlling interest in Modern Metal Precision Die Casting ("Modern Metal" or the "Company"), from the Fung family and EQT Greater China II ("EQT"). Terms of the transaction were not disclosed.
Target Company Description	Modern Metal is the market leader in high-pressure aluminum die-casting serving the global automotive, climate control, industrial automation, and telecommunication industries. The Company offers comprehensive die-casting solutions including product and tool design, tooling fabrication, die-casting, precision CNC machining, surface finishing, and sub-assembly. The Company has long-term relationships with over 100 global customers spanning across the United States, Europe, and Asia.
Financial Sponsor Description	EQT is a leading global private equity group in Europe with approximately €30 billion in raised capital. EQT has portfolio companies in Europe, Asia, and the United States with total sales of more than €15 billion and approximately 100,000 employees. EQT works with portfolio companies to achieve sustainable growth, operational excellence, and market leadership.
Acquiring Company Description	JD Capital is one of the largest private equity firms in China with over 240 investments in a number of industries including advanced industrial manufacturing, consumer products and services, pharmaceutical and healthcare, agriculture, natural resources and mining, and clean tech.
Advisory Role	Baird served as the exclusive financial advisor to Modern Metal Precision Die Casting on this transaction.

Selected M&A Transactions

Selected China Outbound M&A Transactions

Date Announced	Acquiror	Target	Target Nationality	Target Industry Group	Deal Value (\$mil)	Enterprise Value /	
						Revenue	EBITDA
12/22/18	IDG Capital Partners; Legend Grace International Limited	Acne Studios Holding AB (41.0% stake)	Sweden	Apparel, Accessories, and Luxury Goods	\$203.2		
12/11/18	Xinhai Investment Limited	Roc Oil Company Limited (41.0% stake)	Australia	Oil and Gas Exploration and Production	229.5	2.8x	4.3x
12/07/18	Baring Private Equity Asia	Pioneer Corporation (majority stake)	Japan	Consumer Electronics	734.5		
11/26/18	China National Uranium Corporation Limited	Rössing Uranium Limited (68.6% stake)	Namibia	Coal and Consumable Fuels	106.5		
11/21/18	Shanghai RAAS Blood Products Co., Ltd.	Grifols Diagnostic Solutions Inc.	United States	Health Care Services	5,000.0		
11/15/18	Beautiful Mind Investment Management Ltd	CORDENKA GmbH & Co. KG	Germany	Textiles	271.5		
10/29/18	CMOC Limited	IXM B.V.	Netherlands	Diversified Metals and Mining	495.0		
10/25/18	China Petrochemical Development Corporation	Core Pacific(Vietnam) investment Co., Ltd	Vietnam	Commodity Chemicals	114.0		
10/24/18	Wingtech Technology Co.,Ltd	Nexperia B.V. (75.9% stake)	Netherlands	Semiconductors	2,655.4		
10/23/18	FWD Group Management Holdings Limited	PT Commonwealth Life (80.0% stake)	Indonesia	Life and Health Insurance	301.3		
10/12/18	Chifeng Jilong Gold Mining Co.,Ltd.	MMG Laos Holdings Limited	Cayman Islands	Gold	257.1		
09/25/18	Qingdao Haier Co., Ltd.	Candy S.P.A.	Italy	Household Appliances	551.9	0.4	
09/23/18	United Energy Group Limited	Kuwait Energy plc	Jersey	Oil and Gas Exploration and Production	1,222.0	5.5	7.6
09/21/18	Tencent Holdings Limited; IMM Investment Corp.	Krafton Inc. (15.1% stake)	South Korea	Interactive Home Entertainment	730.0		
09/13/18	China Reinsurance (Group) Corporation	Hanover Insurance International; Chaucer Insurance Company; Hanover Australia HoldCo	United Kingdom	Property and Casualty Insurance	865.0		
09/12/18	Tianshui Huatian Technology Co., Ltd.	Unisem (M) Berhad (75.7% stake)	Malaysia	Semiconductors	399.7	1.8	8.5
09/11/18	Shanghai Yuyuan Tourist Mart Co., Ltd.	International Gemological Institute (80.0% stake)	Belgium	Diversified Support Services	108.8		
09/11/18	ANTA Sports Products; FountainVest Partners; Tencent Holdings Limited	Amer Sports Corporation	Finland	Leisure Products	6,468.8	2.1	19.2
09/09/18	Letong Chemical Co.,LTD	Precision Capital Pte. Ltd.	Singapore	Technology Hardware, Storage, and Peripherals	350.1		
09/04/18	Zijin Mining Group Company Limited	Nevsun Resources Ltd. (98.9% stake)	Canada	Diversified Metals and Mining	1,516.7	4.2	30.3
08/27/18	Mason Group Holdings; We Doctor Holdings Limited; Aldworth Management	Genea Limited (89.5% stake)	Australia	Health Care Services	519.8	9.0	
08/13/18	GFL International Co., Ltd.	Minera Exar S.A. (50.0% stake)	Argentina	Diversified Metals and Mining	137.5		
07/23/18	SDIC Mining Investment Co. Ltd.	Arab Potash Company (30.0% stake)	Jordan	Fertilizers and Agricultural Chemicals	502.0	2.4	5.9
07/12/18	TUS International Limited	Telit Automotive Solutions N.V.	Belgium	Auto Parts and Equipment	125.0	2.0	12.4
07/05/18	Huadong Medicine Co., Ltd	Sinclair Pharma plc	United Kingdom	Pharmaceuticals	244.2	3.9	
07/03/18	CK Hutchison Holdings Limited	Wind Tre S.p.A. (50.0% stake)	Italy	Integrated Telecommunication Services	17,108.9	2.8	7.7

Source: Dealogic and Capital IQ.

Selected China Outbound M&A Transactions list excludes targets that are real estate properties or real estate operating companies.

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Date Announced	Acquiror	Target	Target Nationality	Target Industry Group	Deal Value (\$mil)	Enterprise Value /	
						Revenue	EBITDA
06/29/18	United Microelectronics Corporation	Mie Fujitsu Semiconductor Limited (84.1% stake)	Japan	Semiconductors	\$519.7		
06/21/18	Chifeng Jilong Gold Mining Co., Ltd.	Sepon Mine Located in Laos (90% stake)	Laos	Gold	275.0		
06/01/18	Hangzhou Great Star Industrial Co., Ltd.	LISTA Holding AG	Switzerland	Office Services and Supplies	186.8	1.6x	
05/29/18	Ningbo Jifeng Auto Parts	Grammer AG (73.7% stake)	Germany	Auto Parts and Equipment	777.1	0.5	7.0x
05/23/18	QuMei Home Furnishings Group Co., Ltd.	Ekornes ASA	Norway	Home Furnishings	709.0	1.8	11.6
05/22/18	Yageo Corporation	Pulse Electronics Corporation	United States	Electronic Manufacturing Services	740.0	1.8	
05/11/18	China Three Gorges Corporation	EDP - Energias de Portugal, S.A. (76.6% stake)	Portugal	Electric Utilities	35,299.0	2.0	10.8
05/09/18	Hisense Electric Co., Ltd.	Gorenje, d.d.	Slovenia	Household Appliances	856.4	0.5	13.6
05/04/18	CDH Investments	Sirtex Medical Limited	Australia	Biotechnology	1,429.1	7.8	30.9
04/28/18	Semir International Group (HK) Limited	Sofiza SAS	France	Apparel Retail	131.7		
04/25/18	Tianqi Lithium Corporation	Sociedad Química y Minera de Chile S.A. (23.8% stake)	Chile	Mining	4,066.2	8.0	19.5
04/17/18	CITIC Limited; ITQAN Holding; VPower Group International Holdings Limited	Byrne Equipment Rental LLC	United Arab Emirates	Trading Companies and Distributors	272.3		
04/16/18	Shanghai Pengxin Mining Investment Co., Ltd.	Aginco Resources (Singapore) Pte Ltd.	Singapore	Gold	1,143.1		
04/06/18	Best Assistant Education Online Limited	Edmodo, Inc.	United States	Internet Software and Services	137.5		
04/04/18	The ATP Group; CNIC Corporation Limited; Universities Superannuation Scheme Limited; Guoxin Guotong Fund LLP	Redexis Gas, S.A. (50.1% stake); Redexis Gas Finance B.V. (50.1% stake)	Spain	Gas Utilities	1,845.0		
03/26/18	FIT Hon Teng Limited	Belkin International, Inc.	United States	Consumer Electronics	850.0	1.1	
03/23/18	Xiamen Hexing Packaging Printing Co., Ltd.	United Creation Packaging Solutions (Asia) Pte. Ltd.	Singapore	Packaging	114.3	0.3	
03/16/18	China Minsheng Investment Group	Old Mutual Colombia and Old Mutual Mexico and AIVA Business Platforms	Mexico	Life and Health Insurance	300.0		
03/13/18	Ant Financial Services Group	Telenor Microfinance Bank Limited (45% stake)	Pakistan	Regional Banks	184.5		
02/22/18	Fosun Fashion Group	Jeanne Lanvin S.A. (60% stake)	France	Apparel, Accessories, and Luxury Goods	178.6		
02/10/18	Shenzhen Stock Exchange; Shanghai Stock Exchange	Dhaka Stock Exchange Ltd. (25% stake)	Bangladesh	Financial Exchanges and Data	119.2		
02/06/18	China Merchants Port Holdings Company Limited	Port of Newcastle (50% stake)	Australia	Marine Ports and Services	478.5		
02/02/18	Zhoushan Yinmei Automotive Interior Co., Ltd.	Car Sun Visor related assets	United States	Auto Parts and Equipment	147.0		

Source: Dealogic and Capital IQ.

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Date Announced	Acquiror	Acquiror Nationality	Target	Target Industry Group	Deal Value (\$mil)	Enterprise Value /	
						Revenue	EBITDA
11/27/18	SK Holdings Co., Ltd.	South Korea	Lingbao Wason Copper-Foil Company Limited (30.0% stake)	Copper	\$239.0	2.7x	
11/26/18	AXA SA	France	AXA Tianping P&C Insurance Co., Ltd.(remaining 50% stake)	Property and Casualty Insurance	446.7		
11/09/18	Diamond Two Pte. Ltd.	Singapore	Construction unit of Shanghai International Port (Group) Co., Ltd.	Construction and Engineering	1,836.1		
11/09/18	bioMérieux S.A.	France	SuZhou Hybiome Biomedical Engineering Co.Ltd. (54.0% stake)	Health Care Equipment	114.5		
11/05/18	Arkema Asie SAS	France	Taixing Sunke Chemicals Co. Ltd. (45.0% stake)	Commodity Chemicals	116.6		
10/26/18	Hitachi, Ltd.	Japan	Yungtay Engineering Co., Ltd. (88.3% stake)	Industrial Machinery	703.5	1.4	14.9x
10/11/18	BMW Holding B.V.	Netherlands	BMW Brilliance Automotive Ltd. (25.0% stake)	Automobile Manufacturers	4,209.1		
10/01/18	Nidec Corporation	Japan	Chaun-Choung Technology Corp. (48.0% stake)	Electronic Components	146.5	1.1	9.1
07/24/18	Terumo Corporation	Japan	Essen Technology (Beijing) Co., Ltd.	Health Care Equipment	129.4	6.3	
07/22/18	KKR & Co. Inc.	United States	LCY Chemical Corp.	Commodity Chemicals	1,831.4	0.7	6.4
07/10/18	Warburg Pincus LLC	United States	China-based Pharma, Consumer Health, and Medical Device businesses of DKSH Holding AG	Health Care Services	100.7	0.3	
06/25/18	H&H Holdings CO.,LTD.	South Korea	Genor BioPharma Co., Ltd.	Pharmaceuticals	198.7		
06/25/18	Diageo plc	United Kingdom	Sichuan Swellfun Co.,Ltd (20.3% stake)	Distillers and Vintners	940.3	12.3	53.4
05/30/18	LSF10 Summertime Investments, Ltd	Bermuda	Sino Gas & Energy Holdings Limited	Oil and Gas Exploration and Production	416.1		
05/23/18	Mitsui Sumitomo Insurance Co., Ltd.	Japan	BoComm Life Insurance Company Limited (37.5% stake)	Life and Health Insurance	500.9		
04/04/18	Jet Aviation	United States	Hawker Pacific Aircservices Limited	Trading Companies and Distributors	250.0		
04/04/18	Mirae Asset Capital Co.,Ltd.	South Korea	Didi Chuxing Technology Co., Ltd.	Application Software	264.1		
03/27/18	J&R Holding Limited	Bermuda	Suzhou ASEN Semiconductors Co., Ltd. (40.0% stake)	Semiconductors	127.1		
03/26/18	Multi-Fineline Electronix, Inc.	United States	Stakes in China-based operations of Multek Corporation	Electronic Components	292.5		
02/23/18	Lonsin Capital Limited	United Kingdom	Asia Pacific Wire & Cable Corporation Limited (44.5% stake)	Electrical Components and Equipment	135.3	0.3	7.0
01/30/18	Elkem ASA	Norway	Jiangxi Bluestar Xinghuo Silicones Co., Ltd.	Commodity Chemicals	1,011.2		
01/30/18	Elkem ASA	Norway	Blue Star Silicon Materials Co., Ltd.	Commodity Chemicals	139.0		
01/19/18	Yellowbird Capital Management (GP) Limited	Cayman Islands	Tai United Holdings Limited (74.0% stake)	Trading Companies and Distributors	834.5	0.5	15.8

Source: Dealogic and Capital IQ.

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