

CHINA'S OUTBOUND M&A SURGED IN 2016

2016 was a record year in terms of overseas acquisitions by Chinese companies. Outbound M&A reached \$213bn across 448 deals¹, which in deal value terms represented an increase of 144% on 2015. Save for a slowdown towards the end 2016, as tighter capital controls were introduced, China was on course to exceed the United States as the top acquirer of foreign companies globally. The Media and Technology sectors were a primary recipient of this investment, but will this continue into 2017?

CHINA OUTBOUND M&A – VOLUME AND VALUE (\$BN)



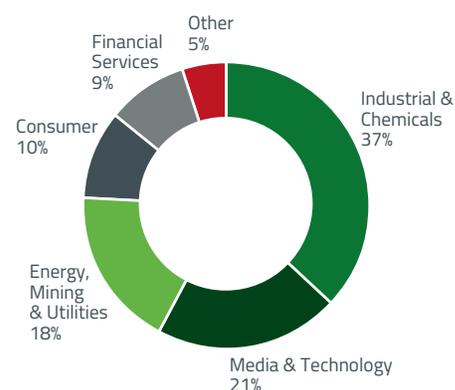
The types of foreign companies that Chinese companies are most interested in acquiring have moved beyond the usual resource and energy sectors into the TMT, industrial and consumer spaces. This move reflects the economic transition away from an export driven manufacturing economy towards one driven by technology, know-how and consumption. By way of example, outbound M&A on Media and Technology businesses increased from less than \$3bn in 2013 to over \$44bn in 2016.

Notable deals in the Media and Technology sector evidencing this trend included Tencent's acquisition of Finnish mobile game developer Supercell for \$8.6bn, HNA's Group purchase of IT wholesaler and service provider, Ingram Micro, for \$6.3bn and Wanda's acquisition of Film and TV production companies Legendary Entertainment and Dick Clark Productions for \$3.5bn and \$1.0bn respectively.

What has been driving China's outbound investment?

2016 saw a broad universe of Chinese buyers who are becoming more experienced in participating in Western M&A auction processes and executing transactions with an increase in speed and size. And it is not just trade, Chinese private equity firms are proliferating and increasingly successful in deploying capital overseas. This heightened activity has been driven by several factors.

TOP TARGETED SECTORS BY DEAL VALUE IN 2016



Deal Volume	2011	2016
Industrial & Chemicals	44	128
Media & Technology	20	105
Energy, Mining & Utilities	49	57
Consumer	30	56
Financial Services	11	39
Other	23	63

¹ Source: Mergermarket

CHINA'S OUTBOUND M&A SURGED IN 2016 (CONTINUED)

- 1) *Favourable political environment:* The Chinese state is encouraging of strategic investment that helps upskill mainland China, as illustrated by the "The Made in China 2025" and "Going out" initiatives which earmark strategic sectors to bolster innovation, establish ownership of key technologies and know-how that enhance China's international political and economic influence.
- 2) *Maturing Chinese economy:* China's GDP growth rate is levelling off as the economy rebalances toward consumption and services. This combined with the rapidly vanishing wage advantage has led to increasing levels of outbound M&A as local companies seek to grow internationally to boost organic growth.
- 3) *Favourable financing environment:* A combination of lower reserve ratios for banks and low interest rates has driven both the supply and demand of debt and allowed Chinese buyers to take advantage of flexible financing to pursue outbound M&A.
- 4) *Overseas assets are "cheap":* High domestic valuation expectations and heightened competition for mainland targets has turned attention overseas. A relatively strong (some say overvalued) Renminbi coupled with listed Chinese companies trading at a significant premium to their Western counterparts, has further fuelled competitiveness in auction processes.
- 5) *Great wall of middle classes:* China's middle class is now larger and richer than ever before. It is estimated that 35% of the population (480m people) will be upper middle-income or high-income by 2030, a sharp increase on the 10% (132m) today². Importing technologies and skillsets to address the resultant growing consumer demand is one strategy that both the State and Chinese companies are employing.

Will this activity continue in 2017?

There is a question as to whether the pace of outbound investment will continue into 2017. Late 2016 saw Chinese authorities take an increasingly stricter stance on capital outflows, particularly where firms are seeking to move assets out of the country to hedge against the depreciating Renminbi, by strengthening and prolonging the regulatory process. In parallel, Western government's have taken an increasingly protectionist stance against inbound Chinese investment into assets of "strategic or national importance".

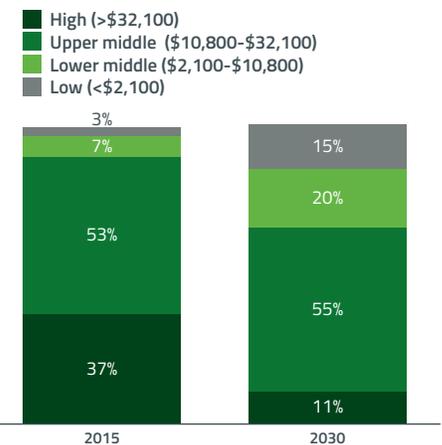
NOTABLE 2016 OUTBOUND MEDIA AND TECHNOLOGY DEALS¹

TARGET	ACQUIRER	SUB-SECTOR	DEAL SIZE (\$BN)
Supercell	Tencent	Gaming	8.6
Ingram Micro	Tianjin Tianhai	IT services	6.1
Playtika	Chongqing New Century Cruise	Gaming	4.5
Legendary Entertainment	Dalian Wanda	Film	3.5
Global Switch	Elegant Jubilee Consortium	Data centre	3.0
Skyscanner	Ctrip.com	Internet	1.8
AppLovin	Orient Hontai Capital	Mobile	1.4
Dick Clark Productions	Dalian Wanda	TV Production	1.0
Media.net	Beijing Miteno Communication Technology	Adtech	0.9
Opera Software	Golden Brick led consortium	Advertising Software	0.6

¹ Source: Mergermarket

ANNUAL DISPOSAL INCOME PER CAPITA DISTRIBUTION

(% of total population, grey income-adjusted, constant 2015 prices)



Source: The Economist Intelligence Unit

² Economic Intelligence Unit – The Chinese Consumer in 2030

CHINA'S OUTBOUND M&A SURGED IN 2016 (CONTINUED)

So what does this mean? It is too early to fully understand the wider implications, however, whilst larger transactions (Enterprise Value ("EV") >\$1bn) will face greater scrutiny from both the Chinese State as well as recipient governments, likely impacting absolute 2017 outbound investment, it is our expectation that interest in strategic foreign assets will remain strong in the mid-market (EV of \$50m to \$500m), particularly in the Media and Technology sectors, for the reasons set out above.

With activity therefore expected to continue, many Chinese companies who remain unfamiliar with Western processes and Western businesses who are unfamiliar in dealing with their Chinese counterparts, will need help bridging the divide. Our experiences in China touch on several key lessons learnt, be it cultural, process or practical.

Spotlight on Framestore

In December 2016, Clarity and JEGI co-advised the shareholders of Framestore on the sale of 75% of the equity to a Chinese consortium led by Cultural Investment Holdings ("CIH" (ticker 600715:SHH)). Framestore is an Oscar-winning and globally renowned provider of VFX and CG content to the Film, TV, Advertising and Theme Park industries. The business attracted significant interest from both trade and financial parties, with particular attention coming from China.

One of the key drivers of Chinese demand has been the rapid growth of the local film industry, with its domestic box office second only to the US. In parallel, local film production budgets (and therefore visual effects) are growing significantly with 2016 seeing the first film with a production budget of \$100m, *The Great Wall*, being produced in China. Framestore is expected to benefit significantly from this trend.

Outside of film, Framestore's knowhow and technologies are being applied to an increasing array of platforms. Immersive entertainment and design skills are being used in China to develop high-end CG content for theme park rides, a sector that is benefiting from the fast rise of the middle classes. The business also operates at the forefront of the VR and AR content production industry which has attracted significant interest as many see it as an opportunity to invest into a sector where they can drive innovation and dominate the global market.

The sale of Framestore has made a significant impression on the industry and whilst the transaction sets a new valuation benchmark in the sector and a successful outcome for the exiting shareholders, for those that remain and have a continued financial interest in its success, the partnership with CIH represents an incredibly exciting new chapter as the industry increasingly looks East.

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HEY, DID YOU SEE THIS?

BILLFRONT

December 14, 2016

BillFront, the digital media start-up, has secured a \$35m Series A funding round from 4finance, NIBC Bank and existing investor FinLeap. Founded in 2015, London-based BillFront connects directly with companies' invoicing systems and suggests eligible invoices for financing, helping them to access working capital faster.

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LUMINANCE

December 15, 2016

Luminance, a pioneer of artificial intelligence for the legal industry, has secured funding from Talis Capital, which values the company at over \$20 million. Launched in September, with the backing of Invoke Capital and Magic Circle law firm Slaughter & May, demand for Luminance's product is growing rapidly, with the company recently completing its tenth data room project.

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ECOVADIS

December 14, 2016

EcoVadis, the leading platform for environmental, social and ethical performance ratings for global supply chains, servicing over 30,000 customers in 110 countries, announced its first institutional funding led by Partech Ventures, the global VC firm operating from San Francisco, Paris and Berlin.

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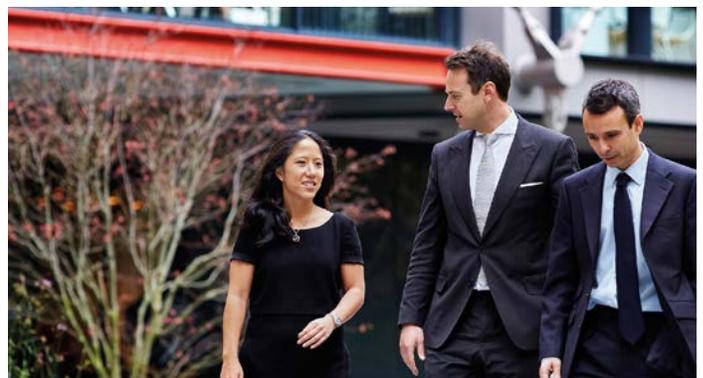
ABOUT CLARITY

Clarity has been a leading M&A advisor for the global media, information, marketing, software and tech-enabled services sectors for over a decade. Headquartered in Europe, with offices in London and Sydney, as well as New York City and Boston (through our partnership with [JEGI](#)), we have a strong and growing global presence.

We provide clients with a global network of prospective buyers and senior decision-makers, as well as vast industry knowledge, perspective and intelligence. This affords our clients seamless access to deep market insights and a wealth of M&A experience, enabling us to deliver them great results.

We share our clients' passion and ambition: for what they've achieved, the future they're building and the industry in which they work.

For more information, visit www.claritycp.com



SELECT RECENT CLARITY TRANSACTIONS



December 2016: Framestore is a leading global VFX and CG content production company.



July 2016: Milkround is the UK's leading graduate recruitment brand.



May 2016: Pegasus is a leading UK integrated healthcare communications consultancy.



December 2015: FCBI's TU-Automotive is the global leader in the B2B automotive technology events and information sector.



October 2015: Imago Techmedia is a leading enterprise technology trade show organiser.



July 2015: Selligent is an international SaaS platform delivering omnichannel audience engagement.



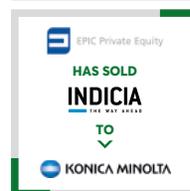
July 2015: Briefing Media is the leading provider of business information and marketing solutions to the UK agricultural sector.



April 2015: Splendid is an award-winning user experience design and technology consultancy.



December 2014: Investis is the leading independent global provider of digital corporate communications solutions.



December 2014: Indicia is a leading data analytics and customer engagement agency.



August 2014: Pepper is an international integrated communications agency.



July 2014: Salterbaxter is a leading international sustainability strategy and communications consultancy.



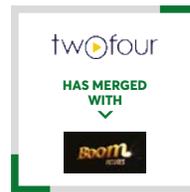
April 2014: Harlands Group is the leading outsourced payment services provider to the UK leisure and fitness sector.



March 2014: Epiphany is an award-winning, independent search marketing agency.



November 2013: Walker Media is a leading UK media agency.



October 2013: Twofour Group is an international, award-winning factual, features and entertainment television producer and digital agency.



July 2013: IML is a market-leading audience engagement solutions company.



January 2013: BrandAlley UK is the #1 fashion private sales website in the UK.



October 2012: Morningstar's Investor Relations Services (formerly Hemscoff IR) is a leading provider of online investor relations and digital communications solutions.



October 2012: Adam Matthew Digital is an award-winning publisher of online resources for university research.



September 2012: Investis is the leading independent pan-European provider of digital corporate communications solutions.



August 2012: iSD is an award-winning digital marketing agency.



May 2012: adam&eve is a leading creative advertising agency.



November 2011: betty is a leading independent TV production company, specialising in high-quality primetime contemporary factual television.

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