BDA PARTNERS

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China Private Equity Report 2023

February 2023

Executive Summary

China's private equity ("PE") industry faced strong headwinds in 2022 due to factors including a slowing economy, Covid-19 restrictions, increased regulatory scrutiny, and higher prevailing interest rates globally which weighed on public market valuations. PE exits and fundraising had been challenging during the past year.

However, the China market underwent a dramatic change in recent months as the country's Zero-Covid policy was relaxed and borders were reopened. The Chinese government implemented measures to boost the economy and private sector investments. This report provides our perspectives on how these changes may impact Financial Sponsor activities and China M&A market in 2023.

We have examined the following key subjects in this report:

- *The unwinding of Zero-Covid policies will benefit sectors such as consumer, tourism, and property. China's growth story will be back in focus and investor confidence in the Chinese economy will likely revive. Looking ahead, consumer & retail, manufacturing, energy & resources, life science & healthcare, and logistics & supply chain industries will likely attract the most attention.*
- *China M&A market involving Financial Sponsors will be dominated by China GP's investments in domestic targets. We also expect to see an increase in GP outbound investments in 2023 to diversify their portfolio outside of China.*
- *Financial Sponsors will focus more on a target's profitability and cash flow generation, rather than underwriting investments purely on revenue growth potential. GPs are acting out of caution to secure investment returns.*
- *In 2023, we expect to see a greater number of portfolio company exits, with more quality assets coming to the market. Encouraged by economic recovery, portfolio companies that demonstrated resilience during the pandemic period will be attractive buyout targets in 2023 and beyond.*
- *Trade sales and IPOs were difficult in 2022, leading to delays in portfolio company exits and fundraising for GPs. We expect tightened regulations related to specific sectors and the long backlog for public listings will continue to pose difficulties for IPO exits, and mean trade sale will be a more prominent exit route for Financial Sponsors in 2023.*
- *ESG has catapulted from the sidelines to center stage of the investment agenda. Either through altering their investment strategy to align with ESG goals or setting up impact funds, global sponsors are gradually adopting their global ESG standards when investing in China.*
- *Fundraising slowed down in 2022 due to macro uncertainties. GPs will likely focus on returning capital to LPs through portfolio company exits in 2023 as the market warms up. We expect that fundraising will remain relatively subdued this year, followed by more fundraising activity from 2024 onwards as PEs complete more exits - and need to replenish their capital for new investments.*

Overall, we believe China's macroeconomic structure will be reinforced under the rubric of stability and growth. Financial Sponsors should be ready to re-engage with the world's second largest economy and stage a strong rebound in 2023.

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I.

Snapshots of PE Activities in 2022

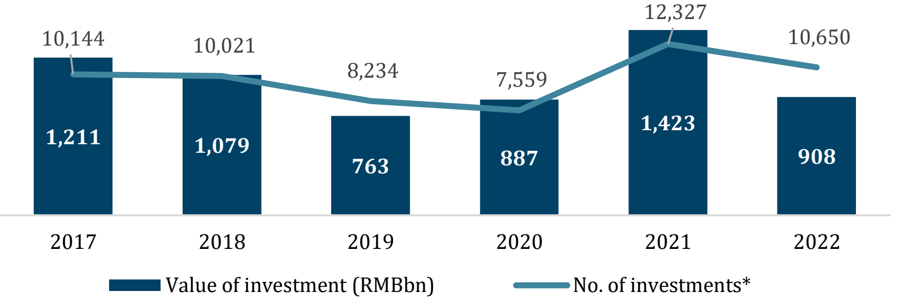
PE Investment Appetite in 2022

China's PE industry faced strong headwinds in 2022. Hindered by a slowing economy, stringent Covid-19 restrictions weighing on the market, increased cost and limited availability of financing, total deal value hit a multi-year low in 2022. Buyers' appetite has also adjusted to more policy-oriented sectors.

Declining Financial Sponsor investment activities

The total number and value of Financial Sponsor investments in 2022 declined by 14% and 36% respectively, compared to 2021. Due to political and pandemic uncertainties, investors were cautious and preferred to stay on the sidelines. Weak equity market performance and increased regulatory scrutiny in sectors such as internet, critical resources, gaming, and education also contributed to overall caution.

Financial Sponsor investments in China

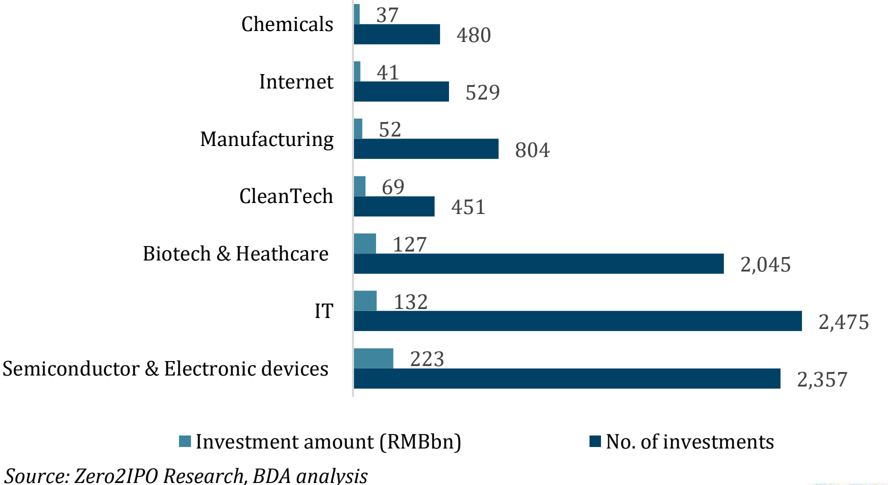


Source: Zero2IPO Research, BDA analysis
**Including early stage, VC and PE investments*

Investments focus on policy-favored sectors

Financial Sponsors' investments leaned toward policy-favored sectors such as energy, industrial technology and healthcare with a general belief that these sectors have more sustainable growth potential.

2022 Financial Sponsor investments by industry



Source: Zero2IPO Research, BDA analysis

PE Exits in 2022

Political and economic uncertainties and weak investment appetite posed challenges for portfolio company exits in 2022.

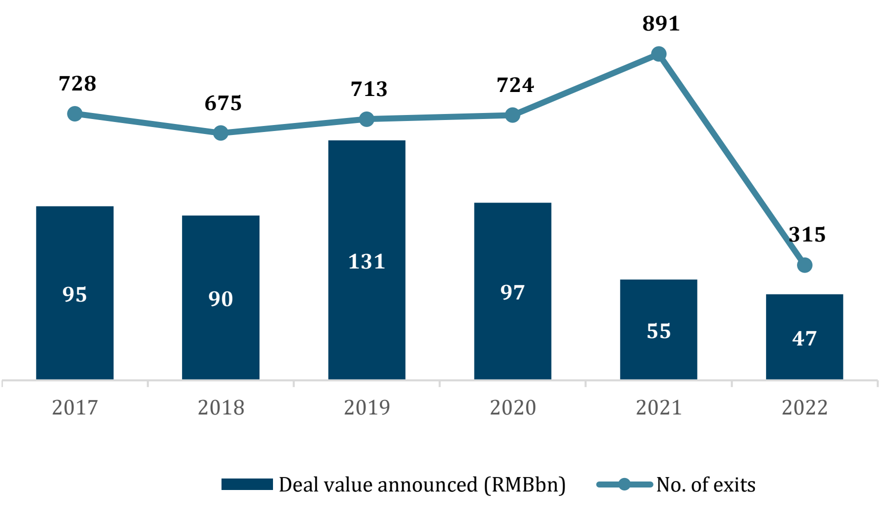
Financial Sponsors stayed on sidelines due to political and pandemic uncertainties

Uncertainties associated with the 20th National Congress of the Communist Party of China, Zero-Covid policies, and lockdowns in key cities contributed to an exceptionally weak investment environment in China in 2022. Against this backdrop, Financial Sponsors preferred to stay on the sidelines and delay exit plans until the environment improved.

Buyers became cautious because:

- Given the upcoming leadership changes, buyers looked for greater clarity on the direction of policymaking in the next 5 years
- Zero-Covid policies continued to take a heavy toll on the domestic economy
- The significant drop in equity market valuation led to a widening gap in seller and buyer expectations in M&A transactions

PE exits through trade sale in China

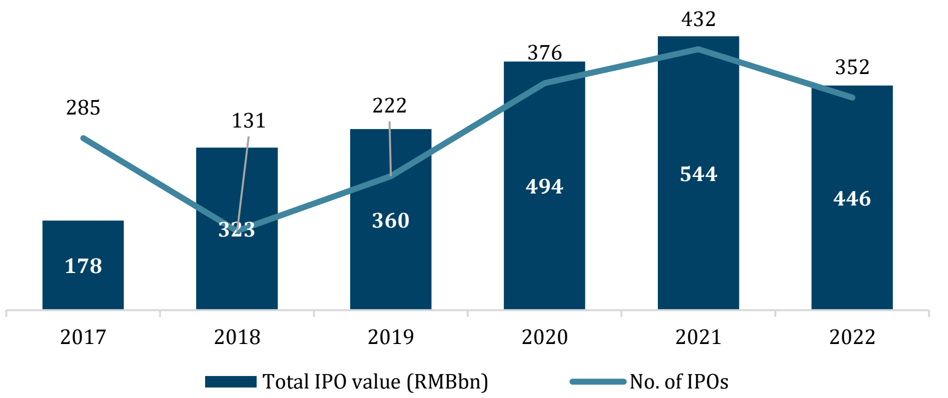


Source: CVSource, BDA analysis

Stock market correction and high financing costs led to a weak IPO market

IPO has historically been the preferred exit route for Founder-controlled businesses in China. However, due to the weak market performance and stock market corrections, many IPOs were pushed back in 2022.

Number of PE/VC-backed IPO exits*



Source: Zero2IPO Research, BDA analysis
**Including A-share, H-share and US stock exchanges*

In 2022, 352 PE/VC-backed companies were listed with an aggregate IPO value of RMB 446 billion, representing a 18% decline from 2021. Growth capital investors delayed IPO plans, while some early investors sought alternative exits via secondary trades.

Post-IPO exits via private placements and block trades were difficult to execute as the equity market sell-off contributed to divergent valuation views between sellers and potential buyers. Margin loans became more expensive on the back of rising interest rates – firms that intended to borrow-and-buy faced higher return requirements to cover their funding costs. All these factors made Financial Sponsors pull back from IPOs as their primary exit option.

II.

PE Investment Outlook 2023

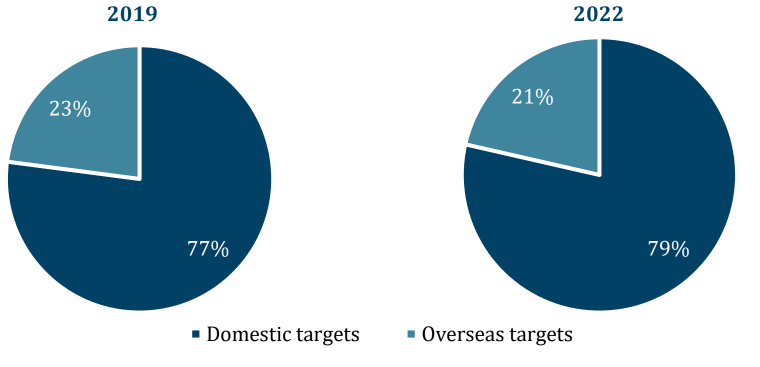
PE Investment Outlook in 2023

China M&A involving Financial Sponsors will likely be dominated by GP investments in domestic targets. We also expect to see an uptick in GP outbound investments in 2023.

Domestic M&A made up most of China M&A in 2022

Observing the M&A landscape in 2016 - 2022, China GP investments in domestic targets has historically outweighed their investments in cross-border targets. This is driven by their pursuit of growth through investments in companies with high exposure to the domestic economy. We expect this trend to continue in the post-Covid era.

China M&A deals involving Financial Sponsors*



Source: Dealogic, BDA analysis
Note: Financial Sponsors as both buyers/sellers in the M&A transactions

Domestic M&A investment appetite

Takeaways from our PE Conference held in November – December 2022 on China's domestic M&A market:

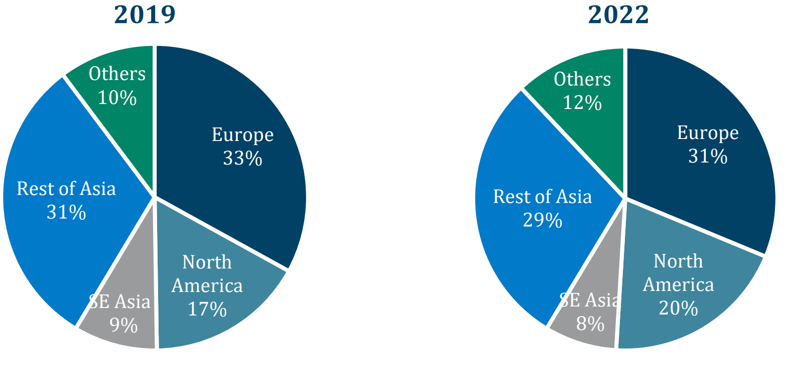
- For control deals, large USD funds generally preferred larger deal size targets to optimize returns on effort during post-investment management.
- For minority transactions, Financial Sponsors are increasingly seeking larger ownership stakes in a target to influence management and facilitate operational restructuring.
- Financial Sponsors also need to demonstrate a strong case for value-creation post-investment to justify paying up in a competitive auction process

Outbound M&A will also rebound

In 2023 we expect re-opening to lead to a rebound in outbound M&A. Limitations on due diligence imposed by China's Zero-Covid policy will cease to be an issue this year, and some Financial Sponsors have begun to explore the market for overseas market exposure.

In contemplating outbound acquisitions, Financial Sponsors often partner with Chinese strategics in bidding for overseas assets. We expect this trend to continue in 2023, as Financial Sponsors can leverage on strategic partners' expertise and network to validate their investment thesis for the target's growth potential in China.

China outbound M&As involving Financial Sponsors
Deal count by target location



Source: Dealogic, BDA analysis

In terms of geographical preferences, the 3 most popular regions for Financial Sponsors' outbound investments are Europe, North America and Southeast Asia.

US and Europe: the macroeconomic landscape for 2023 is shrouded in uncertainty. With the high-rising inflation and interest rates, business face exit pressure since local buyers cannot afford high valuation. Foreign investors are thus favorable to these sellers.

Southeast Asia: we expect Southeast Asia to record spectacular growth in the coming year – global supply chain shifts, favorable local policies, low capital costs all contributed to its strong performance over the past years. Foreign investors are drawn to SEA for the nascent opportunities.

Japan, South Korea, Australia and New Zealand: assets incubated in these areas are usually mature entities with sustainable growth profile, appealing to risk-neutral investors.

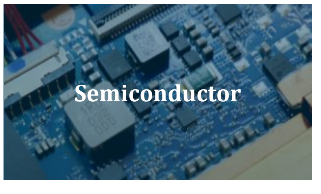
PE Investment Outlook in 2023

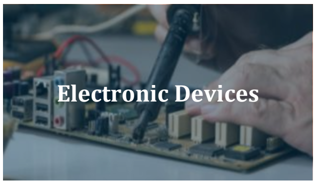
Financial Sponsors will be more focused on a target's profitability and cash flow generation, rather than underwriting investments purely on revenue growth potential. Industrial, Healthcare, Services, Consumer, and Technology are the sectors that will draw attention from Financial Sponsors.

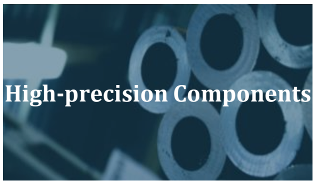
Industrial

A report published by Datasite revealed that a total of 117 deals in industrials and chemicals sector were delivered as of Q3 2022. Given industrials and manufacturing are among the biggest contributors to China's economy, we foresee that there will be a commensurately large number of M&A opportunities going forward.

We expect Financial Sponsors to increase their investment focus on strategic industries such as semiconductor, electronic devices, and high-precision components. These are in line with the "self-sufficient" and "dual circulation model" promoted by the Chinese government.







BDA's 2022 PE Conference concurred with this theme. Among all industrial presenting companies from China, a global leading provider of high-speed train components and a top manufacturer of meta-aramid and high-performance aramid paper were among the most sought-after.

They prefer advanced manufacturing industries with high entry barriers and core-tech capabilities. ESG is a universal topic as well – most LPs treat ESG as a must-have consideration when weighing investments.

While reviewing new materials and manufacturing assets, investors emphasize:

1. **Resilience against economic downturn**
2. **Ability to pass on raw material cost volatility to downstream customers**
3. **Manufacturing capabilities**
4. **Potential for capacity growth**

Healthcare

Prospects for healthcare are also strong, reinforced by megatrends such as "Healthy China 2030". M&As and investments are expected to grow as capital flows into the healthcare sector grow.

Priority investment themes in healthcare include:

Life science tools, as they are less affected by centralized procurement and are essential in the process of research and development

High-value consumables and devices, especially those in the cardiology and neurology sub-sectors

Consumer health-related topics, such as vitamin and mineral supplements ("VMS"), pet care and home-use respiratory care – as they are mostly out-of-pocket expenses

Financial Sponsors appear to hold divergent viewpoints on healthcare services. Investors on the optimistic side have shown strong appetite for private specialty hospitals as they offer growth potential thanks to demand overflow from public tertiary hospitals.

During our PE Conference, participants indicated that they are particularly interested in "hard-to-treat" specialties that have high entry barriers and are complementary to public hospitals (e.g., oncology, cardiology, neurology), and specialty hospitals with out-of-pocket payments and room for standardization (e.g., ophthalmology, dental)

Services

As manufacturers consciously adjust their industrial chain structure, supply chains will increasingly decentralize, and shift from globalization to localization. Local logistics companies will need to improve their service capacity and coverage. Top players will continue to optimize the efficiency of warehousing and transportation network. Courier and express service providers will accelerate horizontal M&A. Cross-border logistics chains will also leverage M&A to further integrate upstream and downstream parties.

During our 2022 PE Conference, investors spoke of plans to focus on quality assets/public service facilities with stable revenue, cash flow, and long-term growth. They preferred assets that are leading players in their respective markets, even if the segment is niche. Revenue growth reliant on government pricing was a feature of businesses to be avoided.

Consumer

The Consumer & Retail industry was severely impacted by China’s Zero-Covid policies. Amid the turmoil and changes in consumer behavior, several new investment themes have emerged.

Rising personal health awareness has driven consumer demand for nutritional food and wearable devices, while pre-cooked food has become a new lifestyle trend in the “singles’ economy”. Moreover, value-for-money buying behavior in a weaker economy has driven demand for discount retail and second-hand luxury products.

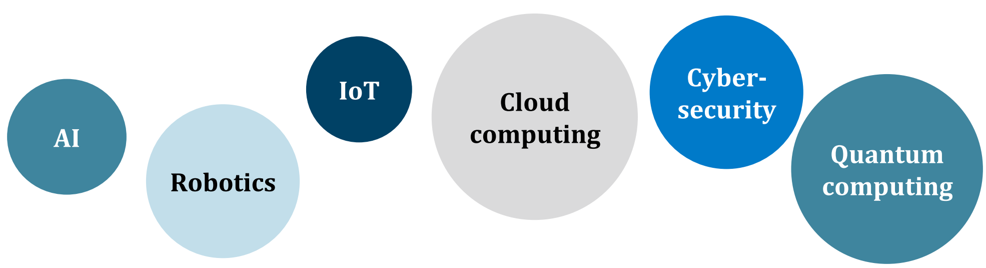
Instead of underwriting investments purely on growth potential alone, participants at our 2022 PE Conference spoke of a greater focus on:

1. **Competitive positioning**
2. **Business sustainability**
3. **Profitability**
4. **Cash flow generating capabilities going forward**

The economic impact of Zero-Covid has altered consumers' spending habits, elevating the importance of "rational spending“. Interest in fast moving consumer goods was strong.

Technology

Leading technology trends in 2023 include:



When assessing internet technology companies, investors usually focus on the sustainability of the digital platforms’ revenue models, growth potential of active users, and legal & compliance. Other key factors investors evaluated included how to successfully leverage government support, maintain competitive margins, and achieve stable shipment.

At our 2022 PE Conference, investors generally recognized a data-empowered marketing group and a provider of zero-emission commercial vehicles as among the most interesting technology assets.

Investment Considerations

Some GPs expressed concerns about the political and economic uncertainties in China and will remain cautious in investments.

Investment Considerations

LP Cautiousness

LPs cautiousness will impact GP's appetite to invest in China. Some of them are not fully convinced by Chinese government's back and forth on COVID policies for the past three years.

Risk Diversification

Some China GPs are setting up teams outside China to look for investments, diversifying risk from China. This may result in less capital deployment in China in 2023. The trend may reverse when new China-focused funds are raised, and the China market becomes Financial Sponsors' favored region to invest again.

Resources Rationalization

Some GPs are reducing resources in certain sectors such as Consumer and Technology before China opened up. This will affect dealmaking capabilities in those sectors in the near term, until these sectors are stabilized and there are signs that sector M&A activities are picking up again.

Geopolitical Concerns

China GPs are facing increasing risk of making outbound acquisitions, as prolonged geopolitical uncertainties may cause GPs to focus their investment efforts on localization stories.

ESG Role in PE Investments

In a relatively short time, ESG has catapulted from the sidelines to center stage of the investment agenda. Global Financial Sponsors gradually adopt their global ESG standards when investing in China.

Financial Sponsors face issues on the ESG front

- LPs may have individual, unique mandates on ESG
- Portfolio companies set net zero requirements and impose these on their supply chains
- Investors may need to contend with a higher cost of financing when portfolio companies fall short of agreed ESG expectations
- Financial Sponsors could be disadvantaged when bidding for a target with material ESG risks

Impact on investments

- More Financial Sponsors have turned down investment opportunities because of ESG concerns
- Investors are increasingly screening target companies for ESG risks and opportunities at the pre-acquisition stage
- Assets with strong ESG credentials may be sold at higher valuations
- Global buyout funds are gradually adopting global ESG standards when investing in China

Impact on fund strategy

ESG issues have increasingly become top of mind for many PE firms. Several firms are not only using ESG to guide their investment decisions, but also setting up ESG Funds or Impact Funds to bolster their ESG credentials.

In October 2022, KKR reached US$1.9 billion for its second impact fund. Bain Capital and Sequoia China also have their ESG focused Double Impact Fund and carbon-neutral fund respectively.

We believe more new impact funds targeting China investments will be set up to take advantage of the opportunities available in that area.

III.

PE Exits in 2023

PE Exit Pressure

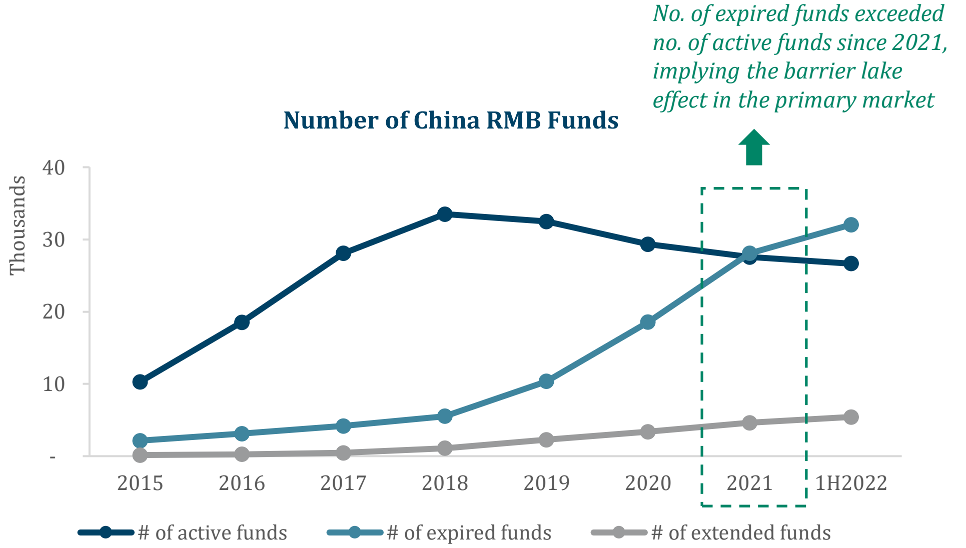
The slowdown in PE exit activities in the past 3 years had created significant pressure for Financial Sponsors to monetize investments that have reached the end of their investment cycles.

Fewer exit activities

China's economy suffered in 2022 as massive and repeated lockdowns swept across the country, driving a slump in consumer spending and very slow growth in industrial output. The economy was also battered by a persistent property market meltdown, as well as waning overseas appetite for Chinese goods. The combination of economic turmoil and geopolitical headwinds meant the business performance of many portfolio companies was significantly affected, contributing to a lower rate of PE exits in recent years.

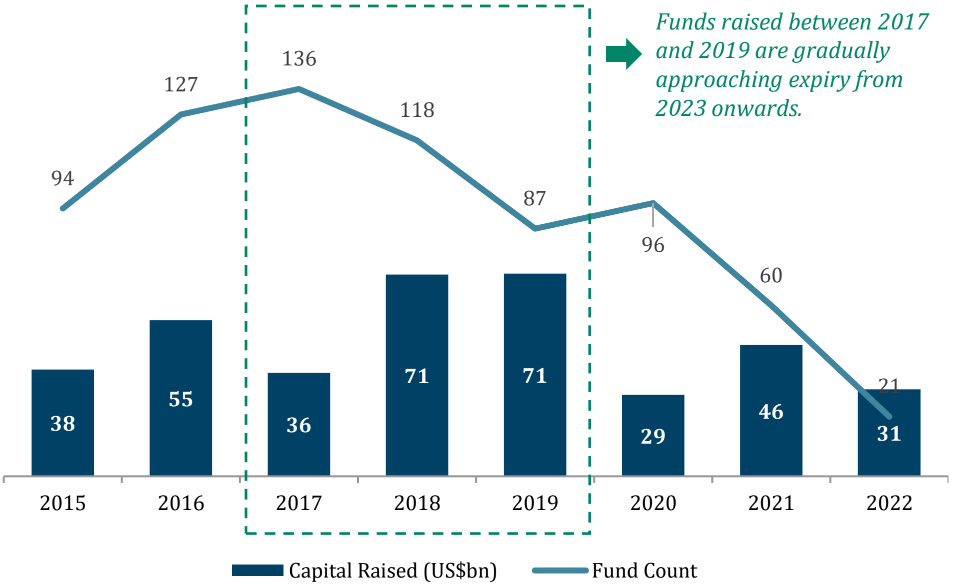
Delayed fund exits lead to increasing backlogs

The number of expired RMB funds has grown substantially over the Covid years. As shown below, the number of expired funds grew from 18,550 in 2020 to 32,048 in 1H22, the latter exceeding the total number of active funds in 2022. This implies that demand for fund exits will exceed that of investments, something that could be exacerbated by the growth in extended funds. USD funds, shown in below figure, face a similar dynamic in which a large number of funds raised from 2016 to 2018 are approaching expiry. Hence, Financial Sponsors would be increasingly pressured to exit their portfolio investments when the M&A market recovers.



Source: Zero2IPO Research, BDA analysis

USD Fundraising in China



Source: PitchBook, BDA analysis

Pressure on new fundraising

LPs have paid more attention to DPI rather than traditional IRR measurement of unrealized returns. Put simply, they would like to have some cash back before investing more. Due to the lack of exits, GPs find it difficult to justify new fundraising, which is partially evidenced by the decline in the number of fundraisings during the pandemic. Thereby, Sponsors are pressured on fund exits in the near to mid term in order to facilitate new fundraisings.

GPs are generally more optimistic about the prospects for exits in 2023 as a result of the anticipated economic rebound. Combined with new policies designed to stimulate economic growth, we expect a greater number of PE exits to be consummated in 2H23 when the performance of portfolio companies improves.

Shift from IPO to Trade Sale Exits

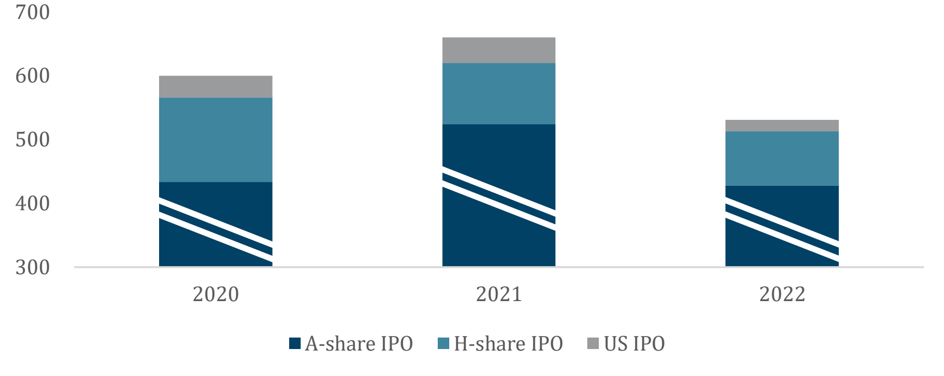
As China markets become more mature and PE exit channels expand, we expect trade sale to become more common as a form of PE exits.

Trade sale exit will become more common

IPO has traditionally been the primary exit route for growth capital investors in China, as the exit is driven by Founder's desire to take a company public. However, it has become more difficult for a company to seek a domestic or overseas listing due to regulatory restrictions and the long IPO backlog. Therefore, we expect there would be a shift from IPOs towards M&A exits from 2023 onwards. For Founder-controlled businesses, PE investors may actively engage with the Founder to sell a controlling stake, failing which PE investors may ask the Founder to buy back their shares. An extreme scenario would be for PE investor to take control of the Company via court action and then sell the whole Company.

As demonstrated below, the number of IPOs slumped since the pandemic, triggered by stock market correction and weak investor sentiment. We expect the IPO market to recover to a certain extent this year. However, many investors may not wait for IPO given the investment period is or close to expiration.

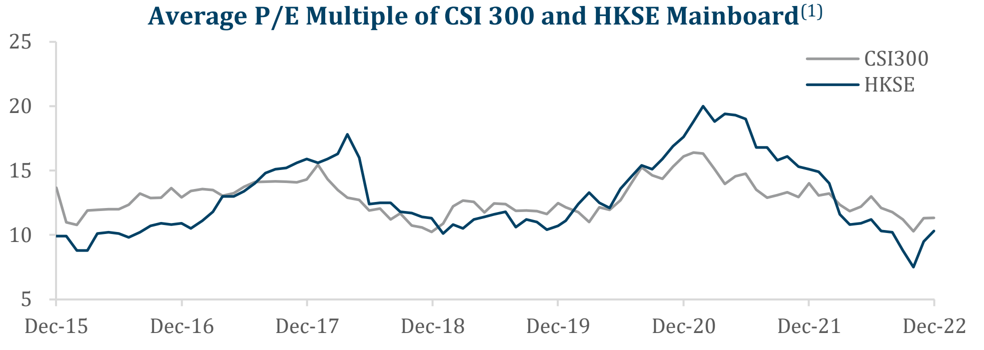
Number of IPOs of Chinese Companies



Source: Wind, BDA analysis

Trade sale and IPO valuation gap narrowing

Trading multiples of A and H share markets declined significantly since late 2020. The average P/E multiple of CSI 300 index in 2022 was 12.0x – the lowest point over the past eight years. The average P/E multiple of the main board of HKSE in 2022 also reached the lowest point of 10.8x over the same period.



Source: Wind

Note: (1) refers to trailing P/E multiples

Even though IPO remains a viable path to exit, we do not expect investors to push portfolio companies in this direction, in the context of depressed valuations, and the fact that many unicorns now trade much lower than their offering prices. In contrast, valuation levels achieved in trade sales have been more stable, allowing investors to minimize uncertainty upon exit.

Achieving full exit via IPO takes longer and uncertainty of IPO is higher than trade sale

With the number of listed companies in the A-share market rising to ~5,000, CSRC has imposed higher barriers and standards for IPO applications, and a more stringent process of examination and investigation.

The average IPO waiting days increased from 343 days in 2020 to 401 days in 2022, and the headwinds are expected to continue to grow going forward. The A-share IPO pipeline remains at a high level of over 880 active applications at the end of 2022.

On the other hand, the effective approval rate of A-share IPO plummeted significantly to 64% in 2022, which is primarily attributable to the surging number of companies withdrawing their applications. Increasingly stringent regulations make IPO exits more challenging and less productive.

Secondary fund provides an alternative to exit

Lastly, the sound development of secondary funds in China has provided an important alternative exit approach for PE firms. Portfolio sales between PE firms have become more frequent since the start of the pandemic, boosted in part by a greater supply of assets. With the value of primary market assets falling in light of the Covid outbreak in 2020, many LPs and GPs faced pressure to realize fund returns by selling their fund shares in the market. As exhibited in below, secondary transaction volume climbed by 71% to 1,084 in 2020, followed by 1,840 secondary deals in 2021 – implying another 70% year-on-year increase.

We expect secondary transactions that provide investors with more flexibility to exit to remain prominent going forward.

Source: Zero2IPO Research

More Quality Assets Coming to the Market

Business recovery from the pandemic, and portfolio company's repositioning and strategic review may lead to more quality assets coming to the market.

Business recovery from Covid

The Chinese economy is expected to experience a strong rebound in 2023. Given the potential impact of global economic slowdown on exports, China's top priority in the near term would be to boost domestic demand. Policymakers have pledged more fiscal and monetary support to aid the domestic economy. This should help to improve investors' confidence in China's market.

Both consumer spending and corporate capital expenditures would contribute to the economic rebound. For instance, offline retail could be boosted dramatically as people travel freely during the Chinese New Year holiday. Industrial and manufacturing companies will resume rally afterwards as supply chain issues are resolved. We have also seen some businesses including logistics, exhibition services, and facilities management picking up orders again. Thereby, portfolio companies are expected to enjoy an improvement in growth and profitability.

Prior to this year, Financial Sponsors were reluctant to sell their assets in the market, and instead chose to delay the exit rather than realize lower valuations and Return on Investments (ROI) for investors. In 2023, we expect more assets to come to the market as business performance recovers.

High quality assets coming to market with revived market optimism

Sponsors postponed exit plans of their high-quality assets due to weak investor sentiment during the pandemic period. With the pandemic largely behind us, we expect Sponsors to be more inclined to bring high quality assets to market in the coming months, taking advantage of revived market optimism and renewed interest in China buyouts. Assets that are well positioned for sale in the near term would be those that are relatively resilient to the pandemic impact, such as advanced manufacturing, CDMOs and clean energy.

Shift from IPO to M&A

All things considered, the attractiveness of IPO exit has diminished due to lower valuations, a cumbersome application process, and a 'red list' affecting specific industries. While IPO is still achievable for some companies, Sponsors may prefer a quicker and full exit via trade sale. Accordingly, we expect more quality assets to come to the market for sale in 2023 and beyond.

V.

VI. Fundraising in 2023

2023: Pacing the Fundraising Tempo

After a quiet year in investments, GPs need to deploy capital to demonstrate its dealmaking capabilities to the LPs. We expect 2023 to be a year of GPs returning to normalcy of investments and exits, with fundraising plans from 2024 onwards.

As GPs continue to face exit and deployment pressures, fundraising may be of lower priority for them in 2023. Whilst RMB-denominated funds are still dominant in the overall China fundraising landscape, more and more Financial Sponsors are opting for multi-currency allocations, especially for large funds raised in 2022.

Top RMB funds raised in 2022

GLP China was one of the most prolific fundraisers in 2022, with multiple RMB funds closed in the year. It is worth mentioning that industry-oriented GPs like GLP and Xiaomi attract capital for their rich resources and sector expertise – a core edge to drive portfolio companies' synergies.

Fund Name	GP	Size (US$bn)
GLP CIF VI	GLP China	7.6
RMB VI	Sequoia China	6.4
Xiaomi Zhizao	Xiaomi	6.3
GLP CIF VII	GLP China	5.4
Muqi Growth Fund	Hillhouse	5.3
Healthcare Industry Fund	Vivo Capital	4.0
Healthcare Industry Fund	Hillhouse	3.9
Huikang Fund	Legend Capital	3.0
RMB Fund IV	Huaxing Growth Capital	3.0
RMB Fund III	BA Capital	2.5

Source: AVCJ, Zero2IPO Research, CVSource, BDA analysis
Note: The above are selective fundraising closed in 2022 and the fundraising size is based on public sources and BDA analysis.

Top USD funds raised in 2022

Several USD funds raised in 2022 went above target, with BPEA EQT's US$11.2bn Asia Investment Fund VIII ranked top (initial target at US$8.5bn). Most USD funds tend to focus on infrastructure and consumer sectors, and have mandates to invest across Asia, not just China.

Fund Name	GP	Size (US$bn)
Asia Investment Fund VIII	BPEA EQT	11.2
Seed, VC, Growth, and Expansion funds	Sequoia China	~9.0
TPG Rise Climate	TPG	7.3
Buyout Fund, Growth Fund	Boyu Capital	~6.0
Asia Infrastructure Fund III	Macquarie	4.2
Fund IV	FountainVest	2.9
USD Fund VIII	Qiming Ventures	2.5
Asia Special Situations Fund	Bain Capital	2.0
Real Asset Opportunities Fund	Hillhouse	2.0

Source: AVCJ, PitchBook, CVSource, BDA analysis
Note: The above are selective fundraising closed in 2022 and the fundraising size is based on public sources and BDA analysis.

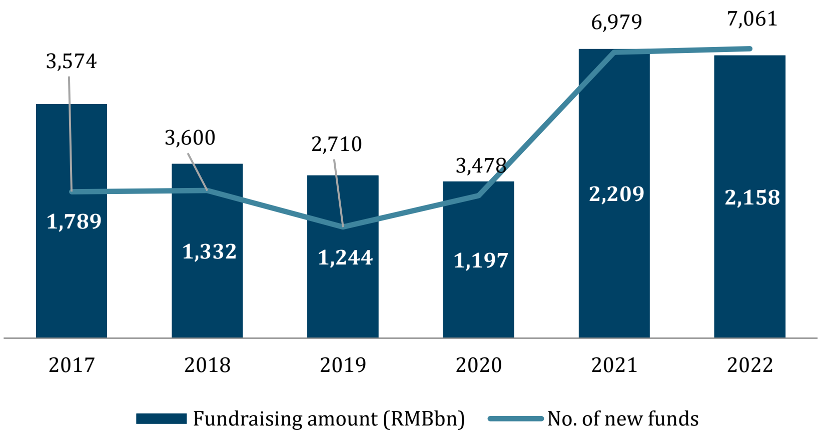
China investments back in focus

LPs that allocated capital to China have a long-term positive view of China and are generally supportive of GPs investing in businesses consistent with China's growth story. As China has entered into its post-Covid phase, private equity investors would likely become more active in seeking opportunities that benefit from China's economic recovery. With the global economy facing significant challenges, China's reopening could represent a relative bright spot. Furthermore, as primary market awakes and investors will consequently expand their public investment, they tend to raise private allocation as well to keep a balanced portfolio.

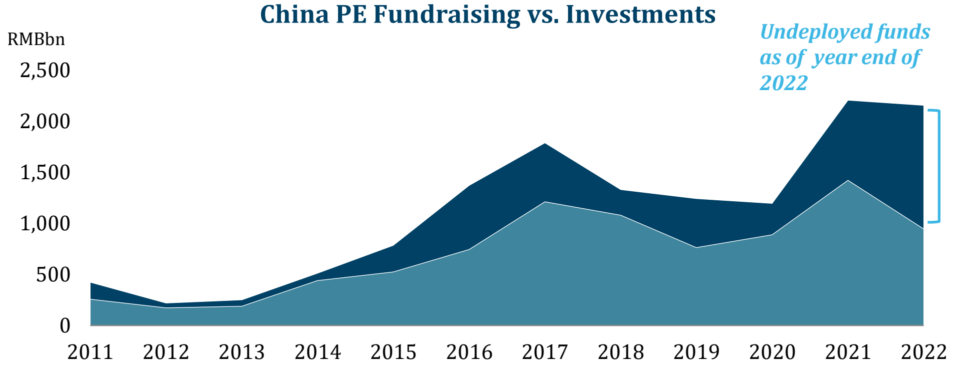
Financial Sponsors in China recorded a total investment amount of RMB945.5 billion in 2022, representing half of the fundraising amount – the remaining undeployed amount poses pressure on Financial Sponsors to seek valuable assets.

We expect GPs to focus their efforts on investments in 2023 and will aggressively build up their pipeline in the early part of the year with the aim of completing transactions in the next 6-18 months.

China Fundraising Amount and Number of Newly Raised Funds



Source: Zero2IPO Research, BDA analysis



Source: Zero2IPO Research, BDA analysis

2023 Goal: Return Capital to LPs

In order to fuel LP's commitment, GPs need to show exits and return capital to LPs. We expect sponsors to focus on exits of portfolio companies that are near the end of their investment period, as M&A markets become more active.

Fundraising from 2024 onwards

As Financial Sponsors still have ample dry powder for deployment, we believe fundraising may not be on top of sponsors' agenda for 2023. We believe 2023 will be a turning point for GPs to refocus their efforts in investments and exits in a post-pandemic environment. As momentum builds on the back of successful PE investments and exits, fundraising enthusiasm will return to China from 2024 onwards.

V.

BDA Updates

B|D|A PARTNERS

The global investment banking advisor for Asia

We are a premium provider of Asia-related advice to sophisticated clients globally, with over 25 years' experience advising on cross-border M&A, capital raising and financial restructuring.

Where we are

- We provide global reach from our teams in New York and London, and true regional depth through our seven Asian offices in Mumbai, Singapore, Ho Chi Minh City, Hong Kong, Shanghai, Seoul and Tokyo

How we are organised

- We have deep expertise in the Chemicals, Consumer & Retail, Health, Industrials, Services and Technology sectors

How we work

- We work relentlessly to earn our clients' trust by delivering insightful advice and outstanding outcomes

Our services

- We provide M&A advisory services for:
  - Divestitures
  - Acquisitions
  - Capital raisings
  - Debt advisory and restructuring transactions
  - Valuations

Our partnerships

- William Blair, a premier global investment banking business
- Development Bank of Japan (DBJ), a Japanese government owned bank with US$150bn of assets

#1
Cross-border Asian sellside M&A advisor*

1996
Founded and led since then by the same senior team

80%
Of transactions are cross-border

120+
Bankers collaborating seamlessly across three continents

2
Strategic partnerships

William Blair

DBJ

*Private companies headquartered in Greater China, India, Japan, Korea or Southeast Asia; Control transactions up to US$1bn enterprise value, 2016-2021 | Source: Dealogic

Global reach

Committed to six sectors

Chemicals	Consumer & Retail	Health
Industrials	Services	Technology

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Recent transactions in Greater China

Advanced MedTech — Acquired **WIKKON 慧康** — 2022

JINJIA — Capital Raise from **MERIDIAN 华映资本** — 2022

ZHIXIN 智芯科技 — Capital Raise from **FOREBRIGHT** — 2022

NAVIS — Divested Texon to **COATS** — 2022

HOP LUN — Divested Majority Stake to **Platinum Equity** — 2022

HLS Honour Lane — Divested Honour Lane Shipping to **NP NEXUS POINT** — 2022

EQT — Divested Elevate to **LRQA** — 2022

人福医药 / AGIC — Divested Ritedose to **novo holdings** — 2022

NAVIS — Divested Amazon Papyrus to **THE LONGREACH GROUP** — 2021

CPE / 长生医疗 EverLife Healthcare — Capital Raise from **ADIA, NPS** — 2021

比宜德 / Argan CAPITAL — Capital Raise from **seazen 新城控股** — 2021

SUMMA EQUITY — Divested HyTest to **mindray** — 2021

American-Sino OB/GYN/Pediatrics Services 美华妇儿服务 — Divested Majority Stake to **DCP** — 2021

Platinum Equity — Divested Compart to **万业企业** — 2020

方源資本 FountainVest Partners — Divested Significant Stake in Kehua Bio-Engineering to **格力地产** — 2020

徽记 — Divested Majority Stake to **草根知本 CAOGEN** — 2020

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VI. Appendix

Sectors Benefitting from the End of Zero-Covid Policies

End of Zero-Covid Policies

Back to normality

In December 2022, the Chinese government issued new guidelines unwinding its strict Zero-Covid policies: mass PCR testing requirement ended, and restrictive measures including quarantine for international travels were scrapped.

Following China's ending of its Zero-Covid policies, more economic stimulus measures are expected to be announced to reboot growth in the economy.

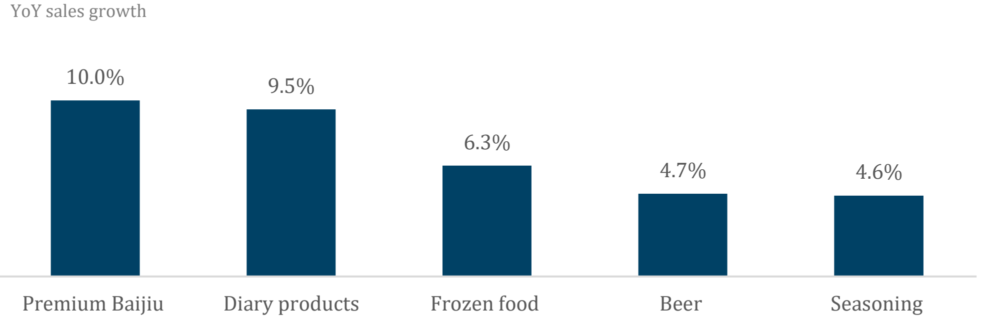
Sectors Benefitting from the Rebound

Consumer

Consumer was the hardest hit sector during the pandemic, but it is expected to be among the first to revive. According to the latest data from the National Bureau of Statistics of China, China's retail trade slightly dropped by 1.8% year-on-year in December 2022, better versus a 5.9% decline in the prior month – and market expectations of an 8.6% fall. But after China reopened, consumer market rebounded quickly, achieving YoY increase in January 2023.

In 2023, a further rebound in the consumer market will be driven by three key factors: boosting household income and consumption, reinvigorating demand for goods and services, and releasing excess savings accumulated in the past three years.

Recovery in consumer segments in Jan 2023



Source: Haitong International, BDA analysis

We expect consumer demand to remain focused on pragmatism. Consumer brands that emphasize functionality, experience and social attributes may benefit the most post-Covid.

Tourism

China's tourism sector showed signs of recovery following the end of Zero-Covid policies. Tourism rebounded strongly during the New Year's Day holidays, boosting hopes that the domestic tourism sector is now recovering at a better-than-expected pace.

Domestic tourism revenue during the Chinese New Year holiday week rose by 30% compared to that of last year and recovered to ~73% of 2019 pre-Covid level.

Nationwide railway traffic during the Chinese New Year holiday week rose by 48.7% compared to that of last year and recovered to ~90% of 2019 pre-Covid level.

Though visa restrictions imposed by various countries will continue to hinder cross-border travel in the short term, we expect this to represent a temporary headwind.

Property

China's reopening also presents opportunities for its troubled property sector. At China's Central Economic Work Conference in December 2022, policymakers indicated they may make further cuts to mortgage rates and down-payment requirements, as well as relaxing home purchase restrictions in top-tier Chinese cities. The market expects that Beijing may allow some property firms to take on more leverage by easing borrowing caps and extending the grace period for meeting previously set debt targets. Improvement in the economy may then lead to a rebound in demand for property.

For example, new home sales rose more than 20% over the three-day New Year holiday from a year ago due to promotions, support policies and the gradual release of pent-up demand after high Covid-19 cases.

Summary of Economic Stimulus Policies and Industry Outlook

Policies Stimulate Economic Growth

As set out in the 20th National Congress of the Communist Party of China and China's Central Economic Work Conference, China's economic agenda for 2023 will focus on growth

5-year plan focuses on domestic consumption, foreign direct investments, property market stimulus, and tech sector support

Expand domestic consumption

Increase government support for citizens to spend on areas such as: housing, new energy vehicles, and elderly care services; increase financing support for major projects and encourage more private capital to participate in the construction of major national projects.

Revive foreign capital investment

Expand market access and further open the modern services industry; provide equal treatment for foreign-funded enterprises; uphold intellectual property rights and the legitimate rights of foreign investments.

Stabilize the property market

Implement measures to meet the reasonable financing needs of property developers and promote industrial restructuring and mergers.

Employ monetary and fiscal policies

Reduce interest rates; keep the growth rate of money supply and social financing at the same level as the nominal economic growth rate; and guide financial institutions to improve support for technological innovation, green development, and other fields.

Loosen regulation on the technology sector

Relax industry oversight on the science and technology sector; support leading companies in terms of innovation and creating jobs; improve the overall capability to independently train talents and attract more high-end talents to the sector.

Industry Outlook from the 20th Congress

The Report to the 20th National Congress of the Communist Party of China (the "Report") serves as the guiding document for national development, and sheds light upon China's development trajectory across five key sectors: consumer & retail, manufacturing, energy & resources, life science & healthcare, and logistics & supply chain.

Consumer & Retail

The Report proposed to "expand domestic demand and better leverage the fundamental role of consumption in stimulating economic growth" while focusing on "green consumption, common prosperity, and innovation-driven development". This bodes well for the consumer products and retail sectors.

Specifically, new forms of foreign trade such as cross-border e-commerce are expected to be rolled out; consumption supply in lower-tier markets will see further progress; Chinese local brands will become more competitive through product quality improvement. Stimulating demand for basic goods will help to stabilize the general market in 2023.

Manufacturing

Various incoming policies will enhance the resilience of industry supply chains by fostering industrial clusters, increasing investments in core technologies, and advancing regional supply chains.

High-tech equipment and decarbonization will be crucial investment themes, with high-tech manufacturing enterprises' IPOs also supported by public policies. New sensors, intelligent control systems, industrial robots, and automated production lines rank among the key focus areas in the manufacturing industry.

Energy & Resources

The Report emphasized energy security, which should contribute to growth in new energy development such as wind, solar and nuclear. To better drive the energy transition, China will promote technological innovation to better control carbon emissions.

Hydrogen and electrification technologies enabling the transition to new energy will continue to see growth. The transition to new energy has driven demand for "green" metals such as lithium and cobalt. Technologies that can improve the energy transformation, energy density, and recycling efficiency of these metals, such as battery cycling, will become a new growth area. The electric vehicle market, under stronger government subsidies, will be further stimulated.

Life science & Healthcare

The Life science & Healthcare sectors are vital for the development of a "Healthy China". The Report highlights the necessity of realizing the development of pharmaceuticals and medical services. After the pandemic, the public will pay more attention to topics such as early warning, prevention of infectious diseases, vaccine development, medical development, and online medical services.

Biopharmaceutical, digital primary care services, IoT-enabled technology, medical artificial intelligence, nursing homes and traditional Chinese medicines are forecasted to be among the fastest growing sectors.

Logistics & Supply chain

A higher-quality supply chain logistics system catering to dual circulation will be developed to facilitate "modern commerce, modern finance, modern transportation, and modern logistics". Policymakers particularly favor enterprises that improve China's infrastructure and facilitate the flow of production. The capital market also prefers more digitalized and resilient supply chains that improve the operational efficiency and performance of logistics companies.

In 2023, automated sorting and retrieval systems, IoT tracking devices, logistics robots, AI-based inventory optimization software, and supply chain visibility software are expected to be popular investment areas.

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