

Embracing New Opportunities in Change: China Corporate

Restructuring International Forum



With the rapid globalization and China's increasingly important role played in the world economy, many investment opportunities have been arising in both domestic and international markets. With many Chinese companies entering into the expansion or maturity stage, merger and acquisition (M&A) has become an important way for companies to further grow. In fact, in the past decade, China has been a major player in the global M&A markets, with a focus on energy, resources, and technology sectors. However, there is much uncertainty in how the global M&A markets will play out for Chinese companies in the post pandemic world and how China's domestic M&A markets will evolve in the next few years.

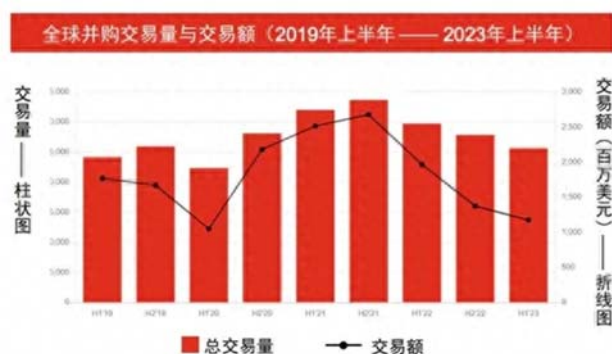
A significant fraction of companies in China deals with overcapacity and over-leveraging problems. According to statistics released by National Institution of Finance and Development of China, the total debt by Chinese non-financial companies accounted for close to 170% of China's GDP as of March 2023. As a result of an unprecedented shock to their cash flows from the pandemic and slower growth rates, many firms today are in the state of financial distress or worse, at the brink of bankruptcy. This presents excellent opportunities as well as challenges for corporate restructuring in both China and abroad. These opportunities face many challenges due to uncertainty in the enforcement of creditor rights, low liquidity in the financing and acquisition markets for distressed assets, and the lack of information and tools for fair valuation.

After decades of fast economic growth, China today faces new challenges on how to transform its economic model for a more sustainable growth. The international relations and geopolitical factors present both opportunities and challenges for Chinese firms. Under this background, the first "China Corporate Restructuring International Forum" will be held in Beijing on 1st Nov 2023. This forum will be co-hosted by Smith School

of Business, Queen’s University, Canada; the Institute of International M&A and Investment, Renming University, China; ifeng.com; and other institutions. In the forum, experts from the academia and the industry will explore topics such as how skills, expertise, and resource reallocations could induce the sustainable growth of Chinese companies while facing uncertainties in the post-pandemic period.

The Mergers and Acquisitions Market is Slowing Down

Affected by factors such as the recession of the global economy, the continuous interest-rate raising by central banks, geopolitical tensions, and increasingly strict regulations, M&A activities are slowing down globally. Compared with the statistics in 2021, the total volume and the total amounts of M&A transactions in 2022 decreased by 17% and 37%, respectively. Though already being sluggish in 2022, the M&A transaction volume and transaction amount further declined by 8% and 15% respectively in the first half of 2023.



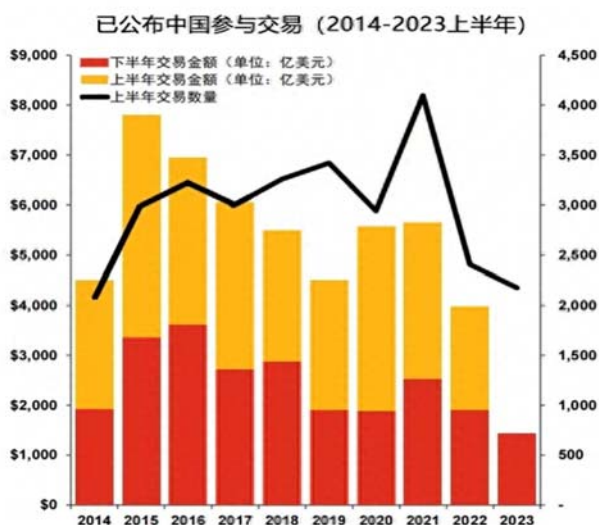
资料来源：路孚特数据（LSEG）和普华永道分析
 注：便于与之前的半年期进行比较，2023年上半年（H1'23*）的数据是基于今年前五个月推断出的半年数据。不包含交易额未披露的交易。更多信息请参考数据说明。

Source: Refinitiv and PwC analysis

The severe external environment has increased the difficulty of M&A transactions. At the beginning of 2022, Microsoft announced that it would spend \$69 billion acquiring the game publisher - Activision Blizzard. Due to the huge amount of the acquisition and the approval required from multiple regulatory authorities from different countries, this largest game acquisition case in the world has fallen into a prolonged tug-of-war, becoming a microcosm of the dilemma faced by companies in the global M&A market. For now, the EU Commission and the US Federal judges have both approved this merger, and the market is waiting for the final decision from the UK Competition and Market Authority (CMA).

The latest data from the Refinitiv illustrates the difficulties faced by Chinese companies in the M&A market. In the first half of 2023, the total amount of M&A transactions

related to mainland China was \$140.2 billion, decreased by 27.4% compared with the transaction volume in the same period last year and by 9.4% compared with the transaction volume in the previous quarter. The first half year of 2023 recorded the lowest half-year transaction amount since 2020, where the total number of transactions announced is 2,176, decreased by 9.5% compared with the first half year in 2022 and decreased by 7.9% compared with previous quarter.



With the uncertain economic environment, the total amount of M&A transactions by Chinese companies also shrunk. In the first half of 2023, the total amount of overseas M&A transactions in mainland China was \$8.9 billion, dropped by 15.1% compared with the same period in 2022. It is worth noting that the 66 transactions, valued at \$4.3 billion, are related to "The Belt and Road Initiative" countries, increasing by 153.3% compared with the same period in 2022. These transactions account for 48.4% of the total outbound M&A transactions from mainland China. During this period, the M&A transaction volume of Chinese companies by foreign companies reached \$28.2 billion, increasing by 22.4% over the same period in 2022. The value of domestic M&A transactions was \$100.1 billion, decreasing by 33.8% compared to the same period in 2022. Although the total amount of M&A transactions has decreased, the demand for restructuring non-performing assets and non-performing debts of Chinese companies has significantly increased.

Restructuring in Difficult Times

The M&A transactions by modern Chinese companies started with China's reform and opening-up policy. In 1984, Baoding Textile Machinery Factory in Hebei Province was merged with Hebei Knitting Equipment Factory, setting a precedent for the mergers and acquisitions by Chinese enterprises and sparking a wave of mergers and

acquisitions in the 1980s. In 1993, Shenzhen Bao'an acquired Yanzhong Industrial, being the first merger and acquisition transaction by listed Chinese companies.

The M&A transactions by Chinese companies have been surging with the reform and opening-up policy. Some classic examples by Chinese companies are: the merger of China Southern Locomotive and China Northern Locomotive; the merger of China National Building Material Corporation and China National Non-metallic Materials Corporation; the restructuring and listing of SF Holdings Corporation; the acquisition of Shanghai Airlines by China Eastern Airlines; the restructuring of Baosteel and Wuhan Steel; the acquisition of Youku Tudou by Alibaba; and the merger of Didi and Kuaidi Taxi. These classic M&A transactions mark the history of China's commercial development.

After China officially joined the World Trade Organization (WTO), more Chinese companies seek for overseas opportunities and start cross-border mergers and acquisitions. In 2010, Geely acquired the Volvo sedan business from Ford for \$1.8 billion, receiving 100% equity in Volvo sedan company. The acquisition of Volvo made Geely the first truly global automotive company in China. Due to the significant difference in popularity of the two parties involved in this transaction, the acquisition is known as the "snake swallows elephant" event.

全球并购趋势和中国贡献 (2016年—2022年)



Sources: Refinitive

The rapid development of Chinese economy also drove its M&A market. Chinese companies' M&A activities completed under the turbulent situations have also contributed to China's overall economic development over the past thirty years. Since 2014, large private enterprises such as Wanda, HNA, and Fosun, have been active in the domestic and the foreign M&A markets. The so-called crazy-buying business model made these private enterprises fall into a dilemma arising from diversified M&A, leading to financial distresses. A typical example of this is HNA Group.

HNA only had one airplane in 1993 when it was founded, but it developed into China's largest private airline company in only ten years. And by adopting a crazy-buy business model, it grew into a multinational giant within another ten years. HNA widely expanded its businesses to industries such as aviation, real estate, finance, and tourism, becoming one of the top 100 enterprises in the world. HNA's rapid expansion was funded by financial leverage. The pressure from high leverage led to its liquidity crisis in the summer of 2017 and finally it officially declared bankruptcy and entered the restructuring process in 2021. Since filing for bankruptcy in 2021, HNA Group has received 2 trillion-yuan debt claims in total and ultimately confirmed 1.1 trillion-yuan debt claims. This was China's largest bankruptcy restructuring case in terms of the debt amount. In December 2021, after extensive negotiations and operations among regulation authorities, creditors, professional institutions, investors, debtors, and other stakeholders, the aviation sector of HNA Group was finally restructured and acquired by Liaoning Fangda Group at 41 billion yuan in cash and emerged from the bankruptcy. The wisdom and professional experiences reflected in this restructuring case are worth further exploring and learning.

In recent years, there have been numerous rumors of private enterprises experiencing a breakage of the capital chain, reaching the brink of bankruptcy. The operations of these companies often share common problems such as inflated capital, on-and-off balance sheet financing, and extremely high leverage ratio. In a society full of economic uncertainty, addressing the following issues faced by corporates in the merger and restructuring practices are essential: how to revitalize assets while avoiding the company falling into a liquidity crisis; how to avoid falling into the diversification and acquisition trap of blind expansion; how to achieve effective integration and cultural reshaping post-restructuring to rejuvenate the company.

Waiting for Dawn in the Dark, Embracing Opportunities in Change

The first half of 2023 was undoubtedly full of challenges, and the turbulent market was also a double-edged sword. However, the darkness before dawn is also the time to nurture new opportunities. Mergers and acquisitions during economic downturns could often lead to great successes, offering investors opportunities to achieve higher returns or even faster growth. For companies that are well-prepared both mentally and financially, the current period presents great opportunities for mergers and acquisitions. Companies can use M&A to transform their operations and reshape their business models, contributing to sustainable development.

Since the beginning of the year, global markets have witnessed many changes. For example, inflation pressures in European and American markets have eased; the U.S. debt ceiling crisis has been temporarily reprieved; and discussions about generative

artificial intelligence are on the rise. Meanwhile, China's policies have been continually favorable, where economic indicators have rebounded, and investor expectations are improving. These changes together are shaping a dynamic market environment, creating better conditions for corporate mergers and restructuring.

It's worth noting that in February of this year, the long-awaited comprehensive registration-based reform for China capital market was finally implemented. This new stock issuance registration rule for Chinese listed companies was fully implemented across the Beijing Stock Exchange, the Shanghai Stock Exchange, and the Shenzhen Stock Exchange, aligning with international capital market practices. With the comprehensive registration-based system, China's M&A and restructuring markets have also been experiencing significant changes. For example, the efficiency of approval has been greatly improved and it is becoming more convenient and efficient for Chinese companies to carry out M&A and restructuring transactions. Additionally, the ecosystem has been continuing optimizing; the value of shell resources has significantly decreased; and speculative and concept-driven M&A activities have greatly reduced. These all suggest that China's M&A and restructuring markets are improving in both quantity and quality.

The more turbulent the market is, the more wisdom and consensus are required. This forum will invite academic experts, professional institutions, and industry leaders in M&As and restructuring, with both domestic and international backgrounds. We will engage in in-depth discussions on topics such as the status and prospects of global corporate restructuring and asset management, the opportunities and challenges faced by corporate M&As. The goal of this forum is to inject vitality for the development of Chinese companies.

It is confirmed that the following guests will be speaking at this forum:

Edward Altman, the founder of the famous Z-score model, Honorary Professor of Finance at New York University Stern School of Business, and Director of the Credit and Fixed Income Research Program at New York University Solomon Center.

Wang Wei, the most renowned Chinese international finance professor in the field of corporate restructuring, Distinguished Professor and Associate Dean at Smith School of Business, Queen's University, Canada.

Wang Changyun, a pioneer and senior expert in the fields of mergers and acquisitions and corporate governance in China. He is the director of the International Mergers and Acquisitions and Investment Research Institute at Renmin University of China and a Professor of Finance at Renmin University of China.

Yu Zhaohui, a senior expert in the field of equity investments, mergers and acquisitions and restructuring. He is the co-director of the International Mergers and Acquisitions and Investment Research Institute at Renmin University of China.

(List to be continued)

Corporate rescue, i.e., helping companies survive economic difficulties or crises, is the social responsibility entrusted to financial professionals and a channel that financial services serve the real economy. M&A and restructuring are crucial avenues to explore companies' business value in a market system, presenting great opportunities in the next 'golden decade' of the Chinese economy. When responsibility meets opportunity, we have every reason to look forward to this gathering and expect that the enriching discussion will restart a new chapter in a rapidly changing economy.

The Introduction of Speakers

Forum Founder: Dr. Wei Wang



Dr. Wei Wang is a Distinguished Professor of Finance and Associate Dean, Professional Graduate Programs at Smith School of Business at Queen's University (Canada), and the founding director of Renmin Queen's Master of Finance.

His research papers on corporate restructuring have been published in top finance journals and featured in prominent media such as the Wall Street Journal. Dr. Wei Wang's coauthored book "Corporate Financial Distress, Restructuring, and Bankruptcy" was published by Wiley Publishing House in 2019. Since 2012, he has been invited to write finance case packages for the Harvard Business School and have published many cases, which have been adopted by many schools internationally. He was an adjunct professor at the Wharton School of University of Pennsylvania between 2015 and 2018, teaching corporate restructuring, in their undergraduate, MBA, EMBA, and Exec Ed programs. He was a visiting professor at the HKUST Business School and a foreign expert at Shanghai University of Finance and Economics. In 2020, he was

invited to join the COVID-19 and Bankruptcy Working Group, providing policy response recommendations to the US Senate and Congress.

The Speaker of the Keynote: Dr. Edward I. Altman



Edward Altman is the Max L. Heine Professor of Finance Emeritus at New York University, Stern School of Business and Director of the Credit and Fixed Income Research Program at the NYU Salomon Center. He is the creator of the world famous Altman Z-Score models for default prediction of firms globally.

Dr. Altman has been an advisor to many financial institutions including Merrill Lynch, Salomon Brothers, Citigroup, and Paulson & Co. He serves on the Board of Franklin Mutual Series and Alternative Investments Funds. His book, "Corporate Financial Distress, Restructuring, and Bankruptcy" has been regarded an international authoritative guide on distressed firms. Dr. Altman testified before the US House of Representatives' Finance Committee on December 5, 2008, recommending that GM and Chrysler not be bailed out but to file for Bankruptcy Reorganization under Chapter 11 and that GM receive a super priority loan from the government. In 2020, he served as a member of the COVID-19 and Bankruptcy Working Group, providing policy response recommendations to the US Senate and Congress. Professor Altman was inducted into the Fixed Income Analysts Society Hall of Fame in 2001 and named one of the "100 Most Influential People in Finance" by Treasury & Risk Management magazine.

The Speaker of the Research Report: Professor Changyun Wang



Professor Changyun Wang is the Director of the Institute of International M&As and Investment, Renmin University of China. He is a Professor at the School of Finance, Renmin University of China, Distinguished Professor of Changjiang Scholars of the Ministry of Education, a winner of the National Science Fund for Distinguished Young Scholars, and an expert that has received the State Council Special Government Allowance.

He has served as the dean of Hanqing Advanced Institute of Economics and Finance, Renmin University of China, the director of the Department of Applied Finance, the director of China Financial Policy Research Center, and several independent directorships at Bank of China, etc. Prof. Wang currently serves as the independent director of Agricultural Bank of China and the independent director of China Cinda Asset Management Co., Ltd. His research fields include securities investment, corporate governance, and financial derivatives. He has published papers in journals such as Journal of Banking and Finance, Economic Research Journal (Chinese) and Journal Management World (Chinese) and has published more than 10 academic and textbooks.

The Host and Speaker of Panel Discussion: Mr. Zhaohui Yu



Mr. Zhaohui Yu is the Co-Director of the Institute of International M&As and Investment, Renmin University of China, the Managing Partner of Yuanzhi Capital, and the Co-President of Yuanzhi Technology Group.

Mr. Yu focuses on equity investment, M&A, and restructuring, and has served as the Chairman of the Straits Financial Assets Exchange, the Vice Chairman of the Peking University PE Alliance, the Deputy Secretary General of the Venture Capital Committee of the China Investment Association, and an expert in the evaluation of the National Center for Science and Technology Risks, etc. Mr. Yu has rich experience in group control and capital operations and has led his team to practice the concept of investment, M&A and restructuring. He has completed many projects such as mixing and reforming the centralized enterprise Genertec Universal Medical Group, investing in CanSemi Semiconductor, Yadea Electric Vehicle, Ping An Technology, Shenogen Pharma Group, KQ GEO Technologies, TOGEEK Technology, etc.; he has deeply penetrated into the late stage of the industrial M&A and integration, and is committed to making the industry stronger and bigger. The number of investment projects led by him exceeds 30 billion yuan, and the scale of his leading M&A projects exceeds 100 billion yuan.