

Valuation Insights

Greater China Edition

AUGUST 2018

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Top 20 List of “Unicorns” in Greater China Published

You won't find unicorns in Neverland, but you'll find plenty of them in China. According to a 2017 reportⁱ by Deloitte and China Venture Group, about 38.9% of “unicorns”—that is, tech startup companies that have reached a \$1 billion dollar market value—are Chinese-origin companies.

While the United States still holds the top spot in terms of the number of unicorns, China leads in another sense: Between 2012 and 2017, the average value of a Series A funding round in China was over three times that of a corresponding Series A in the U.S. – possibly indicating greater confidence in growth prospects for tech startups on the Asian side of the Pacific.

China Money Network's China Unicorn Ranking offers a list of 138 current unicorns—of which the top 20 are shown in the list below. The valuation figures indicated in Column 3 were determined by the last financing round as shown on Column 7.

Ranking	Company	Valuation (US\$B)	Headquarters	Industry	Year Joined	Last Financing Round
1	Ant Financial	150	Hangzhou	Fintech		Jun-2018
2	Aliyun	67	Hangzhou	Enterprise Services		Jul-2015
3	Didi Chuxing	57.6	Beijing	Transportation & Space	2014	Dec-2017
4	Meituan-Dianping	30	Beijing	Consumer Upgrade	2015	Oct-2017
5	Tencent Music	23	Shenzhen	Media & Entertainment		
6	Cainiao Network	20	Hangzhou	Logistics	2016	Sep-2017
7	JD Finance	20	Beijing	Fintech	2016	Apr-2018
8	Toutiao	20	Beijing	Media & Entertainment	2016	Apr-2017
9	Lufax	18.5	Shanghai	Fintech	2014	Jan-2016
10	DJI	15	Shenzhen	Smart Hardware	2015	Sep-2015
11	Pinduoduo	15	Shanghai	E-commerce	2016	Apr-2018
12	JD Logistics	13.5	Beijing	Logistics	2018	Feb-2018
13	Jiedaobao	10.7	Beijing	Fintech	2016	Jan-2016
14	WeBank	9.5	Shenzhen	Fintech	2016	Jan-2016
15	Ping An Healthcare Technology	8.8	Shanghai	Healthcare	2018	Feb-2018
16	Koubei	8	Hangzhou	Mobile Internet	2015	Jan-2017
17	OneConnect	8	Shanghai	Fintech	2018	Feb-2018
18	Lianjia	6	Beijing	Real Estate	2016	Nov-2017
19	We Doctor (Guahao.com)	5.5	Hangzhou	Healthcare	2015	May-2018
20	NIO	5	Shanghai	Transportation & Space	2017	Nov-2017

Duff & Phelps has provided valuation support directly to 15 of the top 20 unicorns in the list.

Aspiring unicorns can (and often do) engage Duff & Phelps - either directly or as third-party consultants - for a variety of reasons, including independent valuation for financial instrument accounting, pre-IPO tax restructuring, purchase price allocation and share-based payment valuation for early-stage companies issuing share or share option (ESOP) to their executives and consultants.

i. “Over 80 Percent of the World’s “Unicorn” Companies Originate in China and the US,” Chinanews, Sept. 6, 2017; <http://www.chinanews.com/cj/2017/09-06/8324275.shtml>

ii. S. Dowling, “8 Private Chinese Unicorns You Need to Know,” Crunchbase News, May 31, 2018; <https://news.crunchbase.com/news/8-private-chinese-unicorns-you-need-to-know/>

iii. “China Unicorn Ranking,” China Money Network, June 29, 2018; <http://www.chinamoneynetwork.com/china-unicorn-ranking>

Guangdong Court Issues New Guidance for Standard Essential Patent (SEP) Disputes

The High People's Court of Guangdong Province issued new Working Guidelines on the Trial of Standard Essential Patent Disputes (Trial Implementation) on April 26, 2018, consolidating practices on issues relating to standard essential patents (SEP).

The Guidelines' proposed rules consolidate selected international practices on SEP-related issues, while also offering directions for compliance with fair, reasonable and non-discriminatory (FRAND) terms. Courts have wide discretion under the new Guidelines when hearing individual disputes, with the aim of striking a better balance between the rights of SEP holders, SEP licensees and the public.

Parties engaged in contentious SEP negotiations have the option under the Guidelines to file a royalty rate dispute lawsuit before the court.

In such disputes—particularly where a SEP holder is perceived to request unjustifiably high royalty rates in an attempt to unfairly restrict competition—the Guidelines allow a court to determine FRAND royalty ratesⁱ by examining comparable licensing agreements, the market value of the relevant SEPs under dispute and the licensing conditions of comparable patent pools.

Most significantly, the Guidelines authorize the court to determine the FRAND rate for the territorial scope of any license regardless of whether the scope exceeds the jurisdictional area of the court (barring a reasonable opposition by the answering party).

For example, an EU-based SEP holder may find their global royalty rate determined by the home court of a standard implementer in China.ⁱⁱ

Guangdong happens to host the headquarters of a significant number of Chinese high-tech companies, underscoring the importance of this city as a battlefield in global disputes over SEP licensing. Past cases include those of Huawei v. InterDigitalⁱⁱⁱ and Huawei v. Samsung^{iv}.

The Guidelines show a high degree of consistency with similar rules released by Beijing courts, specifically the Guidelines on Determining Patent Infringements (“Beijing Patent Guidelines”) issued by the Beijing High People's Court in 2017. It is possible

that this consistent approach will be followed by other major courts across China.

SEP holders and implementers may find practical guidance in the new SEP Guidelines, particularly in connection with avoiding “fault” as determined by the court based on the parties' conduct during negotiations. Companies that foresee SEP-related litigation in Guangdong may benefit from Duff & Phelps' services, from valuation reports created for internal reference to business valuation for litigation purposes.

i. “Guangdong Court Issues New Guidance for Standard Essential Patent Disputes,” Hogan Lovells, May 2018; <http://www.hoganlovells.com/en/publications/~media/15a4dfbf48264596a8c1137051b39451.ashx>

ii. Guangdong High People's Court Issued a Guideline for Trial of SEP Disputes. (2018, May 23). Retrieved July 13, 2018, from <https://www.chinalawinsight.com/2018/05/articles/intellectual-property/guangdong-high-peoples-court-issued-a-guideline-for-trial-of-sep-disputes/>

iii. “Chinese Court Publishes Decisions Finding that InterDigital Violated AML Through Discriminatory Pricing, Sets FRAND Rate for Licensing InterDigital's SEPs Under Chinese Standards. Orrick, 6 June 2014; <https://blogs.orrick.com/antitrust/2014/06/06/chinese-court-publishes-decisions-finding-that-interdigital-violated-aml-through-discriminatory-pricing-sets-frand-rate-for-licensing-interdigitals-seps-under-chinese-standards/>

iv. J. Schindler, “Full Judgment in Huawei v Samsung Details Why Shenzhen Court Hit Korean Company with SEP Injunction,” Apr. 3, 2018; <http://www.iam-media.com/blog/detail.aspx?g=31514eba-a4cf-4861-b0c2-1210e49ccb7c>



HKEX's Conclusions on Delisting Framework Revealed

The Hong Kong Stock Exchange recently established a framework for delisting issuers undergoing a prolonged suspension of trading.

Based on responses to its September 2017 Consultation Paper on Delisting and Other Rule Amendments,ⁱ the HKEX announced its Consultation Conclusions on May 25, 2018,ⁱⁱ with Listing Rule amendments to take effect on August 1, 2018.

The rule amendments are intended to “provide certainty to the market on the delisting process,” explained HKEX’s Chief Regulatory Officer and Head of Listing David Graham in a press release.ⁱⁱⁱ “Our goal is to maintain the quality and reputation of Hong Kong’s securities market.”

The rules are aimed at issuers who have ceased operations or who no longer have enough assets and thus have suspended trading on either HKEX’s Main Board or the Growth Enterprise Market (GEM).

The framework includes the following key Listing Rules amendments:

- Enforced delisting of Main Board-listed companies whose securities have been suspended from trading for the past 18 months (in the case of GEM-listed companies, 12 months).
- A new delisting process, pursuant to criteria in Rule 6.01,^{iv} that permits the Stock Exchange either to publish a delisting notice, while giving the delinquent issuer a remedial period to remedy issues, or to delist the delinquent issuer immediately following publication of an announcement.

A concurrently released guidance letter, HKEX-GL95-18,^v clarifies how the new regime applies to companies whose securities have been suspended from trading for longer than three months. The regime proceeds according to the principle that suspensions must be kept to a minimum, with issuers either delisted expeditiously or directed to correct the issues that prompted their suspension.



Companies whose trading has been suspended prior to the effective date of August 1 will be subject to transitional arrangements:

- HKEX Practice Note 17 will continue to apply to issuers already at the delisting stage.
- An 18-month remedial period commences on the effective date for Main Board-listed issuers who are not yet at the delisting stage, but who have been suspended for less than 12 months upon the effective date.
- A 12-month remedial period commences on the effective date for GEM-listed issuers suspended as of the effective date.
- An 18-month remedial period commences six months prior to the effective date (February 1), if suspended for more than 12 months upon the effective date.
- For issuers with a notice period for delisting before the effective date, previous decisions and notice periods will continue to have effect.

The Listing Rules changes must be noted by all HKEX-listed companies, not just those in danger of delisting under the new

regime. Issuers vulnerable to suspension under the new regime may engage Duff & Phelps' valuation services. The valuation reports we provide can serve as a useful internal reference for future engagement with the revised rules.

Duff & Phelps is ready to step in (either directly or as third-party consultants) to offer other value-added services such as goodwill and intangible asset impairment, arbitration assistance, and legal management consulting.

i. "Consultation Paper on Delisting and Other Rule Amendments," HKEX, Sept. 2017; https://www.hkex.com.hk/News/Market-Consultations/2016-to-Present/September-2017-Consultation-Paper-on-Delisting-and-Other-Rule-Amendments?sc_lang=en

ii. "Consultation Conclusions: Delisting and Other Rule Amendments," HKEX, May 2018; [http://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/September-2017-Consultation-Paper-on-Delisting-and-Other-Rule-Amendments/Conclusions-\(May-2018\)/cp2017091cc.pdf](http://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/September-2017-Consultation-Paper-on-Delisting-and-Other-Rule-Amendments/Conclusions-(May-2018)/cp2017091cc.pdf)

iii. "Exchange Publishes Conclusions from Its Consultation on Delisting and Other Rule Amendments," HKEX, May 25, 2018; https://www.hkex.com.hk/News/News-Release/2018/180525news?sc_lang=en

iv. "Listing Rules, Interpretation and Guidance," section 6.01, HKEX, retrieved June 25, 2018; http://en-rules.hkex.com.hk/en/display/display_main.html?rbid=4476&element_id=2234

v. "HKEX Guidance Letter, HKEX-GL95-18," May 2018; http://en-rules.hkex.com.hk/net_file_store/new_rulebooks/g/l/GL95-18.pdf

vi. "The Stock Exchange of Hong Kong Limited Practice Note 17," HKEX, retrieved June 25, 2018; http://en-rules.hkex.com.hk/net_file_store/new_rulebooks/h/k/HKEX4476_3736_VER10.pdf



Hong Kong Imposes New Restrictions on Capital Raisings by Listed Companies



The Stock Exchange of Hong Kong Limited (HKEX) published its Consultation Conclusions on Capital Raisings by Listed Issuers (the Conclusion)ⁱ on May 4, 2018, following proposals in a Consultation Paperⁱⁱ released in September 2017.

The Conclusion is aimed at restricting certain abuses committed by listed issuers—including highly dilutive and deeply discounted capital-raising activities—that may jeopardize minority shareholders' interests.

The following changes are specified in the new Conclusion:

- Prohibition of capital raisings that result in a cumulative material value dilution (25% or more), barring exceptional circumstances (such as financial difficulties on the part of the issuer).
- Removal of the underwriting requirement for pre-emptive offers for all Main Board-listed issuers by deleting HKEX Listing Rules 7.19(1) and 7.24(1). Should any underwriter be engaged, they should be licensed under the terms of the Securities and Futures Ordinance and should be independent of the issuer and its connected persons.
- Imposition of mandatory minority shareholders' approval for open offers, with the addition of Rule 7.24A to the Listing Rules.
- Restriction of subdivisions or bonus issues of shares, if the share price after adjustment is less than HK\$1, with the addition of Rule 13.64A to the Listing Rules.

Increasing concerns about unethical behavior by certain listed companies have spurred a climate of increasing regulation in Hong Kong. The Conclusion is just one of several regulatory changes that aim to plug loopholes and preserve the Hong Kong market's reputation for quality and integrity.

The Listing Rules amendments in the Conclusion took effect on July 3, 2018. To avoid penalization under the Conclusion's revised rules, listed companies should review the cumulative dilutive effect of their capital-raising activities over the past year—and consult the HKEX if such activities trigger the 25% threshold.

Any such listed companies that violate the Conclusion's new rules may benefit from Duff & Phelps' services by commissioning a valuation report that provides an internal reference for corrective measures.

i. "Consultation Conclusions on Capital Raisings by Listed Issuers," HKEX, May 2018; [http://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/September-2017-Consultation-Paper-on-Capital-Raisings-by-Listed-Issuers/Conclusions-\(May-2018\)/cp2017092cc.pdf](http://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/September-2017-Consultation-Paper-on-Capital-Raisings-by-Listed-Issuers/Conclusions-(May-2018)/cp2017092cc.pdf)

ii. "Consultation Paper: Capital Raisings by Listed Issuers," HKEX, Sept. 2018; <http://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/September-2017-Consultation-Paper-on-Capital-Raisings-by-Listed-Issuers/Consultation-paper/cp2017092.pdf>

U.S. Reform Bills to Increase Scrutiny of Foreign Transactions

Rising fears about outbound direct investments—particularly those originating in China—have emboldened U.S. lawmakers to promote new initiatives from the legislative and executive arms of the government.

The U.S. Congress has issued a number of reforms through the Committee on Foreign Investment in the United States (CFIUS), a panel led by the Treasury Department with oversight over foreign investments and their impact on national security.

On May 22, 2018, the U.S. Senate Banking Committeeⁱ and the House Financial Services Committeeⁱⁱ unanimously approved their respective versions of the CFIUS reform bill, known as the Foreign Investment Risk Review Modernization Act (FIRRMA).

The White House has also moved in the same direction. On June 30, President Donald Trump announced proposed investment restrictions and enhanced export controls expressly targeting Chinese people and companies.

These moves are only the latest in a series of government actionsⁱⁱⁱ that have made a major impact on foreign direct investment originating in China. Beijing has made a concerted crackdown on outbound capital flows,^{iv} while U.S. regulators have exerted increased scrutiny on Chinese investments.^v

Both have caused a significant drop in outbound investment. Over the last five years, Chinese companies have invested \$116 billion in the United States,^{vi} but those investments dropped by 35% in 2017.^{vii}

If FIRRMA passes, more “covered transactions” will fall within the authority of CFIUS,^{viii} giving its committee the power to review transactions like the following:

- non-passive investments in critical technology and infrastructure companies;
- real property acquisitions with proximity concerns to areas deemed sensitive for national security reasons;
- changes in investor rights, resulting in non-U.S. control of a U.S. business; and
- joint ventures resulting in the transfer of intellectual property to a non-U.S. entity.

Companies based in Greater China and the United States that have transactions that fall under CFIUS’ expanded authority must tread carefully in the months to come. Management should proactively seek out and correct any potential CFIUS regulatory issues under the proposed FIRRMA changes or bring in experienced third parties like Duff & Phelps to help formulate a plan of action.

Such companies may benefit from Duff & Phelps’ multifaceted approach: one that engages multiple stakeholders to address potentially sensitive aspects of transactions, and coordinates strategies with clients to meet upcoming parallel regulatory reviews.

i. “Banking Committee Advances CFIUS Legislation,” United States Senate Committee on Banking, Housing, and Urban Affairs, 22 May 2018; <https://www.banking.senate.gov/newsroom/press/banking-committee-advances-cfius-legislation>

ii. “Committee Advances Three Bills,” Financial Services Committee, 22 May 2018; <https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=403471>

iii. J.P. Barker et al., “CFIUS Scrutiny of Foreign Investment Intensifies with Broadening Scope,” Arnold & Porter, 24 Jan. 2018; <https://www.arnoldporter.com/en/perspectives/publications/2018/01/cfius-scrutiny-of-foreign-investment-intensifies>

iv. Ulrich, J. (2017, September 06). Beijing makes mixed moves to corral capital flows. Retrieved July 13, 2018, from <https://www.ft.com/content/adbd4e0e-9163-11e7-bdfa-eda243196c2c>

v. Groll, E., & Johnson, K. (2018, March 06). Washington Strikes Back Against Chinese Investment. Retrieved July 13, 2018, from <https://foreignpolicy.com/2018/03/06/washington-strikes-back-against-chinese-investment/>

vi. G.A. Casanova, “Weaponizing Commerce: Trump, China, and CFIUS,” The Diplomat, 29 Mar. 2018; <https://thediplomat.com/2018/03/weaponizing-commerce-trump-china-and-cfius/>

vii. T. Hanemann and D.H. Rosen, “Chinese FDI in the US in 2017: A Double Policy Punch,” Rhodium Group, 17 Jan. 2018; <http://cim.rhg.com/notes/chinese-fdi-in-the-us-in-2017-a-double-policy-punch>

viii. G. Grammas et al., “House and Senate Committees Unanimously Clear Bills That Would Greatly Expand CFIUS Authority,” Squire Patton Boggs, 2018; <https://www.squirepattonboggs.com/~media/files/insights/publications/2018/05/cfius-reform/30775cfius-reform--house-and-senate-committees-unanimously-clear-bills-that-would-greatly-expand-cfius-authoritythought-leadership.pdf>

Chinese Investments' Influence on Brazilian M&A

According to data from Bain & Company and PitchBook, 2017 global M&A activity grew to \$3.3 trillion in total deal value, with 38,500 deals (resulting in an average deal size of \$85.7 million). Concurrently, Brazil had 9% growth in the number of companies being bought and sold, achieving a record of 856 transactions with a combined deal value of approximately \$87.3 billion, according to Fusões & Aquisições. This also represents a 4.8% increase in Brazil's deal volume compared to 2016. Brazil's average deal size of \$101.9 million in 2017 was strongly affected by more than 10 multibillion-dollar deals announced in that year. According to Fusões & Aquisições, prior to 2017, the historical average deal size ranged from \$30 million to \$40 million.



Chinese investors are playing a large role in the M&A activity in Brazil. Their investments in Brazilian companies from January to September 2017 reached.

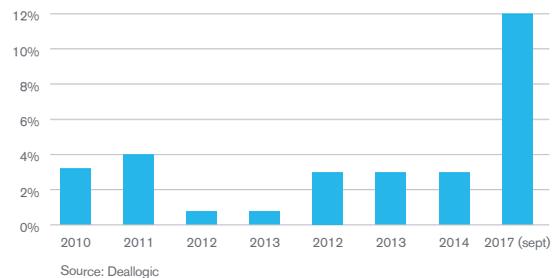
Totaled a record high of \$8.7 billion, comprising 12% of total M&A activity in Brazil, according to Dealogic. This value does not include a significant number of new acquisitions and investments announced in Q4 2017, which brings the total investment to more than \$12 billion in 2017.

Recent activity includes State Grid Corp's acquisition of CPFL Energia SA for more than \$4.5 billion, which was the largest transaction completed in 2017. SPIC's acquisition of Usina São Simão and Three Gorges' acquisition of Central Hidroeléctrica Chaglla, an Odebrecht investment in Peru, are expected to surpass \$3.3 billion and reinforce the trend of Chinese investors' continued growth and interest in Brazil.

The current environment has changed from that of 2016 and 2017, when foreign investors, private equities and Brazilian

holding companies were acquiring businesses of Brazilian conglomerates or public companies that needed to sell given excessive debt, limited access to credit lines and cash flow pressure. Chinese investors took strong positions during that period through investments in infrastructure (mainly traditional energy, but also renewable) as well as airport concessions, oil and gas, logistics and agribusiness.

Brazil - Share of Chinese investments (based on value)



The Brazilian government is also working on strengthening the relationship with the Chinese business community. In August 2017, President Michel Temer was in China, where new green field investments were on the agenda. According to the Conselho Empresarial Brasil-China (CEBC), M&A activity represents half of Chinese investments in Brazil, with the remaining 50% being green field investments and joint ventures. Governors of Brazilian states like Pará and Ceará joined the President during this visit and met with Chinese groups like Chint Group, China Meheco Co. and China Communications Construction Co., who showed an interest in investing in the region. Other states like Maranhão and São Paulo are also receiving investments. According to CEBC, the state of São Paulo alone has received more than \$1.0 billion in new investments since 2010. In 2018, at the federal level, we will likely see the privatization of Eletrobras, which may bring more Chinese investments to the country.

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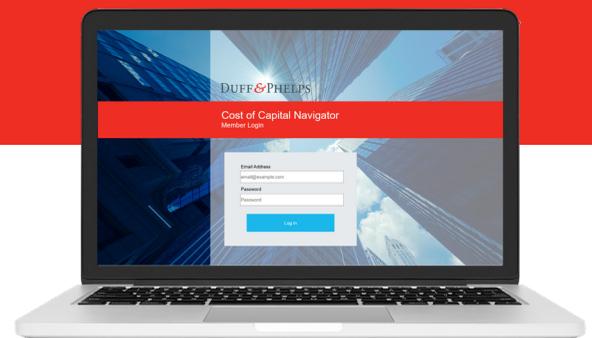
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