

绝密

Update on the Chinese Consumer Environment

July 2020

The State of the Chinese Consumer Pre Covid-19

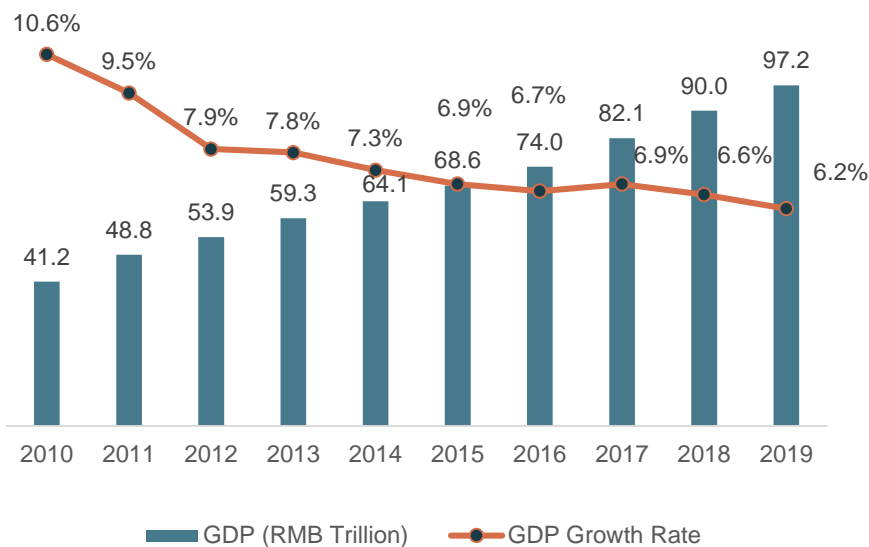




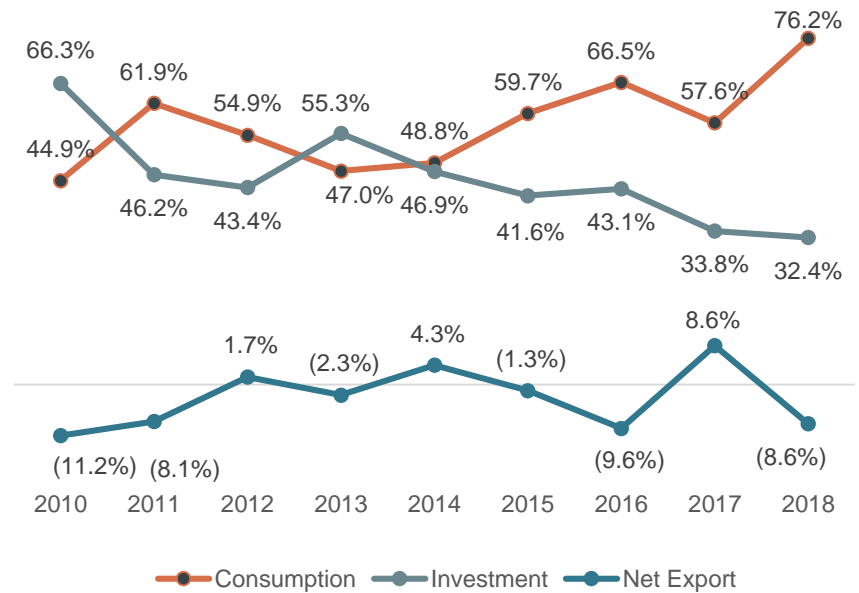
China's Economy Has Been Rapidly Transforming to One That is Driven by Consumption

- ◆ The Chinese economy is transitioning from high growth to more moderate, stable growth
 - As it has transitioned, consumption expenditures as a percentage of GDO has steadily increased
- ◆ Consumption has replaced exports and investment to become the driving force of China's economic growth
 - Consumption upgrade, or the growth of the middle class, has been one of the main driving forces of this growth

2010- 2019 China GDP Growth Rate



Contribution Rate Of Consumption, Investment and Net Exports To GDP Growth Rate In 2010-2018

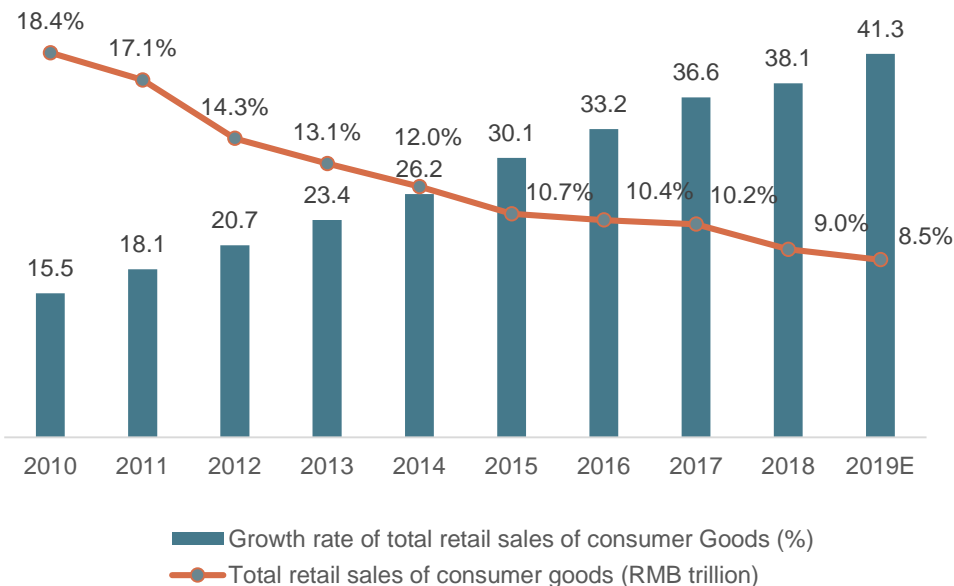




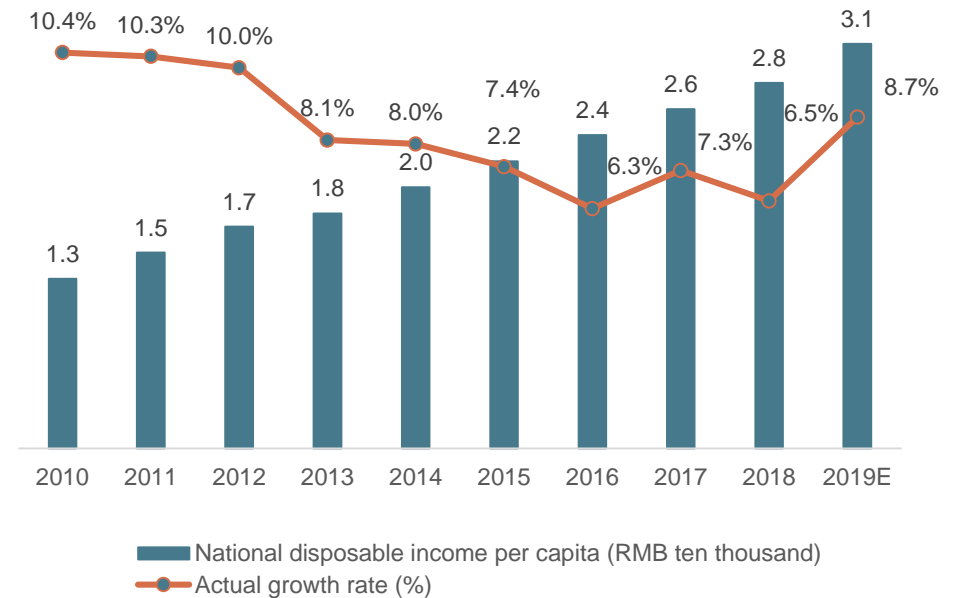
Consumption Data Has Generally Been Better Than China's Overall Macro Data with Additional Room for Growth

- ◆ From 2010 to 2019, total retail sales of consumer goods grew rapidly, well in excess of overall macroeconomic growth
- ◆ The per capita disposable income of residents across the country has grown rapidly
- ◆ As the world's largest middle class market, China will provide a broad market space for new products and services

2010 – 2019 China's Total Retail Sales of Consumer Goods



2010 – 2019 Per Capita Disposable Income of National Residents





The Overall Market Has Grown Steadily With Less-Developed Urban and Rural Markets Driving the Next Wave Of Consumption Growth

Some Categories Have Faced Pressure, but Overall Growth Has Continued

◆ **Retail channels:**

- E-commerce continues to squeeze the traditional retail channel



◆ **Urban and rural areas:**

- Urban and Rural Consumption Potential is Accelerating

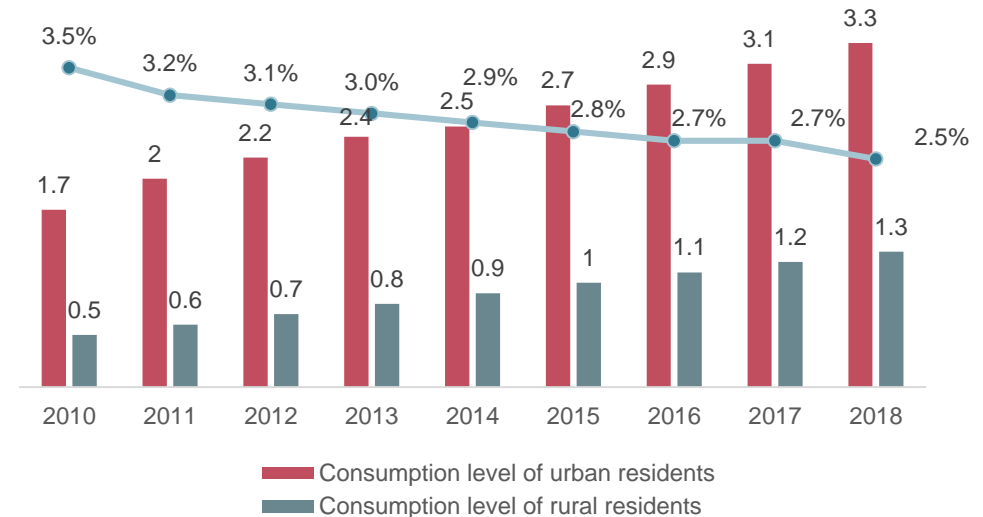
◆ **Total retail sales of consumer goods:**

- Necessity goods such as automobiles, petroleum, and food play an important role in stimulating consumption and boosting the economy
- Textile and apparel, jewelry, office supplies, and other categories have been below the overall growth rate of retail sales

Less-Developed Urban and Rural Markets Growth in Consumption Has Injected New Momentum

- ◆ The gap between urban and rural consumption has narrowed, with the growth of the middle class in rural markets
- ◆ E-commerce expansion will drive rural market consumption

Comparison of Consumption Levels Between Urban and Rural Residents in China Between 2010-2018
(Unit: RMB ten thousands)

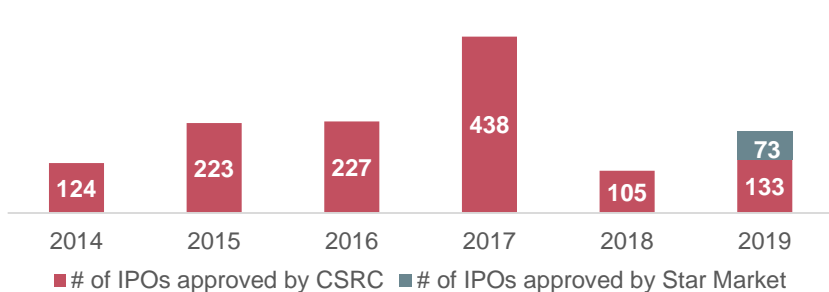




The Launch of the STAR Market Made 2019 An Important Year For A-share IPOs

◆ 2019 was a big year for A-share IPOs. 203 A-share IPOs, raising RMB 253.3 billion (20 IPOs from STAR Market, RMB 82.4 billion)

Number of A-share IPOs 2014 - 2019



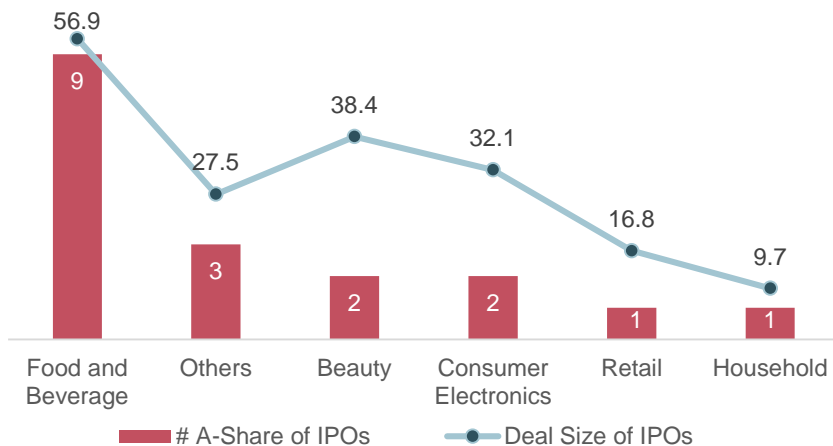
Capital Raising By A-share IPOs 2014-2019 (Unit: RMB mm)



◆ In 2019, of China's large consumer company IPOs, the food and beverage sector was particularly strong

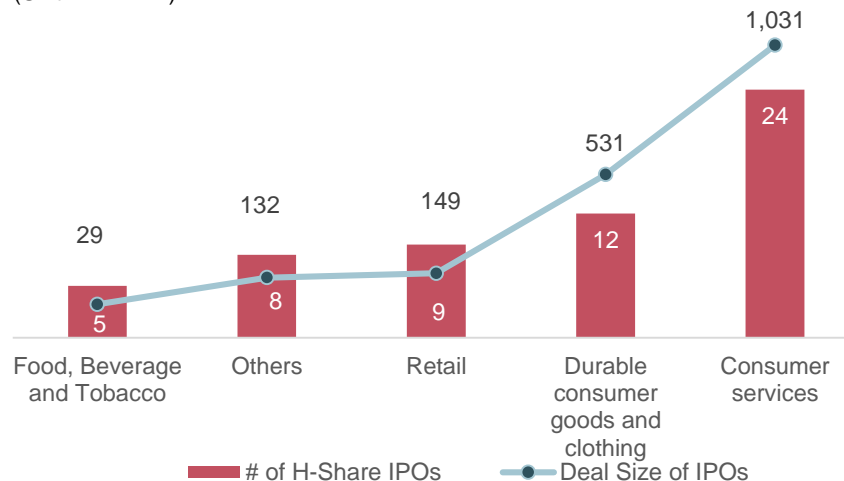
18 A-share IPOs, raising RMB 181.4 billion

Number of A-share IPOs and transaction value of consumer companies in 2019 (Unit: RMB mm)



58 H-share IPOs, raising HK USD 1,870.8 billion

Number of H-share IPOs and transaction value of consumer companies in 2019 (Unit: RMB mm)





2019 Consumer Sector Highlights And Trends

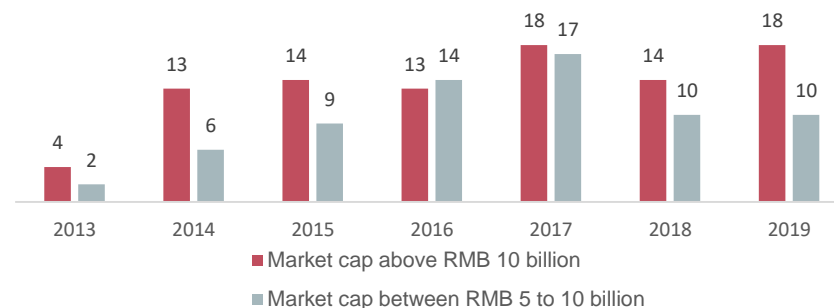
5G starts commercial wave

- ◆ Growth of the commercial use of 5G has driven consumer electronics, content, internet, medical health, automobile manufacturing and other industries
- ◆ The integration of AI, VR / AR, cloud computing and other technologies has significant room for development



Leading Companies Accelerated Listings

- ◆ The number of large companies in the consumer sector landing A-share, H-share, and US stock exchange continues to increase



Live Streaming E-commerce Is Growing Significantly

- ◆ Live streaming has become a new battlefield by major platforms
- ◆ Brands have established direct connections to fans and consumers (D2C, Direct to Customer) through live streaming, further evolving traditional brands and the retail industry

20 billion

Taobao Double 11 Shopping Festival Transaction value



500 billion

Transaction value is expected to increase in the next three years

Capital Raising for Food & Beverage Businesses Has Been Active

<p>H share IPO listing </p> <p>11/13/2019</p> <p>Change since IPO: 20.7%</p>	<p>A share IPO listing </p> <p>1/25/2019</p> <p>Change since IPO: 129.7%</p>	<p>A share IPO listing </p> <p>7/12/2019</p> <p>Change since IPO: 338.8%</p>
<p>A share IPO listing </p> <p>5/8/2019</p> <p>Change since IPO: 71.3%</p>	<p>A share IPO listing </p> <p>6/19/2019</p> <p>Change since IPO: 51.6%</p>	<p>A share IPO listing </p> <p>11/13/2019</p> <p>Change since IPO: 237.7%</p>



The Impact of Covid-19 on the Chinese Consumer

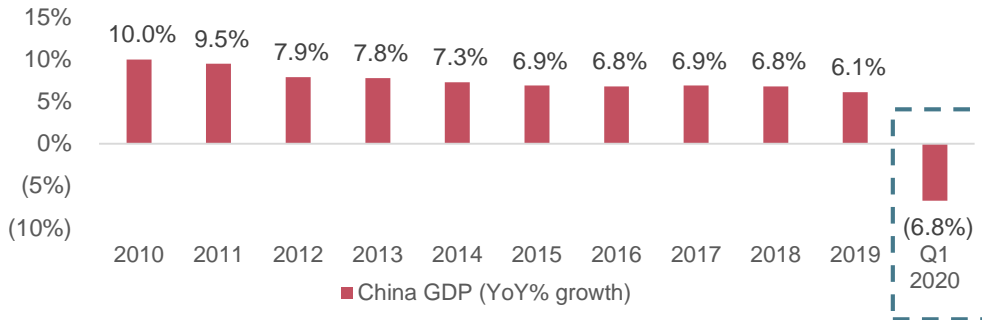




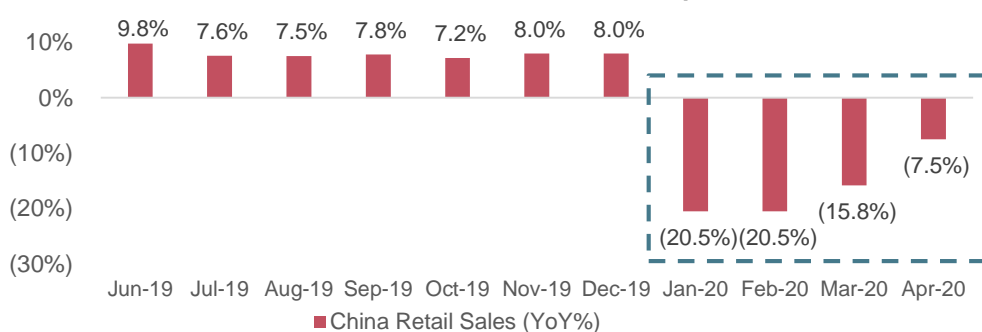
Pandemic-Induced Economic Impacts Have Been Broad-Based

- ◆ Since COVID-19 was first detected at the end of 2019, the Chinese government rapidly undertook strong measures to control the spread
- ◆ China's Q1 GDP registered its first decline since the economic indicator was first released in 1992. From January to March, total retail sales of consumer goods reached 7,858 billion yuan, down 19% vs. the year prior, the first negative growth in history
- ◆ The quarantine period eroded between 20-90% of all key sector indicators including sales in the retail and consumer sectors

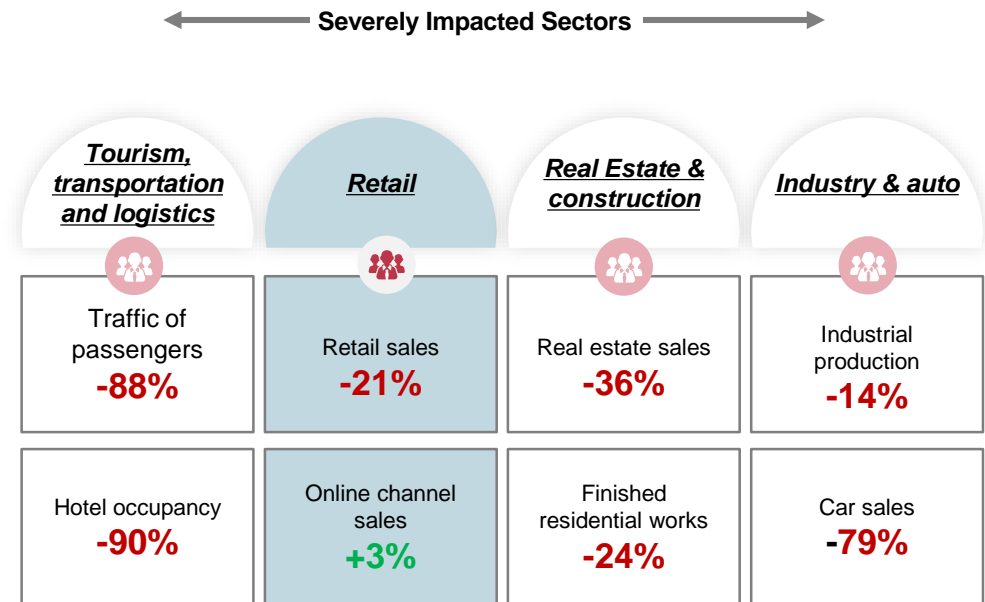
China GDP Growth Rate from 2010 to Q1 2020



Total Retail Sales from Jun 2019 to Apr 2020



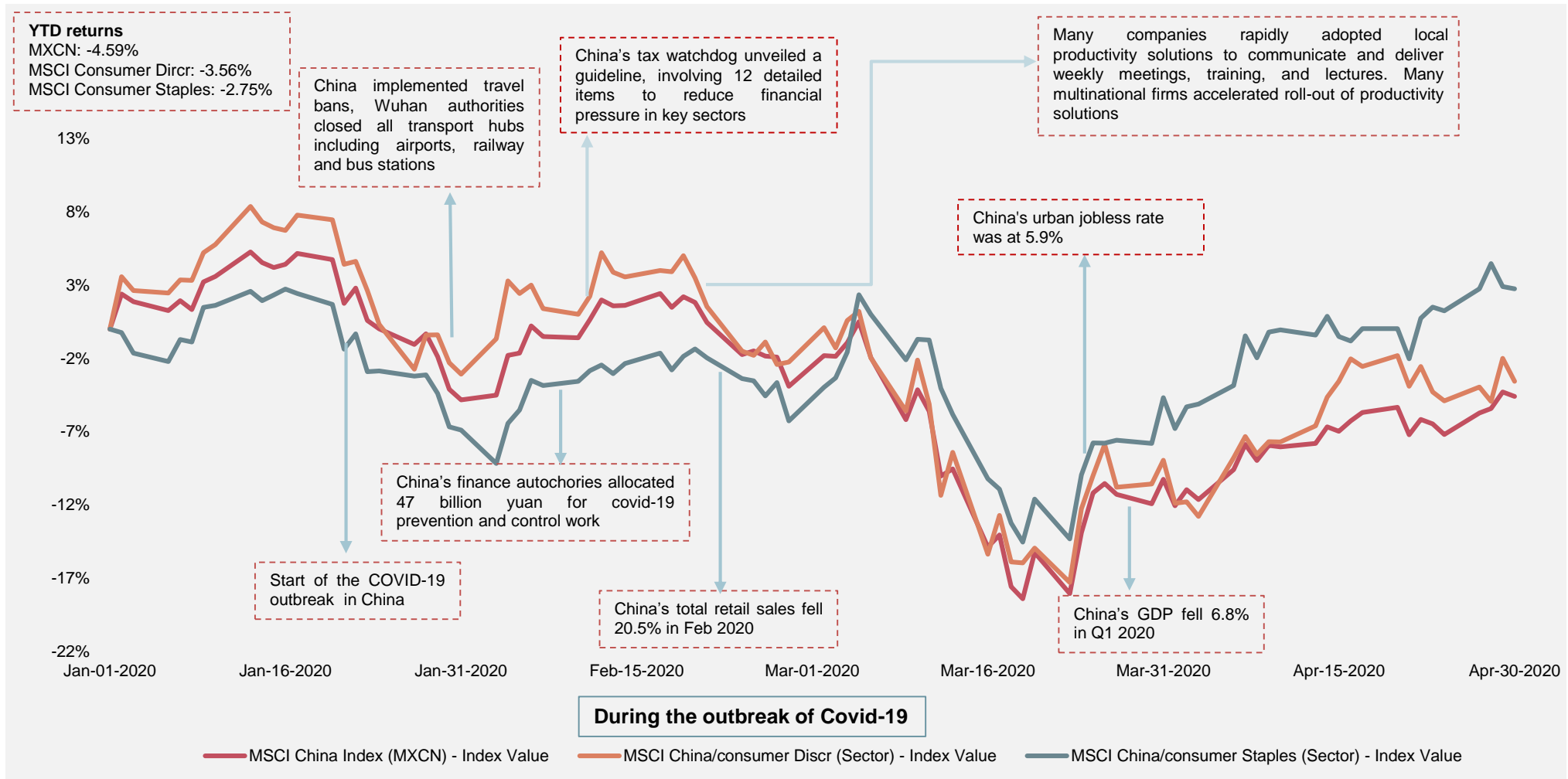
Main Activity Indicators by Sector In China – Impact after 55 Days of Quarantine





Major Indices Performance During and Prior to Covid-19

Key index performance YTD





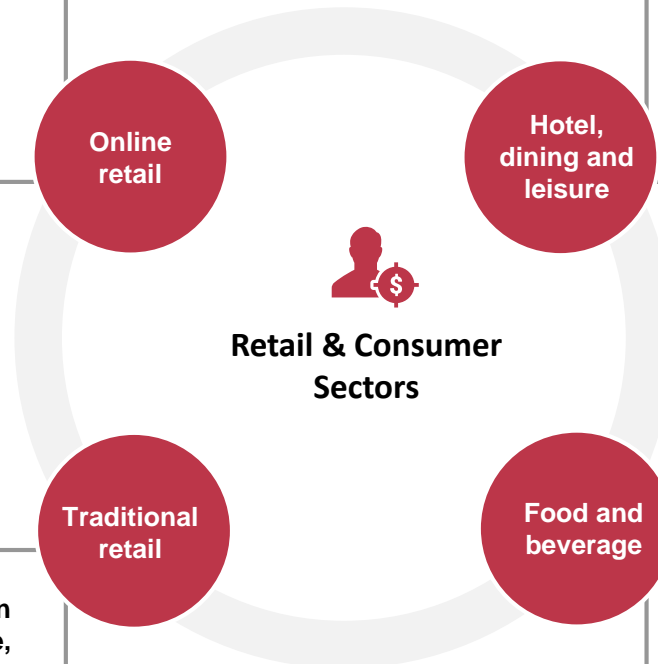
The Various Impact of Covid-19 on Consumer Subsectors

◆ The epidemic has transformed online consumer behavior

- Online penetration and home delivery have rapidly increased
- Change in grocery shopping frequency and methodology have increased the basket size, which should help margins impacted by high distribution costs for smaller basket sizes

◆ Epidemic dramatically impacted the hotel, dining and leisure sectors

- Reduced movement of people during the epidemic, suspension of domestic tour groups and the closure of places for social functions has been a heavy blow to this subsector
- With large fixed costs, small and medium-sized hotels and restaurants are facing severe challenges



Retail & Consumer Sectors

◆ The short-term impact of the epidemic on physical shops is expected to be considerable, particularly for luxuries or treats

- The epidemic has accelerated the pace of online and offline penetration and the development of multichannel propositions

◆ Various impact on food and beverage

- The epidemic has had a short-term impact on the F&B gift segment, such as tobacco and alcohol
- The impact on meat, convenience foods, seasonings and dairy products has been limited



How the Chinese Consumer Has Responded Post Reopening





Various Initiatives Have Been Established to Support the Economy and to Promote Positive Consumer Sentiment

- ◆ China began to show a slowdown in the number of new cases in mid-Q1, leading to the start of the economic reopening in March 2020
- ◆ Various initiatives have been established to support the economy and to promote positive consumer sentiment in order to bolster consumption trends

The People's Bank of China has implemented various measures in recent months to stimulate the economy



- ◆ Announced fiscal stimulus package of **RMB 3.6 Trillion (\$500 billion USD)** in May 2020



- ◆ Implemented monetary policy measures including:
 - Easing of reserve requirements and lending rates
 - Lending support through issuance and a **19% increase** in bank loans
 - Offering potential to defer loan repayments



- ◆ Potential for incremental stimulus exists, as stimulus program is comparatively lower relative to other countries
- ◆ Stimulus as a % of GDP:
 - **~1-4%** for China vs **~11%** for the U.S.



- ◆ China spent more than **1.2T yuan (\$170 bn)** in February buying shares to shore up prices
- ◆ The **Shanghai Index** has only **decreased ~2.7%** since December

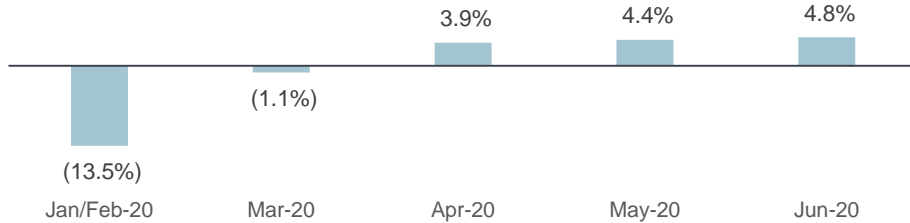


Several Factors on Both the Production and Consumption Side Indicate the Positive Impact of the Stimulus On Economy

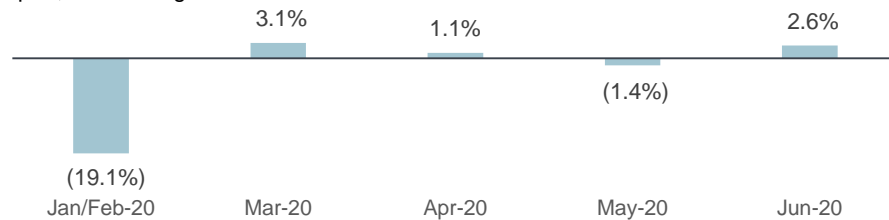
Production

As exports typically lag industrial output, industrial output has rebounded stronger than exports though both are trending positively

Industrial Output, YoY Change



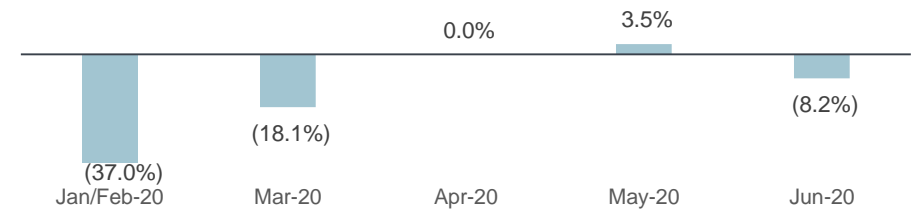
Export, YoY Change



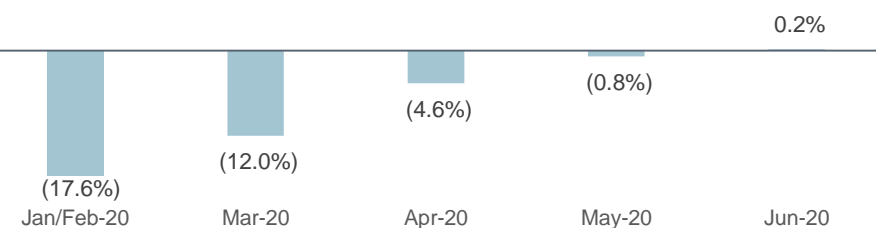
Consumption

Automobile sales, an indicator of consumer discretionary income, rebounded sharply until May before falling in June while retail sales improved at a stable rate

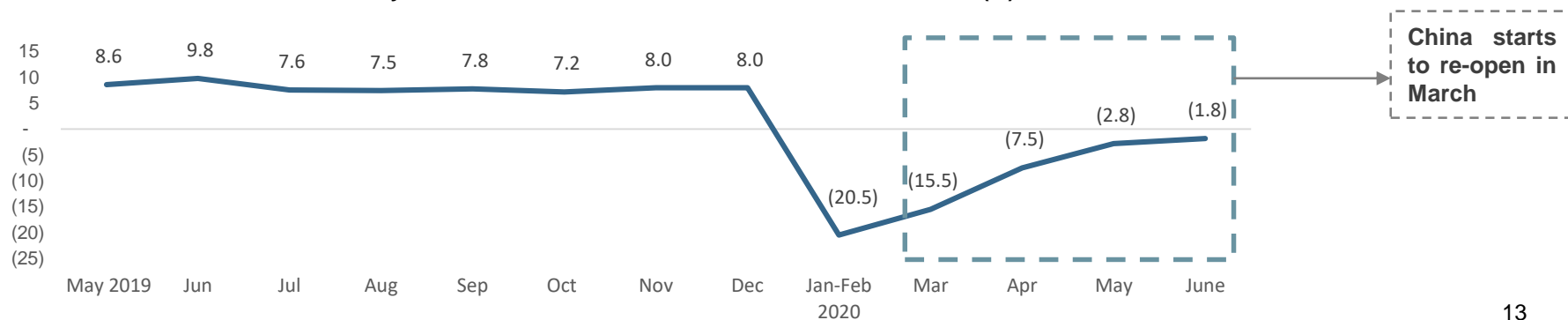
Automobile Sales, YoY Change



Retail Sales, YoY Change



Monthly Growth Rate of Total Retail Sales of Consumer Goods (%)



China starts to re-open in March



China Is Recovering with Consumption Returning

Consumption data in mainland China for the May Day holiday (1-5 May), the first long weekend post COVID-19 pandemic, hints at a strong recovery and new momentum in various segments

◆ Online grocery shopping remains robust

- Growth momentum in online grocery shopping in China has been robust since the 2020 Chinese New Year holiday as people move their grocery shopping online as part of social distancing



- Gross merchandise volume (GMV) of the domestic/imported fresh food on **148 / 151%** yoy JD.com grew



- Pinduoduo saw total orders of agricultural/personal care products surge by **160/210%** yoy

◆ Traffic has ticked up at shopping centers, particularly in lower-tier cities

- Relaxation of quarantine measures in China has led to increased foot traffic at major domestic shopping centers
- According to the Winneryun platform, foot traffic at shopping centers nationwide have recovered to **62.3%** of normal levels as of 2 May
- Specifically, Tier-3 cities recovered to **68%** of the norm, versus **58/65%** for Tier-1/2 cities

◆ Consumers have spent more than usual on health

- Consumers in China appear to be placing increasing emphasis on health in the post-pandemic period, as evidenced by the sharp rise in demand for health-related products and services during the May Day holiday
- For instance, spending on sports and fitness tripled month on month during 1-3 May, according to data from WeChat Pay, while GMV of sportswear products increased by **85%** mom during 1-5 May on JD.com

◆ Catering has accelerated amid vibrant nightlife

- Catering was among the key sectors that resumed. Per Ministry of Commerce, the consumption recovery index of the catering sector was up by 18.8% during 1-5 May from that in the Qingming holiday
- Spending on catering services had recovered to **70%** of that in the same period a year ago

◆ Leisure and entertainment services rebound

- As social activities in China are gradually returning to normal in the post pandemic period, experience-based leisure and entertainment consumption has ramped up
- During 29 April to 3 May, beauty-related activities such as manicure and spa services booked through Meituan doubled month on month
- The transaction volume of WeChat Pay for leisure services rose by **521%** mom during 1-3 May