



PRIVATE EQUITY

VIETNAM 2020

Asia's Rising Star



Grant Thornton

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Foreword

Dear Valued Readers,

2020 was such an extraordinary year that it would go into the world's history as a year no one could ever forget. The Covid-19 outbreak has disrupted countless lives and businesses; causing the world economy to slump as the global GDP estimated by S&P has shrunk by 4.1% in 2020.

Within this setting, the global private equity industry also suffered an overall 13.1% drop in the number of PE deals and a 33.8% decrease in total deal value during H1-2020 compared to H1-2019. More specifically, in the view of many managers, 2020 was a marathon to overcome multiple hurdles, namely reduction in business activities, short-term liquidity, and write-down in portfolio company valuations.

Nonetheless, Vietnam still stood out as one of the brightest spots of 2020 thanks to its effective handling of the pandemic. Wrapping up the year, Vietnam posted a positive GDP growth of 2.9%. The number of PE deals increased by 164.7% while deal value rose significantly by 353.4% in H1-2020 compared to H1-2019.

Our 2020 Vietnam Private Equity Survey has been conducted to capture the full impact of the pandemic. Thanks to the meaningful responses from individuals working at various institutions in the PE sector, we believe that the report would provide an unique insight of the market for such a turbulent year. We would like to express our gratitude to all of the respondents for their valuable contributions.

The first part of our report recaps the Vietnam economic outlook and the key sectors as well as the country's private equity landscape in 2020. The second part focuses on the Value Creation Plan, a topic that has received much attention in the private equity world in recent years.

Since acquisition prices are at record high while conventional cost reduction or leverage practices can no longer be squeezed, PE firms now have to refine alternative strategies to maximize their profit returns. As a result, a Value Creation Plan is becoming their powerful tool, enabling both sides of a deal to create significant and sustainable value with the advance of technology. We hope, through our survey, to provide our readers with more insights on the Value Creation Plan.

Due to restriction on time and space, many topics in this report cannot be discussed in depth. If there are any subjects that you would like to explore further, please do not hesitate to get in touch with us.

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Executive Summary

Market Outlook

- Vietnam GDP growth rate was 2.9% in 2020 and is forecast at 6.7% for 2021 by the Government of Vietnam, and at 8.1% (by Goldman Sachs and HSBC).
- Number of PE deals in Vietnam climbed from 35 in 2019 to 59 in 2020. The disclosed deal value slightly increased by 1.9% from \$1,121 million in 2019 to \$1,142 million in 2020.

Attractive Industry

- Based on our survey results, Transportation & Logistics, Education, Green Energy, Technology, Healthcare & Pharmaceuticals are the most attractive sectors for investment.
- Notably, the number of deals in Technology reached 42, accounting for 71% of total completed 2020 PE deals in Vietnam.

Adoption of Value Creation Plan

- Value Creation Plan (VCP) defines a roadmap of achievements and how a company improves or transforms in a systematic, sustainable way in order to elevate its own value and ultimately ROI for the Investors. Our survey provided insights into 2 phases of a VCP: Building and Executing.
- In terms of building a viable value creation plan, *focus on long-term value drivers* is the most critical factor, followed by *mutual contribution*, *clear responsibility*, and *early preparation*. Furthermore, our findings also suggest the top 3 long-term value drivers include *operational improvement*, *top-line growth*, and *governance*. Additionally, *ESG* and *digital transformation* are new tools to enhance sustainable value creation.
- In terms of executing a value creation plan, investors highly value *trust-based relationships* and *capability of the management team* but downplay the importance of their *active support*, which should receive more attention.

Impact of Covid-19 on Value Creation Plan

- Covid-19 has increased the attractiveness level of Vietnam, as an investment destination, by showing how well the country managed the outbreak.
- Covid-19 created growth opportunities to be included in their value creation plans, in which digital transformation stood out with successful implementation stories.

Exit Strategies

- Trade sales and IPO are the most favored exit strategies by surveyed investors.
- Despite the Covid-19 outbreak, only 27% of investors thought that planned exits will be delayed for more than one year.
- Expected rate of return reduced from 20%-25% to 15%-20% after the event of Covid-19.

Economic Outlook

Despite the Covid-19 pandemic, Vietnam economy has continued to show strong growth patterns, further strengthening its attractiveness as an investment destination.

GDP growth rate

	2020E	2021F
Vietnam	2.9%	8.1%
Global	-4.4%	5.2%

Source: IMF, Goldman Sachs and HSBC

Vietnam's growth is supported by the rapid rise of the established middle class and affluent group, from **25%** of the population in 2017 to **45%** in 2030.

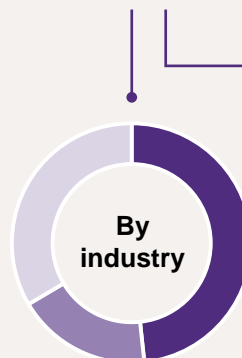
FTAs

★ ★ ★
CPTPP, EVFTA, RCEP

Tariffs elimination between Vietnam and Asia-Pacific & EU nations will benefit the expansion of key export industries: manufacturing of smartphones and electronic products, textiles, footwear, and agricultural products.

\$28.5bn

FDI 2020



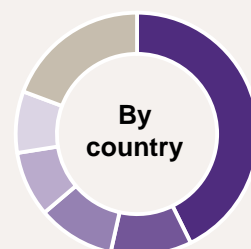
- Processing & manufacturing
- Energy generation & distribution
- Others

\$14.6bn

from newly approved investments

Vietnam is among the most attractive destinations for global investment shifts.

Source: GSO



- Singapore
- China
- Taiwan
- Hong Kong
- Korea
- Others

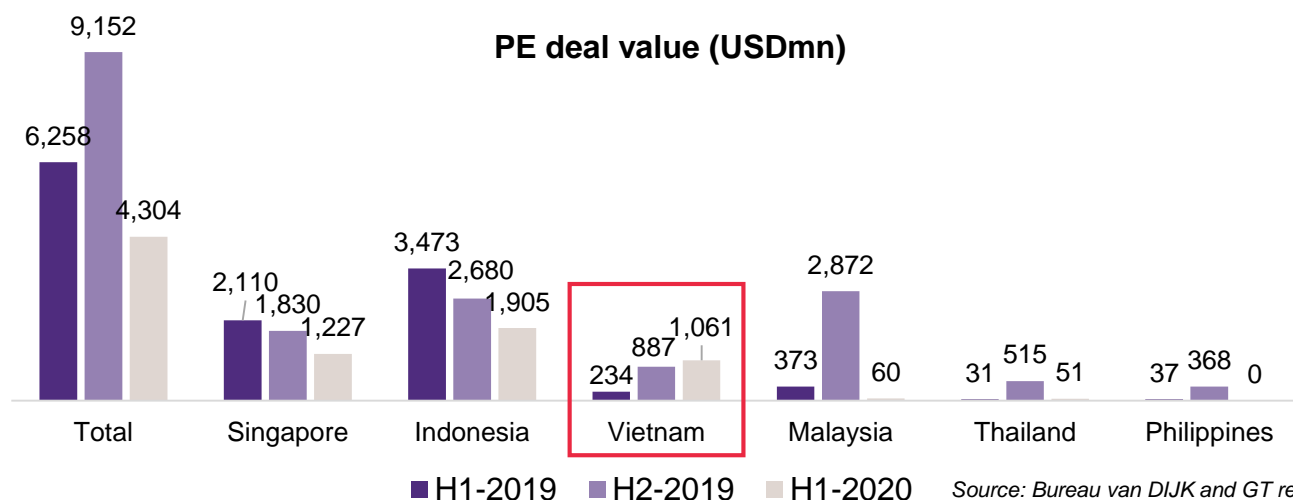
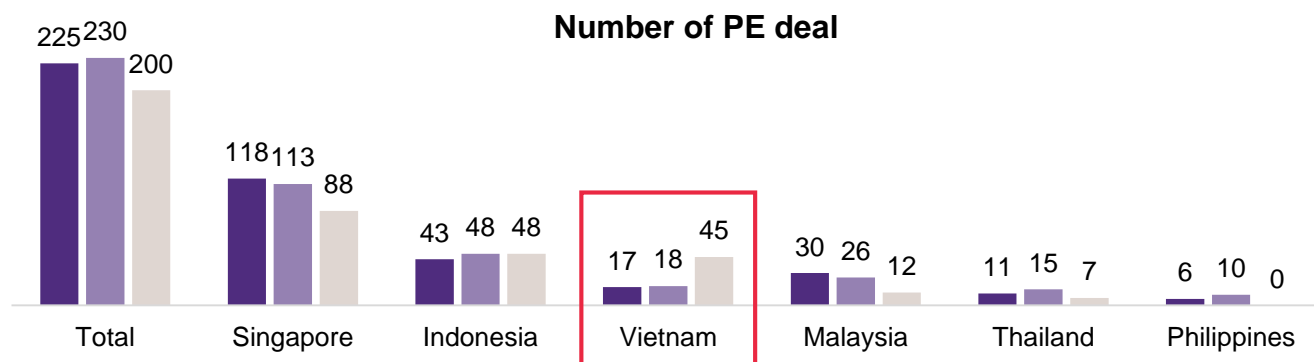
Inflation will be controlled to remain under **4%**

Law on Enterprise 2020: better protects rights of minority shareholders. For example, a shareholder or a group of shareholders holding 5% voting rights have the right to convene a shareholders meeting.

Law on Investment 2020: adopts "list of restricted sectors" instead of "list of allowed sectors", which unlocks more investment opportunities for foreign investors. High-tech, microfinance, pharmaceuticals, start-ups, etc. receive special investment incentives.

PE Deals Recap

ASEAN 5 and Vietnam



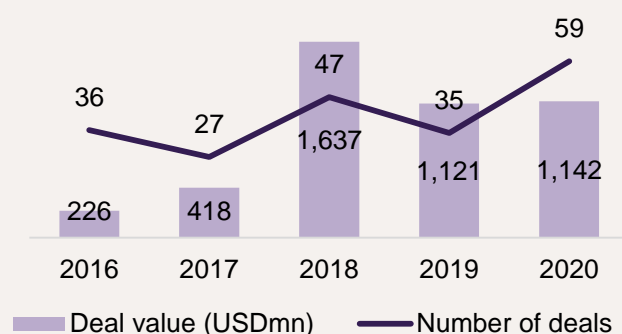
Source: Bureau van DIJK and GT research

- During H1-2020, under the impact of Covid-19, deal activities in ASEAN-5 and Vietnam generally slowed down after a busy year of 2019. Number of deals dropped from 230 in H2-2019 to 200 in H1-2020; and deal value dropped by more than half from USD9,152 million down to only USD4,304 million.
- Thailand and the Philippines remained as the bottom two for deal activities; notably, the Philippines market hibernated through the virus season with zero transactions.
- Vietnam was behind Malaysia in 2019 but then surpassed it in H1-2020, rising from the 4th to top 3 and being the only country with increasing trend despite the pandemic.
- Particularly in Vietnam, the first half of 2020 observed a trend of many investments from PE and VC flowing into technology start-ups which provide disruptive solutions to retail and services, for example: online healthcare booking and consulting, proptech, ecommerce, HR and recruitment platforms, etc.

PE Deals Recap

Vietnam

Private equity deals over the years



- Amidst the turbulence and uncertainty of Covid-19 pandemic, the private equity market continued to achieve a new peak in terms of number of deals in 2020, with a total of 59.
- However, total deal value of USD1,142 million has not improved much compared to 2019.

Source: GT's research

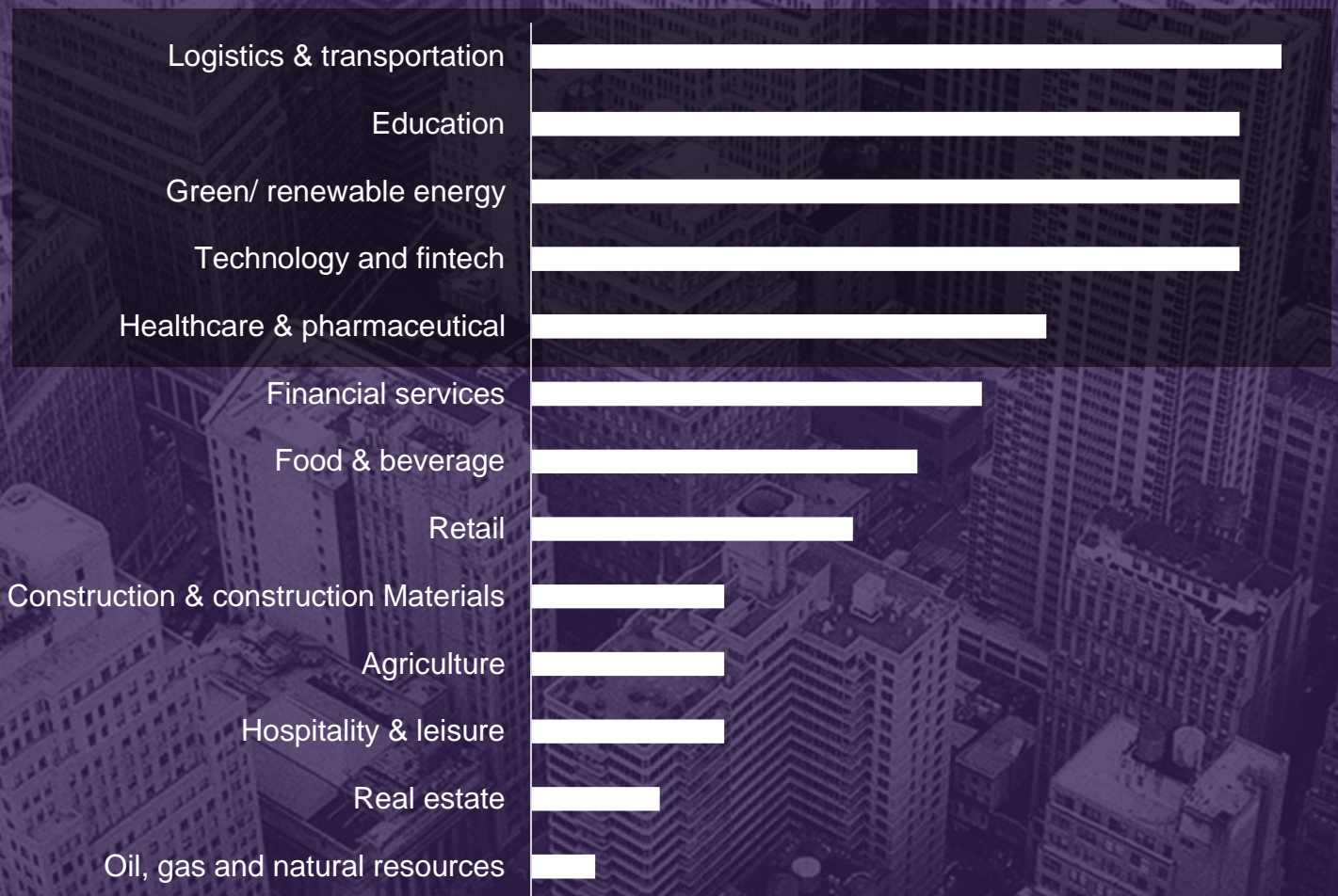
Note: Zero deal value due to undisclosed amount

Private equity deals by sector	2019		2020	
	Deal count	Value (USDmn)	Deal count	Value (USDmn)
Technology	10	105	42	134.6
Financial services	3	100	6	80.6
Transportation & logistics	5	158	0	0
Healthcare & pharmaceuticals	3	5	4	88.6
Education	3	0	0	0
Food & beverage	2	5	0	0
Hospitality & leisure	1	36	3	58
Construction & materials	0	0	1	0
Real estate	0	0	2	650
Retail	5	646	1	130
Others	3	70	0	0

- Technology continued its momentum with the highest number of deal counts for the last 5 years. However, the deal size remains humble, showing that most of the investments were into early-stage technology start-ups in Vietnam.
- Retail and services companies, which involve deeply in disruptive technological solutions also caught the eye of the investors. Examples are: an investment of \$100 million from Warburg Pincus into Momo – an e-wallet with a reported 20 million users – in 2019; and a transaction of \$130 million from Northstar Group into Tiki – one of the top 3 e-commerce platforms in Vietnam – in 2020.
- Vingroup continues to hold the record of largest deal value, with \$500 million from GIC into Vincommerce (retail) in 2019 and \$650 million from KKR and Temasek into Vinhomes (real estate) in 2020.
- There was a rising trend in the healthcare sector. Two renowned funds in Vietnam – Mekong Capital and VinaCapital accelerated their race into healthcare & Pharmaceuticals with USD31.8 million into Pharmacy and USD26.7 million into Thu Cuc Hospital respectively.

Attractive Industries

Most attractive industries in the next 12 months voted
by our respondents



Attractive Industries

Logistics, Education, Healthcare



Logistics

- Market size will reach **USD113 billion** by 2022, posing a **CAGR of 16.6%**
- **FTAs & E-commerce** are demand boosters for exports and logistics.
- Big manufacturers such as Apple, LG and Panasonic **consider Vietnam as a new hub to diversify their supply chain & distribution network** away from the US-China trade war and Covid-19 pandemic.
- There is lots of **room for efficiency improvement** as the market is dominated by small companies which provide simple or intermediary services.



Education

- **Fast growing middle class is the key driver.** As disposable income increases, spending for education will increase because Vietnamese culture places high value on education.
- **60% of the population are 40 and younger** who are striving to obtain more skills and knowledge to meet the ever-increasing demands of the labor market.
- Growth is fueled by encouragement policies for **100% private and foreign ownership**.
- And **opportunity for consolidation** as the market is quite fragmented.



Healthcare

- Growth is supported by **expanding population and high number of 65+ people**, who made up 8% of the population in 2019 and will double to 16% by 2040 with a total population of 107.8 million people.
- Healthcare spending per capita is forecasted to grow at **CAGR of 9.8%, from \$194 in 2019 to \$309 in 2024**.
- Shortage of qualified personnel and inadequate healthcare infrastructure result in **a huge supply gap**, thus a huge investment opportunity.

Source: GT's research

Attractive Industries

Technology, Renewable Energy




Technology

- Impressive historical growth of **26.1% CAGR 2015-2019**
- **Multiple drivers for investment** include favorable tax incentives, government credit support, and low cost – high quality labor.
- **5 most promising sub sectors:**
 - Education technology:
 - 20.2% CAGR in 2019-2023 period
 - \$55 million of investment in 2019
 - Fintech:
 - \$7.8 billion market value in 2020
 - > 150 fintech companies
 - Software outsourcing
 - \$8.8 billion revenue in 2018
 - Various incentives from the government
 - Artificial intelligence:
 - Emerging applications in many sectors such as education, healthcare, banking, etc.
 - Implementation of Industrial revolution 4.0
 - E-commerce
 - Total > \$1 billion in funding from 2016-2019
 - Will rank 3rd in ASEAN's e-commerce market in 2025



Renewable energy

- **Second highest installed capacity of power system in ASEAN** with 54,880MW in 2019.
- **A prioritized industry** with target share of renewable energy over total electricity production from 6.5%, 6.9% and 10.7% in 2020, 2025 and 2030 respectively.
- To meet this target, the renewable industry requires **\$10.8 billion annual investment** from now to 2030.
- It receives many **incentives from the government**, including: preferable tax scheme, second feed-in-tariff (FiT), and approval for 100% foreign ownership in energy companies.



Benefits of a Value Creation Plan

A Value Creation Plan (VCP) defines a roadmap of achievements and how a company improves or transforms in a systematic, sustainable way in order to elevate its own value and ultimately ROI for the Investors

A clear path to exit expectations

A VCP with clear milestones assists PE funds in keeping track of when Investee's expansion plans should be accomplished, when their operation should come into stable operation and when the exit preparation process should get started.

Investees in return know how the PE fund could help in adding value to the business, avoiding vague ideas and fears of takeover. It indeed fuels the process of business development that best suits the potential buyers in the next round.

Early trust-based relationship

A well defined VCP is the foundation for an early trust-based relationship between parties as it establishes mutual understanding, enthusiasm to work towards the same goals, avoids unnecessary micromanagement and smooths the problem solving process.

Due Diligence effectiveness

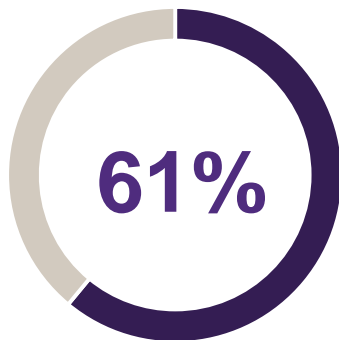
Building a VCP early in the process promotes efficiency and better communication between participants during the DD process. It helps the funds to address the right issues, and unlock the most potential levers of the portfolio companies in a more comprehensive way, while comforting PE-backed companies when engaging in this phase, which is inherently strenuous and complex.

Resource efficiency

A VCP allows a PE fund and the portfolio company to start the value creation process from Day 1. Such a strategy acts as a beacon shedding light on the top-prioritized value drivers, thus helping both parties to focus limited resources on the right levers.

Building a Value Creation Plan

Focus on long-term value drivers



61% of Investors consider long-term value drivers as the most essential ingredient for a strategic blueprint

Top 3 long-term drivers voted by fund managers

Driver	Activities
Top-line growth	Target market share, change product/service mix, improve product quality, pricing strategy, marketing strategy, pursue add-on acquisitions
Operational improvement	Buy/sell existing assets, divest/spin off part of the business, reduce cost, improve IT, improve supply chain, improve organizational structure
Governance engineering	Change management team, improve incentive system via ESOP/bonus

In addition to those long-term drivers voted by Investors, our studies show that ESG and Technology have been emerging as new tools to help Investors create more sustainable value.

Environmental, Social & Governance (ESG)

While “nearly 80% of global investors say they focus more on sustainability now than they did five years before” (Bain & Company 2019), Vietnamese private markets are only at the early stage to incorporate ESG into investment and portfolio management.

By taking the initiative and monitoring ESG practices, PE funds escalate long-term cost-saving potential and create sustainable competitive advantages for portfolio companies in today’s market.

Technology

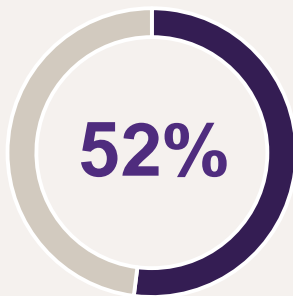
Technological edge gives a company deeper insight into their data, more real-time management, and a limitless opportunity for long-term innovation.

“Digital Transformation does not mean massive investment in consulting or IT. By starting small and learning as they move forward, private companies can leverage inexpensive digital assets to access digital supply chains and digital markets, develop agile business models and workforce.” *Claude Spiese – Senior Advisor, Digitech Innovation – Grant Thornton Vietnam*

Building a Value Creation Plan

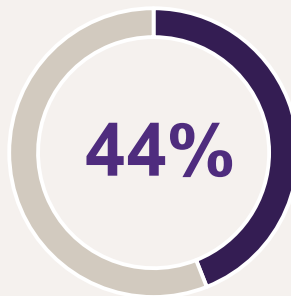
Mutual Contribution, Clear Responsibility, and Early Preparation

Most critical factors in building a viable Value Creation Plan



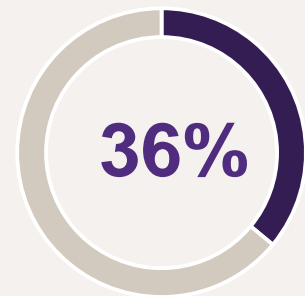
Mutual contribution

Mutual contribution unifies the strengths of both sides together. Investees can utilize the bird's-eye view of the Investor on their operation and governance improvement, whilst Investors gain deeper industry knowledge and daily operation techniques contributed by the Investee.



Clear responsibility

Clear responsibility allocation, visibility and measurability translate the VCP into small actions and trackable performance metrics. Studies show that without a VCP many Investors only take action 3 or 4 quarters after the portfolio companies have started deviating from goals and expectations. These qualities allow Investors to take immediate action to direct the companies back on track.

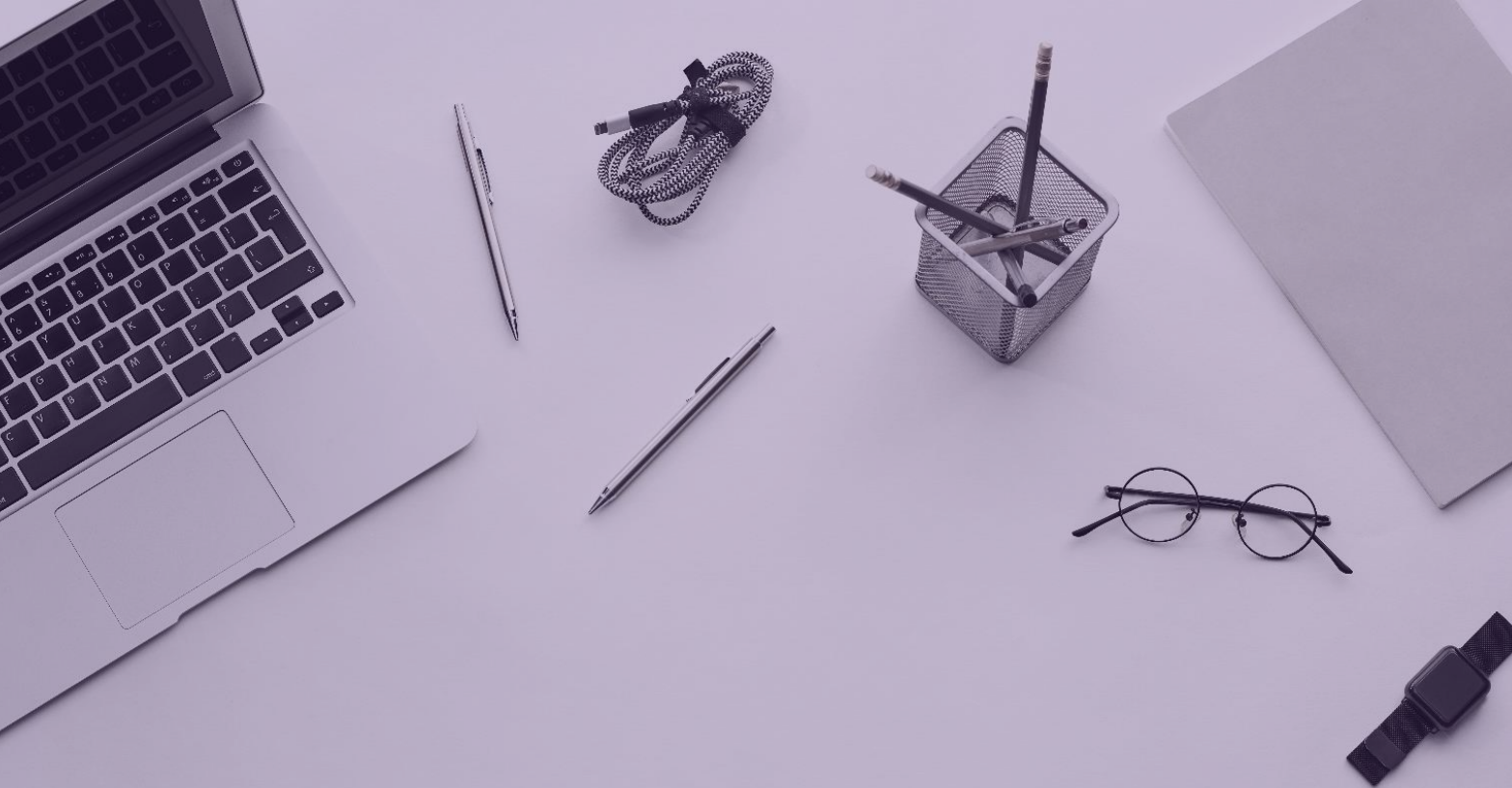


Early preparation

It came as a surprise that Investors do not have high emphasis on building a VCP early on during the investment lifecycle. Early VCP preparation, even as early as before the DD phase, is the forerunner for the benefits of a trust-based relationship, DD effectiveness and resource efficiency.

An investment story in Vietnam...

Unsettled quarrels between Coteccons – a well-known construction company and its strategic investor since 2012 – Kusto Group have taught valuable lessons applicable for participants in Vietnamese market. As reported in the press, Kusto suspected that Coteccons had been shifting their businesses to Ricons – a related party who is also a direct competitor. Coteccons had their core management personnel sitting at the board of Ricons, and Ricons' earnings increased by more than 4 fold within only 3 years. On the other hand, Coteccons stated that the purpose of Kusto's claim was to bring down value of Coteccons and then that would benefit Kusto's take-over plan. This bumpy investment route between Kusto and Coteccons came from lack of: a trust-based relationship, strong corporate governance – an essential long-term value driver, and immediate action of the investor when recognizing the investee's value deviation.



Before moving on...

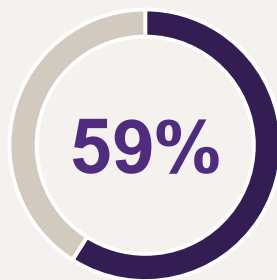
A Value Creation Plan should be formed from a clear divestment expectation. Such backward movement assists in identifying key value drivers in the long term, helping the participants to maximize investment returns and generate surplus value after the exit point, which makes the company attractive for the next comers.

As the Vietnamese PE market is becoming more attractive and competitive with a promising outlook, the attributes to form an optimal plan deserve more attention. Players soon will realize they all need to upgrade their game, firstly by a well established VCP based on strategic value drivers, collaboration, best timing decisions, and by fluently executing the plan.

Executing a Value Creation Plan

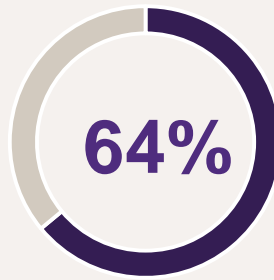
Factors for a successful execution

Most essential factors in executing a Value Creation Plan successfully



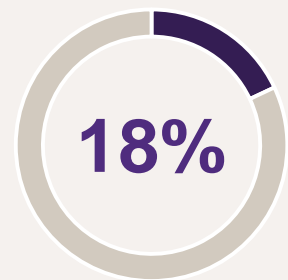
Management team

Investee's management team is the foremost priority of the Investor. Entrepreneurship requires deep knowledge about the industry, awareness to predict and seize a coming opportunity, and courage to take risks. However, delivering a plan requires the whole organization to be inspired by their leaders to join hands in the value creation process. This is where exceptional leadership comes into play.



Trust

By building a plan early on and taking into account knowledge contribution from both sides, Investor and Investee set the tone for a goal oriented, transparent and minimal ego-conflict relationship. As a result, Investees enjoy the freedom in operating their daily business activities and taking initiatives when they see fit; while Investors can come into quick agreement with Investees during times of turbulence.



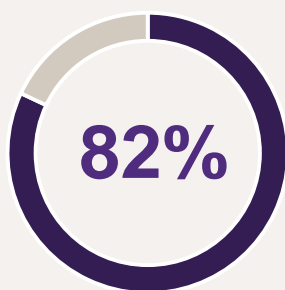
Investor's active support

With only 18% voting, surveyed Investors downplay their roles in the value creation process. However, Investors often are not aware that portfolio companies need their active support even when they are not broadcasting it. Investors nowadays step up from being traditional financial investors and are more hands-on when executing the VCP together with the Investees.

Executing a Value Creation Plan

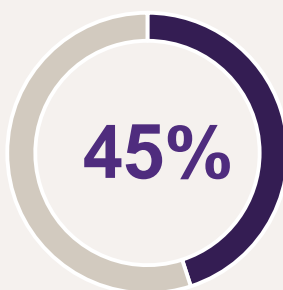
Impacts of Covid-19 on the execution

Factors that carry largest impact of Covid-19 on VCP execution for portfolio companies



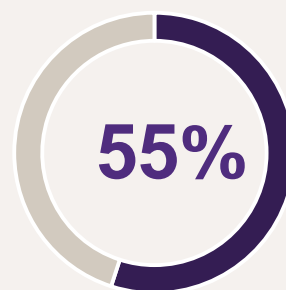
New growth opportunity

Surprisingly, 82% of our surveyed Investors found good growth paths during the Covid-19 crisis. Companies with strong resources and agile management teams can navigate uncertainty and gain market share from those who have been shaken during the turbulence and slow to react.



Digital transformation

45% of respondents agreed that Covid-19 created a favorable opportunity to accelerate digital applications, not only in the form of providing products and services (like selling online), but also in their daily operational activities (like collaborating via video calls).



Restructure current plan

55% of surveyed investors indicated that they had to restructure their current plan by: narrowing down the strategy to the most critical value lever due to limited resources, taking the opportunity to retain only the best talent, and reassessing the worst case scenario as Covid-19 dragged on and became a far more serious situation than first expected.



The Coffee House's Chatbot (Vietnam)

Social distancing regulations required The Coffee House to temporarily shut down 120 of its total 160 stores and shift most of its activities to online delivery services. In collaboration with Haravan, TCH launched a Chatbot allowing customers to order drinks online and take delivery in 30 minutes. The Chatbot can serve over 70,000 customers per day and is expected to boost the chain annual sales by 50%.



Yola's Smart Learning (Vietnam)

E-learning is one of the sectors that greatly benefited from growth opportunities created by COVID-19. YOLA – an education start-up backed by PE fund Kaizen – has successfully converted its current students to a new online platform. Without the enforcement of social distancing, the transition could not have been as smooth.

APAC Region's total exit value dropped by 59% to only USD16 billion.

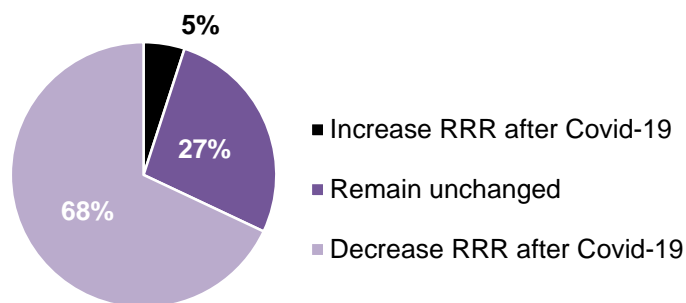
due to travel restrictions interrupting the due diligence process, decrease in earnings and valuation multiples, and business and humanitarian issues.

Meanwhile, Vietnam's private equity exit horizon expects only marginal impact.

73% of surveyed Investors expected that planned exits would be extended for a maximum of only 1 year.

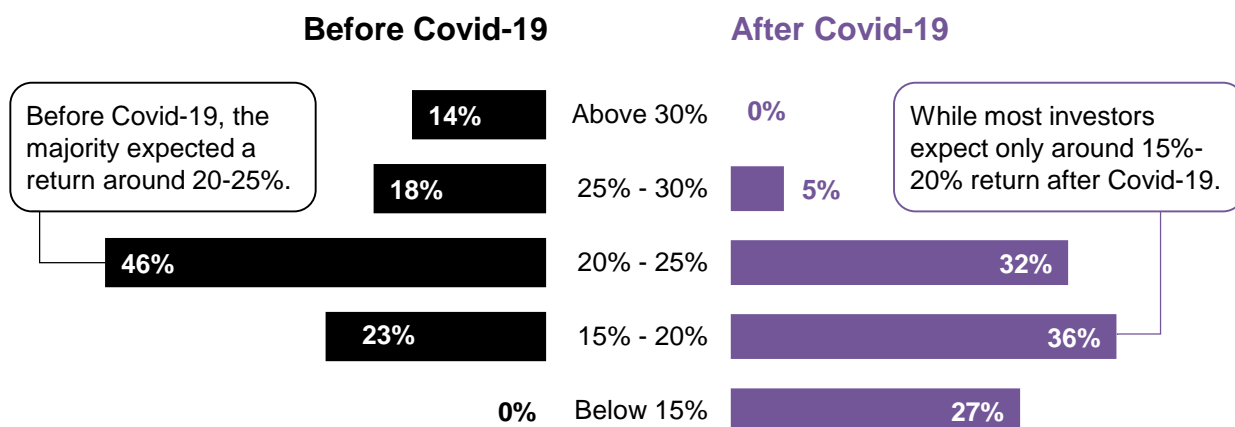


However, the Required Rate of Return (RRR) is significantly adjusted among investors after Covid-19 pandemic.



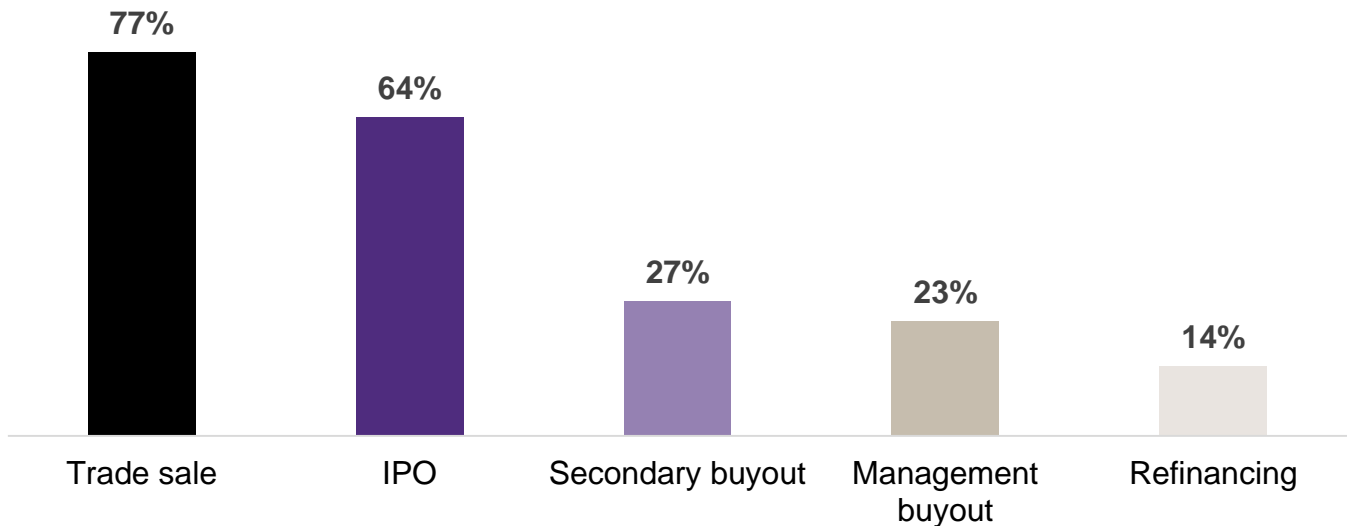
Exit

Expectation



Exit Strategies

Most preferred exit strategies in the next 12 months voted by our respondents



Trade Sales is the most preferred exit strategy as it is the simplest and fastest strategy.

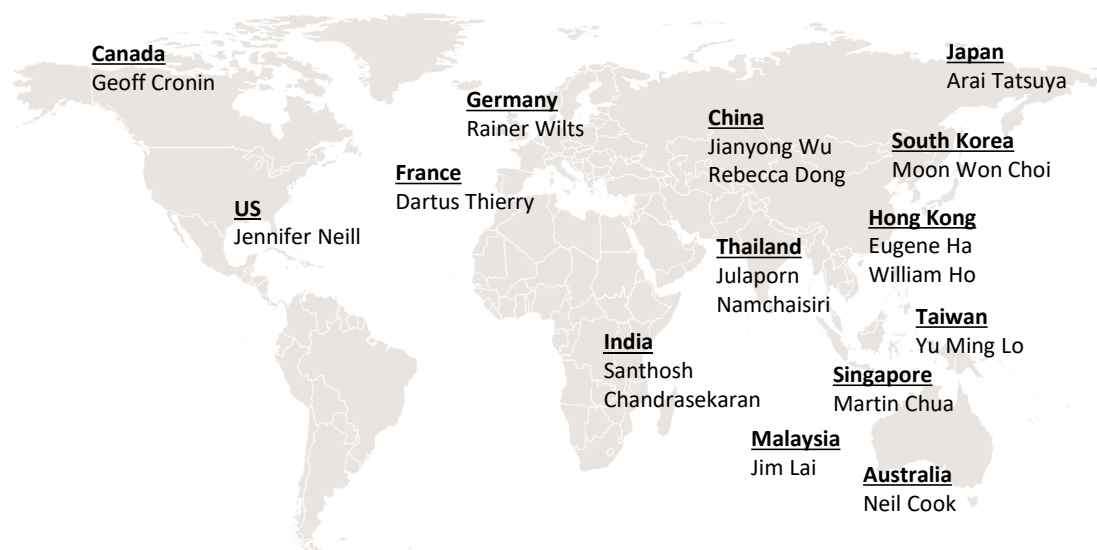
Compared to our survey last year, **IPO** has surpassed **secondary buyout** to become the second most preferred exit strategy, this is seen to be due to:

- The Vietnamese stock market will potentially be upgraded from 'frontier' to 'emerging' by MSCI ranking.
- Secondary transaction to other foreign funds are hindered by Covid-19 hurdles, while IPOs in Vietnam are not.
- Even though the VNI fell by 30% in 1Q2020 to 662, it managed to bounce back to 1,104 by the end of 2020.

About Grant Thornton

With 28 years of experience in Vietnam's Private Equity market, Grant Thornton Vietnam has developed a deep understanding of the industries and their key drivers.

Global Advisory Team with unparalleled experience



Vietnam



Kenneth Atkinson
Senior Advisor



Nguyen Thi Vinh Ha
Partner, Advisory Services

How Grant Thornton helps clients through the full Transaction Life Cycle

Innovative Solutions

Our Transaction Services practice helps sophisticated organizations navigate complex transactions – whether buying or selling, restructuring, or providing capital solutions – always with competence, speed and agility. From deal strategy and valuation, to evaluating the financial and operational issues affecting performance and identifying strategic alternatives, we address concerns, manage risk and seize opportunities to unlock your potential growth.

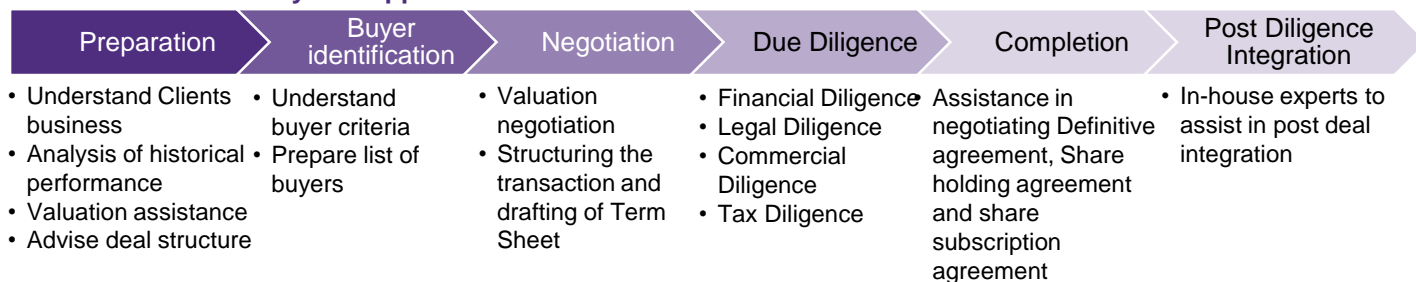
M&A Advisory

- Deal Advisory – Buy & Sell Side
- Valuation and Due Diligence
- Implementation & Closing Support

Fund Raising

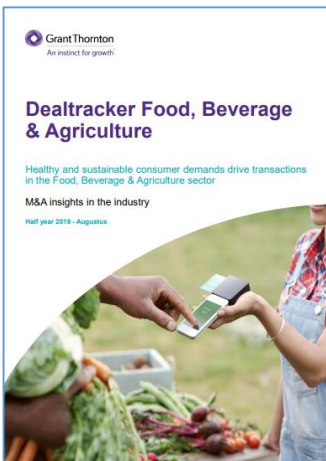
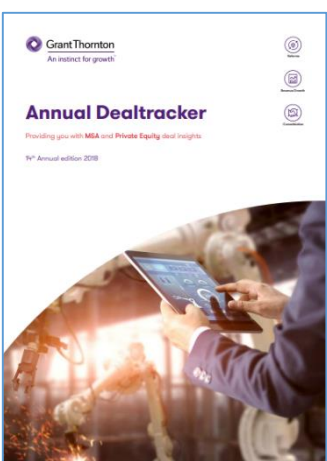
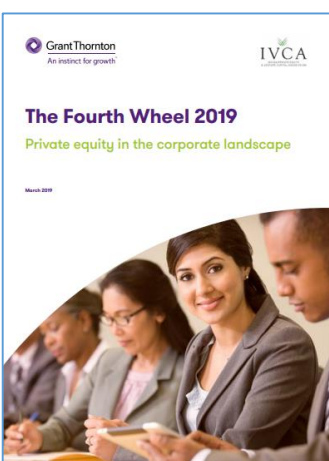
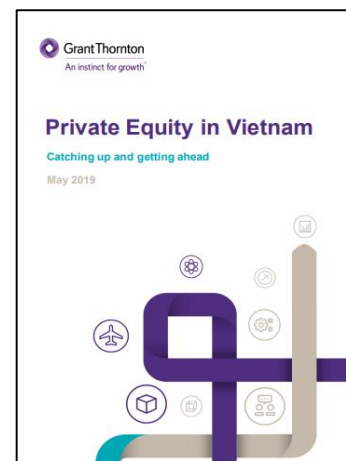
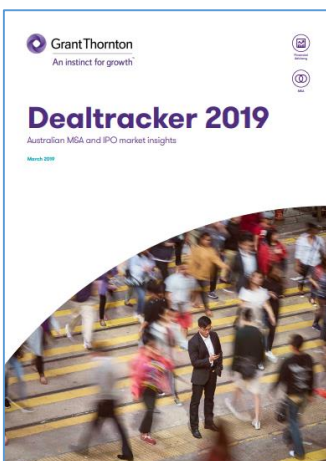
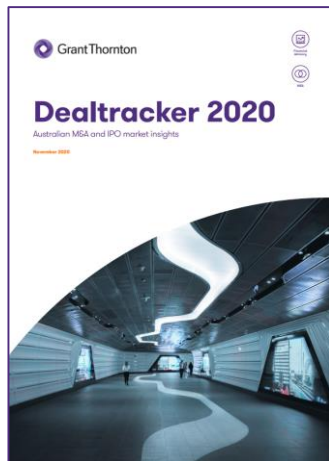
- Private Equity
- Debt & Convertibles

End to End Deal Lifecycle Support



About Grant Thornton

Thought Leadership





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