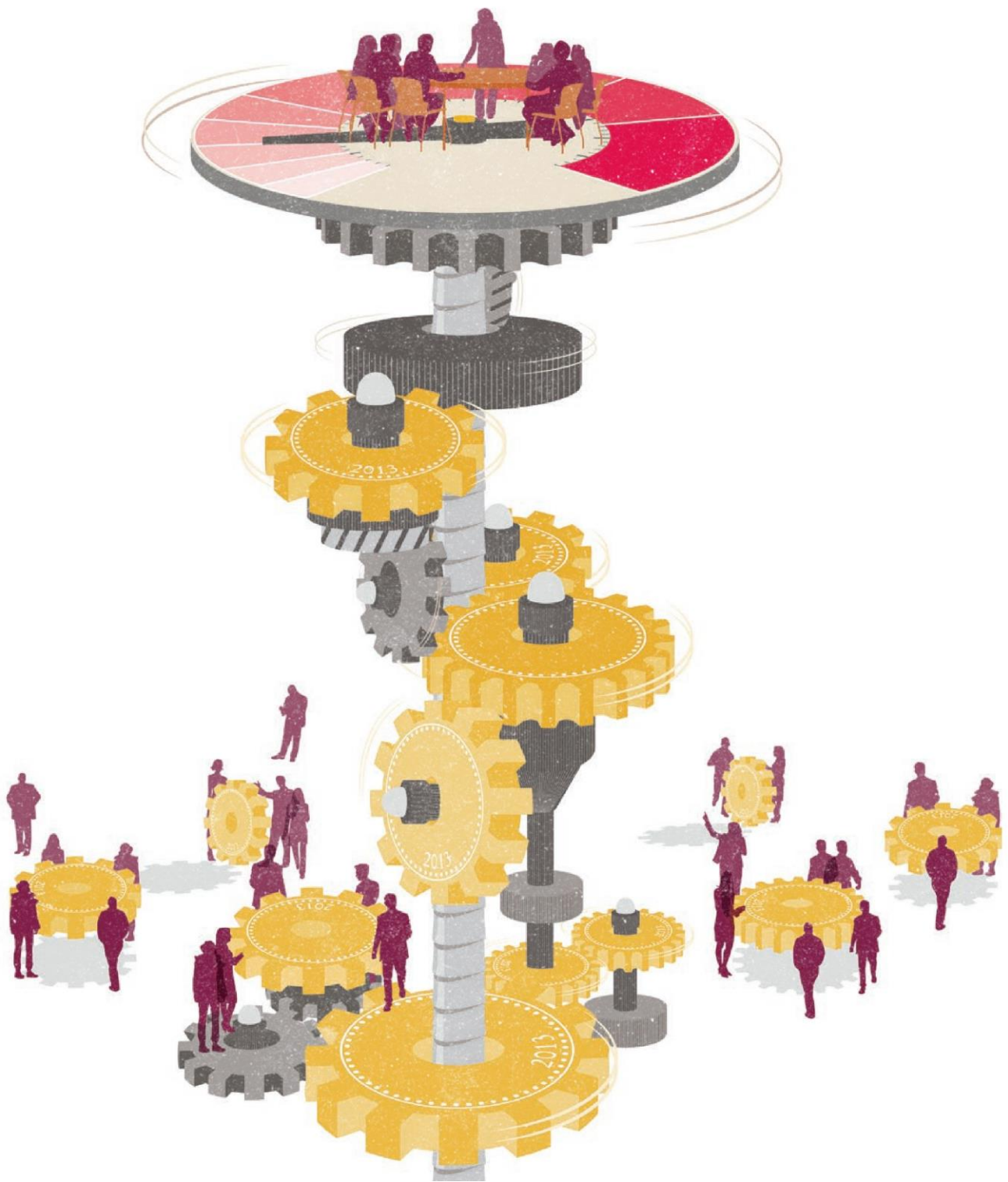
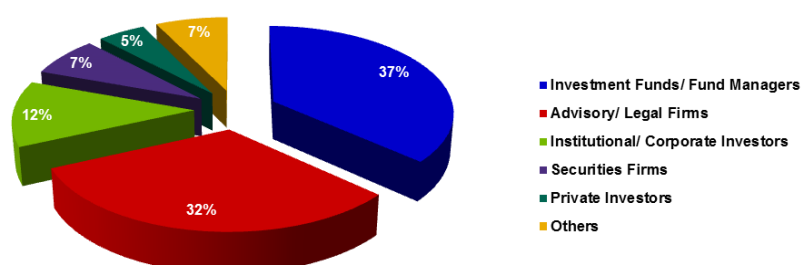


Investment Sentiment and Outlook



Contents

This report is the 11th bi-annual report that Grant Thornton Vietnam has released looking at investment sentiment and outlook for the Private Equity sector in Vietnam. The results in this report are based upon survey responses provided by decision makers working in the Private Equity space. Respondents are located both in and outside Vietnam and are involved in Vietnam's Private Equity sector. In this study we have again sought to understand the current sentiments of investors in Vietnam towards the economy generally, their industry preferences and the impediments to investment. This survey was undertaken in May 2014.



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Foreword



Kenneth Atkinson
Executive Chairman
Grant Thornton Vietnam

Private Equity investment in Vietnam remains a significant driver behind Vietnam’s economic growth. The sentiment expressed by those operating in the Private Equity sector has an important impact on the economy as a whole, which this survey seeks to measure.

In our 11th survey on Private Equity sector carried out in the second quarter of 2014, the respondents have shown positive views toward Vietnam’s economy. In terms of investment attractiveness, Vietnam is still selected as an attractive destination by the majority of the respondents (54%). 51% of them also said they would increase the allocation of investment funds to Vietnam in the next 12 months.

In this survey, even though quite equal attractiveness exists among every sector, some sectors are really standing out such as Retail, Food and Beverage and Real Estate/Property and Hospitality/ Leisure. In which, the Retail industry has made an impressive rise, surpassing the Food and Beverage industry, to become the most attractive sector for investment in Vietnam with 52% of respondents selecting this sector.

Regarding to the question “how to win a deal in Vietnam”, “Corporate Network” and “Sector Expertise” are considered as critical factors, replaced “Local Presence” as in the last survey. In reverse, “Difference in valuation expectation” continues to be the most popular deal breaker factor.

With an optimistic view of Vietnam’s economy, we see many investors currently pay more attention to Private Equity sectors. They are ready to put additional resources in the market, and expect to have a better return in the long run.



Key highlights of the Survey

48%	of respondents have a positive outlook for Vietnam's economy over the next 12 months	↑4.5%
Corporate Divestment and Private Owners (29% each)	could be the major source of deals	Previous survey: Private Owners (34%)
Retail Industry (52%)	is the most attractive sector for Private Equity investment in Vietnam	Previous survey: 22%
Corruption (86%)	continues to be	the most significant obstacle
Corporate/ Entrepreneur network (61%)	is the most critical factor	to win deals (replaced Local Presence as in the previous survey)
5X to 10X EBITDA (54%)	is average exit multiple	Previous survey: 53%
Strategic Input, Governance and Financial Planning	are the top 3 areas of hands-on involvement	that PE investors mostly contribute to their portfolio companies

Economic outlook over the next 12 months

In this survey, respondents' positive sentiment towards the economy achieved the highest response in the last two years at 48%, while the negative outlook slightly decreased to 10%. It is an indication that PE investors are still confident of the future of Vietnamese economy.

Latest GDP figures show that the Vietnamese economy grew by 5.18% y-o-y in H1 2014 and is expected to be 5.8% for the calendar year. Combined with low inflation (less than 6%) and lower interest rates, 2014 could be a promising year for Private Equity investment.

In May 2014, China moved an oil rig into the East Sea close to the coast of Vietnam. This resulted in significant political tension between the two countries. Investors raised concerns that the investment environment could worsen if the territorial dispute was not settled peacefully.

However, after an initial dip, markets returned to normal as investors believed that the economy remained healthy and strong enough to withstand this political issue. However there has been a sustained impact on travel and tourism although, at the time of writing, most markets are returning to normal with the exception of China and Hong Kong.

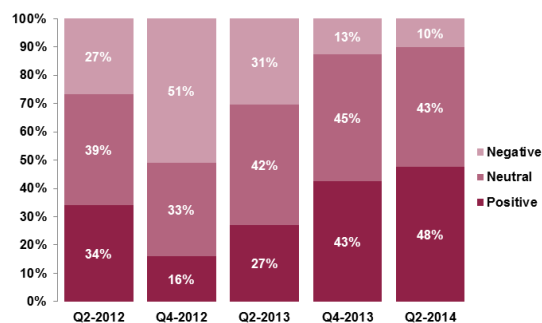
Nevertheless, the economy is still facing many challenges including slow reforms in the state-owned sector, non-performing loans and slow bank lending. As a result of these issues, 43% of respondents have a neutral outlook towards Vietnam's economy.



Kenneth Atkinson
Executive Chairman
Grant Thornton Vietnam

“Vietnam economy is still facing many challenges, however, there has been an improvement in macroeconomic stability and some positive signals that Vietnam economy has begun to recover. Foreign capital is expected to continue to flow into the country through M&A activities in the coming years.”

General outlook for the Vietnamese economy over the next 12 months



Investment activities

Investment attractiveness

In this survey, 51% of our respondents picked “More attractive” when asked about Vietnam’s investment attractiveness, a significant increase from 36% as in the last survey.

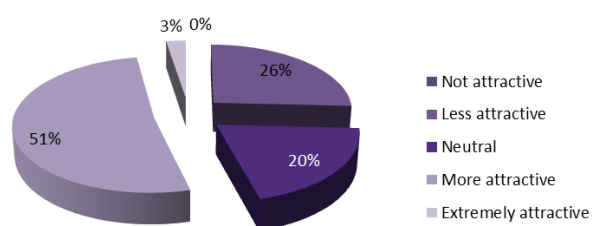
Other 20% of respondents ranked Vietnam as a neutral attractive destination compared with other countries in the region, showing a decrease by 20% from our last survey.

Among other countries, Myanmar seems to be the most attractive destination for investment, according to 32% of respondents choosing this. In the last 2 surveys, Myanmar consistently stays on the top of the list. It is due to major changes in stimulative national policies for foreign investment, politics stabilization, and rapid development of infrastructure in this country.

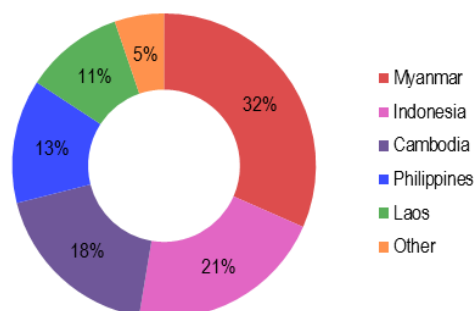
Indonesia was selected by 21% of the respondents as alternative investment destination, showing a decrease of 11% from the Q4 2013 survey.

According to the ASEAN Business Outlook Survey performed by the American Chamber of Commerce in Singapore and the U.S. Chamber of Commerce, the most attractive countries for new business expansion are Indonesia, followed by Vietnam, Thailand. Myanmar made the fourth place with just 1% behind Thailand (39%). The main reasons are cited as the potential for business growth, increasing market share, and diversification of customer base.

Vietnam’s ranking in terms of investment attractiveness, compared to other destinations



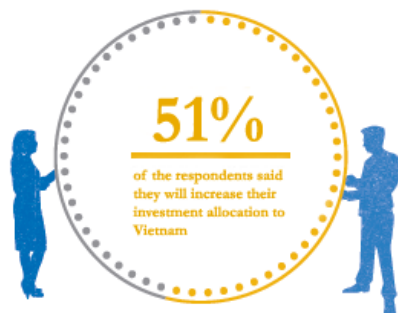
Other markets for investment



Investment allocation

The majority of participants chose to increase their allocation of investment funds to Vietnam.

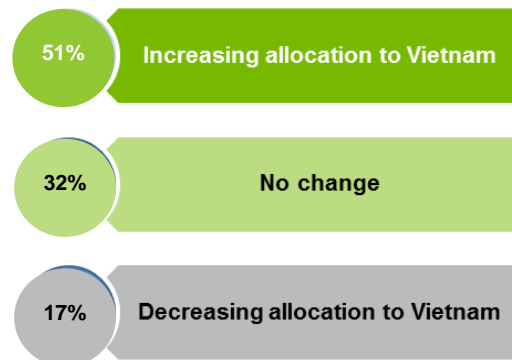
51% of the respondents said they will increase their investment allocation to Vietnam, while 32% indicated their intention to retain their current allocation to Vietnam and 17% of respondents said they will reduce their portfolio. These results show no significant change from our last survey and are in line with PE sentiment towards Vietnam.



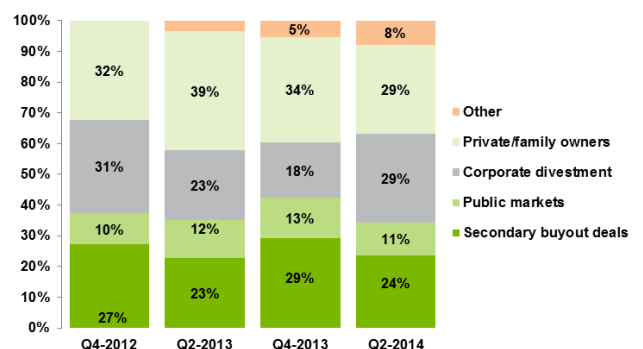
There was also a slight change in the source of deals compared to our last survey. Private/family owners together with Corporate divestment are the major sources of deals with 29% respondents for each category. The percentage, of respondents, who selected Secondary buyout deals increased by 6% - making it the third largest source of deals in Vietnam at 24%.

When asked if distressed assets are a driver of investment or not, responses were spread evenly among “Yes”, “No” and “Unsure”. In the prior survey, 49% of participants did not consider adding distressed assets to their portfolio.

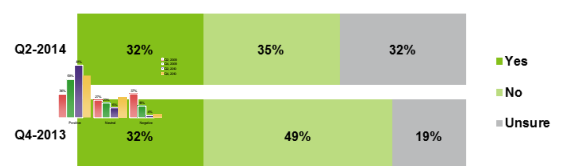
Allocation of investment funds to Vietnam



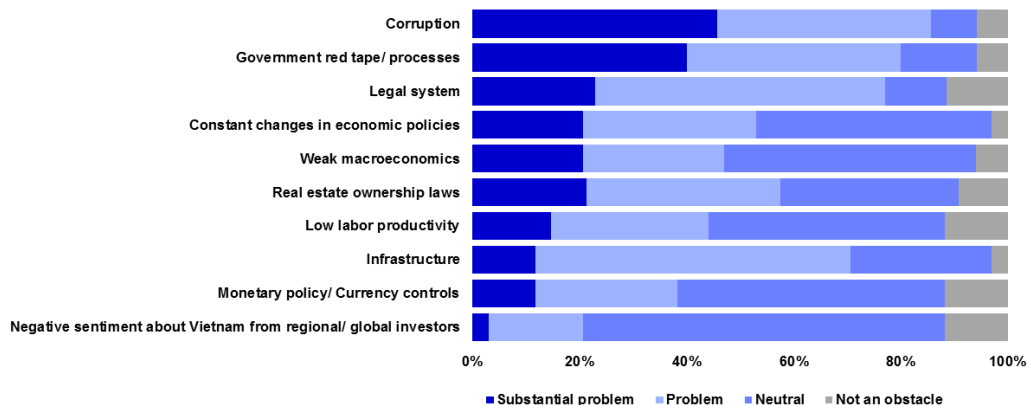
Sources of deals



Are distressed assets a driver of investment transactions in Vietnam?



Investment obstacles in Vietnam



Corruption is continuously considered as the most critical obstacle amongst PE investors in Vietnam with 86% of the respondents. Following the Anti-corruption Law adopted in 2005, Vietnamese government has been trying to fight corruption, however these efforts have not brought about expected results, particularly due to a large implementation gap and lack of enforcement.

Following the major worry above, is the concern about government red tape/ processes (selected by 80% of the respondents) and the legal system in Vietnam (this was noted by 77% of respondents).

The three problems above have always been in the top four issues across recent surveys as major concerns for investors. Although the Government is aware of these issues already and have put efforts in reforming legislation and procedures, they still remain as difficulties.

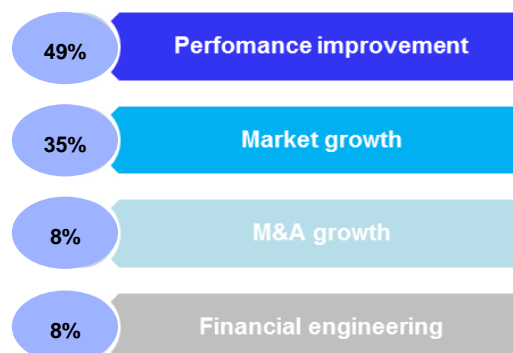
Results from this survey show a decrease in the number of respondent who considers that Weak macroeconomics and Negative sentiment about Vietnam from regional/global investors as investment obstacles by 14% and 32% respectively.

Important drivers of value growth:

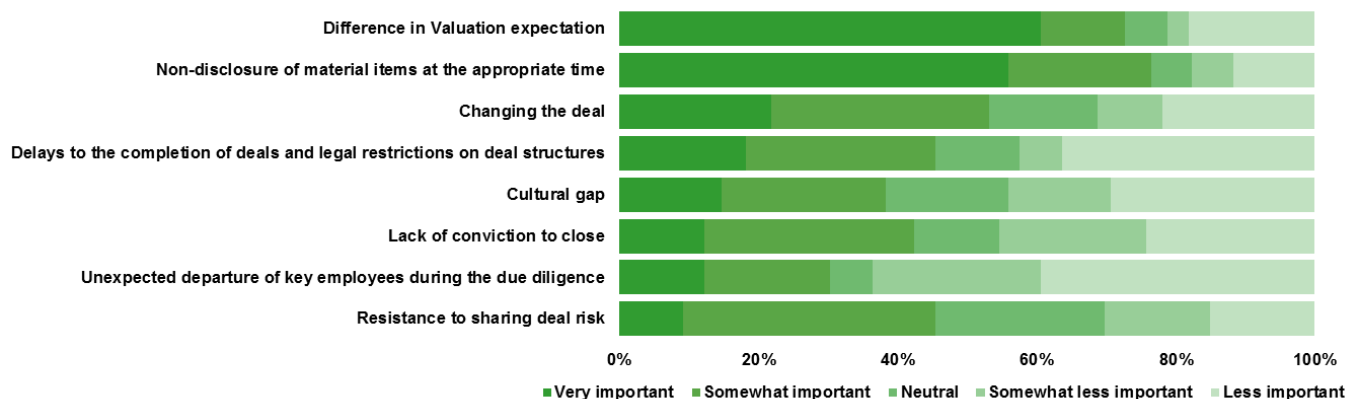
Performance improvement and Market growth have been the most important drivers of value growth in the last three surveys which, emphasises their significant importance to investors.

Whilst the role of Market growth decreased from 41% to 35% of the respondent, Performance improvement is slightly upgraded from 38% our the last survey to 49%.

Important drivers of value growth



Factors causing deal failure and success



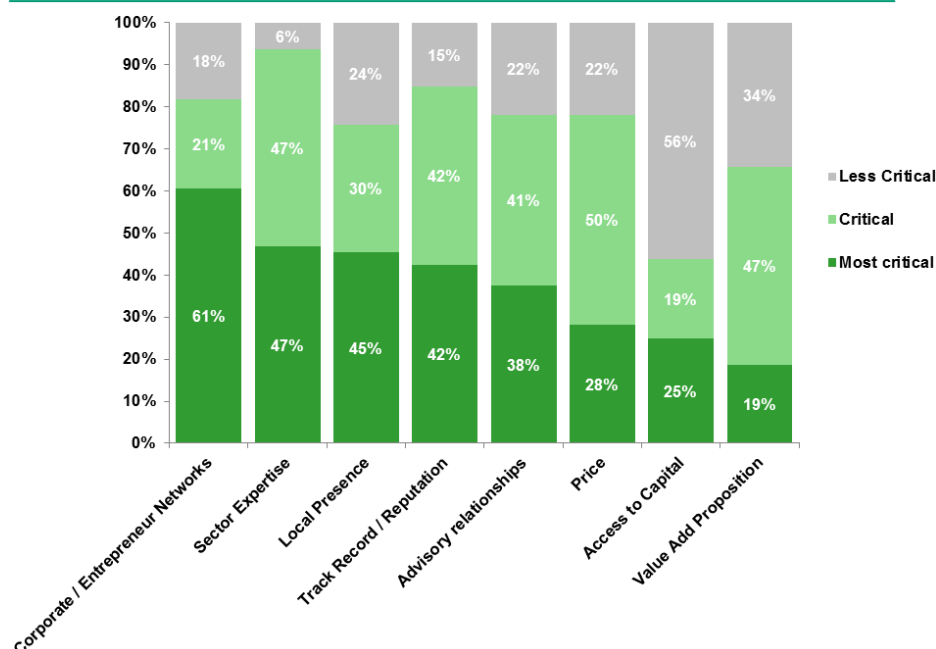
Difference in Valuation expectation is again the most significant issue in getting a transaction completed. 61% of PE participants consider it as the number one deal killer. The figure is still critical, however, in the lesser extent compared with our last survey one at 89%.

Non-disclosure of material items at an appropriate time continues to be ranked as the second major factor causing deal failure, about 5% less than Difference in Valuation expectation. As a rule, serious investors always perform due diligence processes before making investments. Due to the tradition of not-very-transparent businesses manner, those processes often reveal critical issues, thus may require additional warranties from the investee. It surely causes delays in dealing progression.

In addition, particularly in the Vietnam market, it is difficult to find quality PE deals due to lack of available company and market data. Ranked as the 1st most critical issue, 'corporate/entrepreneur networks' was recognised by 61% of participants. Combining the responses of "Most critical" and "Critical", Sector expertise is the highest ranked factor in successful deals at 94% of the participants, followed by Track record/reputation with 84% and Corporate/entrepreneur networks with 82% of the participants.

It is becoming so clear that private companies expect to receive more support and input from the PE funds rather than financial injection only.

Important factors in deal closing



Industry attractiveness

Compared to last year where Food and Beverage sector was seen as the most attractive industry among respondents, this year's trend shows a division between the tandem of Food and Beverage and Retail, and the other sectors.

The Retail industry has been selected as the most attractive with 52% of respondents choosing this sector, a significant increase from 22% last year. This outcome is in accordance with expectations of many foreign analysts about potential growth of the Vietnamese retail market. It is believed among these experts that the industry is likely to grow by more than 20% per year for the next few years.

Despite lower domestic retail sales in the last several years due to the economic recession, retail sales in general are still expected to experience double digit growth as a consequence of rapid urbanization and a large youth population. Additionally, growth will further be enhanced as consumer living standards continue to rise and the economic recovery, which began in 2013, gains momentum.

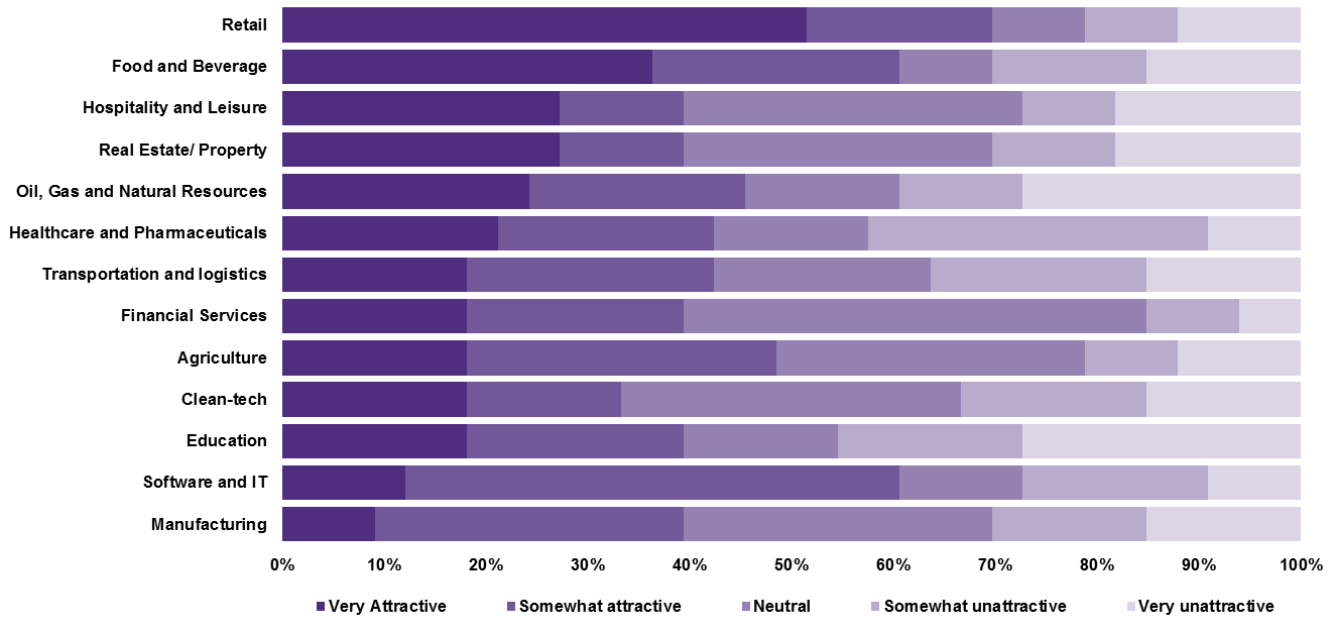
This past year also saw the country gain more control over inflation. As a result of these changes, a more competitive business environment is expected to emerge as international companies enter the marketplace. International companies have a tendency to spend more on marketing and public relations than local retailers in order to establish their brand and image among local customers. WTO obligation will come into effect in 2015. Under the WTO obligations, Vietnam will have to permit the establishment of wholly foreign-owned businesses, including retailers, and some

of the world's leading retailers have expressed great interest in the Vietnamese market.

Tied for third, the Real Estate/ Property and Hospitality and Leisure sectors were chosen by 27% of respondents. The real estate sector is believed to have bottomed and the number of transactions has picked up. Many foreign investors are increasingly positive about the long-term fundamentals of the real estate market due to Vietnam's youthful demographic and the belief that the economy is now on a firmer footing with 5.8% growth forecasted for 2014. Moreover, investors have shown great excitement of draft legislation currently under consideration by the Vietnamese government that would allow much wider foreign ownership, in Vietnam.

The proportion of respondents, who selected Education decreased by 10% , making it the sixth most attractive sector in Vietnam at 18%. While the industry itself appears to be attractive, new investments into education industry are facing difficulties from both the market competition and barriers from local regulations such as the limit for local students to attend international high schools to 10%. Some foreign invested education establishments have “quietly disappeared from the market” after failing to attract enough students and others have been sold to local Vietnamese buyers. These difficulties together with the significant initial investment requirement and the long payback period of more than 10 years have negatively affected the overall attractiveness of the Education sector.

Industry sectors in Vietnam: Most positive or negative for investment



Le Minh Thang
Advisory Services Partner
Grant Thornton Vietnam

“Although ranked second among respondents, Food and Beverage’s attractiveness increased slightly to 36% from 34% last year. This outcome again emphasises the lure to investors as there remains strong consumer demand among Vietnam’s 90 million citizens and the potential to export the products regionally. The influence of westernization and the rapid development of the supermarket locally has also contributed to high expectations for Food and Beverage growth.”



Hands-on involvement with portfolio companies

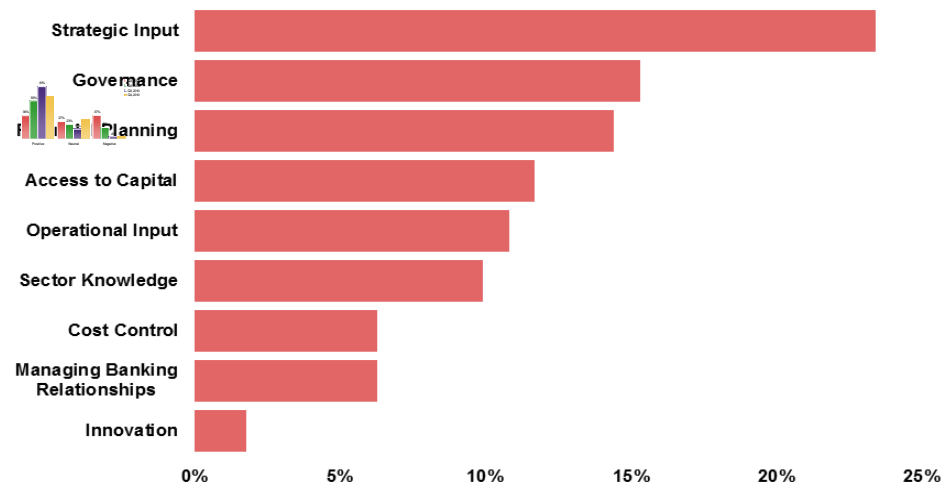
Financial planning, strategic input and governance continue to be the top three areas in which PE investors wish to involve in portfolio companies.

Strategic input comes as priority instead of financial planning in last survey. By contributing their industry expertise, management skills in constructing strategic planning, PE investors could add value to the portfolio companies. However, to make the strategic input really worthwhile for the business, PEs should involve more into the business of the portfolio companies to make the strategy fit to their operation and opportunity.

Governance is considered as spinal column of a company, it helps to contribute to sustainable development by enhancing the performance of companies and increasing their access to

outside capital. Therefore, by interfering with corporate governance, PE investors ensure that their funds are being invested only in well governed companies or in companies that are willing and able to improve their governance. By setting the financial targets for their portfolio companies to be well prepared for any shortfall in future through financial planning, PE investors could be confident that their companies are operating in an effective way. Financial planning has been selected as the third important area with 14% of respondents.

Particular areas of hands-on involvement with portfolio companies



Pham Quoc Hung
Advisory Services Partner
Grant Thornton Vietnam

“Strategic planning has become increasingly critical for privately held businesses in Vietnam because economic downturn has created a more competitive environment. PE investors are now getting more committed to improving the portfolio companies by providing strategic input to achieve the desired return.”

Access to finance

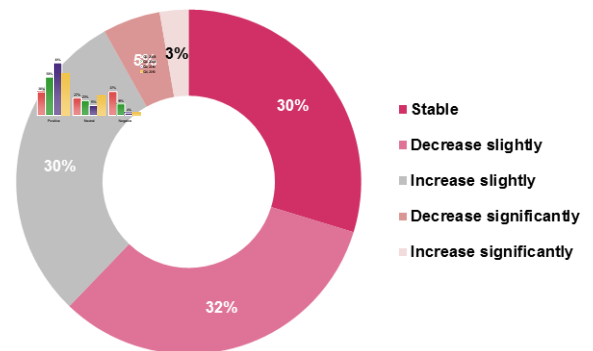
30% of respondents indicate that cost of debt over the coming year will stay stable and 62% thinks the cost of debt will decrease or increase slightly.

There is a slight increase to 32% from 27% of the respondents think the cost of debt will decrease slightly in the next 12 months. With the loosen policy of Government to support businesses and bolster the economy, Vietnam Dong deposit rate are now stated to be reduced to 6% per year from the current 7%, while refinancing rate will be cut to 6.5% from the current 7%. 30% of the respondents are anticipating the cost of debt will increase slightly in the near future.

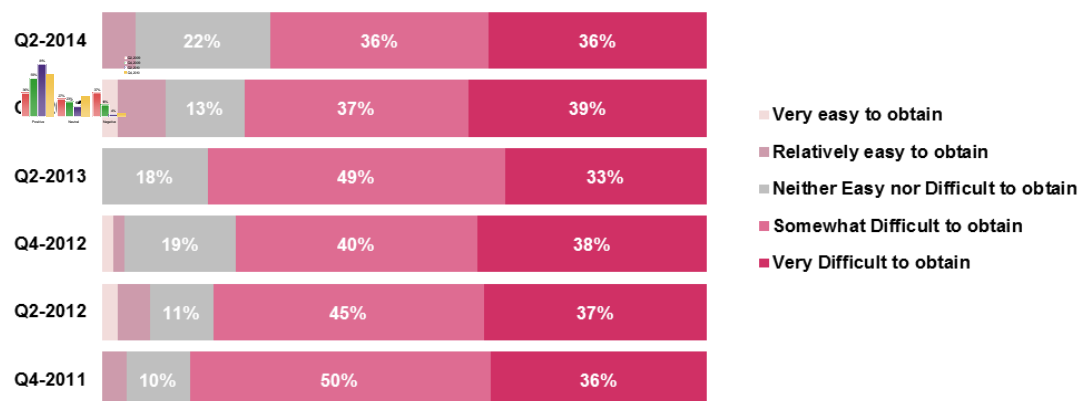
However, access to debt finance is still expected very difficult to obtain or somewhat difficult to obtain since voted by 72% of the respondents compared with 76% in our last survey.

There is a slight difference in that 6% of the respondents selected very easy to obtain debt finance while it was 11% in our last survey.

The cost of debt over the next 12 months



The availability of debt finance within Vietnam



Expectations of holding periods for investment

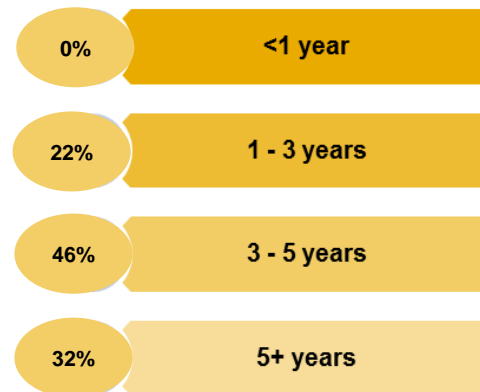
Most of PE participants (46%) indicate that they stay invested in Vietnamese companies for 3 to 5 years, showing a decrease of 21% compared to our last survey.

The respondents for long-term investment (over 5 years) have increased by 14% from 18% to 32% in this survey. These outcomes show a commitment of long term attachment of PE investors.

On average, it takes from 6 months to one year to complete a transaction in Vietnam. In case the deal takes more than a year to close, it requires significant patience from both vendor and investor.

Equally ranked as first position by investors, “No change” and “Shorter” are chosen by 41% of respondents, showing the shift from investors’ opinion that the transaction would take the same time and shorter period to complete.

The general expectation for the length of time investors plan to stay invested in Vietnamese companies



Whether transactions in next 12 months will take a longer or shorter time to complete compared with one year earlier



Exit multiples for investment in Vietnam

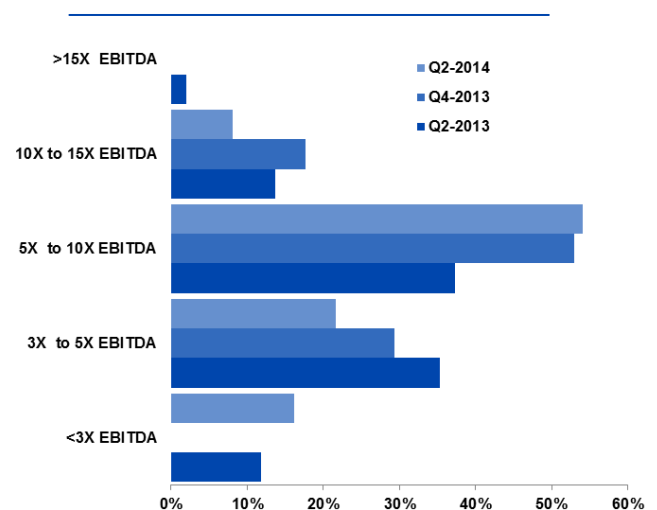
The expected exit multiples of 5X to 10X and 3X to 5X EBITDA dominate exit multiples for investments in Vietnam. Expectation on changes in the level of exit multiple for the next 12 months has been changed from the Q4, 2013 survey with 41% stating that it will increase while the majority of PE investors stating that it will stay the same in previous survey.

54% of respondents seeing the average exit multiple of their private equity investment in Vietnam at 5X to 10X EBITDA, same result to our last survey

Proportion of respondents who chose 3X to 5X EBITDA has decreased by 7% whereas those who chose from 10X to 15X EBITDA stay the same from our last survey.

41% of respondents indicate that Exit multiples over the next 12 months are expected to increase over the next 12 months, showing an increase of 14% from our last survey.

Exit Multiple for investments in Vietnam



Change in Exit Multiples over the next 12 months



Exit strategies and level of exit activity

This half years results show almost equal attractiveness among secondary and trade sales as exit strategies for PE investments. A significant departure from the previous survey where trade sales were the dominate choice among respondents.

Secondary sales appears for the first time in our survey to be the most attractive exit strategy among respondents at 38%, an increase of 26% from our last survey. The figure shows that Secondary sale strategy is becoming more common in Vietnam.

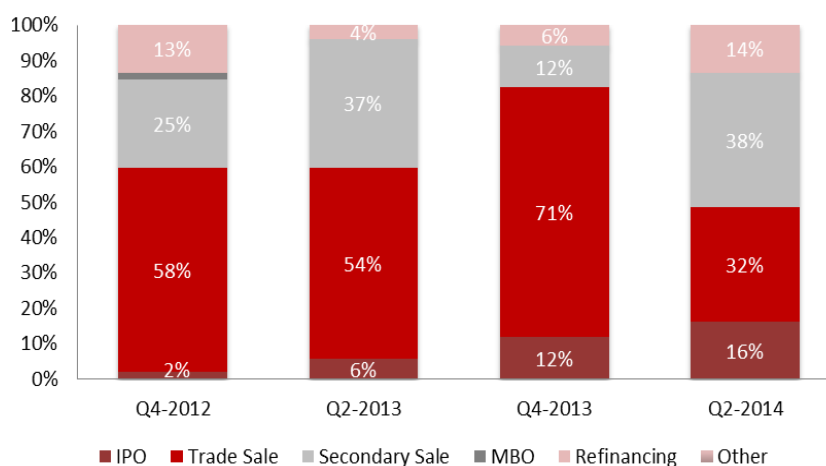
Respondents who chose trade sales decreased sharply from 71% to 32%. In addition, IPO has

been selected by 16% of respondents, an increase compared with 12% in the last survey.

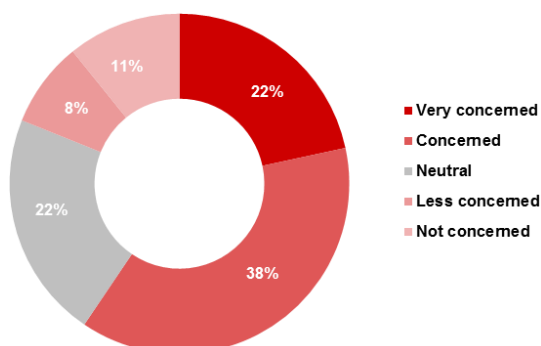
In relation to trapped cash/assets, most respondents (60%) consider it either a concern or very concerned. This shows an increase from 53% in last survey. However of this proportion, percentage of respondents stating very concerned has almost doubled, increasing by 10% from 12% last year.

49% of respondents think that level of exit activity across the market over the next 12 months will increase, the same sentiment that was expressed in our previous survey.

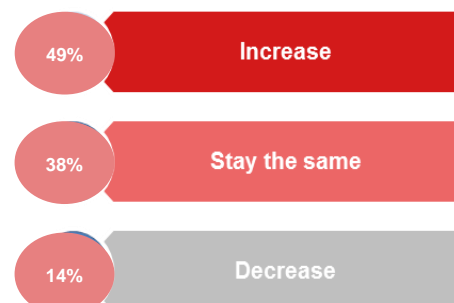
The most attractive or achievable exit strategy for Private Equity Investments



“Trapped cash/assets”



Level of exit



Key factors to be considered when investing in Vietnam

The four most important factors are **Transparency in business activities, Growth story/ forecast, Strategic fit and Target's management support.**

Transparency in business activities is considered the most important factor with 21% of our respondent choosing this, showing an increase of 2% compared to our last survey. This is especially important in Vietnam where public information and quality of information are very limited and company owners are not willing to share information with investors. Investors always complain it is time consuming, costly and difficult to obtain information supporting their investments.

Growth story/forecast with a decrease of 6% holds the second most important factor for PE investors. This result shows that growth story is still decisive factors to lure investor into Vietnam.

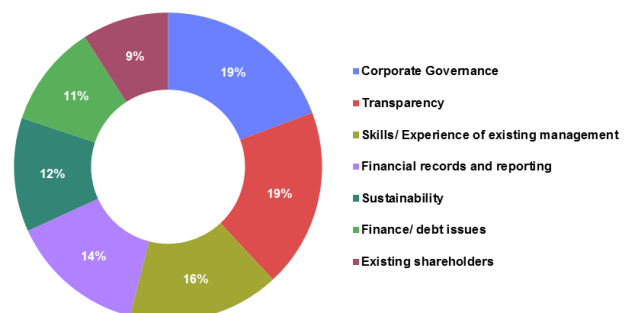
Target's management support and strategic fit together hold the third position with 12% of respondents choosing these.

Concern over Corporate Governance, Transparency and Skills/experience of existing management continue to be the three most significant problems when investing in Vietnam with 19%, 19% and 16% of respondents respectively.

The most important factors to consider when investing in Vietnam



Most concerning issues when investing in Vietnam



Nguyen Thi Vinh Ha
Advisory Services Partner
Grant Thornton Vietnam

“The lack of transparency in Vietnamese companies’ operation and financial reports negatively affects business negotiation and thus, are hindrance to the development of M&A activity in Vietnam. Vietnamese companies should improve trust and transparency to attract more foreign investors.”

About Grant Thornton

Grant Thornton Vietnam

Grant Thornton Vietnam is an independent member firm within Grant Thornton International and a wholly foreign-owned company. It was established in 1993 as the second international firm to operate in audit and business advisory services in Vietnam, and now has offices in Hanoi and Ho Chi Minh City. Our mission is “To be the leading service provider in the Greater Mekong region, providing distinctive client service and bold leadership through empowered people”.

Whether we are acting as independent auditors, advising on funding a business, looking into tax issues, or restructuring a business, meeting our Clients' objectives and their expectations, through practical solutions based on our practice values of integrity, reliability and personal attention, is our aim.

Audit and Assurance

In today's ever-changing business climate, effective management of resources and access to information are crucial. Our approach to assurance services is focused on enhancing the value of audit services to businesses and business owners, ensuring the integrity of financial information and helping to reduce compliance costs. Clients benefit from our proprietary audit software to deliver a cost-effective, risk-based, paperless audit.

We provide assurance services to:

- public companies
- foreign invested companies
- locally owned business
- non-governmental organisation and donor funded projects.

Tax Services

Our committed tax professionals can maximise your earnings by combining a comprehensive knowledge of tax regulations and the capacity to plan creatively to reduce your taxes.

We help corporate Clients structure their investments in Vietnam and assist those operating internationally to capitalise on the lowest effective tax rates across multiple

jurisdictions. For expatriate and local personnel, we can recommend tax-effective salary packages and advise on offshore solutions. We also help you deal with the tax authorities and provide regular tax updates, training and seminars.

Advisory Services

Our Advisory Services team can help you achieve your objectives by developing effective plans and strategies relevant to your business goals. Whether you seeking to acquire a business, looking to expand, making new investments, undertaking a financial restructuring in a turnaround phase or seeking to divest, our extensive range of services including Lead Advisory, Transaction Support, Business Valuation, Equitisation Consulting, Listing Preparation, Restructuring, Project Finance and Succession Planning will be of benefit to you.

With careful planning and co-ordination, we will not only help make sure your business thrives – we will strive to ensure the chosen strategy is “right” for your business and that you get the best value.

Grant Thornton offers a broad range of Business Risk Services that stand out because we focus on turning compliance obligations, risk concerns and performance questions into opportunities for business improvement.

We work with you to understand your business and the risks to which you are exposed. We detect inefficiencies in existing processes, control systems and technological capabilities and then create sound strategies to mitigate your risk and improve the efficiency of your operations.

The specific findings, recommendations and deliverables are unique for each and every Client; our team can provide you with an objective, unbiased and comprehensive view of your situation, and help you address any issues identified.

Contact

Further Information

If you require further information or assistance with any aspect of commencing, acquiring or doing business in Vietnam, please contact us.

We are always available for an introductory meeting to see how Grant Thornton can assist you, or to simply provide an insight in doing business in Vietnam.

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Downloads

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