

Maintaining growth:

*the challenge of managing investments
in a young market*

December, 2014



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Foreword

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 this 12th survey on the Private Equity sector carried out in the fourth quarter of 2014, respondents have shown significant increase in their positive views towards Vietnam's economy. There have been encouraging improvements compared to the prior survey results, both in terms of investment attractiveness rating, and the intention to maintain or even increase investment fund allocation to Vietnam, in the next 12 months, with responses by 64% and 87% of respondents respectively.

Education, Real Estate/Property, Food & Beverage, and Retail are, again, the leading sectors which were seen as especially attractive for investment.

Regarding the question of "how to win a deal in Vietnam", "Reputation" and "Corporate Network" were considered the most critical factors. These choices reflect a minor change in outlook by investors, compared to earlier this year, where respondents selected "Sector Expertise" as the second most important factor. "Difference in valuation expectation" continued to be the most significant factor contributing to deal failure.

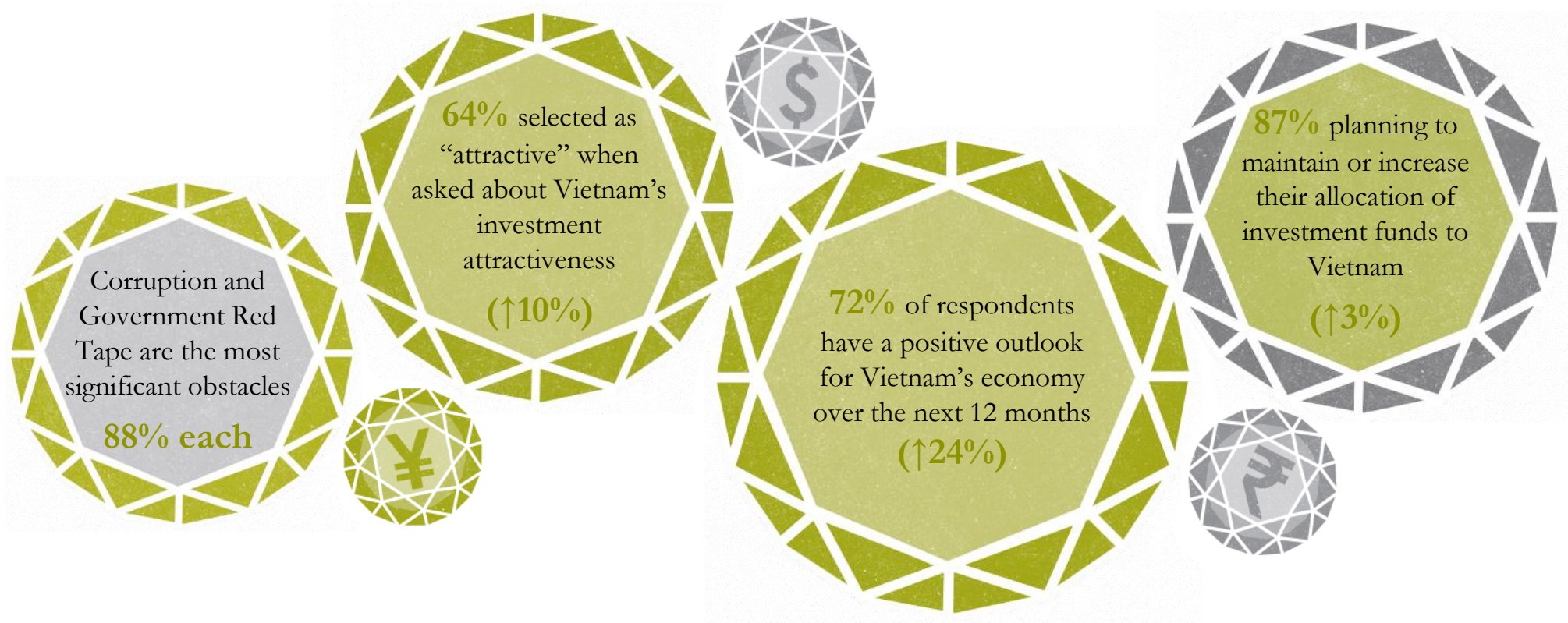
With an optimistic view of Vietnam's economy, we see many investors currently paying more attention to Private Equity sectors. They are ready to put additional resources in the market with an expectation of better long-term returns.

This is the bi-annual survey that Grant Thornton Vietnam conducted with respondents being the decision makers working in the Private Equity space located both in and outside Vietnam. In this study we have again sought to understand the current sentiment of investors in Vietnam towards the economy generally, their industry preferences and the impediments to investment. Our survey also made reference to the fourth annual Grant Thornton Global Private Equity Report 2014/15 which we interviewed private equity firms from across the globe.



1

Investment environment



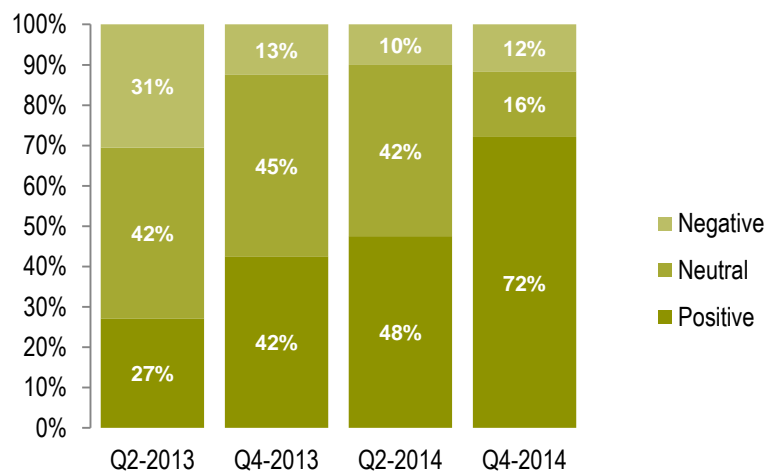
Economic outlook over the next 12 months

Increase positive outlook

In the survey, respondents' positive sentiment towards the economy achieved its highest response rate in the last two years, reaching 72%. This rating is supported by the bullish VN-Index and the upgrade of Vietnam's sovereign credit rating.

Latest GDP figures show that the Vietnamese economy grew by 5.6% y-o-y in Q3 2014, and is expected to be at 5.9% for the calendar year (higher than 2013 GDP growth rate of 5.4%, and the 2014 forecast of 5.5%). With this achievement, the Government is targeting a GDP growth rate at 6.2% in 2015. Combined with the low inflation rate of approx. 3% (target 5% for 2015) and lower ranges of interest rates at approximately 8% - 10%, 2015 could be a promising year for Private Equity investment.

GENERAL OUTLOOK FOR THE VIETNAMESE ECONOMY OVER THE NEXT 12 MONTHS



After being affected by the tension with China in H1-2014, markets have returned to normal as investors regain their confidence in the economy. Noticeably, investors in China are moving their operations, to Vietnam, in order to capitalize on the country's economic and political stability, investment incentives and the advantages of labour cost competitiveness. As a result, in 2014, Vietnam Stock Market (VN-Index) reached an all-time-high of 640.75 points since 2009. Vietnam's sovereign credit ratings by Fitch Ratings and Moody's have been upgraded from B+ to BB-, and B2 to B1 respectively.

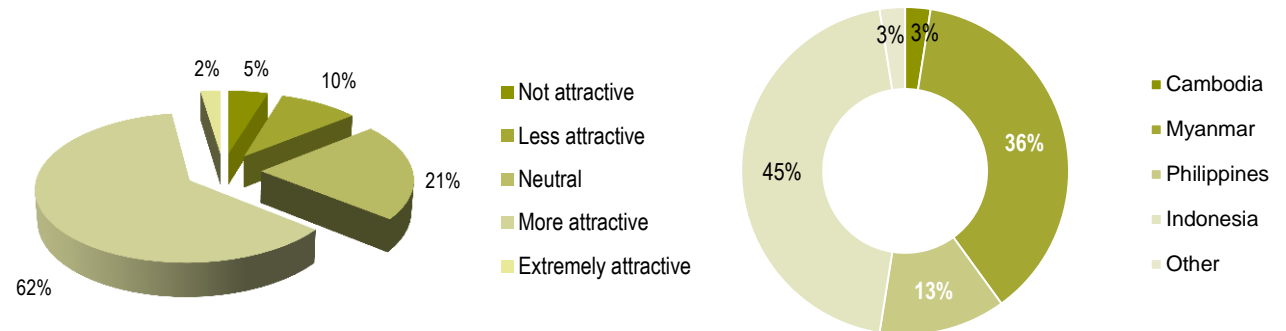
Nevertheless, the economy is still facing many challenges including slow reforms in the state-owned sector, inadequate infrastructure, difficulties in obtaining debt financing, corruption, and the complications in Government red tape and legislation. It is noted that FDI inflows in 11M2014 decreased 17%, compared to the same period last year. As a result of these issues, the negative outlook slightly increased by 2% as reported by our survey.

Investment activities

Investment attractiveness

In this survey, 64% of our respondents selected "More attractive" or "Extremely attractive" when asked about Vietnam's investment attractiveness, compared to 54% in our prior report. This is one of many positive signals toward end of H2-2014.

VIETNAM'S RANKING IN TERMS OF INVESTMENT ATTRACTIVENESS, COMPARED TO OTHER DESTINATIONS



"Less attractive" view reduced significantly from 26% in last survey to 10%, mainly due to the reduction in trade protection following the commitment schedule with the World Trade Organization (WTO)'s and Asian Free Trade Area (AFTA)'s at the beginning of 2015. According to the agreements under these two pacts, the Vietnamese Government will allow establishment of 100% foreign-invested businesses in most sectors, and remove a majority of tariffs to increase the free mobility of commodities and labour force within ASEAN.

However, in terms of unattractive ranking, there are a portion of respondents who no longer seen the country as a potential destination (5% compared to nil in the last survey).

Among other Southeast-Asian countries, Indonesia is considered as the most attractive destination for investment according to 45% respondents', with Myanmar second favourite at 37%. In the last three surveys, Myanmar and Indonesia are consistently topped the list. This can be attributed to the consumer spending potential by the large population in Indonesia, the investment incentive packages and the increasing political stability of Myanmar.

According to the ASEAN Business Outlook Survey conducted by the American Chamber of Commerce in Singapore, the most attractive countries for new business expansion are Indonesia, followed by Vietnam, Myanmar; Malaysia placed fourth by just 2% above Thailand (30%). The main reasons cited for potential business growth include the need for diversification of customer base, the availability of trained personnel, and reasonable production costs.

Investment activities *continued*

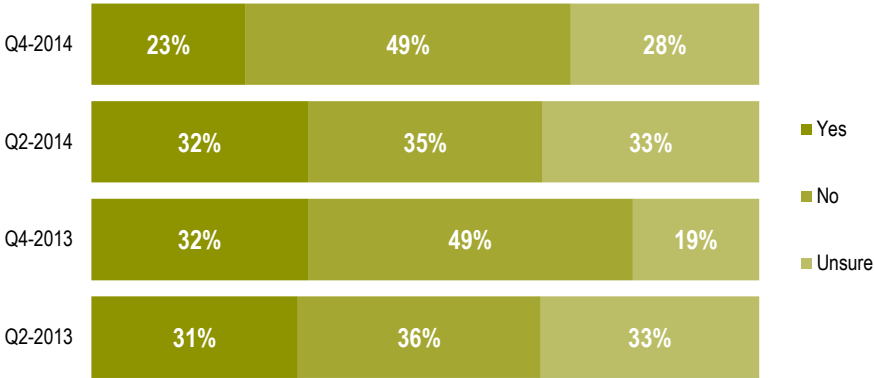
Investment allocation

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

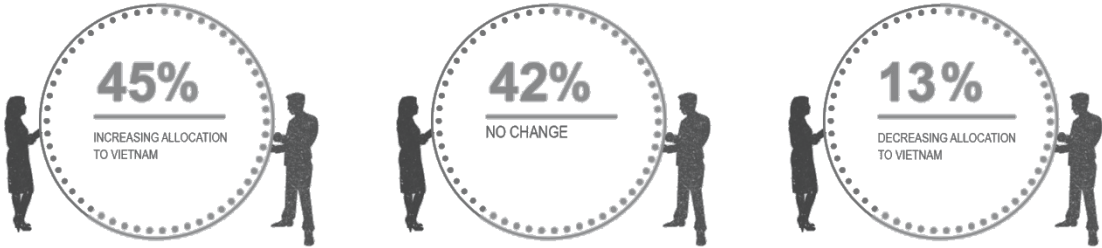
45% of the respondents say they will increase their investment allocation to Vietnam, a decrease of 6% since our last survey. Meanwhile, 42% of the respondents, higher by 10% compared to the last survey, stated that they will keep the same proportion. Only 13% of respondents say they will reduce their portfolio.

Regarding distressed assets, almost half of respondents do not consider these as key drivers of PE transactions. The introduction of Vietnam Asset Management Corporation - VAMC started in July 2013, has yet proven to be effective.

ARE DISTRESSED ASSETS A DRIVER OF INVESTMENT TRANSACTIONS IN VIETNAM?



ALLOCATION OF INVESTMENT FUNDS TO VIETNAM



Investment activities *continued*

Sources of deals

“Family/Private Owners” and “Secondary Transactions” continue to be identified by our survey respondents as the most common sources of deals. This is also consistent with the view of the global PE investors gathered by our Global PE survey.

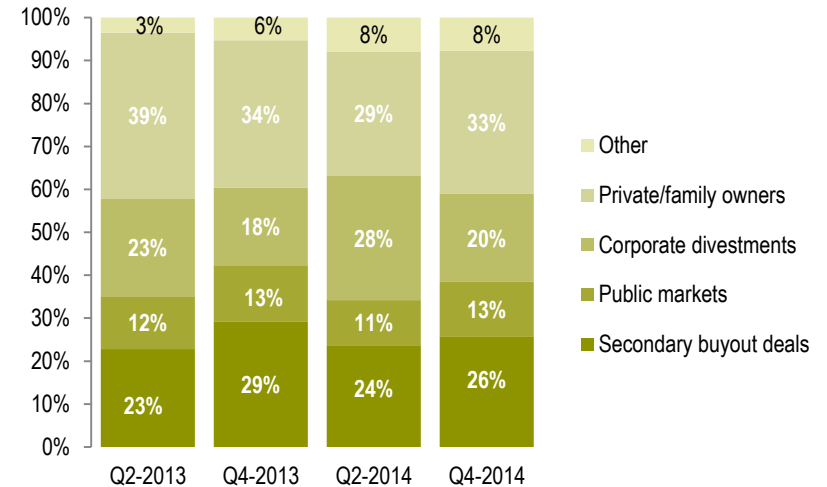
After a reduction in Q2, “Private/Family owners” return to Q4-2013 level as the most favourite deal sources as stated by 33% of respondents. At the same time, the proportion of respondents who selected “Secondary buyout deals” increased by 2%, making it the second largest source of deals in Vietnam at 26%.

Interestingly, these two major sources of deals are also agreed by the global PE investors, in accordance with our Global private equity report

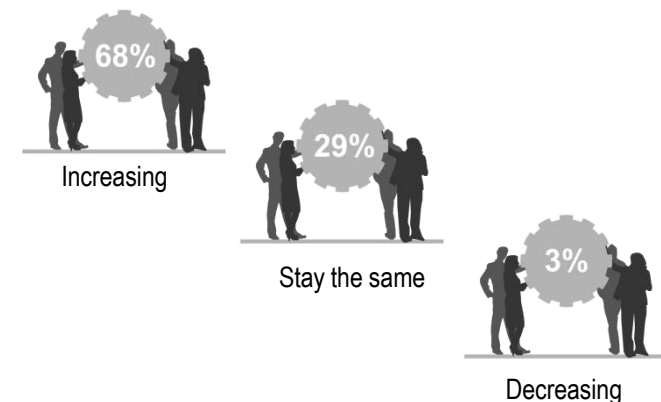
2014/15 where 66% of respondents chose “Family/ Private” as the most important source, and 39% choose “Secondary transactions”. The latter, is expected to increase significantly in next year, according to the result of our 2014 Global PE report.

The most common reasons cited are the increasing pressure on Global Private equity house s to both buy and sell, and increasing PE market maturity in countries, such as India and China.

SOURCES OF DEALS - VIETNAM



FORECAST GLOBAL SECONDARY BUYOUT DEALS

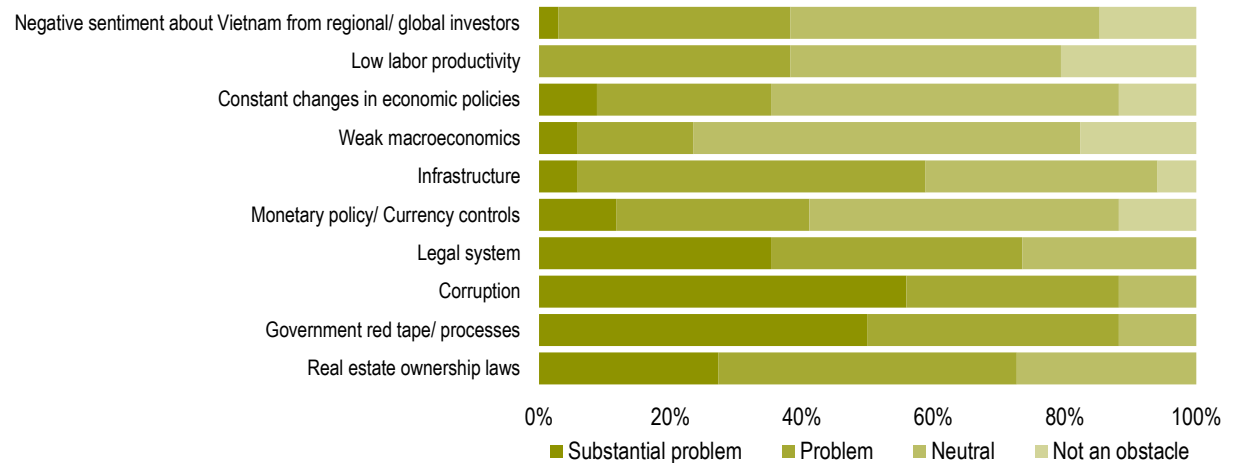


Investment activities *continued*

Investment obstacles

Corruption and Government red tape remain the most critical obstacles amongst PE investors in Vietnam according to 88% of respondents.

INVESTMENT OBSTACLES IN VIETNAM



It appears that there has not been any major improvement with regards to Corruption, which has been repeatedly marked as the most critical obstacle in our last few years' PE reports. Although the legal framework is in place since the introduction of the Anti-corruption Law in 2005, the issue is still prevalent due to a large gap in implementation and lack of enforcement.

Closely following the concern on corruption and government red tape, the “Legal system” and “Real estate ownership laws” are seen as obstacles for investment among 74% and 73% of respondents, respectively.

Results also show a decrease in the number of respondents compared to our previous survey that consider Weak macroeconomics (24%) as an investment obstacle (decrease by 23% versus the last Survey), consistent with the increased positive investment outlook viewed by the respondents.

Key value's drivers

Value's Drivers

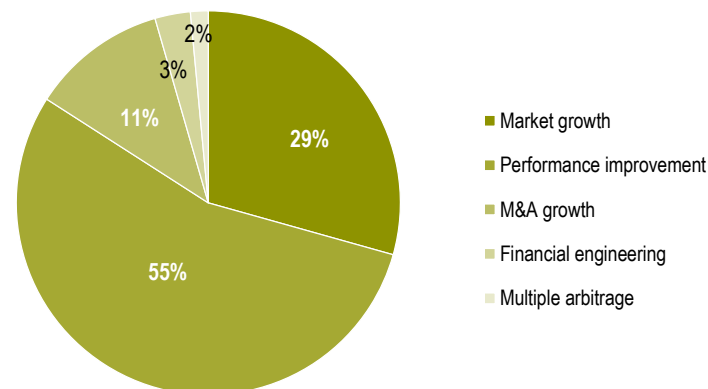
Investors believe that the two most important value's drivers are "Market Growth" and "Performance Improvement"

Performance improvement and Market growth have been reported as the most important drivers of value growth in our last four surveys. This is consistent with the view by PE investors globally, according to Global PE, with 55% and 29% respondents selecting "performance improvement" and "market growth" respectively.

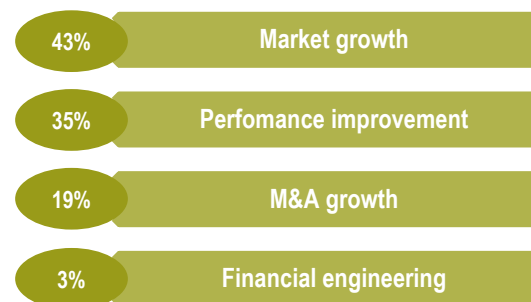
In Vietnam, whilst the role of market growth as a driver of value growth increased from 35% to 43% among respondent, performance improvement decreased from 49% to 35%, reflecting the current market condition.

In terms of other key drivers, both investors in Vietnam and worldwide believe that organic growth is likely more sustainable and cheaper, therefore M&A is only chose by 19% and 11% of local PE and respondents to the Global PE report respectively.

IMPORTANT DRIVERS OF VALUE – GLOBAL REPORT



IMPORTANT DRIVERS OF VALUE - VIETNAM

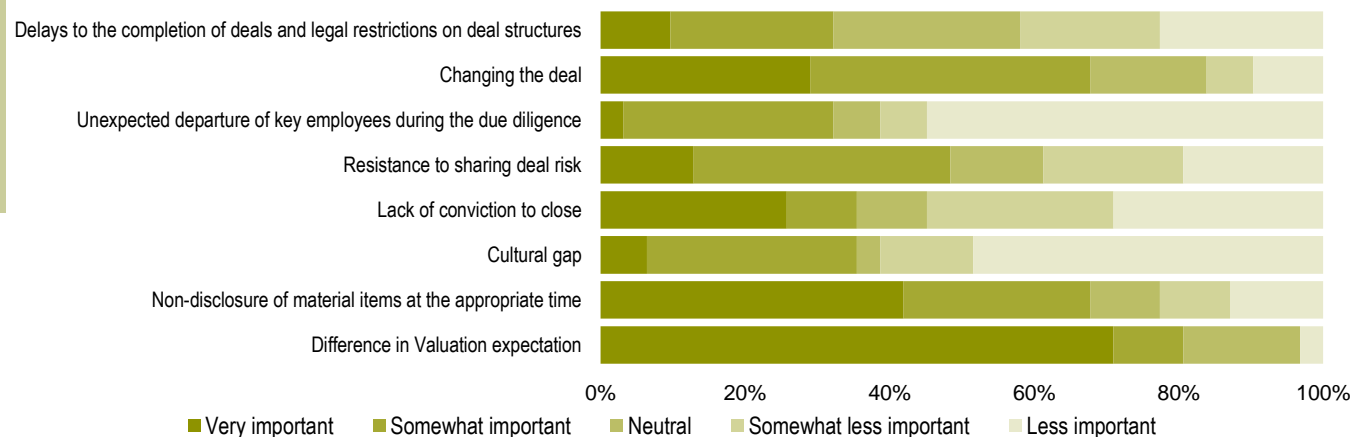


Key deal breakers

Key deal breakers

“Difference in Valuation expectation” and “Non-disclosure of material items at the appropriate time” are the two critical factors causing deal failure.

FACTORS CAUSING DEAL FAILURE AND SUCCESS



71% of the respondents cited the difference in value expectations between buyer and seller as the cause for deal failure.

The second important factor “Non-disclosure of material items at an appropriate time” again, continues to be among the greatest concern of investors with 42% respondents selecting this.

These two issues are not only particular to Vietnam. Our 2014 Global PE survey also revealed that "Valuation" and “Management issues” are the key deal breakers worldwide , with 37% and 42% respectively.

Key deal success

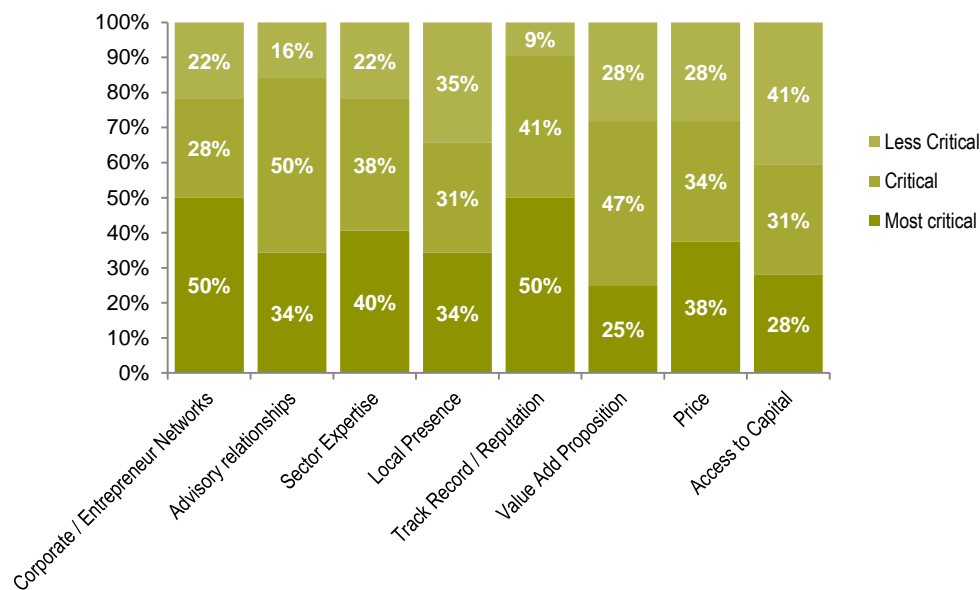
Key deal success

Most PE houses emphasis on “Track records/reputation” and “Advisory relationship” as critical factors in order to help them identify and win deals.

In this survey, 91% of local respondents selected Track record/ reputation as the “Most critical” and “Critical” factors in identifying potential deals.

Ranked second, are Advisory relationships with 84% of local respondents believing that by building relationships with advisory and corporate communities, it will increase the number of successful deals.

IMPORTANT FACTORS WHICH HELP PRIVATE EQUITY HOUSES TO IDENTIFY AND WIN DEALS



It is interestingly noted that although the Global PE has placed sector knowledge as the major success factor, there is an increasing awareness on the important roles of Advisors whose networks can help locate quality potential investments.

In the latest survey, it is more apparent that private companies are less looking for financial support but increasingly need industrial knowledge and international-standard management experience of PE investors in order to operate in a more sustainable way.

Access to finance

Cost of debt

67% of respondents agree that cost of debt over the coming year will decrease or remain stable while about one-fourth speculate that such cost will be increased.

There is an increase among respondents to 41% who believe the cost of debt will decrease slightly in the next 12 months, compared to 32% in our previous survey.

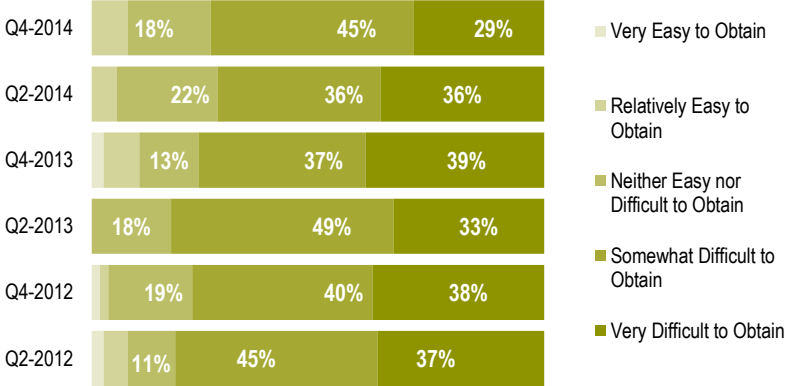
This supports the State Bank’s effort in order to reduce lending rates significantly over the past three years. In 2014, specialists agree that deposit rates are likely at bottom (at 5.5%) and interest rates are in ranges of 8% - 12%.

However, access to debt finance is still expected to remain very difficult. Except a small portion of respondents who consider debt as “relatively easy

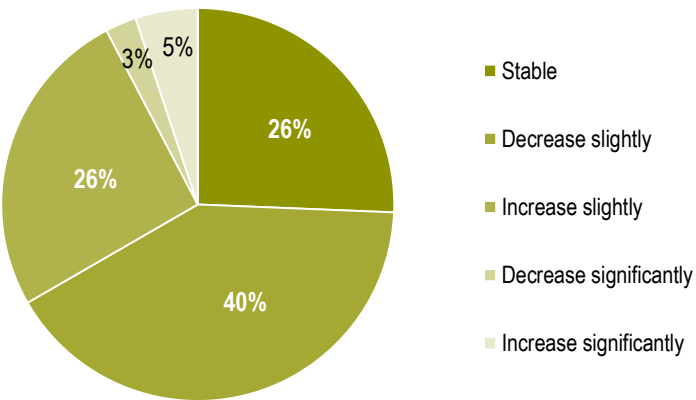
to obtain” (8%, compared to 6% in our last survey), 74% of PE participants agree that accessing debt is “Very difficult” or “Somewhat difficult”. This represents no significant change since our last survey.

The results reflect the fact the State Bank of Vietnam has decreased the level of credit growth significantly over the last 4 years, and even such lower targets have not been met. For the last 3 years the actual credit growth have always been below the targets. In 2014, the credit growth rate is estimated only at 10%, with forecast growth of 12-14% in 2015.

THE AVAILABILITY OF DEBT FINANCE WITHIN VIETNAM

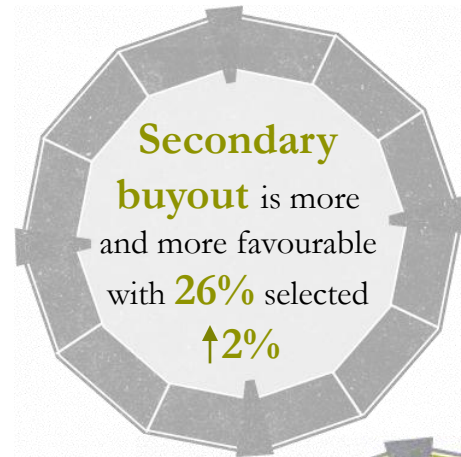


THE COST OF DEBT OVER THE NEXT 12 MONTHS



2

Investment considerations



Industry attractiveness

Top industries

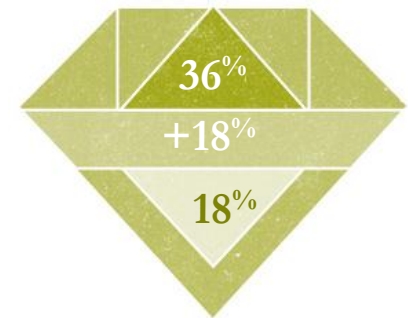
- In the two surveys taken in 2014, Food & Beverage, Education, Real Estate and Retail are the top four sectors selected by Private equity houses
- Education and Real Estate/Property share the first rank with 36% of respondents selected

The Education sector has been selected as the most attractive with 36% of respondents, a significant increase from 18% in the last survey. Five years since 100% FDI educational entities were permitted in accordance with WTO's commitments, the sector has not seen major development, which could be due to obstacles and barriers from local regulations such as the limit for local students to attend international schools at 10% - 20%, investment requirement and the long payback period of more than 10 years, market competition and economic downturns.

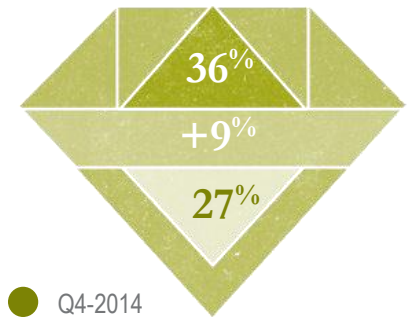
With the coming into effect of the ASEAN FTA and the Mutual Recognition Agreement for the movement of labour there is anticipation of a growth in demand for private education from both local and foreign families.

Tied in first place, "Real Estate/Property" sector has begun to show more optimism as trading volumes have picked up, mostly in the low- and medium-end segments. Many foreign investors are increasingly positive about the prospect of the market, due to the recovery of the economy, the growing demand for housing from local citizens and foreigners following the housing legislation that have just passed by the Nation Assembly in November 2014.

EDUCATION SECTOR



REAL ESTATE SECTOR



- Q4-2014
- Changes
- Q2-2014

Industry attractiveness *continued*

Top industries

Investors also put their faith in Food & Beverage, and Retail sectors with 33% and 29% of respondents selected, respectively.

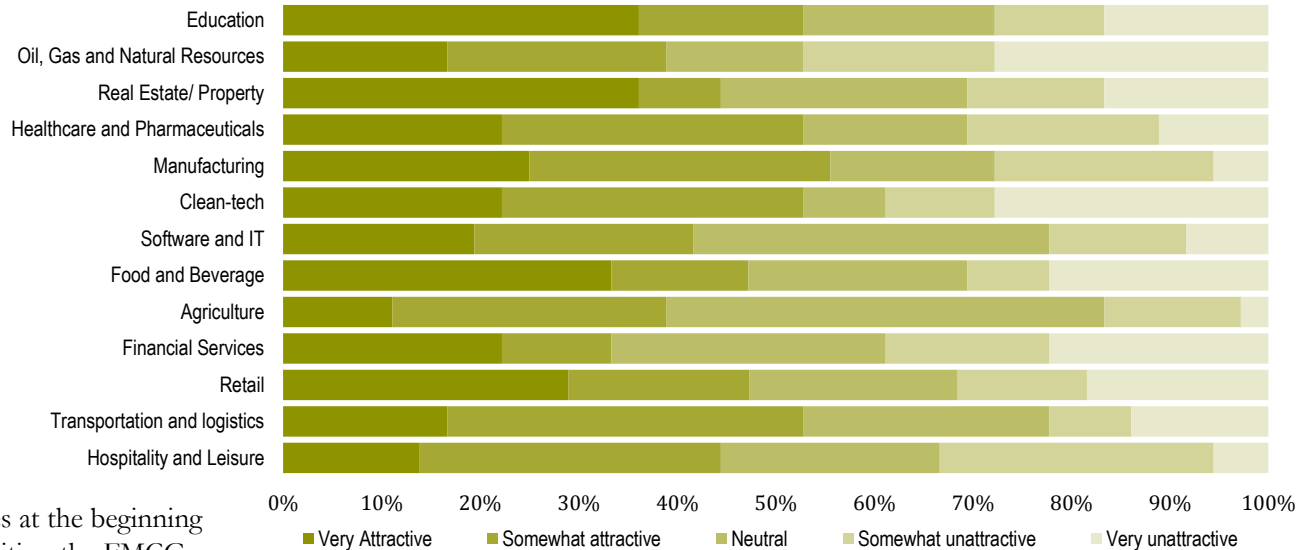
Ranked third, Food and Beverage's attractiveness has slightly decreased to 33% from 36% in the last survey. With the large population (90 million) and increases of food consumption growth rate per capita (CAGR of 14.8% during 2014 – 2018), the sector presents an excellent opportunity for investors targeting the consumer goods market.

After being selected as the most attractive sector at 52% in Q2-2014, "Retail" falls to fourth position with 29%, reflecting a 'wait-and-see' attitude by investors, as Vietnam is clearing the way for wholly foreign-owned

retail companies at the beginning of 2015. In addition the FMCG market has faced real difficulties in 2014.

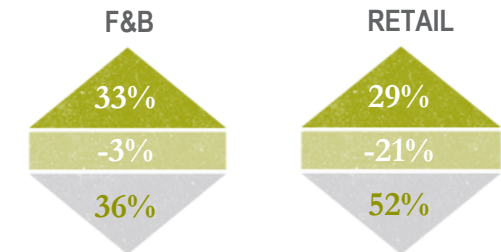
Several industrial giants have already expressed their interests in expanding their businesses to Vietnam. It is predicted that this industry will become a battle ground for "survival-of-the-fittest" starting from 2015.

INDUSTRY SECTORS IN VIETNAM



Q4 VERSUS Q2 (%)

- Q2-2014
- Changes
- Q2-2014



Hands-on involvement with portfolio companies

Hands-on involvement expected by PE investors

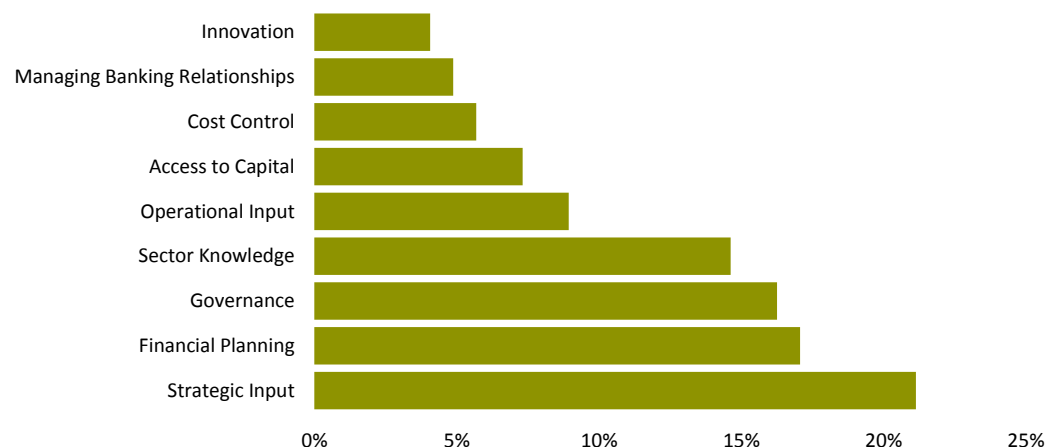
Strategic input, financial planning, and governance continued to be the top three areas in which PE investors wish to involve in portfolio companies.

Strategic input has been chosen by 21% of respondents – this could be seen as the most important area for portfolio company involvement – which has not changed since our last survey. However, in order to make strategic input worthwhile for their private companies, PE investors should be more involved with their operation other than limited to periodic reviews in order to make the strategy fit to their operations and opportunities.

Ranked at the second position with 17%, “Financial planning” has been considered as another important topic that PE houses wish to influence. This is also an area that PE investors, with their experience, can provide valuable advice to the portfolio companies.

The third area that investors wish to proactively involve is “Corporate governance”. It is common knowledge that most of the privately held businesses in Vietnam are weak on corporate governance, PE investors often see this as an area that they need to be actively involved to ensure their investment is properly managed.

PARTICULAR AREAS FOR HANDS-ON INVOLVEMENT WITH PORTFOLIO COMPANIES



Key factors to be considered when investing in Vietnam

Top factors

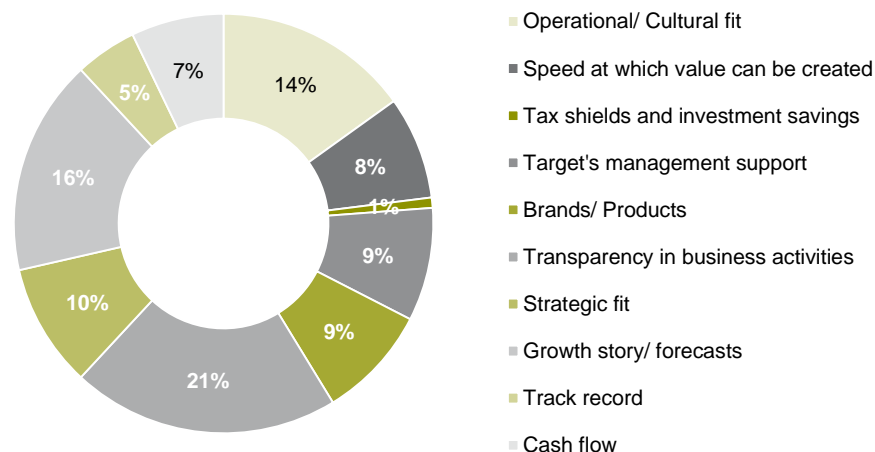
The three most important factors are: Transparency in business activities, Operational/Cultural fit, and Growth story/forecasts.

When considering an investment into a Vietnamese private company, “Transparency” in business activities are considered the most important factor with 21% of our respondents choosing this category, showing no change compared to our last survey. This is especially important in Vietnam where information is not sufficient and really difficult to obtain.

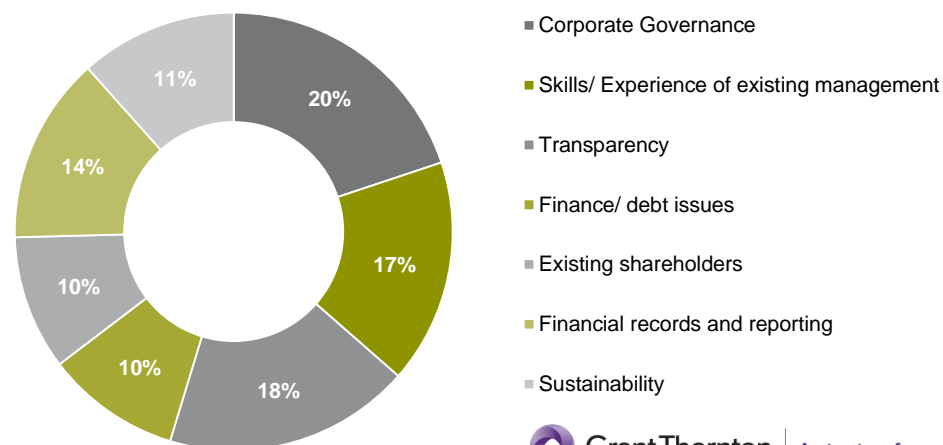
Ranked second by PE investors, “Growth story/forecasts” again confirms its importance in attracting investors to Vietnam, continued from the previous survey.

Consistent with the result on “Areas of hands-on involvement by PE investors”, 20% of respondents rated Corporate Governance as their most concerning issue when investing in Vietnam, whilst the number who selected Transparency and Skills/Experience of existing management were 18% and 17% respectively. These three issues have been continuously on the top of the list of PE investors’ in our last surveys and are flagging the urgent need for improvement by companies in Vietnam, should they wish to make themselves more attractive for investors..

THE MOST IMPORTANT FACTORS TO CONSIDER WHEN INVESTING IN VIETNAM



MOST CONCERNING ISSUES WHEN INVESTING IN VIETNAM



3

Planning an exit

45% say that
level of exits will
increase
(↓4%)

41% plan to stay
invested in
Vietnamese
companies for a
period of 3 to 5
years

Exit multiples
at **5x-10x** are largely
expected among
investors
(↑10%)

88% agree that exit
multiples will be higher or
stable in next year
(↑7%)

Trade sales
is the most attractive
exit strategy

Expectations of holding periods for investments

Holding periods for investments

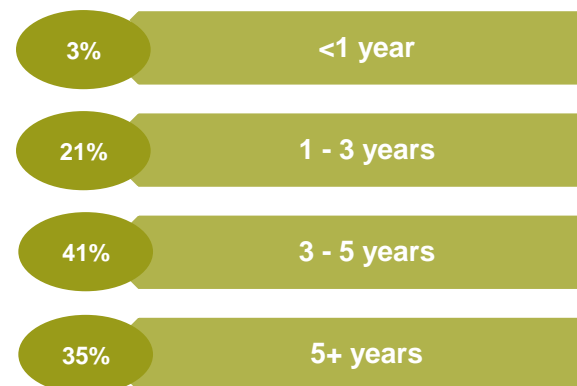
Most PE respondents (41%) indicated that they plan to stay invested in Vietnamese companies for a period of 3 to 5 years, a decrease of 5% compared to our last survey.

In the two latest surveys in 2014 approximately one-third of respondents would maintain long-term investments over 5 years, (35% in Q2 and 32% in Q4).

It is a common expectation that it can take from 6 months to one year, on average, to complete a transaction in Vietnam. However, there are many cases in which a deal can take more than a year to close.

Also in 2014, PE investors believe that time to completion should be shorter or unlikely to change as selected by 82% of respondents. This demonstrates the same view in line with the our last two surveys (80% and 82% selected in Q4-2013 and Q2-2014 respectively).

LENGTH OF INVESTMENTS IN VIETNAM



TIME TO COMPLETE A TRANSACTION VERSUS NEXT YEAR



Exit multiples for investment in Vietnam

Exit multiples' ranges

The expected exit multiples of “5X to 10X” are the expected norm for investments in Vietnam. Expectations towards the level of exit multiple for the next 12 months has slightly changed from the Q2, 2014 survey, with “10X to 15X” multiples replacing “3X to 5X” in second place. 88% of respondents in our current survey stated that they expect exit multiple will increase or remain the same.

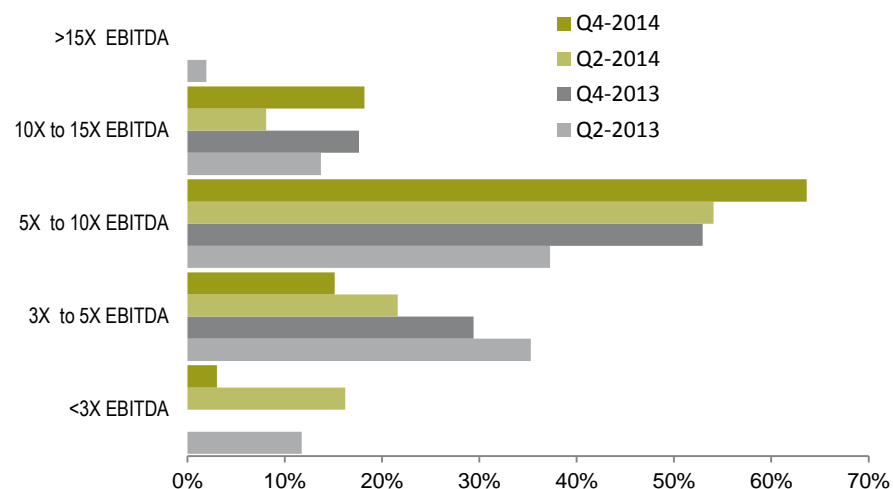
64% of respondents see the average exit multiple of their private equity investment in Vietnam at “5X to 10X EBITDA”. This result shows a significant increase (10%) since our previous survey.

The proportion of respondents who chose “3X to 5X EBITDA” continues to decrease by 7% to 15%. On the other hand, those who chose “10X to 15X EBITDA” substantially increased from 8% to 18% since our last survey – reflecting the optimistic outlook of PE investors towards the Vietnamese Economy in the next 12 months and beyond.

Vietnamese market is expecting to see an increase in the number of deals closed in the next 12 months, mainly due to the recovering economy that will provide opportunities to exit at more favourable values.

32% of respondents indicate that Exit multiples over the next 12 months are expected to increase, a drop of 9% from our last survey. Only 12% of respondents believed that Exit multiples will decrease. The majority of respondents expected Exit multiples to be more stable (56%, increased by 15% since last survey).

EXIT MULTIPLES FOR INVESTMENT IN VIETNAM



CHANGE IN EXIT MULTIPLES OVER THE NEXT 12 MONTHS



Exit strategies and level of exit activity

Top exit strategy

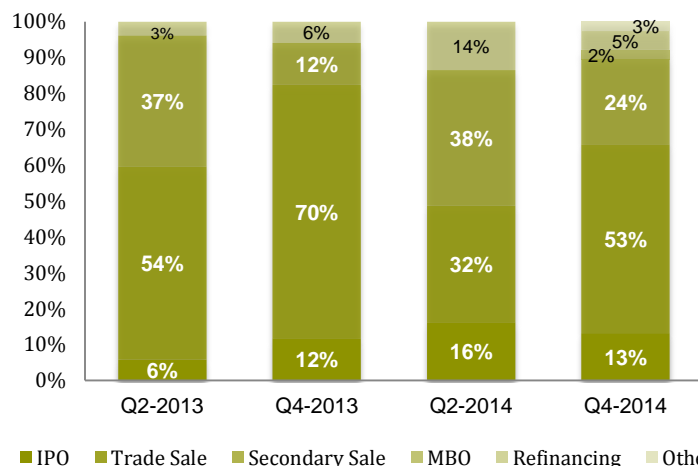
This Survey's results show "trade sales" as the most attractive exit strategy for PE investments. This is a significant departure from the previous quarter, where "secondary sale" was the most favoured choice among respondents.

Except for a sudden reduction in Q2-2014 (32%), trade sales appear to be the most preferable option when making exits in Vietnam.

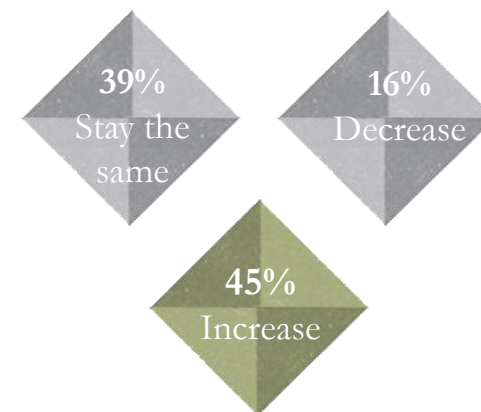
While decreasing considerably from 38% to 24%, "Secondary sale" is still the second most attractive exit strategy among respondents.

"IPO" (13% selected) has still not been seen as common exit option although there are increasing numbers of IPO's planned over the next 15-18 months.

THE MOST ATTRACTIVE OR ACHIEVABLE EXIT STRATEGY FOR PRIVATE EQUITY INVESTMENTS



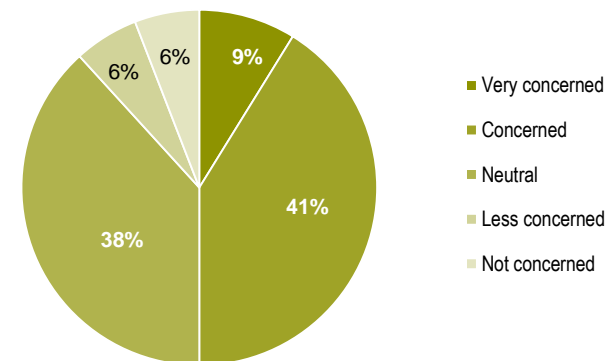
LEVEL OF EXIT



In relation to "trapped cash/assets", half of the respondents (50%) consider them either a "concern" or "very concerned". This represents a decrease from 60% in the last survey.

45% of respondents believe that the level of exit activity across the market over the next 12 months will increase. The same sentiment was expressed in our previous survey.

TRAPPED CASH / ASSETS



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