Ready for another wave of investment

February 2016

Content

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 14th survey on the Private Equity sector carried out between December 2015 and January 2016, a majority of respondents have maintained their positive views towards Vietnam's economy (though there was a reduction of 11% compared to 6 months ago). Regarding the view towards investment activities, the results are unchanged compared to the prior survey result, with 86% of respondents expecting the level of investment activities to increase in Vietnam in the next 12 months.

In this survey, the results also indicate significant changes in the ~~sources~~ of transactions, where most of participants are expecting more transactions from "SOE's equitisation" rather than from "Private/Family owners".

The Retail sector and the Food and Beverage (F&B) sector are currently considered the two most attractive industries for PE transactions according to our respondents' opinions.

Regarding the critical success factors, "Economic growth" and "Sector specific opportunities" continued to be the two key factors selected by 76% of respondents. On the other hand, "Difference in Valuation expectation" maintained its top position as the key deal breaker.

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

INVESTMENT ENVIRONMENT

Investment environment

6.68%

GDP growth rate in 2015

Is the highest GDP growth rate achieved in the last 5 years

Ranked 2nd

In terms of investment attractiveness compared to other ASEAN countries

↑33%

59% considered Vietnam as "attractive" in terms of investment attractiveness in today's global economic context

5

Is the number of major FTAS' that Vietnam is joining or has agreed in principle in 2015

↑10%

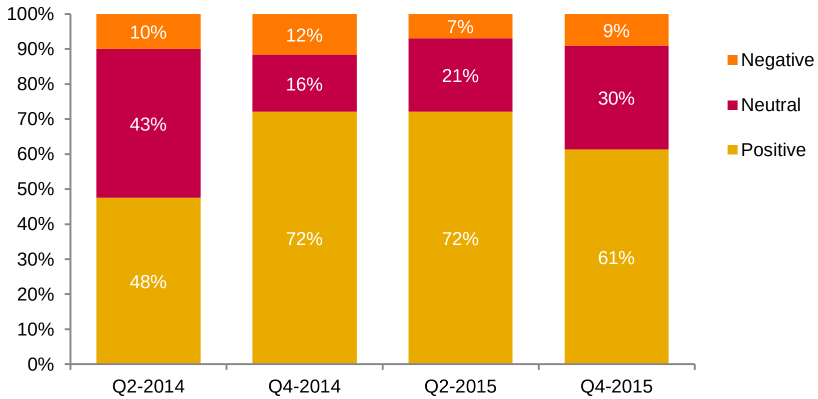
93% flag "corruption" as the biggest obstacle when investing in Vietnam

↓8%

55% forecast more buying than selling activities in the next 12 months

Economic outlook over the next 12 months

GENERAL OUTLOOK FOR THE VIETNAMESE ECONOMY OVER THE NEXT 12 MONTHS



In this survey, a majority of respondents continued to have positive views on the Vietnamese economic in the next 12 months.

In fact there were significant achievements in the fiscal year 2015. The GDP growth rate, after 5 years of lower than 6% growth, exceeded the target of 6.2% to reach 6.68%. The positive result has enhanced the government confidence to set a target rate of 6.7% for the fiscal year 2016.[1] In terms of inflation, 2015 CPI was significantly low at 0.63% compared to that of 2014[1] and is targeted to be controlled below 5% in 2016. There were also other factors such as stable interest rates of 6.8%-11% and credit growth rates at approx. 17,17% which was in line with the forecast in the survey Q2-2015.

The fiscal year 2015 was also marked by various FTAS made with ASEAN (the AEC - effective in December 2015), ASEAN + 6 (RCEP), Korea, (VKFTA), EU (the EVFTA), and TPP. In particular with TPP signed in early 2016, it is anticipated that when in force, it will create a free trade zone for 40% of the global economy and 30% of the global trade volume. In respect of the TPP [2], Vietnam is expected to be one of the biggest beneficiaries under this agreement.

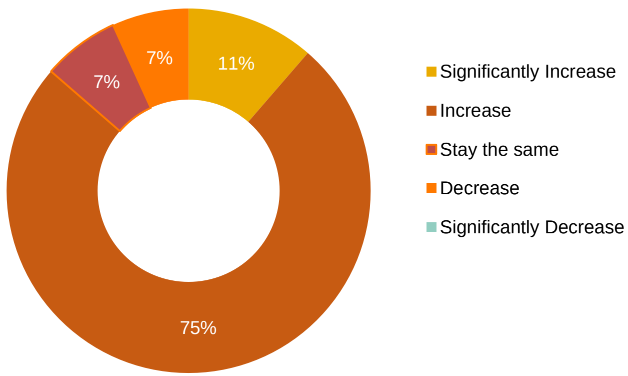
Despite of all of these achievements, there are risks and persistent problems which cause increasing concerns. This was reflected by the number of respondents recording neutral sentiments over the outlook of the economy in the last two surveys.

These problems were cited in our previous surveys, including slow reforms of SOEs, inadequate infrastructure, weak competition capability of SMES etc. Today, these are added to by a constraint of the national budget, and increases government debt. At both macro and micro level, the country and enterprises really need reform strategies to solve these matters at their root causes, so that the economy could be able to develop sustainably and be able to capture the opportunities from new FDI capital inflows, lower tariffs, labour mobility arising thanks to those free trade agreements and in particular the AEC .

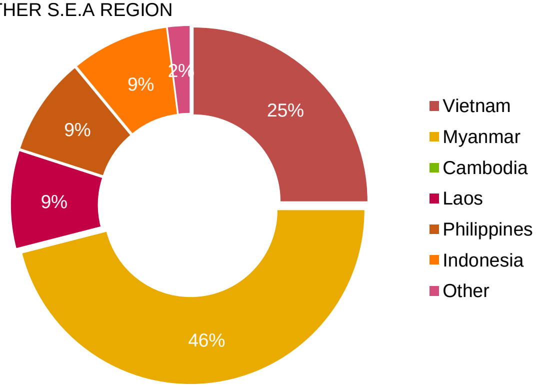
[1] General Statistic Office
[2] Signed on February 4, 2016 in New Zealand

Investment outlook

FORECAST LEVEL OF INVESTMENT ACTIVITY IN VIETNAM



LEVEL OF INVESTMENT ATTRACTIVENESS, COMPARED BETWEEN OTHER S.E.A REGION



86% respondents forecast that the level of investments will increase in the next 12 month. Although the results were unchanged in comparison to that of Q2-2015, the number of participants citing "Significant increase" has risen from 7% to 11%.

This positive outlook has been achieved from various improvements made recently, including the two legislative changes promoting private sector to participate in the government's infrastructure projects and increased foreign ownership limits in listed companies, AEC and TPP. In particular with the latter two, Vietnam ranked second among AEC members and ranked first among TPP members to receive more investments after joining, according to the assessment by the American Chamber of Commerce.

With regard to the AEC, it is expected that Vietnam will receive more FDI on the back of the AEC's removal of non-tariff barriers and the reduction to zero of more than 90% of the goods currently subject to tariffs, and a reduction in the others between now and 2018 [1].

In connection to TPP, the participation will help Vietnam integrate into the global supply chain and also increase its trade volume with major economies such as Japan and the US.

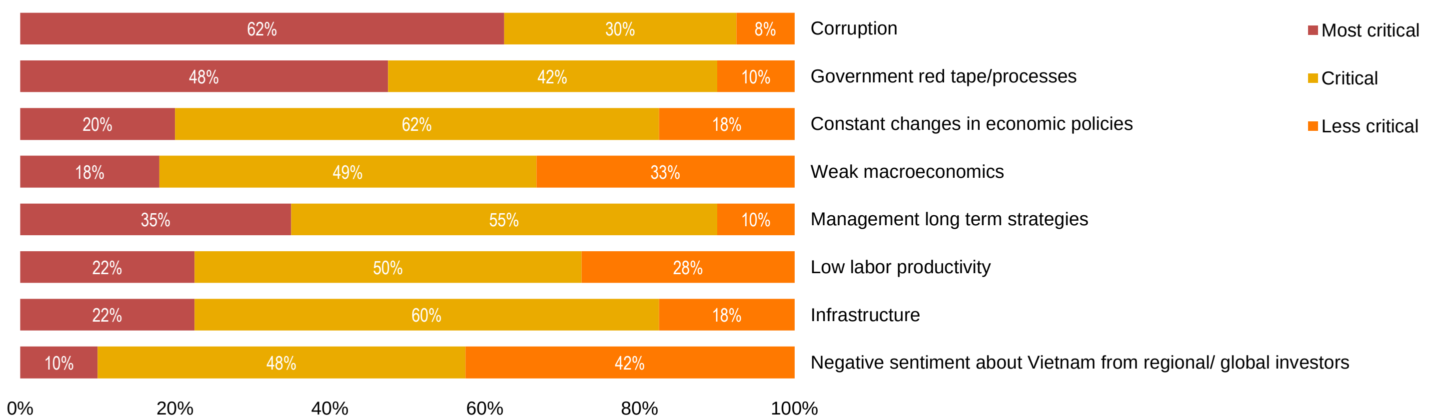
When asked about the level of investment attractiveness of "Vietnam" in comparison to other neighboring countries, the country has been ranked second with 25% of respondents. The top spot still belongs to "Myanmar" which has been considered a new investment destination, especially after its successful general election, in which the democratic party has finally taken over the control of power from the military.

The ranking is also supported by the ASEAN Business Outlook Survey 2016 conducted by the American Chamber of Commerce. According to this survey, for Vietnam, the positive outlook for investments is due to the availability of low cost labor, personal security and stable government and political system. In this survey, "Vietnam" ranked third, while "Myanmar" and "Indonesia" ranked the first and the second respectively.

[1] BBGV (by Kenneth Atkinson)

Investment obstacles

INVESTMENT OBSTACLES IN VIETNAM



It seems that the business environment has not improved much as "Corruption", "Government red tape" and "Constant changes in economic policies" continued to be the top obstacles at 1st, 2nd and 4th positions chosen by 92%, 90% and 82% respondents respectively.

For years the legal framework has been assessed as not well defined and the implementation tends to be over-reliant on decrees and ministerial circulars. This causes inconsistent interpretations and implementation between agencies. As a result, it consumes more time and incurs more costs for businesses, as well as creating room for corruption.

We note the effort of the government in issuing various laws and regulations with the aim to improve the business environment. Certain improvements in bureaucratic procedures have been achieved such as time reduction for new company registration or making tax payments, cited on our last survey report. However, those improvements are considered not sufficient. The needs of a thorough reform in legislation are more and more pressurized since the country is now a part of regional and global economic communities.

Among the key investment obstacles, "Management long term strategies" is also ranked second with 90% of respondents. Local enterprises, especially private held businesses are often seen as much focused on their short-term operation and the lack of practice of developing mid-to-long term business plans is not uncommon. A mid-to-long term plan usually outlines a direction that a business is going to take and also demonstrates a commitment of the management to its shareholders or potential investors. Without this, investors find it difficult to envisage the future of the business and the vision of the management.

INVESTMENT CONSIDERATIONS

Investment considerations

54%

↓3%

"Performance improvement" continued to be the most important driver of value growth.

51%

↑31%

"Retail" is chosen as the most attractive sector for deals in the next 12 months.

41%

↑7%

"F&B" is anticipated to be the second most attractive sector

30%

↑6%

"Domestic PE fund" is foreseen as the most competition for deals.

76%

↑27%

"Economic growth" is considered as the greatest opportunity for PE.

14%

↑12%

The competition from "public market" is anticipated to increase significantly

Sources of transactions

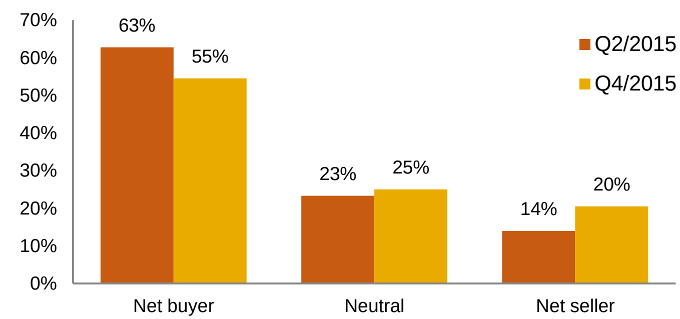
In this survey, a majority of participants expect to be a "net buyer" rather than a "net seller" in 2016. However, the number of respondents replying that they would be "net buyers" was lower than that of our last survey. In addition, the number of participants forecast as a "net seller" increased to 20% from 14% in our last survey. The increasing number of "net sellers" is probably due to the funds with holding period of 3 – 5 years who would like to divest their investments.

In the Survey Q4-2015, the results indicate significant changes in the sources of transactions, where most of participants are expecting more transactions from "SOE' equitisation" rather than from "Private/Family owners". In 2015, 222 SOEs were equitized, making the number of equitized SOEs of 478 firms for the period. 2011 – 2015 [1].

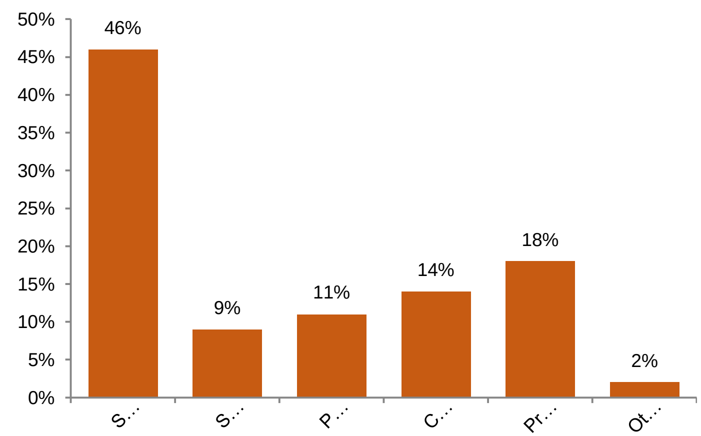
For the period 2016 – 2020, the government aim to have approx. 174 SOEs completing their equitisation. Nevertheless, the PE investors expect more supply from equitisation, and keep awaiting the "big names" such as Mobifone, Satra, Benthanh Group, EVN, PVN, TKN, Vinachem, etc.

The remaining key sources of transactions remained unchanged versus our Survey Q2-2015, where "Private/family owners" accounted for the largest portion with 18% selected. Meanwhile, "Secondary buyout deals" are less favored as compared to PE investors' opinions in Q2-2015.

DO YOU EXPECT TO BE A NET BUYER OR SELLER OF ASSETS OVER THE NEXT 12 MONTHS?



SOURCES OF DEALS IN VIETNAM



[1] Equitisation committee, report dated 23 Dec, 2015

Competition on M&A transactions

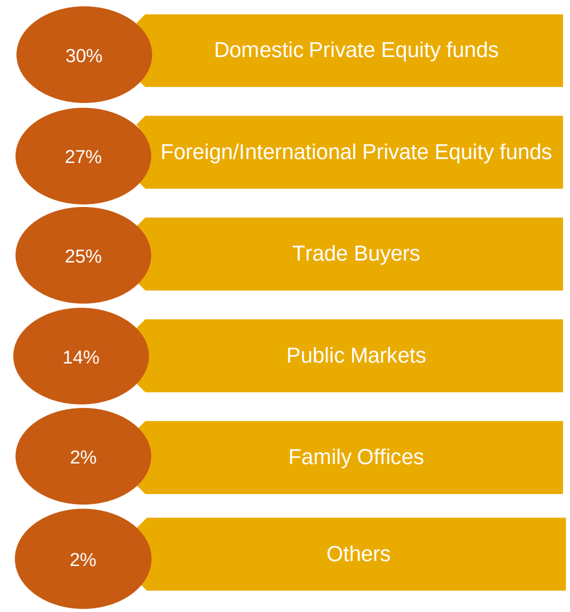
3 sources including "Domestic PE funds", "Foreign Funds" and "Trade buyers" continued to be the top 3 competitors for deals, of which "Domestic PE funds" and "Trade Buyers" are seen more competitive while "Foreign Funds" appear to be less competitive (decreasing from 48% to 25% in Q4-2015).

In 2014, whilst all large scale transactions had foreign buyers, approx. 65% number of transactions conducted by domestic funds/enterprises[1]. This fact has aligned with our survey when an increasing proportion of respondents chose "Domestic PE funds" (higher by 6% to 30%) as the key sources of competition for deals.

With such domination in deals numbers, we anticipate that such active roles of these domestic buyers will be maintained in the next 12 months.

Apart from these mentioned sources, respondents also expected more competition from "Public markets" as selected by 14% respondents (higher by 8% versus the last survey).

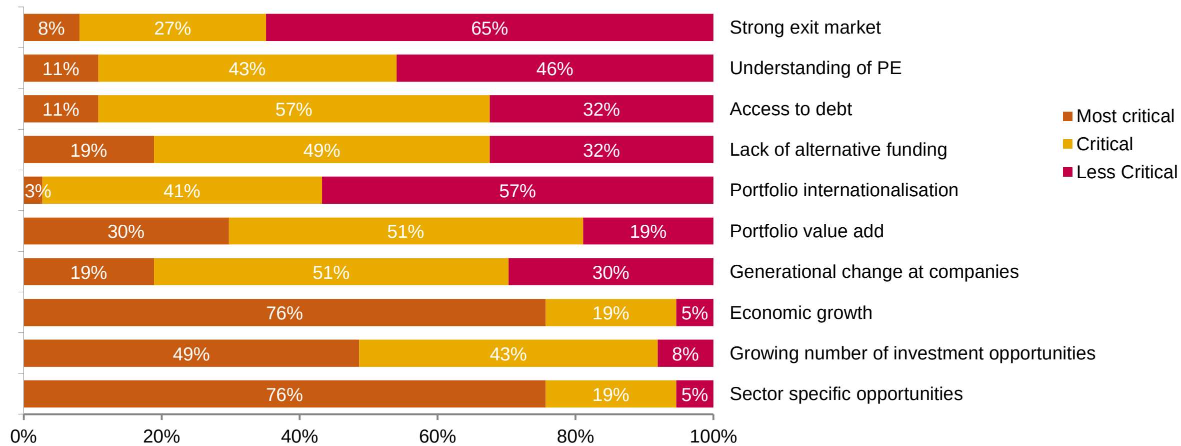
FROM WHICH SOURCES DO YOU FORESEE THE MOST COMPETITION FOR DEALS OVER THE NEXT 12 MONTHS?



[1] M&A Forum, report for 2014

Key deal success factors

WHAT DO YOU BELIEVE ARE THE GREATEST OPPORTUNITIES FOR PE IN VIETNAM?



"Economic growth" and "Sector specific opportunities" were the top 2 selected by 76% respondents as most critical. And "growing numbers of investment opportunities" took the 3rd position selected by 49%.

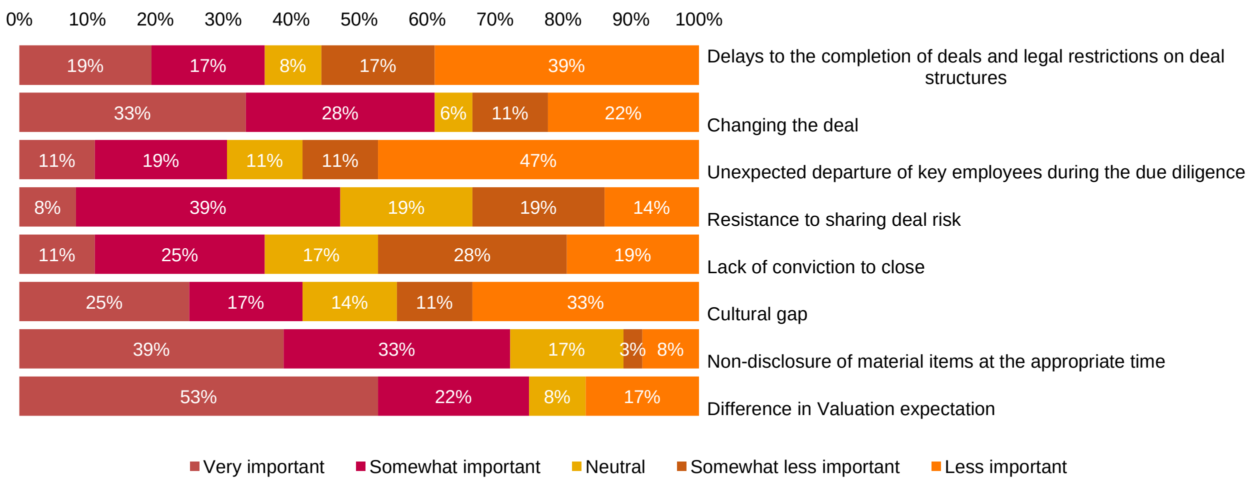
As for "Economic growth" and "Growing numbers of investment opportunities", the recovery of the economy has provided further investment opportunities. To start with, the improved 2015 GDP growth rate has boosted consumers' and investors' confidence which in turn will have a positive affect on potential capital inflows. To maintain this positive outlook, the country would need restructuring strategies to reform the whole social-economic structure.

In principle, this has been supported by the Resolution of 12th National Party Congress which affirmed the determination to reform the economy during the period 2016 – 2020. In this next phase, the country would need a properly managed implementation in order to achieve the ambitious goals the Congress has set outs including effective control of monetary policies, improving socio-economic infrastructure, increasing skilled-labour resources, and creating a friendly business environment. In addition, Vietnam needs institutional reforms required under the various FTAS'.

Sharing the first place, "Sector specific opportunities" continued to be the most highly rated success factor. The rewards of winning deals would be belonged to ones having sector insights and experience in dealing with local investees.

Key deal breakers

FACTORS CAUSING DEAL FAILURE



Cited by 75%, "Difference in Valuation expectation" continued to take the top position as the key deal breaker. "Non-disclosure of material items at the appropriate time" was ranked 2nd, as agreed by 72% participants. Ranked third was "Changing the deal" that accounted for 61% of total responses.

The above 3 factors have often been at the top of the list of deal breakers in our previous surveys. In addition, similar trends were also observed in our Global Private Equity Survey report 2014/2015 for regional and global M&A deals. Nevertheless, there were slight improvements whereas the proportion of respondents who considered two deal breakers "Difference in Valuation expectation" and "Changing the deal" as being "Very important" and "Somewhat important" in causing deal failure dropped by 9% and 7% respectively.

Noticeably, there was a significant change in relation to "Unexpected departure of key employees during due diligence" which increased from 16% in the Survey Q2-2015 to 30% in the Survey Q4-2015. This is due to the fact that in many cases, especially when there is a heavy reliance on certain key personnel, unexpected departures of key talent would be considered as losses of intangible value of the company and that can cause negative impact on the business, leading to the failure of a transaction.

Industry attractiveness

The “Retail” sector and the “Food and Beverage (F&B)” sector are considered the two most attractive industries for PE transactions as selected by 51% and 41% participants, respectively. Recently, Vietnam has been considered as one of the most promising consumer markets in Asia[1] , benefiting from a large population, rapid growth of income per capita, and increasing urbanization.

According to A.T. Kearney, a well established global consulting firm headquartered in Chicago, the attractiveness of Vietnam’s retail sector was ranked 28 globally. Though fast growing in recent years (c.9% in 2015[1]) the sector is in the early development phase with modern trade channels only accounting for 20%[2] which is fairly low compared to other regional countries. The large population with growing middle class, together with the a growing urbanization that will cause changes in shopping habits, will provide solid support to facilitate faster growth rates, expected at CAGR 13% in 2015-2018[3] . Such attraction has lured both large international and domestic investors such as Berli Jucker (Thailand), Aeon (Japan), Vincom (VN) etc., creating fierce competition in this industry. With the opening up for investments in the retail sector as a result of Vietnam’s WTO commitments, it is expected there will be more PE transactions in this sector in 2016.

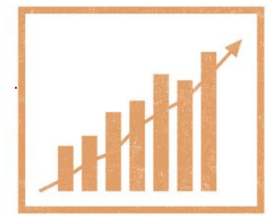
Having similar key drivers to the retail sector, the demand of F&B sector is increasing fast. The increase in disposable income levels caused a diversified demand from low-to-high end products, changes in lifestyles, and the habit of drinking and eating out particularly in major cities, it is expected that during 2015-2020, the growth rates of beverage sub-sectors and packaged/fast food sub-sectors are in range of 7-11% and 3%-9% p.a respectively[1]. With CPI remaining relatively low , and lower import tariffs, F&B items would be more affordable to the mass population. Currently, both domestic and foreign manufacturers have been expanding their capacities and introduced more new products. Together with a growing number of food retail channels, the F&B sector is promising to grow rapidly to meet the strong demand of consumers.

[1] Euromonitor
[2] Ministry of Trade and Industry
3 The Economist Intelligence Unit

RETAIL

51% | ↑31%

Retail



FOOD & BEVERAGES

41% | ↑7%

Food & Beverages

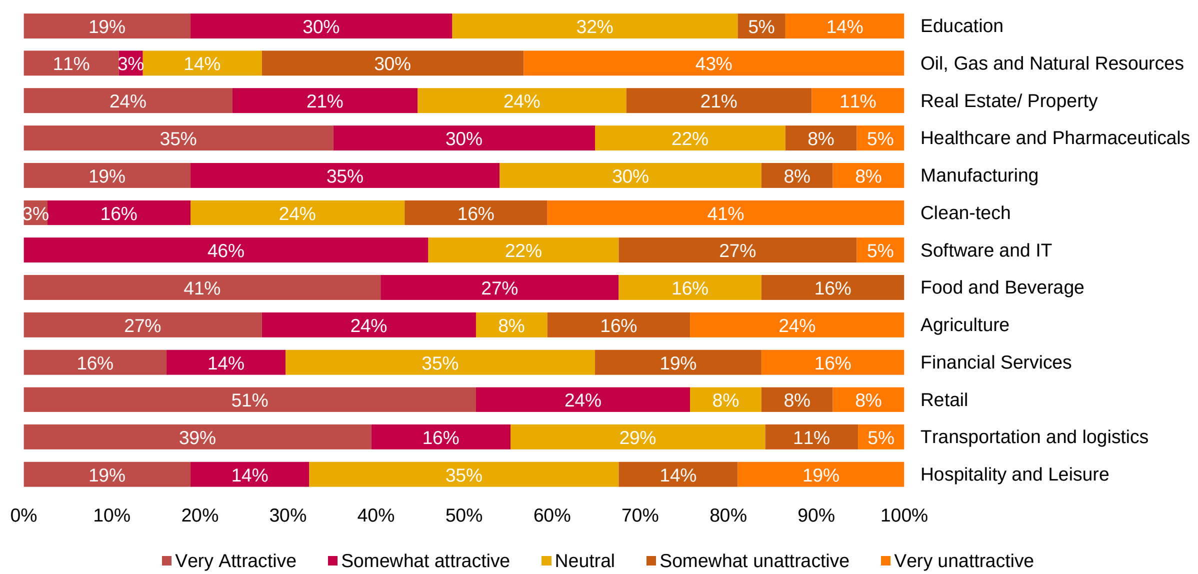
Industry attractiveness (*continued)*

39% of respondents selected "Transportation and Logistic" as the third most attractive industry sector. This presented a significant surge from 12% in the Survey Q2/2015. In 2016, there is anticipation of increasing SOE divestments in major ports such as Saigon Port, Vinalines etc.

Ranked 4th was "Healthcare and Pharmaceuticals" sector which 35% participants considered as "very attractive". The improvement in living conditions and growing disposable income have resulted in higher spending for healthcare services. However, the quality of services at large, are still under expectations of consumers. These present good opportunities for investment into the sector.

Noticeably the "Oil, Gas and Natural resources" sector fell to the last position in the ranking list, reflecting the industrial crisis including the excessive supplies, the down trend of oil prices and heavy cost bases that are expected to take a long time to recover.

INDUSTRY SECTORS IN VIETNAM



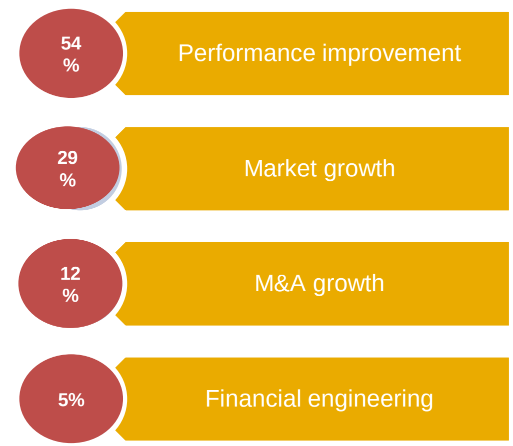
Key value's drivers

"Performance improvement" continued to be considered as the key driver of value growth of investees companies by 54% of participants, which is quite consistent with our last PE report.

This continues to reflect the view of investors that internal improvements are critical to ensure the sustainability of development. After the crisis between 2008 – 2013, businesses learned to review/ restructure in order to have an efficient and cost effective operation. More focus on their core businesses would help them regain the lost values once attractive to investors.

In this survey, there was a slight decline of respondents choosing "Market growth" (29%, a decrease of 2%). On the other hand, the increasing trend was shifting to "M&A growth" (12%, an increase of 2% compared to the last Survey) and "Financial engineering" (5% from 0% in the last survey). Although the increase in selection of M&A was insignificant, this supported the view that M&A is the fastest way to capture market share for new joiners with strong financial resources, such as Vingroup in the retail sector, Masan in the feed industry, and foreign investors including Berli Jucker and Central Retail to enter the Vietnamese market.

IMPORTANT DRIVERS OF VALUE



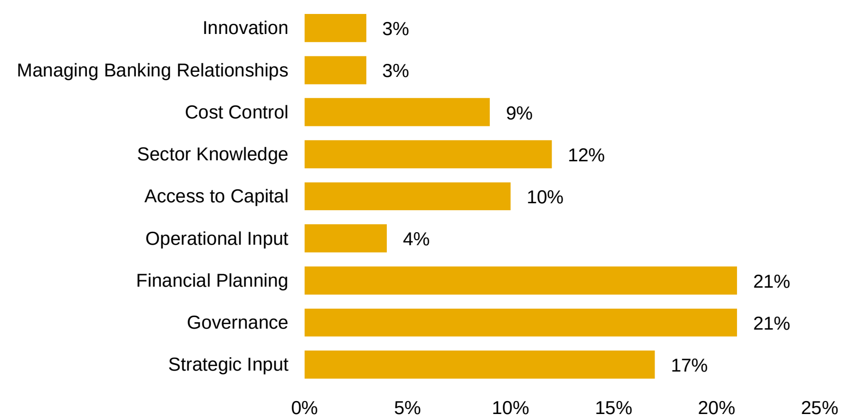
Hands-on involvement with portfolio companies

A majority of investors would like to involve in the "Corporate governance" process of their portfolio companies, with 21% selected by respondents, an increase of 16% from the last survey.

The area of "corporate governance" has not been always received sufficient attention by portfolio companies. As a frontier economy, corporate governance is often weak. The lack of compliance is also due to loose enforcement by the government and lack of self-disciplines of the companies. In addition, different management styles of portfolio companies have also been creating more difficulties. For instance, privately held businesses usually have centralized power within a few family relatives, equitized SOEs' management are not often proactive, with little accountability and usually short-term goal focus. In both cases neither of them have provided sufficiently fair treatment to other shareholders and also do not focus on creating long-term values for all shareholders. This would explain why investors wish to involve in nurturing a corporate culture with good governance.

"Financial Planning" (21% selected) and "Strategic input" (17%) are the next most important focus areas for investors. Given local businesses are having new opportunities from AEC, TPP, foreign investors with years of experience, sector expertise and global insights can provide valuable advice to investee companies.

PARTICULAR AREAS FOR HANDS-ON INVOLVE MENT WITH PORTFOLIO COMPANIES



Key factors to be considered when investing in private companies

Chosen by 20% of participants, "Transparency in business activity" has become the most important factor that PE investors consider when investing in Vietnam. The country's score on Transparency International's Corruptions Percentage Index remained unchanged in for 4 consecutive years at 31 out of 100 (with zero being the most corrupt and 100 being the least corrupt) indicating there was no improvement in this area. The result is a loss of competition advantages over the other neighbouring countries.

In second place is "Growth story/forecasts", with 17% of respondents, no change compared to the last PE survey in Q2-2015. In addition, "Operational/cultural fit" and "Cash flow" are equally important to consider when making investment in Vietnam, cited by 11% of respondents.

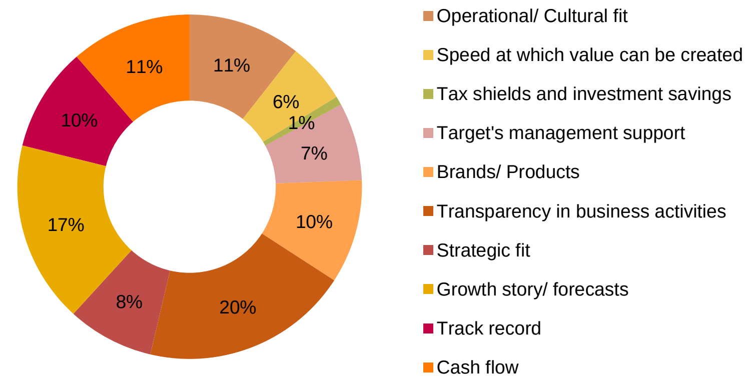
The participants continued to list "Corporate Governance" and "Transparency" as their biggest concerns when investing in Vietnam, with 19% of participants. The developed countries such as the US would focus intensively on this area before making investments. Delays in improving the two areas are likely to cause local firms to miss out on these investment opportunities.

In addition, "skill of existing management" is also an issue given Vietnam is opening up more to investors. The problem is more serious in the local SME sector where the majority of them have limited knowledge, yet see little benefit in improving management skills. Their main concern seems to be staying afloat and maintaining current production[1].

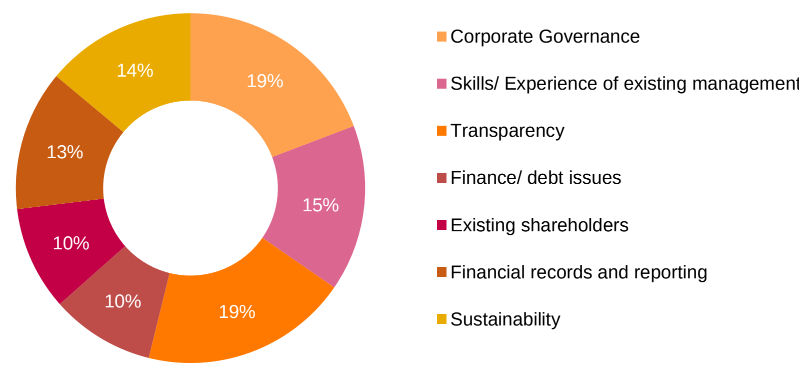
Lastly, there are also big concerns on "Sustainability", which increased to 14%, higher by 3% compared to the last Survey.

It is a real challenge in today's economy context given many risks and persistent problems regarding adequate infrastructure, shortage of skilled labour, and a low income population. A timely and proper reform in both economic and social conditions would be the only way to develop the country in a sustainable way.

THE MOST IMPORTANT FACTORS TO CONSIDER WHEN INVESTING IN VIETNAM



MOST CONCERNING ISSUES WHEN INVESTING IN VIETNAM



[1] BBGV (by Ken Atkinson)

PLANNING AN EXIT

Exit planning

7%

↓19%

of respondents cited that the availability of debt finance in Vietnam as "very difficult to obtain".

56%

↑3%

cited "5x – 10x EBITDA" as the average exit multiples.

85%

↑11%

anticipated the level of exit activities across the market to "increase" or "remain the same".

32%

↑1%

"IPO" continued to be one of the best routes for exit strategy.

68%

↑6%

foresee a "slight increase" in terms of cost of debt in the next 12 months

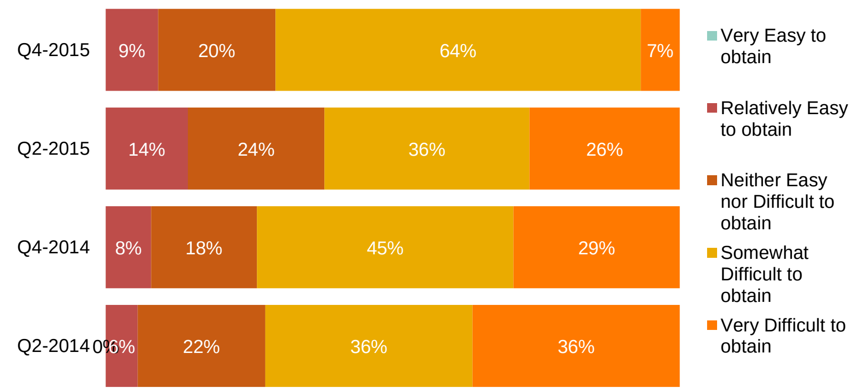
Access to finance

It is noted that in the last 4 surveys, participants consistently cited that access to debt finance remained difficult. However, the number of responses "very difficult to obtain" decreased significantly, especially in the Survey Q4-2015, i.e. from 26% 6 months ago to 7%. This implied a noticeable improvement in accessing debt finance.

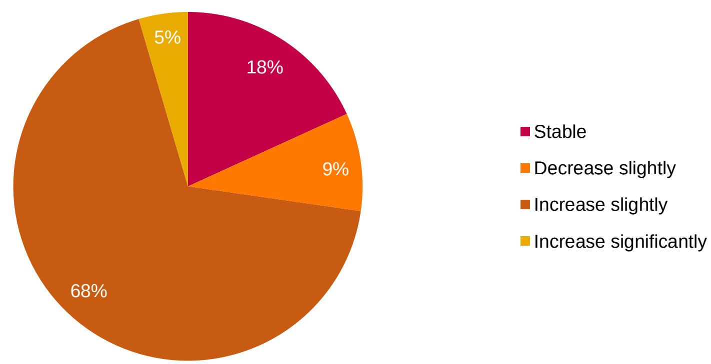
In terms of cost of debt~~s~~, 68% forecast that interest rates are going to "increase slightly", or even "increase significantly" in Vietnam, as voted by 5% of respondents.

In fact, in the last two months, there have been a few banks increasing slightly deposit rates to c.4-5% p.a (3-6 month term) and c.7% p.a (above 12 month term). These moves have yet to affect lending interests (approx. 6%-9% p.a for short-term and 9%-11% p.a for long-term loans). However, in the mid-to-long term, VND interest rates could move higher. The main pressure would come from increasing capital needs of domestic enterprises, following the recovery of the economy at boosting both consumption and production.

THE AVAILABILITY OF DEBT FINANCE FOR PRIVATE EQUITY INVESTMENT WITHIN VIETNAM

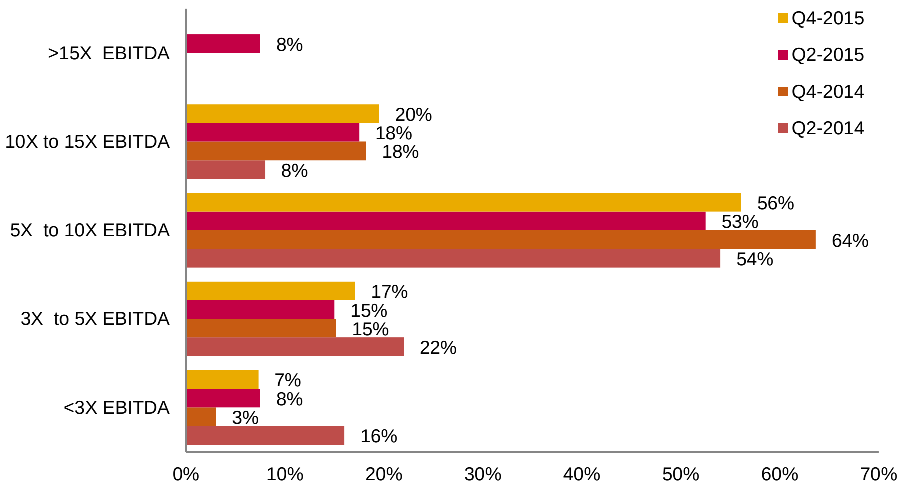


THE COST OF DEBT OVER THE NEXT 12 MONTHSA

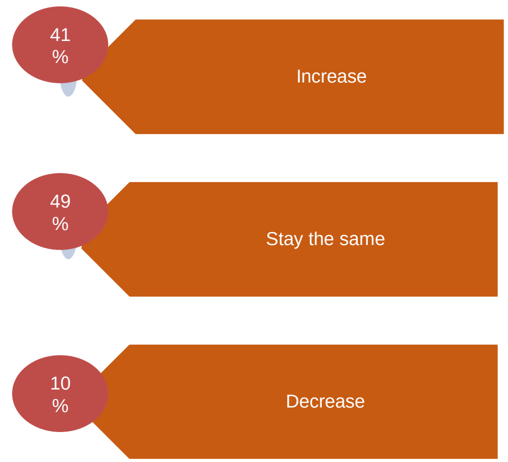


Exit multiples

EXIT MULTIPLES FOR INVESTMENT IN VIETNAM



FORECAST EXIT MULTIPLES



The trend looks quite consistent in that "5X to 10X EBITDA" has always been the most common exit multiples for investments in Vietnam, cited by 50 – 60% participants in our last 4 surveys. About one-fifth of respondents expected a higher exit multiple, "from 10X to 15X EBITDA", an increase of 2% compared to Q2/2015. And no participant believed an exit multiple of "above 15X EBITDA" can be expected.

Overall, the majority of respondents believe that these exit multiples will remain unchanged in the next 12 months, as selected by 49% of respondents.

Exit strategies

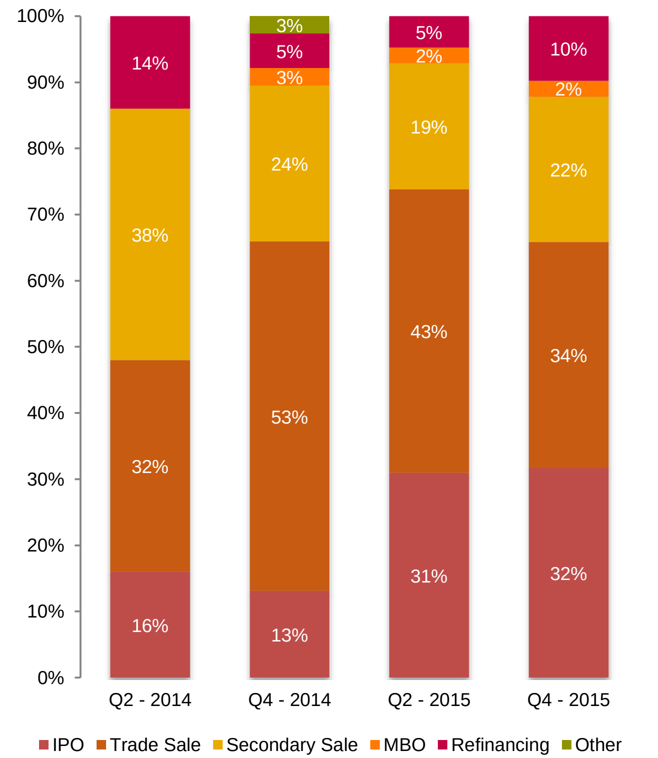
"IPO" and "Trade sale" continued to be the most selected exit strategies for PE investors in 2015.

Although "Trade sale" remained the most popular exit channels, in this survey the route has become less favored, chose by only 34% (versus 43% in the Survey Q2 2015).

With the coming into force of Decree 60/2015/ND-CP, when certain restrictions on foreign ownership in listed entities have been removed, public markets are increasingly attractive as a potential exit strategy. This leads to the IPO route continued to be selected by over 30% of respondents in the last two consecutive surveys. The selection was also consistent to those reported on sources of transactions and level of competition among buyers.

The number of respondents preferring "Secondary sale" rose by 3% to 22% after 3 consecutive surveys showing a declining trend. There was also an interesting change regards to the number of respondents citing "Refinancing" as effective exit strategy been doubled to 10% in this Survey, indicating investors' expectation on the improvement of their investment portfolios following the recovery of the economy in 2015 and beyond.

THE MOST ATTRACTIVE OR ACHIEVABLE EXIT STRATEGY FOR PRIVATE EQUITY INVESTMENTS



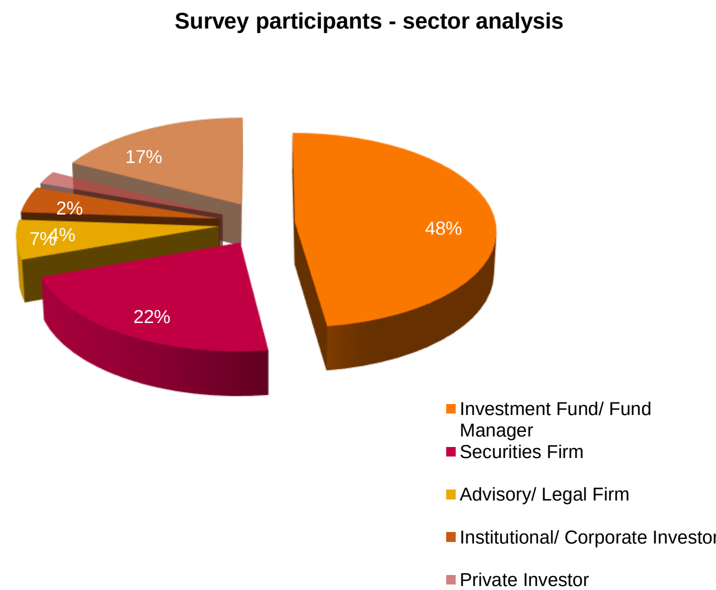
ABOUT THE SURVEY

Grant Thornton and the Private Equity survey February 2016

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.

This survey was undertaken between December 2015 and January 2016.

PRIVATE EQUITY SURVEY PARTICIPANTS IN FEBRUARY 2016



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