

Look out for steady investment growth

August 2016



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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 15th survey on the Private Equity sector carried out in July 2016, the respondents with positive view towards Vietnam's economy, while still accounts for the majority (55%), has declined by 6%, with the corresponding increase in neutral views. Consistent with this decline, the participants who anticipate an increase the level of investment activities to increase in Vietnam in the next 12 months, has gone down to 72%, a reduction by 14% compared to 6 months ago.

In regard to sources of transactions, it is notable that Private/Family owned entities have come back to be the most significant source of deals, as agreed by 33% of the participants.

The Retail sector and the Food and Beverage (F&B) sector continue to be considered the two most attractive sectors for Private Equity transactions in our recent surveys. It is also highlighted that Private Equity investors are increasingly interested in the Education sector, whose rating of "very attractive" increased by 16% compared to our last survey.

The survey emphasises that "Economic growth" and "Sector specific opportunities" continued to

be critical for deal success. "Difference in valuation expectations" and "non-disclosure of material items at the appropriate time" topped the list of critical factors contributing to deal failure.

With an optimistic view of Vietnam economy, we are looking forward to steady growth in Private Equity investment in Vietnam in the coming 12 months.



INVESTMENT ENVIRONMENT

Investment environment

5.52%

GDP growth rate
in H1 2016



lower than the targeted
6.7% set by the
Vietnamese
Government for 2016

Ranked
2nd



in terms of
investment
attractiveness
compared to
other ASEAN
countries

↑10%



69% considered
Vietnam “attractive” in
terms of investment
attractiveness in today’s
global economic
context

40%



a 10% increase in
neutral view about
Vietnam’s economy
outlook in the next 12
months

91%



flagged “corruption”,
“government red
tape” and
“management’s lack
of long-term
strategies” as the
biggest obstacles
when investing in
Vietnam

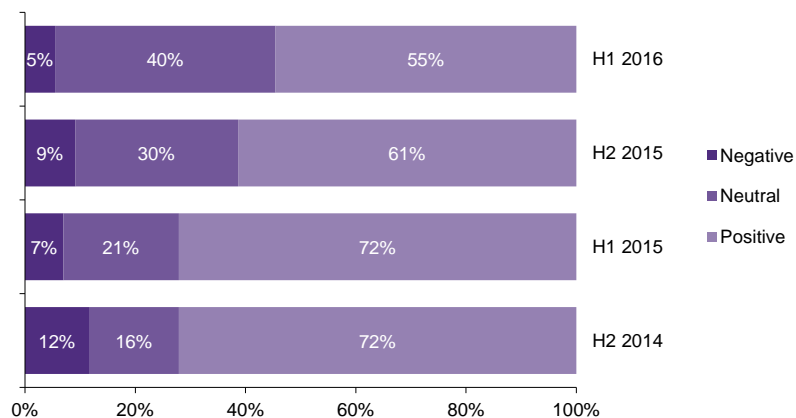


Economic outlook over the next 12 months

More neutral view

The number of respondents expressing neutral sentiment has increased by 10% in this survey, reflecting investors' concern over the signs of the economy slowing down in H1 2016.

GENERAL OUTLOOK FOR THE VIETNAMESE ECONOMY OVER THE NEXT 12 MONTHS



¹ General Statistic Office

² Grant Thornton's Chairman Insight

In the first half of 2016, Vietnam's GDP growth rate reached 5.52%, lower than the 6.32% figure of the same period in 2015 and the target of 6.7% for the fiscal year 2016. In terms of inflation, H1 2016 CPI was at 1.8% compared to that of 2015. Interest rates were stable at 4.5% to 7.2% and the credit growth rate at 8.16% in H1 2016, higher than the 6.28% figure of the same period in 2015 and within the target range of 18-20% for the year 2016¹.

The above factors show signs of the economy slowing down during the first half of 2016. Weather anomalies, including severe drought in the Centre and Highland areas and saltwater intrusion in the Mekong Delta are cited as some of the main reasons for slower GDP growth rate.

The slow recovery of the US and EU economies and downturn in the Chinese market also have a significant negative impact on the Vietnam economy which depends heavily on exports to China.

Corruptions, slow reform of SOE's, the high ratio of public debt, constraint of the

national budget, weak competition from SME's remain the big concerns for future outlook of the Vietnamese economy.

While the majority of PE respondents (55%) are still positive on the economic outlook of Vietnam, this rate has gone down by 6%. On 29 April 2016, the new Prime Minister had a meeting with 500 business leaders and showed the commitment to promoting the rule of law, fighting corruption and bureaucracy and protecting the legitimate rights of business to create an enabling environment ². Later the Government issued Decree No.35/2016/NQ-CP on providing support and development of enterprises, especially SMEs for period 2016-2020. Those continuing improvements in the business climate being championed by the new Government are having a favourable impact on investor confidence and expected to create new drivers for economic growth.

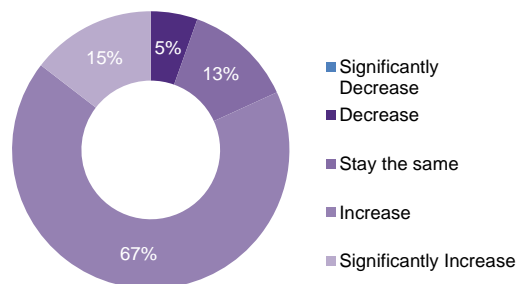
It is generally believed that GDP growth in 2016 will achieve a rate of 6.3% to 6.5%, lower than the targeted rate.

Investment outlook

Increase in level of investment activities

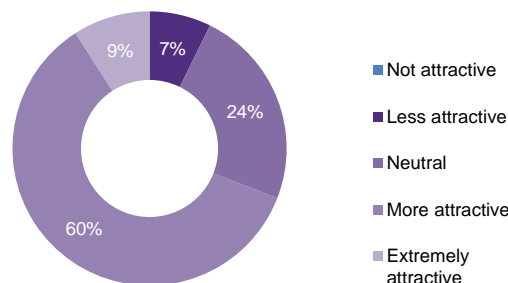
82% of our participants forecast the level of investment will increase, a slight decrease of 4% compared to the last survey.

FORECAST LEVEL OF INVESTMENT ACTIVITY IN VIETNAM



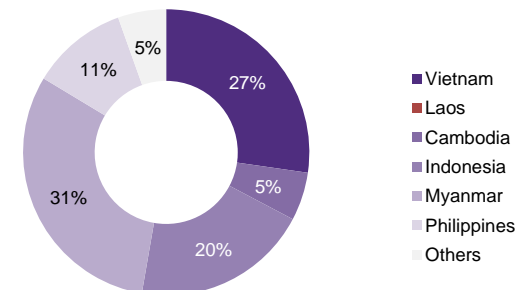
The majority of our respondents anticipate the level of investment activity in Vietnam will increase. According to the Foreign Investment Agency, in H1 2016, there was USD11.28 billion newly registered and additional capital contributions from existing FDI enterprises increased by 5.4% compared to the same period of 2015. There are several reasons for the growth in FDI, including establishing of AEC which has broadened Vietnam's market, the tendency of FDI moving from China to other Asian countries with Vietnam as one of the top destinations, and the effects of FTAs between Vietnam and other countries such as Korea, Japan, EU, and the TPP. Besides that, improvement in business environment also has affected the level of FDI in Vietnam.

VIETNAM RANKING IN TERMS OF INVESTMENT ATTRACTIVENESS



In terms of investment attractiveness, the trend is quite similar to our last survey, where PE investors see Vietnam as "attractive" and "more attractive" accounting for the largest proportion, with 69% selected, an increase of 10% compared to H2 2015. The fact that China is no longer the ideal destination for manufacturers with more expensive labour and low productivity has created opportunities for Vietnam. With favourable conditions such as abundant labour resources, low operation costs, diverse population structure, and a stable political environment, Vietnam is becoming an attractive investment destination for foreign investors.

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



When asked to rank Vietnam and other neighbouring countries in terms of investment attractiveness, 27% of the respondents rooted for Vietnam, once again granting it the second place after the long-standing number one investment destination Myanmar.

In this survey, Indonesia has regained its attractiveness for investment with about one-fifth of the professionals voting for it as the most attractive market. In addition to several competitive advantages such as cheap labour, strong workforce and substantial resources of raw materials, the Indonesian government has revised several regulations to stimulate foreign investment. In 2015, Indonesia released 10 economic policy packages to simplify business permits and provide tax incentives for key economic activities.

Investment obstacles

"Corruption" ranked 1st

"Corruption", "government red tapes/processes" and "management's lack of long-term strategies" are continuously selected as the top three critical investment obstacles in Vietnam, with 91% of the respondents.

"Corruption" has been ranked the most critical investment obstacle in our last few years' PE reports. In January 2016, Towards Transparency (TT) announced the Corruption Perceptions Index (CPI) 2015 of Vietnam at 31/100 ranked 112/168 globally¹. Accordingly, Vietnam stays among those nations where corruption is perceived as serious. The weaknesses were cited including legal loopholes, weak enforcement of the Anti-Corruption Law and the absence of effective mechanisms to encourage people's participation. This fact has negatively influenced Vietnam's business environment where companies are likely to experience bribery, political interference and

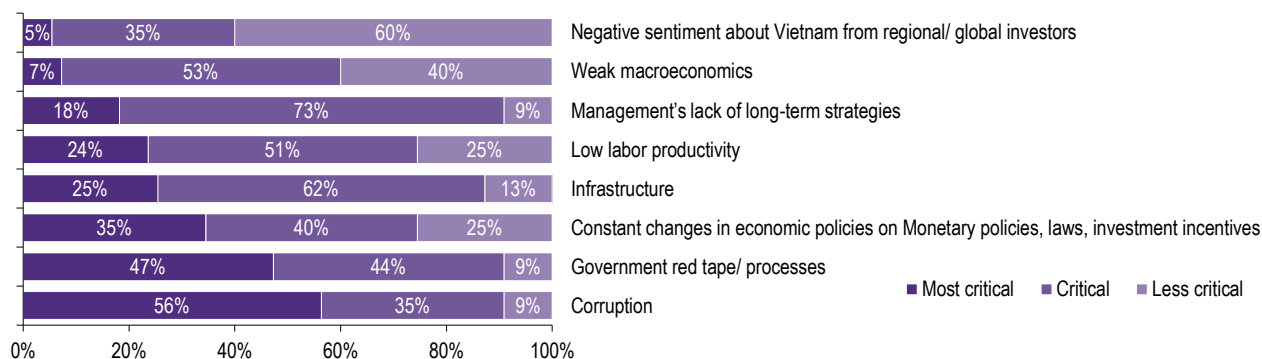
facilitation payments. With the new Government and the move to revise the Anti-corruption Law, investors hope for positive transformation in corruption in the near future.

"Government red tape/processes" and "management's lack of long-term strategies" remain as two of the most concerned obstacles for PE investors in Vietnam, as highlighted in our last survey.

It is highlighted in this PE survey that the number of respondents on "Constant changes in economic policies" voted for "most critical" has been increased from 15% to 35%. In order to achieve

the aim of improving the legal framework of Vietnam, the Government has made a lot of reforms and amendments to many laws including Law on Investment, Law on VAT, Law on Construction, etc. and its corresponding Decrees, Circulars. Whilst such changes in laws and regulations could raise concerns about the legal environment among companies and investors. If policymakers continue issuing regulating documents without synchronising the entire legislative system, it could become one of the most critical investment obstacles for Vietnam.

INVESTMENT OBSTACLES IN VIETNAM



¹ TT report released on 27 January 2016

INVESTMENT CONSIDERATIONS

Investment considerations

56%



forecast more
buying than
selling activities
in the next 12
months

↑15%



33% expect “Private/
Family owners to be the
most significant source
of deal

↑17%



“Foreign PE
fund” is foreseen
as the most
competition for
deals by 44%

↑9%

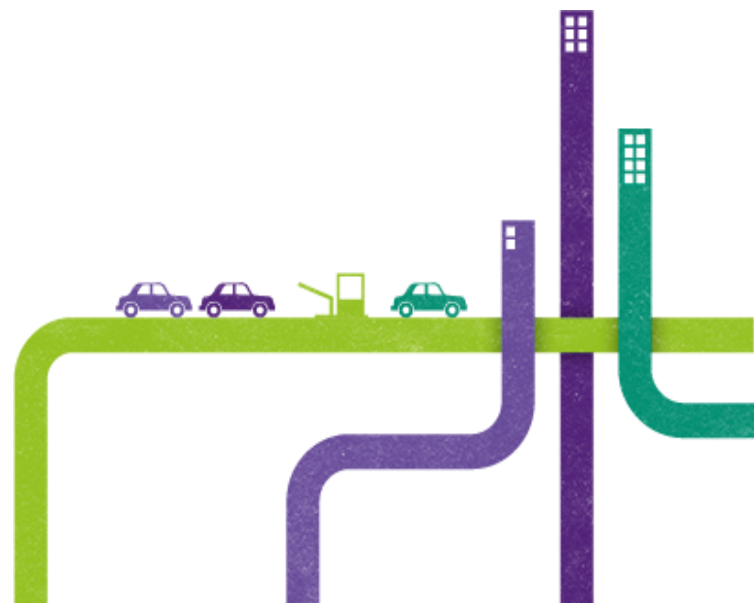


“F&B” is
regarded as the
most attractive
industry in the
next 12
months, by
50%

↓12%



63% believed
“Economic growth” is
the greatest
opportunities for PE in
Vietnam

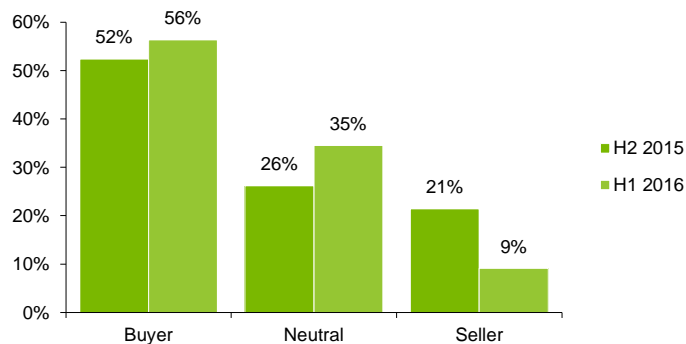


Sources of transactions

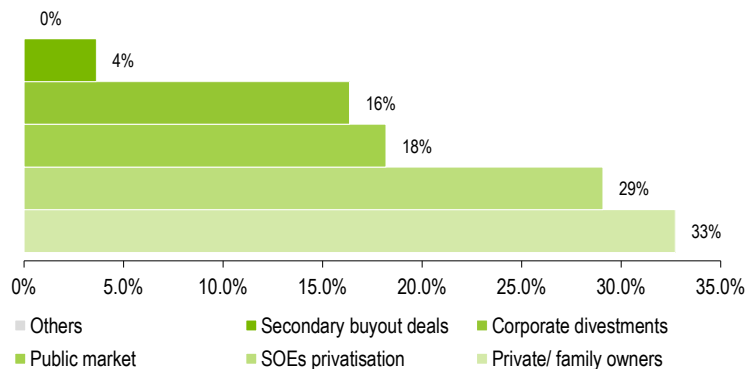
"Private/family owned entities" ranked 1st

"Private/family owned entities" has come back to be the most significant sources of deals, chosen by 33% of participants.

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



SOURCES OF DEALS IN VIETNAM



In this survey, the bullish view for the next 12 months continued to account for the majority of the participants, with virtually no change in the proportion of net buyers compared to our last survey.

With regards to deal origination, "private/family owned entities" have replaced "SOE privatisation" as the top option, chosen by almost one third of participants. The percentage of participants perceiving "SOE privatisation" as a highly sought-after source diminished from 46% in our last survey to 29% in this survey.

By the end of 2015, there were approximately 100 SOEs failing to complete the privatisation/equitization process, falling behind the Government's plan of privatising 285 SOEs. Further delays in SOE privatisation has left investors with a reduced interest.

In addition, stakes offered in IPO in SOE privatisation are much lower than expectations of PE investors, being under 5% in many cases. Accordingly, the State still hold predominantly a controlling interest after IPO, posing concerns amongst investors of continued low efficiency in performance.

Therefore, private/family owned companies with management holding controlling stakes and being directly tied to the company's performance are now more attractive to investors than SOEs.

Competition on M&A transactions

Biggest competition from Foreign PE funds

Foreign/International Private Equity funds is voted as the highest competition for deals by 44% participants.

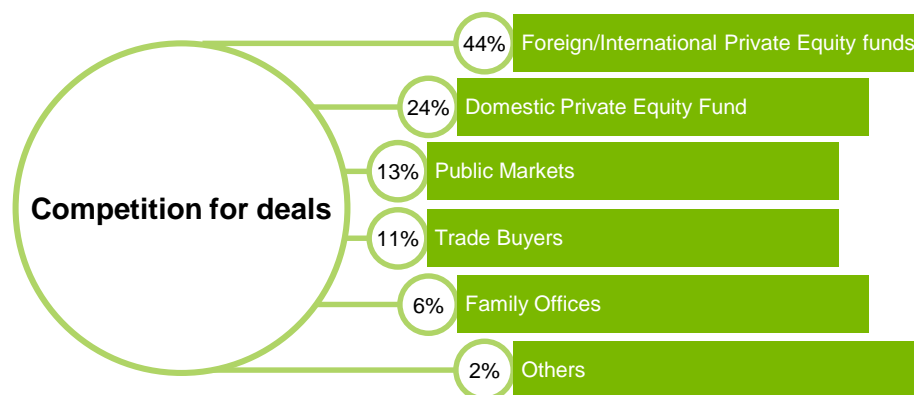
Foreign funds regained prevalence against domestic funds and trade buyers in M&A activities. In our survey, while the proportion of respondents reporting competition for deals from foreign funds surged from 27% to 44%, a noticeable drop, from 25% to 11%, was seen for trade buyers.

Vietnam has seen more interest from leading global PE firms. Warburg Pincus already announced in early 2016 their plan to target Vietnam as a key long-

term focus in South-East Asia. Standard Chartered has invested USD28m investment in consumer/fintech (Momo app) and Navis also invested in healthcare (HFH Hospital) in the first half of 2016.

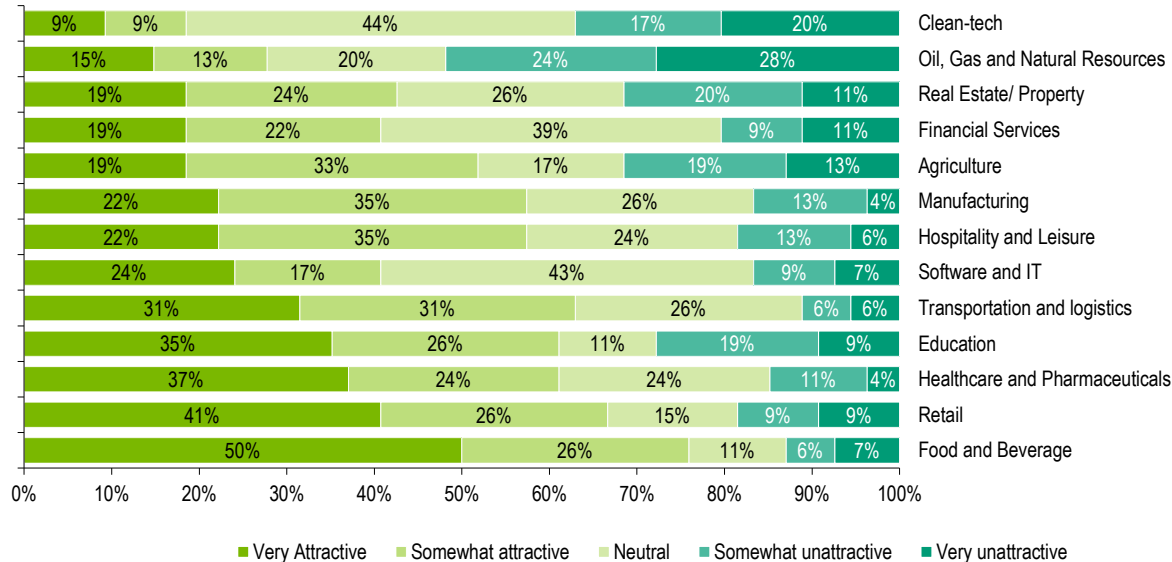
Local PE funds have lost their position with 24% of respondents seeing them as the 2nd most competition for deals, a decrease from 30% in H2 2015.

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



Industry attractiveness

INDUSTRY SECTORS IN VIETNAM



"Food and beverage" and "Retail" remained the two most enticing industries: F&B topped the ranking, being regarded as very attractive by 50% of respondents, followed by retail (41%). These industries benefit from Vietnam's robust growth in consumption, which is not only thanks to population growth but also in terms of rising income.

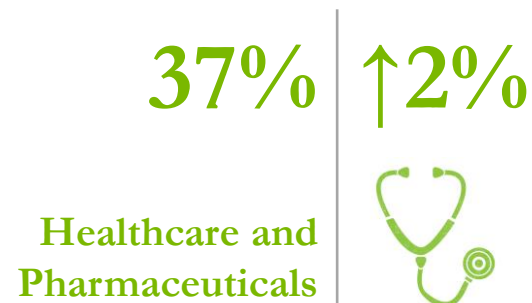
With constant growth in the F&B industry in recent years, F&B, in general and catering industry, in specifically, is considered one of the most attractive sectors to PE investors in Vietnam, with many recent successful fundraising such as Wrap&Roll (USD6.9 million), Kafe Group (USD5.5 million), Huy Vietnam (USD15 million), Golden Gate (USD35 million), etc. Value sales of the catering industry is forecast to increase at CARG 5.9% from VND447 trillion (USD20 billion) in 2016 to VND562 trillion (USD25 billion) in 2020¹.

Consistent with our last survey, retail sector still remains one of the top attractive industries for PE investors. E-commerce is a new trend in the retail sector. Although e-commerce only accounted for under 3% of retail in 2015, the segment grew 37% in the last year and is forecast to gross USD10 billion by 2020.

¹: Euromonitor reports on May 2015



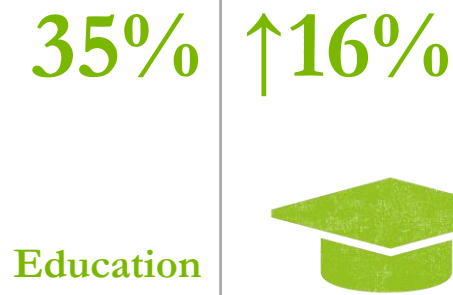
Industry attractiveness



Ranked 3rd, "Healthcare and pharmaceuticals" industry was chosen by 37% as very attractive. Alarming environmental pollution outbreaks and food safety issues in the recent period have heightened consumers' awareness to health and food safety issues. Furthermore, pharmaceutical distribution channels are still highly fragmented and healthcare services remain in shortage, leaving exciting market opportunities.

In addition, foreign ownership cap for businesses providing health related services been lifted to 70%, fast tracking of work visas for qualified medical professionals have created significant changes, providing salient opportunities for investment in this sector.

Ranked 4th, education is regarded by 35% of respondents as a very attractive industry, increased significantly by 16% compared to our previous report. Over the last few years the Government has increased budget allocations, liberalised private sector involvement, and encouraged foreign participation in developing education and training services in Vietnam. With a young population and traditional values focusing on education, the industry is anticipated to see vigorous growth in the future, especially in foreign languages, international tertiary education, kindergartens and e-learning services.



Key factors to be considered when investing in private companies

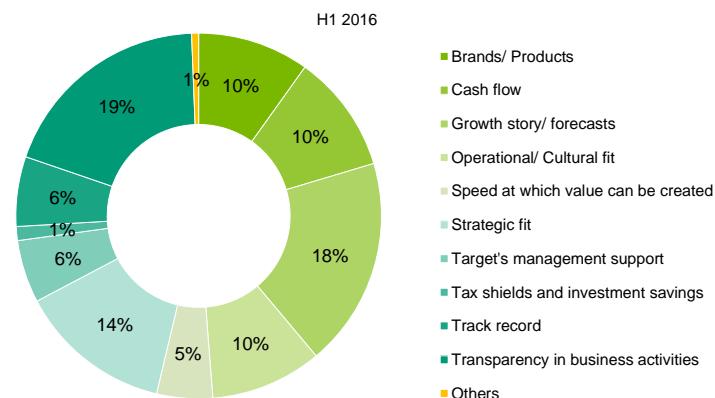
In H1-2016, “Growth story/forecast” and “Transparency in business activity” are chosen by 19% participants. It is noted that these factors keep being chosen as the top two considerations of respondents in our recent surveys.

“Strategic fit” has gained more attention from investors where the number of responses increased to 14%, taking the 3rd place in the most important factors to consider when investing in Vietnam.

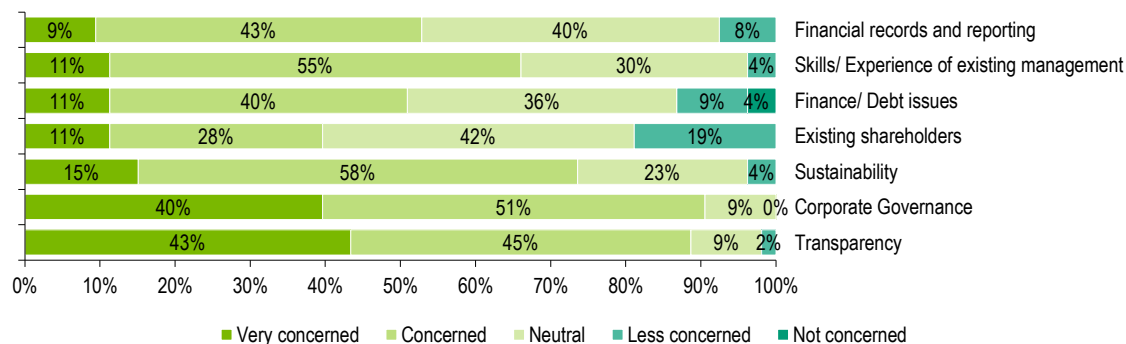
“Transparency” and “Corporate Governance” are continuously selected as the two most concerning issues for PE investors when investing in Vietnam. As analysed in our last survey, delays in improving the two areas are likely to cause local firms to miss out on investment opportunities.

"Sustainability" was listed amongst the top three concerning issues for PE in Vietnam, with 73% stating this issue as “concerned” and “very concerned”. 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



Key deal success factors

Economic growth

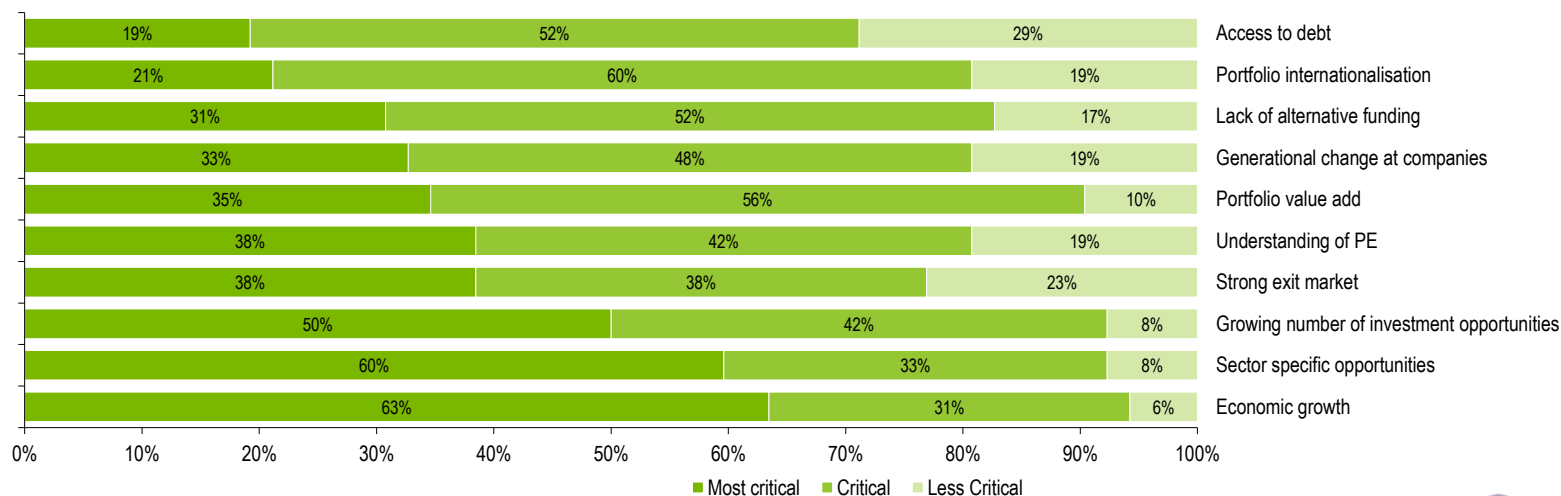
"Economic growth" and "Sector specific opportunities" remain as the two greatest opportunities for PE in Vietnam, voted by above 60% of our participants.

"Economic growth" continued to be an advantage for Vietnam against other destinations. Despite the slow down in GDP growth in the first half of 2016, other aspects of the Vietnam economy still showed growth including imports and exports, rising foreign investment, several FTAs boosting economic growth, etc. Vietnam's growth is also driven by growing domestic consumption, high population density, and rapid infrastructure development. With all these benefits, along with the positive outlook on Vietnam's economy in the coming years, Vietnam has been considered as one

of the key destinations for PE investors.

The number of respondents who chose "Sector specific opportunities" as a key deal success factor was similar to that of H2-2015, with 95% of the participants. Yet, the percentage for "Most critical" for this factor decreased from 76% in H2-2015 to 60% in H1-2016.

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



Key deal breakers

Difference in valuation expectations

“Difference in valuation expectations” continued to be the most common deal breaker, cited by 83% of participants.

“Difference in valuation expectations” is the most critical issue that could break the deals. Following in the 2nd and 3rd places are “Non-disclosure of material items at the appropriate time” and “Changing the deal” selected respectively 75% and 73% of selections.

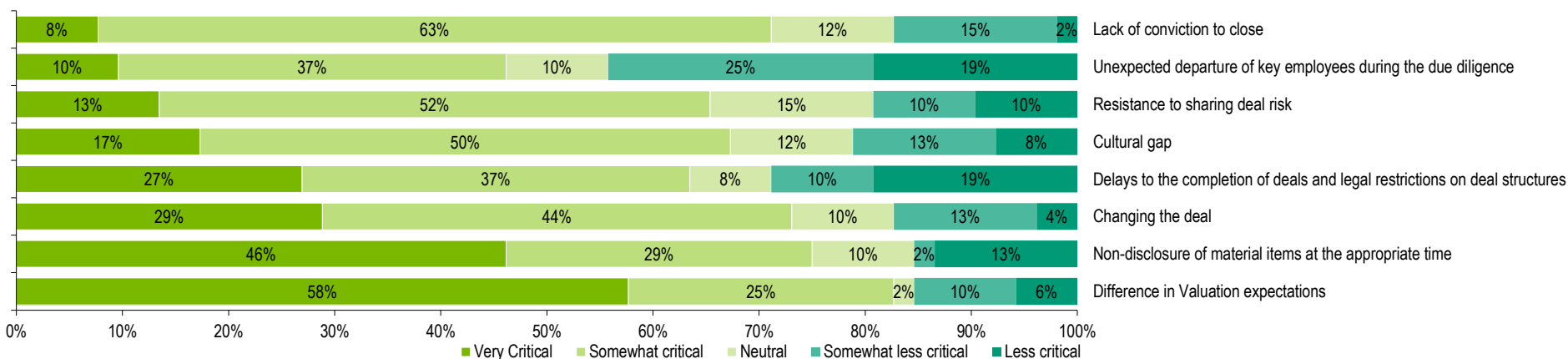
“Difference in valuation expectations” increased slightly from 75% in our last survey to 83% in this survey. Significant difference in opinions of two parties regarding valuation is one of the most common reasons for deal failure not only in Vietnam, but also in global market. Most dealmakers felt that current market valuations were not sustainable, while diligence work frequently results in an overly optimistic view of the revenue and synergy opportunities.

Unannounced material changes in a business, although beyond seller’s control (e.g. downturn, losing an important client or a key employee), still

adversely affected the deal closing out. 75% of respondents noted this issue as the key deal breaker. Changing the deal also remains in the top three factors causing deal failure, with 73% of total responses.

It is notable that 71% of our respondents voted “Lack of conviction to close” as a critical deal breaker, a significant increase from 36% in the last survey. This fact raised investors' concerns over sellers who are unwilling to coordinate and complete the transaction such as renegotiation at the last minutes, information limitation, etc.

FACTORS CAUSING DEAL FAILURE



INVESTMENT PORTFOLIO

Investment portfolio

↓6%



“Performance improvement” continued to be the most important driver of value growth with 48%.

↑6%



“Market growth” rose to be the second most important driver of value growth with 37%.

22%



consider “Corporate Governance” the most important area of hands-on that investors most commonly contribute to portfolio companies.

21%



consider “Financial planning” the second most important area of hands-on contribution from investors.

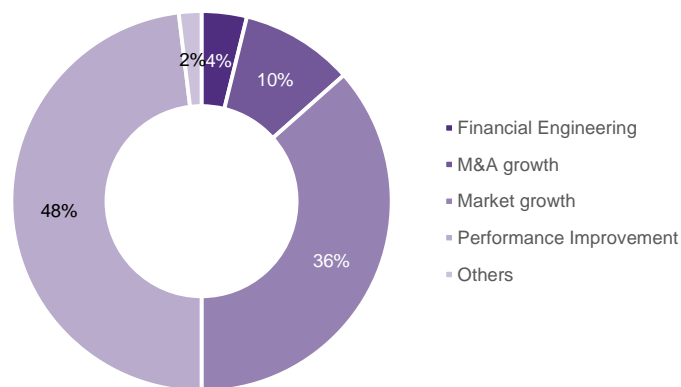


Key value's drivers

"Performance improvement" ranked 1st

"Performance improvement" remains the key value of drivers, as cited by 48% of participants.

IMPORTANT DRIVERS OF VALUE



When considering important drivers of value, a substantial 82% of respondents voted "Performance improvement" and "Market growth" as the two most important factors for the creation of value.

"Operational improvement" has been the most important value driver during our recent surveys. In a recent study by McKinsey, the key value creation driver for successful PE deals is the out-performance of the portfolio. PE players consider performance improvement such as cost reduction and improving employee contribution and productivity as an essential part of their key strategies.

On the other hand, PE investors tend to acquire a company that operates efficiently. In the context that the world's economy changes everyday, investors would prioritise the fundamental health and efficiency of portfolio

companies.

"Market growth" is listed as a value creation by 36% of PE investors (an increase of 8% compared to our last survey). Thanks to AEC, ASEAN will become a large scale potential market, creating greater opportunities for Vietnamese enterprises to boost revenue growth.

Hands-on involvement with portfolio companies

"Corporate Governance" ranked 1st

"Corporate Governance" and "Financial planning" are cited as the top 2 hands-on involvement with portfolio companies.

In general, the list of areas for hands-on involvement with portfolio companies still followed the trend from our previous surveys. Unsurprisingly, "Corporate governance" and "Financial Planning" are two areas that investors want to have hands-on involve with their portfolio companies.

"Corporate Governance" has been a significant concern from PE investors since Survey Q2-2014. In this survey, this area has passed "Financial Planning" to be the top concern, as voted by 22% of respondents.

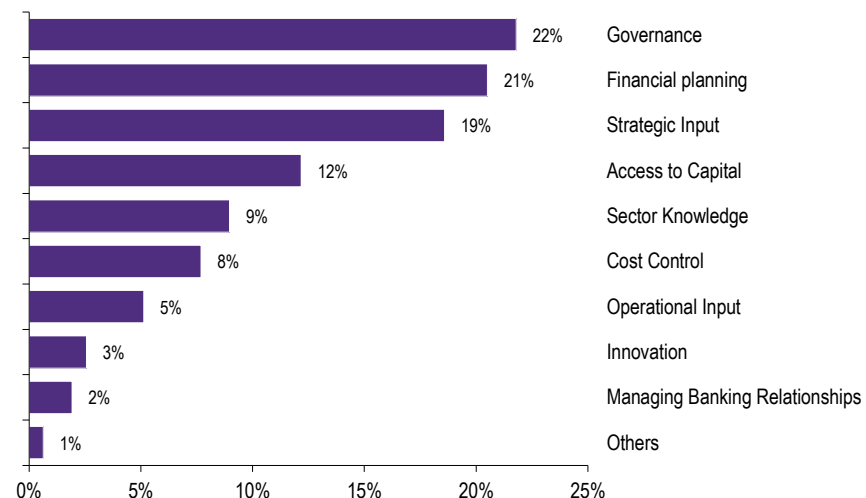
Corporate governance is an essential part of PE firms' value creation strategy. Although good governance could not guarantee a successful business, several primary features of

corporate governance clearly help to drive performance.

Corporate governance also supports to enhance a company's reputation and credibility, making it more attractive to all interested parties. As the final goal of every PE investment is a profitable exit, private placements or public offerings are more realistic if an investee has robust corporate governance, especially in the areas of transparency and disclosure.

"Strategic input" witnessed a minor increase from 17% in H2-2015 to 19% in H1-2016. This trend is consistent with the increasing attention of PE investors in "Strategic fit" when they invest in Vietnam.

PARTICULAR AREAS FOR HANDS-ON INVOLVEMENT WITH PORTFOLIO COMPANIES



PLANNING AN EXIT

PLANNING AN EXIT

Planning an exit

↓21%



50% of participants see the debt finance in Vietnam as difficult to obtain.

↑6%



40% cited "Trade sale" as the most selected exit strategy for PE investors

↑20%



62% expect level of exit activities to stay the same in the next 12 months.

↑7%



63% forecast their exit multiples at 5X-10X EBITDA

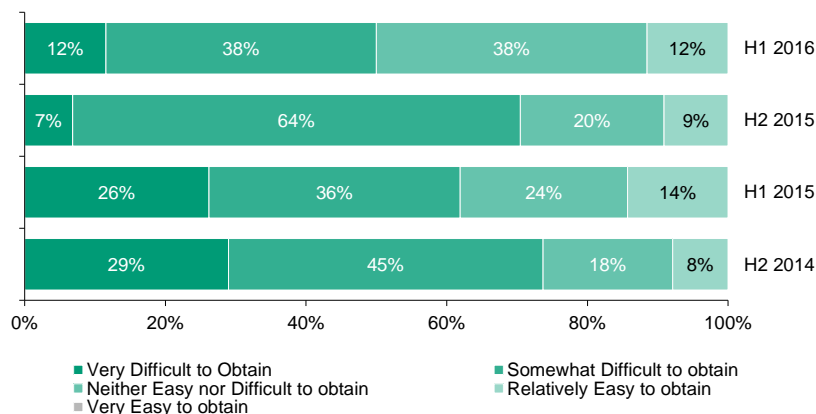
↑6%



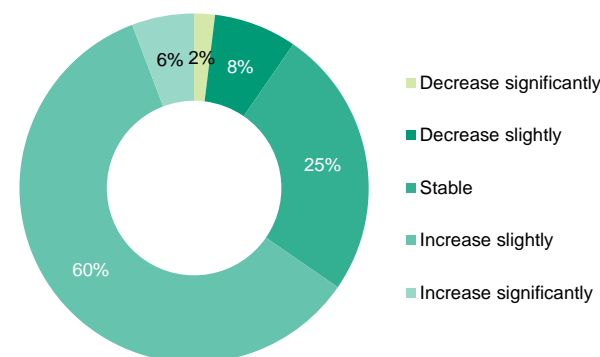
6% selected "15X EBITDA and above" as their exit multiples, compared to none selections in H2 2015

Access to finance

THE AVAILABILITY OF DEBT FINANCE FOR PRIVATE EQUITY INVESTMENT WITHIN VIETNAM



THE COST OF DEBT OVER THE NEXT 12 MONTHS



In H1 2016, the ease of getting credit in Vietnam has improved significantly after a slowdown in April 2016 thanks to the impact of many government's resolutions. A series of actions have been applied including easing of regulations on lending, reasonable money supply, stable exchange rate, issuance of government bonds, fund allocation to a priority list of sectors, increasing foreign exchange reserves and low inflation, etc.

This fact is reflected as decrease in number of respondents citing "very difficult" and "somewhat difficult" from 71% in H2 2015 to 50% in H1 2016.

The result is also consistent with "13th Doing Business

2016" issued by World Bank, where Vietnam's ranking has risen from 36 in 2015 to 28 in 2016 in term of getting credit.

In terms of cost of debt, most of respondents predict that interest rates will rise slightly in the next 12 months, voted by 60%, and a large portion of 25% is of opinion that interest rates are going to be stable.

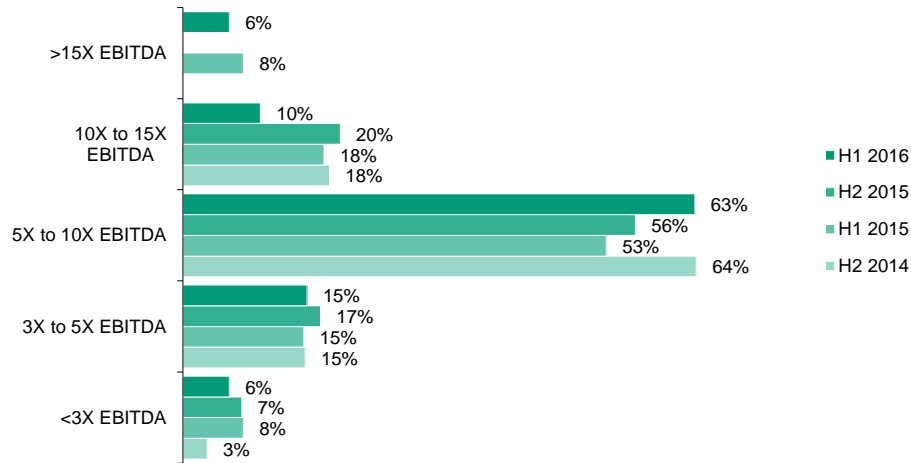
State Bank of Vietnam aimed to maintain the lending rates at current levels. However, the pressure to increase lending rates is quite due to expected higher inflation, increasing deposit rates and accelerated disbursement of public investment. The issuance of Government bonds of VND30,000 billion will

contribute to the increase in funding demand, and thus cause pressure to increase the deposit rates. According to State Bank of Vietnam, a number of banks have announced a small increase in deposit rates in July 2016.

Hence, it is expected that even in the worse case scenario lending rates would increase only slightly thanks to many measures by the government to control the inflation rate and deposit rates to keep lending rates stable.

Exit multiples

EXIT MULTIPLES FOR INVESTMENT IN VIETNAM



The trend observed is similar to the last survey in H2 2015. Most of respondents expect the exit multiples for their portfolio to remain stable in the next 12 months, cited by 58%. The percentage has increased from 49% in H2 2015.

“5X to 10X EBITDA” remains the most common exit multiples for PE investors in Vietnam, cited by 63% of respondents, which is an increased from 56% of respondents in H2 2015.

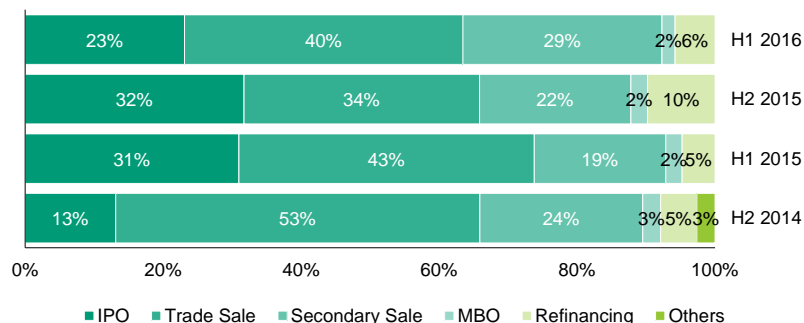
There is an interesting trend in that “15X EBITDA and above” is now cited by 6% of respondents, while there was none selection in our last survey.

FORECAST EXIT MULTIPLES



Exit strategies

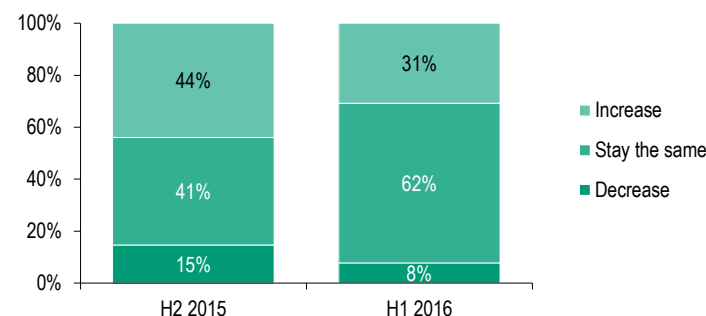
THE MOST ATTRACTIVE OR ACHIEVABLE EXIT STRATEGY FOR PRIVATE EQUITY INVESTMENT



Most of respondents (62%) cited that exit activity in PE investment will remain stable, a significant increase from 41% in H2 2015. The answer is consistent with expectations from respondents to be a net buyer rather than seller.

“Trade sale” continues to be the most selected exit strategy for PE investors in this survey period. “Secondary sale” has also been on an increasing trend since H1 2015’s survey, and become the second most preferred choice for exit strategy.

FORECAST LEVEL OF EXIT ACTIVITY OVER THE NEXT 12 MONTHS



ABOUT THE SURVEY



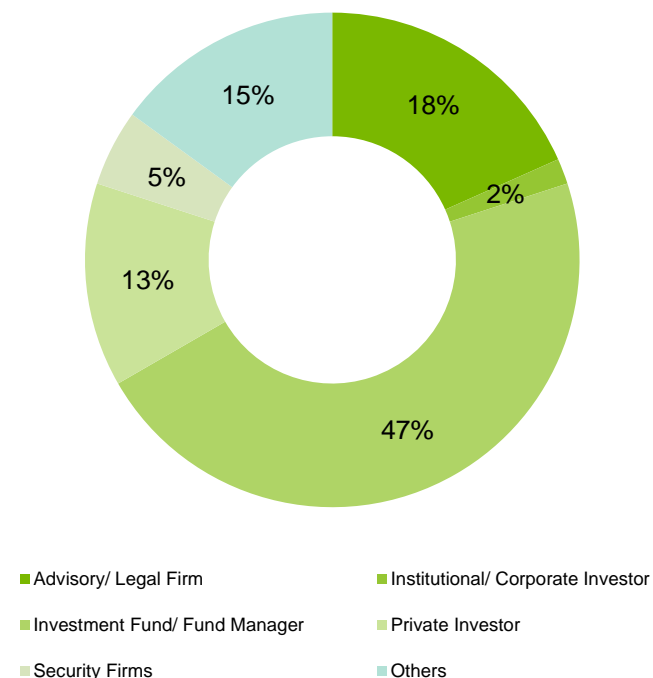
Grant Thornton and the Private Equity survey

July 2016

This is bi-annual survey that Grant Thornton Vietnam conducted with respondents from 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 in July 2016.

PRIVATE EQUITY SURVEY PARTICIPANTS IN JULY 2016



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