

# WHAT THE FUTURE COULD HOLD FOR EDUCATION INVESTMENT IN VIETNAM



**NGUYEN THI VINH HA**  
Head of Advisory Services  
Grant Thornton  
(Vietnam) Ltd.

**NGUYEN THI HONG NHUNG**  
Senior manager, Advisory  
Services, Grant Thornton  
(Vietnam) Ltd.

Vietnamese culture has always placed high value on education, which is the reason why Vietnamese parents are willing to make education a priority in their expenses. A survey by the National Centre for Socio-Economic Information and Forecast under the Ministry of Planning and Investment in the 2015-2016 period shows that spending on education accounts for an average of 34.7 per cent of total household spending.

Education also receives a lot of attention from both domestic and foreign private investors. According to the annual Private Equity in Vietnam survey by Grant Thornton Vietnam, in 2019, education was one of the most attractive sectors for investment, voted by 35 per cent of participants. Investors are interested in all education segments, from kindergarten and K-12 to higher education, as well as after-school training (English, art, science and technology), vocational training, and adult training.

We believe that the education sector is at the start of a golden development phase, supported by a variety of factors, including the following three main factors.

## DEMOGRAPHICS

The increase in income and the growth of the middle class are one of the main drivers for spending on education in Vietnam. The middle class is expected to reach 40 per cent by 2030 or before.

With a population of more than 96 million people, 60 per cent of whom are under 40 years old and 34.4 per cent live in urban areas; Vietnam has an extremely favourable demographic structure for the development of the education sector. People of the 7x-8x and even 9x generations – those having a good education background and high income – are starting to become

parents. These young mums and dads often have higher demand for quality, and therefore are willing to spend more to let their children access the required knowledge and skills.

## GOVERNMENT INCENTIVES

Spending on education has been quite substantial, accounting for approximately 20 per cent of the total State budgetary expenditure, and will continue to increase. Private and foreign investment in education is also encouraged. The government allows foreign investors to set up and own up to 100 per cent of education institutions.

To support investment in kindergartens and K-12, in 2018, the government issued Decree No.86/2018/ND-CP, replacing Decree No.73/2012/ND-CP, allowing an increase in the proportion of Vietnamese students studying at an international school teaching foreign curriculum to 50 per cent (previously 0-20 per cent, depending on the stage of education). This paved the way for investment in kindergartens and K-12 schools to flourish, with a number of international and bilingual schools established and a number of mergers and acquisitions (M&A) transactions succeeded.

## GROWTH OF FOREIGN INVESTMENT IN VIETNAM

Foreign direct investment in Vietnam has been escalating over the years, leading to a large number of expatriates coming to the country to live and work, driving the need for international schools and high-quality education institutions. Recently, with the change of Vietnam's socio-economic position amidst the US-China trade tensions, Vietnam is now expected to be an alternative destination to China for many foreign businesses. This will further boost the demand for investment in education.

## WHAT TO EXPECT FOR EDUCATION INVESTORS IN THE FUTURE?

With the impact of the above supporting factors, we expect that investment in the education sector will experience the following major development trends:

*Investment in kindergartens and K-12 schools will continue to flourish*, including new establishments, mergers and acquisitions (M&A), and private equity transactions. This segment has enjoyed more attention than any other in recent years, and has always been on the radar of both strategic and financial investors.

Benefiting from huge demand, investment in this sector is expected to grow, especially through geographical expansion outside of Hanoi and Ho Chi Minh City as the urbanisation rate and average per-capita in-



come increases.

*Investment in higher education and vocational training will receive more attention.* The current regulations to establish new universities are quite strict, including licensing requirements (establishment must be approved by the prime minister) and minimum capital requirement (VND1 trillion – \$43.5 million, excluding land value). Therefore, most transactions in this segment have been conducted through M&A.

For example, Nguyen Hoang Group acquired four universities between 2016 and 2018 while Navis Capital Partners acquired a majority stake in Thanh Thanh Cong Education JSC, which owns Sonadezi College and Yersin University of Dalat in 2019. We also notice that many big corporations have expressed the interest to expand into education, partially to meet their internal demand, partially to catch the rising trend in education, somewhat like VinGroup or FLC Group. Therefore, we expect to see more M&A transactions in this segment going forward.

*Training for a new technology era will be an inevitable development.* English has been considered an essential skill in the era of globalisation and has attracted large investments from foreign private equity funds such as Baring Private Equity Asia acquiring Vietnam-USA Society English Centers (2019), Mekong Capital and Kaizen PE investing in YOLA English Center (2017-2019), and TAEL Partners investing in IvyPrep Education (2018-2020). However, at the beginning of the Fourth Industrial Revolution, the National Science Foundation – an independent agency of the US government – predicted that 80 per cent of the jobs created in the next decade will require some form of mathematics and science skills. Therefore, the education sector in every country, including Vietnam, is faced with preparing a generation of students for the skills needed for the 21<sup>st</sup> century workplace. STEM education (science, technology, engineering, and mathematics), therefore,

is expected to attract more interest.

*Online training will be a complementary method for the traditional training model.* The outbreak of the COVID-19 epidemic has posed unprecedented challenges to the brick-and-mortar education model. Many education institutions have quickly turned to online teaching. For example, YOLA and Everest Education successfully converted over 90 per cent of their students to online classes while Teky – the technology institute for children completed its edtech platform in February, instead of a development over the next 2-3 years.

These positive results could be a sign of the future for the online education model and a beginning of the investment trend into edtech. However, we believe that the future education model will likely be a combination of online and offline (O2O) where online education will be complementary to the traditional brick-and-mortar model. We notice that investors, especially financial investors, have been paying attention to this segment. However, there are not many sizeable opportunities since Vietnam is still in the early stages of development.

## SEIZING OPPORTUNITIES IN THE EDUCATION SECTOR IN VIETNAM

We are in a time of many challenges – but also many opportunities for growth. What can businesses and investors do to leverage their opportunities in this sector? Through our discussions with many investors in the industry, it is not difficult to identify opportunities, however, what is challenging is how to obtain and maintain the capital and survive the current challenges to become the leader. For founders, developing a quality and sustainable strategy that focuses on meeting future demand would help to enhance investors' confidence in their investment decisions.