



Pursuing M&A in Vietnam

**Dealmaker's perspective on
challenges and solutions**

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Foreword

KPMG in Vietnam conducted its very first Mergers and Acquisitions (“M&A”) Survey in 2013, called “Doing deals in Vietnam”, which received widespread positive feedback. Since then, the Vietnamese M&A market, characterized by its outstanding vibrancy, has doubled in transaction value, from US\$4 billion in 2013 to US\$8.6 billion in 2017.

Vietnam, one of the “most attractive M&A destinations in Southeast Asia”

Since our inaugural edition of the M&A Survey, the Vietnamese economy has continued to grow in strength, driven by inbound investments in a number of sectors. Between 2013 and 2017, disbursed Foreign Direct Investment (“FDI”) grew by more than 58% from US\$8.9 billion to US\$14.1 billion. M&A activity has grown at an even faster pace of 115% over the same period in terms of deal value. Regionally, Thailand, South Korea, and Japan are among the remarkable investors, while leading global private equity houses such as Warburg Pincus, TPG, KKR, and Navis Capital are becoming more active.

Why invest in Vietnam?

The rapidly expanding Vietnamese market offers a number of attributes that makes investing in this country attractive: a fast growing economy; integration to the global economy via participation in numerous free trade agreements; a strategic location in the center of Southeast Asia and its access to a regional marketplace of 600+ million people; good and reasonable labor supply; and a high urbanization rate. Due to these reasons, Vietnam is becoming well-known as a manufacturing hub, growing consumer market, and door to other Asian markets.

Overall, the quality of the investment environment has significantly improved. Now, Vietnam ranks 55th compared to five years ago (rank: 91st) according to the Global Competitiveness Index from the World Economic Forum. This ranking is higher than six European Union countries.

About this publication

We have conducted a detailed sentiment survey with deal professionals in the market, including more than 300 professionals working in private equity houses, securities companies, and M&A advisory firms, as well as owners of companies.

In addition to the insights gained from surveyed professionals, this year’s survey captures the view of KPMG Vietnam’s senior dealmakers and transaction advisory experts regarding current market dynamics. Through this engagement, our report is able to showcase the drivers, success stories, and hard lessons learnt in the country.

We would like to express our most sincere gratitude to all the respondents who spent their valuable time to contribute to our study, and we hope that readers gain some valuable insights from this publication.



Warrick Cleine

Chairman & CEO
KPMG in Vietnam & Cambodia
Global Leader of High Growth Markets, Tax

**Note: Transaction values are not disclosed for a large number of transactions. Transaction volumes comprise M&A and private placement transactions*

Executive summary

The M&A market in Vietnam has witnessed strong growth in the past few years

An aspiring, young and skilled labor force, rising middle class and free trade agreements are only a few of the many drivers that have drawn the attention of investors towards doing deals in Vietnam. While concerns about the investment environment still exist, the Vietnamese M&A market features an increasing number of financial and strategic investments, which have led to strong growth in terms of total transaction value. In a period of four years, the market value of the industry has surged from US\$4 billion in 2013 to US\$8.6 billion in 2017, with a record-breaking US\$4.8 billion acquisition of Saigon Beverage Company (SABECO) by Thai Beverage (TBEV.S).

...and expects to retain momentum going forward.

In 2018, Vietnam's M&A transaction value is expected to increase to nearly US\$7 billion, a 37% year-on-year growth compared to the value excluding the SABECO deal, based on our analysis. Smaller range-valued deals are becoming predominant. Japan, South Korea and China are expected to be the top three nationalities for M&A investors. Food & beverage, healthcare and real estate are the top three sectors that appeal to foreign buyers.

Identifying targets for acquisition is challenging

Vietnam offers a number of quality targets. However, due to a lack of publicly available information, investors often find it difficult to gather a comprehensive list during the identification process. As a result, they usually leverage their existing relationships to short-list potential targets (selected by 75% of surveyed respondents). 64% of respondents had only two to five companies in their short-lists. However, having more than five targets for consideration would likely increase the chances of selecting the right target and closing the deal.

Valuation is a key deal breaker of a potential transaction

Company owners tend to be overly optimistic in their financial projections, inconsistent in providing information, or lack supporting assumptions. A lack of comparable data poses a challenge to investors, as expressed by over 50% of respondents in this valuation exercise.

External consultants are playing an increasingly active role during the due diligence process

Investors are now engaging external consultants for due diligence work, as they grow concerned with "quality of information, responsiveness, preparedness and willingness to share information as well as legal issues."

Compared to our survey from five years ago, a slightly larger majority (70%) of respondents required less than 12 months to convert an investment idea into a completed deal.

Respondents are now experiencing fewer issues with communication between sellers and buyers, which may have had a positive impact on doing deals in Vietnam.

Financing deals is now considered safe, with three out of four respondents self-financing their deals. However, the ratio of closed deals after due diligence still remains relatively low, as a result of continued concerns over due diligence findings and the gap or mismatch of valuation expectations. On the other hand, the sell-side can avoid unforeseen issues by being prepared and proactive before the due diligence phase begins. To that fact, early communication is helpful for both parties.

Post-deal integration is a concern drawing attention from investors

Post-deal integration is becoming one of the key considerations of a sustainable merger. Post-merger processes can be lengthy and inefficient if not initially well-managed. According to the survey results, buyers should focus more on improving “intercultural competencies,” “compliance,” as well as “alignment of businesses strategy,” so as to create better synergies. For sellers, for a successful deal, it is recommended that closer attention be given to effective communication and clear articulation of business strategy and operations.

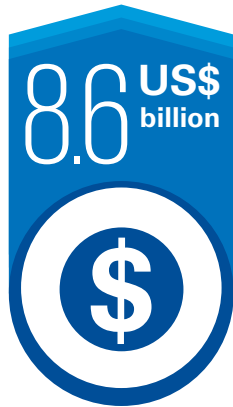
KPMG perspective

To gain better access to Vietnam’s market opportunities, equity-based market entry strategies have become increasingly attractive, especially through mergers and acquisitions. Today, Vietnam has attracted a greater number of interested investors through a higher quality of targets. Target companies in Vietnam are recognized as cooperative and determined when looking for investors. This has resulted in the emergence of untapped potential in the M&A market as well as in countless new opportunities for both sides.



M&A in Vietnam at a glance

10 facts and figures about the M&A market in Vietnam



estimated total value of M&A transactions in 2017



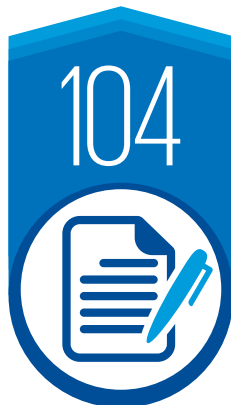
of 2017 M&A transactions in terms of value involve FDI



largest M&A deal in 2017



double-digit growth rate in M&A (2007-2017)



number of closed M&A Deals in 2017



expected number of deals in 2018 and 2019 combined



deal size range for 90% of total deal volume in 2017



Consumer Products

most active sectors for M&A activities (2007-2017)



Japan and Singapore

largest sources of cross-border M&A in terms of volume (2007-2017)



Thailand and USA

largest sources of cross-border M&A in terms of value (2007-2017)

M&A outlook

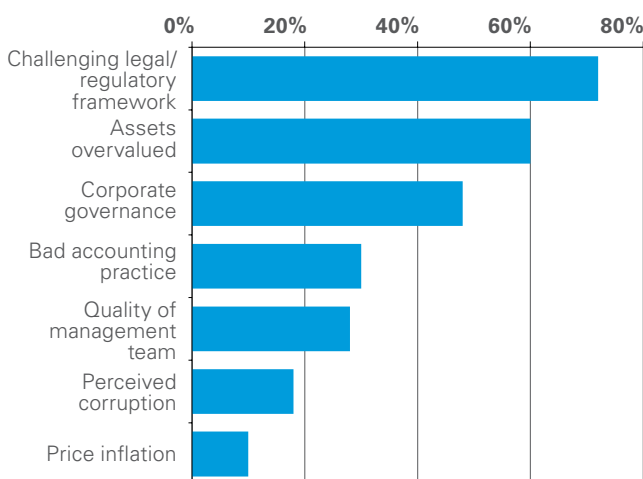
Vietnam's M&A market witnessed a significant increase in total transaction value from US\$4 billion in 2013 to US\$8.6 billion in 2017, thus resulting in a 21% CAGR. Record-breaking deals such as the transaction of SABECO and Thai Bev, with a value of US\$4.9 billion at the end of 2017, have put Vietnam on the world map of large deals.

Amidst the continuous effort of the Government of Vietnam towards the privatization of state-owned enterprises (SOEs), the market has become increasingly attractive to foreign investors and is expected to continue this growth well into the expected forthcoming period. In 2018, market observers predict that Vietnam's M&A transaction value will reach nearly US\$7 billion, a 37% YoY growth compared to "without-SABECO-2017".

Key risks and concerns

Nevertheless, respondents expressed concerns over their existing operation in Vietnam. The country's regulatory and legal framework remains the most prominent challenge to M&A players. Over 70% of respondents expressed concerns over the complicated nature of Vietnam's law and tax regimes when entering the country. With respect to seller and buyer's expectations, valuation of assets poses another challenge, as sellers tend to be overoptimistic about their companies. Furthermore, investors also identified challenges related to management and accounting standards, when entering the M&A market in Vietnam. As a result of these concerns, the market has experienced an increasing trend of various due diligence and market entry services being performed by M&A advisors, so as to help investors mitigate risk.

Key risks and concerns with M&A in Vietnam

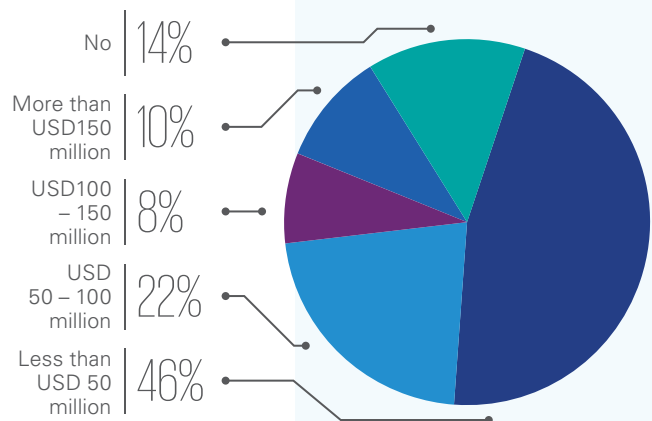


Source: KPMG Survey Analysis

Most M&A deals in Vietnam are less than US\$50 million

90% of the M&A deals are within the US\$3-4 million range. In fact, a majority of our respondents reported their average transaction value to be under US\$50 million. Still, 18% of surveyed companies were optimistic about market in the next five years, with deals over US\$100 million, especially within the next wave of SOE equitisation going forward.

Contemplated transaction value in next 5 years (2018-2023)



Source: KPMG Survey Analysis

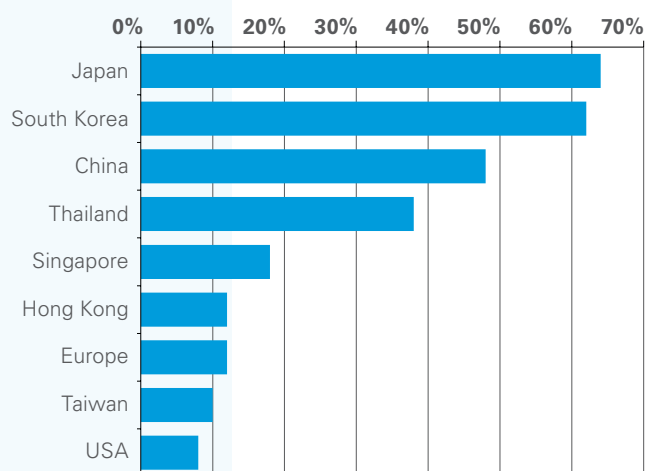
“Due to favorable demographics and a stable economy and political system, Vietnam is expected to sustain increasing FDI inflow.”



Pavan Kapoor
Partner, Due Diligence

Our respondents agreed that Japan and South Korea will continue to be top sources of M&A deals. Many South Korean companies maintain confidence that Vietnam will be one of the preferred alternative destinations to China, primarily due to increased labor costs and tariffs disadvantages in China. Market players also believe that Chinese investors will take a more active role in the Vietnamese market going forward, particularly due to the proposed Regional Comprehensive Economic Partnership (RCEP) trade agreement.

Main source of investment expected in the next three years



Source: KPMG Survey Analysis

Favorable sectors for M&A deals

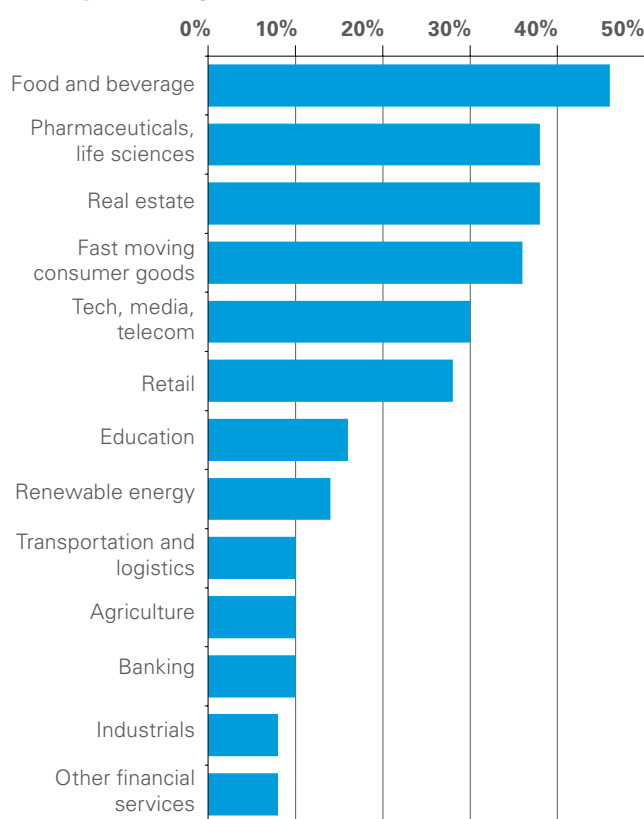
46% of respondents considered food and beverage as the most promising sector for M&A in Vietnam. This trend is supported by a young booming middle class, a stable GDP growth of 6.5% per annum, as well as an increasing exposure to new concepts and cultures that are especially influenced by globalization.

Pharmaceuticals and Life Sciences is the second most attractive sector, noted by 38% of respondents. While some foreign companies within this industry may see M&A as a faster means of obtaining the

necessary licenses in Vietnam, several other arguments made in support of this trend, such as the Government's plan for simplifying licensing policies and reforming regulatory frameworks, and an increasing demand for healthcare, including future medical spending per capita.

Moreover, in line with the country's rapidly rising urbanization rate, the real estate sector will likely continue to be a favorable investment channel, especially in the residential segment and hospitality segment.

Most promising industries for M&A



Source: KPMG Survey Analysis

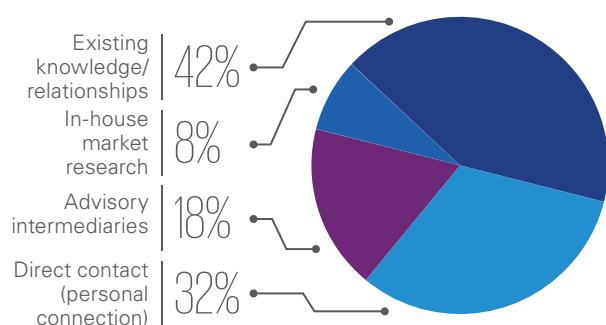
Target identification

According to the Ministry of Planning and Investment, there are nearly half a million licensed companies in Vietnam. In theory, this should offer a broad range of options for companies to enter the market or to expand their businesses. However, only a small percentage of these companies are listed on the stock exchange, with much of their public financial information and other company data remaining extremely limited (or opaque). There is an increasing demand for quality and available data of potential targets.

Common challenges to identify suitable targets

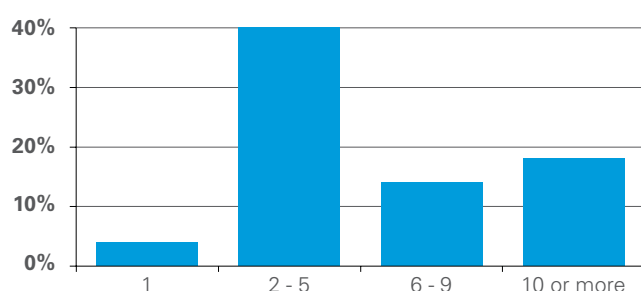
According to our research, most of the respondents (42%) leverage existing relationships or their knowledge of the market in order to seek out opportunities. One third of the companies rely on direct contacts, such as personal connections. 18% use the network and structured approach from advisory intermediaries, while only 8% internally conduct a market analysis to identify potential target companies that were previously unknown to senior management.

Sources for target identification



Source: KPMG Survey Analysis

Number of considered companies before completing a transaction



Source: KPMG Survey Analysis

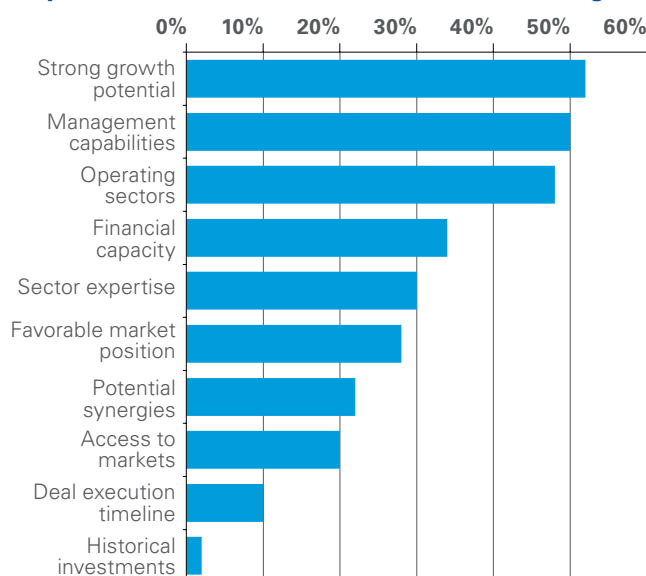
Investors tended to compile a shortlist of two to five companies, while only one third of the respondents looked at six or more before completing a transaction. Regarding the high availability of potential targets in Vietnam, these figures seem to be quite low. The list size might be pared down, because a number of local Vietnamese businesses lack the scale, financial resources and governance requirements to meet international acquirers' screening criteria. On the other side, 75% of investors rely on their network and existing knowledge only, which could limit the number of potential targets.

Key characteristics for target identification

It is important to define key criteria for the partner or target company in a deal. The majority of our respondents considered strong growth potential, management capabilities and operating sectors as the most relevant factors, whereas, potential synergies and access to market seemed to be less relevant, drawing only 22% and 20% of their interest, respectively.

As more investors become aware of Vietnam's potential for penetration and expansion, the demand for quality targets is expected to increase substantially. According to market players, more than 330 deals are expected to be closed in the next two years.

Key characteristics that investors/sellers looking for



Source: KPMG Survey Analysis

Relevance of commercial due diligence and a structured approach for target identification

To assess the actual growth potential and management capabilities of a company, commercial due diligence and a structured approach to target identification will enable both parties in their respective investment decision. This includes both internal and external assessments of the target company. Regarding target search, important steps must be taken including setting the right criteria for the filter process, finding sources for information, and choosing the right channels to initiate contact. This is where professional advisors can bring added value by identifying a suitable target and bringing their expertise and experience to detailed commercial due diligence.

“When investing in a new market, having accurate and timely on-the-ground insights can be what separates deal success from failure. Often clients are in a hurry, or do not fully appreciate the complexities of doing M&A in Vietnam. Through each step of the due diligence, it is important to have market-relevant information that provides proper context for a business opportunity. Doing this properly takes a little more time, but can meaningfully reduce transaction risk, and improve the quality of post-deal integration.”



Luke Treloar
Director, Strategy



Valuation and due diligence

Relevance of valuation process

Upon completion of our survey, we found out that valuation expectations were the key deal breakers in recent years. Seller price expectations are high and could remain an ongoing concern. An important task for a successful M&A transaction is to price the target accurately. Practitioners use two major methodologies to estimate the value of a company, namely, discounted cash flow and earnings multiple.

Primary basis of valuation

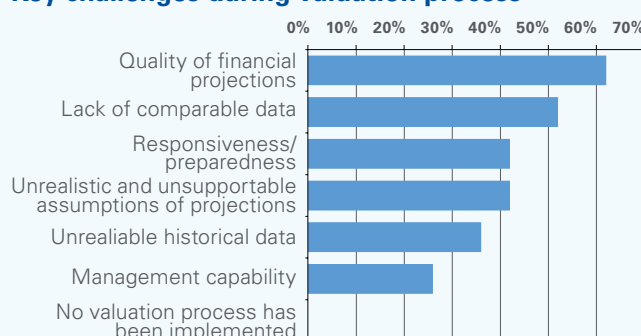
In the absence of comparable data from listed or recently transacted companies, discounted cash flow ("DCF") is, in many cases, the most reliable way to price a company. However, for this approach, the quality of a target's financial projections remains a key concern for a majority of investors in Vietnam. In practice, many Vietnamese firms do not regularly prepare a business plan with financial projections that would otherwise be appropriately used for this valuation approach. Conversely, if projections for a multi-year period are even prepared at all, they may often be overoptimistic, inconsistent or lack supporting assumptions. It is highly recommended that in preparing for a DCF-based valuation, companies seek the help of a financial advisor in order to prepare a comprehensively supported financial forecast, and to derive from these a value range based on transparent methods. This enables buyers and sellers to find a common basis to agree upon. To compound this, due to transparency issues and lack of reputable auditors, obtaining baseline historical was often a bigger issue. Business plans were frequently prepared by buyers themselves allied with special procedures on high-risk balance and due diligence.

Further valuation approaches and its challenges

Another approach, which includes earnings multiples, requires that valuation practitioners obtain multiples from transactions, coupled with growth potential, the quality of management and opportunities for performance improvement. However, the key challenges to this approach lie with the availability of comparable data. According to our survey, over 50% of respondents see the lack of comparable data as a key challenge for valuation. More often than not, it is impossible to derive reliable multiples from other transactions, simply due to the unavailability of relevant information regarding the terms of the transaction. Multiples observed from listed companies in the same industry are often scattered across a wide range of industries and are influenced

by company-specific factors. Also, in many cases, none of the roughly 350 listed companies in Vietnam closely resemble the intended acquisition target – significant differences in size, development stage and diversification to the listed industry peers make comparability difficult and the relevancy of observed multiples questionable.

Key challenges during valuation process



Source: KPMG Survey Analysis

A third approach is to value a company purely based on the value of the assets and liabilities in its balance sheet. This approach, however, can be rendered irrelevant, especially in cases where profitable and growing businesses self-generate goodwill or intangible assets such as customer relationships, trademarks, technology, workforce, and etc. Deriving the value of a company purely from the assets and liabilities in the balance sheet is only appropriate for certain types of companies – for example, holding companies with little, to none, of its own operations.

"Similar to the experiences of our survey respondents, we have seen many deal opportunities fall through due to diverging ideas on the valuation of the target.

The most effective way of reconciling the pricing expectations is a comprehensible valuation model which reflects not only the current state of the business, but also reasonable growth potential, future profitability, requirements for capital expenditure and the risks inherent to the business. The basis for that is a financial projection considering both the microeconomic and macroeconomic drivers affecting future performance of the businesses."



Dr. Franz Degenhardt
Director, Valuation Services

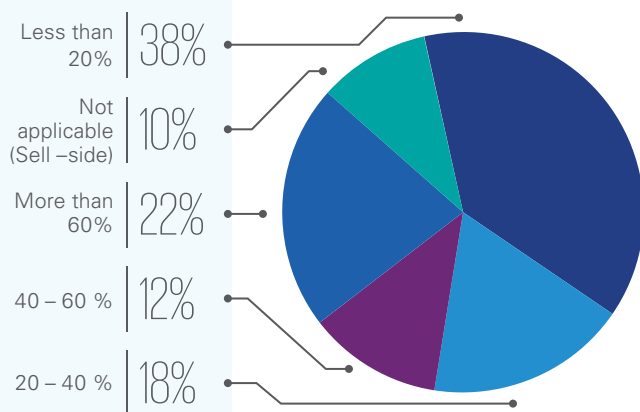
Another challenge that 40% of respondents identified was the lack of responsiveness of target companies in the valuation process. Sellers should keep in mind that investors are looking at a number of potential targets at the same time. Good preparation, the provision of transparent and consistent information (including a professional data room), and the effective development and articulation of business strengths will enable a seller to differentiate from other sellers.

Due diligence

The due diligence (“DD”) process is usually considered as the “total health check” conducted by investors to understand a company’s growth and potential, and issues, prior to making their investments.

According to our survey, four out of five deals failed to proceed after due diligence, as expressed by 38% of respondents, indicating the importance of thorough due diligence. It could also affect the negotiations process in terms of price and conditions, especially if a buyer applies a more conservative valuation method.

Percentage of closed deals after due diligence

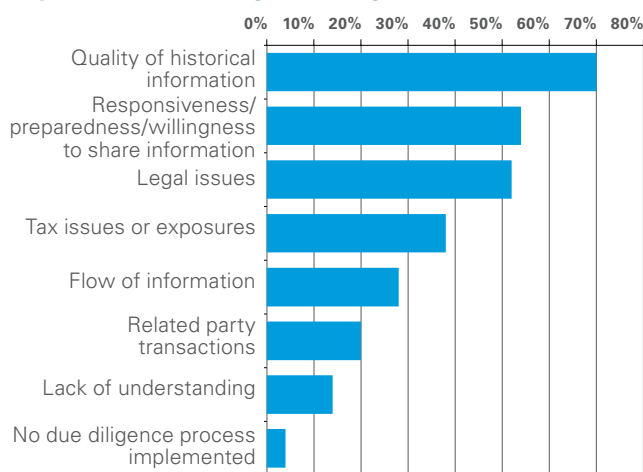


Source: KPMG Survey Analysis

Key challenges during due diligence

Due diligence projects vary widely depending on the investor's needs, which may range from financial, commercial, to IT and environmental, among others. In Vietnam, investors often prefer to delegate financial, legal and tax due diligence to external parties, who usually have a well-established methodology and market knowledge. Less frequently executed is HR, IT and environmental due diligence. A few companies have implemented these, but only on a high-level basis.

Top concerns during due diligence



Source: KPMG Survey Analysis

70% of the respondents confirmed that the quality of historical information is a major challenge. It is common for a Vietnamese company to have financial records that do not reflect the "true" performance of their business. This may be a result of simple mistakes in the system, or human error, such as accounting errors or outdated software. In addition, many companies use a two-book system, having non-GAAP accounting policies or "outside-the-books" businesses. Not surprisingly, tax compliance and tax contingencies are also issues that deserve special attention.

The second biggest issue, agreed upon by 56% of the respondents, is the responsiveness, preparedness, or willingness of the target company to share information. This could also be a consequence of low or moderate quality of information. Some local companies are not familiar with the due diligence process or may need guidance in preparing data for an efficient due diligence.

Potential solutions

In these cases, the buyer should be aware of these potential challenges and be patient with the target company. This means allowing the buyer, or any due diligence advisor involved, more time for data collection. As a result, this could equate to an improvement in the quality of historical information. In addition, the seller needs to be proactive and prepared before the due diligence phase. An accounting expert or advisor should be hired for guidance and effective planning.

"Despite the challenges, foreign investors usually find Vietnamese companies determined and cooperative."



Nguyen Minh Hieu
Director, Due Diligence

KPMG perspective on sell-side

Priming your business for a successful M&A sale

Over many years of advising clients on both sides of M&A transactions, we observed a few common issues seem to transpire across almost all M&A deals in Vietnam. The level of proactivity, wherein sellers choose to engage and handle these issues early on into the deal often determines not just the company's valuation, deal structuring, and negotiation process, but also the eventual success of the contemplated transaction. The same idea applies to a seller's ability to articulate the company's vision, business plan and growth opportunities.

In essence, prior to commencing the deal process, it is crucial for the seller to take on the perspective of a prospective buyer. How will potential buyers view the business, its operating model, and its management team? How will they assess and evaluate the company's accounting and management reporting system? How many risks will they be willing to take with regard to potential tax and regulatory exposure? What will be the critical factors that will either justify or dampen the company's valuation? To gain a firmer grasp of these deal facets, we advise sellers to take an objective stance and to first address the following considerations:

- **Accounting books** – Does the company maintain separate accounting books for internal reporting and for tax reporting? How significant are the tax gaps and estimated time to close such gaps? Does the company pay its social and health insurance obligations for its employees in full? If possible, the seller should either initiate corrective actions prior to the transaction or demonstrate a clear and feasible plan to address these concerns.
- **Management reporting** – How robust is the company's management reporting system? Is the accounting team able to produce typical internal reports such as account receivable aging, inventory aging, etc. on request? The presence of an active management reporting system is a strong indication of the owner's transparency and adept business planning. This will in turn help the buyer to justify the company's high valuation, and to also shorten the time needed to understand the business, and therefore, close the transaction.

- **Deal structuring** – How complex is the corporate structure? What is the nature of business relationships between affiliate entities? What about the shareholder ownership structure in the parent and subsidiaries company? In essence, the seller might want to perform legal and corporate restructuring in advance of the company sale to ensure a smooth closing. For example, the seller might consider creating a "hold co. structure" to enable a straightforward share purchase by the acquirer.
- **Balance sheet cleanup** – The buyer normally requires the seller's shareholders to personally pay back all outstanding shareholder loans or advances as a condition to closing. As such, we would recommend that the seller consider "settling" these balances by "reclassifying" them into dividends paid out to owners. In addition, we recommend that the seller converts as many nonproducing assets into cash as possible, so as to secure a higher valuation for the business.
- **Timing of the transaction** – Typically, companies expecting several years of strong growth will enjoy a higher valuation. This in turn means that choosing the right time to sell (i.e. not too late) may be critical in ensuring that the expected valuation is met.

"Addressing all considerations to a satisfactory level may require extensive efforts by business owners, taking away precious time from running their businesses. As such, it may be more time-efficient and beneficial for sellers to engage a professional M&A advisory team to ensure that their businesses enjoy the highest chance of success at an optimized valuation level for shareholders."



Le Hoang
Director, M&A Services

Closing the deal

Our survey participants were also asked questions concerning their experiences during deal closing procedures. For instance: "How long did it take until an investment idea was translated into a completed deal?" For most of the respondents it took between 6-12 months, 32% indicated over one year, and 28% closed it within six months. The duration largely depends on the industry, size, and complexity of the deal. Also, the legal and regulatory framework can be crucial.



"Since the introduction of the Law on Investment and the Law on Enterprises in July 2015, the post-transaction licensing and approvals process has been simplified and streamlined. However, for transactions involving pre-sale restructure, particularly relating to targets in Vietnam's real estate sector, obtaining the necessary approvals can prove difficult. In some circumstances, an asset deal, as opposed to an equity sale, should be considered to circumvent these difficulties."

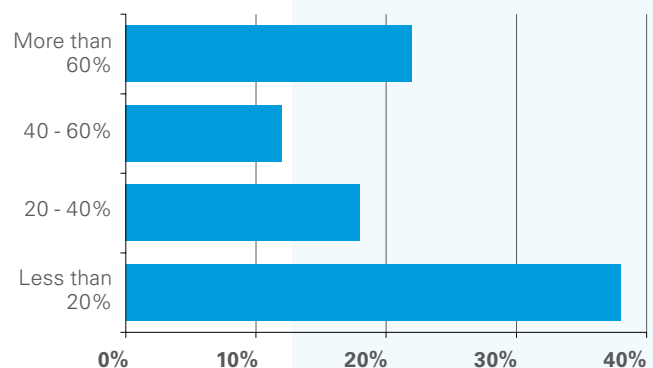


Richard Stapley-Oh
Partner, Head of Legal Services

How many deals were closed after due diligence?

In the past five years, the majority of respondents experienced a deal closing rate of less than 20% after conducting due diligence. One third of the respondents experienced a closing rate of 20-60% after due diligence.

Ratio of closed deals after due diligence process



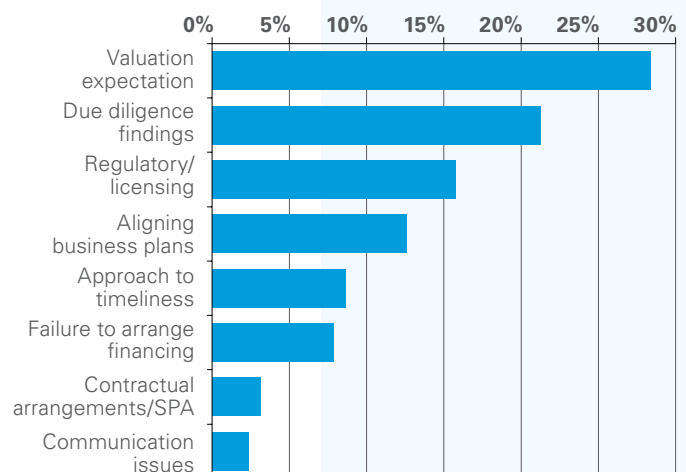
Source: KPMG Survey Analysis

What have been key deal breakers?

One aspect that seems to be common in the Vietnamese merger market is that the final valuation of companies is very different from what either the buyer or the seller initially expected. In total, 72% of the survey participants indicated that the misalignment of valuation expectations was the basis that prevented deal completion.

In addition, a large proportion of respondents indicated regulatory and licensing issues to be the reason that prevented the transaction from closing.

Key deal breakers



Source: KPMG Survey Analysis

New Law on Competition

Concerns over regulating or licensing issues could increase once the new Law on Competition comes into effect July 1, 2019. The new law, like the one it will supersede, governs merger control and anti-competitive activities. Most notably, the Vietnam Competition Authority will be given greater discretion to prohibit, amongst other things, what they deem to be anti-competitive economic concentrations not based on market share as under the 2004 Law on Competition, but whether they “have or potentially have the effect of significantly restricting competition in the market.”

KPMG perspective

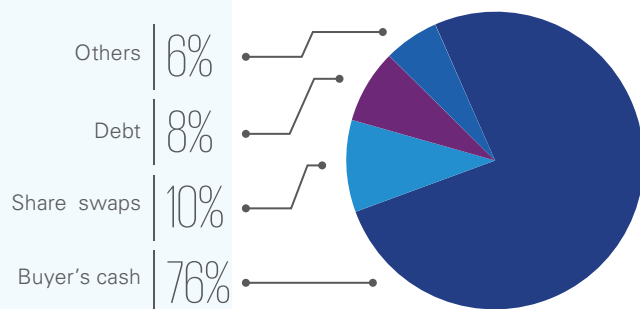
While some quantitative criteria are provided in the draft implementing decree, some of the threshold given (e.g., the value of the economic concentration is 500 billion Vietnam Dong or more) is likely to increase not only the transaction costs, but the likelihood that certain M&A deals will not receive the necessary regulatory approval from competition authorities.

Based on the survey data, at least every other deal in real estate and energy sectors fell through due to regulatory or licensing problems. By contrast, investors mostly seem to have addressed communication issues over time.

How are deals financed?

As the cost of debt financing is often significant in comparison to other capital sources, Vietnamese banks do not serve as prominent providers of acquisition financing. Exactly 76% of the buyers preferred to fund their deals from existing cash reserves. While very few respondents raised acquisition finance in Vietnam, limitations on the availability of new equity sourced from abroad are apparent.

Methods used to finance deals



Source: KPMG Survey Analysis



KPMG Legal perspective

Common legal challenges in dealmaking

“As dealmakers, there needs to be a tradeoff between managing risk and being practical. Too often, risk-averse advisors pile on conditions precedent in the SPA without taking a commercial and practical approach.”



Tran Duy Binh

Director, Legal Services

This can often lead to “deal fatigue” in working through an endless list of conditions precedent, the financial impact of which can be measured by a few thousand dollars. As a solution, investors and their advisors need to concentrate on understanding the market practice and take a commercial approach when doing deals in Vietnam.

Employment issues are often overlooked

In the M&A context, employment issues arise when there is a change of investors, a merger between entities and/or a line of business of the original company is spun-off into a new entity.

When there is a change of investors, the legal entity constituting the employer remains the same, so the previous terms and conditions of employment apply. However, new investors often wish to change employee benefits – for example, if a company is purchased by a different multinational corporation, this new investor may wish to switch employees’ medical insurance to its global provider. This process is often not simple. However, if a particular benefit-provider is specifically mentioned in documents with a binding contractual nature, such as labor contracts, internal labor regulations or a collective labor agreement, legal procedures must be followed, and consent must be obtained to make these changes.

In the case of a merger, employees may continue their employment or be made redundant. If employees are to be made redundant, several legal steps must be followed such as the formulation of a labor usage plan, consultation with the trade union and notification of the labor authority. As these legal steps take a considerable amount of time, the merging entities should consider whether they desire to make employees redundant at an early stage.

“As part of your early planning process, consider how your M&A transaction will impact your workforce and the necessary legal steps to make these changes.”

– Sarah Galeski, Associate Director, Legal Services

In the context of spinning off a line of business to a new entity, the parties generally wish for the employees associated with the transferring business to be transferred with it. In this case, employees must be transferred under the process of “termination/re-hire”. Under this process, employees sign mutual termination agreements with the original entity, and then sign new labor contracts with the new entity. In most cases, employees are offered identical terms and conditions of employment to those they previously enjoyed, but even in this case, early and clear communication with employees is essential in order to ensure they agree to the transfer. We have seen some cases where companies have neglected to properly communicate with employees regarding the transfer, resulting in employees refusing to transfer their employment even though they would be performing the exact same job with the new employer.

Way to success at the closing table

While the narrative for M&A is usually from the buyer’s or investor’s perspective, it is worth noting that sellers can greatly enhance the value of their company, and increase the likelihood of deal completion, by taking some very practical steps. Primarily, before a seller goes to market, there needs to be an understanding of the overall health of the company. Hiring a professional firm to conduct a vendor due diligence – financial, tax, commercial, legal – would help identify problematic areas, and the necessary remedial measures. This not only enhances value, but also makes the seller credible to investors, making negotiations based more on objective criteria and financial targets, rather than “gut” feeling. Ultimately, a compliant company makes an overall more attractive target, thereby increasing the likelihood that the deal will close since a proactive seller will have already identified and addressed material issues.

Quotes from our expert interviews

"We found that sellers often have business plans that are too optimistic. However, we rarely depend on such plans for our valuation." – A director of a private equity firm

"Attractive sectors, management capabilities and a strong brand of targets are the most important factors for us to make investments." – A large M&A advisor

"It normally takes us 12-18 months to complete a transaction in Vietnam, which is longer compared to other SEA markets." – A Japanese M&A advisor

"We have found out that valuation expectation of the sellers have currently become more reasonable than five years ago." – A regional M&A advisor

"We rarely pay more than 8x EBITDA, except for the targets that can prove they can grow quickly in one to two years." – A director of a private equity firm

"I have received many inquiries for opportunities in Vietnam from clients in Korea." – A Korean M&A advisor



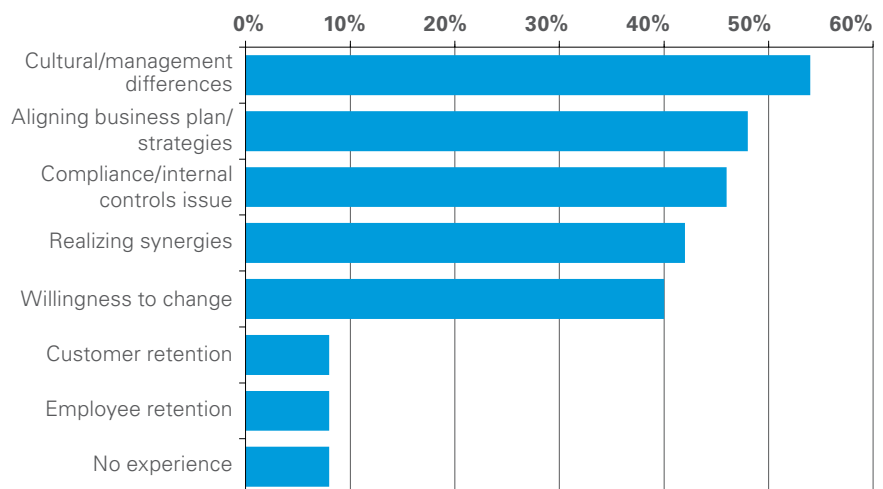
Post deal

Post-merger integration is regarded as one of the key components when creating a successful deal. This requires companies to have a thorough transition plan readily available and prior to day one in order to minimize conflicts and realize potential synergies. Post-merger processes can become lengthy and inefficient, if not initially well-managed. Especially in the case of Vietnam, it could take businesses up to a year to fully complete a transition.

Key challenges after the deal

When asking about key challenges during the post-merger process, 52% of respondents expressed that cultural and management differences were their biggest concern. Cultural conflicts were even more apparent and significant in cross-border transactions in terms of working habits, reporting style and business communication and mindset. Similarly, synchronizing the two corporate operational system post-merger was also identified as a key challenge by 48% of the respondents. This may include the core alignment of financial, IT and HR systems as well.

Challenges during post transaction phase



Source: KPMG Survey Analysis

42% of respondents believe that synergy realization is a difficult task during the post-M&A phase, which may be explained by the lengthy process of integration. Generally, in Vietnam the effect of synergies tends to be overlooked, as firms often focus on short-term rather than long-term synergy as part of their investment plan.

Employee retention is often neglected during M&A deals. However, if not handled well, this issue may become even more detrimental and costly. Mid-to-high range managers on both sides should be well-informed about the deal transition progress so that together with top executives, they can effectively implement changes and avoid the misalignment of employee expectations going forward.

Why integration due diligence may be needed

Any merger or acquisition is rife with risk. Will your company lose its focus when you merge with another company? Will you lose key employees from a single company – or both? Will financial performance suffer? If you are the buyer, you need to consider the synergies, risks, value drivers and the integration plan as soon as serious negotiations begin and well before the transaction closes.

“In order to integrate a business successfully, getting it right in these four areas is crucial: vision, control, people and value.” – Nguyen Minh Tam, Associate Director of Complex Transaction Group

Key elements of integration due diligence

All the synergies, risks, value drivers and the integration plan can be done properly, if you can perform integration due diligence (“IDD”) as soon as possible, preferable during the pre-signing phase. In particular:

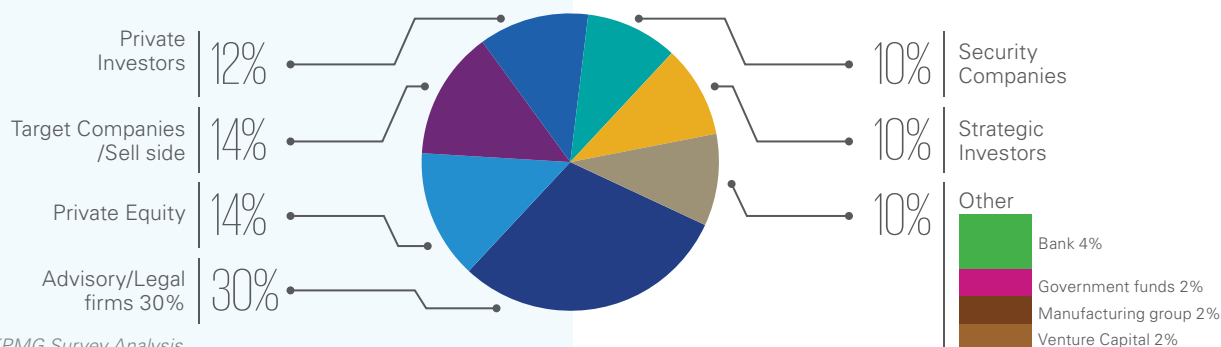
- The IDD provides you a clear view of quantifiable improvement areas in the business, against current cost baseline. For example, assessing the strengths of the target, comparing and contrasting these to the buyer in order to map where the overlaps and redundancies presently exist.
- The IDD findings assist the buyer in preparing detailed project plans that prioritize the end-state with benefits tracking and measurement. If, prior to the transaction process, the potential issues and risks are identified and managed properly, the post-merger integration plan will be more successful, effective, and time-efficient.
- The buyer can achieve effective control over project executions to drive rapid, sustainable change with minimal disruption. The IDD helps in designing the integration plan and ensuring a faster execution. It may also simplify decisions concerning the maintenance of crucial staff, the formation of a new leadership structures, any alterations to management systems, and segregating the integration from the base business to protect revenue during this vulnerable period.
- The buyer may gain clarification of (1) how the target will operate in the interim post-closing and (2) how a robust plan for the first few months of integration can be made, with minimal business disruption, at the final stage. For example, understanding the cultural dynamics of the target, including how they operate, the manner for which they develop their talent, and how they may be motivated to succeed. In addition, identifying executive decision making styles may help to avoid distractions and interruptions in business-as-usual activities.



Appendix 1

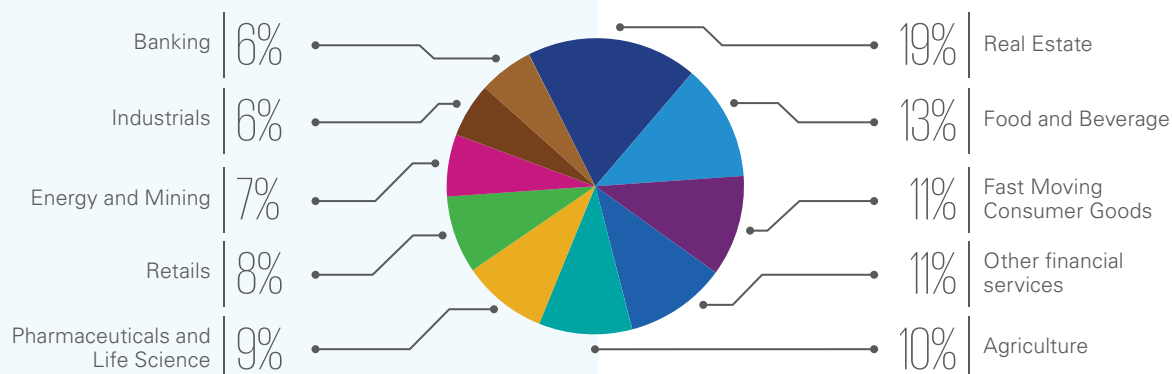
Summary of respondent information

Type of companies surveyed



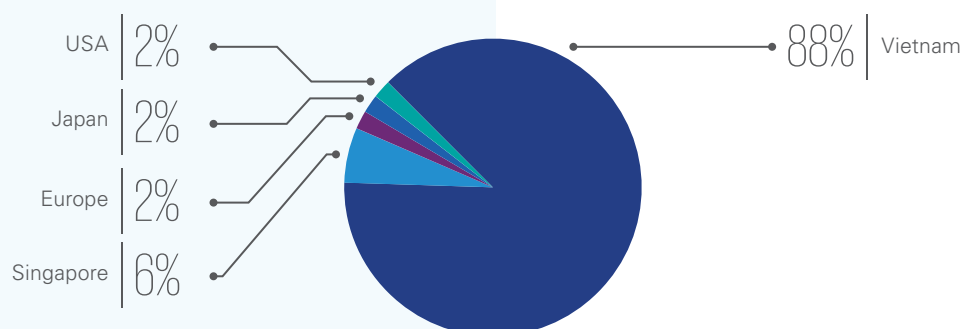
Source: KPMG Survey Analysis

Operating/investing sector representation of respondents



Source: KPMG Survey Analysis

Geographic spread of respondents (country of incorporation/representative office)



Source: KPMG Survey Analysis

Appendix 2

KPMG Deal Advisory Services

KPMG is one of the leading professional service firms in Vietnam, and has been recognized by the Ministry of Finance (MOF) and the Vietnam Association of Certified Public Accounting (VACPA) as the country's largest Audit and Advisory firm in terms of revenue, partner numbers and overall human resources. The firm is led by 30 partners and supported by over 1,300 professional staff located in three offices across Vietnam.

KPMG is a market-leading deal advisory firm, ranked as the number one financial advisor globally in the past five years based on announced mid-market deals by volume. We are also a leading deal advisor in Vietnam, having advised on more than 500 transactions. Our deal advisory team is comprised of over 65 professionals working in dedicated teams providing M&A, debt, and legal advisory as well as financial, taxation, IT, operational and commercial due diligence. Moreover, KPMG in Vietnam is known for structuring, valuations, operational and financial restructuring, market entry and post-merger integration, and synergy realization services.



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