



Time To Strike

Vietnam's M&A market has displayed an astonishing performance despite the resurgence of Covid-19

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2021 Vietnam M&A at a glance



Sources: Capital IQ, VIR, KPMG Analysis

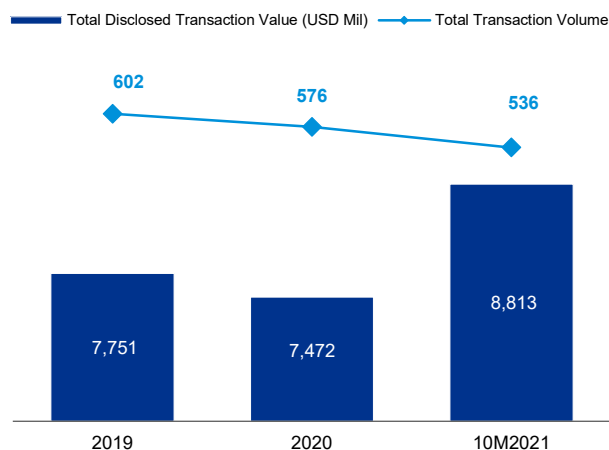
Vietnam's 2021 M&A highlights

Solid performance despite the pandemic

Countries around the world witnessed negative GDP growth in 2020 and are still suffering from the lasting impact presented by the pandemic. Amid this challenging period, Vietnam has emerged as a rising star by keeping the economy growing, albeit at a slower pace. Vietnam's economic stability can be attributed to the government's measures to contain the spread of the virus, coupled with the continuing efforts to attract foreign investment and strong consumption driven by domestic demand.

The M&A market has followed suit, proven to be very resilient and even picking up in 2021. The first 10 months of 2021 (10M2021) has logged in USD8.8 billion in total (*), representing a 17.9% growth as compared with the whole 2020, or 13.7% growth compared to the pre-pandemic 2019, while the number of deals slightly declined.

Figure 1: Vietnam M&A landscape '19 – 10M'21



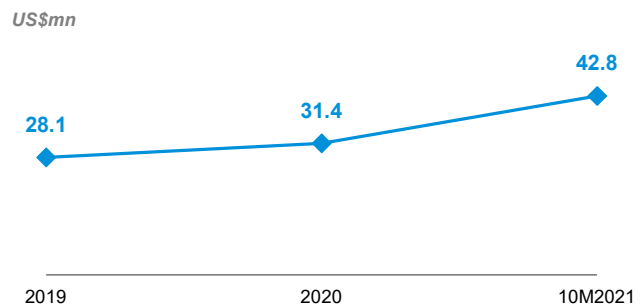
Sources: Capital IQ, VIR, KPMG Analysis

Note: (*) our data includes all transactions in Vietnam regardless of disclosed size and acquired stake

Transaction value is heading uphill

Vietnam's rising attractiveness as an M&A destination has been made clear not only by the increase in the aggregate transaction value but also by the higher average deal size.

Figure 2: Average deal size()**



Note: (**) per transaction with disclosed deal value
Sources: Capital IQ, VIR, KPMG Analysis

Average deal size for a transaction with disclosed value has gone up from USD28.1 million in 2019 to USD42.8 million in 10M2021. More and more deals over USD100 million concluded over the review period, with 22 deals recorded in just 10M2021 vs. 19 deals in FY2019. More deals of similar value are expected to be announced by the end of the year.

Key M&A sectors

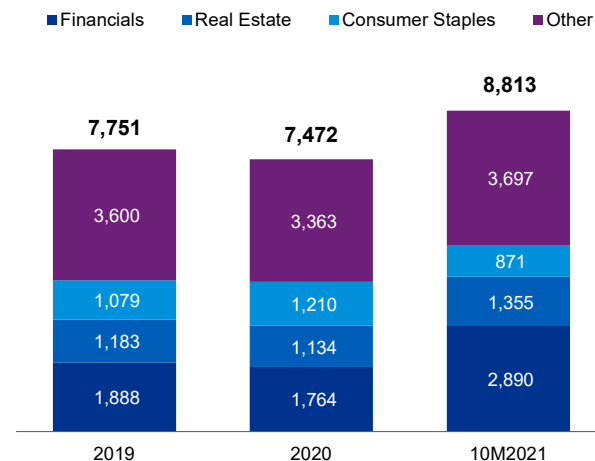
Consumer Staples, Financials and Real Estate are favorable sectors for M&A transaction

Breaking down by sector, Consumer Staples, Financials and Real Estate have been the most favored targets, making up to 55% - 60% of the total value in the last few years and likely to continue in the future. They have benefited greatly from the booming demand for housing, financial services and convenience goods, resulting from a large population with a growing middle-class and rapid urbanization rate.

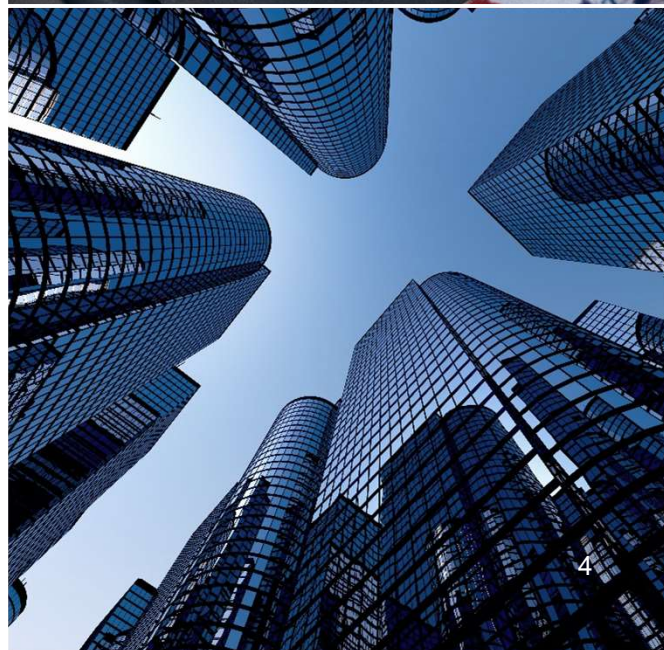
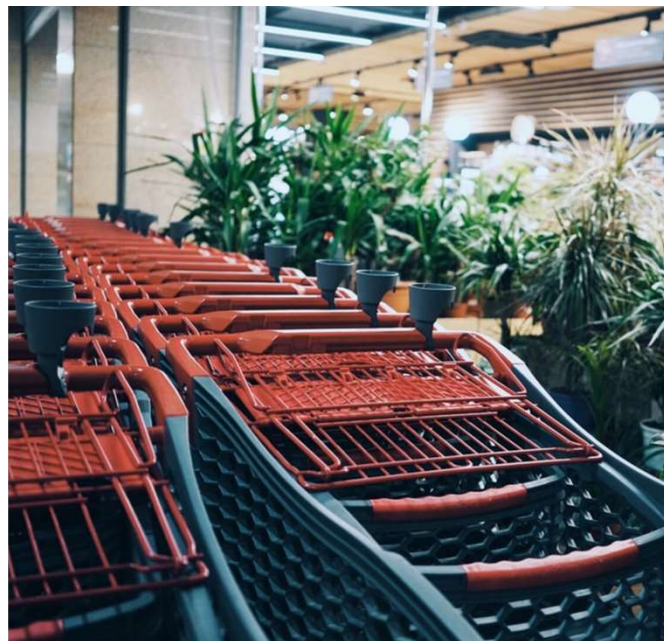
It comes with no surprise that year to date biggest M&A deals involve companies primarily operating in these sectors, namely Sumitomo Mitsui Financial Group's USD1.3 billion investment in VPBank Finance Company (FE Credit), SK South East Asia's USD410 million investment in Vincommerce and the USD400 million investment in CrownX from Baring and Alibaba, all in 1H2021.

Figure 3: M&A value breakdown by sector

US\$mn



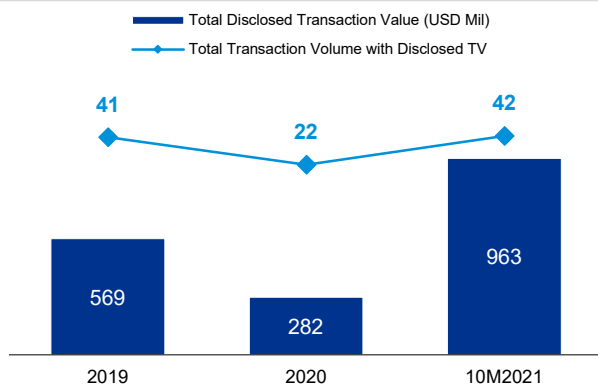
Sources: Capital IQ, VIR, KPMG Analysis



The rise of tech-related transactions

In addition to the sectors mentioned above, another sector that has received increasing interest from investors is Technology. In the first 10 months of 2021, the tech-related M&A landscape in Vietnam witnessed a big boost both in terms of deal volume and value. The deal volume has doubled while the aggregate transaction value increased more than threefold to nearly USD1 billion as compared to the full year 2020 and even surpassed the pre-pandemic level. Key drivers include the need for more investment in technological infrastructure, and to accommodate the ever-increasing demand to go digital to seek alternatives.

Figure 4: Tech-related M&A activity



Sources: Capital IQ, VIR, KPMG Analysis

Online transaction will continue to grow after the pandemic as the government is pushing digital transformation, along with the growing population of young and tech-savvy consumers. Some of the biggest home-grown winners in the markets are VNG, VNPay, Sky Mavis (Axie Infinity's developer), Momo and Tiki. These corporations have been attracting funding of hundreds of millions of dollars, giving them a well-deserved unicorn status. Notable recent transactions include AIA Insurance-led USD258 million injection into Tiki, USD152 million investment led by Andreessen Horowitz in Sky Mavis or Warburg Pincus-led USD100 million investment in Momo.

Putting aside the fintech, e-commerce and blockchain stars, we observe more interesting deals in other areas such as healthtech. Worth mentioning is the investment recently announced by Mekong Capital in Gene Solutions, a healthtech startup. The company is a pioneer in Vietnam's nascent field of genetics, offering Vietnamese people with affordable advanced genetic testing. Gene Solutions was founded in 2017 and led by a team of passionate medical professionals, who shares a burning desire to make Vietnam home of top-tier technologies.

Within a regional context, Vietnam has a number of advantages to become the next tech startup hub. In recent years, the startup ecosystem has evolved, making it more accessible for the growing population of start-ups. A solid pool of technology talents coupled with a growing entrepreneurial mindset, and the government's supportive policy also play an important role in transforming the small and medium enterprises. Funding is expected to grow into this segment to capture the rising opportunities.



Case study - Gene Solutions

The story of Gene Solutions

DNA sequencing technology has been widely applied in developed countries but remained almost nonexistent in Vietnam. In 2017, Dr. Nguyen Hoai Nghia, Dr. Nguyen Huu Nguyen, and Dr. Giang Hoa with solid background and experience in genetics, cancer biology, clinical medicine, and biotechnology established Gene Solutions with the vision of making genetic testing affordable and accessible to millions of Vietnamese people.

Key hurdles in genetic testing

One of the most common applications of genetic testing is non-invasive prenatal testing (NIPT), which detects if the baby will be born with genetic disorders during pregnancy. Back in 2017, NIPT was available in Vietnam but not widely adopted, with an annual volume of only around 300 tests as NIPT was prohibitively expensive for the general population, about USD1,500-2,000 per test at the time, and it took 30 days for customers to receive the results as the tests must be performed overseas in the US, Germany, Hong Kong...

Innovative testing solutions

The founders of Gene Solutions managed to assemble a unique research and development team composed of outstanding scientists trained at the top medical schools in the world such as John Hopkins, University of Pennsylvania, Cornell University, which are capable of running the entire DNA sequencing process inhouse. After one year of cooperating with major hospitals to conduct research and clinical trials, Gene Solutions team launched their first NIPT tests in 2018 at the lowest price point in the market (USD100-USD200 per test) and a 99.9% accuracy rate.

During the same period, the company also managed to build up a nation-wide distribution and logistics network of more than 2,000+ hospitals and clinics, which allows samples to be collected from any of the 63 provinces and transported to the central lab in HCMC for processing within 24-48 hours. With its compelling value propositions, Gene Solutions has increased total NIPT test volume of the market from only 300 in 2017 to the current level of more than 150 thousand tests.

Besides NIPT, Gene Solutions has successfully applied sequencing technology to diagnosis and treatment. Notably, the company has been offering diagnostic tests to help physicians make more accurate diagnoses when the symptoms are broad, complex, or unspecific for more than 6,000 genetic diseases across multiple specialties. The company has also provided cancer precision treatment tests to support cancer treatment for thousands of Vietnamese patients by precisely identifying the right targeted treatment for each patient and thereby increasing the chance of successful treatment.

Transaction background

In 2020, Gene Solutions raised an undisclosed amount from Vina Capital and Viet Capital Asset Management in the seed round. In the second round in 2021, Gene Solutions has successfully raised US\$15m from Mekong Capital. The purpose of the capital raise is to implement marketing programs to increase awareness of the utility of genetic testing, to develop Early Cancer Detection as the next breakthrough pillar and deploy new technologies for Reproductive Health Testing and Treatment as well as to expand into other markets in the region.

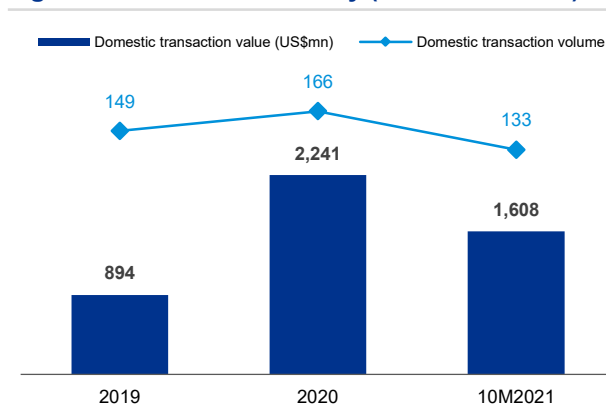
Domestic investors' takeover in M&A

A transaction frenzy from domestic investors backed by higher capital injection demand

Vietnam's M&A market has erupted with a frenzy of transactions over the last three years where both the transaction value and volume were being driven by Vietnamese companies. Historically, M&A activities were mainly driven by foreign investors, specifically from Thailand, Singapore, Japan, South Korea and Taiwan. However, the markets are now witnessing a shift towards local players as they are becoming more active in M&A activity.

In 10M2021, local investors have displayed strong involvement in the M&A activities with 133 transactions closed, while other foreign players from Japan and South Korea completed 30 and 19 transactions respectively. Local players have accounted for USD1.61 billion in aggregate deal value for 10M2021 and was only USD68 million short from Japan's USD1.67 billion. However, if excluding the mega acquisition of USD1.3 billion from Sumitomo Mitsui Financial Group in FE Credit for a 49% equity stake, Vietnamese players would have outpaced Japan and South Korea investors in terms of deal value.

Figure 5: Local M&A activity (2019 - 10M2021)



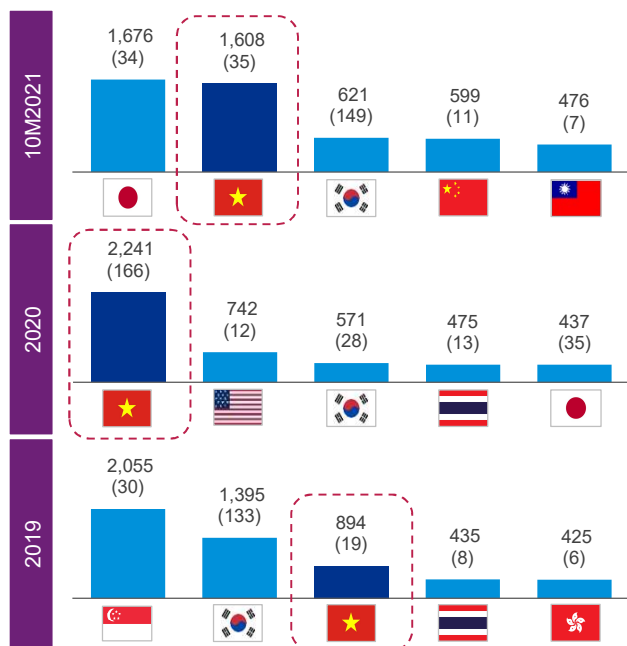
Sources: Capital IQ, VIR, KPMG Analysis

Local players became more active in M&A

COVID-19 has influenced foreign investors to adopt a more conservative approach in the short term towards investment, especially when site visits are restricted. Lower presence of international players in 2020 has led to a year-on-year decline of more than 20% in both foreign transaction volume and value. Concurrently, local targets were in urgent need for capital injection and investment to survive and thrive through the pandemic.

Figure 6: Investor country ranking by value

(Aggregate deal size in US\$m, # of transactions in brackets)



Sources: Capital IQ, VIR, KPMG Analysis

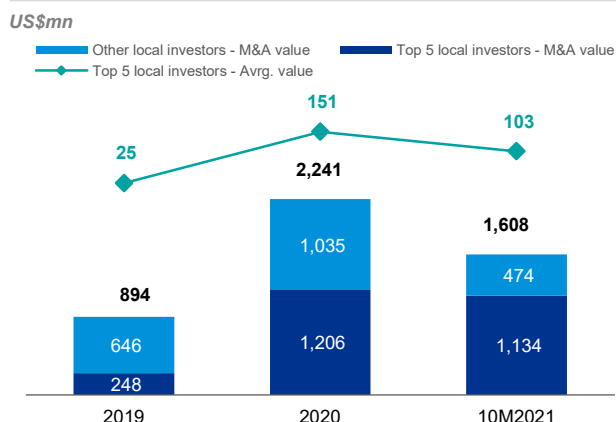
Domestic investors captured these opportunities to expand market share, tap into new markets & industries, and form synergistic relationships. Domestic deal value has rallied to USD2.2 billion in 2020, representing a triple digit growth of 201% from previous year's USD894 million. The rally has been impeded by the resurgence of COVID-19 during Q2-3 2021 which decelerated deal flow. However, local investors remained keen on making investments; thus, domestic M&A value has stayed resilient with USD1.6 billion in 10M 2021.

Who are the most acquisitive domestic players?

Vietnam has enjoyed a deal making renaissance in recent years as local management stepped up their expansion efforts with M&A being one of the main approach. Vingroup, Masan Group, Hoa Phat, Vinamilk and Novaland are among the five most acquisitive buyers that lead in both transaction value and volume over the last two years.

In particular, these giants have stirred up the market with multiple blockbuster deals both as buyers and sellers as they have boosted a five-fold increase in deal value from USD248 million in 2019 to USD1.21 billion in 2020, representing 53% of the aggregate local M&A value. Despite the 4th outbreak in mid-2021, the pack displayed a resilient effort on the hunt for quality investments; as such, they have closed 11 deals which amounted to USD1.13 billion during 10M2021, accounting for 70% of the total local-to-local M&A transactions.

Figure 7: Top 5 companies' deal value



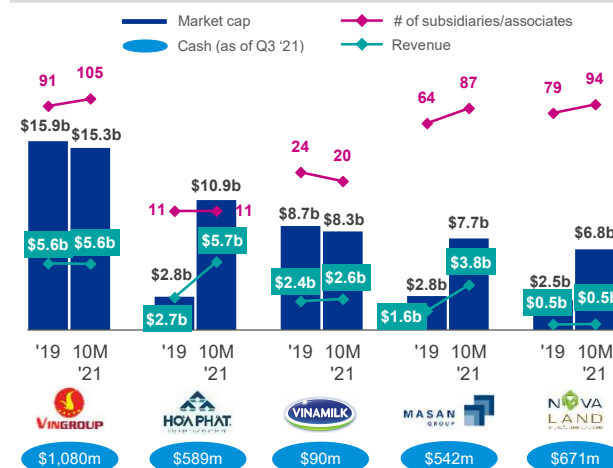
Sources: Capital IQ, VIR, KPMG Analysis

The five buyers' size has significantly enlarged over time thanks to not only the robust execution capabilities from the management but also the aggressive approach towards M&A strategy. Subsequently, both market cap and revenue of these players have surged dramatically, especially for Masan Group, Hoa Phat and Novaland as they enjoyed the profound effect from the strategic investments in their growth journeys.

Hoa Phat's revenue has doubled since 2019 from USD2.7 billion to USD5.7 billion while its market cap shot up by nearly four-fold to USD10.9 billion in 10M2021 from 2019's USD2.8 billion. Meanwhile, Masan Group has successfully seeded an integrated consumer ecosystem backed by its numerous mergers and acquisitions. Its market size and revenue both reached all time high at USD7.7 billion and USD3.8 billion respectively.

The excitement in local M&A activities will remain intact for these players as not only do they have sufficient cash reserves to look for quality targets, but also their appetite to seek continuous market expansion and improvement on profit margin.

Figure 8: Top 5 companies' evolution in size



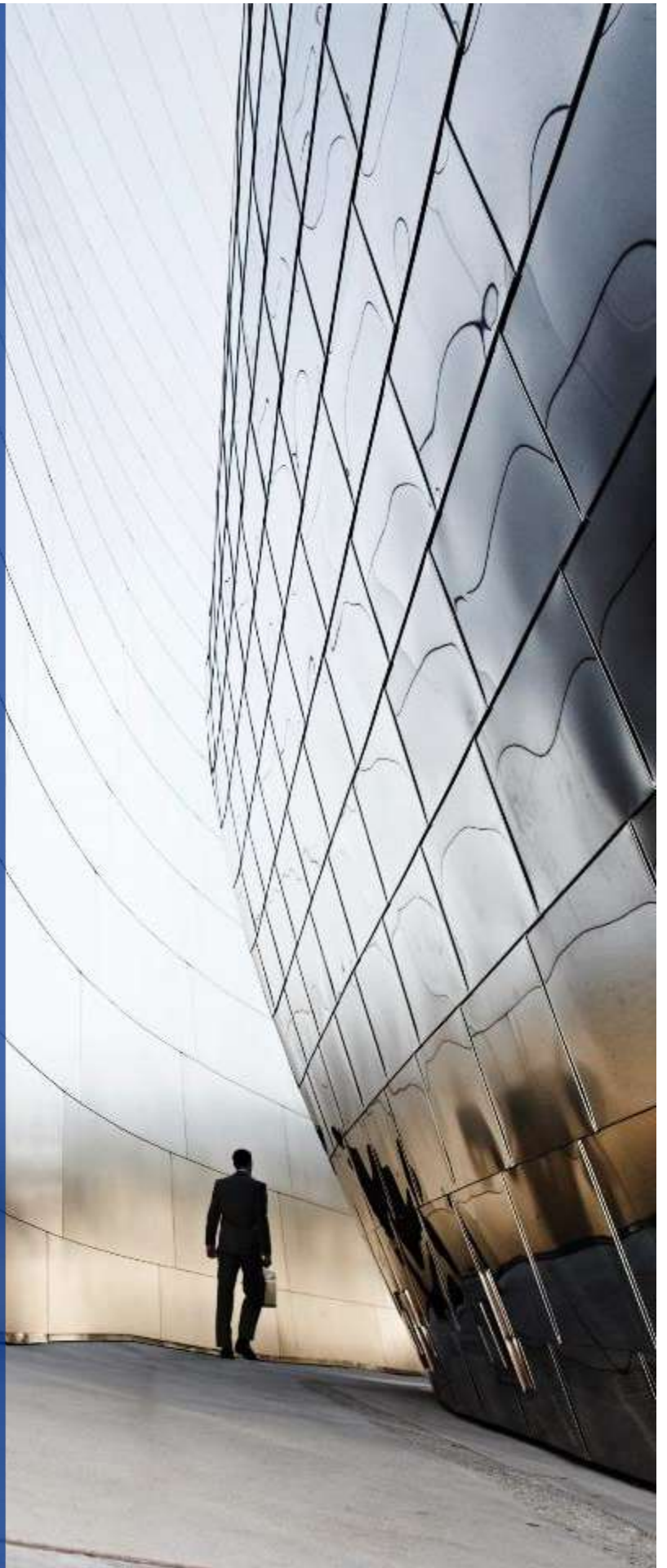
Notes: 1. 10M21 market Cap as of 10/31/2021
 2. 10M21 revenue is the LTM revenue
 3. 10M21 # of subsidiaries/associates as of Q3 2021
 Sources: Capital IQ, VIR, KPMG Analysis

Lastly, we have witnessed landmark deals executed by the five most acquisitive buyers over the last three years including the merger of the nation's largest retail chain, VinCommerce into Masan's ecosystem, the acquisition of Vinhomes for 98% stake in Berjaya Vietnam International University Township for USD514 million and the recent purchase of Moc Chau Milk from Vinamilk by increasing its stake in GTNFoods from 32% to 75% to indirectly own majority stake in the target.

As Vietnam's economy continues to perform thanks to the supportive regulations and policies by the Government, we believe local players will continue to play a major role in M&A activities in the future, creating more corporations with size that could compare with regional conglomerates.

Heading into 2022

2022 M&A market themes





2022 M&A activity - local investors' view

2022's M&A prospect viewed by key local buyers

Large local corporations such as Nova Group, Masan Group shared an optimistic view of Vietnam's M&A market in 2022. Key focuses will be to develop and strengthen the value chains of their businesses, and to diversify revenue and profit sources to withstand the market headwinds. M&A is becoming a favored option for local corporations as it helps them quickly gain access to the new business areas, capture bigger market share and onboard talents, expertise to the group after the transaction.

Local buyers seem to have certain advantages in carrying out M&A deals in the Covid-19 era

“Foreign investors tend to have more cautious approach compared to local investors. The process often takes time to consider investment opportunity, and normally need to weigh the benefits against other opportunities in the region. Meanwhile, Vietnamese investors are often more aggressive, and make decisions quickly when opportunities arise because, with their local market intelligence, they immediately recognize the market potential of the opportunity, and therefore have a higher level of risk tolerance.”

— Mr. Nguyen Thai Phien, Deputy General Director, Nova Group

In recent M&A deals, domestic investors have shown that they are on par with foreign investors in term of bringing value to partners. Acquired companies benefit from the corporation's ecosystem, diversification of business products, and both upstream and downstream market potentials. Besides, local corporations also bring values to invested companies through orienting and aligning effective strategy and business plan.

Historically, Vietnamese companies did not have resources to do large deals. This gap has narrowed with the emergence of local corporates of scale and the growth of the local financial market. Domestic investors are also getting used with the practices and process of the deal making. Engaging legal, financial advisor and doing comprehensive due diligence in finance, tax and operation are becoming essential parts in M&A deals with local participants. The contribution of consulting firm to the success of a transaction and post mergers and acquisitions integration has also been recognized by local investors.

For domestic corporations like Nova Group, the most important factors when choosing investment companies are the ability to increase market share, speed of market coverage, and the ability to understand and absorb business ideas, cultural sharing, strategic orientation.

In 2022, although there are still certain risks in the context of Covid-19 and its impact on macro economy, the market is expected to maintain good momentum with a number of opportunities for investors.

2022 M&A activity foreign investors' view

Despite concern on the recent COVID outbreak, Vietnam remains an attractive M&A market for Japanese and Korean investors in 2022.

KPMG Japan

There's a strong pickup in momentum to resume cross-border M&A from Japanese companies especially from 2021. This is mainly because the room for long-term growth in Japan market is limited. Japanese companies are afraid of losing the battle against large Western or Asian players in a rising competitive and disruptive market if they do not act now. As consequence, a number of Japanese companies are eager to conduct cross-border M&As even during the heightened Covid period. The expected opening-up of the borders in 2022 will encourage investors to be more aggressive towards overseas M&A.

Vietnam is one of the target countries among Japanese corporations for its strategic location in Asia, decent size of domestic market, abundant labor force and China-plus-one strategy.

In the past, Vietnam was seen as an export hub to the region. A traditional M&A type was Japanese investors establishing production facilities together with a local partner. Nowadays, many Japanese companies are interested in the Vietnam local market with sizable population and increasing middle income class. Sectors which can help them to tap into the local market in the future include financial, IT, healthcare, retail/wholesale, and service.





2022 M&A activity foreign investors' view

KPMG Korea

One of the major factors limiting cross-border M&A for Korean investors in the recent two years in Vietnam is COVID-19 pandemic. Korean companies have been assessing the impact of COVID-19 on the target companies, in term of operational and financial impact to the local companies and progress of recovery.

Despite the above concern, Korean investors still consider Vietnam as one of the most attractive markets due to solid economic growth and prospect. In term of geographical location, as large Korean companies including Samsung, LG, Hyosung, and Hyundai Motors established their production sites or subsidiaries in the northern region of Vietnam; other companies will follow suit, resulting in more Korean investments in the northern region. However, investment in southern region including Ho Chi Minh City has been increasing as the consumer market and overall growth of the regional economy in HCMC and southern region are more attractive.

Sectors that draw attention from Korean investors include e-commerce, fintech and logistics. Growing interests in e-commerce and fintech are in line with increasing interest in “untact” business, the coinage made during the COVID19 pandemic, standing for a business that does not require face-to-face or in-person contact between persons, economic outlook in the long term, and increasing number of internet & smartphone users in Vietnam. Since Korean companies have certain expertise in these areas, especially fintech, many of them believe they can contribute to value chain partners and the market. Besides, spaces that Korean investors are still interested in are financial sectors, automotive – both retail and production, auto insurance, construction and real estate.



Key concerns by Japanese and Korean investors

Key concerns and challenges for Japanese and Korean investors when doing cross-border deals amid Covid context in 2022 include (1) Limitation in performing proper due diligence including interacting with management of the targets due to travel restriction; (2) The performance of target companies is fluctuating during Covid period and a number of normalized items needs to be considered, which often leads to a gap in views between the buyer and seller; (3) Different view on contractual terms between parties in particular in closing conditions (including MAC) and reps & warranties, (4) sending head quarter representative to overseas group companies is not as easy as pre-Covid time. This challenge in post deal governance makes it harder for investors to reach an internal consensus for cross-border deals.

To cope with the above issues, several investors are leveraging technologies not only to source new deals but also to interact with target management and develop relationship between parties. Meetings are now being conducted virtually between the buyer and seller. Investors also request more information be uploaded in virtual data room and use the VDR as an alternative for physical due diligence. Instead of a 100% acquisition, a phased approach including an earnout mechanism has been practiced in many deals. Furthermore, representations and warranties insurance has become more common among Japanese and Korean investors to deal with potential risks under SPA.



More investment opportunities for PE funds during the fluctuation time

Chris Freund - Founder & Partner of Mekong Capital shares his view on the market outlook in 2022 with KPMG

Could you please share your view on M&A market in Vietnam in 2022? What will be the key drivers for the market and key trend in 2022?

The current fluctuations of the crisis will continue to bring more investment opportunities for private equity investors to consider a wider range of companies and at more attractive entry valuations than would otherwise be possible in normal circumstances.

The key drivers would be the growing middle class in Vietnam. The middle class is becoming bigger with more spending power, and that is very good for consumer businesses. As such we expect the funding scene in Vietnam is flourishing in the next couple of years.

Which sectors will be most attractive in the next 12 months? Are there any notable changes due to Covid-19?

Since travel is still being restricted, foreign investors also face many difficulties when coming to Vietnam. Therefore, some domestic funds will have more favorable conditions to support companies with new investments than funds that are not ready to be disbursed at this time. For example, there is a growing number of highly experienced professionals setting up new funds to support the startup ecosystem in the upcoming years. However, since the Vietnam economy is looking like it is going to see robust growth over the next 6-12 months, more deals with foreign and regional investors are still happening



2022 M&A activity - active PE funds' view

What are your preferred deal structures during uncertain times?

Well, nothing much has changed really for us. We manage our private equity funds focusing on consumer driven businesses, which capture the growth in spending power by Vietnam's rapidly growing middle class.

Also, our focus is not really very much about what is happening in the macro economy, it is more about finding companies that fit with our investment criteria.

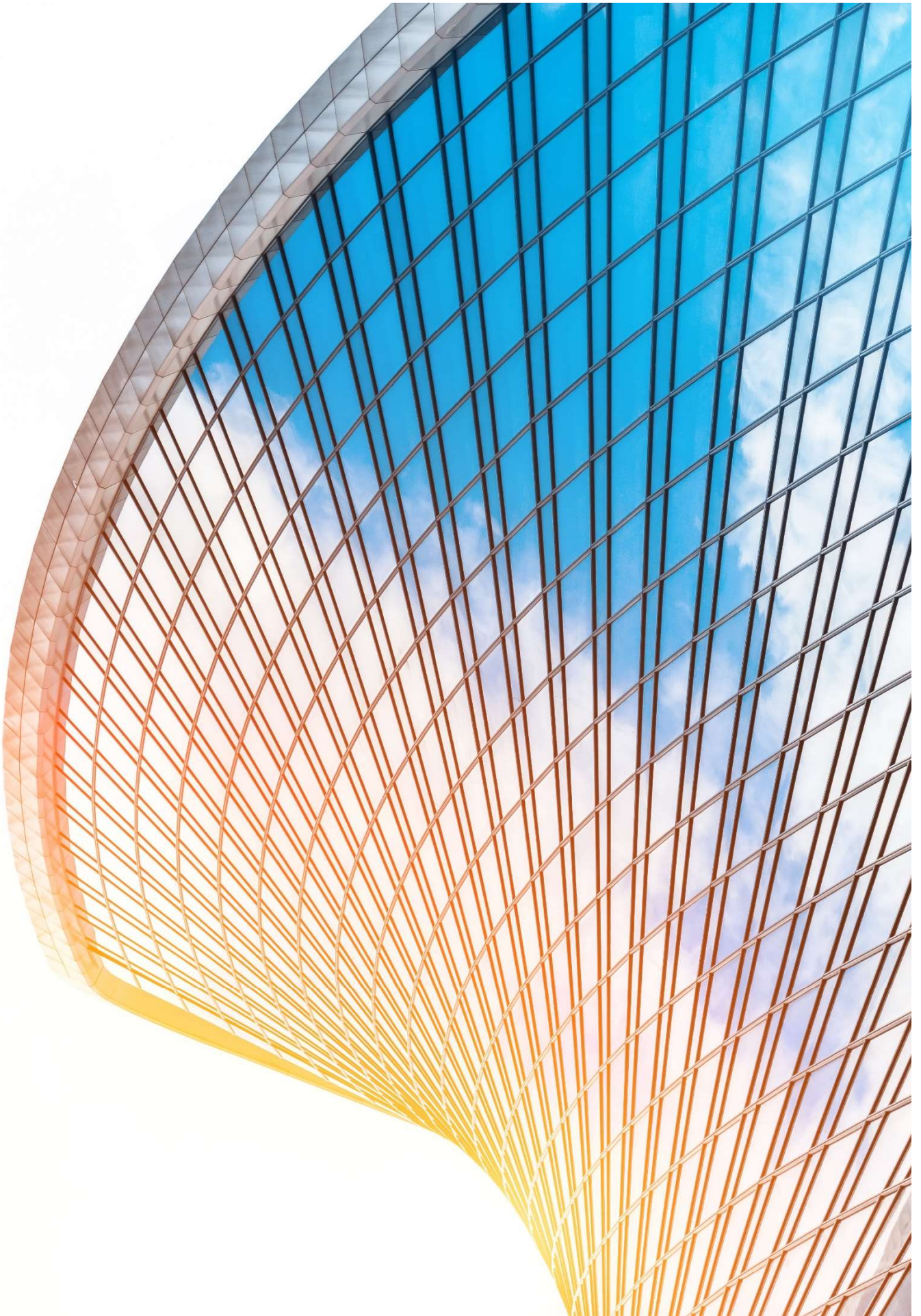
Our commitment is that each investee company will achieve its vision through our Ontological Private Equity approach and our Vision Driven Investing framework. Thus, we carefully select management and leadership teams that are committed to a big vision for the future of their companies, and that are continuously developing the management and leadership capacity to successfully fulfill those visions.

What are your key challenges in identifying investment opportunities and key concerns when doing deals in Vietnam these days? What issues could be considered as key deal breakers?

Our constraints now are pretty much about how quickly we can invest and what resources we have to work on new deals. There are a lot of attractive companies in Vietnam and many teams of founders that we would like to partner with and all these sectors are growing very fast. Therefore, we think there are a lot of opportunities in Vietnam and there are many companies that are very attractive for us.

Mekong Capital background

Mekong Capital is one of the most active PE funds in Vietnam in 2021 with several deals closed. Few of the most notable deals is the investment into Gene Solutions (a pioneering and leading biotech company in Vietnam), HSV Group (the largest cosmetics retailer in Vietnam with a total of 105 self-operated stores as at June 2021) and Rever (one of the top proptech companies in Vietnam).





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