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MERGERS AND ACQUISITIONS (M&A) ACTIVITY IN VIETNAM DURING 2013 – 2018

Current challenges and future trends when doing deals in Vietnam

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Abstract

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Abstract

Given the outstanding vibrancy of M&A activities in Vietnam, which has doubled in transaction value (from US$ 2.7 billion in 2013 to US$ 10.2 billion in 2017), it is essential to learn both from successful stories and hard lessons throughout the sharp growth stage of M&A in Vietnam. This study aims to describe the dynamic Vietnamese M&A market in a 5-year period from 2013 -2018, challenges when doing deals in Vietnam and the M&A's outlook in the near future.

The theoretical part describes the typical M&A buy-side process starting from identifying potential targets, doing valuation and due diligence, closing a deal and post-merger integration.

In the empirical part, Vietnam's macro-economy and an overview of the M&A market in Vietnam are presented first. Then, by combining insights from in-depth interviews with transaction advisory experts and an online survey sent to over 50 deal professionals, this study points out current challenges which dealmakers are facing when doing transaction in Vietnam. Based on the findings, recommendations on how to secure a potential transaction are built up for readers' references. Also, future trends and opportunities for investing in Vietnam will be discussed in the last part before the summary section.

It is concluded that Vietnam is recognized as one of the most attractive M&A destinations in Southeast Asia. Hence, the level of activities in the Vietnamese M&A market has been more vibrant than ever before. However, the successful rate when doing deals in Vietnam is still limited due to complicated legal framework, high level of corruption, lack of experience and preparation from both the sell-side and the buy-side.

Keywords

Mergers and acquisition, M&A, Vietnam, deal breakers, due diligence, valuation

CONTENTS

1 INTRODUCTION

1.1 Research background

Mergers and Acquisitions (M&A) activities were born and have strongly developed over a century ago as a result of the more diversified types of investment tools, although the knowledge at that time about the M&A process was very limited. Now, M&A has become familiar, popular and spread globally, attracting lots of interests from the world's business community. M&A is one of the most effective channels encouraging FDI inflows to many developing countries which provide open conditions for this outbreak (OECD 2002). At the same time, in order to survive amid the current intensively fierce market competition, more companies have been merged through M&A deals to enjoy the benefits of achieving scale-based efficiency, increasing market share, technology modernization, liquidity enhancement, diversifying and eliminating non-systemic risks, tax benefits.

Over the years, the level of M&A activities have been accelerated in many regions, not only in developed markets such as those in America, Europe and China, but fast overflowing to emerging economies like that of the Asia-Pacific region. In Vietnam, the business form of M&A has been recognized and systematically developed but has not met the potential. M&A activities started in 2001 when many rural banks were merged into urban banks due to the arrangement of government. Until 2005, in line with the development of the stock market, the M&A transactions started to appear in Vietnam. Particularly since 2007, the number of M&As has increased sharply both in terms of quantity and scale, which is closely linked to the fact that Vietnam joined the World Trade Organization (WTO) on 7th November 2006. This period saw a breakthrough in M&A transactions in the banking, consumer goods and real estate sectors. In addition, M&A has officially become one of the main factors motivating foreign direct investment (FDI) into Vietnam in recent decades. In 2017, M&A deals have contributed an average of 30 percent of the total FDI with investment values reaching 10.2 billion USD (Das 2018).

Generally speaking, in the current context of economic integration, the M&A solution is an inevitable trend, which not only creates competitiveness for business but also quickly pushes the economy of Vietnam further integrated into the global economy. Therefore, the analysis of M&A activities in Vietnam within 5 years from 2013 to 2018 in order to draw lessons for its future development has theoretical as well as practical significance. For the above reasons, the author selected the topic ”Mergers and Acquisition (M&A) activity in Vietnam during 2013-2018 - Current challenges and future trends when doing deals in Vietnam” for the graduation thesis.

1.2 Thesis objectives and research questions

The thesis aims to find out the causes of M&A deal failures, the potential risks of market consolidation and unhealthy competition based on the analysis of M&A activities in Vietnam in the period 2013-2018. Based on current challenges derived from the survey, M&A-oriented solutions are presented to readers.

This leads to the problem statement: ”How did the M&A situation in Vietnam take place and what experiences can be inherited?”

To provide a sufficient answer to the main research question, the thesis will address some related sub-questions:

- What are the concepts and characteristics of M&A activities?
- What is the impact of M&A on the Vietnamese economy?
- How is the situation of M&A deals in Vietnam during the period 2013-2018?
- What lessons from the analysis can be applied for upcoming M&A deals in Vietnam?
- What are the suggestions for promoting M&A activities in Vietnam?

This thesis will answer those questions in the following chapters.

1.3 Scope and limitations

This study investigates the M&A situation in Vietnam through the lens of deal professionals in the market. It analyses market dynamics and breaks down different phases of the M&A process under Vietnam’s landscape. Based on professionals’ input, the author is able to generate the drivers, barriers and key lessons that provide better insights for the M&A market in Vietnam.

The context of this study limits geographically to Vietnam. The author firmly believes that the outcome of this research shall give deal professionals a proper M&A consultancy framework and suggestions which could be replicated to other emerging markets as well. However, limitations are inevitable.

In the newly developed market like the Vietnamese M&A market, the buy-side takes a much more proactive role, boosting the development of the market. Thus, the author decided to conduct a survey to more than 50 professionals working in private equity funds, securities companies, M&A advisory firms to build the conceptualization and measurement framework in the Vietnamese M&A market. Other extended environment factors were neglected in this study.

With the limit of the author's abilities including time and resources, this study was conducted using a limited number of parameters. Aspects of the M&A market were broken down under five main pillars: Target Identification, Valuation, Due Diligence, Closing the Deal and Post Merger Integration. By combining the interviews of transaction advisory experts and an online survey, the study unleashes the most natural and precise evaluation of M&A activities in Vietnam.

However, the purpose of this study is not to offer a generalized result, but to build up a useful foundation to assess the pros and cons in a specific context with the aim of theory building. Future research can utilize the current framework to generate theoretical hypotheses of M&A activities. In this study, the author has attempted to provide detailed multi-dimensions and variables during the M&A process.

1.4 Research method and data collection

To answer the research questions, the author used inductive reasoning in a qualitative study with the aid of semi-structured interviews and the survey research method. The purpose of the qualitative approach is theory building. Hence, qualitative is considered as a naturalistic approach which means studying things in their natural settings with the aim of developing an explanatory theory. (Newman & Benz 1998, 18.) Inductive reasoning is frequently used in the qualitative study. The researchers proceed to the empirical phase without a hypothesis. Then, they observe and interpret behaviors and interactions in ordinary settings. (Hammersley 2013, 12-14.)

A semi-structured interview is a common form of qualitative data collection methods which is purposely held as an ordinary conversation to truly reflect the respondents' experiences, attitudes, beliefs and thoughts about the subjects with the aid of predetermined open-ended questions. Furthermore, interviews allow greater interaction between the author and the participants. Hence, the information obtained from interviews is richer and offers deeper insights into answering the research questions. (Hammersley 2013, 12-14.) However, this method only studies a small number of cases to investigate in-depth meanings behind the respondents' answers. This is when a survey is a necessary supplement to create a general picture for the chosen topic as a widely dispersed sample can be covered in the survey and it is a very time-effective way to find out what participants do, think and want.

In reality, the author intended to schedule meetings with senior transaction advisory experts in the M&A field to understand their perspectives on undertaking M&A transactions in Vietnam and the expectations for future trends in the market. The author also conducted an online survey to gain valuable insights from deal professionals in the market including private equity funds, securities companies and M&A advisory firms. Information provided in this thesis was collected from both primary and secondary sources. Secondary data was acquired from statistics, academic articles, books, news and websites, while primary data was obtained from semi-structured interviews and an online survey. Finally, findings from data analysis aim to present a comprehensive current dynamic state of the M&A market in Vietnam, hard lessons learned from the past and recommendations on how to execute a successful deal.

1.5 Preliminary studies

Many researches and studies have been conducted on M&A topics. Under the scope of research of this study, the author summarizes some keynotes that are relevant and add the value in structuring this thesis.

Bergamin & Braun (2018, 6-31) observed more than 30 accomplished M&A transactions in different industries. Then they explored the critical determinants for success or failure in M&A projects. The analysis reviewed the combination of five factors influencing M&A integration project: the organization and its leadership personalities, the degree of synergy exploitation, mobilization, resources and the integration project management. Based on Bergamin & Braun's key implications, the author defined the content analysis.

The author also conducted a literature review for M&A related topics on Finnish Universities of Applied Sciences' theses and publications (Theseus.fi). As a result, literature in the field of M&A is plentiful with over 900 items. Among these documentations, some focus on the effect of M&A activities on company performance, organization structure and industry structure, especially in the financial sector. Meanwhile, other provide a view of how M&A is an effective tool to penetrate new markets, namely retail, confectionary and e-commerce markets. However, only four of which cover essential understanding about causes of M&A failure and critical factors for M&A success. Although these previous studies have researched only a few areas of the M&A process in certain industries, they helped to identify common concepts to some extent and make reliable inferences from text to the context of Vietnam market.

As mentioned by Nguyen (2015), in order to get the business valuation and pricing in M&A done correctly, involved parties have to verify the value generated from the strategic objectives indicated in the business plan, synergy or operation diversification that the new combined company is expected to create, continuously explore details and considerations in due diligence phase.

Via analysis of M&A cases in the automotive industry (Weber 2015), the literature identified critical determinants for successful M&A transactions in three major phases, namely planning, transaction and integration. Regarding the planning stage, the detailed analysis using different points of view to evaluate a company's capability gaps, make strategic objective and realistic predictions for future developments is deceived for the overall success. With regard to the transaction phase, the success of M&A based on various criteria, including specific requirements (price range, geographic aspect of the transaction...) for the extensive screening, the quality of the gathered data, company-wide analysis instead of focus on a particular aspect by a very high level of expertise to test not only financial health but also strategic, organization, cultural fit and the relation between the management of the companies. In the integration phase, these factors such as defining the new strategy with regard to different corporate identities and cultural backgrounds, the pace of integration, realization of synergy effects, coherent internal and external communication led to the positive M&A outcomes. It is also agreed in Noronen's (2009) paper, building up detailed instruction and correct communication style to avoid lack of information is a very important factor that helps Product Data Management (PDM) company function more efficiently after M&A.

Through the intensive study of a particular failed M&A case in the banking industry (Panthi 2016), the researcher found out that major factors before, during and after M&A responsible for the failure. First, this is due to the inability to recognize the suitable partner. In detail, M&A deals were executed just to quickly avoid the regulation of bank capital adequacy whilst the related party's financial health was deteriorating. Second, there is a high degree of employee resistance during the M&A process due to constricted communication with managers. Third, because of the accounting report errors, the company was unable to see its actual position. Lastly, inefficient management of financial goals led to the downfall of the business.

1.6 Thesis structure

This thesis is divided into seven chapters as shown in Figure 1:

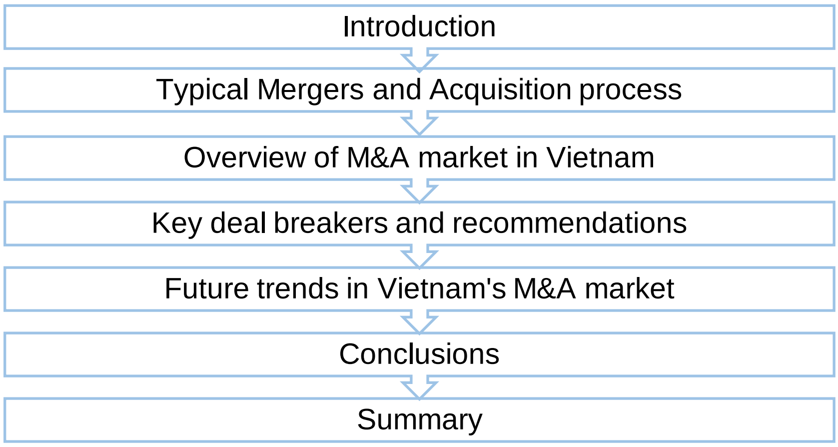

Figure 1 Thesis structure

Starting with the introduction section, the thesis continues with chapter 2 describing the typical Mergers & Acquisition (M&A) process including target findings, valuation, due diligence, closing a deal and post-deal. Chapter 3 will give the reader a general picture of Vietnam's macro-economy and of the growth of the M&A market in Vietnam in a five-year period from 2013-2018. Chapter 4 examines the difficulties dealmakers are facing when doing deals in Vietnam in order to give suitable recommendations on how to secure a potential transaction. Chapter 5 shows future trends and opportunities for investors in the Vietnamese M&A market. Chapter 6 presents briefly the main ideas of the thesis and answers to the research questions followed by the summary section.

2 TYPICAL MERGERS AND ACQUISITIONS PROCESS

2.1 Mergers and Acquisitions (M&A) definition

Business owners, executives at all levels and company sizes invested time and energy to find efficient and profitable ways to increase revenue and gain market shares. The strategy can be organic, or inorganic or external approach and M&A has been considered as a mean of growing (Sherman 2018, 40-41). The underlying motivation is that whether the acquirer can grow faster by buying new market shares, new capability or they are better off by building it themselves.

One of the proper definitions of M&A, based on Scott (2012) is that:

“MERGER

A combination of two or more companies in which the assets and liabilities of the selling firm(s) are absorbed by the buying firm. Although the buying firm may be a considerably different organization after the merger, it retains its original identity.

ACQUISITION

The purchase of an asset such as a plant, a division, or even an entire company.”

Whenever defining merger and acquisition separately, acquisition generally means a bigger company absorbing a smaller-sized company, with the smaller-sized company either becoming the subsidiary of the bigger organization or being combined with the greater company, therefore dropping its identity. The larger corporation will manage the smaller company‘s property plus liabilities. The term merger is usually used to reflect the combining of two businesses in an equivalent unification. (Hassan & Ghauri 2014.)

In reality, merger normally happens less frequently than acquisition. However, acquisition often causes negative perceptions resulting in unexpected reductions in the morale and the working spirit of the acquired company. Therefore, the acquirer usually prefers to use the term M&A interchangeably for both merger and acquisition activities. (Kotter & Schlesinger 2008, 2).

The main objectives of M&A are to achieve better economies of scale or economies of scope. That means an M&A deal would help to reduce operating costs or produce more offerings using shared resources. With the action of unifying two business entities, the new organization can reduce inefficiencies and hence profits margin would be improved. The underlying rationale from the acquirer is that they could maintain or increase the sales instream, meanwhile various cost sources in production, marketing could be lowered. (Carey 2000.)

Looking at the engine of capital flow, an M&A deal strengthens market position through getting more market shares. This is an important motivator, especially in saturated industries. By absorbing the potential partners' customer base, the acquirer could gain a huge leap in the market shares. From this organic growth, the new entity would also leverage cross-selling or be able to set prices in the market. (Chatterjee 1986.)

M&A activities have become a global investment trend and flourished in Vietnam for a century. In the M&A world, there are a lot of processes and underlying activities. It involves economic transactions, market information, policy, law, and other factors as well. In essence, the full process can be broken down into five main steps as shown in Table 1:

Table 1 Key steps of a typical buy-side process (Bension & Shippy 2013)

<table>
<tr><th></th><th>Opportunity Analysis</th><th>Indicative Valuation</th><th>Due Diligence</th><th>Negotiations</th><th>Closing</th></tr>
<tr><td>Time frame</td><td>2-3 months</td><td>1 month</td><td>2 months</td><td>1 month</td><td>3 months</td></tr>
<tr><td rowspan="5">M&A</td><td rowspan="5">◆Identify potential targets</td><td rowspan="5">◆Preliminary value analysis
◆Drafting of indicative offer letter</td><td>◆Manage due diligence</td><td rowspan="5">◆Manage confirmatory due diligence
◆Negotiations</td><td rowspan="5">◆Monitor the completion of condition precedents</td></tr>
<tr><td>◆Management presentations</td></tr>
<tr><td>◆Markup on Share Purchase Agreement (SPA)</td></tr>
<tr><td>◆Update value analysis</td></tr>
<tr><td>◆Drafting of firm offer letter</td></tr>
<tr><td rowspan="2">Legal</td><td rowspan="2">◆Regulatory analysis</td><td rowspan="2"></td><td colspan="2">◆Legal due diligence</td><td rowspan="2">◆Support in fulfilling all closing conditions</td></tr>
<tr><td colspan="2">◆Prepare SPA and finalize other legal documentation</td></tr>
<tr><td rowspan="2">Tax</td><td rowspan="2">◆Initial comments on tax implication at proposed deal structuring</td><td rowspan="2"></td><td>◆Tax due diligence</td><td rowspan="2"></td><td rowspan="2"></td></tr>
<tr><td>◆Optimize tax structuring</td></tr>
<tr><td>Strategy</td><td>◆Market research</td><td></td><td>◆Commercial due diligence</td><td></td><td></td></tr>
</table>

M&A also promotes better synergies since it brings knowledge and resources transferring (Uhlenbruck, Meyer & Hitt 2000, 15). Whether it is management, finance or operation, the sharing of expertise strengthens relevant work streams. The combination of values, knowledge and talents is undoubtedly creating more assets and boosting stronger growth to the new entity.

2.2 Target identification

The preparation for an M&A holds a decisive role in the success or failure of the deal. Success M&A is not a myth, it is a process. A number of books and studies have been identifying a pattern, a series of actions that need to be carefully prepared to ensure the best outputs.

The vast majority of investors leveraged existing relationships or their knowledge of the market to reach qualified targets. The practice of learning the in-depth business operations of the targeted partner should be intensive as this information is critical for making decisions. Buy-side normally applies a framework (Table 2) to identify the commonality of one company versus other companies by comparing important business and financial information. The actual selection of favorable companies should only begin once this research is fully completed.

Table 2 Business and financial profit framework (Rosenbaum & Pearl 2013, 44)

Business Profile	Financial Profile
Sector	Size
Products and Services	Profitability
Customers and End Markets	Growth Profile
Distribution Channels	Return on Investment
Geography	Credit Profile

The key reasons for choosing the final target over the other options were management quality, a shared vision and a market position giving strong growth potential. Based on the strategy and the development principle, buyers look for companies that match some of the criteria:

- Targeted business is in line with the development strategy.
- Targeted business has relevant client sources or a certain market share in the market that the seller may continue to exploit.
- Targeted business has a long-term or intermediate-term operation scale that can be further leveraged.
- Targeted business has the advantage of land, infrastructure, facilities available and the capability of leveraging to minimize initial investment costs.

2.3 Valuation

An important step in the process is to determine the value associated with the firm and to come up with a new suitable price for the deal. Usually, it is far more challenging to evaluate a private firm compared to an open public firm. On the occasion, general public organizations are obliged to generate standard audited reports to the public and to introduce financial data based on accounting standards. Private companies usually do not follow such regulations strictly. (Isaksson 2006, 49-51.)

Managing value is a protection or defense to anti-takeover as well. Companies with falling stock price, highly liquid asset are vulnerable to a takeover. In these cases, buyers can convince stockholders that their company is doing a bad job and there would be more value-enhancing methods to run the business. The managers now must regularly monitor the company's valuation as it reflects the management performance. For this, valuation has been placed in front of the corporate environment. (Gaughan 2018, 553-554.)

One valuation approach was to use earnings multiple, reflecting specific risk factors for companies and the market. Comparable business and transactions, coupled with growth potential, the quality of management and opportunities for performance improvement, were key influencers on the multiple selected. The selection of an appropriate multiple in Vietnam or in any emerging market is highly judgmental due to the lack of comparable data available and the subjectivity associated with adjusting multiples.

Another approach is using the primary valuation method - the discounted cash flow (DCF) method. DCF is a commonly used valuation method based on an actualization of future free cash flow. The future free cash flow is estimated on the basis of financial projections and then discounted to the current date by using a discount rate. While forecasts are subjective in nature based on the expectation of future events, so is the determination of appropriate discount and terminal growth rate. The business planning process in Vietnam is still deficient compared to standards in more mature markets. This is the key reason for buyers to rely more on multiple for valuation despite the shortcomings of the approach.

The other common approach was to value the net assets of the business which requires consideration of tangible assets, intangible assets, liabilities and any off-balance sheet exposures. Valuing tangible and intangible assets and off-balance sheet items can be complex and judgmental.

2.4 Due diligence

Due diligence is an exercise of digging deep and ensuring that the deal actually worth for the acquisition. Due diligence helps to discover positive, negative findings to protect the buyers from unexpected facts. That is the reason why this has become an essential source of data for the team to do the valuation and planning. (Frankel & Forman 2017.)

Purchasers want to form a good picture of the company they are buying when it comes to both risks and opportunities. For a large proportion of transactions, the buyers investigate different elements of the target companies such as legal and tax obligation, financial data and the commercial aspect. This highlights the buyers' awareness of the importance of target thorough scrutiny. The investigation is called due diligence process:

- Financial due diligence: the review of historical and future financial figures of the target company such as the robustness of historical earnings, the quality of net debt, the analysis of budgets and future projections.
- Tax due diligence: the investigation of both the history and future of tax obligation and the exposure of the target company in the context of direct and indirect taxes.
- Legal due diligence: the review of the legal situation of the target company in the areas of the company law, contracts, labor laws, intellectual property and permits.
- Commercial due diligence: the study of markets in which the target company is operating and the market position in which the company finds itself.

(Bishop Fleming 2018.)

Sell-side companies need to understand the mind of a purchaser. The starting point is to ensure that due diligence information is of sufficient quality and relevant for the purchaser. The information needs to point out any unusual trends or gaps. From the information collected in this due diligence process, adequate explanations, supports, and action plans should be made available. For people involved in the day-to-day running of the business, this can often be overlooked as existing knowledge can compromise objectivity.

If the business has a complex corporate structure or the target is only selling one element of a larger group, there will be a need to understand what the business will look like post-deal on an arm's length basis. Proper preparation and planning have additional benefits: it can free up management to focus on running the business rather than getting bogged down during due diligence (particularly if there are multiple bidders) and can help the sell-side company maintain a firmer grip on the process to drive a quicker deal.

2.5 Closing the deal

In the execution phase, numerous transactions in Vietnam could be drawn out by a lengthy process. Persistence in addition to understanding is nevertheless a necessity to reach the closing phase. In this stage, both the buyer and the seller will sign Share purchase agreement (SPA) which is the final agreement on the sale of the company, subject to a number of condition precedents (CPs) such as obtaining acquisition approval from the competition authorities. Then, the closing agreement sets out the final settlement of agreement after the CPs have been met. This document results in the transfer of ownership and the payment taking place. Buyers usually fund their deals with own existing cash as Vietnamese banks predominantly adopt a securitized lending approach and are not prominent providers of acquisition financing. The cost of debt financing, in any case, is often significant compared to other capital sources.

One interesting observation conducted by Galpin & Herndon (2000) is that friendly or hostile bid negotiations may create a totally different outcome. Friendly negotiation normally reflects the fair value while hostile bid produces a climate of distrust that makes the integration efforts much more difficult. The hostile approach is more suitable for short-term opportunity. On the other hand, when going under friendly negotiations, the deal has a greater likelihood of a fair price being transferred and integration success.

2.6 Post-deal

The post-deal phase has the main challenge of keeping the stability and seamlessness during the transition period. The biggest challenge encountered was in respect to compliance, governance and controls issues which are a reflection of the deficiencies in this area in many Vietnamese businesses compared to those in more mature markets.In addition to the main challenges including personnel, organizational policy, and company culture confliction, it is the ability and experience of the buy-side to manage the current underlying business problem.

Whether the intention is to integrate the target into the acquirer's business or to allow it to continue to operate on a standalone basis, it is important that the ownership/investment transition is well planned prior to day one and is executed in an efficient and effective manner to minimize disruption, preserve value and to realize any opportunity of synergy.A formal M&A tracking is beneficial as it captures the information about how the thing is going on at the new entity and how people is reacting (Galpin & Herndon 2000).

According to the M&A theory, this is the period that both parties assess the respective outcomes:

- It gives mergers the achievement of efficiency through synergy.
- It helps mergers to gain market power.
- It triggers wealth transfers from the stockholders of the company.
- It maximizes the utilization rate.
- It supports organic growth through a better optimizing process and organizational structure.

3 OVERVIEW OF M&A MARKET IN VIETNAM DURING 2013-2018 PERIOD

3.1 Vietnamese macro-economy

In developing markets, macroeconomic stability plays an important and significant role in many aspects, especially the close relationship with economic growth. Macroeconomic stability along with well-controlled inflation and favorable exchange rate enables a better business environment to promote investments, production as well as consumption; by stimulating economic growth. Furthermore, strong economic growth is a fundamental basis to increase investors' confidence in the potential development in Vietnam and to continuously encourage them to pour capital into Vietnam, including the M&A route.

From 2013 up to now, it can be said that the economy has entered the stage of stability, recovery and development. The GDP growth rate significantly improved from 5.42% in 2013 to 6.98% in Q3/2018 (Figure 2), the highest rate compared to the same period of the previous years.

Figure 2 Vietnam Economic Growth during 2013-2018 (VEPR 2018)

This satisfactory performance was attributable to a solid growth rate of agriculture, forestry, fisheries, services and the impressive growth rate of the industrial and construction sector (Figure 3).

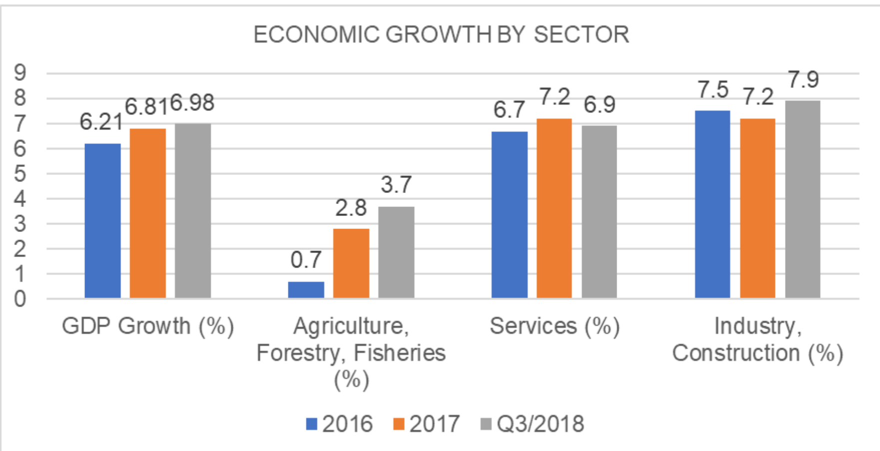

Figure 3 Vietnam Economic Growth By Sector in 2016, 2017, Q3/2018 (VEPR 2018)

Meanwhile, inflation remained at a relatively low level in 2017 (Figure 4), partly reflecting the prudent money supply control by the State Bank of Vietnam (SBV).

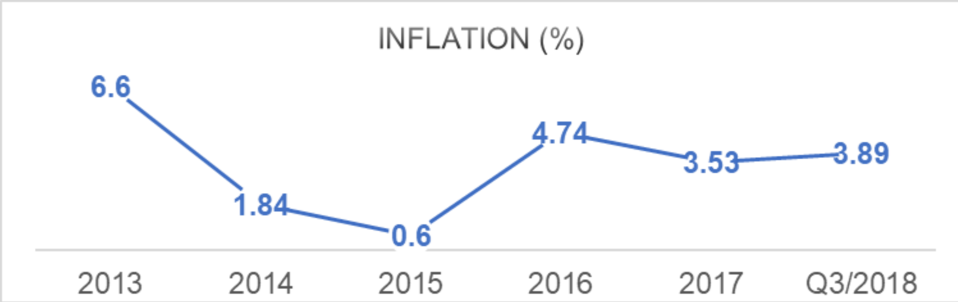

Figure 4 Vietnam Inflation Rate during 2013-2018 (VEPR 2018)

Besides the bright spots of GDP growth and stable inflation, the Vietnamese economy still faces some major constraints that could affect the macroeconomic stability negatively. One of them comes from overspending the State Budget. However, in 2017, the budget deficit was only 3.48%, the lowest level in four years thanks to the divestment from SOEs (State-Owned Enterprises) and partly owing to slow disbursement of public investment. In the circumstance that Vietnam's economy is highly integrated with the world, the budget revenue for export-import activities has gradually declined year by year as part of the FTAs (Free Trade Agreements). Despite recent oil price improvement, the Government is still reducing its budget revenue from crude oil so as to reduce the dependence of the State Budget revenue on limited natural resources. However, in order to compensate for the decline in the budget revenue, the Government has planned to increase domestic revenue such as personal income taxes, environment protection tax, land housing tax.

Trade activities in Q3/2018 continuously showed a positive growth. Q3 also marks the fifth consecutive quarterly trade surplus, mainly from exports of the FDI sector (Figure 5). That trade surplus contributed to the foreign currency supply, associated with the monetary policy of the SBV to prevent the exchange rate from fluctuating too wildly in Q3, thereby facilitating the production and business levels. Besides, South Korea replaced China as the largest trade deficit partner of Vietnam. The trade deficit with developed countries like South Korea may bring opportunities for Vietnam to learn technological advances, instead of only receiving cheap consumption goods.

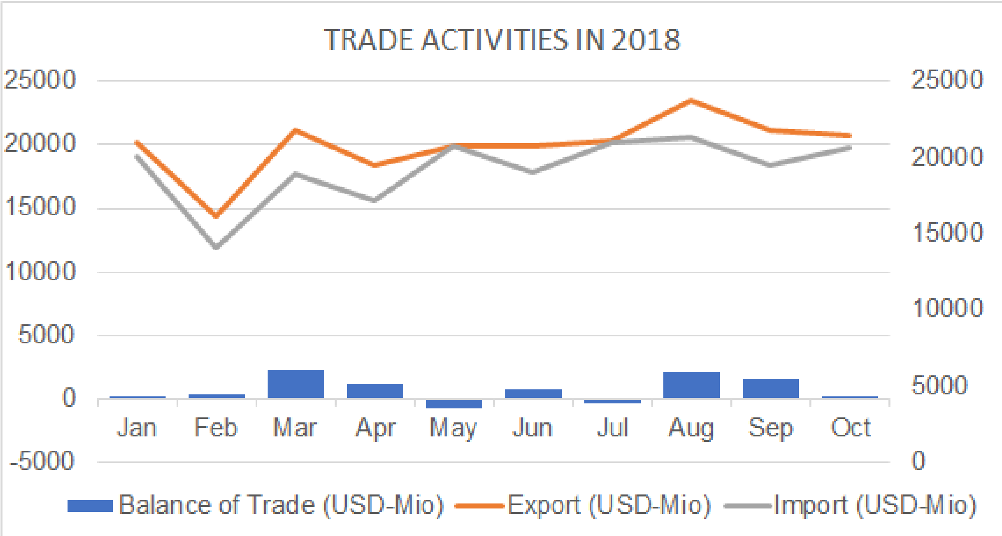

Figure 5 Vietnam’s Balance of Trade In 2018 (Trading Economics 2018)

In the foreign exchange market, the Fed’s third interest hike in Q3/2018, together with the US-China trade tension, pushed USD up and made many currencies depreciate (Figure 6). Nevertheless, the application of the new exchange rate regime of the SBV made the central exchange rate no longer highly depend on the fluctuation of USD. The positive balance of payment allowed SBV to buy foreign currencies continuously throughout the year. The abundance of foreign currencies will help reduce pressure on VND. Therefore, the SBV has had more room to adjust interest rates to boost the economy.

Figure 6 Exchange Rate USD/VND in 2014-2018 (Trading Economics 2018)

In the stock market, the VN-Index is currently in the range of 1050-1100 (Figure 7), reaching its highest level since 2005, ranked among Top 5 stock markets in the world. This growth has helped to bring positive signs to equitization and divestment from SOEs.

Figure 7 Vietnam’s HCM Index in 2014-2018 (Trading Economics 2018)

In line with the above favorable conditions of the macro environment, the FDI sector has also been in a sustainable growth trend, increased from 8.9 USD billion to 15.1 USD billion in Jan-Oct 2018 (Figure 8).

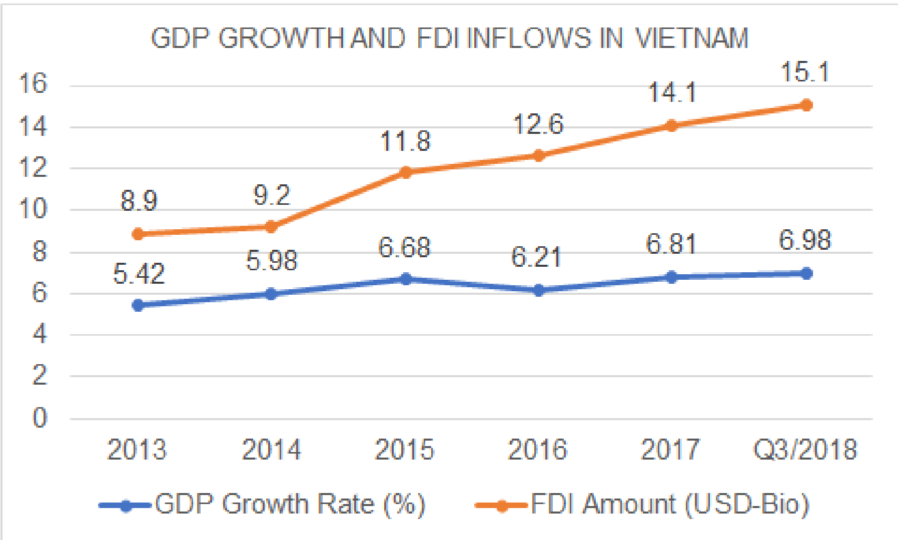

Figure 8 GDP Growth and FDI Inflows in Vietnam during 2013-2018 (IMF 2018)

Definitely, to attract investments, the macroeconomic fundamentals are just necessary conditions. The sufficient conditions are the efforts of the Vietnamese Government to improve the investment environment, economic restructuring and deep integration into the global economy. To put it in another way, if the positive macro-economy is the cornerstone, the policy reforms as well as the conclusion of FTAs negotiations will be the key impetus for the Vietnam's M&A market to break through in the near future.

To sum up, along with endless efforts to improve the quality as well as the efficiency of the administrative system and reforming the business environment, the positive results of macroeconomic stability have promoted the strong development of both the private sector and the FDI sector. After rising eight spots in the World Bank's EDBI (Easy Doing Business Index) from 2016 to 2017, Vietnam continued to jump 14 places in 2017-2018.

3.2 M&A in Vietnam in summary

Besides the favorable investment environment as mentioned above, thanks to a good and reasonable human resource, a high urbanization rate as well as a strategic location in the center of Southeast Asia, Vietnam is becoming well-known as a manufacturing hub, growing consumer market and access to a vast marketplace. All these attributes make investing in Vietnam interesting. Correspondingly, the Vietnamese M&A market has grown at an impressive rate in terms of both the numbers of transactions and the deal value.

If there were only 18 M&A deals with total value of 61 USD million in 2005, the number of M&A deals strongly increased to 277 cases, the total amount reached the notable level of 2.7 USD billion in 2013. This remarkable growth stemmed from the greatest source of FDI from Japan, structural reforms in banking and the effectiveness of various laws on enterprises, investment, business competition, real estate business and the stock market, establishing a new legal corridor for the M&A market's development.

During the period from 2013 to 2018, trading volume continued to grow impressively in 2018, 38.6% year over year (as of November 2018), and the total value of transactions reached 3.3 USD billion. The significant increase in the total transaction value of 10.2 USD billion at the end of 2017 was thanks to the record-breaking deal of SABECO and Thai Bev (Figure 9). Generally, without-SABECO-2017, the size of the M&A market in Vietnam has a great tendency to expand over the years. These positive results were mainly due to the wave of M&A from Thailand and many new policies introduced by the Vietnamese government to push the restructuring of SOEs, creating opportunities for foreign investors.

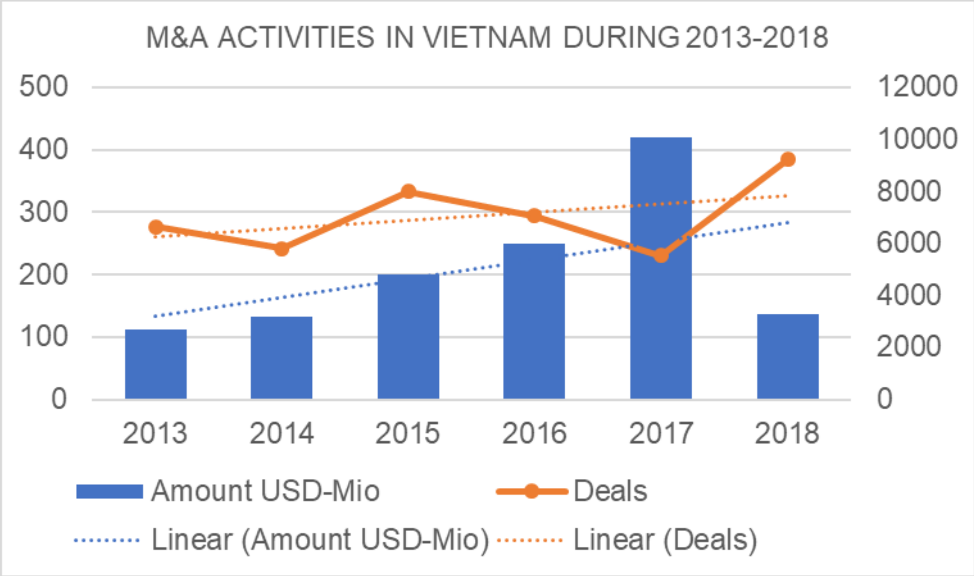

Figure 9 M&A Activities in Vietnam during 2013-2018 (Capital IQ 2018)

However, among the countries in Southeast Asia, the total M&A deal value in Vietnam still stood at a low level, below the average value of M&A transactions at Malaysia, Philippe and Thailand. Especially Singapore took the top spot with a total M&A deal value of USD89.0 billion, far exceeding other countries in the region (Figure 10).

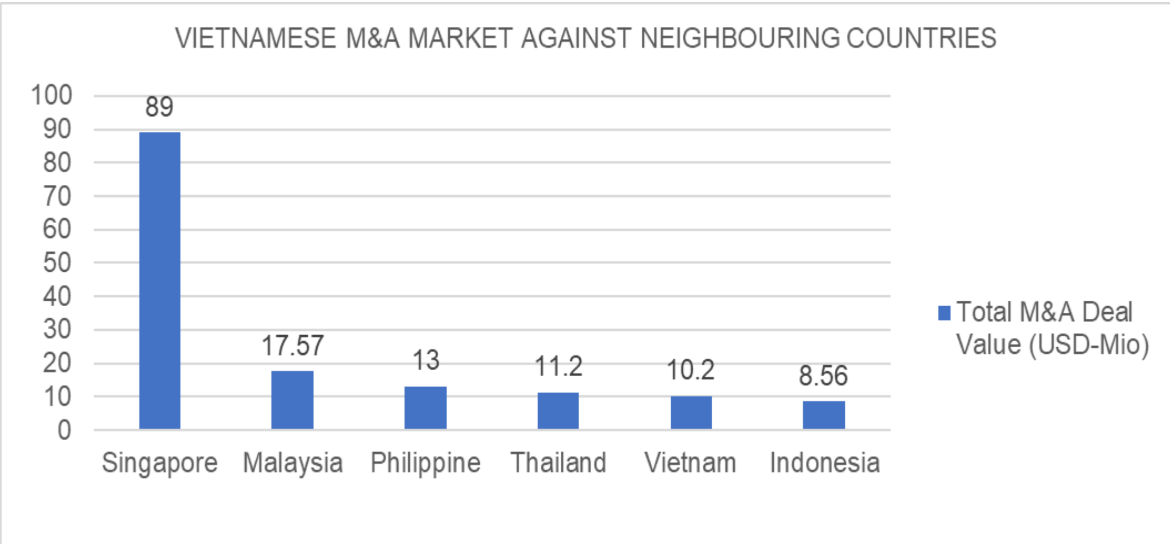

Figure 10 Vietnam M&A market against neighboring countries (Asian Legal Business 2018)

Besides, the Vietnamese market consists mostly of small transactions (<USD20 million). This group took up 70% of the number of deals (Table 3).

Table 3 Size of M&A deals in Vietnam during 2013-2018 (Capital IQ 2018)

Size of M&A Deals in Vietnam during 2013-2018		
Deal Size	**Number of Deals**	**Percentage**
>500 USD-Mio	9	1%
100-500 USD-Mio	33	5%
20-100 USD-Mio	136	23%
<20 USD-Mio	425	70%

In the overall M&A market, foreign investors are more dominant than domestic investors. Particularly, overseas buyers take up 77% of the total M&A value in the Vietnamese market. Admittedly, the nature of M&A activities is using the money to acquire shares of the other company, then building a strong and relatable brand and applying technology to develop new products. Thereby, Vietnamese investors could not bring much new value into the M&A chain owing to their limitations on capital, technology and professional management.

However, domestics contributions to the Vietnamese M&A market have gradually increased over the years (from 28% in 2013 to 34% in 2018) (Figure 11).

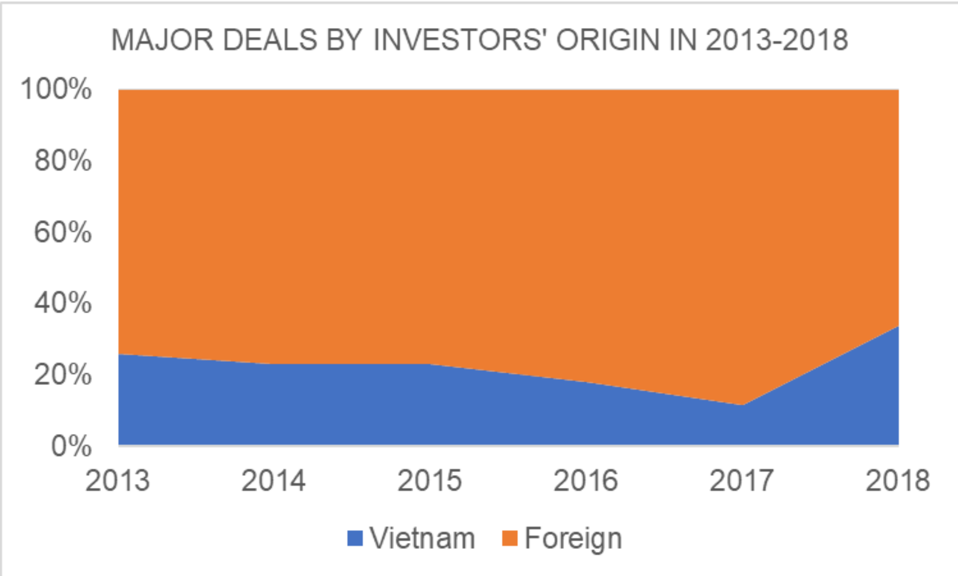

Figure 11 M&A deals by investors' origin in 2013-2018 (Capital IQ 2018)

When considering large M&A deals (value above USD 20 million), foreign investors continued to play a significant role (Figure 12).

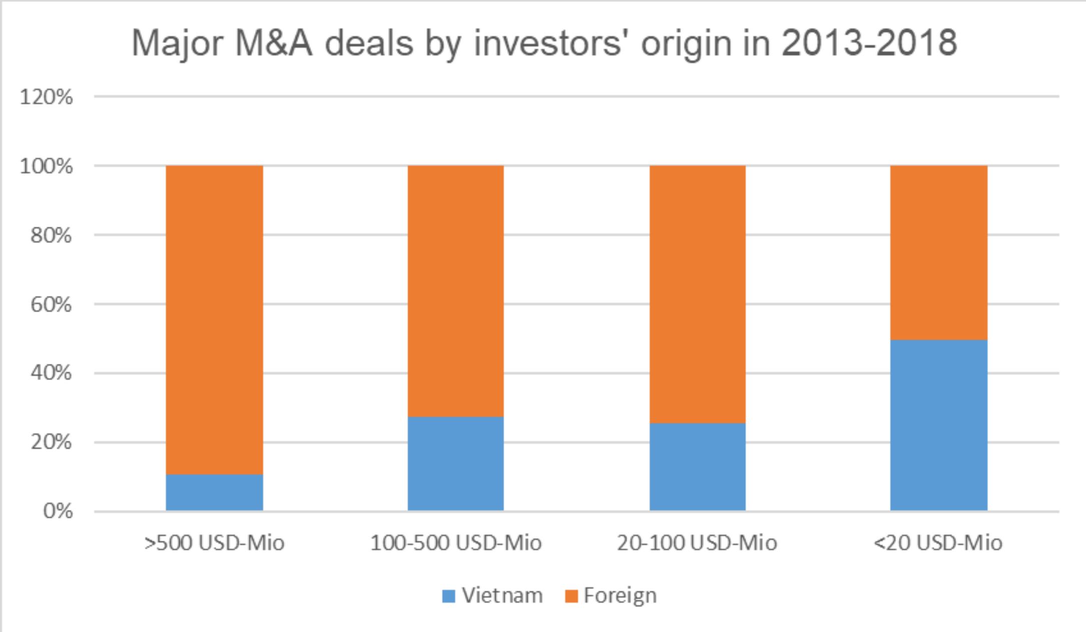

Figure 12 Major M&A deals by investors' origin in 2013-2018 (Capital IQ 2018)

Especially, all the mega deals (amount to USD 1 billion) involve foreign investors (Thailand, Taiwan) (Table 4).

Table 4 Noteworthy M&A Transactions During 2013-2018 (Capital IQ 2018)

TOP 10 M&A DEALS BY VALUE DURING 2013-2018							
No.	Buyer	Country	Seller	Country	Target	Percentage	USD-Mio
In 2014							
1	Berli Jucker Public Co., Ltd	Thailand	METRO Cash & Carry International Holding B.V	Germany	METRO Cash & Carry Vietnam Co. Ltd	100%	745.67
2	Mondelez International, Inc	United States	KIDO Group	Vietnam	MONDELEZ KINHDO VIETNAM JSC	80%	544.69
In 2015							
3	TTC Corporation Limited	Thailand	METRO Cash & Carry International Holding B.V	Germany	METRO Cash & Carry Vietnam Co. Ltd	100%	745.67
4	Singha Asia Holding Pte Ltd.	Singapore	N/A	N/A	Masan Consumer Holdings Company Limited	N/A	600
In 2016							
5	The Central Group	Thailand	Casino, Guichard-Perrachon Societe Anonyme	France	Big C Vietnam	100%	1,138.43
6	Siam City Cement Public Co., Ltd	Thailand	Lafarge Holcim Ltd	Switzerland	Siam City Cement Vietnam Co Ltd	65%	568.9
In 2017							
7	Formosa Group Corporation	Taiwan	N/A	N/A	Formosa Ha Tinh Steel Corporation	N/A	1,000
8	Thanh Thanh Cong – Bien Hoa JSC	Vietnam	Thuan Thien Investment and Trading Co., Ltd	Vietnam	Bien Hoa Sugar JSC	100%	496.7
9	Vietnam Beverage Co., Ltd	Thai Land	N/A	N/A	Saigon Beer – Alcohol – Beverage Corporation	53.60%	4,811.84
In 2018							
10	Vinhomes Real Estate Management LLC	Vietnam	Benjaya Corporation Berhad	Malaysia	Vietnam International University Township	97.70%	502.32

The main buyers in the Vietnamese M&A market come from nearby countries such as Thailand, Taiwan, Japan, Singapore and South Korea, as companies based in these countries are aiming to become global players, venturing outside their own domestic markets, seeking high-growth-rate or low-production-cost economies for their expansion. While countries like Thailand and Taiwan take up the majority of M&A deals in Vietnam in terms of value, investors from Japan and Singapore take up the top spot in terms of the number of deals (Table 5).

Table 5 Vietnam's largest M&A partners in 2013 - 2018 (Capital IQ 2018)

VIETNAM'S LARGEST M&A PARTNERS IN 2013-2018					
No.	Country	No. of transactions	No.	Country	Value (USD-Mio)
1	Japan	64	1	Thailand	4,872
2	Singapore	55	2	Taiwan	2,079
3	South Korea	46	3	United States	1,873
4	Thailand	29	4	Singapore	1,841
5	United States	24	5	Japan	1,742
6	Malaysia	23	6	South Korea	1,554
7	Taiwan	22	7	China	775
8	China	16	8	Hong Kong	533
9	Hong Kong	16	9	Indonesia	250
10	United Kingdom	6	10	Malaysia	248

Thailand: Those investments from Thailand focus on retail, consumer goods as well as construction materials with a view to grow outside their home markets, which are matured or experienced low-growth rate as compared to Vietnam's soaring rate. Advantages for Thai business in Vietnam are geographic proximity and similarities in cultural characteristics.

Thai investors have commonly targeted the Vietnamese enterprises which hold large market share. Thai companies The Central Group, Berli Jucker Public Company Limited and TCC Corporation Limited expanded their presence in Vietnam's retail market with the acquisitions of Big C Vietnam and METRO Cash & Carry Vietnam Co. Ltd. Now, Vietnam's two major supermarkets are totally under the control of Thai entities. Besides retails, the past few years also witnessed major M&A deals in the construction materials sector. Namely, SCG from Thailand bought out a series of leading Vietnamese cement companies. Furthermore, owing to well-developed, great potential growth market, youthful population and rising middle class, Thai investors also pay special attention to Vietnam's food and beverage sector. In 2016, taking the opportunity of the investment from SOEs, F&N raised its stake in the leading dairy company in Vietnam – Vietnam Dairy Products Joint Stock Company (Vinamilk) from 11% to 20% (Nikkei Asian Review 2018). Most recently, Thai Bev's local unit, Vietnam Beverage Co. Ltd., won the 54 percent of Saigon Beer-Alcohol Beverage Corporation (Sabeco)'s stake on offer at an auction.

Although the M&A boom from Thailand is expected to boost the growth of the Vietnamese economy, it also poses risks to Vietnam's economy such as unfair trade restrictions and monopolies.

Taiwan: During 2013-2018, a total capital of USD 2.08 billion was invested by Taiwan in Vietnam via M&A. Taking the figure into consideration, Taiwan was ranked second among the total number of countries and territories investing in Vietnam's market. The Taiwanese projects are mainly focused on the processing and manufacturing industries and construction. In 2016, global software giant Microsoft sold its feature phone business to FIH Mobile Ltd, a subsidiary of Taiwan's Foxconn, and to Finland's HMD Global Oy for USD 350 million. As a part of the deal, Taiwan's Foxconn, the world's largest electronic component manufacturer acquired Microsoft's smartphone facility in Vietnam. In order to keep up with the increased demand for construction materials in Vietnam on the back of the overall construction boom, Tung Ho, which is Taiwan's largest construction steel supplier has acquired firm from Vietnam's Fuco Steel Corp. Ltd. to expand its production capacity and its presence in Vietnam since 2015.

Japan: In terms of the number of transactions, Japanese companies have been the largest investors in Vietnam in recent years. Different from Thailand investors who focus on a limited number of sectors they have strengths, investors from Japan have been active in almost any sector of the Vietnamese economy ranging from pharmaceuticals, construction materials, aviation, agriculture to retail, finance services and real estate.

During 2013-2018 period, Japanese investors conducted nearly 70 M&A deals in a wide range of industries in Vietnam. There are several factors leading to this diversified range of sectors chosen for acquisitions. Some Japanese enterprises seeking M&A targets in Vietnam are prompted by the limited growth of the Japanese market, low-interest rate, while some Japanese investors want to get benefits from consumer trends that are developing at a rapid pace in Vietnam. Such example of a successful deal was when Japan's Credit Saison purchased 49% stake in HD Bank in April 2015. Vietnam is considered as a large unbanked population compared to the neighboring countries like Thailand and Malaysia and still has room for foreign investors to grow in banking sectors (PwC Vietnam 2014).

Otherwise, many Japanese manufacturers coupled with their associated suppliers want to tap into Vietnam's low-cost manufacturing base. Meanwhile, others are looking to move manufacturing away from China due to a combination of expensive labor costs and geographical risks.

Another factor that differentiates Japanese investors entering into Vietnam via M&A is that they tend to buy shares from the investment fund to develop their understanding of the market over time before forming a strategic partnership with Vietnamese companies. These funds, after holding onto these shares for a long time, are willing to let go of the stakes in order to realize their profits. By buying shares from investment funds, Japanese companies will control stakes in the target company. For example, in 2016, Taisho Pharmaceutical Co., Ltd bought 24.5% of DHG from various funds, including Vina Capital, Dragon Capital, Mekong Portfolio Investments, and Vietnam Holding (Vietnam Investment Review 2018).

Singapore: When considering several projects, Singapore was the second largest investor through M&A with 55 projects during 2013-2018. Singaporeans are mostly attracted to real estate because of Vietnam's positive demographics, labor landscape, strategic location and a strong foundation for economic growth. One outstanding case was when Singapore's Mapletree Investments Pte Ltd. purchased Kumho Asiana Plaza Saigon Co., Ltd. in the center of District 1, Ho Chi Minh City, Vietnam. Besides, web start-ups also received attention from Singaporean investors. In 2016, Pasoto.com, a booking site for coaches, hotel rooms, airplane tickets, and car leasing was transferred to Easybook.com in Singapore, which specializes in travel and logistics services. Another notable deal that occurred in 2016 was the long-standing partnership between Batdongsan.com and Property Guru Group after the property listing site from Singapore bought stakes in this Vietnamese property listing website.

Regarding sector-based M&A, sectors like retail & consumer goods and real estate led the M&A market in Vietnam in terms of value. These sectors are attractive industries to both foreign and major domestic investors (Figure 13).

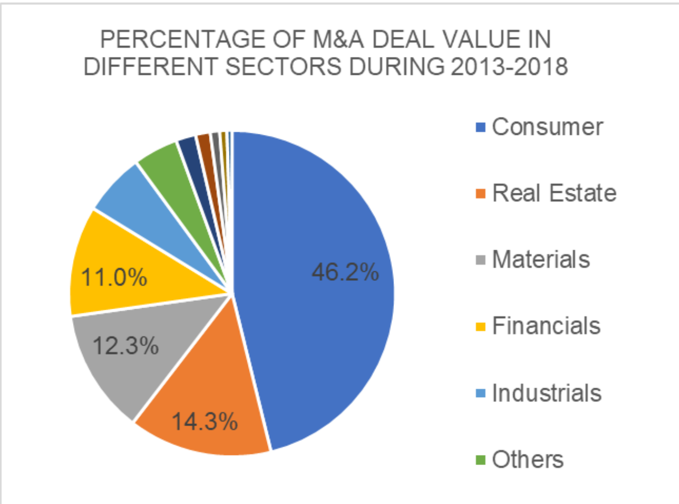

Figure 13 Percentage of M&A deal value in different sectors during 2013-2018 (Capital IQ 2018)

In terms of the number of deals, sectors like retail & consumer goods and industrials took up the top spots (Figure 14).

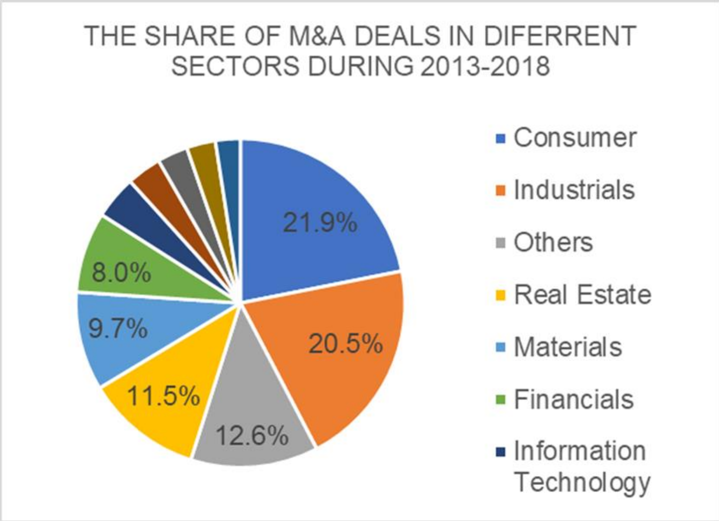

Figure 14 Share of M&A deals in different sectors during 2013-2018 (Capital IQ 2018)

Retail & consumer goods: Thanks to stable economic growth, various encouraging policies, a population size of over 90 million people, coupled with growing middle class and their increasing purchasing power, the retail/consumer industry has steadily turned into the most prominent sector in M&A, taking up 46.2% of the total M&A deal value and 21.9% of the number of deals. These M&A activities primarily involve taking over local companies with long-standing or trendy brands, as well as seizing market share. It is obvious that Thai investors, with a desire to expand their market shares, are most active. Notable transactions include Thai investors acquiring Big C and Metro Cash & Carry supermarket chains. Not only large foreign firms pursue M&A deals in the retail industry, but some Vietnamese corporations tap into the segment as well. For example, Vingroup successfully acquired the An Phong Investment Corporation, owner of the Maximark supermarket chain, which is subsequently added to its two new brands Vinmart and Vinmart+ (Vietnamnet 2015).

Like the retail industry, consumer goods deals have a particular appeal to foreign investors. CJ Group of South Korea is a good example of M&A activities in the field of consumer goods. CJ Cheil Jedang, the food subsidiary of South Korea's CJ Group bought a stake of 47.3% of Cau Tre Export Goods Processing JSC. At the same time, CJ Vietnam took over Ong Kim – a popular brand of kimchi in Vietnam. (Vietnamnet 2016.) Meanwhile, Daesang Corporation also spent about USD33.56 million acquiring the Vietnamese sausage maker Duc Viet Food JSC (Vietnam Investment Review 2016).

However, coming along with the opportunities of expanding is always the risk of acquisitions by major competitors. It can be seen clearly that some Vietnamese brands are gradually absent or being erased whilst there is a strong and rapid rise of foreign brands in Vietnam.

Real estate: In order to enjoy high-interest rates as well as secure stable yields, both domestic and overseas investors seek M&A deals in the Vietnamese real estate sector. In the past, developers alike rushed to acquire land for upcoming sales opportunities. Hence, besides some completed projects, some of these developers found that property development is beyond their means or expertise, leading to a series of real estate projects which were frozen or left idle. One of the effective solutions on these suspended projects is the transferring of projects from weak to strong companies through M&A. About Vietnamese investors, they prefer to buy out projects entirely. After taking up projects, they inject more capital to complete projects and launch them on the market. For instance, Binh Chanh previously finished building the foundation of its project named Western Dragon for a long time. Due to financial difficulties, Binh Chanh has sold off these projects to Hung Thinh. Western Dragon was later renamed as Moonlight view by Hung Thinh, who managed to sell out all the apartments in the complex within a single month. Another notable name standing out in the field of M&A in recent years is Novaland Group. Now, the Group is carrying out more than 40 projects, mostly through M&A. It is also worth mentioning that most of Novaland's acquisitions involved projects whose former owner lacked the experience to develop them amid housing market difficulties. In particular, a great tale of revival is Lakeview City in District 2, HCMC, Vietnam, previously developed by Century 21 JSC. Novaland spent more than USD114 million buying 82.46% of stakes from two major investors, Prosper Big Investment Ltd. and Henry Enterprise Group Ltd. Following the Novaland takeover, the project soon became a modern urban area, which has been crowned the Best Luxury Residential Development by Dot Property Vietnam Awards 2017.

Meanwhile, foreign investors typically join in the Vietnamese real estate market by purchasing stakes in a joint venture with domestic investors. This helps them to faster step into the large Vietnamese land reserves, to get the know-how to deal with a long and murky process of obtaining the necessary approvals for projects and the removing of inhabitants. For example, in 2017, An Gia Real Estate Investment and Development JSC and Japanese partner - CREED Corporation have completed their purchase of seven building blocks in La Casa Project in District 7 from Van Phat Hung Corporation. Another noteworthy M&A deal announced recently was Nam Long Investment Corporation becoming the strategic partner of two Japanese investors namely Hankyu Realty and Nishi-Nippon Railroad to develop HCMC projects.

4 KEY DEAL BREAKERS DURING M&A PROCESS AND RECOMMENDATIONS

4.1 Data collection

In order to find out the most challenges the investors had to deal with when doing transactions in Vietnam, the author created an online survey and sent it to 65 deals professionals working in private equity funds, securities companies and M&A advisory firms via the LinkedIn platform. The author has connected to the surveyed participants at the M&A networking events before conducting the survey. The survey has 15 questions including general questions and M&A related questions (Appendix 1). The M&A related questions are divided into five sections based on the M&A process in order to identify key deal breakers in each stage. The survey was conducted in two weeks and received 52 responses in total. After verifying the responses of participants, the author got 50 responses which were qualified for data analysis. After findings the main causes leading to deal failures, the author also conducted semi-structured interviews with senior transaction advisory experts to ask about their advice on how to overcome difficulties in each stage. The list of main interview questions is presented in Appendix 2. The results of the survey and the interviews are presented in the next sub-chapters.

4.2 Target identification

In the initial phase of identifying potential targets, the buyers already found that it is extremely difficult for them to compile a comprehensive list of potential targets with measurable indicators due to the lack of information publicly available in Vietnam. According to the General Statistics Office of Vietnam (2018), there are over 561,000 licensed companies operating in Vietnam as of the 31st December 2017. Backed up by this fact, the market should offer a wide range of opportunities for investors to expand their business in Vietnam. However, only a very small number (around 2000 companies equals 0.4%) of these total operating companies are listed on the stock exchange providing public financial information on a frequent basis (State Securities Commission of Vietnam 2018). Data related to the remaining companies are non-disclosed to outsiders resulting in a lengthy and troublesome target identification process for the acquirers. Besides, it can be very hard for investors to identify the real decision makers in target companies and the access to those people is usually very restricted. Language and cultural barriers are also considered as significant challenges during the target identification process.

Hence, according to the survey, 42% (Figure 15) of respondents have to utilize their existing relationships and knowledge in the market in order to seek out companies who can gauge their interest, while only 10% conduct in-house market research in order to identify potential targets which were previously unknown to the management. In the cases where participants indicated that their opportunity came directly from the seller (28%), they had been in contact with them for several years prior to the deal which helped to build a bridge in the sellers' mind for a transaction. The remaining 20% leverage the advisory intermediaries' extensive local knowledge and relationships in market screening and target approach. The reason is that the buyer may wish to keep their identity anonymous initially in case the target is not available for sale and their approach is declined.

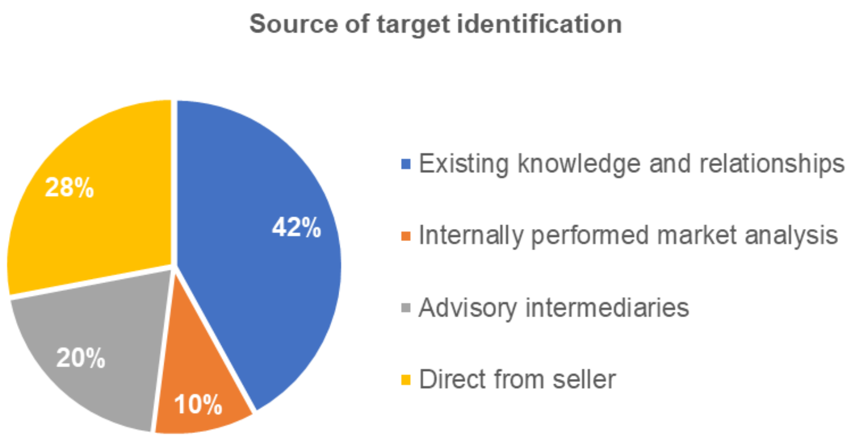

Figure 15 Source of target identification

Yet, relying on only their network and knowledge could possibly eliminate potential target companies who are unknown to them. Still, the investors are aware of the fact that having more than five targets for consideration would likely increase the chances of choosing the right target and closing the deal. In reality, due to the limited resources and time restraint, the acquiring companies usually only have two to five companies in their shortlists as cited by 70% of respondents (Figure 16). Meanwhile, about one-third of the surveyed companies looked at six or more companies before completing a transaction.

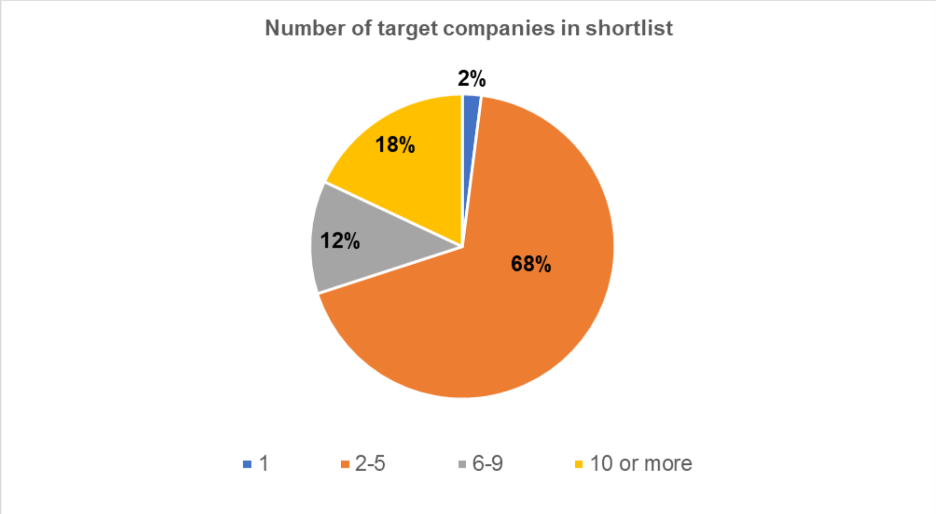

Figure 16 Number of target companies in shortlist

The list will be continually shortened during the process due to the local Vietnamese businesses' inability to satisfy the acquirers' screening criteria such as deal size, financial resources, governance quality. Before entering a deal, buyers spend a considerable amount of time to define the key criteria for choosing a final target over other options. Based on our research, the top three factors that investors are looking for in a target company are strong growth potential, management quality and operating sectors (Figure 17).

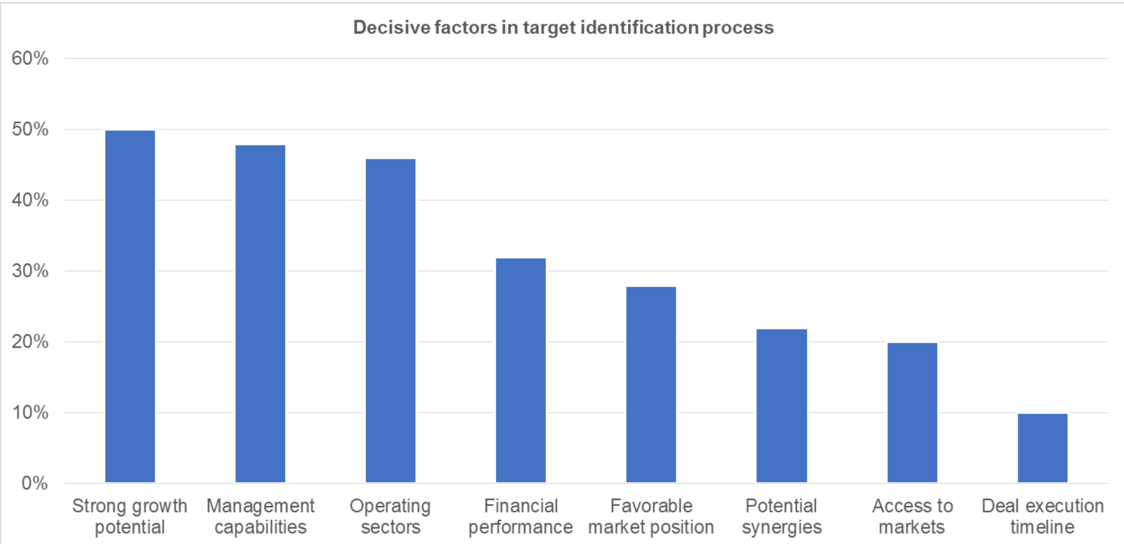

Figure 17 Decisive factors in target identification process

Knowing the buyer's evaluation criteria, sell-side companies should actively market these aspects of their businesses to maximize the possibility of reaching potential investors and to stand out from the crowd. In essence, prior to engaging in any deal transactions, it is essential for the seller to understand investors' perspective such as the way buyers assess business, operating model, accounting system and management team. For investors, in order to assess the true growth potential and management capabilities of a target company, a structured approach to target search must be set up including both internal and external assessment of the target company. Recommended steps in the target identification process are setting the right criteria for the screening process, finding a reliable source for timely market insights and choosing the right channels to initiate contacts. Doing this process properly may take slightly more time, but can significantly reduce transaction risk in the later stage of completing the deal and enhance the quality of post-deal integration.

4.3 Valuation

The survey's result pointed out that the diverging ideas on valuation expectations are the main causes leading to deal failures. More than two-thirds of the survey participants consider the quality of financial projections as the major deal breaker (Figure 18). In fact, not many Vietnamese local businesses have experience in preparing a business plan with financial projections that could be applied under the discounted cash flow valuation method. More than often, company owners tend to be over-optimistic about their financial projections without strong supporting assumptions. The second key challenge in the valuation process is the lack of comparable data as cited by 50% of respondents due to the unavailability of benchmark data regarding the terms of the transaction. The differences in scale, development stage and diversification in operating industries make the comparability difficult and the reliability of obtained multiples questionable. Another challenge that 40% of respondents identified was the lack of responsiveness of the target companies in the valuation process.

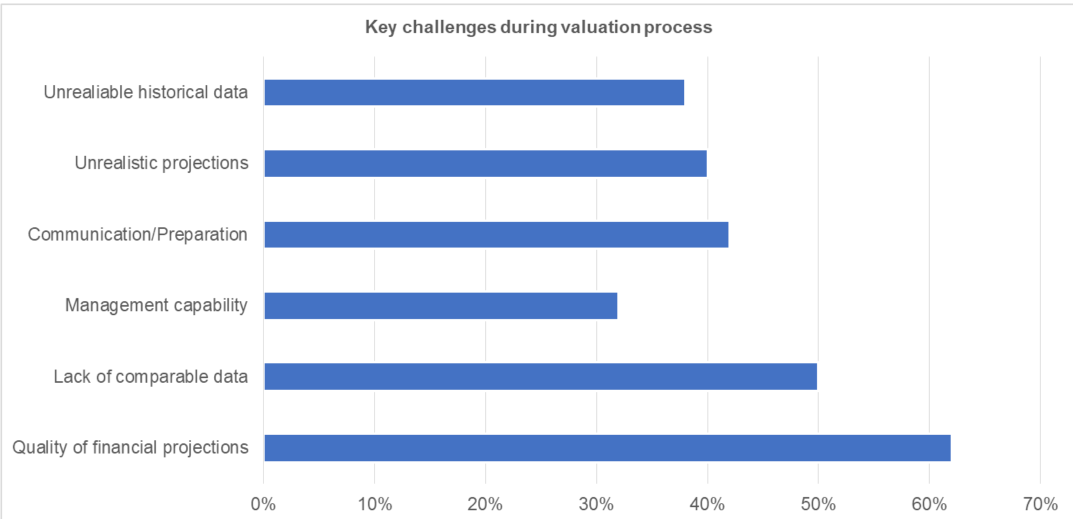

Figure 18 Key challenges during the valuation process

Sell-side can avoid unforeseen issues by being prepared and proactive before the due diligence begins. The level of proactivity from the sell-side usually not just determines the company's valuation but also increases the success rate of the potential transaction. The same logic applies to the seller's ability to articulate the company's vision, business plan and growth potentials. Good preparation together with the quick provision of clear and consistent information will help a seller differentiate from other sellers.

4.4 Due diligence

Due diligence is the final corporate health check conducted to understand the deep layer of a company's growth and potential. This is the key information prior to the investment's decision-making process. From the buyers' perspective, they always want to form a whole picture of the company they are buying, in the area of both risks and opportunities. Even under circumstances where risks or unfavorable factors are reviewed, those risks help investors to get a good sense of how and what to prepare.

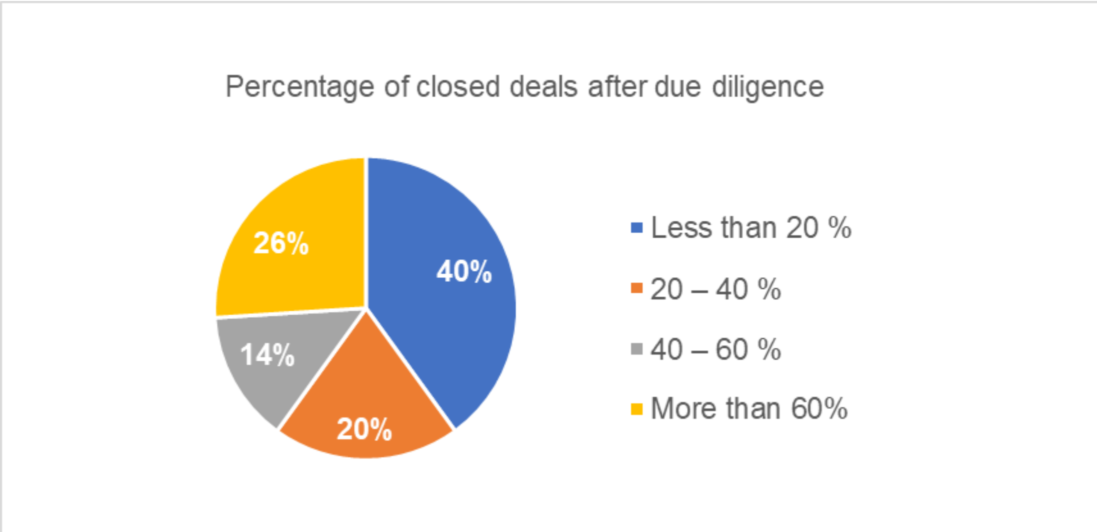

Figure 19 Percentage of closed deals after due diligence

Based on the study data, the author found that due diligence plays actually a very important component in decision making. 40% of respondents commented that four out of five deals are not being processed further after they completed the due diligence investigation (Figure 19). The importance of this investigation may also affect the negotiation process in term of pricing and condition as well.

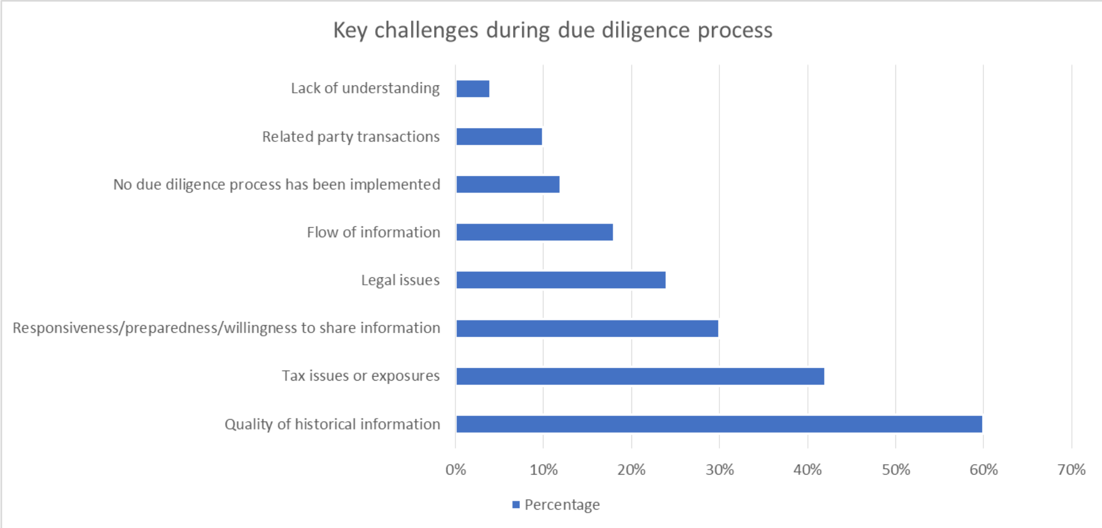

Figure 20 Key challenges during the due diligence process

Based on the sample of 50 key firms, advisors and consultants, the author tried to diversify the responses under different sectors and types like financial, commercial, and legal. The study showed that 60% of respondents agreed that the quality of historical data is the major challenging factor (Figure 20). It is simple to understand the root cause as the local companies do not normally invest decently into IT or business data infrastructure. Another thing is that companies are trying to cook data to make financial records more tax-efficiency. It is noteworthy to update that, many companies use a two-book system, having non-GAAP account policies at the same time.

Regardless of any cases, the true performance of the company is not fully demonstrated to potential buyers. Tax compliance and tax contingencies are also the issues that buyers take into consideration as well. That is why 40% of respondents also think tax issues are the major challenge. Coming third with 30% of agreed rate is the responsiveness and willingness of the target company to share information. Some local companies are not familiar with the due diligence process. They need more help in term of preparing data for an effective due diligence.

From the interviews with the deal advisory experts (Nguyen 2018), the author lists down suggested key solutions for buyers:

• The buyers should be aware of the Vietnam M&A landscape and take consults from reputable firms in this situation. The due diligence will take longer than expected and buyers should be more flexible with Vietnam's market norms.

• Buyer should really look at accounting experts for the advice because they can add a lot of value for financial screening and tax guidance.

• Key information that the buyers need to gain a firm grasp during this phase is that: Whether the company holds separate accounting books internally for different purposes? Can the accounting team able to prepare customized internal reports on the requests? What is the shareholder structure and business relationships among sellers and their related network? Has the seller recently gained the improvement of cash to secure a higher valuation during the due diligence?

4.5 Closing the deal

The author analyzed the ratio of sucessful deals after the due diligence process and learned that 38% of the respondents experienced a success rate of less than 20%. 18% of respondents answered that they had a success rate of 20%-40% over the past five years. 12% of the respondents had a closing rate between 40%-60% and 26% of the respondents succeeded at a ratio of more than 60% (Figure 21).

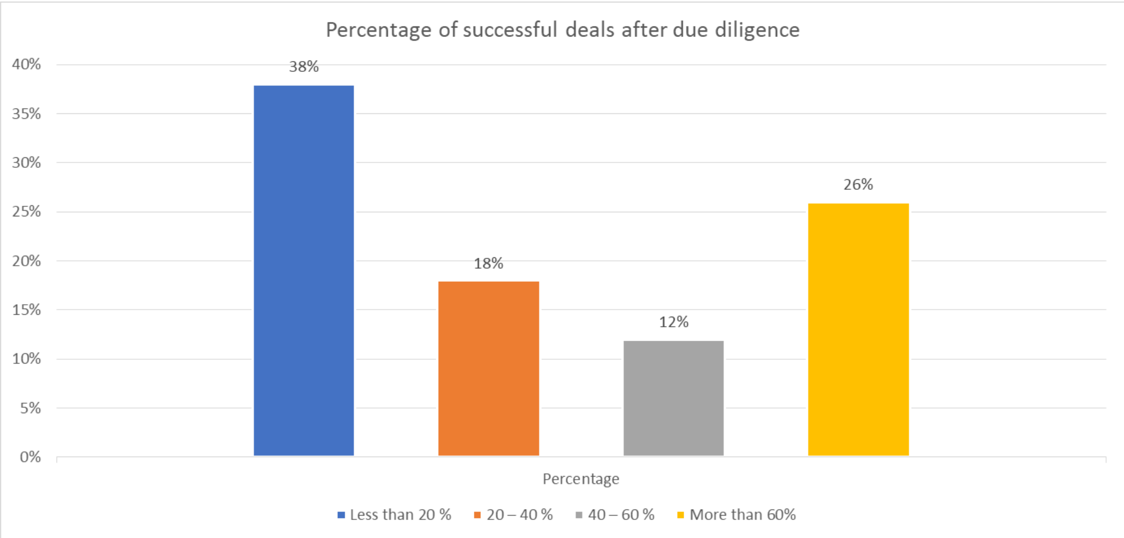

Figure 21 Ratio of success deals after due diligence

Based on the study, the author found that one noticeable thing in the Vietnamese M&A market is the discrepancy of valuation expectations between two parties. Data from the survey showed that 26% of respondents highlighted the valuation expectation as the key deal breaker. Coming up second was the due diligence findings with 22% (Figure 22).

Interestingly, regulatory and licensing were coming next as the main barrier that prevents the success of the deal. Under the Law on Investment and the Law on Enterprises in July 2015, the licensing and approval process are still difficult. For example, transactions that relate to the real estate sector, pre-sale restructure or and assets deal might need long lead time to get necessary approvals.

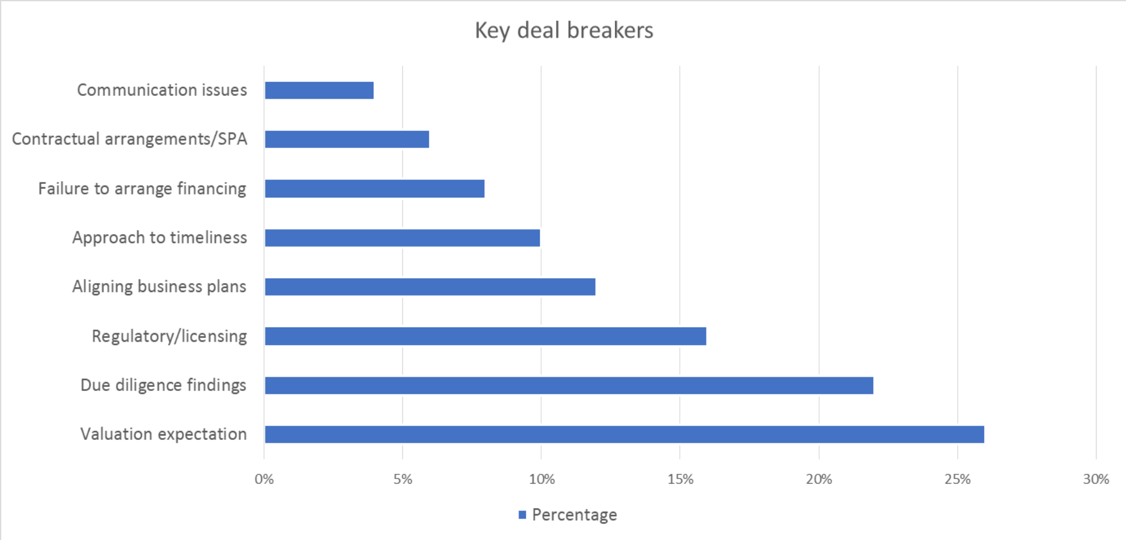

Figure 22 Key deal breakers

Another problem is the failure of the buyer to prepare the financing capability. In Vietnam, the cost of debt financing is high so 70% of respondents preferred to use existing cash reserves to fund the deals (Figure 23).

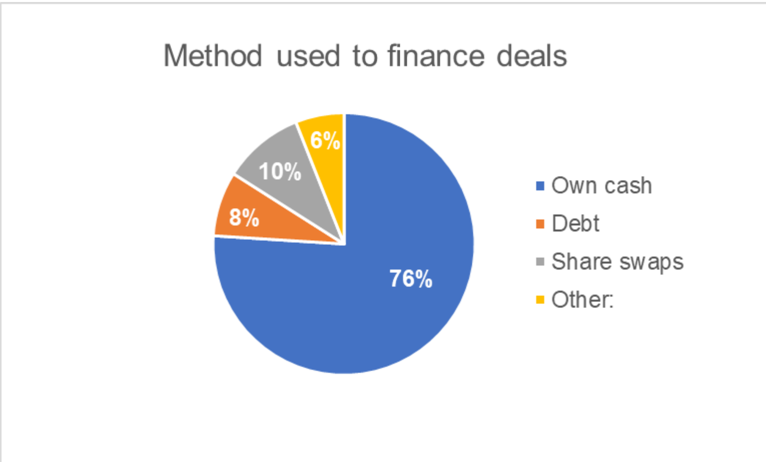

Figure 23 Method used to finance deals

Based on the findings of influencing factors during the closing deal phase and the advisory experts' advice (Nguyen 2018), the author suggests the following solutions:

- Legal and regulatory framework are the weak points of the Vietnamese M&A market. The participant should monitor closely the new Law on Competition that comes into effect on July 1, 2019. The new law will supervise and control mergers and anti-competitive activities in Vietnam. (PwC Vietnam 2018).

- As the dealmakers, there are many defined and undefined factors that cause risks and concerns when making a deal. There would be a need to prepare a plan that tradeoffs between managing risks and being practical.
- The early planning process, especially a careful plan, will help to increase the success of M&A transaction. In the context of adding a line business to a new entity, there are a lot of legal and operation steps that take time, and effort to formulate the success. It is worth hiring a professional firm to assess the overall health of the company before going to the market. With that in mind, benefit-context such as contract, policy, or any human-related factors should be carefully evaluated when closing the deal.

4.6 Post-deal

Post-deal integration is becoming one of the key considerations of a sustainable merger. According to the survey result, 62% of the respondents agreed that cultural and management differences were their biggest challenge (Figure 24).

The conflict when M&A deal happens in cross-border transactions is more obvious, for example when Alibaba takes over the operations of the Vietnamese marketplace – Lazada. Cultural conflicts raise in terms of working habits, reporting style, communication and mindset. Secondly, combining the two operating systems of two corporates was also a key challenge that 54% of respondents selected.

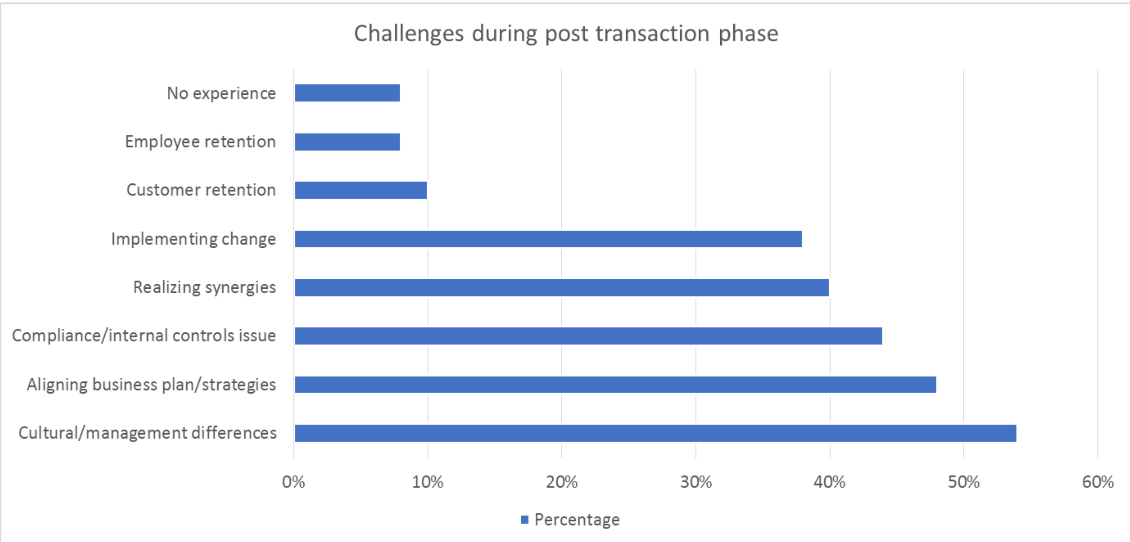

Figure 24 Challenges during post transaction phase

Post-merger integration is considered a lengthy process. Especially in the case of Vietnam, the M&A post deal process could take up to a year to fully complete the transition. This implied the risk of compliance and internal control and 44% of respondents selected this pillar as the main challenge. 40% of respondents believed that synergy realization also caused many issues during the post-deal phase. This is due to the fact that most firms often focus on short-term rather than long-term strategy as part of their investment plan.

Because M&A integration is regarded as one of the key components when creating a successful new entity, few solutions are listed below to maximize the potential synergies and to minimize conflicts.

• Any M&A deal contains a risk. Longer integration phase is rife with risks. As the buyers, they should consider the synergies, risks and the value driver continuously.

• The integration due diligence (DD) provides a bigger picture with more details of quantitative improvement areas. For example, a buyer can map the overlap and redundancies presently exist by comparing two corporates. Another good effect of apply integration DD is that the buyer can control rapid, flexible movements with minimal disruption. It formulates how the entity will operate and the robust plan of executions in this vulnerable period. In addition, it helps to avoid distractions and interruptions by creating a clean and effective project plan. It may simplify the decision-making process to ensure things move faster.

• The buyers should manage and get it right for the four key components: vision, control, people and value. The buyer should communicate intercultural competencies, compliance as well as the alignment of business strategy so as to create better synergies:

- The plan should be condensed and easy for mid-level management to understand and execute without concerns.
- After signing a closing agreement, it is critical to keep an eye on the synergy's realization process between the acquirer and the target company. The proper integration has to be carefully planned, implemented and monitored. Managers play an important role to ensure culture, knowledge and hierarchy structure to be cascaded and implemented correctly.
- Human conflicts of interest, incentives or similar things should be highly taken note of and reviewed during this phase to avoid flywheel effect. The buyer should provide an internal method to promote initiatives for employees from both-side to understand the integration project and to challenge the company status reasonably.
- A detailed 100-day plan is an effective tool specifying what must happen during the first 100 days after the acquisition to ensure a successful integration. The

board of management should be in charge of announcing the acquisition to the press as well as communicating the consequences and the changes that affect to different stakeholder groups such as employees, customers, suppliers and shareholders.

5 FUTURE TRENDS AND OPPORTUNITIES IN VIETNAMESE M&A MARKET

5.1 Strong wave of SOE (State-owned enterprises) equitization

Vietnam's M&A market last year (2017) has witnessed a record-breaking acquisition valued US$ 4.8 billion of Saigon Beverage Company (SABECO) by Thai Beverage for 53.6% equity shares. Before the acquisition, SABECO used to be a 100-percent state-owned enterprise (SOE). Hence, the remarkable transaction last year has set a milestone in SOE equitization process. This trend is still expected to retain its momentum going forward. More than one-third of survey respondents chose SOE divestment to be the most major source of deals in 2018 (Figure 25).

Figure 25 Source of deals in Vietnam

The government has put great efforts into speeding the divestment process of SOE by improving the legal framework to attract foreign investors. During the first quarter of 2018, the Ministry of Finance reported that capital raised from IPOs (Initial Public Offerings) of SOEs reached USD$ 940 million from three leading companies namely Binh Son Oil Refinery (BSR) with USD$ 245 million, PetroVietnam Oil Corporation (PVOIL- USD$ 184 million raised) and PetroVietnam Power Corporation (POW – USD$ 308 million) and other IPOs. Some of the other most expected names for SOE divestment in 2018 are Hanoi Alcohol and Beer Beverage (Habeco) and Vietnam's largest state-owned shipping corporation Vinalines and Vinafoods. (Vinacapital 2018.)

Also, the banking sector is expected to experience a strong wave of equitization when the government divests it capital from Vietnam's three leading commercial banks, namely Bank for Investment and Development of Vietnam (BIDV), Vietnam Joint Stock Commercial Bank for Industry and Trade (Vietcombank) and Joint Stock Commercial

Bank for Foreign Trade of Vietnam (VietinBank). Besides, The Vietnam Bank for Agriculture and Rural Development (Agribank) plans to launch its initial public offering in 2019 to raise capital in order to satisfy the credit demand. The restructuring of financial institutions has been one of the government's top priorities in recent years. Small-scaled banks are encouraged to be merged with larger ones. The merger between Petrolimex Group Commercial Joint Stock Bank (PGBank) and Ho Chi Minh City Development Joint Stock Commercial Bank (HDBank) this year can be a perfect example illustrating this trend. Furthermore, the government encourages foreign banks to purchase local banks rather than issuing licensing for establishing a foreign-wholly owned bank in Vietnam. (Vietnamnet 2018.)

5.2 Deal size range

In 2018, Vietnam's M&A transaction value is expected to increase to nearly US$ 7 billion which is more than 30% year-on-year (YoY) growth comparing to the value excluding the SABECO deal. Regarding future deal value, almost haft of the respondents estimated their average deal value in the forthcoming period to be under US$ 50 million. However, within the strong wave of SOEs privatization, 18% of respondents are optimistic about Vietnam's M&A market in the near term and contemplate to engage in over-100-million USD deals (Figure 26).

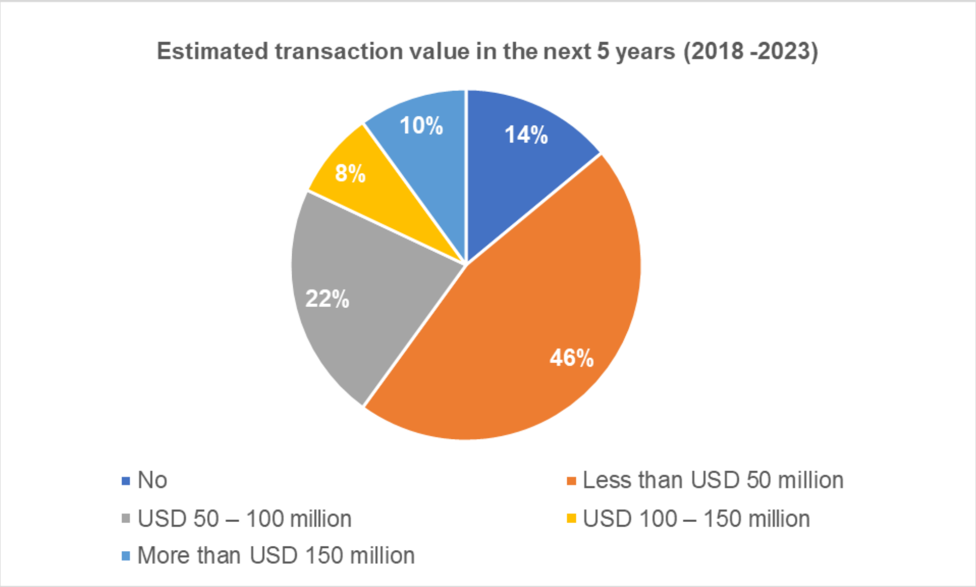

Figure 26 Estimated transaction value in the next 5 years

5.3 Sources of investors

Japan, South Korea, China and Thailand are expected to be the main sources of M&A investors in Vietnam (Figure 27).

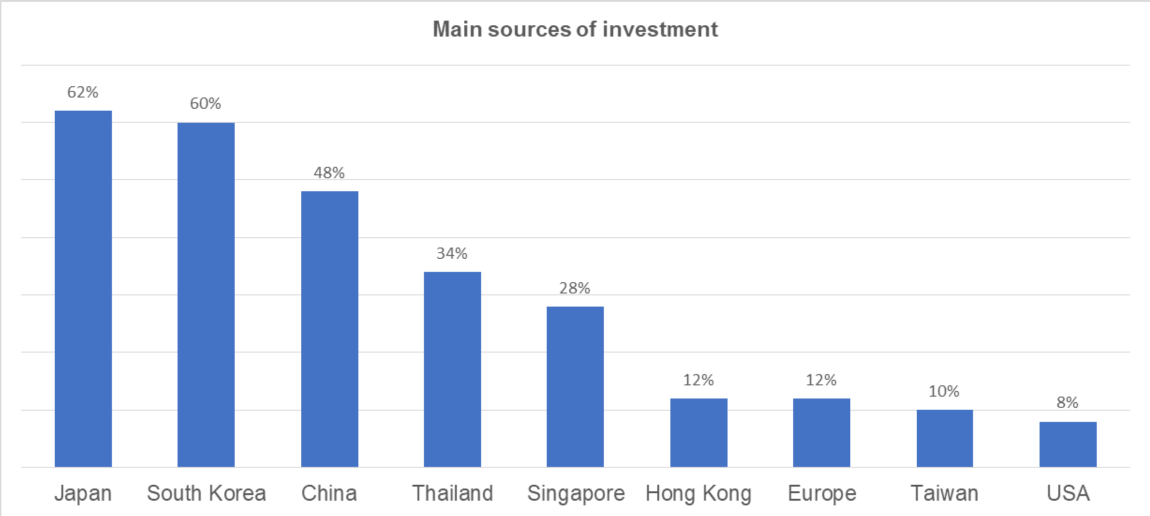

Figure 27 Main sources of investment

Many South Korean companies ascertain that Vietnam will be one of the preferred alternative destinations to China, primarily due to increased labor costs and tariffs disadvantage in China. Market players also believe that Chineses investors will take a more active role in the Vietnamese market in the forthcoming period due to the newly come-in-forced Regional Comprehensive Economic Partnership (RCEP) trade agreement.

5.4 Favorable sectors for M&A deals

The top three appealing sectors from the dealmakers' perspective are Food and Beverage, Healthcare and Real Estate (Figure 28). 44% of respondents considered food and beverage (F&B) as the most promising sector for M&A in Vietnam due to the booming of the young generation and rising income from the middle class. According to Boston Consulting Group (2013), it is forecasted that middle and upper-class consumers in Vietnam will triple from 12 million people in 2012 to 33 million in 2020. Also, thanks to globalization, different cultures and new concepts are introduced to Vietnam in recent years which creates favorable conditions for F&B's prospective growth.

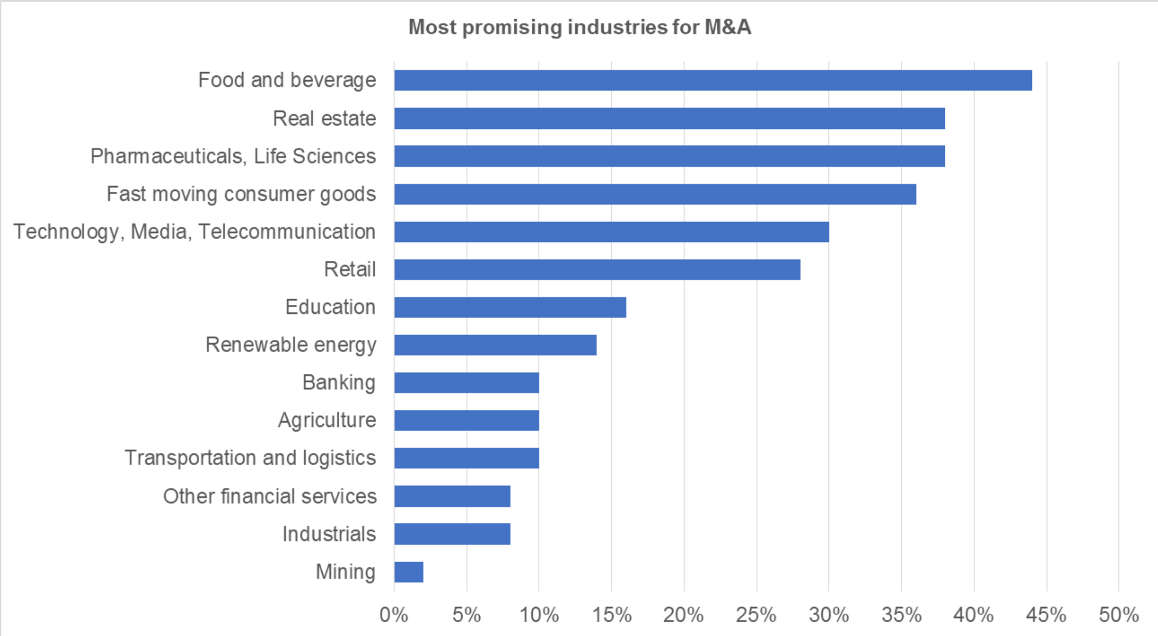

Figure 28 Promising industries for M&A

Pharmaceuticals and real estate hold the same second place in terms of attractiveness in the investors' eyes, selected by 38% of the surveyed companies. For the healthcare sector, the government is planning to simply licence policy and to reform regulatory framework in order to stimulate more FDI inflows into this sector. In line with the rapid urbanization rate, real estate appears as a hot spot for investment, especially in the residential and hospitality segment.

6 CONCLUSIONS

6.1 Answering research questions

After deeply researching the subject on both the theoretical basis and practical experience, the author collected the results obtained in the research to answer all the research questions:

1. What are the concepts and characteristics of M&A activities?

Both merger and acquisition activities refer to actions in which a company obtains the ownership of equity or shares of the other company in order to gain the control of businesses. However, when defining merger and acquisition separately, they have different characteristic. The term merger is usually used to reflect the combining of two businesses in an equivalent unification. Meanwhile, acquisition generally means a bigger company absorbing a smaller-sized company, putting itself in the position the new owner.

A typical M&A deal process includes five phases, namely target identification, valuation, due diligence, closing the deal and post-deal.

2. What is the impact of M&A on the Vietnamese economy?

M&A brings tremendous benefits to the Vietnamese economy. It helps Vietnamese companies to attract more capital and learn about management experience, technological know-how so as to escape from bankruptcy risk or have full potentials to develop and gain competitive advantages in the marketplace. Nevertheless, Vietnam will also face challenges from M&A's wave. It puts Vietnamese enterprises in a direct fierce competition and the risk of being taken over by foreign investors.

3. How is the situation of M&A deals in Vietnam during the period 2013-2018?

From 2013 to 2018, Vietnam is becoming an increasingly popular destination in ASEAN in M&A activities, mainly attributable to its steady economic growth, the opening policies for promoting the foreign capital and efforts to accelerate the equitization of SOEs. However, in comparison with other countries in the region, the scale of the M&A market in Vietnam is much smaller and totally dominated by foreign investors. In terms of value, all mega deals involved investors from Thailand and Taiwan. Meanwhile, investors from Japan and Singapore took up the top spots in terms of the number of deals. Regarding sector-based M&A, sectors like retail & consumer goods and real estate led the M&A market in Vietnam in terms of value. In terms of the number of deals, sectors like retail & consumer goods and industrials took up the top spots.

4. What lessons from the analysis can be applied for upcoming M&A deals in Vietnam?

The survey reveals that a lack of publicly available information makes it difficult to identify suitable targets for M&A in Vietnam. Besides, since Vietnamese owners tend to project its business performance overly optimistic, foreign investors are unlikely to gauge their valuation. They also lack access to the central database, uniform financial reporting and transparency tax regulation to streamline the due diligence process. In addition, lengthy and cumbersome legal process are big obstacles hindering closing-deal success. Lastly, owing to cultural conflicts and limited decision-making power, many strong brands failed to achieve desirable results after M&A transactions complete.

5. What are the suggestions for promoting M&A activities in Vietnam?

Obviously, the change in policy and great efforts to accelerate the process of SOEs equitization and divestment are necessary to drive motivation for M&A in the upcoming time. However, before the Vietnamese information system is standardized, Vietnamese firms should be more transparent about their business and financial status to make the transactions much smoother and ensure benefits to all parties involved. On the other hand, due to the rapid urbanization rate, the booming of the young generation and rising income from the middle class, food & beverage, healthcare, and real estate are the most promising sectors for M&A in Vietnam. Therefore, foreign investors should take full advantages of this trend to secure the high success possibility.

The answer to the main question: “How did the M&A situation in Vietnam take place and what experiences can be inherited?”

Although M&A transactions in Vietnam have seen a steady growth during the observation period, its failure rate of M&A is very high, mainly owing to the lack of understanding about the imperfect nature of M&A in Vietnam. Therefore, consultation with reliable M&A advisors is very helpful for foreign investors to have a greater chance of M&A success. Since M&A is still very new to Vietnam enterprises, the foreign investors should seek targeted companies that are looking for business reform and considering integration as an effective way to increase business opportunities to successfully finalize M&A deals.

6.2 Validity and reliability

Regarding theoretical part, the framework started with basic information about M&A including definitions, benefits; the study continued with the theoretical explanation of a typical M&A process and finally best allocated all the risks related to each stage in the process for observation. The approach is logical and offers a comprehensive structure. All theories are reviewed from multiple resources such as books, academic websites and published journals, which is considered highly valid.

For empirical parts, figures used in the analysis of the Vietnamese M&A situation during 2013-2018 is based on data collected from prestigious financial sources such as Capital IQ, Vietnam Institute for Economic and Policy Research, Vietnam Investment Review. Furthermore, Vietnam as the author’s home is a favorable advantage to easily observe and understand the whole M&A market. To truly reflect the buy-side perspective on factors affecting M&A activities in Vietnam, a survey is used as the data collection method. Respondents for this survey are professionals working in private equity funds, securities companies, M&A advisory firms, who have a better understanding of the barriers in the M&A process. Since the study is of interest for both sides, respondents are willing to share information without deliberately withholding or information distortion. Besides, the author conducted face-to-face interviews with senior transaction advisors in the M&A field to deeply understand the state and trends of M&A deals in Vietnam. Thereby, the author had the chance to immediately address and resolve any misunderstanding that happened. In general, the author believes that this thesis is reliable.

6.3 Recommendations for further researches

As mentioned before, the research is subject to certain limitations. Hence, the author believes that there are many opportunities for other researches to conduct studies in Vietnamese M&A market.

The first suggestion is to examine more specific research on a particular industry with detailed explanatory variables to give stronger results for those companies being interested in Vietnam M&A market. In this study, the author only looks at the big picture through a qualitative approach rather than industry-based examination with certain conditions such as regulations, taxations, production costs. These exhaustive researches for the interested industry are vital to an investment decision.

The second suggestion is to study the sell-side perspectives on M&A situation in Vietnam as this study mainly considered buy-side firms’ views & opinions. Since sell-side viewpoints presumably differ very much from that of buy-side corporates, coupled with this study’s findings would lead to interesting results showing two sides of the same coin.

7 SUMMARY

The thesis is a study on the current M&A situation in Vietnam to identify the root causes of the M&A’s failures and dealmaker’s perspective on the challenges for M&A growth in Vietnam. On this basis, the paper discusses some basic solutions in M&A activities in Vietnam.

The theoretical chapter covers the relevant M&A definition, the advantage of synergy gains from combining business activities and all the steps in the buy-side process of M&A through the review of literature from the past. The framework with five stages is very useful for the analysis of the main reasons associated with the failure of M&A. Most critical determinants could be identified and engaged to a specific phase.

The theoretical chapter is followed by empirical parts. The analysis of Vietnamese macroeconomic and M&A market during 2013-2018 showed major trends shaping the industry, motives in M&A transactions as well as what can be anticipated in terms of future growth in M&A activities. Generally, the strong economic growth, stable political system and the shift in economic structure in which the government attempts to wide open to foreign investment with various encouraging policies are major factors fueling investor confidence in the potential of the Vietnamese M&A market. The results of this part were taken into consideration in the survey of potential challenges with M&A and the key solutions.

The second empirical section provides the outputs of the survey. One showed that valuation is the dominant factor generating success or failure of M&A deals in Vietnam. More than 60% of respondents were experiencing a hard time of collecting financial data in suitable principles or processing the insightful analysis. This is due to the weakness of reporting, the overly optimistic business plan or the lack of a systematic data system. The next finding is that the pool of qualified targets is really limited. The fact that information is scattered makes the target identification process extremely difficult. The study found that more than 40% of respondents have the tendency to leverage internal network and relationship to do the investigations. Post-deal integration is one of the key concerns for sustainable players. Comparing with other countries, the study reviewed that cultural or management difference is really hard to manage, especially in overseas M&A deals. Culture, compliance and the synergy of a business strategy are the top three recommendations for the buyer to take note of during the M&A process.

All in all, the key learning is that nowadays M&A is an important strategic approach to achieve economic growth for businesses in this fast-moving economy. There are gaps between theory and reality leading to many cases where both parties cannot come to the final satisfied agreement. The analyses framework of this study shows the structural key deal breakers. Following the insights, buyers could refer to a reliable source of information to maximize success ratio. At the same time, buyers can prevent failures by using suitable lessons originated from the advice of the experts. With the hope of improvement in regulatory and business conditions, the author strongly believes that the increase in M&A activity will still happen during the near future, in particular on the consumer-oriented industry as well as in the emerging manufacturing areas.

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APPENDICES

APPENDIX 1: Online Survey Questions

1. General Questions

How many deals in Vietnam have you completed in the past 10 years?

- 1 - 3
- 4 – 6
- 7 - 10
- more than 10

What is your average deal size regarding completed deals in Vietnam?

- usd 10-30 million
- usd 30-100 million
- usd 100-150 million
- more than usd 150 million

2. Finding a suitable target/investor

What is the most common way you use to identify target companies in Vietnam? Please choose one (1) option only.

- existing knowledge and relationships
- internally performed market analysis
- advisory intermediaries
- direct from seller

On average, how many target companies have you had in your shortlist before completing a transaction in Vietnam?

- 1
- 2 – 5
- 6 – 9
- 10 or more

What are the key characteristics that you are looking for in a target company in Vietnam? Please choose up to three (3) options.

- management capabilities and integrity
- operating sectors
- favorable market position
- strong growth potential
- financial performance
- potential synergies
- deal execution timeline
- access to markets

3. Due Diligence and Valuation

What were the key challenges you faced during the due diligence process in Vietnam? Please choose up to three (3) options.

- quality of historical information
- flow of information
- tax issues or exposures
- responsiveness/preparedness/willingness to share information
- legal issues
- lack of understanding
- related party transactions

What were the key challenges you faced during the valuation process in Vietnam? Please choose up to three (3) options.

- quality of financial projections
- lack of comparable data
- management capability
- inappropriate discount rate

- responsiveness/preparedness
- unrealistic and unsupportable assumptions of projections
- unreliable historical data

4. Closing the Deal

Considering completed deals in Vietnam, what is the most common method you used to finance the deals? Please choose one (1) option only.

- own cash
- debt
- share swaps
- other (please specify)

Considering unsuccessful deals in Vietnam, what were key deal breakers during transactions? Please choose up to three (3) options.

- due diligence findings
- valuation expectation
- aligning business plans
- regulatory/licensing
- communication issues
- contractual arrangements/SPA
- failure to arrange financing
- approach to timeliness

Considering deals in Vietnam you have done due diligence, what is the percentage of closed deals in the past five (5) years?

- less than 20 %
- 20 – 40 %
- 40 – 60 %
- more than 60%

5. Post Deal

What were the key challenges you faced during the post-transaction process in Vietnam? Please choose up to three (3) options.

- compliance/internal controls issue
- cultural/management differences
- implementing change
- aligning business plan/strategies
- customer retention
- realizing synergies
- employee retention

6. Vietnam M&A Outlook

Do you plan to do deals in Vietnam in the next three years? If yes, please indicate the planned transaction value.

- no
- less than usd 50 million
- usd 50 – 100 million
- usd 100 – 150 million
- more than usd 150 million

What are the key risks and concerns connected with M&A in Vietnam? Please choose up to three (3) options.

- perceived corruption
- challenging legal/regulatory framework
- currency weakness
- price inflation
- assets overvalued
- corporate governance

- bad accounting practice
- quality of management team

What are the most promising industries for the M&A activity in Vietnam in the next three years? Please choose up to three (3) options.

- food and beverage
- fast moving consumer goods
- pharmaceuticals, life sciences
- transportation and logistics
- education
- agriculture
- retail
- technology, media, telecommunication
- industrials
- renewable energy
- mining
- banking
- other financial services
- real estate
- others (please specify)

In the next three years, where do you expect the main source of investments into Vietnam come from? Please choose up to three (3) options.

- Thailand
- South Korea
- Singapore
- Hong Kong
- China

- Japan
- Taiwan
- Usa
- Europe
- Other:

APPENDIX 2: Interview questions

In order to complete a successful deal in Vietnam, what is your advice for investors to overcome the challenges in each M&A stage?

- target identification
- valuation
- due diligence
- close deal
- post-deal

What is your point of view about the outlook of M&A in Vietnam in the next 5 years?