



# HOW IS 2024 & 2025 SHAPING UP FOR MERGERS AND ACQUISITIONS (M&As)

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DR. OLIVER MASSMANN  
Partner, General Director



PAUL MARKS  
Special Counsel

## AGENDA

- **ECONOMIC FACTORS**
- **IMPACT OF GEOPOLITICS**
- **IMPACT OF DISRUPTION OF THE GLOBAL SUPPLY CHAIN**
- **KEY TRENDS**
- **SECTOR SPECIFIC REGULATORY SHIFTS**
- **ROLE OF THE GENERAL COUNSEL**

# Economic Factors Affecting M&A



- Estimated 2023 GDP: US\$433 billion
- GDP per capita: US\$4,284
- GDP Growth in 2023 increased by 5.05%
- Inflation: 3.25%
- Population: About 100 million
- Labor force aged 15 and above: 59.1%
- Vietnam's median age: 32.8 years old
- Regional Minimum wage (Region I): VND 4,960,000 (US\$ 198) per month (effective from 1<sup>st</sup> July 2024)

## JLL City Momentum Index

### The World's Top 20 Most Dynamic Cities



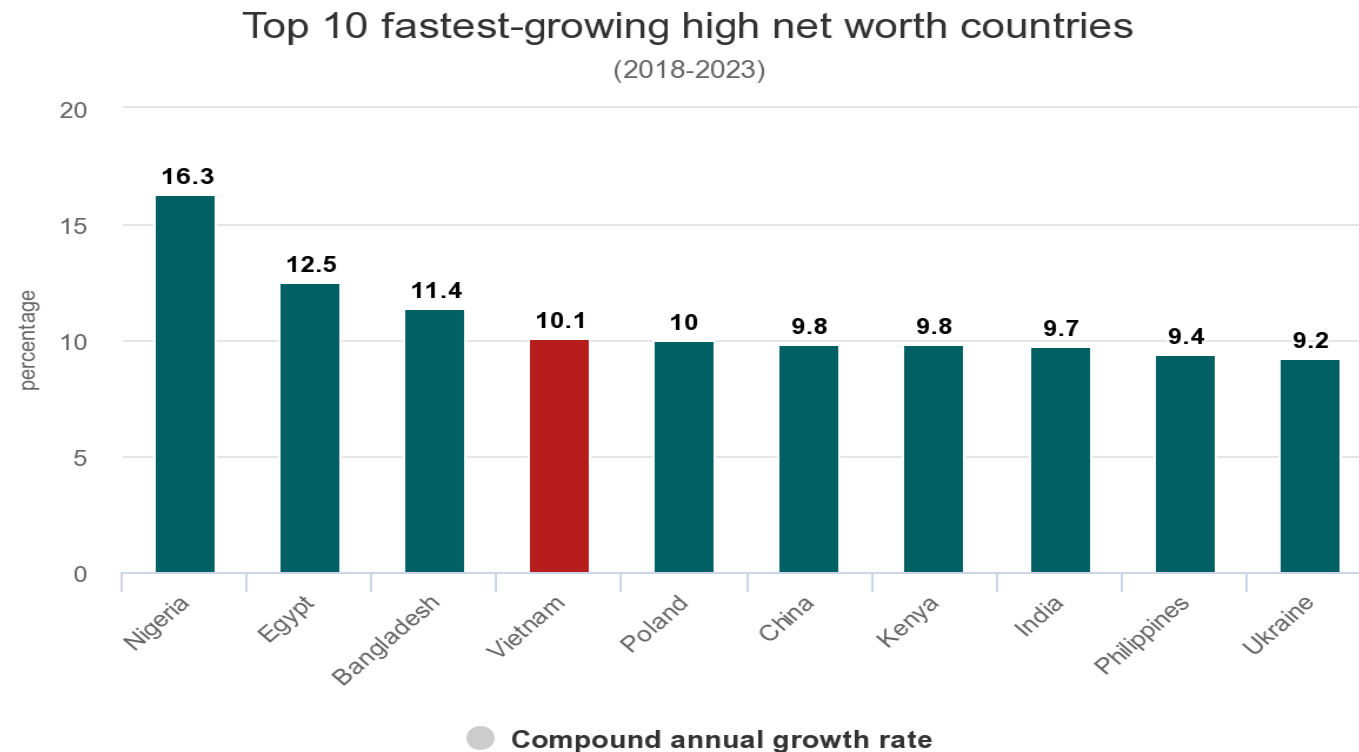
1 Bengaluru	6 Nairobi	11 Nanjing	16 Chongqing
2 Hyderabad	7 Chennai	12 Manila	17 Hangzhou
3 Hanoi	8 Ho Chi Minh City	13 Beijing	18 Bangkok
4 Delhi	9 Xi'an	14 Shanghai	19 Shenzhen
5 Pune	10 Guangzhou	15 Kolkata	20 Chengdu

● India   
 ● China   
 ● Other Asia   
 ● Africa

“Momentum” is measured by:

- GDP growth
- sustainability initiatives
- smart urban solutions
- balanced development
- location
- other factors

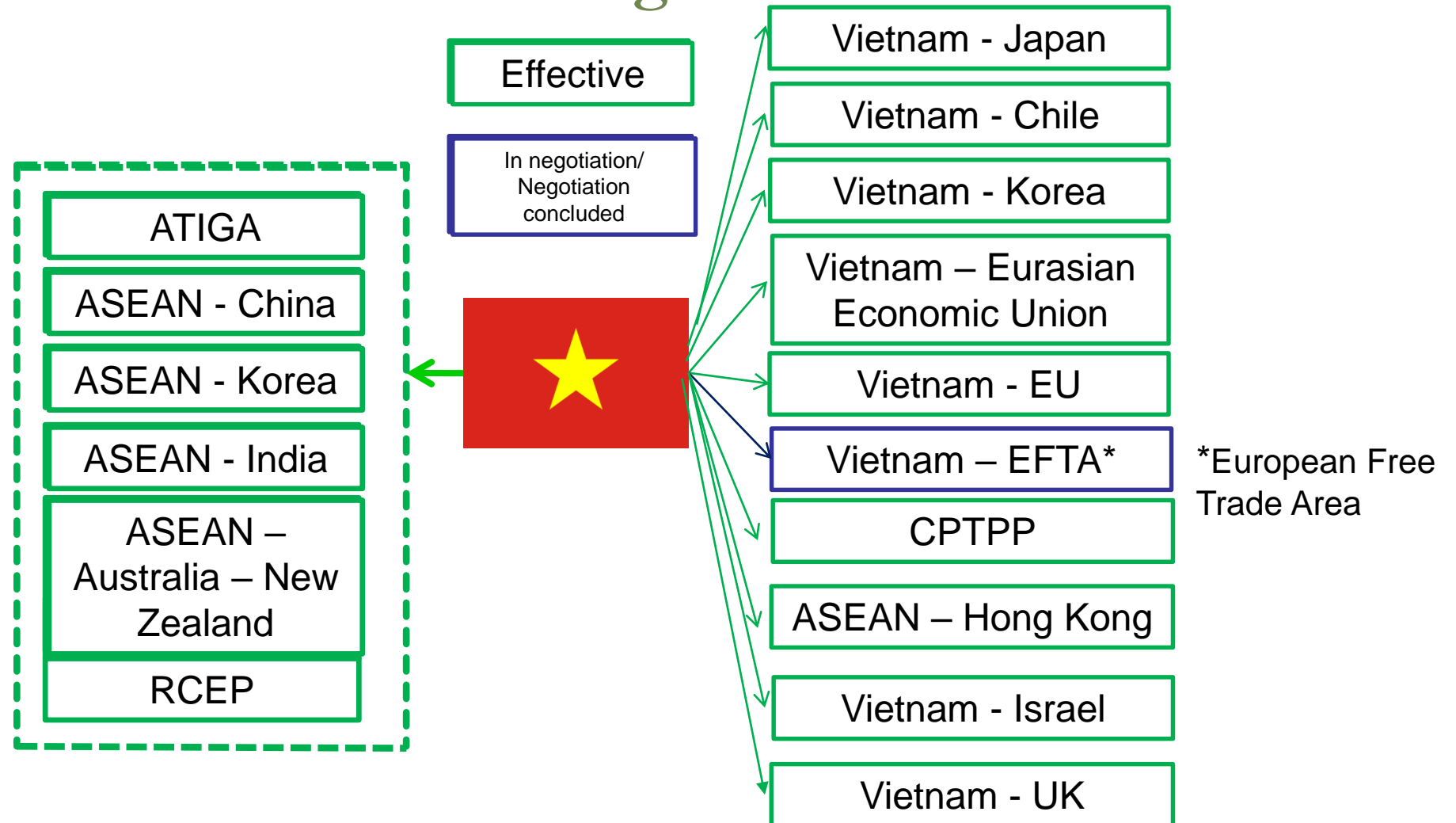
## The 4th fastest-growing high net worth country



Wealth-X (2019)



# Vietnam's Free Trade Agreements



# Impact of geopolitical risk on Vietnam M&A



# Identification

**How do the following geopolitical trends affect future M&A opportunities?**

- ❑ **Global Fragmentation:** Countries are moving away from global reconciliation and partially disengaging economically while creating new alliances. This tendency is causing economic isolation and escalating tensions amongst major economies.
- ❑ **Disruptive Technologies:** As digital technologies like AI and social media develop quickly, civilizations become more unstable. These technologies come with hazards as well as opportunities.

## Assessment

- **Examining Country-Specific Factors:** Every nation has a distinct geopolitical backdrop. Investors have to think about things like international relations, political stability, and the regulatory landscape.
- **Examining regional relationships:** Geopolitical risks are often shaped by regional relationships, including alliances and conflicts.



## Assessment (cont.)

- **Trade and Economic Dependencies:** Due to the integration of economies brought about by globalization, trade and economic dependencies are crucial. Investors need to evaluate how trade routes, tariffs, and cross-border investments are affected by geopolitical tensions.
- **Preparing scenarios and implementing backup plans:** Geopolitical dangers are by their nature ambiguous. With scenario planning, business owners can prepare for a variety of situations. Best-case, worst-case, and intermediate situations are taken into account while creating comprehensive contingency plans for firms.

## Geopolitical risks and M&A in Vietnam

- The adverse effects of geopolitical tension have impeded the worldwide economic recovery after the COVID-19 pandemic. Consequently, the quantity and size of M&A transactions has failed to develop as rapidly as projected.
- Deal values remain below pre-pandemic levels and in our view will stay suppressed until there's more clarity on the macroeconomic and political environment.

## Recommendations:

- ❑ **Go beyond traditional due diligence:** Conduct geopolitical risk analysis. Engage with political analysts, use geopolitical risk assessment tools. Consider scenarios that could impact the strategic objectives of an M&A deal.
- ❑ **Stay updated:** Stay informed on global politics and be psychologically ready for changes of M&A strategies.
- ❑ **Consider new M&A themes:** Target sectors with strong market outlooks not heavily affected by geopolitical risks.
- ❑ **Diversification:** Spread investments across multiple sectors.
- ❑ **Include geopolitical risk clauses in M&A agreements:** Provide mechanism to deal with geopolitical risks.

# Impact of disruption and restructuring of the global supply chain

# Global industrial production and trade

- Global supply chain disruptions are slowing economic activity and trade, driven by several key factors: logistics and transportation issues, semiconductor shortages, pandemic-related restrictions, and labor shortages.





## Global industrial production and trade (cont.)

- **The logistics industry** is under even more strain than services as a result of the increase in demand for commodities. In certain economies, including the U.S. and the U.K., where labor market tightness has surpassed pre-pandemic levels, labor shortages are more concentrated.
- **The "bullwhip effect,"** in which businesses overstock inventory as a result of anticipated strong demand and shortages of intermediates and raw materials, intensifies interruptions and makes efforts to restore the supply chain more difficult.

## Economic impacts

- **Increased costs:** Container mishandling and port bottlenecks have all negatively affected global shipping, driving up shipping rates, especially between ports in Asia, the United States, and Europe.
- **Inflation:** Since producers face the direct brunt of these difficulties, supply chain interruptions have raised prices, particularly in the producer price index (PPI). Although there has been an increase in the consumer price index (CPI), the impact has been more gradual and delayed than in the PPI. Because of the significant lack of intermediate items, some industries are more negatively impacted than others, such as technology, machinery, and equipment.

## Impacts on M&A in Vietnam

- **“China + 1”:** U.S. and European trade tension with China along with the disruptions caused by the COVID-19 pandemic have led many companies to derisk and diversify their supply chains by expanding into Vietnam. Vietnam has emerged as a popular desination due to its strategic location and competitive labor costs.
- **Technological Advancements:** The adoption of new technologies to enhance supply chain efficiency and resilience is driving M&A activities. Companies are acquiring firms with advanced technological capabilities to stay competitive.
- **Focus on Sustainability:** There is a growing emphasis on sustainability in M&A deals. Companies are seeking to acquire firms that align with their sustainability goals and can help them build more resilient supply chains.

## Key trends

## Vietnam M&A 2023-2024

- The total number of M&A deals in Vietnam in 2023 was 16.8% less than 2022. In the first half of 2024, Vietnam had a notable increase in big deals, with strong deal flow in important industries and a surge in strategic acquisitions.
- ***However***, many deals planned for 2024 have fallen through because of the intimidating mix of high borrowing rates, present valuations, and political unpredictability.
- M&A activity will return, albeit maybe more quickly in certain industries than others.

## Key trends 2024-2025: energy, healthcare, finance, retail and manufacturing

**Energy:** Vietnam's continuing shift to renewable energy is expected to drive increased energy M&A deals in 2024 and 2025. Vietnam has pledged to achieve net zero emissions by 2050.

### EXAMPLE:

**Bamboo Capital Group and Tam Sinh Nghia:** On January 31, BCG Energy Corporation, a member of the Bamboo Capital Group (BCG), announced that it had signed a principal agreement to purchase shares with Tam Sinh Nghia Investment and Development Corporation. BCG is likely entering the waste-to-energy sector as Tam Sinh Nghia specializes in waste management operations.

- **Healthcare:** Due to the growing population and expanding middle class, interest in higher quality healthcare options is increasing.
- **Pharmaceuticals:** Due to inexpensive labor and production costs, the pharmaceuticals sector is becoming more attractive.

EXAMPLE:

**Warburg Pincus investment in Xuyen A General Hospital System:** On April 15, Warburg Pincus, which has invested a total of USD 2 billion in Vietnam, announced an investment in the Xuyen A General Hospital System.



**Financial services:** Vietnam's robust economy, vibrant corporate sector, and expanding consumer base have made financial services attractive to international investors.

EXAMPLE:

In Q1/2024, **Home Credit Group** signed a conditional framework agreement to transfer 100% of its capital contribution in Home Credit Vietnam Finance Company Limited to Siam Commercial Bank Public Company Limited (SCB), a member of Thailand's SCBX Public Company Limited (SCBX). The transfer agreement is worth about €800 million (\$855.72 million) and the transfer process is expected to be completed in the first half of 2025, after approval from Vietnamese and Thai authorities.

**Retail:** Growing incomes and a growing middle class are driving interest in successful retailers.

EXAMPLES:

- **Mobile World Investment Corporation**, listed on the Ho Chi Minh Stock Exchange as MWG, in early April revealed the successful sale of a 50% stake in Bach Hoa Xanh Technology and Investment JSC - the owner of the Bach Hoa Xanh consumer goods retail chain - to Chinese investment fund CDH Investments.
- **Vingroup and SDI Trading Development and Investment JSC:** On March 17, Vingroup's Board of Directors signed an agreement to sell all its charter capital in SDI, which owns over 99% of the charter capital of Sado Trading Commercial JSC, the largest shareholder of Vincom Retail, to divest from Vincom Retail, the mall operator.

**Manufacturing:** Vietnam's role as an alternative to China for both hi-tech and traditional manufacturing continues to grow.

EXAMPLE:

**Thanh Cong Textile-Garment Investment Trading JSC** (HoSE: TCM) announced that it spent about VND468 billion or \$18.47 million (excluding VAT) to buy SY Vina Textile and Garment Co., Ltd. from E-Land Group, a major shareholder owning 47% of TCM's charter capital. SY Vina, covering nearly 7.5 hectares in the Nhon Trach II Industrial Park, the southern province of Dong Nai, has weaving, dyeing and sewing factories.

EXAMPLE OF HOW VIETNAM'S REGULATIONS INFLUENCE M&A:

**Masan High-Tech Materials and H.C. Starck Holding:** On May 30, Masan High-Tech Materials announced the sale of 100% of H.C. Starck Holding (HCS) to Mitsubishi Materials Corporation Group for \$134.5 million. Masan had planned on using Starck to recycle tungsten in Vietnam but was prohibited from doing so by Vietnam's import laws.

## Sector specific regulatory shifts

**Energy:** Power Development Plan 8 (PDP8) outlines the transition away from coal. This shift is attracting M&A activity in the energy sector as companies invest in renewable energy.

**Financial services:** New Law on Credit Institutions: (i) reduction in shareholding of shareholders in a credit institution that is a joint-stock company (ii) lower limitation on total balance of extension of credit (iii) enhancement of regulations for bank overhaul and mass cash withdrawal (or bank run). Fintech companies may test credit scoring and peer-to-peer lending.

**Real Estate:** New Law on Land, Law on Real Estate Business, and Law on Residential Housing: fostering a more transparent and healthier environment for real estate M&As.

**Telecomms:** New Law on Telecommunications will facilitate the entry of foreign investors into data center services, cloud computing services and communications services. Under decree on high-tech zones, investors receive exemptions from land lease fees and reimbursement for land clearance expenses.

## Role of GC in the success of an M&A deal

- General Counsels (GCs) play an increasingly critical role in ensuring the success of M&A deals.
- To ensure the success of an M&A deal, GCs must:
  - Provide strategic advice (assess the legal risks)
  - Obtain internal approvals
  - Work on the deal details and information
  - Review transaction documents
  - Review all due diligence
  - Oversee regulatory compliance



- To ensure the success of an M&A deal, GCs should:
  - Establish a good working relationship with your leadership team: GCs should establish a good working relationship with the leadership of the organization to fully grasp the purpose of the deal and the interests of the organization.
  - Find and hire capable legal advisors: M&A deals are not ordinary transactions. “The devil is in the details” – while GCs can work out the goals for the M&A transaction, legal advisors can provide the support for GCs and the organization to achieve the goals and protect the best interests of the organization.
    - ❖ Do your advisors cap their liability?

- GCs should (continued):
  - Manage people: Post-deal integration requires more than post-completion obligations. Things will not be done if the integration fails. Pay attention to the people issues!
  - Manage expectations: While it is crucial that the goals set out be achieved, sometimes it is better to skip one or two of the goals to achieve the best possible result. Consult your legal advisor and expect a “no” from them in certain cases if skipping particular goals will ensure the success of the deal.
  - Never stop learning: Hiring a legal advisor is more than getting the deal done. Learning from capable legal advisors is one of the best practical ways to develop.

## DUANE MORRIS VIETNAM LLC

Thank you very much!

### HANOI OFFICE

Pacific Place, Unit V1307/08, 13<sup>th</sup> Floor,  
83B Ly Thuong Kiet, Hoan Kiem District  
Hanoi, Vietnam

Tel.: +84 24 3946 2200

Fax: +84 24 3946 1311

### HO CHI MINH CITY OFFICE

Suite 1503/04, Saigon Tower  
29 Le Duan Street, District 1  
Ho Chi Minh City, Vietnam

Tel.: +84 28 3824 0240

Fax: +84 28 3824 0241

Contact email:

[omassmann@duanemorris.com](mailto:omassmann@duanemorris.com)

[pcmarks@duanemorris.com](mailto:pcmarks@duanemorris.com)