



Japanese still eager for mergers and acquisitions



Healthcare and pharmaceuticals remain attractive segments to Japanese buyers. **Masataka "Sam" Yoshida**, head of the cross-border division of RECOF Corporation and CEO of RECOF Vietnam Co., Ltd., talked with *VIR's* **Thanh Van** about the appetite of Japanese investors for the Vietnamese market.

Could you share some insights about recent healthcare mergers and acquisitions (M&As) involving Japanese businesses in Vietnam?

On average, there have been two such transactions in healthcare and pharmaceuticals per year and, across sectors, 20-30 such deals in recent years, with the healthcare and pharmaceuticals market share lying at about 10 per cent. This includes the acquisition of Hau Giang Pharmaceutical by Taisho Pharmaceutical in 2019, in which Taisho invested more than \$200 million until 2019 to gradually increase its stake in Vietnam's largest listed pharma company. Most other transactions are smaller (up to about \$10 million) or without disclosed transaction amounts. However, most of the target companies are small, or the investors purchased only minority stakes.

In the last 10 years, 14 healthcare and pharmaceuticals transactions were announced between Vietnam and Japan, of which five were large deals while the remaining ones involved minority shares.

Seven transactions have been in manufacturing (mostly pharma-

ceuticals), five in IT, and the rest in services and distribution.

Sumitomo Corp. plans to invest in Insmart, a major healthcare intermediary in Vietnam. Do you see an increasing trend of such M&As in Vietnam's market?

I reckon that the deal will signify the trend of Japanese investments shifting from manufacturing to services. This also reflects the changes and growth of the Vietnamese market, from a low-cost original equipment manufacturing-type country to a more advanced society, which needs services such as those that Infomart is providing. I believe that, as long as there are Vietnamese companies in the market willing to partner with Japanese investors, the number of M&A deals will rise.

What are some legal challenges for Japanese investors who aim to participate in the market?

Many pharmaceutical companies have a large number of shareholders, including state-owned entities, and foreign investors

Healthcare and pharma transactions between Vietnam and Japan 2012-2021					
Date	Buyers/Investors	Target company	Business	\$ million	Share (%)
Sept 2021	Sumitomo Corporation	Insmart	Managed care service	9.1	Minority
June 2021	Agricare Group	Patient Technologies Vietnam	IT services	NA	100
Aug 2020	ASKA Pharmaceutical	Ha Tay Pharmaceutical	Pharmaceutical manufacturing	NA	24.9
Jan 2020	Shimadzu (Asia-Pacific)	Shimadzu Vietnam Medical Hi-Tech	Medical equipment manufacturing	NA	Business transfer
July 2019	Daiwa ACA APAC Growth LP	Ha Van Education & Healthcare	Medical checkup outsourcing service	NA	63.7
Mar 2019	Taisho Pharmaceutical	Hau Giang Pharmaceutical	Pharmaceutical manufacturing	107.3	51.01
Nov 2018	CREO	Ominext	IT services	NA	Minority
Jan 2017	Nippon Paper Industries	Ky Vy Corporation	Diaper manufacturing	NA	98
July 2016	Taisho Pharmaceutical	Hau Giang Pharmaceutical	Pharmaceutical manufacturing	89.8	24.5
Apr 2015	Zeria Pharmaceutical	F.T. Pharma	Pharmaceutical manufacturing	NA	49
Apr 2015	Nipro Pharma Corporation	Mekophar Chemical Pharmaceutical	Pharmaceutical manufacturing	8.2	18.58
Dec 2013	DIAIF	Santedo Corporation	Pharmaceutical distribution, pharmacy	9.1	25
Nov 2013	Senior Marketing System Asia	Viet Nam High Technology Services and Solutions Providing	IT services	1.4	33.4
Feb 2012	DIAIF	Japan Vietnam Medical Instrument	Medical equipment distribution	NA	31.1

Source: RECOF

often have difficulties acquiring the majority of stakes, while they would need these to secure strategic relationships. In addition to Taisho, which started with a minor investment and succeeded in acquiring the majority stake over the years, other Japanese companies, such as ASKA and Zeria, also decided to start with minor investments. However, these are rare cases among Japanese pharmaceutical companies, and they found opportunities in the Vietnamese market that no-one else saw.

I find that foreign investors have been placing more attention to low-cost manufacturing strategies

towards Vietnam, probably because they were not ready to fully transfer advanced technology to the country.

Despite these challenges, why are Japanese firms like Taisho and ASKA continuing to increase their holdings?

Vietnam can attract more Japanese pharma firms with its strongly growing economy, young population, and growing pharmaceutical market.

However, in order to continuously attract foreign investors, attention must be paid to social trends and a more organised social security system, including insurance.

Nevertheless, I believe that legal conditions are not the biggest hurdle. Foreign companies with an already-established expertise in these sectors are waiting for the right time to enter Vietnam, and local companies should remain open towards partnering with them.

The rapid growth of Vietnam's economy has another aspect though, as lifestyle-related diseases such as diabetes, heart disease, and others are on the rise. And although Vietnam remains a "young country" at the moment with its average age of 31 years, we have to keep an eye on the ageing of society.■

By Thanh Van

Dealmaking activities in healthcare have been ramped up across all subsectors that have stayed resilient during the prolonged pandemic.

Huong Trinh, managing director and head of Ho Chi Minh City at BDA Partners, told *VIR* that healthcare in Vietnam is remaining an attractive sector for foreign investors. "Recent outbreaks of the pandemic might put a temporary halt on progress in economic transformation but will not reverse ongoing socioeconomic changes," Trinh said. "A burgeoning middle class with an increased health awareness in response to the pandemic will continue to propel demand for higher standards in all aspects of healthcare."

For all of its negative impacts on society, the pandemic also brought about positive changes in health awareness among Vietnamese people, whose rapidly-growing spending power will continue to provide headroom for the expansion of the private healthcare market.

"We believe that during the pandemic and also in the long term,

Health awareness adds to potential in funding

private healthcare services will still remain popular for merger and acquisition activities in Vietnam, as foreign investors continue to be keen on private hospital and clinic assets in the country, understanding their potential given the issues of overcrowding within the public healthcare system," she added.

In recent years, private hospitals and clinics have gained more reputation and trust from Vietnamese people with Vinmec, FV Hospital, and Hoan My being notable examples, and assets in this segment have been actively attracting inflows of capital. Last year, a GIC-led consortium invested in Vinmec, while Vinacapital funded Thu Cuc's network of hospitals and clinics.

Additionally, the dental clinic sub-segment will continue to attract investors with newly established chains with high-quality facilities

and well-trained dentists, especially in a post-pandemic world when travel restrictions are eased, given Vietnam's strong potential as a dental tourism destination. Other specialised clinics focusing on certain other medical fields such as gastroenterology, physiotherapy, and pediatrics are also in strong demand, Trinh claimed.

Private dental care providers are expected to capture market share from mom-and-pop clinics and public hospitals. In early 2021, Kim Dental successfully raised primary capital from ABC World, a transaction with BDA Partners acting as an exclusive financial advisor to Kim Dental.

According to Fitch Solutions, healthcare spending in Vietnam is expected to reach \$23 billion by 2022. The growing demand for high quality healthcare will provide and

require further growth opportunities for private healthcare providers, as concerns about the lack of capacity within the public system remain unaddressed. In addition to healthcare, pharmaceuticals, as a defensive sector, has continued to see a steady pipeline of deals from both financial sponsors and strategic investors during the pandemic, with examples such as SK Group's investment into Imexpharm and Aska Pharmaceutical's investment into Hataphar.

Research by BMI Research reveals that Vietnam's pharmaceutical industry could reach \$7.7 billion in 2021 and \$16.1 billion in 2026. The industry is set to benefit greatly from the government's national strategy to promote domestic manufacturing, which aims to increase the market share of locally produced pharmaceuticals to 80 per cent.

Furthermore, the decrease in

direct human interaction as a result of the pandemic has also brought healthtech into the spotlight, given the increased demand for virtual healthcare services. Remote medical examinations and digitalisation of medical records have been among the key focuses of the Vietnamese government, as evidenced in the approval of a five-year project to establish a national distance healthcare network involving 24 hospitals, according to Trinh of BDA Partners.

As part of the project, mobile apps will be developed to allow storage of medical records and enable users to make appointments and consult doctors through video chat. In the private sector, healthtech startups such as JioHealth and Med247 have recently successfully raised funding from foreign investors, highlighting the prospect of this relatively nascent segment in Vietnam.

"With the swift progress in technology adoption in the country, healthtech is still behind other tech-related sectors such as payment processing or e-commerce in terms of investments and development progress, and thus there is still a lot of room for foreign investors to add value," Trinh noted.■