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MYANMAR PRIVATE EQUITY REPORT 2018

Ashwin BHAT

This independent study project was authored by Ashwin Bhat (INSEAD MBA Candidate, Class of July 18) under the supervision of Claudia Zeisberger, Senior Affiliate Professor of Decision Sciences and Entrepreneurship & Family Enterprise at INSEAD and Academic Director of its Global Private Equity Initiative (GPEI).

Abstract

Myanmar, having gone through sector-wise liberalizations and formed a newly elected government in 2016, continues to present opportunities and challenges for investors – Private Equity and otherwise. While the complexity of the country has proven too much for many, a growing number of General Partners have now committed to the country and are steadily deploying funds. This report, following on from its predecessor in 2015[1], aims to:

- Capture the opportunity and challenges presented by the frontier market
- Distill the Private Equity ecosystem, in particular its active players and contributors by fund size, investment mandates, and fund deployment strategy
- Analyze deal-making in the country thus far, searching for patterns, key success factors, and insights into the thinking behind decisions
- Understand what it takes to work with the government
- Provide commentary from (PE) professionals working on-the-ground Myanmar

Ultimately, the report's goal is to build on its 2015 predecessor to provide concrete, actionable recommendations to existing or other Private Equity firms looking to invest in this unique and exciting market.

[1] https://centres.insead.edu/global-private-equity-initiative/research-publications/documents/final.PrivateEquityinMyanmar_000.pdf

INSEAD Global Private Equity Initiative

INSEAD Global Private Equity Initiative (GPEI) drives teaching, research and events in the field of private equity and related alternative investments at INSEAD, a world leading business school. It was launched in 2009 to combine the rigour and reach of the school's research capabilities with the talents of global professionals in the private equity industry. The GPEI aims to enhance the productivity of the capital deployed in this asset class and to facilitate the exchange of ideas and best practices.

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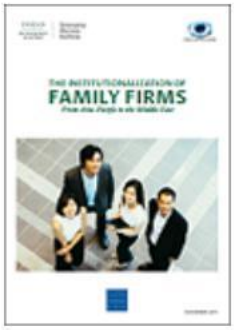

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Interviewees

Luc de Waegh, Founding Associate, West Indochina Advisors | INSEAD MBA

Enrico Cesenni, Founder & CEO, Myanmar Strategic Holdings | INSEAD MBA

Dieter Billen, Principal and Head of Roland Berger Myanmar

Alexandra Vandershelden, Director, Delta Capital Myanmar

Interviews with several other professionals were conducted; their contributions have been anonymized as requested.

Past authors

Past INSEAD MBA students that authored the original paper, *"Private Equity in Myanmar: The Next Frontier?"*

https://centres.insead.edu/global-private-equity-initiative/research-publications/documents/final.PrivateEquityinMyanmar_000.pdf

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1. Myanmar: A quick snapshot[2][3]

Introduction

Located in South-East Asia, Myanmar is a Buddhist-majority country with a population of 55 m people, primarily of the Bamar (68%), Shan (9%) and Karen (7%) ethnicity. It is bordered by countries with over 1/3 the world's population, including Bangladesh, China, India, Laos, Thailand.

Political situation

The current ruling party is the National League for Democracy ("NLD"), led by State Counsellor Aung San Suu Kyi, the de facto head of government. The NLD came in to power in 2016 after comprehensively winning the first openly contested election held in the country since 1990.[4] The victory ended decades of military rule, which had most recently continued under the USDP (Union Solidarity and Development Party). Heralded as a watershed moment for Myanmar, its *halo effect* dampened in the international media due to the humanitarian crisis in Rakhine state involving the Rohingya people.[5]

Economic situation

Since Myanmar began its transition to civilian-led government in 2011, the country initiated economic reforms aimed at attracting foreign investment and reintegrating into the global economy. This accelerated the liberalization of several key sectors such as Telecom and Banking leading to a significant uptick in foreign investment into the country. Economic growth rates, however, have been relatively inconsistent due to political uncertainty and speed of reform, falling from a high of 8% in 2014 to 6% in 2017. Myanmar's GDP is USD 70 Bn, with a GDP per capita of under USD 1,300, making it one of the poorest countries in Asia.

[2] https://www.cia.gov/library/publications/the-world-factbook/geos/bm.html
[3] http://www.hotels-myanmar.com/yangon/
[4] https://en.wikipedia.org/wiki/Myanmar_general_election,_2015
[5] https://www.thedailystar.net/world/south-asia/un-calls-suu-kyi-visit-crisis-hit-rakhine-1327606

2. Private Equity in Myanmar

2.1. Investment environment

With encouraging economic growth from 2013-18, rising disposable incomes, an increasingly clear regulatory environment, and a population eager to catch up with the world in consumption, education and technology, the thesis for Myanmar is its immense nascent potential. One need look no further than Myanmar's neighbours China (on the North and East), India (on the West) and Thailand (on the South) for examples of game-changing returns investors ranging from Softbank (invested in Alibaba in 2000) and Warburg Pincus (invested in leading local telco Bharti Airtel in 1999-2001) have achieved by entering early.[6]

As Myanmar's economy started to liberalize in 2013, several local and foreign investors readied funds for significant investments. Despite this, Myanmar's PE environment in 2018 is still considered to be in its very early stages. Mature investment opportunities have been in short supply.[7]

> There was no shortage of capital in Myanmar in the early days. There was a lack of investment opportunities, and also a lack of understanding of the local deal-making environment.
> *Enrico Cesenni, Myanmar Strategic Holdings*

This lack of investment activity in Myanmar is primarily attributed to political and regulatory uncertainty. Movements began to slow right before the 2015 general elections and did not recover after. As the *Financial Times* stated in January 2017:

> One of the main reasons for the general decline is confusion associated with the transfer of power. The Myanmar Investment Commission (MIC), which had the authority to approve foreign investment applications, disbanded in March last year to coincide with the change of government. But no new commission was created in the first three months of the new government, and a backlog of applications built up.[8]

This growing dissatisfaction led to the eventual installation of Soe Win, a Managing Partner at big four accounting firm Deloitte's Myanmar practice, to the position of Myanmar's finance minister in May 2018. This came "after the previous [minister] resigned, amid reports he was being investigated over graft accusations".[9] The move was greeted warmly by local and foreign companies alike, and expectations rose that Soe Win must:

- Revitalize the reform momentum by ending ambiguity over laws and policies and involving the business community, particularly in the banking and financial sector[10]
- Restore confidence in Myanmar

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[6] http://ventureintelligence.blogspot.com/2005/10/warburg-pincus-bharti-saga-ends-nets.html
[7] https://www.reuters.com/article/us-myanmar-politics/myanmar-president-nominates-deloitte-partner-as-new-finance-minister-idUSKCN1IT0MT
[8] https://www.ft.com/content/f7bda5bc-e150-11e6-8405-9e5580d6e5fb
[9] https://www.reuters.com/article/us-myanmar-politics/myanmar-president-nominates-deloitte-partner-as-new-finance-minister-idUSKCN1IT0MT
[10] https://www.mmtimes.com/news/next-finance-minister-expected-rescue-confidence-speed-bank-reforms.html

- Accelerate implementation

Central to reforms were the implementation of the new Investment Law and the long-awaited release of the new Companies Act, both expected to greatly simplify and modernize the investment environment in the country.

> We have seen some positive developments… But, more recently, the pace of reform has slowed. Clearly, access to credit across all sectors of the economy and clear regulations are important to the positive development of Myanmar.[11]
> *Nick Powell, Delta Capital Myanmar*

Figure 1: Changes expected in the investment, corporate laws in Myanmar [Jan 2017][12]

Major changes in investment, corporate laws in Myanmar

NEW INVESTMENT LAW INTRODUCED IN OCTOBER 2016	BEFORE		AFTER
Long-term lease of real estate *(more than 1 year)*	MIC approval required	→	Approved, in principle, upon submission of application
Special corporate tax exemption	MIC approval required *(Five-year exemption period after start of operations)*	→	Approved, in principle, upon submission of application *(Three- to seven-year exemption after start of operations)*
Employment of local workers *(in positions requiring high technical skills)*	Required ratio to workforce	→	Scrapping that condition
Overseas remittance	MIC approval required	→	MIC approval unnecessary

REVISIONS TO COMPANIES ACT EXPECTED IN SPRING 2017	CURRENT		ANTICIPATED CHANGES
Acquisition of Myanmar stocks by foreign investors	Not permitted	→	Small investments permitted
Definition of foreign invested companies	Companies that receive any stock investment from foreign companies	→	More than 35% ownership by foreign companies
Foreign participation in restricted industries	Not permitted in trading, other sectors, in principle	→	Permitted for some business sectors if investing small amounts

As a result, as of June 2018, the investment environment can be described as challenging. The five key challenges facing the PE industry are overleaf.

[11] https://www.mmtimes.com/news/next-finance-minister-expected-rescue-confidence-speed-bank-reforms.html
[12] https://www.ft.com/content/f7bda5bc-e150-11e6-8405-9e5580d6e5fb

Figure 2: Challenges for PE investments into Myanmar

#	Challenge	What they said	Issue
1	Regulatory uncertainty	"New legislation is out, but slow to be enacted. It's basic stuff, e.g. permits for land usage, but implementation is taking time. Certainly, the implementation of the new Companies Act should have been prioritized more." *Myanmar PE industry participant* *Myanmar Times*: "Following New York-based Herzfeld & Rubin PC (H&R), another major law firm, [BLP], has thrown in the towel [due to delays in reforms]. Its Partner remains "cautiously optimistic" about the market but criticised the delay as a mistake".[13]	**Political**
2	PR fracas with the Rohingya crisis	"Regional countries are by and large still OK, but Western countries that have Human Rights at the top of their wish-list are freezing FDI into Myanmar." *Associate, global PE with interests in Myanmar*	
3	Deteriorating investor confidence	"Two things have happened in recent times. (1) The Rohingya crisis, which has led to a drop in investment appetite in the country. (2) The pace of reforms and modernization expected of the new government have yet to come." *Myanmar PE industry participant*	**Economic**
4	Mixed economic performance	"To an extent, this depends on what your baseline is. If you compare today to 2015, yes, growth is slower. You can see it in all industries, e.g. Hospitality, where you hear stories of 20-30% of staff being retrenched. But if you compare to 2010, we're still doing much better." *Consultant working at a strategy consulting firm in Yangon*	
5	Formulating an *entry* strategy	"In PE we usually say you must have your exit strategy in mind. In Myanmar, though, it's simply - what is your entry strategy? What will you invest in? Simply sourcing a deal and seeing it through is still a big challenge." *Luc de Waegh, West Indochina Advisors*	

[13] https://www.mmtimes.com/news/second-law-firm-exits-myanmar-calls-companies-law-delay-mistake.html

2.2. PE in Myanmar – Why bother?

Despite its many challenges, Myanmar still presents an unparalleled opportunity for investors seeking access to a truly undeveloped market. The *Investor Handout* of a leading local PE firm described the following to be Myanmar's unique advantages[14]:

- **Fast-growing economy:** GDP growth projected to grow at 7.5% CAGR till 2022 as per the IMF
- **Land:** 2nd largest in the ASEAN region
- **Population:** 55 million (roughly same as England)
- **Young workforce** with rising disposable incomes and demands
- **Significant reforms** undertaken (political, legal, economic) and more in the pipeline
- **Rich in natural resources**
- **Tourism opportunities** with arrivals rising 18%[15] in 2017, despite strong increases already in preceding years
- **Infrastructure** lagging requiring significant further investments spurring growth
- **Recognizing the humanitarian crisis**, "the situation in Rakhine is tragic but is not affecting the significant progress elsewhere in the country"

Further, a Myanmar PE industry participant provided the following view on *Why Myanmar*:

> While overall the business environment may at times sound pessimistic, Myanmar is going through a process of modernizing, improving systems, and learning new techniques. Investors understand Myanmar better now, and aren't just throwing money in. So while things are no longer 'red hot', expectations are more aligned and realistic. For instance, there were quite some deals falling through due to unreasonable and irrational exuberance. Now, however, things have normalized and the deals available are much more reasonably priced, as SMEs are realizing they need to raise funds to grow, and the few "cowboy advisors" that were around have now been replaced by much more professional ones. The big four have especially helped in this regard. So while things aren't as hot anymore, it's still a good market for PE, I believe.

[14] http://myanmarinvestments.com/wp-content/uploads/2017/08/MIL-Investor-Handout-27-Apr-2018.pdf
[15] https://www.telegraph.co.uk/travel/news/tourism-to-myanmar-up-despite-rohingya-crisis/

2.3. PE firms active in Myanmar

Table 1: Overview of Myanmar-focused General Partners

#	General Partner	Founded in	Chief executive(s)	Funds raised (USD m)	Sector focus	Investments/ Local franchises
1	**Delta Capital Myanmar**	2013	Nick Powell	Fund I: 50 m Fund II: ~70 m[16]	Consumer, MFI, Telecom, Energy, Manufacturing,	
2	**Anthem Asia**	2012	Josephine Price	40 m+[17]	Consumer goods and services, Agribusiness, Leisure, F&B, Tech.	
3	**Myanmar Investments International Limited (MIL)**	2013	Aung Htun	40 m+[18]	Telecom, MFI, Healthcare	
4	**Myanmar Strategic Holdings**	2013	Enrico Cesenni	23 m+	Hospitality and Tourism, Education, Security services	
5	**Golden Rock Capital**	2014	Thura Soe-Paing, Marvin Yeo[19]	20 m+	Consumer goods	
6	**Singapore Myanmar Investco (SMI)**	2013	Patrick Ho, Mark Bedingham	?	Retail, Food & Beverage, Auto Services, Construction Services and Logistics / Supply Chain[20]	

LPs = Mix of European and/or Asian family offices, institutional investors, global bodies (e.g. IFC in the case of Anthem), and HNWIs.

[16] https://www.dealstreetasia.com/stories/myanmars-delta-capital-hits-final-close-of-second-fund-at-about-70m-falls-short-of-100m-target-99915/
[17] Currently in the process of being raised, as per: https://www.dealstreetasia.com/stories/anthem-asia-sme-fund-ifc-93061/
[18] http://myanmarinvestments.com/wp-content/uploads/2017/09/MIIL-FS-2017-RNS-25-Sep-2017.pdf
[19] https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=271782041
[20] http://www.sin-mi.com/company-overview.html

2.3.1. Delta Capital Myanmar

Investments include: AMDC (High Class Whisky), Easy Microfinance, Frontiir

Description: Formerly known as PMM Partners, Delta Capital is an established PE fund manager. Myanmar's largest GP based on fund size, Delta Capital has had two funds in Myanmar; the Myanmar Opportunities Fund I (MOF I) of 2013 vintage of over USD 50 m, and more recently the Myanmar Opportunities Fund II (MOF II) of 2016 vintage which closed at close to USD 70 m. [21][22] Delta Capital manages a diversified portfolio of direct investments in growing companies active across sectors. The MOF I fund made five investments in sectors including consumer goods packaging and distribution, telecommunications, diversified industries and energy, while the MOF II fund publicly announced a USD 7 m investment into Easy Microfinance. [23][24] Most recently, Delta Capital made headlines with Pernod Ricard's majority investment into the Yoma Strategic, Delta Capital and Win Brothers-backed Access Myanmar Distribution Company Ltd.[25]

FURTHER INSIGHTS*: Delta Capital Myanmar's evolution, as narrated by Alexandra Vandershelden (Director)*

DELTA CAPITAL
MYANMAR

The beginnings

Delta Capital is a brainchild of local industrialist Serge Pun (Serge Pun & Associates (SPA),Yoma Strategic) and Nick Powell from Simon Murray & Company, now Landmark Capital (LMC). Our story started in 2011, when Serge Pun was looking for international partners and LMC for a reputable local partner for investments in Myanmar. This led to the formation of PMM Partners, with "PMM" an acronym for Pun-Murray-Myanmar; the original name for Delta Capital. We officialised the partnership and started raising our first fund in 2013. While SPA brought unparalleled local access and sector know-how, LMC provided investment expertise and access to LPs. Since then we have built a dedicated independent platform with an investment management team based in Yangon.

Initial deals – Fund I

Initial deal sourcing was facilitated by SPA's reputation and access, especially since many foreign investors and local companies view the group as a strong partner. Separately, given LMC's track record in Asia and strong network of LPs, fund-raising was successful, with MOF I closing at over USD 50 m. We invested into multiple sectors including consumer goods packaging and distribution, telecom and energy.

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[21] https://www.palico.com/funds/myanmar-opportunities-fund-i/b45c135195ec4f42b0188a630724ba7f
[22] https://www.dealstreetasia.com/stories/myanmars-delta-capital-hits-final-close-of-second-fund-at-about-70m-falls-short-of-100m-target-99915/
[23] http://www.deltacapital.com/funds/#portfolio
[24] https://www.dealstreetasia.com/stories/delta-capital-myanmar-easy-microfinance-94187/
[25] https://www.thedrinksbusiness.com/2018/06/pernod-ricard-plans-myanmar-whisky-expansion/

Fund II

We started raising our second fund, MOF II, in late 2016, and closed in April 2018 with close to USD 70 m. To date we have made two investments, in microfinance and telecom, and allocated about 30% of the capital raised. In 2016 we decided to rebrand ourselves as Delta Capital Myanmar to reflect our independent identity and operations.

Investment focus – Today

We will be adding a markets fund soon, investing into Myanmar companies listed on YSX and foreign stock exchanges, We have a track record of operations since 2013 and learned a lot from the investments we made so far, as well as from the many investment opportunities that we reviewed but didn't pursue.

2.3.2. Anthem Asia

Investments include: Xavey, Rangoon Tea House, Thalun International School, MOVE, Revo Digital, Zagar, Blink, Hintha Business Centers

Description: Anthem Asia is "an independent investment and advisory group building sustainable businesses in Myanmar", typically by supporting the expansion of local businesses.[26] In addition to their wide sector focus across Myanmar, Anthem supports issues such as climate change mitigation and adaptation.[27] Its investments can be in the form of equity or debt, or a combination of the two. Anthem Asia's portfolio includes at least nine SMEs, including Rangoon Tea House, a famous local restaurant.[28] The IFC is reported to potentially becomea one of its key LPs, and has a seat on the fund's advisory committee, with an aim to "provide guidance on fund management and governance best practices, as well as environmental, operational, and social improvement for local businesses through knowledge transfer."[29]

2.3.3. Myanmar Investments International Limited ("MIL")

Listed: LSE:MIL

Investments: Apollo Towers, Myanmar Finance International Limited (MFIL), Medicare

Description: Established in 2013 by U Aung Htun, a British citizen of Myanmar-Thai descent, MIL was the first Myanmar-focused company to be admitted to trading on the Alternative Investment Market (AIM) market of the London Stock Exchange. Aung Htun: "The difference is we are a long-term investor in Myanmar. As a London Stock Exchange-listed holding company we can be patient. We can take our time making investments."[30][31] MIL made waves back in August 2015 with its USD 30 m investment into Apollo Towers, one of the largest ticket sizes

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[26] https://www.linkedin.com/company/anthem-asia/?originalSubdomain=sg
[27] https://www.reuters.com/brandfeatures/venture-capital/article?id=28664
[28] https://www.mmbiztoday.com/articles/anthem-asia-invests-six-figure-sum-myanmar-based-mobile-platform
[29] https://www.reuters.com/brandfeatures/venture-capital/article?id=28664
[30] https://frontiermyanmar.net/mm/node/679
[31] http://myanmarinvestments.com/wp-content/uploads/2017/09/MIIL-FS-2017-RNS-25-Sep-2017.pdf

seen from a domestic PE. Further, MIL often works in tandem with global investors, for instance TPG with Apollo Towers and the Norwegian Investment Fund for Developing Countries (Norfund) with its investment in MFIL. As Aung Htun said, "The difference with my company…is that I am permanent capital".[32] Claiming a strong pipeline of investment opportunities, MIL is "currently considering a secondary listing on an Asian exchange to increase liquidity."[33]

2.3.4. Myanmar Strategic Holdings ("MSH")

Investments include: EXERA, Wall Street English Myanmar, Auston College Myanmar, Ostello Bello hostels

Listed: LSE:SHWE

Description: Listed in the London Stock Exchange under the ticket symbol "SHWE", which means *gold* in Myanmar language and signals prosperity/ good fortune, MSH is as an independent developer and operator of consumer focussed businesses in Myanmar. The company is led, among others, by Enrico Cesenni and Jonathan Kolb, both INSEAD MBAs. MSH owns and operates affordable accommodation under the Ostello Bello brand and runs the Myanmar franchise for Wall Street English and Auston College. Recently, it entered the security sector, with a USD 2.2 m acquisition of EXERA, one of Myanmar's leading safety and security service providers with a major existing client base (e.g. WFP, UHCR, UNICEF, among others). [34]

FURTHER INSIGHTS: Benefits of publicly listing for Myanmar GPs
As described by a Myanmar PE industry watcher

The objective is to get a good assortment of institutional as well as retail investors in to the fund. This would theoretically mean that exits could be achieved by selling shares, thereby reducing pressure to exit investments – important in Myanmar, where returns may not materialize in the first 8-10 years. In fact, companies could easily take up to 15 years to reach their potential in this country, so you need to have a long-term mindset.

2.3.5. Golden Rock Capital

Investments include: Myanmar Personal Care

Description: Singapore-registered and with offices in Yangon and Singapore, Golden Rock Capital is an independent PE aiming to "provide equity or equity-related capital to high quality mid-sized growth companies in or with significant linkages to Myanmar".[35] Having raised over USD 20 m in 2016, with a target to eventually raise USD 100 m, Golden Rock Capital has already put money into Myanmar Personal Care, a Singapore-registered entity trading in perfumes. Originating partner Thura Soe Paing stated that "We are more than a provision of capital, we

[32] https://frontiermyanmar.net/en/business/private-equity-take-your-time
[33] http://myanmarinvestments.com/wp-content/uploads/2017/09/MIIL-FS-2017-RNS-25-Sep-2017.pdf
[34] http://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/SHWE/13657069.html
[35] http://gr-capital.com

would like to help the businesses grow through the contacts and connections that we have…the most important thing is when we come as investors and advisors, we believe in the long term potential of the country we are not here just to make a quick buck."[36]

2.3.6. Singapore Myanmar Investco Limited (SMI)

Investments/ franchise partners include: Myanmar Infrastructure Group (MIG), Senko SMI Myanmar, Duty Free at YIA, Shiseido, Europcar, Crystal Jade Group, IPPUDO, Coffee Bean and Tea Leaf (CBTL),..

Listed: SGX:Y45

Description: Listed on the SGX and with a mandate to build or invest in businesses in Myanmar across a range of sectors, SMI has done precisely so with significant forays in key infrastructure and consumer facing businesses. SMI's methodology typically revolves around doing a joint venture with, or gaining the Myanmar franchise/ partnering for Myanmar with, globally-recognized brands and players. SMI has several such partners – particularly in Retail and F&B, including Shiseido, CBTL, Crystal Jade Group, IPPUDO. SMI also has links to the domestic tower infrastructure as well as the Yangon International Airport, among others. It won the Luxury Retail Category in the Singapore Business Review's Listed Companies Awards 2018 for its duty-free retail business in Yangon's new international terminal.[37] SMI most recently achieved a rare exit in Myanmar by divesting its tower construction firm, TPR Myanmar Limited, for USD 10.8 m to Tiger Infrastructure.[38]

2.3.7. Foreign GPs in Myanmar (non-exhaustive list)

TPG: The first major U.S. private equity firm to invest in Myanmar after it emerged from military rule, TPG has achieved unprecedented traction with its investment in Apollo Towers, as well as investment (and subsequent exit) in Myanmar Distillery Company.

> There are two things special about TPG. Firstly, its local advisor in Myanmar is spot on, knows the market well and has very strong relationships. Secondly, its value generating prowess. Even in Myanmar, TPG now has a reputation of making a deal, bringing in experts, advisors and on-the-ground staff to quickly optimize a business.
> *Luc de Waegh, West Indochina Advisors*

IFC: Both potentially as an LP (Anthem Asia) and a direct investor (Oway), IFC has a portfolio of investment and advisory projects in Myanmar. Since re-engaging with the country in 2012, IFC's mandate has been to find "sustainable projects that yield financial returns for investors while paying development dividends for the people of Myanmar."[39]

Norfund (Norwegian Investment Fund for Developing Countries): With investments ranging from MFIs (with Myanmar Investments International) to Energy (with the Yoma Group and

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[36] http://www.irrawaddy.com/business/the-irrawaddy-business-roundup-july-30-2016.html
[37] https://sin-mi.listedcompany.com/newsroom/20180518_070020_Y45_QAV88SFOL12PK48O.1.pdf
[38] https://www.dealstreetasia.com/stories/singapore-myanmar-investco-to-sell-tower-infra-firm-for-10-8m-99110/+&cd=2&hl=en&ct=clnk&gl=sg
[39] https://www.ifc.org/wps/wcm/connect/region__ext_content/ifc_external_corporate_site/east+asia+and+the+pacific/resources/ifc+in+myanmar

IFC), Norfund has been an active investor in Myanmar since 2014. It has shown an inclination to typically partner with an established local entity.[40]

[40] https://www.dealstreetasia.com/stories/ifc-joins-yoma-strategic-and-norfund-for-28m-investment-in-yoma-micro-power-95445/

3. Deals

3.1. Overview

Table 2: Private Equity deals in Myanmar (publicly announced)

Month	Target	Investors / GPs	Sale price (USD, m)	Ownership	Sale type	Sector
June 2018	TPR Myanmar Limited	Singapore Myanmar Investco Limited (SMI)	10.8	• Tiger Infrastructure Pte. Ltd. 100%	Strategic	Telco towers[41]
May 2018	Access Myanmar Distribution Company (High Class Whisky)	JV: Pernod Ricard, Yoma Strategic, Delta Capital, Win Brothers	*Not made public*	• Pernod Ricard (majority)	Strategic	Alcohol[42]
May 2018	EXERA	Myanmar Strategic Holdings	2.2	• MSH 100%	Acquisition	Security services
Apr 2018	Yoma Micro Power	IFC, Government of Canada, Norfund	28.0	• Yoma Strategic 35%[43] • IFC 30% • Norfund 30% • Mr. Alakesh Chetia (CEO, YMP) 5% [44] [45]	*Greenfield*	Energy
Apr 2018	Oway	Belt Road Capital Management, IFC, Daiwa PI Partners	14.7	*Not made public*	Stake sold	Tech / Mobility
Mar 2018	Easy Microfinance	Delta Capital	7.0	*Not made public*	Stake sold	MFI[46]

[41] https://www.dealstreetasia.com/stories/singapore-myanmar-investco-to-sell-tower-infra-firm-for-10-8m-99110/+&cd=2&hl=en&ct=clnk&gl=sg
[42] https://www.ft.com/content/18e0407e-5fc7-11e8-9334-2218e7146b04
[43] Down from its original 47.5% stake
[44] http://www.mizzima.com/business-domestic/international-finance-corporation-and-canada-invest-yoma-micro-powser
[45] https://www.businesstimes.com.sg/companies-markets/yoma-strategics-myanmar-project-nets-funding-from-international-finance-corp
[46] https://www.dealstreetasia.com/stories/delta-capital-myanmar-easy-microfinance-94187/

Month	Target	Investors / GPs	Sale price (USD, m)	Ownership	Sale type	Sector
Jan 2018	Digital Classifieds Group	Belt Road Capital Management	1.9	*Not made public*	Stake sold	Tech[47]
Oct 2017	Myanmar Supply Chain and Services and Myanmar Distillery	ThaiBev	742.0	• ThaiBev 75%[48]	Strategic	Alcohol[49]
May 2017	Medicare International Health & Beauty	JV: Myanmar Investments International Limited (MIL) and Medicare Vietnam	0.895	• Medicare Vietnam 52.9% • MIL 47.1%	n/a (new JV company)	Medical / Pharma
Apr 2017	Ruby Hill Microfinance	Dragon Capital, Loi Hein Group	*Unknown*	• Loi Hein Group 51% • Dragon Capital 49%	*Greenfield*	MFI[50]
Sep 2016	Rangoon Tea House	Anthem Asia	*Unknown*	*Not made public*	Stake sold	F&B
Dec 2015	Myanmar Distillery Co	TPG	100 – 200	• TPG 50%[51]	Stake sold	Alcohol
Jul 2015	Apollo Towers Myanmar	Myanmar Investments International Limited (MIL)	21.0	• TPG (*Unknown*) • MIL 9%[52]	Stake sold	Telco towers[53]
Nov 2014	Apollo Towers Myanmar	TPG	~40.0	*Not made public*	Stake sold	Telco towers[54]
Sep 2014	Myanmar Finance International (MFIL)	JV: Myanmar Investments International Limited (MIL), Myanmar Finance Company (MFC) and Norfund	5.0	• MIL 37.5% • MFC 37.5% • Norfund 25%	n/a (new JV company)	MFI

[47] https://the-riotact.com/digital-classifieds-group-secures-2-25-million-in-funding-seeks-to-replicate-allhomes-success-in-asia/230603
[48] https://www.theedgesingapore.com/thai-beverage-acquires-grand-royal-distilleries-myanmar-1-bil
[49] https://uk.reuters.com/article/myanmar-ma-thai-beverage/thaibev-acquires-myanmar-distilleries-as-tpg-exits-idUKL4N1MO26A
[50] https://www.asiaasset.com/news/Dragon_Capital_0704.aspx
[51] https://www.mmbiztoday.com/articles/tpg-buys-50pc-stake-myanmar-distillery-co
[52] http://myanmarinvestments.com/wp-content/uploads/2017/08/MIL-Investor-Handout-27-Apr-2018.pdf
[53] https://www.mmtimes.com/business/property-news/15796-mil-buys-equity-stake-in-apollo-towers.html
[54] https://www.dfdl.com/resources/news/apollo-towers-closing-myanmar-telecom-tower-venture/

Month	Target	Investors / GPs	Sale price (USD, m)	Ownership	Sale type	Sector
Jan 2014	Asia Beverages Co. group of companies (ABC Group)	Yoma Strategic Holdings, Delta Capital[55]	11.1 Yoma 7.3 Delta[56]	• ABC Group 50% • Yoma Strategic 30% • Delta Capital 20%	Stake sold	Alcohol[57]

[55] Then "PMM Partners"
[56] Based on estimations using data from article stated in footnote below.
[57] https://www.straitstimes.com/business/yoma-strategic-holdings-to-acquire-stake-in-myanmar-consumer-goods-firm-for-142m

PE deals in Myanmar are gradually rising in number. After lift-off in 2014, deals slowed in 2016-17 as investors moved with caution during the national elections and subsequent government change from the USDP to the NLD. In addition, ticket sizes can often be small (<USD 5 m) resembling checks written more in a VC-type environment, even though the deals itself in such scenarios are more along the lines of growth capital.

I don't like definitions – whether a deal is PE or VC, etc. It's as simple as identifying sound business opportunities, seeing what can grow, and where MSH can add value to the investee or the target company's entrepreneur. If interests and ambitions align, we proceed with the investment.
Enrico Cesenni, Myanmar Strategic Holdings

It's not the size that determines whether PE or VC, but rather the story. VC is more of a spray and pray approach, whereas PE is more strategic, more measured, with a strong view to adding operational value-add. With VC your approach is that 10-20% of deals will go bust, 40-60% will be OK, and then the top 10-20% will be winners. In PE, we don't have the capacity to think so; for us, each deal is as important.
Myanmar PE industry participant

Deals have steadily increased from 2017 Q4 onwards. As of 2018 June, the four sectors that have seen the most deal-making activity have clearly been:

- Telco towers (*further insights* on Apollo deal in Appendix II)
- Alcohol/ Spirits (*further insights* into Pernod Ricard deal overleaf)
- Microfinance institutions
- Consumer goods/ services (*further insights* on Rangoon Tea House deal in Appendix III)

In particular, there have been a number of relatively big ticket deals in the Alcohol sector. These have included ThaiBev's USD 742 m acquisition of two Myanmar distilleries from TPG, and most recently Pernod Ricard taking a majority stake into a local Alcohol maker. Indeed, the Alcohol industry has played host to several mega-deals in Myanmar, as the above were "on the heels of …one of the largest and early M&As in country, [with] Japan's Kirin Holdings [acquiring] Fraser and Neave's 55 percent stake in Myanmar's biggest brewer for $560 million [in August 2015]".[58] Yoma Strategic and Delta Capital were also involved in an Alcohol deal by together taking a 50% stake in ABC Group in 2014.[59]

[58] https://asia.nikkei.com/Business/Kirin-to-drink-up-another-Myanmar-brewery
[59] https://www.straitstimes.com/business/yoma-strategic-holdings-to-acquire-stake-in-myanmar-consumer-goods-firm-for-142m

FURTHER INSIGHTS (MAY 2018): Pernod Ricard's majority stake in JV with Yoma Strategic, Delta Capital, Win Brothers

Pernod Ricard, the world's second largest wines and spirits company, signed a deal to form a JV to "take the lead in the management of the production facilities, extensive distribution network and brand portfolio of Access Myanmar Distribution Company Ltd (AMDC), the current joint venture between Yoma Strategic, Win Brothers and Delta Capital Myanmar." The deal provides Pernod Ricard access to 43 major wholesalers (40,000 points of sale), approximately 230 delivery vehicles and around 250 staff dedicated to sales and marketing, as well as the popular High Class Whisky brand. [60] In addition, Pernod Ricard is expected to "bring in some of its own brands as part of the deal", which include renowned labels such as "Chivas, Ballantine's and Seagram's whiskies", while continuing to drive the High Class Whisky brand.

The closing of the deal – for which financial terms have not been disclosed – was subject to the restructuring of the High Class business and other conditions, and will likely close in 2019.[61] Myanmar will be the 86th country in which Pernod Ricard has established a direct affiliate. [62]

What they said (press release): Nick Powell, Managing Partner of Delta Capital
"We are delighted that our investment in AMDC has helped position it to become a leading Myanmar operator attracting global partnerships. We look forward to the continued development of the joint venture with Pernod Ricard".[63]

What they said (interview for this report): Alexandra Vandershelden, Director at Delta Capital
"Myanmar is very attractive to those willing to invest for the long term. We spoke to several regional and international spirits companies before finalizing the deal with Pernod Ricard. We believe that the partnership with Pernod Ricard will make a big difference in terms of bringing international best practices as well as new products into the market.

We have not exited our investment into the company yet. Our stake has been diluted and we have a built-in exit mechanism."

What they said (interview for this report): Strategy consultant on-the-ground in Myanmar
"It's a major vote of confidence when an international major like Pernod Ricard decides to invest. This will bring competition. International best practices in organizational management such as corporate governance, proper reporting and book-keeping practices will also benefit the company and staff."

Deal-making, especially large deals, is set to continue. Recent reports released by Bloomberg state that TPG is "working on another landmark transaction" by "seeking to merge [Apollo Towers] with rival Pan Asia Majestic Eagle Ltd." Reports state that this would create an entity that is "Myanmar's biggest owner of telecom towers and would reportedly be worth over USD 700 m.[64] PE firm Myanmar Investments International, with its ~9% stake in Apollo Towers, will also be involved.

[60] https://www.dealstreetasia.com/stories/pernod-ricard-yoma-jv-98528/+&cd=1&hl=en&ct=clnk&gl=sg
[61] https://www.ft.com/content/18e0407e-5fc7-11e8-9334-2218e7146b04
[62] https://www.dealstreetasia.com/stories/pernod-ricard-yoma-jv-98528/+&cd=1&hl=en&ct=clnk&gl=sg
[63] https://www.dealstreetasia.com/stories/pernod-ricard-yoma-jv-98528/+&cd=1&hl=en&ct=clnk&gl=sg
[64] https://www.bloomberg.com/news/articles/2018-05-18/myanmar-first-mover-tpg-seeks-to-create-700-million-tower-giant

3.2. Exits

PE exits in Myanmar have thus far been rare, for three reasons:

(1) PE exits typically occur after anywhere between 3 to 7 years, and most investments were only made around 2016
(2) Myanmar requires more *patient capital* with an exit horizon likely to be closer to (or greater than) 7 years
(3) General political and economic uncertainty has limited deal activity

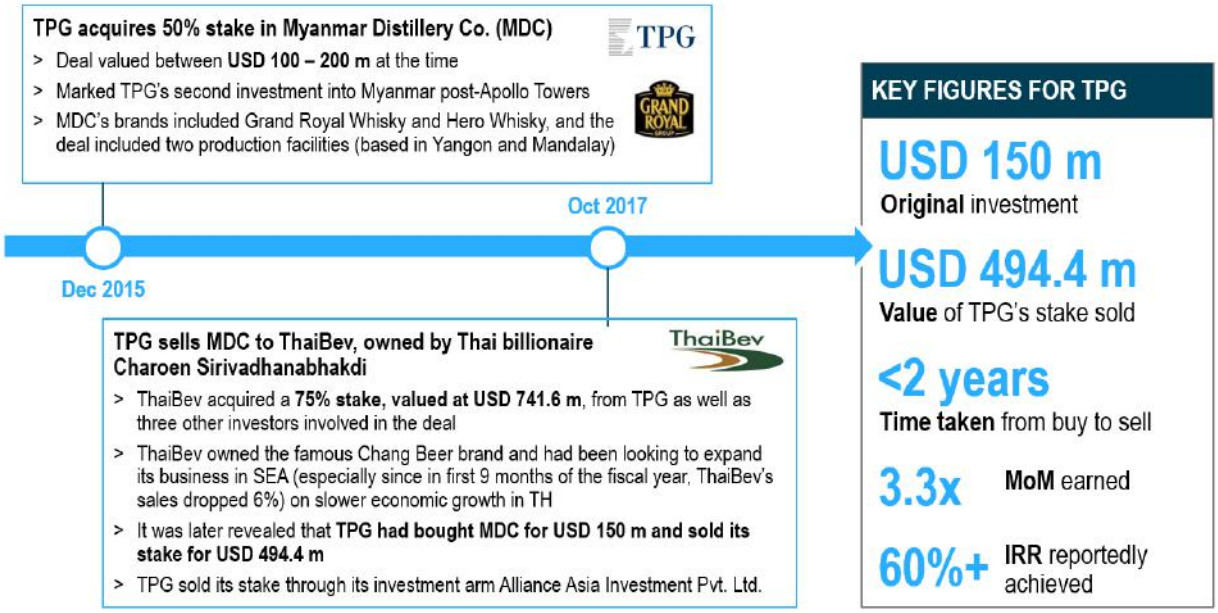
Despite these challenges, in October 2017 TPG achieved a celebrated exit by selling its stake in two Myanmar distilleries (Myanmar Supply Chain and Services Co or MSCS and Myanmar Distillery Co or MDC) for USD 742 m to ThaiBev. The transaction was funded with internal cash and bank financing. Reports state that TPG "more than tripled the $150m it backed MDC with in 2015, pulling in $494m from the deal", thus earning a 3.3x multiple of money. [65] (Further details in Figure 3 overleaf). Singapore Myanmar Investco, SMI, also achieved an exit from its investment (in June 2018) by selling its Telco tower infrastructure company, TPR Myanmar, to Tiger Infrastructure for USD 10.8 m.

TPG remains confident in Myanmar's transformation, and anticipates further investments.[66]
TPG press release.

TPG's Grand Royal deal is interesting. Observers and industry players think investments have to be held out patiently, but TPG exited relatively quickly. This is one example of how PE firms can exit smoothly here.
Consultant working at a strategy consulting firm in Yangon

[65] https://www.reuters.com/article/myanmar-ma-thai-beverage/thaibev-acquires-myanmar-distilleries-as-tpg-exits-idUSL4N1MO26A
[66] https://www.business-humanrights.org/en/response-by-tpg-myanmar-foreign-investment-tracking-project

Figure 3: TPG's MDC exit to ThaiBev



TPG's exit, in particular, greatly legitimized Myanmar as an investment destination for General Partners ("GPs"). Whether by coincidence or not, deal activity has sharply risen since the Myanmar distilleries exit, with investors ranging from global strategics to local GPs to international entities like IFC and Norfund plugging funds in the economy. As a result, it appears the following exit avenues have now opened up for investors in Myanmar:

- Sale to a strategic (foreign/ local) → still the most likely outcome, as shown by TPG in its sale to ThaiBev
- Sale to original owner → on-the-ground this is seen (for the future) as an attractive way to exit given its fewer complications and scrutiny, as mentioned by a industry practitioner
- IPO → either on the YSX or other exchanges, although as shared by a Myanmar PE market participant:

  No, it's too early for the YSX to be a viable exit option. In fact, we are not following the YSX all that closely. Many rules and regulations still need to be set up (e.g. custodian services, foreign ownership, anti-insider trading measures), and regulatory uncertainty is one of our biggest concerns in Myanmar.

It is as yet unclear how soon secondary sales (from one PE to another) will become a possible exit option. Even MIL's involvement in Apollo Towers, a year after TPG first made its investment in 2014, was more of a co-investment rather than a secondary sale of a stake.

As shown by the sales to Pernod Ricard and ThaiBev, however, the **deal sweet-spot** seems to be as per the following steps:

1. Acquire a local brand or company in a fast-growing sector
2. Institute corporate governance, best practices book-keeping, and if required, an updated management team
3. Achieve value creation over 2-5 years
4. Exit to a strategic

3.3. Government engagement

Despite the liberalization of several sectors of Myanmar's economy in recent years, government approvals form the back-bone of private sector business in Myanmar. Consequently, maintaining relationships with key government officials for insights and faster decision-making is a key priority for all PE firms in Myanmar. Particularly since there is still a knowledge gap about PE in the country.

PE is new in Myanmar. Regulators aren't all that familiar with it. At times, PE practitioners have to almost convince officials that PE is good for Myanmar. The government is cautious as am I. But, this has slowly been improving as PE firms are pro-actively managing government relations.
Consultant working at a strategy consulting firm in Yangon

The key regulatory authority is the Myanmar Investment Commission ("MIC"), "a government-appointed body which is responsible for verifying and approving investment proposals".[67] All foreign investments into Myanmar currently require a touch-point with the MIC. Whether the investment is from a PE versus any other type of investor (e.g. strategic) is less of a factor.

Look, you have to build relationships with the regulators, otherwise for example an entrepreneur could run away with your investment and you'd have no recourse. But this is not a Myanmar-specific issue, it can happen anywhere.
Senior Director at a PE firm with live investments in Myanmar

FURTHER INSIGHTS: Tips on working with the government by Dieter Billen (Principal & Head of Roland Berger Myanmar)

Based on our experience, there are two major success factors in working with the government.

First, you need to focus on implementation and impact. Myanmar clients in general, including the government, are primarily interested in getting things done. For example, in the case of Myanmar's telecom sector liberalization, we addressed key strategic sector planning questions along the telecom licensing process. Typically, in other countries, you would first do the master planning, then implementation. In Myanmar, clients typically don't have budget or time to pay for consulting support on "master planning" or "strategy development".

Second, it is imperative to build and maintain a good reputation. We make recommendations to the Myanmar government that are, in our view, in the best interest for the country and its people, given Myanmar's unique situation and stage of development. These are not necessarily copy-and-paste solutions from other countries. I think the Myanmar government appreciates recommendations tailored to their needs, and that we provide advice in the interest of Myanmar. Moreover, we have managed projects in a transparent and best-in-class process – which is critical in a Myanmar context, in which corruption is still a major problem. Finally, being on-the-ground and working hand-in-hand with the client on a daily basis is imperative.

The government change since 2016, for now, has not been able to optimize or quicken the MIC's processes. With the NLD government having to focus more on critical sectors such as Healthcare

[67] https://www.dica.gov.mm/en/information-myanmar-investment-commission-MIC

and Education, not to mention a major humanitarian crisis in the North-West, PE is less of a priority.

4. Recommendations

In an earlier version of this report published in 2015, the recommendations to aspiring PE firms with an interest in Myanmar were the following:

- Develop a solid on-the-ground network
- Have a strong local partner
- Focus on growth companies and start-ups
- Start small and aim for greenfield projects
- Target one of the growth sectors/ industries

Based on the fact that since 2015, very few new PE firms have entered Myanmar, this report provides an updated set of recommendations for PE aspirants yet to *take the plunge* into Myanmar. While there is significant overlap with the previous recommendations, that is symptomatic of a market that's stayed largely the same since 2015. Further, a sub-section on valuation techniques aims to de-mystify how valuations can be performed credibly and with some degree of assurance even in Myanmar.

4.1. Business recommendations

Reco #1: ***Hyper-localize***

Arguably the most important key success factor. Myanmar is a complicated, unique country, and only by fully committing – often, for several years – can PE firms build critical relationships that then lead to good deals.

> You cannot name an investor who successfully did deals without a local presence. Myanmar is a very unique country. To succeed you must open an office, spend a lot of energy recruiting to find good local hires, and immerse yourself in the country.
> *Luc de Waegh, West Indochina Advisors*

Reco #2: ***Be data-driven, just like in any other market***

Somewhat counter-intuitive given the severe data issues at the country, sector and business level, it is increasingly critical to be just as analytically rigorous in Myanmar as anywhere else. Whether outsourcing research or doing so in-house, PE firms must invest heavily in building a team capable of sourcing, analyzing, and forming hypotheses/ conclusions from data.

> We do deep-dives to understand the unique opportunities and risks in each sector. Numbers are important but not enough. We need to have numerous discussions with industry experts and operators to ultimately form a view on the growth prospect and be comfortable with the projections.
> *Alexandra Vanderschelden, Delta Capital Myanmar*

Reco #3: ***Engage closely with the government***

Whether through local partners, or by directly connecting, PE firms need to have a direct and frequent line of communication with key government officials. This is necessary for greater clarity and speed in deal-making.

It's too bad there aren't frequent flyer miles to be made from the Yangon to Naypyitaw (the hub of government activity and where most officials are stationed) FMI Air run. Done that a few times!
Associate working on-the-ground at a local PE firm

Reco #4: ***Establish credibility to attract LPs***

Myanmar is difficult enough to understand for those on the ground, let alone for family offices in e.g. Europe. While there is significant interest in investing in the country, potential LPs are constantly unsure as to where best to place their bets. Having a fully transparent company, for instance by publicly listing – as MIL and MSH have done – quickly attracts foreign LPs and removes the typical concerns about a frontier market.

A listing on a major stock exchange certainly adds credibility to MSH's story and Myanmar in general. Foreign investors around the world are often keen on Myanmar but sceptical of investing in a private vehicle with limited governance on the other side of the globe. At the same time, the main focus of the operating team should be running businesses rather than fundraising all the time. Through its listing, MSH committed to higher transparency and accountability while at the same time increasing liquidity for its shareholders.
Enrico Cesenni, Myanmar Strategic Holdings

Reco #5: ***Write-off quickly***

At a high-level, especially at such an early stage, there is a temptation to think that every investment will *eventually* work out. However, the reality is that for an assortment of reasons, some businesses never lift off. In such a situation, it is critical – especially in Myanmar, where the temptation to keep the business going is always high – to write-off and quickly move on.

In 2017 MSH made an investment in two Indian restaurants, one of which was centrally located on Bogalay Zay Street in Yangon. The concept aimed at the growing middle class, yet ultimately it was too pricey for locals – who eat on the street and would spend less than MMK3,000 – and too cheap for foreigners – who would spend MMK15,000-20,000. A savvy investor needs to understand the surrounding operating environment, be accountable and make difficult decisions when required. The restaurants closed by March 2018.
Enrico Cesenni, Myanmar Strategic Holdings

Reco #6: ***Get the PE team structure right***

Whereas GPs ordinarily may prefer a "pyramid" organizational structure with more Analysts and Associates, and fewer senior leaders, in Myanmar the situation is somewhat different. It is often having several senior leaders, on-the-ground, that helps move the needle in terms of

We have two Partner-level guys (CEO, CIO), two Directors, two Associates, and three analysts. There's no point having an army of analysts supporting the top guys as there isn't enough work to justify that investment. At the Associate and Analyst level, we're looking for Myanmar people, ideally those who've studied and/ or worked abroad, yet

relationships, sourcing and evaluating deals, etc. As a result, a somewhat vertical-rectangular structure, with a relatively even number of Partners, Associates, and Analysts may require due consideration.

maintained a deep connection with the country, language, and local dynamics.
Director working on-the-ground at a local PE firm

4.2. Valuation techniques

Companies in Myanmar, in particular SMEs typically targeted by GPs for investments are infamous for having severe issues with data. These issues range from data being incorrect, incomplete, unreliable, or at times, simply unavailable.

Although data availability is improving, accuracy in [a company's financial statements] is generally a challenge with companies often maintaining up to three sets of accounts. One for tax purposes, one for internal, and one for investors. I've even seen a set of accounts for the owner's wife.
Myanmar PE industry participant

In the absence of quality data, however, GPs typically use one or more techniques to get a strong understanding of a particular investment target's financial performance, and in turn, are then able to conduct a relatively sound valuation. Like most things in Myanmar, the solutions found are closer to "an art than a science", as described by Luc de Waegh, Co-Founder of West Indochina.

Technique #1: Conduct a rigorous check of receipts and purchase orders (POs), in addition to any available financial statements.

Up until recently, what you saw in SMEs is shoebox accounting. Literally, receipts and POs are placed into a shoebox, with 1-2 people assigned to carefully manage them.
Associate working on-the-ground at a local PE firm

By doing so, GPs quickly surmise a company's current financial situation and make reasonable cash flow projections.

#2: Benchmark comparable multiples based on macroeconomic and market size similarities.

In particular for understanding future market potential and sizing, GPs regularly study comparable countries (e.g. by GDP/capita) and analyse their market development.

We study other markets, e.g. companies in 'comparable' countries, analyse their key success factors and/ or pitfalls, and see what may apply in Myanmar. This helps us identify opportunities and risks.
Alexandra Vander-shelden, Delta Capital Myanmar

#3: Conduct primary and secondary research to validate.

Most GPs prefer to conduct research in-house rather than commission 3P research agencies to do so for them. As a result, it is not uncommon for Associates and Analysts to conduct focus groups, market surveys, even "taste tests". On occasion, when data is particularly difficult to find, GPs will commission external research or even consulting firms.

#4: Build financials bottom-up – independent of the target.

In some cases, GPs entirely ignore the financial statements or information provided by target companies, and using a mix of

It's important that you validate everything yourself. Go to the factory, examine the products closely, check the owner's reputation.

their own market intelligence, assumptions, and secondary data, build a full-fledged financial model bottom-up. The key in such situation is to "follow the cash" to better understand the business. There are situations where a target has multiple revenue streams (e.g. after-sales service, rather than only the product), and understanding each stream individually is critical. This is particularly important as there are cases where the owner/ founder is too close to the company and is unable to view things dispassionately, prioritizing one area of the business over another.

Luc de Waegh, West Indochina Advisors

Especially for the sectors we operate in, for example Hospitality, I would rather build the financial model bottom-up. Much more accurate and reliable.
Enrico Cesenni, Myanmar Strategic Holdings

#5: Form good assumptions and weigh future projections heavily in determining a company's valuation

Given the sizeable growth potential for any target company in Myanmar, GPs pay significant attention to getting future potential and growth assumptions right. These are ultimately more important than historical figures.

We invest in growth. What's critical for us is to build the business forecasts - with growth, margins etc. that are realistic – and reflect that in the valuation.
Alexandra Vander-schelden, Delta Capital Myanmar

#6: Use external auditors or 3P agencies

The big four accounting firms have a well-established presence in Myanmar, and are increasingly well-versed with local practices. They are very effective. As for 3P research agencies, they rarely have a good RoI in Myanmar, but at times they are commissioned.

In rare cases, at times we do "go nuclear" and commission a full-blown study by a 3P.
Myanmar PE industry participant

#7: Finally, adjust to each other's valuation range.

In Myanmar, financial models only go so far. Before a discussion even begins, both the buyer and seller have a range in mind which must be adhered to, in one way or another.

You can be as rational as you want with spread-sheets, but the buyer and seller will have a price range in mind even before the deal. Until these match, there is no deal.
Luc de Waegh, West Indochina Advisors

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Ultimately, GPs will always use a combination of the above seven techniques to triangulate to a justifiable valuation.

Overall, the impression given by Myanmar PE market watchers is that valuations are now far more realistic. While previously local owners were benchmarking their companies to listed equivalents in other ASEAN markets, they're now more reasonable and open to listening to the GPs.

5. Additional thoughts from interviewees

5.1. Enrico Cesenni

Interviewee:	Enrico Cesenni
Organization:	Myanmar Strategic Holdings
Position:	Founder & CEO
Past:	Investment Banking @ Goldman Sachs, Lehmann Brothers
Education:	INSEAD 09D

Tell us about Myanmar Strategic Holdings (MSH).

MSH is a operator and developer of consumer businesses in Myanmar, with investments into three key sectors of Hospitality & Tourism, Education, and recently into Security services. We focus on consumer-focused assets but do so by taking bets on specific niches (e.g. budget hotels such as hostels, English training centers) and other such businesses.

Why list in the LSE rather than the SGX (Singapore Exchange) where other Myanmar corporates have listed?

Several reasons. I found it to for one be less expensive, plus I had existing connections at the London markets. Also, our LPs – family offices and institutional investors – find London to be a convenient location.

For how long do you see yourself focusing on Myanmar?

There are now over 1,200 employees working in some respect for all our target companies. I have at least a 10-15 year horizon and exiting Myanmar is not on my mind.

More than just staying, you have to become a part of the ecosystem. It's not always about chasing returns. We want to be a valued contributor to our community. For example, our hostels in say Bagan could offer in-house bicycle rentals. However, this would hurt the business of external bicycle providers, that can earn up to USD 8-10 per day from guests at our hostel. Note that our nightly rate is also around that much, maybe more, so this is not small money. But, I'd still rather help other businesses because this creates a positive ecosystem, a strong community around our businesses. This also allows us to work hand-in-hand with the local government rather than be seen as an outsider.

Even if you look at the PE industry, or CEOs or entrepreneurs, almost everyone knows each other. That community thinking is the way to do business in Myanmar.

How much of your time goes into sourcing deals vs handling operational matters in your investee companies?

60% ops, 40% business development. Sourcing deals can take as many as three years, so its important to continue building relationships.

Operational workload is huge, though. I'm involved in the key strategic decisions, e.g. expansion. I also help set up governance systems, reporting, incentive structures, employee KPIs, etc. I have businesses across Yangon, Bagan, Ngapali, among others – so of course, operational workload is a lot.

5.2. Alexandra Vanderschelden

Interviewee:	Alexandra Vanderschelden
Organization:	Delta Capital Myanmar
Position:	Director
Past:	Equity Research, CLSA
Education:	Solvay Business School, Brussels

What got you to Myanmar?

I have been in Asia since 2009 and developed an interest in Myanmar since then. While doing Equity Research based in Singapore, I had the opportunity to do research on Myanmar for institutional investors. I moved to Myanmar to join Delta Capital in early 2014.

How does Delta Capital source deals? Is it proprietary, for the most part?

Things have evolved here. When we began operations, a lot of our deal flow was through the SPA network as they had the local know-how and reach. SPA even has a BD team, so we had an agreement to work on BD opportunities together which worked well. We also saw investment opportunities that SPA or Yoma Strategic went through with and that we did not get involved in.

Over time we started working more independently and are now sourcing most deals on a proprietary basis. We do so in two ways:

(1) Ad-hoc, based on our Myanmar network,

(2) Strategically, through deep-dives on sectors we like and directly contacting companies and speaking to virtually everyone.

Myanmar is still a relatively small market, so doing (2) is possible. In conducting our market research, particularly through conversations, our goal is to understand the sector and a particular management team's track record and strategic vision.

Nowadays, we're seeing more entrepreneurs coming to us. This can either be directly, or through intermediaries like the big 4 or law firms, or selected brokers.

We often speak of it being hard to source good deals in Myanmar. It must also be hard to convince entrepreneurs to give up a stake in their company, one that's probably been in the family for decades. What has been your experience here?

The context is important. Many such companies in Myanmar have grown their business with limited external capital injection. The older generation can be harder to convince, while the 2nd or younger generation is more open. In fact, we've had situations where the younger generation actively tries to convince the older to accept third party funding.

In general, however, there's now a better understanding of what PE is. After all, local companies have experience selling shares informally to outside investors (e.g. often friends or family), so at a high-level they're used to the concept of having multiple owners. Our role is to explain what is different between funding from friends or family and the funding that we provide, and what value Delta Capital can add to their business, as well as the governance and best practice requirements we have post-investment.

We also come across interesting companies, especially in the "new sectors" (e.g. telecom, non-banking financial services) that don't have a long history, or legacy systems and (lack of) processes. These are run by overseas-educated, experienced professionals, who understand PE and our information disclosure requirements.

Lastly, with the Yangon Stock Exchange now up and running, people have a slightly better understanding of investing, equities, third-party investors, etc.

So the overall trend is positive.

We've been reading about Delta's funds; the first one was USD 50 m+, and the second was aiming for as much as USD 100 m. Is there sufficient deal volume and/or ticket sizes in Myanmar to justify this much allocation?

Short answer, yes. Let's say we have close to USD 70 m to deploy for Fund II, so that would mean roughly 6 deals to be done. We've already done two deals out of Fund II. It's public information that one of the deals was Easy Microfinance for USD 7 m, which is in the ballpark of our typical ticket size (USD 5-15 m). So the question is – can we see ourselves doing 4 deals in the next few years? I think this should be possible; in fact, we're confident. We're seeing several deals under USD 1 m which we're not focusing on, and some big-ticket deals too. For big-ticket deals we can co-invest with our LPs.

Delta Capital Myanmar has objectives to enter different asset classes beyond PE, and you've mentioned that lack of financing is a clear gap locally. Would Delta consider entering into debt provision locally?

In terms of aiming to be an asset management platform, that was our vision from Day 1. We will be adding a markets fund soon, investing into the YSX, foreign stock exchanges etc., but at the moment we have no intention on other asset classes beyond this. Debt would be rather complicated and generating returns at this stage would be difficult given regulations.

What differentiates Delta Capital from other GPs in Myanmar?

It's hard to speak for other GPs. We have a track record of operations since 2013 and learned a lot from the investments we made so far. Also, we have strong sponsors, a strategic LP base (including development financial institutions) and a fund management team based in Yangon. One example of differentiation is speed of execution; we can get a deal done in 2-3 months.

5.3. Dieter Billen

Interviewee: Dieter Billen
Organization: Roland Berger
Position: Principal and Head of Roland Berger Myanmar
Education: Harvard University, Kennedy School of Govmnt; KU Leuven

Tell us about Roland Berger's strategy consulting practice in Myanmar.

Roland Berger's first project in Myanmar was the telecom sector liberalization. Before 2013, Myanmar's telecom sector suffered from a monopoly situation, sky-high tariffs and low mobile penetration (less than 7%). Roland Berger was competitively selected to support the Myanmar government in the telecom sector liberalization. The success of the telecom sector liberalization, leading to the largest mobile penetration uptake ever recorded worldwide, provided a lot of other opportunities for us for other economic reform projects in Myanmar, including foreign bank licensing, special economic zone development, oil & gas sector liberalization, etc. Besides our work for the government, we have also advised several multinationals entering the country.

Myanmar has been a strategic focus country since 2013. But we must admit that Myanmar was not really on our radar before 2013.

How severe are data issues with companies/ organizations locally? How do you get around such issues given that consulting is such a data-driven practice?

This is a big problem for companies and investors, as statistics and data are often not available and if available, not reliable. For consulting firms like us, it actually also provides opportunities. For example, foreign investors looking to enter Myanmar but without a presence yet, find it very difficult to understand the market dynamics and competitive landscape and assess the real opportunities. Given our experience in the country, local team and network, we are able to gather and verify much more information fast. Also, new technologies provide opportunities to gather and analyse much larger datasets in Myanmar. For example, existing players like mobile operators or banks, which we have been advising, have a tremendous amount of data available, especially as more transactions happen online.

Looking at the investment environment, there was a growing sense that it will be only the regional or Asian investors looking at Myanmar, but that changed last month with Pernod Ricard's acquisition. Your thoughts on this deal? To what extent are foreign investors 'spooked' when it comes to Myanmar?

There was a strong interest in Western multinationals in Myanmar in the period 2012-2015. Companies like Telenor, GE, Ford, Visa and Carlsberg entered the market or expanded their operations in the country. Since 2016, however, we have seen a decline in interest from Western investors. Part of the drop is due to the security situation in the country. But a large part of the drop is due to a lack of clear economic policy and reforms by the government since 2016.

According to our Roland Myanmar Business Survey conducted in 2017[68], 86% of the international firms see the lack of a clear economic direction as a (very) significant challenge. It is not that companies do not appreciate the positive economic steps the government has taken. For example, the investment law and rules promulgated in 2017 are found to have had a positive impact on the business landscape. Also, the further development of the special economic zones (in particular Thilawa SEZ) and the improvement of the rule of law are seen as positive developments. Since the 2017 business survey, additional positive steps have been taken by the government, including the promulgation of the new company law, which is expected to attract international investment by allowing minority foreign ownership in domestic firms. In addition, the government has successfully stabilized and strengthened important macro-economic fundamentals, such as inflation (6.5% in 2017 compared to 10% in 2015). Despite these positive and important steps, economic progress remains disappointing. Foreign Direct Investment is declining, and GDP grew by only 7.2% in 2017, whereas double digit growth should be aimed for, especially given strong global economic growth. In comparison, China's GDP grew has risen by 10% on average since 1990. Even Myanmar's ranking on the "Ease of Doing Business Ranking" has deteriorated, from 170 to 171, despite the government's efforts to improve its ranking.

This combination of the negative press coverage Myanmar has in the international media as a result of the security and humanitarian situation, combined with a lack of clear economic direction, has reduced Western investor interest. Regional investors, especially from Japan, Singapore, Korea, China and Thailand, continue to scout or invest in the market, although also at a slower pace than was expected.

We remain optimistic about Myanmar's potential and believe that Myanmar has a fantastic opportunity to leapfrog in certain sectors, for example combining digitization with Myanmar's vast resources, such as agricultural resources.

TPG has been a rare foreign PE firm to taste success in Myanmar. Have you seen other global General Partners try enter Myanmar? Why do you feel they've been unable to do deals?

Many investors, including General Partners, have looked at the Myanmar market. But the problem is a lack of financially viable and sizable projects in Myanmar. Many traditional sectors are dominated by Myanmar groups, which are often in similar sectors, such as banking, construction, real estate, hydro power plants, mining, trading, tourism and airlines. Despite increasing cash flow issues for these groups, they have so far held onto their business units. New emerging sectors, typically in the digital space, are rapidly growing, but still small. Despite the fact that Myanmar has been on the radar for many investors and General Partners, there's often a difficulty to find attractive investment opportunities with an exit strategy.

Do you think this is the 'time to strike' for PEs in Myanmar, or would you say it might be in 3-5 years post-reforms and further economic stabilization?

Myanmar is a complex country. If you don't build up local knowledge, PE firms that are not present in the country will have difficulty spotting the few opportunities that are there now or the bigger opportunities that are likely to arise in the future.

[68] Available here: https://www.rolandberger.com/nl/Publications/pub_myanmar_business_survey.html

Let's end on a hypothetical – you have raised USD 50 m but you can only pick one industry sector to invest in. Which do you pick and why?

I would pick an industry that is less dependent on government policy and regulation, given uncertainties related to economic reforms and policies. My bet would be in food manufacturing. It's not directly dependent on government policy and demand will definitely increase. Today, most of Myanmar's food products are imported from Thailand, which is not sustainable in the long term. Domestic food manufacturing today is often sub-scale and inefficient (often family-owned small businesses with lack of capital). There are attractive opportunities to invest in larger-scale more efficient food manufacturing catering to domestic demand.

5.4. Luc de Waegh

Interviewee:	Luc de Waegh
Organization:	West Indochina Advisors
Position:	Co-Founder
Past:	British American Tobacco, Myanmar
Education:	INSEAD, 1988

You've been around in Myanmar for a long time. Your thoughts on how investors perceive the country, and how its evolved?

Since Myanmar's liberalization, we've seen lot of interesting people come to down, most with unrealistic expectations. The press has always exaggerated Myanmar – from being shown as completely oppressed, to then fully liberal. It continues to this day. Back in 2013-14 this whole "last frontier" statement sounded sexy, so everyone seemed to have rushed in with too much money, wrong expectations, and didn't realize how tough it would be. I met people coming to me with USD 200 m and asking where best to invest it. People were bullish, flying in on corporate jets. It was an extreme period. 90% have since walked away.

If you look around now, there are some four or five investors left, on the ground. Delta, Anthem, Enrico's MSH, etc. These guys are on the right track. For starters, they have an established local presence and a local office.

Have you been involved in any deals? How about on the fund-raising side?

Yes, I was involved in two deals, one quite recently. One was in spirits, the other in security services. Frankly, I decided to opt out of the fund raising side. I'm less interested in simply raising funds or playing with other people's money – more so on advising on getting deals done.

TPG has achieved considerable success locally. It's surprising however, that no other major, global General Partner has invested in Myanmar. Why do you think that is?

Two things. One, it's hard! What TPG has achieved is unique and took tremendous effort. Finding deals like Apollo, or their MDC exit, are not easy. Kudos to them.

Secondly, it's the people issue. To get things done in Myanmar, you need senior folks coming in. You need Senior MDs to deal with long-standing local entrepreneurs. You need grey hair. You can't send young analysts here, it will be much harder to succeed.

Now the big name PE firms have several deals on their plate, and frankly, with ticket sizes going into the billions in the West or China, Myanmar simply isn't prioritized by them. Would a Senior MD fly to Myanmar for a potential meet & greet, or stay in the US or Europe instead? The foreigners who've succeeded in Myanmar, if you look at the many foreigners working in PE in Myanmar, or consulting, are those that live and work here permanently. Myanmar needs commitment.

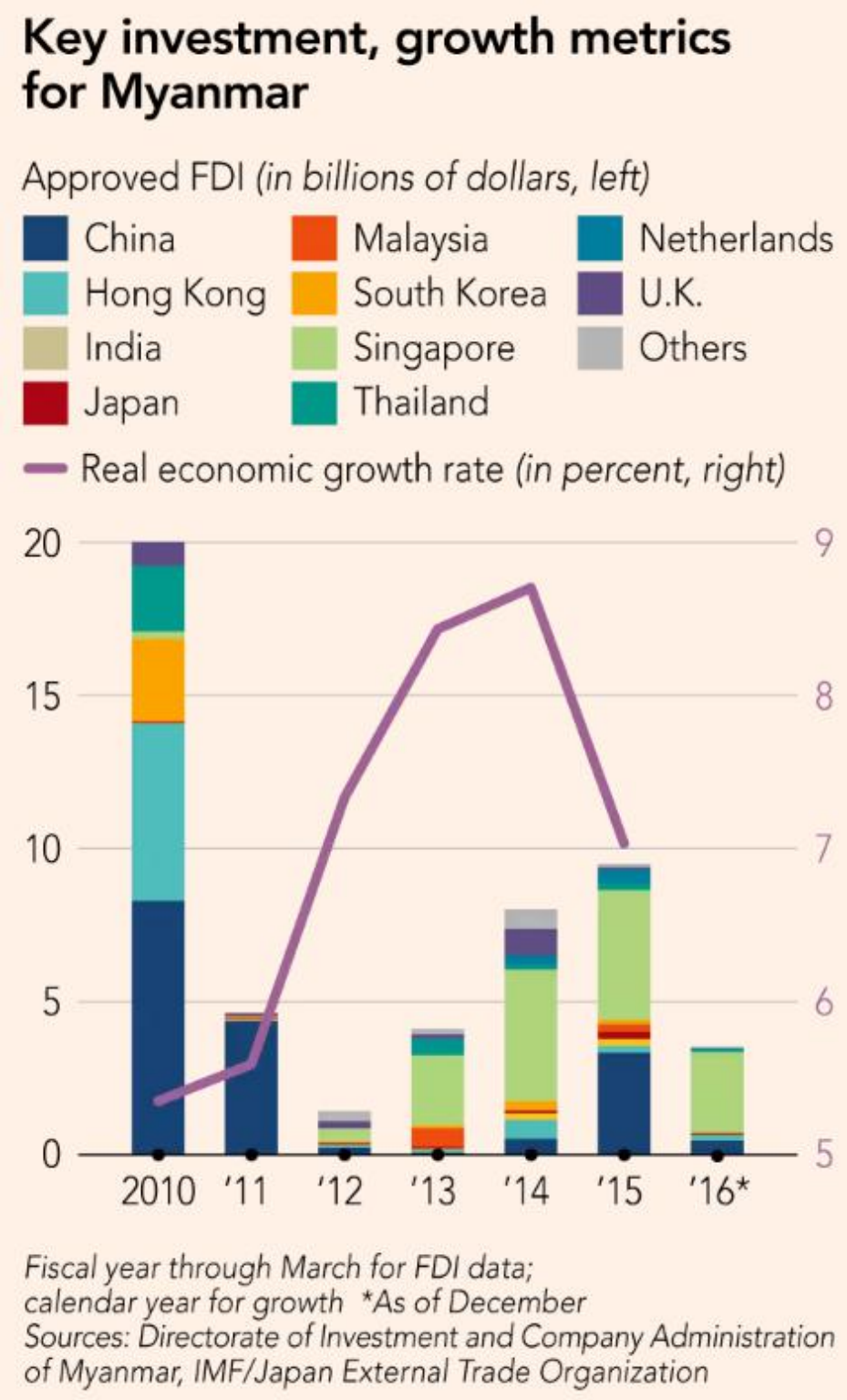
Is there a recipe for a good deal in Myanmar?

A good rule of thumb – both sides remain friends post-deal. No one side should be overly happy, and certainly no side should be unhappy.

6. Appendix

Appendix I

Figure 4: FDI growth by country into Myanmar



Source: https://www.ft.com/content/f7bda5bc-e150-11e6-8405-9e5580d6e5fb

Appendix II

FURTHER INSIGHTS: The original *big deal* – Apollo Towers Myanmar

In 2013-14, TPG took the bold step of investing heavily into Apollo Towers, a telco tower infrastructure company. The investment was the first "in the country by a Western PE firm". [69] *Below were the factors taken into account by investors into Apollo Towers (TPG followed by MIL), as described by a Myanmar PE industry watcher.*

Sector

- **Sector growth:** Back in 2015, the telecom sector was absolutely booming, so getting into towers had a no-brainer logic.
- **Sector quality:** The telco industry in Myanmar, at that time far more so than others, was considered fair & transparent. Anecdotally, Serge Pun too commented on this during the 2013 telecom licensing process.
- **Timing:** At the time of investment for the two foreign telcos were only just entering, and Telenor and Ooredoo needed support in infrastructure-building. Had Apollo tried to enter even a year later, perhaps things wouldn't have worked out.

Government angle

- **Regulatory strength:** Regulations for the tower sector, e.g. 'proximity' is closely monitored, and hence each site is made for sharing, rather than exclusive to an operator. As a result, there is high site utilization – indeed, co-location rate in Myanmar is ~2 operators per site, higher even than Indonesia which is ~ 1.8.

Management

- **Management quality:** The Apollo team, led by Sanjiv Ahuja, former Orange CEO with very high expertise in frontier markets, was world-class + combined with TPG's financial know-how and muscle, the team was as good as it got.

Exit

- **Exit options:** Lastly, several global telco operators are either in, or have expressed an interest in Myanmar (e.g. edotco, American Tower). Such companies keep the market efficient and allow for potential exit options.

[69] http://press.tpg.com/phoenix.zhtml?c=254315&p=irol-newsArticle&ID=2177629

Appendix III

FURTHER INSIGHTS (SEP 2016)*: Anthem Asia's investment into Rangoon Tea House*

Rangoon Tea House ("RTH"), an award-winning local restaurant famous – particularly among expats – for its traditional culinary recipes served with a modern twist, received funding from Anthem Asia in 2016.[70]Neither the size nor the structure of Anthem Asia's investment was publicly disclosed. Considered among many to be a must-do *port of call* for foreign visitors into Myanmar, RTH used the funds "to expand its current Rangoon Tea House restaurant and outside catering businesses as well develop new concepts and brands".

What they said (press release): Entrepreneurs behind RTH

"At Rangoon Tea House we have pioneered a forward-thinking twist on traditional Myanmar dishes – the result is food that is modern yet familiar in equal measure… With Anthem Asia as a partner, we will be able to accelerate our growth, enabling us to expand our current operations and roll out new services."

What they said (press release): Josephine Price, Co-Founder and Managing Director of Anthem Asia

"We are delighted to back founder Htet Myet Oo, co-owners such as Isabella Sway-Tin and Simon Sao, and the RTH team, and their ambitious plans to create a flagship Myanmar brand.

Deal context: Anthem Asia

RTH is one of a number of B2C and B2B investments Anthem Asia has made in Myanmar the past three years. These focus on local brands that serve growing consumer and urban demand in Myanmar.[71]

[70] https://www.dealstreetasia.com/stories/anthem-asia-invests-in-burmese-cuisine-rangoon-tea-house-for-expansion-and-outside-catering-54095/+&cd=1&hl=en&ct=clnk&gl=sg

[71] https://consult-myanmar.com/2016/09/27/anthem-asia-invests-in-myanmars-rangoon-tea-house-to-speed-up-burmese-restaurant-lifestyle-groups-growth-plans/