

Fund focus: Mekong looks to crack Vietnam's consumer code



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Mekong Capital hopes to continue its success in Vietnam's consumer sector with the \$112 million Mekong Enterprise Fund III, relying on a value creation model that is now tried and tested

For pointers on the development of Mekong Capital's investment strategy, look no further than Robert Willett and Joel Silverstein. Formerly CEO of Best Buy International and CarPhone Warehouse, Willett was brought in by the Vietnam-based GP to work with mobile phone retailer Mobile World. Silverstein, who used to run Outback Steakhouse's

Asia Pacific business, performed a similar role with restaurant operator Golden Gate. They are the two most successful investments from Mekong Enterprise Fund II.

"We now involved good outside experts in deals from the very beginning because it means we get off to a good start," says Chris Freund, founder and partner at Mekong, which recently closed its third Mekong Enterprise fund at \$112 million. "All of the companies going into our new fund - we will make some announcements soon - have really great momentum in terms of operational improvement. It is happening much faster than anything we've done in the past."

While Golden Gate was exited last year with a 9x return, Mobile World is a work in progress, although it has already come far. Mekong invested in the business in 2007 at a valuation of \$10 million when there were just seven outlets. More than 200 new store openings, an IPO and a couple of partial exits later, Mobile World has a market capitalization of around \$500 million (although due to dilutions and the partial exits, Mekong's gain is substantial but not in 50x territory).

Freund credits Willett with helping the company set new standards in Vietnam for its in-store experience. This included a trip to the UK to meet the management of CarPhone Warehouse and a fresh take on how outlets should be set up in terms of managing stock-keeping units (SKUs), identifying traffic drivers, and so on. "I'm not saying they wouldn't have done it without Bob, but when he got involved it was not a priority. He pounded the table on that," says Freund.

Golden Gate - which grew from a five-shop mushroom hotpot chain into a platform with 11 restaurant brands and 67 outlets - is another example of a consumer-retail scale play. Mekong expects more of the same in its new fund, as well as a fair number of packaged consumer products and consumer services companies. The challenge the GP faces is constructing a portfolio that delivers consistent returns, not just a couple of big home runs.

Based on the deal pipeline and the refinement of Mekong's sourcing and post-investment strategies, Freund believes the new fund will be a more stable performer. The LP base is also showing signs of greater maturity. While development finance

institutions previously accounted for much of the corpus, only two are involved this time around: the International Finance Corporation, a new investor, and return backer

FMO. Asian LPs figure more strongly than before, including one fund-of-funds with a strong presence in the region.

And while the Mekong Enterprise Fund III fell short of its \$150 million target, it is still more than twice the size of its predecessor, raised in 2006. This in part reflects a change in the mandate to include control as well as minority deals, although check sizes will be in the relatively modest \$8-15 million range. Freund notes that with one of the previous fund's investments, Vietnam Australia International School, there were opportunities to pick up additional shares, but these could not be taken.

"The business has been going well in recent years, but we might have been able to accelerate things more if we'd had control," he says. "We do see founders who are not keen on day-to-day operations and therefore willing to have someone come in and assume control while they continue as chairmen and make some new personal investments."

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