
MEKONG CAPITAL AND MOBILE WORLD (A): GROWING A US\$100 MILLION COMPANY IN VIETNAM

Andrew Delios and Markus Taussig wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Mr. Quan and I are different types of people. He is very careful, very deliberate. He prefers for a child to develop step by step: first to sit up, then stand, then learn to walk. But, no, I don't like that. I want the child to "go go go!"—even though it may fall down a lot along the way . . . and need to figure out how to stand up again.

Nguyen Duc Tai, co-founder of Mobile World

In the beginning, we had our differences, but the challenge was so big, so we made things work. But as our business grew, the contradictions began to grow as well . . . I wanted to go slowly, Tai wanted to attack the market, because—if we didn't—someone else would and we would lose the opportunity.

Tran Le Quan, co-founder of Mobile World

The two largest of the five co-founders each brought something different to the table. They did not always agree, but they pushed each other to achieve through their competitive tension, like John Lennon and Paul McCartney of the Beatles.

Chris Freund, founding partner of Mekong Capital

In June 2009, the co-owners of Vietnamese mobile phone retailer Mobile World Joint Stock Company (Mobile World)¹ were in heated discussions. Mobile World chief executive officer (CEO) Nguyen Duc Tai was making an impassioned point to Chris Freund, the founding partner of the Vietnam-focused private equity (PE) firm Mekong Capital (Mekong). "There was a lot of yelling, which was not normal," said Freund. "It was the only board meeting I've ever had in Vietnam like that." Freund had pushed back against an aggressive new human resources incentive initiative proposed by Tai. Freund feared the plan would give away too much of the owners' future earnings to store managers and middle managers. This resistance was frustrating to Tai, who had spent the previous months carefully working through the logic of his vision with Mekong's board representative Mai Hoang Phuong.

¹ *Thế giới Di động* in Vietnamese.

However, tensions did not just exist between the Vietnamese founders and foreign PE investors. In fact, when Mobile World's chair of the board Tran Le Quan (Quan) stood with Tai on the incentives plan, it represented a rare moment of unity between the two. The brothers-in-law, who were Mobile World's primary two co-founders, had differing views about how aggressively to expand the business. For example, Tai preferred to use Mekong's May 2007 injection of US\$3.5 million²—for a minority stake of 35 per cent—to finance a rollout of new stores that took the company from seven stores to 32 in just over a year.

The new store openings were abruptly halted at the end of 2008 amid a brutal combination of difficult domestic economic conditions and the natural trials of a fast-changing, hyper-competitive industry (see Exhibit 1 and Exhibit 2). At the same time, Mobile World's management was struggling to keep pace with Mobile World's own rapid growth while still experimenting with its core business model. Consequently, 2008 was the first year the company ended up "in the red." To his chagrin, Tai had to shut down seven stores and, just before the 2009 Lunar New Year, ordered his deputies to carry out across-the-board layoffs. In Vietnam, this action was akin to a round of firings at Christmas in the West.

A silver lining to the dissention between Mobile World's owners was that it was borne from a shared belief in the company's enormous potential. Freund was confident in the core team and in the exciting commercial opportunity (see Exhibit 3). However, what could he and his team do to add value in the face of these internal and external challenges?

THE VIETNAMESE ECONOMY IN 2009

In the 1980s, Vietnam was one of the poorest countries in the world. Its military forces occupied Cambodia to the west and were engaged in hostilities with China, its giant neighbour to the north. As a remnant of the U.S. involvement in the Vietnamese civil war, which ended in 1975, Vietnam was still under a trade embargo with most advanced countries in the world. In 1988–89, widespread famine led tens of thousands of "boat people" to escape to camps in other Southeast Asian countries. Many who left represented the country's scarce remaining educated and entrepreneurial elite. At the same time, the beginning of the end of the Soviet bloc meant dwindling support from old political friends. The events in Tiananmen Square further compounded stress in Hanoi. In response, the country's leadership initiated its Doi Moi transition from Marxist-Leninist central planning to a market economy.

Although still governed by the same authoritarian and nominally communist government, Vietnam had become a middle-income country by 2009.³ A significant marker of economic progress was the country's January 2007 ascension to the World Trade Organization (WTO). Joining the WTO underscored Vietnam's potential to follow the path of other export-oriented East Asian Tigers such as Singapore, Hong Kong, Taiwan, and South Korea, and thereby improve both domestic and foreign investor sentiment. Even before this move, Vietnam's stable environment and youthful and educated demographics had made it a leading global source for labour-intensive manufactured goods like shoes and garments, as well as key agricultural commodities like rice, coffee, and rubber. The country was emerging as a core production hub for major brands such as Nike, Levis, and IKEA. A new law implemented in 2000 drastically reduced the costs of setting up a company. The law resulted in a quarter million new domestic firms.

These factors contributed to the rapid growth of Vietnam's stock market. Formed in 2002, the stock market's valuation grew from less than one per cent of gross domestic product (GDP) in 2005 to a peak of

² All currency amounts are in US\$ unless otherwise specified.

³ The Vietnamese Communist Party (VCP) had had a monopoly on power in a united Vietnam since 1975. As in China, the VCP continued to claim to oversee a "socialist-oriented market economy."

30 per cent of GDP in May 2007. This strong performance facilitated a long-awaited first round sell-off by the government of its shares in state-owned enterprises to private investors. Vietnam's banking sector was also experiencing unprecedented economic development. It was characterized by rising foreign direct investment, the emergence of privately owned domestic banks like Asia Commercial Bank (ACB) and Sacombank, and rapid growth of bank lending to the domestic private sector.

However, as with the financial crisis that had hit Thailand a decade earlier, cracks began to emerge. There were concerns about government controls on the currency, a ballooning trade deficit, massive investments in real estate, and a spike in inflation. Inflation, especially on food prices, put pressure on wages that led to worker strife and strikes, even though strikes were still illegal.

These social and economic pressures caused major concerns for the government. To ease growth pressures, Vietnam's central bank sent out strict instructions in early 2008 for all banks to significantly curtail their lending, especially to the domestic private sector. At the same time, even with the global financial crisis not yet at full strength, the stock market rapidly lost value. By mid-2008, stock market capitalization had fallen back down to less than 10 per cent of GDP.

FOREIGN PRIVATE EQUITY PERSPECTIVE

Vietnam's Private Equity Industry in 2009

In late July 2008, after months of negotiations, Vietnam-based Indochina Capital was stripped of control over its PE fund due to poor performance.⁴ With the global economy now in a full crisis of its own, the favourable view investors had of Vietnam was clearly fading. They now recognized what had been true all along: Vietnam was a tumultuous emerging market. It had an authoritarian and corrupt government, unpredictable property rights, a lack of contract enforcement, and an abundance of culturally justified, non-transparent, and short-sighted business practices in its leading local companies, many of which were family owned.⁵

None of this was news to Freund, who was a grizzled veteran of Vietnam's business environment. For him, these market flaws had always been central to the core value proposition of emerging market PE and the Vietnam opportunity.⁶ PE firms in emerging markets added value to their investees through their superior abilities to overcome inefficient local markets for resources such as investment capital for growth, working capital, and niche technical expertise. Based on this rationale, PE investment in emerging markets had grown to over \$60 billion in 2007 (see Exhibit 4).

Still, there were many skeptics about emerging market PE. To them, the overlapping global and domestic market crashes spelled doom for PE firms like Mekong and its investments in companies like Mobile World. The cynic's ideal model for emerging market PE was a Vietnamese deal signed in October 2006. PE giants Texas Pacific Group and Intel Capital made a global splash with their \$36 million co-investment in Vietnam's partially state-owned telecommunications company (telecom) Corporation for Financing and Promoting of Technology, more commonly known as FPT. After listing FPT on the local stock market in August 2007, they rushed to cash in on a terrific four times return on their investment. Thus, they avoided the crash that began at year's end. Local critics lamented that these strategic investors had simply cashed

⁴ "New JV To Be Set Up to Manage Indochina Capital Vietnam," New Vietnam Corporate Company Business Registration Incorporation, accessed June 20, 2016, www.vnbusinessreg.com/jv-set-manage-indochina-capital-vietnam.

⁵ Geoffrey Cain, "The End of the Vietnamese Miracle," *Foreign Policy*, July 11, 2012, accessed April 26, 2018, <https://foreignpolicy.com/2012/07/11/the-end-of-the-vietnamese-miracle/>.

⁶ Markus Taussig and Andrew Delios, "Unbundling the Effects of Institutions on Firm Resources: The Contingent Effect of Being Local in Emerging Economy Private Equity," *Strategic Management Journal* 36, no. 36 (December 2015): 1845–1865.

in on their global reputations with over-exuberant investors, while doing nothing to fundamentally improve FPT's strategy or its operations.⁷

Mekong Capital

Mekong Capital was headquartered in Ho Chi Minh City (HCMC). Its strategy was to grow with the fast-growing Vietnamese economy by investing in companies that were committed to developing strong management teams founded on best practices. These companies needed clear plans to expand quickly. Most Vietnamese industries were characterized by considerable fragmentation, offering opportunities for growth by becoming a market leader that consolidated markets. Mekong sought to facilitate the expansion of its investees by building the strength of the management team, introducing best practices, using outside experts to introduce best practices, and improving competitiveness through improvements in operational efficiency.

Mekong's sole founding partner was Freund. He first came to Vietnam in 1994. In February 1994, the United States ended its trade embargo with Vietnam, which had run since the end of the war in April 1975. Freund arrived as the first employee of Templeton Asset Management Ltd. (Templeton) in Vietnam, working under the famous emerging markets investments guru, Mark Mobius. His work with Templeton ultimately covered Vietnam, South Korea, Taiwan, and Israel.

In 1999, Freund started co-operating with a World Bank Group program called the Mekong Private Sector Development Facility, and the Asian Development Bank. Together, they worked on a study of the feasibility of a PE fund aimed at providing growth capital to high-potential firms in Vietnam and neighbouring countries.

Freund incorporated Mekong Capital in March 2001. Its first fund was the Mekong Enterprise Fund (MEF), which was launched in April 2002 at a value of \$18.5 million. MEF made 10 investments in the 2003–2005 period. The investments targeted export-oriented manufacturers founded by first generation entrepreneurs and run as family businesses. Examples included furniture and garments exporters, such as AA Corporation and Minh Hoang, as well as Saigon Gas Holdings Corp., which provided liquefied petroleum gas to commercial and residential users.

A major challenge for Mekong with its investees was that the family managers in investees often made key decisions based on short-term considerations without consulting Freund and his team. Even agreed-on changes were implemented slowly, with key management positions being reserved for trusted family members. These aspects of company management stemmed from their reluctance to fully share internal information with non-family shareholders. The problems persisted for long-term planning for growth. Investees resisted pressure to formalize a strategy process aimed at setting ambitious annual and long-term targets.

This environment did not bode well for the standard PE goal of making returns through an exit on the stock market or a trade sale. However, it was fine for most founders, who still had visions of keeping the company within the family. As a result of these challenges and the difficult global conditions, it was not until December 2008 that Mekong exited its first investment, selling its shares in Saigon Gas to Total Group, the French oil and gas giant.⁸

⁷ Quan-Hoang Vuong, *Financial Markets in Vietnam's Transition Economy* (Saarbrücken: VDM Verlag, 2010), 221–222; Nancy K. Napier and Quan-Hoang Vuong. "Getting to the Real Story: What Vietnamese Business People Wish Foreigners Understood about Doing Business in Emerging and Transition Countries Like Vietnam—before They Start," *International Journal of Human Resources Development and Management* 11, nos. 2–4 (2011): 208–220.

⁸ "Saigon Gas," Mekong Capital, accessed June 20, 2016, www.mekongcapital.com/en/investments/saigon-gas.

Mekong raised two additional funds during this period. The first was the Mekong Enterprise Fund II, a \$50 million fund launched in 2006. It was through this fund that Mekong invested in Mobile World, alongside its investments in nine other Vietnamese firms. The idea behind the fund was a strategic shift toward domestically-oriented, consumer-driven businesses. This shift involved consciously turning to the young generation of local entrepreneurs who had grown up under Vietnam's market reforms. This new generation had a modern and transparent perspective on business management and strategy.

In mid-2007, with the stock market at its apex, Mekong launched a \$64 million fund—the Vietnam Azalea Fund. This fund targeted firms with plans for a public listing within the next two years. The fund comprised 10 deals, including a May 2009 investment in Masan Food Corporation, a leading domestic producer of sauces, seasonings, and instant noodles.

With these three funds, Mekong became a larger and more complex organization. Problems soon arose with an organizational structure that relied on Freund, as the sole partner, to micro-manage everything in a top-down manner. After taking leadership courses in 2007, Freund enacted a major organizational restructuring in 2008. He brought in additional management-level talent and used training to cultivate leadership capabilities in key employees. In Freund's own words: "It's like executive coaching. You don't tell people what to do, you want them to set their own goals. You want them to generate what actions they're going to take. But you want to choose coachable clients."

The goal was to better manage Mekong's rapid growth by ensuring that its representatives were competent, and empowered to work directly with portfolio companies to make and take personal responsibility for key strategic decisions. This process was far from easy, with multiple managers deciding to leave Mekong amid the changes.

BUSINESS OPPORTUNITY

Mobile Phones in Vietnam

Mobile phones were as popular in Vietnam as in other major Southeast Asian economies, Year-on-year growth was strong (see Exhibit 2). Much of this growth was in rural areas, where traditional telephone infrastructure was poor. A surprising number of Vietnamese owned multiple mobile phones.

That said, the 33 per cent growth in 2008 represented a fourth consecutive year of slowing growth in mobile phone sales. Furthermore, per unit prices were sliding, having fallen 32 per cent since 2004. The market leader was Nokia, which had approximately two thirds of the market at that time. Nokia used its market power to distribute benefits across the value chain. After paying intermediaries, only 7–8 per cent of the price of a phone went to retailers like Mobile World.

However, Nokia was coming under pressure from new competitors and innovation. There was a relentless flow of new models, even as customers were slowing the speed with which they replaced their old phones. These new models did not yet include smartphones, as the Vietnamese government had announced in early 2008 that it would be granting a license for the country's first 3G service sometime in 2009.⁹ Furthermore, smartphones were expensive. Due to limited supply, the typical retail price in Vietnam for Apple's first iPhone approximated the country's average annual per capita income.

⁹ "Mobile Phone, Internet Boom," Vietnam News: Economy, updated January 3, 2008, accessed June 20, 2016, <http://vietnamnews.vn/economy/172569/mobile-phone-internet-boom.html#csxLraloIHJpcWDD.97>.

Demand for mobile phones was primarily met by a retail network of small local stores, commonly referred to as mom-and-pop shops, run out of the sidewalk-facing fronts of people's homes. HCMC had 10,000 such shops in 2004, or one shop for every thousand residents. Mom-and-pop shops accounted for essentially all the demand in Vietnam's expansive countryside. This system emphasized convenience, but competition was intense. The shops ran on low margins, and service was secondary to price leadership. The typical shop was a small family business led by a stay-at-home parent. Fake products, especially for batteries, proliferated in this market.

Mobile World was one of four mobile phone retail chains in the country. One of the others was the more experienced and family-owned Vien Thong A Import Export Trading Production Corporation, which had approximately 50 stores in 2009. The remaining two competitors were both affiliated with the state. One was the deep-pocketed, partially state-owned, and highly diversified FPT. The other was Viettel, owned by the Ministry of Defence. Their political connections gave them a major advantage in Vietnam's murky real estate market, which enabled them to take the lead in the number of mobile phone stores.

Viettel had its own chain of shops but was notorious for under-management of these shops. The chain had proprietary rights for Apple in Vietnam but rarely, if ever, had any Apple products on display. The stores often had their lights out, presumably to save electricity costs. Customers would be greeted by brand-specific promotional girls rather than sales staff from the store who could give objective advice. Decision making was slow in these types of government-owned companies. Management set low growth targets, with a stronger focus on job security and personal gain than on corporate gain.

Mobile World

Mobile World was founded in March 2004 as Mobi World.¹⁰ The core business concept was developed in a series of discussions between Quan and Tai in a central upscale coffee shop beside HCMC's famous opera house. According to Quan, the original idea was to build an e-commerce business, financed by the sale of mobile phones. The two brothers-in-law had both worked with foreign multinationals in HCMC. Characterizing the partnership, Tai said,

Quan was the one who kept the customers happy. Thinking about how to stop their anger. You know, you buy a phone for \$1,000 and something goes wrong. . . . to take that kind of customer and turn them from angry to a happy customer, this is a difficult thing. He's the one who did this. . . . I was the finance, sales, and marketing guy, paying attention to buying and selling.

Dinh Anh Huan (Huan) was brought in to help with technology issues. "He was very high energy, willing to do whatever you want him to do," said Tai, describing Huan in the early days. "I considered him a bit of a deputy for me." Like Tai, Huan proved to be most interested in the business side, so the team next added Dieu Chinh Hai Trieu, another young acquaintance who had recently graduated from college with an information technology degree. The final founder was Tai's old classmate Tran Huy Tung (Tung), who was brought in toward the end of 2004 to straighten out the firm's finances. Tai had wanted to bring Tung in earlier, but the latter was hesitant to give up the nearly \$700 per month he received in his director position with Japanese multinational Mabuchi for the approximately \$150 per month Tai was offering him for an executive position with his start-up.

The firm's operations began in June 2004. The initial start involved three modestly sized (20 square metre) stores. They were situated on small side streets in equal distance from one another in a triangle meant to

¹⁰ *Thế giới Mobi* in Vietnamese.

strategically optimize proximity for relatively well-to-do downtown HCMC consumers. The firm also had an advertising website (www.thegioimobi.com). As Tai described it, “online was the cheapest way for us to reach our customer. . . . We didn’t have the money to put advertisements in the newspaper.” The website reported up-to-date prices so that consumers knew the price they would encounter when they went to any of the three stores. The website also provided substantial information about products to help consumers make more informed decisions about their purchases. These features were popular, leading to significant online traffic, even in these relatively early days of Vietnam’s Internet.

However, website traffic did not convert to brick-and-mortar sales. Tai remembers seeing people pull up on motorcycles, eye the store, and then ride off. The founders soon figured out that customers drawn in by their website came with an expectation of a unique retail experience but were disappointed to encounter stores that looked too similar to the mom-and-pop shops they could find on any street in the city. “On the website, you look so professional!” Tai remembers a man telling him outside one of the first stores.

In response, the founders closed the three stores down, forfeiting their initial investment capital of \$13,000. A month later, in October 2004, they pooled their remaining savings of nearly \$50,000 to open a single, modern-looking store on a major shopping street in downtown HCMC. To be able to afford this price, they situated the store on the cheaper left side of the street, which required motorcycles to squeeze past cars and trucks to park on their sidewalk. The new store was 15 times the size of the original three stores at nearly 300 square metres. To further differentiate from mom-and-pop shops, the founders engaged in a variety of ostentatious but inexpensive marketing campaigns, including lotteries and free flowers on Women’s Day.

In late 2006, the business was renamed Mobile World. By 2007, on the eve of Mekong’s investment, the firm had grown to become a seven-store chain operating in HCMC and Hanoi, the country’s capital. Some of the stores had diversified into selling laptops, MP3 players, and other related consumer electronics. After a half year of negotiations and due diligence, the founders and Mekong agreed on a generous post-investment valuation of \$10 million (pre-investment valuation was \$6.5 million) for the company. With the rapid expansion to nearly 40 stores that followed, total revenue reached \$92 million in 2008, having tripled in 2006, and doubled in 2007 and 2008 (see Exhibits 6 and 7).

Tai described how a crucial factor in his original decision to select Mekong from the multiple PE firms looking to invest back in 2007 was Freund’s commitment that it would not seek to usurp his leadership:

Other people said, “Okay, I’m going to put my guy in and they are going to work with you.” But I feel like, what do they know about how to open a new store in Vietnam? How can we work together? With Mekong, I got that they were willing to help in whatever way we needed; otherwise they would not interfere.

This perception of Mekong’s contribution aligned with Freund’s evolving perspective on how PE firms could aid their investee firms to grow.

Freund commented:

When we first worked with investee companies, we gave explicit advice, which the founders seldom followed. By 2007, we had learned how to do this better. We adopted the tactic of asking the founders questions that led them to the solution, which we could have provided to them directly. For Mekong, one example was to have them create a five-year vision. Instead of giving them our own ideas of what is possible for their future and trying to persuade them, we encouraged them to spend a lot of thought and effort to develop a five-year vision that they truly owned and were

aligned around delivering. This helped to give the founders a sense of where they needed to go, with a shared idea of their long-term goals. We weren't interfering directly in the process; rather, we created a structure and coaching that enabled them to do this themselves.

Under Tai's leadership and Mekong's guidance, Mobile World made good progress on the key components Mekong had identified for determining its portfolio companies' ability to achieve their long-term goals (see Exhibits 5, 6, and 7). Its founders accepted Mekong's assistance in identifying three new managers. These managers helped the firm professionalize its handling of sales, marketing, and human resources, and thereby contributed fundamentally to the company's development. Two of the managers progressed to the most senior leadership positions in the company and eventually joined the board of directors. The third served as the marketing director.

Most important to Freund was the degree to which the Mobile World entrepreneurial team, led by Tai, showed ambition. Mekong was pushing each of its portfolio companies to think big. Tai had announced "the 10,000–500 dream"—a commitment to become a company of VND10,000 billion in revenue and VND500 billion in profit within five years (i.e., by 2014).¹¹

Nevertheless, in reality, times were tough for Mobile World in 2009. Tai believed this was largely due to the broad economic slowdown. According to Tai, "the whole market was affected. In the bad times, customers keep their phones for a longer time." Freund disagreed that this should influence company plans, saying, "I mean, sure, asset valuations go up and down, like the stock market and real estate, but consumer spending never had a bad year since I've been here. It's always grown every year." Ultimately, Freund went along with the founders' plan to retrench.

All parties agreed that Mobile World's struggles were also due to company-specific factors. "Frankly speaking," admitted Tai, "managing 30 plus stores was much more challenging than managing just several, especially since some were now far away, no longer in the same city. So, these were new problems that we had to build solutions for." Although the firm had invested early, in terms of time, money, and effort, in the development of an enterprise resource planning system, there was a need to strengthen the company's backend technology solutions.

Furthermore, even as it grew, the firm's margins remained extremely tight. These tight margins were the result not only of the earlier-mentioned distribution of margins to intermediaries across the distribution chain, but also the constant inflow of new models, which led to rapid depreciation of the value consumers put on in-stock models.

A natural consequence of tight margins was that Mobile World, under Tai's continued leadership, moved toward increased hard selling to consumers of products that were over-represented in the firm's inventory. These products included higher margin but lower quality Chinese phones. Quan, the former customer service manager, saw this practice as a dangerous threat to the firm's reputation: "Whenever there was a new product, our salespeople had targets to meet. That led to hard selling customers to buy particular types of products, and as competition grew, we started to lose customers. . . . This was part of what forced us to suspend our expansion toward the end of 2008."

Losses and layoffs added to ownership tensions, but differing opinions had existed nearly from the start. An early conflict occurred around the legality of the firm's human resource policies. Tai had realized that the norm of allowing sales employees to close shop when they went out to lunch for an hour or when they returned home for dinner with their family meant that the shops were closed at prime shopping times for

¹¹ VND = Vietnamese dong; VND1.00 = US\$0.0001 on March 31, 2009.

their target market of young professionals. In response, he mandated that all stores would stay open over lunch and stay open until 8:00 p.m. There were no shifts. Tai noted: “I was requiring our workers to work longer than the law allowed. Quan was not happy with these decisions, and as CEO at the time, he was the one who was legally most exposed. As the sales and marketing guy, I made so many decisions so that we would grow the business in the right way.”

Finally, there was the conflict between the co-founders and Freund over Tai’s plan for incentivizing middle managers, including individual store managers. According to Tai:

I struggled to understand, why do only a few people at the top work very hard to make this company very big in the future? For us, the company is the future, but for many managers it was just a job. There is a very big difference between a future and a job. So, I asked myself, how can I change things in this company? If only the other owners and I are really trying to grow the company, it’s not as powerful as a few hundred people working together to grow the company. We needed to do something, I needed to change myself and the way the company was operating.

Freund was also looking farther ahead. He was bullish about Mobile World’s potential, despite its rough patch. As a result, he worried about introducing a profit-sharing scheme that shareholders might regret as being too generous once profits returned.

DECISION

As 2009 passed its midpoint, Mobile World and Mekong were both struggling to manage the challenges of rapid internal growth amid difficult external headwinds. Tensions were boiling over around how to manage the firm’s growth. Furthermore, nearly two years into the Mobile World deal, the clock was ticking on taking further action to maximize the company’s value before Mekong exited and returned money to the fund’s investors.

Could Mekong, a foreign PE firm, find a way to smooth relations between the feuding Mobile World founders and mobilize them behind a common focus on company goals? What advantages would Mobile World need to develop to be able to grow successfully and match its vision to become the country’s largest chain retailer of mobile phones and consumer electronics? What competitive advantages, beyond the capital it had already supplied, could Mekong help grow in Mobile World to reignite rapid growth? Alternatively, was it time for Freund to quietly shift his attention to maximizing returns on the investments that Mekong had made after Vietnam’s market collapse?

EXHIBIT 1: VIETNAM'S ECONOMY (1999–2008)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Population Statistics										
Population (millions)	76.6	77.6	78.6	79.5	80.5	81.4	82.4	83.3	84.2	85.1
Labour force (millions)	40.3	41.3	42.4	43.3	44.3	45.3	46.3	47.1	48.0	49.0
Population in urban areas of 1 million+ (% of total population)	8.9	9.1	9.4	9.7	10.0	10.3	10.6	10.9	11.2	11.6
Life expectancy at birth, total (years)	72.9	73.1	73.4	73.6	73.8	74.0	74.1	74.3	74.5	74.7
Female literacy rate (ages 15+)	86.9	86.6								
Male literacy rate (ages 15+)	93.9	93.9								
GDP Statistics										
GDP (current US\$ billion)	28.6	33.6	35.3	37.9	42.7	49.4	57.6	66.4	77.4	99.1
GDP growth (annual %)	4.8	6.8	6.2	6.3	6.9	7.5	7.5	7.0	7.1	5.7
GDP per capita (current US\$)	374.0	433.0	449.0	477.0	531.0	607.0	699.0	797.0	919.0	1,165.0
GDP per capita growth (annual %)	3.2	5.4	4.9	5.1	5.7	6.3	6.3	5.8	6.0	4.5
Monetary and Finance Statistics										
Inflation, consumer prices (annual %)	4.1	-1.7	-0.4	3.8	3.2	7.8	8.3	7.4	8.3	23.1
Deposit interest rate (%)	7.4	3.7	5.3	6.4	6.6	6.2	7.1	7.6	7.5	12.7
Domestic credit to private sector by banks (% of GDP)	28.2	32.7	36.4	39.9	44.8	54.0	60.5	65.4	85.6	82.9
Trade Statistics										
Current account balance (% of GDP)	4.1	3.3	1.9	-1.6	-4.5	-1.9	-1.0	-0.2	-9.0	-10.9
Exports of goods and services (% of GDP)	50.0	50.0	51.0	50.6	52.5	54.9	63.7	67.7	70.5	70.3
Equity Investment Statistics										
Foreign direct investment, net inflows (% of GDP)	4.9	3.9	3.7	3.7	3.4	3.3	3.4	3.6	8.7	9.7
Portfolio equity, net inflows (current US\$)							115.0	1,313.0	6,243.0	-578.0
Market cap of listed domestic companies (% of GDP)										9.6
Stocks traded, total value (% of GDP)										7.1

Note: GDP = gross domestic product

Source: "World Development Indicators," The World Bank, accessed September 6, 2016, <http://data.worldbank.org/data-catalog/world-development-indicators>.

EXHIBIT 2: MOBILE PHONES AND CONSUMER ELECTRONICS IN VIETNAM (2002–2008)

	2002	2003	2004	2005	2006	2007	2008
Mobile Phone Statistics							
Mobile phones, units sold (thousands)	198.3	366.0	876.8	1,695.8	2,872.2	4,295.9	5,718.5
Mobile phones, per unit price (VND)	6,274,890.0	5,389,503.0	4,694,258.0	4,074,616.0	3,634,161.0	3,425,342.7	3,187,088.0
Mobile cellular subscriptions (thousands)	1,902.4	2,742.0	4,960.0	9,593.2	18,892.4	45,024.0	74,872.3
Mobile cellular subscriptions (per 100 people)	2.3	3.3	5.9	11.3	22.0	52.0	85.7
Consumer Electronics Statistics (000s of units sold)							
Consumer electronics	966.9	1,381.8	2,253.1	3,509.4	5,232.3	7,283.4	9,259.7
Computers and peripherals	160.9	258.3	416.1	617.2	849.9	1,103.5	1,314.8
In-car entertainment	3.0	5.2	8.7	15.4	23.9	31.4	39.2
In-home consumer electronics	512.5	650.8	830.0	1,023.0	1,241.4	1,488.3	1,679.8
Portable consumer electronics	290.5	467.5	998.3	1,853.8	3,117.0	4,660.3	6,225.9
Consumer Electronics (VND per unit)							
Consumer electronics	6,603,692.3	6,324,891.0	5,903,868.0	5,445,522.9	4,964,076.5	4,631,193.0	4,377,219.4
Computers and peripherals	9,427,643.0	9,247,322.7	9,334,514.7	9,248,634.8	8,812,987.0	8,071,032.6	7,881,617.2
In-car entertainment	7,752,868.7	7,849,549.1	7,238,713.4	6,598,615.4	6,194,046.4	5,736,783.5	5,448,160.5
In-home consumer electronics	5,994,863.5	5,798,867.9	5,515,229.0	5,353,718.9	5,251,965.8	5,345,442.4	5,381,850.0
Portable consumer electronics	6,101,954.7	5,425,081.5	4,785,641.4	4,220,396.5	3,790,493.1	3,581,148.4	3,359,353.1

Note: VND = Vietnamese dong; VND1.00 = US\$0.0001 on January 1, 2008.

Source: "World Development Indicators," The World Bank, accessed September 6, 2016, <http://data.worldbank.org/data-catalog/world-development-indicators>; "Mobile Phones in Vietnam," Passport, accessed September 6, 2016.

EXHIBIT 3: BIOGRAPHIES OF MOBILE WORLD'S CORE FIVE FOUNDERS**Nguyen Duc Tai**

Tai was born in 1969. He earned his Bachelor of Arts degree in finance and accounting from the University of Economics in Ho Chi Minh City and, in 1995, his Master of Business Administration degree from the Centre Franco-Vietnamien de Formation à la Gestion—CFVG (the French-Vietnamese Center for Management Education). After a number of entrepreneurial ventures, including in Ho Chi Minh City's booming real estate industry, Tai spent the two years before Mobile World as head of the strategy department at S-Fone, a joint-venture between Saigon Postel Corp. and South Korea's SK Telecom Co. Ltd., which became Vietnam's third mobile network in 2003. He has held key positions in Mobile World in finance and accounting, marketing, logistics, store network development, and executive management. He took over as chief executive officer in 2007, shortly after Mekong Capital invested in Mobile World.

Tran Le Quan

Quan was born in 1960. He graduated with a Bachelor of Science degree in telecommunications engineering. Before Mobile World, he spent almost eight years with Sony Ericsson, rising to head of customer service for Ho Chi Minh City. This background in the mobile phone retailing business and working to maintain the satisfaction of mobile phone customers was crucial for the design of the Mobile World store concept and layout. Quan served as chief executive officer of Mobile World from the start until 2007.

Dinh Anh Huan

Huan was born in 1980. He graduated with two bachelor degrees from two universities in Ho Chi Minh City, one in engineering from the Institute of Post and Telecommunication, and one in computer science from the University of Polytechnics. He was the third founding member of Mobile World, joining as the business development director.

Dieu Chinh Hai Trieu

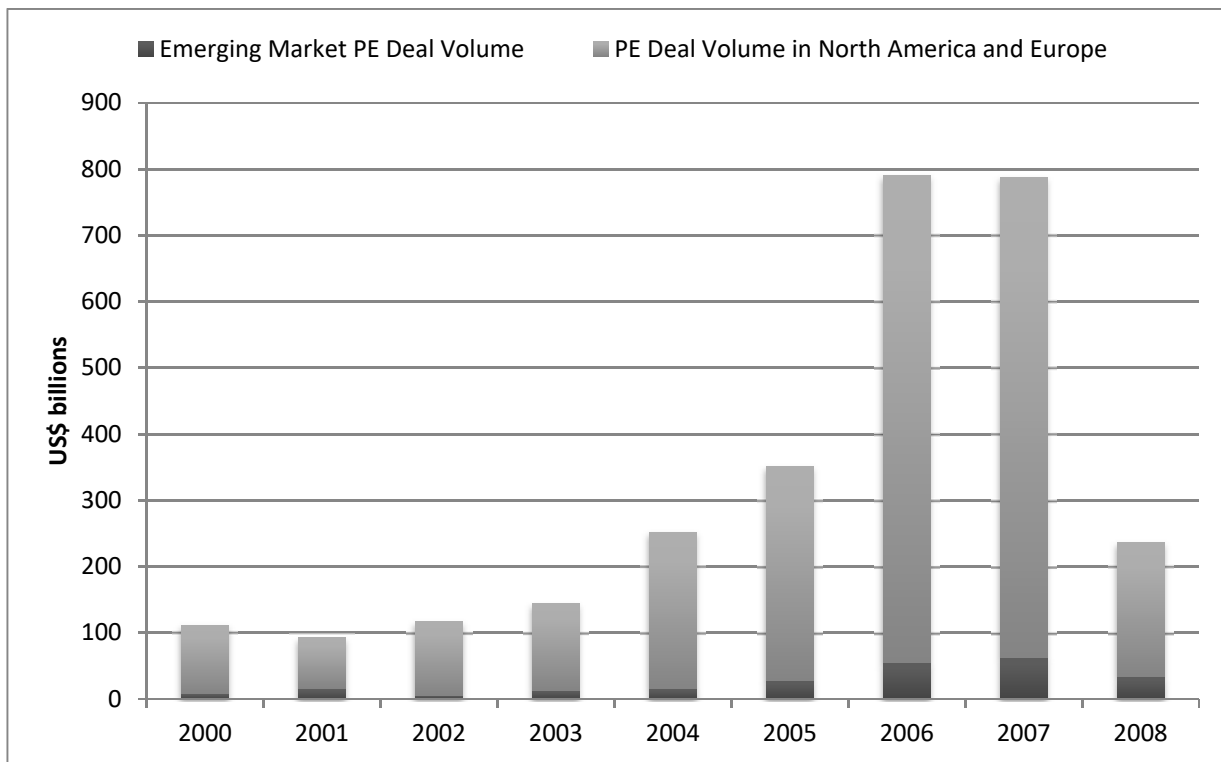
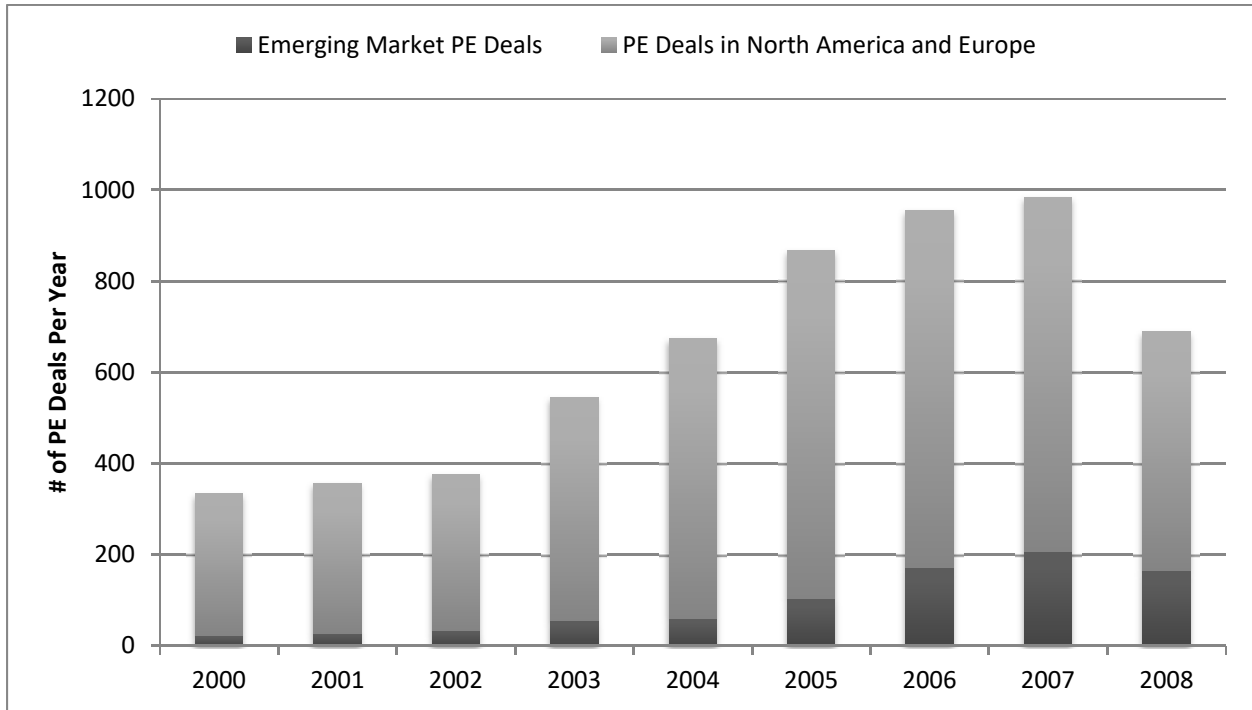
Trieu, born in 1980, graduated from the University of Natural Sciences, majoring in information technology. He set up the initial platform for Mobile World's information system, serving as the information technology director. He was the last of the four original founders present when Mobile World first began operations.

Tran Huy Thanh Tung

Tung was born in 1970 and was a classmate of Tai when he earned his Bachelor of Arts degree in finance and accounting from the University of Economics in Ho Chi Minh City. Before Mobile World, Tung was chief accountant for the Mabuchi Motor Vietnam, a 100 per cent Japanese-owned company manufacturing electric motors. Tung was the last of the five founders to join Mobile World, when he was brought in as the chief financial officer toward the end of 2004.

Source: Company documents.

EXHIBIT 4: GROWTH OF EMERGING MARKET PRIVATE EQUITY, 2000–2008



Source: The Boston Consulting Group and IESE Business School, *New Markets, New Rules: Will Emerging Markets Reshape Private Equity?* November 2010, accessed September 6, 2016, www.bcg.com/documents/file64907.pdf.

EXHIBIT 5: MOBILE WORLD'S FINANCIAL STATEMENTS, 2005–2008 (IN VND MILLIONS)

	2005	2006	2007	2008
Average exchange rate in year (VND per US\$)	15,879	16,000	16,010	17,400
Total Net Revenue	87,937.38	348,410.69	820,722.35	1,533,791.75
Growth rate (%)		2.96	1.36	0.87
Revenue from sale of goods	87,937.38	336,826.03	812,008.75	1,520,561.79
Growth rate (%)		2.83	1.41	0.87
Online revenue	0.00	0.00	0.00	0.00
Service revenue	0.00	11,584.67	8,713.60	13,229.96
Growth rate (%)			-0.25	0.52
Cost Of Goods Sold	80,755.60	321,445.78	764,659.67	1,416,747.22
Gross Profit	7,181.78	26,964.92	56,062.68	117,044.53
Gross margin	0.08	0.08	0.07	0.08
Direct operating expenses	3,699.98	15,706.28	39,922.53	100,231.89
% of total net revenue	4.00	5.00	5.00	7.00
General and administrative expenses	1,434.83	4,412.09	11,432.88	18,405.09
Growth rate (%)		2.07	1.59	0.61
Net Profit After Tax	1,913.29	5,649.51	6,175.76	-4,715.19

Source: Company documents.

EXHIBIT 6: MOBILE WORLD'S BALANCE SHEET (IN VND MILLIONS)

	2005	2006	2007	2008
Average exchange rate in year (VND per US\$)	15,879	16,000	16,010	17,400
Current assets	9,339	36,358	105,300	151,948
Cash and cash equivalents	1,806	6,663	24,591	17,804
Inventory (net)	6,410	26,662	68,297	99,956
Other current assets	643	1,656	12,266	33,353
Non-current assets	570	3,363	14,242	27,326
Tangible fixed assets (cost)	–	1,153	4,977	9,892
Accumulated depreciation	–	195	739	1,995
Tangible fixed assets (net)	–	958	4,238	7,897
Depreciation rate (%)		34	18	17
Intangible fixed assets (cost)	–	–	–	989
Accumulated amortization	–	–	–	82
Intangible fixed assets (net)	–	–	–	907
Construction in progress	–	–	150	185
Other long-term assets	570	2,405	9,854	18,338
TOTAL ASSETS	9,909	39,721	119,542	179,274
Current liabilities	4,852	30,938	50,317	114,702
Short-term loans	–	1,200	680	24,012
Trade accounts payable	4,744	28,436	45,242	83,573
Other current liabilities	107	1,302	4,395	7,118
Non-current liabilities	1,925	2,405	1,178	2,393
Long-term loans	1,925	1,980	790	1,010
Other non-current liabilities	–	425	388	1,383
TOTAL LIABILITIES	6,777	33,343	51,494	117,095
Retained earnings	1,132	1,378	7,011	1,142
TOTAL EQUITY	1,132	1,378	7,011	1,142
TOTAL LIABILITIES AND EQUITY	9,909	39,721	119,542	179,274

Source: Mekong Capital company documents.

EXHIBIT 7: MOBILE WORLD IN 2009 ACCORDING TO MEKONG CAPITAL'S VISION DRIVEN INVESTING FRAMEWORK

Core Framework	Conditions at Mobile World
Vision	Yes, they had a vision built around reaching a US\$50 million company value.
Drivers/annual milestones	Yes, they had annual targets that supported achieving the broader company vision.
Key performance indicators	Not yet
Management and financial reporting	Not yet
Breakdown (root case) analysis	Not yet
People	
Management team/recruitment capability	Mekong Capital helped recruit three highly qualified outside professionals who were given important responsibilities in managing head sales, marketing, and human resources.
Core values/culture	Not yet
Bonus system	Conceptualized incentive system for store managers and other key middle managers based on gross profit.
External resources	
Corporate governance	Not yet
Outside experts	Not yet
Customer drive (market data/insights)	Not yet
Scalability	
Focus	Founders were always focused on core business.
Enterprise resource planning and process automation	Enterprise resource planning was always a strength of the company.
Delegation and accountability	Not yet

Source: Company documents.