

# Healthcare and pharma sectors M&A in Vietnam: key considerations for foreign investors

Vietnam's healthcare and pharmaceutical sectors are entering a defining decade. Demand for high-quality care is accelerating, driven by an ageing population, rising incomes and a government eager to modernise the system. This momentum has created a rare window for foreign investors: a market with strong fundamentals, increasing private-sector participation and a steady pipeline of acquisition opportunities.

Yet, beneath the surface lies a regulatory environment that is intricate, fast-evolving and highly sector-specific. Understanding how foreign ownership rules, licensing requirements and operational constraints interact is essential for shaping a deal that is both compliant and commercially viable.

This *Insight* provides a practical overview of the key legal issues foreign investors should consider when entering these sectors in Vietnam.

## Legal framework on foreign investment in healthcare and pharma

### Determination of foreign-invested status

Generally, the target business (eg manufacturing plants, hospitals, clinics or pharmacies) must be held by a company incorporated in Vietnam (**OpCo**). This OpCo in turn may be owned directly or indirectly through one or more holding companies (**HoldCo**) either in Vietnam or offshore. The foreign-invested status is determined at the OpCo level. In particular, the OpCo will be considered a foreign-invested company and subject to foreign investment conditions if its charter capital is held by (i) foreign investors or (ii) Vietnamese companies that are deemed to be foreign investors.<sup>1</sup>

<sup>1</sup> Foreign investor is either a foreign company or foreign individual. A Vietnamese company may also be deemed a foreign investor if more than 50% of its charter capital is held by foreign investors and/or other Vietnamese companies with more than 50% foreign-owned charter capital.

### Foreign ownership limit and regulatory requirements

There is no foreign ownership limit when investing in hospitals and clinics, or in the manufacturing of drugs. However, foreign investors are not permitted to invest in drug distribution,<sup>2</sup> whether wholesale or retail. This restriction extends even to pharmacies located within hospitals and clinics and is often a key deal issue that requires careful consideration.

### Impacts of conversion from local to foreign-invested status

If the OpCo is treated as 'foreign invested', it could also bring about several other changes in regulatory requirements and treatment compared to having 'local' status. Key differences include:

- **Minimum investment capital for healthcare facilities:** a foreign-invested facility, regardless of foreign-owned stake, must meet the following minimum investment thresholds: US\$20 million for a hospital, US\$2 million for a polyclinic and US\$200,000 for a specialty clinic.<sup>3</sup>
- **Extra investment licensing procedures for future projects:** if foreign investors hold more than a 50% stake in the OpCo post-transaction, the OpCo may need to obtain an Investment Registration Certificate before establishing or expanding an investment project (eg hospital or clinic), or obtain an M&A approval before acquiring other companies.
- **Impacts on land arrangements:** if the OpCo was previously allocated land by the Government, it may need to convert to land lease. It could also face restrictions on acquiring land directly from Vietnamese organisations and individuals, or using land or assets attached to land as collateral for non-bank financing.

<sup>2</sup> While distribution is generally understood as the purchase of third-party goods from the original manufacturer or importer and resale to customers, the distribution of drugs and drug materials also broadly includes related activities such as storing third-party drugs/materials, deciding distribution strategies and sale policies, or providing financial supports to manipulate distribution activities, among other things. It will be important to consider these nuances when investing in a business that involves drug sales (even if not directly).

<sup>3</sup> Exemptions apply for foreign investors from the European Union (under the EVFTA) and from ASEAN countries (under the AFAS).

# Structuring options for foreign investors

## Acquisition of a local target

To avoid the complexities of changing to foreign-invested status, investors often structure transactions to keep the OpCo as a local company and conduct the deal at the HoldCo level. Common structuring approaches include:

- **Minority foreign acquisitions:** if foreign investors will hold less than 50% at the HoldCo level, the HoldCo will still be treated as a Vietnamese investor in respect of its holding in the OpCo, hence not creating foreign investment issues.
- **Majority foreign acquisitions:** these require more complex structuring, such as tiered ownership arrangements or involvement of local partners, to ensure the HoldCo maintains its status as a Vietnamese investor and to keep the OpCo local.

## Acquisition of a foreign-invested target

If the target is already set up and treated as foreign invested, transactions are typically more straight-forward. Foreign investors in this case can acquire interests at the OpCo or HoldCo level and inherit the existing structure.

## Regulatory procedures and approvals

- **Investment licensing procedures:** standard investment procedures will apply, including (i) obtaining M&A approval from the local Department of Finance, (ii) obtaining merger control clearance from the Vietnam Competition Commission if it is a control acquisition and any reportable thresholds are met, and (iii) updating corporate registration to reflect changes in ownership.
- **Healthcare licensing procedures:** if the transaction changes any details recorded in the target's IRC or other business/product sub-licences, they may also need to be amended.<sup>4</sup>

## Other key deal issues

Below are some common key issues investors may encounter during the legal due diligence and deal assessment in the pharma and healthcare industries.

## Zoning and land-use compliance

Due to various historic and commercial reasons, many hospitals and clinics, especially those in city centres, may operate on residential or commercial premises that were acquired or leased privately, resulting in concerns of inconsistent use purposes. Although there are legal arguments to support such a mixed-use of residential or commercial land/building for medical purposes, practical enforcement risks remain, which may impact business continuity. A full assessment of risks and risk mitigations is therefore necessary. In particular, investors should consider other construction and operational approvals that back the use of location for medical purposes, as well as interactions with regulators in reality.

Relevant to the zoning issue, in major cities such as Hanoi and Ho Chi Minh City, the municipality governments have been contemplating to move hospitals and other large facilities from congested city centres to suburban or newly developed areas. While these plans have moved very slowly (and for now they still focus mainly on state-owned facilities), investors should factor this into long-term business prospects.

## Potential restructuring of real estate

Given the asset-heavy nature of hospital operations, some targets may have large existing real estate portfolios. Such assets could be held by the target, another company in the parent group of the target or sometimes by the founders themselves. In the latter cases, it may become necessary to discuss the ownership and use of those assets, how they fit into the parameters of the transaction and potential restructuring if needed.

## Sub-licences for specific medical activities

In addition to their master operating licence, hospitals and clinics must obtain separate approvals for specific activities, such as lab testing, diagnostic X-ray, vaccination, dialysis, pharmacy and telemedicine. Investors should confirm the target's authorised scope of activities and verify that all necessary approvals have been obtained.

## Need for technical due diligence

The healthcare service is exposed to more specific operational and environmental issues than other services. In particular:

- hospitals/clinics have on-going obligations to meet all infrastructure, technical and staff conditions required to maintain their operating licences and other authorisations; and
- due to the high volume of customers being serviced, they also carry higher fire safety and environmental risks.

Desk review can verify these matters to some extent but may not be adequate to uncover all existing problems. As such, in practice, investors often engage technical specialists to conduct on-site inspections.

## Requirements on medical practitioners

Ensuring compliance with medical practitioner requirements is also important for the business' continuity and licences. Investors should review relevant practices of the target and discuss practicable solutions to address the following key issues:

- As a condition to operate/maintain its licence, each hospital, clinic or pharmacy must employ a full-time licensed chief medical practitioner who is responsible for professional matters. Some businesses only satisfy this requirement as a formality by engaging practitioners who are not always present on-site.
- Where hospitals and clinics employ foreign medical practitioners, they must ensure communication with Vietnamese patients is in Vietnamese (directly or via an interpreter).
- Hospitals and clinics must also purchase mandatory liability insurance for medical practitioners to cover malpractice risks. However, there is currently no statutory requirement on minimum coverage level, and compliance is inconsistent in practice due to the lack of administrative penalties.

<sup>4</sup> While change in ownership does not typically trigger amendment to healthcare/pharmaceutical sub-licences as they do not record ownership details, there may be other changes that necessitate amendment registration, such as changes of entity's name, responsible doctor or chief pharmacist.

## Drug authorisation and drug liability

In relation to drug manufacturing, the manufacturer must obtain market authorisation for each drug being sold in Vietnam. Manufacturers and importers are also liable for the quality of drugs. In case of drug recall, the involved parties, including the manufacturer/importer, must share responsibility for ceasing use, taking back products and covering costs, all under the supervision of local authorities. Investors should investigate whether the target has complied with product authorisation requirements and if there are any systemic issues relating to product quality.

## Drug price controls

Manufacturers and importers must register their expected wholesale prices, and distributors must declare their actual wholesale and retail prices. Moreover, pharmacies located within hospitals or clinics are also subject to a cap on retail margin, ranging from 15% (for the lowest price drug category) down to 2.5% (for the highest price drug category). These issues may affect profitability and should be taken into account when considering the target's financial model.

## Prescriptions

Pharmacies may only sell ethical, prescription-only (*ETC*) drugs to customers who provide a valid prescription issued within five days before the purchasing date. They must also retain records of the sale and the prescription for at least one year. In practice, there is still a gap between statutory requirements and market adoption, and it remains difficult to ensure every *ETC* drug sale is supported by a valid prescription. This issue and steps toward compliance if needed should be considered and discussed with the target.

## Management retention

In healthcare M&A transactions, the local founders and key managers often play a critical role in maintaining regulatory compliance, patient trust and operational stability. Therefore, investors may reach agreement to retain them for a transition period after the deal completion. To this end, several aspects will need to be considered carefully, such as the retention form being an employment or service agreement, structuring of the KPI and earn-out package, and a call or put option in respect of any residual stakes. Coordination among legal, tax and commercial teams will be important to ensure a sound retention scheme.

## Conclusion

Vietnam's healthcare and pharma sectors offer compelling long-term potential, but successful investment requires more than capital and commercial ambition. Each transaction must be engineered around a complex regulatory framework, nuanced local practices and operational realities that can materially influence deal value.

Investors who approach the market with a clear strategy, robust due diligence and a deep understanding of licensing, land, compliance and structuring issues will be best positioned to capture the sector's growth while managing risk. As the market continues to evolve, thoughtful planning and strong local insight will remain the foundation of sustainable, highperforming investments.

If you would like to discuss investing in Vietnam's healthcare and pharma sectors, please contact the Allens team.

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