

Saudi M&A landscape

Reflecting on 2016 ... and why 2017 will be better

2017



PwC's perspective

A late flurry of M&A announcements and activity in Q4 2016 brought a more positive conclusion to a slow year for M&A in the Kingdom. A “wait-and-see” approach to transactions, reflected wider local and global economic challenges.

However, deals were executed late in the year and momentum is building for a stronger 2017. Consumer-led sectors continued to be highly attractive, constituting 48% of total deals closed.

Going forward, sector consolidation, geographic diversification and more reasonable valuations are increasingly attracting regional private equity firms and cross-border investors to the Kingdom.

-42%

Reduction in number of completed 2016 deals compared to 2014

48%

Deals in consumer-led sectors

38%

of Saudi targets are acquired by Private Equity

62%

of Saudi investors are acquiring international targets

26

Number of announced privatised entities and agencies

2015 and 2016 saw a significant reduction in M&A volumes compared to prior years

Saudi remains the largest market in the Middle East and is a key destination for regional and international corporates as part of their long-term growth strategies. However, declines in government spending, liquidity and corporate profitability have impacted overall market sentiment, leading to lower than average deal volumes and values in both 2015 and 2016.

Energy sector deal volumes declined but consumer-led sectors remained attractive for M&A

While the energy sector witnessed the greatest decline in M&A activity in the past three years, consumer-led deals increased, driven by favorable demographics, strong underlying economic fundamentals and a long-term positive economic outlook. Deal activity was also encouraged by reductions in valuations.

Foreign and private equity investors will continue to drive M&A activity in the Kingdom in 2017

Investors are expected to take advantage of increasingly liberalised foreign ownership regulations, more attractive valuations and strategic opportunities. Additionally, the secondary stock market, once fully operational, should help create M&A activity amongst private equity investors as they are presented with an additional exit platform.

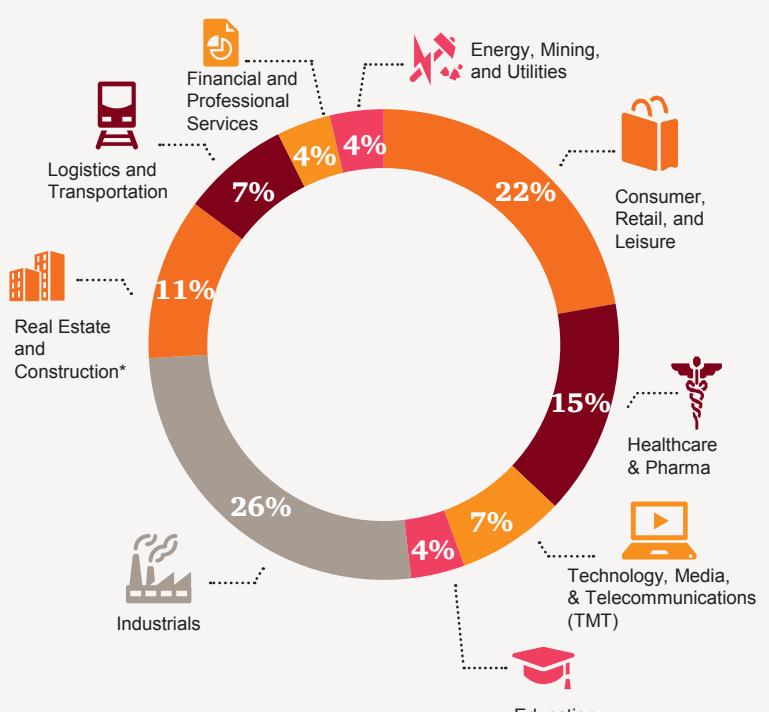
Saudi investors will continue to look outside the Kingdom for diversification and expansion opportunities

Outbound transactions constituted over 60% of closed deals by Saudi investors in 2016. This was driven by the search for income diversification and the desire to invest in sectors from which core skills and expertise could be imported into, and adapted for use in, the Kingdom.

Privatisation initiatives are creating unique acquisition opportunities into publicly owned assets

Healthcare, transportation and education industries will all see selective transfer of ownership to the private sector. Major regional and international players will see this as a unique market entry opportunity.

2016 completed transactions in the Kingdom by sector



Source: Capital IQ, MergerMarket

*Real estate plots and groups' internal restructuring transactions are excluded

“More deals will close in 2017 than 2016...

...PwC recently led the successful sale of a stake in a leading GCC healthcare supplies company to a major Saudi conglomerate, and we expect this deal momentum to continue through 2017”

Saudi M&A activity was impacted by economic challenges in 2016. However, Governmental reform efforts will create significant investment opportunities in the medium-to-long term

- 42%

Saudi M&A transaction volumes slowed down from an average of 12 transactions per quarter in 2014 to 7 per quarter in 2015 and 2016. Deals that did close were driven by family corporate groups focusing on truly core-activities, leading to sales of those assets deemed to be non-central to key business lines.

The Government has taken bold fiscal reform steps targeting economic stability and revenue

diversification. Reforms include reducing subsidies, benefits and public spending, in addition to potentially implementing VAT. As a result, corporate profitability and investors' confidence have been impacted.

The strong fundamentals for long-term economic growth support a positive outlook in Saudi, the largest Middle East economy. We believe the favourable demographics, impact of ongoing structural reforms, announced plans for privatisation and partnerships with the private sector, in addition to the large consumer base, are key growth drivers. Additionally, infrastructure investments throughout the past five years will further facilitate economic growth.

Number of completed M&A transactions of Saudi targets have declined in 2015 and 2016*



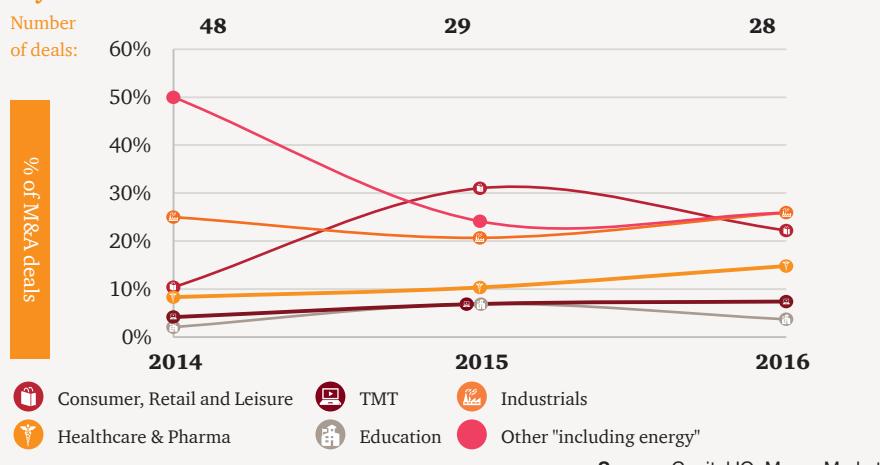
Attractive valuations and rise of strategic opportunities will continue to drive strong M&A activity in consumer-led sectors

48%

Consumer-led sectors (Consumer, Retail and Leisure, Healthcare and Pharma, TMT, and Education) have recently dominated transactions constituting 55% and 48% of 2015 and 2016 M&A activity, respectively, up from 25% in 2014. The energy sector's contribution dropped from 20% of 2014 M&A activity to almost 5% in 2016, making it the worst hit sector in M&A since 2014.

Valuations, as indicated by the earnings multiple of the Tadawul All Share Index (TASI), dropped for most of 2015 and 2016, before recovering in late 2016. Retail saw a marked decline over the two year period, whereas Healthcare, reflecting its position as a defensive sector, has been relatively resilient in terms of maintaining valuations.

Key sectors M&A contribution 2014 – 2016



TASI P/E stood at 17.6x Q4 of 2016 compared to a 3 year high of 20.1x during 2014



* Real estate plots and groups' restructuring internal transactions are excluded

**Market cap weighted of normalised Price/ Earning multiple

Key Saudi M&A sectors and investors in 2016

PE investors return to the Kingdom

38%

Consumer, Retail, and Leisure

Key drivers

- Reduced foreign ownership restrictions.
- High urbanisation rate, favorable demographics and expansion of retail channels (particularly online).
- Technology, while disrupting traditional routes to market, is creating new investment opportunities across the value chain.
- Favorable valuation environment in the retail sector in 2016 drove serious interest in the sector by Private Equity firms (PE) as they constituted over 60% of transactions.

Key transactions

Target	Investor
Nofa Resort and Club	Rezidor Hotel Group AB (OM:REZT)
Bindawood Holding	Investcorp Bank B.S.C. (BAX:INVcorp) (PE)
Al Safi Food Company	Mezzan Holding Co. KSCC (PE)
Multi Brands Trading Co.	Gulf Capital (PE)

Source: Capital IQ, MergerMarket

Education

Key drivers

- Education companies are seeking capital to expand and fulfill regulatory requirements of operating and owning proper education facilities.
- Vocational training, child-skill enhancement, and e-learning initiatives are emerging.

Healthcare and Pharma

Key drivers

- Healthcare accessibility in the Kingdom remains under-penetrated.
- Compulsory health insurance policies for private sector employees.
- The National Transformation Plan targets an increase of the private sector contribution to 35% from the current baseline of 25%.

Key transactions

Target	Investor
Al Salama Hospital	NMC Health (LSE:NMC)
Ebrahim Al Mana & Brothers Company	Sanabil Investments (PE)
Al Borg Medical Laboratories	Investcorp Bank B.S.C. (BAX:INVcorp) (PE)
Salus Holding Group	Al Muhaidib Group

Source: Capital IQ, MergerMarket

Our take on other sectors

Key drivers

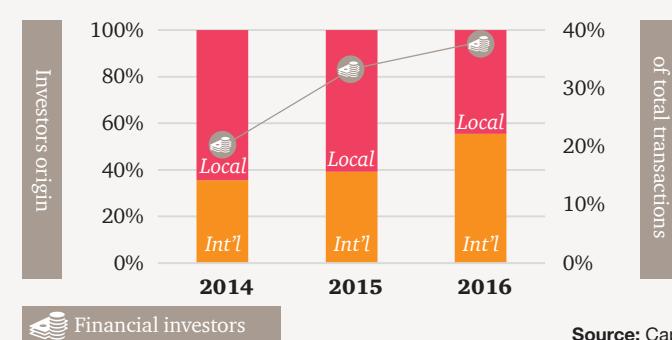
- Corporate industrial groups are increasingly seeking to dispose their non-core subsidiaries to focus on their key activities and to support their cash flow.
- Taxes on unutilised land plots are triggering conglomerates, heavy on real estate investments, to seek acquisition opportunities of real estate developers.
- Growth in transportation infrastructure (roads, railways, ports, and airports) along with an increase in local manufacturing, are creating opportunities for specialised logistics businesses.

Rising strategic interest in Saudi, as foreign investors are looking to capitalise on reform initiatives and attractive valuations

The liberalisation of foreign ownership policies is helping international PE firms to capitalise on lower valuation levels. Additionally, the integration of the secondary stock market in the Kingdom will enhance M&A appetite as issuers (i) seek value creation opportunities pre-listing and (ii) identify the new market as an additional exit platform.

We expect the involvement of regional and international PE firms to increase cross-border activity in the Kingdom, primarily in consumer-led sectors.

International PE firms are increasingly investing in Saudi targets



Source: Capital IQ, MergerMarket

Cross-border transactions are increasingly becoming a significant source of value creation for Saudi investors

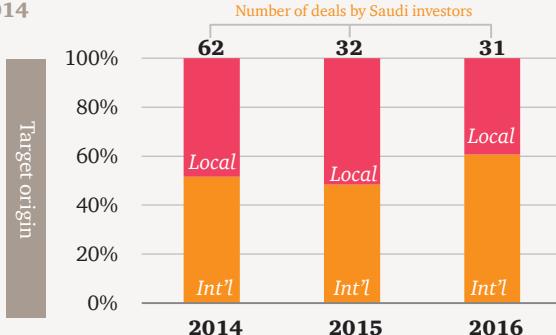
62%

Current market conditions triggered Saudi corporations to seek external growth and expand their regional/global footprint as a diversification strategy. While deal volumes have decreased overall, the percentage of international transactions by Saudi investors has actually increased in 2016. The top key investment destinations were UAE, Kuwait, Germany and South Korea, each with two closed deals in the last year.

Deals closed outside of the GCC were focused on industrial investments, consistent with Kingdom's desire to invest into operations and technologies with importable skills and processes that will benefit the overall economy.

We expect out-bound activity to continue as local companies and family groups continue to adapt to the Kingdom's long-term vision and development plan.

Proportion of cross border acquisition for Saudi investors have increased since 2014



Source: Capital IQ, MergerMarket

Privatisation initiatives will further drive M&A opportunities in the Kingdom

26

The Government will continue its journey to enhance private sector participation throughout the Kingdom. The transfer of assets out of the public sector can take many forms - from private management contracts, BOT, lease contracts, service contracts, IPO, to full sale processes. The latter will create exciting M&A opportunities for international and regional best in-class investors and operators.

The giant Aramco IPO will create global interest in the Kingdom. It will drive wider privatisation initiatives, as the government seeks to use the transfer of assets out of the public sector to grow employment and diversify revenue streams.

Key sectors

Sector



Healthcare

Privatised entity/services

Medical cities and hospitals
Dialysis and home care services
Medical supplies procurement



Transportation

Sea ports and railways
Civil aviation and airports



Education

College support services
Public schools



Why PwC?

- The largest dedicated M&A team in the Middle East with on the ground presence in Riyadh for executing local and regional deals.
- Unparalleled local deal experience in the region and globally. #1 global advisor by deal count in 2016*.
- Direct access to a global pool of buyers and sellers which gives us the ability to leverage our international relationships for your deal.
- Local and global subject matter experts who tailor their approach to give you the right insights for your target industry.

*Mergermarket - 2016 League table

Sale of a minority stake in a leading
GCC medical supplies Company, Salus
Holding Group LLC

to

Al Muhaidib Group

**Lead advisor to the vendor,
Mehdi Al Hassani Holdings Ltd**



Corporate Finance
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