2024 TransAct Middle East

Strategic growth beyond oil: Economic diversification and decarbonisation expected to boost deal making in the region

pwc

Content

Overview

In 2023, the global mergers and acquisitions (M&A) market showed a mixed performance. Although the deal activity improved slightly during the first half of the year, compared to the declines in 2022, the prospects for a full recovery were hindered by the impact of rising interest rates, financing challenges and slowing economic growth in many regions.

In fact, in just two years, global deal values halved from their peak of over US$5tn in 2021 to US$2.5tn in 2023, as seen in PwC's latest **Global M&A Industry outlook**. Additionally, global deal volumes also declined by 17%, going from just over 65,000 deals in 2021 to approximately 55,000 deals in 2023. This led to a widespread caution among dealmakers and prompted a shift towards more strategic and selective transactions.

However, mid-market deals held up better than expected, as predicted in our **2023 mid-year M&A outlook**, because they were easier to get done in a difficult financing environment. Deal makers made a series of smaller deals to drive transformation and growth, which helped maintain mid-market deal activity.

The second half of the year witnessed a more bearish sentiment among dealmakers, contributing to M&A volumes and values declining by 6% and 25% in 2023, compared to the year before.

Despite the slower growth rate experienced by the global economy, the Middle East has remained resilient, supported by solid economic fundamentals and supportive government policies. This resilience has boosted stability and investor confidence in the region, leading to a relatively active deal market compared to other regions that are more susceptible to higher interest rates and recessionary fears.

The oil price volatility and decreased revenues following further OPEC+ production cuts, haven't dimmed investor confidence and we find the continued buoyancy of non-oil sectors and intensified efforts of regional governments to diversify their economies have continued to support the countries' economic prospects.

This further emphasises the significant role of sovereign wealth funds (SWFs) that have remained at the forefront of government economic diversification initiatives, driving deal activity in the region.

Middle East M&A Deal Volume (FY-2021 to FY-2023)

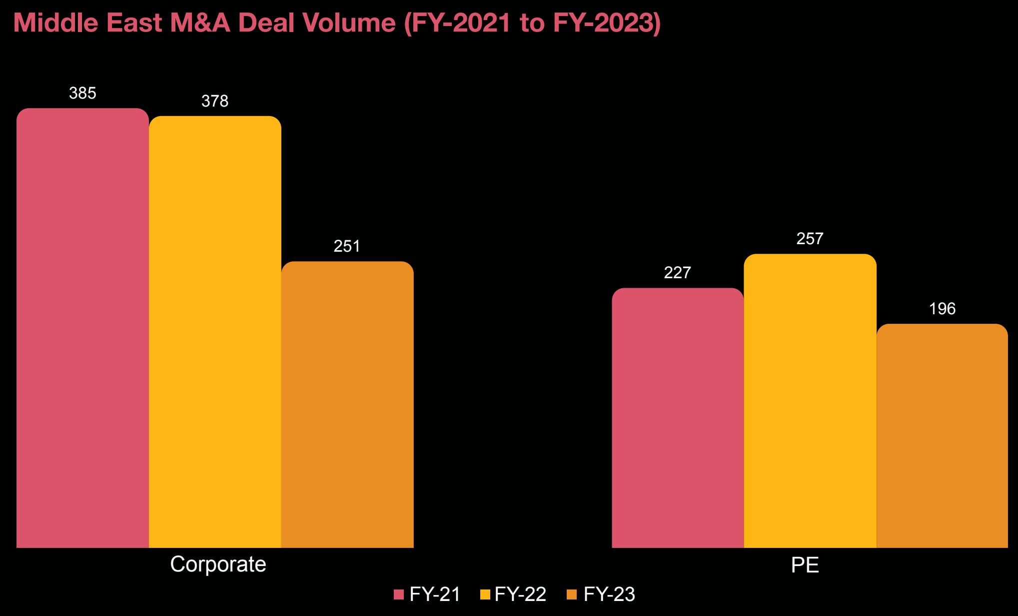
With recent oil revenue windfalls, SWFs are capitalising on external revenue surpluses, fortifying their domestic deal pipeline and expanding their presence in global markets through strategic and diversified acquisitions across different sectors.

Our analysis shows that corporates are also a major contributor to deal activity in 2023, compared to private equity firms. Despite challenging financial conditions, corporates with excess cash identified strategic and value-enhancing acquisitions as a practical means for strengthening their current positions and fostering market growth. The implementation of this strategy saw them accounting for 56% of deal volume in the region, while private equity-backed deals made up only 44% of deals. Private equity firms, on the other hand, faced a particularly competitive deal market on the back of rising interest rates and stricter credit conditions, forcing the majority of players in this market segment to shift their focus towards portfolio optimisation and concentrate primarily on deals centred around integration and value creation.

This being said, our analysis has indicated that the Middle East was not entirely exempted from overall global M&A trends. As of the end of 2023, a total of 447 M&A deals were recorded in the region, a 30% decline from the previous year. This slowdown was largely due to Egypt's deal volumes dropping by 60% in 2023 whilst large markets such as KSA and UAE broadly held up relative to 2021 levels.

> "The Middle East's M&A market has shown remarkable resilience, which has boosted investor confidence in the region and led to an increase in active dealmaking. We anticipate that 2024 will be a year of growth and activity will be driven by economic diversification goals, decarbonisation, and a focus on localisation and value creation, as organisations transform their business models and look to expand capabilities."

Romil Radia
Deals Markets Leader
PwC Middle East



In terms of deal size, the region saw a continuous draw towards smaller-sized deals in H1 2023, valued at US$100mn or less. This market segment gained traction due to its perceived resilience against the impact of rising interest rates and tightening debt market conditions. By the end of the year, nearly 92% of disclosed deal volumes fell in this category.

On the other hand, the higher end of the market, involving deals with a minimum value of US$ 500mn, comprised less than 2% of disclosed deal volume. The sole disclosed deal exceeding US$ 1bn, highlighted in our mid-year **2023 TransAct Middle East report**, remained the only such deal for the entire year. No megadeals, valued at least US$ 5bn, were recorded in 2023, a notable deviation from the previous year, which saw three such transactions completed. This indicates the impacts on the region stemming from the challenging macroeconomic and financing conditions observed on the global front.

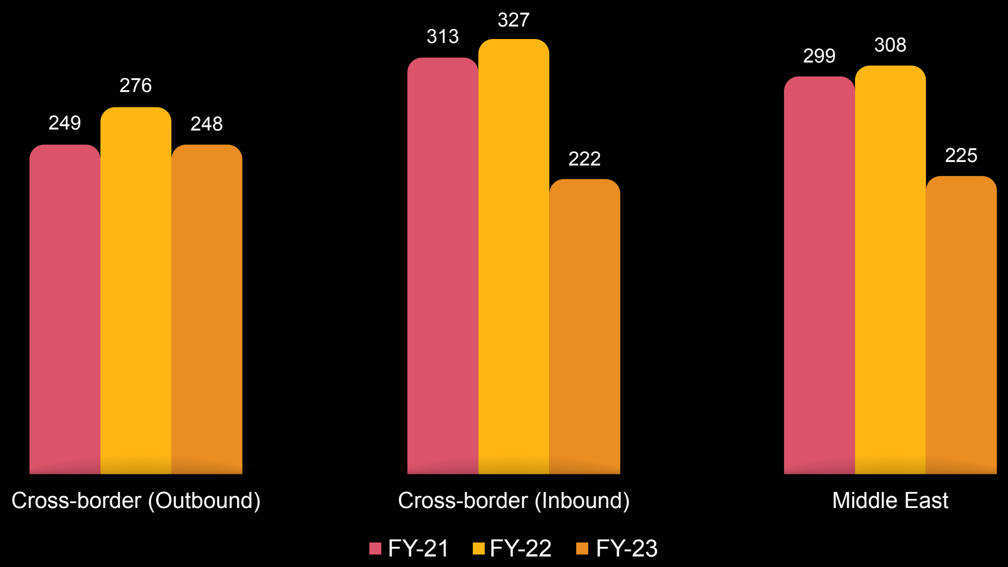
A favourable deal-making climate

Despite the challenges of 2023, the Middle East's deal market stands as a promising landscape, buoyed by the region's exceptional resilience and favourable growth trajectory, with member nations undergoing digital transformation and strengthening their non-oil sectors. Moreover, the IMF projects an optimistic economic outlook for the region, with a projected acceleration from 1.7% in 2023 to 3.7% in 2024, which positions it as an outlier with higher expectations of economic prosperity than other global regions (Global growth is expected to slow from 3.0% in 2023 to 2.9% in 2024). This sets the stage for a generally favourable dealmaking climate, marked by increasing investor confidence – a sentiment that is reflected by findings from **PwC's 27th Global CEO Survey for the Middle East**, with 73% of respondents expressing confidence in the region's growth in 2024 in contrast to 44% of their global counterparts who share the same sentiment about their respective territories.

Increase in outbound cross-border

In 2023, the regional SWFs recorded more outbound cross-border deals (248) than inbound cross-border and intra-regional deals, highlighting their proactive efforts to seek opportunities in the global market. This is significant because this segment has not been historically included in our deal volume analysis in the region. It underscores the region's remarkable capability to navigate challenging economic conditions while steadfastly pursuing its economic diversification agenda.

Cross-border Deal Volume (FY-2021 to FY-2023)



Five largest Middle East M&A transactions in 2023

US$1.3bn:

Saudi Arabia’s PIF acquired a minority stake in four local construction companies: Nesma & Partners Contracting Co, Almabani General Contractors Co, El Seif Engineering Contracting Co and Al Bawani Holding Co. (February 2023)

US$806.8mn:

Saudi Arabia PIF-led consortium acquired an 80% stake in Zain KSA, the second-largest telecommunications company in the Kingdom. (January 2023

US$625.0mn:

UAE-based Global Investments Holding Ltd acquired a 30% stake in Eastern Company, the largest tobacco producer in Egypt. (September 2023)

US$400.0mn:

Emirates Telecommunications Group Company PJSC acquired a 50.03% stake in the super-app business of Careem Networks FZ LLC. (April 2023)

US$340.0mn:

Top Saudi asset manager, SNB Capital’s 20% stake acquisition in Tamara, a leading buy-now-pay-later business, co-leading the series C investment round with Sanabil Investments, which will own 14%. (December 2023)

Source: Refinitiv Eikon

"Ambitious growth strategies are fueling optimism in the UAE economy. We find key local players committed to industrial diversification, and local manufacturing that aim to promote new innovations and practices. The country's business-friendly regulations and streamlined legal framework have facilitated growth in the technology, energy, industrial and financial services sectors, while its sovereign wealth funds remain active in investing in forward-looking sectors both domestically and internationally."

Zubin Chiba
Corporate Finance Leader
PwC Middle East

Key themes

01 Economic diversification propels M&A growth, as private sector gains in prominence

02 Localisation agenda at the core of regional reforms

03 Net zero targets accelerate search for green deals

04 Digital transformation competencies a key priority for deal making

05 Mid-market deals dominate as investors focus on value creation

01 Economic diversification propels M&A growth, as private sector gains in prominence

The Middle East M&A market showed remarkable resilience throughout 2023 amid global economic and geopolitical challenges. Regional SWFs and government-related entities played a leading role in this resilience, aiming to reduce dependence on hydrocarbons. Sectors, such as technology transformation, artificial intelligence, fintech, healthcare, renewable energy, and agribusiness experienced significant growth and investments, generating substantial deal interest, although not all of it has translated into completed deals. As the region intensifies its focus on economic diversification and enhancing non-oil GDP, completed deal activity is likely to increase due to greater on-ground interest and long-term strategic planning.

Regional governments are also increasingly recognising the role of the private sector in the economic diversification, transformation, and localisation agenda. Saudi Arabia, for example, is implementing structural reforms to encourage private sector participation through Public-Private Partnerships (PPPs) and privatisation of key enterprises. The Public Investment Fund (PIF) aims to boost private investment in strategic areas and industries, such as electric vehicle production.

With the private sector playing a pivotal role in diversification efforts in the Middle East through active participation in numerous deals, the region is experiencing a notable uptick in Initial Public Offerings (IPOs), a trend that is expected to continue.

The robust performance of IPOs in the Middle East outperformed other markets, raising US$10.7bn in 2023, with Middle Eastern countries accounting for approximately half of the total IPO volumes in Europe, the Middle East, and Africa (EMEA). Investor focus has shifted to the Middle East due to various factors, including state-owned firms' offerings and attractive dividend yields, and exposure to previously underrepresented sectors.

02 Localisation agenda at the core of regional reforms

Despite a deeper-than-expected slowdown in oil production, governments have actively pursued investments in domestic assets and projects to boost regional growth.

Domestic strategic agendas, such as Saudi's Vision 2030 and Oman's Vision 2040, underscore the importance of local development, private sector strength, new industry growth, and sustainable job creation, aimed at boosting the region's overall competitiveness.

Localisation initiatives are increasingly playing a key role in achieving these objectives, leveraging both local and international assets and partnerships to direct re-investments within the region. For instance, ADNOC has partnered with Specialist Services, a global supplier of oilfield equipment, modular buildings, and packaging solutions, to establish a new state-of-the-art 50,000 sqm waterfront fabrication facility in Abu Dhabi. Saudi Arabia is also working towards localising 75% of its energy sector by 2030, prioritising young talent and employee retention.

The Saudi PIF is advancing the country's transformation and diversification strategy through partnerships and deals, which include a recent Memorandum of Understanding (MoU) signed by the PIF and JERA Co, a prominent Japanese energy solutions company, to explore opportunities for developing green hydrogen projects. The collaboration is expected to leverage synergies for joint green hydrogen projects in Saudi Arabia. Likewise, Egypt aims to localise the entire transportation industry as part of its regional development strategy.

03 Net zero targets accelerate search for green deals:

Net-zero targets and energy transition considerations are becoming increasingly integral to dealmaking in the Middle East. This is in response to the global push towards sustainable and low-carbon economies, which is influencing industries worldwide. Regional governments are also implementing policies to facilitate the transition as part of their efforts to diversify their economies away from oil and gas revenues. For instance, the UN Climate Change Conference (COP 28), held in the UAE in December 2023, concluded with the UAE's committing to transition away from fossil fuels in energy systems in a just, orderly, and equitable manner, aiming to achieve net-zero by 2050. As a result, the energy transition has opened up new opportunities to take on a bigger role in funding the development of critical infrastructure and technology, from hydrogen to wind, solar, and carbon capture. This has led to a rise in M&A activity related to clean energy in the Middle East, demonstrating a growing willingness among companies to invest - supported by the availability of funding. Further, the deals landscape in the Middle East is set to be reshaped by the increased demand for deals related to participating in the energy transition.

04 Digital transformation competencies a key priority for deal making:

In the pursuit of technological advancements, Middle Eastern firms, particularly those in the technology, media, and telecommunications (TMT) sector, have seen a notable uptick in dealmaking. Within this sector, attractive investment areas include cybersecurity, cloud computing, and e-commerce. The surge in investments extends beyond corporate entities, as financial sponsors are also targeting companies in order to establish new businesses driven by artificial intelligence. A rising number of investors are eager to use proprietary data to develop smaller, specialised AI systems or, more commonly, to customise pre-trained AI tools. The Middle East's active embrace of the digital revolution has further accelerated this trend, with countries like Bahrain, Saudi Arabia, and the UAE outlining economic visions that involve substantial adoption of advanced technologies. Despite this, most AI technologies are still in early stages, highlighting the need for an environment that fosters freedom and establishes robust regulatory guidelines for AI and its applications.

05 Mid-market deals dominate as investors focus on value creation:

As highlighted in TransAct Middle East 2023 Mid-year Update, 2023 was marked by small and mid-sized deals gaining popularity among deal participants as investors seek value creation in their transformation journeys with more measured steps. In the face of ongoing market uncertainty, companies are increasingly turning to M&A deals as a strategic means to achieve their business goals. The escalating costs of capital have spurred the adoption of innovative approaches for attaining strategic objectives. Consequently, business leaders are exploring various structures, including joint ventures and minority investments through which to gain access to technology or markets without the extensive commitments associated with large acquisitions. Conversely, for sellers, such arrangements represent a potential source of new revenue.

"Massive investments are underway across the GCC in renewable energy, green hydrogen, and other sustainable projects, aligning with the region's ambitious net-zero targets. In 2023, SWFs and government-related entities have significantly diversified their investment portfolios, focusing on the renewable energy sector. In the future, we anticipate that they will continue to accelerate the energy transition, investing in green assets and technologies that support decarbonisation."

Antoine AbouMansour
Deals Leader,
PwC Middle East

Country highlights

Our analysis shows that the UAE, Saudi Arabia, and Egypt continue to lead the way in deal activity in the Middle East, just as they have in previous years. By the end of 2023, these three countries accounted for 381 deals, or 85.2% of the total volume in the region.

Cross-border Deal Volume (FY-2021 to FY-2023)

In line with global M&A trends, these countries experienced a decline in deal volume compared to 2022 when each of them observed a considerable increase in deal activity. Egypt experienced the sharpest decrease of 60.4% on the back of currency devaluation, high inflation, and wider macroeconomic challenges over the course of the year. This highlights a significant shift in the momentum noted in previous years when the country recorded the highest number of deals in the region. However, it's worth noting that the devaluation of the Egyptian pound shifted deal dynamics in favour of buyers, attracting investors to sectors such as energy, healthcare, financial services, and tourism, among other sectors, amid economic uncertainties in 2023. The underlying potential of Egypt's population and infrastructure needs is expected to attract more investors, as seen in Abu-Dhabi ADQ's recent announcement to invest US$35bn in Ras El-Hekma with the aim of transforming the region into a premium international tourism destination.

The government's decision to privatise and divest from 32 state-owned enterprises – a move that garnered substantial initial interest from Gulf Cooperation Council (GCC) countries - could also create more opportunities for deals in the next few months.

In comparison to Egypt, the UAE and Saudi Arabia saw less substantial declines, with deal volume decreasing by 15% and 13% respectively. For the UAE particularly, it is worth pointing out that this decline counteracts the 12% increase witnessed in 2022. Meanwhile, the rest of the region collectively saw a marginal 2% increase in deal volume, from the 24% decrease recorded the year before.

Driven by a supportive business environment and a streamlined legal framework, the technology, energy, industrial and financial services sectors were the most active in the UAE. Additionally, the country's sovereign wealth funds remain active in investing in forward-looking sectors both domestically and internationally.

In the case of Saudi Arabia, a similar observation was made. The country's commitment to achieving its Vision 2030 objectives, aimed at diversifying the economy away from oil, saw expanded activity in the non-oil private sectors, across the infrastructure, industrial manufacturing, and clean technology industries. Moreover, the enactment of the New Companies Law in January 2023 and the Civil Transactions Law in December 2023, aimed at providing greater legal certainty to businesses seeking to operate in the Kingdom, is set to further position it as an appealing investment destination.

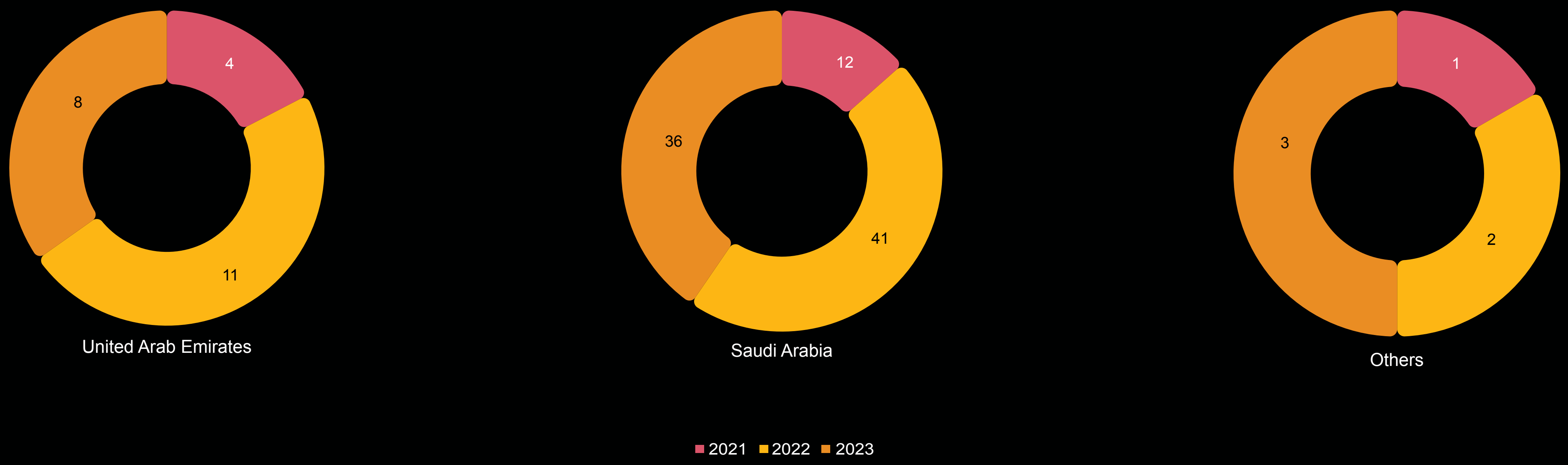
Capital markets and IPOs

Amidst a decline in global capital market activities since 2022, the Middle East has continued to thrive, maintaining its momentum amid continuous efforts to attract increased foreign investments to key economies like Saudi Arabia and the UAE. These efforts are reinforced by active pipelines in both the public and private sectors, alongside growing investor recognition of the region's prospects.

The region noted a total of 47 IPOs which generated US$10.7bn, according to PwC's GCC 2023 IPO+ Watch. The energy and utilities sector led the way, with a mega IPO in H1-2023 by UAE's ADNOC Gas Plc, which raised US$2.5bn, and an IPO by Ades Holding Co., which raised US$1.2bn in proceeds. Other top IPOs in the region covered a range of sectors, including consumer markets, health and technology sectors.

Similar to previous years, listing activity was primarily concentrated in Saudi Arabia and UAE, with Saudi Arabia, boasting the highest number of IPOs in the region – 36 in total. They included the Ades Holding Co. IPO, which marked the Kingdom's biggest IPO in 2023, followed by SAL Saudi Logistics Services Company, which raised US$0.7bn. While the UAE did not quite record a similar number of IPOs as Saudi Arabia, it recorded some notable IPOs in 2023, including the region's largest IPO by ADNOC and a US$1bn IPO by Pure Health Holding PJSC.

Number of Primary Listings by country (FY-2021 to FY-2023)



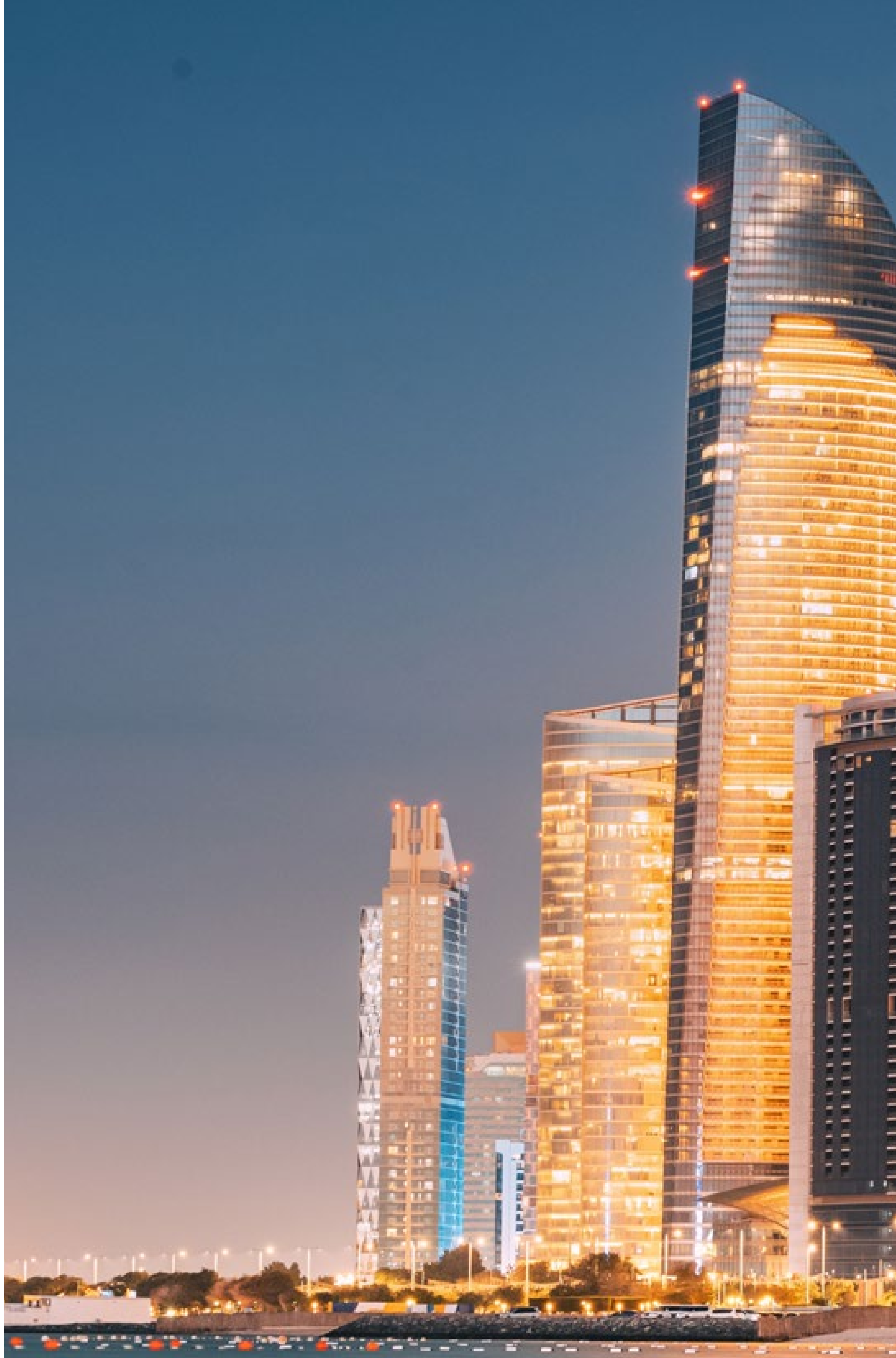
The robust IPO activity observed in the region indicates that investor appetite for listings in the Middle East remains strong, even as IPOs in other territories struggle to gain traction. Increased oil prices have played a role in supporting a surge in listings over the past two years, attracting cash-rich investors who often see the potential performance of these offerings as favourable. The governments' efforts to increase capital market activity on local markets and attract foreign investment have contributed to the region's optimistic outlook and promising IPO pipeline, albeit tempered by geopolitical uncertainty.

Saudi Aramco is considering raising approximately US$10bn on the Riyadh stock exchange, with plans to use proceeds to support the Kingdom's economic diversification plans. Meanwhile Avalon Pharma, another Saudi entity, is planning to list 30% of shares on the Tadawul stock exchange as a means of funding its global expansion plans. In Abu Dhabi, retail chain Lulu is seeking pitches for a potential US$1bn IPO with a possible dual listing in Abu-Dhabi and Riyadh. The Oman Investment Authority, Omans' sovereign wealth fund, is also gearing up with an ambitious plan to launch about 30 IPOs over the next five years, in a strategic move to bolster private-sector participation and strengthen the Sultanate's capital market status.

"Deal making has remained resilient in Saudi Arabia, given its keen focus on the national development agenda. We see an expansion of activity in the non-oil private sectors, particularly infrastructure, industrial manufacturing, and clean technology industries. Compared to other territories in the region, KSA has seen less substantial declines in deal volume. IPO activity has also remained strong and we are confident that the region will continue to see a strong pipeline coming through in 2024.

We expect the positive momentum to continue as the government privatises state assets and encourages private sector companies to list in a bid to attract investment, push reforms and move away from dependent on fossil fuels."

Imad Matar
Transaction Services Leader
PwC Middle East



Sector highlights

Technology, media and telecommunication:

As regional governments accelerate digital transformation, there is an increasing demand from tech-savvy end-consumers, creating a favourable environment for growth in the Middle East. This is strengthened by new technologies, operational efficiency, tower companies, and telcos eager to diversify. As a result, deal activity centres on acquiring new capabilities to gain market advantages at low costs.

In the UAE, strong fibre connectivity, widespread tech adoption, and high internet usage position the country as a key hub for data centre investment, especially in recognised smart cities like Dubai and Abu Dhabi. Equinix, a US-based global data centre provider, will invest US$100mn in a new Dubai data centre, while Moro Hub, a subsidiary of the Dubai Electric and Water Authority, has opened the world's largest solar-powered data centre. In addition, UAE's Khazna Data Centers and Benya Group, a leading ICT infrastructure provider in Egypt, will establish Egypt's first hyper-scale data centre at Maadi Technology Park with a US$250mn investment, marking Khazna's expansion into Egypt and supporting its international growth strategy Significant transactions have also emerged in the realm of tower companies. In a deal worth US$2.2 bn, Qatar-based Ooredoo Group, Kuwait-based Zain Group, and UAE's TASC Towers Holding signed an agreement to establish the largest tower company in the Middle East and North Africa (MENA) region. The deal positions the region as a leading player in the global telecoms landscape, with expectations for driving economic growth, enhancing connectivity, and elevating global relevance.

The Middle East has also made significant investment in cultivating a vibrant AI ecosystem, resulting in numerous AI-driven innovations. We have seen a slew of partnership announcements, such as the collaboration between Adani Group and a unit of the UAE's International Holding Corporation (IHC), targeting the exploration of AI and other emerging technologies.

This joint venture seeks to capitalise on the US$175bn opportunity presented by India's digitisation strategies in crucial sectors, such as fintech, healthtech, and greentech. OpenAI's announcement of a collaboration agreement with Abu-Dhabi-based tech conglomerate, G42 aims at promoting the adoption of AI in the UAE and other Middle Eastern markets. In the next few months, an upswing in AI-based deals is, therefore, anticipated as industry players intensify their focus in this direction.

Consumer markets:

Emerging technological advancements are opening doors for innovation and operational enhancements within this sector, especially in response to consumer demand. The market is moving away from conventional physical and e-commerce models to a more blended "Phygital" model, whereby consumers want the physical shopping experience to be enhanced and facilitated by digital technologies.

Apart from the retail space, the food and beverage segment also witnessed growth in deal activity, particularly with the emergence of various F&B platforms in the region through partnerships, consolidations and acquisitions involving key market players. A recent example includes the establishment of Alpha-Mind, a JV partnership between ADMO Lifestyle Holding (the F&B arm of Alpha Dhabi) and Addmind (a leading lifestyle, entertainment and F&B player in the market). ADMO also recently announced their acquisitions of a stake in two large fine-dining brands in the region (Em Sherif and Ce La Vi) which further showcases the growing appetite for this sector in the region. Food security has also been a key focus area in the region which has driven acquisition in general and agri-tech startups to introduce innovative solutions to transform local agriculture.

Energy, utilities, and resources:

In the region, SWFs and government-related entities have significantly diversified their investment portfolios, with a focus on infrastructure and the renewable energy sectors. As a result, deal activity in 2023 primarily aimed at expediting the energy transition, aligning with the region's ambitious net zero targets.

Saudi Arabia and the UAE have emerged as global leaders in the clean energy sector within the region and are leveraging their expertise in hydrocarbons, while exploring potential advantages in renewables to drive the shift towards cleaner energy sources. This commitment to energy transition is reflected in M&A activity, with entities like PIF and Mubadala pledging to achieve net zero targets by 2050.

Alongside decarbonising existing portfolios, these funds are actively investing in green assets and technologies that support decarbonisation. In December 2023, an agreement was signed by the Abu Dhabi Investment Office, the Department of Energy, and Masdar to expedite the development of the hydrogen economy, aiming to establish the UAE as a global centre for low-carbon hydrogen. Similarly, Abu-Dhabi's Al Dawlia Capital Network LLC (ADCN) infused $350 million into its subsidiary, ADCN Energy, enhancing its operational capabilities and diversifying its renewable energy portfolio.

The next few months are expected to witness advancements in various renewable energy projects, such as the Al Dhafra Solar project in Abu Dhabi, the Hatta Wind Power project, and the Noor Energy 1 project in Dubai.The Middle East Energy 2024 conference in April is also poised to unveil collaborative opportunities for dealmaking in the renewable energy sector. Meanwhile, in the conventional oil and gas sector, there is a noticeable uptick in engagement in downstream sectors like oil refining and retail, evidenced by Saudi Aramco's purchase of a 10% stake in China's Rongsheng Petrochemical Co. for US$3.4bn and its acquisition of Chile's Esmax Distribución.

Financial services:

Growing demand for digital financial services has led to a surge in deals in 2023, with fintech and buy-now-pay-later companies gaining more ground. Mastercard and Fintech Saudi signed an MoU to promote fintech growth in Saudi Arabia. Buy-now-pay-later fintech Tabby raised substantial capital, cementing interest in alternative financing, while Etisalat's acquisition of the Careem super app is an example of convergence between financial services and TMT sectors.

Amongst other deals is Beltone Financial Holding acquiring 100% stake in Cash MicroFinance, a microfinance provider in Upper Egypt. Financial inclusion is a strong driver of fintech growth in many markets in the wider MENA region, including Egypt. A significant transaction in the insurance space has been German insurer Allianz selling its 51% stake in Allianz Saudi Fransi to Abu Dhabi National Insurance Company (ADNIC) for US$133.1 million. ADNIC expects this transaction to expand its presence in the Saudi Arabian market and strengthen its consumer retail portfolios.

In recent years, the insurance industry has witnessed a rise in mergers and acquisitions driven by strategies aimed at expanding their geographic presence, regulatory shifts, gaining scale efficiencies, competition, and a shortage of insurance licenses. There is an anticipation that more consolidation is still needed in the industry, especially in the UAE and Saudi Arabia. In Oman, Sohar International has successfully merged HSBC's Oman operations, thereby reinforcing the Bank's position as a growing financial institution in the country.

Healthcare:

The healthcare industry has experienced significant growth in 2023, mainly due to an ageing population, rise in chronic diseases, the rollout of mandatory insurance in countries such as KSA, Oman, and Egypt, as well as a surge in specialised and tertiary care, along with the adoption of healthcare technology. Governments in the Middle East are pushing for increased privatisation and public-private partnerships, which is expected to sustain demand across the healthcare value chain.

The sector has received the attention of private equity and Family Offices, with notable acquisitions such as Fajr Capital's US$1 billion acquisition of a 65% stake in Aster DM Healthcare and Gulf Islamic Investments' injection of US$ 160mn into Saudi Arabia's Abeer Medical company. The trend of exploring public listings as a means of securing capital for ambitious growth objectives and capitalising on current valuations is also on the rise. Pure Health's landmark IPO in late-2023 and Fakeeh Care's upcoming IPO are prime examples of this trend. Going forward, the sector is expected to see sustained transaction activity, driven by both public-private partnerships and increased consolidation in the private sector. This is especially true for certain countries, such as the UAE, which is reaching market equilibrium.

Real estate and infrastructure:

The real estate and infrastructure sector remains an attractive market for transactions and has witnessed major investments in the GCC region in 2023. The increasing demand for factory buildings, logistic facilities, trade hubs, distribution centres, and freight terminals, driven by the expanding opportunities in manufacturing and e-commerce in the region, is driving deal making in this sector. The current infrastructure landscape is influenced by smart infrastructure, strategic technology investments, and data analytics. Smart cities are transforming industries like healthcare, transportation, and energy to create a more connected environment. Additionally, industrialisation and modularisation of real estate construction is driving the need to build the manufacturing facilities and ecosystem to support it.

The giga projects in Saudi Arabia, such as NEOM, the Red Sea Project, and Qiddiya, are expected to substantially impact the regional mergers and acquisitions (M&A) market. These ambitious initiatives are not just ambitious urban and economic ventures; they are part of Saudi Arabia's Vision 2030, aimed at diversifying the Kingdom's economy away from its dependence on oil. As these projects progress, they are expected to attract significant domestic and international investment, fostering new partnerships and opportunities for local and regional companies. This influx of capital and strategic alliances is poised to localise parts of the value chains of key industries, such as tourism, entertainment, sports, and renewable energy, thereby fostering the creation of national champions. Moreover, the giga projects are designed to generate many job opportunities, thereby boosting local job creation and contributing to the region's overall economic development. The synergy between these projects and the regional M&A market is expected to usher in a new era of economic prosperity and industrial diversification in Saudi Arabia and the broader Middle East.

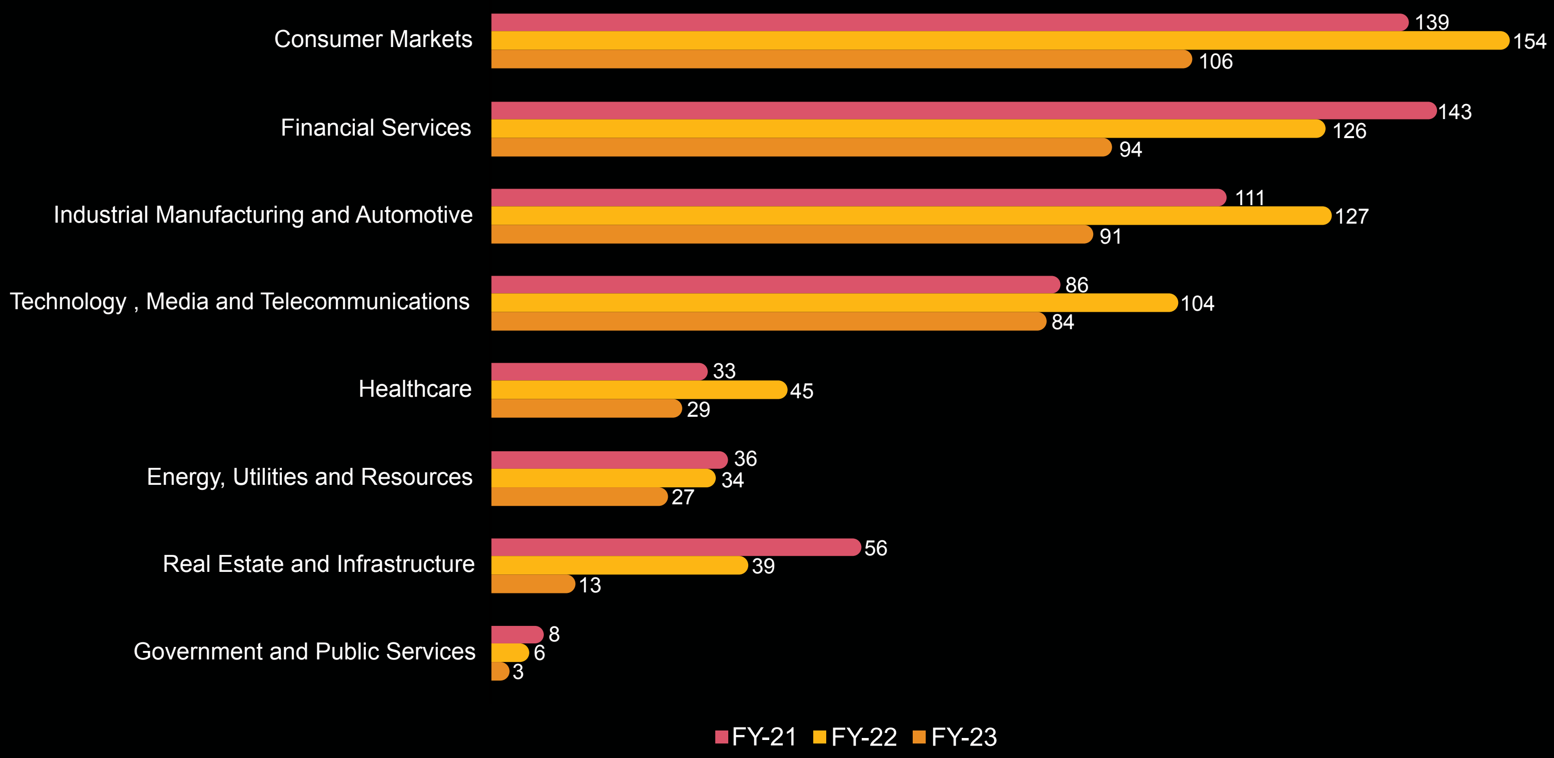
The UAE has also seen significant deals, with Emirates Stallions Group (ESG), a subsidiary of International Holding Company (IHC), announcing its acquisition of 60% of the Abu-Dhabi based AFKAR Financial Property Investments. The move highlights ESG's formidable growth in the real estate sector, consolidating its position as a leading global investment force in the region. Additionally, Aldar Estates, a subsidiary of UAE's Aldar Properties, has acquired FAB properties, expanding its managed residential units to 157,000. The transaction is expected to provide a consistent stream of recurring income to the Aldar Estates platform and improve its financial performance.

Industrial manufacturing and automotive:

The Middle East is strategically located between Europe, Asia, and Africa, which makes it a crucial global manufacturing hub. Governments in Saudi Arabia, the UAE, Qatar, and Kuwait are actively seeking to reshape the transportation sector by implementing decarbonisation strategies and promoting electric vehicles. The automotive sector in the region is experiencing a boost in transactions as Asian companies are relocating manufacturing and innovation back to the region. Hyundai Motor and Saudi PIF have agreed to establish Korea's first auto assembly plant in the Middle East, marking a series of deals worth US$15.6bn between the two nations. The factory will produce 50,000 units annually, including both electric vehicles and internal combustion engine vehicles. Other major deals in the region highlight the commitment to diversify the economy by boosting the electric vehicle sector. Luxury EV manufacturer Lucid Group has opened a new plant in Saudi Arabia, a significant step in the Kingdom's push to lead the global electric vehicle industry and attract investments.

Number of Primary Listings by country (FY-2021 to FY-2023)

Middle East Deal Volumes by Sector (FY-2021 to FY-2023)



Source: PwC Analysis based on Refinitiv (LSEG) data

Spring into action: Key takeaways for deal makers

Going into 2024, the Middle East is likely to see a robust deal making environment, as governments continue to advance their strategic agendas and diversify their economies. As the global M&A outlook improves and the global macroeconomic environment stabilises, we also anticipate a further surge in deals in the region.

Here's what deal makers should be thinking about:

01 Reinventing the business model:

Findings from our 27th Annual CEO Survey reveal that Middle East CEOs recognise the urgent need to reinvent their businesses, with 73% of regional leaders anticipating significant changes in how their companies will generate, deliver, and capture value by leveraging Gen AI in the next three years.

This further emphasises that strategic deal making will become imperative for expanding capabilities, as businesses capitalise on this transformative trend. More action is needed, particularly in sectors likely to be most affected by the force of the global megatrends such as technological disruption, and climate change.

Dealmakers need to take proactive steps to assess the risks and opportunities and be prepared to pivot to find new sources of value.

02 Talent as a key value driver

As business leaders look to leverage emerging technology and transform, generative AI will become more widely deployed. Our 27th Annual CEO Survey findings have also revealed that Middle East CEOs are more optimistic that GenAI will create jobs rather than destroy them.

In this new business environment, taking a proactive approach towards skills development and education is going to be crucial to preparing the workforce for future opportunities. Talent will be a key value driver. Dealmakers will need to ensure that the right people are in key roles as part of successful mergers and key transactions, while also taking key measures to retain critical talent.

03 Be agile and adaptable:

In a market where adaptability is crucial for competitiveness, businesses need to swiftly transform and generate value. Dealmaking presents a ready means for business leaders in the Middle East to stay abreast of market developments.

Gulf SWFs have shown a keen interest in investing in technology and innovation-driven companies, alongside infrastructure and renewable energy sectors. Besides their key priority to propel the domestic economy, contribute to decarbonisation goals, and generate employment, these funds must also exhibit an increasing appetite for risk as they continue to to look into diversified areas of investment and fortify their domestic deal pipeline.

Questions for dealmaking: Key pointers to consider

Reassess portfolio strategy

In this environment of higher-for-longer interest rates and higher cost of capital, how can we gain strategic advantage by reassessing our portfolios against our core strategy?

What is the right combination of investment and acquisitions (and divestments to free up capital to reinvest) that can still achieve a return on capital?

Consider other forms of transactions such as strategic partnerships.

Get the foundations in place

Where are the gaps in our data and processes that could hamper our adoption of new technology?

How will we close those gaps so that new solutions deliver value as quickly as possible?

Clarify the capabilities that count

What are our missing or sub-par capabilities that could accelerate our transformation, and could we acquire these from targets that excel in these capabilities, or through more partnerships and alliances?

Narrow down the targets

When weighing up where to invest in our assets, what will give us the biggest return or impact?

What are the mutually reinforcing investments that will sharpen operating and technology models to drive performance factors, such as innovation, speed-to-market and flexibility?

Have a holistic value creation hypothesis

Realising value requires more than just financial reengineering of assets.

When preparing holistic value creation plans, where are the revenue synergies and cost synergies?

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About the data

This edition of our TransAct report covers the FY-2023 period ending December 2023.Our commentary on M&A trends is based on data from industry-recognised sources. Specifically, deal volumes referenced in this publication are based on officially completed and partially completed deals – excluding pending and announced deals – with data sourced from Refinitiv as of 31st December 2023 and accessed on 30th January 2024.

Data on IPO listings is sourced from S&P Capital IQ. This has been supplemented by additional information from our independent research. To provide a clearer view of the level of deal activity in the Middle East region, the source data was modified to correspond with PwC’s industry mapping, and the target nations were mapped to PwC Taxonomy. Furthermore, industry and geography classifications are based on the target company, and all reported amounts are in US$mn.

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