TransAct Middle East

November 2021 (Q1-Q3)

Increasing focus on tech as dealmakers' confidence returns

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Foreword

The first nine months of 2021 have been marked by a strong revival in M&A activity as the Middle East returns to growth after the COVID-19 downturn. During the first three quarters of the year, there were 323 reported completed deals, compared with 175 in the same period last year and 174 in 2019 (Figure 1). This sharp rise indicates both pent-up dealmaking energy and the demand among investors to put spare capital to work by taking part in equity raises by both early-stage companies and established players seeking to strengthen their cash position.

Activity within the Middle East during the first nine months was focused on the UAE, with 113 completed deals, followed closely by Egypt, with 95. Saudi Arabia, which reported 61 deals, also experienced a strong recovery compared with the same period in 2020, while the rest of the region picked up as well (Figure 2).

The momentum in Egypt continues to be strong, with investments spanning across the typical consumer, healthcare and education sectors, and equally expanding into non banking financial services as well as tech related start-ups and scale-up, especially those in the e-payments and fintech space.

In line with mid-year Global M&A trends, highly sought-after deals for pure technology and tech-based assets are likely to continue to command a premium. Economic optimism and abundant capital put corporate, private equity and SPAC buyers on a collision course for the most attractive deals. Technology, media and telecommunications companies accounted for a third of all megadeals in the first half of 2021[1].

Figure 1: **Total deal volume** (Jan-Sept)

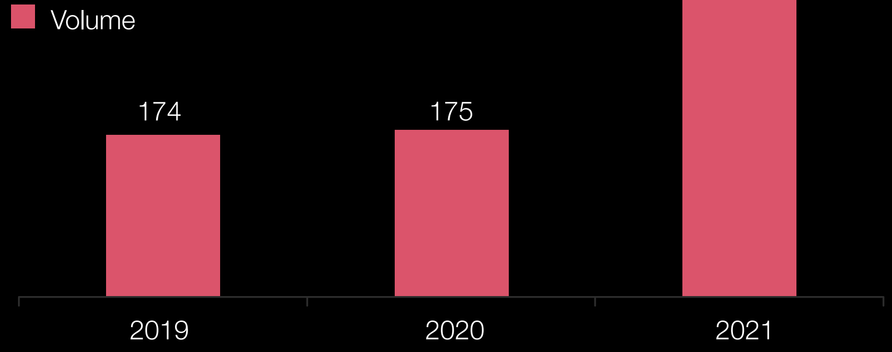
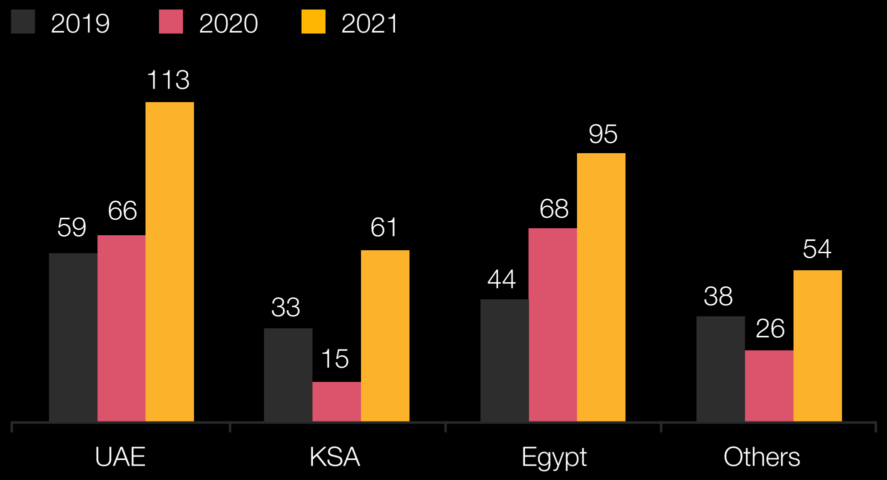


Figure 2: **Deal volume by country** (Jan-Sept)



[1] Global M&A Industry Trends: 2021 Mid-year

Figure 3: **Deal volume by transaction type** (Jan-Sept)

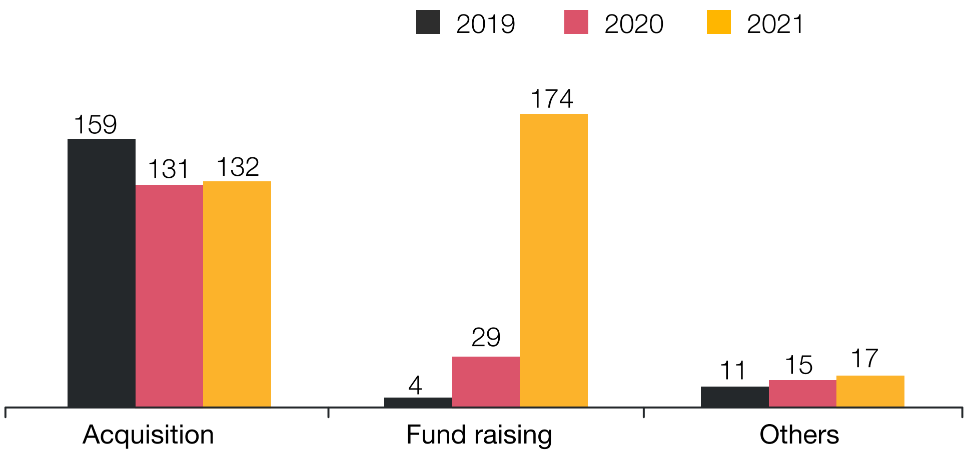
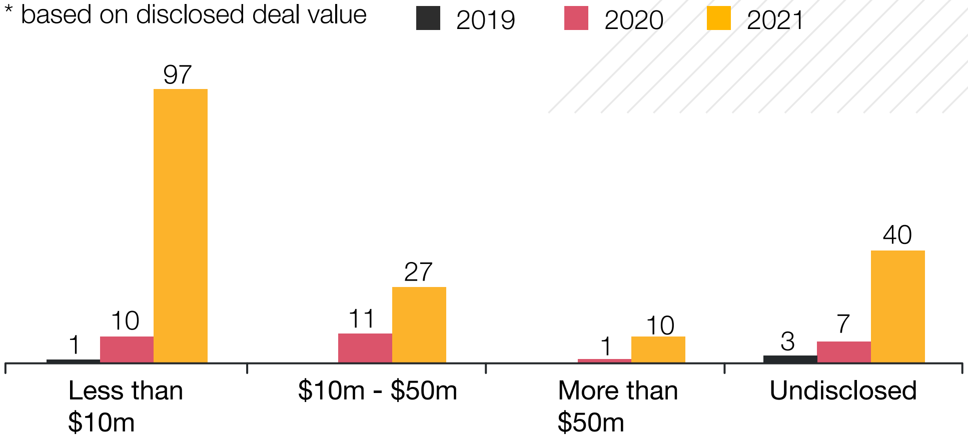


Figure 4: **Deal volume for Fundraising deals** (Jan-Sept)

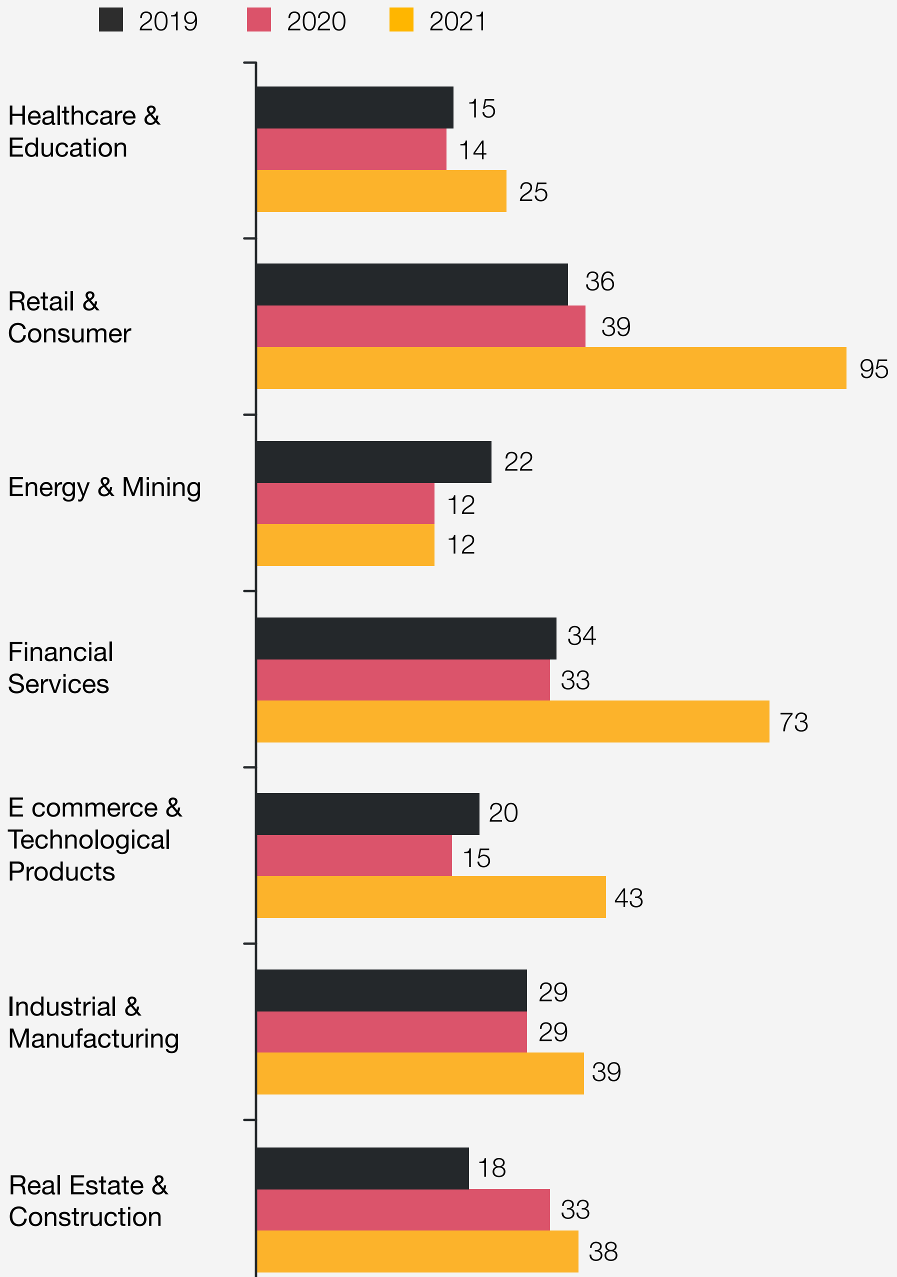
* based on disclosed deal value



Fundraising by tech companies has been a key driver of capital flows into the Middle East during the past nine months, with investments distributed across a range of sectors – notably, payment gateways and fintech companies, e-commerce and marketplace platforms, and online health and education platforms. Tech investment in the Middle East is further supported by the ambitious digital goals of national transformation programmes, including Saudi Arabia's Vision 2030.

In total, 174 fundraising deals were completed in the first nine months of 2021, compared with only 29 during the first three quarters of 2020 (Figure 3). While a number of these transactions were related to early stage funding and therefore smaller in size, there were 10 transactions which were worth more than $50m (Figure 4).

Figure 5: **Deal volume by sector** (Jan-Sept)



Sector highlight

- Technology has been at the centre of deal activity across all key sectors: retail and consumer, financial services, e-commerce, technology, education and healthcare. While acquisitions have maintained momentum at FY20 levels, fundraising has become a major driver of activity.
- Food and beverage players were a key target in the consumer and retail segment, with regional players such as Almarai, Agathia and United Foods adding capabilities to their value chain through acquisitions. In addition, there have been a number of fund raising transactions spread across a broad range of online platforms offering automotive, apparel, and multi-product catalogue listings.
- National Oil Companies (NOCs) are at the core of the infrastructure deals, which continue to be driven by government diversification and capital recycling agendas.
- Real estate deal activity was witnessed across the range of product offerings, from residential housing to warehousing solutions, vacation rental homes, and hospitality operators.
- The Telecommunication sector faces a growing need for investment in cyber security, data centers, IoT and Cloud. We see an upward trend in companies seeking off-shore acquisition opportunities to diversify revenue streams and optimise infrastructure assets.
- Mergers & Acquisitions in banking, payments and insurance are driving the financial services sector in the Middle East. We expect continued deal activity in these sub-sectors to create regional champions in a sector where scale is needed to withstand margin pressure. Significant funding activity was also noted in non-banking financial service segment such as payment gateway, alternative / microfinance operators and insurance platforms.

Three largest Middle East acquisitions January - September 2021

$12.4bn

Aramco Oil Pipelines Co.'s sale of a 49% stake to US-based EIG Partners and Abu Dhabi's Mubadala Investment Co (April 2021)

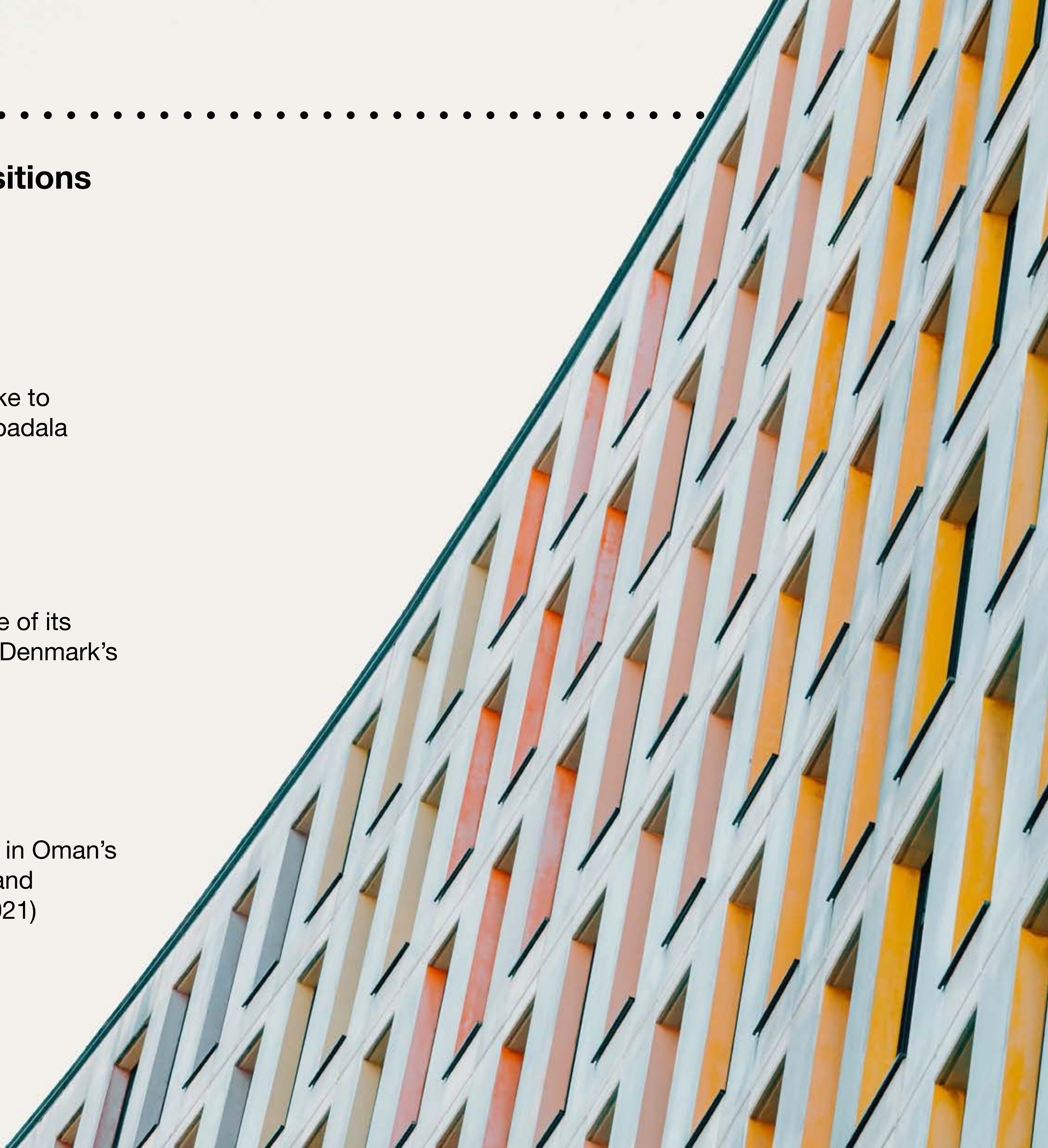
$4.1bn

Kuwait's Agility Public Warehousing Co.'s sale of its Global Integrated Logistics (GIL) business to Denmark's DSV Panalpina (August 2021)

$2.6bn

BP Plc's sale of its 20% participating interest in Oman's Block 61 field to Thailand's PTT Exploration and Production Public Company Ltd (February 2021)

Source: Reuters



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The first nine months of 2021 have been marked by a strong revival in M&A activity as the Middle East returns to growth after the COVID-19 downturn. This sharp rise indicates both pent-up dealmaking energy and the demand among investors to put spare capital to work. We are seeing an increased appetite for investing in companies/partnerships to accelerate the transformation of businesses which are being disrupted as well as reallocation of capital towards sector disruptors.

- Romil Radia
Middle East Deals Partner & Market Leader

Key M&A themes

01 **Increased appetite for tech deals**

02 **Momentum in the capital market activity**

03 **Opportunities in the infrastructure sector triggered by capital recycling and national transformation agendas**

01 Increased appetite for tech deals

The first nine months of 2021 have seen growing interest by angel investors, VCs and Private Equity in tech-based start-ups, including fintechs, online retailers and platforms in sectors such as healthcare, insurance, media publishing, food delivery and auto services. Key reasons why fundraising leads this dealmaking space include:

- Businesses seeking assets or investors which will enable them to achieve growth more rapidly than by doing so organically. In the agri-tech or agtech sector, Shuaa Capital recently led a $50m structured Sukuk (Islamic bond) for UAE-based Pure Harvest Smart Farms. Meanwhile, the Saudi- based Red Sea Farms raised $16m from regional VCs including Aramco's VC division Wa'ed to facilitate the establishment and expansion of alternative farming sites and facilities across the region.

- Direct access to regional markets that global players are struggling to enter in the short-to-medium term. One example is the $110m investment by global payment provider Checkout.com in Saudi Arabia's leading Buy Now Pay Later (BNPL) platform Tamara.

- Attractive routes to diversify into e-commerce and digitalised operations which drive value creation. A prime example is the Middle East deployment of Softbank's Vision Fund, which is targeted on hi-tech investments. The two largest reported fundraising rounds were led by Softbank: firstly, its $415m investment in Dubai-based Kitopi [2], an online caterer using cloud technology, followed by its $125m investment in Unifonic, the Saudi-based customer engagement platform.

[2] Source: Reuters

Fintech players such as payment gateways, insurance platforms, alternative financial services have also recorded a significant leap in deal activity in the first nine months into 2021, compared with 2020. The rise has been fuelled by a range of factors: investors with liquidity; a surge in the number of tech-players entering or operating in the market; the ticket price is below $10m; and the inclusion of start-ups in the portfolio mix is helping to achieve value acceleration and double digit growth. The Fintech segment in particular has seen some high value deals where values have been reported. For example, India's insurance policy aggregator Policy Bazaar raised $75m for its UAE expansion, while MNT Halan, an Egypt-based digital micro-finance bank, raised $120m for expansion of operations and product offerings.

On the other side of the coin, we note that both traditional and tech-based Corporates are becoming more active participants in tech dealmaking. Some corporates have been acquiring or investing in established platforms, such as Tamer Group's purchase of a majority stake in Dubai-based Mumzworld, the region's biggest online children's goods retailer. Others have been leveraging the overall investor interest in tech-based operators and platforms to raise funds as an alternative to classic debt-funded expansion. A typical example is the $14m funding round by The Luxury Closet, a high-end fashion re-commerce platform, which intends to use the capital for operational expansion outside the UAE. The deal was backed by HB Investments, the UAE's home grown Huda Beauty's investment arm, along with Nazer Group, Middle East Venture Partners (MEVP) and others.

02 Momentum in the capital market activity

There continues to be momentum in the key capital markets across the region. Some of the key IPOs include the float of $11b ACWA [3] Power on Tadawul (KSA) and $10b ADNOC Drilling on Abu Dhabi Exchange (ADX) [4]. The IPO pipeline looks promising as there are a number of companies, particularly across KSA and UAE (including Government/SWF backed entities) which are currently preparing for IPOs or direct listings. Also, Dubai Government recently announced its plan to list ten Government owned enterprises (commencing with Dubai Electric and Water Company (DEWA) and there have been number of new IPO announcements on Tadawul such as Tanmiah Food Company, Almunajem Foods, and STC Solutions which have been very well received.

Further, the recent changes to the regulatory and operational regime across certain key markets (e.g. the recent launch of Nasdaq Dubai Growth Market, the implementation of ADX One Strategy [5] and the reorganisation of Saudi Tadawaul ahead of its own planned listing) should also help increase the attractiveness of capital markets. The positive sentiment and boosted activity level has also allowed the regional SWFs to monetise assets and attract international investors, which we expect to see more of going forward.

For ME based tech companies looking for IPOs, SPEC led mergers/buy-outs may provide a potential option in certain situations. The use of SPACs as an alternative means of listing has increased worldwide since 2020, notably in the US where SPACs are now competing with more traditional private equity to find buy-out targets. In July, the Middle East witnessed its first SPAC deal with the listing on Nasdaq of Anghami, a music-streaming platform headquartered in Abu Dhabi that covers the MENA region. With the completion of Anghami's listing, it will become the first Middle East tech company to be listed on NASDAQ. This was immediately followed by a merger between the Dubai-based ridesharing company SwvL and a SPAC to support SwvL's planned Nasdaq listing.

We expect to see a few more of these SPAC led mergers in the region, while noting the underlying operational challenges around SPAC deals, such as meeting strict standards for internal controls, corporate governance and financial reporting. In this context, Middle East businesses considering SPAC-led listings will need to adapt their structures and processes rapidly to maintain interest from international investors.

3 Source: Power Technology
4 Source: Reuter
5 Source: Abu Dhabi Securities Exchange (ADX)

The IPO pipeline looks promising as there are a number of companies across different sectors, particularly in KSA and UAE which are currently preparing for IPOs or direct listings.The positive markets sentiment, availability of liquidity and boosted activity level have also allowed the regional SWFs to monetise assets and attract international institutional investors, which we expect to see more of going forward.

- Imad Matar
Middle East Deals Advisory and Transaction Services Leader

03 Opportunities in the infrastructure sector triggered by capital recycling and national transformation agendas

Amid increased fundraising by tech-based platforms, infrastructure and industrial segments maintained momentum. In the short to medium term, infrastructure deal activity will continue, as governments look to continue to invest in the infrastructure sector (both traditional and digital) and at the same time recycle capital and shift funds from oil-based segments to wean economies off energy revenues.

Saudi Arabia has been the leading regional driver of these changes. Recent flagship deals include the recycling of capital through the government's $1.54bn (5.7bn riyals) privatisation of four flour milling companies owned by Saudi Grains Organization (SAGO) [6]; and the $12.4bn sale of a 49% stake in Aramco oil pipeline assets. Aramco is also considering a minority stake sale in the gas pipeline business which is expected to raise an additional $17bn. As part of the capital recycling agenda, Aramco is currently exploring a share swap acquisition of an equity stake in India's Reliance Industries [7].

Mega projects such as NEOM form a key part of the Kingdom's ambitious Vision 2030 plan to transform the economy and will require a significant boost in foreign direct investment (FDI) into the country. The unprecedented surge in infrastructure spending in Saudi Arabia means it will be important for the government to bring in the private sector to help manage cash flows. To this end, we expect to see an increase in Public Private Partnerships (PPPs), investment from other countries and contractor financing models.

[6] Source: Gulf News
[7] Source: Financial Times

Middle East corporates have followed a similar strategic trajectory, aiming to monetise non-core assets and reallocate funds to drive transformation and valuation creation in their core business. A typical example is Dubai real estate developer Nakheel's sale of its chilled air business in June to Emirates Central Cooling Systems Corp. for $234m. Dubai's Emaar Properties and Abu Dhabi's Aldar Properties have also sold their district cooling assets in similar deals.

Meanwhile, Saudi Arabia's Public Investment Fund (PIF) has been one of the most active Middle East sovereign wealth funds (SWFs) in seeking to monetise its assets. PIF recently exited its stake in US-based Lucid Motors via a SPAC-led Nasdaq listing in February, followed by the float of ACWA Power International on the Riyadh stock exchange in October [8]. Further, PIF plans to liquidate its partial stake in Saudi Telecom Company (STC) [9] alongside the intended listing of the digital security firm, Elm. The proceeds will subsequently be re-purposed to fund the development of residential and commercial real estate, rail, road and air transport infrastructure and the development of NEOMas part of Vision 2030.

8 Source: Reuters
9 Source: Reuters

Fundraising by tech companies has been a key driver of capital flows into the Middle East during the past nine months, with investments distributed across a range of sectors – notably, payment gateways, fintech companies, e-commerce, marketplace platforms, online health and education platforms. It is very encouraging to see the investment (including FDI) in innovative start-up companies in the region as this will help achieve overall national transformation objectives.

- Ovais Chhotani
Middle East Deals Partner

Looking ahead

The trends we have highlighted in this update – increased investment in technology assets, momentum in the capital markets, and the continuing infrastructure spending – fit into the wider picture of a region undergoing rapid structural change as the Middle East emerges from the pandemic.

Across the region, companies are in line with the global M&A trend of corporates looking to gain a competitive advantage by acquiring capabilities they do not possess, often in technology.

At the same time, we see distinctive regional features in the momentum in the M&A market – notably, ambitious government transformation agendas such as Saudi Arabia's Vision 2030 and Abu Dhabi's Economic Vision 2030. COVID-19 helped to accelerate the region-wide drive to build data-driven knowledge economies by the end of the decade, as lockdowns, disrupted supply chains and a mass shift to remote working gave added urgency to technology investments and implementation.

Coming out of the pandemic, the commitment by Middle East governments to reduce dependence on energy revenues and lead global efforts to mitigate climate change mean ESG assets will be an increasingly important theme for investors.

This rapidly transforming market landscape is providing fertile ground for angel investors, VCs and PE seeking potential tech winners among the most promising start-ups and early-stage companies, in sectors ranging from health and education to retail and financial services. In addition, family-owned companies – many with long histories – are looking to reallocate capital to transform their businesses by harnessing new technologies, offering further opportunities for tech-focused dealmakers.

While economic challenges remain, the evidence from this update is that confidence has returned to the Middle East, building on the region's successful response to COVID-19. In this regard, business sentiment is especially positive in the UAE.

As businesses around the world continue to manage the fallout of the COVID-19 pandemic, it's more important than ever to have a strong plan to maximize value creation. Looking forward to 2022, we expect the rising need for companies to be clear in defining which capabilities they can leverage to succeed, and which capability gaps they need to fill. In a recent study, it has been revealed that capabilities-driven deals generated a significant annual total shareholder return (TSR) premium over deals lacking a capabilities fit. [10].

[10] Source: PwC report ‹Doing the right deals›

Contacts

Antoine Abou Mansour
Middle East Deals Leader

antoine.aboumansour@pwc.com

Romil Radia
Middle East Deals Markets Leader / Regional Valuations Leader

romil.s.radia@pwc.com

Zubin Chiba
Middle East Corporate Finance Partner

zubin.chiba@pwc.com

Ovais Chhotani
Middle East Transaction Services Partner

ovais.chhotani@pwc.com

KSA

Imad Matar
Middle East Transaction Services Leader

imad.matar@pwc.com

Egypt

Maye Ayoub
Transaction Services Partner

maye.ayoub@pwc.com

About the data

At the start of October, the postponed launch of Expo 2020 in Dubai and the Future Investment Initiative (FII) conference in Riyadh attracted strong regional and international interest, underlining the Middle East's appeal to investors as governments and businesses resume transformation programmes that were paused or slowed last year.

To capture the extent of this continuing ramp-up in deal activity following the unprecedented COVID-19 crisis, this third-quarter TransAct update covers the period to the end of September, rather than the first half of the year, as in previous editions.

We have based our commentary on M&A trends on data provided by industry-recognised sources. Specifically, values and volumes referenced in this publication are based on officially completed transactions, excluding pending, rumoured and withdrawn transactions, as provided by Thomson Reuters as of 30 Sept 2021 and as accessed on 5 Oct 2021. This has been supplemented by additional information from our independent research. Certain adjustments have been made to the source information to align with PwC's industry mapping. We define megadeals as transactions with a deal value greater than US$1 bn.