MENA M&A Outlook

2023

Baker McKenzie.

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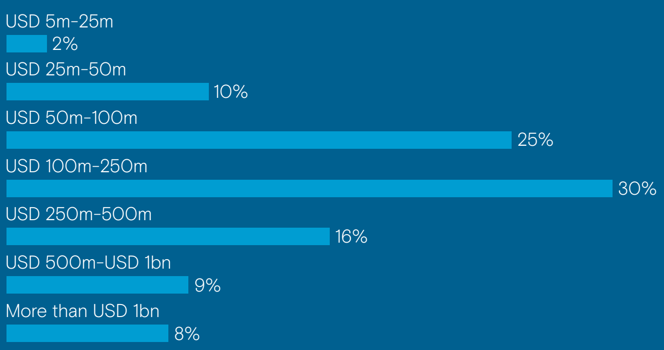
Mergermarket

Contents

Methodology

In Q3 2022, Mergermarket surveyed 200 dealmakers that had either completed a deal in the past two years or were planning to complete a mergers and acquisitions (M&A) deal within the MENA region over the next two years. Of these respondents, 100 were corporates and 100 were private equity (PE). 100 were headquartered within the MENA region and 100 outside of MENA. Private equity firms and corporates had a minimum AUM and revenue of USD 100 million respectively. On a general basis, all charts show overall figures except when figures based on region or corporate/PE are statistically significant.

What was the value of your most recent MENA M&A deal? (Select one)



Foreword

Despite growing global macroeconomic headwinds, merger and acquisition activity in the MENA region remains vibrant

The Middle East & North Africa (MENA) has much to offer corporates and financial investors in pursuit of M&A. The region is increasingly opening its doors to foreign direct investment (FDI) and growing more diverse in the number and types of deal opportunities that are available.

Infrastructure and energy assets have always been in deep supply. Recognising its over-reliance on oil and the need to diversify its economy, the United Arab Emirates (UAE) has set about cutting red tape to attract FDI. Dubai has long-since established itself as the Middle East's foremost business hub and is already home to many multinational corporations. This year, the government announced plans to double the size of its economy by 2030 and will more freely issue commercial licences and work visas and open up access to capital markets and the banking system among other initiatives to make this goal a reality. On announcing the changes in July, trade minister Thani Al Zeyoudi told a press conference that: "We're moving from a regional hub to a global hub. We're competing with the big, big boys now."

Saudi Arabia is competing hard with the UAE to attract foreign capital and companies are showing strong interest in establishing a presence in the Kingdom, the largest economy in the Middle East, as it continues to modernise. On 7 April, the Saudi Ministry of Investment announced it is drafting a new investment law to promote competitive neutrality and ensure equal opportunities and the fair treatment of direct investments made by foreign and local investors.

Israel, meanwhile, is one of the most advanced technology powerhouses in the world. The country once again ranked among the top 10 most innovative economies globally, according to the Bloomberg Innovation Index 2022, ranking in seventh place globally and first place in MENA. Areas of excellence include cybersecurity and Artificial Intelligence (AI) for advanced data analytics and automation. These technologies are only becoming more critical in today's frenetically paced business environment.

Underlying all of this, the region has enviable rates of growth. The World Bank estimates that GDP will rise by 5.5% through 2022, lifted by high hydrocarbon prices, before settling back down to 3.5% in 2023. This compares with projected global growth rates of 3.2% this year and 2.7% in 2023.

It should be noted, however, that MENA is diverse and this performance is expected to be uneven. As net oil exporters, Saudi Arabia, the UAE and the rest of the Gulf Cooperation Council members are the largest beneficiaries of the buoyancy in commodity markets which are seeing their fiscal capacity balloon from windfall state revenues. This is important in a region that sees high rates of investment from government entities. Net oil importers such as Morocco and Tunisia, meanwhile, will see lower growth and widening public deficits as they contend with higher energy costs.

For this report, we engaged with strategics and private equity firms active in dealmaking in the region to understand where they see the largest M&A opportunities right now, what is motivating them to invest in MENA and what they expect from this market in a post-pandemic world adjusting to inflationary pressures and tightening financial conditions.

Key findings

1.

2022 is on course to have another stand-out year following 2021's record-breaking M&A figures of USD 131 billion total deal value across 500 transactions. Q1 2022 was the highest quarter on record for MENA M&A volume at 139 deals.

2.

66% of respondents based in MENA say that they expect the level of ESG-related regulatory scrutiny within MENA to increase in the next three years, while 73% of those based outside of MENA feel the same.

3.

The UAE and Saudi Arabia are highlighted by 77% and 76% of respondents respectively for being MENA countries they expect will most likely see some of the fastest growth in M&A deal activity over 2023.

4.

63% of those based in MENA expect oil and gas to see some of the fastest growth in M&A activity in MENA over 2023. When asked about where they plan to invest, however, TMT, industrials and chemicals, and consumer and retail were the top sectors.

5.

Joint ventures are seen as one of the most attractive types of investment for 73% of corporate MENA buyers and 60% of PE MENA buyers.

M&A activity

The first three quarters of 2022 has seen M&A activity in the MENA region outstrip all previous annual records

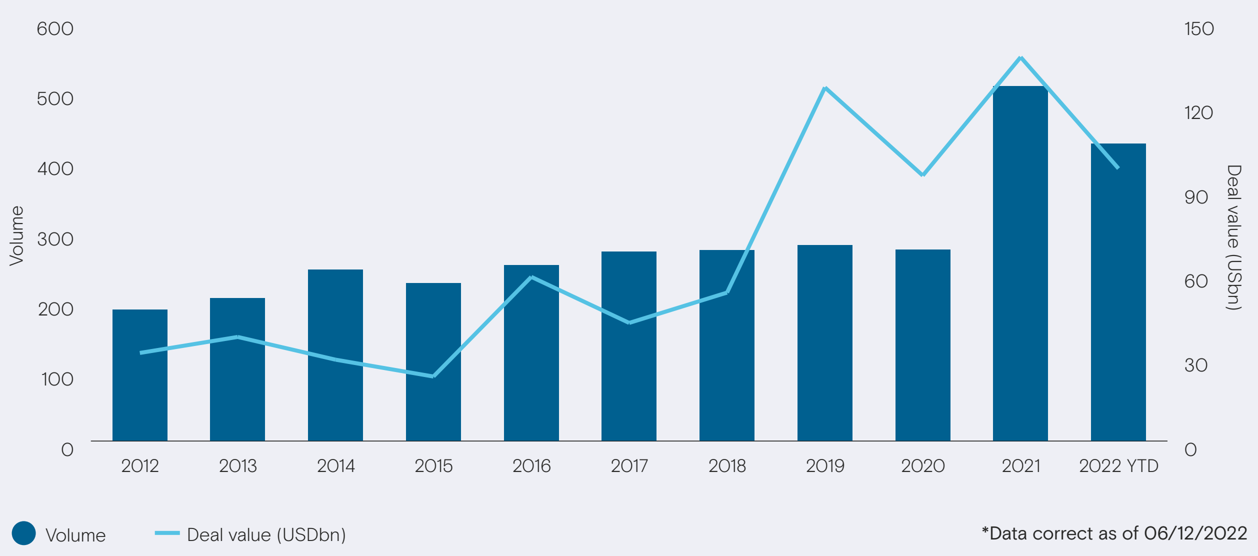
This year has put in a scorching performance by historic standards. Q1 2022 was the highest quarter on Mergermarket record (since 2006) for MENA M&A volume at 147 deals, pushing the first nine months of the year to 370 transactions. This is well above any full year on record, notwithstanding last year's breakout performance. The total deal value reached USD 86bn over the period, putting 2022 on track to be one of the three highest-value years on record.

There have been signs of a slowdown more recently, although MENA's M&A market is showing resilience. "The continuous increase of interest rates and the cost of borrowing is likely to impact acquisitions in some sectors. Other sectors like the oil and gas, education, hospitality and high-end consumer goods and companies that continue to benefit from the oil price like sovereign wealth funds and state-backed companies might be a net beneficiary and seem to have cash available to deploy at attractive valuations in the region and abroad," says Omar Momany, a partner at Baker McKenzie , and co-head of the UAE Corporate/M&A practice. "But inbound M&A activities will likely slow due to the global slow down and financing pressure."

Mirroring the global trend, technology, media and telecommunications (TMT) has by far been the strongest performing sector in terms of volume between 2021-2022 year-to-date, with 333 deals, nearly four times the next closest sectors, which were industrials and chemicals and business services, each with 87 deals. TMT also led on deal value with USD 68.9bn invested over the same period, although it was a much closer race—the oil and gas sector recorded USD 58.4bn during this timeframe.

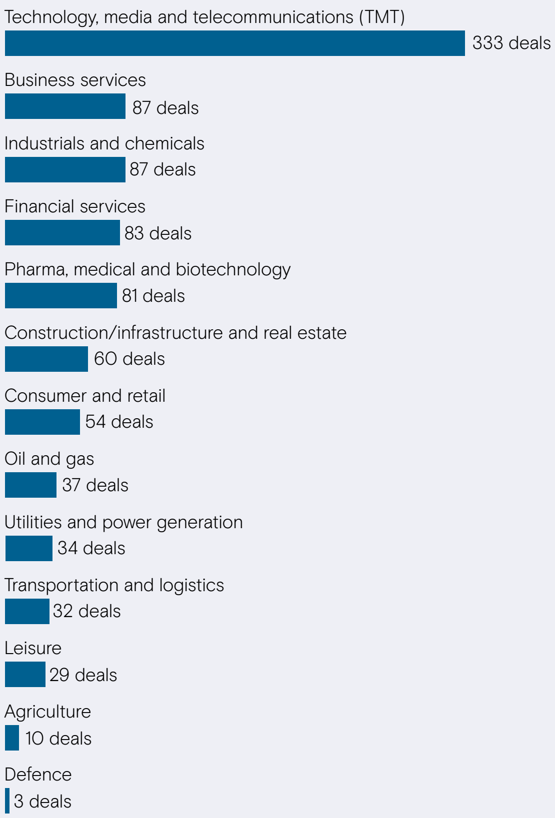
This concentration of TMT deals follows the fact that Israel has been a nest of M&A activity, the country being a technology and innovation epicentre. The

MENA M&A activity 2012-2022 YTD*

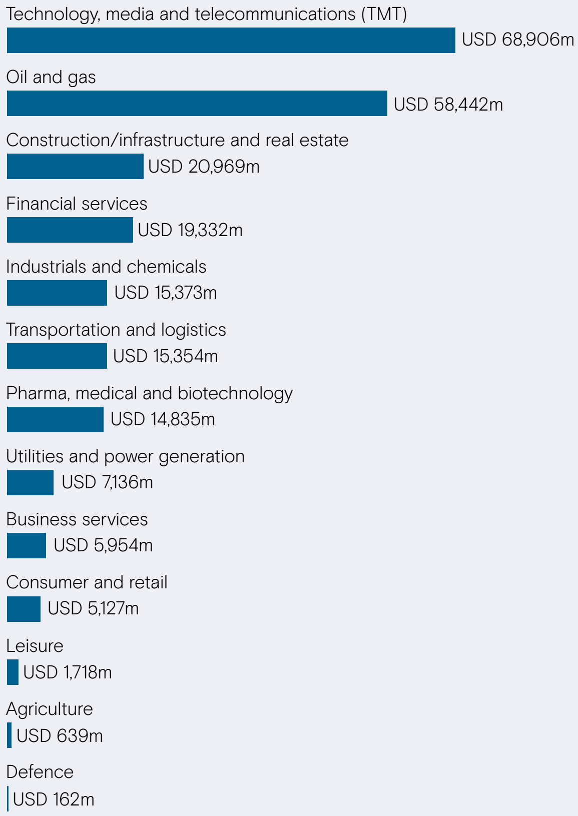


*Data correct as of 06/12/2022

MENA M&A volume by sector, 2021-2022 YTD



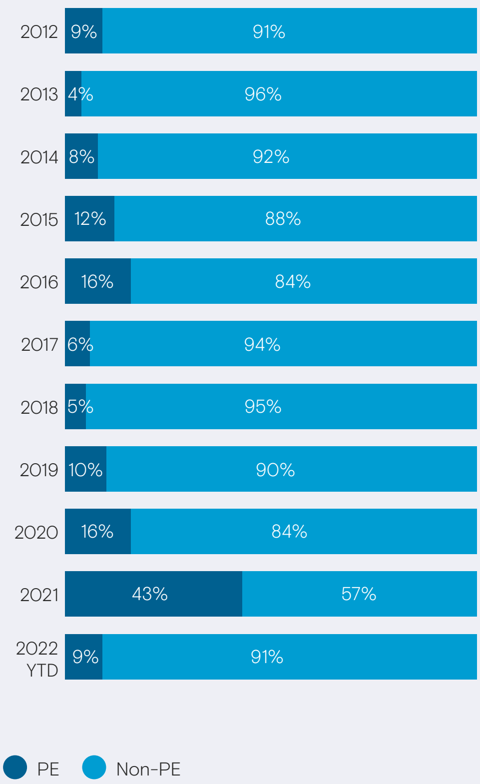
MENA M&A deal value by sector, 2021-2022 YTD



MENA M&A volume by country

	2019-2020	2021-2022 YTD	Change
Israel	259	485	87% ▲
United Arab Emirates	106	190	79% ▲
Saudi Arabia	64	75	17% ▲
Egypt	43	61	42% ▲
Morocco	19	26	37% ▲
Malta	12	23	92% ▲
Kuwait	6	15	150% ▲
Oman	11	8	-27% ▼
Bahrain	7	8	14% ▲
Qatar	5	9	80% ▲
Jordan	4	9	125% ▲
Tunisia	8	3	-63% ▼
Algeria		9	
Iraq	2	6	200% ▲
Lebanon	4	2	-50% ▼
Syrian Arab Republic	1		
Iran	1		
Libya		1	

MENA M&A deal value, PE vs. non-PE



All data correct as of 06/12/2022

country saw 485 deals in 2021-2022 total, a gain of no less than 87% on the previous 2019-2020 period and value of USD 93.8bn, up 195% over the same period. The country also claimed eight of the top 20 MENA M&As in 2022 to date. One of the largest of these, and the largest TMT M&A across the entire region, bore all the hallmarks of Israel's strengths. In February, Intel Corp paid USD 5.8bn for Tower Semiconductors, plugging gaps in the US semiconductor manufacturer's chip fabrication activities. Another TMT M&A milestone came when Unity, owner of one of the most dominant video games development engines, took control of Tel Aviv's Ironsource, which serves the so-called app economy, enabling companies to monetise and distribute their apps as widely as possible.

The UAE similarly saw a substantial leap in deal volume, with a 79% jump to reach a total of 190 over 2021-2022 YTD. However, aggregate M&A value in the country was down by 40% to USD 41.1bn. A consortium including South African holding company Remgro, Switzerland's MSC Mediterranean Shipping and France's SAS Shipping Agencies Services made the largest deal with a USD 5.1bn takeover of Al Noor Hospitals, the largest private integrated healthcare provider in Abu Dhabi. Canadian pension fund Caisse de Depot et Placement du Quebec made a similarly sized deal when it acquired a bundle of transportation assets comprising a 22% stake in the Jebel Ali Port, Jebel Ali Free Zone and the National Industries Park, which are of strategic importance given their role in enabling the flow of trade in the growing region.

Israel and the UAE, while presenting very different opportunity sets, are the clear M&A leaders in MENA. Of the 930 acquisitions made between 2021-2022 across the whole region, 73% involved targets situated in the two countries. Private equity seized upon a great many of these opportunities last year and invested ample sums of capital. PE buyouts in MENA accounted for 43% of all M&A value within the region in 2021, a far higher proportion than that seen in previous years. Software has been a major play for financial sponsors for some time and tech-centric funds have been taking a keen interest in what Israel has to offer. A case in point, Turn/River Capital paid USD 571m for Israeli security software firm Tufin earlier this year. However, deals with corporate buyers have been notably more dominant in 2022 so far, with PE investment retrenching to pre-pandemic levels. This pullback has coincided with a sweeping valuation reset for software and other technology-related assets in particular.

M&A outlook

Dealmaking in UAE and Saudi Arabia is set to be active deals in 2023, while TMT draws the greatest interest

Local corporates are expected to be the most acquisitive investor group over 2023. Just over half (53%) of respondents overall expect this to be the case next year, with as many as 70% of domestic dealmakers seeing this playing out. Developed M&A markets typically have a home bias, especially measured by deal volume. Large local corporates tend to dominate and account for more M&A than financial sponsors.

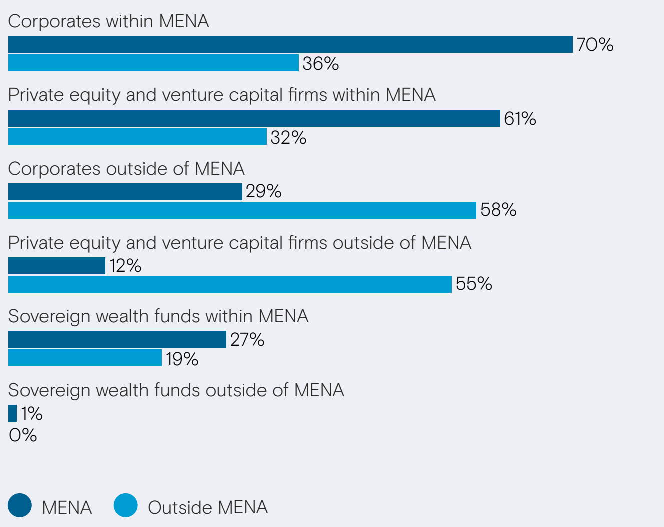
However, private equity played a major role last year and the MENA financial sponsor ecosystem continues to flourish. 47% of respondents overall anticipate local PE and VC firms to be the most active buyer type in 2023, rising to 61% of MENA dealmakers who foresee this.

The next most active buyers are predicted to be foreign corporates and sponsors, respectively cited by 44% and 34% of the whole survey sample. Notably, there is a gap in expectations depending on where investors are based. Those within MENA expect their counterparts to be the most active and vice versa.

Sovereign wealth funds (SWFs) are expected to be the least active buyer type. These investors have immense firepower, with the eight largest Middle Eastern SWFs managing a combined USD 3tn in assets, though they are relatively small in number. They are also increasingly allocating to private equity funds as a means of diversifying their exposure to hydrocarbons. The Abu Dhabi Investment Authority (ADIA), for example, recently increased its PE target allocation to 5-10% from 2-8%, with state-owned funds in the region benefiting from the positive oil price cycle and investing those revenues. This means that capital will flow indirectly from these state-linked entities via sponsors' funds into deals.

However, they are still likely to have a strong direct presence. Over the past 18 months, oil revenues have flowed into these buyers' coffers and they are eager to diversify their holdings as global energy consumption gradually transitions away from fossil fuels. "These buyers have large capital reserves and, unlike foreign buyers, are also less reliant on debt amid tightening financing conditions. They can fund very large deals even if they don't account for the majority of M&A volume," says Mohammad Al Rasheed, Legal Advisors Abdulaziz Alajlan & Partners in association with Baker & McKenzie Limited.

Which type of buyer do you expect to be most active in the MENA region over 2023? (Select top two)



These buyers have large capital reserves and, unlike foreign buyers, are also less reliant on debt amid tightening financing conditions.

Mohammad Al Rasheed, Legal Advisors Abdulaziz Alajlan & Partners in association with Baker & McKenzie Limited

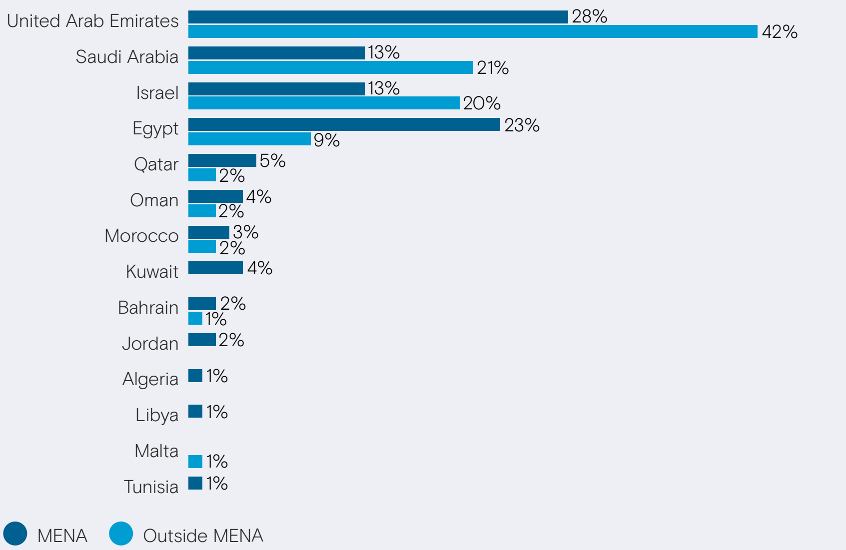
Target region

More than two in five (42%) of respondents based outside of MENA say the target of their most recent MENA M&A deal was based in the UAE, with Saudi Arabia (21%), Israel (20%) and Egypt (9%) following by quite a distance. The UAE, the fourth largest MENA economy, presents plenty of opportunities and even more so since the government's steps last year to liberalise foreign investment. As part of its efforts to diversify its oil-based economy, the UAE Ministry of Economy loosened its regulations, allowing 100% foreign ownership in domestic onshore companies that are based in 40 designated free zones. This is already having a stimulative effect. In the first half of 2022, Dubai issued 45,653 new business licences, according to official figures, an annual jump of almost 25% per cent. The government has specifically tied this burst of issuance to the newly welcoming position towards FDI.

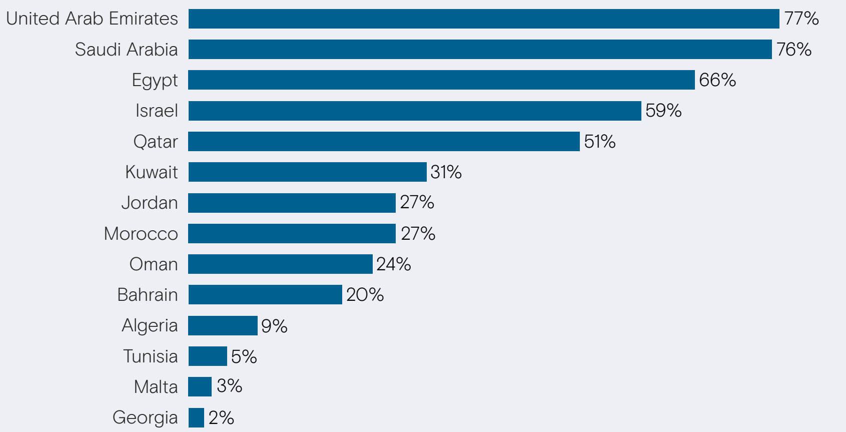
This has laid the path for future M&A and mirrors similar measures taken by Saudi Arabia. In 2019, the government lifted the 49% cap on the foreign ownership of publicly listed companies by strategic investors, applying to both the primary Tadawul and Nomu small-cap exchanges. A new investment law announced this year aims to treat foreign and local investors equally and improve competition.

The UAE and Saudi Arabia are the two countries where respondents expect to see the fastest growth in M&A over 2023—each country is chosen by at least three quarters of respondents. Egypt and Israel are also expected to see relatively fast growth in deal activity according to 66% and 59% of respondents, respectively. Aligned with this bullish sentiment, the UAE and Saudi Arabia are also among the countries where respondents are most likely to make their next deal. Two-thirds expect to make a deal in the UAE in the coming year, while over half (53%) expect to clinch a deal in Saudi Arabia in 2023.

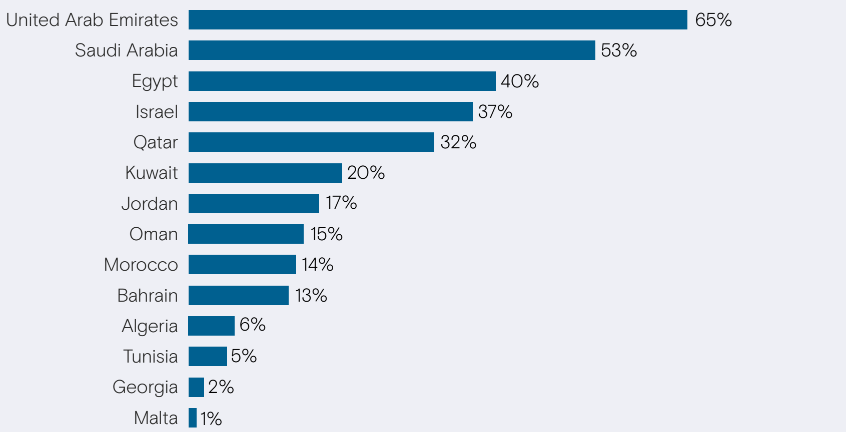
In which country did your most recent MENA M&A deal target originate? (Select one)



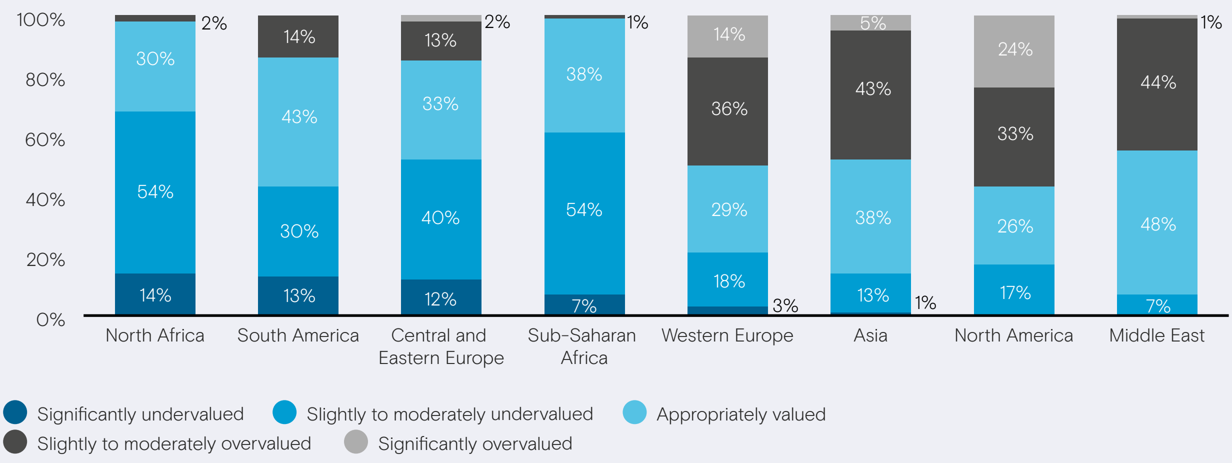
Which MENA countries do you expect will see the fastest growth in M&A deal activity over 2023? (Select up to five countries)



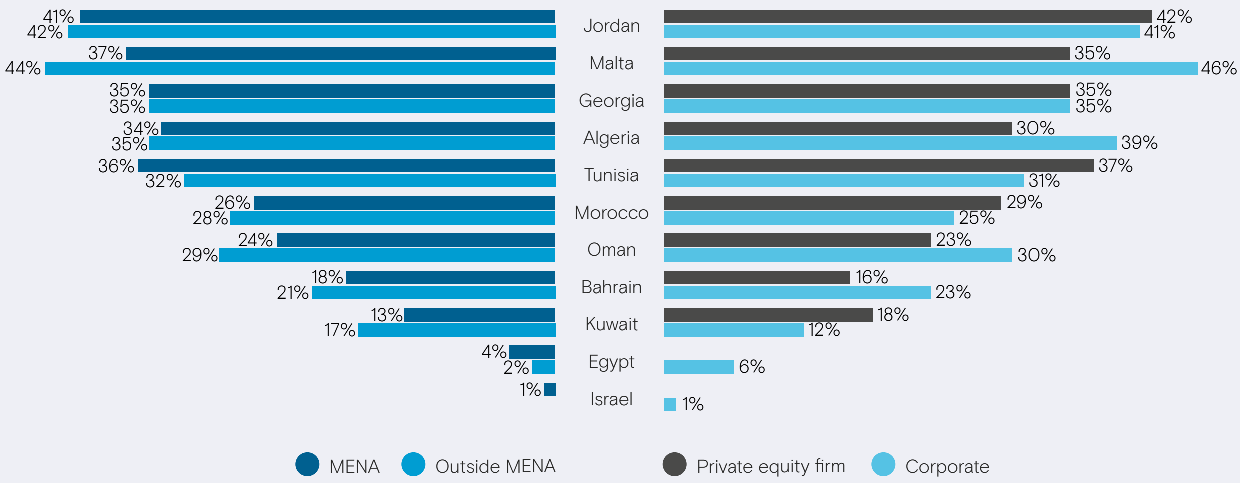
In which MENA countries do you expect to invest over the next year? (Select all that apply)



On average, how overvalued or undervalued do you consider targets based in the following regions to be? (Select one for each)



In which MENA country do you believe targets are the most undervalued? (Select up to five countries)



Asset valuations

With so much interest in these two markets, competitive tension will inevitably drive up valuations compared with other parts of the MENA region. In this respect, there is a clear gulf between the Middle East and North Africa, the latter having a smaller M&A market.

This fact could present a compelling buying opportunity for acquirers willing to put in the groundwork, with North Africa and Sub-Saharan Africa being the two regions that respondents see as the most undervalued. Over two-thirds (68%) say North African targets are attractively priced, while 61% share this view for assets in Sub-Saharan Africa. The same cannot be said for the Middle East, with 92% considering the area to be either appropriately valued (48%) or even overvalued (44%).

The most overlooked M&A markets are where the largest value differentials are seen. For example, only 3% of respondents made their most recent MENA M&A in Jordan, Tunisia or Malta, while 42% and 37% of PE firms see Jordan and Tunisia, respectively, as two of the most undervalued deal markets in the broader region. For corporates, 46% see Malta as being home to some of the most undervalued companies for potential acquisition.

Perhaps most importantly, a number of respondents observe that MENA as a whole represents a compelling value play compared with larger, more established M&A markets that have far more deal participants vying for deals. In the likes of North America and Europe, some are finding it challenging to meet sellers' price expectations which remain high in spite of recent market volatility and growing macro headwinds. "The most important driver for any upcoming MENA deal we make will be attractive valuations," says the partner of a PE firm based in the region. "In markets outside MENA, we are faced with huge valuation gaps and we are not able to find the most suitable targets for our portfolio."

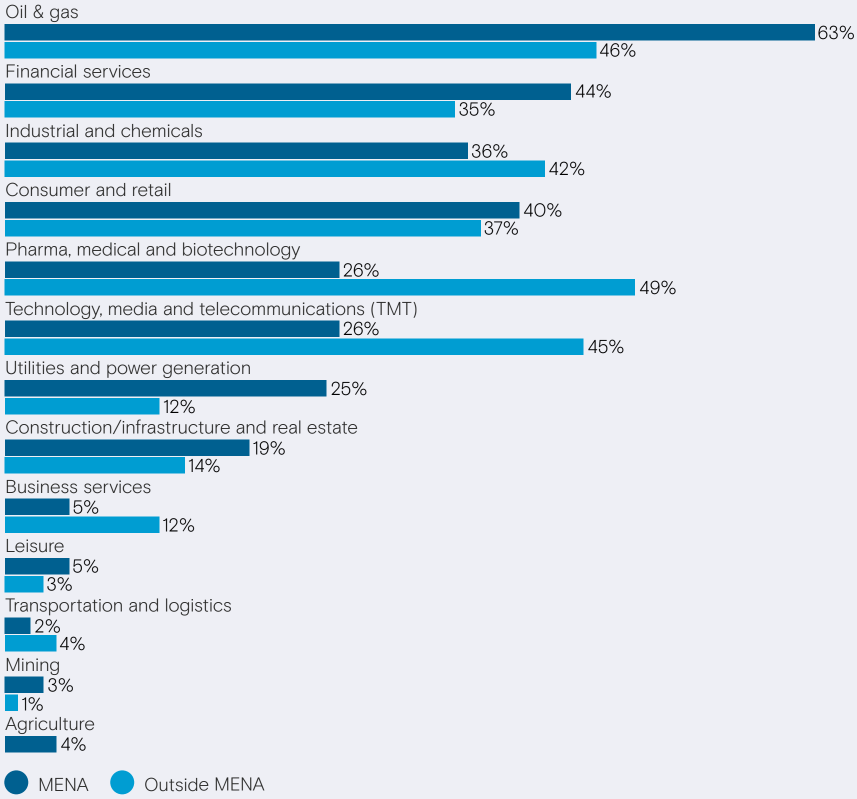
Target sectors and technology

Prior to the pandemic-induced pile-in on tech assets, which drove TMT M&A to record highs, energy, mining and utilities (EMU) was the highest-value deal sector across MENA. This is understandable given the rich crude oil deposits which collectively make up the world's largest reserves. Crude prices have been incredibly volatile over the past year, yet remain around levels previously seen in 2014 before the extended lull that only came to an end when the global economy was kickstarted with COVID stimulus measures. Another major EMU deal catalyst is the fact that many major MENA governments are actively addressing their over-reliance on hydrocarbons by diversifying into renewables.

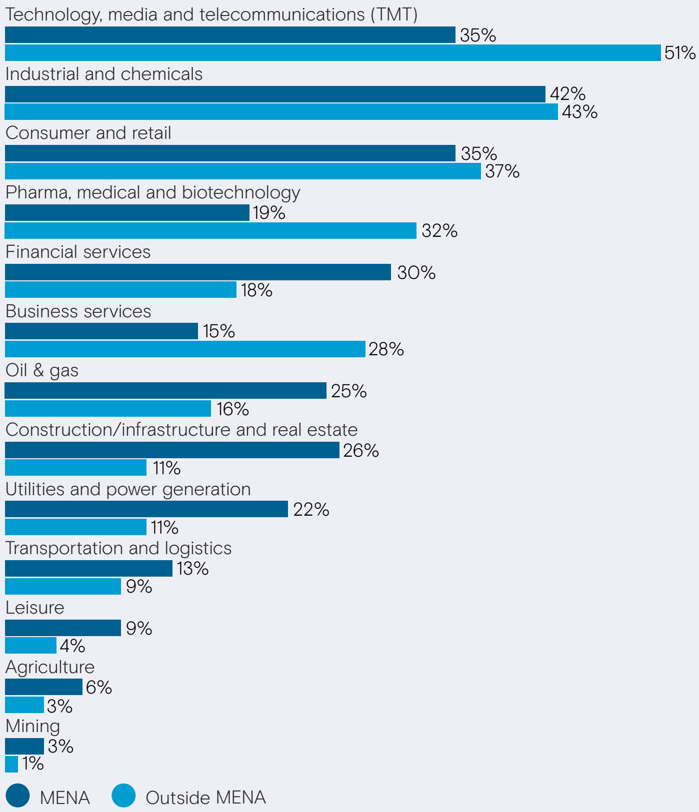
M&A practitioners reasonably expect that EMU will be core to dealmaking looking forward. Nearly two-thirds (63%) of respondents based in MENA expect oil and gas to see some of the fastest growth in M&A activity in the region over the course of 2023. However, overseas investors more commonly point to pharmaceutical, medical and biotech (PMB) (49%) as a hot sector over the next year. 45% of this group also point to TMT. Pharma and healthcare are reliable ports in a storm that can deliver defensive returns amid macro pressures. Meanwhile, profitable technology companies with strong product-market fit will be attractive after the industry's valuations have come back down to earth through 2022.

Oil and gas may be where the most investment is expected, but it's not where investors are looking for their next deal. Only 21% of respondents overall anticipate making a deal in the sector. Instead, all eyes remain focused on TMT. Over a third (35%) of those located within MENA and 51% outside of the region will be actively pursuing TMT acquisitions, followed by industrials and chemicals (42%, 43%) and consumer and retail (35%, 37%) deals, which are more evenly matched by the two investor groups.

Which of the following industries do you expect will see the fastest growth in M&A deal activity in the MENA region over 2023? (Select up to three)



In which sectors do you expect to invest within the MENA region over the next year? (Select all that apply)



Tech specs

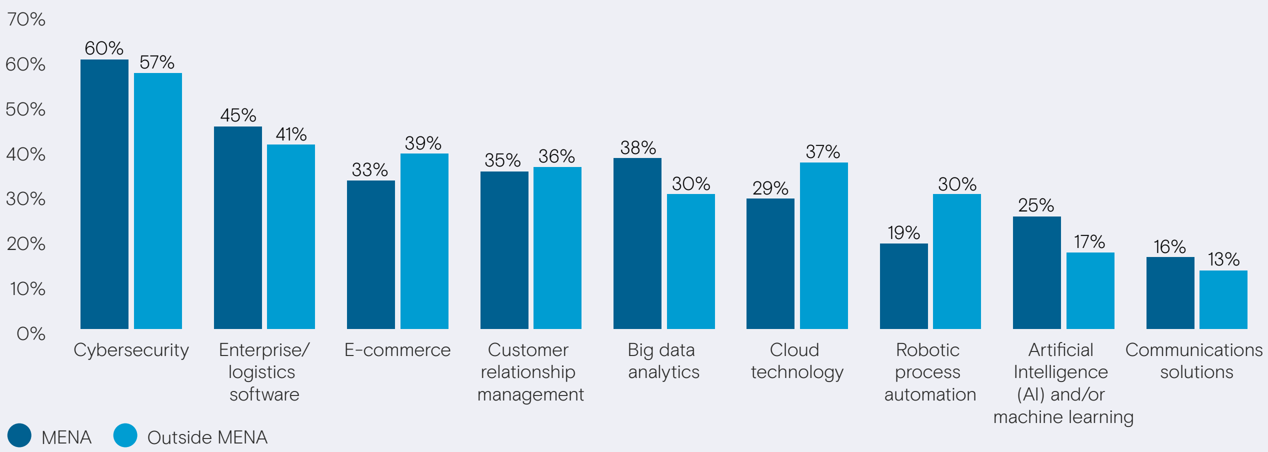
In terms of which technology sub-sector respondents expect will present the best opportunities for dealmaking in the MENA region in 2023, cybersecurity comes out as a clear leader, selected as a top contender by 60% and 57% of those based within and outside of MENA, respectively.

Additionally, of the private equity firms and corporates that report plans to make TMT deals over the coming year, 77% and 87% respectively say that cybersecurity is one of the areas they most expect to deploy their capital. Alongside Silicon Valley, the Bay Area and Greater Washington D.C., Israel stands out as one of the foremost cyber innovation clusters when accounting for human capital, venture capital funding and active companies.

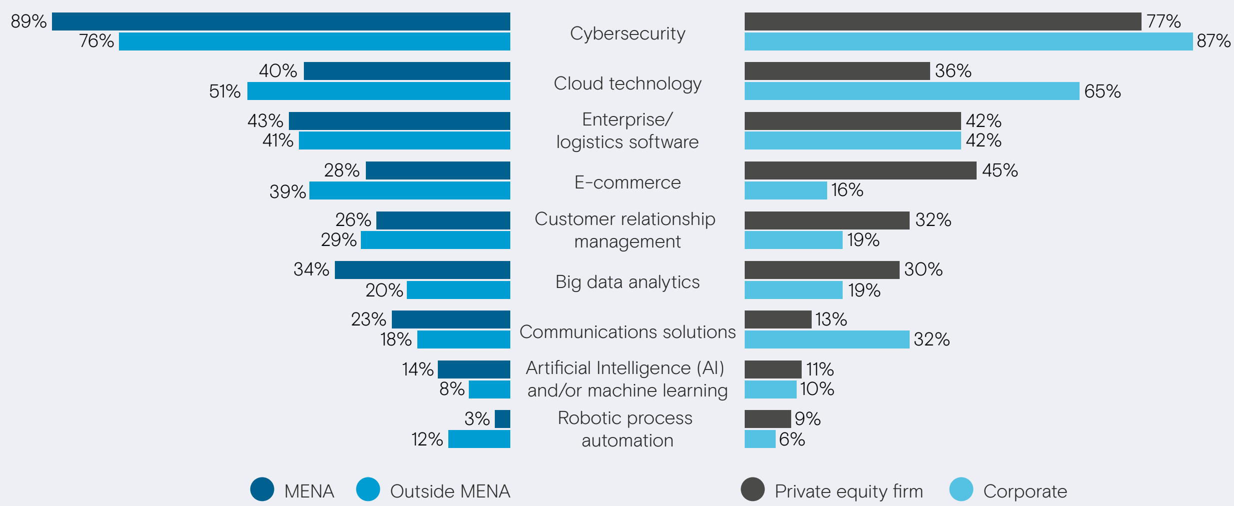
Securing company networks and staff devices remains a top priority and businesses recognise that it is better to invest in defences than pay the price of being breached. Adding to the benefits of cybersecurity business models is the ever-changing nature of cyber threats. Phishing attempts are a daily threat; however, Checkpoint predicts that 2023 will see criminals widen their attacks to exploit business collaboration tools such as Slack, Teams, OneDrive and Google Drive.

As well as cyber-related deals, other areas of interest include cloud technology, chosen by 65% of corporates, and e-commerce, chosen by 45% of PE firms with imminent plans to make a TMT deal. Cloud and connectivity is a secular trend that shows no signs of slowing, in spite of tech valuations compressing heavily, and online retail has been rapidly adopted across MENA in the wake of the pandemic. Taarek Hinedi, vice president of FedEx Express Middle East and Africa Operations, noted in a recent article on the topic that as many as 91% of customers in the region

Which technology subsectors do you expect will present the best opportunities for dealmaking in the MENA region over 2023? (Select top three)



If you plan to invest in TMT, which technology subsectors do you most expect to invest in within the MENA region over 2023? (Select up to three)

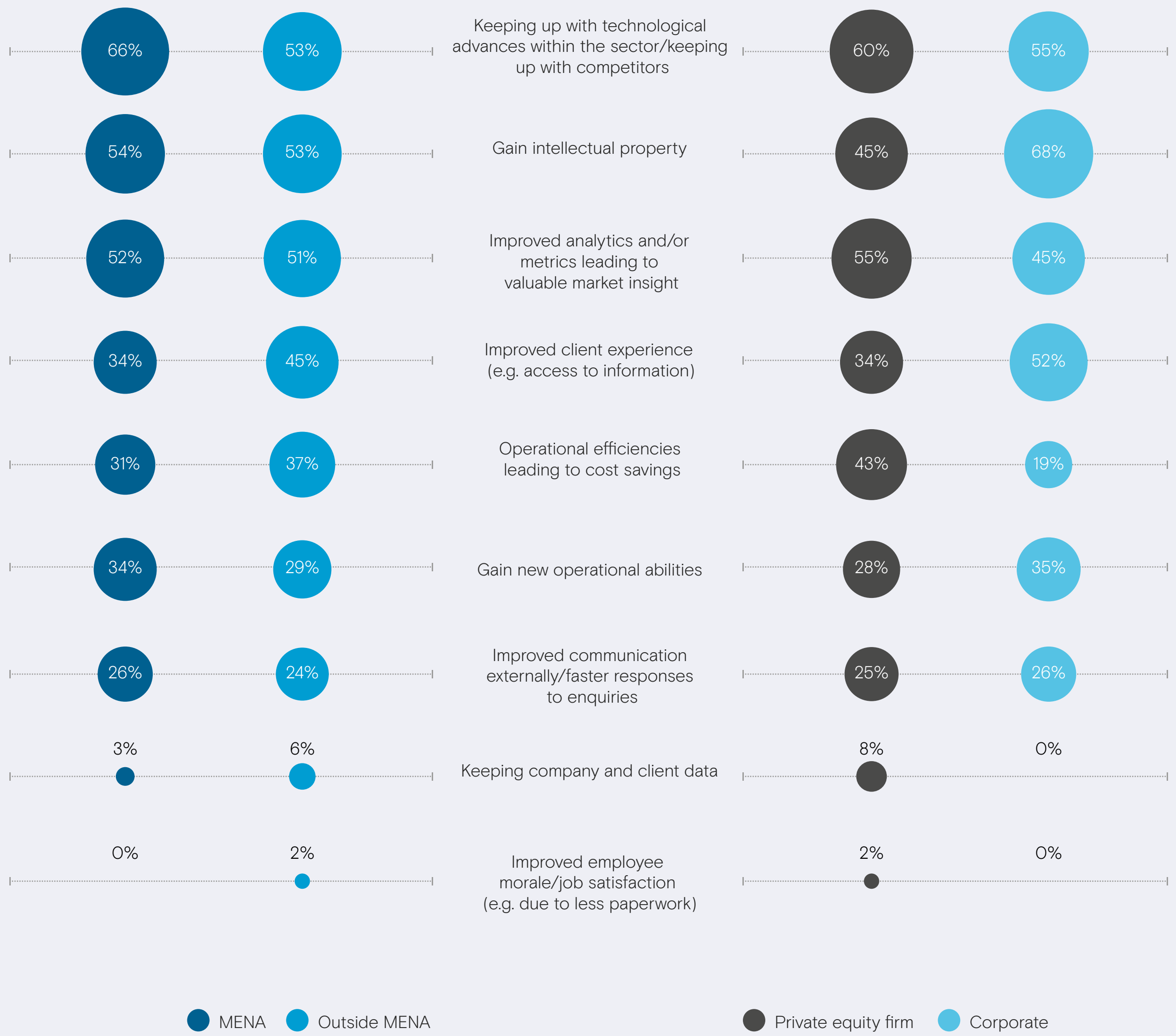


have become digital converts since 2020 and that e-commerce sales are projected to reach USD 50bn for the first time in 2022, up from USD 32bn a year prior, a 56% year-on-year increase.

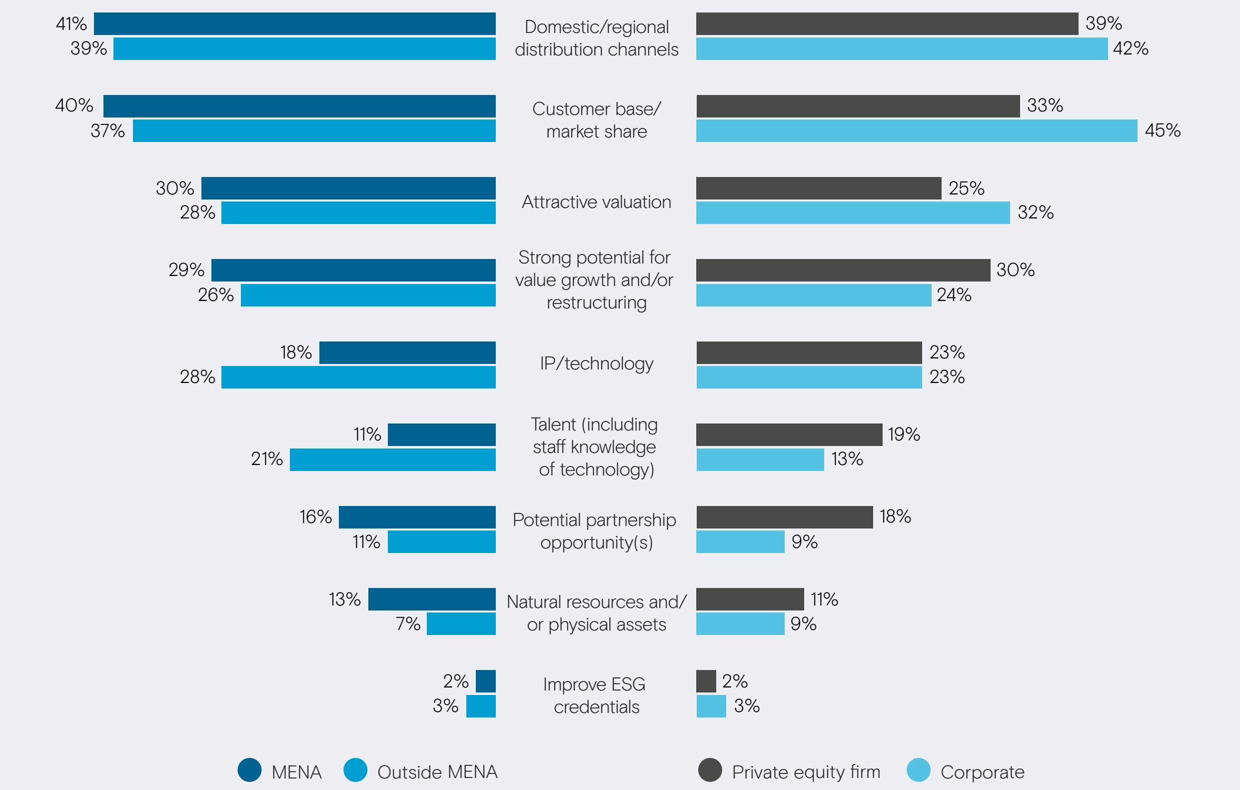
Our research shows that the main incentive for corporates investing in MENA's TMT sector is to secure intellectual property. Just over two-thirds (68%) of strategic acquirers with plans to make a deal in the sector over the next year say that gaining IP is one of their primary drivers. In a similar vein, 55% of strategics say a major incentive is a need to keep up with technological advances and keep pace with their competitors. "In 2023, there will be further disruptions as new technologies emerge. Companies have to remain competitive by entering deals and integrating new technologies," the M&A director of a US corporate explains. "To achieve this, IP acquisitions in TMT will be one of the main objectives of dealmaking."

> In 2023, there will be further disruptions as new technologies emerge. Companies have to remain competitive by entering deals and integrating new technologies.
>
> M&A director, US-based corporate

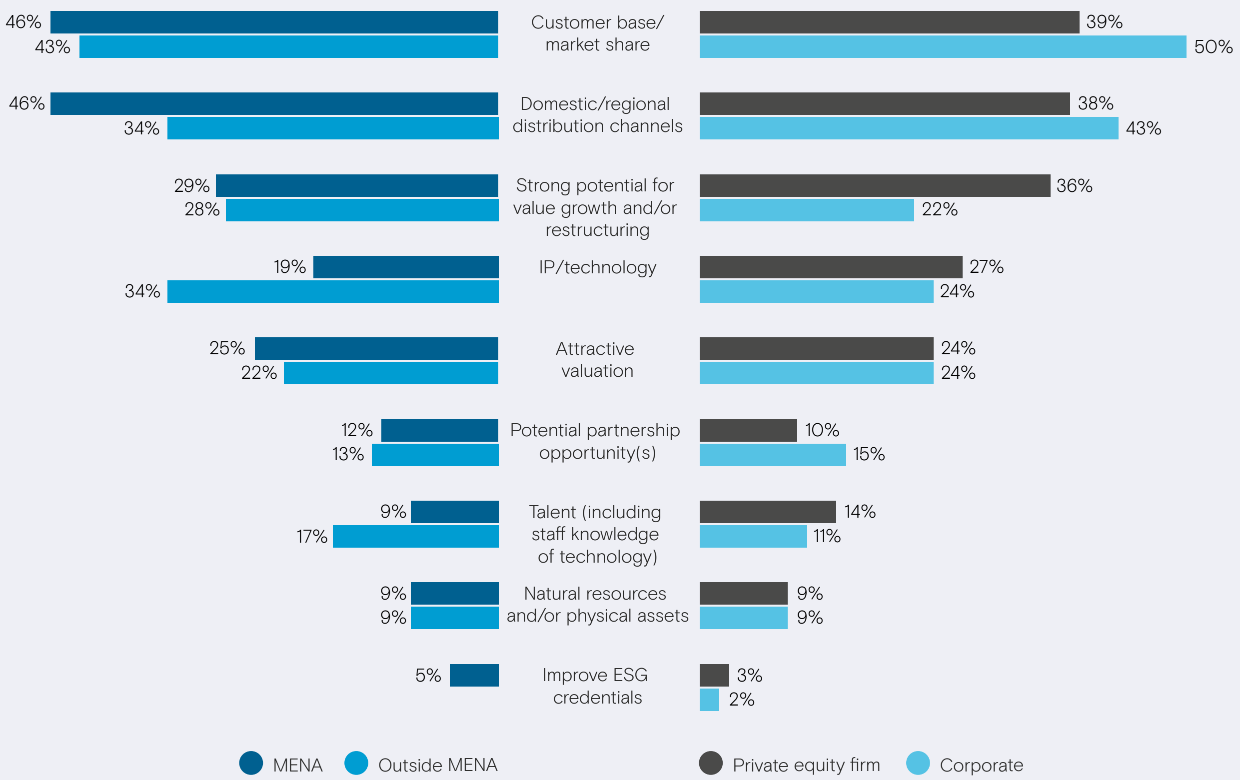
If you plan to invest in TMT, what are your top incentives for investing in technology? (Select top three)



If you have completed an acquisition in the MENA region during the past two years, what were the most important drivers? (Please select top two)



If you plan to complete an acquisition in the MENA region over the over two years, what will be the most important drivers? (Please select top two)



Drivers and challenges

One of the greatest benefits of M&A is the rapid direct access it can give companies to markets that would otherwise take years to crack organically. Once a foothold in a new geographic market has been established via a deal, companies can achieve major revenue synergies from sharing distribution channels and cross-selling products. It is this that has been motivating dealmakers in the MENA region over the past two years—nearly two-fifths (39%) of private equity firms and 42% of corporates that made a deal in the region in the last two years say that access to these distribution channels was one of the top reasons for their acquisition. A notable 45% of corporates also point to customer base and/or market share as being a top driver.

Of the corporates that are planning to complete a MENA M&A deal over the next two years, half say that customer base and/or market share will be a top driver (50%), followed by regional distribution channels (43%). These are also the top two most selected drivers by private equity firms that are planning a MENA acquisition, being selected by 39% and 38% respectively, although these are closely followed by the driver of strong potential for value growth and/or restructuring (36%).

The issue of distribution has become even more critical since the pandemic and this does not look likely to change anytime soon. China's strict commitment to a zero-COVID policy continues to cause disruptions and countries are taking a more protectionist approach to supply chains. Improving distribution applies to the movement of goods both within different MENA markets, as well as connecting inflows into and outflows out of the region.

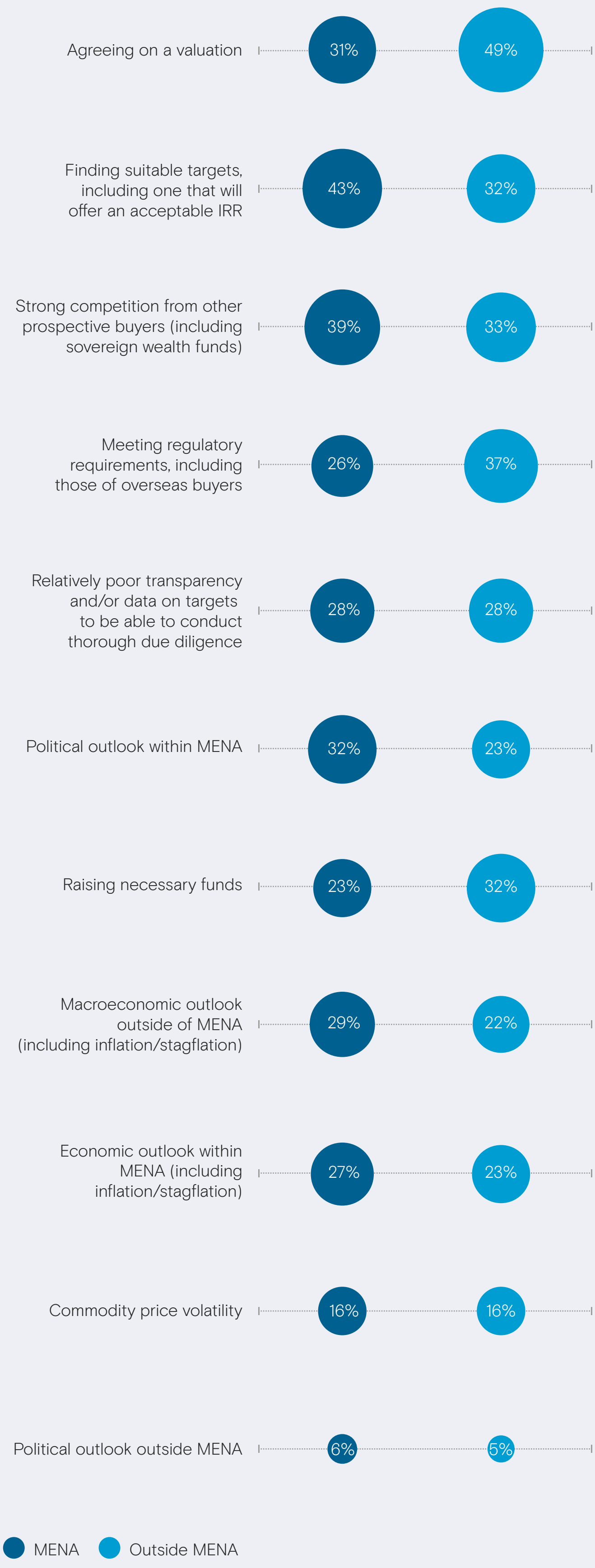
The partner of a PE firm in the area investing to improve their distribution capacity says: "There have been challenges in maintaining strong supply chains recently and we will be acquiring companies that can help us improve those capabilities. That's a strong motivator for us right now."

Managing challenges

The down market that can be seen in the likes of Europe and the US has made it challenging to get deals over the finish line. In many cases, vendors have been unwilling to sell their assets for prices that newly conservative bidders are willing to pay. While respondents have highlighted that deal negotiations in MENA have been less fraught than in other markets, the region is by no means immune to these valuation gaps. This is a bigger challenge for foreign parties. Nearly half (49%) of respondents based outside of the region say that agreeing on valuations is one of the most significant challenges to completing deals, whereas only 31% of those based within MENA cite this as being an obstacle.

This is a matter of managing expectations. One of the idiosyncrasies of this market is the number of SWFs and state-linked organisations such as the ADIA and

What do you believe are the biggest challenges to completing M&A deals in the MENA region? (Select top three)



Saudi's Public Investment Fund, who together have trillions of dollars at their disposal and can dominate auction processes. The fact that MENA respondents less commonly cite agreeing on valuations as being a challenge speaks to their deeper understanding of the markets in which they are operating. On a related note, 39% of dealmakers based in the region say a major hurdle to overcome is strong competition from other perspective buyers and 43% point to the difficulty of finding suitable targets, such as those that would offer an acceptable IRR.

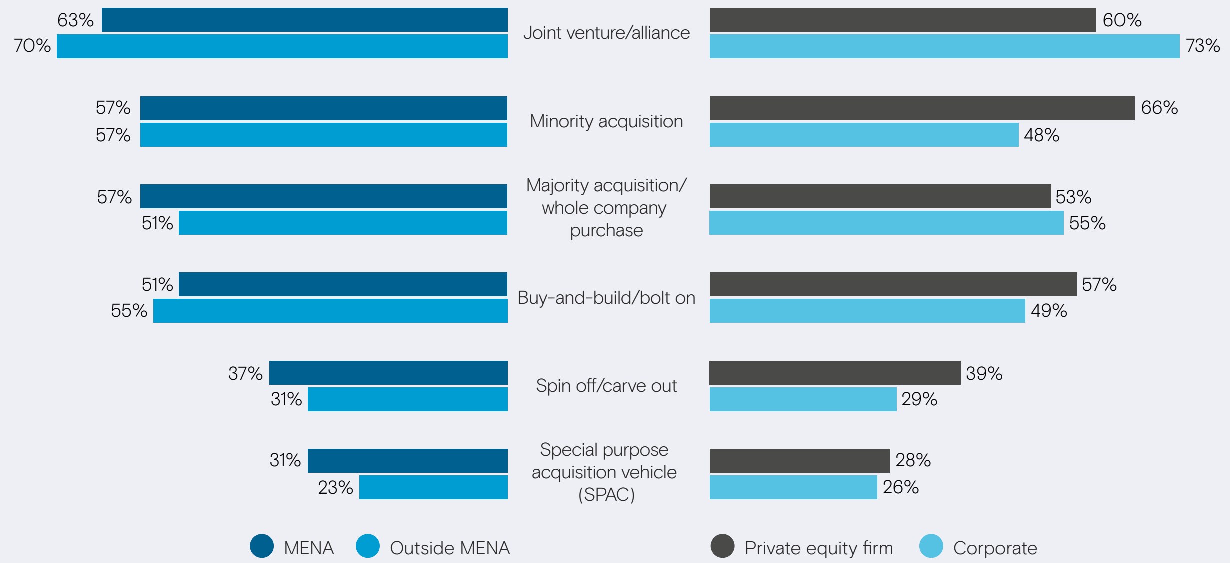
If acquirers find themselves in heavily contested sale processes with multiple parties and SWFs with deep pockets, they may find themselves being outbid. Upsizing their offer to win a deal may in turn prevent them from achieving their targeted returns. This calls for local presence for better access to proprietary bilateral deal flow, as well as careful top-down and bottom-up due diligence that can support competitive bid structuring.

Investment strategies and market trends

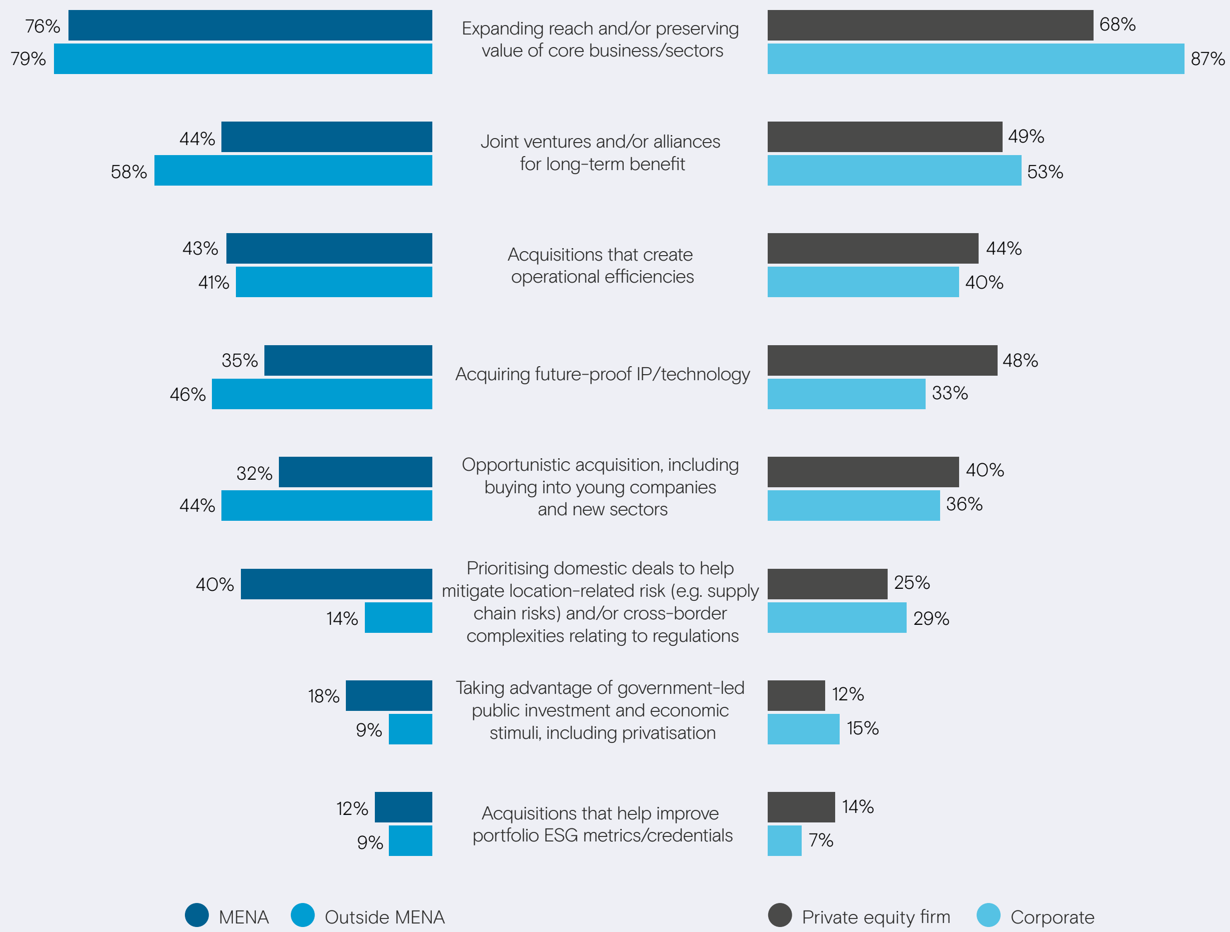
Bespoke joint venture arrangements are an increasingly common sight across MENA and are expected to become even more popular moving forward. These alliances are set to be the most attractive type of investment for investors over the next year, with as much as 73% of corporates, in particular, sharing this view and 60% of PE firms eyeing these partnerships. "We see a lot of JVs and government-linked organisations partnering with companies in the private sector," says Momany. "The fundamental drivers for those arrangements are the pooling of resources, the alignment of synergies and the market opportunities that are available to different players. Accessing technology and IP are also big motivators for that JV activity." Another catalyst in the UAE has been recent legislative reforms, which have opened the doors for foreign investors to form strategic partnerships with local entities that have an intimate knowledge and understanding of the market and existing distribution channels, adds Momany.

This alignment of strategic interests and the fact that JVs allow parties to pool resources, typically to accomplish a specific goal, generally makes them more popular with strategics than PE funds. Instead, one of the most attractive investment strategies for financial sponsors, cited by 66%, is minority share acquisitions, ahead of even majority buyouts, which saw only 53% of votes among PE respondents. Less than half (48%) of corporates see minority deals as attractive, compared with 55% who consider outright acquisitions as the preferred option over the next year. Minority deals can be an effective way for financial sponsors to limit their equity exposure and are especially attractive if a fund can negotiate supermajority voting rights and a board position. For corporates, minority deals typically make sense only when there are limited synergy opportunities and the upside potential of a merger is less obvious.

Which types of investments do you expect will be the most attractive for your organisation over the next year? (Select all that apply)



Which of the following best describe your organisation's most important investment strategies? (Select top three)



PE exits still on the table

Global market conditions have transitioned from last year's seller's market and private equity has fewer exit options. PE divestments peaked in Q2 2021 on a volume basis and in Q3 2022 fell by 50% year-on-year to just 333 sales as liquidity has dried up amid the monetary-constrained environment. MENA is not entirely immune to these forces, but strong underlying growth and active local players make for a comparatively buoyant market. A sizeable 62% majority of respondents believe that PE exits will either stay the same in 2023 or only moderately decrease.

"It's still a very seller-friendly environment right now and that is partly a function of the oil price being elevated and Gulf economies in particular doing well," says David Monnier, Legal Advisors Abdulaziz Alajlan & Partners in association with Baker & McKenzie Limited. "The presence of SWFs also tends to push valuations up and bring competition to auctions, which are very common in Saudi Arabia and other parts of the region. This is all very supportive for PE exits."

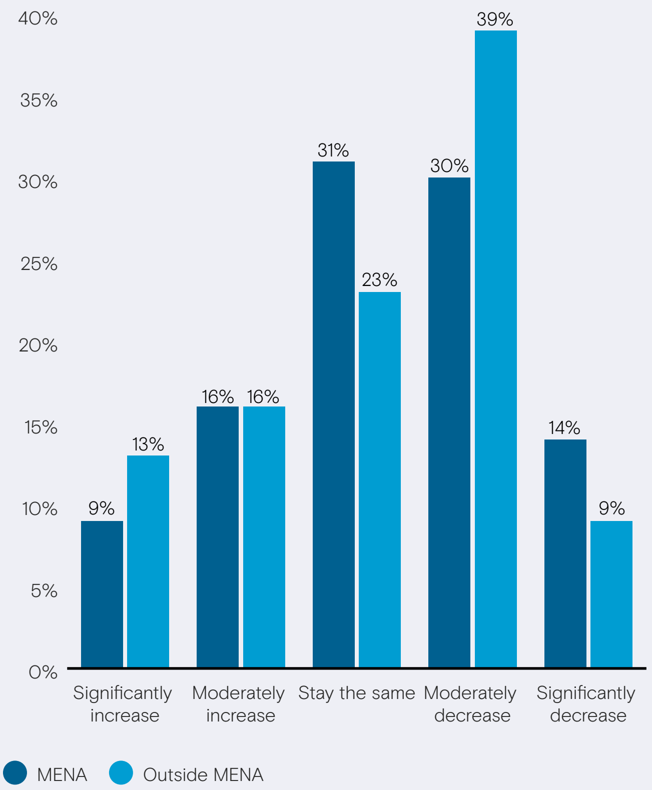
A burgeoning local SPAC market

Optimism for special purpose acquisition company (SPAC) activity is also relatively high, albeit this is an underdeveloped area of MENA's deal market. The enthusiasm for SPACs has fizzled out in the US, where they became massively popular during the thick of the pandemic. In MENA, blank cheque companies have only recently begun to catch on. Two of the largest de-SPACs, Cairo and Dubai-based ride-sharing firm Swvl and music streaming platform Anghami, were listed in Q1 2022 and both on the Nasdaq.

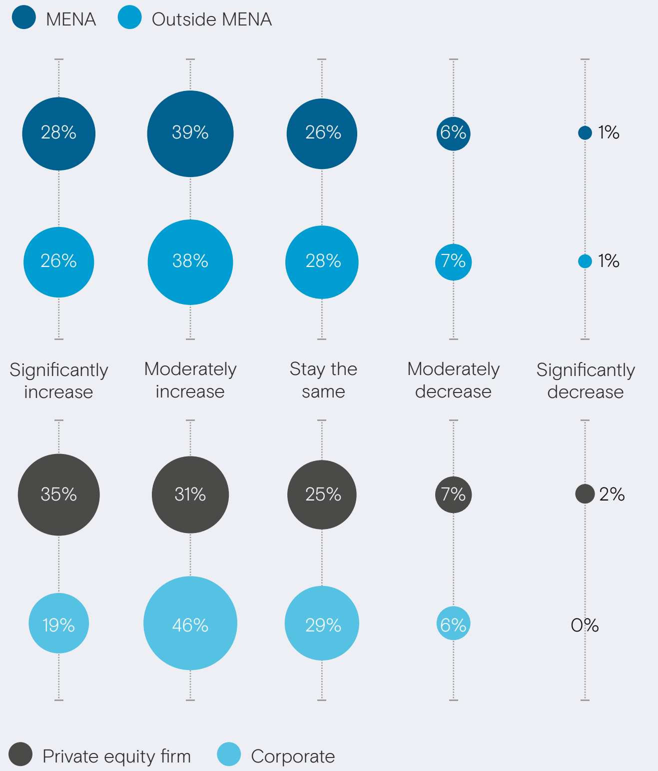
The UAE is keen to foster a SPAC market of its own. Alternative asset manager Investcorp and PE firm Gulf Capital have both been rumoured to be preparing IPOs of blank cheque companies on the Abu Dhabi Securities Exchange. Investor appetite for SPACs may have waned, but they still represent a credible fast-track listing route for growth companies if the prevailing market conditions are right. Two-thirds of respondents expect that interest in and use of SPACs within the MENA region will increase over 2023, with 35% of private equity firms predicting the rise in interest to be significant.

SPACs tend to have a preference for tech-related growth companies, a segment of the overall market that is demonstrating remarkable resilience in MENA amid a global drop in such deals. "We did the largest and second-largest venture capital financings for the cloud-kitchen platform Kitopi. Very similar to what is going on globally in the tech industry, those wildly successful entities are now looking to be in the leanest possible form in case there is some kind of economic downturn so they can weather it as best they can," says Osama Audi, a partner at Baker McKenzie, and co-head of the UAE Corporate/M&A practice. "But that hasn't prevented the SWFs, which are prolific supporters of tech, both in the UAE and Saudi Arabia and the wider MENA region. They are still very active in sourcing and deploying capital into tech investments regionally and globally."

How do you expect private equity divestments within the MENA region to change over 2023?



Do you expect the interest in and use of SPACs within the MENA region will increase, decrease or remain largely the same over 2023?



The M&A process: Due diligence and technology

As M&A practitioners increasingly rely on digital tools, dealmakers are justifiably concerned about cybersecurity risks

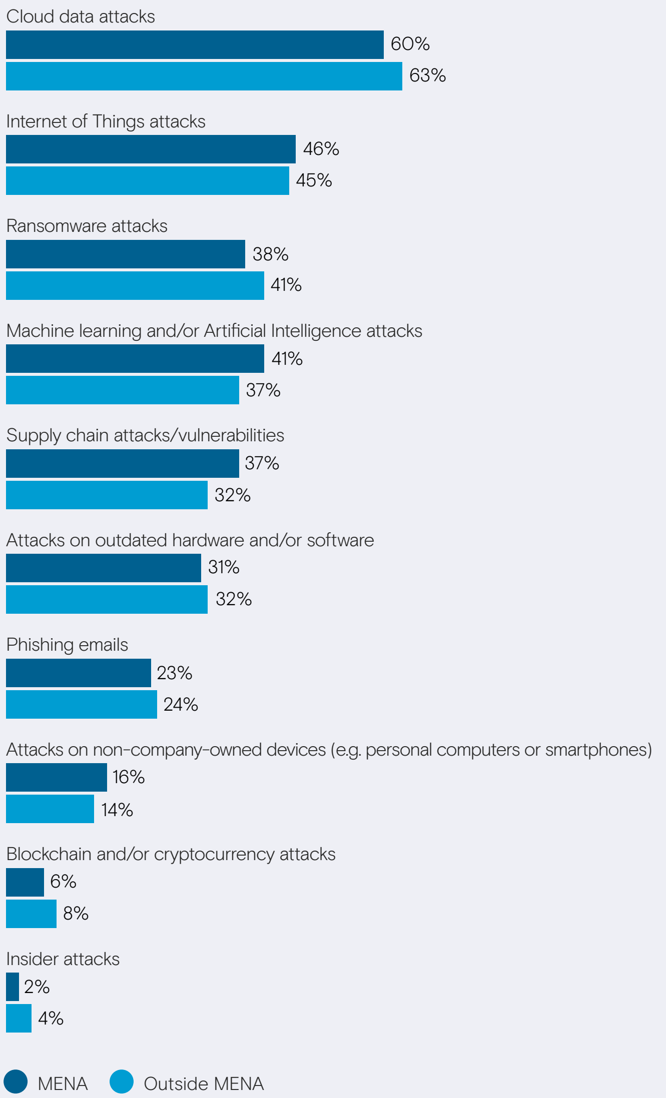
Cybersecurity is a major concern for companies big and small. Attacks continue to rise in frequency and the financial losses can be ruinous. The last thing either party in an M&A transaction wants is for the deal target to fall victim to a breach as the value destruction can be significant. This is why cyber reviews are becoming an increasingly central pillar of any comprehensive due diligence process.

Across the broad cyber-threat landscape, it is cloud attacks that respondents are most worried about, cited by 62% of all respondents as a top-three concern, aligning with industry forecasts that cloud-based collaboration tools may become a more frequent entry point for attackers moving into 2023. This is followed by attacks associated with the Internet of Things (46% of all respondents), ransomware (40%) and machine learning-powered incursions (39%). Cybersecurity is also expected to be one of the most disruptive trends affecting M&A processes within the MENA region over 2023, highlighted by 60% and 66% of those based within and outside of the MENA region, respectively.

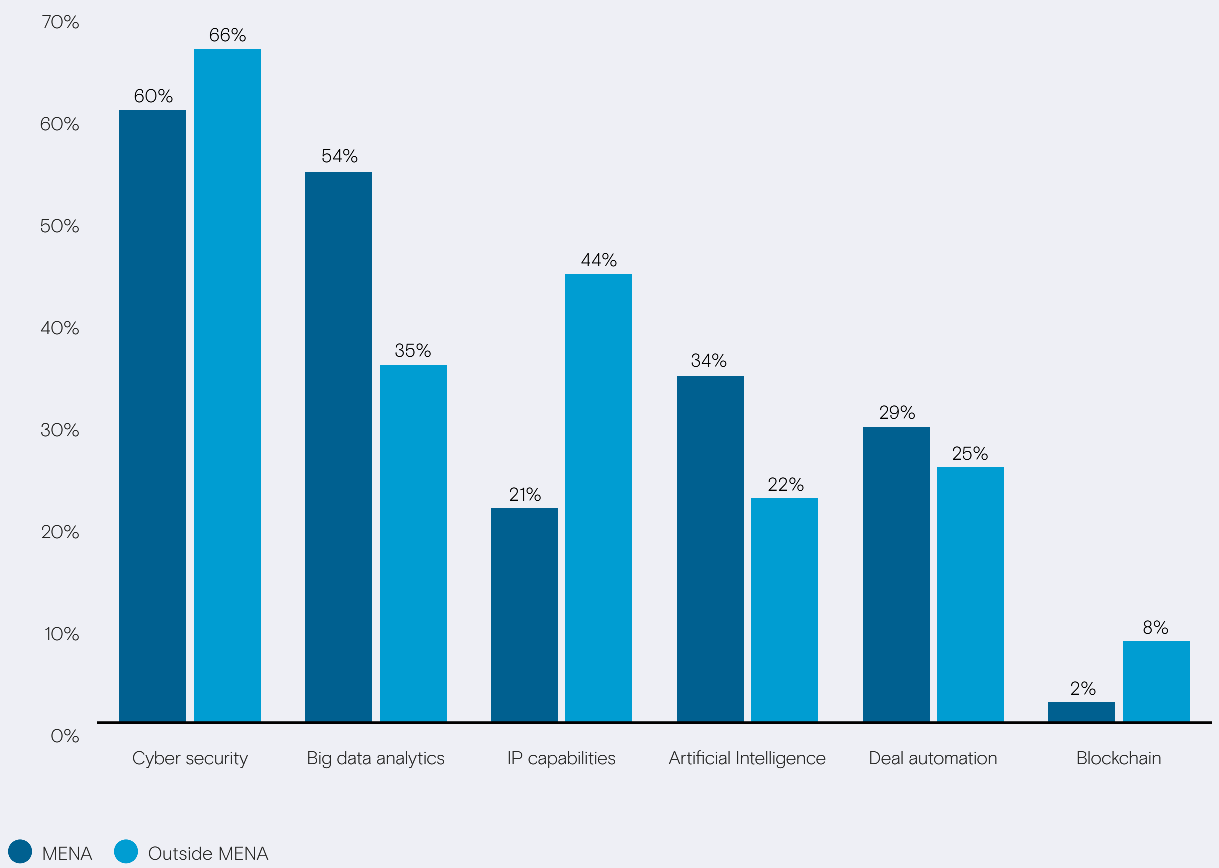
"We've seen cyber-attacks coming in close to deal closings and measures have had to be put in place to protect deal targets," says Momany. "Whether that is going to increase or not is hard to say, but certainly that is now an active concern and risk that has been on the radar in recent years and is something that dealmakers need to be alert to."

On the due diligence front, respondents demonstrate that they are taking a sophisticated approach to analyse deal targets through the use of big data analytics. These tools can give buyers insights into companies that would otherwise not be available to them, such as automating customer sentiment at scale or conducting competitor analysis by scanning social media platforms. Data visualizations can also expedite financial due diligence. As much as 88% of respondents in MENA and 72% outside the region say they are using analytics in their diligence processes.

Which areas of cybersecurity are you most concerned about at your organisation? (Select top three)



What disruptive trends do you expect will most affect M&A processes within the MENA region over 2023? (Select top two)



High numbers of dealmakers are also using more traditional tools. Our research shows that 66% of MENA-based respondents and 62% outside the region continue to share files such as Word documents, Excel spreadsheets and PDFs via email at this deal review stage, while 57% in MENA and 67% based elsewhere employ virtual data rooms.

Extended due diligence

In times of macro stress, buyers tend to exercise greater diligence and have more focus on capital preservation. They need to spend more time assuring that their investment theses are bulletproof and this can stretch out sale processes. However, the deal environment in MENA has remained seller-friendly even as other markets have cooled in 2022.

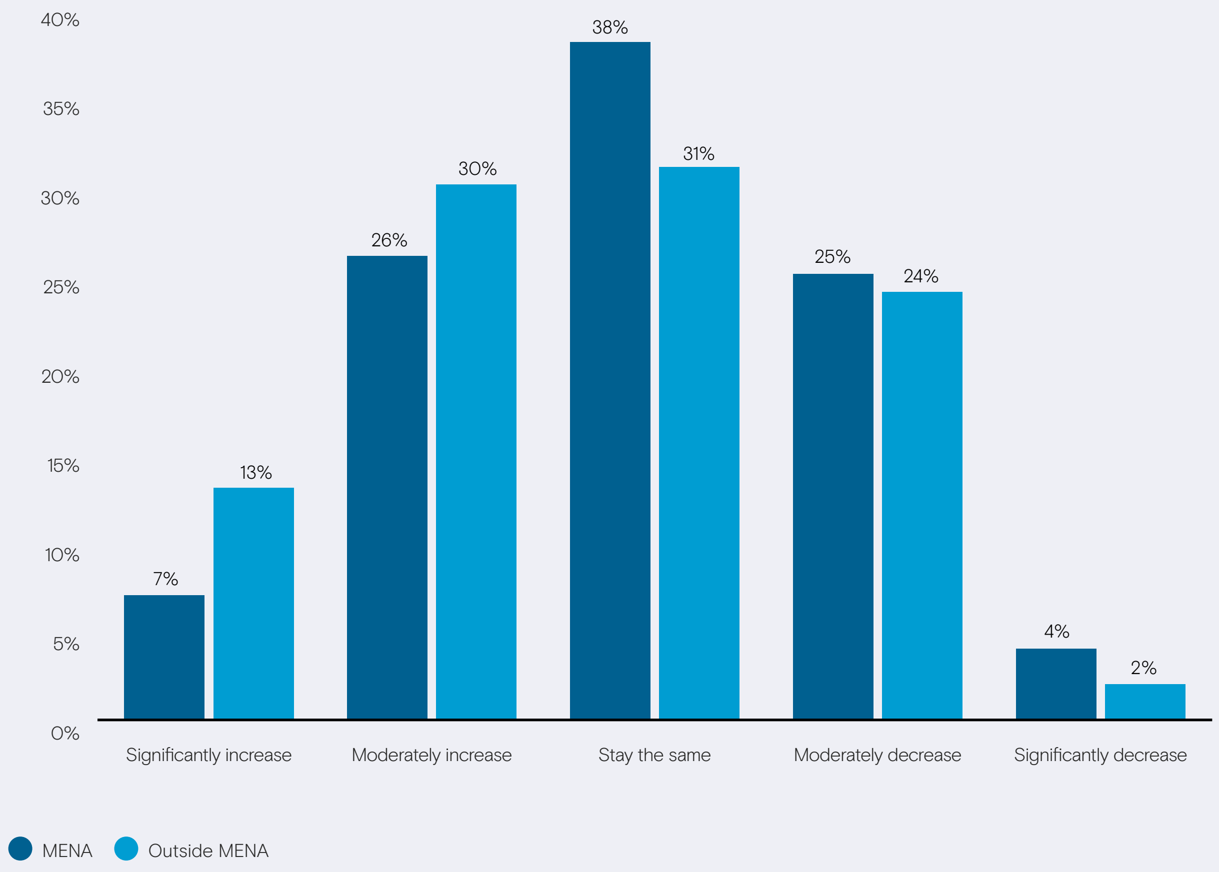
Respondents are divided on their expectations on the near-term outlook. Nearly two-thirds (62%) overall believe that the period of time it takes to conduct diligence on MENA deal targets will either stay the same or decrease in 2023, though 43% of those from outside the region expect it to increase, which may reflect their recent experience in their home markets.

"Sellers know that the big local investors show a lot of interest in the right deals, so if a foreign buyer is taking too long or complicating the process, they have other options and that's supported by the relatively high rates of economic growth in the Gulf," says Monnier. "So those extended due diligence periods are not something I've seen yet at least."

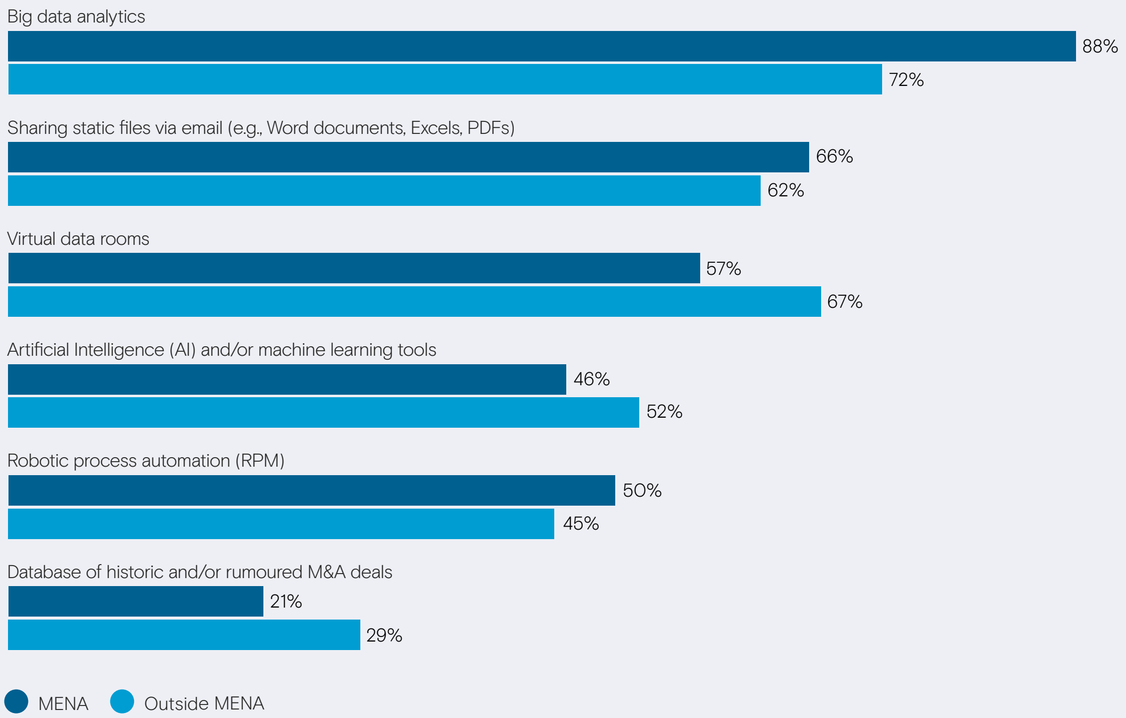
One development that has the potential to add to the diligence burden in 2023 in the UAE specifically is the introduction of a 9% corporate tax on businesses with net profits of more than Dh375,000 (approximately USD 100,000), starting from June. This is a major change in a country in which companies have hitherto benefited from a non-tax regime. This will require putting in place new accounting practices and issuing annual audit reports, not to mention recalculating net profits, all of which will take time to fully implement. Dealmakers in the UAE need to be mindful of this before initiating their next M&A in this market.

"The new corporate tax is potentially going to lead to structuring alternatives," says Audi. "Companies that are based in the free zones won't be subject to the tax if they are providing services to other entities within those zones. So that might lead to greater interest in establishing a presence in those free zones. It will be interesting to see how online services are treated and how this develops, as it's still very much in play."

Which tools (either proprietary or third party) does your organisation use for M&A due diligence? (Select all that apply)



Which tools (either proprietary or third party) does your organisation use for M&A due diligence? (Select all that apply)



ESG and SDGs

ESG has been rising on dealmakers' agendas around the world, and MENA is no exception

ESG is gathering momentum in MENA, spurred by government efforts to align with the rising global sustainability agenda, diversify local economies away from hydrocarbons and to open borders to greater inbound investment. The COP 27 climate change conference was held in Sharm El Sheikh, Egypt, in mid-November.

"This topic is very much on the agenda, not only in Egypt but across MENA," says Hani Nassef, a partner at Helmy, Hamza & Partners, Baker McKenzie Cairo. "Rules have been embedded by the Financial Regulatory Authority on certain types of companies that have to comply with ESG requirements, and we see that repeated by other regulators in other sectors. Equally, foreign and regional PE firms have their own mandates and are trying to embed ESG and measure KPIs within their portfolio companies. A lot of that is being driven by their LPs."

While rules have already been made, regulation is a constantly moving target, a fact that respondents are well aware of. Indeed, the level of ESG-related regulatory scrutiny within MENA is expected to increase over the next three years, as predicted by 66% of those based within MENA and 73% of foreign dealmakers.

Next year's COP 28 conference is due to be hosted in Dubai. The UAE has been a torchbearer on the ESG front, establishing a number of augmentative and complementary frameworks and initiatives. As long ago as 2010 the Paris Agreement signatory launched its UAE Vision 2021 which aligns with the UN Sustainable Development Goals (SDGs), before reaffirming its commitment to sustainability with the UAE Green Agenda 2015-2030 and latterly its Dubai 2040 Urban Master Plan, set forth last year. The CFA Institute, an association of investment professionals, reported this year that as many as 55% of registrations for its certificate in ESG investing are coming from the UAE.

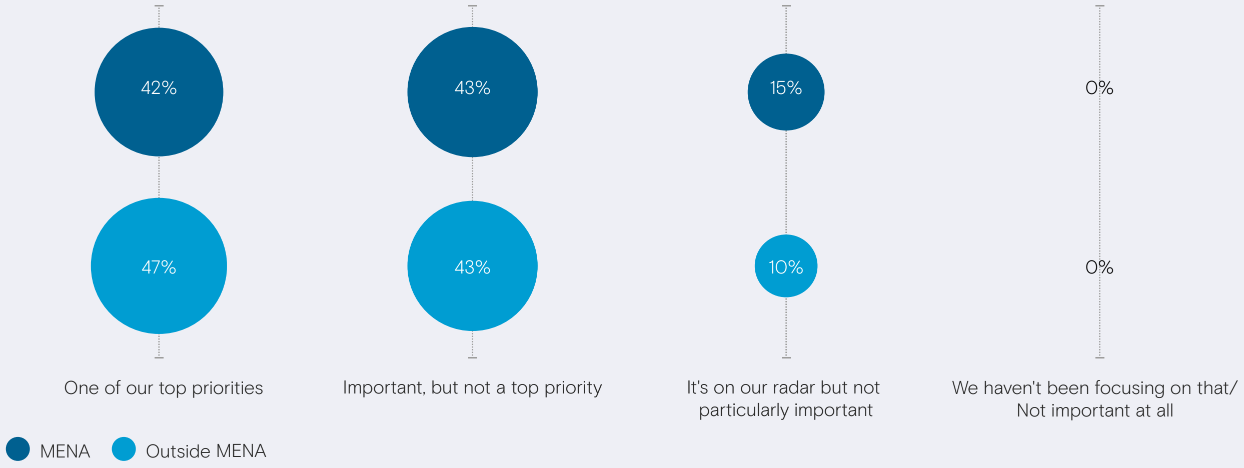
Our research shows that ESG is already a fundamental consideration when conducting M&A in the MENA region. As many as 47% and 42% of those based outside and within MENA, respectively, say their organisations consider the ESG performance of M&A targets and their alignment with the SDGs to be a top priority when weighing how attractive a deal is. A further 43% say they consider ESG to be important, although not a top priority.

The direction of travel is evident, with ESG set to become an increasingly central deciding factor on whether to secure or pass on a deal. Over the next two years, the importance of a target's ESG performance to its attractiveness is expected to increase for 67% of organisations within MENA and 71% of those coming from outside the region. However, this is not expected to be an imminent sea change. Over half (56%) of dealmakers overall believe that ESG will become a moderately more important consideration in the immediate term, falling to 14% who see it as becoming significantly more critical.

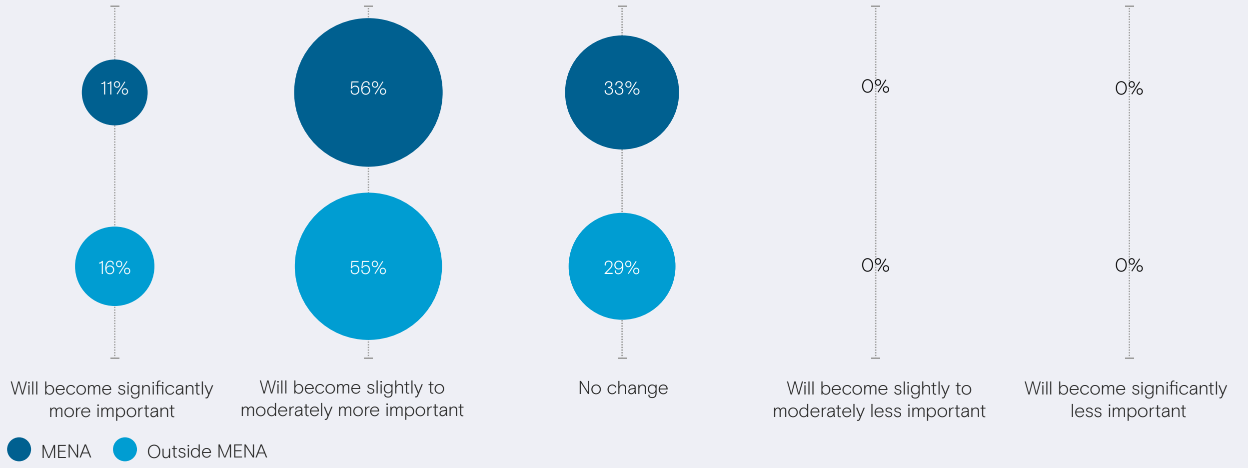
"This is a clear global trend and ESG considerations will be built into questionnaires and due diligence processes and then potentially into sales and purchase agreements (SPAs) in increasingly sophisticated ways," says Momany. "There's a huge focus by governments around the world but naturally this does not just come in one piece of legislation, it is fragmented over all aspects of a due diligence process and various regulatory regimes. I think we will see this developing gradually in this part of the world."

> Foreign and regional PE firms have their own mandates and are trying to embed ESG and measure KPIs within their portfolio companies.
>
> Helmy, Hamza & Partners, Baker McKenzie Cairo

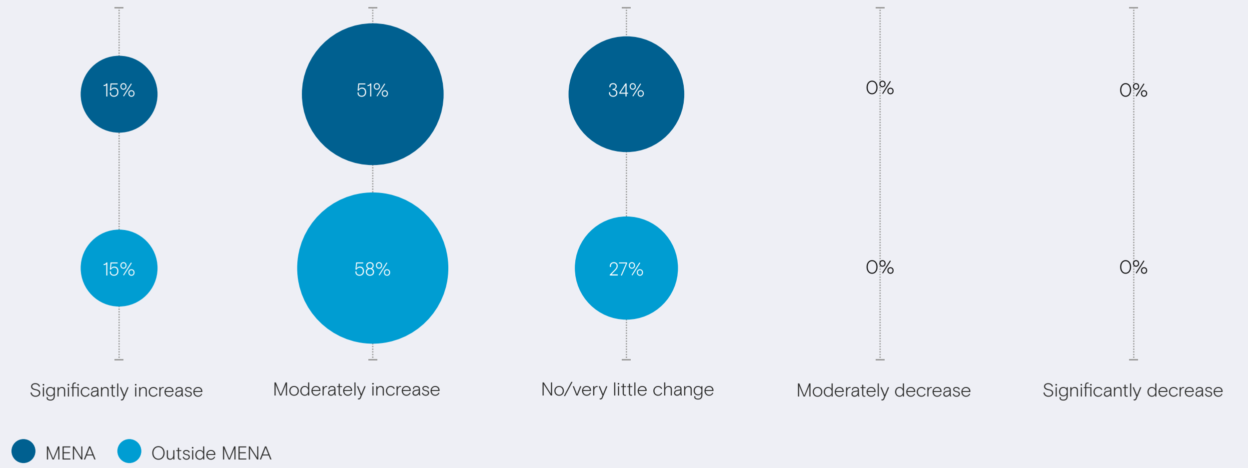
How important is it to your organisation to scrutinise a target's performance in terms of Environment, Social and Governance (ESG) or Sustainable Development Goals (SDGs) when assessing how attractive an investment it is?

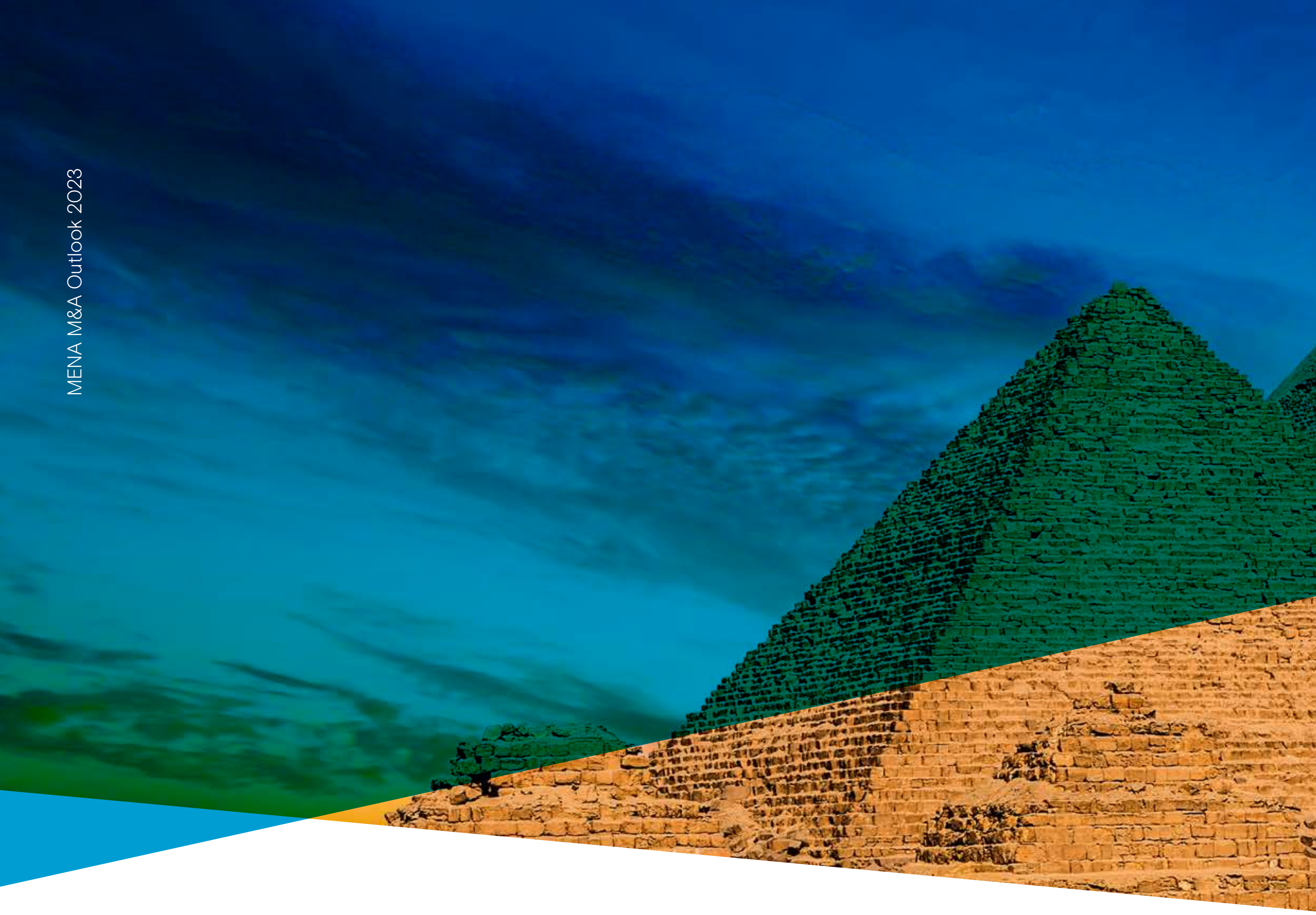


How do you think the importance of a target's performance in terms of ESG or SDGs when assessing how attractive an investment it is will change for your organisation over the next two years?



Do you expect the level of ESG-related regulatory scrutiny within MENA to increase, decrease or see little to no change over the next three years?





Conclusion

MENA is showing impressive resilience. The Middle East has proven to be one of the most kinetic deal markets in the world in 2022. As most major economies face potential recession in 2023, the region is showing strength and both local and foreign dealmakers are expected to remain relatively active until further notice. With this in mind, we leave you with a number of key takeaways to consider.

Oil prices support growth
The price per barrel of crude has been on a wild ride this year. Even after coming off strongly since June, the price remains elevated and this is buoying growth and confidence in Gulf economies and seeing revenues flow to state-linked organisations. Eager to diversify their assets, these entities have been highly engaged participants in the M&A market, driving activity. Provided a global slowdown in demand does not bring oil prices down, then this trend should remain in play.

Market liberalisation
Some of the largest markets in MENA are becoming far more friendly to foreign investors. Governments must understand that it is not enough to rely on sovereign wealth funds and other public sector organisations if they want to achieve truly dynamic deal markets and stimulate lasting growth. The lifting of ownership caps on companies means that the number of opportunities in the UAE and Saudi Arabia available for strategic mergers or majority PE buyouts by overseas investors has increased significantly. This is another major catalyst for inbound M&A activity.

Sector opportunities
Oil and gas is a stalwart sector in MENA and the rise of ESG considerations in the region is pushing energy producers to retool their portfolios for a greener, more sustainable future, driving deal activity. However, it is TMT that is expected to be the focal point of M&A over the coming year. Israel's Silicon Wadi is producing no shortage of tech deal flow in the region, while the UAE has been delivering closely watched unicorns such as transit app Swvl, cloud-kitchen platform Kitopi, and regional Spotify rival Anghami. As MENA gradually establishes its own SPAC market, there will be more avenues through which technology companies can access capital.

Political stability
The war in Ukraine among other geopolitical and even domestic political tensions has shown many MENA countries in a new light. The Arab Spring a decade ago now feels like a distant memory and the largest M&A markets in the region are now showing relative political stability. This has encouraged outside investors to revisit their assumptions and they are now showing a greater willingness to participate in MENA's increasing economic dynamism.

Competitive dynamics
The solid macro foundations of many of MENA's M&A markets means they will attract ongoing interest. Combined with the deep pockets of local investors and their willingness to participate in auctions for deal targets across sectors means that foreign investors should be prepared to face strong competition for highly coveted assets. This will require thorough deal preparation and rock-solid investment theses to ensure that bids are as competitive as possible.

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