MARMORE
MENA INTELLIGENCE
A MARKAZ Subsidiary

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GCC Private Equity and Venture Capital

Still at its infancy

Research Highlights:

Examining and analyzing the Private Equity and Venture Capital landscape highlighting key industry themes, investment opportunities, deal activity and profiling key players

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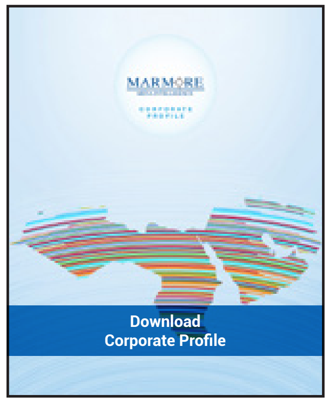
About Marmore



Organizational Background

Marmore MENA Intelligence provides research-based consulting solutions to help understand current market conditions, identify growth opportunities, assess supply/demand dynamics, and make informed business decisions.

Marmore is a fully-owned research subsidiary of Kuwait Financial Center 'Markaz'. Since 2006, Markaz Research has been at the forefront in disseminating thought-provoking, hard-data backed research reports. Marmore continues that legacy with a focused approach to providing actionable solutions for business leaders and policymakers.

Since its inception, Marmore has published over 700 research reports and covered more than 25 varied industries and infrastructure segments; all focused primarily on the GCC economies. (To view our Research Library, please *click here*)

With over 30 policy and regulatory research studies published, Marmore has partnered with renowned regional think-tanks and opinion-leaders to publish some of these intellectually provoking policy research papers. These research studies aim to initiate dialogue and propose better solutions to existing economic conundrums. (To view our Policy & Regulatory research report, *click here*)

Almost on a weekly basis, Marmore publishes thematic economic, industry, policy and capital market reports. Marmore has been recently conferred **"Research Provider of the Year - 2018" award by Global Investor, a Euromoney Group company.** To learn more, visit www.marmoremena.com

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Marmore is the only regional firm providing niche research based on strong analytics in areas that are less researched. Marmore provides full range of financial market, sector specific and economic and policy researches, as well. The different types of researches are availed based on the client's requirements. It is notable that Marmore research reports have regularly been used by various renowned institutions to better understand the MENA region.

Marmore's strengths can be summarized as follows:

» Consistent track record of quality, in-depth research offerings;

» Skilled team with extensive experience in advanced quantitative and qualitative analysis techniques;

» Deep understanding of MENA market and access to wide-ranging database

» Delivers high quality, client specific, insightful research reports; highlighting key client issues and uncovering key answers/opportunities for the clients.

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Chapter 1

Executive Summary

Traditionally, the oil rich GCC economies were major investors in foreign financial and real assets overseas as their oil surpluses were much larger in comparison to the opportunities available in the local economies. Therefore, the GCC countries invested part of their surpluses through their Sovereign Wealth Funds and Pension Funds in foreign capital markets and real assets. During the last one decade however, there was a return and retention of the capital in their home countries due to geo-political developments, the availability of growth opportunities in the domestic market and the encouragement by the GCC governments to grow their non-oil economies. Further in recent years, with comparatively lower oil prices coupled with large capital spending plans that are resulting in fiscal deficits, the GCC governments have been actively seeking foreign capital infusion into their economies. For this purpose, the GCC governments have been pursuing policies that enable foreign investments and private capital.

Against this back drop, the Private Equity and Venture Capital industry, one of the preferred sources of raising capital for budding start-ups around the world, has caught momentum and showed growth and reached respectable size, understanding, maturity and sophistication. The GCC Private Equity and Venture Capital industry has developed considerably in the last one decade, though it continues to remain small as compared to that in developed countries. PE and VC funded enterprises that primarily includes startups are essential for any modern economy to progress particularly in non-commodity sectors like services. The industry is known for developing knowledge-based enterprises that are essential for achieving economic growth in the current global scenario. The GCC region since last few years has been witnessing a very active private equity and venture capital market with several new startups building capabilities in many of the emerging sectors like e-commerce, Fintech, consumer services, logistics and education. The funding available for startups and ventures has also grown immensely over this period with several venture capital funds having been set up by local and foreign investors.

Amount of capital raised in the form of private equity which peaked in 2011, has been cyclical over the past many years with sharp decline during 2016-18. 2018 was stated to be a year of consolidation for the regional PE industry in the Middle East, as more time was spent on growing portfolio companies and arranging exits than on fundraising. The expectation is that the burgeoning recovery of the regional economy will allow the return of investors to the region and the launch of new private equity funds and more PE transactions over the coming few years. One crucial factor which made the job of raising funds difficult was the decline of Abraaj

Capital. The Dubai-based private equity fund manager was the industry's biggest player in the region until it collapsed in June 2018, following allegations it had misused investors' funds. Abraaj, faces allegations by some investors of misusing their money in a USD 1 billion healthcare fund. Abraaj has denied any wrongdoing, but the allegations triggered a solvency crisis at the Middle East and Africa's largest buyout fund and threatened to dent Dubai's reputation.

The UAE and KSA remain the most attractive countries for investors due to their size, favorable demographics and strong domestic economies from residual oil wealth. Being the financial capital of Middle East has meant that UAE is a magnet for investment firms that specialize in private equity, venture capital and asset management. The three most active markets in GCC for private equity are UAE, Saudi and Kuwait. Those three are stated to account for 84% of all private equity investments in the region. UAE market accounted for the majority of private equity investment transactions, at 53.5% of the total number of investments made in GCC region since 2008. This was distantly followed by Saudi Arabia and Kuwait at 20.3% and 10.9%, respectively. The investors in GCC PE Funds include a significant number of regional and international limited partners, comprising of Sovereign Wealth Funds, Pension Funds, Endowments, Funds of Funds, insurance companies, family offices and other institutional clients.

The growth of GCC private equity assets is slow because, the State owned enterprises which constitute most of the economic activity in GCC given their intimate knowledge of the region, deep pockets due to surplus capital, solid business relationships and unparalleled connection networks pose stiff competition to the regional PE players. The region's lack of transparency and weak corporate governance are further obstacles in finding and establishing deals. Apart from the state enterprises, family owned business form the majority of companies in the GCC region. Family business houses are wealthy, well-established and are often reluctant to sell their stakes to private equity firms. However, a positive is that in recent years the family businesses in GCC are changing their approach. Majority of family business in the GCC region are currently managed by second generation family members and about 20% are being managed by the third generation members. More than 80% of family businesses fail to survive in the third generation. Such family firms could be potential prime targets for the PE players. The limited IPO activity in the GCC Capital Markets is a major hindrance for the development of the PE industry here. The enabling factor is the focus on SME development in GCC by the government which throws many PE opportunities. The steps being taken by GCC governments for encouraging growth of private capital is another plus factor. Thus, notwithstanding some of the obstacles GCC PE Industry is finding its way through, is growing in size, reach, depth and quality of assets and has attractive prospects.

Venture capital investments generate large employment with the same capital compared to capital intensive sectors like Oil & Gas on which GCC economies had been reliant upon for many decades. The progress of this sector is being helped by GCC governments who have taken several initiatives for building the non-oil sector, generating employment for citizens and encouraging entrepreneurship through Small & Medium enterprises (SME) in the region. GCC governments are also taking steps for enabling the growth of this sector through indirect actions like improving the ease of doing business, opening the equity capital markets an essential step for IPO growth (an important exit route for the venture capital investors). Sovereign Wealth Fund's support for startups, and government policies for introduction of bankruptcy laws, intellectual property rights compliance, promoting transparency and efficient governance and lessening government hurdles to business are all recognized as important prerequisites for the success of the industry.

Chapter 2

Capital raising in the GCC

Gulf Cooperation Council (GCC) is often considered as a source of capital rather than as a destination. The perception has changed in recent times as the fall in oil prices have triggered the need to develop SMEs to diversify the economy away from oil and create new jobs. This has helped in the uptick in Private Equity and Venture Capital activity in the region, amidst hurdles such as the collapse of Abraaj Capital.

The GCC region many decades ago established its global presence by engaging into trade and commerce with the rest of the world. The geographic advantage of being in the middle of many well-established world trade routes and the possession of some of the key Islamic pilgrimage cities like Makkah and Madinah helped them flourish. In many decades of the last century, the region developed in a big way in trade of many food, clothing and manufactured products sourced from different parts of the world.

The next big change can be said to have occurred with the global oil price spike in the 1970s and the 1980s which catapulted the region into global limelight and the oil industry in the region that was relatively dormant in the region for many decades. After the oil finds, GCC countries came to the center stage of the region's economic development, with Oil exploration and oil production becoming their key activity. New found wealth boosted the region’s trade and commerce while creating attractive trade opportunities in sectors like automobiles and consumer centric products like food and clothing, and a push to sectors like banking, real estate, infrastructure, utilities and defense purchases.

The third stage can be said to have taken place in the two decades during 1990 -2010, when large investments continued to take place in downstream oil sector more importantly driven by new goals like need to diversify away from oil and create local employment. The investments in real estate in areas like housing, hospitality, tourism and organized retail and more of infrastructure and communications took the center stage. All being capital intensive sectors, the job creation was less than desired, and opportunities existed largely for the established business families.

The fourth stage, which we see now, is the decade since 2010 when the burgeoning youth of the current generation in the region, hungry for opportunities is looking for avenues to grow and prosper. This is also the period when the region’s governments are impatient and concerned to create employment opportunities for the many new generation youth in the region. An opportunity to successfully address these concerns however has emerged in the period for the region. This was the emergence of the Information Age across the world that offers high growth economic opportunities based still on age old qualities of creativity and innovation though with only a modicum of capital. The Information Age is compelling many traditional existing businesses to reinvent and recreate themselves and, in the process, throwing up opportunities which the region is capturing as seen by the startling success of many ventures in recent times.

Sustained Economic growth momentum

Economic growth in the GCC region has largely remained positive aided by vast hydrocarbon reserves and increasingly favorable demographics leading to a strong appetite for investments and expansion amongst the companies in the region. Lower oil prices acted as a drag on the economic growth of GCC countries for a brief period, with real GDP growth dipping down to negative territory in 2017. However, the persistent spending by GCC government and a spate of reforms augur well for the long-term outlook of the region.

Table 2.1: GCC GDP Growth Rate vs. Other Regions (in %)

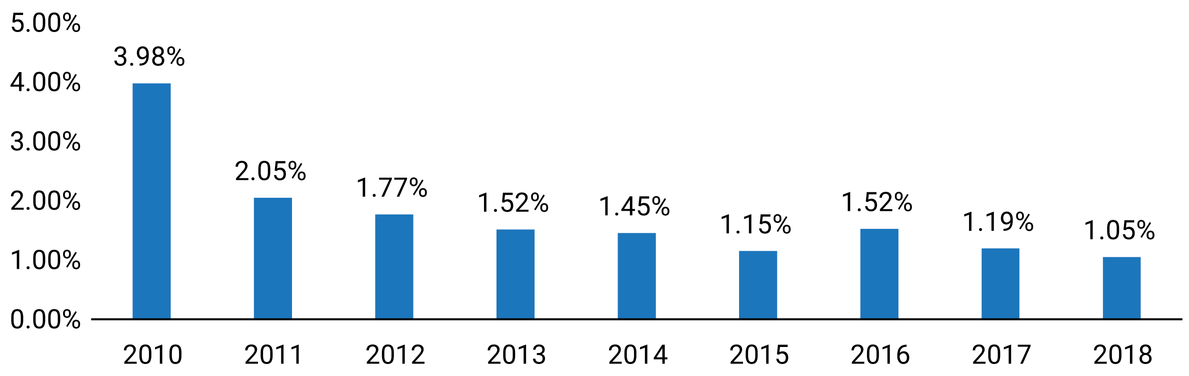
Region/Country	2015	2016	2017	2018	2019e	2020f
GCC	4.0	2.4	-0.2	2.0	2.2	2.8
Euro area	2.1	2.0	2.4	1.8	1.3	1.5
Commonwealth of Independent States	-1.9	0.8	2.4	2.8	2.2	2.3
Emerging and developing Asia	6.8	6.7	6.6	6.4	6.3	6.3
Emerging and developing Europe	4.8	3.3	6.0	3.6	0.8	2.8
Middle East and North Africa	2.5	5.3	1.8	1.4	1.3	3.2
United States	2.9	1.6	2.2	2.9	2.3	1.9
United Kingdom	2.3	1.8	1.8	1.4	1.2	1.4
Japan	1.2	0.6	1.9	0.8	1.0	0.5

Source: IMF, April 2019

Muted Capital Inflows

Despite the economic growth Foreign Domestic Investment (FDI) inflows to GCC countries remain muted; as the countries lag in implementing reforms - to strengthen corporate governance, improve overall business climate and create conducive investment environment that would enhance competition in the markets.

Figure 2.1: Overall GCC FDI Flows as % of GDP



Source: UNCTAD, IMF

The legal and regulatory framework in most countries of the GCC region remains nascent and characterized by weak bankruptcy laws and high set-up costs. Such a scenario stifles the business climate and entrepreneurial ventures. Despite ongoing reforms, they still rank very low in ease of doing business.

Table 2.2: Doing Business Ranking, 2019

	Bahrain	Kuwait	Oman	Qatar	KSA	UAE
Ease of Doing Business (rank)	62	97	78	83	92	11
Starting a Business (rank)	66	133	37	84	141	25
Getting Credit (rank)	112	134	134	124	112	44
Protecting Minority Investors (rank)	38	72	125	178	7	15
Paying Taxes (rank)	5	7	12	2	78	2
Resolving Insolvency (rank)	93	115	100	120	168	75

Source: World Bank; Note: Ranking out of 190 Economies.

In recent years, GCC countries have undertaken initiatives to overhaul their bureaucracies to provide a business-friendly environment. For instance, Saudi Arabian government established Saudi Arabian General Investment Authority (SAGIA) to oversee the investment affairs, including foreign investments, in the kingdom. Despite a gradual improvement in rankings over the years, GCC countries barring the UAE still have a long way to go to be on par with developed economies in terms of making conditions favorable for businesses operating in their respective countries.

Entrepreneurial Skills in the Region

The GCC region has had its share of remarkable entrepreneurial successes for several decades as many businessmen flourished from a small beginning to great heights that were never imagined. The successes could be attributed to having a vision, understanding the world, business acumen like recognizing opportunities, taking risks, pursuing opportunities with perseverance, and values and following business practices that look to business as a way to enrich themselves while simultaneously playing a greater role in the betterment of society. They possessed global outlook from the beginning and several businesses invested in international assets when they saw opportunities.

The entrepreneurs of the current generation in the region are more of the same coin as the past but are better educated, better trained in business knowledge, are tech savvy, better exposed to global developments and experiences, and better informed all due to the digital and information age in which exchange of information and ideas globally is taking place real time. However, they operate in an unprotected world unlike their predecessors and have therefore to compete aggressively. But they are endowed with easier access to risk capital unlike past generation of entrepreneurs. Therefore, they are better placed to utilize their skills to develop successful ventures in the years ahead.

Role of Private Equity and Venture Capital in raising capital

Most of the SMEs and startup companies find it hard to obtain adequate financing from banks which have stringent collateral requirements, including personal guarantees. Lack of funding sources for early-stage investments acts a hindrance for entrepreneurs and a cause for concern for SMEs. As companies look to grow and expand, private equity and venture capital can emerge as an alternative funding method.

Table 2.3: Pros and cons for issuers of different funding or exit routes

Market	Funding and/or exit route	Pros	Cons
Private	Sale to Private Equity or Venture Capital	• Speed of transaction and one-off transaction • Greater privacy both pre- and post-deal • Greater confidentiality regarding deal value and liabilities	• Future exit by PE (five to seven years) • Codetermination and/or voice in decisions • Reporting requirements of PE/VC investors

Market	Funding and/or exit route	Pros	Cons
Private	Sale to a corporate	• Speed of transaction and one-go transaction • Greater privacy both pre- and post-deal • New growth opportunities from being part of a bigger group • Full liquidity at event	• Loss of exclusivity and entrepreneurial freedom • Change of management power • Uncertainty about medium-term strategy
	Sale to a family office	• Shared values and long-term perspective • Continuity in decision-making from owner to owner • Smoother transition	• Loss of influence and power • Not continuing the family legacy
Public	IPO	• More entrepreneurial independence is retained compared with a private market exit • Access to and leverage of new sources of capital • Daily price determination (valuation on a daily basis) • Liquid currency for acquisitions and compensation	• Regulatory burdens and strict transparency requirements • Unpredictability of markets and IPO windows • Limited near-term liquidity (for remaining shareholders with further exit intentions)

Source: Ernst & Young - Guide to going public

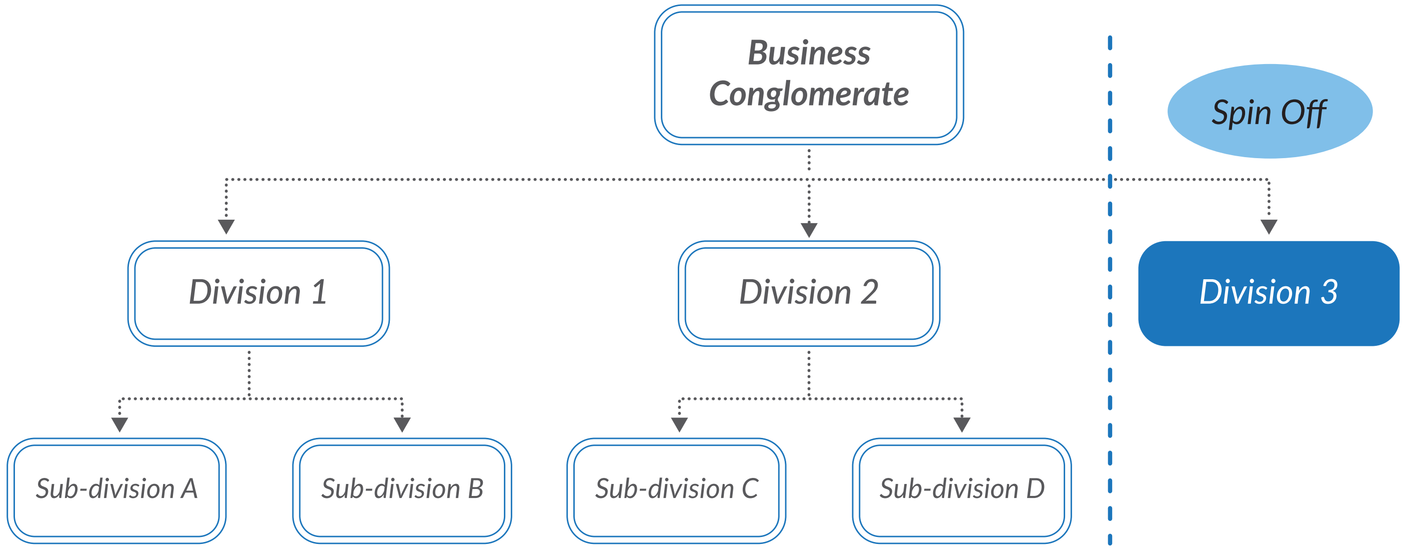
However, it is important to note that Private Equity (PE) and Venture Capital (VC) are more than just a mode of capital and often brings about significant value by establishing credibility to the venture and by setting a price benchmark.

Value Creation by PE & VC Players

Typical play by a PE fund or a VC in the GCC region would be to identify family businesses that are yet to reach their full potential. They can provide capital, share their domain expertise, leverage on their industry contacts, tap into overseas markets, improve operations and thus create value for these business houses. For instance, Amwal AlKhaleej, Riyadh-based private equity firm, used its local knowledge and business network to help Damas, UAE-based Jewelry Company, to successfully establish and expand into the Saudi Arabian market.

Other ways to create value include identifying family conglomerates and selling off underperforming business divisions to streamline their core operations. Economies of scale, vertical or horizontal value chain integration could also be ideated by bringing together smaller companies working in the same business lines.

Figure 2.2: Value Creation in Business Conglomerate



Source: Marmore Research

This being the case with smaller and medium sized companies, PE & VC firms could also work with mature firms to enable them to tap overseas markets with the help of their networks which spans across regions.

Chapter 3

GCC Private Equity – Seeking Revival

PE Industry Structure in the GCC[1]

Private Equity (PE) industry in the GCC region enjoyed significant growth in the past few years despite the slowdown in economic growth caused by lower oil prices and other negative developments like the collapse of Abraaj Capital, a major GCC PE firm in 2018.

In the GCC, equity forms a substantial portion of PE deals capital structure, and the low leverage limits the average investment size. Due to this PE funds spread their risk across several midcap investments. A large portion of deals represent minority stakes in family-owned businesses, as 85% of businesses are family owned and 40% of non-oil GDP is estimated to be produced by family-owned businesses. While these businesses are reluctant to lose control, they look at PE mainly as a source of expansion or acquisition financing. Due to this PE funds in the region seek minority protection rights on top of tailor made contractual agreements.

While the typical western model involves the PE firm acquiring stake through a tax-efficient holding structure, PE investment in the GCC is often by way of a minority or majority acquisition, in a low-tax (or no-tax) jurisdiction that is subject to a number of regulatory requirements, and whose system of enforcement of rights is not fully developed. Fund structures in the Middle East will generally be a limited partnership structure established in the Cayman Islands or the British Virgin Islands and Bermuda. Entities formed in these places are used at the fund formation level, as well as the co-investment side for both Sharia and conventional transactions. Such offshore jurisdictions offer straightforward company laws, no local taxation and the underlying legal system is based on the English common law. These factors are important for a PE acquiring less than 100% of a business. Such companies are also accorded local law protections and relatively lesser taxer burdens.

Other company law features that should be taken into consideration prior to developing the fund structure include, licensing requirements, minimum number of shareholders, minimum share capital requirements, entrenched rights, future IPO plans, transfer restrictions on formation, director's shareholding requirement and statutory reserve fund. In some GCC countries, a non-GCC entity may be required to obtain a license and other requirements vary depending on whether the company is a limited liability company (LLC) or joint stock company (JSC) and also the country of focus in the region.

Mezzanine financing, which sits between the senior secured debt and the junior equity financing, is increasingly available to PE firms in the GCC, and some parties may wish for it to be accommodated in the transaction structure. Mezzanine financing can be structured as junior debt, convertible bonds or convertible redeemable preference shares or similar securities, and this choice depends upon the company and how it wishes to structure its balance sheet in a specific legal regime. Currently, there are a number of GCC-focused mezzanine providers.

[1] MENA Private Equity: Transaction Structures and Choice of Law Considerations, Nick Tomlinson

The PE fund transaction structure may also need to accommodate a management equity plan. In GCC jurisdictions that do not tax income, an equity plan is most commonly used, which avoids the need to grant shares or rights to shares to management. But if actual shares or options are issued to management, they need to be subject to a shareholders' agreement in relation to compulsory transfers to enable the parties to sell 100% of the company on an exit.

Developments in the GCC PE Industry

As the private equity industry in Middle East and North Africa region closes a year of consolidation and slow fundraising in 2018, the alternative investment asset class is not expected to record many transactions in 2019, either. Amidst tough global macro-economic conditions, corporate governance-related concerns means the industry is bracing for more scrutiny by investors, according to analysts. However, the rising potential of fintech in the GCC, and a likely economic recovery in both Saudi Arabia and the UAE are expected to give the industry a much-needed boost, with the long-term prospects of the industry remaining positive, according to industry figures who have spoken to Zawya.

MENA PE industry as a whole, does not expect many more transactions (in 2019) given the lack of dry powder and the scarcity of new funds launched over the last few years," Karim El Solh, co-founder and CEO of Gulf Capital, told Zawya. According to Preqin, which tracks data for alternative asset classes, there were 17 private equity-backed buyout deals in MENA region in 2018, which was the same number as in 2017, but considerably lower than completion numbers in 2016, 2015, and 2014, when 32, 31, and 46 deals were completed respectively. Yet aggregate deal values jumped to USD 743 million in 2018, up from USD 350 million in 2017.

The largest buyout deal recorded in 2018, as per Preqin data, was Abu Dhabi-based Gulf Capital's investment in Saudi financial technology firm Geidea in May for a reported sum of over USD 267 million. It is hoped that the burgeoning recovery of the regional economy will allow the return of investors to the region and the launch of new private equity funds and more PE transactions over the coming few years. 2018 was stated to be a year of consolidation for the regional PE industry in the Middle East, as more time was spent on growing portfolio companies and arranging exits than on fundraising. It also marked the entrance of several Asian strategic buyers to the region. Fundraising for the MENA private equity industry was slow last year, because of the slowdown of the GCC economies and the recent geo-political events. This slowdown is stated to have had an impact also on the appeal of the region to global investors.

Reasons for optimism for regional private equity investors, are initiatives taken by governments to strengthen entrepreneurship and promote SMEs, a young and fast-growing population, increasing wealth and economic reforms. While abnormal macro-economic conditions in this region have been a norm for the last 4-5 years, it is considered that the private equity market certainly has future in the MENA region and is poised for significant growth led by the GCC considering intensified MENA-wide economic diversification and development efforts

Several exits are predicted in 2019, either to strategic buyers or through IPOs as the regional capital markets open up again and encourage new listings. However, Fitch Solutions in November 2018, had stated that the region's private equity industry has lost deal momentum that had been gradually rebuilding after the global financial crisis, and it seems unlikely to regain that uptick in activity again anytime soon. Though the nascent PE market certainly has a future in the MENA region, they believe that 2019 will fail to provide much of a tailwind for its emergence on the global stage. The commentary cited weak macroeconomic conditions, oil price fears, along with rising political risks as the key reasons for the gloomy outlook for private equity in the region.

Collapse of UAE PE Firm Abraaj in 2018 and its fall out

One crucial factor which made the job of raising funds difficult was the decline of Abraaj Capital. The Dubai-based private equity fund manager was the industry's biggest player in the region until it collapsed in June 2018, following allegations it had misused investors' funds. Abraaj, faces allegations by some investors of misusing their money in a USD 1 billion healthcare fund. Abraaj has denied any wrongdoing, but the allegations triggered a solvency crisis at the Middle East and Africa's largest buyout fund and threatened to dent Dubai's reputation. The row with investors including the Bill & Melinda Gates Foundation and the International Finance Corp halted the firm's fundraising activities and sparked debt repayment problems. Abraaj Holdings and Abraaj Investment Management filed for provisional liquidation in the Cayman Islands in June, while potential buyers are looking to buy parts of the Abraaj investment management business. The liquidator's job of unwinding its assets to return capital to investors is ongoing. International media attention that Abraaj's collapse gathered, dampened investors' confidence which could further dent prospects of raising money for MENA region in 2019. Dubai's financial services regulator has stopped Abraaj Capital from taking on new business or moving money to Abraaj Investment Management (AIML), its related entity, as part of an investigation into the group.

Nevertheless, it is felt that the incident is a wakeup call and regulators are likely to attempt to streamline corporate governance and compliance procedure. In the medium to longer term, private equity will remain a viable asset class across the markets and new asset managers will emerge. "That said, the PE firms in the region will certainly now be subject to greater scrutiny by the investors which, in return, could bring in positive changes in the areas of corporate governance, reporting and internal control procedures within the industry.

GCC Private Equity Deal Flows

There were some notable exits in 2018 which demonstrated that investors can still make strong returns investing in regional private equity, such as Gulf Capital's USD 173 million sale of B2B travel agency. Destinations of the World to Australian listed Webjet, for which the fund claimed an internal rate of return (IRR) on its investment of 15%. Gulf Capital also sold a 74% stake in Egypt's Medco Plast to Thailand's Indorama Ventures for 843 million Egyptian pounds (USD 47.18 million). Gulf Capital is planning at least five new private equity deals this year, with two new deals to be announced in the next two months, as reported by Zawya. With USD 3 billion in assets under management, Gulf Capital is one of the largest private equity players in the Middle East North Africa region. They are expected to soon announce an exit transaction in healthcare and a new investment in healthcare in the second quarter. Gulf Capital exited its investment in United Arab Emirates-based Amana Healthcare, after selling its controlling stake to Mubadala Investment Company. Saudi Arabian electronic payment services firm Geidea was bought by UAE asset manager Gulf Capital for USD 267 mn. Saudi Arabia-based Mohammed Alsubeaei & Sons Investment Company's 30% buyout of real estate developer Thaker Investment and Real Estate Development is the another notable deal.

The first phase of the USD 1 billion Al Maryah Central project, a retail-led development being built jointly by Gulf Capital and U.S-based developer Related, set to open in August is an example of a major deal. On the other hand, Gulf Capital's recent purchase of Geidea is seen as a potential 'green shoot' for recovery, highlighting fintech's potential in the region. Fintech startups in the GCC are expected to attract USD 2 billion in private funding over the next ten years, compared to USD 150 million worth of investments in the last decade, according to MENA Research Partners (MRP). Numerous other similar opportunities in fintech, ecommerce, logistics, business services and consumer-oriented sectors are being studied.

Attracting new investors to the market will be the key. In some leveraged buy-outs, debt may comprise up to 97% of a deal's capital structure, meaning small changes in interest rates can make big differences to repayments. As, it is through high debt that a private equity firm maximizes its return on equity. This makes the PE industry very sensitive to interest rates and in a rising interest rate environment deals are not very attractive.

State owned enterprises which constitute most of the economic activity in GCC region are rarely privatized. Even under the privatization initiative, only minority stakes in these enterprises are floated in the stock exchange, which usually is reserved for and subscribed by the nationals. Apart from the state enterprises, family owned business form the majority of companies in the GCC region. Family business houses are wealthy, well-established and are often reluctant to sell their stakes to private equity firms.

On the contrary, given their intimate knowledge of the region, deep pockets due to surplus capital, solid business relationships and unparalleled connection networks they pose stiff competition to the regional PE players. The region's lack of transparency and weak corporate governance are further obstacles in finding and establishing deals.

Fund Raising by GCC PE Firms

Amount of capital raised in the form of private equity which peaked in 2011, and has been cyclical over the past many years with sharp decline during 2016-18. According to data from Preqin, only eight private equity funds with exposure to MENA closed last year, with USD 406 million in aggregate capital raised - down 65% on the USD 1.2 billion raised through ten funds in 2017. Even this was considerably lower than the USD 14. 3 billion raised in 2015. Some see that the market will see many more companies for sale. But there are fewer buyers and companies that were offered in 2018 were of bad quality. 2019 started with a strong deal flow and the quality of companies are much better. Many of the bigger funds in order to achieve a fund raising close to last year's level were focused on the wider MENA region, as opposed to the GCC, such as the Ezdehar Egypt Mid-Cap Fund – a USD 100 million growth fund focused on consumer companies in Egypt - and the USD 220 million Maghreb Private Equity Fund IV focused on North African markets, which was raised by Tunisia's Africinvest. Firms like Gulf Capital have a diversified investor base with near 60% of its funds raised from global investors.

Investment information is necessarily not fully comprehensive as many PE transactions in the MENA region are not announced, and not all announced transactions include details regarding the size of the investment. There is reported to be a lack of visibility over the funding structures used by fund managers to effect transactions and therefore investment values reflect total transaction size rather than equity investment. Careem one of the firms in the region raised USD350m in 2016 from a range of parties including regional financial sponsors. Cumulative funds under management increased to USD 27 billion in 2016. Growth capital is found to be the main focus of fund managers. The dominance of growth capital is seen as a result of the target of PE firms in the region to increase value from growing the business and profits rather than the use of leverage which is a reflection of an emerging market where returns are predominately measured by earnings growth as opposed to leverage. There is increasing willingness of LPs to consider direct or co-investment options as a viable alternative to blind pool investing. Regional family offices are also continuing to invest directly, setting up private equity style operations to support the co-invest model, in acknowledgement of the opportunities in the region.

In 2016, the fund-raising environment was a challenge given the economic climate and regional geopolitical factors impacting external investor perceptions. In GCC, fund raising is achievable for those managers with a demonstrably strong track record, while the relative youth of the industry means that the number of houses in that position is relatively limited. As a result, the prevalence of the deal by deal model, where GPs raise funds for specific transactions, is popular across the MENA region.

GCC Equity Partner III, a USD 750mn is a fund managed by Gulf Capital. The investors in GC Equity Partners Fund III include a significant number of regional and international limited partners, comprising of Sovereign Wealth Funds, Pension Funds, Endowments, Funds of Funds, insurance companies, family offices and other institutional clients. Firms like Gulf Capital have a diversified investor base with near 60% of its funds raised from global investors close to 60% of external investors are from the US, Europe and the Far East, highlighting the appeal of the GCC region to global investors.

In 2018/19 only one fund was raised. That was for Growth Capital and it was raised by NBK Capital Partners of Kuwait. The fund size was USD 137 million and the industries of interest were Education, Health Care, Industrial Manufacturing, and Information Technology.

Table 3.1: GCC Capital Raised by Investment Focus, 2003-2018

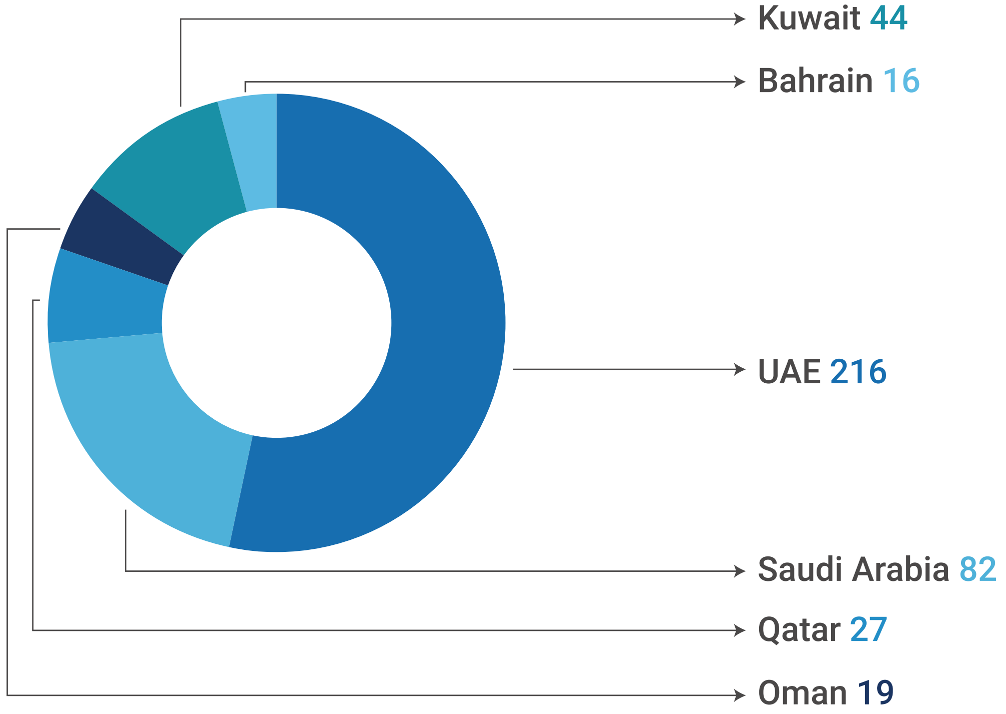
Investment Focus	No. of Funds	Fund Size (in USD mn)
Balanced Fund	8	2,162
Buyout	31	3,731
Distressed	1	200
Growth Capital	8	909
Infrastructure	2	902
Mezzanine Capital	2	200
Pre-IPO	2	381
Real Estate	20	3,148
Venture Capital	12	467
Total	**86**	**12,099**

Source: Reuters; Note: Fund size is calculated based on available data

Majority of the Private Equity funds raised in GCC region, fall under the buyout category. Buyout funds usually invest or acquire a controlling interest in mature businesses and turn around with their managerial expertise. Though leveraged buyouts (LBOs) are the most common form of buyouts in the western world, PE funds in GCC have refrained from using leverage and they focus on underlying earnings growth to achieve return for their investors. There is a lack of micro, small and medium sized enterprises (MSMEs) in GCC. In recent years, numerous Venture Capital funds have been established that are characterised by their small sizes, usually USD 10mn.

Investment activity is notably concentrated in the UAE in 2016. The largest alternative markets of Saudi Arabia experienced a variety of challenges. In KSA the continuation of lower oil prices and consequent economic slowdown led to investor caution with private equity investors increasingly adopting a wait and watch approach. The UAE and KSA remain the most attractive countries for investors due to their size, favorable demographics and strong domestic economies from residual oil wealth. With the fall of Abraaj Capital, in UAE, private equity fund raising is likely to be challenged in the near term and scrutiny on the industry will certainly increase. Being the financial capital of Middle East has meant that UAE is a magnet for investment firms that specialize in private equity, venture capital and asset management. However, it is opined that the sector being huge it should be possible for them to withstand the reputational damage from failure of Abraaj. There are some opportunities in Kuwait. The three most active markets in GCC for private equity are UAE, Saudi and Kuwait. Those three are stated to account for 84% of all private equity investments.

Figure 3.1: Regional Split of Investments Made (by number of transactions), 2008-2019[2]



Source: Reuters

UAE market accounted for the majority of private equity investment transactions, at 53.5% of the total number of investments made in GCC region since 2008. This was distantly followed by Saudi Arabia and Kuwait at 20.3% and 10.9%, respectively.

In 2018-19, UAE maintained its leadership position as it continued to account for the majority of investments being made in GCC at 53.8%. Saudi Arabia was the next big destination attracting 23.1% of investment volume for the year 2018-19. In comparison to other GCC markets, UAE is a predominant financial hub and acts as a gateway for entry into the Middle East region. Most PE funds are attracted to the relatively hassle free regulatory regime in the UAE, a consequence of the efforts made by the country to attract foreign investments. Upgradation of UAE markets to the MSCI Emerging Markets index has helped boost investor confidence. Moreover, the Expo 2020 is expected to boost economic activity additionally by around USD 24bn and also create more than 270,000 new jobs by 2019. Favourable demographic mix, higher per capita income, political and economic stability and rapidly growing non-oil sector are other reasons for investor preference for the UAE over other countries in the GCC.

Fund managers highlight that the importance of private equity as an available source of alternative capital is expected to increase in an environment where bank and public market financing may become more restricted. Traditional sectors such as transportation have enjoyed the highest PE investment activity as of 2016, accounting for 31% of total investment value. Pointing to a growing regional need, 17% of total investment activity was found to be in the space of IT, FinTech and E-Commerce, showing the emerging industries which continue to go from strength to strength in the region. Both healthcare and education are areas of focus although this has made deals in these sectors often intensely competitive and thus pricing from the investors' perspective has sometimes been viewed as challenging.

Investments in the oil and gas sector dwindled with lower oil prices in 2016, with financial sponsors being reluctant to commit capital while price volatility and uncertainty remained major factors. However GPs do have ongoing interest in the sector and related support services and it is a matter of timing for investments to resume.

The rapid growth of healthcare in GCC is drawing investors to make shrewd investments that address health service capacity gaps and improve quality of care and access for patients. GCC governments are increasingly relying on the private sector to help meet rising demand for health services and transfer the burden of healthcare to private sector. Also expected is increased demand for high-tech pharmaceuticals and medical technology, much of which is not yet available in local markets, as a result of real income growth. Private healthcare companies will be looking to adopt new technologies in the information technology, emergency response, and mobile health spaces to improve patient interaction and monitoring, and access to information and advice. Growing costs for state-of-the art equipment means that demand for high-tech products and treatments will need to be met with higher efficiency business models. Therefore, it often pays to be a specialist – to use deep sector expertise, to promote efficiency and good governance, as well as to create new business opportunities from own research and sector knowledge. New, attractive sectors that are emerging, are entertainment and tourism in Saudi Arabia. All of these are expected to throw up good opportunities for GCC PE Funds.

Cyclical sectors such as Real Estate and Financial services accounted for the majority of the investment volume made since 2008. The significant amount of investments being made in financial sector could be due to the fact that the sector is the largest contributor to non-oil GDP. In recent years, PE deals were favoured in sectors such as services, consumer goods, information Technology, Leisure & Tourism, Retail, etc.

[2] Analysis has been performed based on number of transactions rather than investment volume, as investment amount/size for most deals aren't reported

Table 3.2: Prominent Deals in 2018-19

Fund Name	Date	Buy/Sell	Country	Target Company	Sector
Cedar Mundi Fund	Feb-19	Buy	Kuwait	Cofe	Retail
Riyad Taqnia Fund	Jan-19	Buy	UAE	Trukker Technologies DMCC	Transport
Gulf Capital Equity Partners II	Nov-18	Sell	UAE	Destinations of the World Travel & Tourism L.L.C.	Leisure and Tourism
Algebra Capital	Nov-18	Buy	UAE	HolidayMe	Leisure and Tourism
Riyad Taqnia Fund	Oct-18	Buy	Saudi Arabia	Optimal Technology Solutions	Information Technology
Saned Venture Capital Fund	Sep-18	Buy	UAE	Sarwa	Financial Services
Investcorp Gulf Opportunity Fund I B.S.C.	Aug-18	Sell	Kuwait	Gulf Cryo Holding Co. K.S.C.C.	Industrial Manufacturing
Middle East Venture Fund III (MEVF III)	Jul-18	Buy	UAE	The Luxury Closet	Retail
Middle East Venture Fund III (MEVF III)	Jun-18	Buy	Bahrain	Eat	Information Technology
Riyad Taqnia Fund	May-18	Buy	Saudi Arabia	B8ak	Services
Riyad Taqnia Fund	Apr-18	Buy	Saudi Arabia	Sure International Technology	Information Technology
MBC Ventures	2018	Sell	UAE	GlamBox.ME	Consumer Goods
Riyad Taqnia Fund	2018	Buy	UAE	Last Mile	Services

Source: Reuters

In 2018-19, the trend continued with Information Technology, Retail, Leisure & Tourism, Financial Services, and Consumer Goods attracting the investments in the region. Private equity in Information Technology sector is active across the region, with two transactions in the Saudi Arabia, and one in Bahrain. While the number of deals have come down, as compared to the previous decade, Retail, Leisure & Tourism and Services continue to be popular sectors with PE investors. Real estate, which is witnessing over supply conditions did not find takers for investment. The rising popularity of online retail and mobile phone applications has led to the opening up of the IT sector in the region.

In the GCC region, continued government spending and increased focus on the non-oil sector are expected to drive PE growth. During the period leading up to the Dubai Expo 2020 and the FIFA World Cup in Qatar, the non-oil sector comprising infrastructure, tourism, trade and financial services is expected to get a major boost, which opens up avenues for investment for PE. But PE funds are likely to be confronted with intense competition, not only with fundraising, but also in scouting attractive deals.

Major PE Players[3]

Gulf Capital, UAE

Founded in 2006, Gulf Capital is a venture capital and private equity firm specializing in late venture, late stage control buyouts, growth capital, industry consolidations, add-on acquisitions, and mezzanine investments. The company is one of the leading alternative asset management firms in the Middle East, investing across several asset classes including Private Equity, Private Debt and Real Estate and currently manages over USD 4 billion of assets across 10 funds and investment vehicles. The company targets industries that offer high growth, competitiveness, and the potential for transformational change, and has built a diverse portfolio.

Table 3.3: Funds managed by Gulf Capital Partners

Name	Size (USD mn)	Fund Stage	Vintage
Gulf Credit Opportunities Fund II	175	Mezzanine	2016
GCC Equity Partner III Fund	750	Buyouts	2013
Gulf Credit Opportunities Fund LP I	215	Mezzanine	2011
GC Equity Partners II	533	Buyouts	2007
Gulf Capital Private Joint Stock Company - Unspecified Fund	-	Generalist	2006

Source: Reuters

[3] Reuters, Bloomberg, Company websites

Typically, Gulf Capital makes equity investments between USD 25mn and USD 100mn, although this figure can increase through co-investment. The firm's geographic focus includes private companies based in the GCC, other MENA countries, such as Egypt, Jordan, and Lebanon. The firm also offers co-investment opportunities via syndicates and focuses on acquiring strategic control and majority stakes. Gulf Capital exits its investment, typically, in three to five years. Gulf Capital Pvt. JSC was founded in 2006 and is based in Abu Dhabi, United Arab Emirates, with an additional office in Dubai, United Arab Emirates.

In 2014, the company opened Gulf Capital Equity Partners Fund III, which is a control-oriented growth buy-out fund, focused primarily on the GCC, is the largest fund raised by Gulf Capital to date. Investors included a significant number of regional and international limited partners, comprising of SWFs, Pension Funds, Endowments, Funds of Funds, insurance companies, family offices and other institutional clients. The fund held its first closing in Jan'14 and was oversubscribed above its hard-cap of USD750 million in Oct'14.

Some of its investments include Middle East Glass (Egypt), Chef (UAE), Gulf Marine Service (UAE), Metito Holdings (GCC), OCB Oilfield Services FZCO (UAE), REACH Employment Services (UAE), Smart Energy Solutions FZCO (UAE), and Destinations of the World (UAE).

Table 3.4: Gulf Capital Partners' recent direct investments

Company Name	Industry	Last Investment Date	Location
Sporter.com	Technology	14-11-2016	UAE
Carbon Holdings Ltd	Energy	30-09-2016	Egypt
Multi Brands for Trading Company Ltd	Consumer Non-Cyclicals	23-12-2015	Saudi Arabia

Source: Reuters

The objective of Gulf Capital Partners is to invest and hold commanding positions in growth focused sectors in the GCC.

Table 3.5: Gulf Capital Partners' current portfolio

Company	Company Description
Middle East Glass	This was a strategic minority stake acquired in September 2014. Middle East Glass is the Egypt's largest glass manufacturer of packaging for the food and beverage industry. The company is a supplier of glass bottles for Coca-Cola, Pepsi, Nestle and other major beverage producers.
Chef	This investment was acquired in 2013. Chef was established in 1995 in Dubai as a regional supplier of the finest quality foods to the hotel, dining and airline industries, representing some of the best global brands. It services customers in the UAE, Qatar and Oman.
Metamed	Metamed oversees the most extensive network of diagnostic imaging centers in the Middle East, offering a full range of scanning services from x-rays and ultrasounds to mammography and bone densitometry.
Kuiper Group	Kuiper Group is a leading oil and gas crew supply and logistics provider, specializing in supplying rig crews to international offshore oil and gas drilling companies. It has operations in the UAE, India, Indonesia, Saudi Arabia, Qatar, Thailand, Brunei, Singapore, Mozambique and Cameroon.
Smart Energy Solutions	SES specializes in the rapid deployment of turnkey power generation solutions and comprehensive operation and maintenance services to utilities, governments, armed forces, oil companies and mines. It operates in the UAE, Saudi Arabia, Qatar, Yemen, Oman, and Rwanda.
Multibrands	Multibrands is a fast growing Saudi-based supplier & distributor of food products.
Sporter.com	Regional distributor for sports nutrition products, such as protein and non-protein supplements and health snacks.
Accumed	Accumed offers end-to-end revenue cycle management ("RCM") services to healthcare providers. It is the market leader and the first RCM company in GCC.
Geidea	Geidea is a merchant service provider and integrated payment solution provider that is headquartered in Riyadh, KSA.

Source: Gulf Capital Partners

Table 3.6: Gulf Capital Partners' exited investments

Company	Company Description
Gulf Marine Services	A leading assembler and operator of jack-up barges and offshore support vessels in the UAE, with a presence throughout the GCC, Europe and West Africa. Having originally acquired an 80% stake in Gulf Marine Services for around USD 62 million in 2007, in March 2015, Gulf Capital sold a 40% stake through an initial public offering on the London Stock Exchange, netting a return of 10x and returning its entire USD 530 million second fund in the process.
Metito Holdings Limited	The investment was acquired in 2006. The largest privately-held water engineering and concessions company in the GCC, Metito also has a foothold in China, India, and North Africa. Gulf Capital made a partial exit of water company Metito, reaping a 3.5x return in 2015.

Company	Company Description
Destinations of the world	A leading multi-regional hospitality distributor. Established in Dubai in 1993, DOTW has grown into one of the World's largest accommodation wholesalers, operating an exclusively B2B distribution model.
Maritime Industrial Services	Leading diversified engineering and contracting group providing a broad range of products and services to the energy sector.

Source: Gulf Capital Partners

Investcorp Bank B.S.C., Bahrain

Investcorp founded in 1982 and headquartered in Bahrain, is a global provider and manager of alternative investment products. It combines the growth dynamics of Gulf capital and the alternative investment industry with international management discipline. It was founded as, and remains, a firm that is global in its outlook, attitude and culture. As such, it has offices in New York, London, Bahrain, Abu Dhabi, Doha, Riyadh and Singapore. It typically places the private equity of companies and real estate properties it acquires directly with investors on a deal-by-deal basis and through a fund structure. In addition, the firm operates the Gulf Opportunity Fund investing in the MENA region and a number of technology funds. The company maintains relationships with over 1,000 individual and institutional investors in the Gulf. The company is regulated in Bahrain as a wholesale bank. At June 30, 2018, Investcorp Bank is owned by public shareholders, management and strategic shareholders. Public shareholders own approximately 48.8% of the Ordinary Shares of Investcorp Bank which are tradable on the Bahrain Bourse and are held predominantly by Gulf-based nationals and institutions, including a stake of 10% held by Konoz Securities Company SPC and a stake of 20% held indirectly by Mubadala Investment Company PJSC.

Gulf Opportunity Fund I is the first and largest fund managed by Investcorp. The fund will make investments in Greenfield "build" projects as well as buyout and growth capital investments. The fund was to source and create unique investment opportunities with the aim of bridging the needs of the region with businesses, technologies and know-how from around the world.

Table 3.7: Funds managed by Investcorp

Name	Size (USD mn)	Fund Stage	Vintage
Investcorp India Fund	145	Generalist	2019
Investcorp European Private Equity Fund	-	Buyouts	2019
Gulf Opportunity Fund I	1,100	Turnaround/Distressed Debt	2008
Investcorp Private Equity 2007 Fund, L.P.	621	Buyouts	2007
Investcorp Secondary Partners, L.P.	99	Secondary Funds	2007
Investcorp (Arabian Investment)	1	Later Stage	1985
Investcorp	-	Buyouts	1985
Investcorp - Unspecified Fund	-	Generalist	1982

Source: Reuters

It has a unique placement capability in the Gulf, where it offers a high level of personal service to an investor base of high-net-worth individuals and institutions. It offers investments to its clients on a deal-by-deal basis, reflecting its investors' preference for investment discretion. Many of its clients have also chosen to be shareholders of Investcorp. It prides itself on the long-term relationships they have built with clients, based on mutual trust, respect and delivery. Their dedicated client service team acts as a trusted and informed advisor to clients.

In 2014, it made investments in two Saudi Arabia-based companies, Theeb Rent a Car, one of Saudi Arabia's leading car rental companies, and Leejam Sports Company JSC, one of the leading health and fitness club management companies in the country (operates under the Fitness Time brand name), were closed in FY13 and announced this fiscal year. In 2014, Investcorp Gulf Opportunity Fund agreed to acquire a 38% stake in Al Yusr Industrial Contracting Company WLL (AYTB), a provider of technical industrial support services to the petrochemical, oil & gas and other key industrial sectors in Saudi Arabia and Qatar.

Table 3.8: Investcorp's recent direct investments

Name	Industry	Last Investment Date	Location
Investcorp - Multifamily Property Portfolio (11)	Financials	10-06-2019	United States
Mercury Capital Advisors Llc	Financials	23-05-2019	United States
Calligo Ltd	Technology	27-03-2019	United Kingdom

Name	Industry	Last Investment Date	Location
Cycle Me SAS	Consumer Cyclicals	25-02-2019	France
Investcorp - Multifamily Property Portfolio (8)	Financials	12-02-2019	United States
Cambio Healthcare Systems AB	Technology	04-02-2019	Sweden
Health Plus Management Services LLC	Healthcare	28-01-2019	United States
Blue Crab LLC	Consumer Cyclicals	03-01-2019	United States
Investcorp - multifamily property portfolio (6)	Financials	28-11-2018	United States
KSI Trading Corp	Consumer Cyclicals	08-11-2018	United States
Alixpartners LLP	Financials	01-11-2018	United States
Investcorp - industrial property portfolio (56)	Financials	17-09-2018	United States
Banque Paris Bertrand SA	Financials	05-09-2018	Switzerland
United Talent Agency LLC	Consumer Cyclicals	07-08-2018	United States
Privatzahnklinik Schloss Schellenstein GmbH	Healthcare	15-05-2018	Germany
Acura Kliniken Baden Baden GmbH	Healthcare	15-05-2018	Germany

Source: Reuters

Ithmar Capital, UAE

Founded in 2005 with headquarters in Dubai, Ithmar capital is a private equity firm specializing in investments in expansion capital, growth capital, buyouts, corporate spin-outs, private or generational transactions, privatizations, private and public partnerships, industry consolidations, buy and build transactions, and joint ventures. Being sharia compliant, it does not invest in sectors related to alcohol, gambling, and tobacco. Besides these sectors, the firm is sector agnostic and prefers to invest in logistics and distribution, trading, retail, financial services, construction, engineering, education, healthcare, and leisure related sectors.

The company's geographic focus is solely the GCC countries, and it typically invests between USD 50mn and USD 250mn, with average investment of USD 150mn, in companies with enterprise values between USD 100mn and USD 1bn. The firm may invest in the form of equity and debt financing, and seeks an active participation on the Board of Directors and C-level management of its portfolio companies, in which they have minority, equal, or majority ownership. Ithmar Capital has used investments through initial public offerings, trade sale, mergers, or management buyouts to exit its investments. Its investments include Al Noor Medical Company, Dewan Architects and Engineers, Mushrif Trading & Contracting, Neos, SNS and Batco.

Table 3.9: Funds managed by Ithmar Capital

Name	Size (USD mn)	Fund Stage	Vintage
Ithmar Capital Fund III	-	Generalist	2008
Ithmar Capital Fund II	250	Generalist	2005
Ithmar Capital - Unspecified Fund	-	Generalist	2005
Ithmar Fund I	70	Generalist	2004

Source: Zawya

Malaz Capital, Saudi Arabia

Malaz Capital is a private equity and venture capital firm, founded in 2008 in Saudi Arabia, and specializing in seed/startup and early to middle stages of investment. The firm also invests in small and medium enterprises and typically invests in following sectors: communications, information technology, healthcare, and education. Its primary geographic focus is the Middle East and North Africa region, and it typically invests between USD 0.1mn and USD 1mn. It also provides follow-on investments. Malaz Capital prefers to take a lead or co-lead investor position, and seeks to hold a board seat in its portfolio companies. It also provides investment banking advisory services.

The company established the Saudi SME Fund I, a USD 267mn fund, established to provide credit financing to SMEs in Saudi Arabia, in a Shariah compliant way. The fund is regulated by the CMA and is backed by institutional investors that comprise of leading multinational and Saudi financial institutions.

Table 3.10: Funds managed by Malaz Capital

Name	Size (USD mn)	Fund Stage	Vintage
ICT Ventures Limited	29	Early Stage	2008
Malaz Group - Unspecified Fund	-	Balanced Stage	2000

Source: Zawya

Bank AlKhair, Bahrain

Founded in 2004 and headquartered in Bahrain, Bank Alkhair is an Islamic wholesale bank, with an international presence in Saudi Arabia, Malaysia and Turkey. The bank seeks to provide Shari'ah-compliant financial services and has completed several landmark transactions, including the acquisition of Bahrain Financing Company, the oldest foreign exchange and remittance house in the GCC and the launch of the Strategic Acquisition Fund, a fund established to acquire strategic stakes in commercial banks globally.

Bank Alkhair's Private Equity division is engaged in transaction origination; investment structuring; placement to third-party investors and co-investors; post acquisition management; and private equity portfolio exits. The Private Equity division's makes selective investments in privately held companies with a specific focus on family-owned or closely-held businesses that aim to raise equity without going public, while allowing the sellers to retain continuing ownership.

Investment focus is on the oil & gas services; industrial services; building materials; logistics; and agri-business sectors in the MENA and GCC regions, including Turkey, and the division avoids start-ups, venture capital and greenfield investments.

Bank Alkhair's current private equity portfolio includes: Unicorn Global Private Equity Fund 1 (Bahrain) - diversified private equity fund, Al Tajamouat for Touristic Projects (Jordan), Teshkeel Media Group (North America), Al Safat Industries Holding (Kuwait),Gulf Strategic Partners (GCC), Tintoria International (UAE), Independent Logistics & Warehousing (Jordan), Sweetwater Dairies (Pakistan), Bahrain Maintenance & Diving Services (Bahrain), and Regional Energy Services Holding Company (Bahrain).

Table 3.11: Funds managed by Bank AlKhair

Name	Size (USD mn)	Fund Stage	Vintage
Unicorn Global Private Equity Fund I	45	Buyouts	2006
Gulf Springs Real Estate Fund	-	Generalist	2006

Source: Zawya

HBG Holdings, UAE

Established in 2004 in Dubai, HBG Holdings is a sharia-compliant and conventional private equity firm, specializing in special situations, turnaround, buyouts, and growth capital investments in mid-sized companies. It seeks to acquire and restructure distressed companies through vertical and horizontal integration and mergers and acquisitions, and acquire growth businesses, under-performing businesses with a focus on mature companies, and real estate companies and assets.

The company's geographic focus is primarily in GCC, Eastern Mediterranean, Asian Subcontinent, East Africa, and Turkey, and it also invests in United Kingdom, where it focuses on small and medium sized enterprises and targets companies with potential to expand operations in the United Arab Emirates and the GCC states. The firm takes a minority stake and seeks to acquire a board seat in its portfolio companies. HBG

Table 3.12: Funds managed by HBG Holdings

Name	Size (USD mn)	Fund Stage	Vintage
HBG Special Opportunities Fund I	-	Later Stage	2009
HBG Investment Holdings Fund 1	200	Buyouts	2007

Source: Zawya

Abu Dhabi Financial Group (merged with SHUAA Capital), UAE

Abu Dhabi Financial Group (ADFG), which was established in 2011, is a leading global investment group that provides a wide range of financial services. ADFG has assets under management of roughly USD 11.5 billion. Recently, the company merged with Shuaa Capital, which is another leading provider of financial services. The merger is expected to create new synergies and consolidate their presence as the leading Asset management and Investment Banking platform in the UAE and the GCC region. SHUAA is a Dubai based financial services provider, established in 1979, with operations in UAE and Saudi Arabia. The Company has successfully been involved in the development of a number of projects, most notably via the Saudi Hospitality Fund I, an USD 143mn Sharia-compliant real estate investment fund launched in Aug 2008, under which three hotel projects in the Kingdom were developed. The SHUAA Saudi Hospitality Fund I is a close ended real estate investment fund launched by SHUAA Capital Saudi Arabia, offered as a private placement and regulated by the Saudi Capital Market Authority (CMA), in accordance with the Real Estate Investment Funds Regulations. The primary purpose of this fund is to achieve long term capital growth through investing in hospitality related real estate in the Kingdom of Saudi Arabia.

The Saudi Hospitality fund seeks to provide investors with long-term capital appreciation through the development of hotels and other hospitality components in the Kingdom of Saudi Arabia. Shuaa Saudi Hospitality Fund I will own 20% of a new hotel management company to be incorporated in the Kingdom by UAE based Rotana Hotel Management Corporation LLC. This new company will operate and manage the Fund's hotel properties on an exclusive basis.

Table 3.13: Funds managed by ADFG

Name	Size (USD mn)	Fund Stage	Vintage
Abu Dhabi Financial Group - Unspecified Fund	-	Generalist	2011

Source: Reuters

Table 3.14: Recent Investments of ADFG

Company Name	Industry	Last Investment Date	Location
Judo Bank Pty Ltd	Financials	29-07-2019	Australia

Source: Reuters

NBK Capital Partners, UAE

Based in the UAE, NBK Capital Partners is a private equity and venture capital investment arm of Watani Investment Company, specializing in emerging growth, turnaround, middle market, mid venture, late venture, growth capital, buyout, recapitalization, and mezzanine investments. The company invests in education services, consumer staples, and healthcare sector, and has investments across the MENA region. NBK takes both minority and majority positions, and invests in debt that can be converted into ownership or an equity interest in case of non-payment by the borrower.

Table 3.15: Funds managed by NBK Capital Partners

Name	Size (USD mn)	Fund Stage	Vintage
NBK Capital Partners Real Estate Fund I	75	Core	2017
NBK Capital Partners Mezzanine Fund II	160	Mezzanine Stage	2016
NBK Capital Equity Partners Fund II	310	Buyouts	2013
NBK Capital Mezzanine Fund I	150	Mezzanine Stage	2009
NBK Capital - Unspecified Fund	-	Generalist	2009
Kuwait Investment Opportunities Fund	125	Buyouts	2008
NBK Capital Equity Partners Fund	200	Buyouts	2006

Source: Reuters

Table 3.16: Direct Investments by NBK Capital Partners

Company Name	Industry	Last Investment Date	Location
Kaumeya Language School	Consumer Non-Cyclicals	26-02-2019	Egypt
Energia Al Faris Cont Co Ltd	Utilities	05-03-2018	Saudi Arabia
Qimam El Hayat international School Co	Consumer Non-Cyclicals	01-11-2016	Saudi Arabia
Perkon Personel Kontrol Barkod Sistemleri Bilgisayar Yazilim	Technology	31-10-2016	Turkey
Amo Hamza Seafood Restaurants Co	Consumer Cyclicals	04-04-2016	Saudi Arabia

Source: Reuters

ASMA Capital, Bahrain

ASMA Capital Partners is a multi-fund asset management firm incorporated as a Bahrain joint stock company (closed), licensed and regulated by the Central Bank of Bahrain as an Investment Business Firm. The current shareholders in ASMA Capital are: Islamic Development Bank (KSA), Public Pension Agency (KSA), Public Investment Fund (KSA), Ministry of Finance (Bahrain) and Ministry of Finance (Brunei). The company established the IDB Infrastructure Fund II in 2014, a USD 2bn investment vehicle for global and regional investors to capitalize on the infrastructure investment opportunities across Asia, the Middle East and Africa. The IDB Infrastructure Fund II is the successor to the USD 730mn IDB Infrastructure Fund, which made significant investments in power, energy, transportation, telecommunications, mining and industrial sectors across Asia, the Middle East and Africa. The IDB Infrastructure Fund achieved an investment multiple of 1.7x and an IRR of 18% over its life.

Table 3.17: Funds managed by ASMA Capital

Name	Size (USD mn)	Fund Stage	Vintage
Islamic Development Bank Infrastructure Fund II	750	Generalist	2014

Source: Reuters

The IDB Infrastructure Fund II will target infrastructure of all types within the 57 IDB member countries across Africa, the Middle East and Asia. The core focus will be on the IDB's G-20 members: Saudi Arabia, Turkey and Indonesia, but it will also look for higher returns in countries like Pakistan, Bangladesh, Nigeria and Egypt. Sector-wise, there will be a big focus on energy and power projects, followed by transportation and telecom infrastructure[4].

Table 3.18: Direct Investments by ASMA Capital

Company Name	Industry	Last Investment Date	Location
Seven Energy International Ltd	Energy	17-02-2016	Nigeria

Source: Reuters

[4] WSJ

Chapter 4

GCC Venture Capital – Laying the foundations

The startling growth in recent times of the GCC venture capital industry is catching the eye of all concerned in the region. The regional governments are looking to VC for seeking employment growth and economic diversification away from oil. The financial investment community in the region is looking at it for opportunities away from traditional manufacturing and services sectors that no longer offer high returns on deployed capital. The local consumers view it as solution to long starved desire for the convenience and cost-efficient products and services (like Ride Sharing or Online Retail) that the new Information Age is providing consumers all across the world in the new millennium. In the eyes of the educated entrepreneurial youth it is their godsend opportunity as they are trained in the New Age skills and want to better previous generation in entrepreneurial successes by engaging in new fields as conventional sectors have become mature and saturated. Finally, for the burgeoning unemployed youth it is a beacon light as it promises large employment potential through enterprises emerging in the new service-oriented sectors of the regional economies.

According to McKinsey, the MENA region of which GCC is an important part, has only 10% of the funding of the United States, relative to GDP. According to news reports, venture capital investments in MENA was less than 0.03% of the GDP in 2016, significantly lower than 0.20% in India and 0.40% in the US. The number of venture capital deals backing Middle East and North Africa (MENA)-based start-ups hit a record high of USD 893 million in 2018, a 31% increase on the USD 679 million raised in 2017, and 2.6% higher than the USD 870 million raised in 2016, according to a 2018 MENA Venture Investment Report released by data platform MAGNiTT. On a quarterly analysis of the number and value of deals in 2018, the final quarter of the year was marked by a sharp spike in the value of deals to USD 277 million, up from USD 137 million from an earlier quarter, despite a large drop in the number of deals to 69 deals from 116 in the third quarter.

The number of investments also increased by 3% in 2018, with 366 investments made. The United Arab Emirates remained the most dominant MENA country in 2018 in terms of its share of total deals, which reached 30% in volume terms, but around 70% of the total funding. UAE authorities have been trying to create encouraging conditions for start-ups, passing a bankruptcy law in 2016, as well as announcing the availability of 10-year visas to entrepreneurs. New private sector VC funds and international IMF and World Bank initiatives have helped fuel the regional ecosystem.

The three biggest fundraising deals to take place in the region last year were the USD 200 million invested in Careem, USD 120 million in Dubai-based Propertyfinder and the USD 45 million in Kuwait-based beauty ecommerce site Boutiqaat. In first quarter of 2019, Careem was bought over by UBER at a valuation of USD 3.0 billion.

Venture capital industry that includes primarily startup enterprises is essential for any modern economy to progress, particularly in technology and non-commodity sectors like services. The VC industry is known for developing knowledge-based enterprises that are essential for achieving economic growth, more so, in the current global scenario. The GCC region since last few years has been witnessing a very active venture capital market with several new startups building capabilities in many of the emerging sectors like e-commerce, Fintech, consumer services, logistics and education. The funding available for startups and ventures has also grown immensely over this period with several venture capital funds having been set up by local and foreign investors.

An alternative view of venture capital industry growth is that it reflects entrepreneurship development in the modern world which we see to be brimming with ideas, innovations, knowledge-based initiatives, creativity, and high potential creations, all in a world that poses challenges of rapid obsolescence and high competition. All is not challenges however, Venture Capital is a means to quick success if the idea is successful and that too can be achieved with limited own financial capital (rest being provided by investors convinced of the idea, in a way democratic capitalism) and opportunities are for many as every idea or innovation can become a business of its own. In the services-oriented economy in the current period, Venture Capital is the source for large employment generation which is not possible through traditional capital-intensive sectors of yester years.

GCC Governments' Enabling Initiatives for Venture Capital Growth

The success of GCC Venture Capital industry is being enabled by priority being attached by regional governments to encouragement of the sector. The governments' several initiatives to develop the Venture Capital industry in the region are explained in this section.

Kingdom of Saudi Arabia

In Saudi Arabia, the government has set aside SAR 2.8 billion in public sector stimulus for a government VC to support angel investors and private-sector VC funds. Furthermore, the sovereign wealth fund has a fund-of-funds that will invest in VC and PE, and the government has created an SME authority with a mandate to develop the whole entrepreneurship and SME ecosystem beyond just financing—for example, improving ease of doing business, demand stimulation, business support, innovation, culture, and education

In June 2011, The Saudi Technology Development and Investment Company (TAQNIA) was established by Royal Decree, works to localize technology in Saudi Arabia and commercialize outputs of R&D centers. The investment track of TAQNIA oversees the company's direct investment activities in early stage technology companies locally and globally. The industries track overseas the business development and industrial investment activities. The company's six focus sectors are: Energy & renewables, water technology, advanced materials, satellite and ICT, security and defense and life science and health.

Business Incubators and Accelerators Company (BIAC) a subsidiary of TAQNIA focuses on setup, operation, maintenance and management of business incubators and accelerators as well as entrepreneurship support platforms, innovation programs, and technology transfer. BIAC provides project management services, specialized consultations, and training services to enhance human resource capabilities. TAQNIA Advanced Materials (TAM) a subsidiary of TAQNIA is specialized in transferring and localizing technology, manufacturing, processing, conducting R&D, consulting, marketing and trading of all aspects of advanced materials. TAQNIA CYBER specializes in the fields of cyber security, intelligence, operations, and training. It offers its services and consultations to both public and private sectors. The company aims to localize relevant technologies and capabilities to meet local demand through cooperation with national and international partners. Riyad TAQNIA Fund (RTF) is a venture capital fund investing in technology startups around the globe founded by Riyad Capital and TAQNIA

The BIAC, wholly-owned by the Public Investment Fund (PIF), has joined forces with VentureSouq (VSQ), a pan-regional investment platform, to launch a new investment services vertical within BIAC that is designed to bridge the funding gaps of promising startups in Saudi Arabia. BIAC aims to contribute to the growth and development of the innovation and entrepreneurship environment and to support emerging technology companies, its objectives include supporting entrepreneurship and small and medium enterprises. Specialized in the establishment, operation and management of business incubators and accelerators; BIAC will play a new active role in catalyzing the entrepreneurial Saudi ecosystem through direct investments in high growth Saudi tech startups and will help to bring other investors into funding rounds. BIAC's investment team will play a leading role in funding rounds being undertaken by high growth Saudi companies with the aim to be an enabler, allowing multiple investors to come together as stakeholders in these companies.

Kuwait

In April 2013, the Kuwait Government enacted a law to establish a National Fund for SME Development (the "SME Fund"). The law is intended to help the country in its efforts to support the youth, tackle unemployment, and enable the private sector to drive economic growth. As an independent public corporation, with a total capital of KD 2 billion, the SME Fund will finance up to 80% of capital for feasible small and medium projects submitted by Kuwaiti Citizens. The law defines eligible SMEs as enterprises that employ 1 to 50 Kuwaiti workers, with financing requirements that do not exceed KD 500 thousand.

The National Fund for SME Development focus is on building an inclusive, collaborative, and innovative ecosystem for entrepreneurs to lay the foundation for economic opportunities in the State of Kuwait. The National Fund aims to achieve this by building a culture conducive to entrepreneurial activity, identifying and seeking to eliminate government policies, regulations, and procedural inefficiencies, enhancing the capacity for entrepreneurship, making available appropriate financing for new and existing SMEs, assisting in the identification and creation of new markets for SMEs, strengthening existing support services for SMEs and creating new services where needed.

Services provided by the fund are as follows. 1. Financial and Business Support to Entrepreneurs (start-ups), 2. SME Financing (Existing SMEs), 3. Professional Management and Technical Training, 4. Business Development Services, 5. Allocation of Lands and Office Space for SMEs, 6. Facilitation of Market Linkages, 7. Improving Business Environment for SMEs and 8. Development of Entrepreneurial Culture.

United Arab Emirates

The UAE, currently ranked 26th in the Global Entrepreneurship Index, has been a MENA pioneer in its start-up ecosystem development efforts. New initiatives with innovative value creation theses, such as the Dubai Future Accelerators, harness public and private-sector staff, expertise, and mentors to help companies from around the world address local opportunities in a variety of digital sectors, without any requirements for a financial stake.

In March 2019, The Abu Dhabi Government has announced it will launch an USD 144 million fund administered by Abu Dhabi Investment Office to invest in startups and VCs at Hub71. Starting April 28, 2019, the fund will co-invest with venture capitalists (VCs) in Hub71 based tech start-ups through a government matching scheme, as well as invest in first-time fund managers to support their establishment and growth in the Emirate. Hub71 is also offering fully subsidized housing, office space and health insurance for seed-stage tech companies. For more established tech ventures, 50% subsidy packages will be available. AbuDhabi's tech ecosystem comprises of capital providers, business enablers and strategic partners to create a dynamic business environment for innovation and entrepreneurship. The tech hub has been established to address the financial and regulatory roadblocks facing start-ups.

Abu Dhabi Global Market (ADGM), is an international financial center (IFC) located in the capital city of the United Arab Emirates. ADGM launched its Regulatory Laboratory (RegLab) in November 2016. With a view to develop Abu Dhabi as the FinTech hub in the MENA region. ADGM's Reglab is designed to foster innovation within the UAE financial services market for both new market entrants and existing financial institutions. The RegLab allows the participant to develop and test its FinTech proposition in a safe environment while not putting undue regulatory burden on the participant. Efforts ae being made by collaborating with industry stakeholders including accelerators, co-working business centers, academic, financial and technological institutions, regulatory agencies, industry associations and the start-up community to develop the wider FinTech ecosystem.

Major VC Players[5]

Over the past several years, many ventures were funded in this region and they belong to several sectors and product categories and are consumer centric as well as business centric. Some of them turned out as big successes like Careem and Souq.com while others are still in their journey towards success and are in the funding stages and therefore yet to give the awaited returns for investors.

[5] Reuters Bloomberg, Company websites

Middle East Venture Partners (MEVP)

MEVP is a Middle East-focused venture capital firm that invests in the early and growth stages of innovative companies run by talented entrepreneurs in the Middle East Region with a focus on the GCC and Levant countries. The MEVP group operates from a number of jurisdictions including Dubai and Beirut. MEVP are one of the well-established VCs in the region. Almost all the ventures that were funded by MEVP are headquartered in UAE. Most of the recent deals are based on IT enabled services and are scalable businesses upon successful acceptance of the concept of the service offering. Almost all are consumer centric businesses and the value proposition seems to be favorable customer experience, low transaction costs, high level of convenience, ease of use, hitherto unavailable service offering and novel ways of fulfilling the transaction objectives. All of them are strategizing on the potential from a large mobile and smart phone penetration and high internet usage in the targeted consumer population. Their success will be based determined by their understanding of the social, cultural, economic and attitudinal behavior of the local consumers. The ventures targeting business segments have other determining factors. Some of them seem to have already obtained good initial consumer response that is also growing. Given their inherent scalability, these ventures can turn out to be multi-bagger investment if proved successful.

Table 4.1: Ventures Funded by MEVP

Company Name	Industry	Last Investment Date	Location
Fadel Partners Inc	Technology	1/2/2019	United States
Sarwa Digital Wealth Ltd	Financials	9/2/2018	UAE
Mobinets	Technology	6/30/2018	Lebanon
Vbout Inc	Technology	6/30/2018	United States
Tradelux General Trading LLC	Technology	6/30/2018	UAE
ElementN	Technology	6/30/2018	Lebanon
LifeLab BioDesign	Consumer Non-Cyclicals	6/30/2018	Lebanon
One Click Delivery Services	Technology	6/30/2018	UAE
Neumann	Technology	6/30/2018	Lebanon
Pin-Pay SAL	Technology	6/30/2018	Lebanon
YouGotaGift	Technology	6/30/2018	UAE
Eat	Technology	6/3/2018	UAE
Volt Lines Akilli Ulasim Teknolojileri Ve Tasimacilik AS	Industrials	5/31/2018	Turkey
Lamsa	Technology	3/31/2018	UAE
Pbenterprise DMCC	Technology	3/26/2018	UAE
Moodfit Interior Design	Consumer Cyclicals	3/12/2018	Lebanon
Cherpa	Technology	2/28/2018	Lebanon

Source: Reuters

Wa'ed Ventures

Wa'ed Ventures is the VC arm of Saudi Aramco's entrepreneurship centre, established in 2011 with an aim to improve the spirit of entrepreneurship in Saudi Arabia. The company provides funding for a broad range of early-stage companies. Wa'ed VC aims to support the development of small and medium-sized enterprises, with the overall objective of fostering economic development in Saudi Arabia. Among its recently funded ventures, it is noticed that the maximum funding was SAR 5.5 million while the smallest funding was SAR 0.6 million. The industries vary from robotics to innovative advertisement solution and many are IT enabled services. They include soft services like beauty products as well as technical products like 3D modelling and bio-organics. A common feature of the businesses that Waed ventures invests in is that they involve bringing in some of the latest technologies from different fields into Saudi Arabia. The locations are distributed across the different geographies of the Kingdom.

Table 4.2: Ventures funded by Waed Ventures

Name of Venture	Description of Venture Business
Shiftah	An innovative crowdsourcing solution for outdoor advertisements through connecting advertisers with car owners to wrap their cars with ads. **Location:** Riyadh, Saudi Arabia
Golden Scent	Leading Saudi beauty ecommerce platforms. **Location:** Dammam, Saudi Arabia

Name of Venture	Description of Venture Business
Sihatech	Saudi Internet Health Application Technology Company **Location:** Riyadh, Saudi Arabia Number of Acquisitions- 1, Total Funding Amount :SAR5.5M
WalaPlus	A creative way to boost employee's loyalty. Location: Riyadh, Saudi Arabia Total Funding Amount: USD 600K
BOSC	Bio Organic Standard Company
Arabian Robotics	-
AIC	Arabian Industrial Calibration
FalconViz	FalconViz is a 3D aerial scanning and modeling system utilizing multi-rotor copters with AerialSfM, a proprietary 3D modelling software. **Location:** Thuwal, Saudi Arabia; Total Funding Amount : USD 900K
Virtual Vision	Virtual Vision brings the world's latest technologies, services, products and solutions to the untapped markets of the Middle East. **Location:** Al Khubar, Saudi Arabia

Source: Company Websites

Raed Ventures

RAED Ventures is the Venture Capital arm of Almajdouie Holding, a Saudi conglomerate established in 1965. The company engages in Tech investment, with the primary goal of creating substantial financial and strategic returns to its investors. The geographies of the companies where Raed Ventures have invested include Saudi Arabia, UAE, Jordan and Egypt. All the deals are in IT enabled services and the deal sizes range from three in the range of USD 2 to 5 million and the rest are large with the biggest funding amount being USD 38.5 million. The target clientele include consumers as well as businesses and are technically not so complex but promise services at a lower cost, better efficiency, and higher user convenience and experience. They are all scalable businesses across wider population if the concept is found to have consumer acceptance and usage, thus promising good returns to investors if found successful.

Table 4.3: Ventures funded by Raed Ventures

Company Name	Industry	Last Investment Date	Location
Bayzat LLC	Technology	12/25/2018	UAE
Swvl for Smart Transport Applications & Services LLC	Technology	11/25/2018	Egypt
Trukker Technologies DMCC	Industrials	9/27/2018	UAE
Aqarmap	Financials	9/4/2018	Egypt
Crowd Analyzer Inc	Technology	7/31/2018	UAE
Salla Holding Ltd	Technology	5/1/2018	Saudi Arabia

Source: Reuters

Wamda Capital

Wamda Capital is one of the region's leading venture capital firm investing both at the growth and seed stages with the aim of taking portfolio companies through successive rounds of financing through to exit. The company was established in 2014 with GCC as their headquarters. Most of the companies they funded are consumer centric businesses, and all are headquartered in UAE. The list includes Careem which is a multibagger investment. These also are capitalizing on the internet savvy population in the region and widespread usage of smart phones by the population. They are all scalable business opportunities, and most are ventures invested by the fund in recent years. The size of funding for the Ventures are as low as USD 1.1 million to very large amount of USD 771 million for Careem and USD 20 million for Mumzworld.com and USD 17.4 million for Yellacompare.

Table 4.4: Ventures Funded by Wamda Capital

Name of Venture	Business of the Venture
LUNCH: ON – UAE-February 2019	This site offers Lunch at work, without the work. No order minimums, free delivery and a menu designed for the customer's office from the city's best restaurants. The total funding amount was USD 3.5 million. WAMDA Capital funded this venture.
yallacompare – UAE-January 2019	yallacompare is a Middle-East-based financial comparison platform that enables its users to compare banks and financial institutions. It is in Dubai and the total funding amount was USD 17.4 million.

Name of Venture	Business of the Venture
Mumzworld.com – UAE-October 2018	Mumzworld is the largest e-commerce marketplace in the Middle East for all things mother, baby, and child. The funding amount was USD 20 million.
Aqarmap _ Egypt September 2018	Aqarmap.com is the leading Real Estate marketplace in Egypt and Saudi Arabia. Nasr City, Al Qahirah, Egypt
Crowd Analyzer- UAE July 2018	Crowd Analyzer offers tools for brands, SMEs, and individuals to search, monitor, analyze, and monitor social media. Total Funding Amount : USD 1.1M
Careem – UAE	Careem developed an app that helps commuters in Dubai find cars for hire. Amount invested was USD 771.7 mm as of 7th Round

Source: Company Websites

Recent VC deals in the GCC

Venture capital is a dynamic sector dictated by changing and shifting sector prospects and preferences as well as a changing mix of players, particularly with entry of several new funds in the region. Venture capital deals in the GCC continue to be driven by consumer centric businesses that provide IT enabled services. The underlying value proposition offered by these ventures are convenience, cost efficiencies, good user experience, and new product offerings that were not widely available through bricks & mortar businesses of past. They all use technology to differentiate their service offering and bank upon scaling up their business upon success with the initial target population and initial target geographies. The change seems to be the increasing interest in FinTech firms of which Sarwa mentioned below is an example. But the most contrasting feature seems to be the larger scale of ventures, reflecting the success of the likes of Careem and Souq.com in diverse markets.

Family Souk Ventures, Saudi Arabia - 2019

In February 2019, Mad'a Investment Company, a private equity & venture capital firm headquartered in Riyadh, Saudi Arabia, a wholly-owned subsidiary of Abdul Aziz Al Othaim & Sons Holding Company (ASO&SONS), announced a new investment in Dubai-based Family Souk Ventures, Ltd. and its online retail subsidiary Babysouk.com. Family Souk Ventures is a B2B distribution company representing a select group of popular brands in the parenting industry, while also operating Babysouk.com, a market-leading baby, child and parenting e-commerce website showcasing over 5,000 curated products and services available to parent-consumers in the Middle East and North Africa. The investment is expected to scale the growth trajectory of the two companies and accelerate their regional expansion. It will be used to expand B2B and B2C channels, increase customer acquisition investments in new markets, obtain additional exclusive brand partnerships, enhance customer delivery networks and systems, execute highly accretive acquisitions, and augment and expand innovative shopping technologies for its customers. Mad'a works to build partnerships with national companies, attract know-how to the local market, and play an active role in creating jobs and advancing localization. Abdullah A. Al Othaim, CEO of Mad'a, explained their rationale for the investment as its commitment to creating value for SME's in the Kingdom and in the region, improving business practices, adding jobs, and contributing to the economy. The firm considers this as a strategic investment to enable Family Souk Ventures to expand its business initially to the Kingdom of Saudi Arabia, and eventually all of MENA.

Luxury Closet- Saudi Arabia – July 2018

The Luxury Closet is a website for buying and selling secondhand luxury goods. Sellers using Luxury Closet send their products to the company to keep in a temperature-controlled warehouse until they are bought, while the company's certifies the quality. The Luxury Closet has acquired over 150,000 members and has over half a million monthly visitors from some 50 countries

In 2018, Wamda Capital invested USD 1 million in The Luxury Closet. The company aims to use the funding to increase buyers and sellers on its platform. Wamda Capital is a venture capital firm investing in high growth technology businesses both at the growth and seed stages. Middle East Venture Partners led the USD 8.7 million funding round in 2018. Precinct Partners, Wamda Capital, and Equitrust, among others, also invested. As per a report in 2015, Luxury Closet had received USD 2.2 million financing from other Middle East investors, including Middle East Venture Partners (MEVP), Dubai Silicon Oasis Authority (DSOA), twofour54 and MENA Venture Investments (MVI). More established luxury companies are also expanding in the sector.

SURE Technologies, Saudi Arabia - 2018

SURE Technologies, a Riyadh-based information technology company has raised investment from Riyad TAQNIA Fund. The amount of investment was not disclosed. The company sells different technology solutions including intranet portals, POS and payment systems and business intelligence to businesses and governments in Saudi. Founded 14 years ago, SURE Technologies also helps businesses with different technology related consulting services and builds web or mobile products for them. The company also has its in-house suite of enterprise software which includes a hotel management system for small hotels and furnished apartments, a Human Resources Information System, and an education management system. SURE Technologies aims to use the investment to expand its customer base, products and services across the region. Sure International Technology has developed the "4Rent" Platform for furnished apartments and hotels management according to the current technologies in line with the needs of the Saudi Market. It offers many advantages to manage reservations, furniture, customer service, payments, users, and other advantages, which makes it an integrated solution to manage hotels and furnished apartments.

Riyad TAQNIA Fund have previously invested in companies like Souqalmal, Beehive and TruKKer . It is stated that SURE Technologies is more like a traditional IT consulting and software company without having any scalable product. However, it is noteworthy that VC backing is forthcoming even for such ventures.

SARWA, UAE - 2018

In September 2018, Sarwa, the first regulated automated investment advisory platform in the region, announced that it received over USD 1.3 Mn. in its pre-series A round of financing. The 2018 round allowed them to continue in the investment advisory space and reach even more people.

The funds raised include investments from major international and regional venture capital firms. Shorooq Investments from Abu Dhabi was joined by Middle East Venture Partners (MEVP) alongside the California-based venture fund 500 Startups, the Dubai based Women's Angel Investor Network, Hala Ventures from Saudi as well as Saned Partners from Lebanon. This new round of investment brings Sarwa's total funding to over USD 1.5M since its inception in December of 2017, for continuing the growth. MEVP considers that this new injection of funds will allow Sarwa to continue its expansion and signals Sarwa's commitment to the region.

The company officially launched its platform in February 2018, onboarding its first clients under the Innovation Testing License - a special license designed for Fintech startups to roll out innovative solutions for the region and awarded for the first time by the Dubai Financial Services Authority. It has since reached a monthly growth of over 20% and reached more than 1,000 registered users. Sarwa brings expert level investing to its clients by combining technology and human advice to create a user-friendly and fully digitalized experience at a low fee. The firm sees a lot of opportunity as people are migrating their wealth online and are looking for technologically enabled wealth management solutions to build and manage their wealth. Their solution is seen as a cost-effective alternative to current wealth management offerings in the region. The firm is addressing a gap within the wealth management sector that requires large minimum investment size and high management size. Further their solution enables customers to customize and access their portfolio anytime from anywhere for a smaller fee.

The company's mission is to make expert investing easy, secure and affordable by using the best tools available: automatic rebalancing, algorithms combined with personalized human advice, account opening in a few minutes via facial recognition, and more. Sarwa targets to cater to the underserved young and tech-savvy population in the region. Sarwa's low investment requirement, coupled with a complementary team and a competitive fee structure, promise growth potential. As part of its expansion strategy, the company aims to work closely with the corporate sector to offer employees saving scheme plans and help them reach their long-term financial goals. The investors strongly believe in the opportunity to disrupt traditional retail investing in the region through automation and access. They also see large potential for Sarwa to address the employee savings plans gap in the UAE and other Gulf countries.

MEVP also believes there is a growing interest in fintech regionally. Moreover, Sarwa is adapting regionally a model that Wealthfront and Betterment have mastered in mature markets. The opportunity is ripe in the GCC, given the large segment of the population that is young, affluent and interested in investing locally. Shorooq Investments that was the lead for 2018 round of financing was with the company since inception i.e. from idea stage to Fintech Hive launch to product launch and now on-boarding hundreds of users

EAT, BAHRAIN - 2018

In June 2018, Middle East Venture Partners (MEVP), announced an investment in Eat, MENA's fast growing real-time reservation platform for restaurants. MEVP joined existing Eat investors including 500 Startups, Pinnacle and Tenmou. Eat offers restaurants a cost-effective online reservation and table management system that enables users to reserve a table online in real-time. Equipped with technology and a superior front-end experience, Eat is building a whole ecosystem around its core SaaS offering that aims to fulfill much of a restaurant's "front of the house" needs.

Eat started its journey in Bahrain where it is today the leading player and has raised USD 3.4m to date, including an investment from the VC fund 500 Startups. It is now experiencing accelerated growth across MENA with customers in Bahrain, UAE, Kuwait, Saudi Arabia, amongst others. Eat also has paying customers based outside the region, from over 35 countries globally. Eat has seated more than 3.5 million customers to date, generating over USD 250M worth of orders for restaurants in mainly two countries so far, Bahrain and UAE. It experienced 50%+ growth in covers in some recent months. On the supply side, "Eat" has grown its restaurant base 4x over the last 12 months since it started focusing on its table management SaaS and its monthly revenues by over 250%. The company is stated to be receiving thousands of leads per month for its bookings engine and a key use of the current investment would be to increase conversions of these leads.

Eat's growth has been driven by strong demand for its cutting-edge cloud products by large F&B operators such as The Four Seasons, Ritz Carlton, and Radisson Hotels, as well as through strategic partnerships with restaurant discovery platforms including TripAdvisor, Google and TimeOut. MEVP's investment will help accelerate Eat's growth as well as provide expertise in SaaS, scheduling software and overall technology to restaurants.

One Click, Dubai - 2017

In December 2017, Middle East Venture Partners (MEVP) has made an undisclosed investment in Dubai-based One Click Delivery Services (1click2deliver.com), a last-mile delivery start-up enabling seamless delivery services from local businesses to the consumer's doorstep. One Click will use the new capital to accelerate its growth plans, continue to build its team and further develop its proprietary technology.

One Click has built a technology platform that allows it to connect drivers, point of sale and a call center with businesses needing on-demand delivery. One Click's platform powers businesses across different verticals, including food delivery, apparel, e-commerce, groceries, and parcel delivery, providing them with on-demand affordable last-mile delivery whereby the hassle and inefficiency of managing a fleet of drivers is eliminated. The entire delivery process is technology enabled, with a robust delivery management system featuring GPS locations tracking, route optimization and automated customer notifications.

The company's product offering aims to solve the 'last-mile' logistics problem by providing a technology-enabled ecosystem solution that connects businesses and drivers to a cloud platform, enabling smoother and seamless operations. One Click manages a rapidly growing fleet of drivers and has to date delivered more than one million orders. The company is quickly gaining momentum powering the on-demand economy, growing at 36% month to month, and the founders are looking to expand to other cities in the GCC. The eCommerce market is growing substantially in the GCC market and One Click is enabling the last mile delivery to eCommerce market by providing an end to end service to the customers. MEVP believes that winning in the last-mile delivery space will require strong technology coupled with exceptional operational capabilities that can make on-demand last-mile logistics economically viable; unlike other players in the space, One Click has a positive contribution margin.

Potential VC success stories in the GCC

Recent big-time success stories like Careem and Souq.com have transformed the outlook of the region's Venture Capital sector to one of optimism, buoyancy and conviction. However, venture capital industry by its very nature is known worldwide for few multi-bagger investments and many fall outs half way through. There are however a few businesses that exhibit promise and could turn into the next SME success story.

Wadi.Com

Saudi Arabia's Wadi.com is a homegrown e-commerce site that many believe can usurp Amazon-owned rival Souq.com as the region's leading online marketplace. Already serving more than 25 cities in Saudi and the United Arab Emirates, Wadi specializes in electronics, fashion, fragrances, and beauty and health, and is expanding into more product ranges. Dubai-based retailer and mall operator Majid Al-Futtaim, which owns Mall of the Emirates and holds Carrefour's Middle East franchise, led a USD 30 million investment in Wadi in October 2018. Carrefour will become the long-term partner for Wadi Grocer, which currently operates in Riyadh, Jeddah and Dammam, supplying food and other groceries. Through the partnership, customers can buy more than 12,000 products from the French supermarket chain. Promising delivery within two hours, Majid Al-Futtaim claims this will the first service of its kind in the Middle East with such a diverse product range.

Sarwa

Another startup with good potential for big success is said to be Sarwa which is a robo-advisory that enables clients to invest in a variety of financial products via its simple-to-use app. With no commission and very low fees (a customer with USD 10,000 invested would pay around USD 7 per month), Sarwa promises to simplify and democratize investing. Regulated by the Dubai Financial Services Authority (DFSA) and insured by the US government up to USD 500,000 per client should Sarwa close, the company raised a further USD 1.3 million in September, bringing its total funding to more than USD 1.5 million. Co-founder Nadine Mezher told Arab News that in 2019, the company will increase its customer base in the UAE and expand to new markets, as well as focusing on business-to-business clients. With the lack of formal pension funds for expatriates. In UAE, Sarwa aims to work closely with the corporate sector to offer employees saving schemes plans and extend its offering from individuals to companies.

WakeCap Technologies

One more startup expected to grow big, is WakeCap Technologies, UAE. Saudi engineer Hassan Albalawi is behind this Dubai-based startup that uses proprietary location technology to connect workers, tools and equipment on construction sites to improve safety and productivity. By connecting workers' helmets (without the need for WiFi or 4G, which can be unreliable on-site), contractors know exactly where their staff are, reducing the need for clocking in and out. More importantly, the same helmet sensors keep workers safe, buzzing when they enter restricted zones and alerting them when a site evacuation is underway. Likewise, workers can call for help via an emergency button. WakeCap, which in November received USD 1.6 million in funding from investors, is running a pilot scheme at Dubai's under-construction Opera Grand Tower. The product is expected to launch commercially in early 2019.

Unifonic

Unifonic, founded by brothers Ahmed and Hassan Hamdan from Saudi Arabia, claims to be the Middle East's leading cloud communications platform. Put more simply, the company's technology enables businesses to instantly and simultaneously communicate with millions of customers via voice and text. From sending a mass notification that a flight has been canceled to providing secure two-factor authentication to individual customers, Unifonic's technology has multiple uses and has found an enthusiastic audience for its services across diverse sectors. Its more than 5,000 clients include Aramex, Uber, Alinma Bank and Domino's Pizza. In October, STV a Saudi Telecom-backed venture capital firm led a USD 21 million investment round in Unifonic, which operates in five countries. The money will be used to expand into new markets and fund product development.

Chapter 5

Investment opportunities across sectors

Private Equity and Venture Capital firms will primarily seek investments in sectors that are set to benefit from the sound macroeconomic fundamentals of the GCC region. Favorable demographics and increasing purchasing power along with greater aspirations for better products, services and infrastructure will drive the investment rationale. Most funds in GCC region have broad sector focus with investments ranging from healthcare to ICT, infrastructure and hard assets like real estate. A broad analysis reveals there is a strong focus on consumer spending themes such as restaurants, consumer goods, retail, ICT, leisure and entertainment sectors; and governments focused investments play such as infrastructure, education, healthcare etc. In addition, opportunities exist in construction-related industries such as building materials and cement.

Table 5.1: Investment Themes

Themes	Consumer Spending	Government Spending
Key Drivers	Higher per capita income, young demographics	Surplus government coffers, strong intent to diversify the economy, thrust on 'Knowledge'-based economy
Sectors of Interest	ICT, Travel & Tourism, Leisure & Fine dining, Cosmetics & Skin Care, Retail	Infrastructure, Education, Healthcare, Alternative Energy

Source: Marmore Research

Another broad trend that has been emerging in recent times indicate that investors have shown a preference to fund ventures that are IT-enabled. IT enabled services in various sectors targeted at consumers and businesses in their standalone use or interactive applications like B2B or B2C or C2B or C2C are expected to the growth driver of future businesses. The widespread usage of internet and mobile devices and smart phones in the GCC is a major enabler for ventures in the GCC region and it explains why these ventures have caught interest of the entrepreneurs and venture capitalists supporting these entrepreneurs. Also, given the presence of similar services in other developed markets and drawing on knowledge of their success in those markets can make their success better predictable when setup in local markets. Plus, these businesses can be expected to obtain guidance on appropriate business models by drawing upon the experience from external markets, lessening thereby the unforeseen risks in markets in this region.

However, despite this sizable appetite for online content and services, key digital sectors remain nascent, and entrepreneurship potential is yet to be fully tapped. Across MENA, only 8% of small and medium enterprises (SMEs) have an online presence—ten times less than in the United States and only 1.5% of MENA's retail sales are online, five times less than in the United States. Research by Digital McKinsey suggests that the Middle East has only realized 8% of its overall digital potential, compared with 15% in Western Europe and 18% in the United States.

Banks are reserved about funding SMEs because of their limited size and higher risks they possess. SMEs are most vulnerable to the economic cycle and are likely to fail in comparison to their larger peers. Also larger corporations in GCC, instead of raising capital in stock markets, rely heavily on bank financing as it allows them to be less transparent and maintain greater control over their operations. This leads to crowding out of funds as SMEs compete directly for capital with large corporations. PE and VC investors thus have an opportunity to step into this funding gap by acting as intermediaries between their own investors and the SME sector. The need to push for SMEs that are focused on the technological sector is also of paramount importance, in terms of strengthening the nation's innovation capabilities. In addition, they carry the strategic importance of driving job creation and helping GCC states diversify their source of revenue away from oil.

Delving more on nature of ventures in GCC, the study shows that the consumer centric ventures in the region include applications and services related to smart phone enabled e-commerce, ride sharing, luxury products retail, food supply services, communications, healthcare related services, used car sales, bus booking services, mobile games, career market place, food recipe advisory, food ordering services, restaurant reservations, education services, retail of consumer durables, dress rentals, digital healthcare infrastructure services, leisure activities like fishing trips, golf courses bookings, travel management and digital gift cards.

The ventures targeted at businesses include a variety of services such as those related to real estate, distribution of consumer products, B2C luxury goods, B2C beauty products, B2C consumer cleaning services, construction industry,B2C logistics, IT solutions, business intelligence, business advertising, business HRD, business 3D modelling, business industrial services, business truck aggregator services, business services for event organizers, business- start up directory services, and business – scheduling services for beauty & health industry.

Fintech is another major sector which has seen investment flows during recent years. These include technology applications in investment advisory, business invoicing and payment services, digital B2B financing platform, digital trustee & custodial services, smart settlement services in hospitality sector, business smart accounting services, consumer banking & remittance services and business escrow services.

With a wide array of investment choices, many funds consider themselves as 'sector agnostic' and scan the investment horizon for promising bets. Given the current business environment of deal scarcity and capital abundance, many of the general partners that launched earlier as specialized or sector-focused funds six years ago have rolled back their decision and broadened their mandate to become more opportunistic.

Retail

Retail Trade is a sector that has been growing in prominence in the GCC region, with the E-commerce showing great potential. For example, in Dubai wholesale and retail commerce are primary economic engines, contributing to nearly 27% of the emirate's GDP, while e-commerce stands out as a sector with massive potential for growth, poised to expand at a CAGR of 12% in the 2018-2023 period to reach AED 9.7 billion in sales volume by 2023. E-commerce startups are a major source of innovation for Dubai, as they are often the early adopters of disruptive technologies such as blockchain, artificial intelligence and 3D printing.

It is widely accepted that E- commerce is an important industry of growth for PE and VC investors in the region. One reason is that it is an emerging industry with huge growth potential and MENA is one of the most digitally connected regions in the world. MENA has 88% of the population online daily, and 94% of the population owns a smartphone. Digital consumption is very high in countries like Saudi Arabia which ranks seventh globally in social media engagement, with an average of seven accounts per individual. Further, smartphone penetration rates have spiked in certain countries in Gulf Cooperation Council countries. Kuwait, Saudi Arabia, and the United Arab Emirates (UAE) boast even higher penetration than the United States. Therefore, from digital music to digital logistics, digital start-ups in the region are scaling by adapting offerings and business models to serve local needs.

The outlook for Dubai's growing e-commerce sector is looking bright as consumers in the emirate continue to turn to digital platforms to access services and products. A strong contributor to the growth of the sector is proactive initiatives taken by the government in streamlining the retail infrastructure and strengthening the investments and tourism landscape of the region.

Likewise, the research indicates that the retail industry in Saudi Arabia is currently worth USD 106 billion and is forecast to steadily rise to USD 119 billion by 2023. Store-based retailing will continue to dominate, accounting for USD 103 billion of the overall market in Saudi Arabia, however, non-store retailing, which includes online shopping, direct selling, mobile internet, social media and home shopping, is expected to grow by 93% from 2018 to 2023. The value of non-store retailing is also forecast to increase across all four Gulf markets between 2018 and 2023, with a 78% increase in the UAE, 68% in Oman and 48% in Kuwait.

As regional consumers see their disposable income grow and become more sophisticated, the entire retail chain from jewelry, beauty and cosmetics, apparel, supermarkets and restaurants is expected to evince interest. GPs will focus their search on targets offering 'niche products' with 'strong brands' and 'good distribution network' to avoid direct competition with large groups such as Saudi Almarai and Kuwaiti Americana. Significant opportunities exist in online retail (general & discount) space as the mobile penetration is far higher than 100% in all the GCC countries.

Luxury retailing is a thriving business in GCC region - propelled by affluent locals, splurging expatriates, growing brand-aware youthful population and deep-pocketed tourists. Dubai commands around 30% of Middle East luxury market and around 60% of the UAE's luxury market. Qatari's are the biggest buyers of luxury goods across the Middle East, closely followed by consumers in Bahrain. Qatari's spend up to USD 5,000 each a month on luxury goods, while consumers in Oman and Jordan are the most conservative shoppers in the region - spending less than USD 250 per month. GCC consumers exhibit preference for acquiring luxury products over experiencing luxury in the form of exotic holidays/spa packages.

The GCC is becoming a fertile ground for many major luxury brands. The region's consumers, with their large disposable incomes have increasingly sophisticated tastes. It has opened up exciting growth possibilities for key industry players, and continues to be a major destination for a wide range of luxury brands. The Middle East as a whole, benefits from young population, with more than 65% being under the age of 35. This offers tremendous potential for the luxury market, not only in the sheer force of numbers but also in the opportunity for brands to overcome the fickleness of young consumers, and build loyalty early.

In Saudi Arabia, several options for online buyers now exist that were simply not available 10 years ago. Online portal Marouf was developed by the Ministry of Trade and Commerce in collaboration with Thiqah Business Services. Marouf allows vendors and customers to sell, buy, and communicate with each other all in one place. The service was introduced in 2016, and has since amassed over 20,000 registered sellers offering a wide variety of products including electronics, cosmetics, and even homemade food. However, Marouf is stated to have received more than 19,700 complaints last year from customers buying a range of items including electrical appliances, cosmetics and clothing. In a statement, the Ministry of Trade and Commerce assured users that 99% of the complaints had been resolved, and that steps were being taken to improve the services available on the platform.

Growth in tourism sector will also add to luxury retail growth. GCC is planning to launch a unified visa for all the nations in GCC to simplify the travel formalities for tourists coming into the region. This GCC visa will raise spending in the tourism sector and has a multiplier effect on other sectors, such as luxury retail.

Table 5.2: Emerging Retail start-ups with PE/VC funding

Company	Headquarters	Business Description
Wadi. Com	Saudi Arabia	E-commerce site that specializes in electronics, fashion, fragrances, and beauty and health
Babysouk. Com & Family Souk Ventures Ltd.	Dubai, UAE	Family Souk Ventures is a B2B distribution company representing a select group of brands in the parenting industry, while also operating Babysouk. com, a market-leading baby, child and parenting e-commerce website showcasing over 5,000 curated products and services available to parent-consumers in the Middle East and North Africa

Source: Marmore Research, Company Website

Education

The demographic structure of Gulf Co-operation Council countries (Saudi Arabia, United Arab Emirates, Kuwait, Qatar, Oman and Bahrain) is titled towards young age population, making education an imperative. Even though the GCC region is blessed with oil resources and wealth, paradoxically it also suffers from a high level of unemployment, mainly due to disconnect between skill sets and market needs. The GCC countries have realized this gap and have enacted reforms and established various governing bodies to improve overall education structure.

Rising public expenditure in the education sector driven by the need to develop skills of a rapidly growing population in the GCC region, offer considerable opportunities for PE players. Enormous importance has been placed on developing the human resources by way of starting more schools, universities and technical institutes.

The efforts of oil exporting countries to diversify their economies by developing knowledge-based activities will generate further opportunities in the education sector. Significant opportunities exist in private schools, higher education market, digital educational content creation and online learning solutions. There will be worthwhile investment opportunities in this sector as demand for better higher education institutes increases, government extends its support to private players and growing preferences of students to enroll in private education institutes.

Table 5.3: Emerging Education start-ups with PE/VC funding

Company	Headquarters	Business Description
Alef Education	Abu Dhabi, UAE	Provides educational services and notably launched a futuristic Microschool with a custom-made learning platform which served 10 public schools in UAE, two private schools in UAE and private schools in the USA as of 2018
Tatweer Co. For Educational Services (T4edu)	Saudi Arabia	Provides educational services and specializes in providing digital content to the education sector in the Saudi Arabia

Source: Marmore Research, Company Website

Healthcare

Larger government spends, rising populations, greater aspiration for healthcare services, increased longevity, and the need to tackle the effects of unhealthy lifestyle problems are key factors driving investment in the health sector. While the Gulf States have devoted considerable efforts to boosting the healthcare sector, the region still does not match other developed nations in terms of infrastructure and capacity. The scope for private sector participation in the health care segment in GCC is high as there is a gap in the demand and supply of healthcare services provided in the region. Current healthcare expenditure in the GCC is projected to reach USD 104.6 billion in 2022. Private players are now being incentivized through Public-Private Partnerships (PPP) to invest and manage operations.[6]

[6] Arabhealth estimates

Healthcare costs for GCC nationals, to date, have been primarily borne by their governments, and this has become a major challenge for the state. Particularly in the wealthier states of Qatar and the UAE, most nationals prefer to receive medical treatment abroad instead of relying on the national healthcare system, an undertaking that in most cases is funded by the state. With the increasing costs associated with healthcare provision, governments may move from the traditional approach of publically-run healthcare to alternate models.

The GCC medical devices manufacturing sector remains insignificant - meeting below 5% of overall domestic demand - despite government attempts to encourage foreign investment. To gain competitive edge, foreign investors need to strike deals with governments in more than one GCC state. The anticipated divestment of the government from the sector will also open new avenues for private sector participation and subsequently for the PE and VC industry.

Alternative Energy

The GCC states have begun exploring alternative sources of energy including solar power, nuclear, and natural gas to boost capacity and diversify the energy mix. Investments have been continually made by GCC governments towards expanding renewable energy capacity and reducing the reliance on oil and gas for domestic consumption. According to IRENA, the renewable energy capacity is expected to witness a massive expansion to 72,300 MW by 2030 from a meagre 867 MW as of 2018.

Table 5.4: Estimated renewable energy capacity in the GCC (MW), 2030

	Concentrated Solar Power	Photo Voltaic (Utility scale)	Photo Voltaic (Roof Top)	Wind	Waste-to-energy	Total
Bahrain	70	520	70	20	20	700
Kuwait	1,000	5,800	1,000	200	-	8,000
Oman	770	2,420	990	1,210	110	5,500
Qatar	600	2,250	150	-	100	3,100
Saudi Arabia	9,500	10,500	750	3,500	750	25,000
UAE	6,000	18,900	4,200	300	600	30,000

Source: IRENA

Several innovations have taken place in the renewable energy space in recent times across the Globe. With growing emphasis on reducing carbon emissions and building a sustainable future, several start-ups have started exploring alternative energy solutions for replacing applications that have traditionally operated with fossil fuels. For instance, the market for electric vehicles has started expanding, opening up opportunities for several new entrants. These budding start-ups have enormous potential for growth as the underlying technology is still nascent but have high growth potential. Therefore, they could be a lucrative target for PE and VC investors, especially in the GCC market, where governments have placed sustainable energy adoption as one of their primary goals for adoption, indicating regulatory and policy support for future ventures.

Infrastructure

Airports and Seaports are being modernized and their capacities expanded. Power and water projects with a focus on renewable power generation have started. Oil & Gas production facilities are being ramped up and modernized. Housing needs are addressed on a priority basis. Implementation of power grid spanning GCC; GCC rail network, interconnecting key industrial districts with ports and successful bid won by Qatar to host FIFA World Cup 2022 has provided additional impetus to the existing government projects. PE and VC firms could also be expected to take advantage of capital spending in the oil and gas sector. The world's rising demand for energy will continue to boost prices and subsequently prompt an increase in production capacity.

The increase in both population and propensity to purchase an automobile has led to clogged roads across most of the major GCC cities. Currently, the majority of the GCC rank high in terms of traffic density as indicated by the number of automobiles per kilometer of road. Oman and Saudi Arabia also rank high in terms of road fatalities. Conversely, the region ranks low on a comparative scale in road density as indicated by the aggregate kilometers of road to the total area of the country.

This has led to a boom in the number of road projects currently being planned across the region. However, most of the GCC countries are looking at alternative forms of transportation to ease the strain on the roads. Rail is more energy-efficient than cars, buses, or trucks. It also saves on manpower and would help to enhance safety. Though requiring high investment initially, it has relatively low operations cost compared to other modes of transport.

GCC sea ports need to ramp-up capacity, not only to cater to their own increasing needs, but also to develop a hub strategy. Most of them are ideally placed as a trade platform between Asia and the Far East on one hand and the West, Central Europe, and Africa on the other. The GCC needs to greatly modernize and simplify its way of doing business especially in the areas of customs, immigration, and other business processes, if it is to capitalize on this opportunity. Other forms of transportation upgrade are underway and/or being planned in air, roads, and railways. Seaports cannot lag behind.

The GCC aviation industry is expected to reap benefits in the long run with rising youthful demographics and exceeding increasing GDP growth. GCC countries have an advantage of strategic geographical location, with close to two-thirds of the world's populations live within approximately 8 hours flying time, and hence can act as a hub and cater to a large volume of passengers and cargo. Gulf countries have ventured into plotting ambitious plans to develop tourism across segments such as leisure, sports, medical, entertainment, adventure, religious, and business. This is likely to draw more tourists into GCC thus increasing air travel across the region.

Chapter 6

Challenges stifling the growth of PE and VC

Managing and successfully exiting investments made by private equity and Venture Capital players in the GCC region is a daunting task as the capital markets remain largely underdeveloped and are shallow in nature.

Family Businesses are Reluctant to Relinquish Control

Traditionally, for family businesses, ownership and control are not distinctly drawn out. Private Equity investors have a hard time convincing the owner that the company's assets are not their personal property and that sharing management responsibility and decision making, adopting innovative and sound management practices, and corporate governance can only propel the business forward and is by no means a sign of conceding power.

The difficulty of investing in order to obtain anything more than a minority stake will continue to undermine General Partners' (GP) control over the scope and speed of post-acquisition plans, which limits their capacity to create value. Unaware about the benefits of having PE investors, business owners are reluctant to surrender their shares and control to PE firms or implement structural changes. Improvements to corporate governance have also been slow in coming, which is sought out by PE firms and required to prepare the company for exit.

Significant Barriers to Due Diligence

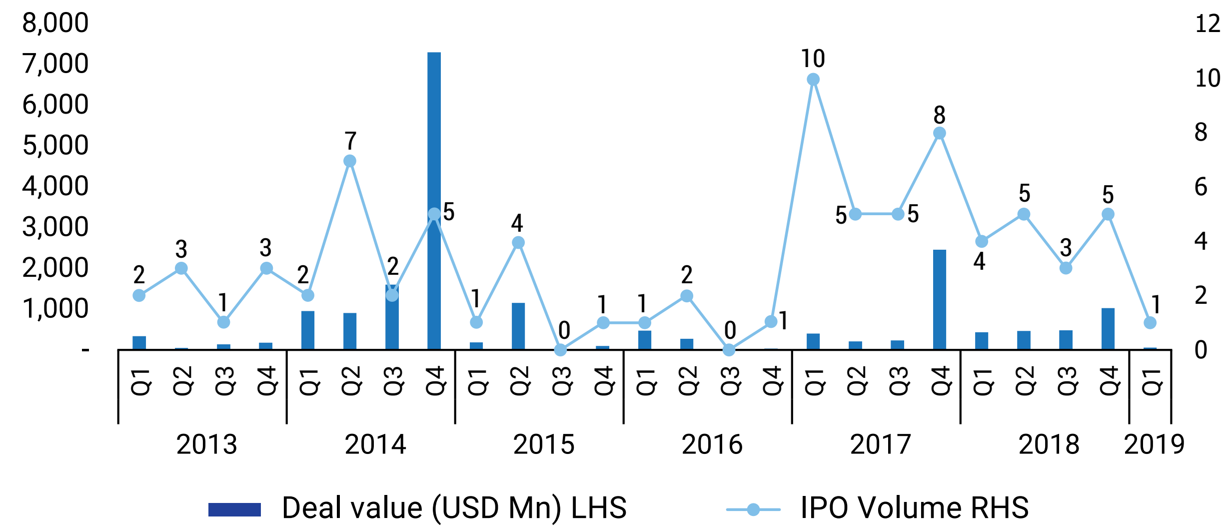
The level of inquiry and the associated investigative process may seem invasive to business houses in the region, which are usually conservative in nature. The fear of such repercussions often leads the PE firms to scratch only the surface during its research. Gaining access to reliable information is a significant hindrance.

The challenge in conducting thorough due diligence is compounded by the fact that very limited information is publicly available. Most private equity firms often retort to conducting discreet inquiries with company, industry and government sources in order to supplement the information, which may be available in the public domain. Only then could the private equity firm gain an understanding of a target.

Exits have been Subdued

When SME business is scaled up to a significant level, it becomes an attractive acquisition target or can be listed on an exchange via an IPO. Unfortunately, in the GCC the access to public capital markets is limited, based on minimum capital requirements and the cost to go public and maintain the company as a public entity remains high. Also, due to the dependence of most markets on oil price and high amount of retail participation, the market volatility is high. Hence, there are periods where the number and values of IPOs are high, as seen in 2014, interspersed with periods of low IPO activity.

Figure 6.1: IPOs in GCC Region, 2013-2019



Source: PwC

IPOs remain less frequent as exit routes primarily because of the small size of stock markets and archaic process.

Over 2012-2017, 60 MENA start-ups have exited at an estimated valuation of approximately USD 3 billion in aggregate. However, the majority of exits in the region are strategic exits— direct equity sales to large, family-owned groups or multinational companies. The predominant exit valuation for over one-third of the region's exits was between USD 10 million and USD 20 million. Overall, more than 60% of the disclosed deals were for less than USD 50 million. Some notable examples were Amazon's acquisition of MENA-focused Souq.com; Alabbar Enterprises' purchase of the UAE's JadoPado; Delivery Hero's trio of acquisitions, including Turkey's Yemeksepeti, as well as Kuwaiti food delivery companies Talabat and Carriage; Tiger Global Management's acquisition of the daily deals website Cobone. com; Thomson Reuters' purchase of the business information portal Zawya; and Japan's Cookpad taking over the Lebanese recipe website Shahiya.

In contrast, public listings, or IPO exit opportunities, are limited in the region. Of the more than 1,000 IPOs around the world in 2016, less than 10% were on exchanges in the Middle East. Across MENA, the IPO market readiness is low relative to more developed markets, lacking depth and maturity. Varying factors impact the IPO readiness, such as regulatory hurdles, types of institutional investors involved, valuation potential, exchange listing standards, and fees. Regulatory readiness remains a critical hurdle to be overcome in MENA, where currently highly complex procedures and high tax rates involved in exits act as a major deterrent to the process. One common example is the 20% capital gains tax imposed in Saudi Arabia on foreign parties exiting their shares in unlisted companies. Moreover, a lack of uniform transparency and disclosure hinders overall start-up investment in every stage, especially exits.

Limited Corporate Governance

Corporate governance in the GCC region has been woefully inadequate. Very often private firms refrain from precise book keeping and have never been monitored by external stakeholders. Research studies reveal that more than 45% of SMEs (in their mature cycle) do not adopt proper accounting practice[7]. When audited, SMEs tend to employ small accounting companies that do not abide by recognized international financial reporting standards and are prone to agreeing to reporting figures that entrepreneurs want to show. This presents a formidable challenge for investors who would like to access the financial reports to verify the records and to understand the underlying economics of business.

Dearth of Qualified Human resources

Managerial talent is scarce in the region, leading to identification of new management team with sector expertise, local knowledge, a proven track record and the right skill set a major challenge for PE and VC firms. The difficulty in finding skilled management teams in the region will hinder the implementation of the buy and build model. This is especially true in sectors such as healthcare. Also, since most of these companies are family owned, ownership and management are often intertwined, which makes introducing a new management team to take over from the family owner a sensitive issue.

Procedural Hurdles in Establishing SMEs in the region

Entrepreneurship mindset among young people in GCC has developed in the past decade along with the help of increasing technological developments. However, it is reported that there are many challenges facing young entrepreneurs such as the long time it takes to acquire a commercial license and the rigid regulations to get land and space for business. These challenges are lowering the future entrepreneurs' confidence in the system thus discouraging their aspirations. Such factors are some of the obstacles in the development of startups in the region. However, this has been recognized by the regional governments and they are taking initiatives to support the youth. The youth are also becoming more enthusiastic about improving their entrepreneurial skills which includes managing the environmental factors and the various stakeholders and participants in the SME eco system.

Other Challenges

Other challenges including lack of well-established universities and research centers for enabling product innovations and product ideas as this form the bedrock of new venture development, lack of adequate laws concerning intellectual property rights, shortfalls in bankruptcy laws and investor protection, transparency and disclosure requirements in government and industry. The regional governments however have taken several initiatives to overcome these deficiencies which is being reflected in the spate of startups that are coming up in the recent period as well as wide funding support that is being witnessed for the sector.

[7] The Corporate Governance Code for SMEs, Dubai SME Agency

Appendix

Key VC Terminologies

Defining Venture Capital

Venture Capital is a private or institutional investment made into early-stage / start-up companies (new ventures). As defined, ventures involve risk (having uncertain outcome) in the expectation of a sizeable gain. Venture Capital is money invested in businesses that are small; or exist only as an initiative, but have huge potential to grow. The people who invest this money are called venture capitalists (VCs). The venture capital investment is made when a venture capitalist buys shares of such a company and becomes a financial partner in the business. Software and other intellectual property are generally the most common cases whose value is unproven. That is why; Venture capital funding is most widespread in the fast-growing technology and biotechnology fields. Venture capital firms may also provide expertise the venture is lacking, such as legal or marketing knowledge. This is particularly the case in the corporate venture capital context where a startup can benefit from a corporation, for instance by capitalizing on the corporation's brand name.

Types of Venture Capital funding

Classification of various types of venture capital is based on their application at various stages of a business. Main types of venture capital are early stage financing and acquisition/buyout financing. Venture capital funding procedure is completed through six stages of financing. These stages are as per the stage of business's development. These stages are:

Seed Money Financing

This is a low-level financing provided for developing an idea of an entrepreneur. It is considered as the setup stage where a person or a venture approaches an angel investor or an investor in a venture capital firm for funding for their idea/product. During this stage, the person or venture has to convince the investor why the idea/product is worthwhile. The investor will investigate the technical and economic feasibility of the idea. In some cases, there is some sort of prototype of the idea/product that is not fully developed or tested. If the idea is not feasible at this stage, and the investor does not see any potential in the idea/product, the investor will not consider financing the idea. However, if the idea/product is not directly feasible, but part of the idea is worthy of further investigation, the investor may invest some time and money in it for further investigation. At this stage, the risk of losing the investment is tremendously high, because there are so many uncertain factors. Market research may reveal that there is no demand for the product or service, or it may reveal that there are already established companies serving this demand. A Harvard report shows evidence that angel-funded startup companies are less likely to fail than companies that rely on other forms of initial financing.

Start-up Financing

These are those businesses that are operational and need finance for meeting marketing expenses and product development expenses. So, this is generally given to businesses to finish the development of their products or services. If the idea/product/process is qualified for further investigation and/or investment, the process will go to this stage. A business plan is presented to the venture capital firm. A management team is in formation to run the venture. If the company has a board of directors, a person from the venture capital firms will take seats at the board of directors. While the organization is being set up, the idea/product gets its form. The prototype is being developed and fully tested. In some cases, clients are being attracted for initial sales. The management-team establishes a feasible production line to produce the product. The venture capital firm monitors the feasibility of the product and the capability of the management-team from the board of directors.

To prove that the assumptions of the investors are correct about the investment, the venture capital firm looks for market research to see if there are sufficient consumers to buy their product (and market size). They also want a realistic forecast of the investment needed to push the venture into the next stage. If at this stage, the venture capital firm is not satisfied about the progress or market research results, the venture capital firm may stop their funding and the venture will have to search for another investor(s). When there is dissatisfaction and it is related to management performance, the investor may recommend replacing all or part of the management team. At this stage, the risk of losing the investment is shrinking because the nature of any uncertainty is becoming clearer. The venture capital firm's risk of losing the investment would have dropped. However, the causation of major risk can become higher because the prototype was not fully developed and tested at the seed stage or the venture capital firm might have underestimated the risk involved, or the product and the purpose of the product could have changed during development.

Second Stage Financing

At this stage, the idea has been transformed into a product and is being produced and sold. This is the first encounter with the rest of the market, the competitors. The venture is trying to squeeze between the rest, and it tries to get some market share from the competitors. This is one of the main goals at this stage. Another important point is the cost. The venture is trying to minimize their losses in order to reach the break-even. The management team has to handle very decisively. The venture capital firm monitors the management capability of the team. This consists of how the management team manages the development process of the product and how they react to competition. If at this stage the management team has proven their capability of standing hold against the competition, the venture capital firm will probably give a go for the next stage. However, if the management team lacks in managing the company or does not succeed in competing with the competitors, the venture capital firm may suggest for restructuring of the management team and extend the stage by redoing the stage again. In case the venture is doing tremendously bad whether it is caused by the management team or from competition, the investor will cut the funding.

At this stage, the risk decreases because the start-up is no longer developing its product but is now concentrating on promoting and selling it. These risks can be estimated. The risk to the venture capital firm of losing the investment drops and the causation of major risk by stage of development also drops at this stage.

Third stage Financing

This stage is seen as the expansion/maturity phase of the previous stage. The venture tries to expand the market share they gained in the previous stage. This can be done by selling more of the product and having a good marketing campaign. Also, the venture will have to see whether it is possible to cut down their production cost or restructure the internal process. Apart from expanding, the venture also starts to investigate follow-up products and services. In some cases, the venture also investigates how to expand the life-cycle of the existing product/service.

At this stage the venture capital firm monitors the objectives already mentioned in the second stage and also the new objective mentioned at this stage. The venture capital firm will evaluate if the management team has made the expected cost reduction. They also want to know how the venture competes against the competitors. The new developed follow-up product will be evaluated to see if there is any potential

Bridge/pre-IPO stage

In general, this is the last stage of the venture capital financing process. The main goal of this stage is for the venture to go public so that investors can exit the venture with a profit commensurate with the risk they have taken. At this stage, the venture achieves a certain amount of market share. This gives the venture some opportunities, for example: Merger with other companies or Keeping new competitors away from the market or Eliminate competitors. Internally, the venture has to examine where the product's market position and, if possible, reposition it to attract new market segments. This is also the phase to introduce the follow-up product/services to attract new clients and markets. Ventures have occasionally made a very successful initial market impact and been able to move from the third stage directly to the exit stage. In these cases, however, it is unlikely that they will achieve the benchmarks set by the venture capital firm.

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