

January 2020

# GCC Private Equity and Venture Capital

## Still at its infancy

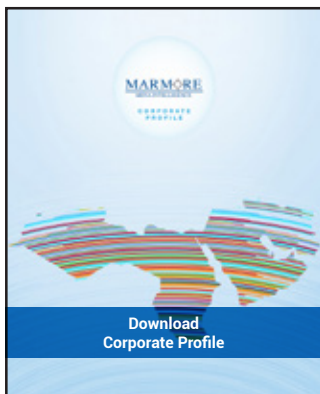


### Research Highlights:

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



# 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.marmoremna.com](http://www.marmoremna.com)

## Experience/Qualifications

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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# 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.

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