



OPPORTUNITIES BEYOND COVID 19

**Mergers and Acquisitions
During Economic Lockdown**

insights

Foreword

Coming off a strong 2018, the global M&A market slowed in 2019. While global announced transaction volumes were in line with 2018 (driven by increased announced transaction volumes in North America), deal count for deals greater than \$250 million was down 9% globally year over year.

In 2020, we expect M&A activity to be driven by companies looking to strengthen their businesses, particularly during periods of prolonged uncertainty. Equity investors have been rewarding M&A transactions that strengthen businesses and have been penalizing acquirers that have taken undue risk in times of uncertainty.

Despite ongoing geopolitical tensions and the unending Covid-19 outbreak, M&A activity remain positive throughout the Middle East. Volatile oil prices along with overdependence over oil revenues are motivating the governments in implementing new reforms and initiatives in order to diversify their economies. Such efforts are generating increasingly attractive regulatory and business environments for local and international entities, established players and newcomers to the region.

COVID-19 crisis is unprecedented in the depth and breadth of its global impact. This pandemic is not just triggering a major financial shock, it is changing the way governments, businesses and humans interact.

Amid COVID-19, Fundamental changes in consumer behavior, supply chains, and routes to market are knocking companies. By repositioning through M&A, leaders can help to bypass uncertainty and drive resilient growth.

Now is the time to thoughtfully put M&A to use. Explore M&A horizons, balancing immediate actions to the crisis and reposition for the future.

It is noteworthy however that actual M&A activity in the region primarily consists of acquisitions, rather than mergers. This is in large part due to the lengthy and difficult approval processes such mergers entail.

The full ramifications of the evolving Covid-19 outbreak remain to be seen. However, it is already clear that M&A activity across the region and globally will surely be impacted.

COVID-19's Impact on Global M&A Market and Industry

COVID-19's Impact on Global M&A Market

M&A experts predicted 2020 to surpass 2019 (the year recorded \$3.9 trillion with approximately 49,849 deals) in terms of deal activity. However, since the outbreak of the coronavirus things have changed dramatically, with the unpredictability of the magnitude and uncertainty of its potential impact i.e. significantly impacting the deal environment.

The global business environment is currently witnessing an unprecedented challenge. It is difficult to predict the consequences of a global pandemic and long-term lockdowns, that are impacting every aspect of daily life. With such uncertainty and unpredictability, post crisis the focus of business owners and managers is likely to be managing the core business and its recovery, as a result any inorganic M&A activity may take a backseat.

However, the Covid-19 shock may propel global M&A activity, as businesses will seek to raise more capital and find opportunities created by adversity to make acquisitions of assets or businesses at a more reasonable / distress valuation.

COVID-19's Impact on Industries

It can be clearly seen that the most adversely affected industry amid COVID-19 is Travel and Hospitality (facing decline of almost 50%), followed by Banking & Capital Markets and Energy, experiencing decline of approximately 31% and 24% respectively. The least affected industry is the Consumer Goods – almost 16% decline – attributable to its unavoidable nature.



Travel & Hospitality



Banking and Capital Markets



Energy



Retail



Consumer Goods

Major Acquisitions in 2020 amid COVID-19 (Global Perspective – USA and China)

The Acquisition Announcements at the start of 2020 are as follows (USA)

Month Transaction (Acquirer–Target Company–Value)

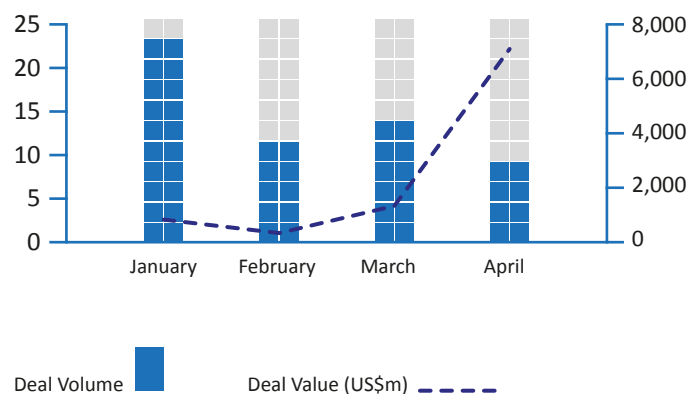
- January • Visa - Plaid - \$5.3bn
- February • Lending Club - Radius Bank - \$185 million
- April • Morgan Stanley - E-Trade - \$13 billion.
- CNN - Canopy - To Be Decided (TBD)
- SoFi - Galileo - \$1.2 billion
- Accenture - Revolutionary Security - In process
- May • Cisco - Thousand Eyes - To Be Decided (TBD)
- Microsoft - Softomotive – To Be Decided (TBD)
- Facebook - Giphy - \$400 million



The Acquisition Announcements at the start of 2020 are as follows (China):

- As many as 57 Chinese outbound merger and acquisition (M&A) deals worth \$9.9 billion were announced during January to April 2020, while 145 Chinese outbound investments reached \$4.5 billion, according to according to London-based data services firm GlobalData.
- However, Chinese companies' acquisition of distressed foreign assets at a much lower price during COVID-19 pandemic has seen governments across several countries tightening their foreign direct investment (FDI) policies, according to GlobalData.

Chinese outbound M&A Deal Volume and Value (Jan - Apr 2020)



M&A activities in GCC amid COVID-19 (2020)

- The number of closed merger and acquisition (M&A) transactions across the Gulf Cooperation Council (GCC) member countries during Q1 2020 decreased by 51% relative to Q4 2019, and by 52% relative to Q1 2019 due to coronavirus disease (COVID-19).

MENA M&A Deal Activity

- Total MENA M&A deal activity jumped to USD 9.3 billion out of 95 deals in Q1 2020, up from nearly USD 4 billion out of 89 deals in Q4 2019.
- Outbound M&A activity from the Middle East into other regions increased by volume and value, from 30 deals valued at USD 3.47 billion in Q4 2019 to 36 deals valued at USD 3.6 billion in Q1 2020.
- The UAE was the most acquisitive country by volume in Q1 2020, with 11 outbound deals amounting to USD 352 million.



M&A activity in KSA in 2020

Two Possible Scenarios Moving Forward

- The first is a further slowdown in the M&A volumes and values in the next two and possible three quarters reflecting on the global uncertainty, investors' anxiety and shift of priorities.
- The second scenario is that growth continues but at a much slower pace and value, similar to that of Q1 of the current year, driven by companies being interested to join forces in an attempt to mitigate losses and consolidate and driven by availability of quality assets and targets available at lower valuation.

M&A Activities in Saudi Arabia (Expected)

- Saudi Arabia was the top acquirer country by value with USD 2.6 billion and ranked second by volume with 9 deals. The Telecommunications industry led by value featuring Saudi Telecom's USD 2.39 billion acquisition of Vodafone Egypt. The Real Estate industry led by volume with 7 deals and ranked second by value securing USD 547 million.

- Merger and acquisition (M&A) activity in Saudi Arabia is expected to increase amid the Covid-19 pandemic, as small and medium enterprises (SMEs), and several large corporates will look for equity via capital injections to satisfy working capital needs.

- The focus of investors within the F&B sector will shift towards backend businesses such as food production and supply (F&B logistics), rather than retail. Driven by the turmoil in oil prices, investors in Saudi Arabia will continue to focus on sectors that would emphasize economic diversification and sustainability as identified by the government.

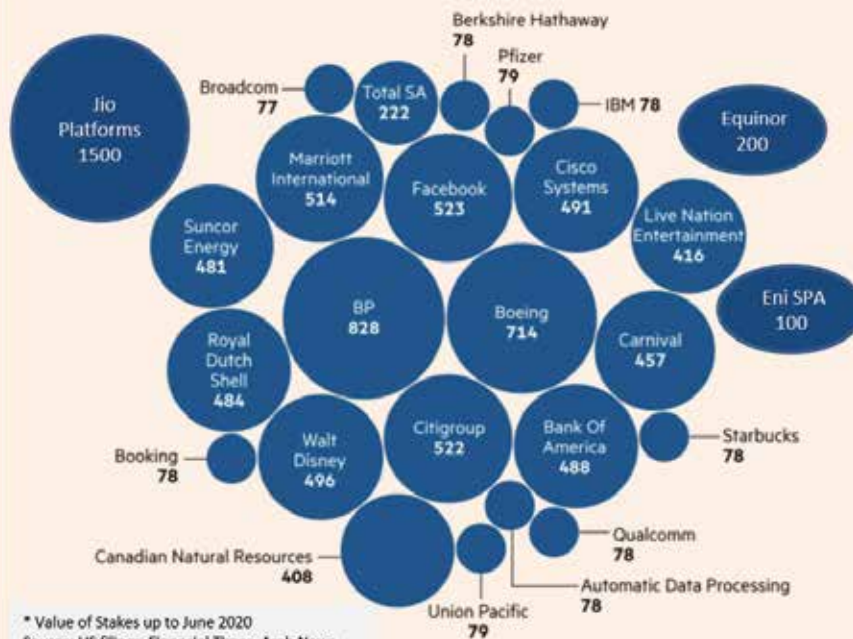


M&A activity in KSA in 2020 (Contd.)



Saudi PIF ramps up investment

Value of stakes acquired in 2020* (\$million)



* Value of Stakes up to June 2020
Source: US filings, Financial Times, Arab News, NDTV Profit and S&P Global Market Intelligence

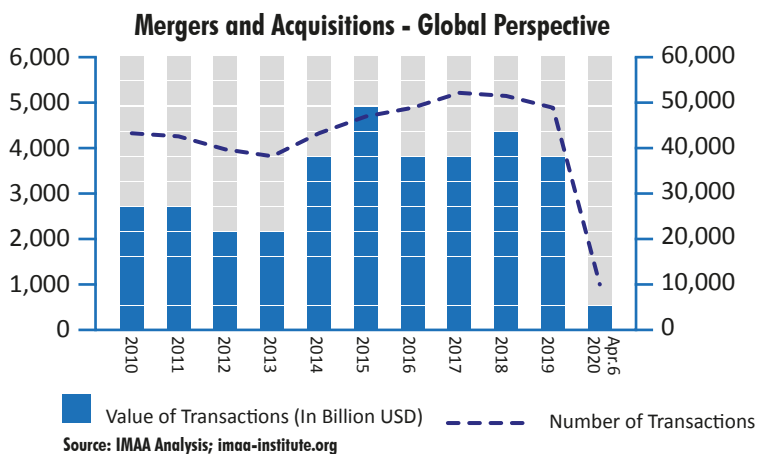
- By 2030, PIF aims to grow the fund to \$2 trillion.
- PIF and Aramco have successfully closed the deal for Saudi Aramco's acquisition of a 70% stake in SABIC.
- The \$325bn Public Investment Fund has spent billions on overseas deals this year even as the kingdom's economy struggles.
- In addition, Saudi Banks NCB And Samba Plan Mega -Merger Worth \$15 Billion (Two banks announced to the Saudi Stock Exchange (Tadawul) on June 25, 2020 they had entered a framework agreement) - FORBES NEWS

M&A Activity In Recent Years - Global Perspective - 2019

The past ten years have been relatively good times for deal makers, the value of deals increase from \$838 billion to \$1,501 billion, but the deal volume remains at a same level from 14,670 deals to 15,395 deals from 2010 to 2019.

The following were top five deals in 2019 in value (Acquirer – Target Company – Value):

- United Technologies - Raytheon - \$87 billion
- Bristol-Myers Squibb's - Celgene - \$79 billion
- Saudi Aramco's – Sabic - \$69 billion.
- AbbVie's - Allergan - \$62 billion.
- Occidental Petroleum Corporation - Anadarko - \$38 billion
- Global merger and acquisition activity hit \$3.9 trillion in 2019, that represents a 7% decrease from 2018.
- 2018 proved to be a strong year for M&A. Total deal volume were almost \$4.2 trillion globally, higher than the \$3.7 trillion volume of 2017, but still less than the record of over \$5 trillion set in 2015.
- U.S. targets totaled over \$1.7 trillion, compared to approximately \$1.5 trillion in 2017. The number of large deals significantly increased in 2018, with 60 deals globally (compared to 46 deals in 2017).
- In 2019, M&A value stabilized near long term average. However, some alarming trend persisted. M&A volume decreased to approximately 50,000 deals, the following chart shows the last ten-year deal value and volume of M&A deals

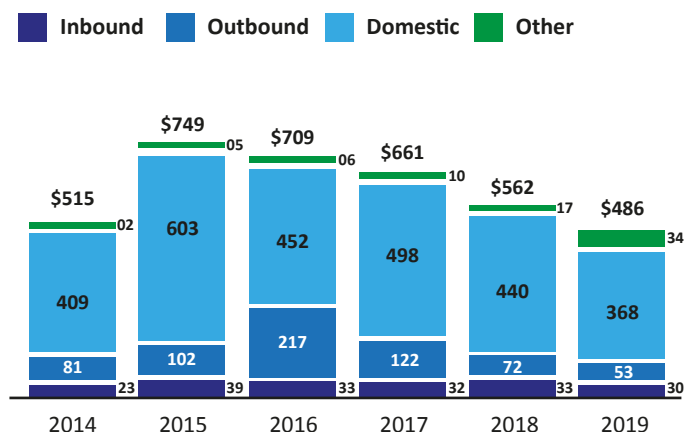


M&A Activity In Recent Years - Global Perspective 2019

M&A activity in China

In 2019, China M&A transactions slump significantly in terms of deal value and volume. In 2019, China close the M&A deals of around \$ 486 billion, compared to \$ 562 billion in 2018.

China M&A announced \$ volume (\$bn)



Source: Dealogic, as of 12/31/2019

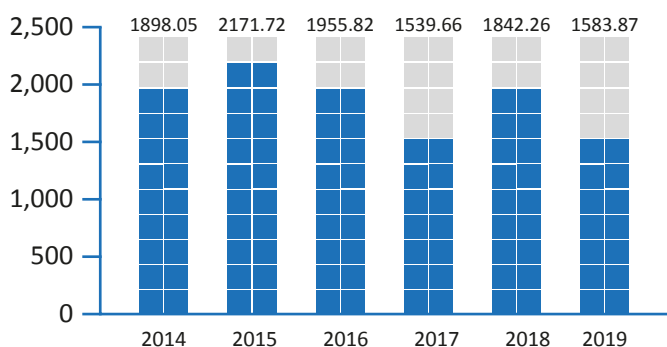
Note: "Other" reflects divestor/parent from China and target business or acquirer from outside China



M&A Activity in USA

U.S. deal activity was another upward driver, hitting \$1,583 trillion in 2019. That's a 14% decline from 2018, which amounted to approximately \$1,842 trillion.

Value of merger and acquisition transactions in the United States from 2014 to 2019 (in billion U.S. dollars)

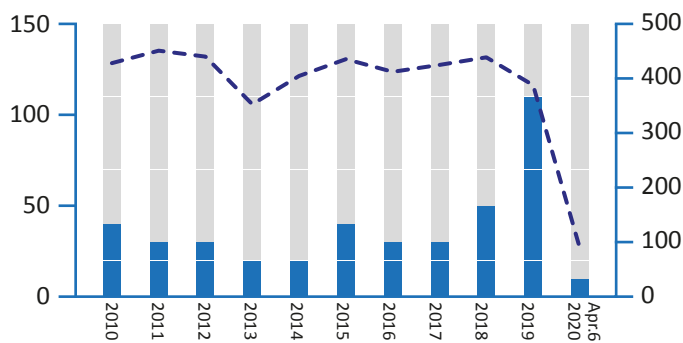


M&A Activity In Recent Years - Global Perspective 2019

M&A activity in GCC

- Since the drop in oil prices in 2014, GCC countries are undergoing extensive consolidation with the rate of Mergers and Acquisitions (M&A) increasing in value over the last few years.
- Year 2018 saw as much as 92 deals (inbound and outbound) worth \$33.7 billion, all sectors included.
- The number of M&A transactions in GCC decreased by 10 percent in 2019 compared to 2018, whereas, it increased by 1.4 percent in 2018 compared to 2017.

Mergers and Acquisitions - GCC



■ Value of Transactions (In Billion USD)

--- Number of Transactions

Source: IMAA Analysis; imaa-institute.org



M&A Activity In Recent Years - GCC (2019)

Major Transactions in 2019 – GCC and MENA (Acquirer – Target Company – Value)

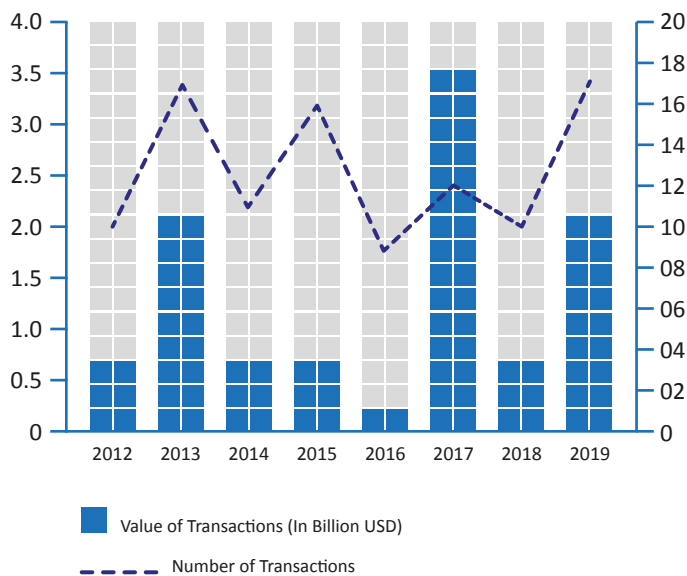
- Saudi Aramco's - Sabic - \$69 billion
- Teva Pharmaceutical Industries - Allergan PLC - Generic Drug Bus \$38.75 billion
- Lafarge SA - OCI Cement Group - \$15 billion
- National Bank of Abu Dhabi - First Gulf Bank PJSC - \$14.84 billion
- SABIC - GE Plastics - \$11.60 billion
- Qatar Investment Authority - Volkswagen AG - \$9.60 billion
- Al Noor Hospitals Group PLC - Mediclinic International Ltd - \$9.30 billion
- Teva Pharmaceutical Industries - Barr Pharmaceuticals Inc - \$8.80 billion
- EMAL – DUBAL - \$7.50 billion
- Abu Dhabi Investment Authority - Citigroup Inc - \$7.50 billion
- Thunder FZE - Peninsular & Oriental Steam - \$6.90 billion
- Oger Telecom Ltd - Turk Telekomunikasyon AS - \$6.60 billion
- HH Sheikh Mansour Bin Zayed Al - Barclays PLC - \$5.70 billion
- Emirates Telecommun Grp Co - Itissalat Al Maghrib SA - \$5.70 billion.



M&A activities in KSA (2019)

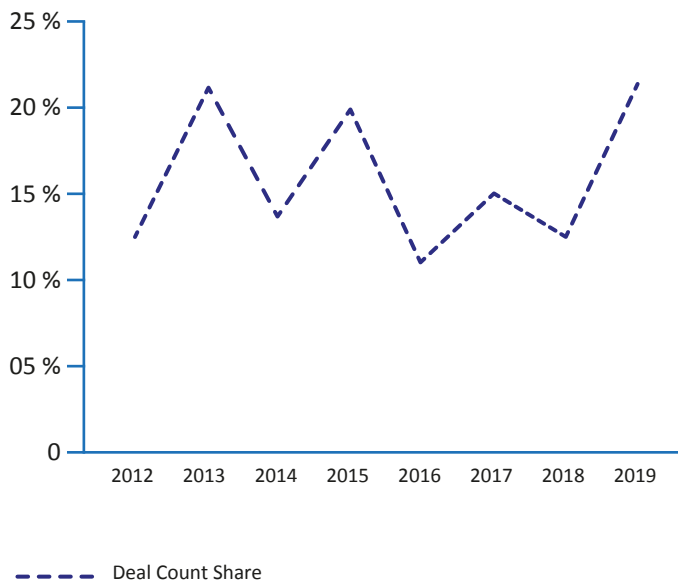
Mergers and acquisitions (M&A) activity in Saudi Arabia increased over the years as the government carried out reforms to diversify the Kingdom's economy and opens up the market for Foreign Direct Investments (FDI)

YTD Saudi Arabian M&A Activity (excluding Saudi Aramco/SABIC)



Source: IMAA Analysis; imaa-institute.org

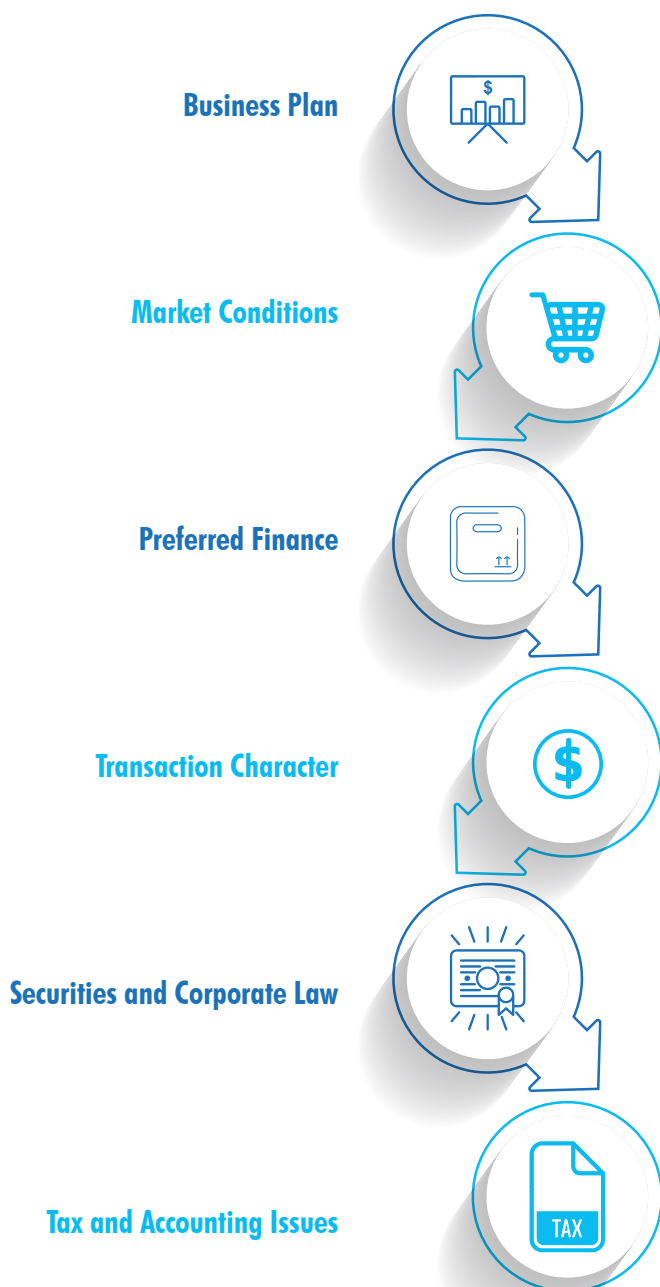
Saudi Arabian Share of MENA M&A Activity By Deal Count



Structuring M&A Deal

One of the most complicated steps in the M&A process is properly structuring the deal. There are many factors to be considered, such as antitrust laws, securities regulations, corporate law, rival bidders, tax implications, accounting issues, market conditions, forms of financing, and specific negotiation points in the M&A deal itself.

Structuring Deal



How COVID-19 Impacts the M&A Process?

Challenges or Concerns

- Factors which are under considerations in the whole process of merger and acquisition after the impact of COVID and the processes that will transform after this pandemic.
- As the economic impact of COVID-19 (Coronavirus) deepens, companies that are engaged in or which are contemplating mergers or acquisitions are faced with unexpected and unprecedented challenges.

Due Diligence in COVID-19

- Consideration of whether to re-open discussions on purchase price.
- Impact that the COVID-19 crisis will have on revenues.
- Review of termination rights along with any force majeure provisions to establish whether the current crisis has a triggering effect.

Business Valuation

- To avoid issues, companies can monitor macro assumptions, valuation ranges, sensitivity analyses and scenario analyses on a continuous basis.
- Regular reporting and impairment analyses and robust documentation are required. Avoid the double counting of risk in both cash flows and discount rates.
- Assess whether the market approach is no longer appropriate for recent transaction prices, especially that date back to before the pandemic began.
- DCF method has become more appropriate and relevant than other valuation techniques attributable mainly to its forward looking approach.



How COVID-19 Impacts the M&A Process?

Timing and Delay in M&A Deals

- Third party consents.
- Delays in obtaining regulatory approvals.
- Buyers and their BOD are going to be more cautious.

Availability and Terms of Debt Financing to Fund Acquisitions

- Will lender underwrite new financing commitments?
- Will the buyer's committed debt financing actually be available when the time comes to close the acquisition?
- Will the lenders increase pricing due to the risks of the coronavirus crisis?

Effect on Deal making and Deal Terms

- In future deals, some buyers will likely seek to include specific contractual language, providing that the COVID-19 pandemic is itself a Material Adverse Effect (MAE), or at least seeking to exclude it from the carve outs. But just as surely, sellers will take the position that the pandemic represents a known risk that the buyer should fairly have taken into account in valuing the seller's business and proceeding with the transaction.

M&A Process Step by step



How Insights contributes to its clients for greater purpose?

How INSIGHTS can help?

Insights perform its role as a consulting & advisory firm or M&A transaction, Insights aim to support the potential clients by providing highly tailored services on all phases of M&A transactions, from the initial planning stage until the finalization of deal. We provide advisory on a both sides, buy-side and sell-side.

Role of Insights

- Thoroughly explain each phase of the transaction process.
- Performing target evaluation and financial modeling for valuation and swap ratio, along with assisting in bid preparations and evaluating financing alternatives.
- Work with the client to put together the necessary documentation such as business plans, financial forecasts and management presentations.
- Working with relevant consultants, steer the process to ensure that all the necessary due diligence and legal documentation is prepared promptly.
- Arrange and attend meetings with potential buyers/sellers and provide them with the necessary information required to make an effective deal.

We can help you in :

- Mergers and Acquisitions
- Post – Merger Integration
- Business Valuations
- Initial Public Offering (IPO) Advisory
- Business Restructuring
- Due Diligence
- Project Finance
- Preparing Financial Models
- Corporate Strategy
- Advising on Public Private Partnerships (PPP) projects
- Capital Market Strategy



Contacts us:

If you are thinking about doing a deal and would like more information on the KSA market, you can speak to us

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