KEYNOTE INTERVIEW

Building global leaders across growth markets

The pandemic has hit oil prices and economic growth hard, but the Gulf states continue to provide rich pickings for investors looking to invest in fast-growing companies and to turn them into global leaders, says Dr Karim El Solh, co-founder and CEO of Gulf Capital

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Q How has the pandemic impacted mid-market companies, and private equity activity, in the Gulf region through 2020?
The Gulf region was affected by the twin impact of the covid-19 pandemic and the sharp drop in oil prices during Q2. With the severe lockdown in Q2 of this year, economic activity came to a halt, impacting all companies in the region.

However, in the summer, there was a substantial rebound in economic activity and a healthy recovery underway. Most businesses recovered steadily over the summer and were on track to reach 80-100 percent of the revenues they registered the prior year. However, the tourism and travel sectors continue to be hit hard by lockdown measures and travel restrictions.

Overall, GCC economies will see a contraction in GDP growth of 4-5 percent in 2020, but the growth outlook will improve in 2021 and should reach 2-3 percent.

Private equity activity in the region has been modest during the pandemic with most private equity firms focused on protecting and growing their portfolio companies.

Q How is the covid-19 pandemic impacting your portfolio companies and investment opportunities in the GCC?
Obviously, the pandemic brought a lot of challenges and the growth of the economy decelerated, with the drop in the oil price having a significant slowing effect. We are a very hands-on investor and 79 percent of all our

transactions are control buy-outs where we have significant influence. On all of our portfolio boards, we have an investment partner and an operating partner and often an executive chairman with global industry expertise, so we were very involved and very quickly surveyed all of our portfolio companies when the virus hit.

The first thing we did was to ensure our companies had enough liquidity to be able to operate and survive until the reopening of the economy. We had to look at reducing burn rate and stretching the liquidity that we had in the businesses initially. We were pleased that we only had to support one of our 35 portfolio companies by injecting additional liquidity.

March and April were all about stabilizing and protecting our portfolio companies, then we started planning for ambitious growth and playing offense. A case in point is our portfolio company Geidea, the largest payment solutions provider in Saudi Arabia, where we recently launched a merchant acquiring business and an online payment gateway where we enabled merchants to sell and accept payments online. The growth of e-commerce in Saudi Arabia is very promising and we are now empowering merchants to sell online to capitalize on the changing consumer behaviour.

Another example is Chef Middle East, which is the leading B2B food supplier to the HORECA industry across the Gulf. With most restaurants and hotels in lock down in the second quarter of this year, Chef Middle East's management decided to launch a brand new business-to-consumer business within 10 days, delivering food to customers' homes and diversifying away from their original B2B channel. That is now a growing business that we didn't envisage pre-covid.

The pandemic has been all about coming up with new business solutions to overcome challenges and innovating to survive and prosper in this new world. These changes in consumer behaviour are here to stay, so it is important to be able to adapt to the New Normal and to find new ways of doing business.

Q How does private equity activity currently vary across the Gulf countries, and which countries do you expect to see the most PE deals in 2021?

Historically, the UAE accounted for the largest share of private equity activity in the region, followed by Saudi Arabia and Egypt. The UAE has been the natural hub for regional private equity firms that are investing not only in the GCC but in the adjacent South Asian and East African regions. Saudi Arabia has recently seen a resurgence in private equity activity, especially on the venture capital and early stage fronts.

As the largest Arab country, with a population exceeding 100 million, Egypt remains a favourite investment destination for both Middle Eastern and African private equity funds. Nevertheless, the UAE will continue to see the most PE deals in both 2020 and 2021. With a number of recent successful technology exits, the UAE is increasingly becoming a favourite investment destination, especially on the venture capital and technology side.

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Q What opportunities does Gulf Capital see for capturing value in emerging markets, and particularly for building global leaders from the GCC?

As a specialist growth markets investor, most of our investments start in the Gulf and expand into Asia and Africa – we specialise in building global leaders out of the Gulf region. When you encourage companies to travel and expand rapidly, they grow faster, they diversify away from single country risk and, more importantly, it becomes easier to sell them to strategic buyers at a premium. Strategic buyers are really excited to acquire global platforms that operate across growth markets, so we like this global buy-and-build strategy with the ultimate goal of selling our portfolio companies to strategic investors or via global listings.

An example of that strategy in action was our acquisition of a strategic stake in Metito, the largest privately held water engineering and concessions company in the GCC. We encouraged Metito to expand across China, India and Africa, and ultimately sold our strategic stake in a successful auction to Mitsubishi Corporation and Mitsubishi Heavy Industries in 2014, achieving a 3.8x multiple on our investment.

Another example is Gulf Marine Services, an oil and gas offshore service company that started in Abu Dhabi, expanded rapidly across the Gulf and then went into the southern North Sea in Europe. We increased the EBITDA of GMS 10-fold before it listed on the London Stock Exchange in 2014, achieving a 5.3x return on our investment.

Our other successful exits include an online travel booking service called

Destinations of the World, and Metamed, the largest radiology and diagnostic imaging platform across the Middle East. We have successfully built global leaders out of the Gulf over a half dozen times, and we intend to continue pursuing this successful expansion strategy.

Q What particular trends are you observing around digital adoption in the region, and how is that impacting your portfolio companies?

It is early days for e-commerce and digitisation in the Gulf. There is certainly a trend for more and more orders to move online, especially post-covid, and we see an explosion in e-commerce in the region as consumers become more comfortable buying online.

The other new economy sector that is really interesting to us is payments. Geidea, the Saudi payments solution business, is expanding into merchant acquiring and enables contactless payments in the Kingdom. In 2019, there was a 200 percent growth in contactless transactions in the Middle East. Under the Vision 2030, it was envisaged that digital transactions and payments would reach 70 percent by 2030, but with the covid-19 pandemic, we reached that target by August of this year. We achieved 10 years of growth in just five months – that's the kind of acceleration we are seeing in that sector.

Another company in our portfolio is Vezeeta, which is the leading digital healthcare booking platform and practice management software in the MENA and African region. During the pandemic, we launched an e-pharmacy fulfilment business and a telemedicine service to arrange doctors' visits to the home, both of which are growing very fast. We are excited by the potential of telemedicine and e-pharmacy in the region.

> *"We see very little private equity competition in the region at the moment, with the market just not as crowded as it is in the US and Europe"*

Q Where do you expect to see the most activity for funds in the region in 2021, in relation to acquisitions, exits and fundraising?

We have done five transactions in the last 18 months as well as working on five bolt-ons, and we are entering 2021 with four additional bolt-ons in the pipeline – our portfolio companies tend to be quite acquisitive, growing into new markets through acquisitions and buying smaller businesses at attractive multiples.

As these companies mature, we are looking at exits, and we have two potential exits on the cards for 2021, probably to global strategic buyers. As we fully invest Fund III, we are also starting to think about launching Fund IV, which shows how established Gulf Capital has become in a young region, investing through the cycles and preparing to launch our next fund in the middle of next year.

My view is that 2020 was a year when new investments were put on pause, so we got busy in the interim time growing our portfolio companies and accelerating their growth plans. It was a time to focus on adding value before looking at potential exits next year.

But exit transactions did happen; for instance, at the height of the pandemic, we sold 100 percent of Metamed, the largest radiology platform in the Middle East, to Ray Lab, a consortium made up of a private equity firm, a strategic buyer and four development finance institutions in what was a very complex cross-border transaction. Healthcare is a resilient and defensive sector, and more and more money is flowing into that market. This successful exit showed that good businesses in resilient sectors could still be sold the height of the pandemic.

We see very little competition in the Gulf region at the moment, with the market just not as crowded as it is in the US and Europe. Often, we find we are the sole bidder, so pricing is sensible given the lack of price tension and competition. We are buying today controlling stakes in market leaders in fast-growing sectors at very appealing multiples, often at a deep discount to our Western counterparts.

As the largest private equity firm focused on the Middle East, we write cheques of $50 million to $100 million and are able to acquire really exciting companies. These transactions are too small for global private equity funds to look at. However, we welcome the arrival of these private equity giants because they provide an additional exit route for us. We typically double or triple the size of the companies we invest in and then hope to sell them to global financial sponsors, strategics, or exit via an IPO.

Where we do see the market getting more crowded is in the venture space and in the $200 million-plus space. We are focused on the mid-market space which is not crowded and where we are finding deep value. We are very focused on acquiring strategic stakes in our priority, high growth sectors: Technology and payments, healthcare, business services and the consumer sector. These sectors have a very promising future across the growth markets where we operate and invest in. ■