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2022 Lumina *Cross-Border* Insights

A record year predicted for Middle East to UK deals

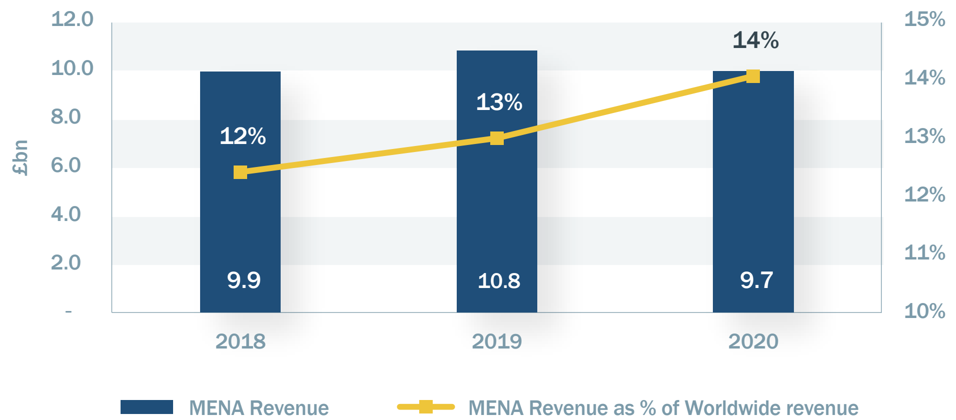
UK-to-Middle East and North Africa (MENA) cross-border trade and deal activity grew to record levels between 2018-2020, fueled by Brexit, revenue diversification opportunities and the spotlight on MENA non-oil sectors.

In this deal insights paper Lumina Capital Advisers assesses the latest data and transactions and concludes on why 2022 will be a bumper year for cross-border M&A.

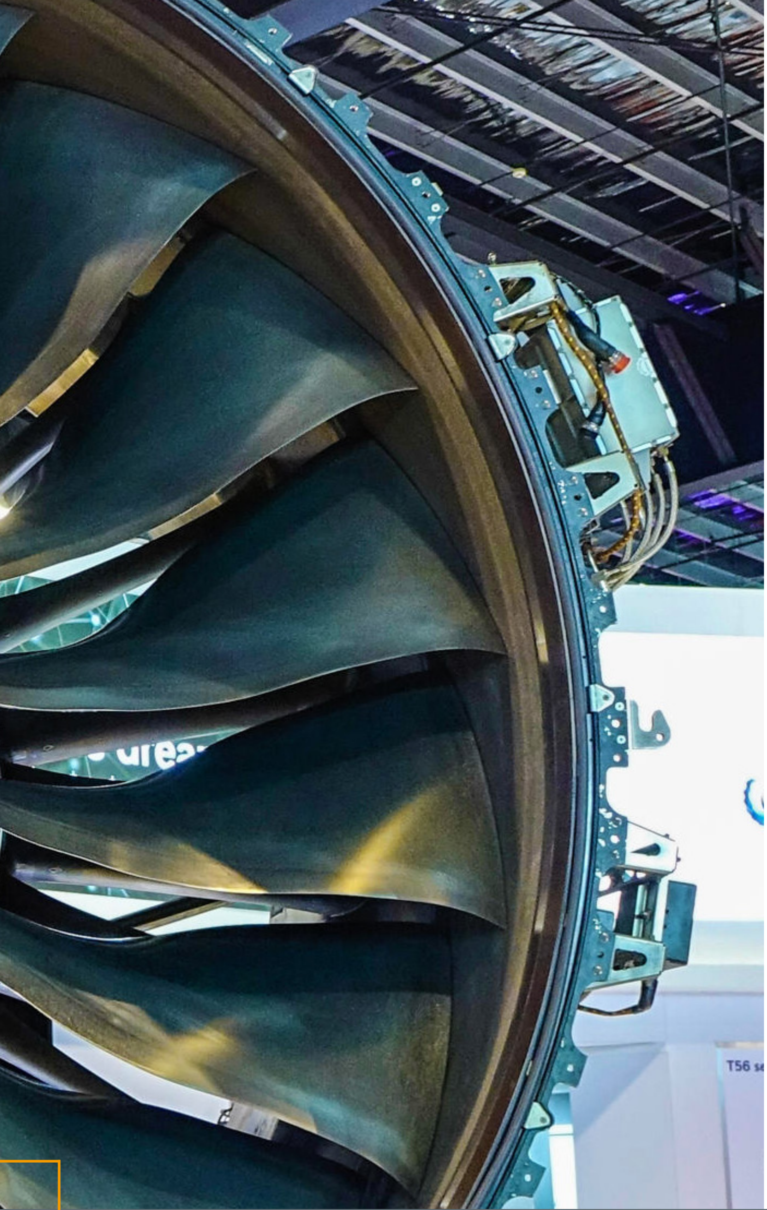
1

UK businesses, seeking Brexit fueled global geographic growth, are expanding operations across the Middle East. **14% of FTSE listed companies' revenue** was generated from the MENA region in 2020, **compared with 12% in 2018.**

FTSE listed MENA Revenue



Source: Bloomberg



- Pre-covid, in 2019, 7 of the top 10 FTSE 250 companies with MENA revenues demonstrated YoY regional revenue growth, the highest number for 5 years.
- While COVID saw a slowdown in overall growth in 2020, as a percentage the MENA region actually increased in importance – contributing 14% to overall MENA sales for FTSE listed companies with operations in the region, compared to 13% the year before.
- This came about as companies chose to maintain their presence in the region, despite the pandemic, with the view of capitalizing on the opportunity in the aftermath of COVID-19.
- Critical though, in line with the MENA region's effort to diversify away from oil and gas-based revenues and buoyed by the recent announcement of negotiations for a GCC - UK Free Trade Agreement, was a shift in the mix of revenues generated during this period away from fossil fuels to be focused on more sustainable, longer-term sources of growth.

Double digit MENA YoY growth was seen at top UK listed companies in:

Engineering	Retail	Infrastructure	Pharmaceuticals	Aerospace
67%	22%	16%	15%	13%

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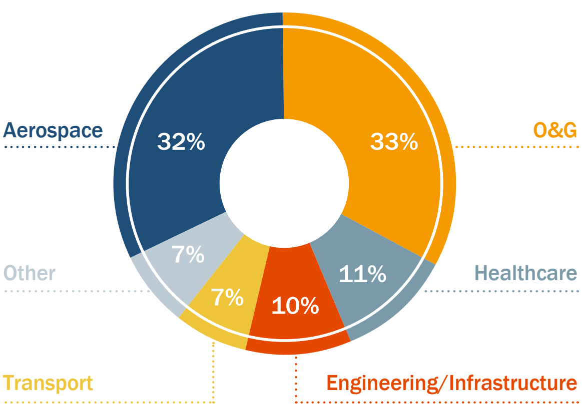
In 2022 this trend will continue, and, along with the oil price, we expect the percentage share of MENA revenues generated from FTSE listed companies to rise to beyond 15% by year end. That additional 1% could contribute an additional GBP769m revenue.

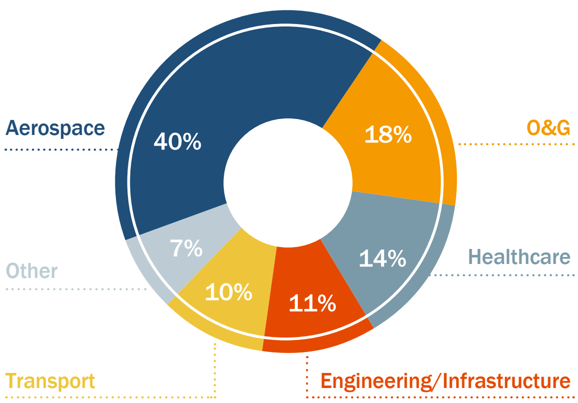
2

MENA revenue generated by FTSE listed companies is increasingly coming from **non-oil sectors**, with aerospace, healthcare and infrastructure on the rise. We also expect to see travel and tourism grow at rapid rates in the wake of COVID.

2018 FTSE MENA Revenue by Sector



2020 FTSE MENA Revenue by Sector



FTSE listed MENA companies in the Oil & Gas sector contributed 18% of the total revenue generated in 2020 compared with 33% in 2018. While some of this reduction is linked to lower oil prices, it also reflects the wide range of regional Government initiatives to launch, develop and grow income from non-oil and gas sectors. Key growth sectors are:

Aerospace

Aerospace revenue which grew from GBP3.2bn in 2018 to GBP3.9bn in 2020 with the contribution increasing from 32% to 40%. Key companies in the aerospace sector increased their revenues by GBP667m between 2018 and 2020 while at the same time seeing their MENA revenue as a percentage of worldwide revenue increasing from 19% to 20%.

Healthcare

Healthcare revenue from the MENA region contributed an additional 3% of worldwide revenue between 2018 and 2020 from 11% to 14%. Companies in this sector were particular bright spots in respect of 2020 growth whereby Mediclinic and Hikma Pharmaceuticals saw 7% and 11% YoY growth respectively between 2018 and 2020.

Infrastructure

Infrastructure grew through the large projects being set up in the region with the likes of Expo2020, Saudi Arabia's multiple railway projects and the GCC's push towards renewables benefiting the industry. Lamprell specifically saw their revenue increase by 50% between 2018 and 2020 with a number of renewable projects including a Solar Turbine project in the UAE contributing to this growth.

NEOM نيوم

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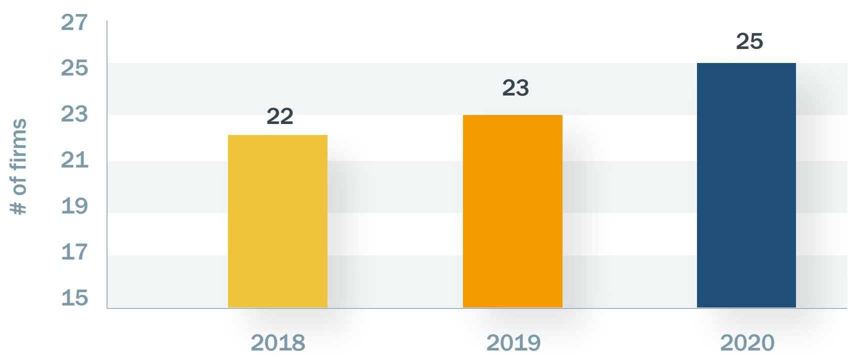
In 2022 we only see these sectors increasing as the region continues to move away from oil dependency. Specific sectors for high growth include infrastructure through an increased focus on renewable infrastructure and giga projects such as NEOM, as well as travel and tourism which is expected to rebound significantly after COVID as the GCC looks to capitalize on this sector with Expo2020 and advancements in sport and music events including the three races on the F1 circuit.

3

While UK companies already established in the region are growing their operations, we also see new companies eyeing up the MENA opportunity expanding to the region for the first time.

FTSE listed companies generating revenue in MENA



The number of FTSE listed companies with operations in the MENA increased from 22 to 25 between 2018 and 2020. Why?

- **Ability to diversify revenues in a relatively higher growth market**

  Countries in the MENA region are looking to build up sectors outside of oil giving established UK companies an opportunity to move to the region as first to market players with established products and services. An example of this is National Express who have taken up Railway operations in Bahrain generating GBP150m revenue from this in 2 years alone. Opportunities in this sector are only looking to grow with the UAE establishing a rail line between Dubai and Abu Dhabi as well as Saudi Arabia setting up a countrywide railway system.

- **Business environments with increasingly stable regulatory and governance systems**

  In data published by the World Bank, GCC countries saw significant improvements in their 'Ease of doing business' ranking between 2019 and 2020 with Saudi Arabia specifically being noted as one of the Top 10 improvers in the World. The UAE and UK already sit in the top 20 at 16th and 8th respectively. Foreign ownership law changes in the UAE and KSA as well as UAE investment visas continue to add to the appealing nature of the region.

- **Sustainability and ESG continues to be a focus**

  The region is looking to import renewable and sustainability technology and infrastructure in light of their COP26 commitments of reaching net zero by 2050 and 2060 for the UAE and KSA respectively, as well as their desire to move away from oil dependence. This is evidenced by Lamprell receiving the Middle East's first green trade finance facility for its third wind farm jacket project in 2021.

- **Private companies are also paving the way into the region identifying exciting new niches in Tech, F&B and Entertainment**

  Innovative private companies are eyeing the region for expansion as GCC countries are publicly calling on talent come to region. Tech companies such AirZones set up in the region during the pandemic which offers innovative solutions on air quality. This expansion can be clearly seen where there was like-for-like annual growth of 60% of UK businesses setting up in the UAE in Q1 2021 as this push into the region grows after the pandemic. *(Source: Pro Partner Group in Dubai)*

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It is therefore clear that the GCC nations are striving to encourage businesses to the region and statistics such as this will give companies increasing confidence to expand operations to the GCC.

4

2022 cross-border deal activity **is already underpinned by the GCC's push for bilateral trade** with a number of significant investments into the UK already taking place.

£10bn

Mubadala's investment commitment into UK clean energy, infrastructure, technology and life sciences.

£1bn

Investment by SABIC into a Teeside Plant with the aim of making the site "one of the world's lowest carbon-emitting crackers".

£300m

PIF's acquisition of a majority 80% in Newcastle United Football Club.

3rd

The GCC is the UK's 3rd largest trading partner as a block with the UAE specifically being the UK's fourth largest export market outside the EU, and Britain's key trading partner in the region, making up 40 percent of GCC-UK trade.

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While there are multiple examples of capital flowing from the UK into the GCC, capital is also moving back the other way, with a number of high-profile investments being announced in recent months. The Mubadala commitment and Teeside investment provides another example of the GCC's push into ESG investments while the investment in Newcastle Football Club is seen as an opportunity to both raise the profile of the region and bring ties closer with the UK.

Lumina predictions

Themes that will drive 2022 deal and trade activity:

- **Trade deal creating tailwinds**

  The announcement on 8th October 2021 by the UK Government that they were entering into free trade negotiations with the GCC to deliver a trade pact with the region will be significant in driving further M&A activity. The reduction in trade barriers and establishment of a more secure regulatory environment will encourage UK firms to the region as the GCC looks to imports skills not currently available to them. This is also on the back of Brexit where this is a key move for the UK as they seek to highlight and maintain their position as a world player while taking advantage of their ability to form their own trade agreements.

- **Increased revenue diversification activities – bringing skills and technologies back into the region**

  There is a significant push in a number of key sectors as GCC countries look to diversify away from oil and attempt to become key players in certain markets. GCC countries are maintaining their desire to be players in the energy market and hence are making significant ESG investments in other geographies with the hope of bringing these innovations back to the region. We are also seeing strong growth in the tech sector where the GCC has a young, tech-savvy population they are looking to utilize as the world continues to innovate through technology. Notable moves to push this by GCC countries include the establishment of a number of Fintech regulatory sandboxes in the region (e.g. DIFC Fintech Hive) as well as a number of tech-specific government investment funds. Lumina has witnessed this first having advised on a deal to bring ecommerce platform Amara to the region with KSA operations now being one of their highest growth markets.

Ongoing JV and corporate restructurings

We also believe there will be a significant shift in partnerships that already exist in the region with UK companies reassessing existing Middle East JVs, and whether they are fit for purpose today given many were set up decades ago. Dividend policies, governance structures, minority protection rights, appropriate treatment of technical services costs (particularly in engineering firms) are all key focus areas, and with increased activity between the regions, many international firms will want to ensure their existing contractual arrangements are fit for purpose.

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As the Governments of the UK and GCC both continue to illustrate their confidence and ambition to grow ties with one another, we see the private sector moving in line and subsequently expect huge levels of activity between the two economies.

Contributors

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Partner, Dubai

Andrew leads on Lumina's private equity, family office and global corporate transactions. He combines buyside direct investing with lead-advisory experience, with a 20 year background in cross-border M&A, private equity and capital raising mandates. Andrew has previously worked with the UK government (UKTI, now part of DIT), as a special advisor, facilitating GCC investments into the UK.

Alex Hollands
Senior Associate

Alex has experience on more than 30 M&A transactions across Europe and the Middle East. He works alongside our Partners to deliver our range of M&A advisory and funding solutions services, acting for business owners, management teams and corporates.

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George is responsible for delivering on Lumina's global expansion and overall client delivery. He is a senior banker, finance professional and entrepreneur who has enjoyed a global career as a Managing Director, a CEO and a Partner at multinational investment banks, global advisory firms and regional financial institutions.

Fikry Younis
Partner, Riyadh

Fikry is spearheading Lumina's expansion in Saudi Arabia. He advises family offices and institutional investors on cross-border M&A and capital raising. He has previously worked in senior advisory roles with multiple government agencies in Saudi Arabia, where he most recently served as an Advisor at the Ministry of Investment.

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Lumina Capital Advisers Limited ("Lumina") focuses on matching capital and transactions between the Middle East and the UK. With offices in London, Dubai and Riyadh, Lumina's team of experienced dealmakers brings senior level international expertise to family conglomerates and private equity clients from the region, the UK or around the world.

With over 100 years of collective experience, the team at Lumina has advised on more than 100 M&A, financing and restructuring transactions across the globe. They have consistently delivered unconflicted, dynamic and international standards of deal execution with long-standing counterparty relationships. Lumina is regulated by DFSA.