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Middle East and North Africa highlights
Global Capital Confidence Barometer

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With transformation already underway pre-crisis, MENA executives expect M&A to help them accelerate change.

80%

of MENA respondents say their company was undertaking a significant business and technology transformation pre-crisis.

92%

of MENA respondents say they are re-evaluating or taking steps to change their global supply chain.

A note from Matthew Benson, EY MENA Transaction Advisory Services Leader

MENA executives strengthening resilience through M&A and digitalization

The pandemic event that placed hundreds of millions of people around the world in lockdown and significantly impacted the global economy arrived later in Middle East and North Africa (MENA) countries. As a result, we are seeing a slower reaction in the results of the latest EY *Global Capital Confidence Barometer*.

In the survey responses of MENA executives, gathered between 5 February and 26 March, we find uncertainty and caution, but also some cautious optimism, even as they face the double whammy of low oil prices and a pandemic. For example, although three-quarters (77%) of respondents say that they expect COVID-19 to have a severe impact on the global economy, only one-quarter (25%) think it will have a significant effect on the local economy.

One of the reasons MENA countries initially may have felt financially insulated from the pandemic is that many companies in the region are well-capitalized and therefore believe they can operate longer before feeling the financial pinch. That said, at the time of our survey, few could have predicted the depth, breadth or duration of the impact.

With transformation plans underway pre-crisis, MENA companies are well-positioned for recovery

The good news for the MENA region is that companies had already been moving in the direction of building a low-touch economy pre-crisis – 80% of MENA executives say their company is undergoing a significant business or technology transformation to meet profitability goals, expand into adjacent markets and attract new customers. In response to the pandemic, 67% and 73% of MENA executives, respectively, are re-evaluating or taking steps to change their digital transformation and speed of automation initiatives.

For an import-driven region, supply chain reinvention is essential

Even more businesses – 92% – are considering or making changes to their global supply chain. MENA economies rely on imports not only for discretionary goods, but also for day-to-day essentials, making them vulnerable to supply chain uncertainties.

Given the significant disruption to global supply chains during this crisis, Gulf Cooperation Council (GCC) governments are considering a range of options to create an environment where local industries can flourish. These may include anything from building local or regional supply chains to creating digitally networked supply chains that are data-driven and can react to events and make changes in real time. GCC governments are also using policy interventions to support the growth of the local industry.

Activity may have slowed in the short term, but M&A appetite remains healthy

Total deal volume in the first quarter of 2020 in MENA was 109 deals, which was slightly lower than the 115 deals in the first quarter of 2019. However, it is noteworthy that unlike prior years, much of the acquisition capital was deployed in MENA.

In the immediate term, MENA executives expect a slowdown in conventional M&A activity as companies focus on shoring up liquidity, cost efficiencies and, when needed, raising equity.

54%

of MENA respondents say they plan to actively pursue M&A in the next 12 months.

However, the pandemic and lower oil prices are expected to accelerate consolidation across sectors and sales of non-core businesses held by merchant families. More than half (54%) of MENA executives say they plan to actively pursue M&A in the next 12 months, only slightly lower than six months ago.

We expect MENA executives will apply different strategies to respond to, and in some cases capitalize on, the changing economic environment. Some MENA companies will use M&A to strengthen their resilience and position for recovery through bolt-on acquisitions (45%) and transformative deals (30%) that could fundamentally reshape their business. Others that are less well-capitalized may find themselves forced to raise capital though divestments, either through full-enterprise sales processes or the sale of minority stakes.

Preparing for the opportunities ahead will be key to success in a new normal

Although we are seeing a range of reactions among executives from complete denial to panic to proactive preparation to seize the opportunities ahead, MENA governments are taking mature and prudent steps to safeguard their people. One of their more high-profile decisions was to delay Expo 2020 until 2021.

At the same time, governments continue to bet on their long-term strategies, such as the Kingdom of Saudi Arabia's decision to move forward on its US$500b investment in megacity Neom, which borders the Red Sea. Efforts to build health care infrastructure in the region are also ongoing.

No one can predict when or how the global economy will move from triage and recovery to resurgence. We expect that MENA companies that focus on accelerating digital transformation and e-commerce, supply chain reinvention and industry consolidation will, however, emerge stronger than those that are waiting to see how it will all play out.

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