

Mid-market deals remain strong despite precarious financial situation

Sarmad Khan

DUBAI // Mid-market mergers and acquisitions (M&A) activity has remained strong in the Middle East despite a global economic slowdown and concerns over a liquidity squeeze. For the first nine months of this year, 49 mid-market deals worth US\$4.6 billion (Dh16.89bn) took place, a rise of 4.3 per cent compared with the same period of last year.

This year's mid-market M&A activity – which includes deals valued between \$30 million and \$300m – has already outstripped the volume of transactions witnessed in both 2005 and 2006, a survey of private equity professionals and corporate executives has shown.

In total, 66 per cent of respondents in *Cross-Border M&A Report*, released yesterday at the Global M&A conference in Dubai, singled out the UAE as the most attractive market for both foreign and domestic buyers, while 49 per cent agreed that Dubai would be the next hub of M&A activity.

"We expect to see continued growth in M&A activity in the region and, as the dust settles, Dubai will emerge as the main destination for foreign capital," said Faisal

H Alsayrafi, the president and chief executive of Financial Transaction House, a Saudi-based M&A advisory services firm.

"Energy, real estate and associated industries, construction, finance and industrial sectors will see the bulk of M&A transactions," he said, adding that the liberalisation of policies and relatively better availability of liquidity within the region would drive the upsurge.

"Businesses in need of ready cash would fold and there will be consolidation in largely fragmented sectors," he said. "That is the time when the activity will increase and we believe it will happen within the next two years." He predicted that the growth witnessed in the first three quarters of this year would continue next year despite a worsening credit situation. "There is more stress now on quality rather than quantity. Of course, due diligence will have a larger role to play in every deal," he added.

So far the financial services sector in the Middle East has seen the greatest number of deals this year. The energy, mining and utilities sector, which has accounted for only 4 per cent of deal volume so far this year, was named by 38 per cent of respondents as likely to witness the most inbound cross-border

deal flow in the next six months. According to the survey, conducted by independent financial advisory firm Global M&A, 63 per cent of respondents named access to capital by domestic acquirers as the main driver of M&A activity. About 37 per cent believe foreign capital will drive the market, while 32 per cent said sovereign wealth funds would be additional drivers of mid-size mergers and acquisitions.

Most world economies are struggling during a global financial crisis which has stripped trillions of dollars from banking assets and stock valuations.

With the exception of the GCC, where economies have been more protected due to record high oil revenues, global M&A activity has declined. The volume of mid-market deals in Europe fell 39 per cent in the third quarter of this year compared with the same period a year ago, and decreased 30 per cent in North America from a year ago.

In terms of valuations, Europe saw \$58bn worth of deals in the first three quarters of this year compared with \$64bn last year, while North America saw \$22bn, compared with \$29bn in the first three quarters of last year.

✉ skhan@thenational.ae