Technology in the GCC
Leading the way and driving value
Within the last five years, the technology marketplace in the GCC, and the UAE in particular, has grown and evolved from a highly fragmented market of resellers, consulting and systems integration service firms, to an ecosystem of product, service and solution providers offering artificial intelligence, data analytics and smart solutions, to name a few.

The GCC economies are expected to lead the Middle East and North Africa (MENA) region’s economic growth in 2018 and 2019 through large-scale infrastructure investment—such as the Expo 2020 in the UAE and Al Qiddiya, Red Sea and Neom projects in Saudi Arabia—and other reforms designed to promote non-oil sector activity. The GCC region’s economic growth is forecast to increase 2 percent in 2018 from 0.7 percent in the previous year, as per the World Bank. As the GCC economic recovery builds momentum in 2018, mergers and acquisitions (M&A) activity in the region is also expected to increase. And if there is one industry that could spur growth in the number of M&A deals in the region, it is technology.

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According to research company Mergermarket, there have been approximately 40 technology-related transactions in the Middle East region between 2015 to 2017 with software, internet service providers, telecommunication services and online commerce platforms being the main acquisition targets. There appears to be common themes developing as to the nature of the target businesses and those that drive value. We have set out four of these themes below.

**Strong customer service and consulting capabilities**

In a sector that is fiercely competitive, building strong customer relationships is of paramount importance. Successful technology companies place customer service and support central to everything they do, guiding them through an ever increasingly complex technology environment, helping them derive the most value from their IT investments. In adopting a service-oriented approach, they are able to change the dynamics of their relationship from supplier to trusted advisor, helping them to build the basis of a long-term relationship and a more sustainable and robust business model going forward.

Technology companies realize that offering advisory services effectively can help forge strong client connections based on strategic advice rather than a transactional relationship, though it requires a different operating model and organizational capabilities than a product or delivery-focused business that many companies have found time-consuming and challenging to implement.

**Industry- or function-oriented solutions in markets where there is proven demand**

Hardware and common IT services are becoming increasingly commoditized. Investors are increasingly looking for firms with a strong value proposition in the form of a strategic product or solution that meets the specific niche requirements of an industry or sector.

Being positioned in the market as a generalist or low-value reseller is
Companies that focus on building customized solutions, leveraging industry best practices and mature technology platforms, but suited to the requirements of the Gulf client base, could see revenue growth and an increase in enterprise value.

In certain instances, a prospective acquirer may make a strategic investment for the purpose of:
• Acquiring a specific technology or set of capabilities;
• Leveraging the target’s customer base to upsell/cross-sell their products; or
• Injecting new talent into the organization as part of a broader transformational or repositioning exercise.

For the most part, organizations grow through evolution rather than revolution, the former being easier and more likely to lead to growth.

A focus on depth of vendor relationships over breadth
Today, being a generalist product or service provider is harder to sustain. Technology companies that choose to work with third-party vendors are likely valued by strategic acquirers based on the depth of their vendor relationships and knowledge of their products and
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The next wave of M&A growth

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Given the rapid pace of technology change, three questions for prospective acquirers are likely to be:
1. How will this acquisition add value in an environment where digital disruption continually changes market dynamics?
2. Does this acquisition complement our existing business(es)?
3. Is this a strategic long-term investment, a short-term tactical move or merely a distraction?

Measuring value in technology transactions

The traditional way of measuring value is to assess the impact on cash flows for customer service and consulting capabilities, market niche, solution strength, complementary service offerings and vendor relationships. Each should translate into cash flows if they have any merit.

This approach may be applicable to a relatively mature technology business but may not be suited for businesses with a pipeline of software solutions that have yet to be market-tested and not revenue-generating. Any cash flow-based valuation would require robust financial forecasts which, given the nature of some solutions, will contain subjective inputs. It has been reported that financial forecasts in technology tend to exhibit a high bias (i.e. optimism) perhaps due to the rapid pace of development in the sector.1

From an appraiser's point of view, it becomes very important to objectively understand the subject business and each of the products/technology solutions in the portfolio. This would include the following:
• What is being sold? Is it hardware consisting of installation and after-sales support or a comprehensive bespoke solution that generates competitive advantage?
• Is it a transactional or relationship-based business?

One approach to help ascertain the value of such a business is the development of an evaluation scorecard with the objective to assess the strengths of their product and service portfolio. The key focus areas may include the following:
• Product/service demand drivers.
• Market potential (size, growth rate and degree of competition).
• Product/service alignment with firm strategic objectives.
• Product status (applicable for early-stage software solutions).
• Strengths and relevance of technologies used.
• Experience of product management teams.
Technology companies that focus on one or more of the strategic drivers discussed could secure higher enterprise valuations and succeed in the increasingly competitive IT services and solutions market in the GCC.

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Endnotes
2. Special considerations may be required from case to case for overhead and head office management costs.