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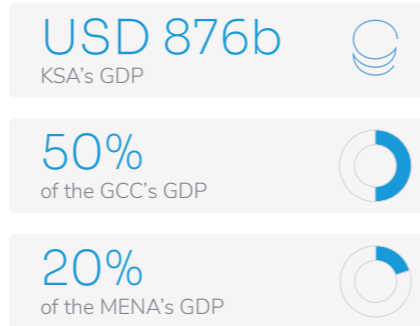


Structural Reforms and Growth: A Kingdom of Opportunities

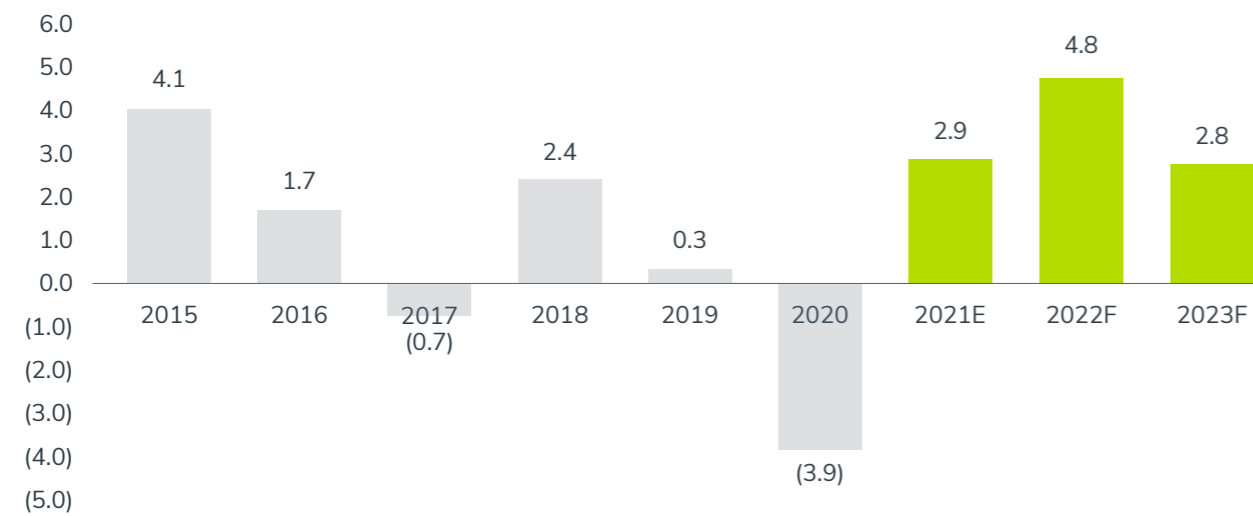
August 2022

KSA Economic Outlook

Saudi Arabia (KSA) has demonstrated its commitment to structural reform and economic progress in the five years since the announcement of Vision 2030. KSA's GDP now stands at USD 876 billion¹, accounting for 50% of the GCC's GDP, and 20% of the MENA region. Economic growth has recovered in the year following the pandemic. Real GDP growth in 2021 was estimated at 2.9%, following a decrease of 3.9% in 2020. Growth forecast for 2022 and 2023 are strong at 4.8% and 2.8% respectively. Growth in the economy is expected to be driven by increased government expenditure, under Vision 2030 programs, on major capital projects.



Real GDP Growth Rate (%)

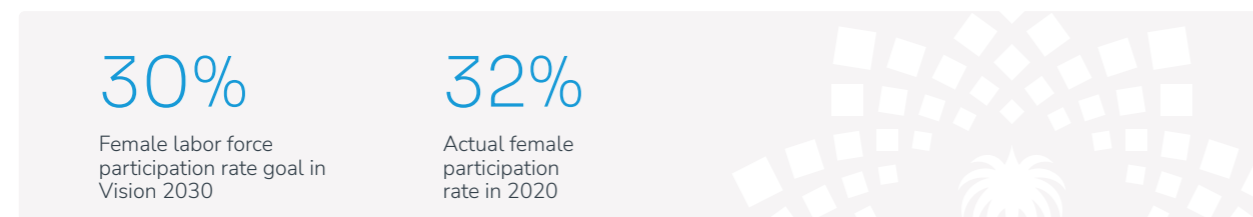


Source: IMF

Oil prices have increased further in 2022 because of the current geopolitical crisis. Having caused fiscal pressure by dropping to USD 41/barrel in 2020, OPEC Basket prices have since increased to USD 70/barrel in 2021 and have breached the USD 100/barrel mark in 2022. Increase in oil prices will ease KSA's budget deficit as it continues its progress towards diversifying away from hydrocarbon dependency.

Saudi Arabia's growing population continues to build the potential for a "demographic dividend" over the next several generations. About 400,000 Saudi men and women newly joined the private sector labor market in 2021, according to the Minister of Human Resources and Social Development, Mohammed Al-Rajhi. With approximately a third of the population below 20 years of age, this could mean more than half a million new entrants to the work force annually for the coming 2 decades.

The labor market has been further bolstered by the rapid rise in female participation. Labor force participation rate among Saudi females rose to 32% in 2020, from 22% in 2016², surpassing the Vision 2030 goal of 30%.



¹ IMF Website, Saudi Arabia Datasets

² World Bank Database



Fundamental Macroeconomic trends

Government led initiatives have created multiple tail wind macroeconomic trends that support economic growth in the medium to long-run. The key macroeconomic trends are economic diversification, increased local consumption through retail and e-commerce, and government spending on transportation and infrastructure.

Economic diversification

Diversifying revenue away from oil has been a government focus for the last five years. Non-oil revenue grew at a CAGR of 12% between 2016-2020, reaching USD 86 billion. Growing non-oil revenue provides stability to the fiscal budget and builds consistent growth, allowing for more sustainable growth in future governmental capital expenditure.

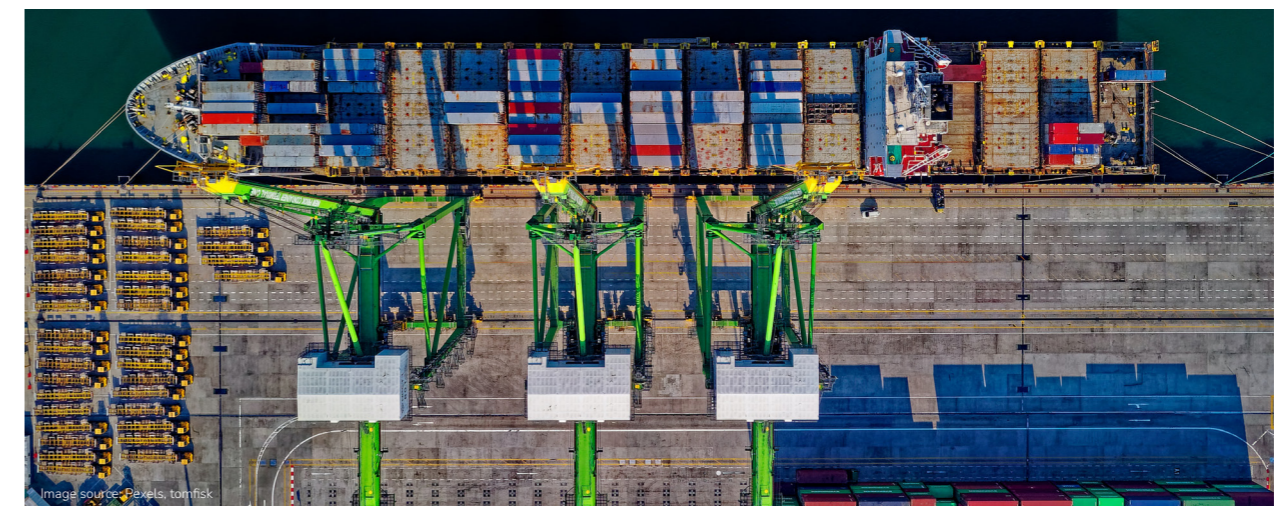
Increase in consumption

Growth in the labor participation in both gender and age demographic is improving consumer purchasing power. Additionally, social structural reforms that have boosted the retail and entertainment industry in Saudi Arabia, have created a domestic venue for consumer expenditure. The Saudi cinema industry has been a beneficiary of

the increase in consumer spending and has continued its strong growth in 2021, with revenues touching USD 238 million, almost doubling on 2020 revenues of USD 122 million, according to data from Comscore. Consumer spending on e-commerce has also seen a significant growth in the last three years. Accelerated by the pandemic in 2020, e-commerce spending went from making up 1% of total spending in 2019 to 7% in 2021.

Government expenditure on infrastructure and transportation

Saudi Arabia's expenditure on infrastructure and transportation has averaged USD 15 billion over the past 5 years, an increase of 80% compared to 2016 levels. In line with the Vision 2030 plan, this shows KSA's commitment to invest in the infrastructure required to support economic growth and diversification. Saudi Arabia plans to more than triple the size of its rail network with 8,000 km of new track. There are currently about 3,650 km of track on the Saudi rail network.³ The government has announced a USD 1 trillion dollar pipeline of infrastructure projects aimed at diversifying the economy beyond oil and positioning the kingdom as a global hub for investment and logistics.



³ Arab News, 13 January 2022.

Evolving Investment Landscape

As the socioeconomic framework of Saudi Arabia evolves, we see investment opportunities across multiple sectors.







Logistics

There are strong opportunities in the logistics market in Saudi Arabia. KSA is the largest country in the MENA region, with multiple urban centers and a sizeable population of 35 million⁴ of which around 83% is urban. KSA has the market potential to grow both its domestic and international logistics presence. Vision 2030 addresses the logistics sector through several initiatives, notably the National Industrial Development and Logistics Program (NIDLP).

The NIDLP aims to grow exports to approximately USD 270 billion and generate USD 43 billion of GDP through the logistics sector by 2030. The program intends to achieve these targets by leveraging Saudi Arabia's unique geographical positioning at the crossroads of international trading routes, allowing it to drive export growth and develop domestic sectors such as manufacturing, renewable energy, fishing, mining, pharmaceuticals, and food and consumables. The NIDLP's main goal is to: (i) transform Saudi Arabia into a leading industrial powerhouse and a global logistics hub and drive significant growth in key sectors such as mining, industry, energy, and logistics; (ii) improve Saudi Arabia's trade balances; and (iii) generate major job opportunities for citizens.

Additionally, the government has several goals linked to the logistics industry in its broader Vision 2030 plan.

Vision 2030 Main Initiatives within the Logistics Sector

Objectives	Impact
 Increase the share of non-oil exports in non-oil GDP from 16% to 50%	 Impact on industries supporting logistics / industrial sectors and making up industrial demand
 Elevate KSA's position to be one of the top 10 countries in the Global Competitiveness Index	 Ability to bolster competitiveness will enhance positioning in the global logistics sector and attract FDI
 Top 15 largest world economies	 Growth of industrial sector key in achieving economic growth

Apart from government led initiatives, the increased penetration of e-commerce is driving significant incremental demand for industrial logistics and warehousing services. The expected growth in the logistics sector provides compelling investment opportunities across both the real estate and private equity sectors. Currently, market growth is driven by local e-commerce, retail and food storage tenants. Global tenants, such as Amazon, represent a small portion of the market.

Saudi Arabia has the potential to becoming the regional logistics hub, however, for the short to medium term, we expect growth in logistics to be more focused towards the domestic market as there is room for development in terms of quality and positioning of logistics and warehousing assets within KSA.

Venture Capital support for Fintech and Digital content

An attractive area offering solid opportunities for growth is the venture capital (VC) industry. VC activity in Saudi Arabia hit an all-time high of USD 548 million in 2021, recording a surge of 270% over 2020. As a result, Saudi

Arabia overtook Egypt to rank second by funding in 2021. This amount was raised across 139 venture capital deals, which rose by 54%⁵. The exponential growth of the VC industry in the Kingdom from under 10 VCs in 2015 to over 30 can be attributed, in large part, to the Saudi ecosystem. This growth has materialized on the back of a rise in both Saudi startups and acceleration of funding rounds in terms of speed and size.

The VC industry is also essential in supporting the growth of the Saudi fintech industry. The first half of 2021 has seen investments with over USD 150 million invested into 11 fintech deals. Such investments are taking place at different stages with pre-seed and seed VC investments giving early stage fintech companies the bandwidth to prove their solutions, and Series A and above VC investments supporting more developed fintech companies to accelerate their growth. VC investment in fintech also has a strong multiplier effect as investment into areas such as equity crowdfunding and lending platforms enables these solutions to support startups and SMEs throughout Saudi Arabia.

Growth of M&A activity is expected to continue in Saudi Arabia this year on the back of a 30% growth in 2021,

⁴ General Authority for Statistics.

⁵ Venture Capital Report 2021, Saudi Arabia, Magnitt.

according to Sovereign AEI. According to a new report, there has been significant inbound activity in Saudi Arabia's green energy sector, as well as manufacturing and technology, with the Kingdom becoming one of the most attractive markets for companies looking to expand through M&A.⁶ New ideas with growth potential are continuously emerging in a supportive ecosystem, one of which is electronic gaming.

Revenue from electronic gaming in Saudi Arabia is projected to reach USD 6.8 billion by 2030 if current growth trajectories continue, according to a report from Boston Consulting Group (BCG)⁷. There are 23.5 million

gaming enthusiasts in the Kingdom, which accounts for 67% of its national population, while 21.1 million have already played esports titles on a semi-pro or amateur basis, with around 100 playing for their full-time careers, the report said. With the growth potential of Saudi Arabia's gaming and e-sports community, the report projects that the coming eight years will present an advantageous opportunity to ensure related benefits are fully capitalized upon in due course. With an attractive growth trajectory for the gaming sector, not surprisingly, Saudi Public Investment Fund recently announced the launch of Savvy Gaming Group that aims to be a leading player in the electronic games development sector on both local and international levels.



Mossad Aldossary wins the FIFA eWorld Cup Grand Final in London

Outsourcing of Business Services

Driven either by changes in regulation or cost-saving motivations, a growing trend in Saudi Arabia has been for businesses to outsource non-core services to third parties. Such services include data and document storage, IT services, third-party insurance administration and staff payroll to name a few. As an asset-light model, this sector offers investors with potential for double-digit returns.

Social Infrastructure

Another area that offers strong investment opportunities is social infrastructure, which includes healthcare and education. The healthcare sector in Saudi Arabia is poised for growth on the back of both a demographic shift and increased insurance coverage. While the Kingdom is a country with a young population, over the next decade, the country will see a structural shift in its population composition resulting in a significant increase in the population above the ages of 40 and 60. This is expected to drive demand for greater healthcare services. Also, government policies, such as the National Transformation Programme (NTP), including the requirement for health insurance for private sector employees and planned

coverage of public sector employees will increase the overall spend on healthcare.

The education sector has witnessed several government initiatives to support and grow the sector in line with market demands. These include efforts to expand the technical and vocational education sector, reduce public school funding and privatization of public universities. Returns within this sector are proven with significant capital competing for opportunities.

Conclusion

Saudi Arabia has shown great progress under the Vision 2030 plan, creating a positive outlook for investment. Positive macroeconomic trends are paving the way for continued, sustainable organic growth in the country. The investment landscape offers multiple opportunities within growing and established sectors of the economy. Growth in domestic expenditure and governmental capital expenditure provide a strong thesis for investment in sectors like logistics and social infrastructure. Other opportunities such as outsourced business services and technology are also promising sectors that are likely to grow as the industries develop.

⁶ "M&A growth will continue in Saudi Arabia in 2022", Sovereign AEI, Zawya, 25 January 2022

⁷ BCG, Gaming & Esports: Media's Next Paradigm Shift, Zawya, 25 January 2022

ARCAPITA

Overview

Arcapita is a premier asset manager offering diverse investment opportunities, focusing on private equity and real estate. At the center of one of the fastest growing wealth markets in the world, Arcapita’s management has been serving an exclusive group of investors in the GCC region over the past two decades. With offices in Bahrain, US, UK, Saudi Arabia, and Singapore. Arcapita’s management team has completed over 90 transactions with a total value of approximately \$30 billion and possesses a footprint to invest on a global scale. Arcapita focuses on defensive and counter-cyclical sectors supported by long-term macroeconomic and demographic trends.

With two decades of experience, Arcapita’s management has built a global investment platform to access the opportunities that exist in our core markets of the US, Europe, Middle East and Asia.



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