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Deloitte Middle East Family Office survey

The response and positioning to thrive

Foreword

Family Offices continue to be a driving force in the development and growth of the Middle East. The recent pandemic has dramatically changed the operating environment, creating major challenges and for some, unique opportunities across the entire family ecosystem: the family, the operating businesses and investments, and private wealth. In response to these changes, families had to quickly adapt business models and strategies to ensure continuity and provide a platform to thrive.

This survey provides insight from over 80 of the most prominent family groups across the Middle East, and explores how unprecedented external market forces have impacted the family ecosystem. Each of the respondents are based in the Middle East and operate across a range of industries and geographies, through their core divisions and separate investments.

Overall, the outlook from the community is largely one of optimism. 15% of respondents report having already returned to previous levels of business activity, with another 60% expecting a return to pre-crisis or near-normal levels of operations within 18 months. Of the respondents, 67% plan to invest within this period, in many respects within new industries and across the value chain. However, 71% of respondents expected their home country will rebound the quickest which is also likely to affect their investment decisions.

In terms of risk factors, declining oil prices, an evolving tax environment and ongoing liquidity issues ranked as the most prevalent. To prepare for this, many families have revisited and adjusted strategies. Work is still required in this space. Not surprisingly, cost reduction stands out as the highest priority with debt reduction and restructuring also ranking highly. We can see that defensive measures are balanced by offense plays and progressive planning. New markets and new products sit among the top three priorities, alongside a desire to address more longer term objectives through transformation exercises.

Families which held diverse portfolios and were well prepared in areas such as governance, and cash flow management seemed to be most resilient to the immediate impact of the pandemic. The focus on developing talent within families and preparing the Next Generation appears to have been effective with a total of 14% believing their Next Gen were ready to take the reigns now, with a further 50% deemed ready within the next five years.

This survey was conducted throughout September and October 2020 and reflects the respondents' sentiment at this time. We hope you enjoy reading this report and find it to be an insightful snapshot of how the Middle East Family Office community have navigated the crisis, their areas of focus and how they feel about the future. We would like to express our sincere gratitude to the families who took part in our survey for their valuable contributions.

Scott Whalan
Partner, Financial Advisory Family Office Leader
Deloitte Middle East

David Stark
Partner, Deloitte Private Leader
Deloitte Middle East

The Business and Economy

Optimism has emerged as a dominant theme despite the ongoing challenges. For 70% of the families, revenue has reduced by 10% or more over the past 12 months, with approximately half of these suffering decreases of more than 20%. Trading levels have returned to normal for 15% of the respondents, dominated by Saudi Arabia based families. A further 41% of families predict that they will return to previous trading levels within the next 12 months. Those families with diversified operations across multiple industries managed to mitigate the impact most effectively and are predicting a quicker recovery than those with more concentrated operations.

Resilience was explored at a country level. No country escaped the heavy toll from the pandemic although the responses highlight that the largest economies are deemed to be both the most impacted, yet also the most primed to recover.

Priorities have been reviewed by all families interviewed and were deemed either fit for purpose or have been addressed quickly. Liquidity and available cash reserves emerged as the elements most prepared, although for 54% of participants cost reduction remains the highest immediate priority, whilst 22% of respondents considered cash collection to be one of the top three risk areas over the next 12-18 months.

Conversely and perhaps unsurprisingly, group strategy stands out as the area needing immediate attention and change. Responses confirm that the medium term strategy has been revisited by 83% of families, with trends visible in the pursuit of leaner and more agile operations, non-performing assets under review and desire to access new growth industries. Technological improvements and the development of online presence remain key areas which require continued investment and attention.

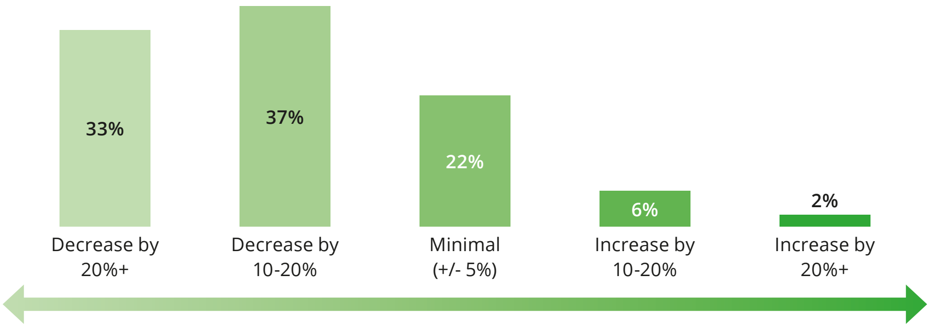
Deloitte insight: Whilst family businesses, in most part, have been quick to implement immediate steps to respond, further work remains. Liquidity, increasing taxes and macroeconomic structural factors remain key risks, each with longer term and permanent implications. M&A in the short term has largely been focused on opportunistic transactions, however does continue to be a priority over the medium term, especially within asset light sectors and consolidation across the value chain. Further, we continue to see transformation be a key focus area within prominent family groups, recognising the need to rationalise operations, reposition investment portfolios and align management to revised strategies to ensure the sustainability of the family ecosystem going forward.

Scott Whalan, Partner, Financial Advisory Family Office Leader, Deloitte Middle East

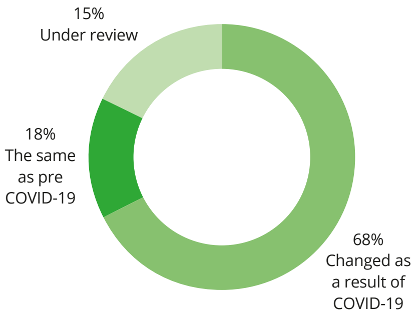
What are the top three economic risk areas which are the main concern for family businesses?

- **Oil Price** (55%)
- **Taxes** (23%)
- **Cash collection** (22%)

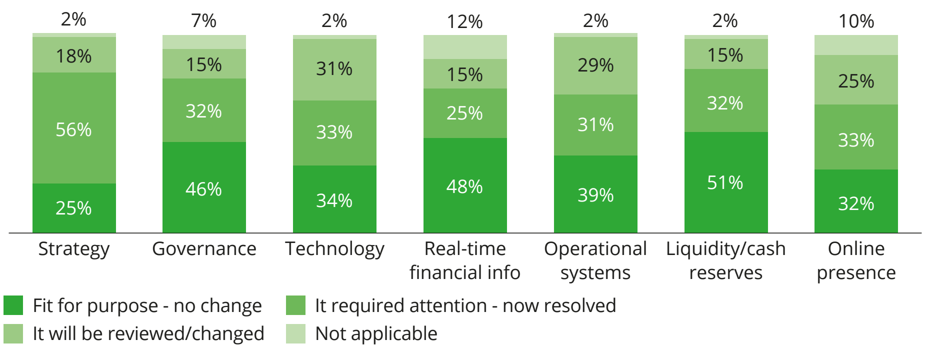
What is the estimated impact on family business revenue, as compared to the previous year?



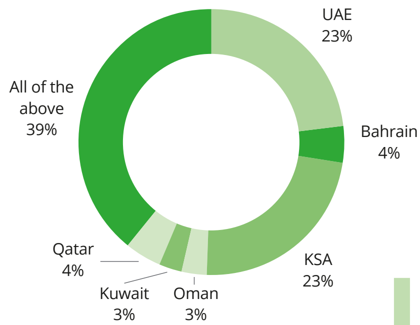
Has the family business medium term strategy been impacted by the pandemic?



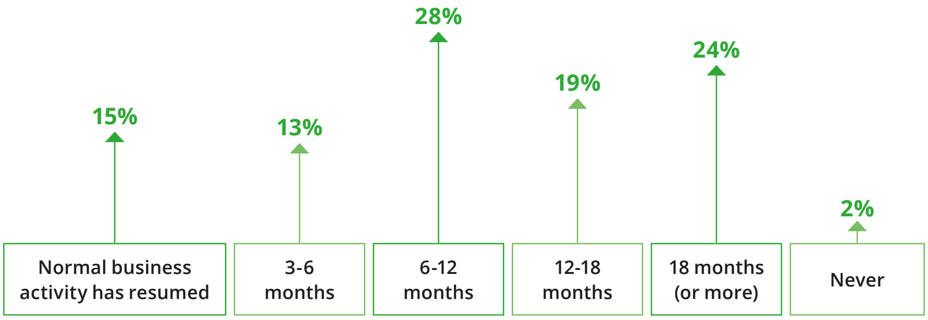
How ready was the family business for the crisis?



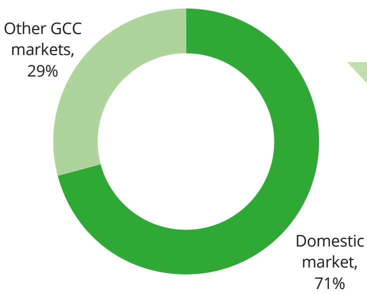
Which country has/will be most impacted by the pandemic?



When do you think business activity in your group will return to historical levels?



Which market will be the quickest to rebound?



What are the immediate priorities for the family business?

High priorities

- Cost reduction
- New products/new markets
- Debt reduction / restructuring
- Transformation

Low priorities

- IPO
- Asset disposal
- Expansion (M&A)

Note: Percentages may not total to 100 due to rounding.

The Family

Succession is the top priority for family governance with almost half of all respondents selecting this as one of their top three areas of focus. Further priorities include the setting of common values amongst family members, establishment of family councils and involvement of non-family members within the group corporate structure.

Sustainability is paramount for regional families, in particular the perceived willingness and ability to transition leadership. The results demonstrate that 14% of respondents consider their Next Generation are able to lead immediately, with the proportion deemed ready within the next five years standing at 64%. At nearly two thirds collectively this reflects a community that have been heavily invested in by their respective families. Readiness however does not guarantee handover and the transition of authority and responsibility from one generation to the next will be a pivotal theme for regional families in the years to come.

Readiness of individuals does not reflect readiness of the entity. This is particularly evident when we see that only 42% of families reported having a constitution. Of that total, 44% of the constitutions in place were created more than five years ago.

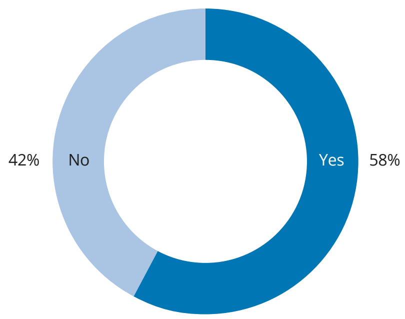
A minority of 41% felt their legal framework was fit for purpose which highlights a disconnect. The confidence in the Next Generation does not appear to be underpinned by equal confidence in the legal structures and frameworks of the enterprise.

Deloitte insight: It is interesting to watch the evolution of the landscape from 12 months ago when we were told that families in businesses were focusing primarily on growing their business and exploring new opportunities. Post-COVID, the focus shifted to sustainability, succession planning and NextGen preparedness. COVID-19 has put the emphasis on the conversation families have had during their confinement.

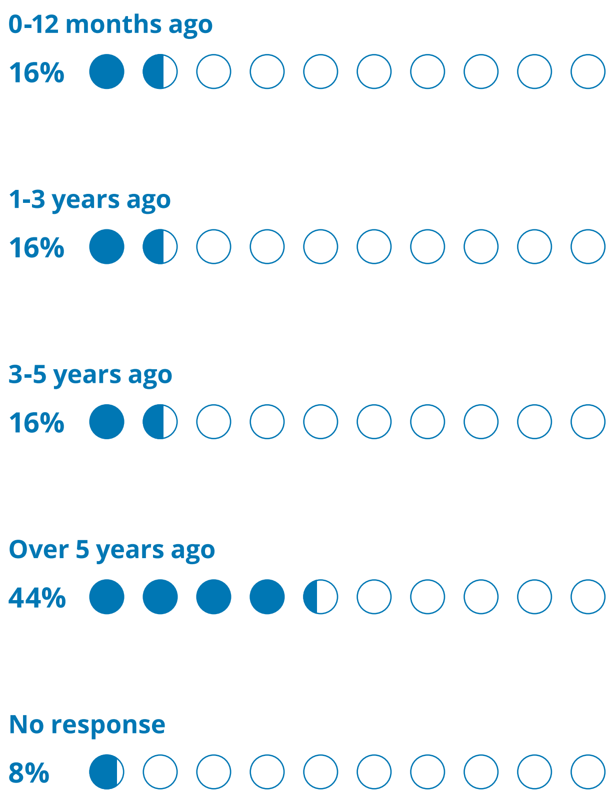
For many, their family constitution proved to be fit for purpose. Others realised that their family constitution was no longer valid and that it needed upgrading. For those who did not have a family constitution, they realised that the sustainability of their business in the hands of the NexGen warranted a conversation about vision, values and purpose.

Walid Chiniara, Partner, Family Enterprise Consulting Leader, Deloitte Middle East

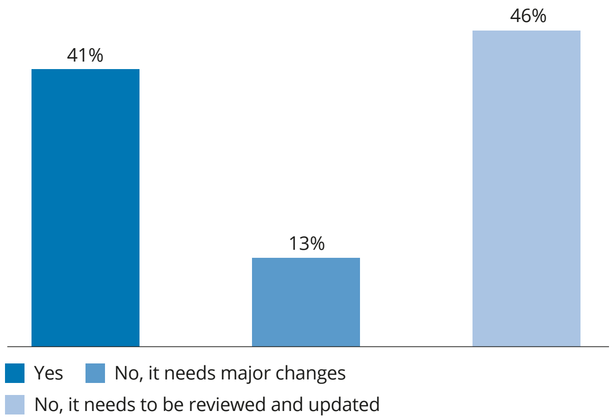
Does the group have a family constitution?



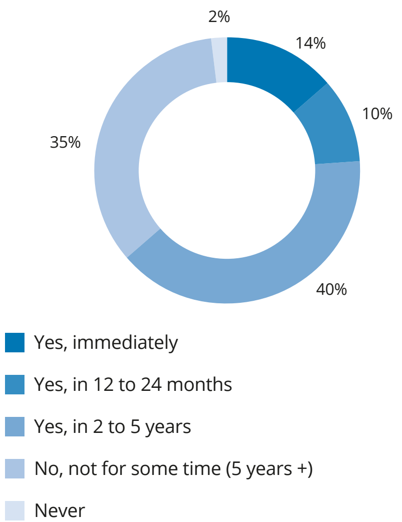
When was the family constitution implemented?



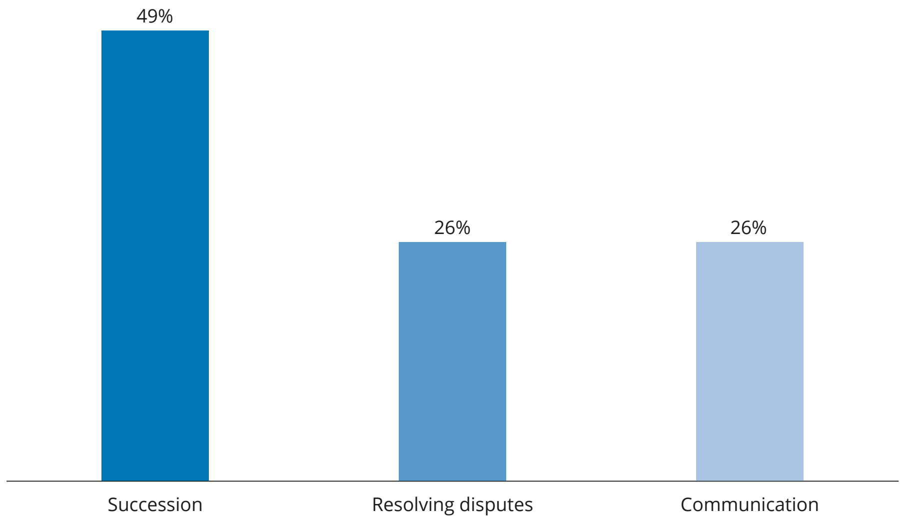
Do Family Offices consider their legal framework fit for purpose?



Are the "Next Gen" ready to take over the family business?



What are the top three priorities for family governance coming out of the crisis?



Note: Percentages may not total to 100 due to rounding.

The Private Wealth

Many of the families were braced for impact, however, some aspects of the family office in respect of the private wealth required swift action. At 74%, the majority of the families interviewed have separated and structured the family wealth away from the business and its assets. A further 76% have opted to employ non-family members within separate entities most typically in the form of a private investment office.

Technology and risk management stand out as the most exposed areas going into the pandemic, whereas governance, despite being an area in high demand, and liquidity reflect better levels of preparedness.

Looking ahead, the appetite to invest is strong. A total of 67% of families intend to invest in the next 12-18 months with opportunities in distressed and digital businesses among the most coveted, alongside opportunities that offer greater diversification to the group. Personal health and wellbeing being such dominant factors also saw healthcare opportunities referenced.

The UAE reflects the highest level of buying intent with 93% of UAE respondents planning to make new investments within this timeframe, followed by Saudi Arabia at 73%.

From a private wealth perspective, the majority of families agreed on the top three risks, being, further waves of COVID-19 across the world, intensifying geo-political tensions, and further liquidity and credit pressures.

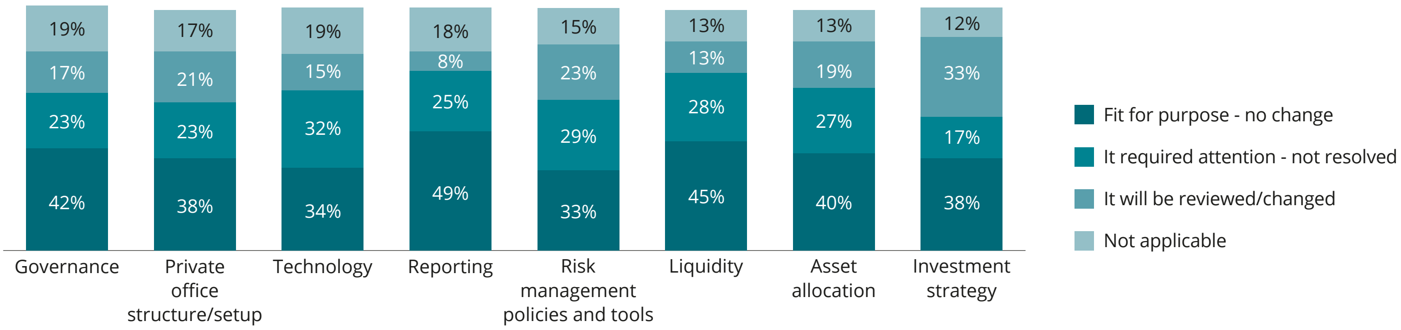
Deloitte insight: For many, COVID-19 shone the light on governance and risk in the Family Office. Key individuals and decision makers' incapacitation impacted the ability to make decisions and to implement them. This has subsequently led to a real focus by families to simplify structures that hold and advise the wealth along the decision making process.

Families are focused on unifying wealth governance structures across different jurisdictions whilst institutionalising the Family Office to ensure effective business processes and associated policies and procedures are in place. The desire to drive efficiency, reduce operational risk and ensure that there is full visibility through enhanced technology solutions are the pivotal areas of investment currently being made.

This is seen as an enabler to diversify the asset base and move to a position of less reliance on the operating businesses to sustain the wealth for future generations. This desire for sustainability of the family wealth over time means that deal flow and attractive investment opportunities to deploy 'dry powder' requires additional talent which often is being recruited overseas. This in turn is leading to a broader internationalisation, a global phenomenon, which brings opportunity both for inward and outward investment for the GCC.

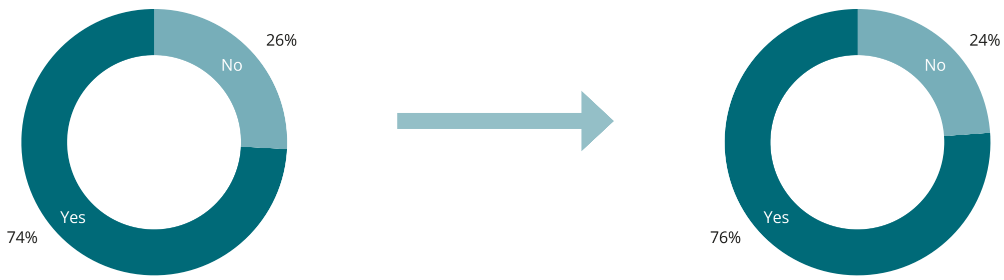
David Bowen, Head of Family Office Consulting, Deloitte UK

How ready were private offices/wealth for the crisis?

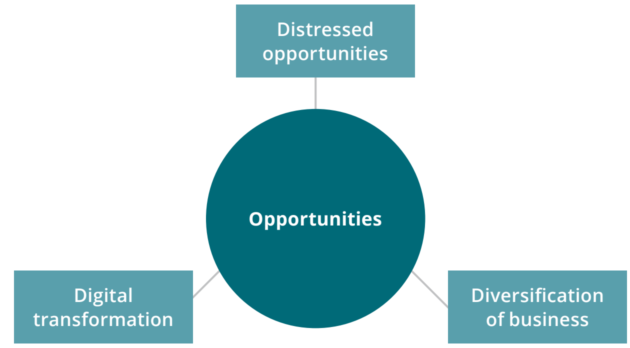


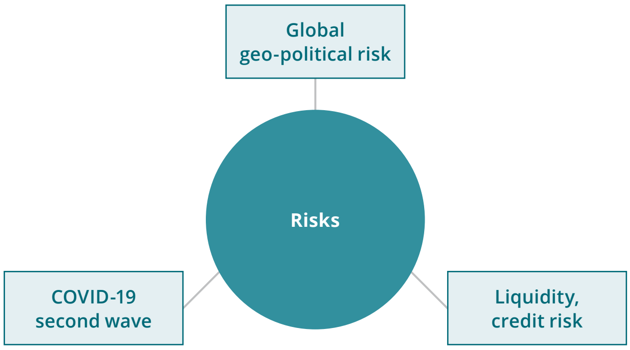
Are private assets held by the family separately structured and managed?

If yes, are non-family members employed?

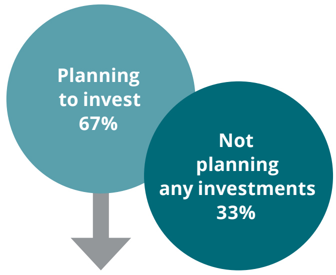


What are some of the opportunities and risks Family Offices foresee going forward?





67% of Family Offices plan to invest over the next 12-18 months



What are the top three sectors they plan to invest in?

- Healthcare
- Real Estate
- Technology

Note: Percentages may not total to 100 due to rounding.

The Last Word

The human factor was highly evident given that personal relationships were trumped only by the media for sourcing intel throughout the crisis.

Permanent changes will manifest in the wake of COVID-19 with some, such as the application of technology to engage virtually and participate in greater levels of e-commerce, already part of a new way of life. However, over half are still willing to engage in person or have a preference to operate this way suggesting that relationships based on trust will still be forged in person where necessary. Respondents were mindful of the rise in 'work from home' and the general increase in health consciousness.

Learnings from the crisis were varied amongst the respondents. Practical elements around the need for cash flow and contingency were evident, as was a heightened appreciation of technology and what more can still be achieved here. Overall, many found the main lesson was around flexibility. COVID-19 is today's crisis, but it is inevitable that there will be other crises that will test them all over again.

Deloitte insight: If I were to encapsulate in one word the valuable contributions to the survey from families across the GCC, and what COVID-19 has taught us with regards what will epitomise the characteristics of the Families and businesses that will Thrive post COVID-19 – Transformation. There is a clear need to ensure that at a family level the Family Office has the structure in place to seamlessly manage the next generation issues and ensure an appropriate governance structure is in place. At the business level, Transformation is also emphasised to ensure the family business is strategically focused on the right areas, operationally lean and match fit to capitalise on opportunities as they arise and operate as best in class.

David Stark, Partner, Deloitte Private Leader, Deloitte Middle East

What are the key take-aways since the start of the pandemic until now?

- Flexibility
- Technology is key
- Maintain healthy cash-flow, and liquidity
- Plan

How do Family Offices feel about receiving overseas visitors when international travel resumes?

Comfortable if a negative test was required to travel
33%

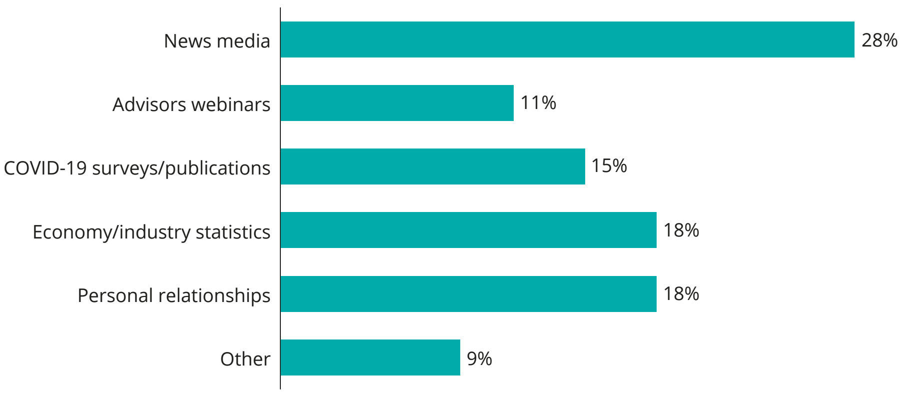
Essential meetings in person
30%

Virtual meetings for the foreseeable future
37%

What information was lacking according to Family Offices?

- Inconsistent information
- Reliability of sources
- Government plans and policies
- COVID-19 statistics

During the crisis, what did Family Offices consider the most valuable source of news and intelligence?



How will the post-pandemic world permanently change for family ecosystem?

- Increased health consciousness
- Business travel will be reduced
- Rise in 'Work From Home'
- Heavier reliance on technology
- Rise in e-commerce
- Consumer habits will have a permanent change

Note: Percentages may not total to 100 due to rounding.

What has the crisis taught you?

In a crisis rules go out the window

There is no substitute to Human Capital

Maintain a healthy cash flow

Control your costs. A lean organization imperative

To have a strong stomach and be patient to take a decision. Once the decision is taken, commit fully

Listen more as a leader

Prepare for the next crisis now

Anticipate and be proactive. Don't observe and react

Cash is still King

Agility and diversification are key

Be able to react quickly. Not perfectly but quickly

Live your values. Values are a guiding light in times of strife

Health is your top priority

Always be prepared for change

High levels of reserves, low levels of debt

What has permanently changed?

Key contacts

If you would like to discuss the report in more detail, please get in touch with our dedicated team members.

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