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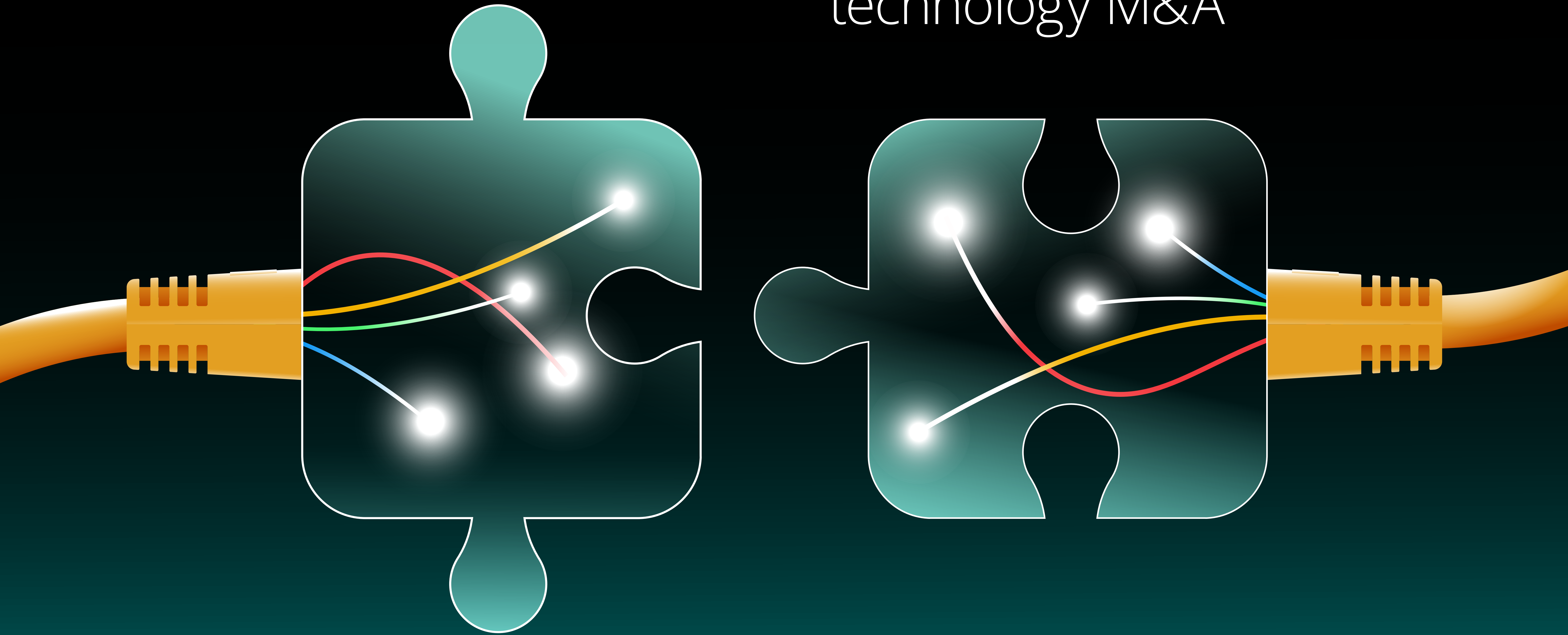
Lessons from the frontline: Delivering superior value in technology M&A



The governments of Saudi Arabia and the UAE continue to support entrepreneurship and innovation ecosystems as part of their digital transformation agendas. Over the past decade, technology M&A transactions have increased substantially, underscoring the prevalence of digital business models. However, alongside this opportunity comes a cautionary message: buyer beware.

Investors and corporate executives must comprehensively assess a target's growth prospects, technology assets, digital maturity, and cyber risk profile before signing on the dotted line. Failure to do so can jeopardize both top-line growth and bottom-line value, while exposing the acquirer to potentially serious operational risks such as cyberattacks or integration challenges.

This article explores why such evaluations are so important, highlighting recent examples to illustrate how strong (or weak) capabilities shape post-deal performance and value realization. The message is clear: in a region investing heavily in digital transformation, investments in technology-centric business models need to be clearly understood and evaluated.

Digital deal momentum in Saudi Arabia and the UAE

Gulf economies are in the midst of a digital growth wave as both governments and corporations continue to diversify beyond hydrocarbons. Sovereign wealth funds have invested heavily in technology-centric businesses, while regional corporations race to acquire digital capabilities. The result: an upswing of M&A in sectors such as fintech, e-commerce, and data centers.

For example, fintech investment in Saudi Arabia has grown considerably—the kingdom's fintech ecosystem grew to 224 companies by mid-2024, exceeding the Kingdom's Vision 2030 targets.[1]

This growth is now translating into consolidation and big-ticket deals. In mid-2023, Canada's Brookfield Asset Management agreed to buy UAE-based payments provider Network International for US$2.76 billion,[2] aiming to expand its digital payments footprint in the Middle East. Similarly, in e-commerce, regional players are scaling up via acquisition. Dubai's Noon (backed by Mohamed Alabbar and PIF) purchased fashion e-tailer Namshi from Emaar Properties for AED1.2 billion (US$335.2 million) to expand its online retail offerings.[3] This followed Amazon's headline-making 2017 acquisition of Souq.com, which sparked a wave of interest in e-commerce transactions regionally.

In the data center sector, Gulf telecommunication companies and technology firms are joining forces to meet the growing demand for cloud infrastructure. A recent example is Khazna Data Centers in the UAE, operating 12 facilities and becoming one of the Middle East's largest data center providers.[4]

These examples illustrate how digital capabilities have become central to M&A strategies in the Gulf; they also highlight the importance of assessing both commercial strategy and technology assets. Deal success depends not only on financials or market share but also on whether the target's technology can deliver the promised growth, efficiency, and ability to meet the strategic objectives.

Top-line growth: Digital channels and innovation

In sectors like fintech and e-commerce, the top-line growth rationale for M&A is often predicated on technology—whether it be acquiring a target's digital platforms, user base, or product offerings. Commercial and technology due diligence directly underpin revenue projections and growth forecasts. In addition to market size and growth prospects, buyers need to answer hard questions such as: Can the target's systems scale to support more customers and transactions? Will its digital channels enhance customer experience and drive sales? Does it have the technological foundation to support innovative new products and services?

A thorough technology assessment can reveal whether the acquisition will truly unlock new revenue streams or if it might stall them. Similarly, in fintech deals, issues such as supplier ecosystem, mobile app stability, and data analytics capabilities directly affect the ability to drive top-line growth through cross-selling and innovative offerings. Insightful due diligence can identify these opportunities. On the flip side, if due diligence finds obsolete legacy systems or poor digital user experience, the buyer can adjust growth forecasts (or purchase price) accordingly.

In short, diligence is both growth and operational focused—it validates whether the acquired technology will be a springboard for innovation and revenue, or a bottleneck to growth.

Bottom-line value: Efficiency, synergies, and cost savings

Beyond revenue, commercial and technology due diligence play a pivotal role in safeguarding the bottom-line value of a deal. Many Gulf acquisitions aim to realize cost synergies and efficiency gains—for example, by consolidating platforms, streamlining operations, or leveraging economies of scale in technology infrastructure. However, realizing these savings requires that the underlying technology of both companies can be integrated or optimized effectively.

Risk management: Cybersecurity, scalability and integration challenges

Perhaps the most urgent reason to heed the "buyer beware" warning is the risk of cybersecurity vulnerabilities, compliance gaps, scalability limits, or integration pitfalls—any of which could severely damage the value of the acquisition if not addressed early.

Take cybersecurity, for example. According to Control Risks, M&A targets in sectors like fintech or e-commerce often handle sensitive customer data and payment information. If their security practices are lax, the buyer could inherit the risk of data breaches or cyberattacks. With cyber threats on the rise globally, cybersecurity due diligence is now a critical component when assessing potential acquisition targets. Assessing the impact of past cyber incidents or potential vulnerabilities is essential—a costly breach discovered post-acquisition can lead to reputational damage, regulatory penalties, and loss of customer trust.

Conclusion: Vigilance in a digitally transforming market

The message for executives and investors in Saudi Arabia, the UAE, and the broader Gulf is clear: proceed with caution—and be prepared. In a region fervently embracing digital transformation, the saying "trust but verify" applies emphatically to a target's investments in technology assets.

Within this context, commercial and technology due diligence is no longer a niche review; it is a strategic imperative on par with financial and legal due diligence. It enables acquirers to assess strategic fit, comment on the target's ability to innovate, determine growth assumptions, pinpoint cost and efficiency levers, and identify potential post-merger risks. When done right, commercial and technology due diligence provides a growth perspective and a digital blueprint for integration, ensuring the new combined company can hit the ground running. When neglected, the consequences can range from value erosion to potential deal failure—whether through lack of strategic alignment, lacklustre market performance, unforeseen cyber incidents, crippling integration delays, or an inability to scale the business.

> Sovereign wealth funds have invested heavily in technology-centric businesses, while regional corporations race to acquire digital capabilities

The Gulf's technology M&A landscape continues to offer tremendous growth potential, but realizing that demands a holistic assessment of potential acquisition targets. As buyers evaluate targets, they must ask the tough questions about the role of technology and be confident to walk away or renegotiate if the answers are unsatisfactory. The future of M&A success in the Gulf will belong to those who embrace commercial and technology due diligence as diligently as any other facet of deal-making, aligning each acquisition with the robust digital foundations needed for long-term value realization.

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Endnotes

1. A Review of Fintech Companies in Saudi Arabia.
2. https://www.reuters.com/markets/deals/brookfield-buy-network-international-276-bln-2023-06-09/.
3. UAE In-Focus — Noon to acquire Namshi for $335.2m; MBRAH's Suppliers Complex to be completed in September | Arab News.
4. G42 and e& Ink Deal Turning Khazna Data Centers into Middle East's Largest Data Center Provider - Khazna.

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