FOCUS

Quarterly Newsletter
Q3 2023 - Volume 107

Quantum technology: Helping entrepreneurial decision making

The rapid advancement of quantum computing has garnered global attention, with the United Arab Emirates (U.A.E) emerging as a leader in recognizing its immense potential. Through substantial investments in research and development, the UAE has positioned itself as a hub for cutting-edge quantum computing facilities. In 2019, the country launched its National quantum program, aimed at developing practical applications of quantum technologies. To further solidify its position, the UAE announced ambitious plans in 2020 to construct one of the most powerful quantum computers in the world. Such are the vision of the leadership.

Quantum technology can revolutionize healthcare, finance and logistics. Leading computing companies offer quantum cloud services enabling convenient access for businesses. This paves the way for the quantum era, with projected industry value of $1.3 Trillion by 2035. Quantum technology's commercial potential drew Billions in investments, with $2.35 Billions contributed to start-ups in 2022. This surpasses the previous record, reflecting growing confidence in quantum viability, resulting in increased global patents.

Finance stands to benefit in the long term from quantum computing. Potential applications in the financial sector include portfolio and risk management, asset-liability management, collateral optimization and encryption-related activities. Quantum computing can empower industry leaders to enhance their decision-making processes, allocate resources more effectively and tailor services to meet the evolving needs of customers. Furthermore, quantum computing can drive breakthrough innovations in areas such as carbon capture, new fuels, batteries, fertilizers, catalysts and more.

Quantum technology also has the potential to transform sustainability efforts. The century-old Haber-Bosch process, responsible for approximately 2 percent of global CO_2 emissions, could be revolutionized through quantum advancements. By leveraging quantum technology, the cost-effectiveness of green ammonia production could be significantly improved, potentially enabling its use as fuel in ships by 2030. This shift would accelerate the adoption of green technologies, contributing to the global pursuit of net-zero emissions.

Banking industry giants such as Bank of America, JPMorgan, Citigroup, and BBVA are investing in quantum computing initiatives and exploring partnerships with quantum start-ups. Their efforts include testing quantum computers for mathematical operations and credit risk profiling, as well as exploring applications like portfolio simulation and optimization.

In conclusion, quantum technology represents the next major trend in the tech world, with the UAE leading the way in its development. The projected economic impact across various industries is substantial, attracting significant investments and spurring innovation.

Dr. Khalid Maniar
Founder & Group Managing Partner

What is a Central Bank Digital Currency? (CBDC)

Target Audience?

Finance / Economics

Key Words?

What is a Central Bank Digital Currency? (CBDC)

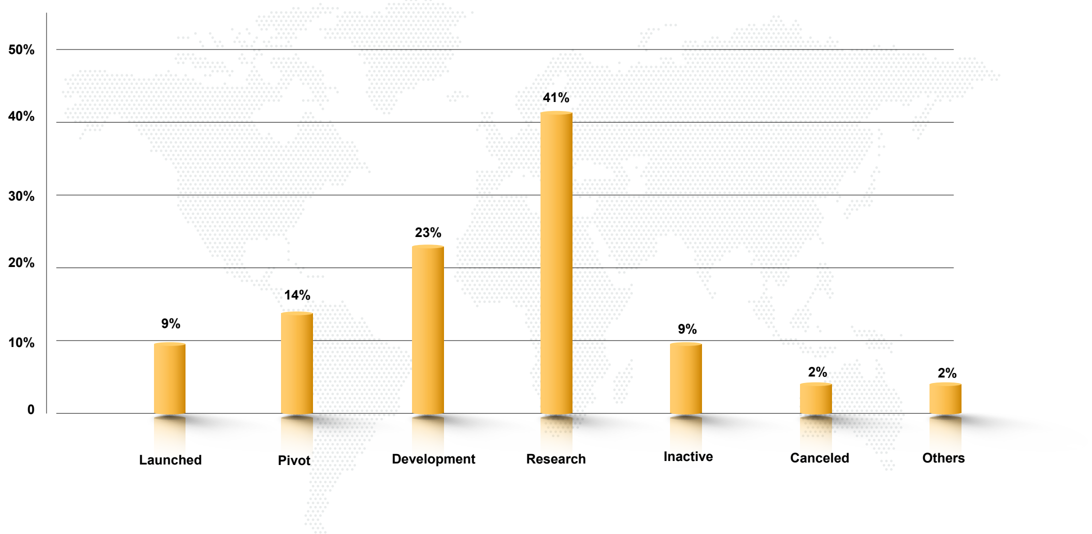
Central bank digital currencies (CBDCs) are a form of digital currency issued by a country's central bank. Countries like the USA are developing CBDCs and looking to provide legislation so as to help regulate these digital currencies.

Although CBDC's are similar to cryptocurrencies which have gained popularity in the recent years, the difference is that CBDC's would be set by the Country's Central Bank and their value is fixed to the equivalent of the country's fiat currency. Cryptocurrencies as they are decentralized are not as reliable as they are highly volatile.

The benefits of CBDC's would be to provide businesses and consumers with privacy, convenience, accessibility and financial security. Many US households up through 2020 did not even have bank accounts or access to financial services. Benefits would also include lower risk of money laundering and financial crimes as the consumers would be dealing directly with the Central Bank rather than private banks. This would also reduce the costs of having expensive infrastructure and the need to have multiple banks in each country.

As of this year, approximately 11 countries/territories that have already implemented CBDCs. Approximately 130 other countries have pilot programs in place and are performing the necessary studies as the implementation of CBDCs would require stability in the market and not the constant fluctuation similar to the cryptocurrency market.

China's pilot, which currently reaches 260 million people, is being tested over 200 scenarios including payment in the public transit and e-commerce to name a few. Since Russia's invasion of Ukraine and the G7 sanctions response, wholesale CBDC developments have doubled.



Conclusion

In conclusion, cryptocurrencies have gained a lot of momentum over the years due to convenience, privacy and accessibility and ability to deal in cross border transactions without any additional hassles. Given the emergence of Artificial Intelligence, the more extensive use of technology in society as a whole, the movement towards a cashless society seems inevitable.

Given de-dollarization and the impact of many countries trying to do business with countries like Iran, Russia (especially after the Russia/Ukraine war and Russia being a key exporter of oil, gas and wheat to the world) and others, cryptocurrencies have been a popular alternative which has been a big indication in the market globally that people are ready to rely on digital currencies.

CBDCs will ultimately come into place within the next 10-15 years once proper regulation/legislation and testing has been completed to ensure a proper transition into a cashless society. CBDCs will help reduce overall costs in dealing with banks and cross border transactions and reduce risks of money laundering financial crimes amongst other benefits.

Armen Biberian

Director

Global Economic and M&A Trends – Midyear review

Macroeconomic headwinds, lower VC funding and M&A downturn risks remain high. However, innovations in new emerging AI technologies are attracting larger investments, giving it a major boost. MENA banks have performed better than their international peers. Other growth sectors like fintech, e-commerce/ retail, health tech, food delivery, transport and e-logistics have also been impacted. However, they continue to see large transactions, but with lower frequency, due to wider opportunities that still exist in various emerging markets in Asia and MENA due to lower internet penetration.

Some of the market trends that have emerged this year include:

1. Geopolitical risks remain high with Russia and Ukraine war continuing. The Middle East, however, is doing much better, with a renewed focus on development and diversification. US & China are talking again, so this provides hope for the future.

2. Climate change, energy transition & ESG have taken center stage as a global priority since the risks have sharply increased due to El Nino, unprecedented higher degree heat waves and forest fires raging across some cities in US and Europe while there were floods in Asia and China.

3. Financial risks also remain high due to the US/ Europe banking crisis, higher interest rates, oil prices and coupled with tighter credit slowing growth. Stubborn food inflation remains at elevated levels; thus, recession in the above major economies is still quite probable.

4. The dichotomy of Tech layoffs and talent shortages continues since last year, resulting in e10% payroll downsize by technology majors. Skilled talent shortage remains a big challenge as wages continue to rise despite the economic slowdown.

5. A significant drop in equity investments is seen in new technology start-ups and M&A deals (including by Big 5 Apple, Microsoft, Google, Amazon and Nvidia) have been adversely impacted due to all the above factors. The median deal count and average size of deals have gone down across all markets, compared to FY 2022, especially in Fintech/ E-commerce/ Retail & Enterprise software. Founders are now pursuing debt finance and convertible notes as a popular alternative, rather than having to endure larger dilution or have marked down rounds. The main exceptions to this include AI, healthcare, biotech and climate tech which continue to receive higher funding.

It is now taking longer to raise funding from series A to B and close bigger growth rounds $100 M plus. VC's or PE firms are high on dry powder but are being selective. Investors' focus on early stage/ seed fund rounds is gaining ground, as they target companies with faster growth potential, and value creation levels that can be sustained with lower risks.

6. Increase in secondary sales among VC or PE firms is seen as a preferred option since exits via IPO and M&A have reduced considerably due to overall economic uncertainty. One of the recent large secondary sales includes Walmart buying out Tiger Global's stake in India's Flipkart, a major e-commerce platform, at a marked down valuation of USD 35 Billion (US 38.6 b illion previous round), one of the rare transactions.

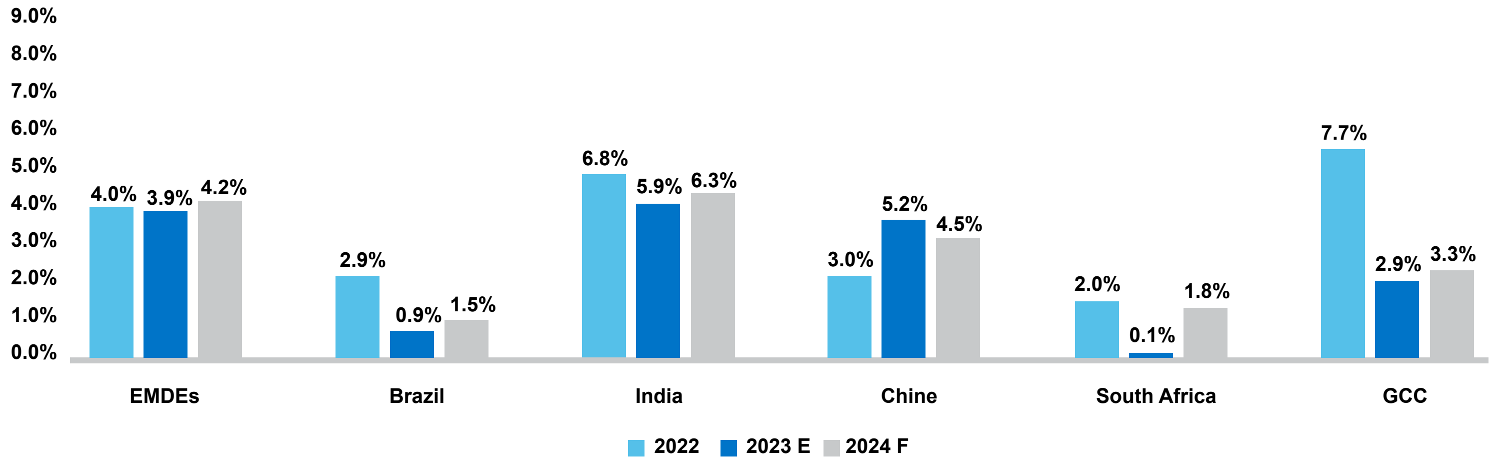
7. Due diligence: More rigorous due diligence has become a new norm, especially with cross border deals, with legal, commercial synergies and tax being key focus areas as well, besides traditional financial due diligence, that is also slowing down M&A transactions with deals closing late.

8. Bank deposit rates are also at an all-time high, resulting in higher income for HNI's, corporates and family offices that have large surplus cash since business and other asset classes of investments become riskier. Risk aversion mindset is highly prevalent with most investors holding on to their funds in the interim to tide over the uncertainty.

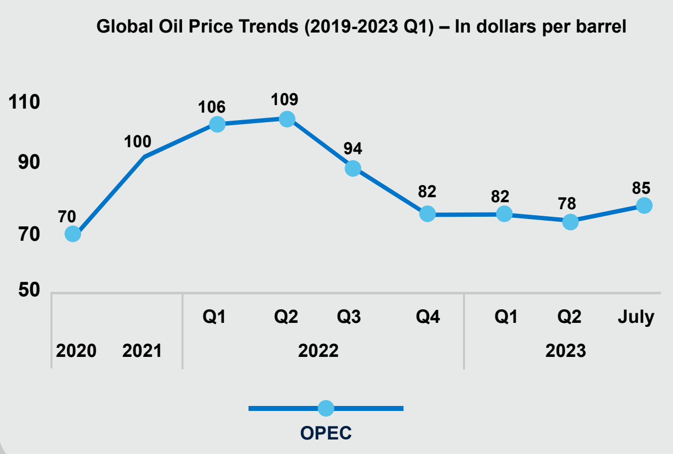
GCC Economics:

The outlook is stable, with higher oil prices and an improvement in the U.A.E PMI index during H1'23 reflecting improved market conditions. The FDI in the region or U.A.E has increased due to improved investment climate, liberal economic and immigration policies, increase in tourism, real estate prices have risen sharply due to local demand and money inflows, along with infrastructure investments. The region is blessed with young demographics, and a higher degree of revenue diversification being pursued by most GCC countries. Growth in the M.E region will be around 3%+ levels, compared to 7.7%+ last year, because of lower oil prices prevailing with demand side risks.

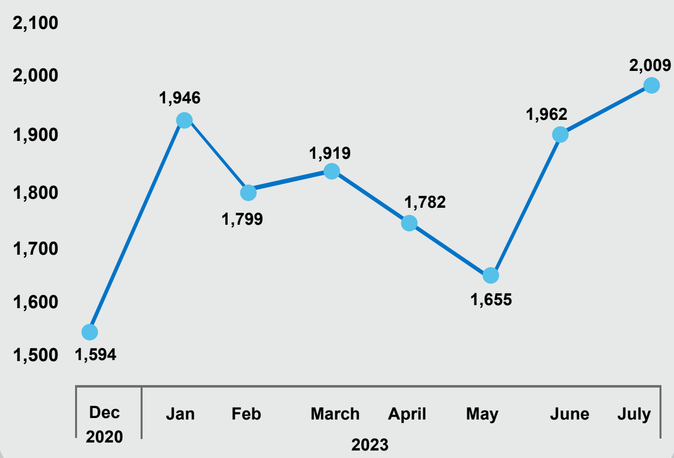
Real GDP Growth (%) in GCC and Emerging Market Economies



Global Oil Price Trends



Gold (Dec '22 - July '23) - in USD per ounce



Capital Market Trends

Financial markets	31-Dec 2021	31-Dec 2022	26-June 2023	% change (2022-2023)
ADX (UAE)	8,300	10,211	9,760	-4.41%
DFM (UAE)	3,044	3,331	4,037	21.21%
Tadawul (KSA)	11,249	11,014	11,655	5.82%

Top 5 Start Up Funding – June 2023

Company name	HQ location	Stage	Amount raised	Valuation
One Moto (Mobility Startup)	UAE	Debt Financing	$40M	N/A
KASO (Foodtech)	KSA	Seed	$10.5M	N/A
Almahealth (Healthtech)	UAE	Series A	$10M	N/A
Flash (Fintech)	Egypt	Seed	$6M	N/A
YallaHub (Marketplace)	UAE	Pre-series A	$6M	N/A

Financial markets, Gold and Crypto markets have also risen after initial shocks during Q1'23 due to US or Europe bank crisis. Major economies like China are expected to grow at 4.50% and with India still growing at 6.3%+, being the fastest among top five economies. This augurs well for demand side risks that indicate the worst may be over.

GCC economy(s) are expected to grow at 3.3%+ levels next year, due to high oil prices that are expected to average around $90 per barrel level due to OPEC+ production cuts tightening supplies, and this trend is likely to continue through 2024, resulting in budget surplus for most ME countries.

Key take aways for businesses to navigate through these turbulent times :-

01 Diversification into new products and in new markets with potential should be a priority.

02 Focus on core expertise, expand existing market share, while exiting from ancillary business that do not create value.

03 Cost reduction and optimization measures should be put in place to ensure business is run efficiently.

04 Cash flow management should always be a high priority.

05 Reducing financing costs is very important through better cash flow management and reducing locked in working capital.

06 Fast track technology adoption, software tools and data security upgrades to ensure tax and regulatory compliance is carried out diligently.

07 Companies are moving to cloud investments wherever feasible, conserving cash, while they undertake digital transformation and AI projects to boost productivity and efficiency at all levels.

08 Outsourcing of key back-office support functions is gaining further ground, with a focus on speed, accuracy and efficiency.

09 Close monitoring of business performance is essential, through data driven insights that translate into smarter decisions.

10 Staff retention, training and their well-being are essential while implementing the company strategy to manage talent.

It is thus a Volatile, Uncertain, Complex and Ambiguous (VUCA) world, that makes planning difficult. Being agile, adapting to shifting economic and business realities, is needed. It thus requires a more measured response, rather than pursuing hyper growth, which is not possible anymore in most industry sectors. Capital and operational efficiency is key, with equal focus on revenue expansion and profitability that will ensure a sustainable future.

There are many opportunities to grow across industries, through a targeted M&A strategy for faster growth during H2'2023 since the asset valuations and industry multiples are down. Thus, a feeling of "Cautious optimism" is the new paradigm that prevails and is likely to continue in the foreseeable future.

Vivek Batra
Partner
Advisory Service

The significance of adopting robust accounting procedures in light of the UAE's corporate tax implementation

The implementation of corporate tax in the UAE has brought about significant changes in the business landscape, making accounting practices more critical than ever before. Accounting plays a vital role in ensuring tax compliance as businesses must accurately calculate their taxable income and fulfil their tax obligations promptly. The ministerial decision has clarified that for the purpose of calculation of Taxable income of a taxable person, the Taxable person shall prepare adequate financial statements based on IFRS - being the applicable accounting standards in the U.A.E .

The Ministry of Finance has issued **Ministerial Decision No. 114 of 2023**, clarifying the applicable Accounting Standards and the method of accounting to be followed for the purpose of preparing financial statements under the Federal Decree-Law No. 47 of 2022 ('the CT Law') in the U.A.E .

Some of the common IFRS that we need to follow while preparing financial statement are **IFRS 15- Revenue Recognition, IFRS 7- Financial Instrument Disclosure, IFRS 9 – Financial Instrument- Recognition & Measurement, IAS 21- The effect of change in foreign exchange rates, IAS 12- Income taxes etc.**

In light of the recent changes, it is crucial to check the impact of Deferred Tax Assets (DTA) and Deferred Tax Liabilities (DTL). Deferred taxes are a result of timing differences in the recognition of income and expenses for tax and accounting purposes.

Thorough bookkeeping helps in compliance with law, tax planning, audit trail, accurate tax payment, monitoring profitability & growth, evidence of expenses and deductions and many more.

By prioritizing robust accounting practices, businesses can navigate the complexities of corporate tax, enhance their financial performance, and position themselves for long-term success in the competitive UAE market.

Mridula Bihani
Director
Finance & Accounting

For more information
Scan QR code below

About Us

Crowe UAE provides audit, tax, advisory, risk, human capital, and intellectual property services with global reach and local expertise. We are an independent member of Crowe Global, the eighth largest accounting network in the world. With exceptional knowledge of the business environment, our professionals share are committed to building value for our clients and to deliver service excellence.

While placing great emphasis on establishing professional relations with each of our clients. This enables to work in an atmosphere of openness and trust. Our broad technical expertise and deep market knowledge means we are well placed to offer insight and pragmatic advice to all the organisations and individuals with whom we work. Close working relationships are at the heart of our effective service delivery.