

LOGIC INS!GHTS

Family Businesses: A Large & Growing Force in Egypt's Economy

Some Perspectives on Going Public

Family Businesses Landscape in Egypt

50-60%

of Egyptian companies
are family owned.

Family businesses
contribute to almost

80%

of Egypt's gross
national income ^[1].

Family businesses
constitute to about

75%

of the private
sector's activity ^[2].

Family businesses
employ approximately

70%

of the labor force ^[2].

“ Family businesses in Egypt are facing a succession problem, whereby only 30% of businesses continue after the death of their founders, while only 3% of businesses continue until the fourth and fifth generations. ^[1] ”

How Egypt's Key Sectors Are Fueled By Family-Owned Businesses?

1 – Real-Estate Sector:

Real-Estate Sector is a significant contributor to Egypt's economy, accounting for around 20% of the country's GDP. The Forbes Middle East's Top 50 Listed Companies in Egypt 2022 included 6 Egyptian real estate developers, who were recognized as the most valuable and profitable players in the country. Interestingly, the top 3 companies on the list were all family-owned businesses, demonstrating the significant presence of family-owned companies in the real estate sector in Egypt.



Talaat Mostafa Group Holding (TMG)

The top ranked local developer with total assets worth \$8 billion and Market value of \$953 million of June 2021. The 50-year-old group has developed over 33 million sqms of land and sold over 90,000 units. It currently has a land bank of 74 million sqms.



Palm Hills Developments

It has a market value of \$254 million and total assets of \$2.2 billion. It has a land bank of over 34.6 million square meters and has delivered 12,475 units within its developments.



Orascom Development Egypt (ODE)

It has a market value of \$251 million and total assets of \$1.2 billion. ODE owns a land bank of 50.25 million sqms and 24 hotels. ODE is the largest subsidiary of Orascom Development Holding (ODH).

2- Industrial Sector:

The industrial sector plays a vital role in Egypt's economy, accounting for around 17% of the country's GDP and providing employment to approximately 28.2% of the total Egyptian workforce. Additionally, the sector contributes significantly to the country's export activity, with around 80% - 85% of the total non-oil merchandise exports coming from the sector. Family businesses have a crucial role to play in the industrial sector, with many such companies being leaders in their respective fields.

ELARABY

Elaraby Group

The group has more than 35 industrial factories and exporting to over 60 countries across the globe with an aim to raise the value of its annual exports to USD 500 mn within 5 years. It employs over 40,000 workers and a total market share of 38% in 2021.

ELSEWEDY
ELECTRIC

El Sewedy Electric

A pioneer in the modern energy industry, Elsewedy Electric does not only contribute to Egypt's economic growth, but also supports a positive business development beyond Egypt's borders. Elsewedy's international activities include the operation of 20 production facilities located in 16 different countries, as well as export partnerships with more than 100 countries.

Oriental Weavers

Oriental Weavers has grown to become a vertically integrated, multinational carpet, rug, and related raw-materials producer based in Egypt, with additional production facilities in China and the U.S. The Oriental Weavers Group has over 25,000 employees across a distribution network of 130 countries, with 60% of its production being exported.



The Power Players: Which Sectors do Family Businesses Dominate?

MENA Region

In the MENA region, a large number of family-owned businesses are conglomerates, with interests in more than one industry. A survey by Booz & Company in the Mena region indicated that nearly half of the family firms were involved in five or more sectors. Also, Middle Eastern companies are consistently ahead of their Western counterparts: when it comes to diversification, 75% are operating across more than one sector, compared to a global average of 45% ⁽³⁾.

“ Half of the family firms were involved in five or more sectors. ”

- A survey by Booz & Company -

75%

of Middle Eastern Companies are operating across more than one sector compared to a global average of

45%

- PWC Family Business Survey -

These diversified business conglomerates invest in a variety of different sectors and geographies. While this means more initial capital outlay, it also increases their chance for growth and enables them to spread their risk. It has also been common for Middle Eastern firms to diversify across a wide range of unrelated sectors (for example, real estate, construction, retail, technology) in order to give individual family members the chance to run a business of their own.

Egypt

	Industries										
	Automotive	Technology	Telecomm-unications	Financial services	Construction	Trade & Distribution	Manufacturing	Agriculture	Retail	Energy	Real estate
Ghabbour Group	✓			✓		✓	✓	✓			✓
Raya Group		✓		✓		✓			✓		
Mansour Group	✓			✓		✓			✓		✓
El Araby Group						✓	✓		✓		
Hassan Allam Holding					✓		✓			✓	✓
Oriental Weavers						✓	✓		✓		✓
Arafa Holding						✓	✓	✓	✓	✓	
Orascom Group		✓	✓		✓						✓

Family businesses in Egypt operate across multiple but there are certain sectors where they hold a dominant position. The top five industries where family-owned enterprises in Egypt are most prevalent include:

- (1) Retail
- (2) Financial Services
- (3) Real Estate
- (4) Manufacturing
- (5) Trade & Distribution

Listing of Family Businesses on Egyptian Exchange

According to the Head of the Egyptian Businessmen's Association, Hassan Hussein, a large proportion of family businesses are among the medium and large-sized companies, which can contribute to enriching the stock market. Attracting them and encouraging them to register is likely to increase the stock market cap, currently at more than EGP 1 trillion, as of January 2023.

Due to lack of statistics of number of family-owned businesses in Egypt, we would build an assumption that family-owned businesses comprise 50% of GDP in Egypt, while only 5% are publicly traded and 50% of remaining non-listed family businesses aim to dilute a 20% stake through IPOs, total market capitalization would increase by 29%.

Family Business Contribution to Egypt's GDP	Potential Increase in Market Cap (Value in Billion Dollar)	Potential Increase in Market Cap (%)
Current Market Cap	35.122	-
50%	45.1025	29%
60%	47.123	35%
70%	49.1435	40%
80%	51.164	46%

Multiple scenarios were undertaken to demonstrate potential market capitalization growth as family businesses in Egypt go public.

This shows that family businesses have a huge potential to significantly add to the breadth of capital market. Also, the increased number of listings would add to the liquidity of EGX. Larger number of family businesses available for trading would not only encourage domestic participation but also have a spill-over effect of attracting more Egypt investor interest.

“Sustainability and the preservation of wealth that is built over generations within a family business is the main challenge facing every family-owned business. A study by Booz & Company suggests that a typical family business will need to grow at as much as 18% each year just to maintain the same level of wealth across the future generations.

”

Unlocking the Potential:

What Can Be Done To Encourage Family Businesses to List on EGX?

1. Enhancing The Legislative Ecosystem

Listing on EGX can take up to 6 months and can sometimes require rigorous restructuring for the family company that can incur higher costs and require additional efforts. Thus, policymakers shall adjust regulations to facilitate listing process. In 2022, the FRA approved new amendments to the rules for listing and delisting securities on the EGX. The amendments included the possibility of temporarily listing the shares of Egyptian and foreign companies on the stock exchange's lists before registering with the authority, instead of prior registration.

However, still more could be done. For example, maintaining sufficient control of the firm to ensure the firm remains a 'family firm' is a core objective for family businesses. In more practical terms, the exchange listings rules may allow the use of structures that could address some of "loss of control" concerns.



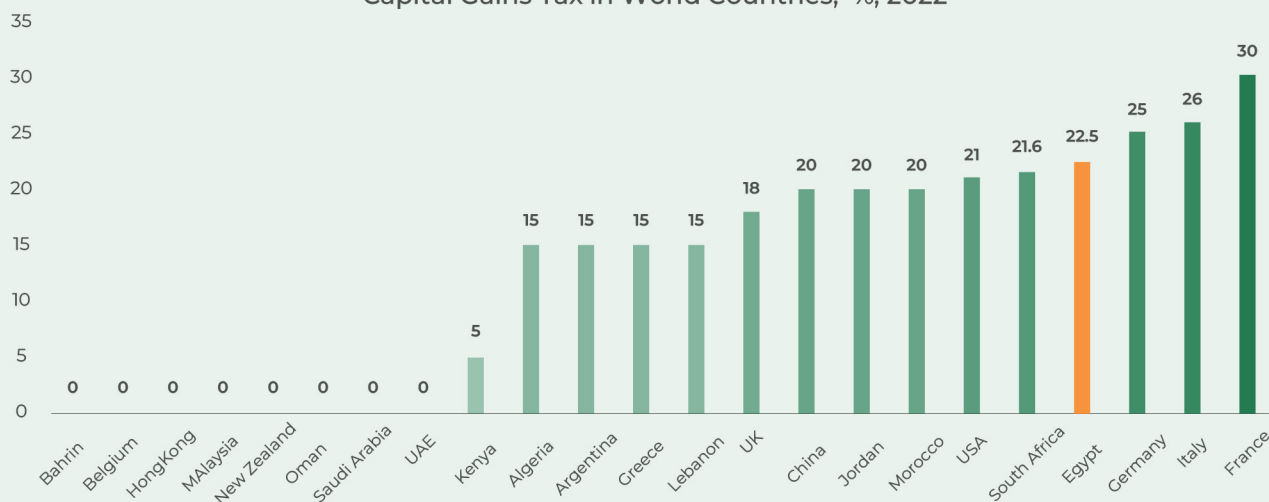
For example, UAE issued a new family business ownership governance law to encourage Family Business to List in Domestic Exchanges. According to the official Emirates News Agency (WAM), the new law aims to:

- Empower owners of family business to prevent selling of shares or dividends to individuals or companies outside the family
- Require prior approval from family partners before a shareholder sells their respective equity stake to a non-family member.
- Issue family-owned shares with weighted voting rights and prevent the pledging of family-owned businesses as encumbered assets, to avoid expropriation.

2. Offering Tax Incentives

Capital gains tax act as a major disincentive for issuing shares, which is currently at 22.5% in Egypt, higher than the world average at 20.315% ^[4]. Reducing the tax rate or providing conditional tax exemptions can encourage more family business owners to list their companies on the Egyptian stock exchange.

Capital Gains Tax in World Countries, %, 2022



3. Stressing On the Benefits That Can Be Accrued from Going Public

Family businesses need to be:

Familiarized with the opportunities that arise from being a listed company.

Aware that they can be hybrid, where the family could still be the biggest shareholder, but also have outside shareholders and fulfil all the requirements of a listed company in terms of transparency and governance. Establishing a joint taskforce of government, business leaders, and academics could help family businesses better understand the challenges and the support required to ensure such transitions.

Mentored by offering specialized programs to prepare families for their IPO and educate them about the procedures of pursuing public listings while providing training and support for the change management that is required for listing. They shall also be connected with listing teams and capital market authorities to address unlisted family firms' fears of being listed, and be advised on how to develop effective long-term strategies for presenting to investors.

Success Stories of Leading Family Businesses in Egypt That Took Advantage of Being Listed On EGX

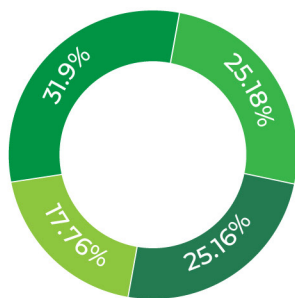
Case 1: Elsewedy Electric

**ELSEWEDY
ELECTRIC**

The family company was listed in 2006, and total number of shareholders has since reached 6,892.



Ownership Structure



Shareholder	%
Sadek Ahmed Sadek Elsewedy	25.18
Ahmed Ahmed Sadek Elsewedy	25.16
Mohammed Ahmed Sadek Elsewedy	17.76
Free Float	31.90

Company's Growth Plans

In 2006, the family was planning to expand the legacy of ElSewedy Cables (before it was named to ElSewedy Electric in 2010) beyond the limits of Africa.

- At the time, the company owned 11 production facilities, including 7 in Egypt, 2 in Sudan, 1 in Syria, and 1 in Ghana.
- Further expansion required greater capital to seize the opportunities that existed in the GCC countries and in Central Africa.
- At the time, the family controlled 100% of the company.

How Being Listed Has Helped the Company Achieving its Growth Plans?

On May 23rd, 2006, El Sewedy Cables Company executed a private placement of its shares amounting to EGP 1.29 Bn on the Egyptian stock Exchange market.

- ▶ The offering was priced at LE 43 per share and 300 million shares were sold.
- ▶ The offering represented 25% of the share capital of the company, and the family still owned the rest of the company.
- ▶ Shares were sold to strategic investors specializing in the same field, in order to obtain funding for its expansion in a number of Arab countries. ^[6]

The company expanded to establish facilities in Algeria, KSA and Nigeria in 2008, 2009 and 2010.

The company expanded both horizontally and vertically by providing more products and services and exporting products to several countries.

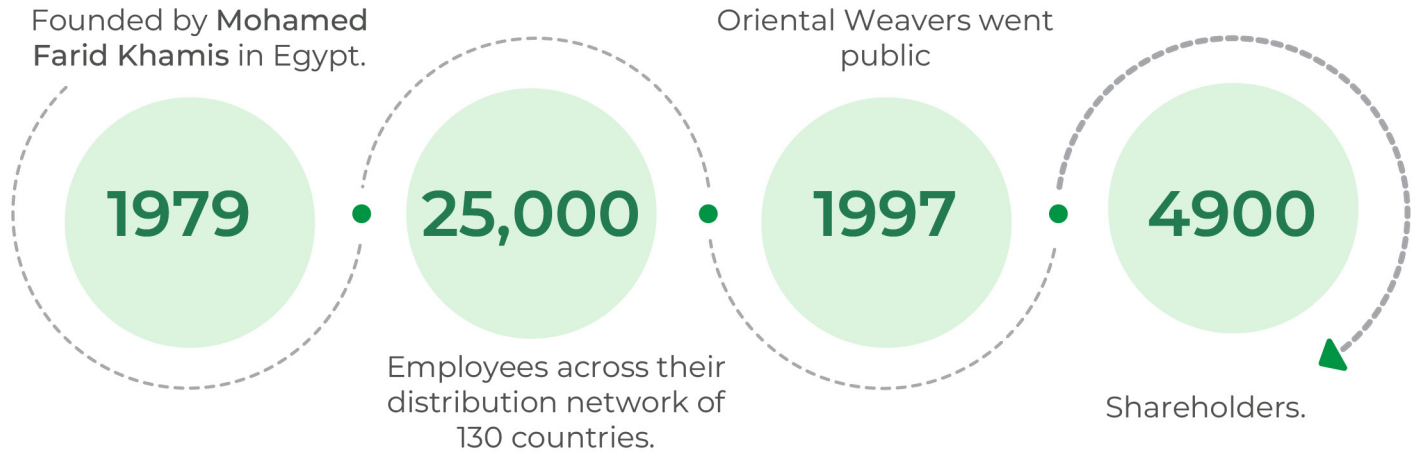
Currently, the company operates in 31 production facilities, spanning over 15 countries in 3 continents.

Case 2: Oriental Weavers

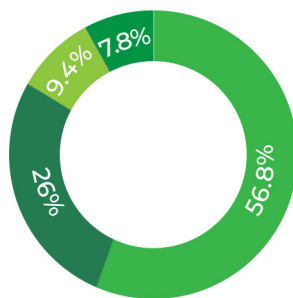


النساجون الشرقيون
ORIENTAL WEAVERS

One of the largest and fastest-growing machine-made rug and carpet. manufacturers in the world. Oriental Weavers is the top global producer of carpets by volume (as of 2021).



Ownership Structure



Ownership Structure

- The Khamis Family & Related Entities
- Foreign Institutions
- Local Institutions
- Retail

Company's Growth Plans

Oriental Weavers has a long history of vertical integration:

- In 2001, Oriental Weavers launched Oriental Petrochemicals Company (OPC), Egypt's first polypropylene manufacturing facility, supplying the complementary chemicals to the carpet manufacturing industry locally. This has significantly improved the Group's overall production efficiency and cost competitiveness, relieving the burden of foreign exchange costs and boosting export capacity of the firm.
- Besides the expansions in wool, fiber and chemicals production in Egypt, Oriental Weavers established distribution arms in USA, UK and the UAE. The first overseas production facility was established in USA in 1994, and the business has further expanded by opening a new showroom in New York in 2021.

How Being Listed Has Helped the Company Achieving its Growth Plans?

The company took advantage of being a publicly traded company. In December 2022, Oriental Weavers welcomed a new shareholder, YFK Investment Fund. Yasmine and Farida Khamis, the major shareholders and the successors of the original founder Mohamed Farid Khamis, have transferred their combined 24.61% stake in the company to the newly established FYK Limited investment fund in Britain, also owned by the two sisters.

The movement was a form of internal restructuring to the board of directors rather than transfer of ownership where the two sisters are still maintaining their ownership share of the company but under a different name. The EGX statement explained that this restructuring process has a "great positive impact" in increasing the ability of the group companies to diversify financing sources internationally and enhance financing transactions, which contributes to creating a unified investment platform to enhance future growth opportunities without any changes in the ownership structure.

Also, by having an investment fund based in Britain, Oriental Weavers will be in a stronger position to attract more foreign investors.

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