

Merak.Capital

# The Rise of Private Credit

The fastest growing asset class globally

MAY 2023

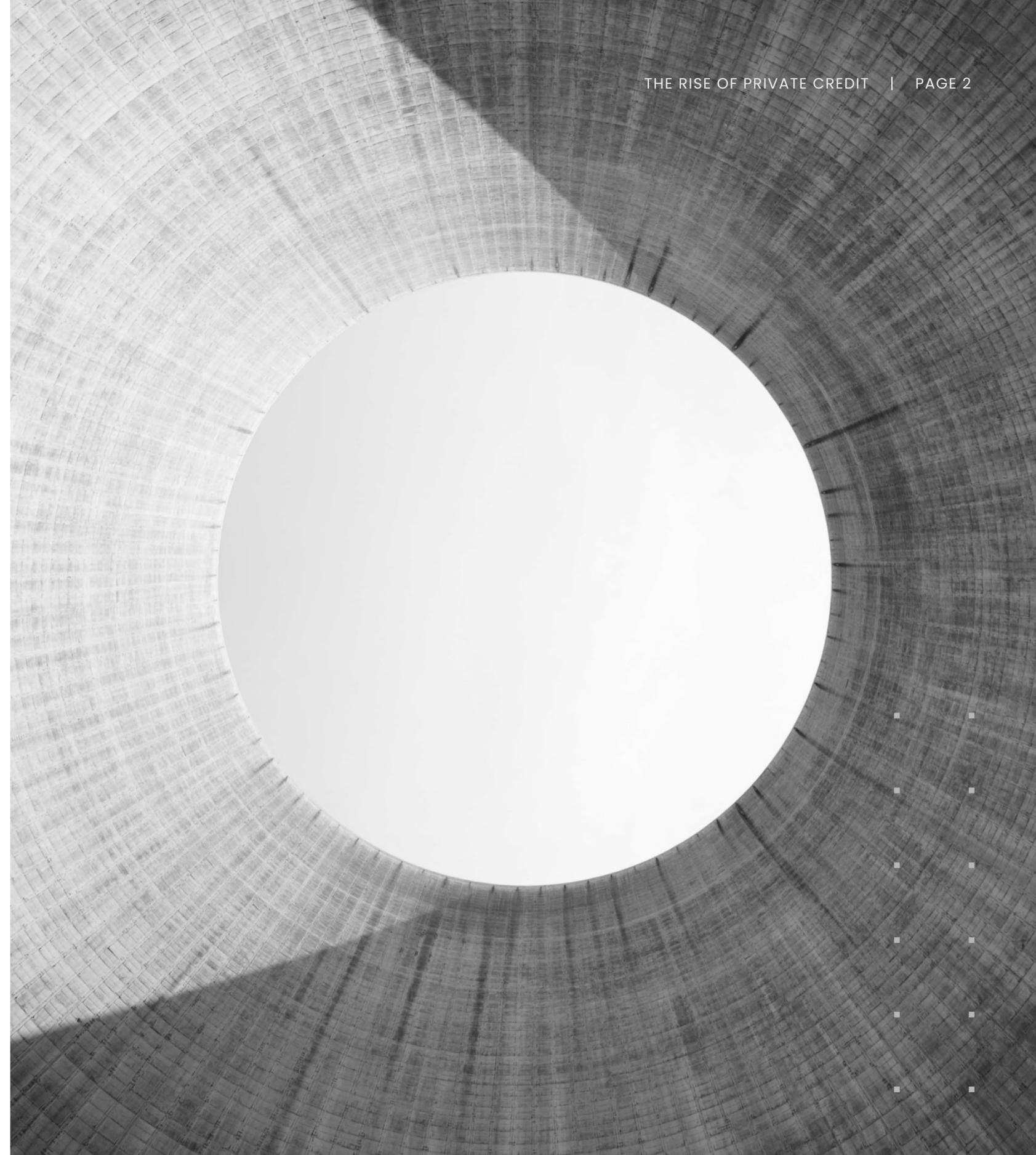
## About Merak Capital

**Merak Capital is an investment firm focused on technology opportunities across multiple stages and industries.**

Merak is built on deep technology research and understanding, staying at the forefront of digital trends, and finding investment opportunities that are aligned with adoption cycles from different sectors, locally, regionally, and globally.

The firm aims to partner with the builders of tomorrow in leading technological transformations, unlocking new markets and opportunities for growth, where innovation, fueled by the entrepreneurial spirit, shapes our future.

Merak specializes in alternative asset classes such as venture capital, private equity, private credit, and special projects. The firm is licensed by the Capital Market Authority of Saudi Arabia and was founded in 2018 by Saudi nationals with extensive experience in technology and investments.

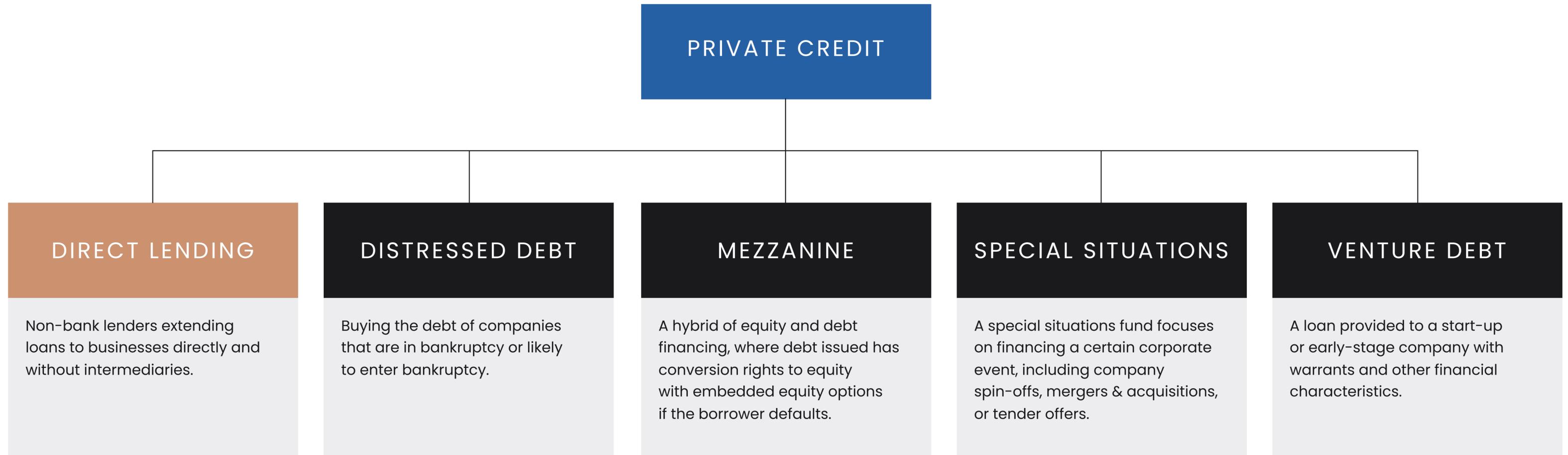


### Private Credit Asset Class

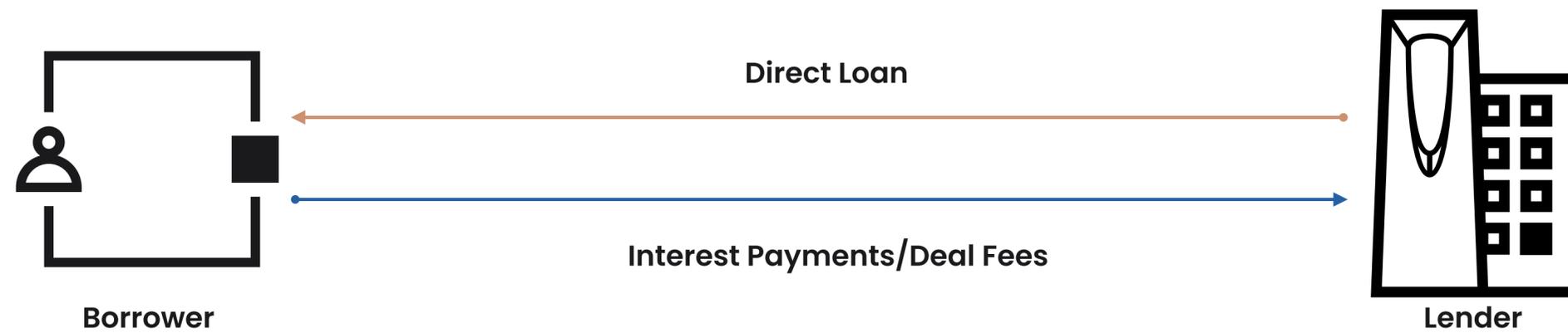
Global private credit assets under management near \$1.21Tn for year end 2021. This is off the back of a decade of growth, which averaged 13.5% annually, ahead of both private equity 11.5% and real estate 9.1%.



## Private Credit has five main strategies, of which Direct Lending is the largest in terms of size and growth



**Direct lending is when non-bank lenders extend loans directly to borrowers**



## | Definition

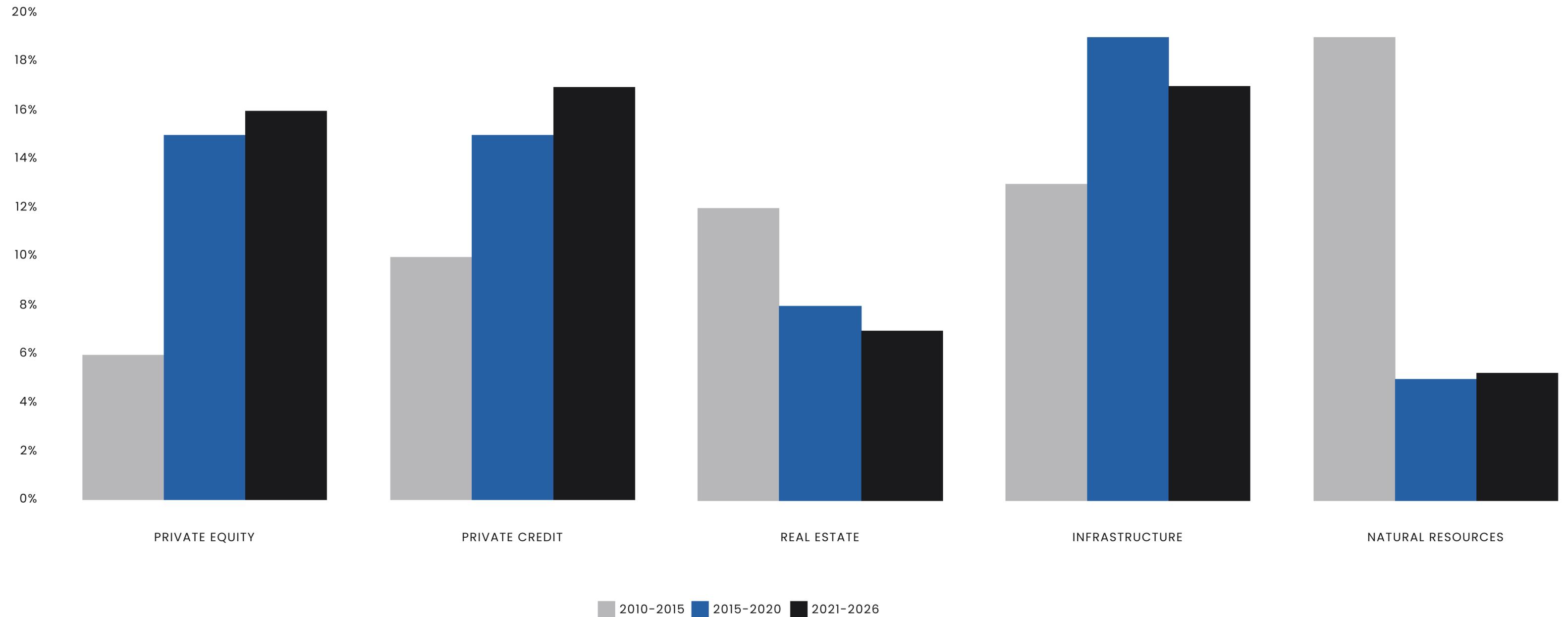
The predominant lending method in the private credit market, direct lending, consists of loans made by non-bank lenders directly to borrowers, where lenders generally hold these loans to maturity or refinancing. These loans are typically senior in the capital structure, secured by collateral.

## | Features

This type of loan generally features strong covenants, speed and greater certainty of execution, flexible solutions, and potentially enables more attractive terms for lenders. Direct lending (private origination) eliminates the need for intermediaries.

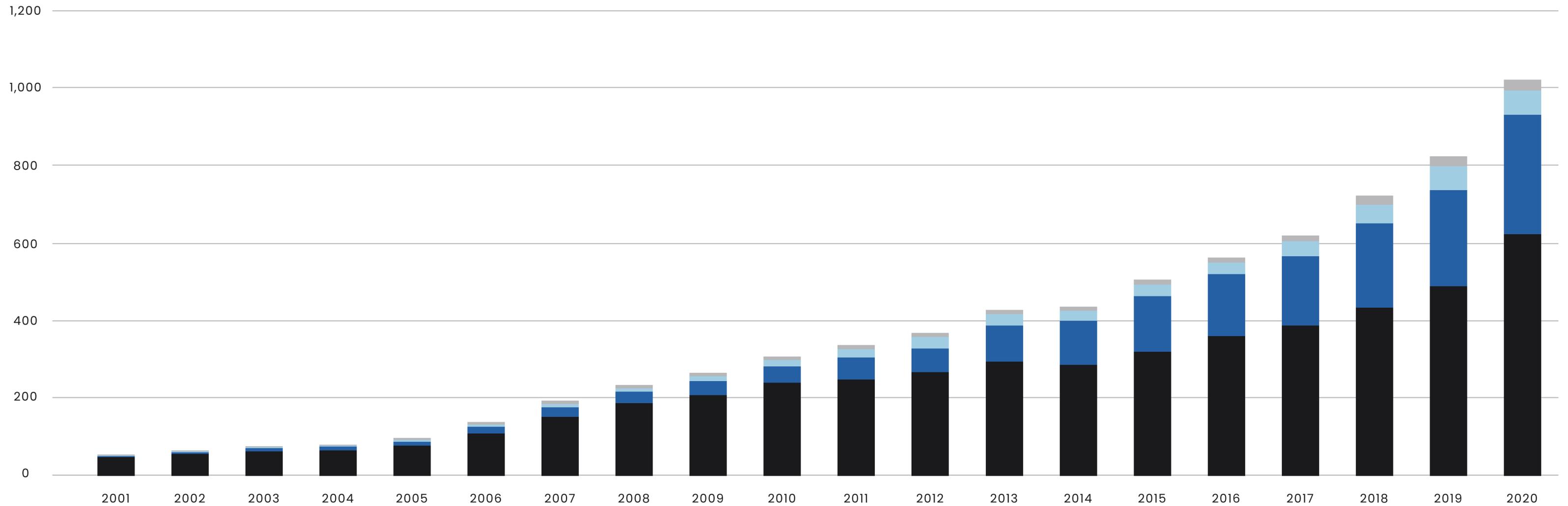
## Ahead of private equity and real estate, private credit AUM growth rate is forecasted to overtake infrastructure as well

Historic and Forecast Assets under Management CAGR by Asset Class (2010-2026F)



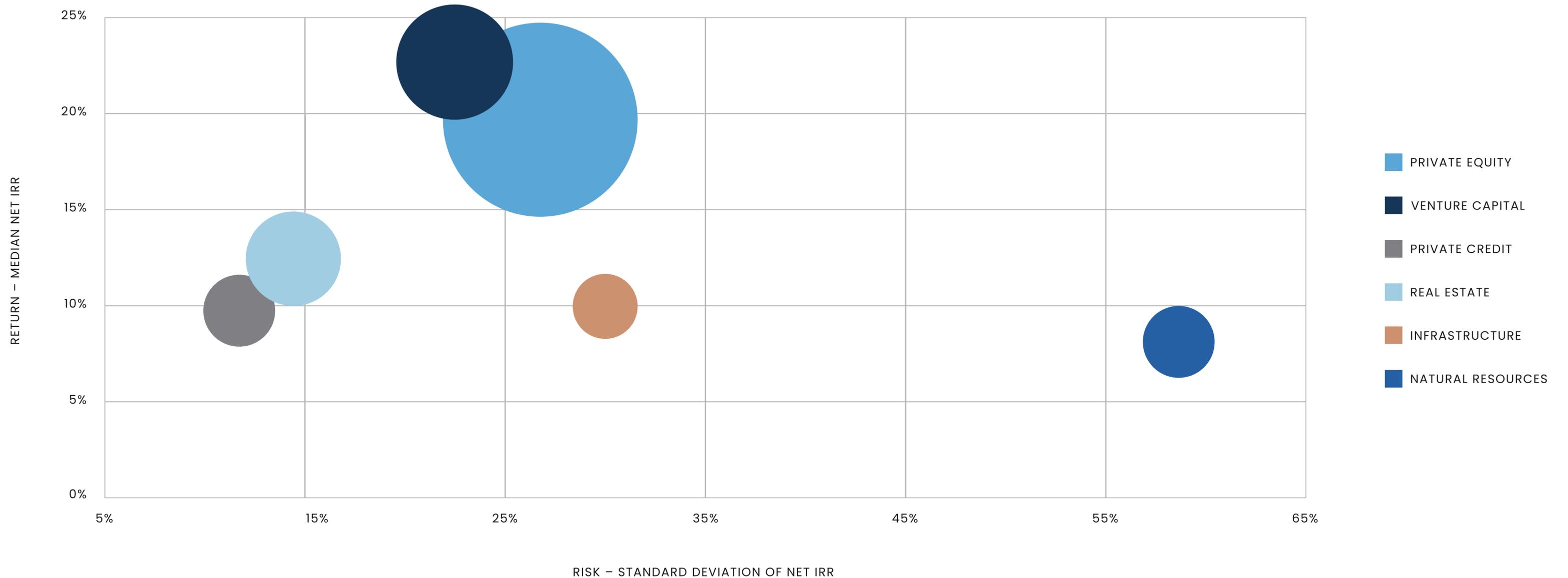
## Private credit is relatively nascent in the Middle East compared to North America and Europe

Private Credit Assets Under Management by Geographic Focus (2001-2020)



## Private credit provides lower risk/return profile and considerably greater downside protection compared to other asset classes

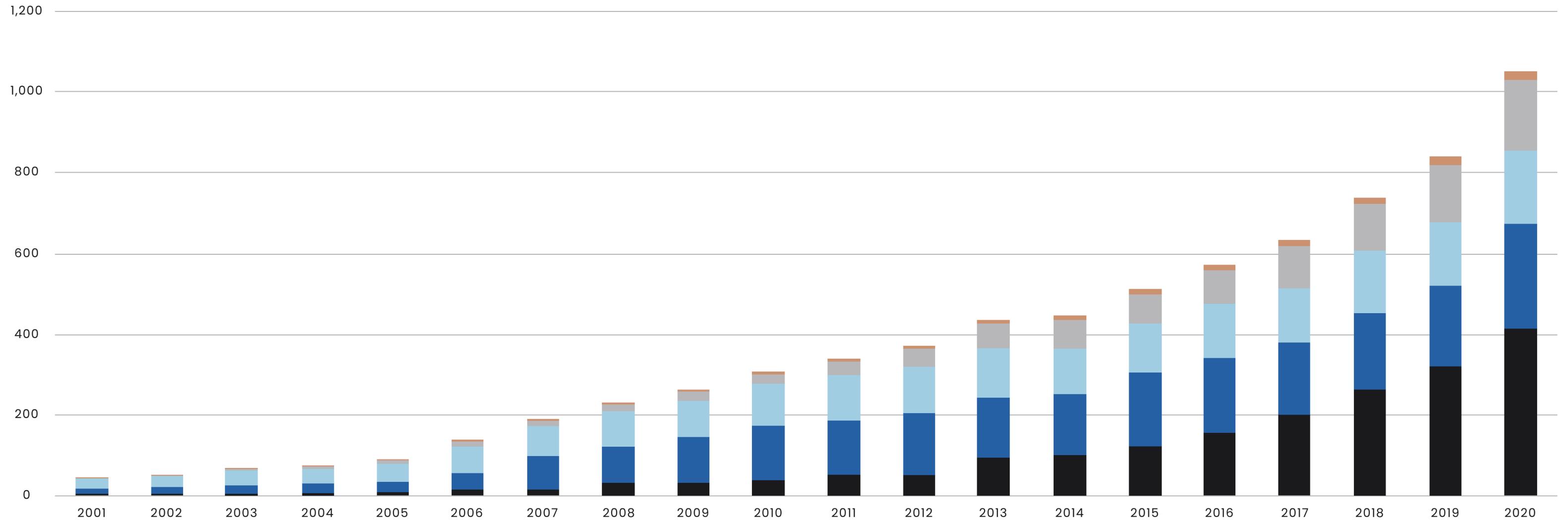
Private Capital: Risk/Return by Asset Class (Vintages: 2009-2019)



SOURCE: PREQIN – THE SIZE OF THE CIRCLES REFLECTS AUM PER EACH CLASS

## Among the strategies pursued by private credit fund managers, the majority of AUMs are direct lending

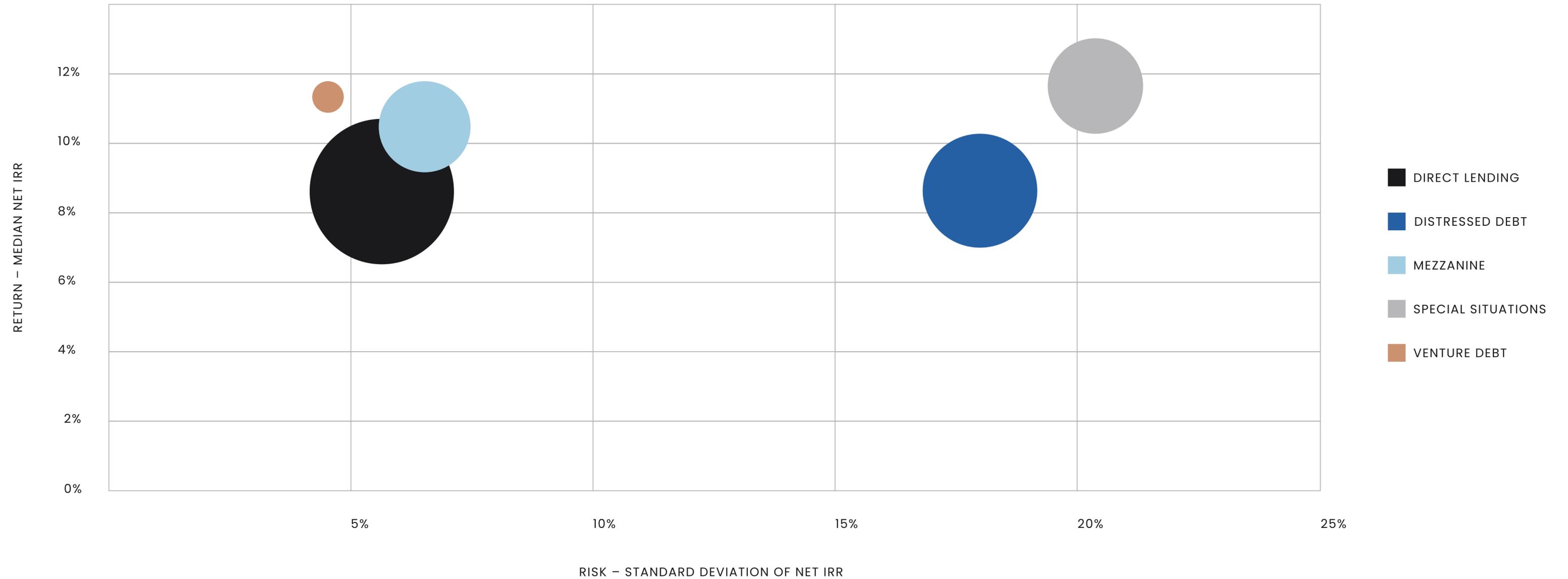
Private Credit Assets Under Management by Fund Type (2001-2020)



■ DIRECT LENDING ■ DISTRESSED DEBT ■ MEZZANINE ■ SPECIAL SITUATIONS ■ VENTURE DEBT

## Direct lending has historically produced lower volatility when compared to other private credit strategies

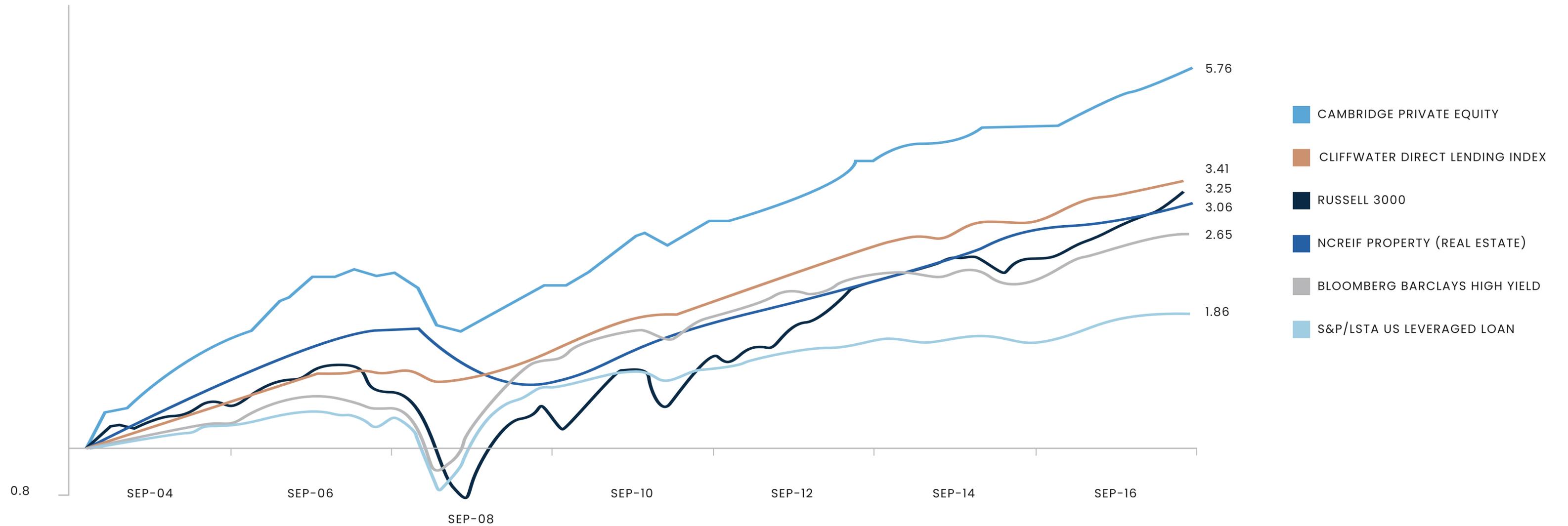
Risk/Return by Fund Type (2009-2018)



SOURCE: PREQIN – THE SIZE OF THE CIRCLES REFLECTS AUM PER STRATEGY

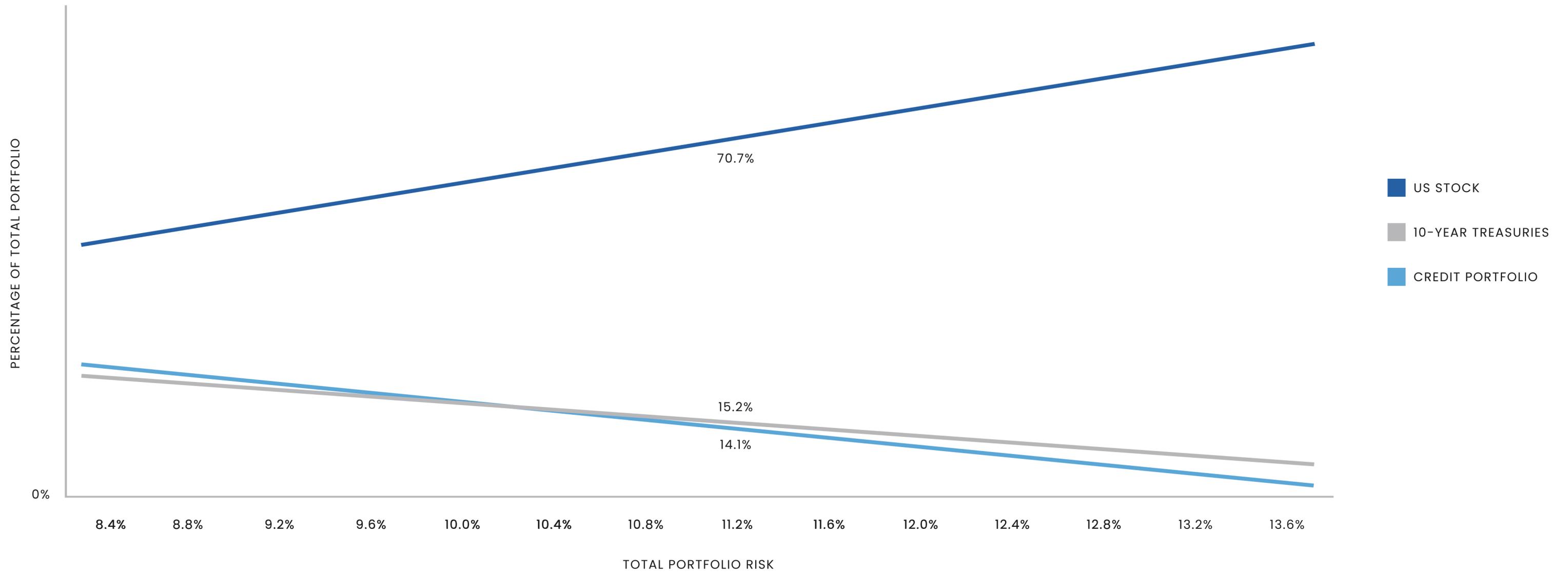
## Direct lending is less volatile compared to other asset classes making it a defensive asset class

| Asset class cumulative returns (growth of \$1.00)

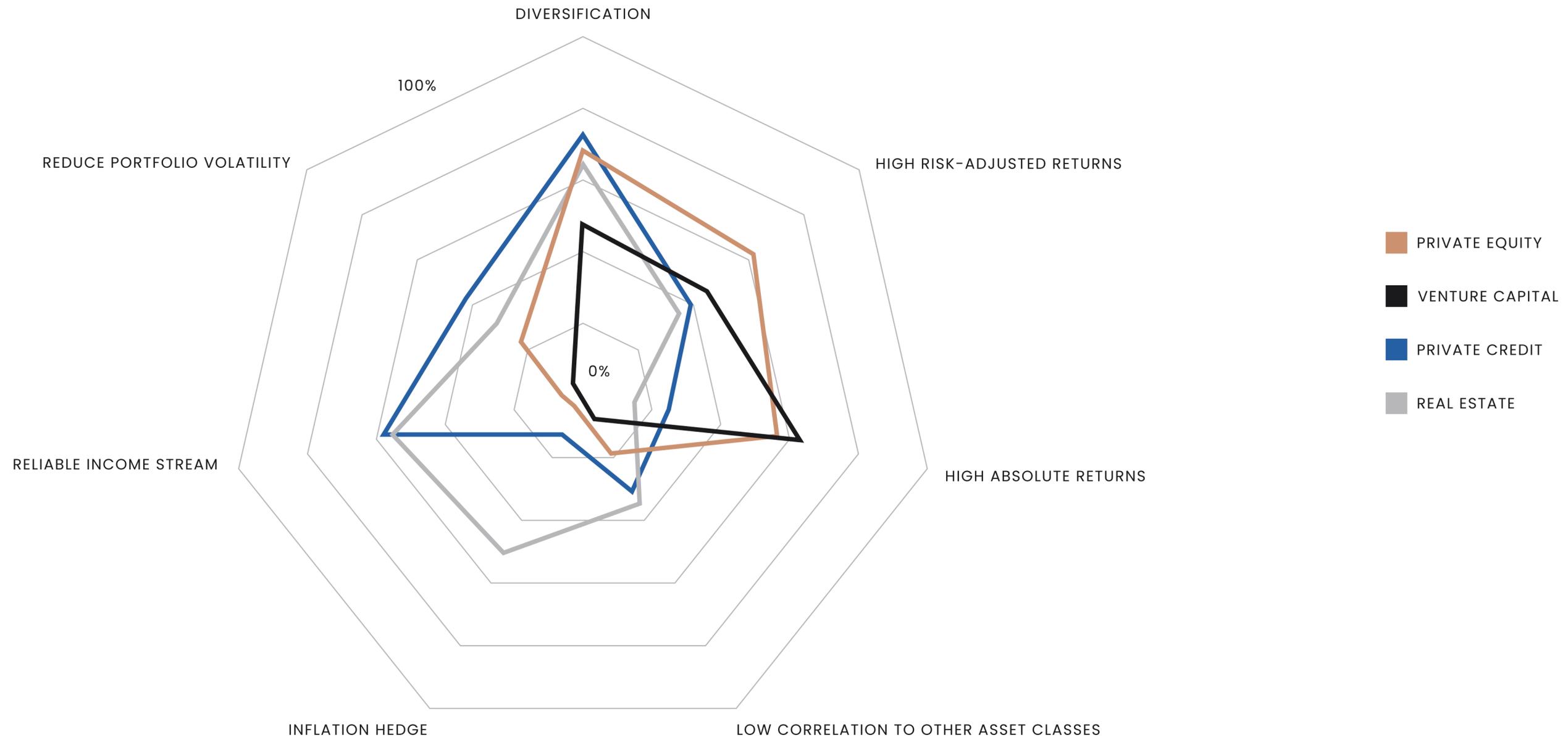


## An increased allocation to credit securities, such as private debt, statistically lowers investment portfolio risk

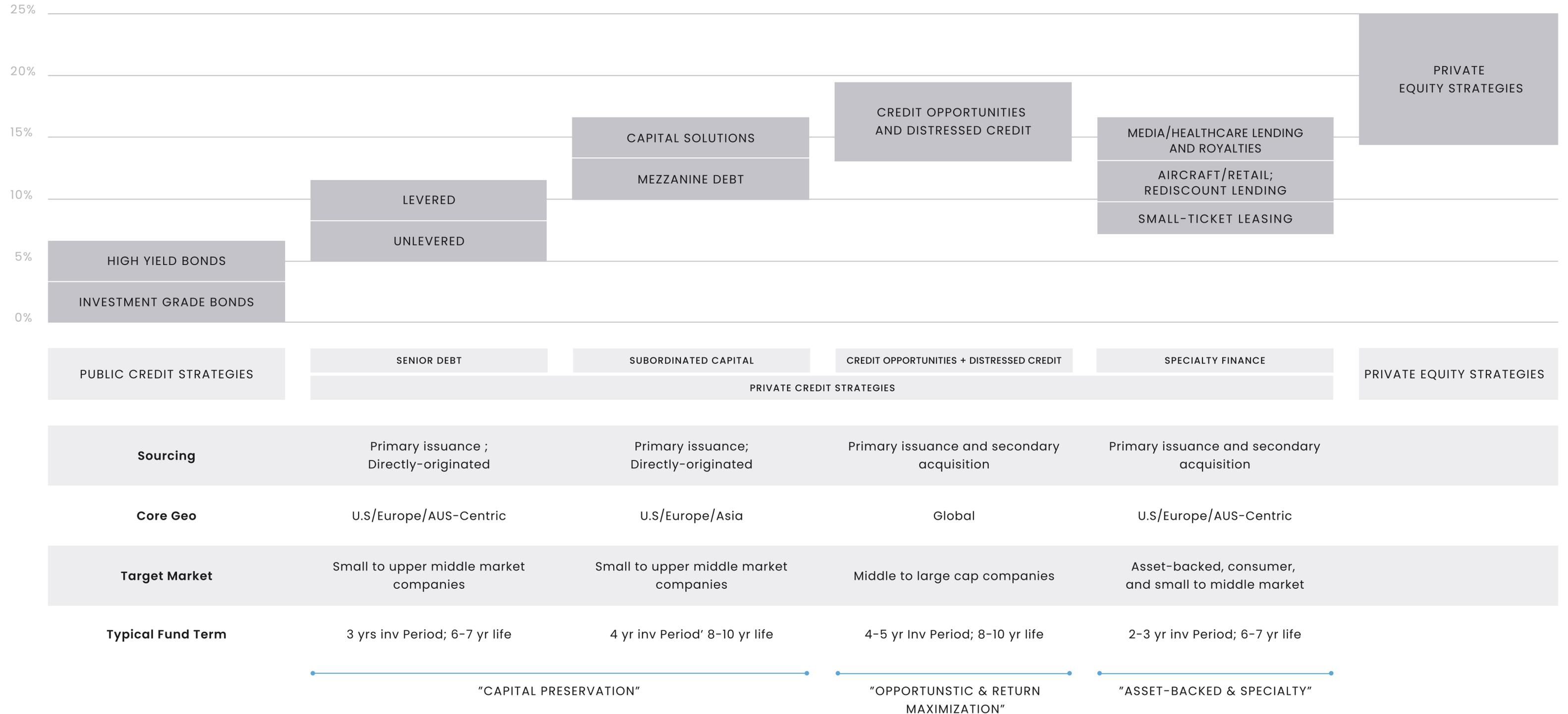
| Optimal allocation to stocks, interest rates and credit



## Diversification, income generation, and low correlation with other assets are the primary investment drivers for private credit



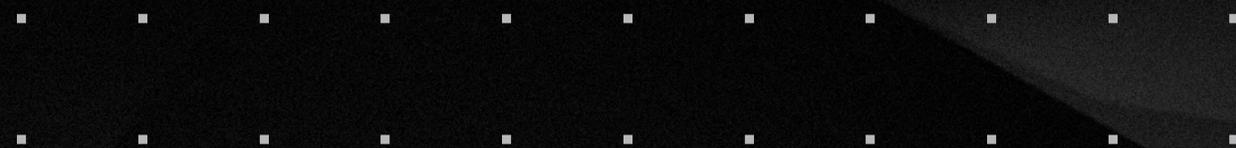
## Investment underwriting targets (Net IRR%)



SOURCE: CAMBRIDGE ASSOCIATES, AS OF DECEMBER 31ST, 2021

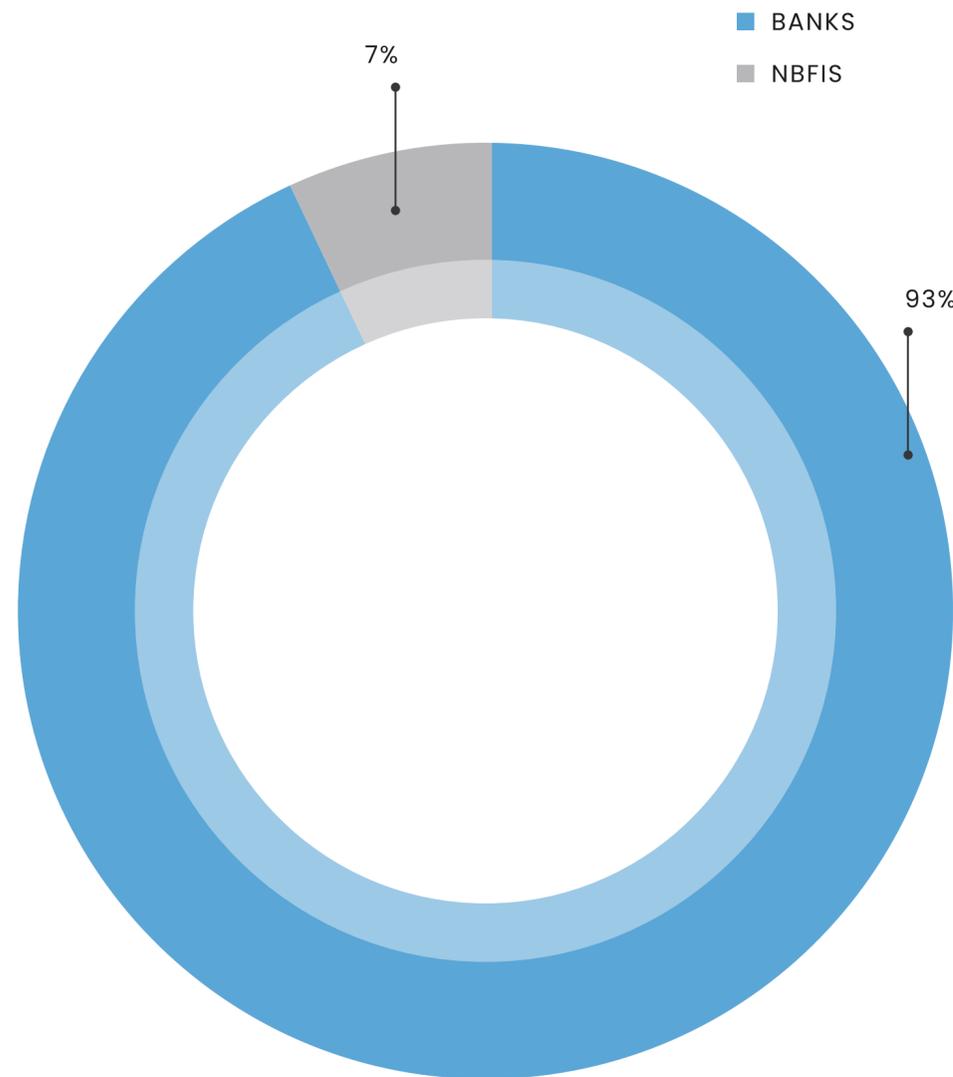
### Saudi Arabia Credit Opportunity

Vision 2030 objective for SME contribution to GDP to reach 35%, up from 28% today.

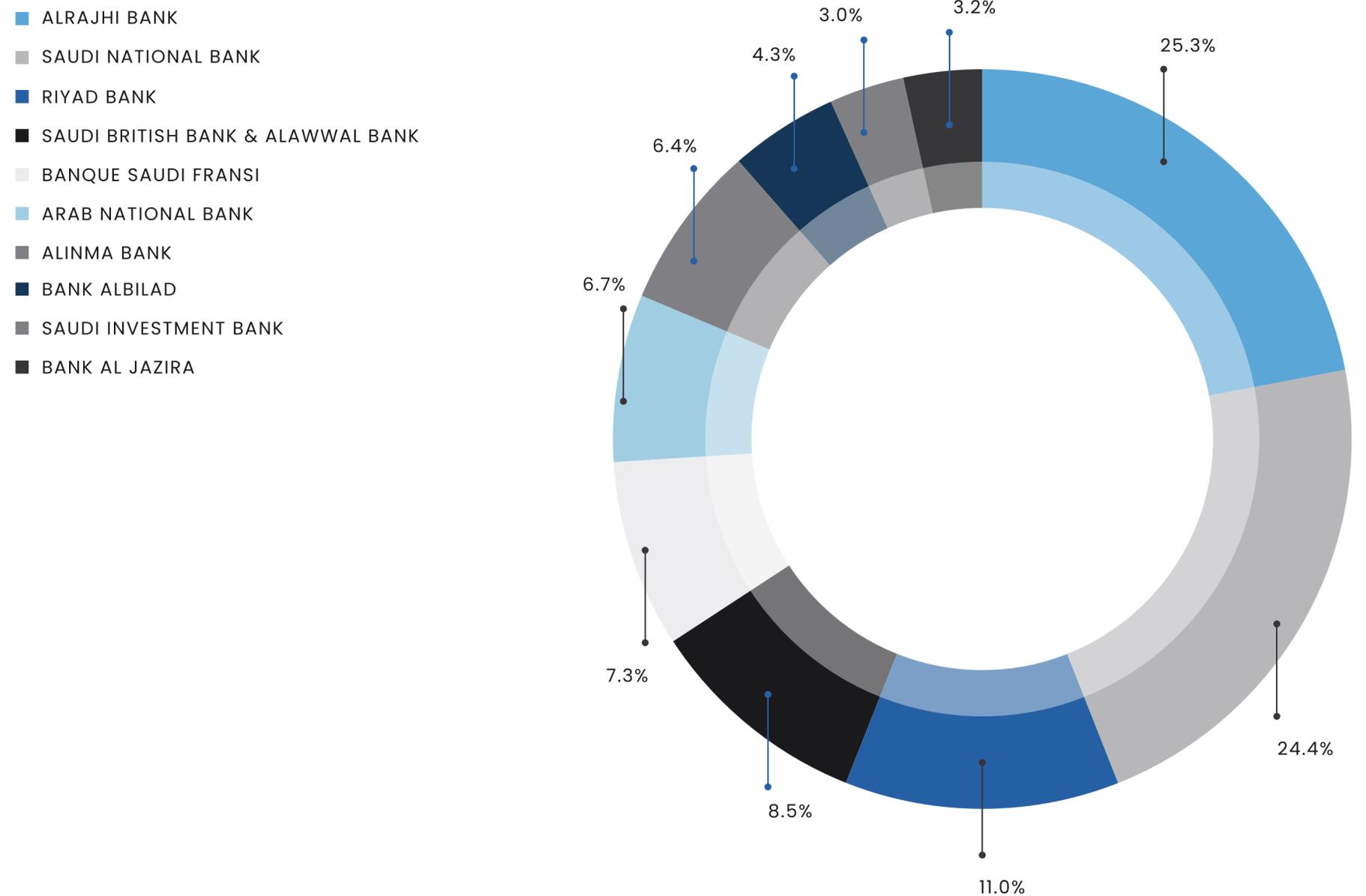


# The SR 2.42 trillion credit market is dominated by banks, with a total market share of 93% for banks over NBFIs

## Lending market share for Banks & NBFIs

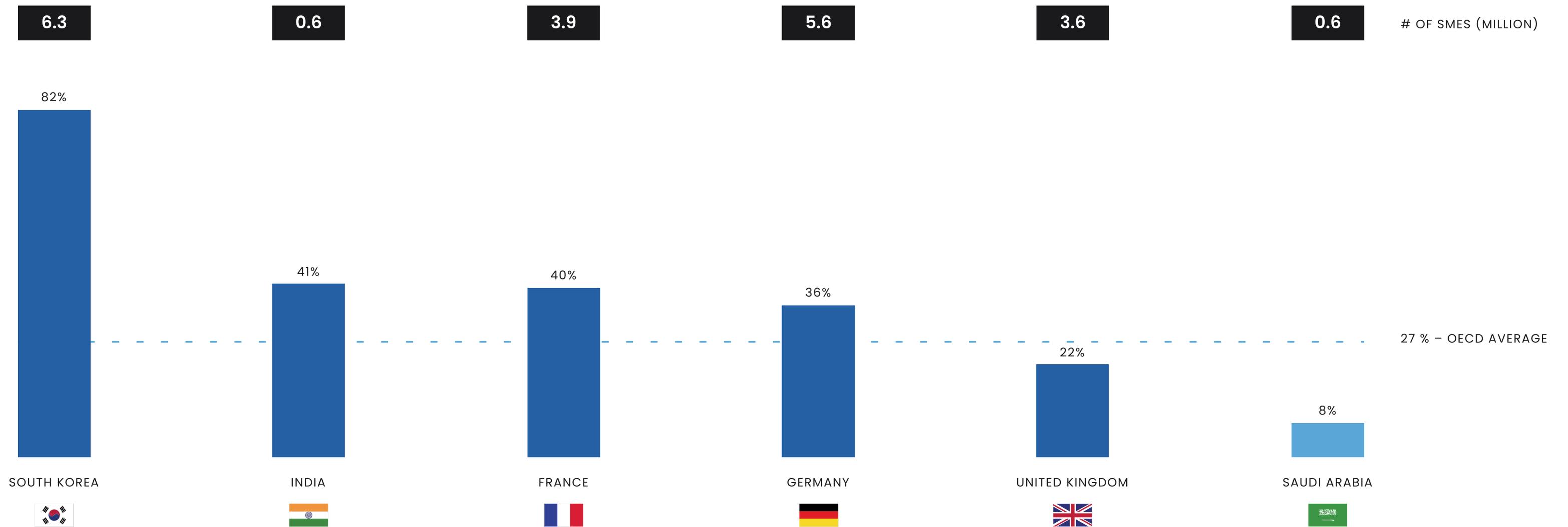


## Market Share of Banks by loans disbursed



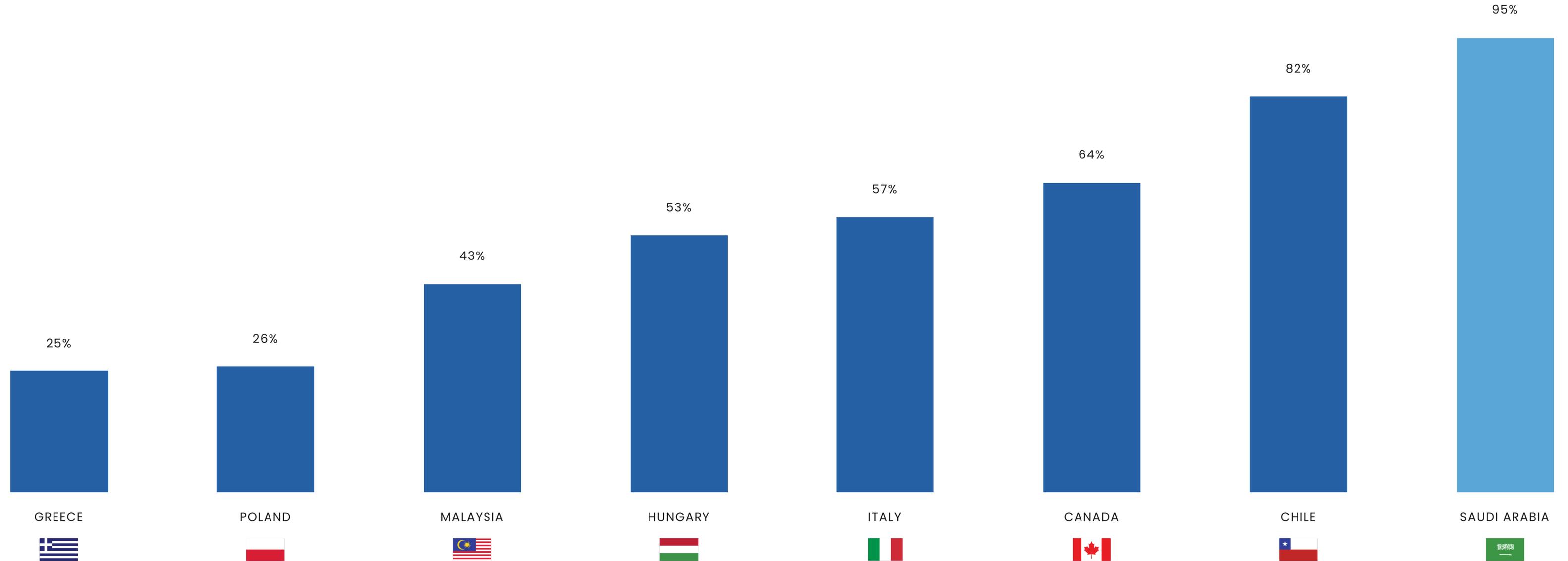
## Despite the continuous growth in SMEs lending, banks still have significant room for improvement

| SME loans as a percent of total bank loans (2020)



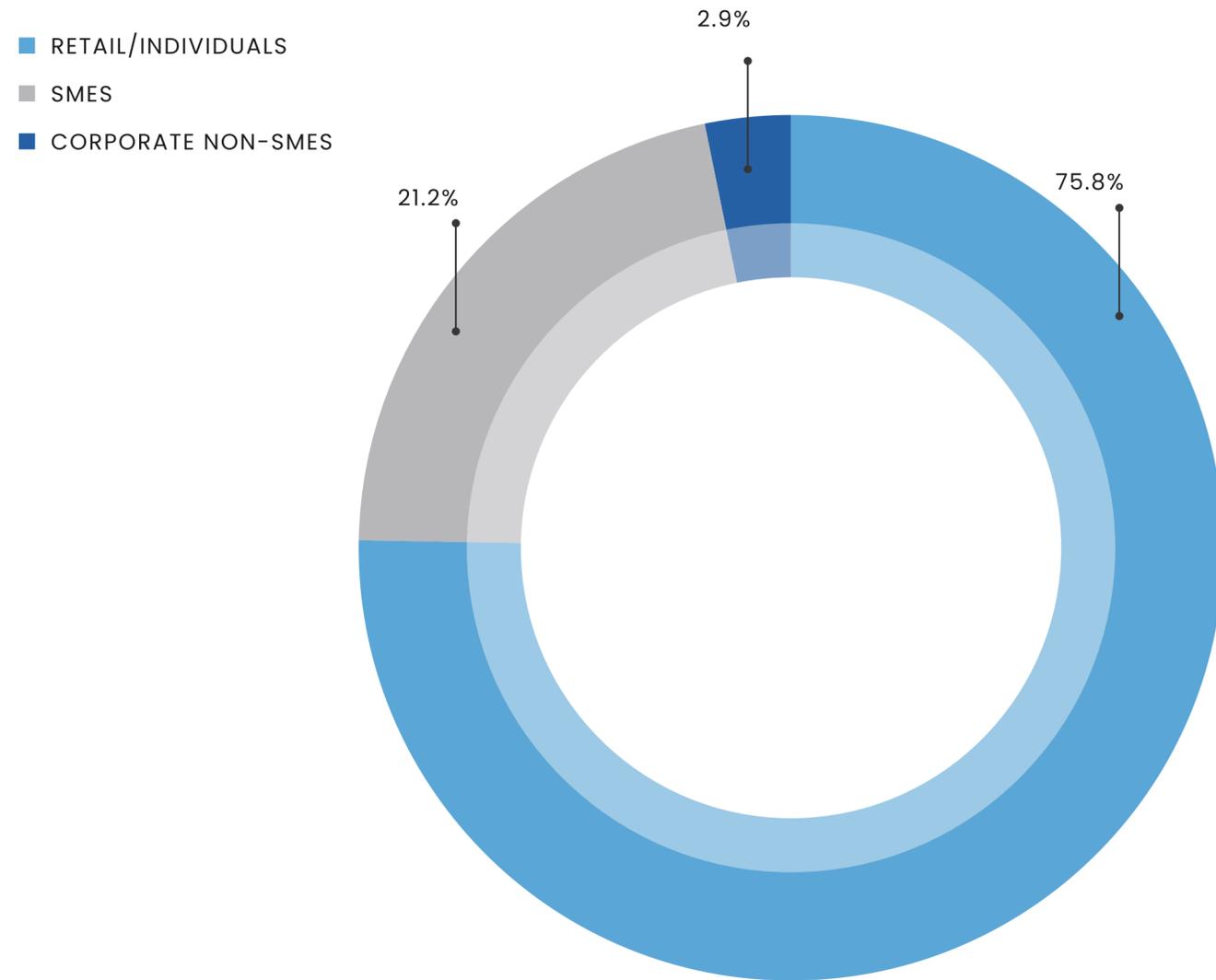
## Excessive collateral requirements by banks is a key challenge limiting SMEs access to financing

| Percentage of bank loans to SMEs that require collateral

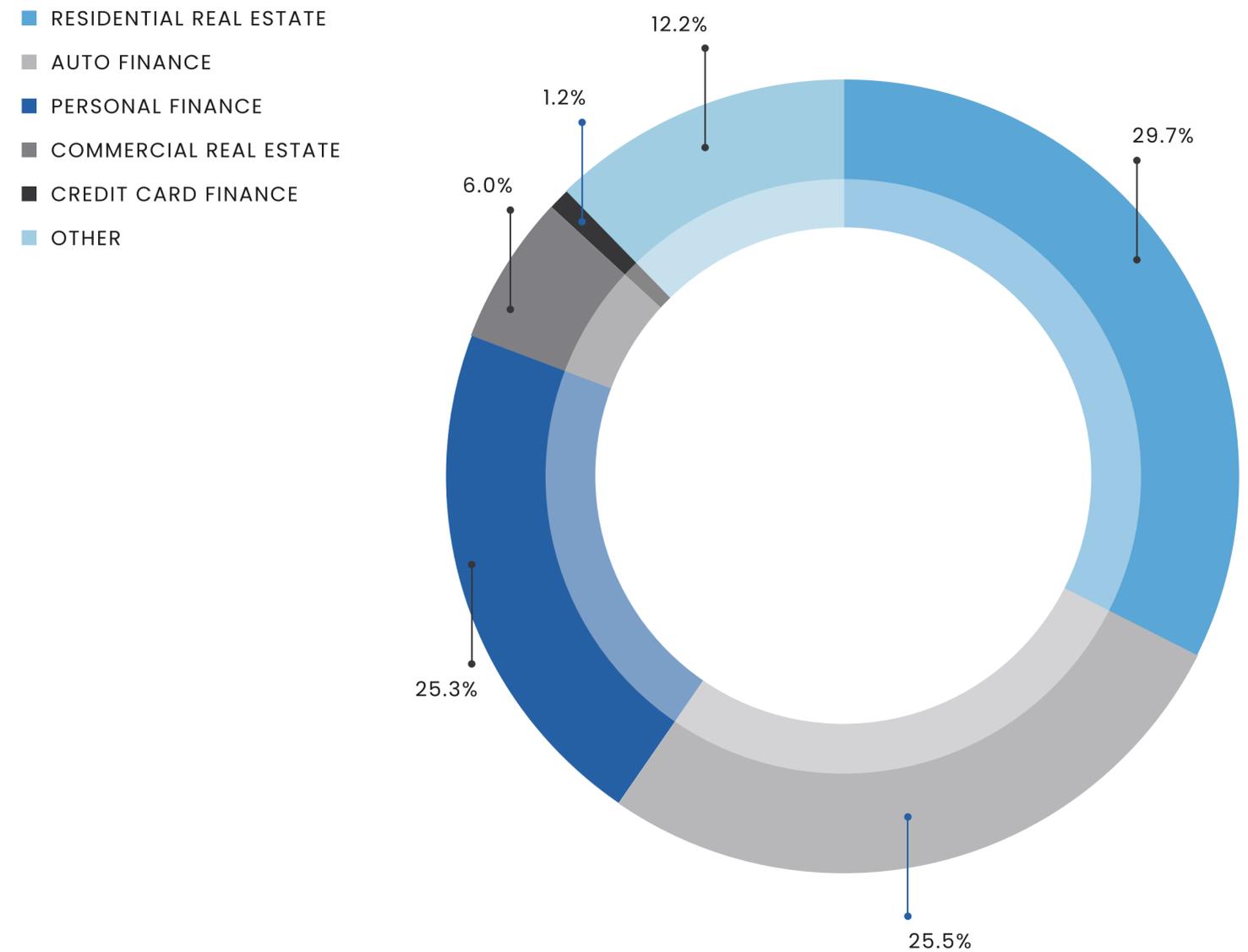


### While NBFIs are mainly targeting retail borrowers at 75.8% of total loans, compared to SMEs at 21.2%

NBFI loans by borrower type

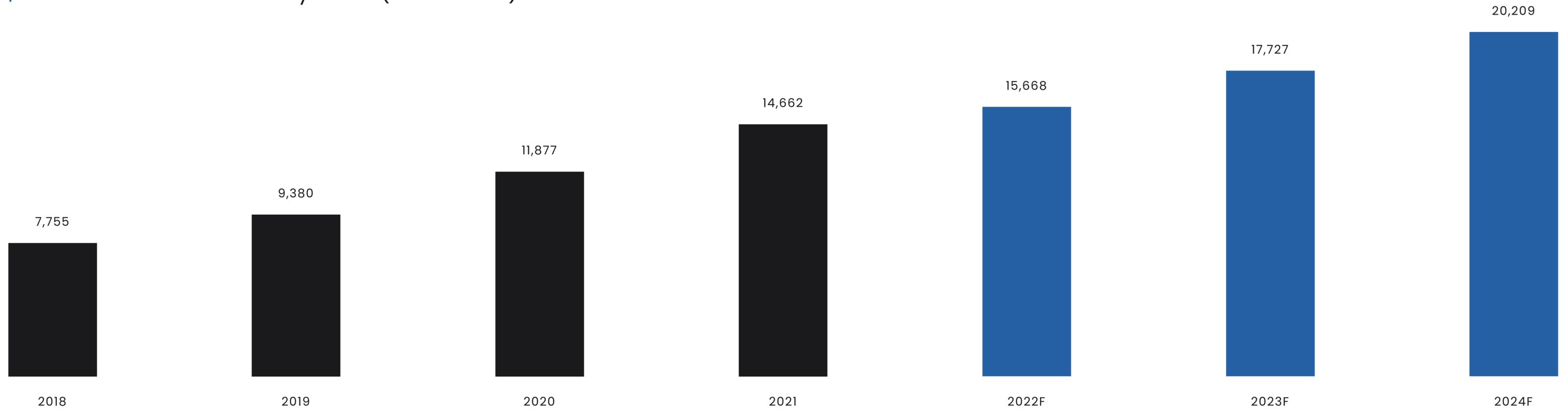


NBFI loans by business activity

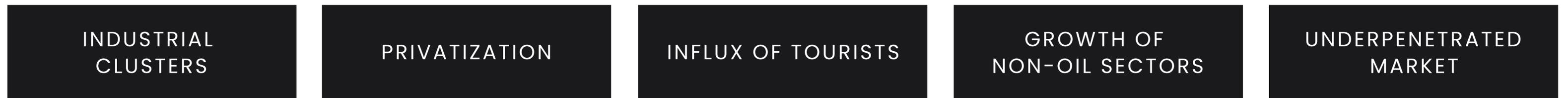


Nonetheless, SME loans extended by NBFIs are expected to grow at a CAGR of 14.2%

| Forecasted SME Loans by NBFIs (SAR Million)



### Key Growth Drivers of SME Financing



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