



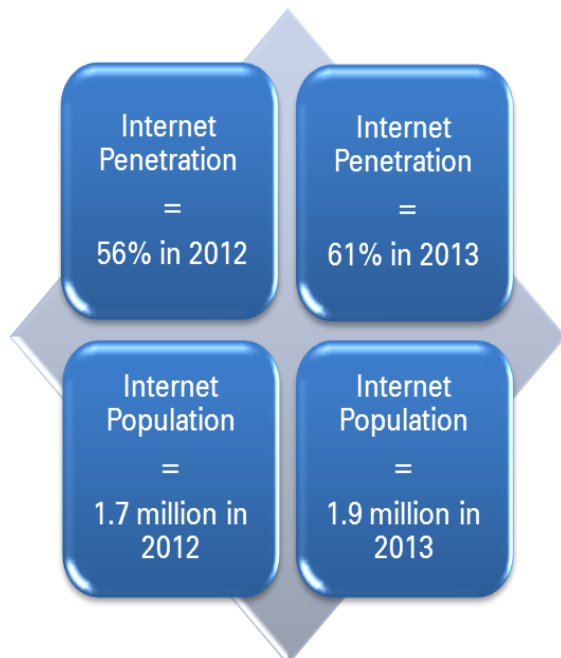
Market Figures

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Source: IPSOS

In millions of USD	2010	2011	2012	2013e	2014f	2015f	2016f	2017f
IT Market Value	258	318	350	368	395	433	477	529
o/w Hardware	164	200	219	228	243	264	289	319
PC	133	163	179	189	201	219	239	264
Servers	15	18	20	21	22	24	26	29
o/w Software	19	25	30	32	36	40	46	51
o/w Services	75	93	102	108	116	129	143	159

Source: Business Monitor International, Information Technology Report 2014

“IT-literate, linguistically-skilled and cosmopolitan”. This is how Business Monitor International (BMI) described the Lebanese workforce in its latest “Information Technology Report”. This same workforce and Lebanon’s strategic position as a regional hub are the main pillars of strength for the Lebanese IT market. Sharing BMI’s views on the market’s drivers, challenges and future prospects offers a solid road map for nurturing its strengths.

Business Monitor International (BMI) maintained a bullish view on the Lebanese IT market despite the ongoing civil war in neighboring Syria. The size of the IT market is forecast to reach \$394.96M in 2014 a 7.4% growth compared to a slower 5.1% recorded in 2013. BMI forecasts a compounded annual growth rate (CAGR) of 9.5% in the period 2014-2017, inflating the size of the market to \$529.35M in 2017.

Strong growth is also expected in the various segments of the IT market. Computer hardware sales, the biggest segment with a share of 61%, are forecast to reach \$242.92M in 2014 and to record a CAGR of 8.8% over the period 2014-2017. Sales of IT services, with a share of 29% of the total, will total \$395.02M in 2014 and will register a CAGR of 10.2% up to 2017. As for software sales, which represent only 9% of the total, they will amount to \$35.75M and are expected to record the highest CAGR of 12.4%.

Market Drivers

The expected growth in the overall IT market is owed to several factors according to BMI. Household PC penetration is relatively high but there remains room for sales to first-time buyers and for sales to multiple devices households. The strong sales opportunity also lies in personal devices which should translate into strong growth for tablets and hybrids which combine the best feature of a laptop and a tablet and that are offered at attractive prices.

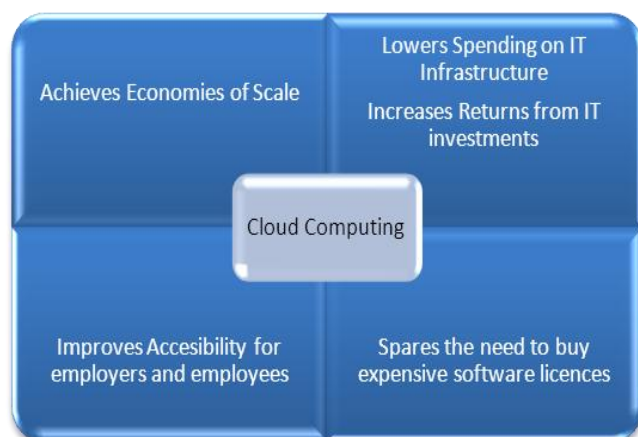
BMI has also based its strong growth expectations on the fact that modernization initiatives are undertaken as private and public sectors spend more on software solutions. Overall, BMI identifies opportunities for IT vendors in the telecoms, banking, utilities, real estate and government sectors which are likely to spend on modern equipment and IT solutions. Government and enterprises will also steer their spending towards e-commerce and e-government service delivery.

According to BMI, the development of e-commerce and e-government is driven by investments in the telecom infrastructure. BMI acknowledged that the poor quality and coverage of the Lebanese telecoms infrastructure and the elevated service prices in the past have weighed negatively on the IT market. However, BMI believed that the launch of 4G services in 2013 and the higher international bandwidth¹ that will allow lower costs of services are promising signs of improvement. The latest figure provided by the Ministry of Telecoms puts Lebanon's international bandwidth capacity at 900 megabits.

Although these developments do not render the market fully liberalized, they can revive some interesting prospects for Lebanon. First, device demand will be boosted in the retail market, networks will be rolled out over wider areas and costs will be lower for the end-user. This progress can also make "cloud computing" services more affordable and reliable. Yahoo! Mail, Gmail or Hotmail are perfect examples of "cloud computing" according to which a user doesn't need to install an e-mail program on their computer but can simply access the software through the services' computer cloud. With these modernization efforts, Lebanon can even speed up the process of becoming an outsourcing destination.

According to BMI, vendors should tap into the informatization of Small and Medium Enterprises (SMEs) which account for the majority of Lebanese businesses. The modernization is inevitable for Lebanese SMEs either if they are looking to preserve their market share or if they are contemplating a regional expansion. BMI notes that most of the Lebanese SMEs are still in the "developmental phase" of IT infrastructure. However, they are the perfect target for "cloud computing" service providers who can adapt the cost of their services to an SME's small budget.

Benefits of Cloud Computing



¹ International Bandwidth refers to the capacity of international connections between countries for transmitting internet traffic

Market Challenges

The IT market is not at bay from the insecurity reigning over neighboring Syria and more specifically from cyber threats which undermine confidence in the sector. Cybersecurity should be at the top of the agenda, be it for public institutions or private firms.

According to the Telecommunications Regulatory Authority (TRA), cybersecurity in Lebanon should be inscribed in the framework of a national policy. Organizational structures, legal and regulatory guidelines need to be enforced in order to reconcile accessibility of information and protection of personal data.

In terms of enforcing regulations, figures indicate that Lebanon still has some short-comings. According to the BSA Global Software Survey entitled “The Compliance Gap”, from 2007 till 2013 the share of unlicensed software installation rates hovered between 73% and 71%. This share drops to 57% in Jordan, 50% for Saudi Arabia, 49% for Qatar, 36% for UAE and rises to 89% for Libya, 87% for Yemen and 86% for Iraq.

The Lebanese IT Industry Benchmarked Against MENA Peers

Country	Rewards		Risks		IT Rating
	Industry Rewards	Country Rewards	Industry Risks	Country Risks	
Qatar	55.8	100	55	66.3	68.4
Israel	55	95	65	67	68.2
UAE	52.5	90	60	68.3	65.4
Kuwait	42.5	100	55	66.7	60.6
Saudi Arabia	45.8	75	55	67.7	58
South Africa	63.3	50	52.5	45	57.6
Oman	31.7	80	57.5	60.5	51.2
Bahrain	28.3	80	57.5	61.8	50.5
Nigeria	63.3	30	45	61.8	49.6
Lebanon	46.7	65	20	44.7	47.2
Ghana	51.7	35	40	42.2	46
Egypt	53.3	25	45	50.8	43.6
Kenya	53.3	10	55	43.4	39.4
Average	49.5	64.2	49.6	33.6	54.3

Source: Business Monitor International, Information Technology Report 2014

According to BMI, it's Lebanon's weak regulatory environment that earned it the 10th bottom spot amongst 13 other MENA countries on the Industry Risks Reward Rating (IRR) with a below average score of 44.7 over 100. BMI also highlights that “the slow pace of reforms in the telecoms sector is preventing the deployment of affordable Next-Generation-Networks (NGN)” and that the volatile security situation continues to worry investors.

In our world today, governments, private companies, individuals have no choice but to live by “tech-savvy” standards. As for Lebanese, which have never shied away from any trend, they need the right regulatory framework and the stabilization of the security situation to tap into the IT market's growth potential.

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