

Private Equity and Family Firms

The latest research from CMBOR shows that the European private equity market has grown in prominence over recent years with the number of buy-outs rising from 1212 in 1998 to 1436 by the end of 2007. One of the most important features of this market has been the growth in buy-outs of family/private firms from 451 in 1998 to 559 in 2007; with the combined value of these deals rising from €11.2 billion to €18.3 billion during the same period.

The UK is still by far the largest country in Europe for family firm buy-outs (272) with other countries such as, France (88), Denmark (33) Germany (30) and the Netherlands (27) still relatively small by comparison.

Family buy-outs are still much smaller than other types of buy-out and while the average deal size of all buy-outs has been increasing and now stands at €119 million (2007), average deal size for family firms has been much lower and was only €33 million in 2007. In terms of the number of employees, the average size of a family firm at the time of buy-out has varied between 194 and 480 over the past ten years. Family firm buy-outs in Germany have on average 794 employees, much more than elsewhere in Europe.

Further research undertaken by CMBOR on private equity and family firms found that; a fifth of family owned firms had undertaken no succession planning before a buy-out and only a third of respondents to the CMBOR survey had planned succession two or more years before the buy-out took place.

In general, the strategic objectives of family firms post buy-out emphasize improving efficiency and fostering growth and expansion and the highest performing firms showed a stronger emphasis on strategic planning and specific goal setting and maintained continuity pre and post-MBO/I.

A buy-out may be an important transitory phase to enable necessary professionalization in a family firm that may otherwise be difficult to achieve. The level of professionalization in a family firm increases following a buy-out. Professionalization is, therefore, a continual process.

In general, the strategic objectives of firms post buy-out emphasize improving efficiency and fostering growth and expansion. Among the objectives linked to growth and expansion, sales growth and long-term profitability were paramount.

Private Equity in Family Firms A report on private equity investments in family firms across Europe from The Centre for Management Buy-out Research (£250).

Key findings of the CMBOR study

- There were 559 European buy-outs of family firms in 2007. The aggregate value of these deals was €18.3 billion.
- The main markets for buy-outs of family firms in 2007 were the UK (272), France (88), Denmark (33) Germany (30) and the Netherlands (27).
- While the average deal size of all buy-outs has been increasing and now stands at €119 million (2007), average deal size for family firms has been much lower and relatively stable and was only €33 million in 2007.
- In terms of the number of employees, the average size of a family firm at the time of buy-out has varied between 194 and 480 over the past ten years.
- Family firm buy-outs in Germany have on average 794 employees, much more than elsewhere in Europe.
- Management teams of buy-outs of family firms hold on average an equity share of 46% after the transaction. This is about 3% higher than the equity stake of management teams of all buy-outs.
- Average time to exit for PE backed buy-outs of family firms is 58 months. This holding period has increased over the last 10 years and is about the same as the respective value for all buy-outs.
- For over a fifth of respondents to the CMBOR study there was no succession planning in family firms. Only a third of respondents had planned succession two or more years before the event.
- Almost a half (46%) of respondents indicated a mutually agreed price had not been negotiated.
- Negotiations are less likely to involve a mutually agreed price where the succession process is driven by the vendor.
- A mutually agreed sale price between the vendor and the acquiring management is unlikely if the private equity firm is involved in discussions regarding succession planning.
- The finding that the vendor controlled all or most of the relevant information in MBIs highlights the problem for outside purchasers and suggests the need for caution in the negotiation of these deals.
- The link between private equity firm involvement in discussions about succession and a lower incidence of a mutually agreed price suggests that the experience of private equity firms puts them in a stronger position to negotiate with the vendor than is the case for management.

- The link between management control of the relevant information and a lower likelihood of a mutually agreed price highlights that in some family firms, management are in a stronger position to negotiate succession. This suggests that vendors may need to take independent advice in negotiating the sale process.
- In general, the strategic objectives of firms post buy-out emphasize improving efficiency and fostering growth and expansion.
- Among the objectives linked to growth and expansion, sales growth and long-term profitability were paramount.
- The level of professionalization increases following a buy-out. Professionalization is, therefore, a continual process.
- The highest performing firms showed a stronger emphasis on strategic planning and specific goal setting and maintained continuity pre and post-MBO/I.
- Succession through MBO/I can enable the family firm to maintain its independent ownership and sustain the notion of stewardship of the organisation over time, albeit in a metamorphosed state.
- A buy-out may be an important transitory phase to enable necessary professionalization in a family firm that may otherwise be difficult to achieve.