Fifth edition

AUB Observatory on all Italian family firms exceeding the threshold of 50 mio €

Guido Corbetta, Alessandro Minichilli, Fabio Quarato

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Associazione Italiana delle Aziende Familiari
Università Commerciale Luigi Bocconi
UniCredit Private Banking
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CAMERA DI COMMERCIO MILANO

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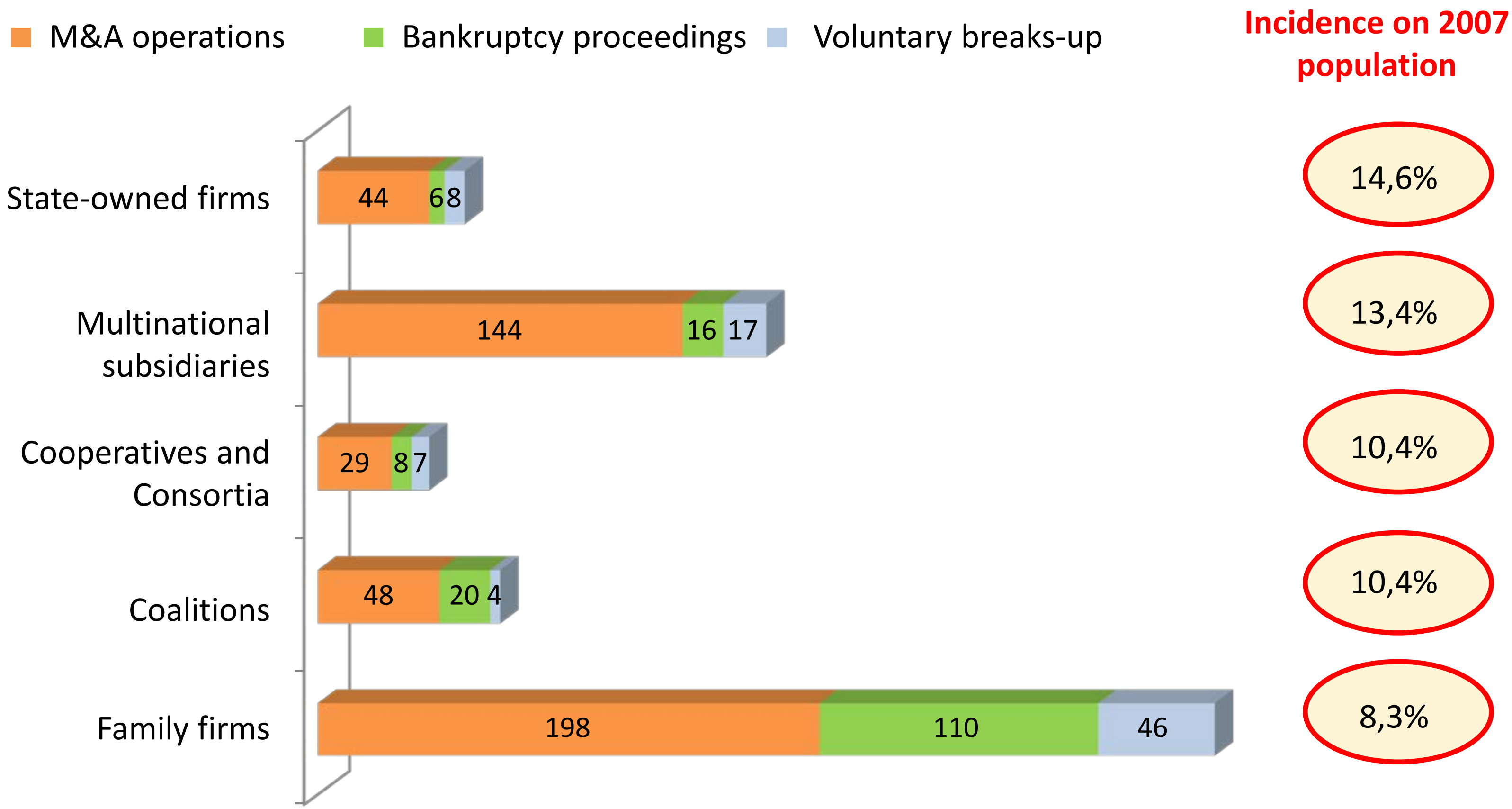
The population in the five-year period 2007-2011

Ownership structure (*)	2007		2008		2009		2010		2011	
	N	%	N	%	N	%	N	%	N	%
Family firms	**4.251**	55,5%	**4.221**	55,1%	**3.893**	57,1%	**4.077**	57,4%	**4.249**	58,0%
Multinational subsidiaries	**1.817**	23,7%	**1.779**	23,2%	**1.449**	21,3%	**1.513**	21,3%	**1.544**	21,1%
Coalitions	**694**	9,0%	**662**	8,6%	**596**	8,7%	**588**	8,3%	**609**	8,3%
Cooperatives and Consortia	**423**	5,5%	**428**	5,6%	**396**	5,8%	**411**	5,8%	**407**	5,6%
State-owned firms	**397**	5,5%	**411**	5,4%	**349**	5,1%	**357**	5,0%	**359**	4,9%
Controlled by P.E.	**-**	-	**84**	1,1%	**93**	1,4%	**118**	1,7%	**117**	1,6%
Controlled by banks	**81**	1,1%	**75**	1,0%	**40**	0,6%	**41**	0,6%	**35**	0,5%
Total	**7.663**	**100%**	**7.660**	**100%**	**6.816**	**100%**	**7.105**	**100%**	**7.320**	**100%**

(*) Source: Aida.

Extraordinary transactions

Firms of the previous editions undergoing extraordinary transactions (*)



(*) Percentages are calculated as the number of firms excluded from the four previous editions of the AUB Observatory on the total number of firms monitored as at 31/12/2007.
(Source: Aida).

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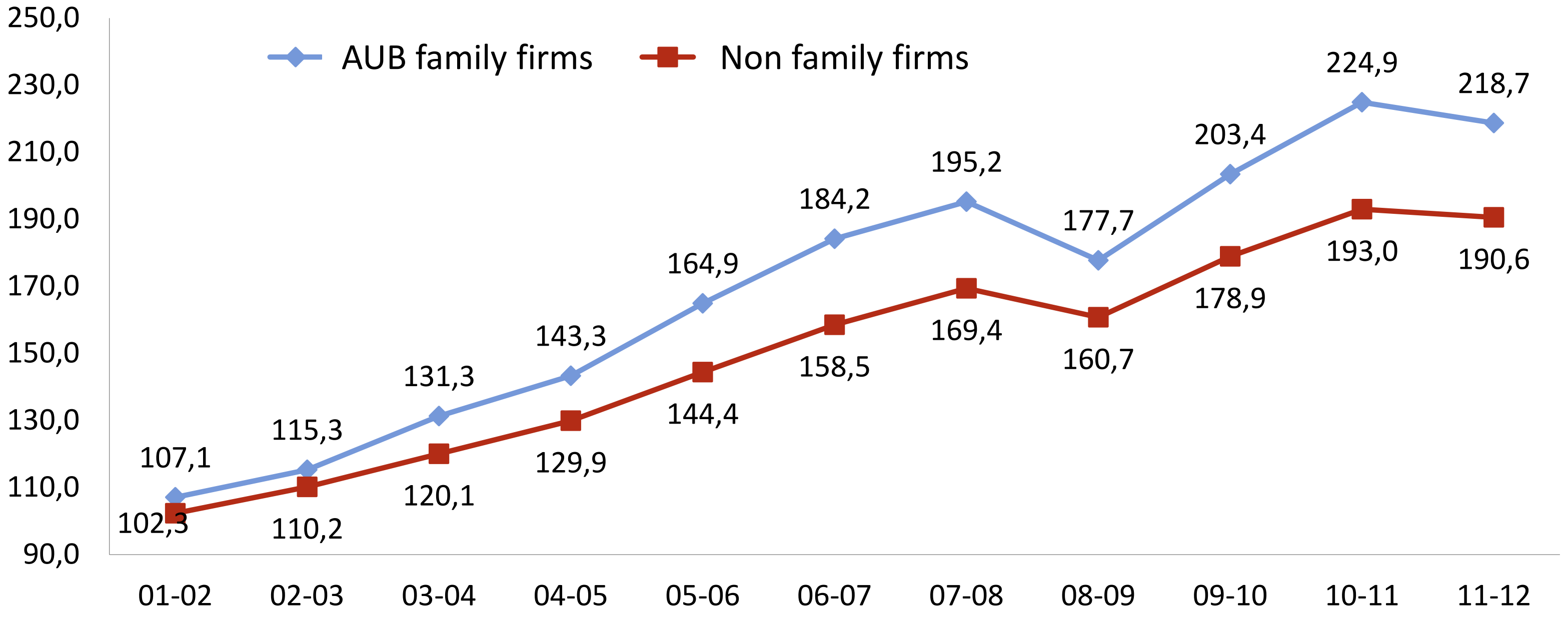
Growth

The growth in family and non family firms (*)

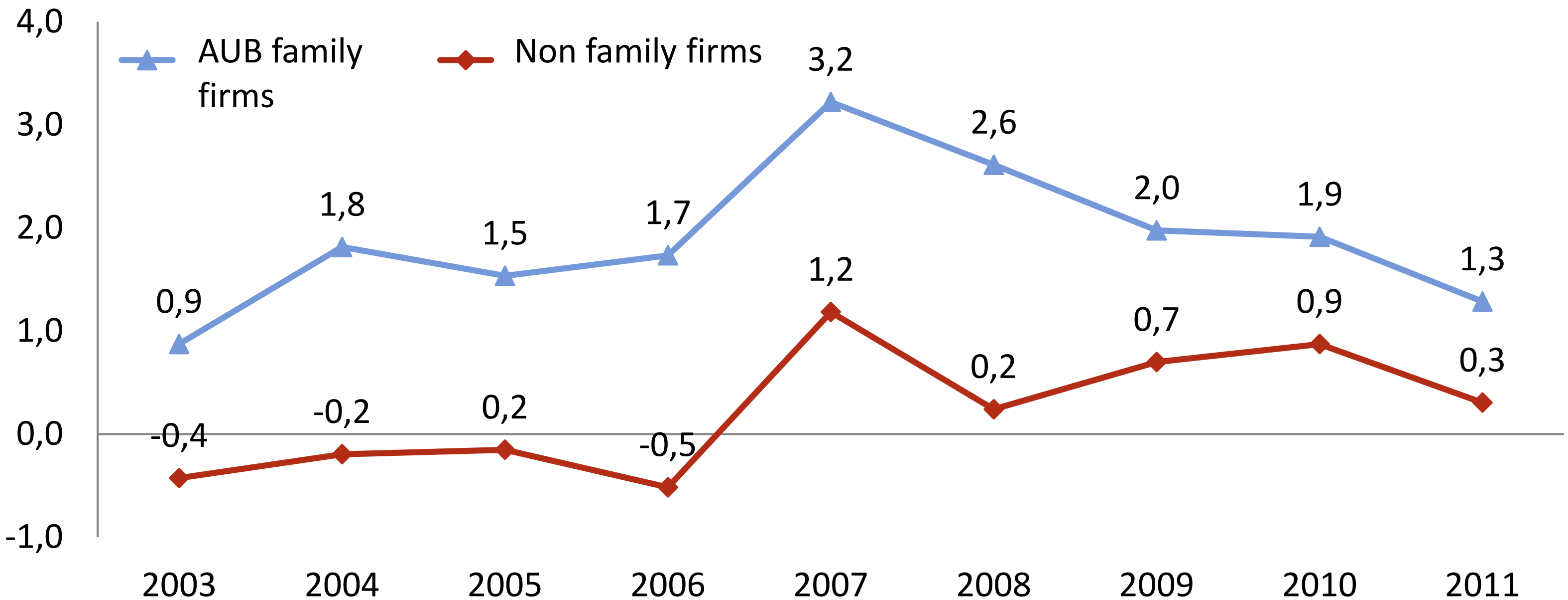


Non family firms	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12
Coalitions	104,6	114,9	129,5	145,4	164,8	184,9	199,4	191,0	215,4	237,0	233,9
State-owned firms	99,5	110,9	122,5	137,8	153,7	164,0	181,7	186,5	205,6	222,4	232,8
Cooperatives and Consortia	107,6	121,3	132,7	142,4	155,7	172,0	190,3	192,1	208,0	222,4	221,1
Controlled by P.E.	91,3	96,8	114,5	123,8	142,1	157,5	172,1	160,9	177,4	189,5	181,6
Multinational	100,5	106,0	114,0	121,5	134,7	147,2	153,5	139,7	156,3	167,9	163,0

(*) Compound growth 100-based (year 2001), calculated on sales revenues (Source: Aida).

Profitability

Gap of ROI in comparison to the mean sector (*)

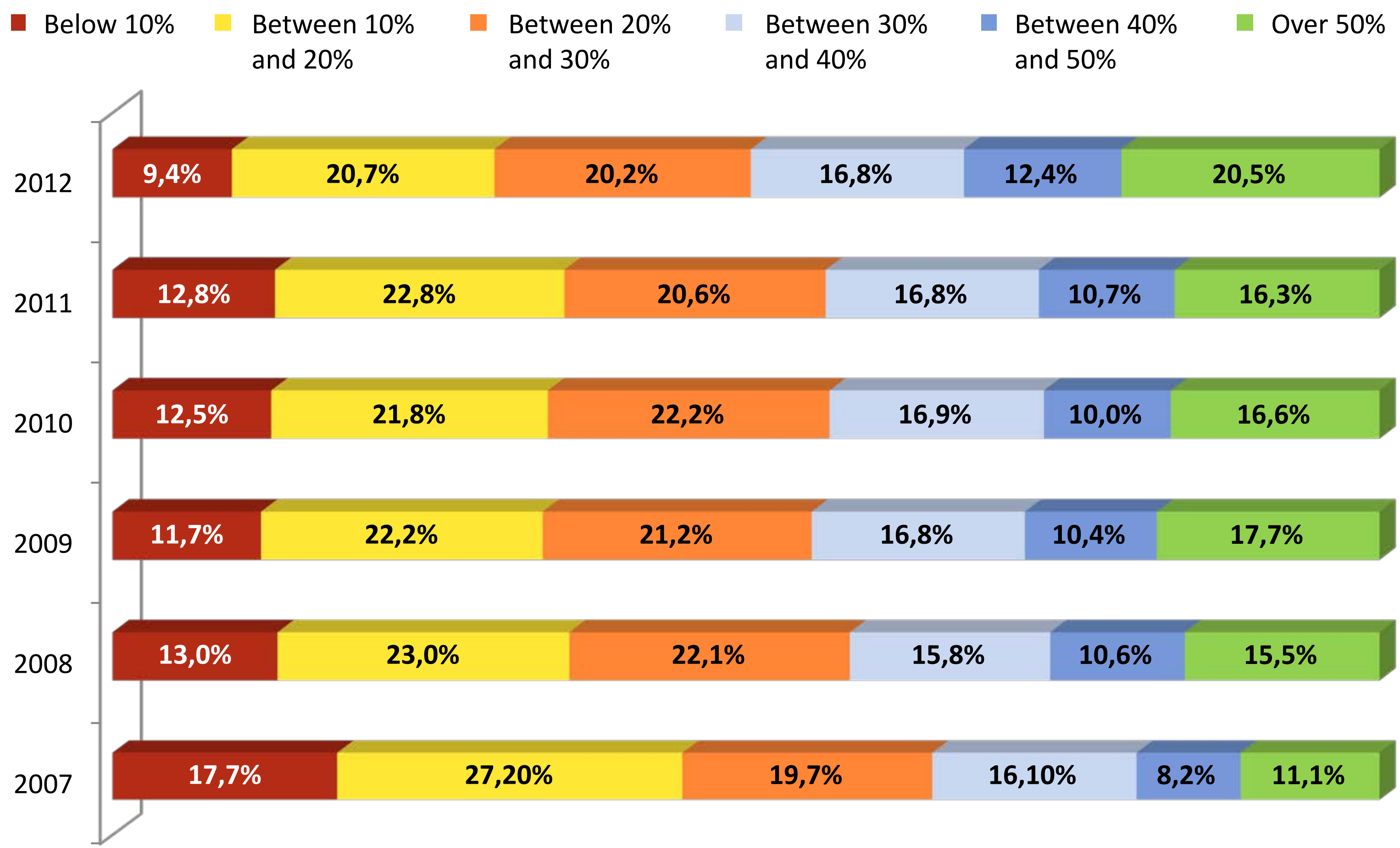


Non family firms	2003	2004	2005	2006	2007	2008	2009	2010	2011
State-owned firms	0,2	0,4	-0,2	-0,6	1,5	1,6	2,4	2,0	2,4
Multinational	-0,1	0,5	0,4	-0,1	1,9	0,3	1,0	1,9	1,0
Coalitions	0,2	0,1	0,4	0,6	1,9	1,3	0,9	1,3	0,9
Controlled by PE	10,7	-3,7	-3,0	-2,9	0,3	-1,0	-0,6	-1,7	-2,4
Cooperatives and Consortia	-4,7	-2,8	-2,0	-2,7	-1,5	-2,2	-1,6	-2,8	-3,2

(*) ROI = Operating Margin/Invested Capital (Source: Aida).

The dispersion of the solvency ratio

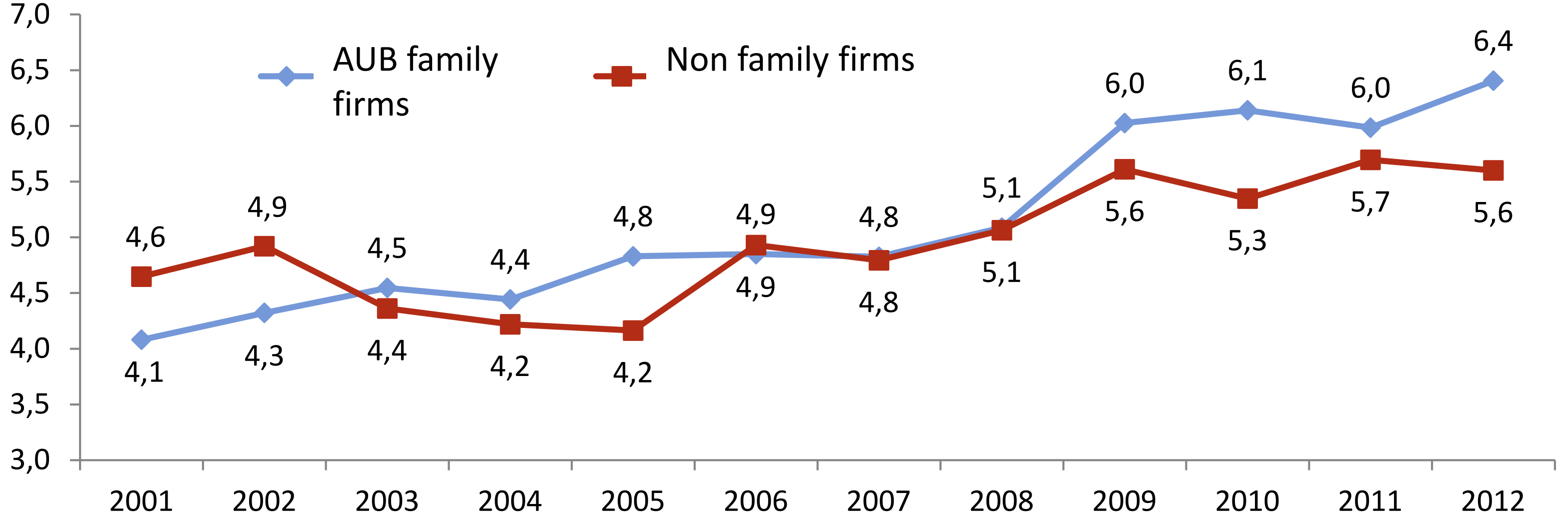
Solvency ratio of family firms (*)



(*) Solvency ratio =Shareholder's funds/Total Assets (Source: Aida).

The ability to repay debt

NFP/EBITDA ratio of family and non family firms (*)



Non family firms	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Cooperatives and Consortia	6,4	8,6	7,5	7,5	8,1	7,5	9,6	9,0	7,3	9,1	9,4	8,8
Coalitions	4,5	5,2	4,9	4,6	4,2	5,1	5,0	5,1	6,3	5,4	5,5	6,1
Controlled by PE	4,7	4,0	4,8	5,2	4,7	4,2	4,8	6,3	5,9	6,9	6,6	5,5
Multinational	4,1	3,5	3,3	3,0	2,8	3,5	3,3	3,7	3,9	3,3	3,7	4,4
State-owned firms	4,2	5,5	3,7	3,8	4,2	4,6	4,2	4,4	5,3	4,2	3,6	3,7

Net Financial Position = Due to banks + Due to other lenders – Liquid funds.
(*) Calculations are based only on those firms with both positive values of NFP and EBITDA.
(Source: Aida).

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- Avoiding the coexistence (at all costs) between different generations
- Planning the leadership succession (before it is too late)
- Overcoming the “glass ceiling”

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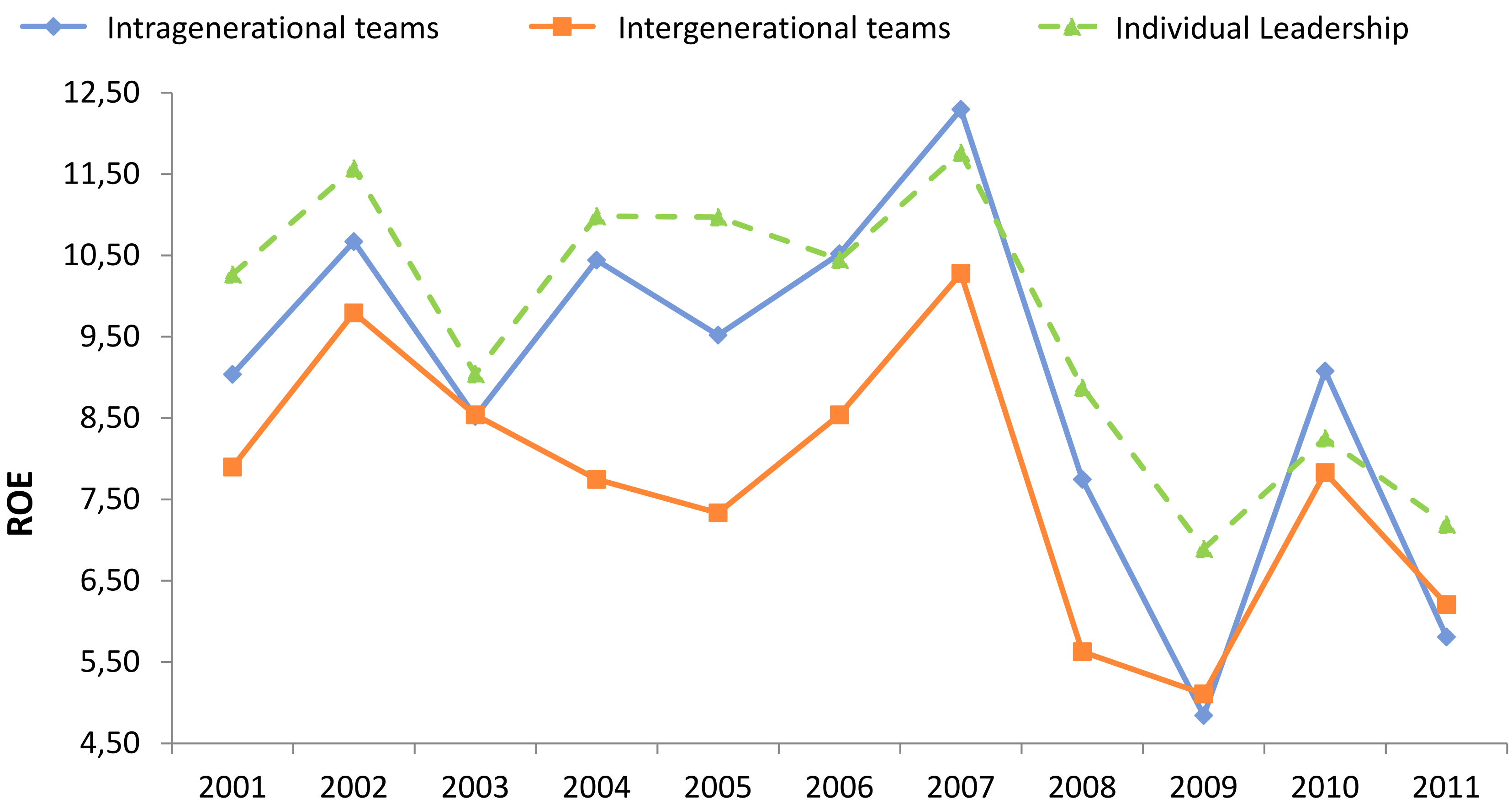
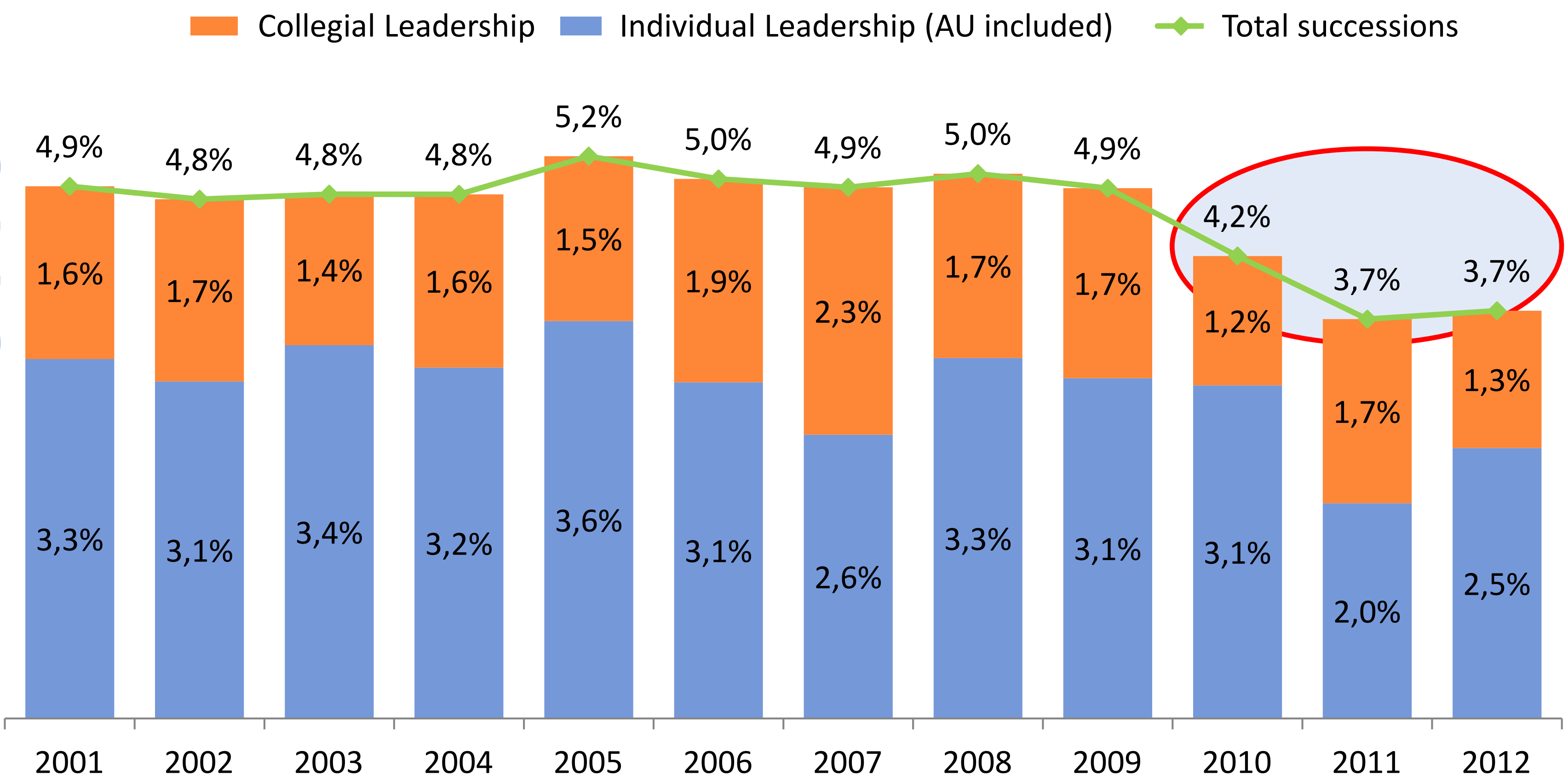
Generations in the team and performance

The coexistence between different generations in the team generates less favorable results



Leadership succession

The difficult economic trend of the last three years has determined a more cautious attitude towards leadership succession



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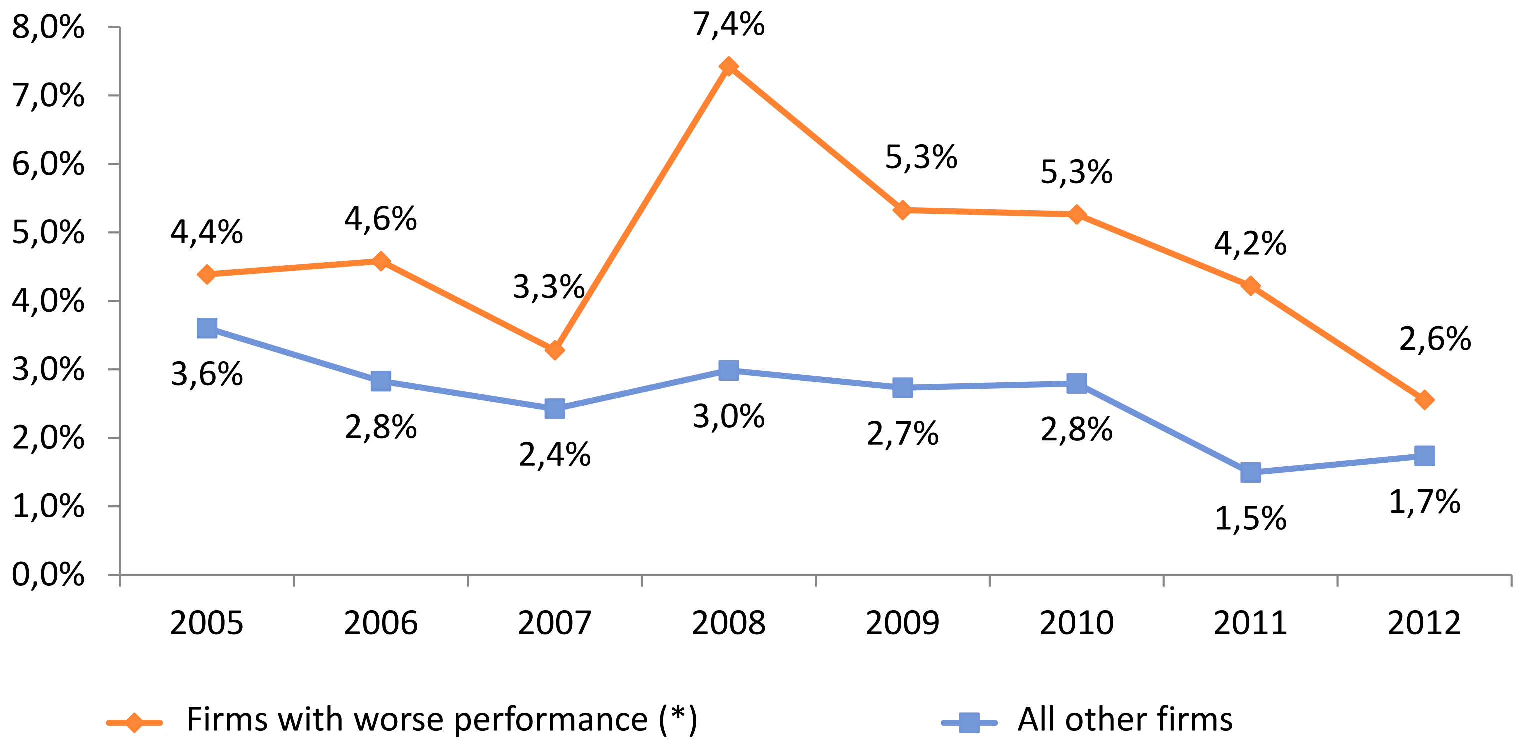
An “unplanned” process

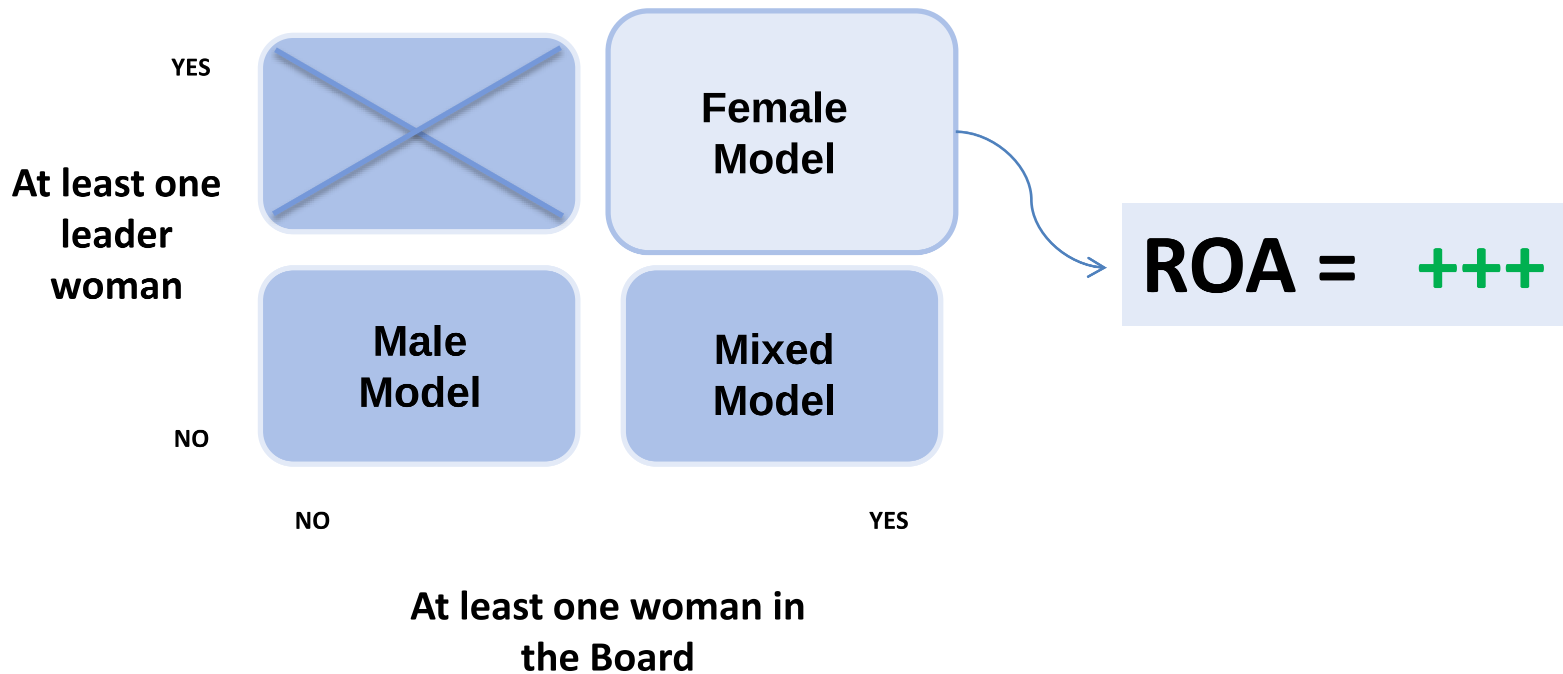
Regardless of the economic situation, leadership successions have been more frequent in firms experiencing troubles (*)



(*) Firms with negative profitability (ROI). The percentages are calculated as the number of leadership successions (in the individual leadership) occurred in firms with negative ROI divided the total number of firms with negative ROI.

Female governance models and performance

The coexistence between women directors in the Board and women directors with powers of individual or collegial leadership has a positive impact on performance



ROA's value as *+++ (or ---) indicates High significance (p<.001); ++ (or --) Medium significance (p<.01) ; + (or -) Acceptable significance (p<.10).*

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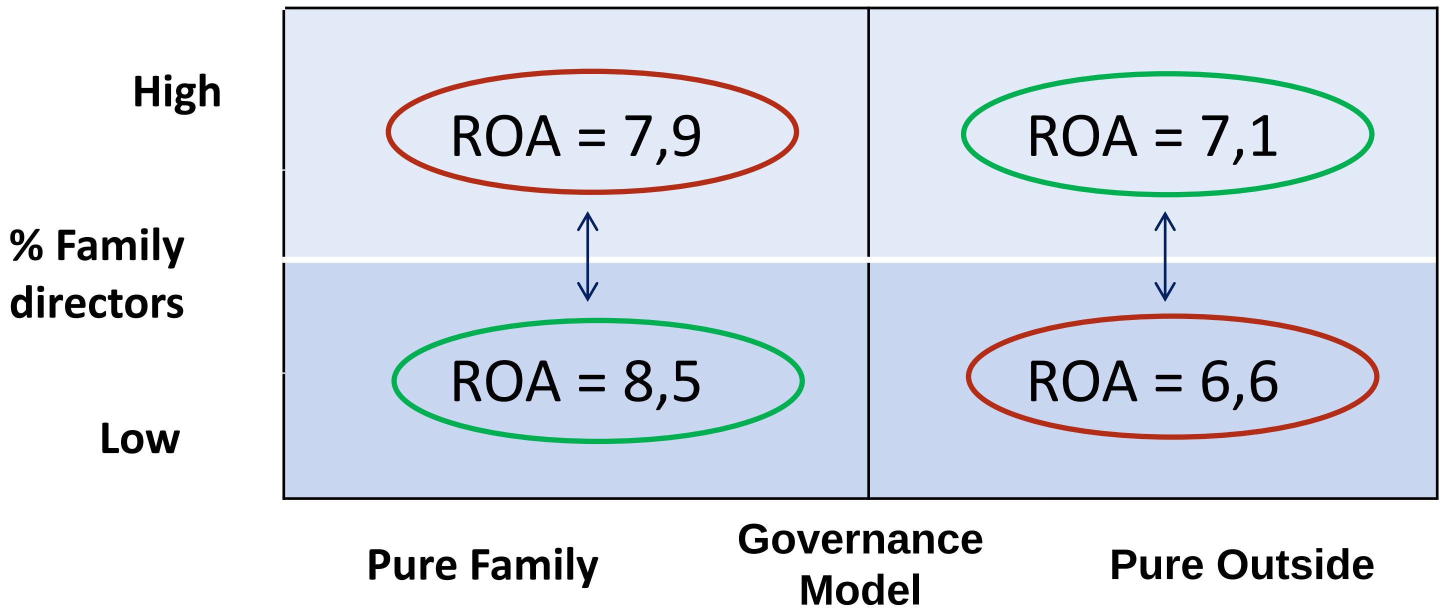
A map of governance models based on the degree of familiarity of the CEO, Executive Chairman and Team of CEOs

	"Pure Family" Model	*"Mixed"* Model	*"Pure Outside"* Model
Collegial Leadership	Team of CEOs 100% Family members N=589	At least one Non Family CEO N=375	Team of CEOs 100% Non Family members N=61
Individual Leadership (*)	Family CEO or Ex. Chairman N=913		Non Family CEO or Ex. Chairman N=294
	Family	Mixed	Non Family

(*) In order to carry out the analysis, have been considered the 2.232 firms managed by one or more CEO or Executive Chairman, excluding the cases in which the firms is managed by an "Amministratore Unico".

"Pure" models and family directors

A high participation of family directors has a different impact on the two models



- In case of family leadership ("*Pure Family*"), a high participation of non-family directors improves business performance due to the contribution of new skills;
- In case of non-family leadership ("*Pure Outside*"), a high participation of family directors facilitates a dialectic with a positive impact on performance.

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The impact of family relationship

Firms based in areas of the Country where family relationship are stronger show some peculiarities:

Governance

Family Leadership	++
Number of family CEOs	++
Family directors	++

Family Logic “strong”

Ownership

Family ownership share	-
Number of family shareholders	++
Family ownership concentration*	- - -

Size and performance

Total Assets	-
ROA	=

(*) The index of family ownership concentration is calculated as the sum of the squares of the first seven shareholders' shares (if family members)

Values as +++ (or ---) indicates High significance (p<.001); ++ (or --) Medium significance (p<.01) ; + (or -) Acceptable significance (p<.10)

The impact of family models depends on the intensity of family relationship

	Weak "Family logic"	Strong "Family logic"
Family models*	**ROA: ++**	**ROA: -**

- Family models have a positive impact on performance in the regions where "*Family logic*" is weaker.
- It can be assumed that family members involved in the leadership structures would be more evaluated on a meritocratic basis and not for the belonging to the controlling family

(*) Firms lead by a "Pure family" model and with a majority of family members in the Board of Directors.

Values as +++ (or ---) indicates High significance (p<.001); ++ (or --) Medium significance (p<.01) ; + (or -) Acceptable significance (p<.10)

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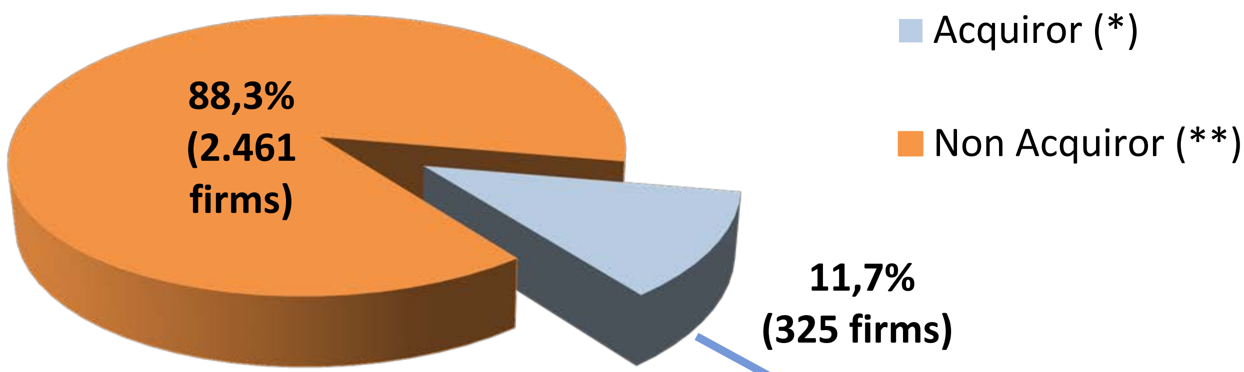
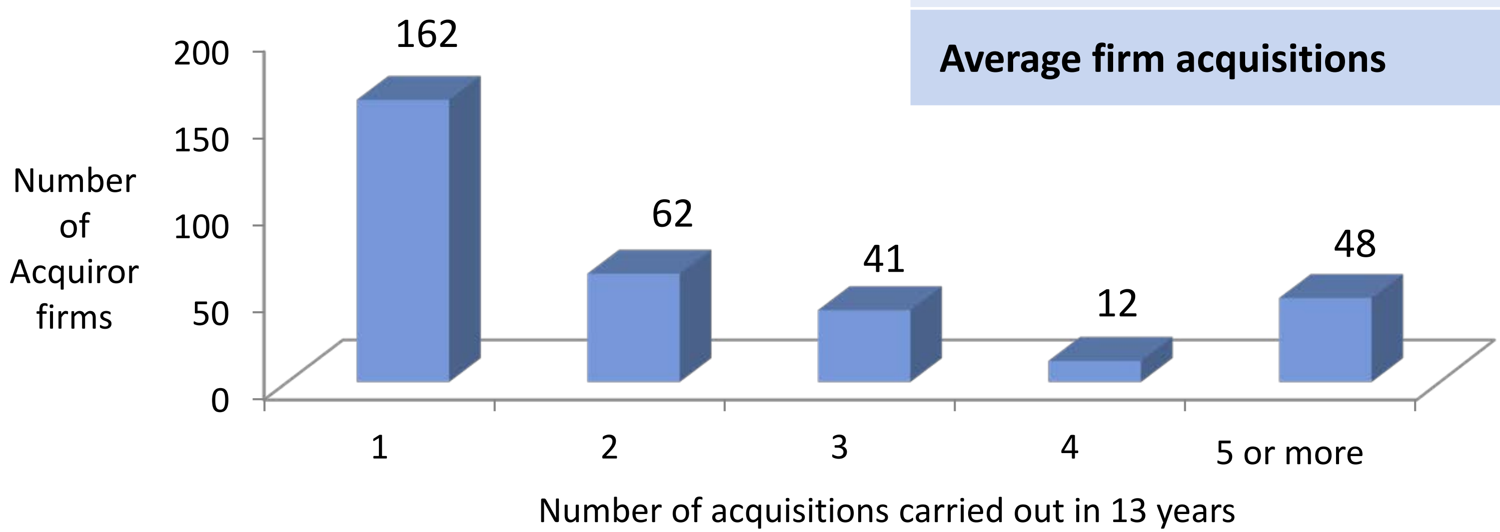
The dimension of the phenomenon



Total number of acquisitions* **	**878**
Average firm acquisitions	**2,7**



(*) <u>Acquiror</u>: firms that have acquired at least one company from 2000 to 2012.
(**) <u>Not Acquiror</u>: firms that have not acquired any company from 2000 to 2012.
(***) Data refer to all acquisition "completed" as result in Zephyr database.

Firms with a strong participation of the family in ownership and leadership structures prefer internal growth strategies

	Number of acquisition
100% Family control	**-0,9 *****
Pure Family Model	**-0,3 *****
High participation of family members in the Board	**-0,2 ****

The lower disposition towards an acquisitive behaviour may be due to:

- the desire to preserve some benefits of exclusive property;
- lower skills to manage the post-acquisition stages of integration;
- a lower risk propensity.

Values as +++ (or ---) indicate High significance (p<.001); ++ (or --) Medium significance (p<.01) ; + (or -) Acceptable significance (p<.10)

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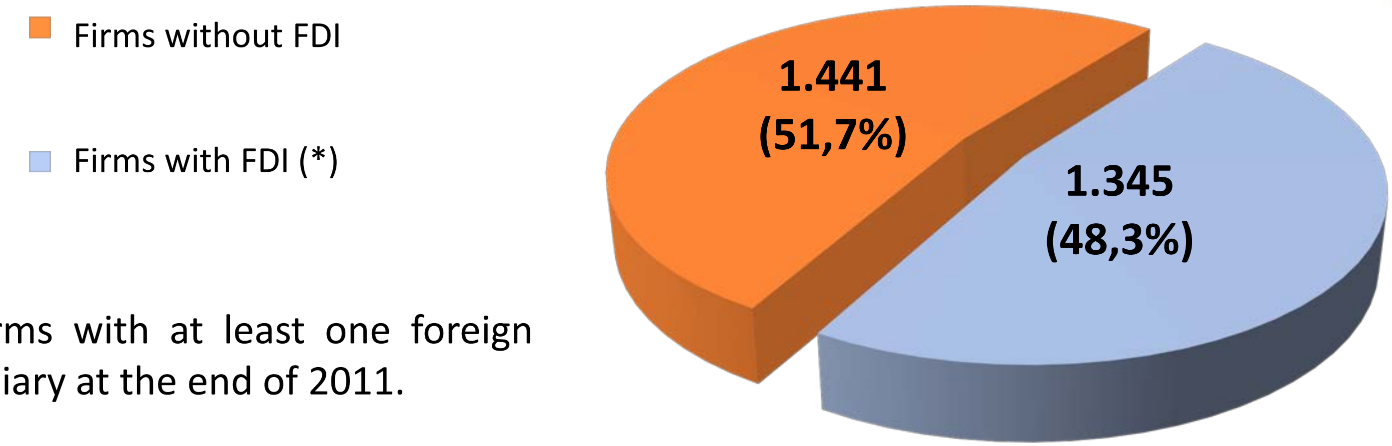
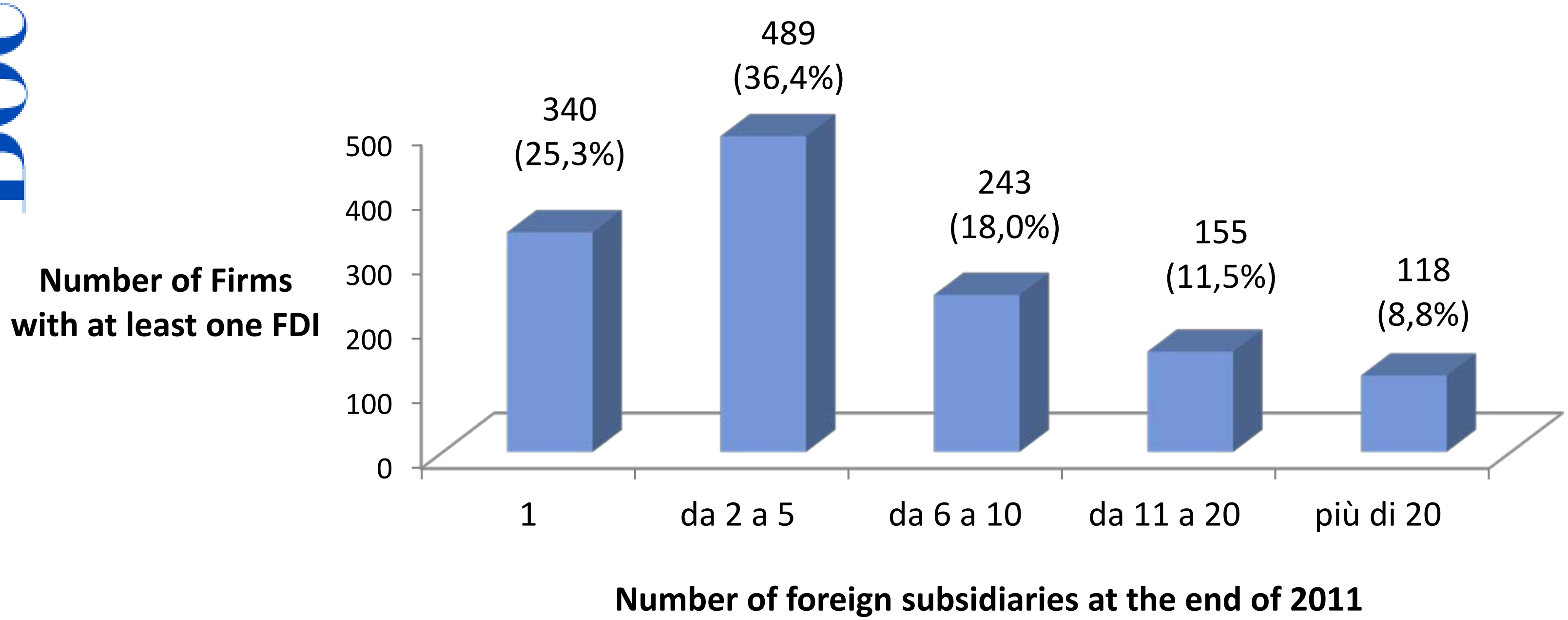
Population

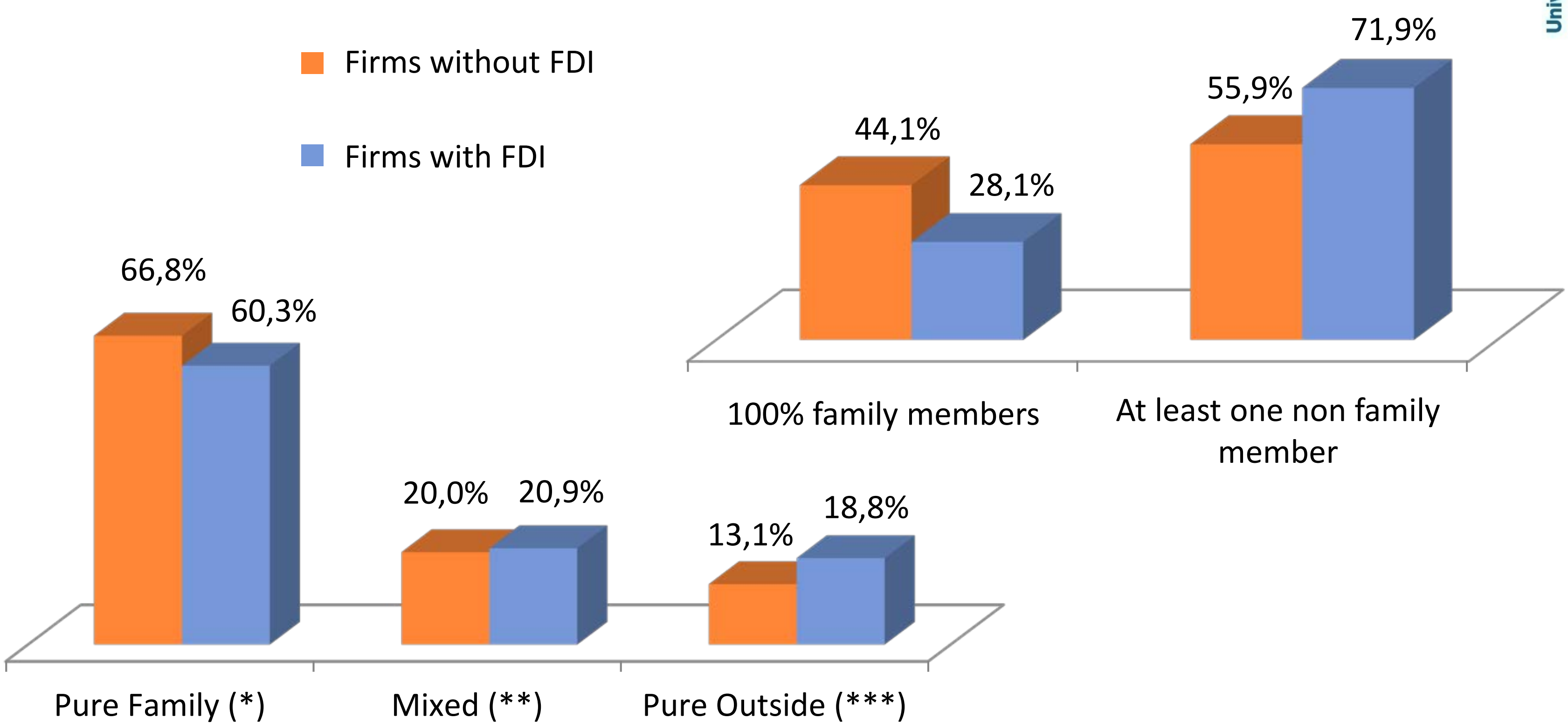


(*) Firms with at least one foreign subsidiary at the end of 2011.



Family and leadership models

Firms with greater family involvement in leadership models show a lower propensity to invest abroad



Only firms carried out by one or more CEO have been considered.
(*) Pure Family: Single family CEO or 100% Family CEOs (in case of Collegial Leadership)
(**) Mixed: Team of CEOs with at least one non family member
(***) Pure Outside: Single non family CEO or No Family CEOs (in case of Collegial Leadership)

Destination of foreign direct investments

With over than 60% of FDIs, Europe is the most attractive destination and the situation doesn't seem to be different for firms that have invested abroad in the last decade*

	All firms at the end of 2011		Firms with FDI before 2000		Firms with FDI between 2000 and 2006		Firms with FDI starting from 2007	
Macroarea	**N. FDI**	**% FDI**	**N. FDI**	**% FDI**	**N. FDI**	**% FDI**	**N. FDI**	**% FDI**
Western Europe	4.916	**43,0%**	3.276	**43,1%**	1.244	**41,3%**	239	**45,0%**
Eastern Europe	1.860	**16,3%**	886	**11,7%**	530	**17,6%**	98	**18,6%**
Asia	1.497	**13,1%**	1.287	**16,9%**	461	**15,9%**	73	**13,8%**
North America	1.378	**12,0%**	956	**12,6%**	314	**10,8%**	57	**10,8%**
South America	729	**6,4%**	485	**6,4%**	204	**7,0%**	20	**3,8%**
Africa	429	**3,8%**	256	**3,4%**	118	**4,1%**	17	**3,2%**
Central America	271	**2,4%**	194	**2,6%**	68	**2,3%**	8	**1,5%**
Oceania	187	**1,6%**	147	**1,9%**	27	**0,9%**	6	**1,1%**
Middle East	168	**1,5%**	109	**1,4%**	45	**1,5%**	12	**2,3%**
Total	**11.435**	**100,0%**	**7.596**	**100,0%**	**2.907**	**100,0%**	**530**	**100,0%**

(*) AUB Observatory elaboration (source: Orbis). Data on the investment period are available for 92% of FDIs (10.503 out of 11.435).

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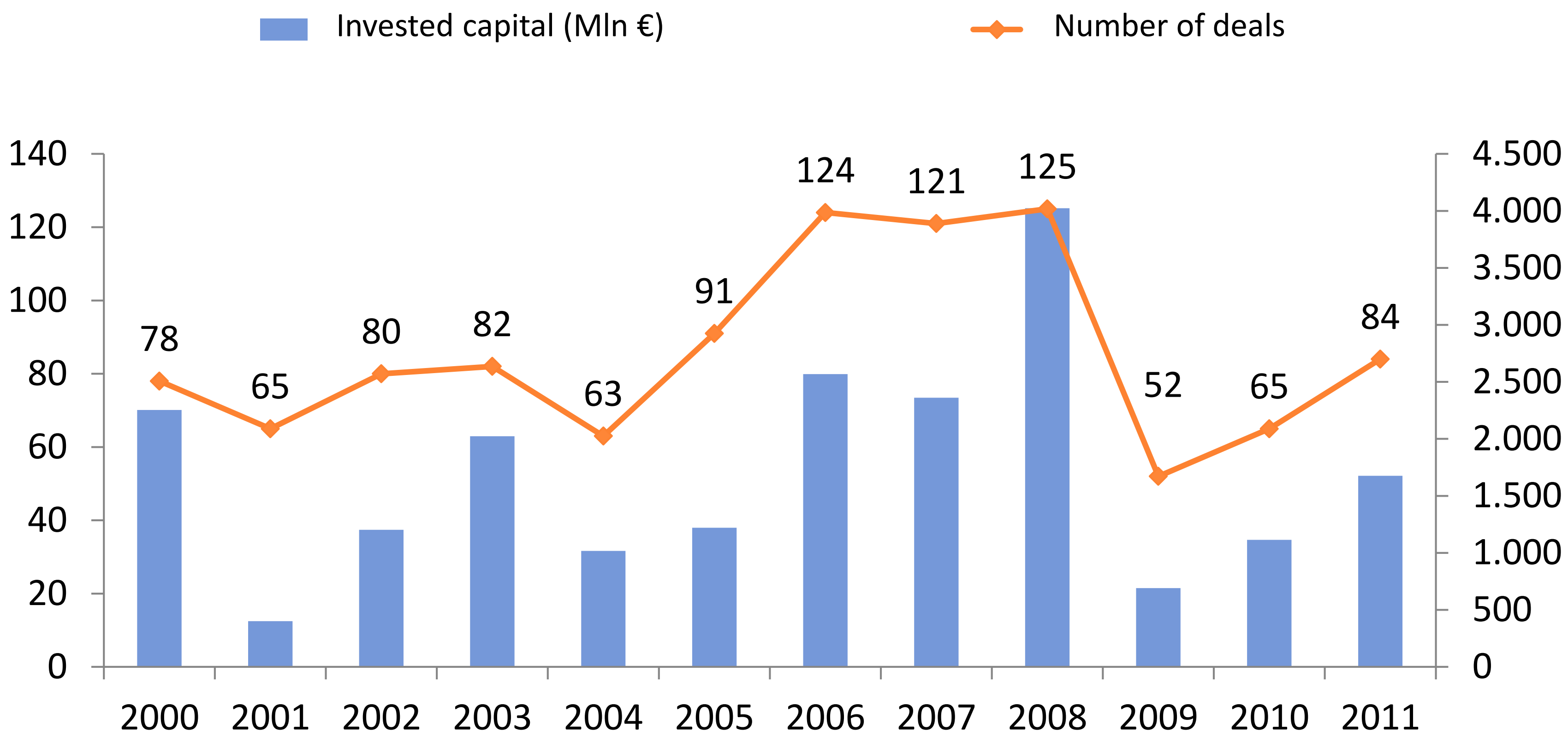
Timing of transactions

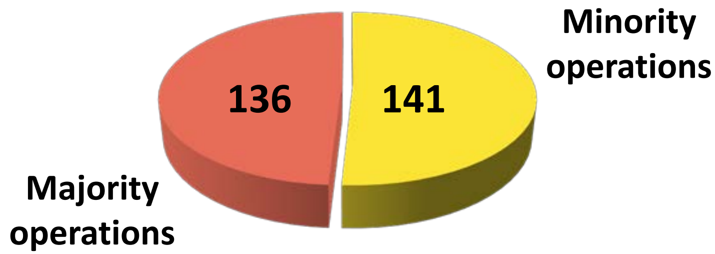
After the sharp decline in 2009, the investment transactions carried out by private equity funds show a reversal (*)

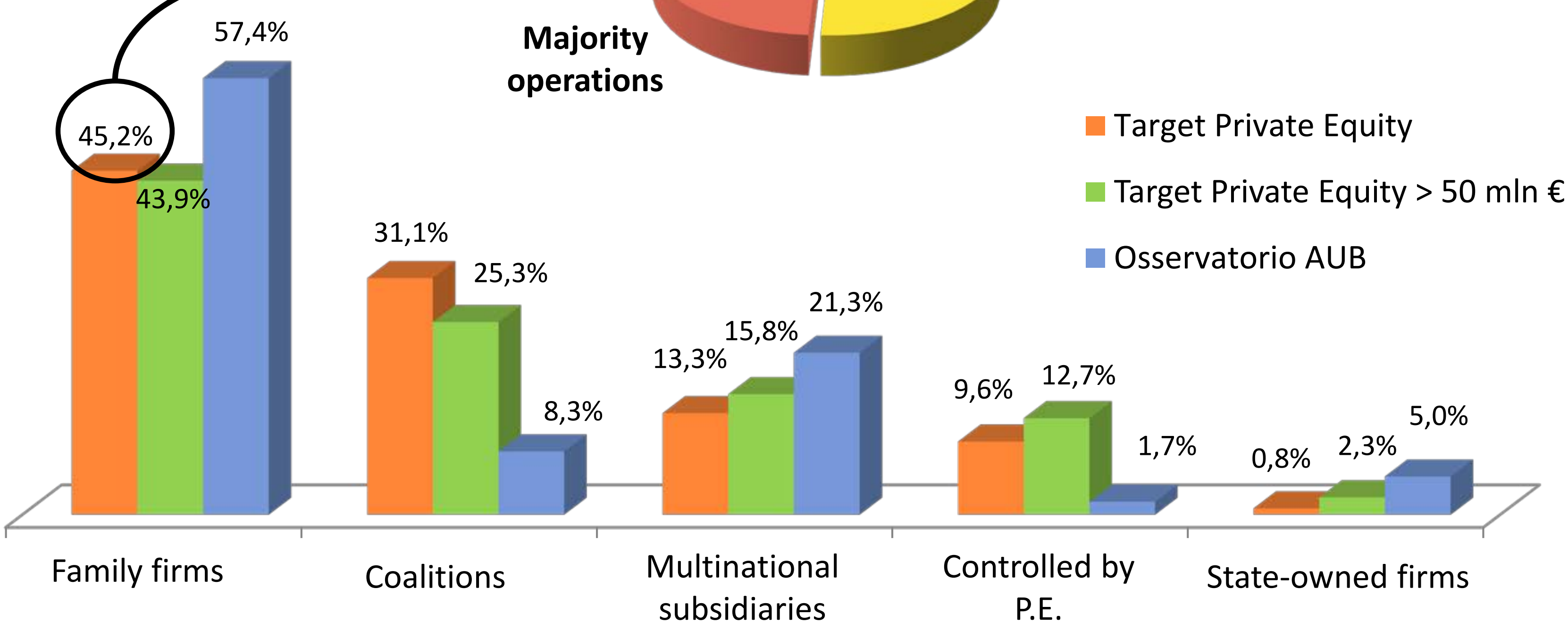


Private Equity's target

The investments were mainly addressed towards family firms and coalitions(*)

The 277 family target are divided in:





(*) Data refer to the 614 firms (221 for those with a turnover that exceeds the threshold of 50 million euro) for which it has been possible identify the nature of the controlling shareholder in the year preceding the deal. For the AUB data it has not been reported the 0.5% of the firms controlled by banks.

Performance

Target companies have experienced a strong growth, especially if private equity has acquired minority shares

Indicators of structural growth (*)	Majority	Minority
Δ% Turnover	46,6%	58,0%
Δ% Employees	79,9%	126,2%
Δ% Total Assets	84,4%	91,5%
Δ% Shareholder's funds	52,6%	70,6%
Δ% EBITDA	31,3%	54,9%

(*) Data are calculated as the difference between the average of the three years post-investment and the average of the three years pre-investment (Source: Aida).
The number of majority transactions is 382 while the minority transactions are 436.

Methodological note (1/3)

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A company is considered as a family-controlled firm if:

- One or two families hold at least 50% of the capital (if not listed);
- One or two families hold at least 25% of the capital (if listed);
- The firm is controlled by another legal entity which satisfies one of the two criteria stated above.

In case of mono-business groups :

It was considered to include the controlling company if:

i) the controlling firm is just a financial holding;
ii) there is only one relevant (operating) subsidiary satisfying our criteria (revenues higher than 50 million €);
iii) the consolidation area of the controlling company substantially equal the dimension of the larger controlled firm.

All the controlling firms were excluded, both on the first level (in case of inclusion of the parent company in the list) and on the subsequent levels.

Methodological note (2/3)

In case of multi-business groups:

In case of multi-business groups:

- The parent companies were excluded (often holding)
- The controlled operating companies on the second level of the control chain have been included.
- Financial holding on the second level (sub-holding, identified through the 2007 ATECORI code) were included in the following cases:

  ✓ companies controlled by them at least at 50% and with revenues higher than 50 million €, which operate in the same industry;

  ✓ there is only one company controlled at least at 50% and with revenues higher than 50 million €.

- It was decided to exclude also the controlled firms at third and higher level of the control chain, since the information are comprised in the consolidated balance-sheet of their second-level controlling company.

Methodological note (3/3)

Data and information collection about the governing bodies and firm leaders was conducted through encoding the "Company Profile", which is an official filing registered at the Italian Chamber of Commerce (Source: Chamber of Commerce, Industry, Agriculture and Artisanship of Milan). For this reason, it has been necessary to make some methodological choices to guarantee the analyzability of the data. In particular:

- The familiarity of "Amministratore Unico", Chairman, CEOs, and all members of the Board of Directors has been detected on the affinity with the family name of the controlling owner. As a matter of fact, data could be slightly underestimated;
- The same procedure was followed for the individuals belonging to the family owner that hold stock shares.