This interactive session discussed how private equity firms can help family firms prosper and become more competitive globally. It combined rigorous academic research with direct experience of a private equity firm in order to explore the various avenues for growth offered by private equity partners. From offering international growth opportunities to improving corporate governance practices to strengthening the company base to making significant capital investments, private equity firms are able to foster growth and help companies stay ahead of their competitors to a much greater degree than many family firms can achieve on their own.
Family Business (FB) is a specific form of business ownership. FBs have explored the ways to take advantage from other forms of ownership, mainly quoted companies. Quoted FBs have been reported to outperform quoted non-FBs (e.g. Anderson & Reeb, 2003). Little effort has been done to explore if FB can take advantage of another form of ownership such as Private Equity. There are some indicators of this potential combination.

**Key Issues in Family Business Competitiveness**

- Growth
- Capital Structure
- Governance
- Management Practices
- Succession
- Wealth Preservation
Family Business (FB) is a specific form of business ownership.

Capital Structure

**Al IPO in March 2005**
Exit in June 2007

There are some indicators of this potential combination

Little effort has been done to explore if FB can take advantage of another form of ownership such as Private Equity.

Family Businesses have explored the ways to take advantage from other forms of ownership, mainly quoted companies.

**Management Practices**

- There is a need to investigate how FBs can take advantage of other forms of ownership.
- There is a need to understand the potential benefits of combining FBs with Private Equity.

**Growth and Funding**

![Growth and Funding Diagram](image)

**Q: What is your view of the company’s indebtedness?**

- A little more: 25%
- Quite a lot more: 25%
- A great deal more: 8%
- About average: 20%
- A little less: 12%
- Not at all: 10%
- No, not at all: 10%

**Funding is not the main limitation of Family Business growth**

**Main causes for lack of growth of Family Businesses**

- Lack of funding 5%
- Data avoidance 20%
- Lack of resources or entrepreneurial ambition 65%

**Growth case study: Sigg (Switzerland)**

- **Company:** Sigg
- **Activity:** Aluminium drinking bottles
- **Country:** Switzerland
- **Investment:** December 2003

**Company products:**
- High-quality aluminium drinking bottles
- Sold for leisure and sports in over 40 countries worldwide

**Sigg:**
- World leader in premium reusable water bottles
- Combines Swiss quality with eco-friendly positioning

**Sigg: Expansion to the US**

- **Sigg's sales in Europe**
  - 2004
  - 2005
  - 2006
  - 2007
- **Sigg’s sales in the US**
  - 2004
  - 2005
  - 2006
  - 2007

**CAPITAL STRUCTURE**

![Image of capital structure](image)
Family Businesses: Continuity

Q: What is your business’s indebtedness?

- Very low
- Low
- Average
- High
- Very high

Source: Foro ESMADI

**Family Businesses tend to have conservative capital structure**

Capital structure case study: Zetkama (Poland)

Company: Zetkama
- Activity: Industrial valves
- Country: Poland
- Investment: March 1999
- Exit: IPO in March 2005
- Exit: Exit in June 2007

Company products:
- Industrial valves and specialized iron castings
- Used in heating plants, air conditioning and ventilation systems, water sewage plants, industrial plants and the shipbuilding industry

Transaction background:
- Old-economy manufacturing company, hindered by lack of capital
- Needed to modernize its production facilities and improve operating and financial performance

Zetkama: Restructuring project

**Transition**
- Hired restructuring specialist
- Strengthened management
- Modernised foundry
- Consolidated production

Zetkama: Improving capital structure

**Correcting inefficiencies**
- Sold non-core assets (including a hotel and railway station)
- Sold excess land and obsolete equipment and machinery
- Reduced headcount to a sustainable level
- Introduced management information and reporting systems to keep cash flows under control

**Massive investment program**
- Fully modernised manufacturing facilities
- Made significant capital investments to increase production capacity
- Strengthened sales and marketing team to focus on most promising markets
- Improved logistics and material planning practices

Financial Performance

- **Riverside freed buried cash to invest in the future of the company**

CORPORATE GOVERNANCE

FB Governance is a whole integrated structure

Governance has a significant impact on Family Business’s performance

Source: Radiografía de la EF Española, 2006
Corporate Governance case study: Dwyer Group (US)

Dwyer Group companies:
- Rainbow International: restoration and cleaning services
- Mr. Appliance: full-service appliance service and repair
- Mr. Rooter: plumbing and drain cleaning services
- Mr. Electric: electrical installation and repair services
- Glass Doctor: full-service glass replacement services

Dwyer Group: Preserving the family culture

Family-oriented business with unique culture:
- Many Dwyer family members work for the company
- Employees encouraged to recruit their family members
- But: burden of public listing

Management Practices: Impact

- Family Constitution
- Family Council Functionality
- Board of Directors Functionality
- Executive Committee Functionality
- Professionalization
- Satisfaction

Some key issues:
- Strategy
- Management team
- Knowledge
- Commitment
- Planning & Control
- Coordination systems
- Communication

EM Test: Introducing best practices

- Management: Clarified roles of all sellers and managers
  - Hired senior financial officer
  - Fully structured management team
- Incentives: Established 2008 budget and budget planning
  - Completed option plan for entire 2nd level management team
- Board Setup: One person (CEO) to represent all sellers
  - Added 2 outside directors with industry experience
  - Managers given someone to be accountable to
- Board Procedures: Already held meetings in first month
  - Scheduled all 2008 meetings already in first month
  - Introduced monthly conference calls

Best Practices case study: EM Test (Switzerland)

Company products:
- Electromagnetic compatibility test generators
- Used to test the immunity of electronic products, systems and components to electromagnetic interferences
- Used in wide range of industries: consumer and industrial electronics, automotive, med-tech, information technology and telecommunications

Transaction background:
- Owners wanted to bring in a partner and prepare eventual retirement, having led the company for over 20 years
Owners wanted to bring in a partner and prepare eventual retirement. Founder to stay as CEO for up to 2 years.

Introduce Riverside

- Riverside engaged suitable CEO with industry expertise:
  - C

Voice data and Internet services

Wealth Preservation

Transaction background:

- Family Office

Clarified roles of all.

"Good" life

- Founder

Company products:

- Teufel Lautsprecher

Country: Germany

Investment January 2007, with co-investor

Country: Switzerland

Activity: Telecom services

Company products:

- Teufel

March 2008

Investment

Country: Switzerland

Activity: Electromagnetic test equipment

EM Test

Succession case study: Teufel (Germany)

Company products:

- High-end home cinema loudspeaker systems
- One of two best known loudspeaker brands in German-speaking countries

Sold mainly online through Teufel’s website

Transaction background:

- Founder (56) wanted to retire and spend more time with his family
- Riverside needed to solve succession issue: founder wanted to leave the company in good hands

Teufel: solving succession issue

- Agree on transition timetable
  - Founder to stay as CEO for up to 2 years
  - Support the company from advisory board afterwards

- Find interim solution
  - Introduce Riverside’s experienced interim CEO
  - Search for suitable successor with industry expertise

- Complete management team
  - Riverside engaged suitable CEO with industry expertise: former director of Amazon in Germany

- Grow Teufel
  - Expanded product line
  - Accelerated new product development

Under Riverside ownership Teufel’s revenues are growing at 25-30%
Family Office case study: ONI (Portugal)

Company: ONI Communications
Activity: Telecom services
Country: Portugal
Investment: January 2007, with co-investor

Company services:
- Voice, data and Internet services
- Focus on small and medium sized business customers

Transaction background:
- Investment together with a Portuguese family office (Champalimaud family)

Synthesis: Welltec case study (Denmark)

Company: Welltec
Activity: Robotic solutions for oil and gas wells
Country: Denmark
Investment: June 2005, from founder
Exited: July 2007, to founder and Summit Partners

Company products:
- Precision-controlled conveyance systems for intervention and manipulation in oil and gas wells
- Well Tractor – proprietary device that can drive itself forward in oil well and perform maintenance and repair tasks

Transaction background:
- Industry-leading company led by an experienced management team who needed a strategic partner and capital for growth

Welltec: Changes initiated by Riverside

- Corporate Governance and Best Practices
  - Strengthened the executive board with two industry-experienced executives
  - Improved financial and operating systems and controls
- Capital Structure and Investments
  - Secured additional funds to finance growth
  - Invested in R&D to expand the service offering
- Growth
  - Completed strategic add-on acquisition of Heat Seekers in Canada
  - Expanded Welltec's access to tar sands market
  - Opened new service bases in North and South America, Middle East, Africa and Asia
- Succession and Family Planning
  - Exit by selling improved Welltec back to its founder

Welltec: Financial Performance

- Welltec’s revenues (€m)
  - +79%
  - +150%
- Welltec’s EBITDA (€m)
  - +59%
  - +150%

Summary: Developing Family Businesses

Main reasons for strategic decline in family businesses:
- Loss of entrepreneurial vitality
- Misuse of existing resources
- Lack of resources
Summary: Partnering with Private Equity

- Many of these improvements can be done without a private equity firm.
- But: they are hard to do if you have never done it before.
- Private equity provides external influence and expertise.
- Family firms can learn specific behaviours from private equity firms.
- Private equity firms buy companies with the intention to sell.
- Much greater focus on value creation if you know that you are going to sell eventually.
- Often a stepping stone in company’s development.

Learnings

What can Family Business learn from Private Equity?

- Entrepreneurial vitality
- Strategic approach
- Management practices
- Governance