Tendências e Pressões na Empresa Familiar – Brasil e Exterior
Grupo de Estudos de Empresas Familiares – GEEF/ GVlaw/ FGV Direito SP

Maio / 2015
Objectives for today

Share comparisons and lessons learned from family business vs non-family businesses
  • In mature and developed markets
  • In emerging markets

Characterise some of the common challenges faced by family owned enterprises

Outline the possible ways for family owned businesses to tackle such challenges
  • The family
  • The family in business
  • The business

Deep dive into the case of professionalization
  • And if possible, go over a broader BCG case study
BCG studied and compared Family vs Non Family business
Panel composed of 149 family businesses and 135 non family businesses

Both in mature markets...

...and in fast-growing emerging markets
Developed country family businesses (FBs) focus on resilience and preservation

1. Resilience

2. Lower financial leverage

3. Fewer and smaller acquisitions
Developed country FBs demonstrate stable RoE performance, similar growth

Average ROE and real GDP growth per period

<table>
<thead>
<tr>
<th>Period</th>
<th>Average ROE</th>
<th>GDP growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997 – 99</td>
<td>13.7%</td>
<td>4.6%</td>
</tr>
<tr>
<td>2000 – 02</td>
<td>11.7%</td>
<td>8.0%</td>
</tr>
<tr>
<td>2003 – 07</td>
<td>14.0%</td>
<td>12.9%</td>
</tr>
<tr>
<td>2008 – 09</td>
<td>10.8%</td>
<td>4.6%</td>
</tr>
<tr>
<td>2010 – 12</td>
<td>13.4%</td>
<td>13.2%</td>
</tr>
</tbody>
</table>

1. France + US + Canada + Italy + Spain + Portugal
Note: panel composed of 229 companies (121 FB and 108 NFB) for 03-09 period, 200 companies (107 FB and 93 NFB) for 97-02 period
Source: BCG analysis
Developed country FBs have lower leverage and M&A spending

27% lower financial leverage

Average financial leverage (01-09)

FBs: 37%  
Non FBs: 47%  
+27%

Lower spending on M&A

Average turnover acquired annually / turnover

FBs: 2.0%  
Non FBs: 3.7%

1. France + US + Canada + Italy + Spain + Portugal
Note: panel composed of 229 companies (121 FB and 108 NFB) for 03-09 period, 200 companies (107 FB and 93 NFB) for 97-02 period
Source: Thomson Financials
Developed country FBs also typically seen as better people managers

A lower turnover at FBs…

Average yearly turnover (%)

<table>
<thead>
<tr>
<th></th>
<th>FBs</th>
<th>Non FBs</th>
</tr>
</thead>
<tbody>
<tr>
<td>24%</td>
<td>9%</td>
<td>11%</td>
</tr>
</tbody>
</table>

…and higher training spend

Training cost per employee (€ / employee)

<table>
<thead>
<tr>
<th></th>
<th>FBs</th>
<th>Non FBs</th>
</tr>
</thead>
<tbody>
<tr>
<td>885</td>
<td>-62%</td>
<td>336</td>
</tr>
</tbody>
</table>

FBs are more significant in emerging markets

<table>
<thead>
<tr>
<th>Region</th>
<th>% FB</th>
<th>% NFB</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States of America</td>
<td>33%</td>
<td>67%</td>
</tr>
<tr>
<td>Europe (Germany &amp; France)</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>India</td>
<td>56%</td>
<td>44%</td>
</tr>
<tr>
<td>Brazil</td>
<td>46%</td>
<td>54%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>52%</td>
<td>48%</td>
</tr>
</tbody>
</table>

1. Companies with Revenues over USD 1 Billion — source BvD Orbis – public listed companies
2. Top 200 companies
3. All companies of $500 M
FBs in emerging markets are at a different governance level

Source: BCG analysis and estimates based on a sample of top 200 companies in India, USA and EU
Different cultural and family context in emerging markets

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>Indonesia</th>
<th>India</th>
<th>USA</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hierarchical(^1)</td>
<td>26</td>
<td>16</td>
<td>17</td>
<td>61</td>
<td>67</td>
</tr>
<tr>
<td>Individualistic(^1)</td>
<td>42</td>
<td>71</td>
<td>33</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Family size(^2)</td>
<td>3.3</td>
<td>4.3</td>
<td>5.3</td>
<td>2.6</td>
<td>2.4</td>
</tr>
</tbody>
</table>

1. Cultures and Organizations – Software for the mind: Hofstede, Geert; Hofstede, Gert Jan
2. EIU data
Indian FBs grow materially faster than other companies

Source: BCG analysis of all Indian companies from 1995 to 2012 above Rs 1000 crore
...but have lower ROCE

Source: BCG analysis of all Indian companies from 1995 to 2012 above Rs 1000 crore
Brazil FBs show higher growth, but lower profitability

**Annual Sales growth, 2006-2010**

<table>
<thead>
<tr>
<th>CAGR %</th>
<th>Family Business</th>
<th>Non-Family Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Average EBITDA margin, 2006-2010**

<table>
<thead>
<tr>
<th>%</th>
<th>Family Business</th>
<th>Non-Family Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Brazilian publicly listed companies with revenues above US$ 500 M in 2010. Considers individual companies and not conglomerates. Only companies that have complete data (revenues and EBITDA) from 2006 to 2010 (115 of 180 companies listed).

Source: Orbis and Value Science; Press search; Companies' websites and fillings; BCG analysis
In term of ROA, Brazil FBs show lower performance

### Lower performance in the last 5 years...

<table>
<thead>
<tr>
<th>Average ROA¹</th>
<th>2006-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Businesses</td>
<td>5.1%</td>
</tr>
<tr>
<td>Non Family Businesses</td>
<td>7.8%</td>
</tr>
</tbody>
</table>

### ...And bigger gap during economic downturn

<table>
<thead>
<tr>
<th>Average ROA¹</th>
<th>2007-2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Businesses</td>
<td>4.6%</td>
</tr>
<tr>
<td>Non Family Businesses</td>
<td>8.3%</td>
</tr>
</tbody>
</table>

Note: Brazilian publicly listed companies with revenues above US$ 500 M in 2010. Considers individual companies and not conglomerates. Only companies that have complete data (Revenue, EBITDA, Enterprise value and dividend yield) from 2006 to 2010 (115 of 180 companies listed). Excluding the outliers Refinaria de Petróleos de Manguinhos SA for Family Business and Cielo for Non family Business.

Source: Orbis and Value Science; Press search; Companies’ websites and fillings; BCG analysis
Indian FBs undertake bigger M&A deals

Similar number of deals across FBs and Non-Gov...

Average # of deals per company (2003-12)

<table>
<thead>
<tr>
<th></th>
<th>FB</th>
<th>Gov</th>
<th>Non-Gov</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>2.9</td>
<td>1.5</td>
<td>3.2</td>
</tr>
</tbody>
</table>

...but FBs show preference for bigger targets

Deal size / Acquirer size (2003-12)

<table>
<thead>
<tr>
<th></th>
<th>FB</th>
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<th>Non-Gov</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>26%</td>
<td>2%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Source: BCG analysis of all Indian companies from 1995 to 2012 above Rs 1000 crore
Brazilian FBs show higher average and value of M&A

On average, FBs are more willing for M&A than nFB

...and the average value of FBs' deals is higher than non FBs' deals

Average number of deals\(^1\) per company during 2000-2010

<table>
<thead>
<tr>
<th></th>
<th>Family Businesses</th>
<th>Non Family Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>Reduction (%)</td>
<td>-68%</td>
<td>-72%</td>
</tr>
</tbody>
</table>

Average value of deals (US$ M) during 2000-2010\(^2\)

<table>
<thead>
<tr>
<th></th>
<th>Family Businesses</th>
<th>Non Family Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>585</td>
<td>164</td>
</tr>
</tbody>
</table>

1. M&A deals involving acquisition of >50% of shares, disclosed or non-disclosed. 2. Only considered disclosed deals
Note: Brazilian publicly listed companies with revenues above US$ 500 M in 2010. Considers individual companies and not conglomerates. Sample represented by 27 Family Business and 19 Non Family Business of 180 companies listed.
Source: Thomson Financials; Press search; Companies’ websites and filings; BCG analysis
Emerging markets FB are more leveraged and with less dividend payouts

India

Average dividend payout (1995-2012)

<table>
<thead>
<tr>
<th></th>
<th>FB</th>
<th>Gov</th>
<th>Non-Gov</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>23%</td>
<td>28%</td>
<td>36%</td>
</tr>
</tbody>
</table>

Brazil

Average dividend payout 2005-2010

<table>
<thead>
<tr>
<th></th>
<th>Family Businesses</th>
<th>Non Family Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>3.4%</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

1. Leverage Ratio=(Short term debt + Long term debt)/(Short term debt + Long term debt + Total Shareholders’ equity).
2. Only companies that have complete data (payout ratio) from 2006 to 2010 (18 of 180 companies listed)
Note: Brazilian publicly listed companies with revenues above US$ 500 M in 2010. Considers individual companies and not conglomerates. Only companies that have complete data (Leverage and cash ratio) from 2006 to 2010 (80 of 180 companies listed).
Excluding the outliers Refinaria de Petróleos de Manguinhos SA for Family Business.
Source: Orbis and Value Science; Press search; Companies’ websites and fillings; BCG analysis.
Mas e o agora? Contexto de negócios mudou, de maneira geral em todo o mundo...

- Maior incerteza e ambiguidade
- Maior importância de múltiplos stakeholders
- Maior velocidade da informação e inovação
- Ênfase em responsabilidade social e confiança
- Mudança na demografia da força de trabalho
- Aumento da competição global e não-tradicional
- Coexistência de mercados de alto e baixo crescimento

Fonte: estudo BCG
...E de maneira específica, recentemente, no Brasil

Necessidade de ajuste orçamentário do Governo com aumento da carga tributária

Gargalos de infraestrutura permanecem e dificilmente serão resolvidos no curto prazo

Baixa liquidez no mercado de capitais

Deteriorização dos indicadores macroeconômicos, com baixo crescimento econômico, risco de desemprego e inflação

Fonte: estudo BCG
Novo contexto e desafios exigem novo perfil do líder
Complementares às características clássicas do líder empreendedor

Abraçar incertezas e **ver oportunidades**: conversar com pessoas, visitar lugares

**Conectar com pessoas:**
autoridade não vem da hierarquias mas da confiança e da capacidade de inspirar

**Rápido auto-aprendizado:**
tomar decisões mais rapidamente, sem toda informação, para poder aprender com os erros

**Distribuir o valor:** assegurar que todos participem e se beneficiem do negócio

**Desafiar o status quo/passado:** para poder atuar e mudar o que precisa ser ajustado no curto prazo

Fonte: estudo BCG
Porém, sem esquecer que liderar uma empresa familiar exige mais que apenas liderança e empreendedorismo

Fonte: estudo BCG
Final remarks: what we have learnt from our experience

It's never too early to start the conversations

There is no straight road – two steps forward, two steps back

The solution for each family is bespoke and unique

Embracing the complexity and inter-linkages is essential

Implicit agreements and understanding are often inadequate

All solutions have to evolve along with the family and the business
Thank you

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