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European Group of Owner
Managed and Family Enterprises

***Ownership Transfers:
Future Needs and Actions***

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European Family Businesses – GEEF

- ***umbrella organisation for national family firms associations in the European Economic Area***
- ***close co-operation with FBN***
- ***represents turnover of 1 000 bn€, 9% of EU GDP***
- ***family business has become a topic on the agenda of EU policy makers***



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***What is the impact of the economic crisis
on company balance sheets?***



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***A strong balance sheet is key to the
capacity of a company to survive the
crisis***

<i>1. Before the Crisis</i>	Family Business Company	Listed Equity	Private
<i>Sales</i>	100,0	100,0	100,0
<i>COGS</i>	60% 60,0	60,0	60,0
<i>Gross Profit</i>	40,0	40,0	40,0
<i>SGA</i>	20,0	20,0	20,0
<i>EBITDA</i>	20,0	20,0	20,0
<i>Depreciation</i>	10,0	10,0	10,0
<i>EBIT</i>	10,0	10,0	10,0
<i>Interest</i>	0,8	2,1	3,4
<i>EBT</i>	9,2	7,9	6,6
<i>Assets</i>	50,0	50,0	50,0
<i>Debt</i>	20,0	35,0	42,5
<i>Equity</i>	30,0	15,0	7,5
<i>Cost of Debt</i>	4%	6%	8%
<i>ROE</i>	30,7%	52,7%	88,0%

2. Now (Sales -30%)	Family Business Company	Listed Equity	Private
Sales	70,0	70,0	70,0
COGS	60%	42,0	42,0
Gross Profit	28,0	28,0	28,0
SGA	20,0	20,0	20,0
EBITDA	8,0	8,0	8,0
Depreciation	10,0	10,0	10,0
EBIT	-2,0	-2,0	-2,0
Interest	0,8	2,1	3,4
EBT	-2,8	-4,1	-5,4
Assets	50,0	50,0	50,0
Debt	20,0	35,0	42,5
Equity	30,0	15,0	7,5
Cost of Debt	4%	6%	8%
ROE	-9,3%	-27,3%	-72,0%



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What is the link between the strength of company balance sheets and the strength or weakness of the financial sector?

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Corporate debt risk classification Basel II

<i>AAA to AA-</i>	<i>20%</i>
<i>A+ to A-</i>	<i>50%</i>
<i>BBB+ to BB-</i>	<i>100%</i>
<i>Below BB-</i>	<i>150%</i>
<i>Unrated</i>	<i>100%</i>

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When the equity ratio of a company weakens

- > *lower credit class for company*
- > *lower value to bank of loans to company*
- > *lower bank solvency*

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When the solvency of a bank weakens

- > *funding becomes more difficult and more expensive*
- > *need to reduce loans outstanding and/or increase equity and/or get government guarantees*



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An alternative way of solving the financial crisis:

Improve company equity ratios

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When the equity ratio of a company strengthens

- > *higher credit class for company*
- > *higher value to bank of loans to company*
- > *higher bank solvency*



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When the solvency of a bank strengthens

- > *funding becomes easier and cheaper*
- > *no need to reduce loans outstanding*
- no need to raise additional equity*
- no need for government guarantees*

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Recommendations to Policy Makers

- > *avoid fiscal measures that hit equity*
- > *make long term equity as interesting an asset class for long term savings as bonds, real estate or life insurance policies*
- > *expand Access to Finance discussion to include long term paid-in capital*



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Other Ownership Transfer issues of note (i)

- *symbiotic relationship between a family business and its owners*
- *importance of shared attitude to ownership within the collective of owners*
- *need for level playing field between types of owners*

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Other Ownership Transfer issues of note (ii)

- *scarcity of willing and able successors*
- *complexity of gift, inheritance and divorce law*
- *finance for take-over by next generation*
- *creating an understanding of what is at stake*

GEEF position on the taxation of equity



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- q *income from equity should not be subject to harsher taxation than income from other types of capital (taxation of dividends vs. taxation of interest income and rental income)*
- q *income from equity ownership should not be subject to harsher taxation than income from equity disposals (taxation of dividends vs. taxation of capital gains)*
- q *equity ownership should not be subject to harsher taxation than ownership of other types of capital (wealth tax)*
- q *all ownership categories should have the same chance to accumulate retained earnings in their companies (gift and inheritance tax)*