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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

1. Before the Crisis		*Family*	*Listed*	*Private*
	Business	**Company**	**Equity**	
Sales		100,0	100,0	100,0
COGS	60%	60,0	60,0	60,0
Gross Profit		40,0	40,0	40,0
SGA		20,0	20,0	20,0
EBITDA		20,0	20,0	20,0
Depreciation		10,0	10,0	10,0
EBIT		10,0	10,0	10,0
Interest		0,8	2,1	3,4
EBT		9,2	7,9	6,6
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		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*	*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

AAA to AA-	*20%*
A+ to A-	*50%*
BBB+ to BB-	*100%*
Below BB-	*150%*
Unrated	*100%*

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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

- ***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)***

- ***income from equity ownership should not be subject to harsher taxation than income from equity disposals (taxation of dividends vs. taxation of capital gains)***

- ***equity ownership should not be subject to harsher taxation than ownership of other types of capital (wealth tax)***

- ***all ownership categories should have the same chance to accumulate retained earnings in their companies (gift and inheritance tax)***