

# Financial Investors and Family Businesses: Friendship or Enmity?

**WHU** Institute of Family Business & Mittelstand

POELLATH +

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# Study in the Field of Tension Between Financial Investors and Family Businesses: 130 Family Businesses, 150 Financial Investors and 30+ In-depth Interviews

Academic research in the field of tension between **financial investors** and **family businesses** based on **three studies**



Quantitative survey of around **130 family businesses**

- Reasons for/against the potential sale of the company
- Type of investor to whom the sale would potentially be completed



Quantitative survey of around **150 financial investors**

- Reasons for/against the potential purchase of a family business
- Potential for improvement of (former) family businesses



Qualitative in-depth interviews with **30+ people**






- Conducting interviews lasting approximately 60 minutes
- Validation of the findings from the two quantitative studies





# Successful Transformation - Financial Investors can Shed Image as "Grasshopper" and are Increasingly Perceived as Strategic Partner

## Increasing relevance of financial investors in the field of German family businesses

-  Knowledge of the **characteristics of family businesses**
-  **Professionalization** of the (former) family business
-  **Increasing the speed** of decision making
-  **Growth partners** (especially in the area of internationalization)
-  **Countercyclical investment activities** by financial investors

## Five main reasons for the sale of the family business

- 1** | Support in the realization of **growth strategies**
- 2** | Support in **overcoming corporate crises**
- 3** | Support for the **strategic realignment** of the business model
- 4** | Support in the **resolution of shareholder conflicts**
- 5** | Support in **solving succession issues**





# Family Business Owners Prefer to Sell to Strategically Similar Buyer Types

- 1 Single Family Office
- 2 Multi Family Office
- 3 Strategic investor
- 4 Medium-sized private equity fund
- 5 Industrial holding
- 6 International private equity fund
- 7 Venture capital funds

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The **range** within the private equity landscape is **very wide**. For example, there are major **differences between domestic funds and foreign funds**. A decisive factor for success is that the **culture of the fund fits that of the family business**.





# Financial Turbulences Increase the Probability of a Sale



## Above average performance

**48%** of respondents exclude a majority sale to a **financial investor**

**27%** of respondents exclude a majority sale to a **strategic investor**



## Below average performance

**38%** of respondents exclude a majority sale to a **financial investor**

**21%** of respondents exclude a majority sale to a **strategic investor**

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Private equity can be both an **ideal growth partner** and an **ideal crisis partner**, bringing **additional liquidity** to the company on the one hand and **maneuvering the management through the difficult phase** with **financial know-how** on the other.





# The Purchase Price is not the Most Important Factor for Family Business Owners by far



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The most important thing for us was not to extract the last euro. It was important to us that the **company remains in good hands** and continues to be **managed well**. We invested an incredible amount of **heart and soul** into it. My mother still lives in the factory today.



## There are Many Arguments in Favor of Investing in a Family Business ...

72%

Possibility to **improve** the company **operationally**

**Growth potential** through additional financing

69%

56%

Comparatively **high employee loyalty**

## ...but Also Some Arguments Against Such an Investment

68%

Additional complexity due to **family conflicts**

Comparatively high **stakeholder complexity**

60%

30%

Disproportionately high **purchase price claim**





# High Attractiveness of Family Businesses is Supported by Successful Past Investments

## Attractiveness of family businesses vs. non-family businesses

## Success of past investments in family businesses vs. non-family businesses



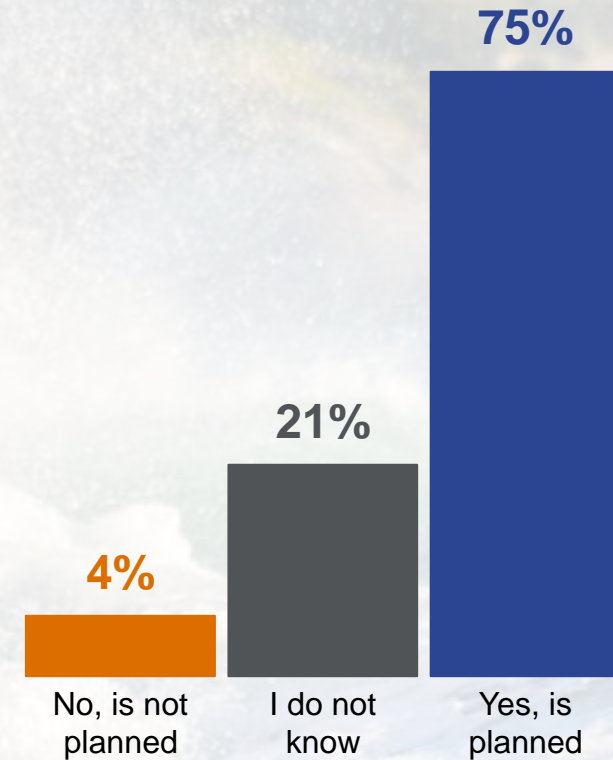
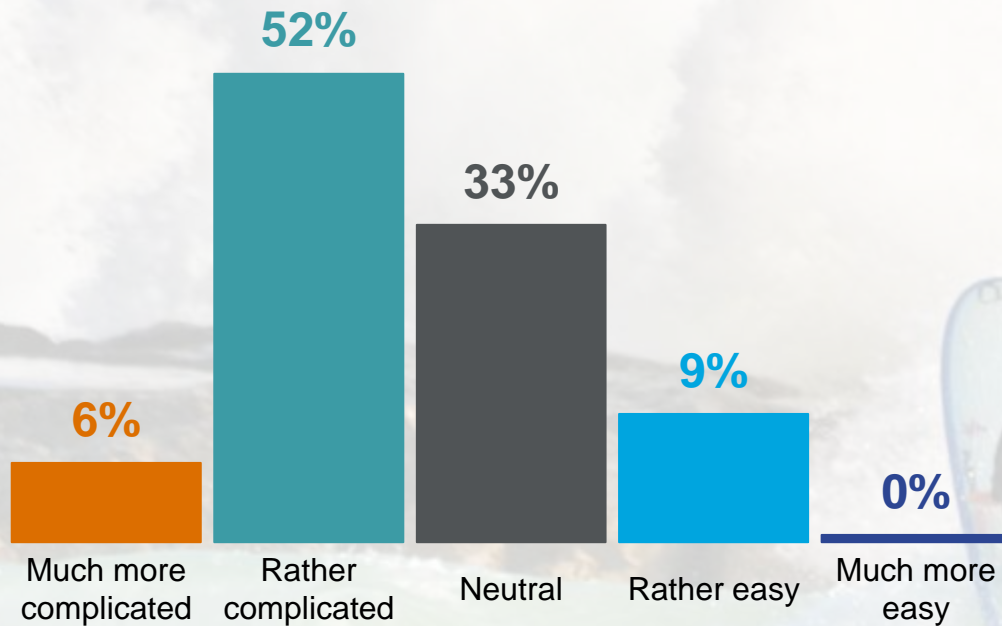




# Despite Comparatively Complicated Cooperation, the Majority of Financial Investors Plan to Acquire a Family Business Soon

## Complexity of cooperation with family businesses vs. non-family businesses

## Purchase of a family business in the next 3-5 years



Note: Survey of 151 German investment professionals  
Source: IFBM@WHU

# Family Businesses Sometimes Have Clear Reservations When it Comes to Financial Investors



**Short-term horizon**  
of the financial  
investor



**Lack of transparency** in the  
(sales) purchasing  
process



Focus exclusively on  
**financial goals**



**Lack of understanding** of  
family businesses

“

When it comes to **private equity funds**, our **family business always feels a void** that is difficult to capture in words. **Values** and **culture** are of very high importance.





**Friendship** between family businesses and financial investors is **possible** when ...



Financial investors position themselves **as partners at eye level** and can address the challenges and concerns of family businesses



Financial investors and family businesses need to focus on their **individual strengths** and create a common basis for trusting cooperation



Financial investor must fit the family business and the **general conditions of the (partial) sale** must be made **transparent**



Financial investors provide family businesses with **additional financial capital and additional know-how**, thereby enabling growth or providing support in the event of challenges

# Introduction to the Case Study on M&A in Family Businesses



## Introduction question:

What are the **key differences** between typical M&As and those involving a family firm? What **particularities** must be considered in the sales process of a family business?





# Case Study on M&A in Family Businesses

## Schmidt Print and Media - A Family Business in Upheaval



Groups of four to five participants



40 min reading and discussion

### Question 1

As the M&A advisor, which of the **three potential buyers** would you recommend to Mr. Schmidt and why?

### Question 2

What **contractual deal components** would you recommend to Mr. Schmidt (e.g., ownership structure and other guarantees)?

### Question 3

Depending on your answer to question 1, what are suitable ways to find a new **managing director** for the company, and what **skills** and **experience** should the person have?

### Question 4

What are the critical success factors for the **post-acquisition integration** process in a family business? What could be **Mr. Schmidt's role** and his **daughter's role** after the sale?



# We are Looking Forward to Your Questions and Feedback!



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Access to the study  
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