Driving growth through generations

Private Business

Today, family businesses are positively perceived, appreciated for their values, their longer time horizon with respect to investments and their business culture, and so on.

Nevertheless, family businesses typically also have specific challenges, such as governance issues, transfer to the next generation, etc.

In order to grow, a family business needs to constantly evolve, which affects both the business and the family.

Depending on the stage the business and the family is at, different issues become relevant and important topics need to be raised.

This booklet provides guidance and examples of important topics that need to be tackled when growing your business, transferring it to the next generation or when you decide to sell.

We hope you will enjoy reading it and find it useful.

Nancy De Beule, Partner

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Introduction

Family businesses may be managed and operated according to the latest and best business principles, but, nevertheless, the founding vision and principles, the family history and legacy, the management style and the future prospects are all deeply personal to the family. Recent family businesses may be visionary. Older ones may be run by people who have had the business ‘in their blood’ for generations, with loyal staff that have remained in place for decades. Entire communities may have evolved around their business.

This makes every family business unique. However, some general principles apply when it comes to growing the business, nurturing it, handing it down through generations, mergers and acquisitions, and even selling the business.

This booklet provides guidance and insights to support family businesses through each stage of their growth and transformation. While the topics herein may or may not apply specifically to a family businesses, we approach each area from a family business perspective.

The insights offered here are derived from family business experts and from the results of the PwC Family Business Survey, FY2023.

Growing your business

71%

of family businesses reported growth in their most recent financial year.

Growth while fostering the family's wealth

As a general rule of thumb, a family business needs to grow by 10% every two to three years in order to keep the family wealth at a constant level as the generations expand. Considering the exceptional inflation seen in the past year, however, an increase of more than 10% may be needed to ensure stability.

With those numbers in mind, it's clear that continuous growth is one of the main challenges in the current environment, where resilience and focus are key.

Family businesses often prove to be successful when navigating challenging times: in our FY23 PwC Family Business Survey, 71% of family businesses reported growth in their most recent financial year and 43% even reported double-digit growth.

Teaming up with a (financial) partner to achieve growth

For many years, family businesses were rather wary of private equity or other external financial investors.

Over the last decade however, family businesses have developed a better understanding of what private equity means and have become more aware of the added value a private equity investor can offer to the business (and vice versa). Over the years, the role of private equity houses has evolved and the market has come to understand that the role of modern private equity goes far beyond providing financing solutions. Private equity investors can be active shareholders and bring their know-how, network, expertise and other (non-)financial added value to the board table.

Private equity players contribute to the business priorities by actively creating value in fields such as digitalisation and environmental, social and governance (ESG) matters, but also by helping the business expand into new markets organically or via buy-and-build acquisitions. In this way they distinguish themselves from other – more passive – investors.

Some private equity players are open to invest in minority stakes and non-equity instruments. This approach makes them suitable parties for family businesses since for a lot of families and private shareholders, maintaining their position of controlling reference shareholder is crucial.

Before kicking off the process, the family must be ready to share the shareholding with an external party. The preparation phase leading up to the entrance of a financial buyer is key. As a family, you must get the company ready and try to enhance its value at different levels way ahead of the process. It's also important to determine the impact of this process on the family estate and family governance.

Fueling growth through M&A

Businesses can grow organically by introducing new products or service offerings, approaching new clients' segments, entering new (geographic) markets, etc. However, mergers and acquisitions, or collaborative model with or without capital injections in innovative startups or scale-ups, can also drive growth or even accelerate it.

The success of an acquisition or deal is driven by several factors that require proper consideration before, during and after the deal.

- Pre-deal: determination of the M&A strategy, focus and investment criteria and identification of targets that suit the family business.
- Executing the deal: valuation of the target, due diligence in view of identifying and mitigating risks but also to identify opportunities, financing, tax efficient structuring of the deal, set-up of an effective management incentive plan, etc.
- Post-deal: integration of the acquired business with the family business in view of maximising value through an efficient and appropriate legal and tax structure in support of the desired joint operational model.

Corporate venturing/collaboration with startups and scale-ups

Corporate venturing comprises any form of collaboration between established companies and younger, innovative ventures, startups, and scale-ups. This type of action can help companies to innovate, save costs and increase efficiency, but also to develop new products, identify new revenue streams and markets, foster an entrepreneurial mindset within the company, digitalise and much, much more.

Corporate venturing isn't the sole privilege of large multinationals with unmatched budgets. Any company can benefit from teaming up with promising startups and scale-ups.

Organisations should be fit for growth

Whether it's growing organically or through M&A, a growing business needs to reevaluate its processes on a regular basis to stay relevant and to ensure that organisation models fully support the growth strategy. This is relevant for all businesses, equally for family owned businesses.

A lot of businesses perform a fit-for-growth assessment so they can proactively organise their activities for growth and transform when needed. These are some of the domains that can be part of the analysis:

- define strategy and focus areas
- enhance the business plan and budgeting
- attract (external) management to allow the founders/family members to dedicate their time to strategic roles
- optimise production, supply chain, commercial organisation and/or other value-driving processes
- recruitment and retention
- cost structure alignment in view of margin protection
- professionalise back office functions
- improve digitalisation and related skills
- adopt new technologies
- further investment in innovation and R&D
- increased focus on corporate responsibility, sustainability and ESG
- ability to deal with increased financial, non-financial and tax reporting requirements (both domestic and international) requiring efficient ERP and other systems (connected compliance)
- risk management
- etc.

In this growth ambition, important focus remains on the family governance

As your business continues to grow, it becomes increasingly important to reflect on the role of the family members in the daily operations. You might also start thinking about the next generation entering the business. In this regard, having a Governance code is key for responsible management of family businesses and business-owner families.

The value of the shares of your family business represents a significant asset in your total wealth.

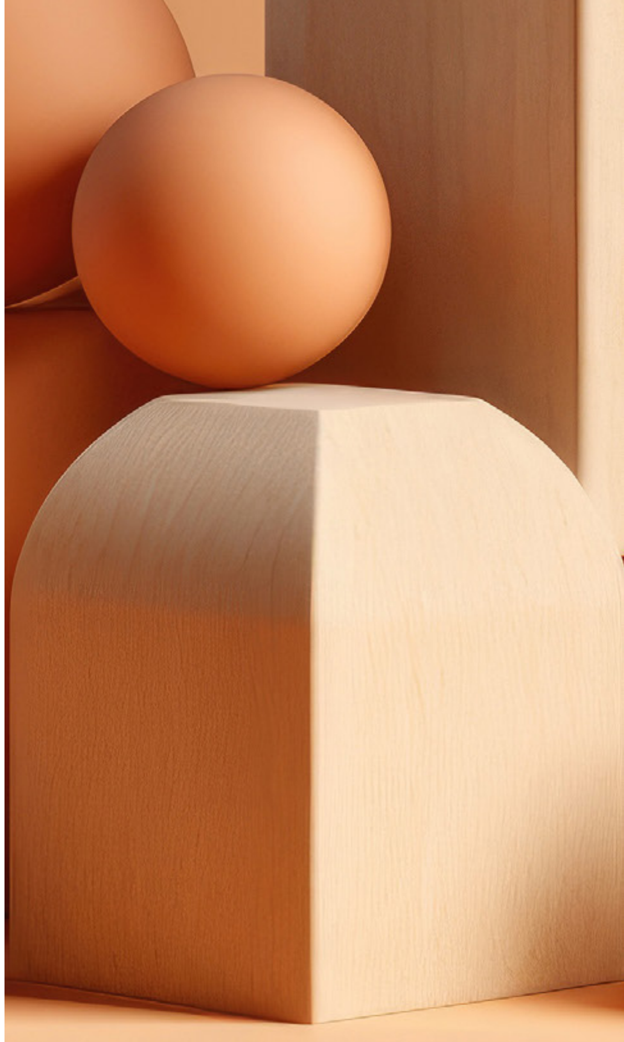
A professional estate plan will not only avoid high inheritance taxes when you (possibly suddenly) pass away, it will also force you to implement a corporate and a family governance structure. Having these structures in place will lead to a higher success rate in maintaining family harmony and avoiding conflicts.

Nurturing your business

According to the 11th PwC Global Family Business Survey, family businesses will need to transform to maintain trust.

The notion of how to be a trusted business is changing fundamentally and rapidly. Issues such as ESG, and diversity, equity, inclusion and belonging (DEI&B), have become litmus tests of trustworthiness for everyone connected to your business — including customers and employees. Given basic demographics, many of them will be millennials and gen Z, with values quite different from those of baby boomers. Different values means that family businesses can no longer simply rely on a trust premium that has been built up over generations.

Family businesses know that the trust of the customers and family members is essential, on top, those businesses need to be (more) proactive in building trust with their wider key stakeholder groups, especially employees and the general public.



The new formula for trust

Whose trust do we need?	What do these constituents require to earn trust?	What are we using to gain trust?
The stakeholder groups have expanded;	Expectations have grown:	The toolkit has changed:
Customers	Excellent service/product	Owner's annual report letters
Employees	Brand recognition/history	Website
Family	+	+
+	Defined purpose	Social media
Public	Commitment to ESG and DEI	Speaking out on social issues
	Transparent and effective communication	Taking action on commitments

Source: PwC analysis

The message from this year's survey is clear: not only do family businesses need to make transformative changes to inspire trust, they also need to make their efforts visible and communicate them clearly to their stakeholders. Not just to their customers, employees and family members, but also to the general public.

Having a shared mission and vision

It's important to identify and articulate your family's shared purpose. What's seen as the value of keeping the family and enterprise together? What do family members feel they are 'growing for', both personally and collectively? Their purpose may include wealth creation, but it is typically much broader, encompassing ideals such as serving as a good employer, giving back to communities where enterprise assets, customers and family reside, developing family human capital, and others.

Closely related to purpose, is mission, or what your family does to realise its purpose. What does the family see as its mission? Is it shared? Is there a mission statement that describes how to enable or achieve the family's purpose in a way that resonates with family members and other stakeholders? For a family business, this goes beyond the mission of an operating entity to cover the mission of the family itself.

In general, it can help to think of the family's purpose as the reason for being together, while their mission is what they hope to accomplish by being together.

It's also important to think about values. What shared values support the purpose and anchor the family? Are family values both nurtured and reimagined as the family evolves? How does the family's wealth enable them to live up to their values? How does the family enact its values through the assets it shares?

Values may address the types of wealth, or 'capital,' most important to the family: financial, human (health, talents), intellectual (education, experience), social (relationships, community, stories, life lessons) and spiritual (faith).

Increasingly, family values may relate to the pursuit of ESG objectives and promotion of DEI&B in the business or other endeavours, and how exactly those components are advanced. Of course, each family member will have individual views on values and how they are reflected through family decisions related to shared wealth. So it is essential to consider a family enterprise model at the appropriate level in which individual and collective purpose overlap or in which individual family members can find some common ground.

A sustainable family business allows the harmonious coexistence of tradition, progress and innovation, fostering family unity across generations and diverse perspectives. Clarifying 'why' the family remains united inherently involves determining 'who.' Who is making decisions regarding purpose and mission for the family, and for whom are these decisions made? It may well be important to establish the 'who' – who participates in the decision-making group – before delving into the other aspects of 'why' and 'for whom'.

As entrepreneurial families typically span generations, periodically reassessing and redefining the roles of stakeholders involved in the enterprise becomes necessary for its ongoing success. Thus, pinpointing the 'who' becomes pivotal in outlining growth priorities, as we'll explore further.

How do you ensure that the family shares the same vision for the future of your company? How do you ensure that the business strategy is in line with your family strategy?

1. Formulate the owner strategy in a family constitution.
2. Document your business family goals and values in the shareholder contracts.
3. Communicate your values internally and externally, and translate them into daily business, to activate your family business advantage.
4. Be specific about your values: codify them, write them down and act on them with the full involvement of all family members.

Governance in family businesses: combine mechanisms of corporate governance and family governance

Although corporate governance structures (General Assembly, Board of Directors, Executive Committee) are of absolute importance in running a business, in a family business they are not enough. Family involvement can create obstacles that may block the long-term goals of your business or interfere with the vision, shareholder interests or decision-making. From interpersonal conflicts to lack of interest or potential within the family, to nepotism and family dynamics..

Family governance establishes mechanisms to navigate the complexities that arise from family involvement and formulates guidelines for handling conflicts. Mechanisms could include a family forum, a family council or a family constitution, for example. The mechanisms implemented could be formal or informal depending on the maturity of the family and the business.

Suitable family governance will help to cultivate a long-term vision and safeguard cohesion between the family and the business.

Next generation education and coaching

How do you prepare successors for their future roles and responsibilities as professional business owners and leaders? How do you ensure that the next generation are prepared for the structural changes and challenges that may come with a succession?

1. Consider attending relevant family education programmes.
2. Reflect on the need to understand the complexities of trusts and foundations, and address them accordingly.
3. Discuss the need to prepare the next generation for board membership, e.g., join board effectiveness training.
4. Bring next generation members of several family businesses together.

Investing in non-operational real estate

In real estate as in all asset classes, there is no investing strategy that is completely free of risk. For most families, the key objective is long-term wealth generation.

Investing in real estate may indeed have numerous advantages for a family business. Indeed, with well-chosen real estate assets, where the choice will need to be made depending on the financial abilities and the financial goals of the family, real estate can offer cash flow (generation of regular passive income) and competitive returns to protect the capital against inflation. This passive income can be used to grow the business and be invested in other asset classes. Investing in real estate can help to diversify the investments and hence reduce overall risk.

The tangible nature of real estate investments generally classifies them as safe assets for investment.

Furthermore, even though the market fluctuates, real estate is a generally stable investment that in principle continually increases in value, providing a source of long-term wealth. Investing in real estate can vary from buying properties to renting homes or leasing commercial real estate. This versatility is one of the top benefits of real estate. Another financial advantage of investing in real estate is the ability to use financing to increase the return on investment. Finally, real estate can serve as means for legacy wealth building, as the legacy can be passed down to future generations to provide the family with financial stability for the future.

Lastly, even though real estate is a physical asset that can always be monetised, one of the main drawbacks is the lack of liquidity as the asset cannot be converted into cash overnight.

When investing in real estate, it is important to consider items such as:

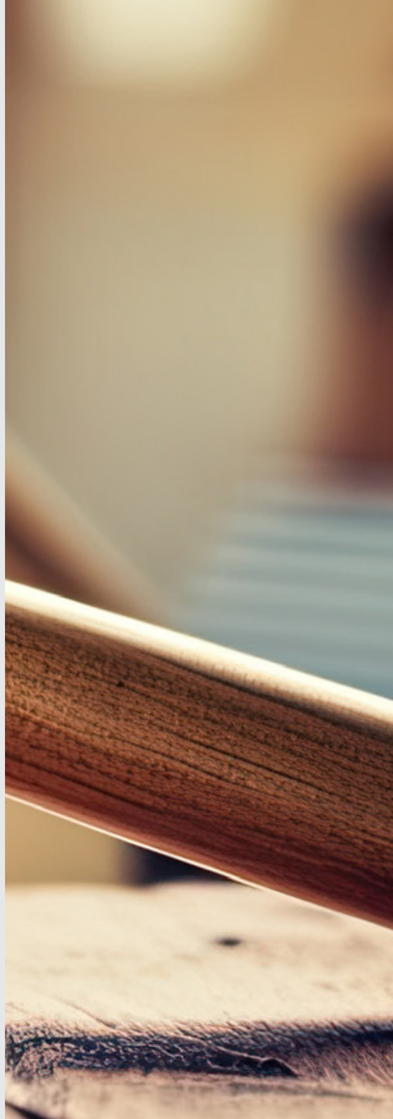
- the type of real estate
- how to finance the acquisition
- how to structure the real estate holding, including potential succession planning.

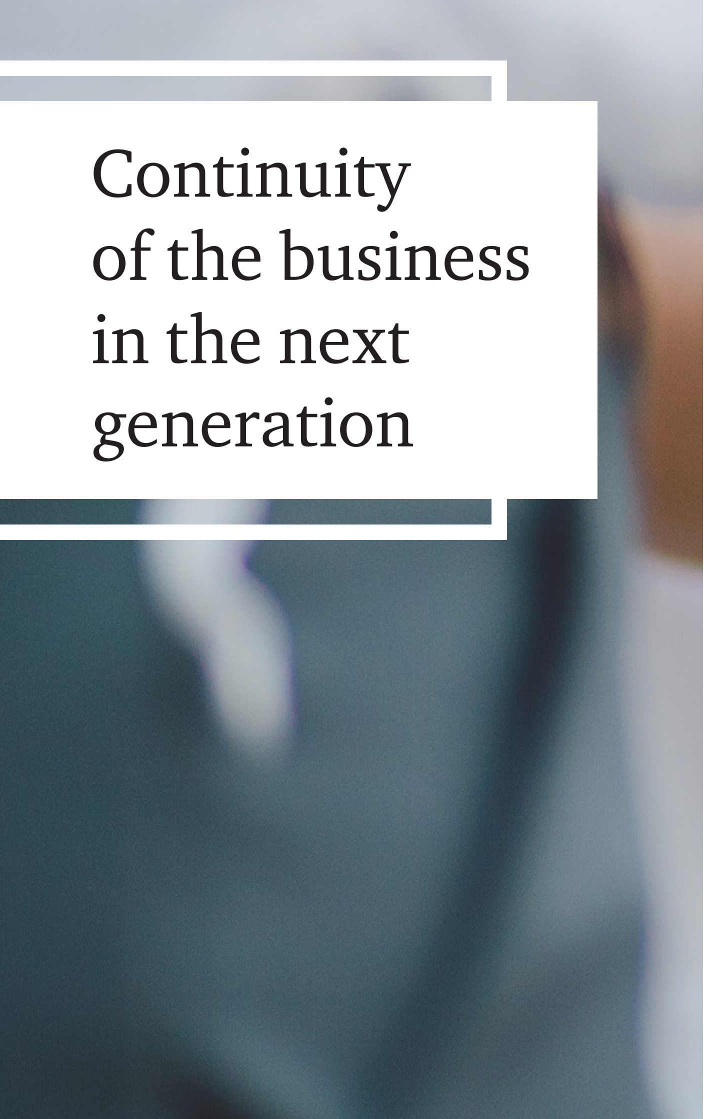
Operational real estate

At a time when debt markets and other sources of capital are significantly constrained, businesses are increasingly looking at different ways to boost liquidity. The real estate in ownership is one option. Disposal of operational real estate remains an attractive option, not only because it can release capital — it can also provide considerable operational flexibility.

Real estate has to support the core business by providing the right space, in the right location, at the right time for the right price. Existing concepts within work/life balance – well-being, mobility and working from home – have accelerated due to COVID 19. This requires real estate users to reassess and modify their real estate strategy.

For those companies with portfolios containing complex assets – such as R&D, manufacturing and industrial facilities – releasing value from real estate can present an array of challenges. For example, selling surplus office space or logistic assets , reconversion or redevelopment of manufacturing facilities, sale and rent back, etc.



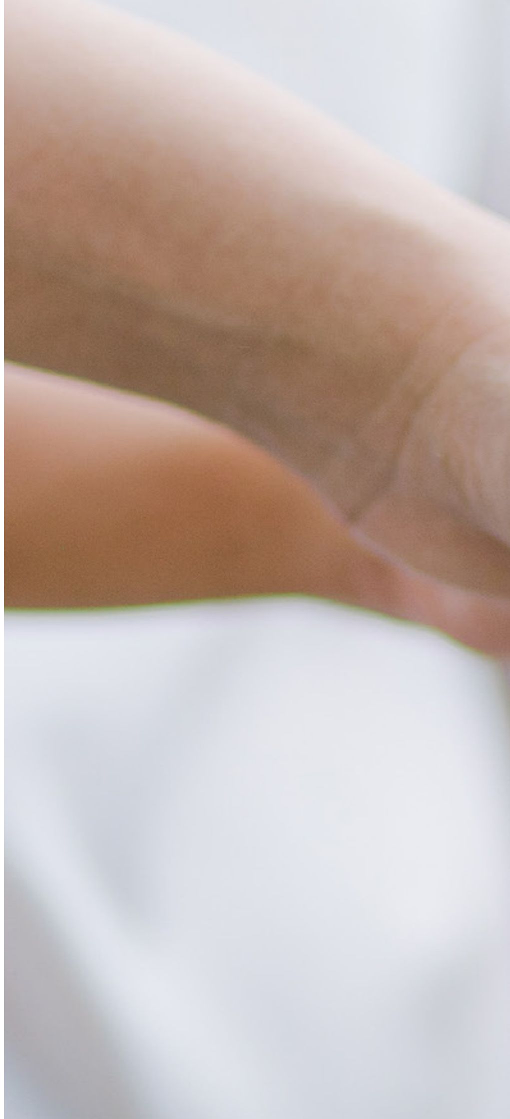


Continuity of the business in the next generation

Parents frequently aspire to and dream of having at least one of their children carry on their legacy. As appealing as that may be, reality often presents challenges, requiring navigation of obstacles along the way. To name just a few:

- the relationships between the children might be troubled
- some of the children may wish to follow a different career path
- the parents may want or need to achieve financial goals of their own before they feel comfortable enough to transfer the business to children, while the children are eager to gain ownership quickly
- the parents need some or all of the value of the business to achieve their personal financial goals, but the children don’t have the financial resources to pay for the business.

When preparing for the transition to the next generation, it’s essential to consider all of the potential obstacles, as they will significantly influence the structure of the transfer, encompassing legal, tax and financial perspectives. Thoughtful planning that incorporates the needs and ambitions of all stakeholders is crucial.



Succession planning, ownership and leadership

It's important that all family members involved share the same strategic vision for the company. That being said, individual viewpoints must be taken into account as well.

This might raise several questions, such as:

- have you discussed, decided and documented how, to whom and when you will pass on ownership?
- have you established procedures and criteria to identify, develop and select the most fitting individuals for key management roles?
- if you own shares, would you be willing to sell them over time?
- is there agreement on investing further in the company or rather a desire to sell?

Will and emergency plan

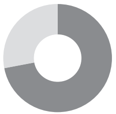
Lasting private businesses put provisions in place before they are needed. Have you put procedures in place that allow for business continuity and ensure your family's protection and welfare?

1. Reflect on the need to prepare an 'emergency pack' including all the details necessary for business continuity and to ensure the family's protection and welfare.
2. Consider drawing up wills and testamentary and endowment contracts.

Next generation development and responsible ownership

The capabilities and strategies that drive business success are changing. The PwC 2022 Global NextGen Survey reveals that 72% of the family business next generation expect to play a role in increasing the business' focus on investing in sustainability in the future. This – alongside other emerging challenges – will demand new skills, qualifications and approaches.

It's important to engage in a discussion to formulate a training path for the next generation.



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Sale of the family business to a third party or the next generation

Transferring your business to the next generation

A successful transfer of the family business requires early and well-considered planning, both from a succession planning perspective and from a financial point of view.

As an alternative to inheritance or donation, a family business can also be transferred to the next generation by selling it. The reasons to opt for a sales transaction instead of donation can, for example, be to (i) ensure equal treatment among heirs or (ii) finance the cost of living of the divesting generation.

A sale between family members can also be relevant following inheritance, if not all heirs wish to participate in the family business, be it actively or passively. In this case, the active shareholder(s) will buy out the other family members.

Typical points of interest in an interfamily sale, are:

- valuation of the business
- financing by the acquirer(s)
- remuneration dividend policies for active and non-active shareholders
- future governance and management.

In case of a donation or inheritance, an analysis should be done to assess whether the beneficial regimes for transferring family businesses apply, in which case additional structuring might become necessary.

Selling to a third party

When the family decides to sell the business to a third party, other considerations come into play, such as maximising the deal value, monitoring any tax risks for the family and deciding whether the family wants to keep certain parts of the business. If they do, they can opt for a pre-deal carve-out of these assets before launching the deal process.

In practice, real estate is often carved-out from the family business before the deal. The reason why is that in general, private equity investors prefer to only invest in the operational business and families prefer to continue the real estate ownership in view of risk differentiation within the family's estate. In this case, you will have to negotiate terms and conditions for the future use of the real estate by the business. Moreover, you will also need appropriate structuring to reduce tax costs and risks regarding the real estate transfer.

A well-prepared sale will maximise the sale value

There are several ways to divest the family business:

- a full exit with new management put in place
- a full exit with (some) family members remaining on board as management for the long term or during a transitional period
- a partial exit through an owners buy-out with the private shareholders staying on board as majority reference shareholder(s) or minority shareholders.

In any of these scenarios, a well-prepared sale will enhance value creation and maximise the sales return.

Family businesses that are preparing a (partial) sale often use an exit readiness review and implementation plan to prepare an efficient and constructive deal process and to preserve and create value to a maximum extent. Typical topics covered are:

- increase maturity of financing function, budgeting, and reporting
- remediation of potential issues and risks
- enhance ESG policies
- carve-out of real estate or private assets in view of preparing a pure divestment of the operational activities.

In case of several interested candidate buyers, a vendor due diligence and/or other forms of vendor assistance are recommended. This way, the sellers remain in control of the process, sell-side workload can be managed and stakeholders can focus on value generation during the deal process.

Finding the right partner to realise your future ambitions

As outlined above, when shareholders decide to sell a family business, a wide range of financial, fiscal, legal and other issues need to be considered before, during and after the deal.

A key factor that is often forgotten, however, is people. The impact of a sale on people is important for all stakeholders involved; although in different ways.

The selling family shareholders look for a buyer that will maintain the existing DNA (or unique character) of the family company, whether it is a total or partial sale. For the existing management, it’s important that there’s a good fit between the existing business’ and the buyers’ and culture and daily operations, to ensure a smooth transition and successful collaboration.

The buyer and seller need to click. How and when this connection happens can be different from one transaction to another. One thing is certain, however: the sellers (and their advisors) should devote time to building this connection during the course of the selling process.

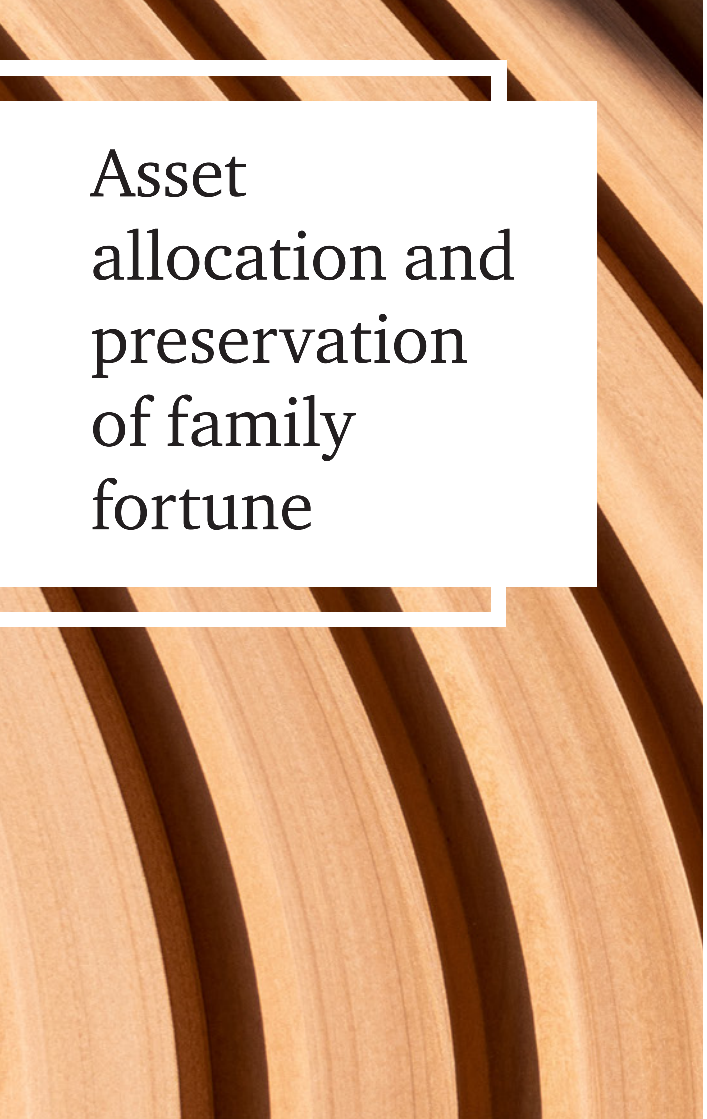
Manage tax (risks) on exit proceeds

The sellers of a family business are often private individuals. In case of a sale of shares by a private individual capital, depending on the situation, the gains can be (i) exempt from taxation, (ii) taxable for Belgian residents, this can imply a taxation at 16.5% + local taxes (if sold to a non-EEA party), taxable at 33% + local taxes (if beyond the normal management of private estate) or in exceptional cases taxable as professional income (taxable at 10%, 16.5% or 50% + local taxes). Since the conditions to claim an exemption are fact based, it is often recommended to apply for an advance tax ruling to secure the exemption and avoid uncertainty and post-factum discussions with the tax authorities.

If the seller is a holding or management company, they should verify that the conditions to claim capital gains exemption are met. By default, upstreaming the sales proceeds to the private estate via dividend/liquidation bonus is subject to 30% withholding tax. However, if certain conditions are met, the withholding tax burden can be reduced to 15% or even 10%.

Structuring the exit proceeds

After divestment, you will need to develop an appropriate structure to reinvest the sales proceeds (tax) efficiently. In practice, a lot of families reinvest via a family holding or a family office to manage the family's wealth across generations in an integrated way. In addition, most families create an investment strategy in view of investing the exit proceeds.



Asset allocation and preservation of family fortune

Professional management of family wealth separate from the business is becoming more popular these days, but it may add additional complexity to the structure, both from a tax and legal perspective. Further cash management is also an important point to consider.

Many families set up a family office in parallel to their family business or start their family office after they have sold (part of) the business.

Determine an investment strategy

Do you prefer family investments or individual investments? How will you diversify your risk? (e.g., real estate, direct investments, securities, private equity, venture capital, cryptocurrency, …). Do you have a strategic asset allocation?

Define the purpose for all the different asset classes (risk vs return vs liquidity).

1. Reflect on the alignment of the investment strategy with the corporate and family strategy.
2. Discuss the need for an assessment of the family and individuals' investment strategies.
3. Consider developing investment guidelines.
4. Consider the need for support in separating business assets and family wealth.
5. Discuss the need for performing an asset portfolio review.

Factoring ESG considerations into investment decisions and portfolio management strategies

The significant growth in impact investing is a fantastic example of how financial assets can be used to change the world for the better. For you as a wealth owner – and the family office managing your assets – the opportunities it presents are arguably greater than for any other type of investor. Yet they're still largely untapped. Currently, family offices account for just 4% of the impact investing universe.

And yet, investing for a positive impact goes to the heart of family offices' culture and mission. As a member of a wealthy family, you may want to invest in ways that preserve wealth for future generations. But you may also want your investments to reflect deeply held personal values. And to build a shining legacy for the future — one that embodies your vision of a better world. By becoming actively involved in impact investing, your family office can achieve these goals. What's more, your family offices' ability to invest for the long term gives you a head start over private equity and institutional investors.

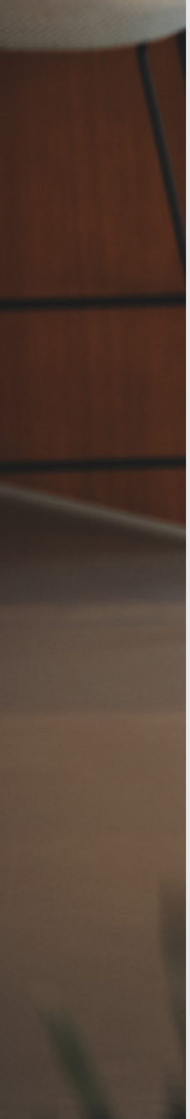
But while impact investing is a natural fit for family offices, most are still mulling over issues such as how to source deals and measure impacts, and working out where to start. Here are some ideas to start with:

1. reflect on the need for developing a responsible investment or ESG policy
2. consider the need to identify and prioritise sustainable development goals (SDGs) relevant to your investments
3. consider the need to review your investment portfolio for exposure to human rights risks and climate change risks.

Professional wealth management

In-house or outsourced strategy. Are you confident about the overview of your assets, asset development, risk protection and cost structure? Do you have real-time visibility into consolidated balance sheets and net worth statements, including liquid and private assets?

1. Consider assistance in regulatory and compliance management for each asset class.
2. Review the effectiveness of liquidity planning and management.
3. Consider the need for support to select a leading professional asset manager.
4. Consider the need for specialist advice with regard to luxury assets portfolio review.



Family holdings and fund set-up

As part of the family's asset allocation and preservation strategy, you could set up a family vehicle to pool or even manage the family's assets.

There are many different variations and variances of such vehicles: be they a fund-type structure, a simple holding, a transparent vehicle, etc.

Each type of vehicle comes with its own set of governance, tax and business opportunities or challenges.

For example, a fund set-up can be a way to attract and open the capital to other, like-minded investors to extend the financial horizon of investments and targets. Such vehicles often present attractive fiscal schemes to ensure tax neutrality for the family members on investment returns. But they also come with a set of regulatory constraints of their own that may put a limit on how you can make certain investment decisions. For some families, such implications may present a disadvantage, while for others, it will present an opportunity to outsource and professionalise the management of the estate.

To determine the appropriate vehicle, key questions should be addressed.

- What is the objective of the pooling vehicle? This may be succession planning, asset preservation, pooling resources to be able to make more substantial market investments, etc.
- What type of management of our family's assets are we seeking? Should/can management be outsourced?
- How is the family geographically spread? From a tax perspective, certain vehicles may only be relevant for individuals located exclusively in one country while others may be more appropriate for a mobile family member.
- Do we want to set up a family-exclusive vehicle or are we looking for co-investors?
- What type of dividend flow are we looking to secure for family members?

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Wherever you are in setting up your family business legacy, PwC is ready to guide and help you. Ensuring long-term growth and prosperity for your business and for your family.

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