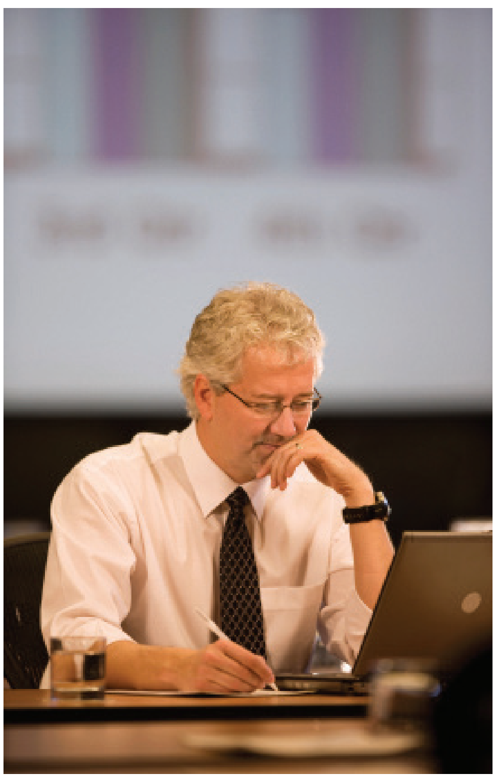
FAMILY OFFICE MONTHLY

August 2014

Beyond Valuation: Factors that Family Business Owners Consider in a Sale



Welcome to another edition of *Family Office Monthly*, an inside look at the family office world from the Family Offices Group association. It has been a busy last month of summer as we prepare for the September Co-Investing and Club Deals conference in San Francisco and, of course, the Family Office Super Summit in Miami from November 11-13.

In this month's edition, you will hear from a couple of well-known family office executives, learn what matters to family business owners when con-sidering a sale, access a free family office podcast on impact investing, and more.

Why Investors Need to Build Their Network

I am often surprised that even the largest family offices and investors have a small or non-existent network of fellow investors and peers. Not only is this an unsatisfying way to invest, it can also be detrimental to your business and investment portfolio to be too isolated.

When an investment team is far removed from others in their industry or investor group, it can have a number of negative effects. (**Continued on Page 4)**

Beyond Valuation: Factors that Family Business Owners Consider in a Sale

I am often struck by the way that analysts, dealmakers, and investment bankers discount the importance of cultural and personal fit when evaluating the merits of a proposed transaction, especially one that requires the approval of a founder. Founders are very protective of their business and often spurn economically attractive offers for reasons beyond valuation. Would-be buyers need to make a strong case that a deal is in the best interest of the owner's family and/or the company's long-term viability. Companies that are controlled or managed by the original founders or descendants of the founder are especially in need of persuading and there is likely to be an inherent skepticism of any offer, especially an unsolicited one.

Even in the corporate arena, unsolicited bids and even competitive auctions may be rebuffed for factors other than the offer price. For example, Yahoo and Microsoft did not merge largely because Yahoo founder Jerry Yang refused and Microsoft's Steve Ballmer's aggressive pursuit of the target failed to win support from Yang, Yahoo Board members, or shareholders at large. Considering that Microsoft's 2008 offer represented a 61% premium over Yahoo's then share price, it is hard not to assume that personal reluctance by Yang to sell factored into the rejection of the bid. Ultimately, Yahoo rebuffed the offer because Yang and his Board did not believe that they would be better off going it alone, rather than merging with Microsoft—although it's worth noting that Yahoo made overtures subsequently to invite a second offer from Microsoft. Jerry Yang was pilloried for refusing to take the deal at the time, but given that Yahoo's share price has surpassed the Microsoft offer, there may be some merit to Yang's insistence that Microsoft was undervaluing the company he created. Regardless, the technology would certainly be different if Ballmer's Microsoft had successfully managed to entice Yahoo and its Board and relieve their reservations over the deal.[1]

In smaller, more personal deals, where a founder is still actively managing or at least overseeing the company, buyers and sellers face less public scrutiny and pressure than in large corporate mergers. This places the emphasis on executive-to-executive communication, rather than public overtures such as the poison pen or a public plea on CNBC. In these more private interactions, the seller has the opportunity to clearly make its case for an acquisition. There is a great deal of attention paid to cost savings, synergy, growth, and the EBITDA multiple offered, but these factors are only part of the puzzle. I know many executives who prioritize other considerations that an investment banker or private equity executive might overlook or at least discount in favor of financial terms. These issues include:

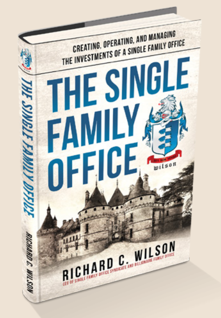
Family Members and Potential Succession: An unsolicited bid may take a private business's founder by surprise and disrupt succession plans that have been in the works for years, even decades. Buyers who ignore the family's history and long-laid future plans will face an uphill challenge in completing the deal, as family members with expectations of running the company will work against the deal. Successful buyers go to great lengths to assuage concerns that the family will be completely removed from the company and may offer to include the family member(s) in the company's executive management or Board.

Future Planning: There are countless stories of founders that sold the family business under structures that were inefficient for the sellers. Many founders

1 http://online.wsj.com/news/articles/SB120186587368234937

The Single Family Office

You can read more articles like these in The Single Family Office by Richard C. Wilson. You can grab your copy of this Single Family Office book soon on Amazon.com



If you want to listen to one of the interviews included in this book, visit http://SingleFamilyOffices.com/audio2 to download a free mp3 recording.

Looking to meet other single family offices in person? The Family Offices Group hosts many live conferences throughout the year in great locations like Manhattan, Singapore, and Miami. At least once a year, we host an exclusive gathering for single family offices and affluent families to meet, share experiences, and build relationships.

If you would like to be considered for membership (free to single family offices) please contact us:

E-Mail: Member@SingleFamilyOffices.com Telephone: (212) 729-5067

are wary of a sale because they want to avoid: huge, unexpected tax bills; inadequate wealth for the family's long-term needs; mistimed sale; undervaluing the company; and other mistakes. A founder is usually the patriarch or matriarch of the family and feels responsible for ensuring that immediate family members and future generations benefit from the transaction to the greatest degree possible. The best investors that I know have a gift for structuring deals carefully with full consideration of the family's concerns and even for future generations. If there is any doubt whether the deal may expose the family to a surprise tax penalty, cuts the family out of future gains, or undervalues the company in any way, the owner will likely lose sleep until he or she ultimately nixes the deal.

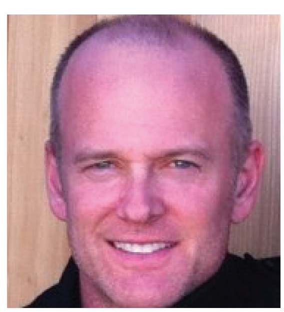
"Giving Your Daughter Away": A founder of a food business compared the experience of selling his company to giving his daughter away. He felt uncomfortable parting with the company because he had invested significant time and energy into building the company. In some ways, the company represented his life's work and he wanted to make sure that even if he sold his interest, the next owner would be just as passionate about the business. This may seem odd if an owner has sold his entire stake in the company, but many employees stay on through the deal, the founder's name may still hang on the door, and there are a number of ties binding the founder to the business even after a sale. Buyers should keep in mind the personal attachment felt by an owner and take care to mitigate any concerns about how the company would be managed post-closing.

A Perfect Fit: Many founders are waiting for a successor, whether in the family or from outside of it, who shares their ambitions and vision for the company. For too many owners, they are left waiting for decades before the perfect fit comes along. Ideally, the successor is within the family, but often the offer comes from a rival, investor, or an entrepreneur looking to carry on the owner's legacy. I have heard many times from owners that they would be willing to take less from an acquirer that was the perfect match over a higher bid from a less suitable buyer. It can be hard to build rapport with an owner but great investors will go to exceptional lengths to visit with the owner, share their personal stories, and demonstrate why they would be a great candidate to buy the business.

In the end, buying and selling a business is about more than EBITDA multiples, after-tax proceeds, and other financial considerations. Any deal involving an owner or committed management team is about the legacy of the business, the years of personal investment in building the company, and the continuation of that tradition under new ownership.

Family offices, investors, and dealmakers will meet at the University Club of San Francisco on September 26th to share their experiences selling companies, executing direct investments, and partnering with other investors. Reserve your seat here: http://WilsonConferences.com/Super

Featured Family Office Podcast



Impact Investing
Many wealthy families look to effect positive change through their investments, while still generating a positive return on investment. If you have ever wanted to learn more about impact investing, this podcast is an excellent introduction. (Continued on **Page 4**)

Family Office Training

Did you know that you can access great family office interviews and other training resources with your enrollment in the Qualified Family Office Professional (QFOP) program. The QFOP is the only family office training program designed for family office professionals, by family office professionals.

QFOP
QUALIFIED FAMILY OFFICE PROFESSIONAL

Our goal is to provide as much education and resources on the family office industry as possible and the QFOP is the most comprehensive family office training platform available. If you would like to enroll or learn more about whether this program is right for you, please visit: www.FamilyOffices.com/Training

Family Office Webinars

We have hosted dozens of webinars on topics such as coinvesting, creating a single family office, and selling your family business. If you would like to join our next webinar, simply reserve your place for one or more of the following webinars here: *www.FamilyOffices.com/Webinars*

How to Build Your Deal Flow Pipeline

September 18, 2014 1PM EST

Family Office Governance & Management Strategies

October 9, 2014 1PM EST

www.FamilyOffices.com/Webinars

Impact investing, a segment of the investing universe that describes investments that are socially responsible, has gained traction in recent years as investors take a closer look at how their investments impact communities, the environment and other affected parties. For endowments and pensions, impact investing has become critical to satisfying constituents, whether boosters, students, or pensioners—that have pushed to divest from certain investments and allocate instead only where there can be at least a neutral impact and ideally a positive impact on the world. Beyond social responsibility, impact investments can also include those allocations that accomplish non-financial goals, such as promoting sustainability, providing affordable housing, and other transformative actions.

In this edition's Family Office Podcast, we feature a presentation by John Jonson, who serves as Managing Director at Lyrical Partners, a $1B+ multi-family office. John's presentation covers impact investing and how it relates to family offices. John also chronicles his many experiences through-out his career working at a family office.

To listen to this podcast and subscribe to the free Family Office Podcast, please visit: http://FamilyOffices.com/Podcast/Family-Office-Impact-Investing

P.S. You can hear John speak live at the Family Office Super Summit: http://WilsonConferences.com/Super

Why Investors Need to Build Their Network

Too often, I find that even the largest family offices and investors have a small or non-existent network of fellow investors and peers. Not only is this an unsatisfying way to invest, it can also be detrimental to your business and investment portfolio to be too isolated. When an investment team is far removed from others in their industry or investor group, it can lead have a number of negative effects. Here are a few of the drawbacks to going it alone as an investor:

- No exposure to new strategies and creative approaches to investing. Many family offices that are exceptionally isolated are following the same strategy that they have been executing for years, without consideration of cost-saving measures, innovative strategies, and various changes that could positively impact the portfolio.
- Susceptible to Self-Serving Bias: When you and your team are removed from other investors, it can be easy to justify mediocre or poor performance without acknowledging that others performed better in similar conditions. By exposing your team to your peers, you can develop a better understanding of how similar investors have performed and how you might emulate their successes.
- Becoming blind to new risks. In the last couple of decades, the economy has become much more global and, consequently, more complicated for investors. Investors need to stay informed and in-the-loop on their investments and the myriad of risks that could hurt the portfolio. Now companies can see their share price slide 5 points on a political shift in a key foreign market, a comment from the head of a central bank, or a Chinese manufacturing survey. For investors, it is important to build your network of contacts that can help keep you apprised of all relevant information that could impact your investments and make you aware of various risks, from growth in sub-prime borrowing to changes in federal law.
- Lack of counsel and support. Many of the family office executives that I work with are seeking to expand their peer network and meet other family offices. Not only are there great business reasons for doing this, but on a more human level it can be satisfying to build relationships with like-minded individuals who have similar aspirations and challenges. These business relationships can help advise you on a problem that they may have experienced before or give you assistance through referrals, resources, and other helpful actions.
- Identify ways to benefit the business. By developing a strong community of peers and business partners, you will have a great network to source deals, form new business partnerships and joint ventures, and grow your holdings. For investors with substantial business interests, you may identify a new bolt-on acquisition or land a powerful business for one of your portfolio companies. I constantly find opportunities to introduce parties with similar interests and, in turn, many executives in my network make a point to make valuable introductions for me, such as a family office or business that is looking to sell. You may not even have a clear way to benefit from your network, but it is worth developing the community now with the understanding that you will derive value in ways that you can't foresee.

I hope you enjoyed this free article and be sure to join the Family Offices Group as a first step to developing your network: http://www.LinkedIn.com/groups?about=&gid=46192

If you want to meet other members of the Family Offices Group in-person, reserve your seat for one of our upcoming family office conference (free for qualified single family offices): http://WilsonConferences.com