Family Office Direct Investment in the German Speaking Countries

Results of July to September 2014 Survey

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24 September 2014
Agenda

I. Introduction
II. Executive Summary
III. Background of the Respondents
IV. Family Office Governance
V. Control vs. Non-Control
VI. Direct Investment Parameters
VII. Real Estate Investment
VIII. Tax Considerations
IX. Management Participation
I. Introduction to the Survey

From July to September 2014, we conducted a survey regarding Family Office Direct Investment.

- We reached out to family offices in German speaking countries.
- Data might not be representative for all German family offices, but remain interesting.
- We thank John Rompon of McNally Capital. He gave us access to the results of a survey conducted in the US in 2013 and the questionnaire.
II. Executive Summary

THE OFFICES
- For 60% of the Respondents Direct Investment plays a material role.
- A material number of Family Offices acts without written guidelines
- Family members play an active role in investment decisions and in an active control of the investment.

The INVESTMENT
- Less than 30% of the PE investment goes into Direct Investment.
- Co-investment with other families is preferred.
- 91% plan to invest in the next 24 months.
- Drivers are financial returns and the delight in entrepreneurial activity.
- Biggest challenges are deal sourcing and the lack of time.
- Seed and venture only play a minor role.
- The majority invests with considerable leverage.
- The focus is on Germany and Europe.

REAL ESTATE, TAX & MANAGEMENT
- 50% of the Respondents invest between 25% and 50% of their money in real estate.
- 90% of that goes into Direct Investment.
- Germany (73%), Europe (36%) and the USA (36%) are the preferred regions.
- Tax goals are: Optimal low tax for exit and dividends / interests.
- Management is incentivized, in most cases with equity.
III. Background of the Respondents
III.1. Single or Multi Family Offices

- Single Member Family Office: 25%
- Small Number of Families Office: 17%
- Multi-Family Office: 50%
### III.2. Number of Family Members and Generations Served

<table>
<thead>
<tr>
<th>Family Members</th>
<th>Generations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5</td>
<td>1</td>
</tr>
<tr>
<td>5-10</td>
<td>2</td>
</tr>
<tr>
<td>11-30</td>
<td>3</td>
</tr>
<tr>
<td>30+</td>
<td>More</td>
</tr>
</tbody>
</table>

- **Family Members**<br> 45% 18% 18% 18%
- **Generations**<br> 0% 43% 43% 14%
III.3. Size of Managed Portfolio

- € 30-100 million: 16%
- € 100-500 million: 42%
- € 1-10 billion: 42%
III.4. Assets are Managed...

- 36% largely externally
- 55% largely internally
- 9% only internally
III.5. Share of Direct Investment (in Targets and Funds) of Total Assets

- 15-50%: 36%
- 5-15%: 27%
- <5%: 36%
III.6. Share of Direct Investment in Overall Private Equity Investment

- 0: 9%
- 0-25: 36%
- 25-50: 9%
- 50-75: 18%
- 75-100: 27%
III.7. Share of Direct Investment in Europe and in Germany

**Share in Europe**

- **0-10**: 11%
- **10-50**: 33%
- **50-75**: 33%
- **75-100**: 22%

**Share in Germany**

- **0-10**: 20%
- **10-50**: 0%
- **50-75**: 50%
- **75-100**: 30%
III.8. Number of Employees in Direct Investment/PE Entity/Unit

- 25% of employees have 1 employee
- 41% of employees have 2 employees
- 8% of employees have 3 employees
- 8% of employees have 6 employees
- 16% of employees have 6+ employees
IV. Family Office Governance

1. Written Acquisition Strategy
   - No: 42%
   - Yes: 58%

2. Written Guidelines for Acquisition Process and Exit
   - No: 35%
   - Yes: 65%

3. Inclusion of Family Members into Investment Decisions
   - Always: 60%
   - Partly: 30%
   - Never: 10%
IV. Family Office Governance (cont’d)

4. Involvement of Family Members in Direct Investments
   (high [5] to low [1])

<table>
<thead>
<tr>
<th>Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>40%</td>
</tr>
<tr>
<td>3</td>
<td>25%</td>
</tr>
<tr>
<td>2</td>
<td>15%</td>
</tr>
<tr>
<td>1</td>
<td>15%</td>
</tr>
</tbody>
</table>
### IV. Family Office Governance (cont’d)

#### 5. Intensity of Control Over Portfolio Companies (high [5] to low [1])

<table>
<thead>
<tr>
<th>Intensity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>36%</td>
</tr>
<tr>
<td>4</td>
<td>27%</td>
</tr>
<tr>
<td>3</td>
<td>27%</td>
</tr>
<tr>
<td>2</td>
<td>0%</td>
</tr>
<tr>
<td>1</td>
<td>9%</td>
</tr>
</tbody>
</table>

#### 6. Do Family Members work in Portfolio Companies?

<table>
<thead>
<tr>
<th>Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>partly</td>
<td>15%</td>
</tr>
<tr>
<td>no</td>
<td>85%</td>
</tr>
</tbody>
</table>
IV. Family Office Governance (cont’d)

7. Structure of Direct Investment

- Industry Holding: 30%
- Separate Investment Structure, e.g. Fund: 60%
V. Control vs. Non-Control

1. Percentage of Majority Interest Investment

- 70%
- 30%
- 0-50%
- 50-100%

2. Overall Amounts Invested per Investment

- < 1 million: 20%
- 2-5 million: 30%
- 5-10 million: 20%
- 10-20 million: 10%
- 20-40 million: 10%
- < 40 million: 10%
3. For Majority Investments: Do you accept Co-Investments?*

- Other Families: 80%
- Institutions: 20%
- No Third Party: 20%

* Multiple answers possible
V. Control vs. Non-Control (cont’d)

4. Percentage of PE Investments in Minority Investments and Amounts

**Minority Investments**
- 0: 25%
- 0-25: 0%
- 25-50: 10%
- 50-75: 25%
- 75-100: 35%

**Amounts**
- 1 million: 25%
- 1-5 million: 50%
- 5-10 million: 13%
- > 40 million: 13%
V. Control vs. Non-Control (cont‘d)

5. Permitted Co-Investors for Minority Investments*

- **Other Families**: 100%
- **PE Funds**: 22%
- **Existing Family Enterprises**: 75%

* Multiple answers possible
VI. Direct Investment Parameters

1. Direct Investment is key for Family Offices, growing even more important

<table>
<thead>
<tr>
<th>Past Behaviour</th>
<th>Future Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>83% invested in the last 24 months</td>
<td>91% intend to invest the next 24 months</td>
</tr>
</tbody>
</table>
VI. Direct Investment Parameters (cont’d)

2. Material Factors for Investment Decisions*

- Strategic Advantages Aligning Investment with Existing Family Business: 33%
- Ethical Reasons: 25%
- Financial Return: 92%
- Reduction of Volatility: 25%

* Multiple answers possible
3. Most Important Aspects for a Successful Direct Investment*

- Sourcing: 65%
- Monitoring: 25%
- Screening: 25%
- Due Diligence: 15%
- Exit: 8%
- Structuring: 0%

* Multiple answers possible
4. Sourcing is the Most Difficult Aspect of Making Direct Investments - Which Aspect of Sourcing is Most Difficult?*

- Monitoring: 0%
- Structuring: 0%
- Due Diligence: 15%
- Exit: 15%
- Screening: 28%
- Sourcing: 58%

* Multiple answers possible
5. Sources that Help Finding the Target*

- Others: 60%
- Corporate Finance: 25%
- Bankers: 42%
- Accountants: 42%
- Lawyers: 58%
- PE Funds: 8%
- Friends: 58%
- Family Members: 25%

* Multiple answers possible
VI. Direct Investment Parameters (cont’d)

6. Preference of Certain Sectors?
Importance of Former Family Assets?

**Sector Preferences***

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>55%</td>
</tr>
<tr>
<td>Technology</td>
<td>22%</td>
</tr>
<tr>
<td>Health</td>
<td>22%</td>
</tr>
<tr>
<td>Financial…</td>
<td>11%</td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>55%</td>
</tr>
<tr>
<td>Food</td>
<td>22%</td>
</tr>
<tr>
<td>Energy</td>
<td>22%</td>
</tr>
<tr>
<td>Logistics</td>
<td>11%</td>
</tr>
<tr>
<td>Others</td>
<td>33%</td>
</tr>
</tbody>
</table>

* Multiple answers possible

**Importance of Pedigree**

- Important: 33%
- Less Important: 42%
- Irrelevant: 25%
7. Preference for Direct Investments: Target Companies or Funds and Reasons for Direct Investment

**Target or Fund**

- No Preference: 25%
- Funds: 33%
- Directly in Targets: 42%

**Reason for Direct Investments***

- Saving Fees: 10%
- Gathering Experience: 36%
- Extraordinary Return: 65%
- Delight in Entrepreneurial Activity: 65%

* Multiple answers possible
VI. Direct Investment Parameters (cont‘d)

8. Preferred Development Stage of Target*

- Seed: 10%
- Venture: 10%
- Buyout: 55%
- Growth: 65%

* Multiple answers possible
VI. Direct Investment Parameters (cont‘d)

9(1). Leverage for Direct Investment

<table>
<thead>
<tr>
<th>Leverage Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-10%</td>
<td>20%</td>
</tr>
<tr>
<td>10-25%</td>
<td>10%</td>
</tr>
<tr>
<td>25-50%</td>
<td>30%</td>
</tr>
<tr>
<td>50-75%</td>
<td>20%</td>
</tr>
<tr>
<td>75%+</td>
<td>10%</td>
</tr>
</tbody>
</table>

9(2). Average Tenure of Portfolio Company

<table>
<thead>
<tr>
<th>Tenure Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-5 years</td>
<td>15%</td>
</tr>
<tr>
<td>5-10 years</td>
<td>25%</td>
</tr>
<tr>
<td>10-15 years</td>
<td>15%</td>
</tr>
<tr>
<td>15+ years</td>
<td>0%</td>
</tr>
<tr>
<td>No Preference</td>
<td>40%</td>
</tr>
</tbody>
</table>
10. Biggest Challenges in Direct Investment Activity*

- Lack of Time: 35%
- Co-Operation with Management: 25%
- Unefficient Reportings: 35%

* Multiple answers possible
VII. Real Estate Investment

1. Percentage of Real Estate Investment to Overall Assets

- 10% for 0
- 30% for 0-25
- 50% for 25-50
- 10% for 75-100
VII. Real Estate Investment (cont’d)

2. Direct or Indirect Real Estate Investments

<table>
<thead>
<tr>
<th>Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>90%</td>
</tr>
<tr>
<td>Indirect</td>
<td>10%</td>
</tr>
</tbody>
</table>

3. Preferred Region*

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>73%</td>
</tr>
<tr>
<td>Europe</td>
<td>36%</td>
</tr>
<tr>
<td>USA</td>
<td>36%</td>
</tr>
<tr>
<td>Asia</td>
<td>18%</td>
</tr>
</tbody>
</table>

Top 7 Cities in Germany

* Multiple answers possible
VIII. Tax Considerations

1. Importance of Residence to Optimize Tax Rate (high [5] to low [1])

- 1: 30%
- 2: 7.5%
- 3: 30%
- 4: 15%
- 5: 0%

2. Most Important Tax Goals*

- Tax Efficient Payment of Dividends, Interests and License Fees: 60%
- Low Taxation of Exit Proceeds: 70%

* Multiple answers possible
IX. Management Participation Parameter

1. Management Incentive Programs
   - no: 35%
   - yes: 65%

2. With...
   - bonus: 25%
   - equity: 75%

3. Payments Occur...
   - at special events: 75%
   - annually: 50%

* Multiple answers possible