September 2018

Research Institute

The CS Family 1000 in 2018

Thought leadership from Credit Suisse Research and the world's foremost experts

Introduction

Family-owned businesses are the cornerstone of most economies, but we still have much to learn about them as an economic phenomenon. Independent of the size of the organizations, these businesses set high performance standards and provide lessons to be learned for the broader business community. As a bank with a strong focus on entrepreneurs through the last 160 years, Credit Suisse has been committed to redressing this apparent lack of analytical attention. In September of last year, we released the first Family 1000 report, based on a database of almost 1000 listed family-owned businesses globally. In this year's report, we revisit the theme of family and founder-owned businesses and our analysis reconfirms last year's conclusion that family-owned companies tend to outperform the broader equity markets.

The scope of the CS Family 1000 database and the inclusion of company financial data from our valuation framework (HOLT®) have allowed us to interrogate the reasons for this outperformance. The drivers are a combination of factors that stem largely from a focus on long-term revenue growth as well as a focus on innovation financed by organic cash flows. The surveys show that family-owned companies have a greater focus on long-term quality growth than non-family-owned companies. Greater family ownership also tends to increase the use of longer-term financial targets for management remuneration and family-owned companies prefer conservative funding structures for investments.

Having reconfirmed a superior business performance of family-owned companies across sectors throughout the past decade, our interest this year has turned to specific regions. For the first time, we assess the best-performing family- and founder-owned companies by region on a three-year, five-year and 10-year basis. Since 2006, the best-performing family-owned companies can be found in Germany, Italy, China and India. In the report, 30 companies in Europe and Non-Japan Asia as well as 25 in the USA are highlighted. An analysis of their growth and profitability profile clearly suggests that there is a correlation between relative outperformance and stronger revenue growth as well as better cash flow returns. For Europe, our database shows that the share-price performance of family-owned companies across the key countries has been strong since 2006. In the Non-Japan Asia region, family-owned companies have outperformed their non-family-owned local peers in every country since 2006. What we find interesting is the fact that, in previous years, the annual average outperformance of European firms and those located in Non-Japan Asia has been substantially higher than the equivalent returns of the top family-owned companies in the USA.

The updated dataset has allowed us to gain a clearer sense of the performance of family-owned businesses across generations too. For example, almost half of our Non-Japan Asian companies are first generation family- or founder-owned, whereas companies in Europe and the USA tend to be older. Close to one third of our European companies are fifth generation family-owned, some even older.

We hope that our findings prove valuable and wish you an insightful and enjoyable read.

Urs Rohner
Chairman of the Board of Directors
Credit Suisse Group AG

Cover photo: iStock, Thomas_EyeDesign

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The CS Family 1000 in 2018

The longer-term trend of outperformance of family-owned companies is clear, with our "Family 1000" universe having delivered cumulative excess returns in every region and sector since 2006. However, the first half of 2018 has been more challenging performance-wise. We explore the conditions that typically deliver the stronger portfolio impact from a family-company bias.

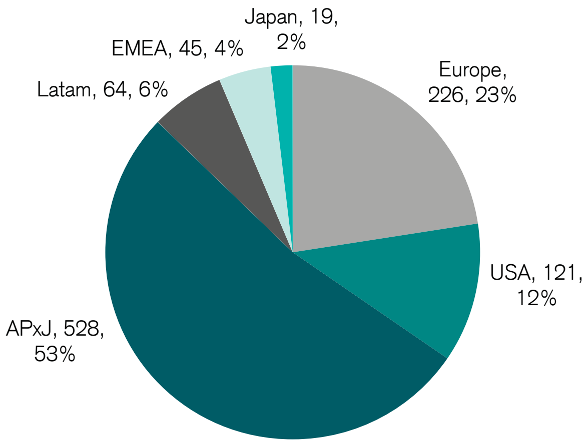
The Family 1000 database

The Credit Suisse Family 1000 is a proprietary global database of a thousand companies built on a "bottom up" basis by Credit Suisse analysts and launched in 2017. The definition we adopt to define a family business requires that a company meets one of the two following criteria:

- Direct shareholding by founders or descendants is at least 20%.
- Voting rights held by the founders or descendants is at least 20%.

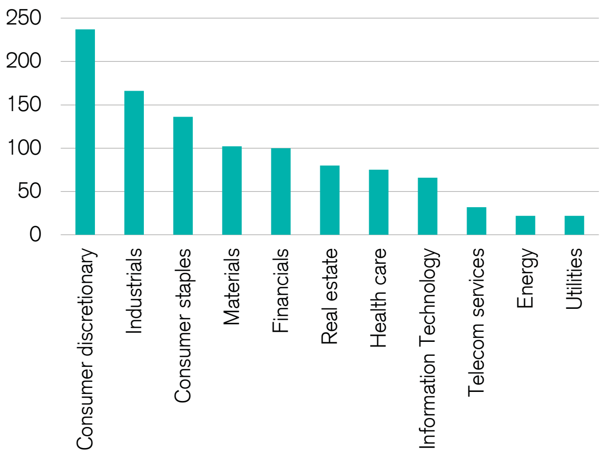
In this year's report, we have conducted a thorough review of the database and made amendments to the universe where appropriate. The "Family 1000" database used in last year's update consisted of 972 companies. Following this year's review, we excluded 49 companies as the ownership percentage of the founder or families had fallen below 20%. Our analysis did find new companies that were not included, but meet our criteria. Including these brings our database to 1015 companies of family-owned companies with a market capitalization of USD 250 million or more. The charts below show the composition by country and sector.

Figure 1: Number of family-owned companies by region



Source: Credit Suisse Research

Figure 2: Number of family-owned companies by sector



Source: Credit Suisse Research

Non-Japan Asia has the most constituents

Our revised database continues to be dominated by family-owned companies from the Non-Japan Asian region with a 53% share. However, with 226 companies, Europe now makes up 23% of the total database, up from 20% last year. As far as sector composition is concerned, we find that consumer discretionary and industrial stocks make up a combined 40% of the total database. Telecoms, energy and utilities are sectors that (perhaps not surprising given their "utility" nature) contribute a combined total of just 7% of the database.

Good mix between small and large companies

Our analysis includes an assessment of the "family factor" depending on the size of a company. Specifically, we look at small cap family-owned companies (market capitalization of less than USD 3 billion), mid-caps (market cap of USD 3–7 billion) and large caps (market cap of more than USD 7 billion).

For Europe and North America, we have a slight bias toward companies with a market cap of USD 7 billion or more. In the case of Non-Japan Asia, however, small caps dominate the family-owned space with 287 companies compared to 124 that have a market capitalization of USD 7 billion or more.

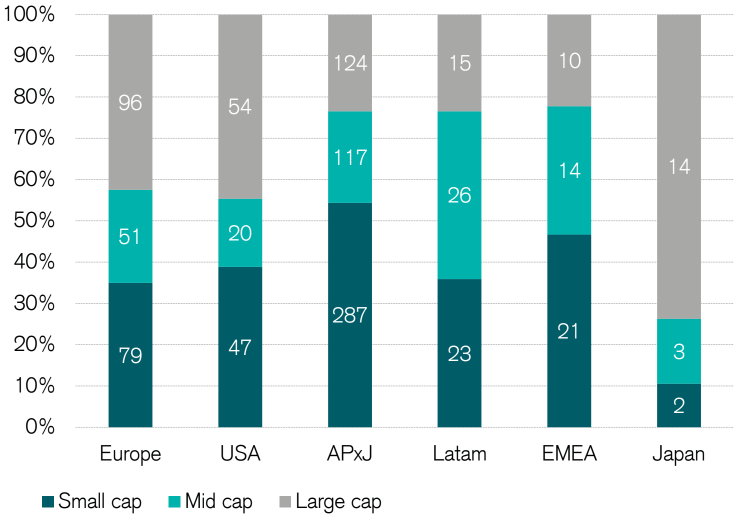
> "Since 2006, family-owned companies have outperformed broader equity markets in each of the key regions"

Long-term rewards, short-term setback

In our previous reports, we highlighted that family-owned companies had outperformed the broader equity markets. In our view, this could be due to a superior financial performance, which in turn might be driven by the longer-term focus that family-owned companies appear to have.

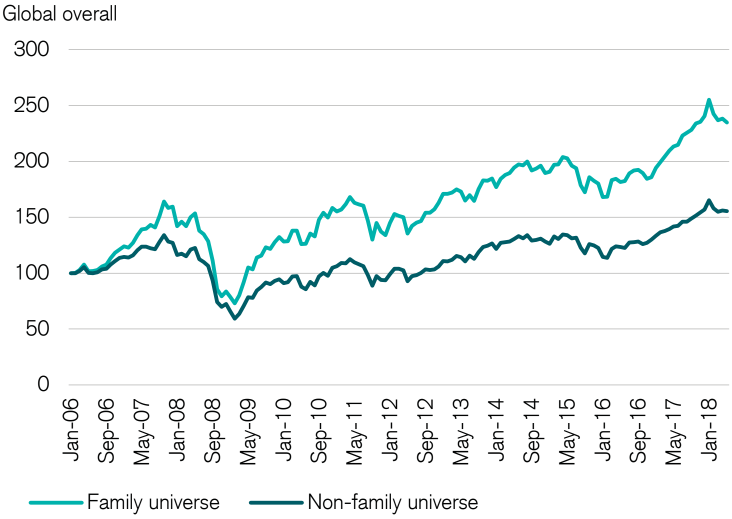
Updating performance up to the mid-way point of 2018, we find this long-term trend remains intact and particularly driven by a strong "family effect" in 2017, with 700 basis points of outperformance by our family universe versus the control group. The compound excess return has been around 300 basis points since 2006. However, we also

Figure 3: Breakdown of "Family 1000" database by market cap.



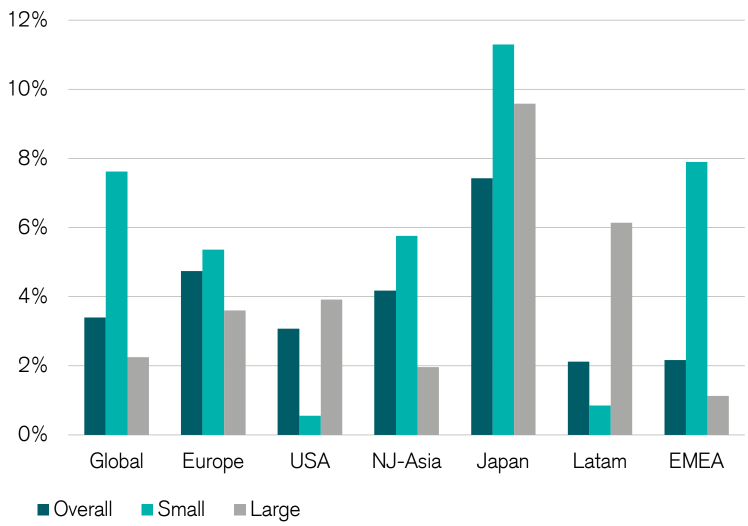
Source: Credit Suisse Research

Figure 4: Family-owned companies have outperformed non-family owned companies since 2006



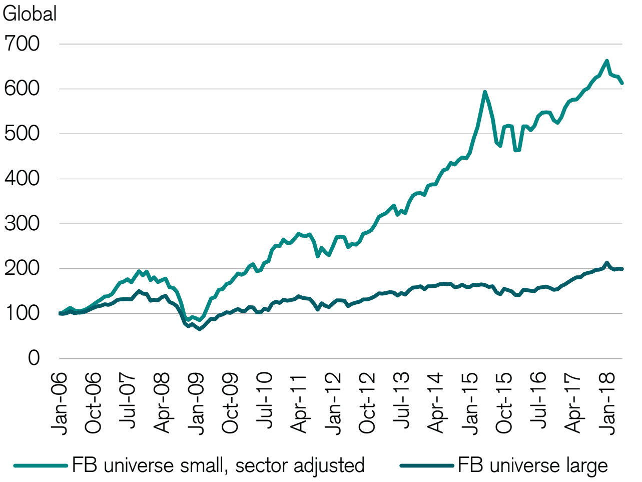
Source: Thomson Reuters, Credit Suisse Research

Figure 5: Annual average "alpha" by region and market capitalization



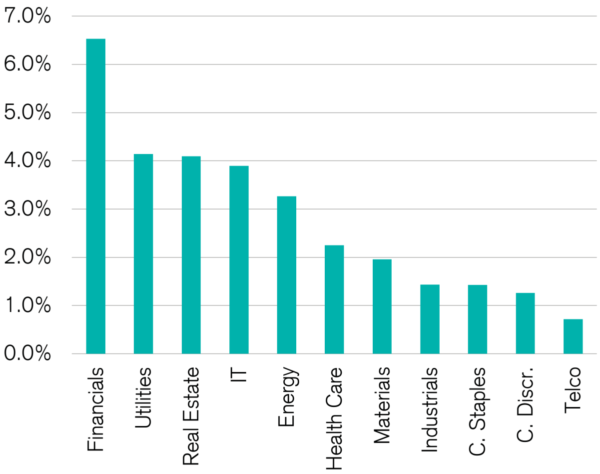
Source: Thomson Reuters, Credit Suisse Research

Figure 6: Small-cap family-owned companies have outperformed large-cap family-owned since 2006



Source: Thomson Reuters, Credit Suisse Research

Figure 7: Annual average "alpha" by sector



Source: Thomson Reuters, Credit Suisse Research

find 2018 has seen something of a retracement with 300 basis points of underperformance in the first half of 2018. This prompts the question as to what conditions are less favorable for family businesses in stock-market terms relative to other periods that we consider below. For completeness, we note that all our relative-return calculations are performed on a sector-relative and market-capitalization-weighted basis.

The structural uptrend

The family-owned alpha factor exists for all regions. In Europe, for example, family-owned companies have outperformed local peers by around 474 basis points per year since 2006. In Japan, this outperformance was as high as 743 basis points per year, whereas it was just over 300 basis points in the USA.

Small-cap family-owned companies outperform large cap peers

Our updated analysis also reconfirmed our previous conclusion that the family-owned alpha factor is bigger for small-cap family-owned companies than for large-cap family-owned companies. For example, globally, small-cap family-owned companies have outperformed small-cap non-family-owned companies by around 760 basis points per year since 2006. On the other hand, the large-cap family-owned alpha was "just" 225 basis points.

Family-owned companies outperform in every sector

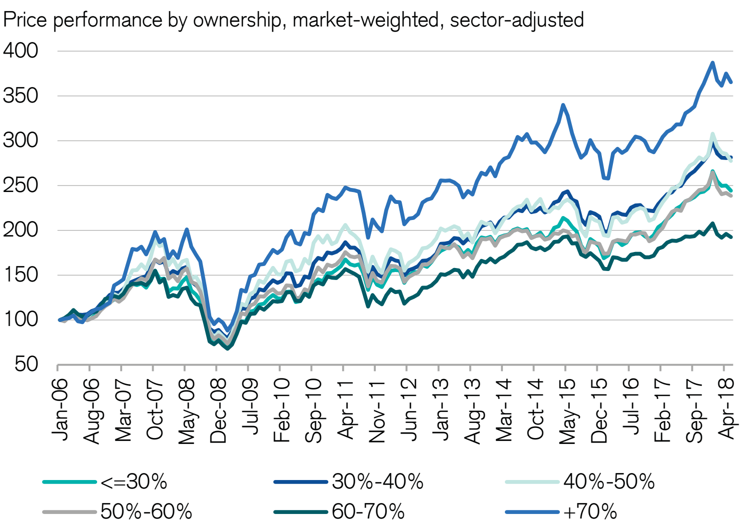
Another feature that is interesting, and reconfirmed in this year's analysis, is the fact that the family-owned alpha factor can be found in every sector. Sectors with a positive family-owned factor for each of the key regions are consumer staples, energy, financials, health care, industrials and technology.

Family-owned returns by shareholding

We also updated our calculations for the family-owned relative performance based on the stake held by the family or founder(s) of our database. Our database has a relatively even split between the various stakes held by founders or their families.

The results for this year confirm last year's conclusion. The size of the stake held by the founder or its family does not automatically suggest a greater degree of sector-adjusted outperformance. A possible reason for this is that

Figure 8: Return by family/founder ownership



Source: Company data, Credit Suisse estimates

even a family with a 20% stake is likely to be the largest investor in that company. That coupled with significant board and/or management representation is probably more relevant.

Family-owned returns by generation

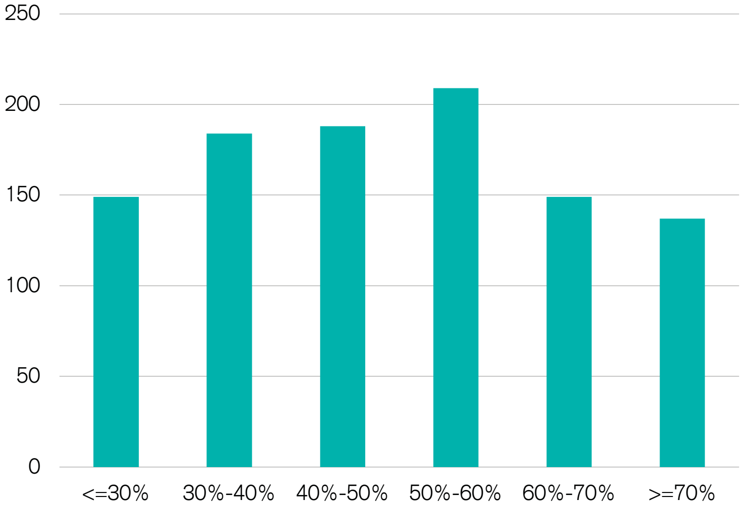
Finally, as part of our performance review, we also revisited the topic of family-owned companies' returns by generation. As a starting point, we note that companies in emerging countries such as Non-Japan Asia and Latin America tend to be younger. For example, almost 50% of our Non-Japan Asian companies are first generation family or founder-owned. On the other hand, companies in Europe and the USA tend to be older. Close to 30% of our European companies for example are fifth generation family-owned or older.

Figure 11 shows that, since 2006, older family-owned companies (generation 3–5) have generally performed worse than those family-owned companies that were in their first or second generation. Even though older family-owned companies generated lower returns than their younger peers, we do note that they still outperformed our non-family-owned control group. The return profile by generation provides yet more support for the structural nature of the family-owned performance factor. Overall, our calculations suggest that family-owned companies in their first or second generation returned roughly 350 basis points more per year than those in their third or older generation.

> "The return profile by generation provides yet more support for the structural nature of the family-owned performance factor"

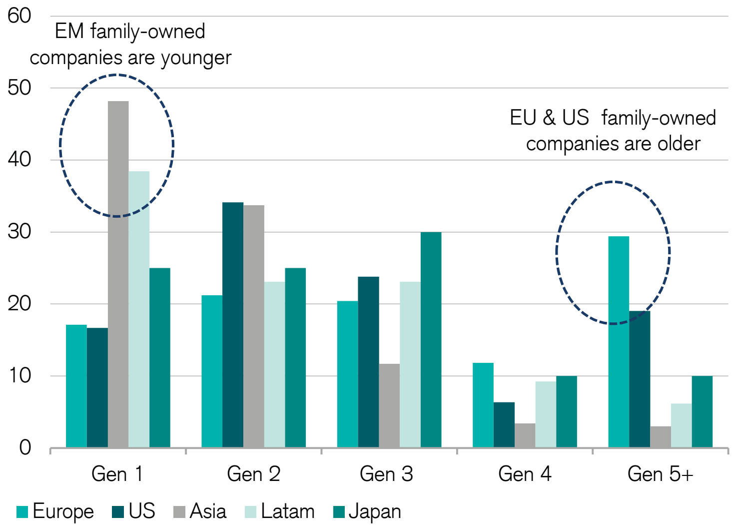
A possible reason why returns seem to fade with the age of a family-owned company might be the fact that older companies are by definition more mature and therefore less likely to generate as strong a rate of growth in profitability as younger firms (we examine this elsewhere in the report). In addition, we note that older firms are less likely to be located in the "new" more disruptive (i.e. technology) sectors, which by their nature offer much stronger growth.

Figure 9: Number of companies by ownership



Source: Company data, Credit Suisse estimates

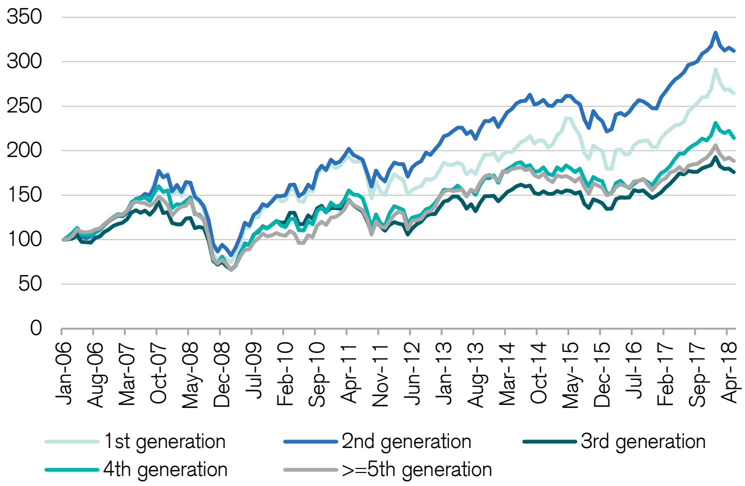
Figure 10: Breakdown of family-owned database by age – generation



Source: Company data, Credit Suisse estimates

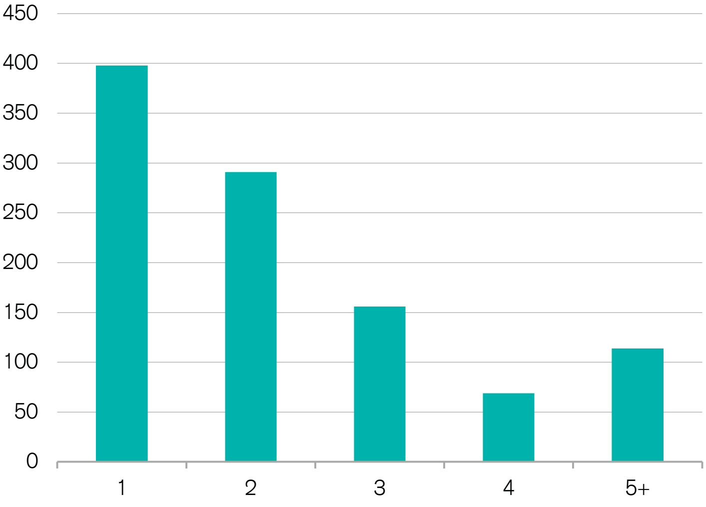
Figure 11: Return profile for family-owned companies by age

Price performance by generation, market-weighted, sector-adjusted



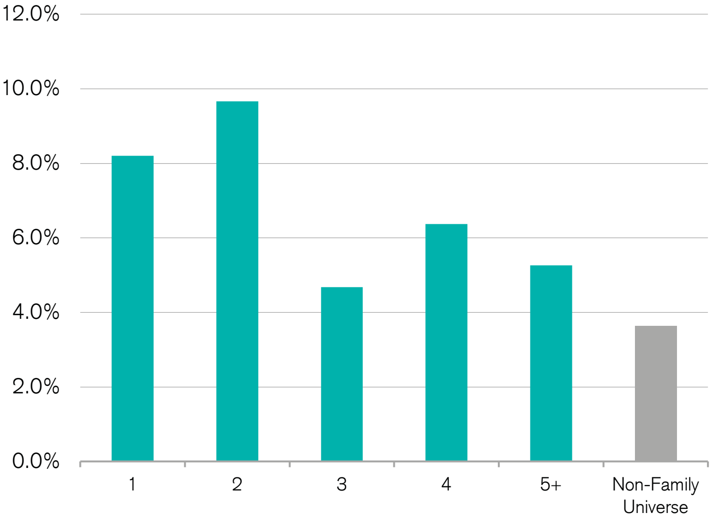
Source: Thomson Reuters, Credit Suisse Research

Figure 12: Number of companies by generation



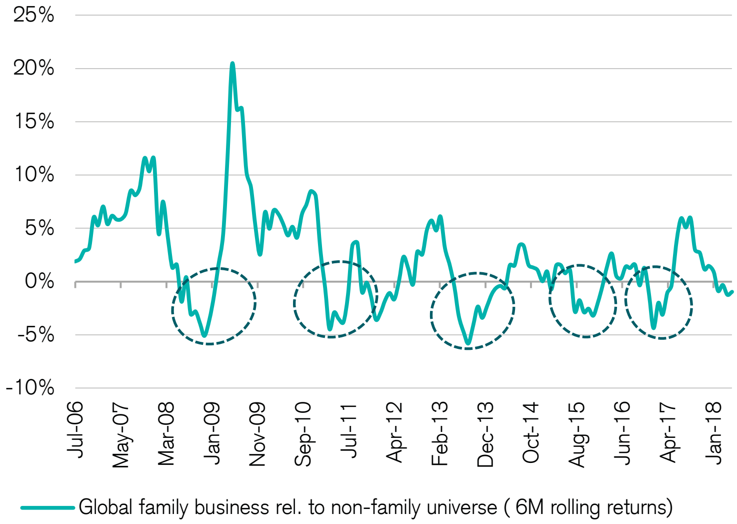
Source: Thomson Reuters, Credit Suisse Research

Figure 13: Annual average return since 2006



Source: Thomson Reuters, Credit Suisse Research

Figure 14: Rolling 6-month returns – we analyzed five periods of underperformance since 2006



Source: Thomson Reuters, Credit Suisse Research

When do family-owned companies underperform?

Against this backdrop of long-term outperformance, in what context do we put the setback in the first half of 2018? To consider this, we have examined other periods of underperformance to look for any common drivers of such periods. More specifically, we looked for common features among macro indicators and financial parameters that might help us understand why family-owned companies might have underperformed during these periods.

We have identified five periods of underperformance since 2006

Figure 14 shows the rolling 6-month returns for the Family 1000 universe. We have identified five periods during which family-owned companies underperformed the non-family-owned global index.

In order to understand the periods during which family-owned companies underperformed equities more broadly, we performed correlation analyses with a number of macroeconomic variables. These included leading indicators (e.g. Purchasing Managers' Index (PMI) surveys and the Institute for Supply Management (ISM) manufacturing index), global risk appetite, economic surprise indicators, volatility (VIX) and bond yields (specifically changes in the US 10-year Treasury yield). We also looked at general market returns using the S&P500 index as well as the MSCI AC World index. Finally, we reviewed relative valuation characteristics to assess whether this might have contributed to the correction.

Judging from the average correlation between the relative returns of family-owned companies and these macro variables, we conclude that:

- There does not appear to be a strong relationship between macro conditions or general equity market sentiment and relative returns from family-owned companies.
- The two variables that do appear to have some consistent correlation during the periods of underperformance are changes to the US 10-year Treasury yield and the US ISM index. The negative and above-average correlation between returns and these variables would seem to suggest (again without wanting to claim too much statistical significance) that family-owned companies may underperform non-family-owned companies during periods in which economic conditions or sentiment improve. This could be explained by the popular belief that family-owned companies tend to be more conservatively managed, resulting in more defensive characteristics relative to non-family-owned peers.

Table 1: Average 6-month correlation between relative family-owned returns and macro factors

Period: Start	30 Jun 08	31 Jan 11	31 May 13	31 Aug 15	30 Nov 16	31 Jan 06
Period: End	30 Jan 09	31 May 12	30 Apr 14	29 Jan 16	31 Mar 17	31 May 18
Indicator	**Period I**	**Period II**	**Period III**	**Period IV**	**Period V**	**Average**
US 10-year bond yield	**-0.23**	**-0.32**	**-0.59**	**-0.50**	**-0.82**	**-0.23**
Economic Surprise	0.21	-0.54	-0.29	-0.76	0.06	-0.18
US ISM	**-0.10**	**-0.52**	**-0.16**	**-0.44**	**-0.23**	**-0.08**
VIX	-0.21	0.24	-0.26	0.02	0.12	-0.20
Global PMI	0.47	-0.53	0.41	-0.13	-0.57	0.00
Global Risk Appetite	0.05	-0.34	0.56	0.26	-0.31	0.16
MSCI AC World	0.35	-0.27	0.37	0.25	-0.32	0.15
S&P500	0.26	-0.32	0.01	0.03	-0.10	0.05

Source: Company data, Credit Suisse estimates

Valuation has been a factor historically, but is no longer relevant

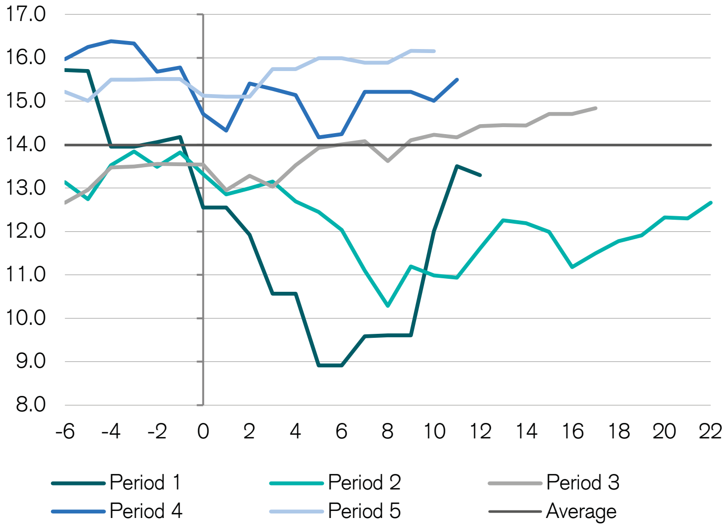
In addition, we also reviewed whether valuation might have been a relevant argument for the periods of underperformance.

Figure 15 shows the absolute 12-month forward price-earnings multiple for the global family-owned universe starting from six months prior to each of the five periods of underperformance until the end of that period. It clearly shows that these periods of underperformance generally coincided with a valuation de-rating as well. Roughly speaking, it appears that a higher multiple prior to underperformance resulted in a stronger de-rating.

Figure 16 shows the valuation premium at which family-owned companies traded starting from six months prior to the period of underperformance until the end of that period. Here we find that periods of underperformance not only led to a de-rating in absolute multiples (as stated above), but also in the valuation premium. We find that the strongest de-rating occurred for periods where family-owned companies were trading at relative multiples that were well above average. While the level of absolute and relative valuation multiples appears to be positively correlated with the degree of de-rating during periods of underperformance, we do not find sufficient evidence to suggest that valuation in general causes underperformance.

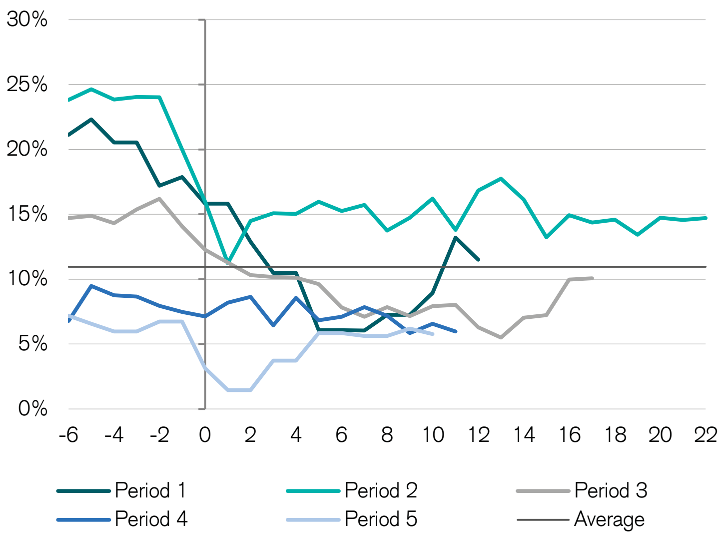
Given that family-owned companies trade roughly in line with their longer-term averages, both in terms of absolute (14.6x versus 14.0x) and relative multiples (9% versus 11%), we can say that, at this point, valuation is unlikely to add incremental pressure to a period of underperformance if it were to occur.

Figure 15: 12-month forward P/E during periods of underperformance (6 months before until end of period)



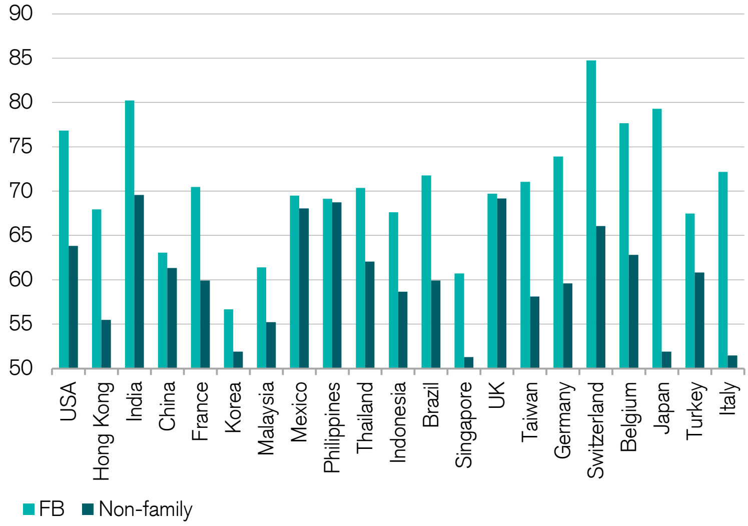
Source: Thomson Reuters, Credit Suisse Research

Figure 16: 12-month forward P/E premium during periods of underperformance (6 months before until end of period)



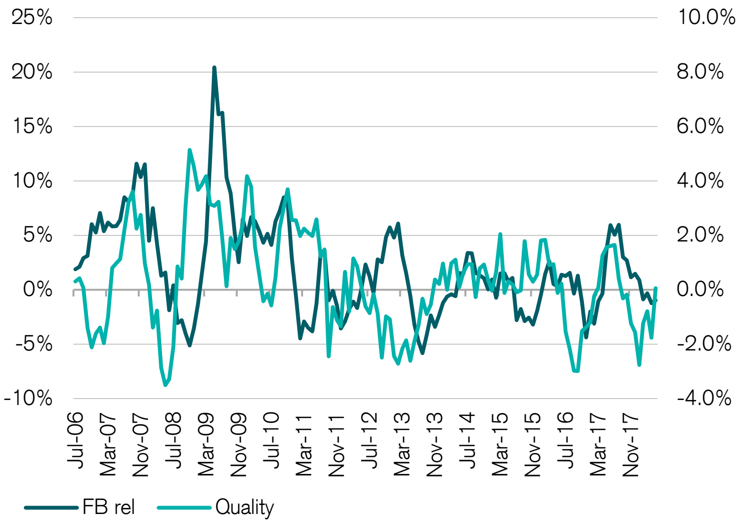
Source: Company data, Credit Suisse estimates

Figure 17: Quality score by country (50 = average, 100 = maximum)



Source: Company data, Credit Suisse estimates

Figure 18: Rolling 6-month relative performance for family vs. non-family-owned (l.h.s.) and quality stocks vs. global equities (r.h.s.)



Source: Company data, Credit Suisse estimates

The Family 1000 alpha: Might style be a factor?

One of the factors worth considering in analyzing the relative share-price performance of family-owned companies is whether they are prone to have a style-bias. Using Credit Suisse HOLT®, we can assess the degree to which companies are quality stocks, momentum stocks or more value-orientated in terms of style.

When grouped by country and compared to a global universe of non-family-owned companies, we find that the majority of family-owned companies score above average on quality. In fact the largest 21 countries in our database in terms of number of family-owned companies that make up the list all score better on average quality than their local non-family-owned peers (**Figure 17**).

“We find that the majority of family-owned companies score above average on quality”

We have calculated the historical relative performance of quality stocks more broadly relative to the MSCI World index in order to assess whether this correlates with our family-owned universe. In doing so, we recognize that the family-owned universe may currently have a quality bias, but that this does not necessarily mean that this was also true historically. Against the background of this shortcoming, we do find that the historical relative performance by family-owned companies is not too far off that of quality stocks more broadly. In our view, this supports our comments made in relation to **Figure 16** on page 9. Family-owned companies are more likely to underperform during periods when quality is out of fashion or when cyclicals and value stocks tend to outperform.

Table 2: The largest family-owned companies in CS family 1000

Top 50 companies by market cap.

Company	Mkt. cap. (USD bn)
Alphabet	856.5
Facebook	536.1
Alibaba	463.0
Berkshire Hathaway	277.4
Samsung Electronics	266.8
Walmart	264.6
Anheuser-Busch Inbev	201.5
Oracle	193.8
Lvmh	174.2
Roche Holding	172.2
Comcast	161.8
Ping An Insurance	161.6
L'Oreal	137.7
Nike 'B'	127.3
Reliance Industries	109.1
Softbank Group	99.4
Inditex	99.2
Baidu	81.2
Itau Unibanco	80.1
Christian Dior	77.9
Kering	66.9
Hermes Intl.	66.5
Keyence	65.8
Enterprise Prds.Ptns.Lp.	63.5
Oil Company Lukoil	59.9
Heineken	59.1
Bmw	58.1
Tesla	58.1
Simon Property Group	54.8
Las Vegas Sands	54.5
Banco Bradesco Pn	54.2
Jd.Com	52.3
Henkel	51.2
Estee Lauder	49.6
Jardine Matheson	49.1
Ford Motor	47.8
Richemont	45.6
Fresenius	45.0
Fast Retailing	43.7
Ck Hutchison Holdings	43.6
Continental	43.2
Pernod-Ricard	43.0
Blackstone Group	42.5
China Evergrande	42.4
Jardine Strategic Hdg.	42.2
Carnival	41.1
Bank Central Asia	40.6
Sands China	39.4
Dassault Systemes	38.9
America Movil	38.2

50 oldest companies

Company	Founding	Mkt. cap. (USD bn)
Wendel	1704	6.6
Lvmh	1743	174.2
Man	1758	16.1
Jeronimo Martins	1792	9.4
Bucher Industries	1807	3.3
Wiley John & Sons	1807	3.1
Merck Kgaa	1827	13.7
Exmar	1829	0.4
Bossard 'B'	1831	1.3
Hermes Intl.	1837	66.5
Oeneo	1838	0.7
Carlsberg 'B'	1847	18.3
Robertet	1850	1.2
Bank Of The Philp.	1851	8.2
Anheuser-Busch Inbev	1852	201.5
Bonduelle	1853	1.2
Kws Saat	1856	2.6
Wheelock	1857	14.3
Davide Campari	1860	10.0
DORMA KABA HOLD	1862	2.7
Solvay	1863	14.0
Bombay Burmah Trading	1863	1.6
Immobel	1863	0.6
Dksh Holding	1865	4.8
Hongkong & Shai.Htls.	1866	2.2
Scotts Miracle-Gro	1868	4.3
Sainsbury J	1869	9.5
Brown-Forman 'B'	1870	16.7
Sartorius	1870	5.5
Continental	1871	43.2
Heineken	1873	59.1
Heidelbergcement	1873	16.3
Hal Trust	1873	14.7
Molson Coors Brewing 'B'	1873	13.5
Schindler 'P'	1874	24.6
Watts Water Techs.	1874	2.9
Henkel Preference	1876	51.2
Greif 'A'	1877	1.4
Elringklinger N	1879	0.8
Bekaert (D)	1880	1.6
Kering	1881	66.9
Nippon Paint Holdings	1881	14.1
Beiersdorf	1882	26.4
Weston George	1882	10.5
Berli Jucker	1882	6.7
Alfa Laval	1883	11.4
Dabur India	1884	11.4
Haverty Frtr.Cos.	1885	0.4
Wharf Holdings	1886	10.1
Bosch	1886	8.5

50 most profitable companies

Company	CFROI® 3-year average	Mkt. cap. (USD bn)
Hargreaves Lansdown	60.8	13.0
Amerisourcebergen	56.4	18.6
Federated Invrs.'B'	45.4	2.4
Emami	45.1	3.7
Bajaj	43.0	0.9
1&1 Drillisch	41.5	10.8
Silverlake Axis	39.7	1.0
H & H Intl. Hdg.	39.0	4.8
Partners Group Holding	35.1	20.5
Kone	34.7	27.3
Qiwi Ads B	33.2	1.0
Great Wall Movie And Tel.	32.9	0.4
Godrej Consumer Products	32.2	13.2
Expedia Group	30.3	19.2
Cts Eventim	30.1	4.6
Cyberagent	29.9	7.0
Discovery Series	29.5	4.0
China Med.Sy.Hdg	28.2	4.4
Coloplast	27.7	21.9
Page Industries	27.5	4.7
Largan Precision	27.3	22.8
Marico	27.2	6.9
Cyfrowy Polsat	26.6	4.0
Anheuser-Busch Inbev	26.5	201.5
Hero Motocorp	25.8	9.1
Tata Consultancy Svs.	25.8	109.5
Eicher Motors	25.7	11.2
Symphony	25.7	1.1
Tpg Telecom	24.9	3.9
Li & Fung	24.7	2.9
Moncler	24.6	11.9
Rollins	24.0	12.2
Hcl Technologies	23.7	19.3
Flow Traders NV	23.3	1.6
Britannia Inds.	23.1	11.3
Ca	22.8	18.5
Ajanta Pharma	22.7	1.3
Diplomat Pharmacy	22.6	1.7
Sunny Optical Tech.	22.6	19.2
Alibaba	22.6	463.0
Henkel Preference	22.4	22.2
Rational	22.3	7.7
Jiangsu Yanghe Brew.Jst.	22.2	29.1
Check Point Sftw.Techs.	22.0	18.6
Hexagon	21.8	19.7
Coty Cl.A	21.7	10.1
Facebook	21.7	536.1
Assa Abloy	21.6	21.5
Dmg Entm.&.Mda.	21.4	1.6
Surya Citra Media	21.3	2.1

Source: Company data, Credit Suisse estimates


280
300
320
340
NW
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Explaining the "family-alpha" factor

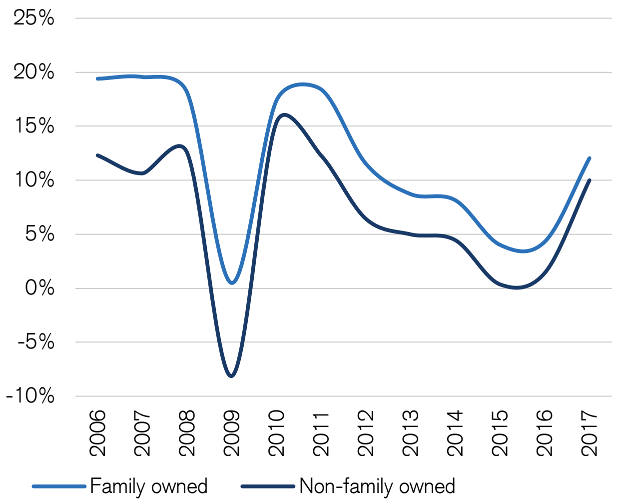
Superior growth and returns have been a feature of the CS Family 1000 over time and a backdrop to their stock-market outperformance – but what leads to it? Establishing cause and effect is not straightforward, although higher spending on research and development and capital expenditure, and less cash taken out of the business through dividends and share buybacks is a common trait. We seek to deepen our understanding of the family-business model.

The profitability premium

Family-owned companies grow faster…
On a sector-adjusted basis, family-owned companies continue to generate stronger top-line growth than their non-family-owned peers. Indeed, 2017 has shown an improvement over 2015 and 2016, both for family- and non-family-owned companies. We would note that the revenue growth premium appears relatively robust across all the main regions. This clearly lays the foundation for superior overall financial performance, which in turn supports strong share-price appreciation as well.

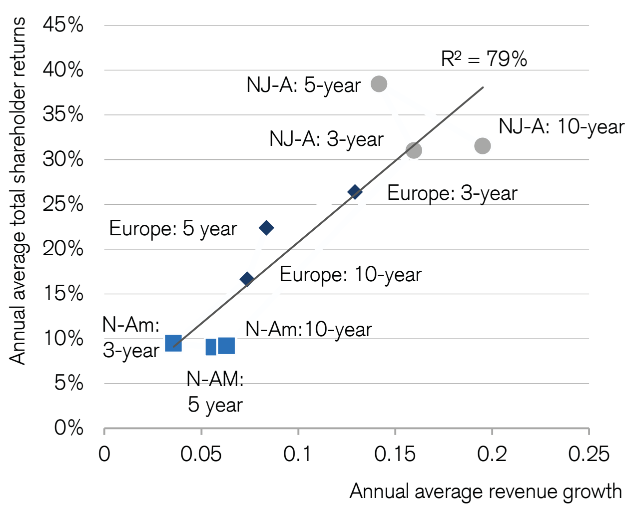
The relevance of revenue growth to the performance of our family-owned universe can also be shown by breaking the database down by region. **Figure 2** shows the annual average revenue growth over three, five and ten years for the best-performing family-owned companies in Europe, North America and Non-Japan Asia. It clearly suggests that, through time and globally, higher revenue growth correlates with stronger share-price performance

Figure 1: Revenue growth: Family- vs. non-family-owned companies



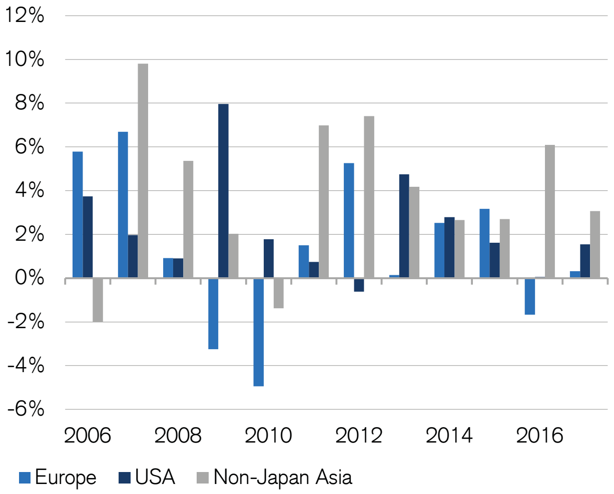
Source: Thomson Reuters, Credit Suisse Research

Figure 2: Stronger revenue growth tends to correlate with stronger excess total shareholder returns



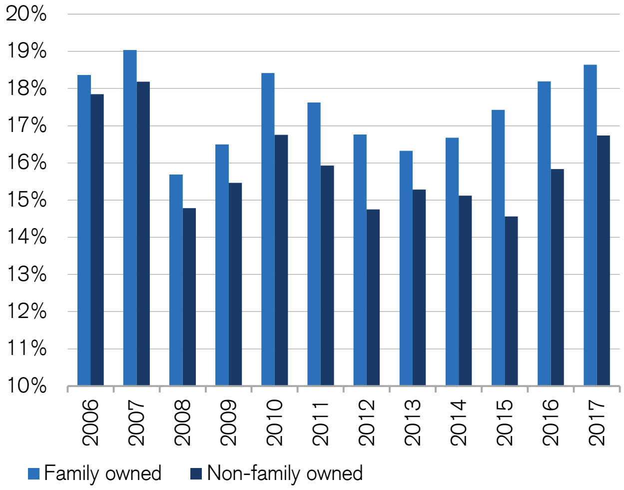
Source: Thomson Reuters, Credit Suisse Research

Figure 3: Family revenue growth premium by region



Source: Thomson Reuters, Credit Suisse Research

Figure 4: Family-owned companies generate better margins than non-family-owned companies



Source: Thomson Reuters, Credit Suisse Research

… and they generate superior margins

In addition to higher top-line growth, we find that the family- or founder-owned companies in our slightly enlarged database also generate better profitability. When taking EBITDA margins as a guide, for example, we find that family-owned companies generated a 190 basis-point higher margin last year on a sector-adjusted basis. This is around 40 basis points above the average of 150 basis points achieved since 2006.

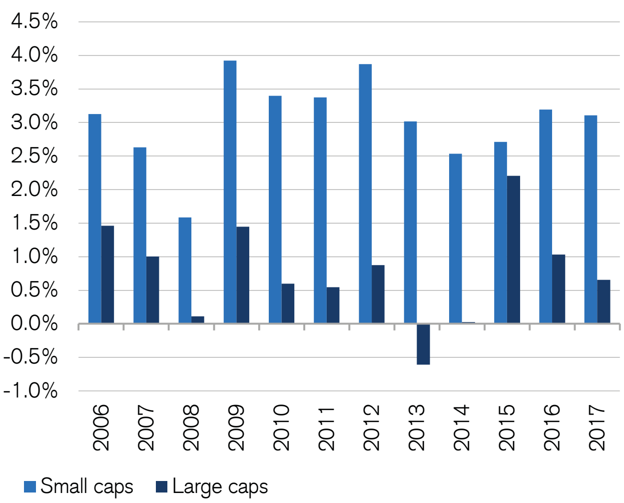
When breaking the database down by size, we find that the EBITDA margin outperformance by family-owned companies is particularly striking among smaller companies. The impact that a family has on margins appears, all else being equal, negatively correlated with the size of the firm.

Conservative balance sheets

As we have highlighted before, the balance sheets of family-owned companies are typically less geared. This inherent risk aversion remains the case in our latest data.

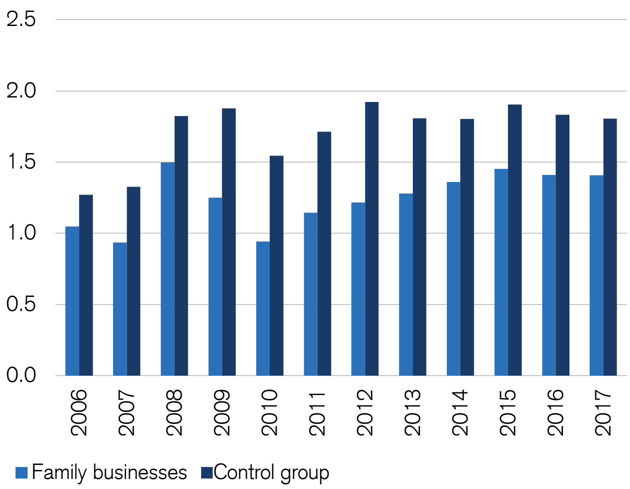
In terms of average net debt to EBITDA, for example, we find that family-owned companies had around a 22% lower gearing ratio in 2017 than their non-family-owned peers. Furthermore, we note that family-owned companies had lower net-debt-to-EBITDA ratios in all of the major regions in 2017. With the exception of the USA in 2008, this is a feature that has existed for every year since 2006.

Figure 5: The family-owned impact on margins appears greater for small companies



Source: Thomson Reuters, Credit Suisse Research

Figure 6: Average net debt to EBITDA: Family-owned companies have lower gearing



Source: Thomson Reuters, Credit Suisse Research

This of course provided a degree of insulation in the financial crisis and they also showed themselves able to reduce gearing much more quickly during the early years after the crisis.

Better CFROIs due to higher growth and margins and lower gearing
The combination of better top-line growth, higher margins and reduced reliance on external funding of this growth suggests that family-owned companies might also be generating better cash flow returns (all else being equal). Our analysis indeed suggests that this is the case.

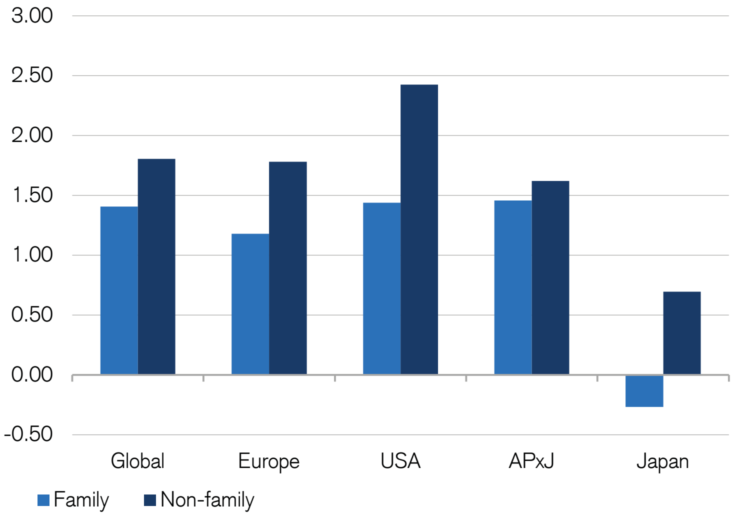
"The average family-owned company relies less on debt funding than the average non-family-owned company"

Since 2006, our global universe of family-owned companies has generated a sector-adjusted and market-cap-weighted CFROI® that has been superior to that of the non-family-owned control group. Last year's CFROI of 6.55 was 34% higher than the 4.88 generated by the control group, an improvement from the 17% premium generated in 2016 (**Figure 8**).

Our analysis also suggests that the CFROI premium is robust across the market-capitalization spectrum. Both small-cap family-owned as well as large-cap family-owned companies generate CFROIs that are superior to those generated by their non-family-owned and similar sized peers.

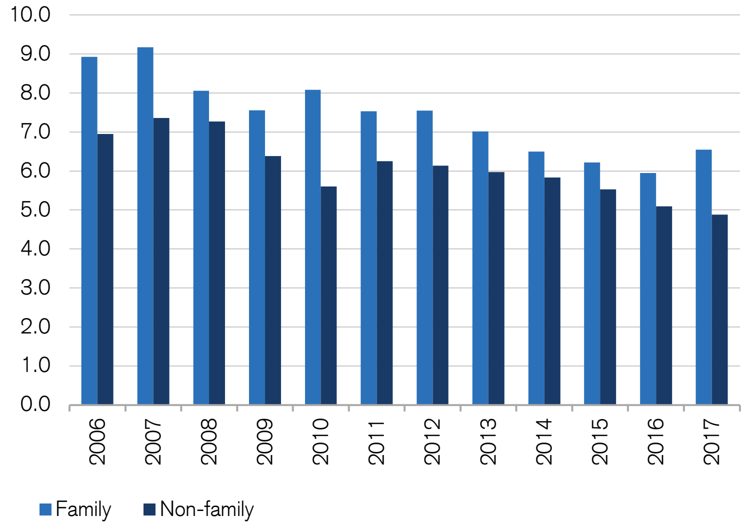
One other aspect we think worth highlighting is the fact that family-owned companies did not experience a significant decline in cash flow returns during the financial crisis years of 2008–10. On the other hand, their non-family-owned peers saw average CFROIs decline from 7.27% in 2008 to 5.60% in 2010.

Figure 7: Family-owned companies have lower gearing in all of the major regions



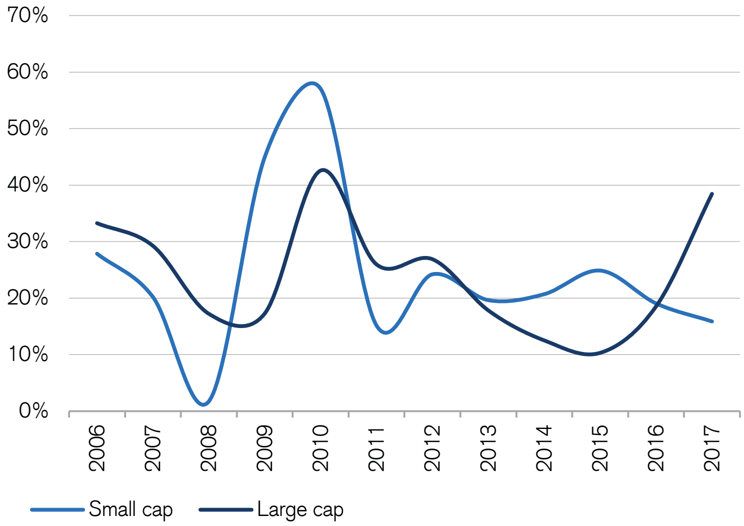
Source: Thomson Reuters, Credit Suisse Research

Figure 8: Family-owned companies generate better CFROIs than non-family-owned peers



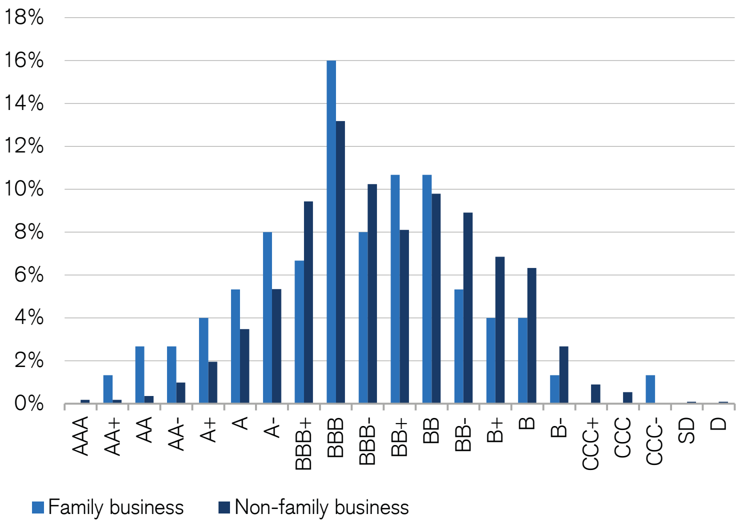
Source: The BLOOMBERG PROFESSIONAL™ service, Credit Suisse Research

Figure 9: The family-owned CFROI® premium: Small vs. large caps



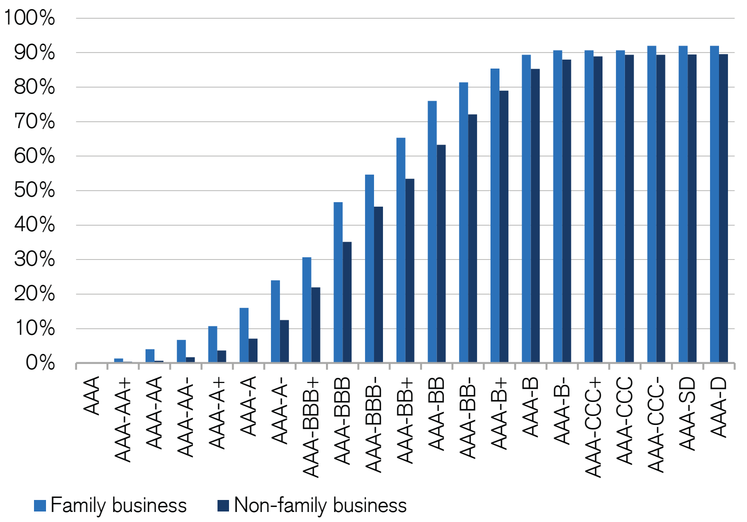
Source: The BLOOMBERG PROFESSIONAL™ service, Credit Suisse Research

Figure 10: Credit rating profile for US firms



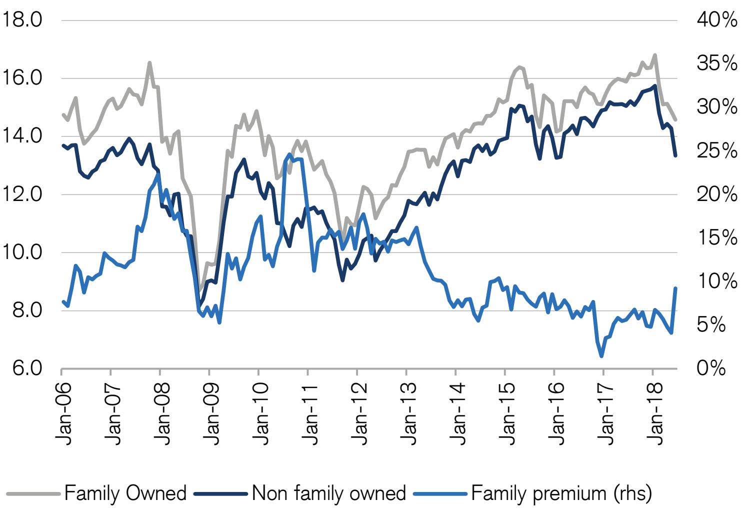
Source: The BLOOMBERG PROFESSIONAL™ service, Standard & Poor's, Credit Suisse Research

Figure 11: Cumulative credit rating US firms



Source: The BLOOMBERG PROFESSIONAL™ service, Standard & Poor's, Credit Suisse Research

Figure 12: 12-month forward P/E



Source: Thomson Reuters, Credit Suisse Research

Getting credit with the credit agencies?

So far, our analysis of the case for family-owned companies has focused on their share-price returns and financial performance relative to non-family-owned companies. One other aspect we think worth considering is whether our conclusions are shared by external credit rating agencies.

We have conducted a relative analysis of the credit-rating profiles of family-owned and non-family-owned companies. In doing so, however, we are somewhat limited by the fact that the availability of credit-rating data differs substantially across the various regions. In the USA, for example, we have credit ratings for 55% of our family-owned companies and for 39% of our US control group. For Non-Japan Asian companies, however, these ratios are as low as 13% and 22%, respectively. In the case of European credit ratings, we have a slightly higher number than for Non-Japan Asia, however, it remains low at 25% for family-owned companies and 21% for the European control group. For our analysis, we therefore decided to focus on the more representative US data.

The credit ratings as assigned by Standard & Poor's to long-term foreign-currency obligations suggest that the credit quality of family-owned companies is perceived to be better than that of non-family-owned companies. For example, 24% of family-owned companies are rated A– or higher, which is almost double the percentage for non-family-owned companies **(Figure 10)**. Almost 47% of US family-owned companies have a credit rating of BBB or higher, which is 33% higher than the 35.1% share of non-family-owned companies (**Figure 11**).

"Family-owned companies have historically tended to trade at a valuation premium"

A valuation premium

It seems this superior profitability, conservative financial structure and creditworthiness has been typically rewarded in higher equity valuation. Family-owned companies have historically tended to trade at a valuation premium to their non-family-owned peers. Our database suggests that this premium has averaged 11% since 2006 using 12-month forward price-earnings multiples.

Having said that, this premium has eroded in recent years and touched a low of just 1% in 2016 (see **Figure 12**). With the current premium standing at 9%, we find that valuation does not appear to be a headwind for the famiy-owned-company universe. On a regional basis, we find that family-owned companies in North America are trading at their lowest premium since 2006. Peers in Europe and Non-Japan Asia are trading in line with the 10-year average (see **Figure 13**).

Why are growth and profitability better?

The key question, however, remains why family- and founder-owned companies generate these better financial metrics which in turn allow them to outperform broader markets?

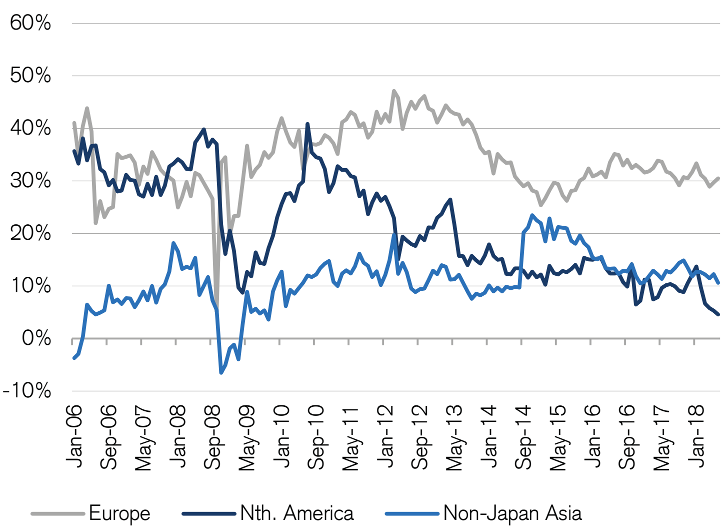
Last year's study alluded to the longer time horizon that family-owned companies adopt in their decision making. This was borne out in the proprietary survey we conducted of a sample of companies from our universe. A greater focus on R&D was a notable feature.

"Family-owned companies across all key regions spend more than their annual depreciation on capex"

In this year's report, we wanted to examine the nature of this longer-term focus in more detail. Specifically, we analyzed four different financial metrics for family- and non-family-owned companies that serve as indicators of a longer-term focus in our view. These are:

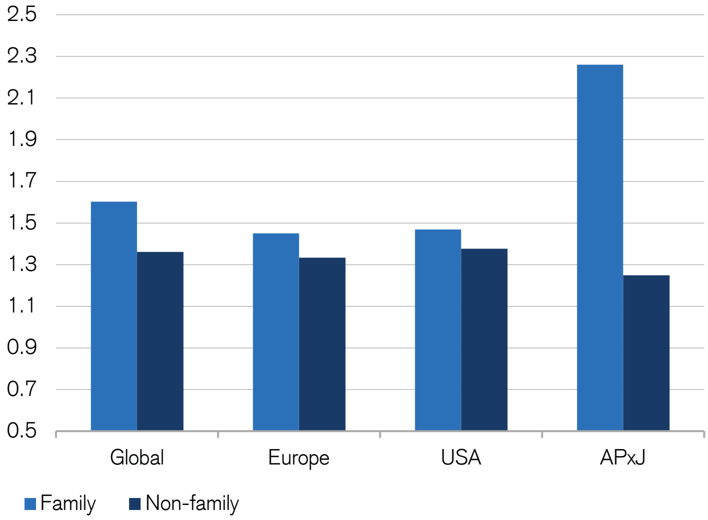
- **Capex as a percentage of depreciation:** a company that invests less than its annual depreciation charge is, all else being equal, clearly not developing its asset base as much for the longer term as companies that spend more than depreciation. The data (**Figure 14**) suggests that family-owned companies across all key regions do spend more than their annual depreciation on capex and that this ratio is also higher than spending by non-family-owned companies. Companies in Non-Japan Asia in particular appear to have high capex intensity.

Figure 13: The family-owned premium by region



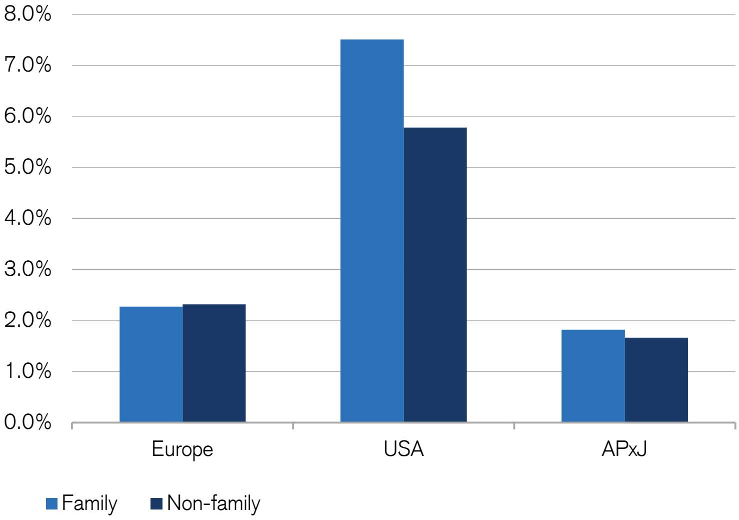
Source: Thomson Reuters, Credit Suisse Research

Figure 14: Capex as % of depreciation by region



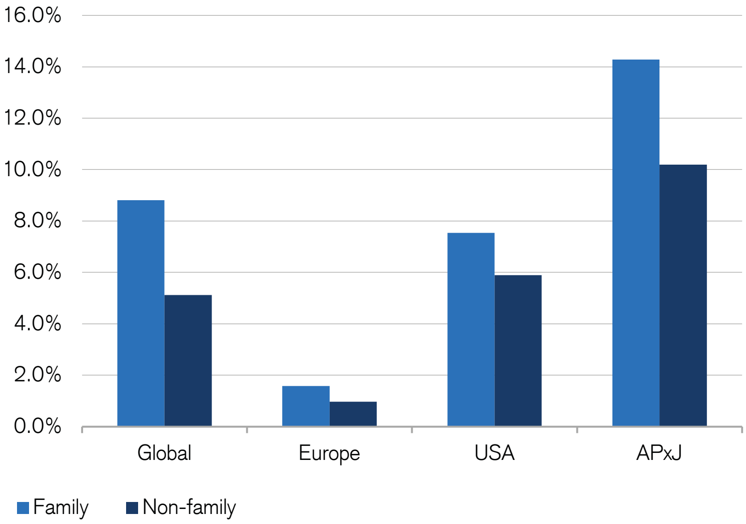
Source: Company data, Credit Suisse estimates

Figure 15: R&D as % of revenues (2017) by region



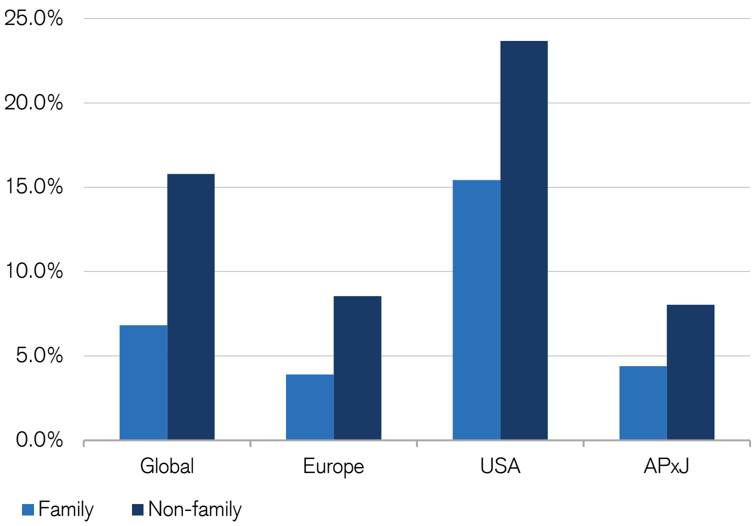
Source: Company data, Credit Suisse estimates

Figure 16: Growth in gross investments (2017)



Source: Company data, Credit Suisse estimates

Figure 17: Buybacks as % of gross cash flow



Source: Company data, Credit Suisse estimates

- **R&D as a percentage of revenues:** Research and Development expenditures are by default long-term in nature. While not all spending on R&D may turn out to be successful, we would nevertheless argue that a greater level of spending at least indicates that the management of a company has a longer-term focus. The data for our family-owned universe suggests that in the USA and Non-Japan Asia, family-owned companies indeed spend more of their revenues on R&D (**Figure 15**). In Europe, we find that R&D intensity is similar between family- and non-family-owned companies.

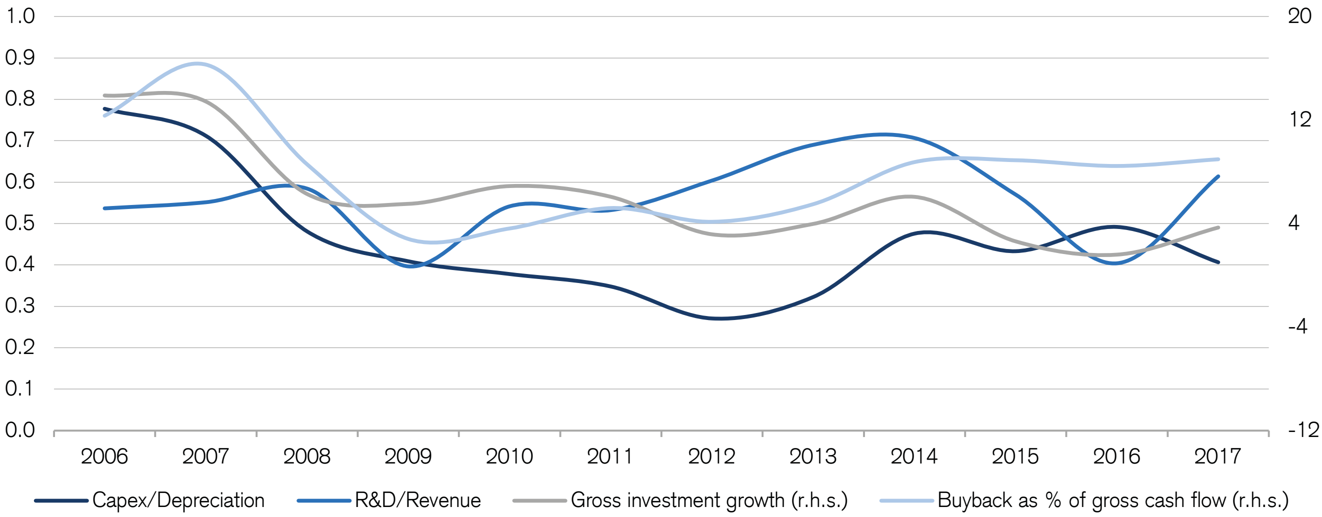
- **Growth of gross investment:** Companies with a greater focus on long-term development are also likely to have an overall higher investment intensity toward their asset base. If family-owned companies do have a longer-term and possibly more innovative focus, we would expect them to show stronger growth in total gross investments too. Historical data for our family-owned and non-family-owned companies suggests that the former do indeed show stronger growth in gross investments (**Figure 16)**. In fact, this feature has been fairly constant across time and regions. Given the younger age of family-owned companies in Non-Japan Asia, it is not surprising to us that their asset growth is also above the average for the other regions.

- **Buy-backs as a percentage of cash flow:** Companies that focus on long-term growth are more likely to reinvest internally generated cash flows into their operations rather than use cash for buy-backs or dividends. If family-owned companies are more long-term focused than non-family-owned peers, we would expect them to spend less of their cash flows on buy-backs.

  The data that we have for our universe clearly shows that family-owned companies across the key regions do indeed spend less of their cash flows on buy-backs (**Figure 17**).

  Globally, we find that 15.8% of cash flows is spent on buy-backs by non-family-owned companies, whereas this share is just 6.8% in the case of family-owned companies. Within the regions, we note that US firms spend more on buy-backs than their peers in Non-Japan Asia or Europe.

Figure 18: Investment intensity: Family vs. non-family companies



Source: Company data, Credit Suisse estimates

Overall conclusion

Our calculations for each of the "long-term-focus" categories clearly suggest that family-owned companies do have a longer-term investment philosophy. While the previous charts provide a snapshot of last year by region, we note that our statements regarding the long-term focus by family-owned companies are robust given that these companies score better on the four areas of focus for each of the years since 2006 (**Figure 18**).

Having a longer-term investment focus provides companies with the flexibility to move away from the quarter-to-quarter earnings calendar and instead focus on through-cycle growth, margins and returns. This also allows for a smoother cash-flow profile, thereby lowering the need for external funding. In turn, all of this has supported the share-price outperformance of family-owned companies since 2006.

Corporate governance: Who’s in control?

In our discussions with clients on the topic of family-owned companies, we frequently encounter questions related to their corporate governance structure. One of the areas of particular interest to investors relates to the difference between family-owned companies where the family or founder owns special voting rights and those companies where the family or founders rank pari passu with ordinary shareholders. Does the existence of special voting rights impact the fortunes of the ordinary shareholder?

The controlling interest

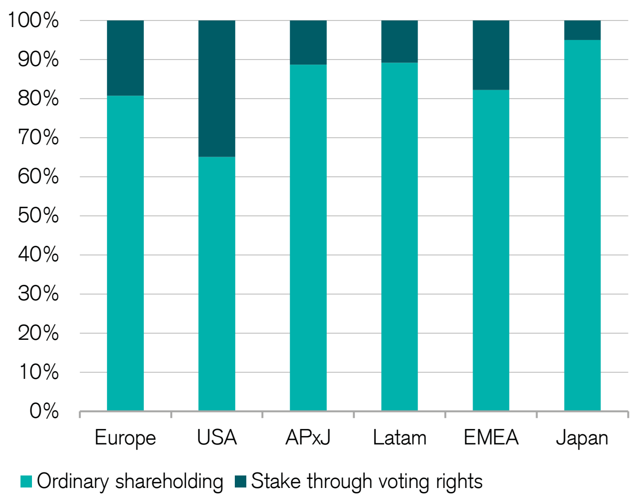
In this update, we wanted to review whether these concerns raised by investors were relevant. Are “voting-rights-only” family-owned companies a common feature and if so how does the performance (financial and share price) differ between these two types of family-owned companies. Specifically, we reviewed three questions. First, do those companies where the controlling stake is held through special voting rights outperform those that hold ordinary shares? Second, do they grow faster? And, third, do they generate better cash flow returns?

Breaking down the database by shareholding
170 of our companies have families or founders that own shares with special voting rights. This represents just over 10% of the entire universe. When broken down by region, we note that US family-owned companies tend to more readily display special voting rights (around 35% of the US total) than peers in Europe and Non-Japan Asia in particular. Given the relatively small sample size of

Figure 1: Ownership structure by region

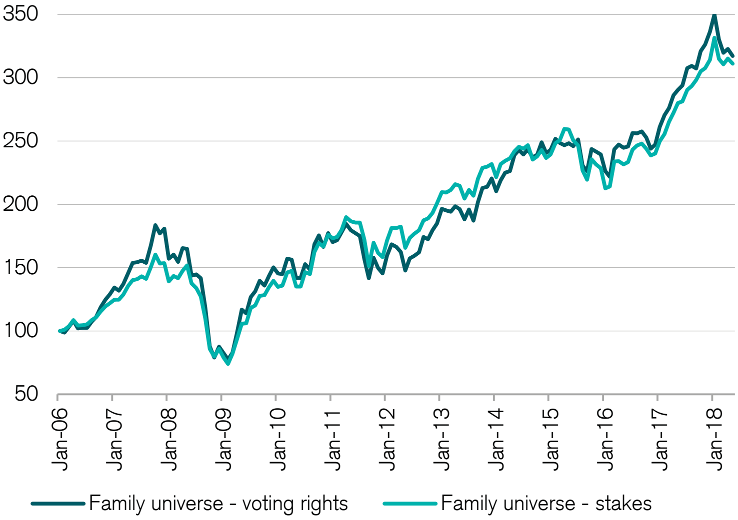
Source: Company data, Credit Suisse estimates

Figure 2: Split between ordinary shareholdings and control via special voting rights



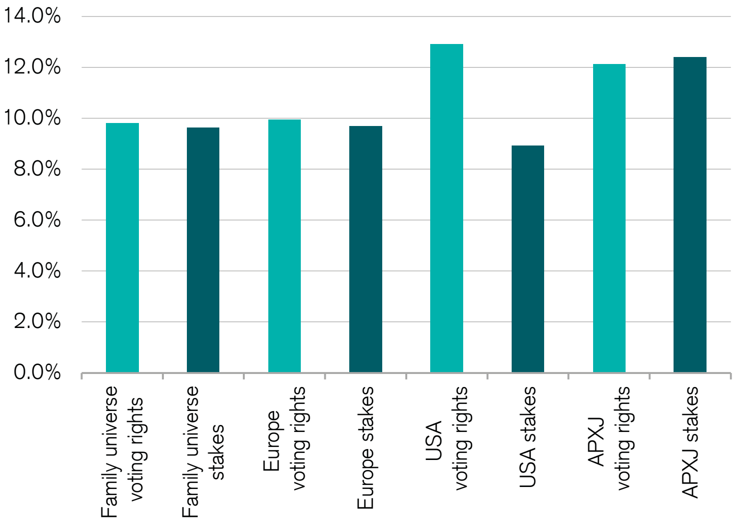
Source: Company data, Credit Suisse estimates

Figure 3: Total shareholder returns by ownership



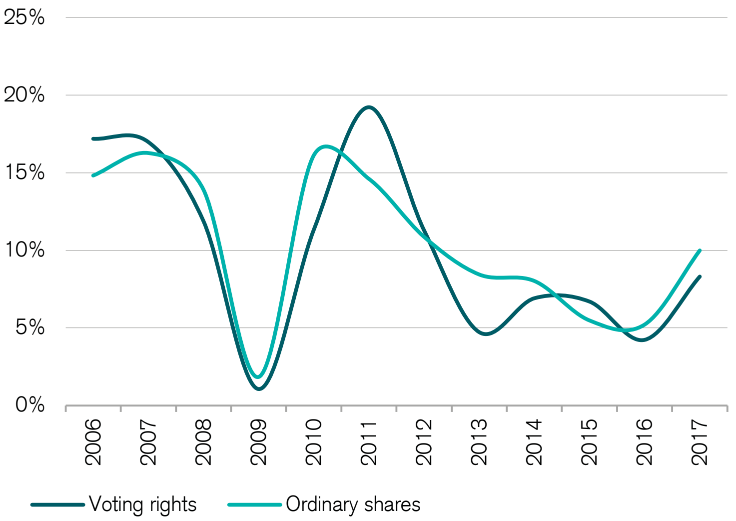
Source: Company data, Credit Suisse estimates

Figure 4: Ordinary vs. voting rights; total shareholder returns by region



Source: Company data, Credit Suisse estimates

Figure 5: Revenue growth of family-owned companies based on their holdings



Source: Company data, Credit Suisse estimates

family-owned companies with voting rights in Japan, Latin America and Europe, Middle East and Africa (EMEA), we focus on those located in the USA, Europe and Non-Japan Asia.

Are shareholder returns driven by the ownership structure?

When reviewing total shareholder returns of family-owned companies with ordinary share-holdings versus those with special voting rights, we found that the annual difference was a mere 20 basis points in favor of those with special voting rights. In other words, on a global scale, it does not seem to matter greatly whether investors hold shares in "special voting rights" family-owned companies or those with ordinary shares.

A more detailed regionally based analysis, however, appears to suggest a slightly more subtle story. Specifically, we find that US family-owned companies with special voting rights significantly outperformed their "ordinary shareholder" family-owned peers by around 400 basis points per annum. This compares to only a 20 basis-point outperformance by peers with special voting rights in Europe and even a slight under-performance by their peers in Non-Japan Asia. We note that the outperformance of the US group of family-owned holding companies with special voting rights is also significantly greater than their European and Non-Japan Asian peer groups.

"We find that US family-owned companies with special voting rights significantly outperformed their "ordinary shareholder" family-owned peers"

Top-line growth differentials minimal

The minimal difference between the total shareholder returns of family-owned companies with ordinary shareholdings and those with special voting rights implies that their financial performance might also be rather similar. When we compare top-line growth between the two groups we do indeed find this.

A regional analysis of the three key regions (Europe, USA and Non-Japan Asia) suggests that (1) the revenue growth differential between the two types of family-owned companies is volatile, and (2) no clear systematic positive or negative differentials exist. Of the three regions, we find that revenue growth of US family-owned companies with special voting rights has been on balance better than that of regional family-owned peers with ordinary shareholdings. This in turn could help to explain the slightly stronger total shareholder returns we noted above in the case of US companies.

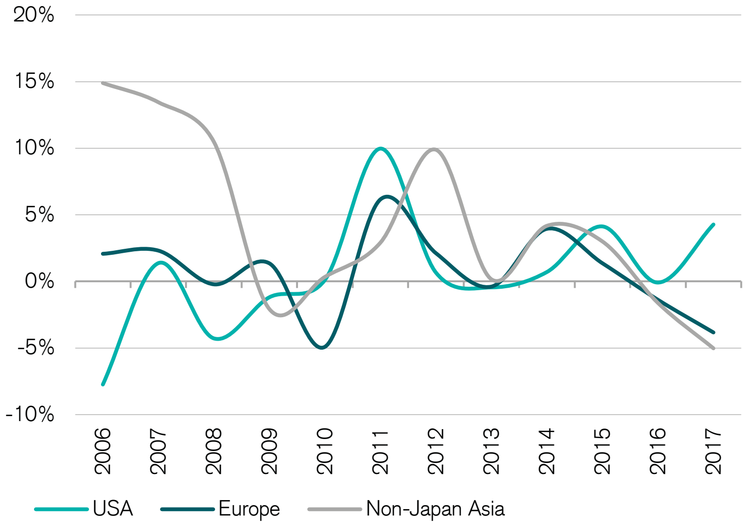
What about cash flow return performance?
In addition to growth, we also see cash flow returns as a key driver of total shareholder returns. A comparison of the cash flow return on investment (CFROI) generated by family-owned companies with special voting rights versus those with ordinary shareholdings suggests that the former perform better than the latter in terms of CFROI. The data indicates that "special voting rights" family-owned companies generated higher CFROIs in each of the key regions as well as in those where the sample size is much smaller and therefore less relevant. Nevertheless, the trend for family-owned companies in Europe, the USA and Non-Japan Asia is clear.

One striking difference between the three key regions is that the trend in CFROI generation between the two different types of family-owned companies is much stronger in the USA than in Europe or Non-Japan Asia. The fact that US family-owned companies with special voting rights generate stronger growth and appear to be improving their cash flow returns more quickly than family-owned companies with ordinary shareholdings goes a long way to support their relative total shareholder return outperformance.

Conclusion: Investors might worry too much in relation to voting rights
Based on the previous analysis, we conclude that the concerns in relation to family-owned companies with special voting right structures appear somewhat misplaced. On average, their share price performance is not worse, their growth is not lower and their cash flow returns not poorer. If anything, we would almost argue that the opposite is the case.

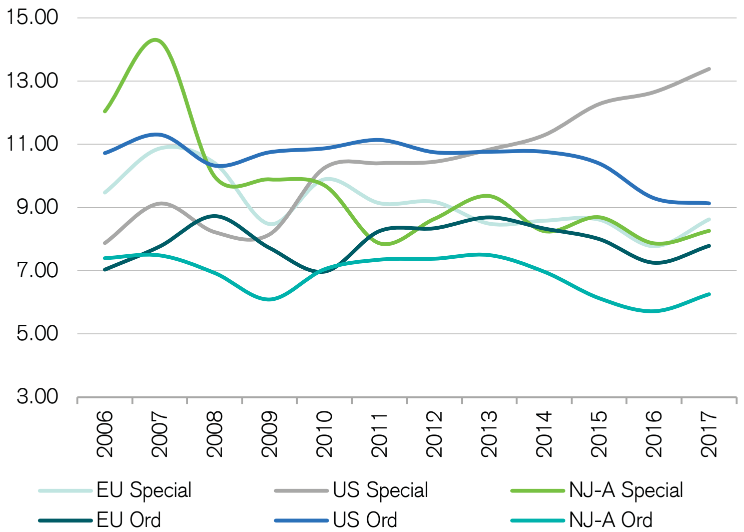
Investors who worry about the impact of special voting right structures on minority shareholders' positions might want to note that, if anything, liquidity of special voting rights is likely to be lower than that of ordinary shares. This means that the families or founders of these companies holding these rights are even drawn closer to these companies than those that hold only ordinary shares. All else being equal, this probably implies an even longer-term view toward wealth creation and preservation, which is probably the reason for their somewhat better through-cycle performance in our view.

Figure 6: Revenue growth difference of family-owned companies based on their holdings by region



Source: Company data, Credit Suisse estimates

Figure 7: CFROI profile of family-owned companies with ordinary shareholdings and special voting rights



Source: Company data, Credit Suisse estimates

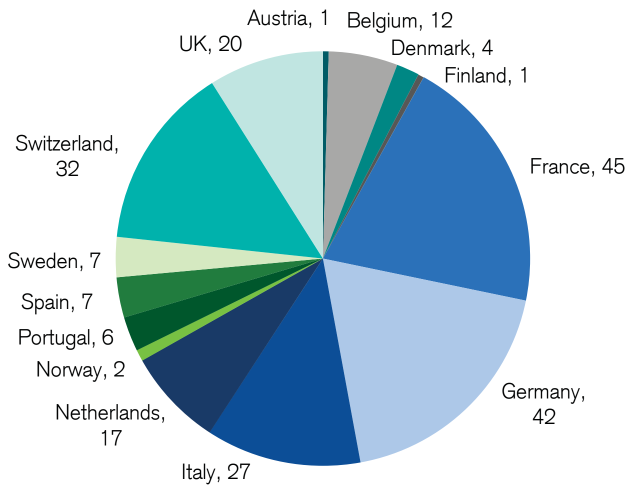
The European family-business model

European family-owned companies make up 23% of our global universe, stretching across 15 different countries. They also reflect some of the oldest and established family-run companies globally. What typifies these companies and sets apart the most successful and enduring family-owned companies?

The European family-owned universe
Our universe of European family- or founder-owned companies is made up of 226 companies located across 15 different countries. Despite the wide variety of countries, we note that six of them dominate in terms of number of companies. These are France, Germany, Switzerland, Italy, the UK and the Netherlands. As far as combined market capitalization is concerned, we find that France (USD 812 billion), Germany (USD 515 billion) and Switzerland (USD 422 billion) stand out.

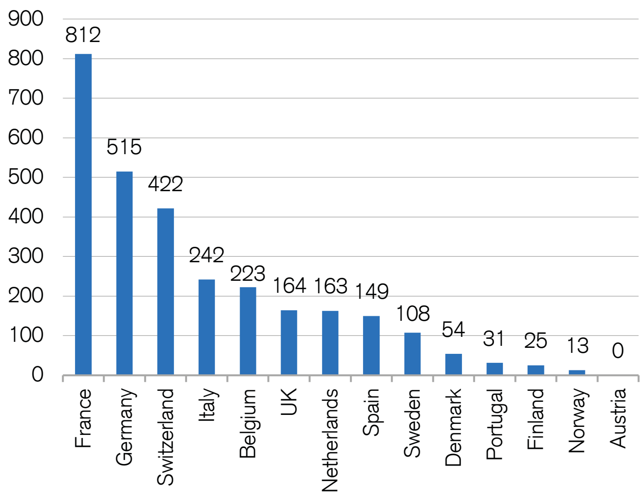
Although the family-owned companies across the various European countries differ substantially in terms of sector exposure, we do find that a significant share are exposed to consumer discretionary or staples. Switzerland is the country where health-care family-owned companies make up a much larger share of the total universe than in any of the other countries in our database.

Figure 1: European family-owned companies by country – five countries dominate



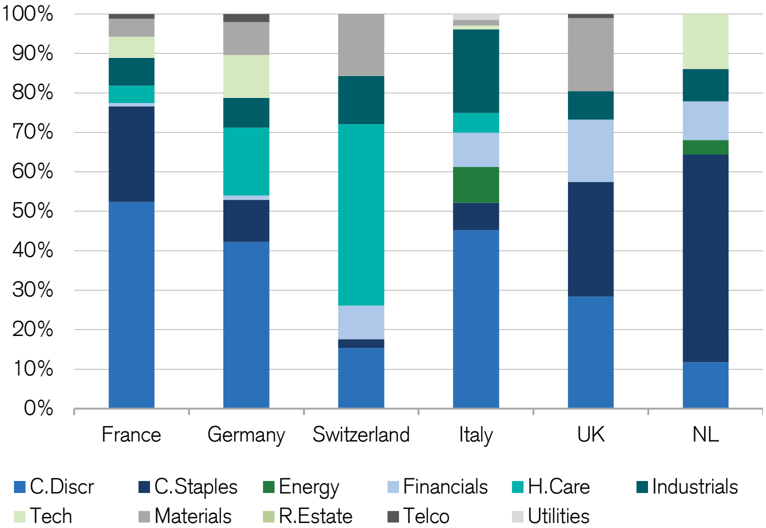
Source: Company data, Credit Suisse estimates

Figure 2: Combined market capitalization of the European family-owned companies by country



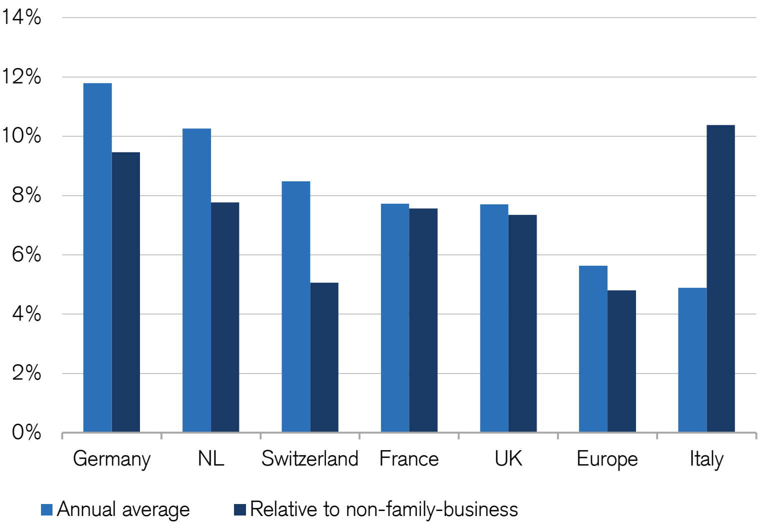
Source: Company data, Credit Suisse estimates

Figure 3: Sector composition of family-owned companies by country



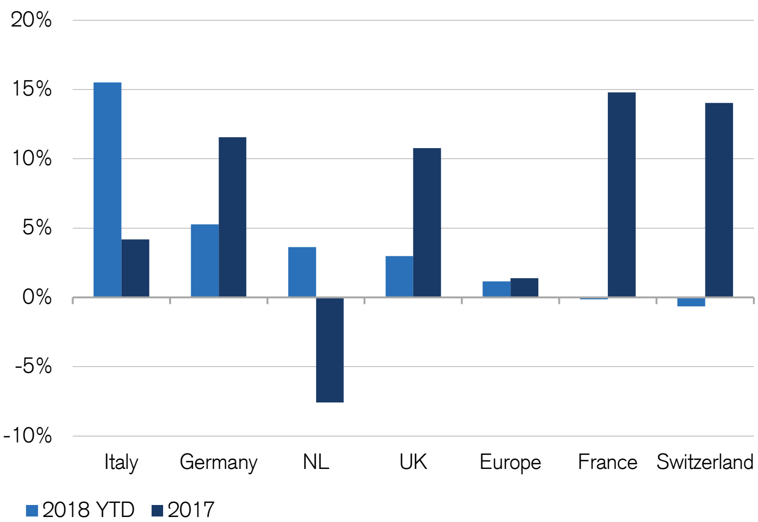
Source: Company data, Credit Suisse estimates

Figure 4: Family-owned company share price returns for key European countries



Source: Company data, Credit Suisse estimates

Figure 5: Relative family-owned companies' share price returns for key European countries



Source: Company data, Credit Suisse estimates

Performance statistics for key European countries

The share price performance of family-owned companies across the key countries in Europe has been strong since 2006. Annual average returns have been around 5% or higher and, more importantly, family-owned companies outperformed non-family-owned peers in every country. The strongest absolute returns since 2006 were generated by family-owned companies in Germany and the Netherlands. German and Italian family-owned companies have generated the strongest relative share price returns since 2006 as well as so far this year.

Revenue growth and family-owned companies in key European markets

Our analysis for the family universe globally showed that higher revenue growth and greater profitability, in terms of cash flow returns, tended to coincide with stronger outperformance from family-owned companies. On a country level, we find that revenue growth is a less-compelling factor in relation to relative share price performance.

> "Share price performance of family-owned companies across the key countries in Europe has been strong since 2006"

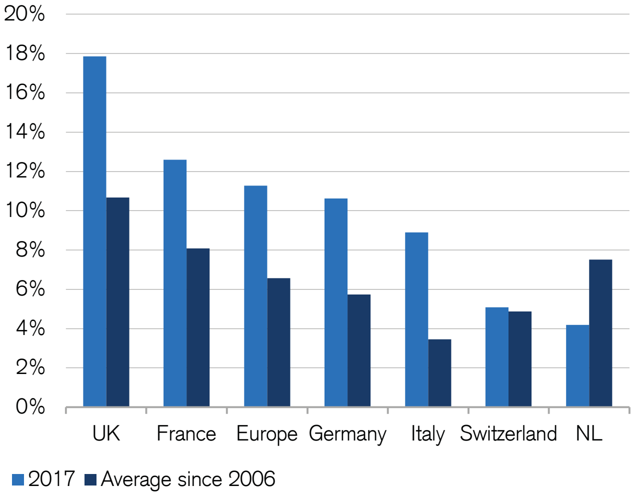
For example, family-owned companies in the UK have generated the highest revenue growth since 2006, both in absolute and relative terms. However, their relative share price performance (while positive when compared to UK non-family-owned companies) is lower than that of family-owned companies in Germany, Italy and the Netherlands.

Companies that appear to have generated strong absolute and relative revenue growth, both more recently (i.e. 2017) and on an annual average basis since 2006, are mainly located in France and Germany.

Family-owned and cash flow returns in key European markets

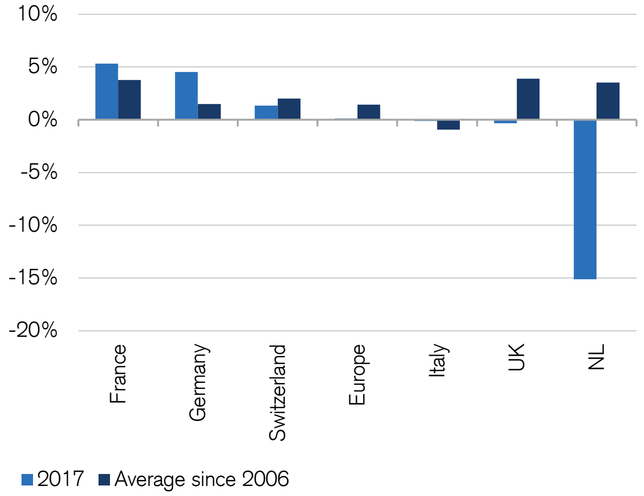
In terms of profitability, we find that Swiss family-owned companies generated some of the highest cash flow returns since 2006 and the highest last year. As our Swiss family-owned universe is more heavily dominated by Healthcare companies, we also review the

Figure 6: Revenue growth for family-owned companies in key European markets



Source: Company data, Credit Suisse estimates

Figure 7: Relative top line growth for family-owned countries in key European countries



Source: Company data, Credit Suisse estimates

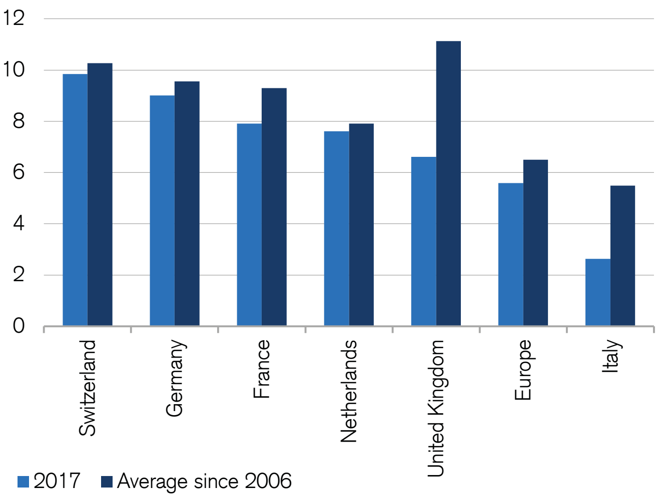
sector-adjusted relative scores. This does indicate that French and German family-owned companies performed best based on their 2017 performance and the average CFROI since 2006. Interestingly, we find that family-owned companies in all key European markets generated better CFROIs than their local non-family-owned peers, once again suggesting the robust nature of the family factor.

Valuation for European family-owned companies

Valuation levels (in terms of 12-month forward price earnings ratios) vary for the key European countries from less than 13x for Italian family-owned companies to almost 23x for French family-owned companies. With the exception of the French companies, however, we note that family companies elsewhere have all experienced a de-rating over the past three years. In fact, Italian and Dutch family-owned companies currently have 12-month forward price earnings ratios that are more than 10% below the 2015–17 average.

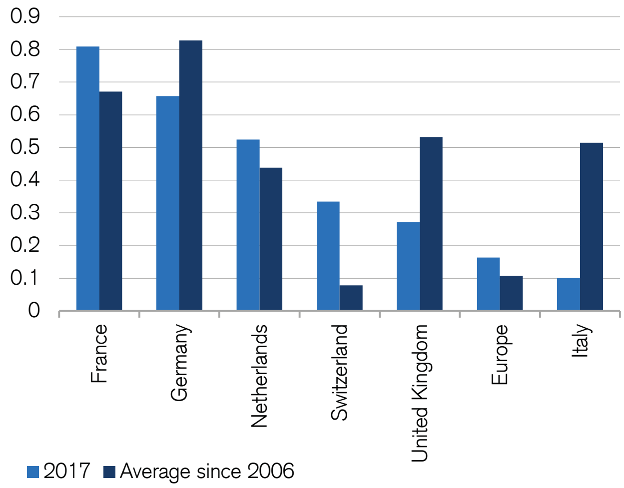
Relative to non-family-owned companies, we find that Italian and Dutch family-owned companies have experienced the strongest de-rating of their valuation premium. On the other hand, the French family-owned companies have seen a near 20% increase in their valuation premium relative to local non-family-owned peers. Despite the strong relative share price performance by German family-owned companies, we note that this has not resulted in a re-rating of their valuation premium. The current 32% premium is 2% below the three-year average.

Figure 8: Cash flow returns for family-owned companies in key European markets



Source: Company data, Credit Suisse estimates

Figure 9: CFROI – family vs. non-family-owned companies in Europe



Source: Company data, Credit Suisse estimates

The top-performing families in Europe

Our analysis to date has largely focused on the performance of family-owned companies on a global, regional or sector level. However, last year's publication resulted in a number of requests from investors wishing to know who the best-performing families or founders are. We aim to provide an answer to that question in this publication.

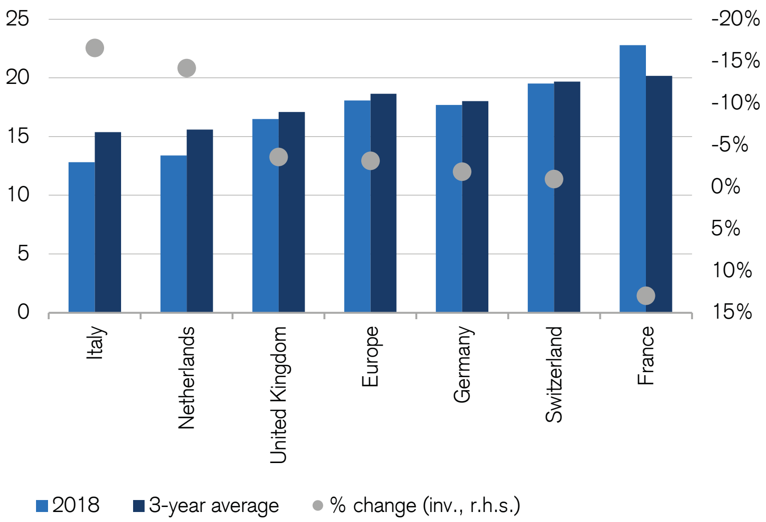
There are obviously a number of ways that could determine the success or failure of a company (irrespective of its ownership structure). Investors might want to consider financial metrics such as free cash flow generation, organic revenue growth, earnings growth or balance sheet strength. Ultimately though, the key factor we believe is most relevant to outside shareholders in family-owned companies is their total return development or share-price and dividend growth.

For the purpose of identifying the best-performing families or founders, we decided on the following approach:

1. We calculate the total return track record of family-owned companies on a three-year, five-year and 10-year basis. We use USD-based returns in order to be able to compare returns across countries with different currencies.
2. To determine the degree of success, we compare these total returns to those generated by companies in the same sector in order to eliminate sector bias.
3. Finally, we restrict our analysis by region in order to eliminate any regional bias that may unfairly support some companies over others given different macro or policy differences.

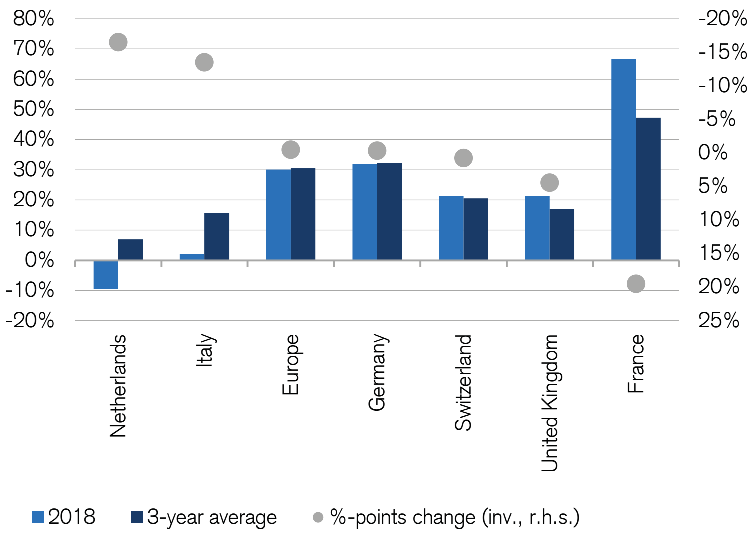
For each of the regions, we rank the family-owned companies on their average three-year, five-year and 10-year relative outperformance. For the purpose of this note, we limit the output to companies with a market capitalization of at least USD 1 billion, although our database also includes smaller companies.

Figure 10: 12-month fwd. P/E – family-owned companies for key European countries



Source: Company data, Credit Suisse estimates

Figure 11: 12-month fwd. P/E – family-owned premium vs. non-family-owned for key European countries



Source: Company data, Credit Suisse estimates

> "When we look at the 30 best-performing families in Europe, we notice an above-average contribution from financials and healthcare"

For Europe, we highlight the top 30 best-performing family- or founder-owned companies (about 15% of the European list). What is notable, in our view, is the share of small and mid-cap companies in the list. The median market capitalization is USD 4.7 billion, which is well below the USD 6.2 billion shown for the list of top-performing family-owned companies in Non-Japan Asia and the USD 11.5 billion for the US top 25 companies. When we look at the sector composition of the 30 best-performing families in Europe, we notice an above-average contribution from financials and healthcare. These are the sectors where the strongest

Table 1: Best-performing families in Europe using sector relative total shareholder returns on a 3-year, 5-year and 10-year basis

					Sector relative performance			Rank			Final rank on avg. of 3
RIC	Name	Mkt. cap. USD bn	Country	Sector	3Y	5Y	10Y	3Y	5Y	10Y	
NEKG.DE	Nemetschek	5.89	Germany	Information Technology	37%	37%	29%	12	5	5	1
SATG.DE	Sartorius	5.57	Germany	Healthcare	40%	31%	24%	10	8	7	2
GLJn.DE	Grenke N	5.38	Germany	Financials	33%	27%	29%	17	13	6	3
SIXG.DE	Sixt	3.98	Germany	Industrials	31%	34%	18%	19	7	14	4
AMPF.MI	Amplifon	5.03	Italy	Healthcare	40%	28%	16%	11	12	23	5
PGHN.S	Partners Group Holding	20.44	Switzerland	Financials	37%	20%	23%	14	32	8	6
DRIG.DE	1&1 Drillisch	9.12	Germany	Telecom Services	19%	30%	30%	46	10	3	7
RECI.MI	Recordati Indua.Chimica	7.42	Italy	Healthcare	27%	27%	15%	25	14	26	8
PRTP.PA	Kering	66.70	France	Consumer Discretionary	50%	19%	14%	6	34	31	9
ROBF.PA	Robertet	1.25	France	Materials	28%	19%	17%	23	33	18	10
AKA.PA	Akka Technologies	1.54	France	Industrials	23%	16%	21%	32	42	10	11
STMN.S	Straumann Holding	12.79	Switzerland	Healthcare	42%	35%	7%	8	6	74	12
IPN.PA	Ipsen	14.25	France	Healthcare	43%	30%	7%	7	11	71	13
IMAI.MI	Ima Indua.Macchine	3.24	Italy	Industrials	16%	26%	16%	54	17	25	14
EUFI.PA	Eurofins Scientific	9.77	France	Healthcare	23%	17%	14%	33	39	30	15
SEM.LS	Semapa	1.69	Portugal	Materials	21%	22%	12%	41	25	36	16
DIOR.PA	Christian Dior	77.50	France	Consumer Discretionary	28%	18%	11%	24	36	48	17
BRBI.MI	Freni Brembo	4.27	Italy	Consumer Discretionary	15%	25%	16%	61	23	24	18
LSG.OL	Leroy Seafood Group	4.32	Norway	Consumer Staples	25%	17%	11%	27	38	45	19
DAL.MI	Datalogic	2.08	Italy	Information Technology	23%	23%	10%	34	24	52	20
VONN.S	Vontobel Holding	4.04	Switzerland	Financials	19%	18%	13%	45	37	32	21
DTG.L	Dart Group	1.86	UK	Industrials	10%	21%	41%	85	30	1	22
ROCKb.CO	Rockwool 'B'	4.46	Denmark	Industrials	30%	15%	8%	21	44	57	23
FCHA.MI	Fiat Chrysler Autos.	29.34	Italy	Consumer Discretionary	22%	25%	7%	36	21	66	24
ERG.MI	Erg	3.11	Italy	Utilities	26%	21%	7%	26	29	68	25
HRGV.L	Hargreaves Lansdown	13.20	UK	Financials	14%	12%	30%	65	59	4	26
ITPG.MI	Interpump Group	3.34	Italy	Industrials	16%	21%	10%	56	28	49	27
CPRI.MI	Davide Campari Milano	10.22	Italy	Consumer Staples	24%	13%	8%	29	53	59	28
COLOb.CO	Coloplast 'B'	21.14	Denmark	Healthcare	18%	10%	14%	48	68	28	29
VZN.S	Vz Holding 'N'	2.62	Switzerland	Financials	10%	14%	19%	84	47	13	30

Source: Thomson Reuters, Credit Suisse Research

family-driven outperformance is most often seen. At the same time, fewer consumer discretionary and staple companies feature in the top 30 relative to their contribution in the overall European family-owned database. This would seem to suggest that the family factor, while present, may not be enough to allow family-owned firms to outperform their non-family-owned peers to the same degree as in the financials and health care sectors.

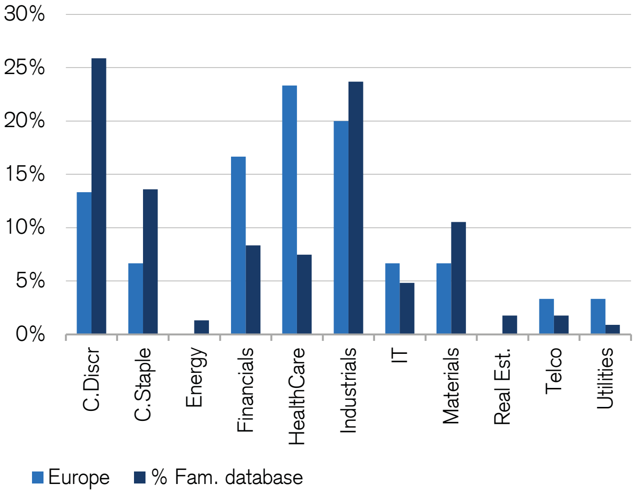
From a country perspective, we find that Italian and Swiss family-owned companies, in particular, are over-represented compared to their share of the entire European family-owned database.

What do the best-performing European families have in common?

In addition to identifying the best-performing families or founders by region, we have also looked at their financial performance and ownership structure to try and understand the reasons for their outperformance.

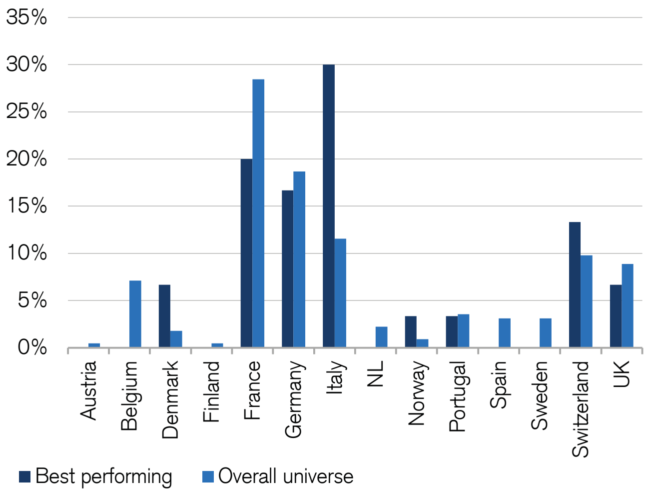
First, we looked at revenue growth and cash flow return profiles for the three-year, five-year and 10-year periods and compared them to those generated by the non-family-owned control group in the same regional sector, as well as to the other family-owned companies in the region.

Figure 12: Best-performing European family-owned companies by sector (relative to wider universe)



Source: Company data, Credit Suisse estimates

Figure 13: Best-performing European family-owned companies by country (relative to universe)



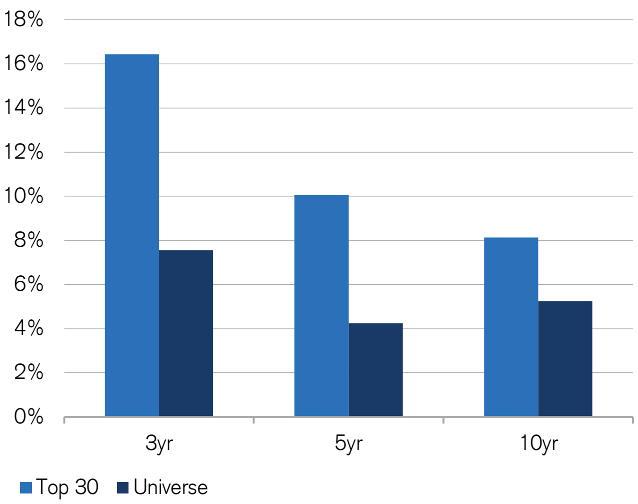
Source: Company data, Credit Suisse estimates

One possible explanation for the top 30 best-performing family-owned companies in Europe on a three-year, five-year and 10-year basis is that their average revenue growth and CFROI profiles for all three time periods is superior to that of the broader European family-owned database.

In fact, we find that revenue growth and CFROIs have actually been trending upward, whereas this has not been the case for the wider family-owned universe.

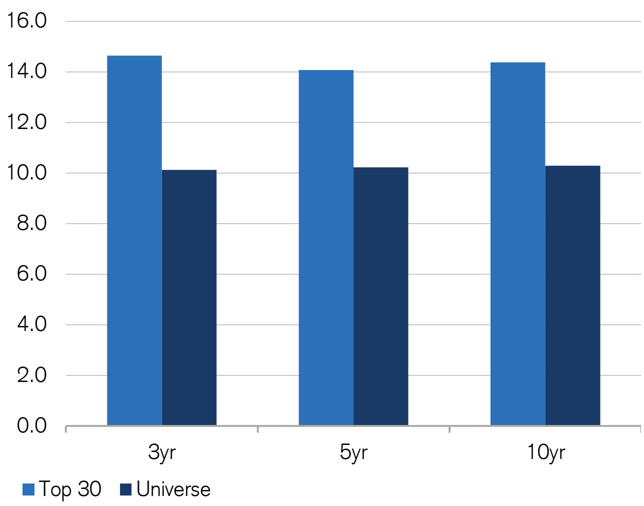
We also provide these growth and profitability statistics by company for the 30 best-performing European family or founder-owned companies. **Figure 15** shows the underlying data and suggests that top-line growth and underlying cash flow returns for a significant share of these companies has indeed been well into double digits for a number of years.

Figure 14: Annual average revenue growth: Top 30 family-owned vs. overall European universe



Source: Company data, Credit Suisse estimates

Figure 15: Average CFROI: Top 30 family-owned vs. wider universe



Source: Company data, Credit Suisse estimates

Table 2: Key growth and return characteristics for best-performing European family-owned companies

					Avg. sales growth			Avg. CFROI			Rank avg. sales			Rank avg. CFROI			Avg. rank
RIC	Name	Mkt. cap.*	Country	Sector	3Y	5Y	10Y	3Y	5Y	10Y	3Y	5Y	10Y	3Y	5Y	10Y	
DRIG.DE	1&1 Drillisch	9.12	Germany	Telecoms	152%	87%	42%	41.5	34.4	54.1	1	1	1	2	2	2	2
PGHN.S	Partners Group	20.44	Switzerland	Financials	32%	18%	15%	35.1	33.8	35.9	2	4	5	3	3	3	3
NEKG.DE	Nemetschek	5.89	Germany	Info. tech.	22%	16%	9%	16.7	15.2	14.9	4	5	11	5	6	8	7
STMN.S	Straumann	12.79	Switzerland	Healthcare	17%	9%	7%	16.3	13.7	15.2	7	10	16	7	8	7	9
IMAI.MI	IMA Industria	3.24	Italy	Industrials	19%	13%	11%	13.3	13.7	11.8	5	7	8	12	9	14	9
EUFI.PA	Eurofins Scient	9.77	France	Healthcare	28%	22%	18%	11.9	11.8	10.7	3	2	3	17	17	15	10
VZN.S	VZ Holding AG	2.62	Switzerland	Financials	11%	10%	13%	14.0	14.5	19.4	19	9	7	10	7	5	10
HRGV.L	Hargreaves Lansdown	13.20	UK	Financials	2%	7%	13%	60.8	62.4	61.6	29	20	6	1	1	1	10
PRTP.PA	Kering	66.70	France	Cons. Disc.	17%	9%	-3%	16.3	16.6	16.0	8	13	29	6	5	6	11
COLOb.CO	Coloplast B	21.14	Denmark	Healthcare	8%	5%	5%	27.7	25.5	19.4	23	22	22	4	4	4	13
DTG.L	Dart Grp	1.86	UK	Industrials	16%	18%	15%	7.3	8.9	8.4	9	3	4	22	21	21	13
RECI.MI	Recordati	7.42	Italy	Healthcare	10%	8%	6%	14.5	13.7	13.4	20	17	18	9	10	11	14
AKA.PA	Akka Tech	1.54	France	Industrials	15%	9%	19%	7.1	7.8	12.1	12	12	2	23	23	13	14
ITPG.MI	Interpump	3.34	Italy	Industrials	18%	14%	8%	9.4	9.1	8.9	6	6	12	21	20	20	14
AMPF.MI	Amplifon	5.03	Italy	Healthcare	13%	7%	5%	12.7	13.0	14.7	15	19	21	14	12	9	15
LSG.OL	Leroy Seafood	4.32	Norway	Cons. Staples	12%	8%	9%	11.9	12.1	10.6	16	18	10	16	15	17	15
DIOR.PA	Christian Dior	77.50	France	Cons. Disc.	11%	8%	8%	11.8	11.6	12.3	18	15	13	18	18	12	16
BRBI.MI	Brembo	4.27	Italy	Cons. Disc.	11%	10%	9%	11.8	10.6	8.0	17	8	9	19	19	22	16
CPRI.MI	Davide Campari	10.22	Italy	Cons. Staples	5%	5%	5%	13.7	13.1	13.9	25	23	20	11	11	10	17
SATG.DE	Sartorius	5.57	Germany	Healthcare	16%	9%	7%	9.5	8.5	6.6	10	11	15	20	22	24	17
VONN.S	Vontobel Hldg	4.04	Switzerland	Financials	8%	6%	3%	14.9	12.9	10.3	24	21	25	8	13	18	18
GLJn.DE	Grenke	5.38	Germany	Financials	13%	-7%	3%	13.0	11.9	10.0	14	29	24	13	16	19	19
DAL.MI	Datalogic	2.08	Italy	Info. tech.	9%	4%	3%	12.2	12.5	10.6	21	24	26	15	14	16	19
IPN.PA	Ipsen	14.25	France	Healthcare	15%	8%	7%	6.2	5.9	6.7	11	14	17	26	26	23	20
SIXG.DE	Sixt	3.98	Germany	Industrials	13%	8%	3%	5.9	6.2	6.3	13	16	23	27	24	25	21
ROBF.PA	Robertet	1.25	France	Materials	9%	4%	6%	6.7	6.2	5.9	22	26	19	24	25	26	24
FCHA.MI	Fiat Chrysler	29.34	Italy	Cons. Disc.	5%	4%	7%	6.3	5.6	4.8	26	25	14	25	27	27	24
ROCKb.CO	Rockwool Intl	4.46	Denmark	Industrials	3%	2%	1%	5.3	4.8	4.1	27	27	28	28	28	28	28
SEM.LS	Semapa Soc	1.69	Portugal	Materials	3%	1%	3%	3.5	3.2	2.8	28	28	27	29	29	29	28
ERG.MI	ERG	3.11	Italy	Utilities	-19%	-22%	-12%	2.1	2.9	1.6	30	30	30	30	30	30	30

*Market cap. = USD bn. Source: Thomson Reuters, Credit Suisse Research

The Asian family-business model

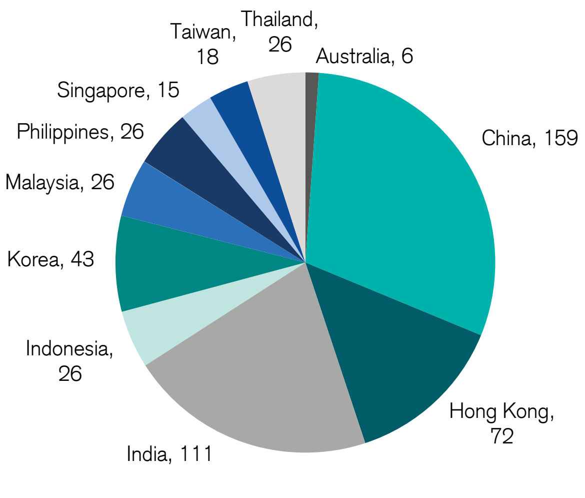
Companies located across Non-Japan Asia make up around half of our global universe. They also dominate the population of younger generation and founder companies. As we examine the metrics of financial performance, we find that Indian and Chinese companies dominate the list of success stories.

The Asian family-business universe
Our database contains family-owned companies across 11 different countries in the Non-Japan Asian region. The countries that dominate the region are China (159 companies) and India (111). Hong Kong adds an additional 72 companies. These three countries combined comprise some 65% of the Non-Japan Asian section of our database.

Not surprisingly perhaps, is that, in terms of market capitalization, our Non-Japan Asian family-owned database is also dominated by China, India and Hong Kong. China accounts for around USD 1.4 trillion, India for around USD 839 billion and Hong Kong by USD 633 billion. At the company level, we note that the differences across the region appear relatively limited. The average family-owned company in China and Hong Kong has a market capitalization of USD 8.7 billion, compared to USD 7.6 billion in India. Korean family-owned companies tend to be larger with an average market capitalization of USD 10.1 billion.

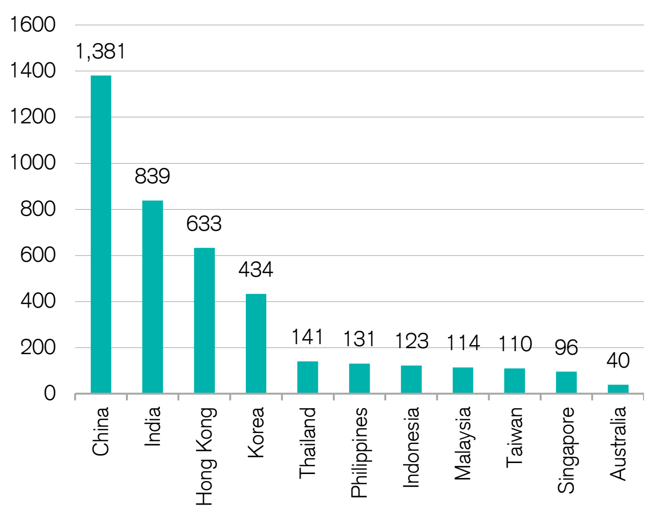
From a sector perspective, we note that the region is very diverse. As a share of total market capitalization, we find that technology represents

Figure 1: Family-owned database by country



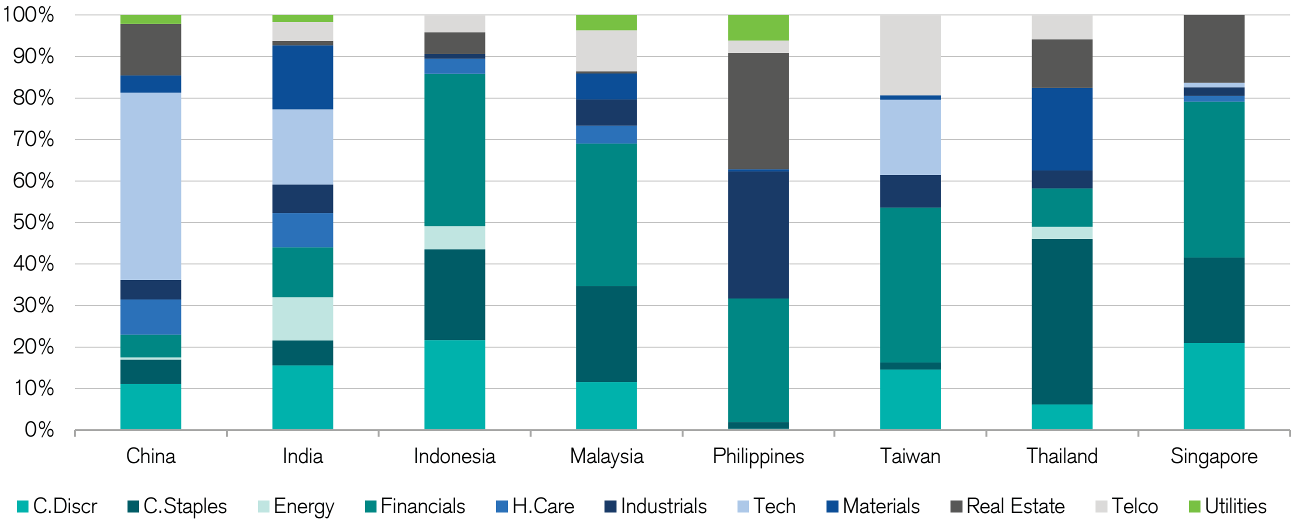
Source: Company data, Credit Suisse estimates

Figure 2: Total market capitalization (USD bn)



Source: Company data, Credit Suisse estimates

Figure 3: Sector contribution to total market capitalization by country



Source: Company data, Credit Suisse estimates

45% of our Chinese universe. Financials, on the other hand, represent more than 30% of the market capitalization of family-owned companies in Indonesia, Malaysia, Taiwan and Singapore.

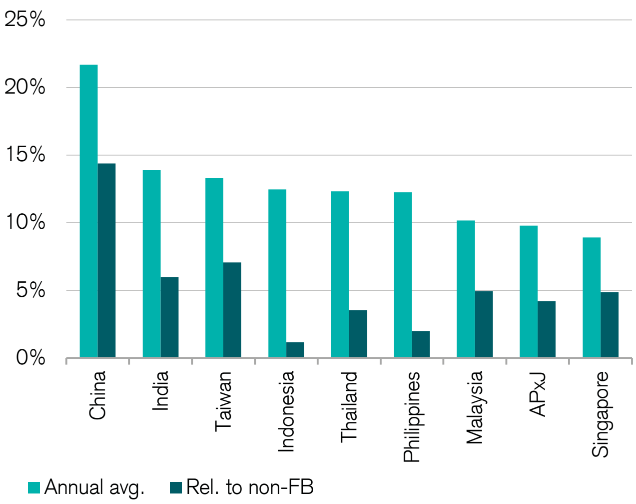
Performance statistics for Asian family businesses

When reviewing the share price performance of family-owned companies across the Asian region, we find that Chinese family-owned corporates performed best, with an annual average return of more than 20% since 2006. This represents an almost 15% annual outperformance relative to the non-family-owned Chinese control group and an annual outperformance relative to the wider Asian family-owned universe of close to 10%.

"Family-owned companies have outperformed their non-family-owned local peers in every country since 2006"

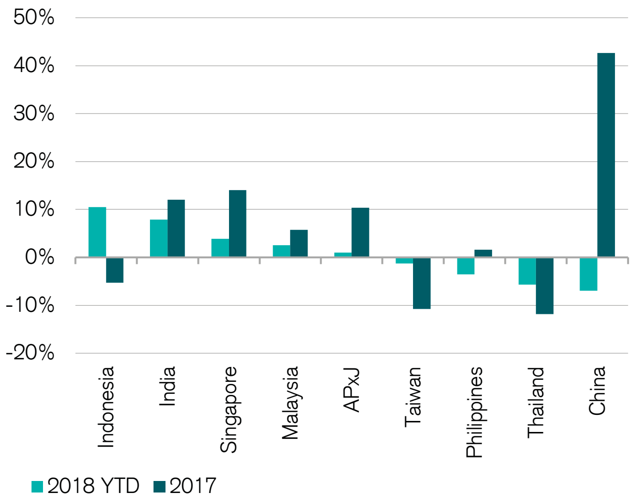
The family-owned factor appears robust across the region given that family-owned companies have outperformed their non-family-owned local peers in every country since 2006. Countries where family-owned companies generated below-average outperformance include Taiwan and Singapore.

Figure 4: Share-price returns of family-owned companies in Non-Japan Asia since 2006



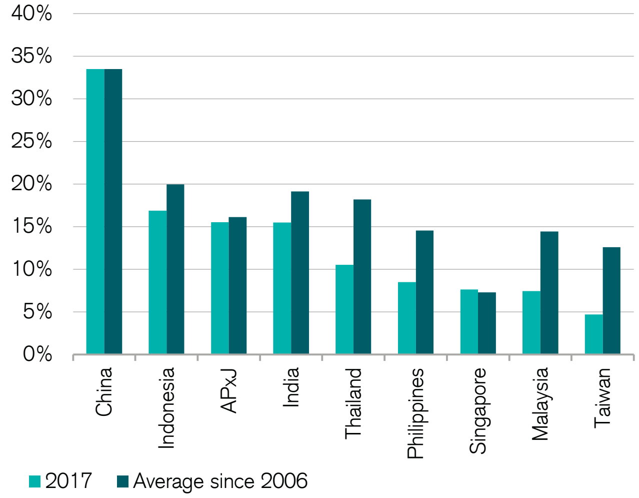
Source: Company data, Credit Suisse estimates

Figure 5: Relative share-price returns of family-owned companies in Non-Japan Asia (2017 and 2018 YTD)



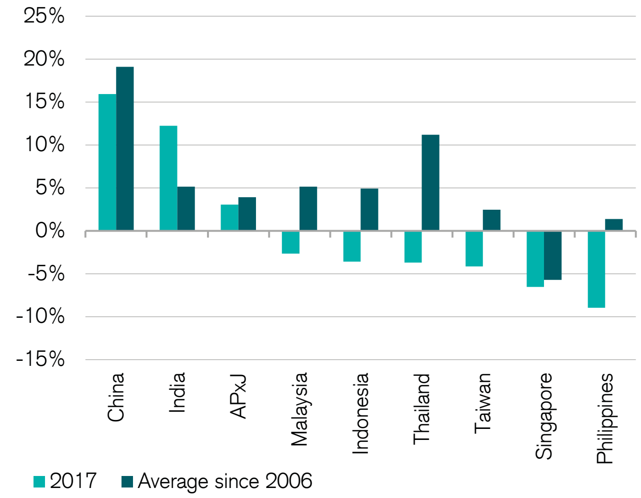
Source: Company data, Credit Suisse estimates

Figure 6: Revenue growth for family-owned companies by country across Non-Japan Asia



Source: Company data, Credit Suisse estimates

Figure 7: Revenue growth – family vs. non-family-owned companies by country in Non-Japan Asia



Source: Company data, Credit Suisse estimates

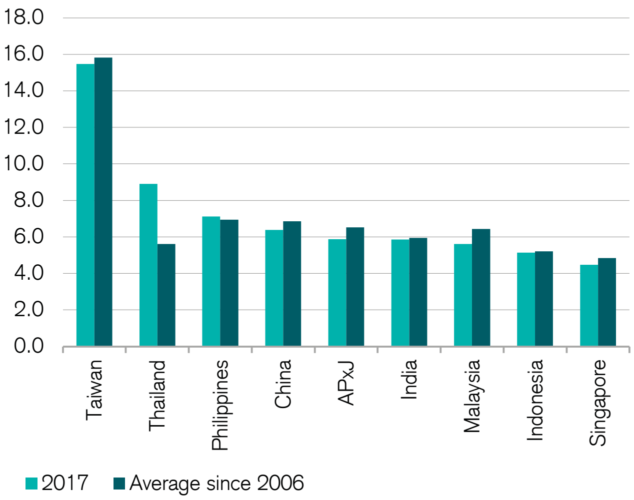
Although family-owned companies across the Asian region have a strong long-term track record of outperforming non-family-owned peers, they do not necessarily outperform all the time. For example las year family-owned companies in Thailand, Indonesia and Taiwan underperformed their local non-family-owned peers. Countries where family-owned companies outperformed their local peers in 2017 and so far this year are Malaysia, Singapore and India.

Revenue growth for Asian family businesses
In line with our European family-owned analysis we also performed a growth and profitability analysis on the individual Asian countries to see whether financial metrics might help explain relative share price performance for these family-owned companies.

As for average revenue growth we find that family-owned companies in China, Indonesia and India have been among the fastest growing companies in Non-Japan Asia on a one-year and 10-year basis. Family-owned companies in Taiwan and Singapore, on the other hand, generated lower revenue growth, both in absolute and relative terms. This relative growth performance very much echoes the relative share price performance too.

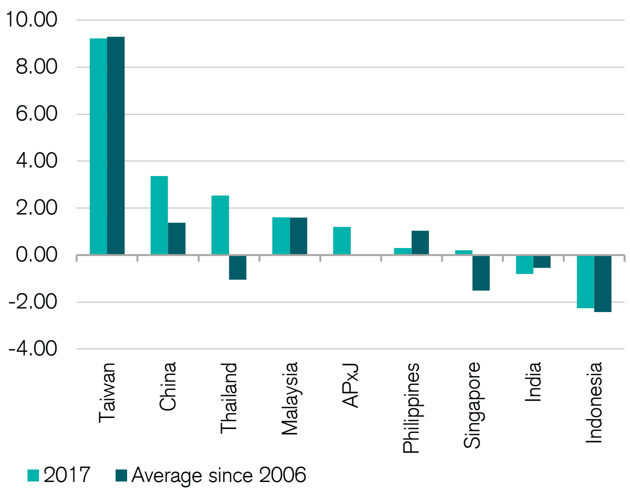
When comparing revenue growth for family-owned companies with their local non-family-owned peers we find that those located in China are again the best performers. Family-owned companies in Singapore and Taiwan on the other hand score lowest on this measure.

Figure 8: Cash flow returns for family-owned companies by country in Non-Japan Asia



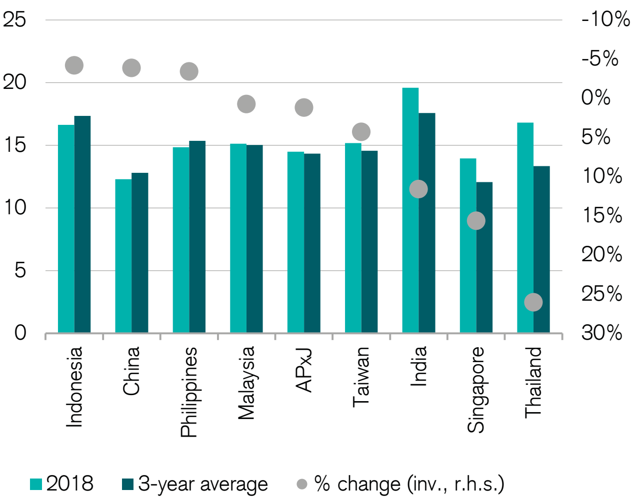
Source: Company data, Credit Suisse estimates

Figure 9: Cash flow returns – family vs. non-family-owned companies by country



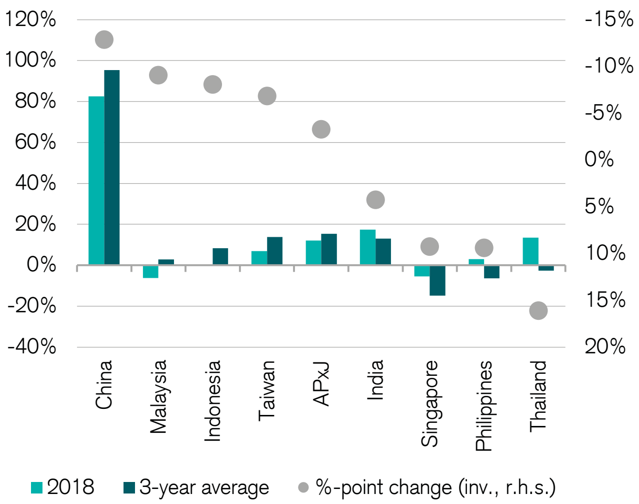
Source: Company data, Credit Suisse estimates

Figure 10: 12-month fwd. P/E – family-owned companies for key countries in Non-Japan Asia



Source: Company data, Credit Suisse estimates

Figure 11: 12-month fwd. P/E – family-owned premium vs. non-family-owned for key countries in Non-Japan Asia



Source: Company data, Credit Suisse estimates

These results, especially for Singaporean family-owned companies, are broadly speaking in line with relative share price performances.

Cash flow returns for Asian family-owned companies

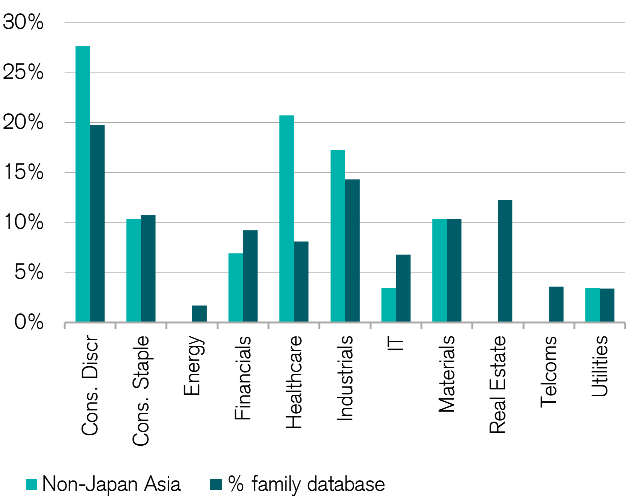
While revenue growth appears to correlate with share price performance we note that the same cannot really be said about the link between profitability (e.g. cash flow returns) and share price performance.

Indian firms on average generated the highest absolute CFROIs across our Non-Japan Asian group. However, they generated the second-lowest absolute share price returns in 2017 and on average since 2006. The one country where the relationship between relative profitability and returns does appear to hold is China.

Valuation: Family-owned comes at a premium in Asia

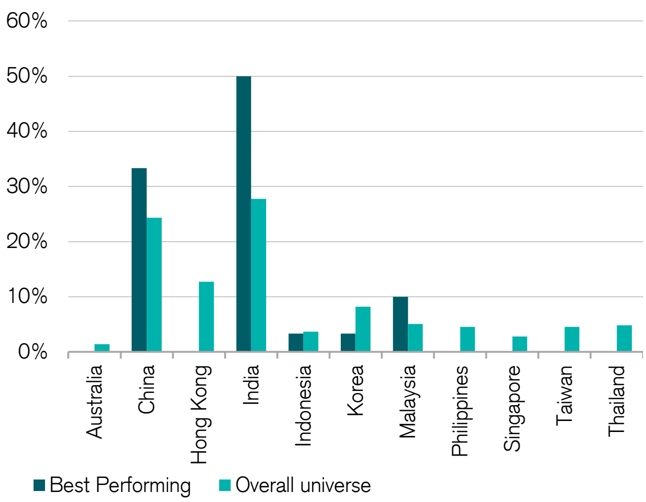
As with our analysis of European family-owned companies, we also reviewed valuation conditions for family-owned companies in the key countries in Non-Japan Asia. This suggests that companies located in Indonesia and China have de-rated most when comparing current 12-month forward P/Es with their respective three-year averages. The opposite appears true for companies from Thailand and Singapore.

Figure 12: Sector makeup of the best-performing family-owned companies in Non-Japan Asia



Source: Company data, Credit Suisse estimates

Figure 13: Best-performing family-owned companies in Non-Japan Asia by country (vs. universe)



Source: Company data, Credit Suisse estimates

Table 1: Best-performing families in Non-Japan Asia using sector relative total shareholder returns since inclusion

RIC	Name	Mkt. cap. USD bn	Country	Sector	Sector relative performance 3Y	5Y	10Y	Rank 3Y	5Y	10Y	Final rank on avg. of 3
BJFN.BO	Bajaj Finance Ltd	24.00	India	Financials	54%	64%	54%	5	2	2	1
2382.HK	Sunny Optical Technology	12.86	China	Information Technology	87%	57%	49%	1	5	5	2
PMET.KL	PMA	4.57	Malaysia	Materials	57%	50%	35%	4	7	14	3
0175.HK	Geely Automobile	18.71	China	Consumer Discretionary	64%	42%	32%	2	14	21	4
2313.HK	Shenzhou International	18.36	China	Consumer Discretionary	33%	35%	45%	15	25	6	5
TVSM.NS	TVS Motor	3.72	India	Consumer Discretionary	23%	70%	34%	39	1	15	6
BBRM.BO	BBTCL	1.92	India	Consumer Staples	31%	60%	25%	21	4	34	7
068270.KQ	Celltrion Inc	31.32	Korea	Healthcare	49%	40%	23%	7	17	41	8
HAPS.KL	Hap Seng Cons	5.97	Malaysia	Industrials	29%	35%	33%	24	24	19	9
DWNH.NS	DHFL	2.94	India	Financials	40%	44%	21%	11	13	58	10
1177.HK	Sino Biopharmaceutical	16.26	China	Healthcare	31%	26%	33%	20	46	17	11
EICH.NS	Eicher Motors	11.22	India	Industrials	14%	48%	53%	71	9	4	12
BRIT.NS	Britannia Inds	11.61	India	Consumer Staples	21%	48%	26%	43	10	31	13
0384.HK	China Gas Holdings Ltd	16.46	China	Utilities	33%	27%	26%	14	42	29	14
PAGE.NS	Page Industries	5.52	India	Consumer Discretionary	14%	41%	40%	70	15	10	15
2020.HK	Anta Sports Products	13.73	China	Consumer Discretionary	27%	46%	20%	28	11	62	16
MRF.NS	MRF	4.48	India	Consumer Discretionary	20%	36%	24%	45	22	38	17
600276.SS	Jiangsu Hengrui Med Co.	36.36	China	Healthcare	31%	34%	20%	22	26	60	18
HVEL.NS	Havells IN	6.24	India	Industrials	25%	25%	27%	32	51	27	19
ASOK.NS	Ashok Leyland	5.41	India	Industrials	21%	40%	22%	41	18	56	20
002032.SZ	Supor	5.74	China	Consumer Discretionary	32%	39%	17%	17	20	86	21
2005.HK	SSY Group	2.53	China	Healthcare	34%	17%	22%	13	85	53	22
MYOR.JK	Mayora Indah	4.41	Indonesia	Consumer Staples	32%	11%	40%	18	131	9	23
SYMP.NS	Symphony	1.11	India	Consumer Discretionary	2%	50%	67%	153	6	1	24
PIDI.NS	Pidilite Industries	8.34	India	Materials	11%	22%	27%	83	58	25	25
HTHB.KL	Hartalega	5.70	Malaysia	Healthcare	27%	12%	36%	29	124	13	26
FAGB.NS	Schaeffler	1.08	India	Industrials	11%	25%	25%	86	50	32	27
NATP.BO	Natco Pharma	2.00	India	Healthcare	5%	37%	32%	128	21	20	28
600487.SS	HTGD	6.48	China	Information Technology	15%	30%	18%	63	35	74	29
BRGR.NS	Berger Paints	4.65	India	Materials	13%	19%	31%	74	77	22	30

Source: Thomson Reuters, Credit Suisse Research

When compared to local non-family-owned companies, we find that, while Chinese companies may trade at a large premium (around 80%), that premium has declined more than for any of the other countries. Family-owned companies in Thailand, however, have experienced the strongest re-rating (around 15%).

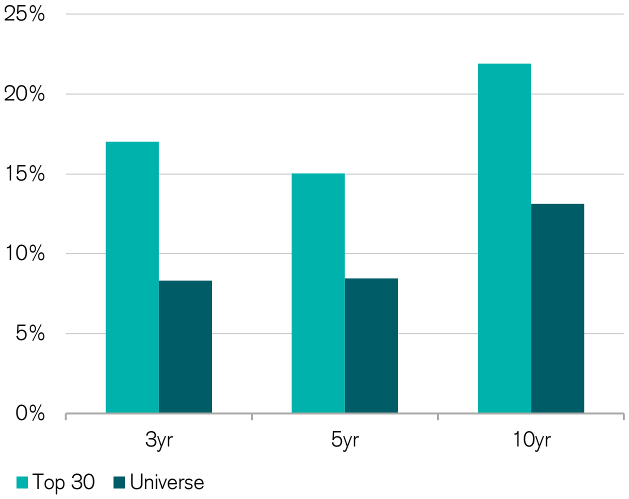
"While Chinese companies may trade at a large premium, that premium has declined more than for any of the other countries"

Top-performing families in Non-Japan Asia

Finally, we also provide the best-performing family-owned companies in the Non-Japan Asian region. What becomes apparent about this list is the very strong outperformance generated by these companies – over 30% per annum on average for three, five and ten years.

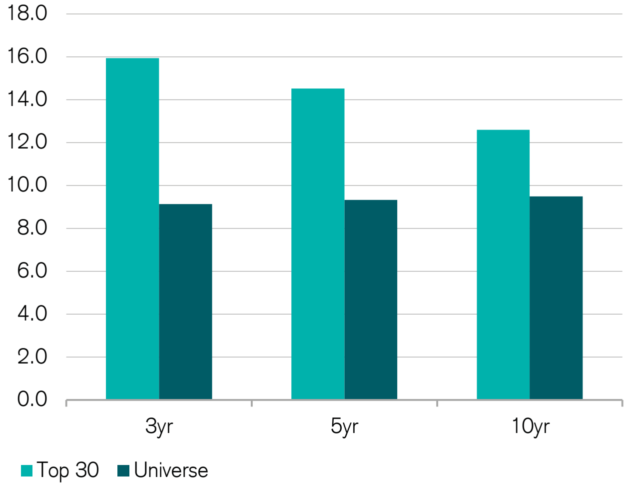
In contrast to the best-performing companies in Europe and the USA, we find that the sector composition of the top-performing family-owned companies in Asia is much more in line with their overall sector makeup.

Figure 14: Annual average revenue growth – top-performing Non-Japan Asian family-owned companies vs. their wider universe



Source: Company data, Credit Suisse estimates

Figure 15: Average CFROI profile – top-performing Non-Japan Asian family-owned companies vs. their wider universe



Source: Company data, Credit Suisse estimates

Looking at the best-performing family-owned companies in Asia by country indicates that more than 50% of the top 30 are from India. This is almost two times the share of Indian family-owned companies in the entire Non-Japan Asian universe. While companies from mainland China and Malaysia are also "over-represented," the opposite is true for family-owned companies from Hong Kong, which represent 13% of the Non-Japan Asia universe. However, not one of them makes it into the top 30 on a three-year, five-year and 10-year sector relative total return basis.

"Looking at the best-performing family-owned companies in Asia by country indicates that 50% of the top 30 are from India"

What do the best-performing families in Non-Japan Asia have in common?

In line with our analysis for European and North American family-owned companies, we find that the best-performing family-owned companies in Non-Japan Asia have structurally offered better top-line growth and cash flow return profiles than the wider family-owned universe in their region over a three-year, five-year and 10-year horizon. The trend in CFROIs is particularly noteworthy in that it is rising in both absolute and relative terms.

For the best-performing Asian family- and founder-owned companies, we also provide the average revenue growth and cash flow return statistics for the past three, five and ten years. Not dissimilar to the European list, this shows that top-line growth for the group has been impressive. For example, around 70% of the companies generated revenue growth of more than 10% annually.

As far as profitability is concerned, we note that the share of these companies that generate CFROIs above 10% and therefore well above the regional average has increased from 60% on a 10-year basis to 87% when taking just the past three years.

Table 2: Sales growth and CFROI ranking for best performing Asian family-owned companies

					Avg. sales growth			Avg. CFROI			Rank avg. sales			Rank avg. CFROI			Avg. rank
RIC	**Name**	**Mkt. cap.***	**Country**	**Sector**	**3Y**	**5Y**	**10Y**	**3Y**	**5Y**	**10Y**	**3Y**	**5Y**	**10Y**	**3Y**	**5Y**	**10Y**	
2382.HK	Sunny Optical	12.86	China	Info. Tech.	37%	41%	35%	22.6	19.6	13.8	3	1	4	5	6	11	5
PAGE.NS	Page Industries	5.52	India	Cons. Disc.	19%	22%	28%	27.5	25.9	24.2	12	8	9	1	1	1	5
0175.HK	Geely Automobile	18.71	China	Cons. Disc.	58%	34%	53%	18.5	15.8	13.8	1	2	1	8	13	12	6
1177.HK	Sino Biopharmaceutical	16.26	China	Healthcare	11%	16%	33%	21.1	22.3	21.3	19	14	6	6	3	2	8
600276.SS	Jiangsu Hengrui Med.	36.36	China	Healthcare	21%	20%	23%	18.7	17.6	18.1	11	10	11	7	8	4	9
SYMP.NS	Symphony	1.11	India	Cons. Disc.	14%	20%	30%	25.7	21.2	na	17	11	8	3	4		9
BJFN.BO	Bajaj Finance Ltd	24.00	India	Financials	26%	25%	31%	17.1	16.0	11.6	6	6	7	14	12	17	10
NATP.BO	Natco Pharma	2.00	India	Healthcare	40%	27%	20%	17.6	14.4	11.8	2	4	13	12	15	16	10
2020.HK	Anta Sports	13.73	China	Cons. Disc.	22%	17%	21%	17.2	16.2	17.8	10	13	12	13	11	5	11
HTHB.KL	Hartalega	5.70	Malaysia	Healthcare	23%	13%	25%	14.0	15.2	19.6	9	17	10	18	14	3	12
002032.SZ	Supor	5.74	China	Cons. Disc.	13%	15%	19%	18.1	16.9	13.9	18	15	15	11	10	10	13
BRIT.NS	Britannia Inds	11.61	India	Cons. Staples	8%	9%	11%	23.1	23.0	17.1	23	20	26	4	2	6	14
DWNH.NS	DHFL	2.94	India	Financials	18%	21%	34%	13.4	12.1	12.5	13	9	5	20	20	15	14
600487.SS	HTGD	6.48	China	Info. Tech.	33%	26%	48%	10.9	9.4	7.8	4	5	2	25	25	24	14
2313.HK	Shenzhou International	18.36	China	Cons. Disc.	16%	14%	19%	13.7	13.5	15.7	15	16	16	19	17	7	15
PIDI.NS	Pidilite Industries	8.34	India	Materials	7%	10%	12%	18.4	17.3	15.3	25	19	21	10	9	8	15
068270.KQ	Celltrion Inc	31.32	Korea	Healthcare	29%	31%	na	9.7	9.6	9.9	5	3		27	23	19	15
EICH.NS	Eicher Motors	11.22	India	Industrials	-2%	3%	12%	25.7	20.7	14.1	29	27	22	2	5	9	16
BBRM.BO	BBTCL	1.92	India	Cons. Staples	9%	7%	11%	18.5	17.8	13.1	22	24	25	9	7	13	17
0384.HK	China Gas Holdings	16.46	China	Utilities	10%	17%	44%	11.4	10.9	9.2	21	12	3	23	21	22	17
PMET.KL	PMA	4.57	Malaysia	Materials	23%	23%	20%	9.1	8.4	5.7	8	7	14	29	28	29	19
2005.HK	SSY Group	2.53	China	Healthcare	16%	7%	12%	12.6	12.4	10.6	14	23	20	21	19	18	19
ASOK.NS	Ashok Leyland	5.41	India	Industrials	25%	11%	11%	14.2	8.3	7.7	7	18	24	17	29	25	20
BRGR.NS	Berger Paints	4.65	India	Materials	6%	6%	11%	15.7	14.0	12.9	27	25	23	15	16	14	20
MYOR.JK	Mayora Indah	4.41	Indonesia	Cons. Staples	11%	8%	19%	11.3	9.8	8.3	20	22	17	24	22	23	21
HVEL.NS	Havells IN	6.24	India	Industrials	-9%	-3%	18%	14.6	12.5	9.8	30	30	18	16	18	20	22
TVSM.NS	TVS Motor	3.72	India	Cons. Disc.	14%	8%	9%	11.5	9.3	6.3	16	21	27	22	26	28	23
FAGB.NS	Schaeffler	1.08	India	Industrials	6%	4%	7%	9.4	8.8	9.3	26	26	29	28	27	21	26
HAPS.KL	Hap Seng Cons	5.97	Malaysia	Industrials	7%	1%	13%	6.6	6.8	6.5	24	28	19	30	30	27	26
MRF.NS	MRF	4.48	India	Cons. Disc.	0%	-1%	7%	10.0	9.6	7.2	28	29	28	26	24	26	27

*Market cap. = USD bn. Source: Thomson Reuters, Credit Suisse Research

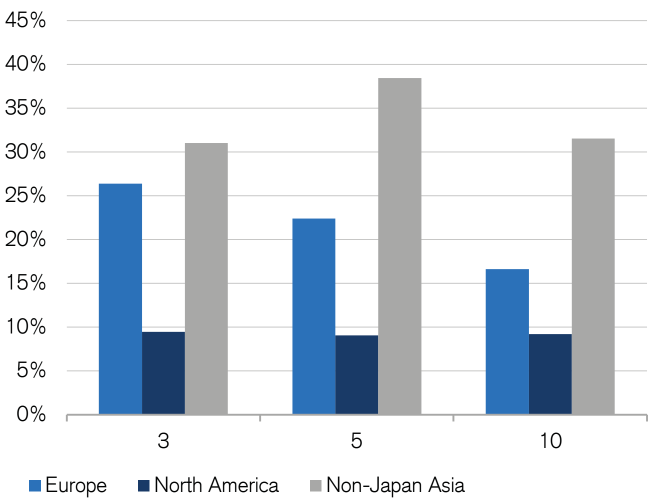
The US family-business model

Considering that our US family-owned company database only consists of around 100 companies with a history of ten years or more, we highlight the top 25 family-owned companies here (rather than the 30 we highlighted for Europe). We find that while the drivers of superior growth and returns have underpinned an outperformance in a US context, the best US family-owned companies have lagged their European and APAC peers.

As we noted earlier, the average market capitalization of the best-performing family-owned companies in the USA is greater than in Europe. What we find interesting is the fact that the annual average outperformance of the top 25 family-owned companies over the past three, five and ten years has been substantially lower than the equivalent returns from European firms and those located in Non-Japan Asia.

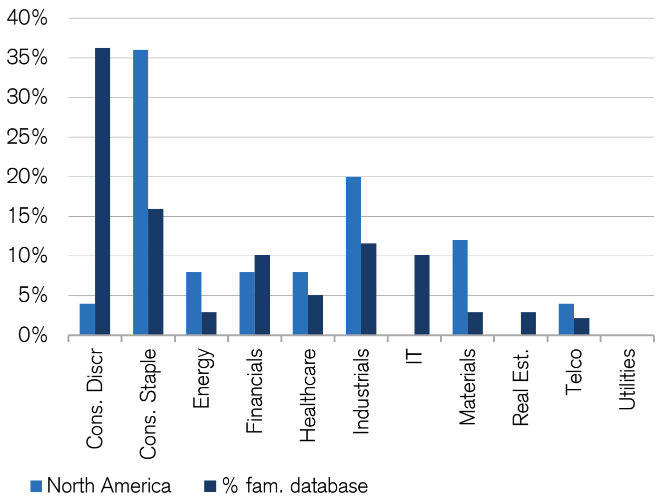
The top 25 US family-owned companies generated annual average outperformance of 9% for the three-year, five-year and 10-year periods. The top 30 European firms, however, managed to outperform their respective regional sector indices by an annual 26%, 22% and 17%, respectively. The top 30 Asian family-owned companies performed even better with annual alphas of 31%, 38% and 32%, respectively.

Figure 1: Annual average outperformance of the top 30 family-owned companies in Europe and Non-Japan Asia and top 25 in North America vs. respective regional sector indices



Source: Company data, Credit Suisse estimates

Figure 2: Sector contribution to best-performing family-owned companies in North America



Source: Company data, Credit Suisse estimates

Table 1: Best-performing families in North America using sector relative total shareholder returns since inclusion

RIC	Name	Mkt. cap. USD bn	Country	Sector	Sector relative performance 3Y	5Y	10Y	Rank 3Y	5Y	10Y	Final rank on avg. of 3
STZ	Constellation Brands	36.09	USA	Consumer Staples	20%	26%	18%	6	4	5	1
VICR.OQ	Vicor	1.74	USA	Industrials	41%	32%	7%	2	2	18	2
ROL	Rollins	11.53	USA	Industrials	13%	14%	16%	11	9	7	3
WLK.N	Westlake Chem	13.90	USA	Materials	9%	10%	31%	18	13	1	4
AOS	A O Smith	10.05	USA	Industrials	8%	16%	19%	22	7	3	5
EL	Estee Lauder Companies	52.10	USA	Consumer Staples	14%	10%	12%	9	12	12	6
TSN	Tyson Foods	25.09	USA	Consumer Staples	14%	15%	8%	10	8	17	7
AFG	American Fnl Grp	9.51	USA	Financials	11%	9%	11%	14	15	13	8
CLR.N	Continental Resources	23.63	USA	Energy	12%	7%	7%	12	20	19	9
SMG.N	Scotts Miracle	4.64	USA	Materials	6%	7%	18%	26	22	4	10
HRL	Hormel Foods	9.99	USA	Consumer Staples	6%	8%	8%	27	17	16	11
BIO	Bio Rad	7.24	USA	Health Care	20%	7%	1%	5	19	38	12
IBKR.OQ	Interactive	26.09	USA	Financials	5%	21%	3%	36	5	30	13
WSO.N	Watsco	5.66	USA	Industrials	5%	7%	10%	37	21	14	14
ATDb.TO	Alim Couche-Tard	27.31	Canada	Consumer Staples	-4%	10%	16%	62	14	6	15
SAM.PH	Boston Beer	3.54	USA	Consumer Staples	4%	4%	12%	42	30	11	16
BFb.N	Brown Forman Corp.	15.30	USA	Consumer Staples	4%	6%	5%	41	23	23	17
WOR	Worthington Ind	2.61	USA	Materials	6%	-1%	8%	31	44	15	18
MFI.TO	Maple Leaf Foods	4.28	Canada	Consumer Staples	6%	6%	1%	28	25	40	19
RCIb.TO	RCI	25.11	Canada	Telecom Services	10%	3%	0%	16	32	46	20
EPD.N	Enterprise Products Ptrs.	59.53	USA	Energy	1%	2%	13%	51	34	10	21
SAP.TO	Saputo	16.89	Canada	Consumer Staples	8%	1%	1%	23	36	37	22
CRVL.OQ	CorVel	1.05	USA	Health Care	14%	0%	-1%	8	43	48	23
WTS.N	Watts Water	2.73	USA	Industrials	4%	0%	4%	38	37	26	24
NKE	Nike Inc.	122.95	USA	Consumer Discretionary	1%	6%	4%	50	26	28	25

Source: Thomson Reuters, Credit Suisse Research

What do the best-performing US families have in common?

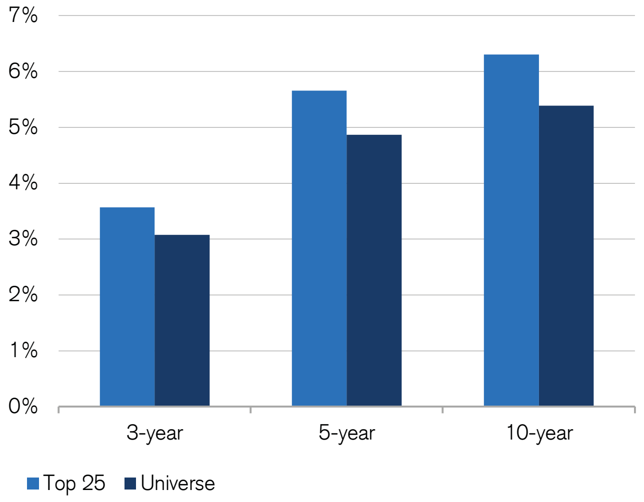
When calculating average revenue growth and CFROI profiles for the US family-owned companies, we make two observations.

First, in line with our conclusions in relation to Europe, we note that the best-performing US family-owned companies on a three-year, five-year and 10-year basis outperformed their wider local peer group in terms of revenue growth and CFROIs for each of the three time periods.

Second, we find that the CFROI profile of the top 25 US family-owned companies is not dissimilar to that of the top 30 European family-owned companies. However, the same cannot be said for revenue growth. Absolute revenue growth of the top 25 US family-owned companies and the trend over the past ten years has been inferior to that of the top-performing European companies. In our view, this supports the finding that the top-performing European family-owned companies also generated stronger total returns than their top-performing US peers over the past three, five and ten years.

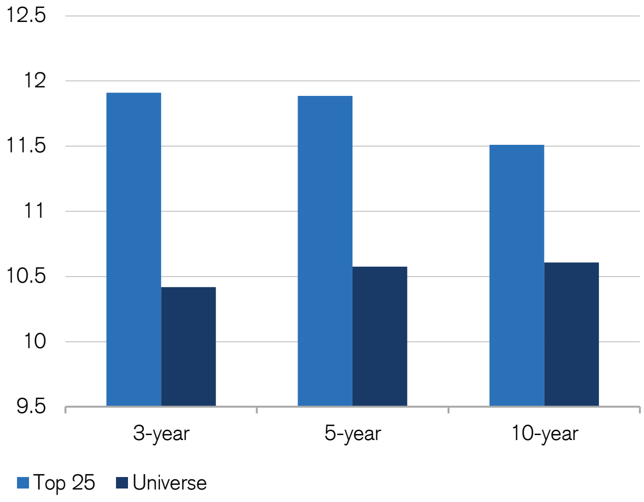
A company by company overview of the growth and profitability profiles of the best performing US family-owned companies suggests a rather more muted profile than the one provided by peers in Europe and NJ-Asia. One of the key reasons for this, in our view, is that the best performing US family-owned companies have been more located in lower growth sectors such as Consumer Staples and highly cyclical sectors, with more volatile CFROI patterns, such as Materials and Energy.

Figure 3: : Average annual revenue growth: Top 25 US family-owned companies vs. wider universe



Source: Company data, Credit Suisse estimates

Figure 4: Average CFROIs: Top 25 US family-owned companies vs. wider universe



Source: Company data, Credit Suisse estimates

Table 2: Growth and profitability track record for best-performing North American family-owned companies

					Avg. sales growth			Avg. CFROI			Rank avg. sales			Rank avg. CFROI			Avg. rank
RIC	Name	Mkt. cap.*	Country	Sector	3Y	5Y	10Y	3Y	5Y	10Y							
STZ	Constellation Brands	36.1	USA	Cons. Staples	8%	24%	8%	18.9	18.8	15.4	5	1	7	4	3	5	4
ROL	Rollins	11.5	USA	Industrials	6%	6%	6%	24.0	24.3	26.9	7	11	10	1	1	1	5
NKE	Nike Inc.	97.8	USA	Cons. Disc.	5%	7%	7%	16.9	16.2	14.9	9	9	8	5	6	7	7
ATDb.TO	Alim Couche-Tard	18.2	Canada	Cons. Staples	10%	11%	13%	11.3	11.3	10.7	3	4	2	15	14	13	9
SAP.TO	Saputo	12.7	Canada	Cons. Staples	1%	6%	7%	15.8	15.9	17.3	15	10	9	7	7	3	9
BFb.N	Brown Forman Corp.	15.3	USA	Cons. Staples	1%	3%	4%	20.9	21.1	20.8	14	17	16	2	2	2	9
EL	Estee Lauder.	31.8	USA	Cons. Staples	5%	5%	6%	15.6	16.2	14.8	8	13	12	8	5	8	9
AOS	A O Smith	8.5	USA	Industrials	8%	9%	3%	15.9	15.0	11.5	4	6	18	6	9	12	9
WSO.N	Watsco	5.7	USA	Industrials	3%	5%	10%	15.5	15.3	13.4	11	15	5	9	8	10	10
SAM.PH	Boston Beer	2.6	USA	Cons. Staples	-1%	9%	10%	14.0	14.7	15.5	22	7	4	11	10	4	10
WLK.N	Westlake Chem	13.9	USA	Materials	24%	19%	12%	9.4	10.5	8.0	1	2	3	17	16	20	10
HRL	Hormel Foods	19.5	USA	Cons. Staples	0%	2%	4%	19.4	17.4	15.1	19	18	15	3	4	6	11
CRVL.OQ	CorVel	1.0	USA	Healthcare	4%	5%	6%	12.0	12.7	13.8	10	12	11	13	12	9	11
IBKR.OQ	Interactive	4.5	USA	Financials	18%	10%	2%	10.8	9.7	10.6	2	5	21	16	17	14	13
AFG	American Fnl Grp	9.5	USA	Financials	6%	7%	5%	9.3	8.2	8.0	6	8	13	18	18	19	14
TSN	Tyson Foods	19.9	USA	Cons. Staples	0%	4%	4%	13.9	11.8	8.8	17	16	17	12	13	18	16
CLR.N	Continental Resources	23.6	USA	Energy	-4%	12%	25%	0.2	4.7	7.5	24	3	1	24	22	21	16
SMG.N	Scotts Miracle	4.6	USA	Materials	-2%	-1%	-1%	14.1	13.5	13.2	23	22	24	10	11	11	17
WTS.N	Watts Water	2.2	USA	Industrials	-1%	0%	1%	11.6	10.6	10.2	21	21	23	14	15	15	18
EPD.N	Enterprise Prodt	59.5	USA	Energy	-10%	-4%	9%	7.3	8.0	8.9	25	24	6	20	19	17	19
RClb.TO	RCI	19.0	Canada	Telecoms	1%	-2%	1%	7.8	8.0	9.4	13	23	22	19	20	16	19
WOR	Worthington Ind	2.6	USA	Materials	-1%	5%	3%	7.1	7.2	5.3	20	14	19	21	21	22	20
BIO	Bio Rad	7.2	USA	Healthcare	0%	1%	4%	1.9	2.9	5.0	18	20	14	23	24	23	20
VICR.OQ	Vicor	1.2	USA	Industrials	1%	1%	2%	-2.1	-3.1	-0.7	16	19	20	25	25	25	22
MFI.TO	Maple Leaf Foods	3.2	Canada	Cons. Staples	2%	-9%	-5%	5.9	3.7	4.7	12	25	25	22	23	24	22

*Market cap. = USD bn. Source: Thomson Reuters, Credit Suisse Research

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