Family businesses are the economic backbone of our society and are valued, built upon and passed on from generation to generation. Today, around one-third of family businesses are passed on to the second generation, whereas less than 10% are passed on to the third and fourth generation respectively. Succession represents the core strategic responsibility facing all family business owners. With an IPO, family members can remain shareholders, in positions of leadership and at the same time, the company can obtain financing for growth.

Who Takes Over?
Around 75% of family businesses focus on passing on a business from one generation to the next. In reality, only around 45% of all family businesses are passed on within the family in a so-called family buy-out (FBO). Non-family succession solutions have gained in significance in recent years. The share of succession solutions follows the order¹ on the right hand side:

1. Family buy-out (FBO)
2. Management buy-out (MBO)
3. Management buy-in (MBI)
4. Trade sale to a strategic buyer (Corporate)
5. Trade sale to a financial buyer (Private Equity)
6. IPO

Family business owners are willing to forego substantial economic value in order to find a solution that satisfies their desire. This explains why family members (and friends) are able to acquire a company at favourable terms. In research this is known as “emotional pricing of resigning entrepreneurs”, meaning non-economic considerations play a crucial role in entrepreneurial exits. Consequently, this aspect is an important exit-outcome variable.

¹The challenge of generation change, University of St. Gallen (Center for Family Business) and Credit Suisse, 2016; "I want this firm to be in good hands" – Emotional pricing of resigning entrepreneurs, University of St. Gallen, Nadine Kammerlander, 2014
An IPO is not the first and preferred exit option for family businesses (see list above). Non-financial concerns that family business owners have towards a listing (e.g. shareholder activism, worsening of relations among family members or “public justification”) drive such a preference. Family businesses, however, that went public tend to counter the concerns and anxieties of unlisted family business owners. The specific advantages of an IPO tend to be underestimated, but could represent the right solution for many unlisted family businesses.

**Advantages of an IPO for a Family Business**

There are specific advantages that an IPO offers for a family business to ensure continuity and successful succession:
- Succession outside the family
- Higher visibility, awareness and access to business clients
- Professionalization of the company
- Attraction and retention of talent
- Family members can remain shareholders and/or in management functions
- Possibility to withdraw over time (and potential portfolio diversification)
- Family-based anchor shareholders within a listed company are seen as a quality element for institutional investors

In addition to the above specified advantages, the general benefits of an IPO need to be taken into account such as access to equity and debt capital market financing that support the growth ambitions of the company.

**Success Story – Medacta**

Medacta opened the IPO season 2019 on the Swiss Stock Exchange achieving a total market capitalization of CHF 2.1 billion on the first day of trading. The IPO consisted of a secondary shares offering with the founding family remaining as majority shareholder. Further, the Board of Directors was set with a majority of independent members and the leadership of the management team remained with a family-member.

**Success Story – Klingelnberg**

Run by the family’s 7th generation, Klingelnberg went public on the Swiss Stock Exchange in 2018 with a total market capitalization of CHF 0.5 billion on the first day of trading. The IPO consisted of primary and secondary shares with the founding family remaining as majority shareholder. Three new independent members were added to the Board of Directors while the management team remained under the leadership of a family-member.

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“We believe now is the right time to offer shares to the public, seek a listing and broaden our shareholder base. We believe the planned IPO will allow us to further increase awareness and visibility of Medacta and facilitate access to international talent. Our family and myself will remain strong majority shareholders in the long term and remain fully committed to Medacta and its patient-centred and innovative culture.”

Francesco Siccardi, CEO, Medacta Group SA, 11 March 2019
Over the last decade, we have successfully transformed our family business from a manufacturer of tools to a global market and technology leader serving the worldwide growing gear industry. We believe that now is the right time to offer shares to the public, seek a listing and broaden our shareholder base. The planned IPO will allow us to take the company to the next level, to pursue additional growth and acquisition opportunities, and to raise our profile amongst customers, talent and other stakeholders around the world. Our family and myself will remain a major shareholder and will be fully committed to the company, and we will continue to foster a culture of customer centricity and innovation.

Jan Klingelnberg, CEO, Klingelnberg AG, 30 May 2018

Listed Family Businesses Outperform the Market
Studies² confirm that listed family businesses outperform the market and have an attractive risk/return profile. Family businesses tend to trade at a valuation premium and at historically high Price/Earnings multiples. The studies outline the following reasons for this:
- Focus on core business
- Good decision management (wrongly made decisions have a direct influence on the wealth of the family)
- Short-term oriented actions have a subordinated value whereas long-term oriented preservation is highly valued
- Efficient capital allocation and a high equity ratio lead to financial stability
- Higher profitability through more focused investments and Research & Development
- Focus on organic growth and less value-destructive M&A
- Reduced agency problematic (owner vs. management)

In developed countries, around 30% of the 20 largest listed companies per main market are family-controlled³. For the Swiss Stock Exchange, this percentage ratio is in the same region. One of the key distinguishing factors is the law and regulation that exists to protect minority shareholders (agency gap problematic). In Switzerland, the Swiss Takeover Rules ensure fair and transparent protection of shareholder rights for companies being listed on the Swiss Stock Exchange (for more information, see our separate publication).

Get in Touch
If you are interested in laying a foundation to ensure continuity for your family business and heritage, get in touch with our Primary Markets team at the Swiss Stock Exchange.

We look forward to hearing from you: primarymarkets@six-group.com

For more information for issuers of equity securities, please visit: www.six-group.com/primarymarkets

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² “Family-controlled” means if a person or a person acting in concert or a family controls directly or indirectly more than 20% of the voting rights
³ In developed countries, around 30% of the 20 largest listed companies per main market are family-controlled. For the Swiss Stock Exchange, this percentage ratio is in the same region. One of the key distinguishing factors is the law and regulation that exists to protect minority shareholders (agency gap problematic). In Switzerland, the Swiss Takeover Rules ensure fair and transparent protection of shareholder rights for companies being listed on the Swiss Stock Exchange (for more information, see our separate publication).

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