


The Rising Role of Family Offices in the Private Market M&A

Businesses and private equity funds have long dominated the mergers & acquisitions (M&A) world. Recently, however, a new player is emerging in a big way — the Family Office. When a family builds significant wealth, whether through a family-owned business or a successful corporate career, they often establish a Family Office to manage this wealth. A Family Office functions as an operating organization for a family's assets, offering more privacy and personalized service than most traditional wealth managers. The Office will often manage the family's financial and legal operations and build an investment team to preserve and grow the family's substantial wealth for generations to come. The Family Office works closely with the family when making investment decisions and is often headed by a member of the family. Ernst & Young estimates that there are "at least 10,000 single-family offices" around the world that manage over \$4 trillion of investable assets.ⁱ

Family Offices have almost always participated as investors in the private market through venture capital and private equity funds as Limited Partners. However, in recent years, Family Offices have been investing in the private market more independently. Instead of relying solely on investment funds to put their money to work in the private market, they've been investing in private companies directly. Over 60 percent of Family Offices with private equity investments have a portion of them in private assets.ⁱⁱ The families behind Family Offices often have valuable operating business expertise, so this trend makes a lot of sense. The same knowledge that allowed them to build their fortune through their family ventures will enable them to capitalize on opportunities in the private market today. This is a realization that many families and their Family Offices are having, and it's making them pull out their checkbooks. Angelo Robes, Founder and CEO of the Family Office Association notes, "We're seeing direct investing playing a larger and larger role in the portfolios of a growing number of single-family offices. Looking worldwide, all indications are that single-family offices are pouring billions upon billions of dollars into buying privately held businesses."ⁱⁱⁱ

What does this mean for business owners? Well, it means that when an entrepreneur decides the time is right to exit their business, Family Offices should be on their prospective buyer list. More than that, though, it means that they need to consider whether a Family Office's investing style is a match for the objectives and goals for themselves and their business. Family Offices tend to prefer investing in companies for which they can play a proactive and involved role. Sixty-four percent of Family offices cited "level of control" as one of the most important factors they consider when investing in a private company.^{iv} This is great for entrepreneurs looking to exit their





venture and owners who'd like to take a step back from the operations of their firm. On the other hand, business-operators looking for just a bit of growth capital might find that their goals don't align well with those of some Family Offices. Family Offices, unlike many other private equity investors, are often long-term in their investment horizon. "As patient capital providers, family offices are content to hold investments that are performing well, while looking beyond short-term fluctuations."^v This means that after business-owners sell their company, they'll make decisions with the best intentions for sustaining the firm for the long-run, which provides some peace of mind for business owners who worry about their company being "stripped and flipped" or their employees losing their jobs.

Finding the right buyer for a business is just as much about the cultural and strategic fit as it is about the numbers. Irwin Latner, a partner in the Corporate and Securities Practice Group of Pepper Hamilton LLP, points out that, when it comes to Family Offices, "these are really operating guys, not financial market investors. They want to own companies and build companies again."^{vi} When it comes time to step away from the company that they've spent so many years building, many business owners want to ensure they pass it on to capable and caring hands. Family offices have the right intentions and deep experience to take on that challenge, making them an excellent option for many business owners to consider when they're ready to divest their company. Because of this, your investment bank should consider Family Offices among their buyer-set when marketing your company. A skilled investment bank will have access to resources allowing them to evaluate Family Offices and other buyers not just by size requirements but by industry focus and expertise, ensuring that your business ends up in capable hands with people who know the worth of what you've built.

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- ⁱ Shell, Adam. "Rising Rich Boost Stature, Growth of Family Offices." *InvestmentNews*, 12 Apr. 2019, www.investmentnews.com/article/20190412/FREE/190419974/rising-rich-boost-stature-growth-of-family-offices.
- ⁱⁱ UBS, and Campden Wealth. *UBS Global Family Office Report 2018*. Campden Wealth Limited, 2018, *UBS Global Family Office Report 2018*.
- ⁱⁱⁱ Prince, Russ Alan. "Global Single-Family Offices Are Buying Up Companies Throughout The World." *Forbes*, Forbes Magazine, 6 Sept. 2018, www.forbes.com/sites/russalanprince/2018/09/05/global-single-family-offices-are-buying-up-companies-throughout-the-world/#2d1ebd2c171b.
- ^{iv} UBS & Campden Wealth, 2018
- ^v "How Family Offices Are Investing Directly in Businesses." *Point Of View*, 4 Aug. 2017, www.raymondjames.com/pointofview/how-family-offices-are-investing-directly-in-businesses.
- ^{vi} Latner, Irwin M., and Stephanie Pindyck-Costantino. "Family Offices Direct Their Own Private Equity Investments." *Lexology*, 29 Oct. 2015, www.lexology.com/library/detail.aspx?g=66d6ad69-e79e-4377-b9c8-a7c3ba396ab7.

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