

# Family-Controlled Firms

## Why do Family-Controlled Companies Outperform? – Version 2.0; Disciplined Governance

### Equities

Europe Ex. UK  
Financial

#### Family-controlled public companies consistently outperform – recently, too

A year ago, we published a Q-Series report analysing the performance and risk profile of family-owned publicly traded companies globally (April 2015, [report](#)). A proprietary analysis showed that family-owned small and midcap companies consistently outperformed for a long period all across regions globally. A year later, we have updated our statistics – and they show that performance has also been favourable in the past 12 months. Family-owned companies are up 11% vs. global indices up 5%.

#### Disciplined governance is king and queen

In most regions, the outperformance by family-owned companies has persisted over the past 12 months (except in Asia, where they performed in line with large-cap indices). We remain convinced that family-owned companies, once floated, usually combine the benefits of funding via capital markets with a focus on the core business, less value-destructive M&A, and more effective general governance. The positives of family 'skin in the game' have historically outweighed any potential negatives which do exist.

#### Risk-reward metrics remain favourable; the UBS proprietary framework

Volatility metrics – these continue to show that outperformance does not come at the expense of higher risk. On the contrary: volatility is lower for family-owned firms, although not in all regions (e.g. Latam). Moreover, based on governance areas that we believe drive outperformance (such as transparency, board succession, shareholder rights and remuneration), we identify the key metrics for analysing which companies have the best corporate governance. UBS' global index of 250 family-owned stocks has outperformed over one, three, five and 10 years, with lower volatility.

#### We highlight stocks in Europe & Asia, attractive family-owned stocks we like

We have identified several family-owned companies in Europe which combine a good track record with interesting valuation metrics. Our most favoured stocks on the theme include names such as Ferrovial, Ebro Foods, Fuchs Petrolub SE, GFT Technologies, Granvision, Hexpol, Melia Hotels, Moncler, Ratos, Sartorius, SCA, SEB, SFS Group and Trelleborg. In Japan we like the ¥100-shop operator Seria (JP2782, Buy), Japan's biggest pet insurer Anicom Holdings (JP8715, Buy) and telecom service and corporate solutions provider Hikari Tsushin (JP9435, Buy) as well as CyberAgent (Buy, PT Y8,000). In Asia, outside of Japan we highlight our Buy ratings in Hyundai Mobis, CK Hutch, UOL, City Developments (Singapore), Man Wah and Nine Dragons Paper, among others.

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# A few top picks: family-owned stocks where we see upside

On the presentation that follows (page 6 onwards) we disclose further details of our findings. Specifically in some markets, such as Europe or Asia where the presence of family-owned stocks is particularly active, we highlight our top picks.

## We highlight stock ideas in Europe

We have identified several family-owned companies in Europe which combine a good track record with interesting valuation metrics. Our most favoured stocks on the theme include names such as Ferrovial, Ebro Foods, Fuchs Petrolub SE, GFT Technologies, Grandvision, Hexpol, Melia Hotels, Moncler, Ratos, Sartorius, SCA, SEB, SFS Group and Trelleborg.

Figure 1: Top picks of family-owned midcaps in Europe

	Stock Price	UBS Target price	% chg	UBS rating	Mkt. cap (€m)	Stock perf. 12m	Stock perf. YTD	Adj. PE 2016E	EV/EBITDA 2016E	Div. yield 2016E
Ferrovial	18.3	20.0	9.3%	Buy	13,427	-12.2%	-10.2%	--	--	3.9%
Ebro Foods	20.4	22.0	7.7%	Buy	3,142	17.3%	13.4%	18.4	10.1	3.4%
Fuchs Petrolub SE	40.7	46.5	14.4%	Buy	5,356	3.3%	-6.1%	22.8	13.6	2.1%
GFT Technologies	18.6	25.0	34.7%	Buy	488	-15.3%	-41.6%	17.4	10.9	1.6%
Grandvision	25.0	26.5	6.0%	Buy	6,361	9.0%	-9.6%	25.7	13.3	1.2%
Hexpol AB	77.2	100.0	29.5%	Buy	26,572	-17.0%	-14.8%	19.1	12.0	2.2%
Melia Hotels	11.2	13.6	21.1%	Buy	2,235	-9.8%	-7.9%	25.4	9.9	1.6%
Moncler Spa	15.2	17.5	15.1%	Buy	3,800	-4.5%	18.3%	19.7	11.2	1.2%
Ratos	40.3	65.0	61.3%	Buy	14,779	-19.6%	-16.9%	--	--	8.7%
Sartorius AG	74.2	75.0	1.1%	Neutral	4,862	40.5%	24.3%	36.4	20.0	0.7%
SCA	256.5	285.0	11.1%	Buy	180,140	9.9%	4.2%	19.6	11.1	2.2%
SEB	124.8	134.0	7.4%	Buy	6,147	51.9%	32.3%	23.1	16.3	1.3%
SFS Group AG	77.4	82.0	6.0%	Buy	2,901	31.9%	10.7%	19.8	10.1	1.9%
Trelleborg AB	165.1	165.0	-0.1%	Buy	44,742	25.9%	1.2%	17.8	11.5	2.4%

Source: UBS estimates

## Asia: family-owned stocks we like

Figure 2: Asian family owned stocks we like

	Stock Price	UBS Target price	% chg	UBS rating	Mkt. cap (local)	Stock perf. 12m	Stock perf. YTD	Adj. PE 2016E	EV/EBITDA 2016E	Div. yield 2016E
Hyundai Mobis	284000	360000	26.8%	Buy	27,644,559	21.8%	14.4%	--	--	2.1%
CK Hutchison Holdings	99.4	117.0	17.8%	Buy	383,461	-0.5%	-4.7%	11.9	5.9	2.7%
UOL Group	5.6	7.6	33.9%	Buy	4,491	-5.5%	-9.0%	12.8	21.7	2.7%
Feng Tay	144.5	172.0	19.0%	Buy	96,517	-22.2%	-5.3%	20.4	12.0	3.1%
Man Wah Holdings	5.4	6.3	17.0%	Buy	20,612	37.9%	14.0%	13.0	10.3	4.1%
Nine Dragons Paper	7.2	9.0	24.5%	Buy	33,520	84.0%	60.8%	10.9	8.4	1.0%

Source: UBS estimates

## **Hyundai Mobis – BUY**

Hyundai Mobis became an auto parts company when it acquired Hyundai's and Kia Motors' aftermarket parts divisions in 2000. Mobis also acquired several auto parts makers, including Hyundai Autonet in 2009. It acquired Hyundai Life in 2012. It has three major auto divisions: 1) aftermarket parts; 2) modules; and 3) core parts. Core parts include anti-lock braking systems, airbags, suspensions, lights and various Advanced Driving Assistance Systems (ADAS). Its module and core parts revenue are derived mostly from the Hyundai Motor group. Mobis is the largest shareholder of Hyundai Motor. Mobis is addressing the two fastest-growing markets in autos: (1) green cars: hybrids (HEV), plug-in hybrids (PHEV), electric vehicles (EV) and fuel cell EV (FCEV); and (2) ADAS. IHS Global Insight forecasts the global green car market to grow at a 24% CAGR to 7mn units by 2020 (vs 2.4mn in 2015). We also expect the global ADAS market to grow by well over 20% pa for the next five years.

## **CK Hutchison – BUY**

CK Hutchison (0001.HK) is 30%-owned and controlled by Li Ka Shing and his family. CKH operates a portfolio of businesses in health & beauty retail, infrastructure, telecom and ports globally. We are comfortable with corporate governance. We like the stock here on a fundamental turnaround in European mobile sector and as it 'fixes' its European mobile business through market consolidation.

## **UOL – BUY**

UOL Group is a diversified Singapore real estate company with interests in property development, property investment, and hotel operations. Its net profit has grown at a 13.3% CAGR over the past decade, led by an experienced and stable management team. We like the company for its defensive earnings, attractive valuation, and disciplined approach to landbanking. Through its hotel subsidiary, Pan Pacific Hotels Group, we think UOL is well placed to benefit from a pick-up in intra-Asia travel. Over the medium term, the potential consolidation of control over its listed associate, United Industrial Corporation, could lead to efficiency gains, greater flexibility for restructuring, and/or the monetization of assets, which we believe would lead to a narrowing of the discount to RNAV and increased investor interest.

## **City Developments (Singapore) – BUY**

This would qualify as a stock which: 1) is family controlled (even though the CEO is an unrelated third party, the Executive Chairman is from the Kwek family); 2) has a good track record in corporate governance; 3) has seen its stock outperforming the Singapore market YTD; and 4) is Buy-rated with upside potential of c7% to our price target.

## **Feng Tay – BUY**

Feng Tay (9910.TW) was established in 1971 and is mainly an OEM for athletic footwear. Its major customer is Nike, which accounted for 80% of total sales in 2014. Feng Tay is headquartered in Taiwan, with production plants in China, Vietnam, Indonesia and India. The company currently has around 95,000 employees and supplies more than one-sixth of Nike's total annual sales volume. We believe Feng Tay should be able to gain share among Nike's OEM vendors with its more aggressive expansion plan and production cost advantages starting in

2018. Feng Tay has become more aggressive about expanding capacity and should have two more new plants in H217. Besides, Feng Tay has a higher proportion of capacity located outside of China, in areas in which it benefits from relatively lower labour costs.

### **Man Wah – BUY**

Man Wah (1999.HK), a family-owned business with the founder's family owning 63% stake, is the largest recliner sofa producer globally, adopting a retail model in China (No. 1) and ODM model in the US (No. 3). Leveraging on its competitive product design, quality and pricing, the company has been gaining market shares in both China and the US market with expanding margins in recent years. In addition, with the strong cash flow and balance sheet, the company is willing to pay out no less than 50% of earnings as dividends and to buy back shares to enhance returns to shareholders. We believe the company can continue gaining shares in the US and China, with margins to improve further. At a low-teens forward PE and a mid-single-digit dividend yield, we view its valuations as attractive and thus have a Buy rating.

### **Nine Dragons Paper – BUY**

Nine Dragons (2689.HK), a family-owned business with the founder's family owning a 67% stake, is the largest containerboard producer in China. With supply growth becoming more disciplined, due to limited new capacity additions (difficulty in getting government approvals and bank financing) and small capacity closures (higher environmental standards), and with the demand growth still stable at low/mid-single digits, industry supply/demand is improving structurally. Trading at a high-single-digit PE or close to its book value, with improving profitability and balance sheet (declining gearing and less foreign debt), we believe this could further re-rate and thus have a Buy rating.

## **Japan: we identify quite a few interesting ideas**

At about 30% of the 3,600 or so companies that are listed in Japan, the founding families own the representation rights and 10% or more of the shares. Following similar studies in Europe and the US, surveys and research on such family-owned enterprises have been carried out in Japan since the mid-2000s. The statistics that they have generated show that companies where top management has high shareholdings are superior to those with low such exposure in terms of their profitability, growth potential and balance sheet quality, as well as on share-price returns. Among the companies that were listed at the end of 2000, the top three share-price performers by the end of 2015 were blood analysis equipment/reagent manufacturer Sysmex (JP6869), infant bottle and nursery product manufacturer Pigeon (7956), and sports footwear manufacturer Asics (JP7936), all of which are family-owned. The best performers in 2005-2015 were Monotaro (JP3064), Fronteo (UBC, JP2158) and DIP (JP2379). Top management shareholdings act in a 'good' governance role so that shareholders' interests coincide with those of the people who lead the company. Of course, there have been some cases where management has prioritized its own private interests, damaging shareholder returns. The FSA decided to introduce a 'corporate governance code' for listed companies in 2015 to promote governance reform among Japanese firms through the appointment of independent external directors and the unwinding and restriction of cross-shareholdings.

**Figure 3: Top picks in Japanese midcaps**

	Stock Price	UBS Target price	% chg	UBS rating	Mkt. cap (€m)	Stock perf. 12m	Stock perf. YTD	Adj. PE 2016E	EV/ EBITDA 2016E	Div. yield 2016E
<b>Anicom Holdings</b>	2530.0	4000.0	58.1%	Buy	45	-6.1%	-23.3%	--	--	0.2%
<b>Hikari Tsushin</b>	9490.0	12000.0	26.4%	Buy	434	12.9%	14.3%	21.4	4.3	2.2%
<b>Seria</b>	7930.0	10000.0	26.1%	Buy	297	33.9%	34.6%	25.0	12.7	0.6%
<b>CyberAgent</b>	2960.0	4000.0	35.1%	Buy	366	27.9%	18.5%	18.0	7.5	0.8%

Source: UBS estimates

Taking into account business growth potential, cash flow stability, and governance levels, our focus in this respect is on ¥100-shop operator Seria (JP2782, Buy), Japan's biggest pet insurer Anicom Holdings (JP8715, Buy) and telecom service and corporate solutions provider Hikari Tsushin (JP9435, Buy) as our top pick stocks for the small- and mid-cap sector.

### **CyberAgent (Buy, PT Y8,000)**

CyberAgent is one of Japan's foremost comprehensive internet service companies, characterized by a unique managerial style. Its main businesses are Ameba, internet advertising, games, media and others, and investment promotion. The company began its AbemaTV internet TV service in April 2014, for which the initial budget for the first fiscal year was ¥9bn. Assuming that CyberAgent generates annual OP of about ¥37bn, this represents a very big investment. The spend could increase further in FY17, so we forecast a yoy decline in consolidated OP. In a rapidly changing internet sector, companies are continually investing as they seek the 'next growth field'. Even so, there are very few firms that have committed to the sort of major, long-term investment carried out by CyberAgent. Since the late 2000s, CyberAgent has eagerly invested in its Ameba blog media, despite the doubts initially expressed by many within the market, and over that time it has grown into a key earnings pillar for the company. As the business has started to be seen as profitable, market opinion has changed too. The company's current investment in AbemaTV seems to repeat this process. Our forecasts for AbemaTV assume that the domestic video advertising market will expand to ¥275bn in CY20. We expect CyberAgent to take a 10% share of this. We believe the business will turn profitable in FY20. Under the leadership of founder Susumu Fujita, we believe CyberAgent will continue to support investment in Ameba and AbemaTV.

## *Why do family-owned companies outperform? The value of disciplined governance*

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# UBS Research on family-owned companies



Global Research

13 April 2015

## Q-Series®

### Why do Family-Controlled Public Companies Outperform? The Value of Disciplined Governance

#### Family-controlled publicly traded companies have consistently outperformed

Markets seem to have under-priced both the growth and risk associated with public companies that have founding families as major shareholders. Our proprietary analysis suggests that family-owned small and midcaps have consistently outperformed their respective indices for the past decade – returning, for instance, 104% in the last five years, vs. 53% for largecaps and 69% for midcaps, with lower volatility.

#### Disciplined governance is king and queen

Floated family-owned businesses have, by and large, passed the perils of the initial founding phase. Evidence shows that companies at this point in their life-cycle usually combine the benefits of funding via capital markets with a focus on core business, less value-destructive M&A, and more effective general governance. The positives of family 'skin in the game' have historically outweighed any potential negatives, and this outperformance window tends to stay open as long as the family ownership persists.

#### We designed a proprietary framework to assess governance and risks

Based on governance areas that we believe drive outperformance (such as transparency, board succession, shareholder rights and remuneration), our analysts ranked close to 250 family-owned small and midcap companies globally to identify those with the best corporate governance. This global balanced index of 250 family-owned stocks has outperformed a global midcap index over 1, 3, 5 and 10 years.

#### Our list of the 20 best global stocks that fit this theme

Our analysis identified 20 stocks in the US, Europe, Asia and LatAm that fit this theme. In the US, our top picks include Fortinet and Installed Building Products; in Europe, Eurazero, Ebro Foods and GBL; in Asia, Top Glove and RiseSun Real Estate Development; in Japan, Daichikoshu, Seria and CyberAgent; and in LatAm, Fibra Danhos and Iochpe-Maxion. Please see page 5 for a full list.

Figure 1: Our in-house analysis indicates the outperformance of listed firms with a family stake for the past decade



#### Equity Strategy

Global

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(April 2015, [report link](#))



## Summary

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- **Strong weight of SMEs in employment and value added...family firms are key**
  - In Europe, for instance, SMEs represent 50-70% of most countries' employment
- **A long-term approach to capital allocation is key for corporates...family-controlled floated companies have a good track record**
  - Combine the benefits of funding via capital markets with a focus on core business, less value-destructive M&A, balanced incentives and more effective general governance

- **Some ideas in Europe and Asia where there is pre-eminence of family-owned stocks:**

We have identified several family-owned companies in Europe which combine a good track record with interesting valuation metrics. Our most favoured stocks on the theme include names such as Ferrovia, Ebro Foods, Fuchs Petrolub SE, GFT Technologies, Grandvision, Hexpol, Melia Hotels, Moncler, Ratos, Sartorius, SCA, SEB, SFS Group and Trelleborg AB.

In Japan we like the ¥100-shop operator Seria (JP2782, Buy), Japan's biggest pet insurer Anicom Holdings (JP8715, Buy) and telecom service and corporate solutions provider Hikari Tsushin (JP9435, Buy) as well as CyberAgent (Buy, PT Y8,000). In Asia, out of Japan we highlight our Buy ratings on Hyundai Mobis, CK Hutch, UOL, City Developments (Singapore), Man Uah, Nine Dragons Paper, among others



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## European and Asian family-owned companies we like

- **Highlighted stocks in Europe and Asia**

	Stock Price	UBS Target price	% chg	UBS rating	Mkt. cap (€m)	Stock perf. 12m	Stock perf. YTD	Adj. PE 2016E	EV/ EBITDA 2016E	Div. yield 2016E	Price/book 2016E
Ferrovial	18.3	20.0	9.3%	Buy	13,427	-12.0%	-10.0%	--	--	3.9%	--
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GFT Technologies	18.6	25.0	34.7%	Buy	488	-15.7%	-41.8%	17.4	10.9	1.6%	4.1
Grandvision	25.0	26.5	6.0%	Buy	6,361	8.7%	-9.9%	25.7	13.3	1.2%	5.9
Hexpol AB	77.2	100.0	29.5%	Buy	26,572	-17.2%	-15.0%	19.1	12.0	2.2%	3.7
Melia Hotels	11.2	13.6	21.1%	Buy	2,235	-9.9%	-8.0%	25.4	9.9	1.6%	1.8
Monder Spa	15.2	17.5	15.1%	Buy	3,800	-5.1%	17.6%	19.7	11.2	1.2%	5.5
Ratos	40.3	65.0	61.3%	Buy	14,779	-19.6%	-17.0%	--	--	8.7%	--
Sartorius AG	74.2	75.0	1.1%	Neutral	4,862	39.7%	23.6%	36.4	20.0	0.7%	5.3
SCA	256.5	285.0	11.1%	Buy	180,140	9.3%	3.7%	19.6	11.1	2.2%	2.4
SEB	124.8	134.0	7.4%	Buy	6,147	51.6%	32.0%	23.1	16.3	1.3%	3.3
SFS Group AG	77.4	82.0	6.0%	Buy	2,901	31.2%	10.1%	19.8	10.1	1.9%	1.6
Trelleborg AB	165.1	165.0	-0.1%	Buy	44,742	25.8%	1.0%	17.8	11.5	2.4%	1.8

	Stock Price	UBS Target price	% chg	UBS rating	Mkt. cap (€m)	Stock perf. 12m	Stock perf. YTD	Adj. PE 2016E	EV/ EBITDA 2016E	Div. yield 2016E	Price/book 2016E
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CK Hutchison Holdings	99.4	117.0	17.8%	Buy	383,461	-0.5%	-4.7%	11.9	5.9	2.7%	0.9
UOL Group	5.6	7.6	33.9%	Buy	4,491	-5.5%	-9.0%	12.8	21.7	2.7%	0.6
Feng Tay	144.5	172.0	19.0%	Buy	96,517	-22.2%	-5.3%	20.4	12.0	3.1%	6.5
Man Wah Holdings	5.4	6.3	17.0%	Buy	20,612	37.9%	14.0%	13.0	10.3	4.1%	4.5
Nine Dragons Paper	7.2	9.0	24.5%	Buy	33,520	84.0%	60.8%	10.9	8.4	1.0%	1.3
Anicom Holdings	2530.0	4000.0	58.1%	Buy	45	-6.1%	-23.3%	32.2	--	0.2%	4.2
Hikari Tsushin	9490.0	12000.0	26.4%	Buy	431	12.9%	14.3%	21.4	4.3	2.2%	2.6
Seria	7930.0	10000.0	26.1%	Buy	296	33.9%	34.6%	25.0	12.7	0.6%	--
CyberAgent	2960.0	4000.0	35.1%	Buy	369	27.9%	18.5%	18.0	7.5	0.8%	4.3

Source: UBS estimates

Priced as of Sept. 29th 2016

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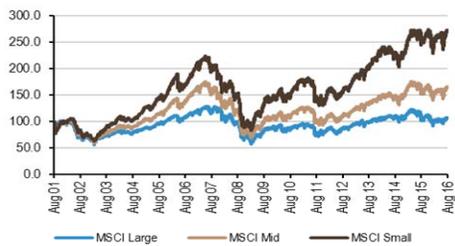


# Report origin: a focus on Smallcaps and governance

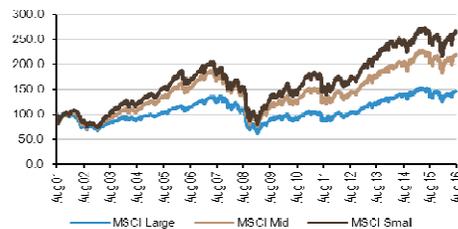
- **Smallcap stocks have outperformed Largecaps for the past 25 years...including in the US, Europe and EM. Key drivers are growth, M&A and...governance.**



Europe Performance 15 years



Global Performance 15 years



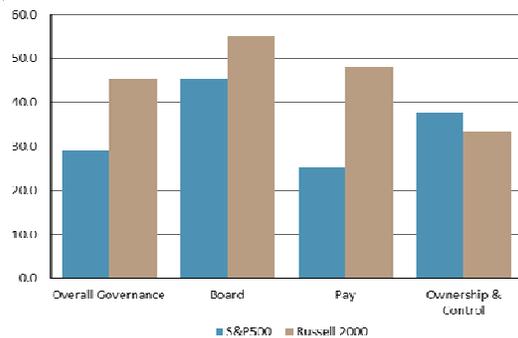
Source: UBS, Thomson Datastream, based on MSCI Indices



## Drivers of outperformance...one factor is better governance

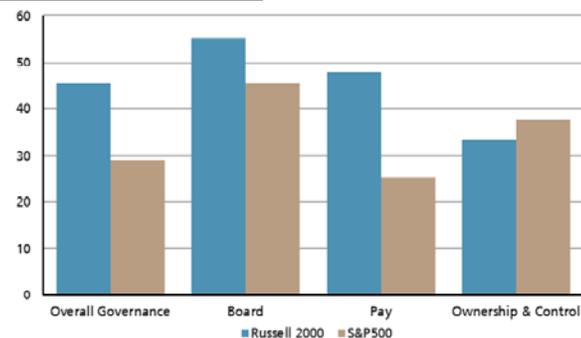
- Why do Smallcaps outperform?...growth is more consistent, but a better score by Smallcaps on corporate governance is very important, particularly on board issues and pay
- If governance is better (a surprise to some)...let's see if families have a role in that

GMI corporate governance scores for S&P500 vs. Russell 2000



Source: GMI. GMI scores are from 1 to 100 – 100 being the best governance practices. The overall governance score is split into three components: board, pay and ownership and control

Western Europe governance metrics – large vs. small/midcaps



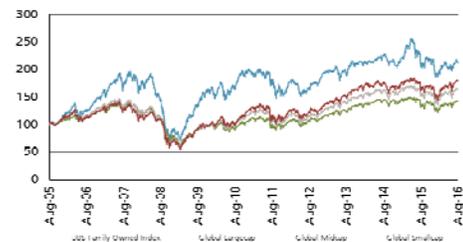
Source: GMI. GMI scores are from 1 to 100 – 100 being the best governance practices. The overall governance score is split into three components: board, pay and ownership and control



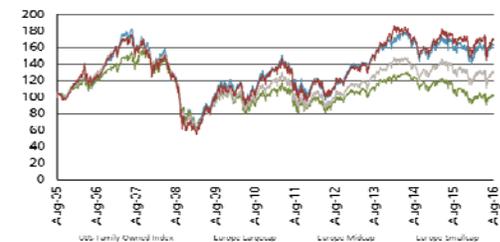
# Family-owned firms have consistently outperformed (1)

- The outperformance across all regions – based on market value weight

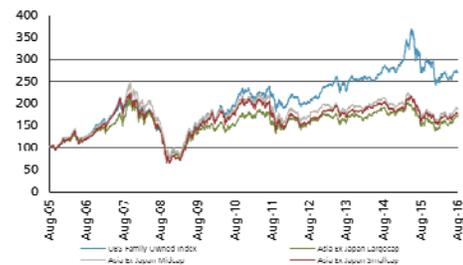
Global performance since 2005



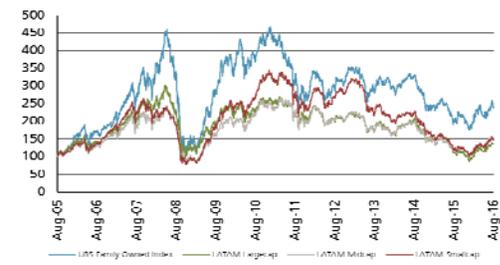
Europe performance since 2005



Asia Ex Japan performance since 2005



LATAM performance since 2005



Source: UBS, Thomson Datastream



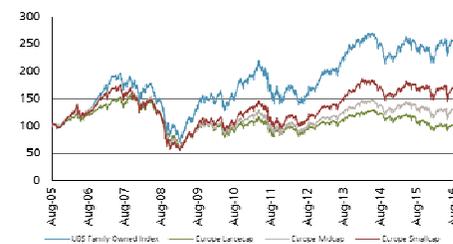
# Family-owned firms have consistently outperformed (2)

- The outperformance across all regions – based on equal value weight

Global performance since 2005



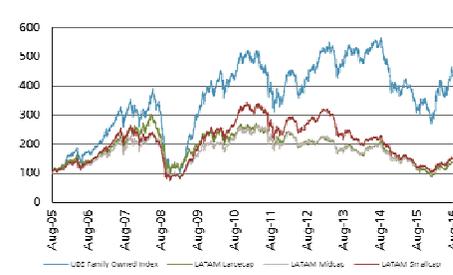
Europe performance since 2005



Asia Ex Japan performance since 2005



LATAM performance since 2005



Source: UBS, Thomson Datastream



## Family-owned firms have consistently outperformed (3)

### Performance since 2005 (based on Market Value weights)

Index	Global	Europe	Asia Ex Japan	LATAM
UBS Family-owned Index (Market Value Weights)	<b>112.5%</b>	<b>62.2%</b>	<b>172.0%</b>	<b>137.0%</b>
MSCI Largecap Index	42.4%	1.8%	72.4%	34.4%
MSCI Midcap Index	63.8%	29%	89.0%	50.2%
MSCI Smallcap Index	79.3%	68.6%	77.8%	47.6%

### Performance since 2005 (based on Equal Value weights)

Index	Global	Europe	Asia Ex Japan	LATAM
UBS Family-owned Index (Equal Value Weights)	<b>544.9%</b>	<b>155.4%</b>	<b>807.8%</b>	<b>331.6%</b>
MSCI Largecap Index	42.4%	1.8%	72.4%	34.4%
MSCI Midcap Index	63.8%	29%	89.0%	50.2%
MSCI Smallcap Index	79.3%	68.6%	77.8%	47.6%

Source: UBS, Thomson Datastream



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## Family-owned firms have consistently outperformed (4)

### Global family-owned midcaps have outperformed

Index	Perf. 10y	Perf. 5y	Perf. 3y	Perf. 1y
UBS Family-owned Index (Equal Value Weights)	<b>370.9%</b>	<b>66.5%</b>	<b>34.3%</b>	<b>11.0%</b>
MSCI Largecap Index	24.0%	41.5%	15.9%	4.7%
MSCI Midcap Index	38.9%	46.1%	18.6%	5.0%
MSCI Smallcap Index	56.2%	52.4%	19.7%	6.6%

### Europe family-owned midcaps have outperformed

Index	Perf. 10y	Perf. 5y	Perf. 3y	Perf. 1y
UBS Family-owned Index (Equal Value Weights)	<b>98.3%</b>	<b>45.4%</b>	<b>16.6%</b>	<b>5.3%</b>
MSCI Largecap Index	-17.0%	35.0%	9.2%	-1.1%
MSCI Midcap Index	-1.2%	57.5%	24.2%	3.0%
MSCI Smallcap Index	33.3%	83.5%	35.5%	5.0%

### Asia ex-Japan family-owned midcaps have outperformed

Index	Perf. 10y	Perf. 5y	Perf. 3y	Perf. 1y
UBS Family-owned Index (Equal Value Weights)	<b>560.7%</b>	<b>69.0%</b>	<b>40.4%</b>	<b>8.7%</b>
MSCI Largecap Index	41.2%	7.6%	8.7%	10.8%
MSCI Midcap Index	49.2%	-1.6%	6.4%	8.6%
MSCI Smallcap Index	47.6%	-0.6%	4.6%	7.1%

Source: UBS, Thomson Datastream

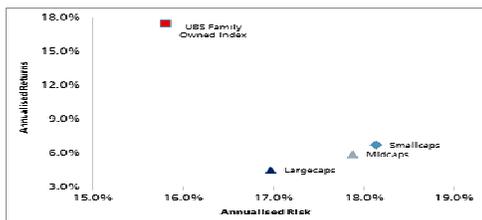


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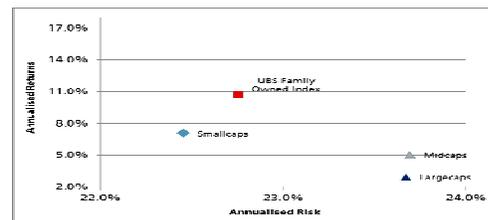
## What about risks?...family firms have low volatility

- This outperformance does not seem to come at the expense of a higher risk profile
- We ran an analysis to capture the volatility of family firms versus other Smallcap, Midcap and Largecap companies (as measured by the standard deviation of returns), and found that family firms have an attractive risk profile, both globally and at the regional level in Europe, Asia and Latam.

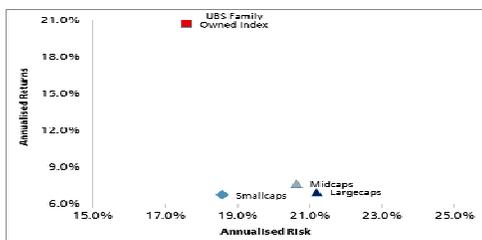
Global markets risk/return (since 2005)



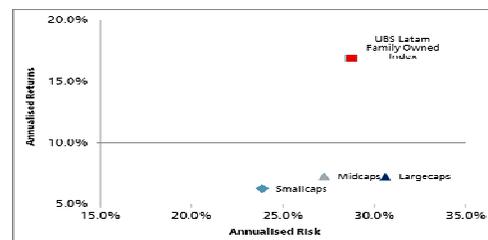
Europe markets risk/return (since 2005)



Asia Ex Japan markets risk/return (since 2005)



LATAM markets risk/return (since 2005)



Source: UBS, Thomson Datastream

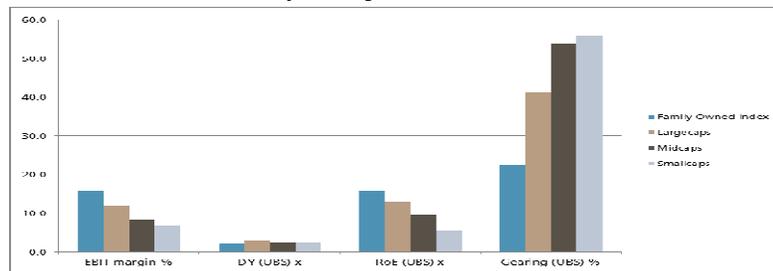


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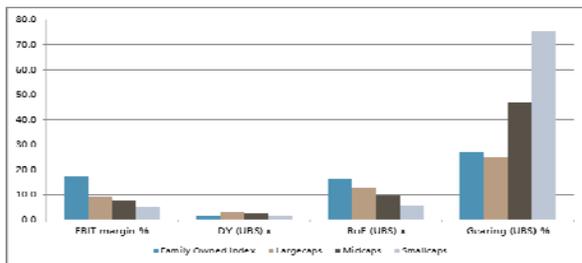
## What about fundamentals?...a mixed view

- Family-owned companies screen quite well in terms of margins and returns, despite a lower gearing, on a range of metrics – margins, ROE, gearing and dividend yield – over a five-year period. There are some regional differences, but the results are broadly consistent across geographies.

Global: five year average fundamentals

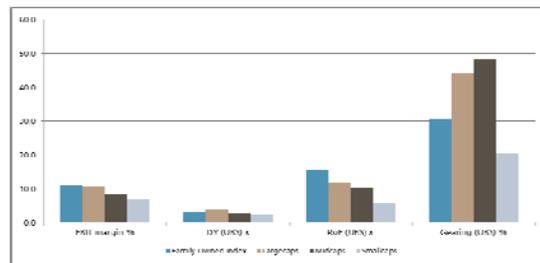


Asia Ex Japan: five year average fundamentals



Source: UBS estimates

Europe: five year average fundamentals



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## What about fundamentals? (continued)

- Family-owned firms' earnings growth seems above average and explains a large part of the outperformance of family businesses. In addition, family firms have been delivering 10%-plus annual earnings growth at a steady pace. Lower dividend yield may be partly explained by the valuation gap between family and non-family firms

Global: five year average fundamentals

Valuation metrics	Family-owned index	Large-caps	Mid-caps	Small-caps
EBIT margin %	15.7	12.0	8.2	6.8
DY (UBS) %	2.1	2.9	2.5	2.5
RoE (UBS) %	15.9	13.0	9.5	5.5
Gearing (UBS) %	22.3	41.1	53.8	55.8

Asia Ex Japan: five year average fundamentals

Valuation metrics	Family-owned index	Large-caps	Mid-caps	Small-caps
EBIT margin %	17.2	8.9	7.4	5.0
DY (UBS) %	1.7	2.9	2.5	1.9
RoE (UBS) %	16.2	12.8	9.6	5.4
Gearing (UBS) %	27.0	25.2	46.9	75.2

Europe: five year average fundamentals

Valuation metrics	Family-owned index	Large-caps	Mid-caps	Small-caps
EBIT margin %	10.6	8.5	6.8	10.6
DY (UBS) %	4.0	2.9	2.4	4.0
RoE (UBS) %	11.7	10.2	5.8	11.7
Gearing (UBS) %	44.3	48.6	20.6	44.3

Source: UBS estimates

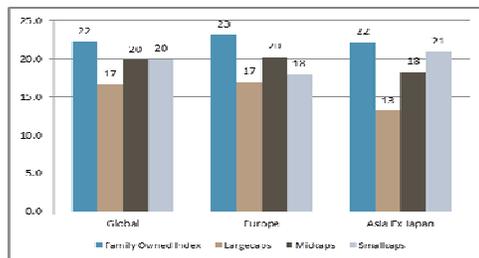


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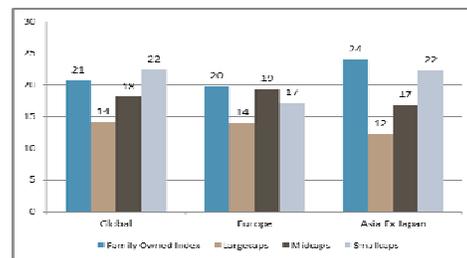
## Valuations – a small premium seems justified

- Family firms currently trade at a 10-30% valuation premium over Midcaps/Largecaps on a P/E basis. However, it seems that family-owned companies are trading broadly in line with their historical multiples, at around 21x P/E.

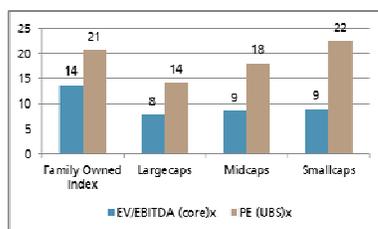
Current P/Es



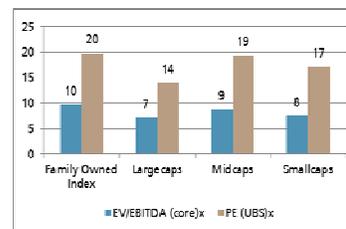
Historical P/Es – five year average



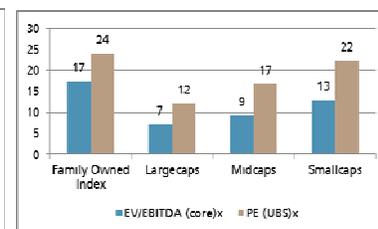
Global – historical five-year valuations



Europe – historical five-year valuations



Asia Ex Japan – historical five-year valuations



Source: UBS estimates



## Disciplined governance is king and queen

- Markets seem to have under-priced both the growth and risk associated with public companies that have founding families as major shareholders. Our proprietary analysis suggests that family-owned Small and Midcaps have consistently outperformed their respective indices
- We believe floated family firms have generally passed the risks of the initial founding phase and have the advantage of stable shareholders with long-term value-creation strategies
- Based on governance areas that we believe drive outperformance (such as transparency, board succession, shareholder rights and remuneration), our analysts ranked close to 250 family-owned Small and Midcap companies globally to identify those with the best corporate governance

Smallcap corporate governance – UBS ranking criteria

Area of governance	Scoring criterion
Transparency and access	Communication of financial targets to investors
	Willingness of senior management to meet investors
Board	Quality, representation and risks to minority representation
	Director shareholdings
Succession	Management independence from controlling family
	Visibility of succession
Capital allocation	Sticking to core business
	Returning excess cash to shareholders
Shareholder rights	Motivation of controlling group/management
	One-share, one-vote
Remuneration targets	Absence of anti-takeover provisions
	Track record on treatment of minorities
Total	Alignment with long-term shareholder value-creation
	Track record of maintaining targets

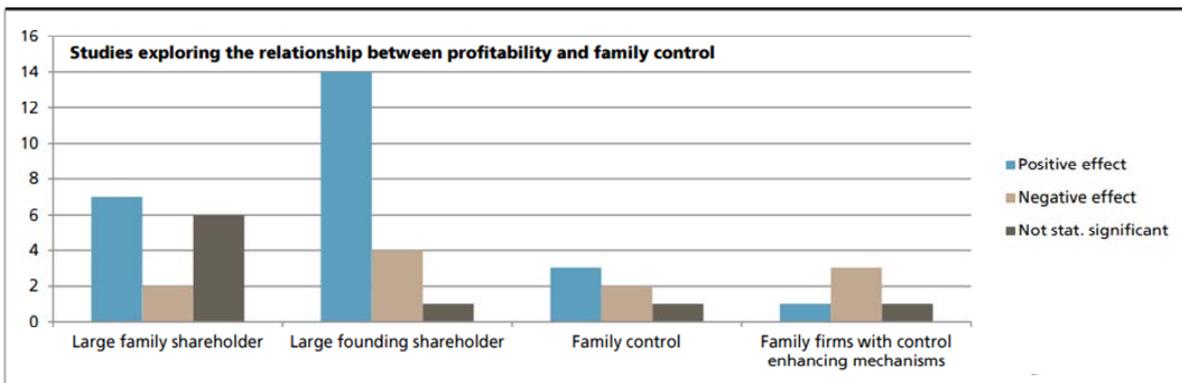
Source: UBS



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## Academic research is aligned with our findings

- Family businesses seem to outperform their peers on profitability metrics
- We believe floated family firms have generally passed the risks of the initial founding phase and have the advantage of stable shareholders with long-term value-creation strategies
- Based on governance areas that we believe drive outperformance (such as transparency, board succession, shareholder rights and remuneration), our analysts ranked close to 250 family-owned small and midcap companies globally to identify those with the best corporate governance



Source: EDHEC Business School – *Family firms and performance: where do we stand?* (September 2014)

Source: UBS

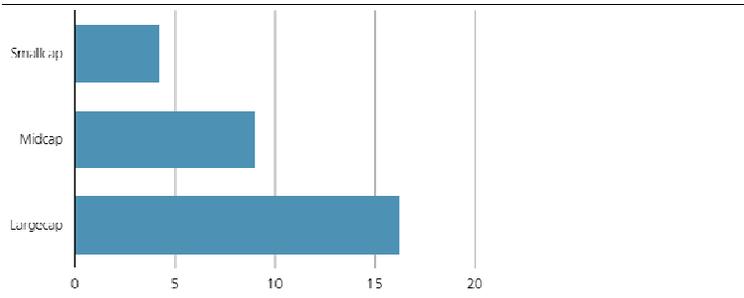


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# Alpha generation potential as Smallcaps are undercovered

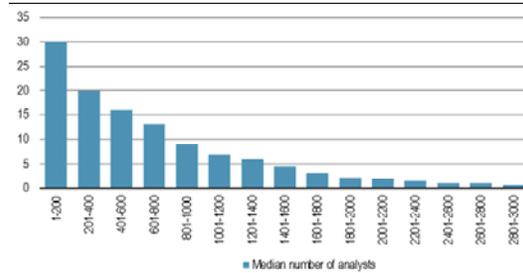
- Smallcaps/Midcaps have fewer analysts covering them

Average number of sell-side analysts by market capitalisation



Source: Bloomberg. Note: The data reflects the average number of sell-side analysts assigned to large-cap stocks with a market capitalisation of more than €5bn, midcap stocks with a market capitalisation between €1.5bn and €5bn, and smallcap stocks with a market capitalisation between €200m and €1.5bn from a database of 3,000 European companies. We have adjusted the numbers to reflect distant coverage factors.

Median number of analysts – in deciles

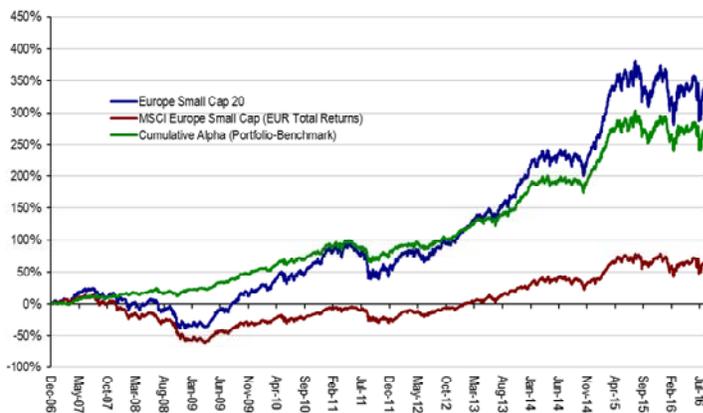


Source: Bloomberg. Note: From a database of 3,000 European companies, ranked by ascending order of market capitalisation and then divided at regular intervals of 200 companies.



# UBS European Top 20 performance

- UBS European Top 20 Smallcaps has consistently created alpha



Portfolios	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 Y-T-D
Europe Small Cap 20	7.52%	-38.10%	89.15%	46.82%	-10.89%	29.28%	49.54%	14.43%	27.66%	-0.75%
MSCI Europe Small Cap (EUR Total Returns)	-7.51%	-51.87%	59.56%	30.35%	-17.12%	27.54%	33.91%	6.83%	23.95%	-3.04%
Spread Between Portfolio and Benchmark ( $\alpha$ )	15.03%	13.76%	29.59%	16.46%	6.23%	1.75%	15.62%	7.60%	3.70%	2.29%

Source: Abacus Analytics, Inc. MSCI



Note: The indicated performance returns are based on capital appreciation, excluding dividends and transaction costs such as commissions, fees, margin interest and interest charges. Actual transactions adjusted for such transaction costs will result in reduced total returns. Prices of stocks in this performance reflect closing prices. Since its inception on 29 December 2006, the portfolio has had 407 stocks, of which 244 advanced and 163 declined while on the list. A complete record of all the recommendations upon which the report is based is available from UBS upon written request. Past performance is not an indication of future results.

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## Valuation Method and Risk Statement

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There are risks in investing in equities and smallcaps may entail high specific risks linked to external factors such as the macro performance, financial risk, country risk and specific stock risks that could be subject to uncertain returns.

The risks of investing in European family-owned companies include specific risks relating to each company as well as generic risks such as macroeconomic impact, sovereign risk in the European union, exposure to emerging markets, financial risk, etc. On top of that, family-owned companies can face risks related to large shareholder treatment of minority shareholders, liquidity risks, and risks related to conflicts of interests.

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12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
<b>Buy</b>	FSR is > 6% above the MRA.	47%	32%
<b>Neutral</b>	FSR is between -6% and 6% of the MRA.	38%	25%
<b>Sell</b>	FSR is > 6% below the MRA.	15%	21%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
<b>Buy</b>	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
<b>Sell</b>	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 June 2016.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
<b>Anicom Holdings</b>	8715.T	Buy	N/A	¥2,497	29 Sep 2016
<b>City Developments Limited</b>	CTDM.SI	Buy	N/A	S\$8.95	28 Sep 2016
<b>CK Hutchison Holdings<sup>7, 16</sup></b>	0001.HK	Buy	N/A	HK\$99.35	28 Sep 2016
<b>CyberAgent</b>	4751.T	Buy	N/A	¥2,981	29 Sep 2016
<b>Ebro Foods</b>	EBRO.MC	Buy	N/A	€20.42	28 Sep 2016
<b>Feng Tay</b>	9910.TW	Buy	N/A	NT\$144.50	28 Sep 2016
<b>Ferrovial<sup>4</sup></b>	FER.MC	Buy	N/A	€18.31	28 Sep 2016
<b>Fuchs Petrolub SE</b>	FPEG_p.DE	Buy	N/A	€40.65	28 Sep 2016
<b>GFT Technologies</b>	GFTG.DE	Buy	N/A	€18.56	28 Sep 2016
<b>Grandvision</b>	GVNV.AS	Buy	N/A	€25.00	28 Sep 2016
<b>Hexpol AB</b>	HPOLb.ST	Buy	N/A	SKr77.20	28 Sep 2016
<b>Hikari Tsushin</b>	9435.T	Buy	N/A	¥9,430	29 Sep 2016
<b>Hyundai Mobis</b>	012330.KS	Buy	N/A	Won284,000	28 Sep 2016
<b>Man Wah Holdings</b>	1999.HK	Buy	N/A	HK\$5.35	28 Sep 2016
<b>Melia Hotels<sup>5, 7</sup></b>	MEL.MC	Buy	N/A	€11.23	28 Sep 2016
<b>Moncler Spa</b>	MONC.MI	Buy	N/A	€15.20	28 Sep 2016
<b>Nine Dragons Paper</b>	2689.HK	Buy	N/A	HK\$7.19	28 Sep 2016
<b>Ratos</b>	RATOb.ST	Buy	N/A	SKr40.31	28 Sep 2016
<b>Sartorius AG</b>	SATG_p.DE	Neutral	N/A	€74.16	28 Sep 2016
<b>SCA</b>	SCAb.ST	Buy	N/A	SKr256.50	28 Sep 2016
<b>SEB</b>	SEBF.PA	Buy	N/A	€124.75	28 Sep 2016
<b>Seria</b>	2782.T	Buy	N/A	¥7,900	29 Sep 2016
<b>SFS Group AG<sup>6</sup></b>	SFSN.S	Buy	N/A	CHF77.35	28 Sep 2016
<b>Trelleborg AB</b>	TRELB.ST	Buy	N/A	SKr165.10	28 Sep 2016
<b>UOL Group</b>	UTOS.SI	Buy	N/A	S\$5.64	28 Sep 2016

Source: UBS. All prices as of local market close. Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date.

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12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
<b>Buy</b>	FSR is > 6% above the MRA.	47%	32%
<b>Neutral</b>	FSR is between -6% and 6% of the MRA.	38%	25%
<b>Sell</b>	FSR is > 6% below the MRA.	15%	21%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
<b>Buy</b>	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
<b>Sell</b>	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 June 2016.

1:Percentage of companies under coverage globally within the 12-month rating category.

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<b>City Developments Limited</b>	CTDM.SI	Buy	N/A	S\$9.11	29 Sep 2016
<b>CK Hutchison Holdings<sup>5, 16</sup></b>	0001.HK	Buy	N/A	HK\$99.70	29 Sep 2016
<b>CyberAgent</b>	4751.T	Buy	N/A	¥2,981	29 Sep 2016
<b>Ebro Foods</b>	EBRO.MC	Buy	N/A	€20.42	28 Sep 2016
<b>Feng Tay</b>	9910.TW	Buy	N/A	NT\$142.00	29 Sep 2016
<b>Ferrovial<sup>2, 4</sup></b>	FER.MC	Buy	N/A	€18.31	28 Sep 2016
<b>Fuchs Petrolub SE</b>	FPEG_p.DE	Buy	N/A	€40.65	28 Sep 2016
<b>GFT Technologies</b>	GFTG.DE	Buy	N/A	€18.56	28 Sep 2016
<b>Grandvision</b>	GVNV.AS	Buy	N/A	€25.00	28 Sep 2016
<b>Hexpol AB</b>	HPOLb.ST	Buy	N/A	SKr77.20	28 Sep 2016
<b>Hikari Tsushin</b>	9435.T	Buy	N/A	¥9,430	29 Sep 2016
<b>Hyundai Mobis</b>	012330.KS	Buy	N/A	Won282,000	29 Sep 2016
<b>Man Wah Holdings</b>	1999.HK	Buy	N/A	HK\$5.20	29 Sep 2016
<b>Melia Hotels<sup>5, 7</sup></b>	MEL.MC	Buy	N/A	€11.23	28 Sep 2016
<b>Moncler Spa</b>	MONC.MI	Buy	N/A	€15.20	28 Sep 2016
<b>Nine Dragons Paper</b>	2689.HK	Buy	N/A	HK\$7.38	29 Sep 2016
<b>Ratos</b>	RATOb.ST	Buy	N/A	SKr40.31	28 Sep 2016
<b>Sartorius AG</b>	SATG_p.DE	Neutral	N/A	€74.16	28 Sep 2016
<b>SCA</b>	SCAb.ST	Buy	N/A	SKr256.50	28 Sep 2016
<b>SEB</b>	SEBF.PA	Buy	N/A	€124.75	28 Sep 2016
<b>Seria</b>	2782.T	Buy	N/A	¥7,900	29 Sep 2016
<b>SFS Group AG<sup>5</sup></b>	SFSN.S	Buy	N/A	CHF77.35	28 Sep 2016
<b>Trelleborg AB</b>	TRElb.ST	Buy	N/A	SKr165.10	28 Sep 2016
<b>UOL Group</b>	UTOS.SI	Buy	N/A	S\$5.68	29 Sep 2016

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