The Norwegian Family Entreprise Analysis 2019

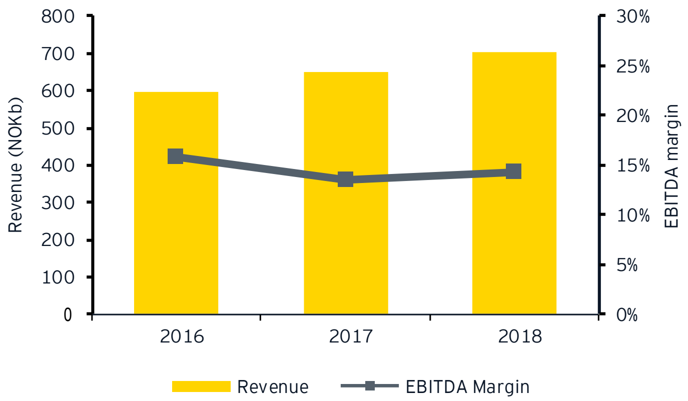
Introduction

We are pleased to present the first edition of EY's review of the Norwegian family businesses. In this edition, we focus on the businesses' financial performance, contribution to the society's welfare, and gender diversity from global and local perspectives.

A study from 2015 shows that approximately 70% of Norwegian limited-liability companies are family-owned, where more than half the equity is owned by individuals related by blood or marriage up to the fourth degree of kinship.[1] In this report, a family business is defined as a company in which a family is a significant shareholder, and has significant influence in the company.

Most of the family-owned businesses are small- and medium-sized, and some of them are among the largest in Norway. We have studied a selection of 37 of the largest family-owned businesses, with a focus on financial performance, contribution to the welfare community and gender diversity from global and local perspectives.

Selection of Norwegian family businesses, aggregated revenues for 2016–18



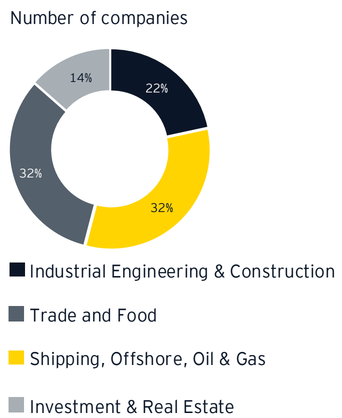
Selection criteria

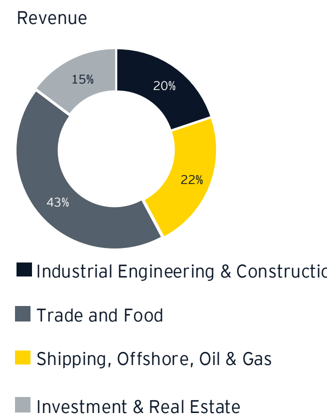
We have selected 37 of the largest companies in Norway based on revenue, where one or several families are significant shareholders and have ability to influence from a control perspective.

Segment composition

The companies are divided into the following four segments:

- Trade and food
- Industrial engineering and construction
- Investments and real estate
- Shipping, offshore and oil and gas





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The family-owned companies account for a significant share of the Norwegian economy, and keep local communities and our country running and thriving. The society will benefit from a regulatory framework that encourages entrepreneurship, risk appetite and the development of family-owned companies.

Eirik Moe
EY Nordic Family Business Leader

Key findings from the segment analysis

Our key findings from the segment analysis are summarized for each segment below. Overall, the 37 family businesses are keeping pace with their competitors in an increasingly competitive environment.

Trade and food

This segment comprises twelve companies. The trade and food segment is characterized by financial stability, and in our analysis, we have included some of the largest family-owned businesses in Norway. A stable underlying demand and limited competition from foreign e-commerce players contribute to a CAGR of 4% for revenue during the period, 2016–18. This is the lowest of the segments included in this analysis and approximately represents population growth and inflation. The EBITDA margin of 11% has been stable during the last three years.

An average liquidity ratio of 1.6 and an equity ratio of 52% are at the higher end compared to the family companies within the other segments.

There are no significant differences between profitability, liquidity and solvency compared to the non-family companies. This indicates that the financial performance is mainly driven by the industry and not based on the ownership model. However, our analysis includes only the top 37 firms based on revenue. The other analyses covering smaller firms indicate a higher profitability within family firms compared to non-family ones.

Industrial engineering and construction

This segment includes eight companies. The majority of the revenue within this segment is B2B and often based on tendering processes, putting significant pressures on margins.

Revenue has shown a stable growth over the period 2016–18 with a CAGR of 9%. However, margins are declining, with an average EBITDA margin of 8% for the three-year period. The family businesses have lower margins compared to non-family companies within this segment. However, liquidity and equity ratios are significantly higher in the family firms. The average liquidity ratio of 1.7 is also on the higher end compared to family firms within the other segments.

Investments and real estate

Five companies have been included from this segment. Investments and real estate have experienced significant growth in terms of valuation over the last three years. Both the OSEBX (benchmark index) and the OSE60GI (real estate index) at Oslo Børs have increased by more than 40% from 2016 to 2018. Revenues within this sector have been steadily increasing with a CAGR of 10% and an EBITDA margin of 14% in FY16–FY18.

This segment is capital-intensive and the equity ratio of 42% is therefore at the lower end compared to the other segments.

Our analysis indicates no significant differences in profitability and equity ratio between family business and non-family business within this segment. However, the non-family firms outperform the other with regard to liquidity.

Shipping, offshore, oil and gas

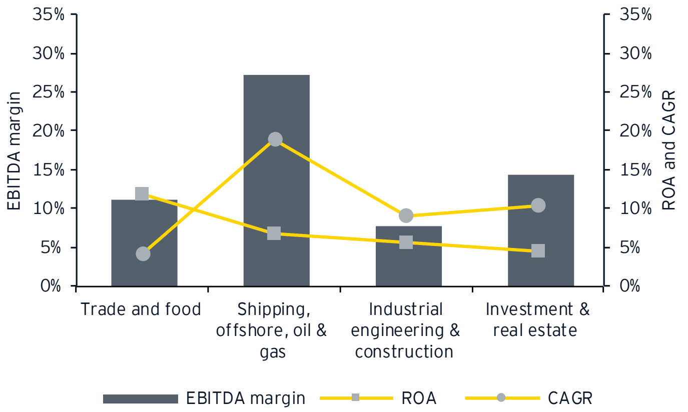
This segment is characterized by higher volatility compared to the others, being driven by its dependency to the world economy and the energy markets. Our analysis includes twelve companies within this segment.

The price of oil has increased significantly from 2016 to 2018 and this has had a positive impact on this segment.

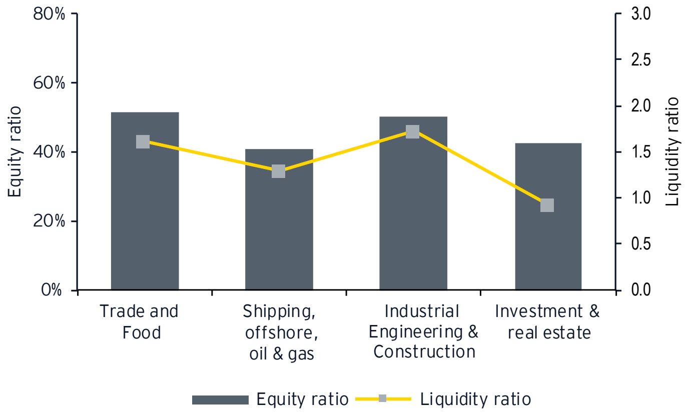
From FY16 to FY18, there was an increase in revenue with a CAGR of 19%. Margins also picked up with an average EBITDA margin of 27%. Liquidity levels has been stable around 1.2 and the equity ratio was 41% due to the segment being relatively capital-intensive.

In FY18, the non-family business had significantly higher EBITDA margin compared to the non-family firms. However, there were no major differences in ROA. Please also keep in mind that the non-family average is highly influenced by a few major companies (e.g., Equinor). The liquidity and equity ratios are significantly higher in the family firms.

Key financials (average values for 2016-18)



Liquidity and solvency (average values for 2016–18)



Trade and food

About the segment

The twelve family companies included in the segment are some of the largest in Norway.

The top three largest family companies are:

1. Norgesgruppen
2. Reitangruppen
3. Orkla

Segment highlights

Revenue from trade and food had a CAGR of 4%, while other key figures had a stable growth during the analysis period, 2016–18. The 2018 key figures have been compared to competing non-family companies in the table below.

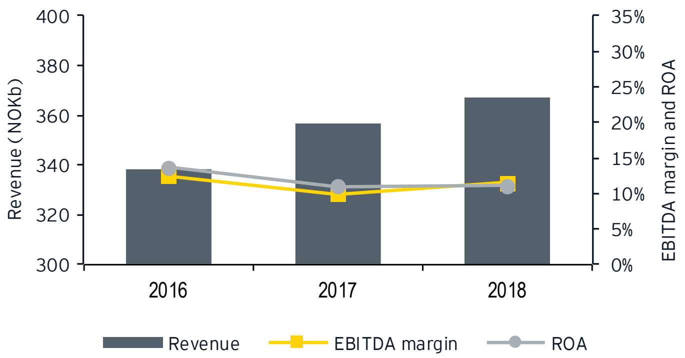
Key figures	Family	Non-family
EBITDA margin	11%	12%
ROA	11%	13%
Liquidity ratio	1.6	2.0
Equity ratio	53%	49%

We have not identified any significant differences between the family firms and the non-family firms. This indicates that the results are mainly driven by the industry and not by the ownership of the company.

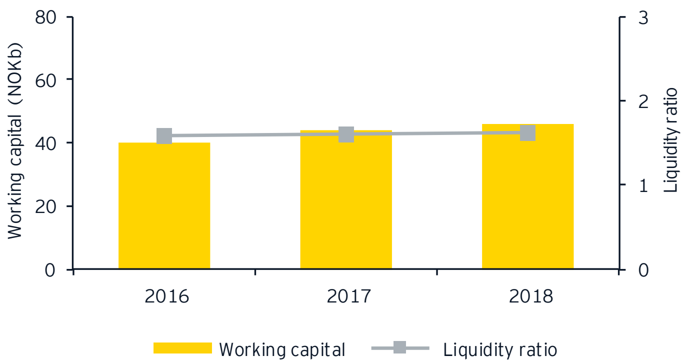
Contribution taxes

The twelve family-owned businesses had a total revenue of NOK367b and total EBT of NOK28.5b in 2018. They contributed with direct and indirect taxes of NOKb 18.7, comprising NOK5.2b in social security tax, NOK8.6b in employee taxes, and NOK4.9b in corporate tax. To put this into perspective, this corresponds to the same amount as the Norwegian government's plan to spend on cash benefits for parents of young children (Kontantstøtte) and child benefits (Barnetrygd) in 2020.

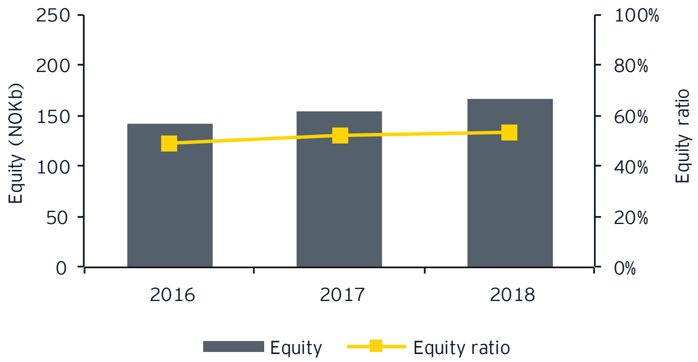
Key financials



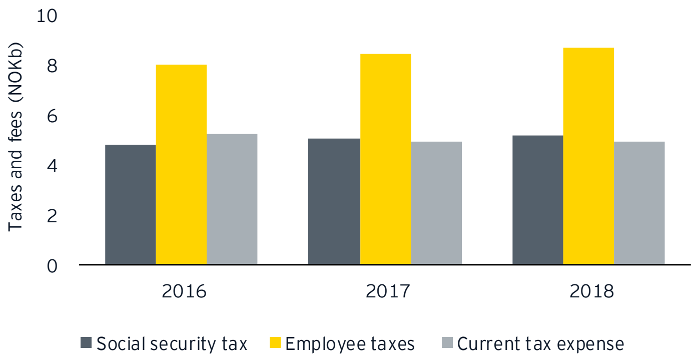
Liquidity analysis



Solvency analysis



Taxes



Industrial engineering and construction

Trade and food | Industrial engineering and construction | Investments and real estate | Shipping, offshore and oil and gas

About the segment

The segment of industrial engineering and construction includes eight companies. Even though the overall segment has been growing during 2016–18, the larger companies in this segment have experienced volatility in revenue.

The top three largest family companies in this segment are:

1. Aker Solutions
2. AF Gruppen
3. Jotun

Segment highlights

The revenue from industrial engineering and construction grew by 8% in 2018, with a CAGR of 9% from 2016 to 2018.

Key figures	Family	Non-family
EBITDA margin	7%	9%
ROA	5%	7%
Liquidity ratio	1.7	1.5
Equity ratio	50%	38%

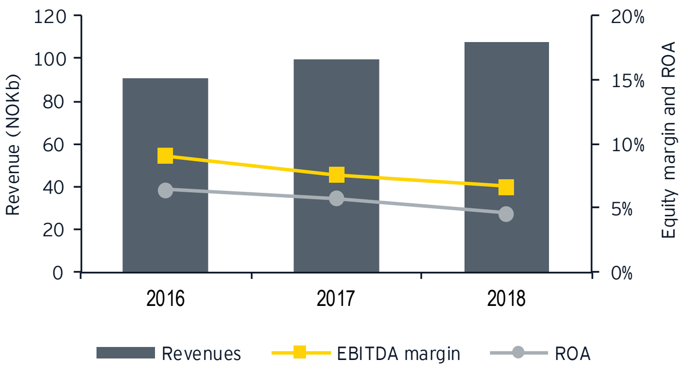
Our analysis shows that non-family firms are slightly outperforming the family firms. Smaller companies also tend to outperform the larger ones. The non-family firms include all firms with revenue above NOK500m in 2018, while the family firms include only the eight largest firms.

The family firms have significantly less debt than the non-family firms in this segment.

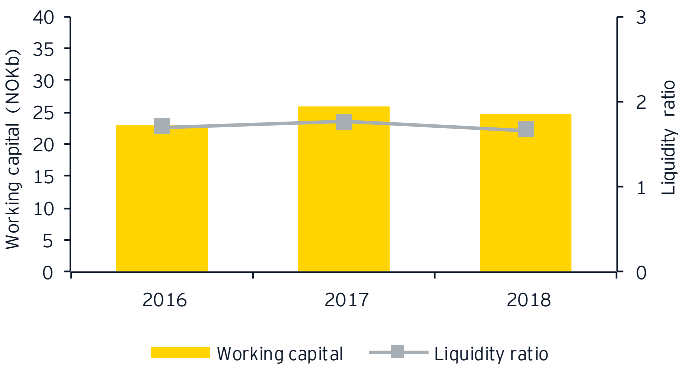
Contribution taxes

The total contribution of direct and indirect taxes from these eight firms amounted to NOK8.8b, comprising NOK3.1b in social security tax, NOK5b in employee taxes, and NOK0.7b in current tax expenses.

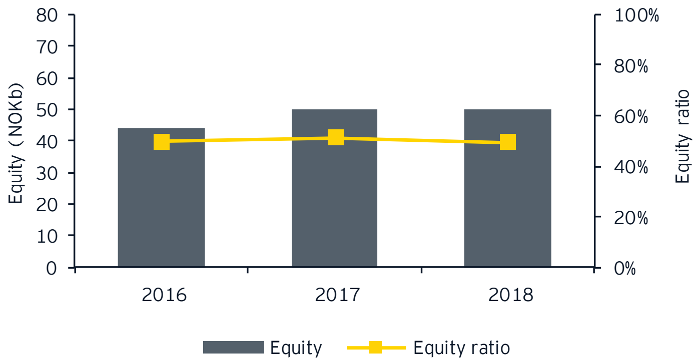
Key financials



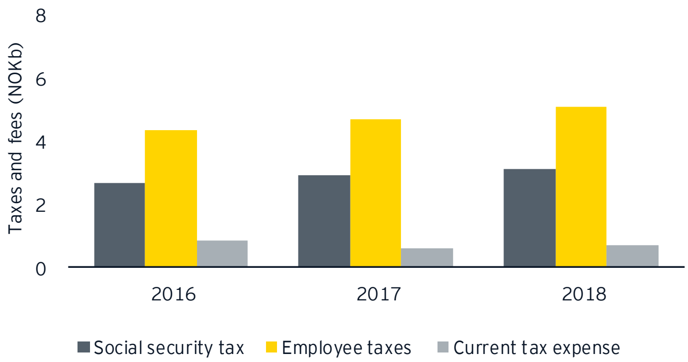
Liquidity analysis



Solvency analysis



Taxes



Investments and real estate

Trade and food | Industrial engineering and construction | **Investments and real estate** | Shipping, offshore and oil and gas

About the segment

Five companies in our analysis operate within the investments and real estate segment. They all have an ownership concentration over 50%.

The top three largest family companies are:

1. Kistefos
2. Olav Thon Gruppen
3. Nordic Choice Hospitality Group

Segment highlights

The revenue from investments and real estate have a CAGR of 10%.

Key figures	Family	Non-family
EBITDA margin	16%	17%
ROA	6%	7%
Liquidity ratio	0.9	1.3
Equity ratio	43%	40%

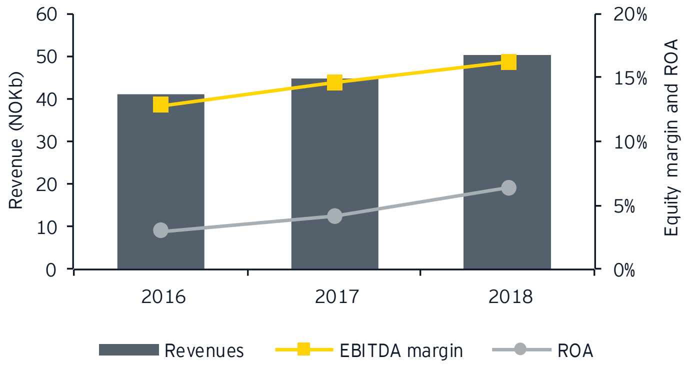
We have not identified any significant differences between family and non-family firms.

Contribution taxes

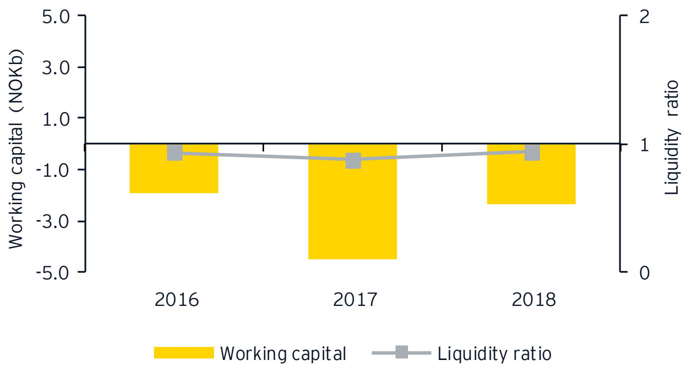
The five family-owned businesses have a total revenue of NOK50b and total earnings before taxes of NOK7.3b in 2018.

The total contribution with direct and indirect taxes and fees amounted to NOK4.3b, comprising of NOK1.7b in social security tax, NOK2.2b in employee taxes, and NOK0.5b in current tax expenses.

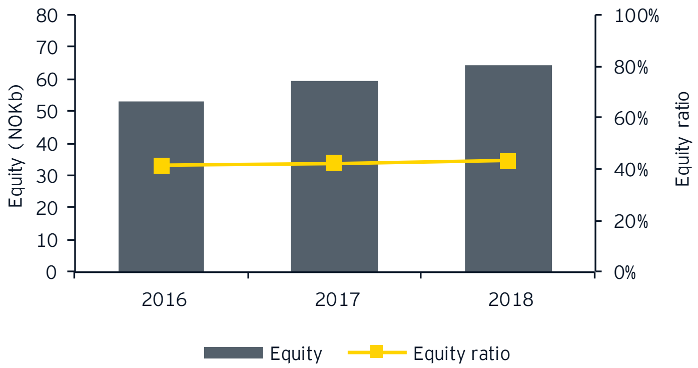
Key financials



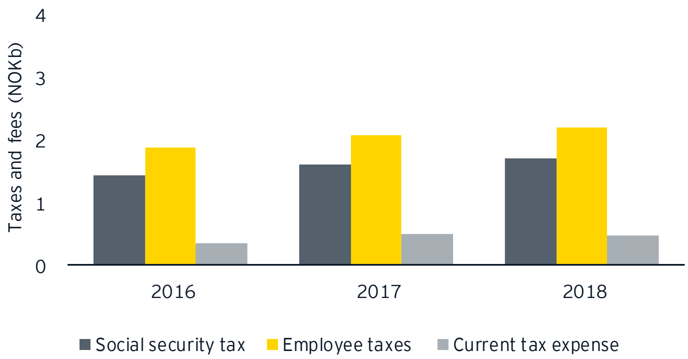
Liquidity analysis



Solvency analysis



Taxes



Shipping, offshore, oil & gas

Trade and food | Industrial engineering and construction | Investments and real estate | **Shipping, offshore and oil and gas**

About the segment

Twelve family companies operate within the shipping, offshore and oil and gas segment. This sector is more volatile compared to the others due to its dependency on oil price and world economy. 8 out of 12 have a family ownership below 50%, which may indicate that investors within this segment prefer diversification.

The top three largest family companies are:

1. Aker BP
2. Subsea 7
3. Wallenius Wilhelmsen

Segment highlights

The revenue from shipping, offshore and oil and gas recovered after some challenging years and had a CAGR of 19%, an increase from NOK124.8b in 2016 to NOK176.6b in 2018

Key figures	Family	Non-family
EBITDA margin	25%	30%
ROA	8%	8%
Liquidity ratio	1.2	0.9
Equity ratio	41%	31%

From the above comparison, one can get the impression that that the non-family companies had higher profitability and lower equity ratio than the family firms.

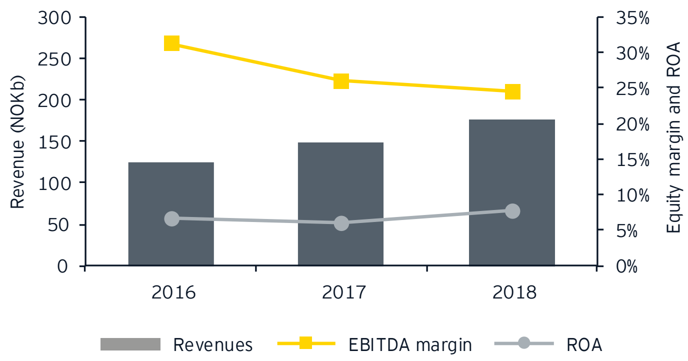
However, the non-family EBITDA margin was 26%, if we exclude the largest non-family firm (Equinor), which had an EBITDA margin of 37% in 2018.

Higher debt increases the risk of the equity. The activity level within this segment has been volatile and it seems that the family-owned firms have better reasons to limit their firm's risk, and therefore, incur less debt compared to the non-family firms.

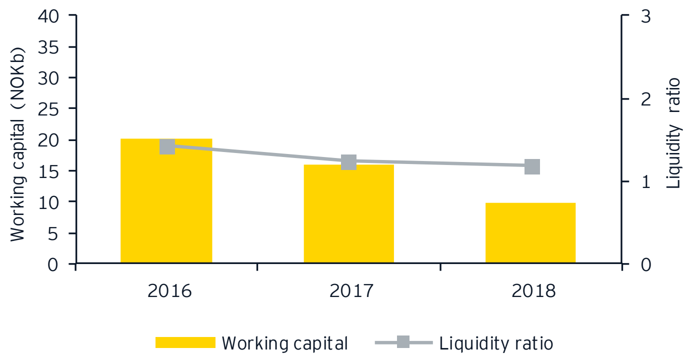
Contribution taxes

The total contribution with direct and indirect taxes amounted to NOK15.3b, comprising NOK3.3b in social security tax, NOK5.9b in employee taxes, and NOK6.2b in current tax expenses.

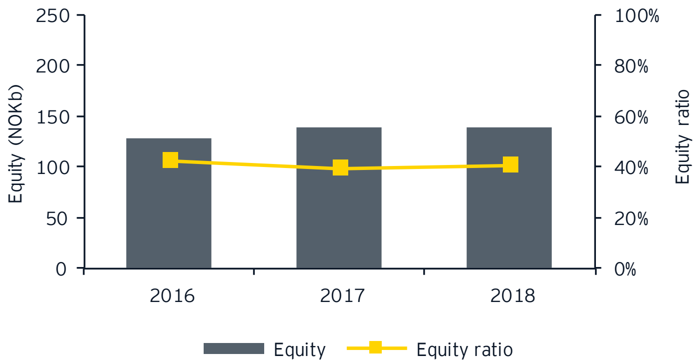
Key financials



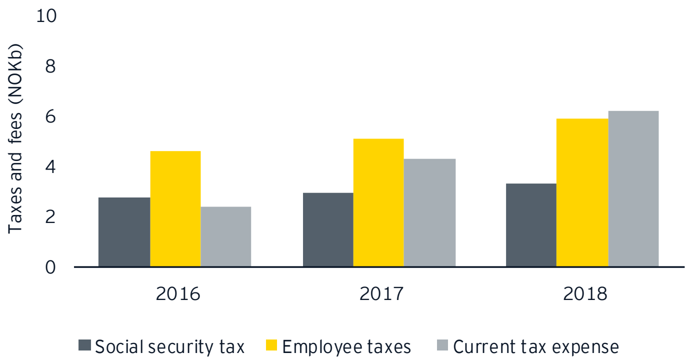
Liquidity analysis

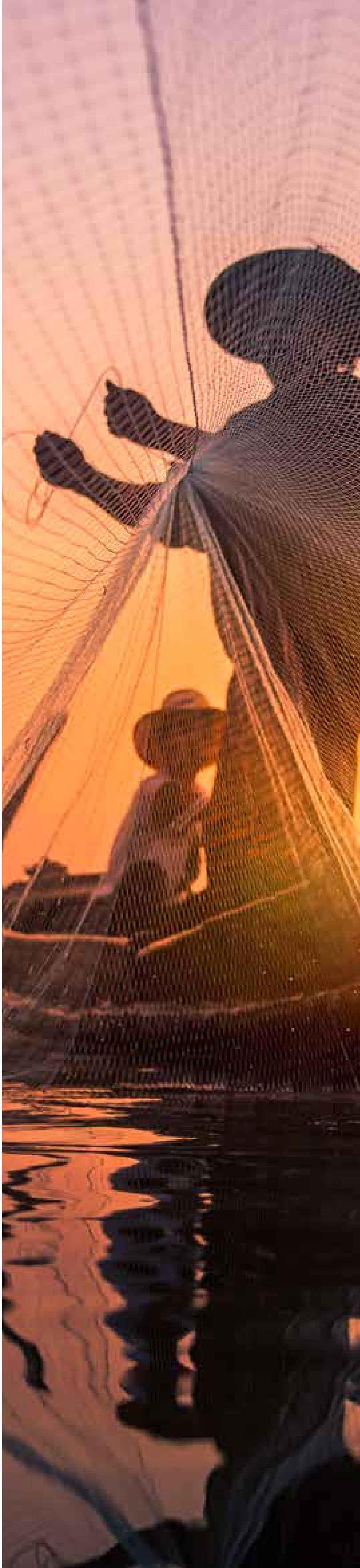


Solvency analysis



Taxes





Family businesses – Importance in Norwegian economy

A cornerstone of society

The selected 37 family-owned firms had a total revenue of NOK701b and total EBT of NOK57b in 2018.

The corporate tax contributions amounted to NOK12.2b. Further, the salary expenses, excluding social security tax, amounts to NOK93b, which generates approximately NOK13.2b in social security taxes. All together, the family-owned businesses in our analysis have contributed a total of NOK25.4b in corporate tax and social security tax in 2018. Further, we estimate that these companies employ approximately 170,000 people on an assumed average monthly salary of NOK 45 610.[2] A tax rate of 24%[3] generates tax on salary of NOK21.7b. Together with the companies' direct tax contribution, the family businesses in this analysis have contributed NOK47.1b in taxes in 2018.

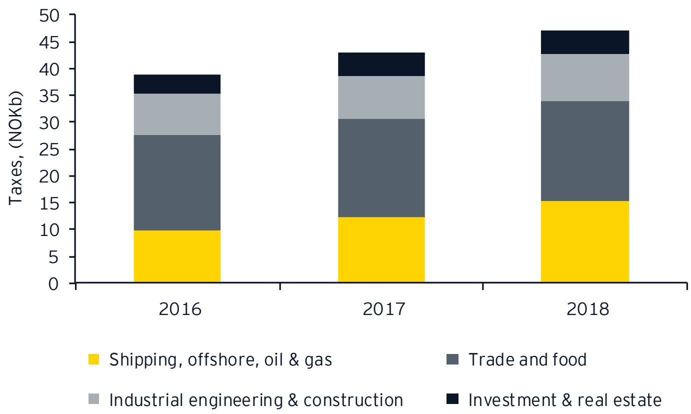
If we include the VAT that the companies pay, the total amount would be significantly higher. VAT alone can be estimated to be above NOK50b for these entities.

This high-level analysis illustrates the importance of family-owned businesses to their community. These companies make up for a significant share of the Norwegian economy and are an essential resource for our welfare community. In our analysis, we have excluded the tax on divided and wealth tax payments.

The debate regarding wealth tax has many different aspects. The total tax contribution for the 37 family businesses in our analysis amounted to NOK 47.1b and is above three times the total wealth tax in Norway. We believe this is an interesting perspective, and shows the importance of a regulatory framework, which encourages entrepreneurship, risk appetite and the development of privately owned companies.

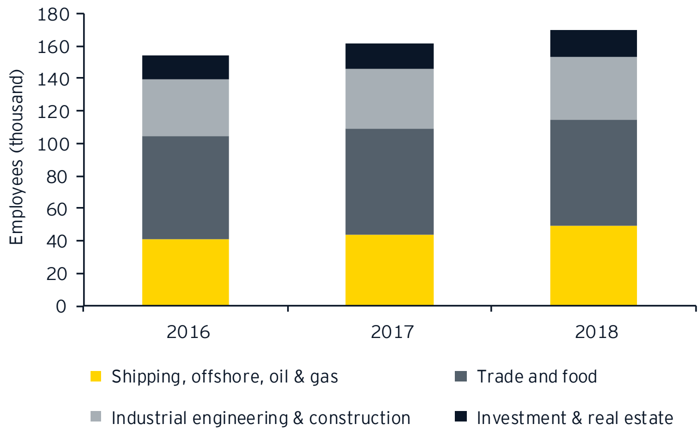
With drive, enthusiasm and good stable regulatory framework, existing and new family-owned companies will achieve growth, new jobs will emerge, and history will be created. Through the Entrepreneur Of The Year® program, we celebrate the unstoppable entrepreneurs whose unbounded ambitions deliver innovation, growth and prosperity that transform our world.

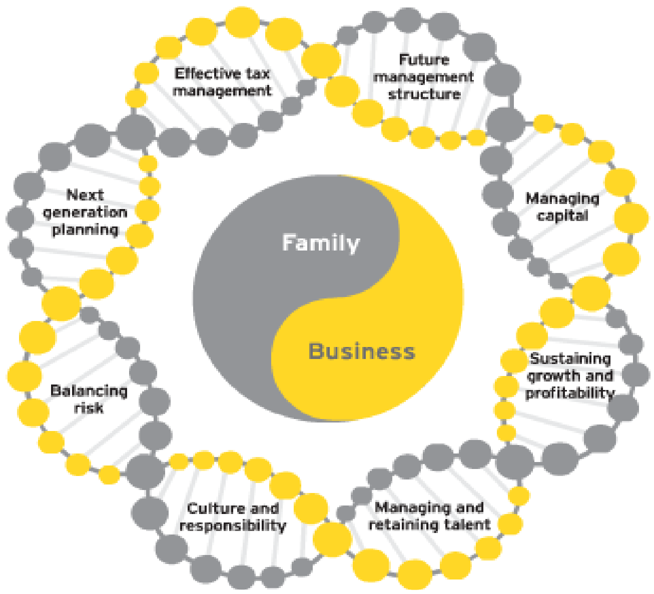
Taxes and fees



2. Source: ssb.no
3. Source: regjeringen.no

Employees


Employees (thousand)
180
160
140
120
100
80
60
40
20
0
2016
2017
2018
Shipping, offshore, oil & gas
Trade and food
Industrial engineering & construction
Investment & real estate


Effective tax management
Future management structure
Managing capital
Sustaining growth and profitability
Managing and retaining talent
Culture and responsibility
Balancing risk
Next generation planning
Family
Business

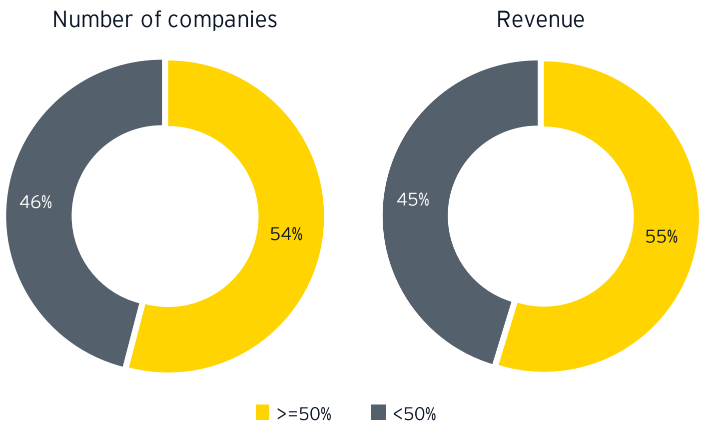
Analysis of ownership size

As our analysis for the period, 2016-18, includes family companies that have both direct and indirect controlling ownership, we wanted to examine if there are any differences or trends between them.

The companies in this analysis are, therefore, divided by their ownership size and not segment composition.

Ownership composition

The ownership composition is summarized in the chart below, both by the number of companies and size by revenue



As many as 20 of the 37 companies have an ownership concentration over 50%, while the remaining 17 have a controlling ownership below 50%.

14 of the 17 companies with family ownership below 50% fall in the industrial engineering and construction and shipping, offshore and oil and gas segments. This indicates that the families exposed to this segment prefer to limit their firm's risk, and therefore priorities diversifying their investments

Profitability

In the chart to the right, we see that the family firms with ownership over 50% have significantly higher revenue compared to those with ownership below 50%. On the other hand, EBITDA margins are higher for companies with family ownership below 50%. However, these companies mostly operate within the shipping, offshore and oil and gas industries, which have higher EBITDA margins (asset heavy) compared to other segments.

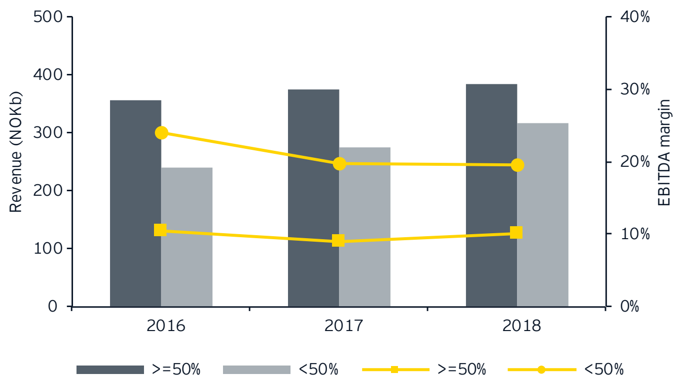
For ROA, the ownership structure seems to have no impact as the average return is 8% for both groups.

Liquidity and solvency

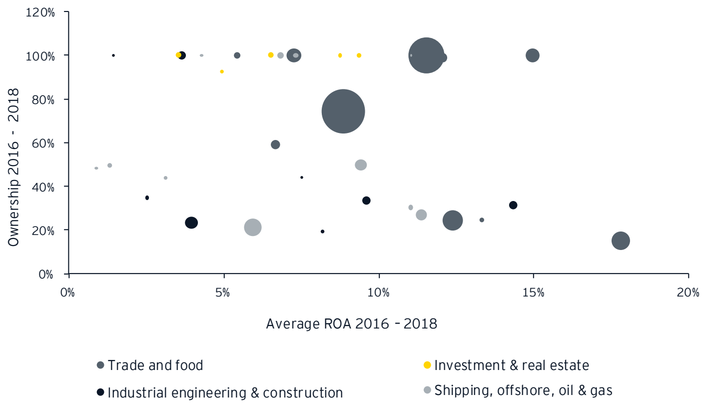
From a liquidity and solvency perspective, we do not see any major differences between the two groups. On average, liquidity is 1.4 for the period, 2016-18.

As stated previously, there is a high level of equity financing in family companies. Based on our comparison, the equity ratio for ownership over 50% and below 50% is on average 44% and 45%, respectively.

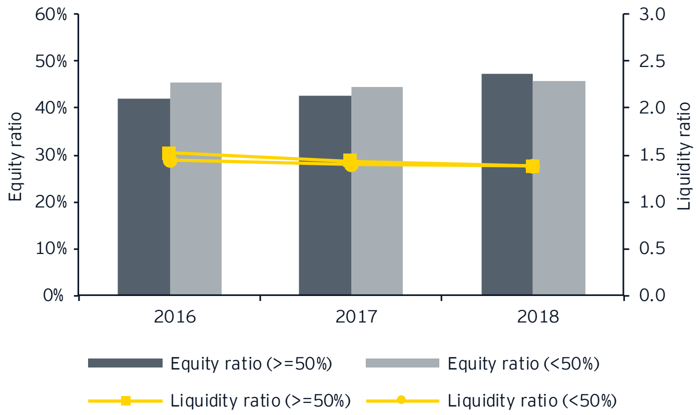
Key financials comparison



Bubble chart of ROA development (bubble size by average sales 2016-18)



Liquidity and solvency comparison



Gender diversity in the family business

Global and local perspective

Global perspective

The 2019 third edition of the EY and University of St. Gallen Global Family Business Index[2], which ranks the world's 500 largest family-owned companies by revenues, provides significant insights into the world's largest family-owned businesses.

For the first time since its publication, data has been included on board composition and the chief executive officer (CEO) profile

Board composition

Results from the Global Family Business Index show that in existing firms, more that 27% of board directors are family members, whereas for new entrants into the index this year, it is only 22%.

Family members operating in their company's boards are overwhelmingly male, with just under 23% of boards comprising male family members compared to 5% female family members. However, for new entrants, we see that 7% of the board members are women.

In the 2018 EY Global Family Business Survey, in which 525 of the world's largest family businesses were included, the overall board membership (including non-family members) comprised 16% women, a 20% increase from the 2014 survey. This suggests that family businesses have potential for improvement at harnessing female talent from outside at the highest executive levels.

CEO profile

More than half (55%) of the CEOs in the 2019 index are non-family men, reflecting an increasing professionalization of the management of the world's largest family businesses, with 42% run by a male family member. New entrants in this year's index are more likely to be led by a family member, with 56% having a family CEO.

However, only 3% of the index have a woman CEO, out of which nine are drawn from the family and eight from outside. New entrants are marginally more likely to have a female CEO (4% compared to 3% in existing companies), but the numbers are too small to show any significant trend.

Interestingly, diversity may be an area where smaller companies are more progressive. In the 2018 EY Growth Barometer survey of some 400 middle-market family businesses, family-owned firms were significantly more likely, at 9%, than non-family firms, at 3%, to have a female CEO.

Local perspective

From a local perspective, we have performed the same analysis as in the Global Family Business Index.

Information on board composition and CEO profile from the 37 family business has been obtained from the standalone financial statements of individual legal companies in 2018.

Information is publicly available at the Brønnøysund Register Center.

Board composition

Results from the Global Family Business Index show tResults from our analysis of the 37 family businesses show that 76% of the board of directors are male and 24% female. However, if we exclude the public-listed entities, which are subject to statutory requirements regarding representation of both sexes in the board, only 15% of board directors are female.

2.ey.com/growthbarometer/familybusiness

More than 23% of the board of directors are family members, which is below the global index of 27%. Family members operating in their company's boards are overwhelmingly male, with 19% of boards comprising male family members compared to 4% of female members.

This may indicate, as in the global index, that Norwegian family businesses are better at harnessing both male and female talent from outside the family than they are from engaging family members at the highest executive levels.

CEO profile

The CEO profile is male-dominated as out of the 37 family businesses, a total of 92% of CEOs are male, with only 8% being female.

A significant majority (76%) of the CEOs are non-family men, reflecting the same as in the global index. Some of the largest Norwegian family firms focus on the professionalization of the management.

However, out of the 8% female CEOs, two were recruited from the family, while one was recruited from outside. This may indicate that it is more difficult for outside females to obtain a CEO position in some of the largest family businesses in Norway.

We must emphasize that the sample size is too small to be representative, and further analysis on a larger population should be performed.

Methodology

Data collection

In order to analyze financial figures for family businesses, we have gathered information from standalone financial statements of individual legal companies for the fiscal years 2016-18. Accounting information is publicly available from the Brønnøysund Register Centre.

We have used group figures, which implies that parts of revenue and other key volumes might, to some extent, affect countries other than Norway.

For the companies which have a functional currency other than NOK, the figures have been converted to NOK.

Segments

Many of the identified companies offer products and services in more than one segment. However, in this analysis, each company is linked to only one segment based on its main activity. This simplification could result in segments being overstated or understated compared to the actual total. For larger industrial conglomerates with multiple subsidiaries, each entity is allocated to its respective best-fit segment.

Definitions

EBITDA = Earnings before interest, taxes, depreciation and amortization

CAGR = Compound annual growth rate

Calculations

$$\text{EBITDA margin} = \frac{\text{EBITDA}}{\text{Revenue}}$$

$$\text{ROA} = \frac{\text{Earning before taxes + financial costs}}{\text{Average assets}}$$

$$\text{Liquidity ratio} = \frac{\text{Current assets}}{\text{Current debt}}$$

Liquidity ratio = Current assest - current debt

$$\text{Equity ratio} = \frac{\text{Equity}}{\text{Total debt and equity}}$$

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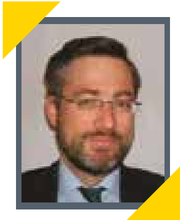

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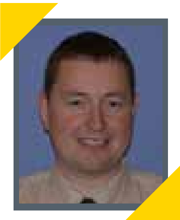

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