

**Boodle
Hatfield.**

Family Business

The third pillar of the UK economy

2020/21



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Family businesses have formed the backbone of our economy and have been firmly engrained in society for centuries. Due to the very nature of their ownership, no two businesses are the same. They are characterised by relationships rooted between the company and the family over generations. Unlike other corporate configurations, the family is the defining element that acts as the “glue” binding consumers, creators and employees together. These businesses need protection and appreciation and are very different to the global, publicly owned behemoths that dominate much of the headlines and our day-to-day existence.

Throughout this report, we reflect on some of the most successful UK family businesses and how Britain can ensure these entities remain strong contributors to economic growth as we look ahead, following the effects of the Covid-19 pandemic.



Hayden Bailey, Partner



Introduction

Family businesses are a fast-growing and increasingly important part of the UK economy. We believe they should now be recognised as the 'third pillar' of UK enterprise, along with listed companies and private equity-backed companies.

In this report, we will look in greater depth at Britain's Top 100 family businesses, find out who they are, and how they are built. We'll also look at how Britain can ensure its family businesses remain a vital contributor to economic growth as we build back stronger from the COVID-19 pandemic.

We used an analysis of company accounts to find the Top 100 businesses by turnover where at least 50% of the equity is owned by an individual, a group of related individuals or a family trust.

The resulting group of companies is as diverse as it is impressive. The businesses included range from those formed in the 19th century and now in the hands of the fifth generation of family shareholders, to entrepreneurial businesses still run by their original founders.

Britain's Top 100 family businesses now employ over 750,000 people

The term 'family business' may for some, erroneously conjure, images of a small business, but our analysis of Britain's Top 100 family businesses shows they now employ 756,000 people* – more than the working-age populations of Manchester and Liverpool combined. Eighteen of the Top 100 each employ more than 10,000 people across sectors as diverse as leisure, retail, manufacturing and recruitment.

Britain's Top 100 family businesses are all very substantial enterprises. All have an annual turnover of at least £500m, while the largest had revenues of more than £16bn last year.

Some are household names – brands familiar to generations of people in Britain and beyond, like Warburton's, JCB and William Grant & Sons. Others have had meteoric rises in the last 20 years, such as Ineos, EG Group and Boparan Holdings.

* based on company reports filed in 2019/20

We at Boodle Hatfield have been working with the UK's leading family businesses for the entirety of our 299-year history. We believe the attributes that have made family businesses such a vital part of the economy are also the reason why they tend to attract relatively little attention. In many cases they aim for sustainability of growth rather than just profit. A few have quietly honed their business models gradually over hundreds of years.

How quickly are British family businesses growing?

Despite their long-term outlook, the Top 100 family businesses are anything but passive and slow-moving. Our research found that they grew their total turnover 13% from £138bn to £158bn in the financial year ending 2020, far outstripping the 0.1% turnover growth of the FTSE 100 over the same period.

Turnover of Top 100 family businesses rises 13% in a year

How have these family-owned businesses managed to grow so quickly? Long-termism is one of the biggest reasons. Their focus on sustainable growth over generations means that when the time comes to invest for the future, family shareholders understand that they may need to limit their dividends at least temporarily to fund CAPEX and other organic growth.

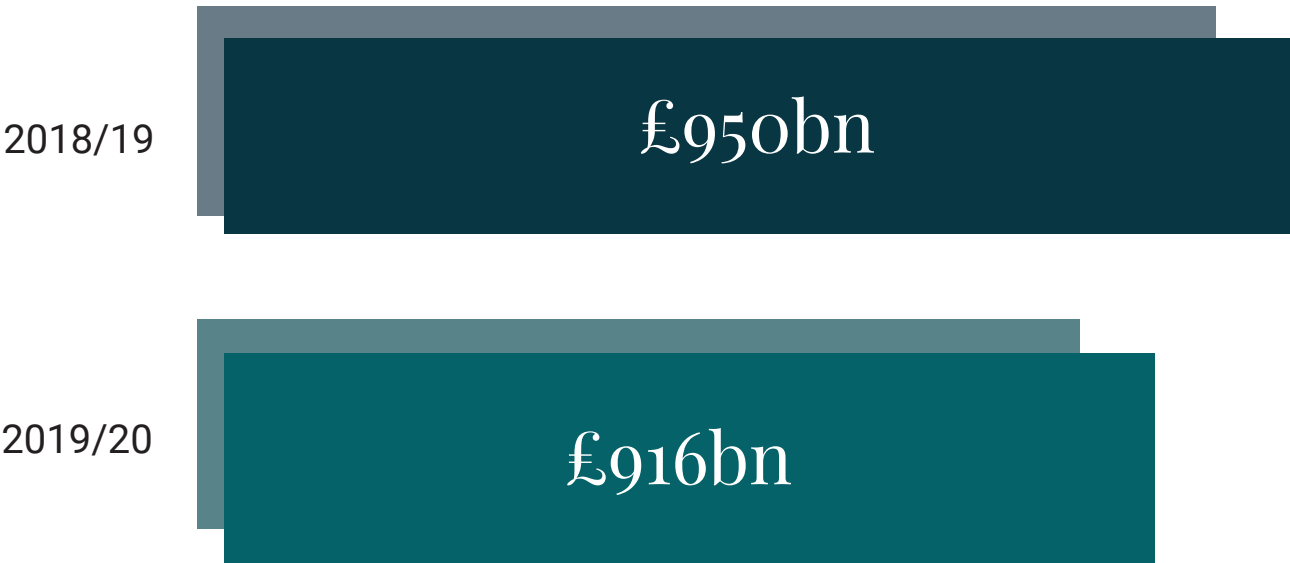


How much do family shareholders take in dividends from their businesses?

Our research found the Top 100 family businesses paid out just 13% of their profits as dividends to shareholders in 2019/20, compared to 67% for FTSE 100 businesses. Dividends paid to shareholders by the Top 100 family businesses also fell by 4% in 2019/20 compared to 2018/19.

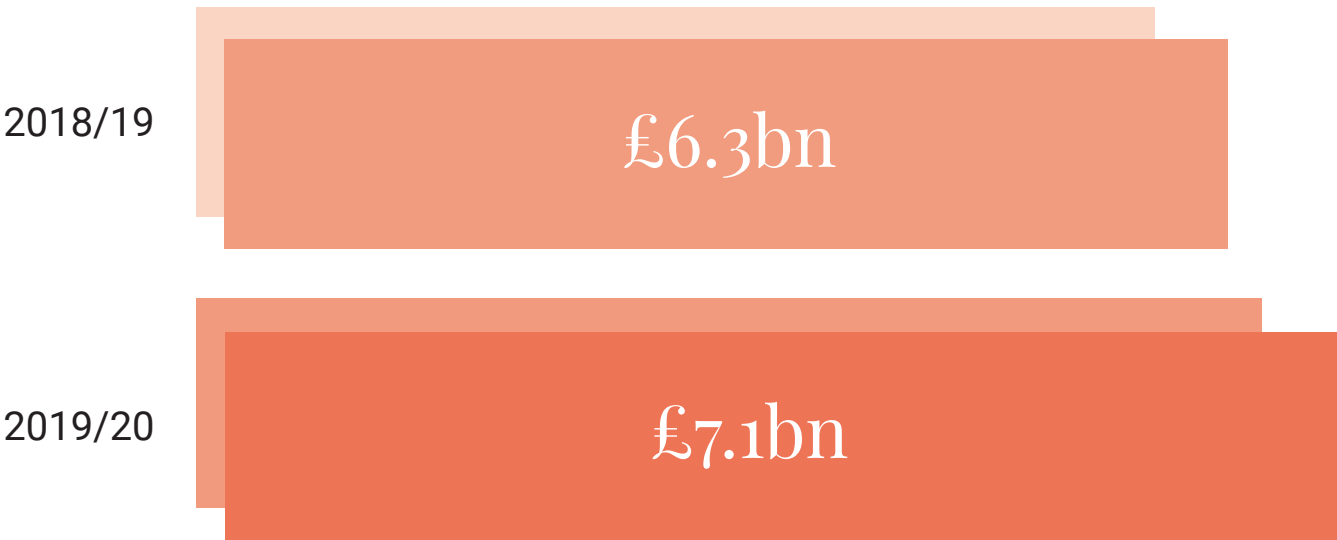
In most cases, family shareholders are understanding about the need to forgo dividends particularly in times of economic uncertainty. Many will know that their parents and grandparents did the same thing in previous generations. That gives family businesses the financial muscle to invest and grow. Listed businesses, by comparison, must deal with much greater pressure from shareholders to maintain and grow dividends.

Dividends paid by family businesses fall as firms look to invest in growth



The fall in dividends paid came despite a 13% year on year increase in profits, demonstrating the freedom family shareholders have to convert profits into longer-term value creation rather than short-term shareholder payouts. Close family control and supervision can also enable the business to weather events such as the Covid-19 pandemic.

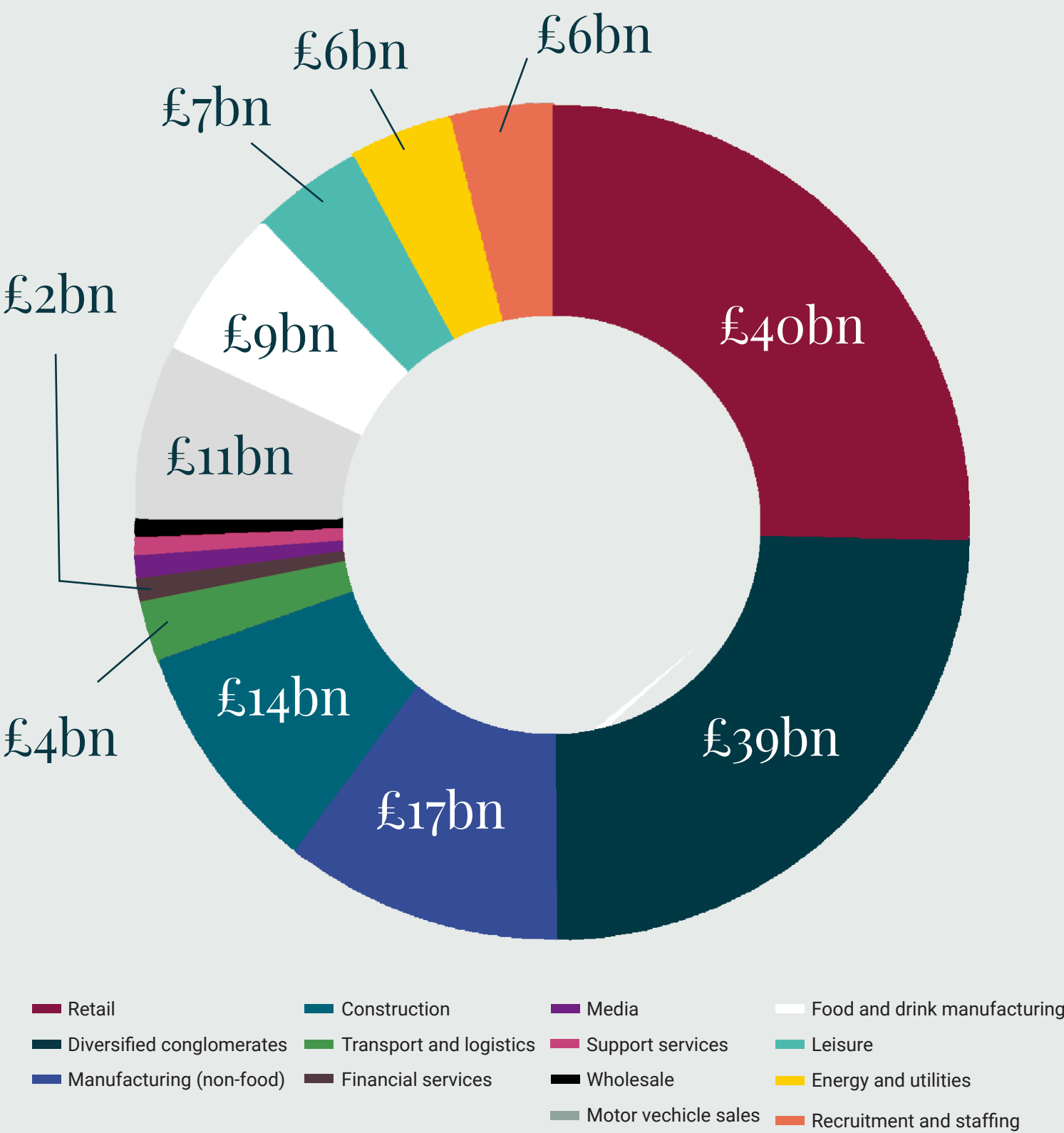
Top 100 family business profits rise 13% year on year



Which sectors do Britain's Top 100 family businesses operate in?

While there is certainly a diversity of industrial sectors among Britain's Top 100 family businesses, there are a few industries where family businesses are particularly prevalent.

The Top 100 family businesses – total turnover broken down by sector



Construction

The construction industry is one sector with a long history of family-run businesses playing a major role. Some of the UK's largest construction businesses are still owned by their founders or their heirs – Laing O'Rourke, Wilmott Dixon and the Wates Group are all examples. Sixteen of the Top 100 family businesses operate in the construction sector, with a combined turnover of £14.2bn last year. The challenges inherent in such a cyclical sector mean that experience is particularly valuable in building a sustainable construction business. Family ownership and the buildup of institutional knowledge may confer advantages here.

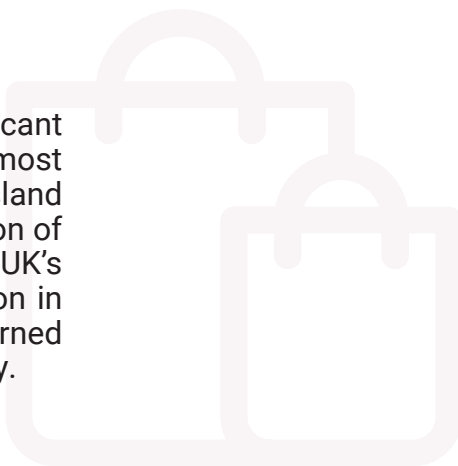


Manufacturing

While the manufacturing sector overall makes up 16 of the Top 100 family business, it is interesting to note that eight of that group are food and drink manufacturers. Manufacturers in the Top 100 turned over a total of £26.3bn last year, of which £9bn was contributed by food and drink. Whisky distillers William Grant & Sons and food group Boparan Holdings are among the larger companies in this group, along with several major grain, fruit and seafood businesses.

Retail

Retail is another sector where family-owned businesses are a significant part of the industry. Many are unaware that some of the UK's most familiar high street names are still family-run: Specsavers, River Island and Lush are among them. Few will have missed the 2020 acquisition of the Asda supermarket chain by EG Group, which is now one of the UK's biggest family businesses, having grown from a single petrol station in 2001. Retailers make up 20 of the Top 100 family businesses, and turned over a combined £40.3bn last year – the largest industry in our study.



The 'diversified conglomerate'

The concept of the 'diversified conglomerate' – a group made up of separate businesses operating across several different industries – is one that has fallen out of favour among listed businesses over recent decades. Many diversified listed groups have sold or spun off business units they came to see as 'non-core' to their operations. Among family businesses however, the diversified conglomerate is still an established part of the landscape.

Nine of the Top 100 family businesses are diversified conglomerates, turning over a combined £38bn annually. This makes them the second-largest industry in our study. In some cases it is easy to see how the industries represented in a single group are aligned and function together. For example, Bibby Line began purely as a shipping business, but expanded into offering financial services to its shipping customers and distribution by road. Others, such as Bestway, have diversified inorganically – adding a cement manufacturer and a bank to its core wholesale and retail businesses.

The importance of diversification for family businesses

The diversification of family businesses, however it is achieved, is intentional. As well as the objective benefits of diversification, such as 'smoothing' of revenues, our experience at Boodle Hatfield is that it is often the result of generational transitions in family businesses.

As the next generation takes control of a family business, it is common to find that their passion may not be in the existing business's core market. If they wish to run a new business in a different industry, family shareholders will often make the new venture part of the existing group. That business may be separated from the group at a later date.

What can be done to protect Britain's family businesses?

With family businesses being such an economically significant sector and employing such a large number of people, it is important that the government continues to support them and does not make changes to the law that could penalise them. Allowing family businesses to pass between generations intact, without suffering capital taxation that would make them unviable is fundamental to their ongoing prosperity. Business Property Relief is an Inheritance Tax ('IHT') relief that allows trading businesses to be passed on without a 40% IHT charge on death of the shareholder.

As we aim to build back stronger from the Covid-19 pandemic, there is a broad understanding that the Treasury will need to recoup some of the public outlay on schemes like furlough that were so vital in keeping businesses afloat through 2020. However it is important that we avoid breakups and selloffs given the three quarters of a million people who work for the Top 100 family businesses alone.

For family businesses to prosper through the generations, it is essential that both their corporate and family governance are given proper attention. Family businesses fail when the expectations of the next generation have not been managed and the older generation do not make plans for succession early enough. All families grow over the generations and family businesses therefore need good governance procedures in place and be clear which members of the family will take the business forward into the future.

Boodle Hatfield advises family businesses and their owners on their governance, succession strategies and taxation so that protocols and policies are in place to ensure the smooth transition of family ownership between generations.



Family Business at Boodle Hatfield

Practical, innovative advice since 1722.

At Boodle Hatfield we have been guiding the owners of many of these important businesses through the generations.

For a business to span generational boundaries requires long term vision and a shared understanding of the family history, values and agreed objectives. We understand businesses inside and out, and we know the nuances – problems, challenges and opportunities. We also understand that changes in dynamics – relationships changing, divorce, and family disputes – can have an unwanted impact on the business if not managed carefully.

Our team helps family businesses determine the best strategy for them. Every family is different and there is no right answer to succession planning - but we work as a team to discreetly pool our experiences so that our clients are informed on current trends and practice - what works and what may not. Our clients then make decisions in the knowledge of what is possible and what others have done.

Running a business is as rewarding as it is challenging and balancing the day-to-day with thinking for the future is crucial.

How we help

- Safeguarding the business
- Structuring the business
- Establishing an appropriate forum for shareholder engagement
- Family governance
- Succession planning
- Planning for a sale
- Resolving disputes
- Philanthropy & corporate social responsibility
- Taxation & relevant tax reliefs, for the business & individual shareholders

Our Legal Experts



Hayden Bailey

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Hayden has particular expertise in working with business owners to create a blueprint for successful succession and family governance. With over 20 years' experience as a lawyer and chartered tax adviser, he is adept in guiding families, aligning interests and expectations across multiple generations.



Andrea Zavos

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Andrea specialises in advising the owners of family businesses in complex, high value disputes both domestically and internationally. Andrea is aware that family relationships are often at stake and approaches the resolution of disputes with that in mind.



Richard Beavan

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Richard has been advising businesses and their owners as corporate & commercial lawyer since 1998. He acts for entrepreneurs, investors, owner-managed companies, family businesses and management teams.



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Andrew's practice covers all aspects of commercial real estate, but with a particular emphasis on development and investment projects for family offices, landed estates, and other private capital entities.



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Katie advises clients with complex wealth structures both in the UK and abroad. Where the majority of the wealth is tied up in a family business it raises issues not only about the value of the company but also the ways in which funds can be extracted from it to buy out one spouse's interest.



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Simon's practice covers a broad range of commercial litigation including disputes around contracts, family businesses, employment, real estate and shareholders. Simon also has specialist knowledge of art law and art litigation.

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