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An independent view of the world

Insights

Entrepreneurship in a challenging world

Content

Select Contributors

DONG CHEN
Chief Asia Strategist and Head of Asia Research
Pictet Wealth Management

HONORA DUCATILLON
Head of Family Advisory
Pictet Wealth Management

MICHAEL DUSS
Head of Private Banking, Lausanne
Pictet Wealth Management

ALESSANDRA LOSITO
Head of Pictet Wealth Management Italy

Introduction

FRANÇOIS PICTET
Managing Partner
Pictet Wealth Management

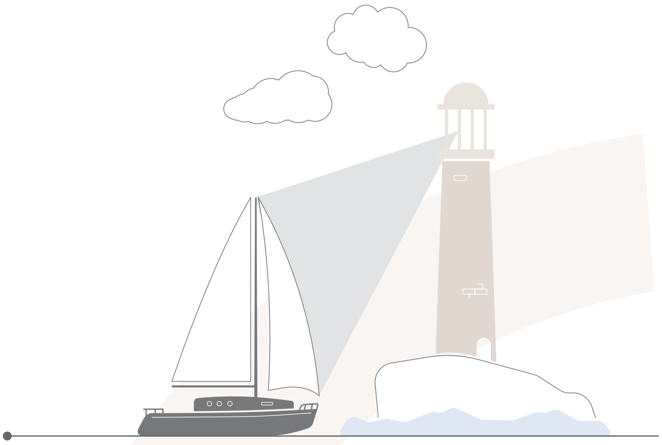
On the face of it, this is not an easy time to be an entrepreneur. Inflation has put pressure on many businesses' margins and on central banks to keep interest rates higher for longer. Those higher rates, and a refocus in the banking sector on bolstering balance sheets, have subdued the market for lending and, in turn, meant higher financing costs for businesses. In addition, rising geopolitical stresses are resulting in trade barriers and de-globalisation, complicating the business environment.

Is it all doom and gloom? Far from it. For nimble entrepreneurs, these macro challenges, extending further to climate change issues, present opportunities. Business owners are seizing on the trends of increased sustainability and accelerating digitalisation to provide solutions across the economy.

In this edition of PWM Insights, we look at how – with the right support – entrepreneurs can successfully navigate the entire business lifecycle, from the conception of innovative solutions right through to an exit from their business and the redeployment of assets. We delve into funding options, examine how successful businesses are able to exercise pricing power, look at the growing trend in global mobility, and shine a light on how business-owning families keep their entrepreneurial spirit alive between generations.

As an entrepreneur myself, I am excited to see more business owners navigate today's challenging environment to make their mark, to thrive and to create their own legacy.

The life-cycle of entrepreneurship



01

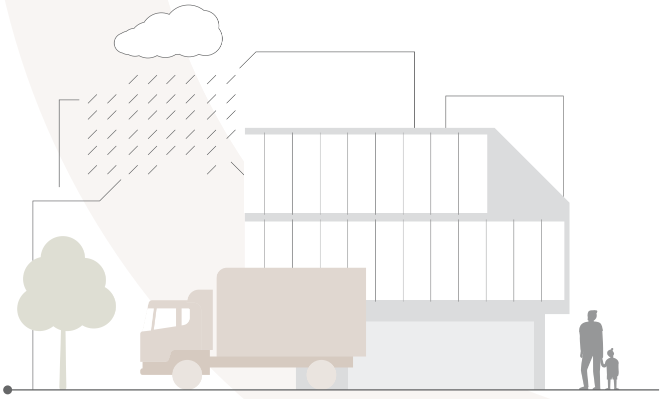
The light bulb moment

An idea develops into a business proposition, to offer a service or product. A more serious business plan starts to take shape.

02

Financing

To make the idea happen, the entrepreneur needs some funding – whether from a bank or another source.



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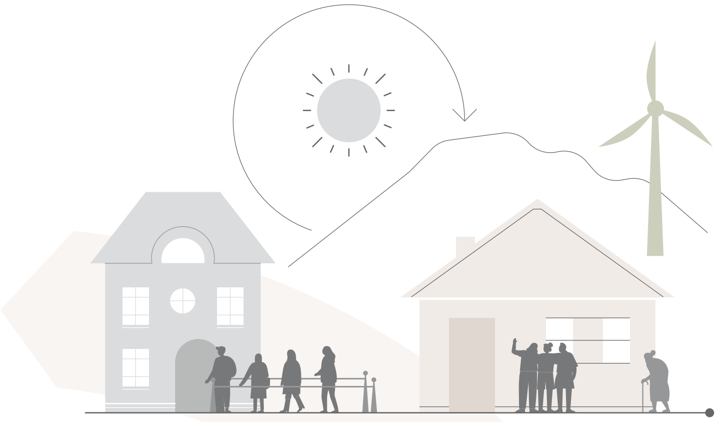
Challenges

Securing the financing may be tricky, and in today's turbulent environment businesses face other challenges. These include geopolitical tensions (which may result in re-location of the business, or part of it) and/or increased costs.

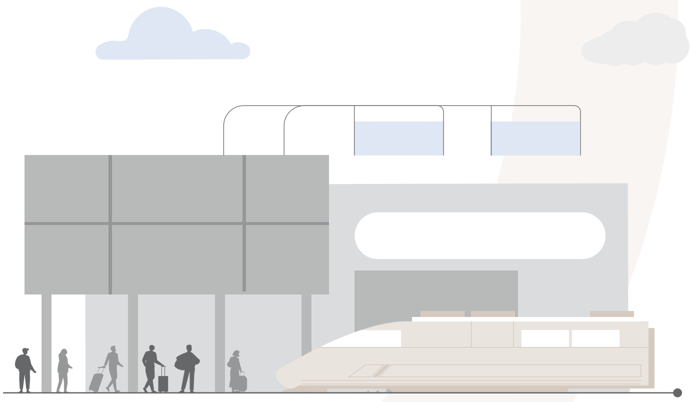


07
Legacy

With their wealth 'freed up' after the sale of the business, the owner-turned-investor may wish to give back to society, either by committing some assets to responsible investing, or by pursuing philanthropic ambitions.

06
Liquidity events

Once the business is strong, the entrepreneur might choose to crystallise its value by selling all or part of the company. This opens new possibilities and makes the realised wealth available for new ventures and ideas – such as innovative start-ups, Small and Medium Sized Entreprises (SMEs), and investments in the 'real' economy.



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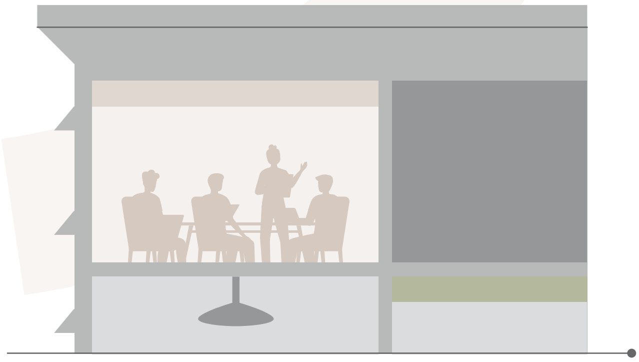
Global mobility

In today's uncertain world, global mobility has become big business and multiple governments are competing to attract entrepreneurs and their capital in return for residency status.



04
Success

Even in difficult times, entrepreneurs with a commanding business proposition can offer their customers and clients a unique product or service that creates and justifies price premia.

A shore thing: entrepreneurship and geopolitical change

Trade is becoming more concentrated within regions, stimulating activity in home and 'near-shore' markets.

PASCAL DE CROUSAZ, PhD
International Relations Specialist
Pictet Wealth Management

"It was the best of times, it was the worst of times." The opening line of Charles Dickens' 1859 novel, *A Tale of Two Cities*, can usefully be borrowed to describe the global business environment today. On the one hand, geopolitical tensions between world powers and within regions have brought to an end the era of benign globalisation: trade barriers are rising, and global supply chains have become longer and less secure.

> "Trade is becoming more concentrated within regions and the re-location of production is stimulating business activity in home and 'near-shore' markets."

On the other hand, the new period of 'friend-shoring', 'de-risking' and 'self-reliance' is throwing up fresh opportunities: trade is becoming more concentrated within regions and the re-location of production is stimulating business activity in home and 'near-shore' markets. In the years to come, entrepreneurs will do more business in their own regions, rather than between regions, or with countries that share similar values to their own.

We are living through a change of era. Globalisation began to slow in 2008, hit by the fallout from the financial crisis, before the slowdown became more severe over the last five years as geopolitical tensions grew. These increased tensions have gone hand in hand with a rise in impediments to the free flow of goods and capital: around 3,000 trade restricting measures were imposed in 2022 – nearly 3 times the number imposed in 2019[1].

The shift in global trading patterns is entwined with today's changing geopolitical landscape – the latest of three post-World War Two periods of international and trade relations. In the first phase, the world quickly settled into the Cold War, which was fairly predictable. Even if there was an ideological divide between East and West, with some non-aligned states in between, there was a minimum amount of dialogue and trust between powers. Financial markets knew that any international crisis would be de-escalated to keep the 'war' cold rather than turning hot, the price of which would have been mutually assured destruction. During the Cuban Missile Crisis of October 1962, the S&P500[2] dropped about 7 percent (in USD), which was mostly recovered by the time Khrushchev blinked.

In the second phase, the Cold War was followed by a period from 1990 to around 2008 during which the US was the sole guarantor of world peace and international free trade. A sense that Western liberal values had triumphed led to hopes that there would be no more major wars, as empirical evidence shows liberal democracies do not fight each other. As if to strengthen this theory, China joined the World Trade Organization in 2001 – a move the US hoped would see Beijing move towards a liberal, democratic model.

But, in the final phase, things started to unravel from 2008. China and Russia wanted to reassert their own greatness and in the global south a demand grew to replace the old world order, which was perceived as Western. Today, the result is fragmentation – both when it comes to politics and free trade. The West will continue to trade with China but does not want to depend on a country it is ideologically

1 Gita Gopinath, *Cold War II ? Preserving Economic Cooperation Amid Geoeconomic Fragmentation*, Plenary Speech by IMF First Managing Director, 20th World Congress of the International Economic Association, Colombia, page 4

2 Source: Pictet WM AA&MR, Thomson Reuters. Past performance, S&P 500 Composite (net 12-month return in USD): 2019, 31.5%; 2020, 18.4%; 2021, 28.7%; 2022, -18.1%; 2023, 26.3%.

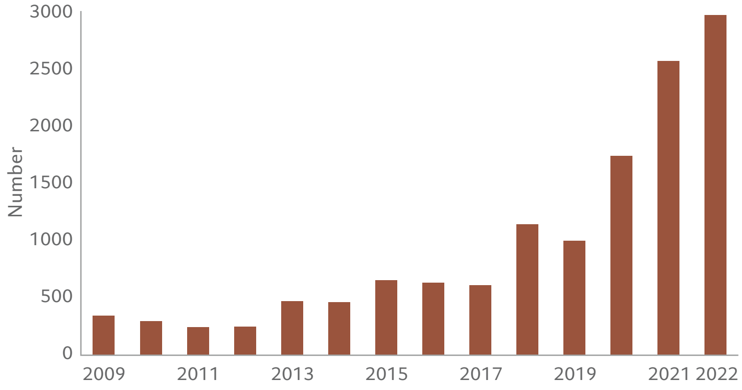
opposed to for key products and components or technology. At a corporate level, this means the China Plus One strategy has become the minimum rule of safety when it comes to supply chains.

This new normal shapes the framework within which entrepreneurs can work. It may not mean diminishing investment. But it does mean a greater concentration of trade within regions. China has lost ground as a source of US imports and as a destination for US investment[3]. Global value chains have lengthened, which is especially significant for supplier-customer linkages from China to the United States[4]. However, there is some evidence that a group of 'connector' countries – such as Mexico and Vietnam – are positioned to benefit from the US 'de-risking' its trade with China. These countries have gained the most in US import shares and gained more in China's export shares. They are also receiving more Chinese foreign direct investment.

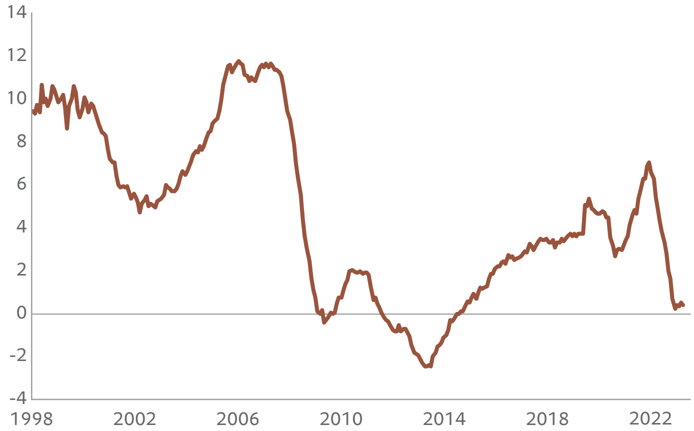
> "There is no going back to the era of benign globalisation – not for another generation, at least."

For the foreseeable future, the world will likely remain in this new framework. The outcome of this year's US presidential election will make little odds, given the structural differences between the major world powers. There is no going back to the era of benign globalisation – not for another generation, at least.

Measures distorting trade and investment



Annual growth rate of bank loans to the non-financial private sector in the euro area



Sources: Pictet Wealth Management, European Central Bank, February 2023

3 Gopinath 7

4 Han Qiu, Hyun Song Shin and Leanne Si Ying Zhang, *Mapping the realignment of global value chains*, BIS Bulletin No. 78, 3 October, 2023 https://www.bis.org/publ/bisbull78.pdf

– Q&A –

Direct private investments: unlocking potential in Europe

Beyond the macro headlines, entrepreneurialism is alive and vibrant in Europe.

EDMUND BUCKLEY
Head of Direct Private Equity
Pictet Alternative Advisors

Q The economy in Europe – your area of focus – appears to be struggling to grow in many places at the moment. How do you see the market for private investments?

A My message to investors is always to look beyond the macro headlines. There is a large volume of entrepreneurial activity in the economy, often in sub-sectors where there are compelling long-term growth drivers. The mistake one can make with Europe is to look at headlines and high level data which can often paint a complex picture, but underneath the surface there are always exciting growth opportunities and great entrepreneurs in many sectors.

> "Underneath the surface there are always exciting growth opportunities and great entrepreneurs in many sectors."

Q Where is the dynamism to be found?

A We find real dynamism in sub-sectors that are driven by long-term secular tailwinds like digitalisation and the transition away from fossil fuels to a more sustainable economy. In particular, this vibrancy is most felt at the small- and mid-cap section of the market where we frequently meet entrepreneurs and families who are building exciting, fast growing and robust businesses that are supported by these megatrends.

Q What value can private equity bring to these areas?

A The opportunity for private equity is that a lot of smaller middle-market businesses struggle with bringing the expertise to adapt to these changes. Private equity investment enables us to back businesses and founders who have a very strong core service or product offering but need help to professionalise and future-proof or require capital to unlock new growth opportunities. This could mean introducing new technology or automation into their businesses or helping them become more sustainable and more energy efficient.

Q How do you go about investing in these businesses?

A This can be done by taking stakes in companies and partnering with them for the long term. In these partnerships, private equity creates an aligned vision for business transformation with management early on in their relationship and then plays an active role on the board typically together with external industry experts, who it can bring into the company as board members or operating partners. The private equity team then works with its dedicated internal value creation team to implement a pre-agreed value creation plan.

Q How important is sustainability for value creation?

A The responsible deployment of capital can bring economic growth to society. We believe that Europe's ageing infrastructure creates both challenges for the economy and opportunities for investment. Huge capital investment will be needed in electrical grid infrastructure as just one example. Many businesses will also have to re-engineer their supply chains. Private capital can play a significant role in addressing these gaps.

The case for private debt in a widening funding gap

With banks curtailing lending, private debt can step in to support healthy companies.

ANDREAS KLEIN
Head of Private Debt
Pictet Asset Management

Scarcity of capital and higher funding costs make today's credit backdrop extremely difficult for borrowers. Poor management of balance sheets and thin capitalisation have put increasing pressure on banks, and with further Basel reforms coming through, there has been a strong focus from banks on reducing risk-weighted assets. This means less appetite for sub-investment grade lending exposure and lower propensity for underwriting deals. At the same time, high-yield issuance plummeted in 2022 and 2023 and we are yet to see much of a rebound.

Did you know?
There are over

146,000

companies in Europe that operate in our 'lower-mid-market' – many of which are high growth with new disruptive services and products.

Source: ZIPPIA Research, February 2023

Borrowers are also faced with a maturity wave over the next few years. Both borrowers and lenders will be under pressure to raise capital for refinancings. Although we have seen significant maturity walls in the past, the debt that was refinanced between 2010 and 2012, for example, benefited from an environment where rates were decreasing. This is very different to what we face today. Because of this, although an expectation of slightly higher default rates and stress will affect existing legacy stock, there will be opportunities, particularly for new managers and/or vintages to capitalise on these dynamics.

Furthermore, a slowing economy with lower valuation multiples has created significant opportunities for consolidation of markets. From a credit standpoint, this is also an opportunity to support fundamentally strong companies with healthy balance sheets. If these are able to raise the appropriate capital, they can consolidate the market through business acquisitions at attractive entry pricing, and create synergies and economies of scale.

Credit managers can fill the liquidity gap left by banks, to help facilitate these efforts.

> "Bank retrenchment and volatile public markets have created strong tailwinds for private debt."

Bank retrenchment and volatile public markets have created strong tailwinds for private debt. Best of all, this is happening alongside an increase in underlying rates, a widening of spreads, and a reduction in leverage as the cost of funding restricts debt capacity. The upshot for investors is the best of both worlds – higher return for lower risk.

UNDER THE RADAR:

The small but attractive funding deals creating win-win outcomes

European private debt has grown at double-digit rates over the last decade. Many private credit managers active in this market often look to raise larger funds and to scale up their platforms to earn bigger management fees. This can lead to oversupply in the larger segment, leaving increased competition in the lower- to mid-sized market and, consequently, creating attractive risk-adjusted returns for lenders in that smaller space.

Lending to smaller businesses can be particularly attractive because, in some cases, the micro niches they focus on are so insular that they are isolated from the macroeconomic cycle. Regulatory or legal requirements can create these dynamics, resulting in recurring business for niche players in the markets affected and giving them strong visibility over future revenues.

This was the case with a recent technology business in the energy transition market, where Pictet provided financing to support a buy-out. The deal backed a highly successful entrepreneur who took over the business from its founder, who wanted to exit. Financing the transaction enabled both parties to achieve their goals.

Pricing power – using the difficulty

In Switzerland's Vaud region, businesses have learnt the hard way that they must reinvest and innovate to stay competitive.

MICHAEL DUSS
Head of Private Banking, Lausanne
Pictet Wealth Management

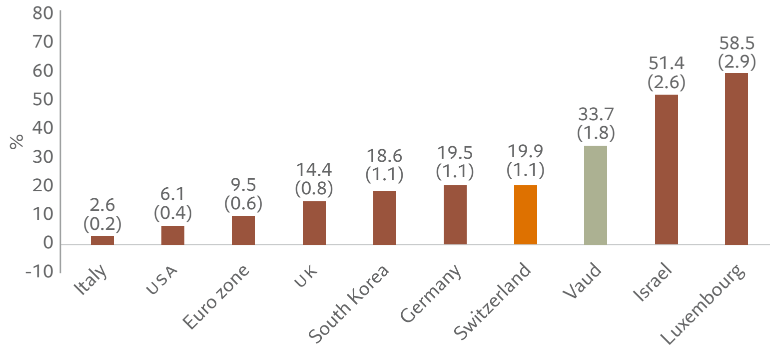
When, on 15 January, 2015, the Swiss National Bank abandoned the floor rate of CHF1.20 for 1 euro, the national currency appreciated by almost a fifth in one day – a punishing rise for Swiss exporters[1].

In Canton Vaud, a French-speaking region of Switzerland on the shores of Lake Geneva, businesses drew on past experience and responded by cutting their export margins, trimming costs and innovating. In the view of Philippe Miauton, director of the CVCI Chamber of Commerce for Canton Vaud, this mindset – of leaning into challenges – has enabled businesses in the region to make the most of difficulties, helping them to prosper. By making exporters' goods more expensive in foreign markets, the strong franc puts them under constant pressure. They need to reinvest and innovate to stay competitive. Otherwise they will die. Switzerland does not have a big history of intervening to support companies. In the end, businesses have only themselves to rely on.

> "The emphasis on quality creates and justifies price premia."

By shaping up and innovating, firms in this region have been able to carve out distinct value propositions that can withstand economic turmoil. Today's thriving regional economy is home to a mix of tech, pharmaceuticals, healthcare and food and beverage industries, along with the luxury Swiss watchmakers. In the 15 years from 2005 to 2020, the Vaud economy grew by 45.8 percent – or 2.4 percent per year on average – outpacing Switzerland as a whole, which grew by 33.2 percent (or 1.8 percent per year on average)[2].

Employment evolution between 2005 and 2020



Note: For a selection for countries and groups.
Cumulative growth and annual averages in parentheses.

Source: Swiss Federal Statistical Office, CREA, International Monetary Fund

A blend of multinationals and SMEs, many of whom work hand in glove, support each other and many manufacturers are now benefitting from the global re-shoring trend. Underpinning this success is the emphasis on quality which creates and justifies price premia. It was not always thus.

In the 1990s, Vaud suffered from high public debt, a real estate crisis, and unemployment of close to 10 percent. The canton responded by slowly repairing its public finances while investing in infrastructure and innovation. EPFL, the public research university established in 1969 in the canton capital Lausanne, developed and helped SMEs to innovate.

The result was the creation of a series of successful new businesses, such as Vaud-based medicine software start-up Sophia Genetics, which was founded in 2011 at EPFL and listed on the Nasdaq[3] 10 years later with a market valuation of USD1.1 billion.

At Pictet, the partners had the vision to open an office in Lausanne 25 years ago, realising the region's potential despite the challenges of the 1990s.

Today, the structure of the Swiss education system, with a mix of apprenticeships and advanced higher education, helps support the Vaud business ecosystem by delivering the right people for the right jobs. The proximity to France and Switzerland's bilateral accords with the EU ensure that the local labour supply is complemented by a talent pipeline from the EU.

Of course, Vaud's successes and the pricing power its businesses can exert do face challenges. The strength of the franc is one; another is Switzerland's relations with the EU as the two sides negotiate the way ahead for their relationship; and a new minimum corporate tax rate is yet another. But Vaud's successes are proven and its experience offers some takeaways on creating pricing power that apply to businesses in other countries:

1. Make the most of your resources
2. Invest in training and education
3. Innovate to stay ahead
4. Facilitate an entrepreneurial spirit
5. Support links between businesses

1,2 Banque Cantonale Vaudoise, "From the Subprime Crisis to Covid, the Vaud Miracle", 2021

3 Source: Pictet WM AA&MR, Thomson Reuters. Past performance, Nasdaq Composite (net 12-month return in USD): 2019, 36.7%; 2020, 44.9%; 2021, 22.2%; 2022, -32.5%;2023, 44.6%.

The quest for the golden visa: global mobility and Greece's economic odyssey

Global mobility has become big business, with countries such as Greece competing to attract entrepreneurs and their capital in return for residency status.

RAOUL KANTOURAS
Market Head of Greece & Cyprus
Pictet Wealth Management

A decade after it teetered on the brink of bankruptcy and exiting the euro zone, Greece is back. An economic recovery is encouraging the return of expatriates who are being joined by an influx of entrepreneurs and other international investors.

> "Greece is back."

A Golden Visa programme is helping drive the inflow of high net worth individuals, who are further encouraged by far-reaching reforms that have underpinned the Greek economic revival and helped attract some big investments from multinationals. Greece's geopolitical stability, anchored in its membership of NATO and the EU, is a further draw – and the appealing climate and lifestyle help too.

Competition among governments to attract capital has led to some rewarding offers of residency status for entrepreneurs; in an unstable geopolitical landscape, global mobility has become a big business.The rise of the 'digital nomad' has expanded the pool of people in the global mobility sphere and countries have responded with new measures to lure them. Italy's flat-tax scheme for wealthy foreign residents, rolled out in 2017, is one such success story.

Greece also introduced flat-tax schemes, and other measures, to attract wealth from abroad. Its popular Golden Visa scheme, which was introduced a decade ago, is the world's joint second most attractive investment migration scheme, according to a 2024 Global Residence Program Index published by Henley & Partners[1]. The scheme offers a five-year residency permit to non-European Economic Area (EEA) nationals in exchange for specific direct investments in the country.

"With the abolition of the UK RND (resident non-domiciled) regime and the end of the NHR (Non-Habitual Resident) regime in Portugal, Greece represents an attractive option for wealthy individuals," explains Nicolas Uster, Head of Wealth Planning at Pictet Wealth Management.

The Greek golden visas are getting harder to come by. Greece has issued more than 17,500 since 2018, and the government is planning to raise the investment threshold for the permits to EUR800,000 for real estate in cities and islands where demand is high, to shield the local market[2]. The threshold was originally set at a EUR250,000 property investment in the country before being raised last year to EUR500,000 in certain areas.

The success of the programme comes on the back of a revival in the economy, which grew at more than twice the euro area average last year, boosted by tourists flocking back to the country after the pandemic, the injection of EU recovery funds, and repairs to the public finances which have shored up confidence.

Greece exited international bailouts worth more than EUR260 billion in 2018, marking the end of a debt crisis that – at its low point – saw discussions in Berlin about the idea of a Greek exit from the euro zone. Last year, Greece regained investment-grade status for its debt after 13 years. This year, the government expects economic output to rise by 2.9 percent, up from 2 percent in 2023.

The improved macro picture is attracting foreign investment. A US software giant is investing more than EUR1 billion in the country, including in a data centre complex near Athens, a leading pharmaceuticals group is expanding a research hub in the port city of Thessaloniki and hundreds of start-ups are popping up, emboldened by the perception that Greece is no longer Europe's laggard. Indeed, a government-driven digital transformation is reducing bureaucracy and aims to fully digitise the country by 2025.

To be sure, Greece still has work to do. The country still faces the legacy of non-performing loans, it has the highest debt load in the euro zone – more than 160 percent of GDP – and the economy needs to diversify further beyond the volatile tourism sector.

One plus is that shipping, another key sector for Greece's economy, generally does well in times of geopolitical instability, when freight rates typically rise due to supply constraints. This adds a tailwind to Greece's economic revival.

The upshot is increased demand for wealth management services, be they asset allocation strategies, wealth planning, family advisory, impact investing or … philanthropy – after all, the word originates from the Greek words 'philos', meaning 'friend', and 'anthropos', meaning 'human being'.

1 Henley & Partners, *A ranking of the world's most important residence by investment programs*

2 Reuters, *Greece to raise investment price for 'golden visas', PM says*, 9 February, 2024

Shifting landscapes: how geopolitics is remapping production

To build supply-chain resilience, companies are relocating production facilities – bringing opportunities for some, and increasing costs for others.

DONG CHEN
Chief Asia Strategist and Head of Asia Research
Pictet Wealth Management

For many enterprises, increasing trade barriers and de-globalisation are complicating the business environment. What began as a trend to move production facilities away from the manufacturing powerhouse of China on cost grounds was turbo charged by the covid pandemic and a rise in geopolitical tensions. The resulting approach of diversifying production, known as the China Plus One strategy, demands re-location that is making business more difficult and costly for many entrepreneurs. Some profit from the disruption. But what holds true across the board is that a restructuring of global supply chains is underway, and showing no sign of letting up.

The stringent controls adopted by China during the covid pandemic revealed the risks of a globalised supply-chain system focused on low costs that depended heavily on Asian (especially Chinese) manufacturers. Businesses had already started moving some production away from China prior to the pandemic, largely on cost grounds, with Vietnam and Bangladesh proving popular alternative locations in low-tech activities such as some production assembly and the textiles sector. This trend was broadened and accelerated by the imposition in 2018 of tariffs and other trade barriers on China, with the aim of pressing it to change trade practices. Heightened geopolitical tensions between the US and China have increased even further the incentives for firms to reduce their dependence on China and to distribute production across multiple suppliers and regions.

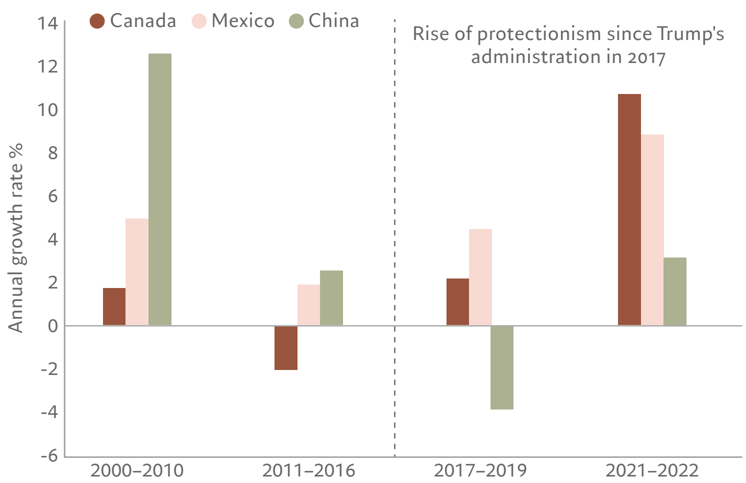
By diversifying their supply-chain networks so that they are less China focused, multi-national corporations (MNCs) hope to build resilience and to hedge against future shocks. Some MNCs now require their suppliers to re-locate production outside China. Hence, what began as a natural, cost-driven economic trend is now more politically driven. This leaves suppliers in an awkward position: the MNCs they supply are increasingly demanding they re-locate, but doing so is expensive.

> "Supply-chain regionalisation will likely continue to gather momentum."

India is becoming a popular production location for MNCs, especially in the consumer electronics sector. For suppliers, however, some aspects of doing business in India – bureaucratic hurdles, complicated compliance and tax systems, and logistical challenges – can prove burdensome. Regardless, the upshot of the increasingly politically driven pressures on business is a growing trend toward supply-chain regionalisation — a process that involves reorganising manufacturing into smaller, more localised blocks.

The ASEAN (Association of Southeast Asian Nations) countries are a major beneficiary. Anothe re-location destination is Mexico, which offers tariff-free access to the US. By moving production closer to their home market, US corporates may lower shipping costs and better supervise production quality. At the same time, China's vast and growing consumer market will likely encourage businesses to maintain or even to grow their presence there. As a result, China will likely remain a top global manufacturing powerhouse, with some of the more labour-intensive industries being replaced by higher value-added sectors.

Annual growth of US total trade with its major trading partners

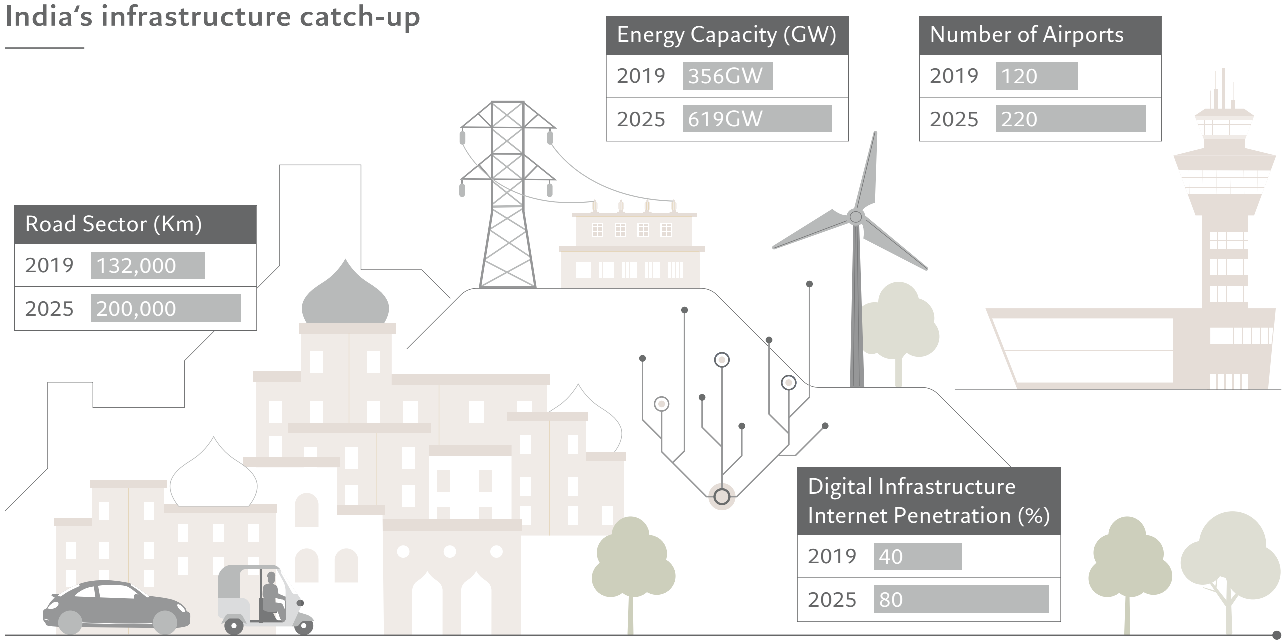


Sources: Caldara and Iacoviello (2022); Hassan and others (2019); NL Analytics, Inc.; Global Trade Alert database; and IMF staff calculations.

India: growth drivers and urbanisation

India has multiple growth drivers in its favour: a large pool of young labour and a still-low urbanisation rate; increasing global demand for services; outsourcing from MNCs; infrastructure building.

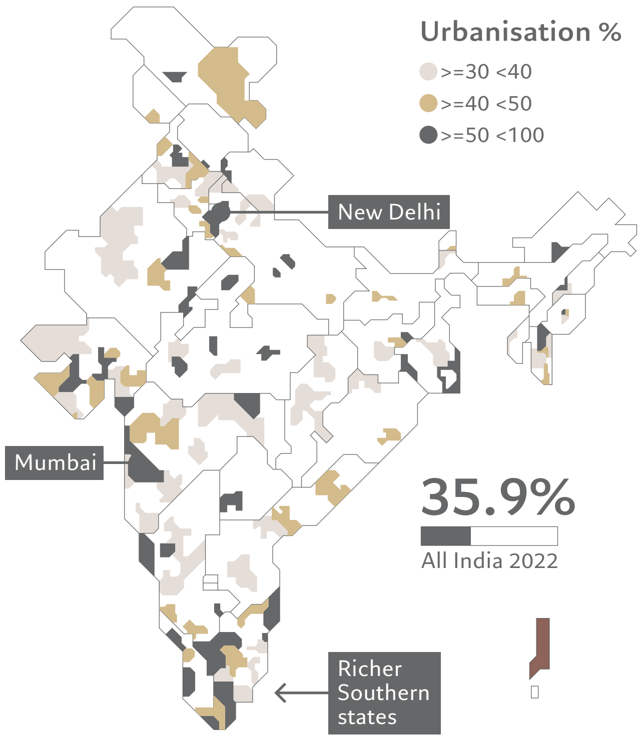
India's infrastructure catch-up



Source: InvestIndia, Investment outlay under the National Infrastructure Pipeline (NIP), 2023

Urbanisation: plenty of head room

India's potential for urbanisation is significantly greater than that of China, despite its relatively slower rate. The urbanisation rate in India is expected to reach 50 percent by 2050, rising from 35 percent in 2022. This implies a net inflow into Indian cities **of between 9 and 10 million people per year.**



Source: World Bank, Chinmay Tumbe "India Moving"

From entrepreneur to investor: the Italian experience of resource reallocation

Wealth flows generated from business sales represent an important resource for new investments in Italy.

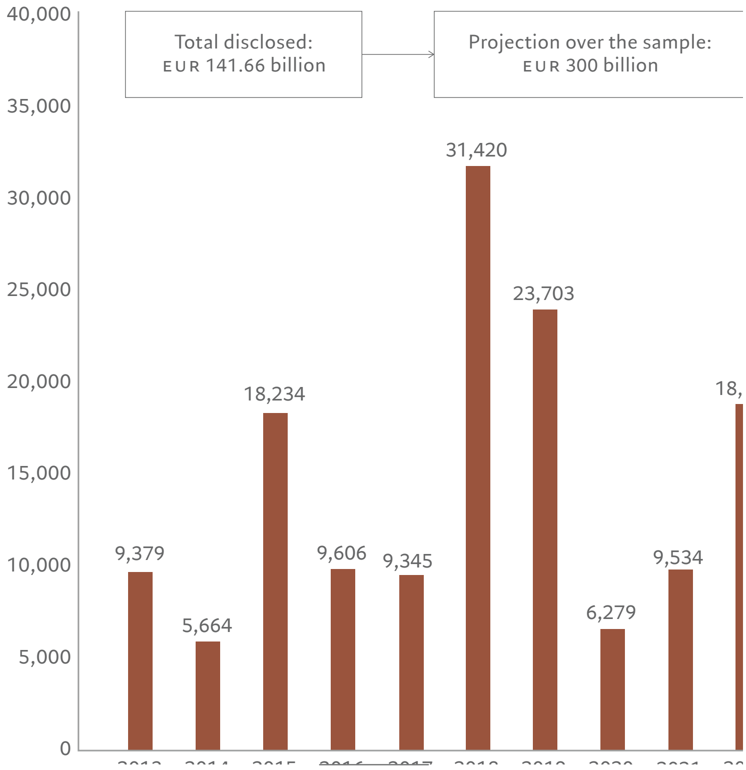
ALESSANDRA LOSITO
Head of Pictet Wealth Management Italy

For entrepreneurs, selling a business marks a big change on a human and professional level. On a personal level, the sale can be an emotional journey but one that opens up new beginnings and new perspectives. Professionally, the exit marks a transition in the entrepreneur's role – from business owner to institutional investor. A sale generates a so-called 'liquidity event', in which the store of wealth in the business is freed up and becomes investible. This provides an important economic function: as the business changes hands, the realised wealth becomes available to invest in new ideas and projects.

In Italy, some EUR300 billion was freed up by liquidity events in the 2013–2022 period, an analysis by Pictet Wealth Management in collaboration with the School of Management of the Politecnico di Milano (POLIMI) showed.

As many as 2,365 liquidity events – the total or partial sale of businesses – were identified over the 10 year period, and for the 1,055 deals with disclosed values, the total amount was EUR141.66 billion (EUR140.45 billion if only deals with known value greater than EUR10 million were considered). Projecting this value over the entire sample of liquidity events, a total flow of about EUR300 billion was estimated for the period under consideration.

Deal value of disclosed transactions (EUR million)



Source: Politecnico di Milano, Pictet Wealth Management, Liquidity event nelle aziende di famiglia italiane, March 2023

> "Liquidity events have become a strategic theme in wealth management in Italy."

The data also highlighted th e dynamism and, at the same time, the attractiveness of Italian entrepreneurship. Indeed, shifting the focus to the 853 liquidity events with known values and above the threshold considered relevant of EUR10 million, the median value of the transactions was EUR33.7 million.

Of these, more than 90 percent of the companies were unlisted and more than 40 percent were between 20 and 50 years old, active mainly in the Northwest – with Lombardy leading the way thanks to more than 300 deals with disclosed values.

For almost half of the companies, their majority operation was in the manufacturing sector. These were often SMEs – the engine and backbone of the Italian economy, with assets of less than EUR50 million, where ownership was, in 57 percent of cases, divided between members of the same family. In 14 percent of cases, ownership was shared between several families, and in 29 percent of cases it belonged to a single entrepreneur.

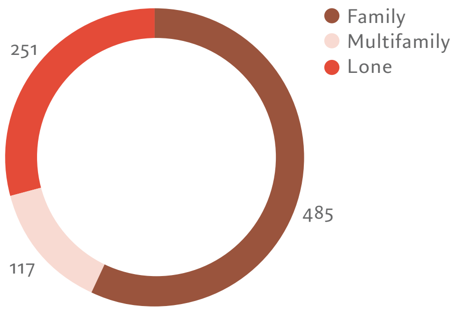
The total flow of EUR300 billion created important added value for the country, representing a resource for reallocation to new business ideas, innovative start-ups, SMEs and new investments in the 'real' economy. Indeed, liquidity events have become a strategic theme in wealth management in Italy, where the careful deployment of the wealth flows generated plays a central role in enabling Italy's entrepreneurial and economic assets.

> "By supporting new investors in the optimal allocation of resources, a virtuous circle can be created."

By supporting new investors in the optimal allocation of resources, a virtuous circle can be created where the flows resulting from these deals are then injected back into the market in the form of investments in new ideas and projects, having a positive impact in the real economy as much as in the financial markets.

Italian family businesses represent one of the most dynamic and innovative entrepreneurial classes in the world. This is not lost on investors, especially private equity funds, which often play a key role in liquidity events. Analysis of those who invested in Italian companies, found that more than half the buyers (437) were corporate, equally Italian or foreign. In general, private equity funds proved to be central players in the liquidity events of family businesses in Italy, where they were involved in at least 179 cases.

Breakdown of the sample between 'family' firms, 'multifamily' and 'lone'



Source: Politecnico di Milano, Pictet Wealth Management, Liquidity event nelle aziende di famiglia italiane, March 2023

As the total number of buyout deals conducted in Italy between 2013 and 2022 by private equity funds exceeded 1,000 investments (which included deals with disclosed and undisclosed values), the analysis confirms that family businesses represent an important pool for fund origination. Moreover, for private equity funds that took over the shares held by families at liquidity events, the average value of the annual IRR (Internal Rate of Return), i.e., the return subsequently earned from the investment, was 36.23 percent, compared to the median IRR of 29.08 percent.

Considering that, according to data calculated by KPMG and AIFI, between 2017 and 2021 the aggregate average IRR of the private equity market in Italy was between 12.5 percent and 32.1 percent, these investments clearly earned decidedly competitive returns. By taking stakes in family enterprises with solid core business propositions, private equity funds can help them grow and organise themselves in a more structured way.

Moreover, the wealth freed up from liquidity events represents an important flow of new resources in Italy, which spills over into the country's economy. Thus, successful liquidity events, assisted by practitioners who specialise in wealth management, can create opportunities for the country at large as well as the sellers.

Family legacy: keeping the entrepreneurial spirit alive

Family culture, communication styles, and learning opportunities can be designed to cultivate and encourage entrepreneurship.

HONORA DUCATILLON
Head of Family Advisory
Pictet Wealth Management

CHRISTOPH COURTH
Global Head of Philanthropy Services
Pictet Wealth Management

CULTIVATING ENTREPRENEURSHIP IN A FAMILY ENVIRONMENT

Entrepreneurs often talk about the influence of parents or other significant figures in developing their 'can do' mindset. Cultural transmission – like many other learned behaviours – within families comes out through observing the behaviour of close family members, hearing relatives' life stories and picking up the habitual sayings and mannerisms of the family unit.

Positive influences can empower young people to develop strong entrepreneurial skills, knowledge, and attitudes[1]. These role models might not always be a parent, or even a relative. But the opportunity to watch the activities, approaches and mindset of a trusted adult is the next best thing to first-hand experience – and offers an invaluable insight into the emotional journey that comes with entrepreneurship. Understanding how work is integrated into their lives, how they deal with challenges, where they find energy to pursue their passion can positively, or negatively, influence the entrepreneurial intentions of younger family members.

Storytelling is another powerful tool for cultivating entrepreneurship. Research suggests that the more children know about their family's history, the stronger their sense of control over their lives and the higher their self-esteem[2]. This is linked to the idea that a strong sense of "intergenerational self" builds a feeling of belonging to something bigger than themselves[3]. The most helpful narratives are the ones with ups and downs normalising setbacks and showcasing resilience.

Communication and parenting styles also influence important aspects of the entrepreneurial mindset – for instance, the level of creativity and, the orientation towards action. Research suggests that pluralistic communication patterns in families, characterised by high conversation and low conformity[4], can help raise successful family business leaders[5]. Studies have shown that combining high demandingness with high responsiveness to children's needs in parenting style is related to children's autonomy and school success[6].

Every interaction that takes place within the home significantly influences one's perspectives and mindset. As the saying goes "values are caught, not taught".

LEVERAGING THE FAMILY ECOSYSTEM FOR EXPERIMENTATION

To further foster entrepreneurship within the family, many see value in leveraging the family ecosystem for experimentation. Families are increasingly recognising that entrepreneurship requires not only a mindset but also the acquisition of specific skills, frameworks, and tools. Practical experiences in business, investment, or impact fields can provide valuable learning opportunities for family members.

For instance, a family in France created a club of entrepreneurs to support budding entrepreneurs in their projects. Each family member can present their idea and receive advice from around 90 employees of the family business, including legal, tax, and financial experts, as well as executives from various brands. Thus, several companies of various sizes and fields have been launched.

> "Values are caught, not taught."

We also encountered simpler examples, such as a family who established a tradition where each member on their 16th birthday can propose a new product or concept for the family business ensuring that innovation is not only welcomed but encouraged.

Some families include a sort of opportunity bucket in their family investment strategy, which may be referred to as a 'family bank', a 'family venture fund', or a 'rising generation development fund'. This can serve as a tool for intra-family financing, providing seed capital for new business ventures or investment capital for testing new strategies.

The aim is to support the entrepreneurial development of the rising generation of family members while safeguarding the core family business and investments.

To achieve this, it is crucial to establish clear operating rules and processes, including an application process, assessment criteria, and funding conditions. Mentoring and support from family members and ideally professionals should also be provided.

1 The impact of role models on entrepreneurial intentions and behavior: a review of the literature, Arezou Abbasianchavari and Alexandra Moritz, Management Review Quarterly, Volume 71, p. 1–40. 2021.
2 The Stories That Bind Us, Bruce Feiler, New York Times, 15 March 2013.
3 *Ibid*
4 Understood as expectations regarding homogeneity in values, norms and beliefs.
5 Addressing the Elephant in the Room: Disentangling Family Heterogeneity to Advance Family Business Research, Peter Jaskiewicz and W. Gibb Dyer, Family Business Reivew 2017, Vol. 30(2) 111-118.
6 *Ibid*

Families can also utilise philanthropy and impact investing to cultivate entrepreneurship within their rising generation. At its core, philanthropy is an experiment in building a better world, and, as such, an entrepreneurial mindset is crucial to this field. Not only can involving the family members in philanthropy and impact help younger generations to develop skills in research, management, finances, and teamwork, but by giving them space to explore their own areas of interest, and the multitude of ways in tackling them, it can help to inspire this entrepreneurial spirit in a relatively safe environment. An example of where this worked well was in a family foundation focusing on tackling biodiversity loss across Europe. The foundation trialled a junior board, to engage younger family members in the foundation's work. Each member was put in charge of a sum of capital to put towards the issue as they saw fit, with a requirement to report back at the end of the year. The process generated innovative ideas and approaches. More importantly, it ignited a confidence in the younger generation to take calculated risks, explore and test new ideas, and it gave them courage to learn from failure – all crucial attributes of successful entrepreneurs.

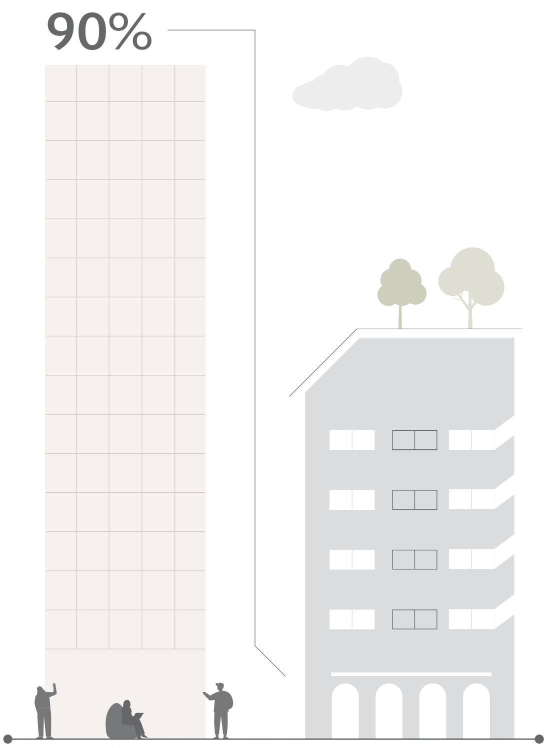
> "In the family ecosystem, failure should be understood as part of the learning process, and successes, regardless of their scale, should be celebrated."

In the family ecosystem, failure should be understood as part of the learning process, and successes, regardless of their scale, should be celebrated. Creating a safe space for experimentation within the family nurtures that entrepreneurial mindset, where individuals are encouraged to take risks, learn from their experiences, and continuously innovate.

PULLING IT ALL TOGETHER

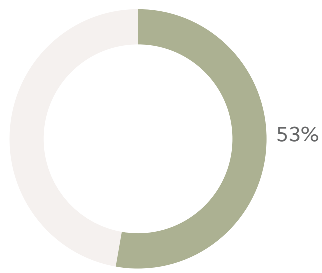
By embracing intergenerational cultural transmission, effective communication styles, and providing opportunities for experimentation, families can create an environment that fosters, cultivates and encourages entrepreneurship. This approach empowers the rising generation to develop the mindset, skills, and resilience needed to succeed as entrepreneurs, while also preserving the core values and legacy of the family.

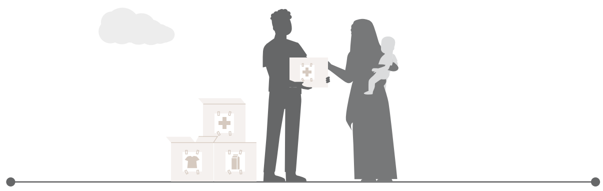
Companies in which two or more family members exercise control – concurrently or sequentially — represent about 90 percent of American businesses



Source: Harvard Business Review,
Do most family businesses really fail by the third generation?
July 2021

53% of Gen-Z wish to operate their own business in the next ten years





Source: Forbes, Educating The Next Generation
On Being Heard As Entrepreneurs, December 2022

3 in 5

Nearly 3 in 5 family foundations engage younger family members in the foundation —

40%

and more than 40% say they expect to add to or increase the number of younger-generation family members on their boards in the near future.

Source: Opportunity of a Lifetime 2.0: Multigenerational Family Philanthropy,
National Centre for Family Philanthropy

Glossary of risks
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