

## Q-Series®

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

### Equity Strategy

#### Global

#### 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.

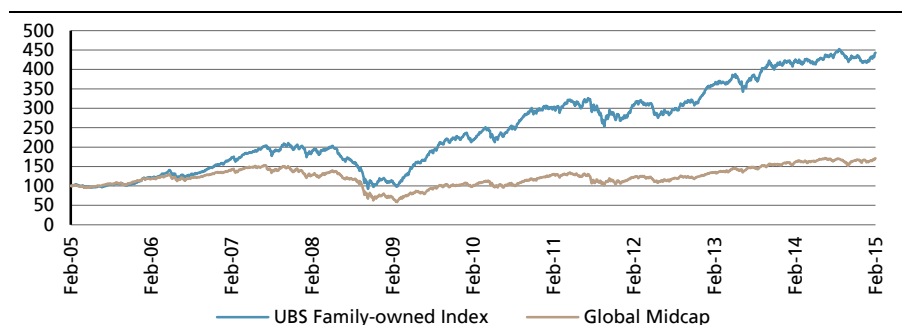
#### We designed a proprietary framework to assess governance and risks

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, Eurazeo, Ebro Foods and GBL; in Asia, Top Glove and RiseSun Real Estate Development; in Japan, Daiichikosho, Seria and CyberAgent; and in LatAm, Fibra Danhos and lochpe-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**



Source: UBS

[www.ubs.com/investmentresearch](http://www.ubs.com/investmentresearch)

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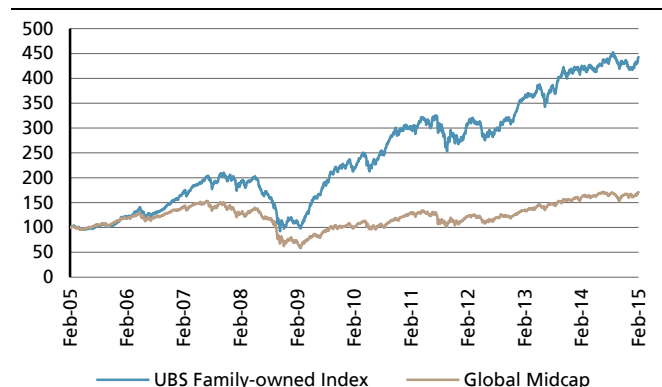
# Why read this report?

We believe the market is likely mispricing the growth and risk associated with public companies that have founding families as major shareholders. In this note, we analyse the factors behind family firms' outperformance and identify specific investment opportunities.

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. Since there are specific risks involved in investing with family firms, we developed a proprietary framework to help investors assess the governance of such companies. We identify investment opportunities by combining our analysis of governance risks and UBS analyst views.

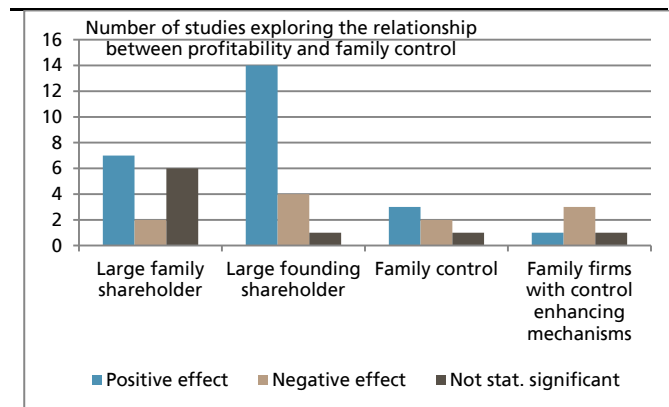
## Four charts that tell the story

**Figure 2: Our in-house analysis indicates the outperformance of family firms over the past decade...**



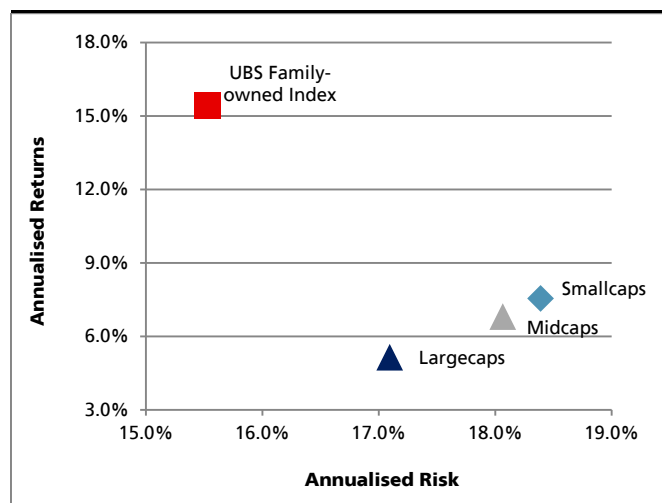
Source: MSCI ESG Research Inc., UBS

**Figure 3: ...echoing the findings of the academic literature on the theme...**



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

**Figure 4: ...and this outperformance does not seem to come at the expense of a higher risk profile**



Source: UBS estimates

**Figure 5: We designed a proprietary framework to rate the governance of family firms**

Area of governance	Specific aspect rated by UBS analysts
Transparency and access	Communicating financial targets to investors
	Willingness of senior management to meet investors
Board	Quality, representation and risks to minorities' representation
	Directors hold shares of the company
Succession	Management independent from controlling family
	Succession visibility
Capital allocation	Sticking to core business
	Returning excess cash to shareholders
	Motivation of controlling group/management
Shareholders' rights	One share, one vote
	Absence of anti-takeover provisions
	Track record on treatment of minorities
Remuneration targets	Alignment with long-term shareholder value creation
	Track record of sticking with targets

Source: UBS

# Contents

<b>Why read this report?</b> .....	<b>2</b>
Four charts that tell the story .....	2
<b>Executive summary</b> .....	<b>4</b>
Family-owned midcaps – top picks by region .....	5
<b>Keep it in the family</b> .....	<b>6</b>
The academic literature weighs in favour of family businesses .....	6
Our in-house analysis suggests family-owned midcaps outperform .....	8
What about risk? .....	10
What about the fundamentals? .....	12
Valuations – a family discount? .....	14
<b>Best-governed family-owned midcaps</b> .....	<b>16</b>
<b>Combining value and governance scoring provides good ideas</b>	<b>20</b>
Europe.....	20
Asia ex-Japan.....	22
Japan.....	24
Latin America.....	26
US .....	27
<b>Appendix</b> .....	<b>29</b>

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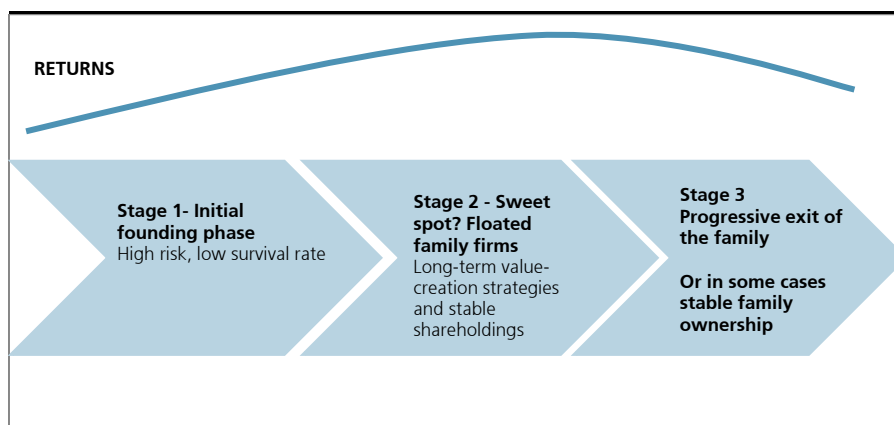
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# Executive summary

- Our in-house analysis suggests that **family-owned midcaps outperform large and midcaps indices globally** (returning 104% in the past five years, against 53% for largecaps and 69% for midcaps) and with lower volatility.
- **Family firms seem to earn a higher return on capital** (at 17%, i.e. around 60% higher than largecaps and midcaps globally). They also display a **superior earnings growth profile**, growing earnings by more than 10% per year on average over the past five years. Family firms do not look cheap: they come at a 30% premium to large and midcaps, but we believe that premium is deserved given their superior earnings growth profile.
- **Most academic studies also find a positive link between family firms and profitability.** Family firms tend to engage in less value-destructive R&D, hold less debt and focus on their core business.
- While there are risks for minority shareholders, we believe governance tends to be effective at family firms, as the family has 'skin in the game'. **We designed a governance framework to address the specific risks of family businesses**, and ranked around 250 family-owned midcaps globally.
- **In each region, we identify family-owned top picks**, combining our assessment of governance with UBS analysts' views (please see overleaf).
- **We focus on listed firms with a substantial family stake.** Such firms have survived the riskier founding phase and benefit from long-term-oriented, stable shareholders.

Figure 6: Life-cycle of a family business; we do not focus on the founding stage



Source: UBS

## Family-owned midcaps – top picks by region

Our family-owned top picks are based on a combination of UBS analysts' fundamental views and an analysis of companies' governance practices.

**Figure 7: Our family-owned top picks**

Company	Stock price (l.c)	UBS PT (l.c)	UBS rating	Market cap (USD m)	Net debt/ EBITDA 2015E	Stock perf. (12 m)	Stock perf. (YTD)	Adj. P/E 2015E	EV/ EBITDA 2015E	Div. yield 2015E	Region	Country	Analyst name
Baoxin Auto	4.6	7.5	Buy	1517.83	-1.6	-21.6	8.3	6.8	4.9	0.0	Asia ex-Japan	China	Ming Xu
China Life Insurance (Taiwan)	28.6	32.6	Buy	2750.46	-	13.6	8.7	13.1	-	1.5	Asia ex-Japan	Taiwan	Kelvin Chu, CFA
RiseSun Real Estate Development	22.72	20.5	Buy	6873.28	-1.8	80.3	45.4	8.9	7.9	1.5	Asia ex-Japan	China	Xiao Ding
Top Glove	5.46	5.9	Buy	931.29	0.2	11.7	20.8	16.3	8.9	3.2	Asia ex-Japan	Malaysia	Nicole Goh
UOL Group	7.81	7.7	Buy	4538.42	-6.6	23.6	11.2	14.9	25.5	1.9	Asia ex-Japan	Singapore	Michael Lim
Land & Houses	9.8	12.2	Buy	3306.47	-3.7	-2.5	7.7	14.4	14.5	5.6	Asia ex-Japan	Thailand	Thomas Philippson, CA
Zumtobel Group AG	23.635	28.0	Buy	1108.21	-0.9	38.8	26.1	19.7	9.2	2.4	Europe	Austria	Sven Weier
Groupe Bruxelles Lambert SA	78.93	84.0	Buy	13728.15	-	6.1	12.1	-	-	3.7	Europe	Belgium	Denis Moreau
Eurazeo	67.02	72.0	Buy	4951.15	-	10.9	16.8	-	-	1.8	Europe	France	Denis Moreau
Ebro Foods	17.81	17.0	Buy	2953.90	-1.2	10.6	31.6	17.4	10.0	3.9	Europe	Spain	Bosco Ojeda
Ratos	61.1	65.0	Buy	2377.31	-	-2.1	31.6	-	-	7.4	Europe	Sweden	David Hallden
SFS Group AG	71.05	78.0	Buy	2763.01	0.3	-	-9.0	18.6	9.9	2.1	Europe	Switzerland	Andre Rudolf von Rohr
CyberAgent	7090	8000.0	Buy	3738.86	0.8	89.5	51.3	24.1	11.1	0.6	Japan	Japan	Sumito Takeda
Daiichikoshoh	4000	4400.0	Buy	1942.85	-1.0	34.0	24.4	18.6	7.1	2.6	Japan	Japan	Mariko Watanabe
Hikari Tsushin	8360	10500.0	Buy	3191.05	2.9	6.3	17.0	18.6	4.5	2.0	Japan	Japan	Mariko Watanabe
Seria	4360	5000.0	Buy	1364.03	0.8	12.5	6.9	24.7	12.1	0.7	Japan	Japan	Mariko Watanabe
lochpe-Maxion	11.5	15.0	Buy	357.69	-3.2	-47.4	-5.7	14.0	5.2	2.7	US & Latam	Brazil	Rodrigo Fernandes
Fibra Danhos	36.49	42.0	Buy	3564.02	2.3	38.2	0.4	24.5	31.2	5.3	US & Latam	Mexico	Marimar Torrealanca, CFA
Fortinet Inc.	34.49	37.0	Buy	5705.99	4.0	48.0	12.5	66.5	30.5	0.0	US & Latam	United States	Brent Thill
Installed Building Products	22.74	21.0	Buy	501.05	-0.7	71.8	27.6	22.7	7.8	0.0	US & Latam	United States	Susan Maklari

Source: UBS estimates. Price data as of 9<sup>th</sup> April 2015.

# Keep it in the family

Could family ownership help explain the performance of stocks? Is it an advantage or a disadvantage? What does the historical performance of family-owned companies tell us? We try to answer these questions in this report, and to flesh out investment ideas arising from our investigation. Clearly, family stakes can increase the risk of conflicts of interest that weigh against minority shareholders, but there are advantages, too, such as aligned incentives and the family acting like an owner with a long-term perspective and 'skin in the game'. Our analysis indicates that the advantages substantially outweigh the risks.

**Our analysis suggests potential conflicts of interest are outweighed by advantages of having 'skin in the game'**

- **Our focus is on floated family-owned companies – a possible bias.** Some readers may be surprised that family ownership could be perceived as a positive investment driver. In reality, our focus is solely on floated family-owned companies. Having already floated, most of these companies have passed through the riskiest phases of corporate survival, such as the initial phase of foundation, and have enough scale to compete.
- **We focus on small and midcap stocks.** Our analysis focuses on small and midcap stocks (i.e. stocks with market cap below €5bn), for two reasons. Firstly, the number of largecap family-owned companies is small, and does not allow for a credible comparison with largecap indices. And secondly, our 15 October 2013 Q-Series® report [Why do smallcaps outperform?](#) (Bosco Ojeda), pointed to corporate governance as a key driver of performance, and – intuitively – family-owned smallcaps may offer many of the advantages that the best-governed smallcaps enjoy.
- **We define family businesses** as companies where there is a substantial influence of the founder or the founding family. We define this influence as the 'family' having either more than 50% of the voting rights, or more than 20% of the voting rights combined with top management or board influence (in line with much of the academic literature).

**Our definition of family businesses**

## The academic literature weighs in favour of family businesses

From our review of the academic literature<sup>1</sup>, we find that large family shareholdings (which tend to be more common in the small and midcaps space) are correlated with higher levels of profitability and higher valuations. Moreover, family firms tend to share some common characteristics with respect to their attitude to debt, risk-taking and capital allocation:

- **Higher profitability:** There is a growing body of literature on family ownership and performance. Most studies find a positive link between a family-owner (defined as having a substantial stake or being an insider, i.e. director or CEO) and a higher level of profitability<sup>2</sup> (Figure 8).

**Most studies find a positive link between family firms and profitability**

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<sup>1</sup> Please see the Appendix for a full summary of key papers and findings from the academic literature.

<sup>2</sup> Most often measured by return on assets.

- **Taking risks in the areas they know well:** On the one hand, family firms display greater risk aversion by holding less debt; on the other, they show a higher risk appetite by diversifying less and founders are especially likely to have high risk acceptance (e.g. engage more in R&D spending).
- **Disciplined capital allocation:** Family firms engage in international ventures which have a solid operating rationale rather than the 'empire-building' strategies that may drive non-controlled companies. By being more selective in the first place, family firms subsequently have to take fewer divestment decisions.
- **Generation matters:** Higher profitability tends to be associated with the first generation, and there is evidence of a founders' premium. A family firms 'discount' can be associated with the successor generation, especially when successors have management responsibilities and when there are multiple family members involved. However, floated companies might have surpassed this phase.
- **Transparency is important:** The 'family premium' mostly applies to companies with high levels of transparency. Conversely, opaque companies trade at a discount, especially those firms with governance practices that may be questionable in other respects. Voting rights in excess of cash flow rights negatively affect valuations.
- **Family directorship seems associated with better governance,** as measured by higher sensitivity of pay to performance, greater turnover pressure for CEOs and higher board attendance. More broadly, having a family as a large shareholder can be an effective governance set-up whether the owner is sitting on the board or not. This is effectively what Warren Buffett argues in his 1993 annual letter. Outside directors have little recourse against management in the case of dispersed ownership or of an owner/manager. Directors have a much greater ability to make a difference where there is a controlling owner not involved in management: "if they become unhappy with the competence or integrity of the manager, they can go directly to the owner (who may also be on the board) and report their dissatisfaction. This situation is ideal for an outside director."

**Targeted risk-taking**

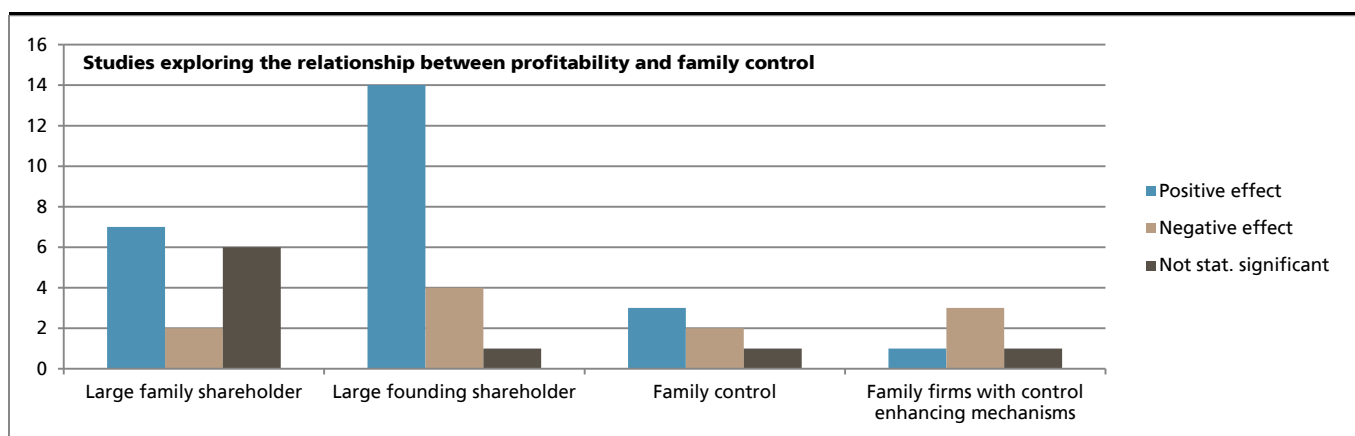
**Less value-destructive M&A**

**Founders vs. successors**

**Transparency and equal voting rights are key to a family premium**

**Effective governance**

**Figure 8: Family businesses seem to outperform their peers on profitability metrics**



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

## Our in-house analysis suggests family-owned midcaps outperform

The charts below show the results of our study of the stock performance of global family-owned small and midcaps. The data is based on a sample of c250 stocks covered by UBS analysts, which include the most relevant companies under our coverage where a family has a significant stake and board presence. Europe and Asia dominate the sample, while US and Latam stocks are less represented. For the US, for example, the sample size was so small relative to the market that it is considered to be of little statistical value. For that reason, we provide more details on the European and Asian results.

- To some extent, the size of our sample (250 stocks) means it is not completely representative. For instance, if take our analysis in Europe, the MSCI European Midcaps Index comprises 235 stocks with a market cap of €€1,650bn, against our sample of c50 stocks with a total market cap of €€165bn, or around 10% of the index. The average market cap in the MSCI Midcaps is €€6bn, against €€4bn for our sample. Our European sample has a strong weighting towards southern Europe (24% vs. 10% for the MSCI Midcaps) and very little in the UK (MSCI at 34%). Finally, our sample has a strong weighting towards consumer-related sectors (31%) and industrials (21%) when compared to the MSCI Midcaps (12% and 10%, respectively).
- To avoid market cap distortions, we have created an equal-weight market cap index. Despite the limited sample, which can lead to some difficulties in comparing performance, the results speak for themselves, in our view. As we show below, family-owned companies globally have notably outperformed over the past five and 10 years. To avoid statistical distortions, we have excluded stocks which significantly skew the results, but including the outliers would have made the results even more conclusive.

### Potential biases

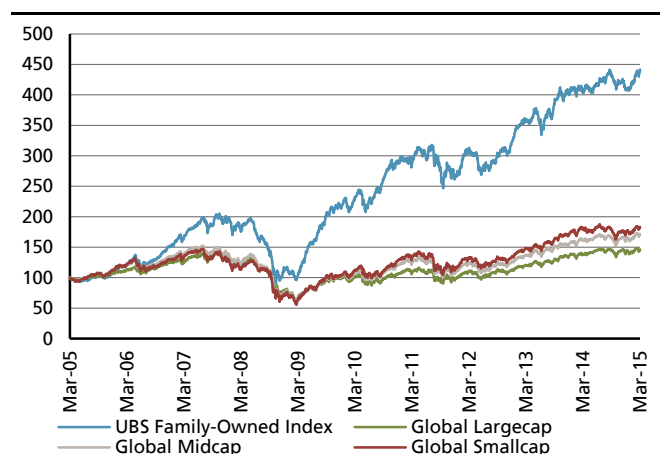
### A stark performance differential in favour of family-owned firms

**Figure 9: Global family-owned midcaps have outperformed**

Index	Perf. 10y	Perf. 5y	Perf. 3y	Perf. 1y
UBS Global Family-owned Midcaps	345%	91%	42%	9%
Thomson Datastream Global Largecap Index	46%	44%	31%	6%
Thomson Datastream Global Midcap Index	72%	60%	37%	6%
Thomson Datastream Global Smallcap Index	83%	65%	38%	1%

Source: Thomson Datastream, UBS estimates

**Figure 10: UBS Global Family-owned Index vs. Datastream Global Midcap Index**



Source: Thomson Datastream, UBS estimates



Since the results may have some geographical bias, we also include three regions where we have identified a stronger presence of family-owned midcaps: Asia, Europe and, to a lesser extent, Latam.

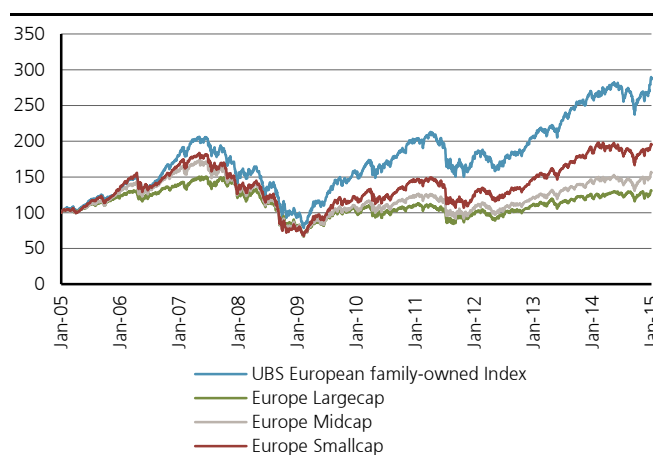
As we show below, the results for Europe are also conclusive. And beating the small and midcap indices in Europe is not all that easy. As we discussed in our 15 October 2013 Q-Series® report [Why do smallcaps outperform?](#) (Bosco Ojeda), smallcaps as an asset class have outperformed over the past 25 years in nearly all markets, including Europe.

**Figure 11: European family-owned midcaps have outperformed**

Index	Perf. 10y	Perf. 5y	Perf. 3y	Perf. 1y
UBS European Family-owned Index	204%	96%	71%	20%
Datastream Thomson Europe Largecap Index	36%	31%	34%	15%
Datastream Thomson Europe Midcap Index	65%	51%	48%	15%
Datastream Thomson Europe Smallcap Index	106%	71%	59%	10%

Source: Thomson Datastream, UBS estimates

**Figure 12: European midcaps, smallcaps, largecaps vs. family-owned stocks**



Source: Thomson Datastream, UBS estimates

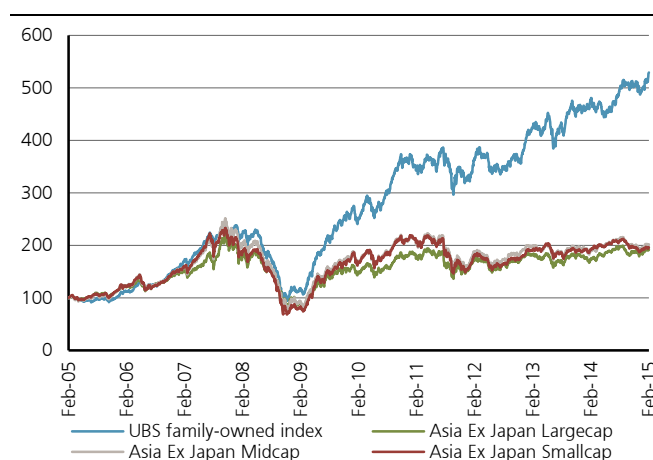
Finally, we show the performance of Asian and Latam family-owned companies against local indices. The results are, once again, quite conclusive.

**Figure 13: Asian family-owned midcaps have outperformed**

Index	Perf. 10y	Perf. 5y	Perf. 3y	Perf. 1y
UBS Asia Ex Japan Family-owned Index	444%	98%	43%	19%
MSCI Asia Ex Japan Largecap Index	93%	22%	12%	11%
MSCI Asia Ex Japan Midcap Index	102%	10%	7%	6%
MSCI Asia Ex Japan Smallcap Index	93%	9%	9%	0%

Source: Thomson Datastream, UBS estimates

**Figure 14: Asia ex-Japan midcaps, smallcaps, largecaps vs. family-owned stocks**



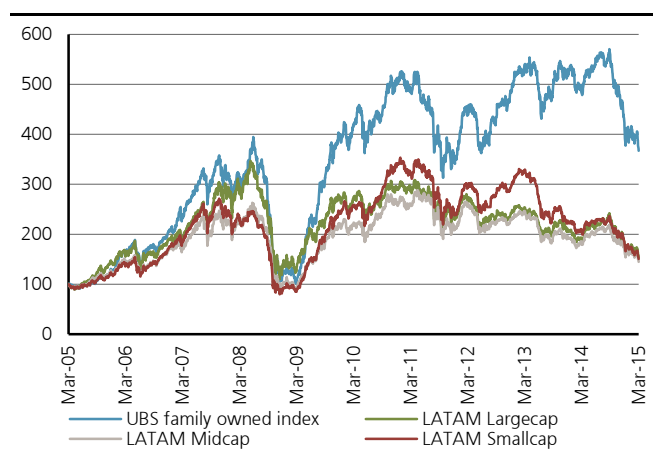
Source: Thomson Datastream, UBS estimates

**Figure 15: Latam family-owned midcaps have outperformed**

Index	Perf. 10y	Perf. 5y	Perf. 3y	Perf. 1y
UBS Latam Family-owned Index	270%	-11%	-18%	-24%
MSCI Latam Largecap Index	60%	-42%	-43%	-18%
MSCI Latam Midcap Index	50%	-33%	-43%	-20%
MSCI Latam Smallcap Index	55%	-40%	-50%	-26%

Source: Thomson Datastream, UBS estimates

**Figure 16: Latam midcaps, smallcaps, largecaps vs. family-owned stocks**



Source: Thomson Datastream, UBS estimates

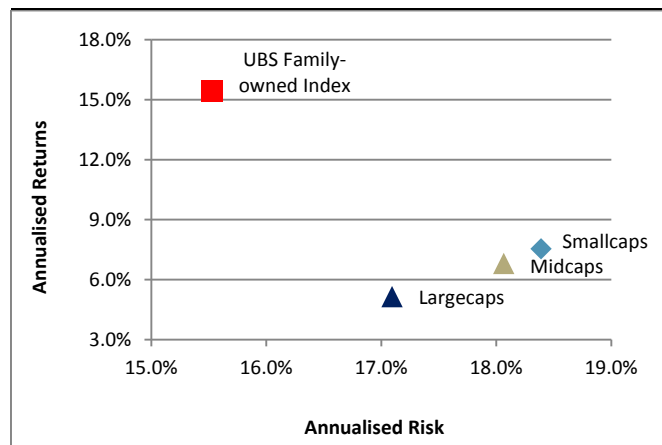
## What about risk?

It is received wisdom in finance that securing higher returns requires greater risk-taking. 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.

- While our sample of family firms is not exhaustive and there are difficulties in comparing risk/return profiles (for example, this could be specific to the 10-year period under consideration or be distorted by sector or geographical biases), our results appear to refute the assumption that risk is proportionate to the potential returns linked to our Family-owned Index.
- We ran the analysis using daily volatility data for MSCI largecap, midcap and smallcap price indices, as well as our index of family-owned companies (although we warn that results could differ if we used weekly or monthly data).
- The analysis is most conclusive at the global level and in Asia, as our Family-owned Index displays both the highest annualized returns and the lowest level of risk in the 10-year period. The results are also robust in Europe, but least robust in Latam, although there is no evidence of a risk higher than for largecaps, despite the higher returns (our Latam sample of family firms is the smallest among the three regions, with c20 stocks).

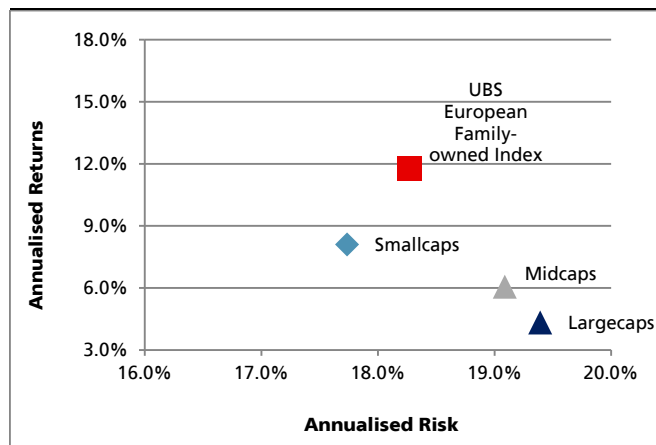
**We found that family firms have an attractive risk profile, both globally and regionally**

Figure 17: Risk/return 10-year analysis in global markets



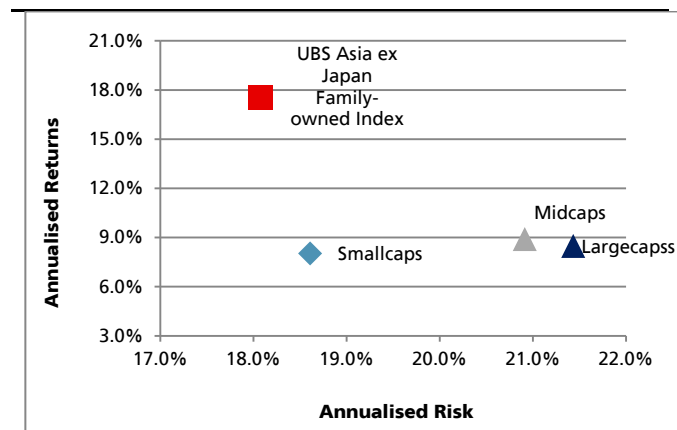
Source: UBS estimates, Thomson Datastream. Data based on MSCI daily indices.

Figure 18: Risk/return 10-year analysis in Europe



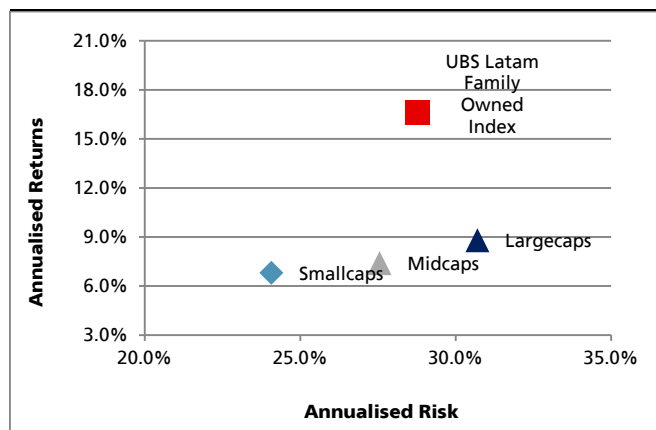
Source: UBS estimates, Thomson Datastream. Data based on MSCI daily indices.

Figure 19: Risk/return 10-year analysis in Asia ex-Japan



Source: UBS estimates, Thomson Datastream. Data based on MSCI daily indices.

Figure 20: Risk/return 10-year analysis in Latam



Source: UBS estimates, Thomson Datastream. Data based on MSCI daily indices.

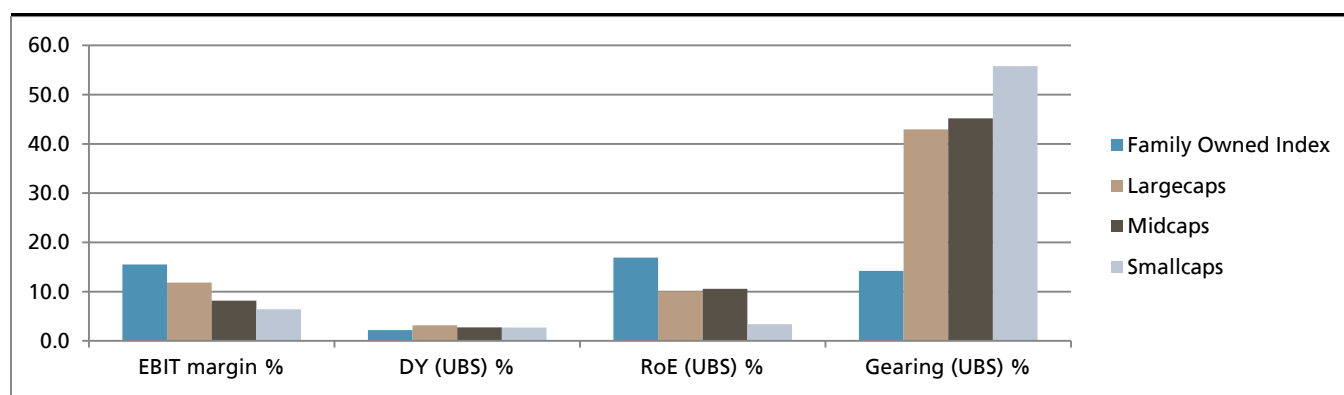
## What about the fundamentals?

We compared family-owned companies to the wider universe of large and midcap companies covered by UBS on a range of metrics – margins, ROE, gearing and dividend yield – over a five-year period. Family-owned companies screen quite well in terms of margins and returns, despite a lower gearing. There are some regional differences, but the results are broadly consistent across geographies<sup>3</sup>:

**Family-owned companies screen quite well in terms of margins and returns, despite a lower gearing**

- Family firms enjoy high operational margins. At 15.7%, family businesses' EBIT margins are 30% higher than those of largecaps (11.9%), and almost double those of midcaps (8.2%). This seems to be especially true in Asia, and may reflect a more disciplined approach on the part of family firms in relation to costs, although there could also be some sector bias at play. In Europe, family firms lag behind largecaps in terms of margins, but not by much (11% versus 12.1%). To us, this is still a positive result in those mature markets, given the differences in scale with largecaps (e.g. midcaps' margins are substantially lower in Europe at 8.1%).
- Returns are unequivocally higher for family firms in all regions. In Europe, the ROEs of family firms are in the mid-teens vs. the low teens for large and midcaps. In Asia, there is a similar gap between the returns of family firms (16.9%) vs. large (13.7%) and midcaps (12.1%). Importantly, these higher returns do not come with a higher gearing – quite the contrary. As suggested by the academic literature, we believe the higher returns likely come from effective governance and a disciplined attitude towards capital allocation.
- In our 15 October 2013 Q-Series® report [Why do smallcaps outperform?](#) (Bosco Ojeda), we concluded that higher growth was a key driver of outperformance for smallcaps. We looked specifically at family-owned firms and, once again, 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.
- Dividend yields tend to be lower for family firms at 2.2% vs 3.2% for largecaps and 2.8% for midcaps. This lower yield may be partly explained by the valuation gap between family and non-family firms. As discussed in the next section, family firms in fact enjoy a valuation premium across regions.

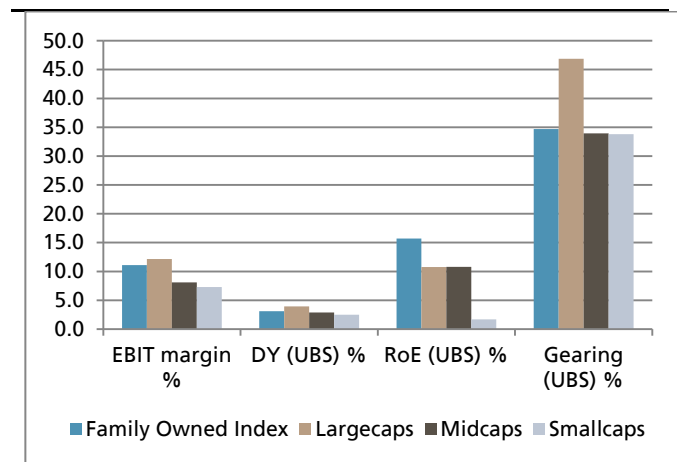
**Figure 21: Global: Fundamentals of family firms vs. large and midcaps – five-year average**



Source: UBS

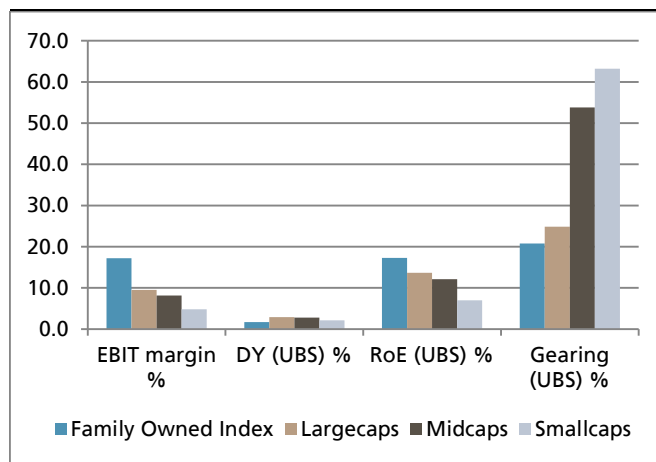
<sup>3</sup> In this analysis, we focus on Europe and Asia ex-Japan at the regional level, as this is where we have more depth in the data.

**Figure 22: Europe – fundamentals of family firms vs. large and midcaps, five-year average**



Source: UBS estimates

**Figure 23: Asia ex-Japan – fundamentals of family firms vs. large and midcaps, five-year average**



Source: UBS estimates

**Figure 24: Global, 5-year average**

Valuation metrics	Family-owned index	Large-caps	Mid-caps	Small-caps
EBIT margin %	15.5	11.9	8.2	6.4
DY (UBS) %	2.2	3.2	2.8	2.7
RoE (UBS) %	16.9	10.0	10.6	3.4
Gearing (UBS) %	14.2	43.0	45.2	55.8

Source: UBS estimates

**Figure 25: Europe, 5-year average**

Valuation metrics	Family-owned index	Large-caps	Mid-caps	Small-caps
EBIT margin %	11.1	12.1	8.1	7.3
DY (UBS) %	3.1	3.9	2.9	2.5
RoE (UBS) %	15.7	10.8	10.8	1.7
Gearing (UBS) %	34.7	46.9	34.0	33.8

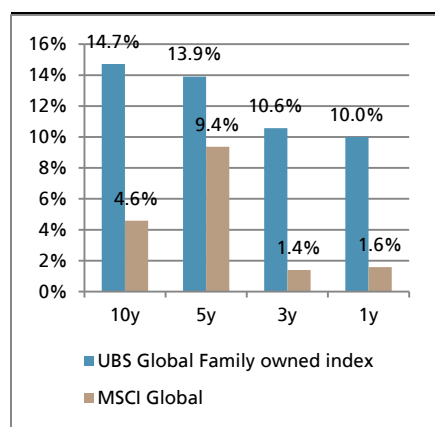
Source: UBS estimates

**Figure 26: Asia Ex-Japan, 5-yr average**

Valuation metrics	Family-owned index	Large-caps	Mid-caps	Small-caps
EBIT margin %	17.2	9.5	8.2	4.8
DY (UBS) %	1.7	2.9	2.8	2.1
RoE (UBS) %	17.3	13.7	12.1	7.0
Gearing (UBS) %	20.8	24.9	53.8	63.2

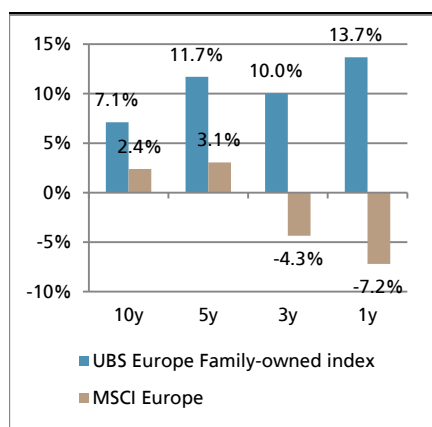
Source: UBS estimates

**Figure 27: EPS CAGR, Global**



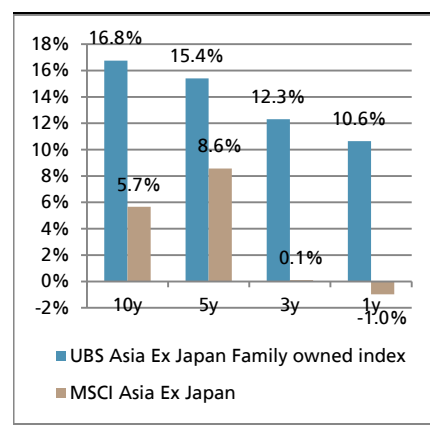
Source: MSCI, UBS

**Figure 28: EPS CAGR, Europe**



Source: MSCI, UBS

**Figure 29: EPS CAGR, Asia ex-Japan**



Source: MSCI, UBS

## Valuations – a family discount?

Family firms currently trade at a 30% valuation premium over large and midcaps on a P/E basis. However, it seems that family-owned companies are trading broadly in line with their historical multiples, at around 20x P/E.

**Is this premium justified?** If history was to repeat itself and family firms keep growing EPS at above 10% per annum, then family firms would deserve a higher premium, in our view.

We use a Gordon growth model to assess the EPS growth rate implied by current valuations. While we inevitably have to rely on a number of assumptions, we find that the implied EPS growth rate for family firms is close to half the growth rate observed over the past 10 years (7.5% vs. 14.7%). This looks very different when we look at the MSCI World: we find that the growth rate implied by the current P/E of 15x for the MSCI world is 6% – higher than the growth rate of 4.6% over the last 10 years. If history was to repeat itself, family firms would be under-priced as a group, in our view.

**Figure 30: Actual and implied EPS growth rates**

	MSCI world	UBS global family firms index
Actual annualized 10y EPS growth	4.6%	14.7%
Implied growth rates	6.0%	7.5%

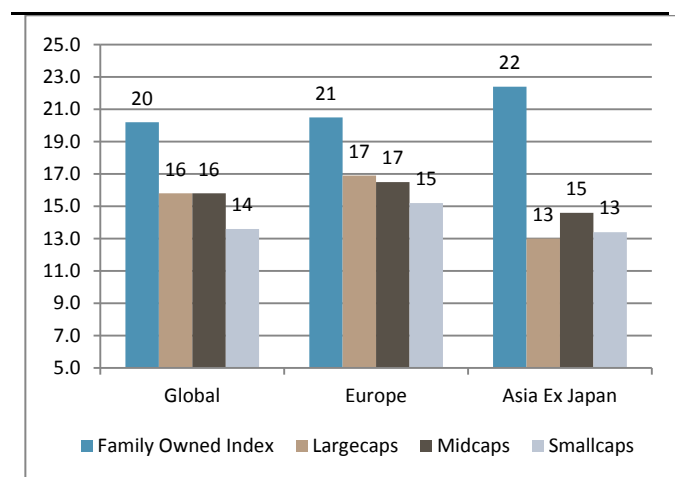
Source: MSCI, UBS

**Figure 31: Assumptions underpinning our implied growth rates**

Assumptions	MSCI world	UBS global family firms index
Risk-free rate	4%	4%
Equity risk-premium	5%	5%
Cost of equity	8.5%	8.5%
Pay-out ratio	45%	30%
Current P/E	15	20

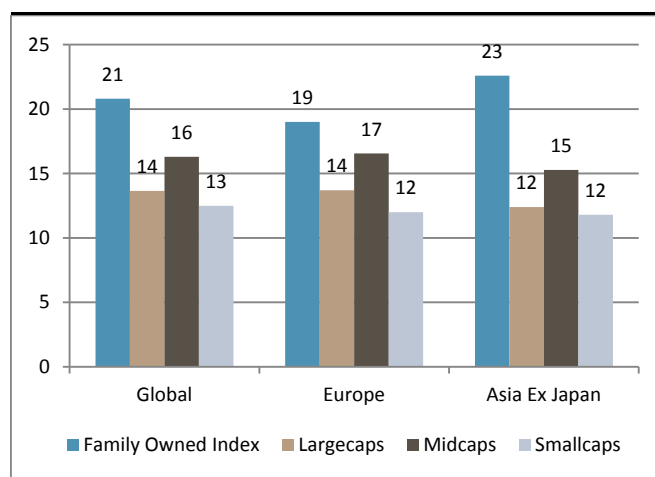
Source: MSCI, UBS

**Figure 32: Current P/Es**



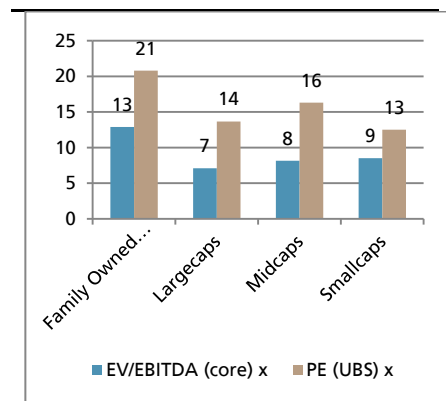
Source: UBS estimates

**Figure 33: Historical P/Es, five-year average**



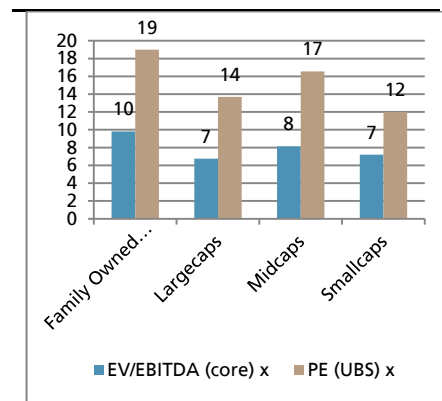
Source: UBS estimates

**Figure 34: Global – historical five-year valuations**



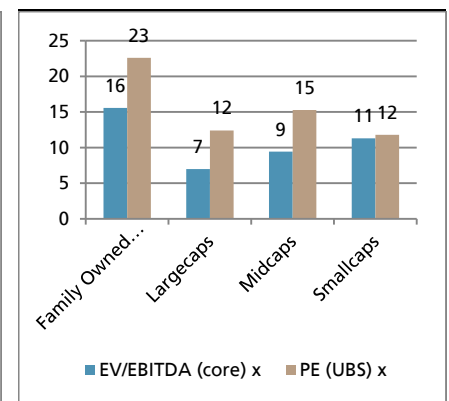
Source: UBS estimates

**Figure 35: Europe – historical five-year valuations**



Source: UBS estimates

**Figure 36: Asia ex-Japan – historical five-year valuations**



Source: UBS estimates

# Best-governed family-owned midcaps

We believe that analysing governance is a vital aspect of the investment process, and that good corporate governance has been a key factor driving shareholder returns for smallcaps. Small and midcap stocks are often perceived as opaque and risky, but our analysis suggests that, on the contrary, the space enjoys better corporate governance than largecaps, and in our view this has been a key driver of smallcap indices outperforming for the past 20 years – see our 15 October 2013 Q-Series® report [Why do smallcaps outperform?](#) (Bosco Ojeda). Obviously this is not the only factor; other aspects such as growth and M&A are also important, but it is hard to see a company perform well long term without proper governance.

In our view, governance also tends to be quite effective at family-owned firms, and is likely to play an important role in their outperformance, but we also think there are specific governance risks for family firms (e.g. related to succession issues and potential conflicts of interest with minority shareholders). To help investors navigate those risks, we have designed a proprietary framework to assess the governance of family-owned firms.

To do this, we score family-owned smallcaps in our coverage universe globally, with a particular focus on Europe and Asia, where the sample of covered stocks is wider, but also in the US and Latam. Our sample covers c250 stocks, and is based on companies where a family has control, meaning that it has a large stake with dominant board control and significant shareholder presence. In the tables below we show the highest-scoring smallcaps broken down by region.

- **Basis for scoring:** We scored the stocks on the basis of qualitative analyst assessments against 14 criteria in areas such transparency, board, succession, shareholder rights and remuneration. We believe this is a fair reflection of the most significant aspects of corporate governance. Analysts were asked to score from 1 to 3, with 3 being best in class governance and 1 below average.
- **Caveat:** These are bottom-up qualitative ranks based on the covering analyst's views, which are subjective and not always comparable.

**Figure 37: 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
	Motivation of controlling group/management
Shareholder rights	One-share, one-vote
	Absence of anti-takeover provisions
	Track record on treatment of minorities
Remuneration targets	Alignment with long-term shareholder value-creation
	Track record of maintaining targets
<b>Total</b>	

Source: UBS

**Our analysis suggests that growth, M&A and governance are key drivers of smallcap performance**

**Governance is also key for family-owned firms**

**We have scored around 250 family-owned firms according to a range of 14 governance criteria**



We show below the top-ranked family-owned companies for corporate governance in the different regions, as well as the basis of our rankings. As mentioned above, there is an element of subjectivity in the rankings and it can be difficult to compare companies, but in our view the top-ranked firms in these lists do exhibit fairly strong corporate governance standards.

## Europe

**Figure 38: Top ranked family-owned companies in Europe for corporate governance**

Company name	Total governance score	Communication of financial targets to investors	Willingness of senior management to meet investors	Quality, representation and risks to minority representation	Director shareholdings	Management independence from controlling family	Visibility of succession	Sticking to core business	Returning excess cash to shareholders	Motivation of controlling group/management	One-share, one-vote	Absence of anti-takeover provisions	Track record on treatment of minorities	Alignment with long-term shareholder value-creation	Track record of maintaining targets
Eurazeo	37	3	3	2	3	3	3	3	3	2	1	2	3	3	3
Ebro Foods	36	3	3	2	2	1	1	3	3	3	3	3	3	3	3
Bucher Industries AG	36	3	2	3	2	3	3	2	2	3	3	2	3	3	2
Wendel	35	3	3	2	3	3	2	3	2	2	1	2	3	3	3
Groupe Bruxelles Lambert SA	34	3	3	3	3	1	2	3	2	2	2	1	3	3	3
Belimo	34	2	1	3	2	3	3	3	2	2	3	2	2	3	3
SFS Group AG	34	3	3	3	3	2	3	2	2	3	3	2	2	2	1
Electrolux B	33	3	3	3	3	3	2	3	2	2	1	2	2	2	2
Laboratorios Farmacéuticos Rovi	32	3	3	2	1	1	2	3	1	3	3	2	3	3	2
Bachem	32	2	1	2	3	3	2	3	2	3	3	2	2	2	2
Huber+Suhner	32	2	2	3	1	3	2	3	1	3	3	2	3	2	2
Zumtobel Group AG	31	3	2	2	2	2	1	2	2	3	3	3	2	2	2
Ratos	31	2	2	2	3	3	2	3	2	1	3	2	2	2	2
BIC Group	30	2	2	2	2	2	2	2	3	2	1	1	3	3	3

Source: UBS estimates

## Asia ex-Japan

Figure 39: Top ranked family-owned companies in Asia (ex-Japan) for corporate governance

Company name	Total governance score	Communication of financial targets to investors	Willingness of senior management to meet investors	Quality, representation and risks to minority representation	Director shareholdings	Management independence from controlling family	Visibility of succession	Sticking to core business	Returning excess cash to shareholders	Motivation of controlling group/management	One-share, one-vote	Absence of anti-takeover provisions	Track record on treatment of minorities	Alignment with long-term shareholder value-creation	Track record of maintaining targets
Globe Telecom	41	2	3	3	3	3	3	3	3	3	3	3	3	3	3
Thai Union Frozen	39	3	3	3	2	2	2	3	3	3	3	3	3	3	3
Huayi Brothers Media	38	3	3	3	3	1	1	3	3	3	3	3	3	3	3
Marico Ltd	37	3	3	3	2	3	3	3	2	2	3	2	3	2	3
Top Glove	37	3	3	3	2	2	1	3	2	3	3	3	3	3	3
RiseSun Real Estate Development	35	3	3	2	3	2	2	3	2	3	3	3	2	2	2
Baoxin Auto	34	1	3	2	2	1	3	3	2	3	3	3	2	3	3
Zhongsheng Group Holdings	34	2	2	2	2	1	3	3	2	3	3	3	2	3	3
NagaCorp	34	3	3	1	2	1	2	3	3	3	3	3	2	3	2
Dialog Group	34	1	3	3	2	2	3	2	2	3	3	3	3	3	1
UOL Group	34	2	3	2	3	2	2	3	2	2	3	2	3	3	2
Land & Houses	34	3	3	2	2	3	2	2	3	2	2	2	2	3	3
Sa Sa International	33	3	2	2	2	1	1	3	3	3	3	1	3	3	3
Central Pattana	33	2	2	3	2	3	2	3	2	2	2	2	3	3	2
China Life Insurance (Taiwan)	33	2	2	2	3	2	2	3	2	2	3	3	2	3	2
Meisheng Cultural & Creative Corp.	32	1	1	3	3	1	1	3	2	2	3	3	3	3	3
Sino Biopharmaceutical	32	2	2	2	3	2	2	3	2	2	2	2	3	2	3

Source: UBS estimates

## Japan

Figure 40: Top ranked family-owned companies in Japan for corporate governance

Company name	Total governance score	Communication of financial targets to investors	Willingness of senior management to meet investors	Quality, representation and risks to minority representation	Director shareholdings	Management independence from controlling family	Visibility of succession	Sticking to core business	Returning excess cash to shareholders	Motivation of controlling group/management	One-share, one-vote	Absence of anti-takeover provisions	Track record on treatment of minorities	Alignment with long-term shareholder value-creation	Track record of maintaining targets
Daiichikoshoh	33	2	2	2	2	2	2	3	3	2	2	3	2	3	3
Hikari Tsushin	33	2	3	2	2	3	3	2	3	2	2	3	2	2	2
GMO Internet	32	2	3	3	1	2	2	3	2	3	2	3	2	2	2
Seria	32	2	3	3	2	2	3	3	2	2	2	2	2	2	2
Sanwa Holdings	31	3	3	2	2	2	1	3	3	2	2	1	2	2	3
Sugi Holdings	30	3	3	2	2	2	2	2	1	2	2	2	2	2	3
CyberAgent	30	2	3	3	1	2	2	3	1	3	2	2	2	2	2

Source: UBS estimates

## Latam

Figure 41: Top ranked family-owned companies in Latam for corporate governance

Company name	Total governance score	Investors Communication of financial targets to investors	Willingness of senior management to meet investors	Quality, representation and risks to minority representation	Director shareholdings	Management independence from controlling family	Visibility of succession	Sticking to core business	Returning excess cash to shareholders	Motivation of controlling group/management	One-share, one-vote	Absence of anti-takeover provisions	Track record on treatment of minorities	Alignment with long-term shareholder value-creation	Track record of maintaining targets
Grupo Comercial Chedraui, S.A.B. de C.V.	38	3	3	3	3	2	3	3	2	3	3	2	3	3	2
Hypermarcas S.A.	36	2	2	3	3	3	2	3	2	3	3	3	3	2	2
Fibra Danhos	35	3	3	2	3	1	2	3	3	3	2	2	2	3	3
Porto Seguro	32	2	3	3	2	2	3	2	2	2	3	2	2	2	2
lochpe-Maxion	32	2	2	2	3	1	2	3	1	3	3	3	2	3	2
LALA	32	2	2	2	2	3	2	3	2	2	3	3	2	2	2
Fibra Shop	31	3	2	2	2	2	2	3	3	2	2	2	2	2	2
Organizacion Soriana	31	2	2	1	3	2	3	2	2	3	3	2	3	2	1
Banregio	30	3	3	2	2	1	1	3	1	2	3	2	2	2	3

Source: UBS estimates

## US

Figure 42: Top ranked family-owned companies in the US for corporate governance

Company name	Total governance score	Investors Communication of financial targets to investors	Willingness of senior management to meet investors	Quality, representation and risks to minority representation	Director shareholdings	Management independence from controlling family	Visibility of succession	Sticking to core business	Returning excess cash to shareholders	Motivation of controlling group/management	One-share, one-vote	Absence of anti-takeover provisions	Track record on treatment of minorities	Alignment with long-term shareholder value-creation	Track record of maintaining targets
Fortinet Inc	34	3	3	3	3	2	2	3	2	2	2	2	2	2	3
Installed Building Products	33	3	3	2	2	1	1	3	2	3	3	2	2	3	3
Norcraft Companies	32	2	2	2	2	1	1	3	3	3	3	2	2	3	3
Greenlight Capital Re Ltd	31	2	2	2	2	3	3	2	3	2	2	2	2	2	2
Quotient Limited	30	3	3	2	2	1	1	3	2	3	2	2	2	2	2
Frank's International	29	1	2	2	2	2	3	3	2	2	2	2	2	2	2
Paramount Group, Inc.	29	2	2	2	2	2	2	3	2	2	2	2	2	2	2
Mattress Firm Holding Corp	28	3	3	2	1	2	2	2	1	2	2	2	2	2	2
IAC InterActive	27	2	1	2	2	2	1	2	3	3	1	2	2	2	2
Taubman Centers	27	2	2	2	2	1	1	2	2	3	2	2	2	2	2

Source: UBS estimates

# Combining value and governance scoring provides good ideas

In this section we briefly discuss the best-scoring family-owned names from a broader investment perspective, and provide regional lists of top picks including key valuation metrics.

## Europe

### Top picks Europe

#### Eurazeo – Buy

Eurazeo is an investment company originally created by the families controlling the investment bank Lazard; the families still hold c20% of the capital. Eurazeo's portfolio is a combination of self-help cases (Europcar), high-growth companies (Moncler, Desigual), and cash-generative businesses (Elis). Given the leveraged nature of Eurazeo's investments (LBOs), a moderate increase in earnings should result in a greater increase in NAV, which we find attractive in the current context.

**UBS analyst: Denis Moreau**

#### Ebro Foods – Buy

The company has a very significant presence in the US and Europe where it has #1 and #3 market shares for key segments of pasta and rice. The company has been growing through acquisitions of local champion brands and also organically through the development of value-added products. Ebro is a highly cash-generative business, has a good track record on growth, and a solid balance sheet.

**UBS analyst Bosco Ojeda**

#### Groupe Bruxelles Lambert – Buy

GBL is a holding company 50% controlled by Pargesa, a holding company controlled in turn by the Frere and Desmarais families. GBL's portfolio is focused on a small number of listed companies, with investments including Total, Lafarge, Imerys, SGS and Pernod Ricard. GBL acts as a long-term shareholder, and the portfolio has historically had very little or no financial leverage. We believe the current discount to NAV is too wide given the recent portfolio rotation.

**UBS analyst: Denis Moreau**

#### SFS group – Buy

SFS, led by an experienced management team, holds a strong market position in specialty fasteners that is based on close customer relations and the critical importance of its products. SFS offers solid growth driven by end-market growth in construction (c30% of sales), electronics (c25%) and automotive (20%). We expect it to enjoy incremental growth prospects from its accelerating regional expansion in Asia (24%) and North America (10%). SFS has a healthy balance sheet and sees potential for further acquisitions.

**UBS analyst: Andre Rudolf von Rohr**

#### Zumtobel – Buy

Zumtobel is a European leader in professional lighting solutions, based in Austria. It has set itself an impressive margin objective, which implies improving from an expected 5-6% margin this year to 8-10% in two years' time, to be achieved by closing four factories (out of 18) and consolidating the sales force. However, if Zumtobel is really consistent, we think it will need to step up these measures further, as when it comes to choosing its margin benchmarks it compares itself more to Acuity (12.2% EBIT margin in FY 14) and Fagerhult (10.1%), rather than

**UBS analyst: Sven Weier**

Philips (8.6%) and Osram (8.7%). We think it has scope to go beyond the current measures, and the recent rise in the shares has only started to anticipate this. Zumtobel has said it is discussing further margin improvement measures, though it is not yet clear whether this will lead to smaller or more profound changes.

## Ratos – Buy

Ratos is a listed private equity company that trades on the Stockholm stock exchange. Ratos's strategy is to generate the highest possible return through active ownership of its portfolio companies. Ratos generally prefers an ownership level of at least 20%, and targets an IRR of at least 20% on each investment, with an investment horizon of three to seven years.

UBS analyst David Hallden

**Figure 43: Europe – best-ranked corporate governance stocks – valuation criteria**

Company	Country	Stock price (l.c.)	UBS PT (l.c.)	UBS rating	Market cap (€ m)	Net debt/ EBITDA 2015E	Stock perf. 12m (%)	Stock perf. YTD (%)	Adj. P/E 2015E	EV/ EBITDA 2015E	Div. yield 2015E (%)
Eurazeo	FR	67.02	72.0	Buy	4951.15	-	10.9	16.8	-	-	1.8
Ebro Foods	ES	17.81	17.0	Buy	2953.90	-1.2	10.6	31.6	17.4	10.0	3.9
Bucher Industries AG	CH	241.7	225.0	Neutral	2531.68	0.0	-17.0	-1.9	14.7	7.3	2.4
Wendel	FR	114.8	107.5	Neutral	6017.65	-	3.1	25.0	-	-	1.8
Groupe Bruxelles Lambert	BE	78.93	84.0	Buy	13728.15	-	6.1	12.1	-	-	3.7
Belimo	CH	2126	2200.0	Neutral	1352.68	0.7	-12.9	-4.8	20.1	12.4	3.0
SFS Group AG	CH	71.05	78.0	Buy	2763.02	0.3	-	-9.0	18.6	9.9	2.1
Electrolux B	SE	236.2	190.0	Sell	7763.16	-0.8	59.5	2.3	15.8	7.5	2.8
Laboratorios Farmacéuticos Rovi	ES	16.29	13.1	Neutral	877.95	-0.3	71.6	58.3	28.4	20.5	1.2
Bachem	CH	53	42.0	Neutral	747.49	-0.2	6.4	10.0	26.4	14.4	3.0
Huber+Suhner	CH	45.05	40.0	Neutral	909.19	2.1	-7.4	-6.4	22.7	7.3	1.6
Zumtobel Group AG	AT	23.635	28.0	Buy	1108.21	-0.9	38.8	26.1	19.7	9.2	2.4
Ratos	SE	61.1	65.0	Buy	2377.31	-	-2.1	31.6	-	-	7.4
BIC Group	FR	140.35	137.0	Neutral	7119.92	0.5	48.8	29.8	21.6	12.7	3.9

Source: UBS estimates. Price data as of 9<sup>th</sup> April 2015.

## Asia ex-Japan

### Top picks Asia

#### RiseSun – Buy

Positioned in the mid- to low-end of the residential market, RiseSun is a real estate company with projects mainly in tier two/three cities. Small- to mid-size ordinary apartments account for more than 90% of the company's products. It currently has a landbank of c24m sqm, enough for sale in the next four years. Additionally, c20% of its landbank is located in Langfang. If the national strategy for the integration of Beijing-Tianjin-Hebei accelerates, we believe RiseSun's Langfang projects may post significantly higher sell-through rates and a higher average selling price (versus the current cRmb6,500/sqm), resulting in better profitability. We estimate the company's 2014 sales at Rmb28bn, up 4% YoY, and expect it to post 2015 sales of Rmb 32bn, up 14% YoY.

**UBS analyst: Xiao Ding**

#### Top Glove – Buy

Top Glove is the world's largest glove manufacturer with a global market share of approximately 25% and annual production capacity of 42bn pieces of gloves. With founder and CEO Tan Sri Lim Wee Chai driving strong leadership, the company has been focused on economies of scale and minimising costs, and has grown net profit by 21% CAGR since its IPO in 2001 (and capacity by 22% CAGR since 2001). Currently, the company is conservatively navigating the overcapacity in the market and building capacity in nitrile gloves, to capture the shift in consumer preference from latex to nitrile.

**UBS analyst: Nicole Goh**

#### Baoxin Auto – Buy

Baoxin Auto is one of the leading 4S dealership groups in China. The company has a well-established network comprising 80 4S dealerships, as at June 2014 – 71 of which are for luxury and ultra-luxury brands. Most of the 4S stores are located in populous and affluent regions of China. Baoxin Auto (Baoxin) reported H114 net profit of Rmb547m, up 7.0% YoY. We believe its new car sales margin has bottomed, while its after-sales services and derivative businesses should maintain strong growth. The company has been building its online used-car trading platform since October 2013. The platform became online-to-offline (O2O) in July 2014, when it opened the first dedicated used-car trading store and launched a standalone website for used-car trading and new car sales. We expect the O2O business to enhance earnings and valuation.

**UBS analyst: Ming Xu**

#### UOL Group – 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 23.8% 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.

**UBS analyst: Michael Lim**

## **Land & Houses – Buy**

Land & Houses (LH) is Thailand's leading housing developer and has high exposure to the low-rise segment of the market, targeting all income thresholds in Bangkok and upcountry Thailand alike. Additionally, LH has shown an ability to launch attractive condominium projects in Bangkok to further diversify its product offering. As it has one of the strongest balance sheets in the sector as well as a four-year landbank, we believe LH has the flexibility to rapidly adjust supply to changes in housing demand. Management maintains an 80% payout ratio, which produced a 2014 yield of 6.4%.

**UBS analyst: Thomas Philippon**

## **China Life Insurance (Taiwan) – Buy**

China Life (TW) has the highest earnings quality among the major Taiwan life insurers, due to the lower cost of its liabilities and breakeven yield. We believe the abundance of liquidity in Taiwan will continue to drive wealth management demand and support sales of bancassurance products. China Life is also a major beneficiary of Formosa bond development in Taiwan and we expect significant improvement in the recurrent investment yield through the reallocation of domestic Taiwan government bonds to long-duration US dollar financial bonds issued in Taiwan. In addition to its Taiwan business, China Life (TW) has a 20% stake in CCB Life in China. We believe this fits well with the financial reforms in China. China Life (TW)'s share price has been lagging major peers, like Cathay & Fubon, since 2013 and we expect China Life (TW) to catch up in 2015 as investors reposition from high-beta to high-quality names.

**UBS analyst: Kelvin Chu**

**Figure 44: Asia ex-Japan – Best-ranked corporate governance stocks – valuation criteria**

Company	Country	Stock price (l.c.)	UBS PT (l.c.)	UBS rating	Market cap (US\$ m)	Net debt/ EBITDA 2015E	Stock perf. 12m	Stock perf. YTD	Adj P/E 2015E	EV/ EBITDA 2015E	Div. yield 2015E
Globe Telecom	PH	2200	1650.0	Sell	6562.80	-1.2	31.0	27.2	21.3	8.0	3.9
Thai Union Frozen Products	TH	20.5	24.5	Buy	3004.37	-3.0	21.9	-8.1	16.0	11.3	3.0
Huayi Brothers Media	CN	34.88	33.5	Buy	6802.23	0.2	39.4	29.1	45.4	37.5	0.6
Marico Ltd	IN	409	350.0	Neutral	4240.96	-0.4	85.7	21.3	44.9	29.7	0.9
Top Glove	MY	5.46	5.9	Buy	931.292	0.2	11.7	20.8	16.3	8.9	3.2
RiseSun Real Estate Development	CN	22.72	20.5	Buy	6873.28	-1.8	80.3	45.4	8.9	7.9	1.5
Baoxin Auto	CN	4.6	7.5	Buy	1517.83	-1.6	-21.6	8.3	6.8	4.9	0.0
Zhongsheng Group Holdings	CN	5.86	8.7	Buy	1443.00	-1.7	-39.3	-10.0	7.1	4.6	2.8
NagaCorp	HK	6.88	7.0	Buy	1725.48	1.1	-25.6	-3.6	11.1	7.4	6.3
Dialog Group	MY	1.6	1.6	Neutral	2167.29	-1.1	-12.1	6.7	36.7	24.2	1.4
UOL Group	SG	7.81	7.7	Buy	4538.42	-6.6	23.6	11.2	14.9	25.5	1.9
Land & Houses	TH	9.8	12.2	Buy	3306.47	-3.7	-2.5	7.7	14.4	14.5	5.6
Sa Sa International	HK	8.04	4.0	Sell	1493.17	0.8	-33.4	-21.4	14.5	9.2	5.0
Central Pattana	TH	43.5	49.0	Neutral	5995.95	-1.1	0.0	-2.2	23.8	15.2	1.6
China Life Insurance (Taiwan)	TW	27.55	32.6	Buy	2660.06	-	13.6	8.7	12.7	-	1.6
Meisheng Cultural & Creative Corp.	CN	25.2	29.0	Buy	1670	0.5	190.8	88.8	67.3	52.0	0.4
Sino Biopharmaceutical	CN	9.38	8.1	Neutral	5980.529	1.2	42.1	29.6	26.7	15.6	1.0

Source: UBS estimates. Price data as of 9<sup>th</sup> April 2015.

## Japan

### Top picks Japan

#### Seria (2782) – Buy

Seria is the second-largest 100-yen shop in Japan with 1,200 stores and its net profit has grown by 13x for the past 10 years. Showcasing strong leadership by its family members, Seria has a different product strategy to its competitors, having built a structure capable of making demand forecasts using sales data accumulated over several years to hold down inventories and maximize sales. Additionally, by increasing the efficiency of store-level tasks through IT investment, overall store management has become more efficient, increasing operating profit three-fold over the past 5 years and raising ROE to 25.4% in FY13 from 8.5% in FY08

**UBS analyst: Mariko Watanabe**

#### CyberAgent (4751) – Buy

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. Its net profit has grown by 2.4x for the past 10 years, aided by strong leadership by

**UBS analyst: Sumito Takeda**



founder Susumu Fujita. We favour the company for four reasons: 1) The high sustainability of the game operation. There are no super-hits but we expect it to maintain a certain market share through steady supply and a consistent hit ratio. 2) Its lead in the ad business due to the shift to smartphones. The company boasts much stronger growth rate than at peers and is expanding its share in the broad ad-technology field. 3) The Ameba business's entrance into a new growth phase. The company is aggressively expanding its businesses to native areas and is establishing distribution platforms. 4) The company's good position in the sector shifting away from games. The structural reform of the Ameba operation has turned out to be a clever step, in our view. While realizing continued segmental sales growth and improvement in profit margins after halving its payroll, the company is creating an environment in which it can actively allocate staff to new business areas. In the sector, business ideas and money are becoming commodities, and expectations for success of new businesses are naturally growing in the market.

#### **DaiichiKosho (7458) – Buy**

Daiichi Kosho is the largest maker and operator of commercial karaoke in Japan. Its net profit has grown by 2.7X for the past 10 years, and founder Tadahiko Hoshi shows strong leadership. The earnings source for the commercial karaoke business is content distribution, which together with rentals accounts for 80% of earnings. Earnings appear to be very stable, with annual operating cash flow of more than ¥20bn. Management is aggressively returning surplus funds to shareholders, having bought back and retired 20% of the shares since FY06. Market share growth, success in the seniors market, and share buybacks/dividend increases should be catalysts for share price appreciation, in our view.

**UBS analyst: Mariko Watanabe**

#### **Hikari Tsushin (9435) – Buy**

Hikari Tsushin is Japan's top distributor with a broad range of products and services, including communications lines, mobile phones, office equipment and insurance. Its net profit has grown by 2.7x for the past 10 years. The company has a balanced business portfolio, spanning communication services, office machinery, corporate marketing tools, and energy-saving electronic equipment. In addition, it is further expanding the provision of solutions to the corporate sector and increasing sales of insurance products for individuals. As a result of expansion in the product line-up, contract growth, and improved productivity, ongoing commissions have more than doubled in the past five years, while cash flow stability and levels have increased substantially.

**UBS analyst: Mariko Watanabe**

**Figure 45: Japan – Best-ranked corporate governance stocks – valuation criteria**

Company	Stock price (I.c.)	UBS PT (I.c.)	UBS rating	Market cap (US\$ m)	Net debt/ EBITDA 2015E	Stock perf. 12m	Stock perf. YTD	Adj. P/E 2015E	EV/EBITDA 2015E	Div. yield 2015E
DaiichiKosho	4055	4400.0	Buy	1964.568	-1.0	34.0	24.4	18.9	7.2	2.6
Hikari Tsushin	8610	10500.0	Buy	3278.134	2.9	6.3	17.0	19.2	4.8	1.9
GMO Internet	1594	1800.0	Buy	1562.653	2.2	68.3	55.1	26.2	8.1	1.3
Seria	4275	5000.0	Buy	1334.048	0.8	12.5	6.9	24.3	11.9	0.7
Sanwa Holdings	903	950.0	Buy	1805.699	-0.7	45.9	7.0	14.3	6.7	1.6
Sugi Holdings	6150	3800.0	Sell	3240.361	2.3	40.1	24.9	22.5	9.2	0.6
CyberAgent	6860	8000.0	Buy	3608.393	0.8	89.5	51.3	23.3	10.7	0.6

Source: UBS estimates. Price data as of 9<sup>th</sup> April 2015.

## Latin America

### Top picks Latam

#### Fibra Danhos – Buy

We believe Fibra Danhos has one of the best quality portfolios in the real estate investment trust space. Given the limited amount of land available for development in Mexico City and its surrounding areas, Danhos is strategically positioned to increase rents as economic activity picks up. This strong position gives Danhos greater pricing power versus its peers. Grupo Danhos acts as a very strong sponsor, offering a unique pipeline and very solid network, setting the stage for positive tenant retention and good relationships with local authorities. We expect Danhos to continue developing landmark properties in Mexico's most important cities, and to capitalize on this by having strong pricing power and top-tier leasing contracts.

**UBS analyst: Marimar Torreblanca**

#### lochpe-Maxion – Buy

lochpe manufactures and produces steel and aluminium wheels, and structural components through strategically positioned industrial plants worldwide (which somewhat facilitates negotiation with OEMs). The company is positioned to benefit from a healthy scenario, combining exposure to solid markets (with very good growth potential in emerging markets) and a global presence (mitigating and diversifying the risks of growth). lochpe has a well-balanced revenue exposure to light (50%) and heavy vehicles (45%), as well as railways (5%). The solid business model and our Buy rating are supported by: (1) its large scale (well-balanced revenue distribution); (2) well mixed exposure worldwide; (3) a proven track record; and (4) a leading position as a producer of wheels.

**UBS analyst: Rodrigo Fernandes**

**Figure 46: LatAm – best-ranked governance stocks – valuation criteria**

Company	Country	Stock price (l.c.)	UBS PT (l.c.)	UBS rating	Market cap (local m)	Net debt/ EBITDA 2015E	Stock perf. 12m	Stock perf. YTD	Adj. P/E 2015E	EV/EBITDA 2015E	Div. yield 2015E
Grupo Comercial Chedraui	MX	47.5	44.0	Sell	45796	-0.9	22.9	13.1	23.4	9.8	0.4
Hypermarcas S.A.	BR	21.6	19.5	Neutral	13622	-2.5	31.7	31.1	24.6	13.3	0.0
Fibra Danhos	MX	36.5	42.0	Buy	53137	2.3	38.2	0.4	24.5	31.2	5.3
Porto Seguro	BR	36.8	37.5	Buy	11882	-	19.1	19.5	12.0	-	5.0
lochpe-Maxion	BR	11.5	15.0	Buy	1091	-3.2	-46.9	-4.9	14.0	5.2	2.7
LALA	MX	30.2	32.0	Neutral	74678	1.3	10.2	5.7	22.5	11.9	1.7
Fibra Shop	MX	17.5	19.0	Neutral	9175	-0.1	5.4	-9.6	14.6	17.3	5.8
Organizacion Soriana	MX	39.4	34.0	Sell	70902	0.2	-4.3	-3.7	18.6	8.9	0.8
Banregio	MX	82.5	84.0	Neutral	27048	-	9.6	11.5	15.2	-	1.6

Source: UBS estimates. Note: Price data as of 9<sup>th</sup> April 2015

## US

### Top picks US

#### Fortinet (FTNT) – Buy

Our Buy rating reflects the following positives for FTNT: (1) it has a long runway ahead, with only a mid- to high-single-digit market share of a \$10bn network security market, and it should continue to take share from weak competitors (CSCO/JNPR = \$2bn revenue opportunity), given its hardware-centric approach to security appeals to verticals, such as telecom and the small and medium business (SMB) segment; (2) large 4G/LTE telecom upgrade opportunity; (3) security is a high IT budget priority; (4) valuation versus the security peer group is at a significant discount on a relative basis; and (5) it is a potential beneficiary of sector consolidation. The risks include: (1) sizeable service provider vertical exposure; (2) the desire to continue pushing into enterprise could be met with fiercer competition and may limit market share gains outside telecom; and (3) it is behind the curve on virtual solutions wanted by enterprises (and potential industry consolidators).

**UBS analyst: Brent Thill**

#### Installed Building Products (IBP) – Buy

In our view, IBP is well positioned to benefit from an improving housing market, as it leverages company- and industry-specific benefits. Specifically, we note: (1) the installation of insulation is an attractive industry, given the need for local market knowledge and the low cost relative to the homebuilding process; (2) IBP is the second biggest player in the space, affording it significant purchasing advantages; and (3) the company's robust liquidity and successful M&A track record offer protection against volatility in the housing recovery. As such, we view the current valuation as an attractive entry point.

**UBS analyst: Susan Maklari**

**Figure 47: US – best-ranked governance stocks – valuation criteria**

Company	Country	Stock price (l.c.)	UBS PT (l.c.)	UBS rating	Market cap (local m)	Net debt/ EBITDA 2015E	Stock perf. 12m	Stock perf. YTD	Adj. P/E 2015E	EV/EBITDA 2015E	Div. yield 2015E
Fortinet Inc	US	34.49	37.0	Buy	5705.99	4.0	48.0	12.5	66.5	30.5	0.0
Installed Building Products	US	22.74	21.0	Buy	501.05	-0.7	71.8	27.6	22.7	7.8	0.0
Norcraft Companies	US	25.65	25.5	Neutral (CBE)	406.04	-2.4	45.3	32.9	21.4	8.2	0.0
Greenlight Capital Re Ltd	US	31.24	41.0	Buy	1167.90	-	-2.7	-4.3	7.0	-	0.0
Quotient Limited	US	17	25.0	Buy	17	0.6	-	-5.6	-8.0	-1.2	0.0
Frank's International	US	19.06	18.0	Neutral	3965.91	-1.0	-23.4	14.6	23.3	13.1	1.6
Paramount Group Inc	US	18.91	20.0	Neutral	4985.64	0.0	-	1.7	-57.3	25.0	2.1
Mattress Firm Holding Corp	US	68.35	73.0	Buy	2338.62	-1.6	46.3	17.7	25.8	16.5	0.0
IAC InterActive	US	72.52	70.0	Buy	6518.68	0.1	2.7	19.3	21.9	12.0	1.9
Taubman Centers Inc	US	75.05	77.0	Neutral	4882.45	-5.4	5.1	-1.8	33.3	17.1	3.0

Source: UBS estimates. Price data as of 9<sup>th</sup> April 2015.

## Appendix

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**Figure 48: List of small and midcap family stocks**

Company	Region	Country	UBS Analyst
Anta Sports Products	Asia ex-Japan	China	Spencer Leung
Baoxin Auto	Asia ex-Japan	China	Ming Xu
Beijing Tread Outdoor Products	Asia ex-Japan	China	Yunyun Hu, CFA
Better Life Commercial Chain Share	Asia ex-Japan	China	Xinyu Liao
China Medical System Holdings	Asia ex-Japan	China	Shaojing Tong
China Pioneer Pharma Holdings	Asia ex-Japan	China	Shaojing Tong
China Zhengtong Auto Services	Asia ex-Japan	China	Ming Xu
Cogobuy Group	Asia ex-Japan	China	Edwin Chen
Daphne International	Asia ex-Japan	China	Spencer Leung
Fujian SeptWolves Industry	Asia ex-Japan	China	Yunyun Hu, CFA
Golden Eagle Retail	Asia ex-Japan	China	Spencer Leung
Gome Electrical Appliances	Asia ex-Japan	China	Edwin Chen
GRG Banking Equipment	Asia ex-Japan	China	Zhong Zhou
Guangdong Highsun	Asia ex-Japan	China	Yunyun Hu, CFA
Guangdong Yihua Timber Industry	Asia ex-Japan	China	Yunyun Hu, CFA
Hand Enterprise Solutions	Asia ex-Japan	China	Zhong Zhou
Hangzhou Binjiang Real Estate	Asia ex-Japan	China	Xiao Ding
Haoxiangni Jujube	Asia ex-Japan	China	Linda Zhao
Henan Rebecca Hair Products	Asia ex-Japan	China	Yunyun Hu, CFA
Huayi Brothers Media	Asia ex-Japan	China	Xin Chen
Hunan Mendale Hometextile	Asia ex-Japan	China	Yunyun Hu, CFA
Jiangsu Kanion Pharmaceutical	Asia ex-Japan	China	Na Lin
Jinke Property	Asia ex-Japan	China	Xiao Ding
Joeone	Asia ex-Japan	China	Yunyun Hu, CFA
Jointown Pharmaceutical Group	Asia ex-Japan	China	Na Lin
Lee & Man Paper Manufacturing	Asia ex-Japan	China	Edwin Chen
Luolai Home Textile	Asia ex-Japan	China	Yunyun Hu, CFA
Meisheng Cultural & Creative Corp.	Asia ex-Japan	China	Xin Chen
Neusoft	Asia ex-Japan	China	Zhong Zhou
Nine Dragons Paper	Asia ex-Japan	China	Edwin Chen
Parkson Retail	Asia ex-Japan	China	Spencer Leung
Qiaqia Food	Asia ex-Japan	China	Linda Zhao
Rastar Group	Asia ex-Japan	China	Xin Chen
RiseSun Real Estate Development	Asia ex-Japan	China	Xiao Ding
Shandong New Beiyang Information Tech	Asia ex-Japan	China	Zhong Zhou
Shangdong Realcan Pharmaceutical	Asia ex-Japan	China	Na Lin
ShenZhen Fuanna Bedding and Furnishing	Asia ex-Japan	China	Yunyun Hu, CFA
Shenzhen MTC Co Ltd	Asia ex-Japan	China	Xinyu Liao
Shijiazhuang Yiling Pharmaceutical	Asia ex-Japan	China	Na Lin
Sino Biopharmaceutical	Asia ex-Japan	China	Shaojing Tong
Towngas China	Asia ex-Japan	China	Ken Liu
Yangzijiang Shipbuilding (Holdings) Ltd.	Asia ex-Japan	China	Cheryl Lee, CFA
YGSOFT Inc	Asia ex-Japan	China	Zhong Zhou
Yingde Gases	Asia ex-Japan	China	Edwin Chen
Yonghui Superstores	Asia ex-Japan	China	Xinyu Liao
Zhejiang Semir Garment	Asia ex-Japan	China	Yunyun Hu, CFA
Zhongsheng Group Holdings	Asia ex-Japan	China	Yankun Hou
Chow Sang Sang Holdings International	Asia ex-Japan	Hong Kong	Spencer Leung
First Pacific	Asia ex-Japan	Hong Kong	Angus Chan
Johnson Electric	Asia ex-Japan	Hong Kong	Edwin Chen
Lifestyle International	Asia ex-Japan	Hong Kong	Spencer Leung
Melco International Development	Asia ex-Japan	Hong Kong	Anthony Wong
NagaCorp	Asia ex-Japan	Hong Kong	Angus Chan
Sa Sa International	Asia ex-Japan	Hong Kong	Edwin Chen
Shun Tak Holdings	Asia ex-Japan	Hong Kong	Angus Chan

VTech	Asia ex-Japan	Hong Kong	Edwin Chen
Apollo Hospitals Enterprise	Asia ex-Japan	India	Hemant Bakhru
Britannia Industries	Asia ex-Japan	India	Sunita Sachdev
Cadila Healthcare	Asia ex-Japan	India	Hemant Bakhru
Cipla Ltd.	Asia ex-Japan	India	Hemant Bakhru
Dr. Reddy's Labs	Asia ex-Japan	India	Hemant Bakhru
Emami Ltd	Asia ex-Japan	India	Sunita Sachdev
Glenmark Pharmaceuticals	Asia ex-Japan	India	Hemant Bakhru
Godrej Properties	Asia ex-Japan	India	Ashish Jagnani
Ipca Laboratories	Asia ex-Japan	India	Hemant Bakhru
Lupin Limited	Asia ex-Japan	India	Hemant Bakhru
Marico Ltd	Asia ex-Japan	India	Sunita Sachdev
Oberoi Realty	Asia ex-Japan	India	Ashish Jagnani
Phoenix Mills	Asia ex-Japan	India	Ashish Jagnani
Ranbaxy	Asia ex-Japan	India	Hemant Bakhru
Sun Pharmaceuticals Industries Limited	Asia ex-Japan	India	Hemant Bakhru
Torrent Pharmaceuticals	Asia ex-Japan	India	Hemant Bakhru
Ace Hardware Indonesia	Asia ex-Japan	Indonesia	Adrian Joezer
Global Mediacom Tbk PT	Asia ex-Japan	Indonesia	Adrian Joezer
Matahari Department Store	Asia ex-Japan	Indonesia	Adrian Joezer
Media Nusantara Citra	Asia ex-Japan	Indonesia	Adrian Joezer
Mitra Adiperkasa Tbk, PT	Asia ex-Japan	Indonesia	Adrian Joezer
Ramayana Lestari Sentosa	Asia ex-Japan	Indonesia	Adrian Joezer
Sumber Alfaria Trijaya	Asia ex-Japan	Indonesia	Adrian Joezer
Surya Citra Media Tbk	Asia ex-Japan	Indonesia	Adrian Joezer
CJ O Shopping	Asia ex-Japan	Korea	Jennifer Han
E-mart	Asia ex-Japan	Korea	Jennifer Han
Eugene Technology	Asia ex-Japan	Korea	Nicolas Gaudois
Hyundai Department Store	Asia ex-Japan	Korea	Jennifer Han
KH Vatec	Asia ex-Japan	Korea	Bonil Koo
Nexen Tire	Asia ex-Japan	Korea	Josh Bae
Orion Corp.	Asia ex-Japan	Korea	Jennifer Han
Partron Co Ltd	Asia ex-Japan	Korea	Bonil Koo
Shinsegae	Asia ex-Japan	Korea	Jennifer Han
Wonik IPS	Asia ex-Japan	Korea	Nicolas Gaudois
7-Eleven Malaysia Holdings	Asia ex-Japan	Malaysia	Nicole Goh
Berjaya Food Bhd	Asia ex-Japan	Malaysia	Nicole Goh
Berjaya Sports Toto	Asia ex-Japan	Malaysia	Nicole Goh
Bumi Armada	Asia ex-Japan	Malaysia	Nicole Goh
Dialog Group	Asia ex-Japan	Malaysia	Nicole Goh
Mah Sing	Asia ex-Japan	Malaysia	Edwin Siow
Nirvana Asia	Asia ex-Japan	Malaysia	Edwin Siow
SapuraKencana Petroleum	Asia ex-Japan	Malaysia	Nicole Goh
Top Glove	Asia ex-Japan	Malaysia	Nicole Goh
WCT Berhad	Asia ex-Japan	Malaysia	Edwin Siow
YTL	Asia ex-Japan	Malaysia	Edwin Siow
YTL Power International	Asia ex-Japan	Malaysia	Edwin Siow
DMCI Holdings	Asia ex-Japan	Philippines	Karen Hizon
Globe Telecom	Asia ex-Japan	Philippines	Karen Hizon
OUE Limited	Asia ex-Japan	Singapore	Robin Xie
UOL Group	Asia ex-Japan	Singapore	Michael Lim
Yoma Strategic Holdings	Asia ex-Japan	Singapore	Robin Xie
China Life Insurance (Taiwan)	Asia ex-Japan	Taiwan	Kelvin Chu, CFA
EVA Air	Asia ex-Japan	Taiwan	Tiffany Chen
Evergreen Marine	Asia ex-Japan	Taiwan	Tiffany Chen
Shin Kong Financial Holding	Asia ex-Japan	Taiwan	Kelvin Chu, CFA
SinoPac Financial Holding	Asia ex-Japan	Taiwan	Kelvin Chu, CFA
Taishin Financial Holding	Asia ex-Japan	Taiwan	Kelvin Chu, CFA

Yang Ming Marine	Asia ex-Japan	Taiwan	Tiffany Chen
Yuanta Financial Holding	Asia ex-Japan	Taiwan	Kelvin Chu, CFA
Amata Corporation	Asia ex-Japan	Thailand	Thomas Philippson, CA
BEC World	Asia ex-Japan	Thailand	Youssef Abboud
Central Pattana	Asia ex-Japan	Thailand	Thomas Philippson, CA
Hemaraj Land and Development	Asia ex-Japan	Thailand	Thomas Philippson, CA
Land & Houses	Asia ex-Japan	Thailand	Thomas Philippson, CA
Pruksa Real Estate	Asia ex-Japan	Thailand	Thomas Philippson, CA
Quality Houses Public Co Ltd	Asia ex-Japan	Thailand	Thomas Philippson, CA
Robinson Department Store	Asia ex-Japan	Thailand	Youssef Abboud
Supalai PCL	Asia ex-Japan	Thailand	Thomas Philippson, CA
Thai Union Frozen Products	Asia ex-Japan	Thailand	Youssef Abboud
Domino's Pizza	Australia	Australia	Han Xu
OrotonGroup Limited	Australia	Australia	Jordan Rogers, CFA
Servcorp Limited	Australia	Australia	Doug Macphillamy
Super Retail Group Ltd	Australia	Australia	Ben Gilbert
Technology One	Australia	Australia	Han Xu
Zumtobel Group AG	Europe	Austria	Sven Weier
Groupe Bruxelles Lambert SA	Europe	Belgium	Denis Moreau
BIC Group	Europe	France	Denis Moreau
Eurazeo	Europe	France	Denis Moreau
FFP	Europe	France	Denis Moreau
SEB	Europe	France	Denis Moreau
Wendel	Europe	France	Denis Moreau
Krones	Europe	Germany	Sven Weier
Autogrill	Europe	Italy	Bosco Ojeda
Moncler Spa	Europe	Italy	Fred Speirs
Salvatore Ferragamo SPA	Europe	Italy	Fred Speirs
Tod's	Europe	Italy	Fred Speirs
Orkla	Europe	Norway	David Hallden
NOS, SGPS, S.A.	Europe	Portugal	Bosco Ojeda
Bankinter	Europe	Spain	Ignacio Sanz, CFA
Catalana Occidente	Europe	Spain	Ignacio Sanz, CFA
Ebro Foods	Europe	Spain	Bosco Ojeda
Laboratorios Farmacéuticos Rovi	Europe	Spain	Guillaume van Renterghem
Melia Hotels	Europe	Spain	Bosco Ojeda
OHL	Europe	Spain	Bosco Ojeda
Prosegur	Europe	Spain	Bosco Ojeda
Viscofan	Europe	Spain	Bosco Ojeda
Electrolux B	Europe	Sweden	David Hallden
Husqvarna	Europe	Sweden	David Hallden
Investment AB Kinnevik	Europe	Sweden	David Hallden
Investor AB	Europe	Sweden	David Hallden
Ratos	Europe	Sweden	David Hallden
Bachem	Europe	Switzerland	Andre Rudolf von Rohr
Barry Callebaut	Europe	Switzerland	Joern Iffert, CFA
Belimo	Europe	Switzerland	Torsten Wyss
Bucher Industries AG	Europe	Switzerland	Andre Rudolf von Rohr
Huber+Suhner	Europe	Switzerland	Andre Rudolf von Rohr
Kaba	Europe	Switzerland	Torsten Wyss
Kudelski	Europe	Switzerland	Joern Iffert, CFA
Phoenix Mecano	Europe	Switzerland	Joern Iffert, CFA
Schindler	Europe	Switzerland	Torsten Wyss
SFS Group AG	Europe	Switzerland	Andre Rudolf von Rohr
Adastria Holdings	Japan	Japan	Nozomi Moriya
Asahi	Japan	Japan	Nozomi Moriya
CyberAgent	Japan	Japan	Sumito Takeda
Daiichikosho	Japan	Japan	Mariko Watanabe



FP	Japan	Japan	Mariko Watanabe
GMO Internet	Japan	Japan	Sumito Takeda
Gree Inc	Japan	Japan	Sumito Takeda
Hikari Tsushin	Japan	Japan	Mariko Watanabe
Kanamoto	Japan	Japan	Mariko Watanabe
Koshidaka Holdings	Japan	Japan	Mariko Watanabe
mixi	Japan	Japan	Sumito Takeda
Park24	Japan	Japan	Mariko Watanabe
Resorttrust	Japan	Japan	Mariko Watanabe
SAC'S BAR HOLDINGS	Japan	Japan	Mariko Watanabe
Sanwa Holdings	Japan	Japan	Mariko Watanabe
Seria	Japan	Japan	Mariko Watanabe
Sugi Holdings	Japan	Japan	Nozomi Moriya
Xebio	Japan	Japan	Nozomi Moriya
Companhia Siderurgica Nacional	US & Latam	Brazil	Andreas Bokkenheuser
Gerdau	US & Latam	Brazil	Andreas Bokkenheuser
Hypermarcas S.A.	US & Latam	Brazil	Gustavo Oliveira, CFA
loche-Maxion	US & Latam	Brazil	Rodrigo Fernandes
Minerva Foods	US & Latam	Brazil	Alan Alanis
Porto Seguro	US & Latam	Brazil	Mariana Taddeo
Randon	US & Latam	Brazil	Rodrigo Fernandes
SulAmerica	US & Latam	Brazil	Mariana Taddeo
Bombardier	US & Latam	Canada	Darryl Genovesi
Alsea	US & Latam	Mexico	Marimar Torreblanca, CFA
Banregio	US & Latam	Mexico	Frederic De Mariz
Fibra Danhos	US & Latam	Mexico	Marimar Torreblanca, CFA
Fibra Shop	US & Latam	Mexico	Marimar Torreblanca, CFA
GRUMA	US & Latam	Mexico	Alan Alanis
Grupo Comercial Chedraui, S.A.B. de C.V.	US & Latam	Mexico	Gustavo Oliveira, CFA
Grupo Mexico	US & Latam	Mexico	Andreas Bokkenheuser
LALA	US & Latam	Mexico	Alan Alanis
Organizacion Soriana	US & Latam	Mexico	Gustavo Oliveira, CFA
Ternium SA	US & Latam	Mexico	Andreas Bokkenheuser
Avianca	US & Latam	Panama	Rodrigo Fernandes
AMC Networks Inc	US & Latam	United States	Doug Mitchelson
Cablevision Systems	US & Latam	United States	John Hodulik, CFA
Fortinet Inc	US & Latam	United States	Brent Thill
Frank's International	US & Latam	United States	Angie Sedita
hhgregg, Inc.	US & Latam	United States	Michael Lasser
IAC InterActive	US & Latam	United States	Eric Sheridan
Installed Building Products	US & Latam	United States	Susan Maklari
Life Time Fitness, Inc.	US & Latam	United States	Michael Lasser
Mattress Firm Holding Corp	US & Latam	United States	Michael Lasser
Norcraft Companies	US & Latam	United States	Susan Maklari
Paramount Group, Inc.	US & Latam	United States	Ross Nussbaum
Paramount Group, Inc.	US & Latam	United States	Ross Nussbaum
Quotient Limited	US & Latam	United States	Andrew Peters
Sonic Automotive Inc.	US & Latam	United States	Colin Langan, CFA
Taubman Centers, Inc.	US & Latam	United States	Jeremy Metz
Urban Outfitters Inc.	US & Latam	United States	Roxanne Meyer, CFA
Zynga	US & Latam	United States	Eric Sheridan

Source: UBS

Figure 49: Review of the academic literature on family firms

Authors	Year of publication	Period covered	Number of companies	Geography	Definition of family firm	Other variable tested	Performance variable	UBS Summary - Main conclusions	Title	Published in
Miller et al	2007	1996-2000	896	US – Fortune 1000 firms	Family firm, first or second generation, with a lone founder (defined as having no relatives in the business). Condition: Insiders or large owners (5% or more)	-	Market based: Tobin's Q	Higher (industry-adjusted) valuations of lone founder business, i.e. without relatives associated with their firms	Are family-firms really superior performers?	Journal of Corporate Finance
Feldman, Amit, Villalonga	2013	1994-2010	2110	US	A company founder or member of his family is an officer, director or block holder. Distinction between family CEO (founder or descendant) and non-family CEO	Propensity of family business to divest and relative value afterwards	Abnormal returns after divestment	Family-owned company less likely to divest, but market reaction to divestment more positive, especially when family managed	Corporate divestiture and family control	Strategic Management Journal
Essen, Carney, Gedajlovic	2011	Meta-analysis - 55 studies	187,999 firm year observations	US	Multiple. Distinction between control from the first generation versus later generations	Propensity to engage in diversification, international ventures, and take on debt	Multiple	Family firms (FF) outperform (both on market and accounting measures), but it is not stable across generations. Family firms engage in fewer international ventures, hold less debt and diversify less. Discount for successor generation FF (less risk taking, less R&D investment, more governance mechanisms to entrench family control)	Do US publicly-listed family firms differ? Does it matter? A meta-analysis	Corporate Governance: An International Review

Authors	Year of publication	Period covered	Number of companies	Geography	Definition of family firm	Other variable tested	Performance variable	UBS Summary - Main conclusions	Title	Published in
Villalonga, Amit	2005	1994-2000	Fortune 500	US	Founder or a member of the family is an officer, director or block holder (defined by SEC reporting requirements – change the condition with 20% of the vote). Distinction between founder-run family firms and run by later generations	Control in excess of ownership	Tobin's Q	Family control in excess of ownership reduces value. Family management turns into a premium when the founder serves as the CEO or chairman. It turns into a discount when descendants serve as chairman or CEO	How do family ownership, control and management affect firm value?	Journal of Financial Economics
Weisskopf	2010	2003-2008	188	Swiss-listed companies	Founding family controlling more than 50% of the vote or between 20% and 50%. Distinction between family CEO or not and first or later generations	Pay-out policies	ROIC, Tobin's Q (control variables)	Founding family firms are likely to pay higher dividends than non-family firms, but not at the founder stage. Dual share classes do not influence pay-out	Do not wake sleeping dogs: Pay-out policies in founding family firms	Working paper – Université de Fribourg
Weisskopf, Isakov	2012	2003-2010	185	Swiss-listed firms	Founding family controlling more than 50% of the vote or between 20% and 50%. Distinction between family CEO/chairman or outsider, and whether multiple individuals and generations	Level of control	ROA, Tobin's Q	Founding family firms are more profitable, both for a lone founder and descendants (if there are no multiple founders or family members actively involved).	Are founding families special block holders?	Journal of Banking and Finance
Adams, Almeida, Ferreira	2005	1992-1999	Fortune 500	US	Focus on founder CEO		ROA, Tobin's Q	Past accounting performance increases the likelihood that founder CEOs will step out.	Understanding the relationship between founder CEOs and firm performance	Journal of Empirical Finance

Authors	Year of publication	Period covered	Number of companies	Geography	Definition of family firm	Other variable tested	Performance variable	UBS Summary - Main conclusions	Title	Published in
Anderson, Duru, Reeb	2008	2001-2003	2000	US, excluding financial firms and public utilities	Family with a presence as a shareholder, top-level manager, director or chairman of the board. Distinction between founders and heirs	Opacity: Trading volume, bid-ask spread, analyst following and analyst forecast error	ROA, Tobin's Q	Only founder or heir firms characterised as transparent receive a valuation premium	Founders, heirs, and corporate opacity in the US	Journal of Financial Economics
Li, Srinivasan	2011	1996-2004	S&P500, 400 mid-cap, 600 smallcaps	US	Focus on founders that are directors	M&A activity, CEO turnover, sensitivity of pay to performance, directors' attendance		Firms with founder director tend to have higher CEO pay-to-performance sensitivity, and the CEOs of these firms face higher turnover pressure, higher director attendance	Corporate governance when founders are directors	Journal of Financial Economics
Sraer, Thesmar	2007	1994-2000	700	France	When the founder or a member of his family is a blockholder with more than 20% of the voting rights. Founders, heirs or professionally managed	Labour productivity, wages	Many including ROA, ROE, P/B	Outperformance of family-run firms on ROA and ROE, even with heir CEOs. Premium for founder-led family firms. Professional CEOs better at acquisitions than heirs	Performance and behaviour of family firms: Evidence from the French stock market	Journal of the European Economic Association
Boyle, Pollack, Rutherford	2012	78 studies	80,421 sample size		Meta-analysis			No relationship between governance and performance		Journal of Business Venturing
Wang, Zhou		2006-2010	658	US, UK, Germany, France, Italy	Four types: Founder or heir firms (CEO, blockholder >5% or board members), family owned (10% ownership through another vehicle); leader/owner (with at least 5% stake)		Operating ROA; Tobin's Q	Founder firms are better performers in terms of operating profitability during a financial crisis. Less investment during a crisis from family firms	Are family-firms better performers during the financial crisis?	SSRN

Source: UBS

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12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	FSR is > 6% above the MRA.	45%	37%
Neutral	FSR is between -6% and 6% of the MRA.	43%	33%
Sell	FSR is > 6% below the MRA.	12%	20%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 March 2015.

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>Bachem</b> <sup>5</sup>	BANB.S	Neutral	N/A	CHF52.80	14 Apr 2015
<b>Banregio</b> <sup>16a</sup>	GFREGIOO.MX	Neutral	N/A	P80.74	13 Apr 2015
<b>Baoxin Auto</b>	1293.HK	Buy	N/A	HK\$4.72	14 Apr 2015
<b>Belimo</b> <sup>5</sup>	BEAN.S	Neutral	N/A	CHF2,291.00	14 Apr 2015
<b>BIC Group</b>	BICP.PA	Neutral	N/A	€142.40	14 Apr 2015
<b>Bucher Industries AG</b> <sup>5</sup>	BUCN.S	Neutral	N/A	CHF246.00	14 Apr 2015
<b>Central Pattana</b>	CPN.BK	Neutral	N/A	Bt44.50	10 Apr 2015
<b>China Life Insurance (Taiwan)</b>	2823.TW	Buy	N/A	NT\$30.10	14 Apr 2015
<b>CyberAgent</b>	4751.T	Buy	N/A	¥6,680	14 Apr 2015
<b>Daiichikoshoh</b>	7458.T	Buy	N/A	¥4,065	14 Apr 2015
<b>Dialog Group</b>	DIAL.KL	Neutral	N/A	RM1.61	14 Apr 2015
<b>Ebro Foods</b>	EBRO.MC	Buy	N/A	€18.28	14 Apr 2015
<b>Electrolux B</b>	ELUXb.ST	Sell	N/A	SKr230.60	14 Apr 2015
<b>Eurazeo</b> <sup>5</sup>	EUR.A.PA	Buy	N/A	€67.54	14 Apr 2015
<b>Fibra Danhos</b> <sup>5</sup>	DANHOS13.MX	Buy	N/A	P36.30	13 Apr 2015
<b>Fibra Shop</b>	FSHOP13.MX	Neutral	N/A	P17.34	13 Apr 2015
<b>Fortinet Inc</b> <sup>4, 5, 6a, 6b, 7, 16c</sup>	FTNT.O	Buy	N/A	US\$34.26	13 Apr 2015
<b>Frank's International</b> <sup>5, 16c</sup>	FI.N	Neutral	N/A	US\$19.07	13 Apr 2015
<b>Globe Telecom</b>	GLO.PS	Sell	N/A	P2,270.00	14 Apr 2015
<b>GMO Internet</b>	9449.T	Buy	N/A	¥1,630	14 Apr 2015
<b>Greenlight Capital Re Ltd</b> <sup>6b, 7, 16c, 18</sup>	GLRE.O	Buy	N/A	US\$30.71	13 Apr 2015
<b>Groupe Bruxelles Lambert SA</b> <sup>5</sup>	GBLB.BR	Buy	N/A	€79.84	14 Apr 2015
<b>Grupo Comercial Chedraui, S.A.B. de C.V.</b> <sup>16a</sup>	CHDRAUIB.MX	Sell	N/A	P49.74	13 Apr 2015
<b>Hikari Tsushin</b>	9435.T	Buy	N/A	¥8,650	14 Apr 2015
<b>Huayi Brothers Media</b>	300027.SZ	Buy	N/A	Rmb33.28	14 Apr 2015

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Huber+Suhner <sup>5</sup>	HUBN.S	Neutral	N/A	CHF44.05	14 Apr 2015
Hypermarchés S.A.	HYPE3.SA	Neutral	N/A	R\$21.29	13 Apr 2015
IAC InterActive <sup>16c</sup>	IACI.O	Buy	N/A	US\$72.55	13 Apr 2015
Imerys	IMTP.PA	Buy	N/A	€72.56	14 Apr 2015
Installed Building Products <sup>2, 4, 5, 6a, 13, 16c</sup>	IBP.N	Buy	N/A	US\$22.62	13 Apr 2015
Iochpe-Maxion	MYPK3.SA	Buy	N/A	R\$10.90	13 Apr 2015
Koninklijke Philips N.V. <sup>5, 16c</sup>	PHG.AS	Neutral	N/A	€26.92	14 Apr 2015
Laboratorios Farmacéuticos Rovi	ROVI.MC	Neutral	N/A	€16.40	14 Apr 2015
Lafarge <sup>3b, 3c, 3d, 4</sup>	LAFP.PA	Neutral	N/A	€62.28	14 Apr 2015
LALA	LALAB.MX	Neutral	N/A	P30.36	13 Apr 2015
Land & Houses	LH.BK	Buy	N/A	Bt9.90	10 Apr 2015
Marico Ltd	MRCO.BO	Buy	N/A	Rs402.65	13 Apr 2015
Mattress Firm Holding Corp <sup>2, 4, 5, 6a, 16c</sup>	MFRM.O	Buy	N/A	US\$67.36	13 Apr 2015
Meisheng Cultural & Creative Corp.	002699.SZ	Buy	N/A	Rmb26.50	14 Apr 2015
Moncler Spa <sup>2, 4</sup>	MONC.MI	Buy	N/A	€16.54	14 Apr 2015
NagaCorp <sup>5</sup>	3918.HK	Buy	N/A	HK\$6.01	14 Apr 2015
Norcraft Companies <sup>5, 16c, 19</sup>	NCFT.N	Neutral (CBE)	N/A	US\$25.63	13 Apr 2015
Organizacion Soriana	SORIANAB.MX	Sell	N/A	P39.63	13 Apr 2015
OSRAM Licht AG <sup>4, 5, 16b</sup>	OSRn.DE	Sell	N/A	€47.29	14 Apr 2015
Paramount Group, Inc. <sup>2, 4, 5, 6a, 16c</sup>	PGRE.N	Neutral	N/A	US\$18.51	13 Apr 2015
Pargesa Holding <sup>2, 4, 5</sup>	PARG.S	Buy	N/A	CHF69.30	14 Apr 2015
Pernod Ricard <sup>4</sup>	PERP.PA	Buy	N/A	€113.30	14 Apr 2015
Porto Seguro <sup>2</sup>	PSSA3.SA	Buy	N/A	R\$37.50	13 Apr 2015
Quotient Limited <sup>2, 4, 5, 6a, 16c</sup>	QTNT.O	Buy	N/A	US\$15.70	13 Apr 2015
Ratos	RATOb.ST	Buy	N/A	SKr62.45	14 Apr 2015
RiseSun Real Estate Development	002146.SZ	Neutral	N/A	Rmb22.80	14 Apr 2015



Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
<b>Sa Sa International</b>	0178.HK	Sell	N/A	HK\$4.18	14 Apr 2015
<b>Sanwa Holdings</b>	5929.T	Buy	N/A	¥923	14 Apr 2015
<b>Seria</b>	2782.T	Buy	N/A	¥4,285	14 Apr 2015
<b>SFS Group AG</b> <sup>2, 4, 5</sup>	SFSN.S	Buy	N/A	CHF71.75	14 Apr 2015
<b>SGS</b> <sup>4, 5, 13</sup>	SGSN.VX	Neutral	N/A	CHF1,892.00	14 Apr 2015
<b>Sino Biopharmaceutical</b>	1177.HK	Neutral	N/A	HK\$8.95	14 Apr 2015
<b>Sugi Holdings</b>	7649.T	Sell	N/A	¥5,990	14 Apr 2015
<b>Taubman Centers, Inc.</b> <sup>16c</sup>	TCO.N	Neutral	N/A	US\$75.07	13 Apr 2015
<b>Thai Union Frozen Products</b> <sup>1, 3a, 5</sup>	TUF.BK	Buy	N/A	Bt20.90	10 Apr 2015
<b>Top Glove</b>	TPGC.KL	Buy	N/A	RM5.45	14 Apr 2015
<b>TOTAL</b> <sup>2, 4, 5, 16c</sup>	TOTF.PA	Neutral	N/A	€48.73	14 Apr 2015
<b>UOL Group</b>	UTOS.SI	Buy	N/A	S\$7.82	14 Apr 2015
<b>Wendel</b>	MWDP.PA	Neutral	N/A	€115.50	14 Apr 2015
<b>Zhongsheng Group Holdings</b>	0881.HK	Buy	N/A	HK\$6.90	14 Apr 2015
<b>Zumtobel Group AG</b>	ZUMV.VI	Buy	N/A	€23.71	14 Apr 2015

Source: UBS. All prices as of local market close.

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