Cooper Investors (CI) is a specialist equities fund manager with funds under management of approximately $11.7bn. We commenced operations in 2001 and we manage money for a range of clients including large pension and superannuation funds, state government agencies, school endowments, charities and high net worth families and retail clients. CI is 100% owned by its employees which enables the business and employees to place the firm's values at the top of the priority list.

BACKGROUND

We recently conducted a sizeable number of interviews with Australian privately run (non stock market listed) family and founder led businesses.

A key component of the CI way is the analysis of Focused Management Behaviour and a core part of that process is getting to know and conversing with the people running the businesses we invest in. CI over multiple decades has built up specialisation and nuance in its analysis of management and boards. As part of this we categorise management and ownership into different categories. We have found in the listed markets when certain attributes are met, family & founder led businesses can be extremely attractive long term investments when complemented by our process. CI funds have benefitted from owning the likes of Danaher or Mainfreight amongst many others over the long term.

We have started a fund only investing in these types of companies, The Cooper Investors Family & Founder Fund.

We were fortunate to recently meet with a number of Australian private family businesses to better understand the drivers of their success and failures to compare and contrast with their listed peers and better help us understand the management behaviours that drive success. We begin by highlighting some of the key similarities and differences we observe of family and founder led companies CI funds own in listed markets compared to privately run family businesses.

WHERE ARE THE SIMILARITIES FOR LISTED AND PRIVATE FAMILY AND FOUNDER COMPANIES?

Firstly simply being family and founder led does not guarantee success over the short, medium or long term. Business is much more complicated than that.

However, similarities of successful private and listed family and founder led companies do include the following:

1. Customer centric – any strong business understands the customer is at the core. Corporates lose their way as they begin to manage the business for other purposes such as the end financial result, social issues, and self-promotion. Think of the local Australian banks as an example of this. On the other hand, founders build a company based on an opportunity in market and this mentality typically does not leave.
2. Focus on cash flows, not accounting earnings – any private business is run for cash. Any good listed company or management is the same. However, the typical listed company only converts ~75% of earnings into cash flow which already handicaps the investment.
3. Lower staff turnover and loyal staff – family values often play out in family businesses generating a loyal and consistent staff. Whereas time and again we see corporates go on hiring and restructuring roundabouts which can destroy a culture. So too having a controlling shareholder and single authority removes political games amongst employees.
4. Entrepreneurial owners & risk managers– Founders took a risk to start their own business and typically have an appetite for what's next. However they decide on the next areas of investments by observation, knowledge and intuition. Not by hiring consultants. So too risk management is counter cyclical. Being aggressive when opportunity persists not when industries or valuations peak.

   We saw this dynamic during the financial crisis where many of the companies in the CI Family & Founder Led Fund made large acquisitions or increased investments during the Global financial crisis or immediately after. Whereas 2007, the year prior to the crisis was the peak year of acquisitions in the M&A and business cycle.
5. Reinvestment and reinvention – industries mature and business cycles change. Many that have lasted the decades have invested in new areas to grow and not harvested all the cash for dividends. The S&P 500 as a group returns 80% of its earnings to shareholders via dividends and buybacks leaving little money for investment and future growth opportunities.

A number of the dynamics described are inter-related and simply make for good business. Companies that are more values based have a greater chance of keeping their employees who then build a passion for the business and customers. Happy customers means more business and the virtuous cycle continues. While it sounds simple it is difficult to execute especially inside a large corporation.

WHERE ARE THE DIFFERENCES?

While the successful private and listed family and founder companies go about their business in similar ways there are some key differences.

1. The nature of the business – listed companies typically do one thing or operate in one industry versus private businesses which often have multiple operations under the one roof.
2. Access to capital – Listed companies have access to large amounts of capital to support expansion (for better or worse).
3. Size and scale – private companies are typically more local businesses versus listed entities. Of the 10 interviews only 1 business had sizeable international operations.
4. Reporting requirements – private businesses can ignore the short term. The market often judges a listed company on its last quarter even if management chose to run the business for the long term.
5. Family dynamics – Still pervasive but easier to separate family and business in a listed company.

It is imprudent to claim one is better over the other to determine future success. We are simply highlighting the differences. With being listed comes access to capital and expertise to expand. However, on the other hand a private business can go about their business without any pressures to deliver on investments today.

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