



cutting through complexity

## *Family Business Story*

# Case Study 2 Financing growth

*Written by Professor Christine Blondel  
from INSEAD*

*Senior Advisor to KPMG on Family  
Business Intelligence*

*First published in October 2013, on the  
KPMG Family Business blog  
[kpmgfamilybusiness.com](http://kpmgfamilybusiness.com)*



# *Family Business Story*

## Part 1: The Story

Case Study 2

Ownership

Family

Business

Succession & next generation

Governance

Growth

Assurance

Exit strategies

Wealth preservation

Philanthropy

# Part 1: The story



Timothy Sages hung up the phone with satisfaction. The franchisee of the Sages group operating supermarkets in the South of the country was willing to sell their operations to the Sages group and the bank acting on the family's behalf had negotiated a very good price. This was good news for the Sages family because the franchisee was not any

longer respecting the group's long-standing principles of great quality at a good price; the business was declining and the franchisee was getting difficult to deal with. Timothy had become aware that the family owning the franchise was in conflict, with some members eager to exit the venture.

One question was still looming: how would the Sages group finance this acquisition? It represented about 10% of the group sales and the real estate was also up for sale as well.



Timothy's father, Thomas Sages, had built a very successful chain of supermarkets, starting with a small, high quality grocery store in 1954. Supermarkets are considered good businesses in terms of working capital requirements, with customers paying cash and suppliers payments being on favourable terms. The development of new supermarkets however, could be costly to fund. In the early days, expansion had been supported by Thomas' inheritance, his parents had given him a plot of land and some cash, and one of his friends, David, investing capital into the business in exchange for a 10% equity stake.

As the business developed, the expansion was financed in a variety of different ways including:

- 1) Re-investment of cash generated by the business; dividend payments were kept to a minimum of a return for David;
- 2) Loans were granted by a couple of banks who believed in Thomas' vision and had supported him from the beginning and trusted his business acumen;
- 3) Franchises were developed, whereby independent owners developed their chains of supermarkets under the Sages brand: franchisees invested upfront, paid a fee for the use of the brand and used the central buying structure;
- 4) Shares in the business were issued as part of the management remuneration package and 10% of the shares had been put aside for that purpose.



# Part 1: The story

This was the first time that the group had considered a buy-out of one of its franchises, and it was felt necessary in order to regain market share in the South. This represented an important investment and Timothy wanted to identify the best approach before going to the board.

The bank advising the Sages group was willing to lend up to two thirds of the acquisition price. This however, would be secured against the real estate of the newly-acquired supermarkets. One third of the acquisition price was still to be found.

Like many family businesses, the Sages group preferred a solid balance sheet and was reluctant to take on a high level of debt. In light of this, Timothy's options included:

- securing additional loans from another bank and utilising the real estate from other supermarkets as collateral if required;
- selling some of the real estate;
- identifying another franchisee to take over the newly-acquired supermarkets;
- seeking a private equity partner; or
- issuing bonds – a more desirable option



The issuing of bonds had previously been restricted to large publicly-traded companies but some financiers had started to structure portfolios of bonds from medium-size companies.

He would also investigate if the government would be willing to grant a loan against a pledge to keep employment in the region. The Sages group had always been a loyal employer and its reputation was high.



Timothy picked up the phone and called his trusted advisor. They needed to meet, review the financials, and discuss the different options.

*–What are the options for financing the acquisition of the franchisee's operations? What are the pro's and con's?*

*–What is your personal experience with respect to financing growth?*

