



Family portraits

A snapshot of Brazilian Family Companies' past, present and future

2015/2016 Survey



KPMG Board Leadership Center
Exploring issues. Delivering insights. Advancing governance.

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The contents of the survey can be summarized in one resounding message:

**Today's family
business will
continue to be a
family business in
the future.**

KPMG in Brazil, with the support of the Audit Committee Institute Brazil and the Board Leadership Center, surveyed leaders of Brazilian family businesses and analyzed their organizations' structure, market expectations, future challenges and strategies to address them, in order to understand how the existing governance framework provides the foundation to support their business development.

The main findings of the survey indicate that family companies intend to hold power within the controlling family, showing little interest in admitting new partners, forming alliances with third parties, or promoting strategic changes. In this sense, significant decision-making is concentrated in members of the family who frequently take part in the management.

In short, the message that most family companies provided us with was that today's family business will continue to be a family business in the future.

Enjoy your reading!

Sidney Ito

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ACI Institute
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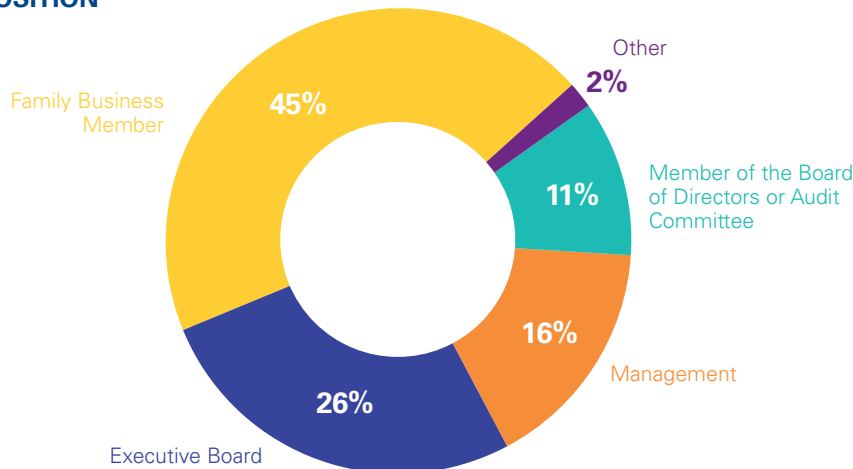
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Introduction

The survey was conducted throughout Brazil during the second semester of 2015. Members of the controlling families were the largest contributors to the survey (45%), followed by the Executive Board (26%), Management (16%), and the members of the Board of Directors and Audit Committee (11%). In total, there were 201 respondents located in 16 Brazilian states, who pointed out concerns over the country's political uncertainty and the company's decline in revenue and profitability. Data analysis enabled us to observe the current dynamics of family companies and their attitude towards economic environment changes, in addition to their competitive differentials.

The organizations that took part in the survey are mostly from the services (25%), consumer goods and retail (24%), industrial goods (18%) and agribusiness (14%)

RESPONDENTS' POSITION

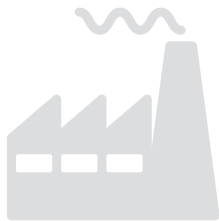


sectors. 86% employ over 100 people (41% of which employ more than 1,000 people) and 69% have annual revenue above R\$ 100 million, 42% are large companies, according to the classification criteria of the Brazilian National Bank for Economic and Social Development (BNDES) and Law 11638 (which established the concept of large companies for application purposes of the IFRS in Brazil) - with annual revenues above R\$ 300 million p.a.. With respect to company age, 77% have been on the market for more than 20 years, and 88% reported that power is largely concentrated in the first or second generation.

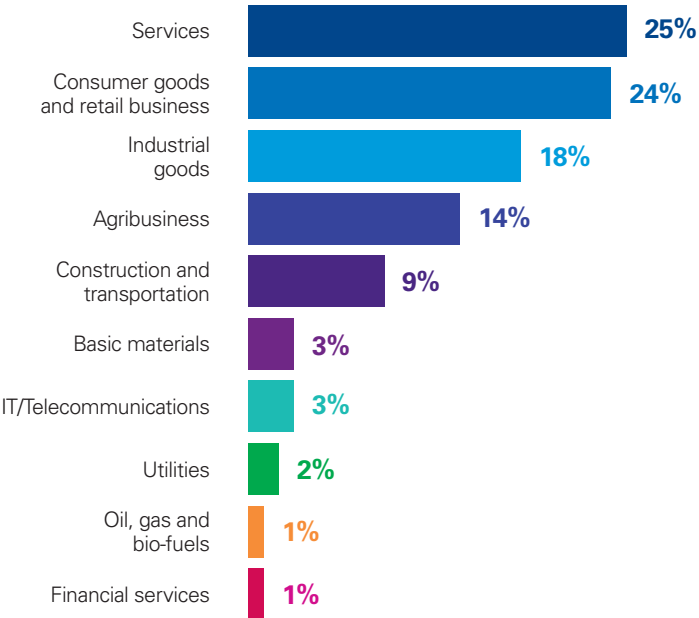
Further analyzing the profile of the companies surveyed, the most common legal structure among the respondents is the limited liability company (63%), and the most frequent ownership structure is majority control (66%). Moreover, 77% are controlled by only one family, whilst 23% have multi-family control.

77% of companies participating in the survey are controlled by **only one family**

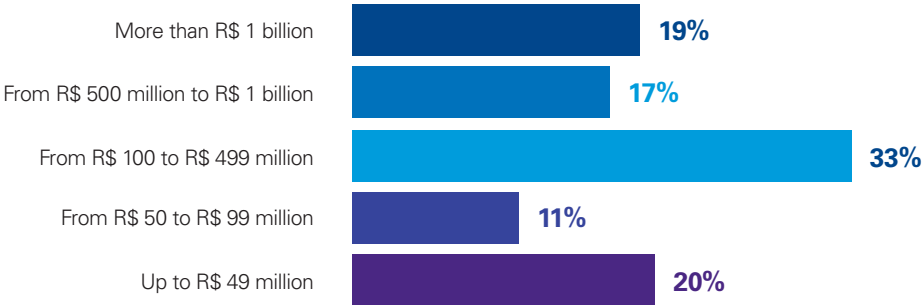
Profile of Family Companies participating in the survey



INDUSTRY SECTOR

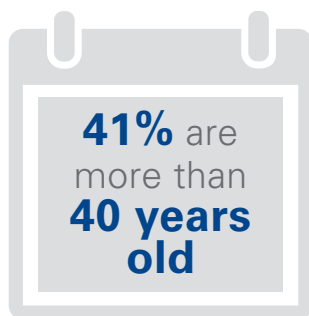
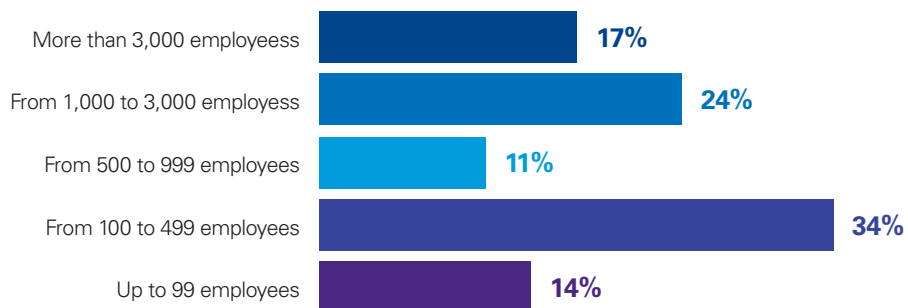


ANNUAL REVENUE

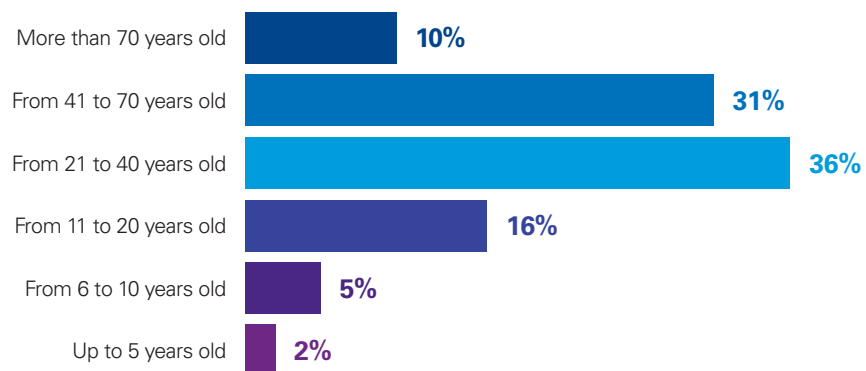




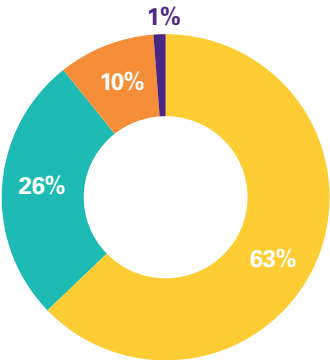
NUMBER OF EMPLOYEES



COMPANY'S AGE

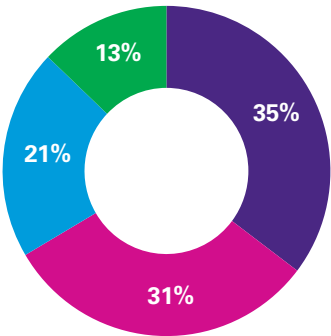


| LEGAL STRUCTURE



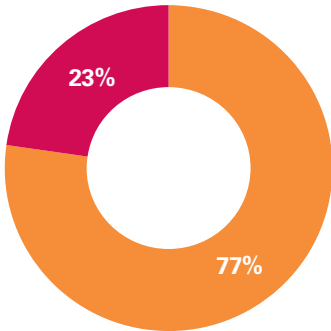
- Limited liability company
- Privately-held limited company
- Publicly-held limited company
- Other

| CONTROL STRUCTURE



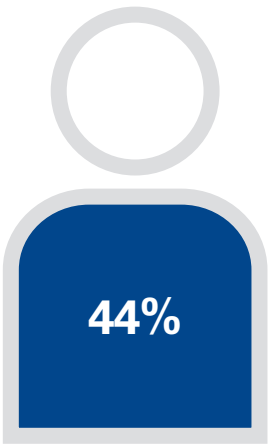
- Direct majority control (individual)
- Indirect majority control (corporate)
- Direct shared control (individual)
- Indirect shared control (corporate)

| TYPE OF CONTROL

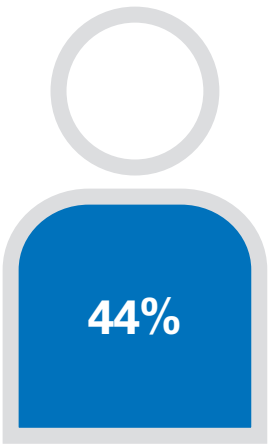


- Family
- Multi-family

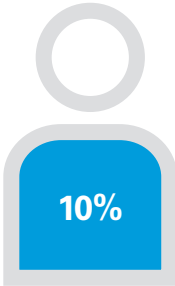
| CURRENT GENERATION WITH THE GREATEST CONCENTRATION OF POWER WITHIN THE COMPANY



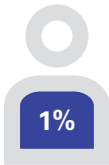
First Generation



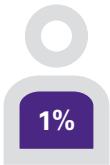
Second Generation



Third Generation



Fourth Generation



Fifth Generation

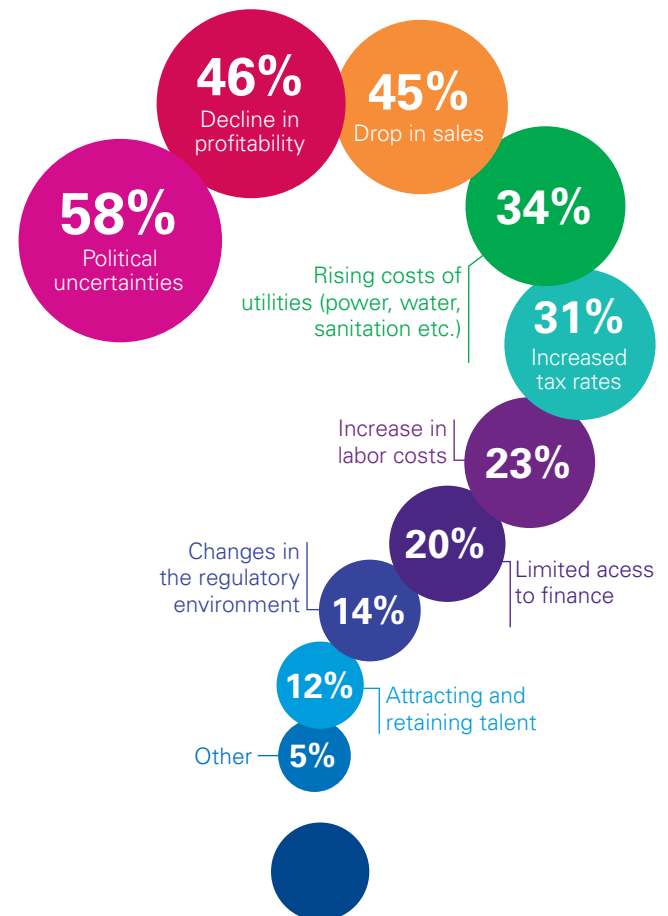
Family Business Issues

Some questions addressed the perception of respondents about business development. In this sense, results reflect Brazil's unfavorable economic environment, especially in respect to unemployment growth: 49% of the respondents stated that they downsized their staff in the last six months. Despite the fact that 41% stated that revenue increased compared with prior periods, 35% experienced a decline in this indicator and 24% had stable revenues.

Similarly, respondents continued to be cautious about business expansion: just 35% expanded their geographical coverage in the last six months, a trend which is expected to continue for the next year, according to their expectations. Some of the reasons for this behavior are the concerns about political uncertainties, reducing profitability and declining revenues:

Considering the companies who intend to invest in the business, **68%** seek to do so in their core business, **20%** will invest in domestic or foreign growth and **12%** will invest in business diversification.

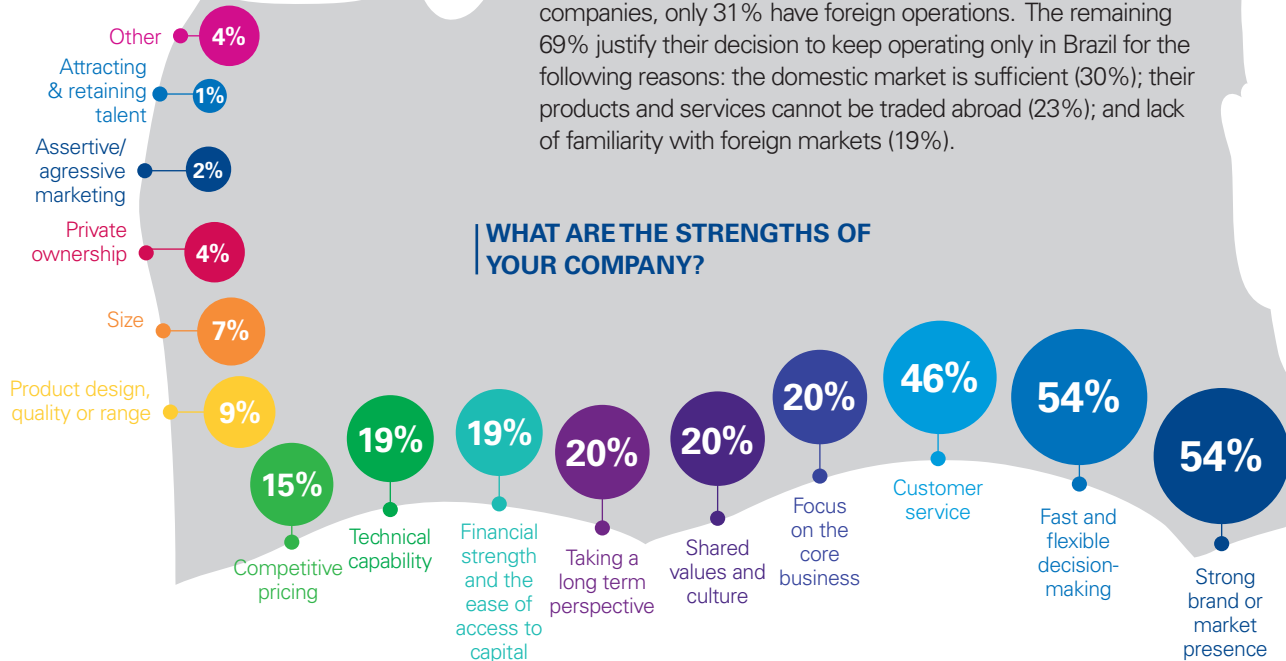
WHAT ARE THE MAJOR CONCERNS FOR YOUR FAMILY BUSINESS TODAY?



Despite their concerns, 42% of respondents are confident in relation to their economic position over the next six months and 68% expect to include investments in their strategic plan. Out of the companies which intend to invest, 68% seek to do so in their core business, 20% will invest in domestic or foreign growth, and 12% will invest in business diversification.

In respect of the current geographical reach of Brazilian family companies, only 31% have foreign operations. The remaining 69% justify their decision to keep operating only in Brazil for the following reasons: the domestic market is sufficient (30%); their products and services cannot be traded abroad (23%); and lack of familiarity with foreign markets (19%).

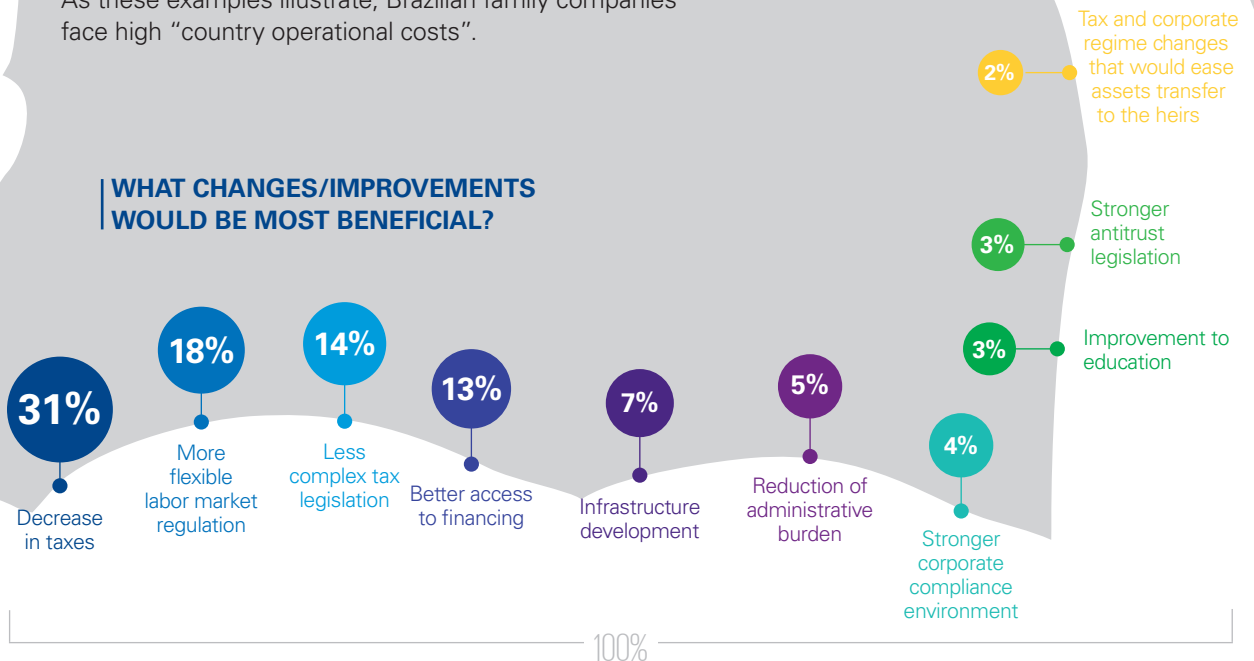
WHAT ARE THE STRENGTHS OF YOUR COMPANY?



In order to effectively face the current complex scenario, family companies rely on the strengths in their structure and culture: fast and flexible decision making, long term perspective and core business focus.

When asked what changes would have an impact on their business, 31% stated that a decrease in taxes would benefit their business, 18% cited more flexible labor market regulation and 14% less complex tax legislation. As these examples illustrate, Brazilian family companies face high “country operational costs”.

WHAT CHANGES/IMPROVEMENTS WOULD BE MOST BENEFICIAL?



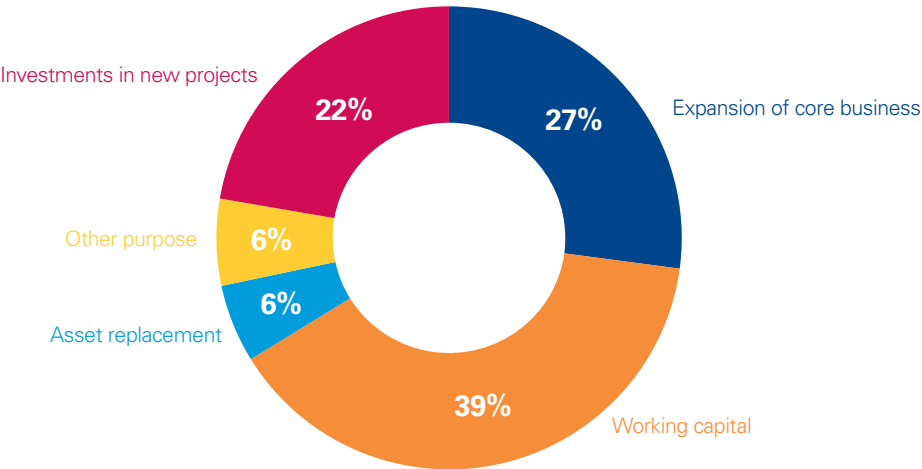
Family Business Financing

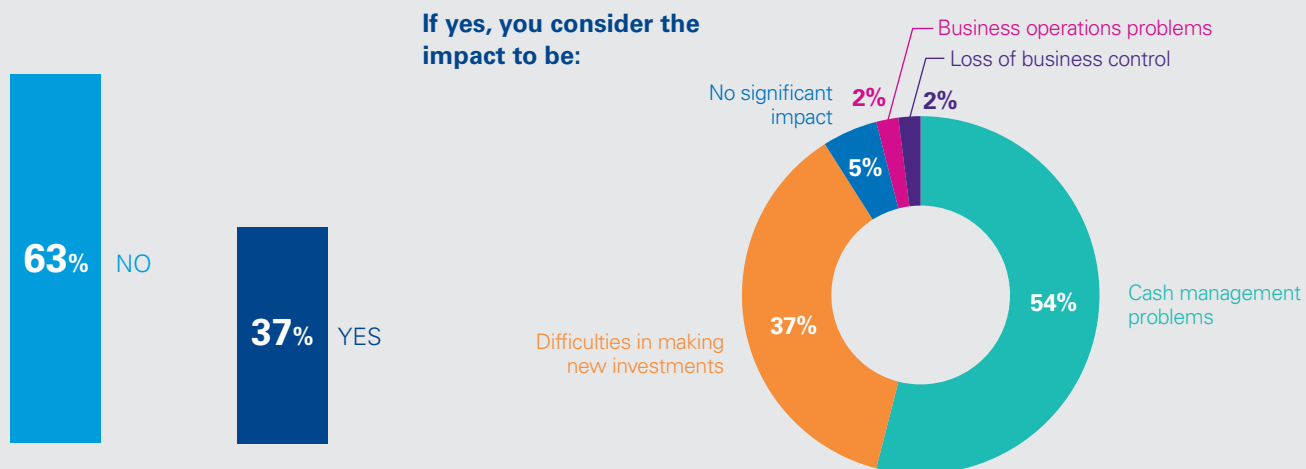
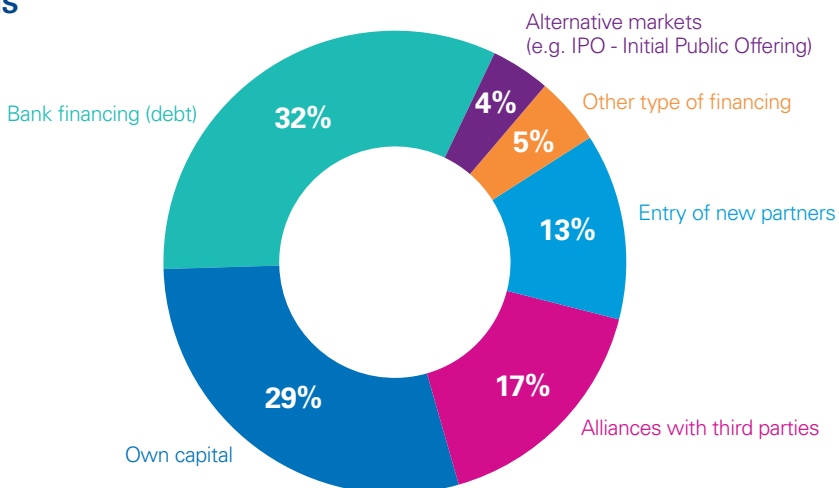
In relation to the topic of access to finance, 63% of respondents use bank loans as the primary choice of funding, while 24% prefer to finance through their own profits where possible. The main purpose of funding is: working capital requirements (39%), development of core business (27%), or investment in new projects (22%).

Over the last six months, only 37% of family companies experienced difficulties in accessing finance, which could cause cash management problems (54%) or create an obstacle to new investments (37%), in most cases.

When preparing for the short-term, in addition to bank loans and use of own capital, 17% of the participants in the survey consider the possibility of alliances with third parties and 13% consider new partners as attractive financing sources.

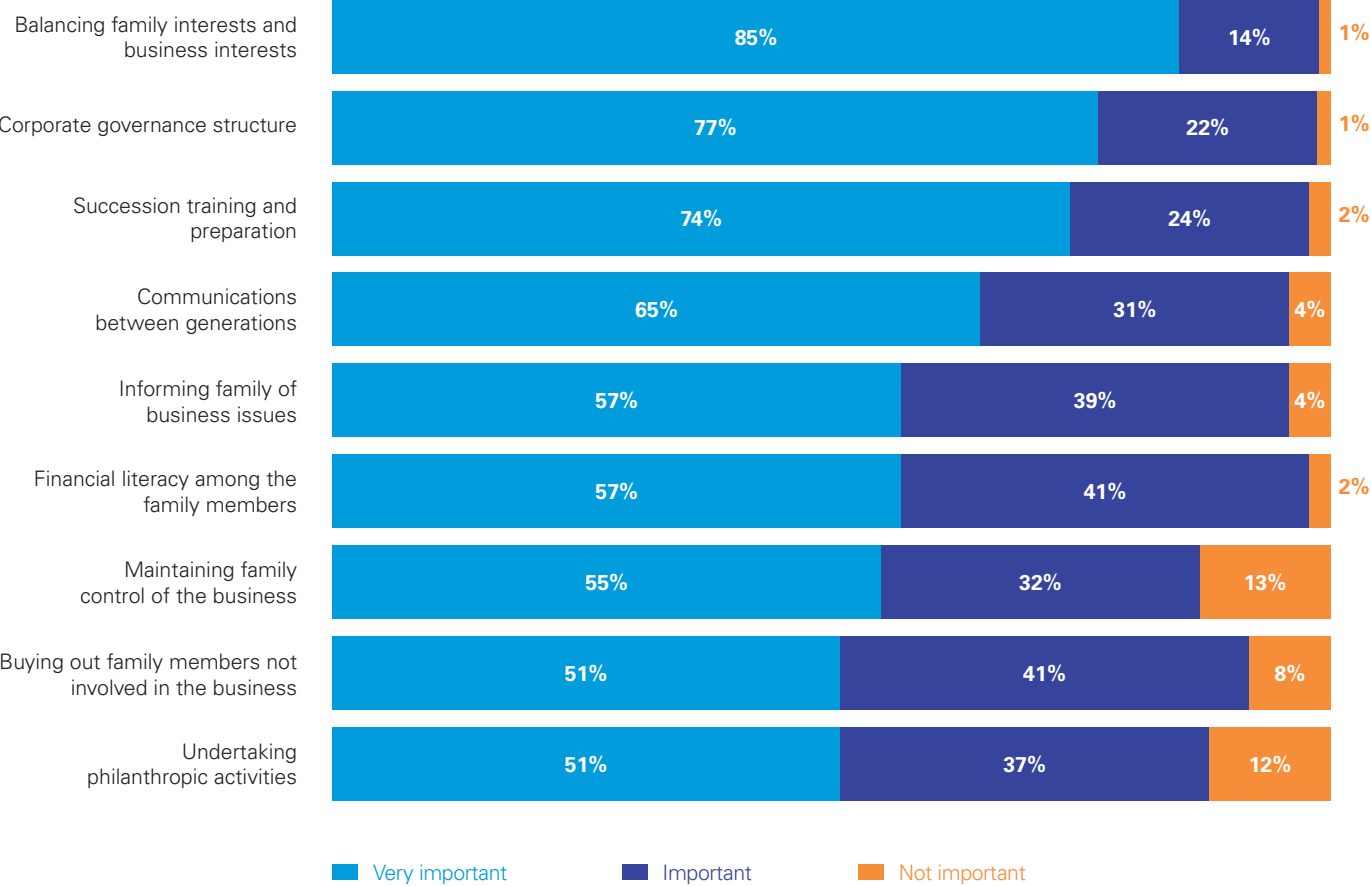
I MAIN PURPOSE OF THE COMPANY’S FUNDING



IN THE LAST SIX MONTHS, HAS YOUR FAMILY BUSINESS HAD DIFFICULTIES IN OBTAINING FINANCING?**THE MOST ATTRACTIVE FORMS OF FINANCING IN THE NEXT SIX MONTHS**

Family Business Governance Structure

I IMPORTANCE OF THE FOLLOWING ISSUES FOR THE BUSINESS



Although some of the issues raised in the survey may be seemingly obvious, it is worth noting the level of importance assigned to each item. It is clear that the separation of the business' and family's interests, robust corporate governance structure and the preparation and training of successors are critical issues for families.

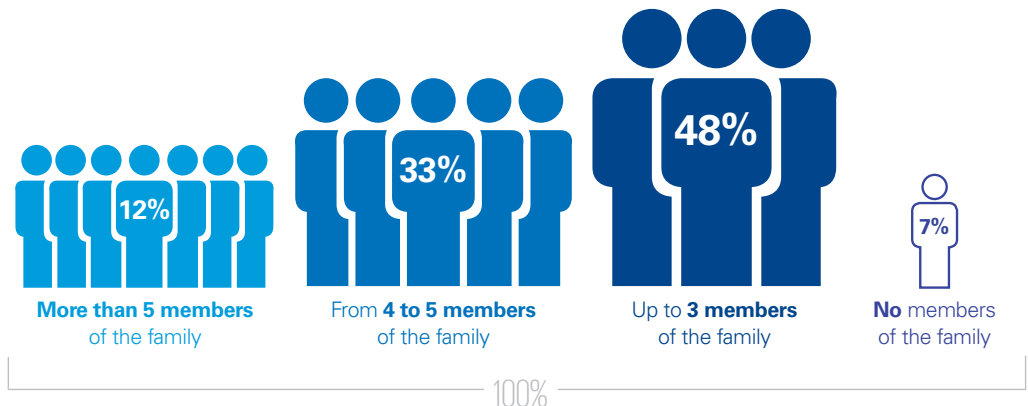
In line with the importance given to separation of family and business interests, 94% of companies stated they do not mix the family's personal expenditures with the organization's expenses. We observed that there is a strong awareness of the need to distinguish personal and company equity amongst family businesses. However, there is recognition that internal controls and formal policies are required to ensure this separation.

Seeking to fully understand the family business dynamics, the questionnaire also addressed the relationship between the family members and the organization's governance bodies. In this sense, 57% of the respondents stated that the next generation is interested in taking part in the management.

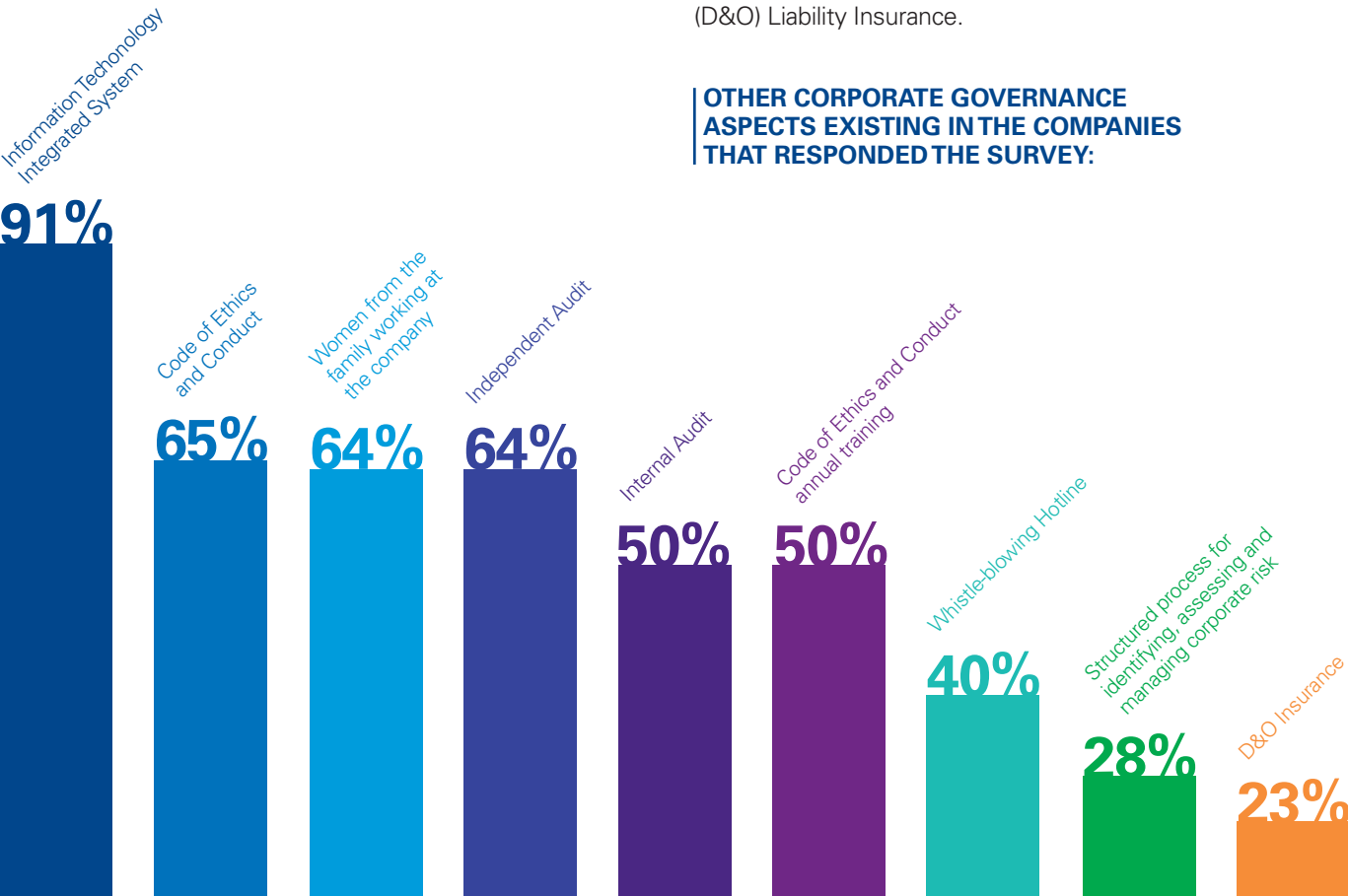
The importance given to issues such as **the separation of business and family interests**, adequate corporate governance and succession planning is evident.

I NUMBER OF FAMILY MEMBERS WORKING IN THE COMPANY

49% of respondents established a Family Board or equivalent body as a means of corporate governance. We present the number of family members who occupy positions within the company:



After thoroughly analyzing this complex landscape, we were able to observe that Brazilian family companies have already been professionalized to some extent. However, there are still numerous opportunities for improvement in issues such as risk identification and whistle-blowing hotline, which today seem fragile. Particularly in the identification, assessment and corporate risk management process it was found that family businesses assign this function to different departments, such as Controlling, Financial or Compliance. In total, six departments have been cited as responsible for the risk management task.



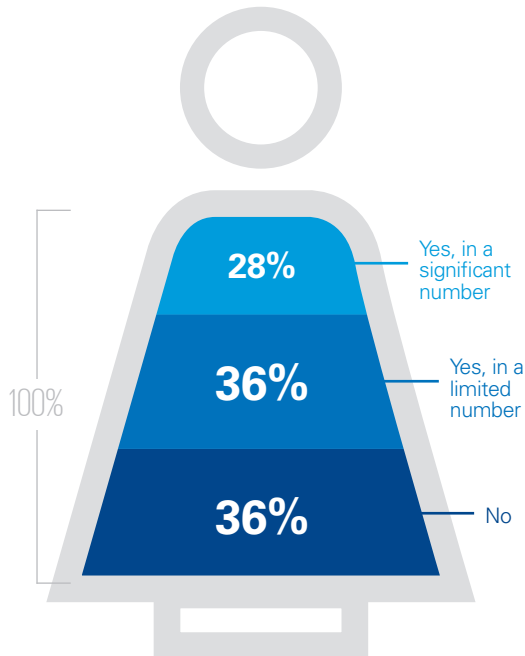
In addition, we observed a need to strengthen Ethics and Conduct consideration, including the requirement to prepare and disclose an Ethics and Conduct Code, which is currently limited to 65%.

Increasing training, and properly receiving, addressing and dealing with potential violations is essential. Currently only 40% of survey respondents receive and handle such complaints.

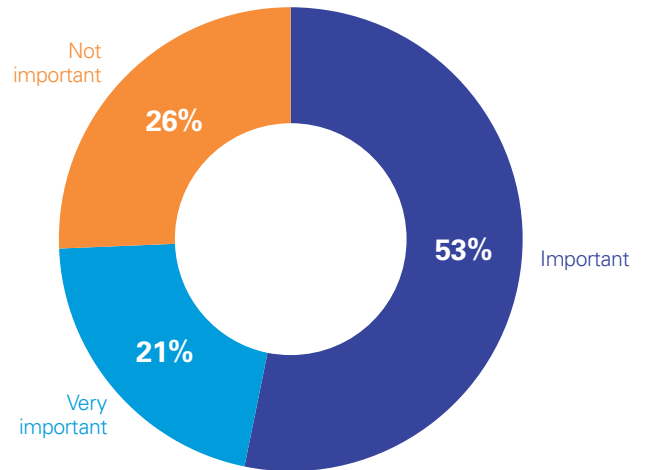
The number of family organizations that maintain a civil liability insurance policy is also low: only 23% of the respondents stated they maintain Directors and Officers (D&O) Liability Insurance.

Gender diversity is another issue identified by the survey: 26% of respondents consider that the matter is insignificant to the corporate agenda and 72% do not have women from the family occupying positions in the company or have them in a limited number.

DO WOMEN FROM THE FAMILY OCCUPY POSITIONS IN THE COMPANY?



IMPORTANCE OF DIVERSITY IN THE CORPORATE AGENDA



Board of Directors and its Committees

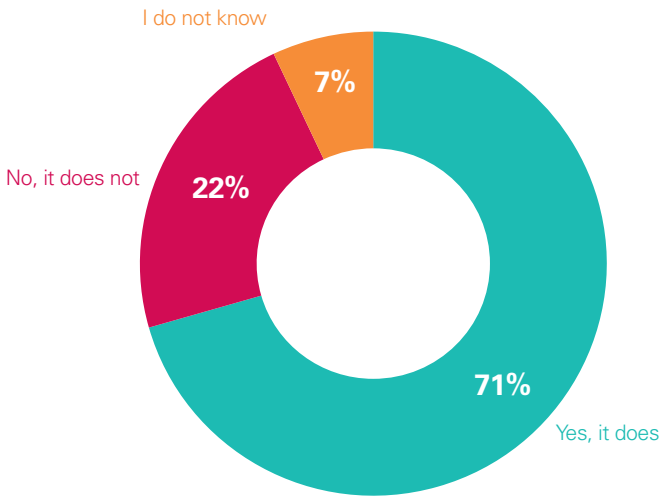
Further analyzing family companies’ governance structures, 56% of survey respondents have a Board of Directors, mostly comprised of 4 to 6 members (66%). In 53%, 3 to 5 members of the Board of Directors are part of the family.

One of the primary duties of the Board of Directors is to ensure business continuity. For this, they develop the strategic plan, and to ensure its implementation, they choose the Executive Board and monitors its work. 68% of respondents answered that their companies have Board members also working in executive management positions. Likewise, the CEO’s and Chairman’s positions are held by

the same person in 22% of the companies surveyed.

With respect to communications between the Board and executive management, 85% of the Boards of Directors were responsible for establishing the company’s strategic goals and communicating them to management. The percentage decreases when it is asked whether a strategic plan has been formally prepared and its execution monitored. In this case, the percentage falls to 65%.

DOES THE BOARD OF DIRECTORS ASSUME THE RESPONSABILITY FOR APPROVING THE EXECUTIVE BOARD’S ANNUAL COMPENSATION?



The **most sought-after attributes in an independent Board member** are literacy

in strategy and finance, relevant industry experience, prior experience as a Board member and in-depth knowledge of risk management.

In relation to the structure of the Board of Directors, 72% of family companies have independent Board members, and most Boards have one or two independent members, who are selected in 45% of cases because of existing personal relationships, 35% because of the necessity to have a specialized advisor and 20% because of the the recommendation of an investor or minority shareholder.

The most sought-after attributes in an independent Board member are literacy in strategy and finance, relevant industry experience, prior experience as Board member and in-depth knowledge of risk management.

**SOUGHT-AFTER ATTRIBUTES OF
THE INDEPENDENT MEMBERS OF
THE BOARD OF DIRECTORS**

25%
Good knowledge
of strategic planning

23%
Financial
experience

21%
Experience in
the company's
industry sector

20%
Prior experience
as board member

11%
Good knowledge
of risk management

1%

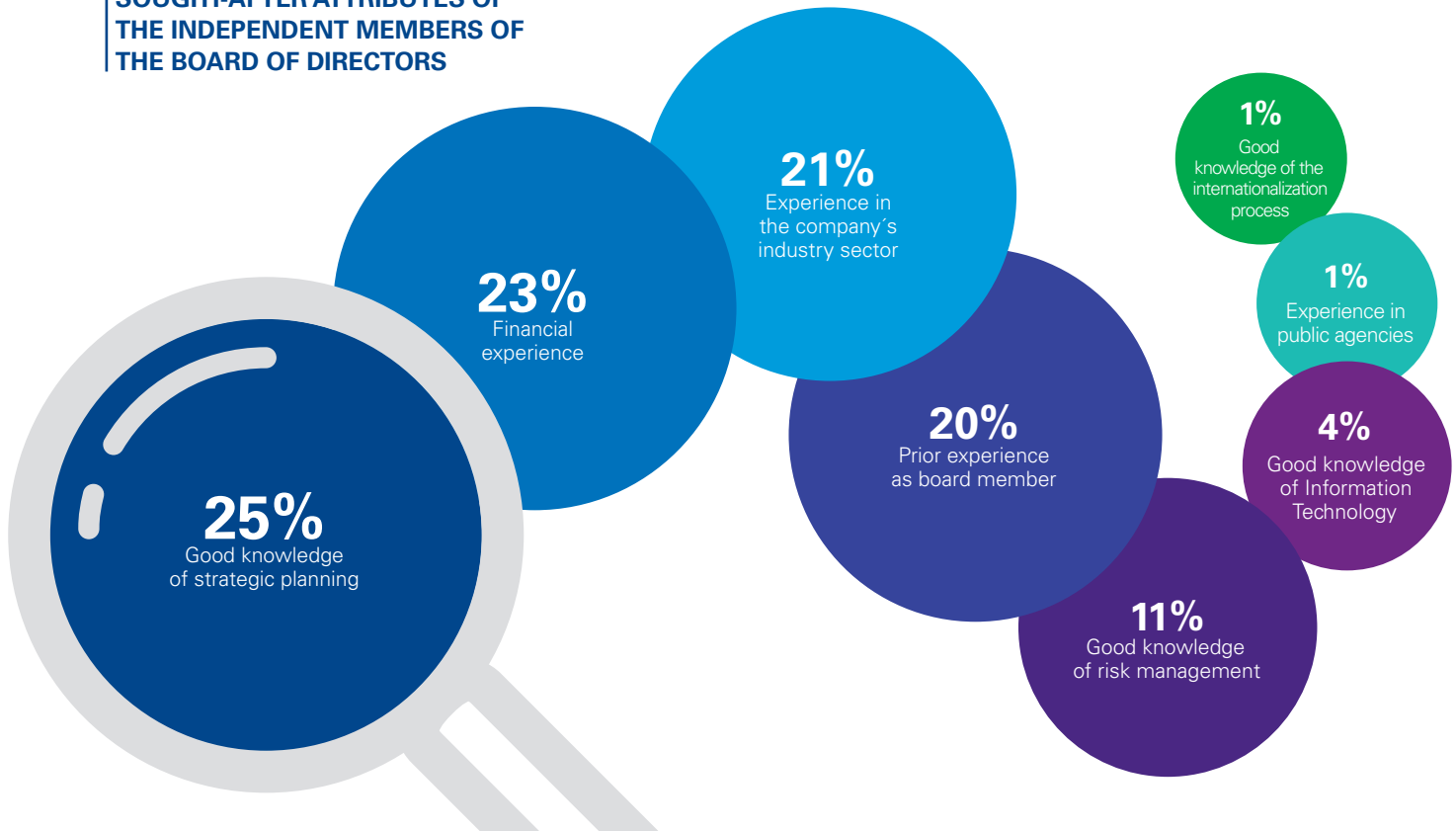
Good
knowledge of the
internationalization
process

1%

Experience in
public agencies

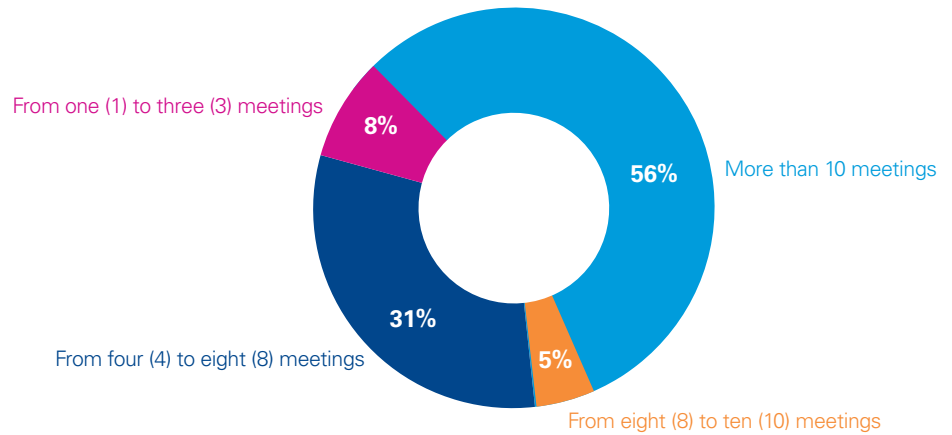
4%

Good knowledge
of Information
Technology

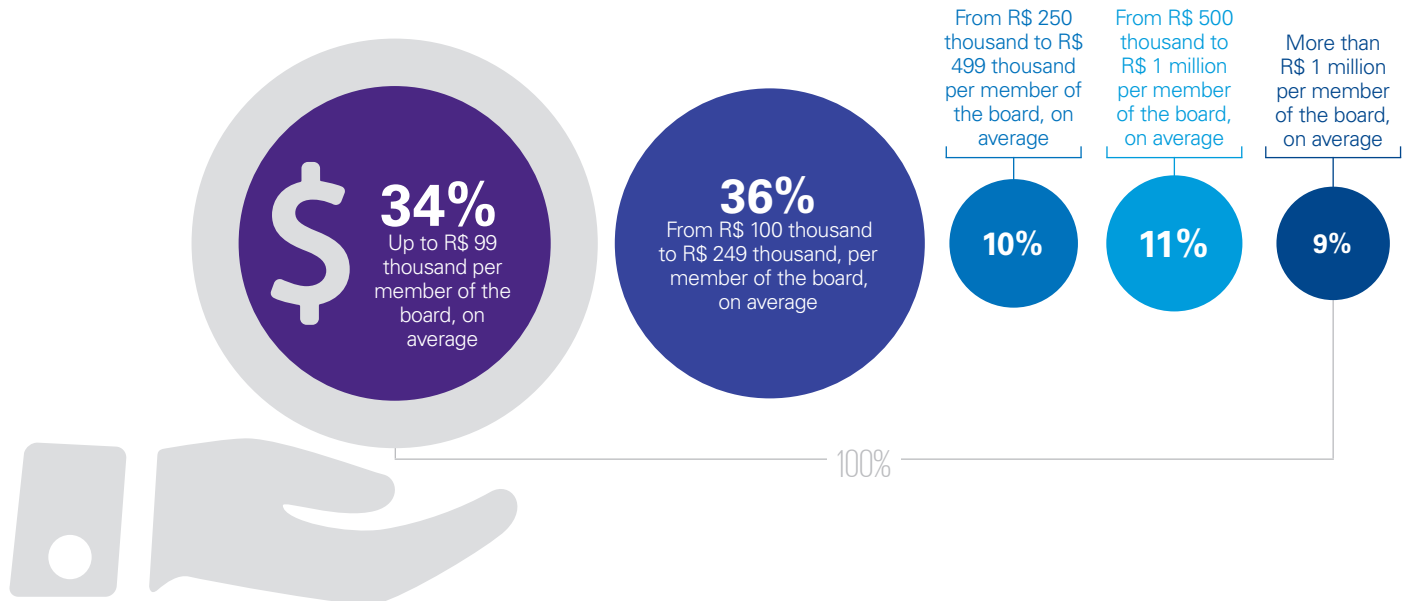


In relation to the Board's activities and compensation, 56% of Boards hold over ten meetings per year, and for 70% of the companies, the average board member compensation is up to R\$ 249 thousand p.a.. Additionally, just 6% of the companies provide any variable compensation to the Board members.

NUMBER OF BOARD OF DIRECTORS' MEETINGS HELD PER YEAR



ANNUAL AVERAGE INDIVIDUAL COMPENSATION OF THE BOARD OF DIRECTORS



The creation of Committees to support the Board of Directors is important to address specific topics that require more time and experience. Accordingly, the Committees help the Board of Directors by providing them with opinions, comments and information on those topics. The survey found that 39% of the family companies' Boards of Directors have Advisory

Committees, established in accordance with specific requirements. In addition to Audit, Human Resources, Finance/Investment, Strategy, Compensation and Risk Committees, those most commonly informed, 22% of the respondents informed that they have also established Committees for other matters.

BOARD OF DIRECTORS' COMMITTEES



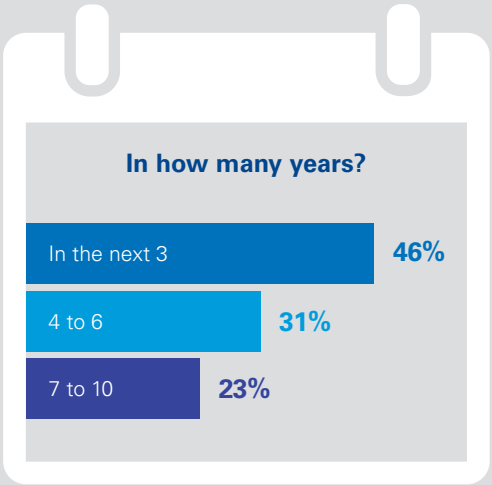
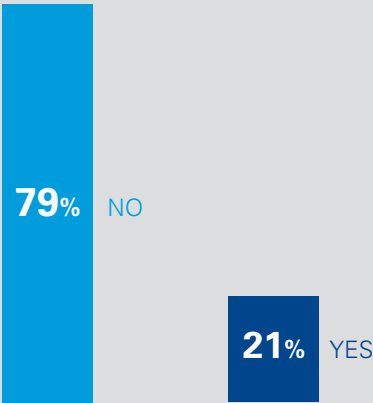
Other committees cited were the Innovation Committee, the Corporate Governance Committee, the Operations Committee and the Sustainability Committee.

Executive Board

Characteristics of the Executive Board are largely in line with their governance structures, we observed that 55% are mostly comprised of family members, while 16% have fully professionalized management, with no active participation of family members. Only 16% of the Executive Boards do not have

a member of the family as the CEO. As for the remaining 84% of the Executive Boards, only 21% intend to hire an external executive to occupy the position of CEO in the future, and almost half of those intend to do so in the next three years. In line with this issue, 53% of the companies stated that they have a succession plan.

ARE THERE EXPECTATIONS OF HIRING AN EXTERNAL EXECUTIVE TO OCUPY THE POSITION OF CEO IN THE FUTURE?



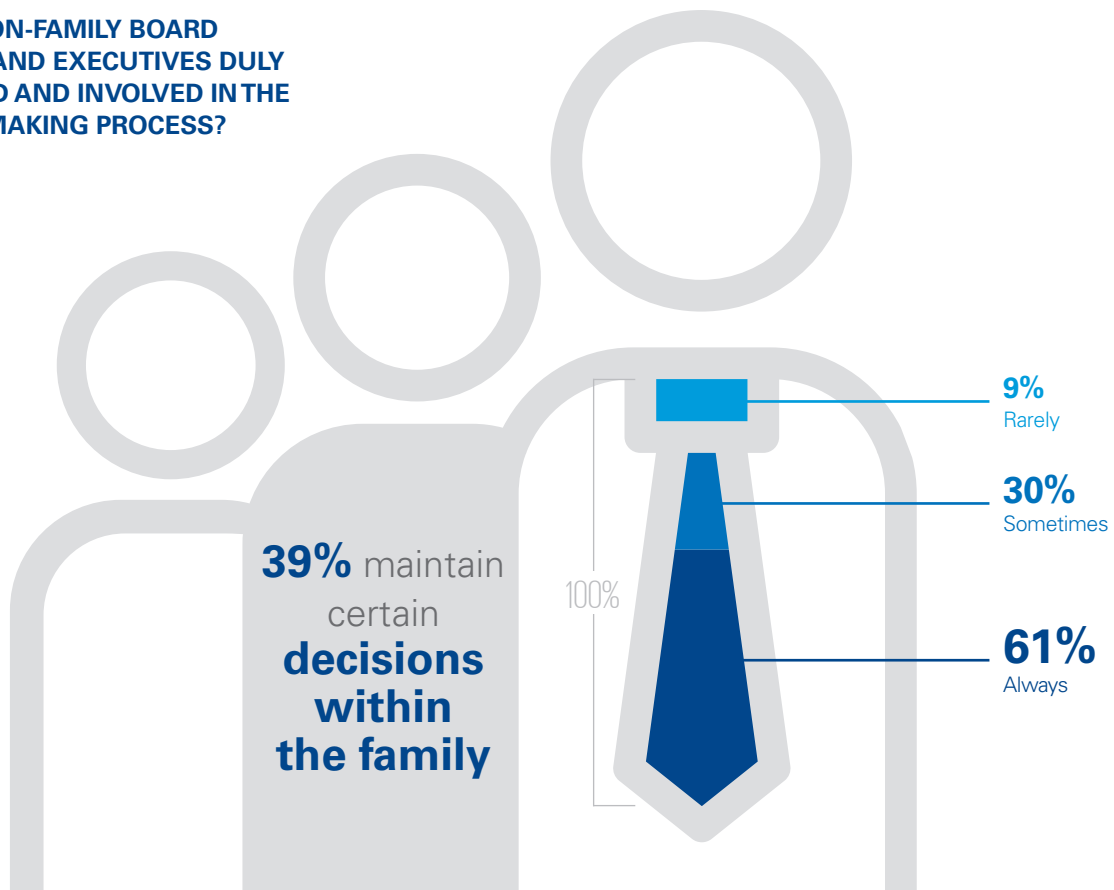
When we look to the companies' level of professionalization, we see that there is also room to increase the level of professionalism in the areas of hiring and promoting. According to our survey, 51 % of the family organizations do not have established criteria for hiring and promoting family members. However 59% do use market criteria to define and review candidates, compensations and performance assessment of the family members who actively participate in management.

Also we found that for 64% of Brazilian family companies consider the interaction between the family executives and the external executives as "very good". On the other hand, 33% understand that the relationship is "good, but could

be improved", and 3% consider the relationship "poor".

Further on the interaction between family members and non-family members, we questioned whether there were decisions taken without consulting non-family board members. A significant portion of the respondents (39%) answered that they maintain certain decisions within the family, despite the existence of governance bodies responsible for such decisions within the organization.

ARE THE NON-FAMILY BOARD MEMBERS AND EXECUTIVES DULY CONSULTED AND INVOLVED IN THE DECISION MAKING PROCESS?



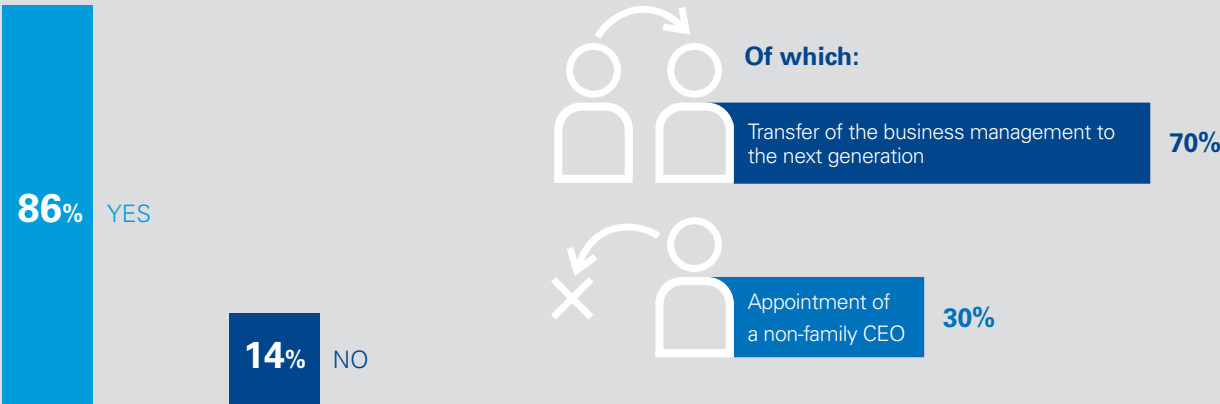
Family Business Prospects

With respect to the family business prospects in the short- and medium-term, participants showed that they are very cautious in relation to change: 84% of the respondents do not intend to make changes to the corporate structure in the next 12 months. Among the 16% of the respondents who plan to undertake corporate changes, 53% desire the transfer of the company's ownership to the next generation, 36% consider selling the company and just 11% are preparing for an IPO (Initial Public Offering).

Family companies also expect change in their management: out of the 86% of respondents who forecast changes in the company's management, 70% include the transfer of the business management to the following generation, and 30% include the appointment of a non-family CEO.

51% of the companies received guidance from an **external advisor** for the company's **corporate planning**

ARE THERE EXPECTATIONS OF MANAGEMENT CHANGES IN THE NEXT 12 MONTHS?



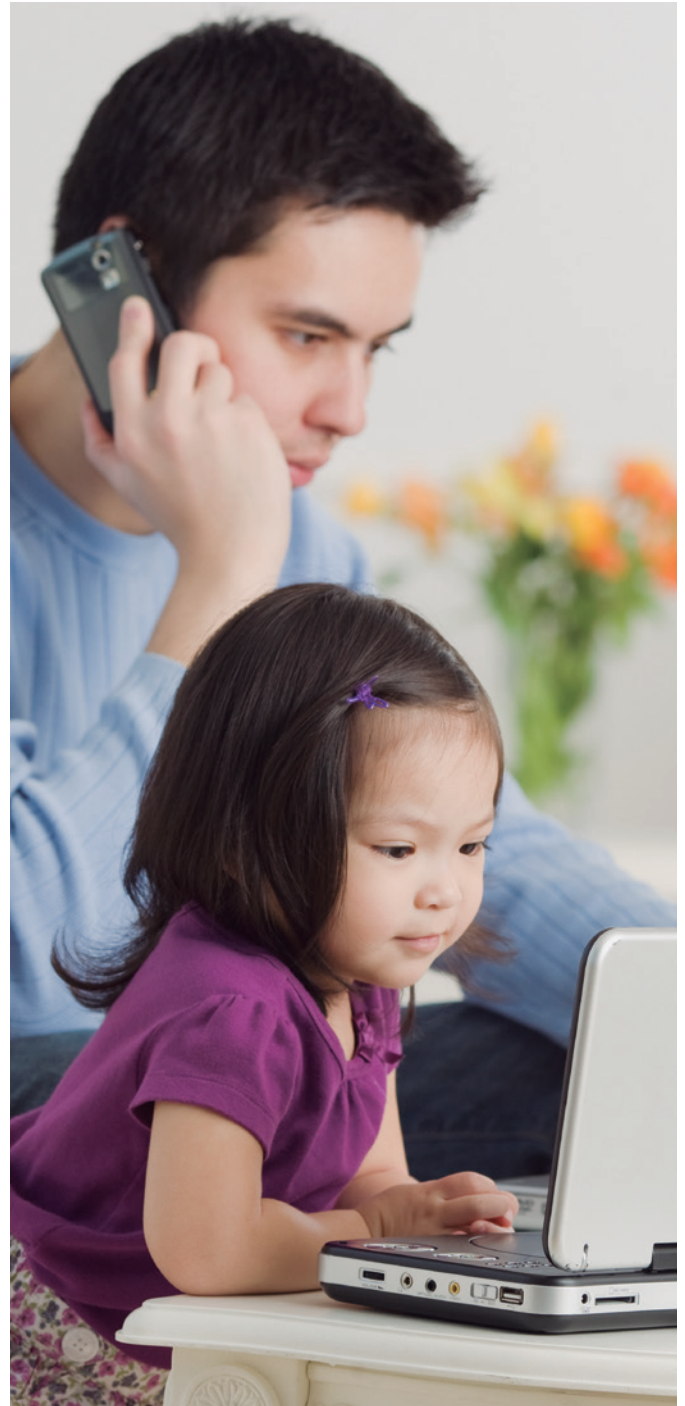
Conclusion

There's no doubt about the huge importance of the family business on the Brazilian economy, as well as the lack of information that exists in relation to their governance structures. Accordingly, the key objective of this study was to promote a better understanding of the governance structure of the family business and its controlling families.

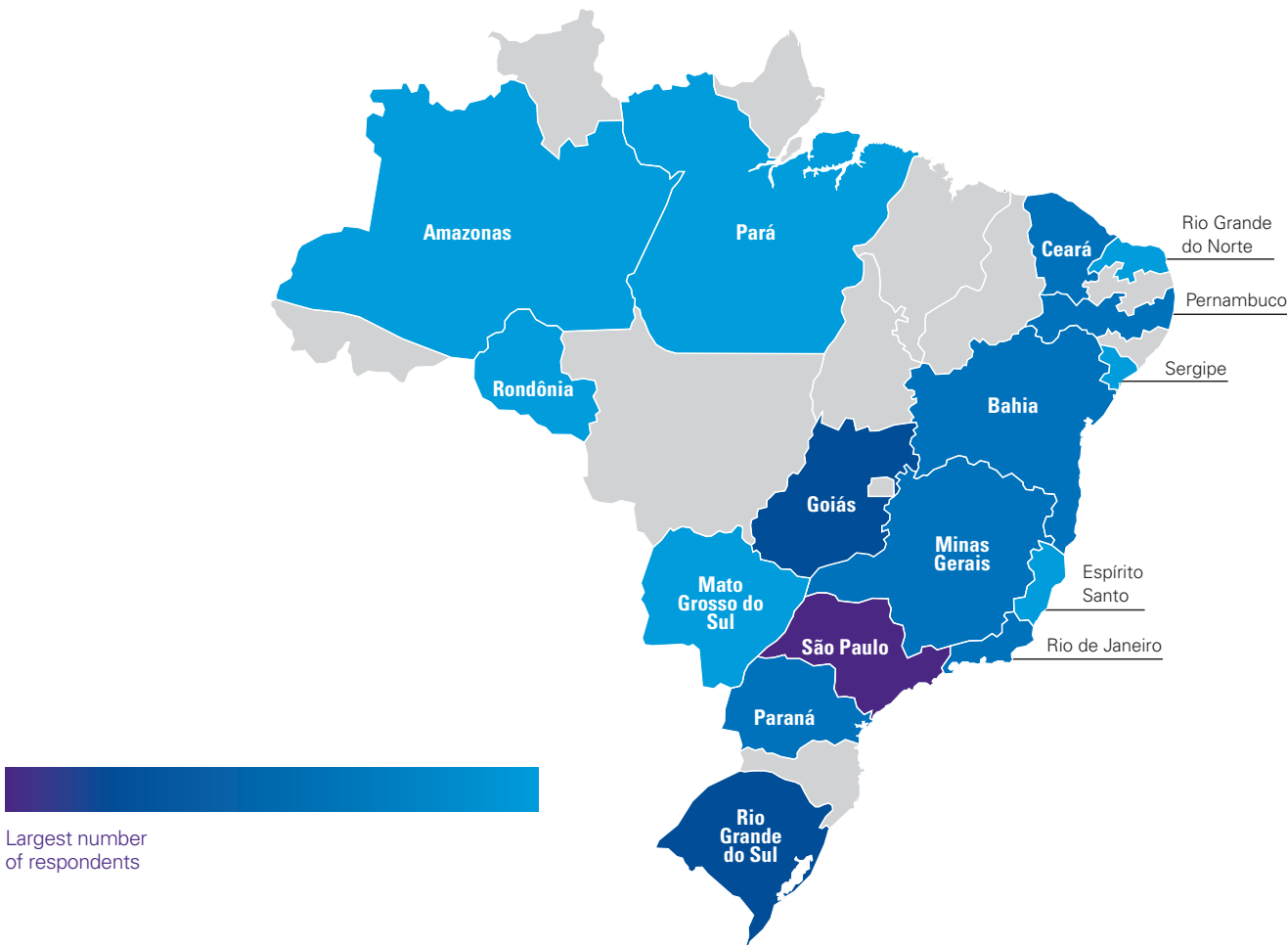
The number of family members that financially depend on their business grows exponentially within each generation, and for the Family Business to be able to meet the requirements of the families, it has to establish an appropriate structure for the organization's governance and development, in order to achieve the expected growth and profitability, and ensure business continuity.

Taking into consideration the country's current political and economic situation, family businesses demonstrates that they are cautious and worried. Despite only a few of them have reported financing difficulties, many of them may not be considering it, given the low expected investments on business diversification and geographical expansion.

In general, the Brazilian family business exert their best efforts to keep the business within the family clan and plan their professionalization without ceding control and decision making powers within their organizations.



Geographical distribution of the Family Companies participating in the survey



ACI Institute

As part of the Board Leadership Center, the Audit Committee Institute (ACI) promotes the exchange of information and the development of leading corporate governance practices. Launched in 1999 in the US, and in 2004 in Brazil, ACI is a significant forum for discussions, which disseminates significant information to organizations' Audit Committee, Fiscal Council and Board of Directors members, thus enabling the enhancement of insights on their responsibilities and activities, and strengthening their modus operandi.

ACI promotes panels, carries out surveys and disseminates information by means of publications released throughout the year. Among the themes addressed in the ACI's forums we highlight the activities and effectiveness of the Audit Committees, Fiscal Councils and Board of Directors; leading corporate governance practices in family companies; risk management; how leading practices are assessed by the rating agencies and financial institutions; IFRS and Law 11638; the Management's civil liability and D&O insurance, among others.

KPMG Board Leadership Center

Exploring issues. Delivering insights. Advancing governance.



Corporate Governance Advisory

KPMG is highly experienced in projects related to Corporate Governance. Our fully dedicated professionals can help family companies structure their governance area, which comprises the development of processes and the set of activities which encompass their companies' operations, thus meeting the expectations of business continuity and family harmony.

Based on an holistic vision, also involving the interaction between the family, ownership and business, KPMG can offer the following support:

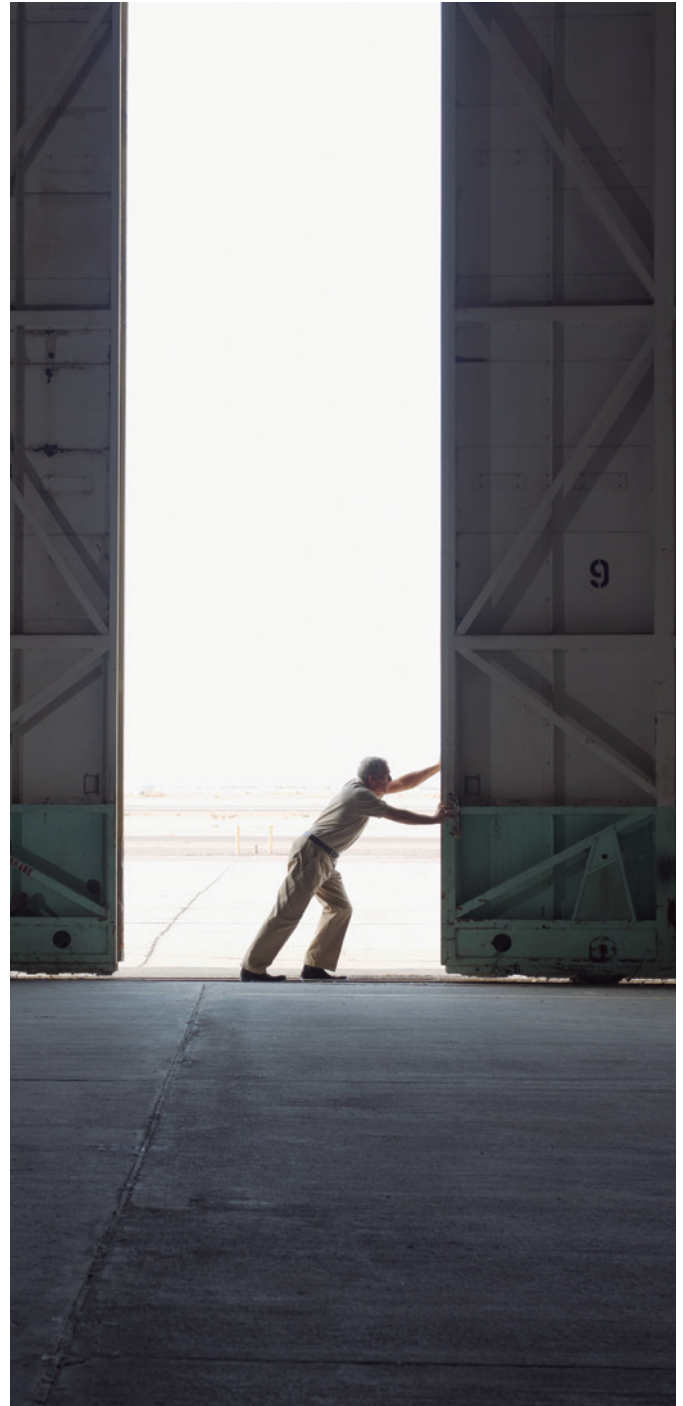
- Family Governance Structuring: Family Council, Succession Plan, Family Agreement, Family Holdings, preparation of Financial Reports, establishment of Family Office, provision of Coaching services and Training Plan;
- Governance Structuring of the Company and Business: Board of Directors, Advisory Committees to the Board, Professionalization of Management, Key Performance Indicators (KPIs), Management Coaching;
- Structuring of the Operating Processes: Internal Control Environment, Risk Management of Operating Processes, Ethics and Conduct, Accounting and Tax Support.

Enterprise

Passion, it's what drives entrepreneurs, family businesses and fast-growing companies alike. It's also what inspires KPMG Enterprise to help drive your success.

We're dedicated to working with businesses like yours. It's all we do. Whether you're an entrepreneur, family business, or a fast-growing company, we understand what's important to you. We can help you navigate your challenges—no matter the size and stage of your business. You gain access to KPMG's global resources through a single point of contact—a trusted adviser to your company. It's a local touch with a global reach.

Look to our trusted advisers to bring the clarity you need to help your company excel at every step of your business journey.



About KPMG in Brazil

KPMG is a global network of independent member firms providing Audit, Tax and Advisory services. We operate in 155 countries and have 174 thousand people working in member firms around the world.

In Brazil, approximately 4,000 professionals work in 22 cities located in 13 states and the Federal District.

Guided by its objective of empowering change, KPMG has become a benchmark company in the segment in which it operates. We have shared value and inspired trust in capital markets and communities for more than 100 years, transforming people and companies and making positive impacts that contribute towards sustainable changes in our clients, in governments and in civil society.



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