

# *Business Insights*

## Private Company Services

*Private Company  
Services Newsletter  
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# Welcome



***Welcome to the latest edition of our newsletter for private companies, family-owned businesses and entrepreneurs. In this issue we are focussing on the results of recent surveys and their implications for the owners of private companies – the 2010/2011 Family Business Survey, the 2011 Pensions Survey and the 2011 Global CEO Survey.***

It seems that the worst of the crisis may now be behind us and that some degree of stability is returning. However many companies are still grappling with the effects of recession and sustainable economic growth is still some distance away.

We may have a new government but market conditions are still proving to be volatile. According to the 2010/2011 PwC Family Business Survey, family businesses are continuing to find operating conditions challenging, with 70% of the companies surveyed reporting a fall in profits over the last year, compared to 35% globally. As well as challenging economic conditions, companies are also dealing with pension deficits. The results of our recent pension survey show that a large number of Irish employers believe that the changes in Budget 2011 will make the provision of pension benefits much more difficult.

We take a look at some of the options that are open to companies who may be considering restructuring their business in order to deal with significant debt issues and a scarcity of cash. As well as recommending openly engaging with lenders and focusing on working capital management, Brian Bergin, our Restructuring Partner, suggests carrying out a comprehensive review of all aspects of the business which is in need of restructuring.

Despite these ongoing difficulties for companies, we take a look at emerging companies that are embracing growth opportunities. Many of these took part in the recent Dublin Docklands Innovation Park awards, which we hosted at our Spencer Dock offices. The awards are in their 9th year and are supported by the Bolton Trust and DIT Hothouse with the aim of showcasing companies emerging from the Docklands Innovation Park.

In addition, you can read the findings of our Global CEO Survey on our publications page. This year there seems to be a renewal of optimism amongst global CEOs as they look not only at where they believe growth will come from but also how they plan to achieve it.

If you have any questions about any of the issues raised in this edition, please do not hesitate to contact me or any of our Private Company Services contacts listed.

**Paul Hennessy**

Private Company Services

# 2010/2011 PwC Family Business Survey



Pictured at the launch of the 2010/2011 PwC Family Business Survey (l-r): Dermot Reilly (Partner, PwC), Dr. Jim Madden (Founder & Chairman, Eurocare International), Paul Hennessy (Partner, PwC) & Claire O'Callaghan (Managing Director, Kanchi)

The financial crisis has hit Irish family businesses nearly twice as hard as their global counterparts. For example, nearly three-quarters (70%) of Irish family firms have seen their operating profits fall over the last year compared to just 35% globally. Over two-thirds (68%) have seen demand for their products and services fall compared to 34% globally. Over half (57%) have reduced their capital investment compared to just a quarter (25%) globally. Interestingly, the majority (70%) of Irish respondents felt that being part of a family business has helped them in dealing with the economic crisis.

But there is a silver lining. Despite these challenging times, Irish Family businesses are looking to the future with renewed optimism. Some 30% are striving for growth in the next year with many (41%) expecting the markets in which they do business to improve. Almost a quarter (22%) expect demand for their products and services to increase. Over half (61%) expect changes in their business model going forward – no doubt with a view to grasping whatever opportunities eventual recovery will bring. These are some of the key findings for Irish family businesses emerging from the PwC 2010 Global Family Business survey. This was carried out in 35 countries around the world.

## **Key challenges – external markets and cash flow key challenges**

An overwhelming majority (84%) of Irish respondents believe that the key external challenge facing their business is negative consumer sentiment. Other key challenges noted were competition, government policy, excess regulation and restricted public spending.

Key internal challenges are cash flow and controlling costs. The recruitment of key skilled staff is a concern for 27% of the Irish family businesses surveyed. Many companies are considering a move from short-term bonus arrangements to more sustainable incentive plans that more closely mirror their key business drivers.

## **Key findings**

- 70% Irish family businesses have experienced a fall in operating profits over the last year compared to 35% for their global counterparts
- 61% of businesses have no succession plan
- Irish family businesses are well placed in terms of having conflict management procedures

## Over a third (36%) of Irish survey respondents said they expect their business to change hands within the next five years...

### Handing over the reins – Over 36% expect business to change hands

One of the biggest risks facing any family-owned business is the transition from one generation to the next. Over one third (36%) of Irish survey respondents said they expect their business to change hands within the next five years, with 70% of these companies expecting the business to remain in the family. This compares to just over half (53%) of global family businesses to remain in family ownership. Yet 61% of all Irish family companies surveyed still have no succession plan, compared to 66% three years ago. Of those who do have a succession plan, 40% have not decided who will take over as the key business driver.

Paul Hennessy, Partner, Private Company Services, PwC Ireland said:

**“To ensure smooth transition, family businesses must do some careful planning. Companies that survive a change of ownership are usually those that have developed good plans, outlining how the succession will take place and what criteria will be used to judge when the successor is ready to take over the reins.”**

Conflicts over who should take control can be made worse by conflicts over money. Only 55% of Irish respondents said that they had enough resources to divide their assets fairly between all their heirs, including those who don't work for the business.

Some of the other findings which suggest that many Irish family businesses are not adequately preparing themselves for the future include:

- 39% either lack the liquidity to buy out family members who want to dispose of their stakes in the business or else haven't considered the possibility;
- 39% have not prepared for the possible sickness or death of a key manager or stakeholder;
- 48% have not established any procedures for purchasing the shares of incapacitated or deceased shareholders;
- 70% have not had their business valued domestically in the last year to gauge the potential exposure to tax; 59% do not know the international implications.

You can access the full report in the publications section of this newsletter.

# No room for sentiment when restructuring a business



**Brian Bergin**  
Restructuring Partner, PwC

***Many Irish companies which experienced debt-fuelled growth during the last decade are now in the unfortunate position of facing significant debt and a scarcity of cash. For such companies, the focus is now on ways to restructure the business for future sustainability.***

***Brian Bergin, Restructuring Partner in PwC, examines some of the options open to a company in this position.***

Unfortunately, it is now quite common for Irish corporates to face a need to restructure their business as a result of significant debt. Addressing the importance of cash generation and the challenge of debt burden in a difficult environment requires a three-pronged approach:

1. Carry out a detailed 'bottom up' review of all aspects of the business
2. Focus on working capital management
3. Have open and transparent engagement with lenders.

A detailed review of the business should be performed to identify and eliminate all non-essential spend. Companies can drive down costs by seeking quotes from alternative suppliers. This process should be carried out on a 'bottom up' basis and it should be led by a project manager who is independent of the areas of the business being reviewed. Long-standing relationships with suppliers or contracts entered into at the height of the market, while important, must be challenged. Such actions must be continuous and become part of your operational strategy so that 'cost creep' is avoided.

Another key area of focus is that of loss-making businesses or activities. Regardless of the initial rationale for a particular business or contract, if the figures don't support its retention and its forecast is poor, do not try to rescue it. Take the hit early and move on to focus on the more lucrative parts of the business.

Exploration of alternative business practices should also be considered, including analysing whether it might make more sense to outsource aspects of the business or relocate them to low-cost jurisdictions. Above all else, successful operational restructuring requires a clinical, challenging mindset. It is crucial that your people are kept informed of the reasons for (and importance of) these actions. This way, they are more likely to buy in to your restructuring plans.

Such actions are essential in this economic environment, where there is a need to be more innovative, agile and cost competitive not only to grow, but to survive and improve cash flows. The importance of operational restructuring - and of tackling the above issues prior to engagement with lenders - cannot be overstated. Lenders will require that a business undertake extensive operational restructuring prior to any refinancing. Failure to take appropriate action will damage management's credibility in negotiations with lenders.

# *There's no room for sentiment when restructuring a business*

Actions to improve operating cash flow and working capital management are also vital. A successful restructuring plan should focus on accelerating collections, further extending payables and reducing inventory. Introducing a system of accountability regarding working capital metrics can be effective. Alternatively, you could introduce incentives for achieving targets. Successful cash flow management should include a more challenged capital investment plan. Capital spend should be rebased to zero and any new project should be underpinned by a detailed business case.

The challenge of renegotiating existing bank facilities (or indeed refinancing with another bank) should not be underestimated and planning well in advance is recommended. This allows for open and candid communication between all parties and facilitates the building of trust. The quality of the relationship between the company and its lenders is key to refinancing successfully. Often, the level of trust the banks have placed in the company - and its management team - is the key factor in the success or otherwise of a refinancing scenario. Refinancing proposals themselves should be prepared with the lenders in mind, clearly outlining the business case for them in supporting the company into the future.

Any proposal should provide the company with headroom to deal with the downturn and a return to growth in the years ahead. This may involve rescheduling of capital repayments, restructuring of interest or a reduction of debt through a debt for equity swap.

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Brian Bergin is a partner in our Advisory practice and specialises in providing business restructuring advisory services to lenders, creditors, companies and individuals in troubled financial situations.

# *Pensions – impact on Irish employers*

***Following Budget 2011, nearly two-thirds (62%) of Irish businesses expect that the changes made will make the provision of pension benefits more difficult for them, with the concern that erosion of tax reliefs has created a real risk that employees and employers will disengage from the pensions process. PwC's 2011 Pension Survey was carried out in January 2011 and had over 300 participants representing Ireland's top employers.***

The survey confirms the major changes in the pension landscape over the last few years. According to the survey, nearly half (43%) of Irish employers have made changes to their pension arrangements, with a focus on limiting the amount of employer contributions to be paid.

Nearly two thirds (63%) of participating employers highlighted the concern that their employees may be unable to afford to retire at the expected retirement date. Yet, nearly three-quarters (70%) of respondents had not considered the implications of the increased State Pension Age on their employees. Of the 30% who had considered the implications, only 8% were considering any changes to their pension scheme as a result. There is an urgent need to address this issue and how the increased retirement age will impact on the business, the pattern of work and pension funds annually. Over a third (40%) of survey respondents said that it is not company policy to allow employees work beyond normal retirement age.



Pictured at the recent launch of PwC's 2011 Pension Survey: (l-r) Alan Bigley (PwC Pensions Partner), Anne Maher (Non-Executive Director, AIB) and Ronan Murphy (Senior Partner, PwC)

According to the survey, there has been widespread and significant renegotiation in the terms of defined benefit (DB) schemes over the last two years. For example, the survey revealed that 40% of respondents had implemented reduced pension benefits while 27% sought increased employee contributions to help manage their deficit.

A recent development is the concept of DB schemes investing in Irish Government debt having the higher yield paid on that debt used in calculating their pension liabilities. This has the potential to significantly improve the funding position of many schemes but carries with it a change in the risk profile. The survey suggests nearly a quarter (23%) of sponsors of DB schemes felt it might be of interest as part of their overall funding considerations.

According to Alan Bigley, PwC Pensions Partner, "the survey shows the extent of change happening in Irish pension schemes and following Budget 2011 this change is likely to continue. If considering investing in Irish Government debt as a means to reduce pension liabilities, trustees need to consider such an investment in the context of the overall risk of the Scheme. Given that pensions remain a significant part of the overall remuneration structure, and with the erosion of tax reliefs, there is evidence emerging that employers and employees will disengage from the pensions process. This will only lead to future challenges for the pensioner in retirement with the State funding a greater proportion of total retirement income."

# Pensions – impact on Irish employers

## **Other key findings in the survey include:**

- 86% of Irish employers said that if tax relief on personal contributions was reduced to the standard 20% rate, higher rate tax payers would cease or reduce AVCs;
- The survey reveals that 39% of Irish companies would seek to reduce pension benefits if employer PRSI is payable on employer contributions. However, 42% said that they would reduce costs elsewhere in the organisation to compensate.
- According to the survey, half of Irish employers have not yet considered the impact on pension arrangements on staff arising from the introduction of cap on pension benefits of €2.3m. Over a third (34%) have considered it but have not yet taken action. The survey highlights clear action required to identify those employees who are likely to reach the benefit threshold and consider whether their reward structures should be amended to take account of the new limit.
- One positive was that a majority (60%) said that the ability to avoid purchasing an annuity under a defined contribution scheme will improve the attractiveness of pensions. Defined contribution scheme

members will now be permitted to invest part or all of their pension fund into an Approved Retirement Fund (ARF). This new provision means that instead of having to purchase an annuity at retirement, and thus being subject to both volatility in market pricing around retirement and the knowledge that the annuity dies with its purchaser, members can take ownership of their accumulated benefits.

Businesses may be fundamentally impacted if appropriate action concerning the pension arrangements is not taken on time. Given the importance of pensions as part of overall remuneration, employers will need to continue to assess whether their pension arrangements are meeting both their needs and their employees expectations.

You can access the full 2011 Pension Survey report in the publications section of this newsletter.

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# Events and business briefings

## Docklands Innovation Park Enterprise Awards

### **Ground-breaking Innovation alive and well - Grainne Barron and Foxframe win 2011 Docklands Innovation Awards and €10,000 prize fund**

Grainne Barron and her ground breaking digital media company, Foxframe, won the 2011 Docklands Innovation Park Enterprise Awards, which took place in PwC's Spencer Dock offices in March 2011. Grainne Barron and Foxframe went head-to-head with other shortlisted companies, Geoff Beggs, Front Square and Mark Kearns, Nootrol, to secure the title of 'Best Investment Proposal for 2011' and a prize of €10,000. The winner was announced following a gruelling question and answer session by a panel of judges led by Damien Callaghan, Investment Director, Intel Capital and Chairman of the Advisory Board of Innovation Fund Ireland and his team Brian Caulfield, Entrepreneur & Partner, DFJ Esprit; Dr Ivan Coulter, Founder & CEO, Sigmoid Pharma and Diane Roberts, National Director, Halo Business Angel Network.

Foxframe ([www.foxframe.com](http://www.foxframe.com)) was founded by Grainne Barron, a media industry professional with more than 15 years experience in traditional video advertising, production and digital media coupled with sales management expertise. Through Grainne and her start up team, Foxframe has the domain knowledge of the online video ad



Pictured at the 2011 Docklands Innovation Awards:  
Rónán Murphy (Senior Partner, PwC, and Grainne Barron  
(CEO, Foxframe)

ecosystem to be the ground-breaking thought leader serving this market. Foxframe enables businesses worldwide to create their own professional video ads online using its Content-as-a-Service (CaaS) software application which automates the entire video

production and distribution process. Foxframe are currently part of the Bolton Trust Incubator Programme.

### **The Bolton Trust**

The Bolton Trust was established in 1987 at the height of Ireland's 'brain drain' to promote an enterprise culture and to offer young entrepreneurs an opportunity to develop their business ideas in Ireland. There are some 350 people currently employed by the 70 companies based at the 14,000 square metre Docklands Innovation Park on Dublin's East Wall Road. The Trust is committed to helping the growth of indigenous Irish enterprises and fostering entrepreneurship. Chairman, Rea O'Neill commented: 'At this particular time it is more important than ever for strategic investment in young innovative companies who represent growth opportunities for our economy. Last year's DIP Awards saw the investment of over €1.4 million in three excellent companies. This year's finalists present equal opportunities with global potential for investment.'

# Events and business briefings

## Docklands Innovation Park Enterprise Awards

Now in its 9th year, the Docklands Innovation Park Enterprise Awards is an initiative of the Bolton Trust and DIT Hothouse and is aimed at showcasing the innovative companies emerging from Docklands Innovation Park (DIP). The 2011 Awards are sponsored by PwC, Ireland's largest professional services firm, Bolton Trust and Hothouse. The DIP award winners over the years have secured investment of over €12m. Winners in previous years have included: Sigmoid Pharma, Openplain and Kinesense.

Speaking following their decision, Damien Callaghan, Chairman of the Judging panel said: "The Judges were delighted to see the key elements of an innovation ecosystem emerging. We have seen three scalable projects with global potential. Our winner, Grainne Barron, CEO, Foxframe, bears testament to the entrepreneurial spirit being alive and well in Ireland and to the effectiveness of the focused support that these start-ups are receiving."

Speaking at the awards presentation, Ronan Murphy, Senior Partner, PwC said: "In the current environment it is critical to foster a culture of innovation across all areas of business. It is from fresh ideas that new products and services will emerge and future businesses will develop. Supporting our young entrepreneurs, many of whom will be our future business leaders, will contribute to the

future success of our economy. And that is what tonight is all about. A special congratulations to the winner and also to the runners-up and to everyone involved in making this evening such a success."



Pictured at the 2011 Docklands Innovation Awards: Grainne Barron (CEO, Foxframe)

# Events and business briefings

## Recent events

### **Winning through Change Conference in association with Arthur Cox and Ulster Bank**

Peter D. Sutherland SC (Chairman, Goldmans Sachs International and Chairman, London School of Economics) was the keynote speaker at the “Winning through Change” conference which took place on 11 January in the Convention Centre Dublin

The conference addressed the challenges posed by the radically re-shaped business landscape which confronts Irish business today. The speakers, which also included Paul Donovan (CEO, Eircom), Donal O’Brien (Commercial Director, Aramark Ireland) and Dylan Collins (CEO, Jolt Online Gaming), shared their experiences of how businesses can adapt to this new environment and emerge as competitive and confident by recognising and deploying optimum growth and change strategies.



Pictured at the Winning through Change Conference (l-r) Paul Donovan (CEO, Eircom), Donal O’Brien (Commercial Director, Aramark Ireland), Dermot Reilly (Partner, PwC), Paul Hennessy (Partner, PwC) and Eugene McCague (Chairman, Arthur Cox)



Peter D. Sutherland SC addressing the audience at the Winning through Change Conference

# Events and business briefings

## Private Business Forum

### Private Business Forum

Our series of briefings for private business owners

Previous speakers include Louis Copeland, Dr. Jim Madden (Chairman, Eurocare International), Oliver Hughes (Porterhouse Group), Pat Gunne (Managing Director, Green Property) and Michael Kearney (Chairman, Home Instead Senior Care and Founder, Snap Printing).

For further information on the next event in this series, please contact Catherine Madden at [catherine.a.madden@ie.pwc.com](mailto:catherine.a.madden@ie.pwc.com)



(L-r) Michael Kearney (Chairman, Home Instead Senior Care) Paul Hennessy (Partner, PwC) and David McGee (Director, PwC)



(L-r) Paul Hennessy (Partner, PwC), Claire O'Callaghan (Managing Director, Kanchi) and Dr. Jim Madden (Chairman, Eurocare International)



(L-r) Pat McArdle (Economist), Paul Hennessy (Partner, PwC) and Louis Copeland (CEO, Louis Copeland & Sons)



(L-r) Dermot Reilly (Partner, PwC), Paul Hennessy (Partner, PwC) and Pat Gunne (Managing Director, Green Property)

# Publications



## 2010/2011 Family Business Survey

Globally, we've talked to more than 1,600 business owners and managers. This report explores the Ireland results and how family businesses are dealing with the economic downturn, what challenges they're facing and how they are preparing for the future.



## Growth reimagined

### 2011 Global CEO Survey

In 2011, CEOs face a global environment still recovering from the worst economic crisis in 75 years. In the 14th Annual Global CEO Survey, we set out to uncover how CEOs are approaching growth in the post-crisis business environment. We surveyed 1,200 business leaders in 69 countries around the globe, in the last quarter of 2010, and conducted further in-depth interviews with 31 CEOs.



## A time of change

### Pensions Survey 2011

The PwC Pensions Survey 2011 comes against a backdrop of sweeping changes in the Pensions arena, as exhibited by the many provisions of the Finance Act 2011 which will have a far-reaching impact on pension schemes, whether defined benefit, defined contribution or PRSA arrangements.

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