

BPCE L'Observatoire

NOTES

BUSINESS TRANSFERS

BUSINESS
TRANSFERS



AGEING
PROPRIETORS



MAY 2019



GROUPE BPCE

Foreword to the BPCE L'Observatoire Notes 2019

In this fifth edition of the BPCE L'Observatoire Notes, the work of the BPCE L'Observatoire further extends the analysis of business transfers in France.

After proving its reliability and acquiring widespread credibility, the method used to measure company transfers was broadened in the previous edition to embrace all non-agricultural, non-financial private merchant sector companies, instead of just SMEs and intermediate sized enterprises as previously. The update to include 2015 and 2016 data, which constitutes the first part of these Notes, broadly validates the rough figures established previously and highlights a marked slowdown in the number of takeovers since 2013.

In addition, with it being impossible to make an overall assessment of business transfers in Europe, due to the lack of a statistical mechanism common to all the countries, we used the work undertaken in France as the basis for a first estimate of the market for transfers of SMEs and ISEs in the EU. Although this estimate relies on the substantial assumption that the transversal factors of disparity observed for France also apply on a European scale, it also enables us to determine first rough figures for transfers of SMEs and ISEs in Europe, along with their impact on employment.

Lastly, the decline in the number of sales observed over the last four years and which concerns all categories of companies, particularly affects businesses with proprietors nearing retirement age. The second part of these BPCE L'Observatoire Notes specifically discusses the economic urgency created by the ageing of SME and large-company proprietors. It uses a novel regional classification to characterize the renewal of SMEs when their proprietors come to the end of their working lives and highlights the sectoral specifics of business transfers with proprietors aged over 60. By focusing on industry, this work highlights the avoidable, though sometimes irreversible, loss of jobs, added value and growth, caused by the shortfall in SME and ISE transfers in France.

About Groupe BPCE

Groupe BPCE operates a universal cooperative banking model represented by 9 million cooperative shareholders and is the second-largest banking group in France. Through its 105,000 staff, the group serves over 30 million clients - individuals, professionals, companies, investors and local government bodies – around the world. It operates in the retail banking and insurance fields in France via its two large networks, Banque Populaire and Caisse d'Épargne, along with Banque Palatine. With Natixis, it also runs global asset management, corporate & investment banking and payments business lines. The group leverages these extensive capabilities to offer a comprehensive and diversified array of deposits & savings, cash management, financing, insurance and investment solutions. Groupe BPCE is recognized for its financial solidity by four major financial rating agencies: Moody's (A1, stable outlook), Standard & Poor's (A+, stable outlook), Fitch (A+, stable outlook) and R&I (A, positive outlook).

Part 1 – Business transfers in 2016

The BPCE Observatory's work provides an annual update of data on business transfers in France. The methodology employed to count takeovers of SMEs and ISEs has proved its reliability since 2011 and it has consequently been extended to cover micro-enterprises for the last two years. It therefore covers the large majority of France's productive fabric and can thus provide a comprehensive diagnosis of the subject of business transfers and insight into the main issues. The series established over the years now highlights the irrefutable downward trend in takeovers since 2013, as well as changes affecting particular sectors or regions. In addition, the reliability of the method employed and the structure of the pool of companies in France (the number of companies in each large size or sector category is high enough for statistics to be representative), allows us to make a first-time assessment of the market for business transfers in Europe.

1. Statistical scope and analytical methodology

1.1- Scope of companies included

Since 2011, the BPCE Observatory's work has covered non-agricultural, non-financial merchant private sector companies. Within this scope, Insee identifies slightly over 4.3 million companies split into four categories: commercial companies (2 million), liberal professions (800,000), trades businesses (1.3 million) and other physical persons (200,000). With the quantity and the quality of the information contained in the various databases used for this analysis being insufficient to identify sales of sole proprietor, liberal profession and micro-entrepreneur companies, we concentrated on commercial companies when counting sale-transfer transactions. Nevertheless, with legal announcements enabling us to identify 5,650 sales of trades businesses employing fewer than 10 staff, these were incorporated into the overall calculation. However, these businesses cannot be analyzed in the same depth as commercial companies, due to the lack of information on their characteristics (proprietor's age, capital links, jobs concerned, coverage rate, identification of family transfers, etc.). As a result, the scope covered comprises 3.3 million companies, excluding micro-entrepreneurs and certain liberal professionals.

1.2- A stable counting method

To establish a comprehensive and standardized diagnosis of the transfer of businesses employing between 0 and 5,000 staff, the counting methods are now virtually the same for micro-enterprises (0-9 staff), SMEs (10-249 staff) and intermediate sized enterprises (500-5,000 staff). So for each company identified by a unique Siren company number common to all databases used (Infolégale, Sirene, Corpfin, Insee, etc.), we identify each event representative of a sale-transfer transaction taking place during the year. Legal announcements of company sales (sales of business assets, mergers, universal transfers of ownership, etc.), changes of main shareholder and changes of family proprietors are counted. Sales *via* holding companies and changes of proprietor-shareholder are only assessed for SMEs and ISEs. This is because for very small businesses, the coverage rate and the quality of capital links incorporated in databases are insufficient to include these methods in the calculation of company sales. Sales *via* holding companies concern 17% of total sales for SMEs and ISEs, while changes of proprietor-shareholder – which imply knowing both the name of the proprietor and the number of shares (minority interest) owned in the company – represent 11%. The overall number of transfers of very small businesses could be underestimated by around a quarter¹, all other things being equal. In any event, this approach provides a minimum measure of the number of business transfers in France.

Among the companies not taken over during the year, we take into account those that disappeared for judicial or non-judicial reasons (the latter resulting from natural death and entailing the company's removal from Insee's databases without any trigger event such as a liquidation or recovery procedure having taken place). These disappearances may stem from an objective reason (accident, fragile financial situation, value relying solely on the proprietor's personality) or from the lack of a buyer (lack of preparation for the sale, economic unattractiveness, technical demands, etc).

¹ More probably by around 10-15% taking into account the more infrequent creation of holding companies or the share-out of capital among micro enterprises.

2. Overview of business transfers and disappearances

2.1 Decline in the number of takeovers since 2013



Source : BPCE L'Observatoire

The number of business transfers has been decreasing since 2013. Whereas over 76,000 takeovers were recorded in 2013, only 50,877 companies were sold or transferred in 2016. This decrease is visible for all size categories, but to different degrees: 5,650 trades micro-enterprises were sold in 2016, representing a 66% decrease in three years; slightly over 34,000 commercial micro-enterprises were taken over in 2016, a 22% decline over the same period; lastly, around 10,500 SMEs and 667 ISEs found a buyer, down 28% and 54%, respectively, since 2013. Given that this reduction concerns medium-sized enterprises (employing 50-249 staff) and intermediate sized enterprises as much as, if not more than, other categories, it cannot be ascribed to a methodological selection bias, such as one related to the authorization granted to companies employing fewer than 50 staff to no longer publicly declare their accounts or changes in their articles of association. On the one hand, the reduction is not concentrated in this size category of enterprises, and on the other, it pre-dates the 2016 decree that introduced the above authorization. In addition, apart from family transfers, all the methods assessed in this report (direct sales identified by a legal announcement, sales of shares, holding-company sales, change of proprietor-shareholder, etc.) have decreased since 2013, not just those identified by a legal announcement. The reduction stems more from economic circumstances and regulatory decisions hindering sales, such as the Hamon Act. This legislation obliged business proprietors to inform employees of their project at a critical point in the sale process. It consequently introduced a risk of the deal failing, given that confidentiality is one of the key factors in the success of these types of transactions that are often considered time-consuming and delicate.

Business transfers in 2016

	0 employees	1-5 employees	6-9 employees	10-49 employees	50-249 employees	250-4999 employees	Total	Rate
Non-judicial disappearances	104 962	23 436	1 865	1 860	209	28	132 360	3,7%
Judicial disappearances	12 481	13 798	1 960	3 040	219	18	31 516	0,9%
Discontinuations (1)	117 443	37 234	3 825	4 900	428	46	163 876	4,6%
<i>Disappearance rate 2016</i>	5,1%	4,1%	2,6%	2,7%	1,8%	0,9%	4,6%	0,0%
Sales (Infolégale data)	13 890	13 509	3 440	3 220	735	349	35 143	1,0%
Sales via holding companies or sales of shares	609	529	148	3 023	1 082	291	5 682	0,2%
Family transfers	2 931	3 794	876	2 176	248	27	10 052	0,3%
Business transfers (2)	17 430	17 832	4 464	8 419	2 065	667	50 877	1,4%
<i>Sale-transfer rate 2016</i>	0,8%	1,9%	3,0%	4,6%	8,5%	13,3%	1,4%	
No sale-transfer or disappearance event (3)	2 185 679	862 252	141 375	171 073	21 812	4 315	3 386 506	94,0%
All companies (1)+(2)+(3)	2 320 552	917 318	149 664	184 392	24 305	5 028	3 601 259	100%
Number of jobs concerned by disappearances	109 934	65 523	25 298	84 534	42 544	20 122	347 955	
<i>Percentage jobs concerned by disappearances</i>	4,7%	3,9%	2,6%	2,5%	1,7%	0,6%	2,4%	
Number of jobs concerned by sales	16 722	37 302	29 946	116 171	130 166	437 035	767 342	
<i>Percentage jobs concerned by sales</i>	0,7%	2,2%	3,1%	3,4%	5,2%	12,2%	5,3%	
Number of jobs – VSBs, SMEs and ISEs in 2016	2 320 552	1 692 024	965 958	3 405 790	2 479 513	3 584 927	14 448 764	

Source: BPCE L'Observatoire

Given the impossibility of identifying company sales for liberal professions and physical persons and that certain forms, such as family transfers of trades companies or sales of commercial micro-enterprises *via* holding companies, could not be taken into account, the measurement probably needs to be revised up by around a quarter. As a result, the number of companies sold in France was probably around 60,000 in 2016, even though this was the slackest year since 2010, and the average number of business transfers for the 2013-2016 period was probably around 80,000 a year.

2.2 Company takeovers remain more a question of size than age

Analysis of the 50,877 identified company sales confirms the results of the previous work undertaken by BPCE L'Observatoire. In particular, the business transfer rate, that is the probability of a company being sold during the year, is less related to the proprietor's age than to the company's size: three quarters of company sales took place before the proprietor reached 60, whether for the smallest companies or for large companies. Estimating the size of the company-takeovers market based on the age-structure of proprietors therefore leads to two errors. The first is that it masks sales that take place when the proprietor is still active (these comprising the large majority of transactions) and gives an erroneous picture of the type of companies constituting the market. The second, which is the subject of specific analysis in the second part of this report, leads to an over-estimate of the impact of retirements on the renewal of the pool of company proprietors and to an inaccurate diagnosis of development prospects for the productive fabric.

Conversely, the number of staff employed by the company provides a better criterion for explaining the level of company sales. The frequency of transactions increases continuously along with the number of staff, rising from 0.8% for companies with no staff, to 1.9% for micro-enterprises with 1-5 staff, then 3% for the next category up (6-9 staff), 4.6% for SMEs with 10-49 staff, 8.5% for medium-sized companies and 13.3% for ISEs. In addition, when company-size is matched against the proprietor's age, the sale rate for companies of a given size is always lower than that for bigger companies, whatever the proprietor's age. For example, it is less frequent for a company with 20 staff and a proprietor aged over 60 to be sold than for a company with 50 staff and a 50-year old proprietor.

In terms of jobs, some 770,000 employees were concerned by the sale of their company in 2016, almost 90% of whom were in the SME and ISE categories. In comparison, around 350,000 jobs were concerned by the disappearance of some 164,000 companies in 2016, only

40% of which concerned employees of SMEs and ISEs. Traditionally, micro-enterprises disappear twice as frequently as SMEs and ISEs, but their sale rate is only half that of SMEs and ISEs. However, with sales having contracted more than disappearances, the demarcation line between sales and disappearances has shifted since 2014: micro-enterprises are still disappearing twice as fast as SMEs and micro-enterprises, but they are now also four times less likely to be taken over. In 2014, sale and disappearance rates, which move in opposite directions depending on the size of the company, were balanced for micro-enterprises with 3-5 staff. However, in 2016, this point of equilibrium was only attained as from the category of companies with 6-9 staff. This signifies that the lack of sales accentuated the asymmetry between takeovers and disappearances-creations, thereby increasing the fragmentation of the productive fabric in a manner prejudicial to its development.

2.3 Sectoral changes related to takeovers

Sectoral analysis of transfers of SMEs and ISEs confirms the specific features of broad sectors, but also reveals sharp disparities and pronounced changes within sub-sectors. For example, although industry still displays a high business-sale rate and a lower-than-average disappearance rate, this is essentially thanks to sub-sectors comprising the chemicals, agrifood, IT, paper & cardboard, and metallurgical industries. In contrast, other sub-sectors like the automotive, plastics and metal products industries show lower sale rates, while printing, wood working and especially the clothing industries combine both low business-sale rates and high disappearance rates. In addition, proprietor-renewal momentum was also pretty negative in industry: since 2014, all industrial sectors have experienced faster-than-average increases in their disappearance rate, with the exception of metallurgy, where the rate has improved, and automotive and chemicals, where it has stabilized. At the same time, their business transfer rates have worsened, notably in the clothing, waste collection, plastics and IT industries, where it has dropped by more than two percentage points.

The sub-sectors of the broad Construction & Civil Engineering sector also paint a varied picture and have moved positively in comparison with other sectors. With a transfer rate of only 3.8%, construction is still one of the sectors where takeovers are least common. And along with the clothing industry, it is one of the sole activities where SMEs and ISEs disappear more than they are taken over. Nonetheless, their rate of disappearance has been declining by faster-than-average since 2014 and the business-sale rate has deteriorated less than in the other sectors. In civil engineering, the situation is better, reflecting the fact that SMEs and ISEs are bigger on average here than in construction: the sale rate here stands at almost 10% (the highest rate behind real-estate activities), for a disappearance rate of less than 2.5%. In addition, it is the only sector (along with real-estate activities), where the business transfer rate improved since 2014.

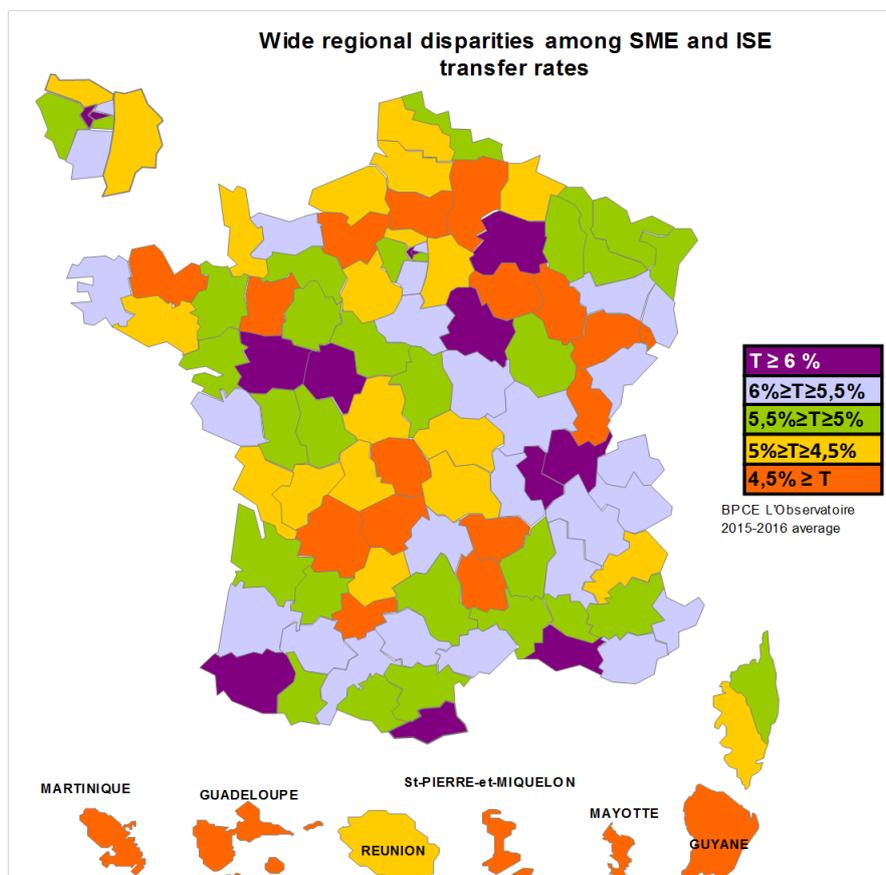
In services, SMEs and ISEs showed the most attractive momentum. Their transfer rates declined by less than in other sectors (except for travel agencies, where the sale rate was down by 4 percentage points versus 1.3 percentage points on average) and they disappeared by significantly less than the average, except for the legal, architecture and engineering sub-sectors. In 2016, business services, transportation and logistics recorded higher-than-average sale rates and low disappearance rates, except for building services whose model resembles that of construction. Services to individuals remained highly stable, underpinned by a low incidence of renewal *via* takeovers and few discontinuations.

Lastly, retailing and wholesaling, together with hotels and catering showed little change since 2014. Despite a minor increase in their frequency of disappearance and a stable business-sale rate, these sectors of activity were still characterized by an ownership-renewal model primarily driven by takeovers, with a still-low rate of disappearance.

2.4 Regional differences among business transfers

Regional analysis of business transfers also highlighted sharp disparities that were not solely related to the structure of the local productive fabric. The Grand Ouest region and the Rhône-Alpes basin were the regions where companies were most likely to be taken over, while conversely, the rate of business transfers was particularly low in the north-east quarter of the country.

Concerning SMEs and ISEs, some notable changes can be observed by matching these results against the map of sales rates in previous years. In the 2015-2016 period, business-sale rates were particularly high in the Île-de-France region (including Paris), notably in the “inner crown”, as well as in the former Rhone-Alpes region, on the Mediterranean coast and in the south-west quarter of the country. Conversely, the number of SMEs and ISEs taken over in the former Champagne-Ardenne region, in Franche-Comté, in French dominions overseas and in the Hauts-de-France region was very low. Relative to the 2013-2014 period, transfers of SMEs and ISEs increased in Alsace and Burgundy (apart from in the Côte-d’Or department), where the sales rate improved from a low level to a fairly attractive one, and on the Mediterranean coast, where the momentum begun in 2013 and 2014 continued in 2015 and 2016. Conversely, the situation continued to deteriorate in the Hauts-de-France region, notably in the Aisne and Oise departments, and especially in the Franche-Comté region where even the Jura department saw a marked decline in the number of SME takeovers, despite having displayed fairly high business transfer rates in recent years. The Normandy, Brittany and Pays de la Loire regions also witnessed a slowdown in the company takeovers market in 2015-2016. Takeovers fell back to close-to-average levels in these regions, whereas they had previously been dynamic in terms of transfers since 2010



In line with the marked decline in rates of transfers for ISEs and SMEs with over 100 staff, French departments home to a regional capital saw these rates stagnate or decrease, apart from Paris, and the Rhone and Bouches-du-Rhône departments. Conversely, more rural departments with less dense concentrations of SMEs, like the Marne, Indre-et-Loire, Orne and Var departments, recorded more takeovers than in the previous period.

3. Estimate of the market for company takeovers in Europe

3.1 France – a mixed model

Company takeovers represent a competitiveness issue for economic regions. When they are not very common, one of the main risks to the business fabric in the region is the ageing of their company proprietors (see part 2) and the slowdown in activity that most often ensues. On this point, the previous work of BPCE L'Observatoire showed the virtues that transfers of SMEs and ISEs have in terms of their investments and relaunching their growth. On the one hand, our method of precisely counting company takeovers has demonstrated its reliability since 2011 and on the other, the lack of documented and aggregated information on company takeovers in Europe still renders it impossible to make a global assessment of the phenomenon. As a result, we used our work in France as the basis for a first estimate of the market for takeovers of SMEs and ISEs in the European Union.

In the absence of a centralized statistical system identifying all SMEs and ISEs (signifying here companies with between 10 and 4,999 staff), it is not possible to duplicate the work of BPCE L'Observatoire on other European Union countries. Nevertheless, it is both possible and necessary to at least produce an overall rough estimate for the European Union based on the French case. Firstly, assessing business transfers on a European scale suffers from the lack of any quantified method of measuring them. In particular, the lack of any assessment of the impact on jobs prevents this subject being given the importance it deserves in policies geared to supporting business entrepreneurship. Secondly, France's pool of SMEs and ISEs looks dense and varied enough to at least be partially representative of the economic fabrics of the 28 EU countries. For example, this fabric is denser and more fragmented in south-east and south-west France, and thereby more similar to a Mediterranean model where small entities dominate (like in Spain, Greece and Italy), but more concentrated in northern and eastern France, thanks to the presence of medium-sized or large firms, like in the north of Europe (Germany, Austria, Denmark, even the UK).

The French example shows that the main factors explaining the transfer rate for SMEs and ISEs are firstly size, then age and sector of activity. Although as far as we are aware, there is no reliable and systematic information on the age-structure of European company proprietors by country, the breakdown of companies by size-category and broad sector (industry, construction, services and commerce) is nevertheless known and established in a standardized manner². Assuming that these two factors also structure the average for European countries, we estimated the number of transactions in Europe by crossing size and sector for each country (e.g. number of companies with 50-249 staff in the industrial sector)

² Source: Eurostat data for the breakdown by size (categories: 10-19 staff, 20-49, 50-249 and over 250 staff...) and by sector for the number of non-agricultural, non-financial merchant companies, with the OECD providing the number of staff for the same size categories and sector.

and then applying the sale rate measured for France for this size and for the sector³. The estimate of the number of sales would probably have been of better quality if we had had access to an age criterion. But it needs remembering that transactions concerning proprietors aged 60 or over account for slightly under 30% of the total in France.

As a result, the number of transactions estimated for Europe derives less from the sector or size specifics of the fabric of French SMEs and ISEs, although it effectively remains highly dependent on the assumption shown to be structural for France, i.e. the larger the company, the greater the probability of a transaction, both because the company is more attractive and because there is a greater likelihood of the company belonging to a group, and hence is the object of a strategic decision. Consequently, assuming that the same transversal factors of disparity observed in France also apply on a European scale, it is possible to determine initial rough estimates for transfers of SMEs and ISEs in Europe.

3.2 Company takeovers in Europe: a first estimate

SMEs and ISEs belonging to the non-agricultural, non-financial private merchant sector account for 1.7 million companies in Europe and close to 100 million jobs. Starting with the average sale rate for SMEs and ISEs in France between 2014 and 2016, we estimate that around 100,000 SMEs and ISEs are sold each year in the EU and that over 10 million jobs are concerned. Within the 19-country euro zone, 72,000 of the 1.2 million SMEs and ISEs are probably sold or transferred with an impact on 6.6 million jobs.

France represents over 8.5% of the European market for transfers and 11.4% of the jobs concerned. In comparison, Germany probably accounts for a quarter of sales in the EU (26,000 SMEs and ISEs) and 22.5% of the jobs concerned, while Italian SMEs are estimated to represent 10.5% of sales (10,800 transactions), but only 7.2% of the jobs concerned.

Estimate of transfers of SMEs and ISEs in Europe

	SMEs and ISEs			Jobs		
	Number of SMEs and ISEs	Number of business transfers	% business transfers	Number of jobs	Concerned by business transfers	% jobs concerned by business transfers
European Union (28 countries)	1 732 364	103 158	6,0%	99 365 064	10 429 368	10,5%
Euro zone (19 countries)	1 219 131	71 896	5,9%	64 797 350	6 646 319	10,3%
Belgium	32 035	1 926	6,0%	1 790 608	187 113	10,4%
France	148 739	8 900	6,0%	10 915 773	1 190 834	10,9%
Germany	444 966	26 326	5,9%	23 144 744	2 348 045	10,1%
Italy	192 697	10 865	5,6%	7 889 933	753 487	9,5%
Spain	143 694	8 401	5,8%	7 140 867	741 087	10,4%
UK	209 134	12 511	6,0%	15 925 616	1 852 658	11,6%

Source: number of sales-transfers: BPCE L'Observatoire, number of companies and jobs: OECD

³ The average sale rate for 2014-16 was used. With the number of takeovers having been among the lowest observed in recent years, this enabled us to obtain a reasonable and conservative estimate of the European market for transfers of SMEs and ISEs.

However, this estimate does not take certain national specifics into account. For example, the capital structure of family-owned *Mittelstand* ISEs in Germany probably means family transfers are more prominent: by their very nature, these transactions occur less often than paid sales to third parties. As a result, the annual figure of 26,000 transfers of SMEs and ISEs in Germany represents more a maximum than a minimum. For Italy, our estimate could be adjusted by two opposing factors. Firstly, as with Germany, the frequency of family transfers (probably higher than in France) could warrant a downward adjustment in the estimate. Secondly, size might be a less structural criterion for estimating the frequency of sales of SMEs and ISEs in Italy than in France, due to the greater density of small firms in Italy.

Although this European estimate relies on substantial assumptions and needs to be pursued in greater depth, it does highlight the weight of company takeovers in Europe in economic and employment terms. It would also be useful to ascertain whether, like in France, the sellers are majoritarily active proprietors aged under 60 or people at the end of their professional lives. Only a standardized statistical tool centralized at European level providing access to the precise age of the proprietors of each company as well as the method of sale would enable us to identify whether the ageing of proprietors of SMEs and ISEs observed in France is a local and isolated phenomenon or a widespread tendency in the EU as a whole. As shown by the work of BPCE L'Observatoire in France, such a tool could be used to review certain generally accepted ideas (for example, most transactions actually occur while the proprietor remains professionally active and not when he/she is nearing retirement), or to check whether a discrepancy exists at European level between intentions to sell and effective sales. If it proved to be the case that this risk to the competitiveness of the productive fabric extended beyond French borders, this type of tool would enable the most sensitive sectors and regions to be targeted and business transfers to therefore be used as a genuine lever for fostering growth at European level.

Part 2 – Ageing proprietors compromise the development of the SME fabric

The sharp decrease in business transfers between 2013 and 2016 concerned all categories of SMEs and ISEs, but was most pronounced among elderly proprietors. At the same time, the trend toward the ageing of proprietors accentuated, with the increase in the percentage aged over 65 accelerating. As a result, although the ability of proprietors to hand over the reins at the end of their working lives was already the Achilles' heel of business transfer in France, this fragility now represents a major risk for the future of France's SME fabric. Although family transfers remained solid, they are still not the pivotal model in France. In addition, the ageing phenomenon specifically affects both geographic regions already exposed to the regional fractures related to the growth of conurbations, and sectors, which like industry, play a key role in the country's future competitiveness.

1. The end of proprietors' professional lives, the Achilles' heel of SME sales

1.1- Sharp decrease in sales by proprietors aged over 60

Regarding the sharp decrease in business transfers between 2013 and 2016, it would be logical to think that discretionary transactions or those related to opportunities arising during the working lives of young proprietors would have contracted faster than more structural, and maybe necessary, transactions linked to the need for older generations to hand over the reins of their business to a new owner. But this was decidedly not the case. On the contrary, the business transfer rate for proprietors in their forties fell 1.8 percentage points between 2013 and 2016, compared to 3.1 points for those in their sixties and 4 points for the over 65s⁴. Once again, the figures show that proprietor-ageing does not necessarily lead to an adjustment in the flow of company sales. We did not observe any natural change in requests to take over businesses in response to the surplus of companies on offer, whether these intentions to sell were expressed or simply potential.

Sales or transfers beyond the age of 60 traditionally represent slightly under 30% of transactions concluded by all age groups. In 2016, the proportion was 28% for some 3,200 sales, compared to an annual average of 4,300 in 2013-2014. The work of BPCE L'Observatoire published notably in 2017 on the basis of 2010-2014 data, already highlighted the age-related widening of the gulf between the intentions of proprietors to sell their companies and their effective ability to do so. In other terms, although transfers related to the need to hand over the reins at the end of the proprietor's professional life admittedly only account for a minority share of all business transfers, this category is the one that shows the most striking shortfall between needs to sell and effective completions.

We have access to two BPCE L'Observatoire surveys – one conducted in 2011 and the other in 2015 – in order to measure the intentions of SME proprietors to sell their businesses⁵. As from 60 years of age, 52% and 36%, respectively, said that they intended to sell their business in one or two years' time, while 32% said they planned to do so within 3-5 years. Conservatively, by only considering intentions to sell in less than two years expressed in the 2015 survey (divided by 2 so as to match them to a period of one year), we calculated an indicative ratio between these intentions and the number of transactions effectively completed.

⁴ Between 2013 and 2016, the sale rate fell 28% for proprietors in their forties and 37% for those over 65 (from 10.7% to 6.7%).

⁵ In these two surveys (CSA 2011 and Audirep 2015), 63% and 59%, respectively, of SME owners aged 60 and over said that preparing to sell or transfer their business was their main personal objective with their company.

This ratio works out to 90% before 60 years of age – thus indicating a relatively good balance between needs to sell and effective takeovers – but only 40% as from 60 years of age.

Without the possibility to sell, SME owners could, as is often the case for proprietors of very small businesses with fewer than five employees, opt to purely and simply discontinue their activity. But with the rate of disappearance (both judicial and non-judicial) having also retreated for the over 60s during 2013-2016 (albeit slightly and in a non-uniform manner across sectors), this shortfall in sales does not currently show up in any upturn in discontinuations of activity, whether forced or not. Instead, it is reflected in further ageing of SME and ISE proprietors, who stay at the helm of their companies despite growing older.

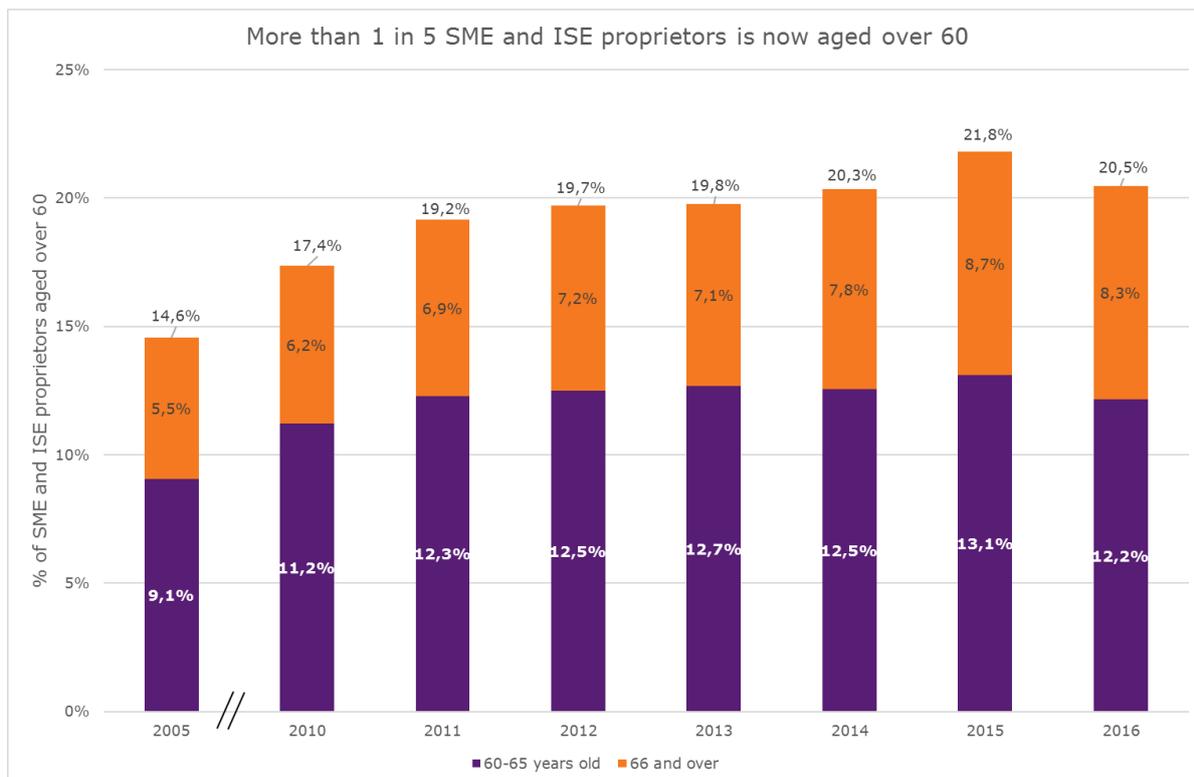
1.2- Ageing of SME proprietors, an urgent economic issue

Proprietor-ageing is becoming increasingly pronounced: the proportion of SME proprietors aged 60 or over rose from 17.4% in 2010 to 20.5% in 2016. Although the dip in 2016 tempered the peak of 21.8% obtained in 2015, it did not alter the underlying uptrend of recent years. The figures for 2017 and 2018 will show whether 2016 marked a turnaround or was just a one-off blip. Nonetheless, the current trend is unambiguous: the ageing process is gaining magnitude and becoming more entrenched.

For example, assuming the disappearance rate and the sale rate by proprietor age group stabilize at their 2016 levels, the five-year projection⁶ for SMEs and ISEs suggests that 22.7% of them will have an owner in their sixties or seventies by that time. In addition, in line with the changes seen since 2010 and which show the fastest progress in the oldest age groups, the biggest increases are likely to be seen in the most elderly age groups, e.g. the proportion of proprietors aged 66 and over, which rose from 6.2% to 8.3% between 2010 and 2016, is liable to climb to 10.5% in 2021.

Although this projection is only indicative, it does demonstrate how the SME fabric is becoming increasingly fragile. Apart from cases of family transfers prepared in advance and which see the proprietor remain in place for longer, but ultimately assume a non-executive function and delegate executive tasks to the next generation, very elderly proprietors frequently expose their company to two types of risks.

⁶ This projection supposes a zero flow of entries, creators or purchasers aged over 60 and the running-off of the stock of companies existing at end-2016 at the same disappearance and sale rates as those measured for 2016 by two-year age group (60-61 ; 62-63 ; 64-65, etc.), except for 55-59-year olds and for 76-year olds and over. The projection involves applying these assumptions to simulate the survivors for each generation and assigning them to the appropriate age group after five years. Concerning the total pool of SMEs and ISEs, the assumption is that the future growth rate between now and 2021 is the same as that observed between 2011 and 2016.



Source : BPCE L'Observatoire

Firstly, as shown by BPCE L'Observatoire's work in 2011, there is a general tendency among elderly proprietors (which becomes more marked as age increases) to adopt financial strategies geared to consolidating capital, reducing debt and ultimately under-investing, with the result that the company's growth often slows. These strategies do not stem from excessive caution or a poor understanding of market trends linked to age. Instead, they reflect the desire of proprietors to prepare their companies for sale, by limiting commitments and focusing more attention on private wealth with a view to upcoming retirement. If this stabilization period is short - in other words, if the company is sold quickly – there are few effects on the business, given that the firm's momentum is likely to be revived by the buyer. However, in view of the shortfall in sales at the end of proprietors' professional lives, these strategies are often continued for more than a few years, thereby entailing a loss of both competitiveness and market opportunities for the entities concerned. More generally, the increased number of entities with elderly proprietors that have difficulties in finding a buyer is tending to spread this behavior to a broad array of companies, thereby contributing to sub-optimal growth in the fabric of SMEs and intermediate-sized enterprises.

Secondly, the prolongation of such strategies over time gradually erodes or even eliminates the value of the business. The company becomes less and less adapted to transformations in its market (demand, standards, technologies used, etc.) and more and more reliant on the recognition afforded to its proprietor. The possibility of a sale can then be jeopardized purely and simply by a lack of interest on the part of potential buyers, but also by a reduction in the price of any purchase offers to levels that are deemed unacceptable by the seller in view of the business's immediate profitability, but which the buyer considers justified by the future investment that would need to be made.

2. Family transfers: the French model is evolving, but is not pivotal

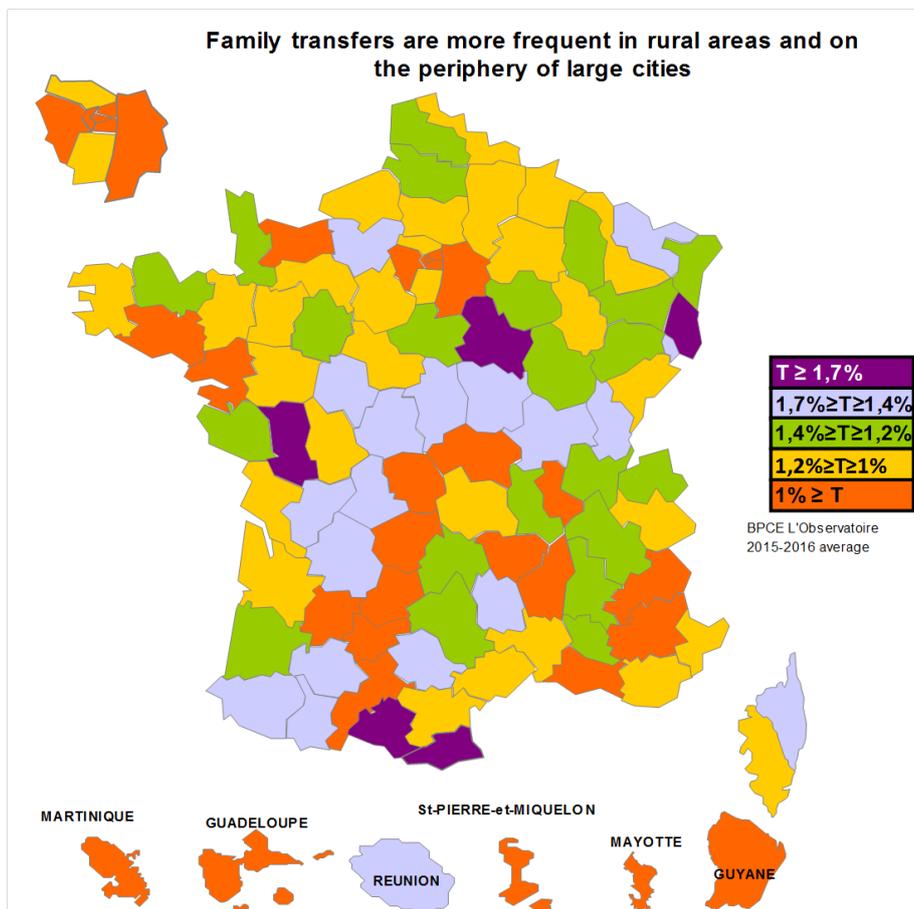
2.1- Progress and virtues of family transfers

Family transfers are the sole method of business transfers that have fared well in recent years: the number of transactions increased slightly to 2,451 in 2016 and the transfer rate stabilized at 1.15% for SMEs and ISEs. With the overall number of transactions falling drastically, their share of total transactions reached a record 22% in 2016, versus 17% in 2013. Family transfers displayed particularly good health in the sectors where they are traditionally most frequent: retailing, construction, transport and agrifood, where they accounted for around a quarter of transactions in 2015-2016, and, to a lesser extent, wholesaling.

However, they remained marginal in information and communication, specialized, scientific and technical activities, and administrative services, and in real-estate activities. The need to acquire expertise through specific training or *via* immersion in the company seems to be the factor that determines whether the sector is conducive to family transfers or not. Hotels-catering is still slightly less sensitive than average to this practice, but two categories of activities seemed to experience significant changes between 2013 and 2016. On the one hand, the personal services and tuition, health and social action sectors opened up to this method of business transfer, to the extent that against a backdrop of declining business sales, they accounted for up to 28% of the total in 2016. On the other, family transfers retreated somewhat in industry at the end of the period, even though industry's share of total transactions picked up, again reflecting the marked contraction in the number of pecuniary transactions.

BPCE L'Observatoire's work in 2017 highlighted a three-year survival rate for family transfers, higher than the average for sales of businesses. However, family transfers offer other virtues. The main one probably is that they represent a powerful antidote to the ageing of proprietors. The stabilization of the number of family transactions involving elderly proprietors was determinant for transfers at the end of professional life over the recent period. Whereas in 2013 they represented 25% of total transactions as from 60 years of age and 31% of those beyond 65, these proportions rose to 36% and 43%, respectively, in 2016. In addition, family transfers were a lot more pronounced in regions prone to economic and/or demographic decline, where non-family buyers are reluctant to set up. Family transfers are more frequent in rural departments or those on the periphery of large cities, where pecuniary transactions are rarer.

For example, family transfers were particularly frequent and represented an average of one third of total transactions for the Haut-Rhin, Yonne, Jura, Territoire de Belfort, Deux-Sèvres, Ariège, Hautes-Pyrénées and Pyrénées-Orientales departments. They were slightly less frequent, but also determinant in certain other departments that may have industrial traditions, but which do not enjoy momentum from large regional cities or conurbations, such as the Cher and Saône et Loire departments. In these 10 departments, family transfers clearly help dampen the proprietor-ageing process, with the proportion of proprietors aged 66 and over being significantly below the national average. However, in the Eure, Indre, Nièvre, Dordogne, Gers, Lozère and Haute-Corse departments, family transfers go hand in hand with greater ageing. In these geographic regions, which are frequently disadvantaged by urban dynamics, family transfers are probably a necessary, but insufficient, condition for the renewal of the SME fabric.



2.2- Increase in number, decrease in size

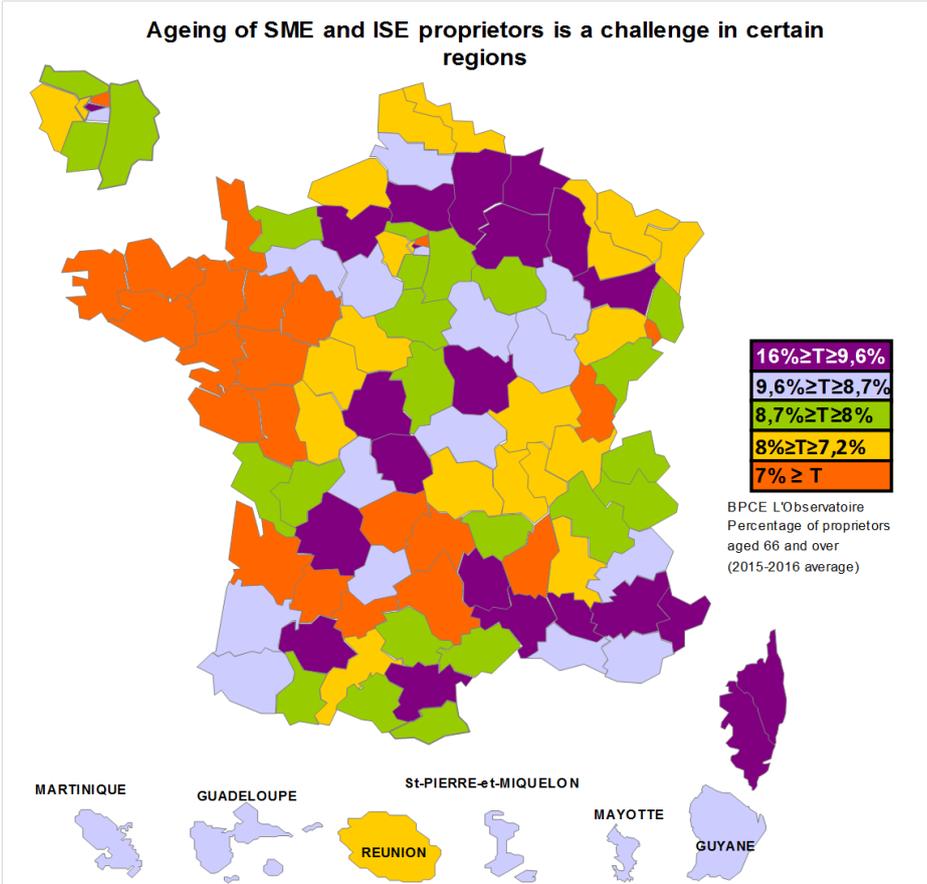
In practice, however family transfers did not grow across the board. Instead, the practice spread among small firms, but contracted among larger entities. For example, the rate of family transfers among SMEs employing 10-19 staff was significantly lower than the national average in the 2010-2012 period. However, it is now in line with the average for businesses overall and stands virtually at the same level as for structures employing 20-49 staff and 50-99 staff, where the practice has been, and still is, the most common. However, larger companies seem to be moving away from this type of transfer, with the number of transfers having continued to decline both for medium-sized companies employing 100-249 staff (from 1.1% to 0.8% between 2013 and 2016) and for intermediate sized enterprises, where the frequency fell from 0.9% to 0.5% in the same period.

This trend probably needs to be viewed in light of the success of personal services and the difficulties experienced by manufacturing industry. It shows that family transfers are becoming more widespread and are seen as an appropriate solution by more proprietors. Does this trend reflect greater difficulty in selling their businesses, or an improvement in the financial situation of SMEs that encourages proprietors to transfer ownership to other members of the family? Or does it signify the beginning of a more cultural conversion towards the inter-generational family model? It is probably too soon to draw firm conclusions. However, the hindrances to this type of transfer cited by proprietors of large and medium-sized entities seem to remain in place.

They are not really associated with taxation, but are especially related to the various constraints and expectations weighing on the person taking over the business; the new proprietor must be capable not only of assuming managerial responsibility, but also be willing to keep the emotional and financial aspects on an even keel within the family. In particular, the difficulty of ensuring equality between heirs, whether they are involved in taking over the business or not, together with the complexity of establishing an enduringly consensual and effective family shareholders' pact and governance mechanism, are frequent obstacles to family transfers. In addition, the practice of employing a professional to manage the business might be under-developed within French family-capitalism. In any event, family transfers are becoming more appealing and gradually gaining traction in French entrepreneurial culture, though without the model becoming pivotal. This reflects the difficulty of reconciling the appetite and abilities of the family member taking over the business with the principle of equitable treatment among heirs inscribed in France's Civil Code (the appetite and abilities are frequently lacking, as social success in France is frequently associated with careers in public administration and large private-sector corporations, rather than with entrepreneurship).

3. Ageing and non-takeover, divergences between regions

3.1- Ageing of SME proprietors: sharp regional disparities



The phenomenon of proprietor-ageing shows some particular differences when analyzed at regional level. The proportion of proprietors aged over 65 is particularly high in three areas. The first is a band of territory characterized by low population density and declining population (the so-called “empty diagonal”) running diagonally across France from the Ardennes and the Meuse to the Pyrénées Orientales departments and crossing the Nièvre, Creuse and Gers departments. It is also very pronounced in north-west France, in the former region running from Picardy to the Orne, and in the south-east, from Corsica to Lozère. Conversely, the phenomenon is a lot less marked in the regions most noted for their concentration of medium-sized firms and intermediate sized enterprises (Rhône-Alpes and Grand-Ouest regions) and in most areas influenced by France’s main conurbations.

However, a focus on age distribution alone would mask the regional disparities affecting renewal of the fabric of companies when proprietors come to the end of their professional lives. In other words, although age structure is an essential indicator, renewal also depends on other factors, namely the rate of sale after 60 years of age, whether the rate of family transfer is high or not and the frequency of company disappearances as an alternative to or an extension of ageing. The following analysis based on a broader approach, shows that regional disparities do not stem solely and mechanically from the dynamics of growing conurbations and that the preservation or renewal of a given area’s productive fabric may result from other factors.

3.2- Classification of regions according to renewal at the end of the proprietor’s professional life

A classification exercise that takes into account not only age structure, but also the pace of ageing and the frequency of business transfers and disappearances, notably after 60 years of age, leads us to distinguish seven groups of departments, presented here in descending order of fragility.

Group A includes the Nièvre, Indre, Gers, Lozère, Alpes de Haute-Provence, Haute-Corse and Corse-du-Sud departments. These seven departments display the most critical situation in terms of the proportion of proprietors aged over 65 (over 12% except for Corse-du-Sud) and show that the proportion is increasing to a worrying extent, despite already-high rates of business sales and family transfers.

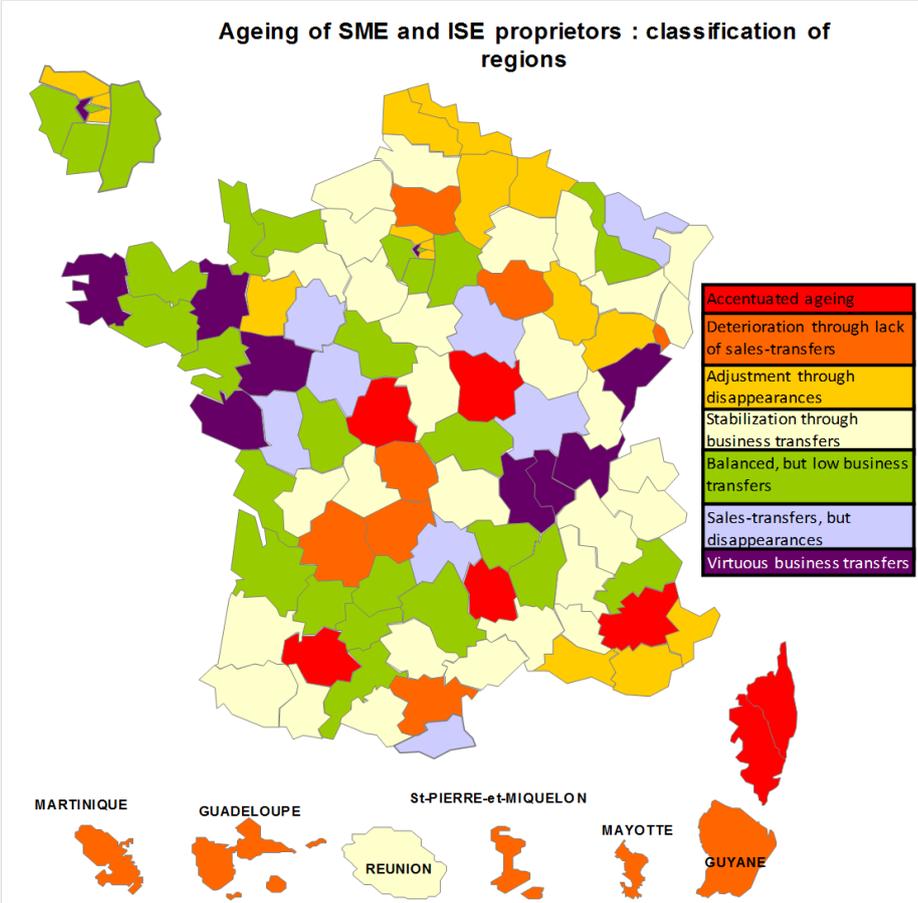
In Group B, comprising nine departments (overseas departments, but also the Oise, Creuse, Aude, Dordogne departments), the ageing phenomenon is admittedly less pronounced, but is becoming more marked under the impact of a very low rate of business sales. In order to stem the deterioration in these areas – which is near the thresholds established for the previous group – there needs to be a rapid and sizeable turnaround in the rate of takeovers of SMEs at the end of the proprietor’s professional life, if the local productive fabric is to avoid being gradually drained of vitality.

Group C is slightly less worrying in terms of age, but it does not just owe this to a significant rate of business sales. The propensity towards the (judicial or non-judicial) disappearance of businesses with proprietors aged over 60 is another expression of the fragility of the local economic fabric. In other words, the pure and simple discontinuation of the business, without resale, is becoming a frequent phenomenon that not only limits the rise in the average age of proprietors, but also represents an irreversible failure. This group has a less rural profile, in the sense that it embraces most of the Hauts-de-France region, along with the Mediterranean coast from the Alpes-Maritimes to the Bouches-du-Rhône departments and certain of the less prosperous departments of the Ile-de-France region.

Based on these three groups, some 30 departments accounting for 27% of French SMEs and ISEs with proprietors aged over 65, display, to varying extents, highly worrying indicators with respect to the renewal of their fabric of SMEs. This said, these departments do not form a uniform whole, in the sense that they include not only rural departments in demographic and economic decline, but also departments under the influence of major conurbations.

With sizeable headcounts and a slightly higher-than-average proportion of elderly proprietors, group D is representative of the national situation. The non-deterioration in ageing reflects the frequently-high rates of business sales and family transfers. Given the national age-structure projection for 2021, these rates will have to be maintained if not increased, in order to avoid a marked deterioration, or even a drift into the previous groups. This is particularly so for the Eure, Vosges, Vaucluse and Gard departments.

Group E comprises 23 departments, primarily associated with large urban areas and/or located in the west of the country and in the Ile-de-France region. Apart from Paris, and the Hautes-Alpes and Allier departments, the proportion of proprietors aged over 65 is well below the national average and is not increasing much. A demographic balance seems to have been reached, even though the rate of business sales after 60 years of age is relatively low. In the Île-de-France region and in zones influenced by regional conurbations, the creation of SMEs and the transformation of micro-enterprises into SMEs are the main factors stabilizing the age structure “from the bottom end”. The productive fabric is probably younger than in other departments.



Source : BPCE L'Observatoire

The last two groups are characterized more explicitly by a virtuous circle featuring a high rate of business sales at the end of the proprietors' professional life. Group F is associated with urban areas with medium population densities (Yonne, Deux-Sèvres, Sarthe, Indre-et-Loire, Cantal, Saône-et-Loire and Moselle departments). Alongside highly frequent pecuniary transfers and family transfers, recourse to judicial disappearance or closure by default as a factor in regulating the increase in the average age of proprietors is also higher than average. In contrast, discontinuation does not seem to be necessary to avoid proprietor-ageing in group G, given that this group is more centered on regional ecosystems traditionally favorable to SMEs (Rhône-Alpes, Grand-Ouest and Ile-de-France regions). More specifically, the Doubs, Ain, Rhône et Loire, Finistère, Ille-et-Vilaine, Maine-et-Loire, Vendée, and the Hauts-de-Seine departments ensure an optimal renewal of their fabric of SMEs and ISEs at the end of the proprietor's professional life.

4. Does industry risk dying of old age?

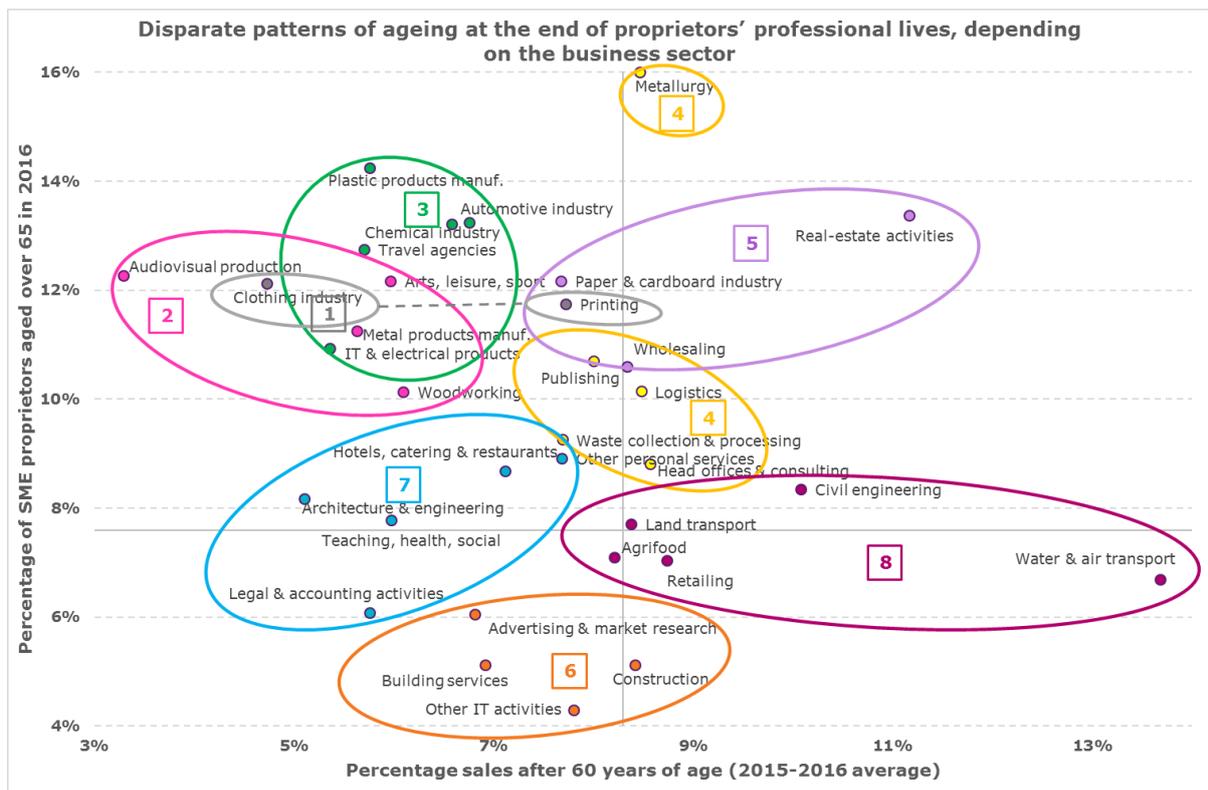
4.1- Eight groups of sectors at the end of proprietors' professional lives

In a macro-sectoral approach, the three sectors displaying the most worrying proprietor-age structure are, in ascending order, wholesaling, industry and real estate activities. In these three sectors, the proportion of proprietors aged over 60 amounts to 24, 26 and 28%, respectively, while that for 66 year olds and over exceeds 11%. Although the situation is no longer deteriorating for real-estate activities, it is still worsening in the other two sectors, *via* a sharp increase in the 66 and over age-group and a marked decrease in the business sales rate after 60 years of age. More specifically, industry is one of the rare sectors where the disappearance rate for businesses run by proprietors aged over 60 increased between 2013 and 2016. Although not to the same extent, two other sectors are following the same trajectory as industry, but with a time-lag. Specialized scientific and technical activities and other services have recorded both a decline in their sale rates after 60 years, along with an acceleration in their ageing trend, particularly caused by the increased weight of the 66 and over age-group.

On the micro-sectoral scale, more detailed analysis is possible by classifying some 30 sub-sectors into groups as uniform as possible in terms of age structure and transformation methods after 60 years of age (transfer, disappearance or ageing). This classification yields eight groups that provide a good illustration of the trends and risks related to proprietor-ageing. The groups are classified from "1" to "8" in descending order of fragility.

Group 1, comprising clothing and printing, is the most worrying, in the sense that it combines a high proportion of proprietors aged over 65 (almost 12% and increasing) with a lower-than-average business-sale rate after 60 years of age and frequent disappearances. The second group, comprising electrical and IT production, woodworking, the arts, leisure & sport and audio-visual, displays very similar characteristics in all respects, though with a lower company disappearance rate. Group 3 does not differ much from the previous two, except for an even lower disappearance rate and the fact that it embraces a broader spectrum of sub-sectors: chemical industry, plastic products, metal products, automotive industry and travel agencies.

Groups 4 and 5 also attain warning levels in terms of ageing, though without any worsening in the trend, thanks to a higher-than-average rate of business sales at the end of proprietors' professional lives. As is the case for group 2, the option of letting the business disappear is simply activated more often for group 4 (publishing, metallurgy, logistics, waste collection and processing, head offices and consulting) than for group 5 (paper and cardboard industry, real-estate activities, wholesaling).



Source : BPCE L'Observatoire

- | | |
|--|---|
| 1 Accelerated ageing and disappearances | 5 Stabilization of ageing thanks to sales alone |
| 2 Ageing and few disappearances | 6 Adjustment via disappearances |
| 3 Ageing without disappearance | 7 Balanced situation |
| 4 Ageing stabilized thanks to sales and disappearances | 8 Virtuous sales |

The three remaining groups are less affected by ageing. Group 6, comprising IT activities, advertising & market research, construction and building services, escapes it, not by virtue of high business-sale rates, but by more frequent company disappearances. Group 7 (architecture and engineering, legal and accounting activities, teaching, health, social action, hotels-catering, personal services) does not stand out either for sales or disappearances (due to the companies concerned being newer?). Lastly, group 8 (civil engineering, agrifood, retailing, and land, water and air transport) is positive in all respects: high business-sale rates, and low levels of ageing and disappearance.

4.2- Avoidable, but irreversible losses for certain industries

Industry offers a good case study as regards the end of proprietors' professional lives, for two reasons. Firstly industrial activities suppose more systematic capital accumulation that is harder to achieve prior to the creation of the business, and secondly because industry plays an important role in the competitiveness and the export capacity of countries. One point that stands out is that most of the industrial sub-sectors mentioned above belong to the first five groups, which are more affected by proprietor-ageing. On this subject, the high proportion of elderly proprietors in industry does not stem solely from the extreme values of certain activities in decline: excluding agrifood, virtually all the industrial specialties identified above have 25-30% of their proprietors located in the above-60 age group, with the proportion of over-65s standing at between 9 and 16%... This widespread ageing process embracing a broad spectrum of companies weighs on overall investment in the sub-sectors concerned and the ability of these companies to take advantage of new markets or adopt new technologies.

This phenomenon is all the more sensitive in that it probably entails an extension of the average period of "non-sale", during which the proprietor hopes to find a buyer, but is obliged to remain at the helm due to the lack of a satisfactory solution. Industry is both the sector where ageing most increased during the 2013-2016 period and where the rate of business sales at the end of the proprietor's professional life fell the most: by 44% for the over 60s and 54% for the over 65s. On this point, the data on transfers over the last few years shows that non-family transactions peak at 62-63 years of age, when the business-sale rate amounts to 5%, then falls drastically to stabilize at around 2.5% after 67 years. As from this age, the probabilities that the company is sold, is transferred within the family or disappears, are pretty much the same. Statistically, the increase in age signifies a marked reduction in the probability of the business being sold, and this probability now applies to an increasingly large population.

On a more practical front, it is well known that the reductions in both debt and investment that often characterize this period of waiting for a buyer, put the company in danger of no longer being able to follow its market and ultimately to lose all value for a potential buyer. On the seller's side, the longer this waiting period goes on, the higher the risk of the seller refusing the price offered by the potential buyer, due to the increased chances of it differing from the initial price expectation. With sales generally being poorly prepared and anticipated, the "ideal moment" often comes and goes even before the proprietor has taken the appropriate steps to prepare the sale of the business. The fear is that the average age of proprietors of medium-sized industrial companies continues to rise in the coming years and, after a time-lag, leads to an increase in the company-disappearance rate, this having already started to become visible in the recent period. In this way, the growing shortfall in business transfers at the end of the proprietor's professional life is contributing to a year-by-year increase in the potential for "non-sales/takeovers", which are avoidable, but which will one day turn out to be irreversible.

5. A still-neglected national issue

Transfers at the end of the proprietor's professional life, which were already the Achilles' heel of takeovers in France, were specifically affected by the overall decrease in business transfers between 2013 and 2016. The already-sizeable gap between aspirations to sell and the number of transactions actually concluded, widened further. As in previous years, with judicial or consented disappearances not having increased, proprietors of SMEs and ISEs remained at the helm of their companies... but aged along with them. Over 20% of them and over 8% of them, respectively, have already exceeded the ages of 59 and 65, while under current survival conditions, these proportions are likely to increase to 22.7% and 10.5%, respectively (6% of proprietors having attained 70 years of age versus 4% today).

Family transfers, which often take place later than pecuniary transactions, are admittedly a good response to this phenomenon and their resilience between 2013 and 2016 augurs well. Nonetheless, although this practice is spreading in terms of the number of transactions, primarily among small entities less inclined to resort to it beforehand, the model is not becoming pivotal. Firstly, the practical conditions (economic as much as human, despite preferential tax treatment) look dissuasive for many family members who could potentially take over the reins of the business. Secondly, the decline in this method of transferring medium-sized and intermediate sized enterprises shows in practice that French family capitalism still remains complicated when based on industrial assets.

In regional terms, our classification highlights both the concentration of proprietor-ageing in certain areas (often outside the zones of influence of conurbations) and, conversely, the ability of apparently-shunned geographic areas to ensure the renewal under good conditions of their fabric of SMEs and ISEs when proprietors reach the end of their professional lives. On this point, although some of the departments belonging to the so-called "empty diagonal" are among those areas rendered most fragile in this respect, this category also includes departments neighboring zones influenced by major urban areas. Likewise, although those areas that seem to maintain a virtuous demographic balance unsurprisingly feature strongly in the former Rhône-Alpes region and the Grand Ouest region, other areas in other regions show that there is no geographic fatality as regards the wasting of the productive fabric caused by the non-sale/transfer of businesses outside metropolitan areas.

Sectoral analysis also yields some interesting conclusions: although certain sectors fare well and manage to renew their productive fabric relatively harmoniously, industry (excluding agrifood) clearly finds itself in a much trickier overall position. In particular, industry and most activities related to it combine an acceleration in proprietor-ageing with a sharp decline in business transfer rates after 60 years of age. On this point, such ageing does not just reflect a forced delay in the complicated process of handing over the reins of the business to a new proprietor. It also represents the risk of a loss that will ultimately become irreversible in many cases: statistically, after the proprietor reaches 62-63, unless there are no plans for a family transfer, the probability of a pecuniary sale in industry decreases sharply for a set of convergent and cumulative reasons.

In view of the trends at work in this crucial sector, is France in the process of passing up the opportunity to ensure the demographic renewal of its fabric of SMEs? Although it is never too late, the nature and extent of the problem (855,000 employees are associated with the 18,000 SMEs and ISEs run by proprietors aged 66 and over⁷), calls for the introduction of mechanisms to help catch up for lost time, both for the seller and the new proprietor. This is to ensure that the economic capital concerned is not reduced to zero, thereby depriving the country of the jobs, added value and growth potential it needs.

⁷ Around 7% of these companies (though accounting for 12% of employees) change hands each year.