



# Family-owned businesses are more successful and profitable..?

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## Case Genelec Oy

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## To be noted

**This document has been prepared for training and example purposes to describe what Argon Pro Ltd offers in the analyses and valuations of companies and/or individual businesses. The starting point of this document is the results of numerous domestic and foreign studies, which summarized the fact that family-owned businesses are on average more successful and profitable than companies with other types of ownership structures. In this document, the Finnish family business Genelec Oy has been selected as the target company for the analysis, whose owners Juho, Maria and Mikko Martikainen were selected as the family entrepreneurs of 2023 in the EY's Entrepreneur Of The Year™ growth entrepreneur competition.**

**Genelec Oy has not been involved in the implementation of this document.**

**Argon Pro will continue to implement similar public example reports and documents on significant Finnish growth and SME companies. Similar analyses and/or valuations can also be ordered as paid, non-public assignments.**

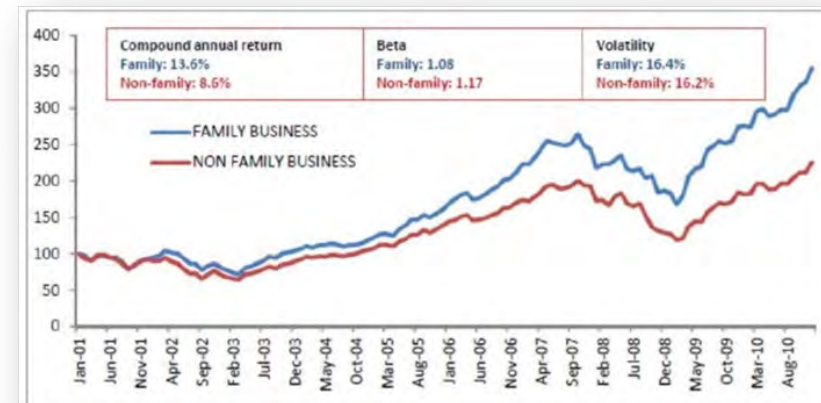
- The information, opinions and results presented in this document have been produced for educational and illustrative purposes only and should not be used as such, or construed as an offer, or solicitation of an offer to buy or sell the target company's business, securities, or other financial instruments. The purpose of the document is to analyse the target company's business from a financial perspective in 2018 - 2022.
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# Why family-owned businesses are more successful and profitable (on average) than others?

- According to numerous domestic and international studies, family-owned businesses are more successful and profitable than companies with other types of ownership structures.
- The example presented in this document also confirms the research results in practice.
- More e.g. on this topic at Argon Pro's next training event *"Taloustaitoja esimiehille ja asiantuntijoille"* 5 - 6.3 2024 (training session will be in Finnish)

- Register before **26.2.2024**
- Read more about the training event [here](#)

*What is the "secret" behind the success of family businesses? Should family-owned businesses be taken as a benchmark model?*



IE Business School, Banca March ja ValueWalk.com



## Agenda

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- Information available
- Genelec Oy
- Financial history 2018 - 2022
- Summary
- Key findings and considerations

# Information available

- Financial statements and websites of the target company
  - the latest financial statement available is from 2022
- Valu8 database
- financial information Available public of global competitors



# Genelec Oy

- Business ID: 0201193-4
- Domicile : Iisalmi, Finland
- Genelec is a Finnish family-owned company founded in 1978 that manufactures audio equipment. The company's head office and factory are located in Iisalmi. In addition, the *Helsinki Experience Center*, a sales and marketing support office, operates in Helsinki.
- The company markets its products in >70 countries
- Genelec's revenue is EUR 63,4 million (2022) and the average number of employees is 243 (2022)
- Genelec is strongly committed to research and development, and product manufacturing has remained in Iisalmi from the very beginning.
- Over the years, Genelec has achieved significant company and product awards.
- Read more about Genelec [here](#)
- Genelec Oy has several global competitors, most of which still own a significant number of leading brands in the industry. On a general level, competitors include:
  1. Bose Corporation
  2. Harman International Industries
  3. Bang & Olufsen
  4. Bowers & Wilkins
  5. Yamaha Corporation
  6. Sennheiser electronic GmbH & Co.
  7. KG
  8. Klipsch Audio Technologies
  9. Dynaudio
  10. Focal-JMLab
  11. Adam Audio GmbH.



# Financial history

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Genelec Oy

# Genelec Oy - Finances 2018 - 2022

INCOME STATEMENT 1.000 EUR	2018	2019	2020	2021	2022
Revenue	33 271	34 745	40 315	52 669	63 394
<i>Ch. In revenue (%)</i>	32,7 %	4,4 %	16,0 %	30,6 %	20,4 %
Ch. In stocks of finished and semi finished	163	118	151	734	430
Manufacturing for enterprise's own use (+)	179	223	139	153	183
Other operating income	639	46	321	160	141
<b>Raw materials and services</b>					
Raw materials and consumables					
Purchases during financial year	10 237	11 318	11 478	18 516	21 035
Variation in stocks	-	-	-679	-3 598	-2 374
External services	-	-	1 259	2 651	2 839
<b>GROSS PROFIT</b>	<b>23 198</b>	<b>23 545</b>	<b>28 408</b>	<b>35 835</b>	<b>42 323</b>
<i>Gross profit margin (%)</i>	69,7 %	67,8 %	70,5 %	68,0 %	66,8 %
Fixed staff expenses	9 896	10 694	12 243	15 310	16 454
Other operating expenses	8 322	7 982	6 018	6 821	7 983
<b>OPERATING MARGIN (EBITDA)</b>	<b>5 797</b>	<b>5 138</b>	<b>10 607</b>	<b>14 016</b>	<b>18 210</b>
<i>Operating margin (EBITDA, %)</i>	17,4 %	14,8 %	26,3 %	26,6 %	28,7 %
Depreciation and reduction in value	909	1 062	1 572	1 744	1 355
<b>OPERATING PROFIT (EBIT)</b>	<b>4 888</b>	<b>4 076</b>	<b>9 034</b>	<b>12 272</b>	<b>16 855</b>
<i>Operating profit (EBIT, %)</i>	14,7 %	11,7 %	22,4 %	23,3 %	26,6 %
Financial income and expenses	309	-68	-130	6	-225
Taxes	1 204	884	1 930	2 437	3 735
<b>Profit of the financial year</b>	<b>3 903</b>	<b>3 073</b>	<b>6 924</b>	<b>9 773</b>	<b>12 842</b>
CAGR (2018 - 2022)	33 %	4 %	10 %	17 %	17 %
Purchases (% of Revenue)	31 %	33 %	28 %	35 %	33 %
External services (% of Revenue)	0 %	0 %	3 %	5 %	4 %
Other operating expenses (% of Revenue)	25 %	23 %	15 %	13 %	12,6 %
Number of employees (on average)	187	191	221	250	243
Ch. In number of employees (%)	-	2 %	16 %	13 %	-3 %
Revenue per employee (annualized)	178	182	182	211	261
<i>Ch. In revenue per employee (%)</i>	-	2 %	0 %	15 %	24 %
Staff expenses per employee (annualized)	53	56	55	61	68
<i>Ch. In staff expenses per employee (%)</i>	-	6 %	-1 %	11 %	11 %

- The fiscal year is calendar year
- 5-year average growth in revenue +20,8 %
  - CAGR approx. +17 %
- Gross profit margin (%) has varied between 66,8 % and 70,5 %
- Personnel costs per employee have increased by approximately 11 % in 2021 and 2022
  - During the five-year review period, the number of employees has increased by approximately 30%
- Significant improvement in profitability compared to the beginning of the review period (2018)
  - EBITDA (%) approx. +65 % growth
  - EBIT (%) approx. +80 % growth
- Each fiscal year during the review period have generated positive financial results



# Genelec Oy - Finances 2018 - 2022

BALANCE SHEET - ASSETS 1.000 EUR	2018	2019	2020	2021	2022
<b>Non-current assets</b>					
<b>Intangible assets</b>					
Intangible rights	2 303	2 560	2 533	2 133	2 054
Other long-term expenses	-	-	-	124	247
Intangible assets total	2 303	2 560	2 533	2 257	2 301
<b>Tangible assets</b>					
Land and water areas	694	703	663	699	728
Buildings	3 206	6 390	6 197	6 087	6 704
Machinery and equipment	1 296	1 590	1 520	1 411	1 553
Other tangible assets	96	110	103	103	103
Advance payments and construction in pro	-	-	23	403	392
Tangible assets total	5 292	8 793	8 506	8 702	9 481
<b>Investments</b>					
Shares and holdings	901	901	928	957	670
Investments total	901	901	928	957	670
<b>Current assets</b>					
<b>Inventory/Stocks</b>					
Raw materials and consumables	3 680	3 179	3 862	7 061	8 326
Semi finished products	280	249	292	545	612
Finished products and goods	1 802	1 955	1 911	3 485	4 361
Other stocks	32	51	63	72	132
Advance payments	-	-	-	-	374
Inventory/Stocks total	5 794	5 434	6 129	11 164	13 805
<b>Debtors</b>					
<b>Long-term debtors</b>					
Other long-term debtors	-	-	-	127	121
Deferred tax receivables	-	-	-	490	601
Long-term debtors total	-	-	-	617	722
<b>Short-term debtors</b>					
Accounts receivable	2 288	2 606	3 139	3 503	3 808
Other debtors	993	2 350	1 279	1 339	2 234
Short-term debtors total	3 281	4 955	4 418	4 842	6 042
Short-term investments	-	-	-	-	-
Cash in hand and at banks	6 212	8 775	16 521	20 178	25 658
<b>Current assets</b>	15 287	19 164	27 068	36 800	46 226
<b>ASSETS</b>	23 784	31 418	39 035	48 717	58 678

- Inventories have grown approximately 2,4-fold during the period under review
  - Inventory turnover increased by approx. 16 % during the period under review
- Short-term receivables have grown approx. 1,8-fold
- Cash and cash equivalents have grown approximately 4,1-fold
  - Cash and cash equivalents approx. 40 % of net sales and approx. 53 % of annual operating expenses
  - The company's liquidity is excellent - the company's Quick and Current ratio are at an excellent level



Satisfactory — green line  
Weak — red line

# Genelec Oy - Finances 2018 - 2022

BALANCE SHEET - EQUITY AND LIABILITIES 1.000 EUR	2018	2019	2020	2021	2022
<b>Equity</b>					
<b>Non-distributable funds</b>					
Share capital	450	450	450	450	450
Legal reserve and other reserves	2	2	2	2	2
Non-distributable funds total	452	452	452	452	452
<b>Distributable funds</b>					
Other unrestricted equity reserves	-	-	-	-	-
Other reserves total	-	-	-	-	-
Retained earnings	15 905	18 838	21 062	27 108	36 350
Profit of the financial year	3 903	3 073	6 924	9 773	12 842
Distributable funds (before dividend paym	19 808	21 945	27 696	37 526	49 097
Dividend payments	970	882	588	1 176	1 470
Distributable funds (after dividend paym	18 838	21 062	27 108	36 350	47 626
<b>Capital and reserves</b>	<b>19 289</b>	<b>21 514</b>	<b>27 560</b>	<b>36 801</b>	<b>48 078</b>
<b>Minority interests</b>	<b>182</b>	<b>238</b>	<b>279</b>	<b>338</b>	<b>366</b>
<b>Creditors</b>					
<b>Long-term creditors</b>					
Long-term (interest-bearing) debt	749	4 327	3 546	2 563	891
Deferred tax liability	134	232	259	214	224
Long-term debt	883	4 558	3 805	2 777	1 178
<b>Short-term creditors</b>					
Short-term (interest-bearing) debt	23	1 021	1 034	1 026	1 652
Advances received	406	443	597	700	442
Accounts payable	1 567	1 892	1 922	3 419	2 218
Other short-term debt	-	-	3 410	3 324	3 439
Accruals and deferred income	1 416	1 743	420	323	1 295
<b>Short-term creditors</b>	<b>3 413</b>	<b>5 099</b>	<b>7 382</b>	<b>8 791</b>	<b>9 047</b>
<b>EQUITY AND LIABILITIES</b>	<b>23 784</b>	<b>31 418</b>	<b>39 035</b>	<b>48 717</b>	<b>58 678</b>
Inventory turnover (days)	207	175	195	220	240
Days in trade debtors	25	27	28	24	22
Days in trade creditors	31	36	37	45	25
Gearing ratio (%)	-27,9 %	-15,8 %	-42,9 %	-44,7 %	-47,7 %
Equity ratio (%)	83,3 %	70,2 %	72,4 %	77,3 %	83,2 %
Net debt / Operating margin (EBITDA)	-0,9	-0,7	-1,1	-1,2	-1,3
Return on Investment, (ROI) (%)	25,7 %	16,9 %	29,9 %	33,6 %	36,3 %
Return on Equity (%)	20,5 %	15,2 %	28,1 %	30,3 %	30,1 %

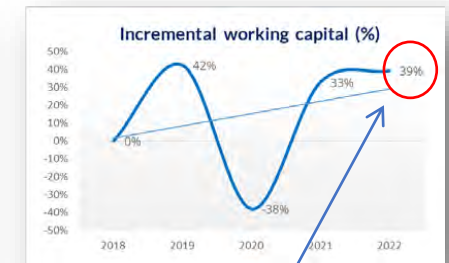
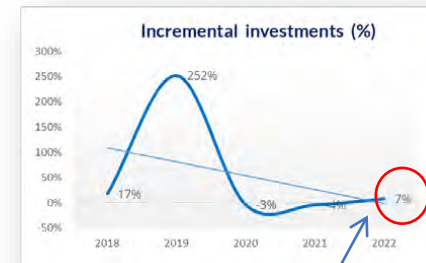
- The company has been able to distribute approximately 17 % of the yearly net profit (approx. EUR 1.0 million) as dividends
- Despite the dividend distribution, the company's equity ratio has remained at an excellent level
- The company is also net debt-free
- Return on investment and equity are at an excellent level

# Genelec Oy - Finances 2018 - 2022

FREE CASH FLOW 1.000 EUR	2019	2020	2021	2022
<b>OPERATING PROFIT (EBIT)</b>	4 076	9 034	12 272	16 855
Operating profit (EBIT, %)	11,7 %	22,4 %	23,3 %	26,6 %
Taxes	-884	-1 930	-2 437	-3 735
Adjustments to Operating profit	98	28	-45	9
<b>Net Operating Profit Less Taxes (NOPLAT)</b>	3 289	7 131	9 790	13 130
Depreciation and reduction in value	1 062	1 572	1 744	1 355
Ch. In working capital	-625	2 112	-4 041	-4 213
Other adjustments to cash flow	-	-	-	-
<b>Cash flow from operations</b>	3 718	10 815	7 494	10 272
Investments in fixed assets	4 778	1 395	1 208	2 156
Sales of fixed assets	-5	-	-	-343
<b>Net investments</b>	4 773	1 395	1 208	1 813
<b>FREE CASH FLOW</b>	-1 054	9 420	6 286	8 459

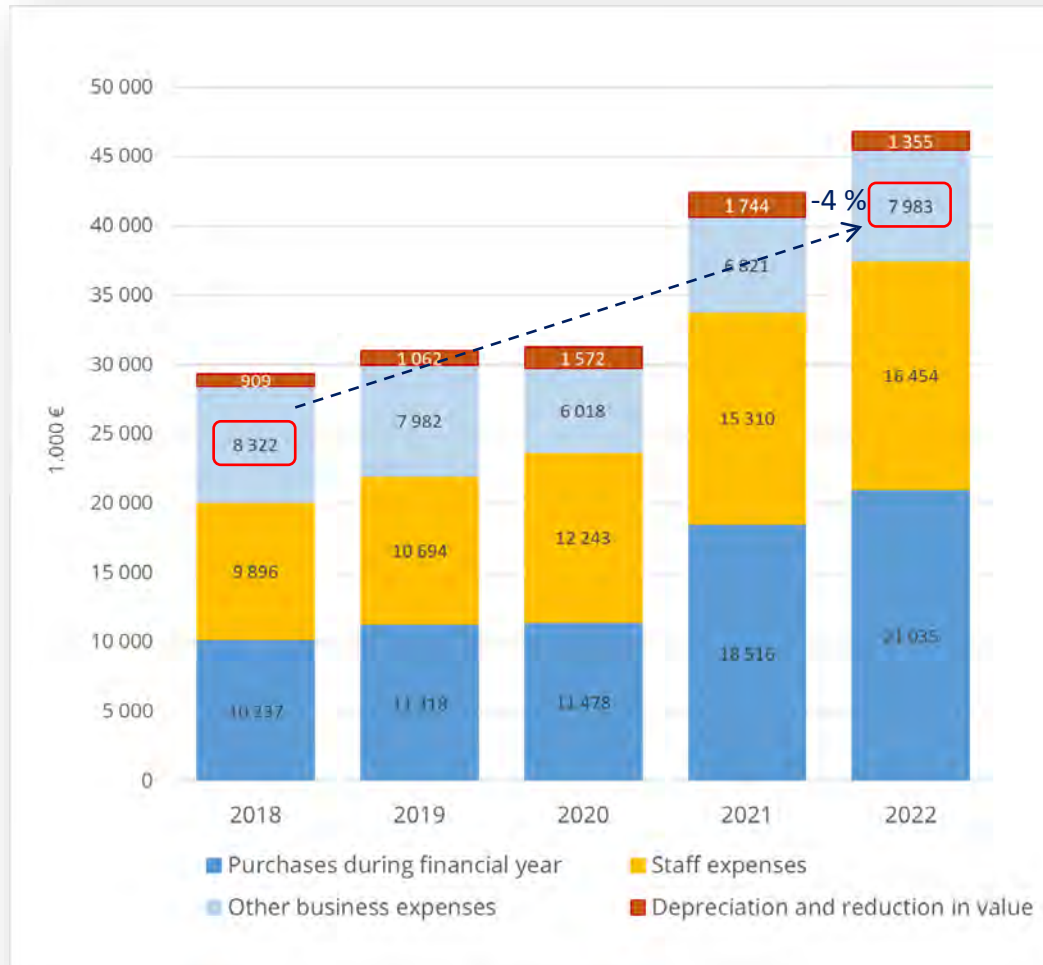
FINANCING 1.000 EUR	2019	2020	2021	2022
Ch. In long-term (interest-bearing) debt	3 577	-780	-984	-1 671
Ch. In short-term (interest-bearing) debt	997	13	-8	626
Ch. In long-term debt	-	-	-	63
Ch. In long-term debtors	-	-	-617	-104
Financial income and expenses	-68	-130	6	-225
Proceeds from share issue and other restricted equi	0	0	0	0
Dividend payments	-882	-588	-1 176	-1 470
Minority interest	6	-9	-9	-26
Other financing items/adjustments	-12	-181	159	-172
	3 617	-1 675	-2 629	-2 979
Ch. In liquid assets	2 563	7 746	3 657	5 480
Cash and bank accounts at the beginning of the perio	6 212	8 775	16 521	20 178
Cash and bank accounts at period end	8 775	16 521	20 178	25 658
<b>Ch. In liquid assets</b>	2 563	7 746	3 657	5 480

- Investments and the commitment of working capital generated by growth have also affected the free cash flow from operating activities
  - Despite this, the company has generated (on average) approximately EUR 5,8 million positive free cash flow per year
- Dividends distributed on average approximately EUR 1,0 million per year
- Liquid assets have grown by an average of EUR 4,9 million per year



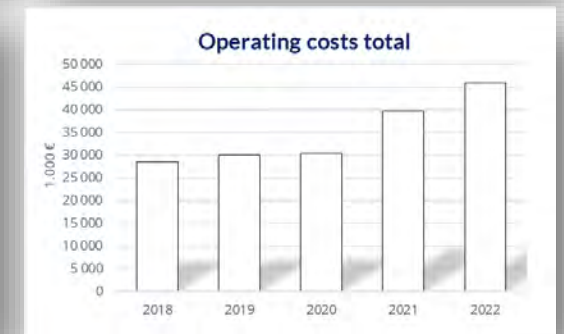
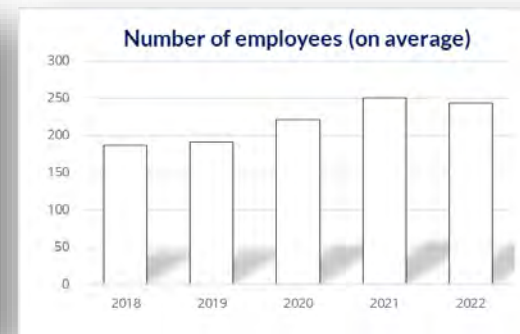
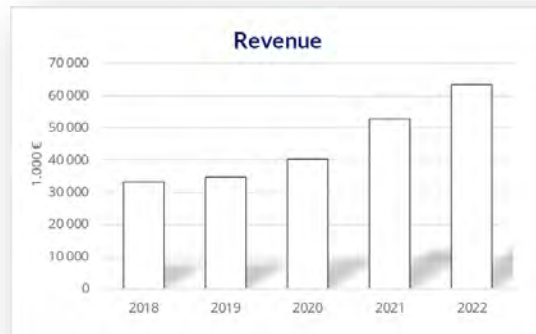
- The growth of EUR 1 in revenue in 2022 has tied approx. EUR 0,07 to investments
  - On average 54 %, i.e., EUR 0,54
- In 2022, a growth of EUR 1 in net sales has tied up approximately EUR 0,39 in working capital
  - On average 19 %, i.e., EUR 0,19

# Genelec Oy - The cost structure has "lived" with the growth

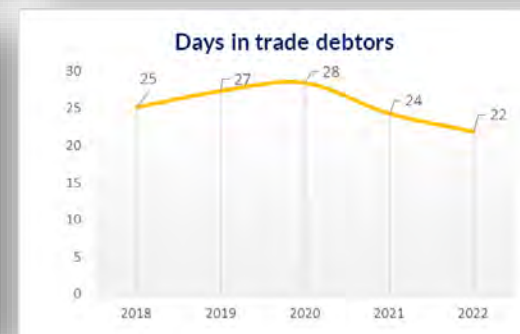
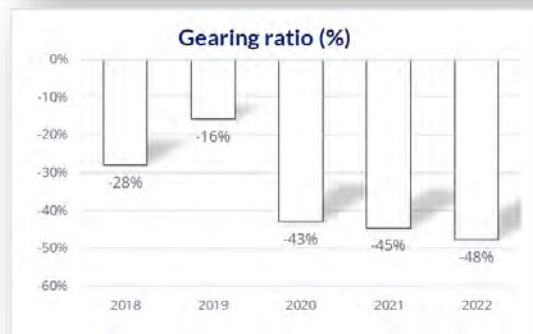
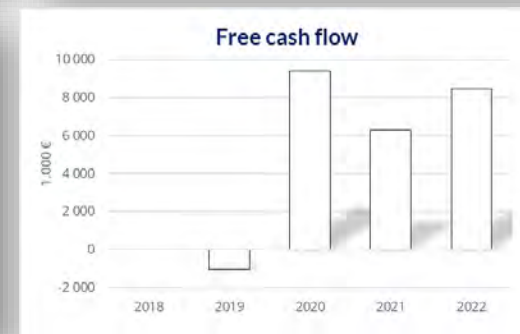
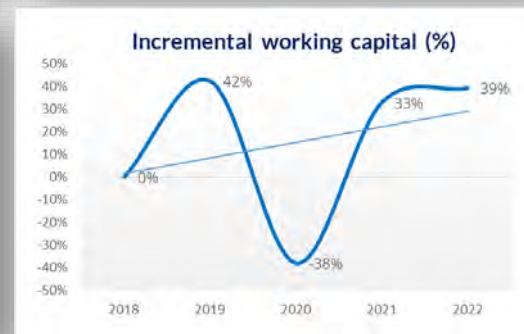
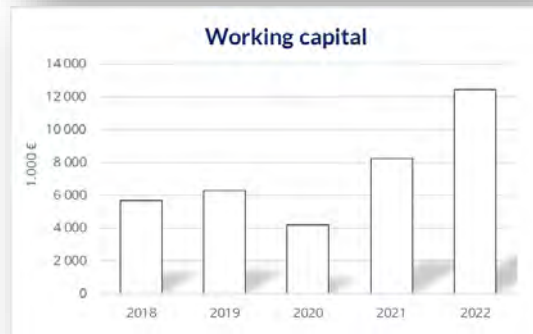
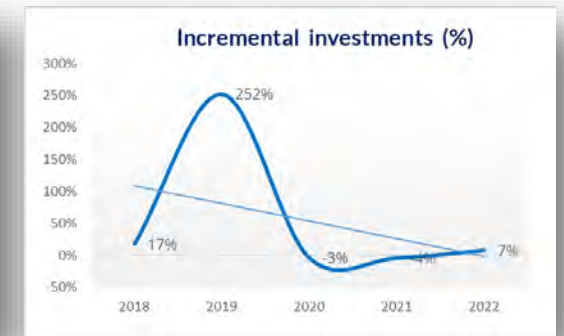
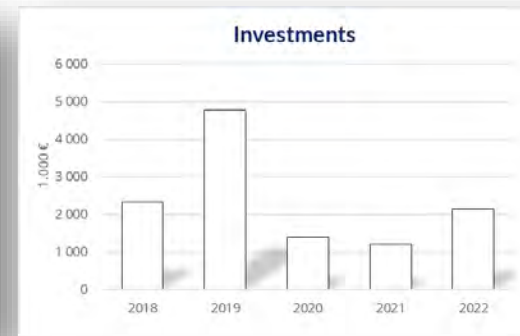
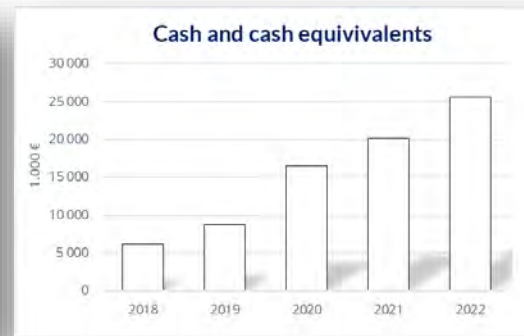
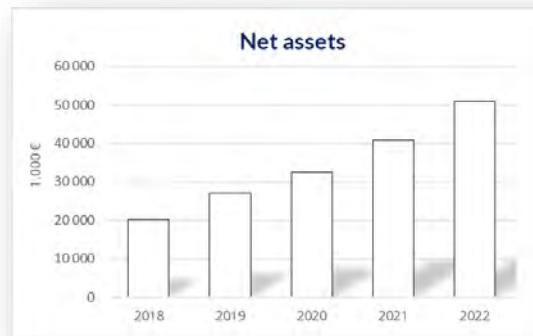


- Staff expenses relative to revenue decreased by approx. -13 % from 2018
- Other business expenses decreased in euros by about -4 % from 2018, although revenue has increased by approximately 91 %

# Genelec Oy - Finances 2018 - 2022



# Genelec Oy - Finances 2018 - 2022





# Summary

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Genelec Oy

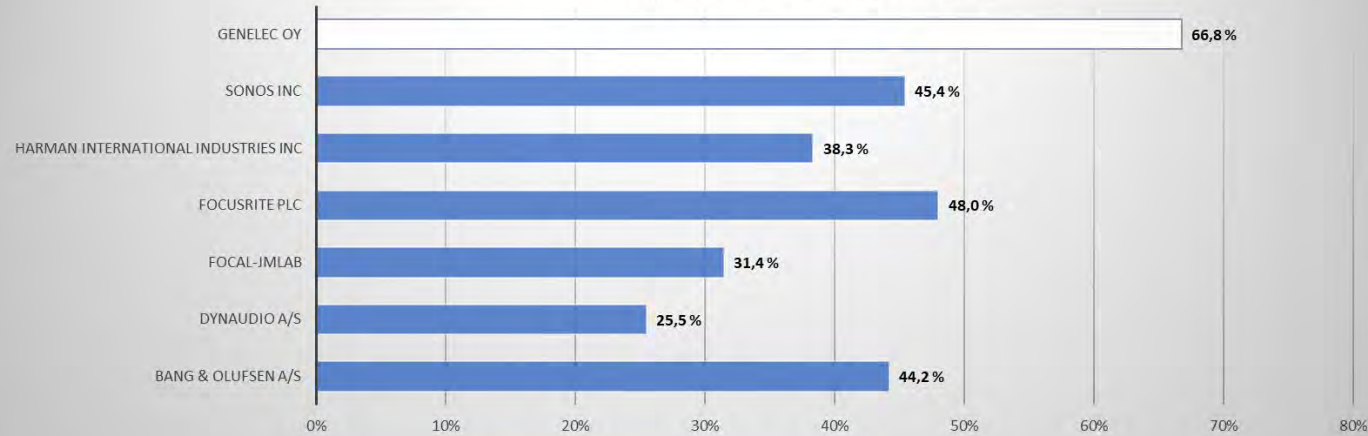
# Genelec is in excellent financial shape!

<p><b>Increase in revenue (%)</b> <span style="float: right;">← +20,4 %</span></p> <p>Measure e.g. the development of the company's business growth. The number can also be used to evaluate the company's success in sales. A company can also increase its turnover by buying or reducing its turnover by selling businesses.</p>	<p><b>Gross profit margin (%)</b> <span style="float: right;">← 66,8 %</span></p> <p>The indicator is industry-specific and does not have a general rating scale, so the number should not be used to compare companies operating in different industries. Comparison within the industry, or comparison of competitors and changes in own sales margin are important while</p>	<p><b>EBITDA (%)</b> <span style="float: right;">← 28,7 %</span></p> <table border="1"> <tr><td>10 % - 20 %</td><td>Industry</td></tr> <tr><td>2 % - 10 %</td><td>Commerce</td></tr> <tr><td>5 % - 15 %</td><td>Services</td></tr> </table> <p>Universal reference values cannot be given for this key indicator. Its level largely depends on the company's industry and capital structure. Industry/competitor-specific comparison and changes in own EBITDA (%) are important while monitoring targets.</p>	10 % - 20 %	Industry	2 % - 10 %	Commerce	5 % - 15 %	Services	<p><b>EBIT (%)</b> <span style="float: right;">← 26,6 %</span></p> <table border="1"> <tr><td>&gt; 10 %</td><td>Good</td></tr> <tr><td>5 - 10 %</td><td>Satisfactory</td></tr> <tr><td>&lt; 5 %</td><td>Weak</td></tr> </table> <p>Universal reference values cannot be given for this key indicator. Its level largely depends on the company's industry and capital structure. Industry/competitor-specific comparison and changes in own operating profit are important while monitoring targets.</p>	> 10 %	Good	5 - 10 %	Satisfactory	< 5 %	Weak																												
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<p><b>Equity ratio (%)</b> <span style="float: right;">← 83,2 %</span></p> <table border="1"> <tr><td>&gt; 50 %</td><td>Excellent</td></tr> <tr><td>35 %</td><td>Good</td></tr> <tr><td>25 %</td><td>Satisfactory</td></tr> <tr><td>15 %</td><td>Weak</td></tr> <tr><td>0 %</td><td>Poor</td></tr> </table>	> 50 %	Excellent	35 %	Good	25 %	Satisfactory	15 %	Weak	0 %	Poor	<p><b>Gearing ratio (%)</b> <span style="float: right;">← -47,7 %</span></p> <table border="1"> <tr><td>&lt; 10 %</td><td>Excellent</td></tr> <tr><td>10 %</td><td>Good</td></tr> <tr><td>60 %</td><td>Satisfactory</td></tr> <tr><td>120 %</td><td>Weak</td></tr> <tr><td>&gt; 200 %</td><td>Poor</td></tr> </table>	< 10 %	Excellent	10 %	Good	60 %	Satisfactory	120 %	Weak	> 200 %	Poor	<p><b>Quick ratio</b> <span style="float: right;">← 3,7</span></p> <table border="1"> <tr><td>&gt; 1,5</td><td>Excellent</td></tr> <tr><td>1,5</td><td>Good</td></tr> <tr><td>1,0</td><td>Satisfactory</td></tr> <tr><td>0,5</td><td>Weak</td></tr> <tr><td>&lt; 0,3</td><td>Poor</td></tr> </table>	> 1,5	Excellent	1,5	Good	1,0	Satisfactory	0,5	Weak	< 0,3	Poor	<p><b>Current ratio</b> <span style="float: right;">← 5,0</span></p> <table border="1"> <tr><td>&gt; 2,5</td><td>Excellent</td></tr> <tr><td>2,5</td><td>Good</td></tr> <tr><td>2,0</td><td>Satisfactory</td></tr> <tr><td>1,5</td><td>Weak</td></tr> <tr><td>&lt; 1,0</td><td>Poor</td></tr> </table>	> 2,5	Excellent	2,5	Good	2,0	Satisfactory	1,5	Weak	< 1,0	Poor
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<p><b>Return on Equity, (ROE) (%)</b> <span style="float: right;">← 30,1 %</span></p> <table border="1"> <tr><td>&gt; 20 %</td><td>Excellent</td></tr> <tr><td>20 %</td><td>Good</td></tr> <tr><td>15 %</td><td>Satisfactory</td></tr> <tr><td>10 %</td><td>Weak</td></tr> <tr><td>&lt; 5 %</td><td>Poor</td></tr> </table>	> 20 %	Excellent	20 %	Good	15 %	Satisfactory	10 %	Weak	< 5 %	Poor	<p><b>Return on Invested Capital, (ROI) (%)</b> <span style="float: right;">← 36,3 %</span></p> <table border="1"> <tr><td>&gt; 15 %</td><td>Excellent</td></tr> <tr><td>15 %</td><td>Good</td></tr> <tr><td>10 %</td><td>Satisfactory</td></tr> <tr><td>6 %</td><td>Weak</td></tr> <tr><td>&lt; 3 %</td><td>Poor</td></tr> </table>	> 15 %	Excellent	15 %	Good	10 %	Satisfactory	6 %	Weak	< 3 %	Poor	<p><b>Z-score (3 factors)</b> <span style="float: right;">← 52,9</span></p> <table border="1"> <tr><td>&gt; 40</td><td>Excellent</td></tr> <tr><td>40</td><td>Good</td></tr> <tr><td>28</td><td>Satisfactory</td></tr> <tr><td>18</td><td>Weak</td></tr> <tr><td>&lt; 5</td><td>Poor</td></tr> </table>	> 40	Excellent	40	Good	28	Satisfactory	18	Weak	< 5	Poor	<p><b>Z-score (5 factors)</b> <span style="float: right;">← 34,8</span></p> <table border="1"> <tr><td>&gt; 20</td><td>Excellent</td></tr> <tr><td>20</td><td>Good</td></tr> <tr><td>10</td><td>Satisfactory</td></tr> <tr><td>-7</td><td>Weak</td></tr> <tr><td>&lt; -15</td><td>Poor</td></tr> </table>	> 20	Excellent	20	Good	10	Satisfactory	-7	Weak	< -15	Poor
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← X,X % = Genelec



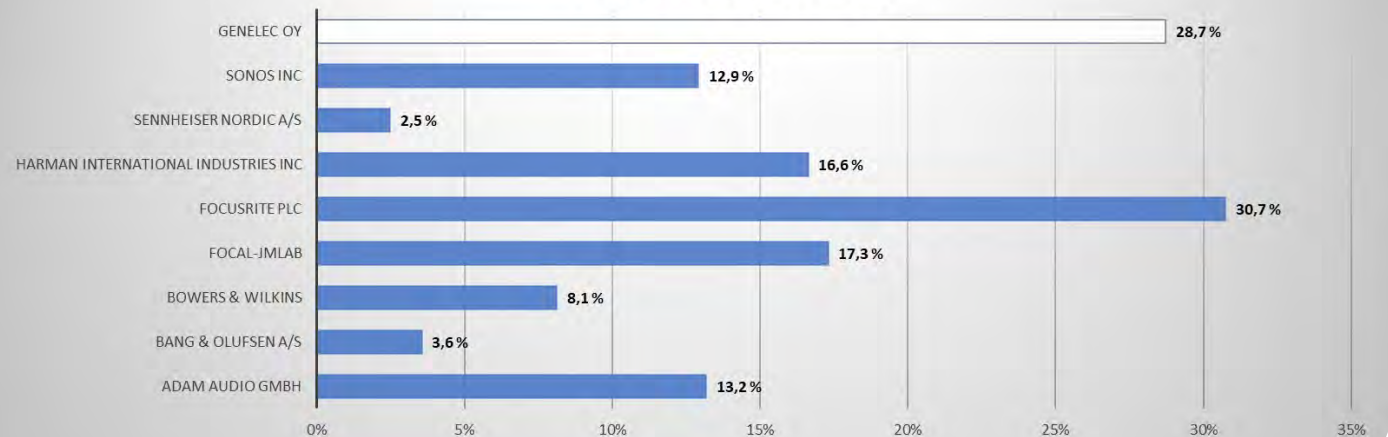
Myyntikate/Gross profit (%)



Genelec is also competitive among global peers and competitors

- Due to different accounting practices, the competitors' figures are not directly comparable, but indicative.
- Competitors represent numerous global brands: e.g.
  - Sennheiser, AKG, AMX, Arcam, Bang & Olufsen, Becker, BSS Audio, Crown, dbx, Harman Kardon, Infinity, JBL, Lexicon, Mark Levinson, Martin, Revel, Soundcraft and Studer. Klipsch, Jamo, Mirage, ProMedia, Magnat, Heco, Mac Audio, Onkyo, Pioneer, Pioneer Elite and Integra

Käyttökate, EBITDA (%)

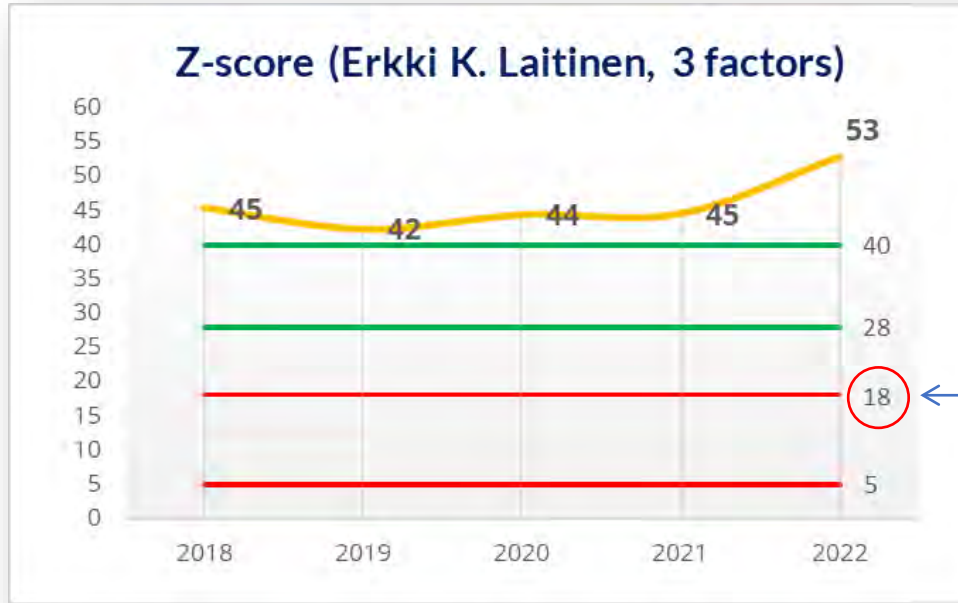


# The development of Genelec's added value is reflected in the excellent financial results

- Value added describes the added value a company produces for the goods and services it acquires.
- The key figure tells how much added value has been created with the help of the company's personnel's expertise and the capital invested in the company.
  - The higher the indicator, the better the company has been able to turn raw material that is similar for all providers into something valuable for the customer.
    - For example, an individual employee can bring a lot of added value to the service with his/her own expertise.
- Added value = EBIT - capital gains + depreciations + personnel costs - other operating income
- Added value (%) =  $100 \times \text{Added value} / \text{Revenue}$



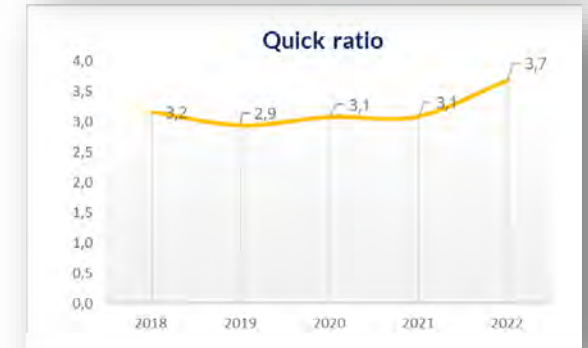
# The Z score predicting bankruptcy is also at an excellent level



The critical value of Z score

- $Z^{(3 \text{ factors})} = (1,77 \times \text{Financial result-\%}) + (14,14 \times \text{Quick ratio}) + (0,54 \times \text{Equity ratio})$
- Read more about the Z score predicting a company's bankruptcy and bankruptcy risk in Argon Pro's example document [Case Jukkatalo](#)

## Components of Z score



# Key findings and considerations






# Key findings and considerations

- Genelec is a prime example of profitable growth
  - *Everyone strives for it, but only a few can make it happen*
- For its part, Case Genelec verifies the results of various studies on the above-average success and profitability of family businesses
- The kind of "breakthrough" moment of the review period can be seen in the first COVID-19 year 2020. Approximately 16 % growth of revenue, almost 3 percentage points increase in gross profit margin and approximately half a million euros lower fixed costs led to a doubling of EBITDA (EUR 5,1 million > EUR 10,6 million). As a result, relative profitability, i.e., EBITDA margin, also jumped from about 15 % to approx. 26 %.
  - *Other operating income accounts for approximately 0,7 percentage points of EBITDA % growth in 2020*
  - *In 2021 and 2022, revenue per employee grew by 15-24 %, which continued and boosted the virtuous circle of productivity, efficiency and profitability*
  - *On average, annual growth of about 20 per cent has not increased costs proportionately*
  - *The spiral of profitable growth can also be seen through the added value (added value) produced by the company*
- Strong positive cash flow has contributed to self-financed growth and reasonable dividend payment



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