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# **Entrepreneurship Through Acquisition: A Study on Self-funded Search Funds**

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## **Abstract**

This paper is the first and so far only study on self-funded search funds which is an emerging alternative to the traditional search fund model. The study collects and evaluates primary qualitative data from first-time self-funded searchers. Based on the survey results, self-funded search funds have a shorter search phase, acquire smaller companies by using more debt, and achieve a higher return on invested capital (ROI) and internal rate of return (IRR) than traditional search funds. The evidence presented suggests that searchers decide for a self-funded search because of favorable deal terms at acquisition, more decision-making power and flexibility in acquiring and operating the target company.

## **Keywords**

Traditional Search Funds, Self-funded Search Funds, Entrepreneurship Through Acquisition, Entrepreneurial Finance

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# 1. Introduction

A search fund is an investment vehicle that is designed to enable entrepreneurs to search for, acquire, manage and grow a privately held company, typically for a holding period of six to ten years (Grousbeck and Li, 2003, p. 1). The search fund entrepreneur (“entrepreneur”, “principal” or “searcher”) usually consists of one (or two) young and talented recent MBA graduates who raise equity capital from a group of investors to fund the search fund and acquire a company (Kelly and Heston, 2020, p. 27; Johnson, 2014, p. 3).

The model was developed by H. Irving Grousbeck in 1984 with the intention to provide relatively inexperienced professionals with limited capital resources a quick path to managing a company in which they hold a meaningful ownership position. If successful, launching a search fund can provide a fast path to becoming an owner-CEO for young professionals and offer attractive financial returns for investors and searchers (Kelly and Heston, 2020, p. 27). Consequently, the model is also called “Entrepreneurship through Acquisition” (ETA).

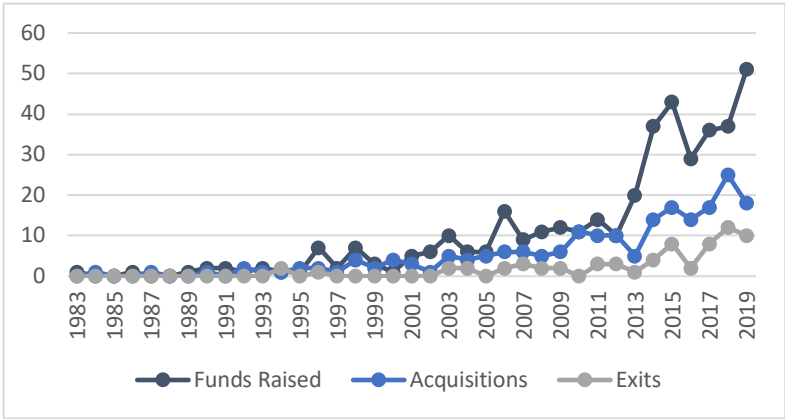
According to a study by Stanford Graduate School of Business (SGSB), 401 search funds were formed in the U.S. and Canada since 1984 achieving an aggregate pre-tax internal rate of return (IRR) of 32.6%, and an aggregate pre-tax return on invested capital (ROI) of 5.5x. While search funds quickly became popular amongst MBA graduates from elite universities in the U.S. and Canada, it took until 1992 before the first search fund launched outside of those two countries (Figure 2). Early international search funds, defined as funds established outside the U.S. and Canada, were established in the United Kingdom, and from 2003 onwards also in Latin America, Europe, Africa and Asia. As of 2020, 132 international first-time search funds located in 25 countries on five continents were tracked by IESE Business School (IESE). As of 2020, international search funds achieved an aggregate pre-tax IRR of 30.7%, and an aggregate pre-tax ROI of 2.5x (Kolarova et al., 2020, p. 12).

In recent years, there has been a significant increase in launches of newer search fund models such as the self-funded, single-investor and accelerator model. Especially, the relevance of self-funded search funds drastically increased, as Harvard Business School (HBS) graduates have shifted from only 36% launching a self-funded search fund to 62% in the period of 2008 to 2017 (Sharpe, 2020). In contrast to traditional searchers, self-funded searchers fund the search with personal savings and only raise capital from investors on a deal-by-deal basis once a target company has been identified (Kelly and Heston, 2020, p. 17).

As there is no study on self-funded search funds existing until today, this paper aims to close this research gap by establishing a deeper understanding of these funds. Hence, primary data on demographics, motives, acquisitions and performance is collected and examined in this study. This paper is the first source and so far unique study on self-funded search funds. Thus, it should be regarded as a piece of pioneering work rather than a complete study on all existing self-funded search funds and should be extended through future research.

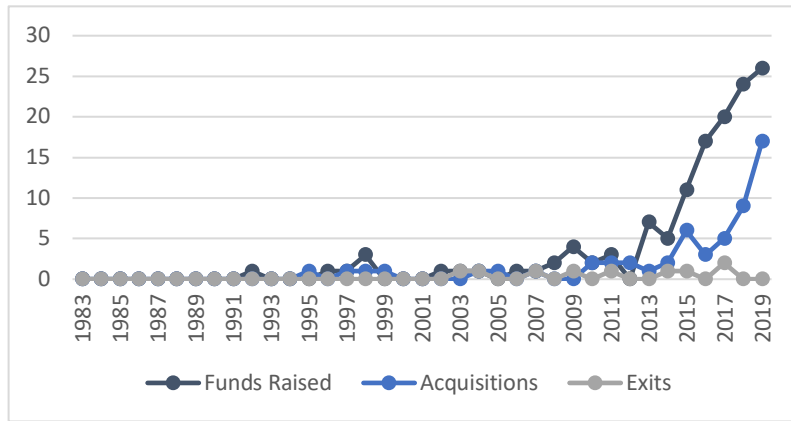
The following chapter contains a review of previous literature on traditional and self-funded search funds. Chapter 3 explains the research methodology and chapter 4 highlights and discusses the relevant findings. The paper closes with conclusions and limitations of the study as well as suggestions for future research in chapter 5.

**Figure 1:** Search Fund Activity by year in the U.S. and Canada



Source: Data from Stanford GSB 2020 Search Fund Study, own illustration

**Figure 2:** International Search Fund Activity by year (excl. U.S. and Canada)



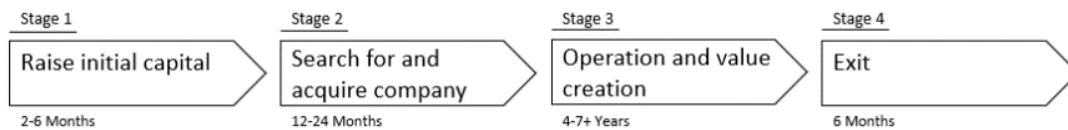
Source: Data from IESE Business School 2020 Search Fund Study, own illustration

## 2. Literature Review

### 2.1 Traditional Search Funds

The traditional search fund model is a process characterized by the fact that an entrepreneur raises initial “search capital” from multiple investors, typically eight to 24, to provide funding for a twelve to 24-month long search period. The objective of the search fund is to identify, acquire, manage and grow a target company. As depicted in Figure 3, the process consists of four consecutive phases: fundraising, search and acquisition, operation, and exit.

**Figure 3:** Stages of the Search Fund Lifecycle



Source: Stanford GSB 2020 Search Fund Study, own illustration

#### Stage 1: Raise initial capital

In the first phase, the entrepreneur raises initial search capital from a group of investors to cover a modest salary, administrative-, travel- and deal-related expenses over a two-year period while the entrepreneur searches full-time for an acquisition target (Kelly and Heston, 2020, p. 27).

In the U.S. and Canada, the median amount of initial search capital raised per principal in the recent two years was \$429,000 to cover salaries, office and software expenses as well as all travel- and deal-related costs. To initiate the fundraising process, the entrepreneur compiles a Private Placement Memorandum (PPM) which describes the investment opportunity.

The PPM is handed out to prospective investors to provide information on the search methodology, specific criteria of target industry and company, proposed form of equity and debt financing, as well as exit opportunities and personal background of the entrepreneur (Kelly and Heston, 2020, p. 27). Based on the PPM, investors can make an informed decision on whether they desire to invest in the search fund. Usually, ten or more investors purchase one or more units of the initial capital of the search fund, which is typically structured as a limited liability company. The searcher can decide on the size of each unit but since searchers mostly target ten to 20 investors, accordingly the unit size needs to be approximately \$20,000 to \$40,000 (Dennis and Laseca, 2016, p. 3). By providing capital, an investor receives the right but not the obligation to invest pro-rata in the equity required to finance the later acquisition of the identified target company. Additionally, the initial search capital typically converts on a stepped-up basis (e.g. 150% of the actual investment) into the securities issued as the acquisition capital to account for the high risk the investors are taking at such an early stage (Rozenrot, 2005, p. 3). Historically, the fundraising takes between one to twelve months with a median value of 3.1 months (Kelly and Heston, 2020, p. 21).

### **Stage 2: Search for and acquire a company**

After successfully raising enough funds, the entrepreneur enters the second phase of the process by beginning the search and acquisition phase. The objective of the entrepreneur in this phase is to identify a promising target company that suits the criteria agreed upon with the investors in the PPM. This phase is a very intense and time-consuming process for the entrepreneur that takes up to two years or even longer if the search capital raised is sufficient.

Depending on the complexity of the deal and the efficiency of the negotiation with seller and investors, it can take three to twelve months from the moment a particular acquisition opportunity is uncovered until closing of the acquisition (Kelly and Heston, 2020, p. 28).

Whenever a promising target company has been identified, the entrepreneur will negotiate the structure of the acquisition capital and secure equity commitments from the original group of investors. Aside from the follow-on equity investments from the original investors, the financing of the acquisition can come from various other sources such as seller debt, seller equity rollover, earnouts, traditional senior and subordinated loans as well as equity investments from new investors (Kelly and Heston, 2020, p. 29). The shares of equity and debt financing of the structure of the acquisition capital can vary depending on the industry and the stability of cash flows. If the entrepreneur is not able to identify and acquire a company before running out of the initially raised search capital, the fund may be closed if it is not possible to secure additional funding to continue the search. However, if the searcher successfully acquires a target company, the fund enters the next phase.

### **Stage 3: Operation and value creation**

After completing a successful acquisition, the search fund principal progresses into the subsequent phase to focus on value creation. While the principal transitions into the role of the CEO of the acquired company, the seller exits the company. However, it is not uncommon that the seller remains with the company in an active management role for a transition period of up to one year. The further involvement of the seller can help to reduce the anxiety of employees, customers, suppliers and other business relationships and allows the searcher to understand the company quicker and in more depth (Dodson et al., 2013, p. 62). Additionally, the principal appoints a new board of directors for the company which primarily consists of individuals from the group of investors. Typically, during the first six to 18 months, search fund entrepreneurs make only few material changes to the business but instead strive to

become more familiar with the company and the industry until feeling comfortable in running the operational and strategic activities (Kelly and Heston, 2020, p. 29).

Basically, there are three decisive levers a search fund entrepreneur can pull to enhance the value of the acquired company: operations, finance and the valuation multiple. At first, to create value from operations, the entrepreneur can focus on revenue growth through sales and marketing efforts or strategic initiatives, margin improvements through cost reduction, greater operating leverage and by conducting add-on acquisitions. Secondly, changes in the capital structure (e.g. higher leverage) and in the cost of capital might be a tool to increase the value of the company. Lastly, the entrepreneur can focus on increasing the valuation multiple by professionalizing the management, operational improvements, accelerating growth and growing the size of the company organically and inorganically, and finally by selling through a competitive sales process (e.g. auction). In general, searchers can impact the company value most directly through the levers of operations and finance decisions (Kelly and Yoder, 2020, p. 18). Ideally, the searcher will be able to accomplish more than one of the above-mentioned means of value creation. If additional company value can be created during the tenure, the entrepreneur will benefit from enhancing the value of the Manager Equity by surpassing the predetermined IRR hurdle (Kelly and Heston, 2020, p. 29).

#### **Stage 4: Exit**

After a holding period of typically four to seven or more years, the search fund enters its fourth and last phase which is the exit or liquidity event to return the invested capital to the Limited Partners (LP) within a certain timeframe (Dennis and Laseca, 2016, p. 7).

Even though repayments of subordinated debt throughout the lifetime of the search fund can provide some returns, investors mostly benefit from an increase in the company value.

Therefore, investor returns are highly dependent on the ability of the entrepreneur to enhance the value of the acquired company (Rozenrot, 2005, p. 9; Kelly and Heston, 2020, p. 29).



There are various options for a search fund to create a liquidity event for its investors such as the sale to a strategic or financial buyer, an initial public offering (IPO), a stock repurchase by the company itself, the management or new investors as well as a recapitalization of the debt structure and dividends paid out (Rozenrot, 2005, p. 9).

## 2.2 Differentiation of Self-funded Search Funds

As opposed to traditional principals, self-funded searchers avoid raising search capital from outside investors. Instead, they finance their search efforts with personal savings. Whereas in traditional search funds the initially raised search capital converts into preferred equity with a 5-8% preferred return at a 1.5x step-up at acquisition, self-funded searchers avoid the costly preferred equity and obtain more favorable economics. Instead, self-funded searchers rely on raising more debt from sources like SBA 7(a) loans - a loan program of the U.S. Small Business Administration (SBA) designed to provide “financial assistance to small businesses”- bank loans, seller notes or crowdfunding and other investors (Kelly and Heston, 2020, p. 31; US SBA, 2020). Another advantage of the avoidance of investor’s search capital is that self-funded searchers have a higher degree of power and flexibility in deciding for the location, industry, type and size of the acquisition target (Dennis and Laseca, 2016, p. 10).

Nevertheless, the self-funded model simultaneously implies greater financial risk to searchers since they risk their savings. Further, to fully secure their SBA loan, most searchers must provide a personal guarantee on their trading assets and real estate as collateral. By relieving investors from the risk of funding an unsuccessful search, self-funded searchers can obtain favorable deal terms and typically attain a higher percentage equity ownership at around 50%-70%. However, usually self-funded search funds acquire materially smaller businesses compared to traditional funds (Kelly and Heston, 2020, p. 31).

## 2.3 Search Fund Economics

A search fund can be defined as a two-stage private equity investment vehicle in which the search fund entrepreneur as the General Partner (GP) raises funds from a group of investors (LP) at two stages. The structure of the investor capital and the entrepreneur's earned equity (also called "Manager Equity") are the two key determinants of the split of proceeds between investors and entrepreneurs in a search fund (Kelly and Heston, 2020, p. 13).

It is a widely accepted term that investors structure their investments to have preference over the Manager Equity as it allows investors to recover their initially invested capital, usually with a preferred return of 5-8%, before the entrepreneur starts to participate in the equity appreciation. Hence, Manager Equity is issued as common equity as it is subordinate to preferred equity and thus allows the searcher to only benefit from appreciating equity value once some or all of the investor's capital has been returned (Kelly and Yoder, 2020, p. 13).

### **Investor Capital**

Since investor capital is provided at two consecutive stages of the search fund lifecycle, it is generally divided into (1) search capital, which is invested to fund the search and (2) acquisition capital to fund the acquisition of a company. In case the fund acquires a company, each LP receives conversion of the search capital at a stepped-up value, generally 150% of the original investment amount, into the same securities issued for the acquisition capital investment. Stepping-up the conversion of the capital allows the investors to be compensated for tolerating the high risk of investing in the search fund at an early stage (Kelly and Yoder, 2020, p. 13). The stepped-up conversion will be granted regardless of the investor's participation in the acquisition financing round (Rozenrot, 2005, p. 3).

Additionally, each LP receives the pro-rata right of first refusal to invest additional capital in the acquisition. This enables initial investors to further participate in financing the acquisition. There are various instruments used to provide acquisition capital, however

preferred equity is the most frequently used instrument as it offers the holders the right to (1) obtain the initial investment amount together with the accumulated preferred dividends and (2) allows investors to receive 100% of common equity minus the vested Manager Equity upon exit or liquidation (Kelly and Yoder, 2020, p. 13). According to SGSB, in about 75% of transactions the structure of investor capital consists of an equal split of redeemable preferred stock with a 10-17% coupon and nonredeemable participating preferred stock with no coupon (Kelly and Yoder, 2020, p. 14).

### **Manager Equity**

Most search fund entrepreneurs negotiate with their investor base that they will vest into approximately 20-30% of the common equity (“Manager Equity”) of the acquired company. Usually, the entrepreneur will receive three equal tranches when certain milestones are achieved. Typically, the first tranche is received upon acquisition of the target company, the second tranche after a predetermined tenure of the entrepreneur as the CEO of the acquired company (e.g. 4-5 years), and the third tranche by achieving an agreed-upon performance benchmark which is generally expressed as an IRR hurdle rate (Kelly and Yoder, 2020, p.17).

## **3. Research Methodology and Hypotheses**

### **3.1 Research Objectives**

As previously mentioned, this paper contains the first study that collects and examines primary data on self-funded search funds. These funds are not yet covered by SGSB and IESE as the main institutions that track the global search fund activity. This paper aims to close this research gap by collecting and evaluating data of self-funded search funds to establish a better understanding of these funds. The study compares the obtained data on self-funded search funds with existing data on traditional search funds to explore and discuss differences and similarities. Hereby, the focus lies on demographics, search process, acquisitions, and

financial performance. The study is designed to answer five hypotheses on self-funded search funds that will be introduced in the following chapter.

According to the searchers questioned in preparation of the study, there is a lack of data on self-funded funds, as they are not yet tracked by SGSB and IESE. The insights created will be valuable to current and future search fund entrepreneurs in deciding which type of search fund model to pursue but will also support investors in their decision-making process.

### 3.2 Research Questions

In addition to complementing the 2020 Search Fund studies of SGSB and IESE, the following five research questions are evaluated. These questions have been developed in conversations with search fund entrepreneurs and investors who provided valuable insights due to their experience with search funds. The hypotheses are phrased to compare self-funded search funds against traditional search funds and are evaluated based on the survey responses.

*H1: Self-funded search funds have a higher speed to acquisition.*

*H2: Self-funded search funds are pursued by searchers with geographic requirements.*

*H3: Self-funded searchers obtain higher equity ownership.*

*H4: Self-funded searchers rely on a higher share of debt in the acquisition capital structure.*

*H5: Self-funded search funds are launched by wealthy individuals who are not able to raise funds from investors due to inferior education.*

### 3.3 Research Methodology

As this paper aims to complement the 2020 Search Fund Studies published by SGSB and IESE on traditional search funds, it is most expedient to replicate the structure of these reports and explore similar topics. Therefore, a quantitative research based on an online survey was used to obtain relevant primary data. The questionnaire was designed in collaboration with the

American searcher Anand Krishna (NSK Capital), Portuguese searcher João Diogo Stoffel (Planalto Capital), German investor Jürgen Rilling (Mira Blau) and the supervising professor from Nova SBE Francisco Queiró. Beyond that, numerous searchers were consulted with the help of the world's first technology platform for search funds called [www.searchfunder.com](http://www.searchfunder.com).

### 3.4 Data Collection

The online survey was taken by 47 search fund entrepreneurs of which 33 data sets were finished. Of those 33 data sets, 28 were given by self-funded search fund entrepreneurs and five were provided by traditional search fund principals. The following report will be based on the data of the 28 self-funded respondents. The survey was online during the period of October 8, 2020 until November 5, 2020 and was built with SoSci-Survey which is a web application allowing the creation of flexible online questionnaires.

## 4. Findings and discussion

This chapter compares the collected data on self-funded search funds with data on traditional search funds taken from the 2020 Search Fund Studies by SGSB and IESE. Findings on searcher motives, demographics, fundraising, search, acquisition and performance are discussed in the following. To consider data on search funds based in the U.S. and Canada (tracked by SGSB) and outside the U.S. and Canada (called international funds and tracked by IESE), data from both studies will be stated and separated by the delimiter “ | ”.

### 4.1 Motives

Due to the inherently different characteristics of both models, each type of search fund appeals to searchers for distinct reasons. According to literature, the main motives attracting self-funded searchers are (1) preferable deal terms and therefore favorable economics, (2) more power and flexibility due to less oversight from investors and (3) the opportunity to meet geographic requirements such as the need to acquire a business close to the place of

residence. The evaluation of the following survey data of this report confirms these motives as being the most common and most relevant to self-funded searchers (Appendix 10).

Of 28 respondents, 18 searchers (64%) replied that their main motive to pursue a self-funded search fund was the possibility to excerpt “more power and flexibility in running the company”. The key difference between both models is that in self-funded search funds, the principal typically does not have to adhere to predefined acquisition criteria codified in the PPM. Beyond that, as already mentioned before, self-funded entrepreneurs typically obtain a higher percentage of equity ownership in the target company than traditional searchers. Consequently, the self-funded model seems to attract individuals with a strong desire to attain greater freedom and decision power with less investor oversight.

The additional two main motives, (1) preferable deal terms and therefore favorable economics and (2) the desire to acquire in close geographical proximity were both answered by 16 survey respondents (57%). Nine respondents added that further considerations have influenced their decision for the self-funded search fund model. Most of these responses may be classified into the following clusters of firstly speed of acquisition and secondly flexibility.

Firstly, based on Appendix 13, seemingly the self-funded model attracts entrepreneurs as the speed of acquisition appears to be higher which will be covered in chapter 4.4 of this report. For instance, one respondent mentioned that the self-funded model is “faster than trying to raise capital to conduct the search phase”. Secondly, the desire to operate the acquired business over a longer period than four to seven years was mentioned which can be added to the cluster of greater flexibility. Another respondent stated the desire to have “less investor oversight and more flexibility.” One respondent mentioned that he did not complete an MBA which decreases the likelihood of convincing investors as “many of the name brand

investors only invested in MBA [graduates] at that time.” This response is particularly relevant as it bridges the gap to the fifth hypotheses which is examined in the next chapter.

On the downside, the self-funded search fund model bears substantial drawbacks to searchers. With seven of 28 responses each (25%), the two most common disadvantages to self-funded principals are the significant financial risk and the lack of investor guidance throughout the entire process. Self-funded searchers are usually required to provide a personal guarantee on their trading assets and real estate when applying for an SBA 7(a) loan and therefore take on a high degree of financial risk.

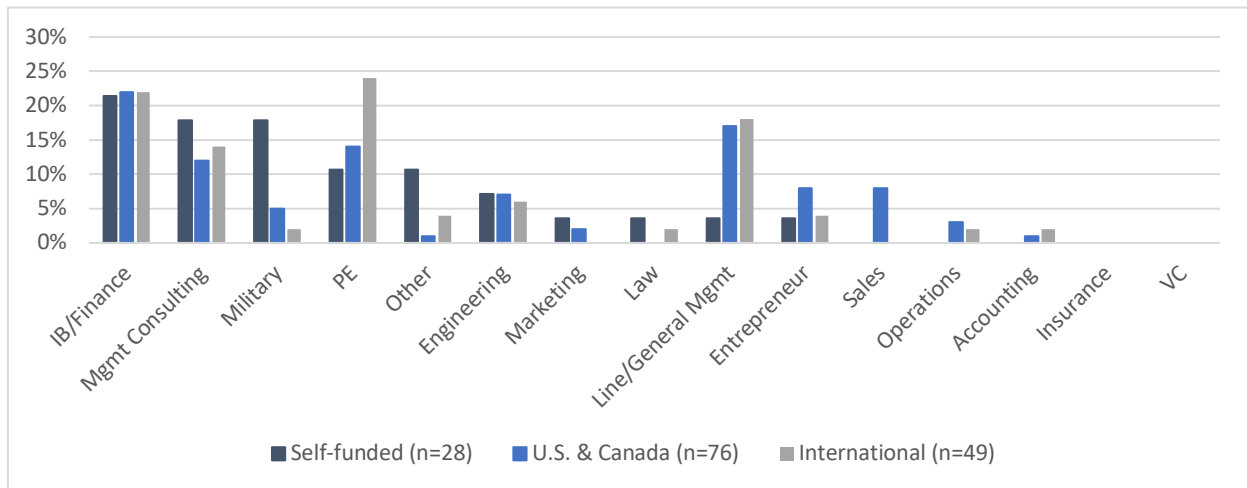
## 4.2 Searcher Demographics and Profiles

Firstly, all of the 28 survey respondents are male. This observation is roughly in line with the data on traditional search funds which shows that women are underrepresented in search funds, accounting for only 7% | 4% of searchers that began their search in 2018 or 2019. Nevertheless, some women seem to be involved in self-funded search funds as a small number of female profiles is active in the online community [www.searchfunder.com](http://www.searchfunder.com).

Secondly, similar to traditional searcher backgrounds, the majority of self-funded entrepreneurs comes from Investment Banking (21%), Management Consulting (18%) and Private Equity (11%). Nevertheless, a relevant observation is that the self-funded model attracts a significant number of individuals with a military background (18%). In traditional search funds, only 5% | 2% of searchers have a military background. On the one hand, this could be explained by above average leadership experience, less risk-averse profiles and potentially solid financial means of individuals with a career in the military. On the other hand, it could be the case that investors are hesitant to back searchers without a typical business background. Hence, searchers with military background would be forced to launch a self-funded search fund.

As depicted in Figure 4, whereas in traditional search funds formed in 2018/19, the second most common background was Line/General Management (17% | 18%), the survey sample shows that only 4% of self-funded searchers come from Line/General Management.

**Figure 4: Self-funded Search Funds principals' professional backgrounds**



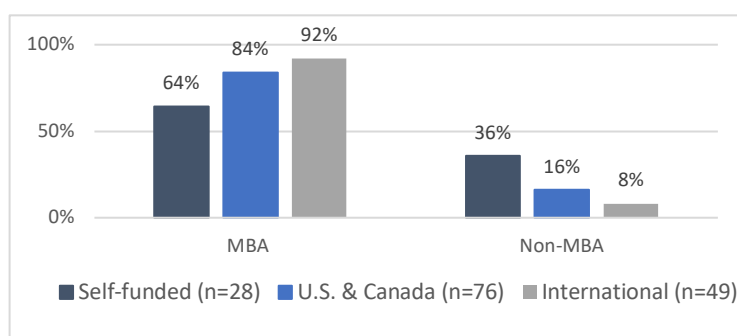
*Source: Data from question no. 39, and Stanford GSB and IESE Business School 2020 Search Fund Studies*

The median age at launch of a self-funded search fund is 33 years with a minimum age of 24 years and maximum of 51 years. These results are congruent with the data on traditional search funds with a median age of 32 | 31 years, a minimum of 25 | 26 years and a maximum of 55 | 47 years. However, as presented in Appendix 2, the share of self-funded principals between 36 and 40 and aged above 40 years is higher. Underlying reasons could be that searchers require time to save up money and investor reluctance to back older searchers.

Interestingly, amongst self-funded searchers 36% (10 of 28) of survey respondents do not have an MBA degree which is significantly more than 16% in the U.S. and Canada as well as 8% in international search funds. Connected to the earlier highlighted response emphasizing the investors' reluctance to back non-MBA graduates, this observation becomes more comprehensible. Due to the nature of self-funded search funds, external financing from investors, if at all, is only required at a later stage to fund the acquisition. This reduces the barrier to launching a search fund for individuals with more diverse backgrounds.



**Figure 5: Self-funded Search Funds Principals' MBA Degree**



*Source: Data from question no. 36, and Stanford GSB and IESE Business School 2020 Search Fund Studies*

Another metric regarding the profile of searchers is the number of post-MBA years before launching a search fund. The median post-MBA experience amongst the levied data is 4 years with a minimum of 0 years and a maximum of 19 years for self-funded funds (Appendix 3). In contrast, according to SGSB and IESE, the median post-MBA experience is 1 | 1 year with a minimum of 0 | 0 years and a maximum of 18 | 18 years. The notable difference in median years is potentially caused by the fact that traditional principals do not need to save money for some years to be able to fund their search and can start a search fund at a younger age.

According to the fifth hypothesis the self-funded model predominantly appeals to wealthy individuals who can afford to fund their expenses and are attracted by potentially better deals terms and higher returns. In contrast, the antagonistic perspective is that the self-funded model attracts entrepreneurs that have not been able to raise a traditional fund because their education and professional experiences do not stand out as significantly as those of others (e.g. non-MBA, non-Ivy League etc.). A higher share of graduates from less renowned MBA programs and a lower performance of self-funded search funds would support this hypothesis. To evaluate these divergent perspectives, primary data on searcher education, net worth and self-funded search fund performance was raised. First of all, the survey shows that nine out of 28 respondents agree they grew up in a wealthy family while 19 individuals disagree. More precisely, eight entrepreneurs state their personal net worth was somewhere between

\$750,000 and \$3,000,000, at launch of the search fund. These very wealthy searchers could easily afford the search as traditional searchers raise a median amount of search capital of \$450,000 from investors. A closer look at this subset shows that six respondents completed an MBA at Columbia Business School, Tuck School of Business, University of North Carolina at Chapel Hill, University of Michigan, Butler University and University of Chicago.

Accordingly, this group represents 75% of searchers with an MBA which is slightly below the 84% of traditional searchers but above the 64% of overall self-funded searchers (Appendix 9).

Nevertheless, only the MBA-program at Columbia Business School and University of Chicago are currently ranked amongst the “Global Top 10 MBA Programs in 2020” (Financial Times, 2020). Tuck Business School belongs to the small number of prestigious Ivy League universities and ranks 16<sup>th</sup> according to the ranking established by the Financial Times. The relatively low percentage of top ten MBA graduations (33%) suggests that these searchers might have had issues to convince investors to fund their search fund and therefore opted for a self-funded search. The second subset provides further evidence for this theory. It consists of six individuals whose net worth was between \$250,000 and \$750,000 at launch of the search fund. With 83%, this group shows the highest share of MBA graduates, however only one searcher (20%) graduated from a top ten MBA program, namely HBS ranked first.

The last subset consists of twelve searchers whose net worth was between \$0 and \$250,000 and therefore are the least wealthy. This group has the lowest share of MBA graduates (50%) but of those, 67% graduated from top ten MBA programs at HBS ranked first, Wharton School ranked second and INSEAD ranked fourth. This subset contradicts the previous observations and rather suggests that these searchers strive for higher financial reward, power and flexibility. Beyond that, according to search fund expert and senior lecturer at HBS Jim Sharpe, in the period of 2008 to 2017, HBS graduates have shifted from only 36% launching a self-funded search fund to 62% (Sharpe, 2020). All in all, evidence for both perspectives is

present in the data impeding a distinct conclusion. However, it seems as if more and more wealthy individuals fund their search as it promises greater financial upside (Chapter 4.6).

Lastly, 18 of 28 (64%) respondents answered that they are pursuing a solo search while 10 of 28 (36%) launched their search fund together with a business partner (Appendix 5). In traditional search funds in contrast, 80% | 60% of search funds are being led by solo entrepreneurs and only 20% | 40% in a partnership.

### 4.3 Fundraising

As previously elaborated, the fundraising process in self-funded search funds differs from the process in traditional search funds as there is, if at all, only one point in time at which a self-funded searcher needs to raise funds. This is to finance the acquisition. In contrast, traditional searchers raise the initial search capital at first, followed by raising the acquisition capital at a later stage. Consequently, this distinction must be kept in mind when considering the following observations as otherwise it may lead to biased inferences.

According to the data set of this survey, self-funded searchers require a median of 2 months to raise acquisition capital with a minimum of 0 months and a maximum of 6 months. Evidently, the surveyed self-funded principals raise capital from only one investor. The data on fundraising tracked by SGSB and IESE refers to the first stage of fundraising of the initial search capital. In traditional search funds, principals in the U.S. and Canada require a median of 3 months and typically convince 15 investors which is closely in line with a median of 5 months and 16 investors in international search funds.

### 4.4 Search and Acquisition

Of the underlying survey sample consisting of 28 respondents, 15 individuals have acquired a company of which 13 are still operating the company and two searchers already exited the business (Appendix 1). As previously mentioned, the search phase typically takes up to 24

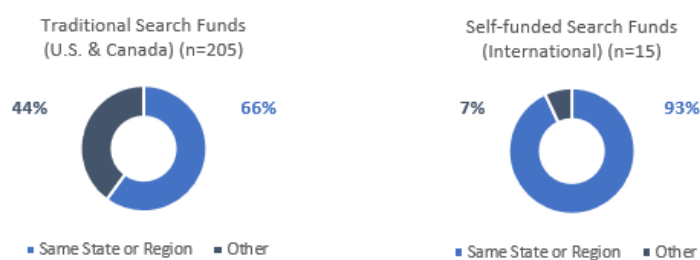
months, but it is not rare to see search phases being extended up to 36 months. According to the underlying dataset, the median duration of the search phase, more precisely the total number of months from start of search to deal close, is 9 months for self-funded entrepreneurs with a minimum of 3 months and a maximum of 36 months (Appendix 13).

Of those 9 months, 6 months are required for going from the uncovering of the acquisition target until closing the deal while 3 months are needed to identify a suitable target company.

Unfortunately, SGSB does not collect data on the time from uncovering the opportunity to closing of the deal. The 2020 Search Fund study only states that it takes three to 12 months from uncovering the opportunity to closing of the deal. However, in traditional search funds the median duration of the entire search phase from the start of search to deal close is 21 | 19 months. These observations confirm hypothesis no. 1. The significantly shorter duration of the search phase of self-funded search funds might potentially be explained by various reasons. Probably, self-funded searchers can feel a higher urge to acquire a business early as they finance their search with their own savings. Besides, self-funded searchers have more power in choosing the target company and therefore do not see their deals being rejected by investors as it might be the case in traditional funds. At last, there might be less competition for deals of self-funded searchers as their deal volumes are often smaller (Appendix 8).

Another relevant observation was made regarding constrained geographic requirements of self-funded searchers. Confirming the second hypothesis, only 7% of self-funded principals acquire a company outside the state or region (defined as adjoining states) they live in. By contrast, 44% of traditional searchers buy a business located outside of their home state or region (Figure 6). Including the searchers that have not yet conducted an acquisition, 71% pursue a geographically constrained search. Consequently, geographical requirements play a decisive role for self-funded searchers.

**Figure 6:** Location of Search Funds vs. Companies they acquire



*Source: Data from question no. 22, and Stanford GSB and IESE Business School 2020 Search Fund Studies*

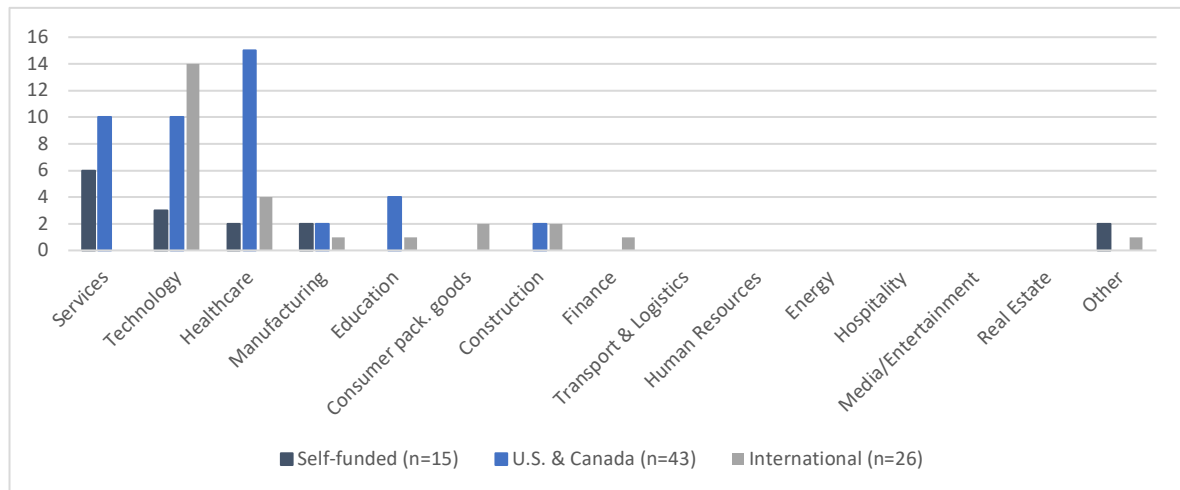
While the median acquisition price of U.S. and Canada based traditional search funds in 2018/19 is \$10 million and \$12.8 million of international funds, the median purchase price of self-funded search funds is \$1.6 million. Even though this is a significant difference, the maximum acquisition price of \$12.5 million shows that self-funded principals can acquire businesses of a similar size than traditional search funds. However, considering the maximum acquisition price of \$117.0 million in the U.S. and Canada and \$56.8 million internationally, it is important to state that in general self-funded deals sizes are five to ten times smaller.

This also becomes clear, when taking into account the survey data on earnings before interest and tax depreciation and amortization (EBITDA) of the target company at acquisition. The median target companies' EBITDA is \$500,000 with a minimum of \$220,000 and a maximum of \$3.75 million (Appendix 6 and 8). In traditional search funds, the median EBITDA of target companies is \$2.0 million in the U.S. and Canada and even \$2.4 million in international funds. Again, the EBITDA of those companies is four to five times higher. As usual in smaller deals, the entry multiple of 3.3x the EBITDA (Purchase Price / EBITDA) is lower for self-funded transactions than for traditional funds with 6.0x and 5.6x respectively.

With regard to the industries of the acquired businesses, it can be concluded that self-funded searchers target businesses in similar industries as traditional principals. Of the underlying sample set, 6 principals acquired businesses in the services industry, 3 in technology, and 2 each in healthcare and manufacturing.

Another 2 respondents stated no preference. The observation that services, technology and healthcare are amongst the leading industries is in line with the data on traditional search fund acquisitions. Only the education sector played a greater role in traditional search fund acquisitions (4 acquisitions in 2018/19) than in self-funded search funds.

**Figure 7: Industries of acquired companies**



*Source: Data from question no. 26, and Stanford GSB and IESE Business School 2020 Search Fund Studies*

#### 4.5 Deal structures

Based on existing literature and survey responses, the opportunity to achieve preferable deal terms in self-funded search funds is one of the most decisive motives for individuals to pursue the self-funded path. To validate this argument, this report investigates the typical equity ownership that searchers obtain in the acquired company. This survey finds that self-funded principals typically attain an ownership of approximately 75% to 90% in the equity of the acquired company. More precisely, the median equity ownership after the acquisition is 88% with an average of 77%, a minimum of 30% and a maximum of 100%.

In contrast, traditional searchers usually vest into an equity ownership of 20% or 30%. As explained, furthermore a certain component of the Manager Equity is often dependent on surpassing a predefined IRR hurdle rate. Consequently, this study indicates that self-funded entrepreneurs can typically obtain a significantly higher percentage of equity ownership.

Nevertheless, often in companies of much smaller size compared to traditional search fund acquisitions.

Regarding the acquisition capital structure of both types of search funds, the underlying data shows that self-funded entrepreneurs use a median value of 80% of debt capital to fund their acquisition. The debt mostly consists of bank debt, especially SBA loans, and seller financing. Out of 15 principals who have already acquired a target company, 11 searchers (73%) relied on SBA 7(a) loans to fund their acquisition. Seller's notes have been used in 13 of 15 (87%) transactions. The minimum percentage of debt is 69% and a maximum of 96%. The typical acquisition is funded with 10-15% equity, 5-10% seller's note and 75-85% SBA loan. Unfortunately, SGSB and IESE do not collect data on the acquisition capital structure of traditional search funds. However, exemplary calculations of search fund economics in Stanford's biennial Search Fund Primer assumes the typical acquisition of a traditional search fund to be financed by a combination of roughly 50% debt and 50% equity. Traditional leveraged buyouts (LBO) of private equity funds generally comprise of 60% to 70% of debt in their financing structure (Rosenbaum and Pearl, 2009, p.161). This underlines the materially high amount of debt that self-funded searchers use but it must be noticed that deal volumes are often considerably smaller. However, if successful in increasing the enterprise value of the acquired company, the use of significant financial leverage allows the self-funded entrepreneurs to achieve a compelling return on equity. All in all, the above-mentioned findings suggest that the third and fourth hypotheses are valid.

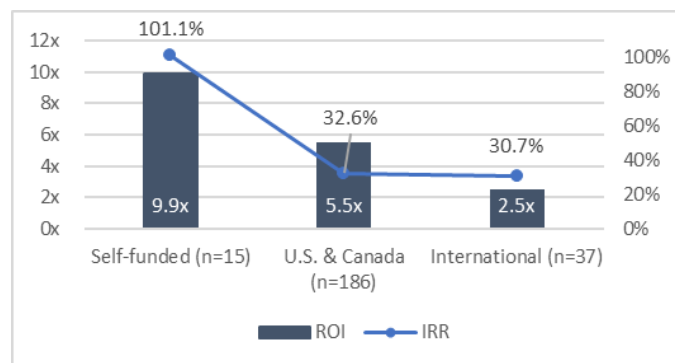
#### 4.6 Financial Performance

According to the 2020 Search Fund Studies by SGSB and IESE, traditional search funds achieved an aggregate ROI and IRR of 5.5x | 2.5x and 32.6% | 30.7%. and an aggregate ROI and IRR of 3.1x | 1.9x and 29.3% | 25.1% when excluding the top three performing funds (Appendix 11). In contrast, self-funded search funds achieved an ROI of 9.9x and an IRR of

101.1%. Excluding the top three funds, these values are 3.8x and 46.5% respectively.

Although this data presents a superior performance of self-funded funds, it must be noticed that not all self-funded search funds could be considered in the sample. The fund returns are mostly approximations based on what the entrepreneurs believe the business they operate is currently worth as well as two exits. It is not possible to evaluate data on equity earned by self-funded searchers as insufficient data was provided by respondents to draw inferences.

**Figure 8: Aggregate Search Fund ROI and IRR**  
(incl. only funds that had made acquisitions)



Source: Data from question no. 28-29, and Stanford GSB and IESE Business School 2020 Search Fund Studies

## 5. Conclusions

Based on the findings of the survey, the first four research questions can be confirmed, whereas the last hypothesis cannot be answered unequivocally.

The self-funded search fund model predominantly attracts searchers because of preferable deal terms and favorable economics as well as a higher degree of power and flexibility in acquiring and operating the target. It proves to have a significantly higher speed of acquisition (9 months) compared to the traditional model (21 months). Besides, the underlying data does not indicate that self-funded searchers struggle to compete with traditional searchers on potential deals. This might partly be caused by the fact that traditional searchers and private equity firms compete for larger deals. However, some searchers mention that it requires increased efforts to convince brokers and sellers to consider self-funded principals compared



to traditional searchers who are already backed by several limited partners with strong financial resources.

Furthermore, the self-funded model seems to be especially suitable for searchers with geographic constraints as materially more self-funded search funds acquire companies located in the same or an adjoining state. In addition, the share of searchers that are aged 36 years and above is higher. Either this is due to investors being hesitant to back searchers at this age or these searchers required some time to accumulate enough savings before launching the fund.

The observations support the inference drawn that generally self-funded searchers obtain a significantly greater percentage of equity ownership which offers higher financial upside, less control from investors and more decision-making power in operating the target company. The survey data also lends support to the hypothesis that in self-funded search funds, the acquisition capital structure heavily relies on debt financing. It must be pointed out that the majority of acquisitions (10 of 15) was conducted without funds raised from outside investors but instead by using savings, SBA loans and seller's notes.

Lastly, the fifth hypothesis can be neither confirmed nor disproved as the underlying data on searcher education, wealth and fund performance provide evidence for and against it. The data subsets contain graduates from the world's best MBA programs that opted for self-funding but also include searchers from more average programs. While the share of top 10 MBA programs amongst the wealthiest groups is the lowest, it is noticeably higher in the less wealthy groups. Overall, the share of non-MBA searchers is higher in self-funded funds.

According to the data collected, self-funded principals achieve higher ROIs and IRRs while simultaneously obtaining larger percentages in equity ownership at acquisition of the target company. These findings suggest that the self-funded model attracts highly educated individuals who are wealthy enough to bear the risk of funding their search to later benefit from a stronger financial upside. However, this comes at the cost of an increased financial

risk as self-funded searchers must often provide a personal guarantee as a prerequisite to obtain an SBA loan. Furthermore, self-funded searchers run the risk of losing their savings used to fund the search if they terminate the fund without an acquisition or the cash flow at exit or payouts made during the tenure are not sufficient to recover the investment. The self-funded search fund model provides an increased risk return trade off. From an investor perspective, it must be noticed that the self-funded model does not offer an equal alternative to the traditional model, as just 33% (5 of 15) of acquisitions were funded by an outside investor. Due to smaller deal volumes and the significant use of SBA loans, if at all, investors can often invest only amounts into self-funded search funds.

### 5.1 Limitations and Future Research

Due to the scope and resources of this paper, it was not possible to identify every self-funded search fund that has ever been created. Therefore, this paper does not claim to be complete but aims to explore data on self-funded search funds because of their growing relevance for entrepreneurs and investors. Compared to the number of traditional search funds tracked by SGSB (401) and IESE (132), the sample size of this survey (n=28) is comparably small which implies a certain limitation of the significance of the survey results. The findings, especially on financial performance, must be reviewed in future research against additional data obtained when more self-funded search funds made acquisitions or had an exit. A deeper understanding if self-funded funds sustainably out- or underperform traditional search funds is crucial in evaluating if the self-funded model attracts searchers because of higher financial upside or wealthy people who otherwise do not get funded. Another important topic for future research is the earned equity for searchers. Beyond that, it should be continuously reviewed if the share of self-funded search funds that use capital from outside investors remains rather small. Finally, the survey results are expected to be biased as it is likely that especially searchers with a positive track record participated in the study.

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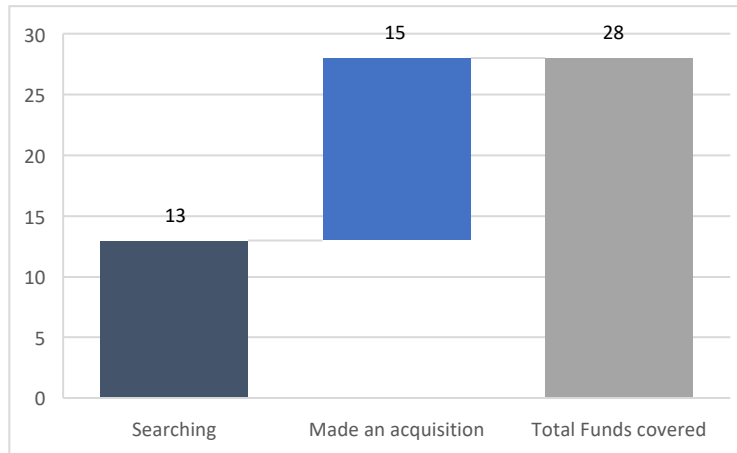
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# Appendix

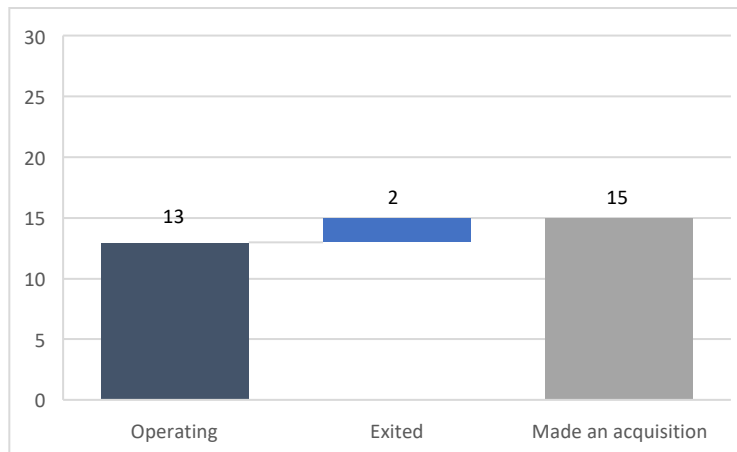
## Appendix 1 – Operating Status Of Surveyed Self-funded Search Funds

**Figure 9:** Operating Status Of Surveyed Self-funded Search Funds



*Source: Data from question no. 10 (n=28)*

**Figure 10:** Operating Status Of Self-funded Search Funds That Have Acquired A Target Company



*Source: Data from question no. 27 (n=15)*

## Appendix 2 – Age At Start Of Search

**Figure 11: Age At Start of Search**

	<b>Self-funded Principals</b>	<b>Traditional Principals U.S. &amp; Canada</b>	<b>Traditional Principals International</b>
<b>Minimum</b>	24	25	26
<b>Median</b>	33	32	31
<b>Maximum</b>	51	55	47
<b>Under 30</b>	15%	21%	26%
<b>30-35</b>	44%	56%	50%
<b>36-40</b>	26%	17%	20%
<b>Over 40</b>	15%	6%	4%

*Source: Data from question no. 35 (n=28), and SGSB and IESE 2020 Search Fund Studies*

## Appendix 3 – Number Of Post-MBA Years Before Search Fund

**Figure 12: Number Of Post-MBA Years Before Search Fund**

	<b>Self-funded Principals</b>	<b>Traditional Principals U.S. &amp; Canada</b>	<b>Traditional Principals International</b>
<b>Minimum</b>	0	0	0
<b>Median</b>	4	1	1
<b>Maximum</b>	19	18	18
<b>No MBA</b>	36%	16%	8%
<b>&lt;1 Year Post-MBA</b>	11%	28%	42%
<b>1-3 Years Post-MBA</b>	18%	34%	34%
<b>4-7 Years Post-MBA</b>	25%	13%	10%
<b>&gt;7 Years Post-MBA</b>	11%	9%	6%

*Source: Data from question no. 38 (n=28), and SGSB and IESE 2020 Search Fund Studies*

## Appendix 4 – Gender

**Figure 13: Gender**

	<b>Self-funded Principals</b>	<b>Traditional Principals U.S. &amp; Canada</b>	<b>Traditional Principals International</b>
<b>Male</b>	100%	93%	96%
<b>Female</b>	0%	7%	4%

*Source: Data from question no. 31 (n=28), and SGSB and IESE 2020 Search Fund Studies*

## Appendix 5 – Number Of Search Fund Principals

**Figure 14:** Number of Search Fund Principals

	<b>Self-funded Principals</b>	<b>Traditional Principals U.S. &amp; Canada</b>	<b>Traditional Principals International</b>
<b>Single</b>	64%	80%	60%
<b>Partners</b>	36%	20%	40%

*Source: Data from question no. 40 (n=28), and SGSB and IESE 2020 Search Fund Studies*

## Appendix 6 – Median Statistics For All Search Fund Acquisitions

**Figure 15:** Median Statistics For All Search Fund Acquisitions

Median	<b>Self-funded Principals</b>	<b>Traditional Principals U.S. &amp; Canada</b>	<b>Traditional Principals International</b>
<b>Length of Search (months)</b>	9	21	19
<b>Purchase Price</b>	\$1.6 M	\$10.8 M	\$11.0 M
<b>Company EBITDA At Purchase</b>	\$0.5 M	\$2.0 M	\$2.4 M
<b>Purchase Price / EBITDA</b>	3.3x	6.0x	5.6x

*Source: Data from question no. 11,24-25 (n=15), and SGSB and IESE 2020 Search Fund Studies*

## Appendix 7 – Total Number of Months From Start Of Search To Deal Close

**Figure 16:** Total Number of Months From Start Of Search To Deal Close

	<b>Self-funded Principals</b>	<b>Traditional Principals U.S. &amp; Canada</b>	<b>Traditional Principals International</b>
<b>Minimum</b>	3	2	5
<b>Median</b>	9	21	19
<b>Maximum</b>	36	74	42
<b>&lt;11 Months</b>	54%	15%	16%
<b>11-20 Months</b>	31%	36%	42%
<b>21-30 Months</b>	8%	29%	29%
<b>31+ Months</b>	8%	20%	13%

*Source: Data from question no. 11 (n=28), and SGSB and IESE 2020 Search Fund Studies*



## Appendix 8 – Purchase Price Statistics For All Acquisitions

**Figure 17:** Purchase Price Statistics For All Acquisitions

	<b>Self-funded Principals</b>	<b>Traditional Principals U.S. &amp; Canada</b>	<b>Traditional Principals International</b>
<b>Minimum</b>	\$0.7 M	\$1.7 M	\$0.8 M
<b>Median</b>	\$1.6 M	\$10.8 M	\$11.0 M
<b>Maximum</b>	\$12.5 M	\$117.0 M	\$56.8 M
<b>&lt;\$4 M</b>	64%	8%	9%
<b>\$4 M To \$8 M</b>	27%	26%	25%
<b>\$8 M To \$12 M</b>	0%	19%	22%
<b>\$12 M+</b>	9%	46%	44%

*Source: Data from question no. 24 (n=15), and SGSB and IESE 2020 Search Fund Studies*

## Appendix 9 – Comparison Of Net Worth Of Search Fund Principals At Start Of Search And MBA Graduation

**Figure 18:** Comparison Of Net Worth Of Search Fund Principals At Start Of Search And MBA Graduation

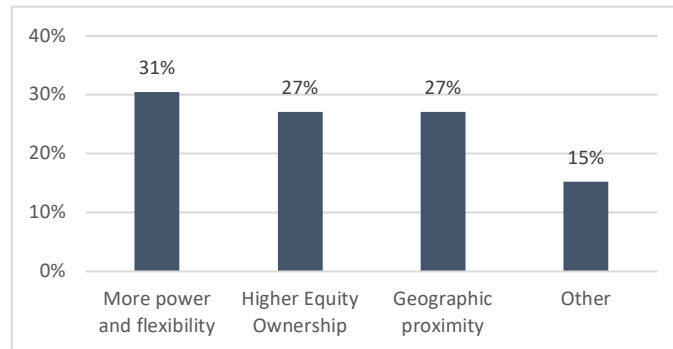
	<b>Self-funded Principals</b>	<b>Of Which MBA graduates</b>	<b>Universities and Business Schools</b>	<b>FT MBA Ranking 2020* / Ivy-League</b>
<b>\$0 - \$100,000</b>	18%	80%	Washington University in St. Louis Olin School of Business, Southern Methodist University (SMU), Harvard Business School, Wharton School of the University of Pennsylvania	2 / (2)
<b>\$100,000 - \$250,000</b>	25%	29%	Wharton School of the University of Pennsylvania, INSEAD Business School	2 / (1)
<b>\$250,000 - \$750,000</b>	21%	83%	University of Minnesota, Kellogg School of Management of Northwestern University, University of Notre Dame, Harvard Business School, IE Business School	1 / (1)
<b>\$750,000 - \$1,500,000</b>	14%	75%	University of Chicago, Butler University, Columbia University	2 / (1)
<b>\$1,500,000 - \$3,000,000</b>	14%	75%	Tuck School of Business, University of Michigan, University of North Carolina at Chapel Hill	0 / (1)
<b>No Answer</b>	7%	50%	IESE Business School	0 (0)

\* Global MBA Ranking 2020 by the Financial Times

*Source: Data from question no. 36-37 (n=28), and Financial Times MBA Ranking 2020*

## Appendix 10 – Motives of Self-funded Search Fund Principals

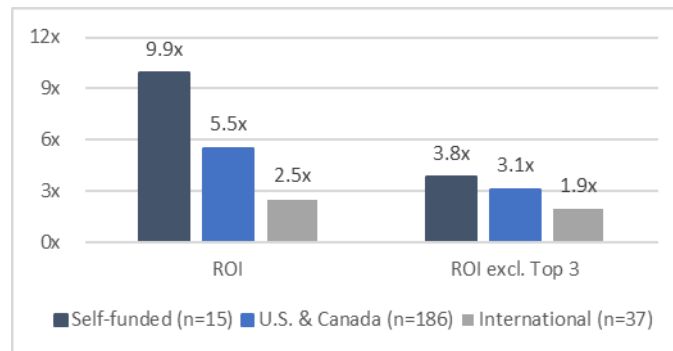
**Figure 19: Main motives of Self-funded Principals**



Source: Data from question no. 29 (n=28)

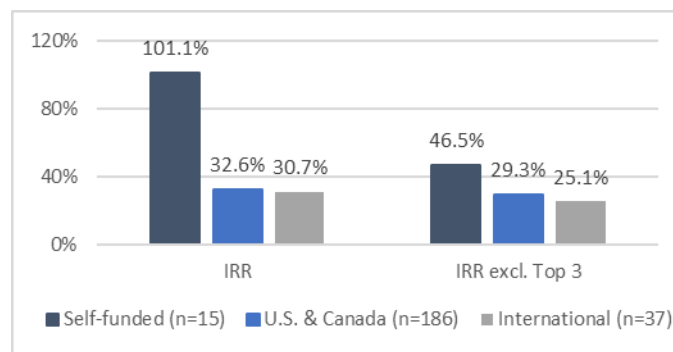
## Appendix 11 – Financial Performance of Self-funded Search Funds

**Figure 20: Aggregate Self-funded Search Fund ROI (incl. only funds that had made acquisitions)**



Source: Data from question no. 29 (n=15), and SGSB and IESE 2020 Search Fund Studies

**Figure 21: Aggregate Self-funded Search Fund IRR (incl. only funds that had made acquisitions)**



Source: Data from question no. 28 (n=15), and SGSB and IESE 2020 Search Fund Studies

## **Appendix 12 – Survey Questionnaire**

### **01 - Introduction and Purpose**

Welcome to this Search Fund Study

Dear Search Fund Entrepreneur,

Thank you very much for taking your time to complete this survey on Search Funds following the (1) traditional and the (2) self-funded Search Fund model. The goal of this thesis is to investigate both models in order to better understand the underlying deal structures, the transaction probabilities and why individuals decide for the one or the other. Your responses will be confidential; they will be compiled and analyzed in aggregate with other responses. The following survey consists of approx. 30 questions and should not take more than 3-5 minutes.

I am Alexander Keil and I am currently in my third semester at the Nova School of Business and Economics. This study will be the basis for my Master's Thesis on Search Funds. I found great interest in this exciting topic and I hope I can create something valuable for the entire Search Fund community and help increase the awareness of this exciting career path and investment class.

If you have any questions or concerns, please contact me via [alexander.keil@novasbe.pt](mailto:alexander.keil@novasbe.pt)

Thank you very much for participating in my survey.

Alexander Keil

## **02 – Motivations for pursuing the self-funded search fund model**

***Q1: Which of the following types of Search Fund models do/did you pursue?***

1. Traditional Search Fund Model
2. Self-funded Search Fund Model

***Q2: What was your main motive to pursue the traditional Search Fund Model?***

1. Not enough savings to pursue self-funded search
2. Less financial risk involved compared to self-funded search
3. Benefit from investor experience during the search phase
4. Other considerations

***Q3: What are the key advantages of a traditional Search Fund compared to a self-funded Search Fund to you?***

Please type in text

***Q4: What are the key disadvantages of a traditional Search Fund compared to a self-funded Search Fund to you?***

Please type in text

***Q5: What was your main motive to pursue a self-funded Search Fund?***

1. Gain a higher percentage of Equity ownership (Favorable Economics)
2. Allow myself to acquire a company close to my home (greater geographic flexibility)
3. More power and flexibility in running the company (one's own Boss)
4. Other considerations

***Q6: What are the key advantages of the self-funded Search Fund model compared to the traditional Search Fund model to you?***

Please type in text

***Q7: What are the key disadvantages of the self-funded Search Fund model compared to the traditional Search Fund model to you?***

Please type in text

### **03 – Search Process**

***Q8: How did you fund your search expenses?***

1. Personal savings
2. Family
3. Friends
4. (Part-time) work
5. Other

***Q9: Did you pursue a geographically focused search (focused on your home city or region e.g. New York City, Southern California)?***

1. Yes
2. No

***Q10: Have you already acquired a company?***

1. Yes
2. No

***Q11: Approximately how long did your search take (from beginning of search to closing of acquisition)?***

Enter number of months

***Q12: Approximately how many months did it take from uncovering the acquisition opportunity to closing the deal?***

Enter number of months

***Q13: How many deals did you have to give up because your investors voted against the deal or were slow in making a decision?***

Enter number of deals

***Q14: How many investors did you have (after the acquisition)?***

1. 1-4 investors
2. 5-8 investors
3. 9-12 investors
4. 13-16 investors
5. 16+ investors

***Q15: Are you still actively searching for an opportunity or did you terminate your Search Fund?***

1. I am still actively searching for an acquisition opportunity
2. I terminated my search fund without an acquisition

***Q16: Approximately how many months did you search until today without closing an acquisition?***

Enter number of months (0-36+)

## 04 – Equity Structure

***Q17: How much Equity could you attain or are you going to vest into?***

Enter Equity ownership (in percent)

***Q18: If you received your Manager's Equity in tranches, could you describe at which events you received them and how much you received at each stage? (e.g. 10% at acquisition, 10% after 4 years, 10% if IRR over certain hurdle rate)***

Enter events and corresponding equity (in percent)

***Q19: How did you finance the acquisition (e.g. 65% SBA, 20% Seller's note, 15% equity)?***

Please enter financing structure

***Q20: What preferred return in percent did you negotiate with your investors?***

Enter preferred return (in percent)

***Q21: What IRR hurdle rate did you negotiate with your investors?***

Enter hurdle rate (in percent)

## 05 – Acquisition Stats

***Q22: Did you acquire a target company in the geographic region you are already living in (e.g. same city, same region)?***

1. Yes
2. No

***Q23: How many months did your fundraising for the acquisition take?***

Enter number of months

***Q24: What was the acquisition price in \$ million?***

Enter acquisition price (in \$ million)

***Q25: What was your target company's EBITDA at acquisition in \$ million?***

Enter EBITDA (in \$ million)

***Q26: Which industry does your acquisition target operate in?***

1. Technology
2. Healthcare
3. Services
4. Transportation & Logistics
5. Human Resources
6. Manufacturing
7. Finance
8. Energy
9. Consumer packaged goods
10. Hospitality
11. Media/Entertainment
12. Real Estate
13. No preference

***Q27: How many years did you operate the acquired company (holding period)?***

Enter holding period in years

***Q28: What internal rate of return (IRR) could you achieve at exit (or estimated as of today if not exited yet, taking the entry multiple on today's EBITDA) for your investors?***

Enter IRR (in percent)



***Q29: What return on investment (ROI) could you achieve at exit (or estimated as of today if not exited yet, taking the entry multiple on today's EBITDA) for your investors?***

Enter return on investment (ROI)

***Q30: How much Equity did you earn at exit in \$ million (or until today based on current valuation)?***

Enter Equity earned (in \$ million)

## **06- Demographics**

***Q31: Are you female or male?***

1. Female
2. Male

***Q32: Would you agree that you grew up in a wealthy family?***

1. Yes
2. No

***Q33: Approximately how much personal wealth (incl. stocks, real estate, cash etc.) did you have when starting your Search Fund?***

1. \$0 – \$100,000
2. \$100,000 – \$250,000
3. \$250,000 – \$750,000
4. \$750,000 – \$1,500,000
5. \$1,500,000 – \$3,000,000
6. I prefer not to say

***Q34: Have you had an outstanding student loan debt when starting your Search Fund?***

1. Yes
2. No
3. I prefer not to say

***Q35: At what age did you start your fundraising (launch your search fund)?***

Enter age at fundraising

***Q36: Did you complete an MBA?***

1. Yes
2. No

***Q37: If you completed an MBA, at which university did you complete your MBA (otherwise leave blank)?***

Enter name of university

***Q38: Approximately how many years did you work after your graduation from an MBA/Masters etc.?***

Enter number of years

***Q39: What is your professional background?***

1. Management Consulting
2. Investment Banking/Finance
3. Private Equity
4. Sales
5. Venture Capital
6. Line/General Management

7. Marketing
8. Law
9. Operations
10. Entrepreneur
11. Accounting
12. Engineering
13. Military
14. Insurance
15. Other

***Q40: Are you pursuing a solo search or together with a business partner?***

1. Solo
2. Partnership

Thank you for completing this questionnaire!

I would like to thank you very much for supporting my thesis project. If you have any questions, please do not hesitate to contact me via [alexander.keil@novasbe.pt](mailto:alexander.keil@novasbe.pt)

## **Appendix 13 – Summary of Survey Questionnaire Results**

### **01 - Introduction and Purpose**

Welcome to this Search Fund Study

Dear Search Fund Entrepreneur,

Thank you very much for taking your time to complete this survey on Search Funds following the (1) traditional and the (2) self-funded Search Fund model. The goal of this thesis is to investigate both models in order to better understand the underlying deal structures, the

transaction probabilities and why individuals decide for the one or the other. Your responses will be confidential; they will be compiled and analyzed in aggregate with other responses. The following survey consists of approx. 30 questions and should not take more than 3-5 minutes.

I am Alexander Keil and I am currently in my third semester at the Nova School of Business and Economics. This study will be the basis for my Master's Thesis on Search Funds. I found great interest in this exciting topic and I hope I can create something valuable for the entire Search Fund community and help increase the awareness of this exciting career path and investment class.

If you have any questions or concerns, please contact me via [alexander.keil@novasbe.pt](mailto:alexander.keil@novasbe.pt)

Thank you very much for participating in my survey.

Alexander Keil

## **02 – Motivations for pursuing the self-funded search fund model**

***Q1: Which of the following types of Search Fund models do/did you pursue?(n=33)***

1. Traditional Search Fund Model (5), 15.2%
2. Self-funded Search Fund Model (28), 84.8%

***Q2: What was your main motive to pursue the traditional Search Fund Model? (n=5)***

1. Not enough savings to pursue self-funded search (2), 20.0%
2. Less financial risk involved compared to self-funded search (4), 40.0%
3. Benefit from investor experience during the search phase (4), 40.0%
4. Other considerations (0), 0.0%

***Q3: What are the key advantages of a traditional Search Fund compared to a self-funded Search Fund to you? (n=5)***

1. Greater ability to support my family during the search phase, access to a knowledgeable Board post-closing.
2. Credibility with buyers and experience of investors for lower mid-cap M&A.
3. On top of the selected ones: potential to buy a larger company, potential to draw salary and valuable local connections.
4. Risk minimization and board recruitment.
5. Investor network, investor feedback on potential deals (pattern recognition), and don't burn savings.

***Q4: What are the key disadvantages of a traditional Search Fund compared to a self-funded Search Fund to you? (n=5)***

1. Lower overall company ownership.
2. Very high IRR hurdle (so need low price and great business) and need buy-in from many people.
3. Less control. If you get investors who are jerks, they might screw you. Plus you can get fired if you undermanage a company.
4. Outsiders who may attempt to wield excess influence or day-to-day.
5. Fundraising is a tedious inefficient process, no flexibility for non traditional search. fund deals (eg. B2C, retail, real estate), economics are skewed in favor of the investors.

***Q5: What was your main motive to pursue a self-funded Search Fund? (n=28)***

1. Gain a higher percentage of Equity ownership (Favorable Economics) (16), 27.1%
2. Allow myself to acquire a company close to my home (greater geographic flexibility) (16), 27.1%
3. More power and flexibility in running the company (one's own Boss) (18), 30.5%
4. Other considerations (9), 15.3%

Others:

1. I'm not a fan of the traditional model. Also, I wanted to keep my options open should a non-acquisition opportunity arise.
2. Didn't have an MBA, many of the name brand investors only invested in MBA grads at that time.
3. Speed of acquisition - I needed to acquire within 6 months.
4. Longer horizon - I didn't want to exit the business in 5 years and then have to find another job, I wanted this to be my last career choice.
5. I had previously raised and executed a funded search and after 2+ years did not close on a deal.
6. Faster than trying to raise capital to conduct the search phase.
7. Less investor oversight and more flexibility.
8. To create a tax advantaged high return on equity investment vehicle for a wide variety of business investing pursuits that leverages off the balance sheet of the first acquisition.
9. Traditional search fund process was not known to me back in 2006 when I started.

***Q6: What are the key advantages of the self-funded Search Fund model compared to the traditional Search Fund model to you? (n=28)***

1. Local search, equity control.
2. higher flexibility, larger financial upside, more independence.
3. More control to search in the Caribbean.
4. I think the advantages are pretty much same as all the motives: more equity and latitude.
5. Flexibility, more reward for similar risk.
6. All of the above, ability to acquire non-traditional businesses, acquire a smaller business, set my own priorities.
7. No being beholden to investors.
8. Flexibility, open search.
9. Flexibility and deal terms.
10. Flexibility, geographical concerns, and holding your core values without influence from Search Fund investors.
11. overall flexibility in the process and higher equity retention with no need for waterfall or hurdles being met.
12. Lower purchase price multiple, greater variability and opportunity with smaller company, no one is your boss.
13. Ability to shape the strategy rather than execute on existing investor strategy; permanent capital mindset, rather than private equity, exit driven mindset.
14. Much more control over your destiny, more flexibility, and the ability to acquire a smaller business and still have a very lucrative financial outcome.
15. Freedom to pursue more types of deals. More control of the company. And much more economic upside.

16. Control, flexibility (both in sourcing and deal structuring), and independence.
17. More flexibility in deal structure to suit the business.
18. Better economics with less investor oversight and more flexibility.
19. Flexibility both in terms of geography and types of businesses which don't normally fit the traditional model.
20. Far better equity terms and autonomy.
21. I can be as laser focused on industry, company size, and geographic location as I want to be. I also "own" my company (at least 80%) of it, and do not have to ask a board of directors (investors) for permission on how to run "my" company. Also, I grow the company and walk away with 80% of the selling price, not 15%.
22. I had no interest in being an indentured servant for investors.
23. Higher equity and control. I didn't want to be responsible for other people's money.
24. More ownership, control over growth, more equity/upside.
25. 100% Ownership, increased autonomy and no need to report to shareholders.
26. Timeline flexibility, can be creative.
27. No pressure, can wait for the right deals.
28. the ones you listed in Q2 are all good.

***Q7: What are the key disadvantages of the self-funded Search Fund model compared to the traditional Search Fund model to you? (n=28)***

1. No funding.
2. less credibility with owners and brokers, higher risk, drawdown of savings to finance search phase.
3. Sometimes I am forced to take consulting work to pay the bills which takes time away from the search.



4. If you are self-funded that might mean that you don't have as many people advising you.
5. Significant pressure to close before running out of funds.
6. No salary, no one to keep you accountable and no one to bounce ideas off of regularly.
7. Not getting a pay check while searching.
8. no investors committed.
9. Harder to develop and maintain networks within the larger community.
10. Funding sources are limited because traditional search investors typically don't consider self-funded searchers, and non-traditional investors are not always familiar with search fund model.
11. less resources, less senior guidance during negotiation process and operating.
12. Additional funding rounds can be challenging if you need it, less sophisticated sellers/brokers mean diligence can be more challenging.
13. Often traditional searchers buy smaller businesses - that is a huge disadvantage.
14. lack of committed equity, lack of committed advisors (during search and after acquisition), personal guarantee of debt.
15. Much higher personal financial risk.
16. No salary during the search, cost and risk of searching, likely need to target smaller deals.
17. Harder to convince brokers/vendors you are a serious buyer.
18. Can be more difficult to pursue large deals if lacking investor network.
19. Having committed equity partners behind you.
20. No funding during your search (i.e. limited runway).

21. I have to target smaller (sub \$5M) companies so that the equity injection is doable with a single investor.
22. You have to have money and positive net worth.
23. Had to do it part time while working full time.
24. personal financial risk and not having mentors/advisors.
25. Working capital needs / having to acquire smaller and with
26. Loss of negotiation power, resource crunch.
27. If you have a deal which is a stretch for you financially and you're depending on friends and family to bridge the gap then the inevitable ups and downs of the deal process also adds strain to those relationships.
28. I took on all the business risk.

### **03 – Search Process**

#### ***Q8: How did you fund your search expenses? (n=28)***

1. Personal savings (24), 66.7%
2. Family (0), 0.0%
3. Friends (0), 0.0%
4. (Part-time) work (6), 16.7%
5. Other (6), 16.7%

Other:

1. some loans.
2. found very good legal & accounting vendors there were okay with 20% payment along the way and the nets owed were financed through closing cost allocation from lender into the loan.
3. No expenses, searched while working full-time.

4. Work full time.
5. Debt.
6. My other businesses.

***Q9: Did you pursue a geographically focused search (focused on your home city or region e.g. New York City, Southern California)? (n=28)***

1. Yes (20), 71.4%
2. No (8), 28.6%

***Q10: Have you already acquired a company? (n=28)***

1. Yes (15), 53.6%
2. No (13), 46.4%

***Q11: Approximately how long did your search take (from beginning of search to closing of acquisition)? (n=15)***

Minimum: 3  
Maximum: 36  
Median: 9  
Average: 13.4

***Q12: Approximately how many months did it take from uncovering the acquisition opportunity to closing the deal? (n=15)***

Minimum: 3  
Maximum: 24  
Median: 6

Average: 6.8

***Q13: How many deals did you have to give up because your investors voted against the deal or were slow in making a decision? (n=28)***

1. None: (27), 96.4%
2. Two deals: (1), 3.6%

***Q14: How many investors did you have (after the acquisition)? (n=15)***

1. 0 investors (13), 86.7%
2. 2 investors (2), 13.3%

***Q15: Are you still actively searching for an opportunity or did you terminate your Search Fund? (n=13)***

1. I am still actively searching for an acquisition opportunity (13), 100.0%
2. I terminated my search fund without an acquisition (0), 0.0%

***Q16: Approximately how many months did you search until today without closing an acquisition? (n=13)***

Minimum: 2

Maximum: 24

Median: 6

Average: 8.4

#### 04 – Equity Structure

***Q17: How much Equity could you attain or are you going to vest into? (n=15)***

Minimum: 30.0%

Maximum: 100.0%

Median: 87.6%

Average: 77.2%

***Q18: If you received your Manager's Equity in tranches, could you describe at which events you received them and how much you received at each stage? (e.g. 10% at acquisition, 10% after 4 years, 10% if IRR over certain hurdle rate) (n=15)***

1. All at the outset (15)

***Q19: How did you finance the acquisition (e.g. 65% SBA, 20% Seller's note, 15% equity)? (n=15)***

	Debt	Equity
Minimum:	69.0%	4.0%
Maximum:	96.0%	31.0%
Median:	80.0%	20.0%
Average:	81.0%	19.0%

***Q20: What preferred return in percent did you negotiate with your investors? (n=15)***

1. N/A (10)
2. 7% (1)
3. 15% (1)

4. 8% (1)
5. 10% (1)
6. 20% (1)

***Q21: What IRR hurdle rate did you negotiate with your investors? (n=15)***

1. N/a (10), 66.7%
2. no outside investors (1), 6.7%
3. NA, common shares (1), 6.7%
4. None (1), 6.7%
5. 25-30+% (1), 6.7%
6. 10 (1), 6.7%

## **05 – Acquisition Stats**

***Q22: Did you acquire a target company in the geographic region you are already living in (e.g. same city, same region)? (n=15)***

1. Yes (14), 93.3%
2. No (1), 6.7%

***Q23: How many months did your fundraising for the acquisition take? (n=15)***

Minimum: 0

Maximum: 6

Median: 2

Average: 2.61

***Q24: What was the acquisition price in million USD? (n=15)***

Minimum: \$700,000  
Maximum: \$12,500,000  
Median: \$1,600,000  
Average: \$3,300,000

***Q25: What was your target company's EBITDA at acquisition? (n=15)***

Minimum: \$220,000  
Maximum: \$3,750,000  
Median: \$500,000  
Average: \$935,000

***Q26: Which industry does your acquisition target operate in? (n=15)***

1. Technology (3), 20.0%
2. Healthcare (2), 13.3%
3. Services (6), 40.0%
4. Transportation & Logistics (0), 0.0%
5. Human Resources (0), 0.0%
6. Manufacturing (2), 13.3%
7. Finance (0), 0.0%
8. Energy (0), 0.0%
9. Consumer packaged goods (0), 0.0%
10. Hospitality (0), 0.0%
11. Media/Entertainment (0), 0.0%

12. Real Estate (0), 0.0%

13. No preference (2), 13.3%

***Q27: How many years did you operate the acquired company (holding period)? (n=15)***

Minimum: 0.5 years

Maximum: 7 years

Median: 2.8 years

Average: 2.9

***Q28: What internal rate of return (IRR) could you achieve at exit (or estimated as of today if not exited yet, taking the entry multiple on today's EBITDA) for your investors? (n=15)***

	<i>All Funds</i>	<i>excl. Top 3</i>
Minimum:	29%	29%
Maximum:	300%	70%
Average:	101%	46.5%

***Q29: What return on investment (ROI) could you achieve at exit (or estimated as of today if not exited yet, taking the entry multiple on today's EBITDA) for your investors? (n=15)***

	<i>All Funds</i>	<i>excl. Top 3</i>
Minimum:	3.0x	3.0x
Maximum:	22.0x	4.5x
Average:	9.9x	3.75x



***Q30: How much Equity did you earn at exit (or until today based on current valuation)?***

***(n=15)***

1. N/A (11)
2. 75%; dollar amount depends on if we do or dont count remaining debt today (1)
3. \$5,000,000 (1)
4. 35% (1)
5. 51% - 100% depending (1)

## **06- Demographics**

***Q31: Are you female or male? (n=28)***

1. Female (0), 0.0%
2. Male (28), 100.0%

***Q32: Would you agree that you grew up in a wealthy family? (n=28)***

1. Yes (9), 32.1%
2. No (19), 67.9%

***Q33: Approximately how much personal wealth (incl. stocks, real estate, cash etc.) did you have when starting your Search Fund? (n=28)***

1. \$0 – \$100,000 (5), 17.9%
2. \$100,000 – \$250,000 (7), 25.0%
3. \$250,000 – \$750,000 (6), 21.4%
4. \$750,000 – \$1,500,000 (4), 14.3%
5. \$1,500,000 – \$3,000,000 (4), 14.3%
6. I prefer not to say (2), 7.2%

***Q34: Have you had an outstanding student loan debt when starting your Search Fund?***

***(n=28)***

1. Yes (6), 21.4%
2. No (21), 75.0%
3. I prefer not to say (1), 3.6%

***Q35: At what age did you start your fundraising (launch your search fund)? (n=28)***

Minimum: 24

Maximum: 51

Median: 33

Average: 34

***Q36: Did you complete an MBA? (n=28)***

1. Yes (18), 64.3%
2. No (10), 35.7%

***Q37: If you completed an MBA, at which university did you complete your MBA (otherwise leave blank)? (n=18)***

1. Harvard/HBS (2), 11.1%
2. INSEAD (1), 5.6%
3. IE Business School (1), 5.6%
4. Columbia (1), 5.6%
5. University of North Carolina at Chapel Hill (1), 5.6%
6. Wharton School (Univ. of Pennsylvania) (2), 11.1%
7. University of Michigan (1), 5.6%

8. IESE (1), 5.6%
9. Tuck (1), 5.6%
10. University of Notre Dame (1), 5.6%
11. SMU (1), 5.6%
12. Kellogg (1), 5.6%
13. Butler university (1), 5.6%
14. Washington University in St. Louis Olin School of Business (1), 5.6%
15. University of Minnesota (1), 5.6%
16. University of Chicago (1), 5.6%

***Q38: Approximately how many years did you work after your graduation from an MBA/Masters etc.? (n=28)***

Minimum: 0

Maximum: 19

Median: 4

Average: 4.5

***Q39: What is your professional background? (n=28)***

1. Management Consulting (5), 17.9%
2. Investment Banking/Finance (6), 21.4%
3. Private Equity (3), 10.7%
4. Sales (0), 0.0%
5. Venture Capital (0), 0.0%
6. Line/General Management (1), 3.6%
7. Marketing (1), 3.6%

8. Law (1), 3.6%
9. Operations (0), 0.0%
10. Entrepreneur (1), 3.6%
11. Accounting (0), 0.0%
12. Engineering (2), 7.1%
13. Military (5), 17.9%
14. Insurance (0), 0.0%
15. Other (3), 10.7%

***Q40: Are you pursuing a solo search or together with a business partner? (n=28)***

1. Solo (18), 64.3%
2. Partnership (10), 35.7%