

# International Search Funds – 2018

## Selected Observations

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### Abstract

This note is a biannual study completed by IESE Business School on search funds that were formed outside the United States and Canada. It was undertaken in partnership with the Stanford Graduate School of Business and uses a quantitative, survey-based research method in order to gain insight on the financial returns and important characteristics of all known international search funds, including the qualities of search fund entrepreneurs. The study targeted all known search funds outside of the United States and Canada, in close coordination with the Stanford study, with data drawn from 83 first-time search funds. The sample set is diverse, with international searchers in 22 countries on four continents.

**Keywords:** International Search Funds; Entrepreneurial Acquisition; Entrepreneurial Finance

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## Introduction

In 2011 IESE Business School (IESE), in collaboration with the Stanford Graduate School of Business (GSB), began to identify and track international search funds.<sup>1</sup> This note is the fourth note to be published by IESE, which plans to update it biannually in concert with [Stanford's note on search funds](#).<sup>2</sup>

By using a quantitative, survey-based research method this note provides insights into the evolving characteristics of all known international search funds,<sup>3</sup> including changes in the characteristics of search fund entrepreneurs.<sup>4</sup>

The principals tracked in this study are from diverse locations, and in order to convey their varied experiences Appendix presents qualitative observations based on a series of interviews with entrepreneurs from the international search fund community.

The term “search fund” originated at Harvard Business School in 1984, was popularized at Stanford GSB in the following 10 years, and has become increasingly well-known at business schools and among private investors around the world, initially in the United States and increasingly in Europe, Latin America and other regions.

In brief, search funds offer entrepreneurs the opportunity to become equity-owning business operators before they have accumulated the capital or experience often required to buy or lead a company. For investors, the asset class is a stage-based investment: first in an entrepreneur and next in the acquisition of an existing business. The life cycle of a search fund can be reduced to four stages: (1) raising a search fund, i.e., a pool of capital from a group of involved investors backing the searcher(s) to find a company to acquire; (2) search and acquisition, usually one to three years during which the searcher(s) locate and acquire an operating business; (3) operation, the longest stage, during which the searcher(s) lead and grow the business; and (4) exit, at which point the searcher(s) and investors achieve liquidity by various means. For detailed background information on the search fund asset class, see the Stanford GSB Center for Entrepreneurial Studies (CES) [Search Fund Primer](#).<sup>5</sup>

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<sup>1</sup> “International” in this use means outside the United States and Canada.

<sup>2</sup> For more information on Stanford's research in the United States and Canada, which has tracked more than 325 search funds formed since 1983, see [http://www.gsb.stanford.edu/ces/resources/search\\_funds.html](http://www.gsb.stanford.edu/ces/resources/search_funds.html).

<sup>3</sup> “Known search funds” refers to those of which IESE is aware. Despite the broad network of search fund principals, investors, and advisors that share searcher data with IESE, it is possible that search funds have existed or do exist that are not known to IESE.

<sup>4</sup> The data in this study is reported as of December 31, 2017.

<sup>5</sup> For a comprehensive description of the search and acquisition process, readers may obtain the *Search Fund Primer* from Stanford GSB's Center for Entrepreneurial Studies (CES): <http://www.gsb.stanford.edu/faculty-research/centers-initiatives/ces/research/search-funds/primer>.



## International Search Fund Asset Class

This study draws on data from 83 first-time search funds, the earliest of which was formed in 1992. It only considers first-time search funds, excluding self-funded searches, second-time search funds and single-sponsor searches since those imply different skill sets, capital and external requirements.

Each search fund principal, or pair of principals, was asked to complete a standardized, electronically distributed survey that included questions about their personal background and professional profile. They were also asked about their fundraising, geographic focus, target industries and company characteristics of their search fund. Searchers that completed an acquisition were asked about purchase and operational metrics, and those that had achieved liquidity or operated for more than a year were asked about the returns or valuation (and implied return).

Although every effort was made to contact and collect information from every known search fund outside the United States and Canada, readers are cautioned that some were likely not included, and as this study is repeated additional searches may be added to the sample set, possibly affecting the information presented.<sup>6</sup>

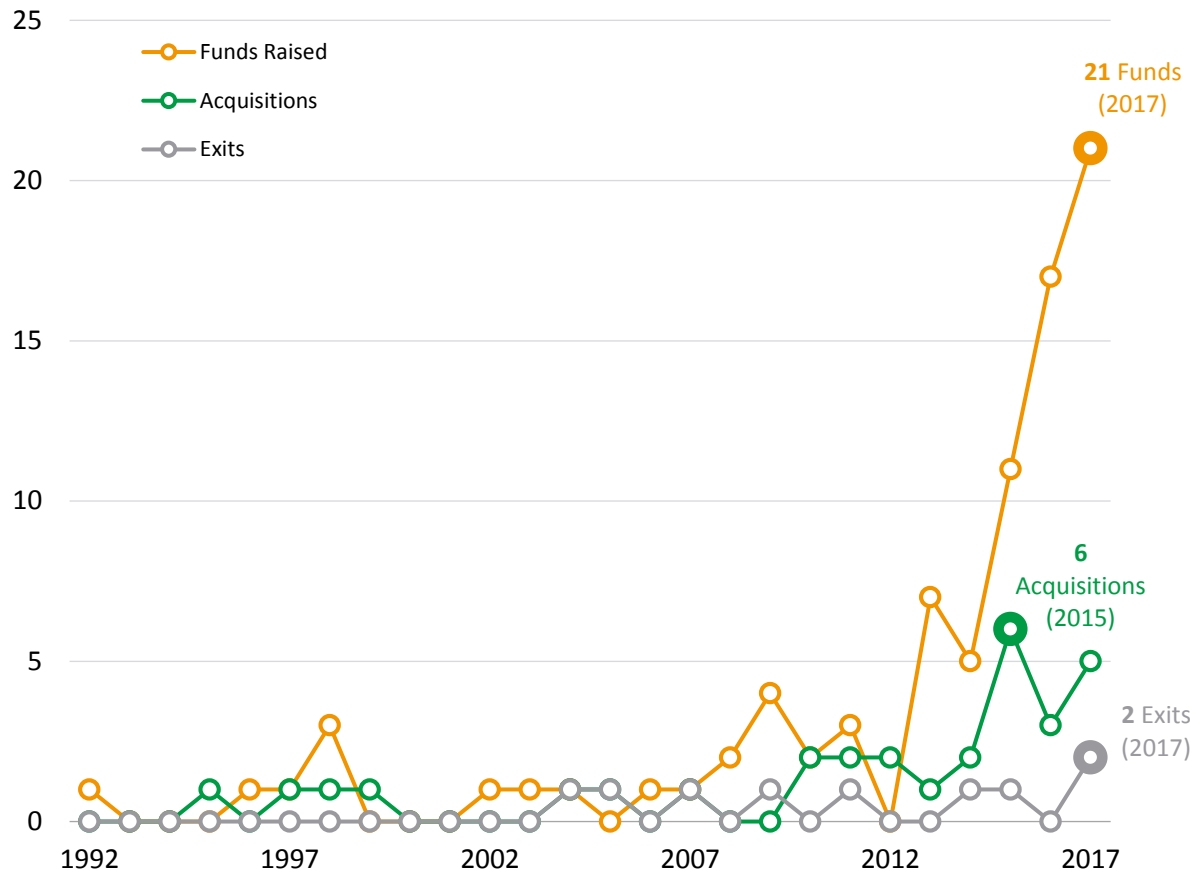
As Figure 1 demonstrates, search fund activity outside the United States and Canada has increased steadily. More search funds have been raised in recent years than in the past, with 2017 reaching a peak level of fund activity with 21 new international search funds raised. There were also five new acquisitions in 2017. Six new acquisitions were noted in the first half of 2018 but not included in this study for consistency. Few exits have occurred in any given year, a result of the relatively recent emergence of the search fund model and the four to 10-year lag between acquisition and exit. As funds mature, more will exit.

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<sup>6</sup> This study includes information for unresponsive funds when it was possible to collect information from their investors.



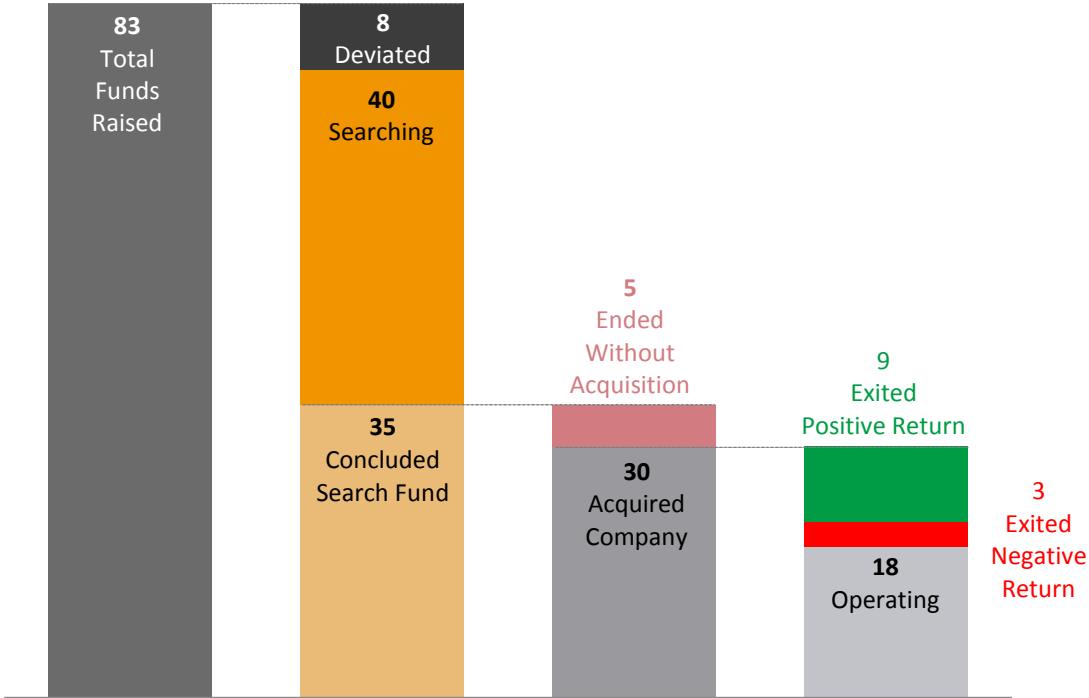
**Figure 1**  
**International search fund activity by year**



Source: Prepared by the authors based on IESE search funds surveys.

As of year-end 2017, 40 search funds were either searching for an acquisition or fundraising for a planned acquisition. Of the 43 others, 30 had acquired a company, five had ended their search without an acquisition and eight had deviated from the search fund model. Of those 30 who had acquired a company, 18 were operating the company, nine had acquired and exited a business for a positive return to investors and three had acquired and exited the company with a full loss of investors' capital. These findings are summarized in Figure 2. New funds and additional acquisitions have been noted in 2018 but not included in this study for consistency.

**Figure 2**  
**International search fund activity by status**



Source: Prepared by the authors based on IESE search funds surveys.

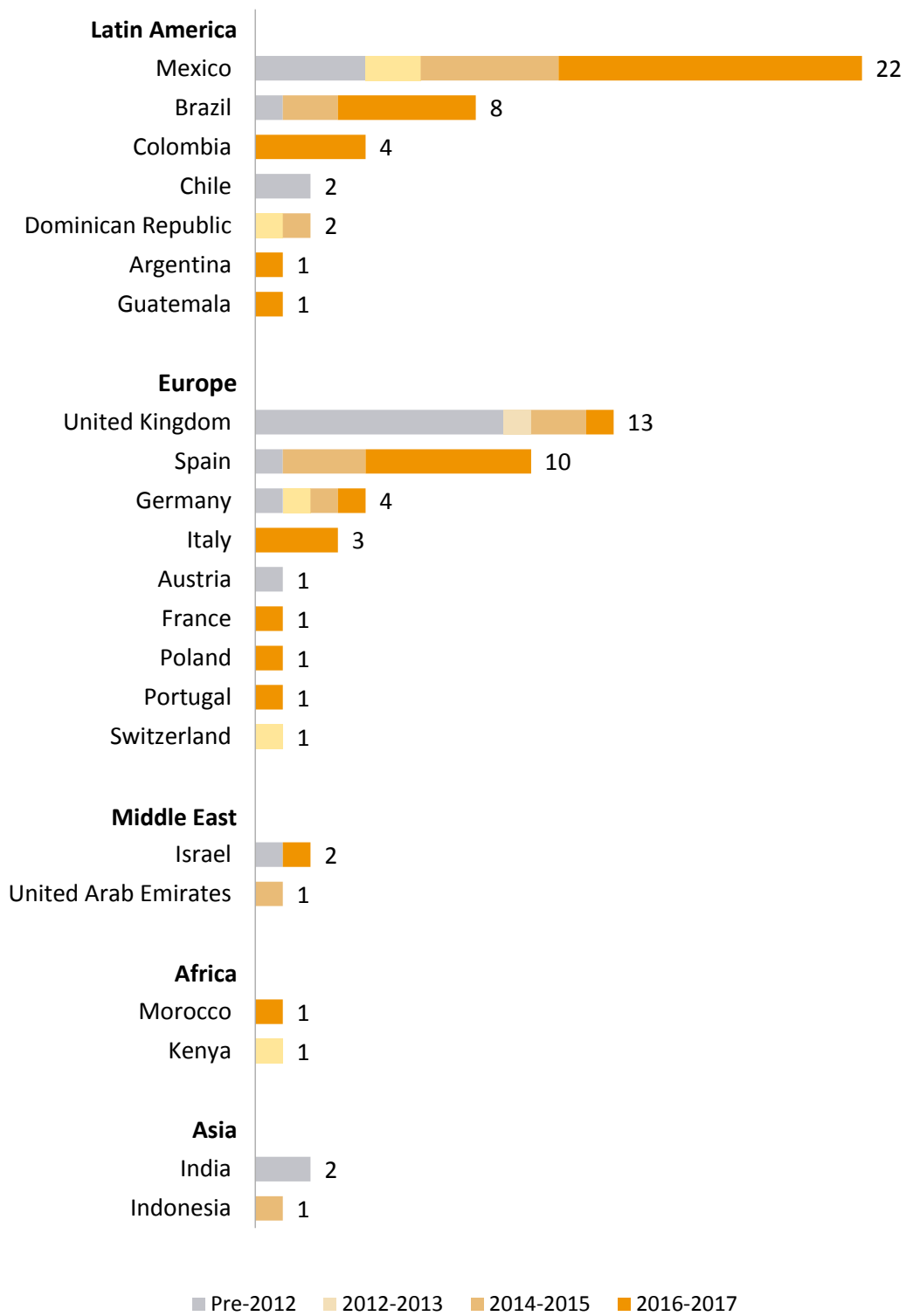
The sample set in this study is diverse, with international searchers in 22 countries on four continents. While international search funds were first formed in the United Kingdom, beginning in 2003 search funds were also formed in Latin America, Europe, Africa and Asia. In 2016 and 2017 search funds were formed in eight new countries.

Of the 83 international search funds formed as of December 31, 2017, 13 were located in the United Kingdom, 22 in Continental Europe, 22 in Mexico, 18 in the rest of Latin America, three in Asia, three in the Middle East and two in Africa,<sup>7</sup> as displayed in Figure 3.

<sup>7</sup> In the first half of 2018, additional search funds were formed in Argentina, Brazil, Germany, Mexico, Spain and the United Kingdom. These funds were not included in this study for consistency.



**Figure 3**  
**International search funds by region, country and year of formation**



Source: Prepared by the authors based on IESE search funds surveys.



## Principals' Backgrounds

International search fund principals are diverse in several ways, with the youngest 26 years of age and the oldest 43. Consistent with early search funds, most principals (90%) graduated from an MBA program, with 73% raising their search fund within two years of graduation. Not surprisingly since the model originated in the United States, 69% of principals who completed an MBA graduated from a U.S. business school, although the proportion from non-U.S. business schools in recent years is much higher. (See **Exhibit 1** for additional reporting on principals' backgrounds.)

Part of the appeal of the search fund model is that successful searchers can come from an array of pre-professional backgrounds and, as noted in the Appendix, many investors do not prefer any particular background. Individuals with either an investment banking or private equity background represent 42% of search fund principals who formed funds in 2016 and 2017. Management consulting represented the next most common professional background for searchers. (See **Exhibit 2** for additional reporting on principals' professional background.)

## Fundraising and Search

Partnerships formed 45% of all international search funds, the same proportion as in the United States during the last two years. Most of the searchers interviewed decided to search with a partner for various reasons – e.g., wanting a complementary professional background, searching more efficiently with two principals instead of one, or simply having a partner on what is often described as a “lonely” journey.

Fundraising metrics varied widely across the sample of all international search funds. In the last two years, the median amount raised *per principal* (rather than per fund) was \$317,500.<sup>8</sup> The smallest amount raised per fund was \$300,000 and the largest was \$650,000, explained in part by dual-searcher funds needing to cover two salaries and in part by lower searching costs in emerging countries, where more funds have been raised lately and where searchers tend to raise smaller funds. In 2016 and 2017, the median number of search fund investors per fund rose to 17, and the median number of months to raise a fund remained between four and five. (See **Exhibit 3** for additional comparison of search fund metrics.)

International searchers generally described themselves as “opportunistic” in their search process but did exhibit some industry preferences. Healthcare was generally a popular industry theme, with 68% of all international searchers stating that healthcare was a priority industry. After healthcare, Internet/information technology (IT), transportation and logistics, business services and finance represented the most targeted industries in recent years. This year's survey showed a large drop in preferences for business services and an increase in interest in transportation and logistics and finance. Given the proliferation and diversification of technology companies over the last decade, the two most recent studies break down the technology category further to provide a detailed view of how searchers are evaluating this sector. (See **Exhibit 4** and **Exhibit 5** for details on industries targeted by searchers, including a refined technology category.)

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<sup>8</sup> All financial information presented in this study has been converted to U.S. dollars using the historic conversion rate as quoted by XE. USD was chosen for two reasons: (1) the euro was not in circulation for search funds raised prior to 2002 and (2) many search funds, although located outside the United States, are also reported in USD since many of their investors are in the United States.



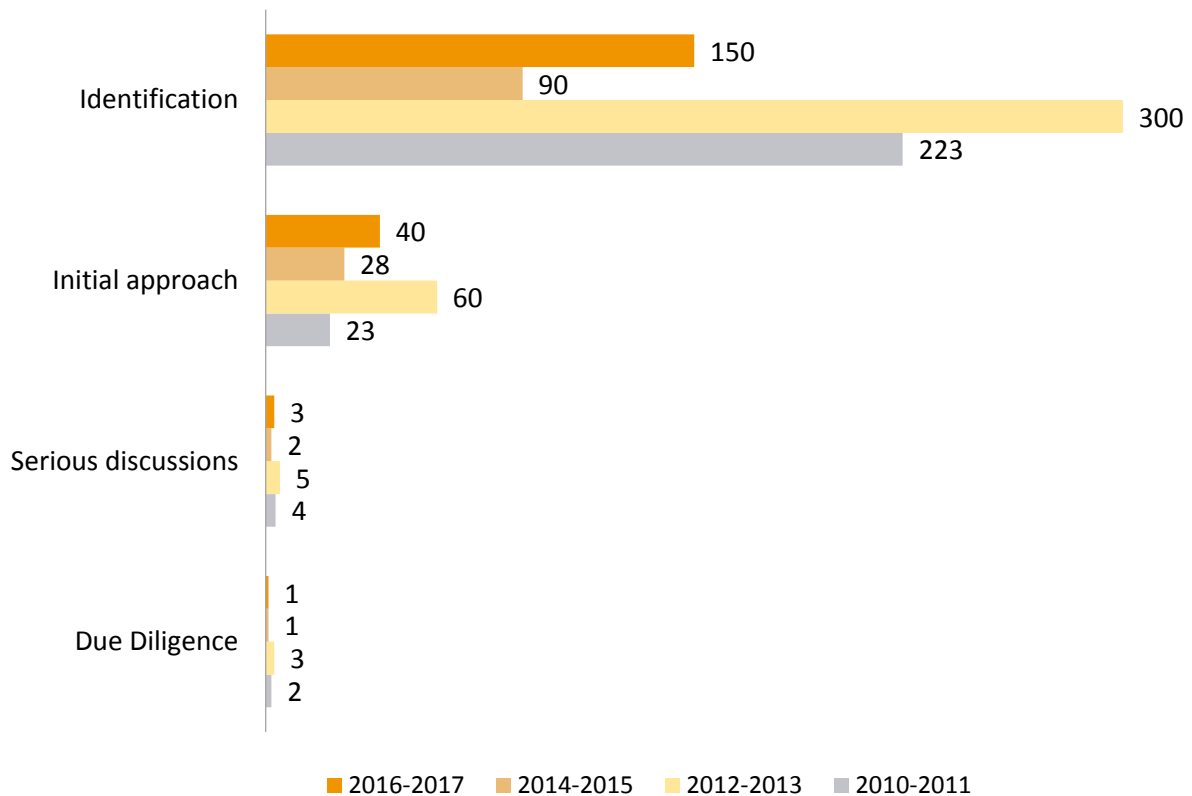
Of 40 qualified current searchers surveyed, the 2018 study collected salary data for 35, or 87.5%. The range of searcher salary was between \$60,000 and \$114,000 in Latin America, with a median salary of \$95,000. In Europe, the range of searcher salary was between \$41,000 and \$97,000, with a median salary of \$84,000. The median searcher salary in the Middle East and Africa equaled \$73,000. For the U.S. and Canadian search funds profiled in Stanford GSB’s 2018 Search Fund Study, the range of searcher salary was between \$30,000 and \$145,000, with a median salary of \$108,000.

### Acquiring a Company

Search funds, both international and those in the United States and Canada, often include recurring revenue, high EBITDA margins and stable cash flow history in their investment criteria. In a sample of offering memoranda reviewed by the research team, nearly all mentioned these acquisition characteristics.

As shown in Figure 4 (below), the median number of companies reviewed before a successful acquisition totaled 150 in 2016-2017. This is lower than the median number of companies considered by U.S. and Canadian search funds.

**Figure 4**  
**Acquisition funnel of successful acquisitions: 2011, 2013, 2015 and 2017**



Source: Prepared by the authors based on IESE search funds surveys.

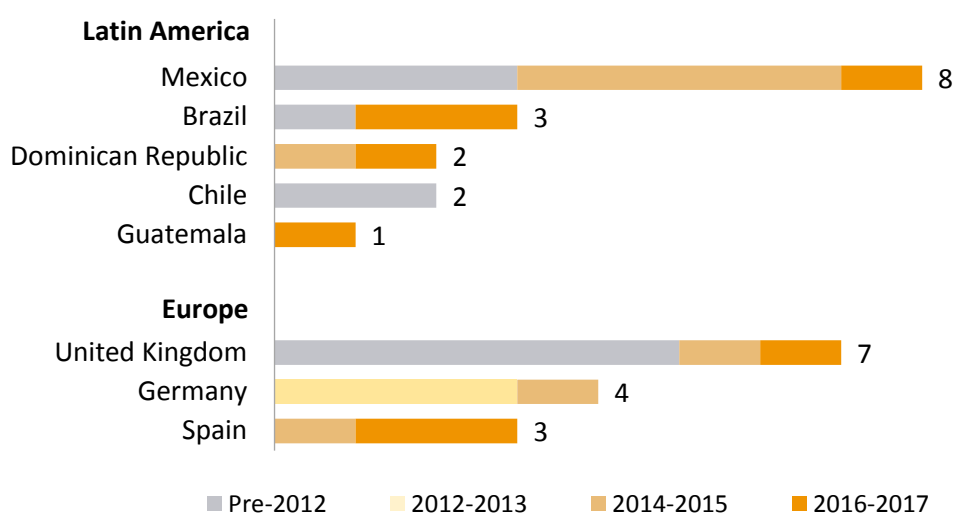




Proprietary search remains the predominant source of deal flow, which typically involves contacting businesses directly to learn whether they may be acquisition candidates. Brokers and investment banks also serve as a reliable source of deal flow for international searchers.

There have been 30 acquisitions made outside the United States and Canada through the search fund model to date (of the 83 search funds tracked by IESE, versus 325 known U.S. and Canadian search funds tracked by Stanford GSB with 160 acquisitions). Of these 30 acquisitions, 16 were made in Latin America and 14 in Europe.<sup>9</sup> A detailed geographic split is shown in Figure 5.

**Figure 5**  
**International search fund acquisitions by region, country and year**



Source: Prepared by the authors based on IESE search funds surveys.

Most international search fund acquisitions were made in the services sector, followed by healthcare and Internet/information technology (IT). In 2016 and 2017, the majority of acquisitions was in the manufacturing and transportation and logistics sectors. (See **Exhibit 6** for distribution of industries across all international search fund acquisitions.)

Of these 30 acquisitions, nine were sold with a positive return on investor capital, 18 are currently operating and three were exited with a full loss of equity. Of those that successfully completed an acquisition, 17% were purchased for less than \$4 million, 31% for \$4 million to \$8 million, 14% for \$8 million to \$12 million and 38% for \$12 million or more. The median international search fund acquisition had the following characteristics at purchase: purchase price of \$9.3 million, \$8.0 million in revenues, EBITDA margin of 20%, a purchase price to EBITDA multiple of 4.9x, trailing annual revenue growth rate of 10%, trailing annual EBITDA growth rate of 10% and 71 employees. In comparison, the median U.S. and Canadian acquisition profiled in Stanford GSB's 2018 Search Fund Study had a purchase price of \$11.6 million, revenues at purchase of \$8.0 million, EBITDA margin of 23%, a purchase price multiple of 6.0x EBITDA, trailing annual revenue growth rate of

<sup>9</sup> In the first half of 2018, there were four new acquisitions in Mexico, one new acquisition in Brazil and one new acquisition in Spain. These acquisitions were not included in this study for consistency.



10%, trailing annual EBITDA growth rate of 11% and 49 employees. (See **Exhibit 7** and **Exhibit 8** for more international search fund acquisition statistics.)

Additionally, and perhaps due to the earlier stage of some industries in various geographic regions, searchers who fail to find suitable acquisitions in especially attractive targeted industries will occasionally begin a startup in that sector with the agreement and support of their search fund investors. Even though most search investors discourage entrepreneurs from using a search fund to begin a startup, several search fund investors have participated in startups in existing industries using business models adapted from other countries (such as, but not exclusively, from the U.S.) and under terms similar to the traditional search fund model. Indeed, of the eight searchers that deviated from the search fund model, five founded startups with the backing of their search investors. Again, because of the limited sample set, readers are cautioned against drawing conclusions concerning a typical international search fund acquisition.

## Financial Performance

This study calculated financial returns from the perspective of investors of *initial search capital*, that is, it measured returns based on investments from and distributions to the *original search fund investors* who invested *in both the search and acquisition phases* of the fund. Two measures of return were used: return on investment (ROI)<sup>10</sup> and internal rate of return (IRR).<sup>11</sup> Both ROI and IRR were calculated on a cash flow basis, including both equity and investor debt that was invested as initial search capital and as acquisition capital. Unsuccessful searches were included, along with both operating and exited companies. All returns were calculated on a pre-tax basis using data provided by the principals of the funds or by their search fund investors.

Of the 35 funds eligible (i.e., that had raised a search fund and either acquired a company or ended without an acquisition), 28 were included in the calculations of returns.<sup>12</sup> This number includes five unsuccessful searches and 23 search funds that completed acquisitions. The calculation of enterprise value was straightforward for the 15 terminal funds<sup>13</sup> included; the capital table as of the terminal event (e.g., exit, sale, recapitalization, etc.) was applied. For the remaining 13 operating companies, the enterprise value as of December 31, 2017 was based on principals' reported market value.<sup>14</sup>

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<sup>10</sup> Return on investment (ROI) represents the multiple of initial cash invested that is returned to investors (also known as MOIC) – i.e., if the group of initial investors invested \$5 million and received back \$10 million, this would be described as a 2.0x ROI. A return of \$1 million would be a 0.2x ROI and so forth. A complete loss of capital is an ROI of 0.0x.

<sup>11</sup> Internal rate of return (IRR) represents the annual compounding rate derived from the adjusted dates and actual amounts of search and acquisition capital invested and returned by an investment. For investments returning nothing, or only a fraction of the investors' original investment, IRR is not a meaningful metric.

<sup>12</sup> Five funds were removed from the sample because the principals had operated the acquisition for less than one year, one terminal fund resulting in a total loss of equity was removed due to insufficient data and one terminal fund resulting in a positive return was removed due to insufficient data from the principal. The impact of removing these older funds increases returns slightly, but not significantly.

<sup>13</sup> "Terminal" search funds are those that had ended the search or acquired and exited a business with a positive or negative return to investors.

<sup>14</sup> The estimation of enterprise value is an independent estimation of value based on recent equity transactions, comparable company transactions, or a third party valuation.



For conservatism, for acquired companies still being managed by the searchers we assumed that all of the searchers' share of equity had fully vested,<sup>15</sup> all external debt was repaid and funds were distributed in proportion to the investors' share of equity and subordinated debt.

While we have made every effort to provide accurate returns, it is important to note that information received for fund contributions and distributions may have been imprecise, especially for funds with long operating histories and complex capital structures. In addition, given that there have only been nine exits with a positive return by international search fund entrepreneurs as of December 2017 and three cases of companies failing, it is too early to draw firm conclusions about the financial performance of the international search fund asset class. Readers should keep this in mind when considering the ROI and IRR figures presented in this study.

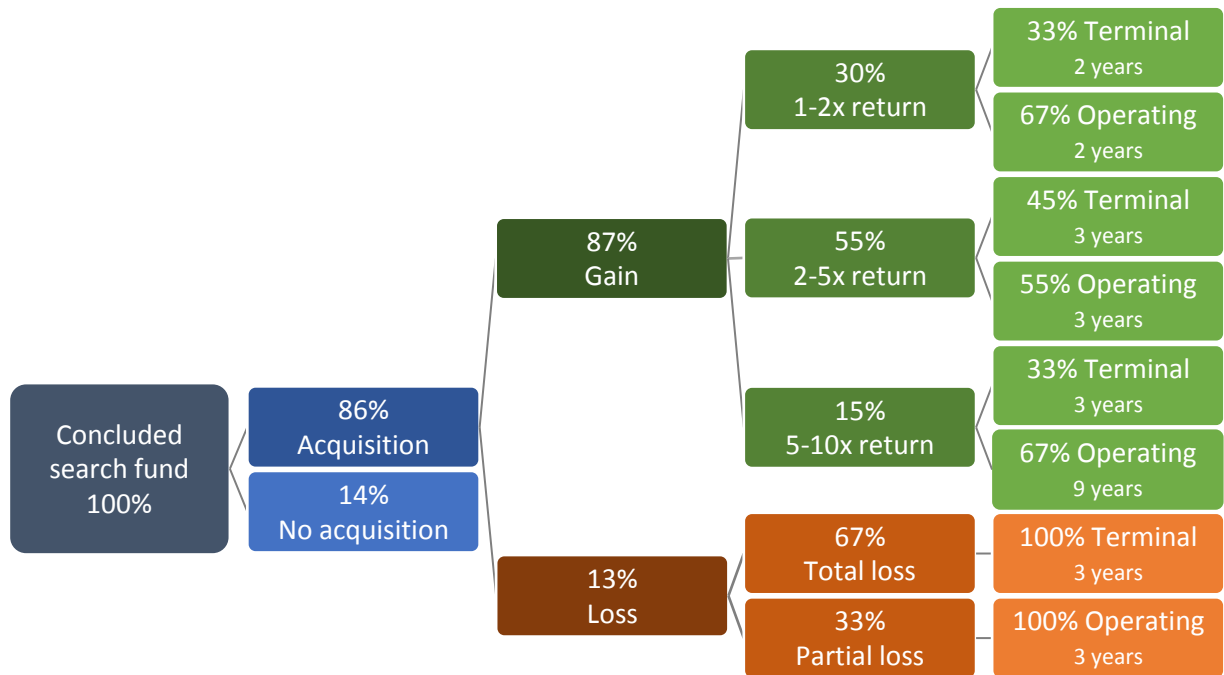
As an asset class, international search funds have achieved an ROI of 2.3x and an IRR of 33.3%. The median fund returned 2.0x of initial search fund investors' capital, whereas the top-performing fund returned 9.2x. The overall asset class ROI declined from 2.8x in 2016 to 2.3x in 2018. This reflects a shorter average hold time due in part to the greater number of recent acquisitions that have not reached a terminal event (sale, recap, etc.), as well as shorter hold times for some realized exits. We have included several older funds for which we had insufficient information in previous studies.

The performance of individual international search funds has varied widely. Figure 6 (below) reflects the percentage of search funds in each phase of the search fund cycle, as well as their return characteristics. We have included the percentage of terminal and operating companies, their return characteristics and median hold times. For example, the top box in the right-hand column indicates that 33% of companies in the "1-2x return" category are terminal and that the median holding time for all companies in that group was two years. (See **Exhibit 9** for a distribution of international search funds by ROI and **Exhibit 10** for a histogram by IRR.)

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<sup>15</sup> This results in a more conservative IRR to investors since funds typically include both time-based vesting and performance hurdle rates which must be exceeded before the searchers vest at least a portion of their equity. Also, most investments in the search phase include downside protection for investors in the form of preferred returns or a liquidity preference.

**Figure 6**  
**Percentage of international search funds in each phase of the search fund life cycle<sup>16</sup>**



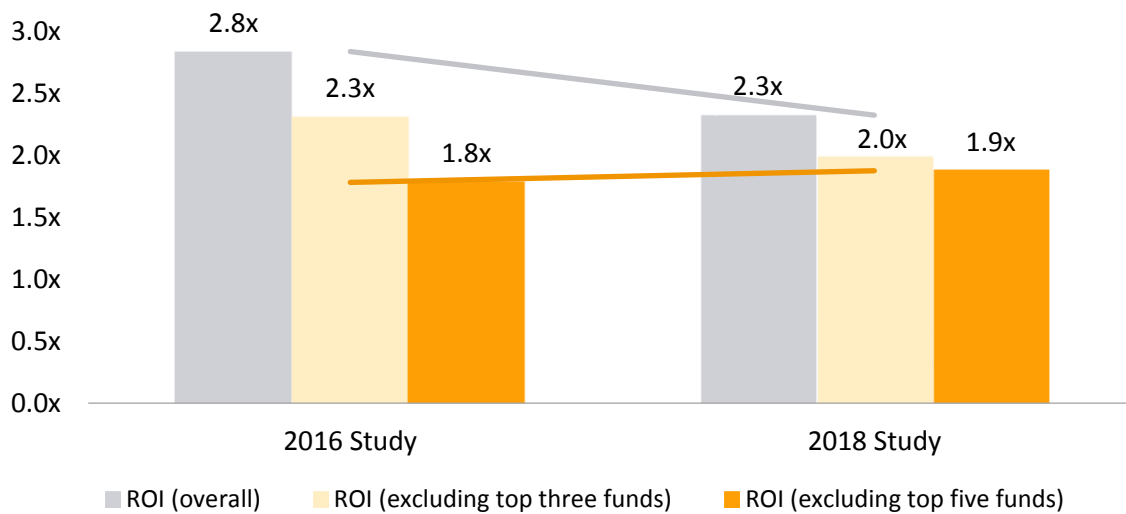
Source: Prepared by the authors based on IESE search funds surveys.

A small number of highly successful search funds positively affect the aggregate returns, as with other forms of risk capital and entrepreneurship. Figure 7 and Figure 8 (below) show adjusted returns when the top three and five performers are removed.<sup>17</sup>

<sup>16</sup> This chart does not reflect information for two companies that did not report sufficient financial information for inclusion. Similarly, it does not include information for five companies that had been operating for less than one year as of December 31, 2017.

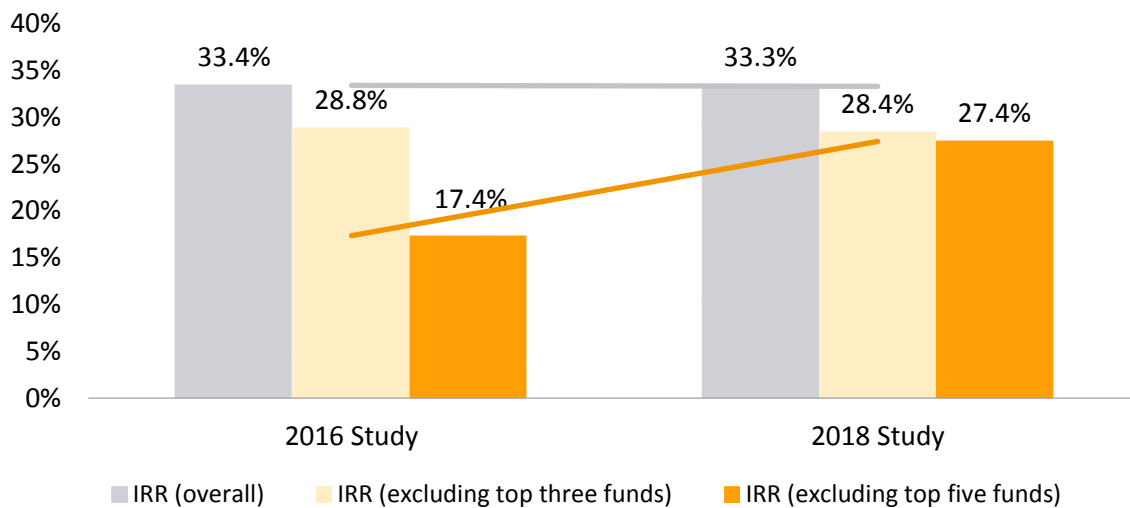
<sup>17</sup> The top three and top five funds for both Figure 7 and Figure 8 were excluded on the basis of their ROI ranking as one approach to demonstrating the relative impact on financial returns when the same three to five companies are removed from the calculations.

**Figure 7**  
**International search funds asset class ROI**



Source: Prepared by the authors based on IESE search funds surveys.

**Figure 8**  
**International search funds asset class IRR**



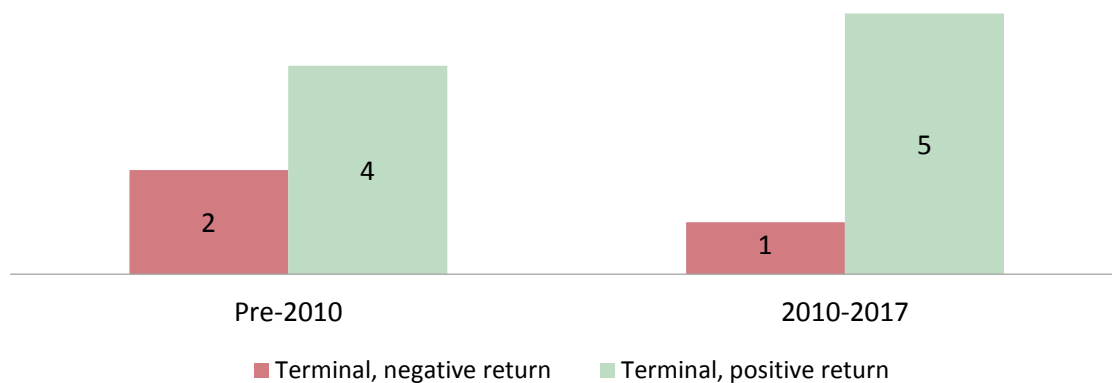
Source: Prepared by the authors based on IESE search funds surveys.



The IRR performance of international search funds seems to match the search fund performance of U.S. and Canadian search funds profiled in Stanford GSB's 2018 Search Fund Study, while ROI is lower due to shorter holding periods. The Stanford study reported an aggregate internal rate of return of 33.7% and ROI of 6.9x invested capital. Excluding the top three performers, the note reported an aggregate IRR of 29.4% and an ROI of 3.3x.

Although asset class IRR and ROI have declined, there is a trend towards more positive outcomes, even as the number of international search fund entrepreneurs has expanded in recent years. Figure 9 (below) summarizes the outcomes of all terminal international search fund acquisitions over time. There were nine known exits with a positive return by international search funds – four in Mexico, three in the United Kingdom, one in Brazil and one in Chile. Three investments in Europe were exited with a negative return to investors.

**Figure 9**  
**Positive and negative exits over time (n=12)**

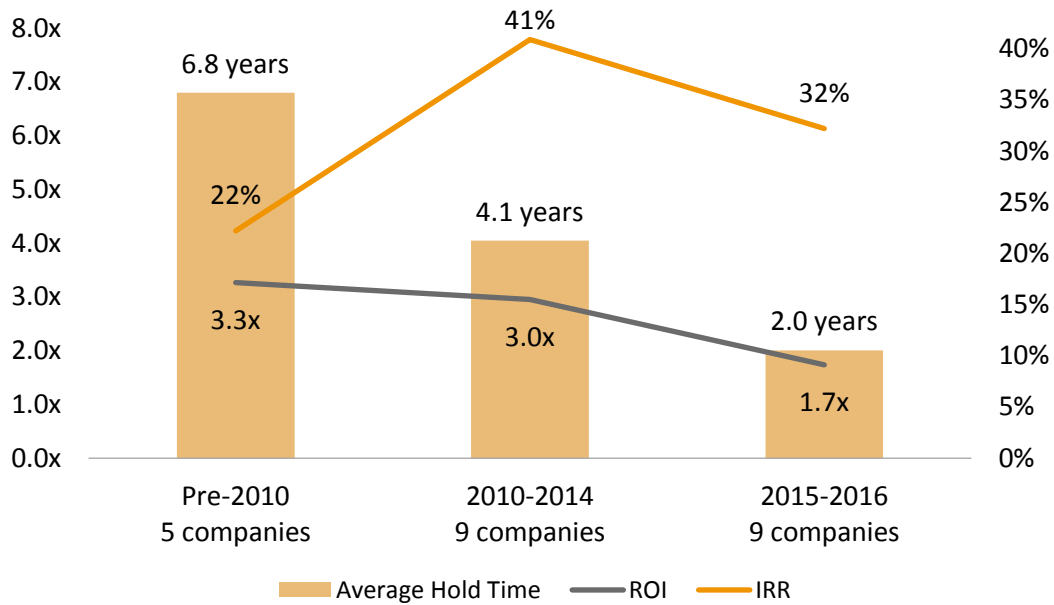


Source: Prepared by the authors based on IESE search funds surveys.

Isolating the returns for search funds that are *still operating a business*, the aggregate ROI is 2.4x, while the IRR is 35.4%. For terminal search funds (i.e., those for which the searcher acquired and then sold or exited the business), returns are 2.3x invested capital (ROI), with a 32.8% IRR.

Figure 10 (below) reflects IRR and ROI for terminal and operating companies by year of acquisition. We have excluded companies operating for less than one year. Please note that the last column reflects data for the two-year period from 2015 to 2016, whereas the middle column reflects five years worth of data.

**Figure 10**  
**IRR and ROI by year of company acquisition (n=23)<sup>18</sup>**



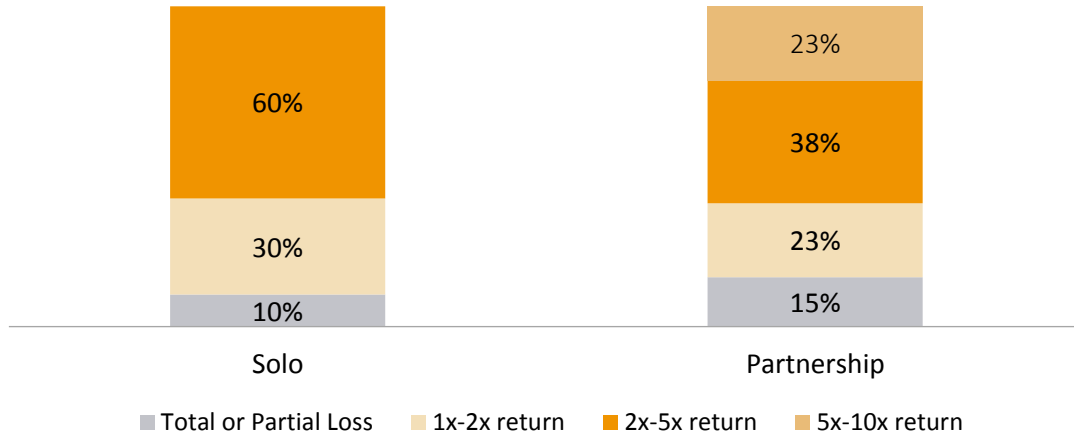
Source: Prepared by the authors based on IESE search funds surveys.

Solo searches accounted for 50% of the search funds formed since the previous study. The decision to proceed solo or with a partner is a complex and highly personal one, and among those searchers who had acquired a company, there was a nearly even split between funds operated by a single searcher versus a partnership. Average financial returns in the two categories appear to be similar; however, for all outcomes greater than 5x, 100% were partnerships (three search funds). The data seems to suggest that partnerships are more likely to acquire a company and achieve a greater than 5x outcome, although we hesitate to draw conclusions at this time as the sample size is small. Figure 11 (below) shows distribution of investor ROI by partnership status among international search funds that had acquired a company.

<sup>18</sup> This graph does not reflect information for two companies that did not report sufficient financial information for inclusion. Similarly, it does not include information for five companies that had been operating for less than one year as of December 31, 2017.



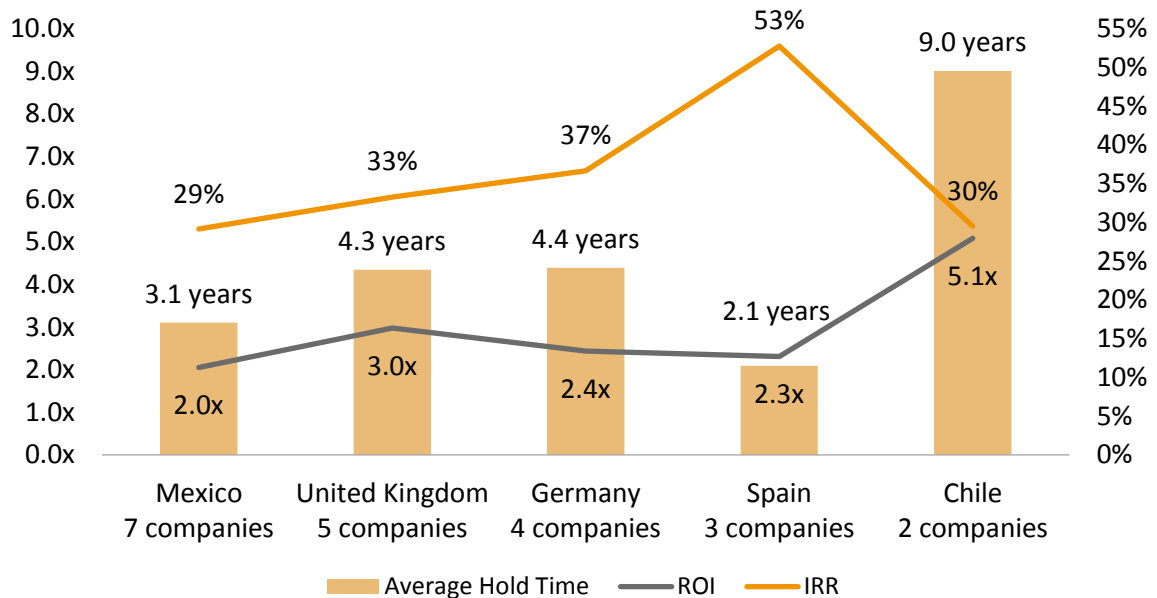
**Figure 11**  
**Investor ROI by partnership status among funds that had acquired a company (n=23, including 10 solo searchers and 13 partnerships)<sup>19</sup>**



Source: Prepared by the authors based on IESE search funds surveys.

Figure 12 (below) reflects IRR and ROI for terminal and operating companies by country. We have excluded companies operating for less than one year.

**Figure 12**  
**IRR and ROI by country (n=21)<sup>19, 20</sup>**



Source: Prepared by the authors based on IESE search funds surveys.

<sup>19</sup> This graph does not reflect information for two companies that did not report sufficient financial information for inclusion. Similarly, it does not include information for five companies that had been operating for less than one year as of December 31, 2017.

<sup>20</sup> This graph shows countries for which more than one company could be included.





With only 18 operating companies and 12 exits by international search funds as of December 31, 2017, it is too early to publish meaningful data on equity returns to entrepreneurs. Accounting for partnerships, the 2018 Stanford GSB note on U.S. and Canadian search funds reported the average equity value for each entrepreneur still operating a company is \$5.63 million, and \$6.52 million for entrepreneurs who have exited their businesses. On the basis of time operating the company, those amounts equate to \$1.47 million per year for current operators and \$1.15 million per year for those who have exited. Directionally speaking, the equity value of international search fund CEOs seems to mirror the data reported by Stanford GSB.

## Conclusion

Given the relatively small number of “terminal” international search funds, it is too early to judge the performance of the search fund model outside the United States and Canada. As the number of acquisitions made through the model increases, IESE plans to publish more performance information for the international search fund asset class. Seemingly promising search acquisitions have been made recently in Brazil, Mexico, Spain and other countries. Searches have begun in even more countries, including some in Africa. Still, readers are cautioned against drawing firm conclusions about the model’s outcomes in international arenas from this note alone. As detailed in the Appendix, many searchers were able to successfully export the model internationally, whereas others faced significant difficulty for a variety of reasons. Thus, rather than using this note as a basis for judging the performance of international search funds as an asset class, this note should be used to understand common search fund characteristics outside the United States and Canada.

During the writing of this note, new reports arrived from international search funds raising capital, negotiating to acquire, operating with both negative and positive results, and selling successfully. We look forward to collecting and disseminating the next set of data.



## Exhibit 1

### International Principals' Background

	Pre-2002	2002-2007	2008-2009	2010-2011	2012-2013	2014-2015	2016-2017
<b>Age at Start of Search:</b>							
Minimum	29	29	26	26	27	27	26
Median	31	30	30	32	28	31	32
Maximum	35	34	43	42	37	41	39
Under-30	33%	20%	50%	20%	57%	44%	29%
30-35	67%	80%	33%	40%	29%	31%	55%
36-40	0%	0%	0%	20%	14%	19%	16%
Over-40	0%	0%	17%	20%	0%	6%	0%
<b>Number of Post-MBA Years before Search Fund:</b>							
Minimum	0	0	0	0	0	0	0
Median	0	1	0	1	1	0	0
Maximum	0	5	6	6	6	6	8
No MBA	0%	0%	0%	20%	29%	13%	8%
<1 year post-MBA	100%	40%	67%	40%	14%	63%	58%
1-3 year post-MBA	0%	40%	17%	20%	43%	0%	18%
4-7 year post-MBA	0%	20%	17%	20%	14%	25%	11%
>8 year post-MBA	0%	0%	0%	0%	0%	0%	5%
<b>Gender:</b>							
Male	83%	100%	100%	100%	86%	94%	100%
Female	17%	0%	0%	0%	14%	6%	0%

Source: Prepared by the authors based on IESE search funds surveys.



## Exhibit 2

### International Principals' Professional Background<sup>21</sup>

Professional Background	Pre-2002	2002-2007	2008-2009	2010-2011	2012-2013	2014-2015	2016-2017
Management Consulting	17%	0%	0%	20%	43%	25%	18%
Investment Banking/Finance	0%	60%	50%	40%	43%	19%	21%
Sales	17%	0%	0%	20%	0%	13%	3%
Venture Capital	0%	0%	0%	0%	0%	0%	5%
Line/General Management	50%	0%	17%	20%	0%	6%	8%
Marketing	0%	20%	0%	0%	0%	0%	3%
Law	0%	0%	0%	0%	0%	0%	3%
Operations	0%	20%	0%	0%	0%	0%	5%
Entrepreneur	0%	0%	0%	0%	0%	6%	8%
Accounting	17%	0%	0%	0%	0%	0%	0%
Engineering	0%	0%	0%	0%	0%	0%	5%
Military	0%	0%	0%	0%	0%	0%	0%
Insurance	0%	0%	0%	0%	0%	0%	0%
Private Equity	0%	0%	33%	0%	14%	31%	21%
Other	0%	0%	0%	0%	0%	0%	0%

Source: Prepared by the authors based on IESE search funds surveys.

<sup>21</sup> As a means of comparison, the IESE student profile comprises the following professional backgrounds: 58% general management/industry, 23% finance, 11% consulting, 5% entrepreneurship and 3% public services/NGOs.



## Exhibit 3

### International Search Fund Metrics

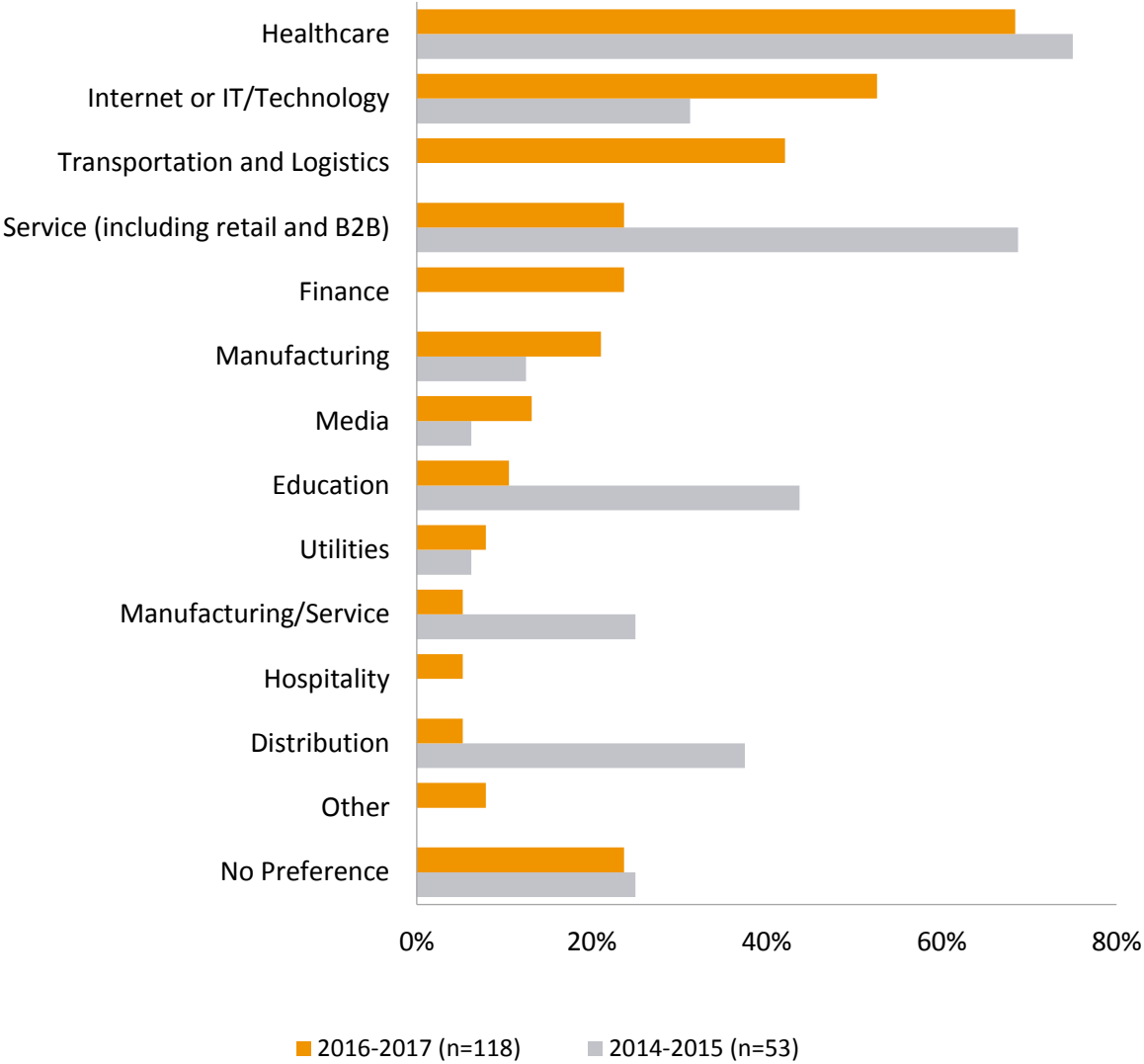
	Pre- 2002	2002- 2007	2008- 2009	2010- 2011	2012- 2013	2014- 2015	2016- 2017
<b>Number of Principals:</b>							
Single	100%	60%	33%	80%	29%	63%	50%
Partners	0%	40%	67%	20%	71%	38%	50%
<b>Amount of Initial Capital Raised:</b>							
Minimum	\$192,661	\$40,000	\$50,000	\$225,000	\$250,000	\$200,000	\$300,000
Median	\$266,500	\$170,000	\$493,779	\$314,850	\$587,777	\$426,486	\$448,851
Maximum	\$287,478	\$200,000	\$525,000	\$485,043	\$651,473	\$800,000	\$650,000
<b>Amount of Initial Capital Raised per Principal:</b>							
Minimum	\$192,661	\$40,000	\$50,000	\$112,500	\$125,000	\$100,000	\$150,000
Median	\$266,500	\$85,000	\$262,500	\$314,850	\$324,753	\$383,395	\$317,500
Maximum	\$287,478	\$190,000	\$462,557	\$485,043	\$375,000	\$696,832	\$526,003
<b>Number of Search Fund Investors:</b>							
Minimum	8	2	3	10	6	6	5
Median	10	7	16	13	15	15	17
Maximum	11	9	20	16	24	25	22
<b>Number of Months Fundraising:</b>							
Minimum	2	1	2	3	3	2	2
Median	5	2	6	9	4	5	5
Maximum	7	6	7	13	15	12	11

Source: Prepared by the authors based on IESE search funds surveys.



**Exhibit 4**

Targeted Industries by Frequency, 2016–2017 versus 2014–2015<sup>22, 23</sup>



Source: Prepared by the authors based on IESE search funds surveys.

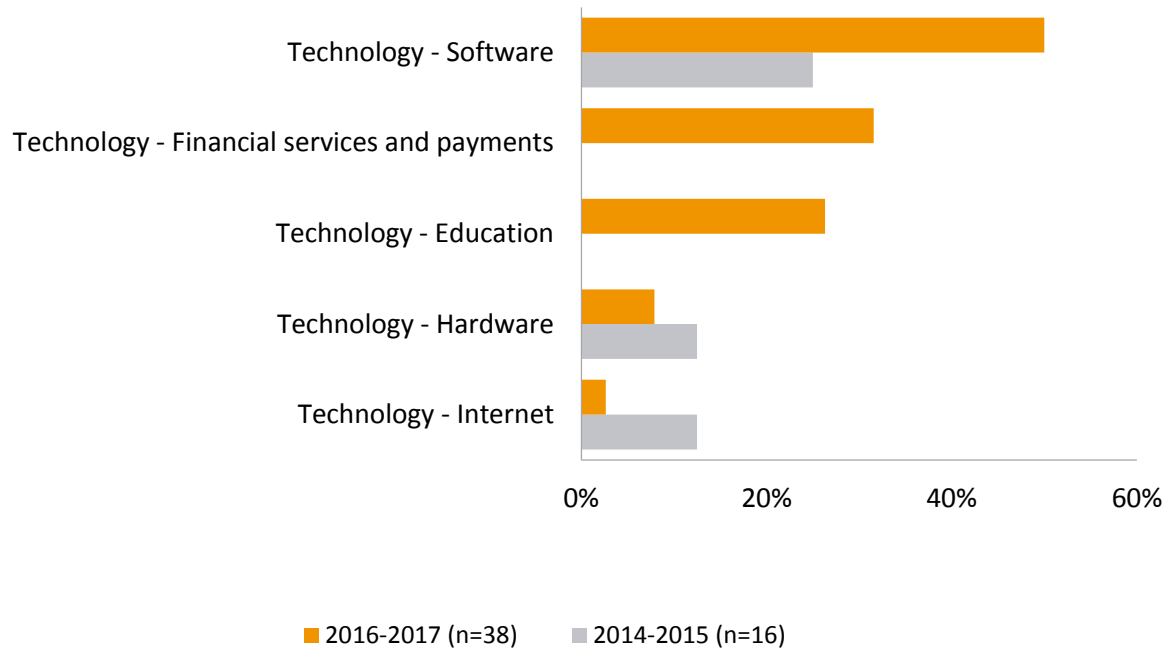
<sup>22</sup> Principals were asked to choose all industries they targeted, rather than choosing only one. The above data represents the frequency of each response across all search funds surveyed for this study in given years.

<sup>23</sup> For historical data on industries targeted by searchers (pre-2002–2013), please refer to previous versions of the [International Search Fund Study](https://www.iese.edu/en/companies-institutions/supporting-startups/search-funds). Previous versions of the International Search Fund Study are available at: <https://www.iese.edu/en/companies-institutions/supporting-startups/search-funds>.



### Exhibit 5

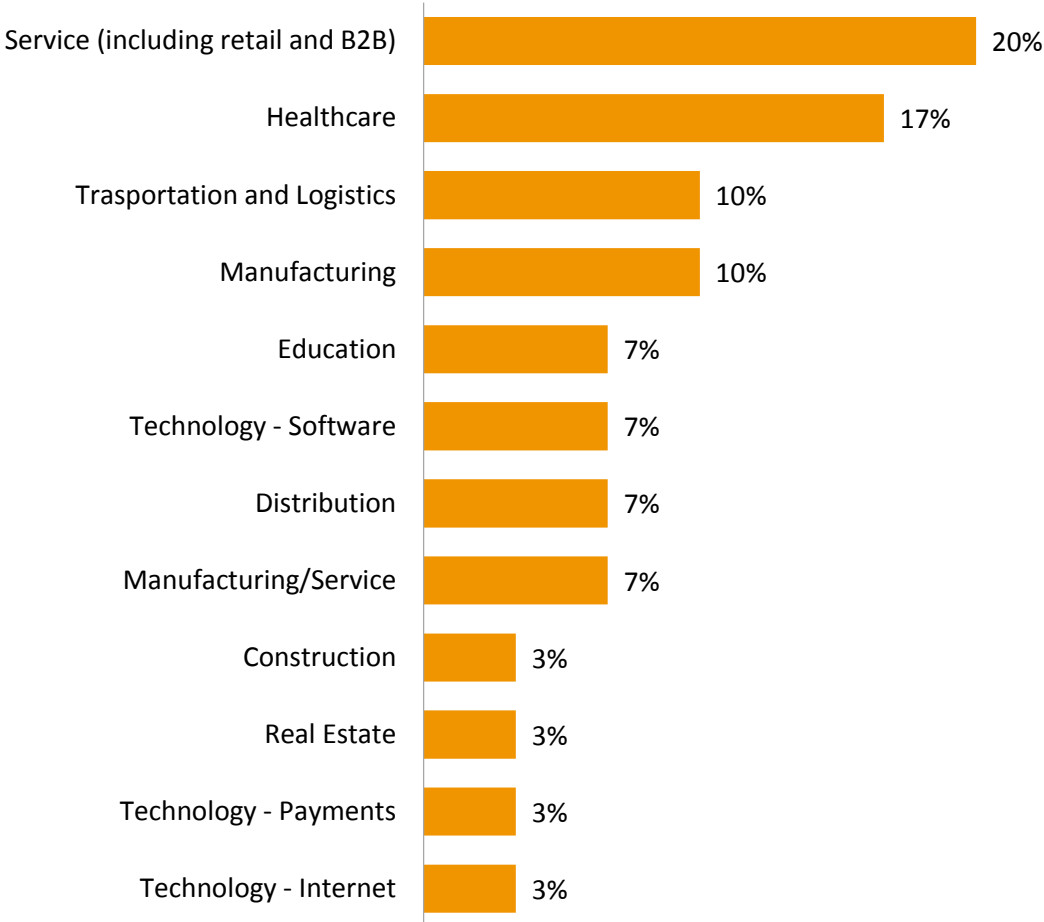
#### Breakdown of Targeted Technology Subcategories, 2016–2017 versus 2014–2015<sup>24</sup>



Source: Prepared by the authors based on IESE search funds surveys.

<sup>24</sup> The “Internet or IT” category was redefined as “Technology” in the 2016 and 2018 study and broken into sub-categories.

**Exhibit 6**  
Distribution of Industries Across All International Search Fund Acquisitions  
(n=30)



Source: Prepared by the authors based on IESE search funds surveys.

**Exhibit 7**

## Median Statistics for International Search Fund Acquisitions

<b>Medians</b>	<b>All Acquisitions</b>	<b>Pre-2010</b>	<b>2010-2011</b>	<b>2012-2013</b>	<b>2014-2015</b>	<b>2016-2017</b>
Length of Search (months)	16	8	22	29	22	16
Purchase Price	\$9.3 M	\$3.0 M	\$7.1 M	\$5.9 M	\$13.6 M	\$12.3 M
Company Revenues at Purchase	\$8.0 M	\$8.0 M	\$7.2 M	\$7.9 M	\$9.8 M	\$10.8 M
Company EBITDA at Purchase	\$2.4 M	\$0.6 M	\$1.5 M	\$1.3 M	\$2.8 M	\$3.0 M
EBITDA Margin	20%	11%	23%	9%	24%	27%
EBITDA Growth Rate at Purchase	10%	7%	6%	0%	5%	16%
Revenue Growth Rate at Purchase	10%	7%	6%	0%	9%	10%
Purchase Price / EBITDA	4.9x	3.0x	5.1x	6.4x	5.8x	4.2x
Purchase Price / Sales	1.1x	0.6x	1.2x	0.8x	1.5x	1.2x
Company Employees at Purchase	71	70	141	33	68	90

Source: Prepared by the authors based on IESE search funds surveys.





## Exhibit 8

### Selected Statistics for All International Search Fund Acquisitions

<b>Total Number of Months From Start of Search to Deal Close</b>	<b>All Acquisitions</b>
Minimum	5
Median	16
Maximum	42
<11 months	27%
11-20 months	43%
21-30 months	17%
31+ months	13%

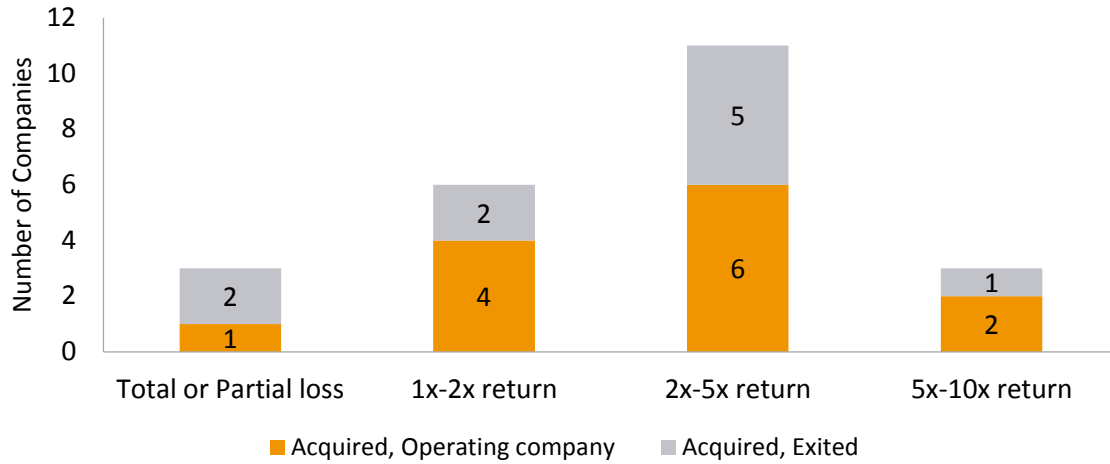
<b>Purchase Price Statistics</b>	<b>All Acquisitions</b>
Minimum	\$0.8 M
Median	\$9.3 M
Maximum	\$23.3 M
<\$4 M	17%
<\$4 M to \$8 M	31%
<\$8 M to \$12 M	14%
<\$12 M	38%

<b>Additional Statistics for All Search Fund Acquisitions</b>	<b>Minimum</b>	<b>Median</b>	<b>Maximum</b>
Company Revenues at Purchase	\$1.0 M	\$8.0 M	\$31.4 M
Company EBITDA at Purchase	\$0.0 M	\$2.4 M	\$5.2 M
Company EBITDA Margin at Purchase	0%	20%	60%
Purchase Price / EBITDA	NM	4.9x	20.0x
Purchase Price / Revenue	0.2x	1.1x	4.5x
EBITDA Growth Rate at Purchase	-30%	10%	35%
Revenue Growth Rate at Purchase	-10%	10%	40%
Company Employees at Purchase	12	71	400

Source: Prepared by the authors based on IESE search funds surveys.

### Exhibit 9

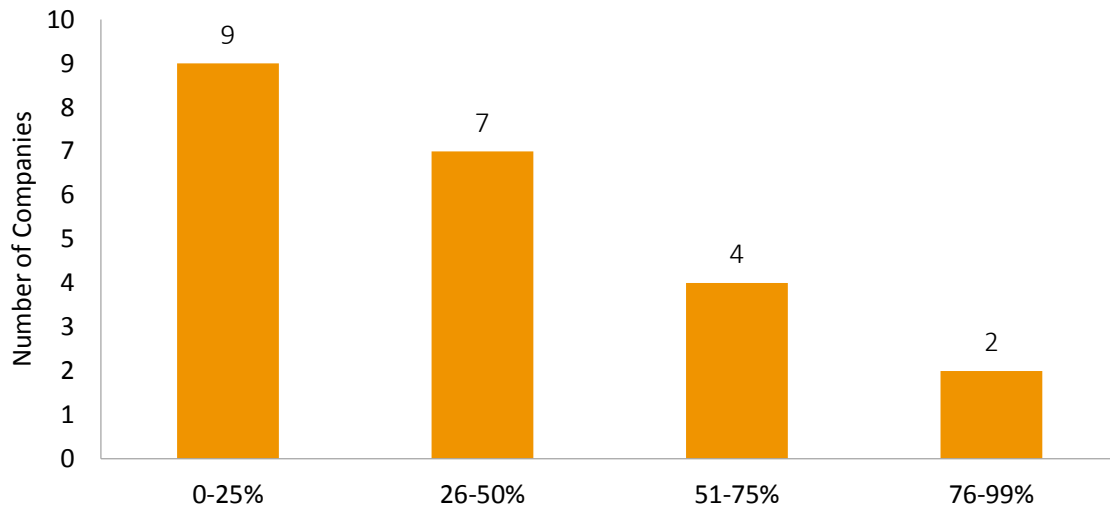
Distribution of International Search Funds That Have Acquired a Company, by ROI (n=23)<sup>25</sup>



Source: Prepared by the authors based on IESE search funds surveys.

### Exhibit 10

Distribution of International Search Funds by Positive IRRs (n=22)<sup>26</sup>



Source: Prepared by the authors based on IESE search funds surveys.

<sup>25</sup> Of the 30 funds that acquired companies as of December 31, 2017, five funds had been operating a company for less than one year, one was removed due to insufficient data and one due to unresponsiveness of the principal. Thus, return data could be calculated for 23 funds.

<sup>26</sup> Of the 28 search funds for which IESE has collected returns data, 22 had reported positive IRRs as of December 31, 2017.



## Appendix

### Qualitative Observations

This appendix is meant to provide a deeper perspective on the experiences and obstacles faced by international searchers. It is organized into four stages and attempts to focus on instances in which international searchers' experiences deviated from those in the United States and Canada.

The qualitative observations presented are based on interviews with more than 50 current and past international search fund entrepreneurs and investors based in Europe, the United States and Canada, Latin America, Africa and Asia. Because the experiences presented were those faced by individual search funds, readers are cautioned against drawing definitive conclusions from them.

#### *Stage 1: Raising a Search Fund*

Many international searchers reported that the initial fundraising process was the most challenging stage. As noted earlier, the median time given to raise funds was five months, longer than the three months noted in the Stanford GSB study for U.S. and Canadian search funds. With more than 30 years of search fund activity in the United States and Canada, prospective searchers have access to serial search fund investors, increasing amounts of institutional capital focused on search funds, as well as a roster of successful search fund entrepreneurs and investors currently re-investing in the model. With only a handful of acquisitions completed internationally so far, prospective international search fund entrepreneurs have more limited access to capital sources with an understanding of the search fund model.

In most instances, the prospective international searcher faces the task of educating potential investors about search funds – how they work and why they can be attractive. One such searcher raising the first search fund in Spain described taking more than 11 months to raise the capital even though he had a top-tier U.S. MBA and had interned at a search fund in the United States. U.S. investors were not familiar with investing in his country of origin, and in total the searcher reported having to hold more than 100 meetings with local and international investors. In many cases, prospective investors wanted to know why search capital was needed (e.g., “come back to me when you have a deal”) or how the search model differed from traditional private equity. This scenario was common among international searchers, who described having to spend much more time “selling the model” than “selling themselves.” Having committed investors familiar with both U.S. and target-country searchers seemed to help the process significantly.

Additionally, a handful of searchers reported that it became apparent that their local investors did not fully understand the search concept. In India, one searcher decided to shut down his fund in part due to his conclusion that his local investors were only seeking venture-capital type growth and returns, which differ from those of typical search funds, and were unlikely to provide the necessary acquisition capital. This highlights the importance of ensuring that investors who are unfamiliar with the model clearly understand the likely risks, returns, opportunities and functioning of prior search funds.

More recently, as the number of international search funds has increased in certain countries, groups of investors with a specific focus on search funds have been formed in Germany, Spain and the United Kingdom, among others, making it easier for searchers to raise search capital from local investors.



## Appendix (Continued)

In geographies where local investors are not familiar with the traditional search fund model or where serial search fund investors are not familiar with the geography, several searchers have selected the self-funded search model. Self-funded searchers do not raise search capital from others and instead fund their own search costs. Typically, they bring a group of investors together formally at the point of acquiring a company. In recent years, self-funded search has grown in popularity in the international context with an increasing number of entrepreneurs searching for a company to acquire. Although the number of self-funded acquisitions in the international search fund community has been small, it is likely to increase as the number of self-funded searchers continues to grow in the United States, Canada and overseas.<sup>27</sup>

Some international searchers reported that raising the search fund was relatively easy. The majority of searchers in Latin America reported a quick fundraising process, perhaps due to strong family connections, to local U.S. business school alumni aware of the concept or to the fact that serial U.S. search fund investors were more comfortable investing in a geography that feels closer to home. Also, there have been some successful Latin American search funds, which have led those operators to begin investing in new ones in the region and their investors to continue supporting the region's searchers.

In Israel, one searcher realized that it would be incredibly difficult to find investors from his home country and as a result purposefully raised a relatively modest amount of search capital, soliciting units from a handful of investors; the same happened in Brazil. A Kenyan searcher reported that she had learned about the search fund model more than three years before beginning business school and as a result had been pitching the concept to local investors well before beginning to fundraise. Another searcher in India said that because his country had become a hotspot for private equity activity, he was able to secure more than half of his commitments from U.S. investors (most of whom had previous experience investing in the asset class).

From the investors' perspective, many U.S.-based serial search fund investors said that they relied on the knowledge of local investors before making a commitment since it was likely to be their first investment in that country (or region). Interestingly, this has also been the case among some local investors. One European investor who committed to a search fund in Spain reported that he made the investment primarily because of the quality of serial search fund investors he invested with. The search fund model and the entrepreneur were secondary considerations.

After raising the search fund, many searchers expressed frustration at the lack of an appropriate legal entity. U.S. searchers most commonly form a limited liability corporation (LLC) since its flexibility allows for various outcomes including the conversion of search capital into different kinds of equity. However, the LLC vehicle does not typically exist outside the United States and Canada. Many searchers reported forming an LLC in the United States in order to attract U.S. investors, and Latin American searchers did the same since many of their local investors were already familiar with the LLC structure. However, European searchers have had to be creative, with one fund selling units of convertible debt. One Spanish searcher set up a U.K. company for the search fund because (a) the structure had already been created in the United Kingdom for prior search funds and (b) the searcher had commitments from several

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<sup>27</sup> A recent example of the self-funded search model in the international context is an acquisition in the Czech Republic in 2018. The principals pursued a self-funded search and brought in a group of investors at the point of the company acquisition.



## Appendix (Continued)

U.K. investors as well as U.S. investors who had invested in those prior U.K. search funds. The organization costs have also been significantly higher, with many funds reporting initial legal costs above €20,000. Many U.S. and Canadian lawyers will delay payment of their fees until a deal closes, whereas most European lawyers require upfront payment.

As these anecdotes demonstrate, the initial hurdles of raising search capital and forming the search entity are surmountable, but international searchers face unique challenges that may contribute to the formation of fewer international search funds, even with a 25-year history outside the United States and Canada.

### *Stage 2: Search and Acquisition*

During the search phase, the most limiting factor that international searchers face may be the size of the economy in which they search. In Germany, one searcher mentioned that even though his country is home to Europe's largest economy, there are less than one-third as many small and medium-sized businesses as in the United States. This is a common complaint of European searchers, and many have resorted to regional and even pan-European searches (citizenship in an EU state provides residency). This is done especially when a searcher can speak multiple European languages (one U.K. searcher has looked for companies in Spain, Italy, Austria and Germany) and even more common among countries that share a mother tongue (an Austrian search also covered Belgium, Germany and Switzerland). In Africa, one searcher reported that she was based in Uganda and searched across East Africa to increase the chances of buying a high-quality company. The number of completed searches in Mexico, an economy far smaller than that of the United States, may indicate that the right economic circumstances are not a serious barrier to a successful search.

Searchers reported a common initial approach to searching for acquisition targets: mass emailing, cold calling and letter writing, as is done in the United States. However, many international searchers learned that sometimes these methods did not work unless modified for the local context. In Spain, a searcher stated that owners' email addresses are not normally public and mass emailing was therefore not viable. In Germany, cold calling was seen as being too direct, while letter writing was seen as the most appropriate form of communication. In Brazil, where personal ties are paramount, cold calling and letter writing simply did not work; the use of a personal and professional network generated most of a searcher's successful leads.

In addition, the same education about search funds required of investors was also needed for owners. One searcher in Asia reported that he was unable to convince sellers that his search investors would also provide sufficient acquisition capital, so he decided to market himself as a "private equity fund," while German searchers avoided that term and its pejorative connotations in Germany. Indeed, there is often no translation for "search fund" in the local language, and entrepreneurs can find themselves inventing descriptions – "business partnership" (Unternehmer-Partnerschaft) in Germany; "investment society" (sociedad de inversión) in Spain; "succession entrepreneur" (Nachfolge-Unternehmer) in Switzerland.



## Appendix (Continued)

One of the attractive features of the search fund model is a roster of accomplished investors and entrepreneurs that add credibility to a searcher's efforts. Many international searchers said that although they received capital from some of the most respected serial investors in the United States, the local connections mattered more. One searcher in India reported that he relied almost exclusively on the strength of the reputations of his local investors to find deals, and one search team in Mexico stated that they did not accept U.S. investors because they believed that only local names would help the search process.

Unlike their U.S. counterparts, many international searchers reported that they used publicly available business registries to screen potential acquisition targets, particularly for companies registered in Belgium, Austria, Germany, Italy, Spain and the United Kingdom. This made the screening process much more efficient since searchers could quickly find attractive companies in industries of interest rather than having to invest time "pre-screening" businesses before contacting them. U.K. searchers could also see the names and ages of all directors, which revealed issues with succession. However, it is generally understood that companies often do not report full revenues and profits, which clouds the accuracy of public records.

Many international searchers found cultural sensitivities particular to their country of origin. In the United Kingdom, business owners wanted to know how a searcher would create value. In Germany, Spain and Austria, where most businesses are family-owned, the prospect of ending a family's control over a multigenerational company was quite sensitive; thus, in many cases final negotiations centered on both price and on whether a searcher was the right "fit" for a company. In India, it was almost shameful for a family to sell their multigenerational enterprise. Generally speaking, in the few cases when families do decide to sell their company, it is still hard to replace not only the owner but also other family members that have key roles.

U.S. search funds have traditionally relied on bank debt to help finance an acquisition, at times around 50%. However, this has sometimes been impossible in other countries. In India, where banks are not allowed to lend for acquiring company shares, searchers report that the only available options are nontraditional financing, such as asset-backed or working capital loans that carry high interest rates and short payback periods. In the United Kingdom, because of local market conditions and the quality of the deal, one search fund entrepreneur had to convince his investors to invest in both debt and equity to finance the deal. In Mexico and Brazil, because the leveraged buyout model is not as established, searchers reported using a relatively modest amount of debt (e.g., 20% of enterprise value). Another common form of search fund acquisition capital in the United States and Canada is seller financing. While searchers have been able to negotiate seller financing in the United Kingdom and Germany, searchers in India, Mexico and Kenya have reported that seller financing is not traditionally used.

Unlike U.S. search funds, European search funds are often formed as corporate entities that, by regulation, have a Board of Directors. As a result, European searchers often meet regularly with their Board members (typically three or more investors), which strengthens the relationship between a searcher and those investors and provides a model for post-acquisition mentorship. Additionally, this gives the searcher frequent feedback on deals but may lead the entrepreneur to under-rely on input from the other investors.



## Appendix (Continued)

Finally, because international search funds often have investors in far-off countries, entrepreneurs have had to be especially cognizant of maintaining positive investor relationships. In India, a searcher closed his fund early without an acquisition after concluding that it was too difficult to get sufficient attention from both U.S. and Indian investors. Using modern technology, some searchers have found creative ways to keep foreign investors involved. In Germany, two searchers reported regular videoconferences with their backers, and in Spain a searcher dialed-in foreign investors during meetings with potential sellers.

### *Stage 3: Operation*

Search fund entrepreneurs who have bought companies in Mexico, Brazil, Chile, the United Kingdom, Spain and Germany have experienced operating conditions similar to those of U.S. and Canadian search funds. Many past and current search fund operators described the role as a combination of a salaried CEO and a significant equity owner. Similar to a salaried CEO, search fund operators have to receive approval from a Board of Directors to make major financial or strategic decisions (including that of executive compensation). However, unlike a purely salaried CEO, search fund owner-operators are more highly motivated to make the business succeed. In Chile, a current CEO said fatigue is common, given the lengthy time of the project (fundraise, search and then operate); his business partner decided that the eventual payoff was too uncertain and left the company in pursuit of investment banking.

Searchers also reported that the search fund model allows operators to benefit from the experience of their investors. In Mexico, a former CEO stated that having external investors forced him to be more disciplined and also gave him the freedom to make more rational decisions. In the United Kingdom, a former CEO said that having the backing of very experienced entrepreneurs helped him successfully manage his company through multiple recessions, eventually leading to the successful sale of the company. In Germany, a current CEO realized that he did not have direct industry experience, and the company's founder agreed to stay on as a minority shareholder and a member of the executive team in order to ensure a smooth transition.

Lack of operating and management experience is common among search fund entrepreneurs of all continents, and their investors report that there is no ideal preparation for the CEO's chair. This lack of experience is a risk; and while it has contributed to failures, neither has it prevented significant successes.

### *Stage 4: Exit*

With only nine known exits with a positive return by international search fund entrepreneurs, comparisons about this stage are particularly hard to make. Three investments resulted in a loss of capital.

For one exit in the United Kingdom, the searcher reported that one contributing factor to his success was that two of his investors sat on the Board of his search fund as well as the Board of the company that he eventually acquired. From a mentoring and advice perspective, this was very helpful, especially while managing the company through difficult periods. As mentioned, this is a departure from the U.S. model, since the search phase there is often structured without a formal Board and investor oversight is less formal. Regardless of how it is achieved, meaningful mentorship from investors who are wise and experienced businesspeople appears to be central to a search fund's operating success.



## Appendix (Continued)

For exits in Brazil, two unusual qualities stand out. The holding period was brief (less than one year) as the entrepreneur repositioned the company to take advantage of fast industry growth and a booming equity market. Furthermore, two of his investors with a combined 50 years' experience in executive positions at multinational consumer goods companies in turn joined the acquired company's management team. The searcher in this case reports that the successful exit would not have been possible without the active operating role of his investors and Brazil's rapidly growing economy. It has been rare for search funds to use public markets to achieve liquidity, although several in the United States have had the scale to do so and one has actually gone public (ServiceSource; NASDAQ: SREV).

Some of the significant successes in U.S. search funds have had long holding periods, over 10 years at times (e.g., Asurion, ServiceSource, Alta Colleges, MedMart). Some international searchers report pressure for short holding periods from their domestic investors who prefer "flipping" companies and redeploying their returns in new high-return opportunities. This and other possible differences with U.S. search investor practices will affect each stage of international search funds, and further data will shed light on the impact of these trends on the next generation of international search entrepreneurs.