# International Search Funds – 2020

## Selected Observations

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## Abstract

This note reports on a biennial 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 to the financial returns and important characteristics of all known international search funds, including the qualities of successful search fund entrepreneurs. The study targeted all known search funds outside the United States and Canada, in close coordination with the Stanford study, with data drawn from 132 first-time search funds. The sample set includes international searchers in 25 countries on five continents.

Keywords: Search Funds; International Search Funds; Entrepreneurship Through Acquisition (ETA); Entrepreneurial Finance

The authors would like to thank all of the search fund principals who participated in this study.



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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.[1] This note is the fifth note to be published by IESE and is updated biennially in concert with Stanford's study on search funds.[2]

A search fund is an entrepreneurial path undertaken by one or two individuals (the "searchers") who form an investment vehicle with a small group of aligned investors, some of whom become mentors, in order to search for, acquire, and lead a privately held company for the medium to long term, typically six to ten years. 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, a search fund can provide attractive returns in a stage-based investment: first in an entrepreneur and next a larger amount of capital in the acquisition of an existing business.

The life cycle of a search fund can be thought of as four stages: (1) raising a search fund, i.e., a pool of capital from a group of aligned, involved investors backing the searcher(s) to find a company to acquire; (2) search and acquisition, usually one to two years during which the searcher(s) generate many possibilities in order to identify and acquire an operating business; (3) operation, the longest stage, and most compelling for the entrepreneur, 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 search funds, see the Stanford GSB Center for Entrepreneurial Studies (CES) *Search Fund Primer*[3] and the IESE note *Search Funds -- What has made them work?*[4]

By using a quantitative, survey-based research method this note provides insights into the evolving characteristics and performance of all known international search funds,[5] including changes in the characteristics of search fund entrepreneurs.[6] The principals tracked in this study are from diverse locations; in order to convey their varied experiences, the Appendix presents qualitative observations based on a series of interviews with entrepreneurs from the international search fund community.

[1] "International" in this report means outside the United States and Canada, to coordinate with the Stanford study.

[2] For more information on Stanford's research in the United States and Canada, which has tracked more than 401 search funds formed since 1983, see http://www.gsb.stanford.edu/ces/resources/search_funds.html.

[3] 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.

[4] To help understand the practices and values underpinning the search fund model, readers may obtain the note *Search Funds -- What has made them work?* from IESE's International Search Fund Center: https://www.iese.edu/entrepreneurship/search-funds.

[5] "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.

[6] The data in this study is reported as of December 31, 2019.

## International Search Fund Asset Class

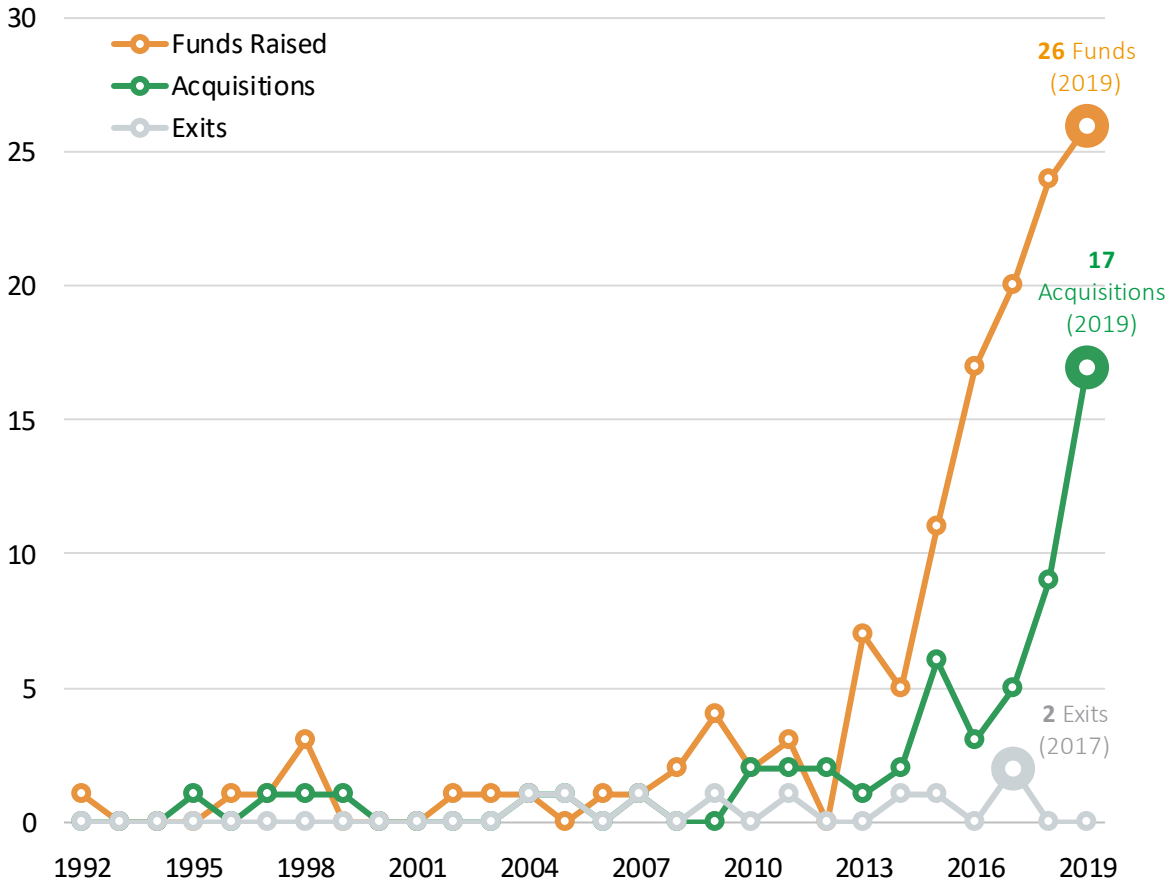
This study draws on data from 132 first-time search funds, the earliest of which was formed in 1992. It only considers first-time search funds, excluding self-funded searches, second-time search funds and single-sponsor searches, since those imply different skill sets, capital needs and external requirements.

A principal from each search fund 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 who acquired a company were asked about acquisition and operating metrics, and those who had operated for more than a year, including those who had achieved liquidity, were asked about the returns and/or company valuation (and thus the implied return).

Although every effort was made to collect information from every known search fund outside the United States and Canada, readers are cautioned that some may not have been included. As this study is repeated, additional searches may be added to the sample set, which will affect the information presented.

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, with 2019 reaching a peak of 26 new international search funds raised. There were also 17 new acquisitions in 2019. (Five new acquisitions that occurred in the first half of 2020 were 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 internationally and the five to ten-year period between acquisition and exit. As funds mature, more will exit.

**Figure 1**
**International Search Fund Activity by Year**

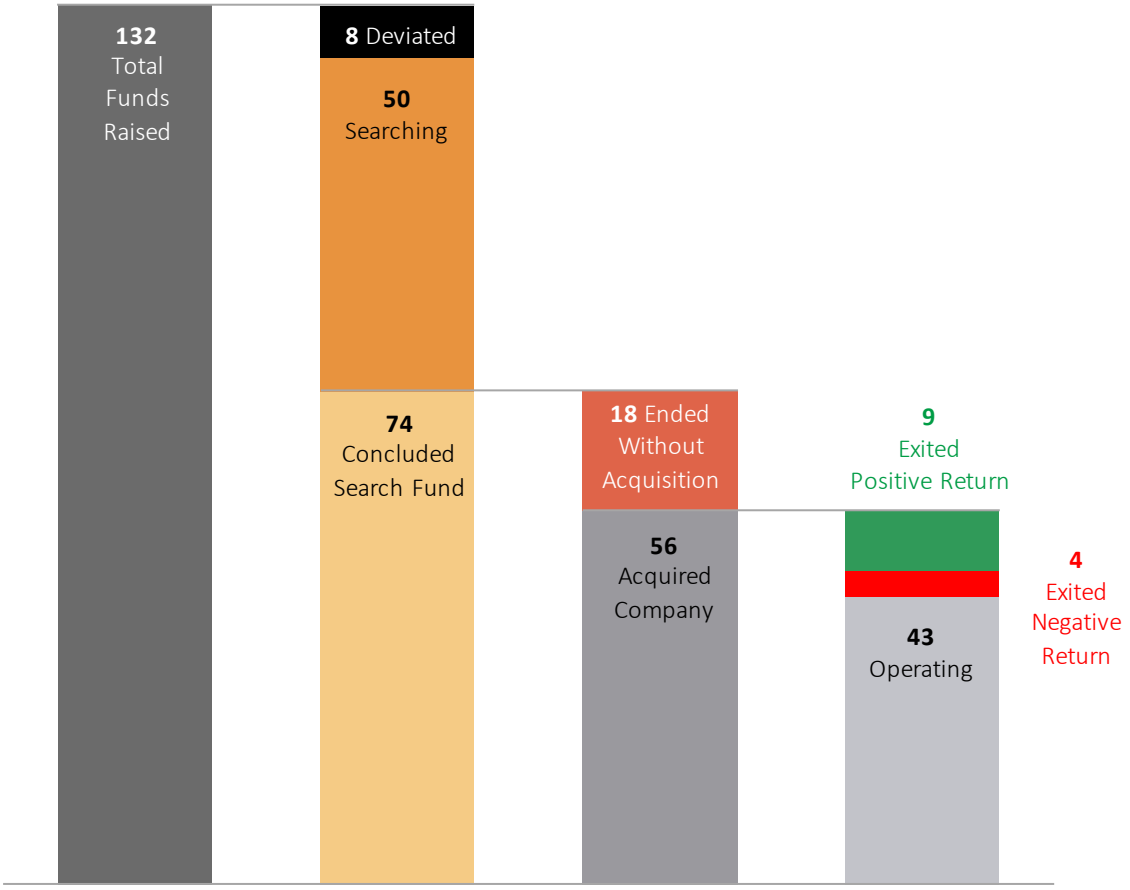



Source: Prepared by the authors based on IESE search funds surveys.

As of year-end 2019, 50 search funds were either searching for an acquisition or fundraising for a planned acquisition. Of the 82 others, 56 had acquired a company, 18 had ended their search without an acquisition and eight had deviated from the search fund model.[7] Of those 56 who had acquired a company, 43 were operating the company, nine had exited their businesses with a positive return to investors, and four had exited their companies with a total loss of investors' capital. These findings are summarized in Figure 2. New funds and additional acquisitions that occurred in the first half of 2020 were not included in this study for consistency.

[7] Of the eight funds to have deviated from the search fund model, principals most commonly reported pursuing a startup after closing the fund, either by utilizing the remaining search capital for startup costs or by raising startup capital from a fresh set of investors. Data from funds that had deviated from the search fund model were not included in this study.

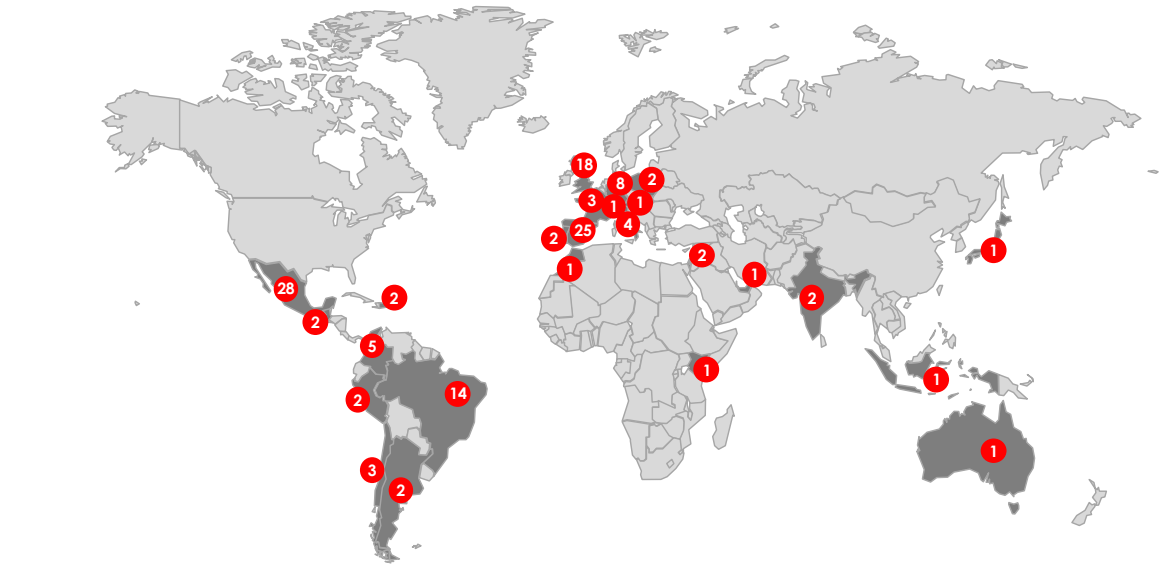
**Figure 2**
**International Search Fund Activity by Status**

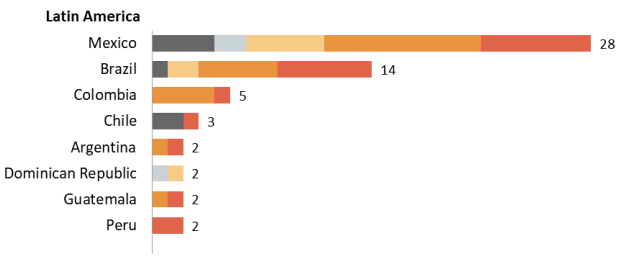


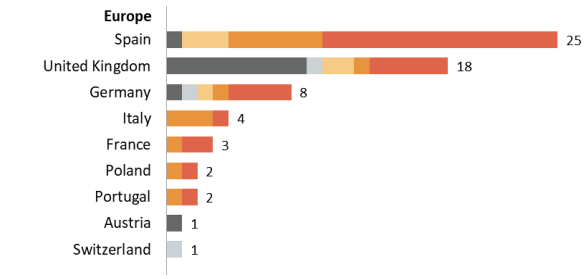

Source: Prepared by the authors based on IESE search funds surveys.

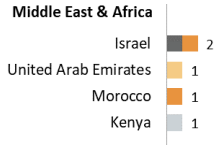
The sample set in this study is diverse, with 132 international searchers from 25 countries on five continents. While the first international search fund was raised in the United Kingdom, beginning in 2003 search funds were also raised in Latin America, Europe, Africa, Asia and Australia. In 2018 and 2019 search funds were formed in three new countries. Totals by country are shown in Figure 3.

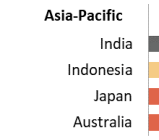
**Figure 3**
**International Search Funds by Region, Country and Year of Formation**




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 47. Consistent with early search funds, most principals (91%) graduated from an MBA program, with 71% raising their search fund within two years of graduation. Not surprisingly, since the model originated in the United States, 60% 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 a wide variety of pre-professional backgrounds, and as noted in the Appendix, many investors do not have a preference for any particular background. Individuals with private equity backgrounds represented 24% of search fund principals who formed funds in 2018 and 2019. General management represented the next most common professional background for searchers. (See Exhibit 2 for additional reporting on principals' professional backgrounds.)

## Fundraising and Search

Solo searchers raised 60% of all international search funds formed in 2018 and 2019, a lower proportion than in the United States and Canada, where solo searchers raised 80% of funds during the last two years. Most of the searchers interviewed who decided to search with a partner stated similar 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 $367,655.[8] The smallest amount raised per fund was $168,311 and the largest was $875,000. The wide range is explained in part by dual-searcher funds needing to cover two salaries and in part by lower searching costs in emerging markets, where more funds have been raised lately and where searchers tend to raise smaller funds. In 2018 and 2019, the median number of search fund investors per fund decreased to 16, and the median number of months to raise a search 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 an increasing number of searchers focused on deep-industry searches. Technology was generally a popular industry theme, with 76% of international searchers stating that technology was an industry of focus. After technology, healthcare, transportation and logistics, and manufacturing represented the most targeted industries in recent years. This year's survey showed a decline in preferences for business services and an increase in interest in technology and manufacturing. Given the proliferation and diversification of technology companies over the last decade, the three most recent studies break down the technology category further to provide a detailed view of how searchers are evaluating this sector. This year's study also includes a

[8] 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.

breakdown for the healthcare category, as searchers have increasingly targeted healthcare businesses. (See Exhibit 4, Exhibit 5 and Exhibit 6 for details on industries targeted by searchers.)

Of 50 qualified new searchers surveyed, the 2020 study collected salary data for 47, or 94%. The range of searcher salaries in Latin America was between $78,000 and $150,000, with a median salary of $100,000. In Europe the range of searcher salaries was between $35,000 and $100,000, with a median salary of $83,000. For the U.S. and Canadian search funds profiled in Stanford GSB's 2020 Search Fund Study, the range of searcher salaries was between $30,000 and $200,000, with a median salary of $110,000.

## Acquiring a Company

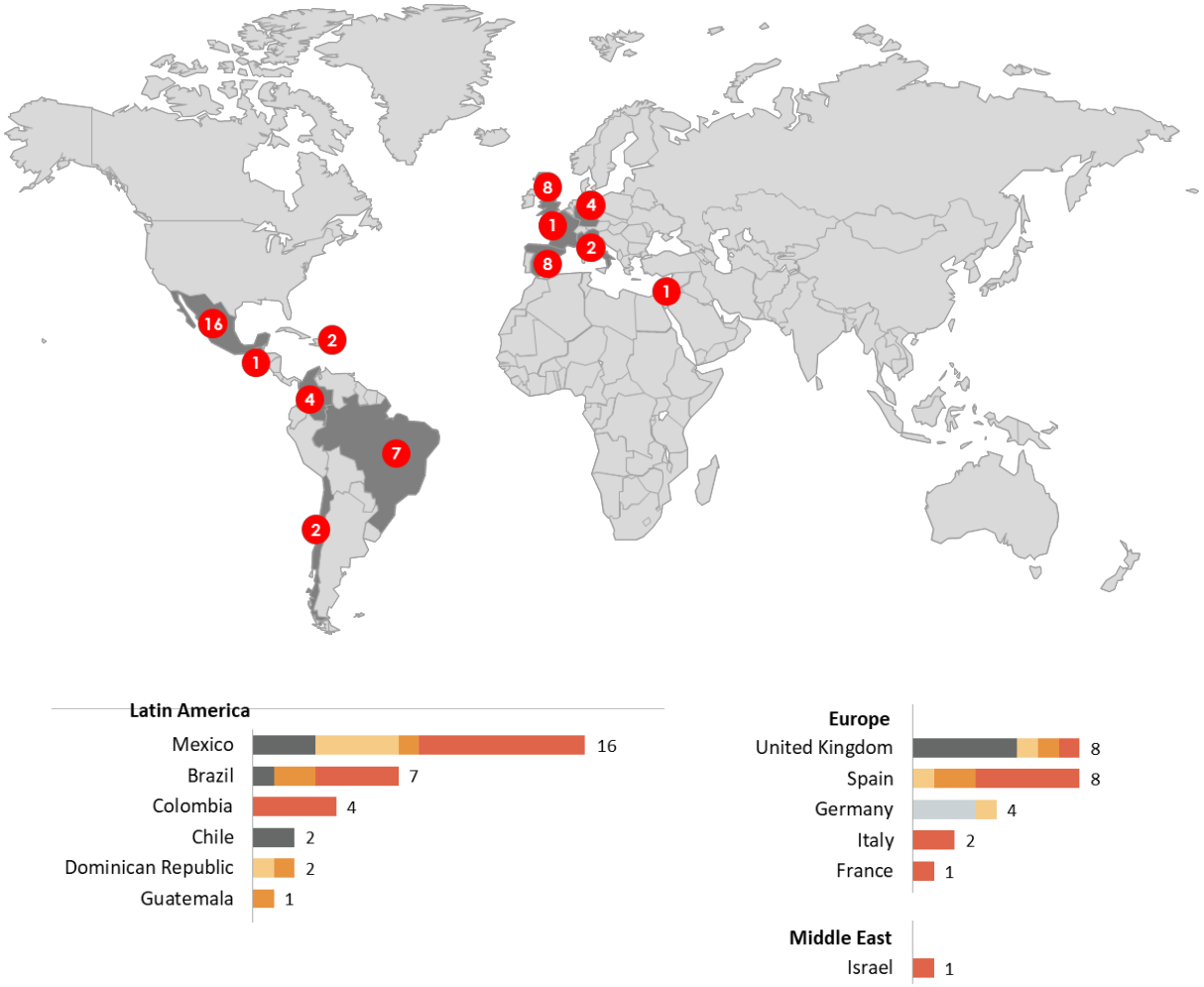
Search funds, both international and those in the United States and Canada, often include recurring revenue, high EBITDA margins and stable cash flow history in their investment criteria. In a sample of offering memoranda reviewed by the research team, nearly all mentioned these acquisition characteristics.

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.

From the 132 search funds outside the United States and Canada that were tracked by IESE, there have been 56 acquisitions made to date (compared with 401 known U.S. and Canadian search funds tracked by Stanford GSB with 204 acquisitions). Of these 56 acquisitions, 32 were made in Latin America, 23 in Europe and one in the Middle East.[9] A detailed geographic split is shown in Figure 4.

[9] In the first half of 2020, there were two new acquisitions in Spain, one new acquisition in Brazil, one new acquisition in Portugal and one new acquisition in France. These acquisitions were not included in this study for consistency.

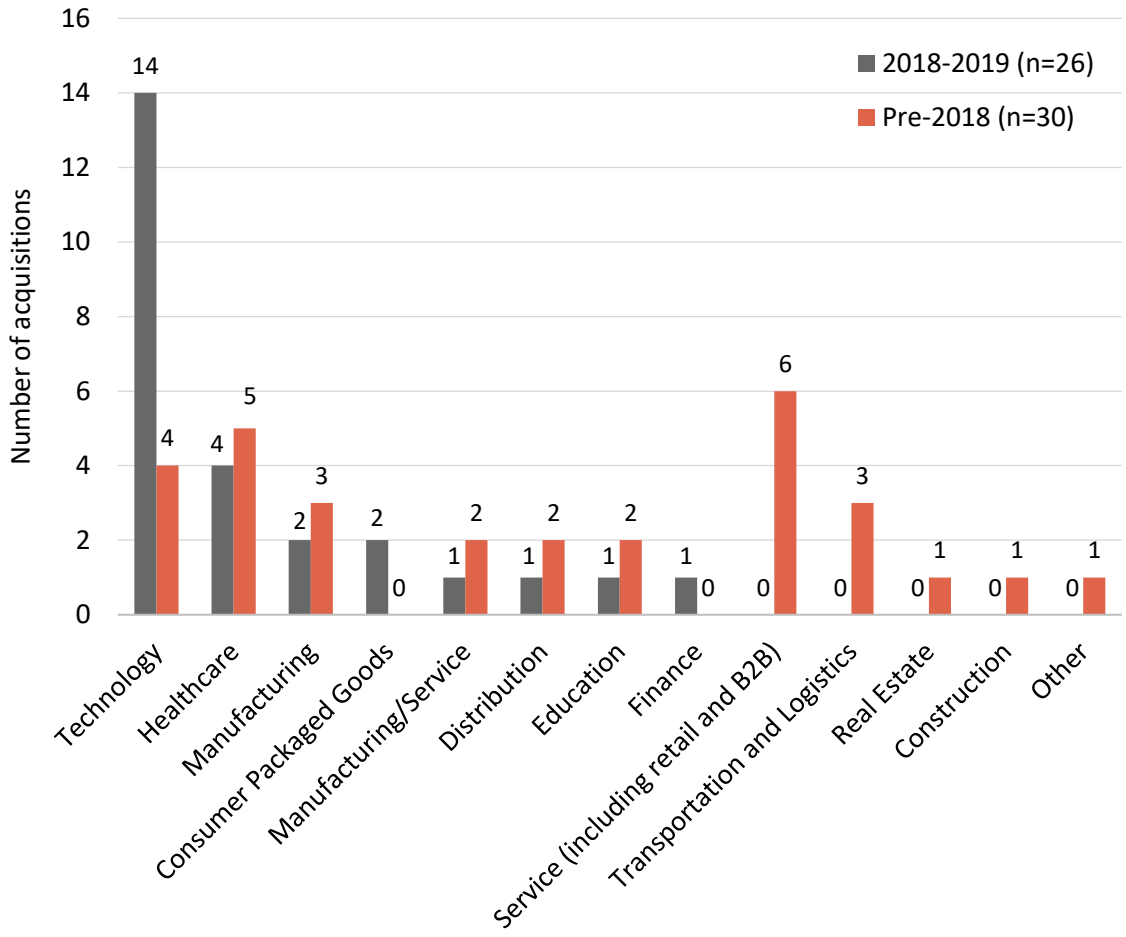
**Figure 4**
**International Search Fund Acquisitions by Region, Country and Year**




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

Most international search fund acquisitions were made in the technology sector, followed by healthcare. Data from the last two years demonstrate a shift away from acquiring general services businesses toward technology. In 2018-2019, software was the most dominant technology subsector (5 acquisitions), followed by tech-enabled services (2 acquisitions), financial services and payments (2 acquisitions), consumer electronics & hardware (2 acquisitions) and other technology services (3 acquisitions). See Figure 5 below for distribution of industries across all international search fund acquisitions.

**Figure 5**
**Industries of Acquired Companies, 2018-2019 vs. Pre-2018**




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

Of 56 acquisitions, nine have been sold with a positive return on investor capital, 43 are currently operating, and four were exited with a total loss. Of those that successfully completed an acquisition, 9% were purchased for less than $4 million, 25% for $4 million to $8 million, 22% for $8 million to $12 million and 44% for $12 million or more. The median international search fund acquisition had the following characteristics at purchase: purchase price of $11 million, $8 million in revenues, EBITDA margin of 23%, purchase price to EBITDA multiple of 5.6x, purchase price to sales multiple of 1.3x, trailing annual revenue growth rate of 10%, trailing annual EBITDA growth rate of 10%, and 64 employees. In comparison, the median U.S. and Canadian acquisition profiled in Stanford GSB's 2020 Search Fund Study had a purchase price of $10 million, revenues at purchase of $6.3 million, EBITDA margin of 21%, a purchase price multiple of 6.0x EBITDA, trailing annual EBITDA growth rate of 15% and 32 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 pursue 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 pursue 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, business models 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. This year's study excluded follow-on financing events.[10] Two measures of return were used: return on investment (ROI)[11] and internal rate of return (IRR).[12] 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.

[10] While follow-on financings can be an important part of search fund returns, excluding them in these calculations simplifies data reporting for searchers still operating a company, thereby increasing data integrity and accuracy, while staying true to the focus on returns for original search and acquisition investors. Follow-on financings were included for exits as searchers reported results of terminal search funds in detail.

[11] 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 later received $10 million back, 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.

[12] 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.

Of the 74 funds eligible (i.e., that had raised a search fund and either acquired a company or ended without an acquisition), 55 were included in the calculations of returns.[13] This number includes 18 unsuccessful searches and 37 search funds that completed acquisitions. The calculation of enterprise value was straightforward for the 29 terminal funds[14] included; the value as of the terminal event (e.g., exit, sale, recapitalization, etc.) was applied. For the remaining 26 operating companies, the enterprise value as of December 31, 2019 was based on principals' reported market value.[15]

For conservatism, for acquired companies still being managed by the searchers we assumed that all of the searchers' share of equity had fully vested,[16] 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 2019 and four 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 2.4x and an IRR of 28.7%. When excluding unsuccessful searches in order to further examine the much larger acquisition investment, the overall asset class ROI increases to 2.5x and IRR increases to 30.7%. The median search fund returned 1.1x of initial search fund investors' capital, whereas the top-performing search fund returned 23.4x. Excluding search funds that closed without an acquisition, the median return on all search funds that have completed an acquisition is 1.5x. 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. The overall asset class ROI increased from 2.3x in 2018 to 2.4x in 2020.

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 12% of companies in the "1-2x return" category were exited 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.)

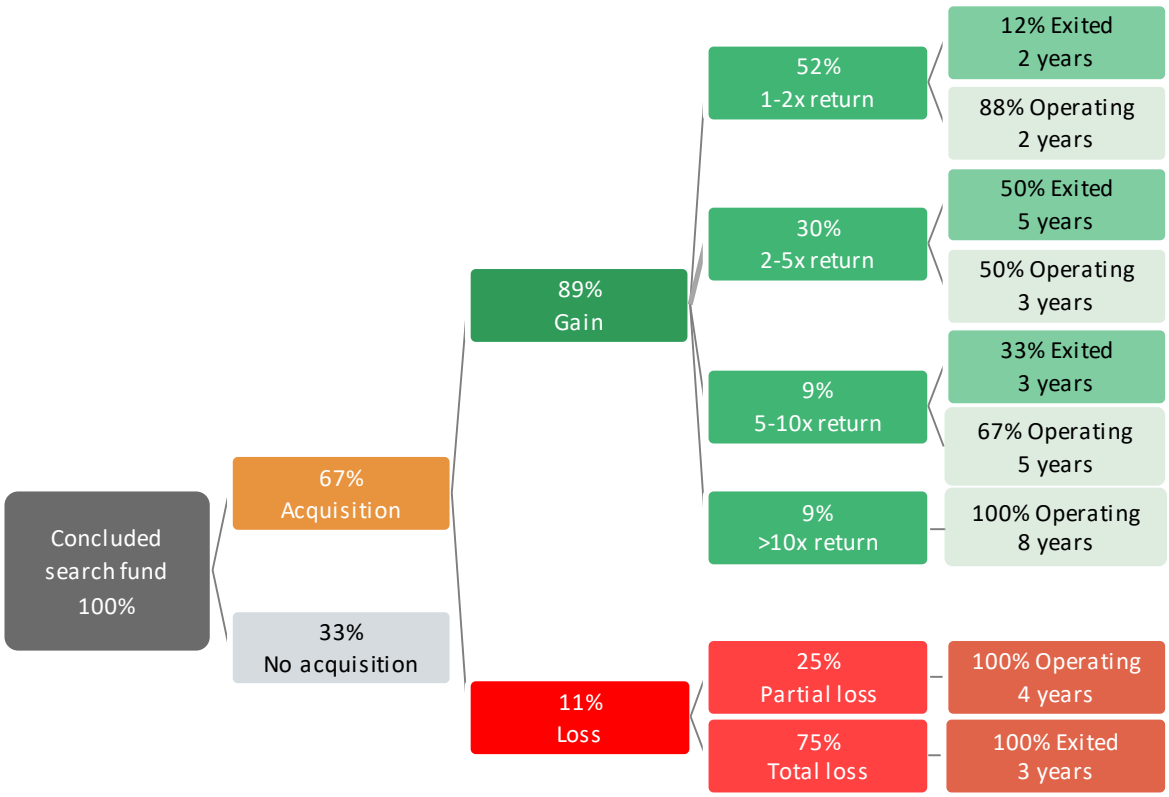
[13] A total of 17 funds were removed from the sample because the principals had operated the acquired company for less than one year. One terminal fund resulting in a total loss of equity was removed due to insufficient data and one terminal fund resulting in a positive return was removed due to insufficient data from the principal. The impact of removing these older funds increases returns slightly, but not significantly.

[14] "Terminal" search funds are those that had (i) ended the search or (ii) acquired and exited a business with a positive or negative return to investors.

[15] The estimation of enterprise value is an independent estimate of value based on the principal's knowledge of the company and industry, recent equity transactions, comparable company transactions, or a third-party valuation.

[16] This approach 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**[17]



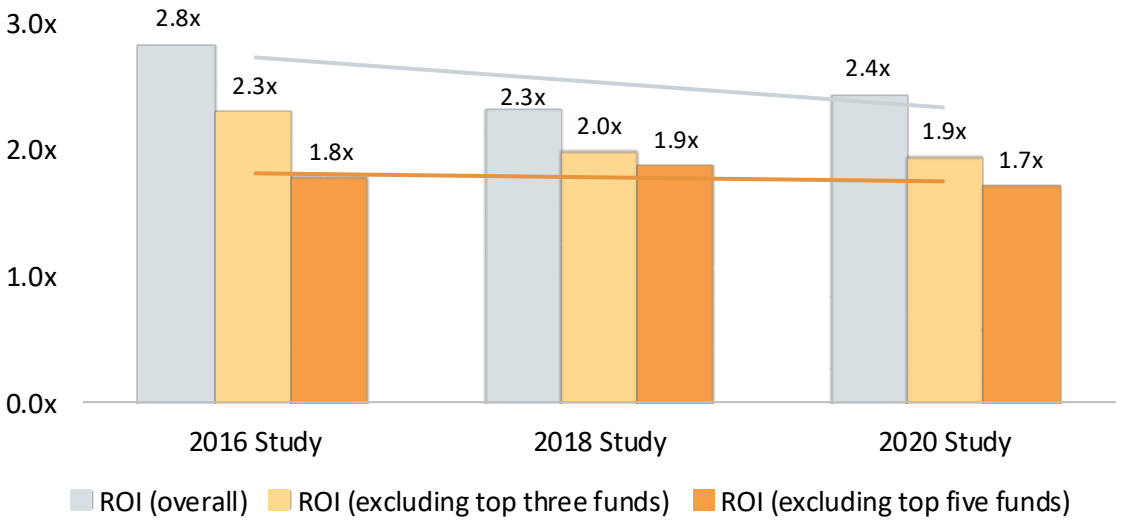

Source: Prepared by the authors based on IESE search funds surveys.

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 top five performers are removed.[18]

[17] 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 17 companies that had been operating for less than one year as of December 31, 2019.

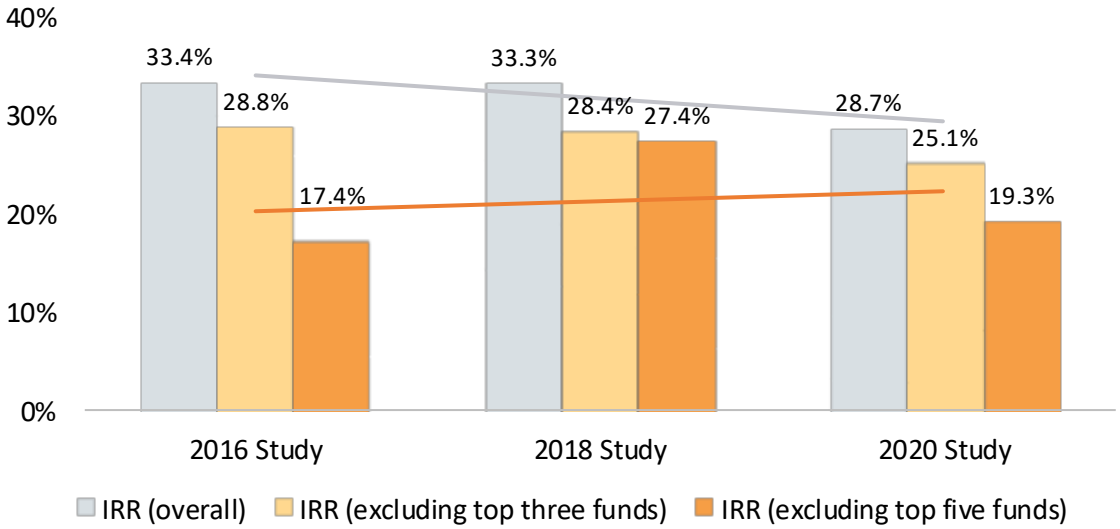
[18] The top three and top five funds for both Figure 7 and Figure 8 were excluded on the basis of their ROI ranking as one approach to demonstrating the relative impact on financial returns when the same three to five companies are removed from the calculations.

**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**

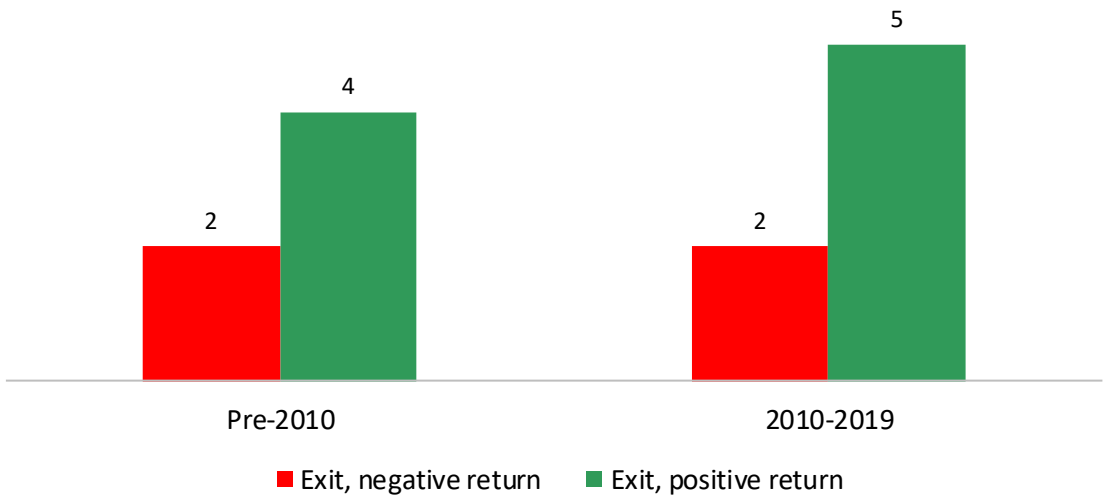



Source: Prepared by the authors based on IESE search funds surveys.

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 2020 Search Fund Study, while the ROI is lower due to shorter holding periods. The Stanford study reported an aggregate internal rate of return of 32.6% and ROI of 5.5x invested capital. Excluding the top five performers, the Stanford study reported an aggregate IRR of 28.5% and an ROI of 2.9x.

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. Four investments in Europe were exited with a negative return to investors.

**Figure 9**
**Positive and Negative Exits Over Time (N=13)**

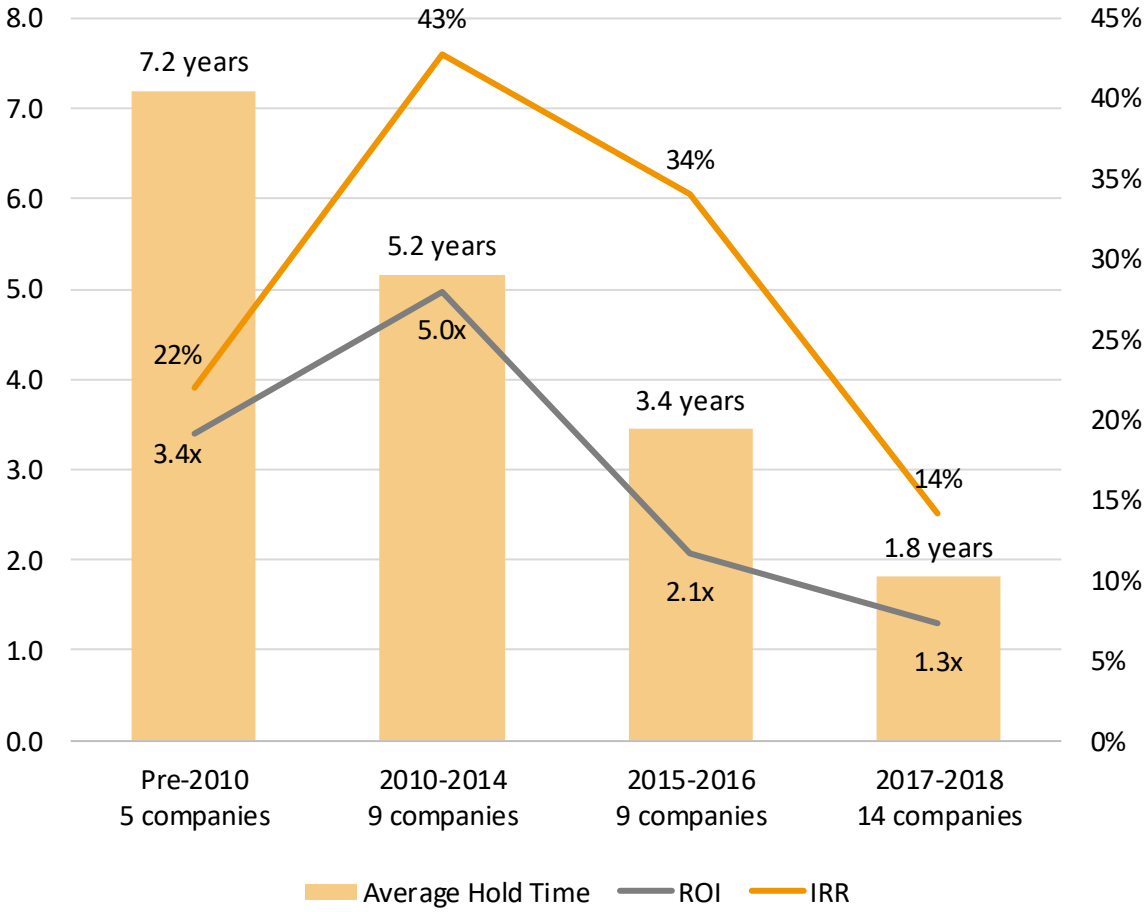



Source: Prepared by the authors based on IESE search funds surveys.

Isolating the returns for search funds that are *still operating a business*, the aggregate ROI is 2.8x, while the IRR is 31.2%. For terminal search funds (i.e., those for which the searcher acquired and then sold or exited the business), returns are 2.1x invested capital (ROI) with a 29.4% 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 two columns reflect data for two-year periods from 2015 to 2016 and 2017 to 2018, whereas the second column reflects five years' worth of data.

**Figure 10**
**IRR and ROI by Year of Company Acquisition (N=37)**[19]



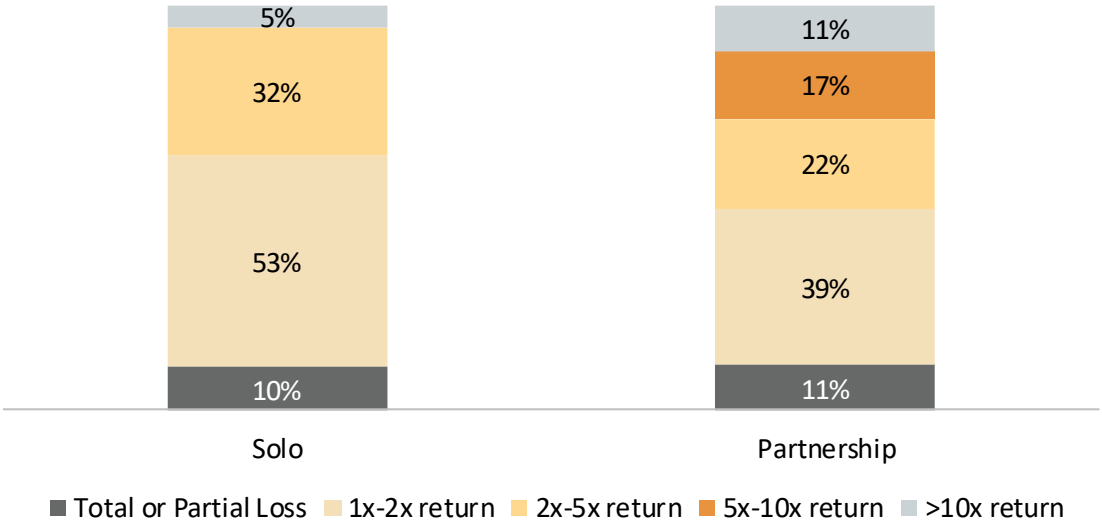

Source: Prepared by the authors based on IESE search funds surveys.

Solo searches accounted for 60% 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, 83% were partnerships (five 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.

[19] 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 17 companies that had been operating for less than one year as of December 31, 2019.

Figure 11 (below) shows the distribution of investor ROI by partnership status among international search funds that had acquired a company.

**Figure 11**
**Investor ROI by Partnership Status Among Funds That Had Acquired a Company (N=37, Including 19 Solo Searchers and 18 Partnerships)**[20]




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

With only 43 operating companies and 13 exits by international search funds as of December 31, 2019, it is too early to publish meaningful data on equity returns to entrepreneurs. Accounting for partnerships, the 2020 Stanford GSB note on U.S. and Canadian search funds reported the average equity value for each entrepreneur still operating a company is $4.36 million, and $6.47 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 $1.25 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.

[20] 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 17 companies that had been operating for less than one year as of December 31, 2019.

## 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 and Asia. 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 | 2018-2019 |
|---|---|---|---|---|---|---|---|---|
| **Age at Start of Search:** | | | | | | | | |
| **Minimum** | 29 | 29 | 26 | 26 | 27 | 27 | 26 | 26 |
| **Median** | 31 | 30 | 30 | 32 | 28 | 31 | 31 | 31 |
| **Maximum** | 35 | 34 | 43 | 42 | 37 | 41 | 39 | 47 |
| **Under 30** | 33% | 20% | 50% | 20% | 57% | 44% | 30% | 26% |
| **30-35** | 67% | 80% | 33% | 40% | 29% | 31% | 54% | 50% |
| **36-40** | 0% | 0% | 0% | 20% | 14% | 19% | 16% | 20% |
| **Over 40** | 0% | 0% | 17% | 20% | 0% | 6% | 0% | 4% |
| **Number of Post-MBA Years before Search Fund:** | | | | | | | | |
| **Minimum** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Median** | 0 | 1 | 0 | 1 | 1 | 0 | 0 | 1 |
| **Maximum** | 0 | 5 | 6 | 6 | 6 | 6 | 8 | 18 |
| **No MBA** | 0% | 0% | 0% | 20% | 29% | 13% | 8% | 8% |
| **<1 year post-MBA** | 100% | 40% | 67% | 40% | 14% | 63% | 59% | 42% |
| **1-3 years post-MBA** | 0% | 40% | 17% | 20% | 43% | 0% | 16% | 34% |
| **4-7 years post-MBA** | 0% | 20% | 17% | 20% | 14% | 25% | 11% | 10% |
| **8+ years post-MBA** | 0% | 0% | 0% | 0% | 0% | 0% | 5% | 6% |
| **Gender:** | | | | | | | | |
| **Male** | 83% | 100% | 100% | 100% | 86% | 94% | 100% | 96% |
| **Female** | 17% | 0% | 0% | 0% | 14% | 6% | 0% | 4% |

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

# Exhibit 2
International Principals' Professional Background[21]

| Professional Background | Pre-2002 | 2002-2007 | 2008-2009 | 2010-2011 | 2012-2013 | 2014-2015 | 2016-2017 | 2018-2019 |
|---|---|---|---|---|---|---|---|---|
| Management Consulting | 17% | 0% | 0% | 20% | 43% | 25% | 19% | 14% |
| Investment Banking/Finance | 0% | 60% | 50% | 40% | 43% | 19% | 22% | 10% |
| Sales | 17% | 0% | 0% | 20% | 0% | 13% | 3% | 0% |
| Venture Capital | 0% | 0% | 0% | 0% | 0% | 0% | 5% | 0% |
| General Management | 50% | 0% | 17% | 20% | 0% | 6% | 8% | 18% |
| Marketing | 0% | 20% | 0% | 0% | 0% | 0% | 3% | 0% |
| Law | 0% | 0% | 0% | 0% | 0% | 0% | 3% | 2% |
| Operations | 0% | 20% | 0% | 0% | 0% | 0% | 5% | 2% |
| Entrepreneur | 0% | 0% | 0% | 0% | 0% | 6% | 8% | 4% |
| Accounting | 17% | 0% | 0% | 0% | 0% | 0% | 0% | 2% |
| Engineering | 0% | 0% | 0% | 0% | 0% | 0% | 5% | 6% |
| Military | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 2% |
| Financial Advisory | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 6% |
| Private Equity | 0% | 0% | 33% | 0% | 14% | 31% | 19% | 24% |
| Investing (Other than VC or PE) | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 6% |
| Other | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 4% |

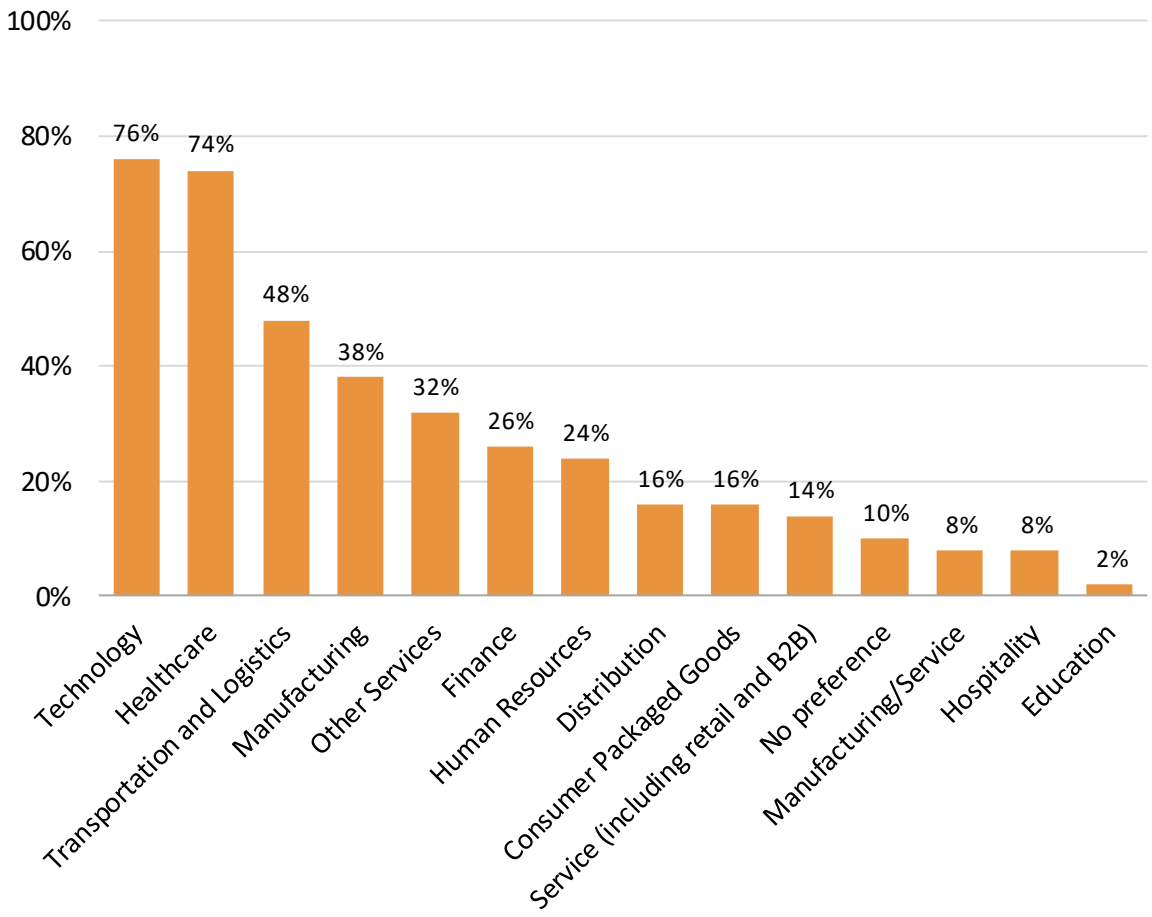
Source: Prepared by the authors based on IESE search funds surveys.

[21] As a means of comparison, the IESE student profile comprises the following professional backgrounds: 61% general management/industry, 20% 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 | 2018-2019 |
|---|---|---|---|---|---|---|---|---|
| **Number of Principals:** | | | | | | | | |
| **Single** | 100% | 60% | 33% | 80% | 29% | 63% | 51% | 60% |
| **Partners** | 0% | 40% | 67% | 20% | 71% | 38% | 49% | 40% |
| **Amount of Initial Capital Raised ($):** | | | | | | | | |
| **Minimum** | 192,661 | 40,000 | 50,000 | 225,000 | 250,000 | 200,000 | 300,000 | 168,311 |
| **Median** | 266,500 | 170,000 | 493,779 | 314,850 | 587,777 | 426,486 | 440,638 | 446,150 |
| **Maximum** | 287,478 | 200,000 | 525,000 | 485,043 | 651,473 | 800,000 | 650,000 | 875,000 |
| **Amount of Initial Capital Raised by Solo Searchers ($):** | | | | | | | | |
| **Minimum** | 192,661 | 15,000 | 50,000 | 240,000 | 350,000 | 332,500 | 300,000 | 168,311 |
| **Median** | 266,500 | 40,000 | 256,279 | 369,542 | 362,500 | 400,000 | 396,000 | 413,695 |
| **Maximum** | 287,478 | 190,000 | 462,557 | 485,043 | 375,000 | 696,832 | 526,003 | 549,723 |
| **Amount of Initial Capital Raised by Partnerships ($):** | | | | | | | | |
| **Minimum** | - | 170,000 | 435,515 | 225,000 | 250,000 | 200,000 | 300,000 | 421,078 |
| **Median** | - | 185,000 | 525,000 | 225,000 | 600,000 | 590,000 | 585,566 | 606,444 |
| **Maximum** | - | 200,000 | 525,000 | 225,000 | 651,473 | 800,000 | 650,000 | 875,000 |
| **Number of Search Fund Investors:** | | | | | | | | |
| **Minimum** | 8 | 2 | 3 | 10 | 6 | 6 | 5 | 8 |
| **Median** | 10 | 7 | 16 | 13 | 15 | 15 | 17 | 16 |
| **Maximum** | 11 | 9 | 20 | 16 | 24 | 25 | 22 | 28 |
| **Number of Months Fundraising:** | | | | | | | | |
| **Minimum** | 2 | 1 | 2 | 3 | 3 | 2 | 2 | 2 |
| **Median** | 5 | 2 | 6 | 9 | 4 | 5 | 4 | 5 |
| **Maximum** | 7 | 6 | 7 | 13 | 15 | 12 | 11 | 13 |

# Exhibit 4
Targeted Industries, 2018-2019 (n=50)[22, 23]

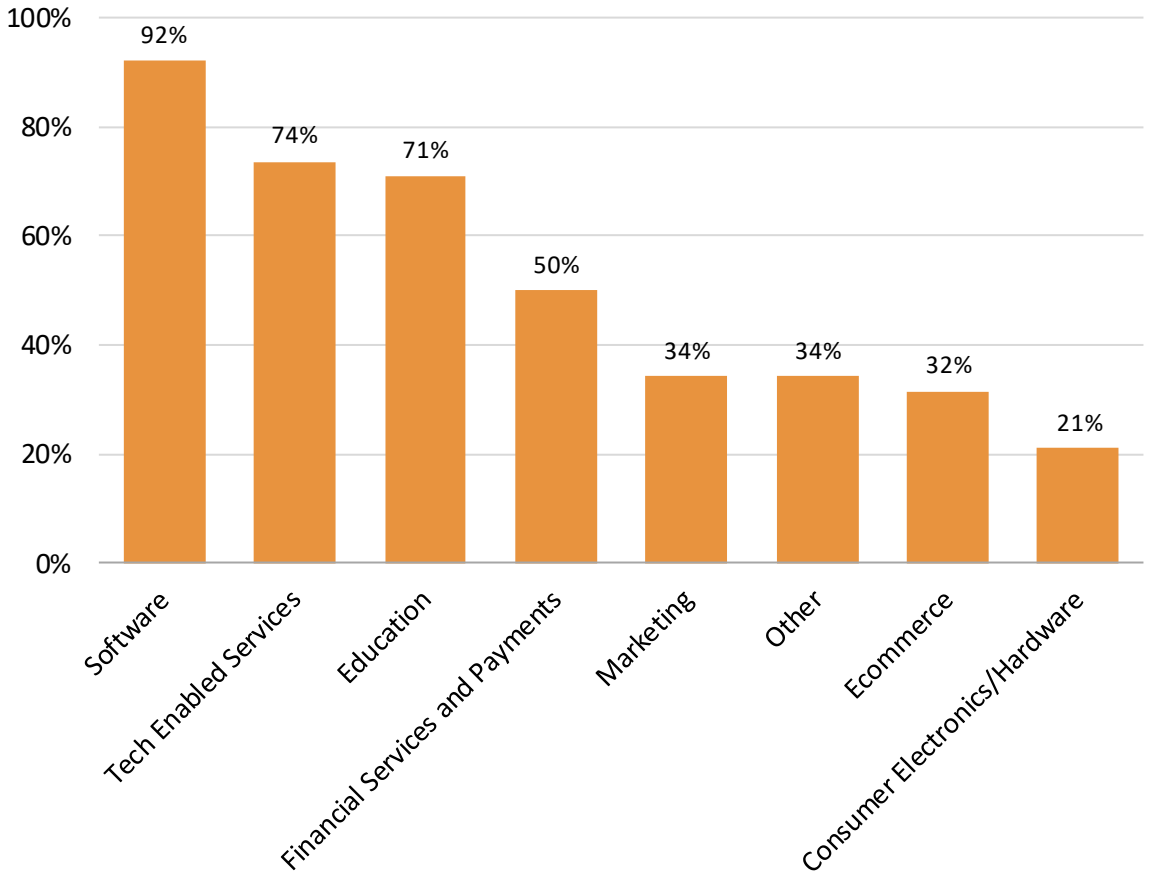



Source: Prepared by the authors based on IESE search funds surveys.

[22] 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 newly surveyed for this study in given years.

[23] For historical data on industries targeted by searchers (pre-2002–2017), please refer to previous versions of the International Search Fund Study. Previous versions of the International Search Fund Study are available at: https://www.iese.edu/entrepreneurship/search-funds.

# Exhibit 5
Targeted Technology Subcategories, 2018-2019 (n=38)[24]

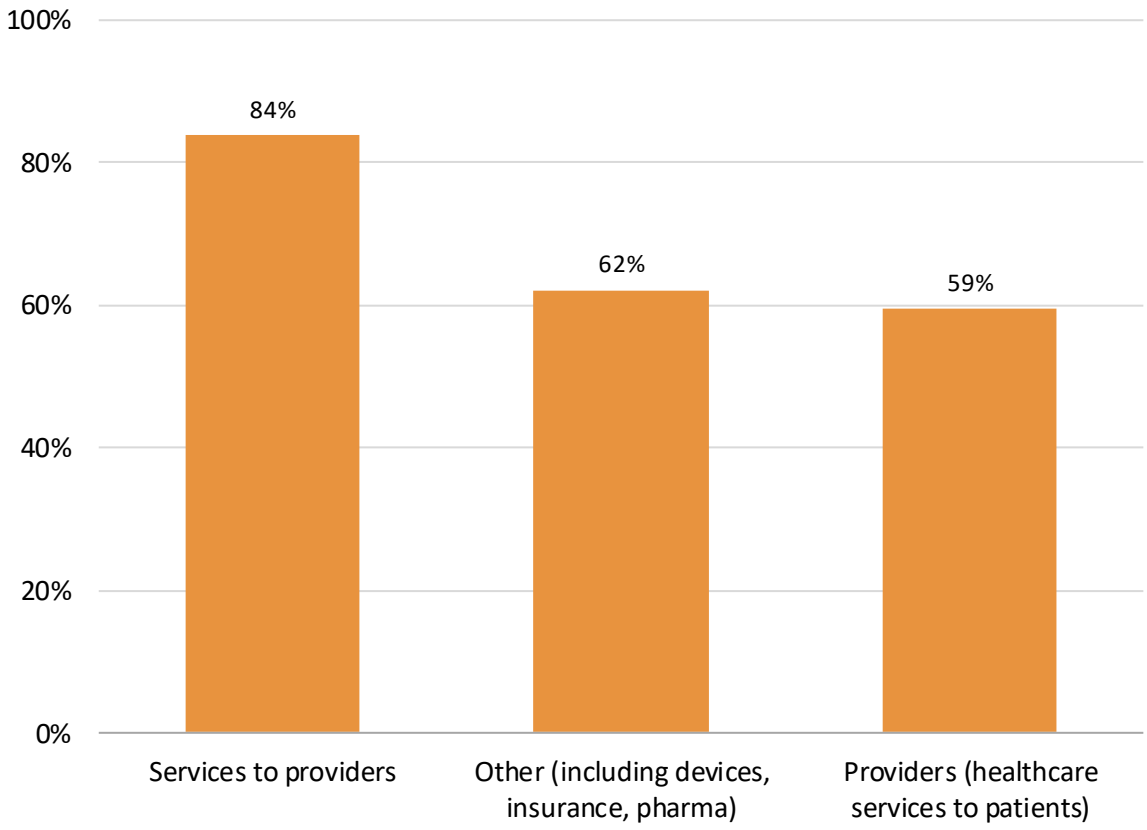



Source: Prepared by the authors based on IESE search funds surveys.

[24] The "Internet or IT" category was redefined as "Technology" in the 2016 and 2018 study and broken into sub-categories.

# Exhibit 6

Targeted Healthcare Subcategories, 2018-2019 (n=37)




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

# Exhibit 7
Median Statistics for International Search Fund Acquisitions

| Medians | All Acquisitions | Pre-2010 | 2010-2011 | 2012-2013 | 2014-2015 | 2016-2017 | 2018-2019 |
|---|---|---|---|---|---|---|---|
| **Length of Search (months)** | 19 | 8 | 22 | 29 | 22 | 16 | 22 |
| **Purchase Price** | $11.0 M | $3.0 M | $7.1 M | $5.9 M | $13.6 M | $12.3 M | $12.8 M |
| **Company Revenues at Purchase** | $8.0 M | $8.0 M | $7.2 M | $7.9 M | $9.8 M | $10.8 M | $9.9 M |
| **Company EBITDA at Purchase** | $2.4 M | $0.6 M | $1.5 M | $1.3 M | $2.8 M | $3.0 M | $2.3 M |
| **EBITDA Margin** | 23% | 11% | 23% | 9% | 24% | 27% | 28% |
| **EBITDA Growth Rate at Purchase** | 10% | 7% | 6% | 0% | 5% | 16% | 7% |
| **Revenue Growth Rate at Purchase** | 10% | 7% | 6% | 0% | 9% | 10% | 12% |
| **Purchase Price / EBITDA** | 5.6x | 3.0x | 5.1x | 6.4x | 5.8x | 4.2x | 5.7x |
| **Purchase Price / Sales** | 1.3x | 0.6x | 1.2x | 0.8x | 1.5x | 1.2x | 1.6x |
| **Company Employees at Purchase** | 64 | 70 | 141 | 33 | 68 | 90 | 58 |

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

# Exhibit 8

Selected Statistics for All International Search Fund Acquisitions

| Total Number of Months from Start of Search to Deal Close | All Acquisitions |
|---|---|
| Minimum | 5 |
| Median | 19 |
| Maximum | 42 |
| <11 months | 16% |
| 11-20 months | 42% |
| 21-30 months | 29% |
| 31+ months | 13% |

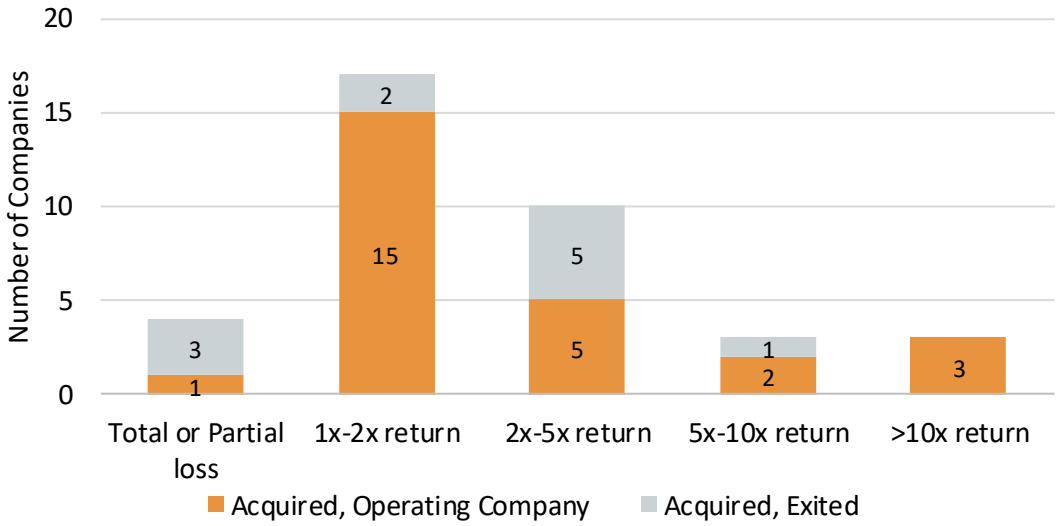
| Purchase Price Statistics | All Acquisitions |
|---|---|
| Minimum | $0.8 M |
| Median | $11.0 M |
| Maximum | $56.8 M |
| <$4 M | 9% |
| <$4 M to $8 M | 25% |
| <$8 M to $12 M | 22% |
| >$12 M | 44% |

| Additional Statistics for All Search Fund Acquisitions | Minimum | Median | Maximum |
|---|---|---|---|
| Company Revenues at Purchase | $1.0 M | $8.0 M | $31.6 M |
| Company EBITDA at Purchase | $0.0 M | $2.4 M | $11.6 M |
| Company EBITDA Margin at Purchase | 0% | 23% | 68% |
| Purchase Price / EBITDA | NM | 5.6x | 20.0x |
| Purchase Price / Revenue | 0.2x | 1.3x | 6.9x |
| EBITDA Growth Rate at Purchase | -30% | 10% | 89% |
| Revenue Growth Rate at Purchase | -10% | 10% | 40% |
| Company Employees at Purchase | 12 | 64 | 1,200 |

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

# Exhibit 9

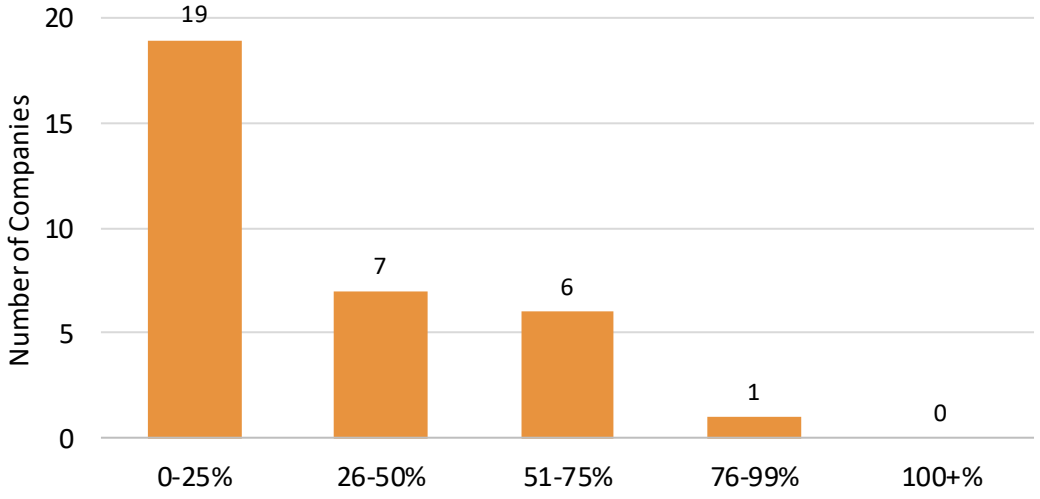
Distribution of International Search Funds That Have Acquired a Company, by ROI (n=37)[25]




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

# Exhibit 10

Distribution of International Search Funds by Positive IRRs (n=33)[26]




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

[25] Of the 56 funds that acquired companies as of December 31, 2019, 17 funds had been operating a company for less than one year. One fund was removed due to insufficient data and one due to unresponsiveness of the principal. Thus, return data could be calculated for 37 funds.

[26] Of the 37 search funds for which IESE has collected returns data, 33 had reported positive IRRs as of December 31, 2019.

# Appendix
## Qualitative Observations

This appendix is meant to provide a deeper perspective on the experiences and obstacles faced by international searchers. It is organized by the four stages described in the Introduction 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 (both recent and older) 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 35 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, and a roster of successful search fund entrepreneurs re-investing in the model. In the past prospective international search fund entrepreneurs have had more limited access to capital sources with an understanding of the search fund model, although that is changing in some countries (as described below).

In new markets, the prospective international searcher faces the task of educating potential investors about search funds – how they work and why they can be attractive. The searcher who raised 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 local investors were only seeking venture-capital type growth and returns, which differ from those of typical search funds, and thus 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 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 emerged in Germany, Spain and the United Kingdom, among others, making it easier for searchers to raise search capital from local investors as well as making experienced US investors more comfortable co-investing with these 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 investors and instead fund their own search costs. Typically, they bring a group of investors together later at the point of acquiring a company.[27]

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 fund exits, which have led those search fund entrepreneurs to begin investing in new search funds in the region and their investors to continue supporting the region's searchers.

In Israel, one searcher realized that it would be 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).

Many U.S.-based serial search fund investors said that they relied on the knowledge of local investors before making a commitment in a new 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.

Upon raising the search fund, many searchers expressed frustration at the lack of an appropriate legal entity in their country. 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 often does not exist in other countries. Many Latin American searchers reported forming an LLC in the United States in order to attract U.S. investors, since many of their local investors were already familiar with the LLC structure. 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 U.K. investors as well as U.S. investors who had invested in those prior U.K. search funds. 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.

[27] An 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)

## *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 some searchers have resorted to regional searches. This is done especially when a searcher can speak multiple European languages and is even more common among countries that share a mother tongue (for example, an Austrian search also covered Germany and Switzerland). In Africa, one searcher based in Uganda reported that she searched across East Africa to increase the chances of buying a high-quality company. On the other hand, the high 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 always 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, professional network generated most of a searcher's successful leads.

In addition, the same education about search funds required of new 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.

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 investor 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 seek 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 potential succession issues. However, it is generally understood that companies often do not report full revenues and profits, which clouds the accuracy of public financial records.

# Appendix (Continued)

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 is almost shameful for a family to sell their multigenerational enterprise; and in the few cases when families did decide to sell their company, it was still hard to replace not only the owner but also other family members who held key roles in the company.

U.S. search funds have traditionally relied on bank debt to help finance an acquisition, at times representing around 50% of the purchase capital. 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.

Currently in Europe lending conditions vary widely by country. In the United Kingdom, where banks simply were not making small acquisition loans at the time, one search fund entrepreneur had to convince his investors to invest in both debt and equity to finance the deal. Yet banks in Spain were competing to make such loans at very attractive rates, making it relatively easy to finance deals. 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 investors) during the search phase, which strengthens the relationship between a searcher and those investors and provides a model for post-acquisition mentorship. Additionally, this gives the searcher a ready channel for frequent feedback on deals.

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. The increased use of video-conferencing stimulated by the COVID-19 pandemic has made it easier to deal with this issue.

## *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 secure 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.

# Appendix (Continued)

In Chile, a current CEO said fatigue is common, given the lengthy time of the project (fundraise, search and then operate); indeed, 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 on 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, it has not 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. Four investments resulted in a loss of capital.

For one positive 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 and then on the Board of the company that he eventually acquired. From a mentoring and advice perspective, this continuity was very helpful, especially while managing the company through difficult periods. As mentioned, this is a departure from the U.S. model, where the search phase is often structured without a Board and investor oversight during the search phase 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.

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 shorter 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.

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