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INTERNATIONAL SEARCH FUNDS - 2013
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 Stanford Graduate School of Business.

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Introduction

In 2011, IESE Business School (IESE) agreed with the Stanford Graduate School of Business (GSB) to identify and track international search funds.[1] This note is the second to be published by IESE, which plans to update it biannually in concert with Stanford's report on search funds.[2]

By using a quantitative survey-based research method, this note aims to shed light on the evolving characteristics of international search funds. In the future, as the number of search funds outside the United States and Canada increases, this report will include performance results.

Additionally, since the principals tracked in this study are from diverse locations, qualitative observations based on a series of interviews are presented in the Appendix. As the search fund investment model originated in the United States, the Appendix is meant to render the experiences and obstacles faced by international searchers.

As a summary introduction to the asset class, search funds offer entrepreneurs the possibility of becoming equity-owning business operators. For investors, the asset class is a stage-based investment in an entrepreneur and an existing business venture. The life cycle of a search fund can be reduced to four stages: (1) raising a search fund, i.e., a pool of capital with which the searcher(s) find a company to acquire; (2) search and acquisition, during which time 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 a liquidity event by a number of means. For additional background information on the search fund asset class, see the Stanford GSB Center for Entrepreneurial Studies (CES) Search Fund Primer.

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[1] "International" in this use means outside the United States and Canada.

[2] For more information on Stanford's research efforts in the United States and Canada, which have tracked more than 177 search funds since 1996, see http://www.gsb.stanford.edu/ces/resources/search_funds.html.

International Search Fund Asset Class

This study is drawn from a pool of 28 first-time search funds, the earliest of which was formed in 1992. This study only considers first-time search funds and excludes search vehicles that are self funded, since self-funded searches are not subject to external factors such as defined search periods or third-party investor requirements.

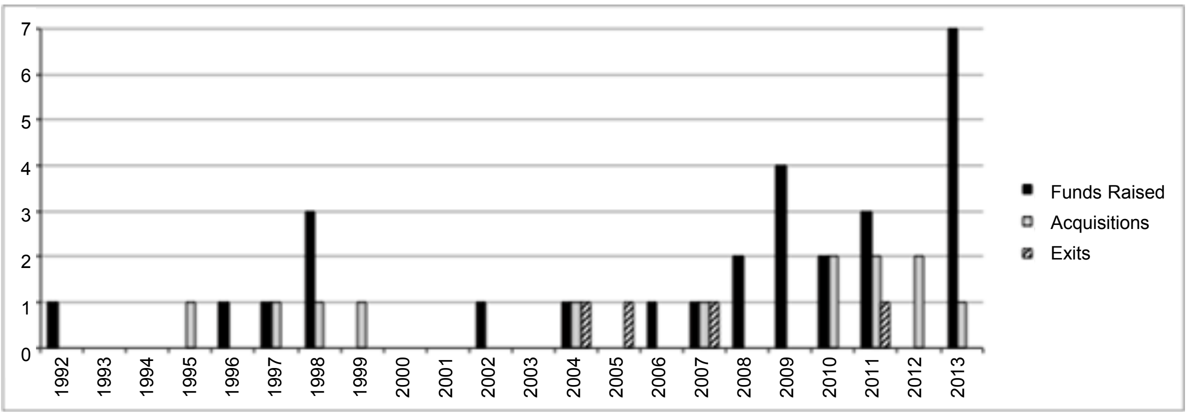
Each principal, or pair of principals, was asked to complete a standardized, electronically distributed survey that included questions about their personal background, professional profile and motivations for starting a search fund. They were also asked about the fundraising process and the geographic focus and target industry and company characteristics of their search fund. Searchers that had completed an acquisition were asked about operational metrics, and those that had completed a liquidity event were asked about the achieved return.

The sample set in this study is diverse, with international searchers in 12 countries across four continents. 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 as this study is repeated, additional searchers may be retroactively added to the sample set as they become known, thus possibly affecting the information presented in this report.[3]

As Figure 1 demonstrates, search fund activity outside the United States and Canada has increased steadily.

Figure 1

International Search Fund Activity by Year



Of the 28 funds raised since 1992, as of year-end 2013 eight search funds were either searching for an acquisition or were fundraising for a planned acquisition, seven had acquired and were operating a company, five had deviated from the search fund model and eight were classified as "terminal."[4,5] Of those eight terminal funds, four had acquired and exited a business for a positive return to investors, two had acquired and then shut down a company at a loss to

[3] This study includes information for unresponsive funds when it was possible to collect information from their investors.

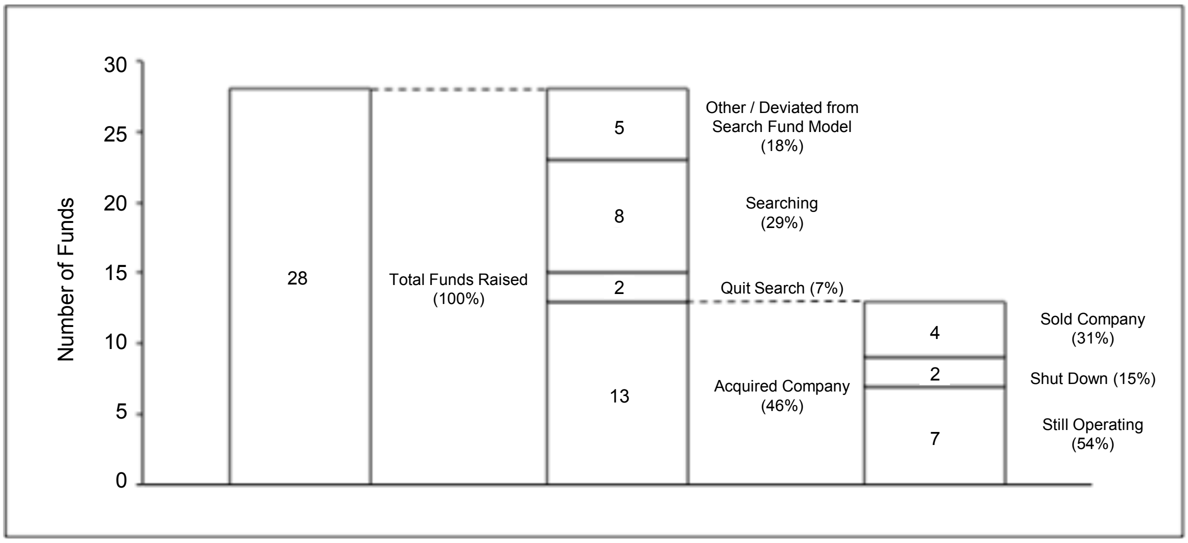
[4] Of the five funds that deviated from the search fund model, principals most commonly reported pursuing a startup after closing the fund, either by utilizing the remaining search capital for startup costs or by raising startup capital from a fresh set of investors.

[5] "Terminal" search funds are those that had Quit Search, Sold a Company or Shut Down a Company.

investors and two had ended their search without making an acquisition, resulting in the investors' loss of search capital. These findings are summarized in Figure 2. New funds and additional exits have been noted in 2014 but not included in this study for consistency.

Figure 2

International Search Fund Activity by Stage

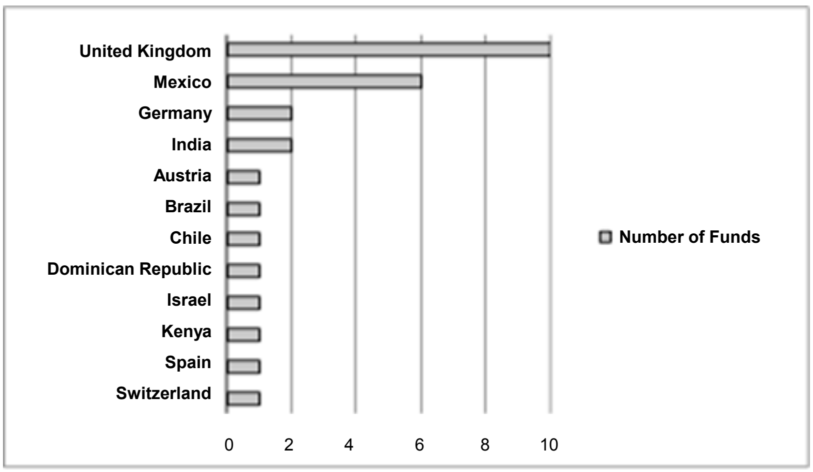


While the early international search funds were formed in the United Kingdom, beginning in 2003 search funds were formed in Latin America, Europe, Africa and Asia.

Of the 28 international search funds formed as of December 2013, there were ten search funds located in the United Kingdom, five in Continental Europe, six in Mexico, three in the rest of Latin America, two in India, one in the Middle East and one in Africa. A detailed geographic split is shown in Figure 3.

Figure 3

International Search Fund Activity by Country



Principals' Backgrounds

The profile of international search fund principals is quite diverse, with the youngest age at the beginning of the search being 26 and the oldest being 43. As is consistent with the original search fund model, the majority of principals (89%) graduated from an MBA program, with 71% raising their search fund within two years of graduation. Not surprisingly, given that the model originated in the United States, 76% of those who completed an MBA graduated from a U.S. business school. (See **Exhibit 1** for additional reporting on principals' background.)

Part of the appeal of the search fund model is that searchers come from an array of pre-professional backgrounds and, as summarized in the Appendix, many of the investors interviewed did not have a preference for any particular professional background, stating that search funds are an effective way for young people with a variety of backgrounds to run a company. (See **Exhibit 2** for additional reporting on principals' professional background.)

Additionally, 39% of search funds were formed by two or more principal partners. Most of the searchers interviewed stated they had decided to search with a partner for a variety of reasons – e.g., wanting someone with a complementary professional background, being able to more efficiently search with two principals instead of one or simply having someone else to accompany him or her on what is often described as a "lonely" journey.

Fundraising and Search

Fundraising metrics varied widely; the median amount raised equaled $334,000, the minimum amount was $15,000 and the maximum was $673,000.[6] This divergence can be explained in part by the practice of dual-searcher funds raising more search capital to cover dual salaries and can be further explained by differences in local searching costs.

The international searchers generally described themselves as "opportunistic" in their search process but did exhibit some industry preferences. Service businesses were generally a popular industry theme, with 68% of searchers stating that business services were a priority industry. As shown in Figure 4 (below), the mean number of companies reviewed before a successful acquisition totaled more than 330 in 2012-2013. This is lower than the average number of companies considered by U.S. and Canadian search funds. (See **Exhibit 3** for additional reporting on additional metrics, including the search stage.)

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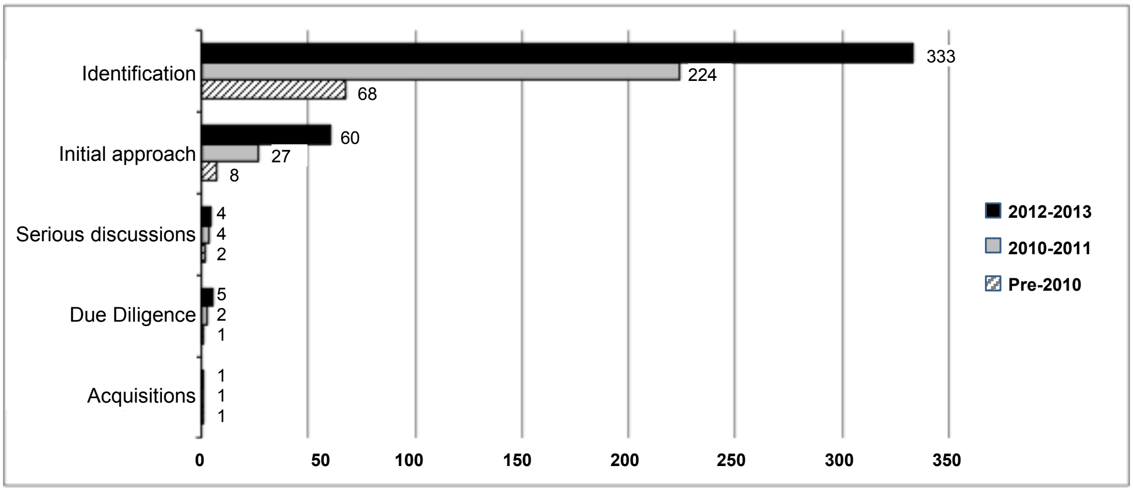
[6] All financial information presented in this study has been converted to U.S. dollars using the historic conversion rate as quoted by XE. USD was chosen for two reasons: (1) the euro was not in circulation for search funds raised prior to 2002 and (2) many search funds, although located outside the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

Figure 4

Acquisition Funnel of Successful Acquisitions: Pre-2010, 2011 and 2013



Acquiring a Company

Search funds, both international and those in the United States and Canada, often include investment criteria of recurring revenue, high EBITDA margins and stable cash flow history. In a sample of offering memoranda reviewed by the research team, nearly all mentioned these acquisition characteristics. There have been 13 acquisitions made outside the United States and Canada through the search fund model to date (of the 28 tracked by IESE versus 177 known U.S. and Canadian search funds tracked by Stanford GSB). Of these 13 acquisitions, four were successfully sold, seven are currently operating and two were shut down. Of those that successfully completed an acquisition, 17% were purchased for less than $4 million, 58% for $4 million to $8 million, 17% for $8 million to $12 million and 8% for $12 million or more. The median search fund acquisition has the following characteristics: $7.9 million in revenues, EBITDA margin of 19%, a purchase price to EBITDA multiple of 5.6x, trailing annual EBITDA growth rate of 5% and 70 employees. (See **Exhibit 4** for more search fund acquisition statistics.)

Additionally, and perhaps due to the earlier stage of some industries outside the United States and Canada, searchers in some geographic regions have failed to find suitable acquisitions in targeted industries and instead, with investor support and after a sufficient period of investigation and searching, considered a startup. Even though most search investors discourage search entrepreneurs from planning a startup at the beginning, and indeed the search fund path is seen as less risky than a startup, investors' participation in these deals has followed the typical search fund economics model. Indeed, of the five searchers that deviated from the search fund model, two founded startups with the backing of their search investors. Again, because of the limited sample set, readers are cautioned against making conclusions concerning a typical international search fund acquisition.

Financial Performance

Given that there have only been four exits made by international search fund entrepreneurs as of December 2013 and two cases of companies failing, it is too early to publish meaningful performance data. However, directionally speaking, the performance seems to mirror the search fund performance data published in the 2013 Stanford GSB note on U.S. and Canadian search funds; of the 39 “terminal” search funds in that study that made acquisitions, 22 (56%) resulted in a successful exit and 17 (44%) resulted in the company being shut down. As a means of reference, the same study reported an aggregate internal rate of return of 34.9% and 10.0x return on investment.

Outlook

Given the low 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 performance information for the international search fund asset class. Seemingly promising search acquisitions have been made in Germany, the United Kingdom, Mexico and other countries. Searches have begun in even more countries, including some in Africa. Still, readers are cautioned against making firm conclusions about the model’s outcomes in the international arena 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 of judging the performance of international search funds as an asset class, this note should be interpreted as a means of understanding common search fund characteristics outside the United States and Canada.

As of this writing in June 2014, new reports from international search funds raising capital, negotiating to acquire, operating with both negative and positive results, and selling successfully are arriving. 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
Age at Start of Search:					
Minimum	29	29	26	26	27
Median	31	31	30	32	28
Maximum	35	34	43	42	37
Under-30	33%	25%	50%	20%	57%
30-35	67%	75%	33%	40%	29%
36-40	0%	0%	0%	20%	14%
Over-40	0%	0%	17%	20%	0%
Number of Post-MBA Years before Search Fund:					
Minimum	0	0	0	0	0
Median	0	1	0	1	1
Maximum	0	5	6	6	6
No MBA	0%	0%	0%	20%	29%
<1 year post-MBA	100%	25%	67%	40%	29%
1-3 years post-MBA	0%	50%	17%	20%	29%
4-7 years post-MBA	0%	25%	17%	20%	14%
>8 years post-MBA	0%	0%	0%	0%	0%
Gender:					
Male	83%	100%	100%	100%	86%
Female	17%	0%	0%	0%	14%

Exhibit 2

International Principals' Professional Background

	Pre-2002	2002-2007	2008-2009	2010-2011	2012-2013
Professional Background:					
Management Consulting	17%	0%	0%	20%	43%
Investment Banking/Finance	0%	50%	50%	40%	43%
Sales	17%	0%	0%	20%	0%
Line/General Management	50%	0%	17%	20%	0%
Marketing	0%	25%	0%	0%	0%
Operations	0%	25%	0%	0%	0%
Entrepreneur	0%	0%	0%	0%	0%
Accounting	17%	0%	0%	0%	0%
Private Equity	0%	0%	33%	0%	14%

Note. As a means of comparison, the IESE student profile comprises the following professional backgrounds: 21% general management, 18% marketing and sales, 17% consulting, 14% finance and 30% other.

Exhibit 3

International Search Fund Metrics

	Pre-2002	2002-2007	2008-2009	2010-2011	2012-2013
Number of Principals:					
Single	100%	75%	33%	80%	29%
Partners	0%	25%	67%	20%	71%
Amount of Initial Capital Raised:					
Minimum	$145,899	$15,000	$50,000	$225,000	$340,000
Median	$229,953	$105,000	$525,000	$288,888	$600,000
Maximum	$283,000	$190,000	$673,198	$485,043	$651,473
Amount of Initial Capital Raised per Principal:					
Minimum	$145,899	$15,000	$50,000	$112,500	$200,000
Median	$229,953	$62,500	$262,500	$288,888	$324,753
Maximum	$283,000	$190,000	$462,557	$485,043	$350,000
Number of Search Fund Investors:					
Minimum	8	2	3	10	5
Median	10	7	16	13	15
Maximum	11	9	20	16	24
Number of Months Fundraising:					
Minimum	2	1	2	3	3
Median	5	4	6	9	4
Maximum	7	6	7	13	15
Targeted Industries by Frequency*:					
Service (including retail and B2B)	2	1	5	4	7
Manufacturing	2	0	0	1	4
Manufacturing/Service	2	0	0	2	5
Distribution	1	0	2	1	4
Media	0	0	1	2	2
Utilities	1	0	0	1	2
Internet or IT	1	0	3	3	3
Education	0	0	3	3	5
Healthcare	1	0	4	3	6
No Preference	0	2	1	1	1
Other	1	1	1	0	0

*Principals were asked to choose all industries they targeted, rather than choosing only one. The above units represent the frequency of each response across all search funds surveyed for this study.

Exhibit 4

Selected Statistics for All International Search Fund Acquisitions

Total Number of Months From Start of Search to Deal Close:	**All Acquisitions**
Minimum	1
Median	14
Maximum	42
<11 months	46%
11-20 months	15%
21-30 months	15%
31+ months	23%

Purchase Price Statistics:	**All Acquisitions**
Minimum	$3.0 M
Median	$5.8 M
Maximum	$22.4 M
<$4 M	17%
$4 M to $8 M	58%
$8 M to $12 M	17%
>$12 M	8%

Additional Statistics for All Search Fund Acquisitions:	**Minimum**	**Median**	**Maximum**
Company Revenues at Purchase	$1.0 M	$7.9 M	$15.2 M
Company EBITDA at Purchase	$0.0 M	$1.3 M	$4.0 M
Company EBITDA Margin at Purchase	0%	19%	31%
Purchase Price / EBITDA	NM	5.6x	9.3x
Purchase Price / Revenue	0.3x	0.9x	7.0x
EBITDA Growth Rate at Purchase	-30%	5%	35%
Company Employees at Purchase	12	70	230

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 40 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 six months, longer than the four months noted in the Stanford GSB study for U.S. and Canadian search funds. With more than 25 years of search fund activity in the United States and Canada, hopeful searchers have access to serial search fund investors, including small search-focused 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, a prospective international searcher has to access this resource from a distance, if at all.

In most instances, the prospective international searcher faces the task of educating many 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.

Appendix (Continued)

There were exceptions and a few 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 closer geography. 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 local investors. One European investor who committed to a domestic search fund reported that he made the investment primarily because of the quality of serial search fund investors that invested – 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 their units as pieces 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 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 organization costs, whereas most European lawyers require upfront payment so far.

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 20-year history outside the United States and Canada.

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 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 is based in Uganda and is searching across East Africa (primarily Kenya) 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.[7] 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 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.

[7] The search fund entrepreneurs specifically requested that their countries of origin remain anonymous.

Appendix (Continued)

Furthermore, 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 was able 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, Spain, 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 have bought companies in Mexico, Brazil, Chile, the United Kingdom and Germany and 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 current CEO stated that having external investors forces him to be more disciplined and also gives 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 it has not prevented significant successes.

Stage 4: Exit

With only four known exits by international search fund entrepreneurs – two in the United Kingdom, one in Brazil and one in Mexico – comparisons about this stage are particularly hard to make. Two investments, both in Europe, resulted in the company entering receivership.

Appendix (Continued)

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.

For the exit 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 the 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.