



# Introduction to Search Funds & Entrepreneurship Through Acquisitions (ETA)

Presented to MBA Association, Ireland

25 Jan 2023



CONFIDENTIAL & PROPRIETARY

This material may not be used, reproduced, or distributed without specific permission of Forás Capital Investment Ltd.



# Agenda

**1**

**What are Search Funds, their structures and performance?**

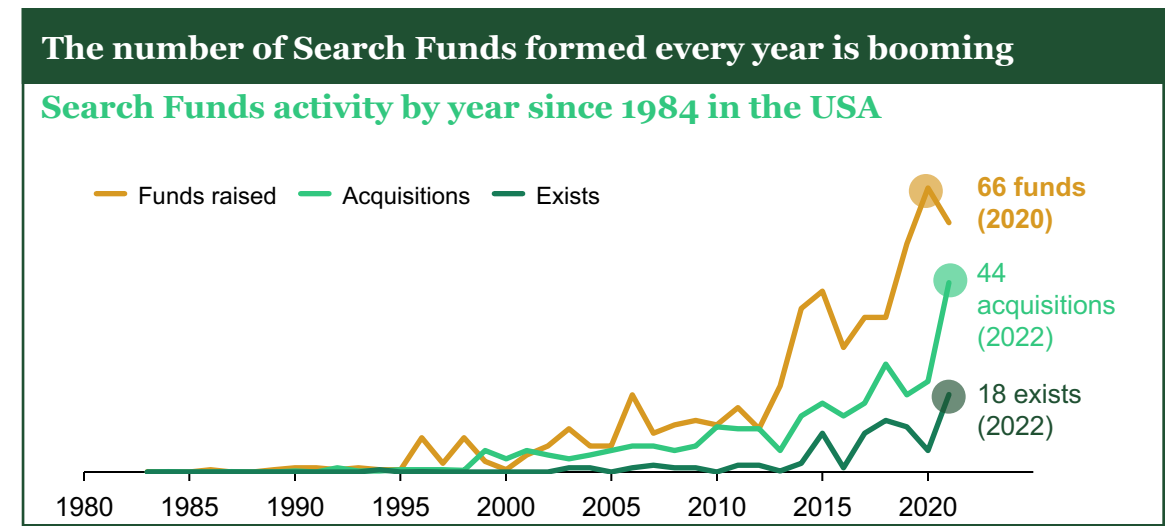
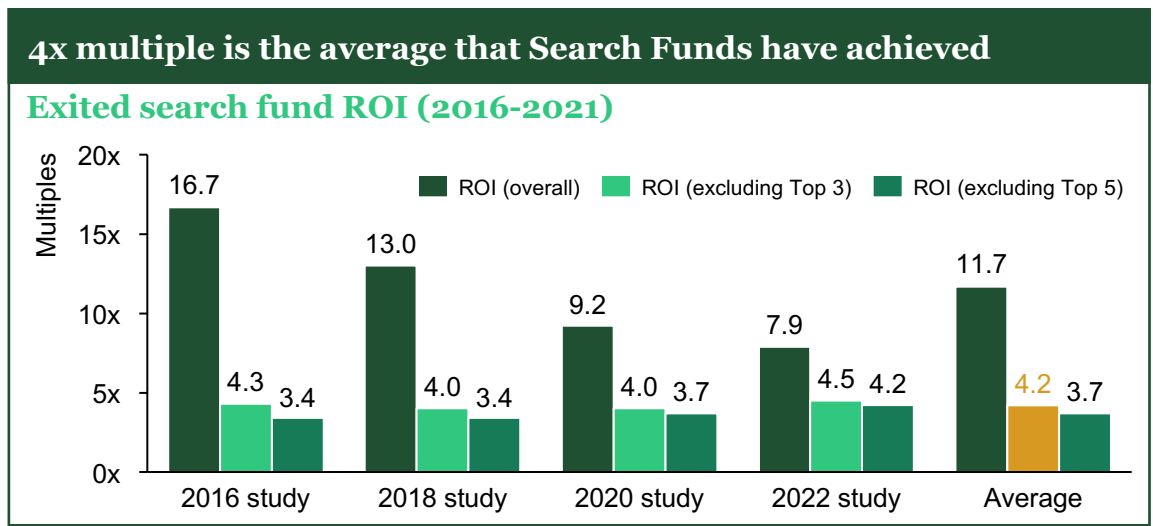
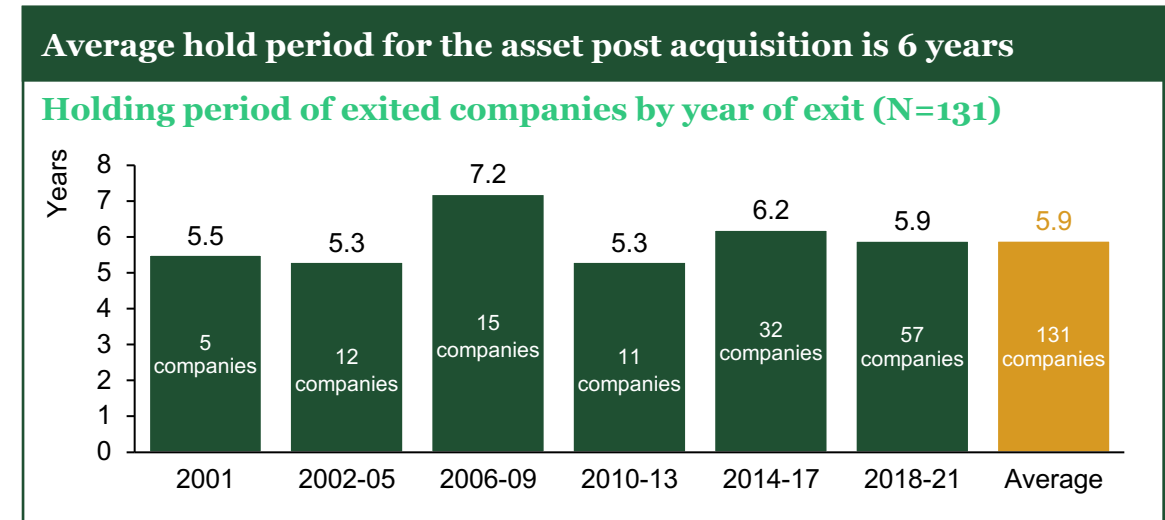
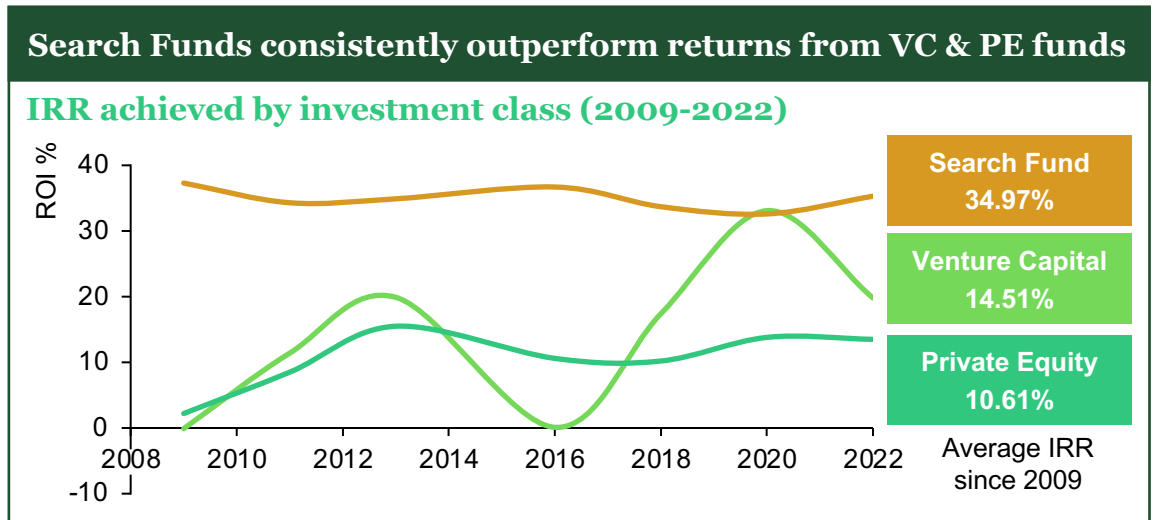
**2**

**Profiles of a Typical Searcher**

**3**

**Resources to learn more & How can you support me**

# Search Funds are increasing in popularity as they consistently outperform returns from VC & PE funds

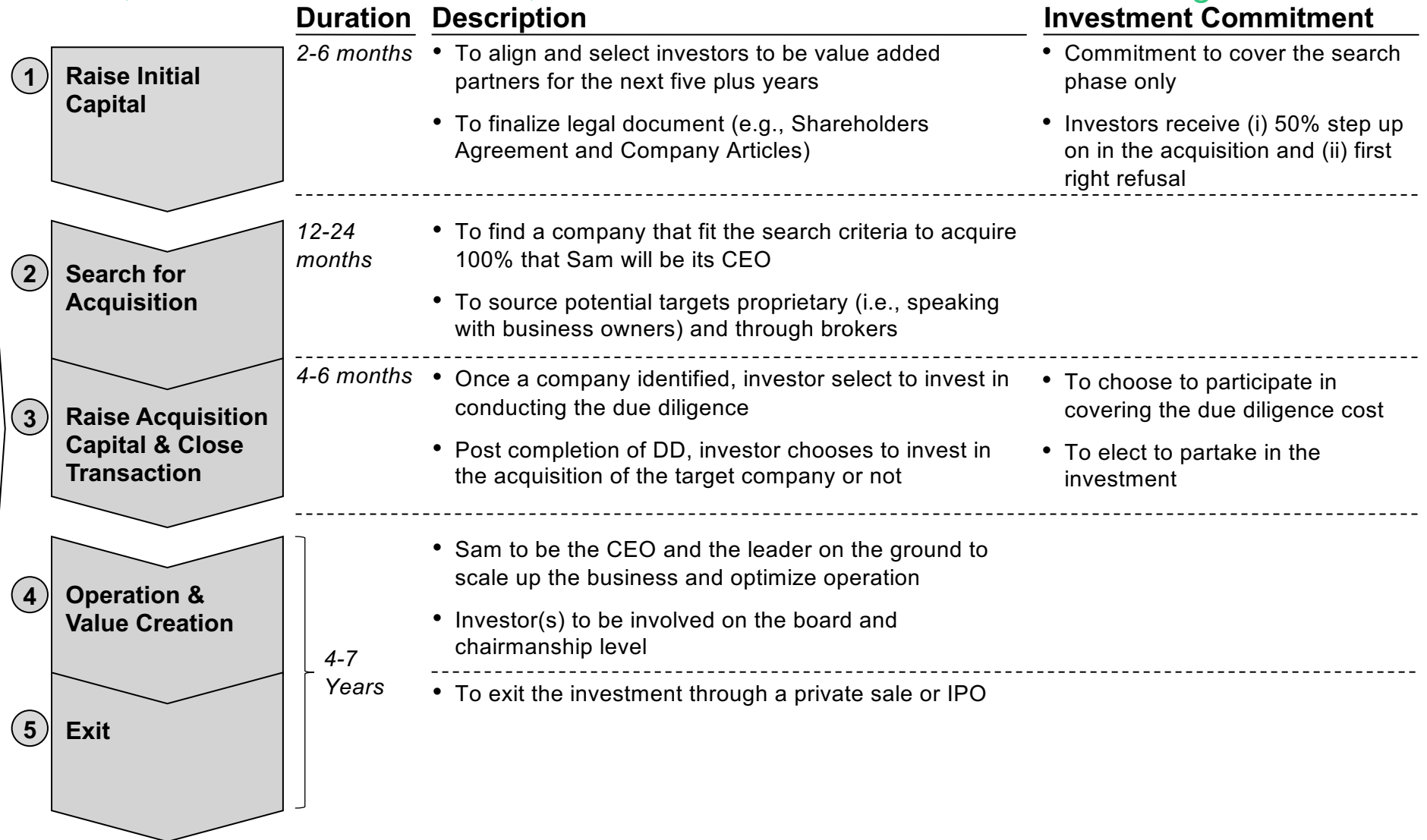




# Traditional Search Fund is a private equity vehicle in which investors back an entrepreneur to find & acquire ONE company

There are other forms of ETA, other than traditional SF, that will be discussed later in the meeting

- **Harvard and Stanford** pioneered the model dating back to 1984
- The objective is for **capital to be married with talented individuals** to create wealth while:
  - Hedging the risk of startups
  - Aligning the interest of the entrepreneur and investors
  - Investors own and control their stakes in the asset
  - Creating efficiency in the operation and scale up



# Typically, investors do not deviate from the Stanford's Search Fund Primer model

## Typical Structure of the Search Phase



Cost of Search

**\$380K**

*Median Globally*

Number of Units

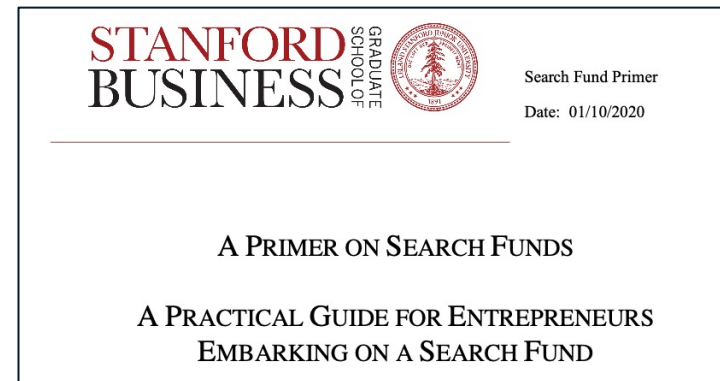
**10-16**

*Units*

Number of Investors

**15**

*On Average*





You can download the document for free at <https://www.gsb.stanford.edu/experience/about/centers-institutes/ces/research/search-funds/primer>

|  |  |
|--|--|
| <b>Right of First Refusal</b>                | All investors will have the right to participate in investing in the acquisition as per % of shares invested in the search   |
| <b>Investment Step-Up<sup>1</sup></b>        | 50% Step up  |
| <b>Typical Acquisition equity Investment</b> | \$2.5M to 15M  |
| <b>Entrepreneur's Economics</b>              | 25% Share of Common Equity ( <i>As per industry norms and Stanford's Primer</i> ) <ol style="list-style-type: none"> <li>1. 8.33% - one third at close</li> <li>2. 8.33% - one third vest evenly over a period of four years</li> <li>3. 8.34% - one third vest on a straight-line basis starting at 20% IRR and fully vesting at 35% IRR</li> </ol> |

1. All shares will be converted in the acquired company and stepped-up by 50% (i.e., for every EUR 1.00 invested in the search phase the investor will receive EUR 1.50 of Equity in the acquired company). This 50% step-up is meant to compensate the initial investors for the increased risk of investing in the first round to finance the search.

# The entrepreneur typically agrees with the investors on a set of criteria that will be the basis of his/her search

The objective is to ensure that the target company has strong fundamentals that will drive long term growth and profitability

|   |          | Desirable  | Undesirable  |
|---|----------|--|--|
|  <p><b>Equity Target</b></p> <ul style="list-style-type: none"> <li>to acquire <b>85% to 100%</b></li> <li>From single or concentrated ownership</li> </ul>  <p><b>Geography</b></p> <ul style="list-style-type: none"> <li>A clear geography is well defined (e.g., California, Spain, or UK)</li> </ul> | Industry | <ul style="list-style-type: none"> <li>Fragmented industry</li> <li>Growing industry</li> <li>Sizable industry—both revenues and number of companies</li> <li>Straightforward industry operations</li> <li>Relatively early in industry life cycle</li> <li>High number of companies in target size range</li> <li>Healthy and sustainable profit margins (ROTC &gt;20%)<sup>2</sup></li> </ul>  | <ul style="list-style-type: none"> <li>Highly consolidated industry</li> <li>Declining industry</li> <li>High competitive intensity/limited barriers to entry</li> <li>High customer pricing power</li> <li>Unpredictable exogenous factors</li> </ul>   |
|   | Company  | <ul style="list-style-type: none"> <li>Competitive advantage</li> <li>High recurring revenue<sup>3</sup></li> <li>History of cash flow generation</li> <li>Motivated seller for nonbusiness reasons</li> <li>Fits financial criteria, e.g., \$10 million to \$30 million in revenues and greater than \$1.5 million in EBITDA</li> <li>Multiple avenues for growth</li> <li>Solid middle management</li> <li>Available financing</li> <li>Reasonable valuation</li> <li>Realistic liquidity options in three to six years</li> </ul> | <ul style="list-style-type: none"> <li>Turnaround situation</li> <li>High customer concentration</li> <li>High customer churn</li> <li>Small company—less than \$10 million in revenues or \$1.5 million in EBITDA</li> <li>Limited or no management bench strength</li> <li>Competitive auction</li> <li>Public to private transaction</li> </ul> |

## Principals' Background (outside of the US)

**The median age to launch a search fund is 32 and 77% have an MBA**

|  | Pre-2002 | 2002-2007 | 2008-2009 | 2010-2011 | 2012-2013 | 2014-2015 | 2016-2017 | 2018-2019 | 2020-2021 |
|--|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>Age at Start of Search</b>                      |          |           |           |           |           |           |           |           |           |
| Minimum  | 29       | 29        | 26        | 26        | 27        | 27        | 26        | 26        | 24        |
| Median   | 31       | 30        | 30        | 32        | 28        | 31        | 31        | 31        | 32        |
| Maximum  | 35       | 34        | 43        | 42        | 37        | 41        | 39        | 47        | 44        |
| Under 30 (%)                                       | 33       | 20        | 50        | 20        | 57        | 44        | 30        | 26        | 19        |
| 30–35 (%)  | 67       | 80        | 33        | 40        | 29        | 31        | 54        | 50        | 53        |
| 36–40 (%)  | 0        | 0         | 0         | 20        | 14        | 19        | 16        | 20        | 23        |
| Over 40 (%)  | 0        | 0         | 17        | 20        | 0         | 6         | 0         | 4         | 4         |
| <b>Number of Post-MBA Years before Search Fund</b> |          |           |           |           |           |           |           |           |           |
| Minimum  | 0        | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 0         |
| Median   | 0        | 1         | 0         | 1         | 1         | 0         | 0         | 1         | 1         |
| Maximum  | 0        | 5         | 6         | 6         | 6         | 6         | 8         | 18        | 19        |
| No MBA (%)   | 0        | 0         | 0         | 20        | 29        | 13        | 8         | 8         | 23        |
| <1 year post-MBA (%)                               | 100      | 40        | 67        | 40        | 14        | 63        | 59        | 42        | 34        |
| 1–3 years post-MBA (%)                             | 0        | 40        | 17        | 20        | 43        | 0         | 16        | 34        | 25        |
| 4–7 years post-MBA (%)                             | 0        | 20        | 17        | 20        | 14        | 25        | 11        | 10        | 13        |
| 8+ years post-MBA (%)                              | 0        | 0         | 0         | 0         | 0         | 0         | 5         | 6         | 5         |
| <b>Gender</b>                                      |          |           |           |           |           |           |           |           |           |
| Male (%)   | 83       | 100       | 100       | 100       | 86        | 94        | 100       | 96        | 91        |
| Female (%)   | 17       | 0         | 0         | 0         | 14        | 6         | 0         | 4         | 9         |

Median Age

77% have MBAs



## Principals' Background (outside of the US)

# Searchers come from a diverse set of backgrounds

| Professional Background         | Pre-2002 | 2002-2007 | 2008-2009 | 2010-2011 | 2012-2013 | 2014-2015 | 2016-2017 | 2018-2019 | 2020-2021 |
|---------------------------------|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Management Consulting           | 17       | 0         | 0         | 20        | 43        | 25        | 19        | 14        | 18        |
| Investment Banking/Finance      | 0        | 60        | 50        | 40        | 43        | 19        | 22        | 10        | 14        |
| Sales                           | 17       | 0         | 0         | 20        | 0         | 13        | 3         | 0         | 1         |
| Venture Capital                 | 0        | 0         | 0         | 0         | 0         | 0         | 5         | 0         | 5         |
| General Management              | 50       | 0         | 17        | 20        | 0         | 6         | 8         | 18        | 13        |
| Marketing                       | 0        | 20        | 0         | 0         | 0         | 0         | 3         | 0         | 3         |
| Law                             | 0        | 0         | 0         | 0         | 0         | 0         | 3         | 2         | 0         |
| Operations                      | 0        | 20        | 0         | 0         | 0         | 0         | 5         | 2         | 10        |
| Entrepreneur                    | 0        | 0         | 0         | 0         | 0         | 6         | 8         | 4         | 4         |
| Accounting                      | 17       | 0         | 0         | 0         | 0         | 0         | 0         | 2         | 0         |
| Engineering                     | 0        | 0         | 0         | 0         | 0         | 0         | 5         | 6         | 4         |
| Military                        | 0        | 0         | 0         | 0         | 0         | 0         | 0         | 2         | 1         |
| Financial Advisory              | 0        | 0         | 0         | 0         | 0         | 0         | 0         | 6         | 4         |
| Private Equity                  | 0        | 0         | 33        | 0         | 14        | 31        | 19        | 24        | 20        |
| Investing (Other than VC or PE) | 0        | 0         | 0         | 0         | 0         | 0         | 0         | 6         | 1         |
| Other                           | 0        | 0         | 0         | 0         | 0         | 0         | 0         | 4         | 2         |

# Here is a list for more resources and reading

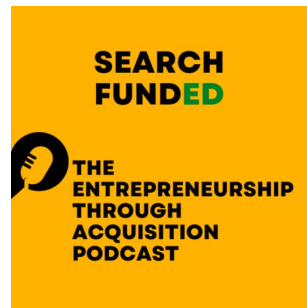
Stanford Search Fund Page (<https://www.gsb.stanford.edu/experience/about/centers-institutes/ces/research/search-funds>)

IESE Search Funds Page (<https://www.iese.edu/entrepreneurship/search-funds/>)

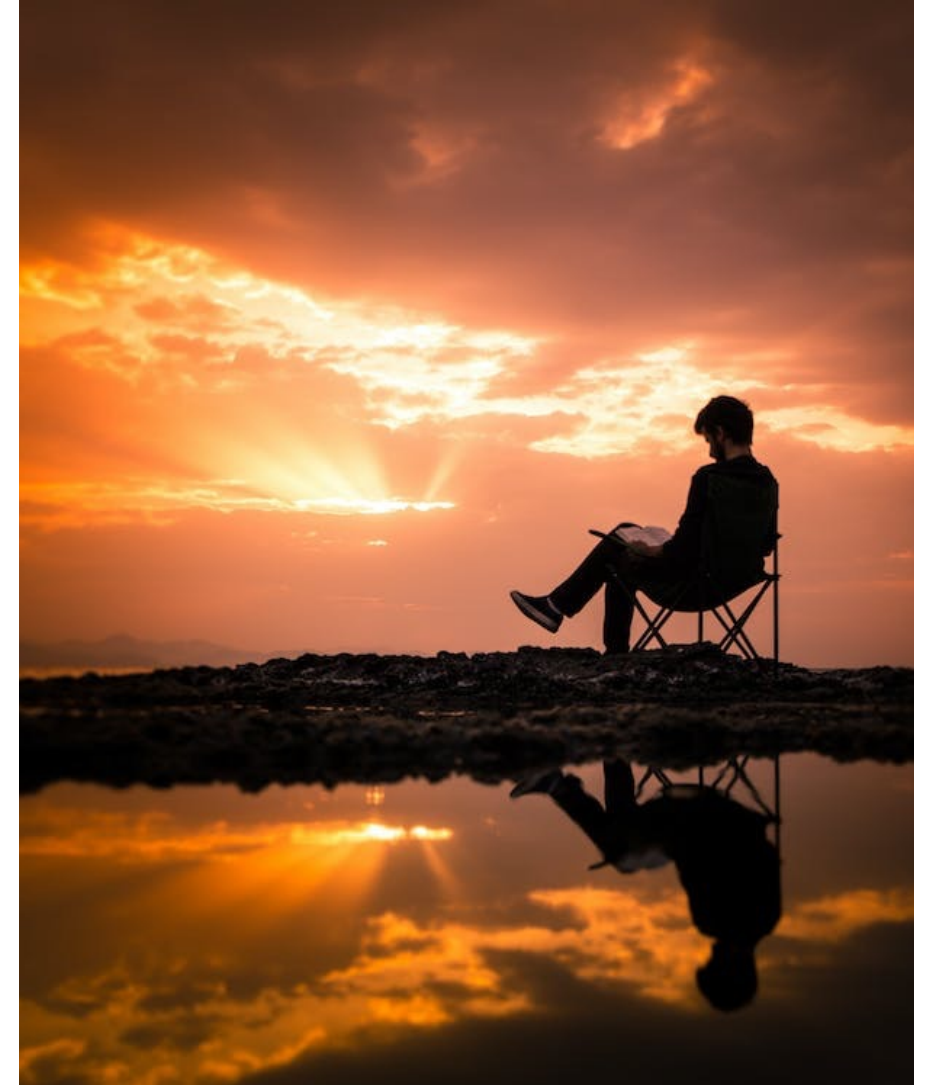
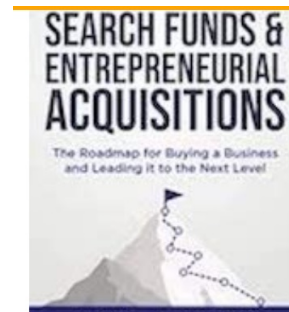
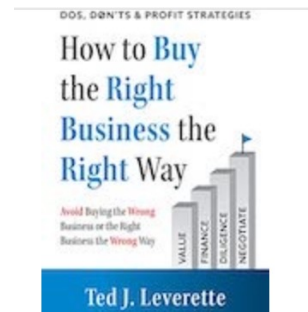
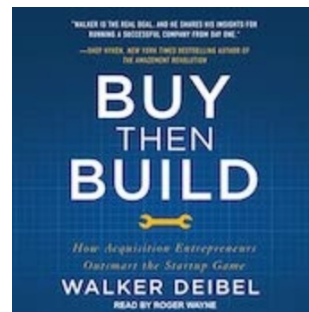
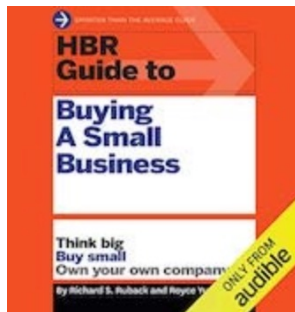
A.J. Wasserstein, Yale School of Management (<https://som.yale.edu/faculty-research/faculty-directory/j-Wasserstein>)

Join ([www.searchfunder.com](http://www.searchfunder.com)) – the online hub for news and networking for the search fund community.

## Podcasts



## Books



# How can you help me?

I seeking your support in making my search successful

If you know...

**1**

**A company that could be an interesting target**

**2**

**Individuals or entities that have access to a pipeline (e.g., Business Brokers, Investment Bankers or Industry experts)**

**3**

**Professionals, such as lawyers and accountants, that have deep experience in conducting Due Diligences**

What am I looking for in a company?

## Financial criteria

- Minimum of 3 years of EBITDA positive & 7 years of operation
- EBITDA: 1M to 8M
- Revenues: 5M to 50M
- Recurring revenues
- Healthy margins: ~15% EBITDA margin

## Industries

- Technology & Software
- Business Services
- Light Industries and Industrial Services
- Real Estate Services
- Health Care Services
- Other unique & defensible niches

Please contact me...



LinkedIn QR Code

**Sam Batran**  
**sam@foras.capital**  
**087 357 1012**

Sam Batran  
sam@foras.capital  
087 357 1012

Go raibh maith agat  
Thank you



*Ha Penny Bridge, City Centre, Dublin*