



Q&A from Webinar – 2020 Search Fund Studies September 15, 2020

1. Have you seen relative growth in self-funded searchers, too? I have come across a few very capable searchers who chose this route.

Murtaza Khan

Yes, self-funded search is growing with overall ETA. It is for sure a viable path for searchers. I do sense that it is growing at a slower rate than overall search as prospective ETA entrepreneurs weigh the economic benefits (generally higher percentage ownership, but in smaller companies, often purchased at lower multiples and with lower organic growth rates) and the value of having experienced investors/board members (generally less a feature in self-funded deals).

Will Thorndike

2. Do you think search funds are still being majority founded by MBA graduates with very little post-MBA experience? If yes, then why is it so? Being a 10-year-old MBA, I find the concept great for someone like me. Do you see any advantages or disadvantages of doing a search fund with 10 years of post-MBA experience vs. a fresh graduate?

Rishabh Tiwari

The data does indicate that about 85% of individuals raise a search fund within 1-3 years after getting their MBA, likely because they have higher risk tolerance and fewer financial obligations or geographic constraints when they are younger. That said, there are still lots of folks who raise a search fund mid-career, with the advantages being that you have that many more years of experience as an operator, manager, etc. and therefore may be able to ramp up the learning curve more quickly. Jim Sharpe has an interesting blog post on [mid-career searches](#) that would be worth a read.

Sara Rosenthal

3. One question: How do you see the cost and availability of debt affecting the ecosystem?
 - a) returns
 - b) self-funded searches
 - c) difference vs international markets where debt is not as cheap or available

Santiago Perez Teuffer

In geographies with more developed debt markets for search funds and SMEs (like the US, Spain and the UK), the addition of debt in a transaction helps to increase returns. The lower cost of debt generally is beneficial for both searcher and investor returns; however, search fund deals are often viewed as risky by debt providers, so the cost of that debt is higher. In some countries, debt may not be readily available, in which case the searcher will often need to secure increased vendor debt and/or raise more equity to finance the transaction. This means that the searcher will have to deliver more growth in order to deliver the target EBITDA to achieve the IRR hurdle. I do not have direct experience to comment on self-funded searchers and their ability to raise debt, but in theory it should be similar for either model. That said, a banker may be comforted to know there is a group of investors supporting the entrepreneur and that there is a close source of capital should the business get into difficulty and need more equity.

Simon Webster

4. Is there any difference among the mentioned trends when you analyze returns by geographical area and/or period of time, especially in markets where the search fund is established (i.e., Spain or UK)?

Arnau Anglerill

As was mentioned by Peter, statistically the data in all countries, with the exception of the US, does not allow us to make country-level conclusions. There are just not enough data points.

Jan Simon

5. How do you see COVID affecting the search fund model? Anecdotally, how is the current fundraising situation?

Pawel Malon

This (good) question is covered in the webinar -- watch the video.

6. How are investors, especially international ones, viewing the Brexit situation? Are they treading carefully?

Murtaza Khan

I do not think Brexit has generally been a major factor in investors' assessment of international search fund transactions (even in the UK).

Will Thorndike

7. Any view or feedback on France?

Edouard Puong

France is in a very early stage. It has lacked the initiative we saw in other big countries in Europe, such as Germany, Spain and the UK. It is great to see that it is catching up fast with many searchers either raising a fund or searching. There even has been the first acquisition. We are looking forward to the further development of the search fund community in France.

Jan Simon

8. How open are search fund investors to buy-and-build / roll-up plays? Are there are size limits on how big is too big an investment with roll-up plays? (B) And what are your thoughts on whether search funds would be interested in Cloud / SaaS businesses - particularly systems integrators, which have steady cash flow?

Ninad Shinde

Limited to no interest. Roll-up strategies are not a good fit for a first-time CEO and historically have led to significant capital impairment. That being said, select strategic acquisitions after the new CEO has been running the business for a few years often do occur and create real value; but an ongoing thesis dependent on M&A is not appealing.

Coley Andrews

9. What's the weight MBAs still have on searchers evaluation? Does entrepreneur previous experience make up the lack of an MBA?

Anonymous Attendee

Approximately 10-20% of searchers worldwide raise a fund without an MBA degree, and many investors are happy to invest in those entrepreneurs with demonstrated strong personal skills and management experience, regardless of an MBA.

Sara Rosenthal

10. The ratio of searchers not pursuing a deal has gone up to 40% in past years according to the Stanford Study. Are there any (a) findings about why that is from the survey data or (b) insights from you as a serial investor as to why that is? The study mentions the common wisdom why serial searchers are more successful in finding deal -- like better preparation or being better suited for a search or What does that mean specifically? What has changed and what is the reason for recent searchers to be less successful in finding a company?

Juergen Rilling

A couple thoughts: The significant increase in new searchers in and of itself is likely to have an impact on the acquisition rate declining. Further, a wider range of approaches or constraints to searching also is likely to have an impact (i.e., I'm only going to buy something like X in Y geography). Also, there is data out there amongst investors that shows very different acquisition success rates than what the study shows. This could be a function of experience of serial investors partnering with searchers more successfully and certain approaches to the search yielding better results.

Coley Andrews

11. How do you see the search fund market developing in Brazil? How about the quality of searchers/deals in the region?

Luis Oliani

Per the 2020 IESE study, there have been 14 search funds raised in Brazil (making it the second most popular country outside the U.S. and Canada for raising a search fund, after Mexico) and 7 acquisitions in the country. Anecdotally, the searchers are high-quality and the search-acquired companies are performing well, though we don't yet have enough data to draw any conclusions about outcomes in this small sample set.

Sara Rosenthal

12. Has any sort of post-mortem been done on the failed searches to get to their root causes, particularly those that failed due to choices the searcher made (as opposed to exogenous factors outside their control)?

Anonymous Attendee

The main reason has been a failure to discern whether the owner was truly a seller. Often this has been compounded by wasting even more valuable time before finally recognizing that there would not actually be a sale. Unsuccessful searchers tend to take longer to get to key decision points in negotiations with a seller, leaving them even less time to pursue alternative deals. (See also question 32.)

Rob Johnson

13. Have partner searchers shown a meaningfully different ability to acquire a business? I.e., are they more or less than 70% likely to close a transaction?

Justin Watson

While the data appears to show that partnerships do have a higher rate of success in acquiring a company, additional research is needed before any conclusion can be made.

Sara Rosenthal

14. Have you identified internationally the presence of search fund accelerators that could assist entrepreneurs with financing and guidance to successfully acquire, grow, and exit target companies?

Felix Cardenas

We have. Note, however, that this is a markedly different model than the traditional search fund model. There are search fund accelerators either running or being set up in the US (several), Australia, Japan, Scandinavia, South Africa and Singapore, amongst others.

Jan Simon

15. I would add a 4th item to Will's list of advantages of recurring revenues, and that's the leverage in small but consistent price increases.

Blake Winchell

Good point, Blake. Thanks.

Wil Thorndike

16. Would you argue that over the past decade investors have gotten better in guiding their searchers toward better acquisition targets?

Richard Haymerle

I think it's fair to say that as the number of transactions and resulting exits have provided clearer data around what makes a good search fund investment, investors have been able to fine tune the investment criteria and their own pattern recognition to better guide searchers in how to think about acquisition targets.

Sara Rosenthal

17. How do search fund investors typically add value to searchers both pre- and post-acquisition?

Thys Visser

Pre-acquisition, searchers may call upon their investors to advise them in multiple ways, from seller negotiations and due diligence to transaction structuring and market research. Post-acquisition, many investors serve on the boards of search-acquired companies, which allows them to be deeply involved; and searchers can also continue to rely on those investors who are not on their board as sounding boards and thought partners.

Sara Rosenthal

18. What are the main macroeconomic drivers an institutional investor is concerned about when investing in an emerging country?

Juan pablo Arriaga

For different countries there would be different answers. A commodity-country like Chile is very different from Mexico or India. In general, emerging markets tend to deliver higher growth and opportunities but expose investors to the bigger macro-economic swings, a different business culture and political uncertainty. This is strongly reflected in the currency volatility as well as the cost of capital.

Jan Simon

19. What can help searchers differentiate from, or beat, lower middle market PE funds to deals? What are some reasons why sellers would choose to sell to a searcher vs an LMM PE firm (other than price)?

Anonymous Attendee

The biggest competitive advantage here is to not compete with such other buyers by running an industry focused search effort to generate proprietary leads. Trying to keep in an auction process with a LMM PE fund is a waste of time, as they will always be willing to pay more than you.

Coley Andrews

20. What are some of the key attributes that search fund investors typically look for in searchers?

Thys Visser

Each investor has their own unique way of assessing searchers, but overall they typically look for a strong alignment between a searcher's goals and motivations and the search fund model, intellectual/analytical rigor, high EQ (to include self-awareness, coachability, strong interpersonal skills), grit, resilience, and adaptability.

Sara Rosenthal

21. How do you view customer concentration vs. recurring revenue / mission criticality? Will one offset the other?

David Williamson

The short answer is "it depends". Ideally a company has all three: high recurring revenue, low customer concentration, and a mission critical product for its customers. Recurring revenue is often the most important factor that searchers and investors look for in a target. It tends to make a business more resilient and free management time to focus on growth rather than looking for customers for this month's sales.

Customer concentration is important as well, but high customer concentration can sometimes be offset by strong contracts with customers (strong recurring revenue), long customer relationships/low churn, and transaction structures that protect investors if a key customer leaves. For example, deferred consideration to the seller can be contingent on customer contracts being renewed in the future. A mission critical product can be great, but could be offset by both strong recurring revenue and a diversified customer base with low churn.

Simon Webster

22. Much of this conversation is focused on business characteristics impacting ultimate returns. Following an acquisition of a good company, what are the common themes in terms of operator and board actions that have led to positive or outsized returns?

Trista Engel

Big (and good) question! Assuming a business with high organic growth and low churn, the focus is generally first on preserving the core business trajectory (lots of time early on understanding customers and assessing the team, thinking about key hires). Building the sales team, evaluating pricing, upgrading finance capabilities and beginning to think about adjacent markets and/or new products/services are common areas of board and management focus in the first 2-3 years post-close. Capital allocation becomes more important as time goes along and debt capacity grows.

Will Thorndike

23. Have you seen an increase in earn-out provisions in recent deals to bridge value dif. due to COVID?

David Williamson

Yes. Some deals that have recently closed or are about to close have been re-negotiated so that the seller bears more of the risk in the next 1-2 years until the business environment stabilizes.

In some instances, it has been via an earnout; in others, a large vendor loan with warranties about short-term sales levels.

Rob Johnson

24. Some countries, such as Spain and other emerging countries, have seen important growth in the number of search funds, even though their economies do not grow at high rates. Are investors worried about some markets saturating?

Santiago Ganem Ulacia

This (good) question is covered in the webinar -- watch the video.

25. Any comment on self-funded searchers vs traditional searches?

Edouard Puong

See the response to question 1 above.

26. Can an entrepreneurship background and deep management experience be considered a MBA substitute during searcher evaluation?

Caio Zenatti

Definitely. Search funds are not limited to MBAs, and investors like individuals who have top management experience as well as an entrepreneurial background.

Rob Johnson

27. How do you recommend investors who are active in the space view portfolio construction across countries and sectors? How do you do that as active investors in this space?

Anonymous Attendee

In a sense this is not different to any other portfolio. The crux of portfolio selection lies in the combination of assets (countries and sectors) that have low correlation coefficients. Whenever an asset is added that has a low correlation to the other assets (i.e. company in sector and industry), it pushes the efficient frontier up and to the left (with risk on the X-axis and expected return on the Y-axis), so the more different type of countries, sectors and companies (in that order) are in the portfolio, the better.

Jan Simon

28. How do you view currency issues common with international searches involving an unstable currency, such as in Mexico, where in some cases returns are totally lost due to MXN vs USD fluctuation?

Mattan Shrager

This is an unfortunate and significant challenge for US investors electing to invest outside the US. The currency impact on returns can be significant. Investors and entrepreneurs should find ways to share in that risk in order to preserve alignment between the two parties, which in the search fund model generally is very well aligned. Last, for US investors investing outside the US,

it usually means the return expectations need to be higher or the assumptions to get to similar returns easier to achieve.

Coley Andrews

29. Stanford's 2018 Search Fund Study stated that "the median fund returned 1.0x of initial search fund investors' capital," but the 2020 study did not include a statement about the median fund. What was the median return for 2020?

Anonymous Attendee

The median return is still 1.0x.

Sara Rosenthal

30. For international searches, why the discrepancy in number of searches/closed deals in Asia vs. Europe/Latin America? As APAC grows to become the anchor of global growth, it seems inevitable that search deals would grow there, perhaps faster than in the past?

Muhammad Hutahun

This answer applies to the next question also.

With the possible exception of India, where there have been a few search fund deals, search funds are new to Asia, which is what you are seeing in the data. You will see in the IESE study that there is a new search fund in Japan, and there is an even newer one (not included in this year's study) in Taiwan. Business schools in China are teaching about search funds, so expect to see some there in the next few years. It's coming!

Rob Johnson

31. Mexico was leading the search fund industry in emerging economies; now Brazil is coming up, too. Asia apparently has not joined the search fund "movement" yet (ex: India, China). Any specific reason from the latest studies?

Newton Campos

See the response to question 30 above.

32. Among the searchers that didn't acquire, what were the main characteristics of the failure to acquire?

Anonymous Attendee

See the answer to question 12 above. An additional reason involves the management of the final steps in closing an acquisition. Most business owners will be selling a company for the first time, so they will not be familiar with the process; and they also often use a lawyer who is not experienced in M&A transactions. When they get into such issues as negotiating the reps and warranties, they can be scared off easily if the searcher does not manage that process carefully.

Rob Johnson

33. For Coley or other investors relating to thematic investment searchers, what do you see as the primary contributor to higher performance?

Vince Deno

The primary contributors are (1) picking a great industry through this approach, (2) becoming a subject matter expert yourself because of the work you've done, and then (3) having higher confidence to buy a good business when you see it because of all of this cumulative effort and knowledge.

Coley Andrews

34. How do you think about allocations to searchers (units vs partial, or multiple, units) to filling equity gaps in deals as they arise? Are you worried about adverse selection in filling equity gaps in searches you have not participated in?

Anonymous Attendee

I think the normal search cap table accommodates both fractional and multiple units and that generally works well. Equity gaps typically emerge from larger or slightly unusual deals. I view them generally as interesting opportunities and tend to focus (shockingly) on business characteristics and the lead investors/likely board members as I evaluate them.

Will Thorndike

35. Women continue to be under-represented in our community -- only 7% of new searchers during the time period of the study. Does it make sense to attract more women to the model? If so, how can we do it?

Anonymous Attendee

This (good) question is covered in the webinar -- watch the video.

36. Per Peter's comment about the very specific "search-type" business we should buy, he says don't do it. And that it's happening a lot more with the growth in search funds. As an aside: the self-funded model is not as tight. The majority of YPO companies started by entrepreneurs don't seem to fit that strict mold. Is it time to rethink this?

Anonymous Attendee

There have certainly been some successful companies that have not matched the key criteria that serial search fund investors usually look for, and indeed some of those same investors have backed certain of those exceptions; however, there is no question that the majority of highly successful exits have come from companies that fit those criteria more closely.

Rob Johnson

37. Tens (if not hundreds) of companies acquired a few years ago that were on track to deliver investor IRR beyond 30% have been affected by this year in a way such that IRR expectation declined by half. How should entrepreneurs, directors and investors running these firms navigate this situation?

Anonymous Attendee

I think the best practices that have emerged over the last (crazy) six months in search funds include: husbanding liquidity (PPP loans in the US, expense reductions or at least lighter growth investments, careful maintenance (or proactively drawing) of credit lines, etc.), active customer communication, and for some fortunate companies the chance to selectively go on offense (opportunistic acquisitions or new market entry, etc.). True (single-digit churn) recurring revenues have never been more valuable, and search fund companies have generally performed well.

Will Thorndike

38. Building on the statement from Peter Kelly, is there then a maximum age for searchers-entrepreneurs?

Anonymous Attendee

There have been several success stories involving searchers in their 40s. Indeed, a more experienced manager can be an attractive entrepreneur for an investor to back and for an owner to sell his/her company to.

Rob Johnson

39. As the number of searchers grows, naturally investors have more choice and can be more selective. How do investors "underwrite" searchers at the outset? What do investors they really look for in searchers?

Anonymous Attendee

While the number of searchers has grown, so has the number of investors and amount of capital available to fund searches. Investors look for a number of factors in prospective searchers. and priorities vary from investor to investor. I can only really comment on this in a personal capacity. I look for entrepreneurs who have done their research and intimately understand the search fund model (e.g., the journey, characteristics of a good business and industry, how value is created, etc.). The entrepreneur should have good reasons for wanting to be a CEO and understand the type of industry / company that would make a good search fund acquisition. The entrepreneur should be someone I want to do business with (if I were a customer) or work for (if I were an employee).

Simon Webster

40. What are the three most important characteristics of a "fund of search funds"?

Daniel Hoepfner

- 1. Provide sourcing and diversification (that most of their investors do not have access to);**
- 2. Provide deep due diligence (which their investors often do not have time for);**
- 3. Provide mentorship and support to searchers, while typically having deeper pockets (not that there are not some great individuals around whose support and mentorship to searchers is second to none).**

Jan Simon

41. Are search fund investors warming up to non-traditional industries like the online business (even E-Commerce)?

Anonymous Attendee

It depends on how you define 'non-traditional', but I would say investors are generally open to a wide range of industries and companies so long as some important key ingredients are present (generally B2B, non-cyclical industries, large component of recurring revenue).

Coley Andrews

42. How do you think about sizing of investments from search to search as an active investor? Are you consistent on a \$ or % basis, or do you dynamically allocate based on other factors?

Anonymous Attendee

My observation is that serial investors look at each deal individually and decide on the amount to invest based on the size and specific characteristics of the deal.

Rob Johnson

43. Academically speaking, are there fields that are not explored yet / worth exploring? How would you say the American model would differ from, let's say, a Central European one?

Anonymous Attendee

Academically speaking this is a very nascent research field. Stanford and IESE are providing studies based on meaningful and relevant data. To the extent that this data grows, other interesting questions can be addressed from a research point of view. I expect you will see more and deeper questions being addressed over the years. At this stage there are not enough data points to research CE in a meaningful statistical way. Watch this space though.

Jan Simon

44. Good to mention, too, that entrepreneurs pursuing a traditional search fund may not necessarily be able to close their search round. I tried and failed to raise a fund in 2019, and many of the staple search investors, some included on this panel, said the popularity and inherent economics of this community had shifted, among other specific reasons. You may not even be able to raise a traditional fund.

Tony McNickle

That is a good point, and we should have mentioned that people do try to raise a search fund and do not succeed. Thank you for pointing this out.

Simon Webster

45. How common is it for searchers to buy a subsidiary of a company and spin it off into a separate company?

Anonymous Attendee

Very uncommon. Perhaps a handful of times it's occurred, but almost never.
Coley Andrews

46. Any thoughts from the panel on trends/insights of impact investing through search?
Eric Fisher

I do not think impact investing has yet been a significant factor in search fund investing. That being said, some of the best performing recent search funds in the US have targeted areas searchers were passionate about for non-economic as well as economic reasons (the rise in behavioral health companies being a specific example of this).
Will Thorndike

47. What are the thoughts of the panel on using third parties to work alongside the search entrepreneur to perform parts of the search? (e.g. buy-side brokers offering search as a service for a monthly retainer and % of turnover at close)
Samuel Patterson

Historically, the use of buy-side brokers has been limited in search funds. One reason is that the searcher is being paid to undertake a search, and there is substantial learning value for the searcher in the search process. Searchers who are considering retaining the help of a buy-side broker should discuss it, and the costs, with their investors.
Simon Webster

48. Does the model work well in small countries/economies (e.g. Peru, Central American countries, etc.), given the lower number of potential targets?
Mauricio Torres

There have been successful searches in small geographies, such as Israel, the Dominican Republic and Chile. In smaller regions, it is increasingly important for searchers to partner with local investors with deep regional networks. These networks can help source deals where there may not be as many SMEs transacting and where professional broker networks are less developed. To build a successful company, the searcher may well acquire a business already exporting or with export potential.
Simon Webster

49. Thank you for addressing minorities and women in your discussion. I hope you'll address the intersectionality of women of color in this space.
Karen Spencer

This (good) question is covered in the webinar -- watch the video.

50. Is there any industry that you do not recommend to search for a company in, or do you think there are opportunities everywhere? And, which are the best industries that you have seen outperform?
Claudio Salamanca

Respectfully, yes. Anything with significant cyclicality (i.e., oil and gas), inherently low margin, or exclusively consumer focused (i.e., retail). All of these industries are hard to operate in as a first-time CEO, and there are many forces at play outside of your control which can materially impact your probability of success.

Coley Andrews

51. I come from Asia (specifically Singapore), and here, the search fund model isn't yet as popular in mature search fund markets like the USA or Spain for instance. What is your opinion towards fundraising? Should I start with trying to get serial search fund investors on board? Or local investors? What in your opinion would be a good split in terms of proportion of local investors to international/serial investors?

John Raphael Lum

Serial search fund investors want to know that you have some solid local investors for reasons discussed in the webinar, so you should start there. If you have 2-3 good local investors, then you can begin having serious discussions with international investors. In the end, you want to have several investors who are very experienced with the search fund model and get 1-2 of those serial investors to work closely with you and help educate your local investors on how the model works. If you overweight the cap table with local investors who are inexperienced with the search fund model, that can put off some of the serial international investors.

Rob Johnson

52. Any tips for searchers with a lot of domain specific experience (e.g. in healthcare or tech), but embarking later in their career into search funds? Thank you!

Rajneesh Bajaj

Leverage your experience! If you have a background in an industry that would be attractive for a search fund, then use your personal network and experience to develop your pipeline of acquisition targets. Searchers need to have some flexibility around the industry and business they want to acquire to ensure they have enough opportunities, but do not let that experience go to waste.

Simon Webster

53. Do you believe it is completely necessary to have local investors in international search funds?

Rafael Zambrano

This (good) question is covered in the webinar -- watch the video.

54. One of the things you're taught in the PE/M&A world is to deal only with motivated sellers. An owner running a business with recurring revenue, secular tailwinds, and capital efficiency -- why would they sell unless they have a personal circumstance or the searcher is offering them an egregiously high price?

Anonymous Attendee

This (good) question is covered in the webinar -- watch the video.

55. Does the searcher have to be 'from' the region where they search? For example, can a US-native conduct a successful search in the UK, or do you think this dynamic impedes success in acquiring and running a business?

Anonymous Attendee

This (good) question is covered in the webinar -- watch the video.

56. Any advice on how to increase search fund awareness in new/emerging regions?

Henrique Duarte

There is no silver bullet unfortunately. For me, it involved a lot of conversations with potential investors and successful entrepreneurs in the region. Leverage the resources available on search fund performance and the search methodology (e.g., publications from Stanford and IESE) when introducing new people to the concept. Searchers looking to raise a search fund in a new region should not be discouraged: the fundraising process will likely take longer and be more challenging, but there may be more opportunity for a great deal as well. Be encouraged by the number of people that have already been the first searcher in a new geography!

Simon Webster

57. Any comments on search fund trends in Canada?

Anonymous Attendee

Anecdotal data would suggest that there is an increasing number of Canadian searchers over the past 12-18 months. COVID is certainly making cross-border transactions more challenging, but Canadian searchers are continuing to find solid opportunities within Canada and/or creative work-arounds to engage with sellers if they identify a U.S. target. We don't have enough country-specific data to draw conclusions on outcomes for Canadian searchers yet.

Sara Rosenthal

58. Has the data you've collected shed any light on the measurable qualities (e.g. business school, background...) that predict long term success (both likelihood of acquisition and IRR of the acquisition)? I.e. - how do you select top quartile outcomes in advance?

Rob LeBlanc

There is nothing in the data that would lead to such conclusions. Indeed, if anyone ever figures out how to "select the top quartile outcomes in advance," I'd surely like to meet her/him! Having said that, the search process provides investors with further insights into how good an entrepreneur is, helping that investor decide whether to invest in that entrepreneur's deal. Indeed, it is this final selection process that has distinguished the most successful investors.

Rob Johnson

59. My experience with acquisitions has been the reluctance of the seller to part with the business, in part because the seller cannot achieve the income from after-tax proceeds of a sale, and emotional attachment to the business. How do you source acquisitions at a reasonable EBITDA or return?

Raymond Schachter

You will never get someone to sell a business if they do not want to sell. This could be because they cannot realize enough after-tax return or because they are emotionally attached to the company. The search process is a bit of a numbers game. The motivation of the seller should be a key criterion during the search phase. Early in discussions with potential sellers, searchers should test the seller's motivation and price expectations. If the seller is not sufficiently motivated, the searcher must move on to the next opportunity quickly. The latest studies from Stanford and IESE show that opportunities exist, but the inability of some searchers to close on a good opportunity demonstrates that it is far from easy to find a good company.

Simon Webster

60. Is it discernibly harder to search in a socialist country?

Anonymous Attendee

If you are talking about a country like France, there are already several search funds active there, and one acquisition has already been made. A recent MBA graduate is currently raising the first search fund in Russia. Chinese business schools are teaching about search funds, so I will be surprised if we don't see several search funds there in the next few years. Having said that, in some of these countries there are obviously other issues that searchers and investors must take into account, such as restrictions on capital flows, legal protections, corruption, etc.

Rob Johnson

61. Thank you for the great conversation today. What do you think are the reasons behind the better returns of partnered searchers, beyond "two brains are better than one"?

Anonymous Attendee

Be careful about putting too much emphasis on "better returns" from partnerships, as the data is not conclusive as yet. Also, partnerships are like marriages -- they can work well, but it takes a lot of effort, and indeed a number of partnerships end up splitting up at some point. Having said that, simply sharing the load with someone whom you trust is a huge benefit, as is the presence of someone who can serve as a regular sounding board.

Rob Johnson

62. "Buy and build" lends itself well to the skills of young CEOs (high energy, ability to raise debt capital and identify roll-up trends). Do you believe there is long term viability for that model of ETA?

Liroy Haddad

See response to same question 8.

63. Hi, thanks for the presentation everyone. Super interesting. From the recent findings, is there any data about the average searcher's proceeds at exit?

Jose Villegas

See page 13 & Figure L in the Stanford study and page 17 in the IESE study.

64. Anecdotally, I've seen the time to acquire take longer for searchers. Do the panelists believe COVID disruptions will make this search period akin to the 2008/9 Great Recession, and will there be more instances of not acquiring as a result?

Anonymous Attendee

This (good) question is covered in the webinar -- watch the video.

65. Do you think there is any difference in the kind of business that will attract institutional investors like PLP or Vonzeo, versus individuals like Simon Webster?

Jorge Lagos

While institutional funds have deeper pockets (which is helpful when acquiring and when doing due diligence), some private investors can be more approachable and might have a better understanding of what a searcher goes through. I think that great individuals and funds are very complementary and would recommend a searcher to have both.

Jan Simon

66. What is the typical size in terms of revenue and EBITDA of the companies acquired in the US and internationally? And how it is evolving?

Vito Giurazza

See Exhibits 5 & 6 in the Stanford study and Exhibits 7 & 8 in the IESE study.

67. What about the balance between private investors and funds of search funds? Do you think that they can live together in the long term?

Leon Bartolome

I do think funds and private investors can cohabitate fruitfully. As a private investor, I like it when funds co-invest in transactions I'm involved with, as they often have resources that can improve the odds of success for the search entrepreneur. The only area where I see potential for real misalignment is around holding period (if the business has a really long TAM runway in front of it and the fund's life is shorter than the investor's (and CEO's) preferred time horizon).

Will Thorndike

68. In the latest report median revenue seems to be declining. What are the main factors you believe are driving this (other than potential saturation)?

Anonymous Attendee

If you look at the prior years, the median revenue for acquisitions has fluctuated from year to year, and the latest number falls within the range of those fluctuations; so the most recent numbers may not be out of line.

Rob Johnson

69. Regarding board members: Is there discussion of raising the board compensation levels (beyond about 2K per quarter) in order to attract more people within the search community and more people outside of the community to boards?

Noah Riner

Absolutely, and that should occur. Attracting great board members benefits all parties involved (entrepreneurs and investors), and investors and entrepreneurs should not be focused on minimizing expenses, but instead on maximizing value.

Coley Andrews

70. Peter touched on searchers being removed as CEO. It seems like most searchers have an irrational fear of that outcome. Peter mentioned 1/20 get removed. Is that data that's been collected as part of the study? Is there other data around CEO removal?

Anonymous Attendee

I am not aware of data about CEO removals; most of what I know about is anecdotal. I agree with your point about the irrational fear of some searchers, especially when one's investor group is composed primarily of serial search fund investors. Peter also covered this subject well in the webinar.

Rob Johnson

71. How many people are we on this call?

Michael Tillian

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