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Introduction to Search Funds

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Presentation

by any measure

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DEFINITION

A Search Fund is an investment fund in which investors provide financial support to an entrepreneur, or a group of entrepreneurs, while he/she or the group seeks to identify and acquire a privately-held company.

THE FOUR STAGES

The four stages of the Search Fund:

I. Fund raising

II. Search and acquisition

III. Operation

IV. Liquidity Event

FORMING THE FUND

- I. Documentation
 - Formation of Entity
 - Private Placement Memorandum/Business Plan
 - Subscription Agreement
 - Accredited Investor Questionnaire

BENEFITS TO FOUNDER

- Opportunity to operate significant business
- Upside equity potential
 - Typical stake is 30%
1/3, 1/3, 1/3 vesting
- Backed by Investors
- Board of Advisors

BENEFITS TO INVESTOR

- Staged Investment
 - No commitment to invest in acquisition
- Right of First Refusal
- Rollover of Search Fund Investment with Premium
- Deal Flow
- Proven investment vehicle with reasonable historical return

SEARCH FUND FOUNDER EXPERIENCE

Professional Background	Post-2005
Investment Banking	27%
Management Consulting	26%
Line/General Management	15%
Entrepreneur	7%
Sales	7%
Private Equity	4%
Engineering	2%
Operations	1%
Military	1%
Venture Capital	1%
Others	8%

SEARCH FUND METRICS

Categories	Post-2005
Number of Principals:	
Single	75%
Partners	25%
Amount of Initial Capital Raised:	
Minimum	\$200,000
Median	\$385,000
Maximum	\$550,000
Number of Search Fund Investors:	
Minimum	10
Median	14
Maximum	23
Number of Months Fundraising:	
Minimum	1
Median	3
Maximum	10

SEARCH FUND ACQUISITION STATISTICS

Total Number of Months From Start of Search to Deal Close	All Acquisitions
Minimum	5
Median	20
Maximum	50
0-10 Months	12%
11-20 Months	41%
21-30 Months	32%
31+ Months	15%
Purchase Price Statistics	All Acquisitions
Minimum	\$ 0.6 M
Median	\$ 7.9 M
Maximum	\$ 30.6 M
<\$4M	17%
\$4M to \$7M	34%
\$8M to \$11M	21%
>\$12M	28%

INDUSTRY AND COMPANY SELECTION CRITERIA

- Fragmented industry with consolidation potential (vertical or horizontal)
- Stable or growing markets with limited cyclicality
- Straightforward operations (few locations and product lines)
- Strong middle management
- Diverse and direct customer base
- Commercial product or service users (not consumers)
- Recurring revenue streams
- Low to medium technology risk
- Growth potential and exit strategy
- Reasonable acquisition multiples
- High switching costs
- Low capital intensity
- No single competitor
- Growth potential via bolt-on acquisitions, geographical expansion, and/or product/service expansion

COMPANY FINANCIAL SELECTION CRITERIA

- **Financial**
 - \$5 million to \$25 million in sales
 - Minimum projected EBITDA of \$1 million but less than \$5 million
 - EBITDA margins above 15%
 - Strong history of consistent cash flow
 - 5-10 year history of profitability
 - Low current debt levels
 - Not a turnaround or “broken” company
 - Conservative balance sheet
 - Predictable, stable and recurring revenues
 - Viable exit strategy via M&A, Recapitalization, or IPO

REPRESENTATIVE TARGET INDUSTRIES

- Background verification services
- Circuit board manufacturing
- Medical supply industry
- Distribution
- Electronics manufacturing
- Hardware manufacturing
- Industrial laundry, Drycleaning and Carpet Cleaning
- Lighting products manufacturing
- Non-hazardous liquid waste treatment
- Packaging
- Plastics forming
- Security alarm installation and monitoring
- Technical training
- Tool, equipment and special event rental
- Marketing, business generation
- Specialty furniture

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