STANFORD BUSINESS GRADUATE SCHOOL OF

CASE E-807
JULY 15, 2022

2022 Search Fund Study

Selected Observations

This 2022 study reports on the financial returns and key characteristics of 526 search funds formed in the U.S. and Canada since 1984. It presents data and analysis regarding search funds formed, operating companies acquired, and the resulting financial returns as of December 31, 2021.

Since 1996 the Center for Entrepreneurial Studies at Stanford Graduate School of Business (GSB) has conducted a biennial study of search funds, an entrepreneurial path undertaken by one or two individuals who form an investment vehicle with a small group of aligned investors to search for, acquire, and lead a privately held company for the medium to long term, typically six to ten years but at times shorter or longer.[1] Through this research, Stanford seeks to provide insight into the factors that influence the outcomes of these entrepreneurship vehicles for first-time searcher-CEOs and their investors. This survey includes data from every known (traditional) search fund in the United States and Canada.

Peter Kelly, Lecturer in Management, and Sara Heston, Assistant Director, Search Fund Project, Stanford Graduate School of Business, conducted this study.

1 This study focuses on search funds formed by a first-time searcher (the "entrepreneur" in this paper) and funded by a group of investors, termed herein "traditional search funds" or "search funds." Other forms of search funds exist, such as searches that are self-funded or funded by a single entity (also known as "Entrepreneur in Residence" or "Accelerator" searches), as noted in **Appendix C**.

Executive Summary

The search fund community continues to evolve, with attractive financial returns and record numbers of new searchers and deals.

On the whole, the returns and key characteristics of search funds have not changed significantly in the last two years. In this study we specify the financial returns, highlight recent trends, and present new data. In 2020 and 2021 there were 124 traditional search funds launched and 66 acquisitions made. Notably, the median purchase price increased significantly to $16.5 million in this 2022 study, and software, tech-enabled services, and general business services were the most frequent industries for acquisition in 2020 and 2021. Also, the number of female searchers increased to 13% in 2021. For the first time we report on searcher ethnicity, and we plan to provide more insight on diversity in future studies.

A record $776 million was invested in traditional searchers and search acquired companies in 2020 and 2021. From 1986 through 2021 a total of $2.3 billion of equity was invested, generating approximately $9.8 billion for investors and $2.4 billion for entrepreneurs. Returns from all search investments since 1986 increased slightly in the 2022 study compared to the 2020 study, with aggregate pre-tax returns of 35.3% internal rate of return (IRR) and 5.2x return on investment (ROI)[2]. In the past two years, four new companies achieved ROIs in excess of 10x, raising the total number of search funds with greater than 10x return to 17.

In this study we report new information on seller relationships, acquisition multiples, and searcher ethnicity. We provide additional insight into returns and other recent trends. As with past studies, exhibits provide specific data on the search process, acquisition details, financial returns, and results from IESE Business School's sister study of search funds outside of the United States and Canada.

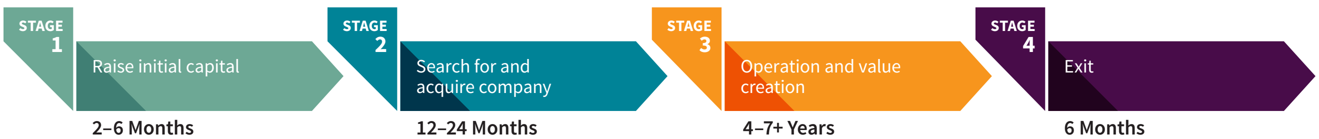
2 In these studies, all returns calculations cap the return from the highest returning search fund at 200x ROI, based on transactions in the mid 2000's.

What is a Search Fund?

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, to search for, acquire, and lead a privately held company for the medium to long term, typically 6 to 10 years. When successful, this has resulted in a relatively fast path to becoming an owner-CEO, attractive financial returns for both investors and searchers, and growing, well-run enterprises.

The term "search fund" originated at Harvard Business School in 1984, was popularized at Stanford in the following 10 years, and has been steadily adopted by business schools and entrepreneurs around the world. A typical search fund progresses through four stages:

FIGURE A | THE SEARCH FUND LIFECYCLE



A detailed explanation of the search fund model is included in **Appendix A | What is Search Fund?**, beginning on page 25. Also, Stanford's Search Fund Primer[3] examines the formation, search, and acquisition stages in detail.

Survey Results: Fundraising, Search, and Acquisition

This study includes 526 first-time search funds formed since 1984.[4] In keeping with previous studies, we excluded funds led by principals who had previously raised a search fund, self-funded their search, or pursued their search with a single search sponsor. While those forms of search are noteworthy and mentioned later in **Appendix C**, historically their data have not been included in this study. The focus of this research is on the characteristics and returns of investing in a first-time search fund entrepreneur with a group of aligned advising investors.[5]

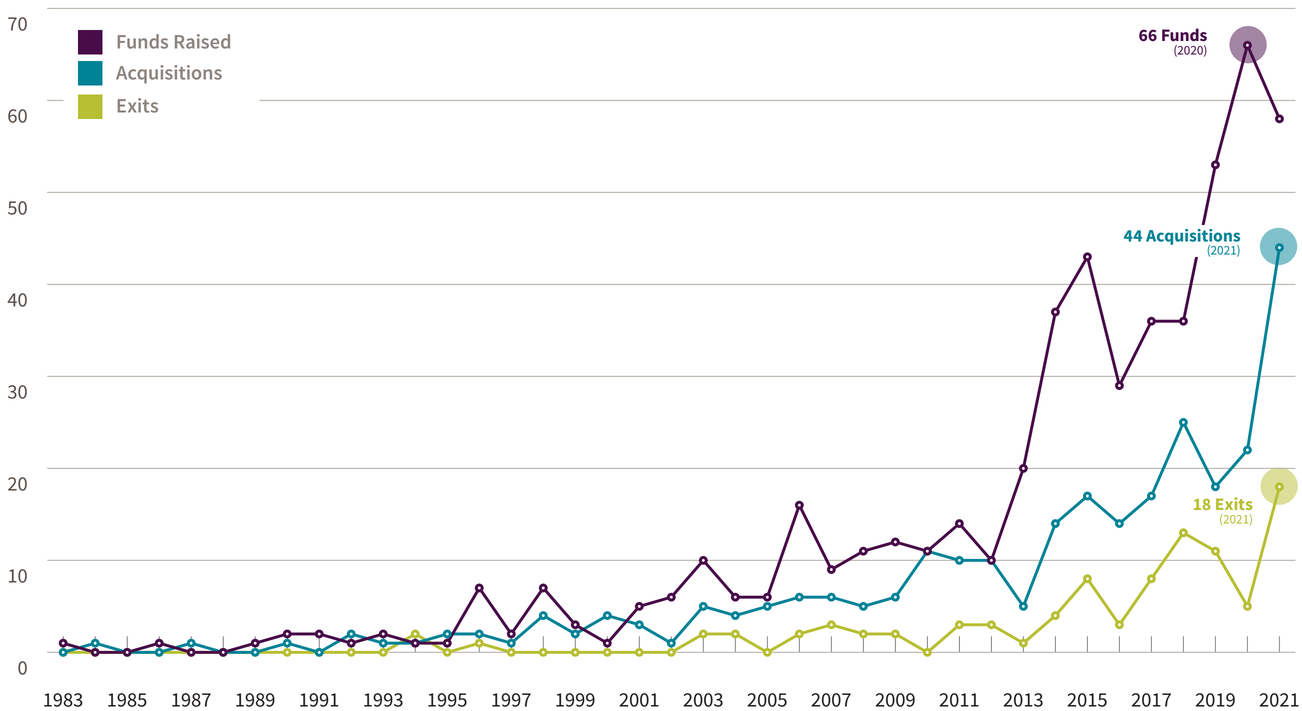
The number of new searches launched grew in 2020, as in past years, but then dropped in 2021, perhaps an effect of COVID-19 or the strong job market (**Figure B**). Meanwhile the number of acquisitions made by searchers almost doubled in 2020 and 2021, and exits with a positive return hit a record high as companies acquired in prior years were sold.

3 Readers can find the Search Fund Primer on Stanford GSB's Center for Entrepreneurial Studies site: http://www.gsb.stanford.edu/faculty-research/centers-initiatives/ces/research/search-funds/primer.

4 These include every known search fund and acquired company in the U.S. and Canada. Note that due to historical analyses, data through 2009 includes international search funds, tracked thereafter in IESE's sister studies on International Search Funds.

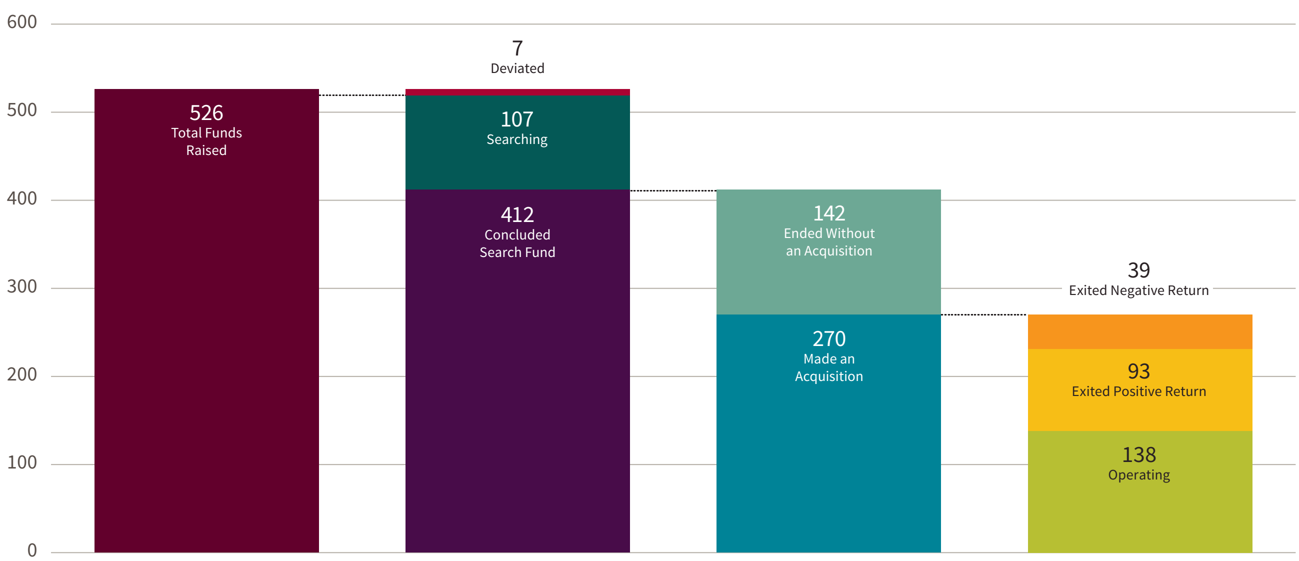
5 We gathered data on 270 search funds that acquired companies; 225 are included in our aggregate financial analysis, excluding 44 companies that had been operating for less than one year and one company for which we had incomplete financial information.

FIGURE B | SEARCH FUND ACTIVITY BY YEAR



The status of all search funds as of December 31, 2021, are shown in **Figure C**. Excluding those still searching, 66% of all search funds launched made an acquisition. More recently, since 2014, the portion of search funds completing an acquisition has hovered around 60%. There is no obvious reason why this is lower in the past seven years than prior, other than it coincides with an increase in the total number of searches conducted. The returns from those that did buy companies, however, remains high and a record number of exits with positive returns also occurred in the last two years.

FIGURE C | ALL SEARCH FUNDS BY STATUS



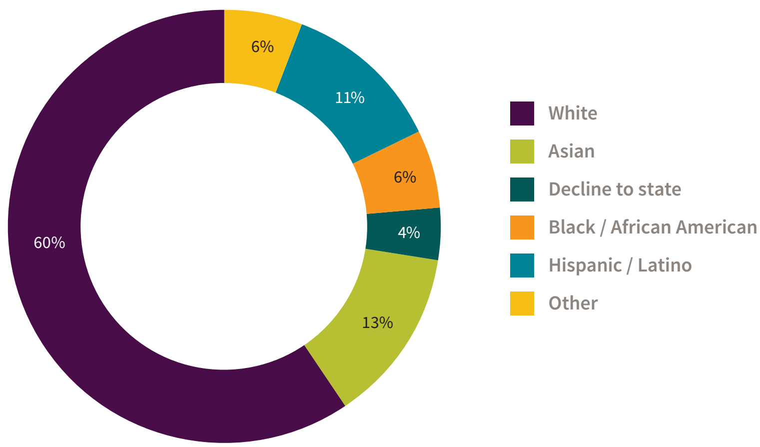
Profile of Principals

The profile of a searcher has not changed significantly in the past two years, although the number of women-launched search funds increased, accounting for 10% of 2020 searchers and 13% of 2021 searchers (**Exhibit 1**).

Searcher ethnicity can be seen for the first time in these studies in **Figure D**. The creation of new resources and groups, such as the Black Search Network and Women's Search Network, reflect and support increased diversity in search funds, a trend we hope to see continue.

Searcher age, background, and education remains consistent with the last several studies. We asked a new question regarding searcher business school experience and found that 37% of searchers who launched in the last two years took a business school class focused on entrepreneurship through acquisition. Search-related curriculum has increased in several business schools, and we hope to track the impact of this trend on the search community in the coming years.

FIGURE D | SEARCHER ETHNICITY 2020 – 2021 (N=155)



Fundraising and Search

The time to raise capital, amount raised per searcher, and number of search investors has not changed significantly since 2014 and can be seen in **Exhibit 3**. Searchers raised a median of $425,000 per individual in 2020 and 2021.

While the industries targeted by searchers, seen in **Exhibits 4A**, **4B** and **4C**, have not changed much, the average number of industries targeted per searcher decreased from 3.5 in the 2020 study to 2.9 in this study. Along with data presented in the next section regarding more searchers reporting a targeted industry approach and engaging with fewer companies, this suggests that entrepreneurs are conducting more focused searches. The median length of a search decreased to 17 months in the 2020 and 2021 period.

While technology-related industries remained the most commonly targeted, only 75% of searches in 2020 and 2021 considered them, as opposed to 90% in 2018 and 2019. Similarly, 55% of searches in 2020 and 2021 targeted healthcare, compared to 73% in 2018 and 2019.

The Acquisition

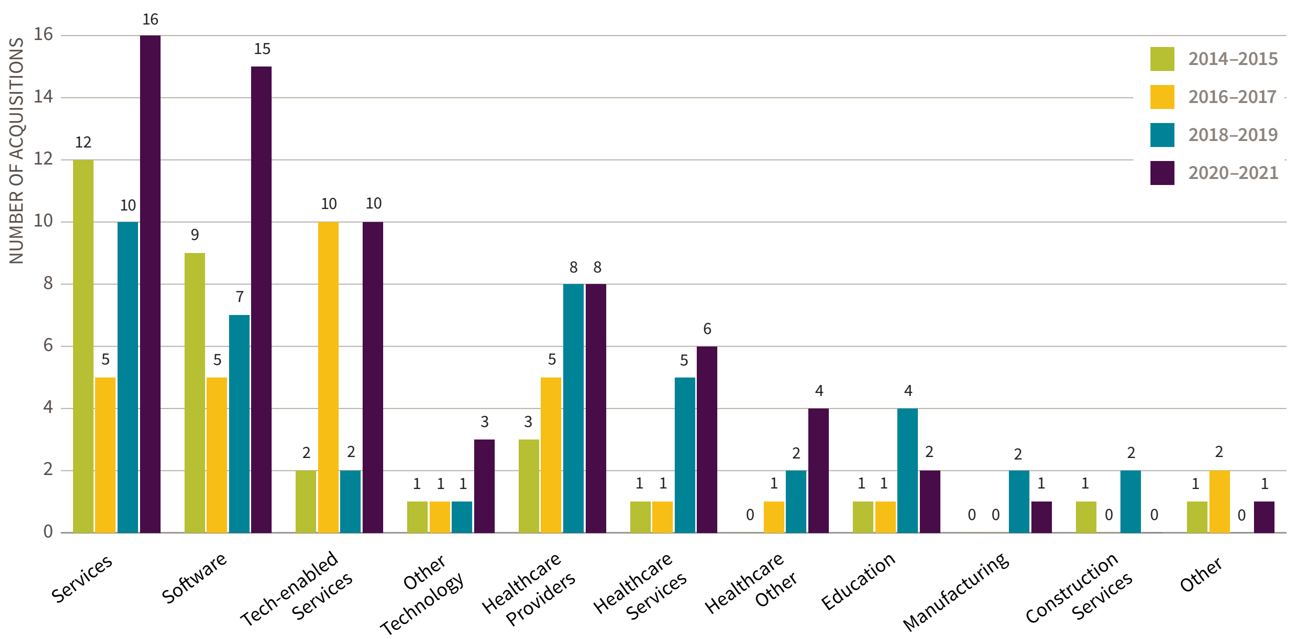
Prospecting

Proprietary deal sourcing continues to be the dominant approach to identify leads. While 50% of 2020 and 2021 searchers used brokers as a source of deal flow, only 3% of searchers opted for a predominantly broker-driven approach. A deep industry focus also remains the preferred approach, with 59% of searchers preferring an industry-focused search to a broad, opportunistic approach. The increase in focused searches partially accounts for a decrease in the median number of companies examined by searches at a high level, from 285 in the 2020 study to 200 for the 2022 study.

Industries

Software, services, tech-enabled services, and healthcare were the most popular industries for acquisition, as seen in **Figure E**. It's important to note the wide variety of sub-segments within these categories, and even more variety in the actual types of businesses purchased. Within software, for example, acquired companies address wide-ranging needs, from the management of senior living communities to federal intelligence processes to healthcare insurance. Within healthcare services, companies focused on records management, primary care, and several specialized practices, among others. Despite spanning a range of industries, many of these businesses share some qualities, such as strong growth and recurring or repeat revenues.

FIGURE E | INDUSTRIES OF ACQUIRED COMPANIES[6]



Acquisition Metrics

The median price for a search-acquired company increased to a record high of $16.5m during 2020 and 2021. Both purchase price to EBITDA and purchase price to revenue multiples increased as well, to 7.3x and 2.1x respectively (**Exhibits 5** and **6**). Higher purchase price and multiples could reflect the overall economic cycle, during which interest rates were low, as well as the qualities of businesses purchased.

6 The "Healthcare Other" classification includes devices, pharmaceuticals, insurance, and other healthcare related businesses.

Recurring revenue was more common in recent search-acquired companies, with 66% of companies purchased within the last two years reporting high recurring revenue[7] as compared to 44% of companies acquired in 2018 and 2019.

For the first time we asked searchers if a multiple of revenue was a key valuation metric in their acquisition. Enterprise Value to Annualized Recurring Revenue (ARR) is a metric often used to help evaluate technology-driven companies, especially those with highly recurring revenue, high growth rates, and compelling unit economics.[8] Since spending to rapidly acquire these long-term, attractive customers can result in lower short-term company EBITDA, the use of valuation metrics other than EBITDA may be helpful. Nineteen out of the 66 acquisitions in 2020-21 reported using a revenue multiple as a meaningful valuation metric, and the median Purchase Price to ARR multiple for them was 3.4x.

Since 2015 each search fund acquisition has had a median of 16 investors. Of that 16, an average of 72%, or 12, were original search fund investors, and 28%, or 4, were new investors that joined in the transaction.

Seller Demographics

Seller demographics also remained consistent with those in the 2020 study, with predominantly white and male sellers with a median age of 55 years and a wide range of ages.

We collected new data regarding seller honesty and post-close engagement from 140 currently operating searcher CEOs. Most searchers had positive relationships with their sellers and consider them to be honest and ethical, and 96% reported that they had a positive relationship post-acquisition. Sellers remained involved for a median of 4 months after the acquisition, with 13% engaged for longer than 2 years and 22% for less than 1 month. Eleven percent of searchers experienced litigation with the seller after the transaction, although others may have resolved conflicts without litigation.

Financial Return Method

The method of calculating returns remained the same from the previous study and is described in **Appendix B**. This method measures net returns based on capital investments from and distributions to the original search fund investors investing in both the search and acquisition phases, but not follow-on investments.

Returns

Returns in the 2022 study improved in most categories, with all measurements of IRR exceeding those reported in both the 2018 and 2020 studies. ROI also increased when the Top 3 and Top 5 performers were excluded (but not in total).[9] The returns reported in **Figures F** and **G** include both exited companies and those still operated by searchers. Analysis of returns for only exited searchers results in higher ROI and IRR, as seen in **Figures H** and **I**. For further information on the distribution of funds by ROI and IRR, see **Exhibits 7** and **8**, respectively.

7 High recurring revenue is when 65% or more of the revenue is recurring. Recurring revenue between 35% and 64% is considered medium and low is recurring revenue less than 35%.

8 Metrics used can include Customer Lifetime Value, Customer Acquisition Cost, and Net Revenue Retention that can signal highly profitable growth potential.

9 Returns calculations exclude data from 44 companies operating less than one year and one currently operating business with insufficient valuation information.

FIGURE F | AGGREGATE SEARCH FUND ROI (2009–2021)

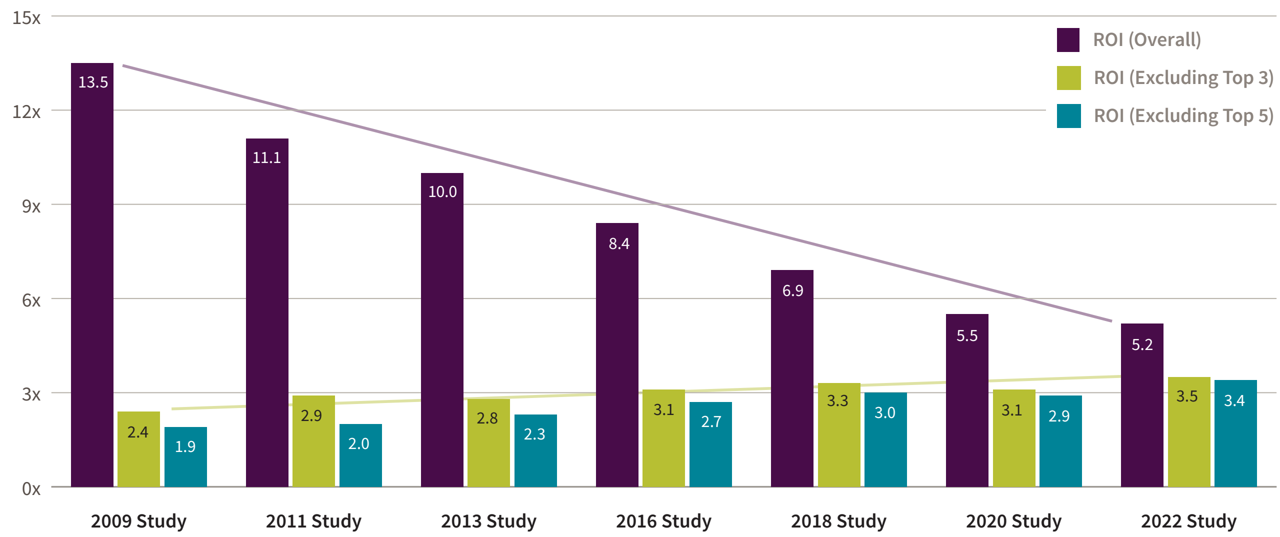


FIGURE G | AGGREGATE SEARCH FUND IRR (2009 – 2021)

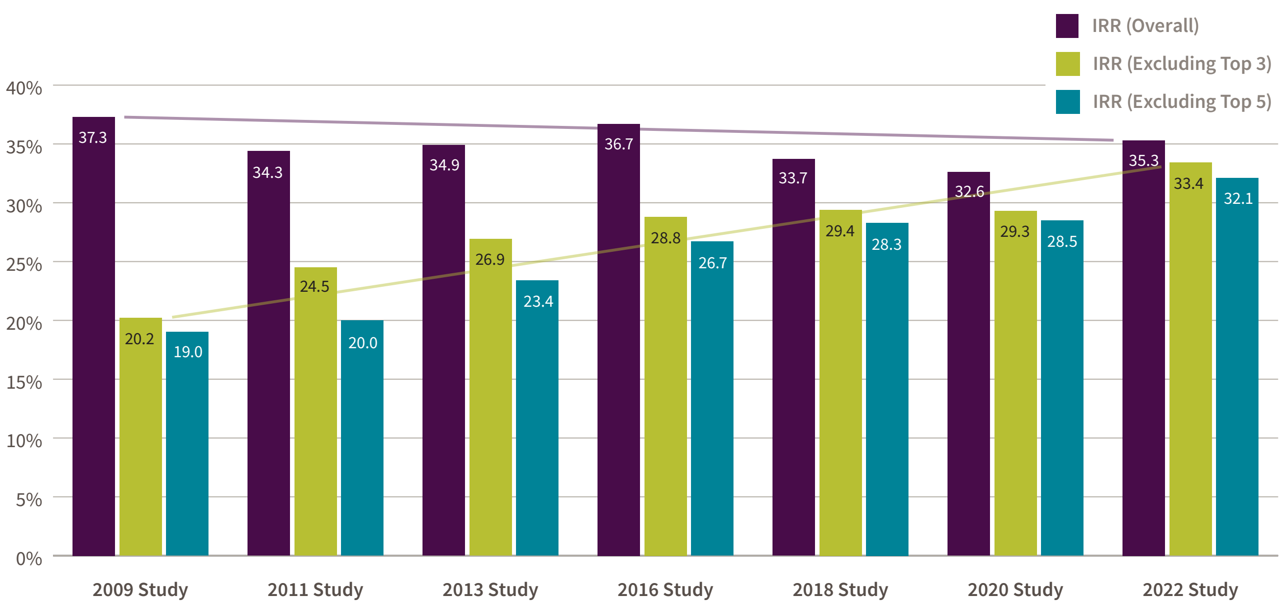


FIGURE H | EXITED SEARCH FUND ROI (2016 – 2021)

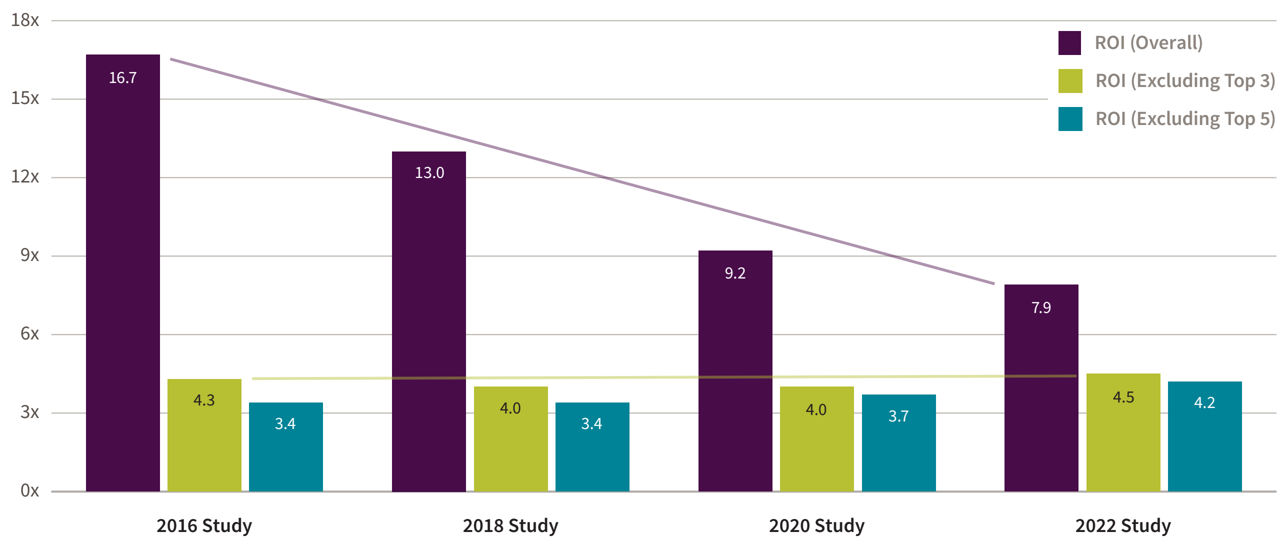
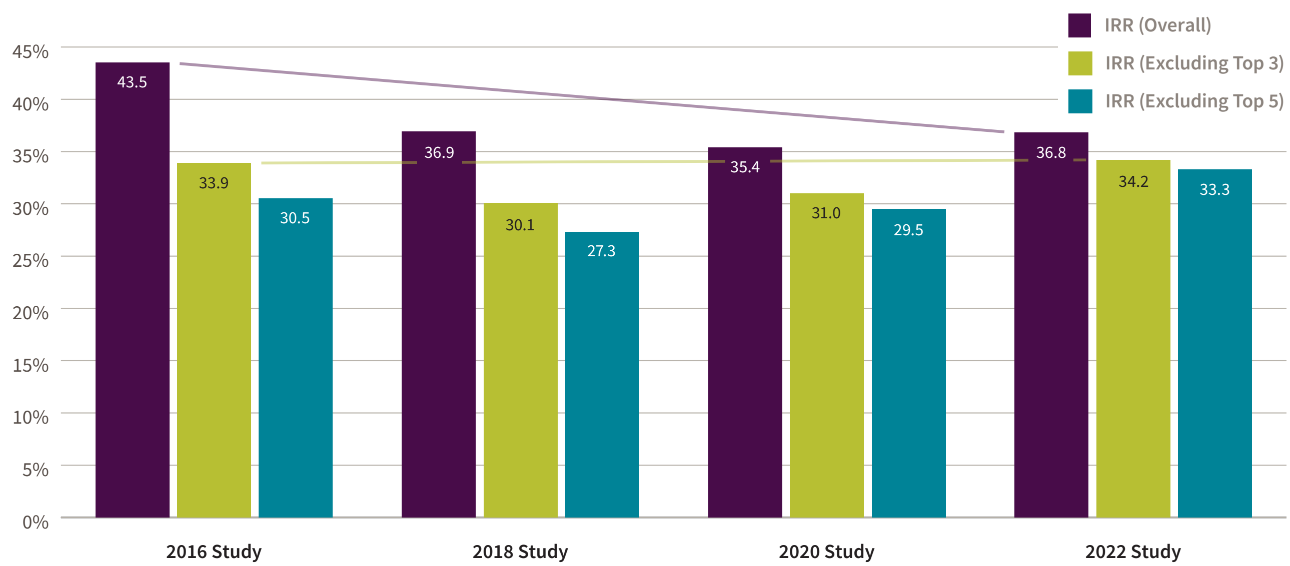


FIGURE I | EXITED SEARCH FUND IRR (2016 – 2021)



Search fund success and returns can be seen in **Figure J**. Since 1984, 66% of searches have resulted in an acquisition and of those 73% resulted in gains. While those with a gain decreased 2% from the 2020 study, there has also been an increase in companies with a greater than 5x return. The number of funds returning more than 10x increased by four in the last two years, to 17. All four of these were run by solo searchers.

FIGURE J | SEARCH FUND OUTCOMES[10]

We present returns and hold periods for year of acquisition in **Figure K**. The returns for companies purchased in 2009 – 2012 and 2013 – 2016 have seen an increase in both ROI and IRR from the 2020 study as they have had longer to realize value and there have been more exits. Average hold time might appear to have trended down, but this is a function of when these companies were purchased, and many are still being operated. In fact, the median holding period before exiting a business has remained consistently around 5.7 years since 2010, as seen in **Figure L**.

The 2022 study analyzed company, industry, and searcher metrics but found no statistically relevant correlations to returns.[11]

10 The gain and loss categories in **Figure J** exclude 44 companies operating for less than one year as of December 31, 2021 and one company for which we had incomplete data. For a select few companies, the exit event is based on original investors selling a majority of their interest.

11 We analyzed length of search, type of search, if an ETA class was taken, previous job experience and expected company growth at acquisition and found no meaningful correlation to returns.

FIGURE K | IRR AND ROI BY YEAR OF COMPANY ACQUISITION (N=225)[12]

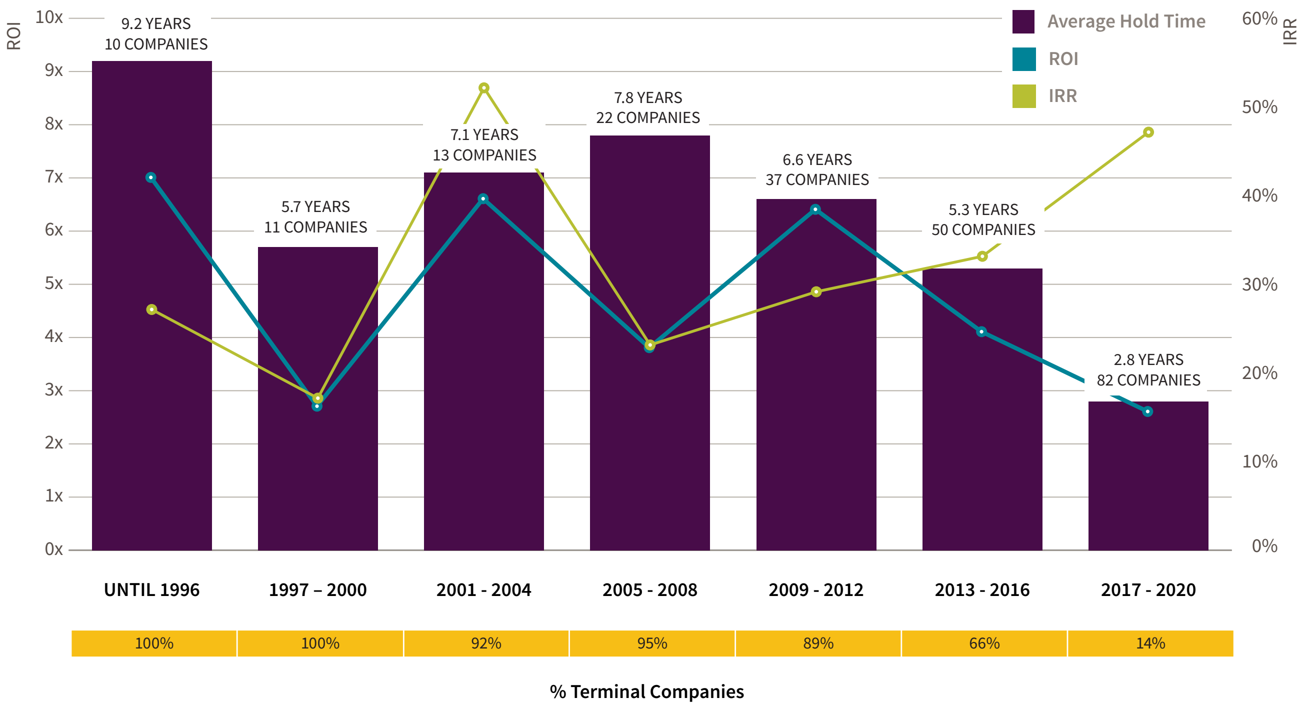
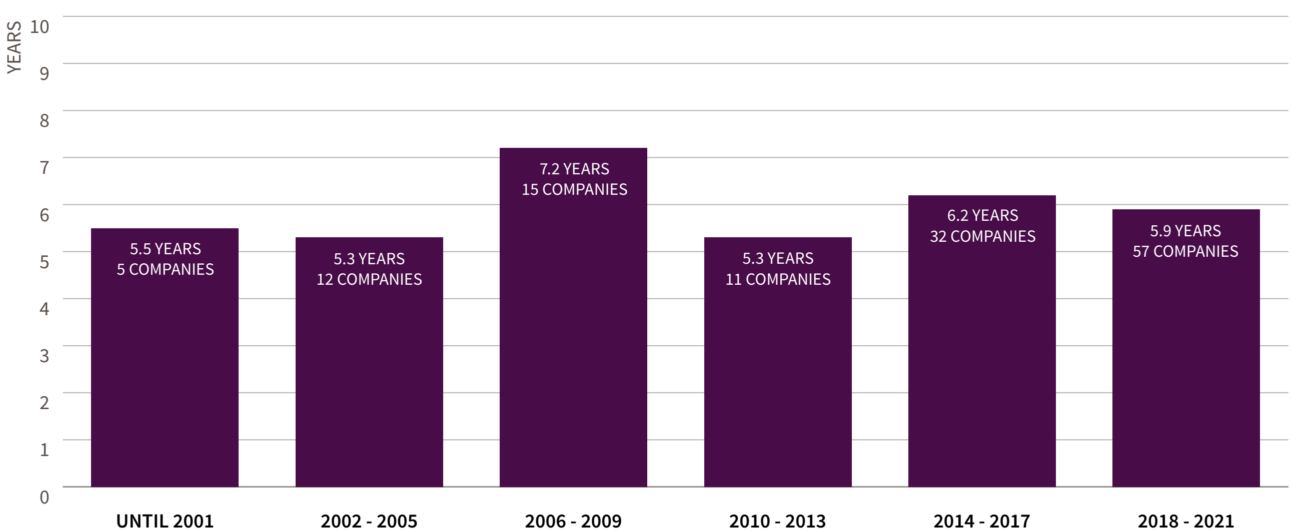


FIGURE L | HOLDING PERIOD OF EXITED COMPANIES BY YEAR OF EXIT (N=131)



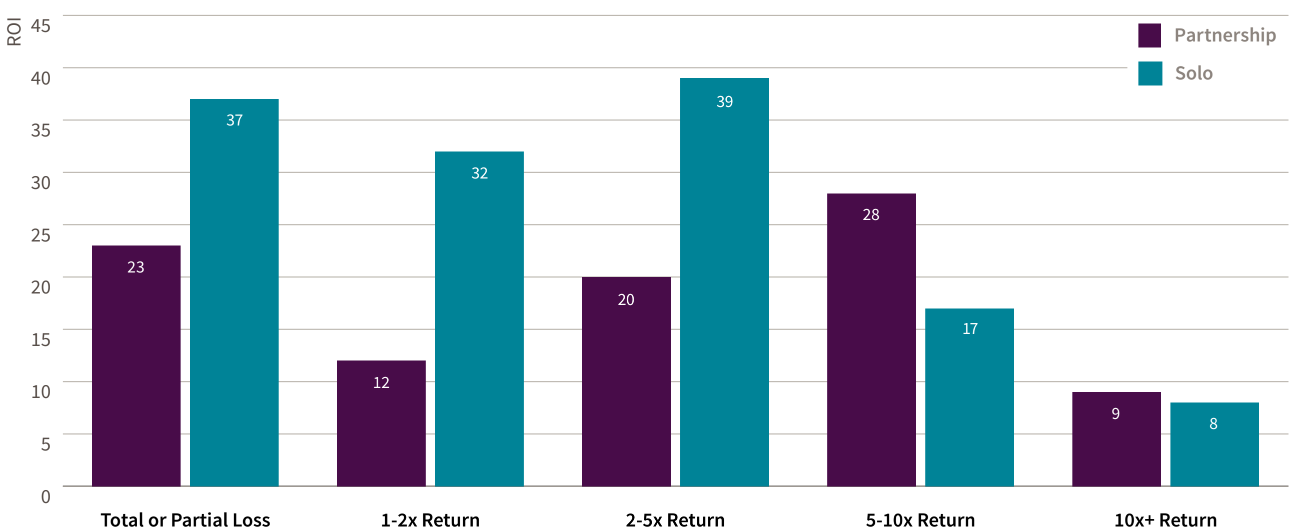
12 The top-performing fund was excluded from this analysis in order to observe underlying trends. In addition, by definition the analysis presented here includes only data from search funds that completed an acquisition, and not from search funds that terminated without an acquisition. As such, this analysis is not directly comparable to the overall analysis of search fund returns that includes terminated searches. In the overall data, the inclusion of terminated searches decreases IRR by approximately 165 basis points. For reference, removing the top-returning fund from the other cohorts in this chart, besides removing the top-performing fund as mentioned above, only meaningfully lowered returns in the 2001-2004 cohort. The others decreased but not significantly.

Partnership Status

Solo searches accounted for 59% of searches launched in 2020 and 2021. Excluding the top three performing funds, solo searchers have returned an IRR of 27.4%[13] compared to partnership returns of 40.3% in this 2022 study. Partnered search ROI was 3.8x compared to 2.9x for solo searchers in this 2022 study, an improvement from 3.7x and 2.4x in the 2020 study, respectively. **Figure M** provides detail on returns by partner status.

While partnered searches have outperformed solo searches in the aggregate, we have seen an increase in the number of solo searchers with returns greater than 5x and 10x in the last decade. Post 2009, 52% of funds returning 5x or greater were run by a solo searcher. Prior to 2009, only 18% of funds that returned more than 5x were led by solo searchers.

FIGURE M | ROI BY PARTNERSHIP STATUS (N=225, INCLUDING 133 SOLO SEARCHES AND 92 PARTNERSHIPS)[14]



Salary and Equity Compensation for Entrepreneurs

The equity earned by searcher CEOs increased in the 2022 study when compared to the 2020 study. The average equity earned per entrepreneur currently operating a company increased 46% to $6.38m and the average equity earned per entrepreneur per year of operation increased 36% to $2.00m. The average equity for a CEO that had exited their business also increased to $7.57m per entrepreneur and $1.45m per year.

This increase in entrepreneur equity value is logical given the increase in overall returns that occurred from 2020 to 2022.

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13 Returns calculated based on 225 reported searches including 133 solo searchers and 92 partnerships since 1986. Includes both exited and currently operating companies.

14 This evaluation included all funds that had made acquisitions (both currently operating and exited) at least one year prior to December 31, 2021. Funds that were searching for an acquisition, had concluded as an unsuccessful search, or had not been operating for one year as of December 31, 2021, were not considered.

FIGURE N | ENTREPRENEUR EQUITY EARNED (N=166 COMPANIES)

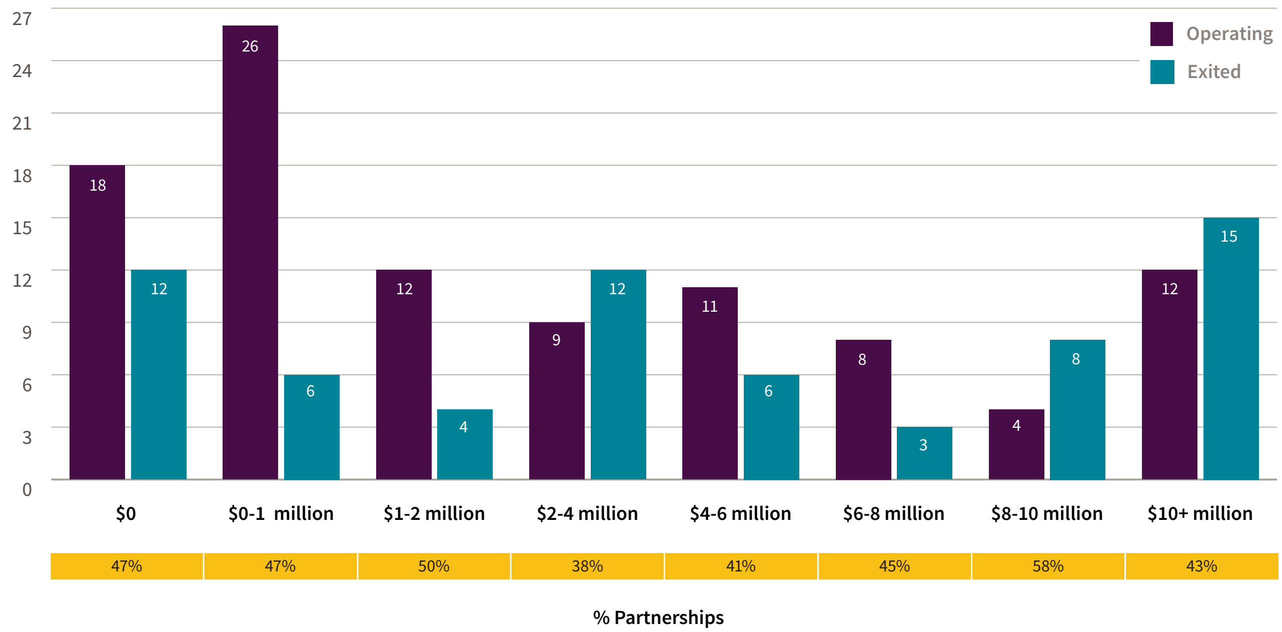


Figure N shows the equity distribution by company. The number of entrepreneurs earning no equity was the same in the 2022 study as in the previous study, while the number earning $6m or more increased by 56%, to 50 searchers.

Current Compensation

Searcher Compensation

We collected data from 248 individual searchers who began their search from 2016 to 2021. Of these, 146 searchers representing 104 funds were actively searching as of December 31, 2021. The range of annual salaries during the search phase was $30,000 to $200,000, with a median of $120,000 (and mean of $116,508) and no bonus.

CEO Compensation

Current compensation data was collected for 159 searcher CEOs. Similar to prior studies, there was not a significant change in either base salary or total compensation as tenure increased. While salary and bonus are an important component of CEO total compensation, particularly in the early years, the majority of value is generated from the equity earned in the business. On average, current compensation does not change significantly from year one to year five but the CEO's overall compensation, when including equity, increases considerably.

CEOs one or two years post acquisition reported a median total current compensation, base and bonus, of $246,000 compared to $270,000 for those four to five years post acquisition.

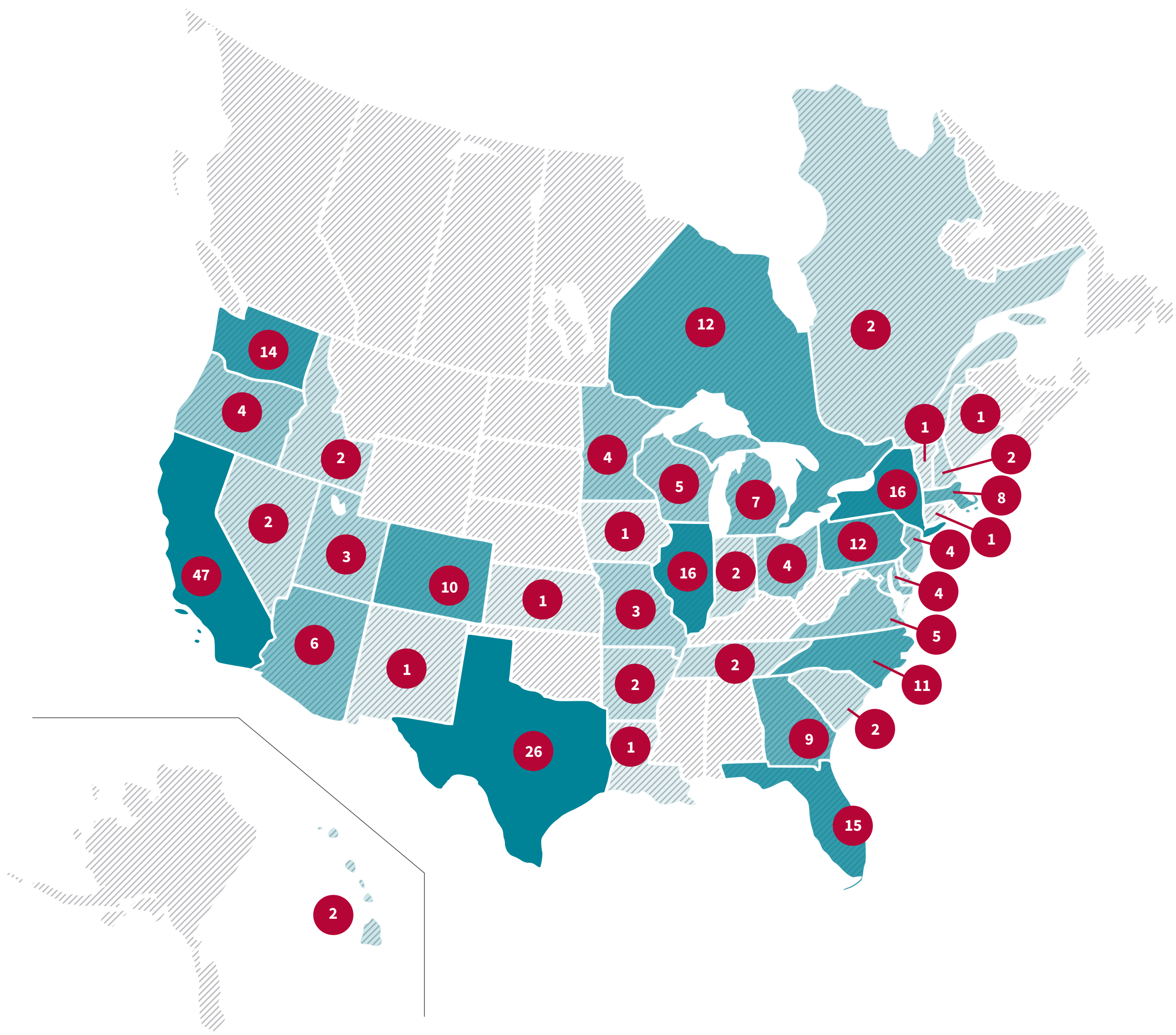
CEOs with less than one year in the role reported a median base salary of $200,000, with a minimum of $175,000 and a maximum of $260,000. Second year CEOs reported a similar base compensation, with a median of $195,000. CEOs in year five reported $215,000 in median base compensation.

Annual bonuses were moderate and not correlated to tenure. Nineteen CEO's with tenure between and one and two years reported data, and 17 received a bonus. The median bonus for this cohort was $50,000 with a max of $100,000. The median annual bonus for all 159 CEO's, regardless of tenure, was also $50,000 with 75% of CEOs receiving some form of annual bonus. Many CEO's operating for less than one year did not receive a bonus but some had a performance-based target bonus payable after 12 months of operation. The median for these first-year target bonuses was $50,000.

Geography

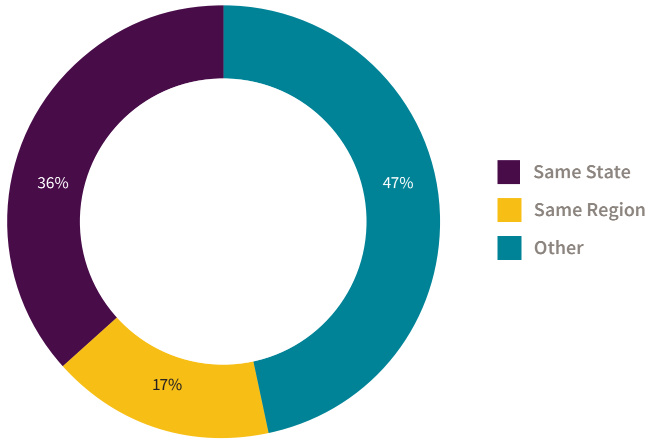
In the 2022 study, we continued to track the relationship between the location of the entrepreneur during the search and the location of the company they acquire.

FIGURE O | ACQUIRED COMPANIES LISTED BY STATE (N=270)[15]



15 For simplicity, "State" is used to name this chart, although two Canadian provinces are also displayed.

FIGURE P | LOCATION OF SEARCH FUNDS VS. THE COMPANIES THEY ACQUIRE, (N=205)[16]



There was a decrease in the number of searchers that purchased companies in the same state from which they searched in 2020 and 2021 to 36%. Despite many travel restriction in 2020 and 2021, searchers were successful in buying companies in a wide variety of areas.

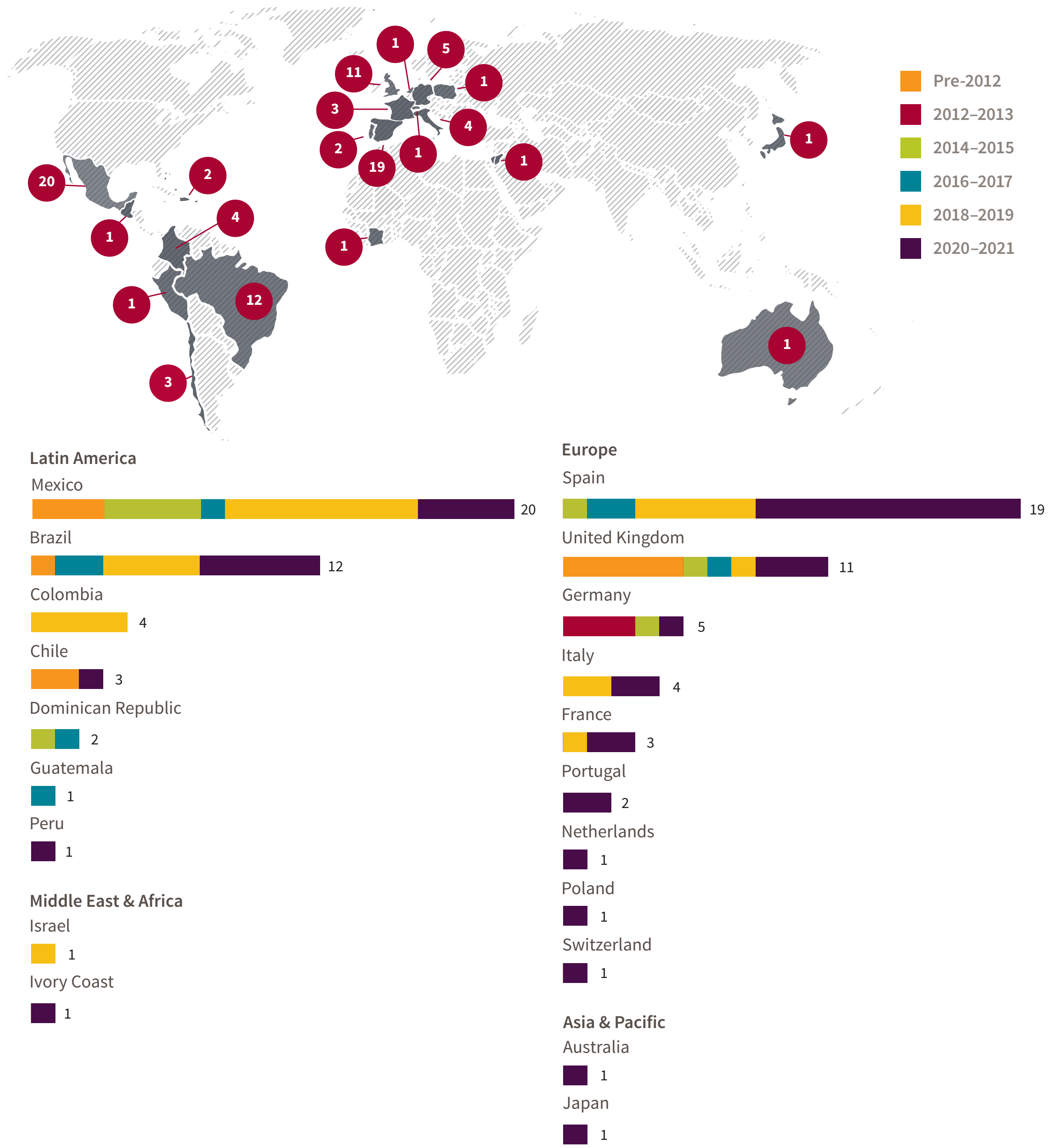
International Search Funds

The Stanford GSB has partnered with IESE Business School in Barcelona, Spain since 2011 to report on search funds outside the United States and Canada. All funds prior to 2010 remain a part of the Stanford study, but all funds outside of the United States and Canada after 2010 are captured in the IESE companion study.

Search outside of the U.S. and Canada has grown significantly, with a record of 79 search funds launched and 38 acquisitions made in 2020 and 2021. Activity in Europe was particularly strong, with 24 acquisitions made in 2020 and 2021, including 11 in Spain and 4 in countries that had never previously hosted a search acquisition. Search has now reached almost all continents of the world, with new acquisitions in Australia, Japan, and the Ivory Coast. The first acquisitions were also made in the Netherlands, Peru, Poland, Portugal, and Switzerland.

16 Based on geographic regions as defined by the U.S. and Canadian censuses. "State" is also used to refer to Canadian provinces here for the sake of simplicity.

FIGURE Q | INTERNATIONAL SEARCH FUND ACQUISITIONS, BY REGION, COUNTRY, AND YEAR



International search funds have returned an ROI of 1.9x and an IRR of 19.4%. The decrease in these numbers from the 2020 study reflect the large number of newly acquired companies that have yet to realize much appreciation. Sixty percent of all international search fund acquisitions were made in the last three years. Additional information regarding international search funds can be sound in IESE's report, International Search Funds – 2022: Selected Observations.

Alternative Search Fund Models

As awareness of the search fund model has grown, other approaches have emerged and achieved increasing popularity. So-called self-funded, single-investor, accelerator, and Entrepreneur in Residence (EIR) models have all grown along with the traditional funded model addressed in this study (self-funded searches are the most numerous). Recently we have also seen an increase in additional search models, such as search-to-start and long-term hold. Each approach has advantages and disadvantages, as does the traditional funded approach to search. Stanford GSB has not collected sufficient data on companies acquired through these other models to report on them yet, but the growing cohorts of entrepreneurs and companies acquired through these interesting alternative models warrant examination. Further discussion of these models can be found in **Appendix C**.

Conclusion

Search funds reached new levels in the last two years in the number of funds raised, acquisitions made, amounts of searcher equity earned, and number of female searchers. More entrepreneurs are not only discovering search funds but taking classes, joining search networks, and preparing themselves to embark on this entrepreneurial journey. The search model continues to evolve with new approaches to equity contribution, holding period, and acquisitions.

The willingness of those in the search community to share experiences, create resources, and provide guidance to new searchers is central to the success of search funds. As search capital combines with the entrepreneurial drive to own and lead a growing company in new ways, the mentorship and experience of past participants help achieve favorable results. The numbers, terms, and people change, but the principles remain the same.

We look forward to observing, measuring, and reporting on these developments over the coming years and in future studies.

Acknowledgements

The Center for Entrepreneurial Studies and the authors would like to thank Gerald Risk, Lecturer in Management, Sara Rosenthal, and Sunny Duggal, Lead Data Analyst, for their exceptional assistance with this study. Recognition is due to the pioneering authors of previous versions (study year in parenthesis): Doug Wells (1996), Josh Hannah (1998), Chris Flanagan (2001), Mu Y. Li (2003), Mike Harkey (2005), Sean Harrington (2007), Aimee LaFont Leifer and Tjarko Leifer (2009), Arar Han (2011), Lisa Sweeney (oversight in 2009 and 2011), Jason Luther (2013), Susan Pohlmeyer (2016), Austin Yoder (2018), and (again) Sara Rosenthal (2011, 2013, 2016, and 2018). This study would not have been possible without the generous cooperation of the searchers who participated and the crucial assistance of several experienced investors. Last, Irv Grousbeck continued contributing his wisdom and advice to the study which he began.

EXHIBIT 1 | CHARACTERISTICS OF SEARCH FUND PRINCIPALS[17 18]

	PRE-2001	2002-2003	2004-2005	2006-2007	2008-2009	2010-2011	2012-2013	2014-2015	2016-2017	2018-2019	2020-2021
Age at Start of Search											
MINIMUM	26	28	28	27	26	25	24	24	26	25	25
MEDIAN	30	31	32	32	30	30	30	32	32	32	32
MAXIMUM	35	60	47	50	51	51	46	54	47	55	50
UNDER-30	N/A	12%	30%	33%	35%	39%	49%	25%	26%	21%	24%
30-35	N/A	65%	53%	47%	40%	31%	36%	49%	39%	56%	50%
36-40	N/A	12%	10%	10%	16%	14%	11%	20%	32%	17%	22%
OVER-40	N/A	12%	7%	10%	9%	17%	4%	7%	3%	6%	3%
Number of Post-MBA Years Before Search Fund											
MINIMUM	N/A	0	0	0	0	0	-1	-1	-2	0	0
MEDIAN	N/A	2	1	1	4	2	0	1	3	1	1
MAXIMUM	N/A	10	18	16	20	17	10	26	15	18	13
NO MBA	N/A	N/A	0%	13%	16%	14%	20%	18%	19%	16%	19%
<1 YEAR POST-MBA	N/A	N/A	47%	33%	18%	42%	49%	35%	25%	28%	29%
1-3 YEARS POST-MBA	N/A	N/A	17%	27%	20%	17%	20%	24%	19%	34%	26%
4-7 YEARS POST-MBA	N/A	N/A	23%	20%	22%	17%	7%	12%	21%	13%	19%
>7 YEARS POST-MBA	N/A	N/A	13%	7%	24%	11%	4%	10%	16%	9%	8%
Gender											
MALE	96%	100%	100%	100%	100%	94%	100%	95%	92%	93%	87%
FEMALE	4%	0%	0%	0%	0%	6%	0%	5%	8%	7%	11%
DECLINE TO STATE / UNKNOWN											1%
Others											
% THAT TOOK ETA CLASS											37%
Ethnicity											
WHITE											60%
ASIAN											13%
HISPANIC / LATINO											11%
BLACK / AFRICAN AMERICAN											6%
OTHER											6%
DECLINE TO STATE											4%

17 Totals may not sum to 100% due to rounding.

18 Negative numbers in the “minimum” row reflect a small number of searchers who raised searched capital and started searching before graduating from business school.

EXHIBIT 2 | SEARCH FUND PRINCIPALS' PROFESSIONAL BACKGROUNDS[19][20]

PROFESSIONAL BACKGROUND	PRE-2001	2002-2003	2004-2005	2006-2007	2008-2009	2010-2011	2012-2013	2014-2015	2016-2017	2018-2019	2020-2021
MANAGEMENT CONSULTING	26%	23%	10%	26%	7%	14%	16%	11%	7%	12%	15%
INVESTMENT BANKING/FINANCE	23%	10%	16%	27%	20%	11%	22%	11%	16%	22%	15%
SALES	12%	1%	3%	7%	4%	6%	4%	6%	3%	8%	2%
VENTURE CAPITAL	8%	3%	5%	1%	0%	0%	2%	0%	3%	0%	2%
LINE/GENERAL MANAGEMENT	5%	27%	7%	15%	11%	19%	2%	12%	14%	17%	16%
MARKETING	5%	2%	4%	0%	4%	0%	0%	0%	1%	2%	1%
LAW	4%	0%	2%	0%	0%	0%	7%	3%	0%	0%	0%
OPERATIONS	4%	7%	16%	1%	7%	8%	7%	5%	23%	3%	7%
ENTREPRENEUR	2%	13%	8%	7%	13%	6%	4%	3%	4%	8%	6%
ACCOUNTING	2%	0%	3%	0%	0%	0%	0%	2%	1%	1%	1%
ENGINEERING	2%	0%	5%	2%	0%	6%	2%	1%	4%	7%	4%
MILITARY	2%	1%	8%	1%	0%	0%	2%	9%	3%	5%	6%
INSURANCE	2%	1%	0%	2%	0%	0%	0%	0%	0%	0%	0%
PRIVATE EQUITY	1%	5%	11%	4%	27%	28%	31%	27%	14%	14%	22%
OTHER	0%	7%	2%	8%	7%	3%	0%	11%	7%	1%	3%

19 Totals may not sum to 100% due to rounding.

20 We refined the professional background categories for the 2018 study, complicating comparisons with categories from previous studies. In 2018, we changed "Operations" to "Operating Management," and then in 2020 changed it back because of confusion with the term, thus contributing to the volatility in reported Operations backgrounds.

EXHIBIT 3 | COMPARISON OF SEARCH FUND METRICS

	PRE-2001	2002-2003	2004-2005	2006-2007	2008-2009	2010-2011	2012-2013	2014-2015	2016-2017	2018-2019	2020-2021
Number of Principals											
SINGLE	68%	41%	42%	75%	36%	62%	59%	72%	55%	80%	73%
PARTNERS	32%	59%	58%	25%	64%	38%	41%	28%	45%	20%	27%
Amount of Initial Capital Raised											
MINIMUM	$40,000	$125,000	$150,000	$200,000	$200,000	$140,000	$125,000	$175,000	$250,000	$300,000	$125,000
MEDIAN	$290,000	$350,000	$395,000	$385,000	$450,000	$446,250	$426,000	$420,000	$450,000	$450,000	$500,000
MAXIMUM	$1,000,000	N/A	$750,000	$550,000	$750,000	$850,000	$650,000	$722,000	$825,000	$900,000	$1,200,000
Amount of Initial Capital Raised per Principal											
MINIMUM	N/A	N/A	$106,250	$175,000	$143,750	$140,000	$125,000	$175,000	$150,000	$235,000	$125,000
MEDIAN	N/A	N/A	$276,250	$350,000	$262,500	$302,500	$355,000	$385,000	$398,000	$429,000	$425,000
MAXIMUM	N/A	N/A	$750,000	$540,000	$450,000	$575,000	$560,000	$640,000	$600,000	$570,000	$700,000
Number of Search Fund Investors											
MINIMUM	2	1	3	10	5	8	2	5	2	3	4
MEDIAN	12	13	12	14	15	18.5	16	15.5	15	15	14
MAXIMUM	25	20	24	23	28	26	30	25	24	27	33
Number of Months Fundraising											
MINIMUM	N/A	1.0	2.0	0.8	0.0	1.5	0.8	0.0	1.0	0.0	0.0
MEDIAN	N/A	4.5	5.0	3.0	4.0	3.8	4.1	3.0	3.0	3.1	3.1
MAXIMUM	N/A	9.0	12.0	10.0	20.0	28.4	8.6	8.0	11.0	12.2	15.2

EXHIBIT 4A | TARGETED INDUSTRIES, 2020 - 2021 (N=114)[21]

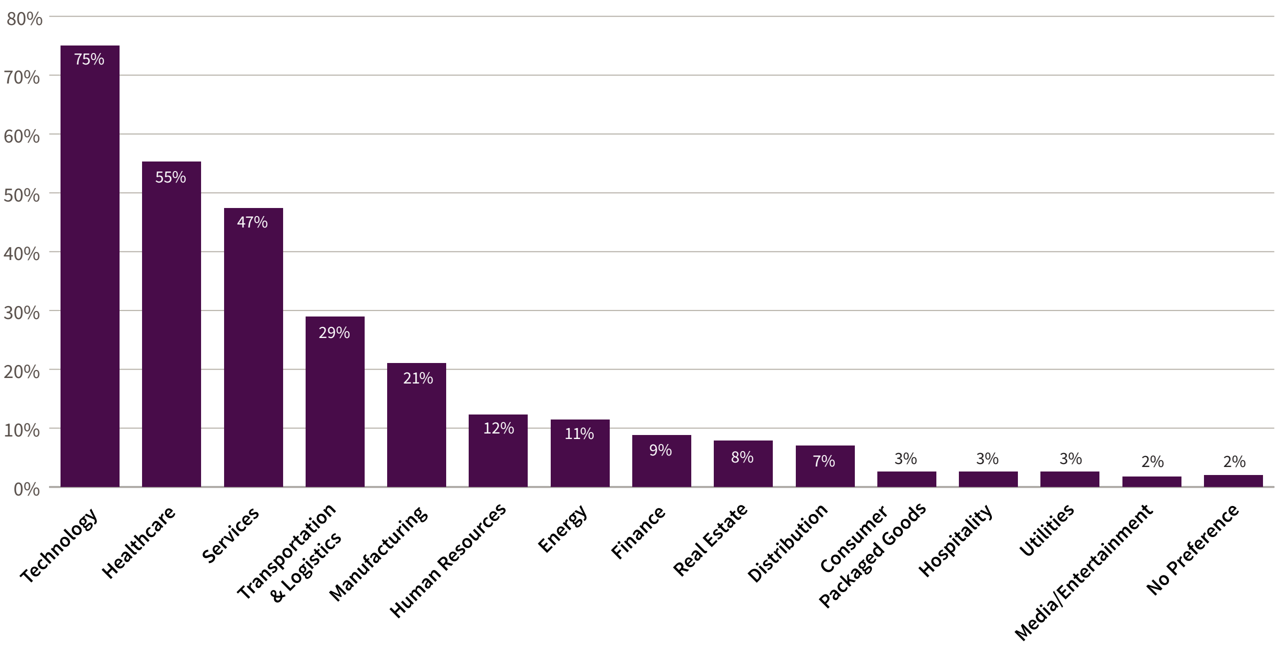
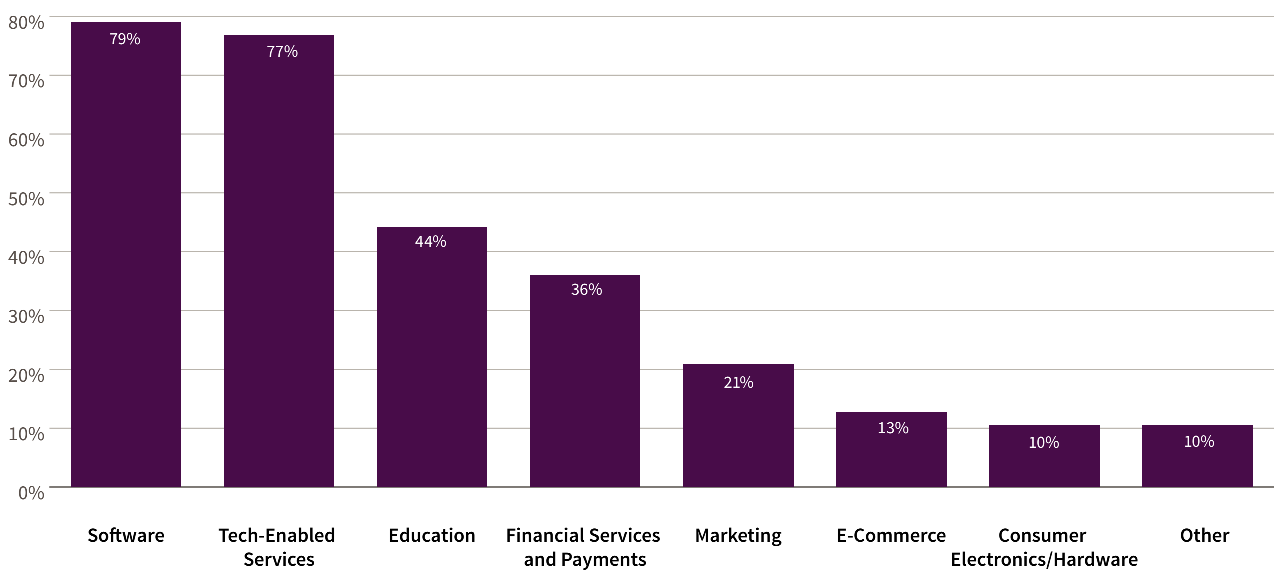


EXHIBIT 4B | TARGETED TECHNOLOGY SUBCATEGORIES, 2020 - 2021 (N=86)



21 Starting in 2016, principals had the option to select all industries they targeted in their search rather than choosing only one. The above data represent the frequency of each response across all search funds newly surveyed for these years. Additionally, the "Internet or IT" category was redefined as "Technology" in the 2016 study and broken into subcategories for the 2018, 2020, and 2022 studies, as shown in Exhibit 4B. "Healthcare" as defined in the 2016 study is broken down into subcategories for 2018, 2020 and 2022, as shown in Exhibit 4C.

EXHIBIT 4C | TARGETED HEALTHCARE SUBCATEGORIES, 2020 - 2021 (N=63)

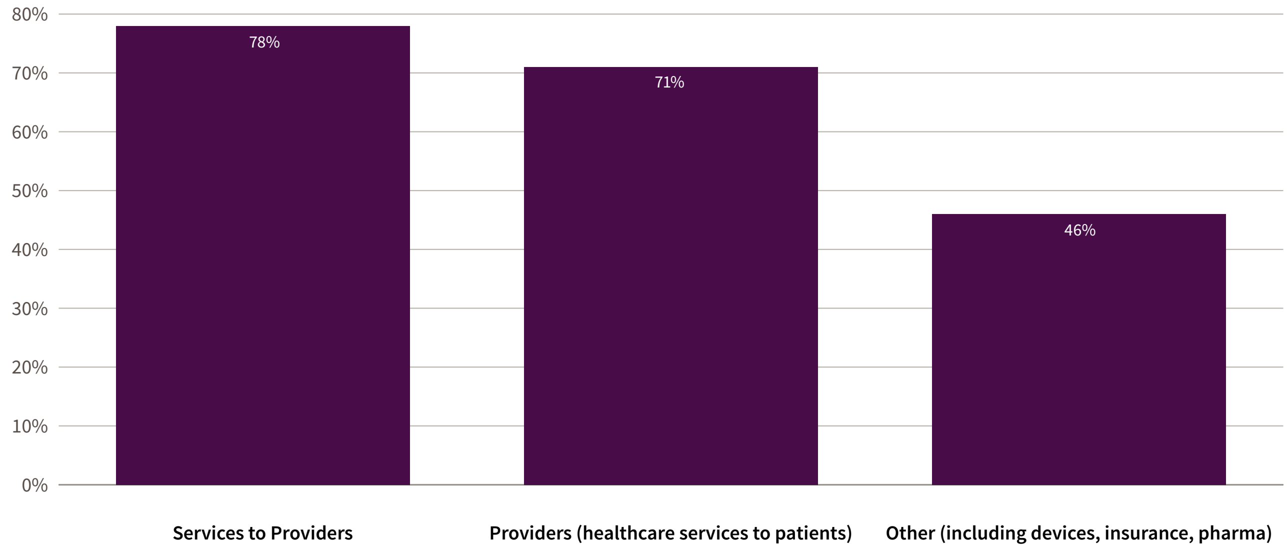


EXHIBIT 5 | MEDIAN STATISTICS FOR RECENT SEARCH FUND ACQUISITIONS

MEDIAN	ALL ACQUISITIONS	2006-2007	2008-2009	2010-2011	2012-2013	2014-2015	2016-2017	2018-2019	2020-2021
LENGTH OF SEARCH (MONTHS)	20	19	14	18	19	17	23	23	17
PURCHASE PRICE	$12.0 M	$9.4 M	$6.5 M	$7.9 M	$11.6 M	$12.0 M	$13.1 M	$10.0 M	$16.5 M
COMPANY REVENUES AT PURCHASE	$7.5 M	$9.1 M	$5.3 M	$6.0 M	$6.2 M	$7.0 M	$10.0 M	$6.3 M	$6.4 M
COMPANY EBITDA AT PURCHASE	$1.8 M	$2.0 M	$1.3 M	$1.5 M	$2.0 M	$2.5 M	$2.1 M	$1.8 M	$1.7 M
COMPANY EBITDA MARGIN AT PURCHASE	21.8%	18.2%	20.5%	23.5%	29.9%	23.4%	22.7%	21.0%	22.0%
EBITDA GROWTH RATE AT PURCHASE	16.5%	16.5%	9.3%	11.9%	18.0%	5.0%	20.0%	15.0%	17.0%
PURCHASE PRICE/ EBITDA	6.4x	5.2x	4.9x	5.2x	5.6x	5.8x	6.3x	6.0x	7.3x
PURCHASE PRICE/ EBITDA (EXCLUDING COMPANIES USING REVENUE MULTIPLE)									6.2x
PURCHASE PRICE/REVENUE	1.7x	0.9x	1.5x	1.3x	1.6x	1.5x	1.1x	1.4x	2.1x
COMPANY EMPLOYEES AT PURCHASE	40	60	38	38	21	46	45	32	35
1ST YEAR CEO BASE COMPENSATION							$183 K	$185 K	$200 K

EXHIBIT 6 | SELECTED STATISTICS FOR ALL SEARCH FUND ACQUISITIONS[22]

TOTAL NUMBER OF MONTHS FROM START OF SEARCH TO DEAL CLOSE:	ALL ACQUISITIONS N=270
MINIMUM	2.0
MEDIAN	19.6
MAXIMUM	74.0
<11 MONTHS	15%
11-20 MONTHS	39%
20-30 MONTHS	29%
>30 MONTHS	17%

PURCHASE PRICE STATISTICS	ALL ACQUISITIONS N=201
MINIMUM	$1.7 M
MEDIAN	$12.6 M
MAXIMUM	$152.5 M
<$4 M	6%
$4 M TO $8 M	20%
$8 M TO $12 M	21%
>$12 M	53%

ADDITIONAL STATISTICS FOR ALL SEARCH FUND ACQUISITIONS	MINIMUM	MEDIAN	MAXIMUM
COMPANY REVENUES AT PURCHASE	$1.2 M	$7.5 M	$100.0 M
COMPANY EBITDA AT PURCHASE	-$1.6 M	$1.8 M	$25.0 M
COMPANY EBITDA MARGIN AT PURCHASE	-21.0%	21.8%	60.0%
EBITDA GROWTH RATE AT PURCHASE	-56.0%	16.5%	300.0%
REVENUE GROWTH RATE AT PURCHASE	-24.0%	10.0%	90.0%
PURCHASE PRICE / EBITDA MULTIPLE	NM	6.4x	114.0x
PURCHASE PRICE / REVENUE MULTIPLE	0.1x	1.7x	10.5x
COMPANY EMPLOYEES AT PURCHASE	4	40	2500

22 Data on some older acquisitions is incomplete, requiring their exclusion from some calculations and resulting in different sample sizes.

EXHIBIT 7 | ROI DISTRIBUTION OF SEARCH-ACQUIRED COMPANIES (N=225)[23]

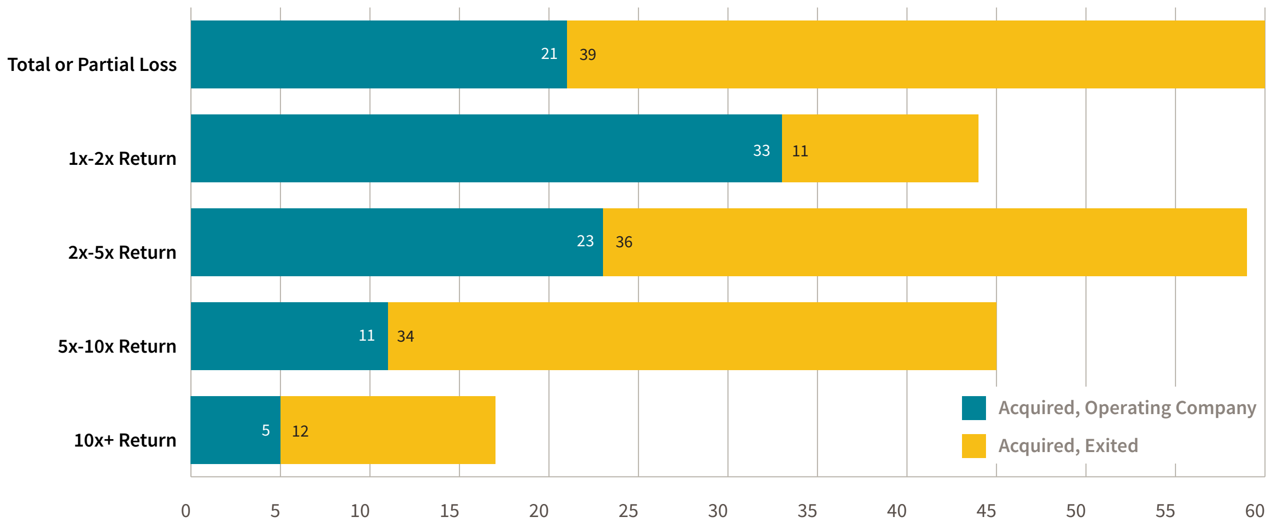
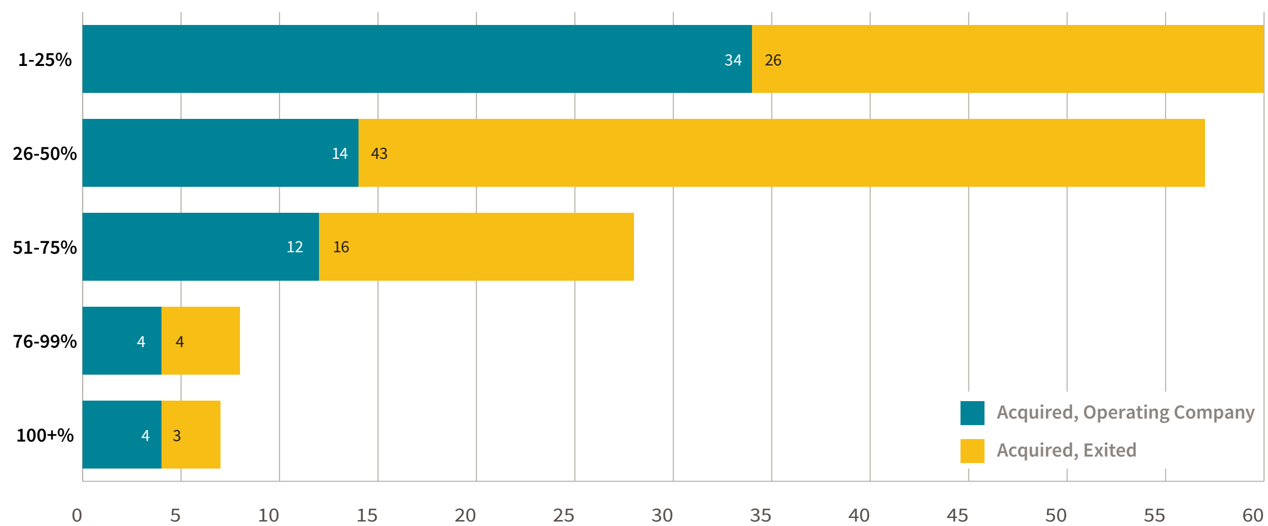


EXHIBIT 8 | IRR DISTRIBUTION OF SEARCH-ACQUIRED COMPANIES (N=160)[24]



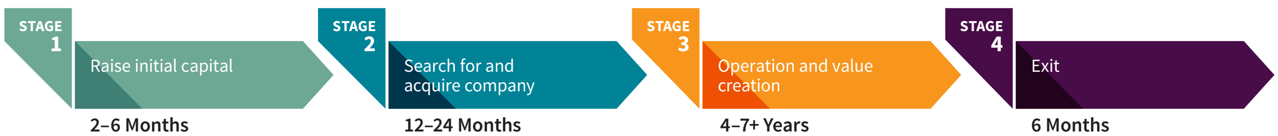
23 Of the 270 companies acquired as of December 31, 2021, for which we have data or collected data historically, 44 funds had been operating for less than one year and we have incomplete data for one. Thus, ROI data was calculated for 225 funds.

24 Of the 270 companies for which we could calculate returns as of December 31, 2021, 160 reported IRR of greater than zero as of December 31, 2021.

APPENDIX A | WHAT IS A SEARCH FUND?[25]

The search fund concept originated in 1984 and has become increasingly well known among business schools and private investors. 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 for the entrepreneurs to search for, acquire, and lead a privately held company for the medium to long term, typically six to ten years. When successful, this has resulted in a relatively fast path to becoming an owner-CEO, attractive financial returns for both investors and searchers, and growing, well-run enterprises. As shown in the following chart, the search fund process consists of up to four stages: fundraising, search and acquisition, operation, and eventual sale or other event providing shareholder liquidity.

Stages of the Search Fund Lifecycle



The timeframes shown above are estimates for each stage; the time spent on each phase can vary widely.

Stage One: Raise Initial Capital

Search funds are usually structured as limited liability companies. In a search fund, the money is raised in two stages: (1) to fund the search ("search capital") and (2) to fund the acquisition of a company ("acquisition capital"). The search capital is used to cover a modest salary and administrative and deal-related expenses over a two-year period while the entrepreneur searches full-time for an acquisition. Once a target acquisition is identified and negotiated, the search fund entrepreneur raises the capital to purchase the company.

To formally begin the fundraising process, the searcher composes an Offering Memorandum, also called a Private Placement Memorandum (PPM), to provide to potential investors, presenting the investment opportunity. This document typically includes several sections:

- Executive summary
- Overview of the search fund model
- Outline of the search methodology to be employed, including resources to be utilized
- Potential industries and/or geographies of interest
- Specific criteria to screen acquisition opportunities
- Detailed timeline with expected completion dates for specific activities
- Detailed budget for the uses of the search capital
- Proposal of the form of the investment for the acquisition capital (e.g., subordinated debt and/or equity and the associated coupon/preference)

25 Much of the following content is taken from Mu Y. Li, "Search Funds – 2003, What Has Changed Since 2001," June 24, 2003; Sean Harrington, "Search Funds – 2007: Selected Observations," Stanford University Graduate School of Business, January 15, 2008; and Aimee LaFont Leifer and Tjarko Leifer, "Search Funds – 2009: Selected Observations," Stanford University Graduate School of Business, July 21, 2010.

- Financial model showing potential investment returns under various scenarios of an illustrative acquisition
- Outline of the potential exit alternatives
- Summary of the personal backgrounds of the principal (and allocation of future responsibilities if more than one principal)

Aspiring search fund entrepreneurs usually engage experienced legal counsel during fundraising. Qualified legal counsel can help the entrepreneur avoid violating securities laws; assist in creating and documenting the appropriate legal entities for the fund; and help the entrepreneur propose legal, tax, and financial structures to potential investors for the acquisition capital as well as the entrepreneur's earned equity. Searchers are well advised to rely on recent searchers or investors for fundraising and PPM guidance.

Principals today can tap a wide network of potential investors to raise a search fund, including experienced individual and institutional search fund investors, as well as business associates, business owners and executives, and possibly friends and family. Typically, 10 or more investors purchase one or several units of the initial capital of the search fund. These funds will cover the salary and administrative and deal-related expenses (office space, travel, legal fees, certain due diligence fees on deals, etc.) of the search fund for two or more years of searching for a company to acquire and raising acquisition capital. In exchange for the initial search capital, each investor receives (1) the right, but not obligation, to invest pro-rata in the equity required to consummate the acquisition and (2) conversion of the search capital, typically on a stepped-up basis (e.g., 150% of the actual investment), into the securities issued as the acquisition capital.

Most search fund principals solicit investors who also can serve as high-quality advisors. Ideal investors can offer expert guidance and advice in deal evaluation, deal execution, and company management; provide support to the entrepreneur during the ups and downs of the search process; assist in generating deal flow; and provide leverage with lawyers, accountants, and bankers. In many cases, investors are drawn not only to the potential financial returns of a search fund, but also to the psychic benefits of being involved with a young entrepreneur.

Stage Two: Search for and Aquire Company

Compared with raising the initial capital, searching for an acquisition target and completing the transaction is typically more time-consuming, with a median of 23 months. The general economic environment, industry characteristics, sellers' willingness to sell, and regulatory issues are among the factors that can prolong or derail an acquisition process. Depending on the complexity of the deal, it can take three to 12 months or more from the time the opportunity is uncovered until transactions close.

Searchers who focus their search, as well as developing and adhering to a systematic approach of creating deal flow and analyzing deal opportunities, have a higher likelihood of identifying and closing an acquisition.

In order to mitigate operating and investment risks, searchers generally target industries that are not subject to rapid technological change, are fairly easy for them to understand, and are in fragmented geographical or product markets. Within the preferred industries, companies are targeted based on their sustainable market position, their history of positive, stable cash flows, and opportunities for improvement and growth. Searchers and their investors tend to prefer healthy, profitable companies over turnaround situations. Adhering to a disciplined list of acquisition guidelines reduces some of the risk of investing in a company run by entrepreneurs who often possess little operating experience.

When a target is identified, the searcher must simultaneously undertake several efforts:

- Negotiate the company purchase with the seller(s)
- Perform due diligence on the company
- Arrange for the senior debt and subordinated debt from third parties (if any)
- Negotiate the structure of the acquisition capital and secure commitments from the original search fund investors
- Secure additional equity commitments if needed
- Finalize the searcher's earned equity allocation and performance targets with the investor base
- Plan the transition for when the acquisition closes and the entrepreneur assumes management of the company

In addition to the follow-on equity investment from the original group of investors, the funds for the acquisition can come from a combination of other sources: seller debt, seller equity rollover, earnouts, traditional senior and subordinated loans, and equity financing from new investors. The capital structure, and therefore equity requirement, can vary widely by industry and the current lending environment.

The acquisition is expected to be at fair market value. Ideally, the acquired company would provide adequate cash flow and not be highly leveraged, so that the short-term survival of the company does not rely on immediate, significant improvement in company performance.

If the initial search capital is exhausted before an acquisition is completed, the searcher may choose either to close the fund or to solicit additional funding to continue the search.

Stage Three: Operation and Value Creation

Upon completing the acquisition, the searcher will establish a board of directors for the company, which often includes substantial representation from the investor base. In the first six to 18 months after the acquisition, searchers typically make few significant changes to the existing business, opting instead to gain familiarity with its inner workings and finer details. After becoming comfortable operating the business, searchers then make changes as they see fit. Searchers can create value through revenue growth, improvements in operating efficiency, appropriate use of leverage, organic expansion, add-on acquisitions, or multiple expansions. These means of creating value are not mutually exclusive; ideally, more than one will apply to a search fund investment. When a growth plan is executed successfully, the searcher shares in the increase in equity value through personal earned equity.

Stage Four: Exit

Most search funds are established with a long-term outlook, generally greater than a five-year time horizon and often longer. Even so, investors and principals share a desire to realize returns at some point; consequently, principals evaluate exit alternatives throughout the life of the business. Liquidity events for investors and principals can occur in a number of ways: Companies can be sold or taken public; investor debt may be repaid; investor equity may be sold to other investors or bought by the company; or the company can issue dividends.

APPENDIX B | FINANCIAL RETURN METHOD

This study calculated financial returns from the perspective of initial search investors. 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 deal. As in the 2018 study, this year's study excluded follow-on financing events.[26] This study uses two measures of return: ROI[27] and IRR.[28] 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. These include the losses from searches that ended without an acquisition, losses in equity upon exit, and losses in equity value reported while operating the company.

All returns were calculated on a pre-tax basis using data provided by the principals of the funds or, in the few instances when they were not reachable, by their fund investors. Returns were calculated using the actual investments into each fund and the subsequent acquisitions, when they were made, and eventual distributions. In this study, we conducted an independent audit of calculation methods and checked returns information collected through our survey against data provided by investors, where possible.

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26 While follow-on financings can be an important part of search fund returns, excluding them in these calculations simplifies data reporting for searchers, thereby increasing data integrity and accuracy, while staying true to the focus on returns for original search and acquisition investors.

27 Return on investment (ROI) represents the multiple of initial capital invested that is returned to investors (also known as multiple of invested capital or MOIC) — i.e., if the group of initial investors invested $5 million and received back $10 million, 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.

28 Internal rate of return (IRR) represents the annual compounding rate derived from the actual amounts of search and acquisition capital invested and returned by an investment. For investments returning only a fraction or none of an investment, IRR is not a meaningful metric.

APPENDIX C | ALTERNATIVE SEARCH FUND MODELS

Self-Funded Search

Self-funded searchers do not raise search capital from others and instead fund their own search costs, often living frugally, over similar search periods as traditional searches (up to three years). They maintain an informal network of mentors and investors who help them screen possible deals and work to bring this group of investors together formally at the point of acquiring a company. Self-funded searchers typically rely on raising more debt to complete an acquisition and often target materially smaller companies than funded searchers. As a result, self-funded searchers typically wind up with higher percentage equity ownership (50 to 70%) of a smaller company than funded searchers. They also often have a smaller set of investor-advisors and a different set of general management and leadership opportunities. The self-funded model may give searchers increased flexibility, notably in the location, industry, type, and size of business they target for acquisition.

Single-Investor, Accelerator, or EIR Model

In the single-investor model, searchers are funded by a single investor, either a firm or occasionally a person, and receive a salary, advice, support, and access to networks from that sole investor. This may be a private equity firm, family office, single professional investor, or "accelerator." Some, especially accelerators, provide common services to the searchers, which might include training, database access, shared interns, mentoring, bank introductions, and prearranged legal and accounting relationships. Economics for the searcher are generally similar to the funded model.

Long Term Hold Model

The term "Long Term Hold" (LTH) has emerged in the last few years in the search fund community to denote a variation on search that combines fundamental principles of search funds with several new ideas that seem to fit a few select entrepreneurs. LTH is used broadly to denote several distinct and evolving approaches to owning and running a company. A number of traditional or "core" search funds have also evolved to become what could be considered an LTH.

LTH searches differ from traditional searches in several possible ways including size of initial equity commitment, intended duration, expected role of the entrepreneur(s), incentive structure, and combination of small size of initial acquisition and fast pace of later add-ons.

The amount of capital committed to an LTH tends to be larger, often in the $15-$25 million range, and firmly pledged at launch. Initial equity capital is called to fund the search in similar sizes to core search funds, but subsequent equity is then called quickly, upon board approval, over a number of years to fund multiple acquisitions (often with meaningful penalties for non-contributors). This differs from the two-tier equity raise of a traditional search.

The intent is to own the business for ten or more years and build it through a combination of organic growth and acquisitions, depending on the entrepreneur, industry, and situation. The searcher's role and management structure through the search and first acquisition are similar to core search. The LTH can then evolve over time as the enterprise grows and often takes one of two forms, centralized or decentralized (although other forms are emerging).

In the more common centralized model, the searcher is CEO of one company and subsequent acquisitions, typically in the same industry vertical, are tucked into that company. Most commonly the entrepreneur will lead and operate the first acquisition for a year or so, and then armed with operating knowledge of the industry resume acquisitions at an accelerating pace. Various functions such as strategy, capital, M&A, HR and administrative functions end up being centralized in one organization. Under the decentralized structure, sometimes called a "Holdco," companies are owned by the fund but remain highly independent entities with separate management teams and can operate in a wide range of industries. Some LTHs focus on one highly promising industry or mega-industry in which the searcher has deep knowledge. Others focus on a broader business model or several similar industries and are more likely to be Holdcos.

Incentive structures in LTH usually have less up-front vesting than core search, more performance-based vesting, larger capital to compound and benefit the entrepreneur, vesting hurdles based on ROI rather than IRR (with a minimum hold period), and are designed for various "go-slow-early to go-fast-later" approaches. This often means that a first acquisition is quite small, but in a sector or business model with unusually attractive qualities (business models, growth rates, customer retention, etc) and many other potential targets. Both patience with the process and confidence in the industry are required by investors and entrepreneurs alike. The goal is described by some as achieving the "flywheel effect" of faster acquisitive growth funded entirely with debt and company cash flow.

Growth through acquisition and lengthy ownership periods have been a part of search for decades. What differentiates the LTH is the up-front intent, multiple pledged capital calls, and long term plan to make numerous, well-paced acquisitions. Success for entrepreneurs with this strategy may require a somewhat different set of skills or experience, along with the ability to learn quickly from first deals, remain focused on strategy, set an appropriate pace for acquisitions, and become expert at strategy and capital allocation. We plan to research the required skills and outcomes further.

These qualities and others combine in different ways to create LTHs with very different approaches for, so far, a few entrepreneurs. Thus the term can be confusing and the broader concept is nascent and evolving. Trends will emerge, and we intend to report on them.

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