STANFORD BUSINESS GRADUATE SCHOOL OF

CASE E-870
JUNE 28, 2024

2024
Search Fund Study
Research Overview

This 2024 study reports on the outcomes of 681 search funds formed in the U.S. and Canada since 1984. Analysis of the data from surveys of entrepreneurs who formed search funds and acquired operating companies provides insights into the financial returns and key characteristics of search funds as of December 31, 2023.

Since 1996 the Center for Entrepreneurial Studies at Stanford Graduate School of Business (GSB) has conducted a biennial study of core search funds,[1] an entrepreneurial path undertaken by one or two individuals who form an investment vehicle with a small group of investors to search for, acquire, and lead a privately held company for the medium to long term, typically five to ten years. 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 core 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. This publication is for educational purposes only and may be shared accordingly, but not stored on external websites or other learning management systems. Otherwise, no part of this publication may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods, without the written permission of the Stanford Graduate School of Business. If you are a copyright holder and have concerns, please contact the Case Writing Office at businesscases@stanford.edu or write to Case Writing Office, Stanford Graduate School of Business, Knight Management Center, 655 Knight Way, Stanford University, Stanford, CA 94305-5015.

[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 “core search funds” or “search funds.” Other forms of search funds exist, such as those that are self-funded, funded by a single entity (sometimes known as “Entrepreneur in Residence” or "Accelerator” searches) or others, as noted in Appendix C.

Executive Summary

With a record number of searchers, additional investors, and new classes offered at business schools, activity in the search fund community continues to grow.

Adding data from the last two years, returns from all search funds since 1984 fell in line with those reported in recent studies, with a few notable variations. The internal rate of return (IRR) was 35.1%, compared to 35.3% in the 2022 study, and return on investment (ROI) was 4.5x in the 2024 study, down from 5.2x in 2022. Notably, the IRR for companies that have exited increased to 42.9% from 36.8% as several exits in 2022-2023 achieved significant returns.

Ninety-four core search funds launched in 2023, a record number, while the number of acquisitions in 2023 decreased by 11 to 29 from a peak in 2021. The median purchase price of an operating company declined to $14.4 million in this study from $16.5 million in the prior report, representing a 7.0 multiple of EBITDA for companies with an EBITDA margin of 27%, growth rate of 25% and 34 employees (all median amounts, **Exhibit 5**). Investor capital of $682 million was invested in core search funds and search acquired companies in 2022 and 2023 combined, down by $94 million from $776 million in the prior two year period.

The average age of a searcher decreased slightly, with 79% of those launching in 2022 and 2023 aged 35 or younger. More entrepreneurs formed a search fund right out of business school or without an MBA, and those with an MBA graduated from a wider range of business schools. More women searched, accounting for 18% of searchers who launched in 2023. As before, 57% of recent searchers successfully acquired a company.

In the following pages we report on the data, with a focus on how the industry is evolving. Figures and exhibits contain the most significant data, with commentary and additional information in the text. For those interested in search funds outside of the US and Canada, please reference IESE Business School's sister study.

What is a Core 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 six to ten years. When successful, this has resulted in a fast path to becoming an owner-operator, 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 GSB thereafter, and has since been 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 a Search Fund?** Also, Stanford's Search Fund Primer[2] examines the formation, search, and acquisition stages in detail.

Long Term Hold Model

The term "Long Term Hold" (LTH) is used to denote a category of variations to the core search fund model that incorporate new ways to acquire and own companies. While a number of core search funds have evolved into LTHs as they prospered, the use of LTH here denotes initial intent and structure. A subset of Committed Capital Vehicles (CCV), LTHs have launched using various approaches, but usually contrast to core search funds in the following characteristics:

- a larger pool of capital committed at launch
- focus on a narrow, well-developed, and long term thesis, business model, or industry
- a longer intended holding period, often a minimum of 10 to 20 years
- slower initial growth than typical in core search, but accelerating over time
- much longer term incentive structures
- growth primarily via inorganic growth
- a board of directors formed at the outset with broad capital call and allocation powers
- the explicit intent to achieve capital efficiency (inorganic growth funded without additional equity)
- the entrepreneur's role includes a meaningful focus on capital allocation
- entrepreneurs suited for a longer hold, with the facility for leading both operations and capital allocation

Further description of LTHs can be found in the Long Term Hold note on the Stanford GSB Search Fund Website.

[2] 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.

Past search fund studies included data from seven LTH funds, which are not included here. More LTH funds have formed recently, and we have so far identified 22 that meet our LTH criteria (including the aforementioned seven). We exclude data from these 22 LTH in this study, and have begun tracking them separately for future reporting. Removal of the seven has negligible impact on key study metrics, as all were in early stages. We look forward to reporting in the future on this interesting variation of the search model.

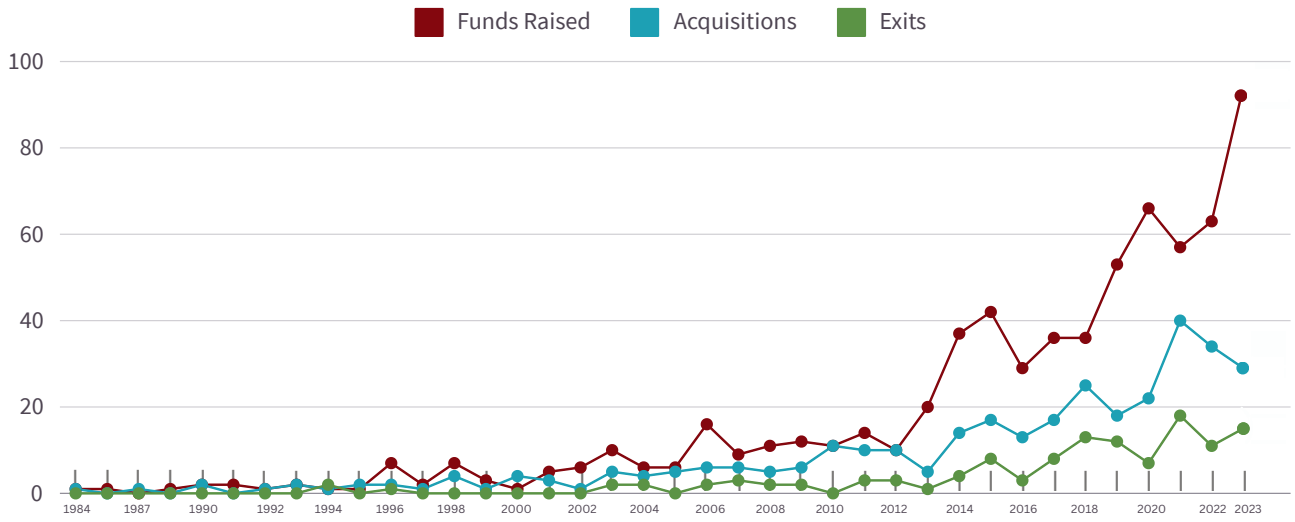
Survey Results: Fundraising, Search, and Acquisition

This study includes 681 first-time search funds formed since 1984.[3] As in previous studies, we exclude funds led by principals who had previously raised a search fund, self-funded their search, or pursued their search with a single search investor. The exclusion of seven previously included funds now identified as Long Term Hold did not have a noticeable impact on IRR or ROI, however, did result in minor changes to historical data in some figures and exhibits.[4]

After minimal growth in 2021 and 2022, there was a significant increase in the number of new search funds in 2023. No single factor drove this, however, increased education about the model and growing amounts of investor capital may have attracted more entrepreneurs to search.

Acquisitions resulting from searches significantly increased in 2021 before moderating in 2022 and 2023. The spike in 2021 correlates with a large increase in searchers during the prior year and may have resulted from a bounce-back in business activity as Covid-19 restrictions eased. The number of exits in 2022 and 2023 remained level with the prior two-year period.

Figure B | Search Fund by Activity Year

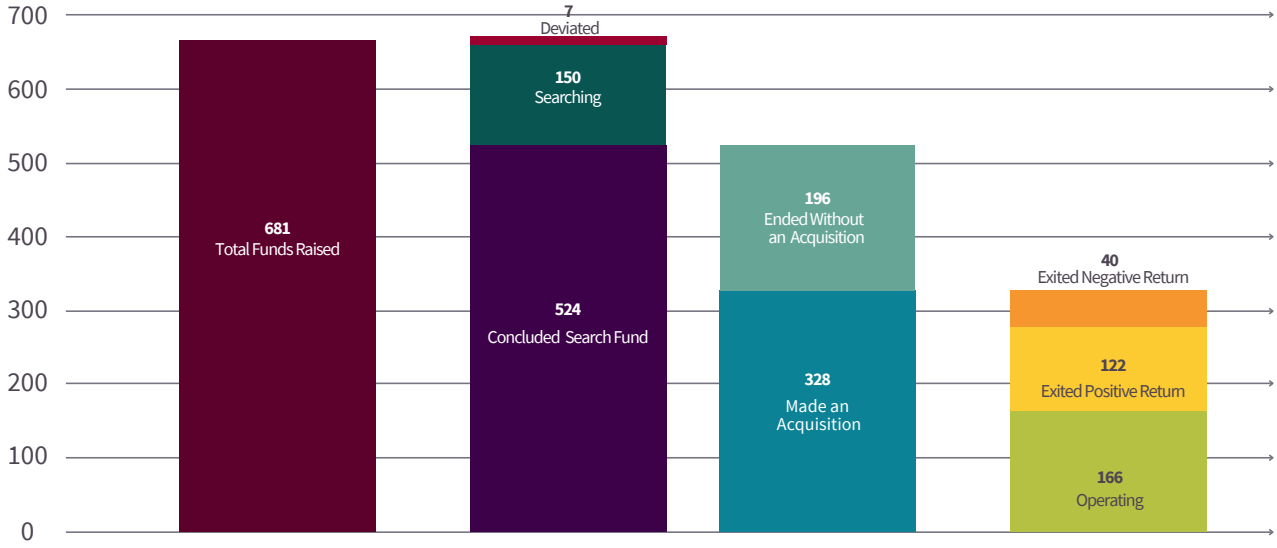


[3] These include every known search fund and acquired company in the U.S. and Canada. Note that data through 2009 includes international search funds, tracked thereafter in IESE's sister studies on International Search Funds.

[4] We gathered data on 328 search funds that acquired companies; 296 are included in our aggregate financial analysis, excluding 29 companies that had been operating for less than one year and three companies for which we had incomplete financial information. Four operating companies from the 2022 study were reclassified as Long Term Hold and removed for this study.

The status of all core search funds is reported in **Figure C**. Of those that concluded their search, 63% made acquisitions, a decrease from 66% in the 2022 study. However, around 2014 the acquisition rate decreased noticeably, and despite year to year fluctuations has remained in the 57% range during the last ten years and recently.

Figure C | All Search Funds by Status



Profile of Principals

Recent searchers have tended to be slightly younger, with more searching both right out of an MBA program or without an MBA **(Exhibit 1)**. Searchers have also come from a wider range of universities and with more education about search; in 2022 and 2023 48% of new searchers reported enrollment in an ETA class, up from 37% in the 2022 study.

Of note, the percentage of female searchers increased from 11% to 17% for 2022 and 2023. Normalizing for the number of respondents who declined to report ethnicity, ethnic diversity ticked upward **(Exhibit 4)**.

Fundraising and Search

The amount of capital raised per searcher increased for the first time in four years to a median of $500k **(Exhibit 3)**, while the median number of investors in each fund dropped to 12 from 14, and the time to raise remained unchanged at three months (median).

We collected data on industries targeted by 150 active searchers and 26 searchers that concluded their search with an acquisition in 2023. The majority of searchers are taking an industry-focused approach. Those still searching looked at an average of 4.8 industries with a top three of Software, Tech-enabled Services, and Healthcare Services.

Those that made recent acquisitions reported looking at an average of 6.3 different industries with a top three of Healthcare Services, Tech-enabled Services, and Services. Only 46% of those who made an acquisition in 2023 reported software as an industry of focus during their search.

The Acquisition

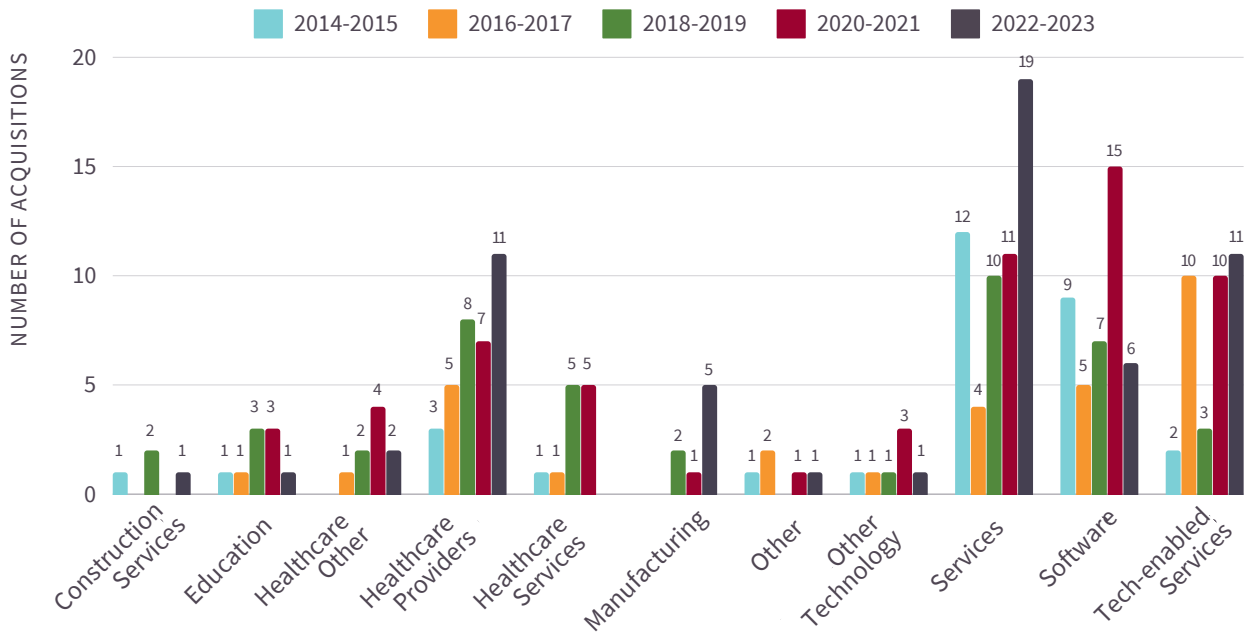
Prospecting

Current searchers and those who recently made acquisitions tend to prefer deep industry focus to a broader, volume-based approach to searching. They reported databases and individual research as the primary source for their acquisition. Brokers, the search community, personal networks, and river guides were also used. These searchers signed on average 3.6 letters of intent (LOI), the first of which was signed, on average, 7.8 months into the search. A variety of reasons were reported for unsuccessful LOIs, including discoveries in due diligence, seller retraction, lack of investor support, and valuation.

Industries of Acquired Companies

Services and Tech-enabled Services were the most popular industries for acquisition as can be seen in **Figure D**. There was a noticeable decrease in software companies acquired, which may also account for the decrease in the median ratio of Purchase Price to EBITDA **(Exhibit 5)**. Many factors may have influenced this shift away from software, including market fundamentals, investor preferences, and more competition from other types of acquirers.

Figure D| Industries of Acquired Companies [5]



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

Acquisition Metrics

The median purchase price decreased to $14.4 million from $16.5 million **(Exhibit 5)** for search acquired companies. They also had higher EBITDA margins and growth rates than in recent studies. The ratio of Purchase Price to EBITDA and Purchase Price to Revenue both decreased in 2022 and 2023 as well.

These recent changes in acquisition metrics appear to be due to the acquisition of fewer Software companies, which can have different growth and valuation profiles than Services businesses. In 2022 and 2023, the portion of searchers making acquisitions using Enterprise Value to Average Recurring Revenue as a primary metric, dropped to 18% from 31% in 2020 and 2021.

The median number of investors in a core search fund acquisition was 16, 12 of whom were investors in the original search and four of whom were new at the time of acquisition, unchanged in the past ten years.

Seller Demographics

Seller demographics remained consistent; predominantly male, white, and with median age of 55 years, but with more Asian and Hispanic sellers. Post transaction, sellers increased their length of engagement to six months in this study from four months in the prior study. Over 90% of searchers report a positive relationship with sellers post-transaction, and 12% intend to keep the seller engaged indefinitely.

Financial Return Method

Our method of calculating returns is unchanged from the last study (described in **Appendix B**). It calculates returns to original search fund investors in both the search and any acquisition, not including follow-on investments.

Returns

For all search funds, IRR was 35.1% and ROI was 4.5x as of December 31, 2023. **Figures E** and **F** aggregate returns for all searchers, including those that failed to make an acquisition, acquired and are currently operating a company, or acquired and have exited (defined as sold more than 50% of equity). This data shows a small decline in ROI and IRR since the 2022 study.

For exited search funds excluding the top three or five performers, ROI did not change significantly from the 2022 study while IRR increased **(Figures G** and **H)**. For detail on the distribution of returns, see **Exhibits 7** and **8**.

Figure E| Aggregate Search Fund ROI (2011–2024)

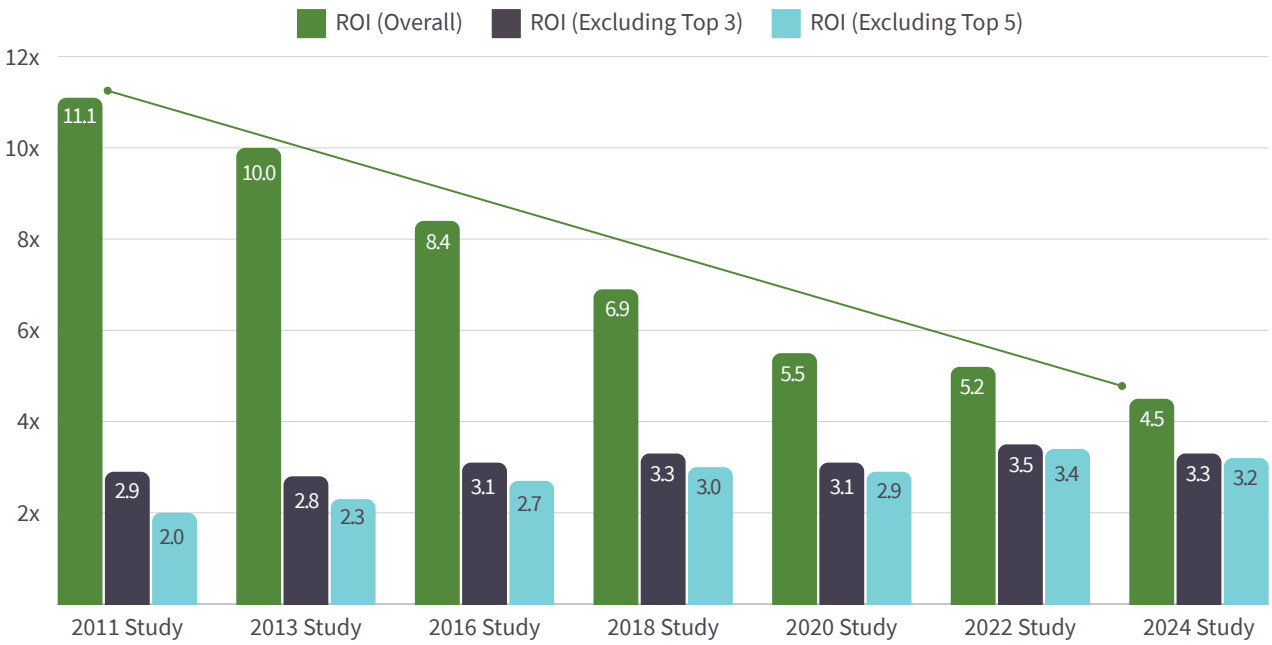


Figure F| Aggregate Search Fund IRR (2011 – 2024)

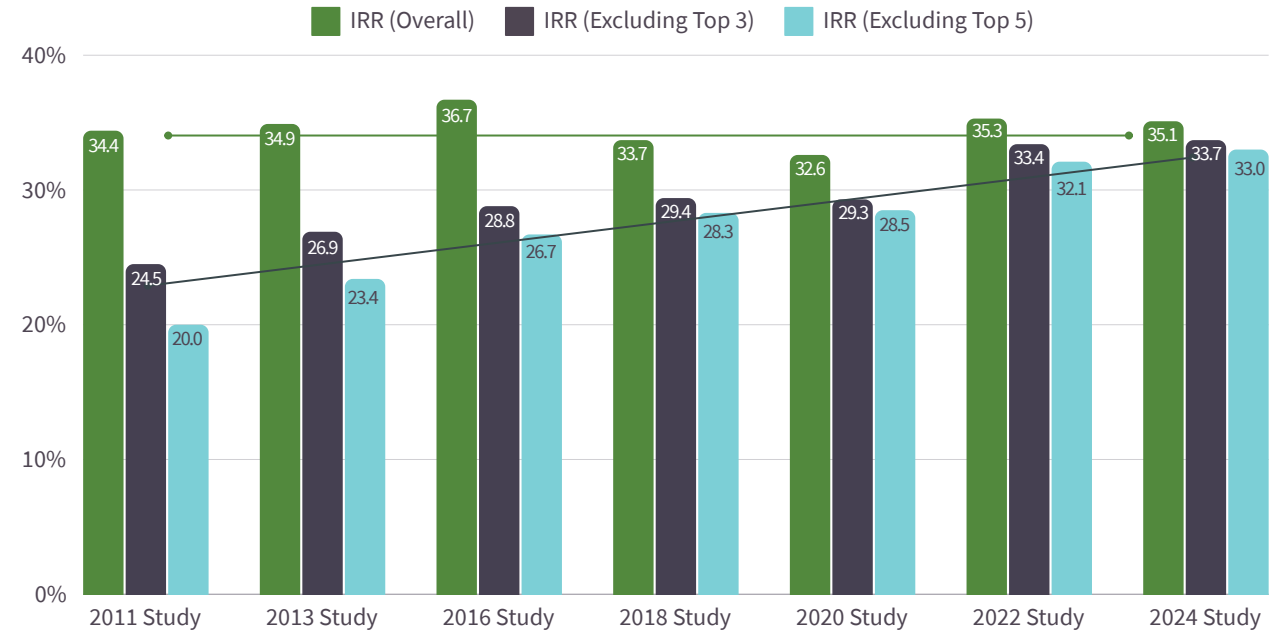


Figure G| Exited Search Fund ROI (2016 – 2024)

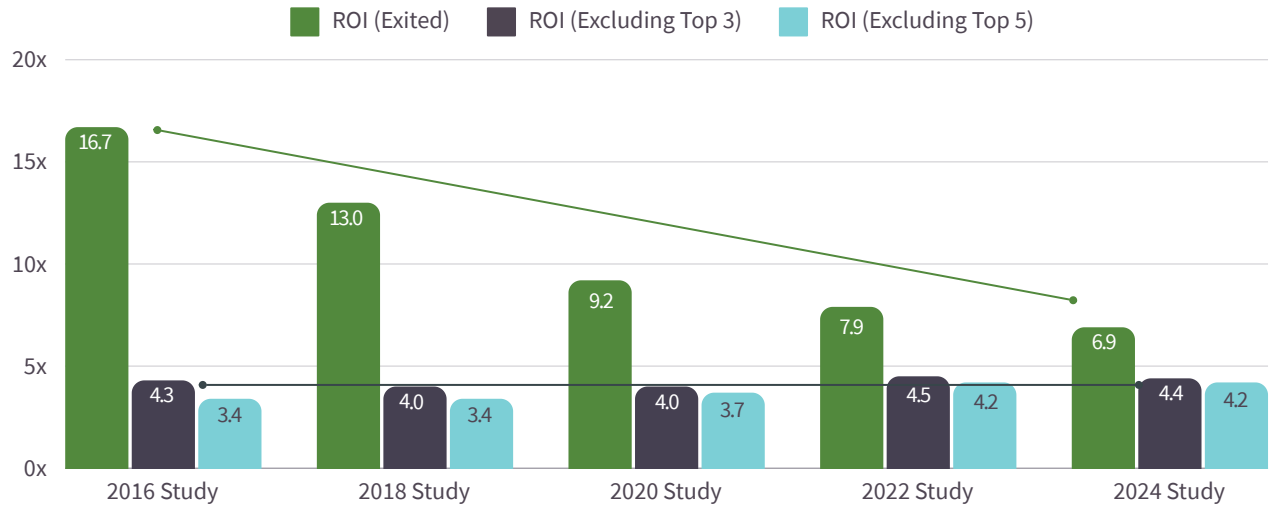
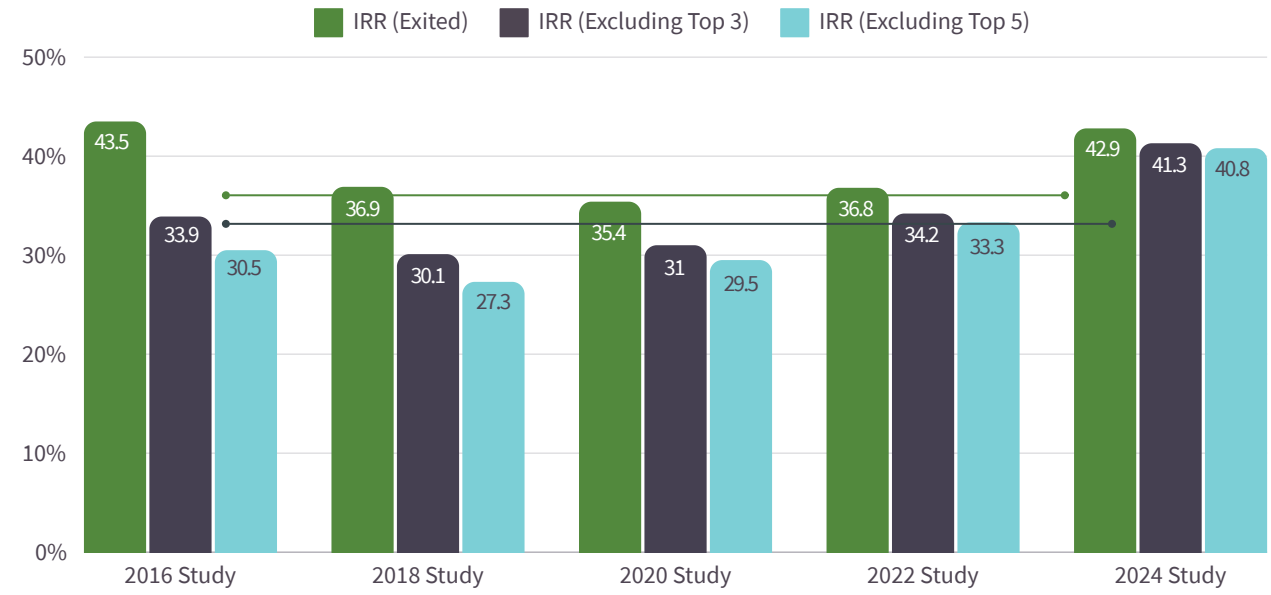
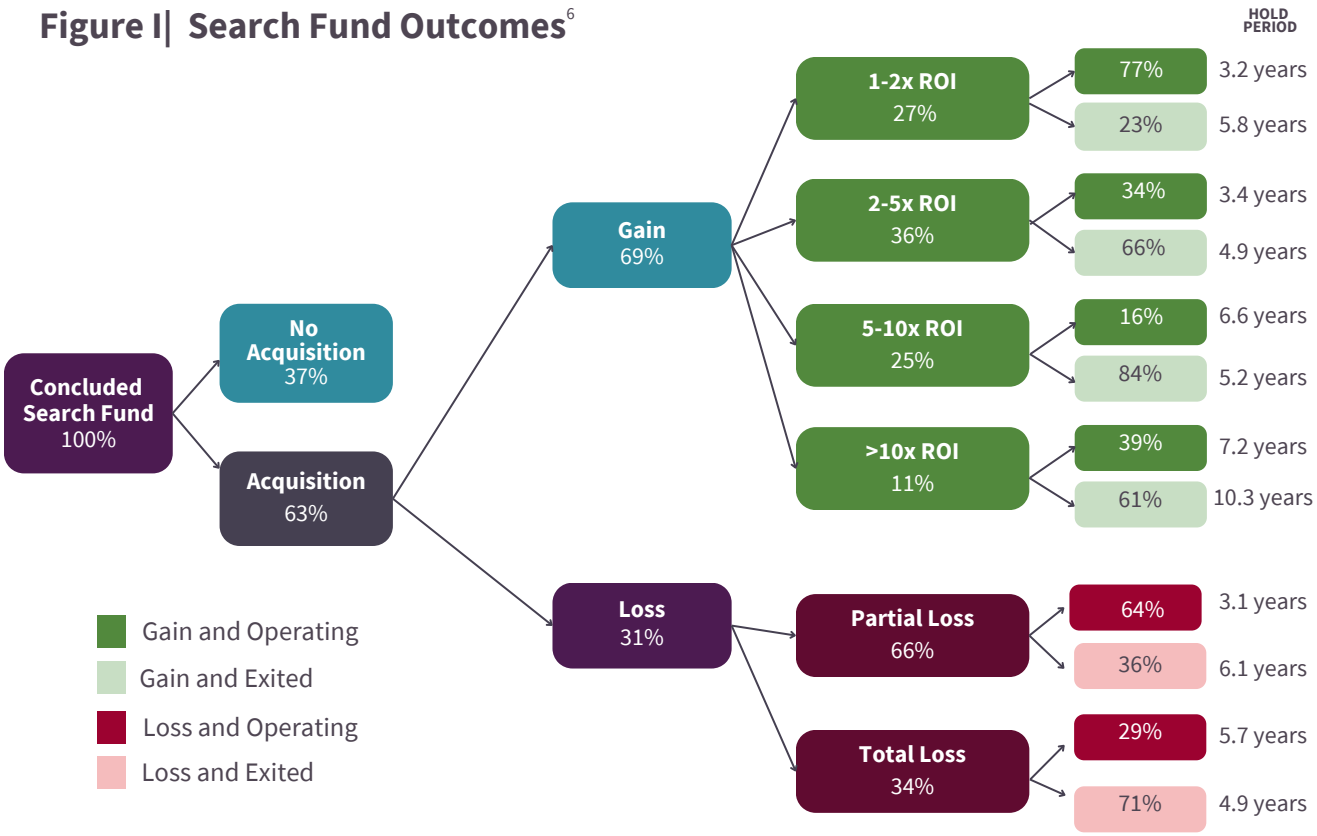


Figure H| Exited Search Fund IRR (2016 – 2024)



Search fund success and returns can be seen in **Figure I**. This chart represents all funds since 1984. As noted above, since 2014, the acquisition rate has been consistently around 57%. There has also been an increase in the percentage of acquisitions that reported a loss in the last ten years. There continue to be significant out-performers as well, with 11% of companies achieving greater than 10x return, up from 10% in the 2022 study.

Figure I| Search Fund Outcomes[6]



We present returns and hold periods by year of acquisition cohorts in **Figure J**. The 2017–2020 cohort has continued on a positive trajectory, with more than 50% IRR after 44% of the cohort have exited. ROI for this group will likely continue to increase in the next few years as those still operating continue to grow. The newest acquisitions are off to a slightly slower start than prior cohorts; those acquired in 2021 and 2022 report an IRR of 23% and ROI of 1.5x (note that we exclude those acquired in 2023 as they have been operating for less than one year). Considerable time remains for these companies to grow in the regular course of a core search fund.

In the 2024 study, we analyzed the relationship between returns and both searcher and company characteristics. As in past studies, we found no statistically significant correlations.

For the first time, we have enough data on industries since 2014 to report that acquisitions in Tech-enabled Services and Healthcare Services currently have higher IRRs and ROIs than average. Since many of these companies have not yet exited, we refrain from further reporting but plan deeper analysis in future studies.

[6] The gain and loss categories exclude 29 companies operating for less than one year as of December 31, 2023 and three that had incomplete data. For a select few companies, the exit event is based on original investors selling a majority of their interest.

Figure J| IRR and ROI by Year of Company Acquisition (n=295)[7]

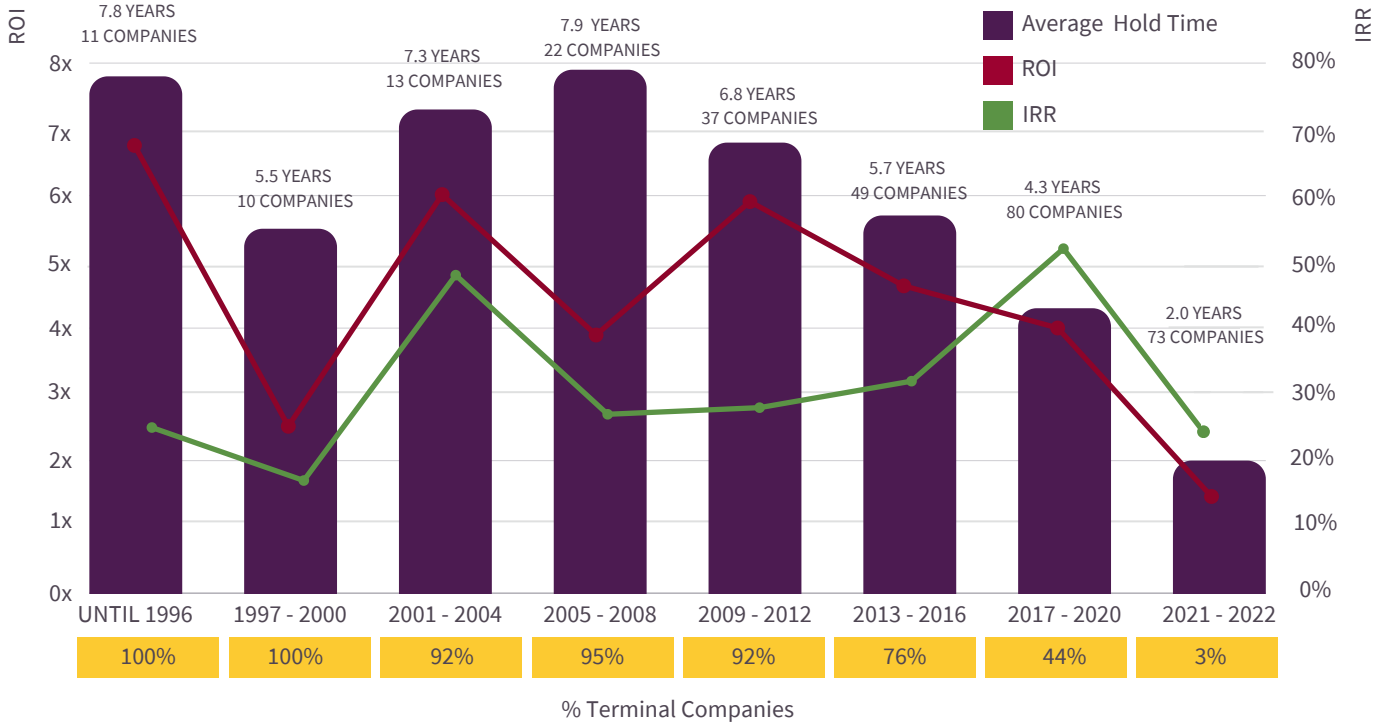
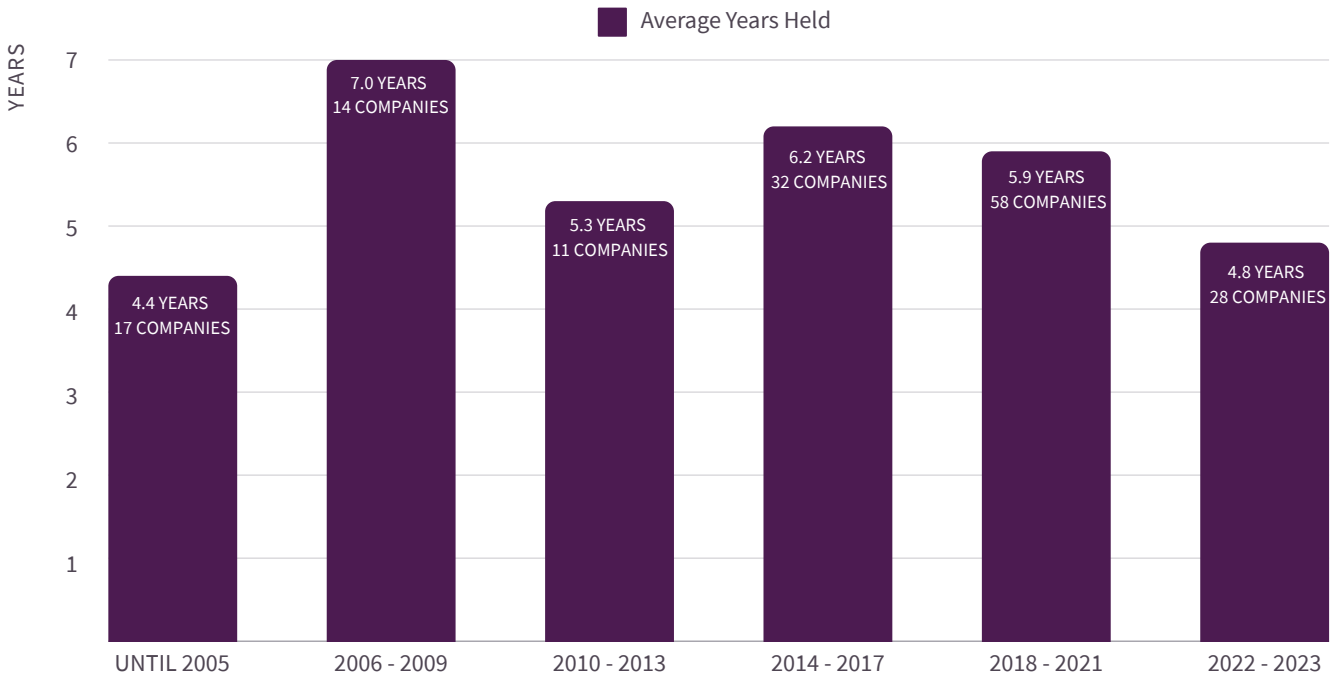


Figure K| Holding Period of Exited Companies by Year of Exit (n=160)

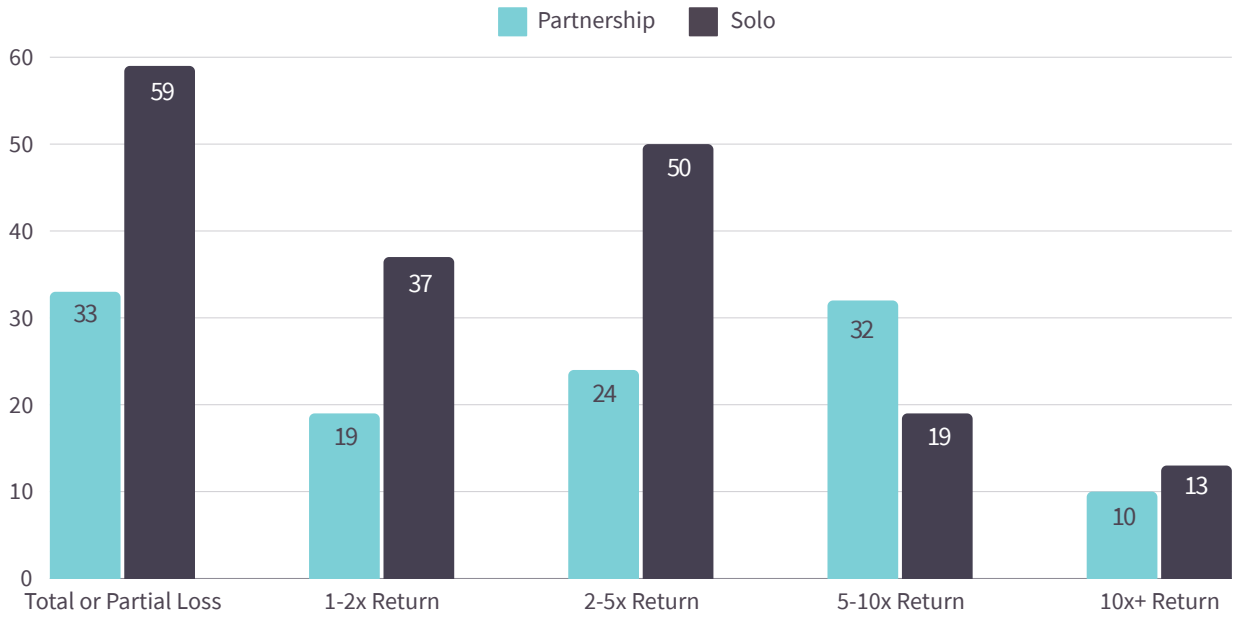


[7] The top-performing fund was excluded from this analysis in order to observe underlying trends. In addition, by definition the analysis presented here includes only data from search funds that completed an acquisition, and not from search funds that terminated without an acquisition. As such, this analysis is not directly comparable to the overall analysis of search fund returns that includes terminated searches.

Partnership Status

Partnered searches accounted for 19% of searches launched in the last two years. While this is a big shift from 41% in the prior two-year period, the mix has varied greatly by cohort. For instance, 2018-2019 partnerships made up 20% of the total **(Exhibit 3)**. This highlights the complex decision of whether to search with a partner, and we note that of all searches, partner searches have an IRR of 40.5% while solo searches have an IRR of 30.3%. Yet the portion of solo searchers with returns greater than 5x and 10x has increased in the last decade, and five of the six searchers that achieved a 10x+ ROI in the last two years were solo searchers. **Figure L** provides detail on returns by partner status.

Figure L| ROI by Partnership Status (n=296, including 178 solo searches and 118 partnerships)[8]



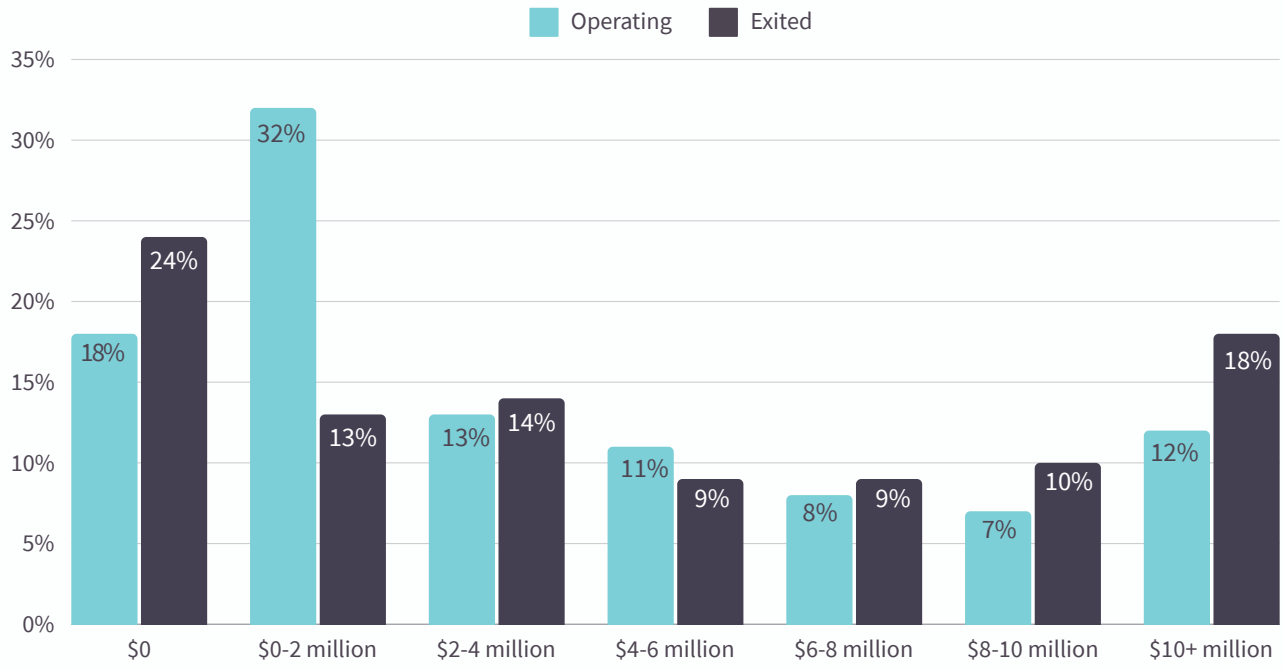
Salary and Equity Compensation for Entrepreneurs

The value of equity earned by entrepreneurs in the 2024 study decreased marginally from 2022. The average equity earned per entrepreneur still operating was $6.09m with a median amount of $1.98m per person. For entrepreneurs who had exited their business the average equity earned was $5.7m per person with a median of $2.25m.

This decrease is likely a function of more entrepreneurs in the early years of operating and a lower return for current operators in this study. The decrease in the equity earnings for exited CEOs was impacted by the addition of new historical data regarding terminal searchers with negative returns for this study.

[8] This includes funds both currently operating and exited that made an acquisition at least one year prior to December 31, 2023. Funds that were still searching, closed with no acquisition or had owned their acquisition for less than one year were excluded.

Figure M| Entrepreneur Equity Earned (n=201 Companies)[9]



Current Compensation

Searcher Compensation

Salary data was collected from 152 searchers that launched in 2022 and 2023. The mean search salary was $139k, a marked increase from $120k in the 2020 and 2021 cohort, and is likely a reflection of inflation. Individual compensation was similar for solo and partnered searchers. The maximum salary reported was $250k by a solo searcher and the minimum was $60k, reported by a partnership.

CEO Compensation

CEO compensation was collected from 149 study participants and did not change significantly from the 2022 study. The median salary for a first year CEO was $190k with a $25k target bonus. Additional detail by year of CEO tenure can be seen in **Exhibit 9**. Salary and bonus varied significantly by company size and profitability, particularly in later years of operation.

Geography

In the 2024 study, we continued to track the relationship between the location of the entrepreneur during the search and the location of the company they acquired. The percentage of searchers making an acquisition in the same state in which they searched continued to decline, accounting for 35% of acquisitions in this study, 36% in the 2022 study, 39% in the 2020 study, and 43% in the 2018 study **(Figure O)**.[10]

[9] Entrepreneur equity earned was self reported by approximately 60% of companies with a positive return and was manually adjust for those with a negative return to insure accurate representation.

[10] Based on geographic regions as defined in the official Canada and U.S. censuses. In this sense "state" refers to both Canadian provinces and U.S. states for the sake of simplicity.

Figure N| Acquired Companies listed by State (n=328)[11]

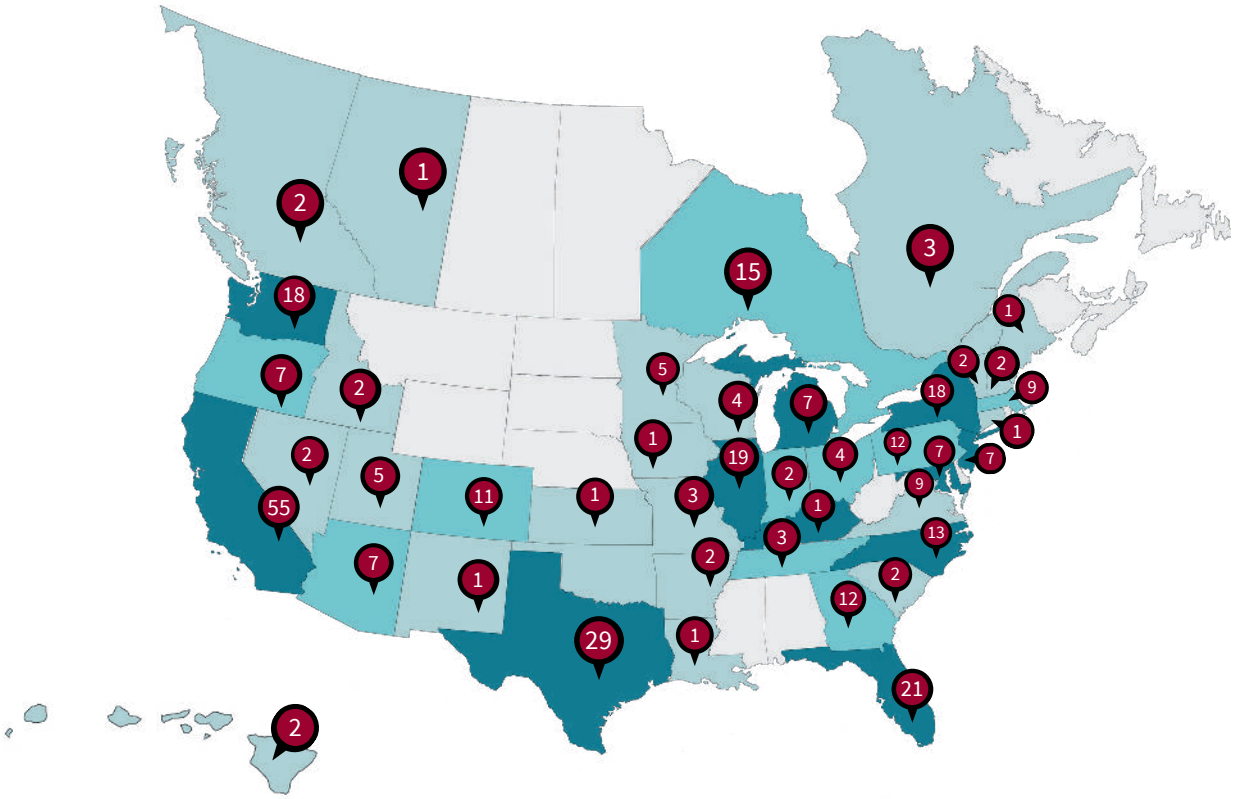
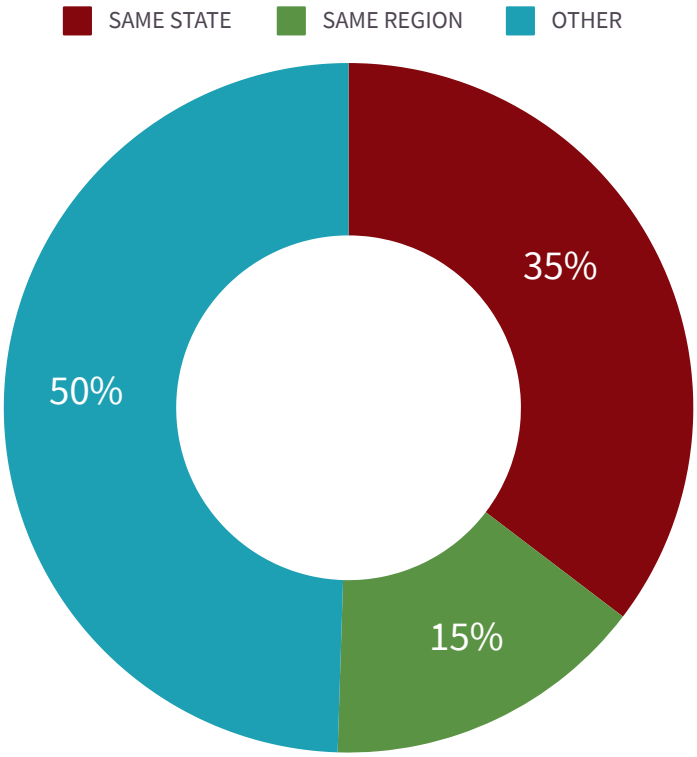


Figure O| Location of Search Funds vs. the Companies They Acquire (n=331)



[11] Based on geographic regions as defined in the official Canada and U.S. censuses. In this sense "state" refers to both Canadian provinces and U.S. states for the sake of simplicity.

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 has continued to grow throughout the world, with 111 new funds launched outside of the U.S. and Canada in 2022-2023, and 51 new acquisitions. There was a noticeable increase in searchers in several European countries and the Asia & Pacific region. Searches were launched in six new countries (China, Ireland, Netherlands, New Zealand, South Africa, and Vietnam) and first acquisitions made in three new countries (New Zealand, Paraguay, and Russia).

Figure P| International Search Fund Acquisitions, by Region, Country, & Year

Latin America

Mexico	23
Brazil	18
Colombia	4
Chile	3
Dominican Republic	2
Guatemala	1
Paraguay	1
Peru	1

Asia & Pacific

Australia	3
Japan	1
New Zealand	1

Europe

Spain	32
United Kingdom	15
Germany	10
Italy	7
France	12
Portugal	3
Netherlands	1
Poland	3
Russian Federation	1
Switzerland	1

Middle East & Africa

Israel	1
Ivory Coast	1

As of December 31, 2023 there were 325 known core search funds outside of the U.S. and Canada. Of those that had concluded their search, 78%, or 147, had made an acquisition. Additional information regarding international search funds can be found in IESE's report, International Search Funds – 2024: Selected Observations.

Alternative Search Fund Models

As awareness of the search fund model has spread, other approaches have emerged and increased in popularity. Self-funded, single-investor, accelerator, entrepreneur in residence (EIR), and Long Term Hold models have all grown along with the core funded model addressed in this study (self-funded searches are the most numerous). Each approach has advantages and disadvantages, as does the core-funded approach to search. The 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 alternatives warrant examination. Further discussion of these models can be found in **Appendix C**.

Conclusion

Search continues to grow in popularity as an avenue for entrepreneurs to reach the CEO seat relatively quickly and with significant ownership. Returns for the segment have remained strong through multiple market cycles and with an influx of new searchers and capital. Mentorship, collaboration, grit, drive, and a focus on the young entrepreneur have been core principles of the search industry[12] and important factors in its success. As the community grows with new searchers, new investors, and new variations on the model, we plan to track its evolution by reporting on key metrics in future studies.

Acknowledgements

The Center for Entrepreneurial Studies and the authors would like to thank Leyi Shi, Lead Data Analyst, for her 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 Sara Rosenthal (2011, 2013, 2016, and 2018). This study would not have been possible without the generous cooperation of the searchers who responded and the crucial assistance of several experienced investors. Last, we thank Irv Grousbeck for once again contributing his advice to the study which he began.

[12] "The Six Core Principles of the Search Community," a presentation by Gerald Risk, Sara Rosenthal et al at the 2023 Stanford Search Fund CEO Conference on September 7, 2023.

Exhibit 1 | Characteristics of Search Fund Principals[13] [14]

	Pre-2001	2002-2003	2004-2005	2006-2007	2008-2009	2010-2011	2012-2013	2014-2015	2016-2017	2018-2019	2020-2021	2022-2023
Age at Start of Search												
MINIMUM	26	28	28	27	26	25	24	24	26	25	25	25
MEDIAN	30	31	32	32	30	30	30	32	32	32	32	31
MAXIMUM	35	60	47	50	51	51	46	54	47	55	50	45
UNDER 30	N/A	12%	30%	33%	35%	39%	49%	25%	26%	21%	24%	32%
30-35	N/A	65%	53%	47%	40%	31%	36%	49%	39%	56%	50%	47%
36-40	N/A	12%	10%	10%	16%	14%	11%	20%	32%	17%	22%	17%
OVER-40	N/A	12%	7%	10%	9%	17%	4%	7%	3%	6%	3%	4%
Number of Post-MBA Years Before Search Fund												
MINIMUM	N/A	0	0	0	0	0	-1	-1	-2	0	0	-1
MEDIAN	N/A	2	1	1	4	2	0	1	3	1	1	0
MAXIMUM	N/A	10	18	16	20	17	10	26	15	18	13	21
NO MBA	N/A	N/A	0%	13%	16%	14%	20%	18%	19%	16%	19%	24%
<1 YEAR POST-MBA	N/A	N/A	47%	33%	18%	42%	49%	35%	25%	28%	29%	44%
1-3 YEARS POST-MBA	N/A	N/A	17%	27%	20%	17%	20%	24%	19%	34%	26%	19%
4-7 YEARS POST-MBA	N/A	N/A	23%	20%	22%	17%	7%	12%	21%	13%	19%	3%
>7 YEARS POST-MBA	N/A	N/A	13%	7%	24%	11%	4%	10%	16%	9%	8%	8%
Gender												
MALE	96%	100%	100%	100%	100%	94%	100%	95%	92%	93%	87%	79%
FEMALE	4%	0%	0%	0%	0%	6%	0%	5%	8%	7%	11%	17%
DECLINE TO STATE / UNKNOWN											1%	4%
Others												
% THAT TOOK ETA CLASS											37%	48%
Ethnicity												
WHITE											61%	56%
ASIAN											11%	16%
BLACK/AFRICAN AMERICAN											8%	6%
HISPANIC/LATINO											5%	8%
OTHER											4%	6%
DECLINE TO STATE											11%	7%

[13] Totals may not sum to 100% due to rounding.

[14] 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[15] [16]

Professional Background	Pre-2001	2002-2003	2004-2005	2006-2007	2008-2009	2010-2011	2012-2013	2014-2015	2016-2017	2018-2019	2020-2021	2022-2023
MANAGEMENT CONSULTING	26%	23%	10%	26%	7%	14%	16%	11%	7%	12%	15%	16%
INVESTMENT BANKING/FINANCE	23%	10%	16%	27%	20%	11%	22%	11%	16%	22%	15%	23%
SALES	12%	1%	3%	7%	4%	6%	4%	6%	3%	8%	2%	6%
VENTURE CAPITAL	8%	3%	5%	1%	0%	0%	2%	0%	3%	0%	2%	0%
LINE/GENERAL MANAGEMENT	5%	27%	7%	15%	11%	19%	2%	12%	14%	17%	16%	14%
MARKETING	5%	2%	4%	0%	4%	0%	0%	0%	1%	2%	1%	1%
LAW	4%	0%	2%	0%	0%	0%	7%	3%	0%	0%	0%	1%
OPERATIONS	4%	7%	16%	1%	7%	8%	7%	5%	23%	3%	7%	4%
ENTREPRENEUR	2%	13%	8%	7%	13%	6%	4%	3%	4%	8%	6%	7%
ACCOUNTING	2%	0%	3%	0%	0%	0%	0%	2%	1%	1%	1%	3%
ENGINEERING	2%	0%	5%	2%	0%	6%	2%	1%	4%	7%	4%	2%
MILITARY	2%	1%	8%	1%	0%	0%	2%	9%	3%	5%	6%	10%
INSURANCE	2%	1%	0%	2%	0%	0%	0%	0%	0%	0%	0%	0%
PRIVATE EQUITY	1%	5%	11%	4%	27%	28%	31%	27%	14%	14%	22%	12%
OTHER	0%	7%	2%	8%	7%	3%	0%	11%	7%	1%	3%	1%

[15] Totals may not sum to 100% due to rounding.

[16] 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	2022-2023
Number of Principals												
SINGLE	68%	41%	42%	75%	36%	62%	59%	72%	55%	80%	59%	81%
PARTNERS	32%	59%	58%	25%	64%	38%	41%	28%	45%	20%	41%	19%
Amount of Initial Capital Raised (Values in Thousands)												
MINIMUM	$40	$125	$150	$200	$200	$140	$125	$175	$250	$300	$125	$270
MEDIAN	$290	$350	$395	$385	$450	$446	$426	$420	$450	$450	$500	$550
MAXIMUM	$1,000	N/A	$750	$550	$750	$850	$650	$722	$825	$900	$1,200	$1,030
Amount of Initial Capital Raised per Principal (Values in Thousands)												
MINIMUM	N/A	N/A	$106	$175	$144	$140	$125	$175	$150	$235	$125	$270
MEDIAN	N/A	N/A	$276	$350	$262	$303	$355	$385	$398	$429	$425	$500
MAXIMUM	N/A	N/A	$750	$540	$450	$575	$560	$640	$600	$570	$700	$1,000
Number of Search Fund Investors												
MINIMUM	2	1	3	10	5	8	2	5	2	3	4	5
MEDIAN	12	13	12	14	15	18.5	16	15.5	15	15	14	12
MAXIMUM	25	20	24	23	28	26	30	25	24	27	33	30
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	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	3.0
MAXIMUM	N/A	9.0	12.0	10.0	20.0	28.4	8.6	8.0	11.0	12.2	15.2	18.0

Exhibit 4 | Searcher Ethnicity 2022–2023 (n=182)

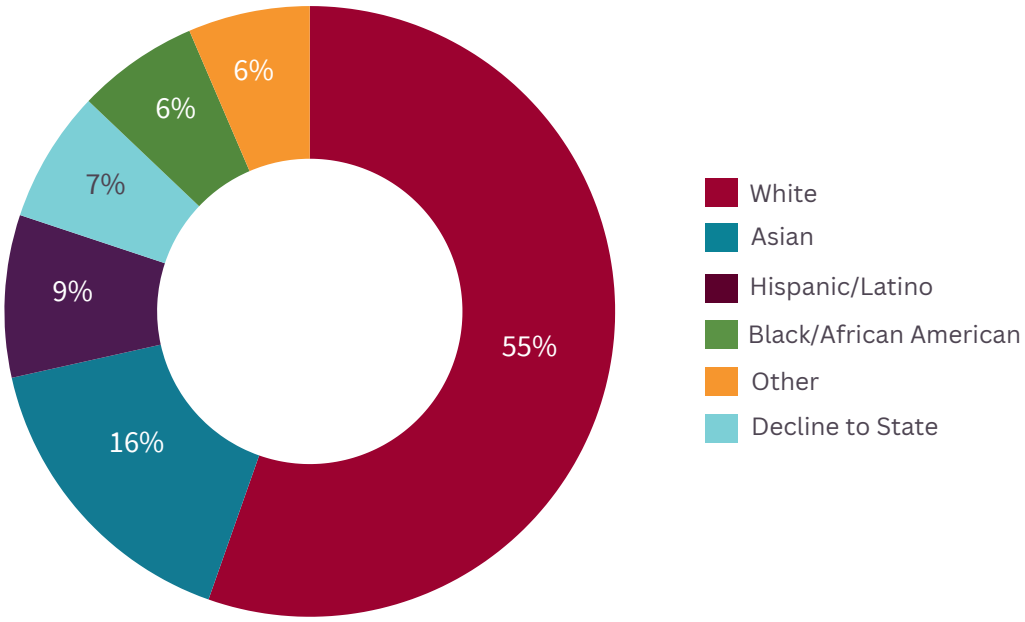


Exhibit 5 | Median Statistics for Recent Search Fund Acquisitions

Median	All Acquisitions	2006-2007	2008-2009	2010-2011	2012-2013	2014-2015	2016-2017	2018-2019	2020-2021	2022-2023
LENGTH OF SEARCH (MONTHS)	19	19	14	18	19	17	23	23	17	20
PURCHASE PRICE	$12.8M	$9.4M	$6.5M	$7.9M	$11.6M	$12.0M	$13.1M	$10.0M	$16.5M	$14.4M
COMPANY REVENUES AT PURCHASE	$7.3M	$9.1M	$5.3M	$6.0M	$6.2M	$7.0M	$10.0M	$6.3M	$6.4M	$6.7M
COMPANY EBITDA AT PURCHASE	$1.9M	$2.0M	$1.3M	$1.5M	$2.0M	$2.5M	$2.1M	$1.8M	$1.7M	$2.2M
COMPANY EBITDA MARGIN AT PURCHASE	22.8%	18.2%	20.5%	23.5%	29.9%	23.4%	22.7%	21.0%	22.0%	26.9%
EBITDA GROWTH RATE AT PURCHASE	11.4%	16.5%	9.3%	11.9%	18.0%	5.0%	20.0%	15.0%	17.0%	25.0%
PURCHASE PRICE/EBITDA	6.4x	5.2x	4.9x	5.2x	5.6x	5.8x	6.3x	6.0x	7.3x	7.0x
PURCHASE PRICE/EBITDA (EXCLUDING COMPANIES USING REVENUE MULTIPLE)									6.2x	6.9x
PURCHASE PRICE/REVENUE	1.8x	0.9x	1.5x	1.3x	1.6x	1.5x	1.1x	1.4x	2.1x	1.9x
COMPANY EMPLOYEES AT PURCHASE	40	60	38	38	21	46	45	32	35	34
1ST YEAR CEO BASE COMPENSATION							$183K	$185K	$200K	$200K

Exhibit 6 | Selected Statistics for All Search Fund Acquisitions [17]

Total Number of Months From Start of Search to Deal Close:	All Acquisitions n=324
MINIMUM	0.0
MEDIAN	19.0
MAXIMUM	72.0
<11 MONTHS	16%
11-20 MONTHS	36%
20-30 MONTHS	31%
30+ MONTHS	18%

Purchase Price Statistics	All Acquisitions n=268
MINIMUM	$1.0M
MEDIAN	$12.8M
MAXIMUM	$117.0M
<$4M	7%
$4M TO $8M	18%
$8M TO $12M	20%
>$1 M	55%

Additional Statistics for All Search Fund Acquisitions	Minimum	Median	Maximum
COMPANY REVENUES AT PURCHASE	$0.5M	$7.3M	$82.0M
COMPANY EBITDA AT PURCHASE	-$1.6M	$1.9M	$25.0M
COMPANY EBITDA MARGIN AT PURCHASE	-23.1%	22.5%	66.7%
EBITDA GROWTH RATE AT PURCHASE	-56.0%	11.4%	124.0%
REVENUE GROWTH RATE AT PURCHASE	-50.0%	15.0%	100.0%
PURCHASE PRICE/EBITDA MULTIPLE	NM	6.3x	114.0x
PURCHASE PRICE/REVENUE MULTIPLE	0.2x	1.8x	22.3x
COMPANY EMPLOYEES AT PURCHASE	4	40	2500

[17] 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=296)[18]

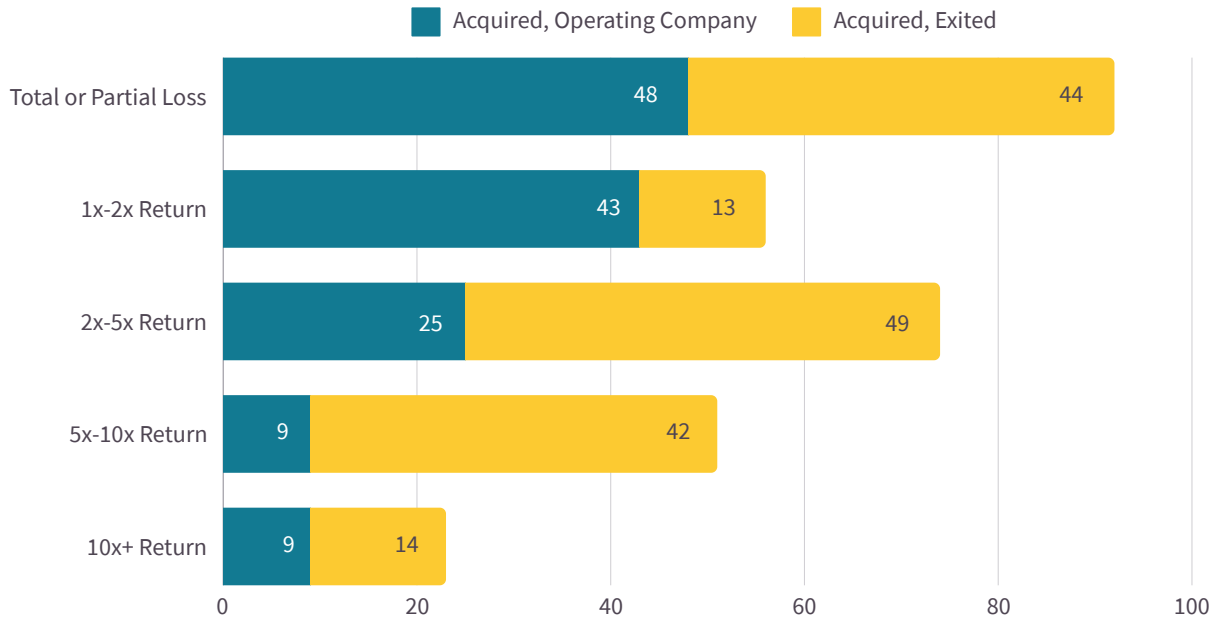
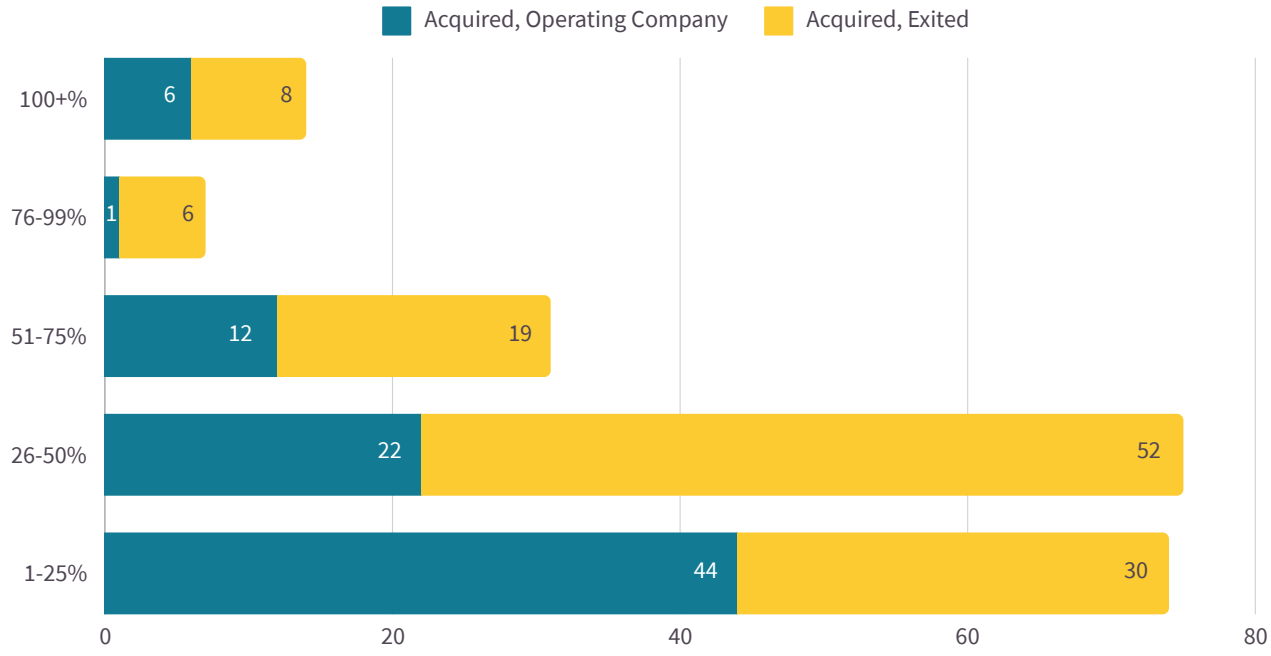


Exhibit 8 | IRR Distribution of Search-Acquired Companies (n=200)[19]



[18] Of the 328 companies acquired as of December 31, 2023, for which we have data or collected data historically, 29 funds had been operating for less than one year and we have incomplete data for three. Thus, ROI data was calculated for 296 funds.

[19] Of the 296 companies for which we could calculate returns as of December 31, 2023, 200 reported IRR of greater than zero as of December 31, 2023.

Exhibit 9 | CEO Compensation (n=149)[20]

	Base Only		Bonus Only		Total Compensation (Base + Bonus)	
Years Since Acquisition	Mean	Median	Mean	Median	Mean	Median
<= 1 YEAR	$187K	$190K	$29K	$25K	$217K	$200K
1 - 2 YEAR	$212K	$210K	$49K	$55k	$263K	$262K
2 - 3 YEAR	$217K	$215K	$44K	$50k	$261K	$265K
3- 4 YEAR	$220K	$225k	$59K	$67k	$289K	$292K
4 - 5 YEAR	$209K	$205K	$40K	$29K	$249K	$226K
> 5 YEAR	$256K	$229K	$75K	$45K	$336K	$260K

Appendix A | What is a Search Fund?

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.

[20] 12 months target bonus reported for CEOs with less than one year tenure

STAGE ONE: RAISE INITIAL CAPITAL

Search funds are usually structured as limited liability companies, with increasing interest in C Corps (perhaps in part for the favorable tax treatment afforded when QSBS requirements are met). 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)
- 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 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, ten 10 to 15 investors purchase one or several units of the initial capital of the search fund. These funds will cover the salary, 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 the 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 ACQUIRE 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 all of these studies since 2018, this year's study excluded follow-on financing events.[21] This study uses two measures of return: ROI[22] and IRR.[23] 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.

[21] 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.

[22] 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.

[23] 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

Please see the Long Term Hold note on the Stanford GSB website for the most up to date insights on Long Term Hold.