# What Are Search Funds?

**Search Funds are unique strategies focused at acquisition of Small and Medium-sized Businesses (SMBs). A search fund is established by an entrepreneur backed by a group of investors. Their goal is to find, acquire, manage, grow, and eventually exit a single profitable and established business. The acquisition is usually financed through a mix of equity investments and debt (or loan) financing.**

## Return on Investment

Search funds have higher returns compared to VC, PE, real estate, and stock investments. The Stanford Search Fund study is the most comprehensive study on the performance of search funds.

- **Investor returns:** 35.3% IRR (Internal rate of return)
- **CEO benefits:** $7.5M average exit equity, $1.4M yearly.
- **Growing interest:** ~$800M invested in 2020-2021, representing one-third of the total investment of all time

## Timeline of a Search Fund

| 2-6 months | 1-2 years | 4-7 years | 6 months |
|---|---|---|---|
| Raise Initial Capital | Search for & Acquire a Company | Operate & Create Value | Exit |

## Target Companies

Typical profile of the acquired companies:

- **Price Range:** $5M - $30M
- **Revenue:** $6.4M, **EBITDA:** $1.7M
- **EBITDA Margin:** 22%, **Growth Margin:** 17%
- **Price / EBITDA:** 7.3x
- **Employees:** 35
- Strong team, solid market reputation, product or service offering with sustainable competitive advantage

## Why Acquire SMBs?

**Massive Wealth Transfer:** Over the next decade, Baby Boomers retiring and selling off SMB businesses presents once-in-a-generation $1T opportunity.

**Low-Risk Financing:** Acquisition financing with debt (or loan) minimizes upfront capital requirements.

**Limited Downside:** Cash-flowing businesses return initial investments in a short time period.

**Huge upside:** Significant upside from implementing modern business strategies and technologies.

## Societal Impacts

- Boosts local economies
- Reduces gender and racial wealth gap
- Provides a less risky path for emerging entrepreneurs