

SEARCH FUNDS: BEST PRACTICES FOR THE SEARCH PHASE

INTRODUCTION

The search fund model is predicated upon two phases: 1) searching for and acquiring a business that fits a set of specific criteria, and 2) successfully operating and growing the acquired business. The average searcher spends 19 months (median average) on this first phase, looking for the right business to acquire.¹ The process is long, difficult, and full of misses. More than a quarter of searchers never find a business, and another fifth lose capital with the acquired company.² There is no doubt that the search phase of the search fund model is absolutely critical. There is a learning process to this phase, and searchers become significantly better at the process over time. Searchers would have a considerably greater chance of success if they could advance along this learning curve more efficiently.

The goal of this document is to share information and viewpoints from experienced searchers and investors in order to assist new searchers in their pursuit to find and acquire the right company. The paper also serves as a potential blueprint for searchers during the search phase; searchers may follow or adapt the practices as they see fit. The author assumes that the reader will have read the Search Fund Primer available on the Stanford Graduate School of Business website;³ thus, this document does not define common search fund terms found within the primer. Additionally, this document focuses on the search phase only and does not discuss raising a fund or closing a deal.

There are many ways to conduct a successful search. After having conducted dozens of interviews, the author believes that there are specific best practices. This document is not meant to be prescriptive, but instead intends to highlight a few key issues in the search phase as well as best practices in approaching these issues.

Please also note that in this paper, searchers are often referred to in the singular (“a searcher”),

¹ “A Primer on Search Funds”, *Stanford Graduate School of Business*, September 16, 2013, http://www.gsb.stanford.edu/ces/resources/search_fund_primer.html, p. 3.

² *Ibid.*, p. 13.

³ *Ibid.*

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even though many search funds are undertaken by a pair of entrepreneurs in partnership. Also, although many searches are conducted by men, several are undertaken by women, and so the author uses "s/he" to refer to a searcher.⁴

TIME MANAGEMENT

The biggest enemy of a searcher is time. With limited funds, a searcher needs to allocate his time efficiently from the very beginning of the search phase. Within the search phase, there are two primary processes to which a searcher should allocate her time: 1) the industry-driven proprietary search, and 2) the intermediated or brokered search. A searcher must also manage search fund operations. The general consensus is that a searcher should allocate approximately 80 percent of his time to the industry-driven proprietary search process and 20 percent to the intermediated or brokered search, with a very small amount of time dedicated to search fund operations.

The Industry-Driven Proprietary Search Process

The first step of the industry-driven proprietary search process is to find industries of interest that *also* fit a set of criteria deemed necessary for success.⁵ It is difficult to be credible, thoughtful, and engaged in more than one to three industries at any one time, but a searcher can quickly cycle through industries in a handful of months. The second step is to build a list of companies and individuals to contact within these industries. Finding names of companies, descriptions, owners, and contact information is a tedious and time-intensive process. Interns, as will be described in more depth later in this document, are critical in gathering this information. Another effective way to leverage time is to find and utilize industry experts, or "river guides." Selling river guides on introducing a searcher to business owners in exchange for 0.5 percent of deal value is easier than selling owners on giving up control of their business. And, a warm introduction with business owners is much more efficient than a cold introduction. In addition, conversations with river guides can be used to educate a searcher on the industry, especially with questions a searcher would not want to ask sellers. While river guides are often the best path to success, a searcher should not rely exclusively on this avenue and should build a process around cold reach-outs.

There are three ways a searcher can reach out to the people and companies on his list: phone, mail, and e-mail (for an example of an initial seller e-mail, see **Exhibit 1**). The search process is a numbers game, and each of these methods can yield success. Directly calling, although not frequently used by many searchers, can be quite effective depending on the comfort and personal preference of a searcher. E-mail allows a searcher to reach out to thousands of companies per week, while letters to hundreds at most. However, searchers report higher hit rates with personalized letters than with e-mails. A common and fairly successful technique is to start with a personalized e-mail and follow up with a phone call less than a week later.

Regardless of the reach-out method utilized, a searcher should aim to meet with the owner in person as soon as possible. The goal in this first in-person meeting is not necessarily to buy the company, but instead to learn and build industry expertise. This knowledge will increase a

⁴ Similarly, the author alternates the use of "his" and "her" throughout the document.

⁵ These criteria should be determined by the searcher in conjunction with investors/advisors.

searcher's credibility with sellers, build her confidence for future meetings, and help her practice and iterate her pitch. After several of these types of meetings, the goal should be to generate *quality* leads using river guides, cold reach-outs or industry conferences. The importance of using meetings to learn and build confidence early in the process cannot be stressed enough. Though fairly inefficient at first glance, this process will help a searcher build a foundation of skills and comfort that will yield exponential returns later in the search phase.

The Intermediated Search Process and Operations

The balance of a searcher's time (approximately 20 percent) should be spent on brokered deals and managing search fund operations. This means that in a given week, a searcher should spend one day or less reaching out to brokers (for an example of an initial broker e-mail, see **Exhibit 2**), signing non-disclosure agreements (NDAs), analyzing inbound deals, managing the company pipeline, managing interns and dealing with unforeseen events. While the broker process rarely produces quality leads, utilizing interns to screen inbound leads can save time and increase the chances of finding a quality lead. In addition to creating a few interesting opportunities, a searcher can use the broker process to come up with new industries to analyze and research. To this end, in the very beginning of a search, a searcher may consider spending a bit more time on the brokered process. Moreover, a searcher may consider using brokered deals to engage his investor group in the first few months of his search; sending a short blurb on a few interesting brokered deals can help a searcher start interesting conversations and learn how to effectively leverage the investor group.

A searcher should beware of the tendency to spend too much time analyzing deals, especially when s/he has not yet qualified the seller. It is critical to avoid going too far down the path before understanding whether the owner is a seller. Though analyzing deals is often more fun and interesting than reaching out to companies, it will detract a searcher from the search process.

A searcher should decide whether to work on a daily schedule or a weekly schedule, in which every day (or week) looks the same. This helps a searcher maintain focus. Typical schedules may look like the following:

- Day-based schedule
 - Meet with team to discuss work plan for the day and ensure team alignment
 - Read up on industry/company to prepare for calls (5 to 15 minutes to get smart)
 - Start owner and broker calls (two to six calls or meetings in the day)
 - Respond to e-mails and clear inbox
 - Conduct industry research (reading, Googling, checking recently closed deals in late-stage VC and Growth Equity, brainstorming)
 - Check that reach-out e-mails are ready to be sent for the evening or next morning
- Week-based schedule
 - Monday through Wednesday:
 - Blast e-mails the night before (or at the beginning of the day)
 - Manage the bounces (when guessed e-mail addresses), filter through responses, follow-up
 - Arrange times to speak with sellers for later in the week
 - Thursday through the end of the week:

- Conduct preliminary phone conversations, figuring out if second call necessary, then arranging more detailed conversations over time (e.g., reviewing financials)
- Carve out an hour or two a day to manage existing pipeline and operations

METRICS AND BENCHMARKS

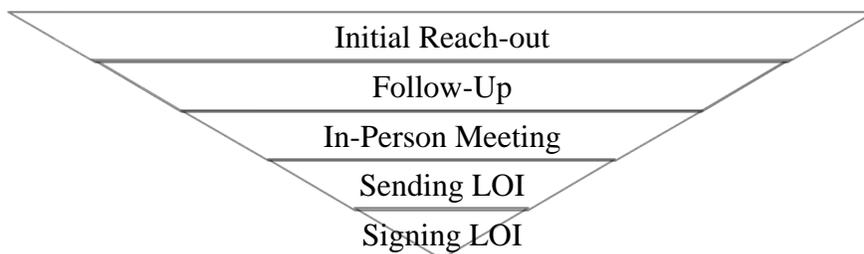
The search process has one goal—to buy a business—and it takes a searcher approximately two years to accomplish this goal. Working with a goal that is two years away can be mentally taxing and exhausting. Thus, in addition to building a structure to her weekly schedule, a searcher should create objectives and benchmarks for the short-term (instead of two years away); this can help make the process more palpable and less tiring.

With this in mind, a searcher should consider the following two goals/benchmarks:

- Number of high-quality first-time in-person meetings with sellers:
 - Five per month
- Number of Letters of Intent (LOIs) signed:
 - Five or more over the life of the fund⁶

The number of high-quality first-time in-person meetings is discussed below, and the number of LOIs signed is discussed later in this document.

In order to get five high-quality in-person meetings per month, a searcher should come up with an appropriate funnel. Below is a sample funnel.



There will most likely be additional steps between some or all of the milestones above (e.g., financials review, valuation/pricing conversation). It is difficult to create benchmarks for all of these milestones because the numbers will vary widely between searchers depending on their specific tactics (e.g., e-mail vs. postal mail) and schedules. With this important caveat, below is an example of the first year results of one searcher with a postal mail approach:

- Initial reach-out: 3,404
- Response: 256
- Positive follow-up: 124
- In-person management meetings: 25
- Pricing conversation and indication of interest: 16
- LOIs sent: 4
- LOIs signed: 2

⁶ It should be noted that there are typically four LOIs signed for every company that is purchased.

It should also be noted that as time goes on, a searcher should expect to see improvements in these milestones as s/he becomes more effective in the search process.

INTERNS

Not so common in the early days of search funds, interns have become a common fixture among searchers. Using interns allows a searcher to free up her time to focus on value-added activities. There are typically two methods of finding and managing interns. The first is to hire several interns (part-time and/or full-time) and spend as little time as possible managing them. The second, less common and more difficult for solo searchers, is to spend time training and managing interns. Some searchers complement or supplement their use of interns with outsourcing services such as O-Desk or HourlyNerd.

Sourcing and Recruiting Interns

Searchers have found interns through a variety of sources: posting on job boards and Craigslist, utilizing their personal networks, and talking to colleges' career centers. Undergraduates and unemployed graduates are often best suited for such a role; they are typically motivated, eager to learn, and excited to work hard. Graduate students, including MBAs, are less likely to put in the time needed for the arduous tasks involved in the search phase.

Once a searcher has sourced candidates, the screening process should be fairly quick. The searcher should aim to hire interns who have an interest in the field (e.g., have taken investing or finance classes). Interns should be diligent, detail-oriented, and motivated. In addition, since a searcher will spend a significant amount of time with interns, it is important that the searcher get along with them. One effective way of testing how interns will perform is to describe the tasks they will have to perform in painstaking detail, making it clear that the job will at times be difficult and monotonous. If candidates are not discouraged, this is usually a good indicator that they will work hard. A searcher should also consider putting on paper what is expected from interns to ensure alignment from the beginning of the working relationship (for an example of an intern offer letter, see **Exhibit 3**).

If a searcher can get part-time interns during the school year, s/he should try to ensure they receive school credit for their work. Many searchers take great pride in having placed their interns in investment banking, management consulting or private equity after their internships. Such a track record can help a searcher's recruiting efforts substantially.

Leveraging Interns

Interns are particularly helpful for data research and collection, list building, process management, and screening inbound brokered deals. A searcher can leverage interns by asking them to find important industry information, so as not to waste time tracking down the information himself. Once a searcher has selected a few choice industries, s/he should ask the interns to build lists of companies with contact information. There is no secret to list building. It is a long and tedious task that involves searching for information across a wide variety of

sources. No single source is comprehensive or perfect; however, below are examples of sites and sources used by searchers:

- Avention
- BvD Orbis
- www.data.com
- Dunn & Bradstreet
- Google keyword-driven searches
- Google Maps keyword searches⁷
- Hoovers
- Inc. 5000
- Manta
- ReferenceUSA
- S&P CapitalIQ
- Trade show lists

Interns should input this data in some sort of Customer Relationship Management (CRM) system so that a searcher can easily monitor communication and progress made with companies. Some searchers use Microsoft Excel to manage this information. However, many other searchers have found that dedicated CRM systems, including Salesforce, Streak and Zoho, are more effective, increasing searchers' efficiency and organization.

With company lists in hand, interns can start the reach-out process by customizing the template letters or e-mails a searcher has prepared (and iterated multiple times with feedback from sellers, searchers and investors). Interns can send these e-mails/letters out, keeping track of bounces-backs and responses.

One task that interns usually find more appealing is helping with the broker side of the search. Some searchers have their interns manage a large part of this process: handling the early broker conversations (asking for their book of deals), gathering NDAs to be signed, and screening the deals using an appropriate screening tool built by the searcher to avoid looking at "bad" deals (for an example of such a tool, see **Exhibit 4**).

ADDITIONAL TOPICS

Investor Communication

There are two key takeaways related to investor communication. First, a searcher should always reach out to investors if s/he has a question/concern and thinks investors can help. This is not wasting investors' time; investors want to help and advise in the search.⁸ Second, a searcher should not waste time communicating with investors. If a searcher does not need anything from investors, s/he should not reach out. That said, nearly every searcher communicates on a quarterly basis with his full investor group through an update report.

⁷ Zooming in on a particular geographic area on Google Maps and typing industry keywords can sometimes yield useful results.

⁸ This is more the case for institutional investors, whose sole focus is search fund investing, but it will often also be true of individual investors.

Investors generally advise searchers not to spend too much time on these quarterly update reports. The typical investor spends less than 15 minutes reading the report; as such, a searcher should only spend an hour or two making it (early on, this may take a searcher more time). Good reports should be approximately three pages long and structured as follows (for an example of an investor update, see **Exhibit 5**):

- Page 1: text explaining what has happened, where searcher has been spending time, and searcher's plan going forward
- Page 2: table of deals in the pipeline, including industry and location, the most relevant metrics (e.g., revenue, EBITDA, # of employees), and transaction rationale (pros, cons, questions yet to be answered)
- Page 3: budget snapshot and metrics of search, with two columns (previous quarter and to-date) and four rows (reach-out, first-time meetings, LOIs presented, LOIs signed)

LOIs

There is generally a misconception among new searchers that a letter of intent is a big deal, and that a searcher needs to make sure the deal is nearly perfect before presenting an LOI to the seller. Successful searchers are often ones who have signed LOIs in the first year of their search. In baseball, in order to get a base hit, the batter needs more than to simply step up to the plate; s/he needs to have pitches thrown his/her way. A searcher should look at an LOI as getting a pitch thrown his/her way. As such, searchers should not make a big deal out of the LOI process. This is not to say that a searcher should not make every effort to include crucial deal points in the LOI, such as referencing a seller note or specific due diligence concerns. However, a searcher should not waste unnecessary time or energy on the LOI. Given the uncertainty involved in the search process, a searcher should aim to have multiple opportunities to close a deal. The bar to acquire a company is much higher than the bar to get a company under LOI. Below are the four criteria a searcher should review when deciding whether to present an LOI to the seller:

- Company is in an industry the searcher knows and likes—a big and growing industry (huge safety net)
- Company has many of the key ingredients for success:
 - Service company
 - Recurring, contractual revenue
 - History of profits and growth
 - Low capex
 - High EBITDA margins
 - EBITDA of \$2 to \$4 million
- Seller dynamic is positive; seller has a real catalyst to sell and to sell *specifically* to the searcher
- Company is offered at a fair price (not overvalued but not cheap)

Once the seller signs the LOI (for an example of an LOI, see **Exhibit 6**), a searcher may find out that the seller wants to change the price, that the analysis on recurring revenue shows irregularities, or that there is too much customer concentration. The deal can blow up; the searcher and/or the seller can decide to walk away. Although it is painful when this happens, it is better to have discovered this information before buying the business, and nearly impossible to have found such issues without the LOI-induced due diligence process.

EXHIBITS

Exhibit 1 – Example of Seller Initial E-mail

Exhibit 2 – Example of Broker Initial E-mail

Exhibit 3 – Example of Intern Offer Letter

Exhibit 4 – Screenshot of Example of Brokered Deals Screening Tool

Exhibit 5 – Example of Investor Quarterly Report

Exhibit 6 – Example of Short-Form Letter of Intent

Exhibit 1
Example of Seller Initial E-mail

[Owner Name]
[Position]
[Company Name]
[Address Line 1]
[Address Line 2]

Dear [Name],

I hope this e-mail finds you well. I recently learned about [Company Name] after spending considerable time researching your sector and am very interested in learning more about your company.

I am an entrepreneur looking to acquire and operate a small to mid-sized privately held business and am particularly interested in the [Company Subsector] space. I have a very seasoned group of investors behind me and we're committed to building a great business over the next ten years or more. I encourage you to take a look at our website at [Website Address] to learn a little more about who we are and what we do.

I would appreciate the opportunity to speak with you about [Company Name]. You have certainly built a very impressive business of [Company Subsector] and your [Service Name] offerings put you in a unique value position. And you should know that in companies we invest, we prefer to keep the employees and work hard to preserve its good legacy. I would appreciate the opportunity to hear your thoughts on the sector. Please let me know if and when you might be available to speak.

I look forward to hearing from you.

Best,

[Name]
[Firm]

Exhibit 2

Example of Broker Initial E-mail

Dear [Broker First Name],

I am reaching out to inquire about the businesses you are currently representing.

I am an entrepreneur looking to purchase and operate one business. My goal is to acquire a business and operate it for the long-term, while sinking my roots into the local community and honoring the previous owner's commitments to employees, customers, and suppliers.

Below are the characteristics of the business I am seeking:

- Services business with \$200,000+ cash flow
- Owner seeking to exit in 0-3 years
- Demonstrated business or industry growth
- Gross margin of 30%+
- Part of a fragmented industry
- Located in [region]

I bring the following resources to the table:

- Owner-operator who will move to business' location and operate on a day-to-day basis
- Capital for immediate owner liquidity provided by Operator and Advisors

Please contact me at [Telephone Number] or [E-mail Address] if you have any opportunities that meet the criteria outlined above. I am able to move quickly on the right transaction.

Best regards,

[Name]

Exhibit 3 Example of Intern Offer Letter

[Date]

[Mr./Ms. Intern First and Last Name]

[Address Line 1]

[Address Line 2]

Dear [Intern First Name],

It brings me great joy to welcome you to the [Search Fund Name] team. Let me be the first to congratulate you. I would like to take the opportunity in this letter to cover the details of the position, as well as the expectations I have for you as an Associate.

Details of Position

- Title: Associate
- Start Date: [Thursday, September 5, 2013]
- End Date: [Friday, December 20, 2013]
- Pre-Start Meeting: [Thursday, September 5, 2013 at 8:30 AM]
- Role: As an Associate, it is expected that you will assume the following responsibilities:
 - Review of confidential information books on potential acquisitions (20%)
 - Industry and small business research (20%)
 - Production of letters for targeted small businesses (40%)
 - Participation in phone calls with investment bankers and small business owners (20%)
- Pay / Sponsorship: Unpaid internship
- Hours per Week: 40 hours per week
- Location of Office: [Address of Search Fund Offices]
- Time off: Time off (week or days) is acceptable; please alert [Searcher Name] one week in advance

Expectations of Position

- Commitment: It is expected that the Associate show up from the “Start Date” provided above to the “End Date” provided above. Your commitment is critical to our team’s success.
- Culture: Culture is a fundamental part of [Search Fund Name]. Highlights of our culture include always acting with the highest level of integrity, treating each person with respect, keeping all information surrounding transactions confidential, and having fun. It is expected that you act within these expectations of culture and be a strong representative of [Search Fund Name] in front of other teammates or clients.
- Flexibility: It is important to remember that [Search Fund Name] is a start-up private equity firm. This has the advantage of involving each Associate in every part

Exhibit 3 (Continued)

of the transactions. This, at times, has the disadvantage of requiring each Associate to be flexible throughout his employment.

- Confidentiality and Nondisclosure Agreement: As part of your role as an Associate, you will be signing Nondisclosure Agreements on a daily basis and working with highly confidential information on potential acquisitions. You are expected to keep all of the information you hear and see at [Search Fund Name] confidential. This means not sharing any information in written or verbal form with your friends, classmates, or family. As part of the initial paperwork, please fill out and sign the attached Nondisclosure Agreement.
- Profile and Picture: Please e-mail a JPEG photo of yourself and a one-paragraph biography to [Searcher Name] prior to the “Pre-Start Meeting.” Please make biography consistent with biographies found at [Search Fund Website].
- Professional Goals: [Search Fund Name] takes the development of each employee very seriously. Please arrive at your “Pre-Start Meeting” with the following:
 - Three (3) things you would like to learn over the course of your employment at [Search Fund Name]
 - Three (3) things (i.e., traits, virtues, or competencies) you would like to improve as a professional during your employment at [Search Fund Name]

We will follow-up on each of these three goals in our bi-weekly meetings.

- Workday Commitment: [Searcher Name], [Searcher Title], will be at the [Search Fund Name] office M-F from 7:00 AM-5:00 PM CST. It is expected that each Associate work M-F from 8:30 AM-4:30 PM CST. Start and end times are flexible, but it is expected that consistency be maintained.
- Computer and Phone: Internet and phone will be provided within the [Search Fund Name] office. However, you are expected to utilize your own computer. Please bring these to the office each workday.
- Travel: Minimal travel may be expected of each Associate. [Search Fund Name] will cover the expenses of this travel, and the travel will rarely entail overnight stays.
- Dress Code: Casual dress (i.e., jeans and t-shirt) is acceptable in the office. Shorts will not be permitted. When meeting with clients, Associates are expected to wear business suits.
- Meals: Lunch (i.e., pizza or going out) will be provided for the team each Friday, complimentary of [Search Fund Name]. Employees are expected to bring their lunch M-Th. Going off-site is also acceptable. A refrigerator will be available within the office.

If you have any questions on the above, please feel free to e-mail me or give me a call. I am also happy to discuss these during our next conversation.

Again, [Intern First Name], welcome. It’s an honor to have you on the team.

Sincerely,

[Signature, Name and Title]

Exhibit 4 Screenshot of Example of Brokered Deals Screening Tool

(Thanks to Charles Anderson and Richard Augustyn)

[Search Fund Name] Investment Underwriting Guidelines

Company: _____
 Reviewer: _____
 Date: _____

Investment Underwriting Guidelines: Company			2006	2007	2008	2009	2010	Rating	Comments
Year			t ₂	t ₄	t ₂	t ₂	t ₂	1=Low; 5=High	
Financial Criteria	Revenue								
Financial Criteria	Revenue Growth								
Financial Criteria	Gross Margin								
Financial Criteria	EBITDA								
Financial Criteria	EBITDA Growth								
Financial Criteria	EBITDA Margin								
Financial Criteria	ROTC=(Operating Inc.+Amort)/(Total Assets - Cash - Investments - Goodwill - Intangible Assets - Curr Liab excl. Borrowing)								
Must Haves									
Category	Description	Explanation	Example						
Stability	Recurring Revenue	% of Consistent Revenue Month-to-Month	70%+ is VG						
Stability	15% EBITDA Margins	EBITDA Margins ensure Target Co. has cash flow to weather a shift in their business model							
Stability	Depreciation & CAPEX Requirements	EBITDA - CAPEX = ~FCF (determine how much the co. must reinvest each year)							
Stability	25% Gross Margin	This is a quick test to determine how product intensive the company is. The greater the gross margin the better							
Size	Revenue	\$10 - \$35M							
Size	Employee Count	Rev/Employee is a quick metric to test the efficiency of the organization							
Size	Rev/Employee								
Growth	10% Revenue LTM Growth	Growth is key! It is a significant factor in increasing the manager's margin for error.							
Growth	10% EBITDA LTM Growth	See above point.							
Structure	Family-owned business	The ideal target has a CEO who wants to retire but does not have a successor in place							
Structure	Founder operated/controlled	See above point.							
Structure	Majority Ownership	It is quite difficult to convince multiple owners to sell to a search fund							
Industry	Growing	When a good manager meets a bad industry, it's the industry that keeps its reputation -Warren Buffett							
Industry	Secular Tailwinds	Will growth come from stealing clients, or are new clients using this product/service							
Industry	Exogenous Risk	Can the company be killed overnight by a change in the business environment or government regulation							
Industry	Services	Service companies are less asset intensive and therefore generate a higher margins and a greater ROTC							
Mkt Position	Economies of scale	Separate the variable + fixed costs: Can a bigger firm offer products at a lower cost than a smaller firm							
Mkt Position	Network Effects	Does the value of a service increase in direct proportion to the number of people using it? Can the company leverage its brand name or secret sauce to create stable revenues and to charge higher prices?	Facebook, credit card processing systems						
Mkt Position	Intellectual Property/Intangible Assets								
Customers	Customer concentration	Ideally, no customer will account for >20% of total revenues							
Customers	Age of cust. Relationship	Loyal customers help contribute to recurring revenue.							
Customers	High Switching Costs	The cost of not using or leaving the company is much greater than the cost of staying with the company							
Company	Age of company	A company > 10 yrs old has matured more than a 3 year old company							
Nice -To-Haves									
Category	Description	Explanation	Example						
Company	Data-Driven	A firm that is constantly collecting data and learning will remain more relevant for a longer period of time							
Price	Purchase Price	"It's better to pay a fair price for a good company than a good price for a fair company" -W. Buffett	Determined by multiple of EBITDA						

Summary

ROTC Calculation	2005	2006	2007	2008	2009	2010
	t ₂	t ₄	t ₂	t ₂	t ₂	t ₂
Operating income						
+ Amortization						
Total Assets						
- Cash						
- Investments						
- Goodwill						
- Intangible Assets						
- Current Liabilities (excl brw'g)						

Exhibit 5

Example of Investor Quarterly Report

E-MAIL BODY [EXAMPLE]

Dear [Search Fund Name] Shareholder,

Please find attached [Search Fund Name]'s report for the [third] quarter of [20__]. The [third] quarter has been exciting both personally and professionally. ____ and his wife ____ are expecting twins in January. ____ got married on August 1st and enjoyed a honeymoon in Greece with his new wife _____. Professionally, we are excited about several current deals and are working hard to move each of them forward.

We continue our proprietary approach by focusing in our industries and business models of interest. We spent more time in [Q3] working on active deals than we have in the past; however, we are still utilizing our outbound marketing campaign to reach business owners directly. We will continue to communicate as appropriate between our quarterly updates and look forward to getting your feedback and speaking with you soon.

Sincerely,
[Searchers Names]

REPORT

OVERVIEW [EXAMPLE]

[Search Fund Name] is still utilizing its proprietary outbound marketing campaign; because we are moving four deals along, we are sending fewer outbound e-mails in order to balance our sourcing effort and our work on active deals. We are also continuing to engage the intermediary community in an effort to balance our proprietary and broker related opportunities. Below is a brief update on the four deals on which we are actively working:

1. ____ business – After nearly a year of conversations, the seller's health has recently forced the issue for him, which has reinvigorated the process. We are currently in a final round of LOI negotiations with him.
2. ____ – Although our LOI has expired, we are currently in discussions about different structures at a lower valuation. ____ has signed over \$1 million of new annual recurring business since June, reinforcing our belief that the business is well positioned in a growing market.
3. ____ – After submitting an LOI in late August, the process has progressed slowly for reasons on both sides. We continue to have interest in the deal and have a trip scheduled October 8th in an effort to move the process forward.
4. ____ Services – Proposed transaction will generate a high cash return with low risk. The seller sold the business in 2005 and then bought it back in 2007; for contractual reasons, he cannot enter into an LOI until January of 2010. We continue to have a high interest and will pursue in January.

In addition to the four opportunities mentioned above, we are actively reviewing other deals that are outlined in the deal overview section. Since our last update, we have actively reviewed and killed approximately 35 opportunities, the most interesting of which are included below in the deal overview section.

Exhibit 5 (Continued)**DEAL OVERVIEW [FIRST EXAMPLE]**

Company	Sales	Ebitda	Asking Px	Pros	Cons	Status
Document and Managed Service Provider	\$37M	\$3.0M	??	<ul style="list-style-type: none"> Company looking to transition to new CEO Recurring revenue model Larger player 	<ul style="list-style-type: none"> Focus on tertiary markets Transition expectations likely too long 	Active
IT Infrastructure Support Services Company	\$13M	\$1.6M	5.0x-6.0x Ebitda	<ul style="list-style-type: none"> Owner is looking to transition Large commercial customers 	<ul style="list-style-type: none"> Customer concentration concerns Banker cooking the numbers 	Active
Managed Service Provider	\$5M	\$1.0M	??	<ul style="list-style-type: none"> Owner looking to transition Very strong (and young) COO 	<ul style="list-style-type: none"> Valuation expectations may be high 	Active
Managed Service Provider	\$30M	\$1.2M	7.0x Ebitda	<ul style="list-style-type: none"> Strong ties with State government Owner is absent About to be named State cloud services provider 	<ul style="list-style-type: none"> Operationally less mature Owner has retraded twice 	Active
Managed Service Provider	\$11M	\$1.5M	5.5x-6.5x Ebitda	<ul style="list-style-type: none"> Industry leader Owner is older and ailing Introduction from very reputable industry veteran 	<ul style="list-style-type: none"> Owner's ego 	Active
Application Service Provider	\$5M	\$1.6M	??	<ul style="list-style-type: none"> Growth industry Recurring revs 	<ul style="list-style-type: none"> Owners uncertain about selling 	Active

Exhibit 5 (Continued)

DEAL OVERVIEW [SECOND EXAMPLE]

Alive Deals	Industry	Sales	EBITDA	Stage	Source	Comment
Disease outbreak management	Software	8.0	4.0	Discussions	Proprietary	Impressive software selling to local governments and agencies to track outbreaks. Growing quickly.
Mosquito abatement services	Environment / Pest Service	11.0	3.7	Advanced Discussions	Proprietary	Owner has reasonable expectations. 7 year contracts. Contractual situation - on hold until 1/15/10.
Specialty medical equipment rental	Healthcare	10.0	3.0	Initial Discussions	Intermediary / Attorney	Scalable model growing at 20%+. Niche equipment (Bariatrics and other). Not directly exposed to reimbursement risk.
Corporate philanthropy program administration	Business Process Outsourcing	15.5	2.2	LOI	Intermediary	Sticky, recurring revenue model. Opportunities for operational improvement. Submitted LOI in August. We have a visit on 10-8.
Mutual and hedge fund administration	Financial services	9.0	1.5	Discussions	Proprietary	10%+ organic growth. Potential consolidation opportunity. Industry tailwind for independent administration.
Telecom expense management	Telco Services	9.0	1.5	LOI	Proprietary	Exclusivity expired. Resuming discussions at lower valuation.
Life settlement servicing company	Life Settlement	3.0	1.0	LOI Negotiations	Proprietary	Health issues have forced the issue for the seller. Have been through two rounds of LOI edits. Have call on 10/5 to finalize a few outstanding LOI negotiating points.
Monitor Deals	Industry	Sales	EBITDA	Stage	Source	Comment
Energy efficiency manager & software	Energy Services	28.0	5.0	Ending discussions	Proprietary	Project based model and dependency on utility/government financing. Still potential growth investment possible.

Dead Deals	Industry	Sales	EBITDA	Reason	Source	Comment
Process serving (i.e., you've been served)	Legal Services	22.0	6.0	Valuation Expectations	Proprietary	Top player. Was contemplating creative structures due to concentration. They decided our offer was not interesting
Life expectancy report company	Life Settlement	10.0	5.0	Legal issues	Proprietary	Continued lawsuit issues. LE report business down by 30%.
Lease management software	Software	TBD	~3.0	Valuation	Proprietary	Software that manages leases for large businesses with multiple locations.
Dental practice management	Healthcare	25.0	3.0	Situational	Intermediary	Partial buyout of dentist owned dental practices.
Voice transcription services	IT BPO Services	11.0	3.0	Competitive / valuation	Proprietary	Transcription services for individual short dictation. Users receive text file. Seller focusing on other ventures.
Mobile nuclear cardio testing	Healthcare	5.0	2.5	Industry risk	Intermediary	Provides leased equipment and staffing to cardiologist and physician offices.
University outsourced services	Call Center	9.0	1.5	Seller went silent	Proprietary	Outsources call centers and other information services for colleges and universities. 3-5 year recurring contracts.
IT hosting business	IT Services	TBD	1.7	Not a situational fit	Proprietary	Current owner and manager has 50% silent partner who wants out of the business.
Healthcare revenue cycle management	Healthcare Services	TBD	1.5	Seller not ready	Proprietary	Combination of transcription and revenue cycle management.
Transportation management software	Logistics	4.5	1.4	Valuation	Proprietary	TMS software integrator for medium sized businesses.
Energy data management	Energy Services	5.0	1	Seller not interested	Proprietary	Provides energy theft and energy efficiency data management for utilities.
Telecom expense management business	Telco Services	TBD	1.0	Valuation	Proprietary	Owner is 65 but has high expectations. This deal would not work without TNT anyway.
Reverse mortgage servicing company	Reverse Mortgage	5.0	1.0	Negotiations postponed	Proprietary	Industry developments have halted discussions. 50% revenue concentration.
Retirement wealth management software	Financial Services	TBD	TBD	Too early stage	Proprietary	Impressive software and market potential. Not a great search fund fit.

Exhibit 5 (Continued)

METRICS OVERVIEW [FIRST EXAMPLE]

Metric	Previous Quarter	To-Date
Reach-out E-mails	1,500	5,000
First-Time Meetings	25	55
LOIs Presented	5	12
LOIs Signed	2	5

METRICS OVERVIEW [SECOND EXAMPLE]

Outreach Type	Quarter I	Quarter II	Quarter III	Quarter IV	Cumulative
Email Introduction	873	127			1,000
1st Call with sellers	157	7			164
1st Meeting with sellers	17	0			17
LOIs submitted	2	0			2
LOIs signed	0	0			0

Total Companies	Amount	% of Total
Advertising	10	1
Business Services	349	35
Education	202	20
Equipment Leasing	22	2
HealthCare Tech.	19	2
Immediate Care	53	5
Insurance	42	4
IT Services	66	7
Real Estate Services	87	9
Transportation and Storage	63	6
Travel	87	9
Total	1,000	100

Companies By Sector August 2013-December 2	Amount	% of Total
Business Services	349	40
Education	202	23
Equipment Leasing	22	3
HealthCare Tech.	19	2
Immediate Care	53	6
Insurance	34	4
Real Estate Services	87	10
Transportation and Storage	63	7
Travel	44	5
Total	873	100

Companies By Sector December 2013-January	Amount	% of Total
Advertising	10	8
Insurance	8	6
IT Services	66	52
Travel	43	34
Total	127	100

Exhibit 5 (Continued)**FINANCIAL UPDATE [EXAMPLE]**

Six months into our search, we are well within budget and remain well covered for at least another 18 months of searching. One of the reasons why our expenses to date remain roughly within budget is due to the fee structures and subsequent discounting that we were able to negotiate with our advisors for the [Company] due diligence. Specifically, our total current cash expenditure on diligence fees for [Company] amounted to only ~\$6,000, with another ~\$35,000 in fees deferred. Further details on [Search Fund Name]'s expenses to date are included below.

Actual	Actual Expenses from Inception to Date	Total Budgeted Expenses to Date	% Difference
Managers Salaries (for both)	63,619	90,000	(29%)
Payroll Taxes / Insurance	24,967	7,200	247%
Travel / Business Development	23,303	22,500	4%
Research and Databases	1,764	7,000	(75%)
Office Rent and Expenses	23,717	10,000	137%
Marketing	2,188	5,000	(56%)
Start-up Costs	18,895	20,000	(6%)
Due Diligence Expenses	5,800	14,170	(59%)
Total	164,253	175,870	(7%)

Exhibit 6
Example of Short-Form Letter of Intent

[Search Fund Letterhead]

[Date]
[Seller 1 Name]
[Seller 2 Name]
[Company Name]
[Address]

Dear [Seller First Name]:

This letter of intent shall serve as the understanding between and among [Seller 1 and 2 Names along with any other Selling Entity], (collectively the “Sellers”) and [Search Fund Name], LLC, (the “Buyer”) regarding the purchase of the stock of [Company Name].

Purchase Price: The purchase price shall be not less than \$[_._] million minus the then current balance owed on Sellers’ bank credit facility, payable in cash at closing. The purchase price assumes that revenue growth has continued in [201_] at profit levels consistent with the past.

Stock Purchase Agreement: All parties will work in good faith to negotiate a mutually acceptable stock purchase agreement incorporating the terms outlined above. The document will be set up for simultaneous signing and closing. Each of the parties shall pay its own expenses. If no mutually acceptable agreement can be reached, the parties would break off, each bearing its own expenses.

Continuation of Key Individuals: In recognition of [Key Individual]’s integral role in the management of the company, this offer is predicated on Buyer’s negotiation of a mutually acceptable employment agreement with [Key Individual] prior to or simultaneous with closing. Further, Buyer and Sellers will work in good faith to negotiate mutually acceptable advisory agreements with each of [Seller 1 Name] and [Seller 2 Name] for a period of at least two years following the closing, with [Seller 1 Name] will serving in an M&A capacity and [Seller 2 Name] serving in a marketing capacity. [Seller 1 Name] and [Seller 2 Name] will be permitted to maintain health insurance coverage, with premiums paid by Buyer, subject to approval of the health insurance carrier.

To the extent possible, [Seller 1 Name] and [Seller 2 Name] will be permitted to invest in certain securities in the capital structure of Buyer on a pari passu basis. Such participation would be subject to the approval of providers of those layers of capital.

Continuation of the Trade Name: Buyer will continue to use the trade name [Company Name], or a variant thereof containing the word [“___”].

Exhibit 6 (Continued)

Confidentiality and Exclusivity: [Seller 1 and 2 Names along with any other Selling Entity], acknowledge that the content of this letter constitutes proprietary and confidential information under the previously signed Non-Disclosure agreement and accordingly agree to keep such information, including the Purchase Price and terms, confidential pursuant to its terms. The parties further agree that, for a period of 90 days, [Search Fund Name] shall have the exclusive right to negotiate with Sellers and that Sellers will not hold discussions with other parties during this time. Either party may request a 30-day extension of this time period, the approval of which is not to be unreasonably withheld. [Search Fund Name] acknowledges that all confidential information provided to it during the due diligence period constitute proprietary and confidential information under the previously signed Non-Disclosure agreement and agrees to return any documents provided to it if an agreement is not reached.

Nothing in this letter is intended to bind any of the parties , other than the conditions of the preceding paragraph, with heading “Confidentiality and Exclusivity” and the agreement that each party bear its own expenses (both of which shall survive the termination of this letter of intent). [Furthermore, the parties acknowledge that any binding agreement requires the approval of [Search Fund Name]’s board of directors.]

If you are in agreement with the foregoing, please indicate so by signing below.

For Sellers:

Company Name: _____

Signed: _____ Date: _____

Print Name: _____ Title: _____

[Seller Name 1] (Self)

Signed: _____ Date: _____

Print Name: _____

[Seller Name 2] (Self)

Signed: _____ Date: _____

Print Name: _____

For Buyer:

[Search Fund Name], LLC

Signed: _____ Date: _____

Print Name: [Searcher Name] Title: [Title]