

Commenti

marzo 18, 2019

Pubblicato da: bebeez

## Search funds, here it is how they work and why they are the future for modern entrepreneurs

The launch of a new **search fund** with a specific focus on Italy a few days ago (see here a previous post by *BeBeez*) brought back under the spotlight this kind of investment vehicle which is not of common use in Italy yet but is well-known in the United States among young aspiring entrepreneurs.

For this reason we are delighted to publish this comment

by **Fabio L. Sattin**

*Executive Chairman and Founding Partner, Private Equity Partners*

*Contract Professor of Private Equity and Venture Capital, Bocconi University, Milan*



Fabio L. Sattin

Renewing the Italian business structure and creating new businesses and new entrepreneurs should be one of the main objectives of the national economic agenda for the next years. In an economic context similar to ours, characterized by many small and medium-sized businesses often undergoing generational change, one of the most effective ways to create a new meritocratic and skilled entrepreneurial class is to let qualified and bold managers acquire, guide and develop these businesses.

And, as it often happens, more developed markets can give us some new ideas that, if revisited and adapted to our social, economic and legislative context, can represent extremely useful innovations for our country, with the advantage of capitalizing on other nations' experiences and, if appropriate, realizing them with greater confidence, or even improve them.

This is the case of the so called **search funds**, an interesting and innovative instrument particularly suitable to meet the need to create new dynamic entrepreneurs.

But what are search funds and how do they work? Search funds, born in the U.S. in 1984, are investment vehicles allowing aspiring entrepreneurs to look for investment opportunities (usually small or medium businesses to acquire and then manage and grow) in order to revitalize declining realities (and, unfortunately, in Italy there are many businesses in these conditions).

The main development phases of a search fund are the following. In the first phase, the aspiring entrepreneur should look for the necessary financial resources to conduct the research of the potential target company to be acquired (**search capital**). This capital will be used to cover the administrative, organizational and due diligence costs and to remunerate the promoter of the initiative. This initial amount of money is usually granted by a pool of investors who, once the potential acquisition is identified, are reserved the right to invest in the target company at attractive and pre-defined conditions, being understood that the investment, once identified, will be subject to their final approval.

After the identification of the target, phase two begins: the capital necessary for the acquisition is paid. The **acquisition capital** is mainly granted by the search capital subscribers, but other new investors may join as well, eventually with different conditions from the ones granted to the first investors in the business. Regulations and policies of the various existing search funds can be very different, but the substance does not change.

One of the key characteristics of this instrument, unlike the better-known **SPAC (Special Purpose Acquisition Company)** is that the person looking for the target company is personally involved in its management and development, devoting himself full time and usually becoming its president and ceo. In practice, the capital is given to the person who will personally manage and lead the target company.

As **H. Irving Grousbeck**, Professor at **Stanford University's** Graduate School of Business and founder of this very interesting instrument, put it, "[A Search Fund] is the most direct route to owning a company that you yourself manage". Essentially, the most direct and effective route to become entrepreneurs.

Searchfunder.com, a website dedicated to search funds, is currently counting more than one thousand search funds, mainly based in the US. but now expanding in other countries in the world as well.

Originally very popular in the business schools (with Stanford at the forefront) and among the students of the top MBA programs in the U.S., who considered this structure a great opportunity to test themselves as entrepreneurs, this instrument later spread outside these academic contexts, attracting other subjects (mainly quality managers with varied experience and skills, willing and determined to become entrepreneurs and business leaders). In this case as well, the final objective is often the listing of the target company on a Stock exchange or the sale to bigger industrial entities, but given the often small sizes of target companies, the timings to meet these objectives are necessarily rather long. Patient investors are therefore needed.

Luckily, however, in an articulated financial market like in the U.S., where investors are specialized according to the different development stages of a business project, if the target company performs well and is well managed, attracting further resources for its development should not be very difficult. And hopefully, the same thing may happen in our country, where a few steps in that direction have already been taken.

In conclusion, search funds are an extremely interesting and attractive instrument putting industry, finance and entrepreneurship together in a synergetic manner. Let's follow their development!

Iscriviti alla newsletter quotidiana di BeBeez

Il tuo indirizzo email

Acconsento alla raccolta e alla gestione dei tuoi dati in questo sito come descritto nella Privacy Policy \*

Dichiaro di avere più di 16 anni \*

**iscriviti**

