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On the Nature of What Business Sellers Are Looking for in a Buyer

What do business sellers *really* care about in a search fund transaction?

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Completing a search fund transaction involves many challenges. On top of raising capital, identifying a high-quality asset with appealing economic characteristics, and ensuring the business is for sale, an aspiring entrepreneur must also convince the budding seller that they are the right buyer for the business (after all, desirable businesses often have many potential suitors). To accomplish this, the search fund entrepreneur must detect the seller's top priorities in a transaction and prove that they can fulfill those goals. A deep understanding of what sellers are looking for can help potential buyers offer sellers exactly what they want to proceed toward a mutually rewarding transaction efficiently (or move on if buyer and seller lack alignment).

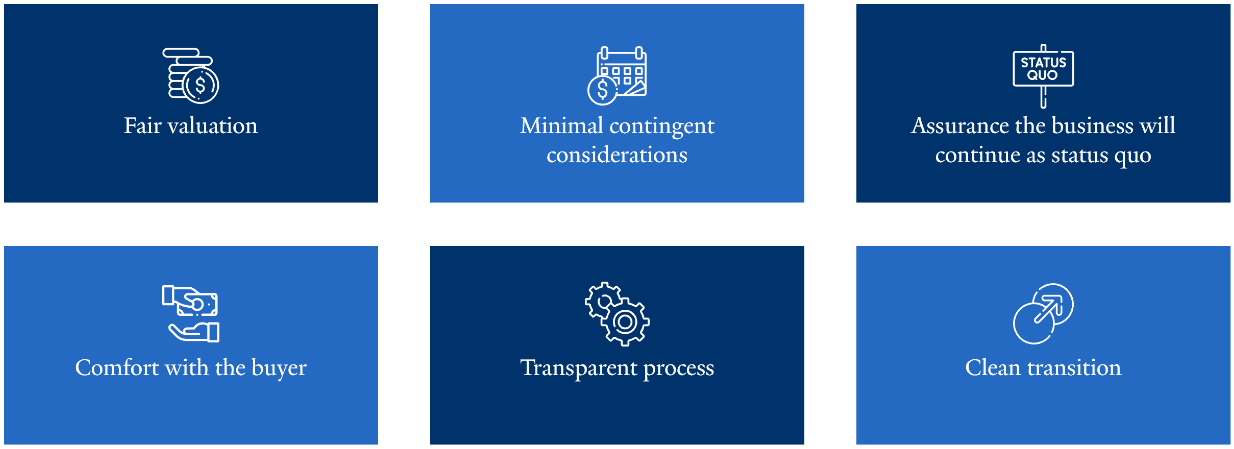
To date, nearly all search fund research has focused on buyers, meaning search fund entrepreneurs. Research is abundantly available on various aspects of a buyer's journey – from raising capital to searching to acquiring to operating. However, little research has focused on the important first act of the search fund story – the seller's background, mindset, and priorities. It takes two parties to complete a transaction, and sellers have been neglected in the current investigation of the full search fund journey. In this case note, we aim to explore what business sellers most care about when selling their business. This will help search fund entrepreneurs better understand sellers' goals and priorities to more successfully navigate search fund transactions.

In this case note, we will address the following topics:

- How search fund transaction dynamics differ from more traditional transactions
- What sellers actually care about most when selling their business
- How searchers can be a highly desirable solution for a specific subset of sellers
- How buyers can give sellers what they want to create a mutually rewarding situation

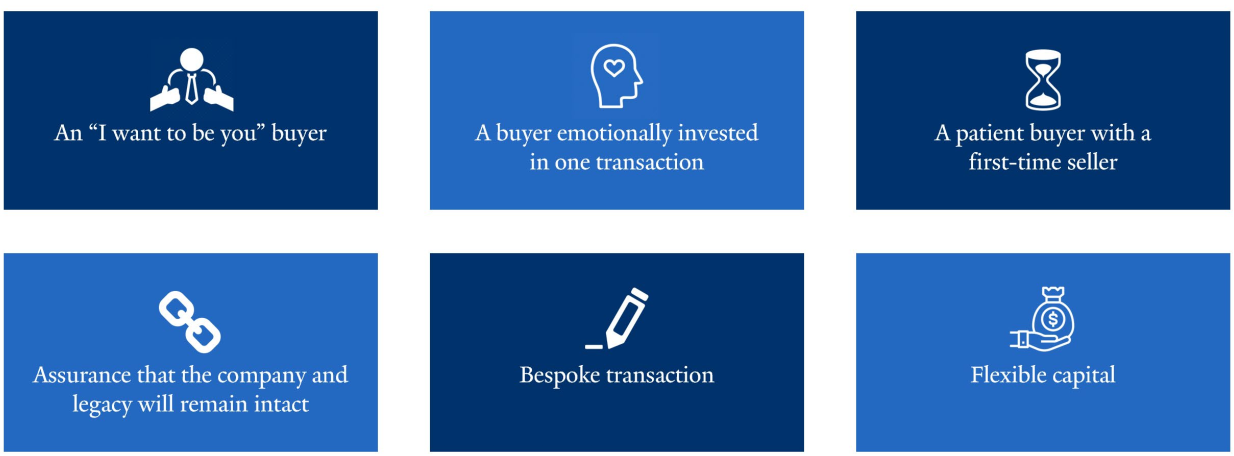
We conducted interviews with multiple business sellers and search fund entrepreneurs as part of our research. Based on these interviews and the rest of our research, we developed a six-point framework (see **Figure 1**) that outlines the top priorities of business sellers when deciding to whom to sell their business. We believe that sellers' focus on these priorities is somewhat unique to search fund transactions. Therefore, the priorities may feel different and potentially even counterintuitive for search fund entrepreneurs with a past life in more traditional transactions (e.g., private equity, corporate mergers and acquisitions).

Figure 1: The six key priorities of business sellers



Despite how daunting it is for search fund entrepreneurs to source a transaction and simultaneously deliver to a seller elements of the priorities in **Figure 1**, there is great news for search fund entrepreneurs: you are an incredibly attractive choice for a subset of business sellers. We have identified six superpowers (see **Figure 2**) that search fund entrepreneurs are uniquely able to offer and that can be compelling and appealing to a specific type of seller. Of course, it is important to recognize that the searcher's story and these superpowers will not resonate with everyone – and that is perfectly fine. It ultimately only takes one seller for a search fund process to be successful.

Figure 2: The six superpowers of search fund entrepreneurs



This case note focuses on conventional search fund acquisitions. These transactions typically involve long-standing businesses (going concerns as compared to venture capital–financed startups) with $3 to $10 million in revenue, approximately $1 to $3 million in EBITDA*, and 10 to 40 employees. Through a search fund, one or two entrepreneurs aspire to acquire a single company fitting these criteria, with the intent of taking over day-to-day management of the business post-transaction (commonly as president or CEO). As part of the transaction, the seller normally transitions out of the business due to retirement, health, or other

* Earnings before interest, tax, depreciation, and amortization

reasons. In this discussion, we will use the words CEO and seller interchangeably and the words entrepreneur, searcher, and buyer interchangeably.

Fiona Yu (UCLA Anderson School of Management 2021) is a Chinese native who founded Savana Partners, a search fund, alongside her husband, Caleb Williams, in 2021. Yu worked full-time throughout her MBA, including roles as a search fund associate at Granite Point Partners and as Vice President of Strategy and Operations at Viola Brands, a private equity–backed, founder-run consumer brand. Previously, she was a manager of advisory services at Ernst & Young for seven years, focused on healthcare compliance and consumer technology IPO readiness. She also holds a Master of Science in Accountancy from Bentley University.

> Entering our first letter of intent, there were a lot of uncertainties for the seller to whom we were speaking and for us. As we lacked a private equity, investment banking, or mergers and acquisitions (M&A) background, it was a true first time for both sides. We stumbled our way along collaboratively until the seller hired a seasoned M&A advisor. The advisor was quick to call out weaknesses of the search model, some of which we were hearing for the first time, and we did not have good rebuttals. A framework describing what sellers genuinely care about and what benefits searchers can provide to a subset of sellers would have been super helpful for us. In the end, we realized that the seller may not have been a good fit for a search fund, something a framework would have helped us recognize earlier and would have saved us a lot of time and emotional energy.
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> We found that the sellers who quickly see the value of search funds are those who have learned the negatives of selling to a strategic or financial buyer the hard way through a prior experience. Unfortunately, such sellers are less common, and most first-time sellers learn about searchers from strategic or financial M&A friends. So, being able to quickly and confidently recast these somewhat biased objections as advantages to the seller, while also calling out other strengths that others fail to mention, is key.

How buyer–seller dynamics differ between search funds and other transactions

Search fund acquisitions are essentially nano private equity transactions (although, in search fund deals, the searcher becomes the post-close CEO). Accordingly, it is not surprising that nearly half of all traditional search fund entrepreneurs come from a professional transaction background (i.e., private equity, venture capital, investment banking).[3] Many technical skills learned in professional transactions are transferable to the search process, including market research, financial modeling and analysis, and deal structuring and negotiation.

However, even though the overall concepts are similar, the underlying deal process, transaction, and buyer–seller dynamics can be vastly different in a search fund acquisition (see **Figure 3**). This disparity becomes starker in the move from small, lower-middle-market deals to large, multi-billion-dollar buyouts. For example, small business sellers typically require search fund entrepreneurs to prove that they have the capital to consummate a transaction, sometimes requesting to speak with the largest expected investors and see bank statements for proof of capital. Funding sources are typically taken at face value with more institutional transactions, given a multi-billion-dollar firm's track record, reputation, and size. In addition, valuation mostly serves as a gating factor to conversations in search fund transactions, and sellers are seeking a fair number. Once a general valuation is agreed upon early in discussions, the focus of conversation normally shifts dramatically. In larger, non-search transactions, valuation is the center of focus throughout the transaction, and due diligence focuses on informing where valuation should culminate.

Furthermore, in larger transactions, the seller is often a private equity–sponsored entity exiting to another, perhaps larger, private equity firm, or a strategic buyer. In the search fund world, the seller is universally the principal owner who is selling the business, usually for a lifestyle reason (retirement, relocation, illness, or fatigue) as compared to a seller in a larger context who is often catalyzed by fund life dynamics and prescribed ownership periods. Search fund sellers can be passionate and emotional as first-time sellers, while sellers in larger deals are often polished and experienced professionals who have bought and sold businesses endless times, resulting in a highly choreographed process with well-defined norms and expectations.

Finally, in a search transaction, the due diligence process is very relationship- and trust-driven, and it is primarily conducted directly between the seller (i.e., CEO) and the buyer (i.e., search fund entrepreneur), with limited utilization of third-party specialists. As the search fund entrepreneur plans to take over the operations of the business, the seller is focused on getting to know them (and their spouse, if applicable) personally to understand if the company and employees will be properly taken care of. Larger transactions are typically more data- and information-driven, with several third-party specialists involved. In terms of the timeline of due diligence, it is common for search entrepreneurs to experience a six-to-nine-month diligence process where it may feel like they are the only one pushing the transaction along. Conversely, larger transaction processes are more complex, working off a detailed diligence schedule with multiple professional parties highly incented to drive the process along constantly.

For more information on the due diligence process, please see our case note On the Nature of Due Diligence in a Search Fund Acquisition: A primer exploring the action steps necessary for a successful due diligence program.

Figure 3: Traditional transaction dynamics versus search fund transaction dynamics

	Traditional Transactions	Search Fund Transactions
Objective of the fund	Build a portfolio with multiple operating company CEOs	Single acquisition with searcher ascending to CEO
Type of seller	Entrepreneur or financial sponsor	Retiring founder lacking clear succession path
Understanding funding sources	High since buyer is likely private equity or a corporation	Low since funding source is not well known
Importance of valuation to transaction	Valuation is the tantamount consideration	Valuation is a gating factor that needs to be fair
Structure of due diligence process	Many deal professionals engaged in a highly choreographed process	Relationship between buyer and seller is central in a more fluid process
Timeline and pace of diligence	Brisk with multiple professional team targeting a 90-day close	Diligence can meander for six to nine months
Deal structure	Typically a stock sale with some equity rollover	Typically an asset sale with a seller note

What sellers actually care about

Once a search fund entrepreneur understands that the search acquisition process will differ from previous professional experiences, they must appreciate what sellers prioritize in a transaction, specifically in the context of selling to a search fund. As a CEO, contemplating the sale of a business can be an enormous life decision involving many considerations. Such a sale can be a particularly large personal and professional event, especially if the CEO founded the business and considers it to be their life's work and vocational legacy. In these situations, the CEO has often run the business for 20–30 years and has a very close personal connection with employees, customers, and the community. In addition, they are often a first-time seller, which results in a great deal of uncertainty around the entire process.

Search fund entrepreneurs are also commonly first-timers, at least as individual acquirers. Accordingly, it is difficult for search entrepreneurs to know exactly how sellers prioritize various considerations. Additionally, while we believe there are some key themes across all sellers, each seller is, of course, idiosyncratic. We believe a general framework of common considerations can help search entrepreneurs better understand what sellers value and prioritize, but please keep in mind that the relative importance of each consideration will change with each seller. The goal is not to blindly give sellers these six items to get a deal done; rather, it is to understand the various items on a seller's mind and the levers available to search fund entrepreneurs to pull on to create a rewarding transaction for both parties.

Fair valuation. First and foremost, sellers want a fair price for their business. Typically, the top priority for sellers is *not* simply maximizing headline valuation, as it is in many other transactions. Rather, sellers want to receive a valuation that they are directionally comfortable with while gaining several other transaction and structure benefits, including those outlined below. In fact, many sellers turn down offers with materially higher valuations from strategic acquirers and financial buyers and instead elect to transact with a searcher. Part of this is driven by the seller's desire for the search fund entrepreneur to have the best chance of success as the steward of their business, which starts with paying a fair price and would be impaired by a large debt load resulting from too high a price. Given this dynamic, valuation acts more as a gating factor to sellers in search fund transactions than a key focus area throughout the process. Once a seller believes that the search fund entrepreneur will be fair in valuation, or once the potential buyer presents a valuation range consistent with the seller's view, the conversation's focus typically shifts dramatically toward other transaction priorities. Regarding what is fair, most sellers enter sale discussions with a pre-existing view on a valuation, whether based on comparable transactions in the industry or on a specific monetary desire for retirement. Ultimately, sellers desire to be comfortable with the valuation methodology and overall number and do not want to feel that they are being treated unfairly. Outside of the quantitative figure, the relationship and trust built throughout the preliminary stages of the process can help convince a seller that searchers are being fair in valuation discussions.

Shiva Nanda founded NCS Global, a provider of computer and information technology recycling and asset recovery services, in 1995. In 2018, he began to contemplate a sale of his business as the business required additional bandwidth and resources to expand into the next phase of growth, and he was nearing retirement age. Nanda received a lot of interest in his business and declined a larger offer (20 percent higher) from a private equity firm in favor of selling to Alex de Pfyffer and Ross Porter (both Harvard Business School 2015), two search fund entrepreneurs who run Heritage Holding.

I wanted a fair price for my business. Could I have squeezed more out of my buyers? Probably. But I was more focused on receiving a value that was fair to both sides. My success in selling this business is not determined only by this transaction. I believe it is determined more by the success of Alex and Ross with the go-forward entity. And, if they overpaid for the business at the outset, I would be diminishing the chance of their success.

These businesses are something the owners have created – it's almost like a child. When a kid eventually leaves the house, the parent–child relationship will change, but a parent will always continue to be interested in the child's life and success. I want to be able to come back and see that the company is still alive and thriving. I want the employees to continue to be successful and happy. Even after an owner leaves, the business is still theirs in some way and remains connected to them. I wanted to give Alex and Ross the best chance at achieving a good outcome over the long term.

I even deferred a portion of my proceeds so the business would take on less leverage. This gave the business more flexibility to grow and lowered the risk of the new owners as they got acquainted with the company. I would 100 percent do the exact transaction again and prioritize non-monetary aspects; Alex and Ross have taken care of the business, and the company and employees are thriving now more than ever.

Minimal contingent considerations. As sellers in search fund transactions are typically interested in transitioning out of the business and using the proceeds toward retirement, it is important for them to receive a majority cash offer with minimal performance-based contingent considerations. This may not come as a large surprise for search fund entrepreneurs coming from professional transaction backgrounds – sellers nearly always prefer minimal contingent considerations. However, sellers are even more sensitive than normal to these structures in search fund transactions. Offers from strategic acquirers and financial buyers commonly include sizeable stock (versus cash) proceeds and performance-based earnouts, respectively. These structures are designed to have the seller share more of the risk with the buyer, a risk that can be difficult to tolerate as a retiring owner with a substantial portion of net worth tied up in the business. With that said, sellers are not completely opposed to sharing the risk. Most search fund deals include a seller note or have the seller agree to accept a portion of the purchase price in a series of deferred payments (including interest), worth 20–35 percent of the total transaction. However, payment of seller notes is not contingent on future growth and is typically guaranteed by the business or searcher. The seller note's purpose is consistent with that of seller rollover equity, as the seller will have an ongoing interest in the company's success and will be less likely to start a competing business, while the note carries a relatively small risk of non-payment for the seller given it is not contingent.

Rob Hunter founded HigherMe, a hiring software solution for restaurants, in 2014 after completing Y Combinator. After successfully establishing the business and achieving scale, he began evaluating a sale, as his core skillset was in zero-to-one founding, and he already had another startup he was working on. After turning down an offer from a strategic acquirer, Hunter sold to Elise Polezel (Harvard Business School 2020), a search fund entrepreneur, in 2021. Prior to HigherMe, Hunter had founded and owned other businesses, one of which fell apart after achieving some success. Accordingly, he understood the risk and volatility of equity and thus prioritized cash proceeds and a high degree of confidence in any deferred consideration.

> Because of my previous business experience and my planned transition out of the business, I heavily prioritized a majority cash offer with limited contingencies. I wanted to make sure that my employees, investors, and I received the proceeds and that there was limited risk associated with achieving the headline outcome. In general, I prioritized a 100 percent chance of receiving a fair price over a lower chance of receiving a greater value.
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> We had received an attractive valuation from a strategic acquirer a few months prior to being contacted by Elise, but the offer included a sizable portion of contingent consideration, including equity in the combined entity and an earnout. Because of this and other considerations, we elected to decline that offer.
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> Elise's offer was a similar overall valuation as the strategic acquirer but majority cash with a seller note and some equity, which was more enticing to us. For the seller note, I needed Elise to convince me that there was a near 100 percent chance of it being paid on the timeline discussed. Ultimately, with the help of the trust we had built during the transaction, Elise was able to assure me of the certainty of the seller note, and I believed in the health of the business going forward.

Assurance the business will continue as status quo. Post-transaction, sellers want their businesses to continue largely the same, but better. It is essential to them that their brand, culture, employees, customer relationships, and legacy remain intact. As many sellers have been running their businesses for multiple decades, they likely have developed very deep personal relationships with many people involved with the business. Selling to a strategic acquirer or financial buyer can result in the seller's company being integrated into a larger entity or becoming one of many assets in a portfolio. This can imply major changes to or elimination of key components of the business. Most importantly, this could mean layoffs of long-term employees who have been integral to the business's story and growth. It could also mean a decreased focus on the business's product or technology. Sellers often loathe an exit to a competitor with whom they viciously competed. Given the personal aspect of small business, the potential for this outcome is commonly a non-starter for sellers. Sellers want to ensure that their employees are taken care of, that their customers continue to receive the same great service, and that what they built continues to thrive. Even after their departure, they view their business as a personal reflection of their own character and legacy, and this is not to be taken lightly.

Bruce Vanderzyde founded Anterra Technology, a provider of cloud-based business intelligence for construction companies, real estate developments, and real estate owners, in 2008. He drove significant growth in the business and added additional capabilities for customers but reached a plateau. He knew there was tremendous opportunity ahead for the company, but his strengths were primarily in software development and tasks related to founding companies rather than scaling a company. Thus, Vanderzyde elected to evaluate a sale in 2021. He received two offers that included several contingencies and were not aligned well with the interests of all the key constituents of the business. Lori Harrington (Harvard Business School 2020) also placed an offer on the business – with no contingencies. Ultimately, Vanderzyde believed this offer was best for the business's continued success, completing the sale in 2022.

> I felt Lori's offer was better aligned with my business. My criteria for taking on additional investors included, first, is it positive for our customers? If it didn't make sense from the customer point of view, then it wouldn't work. It wouldn't be sustainable, and we would lose customers.
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> Second, is it positive for our staff? The other offers we received were very strategic, but you lose your roadmap when you merge into another software company. My employees would get new bosses and new ways of doing things – and that can work – but it is such a big change. Finally, from a staff point of view, keeping the company as-is and continuing to grow it means it is easier on the staff and they have more opportunity than they had before with new capital coming in. This allows them to expand within their current roles, which obviously can be a terrific opportunity.
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> Third, is it positive for me? When letting go of my company, I wanted it to continue to succeed and grow. I didn't want it to be folded into something else and get lost within a larger entity. When that happens, the technology can also get folded in and be gone as well. It would just become a cog in a larger machine, and I didn't want that to be my legacy.

Comfort with the buyer. Given the personal and professional magnitude of a transaction to a seller, it is especially important that they view the buyer as a worthy steward of the business. Sellers in search fund transactions commonly view their businesses like a child, and passing their child on to a new parent takes significant vetting. Sellers want to learn a wide variety of things about a searcher's character and personal and professional background. They want to understand the potential buyer's upbringing, family life, and motivations for becoming an entrepreneur. More simply, sellers often apply the likeability test to searchers. Having the searcher pass this test makes for an enjoyable transaction for the seller and gives them comfort in the searcher's ability to be likable with employees, customers, and capital holders. Understanding the character of a potential buyer helps the seller determine if they will be likely to uphold the brand's reputation and do right by the seller's employees and customers. Sellers also want to understand the searcher's skills and how these skills will help drive the business to the next level. These skills are often different from the skills of the seller (e.g., technical, sales), but they are the skills necessary to get the business through the next phase of growth (e.g., energy, capital efficiency and allocation, fundraising).

In 1977, David Dubbell became the owner and third president of a small, family-managed rabbit meat processor, Pel-Freez, which was started by his grandfather in 1911. His father had led the company forward to become a globally-recognized supplier of biological intermediates for use in medical research and diagnostic kit production. In the early 2010s, Dubbell was still managing the company but approaching retirement age, so he began evaluating a succession plan for the business. His assistant was in charge of screening inquiries, and she selected only those inquirers who knew significant company details and who provided verifiable financing sources. Brian Bonk (Massachusetts Institute of Technology Ph.D. 2017), a search fund entrepreneur, was one inquiry who made it past the first screening, showing persistence as he had contacted Dubbell a year prior when the business was not quite ready for sale. Bonk, who ultimately purchased Dubbell's company, stood out given his likeability, youthful energy, and long-term orientation.

> Throughout my career, I have sought out high-potential individuals that are young, are sharp, and have an intense interest in owning their own business. I have always been a great believer in emerging leaders and entrepreneurial spirit. So, when I was looking for someone to take over my business, I used the same criteria to determine who would be a suitable successor over the long term. In addition, I wanted a good cultural fit and a strong trust relationship with the buyer. From the onset, I found Brian to be very personable, easy to talk with, open with very direct questions, and was also open about his funding sources which were long-term oriented. This long-term view aligned with my desire to protect the company's employees, customers, and suppliers.
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> From there, I wanted to build a deeper relationship with Brian to ensure that this transaction would be meaningful to him, rather than just an assignment. Brian established his strong entrepreneurial interest in the business, sharing how he was thinking about various aspects of the business. He was very sharp, and because of his background, he was able to quickly understand the nuances of the biologicals part of the business. These actions enabled us to build a strong trust relationship. I began to realize that this wasn't a 'normal' short-term transaction and that my long-term goals for stakeholders would be addressed.
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> If there is one thing that would have provided more, and earlier, comfort and trust with regard to his financial backers, it would have been a face-to-face meeting with him and his investors. Fortunately, Brian and I had several face-to-face meetings and my strong trust with Brian ultimately led to my decision to sell my company to him. Brian, being fully committed, even moved to Arkansas before the final papers were signed at the start of the pandemic. How cool is that!

Transparent process. Sellers want a transparent acquisition process. As this is often the first time they are selling a business, sellers want to know exactly what to expect in the process, including a clear, realistic transaction timeline and diligence list. Sellers also want to understand what work will be required from them and their team throughout the process. In addition, it is important for search fund entrepreneurs to understand how early and specifically sellers want to discuss valuation. Some want a specific range or methodology in the first conversation, while others prefer to lead with relationship development. During diligence, sellers want to hear of any potential red flags as early as possible to ensure both parties can efficiently work through them. Essentially, sellers do not want to be surprised or blindsided. In terms of final documentation and post-transaction plans, many sellers operate under handshake deals and take buyers at their word, expecting that all cards are on the table and nothing is being hidden in official legal documentation. As transaction dynamics are expected to be understood person-to-person instead of heavily documented, it is important for the buyer to discuss exact plans and intentions for the business, as well as specific implications of deal terms, structuring, and process timing, to ensure no one is caught off guard post-transaction.

Mitch Stephens founded HRTMS (now JDXpert), a provider of H.R. software specializing in the automation and management of job descriptions, in 2008. He was an opportunistic seller who believed his business was the most valuable when he was enjoying it the most. He received several inquiries from financial buyers and strategic acquirers. These potential buyers tended to lead with financial questions to see if the company met basic parameters, but it was unclear what their long-term intentions were. Then, in 2020, Stephens was approached by Andrew Ellerhorst (Carnegie Mellon Tepper School of Business 2018), a search fund entrepreneur who was very open about his process and intentions for the business. Stephens and Ellerhorst completed a transaction later that year.

> Andrew was very transparent from the beginning. We originally believed that the logical buyer for the business was a strategic acquirer who understood software development and our specific product nuances. Andrew was candid about his strengths and weaknesses – he didn't claim to be a software expert. But he was straightforward, had excellent professional experience and credentials, and his willingness to take a risk to pursue a search fund showed extreme tenacity, which would be valuable as a CEO.
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> From the first conversation, Andrew explained to me the exact methodology he would use to value the business and even gave a tight range of likely valuation multiples. I had experienced processes previously where this was left ambiguous, and I was caught off guard after dedicating a lot of time and effort toward it. As a software business, this was especially important as Andrew immediately pointed to a revenue multiple (versus EBITDA multiple) and a fair range.
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> Another important aspect to me was the structure of the transaction and the ability of a buyer to pull together the funds. Andrew walked me through his funding sources and put forward a clear offer with the breakdown of process timing. We quickly agreed to these general parameters as the deal aligned with my desired structure. Andrew also stated his intentions for his role in the business as a day-to-day manager as well as my transition period responsibilities. While there were, of course, hurdles to jump over during the transaction, Andrew's transparency throughout the process helped us build a trusting relationship and avoided any potential blowups late in the game.

Clean transition. Typically, search fund transactions originate from a seller's desire to transition out of the business. The transition timeline differs across transactions from months to years. Regardless, the seller typically has an idea of their preferred timeline, and it is important for this to be well understood and agreed upon between buyer and seller to ensure expectations are aligned. Otherwise, a situation could arise months post-transaction where one party is dumbstruck by these plans coming about. It is important for buyers to describe the exact position and involvement that they will have in the go-forward business (i.e., day-to-day manager or higher-level advisor) and how this relates to the expectations of the seller and their transition out of the business. While expectations will be set, things may evolve post-transaction. In some situations, buyers and sellers may agree that the seller will remain on longer, likely because the seller is enjoying a similar level of influence on the business without the burdensome responsibility.

Ronnie Flax and his brother, Dr. John Flax, founded Precision Med, a supplier of high-quality human biological material for research, in 1996. After significant success over nearly 25 years, the Flax brothers were nearing retirement age and decided to hire an investment bank in early 2020 to market the business. They received interest from 15–20 parties across three categories: (1) public pharmaceutical strategic acquirers, (2) small biotech strategic acquirers, and (3) individual-financial buyers. They engaged and got close to a closing a transaction with a biotech strategic acquirer, but the COVID-19 pandemic caused that process to pause. In the meantime, Ronnie was approached by Eric Leach (Michigan Stephen M. Ross School of Business 2017) and Anthony Runco (Harvard Business School 2017), two search fund entrepreneurs. After getting to know Leach and Runco and the value proposition of a search fund acquirer, Flax turned down the large return offer from the biotech strategic and transacted with Leach and Runco in 2021.

> Apart from valuation, my top priorities were a smooth transition into retirement and ensuring my employees were in good hands. Selling to a strategic acquirer would allow me to smoothly transition out of the business but would not be a good transition for the rest of the business. A strategic acquirer would potentially just look to gain the assets of the business and ultimately shut it down, leaving our employees with a bad outcome. Many of our employees had been with the business for a very long time, and I wanted the transition to be smooth for them as well.
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> My brother and I felt that Eric and Anthony would take care of the business just as we had – we actually thought they would likely run it better, given their business training, energy, and financial acumen. During negotiations, we set out a clear six-month transition period, with the general plan for my brother and me to depart the business at that time. We all believed that this was an appropriate timeframe to ensure Eric and Anthony were set up for success and employees were comfortable with the new owners. Funny enough, we transacted over a year ago and continue to be involved in the business as we're enjoying the greater flexibility now that we have stepped back in terms of time commitment and what we get to focus on. With that said, we've successfully transitioned everything and can step out of the business whenever we feel it is appropriate.

How searchers can be a highly desirable solution for a specific subset of sellers

Convincing a business seller that a search fund entrepreneur can provide them with the above six priorities can seem like a tall task – and it is. However, there is fantastic news for search fund entrepreneurs: there is a subset of sellers for whom search entrepreneurs are a perfect candidate to partner with as they think about selling their business. Search fund entrepreneurs must be well-versed in the unique value proposition that they offer to sellers, given that they will frequently run into competition from financial buyers and strategic acquirers. During our interviews, sellers highlighted the following as what they most appreciated that a search fund could offer them. We think of these six dimensions as superpowers that search fund entrepreneurs possess in the hunt to acquire a desirable business.

An "I want to be you" buyer. It can be very flattering to a small business owner when a newly minted MBA graduate with a well-pedigreed professional background comes knocking on their door to buy their business. This is especially the case as the search fund entrepreneur is essentially messaging to the seller, "I want to be you." The seller is stepping out of their business shoes, and the search fund entrepreneur is eager to slip into them. The fact that the search fund entrepreneur has picked the seller's business as a top prospect to acquire shows a complete admiration of what the seller has put so much time and energy into building, a sentiment that a seller greatly appreciates. Other acquirers may treat the company as a portfolio asset, which does not carry the same sentiment for a seller. Further, during the transaction, financial buyers will likely point out many missteps that the seller has made and how they plan to run the business better than the seller has.

A buyer emotionally invested in one transaction. Search fund entrepreneurs are keenly focused on completing a single transaction with the goal of personally leading the business post-transaction. The search fund entrepreneur has typically made a large career change and taken a notable risk to make the acquisition, and their personal and professional livelihood rides on the transaction in many ways. Thus, they are significantly emotionally invested in the ongoing success of the company. This contrasts with other buyers where the seller's company will become part of a larger portfolio and may no longer have the level of attention it has historically received. Additionally, a financial buyer may primarily view the business as an asset to potentially buy and flip.

A patient buyer with a first-time seller. Business sellers in search fund transactions are often first-time sellers. Thus, the demands of a sale process can feel very overwhelming. As search fund entrepreneurs are often first-time buyers and are learning as they go, they feel similar personal uncertainty and stress at various times of the transaction. Due to the focus on the buyer–seller relationship and trust in search fund transactions, buyers often become close to sellers and are likely empathetic and nurturing to them as they work through the process. In contrast, financial buyers and strategic acquirers typically have well-developed acquisition teams and processes, sometimes working on several transactions simultaneously, and, accordingly, look to churn out transactions efficiently, which may allow for less patience with each individual seller.

Assurance that the company and legacy will remain intact. As the search fund entrepreneur will be intently focused on the company, they will build on the seller's legacy by running the business largely as-is and taking care of its employees, customers, and community. Small businesses can be very personal, and sellers who have had long-term relationships with their constituents may heavily prioritize ensuring that these individuals are taken care of appropriately. Conversely, a strategic acquirer may dissolve the company name, remove redundancies, move locations, or solely utilize the company's technology or assets. While this could result in a more positive financial outcome, it has negative personal implications for some sellers.

Bespoke transaction. Search fund entrepreneurs can construct a completely bespoke transaction for each specific seller. Because they are not representing established institutions – and the accompanying requirements and restrictions – search fund entrepreneurs have the flexibility to utilize creative terms and financial structures that specifically address the needs of the seller, whereas more institutional buyers typically have tighter protocols about how much they can deviate from traditional terms and structures. This can be highly valuable for sellers with unique needs and wants that are not conducive to a standard structure.

Flexible capital. Searchers' lack of committed capital, which is sometimes viewed as a negative, enables them to raise capital from the sources and with the terms that make sense for the specific transaction and business. Many times, small businesses have unique needs or greater risk profiles (for example, an exceptionally large customer) that would make fundraising from traditional debt and equity sources difficult. Searchers can navigate these unique circumstances more easily as they can raise capital to address the specific situation. Conversely, larger firms have existing investors, from which they have raised money based on an ideal transaction, and existing lenders, which may be more restrictive. Flexible capital could be highly valued for an unconventional company or transaction.

Not all of these superpowers are going to matter to each potential seller. Sellers to search fund entrepreneurs come in all shapes and sizes. The point is that there exist business sellers for whom search funds are a perfect option. Searchers should look out for signals that sellers prioritize some of the benefits that search fund entrepreneurs can bring to the table and emphasize them as differentiators vis-à-vis a competing acquirer.

Conclusion

Sourcing a transaction amongst a wealth of competition in the market can be very formidable for search fund entrepreneurs. Fortunately, there is a subset of sellers that has unique needs and that has historically struggled to find an adequate solution in the absence of search funds. As searchers are wading through the market of small business sellers, they should remember that this subset of sellers exists and keep in mind their top priorities in a transaction – fair valuation, minimal contingent considerations, assurance the business will continue as status quo, comfort with the buyer, a transparent process, and a clean transition. Searchers who come from a more traditional transaction background should be wary of relying too much on their experience and understand that these priorities may appear counterintuitive at first.

It is important for search fund entrepreneurs to understand that they are in an attractive position with a subset of sellers, as they possess six superpowers that they can offer to a seller in a transaction – an "I want to be you" buyer, a buyer who is emotionally invested in one transaction, a patient buyer with a first-time seller, assurance that the company and legacy will remain intact, a bespoke transaction, and flexible capital. A search fund entrepreneur's deep understanding of a seller's priorities, as well as their own superpowers, will significantly increase their ability to give a seller exactly what they want and more efficiently create a mutually rewarding situation.

Good luck on your search fund journey, and we hope you find the right subset of sellers that value your superpowers!

Exhibit 1: Search Fund Buyer Biographies

Brian Bonk is the president and CEO of Pel-Freez, LLC, which he acquired in 2020 through a single-sponsor search launched in 2017. Pel-Freez is a supplier of human and animal biological products to over 1,000 customers in 40 countries annually and is also the largest rabbit meat producer in the United States. Bonk holds a Ph.D. in Biological Engineering from MIT and a Bachelor of Science in Chemical Engineering from the University of Rhode Island. Bonk lives in Rogers, Arizona, with his black lab, Seven.

Alex de Pfyffer is a co-founder and managing partner of Heritage Holding, a Boston-based investment company focused on growing companies for the long run. De Pfyffer previously served as co-CEO of Maicom, a company that designs, builds, and maintains data transport infrastructure internationally. Prior to partnering with Ross Porter, de Pfyffer covered industrials as an analyst for Barclays' investment bank and then moved on to become an account manager covering global institutional clients. De Pfyffer holds a Master of Business Administration with honors from Harvard Business School and a Bachelor of Science in International Affairs from Georgetown University's School of Foreign Service.

Before becoming the CEO of JDXpert, **Andrew Ellerhorst** was the founder and managing partner of KeelBoat Capital, an investment entity formed for the sole purpose of finding and investing in one great company. Prior to KeelBoat, Ellerhorst worked for more than seven years at G.E. He held several roles across multiple functions (finance and product management), helping to deliver results in highly competitive markets. Ellerhorst holds a Bachelor of Science in Finance and a Bachelor of Arts in Philosophy from Boston College and a Master of Business Administration from Carnegie Mellon University. Ellerhorst and his wife Danielle live in Raleigh, North Carolina, with their two daughters.

Lori Harrington started her career as a process engineer for Chevron's Gulf of Mexico operations. During her time at Chevron, Harrington had the opportunity to work on several multi-billion dollar projects in a diverse number of roles that allowed her to build a strong skillset in operations, project management, and technology. Harrington holds a degree in Chemical Engineering from the University of Florida, where she graduated cum laude. She launched Diapente Capital in October 2020 after graduating from Harvard Business School in May of 2020 and acquired Anterra Technology in January of 2022.

Prior to joining PrecisionMed, **Eric Leach** spent a decade in finance at Goldman Sachs and J.P. Morgan. He advised management teams and boards of directors on strategic matters, capital structure, and mergers and acquisitions within the healthcare and technology industries. Leach holds a Master of Business Administration from the University of Michigan and a Bachelor of Science in Strategic Management from Brigham Young University. Leach is originally from Southern California and is an Eagle Scout. He has a passion for live music and all things surf- and ocean-related. Leach most values time with his family, and he and his wife are the proud parents of four young and very spirited children.

Elise Polezel was born and raised in Brazil. She emigrated to the U.S. at 19 and studied at Rutgers University, where she graduated summa cum laude. After graduation, Polezel worked in the Mergers & Acquisitions Group at UBS Investment Bank and in the $14 billion flagship U.S. Buyout Fund at The Carlyle Group. In 2014, she co-founded a food technology startup, which she ran for five years before completing her Master of Business Administration at Harvard Business School in May 2020. She launched her search fund Copper John Partners after graduation and closed on the acquisition of HigherMe in June 2021.

Ross Porter is a co-founder and managing partner of Heritage Holding, a Boston-based investment company focused on growing companies for the long run. Porter previously served as co-CEO of Maicom, a company that designs, builds, and maintains data transport infrastructure internationally. Prior to partnering with Alex de Pfyffer, Porter founded Embrace Hearing, a hearing aid distribution company making hearing aids more affordable and accessible. Porter started his career optimizing operations at several high-tech manufacturing companies in Silicon Valley, including a thin-film solar manufacturer and an electric vehicle startup. Porter holds a Master of Business Administration from Harvard Business School. He also has a Bachelor of Science and a Master of Science in Mechanical Engineering from Stanford University, where he also played on the varsity soccer team.

Prior to joining PrecisionMed, **Anthony Runco** served in the United States Air Force through the rank of captain. He has led diverse teams to execute high-pressure missions to improve our military readiness. Runco holds a Master of Business Administration from Harvard Business School, a Master of Science from the Air Force Institute of Technology, and a Bachelor of Science from Yale University. He is a licensed professional engineer. An Eagle Scout and the proud son of a career NYPD police officer and an NYPD nurse, Runco was raised in a blue-collar town on the South Shore of Long Island, NY. He recalls 9/11 well. In the aftermath of the tragedy, he witnessed his community come together under the leadership of local business owners, who provided desperately needed goods and services. He has sought to emulate this dedication to community in his own life. To Runco, friends are family, and family are friends.

Endnotes

[1] Adam Wilver is a case writer and Class of 2022 MIT Sloan MBA candidate. He also serves as Co-Owner, President, and CEO of a Smash My Trash franchise, which he acquired while pursuing his MBA.

[2] A. J. Wasserstein is the Eugene F. Williams, Jr. Lecturer in the Practice of Management at the Yale School of Management.

[3] Kelly, Peter, and Heston, Sara. 2020 Search Fund Study Selected Observations. Stanford University Graduate School of Business. Case E-726.