

Entrepreneurship Through Acquisition (ETA)

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My Journey



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NETWORK BLUE



OrthoSupply



AGENDA

1 Overview of Entrepreneurship Through Acquisition

2 Models & ETA at Babson

3 ETA in International Markets

A silhouette of a person with long hair, seen from the side, with their right arm raised and fist clenched. The background is a warm, orange-hued sunset or sunrise with a bright sun visible in the lower right. The overall mood is one of inspiration and determination.

WHAT DOES IT MEAN TO
BE **ENTREPRENEURIAL**?

“Entrepreneurial” is a way of thinking, acting, and being that combines the ability to **find** or create new opportunities with the courage to act on them.

Neck, Neck, Murray (2020) *Entrepreneurship: The Practice & Mindset* (2nd ed). Sage.





ENTREPRENEURSHIP THROUGH ACQUISITION CLUB

A path to becoming an entrepreneur by buying and growing an established small business.



ETA vs. Starting A Business

Comparison Point	Buy a Business (ETA)	Start a Business
Speed	Revenue Day 1	12–24 months to get traction
Risk	Historical performance, customers, vendors & CF	High failure rate, unproven idea
Financing	Bank loans, seller notes, investor capital	Often bootstrapped or reliant on VC/Angel
Operations	Existing systems, staff, and product or service	Must build team, ops, and product from zero
Culture	Inherit culture	Create own culture
Upside	Stable growth path	High upside if it works, but risky

ETA vs. Traditional Career

 **UNCERTAINTY**

 **CONTROL**

 **INDEPENDENCE**

 **REWARDS**

 **EQUITY**

 **ACCOUNTABILITY**

Models of ETA



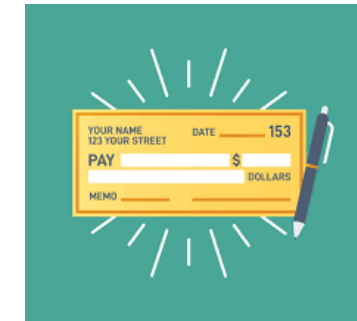
Self-Fund

- Use own \$\$\$ to fund search (savings, mortgages, F&F)
- Raise debt and/or acquisition equity
- More equity (30-100%)
- More control
- Lifestyle business?



Traditional (Search Fund)

- Raise search capital from outside investors
- Search for & acquire co.
- Manage & grow co.
- Exit when time is right
- Larger deals
- Equity 25-30%
- Standard deal terms
- Many masters



Sponsored / Accelerator

- Single source of funds (PE, family office(s), or HNWI)
- Committed capital
- Cohort
- Mentorship
- Less lonely
- Equity \leq 25%
- Single master

Self-Funded Search Examples

Chirag Shah MBA '16



SIT MEANS SIT
DOG TRAINING

Robbie Rapson MBA '22



GOLD COAST
PROPERTY MAINTENANCE LLC

Nick Balster MBA '13



Custom Electric
& COMMUNICATIONS

Don Gourley MBA '14



Boston Tree
Preservation

Will Gray '20



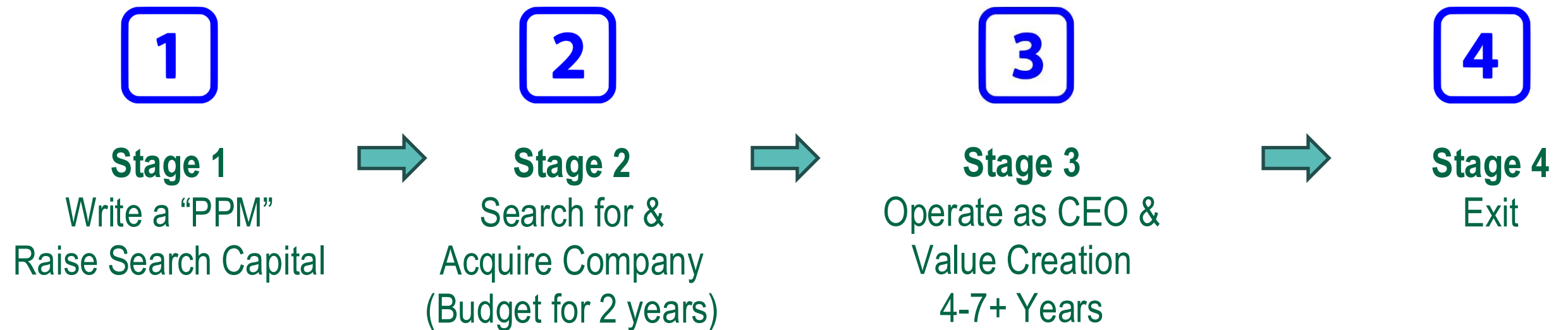
CertaPro Painters®
★★★★★

David Owoyemi MBA '23



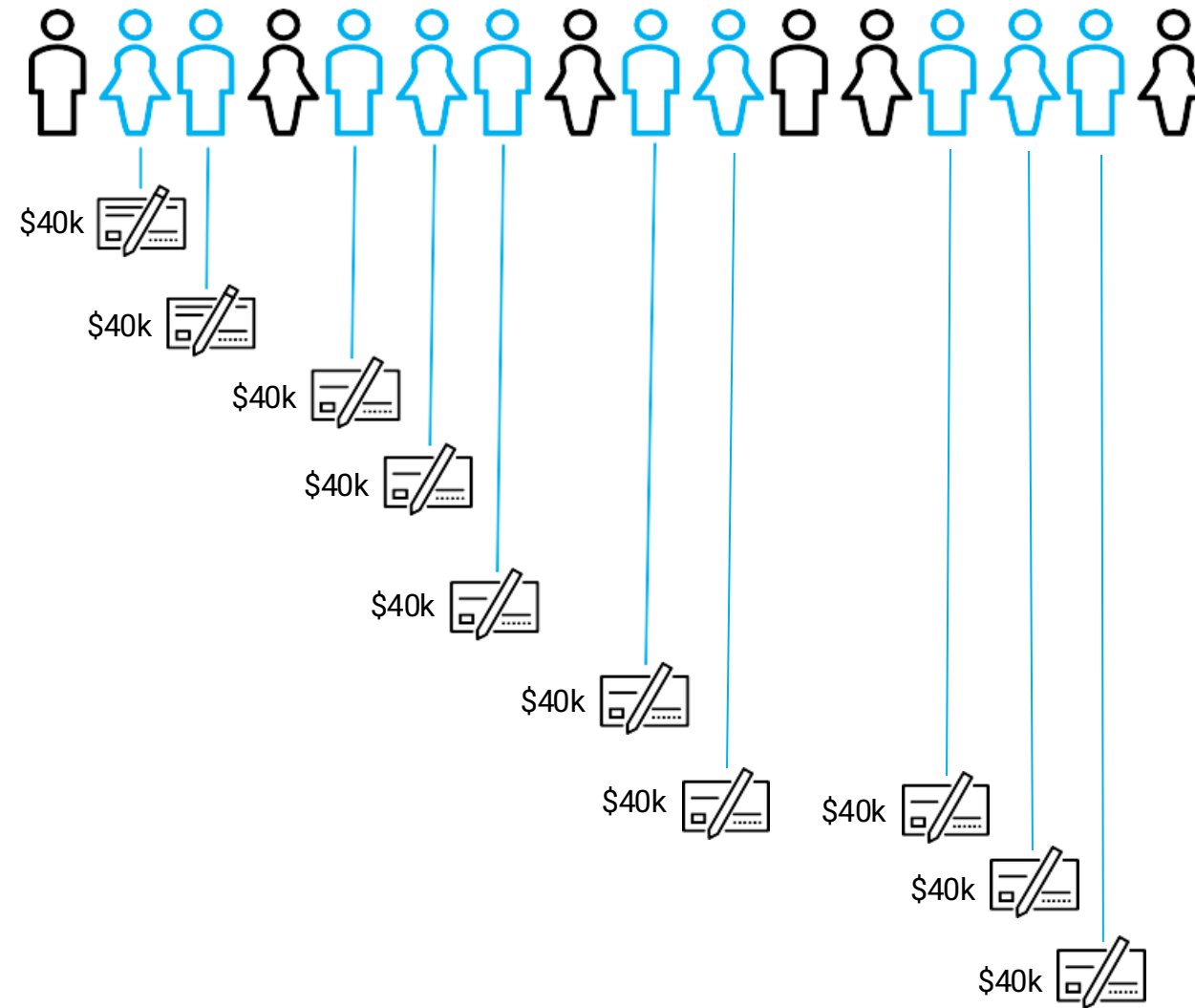
DLTC
Landscape Contractors

“Search Fund” Journey (Traditional Search)



The Search “Fund”

Searcher calls on 16 investors / 10 agree to purchase 1 Unit for \$40k each / Searcher has \$400k to fund operations for 2 years




Sources

- High net-worth individuals
- Private Equity (search)
- Family Offices

Uses

- Salary
- Small office
- Marketing
- Software
- Travel
- Professional Services

Search Fund Economics

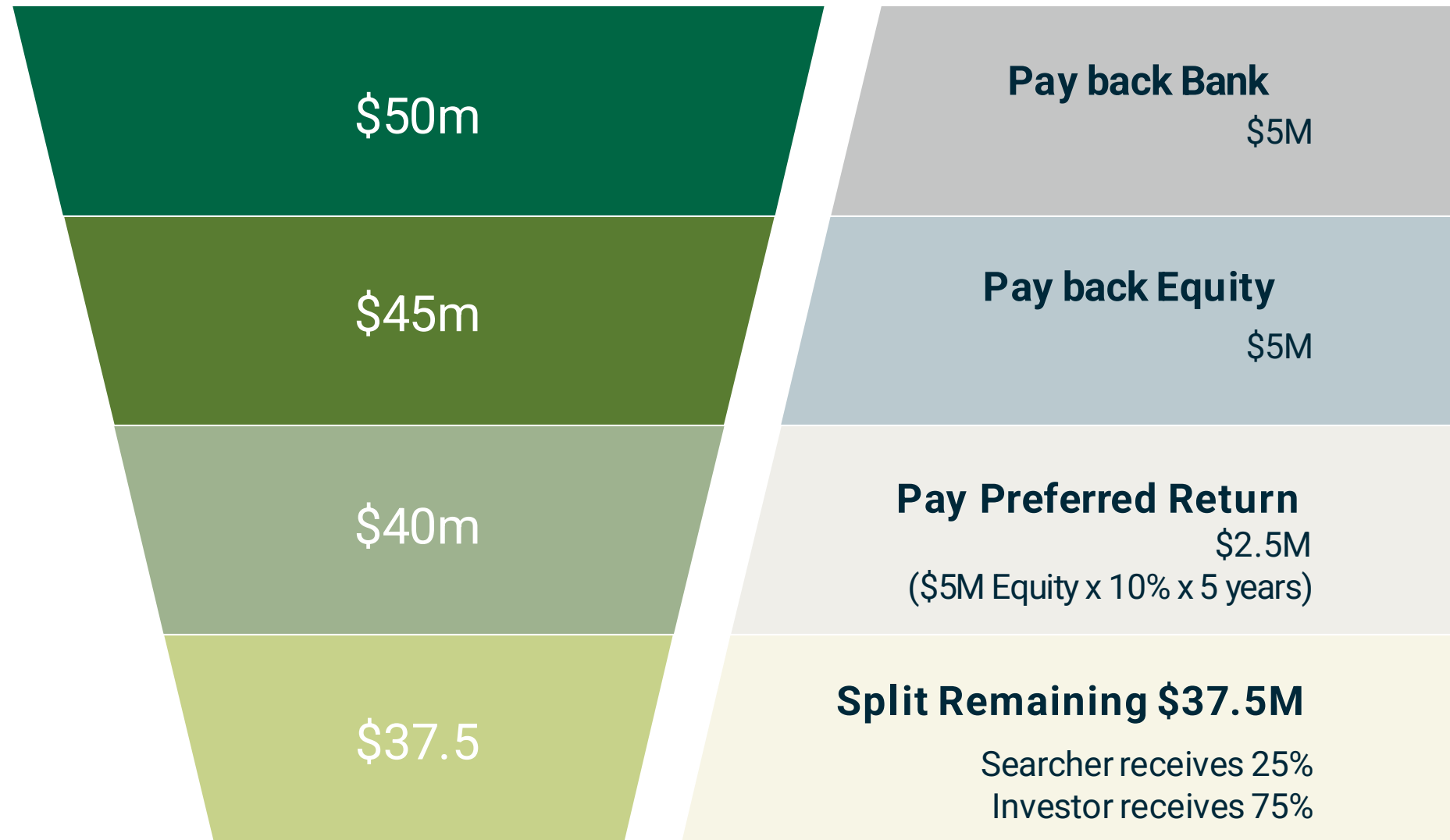
Investor	Searcher  CEO
<ul style="list-style-type: none">• Receives pro-rata follow-on right (≠ obligation)• Stepped-up conversion of search capital @ 50% premium<ul style="list-style-type: none">• \$50K search investment = \$75K• Preferred Stock<ul style="list-style-type: none">• Investors get paid first• Coupon 5-8% before searcher gets paid (compounded) <p><i>After finding target, searcher raises money from investor base and lenders to purchase the company from the founder</i></p>	<ul style="list-style-type: none">• Acquires 20 to 30% equity in a business<ul style="list-style-type: none">• 1/3 - Acquisition of company• 1/3 - Time (4-5-year vesting schedule)• 1/3 - Performance benchmarks (20-30% IRR)

Search Fund Waterfall

Assumptions

- **Capital Structure**
 - Searcher: 25% Equity
 - Investor: 10% Average Annual Preferred Return (no step-up and no compounding coupon)
- **Buys Company for \$10m**
 - Bank loan: \$5M (interest only)
 - Equity: \$5M from investors
- **Sells Company for \$50M in Year 5**

Searcher earns \$9.375m
(.25 equity x \$37.5M remaining)



Search Fund Examples



<https://acquiringminds.co/>

<https://podcasts.apple.com/us/podcasts/tthink-big-buy-small/id1751989991>

Sandy Paige MBA '02



Contract vivarium services

- Research animals
- Turnkey Labs
- \$295M Exit

Jonathan Bournigal '07



Javier Gavaldon & Emilio Ruiz MBAs '23



- Raised \$700K in search capital
- Mexican founders based in TX
- Searching for a Latino-owned business in US > \$2M EBITDA

Guillermo Zambrano MBA '12



Blake McLeod MBA '20



Henrique Duarte MBA '12



Sponsored Search (Accelerators)



NextGen
GROWTH PARTNERS

SFA SEARCH FUND **ACCELERATOR**



Thomas Campbell '08



NOVASTONE
CAPITAL
ADVISORS



Adam Salmen MBA '10



Carlos Laconi MBA '17



Shaun Stimpson MBA '12



Robert Wolf

<https://www.northironholdings.com/>



- ~3x Bank
- ~1.25x Mezz
- ~0.75x Stock

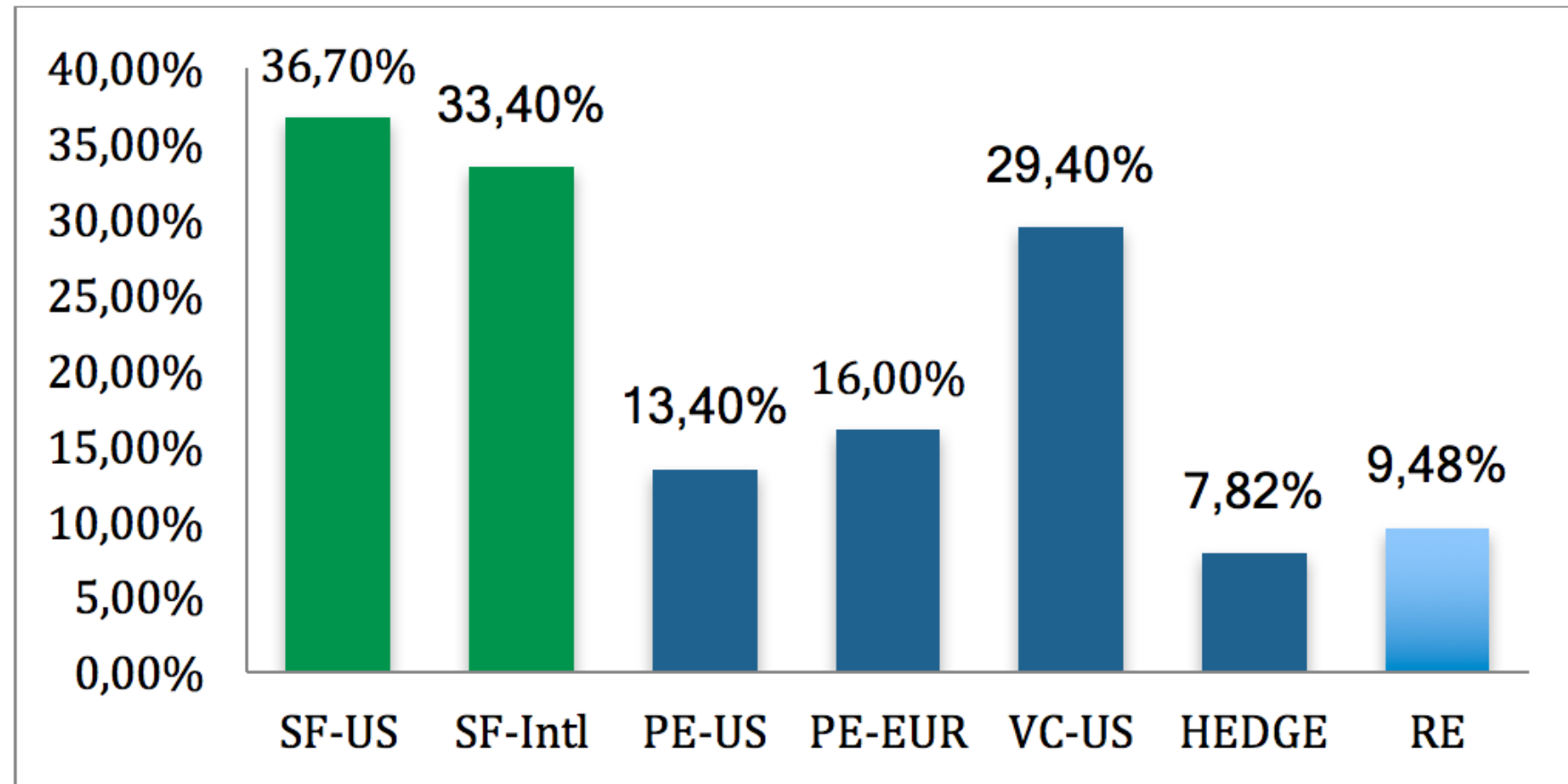


- ~3.5x Equity
- ~2.5x Bank (Term & LOC)
- ~1x Mezzanine



- ~5x Equity
- ~0.8x Mezzanine
- ~0.4x LOC
- ~0.5x Seller

IRR Search Funds and Alternative Investments



Source: Bain & Co, Cambridge Associates, Credit Suisse, IESE SFC and Stanford CES



Poll: What is Driving Search Fund Returns?

- A. Availability of low-cost debt
- B. Availability of seller financing
- C. Power of equity
- D. Fewer potential buyers for small businesses
- E. Aging population of business owners

All the Above!

Power of Equity & Magic of Debt



And.....

- “The Silver Tsunami”
- Fewer options for small business owners ➡ lower entry costs



Common ETA Industries

Characteristics of Target Businesses

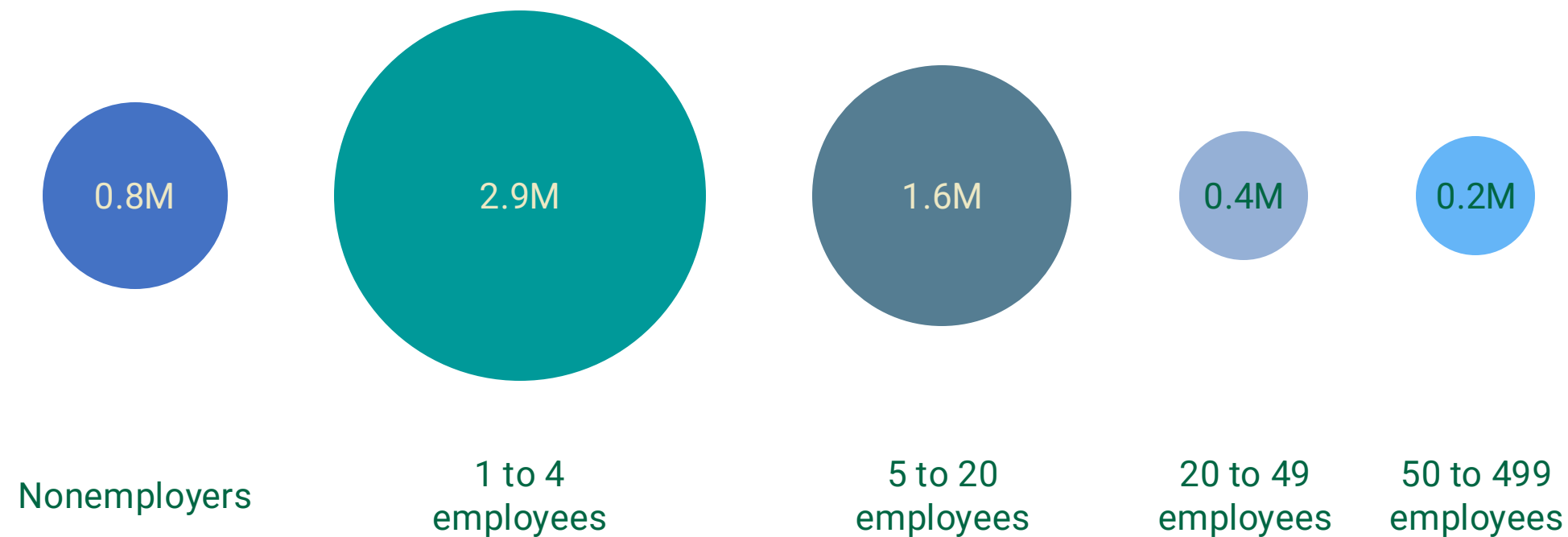
Financial Characteristics

Revenue	\$3M - \$25M+
	Recurring, predictable revenue <ul style="list-style-type: none">• Subscription• Contract• Repeat Customers
Cash Flow	\$500K - \$3M+
	Low maintenance CAPEX and working capital requirements

Market Dynamics

Industry	Stable, non-volatile industries
Market	Growing, but fragmented
Profitability	Enduring
Seller Profile	Owner is not substantially involved and motivated to sell
Management	Experienced middle management team

6,000,000 SMEs in U.S.



SMBs employ nearly half the American workforce and represent 43.5% of America's GDP

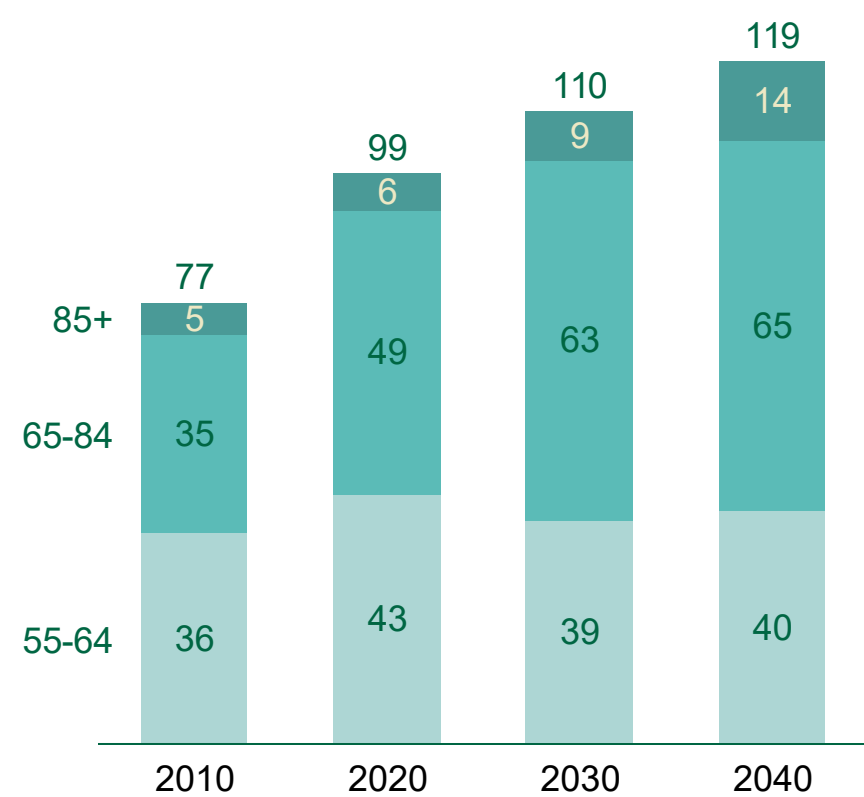
Source: U.S. Census Bureau, Annual Business Survey (2021)
U.S. Chamber of Commerce May 2024

Note: The SBA defines a small business as one with less than 500 employees

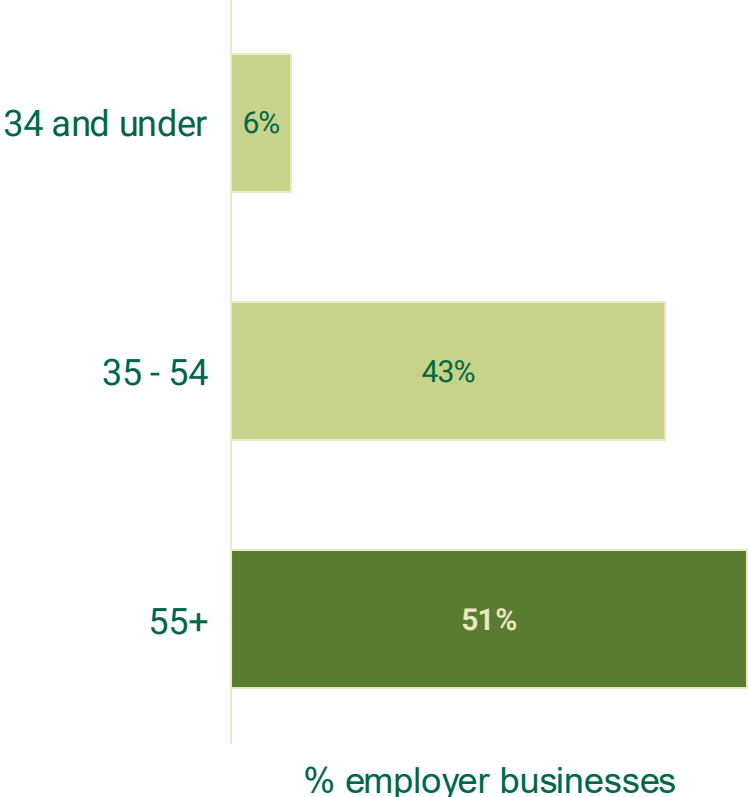
Greatest Wealth Transfer in History

As the 55+ population grows, owning 51% of U.S. employer businesses, a business closure crisis looms, creating opportunities for business ownership transfers

Number of Older Americans (millions)



Business Owners' Ages (% employer businesses)



Business Closure Challenges

Succession Planning

58%

of business owners have no transition or succession plan

Ownership Transition

60%

Of business owners plan to sell in the next decade

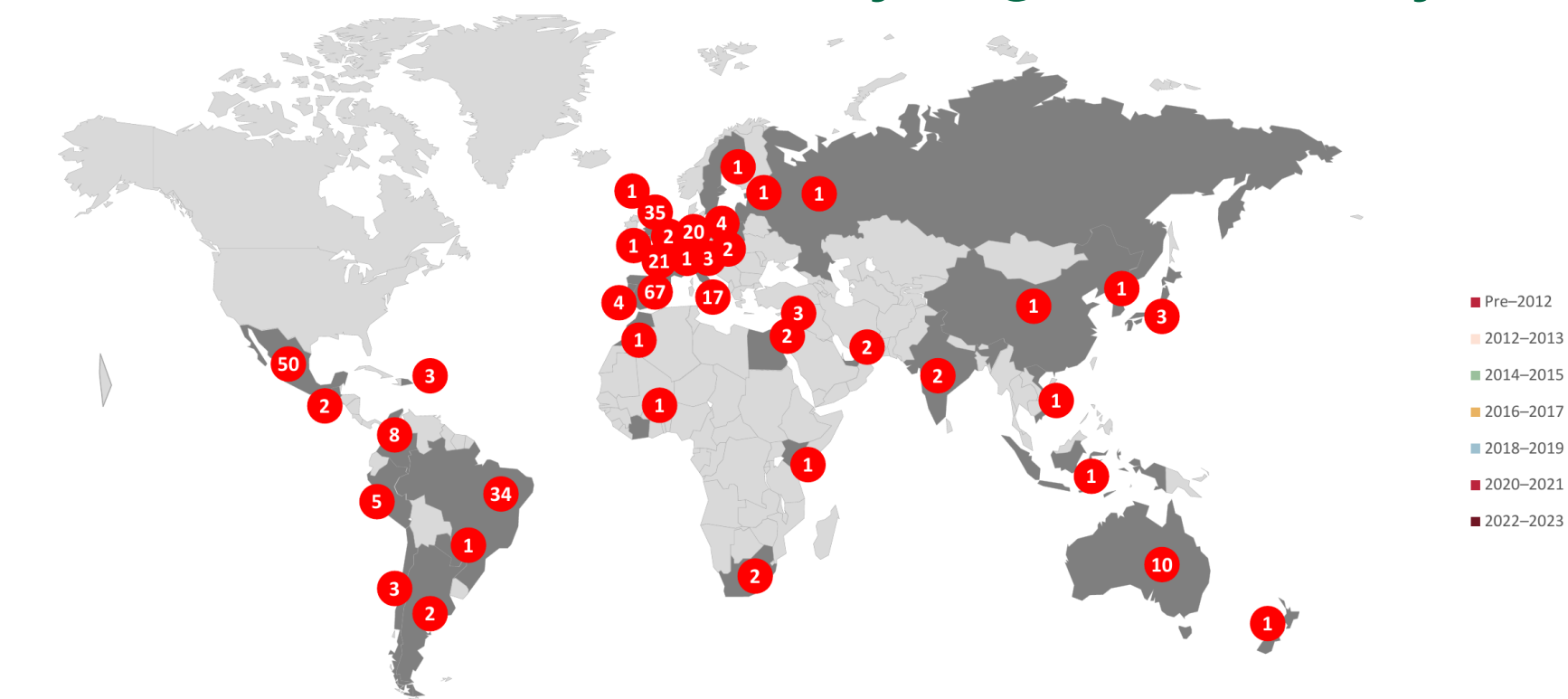
Challenges Finding Buyers

1 of 3

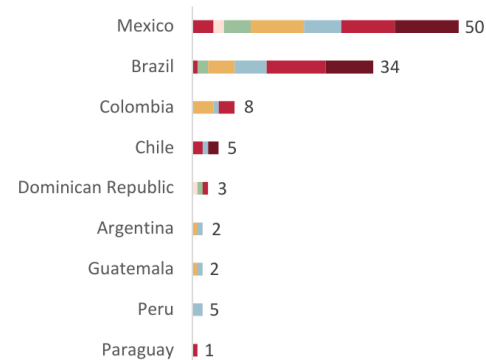
Business owners over 50 have a hard time finding a buyer

Source: U.S. Census Bureau Demographic Profile (2020), U.S. Census Bureau Population Estimates (2022); Project Equity; Nationwide

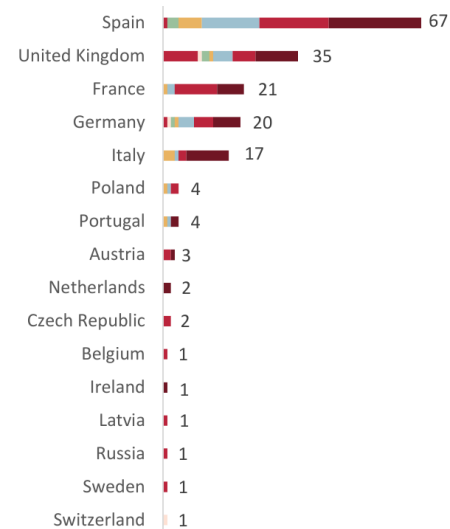
International Search Funds by region, country and year of formation



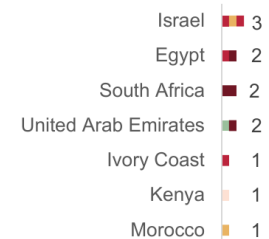
Latin America



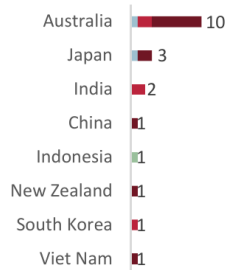
Europe



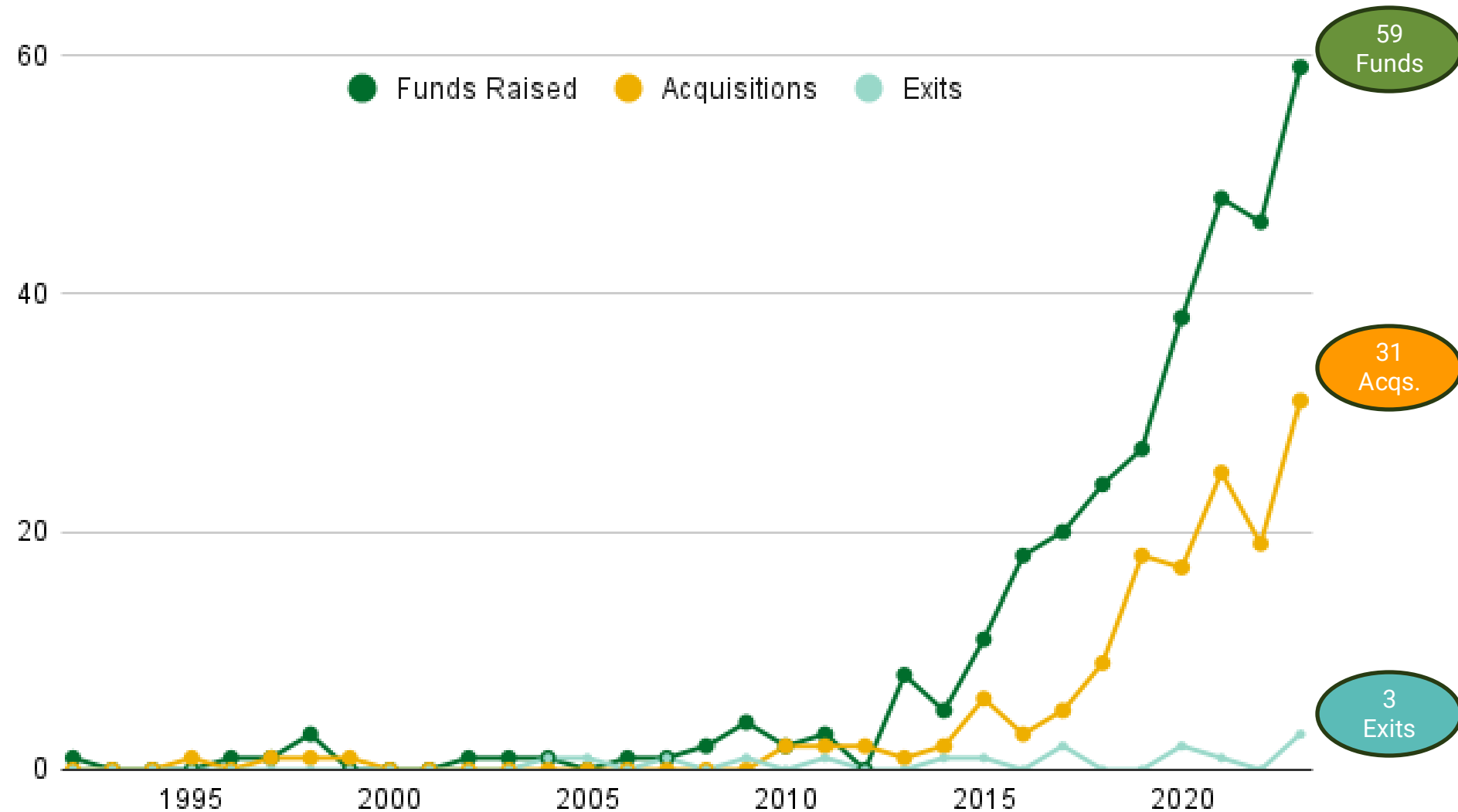
Middle East & Africa



Asia-Pacific



International Search Fund Activity



Data source: IESE 2024 Search Fund Study

Other Examples of International Search Activity



Anderson Gav - Farm in Paraguay



1st SF Uruguay



Gautemala PE



Edmund Hussein - UAE



Ghassan Ayidh - Saudi



Sibusiso Mbonambi – South Africa



Southeast Asia (incl. Thailand)



<https://www.horizonsearch.co/post/establishing-china-s-first-search-fund-with-xue-lin>



Rob Gaunt - Australia

Region

Europe

LATAM

Asia-Pacific

Middle East

Africa

Key Highlights

59 new funds & 31 acquisitions in 2023; 320+ total funds by end-2023

Leading international region outside North America; sustained activity

First funds in China, Vietnam, Japan, NZ; Australia has 2+ closed deals

Early growth; 3+ funds recently launched in UAE & Saudi Arabia

Just emerging; early activity in South Africa & Nigeria



PETERSON PARTNERS



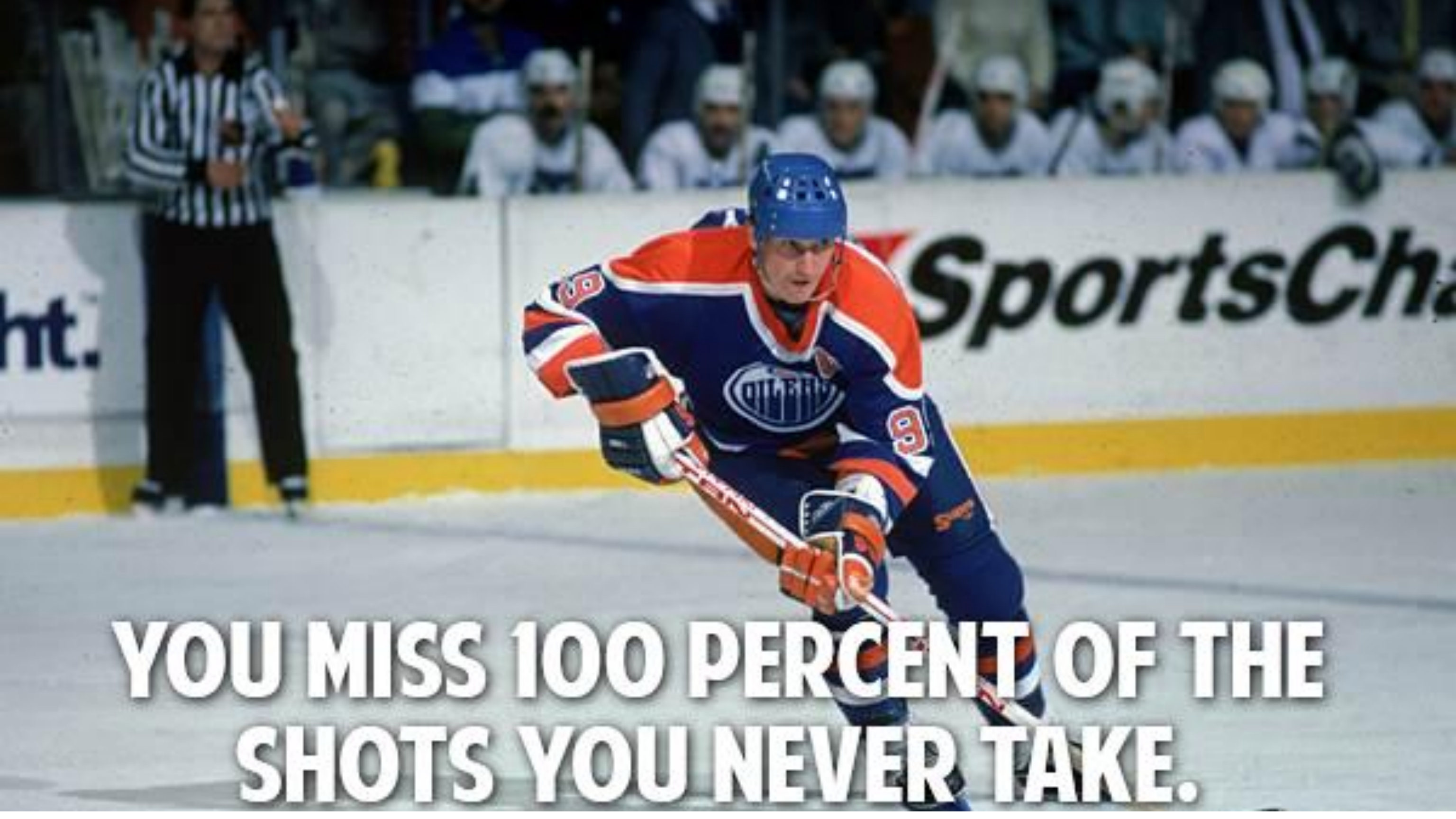


Some Cool Tools



Should You Buy (or Invest in) a Small Business?





**YOU MISS 100 PERCENT OF THE
SHOTS YOU NEVER TAKE.**

Thank You!

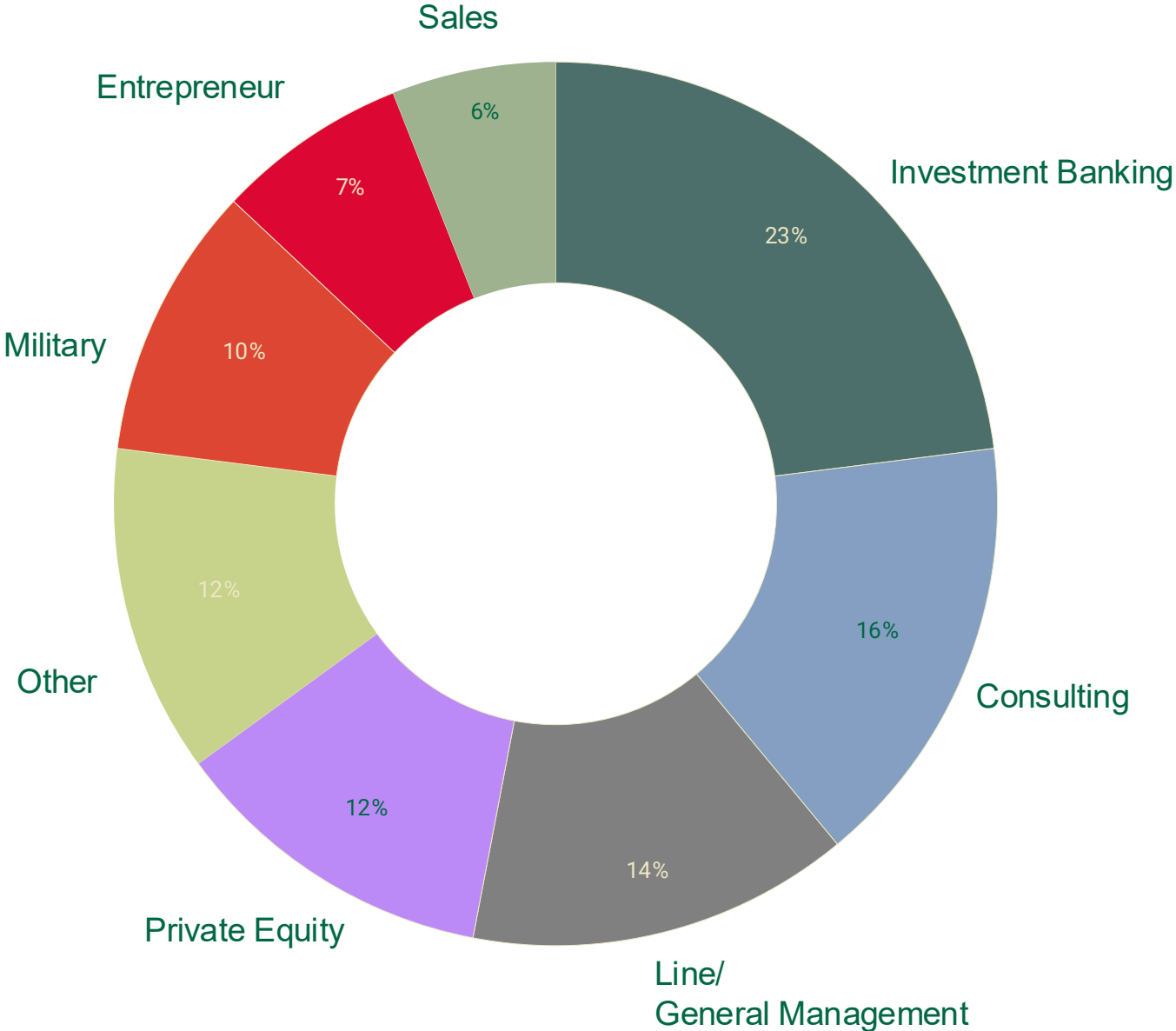
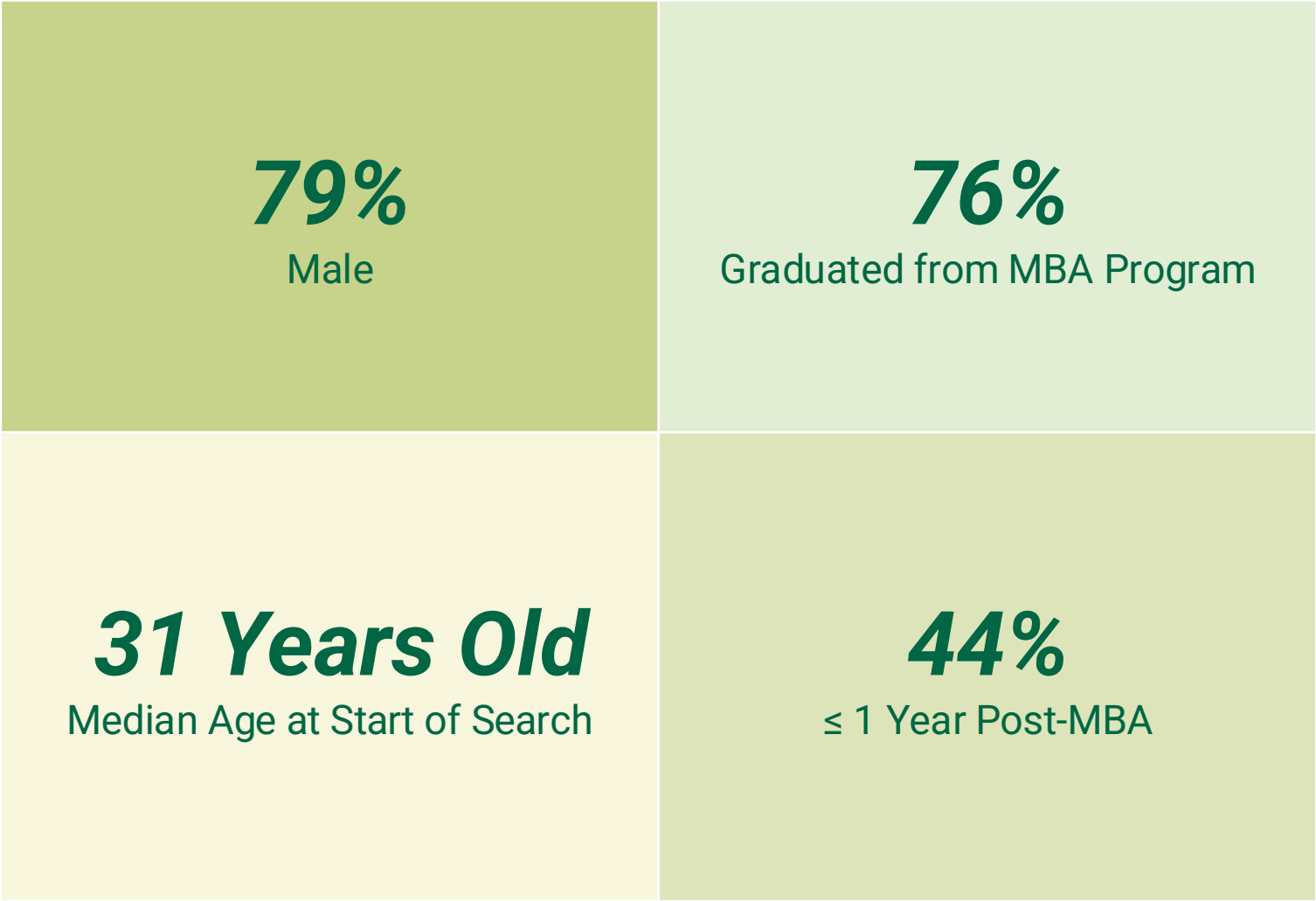
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A photograph of a red brick wall with the words "BABSON" and "COLLEGE" in large, white, serif capital letters. The wall is topped with a decorative brick cornice. In the background, there are trees with yellow and orange autumn leaves against a clear blue sky. The left side of the image is faded into white.

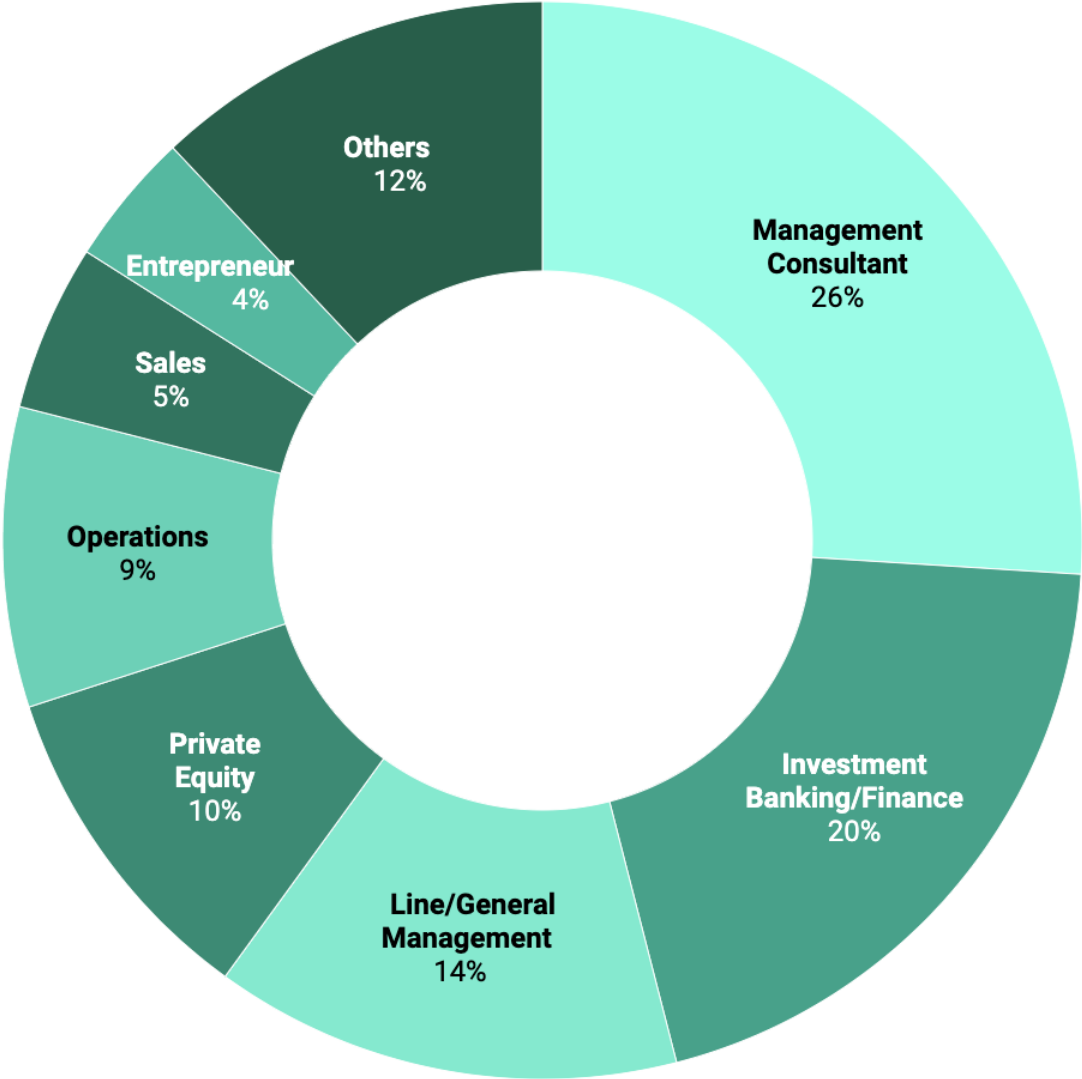
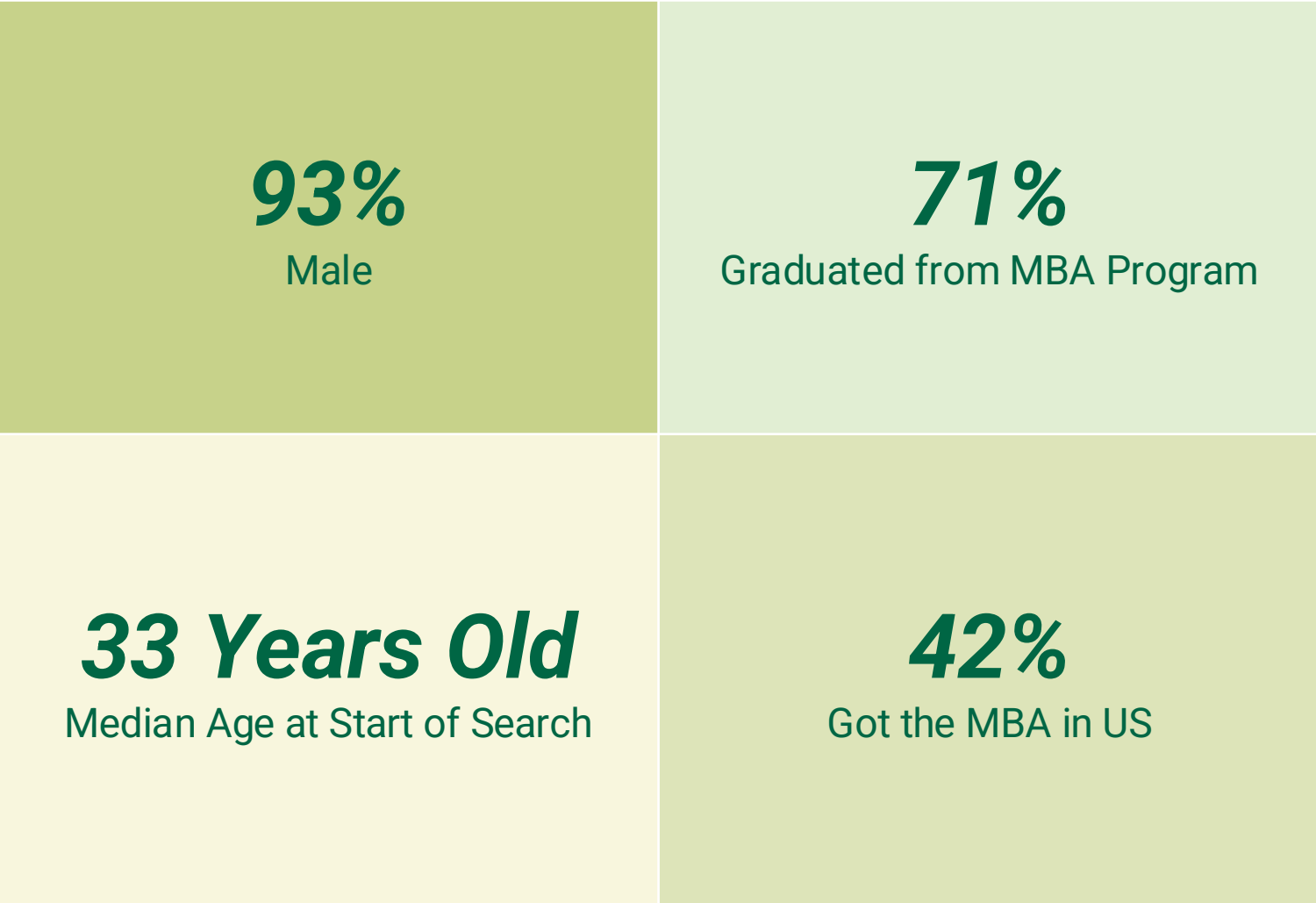
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Characteristics of North American Search Entrepreneurs



Characteristics of Int'l Search Entrepreneurs

Professional Background





ETA vs. Traditional Career



Comparison Point	Buy a Business (ETA)	Traditional Career
Equity* ➡	Build meaningful ownership ➡	Salary and bonus, equity more limited
Control* ➡	Be Your Own Boss ➡	Hierarchy and oversight
Training	On-the-job training	Structured training programs
Independence* ➡	Freedom to shape strategy ➡	Follow organizational goals
Rewards* ➡	Directly see/benefit from good decisions ➡	Promotions/raises may lag performance
Salary	Lower	Steady paycheck
Search Process	Grueling and uncertain ➡	Employed
Risk	May not find a business to buy	Career path is more linear/stable
Support	Limited support/infrastructure	Established systems and teams
Uncertainty* ➡	Less data, higher uncertainty ➡	Defined roles and expectations
Accountability* ➡	It all depends on YOU! ➡	Team or department-level responsibility
Stakeholders	Answer to investors, lenders, customers	Answer to managers and customers



Startup
VS.
ETA



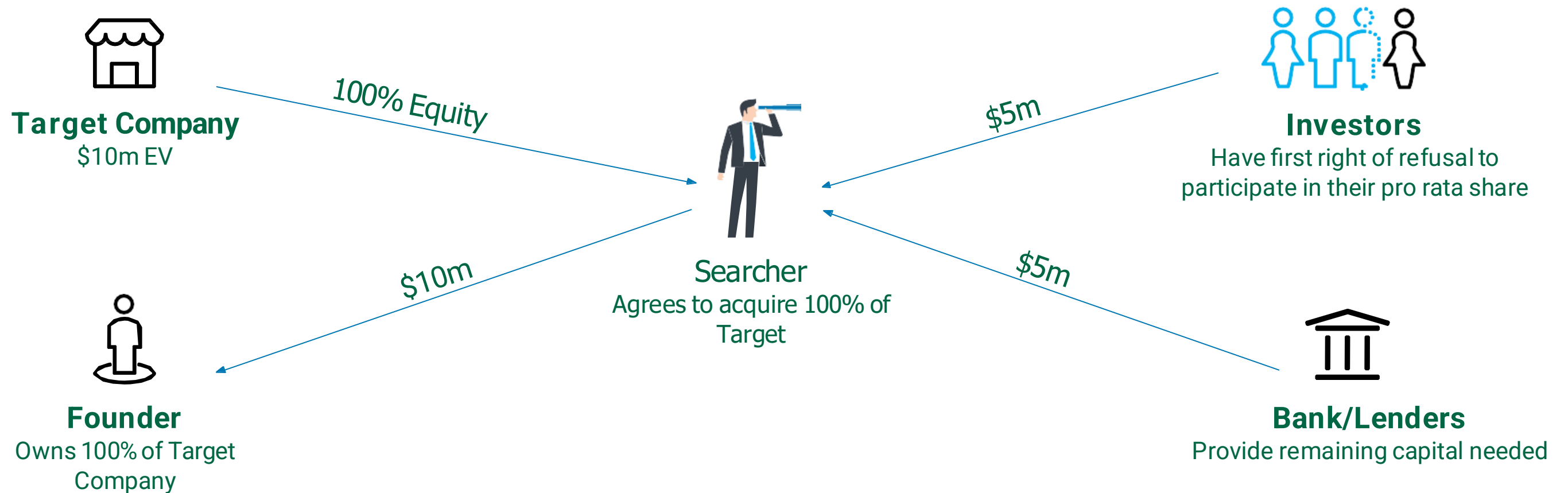
Traditional Career
VS.
ETA



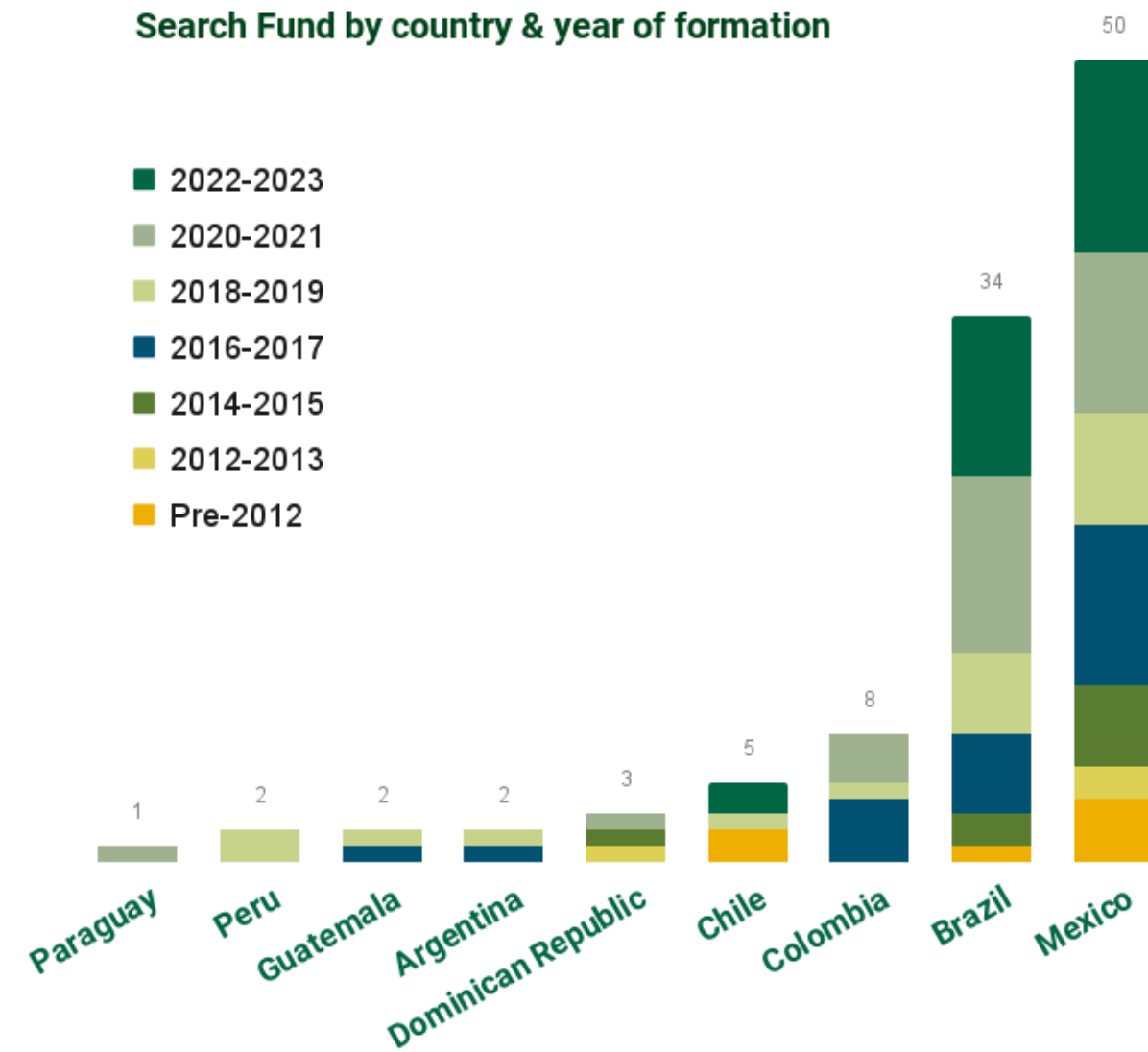
Partner
VS.
Solo



After finding target, searcher raises money from investor base and lenders to purchase the company from the founder



LATAM Search Funds



LATAM SF Acquisitions

