



GLOBAL OPERATOR-LED SEARCH FUND REPORT

by Novastone Capital Advisors (NCA)

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Intro

Dear Valued Reader,

We find ourselves at an exciting inflection point in the evolution of search funds as an asset class. The past year has witnessed unprecedented growth in both the number of search funds worldwide and their increasing recognition as a viable succession solution for middle-market businesses.

This report not only captures the current state of the search fund ecosystem but also highlights the transformative impact these investment vehicles have on preserving and growing family businesses while generating attractive returns for investors. We hope this compact analysis will serve as a valuable resource for both seasoned investors and those new to the Search Fund model.

Best Wishes,



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Executive Summary



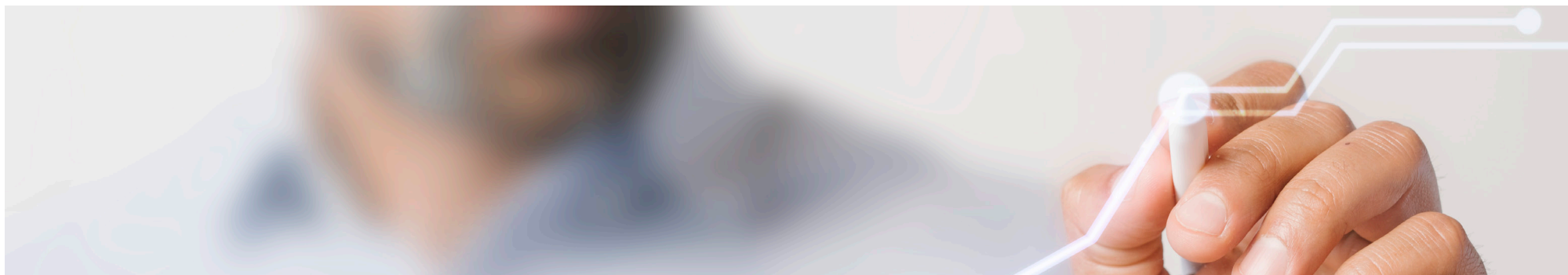
Search funds represent a unique investment model where entrepreneurial talent meets succession planning needs in the middle market. This operator-led acquisition approach has consistently demonstrated its ability to solve succession challenges while generating superior returns for investors. According to Stanford's latest data, search funds have delivered an aggregated ROI of around 4.5x and an IRR 35.1% for investors (depending on geography), outperforming traditional

private equity and public market returns¹.

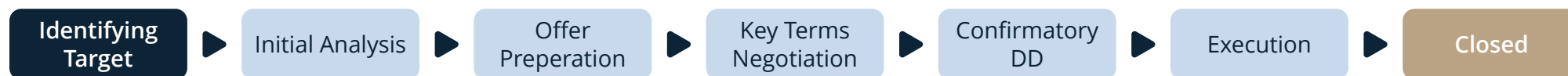
The model's success stems from its focus on value creation through hands-on leadership and operational improvements, rather than financial engineering. As demographic shifts accelerate the need for succession solutions, search funds are increasingly recognized as an attractive option for both business owners and investors.

¹ Heston, Kelly, "2024 Search Fund Study | Stanford Graduate School of Business."

What is a Search Fund?



Search funds represent a unique entrepreneurial path where talented operators, backed by experienced investors, acquire and grow established businesses. The operators can come from a wide variety of backgrounds and skillsets². The Search Fund model bridges the gap between traditional private equity and individual entrepreneurship, creating value through operational expertise rather than pure financial engineering. Investor awareness, Search attributes and the overall Processes diver greatly between geographies and regional characteristics have to be considered throughout the Search³. The target industries for a possible acquisition can diverse and operator background as well as financial attributes play a significant role. A median purchase price for acquired companies around \$14.4 with an EBITDA multiple of 7 was recorded for 94 Search Funds in the United States and Canada. With Industries ranging from Tech-enables Services to Education⁴. The typical stages of a Search Fund are as follows:



¹ Morrisette and Hines, "An Investor's Guide to Search Funds."

² Ener and Dávila, "What Makes Search Fund Entrepreneurship Different in Europe?"

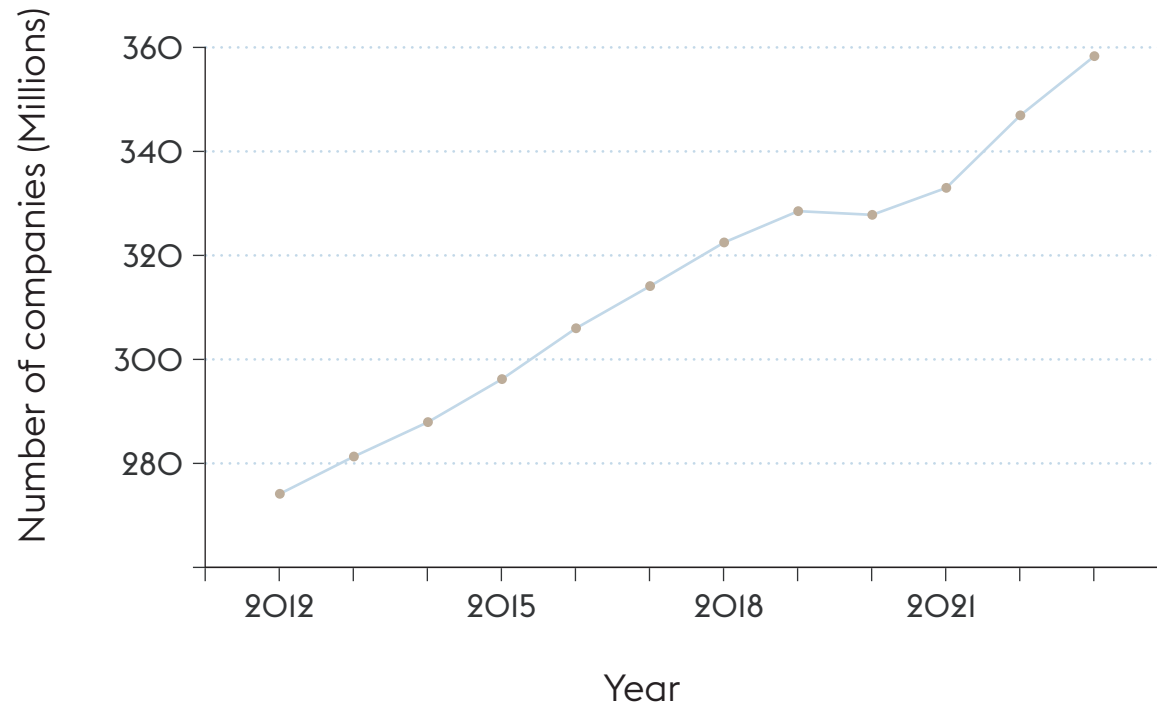
³ Heston, Kelly, "2024 Search Fund Study | Stanford Graduate School of Business."

What is a Search Fund?



SMEs Worldwide (2012-2023)

Estimated number of small and medium-sized enterprises



Source: Statista. (August 6, 2024). Estimated number of small and medium sized enterprises (SMEs) worldwide from 2000 to 2023 (in millions). Retrieved February 10, 2025

The search fund journey typically progresses through the shown distinct phases: initial fundraising for the search, company acquisition, operation and value creation, and finally, exit. Each stage requires different skills and presents unique challenges, making the selection of experienced operators crucial for success.

Asset Class Returns

Historical performance data from Stanford University's 2024 Search Fund Study demonstrates the model's compelling returns. Search Funds have delivered an aggregate ROI of 4.5x and an IRR of 35.1% for investments in North America outperforming typical public market returns⁵. Outside of North America, conclusions about asset class returns have been omitted due to the limited conclusive sample size, making it premature to draw reliable insights⁶. The overall Asset Class performance stems from the combination of reasonable purchase prices, operational improvements, and aligned incentives between operators and investors.

⁵ Heston, Kelly.

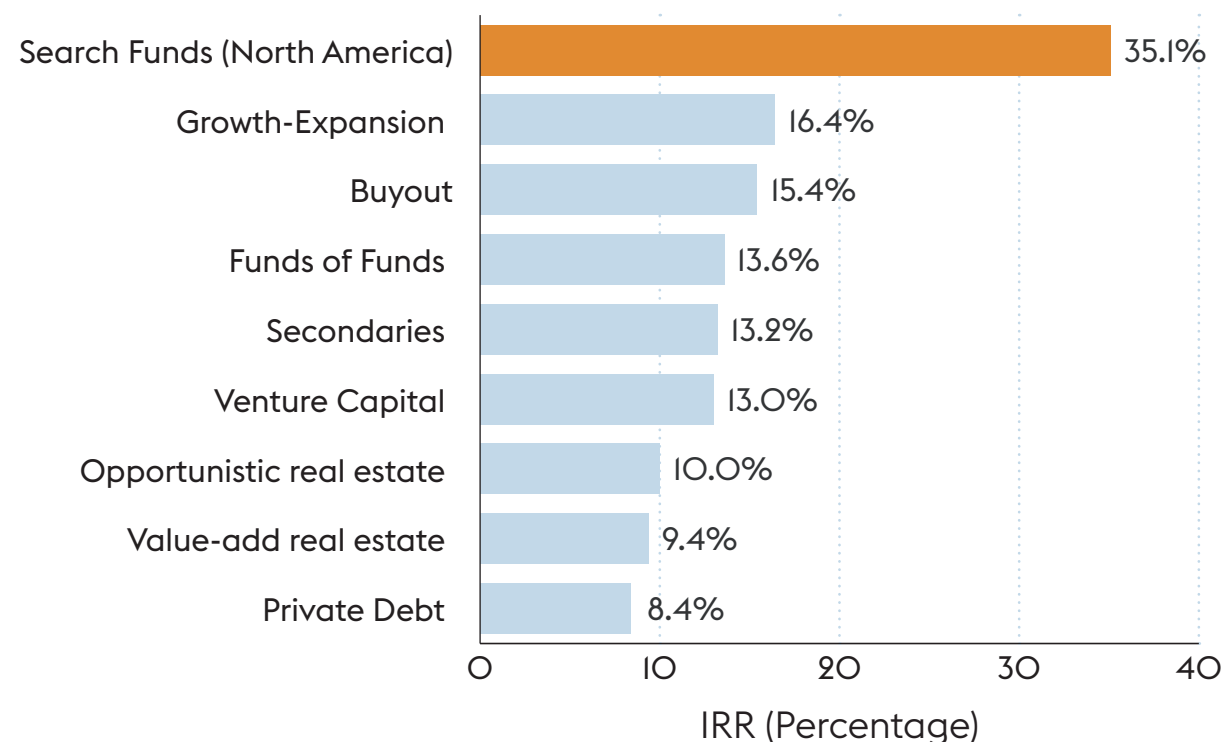
⁶ Kowalewski et al., "International Search Funds-2024 | Selected Observations."



Why are Search Funds Successful?

The success of search funds stems from their unique ability to address multiple market inefficiencies while creating value for all stakeholders. Owner demographics and Succession Process complications reflect a rising challenge in the lower-middle market. Only a low percentage of businesses manage successful succession in the family over multiple generations⁷, this fact combined with a rapid demographic shift in most of the Industrial Nations, makes the Search Fund a possible solution. With baby boomer business owners reaching retirement age, this trend will only accelerate. Search Funds primarily target the healthy and stable companies in this subset.

IRR Comparison



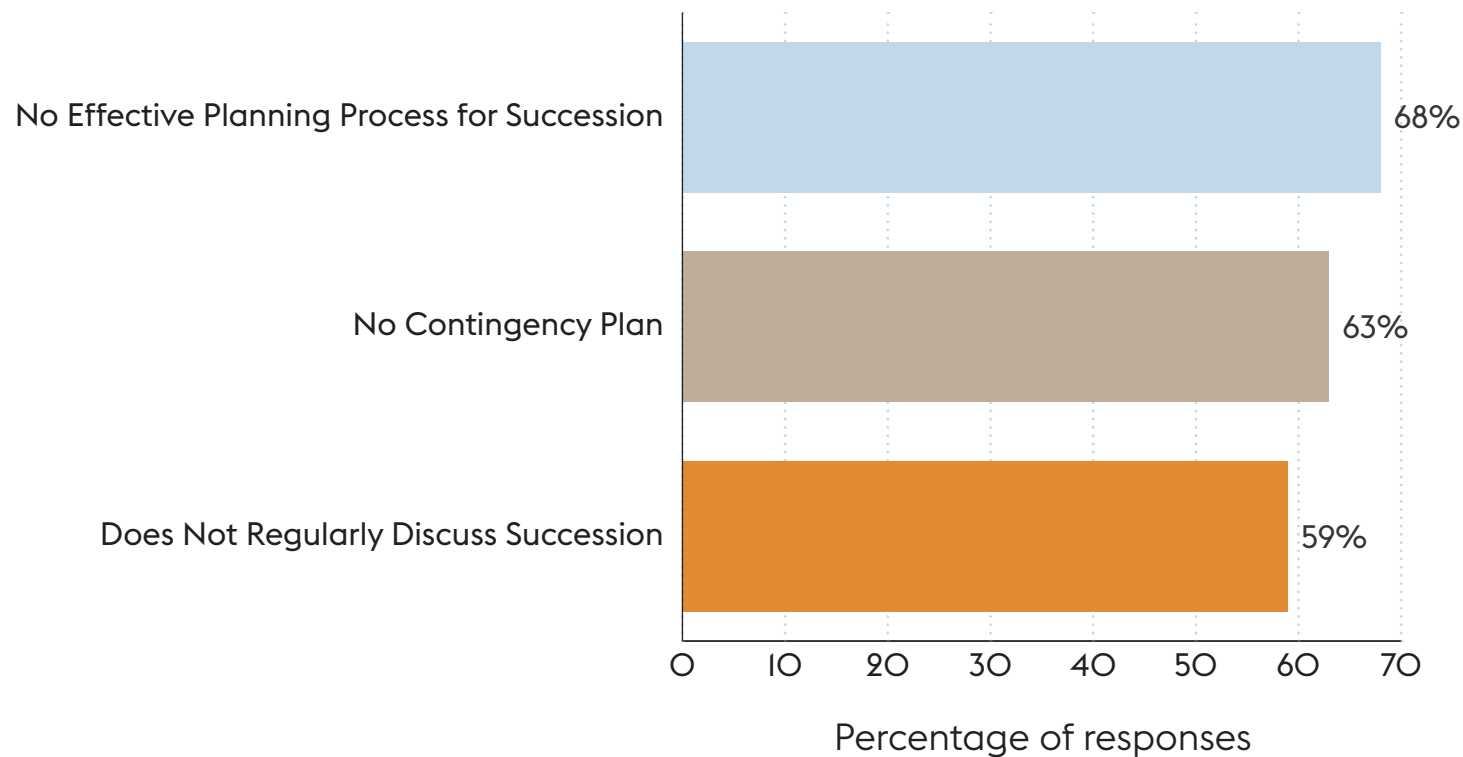
Source: PitchBook's Q4 2023 Global Fund Performance Report, Stanford Graduate School of Business - 2024 Search Fund Study



⁷ Morris, Williams, and Nel, "Factors Influencing Family Business Succession."

Why are Search Funds Successful?

CEO SUCCESSION Planning Gaps in Private Companies



Source: Harvard Business Review (2020) Article, 'Your CEO Succession Plan Can't Wait', Survey to more than 5000 board directors.



Why are Search Funds Successful?



Business owners often prioritize multiple factors over simply maximizing sale price, making search funds an attractive succession solution. Search funds excel at providing these businesses with a viable succession path, ensuring continuity while introducing professional management practices. NCA's experienced Operators are offering additional and important added value compared to classic Search Funds which rely on fresh MBA Graduates or younger professionals.

Dimension	Traditional Search Fund ⁸	NCA ETA Program
Searcher Profile	MBA graduate, median age of 31, up to 5 years of experience	Mid-career, Executive MBA, average age 40-45, up to 20 years of operational experience
Searcher Selection	Searcher-led decision to launch Search Fund	Assessment Center team reviews over 3,000 applications per annum; candidates go through multiple rounds of assignments and interviews (<1% acceptance rate)
Search Scope	Sector agnostic, geography of choice	Sector-specific, pre-defined based on industry experience and cultural compatibility (language)
Estimated Due Diligence Cost	\$150K	\$225K
Step-up on Search Budget	1.5x	1.25x
Search Budget Investors	Searchers are sourcing, approaching, and engaging with investors individually to sell search units	Search is fully funded by NCA

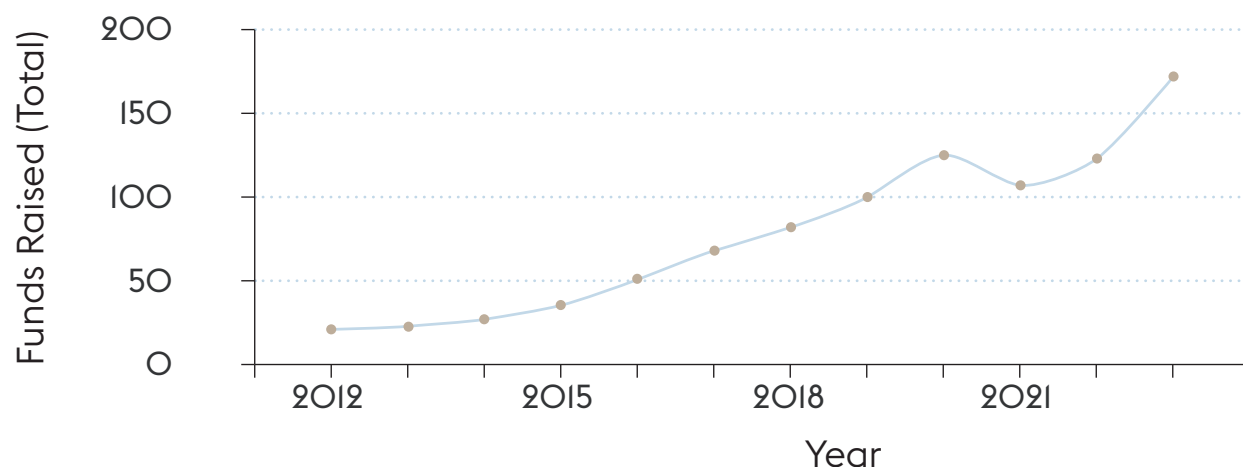
NCA's operators bring extensive vast industry expertise, enabling credible conversations with sellers as peers. The compensation structure directly ties operator success to value creation, ensuring interests align across the investment. This creates a powerful network where experienced investors and operators complement each other's strengths.

⁸ Heston, Kelly, "2024 Search Fund Study | Stanford Graduate School of Business."

Search Funds Going Mainstream

The search fund model has evolved from a niche investment vehicle to an increasingly recognized solution for middle-market succession planning. Search Funds are growing in numbers, this development is likely supported by growing institutional education, geographic expansion, and increasing diversity in operator's backgrounds⁹.

Search Funds Raised, Trend Line (2012-2023) Smoothed trend line



Source:
Stanford GSB & IESE
business school reports
(2024) values are
estimated from visual
analysis and should
not be taken as exact
figures.

Professional service firms, business schools, and investment institutions increasingly recognize search funds as a viable path for experienced operators and attractive investment opportunities.

⁹ Heston, Kelly.



What are the Risks?

Despite the model's proven success, search funds face several challenges:

01

Operator Experience

Traditional search funds often rely on relatively inexperienced operators, potentially limiting their ability to manage complex business transitions.

02

Search Failure Rate

Historically, only approximately 57% of searchers complete an acquisition (North America). Unsuccessful Searchers can lead to losing the Search Capital¹⁰.

03

Post-Acquisition Execution

The transition from search to operations presents significant challenges, particularly for first-time CEOs.

04

Deal Sourcing Competition

Increased interest in the lower middle market from private equity firms and higher Search Fund Competition can impact acquisition opportunities and valuations.

05

Industry-Specific Risks

Each target company comes with its own set of industry-specific challenges that must be carefully evaluated and managed.

¹⁰ Heston, Kelly,

Why NCA?



NCA has developed a comprehensive ecosystem that addresses traditional Search Fund risks while amplifying the model's inherent strengths. Through our Operator-Led Search Fund Program approach, we collaborate with experienced operators to identify, acquire, and grow lower-middle market and SME companies, particularly those facing succession challenges. NCA addresses challenges of the classic search fund model through our:

Experienced Operator-Led Search Fund Network

- ✓ Average of 15 years' operational experience across diverse industries, geographies and functions
- ✓ Deep understanding of operational challenges and opportunities in target markets

Comprehensive Institutional Support

- ✓ A team of 48 professionals dedicated to Operator-led Search Fund success
- ✓ Structured support from initial onboarding, search, deal phase through value creation
- ✓ Access to extensive investor network for additional capital and strategic partnerships
- ✓ Holistic Operational expertise and strategic guidance from experienced investment professionals

Proven Track Record of Success

- ✓ 22 successful acquisitions (10 North America, 12 Europe) completed since interception in 2019
- ✓ Significant value creation across portfolio companies
- ✓ Notable exit achieved in 2024

Talk with our Team

NCA's dedicated investor relations team provides comprehensive support throughout the investment lifecycle. Our experienced professionals work closely with investors to understand their objectives, provide detailed investment opportunities, and maintain transparent communication throughout the investment period.

www.novastone-ca.com



APPENDIX

Ener, Hakan, and Antonio Dávila. "What Makes Search Fund Entrepreneurship Different in Europe?" *European Management Journal* 41, no. 4 (August 2023): 488–98. <https://doi.org/10.1016/j.emj.2022.12.013>.

Heston, Kelly. "2024 Search Fund Study | Stanford Graduate School of Business." Stanford Graduate School of Business, 2024. <https://www.gsb.stanford.edu/faculty-research/case-studies/2024-search-fund-study>.

Kowalewski, Ann-Sophie, Peter Kelly, Jan Simon, and Rob Johnson. "International Search Funds–2024 | Selected Observations," 2024.

Morris, Michael H., Roy W. Williams, and Deon Nel. "Factors Influencing Family Business Succession." *International Journal of Entrepreneurial Behavior & Research* 2, no. 3 (December 1, 1996): 68–81. <https://doi.org/10.1108/13552559610153261>.

Morrisette, Stephen G., and Shamus Hines. "An Investor's Guide to Search Funds." *The Journal of Private Equity* 18, no. 3 (May 31, 2015): 21–40. <https://doi.org/10.3905/jpe.2015.18.3.021>.

GRAPHS DATASOURCES PLANNED

SME data // <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/819161468766822276/small-and-medium-enterprises-across-the-globe-a-new-database>

Demographic data // <https://ourworldindata.org/population-growth>