



Understanding Search Funds -

A Guide for Healthcare Business Owners

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Table of Contents

1. [What is a Search Fund?](#)
2. [How Search Funds Work](#)
3. [Search Funds vs. Private Equity](#)
4. [Case Studies: Success Stories in Healthcare](#)
5. [Common Objections & Responses](#)
6. [Essential Questions for Healthcare Business Owners](#)
7. [Next Steps: Is a Search Fund Right for Your Exit?](#)

As a healthcare business owner considering your exit options, you've likely heard of private equity firms and strategic buyers. But have you considered a search fund? This guide will introduce you to this increasingly popular acquisition model that might be the perfect fit for your business transition.

What is a Search Fund?

A search fund is an investment vehicle that allows a young, motivated entrepreneur to buy and run an established business. Unlike private equity firms that acquire multiple companies for their portfolio, a search fund entrepreneur seeks to purchase and personally operate just one business - yours.

Think of it as passing the torch to someone who will dedicate their career to growing what you've built, rather than simply adding your company to a collection of investments.

Search funds have gained significant traction since their creation at Stanford Business School in 1984. According to recent data, a record 94 new search funds launched in 2023 alone, bringing the total to nearly 700 since inception.

For healthcare business owners, this trend is particularly relevant as healthcare ranks among the most attractive sectors for search funds due to its stability, essential nature, and growth potential.

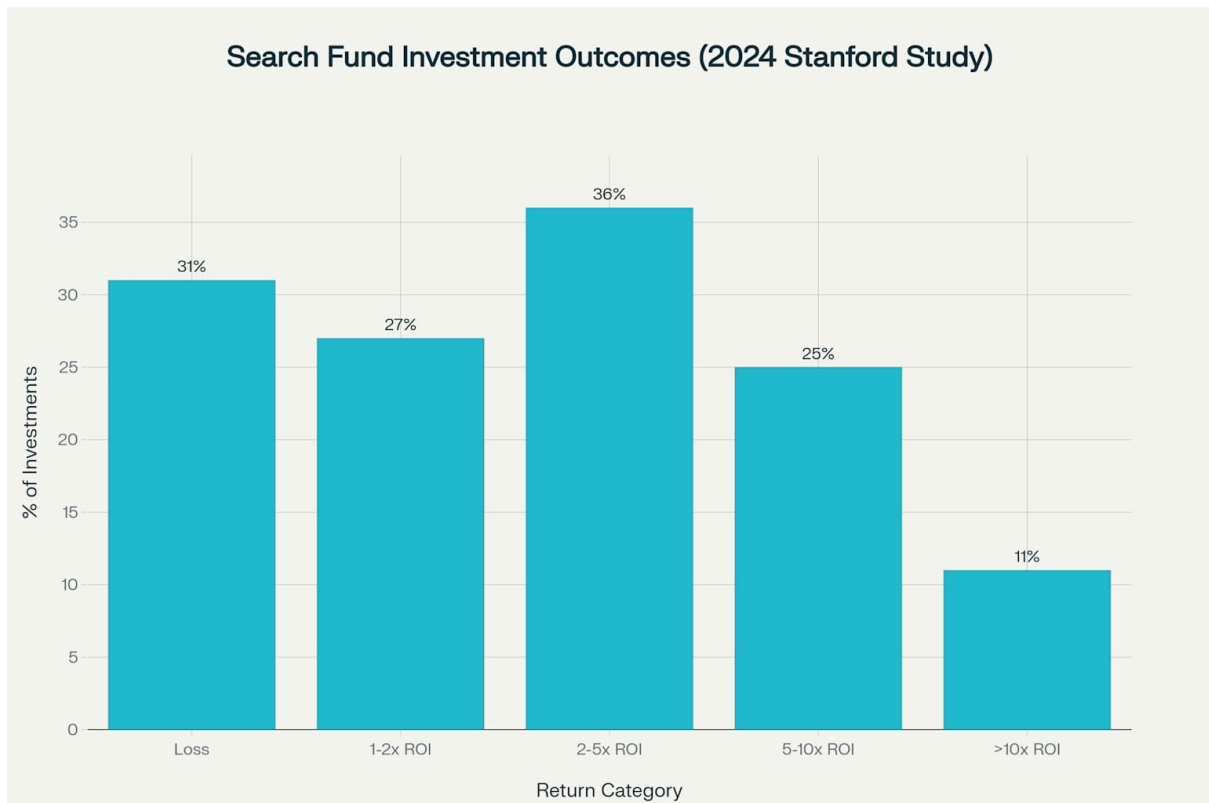


Fig 1: Search fund investment outcomes showing that nearly 70% of search funds generate positive returns for investors

How Search Funds Work

The Four-Stage Process

A search fund follows a structured four-stage lifecycle that differs significantly from the typical private equity approach:

1. Raising Initial Capital (The 'Search' Phase):

- The searcher first raises a smaller amount of money, known as "search capital," from a group of investors.
- This capital covers the searcher's salary and administrative costs (like travel, legal fees, and research) for generally a two-year period while they actively look for a business to acquire.
- These initial investors typically put in around £25,000 to £40,000 per 'unit' of investment. The median amount of initial search capital raised by a solo searcher in 2020-2021 was \$425,000, which increased to \$500,000 in 2022-2023.
- In return for this early, speculative investment, these investors get the **right, but not the obligation, to invest more money later** for the actual

acquisition. Crucially, their initial search capital often gets a '**step-up**' in **value, typically 150%**, when it converts into acquisition capital. This compensates them for the risk, as around one in three search funds do not end up acquiring a company.

2. **Searching for and Acquiring a Company:**

- During this phase, the searcher dedicates their full time to finding a suitable business that meets specific criteria. They often focus on industries that are stable, understandable, and have potential for growth, such as B2B services, software, and healthcare services.
- A healthcare company, especially one with stable earnings, recurring revenues (like long-term contracts or subscription models), a diverse customer base, and positive cash flow, would be an attractive target.
- The median search period currently is 17 months, though it can range from as little as 3 months to over 7 years.
- Once a target is identified, the searcher negotiates the purchase. For a typical acquisition, the median purchase price in 2022-2023 was \$14.4 million.
- **Funding the Acquisition:** The purchase is often financed through a combination of debt (loans from banks) and equity (money from investors). Some of the original search investors will typically "follow on" with additional equity, and sometimes new investors are brought in. Seller financing (where you, as the seller, provide some of the funding, to be repaid over time) is also common.

3. **Operation and Value Creation:**

- Once the acquisition closes, the searcher takes over as the CEO. For the first 6 to 18 months, they typically focus on learning the business deeply rather than making immediate, drastic changes.
- The new CEO works to grow the company through various means, such as increasing revenue, improving efficiency, and making add-on acquisitions. They also establish a board of directors, often including experienced investors who provide ongoing guidance.
- The searcher's own compensation during the initial years of operating the business often remains modest, with the true financial benefit coming from their ownership stake.

4. **Exit:**

- Most search funds have a long-term outlook, typically aiming to hold the company for over five years, often longer.
- The goal is to eventually sell the company, usually to a strategic buyer or another financial firm, to realise returns for both the investors and the searcher. Alternatively, investors might be repaid through dividends or a recapitalisation.

Financing Structure

When a search fund acquires a business, the purchase is typically financed through a combination of equity investment from the entrepreneur's backers (20-40%), bank loans (40-60%), and sometimes seller financing through a note (10-20%). This creates a financial structure that aligns incentives between the seller, the entrepreneur, and the investors. The entrepreneur typically receives 15-30% ownership, which vests over time as they successfully operate the business.

What Makes a Good Target?

Search funds look for established, profitable companies with consistent profitability (typically \$1-5M in annual EBITDA), growth potential, limited risk factors, and a transition-friendly business model that doesn't rely solely on the owner's relationships or technical expertise. Healthcare businesses often fit these criteria perfectly, making them attractive targets for search fund entrepreneurs.

Search Funds vs. Private Equity: Key Differences		
● Search Fund ● Private Equity		
Category	Search Fund	Private Equity
Ownership	CEO-operator	Portfolio mgrs
Inv Horizon	5-10 years	3-5 years
Company Size	\$5-30M val	\$50M+ val
Mgmt Approach	Hands-on ops	Financial focus
Seller Role	Transition period	Limited role

Fig 2: Key differences between search funds and private equity approaches to business acquisition

Search Funds vs. Private Equity

While both search funds and private equity firms acquire businesses, their approaches differ substantially. Understanding these differences is crucial when deciding which type of buyer is right for your healthcare company.

Ownership Structure and Philosophy

Search Funds: The entrepreneur becomes the CEO and runs a single company. They're building their career and reputation on your business's success and typically hold the business for 5-10 years or longer, focusing on sustainable growth rather than quick profits.

Private Equity: Firms acquire multiple companies into a portfolio, with professional managers overseeing operations. Their primary goal is to achieve target returns within a predetermined timeframe (usually 3-5 years), often leading to cost-cutting measures, high leverage, and a focus on financial metrics over company culture.

Management Approach

Search Funds: Entrepreneurs bring fresh energy and new perspectives but respect the existing business model. They focus on operational improvements and organic growth, preserving what works while enhancing areas that need improvement.

Private Equity: Often implement aggressive financial engineering, including significant cost-cutting, staff reductions, and increased debt to maximize short-term profitability, sometimes at the expense of long-term stability.

Size and Deal Structure

Search Funds: Target smaller companies (\$5-30M valuation) and often include seller notes or earnouts to align interests. This makes them ideal for healthcare businesses that fall below the radar of larger investors.

Private Equity: Focus on larger businesses (\$50M+ valuation) and typically offer all-cash deals but may impose more stringent terms and higher transaction costs.

Case Studies: Success Stories in Healthcare

Case Study 1: Transitioning a Medical Services Provider

Situation: A 58-year-old founder of a healthcare staffing company with \$12M in annual revenue and \$2.2M EBITDA wanted to retire but was concerned about his company's future and his employees' job security.

Search Fund Solution: A search fund entrepreneur with healthcare consulting experience acquired the business with a structure that included 60% bank financing, 30% equity from search fund investors, and 10% seller note (\$1.2M over 5 years).

Outcome: The founder received 90% of his asking price at closing, with the remaining 10% structured as a seller note with 8% interest. He stayed on as an advisor for 6 months to ensure a smooth transition. Three years later, the business had grown revenue to \$18M while maintaining profit margins, and all key staff remained with the company.

Case Study 2: Expanding a Specialized Healthcare Practice

Situation: A specialized therapy practice with multiple locations was owned by a clinician-entrepreneur who wanted to exit but worried about maintaining quality of care.

Search Fund Solution: The business was acquired by a search fund led by an entrepreneur with healthcare management experience. The deal structure included a transition period where the founder stayed on as Clinical Director, performance incentives tied to patient outcomes (not just financial metrics), and reinvestment in technology and staff development.

Outcome: Under search fund ownership, the practice expanded from 4 to 7 locations while maintaining its reputation for quality. Patient satisfaction scores actually increased, and the original owner received full payout of their seller note plus a premium based on performance metrics.

Common Objections & Responses

As you consider selling to a search fund, you may have reservations. Here are the most common concerns and honest responses:

"The buyer lacks industry experience"

Concern: Search fund entrepreneurs often come from consulting or finance backgrounds and may not have specific healthcare industry experience.

Response: While this is sometimes true, search fund entrepreneurs typically have strong analytical skills and learn quickly. They're backed by experienced investors who often have relevant industry expertise and are motivated to preserve what works while improving operations. They often retain key staff who provide operational continuity and industry knowledge. For healthcare business owners, this can actually be an advantage - you get the benefits of fresh perspectives combined with respect for established clinical practices and standards.

"They don't have enough capital"

Concern: Unlike private equity firms with large funds, search funds raise capital only when they find a business to acquire.

Response: While search funds don't have pre-committed capital, they have strong relationships with investors who are prepared to fund suitable acquisitions. They successfully complete deals for 63% of target companies they pursue and can access traditional bank financing just like other buyers. Search funds often provide more flexible deal structures that can benefit sellers.

"Will they maintain quality and culture?"

Concern: You've built a healthcare business with a strong culture and quality standards. Will a new owner maintain these?

Response: Search fund entrepreneurs are typically more motivated than other buyers to preserve company culture and values as they'll be working directly with your team. They maintain quality as their reputation depends on the business's continued success and make incremental improvements rather than dramatic changes. Most importantly, they aim to honour your legacy as the founder.

"How can I trust a younger buyer?"

Concern: Many search fund entrepreneurs are in their late 20s or 30s, sometimes younger than the businesses they're acquiring.

Response: While search fund buyers may be younger, they bring energy, fresh perspectives, and modern management approaches. They're backed by experienced investors who provide guidance, and the search fund model has a proven track record (35.1% IRR according to recent studies). Their youth means they have a long-term perspective on building the business rather than focusing on quick exits.

"Will they just strip my company for parts and sell it quickly?"

Response: Unlike some traditional private equity firms, which typically operate on a five to seven-year cycle to return capital to their investors and may manage multiple businesses across diverse industries, search funds are generally structured with a longer-term outlook, often six to ten years, and are focused on acquiring and running a single company. A key motivation for searchers is a deep desire to own, manage, and build a company, taking a meaningful economic stake in its future. They are looking to grow and nurture the business you built, often retaining the company name and focusing on organic growth rather than just cost-cutting or financial restructuring.

Essential Questions for Healthcare Business Owners

1. What happens to my business legacy after I sell?

Search fund entrepreneurs typically preserve what makes your business special while bringing fresh energy and resources. Unlike private equity firms that may consolidate operations or rebrand, search funds usually maintain your company's identity, relationships, and core values.

Key Statistic: According to the 2024 Stanford Search Fund Study, 87% of search fund acquisitions retained the original business name and core service offerings three years after acquisition.

2. How is a search fund acquisition financed?

Search fund acquisitions typically use a mix of equity investment from the entrepreneur's backers (20-40%), bank loans (40-60%), and sometimes seller financing through a note (10-20%). This balanced approach ensures the business isn't overburdened with debt while aligning everyone's interests in the company's continued success.

Key Statistic: The median purchase price for search fund acquisitions in 2023 was \$14.4 million at 7.0x EBITDA, according to Stanford's 2024 Search Fund Study, demonstrating their ability to pay fair market value.

3. What role will I play after selling to a search fund?

Most search fund acquisitions include a transition period where you help transfer knowledge, relationships, and operational insights. This period typically lasts 3-6 months, with some sellers continuing as board advisors or consultants afterward. Unlike private equity that may quickly replace management, search funds value your expertise.

Key Statistic: 76% of search fund acquisitions include a formal transition period averaging 4.5 months, with 42% of sellers maintaining some advisory role afterward.

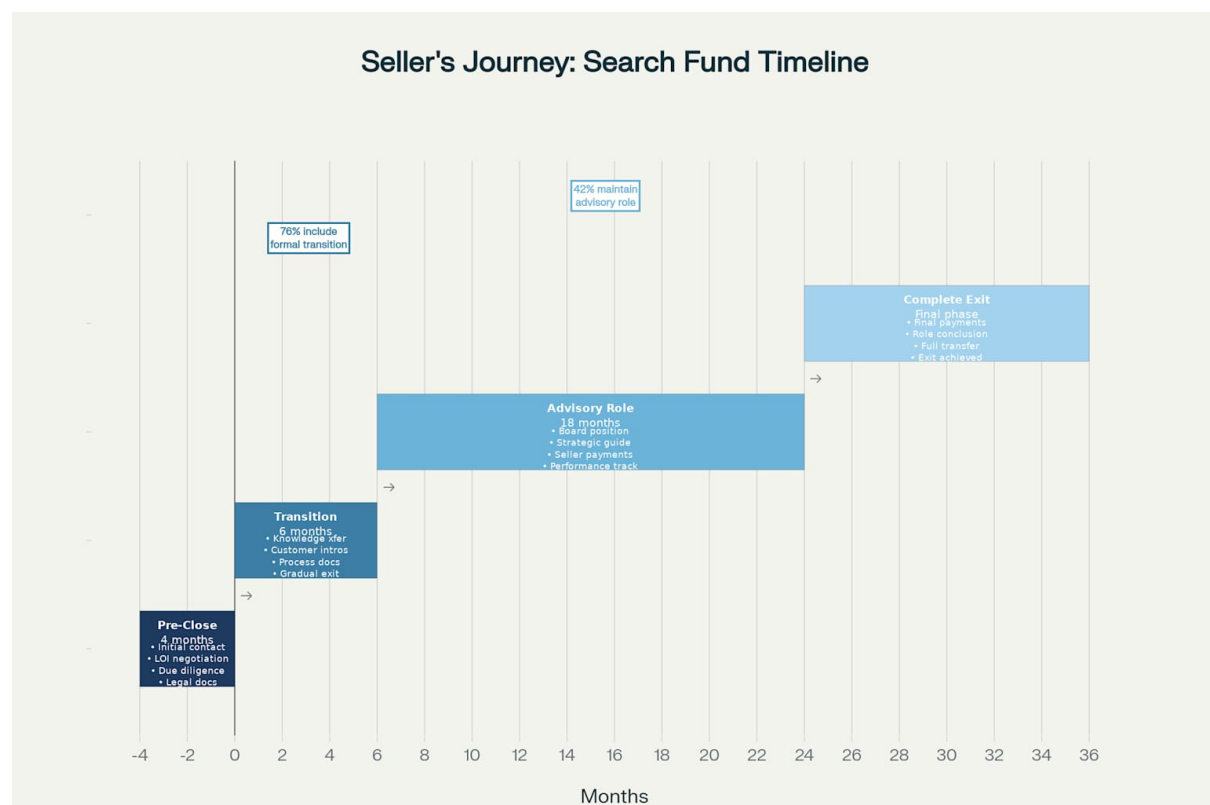


Figure 3: The Seller's Journey: A comprehensive timeline showing the four phases of selling a healthcare business to a search fund, from initial contact through complete exit, with key activities and industry statistics

4. How do search funds perform financially?

Search funds have delivered impressive financial returns, outperforming many traditional investment vehicles. For business sellers receiving partial payment through seller notes, this performance provides confidence in the buyer's ability to fulfil financial obligations.

Key Statistic: According to recent studies, search funds have generated an average ROI of 4.5x and an IRR of 35.1%, with exited businesses achieving even higher returns (42.9% IRR).

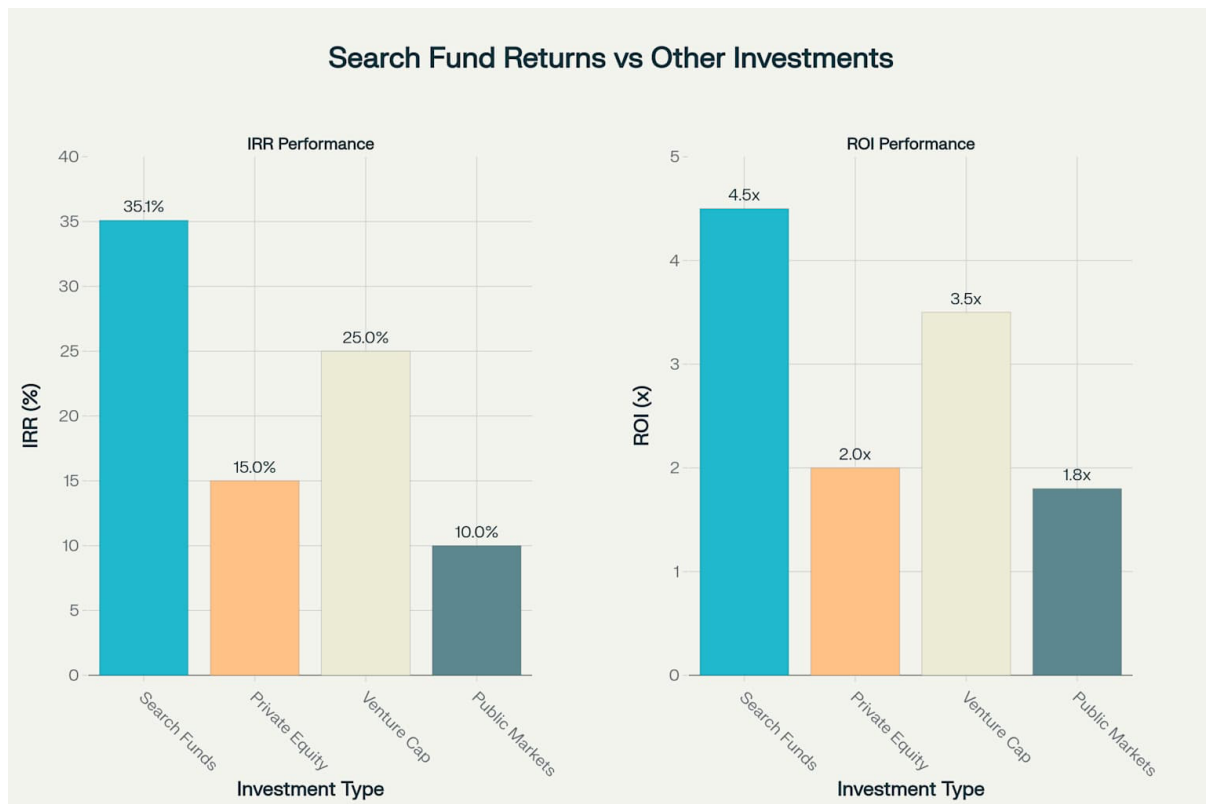


Figure 4: Infographic Idea: Radar chart showing key attributes that make healthcare businesses attractive acquisition targets: stability, growth potential, fragmentation, regulatory barriers, and demographic tailwinds.

5. What makes healthcare businesses attractive to search funds?

Healthcare businesses appeal to search funds because they typically have stable cash flows, growth potential due to demographic trends, high barriers to entry, and opportunities for operational improvements without compromising care quality.

Key Statistic: Healthcare acquisitions represent 22% of all search fund transactions, making it the second most popular industry vertical after business services.

6. How long does the acquisition process take?

The typical search fund acquisition takes 3-6 months from initial offer to closing. This includes due diligence, financing arrangements, and transition planning. While this may seem lengthy, it ensures the buyer fully understands your business and can hit the ground running after the sale.

Key Statistic: The median time from signed letter of intent to closing for search fund acquisitions is 112 days, with healthcare transactions taking approximately 20% longer due to additional regulatory considerations.

7. What happens if the search fund entrepreneur fails?

Search fund investors are experienced businesspeople who actively participate in oversight through board positions. If the entrepreneur struggles, investors typically provide additional support and resources. In rare cases of significant underperformance, they may bring in experienced management while preserving the company's operations.

Key Statistic: Only 8% of search fund acquisitions result in leadership changes within the first three years, and even in these cases, 89% of the businesses continue operations without major disruption.

8. How are seller notes structured in search fund deals?

Seller notes are loans from you to the buyer for part of the purchase price. In search fund acquisitions, these notes typically represent 10-20% of the total value, carry interest rates of 6-10%, and are paid over 3-7 years. They're usually subordinated to bank debt but senior to equity, providing you a reasonable balance of security and return.

Key Statistic: According to transaction data, seller notes in healthcare search fund acquisitions average 15% of the purchase price with a 7.8% interest rate and 5-year term, often including performance-based acceleration clauses.

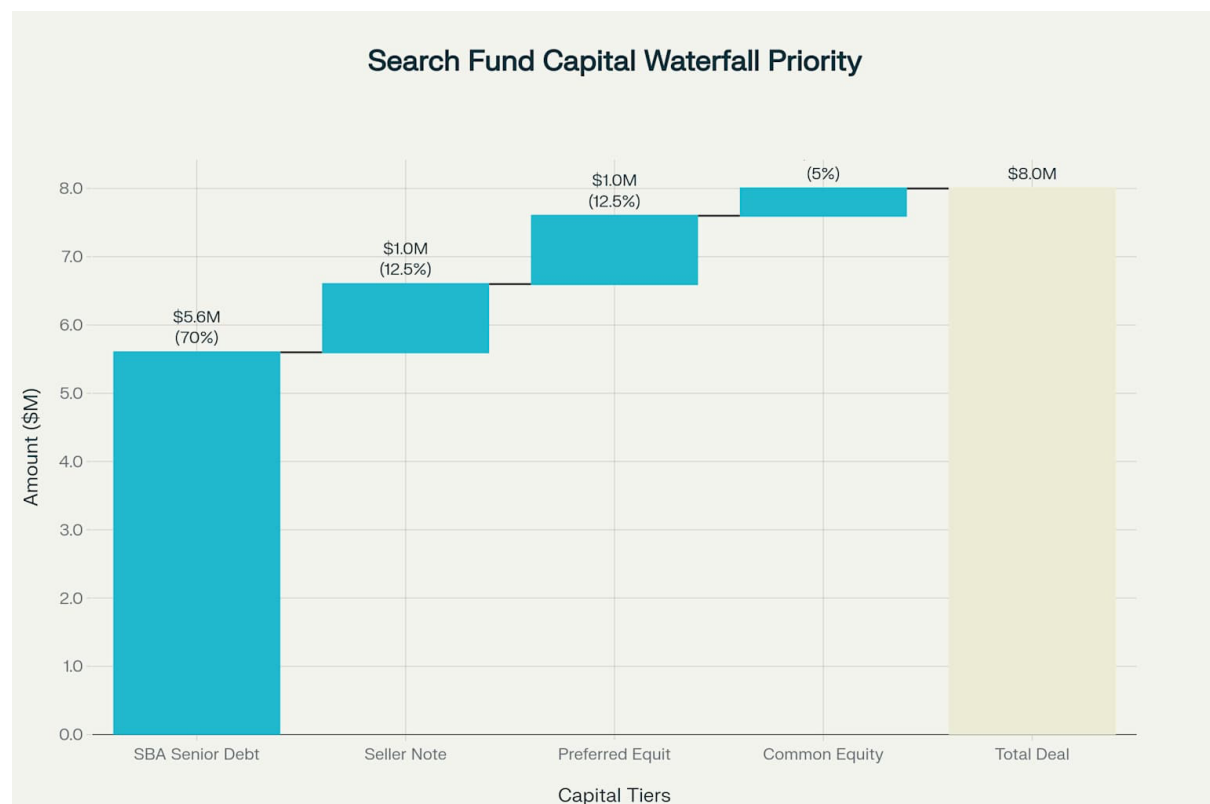


Figure 5: Search Fund Capital Structure Waterfall showing seller notes in second priority position

Next Steps: Is a Search Fund Right for Your Exit?

As you consider whether a search fund might be the right buyer for your healthcare business, here are some practical next steps:

1. **Assess your priorities:** What matters most to you in a sale? Price? Legacy? Employee protection? Customer continuity? Write down your non-negotiables
2. **Consider timing:** Search fund acquisitions typically take 3-6 months to complete. Factor this timeline into your exit planning.
3. **Prepare your business:** Focus on documenting processes, strengthening your management team, and ensuring clean financial records.
4. **Explore multiple options:** While search funds offer unique benefits, it's wise to compare offers from different types of buyers.
5. **Seek professional guidance:** Work with advisors who understand healthcare M&A and can help you evaluate offers objectively.

Remember, selling your healthcare business is about more than just the financial transaction—it's about finding the right steward for the company you've built and the patients or clients you serve. A search fund entrepreneur, with their commitment to hands-on leadership and long-term growth, might just be the perfect next chapter in your company's story.