

Marc Bartomeus and Spain's First Search Fund

Rob Johnson

Extract

Marc Bartomeus faced a big decision, another in a long line of them. Having raised the first search fund in Spain in 2011 and acquired and built a plastic container distribution business, Marc now had an opportunity to sell the company and reap the rewards of his ten-year journey. The big question now was, what did he want to do?

Search Funds

Since the first funded search was launched in 1984, search funds had gradually grown as a relatively new path for young entrepreneurs. Following the search fund model, a young entrepreneur (or two partners), often a recent business school graduate, raises a relatively small pool of capital from individual investors as well as specialized funds to fund a two-year search for a company to acquire. Once a suitable company is identified and secured under a signed letter of intent and due diligence on the company is completed, the search fund investors have the right—but not an obligation—to invest in the acquisition. The search fund investments, including those of investors who choose not to invest in the acquisition, roll into the acquisition deal at a 50% stepped-up value.

Upon acquisition of the company, the searcher becomes the CEO of the company and earns equity (typically 25% for a single searcher and 30% for two partners) in the company in three tranches: one-third upon closing the acquisition, one-third vesting evenly over four or five years, and one-third based on ultimately achieving pre-agreed IRR hurdles for the investors (typically beginning at an IRR of 20% and fully vesting at 35%).

This case was prepared by Professor Rob Johnson. May 2022. Revised in February 2023.

IESE cases are designed to promote class discussion rather than to illustrate effective or ineffective management of a given situation.

Copyright © 2022 IESE. To order copies contact IESE Publishing via www.iesepublishing.com. Alternatively, write to publishing@iese.edu or call +34 932 536 558.

No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means - electronic, mechanical, photocopying, recording, or otherwise - without the permission of IESE.

Last edited: 24/3/23

The performance of this new search fund sector had been outstanding. Indeed, the 2009 Stanford Graduate School of Business study of US search funds¹ reported that the net IRR to US search fund investors was in excess of 37%. At that time the search fund model still remained relatively unknown outside the United States. By 2011 over 150 search funds had been raised in the U.S. and Canada, while outside those two countries only twenty search funds had been raised.² The first search fund outside the U.S. was raised in 1992 in the United Kingdom, and by 2011 Europe accounted for thirteen search funds: nine in the United Kingdom, two in Germany, and one each in Austria and Switzerland. Marc's search fund would be the first one in Spain.

Seeking an Entrepreneurial Opportunity

Marc began his business career after finishing in the top ten percent of his class at the Technical University of Catalonia, where he studied industrial engineering. He began working in business development with Agilent Technologies at their headquarters in Stuttgart before moving to Hewlett-Packard in a sales support position in Madrid. Later Marc took a sales role with a private niche manufacturing company in Barcelona, where he became the youngest area manager for the company, responsible for managing sales in North, Central and South America. Yet despite his professional success over these years, Marc realized that he wanted his own entrepreneurial experience. With that in mind, in 2008 he enrolled in the MBA program at the Sloan School of Management at Massachusetts Institute of Technology (MIT) in the United States.

One of his first experiences at MIT was a presentation about a new concept called search funds. That session so captivated Marc that he began to focus on search funds through the remainder of the MBA program, including working as an intern at a search fund based in Boston. By the end of the MBA program, when his classmates were interviewing for jobs, Marc was putting the final touches on his private placement memorandum to raise what would be the first search fund in Spain. Following the graduation ceremony in spring 2010, Marc returned to Barcelona, where he planned to base his search.

Raising the Search Fund

While working as an intern for the Boston-based search fund, Marc had met a number of serial search fund investors in the U.S. and had developed a good relationship with many of them. He expected that these relationships would help him raise his search fund relatively quickly; however, he soon learned otherwise. While those U.S. investors were interested, they made it clear that Marc would need good local investors in Spain before they would commit to his search fund. Marc quickly learned that getting Spanish investors who were not familiar with search funds to commit to invest was a huge challenge. Many of the Spanish investors offered the same response: "When you find a business, come see me and I will consider investing then."

During this time Marc identified an entrepreneur, José Stella, who had successfully raised a search fund in Latin America (one of the first in that region) and had recently sold his company, generating a return of 14 times capital for his investors. José was now beginning to invest in other search funds. Marc flew to Puerto Rico to meet with José, and following their discussions José agreed to be Marc's first investor.

¹ *Search Funds—2009: Selected Observations and Search Funds—2013: Selected Observations*, Stanford Graduate School of Business.

² *International Search Funds—2011: Selected Observations*, IESE Business School.



Having secured one investor who was known and respected in the (then small) search fund community, Marc began to focus on UK-based investors who were familiar with search funds. He also decided that he would set up his search fund as a UK company on the assumption that many potential investors—in both the UK and the US—would be more comfortable investing in a UK entity for the search. Once he had an acquisition, he could then decide whether to switch to a Spanish entity or continue using the UK entity as a holding company. Over time he gradually began to achieve momentum, and in spring 2011—one full year after leaving MIT—he closed on his €200,000 search fund.

Marc's Search

Marc recalled the next step in his journey:

When I was going through all those challenges raising the search fund, I thought the search would be fun; but that turned out not to be the case. The search felt like being in the desert, as it was very difficult to find a good opportunity. I could generate good deal flow, but it was very hard to find companies that matched many of the search criteria. Each quarter when I sat down to write a report to my investors, I found it difficult to decide what to say because nothing really matched my search criteria very well. (See **Exhibit 1** for Marc's search criteria.)

When I began the search, I was happy and motivated; but as time went on, I began to feel the pressure to get a deal closed for my investors. The investors didn't pressure me at all, but I felt that pressure myself; and over time that pressure seemed to mount. Also, my personal financial pressures became more severe.

To preserve cash, I was working on a very tight budget, paying myself a salary (€30,000) that didn't even cover my expenses. That was magnified when we had our second child during the search. Fortunately, I had included in the legal documents a provision that allowed me to sell an extra €20,000 unit in the search fund at a later date, and I ended up selling that unit to extend my search runway.

At one point, frustrated by his inability to find the right company, Marc even considered doing a greenfield start-up. He spent time looking into starting a datacenter business and then discussed it with several of his investors; however, those investors encouraged Marc to keep focused on the acquisition path.

Eventually, Marc identified a company near Barcelona that distributed plastic containers to companies in diverse industries, including pharmacy and drugstore, cosmetics, food, chemical, agrochemical and veterinary companies. The three company owners were genuinely interested in preserving what they had built and were attracted to Marc and to the search fund model. After weeks of negotiations, Marc signed a letter of intent to acquire the business for a price equal to 5 times 2014 expected EBITDA. Following due diligence, Marc secured bank debt of €4.7 million, and his search fund investors agreed to invest €4.6 million in the UK holding company to acquire the Spanish company. The acquisition was completed in October 2014—more than three years after raising his search fund. The next day Marc walked into Repli S.L. as the new CEO of the company.