The Market Potential for Search Funds in Denmark

A Feasibility Study of the Search Fund Model in Denmark

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Abstract

Search funds are a niche investment vehicle that allows young professionals to search for, acquire, and manage a company. Since its inception in the United States in 1984, 413 search funds have been raised worldwide and provided American investors with an IRR of 34%. Despite the promising returns, no search funds have seen the light of day in neither Denmark nor the Nordics. Moreover, the current low interest rate environment is putting downward pressure on returns and has investors chasing new investment opportunities. This begs the question whether search funds are a viable investment model in Denmark.

This thesis contributes to the scarcely researched field of search funds by exploring what the outlook is for search funds in Denmark as seen from the investors' perspective. To accomplish a coherent and comprehensive study of this infant asset class, an explorative study rooted in pragmatism is employed to undertake a multidimensional analysis consisting of the international development and performance of alternative asset classes, investor perspectives, and finally, socio-economic factors. For the core of the thesis, conventional qualitative methods used in similar existing research is combined with content analysis to enable statistical analysis of 30 interviews conducted with Danish investors including buyout funds, pension funds, family offices, venture capital funds and business angels.

The findings of the thesis suggest a cautious positive outlook for search funds in Denmark, although the time horizon is very uncertain. This is substantiated by the slower international development compared to other alternative asset classes. Conversely, it was found that search funds as an asset class has outperformed both buyout and venture capital funds. The impressive returns, the access to investments in unlisted mature companies normally reserved for large institutional investors, and opportunities arising from the succession issue of owner-managed companies were by investors identified as key factors favoring the market potential of search funds in Denmark. However, Danish investors are currently not willing to invest in the search phase, due to perceived governance issues and the intangibility of the investment opportunity. Conclusively, the thesis suggests adaptations to the model to overcome these perceived barriers.

This thesis is, to the authors' knowledge, the first Danish paper on search funds and the first paper to examine the Danish market, thus placing itself in the forefront of academic literature on search funds in Denmark and providing potential Danish searchers with valuable investor insights.

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This thesis was made possible by the generous contribution of insights from the individuals and institutions listed below, as well as others who chose to remain anonymous:

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1. Introduction

Recently, it seems the attention on small and medium-sized enterprises (SMEs) has increased with politicians assessing ways to improve growth in this segment. SMEs are acknowledged as important drivers for the Danish economy, providing jobs and export earnings. In 2017, the government presented a business and entrepreneurial package (Erhvervs- og Iværksætterpakke) aiming to improve the contribution of risk-seeking capital to SMEs and support their growth (Damsgaard, 2017). However, investments in SMEs are still relatively low, impairing their competitiveness (Steengaard, 2019). Meanwhile, another potential issue threatening the Danish SME segment is the so-called succession issue. According to research from Copenhagen Business School's Centre for Owner-Managed Businesses, there are around 17,000 businesses with an owner-manager who within the next few years are expected to implement a plan for the business's succession (Bennedsen and Nielsen, 2015).

While the SMEs are facing problems, so are Danish investors. The historical low interest rate environment means fixed income is not providing the same returns as previously expected, and negative interest rates drive more money into the capital markets. This have forced investors to seek new hunting grounds in their pursuit of returns, increasing investment in alternatives such as private companies and real estate (Nielsen, 2019). One of these alternatives, investments in startups, has been popularized via the TV-show Løvens Hule (the Danish version of Shark Tank), and entrepreneurship is being praised and glorified. Surprisingly, analyses from Deloitte and Kraka show that entrepreneurship in Denmark is declining (Small Great Nation, 2020). Entrepreneurship is primarily associated with starting a business from scratch, which is indeed a risky endeavor. However, the definition of entrepreneurship can be interpreted more broadly to also include entrepreneurship through acquisition. It was on the backbone of this, the search fund model originated in the United States in 1984 (Benjamin, Kelly, Rosenthal, Andrews and Dodson, 2017).

The search fund model provides aspiring young professionals with an opportunity to achieve entrepreneurship through acquisition of a SME. The searcher raises capital enabling a two-year search for a suitable company. After identification of a target, acquisition capital is raised, the target acquired, and the searcher becomes CEO of the acquired company. Since its inception, the model has delivered outstanding returns to investors (Benjamin et al., 2017). Despite reaching a total of 413 search funds worldwide and returning an IRR well above 30%, no search funds have seen the light of day in the Denmark nor the Scandinavian countries. The apparent positive results of search funds, and the potential positive and mitigating effect they can have on the issues challenging SMEs, investors, and entrepreneurship, leads to the question of whether the search fund model is feasible in Denmark, which this study is crafted to investigate.

1.1 Research question

The motivation discussed above and the research gap on this new model creates the starting point for the main purpose of this thesis, which is to investigate the search fund model and its feasibility in Denmark. There are several approaches one could utilize to assess the feasibility of the search fund model in Denmark given the model's pioneering features. To ensure a proper focus in the study, attention will be concentrated on the investor-side of search funds, allowing a wide-ranging exploration of this crucial area. Further motivation for the focus on investors will be discussed in the scope section of this thesis.

The main research question is the core of the thesis and will serve as an overall guide of the research in data collection, methodology and in the data analysis. To provide a comprehensive answer to the main research question, the question has been developed so that it is specific, relevant and feasible within the scope of a master thesis. Additionally, to guarantee a logic and comprehensive structure, more specific sub-questions will subsequently be employed in order to sufficiently answer the research question.

The main research question of this thesis is:

- ***What is the outlook for search funds in Denmark seen from investors' perspective?***

In order to answer the main research question, it is necessary to break it down into sub-questions.

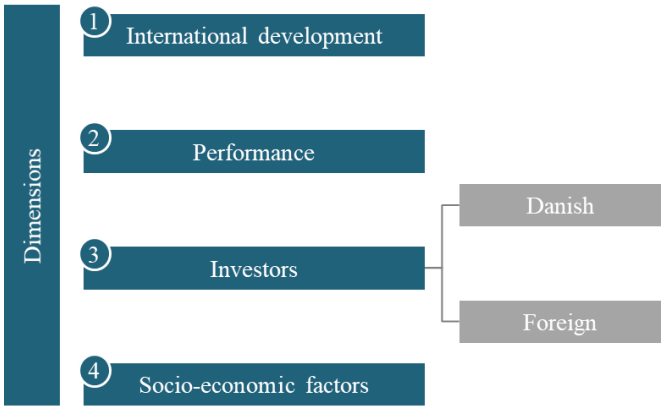
1.1.1 Sub-questions

The purpose of the sub-questions is to ensure essential insights to answer the main research question by investigating different dimensions of the subject. Thus, each of the sub-questions has a specific angle to the question to secure a thorough exploration of the topic. Throughout the literature review, sectional summaries will be conducted in order to develop comprehensive hypotheses and propositions, and thereby contribute to answering the main research question.

Due to the pioneering nature of search funds, the thesis seeks to explain the search fund concept to establish fundamental knowledge of the phenomenon. From this starting point, four relevant dimensions will be examined in order to evaluate the future of search funds in Denmark. The first dimension explores the international development of search funds. This dimension will also compare search funds to other asset classes in order to potentially unveil general patterns in the international expansion of asset classes. The second dimension is also of comparative nature, evaluating the performance of search funds against other alternative asset classes. From an investor perspective, the performance and relationship between risk and reward is extremely important, hence the inclusion in this study. The third dimension concerns the potential investors in

search funds. Employing both quantitative and qualitative evidence from both Danish and foreign investors, the outcome of this dimension is of great importance for the verdict on search funds in Denmark. Naturally, the socio-economic environment, comprising factors such as economic activity, tax and human capital, also affects the investment decision. Thus, the socio-economic environment is the fourth and final dimension to be investigated. An overview of the dimensions of the thesis is provided in figure 1.

Figure 1: Overview of dimensions



Source: Authors

The breakdown of the overall research question consists of the following five sub-questions:

1. *What is a search fund?*
2. *How have search funds developed and expanded internationally compared to other asset classes?*
3. *How have search funds performed compared to other asset classes?*
4. *What is investors' perception of search funds in Denmark?*
5. *How do the socio-economic factors affect the future of search funds in Denmark?*

1.2 Research objectives

The objective of this thesis is to further explore the concept of search funds and contribute to the existing body of knowledge by examining the market potential of the search fund model in Denmark. The motivation, and relevance, for this study transpires from the significantly increasing search fund flow in the United States and the gradual international expansion of the model (Yoder, Kelly, Rosenthal and Grousbeck, 2018). Yet, no search fund has emerged in Denmark, or in the Scandinavian countries, despite an abundance of risk-seeking capital (Nielsen, 2019. Consequently, a comprehensive explorative study is pursued to understand the development of search funds as an asset class, and Danish investors' perception of the search fund model.

This thesis is by default explorative due to the asset class still being in its infancy. Accordingly, the main purpose of this study become two-fold. Firstly, it is the goal to explore the development of search funds as an

asset class, by tracking and comparing the international expansion and performance to similar asset classes. Thereby, the thesis will contribute to existing literature by providing an up-to-date overview of the development of search funds as well as fill a gap in existing literature with the head-to-head comparison to other alternatives. Secondly, the paper will draw upon findings from expert interviews and observations to provide an understanding of the model's perceived strengths and weaknesses, and ultimately assess the viability of the model in Denmark. This paper is, to the authors' knowledge, the first Danish paper on search funds and the first paper to examine the Danish market, thus placing itself in the forefront of academic literature on search funds in Denmark.

The discoveries of this study will enhance the understanding of the search fund model as an asset class, investment opportunity and profession. Hence, the study will have implications and be of relevance to the academic community for future research, a wide range of investors, business owners, policymakers and searchers.

1.3 Research approach

The research approach of this thesis is driven by the research question to ensure a cohesive and comprehensive study that achieves the research objectives. Thus, in alignment with the research question, an exploratory study grounded in the research philosophical branch of pragmatism is pursued. Pragmatism enables the benefit of applying a mixed methods research design in which quantitative and qualitative data and methods can be combined. As evident from the outline of the research questions, there are four main dimensions of the analysis each serving different purposes. They have been designed to explore different aspects of the search fund phenomenon and thereby contribute with complementary insights enabling the process of answering the overarching research question on what the outlook is for search funds in Denmark. Hence, the employed methodology will differ according to the nature of each dimension and the purpose it serves. A breakdown of the approach for each dimension is outlined in figure 2.

Figure 2: Purpose and data employed for each dimension

		Purpose	Dominant data type	Dominant data source
Dimensions	International development	• Unveil general development patterns for alternative assets	Quantitative	Secondary
	Performance	• Evaluate search fund performance against other alternative assets to place risk and return profile within the alternative investment category	Quantitative	Secondary
	Investors	• Gain insights on investors' investment behaviors and perception of the model, ultimately assessing the viability of the model in Denmark	Qualitative	Primary
	Socio-economic factors	• Assess factors influencing the attractiveness of search fund investments • Address specific investor concerns	Qualitative and quantitative	Primary and secondary

Source: Authors

The study will follow the norm of similar literature by predominantly using qualitative data. Through 41 in-depth interviews with Danish investors, international search fund investors and industry experts, insights on Danish investor behavior and the outlook of search funds will be obtained. Supporting secondary data samples relating to the international development and performance of alternative assets as well as socio-economic factors will be analyzed to gain a holistic picture of the search fund phenomenon. Conclusively, the insights and findings will serve as a basis to determine the viability of search funds in Denmark. The research approach, design, strategy and methods will be outlined in the methodology section.

1.4 Scope and delimitations

For the purposes of this assignment, only traditional, first-time search funds will be investigated. This is done to adhere to the norm within the research community and make findings comparable to other studies. Different investment models as well as different types of search funds will be presented to the reader in section 2 to formally establish the area which search funds are placed within. The review will clearly establish the playing field and convince the reader of the unique components of the search fund model.

The phenomenon of search funds has in previous literature been broken down into targets, talents and investors. The scope of this thesis is to investigate search funds as an asset class in Denmark, thus the thesis takes the perspective of investors. Having a main focus was chosen to achieve a sufficient level of both width and depth. The investor perspective has been chosen for two primary reasons. Firstly, as investors are a key stakeholder in the search fund model, understanding their investment motivation and considerations is of outmost importance. Secondly, it was deemed most relevant to investigate a perspective with tangible means to move forward with the model. Being vital parts of the search fund model, talents and targets cannot be neglected altogether, and will therefore be considered within the socio-economic environment. The breakdown of the scope is visualized in figure 3.

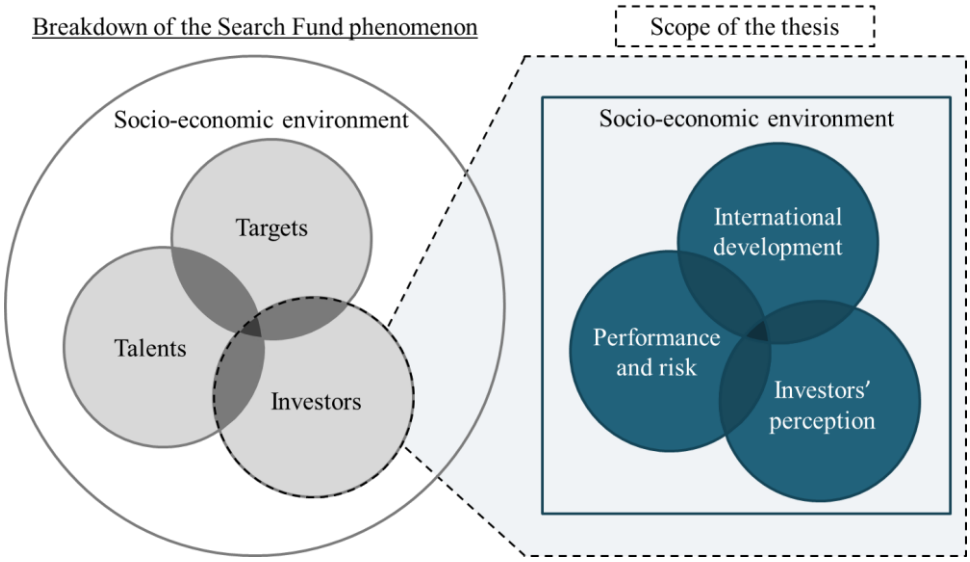
There are a number of interesting dimensions to investigate within the investor perspective. To understand the feasibility of the model in Denmark, it is found reasonable to examine the international development of alternative asset classes, compare the risk and performance of alternative asset classes, and conduct a qualitative study on investors' perception of the search fund model. To create a representative outlook, it was the goal to obtain a well dispersed sample of different investor types, which has been accomplished through interviews with buyout funds, pension funds, family offices, venture capital funds, business angels as well as other mixed investor types.

Due to the exploratory nature of the study, perspectives linking search funds to the surrounding business environment, as well as the institutional and regulatory framework embedded in the search fund model cannot

be abandoned altogether, as this is of great importance for the feasibility of search funds in Denmark, and thus investors. Hence, to create a comprehensive study, the socio-economic dimensions have been investigated to the necessary extent to determine their apparent implications for the search fund model in Denmark.

The choice of research approach, design and strategy employed in this thesis was justified by the explorative nature of the research question. Despite the numerous benefits of pragmatism and the mixed-methods research design, it still delimitates the precision and quality of the conclusions. The use of qualitative data obtained through interviews entails data quality issues such as reliability, generalizability and validity. Due to the non-standardized interviews applied, it is difficult to generalize and compare the findings to similar papers. In addition to data quality issues, interviewer, interviewee, participant, and self-selection biases will to some extent prevail. Furthermore, the large inconsistencies and the problem of incompleteness of the secondary data within private equity delimitate the precision of the results. The limitations of the data employed in this thesis will be further explained in the methodology section.

Figure 3: Scope of the thesis



Source: Authors

1.5 Structure of the thesis

After presenting the research questions and objectives, as well as establishing the scope of the study, the thesis will introduce the reader to the search fund model and the distinction from other alternative investments in section 2. Section 3 will summarize previous literature on the subject. Guided by the research question, the literature review will have emphasis on the investor perspective. Hereafter, the thesis continues with the research philosophy and methodology guiding the paper in section 4. The section will present a description of the data sample, collection and application including a discussion of limitations. The findings of the analysis will be presented in section 5 and is structured into four main themes comprising international development of

search funds, performance measurement, investors' perceptions, and socio-economic factors. This leads to section 6 where findings and implications of the study will be discussed. The thesis concludes with recommendations for future research in section 7, before the study is summarized with a conclusion in section 8.

2. Background and definitions

In the following, a breakdown of the search fund model and its critical components will be presented to provide the reader with an understanding of how the model is structured and works. Subsequently, other similar alternative investment classes will be defined to outline the key differences between these and search funds. This section will, besides establishing common ground between the reader and the authors, place search funds within the private equity industry.

2.1 What is a search fund?

Pioneered in 1984, a search fund is a niche investment model that allows young professionals to search for, acquire, and manage a company before they have accumulated the wealth and experience that is traditionally required to buy or run a company (Benjamin et al., 2017). Search funds work sequentially and can be broken down to four stages depicted in figure 4. In the first stage, one or two "searchers" will raise capital from a group of active investors to search for a company to acquire. It is here important to emphasize that a search fund focuses on acquiring one single company, hence there is only one company in a search fund. The second stage comprises the search and acquisition, where additional capital for the acquisition itself is also raised. After a successful acquisition, the third stage follows, in which the searcher will become a part of the company's executive management, typically CEO. Thus, the searcher will now devote all working hours to operate and grow the company before the fourth and final stage is reached: the accomplishment of an exit, which for most search funds is envisioned within four to seven years (Yoder et al., 2018).

Figure 4: Stages in a search fund

Source: (Yoder et al., 2018)

The search fund model originated in the United States (hereinafter the US) and has been popularized through business schools (Kolarova, Kelly, Dávila and Johnson, 2018). Search funds are both presented as an opportunity for young professionals to get ownership and management experience relatively early in their career, as well as to entrepreneurs who lack the desire or an idea to build a company from the bottom but has the skills to grow an already existing company. Search funds are therefore commonly acknowledged as a way to achieve entrepreneurship through acquisition (Benjamin et al., 2017).

Search funds have gained popularity in recent years and reached a total of 330[1] first-time search funds in the US and Canada (Yoder et al., 2018). The pattern is the same outside of these countries, though the number of first-time search funds comes in lower at 83 funds. It is mainly in Latin America, 40, and Europe, 35, search funds have been established (Kolarova et al., 2018). Henceforth, search funds located in the US and Canada will collectively be referred to as North America, and all other search funds will be referred to as International. This split, made for simplicity, is based on the biannual search fund studies conducted by Stanford Graduate School of Business's Center for Entrepreneurial Studies and IESE Business School (hereinafter Stanford and IESE) for North America and International, respectively.

In North America, returns have been steadily increasing, returning an aggregate pre-tax internal rate of return (IRR) of 34% and an aggregate pre-tax return on investment (ROI) of 6.9x (Yoder et al., 2018). Internationally, search funds have delivered an aggregate IRR of 33% and ROI of 2.3x (Kolarova et al., 2018). The historical returns for search funds are included in appendix 3.

2.1.1 The search fund life cycle

The first stage in a search fund entails fundraising of the search capital, which will be used to cover a moderate salary for the searcher, and administrative and deal related expenses as office rent, travel expenses, legal fees and due diligence fees (Benjamin et al., 2017). To raise the search capital, the searcher will have to tap a wide variety of investors comprising both experienced investors and friends and family. The investors will be expanded on in subsection 2.1.4. As no specific target company has yet been identified at this stage, the searcher will present the investment opportunity in a private placement memorandum. An example of a private placement memorandum is presented in appendix 4. Searchers have reported this stage to take as little as one month with the median being three months in North America (Yoder et al., 2018) and five months Internationally (Kolarova et al., 2018). The median search capital raised from 2016 to 2017 is USD 450,000 (Yoder et al., 2018; Kolarova et al., 2018).

The second stage is the search and acquisition, involving multiple steps including generating deal flow, target screening, due diligence, negotiating acquisition terms, raising equity and debt capital, and lastly closing the deal. Overall, this stage is quite similar to traditional private equity, with targets being sourced both proprietary and through brokers (Ruback and Yudkoff, 2017). When a target has been identified and the due diligence is progressing positively, the searcher will begin to raise the acquisition capital. Search funds are seeking to

[1] Stanford's Search Fund Study reports 325 first-time search funds, however after scrutinizing the data the authors of this thesis found discrepancies and concluded that 330 first-time search funds had been established. This number have subsequently been confirmed by Stanford.

acquire 100% of the target. Most often, this capital will come from the same investors who provided the search capital, but it can be necessary to secure additional equity commitments (Benjamin et al., 2017). In addition to equity, the acquisition will often be financed with debt, from both a bank and the seller, and the use of earnout structures is also quite common (Ruback and Yudkoff, 2017).

Typically, the searcher will have created a budget enabling a two-year search (Ruback and Yudkoff, 2017). The searcher is reporting to the investors throughout the search phase, and if they are satisfied, they will encourage the searcher to keep going until the entire search capital is spent. If no acquisition has been made at this point, the fund will shut down (Benjamin et al., 2017).

In the next stage, the third stage, the searcher will take control of the target company and manage it as an executive director. To support the searcher, and make a smooth transition, it will be arranged for the previous owner and/or CEO to stay with the company for a period as a consultant. In addition, a board of directors, primarily consisting of the search fund investors, will be established (Benjamin et al., 2017). During this stage, the objective of the searcher is to grow the company and create value. The means of creating value are similar to private equity, including revenue growth, either organic or through add-on acquisitions, operational efficiency, using leverage, and multiple expansion (Benjamin et al., 2017).

The fourth and final stage is the exit. While most search funds have a long-term outlook, generally more than five years, both searcher and investors expect a liquidity event to realize their returns. The exit opportunities are the same for search funds as for private equity portfolio companies, including IPO, sale to another institutional investor, or sale to a strategic buyer (Benjamin et al., 2017).

2.1.2 Ownership and incentive structure in search funds

To incentivize the searcher, the search fund model has applied the concept of carried interest, where the searcher earns shares of the profit pool. Most often, the searcher will vest a total of 20-30% of the profit pool, divided into three equal tranches and earned when certain milestones are fulfilled. The first tranche will typically be redeemed upon completion of the acquisition. The second tranche will be earned over time according to a four to five-year vesting schedule. Finally, the third tranche is earned when the searcher accomplishes to exceed a specific investor IRR hurdle rate (Benjamin et al., 2017). Typically, the third tranche vests on a sliding scale, with no vesting until the IRR on investors' invested capital reaches 20% and then vesting proportionally until the IRR reaches 35%, at which point the shares are fully vested (Benjamin et al, 2017).

It has already been established that investor capital is raised in two stages: search capital in stage 1 and acquisition capital in stage 2. To incentivize and reward investors for taking the initial risk, the search capital is upon acquisition converted into shares in the acquired company at a step-up of 150%. This means that an investor who invested USD 100,000 in the search stage will receive shares worth of USD 150,000 (Benjamin et al., 2017). This mechanism acts as a burden on the searcher's carried interest, diluting the searcher's position (Nieboer and Carenzo, 2011a). Furthermore, the investor gets the right to invest pro rata when acquisition capital needs to be raised.

The investor capital is structured as common and preferred equity with a preferred coupon of 5-8%, thus providing downside protection and securing the investor a return before the searcher can participate in the profit pool through the earned carried interest (Benjamin et al., 2017). For a hypothetical illustration of returns to investors and searcher see appendix 5. It should be noted that it is a general outline and the investment terms in real life will depend on the searcher's position, experience and negotiation skills.

2.1.3 The searchers

The professionals who embark on a search fund career share the desire of running a company and the willingness to take a risk to realize a financial upside. The motivation for the model is that it allows an early-career entrepreneur to become CEO with a significant equity stake without prior top management experience and limited capital resources (Nieboer and Carenzo, 2011a). This is reflected in the searcher demographics, with 65% of searchers in North America being 35 years or younger (Yoder et al., 2018), while that number is 84% Internationally (Kolarova et al., 2018). The searchers' background in North America is more dispersed than Internationally, but it is a general trait that the searcher has an MBA and experience from either management consulting, investment banking or private equity. Approximately half of the search funds have had one single searcher with the other half being structured as partnerships with two or more searchers (Yoder et al., 2018; Kolarova et al., 2018).

In general, while searcher, principal, manager, talent and entrepreneur all refer to the person creating the search fund, this thesis will predominantly use "searcher" to refer to the initiator of the search fund.

2.1.4 The investors

Investors are a crucial component in the search fund model. Besides providing capital, they serve multiple other purposes, not least since the searcher is relatively inexperienced. Hence, building a diverse group of investors is important to get the right mix of capabilities. Ideally, the investors can serve on the board of directors of the acquired company, provide a network of brokers, lawyers, bankers, and consultants, provide guidance on operations and management, as well as serving as industry experts (Benjamin et al., 2017).

Investors find the model attractive for several reasons. Firstly, the search capital is seen as an option mitigating risk. The relatively small upfront investment allows investors to thoroughly evaluate searchers, and help mentoring them, before deciding if they should make the significant investment (Nieboer and Carenzo, 2011a). Secondly, search funds open for investments in companies that were previously inaccessible for investors. Search funds target mature companies with revenues of around USD 8 million, thus placing itself in a space with little to no competition from buyout funds. The size of the equity ticket does not warrant the sourcing effort and cost for larger funds, whereas search funds overcome this hurdle by having young professionals running the fund at a discount to what they could have earned elsewhere. Hence, investors get deals at a low cost in a segment with little competition (Nieboer and Carenzo, 2011a). Thirdly, the high returns search funds have managed to generate attract investors too. Though, as returns vary, search funds have typically been funded by wealthy individual investors who can take a portfolio approach to this type of investments (Nieboer and Carenzo, 2011a).

Historically, there has been around 15 investors in a search fund with various backgrounds (Yoder et al., 2018; Kolarova et al., 2018). A typical investor group can include institutional investors, family offices, high-net-worth individuals, former colleagues, as well as friends and family. As the search fund model has had success and created positive returns, an ecosystem of professional search fund investors has also emerged. These can bring many benefits as they are familiar with the model and the associated risk and can provide specific knowledge and guidance throughout all stages (Benjamin et al., 2017).

2.1.5 The targets

Examples of acquired companies ranging all the way from software companies to B-2-B service companies show that search fund targets can take many forms. While there is not a one-size-fits-all generalization to be made, the acquired companies tend to share some characteristics. A full breakdown of the industries of acquired companies is presented in appendix 6.

Firstly, from an industry perspective, targets in fragmented and growing industries are preferred as this creates multiple avenues for growth. Secondly, on the company level, targets are preferred to be steady, profitable companies rather than turn-around and high growth cases in order to mitigate operating and investment risks. They are mature companies ready for a second growth spurt. Furthermore, recurring revenue and steady cash flows to service debt payments are desirable traits (Ruback and Yudkoff, 2017). In terms of size, the median enterprise value (EV) of all search fund acquisitions in North America is USD 11.6 million and USD 9.3 million Internationally, with the median revenue at USD 8 million in both segments (Yoder et al., 2018; Kolarova et al., 2018). Companies operating in industries with EBITDA margins of at least 10-20% and growth

rates of 10% are preferred, with EBITDA rarely exceeding USD 5 million as this is the level at which buyout funds start to operate (Kessler and Ellis, 2012; Ruback and Yudkoff, 2017).

2.1.6 Variations of the search fund model

Different variations of the search fund model have emerged as awareness has increased. The model described above is therefore referred to as the traditional search fund model. Two of the notably variations are the self-funded search model and the accelerator model.

In the self-funded model, the searcher does not raise search capital, but instead finances the search by own means, either by conducting the search simultaneously while working in a paid job, or by living on savings. In compensation, the searcher will often gain a much larger share of the profit pool. Additionally, it will give more flexibility in creating the investment terms and setting the preference coupon at a lower rate, as well as more freedom to choose investors. Often, there will be fewer investors than in the traditional model, and the acquired company tends to be smaller (Yoder et al., 2018).

The accelerator model is characterized by having only one investor, typically a larger institutional search fund investor, providing capital, support, resources and access to networks for the searcher. Depending on the investor, the incentive structure for the searcher tends to be similar to the traditional model (Yoder et al., 2018).

The variations bear different advantages and disadvantages for searchers and investors to be aware of. At the outset, this thesis will focus on the traditional model. It is to a large extent the norm to focus on a single variation when conducting a study on search funds (Yoder et al., 2018; Kolarova et al., 2018), and the scope of a master thesis combined with the limited available data on search funds in general, do not currently warrant a cross-sectional study. The traditional model is also the most widespread of the search fund models in the US, and the success and maturity of the model makes it a natural choice of focus. It is acknowledged that a local adaptation of the model might be necessary for it to break through in Denmark, hence the knowledge of the variations might be included in the analysis and discussion of this paper's findings. A summary of the variations of the search fund model is provided in table 1.

Table 1: Comparison of search fund models

	Traditional	Self-funded	Accelerator*
Search capital	Approx. USD 450,000	No search capital	Approx. USD 450,000
Number of investors	Multiple	Multiple	One
Potential equity for searcher	20-35%	30-100%	20-35%
Flexibility / control	Low	High	Medium
Mentorship	Medium	Low to medium	Medium to high

Sources: Dennis and Laseca (2016); Yoder et al. (2018)
*Note: *Variations of the accelerator model include sponsored search and incubated search*

This concludes the subsection on the fundamentals of search funds. A summary of search fund statistics is included in appendix 7.

2.2 Similar alternative investment models

Search funds fall within the traditional alternative investments category generally referred to as private equity (hereinafter PE), which also includes other commonly known investment structures such as buyout funds, venture capital funds, and business angels (hereinafter BO, VC and BA). Hereafter, PE relates to the overall category containing both search funds, BO, VC and BA. To place the search fund investment model within the traditional alternative investment category, similar alternative investment models will briefly be outlined in the following subsections.

2.2.1 Buyout funds

BOs are financial intermediaries that invest risky capital in private companies or delists public companies. Capital is raised in a fund, where investors, typically institutional investors and pension funds, commit capital, which is invested in several companies over a pre-determined period. BO funds cover a wide range of opportunities, including both majority and minority positions, and companies in distress. When a target is identified, funds are drawn down via a capital call (Yasuda and Metrick, 2007). The acquisition is structured as a leveraged buyout (hereinafter LBO), meaning existing owners will sell their shares in the company. Subsequently, the BO firm will introduce initiatives to create value. Initiatives include appointing board members, establishing governance mechanisms, operational excellence and reconfiguration of the capital structure (Kaplan and Strömberg, 2009).

The fee and incentive structure are also of relevance for this paper. In BO, investors pay a management fee, which is based on the committed capital and is used to ensure daily operations of the BO firm. As investments are being exited and carried interest is earned, the fee is dropped. The carry is what represents the variable incentive-based return BO firms receive. To further align interests, partners in BO firms often invest their own money to have skin in the game (Yasuda and Metrick, 2007).

2.2.2 Venture capital

VCs are financial intermediaries that invest risky capital in start-ups. As with BO, the capital is raised in a fund with a pre-determined life span investing in multiple companies, the compensation model consists of a management fee and carried interest, and partners in the VC are expected to have skin in the game (Yasuda and Metrick, 2007). VC firms generally take on smaller ownership shares and have longer holding periods than BO firms (Kaplan and Strömberg, 2009). The target firms of VCs have very high growth rates, they are

often tech companies, they are rarely profitable, and they need growth capital. VCs invest in multiple rounds, thereby both minimizing agency costs but also mitigating investment risk by being able to abandon projects (Gompers, 1995). The investment is to a large extent also motivated by the background and experience of the entrepreneur behind the start-up (Nieboer and Carenzo, 2011a).

2.2.3 Business angels

A BA is a high-net-worth individual, who typically provides capital, in the form of debt or equity from his or her own funds to a small private business owned and operated by someone else who is neither a friend nor a family member (Talmor and Vasvari, 2011). BAs typically offer value-added services to entrepreneurs such as seasoned advice on early-stage venture development. BAs do not incur the transaction costs of VC firms; hence, they are able to make smaller seed and startup-stage investments, well below the minimum deal size requirements of VC firms. As a result, BAs fill a capital gap between "friends and family" and venture capitalists. In contrast to VC firms, which tend to target high-tech and bio-tech industries, BAs invest across various sectors (Talmor and Vasvari, 2011).

2.2.4 Management Buy-Out and Buy-In

A Management Buy-Out (MBO) describes the activity in which the existing management acquires the company they are managing. It is an exit strategy used both by large corporations who wish to carve-out a non-core business unit and also by retiring business owners. Financing typically comes from personal resources, with the managers typically investing a significant amount of their own net worth alongside BO funds (Talmor and Vasvari, 2011).

A Management Buy-In (MBI) is different from an MBO as it is driven by an external management team buying and taking control of the daily operations of the company. The company is acquired by an outside management team when they feel that the company is underperforming and can generate more value with changes to its current strategy and management (Talmor and Vasvari, 2011). In its essence, search funds resemble an MBI, but there are clear differences between the two. Firstly, in a typical MBI, there is no financed nor structured search phase. Instead, managers have often come across the investment opportunity through industry experience or contacts. Furthermore, the managers will often bring all or a large share of the equity themselves, potentially investing alongside BO funds (Talmor and Vasvari, 2011).

2.2.5 Summary of alternative investment models

Key characteristics of the investment models are shown in table 2 to highlight key differences and similarities between them. The review establishes search funds as its own, separate investment model with clear key

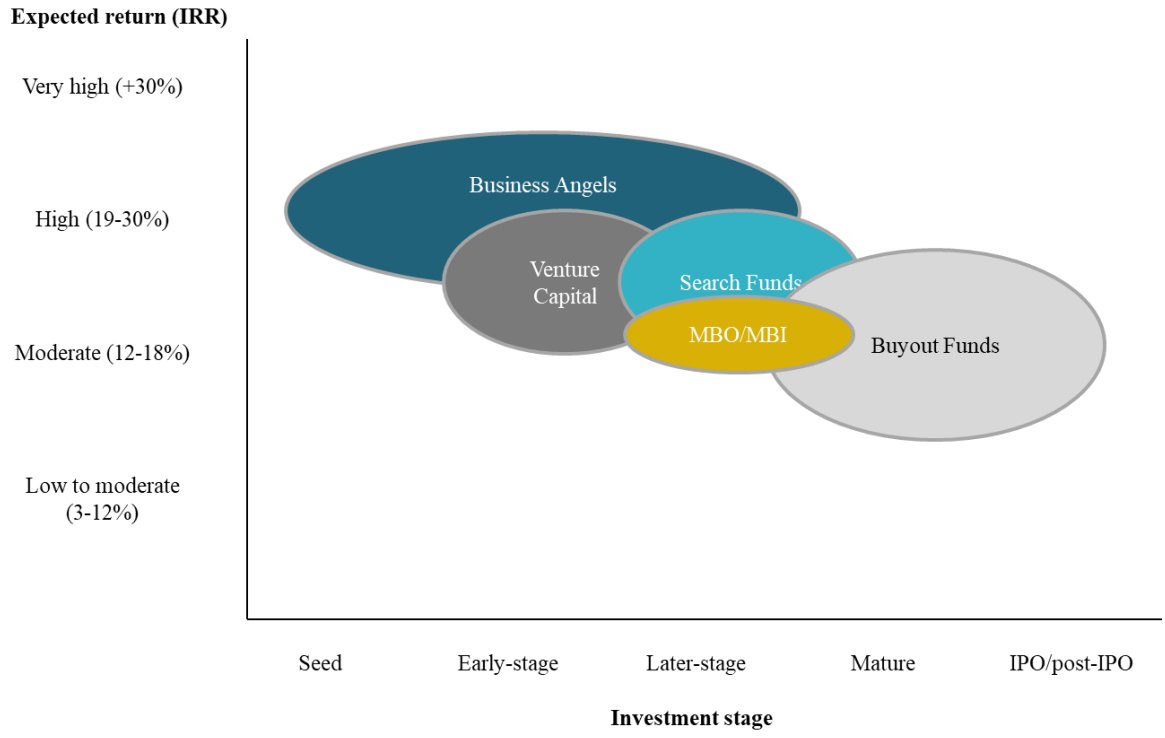
differences from other alternative investment models. Investors' expected returns and investment stage is depicted in graph 1.

Table 2: Characteristics of alternative investment classes

	Search funds	Buyout funds	Venture capital	Angel investors	MBI/MBO
Investment stage	Expansion stage to later stage	Later stage to post IPO	Seed stage to expansion stage	Seed stage to later stage	Expansion stage to later stage
Company size (EBITDA)	USD 1 – 8 million	Greater than USD 3 million	Typically negative	Negative to USD 10 million	n/a
Number of firms	One	Multiple	Multiple	Multiple	One
Team	Inexperienced searchers and professional investors	Professional investors	Professional investors	Individual investor, sometimes syndicated with others	Experienced managers
Compensation structure	20-35% carried interest	2% management fee and c. 20% carried interest	2% management fee and c. 20% carried interest	n/a – direct investment	n/a – direct investment
Roles of General Partners	Management roles	Board or advisor	Board or advisor	n/a – direct investment	n/a – direct investment
Roles of Limited Partners	Highly active	Passive	Active	Highly active	Highly active
Holding period	4-7 years	3-7 years	4-7 years	4-8 years	n/a

Sources: Morrissette and Hines (2015); Yoder et al. (2018)

Graph 1: Investors' expected returns and investment stage



Source: Morrissette and Hines (2015)

3. Literature review

In order to outline the empirical foundation underlying this thesis and reveal the current state of knowledge within academia, a systematic and comprehensive literature review will be conducted. Besides providing an overview of the findings, methodologies and approaches used by other researchers, it will also aid in the highlighting of flaws and gaps in the current literature. The review strives to comprehensively identify, evaluate, and synthesize the relevant and important studies on search funds. While the search funds model is a less researched topic within the academic literature, the areas of investigation and the current findings can, however, be synthesized into distinct aspects of the theme. The conclusions from the previous research will be outlined and compared and will build progressively towards the development of the propositions and hypotheses used for the dimension investigating the Danish investors.

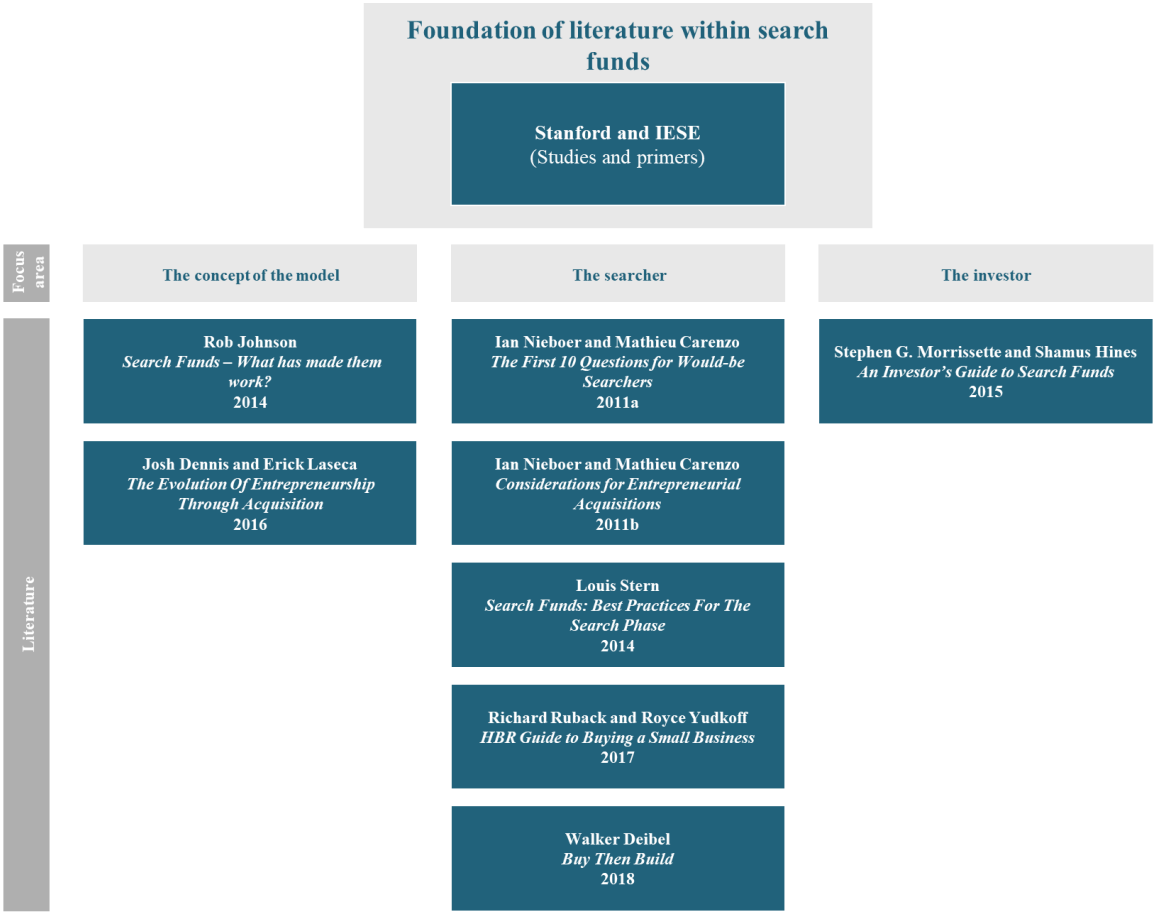
The literature review is structured as follows. First, an evaluation of the existing literature will be conducted, identifying how the research relate, complement and challenge the existing knowledge within the field. In that way, a clear overview is established, thereby revealing any gaps in the current literature. When the overview is established, the literature review will be concluded with the development of propositions and hypotheses based on key findings of the previous literature. These propositions and hypotheses will be applied in the third part of the analysis covering the Danish investors' perceptions of search funds.

3.1 Existing literature on search funds

As the search fund concept was first conceived in 1984, only minimal research has been compiled within this area. To date, the primary hub of research on search funds has been Stanford, who since 1996 has conducted a series of studies on traditional search funds in North America. Outside North America, IESE has tracked and identified International search funds since 2011 in close collaboration with Stanford. Through this research, the two universities have provided insights into the factors that influence successful outcomes for first-time owner-managers and their investors. The studies aim to provide an unbiased view of the benefits and challenges, explain the model from the searcher's perspective, and share operational and execution tips provided by searchers. This includes analyses of searcher salaries and equity, the geographical considerations of search funds, and investor returns. The most recent data from Stanford includes all the North American-based search funds known to exist as of 24th of September 2018. These studies represent the only comprehensive and systematic collection of data pertaining to search funds and have served as the foundation of the literature within search funds. From this foundation, a number of books, journals and articles have originated, most of which have been written by Stanford and IESE themselves.

All other literature on search funds can be classified into three separate aspects covering distinct parts of the search fund model as shown in figure 5. Each aspect will be outlined and analyzed in the following, providing an analysis and overview of the findings, methodologies and approaches used by other researchers.

Figure 5: Overview of previous literature on search funds



Source: Authors

3.1.1 The overall concept of the search fund model

In addition to the studies conducted by Stanford and IESE mentioned previously, Rob Johnson (2014) also covered the overall concept of the search fund model in his study. The purpose of the study was to highlight the key success factors of search funds. This was achieved through interviews conducted in the summer of 2014 with 17 people who were all involved in early search funds in the US and the UK. The interviewees included some of the first searchers as well as their investors, some of whom have invested in over 100 search funds. According to Johnson (2014), the search fund model is based on a three-legged stool: the searcher, the investors, and the company (and its industry). Through the 17 interviews, Johnson found three interesting findings.

First, he found the business to be more important than the searcher, but that good searchers tend to end up with better businesses. It is critical to buy a good business. A good business can carry an average manager, however, with a bad business, even a great manager cannot succeed (Johnson, 2014).

Secondly, European search funds are currently benefitting from some of the factors that made early US search funds successful. Still, some cultures are better suited for search funds because they do not have such a strong tradition of handing down businesses in the family, and in such countries, there is less perceived risk in backing a young, less-experienced person (Johnson, 2014).

Finally, it is key to attract investors who have the experience and the time to help the searcher because they will play an important advisory role during the search and while running the business. Searchers should not seek passive investors, although not all investors will be actively engaged in each fund, they will share the responsibilities across different search funds. According to the interviewees, it is optimal if 75% of the investors have search fund experience (Johnson, 2014).

In 2016, Dennis and Laseca conducted a study of search funds by analyzing existing available data on search funds and by interviewing a broad cross-section of investors consisting of individual, institutional and alternative investors. The goal of the paper was to explore how growth and change will affect search funds going forward. The authors analyzed the growth of search funds through different time periods, focusing on the primary drivers of success and incentives for different parties. The analysis commenced with an investigation of the importance of the different components within the model, consisting of the searcher, the company and the investor. The allocation of the answers for all investor types was 30% searcher, 50% company and 20% investor, meaning that most investors find the company to be the most important component. Generally, the investors were optimistic about search funds for a couple of reasons. Most importantly, the pool of available small business and the ageing American demographic create an extremely attractive opportunity for entrepreneurship through acquisition. Additionally, since most BO funds require management teams to stay after an acquisition, search funds are unique alternatives for business owners who want to retire completely from the business (Dennis and Laseca, 2016).

3.1.2 The searcher

Most research conducted on search funds relates to the searcher. Several articles act as guides for potential searchers where previous searchers and investors share their experience with the investment model. Among others, IESE published two journals in 2011.

Based on the Stanford Search Fund Primer, Nieboer and Carenzo from IESE (2011a) developed ten questions that tried to explain the most fundamental aspects of the search fund model for would-be-searchers. One question related to the investors is highly relevant in relation to this thesis. The authors answered why an investor would fund a searcher to find a company to buy and run. The first argument was that search funds have historically performed very well, returning an IRR over 30%. Secondly, the two rounds of financing in the search fund model, creates an option mechanism that can be very attractive for investors. Thirdly, there is some degree of risk mitigation. Investors can help develop the searcher through mentorship as they move through the process. Finally, the search fund model gives investors access to deals. Search funds target small and mature companies which are smaller than BO funds typically pursue. The searchers work at a discount because of the possibility of running and earning equity in a business much sooner than they otherwise would be able to. The result is that investors are able to source deals at a relatively low cost, and in a segment with relatively little competition (Nieboer and Carenzo, 2011a).

Nieboer and Carenzo (2011b) also published a second journal in 2011. The two authors developed a synthesis of the experiences encountered by entrepreneurs and investors from around the world. The experiences should aid in helping entrepreneurs through the early phases of their entrepreneurial acquisition in two ways. First, they should help entrepreneurs to systematically review and define the assumptions of their research. Secondly, suggestions and recommended practices for undertaking a search were presented. The outcome of the synthesis of experiences was a number of key recommendations for succeeding as a searcher.

Most importantly, the interviewees highlighted picking the right industry. It is important to identify strong niches that meet the searcher's criteria. Hence, not only strong industries are suitable, because finding a weak industry can be advantageous as weak industries frequently have niches with strong growth and margins. Therefore, weak industries with an attractive structure (capital intensity, cost structure, etc.) may offer attractive opportunities for search funds. As an example, the commercial airline industry does not seem that strong, however, a subset of the more profitable routes may represent a stronger niche industry (Nieboer and Carenzo, 2011b).

Stern published a paper in 2014 with the goal of sharing information and viewpoints from experienced searchers and investors in order to assist new searchers in their pursuit to find and acquire the right company. The paper also served as a potential blueprint for searchers during the search phase. After having conducted dozens of interviews, the author believed that there exist specific best practices. According to the paper, the general consensus is that a searcher should allocate approximately 80% of the time to the industry-driven proprietary search process and 20% to the intermediated or brokered search. The industry-driven proprietary search process deals with finding industries that fit a set of criteria deemed necessary for success, whereas the

intermediated search process and operations entail reaching out to brokers, signing NDAs, analyzing inbound deals and managing the company pipeline (Stern, 2014).

In the book "Buying a Small Business", Harvard Business School professors Richard Ruback and Royce Yudkoff help potential searchers in determining whether a search fund is the right path for the individual (2017). According to Ruback and Yudkoff, the searcher does not need a specific business idea, no operating experience in an industry and no capital. Therefore, the principal barrier to becoming an acquirer is the searcher's willingness to pursue an acquisition. When looking for a business to acquire, a few key characteristics should be sought out. First, the business should be enduringly profitable with EBITDA margins of 15-20%. Second, it should be a "boring" business, which means it should have the same customers from year to year and grow slowly. The seller will demand a much higher price for a business that has the potential to grow quickly. Buying a high-growth business entails harder work, bigger risk of failure, and is more expensive. Third, it should be a business with sustainable competitive advantage, such as high customer switching cost or market dominance in a local or regional niche. Structurally, this should be a very attractive area of the private markets for smaller institutions and high-net-worth individuals to invest in (Ruback and Yudkoff, 2017).

Acquisition entrepreneur, Walker Deibel (2018), showed how to begin with a sustainable, profitable company and grow the company from there in his book "Buy then build". Buying an existing business can be a better model of entrepreneurship simply because it provides a profitable infrastructure, complete with customers, historical margins, and a margin of safety from which an entrepreneur can launch its own initiatives and leadership. Simultaneously, there is a transition occurring right now. Baby boomers, who own more companies than any other generation in history, are retiring, and USD 10 trillion in business value will need to change hands, with the highest volume of opportunity in businesses below USD 5 million in revenue (Deibel, 2018).

3.1.3 Investors

Morrissette and Hines (2015) provided insights into the evaluation of search funds and their relevance within an investment portfolio from an investor's perspective. They found that typical PE investors are institutional and accredited individual investors. Due to the size of the search fund asset class, search fund investments are limited to high-net-worth individual investors. The two-stage fundraising reduces the risk to the investor much like a multi-stage investment in a start-up reduces the risk to a venture capitalist. Investors are able to purchase a unit which includes a pro rata first right of refusal investment in the acquisition stage. This feature behaves much like an option, giving the investors the opportunity but not the obligation to invest additional funds into the company. The option-like structure attracts investment from qualified individual investors who value direct investments but do not have the time or the expertise to source acquisition targets. In contrast, VC and

traditional BO funds receive funding from institutional investors such as pensions, endowments, foundations, and trusts (Morrissette and Hines, 2015).

As with most investors, search fund investors must develop a process to select the most appropriate investment for their objectives, have a method for conducting ongoing monitoring of their investments, and understand the issues around exiting their investment. All three processes are more complex for a search fund investment than for a typical investment in marketable securities or an institutional-style PE fund. Search fund investing is not an investment in a fund, it is a near-direct investment in a single operating company. Despite requiring commitment and posing remarkable risks, many investors have found value in the search fund investment model (Morrissette and Hines, 2015).

According to Morrissette and Hines (2015), during the next five to ten years, search funds seem likely to enjoy a large addressable supply of acquisition targets and a growing demand for flexible BO funds. Consequently, the growing number of search funds coming to market will need to be met with additional investor acceptance of this model or with additional innovations in investment structuring.

3.1.4 Summary of previous literature

In summary, several studies from Stanford and IESE, six academic journals and two books, serve as the foundation of the literature behind search funds. In table 3 below, a summary of the key findings from the previous literature is outlined.

Table 3: Summary of previous literature

Author	Year	Title	Focus area	Geographic focus	Data collection	Key findings
E. Benjamin, P. Kelly, S. Rosenthal, C. Andrews, and D. Dodson	2017	A Primer on Search Funds - A practical guide to entrepreneurs embarking on a Search Fund	The overall concept of search funds	North America	Uses a quantitative, survey-based research method	The Primer aims to provide an unbiased view of the benefits and challenges, explain the model from the entrepreneurs' and the investors' perspectives, and share operational and execution tips provided by search fund entrepreneurs
A. Yoder, P. Kelly, S. Rosenthal and H. Grousbeck	2018	Search Fund Study - Selected Observations	The overall concept of search funds	North America	Uses a quantitative, survey-based research method	A record number of search fund acquisitions were completed in 2017 - The next several years will continue to see an increase in activity — acquisitions, new searches, successful exits, and realized losses
L. Kolarova, P. Kelly, A. Dávila and R. Johnson	2018	International Search Funds - 2018 - Selected Observations	The overall concept of search funds	International	Uses a quantitative, survey-based research method	Found seemingly promising search acquisitions had been made recently in Brazil, Mexico, Spain, and other countries. - Searches had begun in even more countries, including some in Africa
R. Johnson	2014	Search Funds - What has made them work?	The overall concept of the model	The US and UK	Interviews with 17 people involved in search funds	- European search funds are benefitting from some of the same factors that made early US search funds successful - It is key to attract investors with experience and time to help the searcher

J. Dennis and E. Laseca	2016	The Evolution of Entrepreneurship through Acquisitions	The overall concept of the model	Not specified	Interviews with 44 investors	Found that talented and better prepared searchers, combined with a large and growing pool of available companies, and a robust capital structure will lead to continued growth in this asset class in the future
I. Nieboer, M. Carenzo	2011	The First 10 Questions for Would-be Searchers	The searcher	Global	Based on the experience of search funds	Investors tend to invest in search funds due to the historical returns, the option mechanism, risk mitigation and due to access to deals
I. Nieboer, M. Carenzo	2011	Considerations for Entrepreneurial Acquisitions	The searcher	Global	The journal synthesizes interviews with entrepreneurial acquirers and financiers	- Highlights the importance of identifying strong niches that meet the entrepreneur's criteria - States that it is important to define what level of value creation will be used
L. Stern	2014	Search Funds: Best Practices For The Search Phase	The searcher	Not specified	Interviews with experienced searchers and investors	- Identifies best practices for the search phase - Concludes that 80% of the search time should be allocated to the industry-driven proprietary search process and 20% to the intermediated or brokered search
R. Ruback and R. Yudkoff	2017	Buying a small business	The searcher	Not specified	Draws on the experience from the authors	- The business should be enduringly profitable with EBITDA margins of 15-20%, recurring customers and steady growth
W. Deibel	2018	Buy Then Build	The searcher	Not specified	Draws on the experience from the author	Buying an existing business can be a better model of entrepreneurship simply because it provides a profitable infrastructure, from which an entrepreneur can launch its own initiatives and leadership
S. Morrissette and S. Hines	2015	An Investor's Guide to Search Funds	The investor	Not specified	40 interviews	- Due to the size of the search fund asset class, search fund investments are limited to high-net-worth individual investors - The option-like structure attracts investment from qualified individual investors who value direct investments but do not have the time or the expertise to source acquisition targets

Source: Authors

This thesis seeks to fill a gap within the existing literature. As a matter of fact, most of the previous literature have either focused on the overall concept of search funds or on the searcher. The main focus of this thesis is on the investor side, in which the aim is to investigate the outlook for search funds in Denmark seen from investors' perspective. The focus on this specific component of the model is unique and is only seen previously in the academic journal "An Investor's Guide to Search Funds" written by Stephen G. Morrissette and Shamus Hines (2015). Additionally, the geographic focus of this thesis is distinctive as most of the previous literature has focused on North America. More recently, the geographic focus of the existing literature has broadened concurrently with the geographic expansion of the footprint of the model. However, none of the existing literature have focused exclusively on Denmark.

As the asset class is still in its infancy, the existing literature is explorative, and many academics have applied qualitative research methods and included interviews in their data collection. This thesis will follow this norm and apply the same methods. A combination of qualitative interviews and quantitative analyses of secondary data will serve as the basis of the data used in this thesis. The methodology underlying this thesis will be described in detail in the section following the proposition and hypothesis development.

3.2 Proposition and hypothesis development

Having analyzed and outlined the current state of the topic within academia, previous findings on search funds will contribute to the development of relevant propositions and hypotheses to be answered and tested in the analysis. Even though the search fund concept is a scarcely researched topic, previous key findings by other authors are dispersed within different aspects of the theme as outlined in figure 5. Hence, the findings will be able to build the foundation for a relatively broad scope of propositions and hypotheses to ultimately answer the research question. In the following, selected previous empirical findings will be outlined based on the summary of previous findings in table 3 and serve as building blocks for the propositions and hypotheses of the third dimension of the analysis. The propositions and hypotheses will only be applied in the subsection covering Danish investors' perceptions of search funds to ensure a structured analysis to the data of qualitative nature. This is in line with the methodological choices which will be further elaborated in the methodology section.

3.2.1 Danish investors' appetite for search funds

Generally, the previous empirical literature within search funds show confidence about the future for the search fund concept. Currently, most search funds are located in the US, however the concept is currently expanding geographically.

Johnson (2014) found that European search funds are benefitting from some of the factors that made early US search funds successful. According to Yoder and colleagues (2018) it is likely that the next several years will continue to see an increase in activity, both in acquisitions, new searches, successful exits, and realized losses. Kolarova and colleagues (2018) followed suit and found that promising search acquisitions had been made recently in Brazil, Mexico, Spain and other countries. Searches had begun in even more countries, including some in Africa (Kolarova et al., 2018). During the next five to ten years, search funds seem likely to enjoy a large addressable supply of acquisition targets and a growing demand for flexible BO funds according to Morrissette and Hines (2015).

By synthesizing previous findings and observations, the future seems bright for search funds. In order to analyze the market potential for the investment model in Denmark, the first two relevant propositions are going to concern Danish investors' appetite for search funds.

P1: Danish investors are likely to invest in stage 1
P2: Danish investors are likely to invest in stage 2

3.2.2 Investor characteristics

Search fund investors include a wide range of investor types. Friends and family, business associates, business school faculty, angel investors, business owners and executives, and institutional search fund investors have all invested in search funds in the past (Yoder et al., 2018). Even though the investment model seems relevant for many different investor types, some elements of the model make search funds more appropriate for investors with certain characteristics.

Overall, PE stages range from seed stage to delisting of public companies. However, most of the investment activity occurs in the private market. Search funds generally look for later-stage investments with private companies that demonstrate stable cash flows and a history of profitability. In contrast, VC firms typically look for earlier-stage investments prior to cash-flow generation. Furthermore, one of the biggest differences between search funds and other PE investment structures is the concentration on smaller deal sizes than traditional BO funds (Morrissette and Hines, 2015). Due to the size of the search fund asset class, search fund investments are limited to high-net-worth individual investors according to Morrissette and Hines (2015).

These findings lead to the first hypothesis of this thesis:

H1: BAs are more likely to invest in a Danish search fund in stage 2 than other investor types

Another key characteristic of potential search fund investors is to what extent they are actively involved in the investments. Generally, investors who are actively supportive are key. The interviewees of the study performed by Johnson (2014) recommended that searchers should not seek passive investors. Although not all investors would be actively engaged in each fund, they would share responsibilities across different search funds. The investors should be collaborative and long-term oriented and have the patience to work with and advise an inexperienced searcher and CEO (Johnson, 2014).

The previous academic literature concerning the importance of active involvement from investors leads to the second hypothesis:

H2: Active investors are more likely to invest in stage 2

Search funds typically acquire companies with total market values around USD 11.6 million but have acquired companies as large as USD 117 million (Yoder et al., 2018). Investors are not obligated but are largely expected to participate in the acquisition round of financing (Morrissette and Hines, 2015). From 2016 to 2017, the median number of investors per search fund in the US was 15 investors (Yoder et al., 2018). As some investors invest more than other, the investors should be able to invest somewhere between DKK 0.5 million and DKK 20 million in the search fund.

These findings provide the foundation for the third hypothesis of this thesis:

H3: Investors with equity tickets between DKK 0.5 and 20 million are more likely to invest in stage 2

3.2.3 The step-up mechanism

After analyzing the propositions regarding Danish investors' appetite for search funds and testing the hypotheses of investor characteristics, the specific components of the model will now be explored.

As outlined in the background and definition section of the thesis, investors are incentivized and rewarded for taking the initial risk of investing in stage 1 by the use of a step-up mechanism. The initial small amount of financing gives the investor the preferential right to participate in the final deal. However, if the searchers or the business are not found suitable for the investor, the investor does not have to invest in the final deal (Nieboer and Carenzo, 2011a).

In order to get an understanding of Danish investors' perceptions of the step-up mechanism, the third proposition in the third part of the analysis will analyze the fairness of the step-up mechanism of the search fund model.

P3: The step-up mechanism is fair

3.2.4 The weakest stage of the search fund model

To get a deeper understanding of the search fund model, it is crucial to critically investigate the weakest parts of the investment model. The search fund model consists of four stages, and if the model should be successfully implemented in Denmark, investors' perspectives on the weakest stage should be investigated such that

adaptations can be made. Therefore, the next proposition is going to analyze what the weakest stage of the search fund model is according to Danish investors.

Rob Johnson (2014) found that the search fund model has major impediments that act as barriers. According to Johnson, the biggest hurdle is raising the initial search fund because it is difficult to sell the concept to potential investors. Once the initial search fund is raised, the searcher knows that raising capital for the acquisition is possible (Johnson, 2014).

This empirical finding can be validated in the Danish market, which can significantly contribute to existing literature.

P4: Stage 1 of the search fund model is the weakest

3.2.5 The market potential for search funds in Denmark

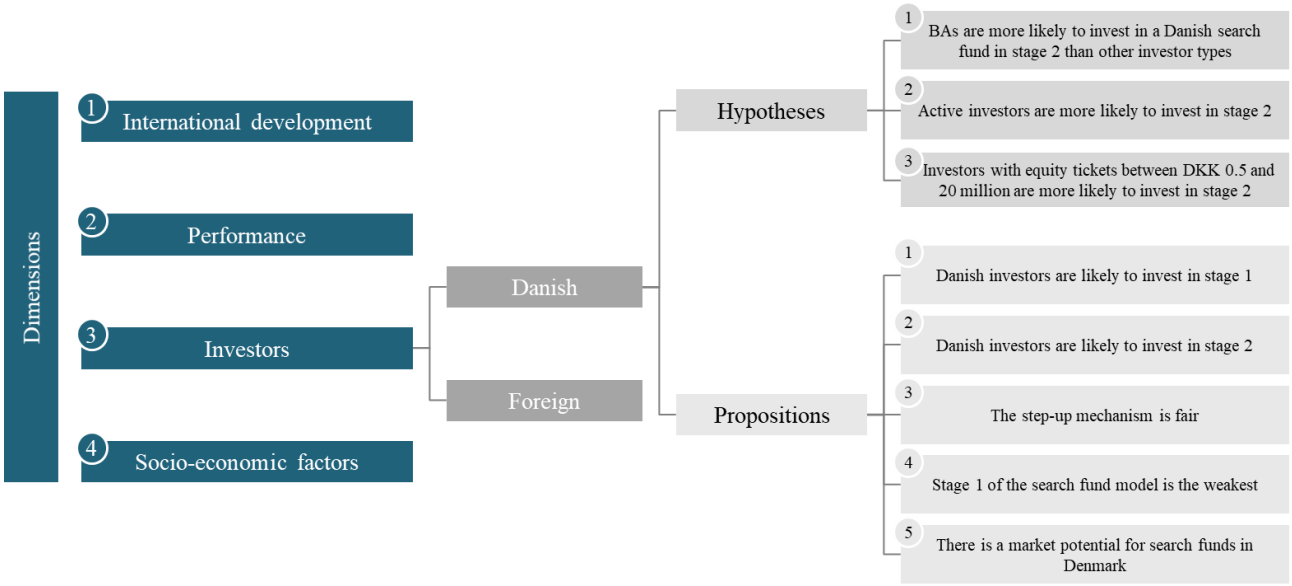
The fifth and final proposition will conclude on the Danish investors' perceptions of search funds by investigating the market potential for search funds in Denmark. As mentioned, according to the previous academic literature researching other geographic areas, the future seems bright for the search fund model. The market potential is not evaluated based on Danish investors' specific investment decision, but on whether they think it is an investment model that is warranted in Denmark.

According to Deibel (2018), there is a transition occurring at the moment in the US. Baby boomers, who own many companies, are retiring, and USD 10 trillion in business value will need to change hands, with the highest volume of opportunity in businesses below USD 5 million in revenue (Deibel, 2018). Therefore, search funds seem likely to enjoy a large addressable supply of acquisition targets and a growing demand for flexible BO funds (Morrissette and Hines, 2015). Similar or other trends and factors justifying the employment of the search fund model might exist in Denmark as well. This leads to the final proposition of this thesis.

P5: There is a market potential for search funds in Denmark

In summary, the third part of the analysis of this thesis will investigate the Danish investors' perceptions of search funds in Denmark through the five propositions and the three articulated hypotheses as depicted in figure 6.

Figure 6: Hypotheses and propositions of the thesis



Source: Authors

4. Methodology

To ensure the dimensions articulated throughout this thesis are addressed coherently, the methodology will be driven by the research philosophy and the research question. Hence, the purpose of this section is to present the philosophical and methodological assumptions underpinning this thesis, as well as to introduce the research design and the empirical data collection techniques applied, thereby enhancing transparency on how results are obtained.

4.1 Research philosophy

Outlining the research philosophy of the thesis serves a dual purpose. Firstly, it establishes an understanding of the researchers' reflective role in the research, which is important to guarantee transparency in order to make a well-defined contribution to the research field. Secondly, it guides the research design and strategy ensuring a coherent study (Saunders, Lewis and Thornhill, 2016).

Whereas no single researcher pledges to all aspects of one particular view, this thesis will primarily be applying principles resembling pragmatism. In a pragmatism-driven study, the research is grounded in a problem with emphasis on finding practical outcomes. Thus, pragmatism aspires to find practical solutions informing future practice. This has the implication that the research design and strategy are determined by the research question as this is the problem sought out to be addressed by the study (Saunders et al., 2016).

The adoption of the pragmatism view is further motivated by the ability for the researcher to utilize both objectivism and subjectivism (Saunders et al., 2016). This is appropriate for an explorative study, where several methods should be applied to thoroughly examine the phenomenon, thereby further validating the choice of research philosophy. Objectivism enables the analysis of quantitative datasets, which as an example, is used to examine the performance of alternative assets. Subjectivism on the other hand, allows for the subtraction of knowledge from the qualitative study of Danish investors.

On the other hand, pragmatism acknowledges that there are several ways of interpreting the world and that multiple realities exists, meaning the philosophy is not helpful in finding one single, higher truth (Saunders et al., 2016).

4.2 Research approach

The research philosophy has implication for, and is closely linked to, the research approach, which prescribes how data and theory are applied. While deduction and induction are the two main forms of reasoning approaches, an advantage of pragmatism is that it enables the use of abduction. Abductive reasoning combines deduction and induction, in the way that it allows moving back and forth between data and theory. In the

abductive approach, data is used to explore the phenomenon, identify themes and patterns with the aim to place these in a conceptual framework. Subsequently, this is examined further, ultimately seeking to generate new or modify existing theories (Saunders et al., 2016).

The combination of deduction and induction is a great advantage within the settings of an explorative study. Conversely, a drawback of abduction is the risk that no meaningful patterns emerge, thereby complicating the research and possibly rendering it invalid (Saunders et al., 2016).

To assure a coherent and comprehensive study, the established research philosophy and approach will guide the configuration of the research design presented in the following subsection.

4.3 Research design and strategy

This subsection will present the choice of research design and strategy. Justifications for the choices will be elaborated to place the elements and show consistency in the methodological framework applied.

Given that the paper takes the standpoint of pragmatism, a mixed methods research design, which combines the use of quantitative and qualitative methods, is a natural choice. Pragmatism considers the exclusive adoption of a single position unhelpful, emphasizing that the research question is the driver defining methodological choices. In this case, mixed methods is helpful, as it provides methods suited for different attributes of search funds, which are necessary to understand to fully achieve the research objectives. Moreover, mixed methods fits with abductive reasoning as it allows for validating propositions followed by further analysis to gain a deeper understanding of the phenomenon (Saunders et al., 2016).

For the purpose of this paper, a research design resembling concurrent embedded design has been applied. Concurrent embedded research is a single-phase process comprising the interpretation of both quantitative and qualitative results to achieve a comprehensive understanding of the research topic. In concurrent embedded research, the methods can support and complement each other in a number of ways. During data collection, one method can be embedded in the other as for example including quantitative questions in an interview. Additionally, the methods can be used concurrently but separately with one supporting the other. Besides providing deeper data, this design also has the advantage of being practically possible within the timeframe constraining a master thesis (Saunders et al., 2016).

The design encompasses both quantitative and qualitative forms where the latter will be dominant, which is generally the norm for exploratory studies. Exploratory studies are used to ask open questions, which are likely to start with ‘what’, to discover what is happening as well as gaining insights on the research topic. They are useful when the precise nature of the phenomenon is uncertain and clarification needed, as is the case with

search funds, thus making it a natural approach. Typically, exploratory studies employ literature reviews, expert interviews and in-depth individual interviews. Lastly, another advantage is the flexibility and ease with which the study can be adapted as new knowledge is accumulated (Saunders et al., 2016).

The motivation for carefully selecting research strategy is that it creates coherence throughout the research by linking the philosophy with the methods. Again, the choice of strategy is guided by the research question. For the purpose of this study, the case study has been chosen. The use of case studies is encouraged in the early, exploratory stage of research, thus fitting nicely within the framework for this study. Although often associated with the analysis of single firms or projects, case studies can be applied to several types of subjects including search funds in Denmark. The strategy is an in-depth inquest into a phenomenon within its real-life context, thereby highlighting the importance of examining the factors surrounding the unit of analysis (Saunders et al., 2016). Consequently, it is often necessary to use mixed methods when employing the case study strategy, thereby nicely tying up the choice of methodological framework for this study. The choices behind the applied research framework is depicted in figure 7.

4.4 Data sample, collection and application

In accordance with the pragmatic research philosophy undertaken, and appropriate for an explorative study, the data collection involves mixed methods by using both qualitative and quantitative data from primary and secondary sources. This data collection method is useful when exploring a scarcely researched area. In this sense, the mixed methods are used to provide a contextual background and to better answer the research question. In the following, data sampling, limitations of the data and data application will be thoroughly outlined first by looking at the primary data and afterwards the secondary data.

4.4.1 Primary data sample

The primary data sample consists of 41 interviews conducted from December 2019 to March 2020 with Danish as well as foreign investors and industry experts. In accordance with the exploratory research nature employed, the interviews were done in order to collect valid data that are relevant to the research question and the objectives of the thesis. Additionally, the purpose of the interviews was to obtain a more holistic and nuanced overview of the research field than what was possible from quantitative data alone. As the PE industry is exempted from public disclosure requirements and the search fund model is a scarcely researched topic, the primary data provides unique and important knowledge to assist in answering the research question.

4.4.1.1 Data sampling

Three categories of interviewees consisting of Danish investors, foreign investors and industry experts were interviewed. The decision to select interviewees from various parts of the PE industry was justified by the

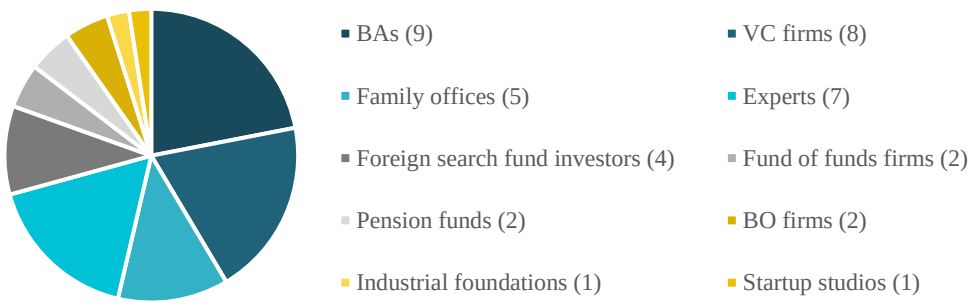
objective of conducting a comprehensive investigation of which investor types are relevant for search funds in Denmark. For each interviewee category, different sampling techniques were applied.

In order to select Danish investors for the interviews, stratified random sampling was utilized. Stratified random sampling is a modification of random sampling in which the target population is divided into relevant strata based on selected attributes (Saunders et al., 2016). The target population was divided into four strata consisting of BAs, VC firms, family offices and other investor types. Dividing the population into a series of relevant strata means that the sample is more likely to be representative, as each of the strata is represented proportionally within the sample. As the sizes of the relevant strata are different, the sample size of each of the strata is also different. The sample data obtained from the interviews enables a statistical generalization about all investors from which the sample has been selected (Saunders et al., 2016). A comprehensive list of Danish BAs, VC firms and family offices was downloaded from DVCA from which the sample was selected.

To investigate foreign investors' appetite for Danish search funds, homogeneous purposive sampling has been applied. Purposive samples are not statistically representative of the target population. Hence, the logic for choosing this strategy is solely dependent on the research question and to uncover the objective of investigating to what extent foreign investors would be likely to invest in a Danish search fund. Homogeneous sampling focuses on one particular subgroup, foreign search fund investors, in which all the sample members are largely similar allowing them to be explored in greater depth and minor differences to be more apparent (Saunders et al., 2016).

Finally, industry experts have been interviewed to explore specific areas affecting the future of search funds in Denmark. These include experts within search funds, tax, debt, SMEs and MBIs. An extreme purposive sampling strategy was applied to learn the most and to answer very specific questions to ultimately answer the research question most effectively. A breakdown of the interviewee categories is provided in graph 2 below and a comprehensive overview of the interviewees is provided in appendix 1.

Graph 2: Overview of interviews conducted (N = 41)



Source: Authors

4.4.1.2 Interview approach

The interviews conducted were all semi-structured with a duration of 45 to 75 minutes. Semi-structured interviews were applied to have the flexibility of asking unplanned questions as conversations unfolded and curiosity stirred, thereby generating additional insights. A preplanned guide was developed with relatively focused but open-ended questions. As the interviewees' expertise differed, the participants had the opportunity to report on their own thoughts about search funds and elaborate on different areas of the theme. However, some of the questions were very specific and generic throughout all interviews which allowed for a quantitative analysis of the answers.

The interviews were divided into four parts. First, the scene was set by the interviewers by explaining the topic and the purpose of the thesis, and an introduction to the interviewers was presented. Secondly, approximately eight questions were asked about the interviewees' investment philosophy, which not only gave a valuable understanding of the business, but also served as important information in order to conduct the analysis. Subsequently, a five-minute presentation of the search fund model was given to guarantee that the interviewees had a clear understanding of the investment model. The presentation is included in appendix 8. Finally, approximately nine questions, which are outlined in table 4, were asked about the interviewee's thoughts on the search fund model and its market potential in Denmark.

Table 4: Key generic topics covered in the interviews

Investment philosophy	View on search funds
Investor type	Knowledge of search funds
Timing of investments	Likelihood of investing in stage 1
Investor involvement	Likelihood of investing in stage 2
Asset under management	Likelihood of Investing based on other
Investment horizon	Strengths of the model
Expected return of investments	Obstacles of the model
Required ownership share	Weakest stage of the model
Equity ticket size	Fairness of the step-up mechanism
	Market potential

Source: Authors

Most of the interviews happened on a face-to-face basis. Due to time constraints and logistic issues, telephone interviews were also employed. If accepted by the interviewees, the interviews were audio-recorded and after every interview a summary of the key output was written. Finally, specific quotes were sent for confirmation if required by the interviewee.

4.4.1.3 Primary data limitations

Understanding the limitations is important in order to determine the reliability of the results. Hence, this subsection identifies and briefly discusses the major limitations and their impact on the outcome of the study.

Several data quality issues impact semi-structured interviews. Reliability, generalizability and validity are all data quality issues that were addressed before preparing and conducting the interviews. The lack of standardization in semi-structured interviews can influence reliability, which concerns whether other researchers would reveal similar information. In non-standardized interviews replication is unrealistic and infeasible without undermining the strength of the type of research (Saunders et al., 2016). Instead, the research design, the reasons for the choice of strategy and methods have been thoroughly explained. Generalizability refers to the extent to which the findings of a research study are applicable to other settings. This may be questioned in relation to the statistical generalizability of this study where it is based on a relatively small sample. To overcome the issue of generalizability, a full description of the research questions, design, context, findings and resulting interpretations are provided in the thesis, allowing other researchers to conduct a similar research project to be used in a different setting. Validity involves whether the means of measurement are accurate and whether the researchers can infer meanings that the participants intends from the language used by that person (Saunders et al., 2016). By applying clarifying questions and probing meanings during the interviews, the researchers aimed at achieving a high level of validity.

In addition to data quality issues, four types of biases may be found in the interviews. The first of these is related to interviewer bias where the comments or non-verbal behavior of the interviewer might create bias in the way interviewees respond to the questions (Saunders et al., 2016). To overcome the interviewer bias, framed questions or expressed preconceptions and beliefs of the researcher were avoided and questions were asked in an objective and open manner. Related to the interviewer bias is the interviewee bias. This bias is typically caused by the interviewees' perceptions about the interviewer. Despite being willing to participate in an interview, an interviewee may be hesitant to answer questions regarding sensitive themes. To establish a quick and trustful relationship, a thorough introduction was given and the participant's right not to answer a question was emphasized. The third bias is also related to the interviewees in shape of the participant bias. The bias may arise because the amount of time required for an interview may result in a reduction in willingness to take part by some. Hence, it may bias the sample from whom the data are collected. This was carefully considered through the approach taken to sampling. Finally, although stratified random sampling was applied, the study suffers from potential sampling error, namely self-selection bias. Self-selection bias indicates that interviews were only conducted with investors who volunteered to participate. It is reasonable to assume that investors who are highly opinionated are more likely to participate to express their view. However, it is also fair to assume that the stimuli that govern the interviewees opinionated nature will direct the answers in both

directions, therefore not inducing systematic error qualities. Even though multiple actions were taken to overcome the four listed biases, it should be noted that biases may still prevail given that the interviewers selected the questions and guided the conversations.

4.4.1.4 Data application

Content analysis was used as the main method to produce the data analysis. It is an analytical technique that codes and categorizes qualitative data in order to analyze them quantitatively (Saunders et al., 2016). As a result, content analysis provided the means to quantify given variables in the data which enabled a statistical analysis of the relationships of the variables. In order to apply content analysis, generic topics, as presented in table 4, were predetermined by the researchers before data collection commenced. Content analysis is highly suitable to address descriptive types of questions to answer exploratory research questions (Saunders et al., 2016).

The quantitative analysis of the qualitative data was addressed in two parts. Five propositions all relating to the research questions were quantitatively assessed by utilizing simple diagrams to depict the answers. The second part applied hypothesis tests to analyze which type of Danish investors that are most likely to invest in search funds. The hypothesis tests were performed using Fisher's Exact Test of Independence. Fisher's Exact Test is a statistical test applied when having two categorical variables and wanting to test if proportions for one categorical variable are different among values of the other categorical variable. For experiments with small numbers of participants, under 1,000, Fisher's Exact Test is more accurate than the chi-square test. A general recommendation is to use Fisher's Exact Test instead of the chi-squared test whenever more than 20% of cells in a contingency table have expected frequencies less than five (Agresti, 1992).

Fisher's Exact Test is based on certain assumptions including:

- Sampling or allocation are random
- The row and column totals are fixed, not random
- Each observation is mutually exclusive

The data and methodology of this thesis comply with all the assumptions.

Unlike most statistical tests, Fisher's Exact Test does not use a mathematical function that estimates the probability of a value of a test statistic. Instead, the exact probability of getting the observed data, and all datasets with more extreme deviations are calculated under the null hypothesis stating the proportions are the same. By more extreme, it means any configuration with a smaller probability of occurrence in the same

direction (one-tailed) or in both directions (two-tailed). The probability of observing a given set of frequencies a, b, c, and d in a 2x2 contingency table, given fixed row and column marginal totals, and sample size N, is:

$$p = \frac{\binom{a+c}{a}\binom{b+d}{b}}{\binom{N}{a+b}} = \frac{(a+b)!\,(a+c)!\,(b+d)!\,(c+d)!}{N!\,a!\,b!\,c!\,d!}$$

where a, b, c and d represent the four cells, N is the total number of subjects in the study and ! denotes the factorial of the number.

To support quantitative analytical techniques, qualitative analytical techniques can be used in combination with content analysis (Saunders et al., 2016). Hence, thematic analysis was applied to search for themes and patterns that occurred across the interviews, which offered a systematic yet flexible approach to analyze the qualitative data. In that way, it was used to analyze a relatively large qualitative dataset leading explanations for the more quantitative answers. As a result, anecdotal evidence was used and systematized to reveal important arguments elaborating on the investors' quantitative answers.

4.4.2 Secondary data sample

Secondary data has been utilized to uncover the international development of search funds in relation to VC and BO funds and to conduct a financial performance measurement of the three asset classes.

An investigation of the international development of search funds was performed and compared to other similar alternative asset classes. Due to limited availability and quality of PE data, the data was collected from multiple databases. Preqin, Invest Europe, PitchBook, NVCA and DVCA were all used to triangulate the BO and VC data. The triangulation facilitated a validation of the data through cross verification from two or more sources for each datapoint. Data on search funds was collected from Stanford, IESE and Searchfunder.com to assess fundraising levels. Eventually, a comprehensive database was established containing the collected data. An overview of the database is found in appendix 9.

In order to analyze the performance of BO funds, VC funds and search funds, data from three platforms was collected. First, to get data on BO and VC funds' performance, Preqin was utilized. Preqin, an independent data provider, offers one of the most comprehensive and detailed sources of PE performance data covering both BO and VC funds. Secondly, data from Stanford and IESE was collected to get performance data on search funds.

4.4.2.1 Secondary data limitations

Although many of the secondary datasets applied are likely to be of decent quality, there is still a need to assess the quality of the data. As PE firms are often exempt from public disclosure requirements, it has led to a shortage of reliable industry data. Generally, there are large inconsistencies in databases and a general problem of incompleteness.

Data comparing the international development of fundraising for PE funds has improved considerably in recent years (OECD, 2017). Yet, international comparisons remain complicated because of two main problems. First, because of the lack of a standard international definition of the components of PE, inconsistencies remain (OECD, 2017). Secondly, the diverse methodologies employed by data compilers creates a problem. The completeness and representativeness of PE statistics with respect to the PE industry of a country will differ depending on how data was collected (OECD, 2017).

That being said, the quality of information available on PE data has increased in recent years. Even though the particular values of published statistics for these asset classes can still be considered questionable, it is possible to use the data to achieve an understanding of the PE market.

4.4.2.2 Data application

In order to conduct the analyses of the international development and the performance measurement of search funds in relation to other similar alternative asset classes, thorough processing of the data was needed to uncover any similarities or discrepancies. In both analyses, the results were visualized in graphs, but the data processing and application differed.

4.4.2.2.1 International development

Based on a historical review and the developed database containing data from multiple sources, an investigation of the international development of search funds in relation to similar alternative asset classes was conducted. The investigation was performed in three steps. First, the international development of the asset classes was assessed through a historical review to determine a starting point, a year 1, as well as drawing a high-level picture of distinct phases all asset classes go through. Secondly, fundraising in millions of USD and as a percentage of GDP was outlined for BO and VC funds, separately. Each asset class was further split into three geographic areas, namely North America, Europe and Denmark. Europe is here presented as a homogenous pan-European market, though, it is acknowledged that it is a fragmented market. Thirdly, the number of search funds raised was charted and also split into the same geographic areas to reveal the international development pattern, thus providing the final piece to enable longitudinal analyses and comparisons on the geographical development of the asset classes.

4.4.2.2.2 Performance measurement

As PE investments are generally medium and long-term investments, 1-year returns are inappropriate as a realistic measure of PE performance due to the volatility in returns. As a result, most providers of PE fund performance data rely on multiples on investments and internal rates of return. In the performance measurement analysis, a net IRR and a RVPI measure were used. Net IRR, which is a modified IRR value, takes management fees and any carried interest into consideration. RVPI measures the net asset value of the PE fund compared to the amount of capital contributed by the limited partners to the fund (Talmor and Vasvari, 2011).

Net IRR, RVPI/ROI and standard deviation figures are reported in aggregate form for all types of PE funds. Data aggregation is an interdisciplinary concept generally considered as the process of presenting data information in a summary form that captures all information related features of the raw data (Vlahogianni and Karlaftis, 2011). On the one hand, it might be beneficial to aggregate data that exhibit intense fluctuations and noise to be efficiently modeled and integrated. On the other hand, aggregation may bias statistical models. Cramer (1964) provides evidence that data aggregation may both eliminate important information and falsely inflate the value of R-squared in regression models. Despite the pros and cons of using aggregate data, the performance measurement analysis of this thesis will align the methodological approach of using aggregate data with Stanford and IESE to ensure comparability.

In the aggregated data on search funds, Stanford and IESE included search funds that had acquired a company, including those that were operating, had exited, or were shut down, or had concluded without making an acquisition. Funds that had acquired a company less than one year prior to the end of the respective study period were not included, nor were funds still searching for an acquisition (Yoder et al., 2018). Both ROI and IRR are calculated on a cash flow basis, including both equity and investor debt that are invested as initial search capital and as acquisition capital. All returns are calculated on a pre-tax basis using data provided by the searcher or by their investors (Kolarova et al., 2018).

4.4.3 Data correction

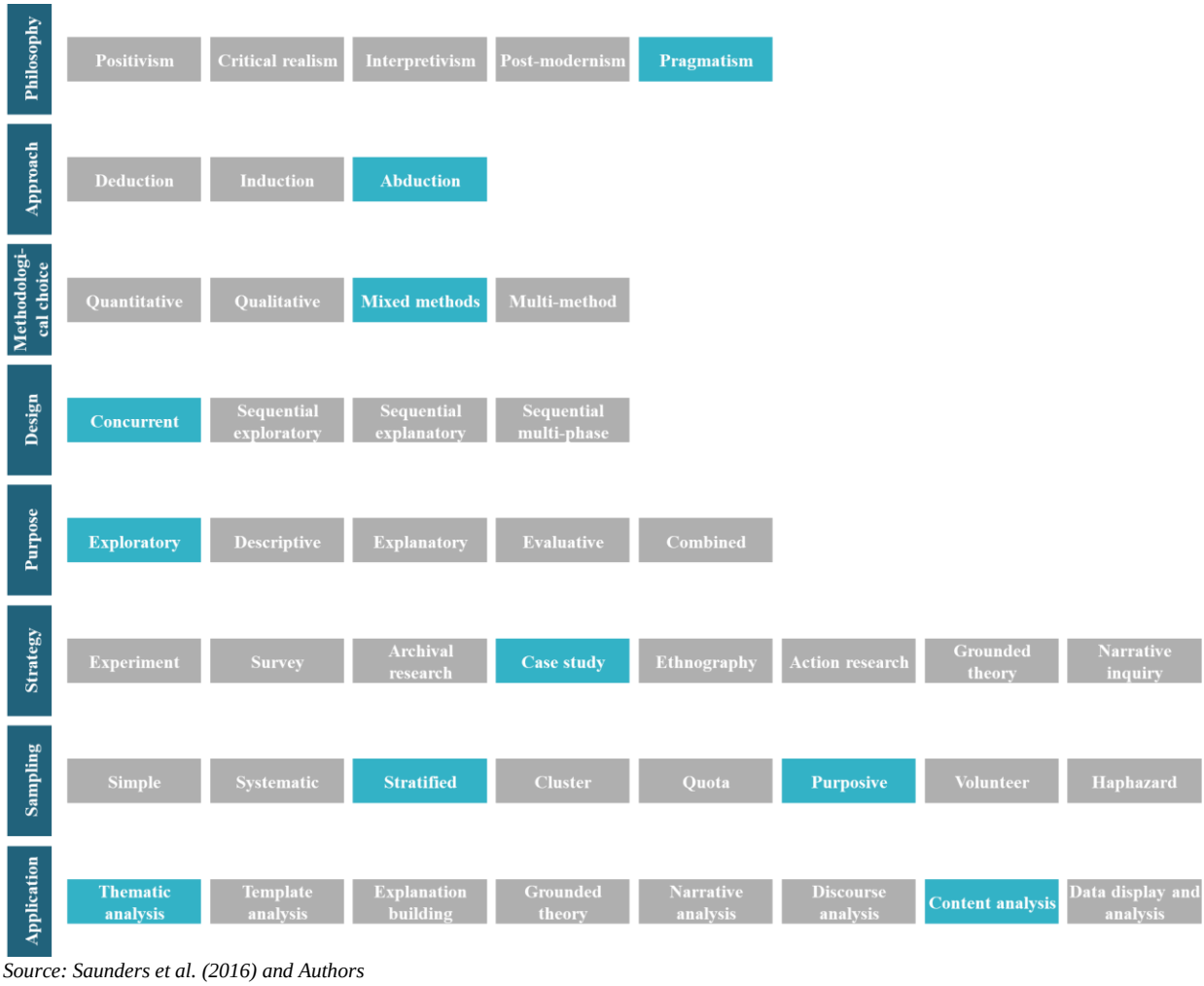
The main data correction is related to currency conversions between US Dollars (USD), Euro (EUR), and Danish Kroner (DKK) which first and foremost was necessary to compare the fundraising flows. Here, all values were converted into USD using year-end exchange rates of the year in which the fundraising took place. Applying relative numbers, by comparing fundraising to GDP, alleviates the exchange rate uncertainty, though it is present in the absolute numbers.

Throughout, the thesis will switch between currencies as seen fit. This means both USD and DKK will be used. Predominantly, USD will be used when referring to previous search fund literature and DKK will be used in relation to Danish investors. Thereby, the thesis sticks to the norm of using USD for historical data and avoids inducing exchange rate uncertainty in these numbers, while the use of DKK ensures relevance for the Danish market is upheld.

4.5 Summary of methodology

In sum, numerous methodological choices have been made throughout the thesis to answer the research question most effectively. An overview of the applied research framework and other alternative options is provided in figure 7:

Figure 7: Overview of research framework



Source: Saunders et al. (2016) and Authors

5. Analysis

The purpose of the proceeding section is to present and explain the findings of the analysis. The analysis and its findings are, in line with the previous outlined structure, organized within four main themes as visualized in figure 6.

The first two parts of the section act as means to assess the current development of search funds as an asset class and its attractiveness relative to comparable alternative asset classes. Thereby the stage will be set by providing motivation for an expansion to Denmark and the model's appeal for Danish investors. The international development and performance parts are the most quantitative of the thesis and will analyze fundraising as well as risk and returns. The majority of the analysis section will explore the Danish investors' perceptions of search funds based on the sample of 30 investor interviews. The outlined propositions and hypotheses are tested and coupled with anecdotal evidence to reach insights on investors' perception of the model. For comprehensiveness, the Danish socio-economic environment is also investigated to address specific investor concerns and uncover opportunities and threats which affects the viability of the search fund model in Denmark.

5.1 International development

The first natural step when questioning why no search funds have been established in Denmark and assessing the potential hereof, is to investigate the development of similar alternative asset classes, which are likely to share the same characteristics in their international development. Hence, the thesis will proceed by addressing this question by analyzing and drawing parallels between the historical flow of funds for BO, VC and search funds in North America, Europe and Denmark. This will be accomplished by finding and determining a starting point, a year 1, for each of the asset classes based on a historical review and a fundraising database created as explained in the subsection on the secondary data sample. Subsequently, longitudinal analyses on the geographical development per asset class will be conducted. It is not the purpose of the analysis to scrutinize the reasons for the development on a granular level, but rather to highlight general trends and developments.

5.1.1 A brief historical review of private equity

The history of BO dates back to the early days of commercial activity. Early seeds for the LBO industry were planted in the US in 1901 when J.P. Morgan, the man and not the company, made what is generally acknowledged to be the first modern LBO when he acquired Carnegie Steel (Talmor and Vasvari, 2011; Bottazzi, 2011). In the 1960s, the three future founders of one of today's biggest BO firms, KKR & Co. Inc., Kohlberg, Kravis and Roberts completed a number of buyouts working for Bear Sterns. While KKR was not established until 1976, another of today's prominent BO firms, Warburg Pincus, was formed in the late 1960s.

Raising funds one deal at the time, the company was spearheading the LBO industry (Talmor ad Vasvari, 2011). Based on this historical review and fundraising database, the starting year for BOs has for the purpose of this assignment been set to 1971.

VC was a rather informal industry in the US during the first part of the twentieth century. Following the Second World War, the industry began to take form. The first VC firm in UK, International and Commercial Financial Corporation, was founded in 1945 and the first funds in the US came in the following year when American Research and Development Corporation and J.H. Whitney & Company were established (Talmor and Vasvari, 2011). Despite a VC firm was established in the UK before the US, the industry was primarily functioning in the US. Recognized for driving technological advance and creating economic growth and jobs, VC gained the attention of governments and public administrations (Bottazzi, 2011). It took a number of enactments and regulations from public institutions before the industry was able to take its current form. In particular was the Small Business Investment Company Act, created in 1958, and the Employee Retirement Income Security Act, created in 1974 and amended in 1978, contributing factors for the inflow of funds (Talmor and Vasvari, 2011; Cendrowski, Petro, Martin and Wadecki, 2012). Due to scarcity of long-term reliable data, it is not possible to track VC fundraising back further than to 1969. Based on the historical review and data still showing very low levels of fundraising, it is however natural to set the starting point to 1969.

Due to the recent origination of search funds in 1984 and Stanford's efforts to collect data, the start of search funds is more manageable to determine. The starting year for search funds will be set to 1984 (Benjamin et al., 2017).

5.1.2 Development of fundraising in North America, Europe and Denmark

The first striking observation comparing the international development of fundraising for BO funds, VC funds and search funds in graph 3, 4 and 5 respectively, is that all asset classes see the earliest development in North America. This is true when examining both absolute levels of committed capital as well as committed capital as a percentage of GDP. In the graphs, the absolute levels are represented by the bars, and capital as a percentage of GDP is the line-plot. Essentially, both BO and VC funds remained an American phenomenon until the late 1980s, and there was further delay until relative capital reached a substantial level in Europe. Funds raised for BOs in the US climbed above 0.1% of GDP in 1987, though it would take seven years before the same mark was crossed in Europe and Denmark in 1994. Similar developments can be seen in VC, where it, in relative terms, took four years to reach similar capital levels in Europe as in the US.

The success American investors achieved drove them to become active in other countries (Bottazzi, 2011). American investors are thus a main ingredient in establishing the European PE market. To this day, American

funds still play an active part in European PE. More funds flow from America to Europe than the reverse (Talmor and Vasvari, 2011). In 2018, 22.9% of total European BO funds came from North America, which makes the region the biggest contributor (Investor Europe, 2019). While institutional, regulatory and legal reforms have made it easier and safer for investors to invest abroad, there are still barriers, including cultural and language, which emphasizes the importance of working with at least one local investor. This is considered especially important in early-stage VC (Manigart, Prijcker and Bose, 2011).

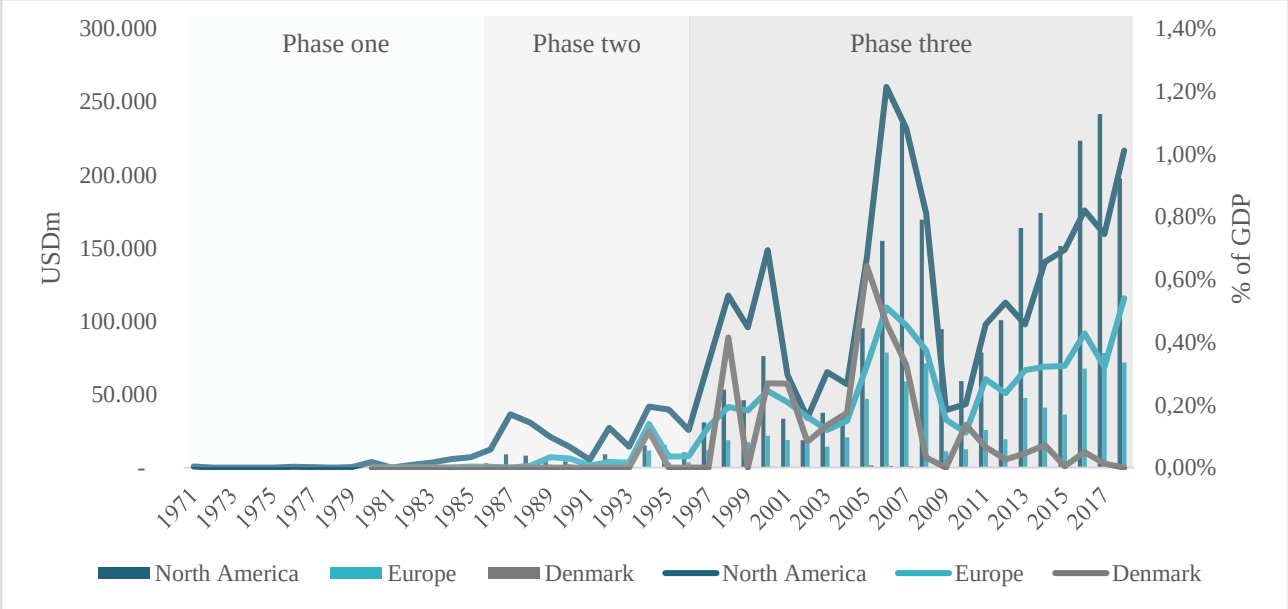
In Denmark, PE in general was off to a slow start. Sterling Airways became the first Danish LBO acquired company in 1987, and the first fund was born when Nordic Private Equity Partners was established in 1990 (Bennedsen, Nielsen, Nielsen and Thomsen, 2011). Since then, Danish PE has seen tremendous growth with an acceleration after 2000.

The time-lag identified in the quantitative data reflects a general consensus shared by Danish investors. Frederikke Beck, from the Danish family office Kirkbi, explains that developments in the US will typically reach other markets with a delay (Beck, 2020). Amer Ramzan, managing partner of Promentum Equity Partners, agrees with this viewpoint and elaborates:

"Basically, it has to be acknowledged that the US is simply further ahead. This is true in all areas. It has almost always been the case for all concepts that there is a time lag of five to ten years before they make it across the Atlantic Ocean for real" (Ramzan, 2020).

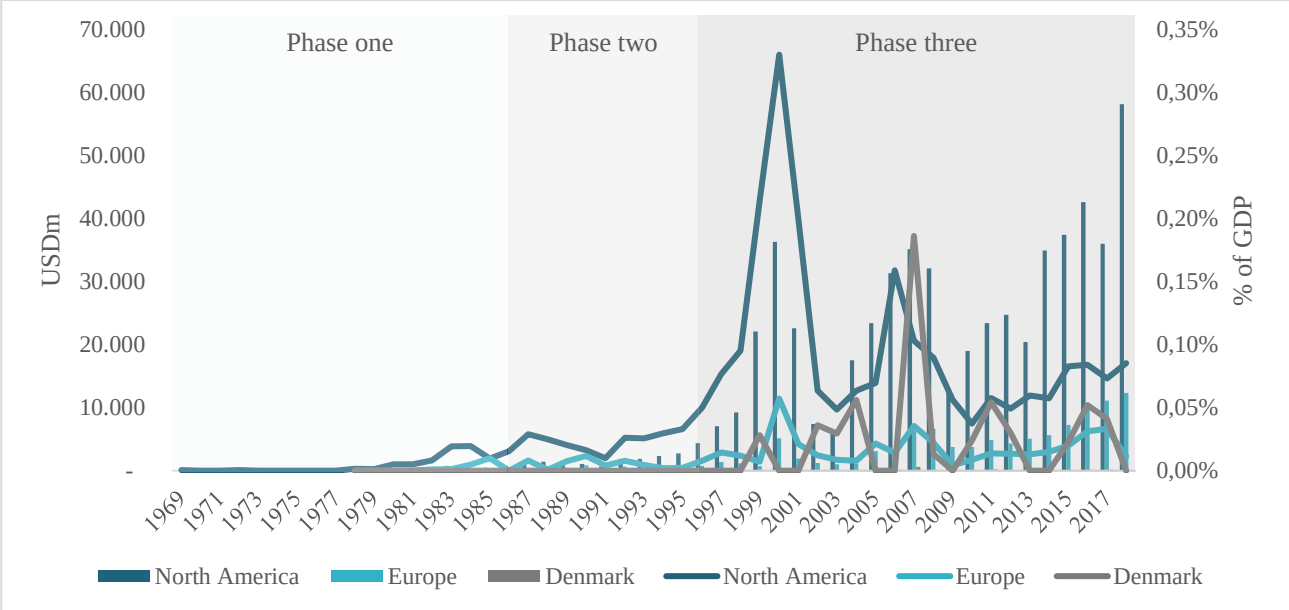
Shifting the attention to search funds, the observed time-lag trend is also evident. It took seven years from the first search fund was established in the US in 1984 before the first was established in Europe in 1991. Furthermore, the growth of search funds has been slower in Europe too. Comparing the international development of search funds to BO and VC funds, search funds current level and development are somewhat reminiscent of BO and VC funds in the mid-1990s. Though, where BO and VC funds made it thus far within approximately 25 years, search funds have taken 35 years to get there.

Graph 3: BO fundraising in USDm and as % of GDP



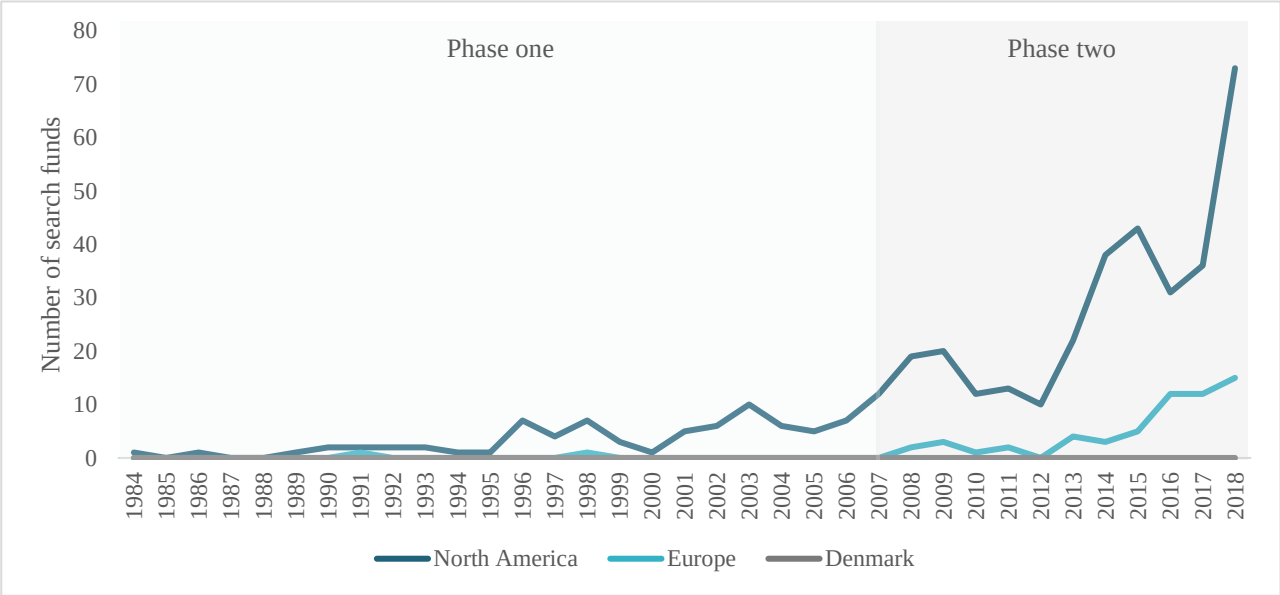
Source: Preqin (2020); NVCA (2019); Invest Europe (2019); DVCA (2010, 2019); The World Bank (2020b)

Graph 4: VC fundraising in USDm and as % of GDP



Source: Preqin (2020); NVCA (2019); Invest Europe (2019); The World Bank (2020b); PitchBook (2020)

Graph 5: Search funds raised



Source: Yoder et al. (2018); Kolarova et al. 2018); Searchfunder.com (2020)

It has been established that search funds follow the international development pattern of BO and VC funds, however at a slower pace. But what can be said about the general development of asset classes within each geography? A cross examination of the asset classes suggests that they develop in three similar phases.

In the first phase, the asset class originates and has to provide proof of concept. The inflow of funds is low in this period, and success is needed in order to create publicity and excitement for the model. Around the mid-1980s, both BO and VC funds entered the second phase as the asset classes experienced growth in committed capital. In the US, the industries benefitted from reductions in capital gains taxes and high availability of debt. The third phase is maturation which both BO and VC funds entered in the early- and mid-1990s. At this point, the industries had become standardized and professionalized which attracted institutional money from pension funds, mutual funds and insurance companies (Bottazzi, 2011). Despite cyclicality and busts, the industries recover, which has been the case following both the dot-com bubble and the subprime mortgage bubble.

At the end of 2017, after having existed for 34 years, an aggregate of USD 924 million of acquisition capital had been raised for search funds in the US and 330 funds established (Yoder et al., 2018). 46 funds have been raised in Europe with an unknown amount of committed capital (Searchfunder.com, 2020). How does this compare to BO and VC funds? BO funds took only 12 years to raise a similar amount and 15 years for VC. Search funds are however at a disadvantage since the targeted companies are on average much smaller than the typical BO investment.

In terms of phases, the institutional indicators put search funds in the late growth phase in North America and mid-growth phase in Europe. Despite the slow start, it has been beneficial for the asset class to be born into a community. The origination at Stanford means data has been collected almost from day one. While the community existed only at a few universities in the beginning, which was visible in the backgrounds of the searchers, it has been adopted by several other institutions including INSEAD operating across the world. Additionally, the asset class has enjoyed success in both North America and Europe, providing high returns on both individual deals and as an aggregated asset class. Most notably is Kevin Taweel and Jim Ellis' exit of Asurion which provided a return exceeding 100x (Dennis and Laseca, 2016). The need of success stories is something Eddy Zakes, Director of the Entrepreneurship and Innovation Center at IESE, emphasizes in his assessment of the development of search funds:

"Part of the reason it has developed slowly is that search funds have been driven by a tight-knit community and word of mouth. The typical searcher is a graduate from a top US MBA program, and the number of students from particular countries attending these schools is very small, sometimes zero. Until one student from a country is introduced to the search fund model, finds it interesting and decides to pursue it, it will remain somewhat unknown in that country. And then it will need to be legitimized. Who wants to be the very first to try a new medicine? When a lot of people have tried it then I am willing to try it myself" (Zakes, 2019).

The success search funds have enjoyed, has spurred interest for the model and also been the driver for the formation of institutional funds. Relay Investments and Pacific Lake Partners are two of the firms which have raised funds in excess of USD 100 million to invest in search funds (Long, 2020). While the number of search funds raised seems to set a new peak every year, it is too early to put search funds in the same phase as BO and VC funds. The space is dominated by relative few key players providing much of the committed capital and setting the standard key terms for searchers (Dennis and Laseca, 2016). Considering search funds have a 36-year long history, the asset class as a whole is not where BO and VC were at a similar age, showing a slower development.

5.1.3 Sub-conclusion

In general, asset classes are introduced with a delay and in a smaller scale in Europe than in the US when assessing fundraising levels. This is also true for search funds, though they seem to develop at a slower pace than what is typical for the PE industry. This is not only the case for the international expansion but also for the internal development of the industry within geographical regions. Here, search funds seem to be where BO and VC funds were in the 1990s, thus lacking behind the curve with approximately 15 years. The similar development of search funds can indicate that it is only a matter of time before the model will gain further traction in Europe and is introduced in Denmark. However, the increase time-lag considered, it is uncertain

when it is likely to occur. From the first search fund is established in Denmark, it will take years for the model to provide proof of concept through successful outcomes, and therefore even longer until a real Danish community and environment for search funds is established.

5.2 Performance measurement of search funds and other alternative asset classes

After having analyzed the international development of the search fund model in relation to BO and VC funds, this subsection will proceed by analyzing the historical performance of search funds. A handful of previous searchers have reported that local investors do not fully understand the search fund concept. Some searchers have even shut down their fund in part due to that fact that local investors were only seeking VC-type growth and returns, which differ substantially from those of typical search funds (Kolarova et al., 2018). This highlights the importance of ensuring that investors who are unfamiliar with the model clearly understand the risk and returns of prior search funds. The performance measurement analysis is divided into two parts. First, a measurement of the returns across search funds, VC and BO is conducted followed by a risk measurement of the same asset classes.

5.2.1 Measures of performance

Measuring the performance of an investment in BO funds, VC funds or search funds is not obvious. Consequently, industry practice as well as most academic work has shied away from performance evaluation based on factor pricing models, which require periodic returns that are based on the self-reported net asset values (Kaplan and Sensoy, 2015). Instead, the most widely used measure of performance is the internal rate of return (IRR). Calculation of the IRR takes into consideration the timing of cash contributions and distributions to and from the fund partnership and the length of time an investment in the fund has been held. Another widely accepted measure of performance is the investment multiple. This measures the proceeds received from a fund plus the valuation of any remaining investments divided by the capital contributed by the investors to the fund (Talmor and Vasvari, 2011).

Search fund investor capital is provided in two stages. First, to fund the search, and secondly, to fund the company acquisition. As the search fund model comprises two different investment opportunities, the model offers two unique risk and return profiles. However, as the data on search fund is limited, the analysis of this thesis encompasses only risk and return seen from a stage 1 investor's perspective. Investors investing in stage 2 only are expected to face lower return expectations and lower risk compared to stage 1 investors.

Given the relatively small number of only 28 terminal International search funds, it is too early to judge the performance of the search fund model Internationally. Nevertheless, the analysis includes statistics on these search funds, but it should be interpreted with caution and only serve as an interesting insight. The financial

performance analysis of search funds in North America includes 312 search funds, consequently it is much more representative.

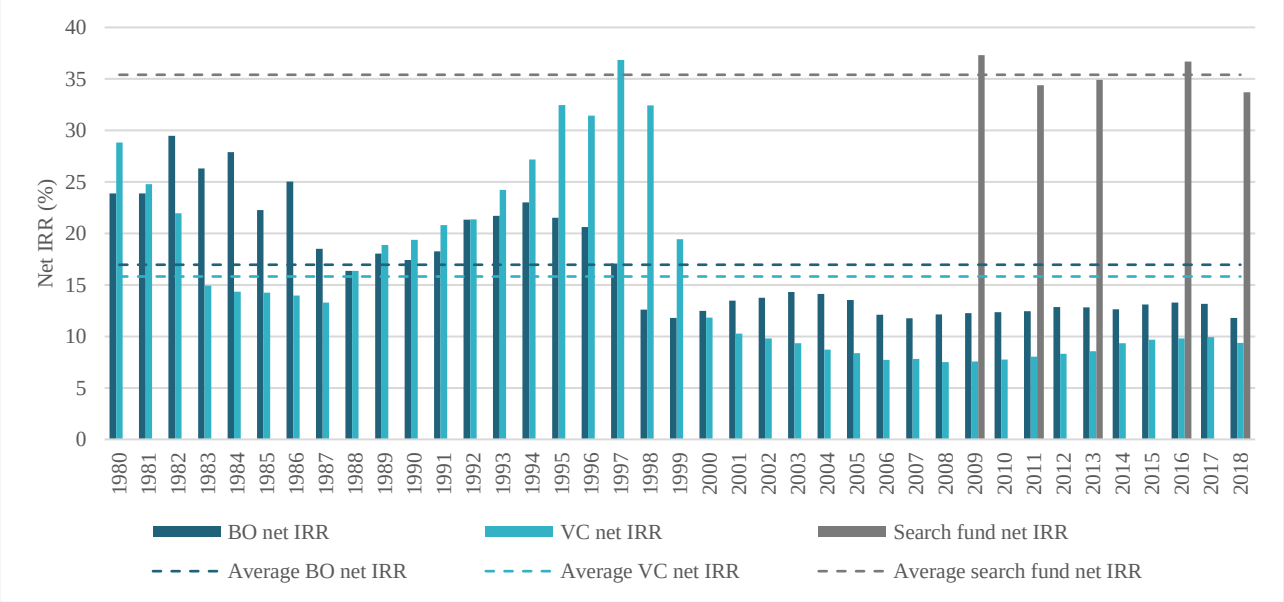
5.2.2 Returns

The analysis of the returns will be split into two parts. First an analysis of the net IRR is conducted focusing on North America and International, separately. The geographic split-up is in line with the studies conducted by Stanford and IESE, ensuring comparability. Secondly, an analysis of ROI is conducted which will focus on the same geographic areas as the analysis of the net IRR. In the following, it is important to notice that the analysis is conducted on fund level and not on the company level. As one search fund only comprises one company, this fund type lacks the diversification attribute that both BO and VC funds share.

5.2.2.1 Net internal rate of return

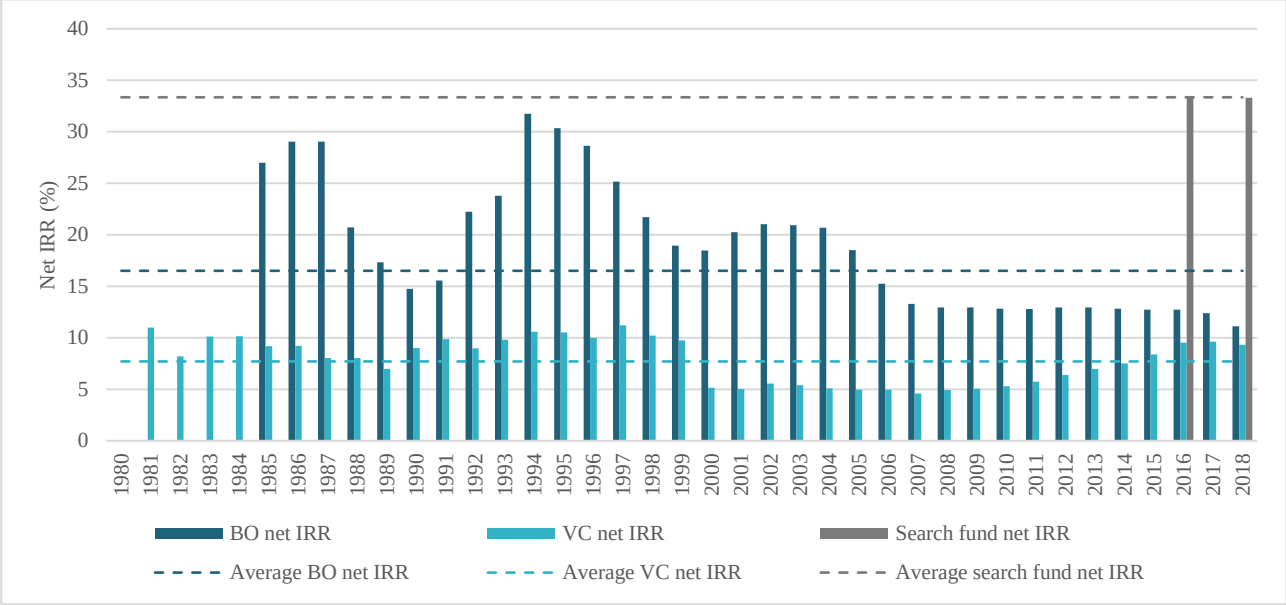
Looking at the net IRR in North America in graph 6, it is evident that BO funds have yielded a higher net IRR (17.0%) compared to VC (15.8%) on average. By comparison, search funds have shown a much higher IRR (35.4%) on average. Internationally, the net IRR shows a similar picture. As shown in graph 7, for search funds, BO funds and VC funds, the average net IRR is 33.4%, 16.5% and 7.7%, respectively. Net IRR performance for search funds have declined in recent years. As the data employed is aggregate data, the decline is simply a result of a larger pool of observations, resulting in a diminishing weight of highly performing outliers. Excluding top five search funds from the data leads to an increasing aggregate net IRR trend from 2009 to 2018 as illustrated in appendix 3. Historically, total search fund aggregate net IRR has fluctuated between 33% and 37%, although the performance of individual funds has varied widely.

Graph 6: Aggregate net IRR – North America



Sources: Preqin (2020); Yoder et al. (2018)

Graph 7: Aggregate net IRR – International



Sources: Preqin (2020); Kolarova et al. (2018)

At first sight, the relatively large differences between the three asset classes seem surprising. However, a number of reasons explain the differences. First, a small number of highly successful search funds positively affect the aggregate returns, as with other forms of risk capital and entrepreneurship. Second, while follow-on financing can be an important part of search fund returns, this has been excluded from the calculation in order to simplify the data-reporting process for searchers. The exclusion of follow-on financing might have resulted in slightly higher net IRRs (Yoder et al., 2018). Third, the search fund data may have disproportionately underrepresented companies with lower returns either because those searchers were less willing to share disappointing results, or had departed the companies, making the data harder to obtain. Seven companies remain with insufficient data, and if highly conservative assumptions are made for those, returns would decrease slightly but not meaningfully (Yoder et al., 2018). Fourth, both the nature of the companies invested in and the degree of leverage are different for the types of funds, meaning that these distinctions might be important determinants of cross-sectional variations in fund performance. The fact that BO funds outperform VC funds on average is consistent with the higher leverage BO funds typically employ.

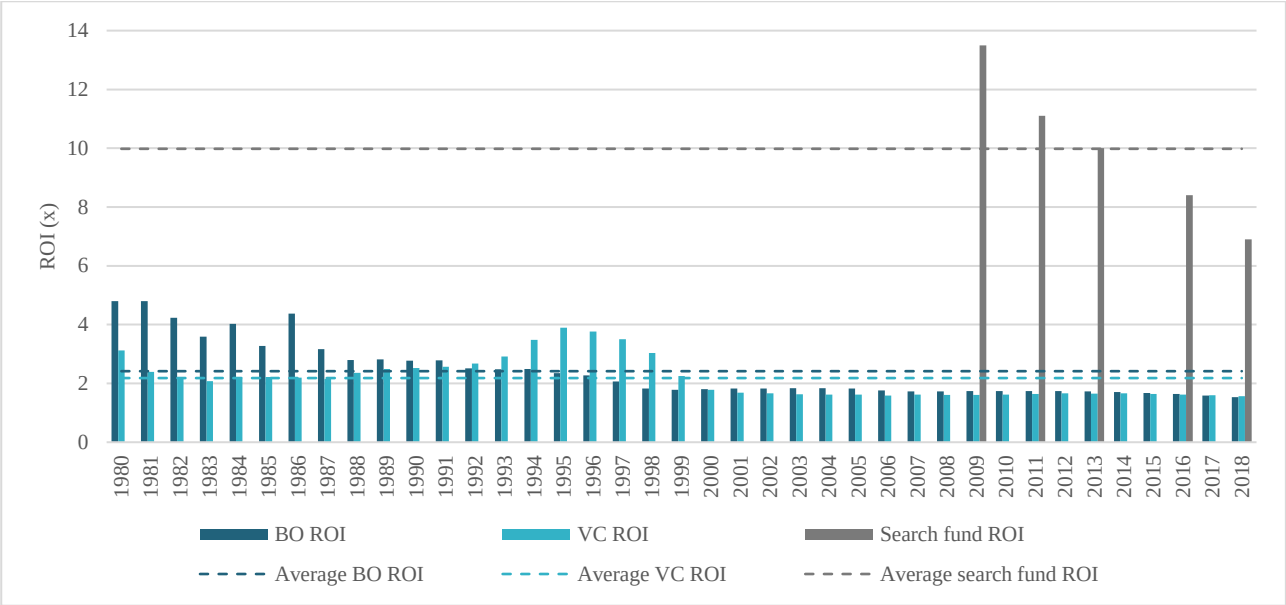
Despite the arguments that search fund net IRR might be too high in the reported data, there is no doubt that search funds have performed very well on aggregate during the past decade and outperformed both BO funds and VC funds.

5.2.2.2 Return on investment

As depicted in graph 8 and 9, search funds have achieved an average aggregate ROI of 10.0x in North America and 2.6x Internationally. In both geographic areas, the aggregate asset class ROI has declined. This reflects a

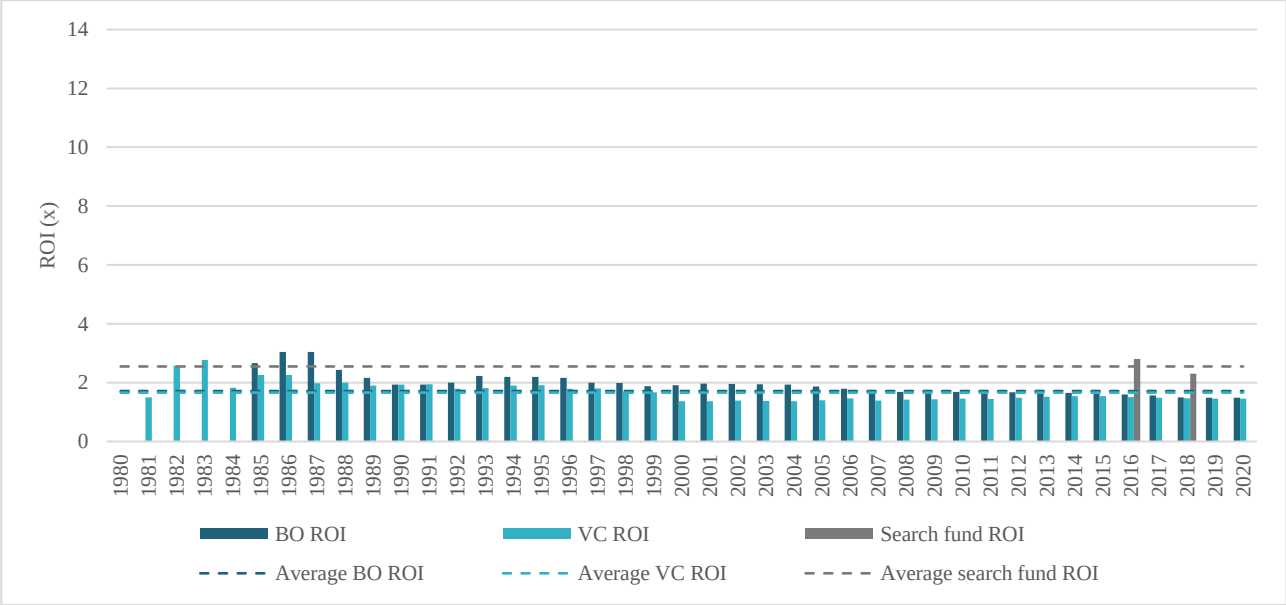
shorter average holding time due in part to the greater number of recent acquisitions that have not reached a terminal event, as well as shorter holding time for some realized exits (Kolarova et al., 2018).

Graph 8: Aggregate ROI – North America



Sources: Preqin (2020); Yoder et al. (2018)

Graph 9: Aggregate ROI – International



Sources: Preqin (2020); Kolarova et al. (2018)

In line with the net IRR, BO funds have in North America yielded a higher ROI compared to VC with an average ROI of 2.4x and 2.2x, respectively. By comparison, search funds have shown a much higher ROI of 10.0x on average. Internationally, the ROI shows a similar picture, although the multiples lie within a much

smaller interval. For search funds, BO funds and VC funds, the average ROI is 2.6x, 1.7x and 1.7x, respectively. Generally, the net IRR and ROI reveal a similar picture with peaks and downturns in the same time periods. However, the performance pattern of BO and VC funds are different. BO funds peaked around 1986 whereas VC funds peaked much later around 1997.

5.2.3 Risk

In addition to its high historical returns, PE is widely viewed as an attractive asset class due to its relatively low return volatility and low return correlation with other asset classes (Emery, 2003). Conversely, the illiquid nature of PE represents a key challenge for investors in assessing the precise underlying risk and reward potential embedded in the asset class. Specifically, imprecise adjustments of net asset values by general partners of PE funds implies that the return volatility and return correlations with other asset classes are likely to be understated (Emery, 2003).

Adjusting for any systematic risk differences between the PE funds and the total market is preferred in order to understand the correlation with the market and to make informed decisions about asset allocation. Unfortunately, this is nontrivial because of the lack of any comprehensive time series. At first glance, this may seem surprising given nearly 40 years of data on BO and VC funds. However, note that the returns on the fund investments do not usually get realized until years seven to ten. Accordingly, the only measurable return is over a 10-year horizon. This leaves only four truly independent observations on the market return and time-series measures of betas are therefore inappropriate.

Instead, to get a meaningful sense of the risk of investing in search funds compared to BO and VC funds, a comprehensive analysis of the yearly standard deviation on fund level will be conducted. The lack of diversification on the search fund might seem problematic. As a result, the risk of investing in a search fund is expected to be much higher as investors only invest in one company.

As no standard deviation can be calculated on net IRR for search funds based on the available data, the risk analysis will only be conducted on ROI. The analysis of the standard deviation of ROI will focus on the same geographic areas as the analysis of return, namely North America and International. This part will include search funds, BO funds and VC funds, guaranteeing the important insights into the risk profile of search funds.

5.2.3.1 ROI volatility

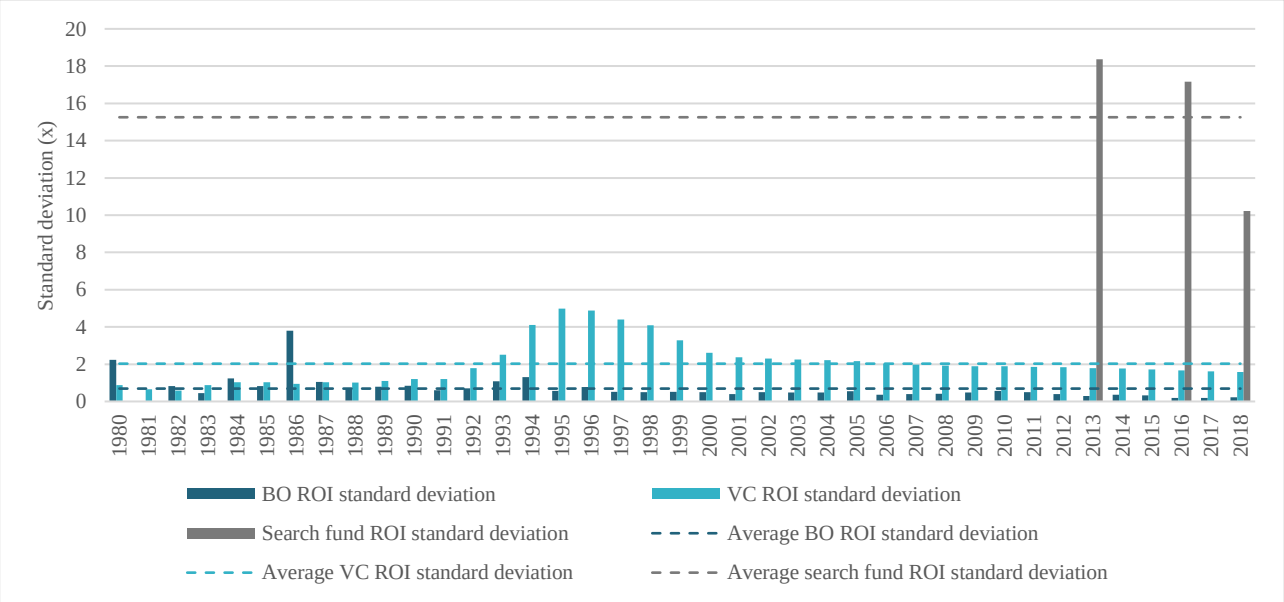
Investing in search funds entails a great deal of risk, and typically, search fund investors face the following three risks during the lifetime of a search fund when investing in stage 1:

- Risk of not finding a suitable company to acquire
- Risk of not completing an acquisition
- Risk of not managing and growing the company to provide an attractive return

In contrast to BO and VC funds, search funds investors face the additional risk of the entrepreneur not finding a suitable company to acquire. In that case, the invested capital is spent on search related expenses, and the investors simply lose their money. More than one in four search funds have not acquired a company despite the searcher spending up to 24 months in this pursuit. However, the invested amount is much lower in stage 1 compared to stage 2. When a search fund fails, it is usually pre-acquisition, thus mitigating the amount of capital that could have been lost.

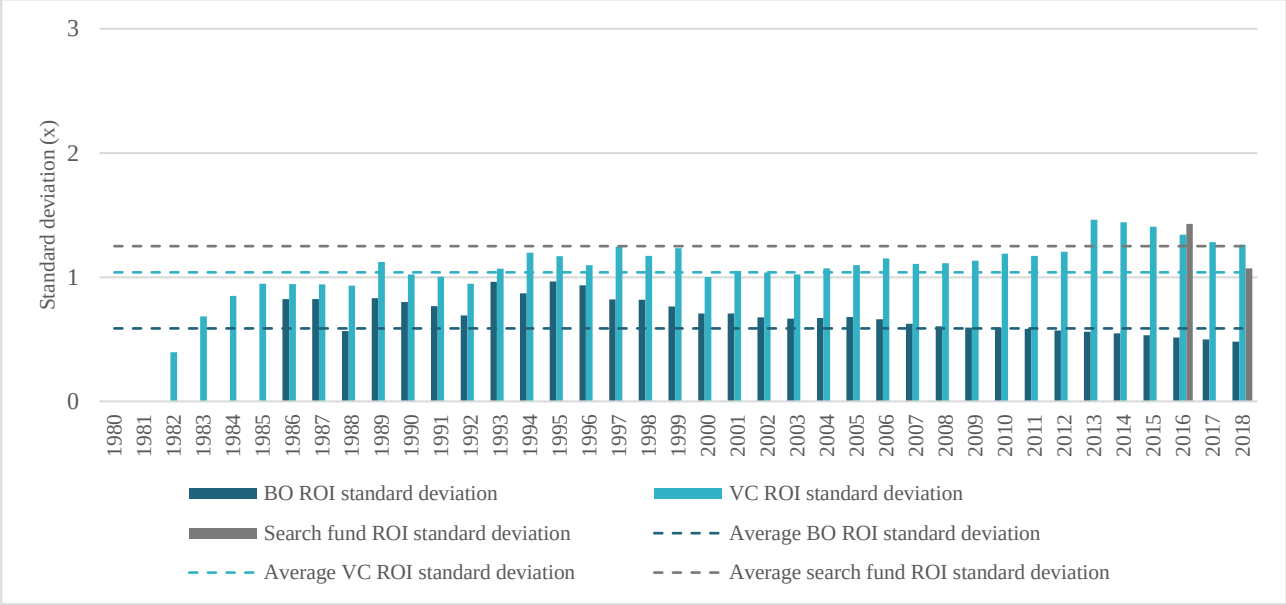
By adhering to a strict list of acquisition guidelines, search fund investors have been able to greatly reduce the risks in investing in individuals with little operating experience. To mitigate operating and investment risk, searchers usually target industry segments that have high growth and high margins. As the companies targeted are usually solid companies, all the searcher must do to secure investors a return on investment is not to destroy value (Mina and Steber, 2017).

Graph 10: Aggregate ROI standard deviation – North America



Sources: Preqin (2020); Yoder et al. (2018)

Graph 11: Aggregate ROI standard deviation – International*



Sources: Preqin (2020); Kolarova et al. (2018)
*Note: *The vertical axis has been adjusted relative to graph 10*

Graph 10 and 11 above show results that are in line with the empirical anticipations. Looking at North America, the standard deviation of search funds is much higher (15.3x) compared to VC funds (2.0x) and BO funds (0.7x) on average. As previously stated, given the relatively small number of terminal International search funds, it is too early to judge the performance of the search fund model Internationally. Hence, the risk measure of search funds Internationally should be interpreted cautiously. The standard deviation of ROI Internationally is in the same sequence as North America, where search funds are riskier (1.3x) than VC funds (1.0x), and BO funds have the lowest standard deviation (0.6x).

5.2.3.2 Fund of funds search fund risk

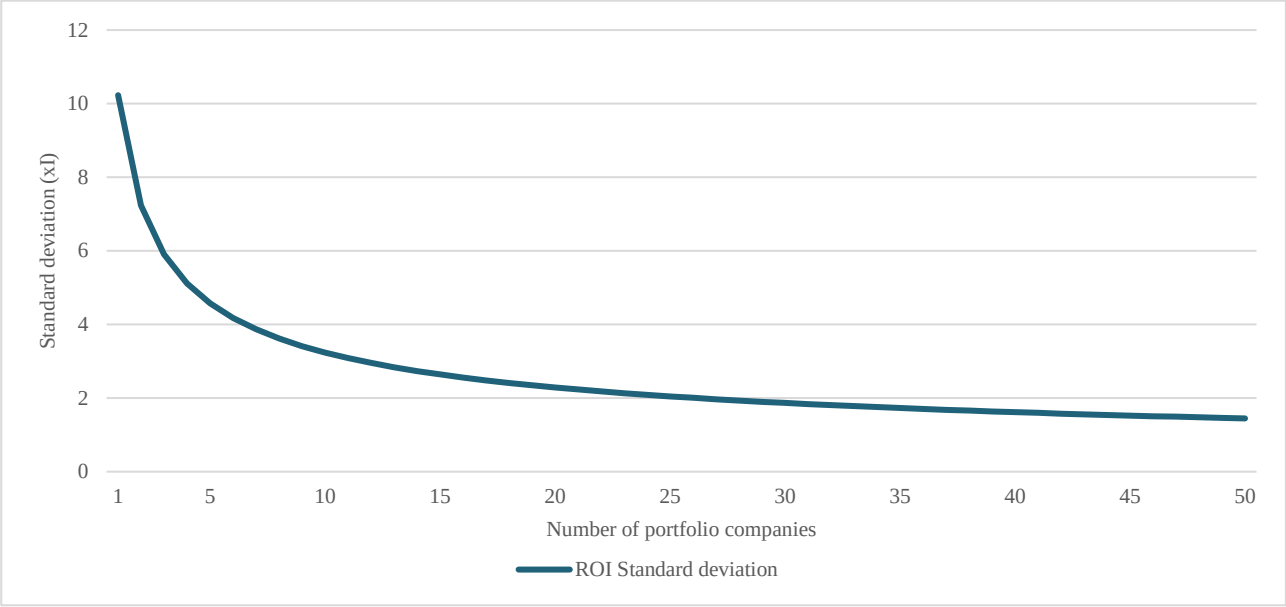
To diversify the risk of a search fund, an investor would typically invest in several search funds. As no data on a fund investing in several search funds is available, no exact risk measure is obtainable on fund of funds level. Instead, a rough estimate can be calculated if two assumptions are made. First of all, it is assumed that the individual search funds within a portfolio are mutually uncorrelated. Secondly, it is assumed that an equal share is hold in each search fund. Based on these two assumptions, the portfolio standard deviation is calculated as:

$$std(r_p) = \sqrt{\frac{\sigma^2}{N}}$$

Where σ^2 is the standard deviation of a single search fund and N is the number of search funds within the portfolio (Georges, 2020).

If the ROI standard deviation for search funds in the 2018 study is applied, the fund of funds standard deviation can be calculated as a function of the number of search funds in the portfolio. In the 2018 study, the ROI standard deviation was 10.23x. As illustrated in graph 12, to achieve a standard deviation that is equal to VC funds of 1.57x in 2018, investments in 42 search funds are required. However, due to the higher expected return of search funds, investors can accept higher risk of investing in a portfolio of search funds compared to VC.

Graph 12: Fund of funds search fund standard deviation



Source: Authors

These estimates should be cautiously interpreted. The risk estimates for a fund of funds search fund are based on numerous assumptions and estimates. In addition to the two listed assumptions above, the standard deviation of 10.23x for a single search fund was approximated based on a simple and not weighted calculation. As a result, search funds that fails to find a suitable company, but only loses a limited amount of money is equally weighted to a search fund that goes bankrupt after years of operation, eventually losing a considerable amount of invested capital. This adversely affects the search fund standard deviation.

5.2.4 Sub-conclusion

In sum, search funds have historically generated favorable returns to investors. Both the net IRR and the ROI are much higher for search funds than both BO funds and VC funds. This is the case in both North America and International. However, the high returns are not without risk. Since search funds only consist of one company, the missing diversification attribute of the model causes high risk. As a result, investors should be aware of the different risk and return profile of search funds before investing.

As search funds target different companies from other common asset classes in PE, it might be a way of diversifying portfolio holdings of investors. Search funds acquire companies that are already established and profitable, thereby differentiating them from VC. In regards to BO, these companies are much smaller than the types of companies BO funds typically would look at, making them fundamentally different and less correlated to the assets in BO investors' portfolio.

5.3 Investors' perceptions of search funds

In the two preceding subsections of the analysis it was concluded the international development and expansion of search funds follows a similar pattern to BO and VC funds, and search funds have yielded higher historical return and risk compared to BO and VC funds. This third subsection of the analysis will proceed by investigating investors' perceptions of search funds. The analysis will be two-folded starting with Danish investors and subsequently followed by foreign investors. By investigating investors' perception of search funds in Denmark, conclusions can be made as to whether there is market potential for search funds in Denmark.

5.3.1 Danish investors' perceptions of search funds

The first part of the investor research will investigate Danish investors' appetite for search funds by validating and testing the propositions and hypotheses outlined in the literature review. As described in the background section, the search fund model consists of four stages. Investors have the opportunity to invest in either stage 1, stage 2 or both stages, thus the first part of this analysis is going to investigate whether Danish investors are likely to invest in those two stages. After outlining the results, anecdotal evidence from the interviews will reveal arguments for and against investing in a search fund seen from a Danish investor's perspective. Following this first part, a deep dive on the investor types will be conducted. This enables an examination of which investor types are most likely to invest in a Danish search fund. For this second part, hypothesis tests will be utilized to investigate significant differences in the likelihood of investing in a search fund across different investor groups.

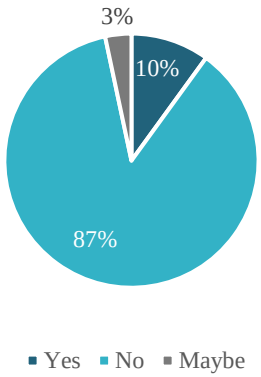
As a first step, this subsection will investigate Danish investors' likelihood of investing in stage 1 and stage 2, separately. In the interviews, the interviewees were asked if they would be likely to invest in a Danish search fund in stage 1. Irrespective of the answer, they were asked to elaborate on the answer and explain why. In the same way, they were asked about stage 2.

5.3.1.1 Investors' likelihood of investing in stage 1

An identical scenario was set up for each of the interviewed investors. They were all asked if they would be likely to invest in stage 1. In stage 1, the searchers do not know which company they are going to acquire. The

only thing they might know is the industry and the geographic target market. Therefore, as an investor, the only asset you invest in at this point in time is the team. Hence, the first proposition of this thesis will validate whether Danish investors are likely to invest in stage 1 of a search fund.

Graph 13: Would you be likely to invest in stage 1?



Source: Primary qualitative research study (Interviews)

As depicted in graph 13, the allocation of the answers for all investor types was 87% no, 10% yes and 3% maybe for investing in stage 1. Accordingly, it can be concluded that most Danish investors are reluctant to invest in stage 1 of a Danish search fund.

5.3.1.1.1 Anecdotal evidence – Arguments for investing in stage 1

Few Danish investors would be likely to invest in stage 1 of a Danish search fund. One BA, one VC firm and one family office of the interviewed investors said that they could be likely to invest in stage 1. Lars Nordal Jensen from Vækstfonden would not rule out that Vækstfonden would invest in stage 1. In that relation he mentioned a couple of strengths of the model that could make them inclined to invest.

"Capital from a new investor group can be activated in a new type of underlying asset class. You cannot make a search fund in the stock market, but the investors of a search fund resemble the investors investing in the stock market. We do have an established stock market in Denmark, but not the same tradition for investing in unlisted assets. We simply do not have the established investment models that are required. Another strength of this model is that the asset you invest in is the talent" (Nordal Jensen, 2020).

As the Danish market lacks investment models that allow investors with small equity tickets to invest in unlisted companies, the search fund model could be used to fill this gap. In Denmark, it is almost impossible for small investors to invest in BO and VC types of companies. Hence, it could be the beginning of an unlisted investment tradition in Denmark. In addition to Nordal Jensen, five investors expressed that investing in a new market segment is an advantage of the model.

Despite being against the model, Sten Verland, general partner and co-founder of Sunstone Life Science Ventures, mentioned a couple of strengths and arguments for investing in stage 1.

"It shows high historical returns. Furthermore, you have a relatively limited risk of losing the entire amount of invested capital when investing in mature companies. If you chose to invest in search funds, you could diversify the risk, simply by investing in multiple search funds. This will ensure diversification within your own portfolio instead of on the fund level" (Verland, 2020).

Michael Bjørnlund, a Danish BA, also stressed the importance of having confidence and trust in the searchers you invest in. If trust is established, he would be likely to invest (Bjørnlund, 2020).

Generally, the most cited arguments for investing in stage 1 were the possibility of investing in a new market segment, high historical returns, and investments in talented and motivated individuals.

5.3.1.1.2 Anecdotal evidence – Arguments against investing in stage 1

On the contrary, investors were unwilling to invest in stage 1 for many reasons. Chief among them are governance issues, the searchers' lack of experience, acquisition issues and the search fund model laying outside most investors' investment strategy. 40% of the investors were skeptical towards the governance mechanism of the model. The governance issues stressed by the investors included unmotivated searchers, and there might be too many investors involved in the model. Lars Stigel from the investment company Capnova was concerned about the motivation by the searcher:

"If I was an investor in a search fund, I would ensure the searcher puts his own money on the line. You have to make sure that the searcher does his job, reports on his progress and stays motivated throughout the search stage and later as a director so the invested search capital does not become lost "(Stigel, 2020).

In North America, the typical searcher persona is a 32-year old well-educated man with three years of practical experience from operations or investment banking. A more detailed description of the typical searcher is found in appendix 10. This seems to be a vital fact for a large part of the interviewed investors. Nine independent investors expressed their concerns about the lack of experience by the searcher. Generally, the skeptics expressed that it is a huge bet to invest in an inexperienced team with little experience from the industry. Amongst others, Amer Ramzan emphasized his concerns about the lack of experience by the searcher:

"To get the funding needed to perform the search for an acquisition stage in Denmark, you must be a really hot name. The ones that are most likely to get the funding are the entrepreneurs that have run a similar

company before and made a successful exit. However, those people do not need the search capital because they will typically start a traditional fund instead. Alternatively, in order to receive the search capital as an inexperienced entrepreneur, the investor must know the searcher beforehand" (Ramzan, 2020).

This creates a paradox where the only searcher likely to receive search capital is the ones who already have investors in their network. Troels Kryger Aggerholm from the family office Firmainvest expressed that education is valued differently in Denmark compared to the US, which means Danish investors are unlikely to invest in inexperienced searchers.

"Education does not matter as much in Denmark as in the US. There is a reason why most students in Denmark have a student job. It is because work experience is more important than education. In the US, MBAs are expensive. It means that as an investor, you are assured that the MBA student, you invest in, is either very intelligent or has a strong network which can contribute with additional capital to the search fund" (Aggerholm, 2020).

Another frequently mentioned obstacle for investing in stage 1 is the relatively small number of potential target companies. Seven investors mentioned this problem. Ulrik Jørring, managing partner at the VC firm Nordic Alpha Partners, stated that the Danish market is much faster to screen than the American, thus no one would pay for the search stage in Denmark.

"The market in Denmark is too small. Hence, you would not fund a searcher to search for a company in Denmark. The searcher will be able to screen the specific industry and find the four most attractive firms that match the investment criteria within a very short time horizon" (Jørring, 2020).

One potential solution to the problem could be to broaden the market screening to include other geographical areas such as the entire Scandinavia. But this is not going to work in practice, according to Kristian Busk Mouritzen, a Danish BA.

"A search fund is difficult to do in Denmark only. The search area is probably too small, and you cannot just broaden the geographical area. Local people deal with local people" (Mouritzen, 2020).

According to seven different investors, the fact that you do not know what asset you invest in, except for the people, is a huge drawback of investing in stage 1. Ole Steen Andersen, previous chairman of the board of DVCA, stressed that the investment opportunity in stage 1 is too vague.

"You do not know what you invest in. I would never invest in a searcher who had a broad scope, where you do not know which company you are likely to acquire. If the searcher has a specific target, it is much more likely that I would invest" (Andersen, 2020).

Nicklas Hansen, Investment Director from William Demant Invest, also highlighted the limitations of an unspecified investment opportunity.

"Unless you have a very specific list of companies you can acquire, then it is difficult to get the search capital. I would need to see a solid example of a Danish search fund that has succeeded before I would be likely to invest" (Hansen, 2020).

One of the arguments in favor of investing in stage 1 was that it is very relevant for investors with small equity tickets. On the other hand, small equity tickets exclude other investor types. Nine investors expressed their concerns about the search fund model laying outside their investment strategy. Amongst other, Andreas Aagaard, senior investment manager in the private funds team at PensionDanmark, expressed this perspective.

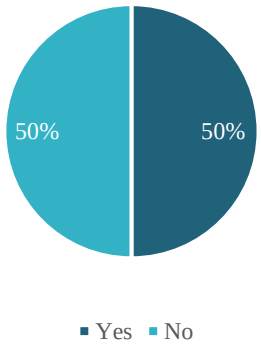
"The search fund model does have some characteristics that, among other things, entails a maximum size of investments. As a result, the size of the companies limits the capital needed. Hence, the investment model is probably more relevant for smaller types of investors" (Aagaard, 2020).

As a result, the search fund model, as it works in the US, is difficult to transfer to a much smaller country as Denmark, according to some interviewees. Today, the search fund model is operating in several countries, including Guatemala, Chile and the Dominican Republic, but they are all countries with +10 million inhabitants. Though, the number of suitable businesses in those countries can be discussed.

5.3.1.2 Investors likelihood of investing in stage 2

Subsequently, after being asked if they would be likely to invest in stage 1, the investors were asked if they would like to in stage 2 instead. In stage 2, the searcher knows the company about to be acquired. Thus, as an investor, you both know the team and the company in which you have the opportunity to invest in. Hence, the second proposition will validate whether Danish investors are likely to invest in stage 2.

Graph 14: Would you be likely to invest in stage 2?



Source: Primary qualitative research study (Interviews)

When asked about stage 1, most investors were reluctant to invest. As shown in graph 14, the outcome is very different in stage 2. 50% of the interviewees would be likely to invest in stage 2 of a Danish search fund.

5.3.1.2.1 Anecdotal evidence – Arguments for investing in stage 2

The arguments for investing in stage 2 appeared to be more or less the same throughout the interviews. In general, the arguments for investing in the first stage also applies for stage 2. Two investors conveyed that investing in stage 2 of a search fund is similar to making a traditional buyout investment. Amongst others, Kristian Busk Mouritzen addressed this perspective.

"Investing in stage 2 is similar to investing in a startup where you can evaluate the overall potential of the investment. I would rather lose the possible upside of investing in stage 1 and wait and invest in stage 2. There is a huge risk difference between investing in stage 1 and 2" (Mouritzen, 2020).

Jesper Jarlbæk, a Danish BA and chairman of the board of the PE firm CataCap and the BA network DanBan, also added to this viewpoint. Jarlbæk would possibly invest in stage 2 in a syndicate with other BAs.

"From a business angel's perspective, investing in stage 2 resembles a traditional investment opportunity. You know the team and the company. Hence, I cannot see why you should not treat it is a traditional investment opportunity. Additionally, if the company is mature, it will theoretically have a shorter investment horizon compared to a typical startup" (Jarlbæk, 2020).

In addition to being similar to a traditional BO investment opportunity, Jesper Jarlbæk also mentioned the prospect of investing in mature companies through search funds. This was another argument recurring throughout the interviews. The short investment horizon is one advantage of investing in mature companies,

another is the reduction of the risk underlying the investment. Amer Ramzan stated one advantage of investing in mature companies compared to startups.

"The strength underlying this investment model is that you acquire an established company where you see the potential in the scaling and growth of the company. As an investment, it is a slightly better starting point than a startup" (Ramzan, 2020).

5.3.1.2.2 Anecdotal evidence – Arguments against investing in stage 2

On the other hand, 50% of the interviewed Danish investors would not be likely to invest in stage 2 of a Danish search fund. One of the arguments was related to the high risk and lack of diversification when investing in a search fund. The family office Kirkbi might invest in stage 2, but Investment Manager Frederikke Beck was concerned about the high risk.

"As an investor, you invest everything in one team and one company only. Furthermore, you invest in a company that has proven its business model already. The question is how much of the knowledge that has been build up through the lifetime of the company becomes lost when the search fund takes over. There is a huge risk here" (Beck, 2020).

The problem of taking over a family business was addressed by multiple investors. Family businesses were generally seen as the most relevant target companies for search funds. However, Nicolai Fink Gundersen, CEO at Abridge, also added that family businesses are very difficult to take over.

"Most of the owner-managed companies are small companies. In cases where it is a mature, middle-sized company there is typically an incorporated culture. There is so much knowledge deeply rooted in such a family business. As an ambitious, highly educated student with a consultancy background, you are unlikely to succeed. Industry experience is very important. Gradual generational succession tends to work better" (Gundersen, 2020).

In addition to the problem of taking over an owner-managed company, several investors were simply unable to invest in stage 2 due to the characteristics of the model laying outside the investment strategy of the investor, even though investments in stage 2 resemble a traditional buyout transaction. This argument was also used for not investing in stage 1. Sten Verland pointed to their investment strategy as the primary obstacle for investing in stage 2 of a search fund.

"If you want to invest in search funds, it needs to be stated in the investment strategy of the fund. Oftentimes, it will not be the case as the search fund model is not an established investment model in Denmark and because it is radically different from the other investment model available in the market. It cannot be written in the strategy post-hoc, thus it is an enormous impediment" (Verland, 2020).

5.3.1.2.3 Summary of arguments for and against investing in a Danish search fund

The 30 investors that were interviewed to explore the Danish investors' appetite for search funds shared several noteworthy arguments for and against investing in a Danish search fund. In table 5, the arguments are summarized in order to establish an overview of the most recurrent arguments. Please note that one investor could potentially share multiple arguments.

Table 5: Summary of arguments for and against investing in a Danish search fund

Arguments for investing in stage 1	Business angel	Family office	Venture capital	Buyout fund	Pension fund	Other	*Total*
Investment in a new market segment	2	1	2		1		***6***
High historical return	1	1	1		1		***4***
Investments in talented and motivated individuals	1		1			1	***3***
Active involvement from investors			1		1		***2***
Knowledge and trust in the searcher	1						***1***
Diversification through multiple investments			1				***1***

Arguments against investing in stage 1	Business angel	Family office	Venture capital	Buyout fund	Pension fund	Other	*Total*
Governance issues	4	1	4	2		1	***12***
Inexperienced entrepreneur	2	3	2		1	1	***9***
Lies outside investment strategy			4	1	2	2	***9***
Intangible investment opportunity	2		1			4	***7***
Acquisition issues	2	1	2	1		1	***7***
High risk	2	1	1				***4***
Too costly	2						***2***

Arguments for investing in stage 2	Business angel	Family office	Venture capital	Buyout fund	Pension fund	Other	*Total*
Resembles a traditional investment opportunity	2						***2***
Strong, talented and dedicated team	1					1	***2***
Tangible investment opportunity				1			***1***
Investment horizon					1		***1***
Low risk of total loss			1				***1***

Arguments against investing in stage 2	Business angel	Family office	Venture capital	Buyout fund	Pension fund	Other	*Total*
Lack of diversification		1	1	1	1		***4***
Lies outside investment strategy			1			1	***2***
Inexperienced entrepreneur		1					***1***
Equity ticket size			1				***1***

Source: Primary qualitative research study (Interviews)

5.3.1.3 Are business angels more likely to invest?

In the following, hypothesis tests will be conducted to analyze which type of Danish investors are most likely to invest in search funds. The tests will analyze whether investor type, investor involvement and size of equity ticket affects investors' likelihood of investing in a search fund. The hypothesis tests will be performed utilizing Fisher's Exact Test of Independence.

In this analysis, the likelihood of investing in stage 2 will be a categorical variable and serve as the dependent variable throughout the three following hypotheses, while the second categorical variable, which will be the independent variable, will change from hypothesis to hypothesis.

As stated in the literature review, search fund investments are considered most relevant for high-net-worth individual investors (Morrissette and Hines, 2015). To analyze to what extent this is also the case in Denmark, the first hypothesis of this analysis is going to test whether Danish BAs are more likely to invest in a Danish search fund in stage 2 compared to other investor types.

H1: Business Angels are more likely to invest in a Danish search fund in stage 2 than other investor types

Table 6: Are business angels more likely to invest in stage 2?

	Investors' response to invest in stage 2		
Investor type	**Yes**	**No**	**Total**
Business angel	7 (a)	2 (b)	9 (a+b)
Other	8 (c)	13 (d)	21 (c+d)
Total	15 (a+c)	15 (b+d)	30

Results – Table = [7, 2, 8, 13]
Left tail: p-value = 0.99290
Right tail: p-value = 0.05432
2-Tail: p-value = 0.10865

Source: Primary qualitative research study (Interviews)

The output consists of three p-values. As the hypothesis is formulated to test if BAs are more likely to invest than other investor types, a one-sided test is applied. A right-tailed test is used when the alternative to independence is that there is positive association between the variables. As the p-value is 0.054, the null-hypothesis cannot be rejected at a 5% significance level. If the significance level is increased to 10%, the null hypothesis can be rejected. As a result, at a 10% significance level, the null hypothesis of no relation between investor type and likelihood of investing in stage 2 is rejected. It means BAs tend to be more likely to invest in search funds compared to other investor types. It should be noted that the conclusion is based on a small sample and a high significance level.

5.3.1.3.1 Anecdotal evidence - Who do investors think would be interested in investing in search funds?

During the interviews, the investors that were reluctant to invest in search funds were subsequently asked what types of investors would be the most relevant for search funds. Interestingly, 12 of the interviewed investors referred to other investor types as being the most suitable. Generally, most investor types thought BAs would be the most relevant investor group. Three VC firms, three family offices and one fund of funds investor said that BAs are the most relevant investor type for search funds. Family offices were the most relevant according to one VC firm and two BAs. Amer Ramzan suggested BAs and family offices as the most relevant investors.

"*We would be unlikely to invest in a search fund, and actually, I think very few of our type of funds would invest in a search funds in stage 1. […] I think business angels, super angels or family offices could be likely to invest in this investment model. We could potentially invest in stage 2. The only thing is that we only invest through capital increases and not buyouts"* (Ramzan, 2020).

The BO nature of the search fund model was also used as an argument for not being relevant for BAs. According to Mads Heine, a Danish BA, BAs would not be the appropriate investor for search funds because it is a BO transaction.

*"Business angels invest with the objective to develop new companies. The investments from business angels are used as a capital increase in the specific company. In a search fund, the investment is only used as a payment to the previous owner, and no single penny is used in the company" (*Heine, 2020).

Another issue raised by Lars Stagaard Jensen and Birgitte Nygaard Jørgensen from Zefyr Invest dealt with the companies search funds typically invest in. According to Stagaard Jensen and Nygaard Jørgensen, investors who usually invest in search funds would be investors willing to take high risks.

"Investors who are attracted to this form of investment model will typically target other types of companies. They will probably target companies within new technology and not mature and established production companies" (Stagaard Jensen and Nygaard Jørgensen, 2020).

According to the hypothesis test and the anecdotal evidence, BAs would be the most relevant and likely investors in a Danish search fund.

5.3.1.4 Are active investors more likely to invest?

Another key characteristic of potential search fund investors is the extent of their active involvement in the investments. According to Johnson (2014), investors who are actively supportive, bringing more than just

capital, are key. Thus, the next hypothesis will test if Danish investors with an active investment approach are more likely to invest.

H2: Active investors are more likely to invest in stage 2

Table 7: Are active investors more likely to invest in stage 2?

	Investors' response to invest in stage 2		
Active/other	**Yes**	**No**	**Total**
Active	11 (a)	10 (b)	21 (a+b)
Other*	4 (c)	5 (d)	9 (c+d)
Total	15 (a+c)	15 (b+d)	30

Results – Table = [11, 10, 4, 5]
Left tail: p-value = 0.78651
Right tail: p-value = 0.50000
2-Tail: p-value = 1

Source: Primary qualitative research study (Interviews)
*Note: *Other includes passive investors and investors switching between being active and passive*

Since the p-values are very high, there is no evidence to reject the null hypothesis. Hence, it cannot be concluded if active Danish investors are more likely to invest in search funds. This contradicts with the empirical theory, showing that active investors are the most relevant investors for this investment model. Two issues may explain this surprising result. First, the sample size of the analysis is small, and secondly, there might be interviewees who did not fully understand the importance of the active involvement of investors in search funds before answering the specific question.

5.3.1.5 Are investors with equity tickets between DKK 0.5 and 20 million more likely to invest?

As described in the literature review, the total market value of a typical search fund acquisition is around USD 13 million. From 2016 to 2017, the median number of investors per search fund in the US was 15 investors (Yoder et al., 2018). Thus, the third hypothesis is going to test, if investors with equity tickets between DKK 0.5 and 20 million are more likely to invest.

H3: Investors with equity tickets between DKK 0.5 and 20 million are more likely to invest in stage 2

Table 8: Are investors with equity ticket between DKK 0.5 - 20 million more likely to invest in stage 2?

	Investors' response to invest in stage 2		
Equity ticket	**Yes**	**No**	**Total**
DKK 0.5 – 20 million	7 (a)	6 (b)	13 (a+b)
Other	8 (c)	9 (d)	17 (c+d)
Total	15 (a+c)	15 (b+d)	30

Results – Table = [7, 6, 8, 9]
Left tail: p-value = 0.76893
Right tail: p-value = 0.50000
2-Tail: p-value = 1

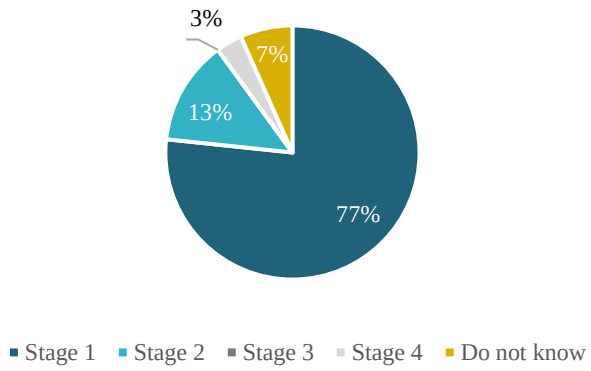
Source: Primary qualitative research study (Interviews)

From the output, it is evident that investors with equity tickets between DKK 0.5 and 20 million are not significantly more likely to invest in a search fund compared to investors with other ranges of equity tickets. This contradicts the previous findings of Stanford and IESE concluding that investors with equity tickets within this range are the most likely investors.

5.3.1.6 The weakest stage of the model

A chain is no stronger than its weakest link, and by identifying the weakest stage, a solid understanding of the difficulties of implementing the model in the Danish market will be established. As described in the background and definition section, the search fund model consists of four stages. All interviewed investors were asked what the weakest stage of the model would be if it came to Denmark. Thus, the third proposition will validate what the weakest stage of the search fund model is according to Danish investors.

Graph 15: What is the weakest stage of the model?



Source: Primary qualitative research study (Interviews)

As depicted in graph 15, 77% stated that stage 1, initial raise of capital, would be the weakest stage. Only 13% said stage 2, no one said stage 3, and 3% said stage 4.

5.3.1.6.1 Anecdotal evidence – The weakest stage of the model

Internationally, where the search fund model is less well-known, prospective investors typically want to know why search capital is needed. Some investors have responded: “come back to me when you have a deal” or “how do the search model differ from traditional PE?” (Kolarova et al., 2018). This seems to be the same case

in Denmark. Amongst others, Nishandan Ganesalingam, partner at IIP, was questionable towards the possibility of raising capital for the search stage.

"Search capital is difficult to obtain because you have to convince investors that you are worth investing in. The investors would ask why they should fund a searcher that might or might not find a company to buy" (Ganesalingam, 2020).

Weaknesses of stage 1 has already been identified in subsection 5.3.1.1 where investors highlighted reasons for not investing in this stage.

13% expressed that stage 2 is the weakest stage if the search fund model came to Denmark. During the search stage, the most limiting factor that International searchers have faced so far have been the size of the economy in which they search. In Germany, one searcher has mentioned that even though Germany is home to Europe's largest economy, there are less than one-third as many small and medium-sized businesses as in the US (Kolarova et al., 2018). Jesper Lohmann, director at Dico, was concerned about stage 2.

"I think it is possible to get the search capital. I think the search for acquisition stage is the weakest stage. One thing is that it requires hard work, but it is also much about timing and finding the right opportunity" (Lohmann, 2020).

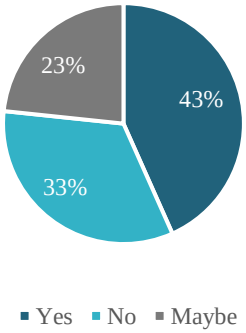
Andreas Aagaard agreed with this perspective.

"I think stage 1 is fine. There will probably be some friends and family who would be likely to fund this stage. I think the next stage, where a searcher, without a large network, search for a company is the weakest. Another thing is that you have to convince the owner to sell. You need to be aware of your specific value-add in addition to price" (Aagaard, 2020).

5.3.1.7 Fairness of the step-up mechanism

By analyzing the fairness of the step-up mechanism, it can be revealed to what extent it is perceived as unfair and whether this prevents investors from investing in stage 1. Therefore, the fourth proposition will validate whether the step-up mechanism seems fair according to Danish investors.

Graph 16: Is the step-up mechanism fair?



Source: Primary qualitative research study (Interviews)

As illustrated in graph 16, the answers were almost uniformly distributed. 43% thought the step-up mechanism was fair, 33% thought it was unfair, and 23% said it might be fair but depended on other factors.

5.3.1.7.1 Anecdotal evidence – The fairness of the step-up mechanism

The 150% step-up mechanism, which is meant to compensate the initial investors for the increased risk of investing in the first round of financing, is a fair mechanism according to 13 of the Danish investors, including Ulrik Jørring.

"It sounds fair. It depends on the probability of an acquisition. It also depends on the searchers and their target list. The more specific the strategy is, the more likely the step-up is to be fair" (Jørring, 2020).

Especially in today's economic situation, a 150% step-up seems very attractive. Combined with active involvement from the investors themselves, the mechanism is fair according to Helge Holm-Larsen from Syddansk Innovation.

"In today's world, you have to pay 0.5% when you deposit your money in the bank and if you invest in bonds, it is almost the same case. You could invest the money in stocks but that is always risky – a new virus might come up. Hence, investments that exceed 15% pro annum are attractive. When you also get the chance to influence the investment it is very attractive" (Holm-Larsen, 2020).

In contrast, arguments for the step-up mechanism being unfair focused on the search funds which have been closed during the first stage, and in general, the high risk associated with stage 1. Ten of the interviewed investors stated that the step-up mechanism seems unfair. Frederikke Beck argues:

"It depends on the investor's willingness to take on risk. Historically, 31% do not find a suitable company and the search capital is lost. 1.5x would not be enough for me. At least 2-2.5x step-up would be required" (Beck, 2020).

Sten Verland shared the same perspective. The risk in stage 1 is too high if one-third of the searchers do not find a suitable company and closes the fund. In that case, the money spent on the search stage is simply lost.

"If it is 1.5x step-up pre-money, no, then it is not fair. It is well known that one-third of the funds closes without finding a company. That is a very high number, and if that is the case, the risk is too high." (Verland, 2020).

In sum, the majority of the interviewed investors perceived stage 1 of the search fund model to be the weakest stage if the model came to Denmark. The high risk embedded in stage 1 appears to prevent Danish investors from investing in the first stage. Even though 43% of the investors believe the step-up mechanism is fair, it appears not to incentivize them to invest in stage 1. Either the step-up mechanism has to be higher in order to attract Danish investors in the first stage or other initiatives should be implemented. This will be elaborated in the discussion of this thesis.

5.3.1.8 Danish investors' view on the market potential

Having outlined Danish investors' willingness to invest and stage specific attributes of the search fund model, this part will take a step back and evaluate the fifth and final proposition for the Danish market, which is whether search funds have a market potential in Denmark. First, results and a summary of the themes both supporting and opposing the model will be presented. Subsequently, anecdotal evidence from the sample of Danish investors will be utilized to expand upon the arguments and uncover market gaps and issues for which the search fund model can potentially be a value-adding solution. The view on market potential of the model will be discussed further and coupled with additional insights in the discussion.

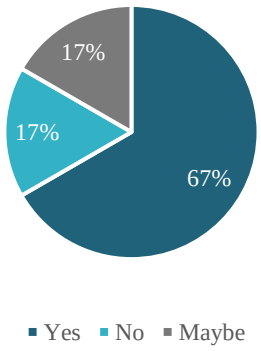
The market potential is not evaluated based on investors' specific investment decision, but on whether they think it is a viable investment class in Denmark. The investors were asked if they believe the model could work in Denmark, and irrespective of their answer, elaborate on their answer. Additionally, due to the semi-structured interviews, themes relating to the market potential came up throughout the interviews and are included as well.

5.3.1.8.1 Market potential assessment results

Investors were asked about the market potential and if they think search funds can be established in Denmark. The answers, depicted in graph 17, are distributed with 20 (67%) saying yes, five (17%) no, and five (17%)

who are in doubt. Hence, it can preliminary be concluded that most Danish investors think the search fund is a viable investment model in Denmark.

Graph 17: Danish investors' view on search fund market potential in Denmark



Source: Primary qualitative research study (Interviews)

The investors were subsequently asked to elaborate on their answer if they did not do it naturally. The answers throughout the course of the interview showed a repetitive pattern with few arguments on either side of the equation recurring often in slightly different versions. The arguments and their frequency are listed in table 9 below.

Table 9: Danish investors' top arguments on search fund market potential

Top arguments supporting market potential	# Mentions
Solution to succession issues in owner-managed companies	10
Creation of new investment class fills gap in the market	8
Top argument opposing market potential	**# Mentions**
The market is too small	7

Source: Primary qualitative research study (Interviews)

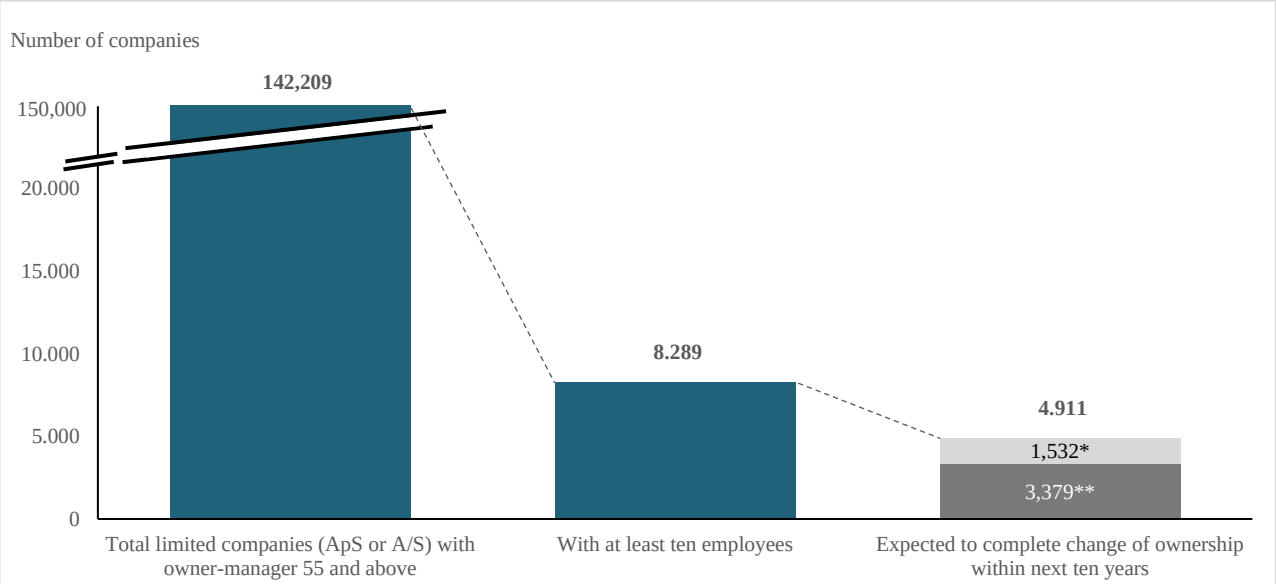
This subsection will now continue with explorations of the above listed arguments, starting with search funds as a solution to succession issues in owner-managed companies.

5.3.1.8.2 Solution to succession issues in owner-managed companies

The argument mentioned most often by Danish investors supporting the market potential of the search fund model is the opportunity for search funds to mitigate the succession issues in Danish owner-managed companies. The succession issue notion arises from the large number of owner-managed companies with a manager approaching old age, who will have to complete a company succession. The extend of the issue, both in terms of scale and consequences, is not easy to reach consensus on. In a report from 2015, The Centre for Owner-Managed Businesses, a collaboration between CBS, INSEAD and The Danish Industry Foundation

(Industriens Fond), identified 17,000 owner-managed companies looking to complete a succession before 2025 (Bennedsen and Nielsen, 2015). Applying same methodology to a more recent report from The Centre for Owner-Managed Businesses, yields 4,911 owner-managed companies with at least ten employees, expected to change ownership in the near future (Westergård-Nielsen, 2019). The analysis is shown in graph 18.

Graph 18: Danish companies expected to complete succession within next ten years



Source: Westergård-Nielsen (2019) and Authors
*Note: *It is expected that all companies with an owner-manager aged 65 and above will change ownership in the next ten years*
*** It is expected that 50% of the companies with an owner-manager aged 55-65 will change ownership in the next ten years*

As shown, the scale of the issue is up for discussion. Regardless, it is a big issue, here put in the words of Alexander Ulrich, from The Confederation of Danish Industry (Dansk Industri):

"From the perspective of the owner-manager, the succession issue is a huge problem. It is an issue investors generally don't invest in so small companies. These companies have a value of DKK 10-20 million. Basically, their only two options are a traditional succession or a management buyout. The limited options mean the company will be worth less, so the number of exit opportunities makes a huge difference" (Ulrich, 2020).

Although the interviewees opinions on the scale and significance varied, they frequently identified the search fund model as a potential partial solution to the succession issue. Lars Nordal Jensen is positive about the search fund model's ability to alleviate the issue:

"In Denmark, there is a very, very big potential within company successions. It is family businesses and sole proprietorships. There is a big shift coming. And this could be a very relevant model to approach these

companies with. Typically, successions are financed with seller financing, but I see this as an alternative way of financing, which I find very interesting" (Nordal Jensen, 2020).

Owner-managed companies are often times steady going machines producing positive cashflows but lacking visions to grow and expand. Alongside stressing the succession issue, Amer Ramzan also argues there could be an upside potential in these companies.

"There is a succession issue. There are a lot of companies with no one to take over or to acquire them. A lot of these are smaller companies with growth potential that cannot be realized with the current owner" (Ramzan, 2020).

Owner-managers consider their company as their life's work, and often do not retreat until they are reaching old age (Bennedsen and Nielsen, 2015). Consequently, some interviewees were concerned about owner-managers reluctance to sell, especially to someone outside of the family. However, recent changes to Danish tax law can potentially increase willingness to sell to third parties according to Ole Steen Andersen.

"Taxation on successions has become far less attractive. With valuations moving from being based on net asset value to fair market value, and with the inheritance tax increasing from 5% to 15% again, it is easy to imagine owner-managers to focus more on selling to third parties" (Andersen, 2020).

Andersen refers to the abolishment of a wealth tax rate in 2015 (Formueskattekursen), and the reintroduction of an inheritance tax of 15% rather than 5% (Skatteministeriet, 2015, 2020).

The thesis reflected in subsection 5.3.1.2.2 on investors' reservation regarding acquiring owner-managed companies due to loss of knowledge. The same arguments are valid counterarguments to search funds' potential to alleviate the succession issue. Additionally, several investors question the actuality and the scale of the issue, arguing only a fraction of the companies are fit for a change of ownership. And for those, BA Tommy Bøgehøj does not think search funds can find success.

"The good companies looking to complete a succession will be acquired by buyout funds and strategic buyers, leaving only bad companies. Additionally, this model [the search fund model] will have no synergies, meaning they cannot compete on price. Strategic buyers will have synergies, and buyout funds might have as well among their portfolio companies" (Bøgehøj, 2020).

Overall, the majority of the interviewees are confident that search funds provide value by alleviating the succession issue, thereby warranting its existence in Denmark, although the issue in itself is not enough to convince investors. The succession issue potential will be further evaluated in the discussion.

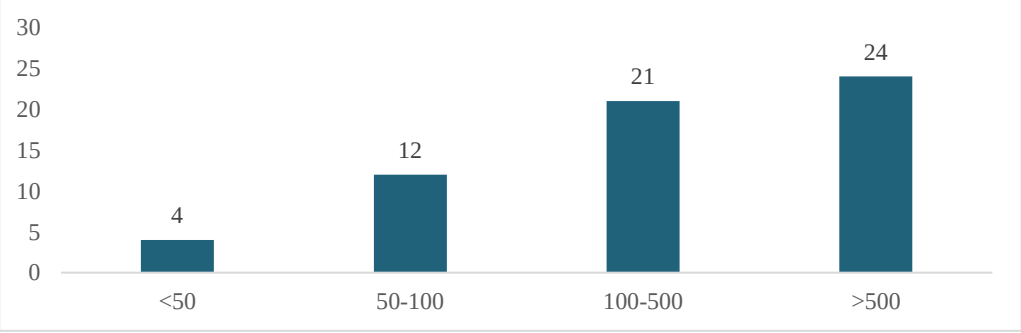
5.3.1.8.3 Access to a new investment segment

The investors also saw a potential for the search fund model as it creates a new investment class. This is positive as it provides an easier accessible alternative private investment class as well as contributing capital to an often overlooked market. Currently, structural challenges make it difficult to invest in unlisted, mature companies as the only option, BO funds, require large equity tickets. Lars Nordal Jensen believes the search fund asset class could fill this gap in the market.

"There are some structural barriers preventing smaller investors from being exposed to private equity. A model like this makes it possible for them to be exposed towards unlisted companies and that is very interesting. I think that there among Danish and European investors who prototypically fits within this model, will be a big interest. People would like to invest in something like this. In that sense, search funds solve a structural problem in the market, justifying the model" (Nordal Jensen, 2020).

In addition to opening a new investment class, several investors pointed to the fact that search funds focus on companies of a size too small for BO funds to pay attention to. Thus, search funds are operating in a market scarcely populated with competitors and offers a unique value proposition by offering capital and exit opportunities for business owners of smaller companies. This assumption is validated through a market screening of BO funds operating in Denmark. Historically, the search fund sweet spot Internationally has been within companies with EVs of DKK 0-100 million with a median of DKK 63 million (Kolarova et al., 2018). The results, presented in graph 19, shows only four BO funds focusing on the sub DKK 50 million EV segment, however with increasing competition in the DKK 50-100 million segment where 12 funds are active. Competition is strongest for companies with an EV of DKK 100 million or more. One fund can operate across multiple segments and are included as such in the study. A full list of the funds can be found in appendix 11.

Graph 19: Number of BO funds active in Denmark per investment size*



Source: Authors
*Note: *Enterprise Value if available, otherwise revenue*

In fact, the percentage of funds used to acquire companies in Europe with an EV of DKK 110 million or less has decreased in both absolute and relative terms in recent years, continuously decreasing from 12.2% at its most recent peak in 2014 to 7.5% in 2018 (Invest Europe, 2019). This can partly be attributed to increasing multiples and thus valuations (Bain, 2020) but it also shows that BO funds' focus is not on smaller companies.

Search funds potential ability to fill a market gap is a convincing argument for the market potential of the model. As presented here, it will provide a clear value proposition for investors and business owners alike. This potential will be assessed further in the discussion.

5.3.1.8.4 The size of the Danish market is perceived as a barrier

The investors' willingness to invest in the search fund model is obviously a barrier for the market potential. It is, however, only a few of the arguments against investing in the search fund model that possibly invalidate the market potential in Denmark. Governance issues can be mitigated, and investors can be convinced of unproven entrepreneurs' prowess. One true barrier that is not easily reconciled with the search fund model, is the size of the pool of targets.

One of the clear value propositions of the search fund model is to find and acquire a company that would not otherwise have been possible. It relies on the premise that the economic transaction costs, including search and acquisition costs, are too high for individuals and traditional BO firms compared to the size of the equity ticket. This is why most BO firms only invest in companies of a certain size. This is in the search fund model bridged by having a young ambitious professional taking a salary haircut compared to what the searcher could get elsewhere, in return for a potential upside in an exit scenario, thereby keeping transaction costs low. However, in a market perceived as having a small target pool, the search is unwarranted. The value-add is perceived to be low, as the search is fairly uncomplicated, yet high-risk as the chance of failure increases as the pool of companies decreases. Therefore, Danish investors are unlikely to invest in the search stage of a search fund. As exhibited in subsection 5.3.1.1.2 this is evident in their answers. The potential limitation of the Danish market size will be assessed further in the socio-economic subsection 5.4.6 on entrepreneurial culture and deal opportunities.

5.3.2 Foreign investors

It has previously been established that American investors' success in PE investments helped direct funds to the European BO and VC markets, and that funds from the US still account for a substantial part of committed capital (Invest Europe, 2019). Considered that the search fund industry in the US is without a doubt the most developed, can we yet again expect an inflow of funds from this direction? And what about cross-border funds flow within Europe? This part aims to address these questions through interviews with foreign investors from

both the US and Europe. Furthermore, it is investigated what it will take to attract foreign capital and which obstacles there might be.

The sample includes two investors from the US and two European investors, one from Spain and one from Switzerland. The American and the Spanish investors are all investment firms investing in search funds, whereas Tobias Raeber from Switzerland is a private investor who is a former successful searcher. A list of the respondents is presented in table 10.

Table 10: List of foreign search fund investors

Name	Company	Country
Ignacio Olavarría	Istria Capital	Spain
Tobias Raeber	Private investor	Switzerland
Sam Long	Pacific Lake Partners	United States
Cecilia Lulli	Relay Investments	United States

Source: Authors

The low International search fund activity means searchers have limited access to capital, due to local investors' lack of knowledge and trust in the search fund model. International searchers therefore often receive a large share of their funds from American investors. Prospective searchers have access to capital from serial search fund investors, institutional capital, and successful search fund entrepreneurs and investors wanting to reinvest in the model (Kolarova et al., 2018). Screening the portfolio of American search fund investment firms proves this statement right, though a majority of the backed International search funds are Latin American. This is likely due to the geographical location and American investors' better understanding and knowledge of nearby markets (Kolarova et al., 2018).

All of the interviewed investors have invested in search funds outside of their home countries. While some investors did seem cautious about investing in new countries, there appears to be support and capital to raise from foreign investors. Tobias Raeber describes:

"Because the community is so developed, and of course because there is also a lot of capital like in any asset class nowadays, you can start speaking and reaching out to international people, both regionally in Europe and international in the United States, and gather interest for a potential investment into a search fund. And people are very supportive of first-time search funds in a new country. […] There are definitely people in Europe, and also overseas, who are interested in spreading out the model further and trying new markets" (Raeber, 2020).

Directly asked if they think search funds are viable in Denmark, several investors use the existence of BO funds as a rule of thumb for whether it is possible. Existence of BO funds will often validate the search fund model as it implies the structural and legal framework is in place, as well as a critical mass of companies of the right size (Raeber, 2020; Olavarría, 2020). Though, the investors do have prerequisites and potential obstacles they will have to investigate further before investing in a new country. A summary of the themes and their frequency is given in table 11.

Table 11: Prerequisites and potential obstacles mentioned by foreign investors

Prerequisites and obstacles	# Mentions
Local investors	4
Large pool of targets	3
Positive macro backdrop	2
Tax complications	2

Source: Primary qualitative research study (Interviews)

Consistent with what has been seen within BO funds, where local investors are preferred in order to help overcome institutional barriers consisting of legal, regulatory, cultural and language differences (Manigart et al., 2011), all of the respondents mentioned the requirement of having local investors. Having local investors serves two purposes. Firstly, it validates the local search fund market opportunity, and it can be a validation of the searcher, if the investors also know the searcher. Secondly, local investors have local business knowledge and can due to their proximity help in a way, which foreign investors cannot. Sam Long, vice president at Pacific Lake Partners, explains:

"It is smart to have local investors. It gives credibility and it is important having local business knowledge. Besides knowing the regulatory framework, they can help with deal-making, they have a network of lawyers, accountants, consultants and brokers, and they can take seats in the Board of Directors and assist operations" (Long, 2020).

In terms of the optimal number of local investors, the respondents point to a number in the interval two to four. Raeber elaborates on the optimal investor team:

"There is definitely some benefit in having a couple local investors, but I think two to three local investors are already sufficient for that. Then on the other hand, a great compliment to that is to have seasoned international investors from Europe as well as from the United States in order to invest bigger chunks of capital and to give more guidance on the model both during the search and in the post-acquisition phase" (Raeber, 2020).

The respondents acknowledge that it is hard to convince investors who have not heard about the model before. They recommend targeting people with PE experience, as they have an understanding of the asset class, or former bosses and colleagues who have worked with the searcher before.

The American and European investors are largely in sync in terms of necessary prerequisites and potential obstacles. Though, the American investors do focus more on the macroeconomic situation, taxes and potential regulatory issues. This stress the need for a positive macro backdrop with a stable economy and economic growth. Furthermore, they will have to understand tax and regulatory issues which might complicate investments. The European investors are not concerned about these factors, proving that regional knowledge and geographical proximity plays a role in capital allocation decisions.

Danish law requires companies to file annual reports which are subsequently made public. Accessing financial data is thus quite manageable compared to other countries as for example the US. None of the investors, not even the Europeans, ascribe high value to this fact. It is mentioned as a bonus to have public databases, but the data is to a large extent deemed unreliable and not providing the full picture. In fact, rather than supporting the potential for a searcher it can do quite the opposite. Search fund expert Timothy Bovard explains:

"In Europe, most countries require all private companies to file their financials and corporate information annually, so it is public. Perfect information is the enemy of imperfect markets" (Bovard, 2020).

Asked directly about the likelihood of investing in the first stage of a Danish search fund, both American investors answer *maybe* in contrast to the European investors who are both *very likely* to invest. The European investors' confidence in the Danish market reflect their confidence in the search fund model as well their familiarity with European markets. Convincing American investors will be a tougher task, and a recommendation for a potential searcher will therefore be to focus on European investors first and build credibility through them before addressing American-based investors.

5.3.3 Sub-conclusion

To sum up, Danish investors are hesitant to invest in stage 1 whereas 50% are likely to invest in stage 2. The main arguments against investing in stage 1 include governance issues, inexperienced entrepreneurs and that the investment opportunity lies outside the investment strategy of the investors. However, of the 50% who are likely to invest in stage 2, BAs are especially inclined to invest. Stage 1 is generally conceived as the weakest stage of the model, while the results of the analysis of the step-up mechanism are ambiguous. The involvement from the investors or the equity ticket size of the investors do not appear to influence their inclination to invest.

Although investors are wary of investing in search funds, especially in its first phase, the investment model does seem to provide value-adding benefits. Search funds will give investors access to an unlisted investment class previously restricted to a small fraction of investors, primarily institutional investors. Furthermore, the succession issue in Denmark presents not only possible targets but also an environment fitting the nature of the model. This issue is contrasted by the size of the Danish market. The pool of targets is perceived as small, consequently minimizing the incentive for investors to invest in a search.

Foreign search fund investors have an overall positive outlook on search funds in Denmark. It has been shown it is a must to have local investors, which will both serve as a validation of the investment model and provide business knowledge. Geographically nearby investors, that is European investors, are more likely to invest in a Danish search fund than American-based investors. However, for the right searcher, both European and American investors are seen as viable, and essential, options.

5.4 The socio-economic environment

This subsection will investigate the Danish socio-economic environment and its impact on PE investments. Socio-economic factors have in academic literature been determined to have a large impact on the attractiveness and prosperity of national PE markets. The socio-economic environment will be assessed using the framework developed and applied by Groh, Liechtenstein, Lieser and Biesinger (2018) in their venture capital and private equity country attractiveness index. The index benchmark countries' attractiveness by applying a composite measure consisting of six key socio-economic drivers. The six key drivers shaping the attractiveness of national private equity markets are 1) economic activity, 2) depth of the capital market, 3) taxation, 4) investor protection and corporate governance, 5) human and social environment, and 6) entrepreneurial culture and deal opportunities (Groh et al., 2018). None of these drivers are directly measurable, and they are therefore estimated using criteria and proxies for which observable and measurable data can be obtained. A full breakdown of the index and the 125 covered countries is included in appendix 12.

In total, the index can be disaggregated into 51 observable factors. Thus, it is not the purpose of this thesis to investigate each single factor, but rather apply a high-level assessment of the six key drivers. Selected deep dives will be conducted to illuminate factors that are of specific importance to the search fund model and for factors that have been highlighted as critical by Danish and foreign investors in the qualitative data collection. The thesis might stray away from the framework, in order to adequately cover such highlighted factors.

In the following, a description and importance of each of the drivers will be presented followed by an assessment of the drivers' attractiveness. For drivers estimated using search fund critical factors, data of both quantitative and qualitative nature will be introduced to achieve a more comprehensive evaluation.

5.4.1 Economic activity

The economic activity of a country is an important driver of expected deal opportunities and thus PE attractiveness. The driver is estimated using total size of the economy, unemployment levels and expected economic growth, where the latter has been identified as the most important factor for the PE (Gompers and Lerner, 1998). The economic activity was also mentioned by the American search fund investors as a critical prerequisite for investing in a new country (Long, 2020; Lulli, 2020).

Numbers for the size of the economy (GDP), expected real GDP growth and the unemployment for Denmark, Europe and the US are given in table 12. In addition, the rank of Denmark and the US within the dataset is given as well.

Table 12: Economic activity in Denmark, Europe and the US

	Size of economy 2018 (GDP USDbn)	Expected real GDP Growth CAGR 2018-2024 (%)	Unemployment rate 2019 (% of labor force)
Denmark	352	3.5%	5.0%
Europe	21,867	2.8%	6.8%
United States	20,580	3.8%	3.7%

Source: The World Bank (2020b), IMF (2020), OECD (2020)

It is not surprising that the total size of the Danish economy is not among the largest. However, this, the low expected real GDP growth and the relative high unemployment rate, places Denmark down the list of economic activity in relative terms. In their study, Groh and colleagues rank the economic activity of Denmark as the 41st most attractive (2018).

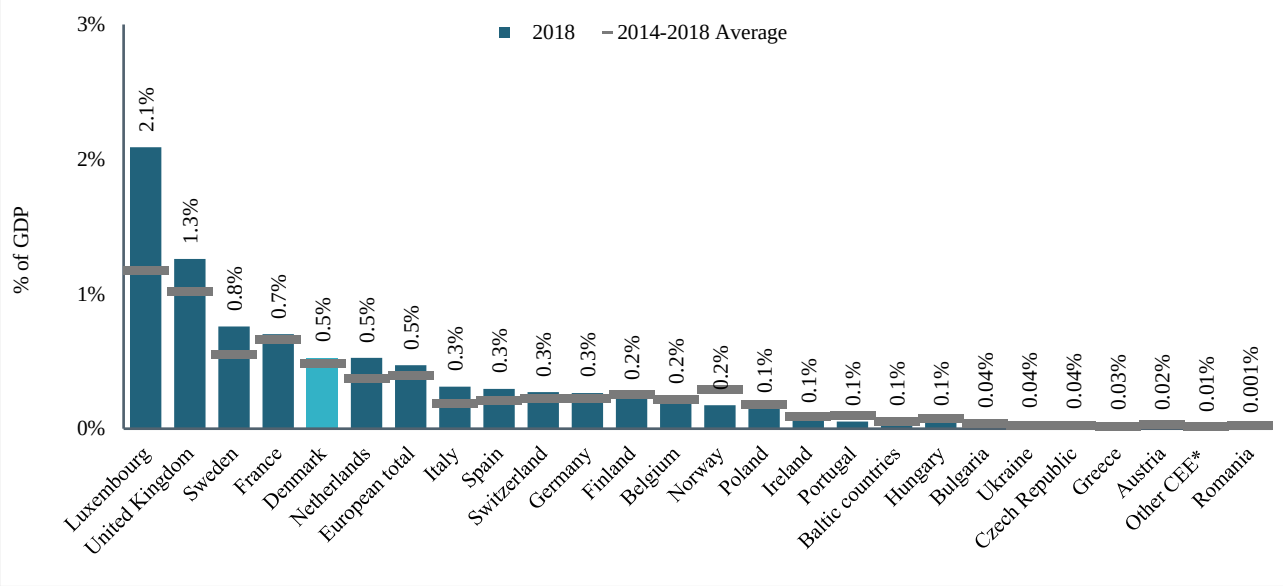
5.4.2 Depth of the capital market

The state of a country's capital market evidently affects its PE activity. There is a direct link between the quoted capital market, banking activity and the unlisted segment. Banks are essential for transaction financing and credit facilities. The size of the IPO market indicates the potential for the ideal exit channel. This may be considered as equivalent to the size of the M&A market, which also incentivizes entrepreneurial managers and presents the second preferred PE divestment channel, as well as deal sourcing opportunities. As a result, the liquidities of M&A, banking, and public capital markets provide good proxies for the PE segment because they assess the quality of the PE deal-making infrastructure (Groh et al., 2018). The exact same factors are essential for the success of search funds. Well-established deal sourcing and exit opportunities as well as transaction financing are fundamental for the geographical expansion of the search fund investment model.

Denmark's market capitalization accounted for 127.6% of its nominal GDP in 2019, which is fifth highest in Europe (CEIC, 2020). Additionally, the capital adequacy ratio, which measures a bank's financial strength by using its capital and assets, was 23.3% in 2019, which places the country first in Europe (CEIC, 2020).

Generally, the depth of the capital market is decent, and the PE investments as a percentage of GDP, shown in graph 20, was placed fifth in 2018 (Invest Europe, 2019), indicating that the capital markets of Denmark are well-suited for search funds. In the study by Groh and colleagues (2018), they rank the depth of capital markets of Denmark as the 29th. Denmark has low ranks in debt and credit market and bank non-performing loans. It is relatively difficult to get access to loans, according to The World Bank (2020a). Combined with the limited size of the Danish capital markets which restricts deal sourcing opportunities, it ultimately explains the relatively low ranking by Groh and colleagues (2018).

Graph 20: European PE investments as percentage of GDP



Source: Invest Europe (2019)
*Note: *Other CEE includes Bosnia-Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia, Slovenia and Slovakia*

In the interviews, the Danish investors raised concerns about the prospect of getting debt financing. This concern was addressed by interviewing an anonymous director from a large Danish bank. He revealed that it is possible to leverage a search fund acquisition by 2-3x Net Debt/EBITDA assuming that it is a mature business that keeps up with the budget and amortizes on the debt. Therefore, despite the low ranking by Groh and colleagues (2018), it seems possible to obtain debt financing for a Danish search fund.

5.4.3 Taxation

In previous economic literature, it has been much discussed how taxation affects PE. There are several countries with relatively high corporate tax rates but also very large VC and BO investments at same time. Bruce and Gurley (2004) explain that increases in personal income tax can raise the probability of becoming an entrepreneur. They argue that large differences between personal income tax rates and corporate tax rates provide an incentive for start-up activity. As a result, Groh and colleagues (2018) do not focus on the corporate

tax level alone but focus on the spread between personal and corporate income tax rates and low administrative burdens and requirements in their index.

Generally, Denmark has a favorable tax climate with a corporate tax rate of 22%, an extensive network of tax treaties and attractive tax rules for expatriates. However, five of the interviewed investors were concerned about how the Danish tax laws might affect a Danish search fund. Mads Nørgaard, Investment Manager at C. W. Obel, touched upon the issue of owning at least 10% of a company to prevent double taxation on dividends (Nørgaard, 2020).

In order to establish an overview of how the Danish tax laws affect search funds and its investors, a tax expert, wishing to remain anonymous, has been interviewed. In close collaboration with the authors of this thesis, an illustration of the legal structure, which can be found in appendix 13, and table 13 have been developed to outline the Danish taxation rules for search funds.

Table 13: Danish taxation rules for search funds

Return distribution	SearchCo DK	Danish company	Danish private investor	Foreign company	Foreign private investor
Dividends	Tax exempt as long as SearchCo owns at least 10% of the nominal share capital, otherwise taxed at 15.4%	Tax exempt as long as each investor owns at least 10% of the nominal share capital, otherwise taxed at 15.4%	42% tax rate	No withholding tax if investor holds at least 10% of the nominal share capital. Otherwise 27% withholding tax rate which can be reduced to 22% per default and may be reduced further depending on applicable tax treaty, if any	27% withholding tax rate which may be reduced further depending on applicable tax treaty, if any
Capital gains	Tax exempt	Tax exempt	42% tax rate	Tax exempt	Tax exempt
Carried interest	High taxation	n/a	n/a	n/a	n/a

Sources: Anonymous tax expert and authors

Outbound dividend distributions may be distributed without withholding taxes if the recipient is the beneficial owner and eligible for benefits, according to the EU Parent Subsidiary Directive or a double taxation treaty. In practice, it entails that a SearchCo and a Danish company are tax exempt from dividends as long as each investor owns at least 10%. A Danish private investor is taxed at a 42% rate, while non-resident private shareholders are eligible for a 27% withholding tax rate which may be reduced further depending on the applicable tax treaty, if any. Generally, there is no withholding tax if a foreign entity holds at least 10% of the nominal share capital. Otherwise, a 27% withholding tax rate applies which can be reduced to 22% per default

and may be reduced further depending on applicable tax treaty, if any. Capital gains are generally exempt from tax, cf. Danish tax law (The Danish Ministry of Taxation, 2011), except if the investor is a Danish private investor, then a personal taxation of at least 42% is triggered. The tax on carried interests is generally high in Denmark, thus a bonus program might be considered instead.

Conclusively, as long as the search fund does not pay out dividend, or the owners own at least 10%, the Danish tax laws are no hurdle. Groh and colleagues (2018) rank the taxation in Denmark as the fourth most attractive in their study. As a result, the tax climate in Denmark is well-suited for search funds.

5.4.4 Investor protection and corporate governance

Legal structures and the protection of property rights influence the attractiveness of PE markets. Doing business becomes costly without appropriate protection and enforcement mechanisms. PE is strongly exposed to these circumstances because it is based on long-term relationships with institutional investors, where the investment source and host countries can be distant and different. If investors are not confident that their claims are well protected in a country, they will refuse to allocate capital (Groh et al., 2018).

Every year, the World Bank publishes a report measuring the ease of doing business in 141 countries (2020a). Among the factors tested is protection of minority investors. The ranking of economies on the strength of minority investor protection is determined by scores based on securities regulations, company laws, civil procedure codes and court rules of evidence. The outcome is a value between 0 and 50 where 50 is best. Denmark scores 36 making it part of the top 20%. Only Cyprus, Ireland and Norway have a higher score in Europe.

In the study by Groh and colleagues (2018), they rank Denmark as number 10 within investor protection and corporate governance. In conclusion, the investor protection and corporate governance environment enhances the attractiveness of Denmark as a PE market.

5.4.5 Human and social environment

The human and social environment factor represents the talent dimension of search funds for the purposes of this thesis. In order to develop a growing risk capital industry, certain factors play an important role. Firstly, countries with more developed educational institutions create an environment that supports and cultivates the market for risk capital. Secondly, rigid labor market policies tend to negatively affect the evolution of PE (Groh et al., 2018).

Groh and colleagues (2018) assess human and social environment based on three broad categories. In addition to education and human capital, they also study labor regulations, and bribing and corruption. Education and human capital are estimated by examining the quality of the educational system and the quality of scientific research institutions. Within these categories, Denmark ranks 17 and 16, respectively (World Economic Forum, 2017). Overall, Denmark is ranked 16th in education and human capital, 10th in labor regulation and 3rd in bribing and corruption. It results in an overall ranking as number four within human and social environment.

Although talent is not easily measured, the high ranks within education provides a clue that young, Danish professionals are well-educated. In the context of search funds, investors will on a case by case basis determine if the searcher is talented enough. Evident from the investor interviews, Danish investors tend to prefer more experienced entrepreneurs. Though in relation to North America and International, there is nothing to substantiate that these searchers have been more talented than equivalent Danish professionals.

5.4.6 Entrepreneurial culture and deal opportunities

The driver encapsulating entrepreneurial culture and deal opportunities is estimated through human capital and bureaucracy factors. Investments in research and development is a proxy for human capital endowment and has been shown to be correlated with PE activity (Gompers and Lerner, 1998). Without adequate investments in R&D driving innovation, it is difficult for established companies to build and sustain their market position and brand name which attracts PE interest. Overall, the factors described above make Denmark quite attractive in terms of entrepreneurial culture and deal opportunities with Denmark ranking as the 14th most attractive country according to Groh and colleagues (2018).

Entrepreneurial culture and deal opportunities is immensely important, as the expectation concerning access to investments is a critical component of investors' allocation decisions. The results of this study affirm these findings. In subsection 5.3.1.1.2 it was shown that the investors' hesitancy to invest in the search stage was motivated by a perception of a small pool of suitable targets. The possibly small pool of targets was in subsection 5.3.1.8.4 further argued to be a severe barrier for the model's market potential in Denmark. Hence, understanding this driver better becomes crucial in order to determine search funds feasibility. The question that remains is thus, how many companies matching the search fund characteristics are there in Denmark?

To estimate the potential pool of targets, the financial characteristics set forth in subsection 2.1.5 will be tailored to the Danish market to give a high-level, preliminary estimation of the number of potential targets. Specifically, the applied criteria are as follows:

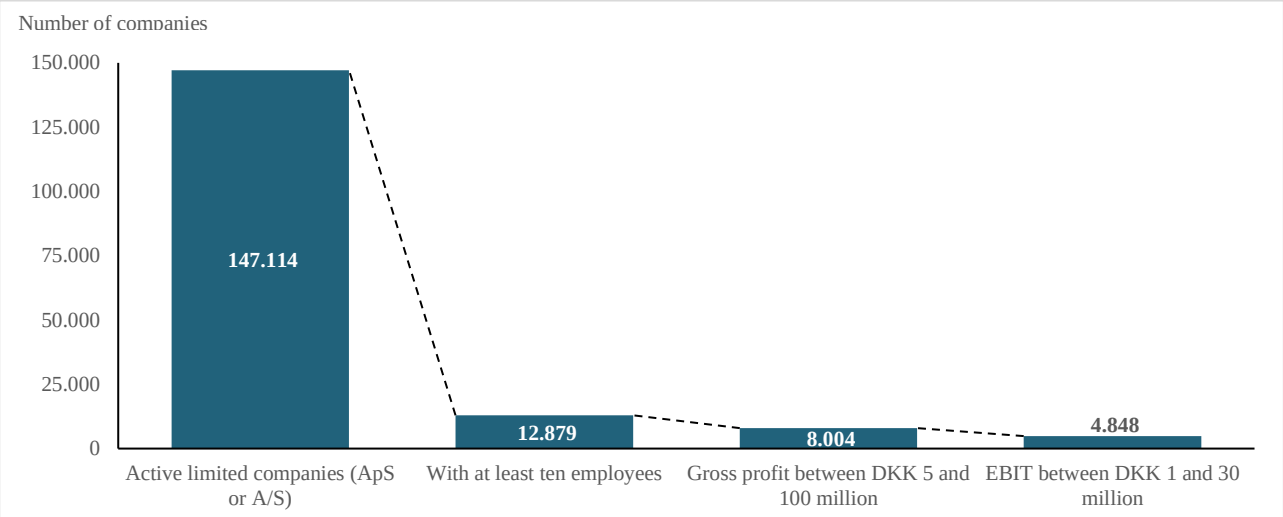
1) The company is active and structured as a limited company referred to in Danish as A/S and ApS
2) Minimum ten employees

a. Search funds have acquired companies with as few as four employees, and additionally this criterion aids in the exclusion of most holding companies

3) Gross profit between DKK 5-100 million
    a. Danish companies of the size relevant for the search fund model are not required to disclose revenue, thus gross profit is adopted as the closest proxy
4) EBIT between DKK 1-30 million
    a. EBIT is more often reported than EBITDA by Danish companies and therefore applied in this instance to avoid further adjustments

Applying these criteria to Greens database of Danish companies gives an output of 4,848 companies matching the search fund criteria. A breakdown of the estimation of the pool of potential search fund targets and the results is presented in graph 21 below. It should be noted that this is a rough estimate, where further inspection of the companies, would exclude some and include others. Among other, this includes smaller business units in large corporations suitable for carve-outs and companies with negative EBIT.

Graph 21: Estimation of the pool of potential search fund targets



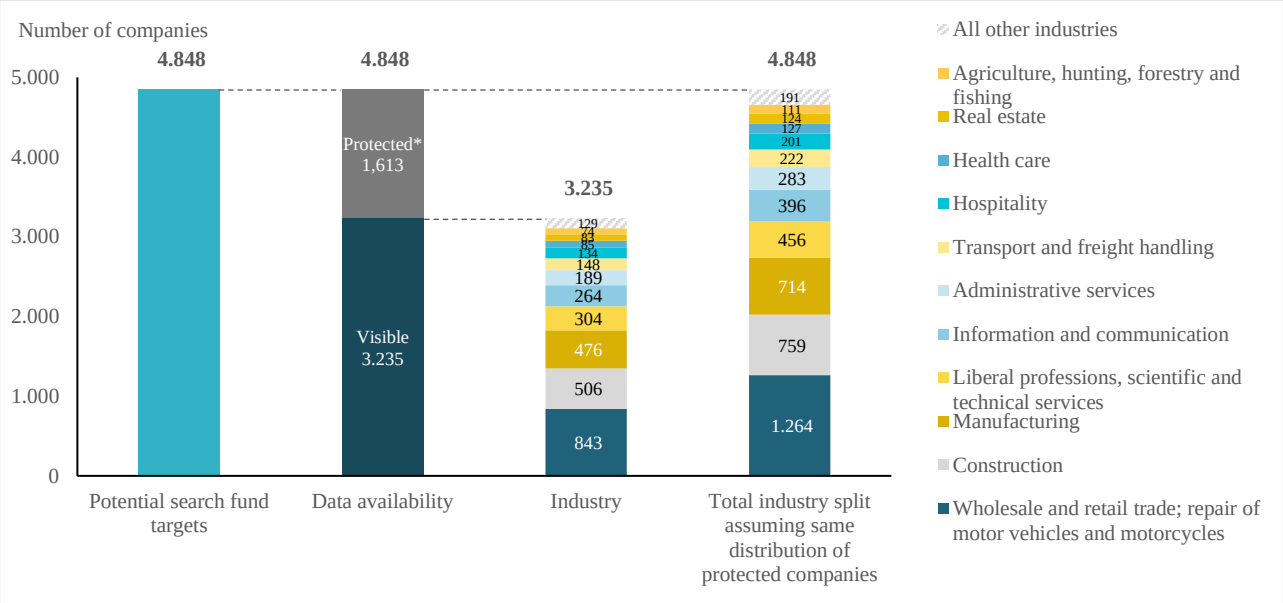
Source: Greens (2020) and Authors

The 4,848 companies are a rough estimate of potential targets, but is it enough? The median number of companies, which successful North American searchers identified and reviewed as potential targets before making an acquisition was 386 (Yoder, et al., 2018). For successful International searchers the number was 150 (Kolarova, 2018). The theoretical number of companies needed to sustain a search can be expected to be higher as these, low, numbers are only manageable due to a focused screening approach.

Sorting the targets based on their main industry, as defined by Statistics Denmark and reproduced in appendix 14, provides a somewhat more granular picture. The industry split, depicted in graph 22 below, shows five

industries with more than 386 companies, thereby satisfying the North American threshold, and eight vis-a-vis the International threshold. Accordingly, there is critical mass to sustain search funds. Though, it should be noted that the applied industries are broad by definition, comprising several sub-industries. Consequently, further dissection, outside the scope of this thesis, is necessary to determine how specific the searcher can allow to be while still searching within a large enough pool of companies.

Graph 22: Industry split of potential search fund targets



Source: Greens (2020), Statistics Denmark (2014) and Authors
*Note: *Legally protected against unsolicited advertising. To get a full estimate on the industry split of all companies including protected companies, the total number of potential search fund targets has been multiplied by the industry split of the visible companies assuming same distribution of the protected companies*

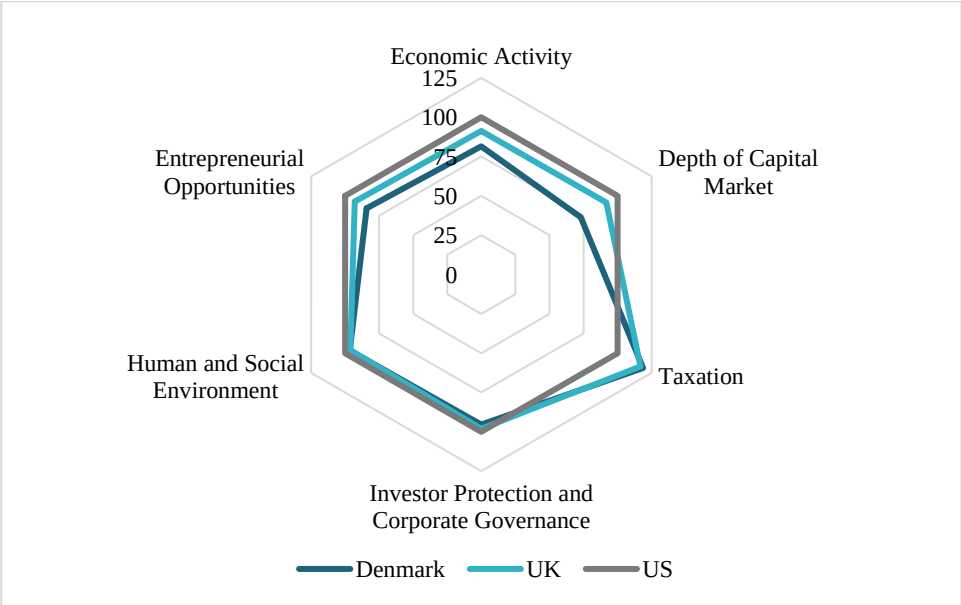
In sum, the entrepreneurial culture and deal opportunities make Denmark well positioned to attract PE. Zooming in on the actual pool of targets for search funds provides basis for a limited confirmation of the adequacy of the target pool. The number of companies matching the search fund criteria can be considered sufficient based on historically reported numbers, though it will require the searcher to presume a high-level industry approach in the search stage. Likely, this will discourage Danish investors as it was evidenced that they prefer to know what they are investing in, and the more specific the better. The argument on the target pool will be further developed in the discussion subsection 6.2.1.

5.4.7 Sub-conclusion

This subsection has cast light upon important socio-economic factors impacting the viability of the search fund model's existence in Denmark. Overall, Denmark is an attractive country for BO and VC based on the socio-economic factors. The economic activity, primarily due to low expected real GDP growth, and the depth of the capital market, are the drivers in which Denmark scores the lowest. Taxation, and the human and social environment resembling the talent pool, are on the other hand very positive drivers. In total, Denmark is ranked

as the 10th most attractive country for PE with only two European countries, UK and Germany, ranking higher. The US leads the ranking (Groh et al., 2018). The countries' scores are depicted in graph 23 below.

Graph 23: Socio-economic driver scores for Denmark, the UK and the US



Source: Groh et al. (2018)

The Danish investors' primary concerns were access to debt financing, taxation issues and the number of potential targets. It was shown that access to debt financing up to 2-3x of EBITDA is possible, and for taxation, there should be no apparent issues. The number of targets is the biggest hurdle to overcome. With approximately 5,000 companies matching the search fund criteria, the searcher must include several industries in the search scope to achieve a sufficient pool of companies.

6. Discussion

The aim of this section is to summarize and discuss the results and assess their implications. The discussion will be separated into three subsections. First, the results obtained from the investigated dimensions will be synthesized. Secondly, the future of search funds in Denmark will be discussed. Finally, the implications of this thesis for potential searchers, investors, business owners, policymakers, and the academic community will be evaluated.

6.1 Synthesis of results

In the following, the analyzed dimensions will be synthesized and ultimately uncover insights into the most revealing results and underlying elements. By synthesizing the results, it not only provides a comprehensive overview of the results, it also serves as a building block towards a discussion of the factors that determine the future of search funds in Denmark.

First, an assessment of the international development of fundraising and deals made by search funds and other alternative asset classes was performed. It showed that asset classes are introduced with a delay and in a smaller scale in Europe than in the US when assessing fundraising levels. Search funds seem to be where BO and VC funds were in the 1990s, thus lacking behind the curve with approximately 15 years. The increase in time lag makes it uncertain when it is likely that search funds will be introduced in Denmark.

Secondly, a measurement of the performance of search funds in relation to other alternative asset classes was conducted. Search funds have historically generated favorable returns to investors which are much higher than for BO and VC funds. However, the high returns are not without risk. Since search funds only consist of one company, the missing diversification attribute of the model causes high risk. The risk/return profile of search funds attracts VC-type investors, although the companies typically targeted in a search fund are radically different. This creates a paradox that will be further debated in the subsequent section of the discussion.

Thirdly, the investor dimension was researched in two parts. Both parts applied qualitative interviews to assess Danish as well as foreign investors' appetite for Danish search funds. Generally, Danish investors were hesitant to invest in stage 1 whereas 50% would be likely to invest in stage 2. Especially business angels were inclined to invest in stage 2 of a Danish search fund. Stage 1 was conceived as the weakest stage of the model, while the results of the analysis of the step-up mechanism were ambiguous. Despite the investors' unwillingness to invest in stage 1, the majority of the interviewees thought that there is market potential for search funds in Denmark because the investment model seems to provide value adding benefits. In addition, foreign search fund investors were found to have an overall positive outlook on search funds in Denmark. However, local

investors are mandatory, which will both serve as a validation of the investment model and provide business knowledge and networks.

Fourthly, the socio-economic environment impacts the viability of the search fund model's existence in Denmark. Overall, Denmark is an attractive country for PE and VC based on the socio-economic factors and is ranked as the 10th most attractive country for PE and VC. Investors' concerns were primarily related to taxation, debt financing and the pool of potential targets. Subsequent analysis found no apparent issues related to taxation and debt financing, while the estimated target pool of 4,848 companies might discourage investors albeit it satisfies historical target thresholds.

Although most dimensions investigated favors the outlook of search funds in Denmark, the possibly most important, the investors, paints a blurrier picture. The search fund model might thus not be perfectly compatible with the Danish market in its current format. Therefore, adaptations to the model can be necessary in order to accommodate the shortcomings of the model and to incentivize investors. These adaptations as well as the outlook of the model in Denmark will be evaluated in the following part of the discussion.

6.2 The future of search funds in Denmark

The purpose of this section is to discuss the future of search funds as an asset class in Denmark. First, the search fund model's feasibility in Denmark will be discussed. Subsequently, issues of implementing the model in Denmark and how to adapt the model to overcome the issues and fit it to Danish market conditions will be considered.

6.2.1 Search fund as an asset class in Denmark and the value adding potential

In this first subsection of the discussion, search funds as an asset class in Denmark and its value adding potential will be discussed. Findings from the analysis will be evaluated and put into new perspectives in the context of existing literature.

In the analysis of Danish investors, it was investigated whether search funds had a market potential in Denmark. One of the dominating answers supporting the potential was search funds' ability to provide smaller investors with unlisted, mature investment opportunities. The mapping of the current BO funds investment landscape further validated this point by showing only four funds in Denmark targeting companies with EVs of less than DKK 50 million. Additionally, the historical returns of search funds were shown to outperform both BO and VC funds. In the low interest environment present today, there should hypothetically be large amounts of risk-seeking capital available. This notion was also mentioned by several of the investors. Though not investigated directly, by adding search funds to a portfolio the investor achieves diversification benefits.

This notion is grounded in portfolio theory stating that adding an asset to a portfolio will increase diversification as long as the assets are not perfectly correlated (Munk, 2018), which in the case of search funds is unlikely considered the investment class' distinct attributes. Access to a new investment class, high returns and diversification benefits were also found to be the primary reasons for investing in search funds by Nieboer and Carenzo (2011a).

The above findings prompt the question whether it is only a matter of time before search funds become a reality in Denmark. The international development of similar alternative assets, as presented in subsection 5.1, might suggest so. However, it is critical to understand the size of the target pool. Several investors perceive the Danish market to be too small to warrant the search phase. To illuminate this, a high-level screening was performed in subsection 5.4.6, denoting a pool of 4,848 companies matching the search fund criteria. Whether this is enough will in the end be determined by searchers' ability to convince investors of just that. For perspectivation, the median number of companies, which successful North American searchers identified and reviewed as potential targets before making an acquisition was 386 and 150 Internationally (Yoder et al., 2018; Kolarova et al., 2018). Besides conforming the notion of an adequate target pool, the industry split stressed the necessity for the searcher to employ a wide industry-search. However, Danish investors' reluctance towards intangible investment opportunities complicates this and emphasizes the need for adaptations.

The succession issue as presented in subsection 5.3.1.8.2 can possibly alleviate the negative effect of the perceived small pool of targets. The higher number of companies seeking to complete an ownership change bodes well for searchers' chance of completing an acquisition. The thesis showed investors on both sides of the succession issue argument, however the most taking the position in favor of search funds. Research from The Centre for Owner-Managed Businesses suggests that 4,911 companies with at least ten employees will look to complete an ownership change in the near future (Westergård-Nielsen, 2019). In the period 1995-2013, 4,932 companies changed its ownership with one third of the successions taking place within the family (Bennedsen and Nielsen, 2015). Hence, if the historical trend continues, there will be a large gap between companies looking to change ownership, and companies doing so. The same market dynamics is evident in the US with both Deibel (2018) and Dennis and Laseca (2016) arguing that the search fund model is well-positioned to benefit from this transition and supply the currently insufficient capital targeting this segment.

The number of search funds to invest in to bring the risk down to the level of VC, was in subsection 5.2.3.2 found to be 42 search funds. The higher expected return of search funds means investors can accept higher risk of investing in a portfolio of search funds compared to VC, thereby decreasing this number to some degree. While there is a large enough pool of targets to sustain some search funds, it is unlikely that the number of search funds in Denmark at any given time can get close to 42. Assuming it takes 500 targets to make one

acquisition, which is a little higher than the historically reported numbers, there will be at most 10 search funds in Denmark at any given time. Accordingly, investors are unlikely to reach optimal diversification within search funds alone. Instead, search funds should be seen as diversification to a portfolio consisting of other alternative assets.

In sum, this thesis suggests that the existence of search funds in Denmark is warranted. Ultimately it will be up to professionals to launch a search fund and investors to invest. Naturally, for investors to get on board, the issues currently preventing them from investing will have to be overcome. These issues, and methods to resolve them, will be discussed in the following two subsections.

6.2.2 Paradoxes

Throughout the interviews four paradoxes of the search fund model emerged. In order to resolve the issues of implementing the search fund model in Denmark, these paradoxes must be well identified and addressed in order to suggest adaptations to the model.

In the analysis of this thesis, it was outlined that 43% of the investors thought the step-up mechanism of the search fund model is fair. At first sight, it is obvious to think that those investors would be likely to invest in stage 1. However, only 10% of the interviewed investors could be likely yo invest in stage 1. Even though 43% of the investors thought the step-up mechanism is fair, it does not necessarily imply that they are suitable investors. In addition to the step-up mechanism, multiple factors such as risk profile and equity ticket must match the investors as well. Hence, increasing the step-up does not seem to attract more investors as many already think the step-up is fair.

Another paradox of the search fund model was revealed by Lars Stagaard Jensen and Birgitte Nygaard Jørgensen. The risk profile of search funds attracts VC-type investors, but the companies targeted in search funds prevents those types of investors from investing. In the performance measurement analysis, search funds outperformed BO and VC funds, the high return also entailed high risk. The high risk of investing in search funds attracts certain investor types, among others VC investors, and prevents other from investing, such as low risk family offices. However, the investors attracted to the risk profile do not invest in mature businesses which are the most targeted businesses by search funds. This creates a paradox where some investors refuse to invest due to the high risk and other due to the mature companies targeted, leaving only few investors as likely candidates.

One search fund comprises only one company. Therefore, it requires investments in multiple search funds to obtain diversification that resembles an investment in a BO or a VC fund. An important aspect of the search

fund model is that investors need to be actively involved. The combination of relatively small equity investments of DKK 0.5 – 20 million and that investors need to be highly involved in multiple funds prevent large institutional investors from investing. On the other hand, the equity investments might be too high for other investors as they need to invest in several search funds to obtain diversification. It might prevent BAs with small equity tickets from investing. This creates an additional paradox as the search fund model prevents some investor types from investing simply due to the investment size and the active involvement required from investors.

The success of the search fund model depends on investors' willingness to invest in relatively inexperienced professionals in both stage 1 and 2. However, as mentioned by Amer Ramzan, the ones that are most likely to receive the search funding are the entrepreneurs that have run a similar company before and made a successful exit. Those people do not need the search capital because they will typically start a traditional fund instead. This creates a paradox where the only searcher that would be likely to receive search capital is the ones that already have investors in their network.

If no adaptations are made to the model, only few investors would be likely to invest in a Danish search fund due to the four paradoxes mentioned above. Only investors that will accept the risk profile and the targeted businesses combined with the ability of diversifying through multiple search funds while being actively involved will be appropriate investors unless compromises are made. Consequently, several adaptations to the model have been proposed by the interviewed investors which might solve the listed paradoxes.

6.2.3 Adaptations to the model

In order to overcome the paradoxes and the weaknesses of the search fund model, adaptations can be implemented. The adaptations can broadly be categorized into two categories. First, four proposals were made by the interviewees to reduce the risk of investing in a search fund. Hence, the first category of adaptations will concern risk reducing initiatives. Secondly, two investors were concerned about tax and remuneration of the searcher, respectively. Both suggestions dealt with the incentive structure which will serve as the second broad category of adaptations.

The first category of adaptations to the model relates to risk reducing initiatives. Three investors proposed that stage 1, the initial raise of capital, of the search fund model was modified. Instead of investing an amount before the search, tranche payments should be implemented. By utilizing tranche payments, the investors can monitor the progress of the search and commit additional capital only if the search proceeds as expected and when certain milestones are fulfilled. This adaptation would certainly reduce the risk of investing in stage 1.

Another, related adaptation was proposed by Ulrik Jørring. He proposed that an additional stage could be implemented. The new stage should be positioned just before the due diligence such that those costs are covered. An investor investing in the new stage would know what company the searcher would invest in if the due diligence progresses as expected, hence it would reduce the risk significantly compared to investing in stage 1.

Nine of the interviewed investors were concerned about the lack of experience by the searcher. It entails a great deal of risk to invest in a relatively inexperienced entrepreneur with only few years of relevant work experience. In order to solve this hurdle, Frederikke Beck proposed that an advisory board could be established with professionals with extensive industry experience. In its existing format, search funds typically target active investors with industry experience which serve as advising investors. In addition to reducing the risk of investing, advisory boards might also encourage more investor types to invest. By implementing an advisory board, not only active investors can be targeted but also passive investors.

The last risk reducing initiative was proposed by Ulrik Trolle, partner at the startup studio Founders. He suggested that the searcher should fund the search by own means. In geographies where local investors are not familiar with the traditional search fund concept, or where serial search fund investors are not familiar with the geography, several searchers have selected the self-funded search model (Kolarova et al., 2018).

The second category of proposed adaptations relates to the incentive structure. Lars Stagaard Jensen and Birgitte Nygaard Jørgensen were worried about the remuneration of the searcher being too low. To incentivize the searcher, the search fund model has applied the concept of carried interest, where the searcher earns shares of the profit pool. The carried interest structure can potentially be a great incentive enabling the searcher to achieve great financial gains without investing own money. However, as the searcher only gets to participate in the profit pool after investors initial investment and a preferred return has been paid, substantial value creation has to be made. Thus, it can promote unnecessary risk-taking by the searcher and thereby misalign incentives between the searcher and the investors (Benjamin et al., 2017). Lars Stagaard Jensen proposed that warrants could be applied in Denmark to incentivize the searcher as this is likely to provide a better return for the searcher and mitigate principal agent problems.

Oftentimes, incentive structures of investment models are based on the tax conditions governed by the law of the home country of the company, hence, an anonymous tax expert was interviewed to reveal any tax issues if the search fund model came to Denmark. He proposed that instead of using carried interest to incentivize the searcher, bonuses could be utilized. The tax on carried interest is relatively high in Denmark, thus other types of incentive structure could be considered. In that relation, bonuses could be a relevant tool.

Tying it all up, this thesis suggests that search funds can be established in Denmark. It has been shown that to become an established and successful investment model in Denmark, the search fund model might need to be altered. Even so, adaptations should be implemented cautiously. Adapting the model from fund to fund could make the search fund model non-standardized and less appropriate as a new plug-and-play investment model.

6.3 Implications

This section contains a discussion of the implications for the stakeholders addressed separately. Implications will be discussed for potential searchers, investors, business owners, policy makers and the academic community.

6.3.1 Potential searchers

Successfully raising and operating a search fund presents many challenges for potential searchers. This thesis, being the first of its kind to study search funds in Denmark, provides potential searchers with essential information on the barriers to overcome to convince Danish investors. The findings indicate that, although there is investor interest, searchers might have to adapt the model by self-funding the search, at least partly, or divide the search capital into tranche payments to attract funding. Searchers can advantageously tap into their network for funding as previous relations seem to matter for investors. While the task seems daring, only a few Danish investors will have to invest as established and experienced American and European search fund investors are looking for International opportunities.

The findings of this thesis might also have implications for the profile of the searcher. Contrary to what has been observed in search funds, investors favor more experienced, proven professionals rather than young, ambitious talents. Finding the optimal searcher profile is outside the scope of this study, thereby restricting the validity of this conclusion.

6.3.2 Investors

Danish investors were the primary unit of analysis in this study. Structurally, investors hold a lot of power in this model, and with the model being in its infancy and locally unproven, their position is further strengthened. Thus, they hold the key to unlocking the potential of search funds in Denmark. A potential which they can benefit from redeeming. This study has shown that search funds have provided better returns than BO and VC funds, albeit obeying the risk-return tradeoff theory by also being riskier. Additionally, search funds provide smaller investors access to an unlisted asset class previously reserved for large institutional investors.

Based on historical search fund performance, the thesis found that the number of search funds to invest to get the same risk as in VC, is 42 search funds. While this is most likely not possible within the Danish market, investors can use search funds to diversify a portfolio consisting of other assets.

Being the first Danish paper on search funds, and the first to examine the Danish market as well, this thesis has through the applied qualitative method and direct interaction with the Danish investor community served as a first measure to educate Danish investors on the search fund concept.

6.3.3 Business owners

Although, individual business owners have not been interviewed and assessed, a few general implications can be deducted for businesses and their owners. For businesses fitting the search fund characteristics, the emergence of search funds offers an alternative exit opportunity, which is beneficial considering the current scarce exit options. Moreover, the emergence of search funds might also lead to higher enterprise valuations due to the slightly increased demand. The overall impact on business owners must nonetheless be assessed with caution. Coupling the number of search funds observed worldwide with the pool of Danish targets indicates that only a relatively small number of search funds can be sustained in the Danish market.

6.3.4 Policymakers

It is in the interest of policymakers to ensure and nurture a healthy SME segment. This segment accounts for a large share of Danish companies and are therefore essential for employment and growth. Attracting capital has however proved to be difficult. Introducing search funds can potentially alleviate this challenge, though only for a minority of the best positioned companies. As outlined in the subsection on the international development of alternative asset classes, policymakers have played an important role in the evolution of alternatives through legislation. Search funds apply the same structural framework as PE, so imited actions are required in this regard.

This thesis has showed that investors are hesitant to invest in the first stage. Thus, if the search fund is found desirable from a political perspective, the findings of this thesis urge policymakers to find ways to make it a more attractive investment opportunity or support it otherwise. The Danish tax environment was in the section on socio-economic factors found to be quite beneficial for investors investing through a holding company, hence the initiatives on this end are limited. Though, it does leave room for adjustments for individuals, for example making gains on the search capital exempt from tax. Otherwise, funds can be provided directly to searchers through government agencies, as for example Vækstfonden. This will aid search funds through standardization of the investment terms and providing the credibility needed to attract investors.

6.3.5 The academic community

This thesis is a contribution to the scarcely researched area of search funds focusing on the potential of search funds in Denmark. Being placed within an infant field with limited research primarily build on qualitative data and with the majority of the quantitative data restricted to two organizations, this thesis opens the academic conversation on search funds in Denmark and is an addition to the International search fund academic community.

Most of the previous literature have focused on the searcher and primarily applied qualitative methods. While this thesis has furthered the tradition of using quantitative data, the unit of analysis has been shifted to the investors. The research approach applied in this study can possibly advance the focus on the investor dimension in the future. Understanding the idiosyncratic properties of successful search fund investors will empower future research, and aid searchers in the fundraising stage.

Comparing the risk and return of search funds to other alternative assets is not a norm within this line of studies, possibly due to the relatively small size of the search fund asset class. Increased investment activity and appetite for alternatives might cause this to change in the future, and the comparison should therefore not be neglected but rather be sought to be investigated further. Moreover, as the investment model continues to develop and expand, thereby also accumulating quantitative data, the need for more research within several dimensions will increase. Hence, another implication for the academic community is the ways the subject can be researched in the future based on the foundation of this thesis. Suggestions for future research will be presented in the following section.

7. Suggestions for future research

As the search fund concept is still in its infancy, and because the area is scarcely researched, several opportunities for future research exist. While this thesis employed a relatively broad range of dimensions within the investor perspective of search funds, future research can be both extended in regard to width as well as depth. Moreover, other methodological approaches and geographic areas are available for future research.

In order to further investigate the investor perspective of search funds, it is recommendable to first and foremost apply a narrower approach and focus on depth. One approach could be to make a deep dive of the performance measurement of search funds. This could be done by investigating the consistency of returns of search funds through economic cycles. Most publicly available search fund data covers the ten-year boom period from 2010-2020 with very positive market returns, however, an investigation of the search fund returns during the financial crisis and the current covid-19 crisis would add significant value to the existing data. In that way, correlation analyses could be conducted, ensuring that investors optimize their portfolios efficiently. Another quantitative research approach that could be utilized in future research is the development of a forecasting model to detect good deals. The research could analyze what characteristics, metrics and attributes that are shared among successful search funds to improve the screening process for identifying targets for future search funds.

More qualitative approaches could also be employed to further investigate the investor perspective. Among other things, future research could investigate in what stage investors can add most value to search funds. Other suggestions relate to selecting the best searchers and how investors can prepare these new leadership teams.

Besides researching more in-depth within this topic, a broader or another perspective is also possible. Instead of focusing on the investor perspective of search funds alone, future research could include the searchers and the companies, or focus on one of these other areas exclusively. If focusing on searchers, multiple interesting research topics are available. Among others, researchers could analyze why female participation is at such a low level, or what happens to searchers if they do not make an acquisition. By researching the company perspective, succession issues of owner-managed businesses and their suitability as a search fund acquisition could be investigated.

Finally, other geographic areas could be explored by employing the exact same format as this thesis. By investigating more countries, an assessment and comparison of search fund country attractiveness is obtainable. The existing format of this thesis could also be utilized for other upcoming investment models.

8. Conclusion

This thesis set out to contribute to a scarcely researched and highly relevant field by examining the outlook of the search fund model in Denmark focusing on the investor side of the model. Due to the investment model still being in a nascent stage, the aim of the thesis was to develop insights on the development of search funds as an asset class, and Danish investors' perception of the search fund model by applying a comprehensive explorative study. The search fund model and its attributes were first and foremost explored, providing the fundamental basis of the thesis. Starting from this foundation, four dimensions were investigated in order to comprehensively cover the topic and answer the main research question.

The thesis found that the international development and expansion of search funds follow a similar pattern to BO and VC funds' capital flow. Asset classes are introduced with a delay and in a smaller scale in Europe than in the US in terms of fundraising levels. However, even though search funds follow the same pattern, the asset class is developing slower than BO and VC funds.

In continuation of the comparative analysis, the risk and return of the alternative asset classes were examined. Historically, search funds have generated higher returns, both in terms of net IRR and ROI, to investors than BO and VC funds. In accordance with portfolio theory, search funds also hold more risk measured through standard deviation. Moreover, since search funds only consist of one company, the missing diversification attribute of the model causes higher risk.

The analysis of the primary data revealed that Danish investors are hesitant to invest in the search stage, generally perceiving this stage to be the weakest. Danish investors highlight governance issues and the intangibility of the investment opportunity as the main reasons for not wanting to invest. The opportunity for smaller investors to invest in unlisted mature companies is nevertheless perceived to be positive, resulting in half of the interviewed investors wanting to invest in the acquisition stage with BAs as the most likely investors.

Whereas the access to investments in a new market segment and the succession issues of owner-managed companies warrant the existence of search funds in Denmark, investors' perception of a small pool of targets questions the actuality of search capital. This, and the uniqueness of search capital, requires the model to gain success in order to become legitimized. Measures to achieve this includes risk reducing adaptations. Restructuring the investment of search capital into tranche payments or, taking it a step further, have the searcher make a self-funded search will increase attractiveness for investors.

Utilizing the explorative research design allowed the thesis to address specific investor concerns and assess socio-economic factors influencing the investment attractiveness as well as foreign investment flows. The results of the research supported Denmark as an attractive country for PE investments further validating the potential of the search fund model. The findings from the evaluation of international search fund investors willingness to invest in Denmark showed that it is a must to have local investors. However, if two to four local investors are onboard, the likelihood of raising the remaining capital from foreign investors is high.

Taken together, the findings suggest cautious optimism towards the outlook of search funds in Denmark. Based on the socio-economic factors, the model is valid, and investors are interested though far not convinced. Increased awareness and proof of the viability in Denmark is needed for the model to become established. This requires a catalyst, which can be in the shape of a modified search fund model following one of the adaptations suggested by this thesis. Given the investment horizon of a search fund, the development of search funds as an asset class in Denmark will most likely take a considerable amount of time.

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List of appendices

Appendix 1 – List of interviews conducted

Interviewee	Organization	Position	Stakeholder group	Date of interview	Type
Jesper Jarlbæk	n/a	n/a	Business Angel	20.01.2020	Telephone
Kristian Busk Mouritzen	n/a	n/a	Business Angel	07.02.2020	Telephone
Mads Heine	n/a	n/a	Business Angel	05.02.2020	Telephone
Mads Leth Christiansen	n/a	n/a	Business Angel	06.02.2020	Face-to-face
Michael Bjørnlund	n/a	n/a	Business Angel	14.01.2020	Telephone
Niels Ulrik Ottesen	n/a	n/a	Business Angel	05.02.2020	Telephone
Ole Steen Andersen	n/a	n/a	Business Angel	06.02.2020	Telephone
Tom Nordin Christensen	Nordin Invest	Owner	Business Angel	14.01.2020	Telephone
Tommy Bøgehøj	n/a	n/a	Business Angel	06.02.2020	Telephone
Anders Friis Binzer	North-East Family Office	Senior Investment Manager	Family Office	23.01.2020	Face-to-face
Frederikke Beck	Kirkbi	Investment Manager	Family Office	20.01.2020	Face-to-face
Mads Nørgaard	C. W. Obel	Investment Manager	Family Office	15.01.2020	Face-to-face
Nicolai Fink Gundersen	Abridge	CEO	Family Office	07.02.2020	Telephone
Troels Kryger Aggerholm	Firmainvest	Investment Manager	Family Office	30.01.2020	Telephone
Amer Ramzan	Promentum Equity Partners	Managing Partner	Venture Capital	23.01.2020	Face-to-face
Helge Holm-Larsen	Syddansk Innovation	CEO	Venture Capital	31.01.2020	Telephone
Jesper Lohmann	Dico ApS	Partner	Venture Capital	08.01.2020	Face-to-face
Kenneth Grunow	Scale Capital	General Partner	Venture Capital	07.01.2020	Face-to-face
Lars Nordal Jensen	Vækstfonden	Director	Venture Capital	29.01.2020	Face-to-face
Lars Stigel	Capnova	Executive Director	Venture Capital	29.01.2020	Telephone
Sten Verland	Sunstone Life Science Ventures	General Partner	Venture Capital	24.01.2020	Face-to-face
Ulrik Jørring	Nordic Alpha Partners	Managing Partner	Venture Capital	09.01.2020	Face-to-face
Daniel Illum Dalegaard	Nordic Investment Opportunities	Senior Investment Manager	Fund of funds	24.01.2020	Face-to-face
Lars Tønnesen	Alternative Equity Partners	Managing Direcor	Fund of funds	30.01.2020	Telephone
Nicklas Hansen	William Demant Invest	Investment Director	Industrial Foundation	03.02.2020	Telephone
Andreas Aagaard	PensionDanmark	Senior Investment Manager	Pension Fund	13.02.2020	Face-to-face
Nishandan Ganesalingam	IIP Denmark	Partner	Pension Fund	05.02.2020	Face-to-face
Christian Dalum	Dane Capital	Managing Partner	Private Equity	31.01.2020	Face-to-face
Lars S. Jensen & Birgitte N. Jørgensen	Zefyr Invest	Executive Directors	Private Equity	30.01.2020	Face-to-face
Ulrik Trolle	Founders	Partner	Startup Studio	14.01.2020	Face-to-face
Cecilia Lulli	Relay Investments (USA)	Senior Associate	Search Fund Investor	28.02.2020	E-mail
Ignacio Olavarría	Istria Capital (Spain)	Managing Partner	Search Fund Investor	29.01.2020	Telephone
Sam Long	Pacific Lake Partners (USA)	Vice President	Search Fund Investor	20.02.2020	Telephone
Tobias Raeber	Private investor (CH)	n/a	Search Fund Investor	04.02.2020	Telephone
Austin Yoder	Stanford (USA)	Associate Director	Search Fund Expert	17.12.2019	Telephone
Eddy Zakes	IESE (Spain)	Director	Search Fund Expert	16.12.2019	Telephone
Timothy Bovard	SFA (USA)	Founder and CEO	Search Fund Expert	08.01.2020	Telephone
Alexander Ulrich	Dansk Industri	Chief consultant	SME Expert	31.03.2020	Telephone
Anonymous	Anonymous	Anonymous	Debt Expert	18.02.2020	Telephone
Anonymous	Anonymous	Anonymous	Tax Expert	06.02.2020	Face-to-face
Jan F. Steenhard	Joblife DK	CEO	MBI Expert	31.01.2020	Telephone

Appendix 2 – List of figures, graphs and tables

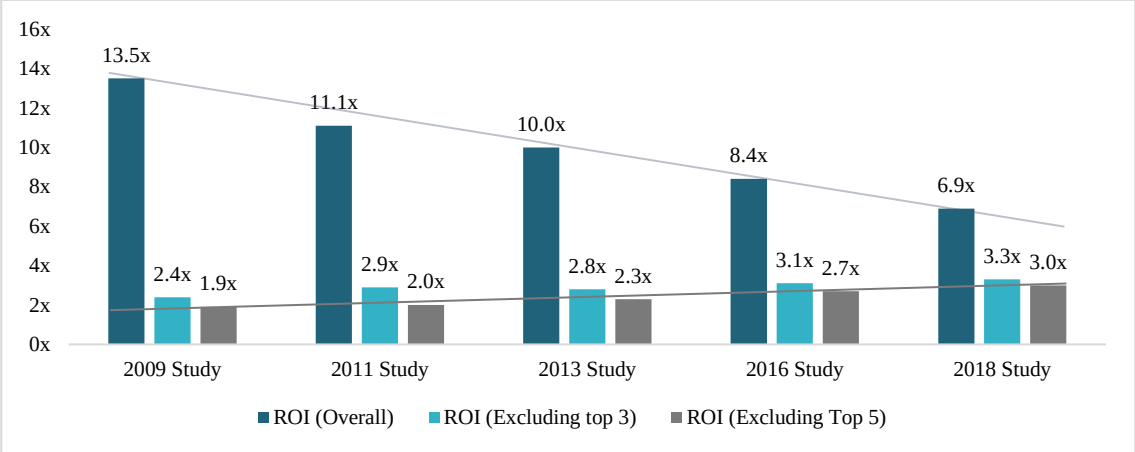
Figures

Graphs

Tables

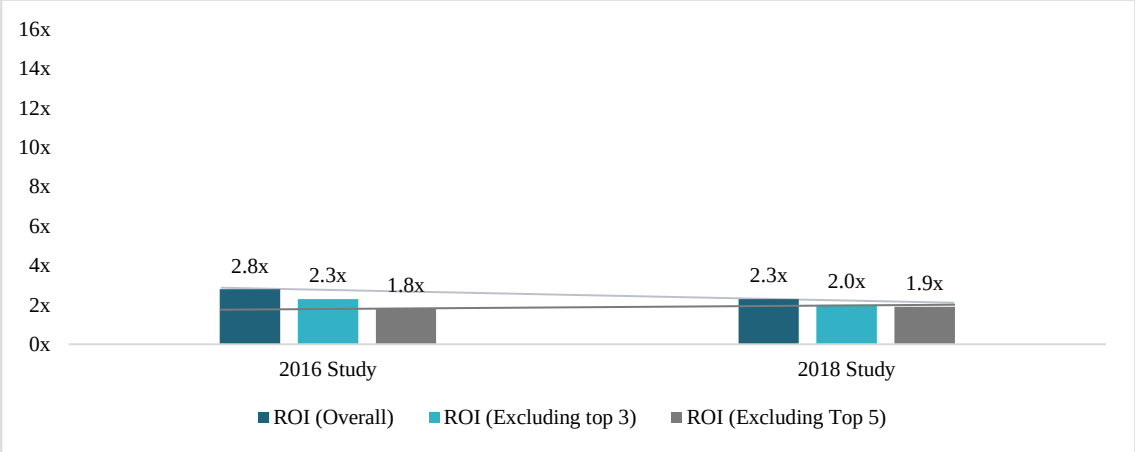
Appendix 3 – Historical search fund returns

ROI – North America (N = 312)



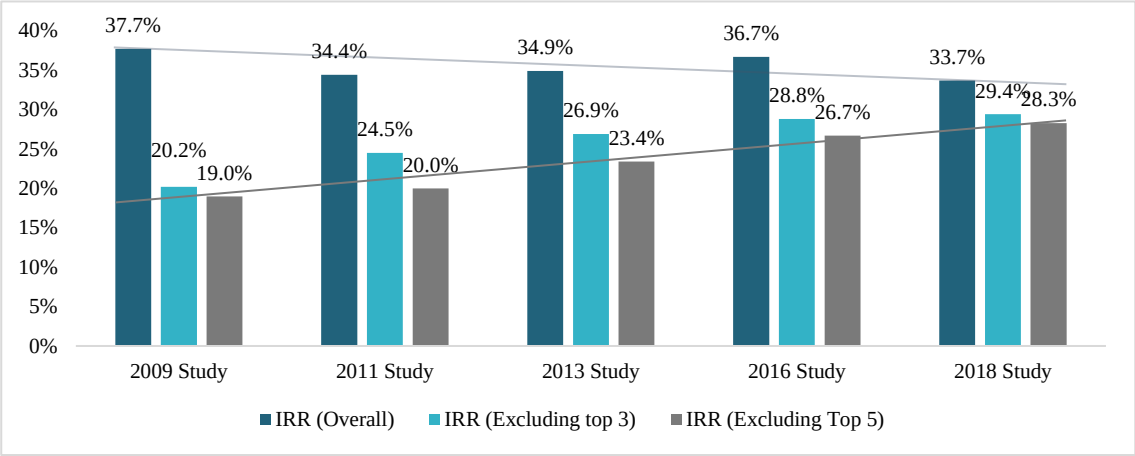
Source: Yoder et al. (2018)

ROI – International (N = 28)



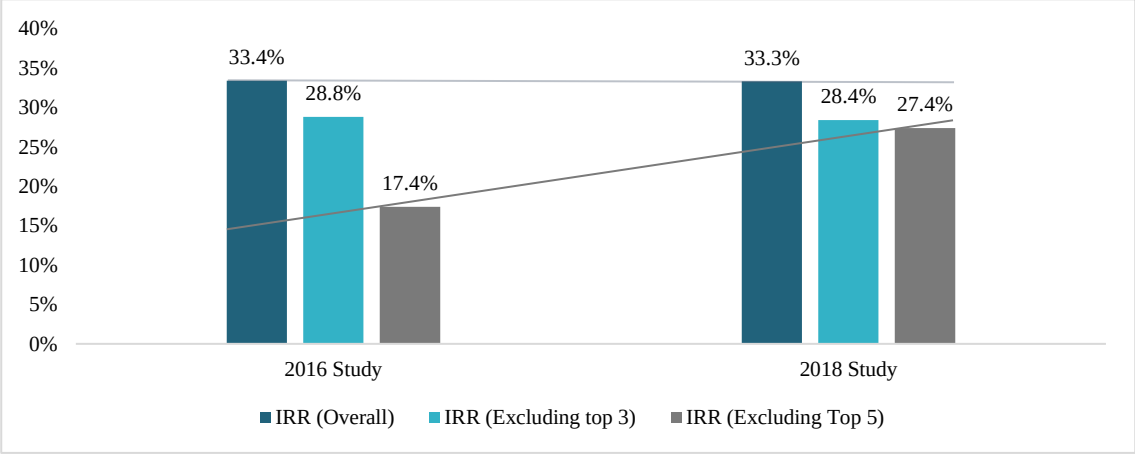
Source: Kolarova et al. (2018)

Net IRR – North America (N = 312)



Source: Yoder et al. (2018)

Net IRR – International (N = 28)



Source: Kolarova et al. (2018)

Appendix 4 - Illustrative example of a private placement memorandum

SearchCo ApS

Private Placement Memorandum

PRIVATE AND CONFIDENTIAL

Table of Contents

EXECUTIVE SUMMARY

SearchCo ApS ("SearchCo") is a search fund created to identify, acquire and operate an existing private company with initial enterprise value between DKK 20 and 100 million. This summary provides an overview of SearchCo's Searchers, the financial structure of the search fund, and the strategy to identify and acquire an existing private company.

The purpose of SearchCo is to provide investors with the opportunity to participate in the staged financing of the search for and acquisition of an existing private company. Search funds have existed since 1984 and have been structured to mitigate many of the risks associated with purchasing a small business. To date, over 300 search funds have been raised, primarily by recent graduates of Stanford University and Harvard Business School. A 2018 study conducted by Stanford concluded that a portfolio of first-time search funds produced compounded annual returns of 34% and ROI of 6.9x.

Searcher Background
The principals and searchers ("Searchers") of SearchCo are *Searcher Jensen* and *Searcher Hansen*. Both of the searchers bring extensive transaction and operations experience from their prior employment in *Danish Private Equity Firm* and *Top Tier Management Consulting Company*.

Holding a Master of Science in Finance and Accounting from Copenhagen Business School, *Searcher Jensen* started her professional career in *Top Tier London Investment Bank*. Working in their M&A Group, she completed structured transactions including spin-offs, carveouts and divestitures, as well as giving clients advice on shareholder activism and corporate governance-related issues. After three years in London, she returned home to take a position as investment manager at *Danish Private Equity Firm*, where she besides utilizing her transactional experience gained knowledge within sourcing and operations, by conducting value-creating projects with several of the firm's portfolio companies

Searcher Hansen holds a Master of Science in Mechanical Engineering from the Technical University of Denmark (DTU). After graduating, he joined *Top Tier Management Consulting Company* in Copenhagen. After spending two years with the company, he took a one year leave of absence to pursue his MBA at Stanford University. Upon completion of his degree, he returned to *Top Tier Management Consulting Company*, spending another two years with them as a manager. During his time with the company, he completed projects across a variety of industries and functions, developing and implementing value-creating strategies and measures for optimization.

Searcher Hansen became aware of the Search Fund model during his time at Stanford. After being introduced to each other through shared acquaintances, the pair decided to team up and establish a search fund.

Investment Structure
SearchCo is raising DKK 2 million through the sale of 40 investment units ("Units") priced at DKK 50,000 each. This initial capital is intended to sustain a dedicated search for up to 24 months. For each Unit purchased, investors will receive:

Right of First Refusal
Investors will have the right, but not the obligation, to participate in financing the acquisition. Depending on the size and structure of the acquisition, investors are expected to have the opportunity to invest another DKK 250,000 to 1,250,000 million per unit at the time of acquisition. Investors will be given the opportunity to provide 100% of the required equity capital in order to prevent dilution from outside investors.

Investment Step-Up
All Units will be converted to securities in the acquired company and stepped-up by 50%, structured as equity on terms pari pasu with the investor capital provided in the acquisition round of financing (i.e., for every DKK 100,000 invested in SearchCo the investor will receive DKK 150,000 of securities in the acquired company). This 50% step-up is meant to compensate the initial investors for the increased risk of investing in the first round of financing.

SearchCo intends to finance the acquisition through a combination of bank debt, seller financing and investor capital, which may include subordinated debt, preferred stock and common stock. Preferred equity provides

the benefit of capital gains tax rates rather than ordinary income, while the common equity allows the investor to participate in the expected upside upon sale or recapitalization of the acquired company.

The Searchers will earn an equity interest in return for identifying and acquiring the target company, and for achieving agreed upon operating results. The Searchers will have the opportunity to combined earn between 20-35% of the common equity, depending on the ultimate size and structure of the acquisition. A portion of this equity will be subject to meeting pre-established performance benchmarks. Neither the investors' nor the Searchers' upside is limited in any way.

Investing in SearchCo should be viewed as a long-term investment. Investor returns will primarily come from the Searchers' ability to increase the value of the acquired company. SearchCo expects to provide investors with a liquidity event between four and seven years after acquisition.

Search Strategy

The ultimate goal of the search strategy is to generate enough high-quality deal flow to close a transaction in less than 24 months. SearchCo will utilize a combination of systematic and opportunistic nationwide search to generate deals that meet its acquisition criteria. At a minimum, prospective companies must possess the following minimum attributes and will be evaluated against the following quality dimensions:

Minimum Attributes	**Quality Dimensions**
Niche industrial manufacturing company	Quality of people
Management transition incl. succession of family businesses	Quality of industry
Private held company based in Denmark	Quality of cash flows
Three-year history of profitability	Quality of market position
Annual EBITDA of DKK 5 million or more	Quality of operations
Industry EBITDA margins of 10% or more	Quality of liquidity options

INVESTMENT HIGHLIGHTS

SearchCo represents a compelling investment opportunity for the following reasons:

Underserved Acquisition Niche

Approximately 17,000 companies, representing one of the largest intergenerational shifts of companies in Danish history, will be transferred over the next five years as virtually all closely held and family-owned businesses will lose their primary owner to death or retirement. Opportunities to acquire lower middle market businesses will be greater than demand, as these businesses typically fall below the investment parameters of most buyout firms and are often too large for private buyers. Furthermore, direct sourcing of these opportunities requires a significant time investment that is oftentimes not feasible for buyout firms due to their limited professional staffs. As a result, acquisition multiples in the lower middle market are lower than those found up-market.

Tested Investment Vehicle

Search funds have been in existence since 1984 and have been used by over 300 entrepreneur teams primarily from Harvard and Stanford to support efforts to locate, acquire and manage an existing private company. A 2018 study of 330 "first time" search funds by the Stanford Center for Entrepreneurial Studies shows compounded annual investor returns of 34% per year.

Opportunity for Value Creation
The Searchers' experience investing in and building lower middle market companies has convinced them of the opportunity that exists to build value in small businesses. As a first step, the Searchers anticipates assembling an experienced Board of Directors and management team who embrace his traditional values of hard work, integrity, humility and team-work. Second, the Searchers and management team will work to add rigor to existing business processes and upgrade the information systems at the acquired company to serve as a foundation for growth. Finally, the team will look to prudently pursue underexploited growth initiatives organically and potentially through select add-on acquisitions.

Committed and Experienced Searchers
The Searchers' are committed to succeed and provide investors with a good investment opportunity. Both searchers have left excellent positions to pursue this opportunity. To show their commitment, the searchers will take a pay-cut of more than 50% on their searcher salary compared to their previous salaries. Bringing relevant transactional and operational experience for both large as well as small companies, the searchers are well-positioned to acquire and operate a company.

SEARCHER BACKGROUND
Not included in this illustrative example

Professional Experience
Not included in this illustrative example

Education
Not included in this illustrative example

INVESTMENT OPPORTUNITY
SearchCo ApS is a search fund created to identify, acquire and operate an existing private company with initial enterprise value between DKK 20 and 100 million. The fund will allow the Searchers to conduct a full-time search for a period of up to 24 months.

Overview of Search Fund Model
Conceived in 1984, the search fund is an investment vehicle in which investors financially support a manager's efforts to identify, acquire and manage an existing private company. Over 300 search funds have been raised to date, predominantly by recent graduates of Stanford and Harvard.

In the search fund model, capital is raised in two distinct rounds of financing. In the first round, funds are invested into the search fund entity (e.g., SearchCo) to cover operating expenses and allow the Searchers to draw a modest salary while conducting a professional search to acquire an existing private company. In return, search fund investors obtain the right, but not the obligation, to invest in the second round of financing, the acquisition round. All funds invested in the first round will automatically be converted to securities in the acquired company and stepped-up by 50%, structured as a combination of equity and subordinated debt (i.e., for every DKK 100,000 invested in SearchCo the investor will receive DKK 150,000 of securities in the acquired company).

A 2018 study of 330 "first time" search funds (funds raised by management teams without prior search fund experience) by the Stanford Center for Entrepreneurial Studies shows compounded annual investor returns of 34%.

Four Stages of the Search Fund

The search fund model is executed over four distinct stages, the entirety of which can last anywhere from five to 12 years.

Stage 1: Raise the Search Fund

SearchCo is raising DKK 2 million through the sale of 40 investment units ("Units") priced at DKK 50,000 each. This initial capital is intended to sustain a search for up to 24 months. For each Unit purchased, investors will receive:

Right of First Refusal

Investors will have the right, but not the obligation, to participate in financing the acquisition. Depending on the size and structure of the acquisition, investors are expected to have the opportunity to invest another DKK 500,000 to 2,500,000 million per unit at the time of acquisition. Investors will be given the opportunity to provide 100% of the required equity capital in order to prevent dilution from outside investors.

Investment Step-Up

All Units will be converted to securities in the acquired company and stepped-up by 50%, structured as equity on terms pari pasu with the investor capital provided in the acquisition round of financing (i.e., for every DKK 100,000 invested in SearchCo the investor will receive DKK 150,000 of securities in the acquired company). This 50% step-up is meant to compensate the initial investors for the increased risk of investing in the first round of financing.

Upon completion of a transaction, any funds remaining in the search fund will be returned to investors on a pro rata basis. Cash returned to investors will not be converted to securities in the acquired company (i.e., only capital consumed in the search process will be converted and stepped-up). Investors will be released from any remaining capital commitments once the acquisition has been completed.

Operating expenses for SearchCo are projected to be DKK 2 million for a 24-month search. These costs include salaries for the Searchers, office space, travel, communications, research and deal expenses. Specific expenses incurred during diligence and documentation of the acquired company will be included as part of the transaction's purchase price. A detailed search budget is as follows:

Budget for search stage (DKK)	Year 1	Year 2	Total	Note
Searcher salaries	720,000	720,000	1,440,000	DKK 30,000 per searcher per month incl. pension and benefits
Office space	96,000	96,000	192,000	DKK 8,000 per month
Travel, communication and research	50,000	50,000	100,000	
Broken deal expenses	125,000	125,000	250,000	
Total	**991,000**	**991,000**	**1,982,000**	

SearchCo is interested in assembling a diverse investor base with expertise in successfully sourcing, investing, financing, operating, growing and exiting private companies. SearchCo is also interested in identifying investors who have the time and interest to provide mentoring and advice throughout the search fund process, especially in the form of participation in an Advisory Board during the search stage and Board of Directors during the operating stage. SearchCo welcomes any level of investor participation and believes the credibility associated with a distinguished investor group will aid in approaching and negotiating with business owners.

Stage 2: Source & Evaluate Opportunities and Acquisition

Sourcing and Evaluation

SearchCo will be based out of Copenhagen, Denmark and will utilize a combination of systematic and opportunistic nationwide search to generate deals that meet its acquisition criteria. At a minimum, prospective companies must possess the following minimum attributes and will be evaluated against the following minimum attributes:

Minimum Attributes
Niche industrial manufacturing company
Management transition incl. succession of family businesses
Private held company based in Denmark
-year history of profitability
Annual EBITDA of DKK 5 million or more
Industry EBITDA margins of 10% or more

In addition to these minimum requirements, companies will be evaluated against the following dimensions:

Quality of People	Quality of Industry
Honest, respected sellers	Size, growth and stability of primary demand
Existence of sophisticated customers and suppliers	Fragmented competitive landscape
Talented middle management and dedicated employee base	Low threat of external shocks

Quality of Cash Flows	Quality of Market Position
Recurring	Defensibility
High margin, growing	High switching costs
Diverse (by customers, products and markets)	Clarity of competitive advantage

Quality of Operations	Quality of Exit Options
Simple and understandable	Ability to generate 25% compound annual return on investor capital
High returns on invested capital	Identifiable set of future buyers
Identifiable areas of improvement	Intermediate liquidity events

While a variety of sourcing alternatives exist, each alternative requires a different level of time and financial commitment to generate a specific volume and quality of deal flow. The Searchers believe the key to a successful search is to balance the use of these sourcing alternatives in a focused manner while also factoring in their professional experience and personal preferences. It is important to remember that the ultimate goal of the search strategy is to generate enough high-quality deal flow to close a transaction in no more than 24 months.

The specific sources SearchCo will use to generate deal flow are as follows:

Business Brokers	
Deal Flow Type:	High volume, high quality
Positives:	Owners are committed sellers and less sophisticated Opportunity for less efficient auction processes
Negatives:	Wide disparity of broker quality High quality brokers run a process, which equates to more competition for deals and higher purchase multiples
SearchCo Strategy:	Compile database of brokers E-Mail marketing materials to brokers with information on firm background, investment focus and deal criteria Establish contact with relevant brokers, using network to gain introductions and establish credibility Contact brokers on a monthly basis to stay on deal radar

Small Investment Banks	
Deal Flow Type:	High volume, variable quality
Positives:	Owners are committed sellers Companies vetted by investment bank
Negatives:	Auction processes leads to higher purchase multiples SearchCo is a less attractive buyer than both strategic buyers and financial buyers with captive funds
SearchCo Strategy:	Compile database of small investment banks

	E-Mail marketing materials to bankers with information on firm background, investment focus and deal criteria Establish contact with relevant bankers, using network to gain introductions and establish credibility Contact on a monthly basis to stay on deal radar

Direct Marketing & Cold Calling Investment Banks	
Deal Flow Type:	Medium volume, high quality
Positives:	Best source of proprietary deal flow Uncover companies not previously for sale
Negatives:	Can be time intensive to weed through opportunities due to low response rate Owners are not always committed sellers
SearchCo Strategy:	Use database tools to generate lists of companies that fall within specified deal criteria E-Mail mass-customized letters with information on firm background, investment focus and deal criteria Expected 5-10% response rate on e-mails, of which 25% will result in "real" opportunities Cold-call most interesting companies

Network with Deal Professionals and Service Providers (Lenders, Accountants, Lawyers, Financial Advisors, etc.)	
Deal Flow Type:	Low volume, variable quality
Positives:	Source of semi-proprietary deal flow
Negatives:	Can have low return on time investment Easy to fall of deal radar
SearchCo Strategy:	Secondary source of deal flow Focus networking to maximize ROI Establish contact with relevant professionals, using network to gain introductions and establish credibility

Personal Network	
Deal Flow Type:	Low volume, low quality
Positives:	Source of proprietary deal flow
Negatives:	Luck required

	Difficult to harness
SearchCo Strategy:	Secondary source of deal flow Circulate a standing offer to pay a finder's fee to whomever provide an introduction to any business which is ultimately required

During the search stage, the Searchers anticipates forming an Advisory Board of between three to five investors with relevant experience in sourcing opportunities and investing in private companies. The Advisory Board will be used as a sounding board for prospective investment theses and as references that may be used to establish credibility with business owners.

Acquisition
SearchCo intends to finance the acquisition through a variety of sources, including:

Bank Debt
Bank debt will constitute a significant portion of the acquisition financing. Typical revolving credit facilities provide advances against a negotiated borrowing base, such as 80% of accounts receivable and 50% of inventory. Senior term debt can be either asset-based or cash flow-based. Asset-based loans are determined primarily on the liquidation value of the company's fixed assets. Cash flow loans are predicated on the company's earnings. While search funds in the past have been able to secure bank debt for a substantial portion of the overall purchase price, the availability, interest rate and other terms for such debt will depend on the quality of the company's assets and cash flow and on the general lending environment at the time of purchase. SearchCo will build on the Searchers' existing senior lender relationships and cultivate new relationships throughout the search process.

Institutional Subordinated Debt
Institutional subordinated debt, also referred to as mezzanine debt, may constitute a portion of the eventual capital structure. Mezzanine debt is structurally subordinate in priority of payment to senior debt but typically ranks senior to seller financing and investor capital. As with the senior lender market, the availability, interest rate and other terms for mezzanine debt will depend on the quality of the company's cash flow and on the general lending environment at the time of purchase.

Seller Financing
Owners of companies in SearchCo's target range are often willing to accept a stream of future payments as part of the acquisition. Typical structures include seller paper and/or earn-out provisions. The availability and extent of seller financing is influenced by several criteria, including the seller's need for immediate liquidity, his/her tax situation and his/her desire to remain involved with the business. Previous search funds have shown that if the external lending environment is poor then seller financing is a convenient way to close the funding gap.

Investor Capital
SearchCo anticipates that investor capital will represent approximately 50% of the capital required to fund the acquisition. Based on a targeted transaction size of between DKK 20 and DKK 100 million, investor capital will total between DKK 10 and DKK 50 million. This amount represents DKK 250,000 to DKK 1,250,000 per Unit. Investor capital may include a combination of preferred equity and common equity. The ultimate capital

structure will depend on specific acquisition and investor preferences. The preferred equity provides the benefit of capital gains tax rates rather than ordinary income, while the common equity securities allow the investor to participate in the expected upside upon sale or recapitalization of the acquired business.

Stage 3: Operate the Business

Following completion of the acquisition the Searchers will assume Executive roles of the acquired company. For the first 100 days, the Searchers will be focused on acclimating themselves with the acquired business without disrupting the status quo. The due diligence process will provide an important foundation, however it is anticipated that significant time and energy will be required to gain a more thorough understanding of the business, to establish credibility with the existing management team and to formulate a strategy for the business.

Additionally, during the first 100 days the Searchers will evaluate the strength of the existing management team, paying careful attention to how the strengths and weaknesses of the existing team overlay the current and future risks and opportunities of the business. The Searchers, with the help of the investor group, will include an assessment of his individual strengths, weaknesses, interests, and areas of relevant expertise in this analysis in order to paint a complete picture of the management situation at the acquired company. The Searchers anticipates making additions to the management team in the first 12 to 18 months after acquisition. Additions may include upgrading the finance and accounting team with the addition of a qualified Chief Financial Officer and/or hiring an experienced sales executive as a new Head of Sales. While change can be disruptive, the Searchers believe that it is important to thoughtfully assemble a team that embrace traditional values of hard work, integrity, humility and teamwork and can accelerate the growth of the business.

The Searchers will recruit a Board of Directors for the acquired business. The Board of Directors will consist of between five and seven shareholders or leaders in the company's industry. The Searchers are interested in assembling a Board of Directors consisting of individuals with expertise in operating, growing and exiting private companies as well as those with an interest in coaching and mentoring the Searchers throughout the life of the investment.

Stage 4: Exit

Investing in SearchCo should be viewed as a long-term investment. Investor returns will primarily come from the Searchers' ability to increase the value of the acquired company. SearchCo expects to provide investors with a liquidity event between four and seven years after acquisition. Although liquidity will most likely come from a sale of the business, the Searchers may in fact remain with the business following a sale, depending on the buyer and the continued growth prospects of the business. In certain situations, investors with a longer investment horizon may be able to maintain their investment in the business. In addition to a liquidity event through sale, SearchCo will explore additional opportunities to maximize investor returns such as recapitalizations and share repurchases. As such, the duration of the investment could vary substantially from the initial expectations of four to seven years.

Investor Returns

Through the acquisition and active management of its company, SearchCo targets a 25% compound annual return on investor capital. This targeted internal rate of return, which is comparable to the returns of previous search funds, will be used to evaluate all investment opportunities. Investor returns on equity will not be capped in any way.

Searcher Carried Interest

The Searchers will earn common equity in the acquired company in return for identifying and acquiring the target company, and for achieving agreed upon operating results. The Searchers expects to have the opportunity to earn between a 20-35% share of the common equity, depending on the ultimate size and structure of the acquisition. The earned equity is comprised of three parts: one third will be allocated at the close of the acquisition; one third will be based on management service and will vest evenly over a period of four years; and the final one third will be restricted equity, with restrictions that lift as investor IRR hurdles are met. In addition, an employee option pool will be granted for between 5% and 10% of the company's common equity. Options will be used as a combination of time and performance-based incentives for employees, excluding the Searchers, and must be approved by the Board of Directors prior to issuance. The Searcher will suffer pro rata dilution from the option pool.

Investment Risks

The search fund model attempts to minimize risk for investors via a staged financing structure, but it is not risk free. While SearchCo's search, acquisition and management process will utilize best practices outlined in this document, the search fund has risks characteristic of investment vehicles that pursue superior returns. Significant risks include the inability to complete an acquisition, poor performance of the acquired company, inability to meet debt service commitments and the lack of liquidity for investors. Additionally, the Searchers are crucial to the success of the search fund, and therefore investors run the risk that they will not be able to complete the search process due to illness, accident or personal reasons.

While past performance of other search funds provide benchmarks for the type of returns the search fund is capable of generating, there is no guarantee that SearchCo will achieve the same results.

SearchCo will attempt to mitigate risk factors by aligning the interests of investors and management, conducting extensive due diligence and by reducing exogenous factors related to industry and company operations. Nevertheless, there can be no guarantee that investors will recover their initial investment or realize the projected returns. Investors may experience a substantial or complete loss of invested capital and therefore must be capable of bearing that risk.

Source: Benjamin et al. (2017) and the Authors

Appendix 5 – Hypothetical illustration of returns to investors and searcher

Assumptions

Search fund	
Search capital	2,000,000
Acquisition capital	25,000,000
% preference shares	98%
% ordinary shares	2%
Preferred equity coupon	7%
Step-up of search capital	1.5x
Max. searcher carry	30%
Tranche I	*10%*
Tranche II	*10%*
Tranche III	*10%*
IRR vesting schedule starts at	20%
IRR hurdle rate for total searcher participation	30%
Total investor equity incl. step-up	28,000,000

Target	Entry	Exit
LTM EBITDA	12,000,000	21,258,732
EV/EBITDA multiple	6.0x	6.0x
EV	72,000,000	127,552,392
Holding period (Years)	6	
Yearly EBITDA growth	10%	
Free cash flow as % of EBITDA	90%	21,258,732

Acquisition financing	
Bank debt of EBITDA	2.5x
Bank debt	30,000,000
Bank debt interest rate	2.5%
Seller debt of EBITDA	1.5x
Seller debt	18,000,000
Seller debt interest rate	4%
Investor capital	25,000,000

Sources and uses

Uses		**Sources**	
Search capital	2,000,000	Investor equity*	27,000,000
Purchase price	72,000,000	Bank debt	30,000,000
Acquisition costs	1,000,000	Seller debt	18,000,000
Total	**75,000,000**		**75,000,000**

Financials

Year ending December 31st	Year -2	Year -1	*Entry year* Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	*Exit year* Year 6
EBITDA	-	-	12,000,000	13,200,000	14,520,000	15,972,000	17,569,200	19,326,120	21,258,732
Free Cash Flow	-	-	10,800,000	11,880,000	13,068,000	14,374,800	15,812,280	17,393,508	19,132,859
Exit EV	-	-	-	-	-	-	-	-	127,552,392
Bank debt									
Outstanding principal	-	-	-	30,000,000	19,590,000	7,731,750	-	-	-
Interest	-	-	-	750,000	489,750	193,294	-	-	-
Principal repayment	-	-	-	10,410,000	11,858,250	7,731,750	-	-	-
Ending debt	-	-	-	**19,590,000**	**7,731,750**	-	-	-	-
Seller debt									
Outstanding principal	-	-	-	18,000,000	18,000,000	18,000,000	12,270,244	-	-
Interest	-	-	-	720,000	720,000	720,000	490,810	-	-
Principal repayment	-	-	-	-	-	5,729,756	12,270,244	-	-
Ending debt	-	-	-	18,000,000	18,000,000	12,270,244	-	-	-
Free Cash Flow for Equity	-	-	-	-	-	-	**3,051,227**	**17,393,508**	**146,685,251**
Investors' preferred equity									
Beginning preferred equity	-	-	-	27,440,000	29,360,800	31,416,056	33,615,180	32,917,016	17,827,699
Preferred coupon	-	-	-	1,920,800	2,055,256	2,199,124	2,353,063	2,304,191	1,247,939
Capital distribution to investors	-	-	-	-	-	-	3,051,227	17,393,508	19,075,638
Ending preferred equity	-	-	-	29,360,800	31,416,056	33,615,180	32,917,016	17,827,699	-
Cash after capital distributions	-	-	-	-	-	-	-	-	**127,609,613**
Searcher carry	-	-	-	-	-	-	-	-	**38,145,823**
Investor common equity	-	-	-	-	-	-	-	-	**89,463,790**
Investor cash flows	**(2,000,000)**	**0**	**(25,000,000)**	-	-	-	**3,051,227**	**17,393,508**	**108,539,428**

Returns	
Investor	**Exit**
Investor preferred return	39,520,373
Investor common equity	89,463,790
Total investor return	**128,984,162**
Investor IRR	***29.9%***
Investor ROI	***4.8x***

Searcher	**Exit**
Searcher carry %	29.9%
Searcher return	**38,145,823**

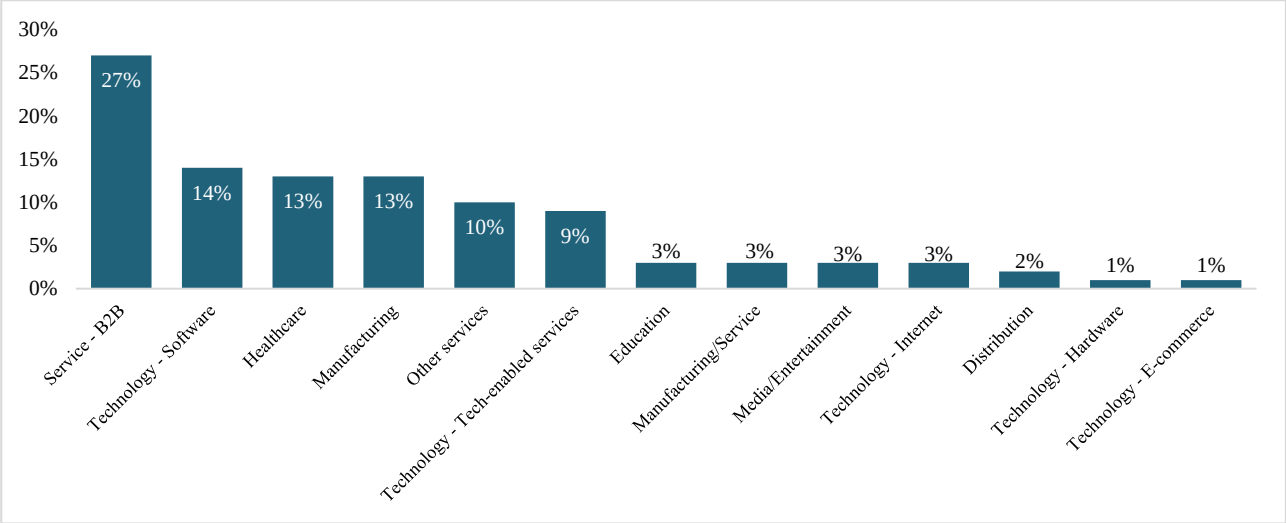
Note: Unless denoted otherwise, all numbers are in Danish Kroner

**Excluding value of step-up*

Source: Authors

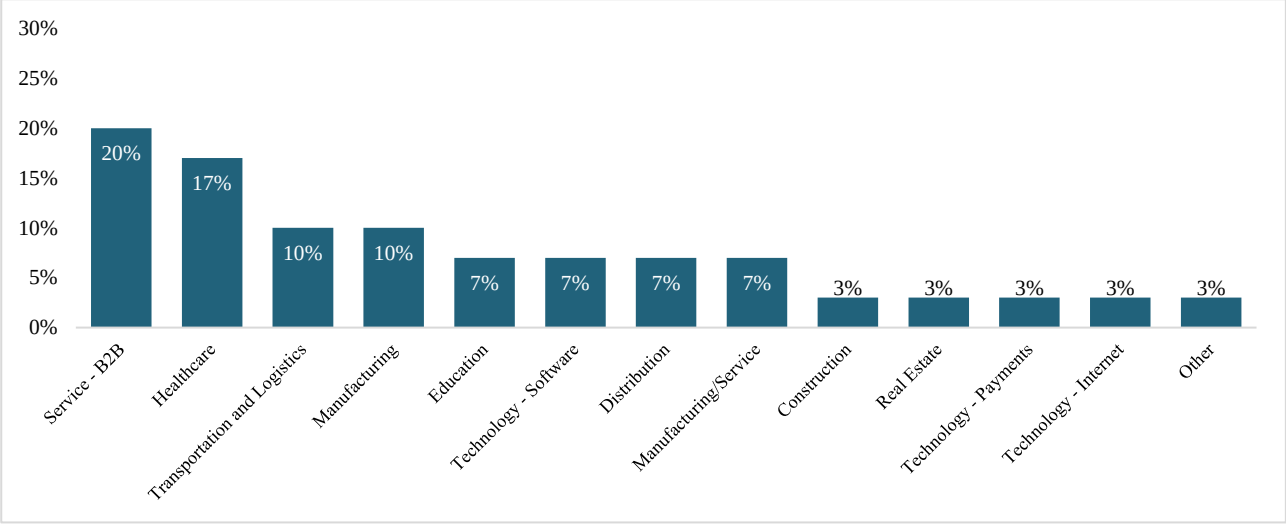
Appendix 6 – Industries of acquired search fund companies

North America (N = 160)



Source: Yoder et al. (2018)

International (N = 30)



Source: Kolarova et al. (2018)

Appendix 7 – Summary of search fund statistics

Comparison of search fund metrics – North America

	1984-2001	2002-2003	2004-2005	2006-2007	2008-2009	2010-2011	2012-2013	2014-2015	2016-2017
Number of principals									
Single	68%	41%	42%	75%	36%	62%	59%	72%	55%
Partner	32%	59%	58%	25%	64%	38%	41%	28%	45%
Amount of initial capital raised									
Minimum	$40,000	$125,000	$150,000	$200,000	$200,000	$140,000	$125,000	$175,000	$250,000
Median	$290,000	$350,000	$395,000	$385,000	$450,000	$446,250	$426,000	$420,000	$450,000
Maximum	$1,000,000	n/a	$750,000	$550,000	$750,000	$850,000	$650,000	$722,000	$850,000
Amount of initial raised per principal									
Minimum	n/a	n/a	$106,250	$175,000	$143,750	$140,000	$125,000	$175,000	$150,000
Median	n/a	n/a	$276,250	$350,000	$262,500	$302,500	$355,000	$385,000	$398,000
Maximum	n/a	n/a	$750,000	$540,000	$450,000	$575,000	$560,000	$640,000	$600,000
Number of search fund investors									
Minimum	2	1	3	10	5	8	2	5	2
Median	12	13	12	14	15	18.5	16	15.5	15
Maximum	25	20	24	23	28	26	30	25	24
Number of months fundraising									
Minimum	n/a	1.0	2.0	0.8	0.0	1.5	0.8	0.0	1.0
Median	n/a	4.5	5.0	3.0	4.0	3.8	4.1	3.0	3.0
Maximum	n/a	9.0	12.0	10.0	20.0	28.4	8.6	8.0	11.0

Source: Yoder et al. (2018)

Median statistics for search fund acquisitions – North America

Median	All acquisitions	2006-2007	2008-2009	2010-2011	2012-2013	2014-2015	2016-2017
Length of search (months)	19	19	14	18	19	17	23
Purchase price	$11.6M	$9.6M	$6.5M	$7.9M	$11.6M	$12.0M	$13.1M
Company revenues at purchase	$8.0M	$9.1M	$5.3M	$6.0M	$6.2M	$7.0M	$10.0M
Company EBITDA at purchase	$2.0M	$2.0M	$1.3M	$1.5M	$2.0M	$2.5M	$2.1M
Company EBITDA margin at purchase	22.8%	18.2%	20.5%	23.5%	29.9%	23.4%	22.7%
EBITDA growth rate at purchase	11.0%	16.5%	9.3%	11.9%	18.0%	5.0%	20.0%
Purchase price/EBITDA	6.0x	5.2x	4.9x	5.2x	5.6x	5.8x	6.3x
Purchase price/Revenue	1.4x	0.9x	1.5x	1.3x	1.6x	1.5x	1.1x
Company employees at purchase	49	60	38	38	21	46	45

Source: Yoder et al. (2018)

Comparison of search fund metrics – International

	Pre-2002	2002-2007	2008-2009	2010-2011	2012-2013	2014-2015	2016-2017
Number of principals							
Single	100%	60%	33%	80%	29%	63%	50%
Partner	0%	40%	67%	20%	71%	38%	50%
Amount of initial capital raised							
Minimum	$192,661	$40,000	$50,000	$225,000	$250,000	$200,000	$300,000
Median	$266,500	$170,000	$493,779	$314,850	$587,777	$426,486	$448,851
Maximum	$287,478	$200,000	$525,000	$485,043	$651,473	$800,000	$650,000
Amount of initial raised per principal							
Minimum	$192,661	$40,000	$50,000	$112,500	$125,000	$100,000	$150,000
Median	$266,500	$85,000	$262,500	$314,850	$324,753	$383,395	$317,500
Maximum	$287,478	$190,000	$462,557	$485,043	$375,000	$696,832	$526,003
Number of search fund investors							
Minimum	8	2	3	10	6	6	5
Median	10	7	16	13	15	15	17
Maximum	11	9	20	16	24	25	22
Number of months fundraising							
Minimum	2.0	1.0	2.0	3.0	3.0	2.0	2.0
Median	5.0	2.0	6.0	9.0	4.0	5.0	5.0
Maximum	7.0	6.0	7.0	13.0	15.0	12.0	11.0

Source: Kolarova et al. (2018)

Median statistics for search fund acquisitions – International

Median	All acquisitions	Pre-2010	2010-2011	2012-2013	2014-2015	2016-2017
Length of search (months)	16	8	22	29	22	16
Purchase price	$9.3M	$3.0M	$7.1M	$5.9M	$13.6M	$12.3M
Company revenues at purchase	$8.0M	$8.0M	$7.2M	$7.9M	$9.8M	$10.8M
Company EBITDA at purchase	$2.4M	$0.6M	$1.5M	$1.3M	$2.8M	$3.0M
Company EBITDA margin at purchase	20%	11%	23%	9%	24%	27%
EBITDA growth rate at purchase	10%	7%	6%	0%	5%	16%
Purchase price/EBITDA	4.9x	3.0x	5.1x	6.4x	5.8x	4.2x
Purchase price/Revenue	1.1x	0.6x	1.2x	0.8x	1.5x	1.2x
Company employees at purchase	71	70	141	33	68	90

Source: Kolarova et al. (2018)

Appendix 8 – Presentation of search funds

Search Funds – Model Description and Selected Observations

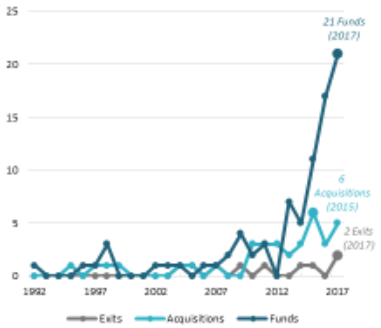
The Search Fund Model

What is a search fund?

- A search fund is a financial vehicle created by one or two individuals who raise money from a group of advising investors to support their efforts to locate, acquire, and lead a privately held company over the medium to long-term
- Since the first known search fund was formed in 1984, aspiring entrepreneurs have been drawn to search funds for two main reasons. First, they offer relatively inexperienced professionals with limited capital resources a direct path to owning and managing a small business. Second, search funds have generated significant financial returns for a small but growing number of principals
- Although the search fund model is growing in popularity, relatively few recent business school graduates raise search funds each year as compared to those who pursue more traditional career paths due to nontraditional financial outlook for the principal and the uncertain nature of the model

The search fund life cycle

International search fund activity by year[1]



Acquired companies by country

1) Excluding USA and Canada

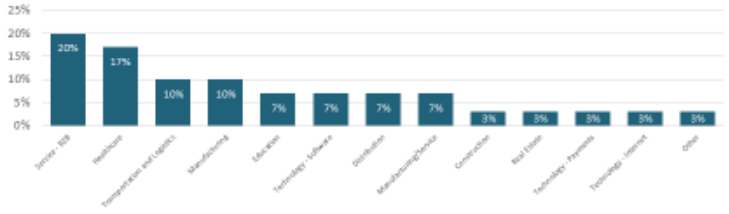
Search Funds – Model Description and Selected Observations

Raising Capital, Search, and Acquisition

Fundraising

- The initial search capital is raised to finance the search stage — the identification, evaluation, and negotiation of an acquisition
- To raise initial search capital, principals often need to tap a wide network of potential investors, including friends and family, business associates, business school faculty, angel investors, business owners and executives, and institutional search fund investors
- Initial search capital is commonly stepped up by 50 percent in the acquisition round, whether or not the search capital investors decide to participate
- In addition to follow-on investment, acquisition capital can come from a combination of other sources: seller's debt, bank loans, and equity financing from new investors
- Investor debt, commonly in the form of subordinated debt, may also be part of the capital structure

Distribution of industries across all international search fund acquisitions[1] (n = 30)



Fundraising and acquisition characteristics outside the US and Canada

Fundraising

Medians	2016 - 2017
Number of principals (Single)	50%
Number of principals (Partners)	50%
Amount of initial capital raised	DKK 3.0m
Number of search fund investors	17
Number of months fundraising	5

Search and acquisition

Medians	All Acquisitions
Length of search (months)	16
Purchase price	DKK 62.3m
Company revenues at purchase	DKK 53.6m
Revenue growth at purchase	10%
EV / EBITDA	4.9x

1) Excluding USA and Canada

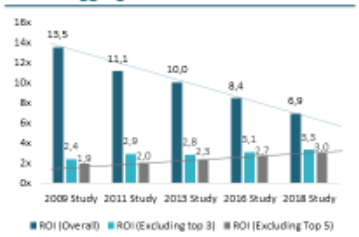
Financial Performance

Performance

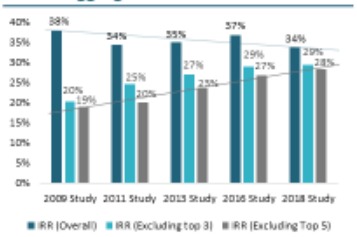
- Given that there have only been nine exits with a positive return by international search fund entrepreneurs (excluding the US and Canada) as of December 2017, and three cases of companies failing, it is too early to draw conclusions about the financial performance of the international search fund class
- Instead, the US and Canada has been applied to study the financial performance of the search fund model
- The 2018 Study of Stanford University showed that search funds in aggregate provided an ROI of 6.9x and an IRR of 33.7 percent to investors
- The median fund returned 1.0x of initial search fund investors' capital, whereas the 75th percentile fund returned 2.9x and an IRR of 31 percent

Search fund outcomes (n = 233)

Aggregate search fund ROI



Aggregate search fund IRR



Rasmus Winkler Svennesen & Jonas Lyngsø
Sources: Stanford University & IESE Business School

3

Appendix 9 – Overview of international development database

	Sources	Period
Buyout funds		
North America	Preqin	1969-2019
	NVCA	2006-2019
Europe	Preqin	1969-2019
	Invest Europe	2007-2018
Denmark	Preqin	1969-2019
	DVCA	1998-2018
	Invest Europe	2007-2018
Venture capital funds		
North America	Preqin	1969-2019
	NVCA	2004-2019
Europe	Preqin	1969-2019
	Invest Europe	2007-2018
	PitchBook	2009-2019
Denmark	Preqin	1969-2019
	Invest Europe	2007-2018
Search funds		
North America	Stanford[1]	1984-2017
	Searchfunder[2]	1985-2019
Europe	IESE[3]	1992-2017
	Searchfunder[4]	1987-2019

1) *No. of funds raised – Aggregate of $924 million raised*
2) *No. of funds raised*
3) *No. of funds raised Internationally and not only Europe (35)*
4) *Total no. of traditional search funds in Europe in the phases raising, searching or acquired*

Appendix 10 – Characteristics of first-time searchers

Characteristics of first-time searchers – North America

	1984-2001	2002-2003	2004-2005	2006-2007	2008-2009	2010-2011	2012-2013	2014-2015	2016-2017
Age of start of search									
Minimum	26	28	28	27	26	25	24	24	26
Median	30	31	32	32	30	30	30	32	32
Maximum	35	60	47	50	51	51	46	54	47
Under 30	n/a	12%	30%	33%	35%	39%	49%	25%	26%
30-35	n/a	65%	53%	47%	40%	31%	36%	49%	39%
36-40	n/a	12%	10%	10%	16%	14%	11%	20%	32%
Over 40	n/a	12%	7%	10%	9%	17%	4%	7%	3%
Number of post-MBA years before launching search fund									
Minimum	n/a	0	0	0	0	0	-1	-1	-2
Median	n/a	2	1	1	4	2	0	1	3
Maximum	n/a	10	18	16	20	17	10	26	15
No MBA	n/a	n/a	0%	13%	16%	14%	20%	18%	19%
<1 year post-MBA	n/a	n/a	47%	33%	18%	42%	49%	35%	25%
1-3 years post-MBA	n/a	n/a	17%	27%	20%	17%	20%	24%	19%
4-7 years post-MBA	n/a	n/a	23%	20%	22%	17%	7%	12%	21%
8+ years post-MBA	n/a	n/a	13%	7%	24%	11%	4%	10%	16%
Gender									
Male	96%	100%	100%	100%	100%	94%	100%	95%	92%
Female	4%	0%	0%	0%	0%	6%	0%	5%	8%
Searchers' professional background									
Management consulting	26%	23%	10%	26%	7%	14%	16%	11%	7%
Investment banking	23%	10%	16%	27%	20%	11%	22%	11%	16%
Sales	12%	1%	3%	7%	4%	6%	4%	6%	3%
Venture capital	8%	3%	5%	1%	0%	0%	2%	0%	3%
General management	5%	27%	7%	15%	11%	19%	2%	12%	14%
Marketing	5%	2%	4%	0%	4%	0%	0%	0%	1%
Law	4%	0%	2%	0%	0%	0%	7%	3%	0%
Operations	4%	7%	16%	1%	7%	8%	7%	5%	23%
Entrepreneurship	2%	13%	8%	7%	13%	6%	4%	3%	4%
Accounting	2%	0%	3%	0%	0%	0%	0%	2%	1%
Engineering	2%	0%	5%	2%	0%	6%	2%	1%	4%
Military	2%	1%	8%	1%	0%	0%	2%	9%	3%
Insurance	2%	1%	0%	2%	0%	0%	0%	0%	0%
Private equity	1%	5%	11%	4%	27%	28%	31%	27%	14%
Other	0%	7%	2%	8%	7%	3%	0%	11%	7%

Source: Yoder et al. (2018)

Characteristics of first-time searchers – International

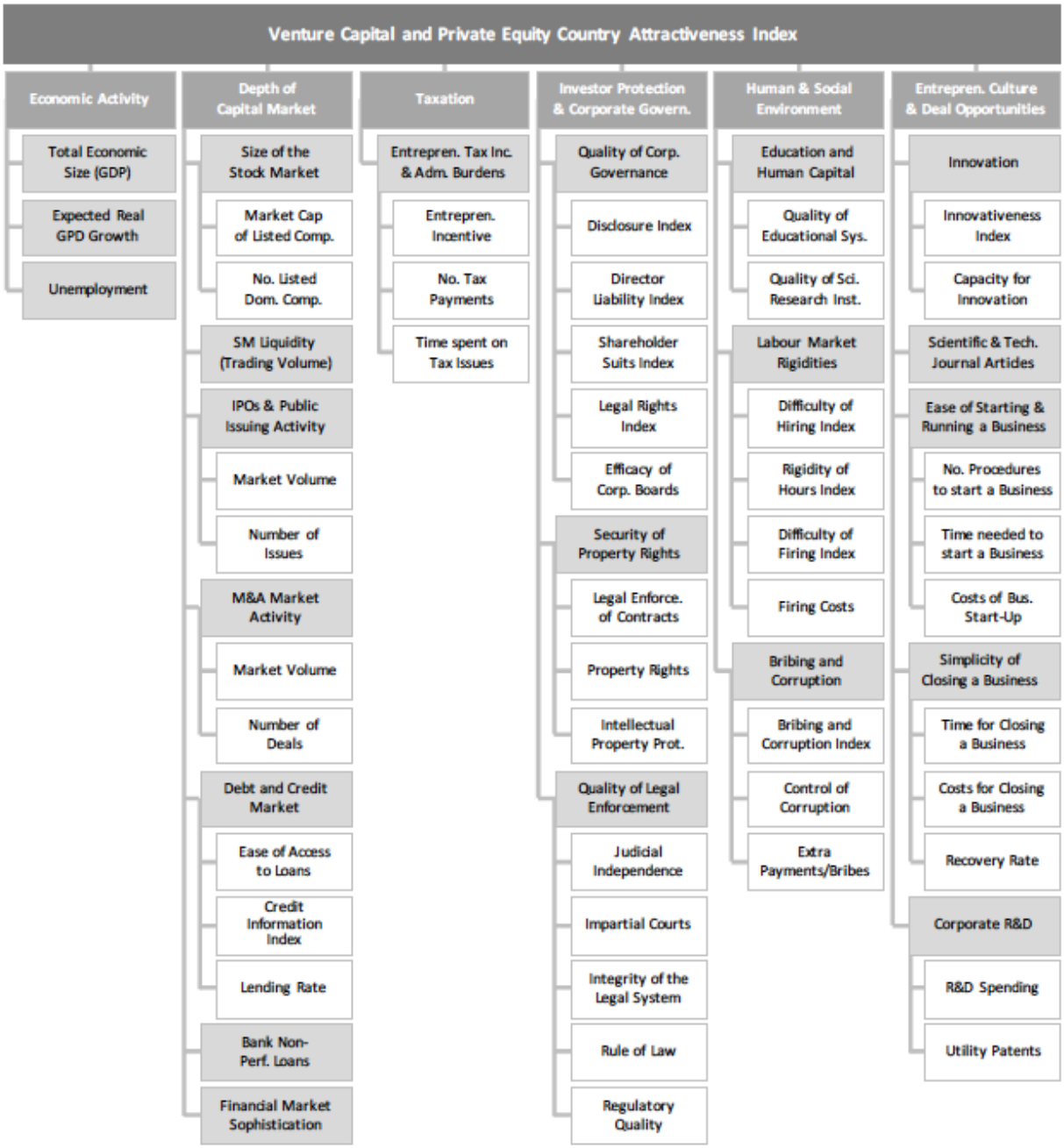
	Pre-2002	2002-2007	2008-2009	2010-2011	2012-2013	2014-2015	2016-2017
Age of start of search							
Minimum	29	29	26	26	27	27	26
Median	31	30	30	32	28	31	32
Maximum	35	34	43	42	37	41	39
Under 30	33%	20%	50%	20%	57%	44%	29%
30-35	67%	80%	33%	40%	29%	31%	55%
36-40	0%	0%	0%	20%	14%	19%	16%
Over 40	0%	0%	17%	20%	0%	6%	0%
Number of post-MBA years before launching search fund							
Minimum	0	0	0	0	0	0	0
Median	0	1	0	1	1	0	0
Maximum	0	5	6	6	6	6	8
No MBA	0%	0%	0%	20%	29%	13%	8%
<1 year post-MBA	100%	40%	67%	40%	14%	63%	58%
1-3 years post-MBA	0%	40%	17%	20%	43%	0%	18%
4-7 years post-MBA	0%	20%	17%	20%	14%	25%	11%
8+ years post-MBA	0%	0%	0%	0%	0%	0%	5%
Gender							
Male	83%	100%	100%	100%	86%	94%	100%
Female	17%	0%	0%	0%	14%	6%	0%
Searchers' professional background							
Management consulting	17%	0%	0%	20%	43%	25%	18%
Investment banking	0%	60%	50%	40%	43%	19%	21%
Sales	17%	0%	0%	20%	0%	13%	3%
Venture capital	0%	0%	0%	0%	0%	0%	5%
General management	50%	0%	17%	20%	0%	6%	8%
Marketing	0%	20%	0%	0%	0%	0%	3%
Law	0%	0%	0%	0%	0%	0%	3%
Operations	0%	20%	0%	0%	0%	0%	5%
Entrepreneurship	0%	0%	0%	0%	0%	6%	8%
Accounting	17%	0%	0%	0%	0%	0%	0%
Engineering	0%	0%	0%	0%	0%	0%	5%
Military	0%	0%	0%	0%	0%	0%	0%
Insurance	0%	0%	0%	0%	0%	0%	0%
Private equity	0%	0%	33%	0%	14%	31%	21%
Other	0%	0%	0%	0%	0%	0%	0%

Source: Kolarova et al. (2018)

Appendix 11 – List of buyout funds in Denmark

Name of BO firm	Metric	Size (DKKm)	<50	50-100	100-500	>500	Source
A.P. Møller Capital	EV	>500				1	DVCA
Adelis	Revenue	180-2000			1	1	Company website
Advent International	EV	300-6000			1	1	Company website
Altor	EV	>500				1	DVCA
Axcel	EV	>500				1	DVCA
Blue Equity	Revenue	25-250	1	1	1		Company website
BWB	Revenue	100-750			1	1	Company website
Capidea	EV	60-400		1	1		DVCA
CataCap	Revenue	>50-1200		1	1	1	Company website
CIP	EV	>500				1	DVCA
CVC Capital Partners	EV	>500				1	DVCA
Dane Capital	Revenue	50-300		1	1		Company website
EQT	EV	>500				1	DVCA
Erhvervsinvest	Revenue	50-500		1	1		Company website
FSN Capital Partners	EV	>500				1	DVCA
GRO Capital	EV	150-1500			1	1	Company website
IK Investment Partners	EV	>500				1	Company website
Industriudvikling	Revenue	75-500		1	1		Company website
Jysk-Fynsk Kapital	Revenue	<200	1	1	1		Company website
Litorina	Revenue	75-750		1	1	1	Company website
Maj Invest	Revenue	200-1000			1	1	Company website
Nordic Capital	EV	>500				1	DVCA
Polaris	Revenue	150-1000			1	1	Company website
Procuritas	EV	150-750			1	1	Company website
Silverfleet	EV	>500				1	DVCA
Solix	Revenue	>500				1	Company website
Triton	EV	200-12000			1	1	DVCA
Vækst-Invest Nordjylland	Revenue	20-120	1	1	1		Company website
Vækstpartner Kapital	Revenue	10-75	1	1			Company website
Valedo	Revenue	200-800			1	1	Approx. based on portfolio companies
Verdane	Equity ticket	75-1000		1	1	1	Company website
Via Equity	Revenue	75-750		1	1	1	Company website
Zefyr Invest	Revenue	50-250			1		Approx. based on portfolio companies

Appendix 12 – Overview of the VC and PE country attractiveness index

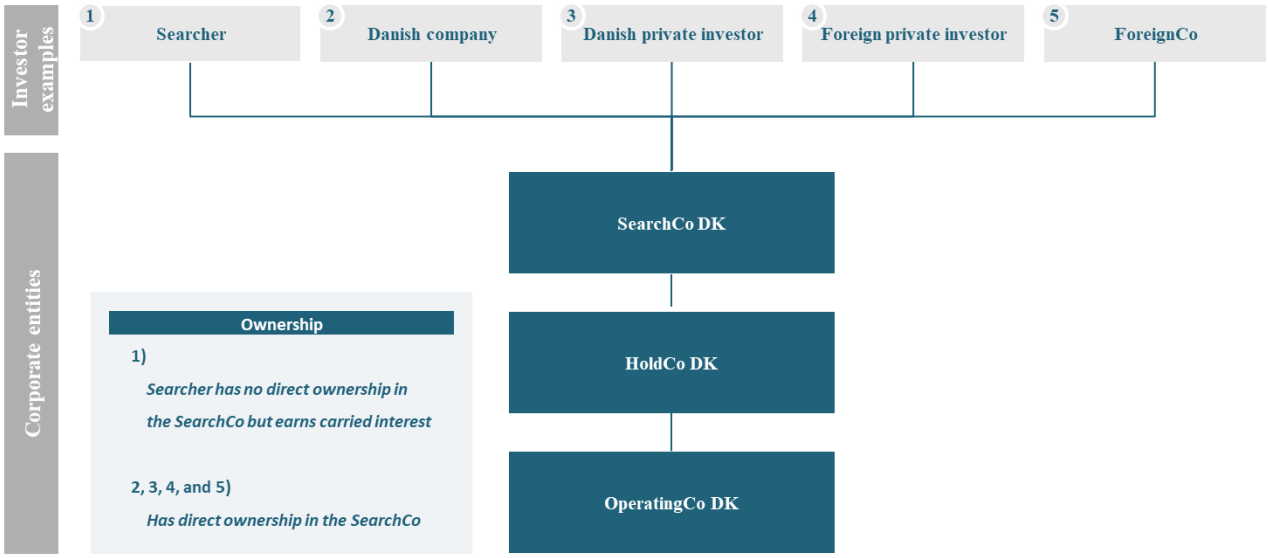


Region*	Countries
Africa (31)	Algeria, Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Chad, Côte d'Ivoire, Egypt, Ethiopia, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Mozambique, Namibia, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Tunisia, Uganda, Zambia, Zimbabwe
Asia (22)	Armenia, Azerbaijan, Bangladesh, Cambodia, China, Hong Kong, India, Indonesia, Japan, Kazakhstan, Korea South, Kyrgyzstan, Malaysia, Mongolia, Pakistan, Philippines, Russia, Singapore, Sri Lanka, Taiwan, Thailand, Vietnam
Australasia (2)	Australia, New Zealand
Eastern Europe (21)	Albania, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Slovakia, Slovenia, Turkey, Ukraine, Serbia
Latin America (17)	Argentina, Bolivia, Brazil, Chile, Colombia, Dominican Republic, Ecuador, El Salvador Guatemala, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela
Middle East (10)	Bahrain, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates
North America (2)	United States, Canada
Western Europe (20)	Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Malta, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom

* Number of countries covered in parentheses.

Source: Groh et al. (2018)

Appendix 13 – Legal structure of a search fund



Source: Authors

Appendix 14 – List of Danish industries

Danish industry name	English translation	Number of sub-industries
Landbrug, jagt, skovbrug og fiskeri	Agriculture, hunting, forestry and fishing	41
Råstofindvinding	Mining and quarrying	15
Fremstillingsvirksomhed	Manufacturing	237
El-, gas-,fjernvarmeforsyning	Electricity, gas, district heating supply	8
Vandforsyning; kloakvæsen, affaldshåndtering mtv.	Water supply, sewage, waste management	10
Bygge- og anlægsvirksomhed	Construction	24
Engroshandel og detailhandel; reparation af motorkøretøjer og motorcykler	Wholesale and retail trade; repair of motor vehicles and motorcycles	136
Transport og godshåndtering	Transport and freight handling	31
Overnatningsfaciliteter og restaurationsvirksomhed	Hospitality	10
Information og kommunikation	Information and communication	28
Pengeinstitut- og finansvirksomhed mv	Banks and financial services	27
Fast ejendom	Real estate	9
Liberale, videnskabelige og tekniske tjenesteydelser	Liberal professions, scientific and technical services	30
Administrative tjenesteydelser og hjælpetjenester	Administrative services	35
Offentlig forvaltning og forsvar; socialsikring	Public administration and defense	9
Undervisning	Education	13
Sundhedsvæsen og sociale foranstaltninger	Health care	30
Kultur, forlystelser og sport	Culture, entertainment and sport	18
Andre serviceydelser	Other services	21
Private husholdninger med ansat medhjælp mv.	Private households with employees	3
Ekstraterritoriale organisationer og organer	Extraterritorial organizations	1
Uoplyst	Not disclosed	1
Total number of sub-industries		**737**

Source: Statistics Denmark (2014)