Search funds look deceptively simple on the surface. A small group of investors backs an entrepreneur to find, buy, and run a single company. In practice, the model is part apprenticeship, part capital formation, part controlled risk. If you have the grit to run a small to midsize company and the judgment to buy well, a search fund can be your bridge from operator-in-waiting to owner-CEO.

I have worked with searchers who became steady, quiet millionaires and others who spent two years chasing pretty deal decks only to end with nothing but air miles and a stack of broken LOIs. Outcomes hinge on preparation, discipline, and the ability to build trust with sellers who care about more than price. This guide distills what I've seen across dozens of processes, term sheets, diligence war rooms, and board meetings.

The core idea and why it works

A search fund raises capital in two stages. First, you raise a modest pool, often $300,000 to $800,000, to fund your search salary, travel, and diligence. Those same investors usually have pro rata rights to invest in the eventual acquisition. Second, once you sign a letter of intent, you assemble a buyout package that blends investor equity with senior debt, and sometimes seller financing or a mezzanine tranche.

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Why does this structure work? It aligns incentives. Investors bet on you as the operator, not just on a model. You, in turn, have a clear mandate to buy a durable, cash-generating business you can grow for many years. It also solves a classic problem for early-career operators: how to control a meaningful asset without preexisting wealth. Because lenders and sellers will underwrite to predictable cash flow, you can often acquire companies with enterprise values of $5 million to $30 million while writing a personal equity check in the low six figures.

Who actually thrives as a searcher

The best searchers I have backed or coached share a few traits. They handle rejection without losing tempo. They are relentlessly organized, tracking thousands of leads without dropping threads. They persuade without theatrics, especially owner-operators who built their companies one customer at a time. They also know where they are weak and borrow credibility through advisors or future hires. I have seen Marines, teachers, software product managers, Big Four auditors, and commercial bankers succeed. Pedigree helps raise the fund, but owners sell to people they like and trust, and lenders back cash flow plus competence.

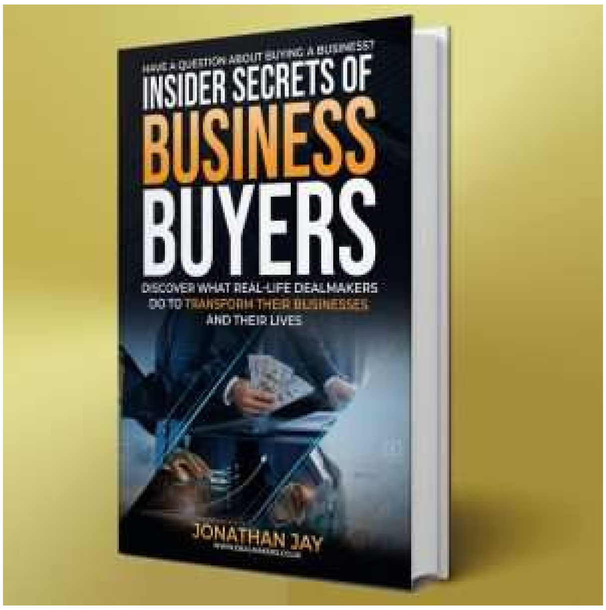
A quick reality check on lifestyle: a funded search looks glamorous on LinkedIn, but it is lonely work. You will send 2,000 to 5,000 emails, speak to 400 to 800 owners, and submit 15 to 30 indications of interest to get one signed purchase agreement. You will lose a deal three days before closing to a strategic who paid all cash. You will think you have product-market fit in your lead pipeline, only to realize a broker just blasted your email to his list. If you cannot maintain energy without steady external validation, consider joining an operating company first.

Mapping the model: funded search, self-funded, and accelerator variants

There are three main flavors, each with trade-offs on control, economics, and support.

Funded search suits those who value mentorship, want an explicit salary during the hunt, and prefer a smoother equity assembly at acquisition. The typical economics: searchers keep roughly 20 percent to 30 percent of the common equity after investor capital is in, with time-based and performance-based vesting. Cash compensation during search tends to be modest, $100,000 to $150,000 combined for a two-person team, plus health insurance and travel budget. Board support is real. So are governance obligations.

Self-funded search gives you more ownership and control, with the benefit of doing smaller deals that funded capital would pass on. You accrue higher personal risk: you cover your own search costs for months, sometimes years. Lenders will underwrite the business first, but your ability to find a friendly bank, negotiate seller financing, and structure an earnout will determine if you can close. Expect smaller enterprise values, often $1.5 million to $8 million, and more businesses with hair on them. If you are decisive, scrappy, and comfortable negotiating one-on-one with owners, self-funded can be rewarding.



Accelerator or incubated search sits between those poles. You receive training, vendor discounts, and shared services, sometimes in exchange for a modest equity slice or set of terms. It can shorten your learning curve on everything from CRM setup to lender intros. The risk is over-relying on templates that do not fit your situation. Effective programs feel like Business Acquisition Training done by practitioners, not busywork.

What to buy, and what to leave for someone else

The classic search-fund target is a company with sticky revenue, high gross margins, and low cyclicality. The shorthand you will hear is boring by design. Think compliance services, niche B2B software with low churn, specialty maintenance routes, healthcare revenue cycle subcontractors, or industrial instrumentation repair. You want a defensible niche, not a sexy market. A good rule of thumb is that your future self, 18 months after close, should be able to run the business with a small leadership team and a short set of KPIs.

Revenue quality matters more than revenue size. A $6 million revenue company with 35 percent EBITDA margin and multi-year contracts beats a $10 million revenue company with 8 percent margin and one key customer. Backlog, auto-renewal clauses, and switching costs all contribute. Learn to read customer concentration the way a firefighter reads wind and fuel: a single client above

30 percent is a risk. I have seen deals where the day after close the key account switched to a competitor, not out of spite but because the founder's personal relationship had been the glue.

Avoid categories you do not understand or cannot underwrite. Physical construction without recurring service lines, fashion retail, anything that depends on commodity prices, businesses where success is a single sales whale and a dozen hero employees you cannot replace, and high-churn software sold month-to-month to micro SMBs. If you must stretch, stretch only one dimension at a time: a domain you know with levered capital, or an industry you are learning with no leverage, not both.

The first 90 days of your search: get the plumbing right

Your search process is only as strong as your systems. Start with a clean CRM configured for intermediaries, owners, and lenders, with fields for last contact date, deal stage, likely EBITDA adjustments, and reasons for pass. Set weekly quotas for outreach and conversations and treat them as nonnegotiable. Build a templated NDA, IOI, and diligence request list and revise them after every real interaction. Negotiate vendor rates early for quality-of-earnings, legal, background checks, and insurance. Every [UK business brokers] day you wait adds edge friction later.

Think in themes, not only volume. Early on, pick three or four verticals and invest enough to gain pattern recognition. I once worked with a searcher who reached out to 2,500 owners across 20 vaguely related niches. Impressive activity, little signal. When she narrowed to municipal software, third-party lab services, and specialty HVAC, her hit rate doubled because her conversations had depth. You want to become the buyer who asks intelligent questions about meter data standards or sampling turnaround time rather than parroting "Tell me about seasonality."

Building your capital stack before you need it

Create relationships with lenders and investors months before your LOI lands. A bank credit officer who has heard your voice three times will take your call when a tight diligence clock is running. Collect samples of loan structures and covenant packages for deals of similar size and industry. Understand how lender base rates plus spreads flow into fixed-charge coverage, and model your debt service with buffer. You do not want to learn about a springing cash dominion clause the week you are negotiating working capital.

Do not ignore quasi-equity. Seller notes and earnouts do more than fill gaps. They align the seller with your first two years of operating *Buy a Business* risk. I have seen seller notes at 6 percent to 10 percent with 12 to 36 month interest-only periods make or break a marginal deal. Earnouts based on revenue retention or gross profit can protect you against rosy handoffs. That said, push the complexity only as far as you can actually track post-close without distracting the team.

How to talk to owners so they take you seriously

Most small business owners are not looking to sell when your email arrives. They are running crews, calling on customers, and trying to get payroll out the door. Respect their time. If you claim you are not a broker, prove it by doing your homework before the first call. Use plain language about your background, your capital, and why their niche interests you. Skip the flattery and the spray-and-pray pitch deck.

Signals that build trust: you send a thoughtful follow-up note summarizing what you heard, not just what you want. You ask for financials in stages rather than demanding a full virtual data room on day two. You explain your process and timing, including the steps between an IOI and a signed purchase agreement. You avoid dangling an inflated multiple to secure exclusivity, then retrading later. I have seen owners walk away from a higher price to avoid the pain of a buyer they do not trust.

Pricing, multiples, and the art of IOIs

EBITDA multiples vary by sector, growth, and deal size, but the mid-market anchor for search-targetable businesses typically falls between 4x and 7x adjusted EBITDA. Add a turn or two for software with genuine retention and pricing power, subtract for customer concentration or cyclicality. Adjusted EBITDA is where many searches go astray. If your add-backs are a Christmas tree of one-time costs, family trucks, and a cousin on the payroll, banks will discount your number long before the credit committee. Be conservative early and let a rigorous quality-of-earnings report argue on your behalf later.

An IOI should do three things. It should state a clear price range with assumptions, outline your sources and uses, and set expectations for diligence and timing. Include a short list of key risks you will study, not to spook the seller, but to show you are serious about closing risk. If the seller reacts with hostility to reasonable diligence, that is a signal in itself.

Diligence you cannot afford to miss

Searchers often underinvest in operational diligence. Financial QofE is necessary but not sufficient. Walk the floor. Ride with the route techs. Sit on two or three customer calls. Ask for cohort retention, not just a churn rate. Interview at least one lost customer. Map the owner's invisible labor: the midnight phone calls, the handshake discounts, the local norms that are not in the SOPs. The handoff plan you negotiate should address these gaps explicitly.

Regulatory diligence breaks deals late when neglected. Examples I have seen: environmental permits that were grandfathered under old ownership but not transferable, healthcare claims processing that relied on a credential that would not survive a change of control, software data stored out of compliance with a customer's contract. If your business touches waste streams, patient data, controlled substances, or municipal infrastructure, bring a specialist early.

People diligence is where future headaches hide. Ask for tenure histograms, compensation bands, and dependency maps for key roles. If the lead estimator or the head of customer success controls the knowledge graph, tie their retention into the close with a bonus, equity, or at minimum a retention agreement. On the sales side, reconcile pipeline claims with win-loss data and average sales cycle lengths. Heroic sales numbers that lack supporting activity are a mirage.

Debt, covenants, and the sleep-at-night test

The temptation to maximize leverage is strong. It makes your equity check smaller and your modeled IRR prettier. Your job is to buy a company you can operate, not a spreadsheet you can admire. I prefer fixed-charge coverage north of 1.4x in the base case and stress testing to 1.1x. If your stress case blows a covenant on a 10 percent revenue dip, you are not buying a resilient platform, you are hoping for fair weather.

Covenants matter more than the headline interest rate. Negotiate add-backs you can actually achieve, baskets for capital expenditures you know you must make, and reasonable thresholds for customer concentration events. Ask for waiver mechanics and cure rights in plain English. You will never need them, until you do.

The close, then the first hundred days

Plan the first hundred days before you sign. It is easier to build momentum than to restart it. You will inherit a culture, explicit or not. The worst first days I have seen were when the new CEO arrived with a reorg deck and a pricing thesis on day two. The best starts kept customer-facing continuity, honored the founder publicly, and quietly stabilized back-office processes like billing, collections, and inventory accuracy. Find your revenue levers later, not in your first staff meeting.

Do not overextend on day one tech changes. Yes, your reporting stack needs improvement. No, your team is not ready for three new systems and a fresh set of KPIs. Start with a single source of truth for bookings, billings, and cash. Then fix the sloppy things that touch customers: response times, service backlogs, and invoice errors. In many businesses, days sales outstanding is a faster profit lever than any shiny new marketing channel.

Compensation, incentives, and the long game

Your investors care about distributions and enterprise value, but your team cares about salary, workload, and recognition. If the prior owner ran a paternal shop, your formal structures will feel cold. Borrow familiar rituals, then slowly introduce performance management. Variable comp should be simple enough that employees can calculate their own payout without a spreadsheet. Reserve equity for leaders who move the needle on long-term value, but do not be stingy with spot bonuses when the team carries a heavy week.

Founders often leave with pride and a little grief. A win here is to keep them as allies. Schedule a monthly check-in for six months. Ask for advice on norms you might trample. If there is an earnout, be transparent about metrics and avoid gamesmanship. One of the best earnout relationships I saw ended with the seller investing back into the business as a minority partner two years later, not for financial necessity but for satisfaction.

Pitfalls that haunt first-time buyers

The mistakes repeat: chasing a trend rather than a business model, skipping references on a seller who seems charming, overestimating your ability to hire a number two quickly, ignoring working capital needs in seasonally spiky businesses, and underpricing the pain of messy data. One searcher I coached closed a niche manufacturing deal at 5.5x EBITDA with a friendly bank. On paper it looked fine. He missed that accounts receivable routinely stretched to 90 days during the winter, while vendors demanded 30. His first quarter as CEO was a crash course in line-of-credit draws and uncomfortable board calls that could have been avoided with a deeper working capital analysis.

Another common trap is a retrade pattern that kills your reputation. If every deal you touch ends with a late-stage price cut, intermediaries and owners will quietly lower your priority. A fair retrade sparked by new information is part of the game. A default strategy of overpromising to win exclusivity will cost you deal flow later, and lenders talk to each other.

Using Business Acquisition Training with judgment

Formal Business Acquisition Training helps, but not all courses are equal. The best material blends case studies with hands-on drills: writing IOIs based on partial financials, dissecting debt covenants, practicing seller calls with experienced operators who will push back. Look for instructors who have closed deals in the last five years, and who will connect you with a lender, a QofE provider, and a legal team you can actually afford. Beware training that overindexes on M&A technicals and neglects the human texture of Buying a Business from an owner who built it over decades.

If you want to tighten your muscles without paying for a course, assemble your own case book. Pull five closed brokered listings with enough public detail to model. Write an IOI for each and then compare your structure and price to the disclosed deal. Call three lenders and ask them to critique your model. This is unglamorous work, but it builds the reflexes you need when a real seller says yes.

What a reasonable deal looks like, end-to-end

A composite example helps fix ideas. Imagine a commercial fire system inspection and monitoring company with $8.5 million revenue and $2.1 million adjusted EBITDA. Recurring revenue from monitoring plus inspection routes creates 75 percent of sales. Customer concentration: top client at 9 percent. Growth steady at 7 percent annually for five years, with strong local relationships and a small tuck-in completed last year.

You sign an IOI at a range of 5.5x to 6.0x EBITDA, contingent on QofE confirming add-backs for the owner's vehicle and one-time relocation costs. Your capital stack at 6.0x values the business at $12.6 million enterprise value. You line up a senior term loan at SOFR plus 325 bps, 7-year amortization, and a revolver for seasonal working capital. Seller carries a $1.5 million note at 7 percent, interest-only for 18 months. Equity check totals $5.3 million, of which you and your partner commit $200,000 and your investors the balance.

Diligence flags two issues: technician turnover in one branch and a large municipal RFP that, if lost, would drop revenue by 6 percent. You underwrite the loss in your stress case and present a retention plan for the techs, including a small wage bump and certification bonuses. The seller accepts a slight earnout tied to revenue retention in the first 12 months, with a cap at $600,000. Your lender agrees to fixed-charge coverage tested quarterly at 1.25x with a cure right, and the board builds a cash buffer at close equal to three months of payroll and debt service.

Post-close, you delay a system migration and instead launch two simple plays: reduce inspection scheduling gaps that caused overtime, and tighten billing cycle times. Within 90 days, labor utilization improves by 8 percentage points and DSO drops from 62 to 49 days. The business breathes easier. Investors appreciate your restraint. The technicians appreciate that you rode in the van and learned the route sequence before you suggested a change.

When to walk away and start again tomorrow

Some days the bravest choice is to step back. Walk if the seller refuses a customary escrow for reps and warranties in an asset-light service business. Walk if QofE uncovers aggressive revenue recognition you cannot normalize. Walk if the key employee refuses a retention agreement and the seller dismisses the risk. Walk if the bank credit committee signals discomfort not with the company, but with you as an operator, because that will not improve post-close. You will lose sunk costs, but preserve something more valuable: your ability to close the right deal later.

A short checklist you can keep on your desk

- Build your lender bench early, with at least two real conversations per month before you have a live deal.
- Set weekly outreach targets and hold yourself to them, even when a shiny deal tempts you to stop sourcing.
- Underwrite to customer retention cohorts and fixed-charge coverage under stress, not only base-case EBITDA.
- Map the owner’s invisible labor, then design a handoff plan with dates, names, and retention economics.
- Write your first-100-days memo before you sign the purchase agreement, then revise it after your on-site visits.

The quiet, compounding reward

Search funds are not for everyone. The model is slow, personal, and at times humbling. Yet when it works, it delivers something rare: the chance to build a company you can be proud of, surrounded by people who grow with you, supported by investors who bet on your judgment. If you approach the journey as a craft, not a hack, with patience for owners and a bias for sober math, you will raise the odds that the business you buy is one you want to run for a long time. And that, much more than a glossy multiple, is how real wealth and satisfaction compound in Buying a Business.