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ProPay Ltd (A)

Abstract

Rick Stein gazed out at ProPay's car park, where his 15-year-old car now languished. A year ago, the company's previous owner had parked his Maserati in the exact same spot – a contrast that seemed oddly symbolic of Rick's current predicament. He had bought the payment-gateway business after raising a Search fund from a number of private investors and with a plan to improve what he perceived to be an 'undermanaged' business. A few months later, it had become apparent that more funding was needed. He returned to his financial model to consider his position...

The case

Rick Stein finally knew what it meant to be in the 'hot seat'. Having persuaded a group of wealthy backers to pay a few hundred thousand pounds into his Search fund (SF), he'd leant on them to find several million pounds to buy a business called ProPay Ltd. Now he needed more cash – but for all the wrong reasons.

Rick had put in long hours analysing the business and industry and felt that he'd negotiated an excellent deal with the owner during the purchase process. But the euphoria had been short-lived as he realised the limitations of the due-diligence process, and he had also been hit by unplanned problems. It was all so much more complicated than buying the business in the first place!

The entrepreneurial itch

When Rick was an Executive MBA student at London Business School, he'd made the most of his studies to explore how he could build his own business after a corporate career. Taking all the entrepreneurship electives, he'd stumbled across the concept of Search funds. The general idea was for an ambitious, newly-graduated MBA to buy a business with the help of experienced private investors, thereby avoiding the high risks of a start-up. It seemed a perfect way for someone like Rick to address the challenge of quitting a well-paid job and taking the entrepreneurial plunge. All the easier to explain to his wife and four children that daddy had a real job, not just a business plan!

Keith Willey is Adjunct Associate Professor, London Business School. London Business School cases are developed solely as the basis for class discussion and are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management

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