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## Insearch Ltd: Searching for a company to buy

### Abstract

By March 2022 Steve Webb had spent more than three years looking for a company to acquire in the UK. He was in final negotiations to buy a company, but he and the vendors did not see eye-to-eye on its valuation. Steve was also concerned about how to structure an offer. He was in a difficult financial situation: the search had lasted much longer than originally planned, the £250,000 of search capital had been spent, his company, Insearch Ltd, had outstanding legal bills, and it would take another £40,000 in legal and accounting fees to complete the transaction. He wondered if this was the time to get a “proper job”.

### Background

Steve had always wanted to control his professional destiny. Indeed, after five years working in sales and marketing at Microsoft, he realised, “I was doing well, but climbing the corporate ladder was not for me. I wanted to be an equity-owning manager.”

Later, while doing an MBA at London Business School (LBS), he felt increasingly sure that he wanted to run his own business. The question was how to achieve this goal.

### An idea

In November 2017 Steve sought career advice from a member of faculty at LBS, Professor Robert Reed, himself an entrepreneur. Professor Reed asked him if he had considered buying a business by raising a search fund. The concept entailed raising a sum of money from a group of investors to finance a full-time search by one or two people to identify a company to acquire and then manage.

Ultimately, the investors hoped to realise a return on exiting the company. The money would provide the searcher(s) with a small salary and cover the direct expenses of the search. Once the target company was identified, the investors would have the option of providing follow-on equity finance to fund its acquisition; if an investor chose not to participate, their initial investment would rollover as equity in the acquired company.

As compensation for the risk of not finding a company, the investor would get 150% of the original investment in this rollover. The searchers also received an equity stake in the company. Professor Reed was familiar with search funds that had been conducted by MBA students in the US and referred Steve to the Stanford ‘2016 Search Fund Study: Selected Observations’, which reports on the financial returns and key qualities of search funds formed in the US and

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Simon Webster is a guest lecturer at London Business School. This case is a consolidation of previous material written by Fergal Byrne, Research Associate, London Business School, under the supervision of Robert M. Johnson, then Lecturer in Entrepreneurship at London Business School.

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