



Latin America Search Fund Study 2022

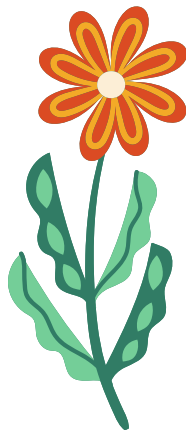
Industry Overview

Newton M. Campos, Paulo R. M. Abreu and Carlos Gila

Latin America Search Fund Study

November 2022

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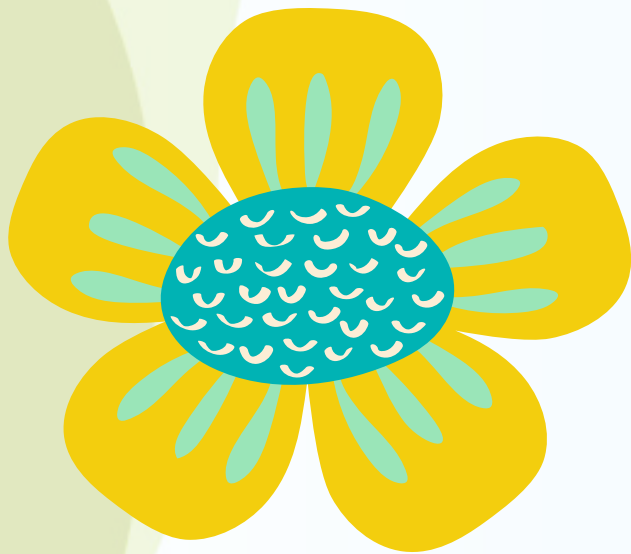
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Message from Supporter Grant Thornton

The Middle Market is a globally relevant and strategic segment for **Grant Thornton**. We seek to support the sustainable growth of companies through services and specializations by industry, with the objective of maintaining a vibrant economy, based on credibility, transparency and market integrity. In this sense, we fully adhere to the demands of a **Search Fund** journey, serving from the stages of analysis and prospecting of the target company, to professionalization, growth and potential liquidity event.

Our Strategy & Transactions team is highly qualified to advise on the various stages of transactions, such as: due diligence, support in negotiations, valuation, corporate reports, integration stages (PMI), asset management and structuring of transactions with the market of capital – such as IPO and debt. With a local multidisciplinary team integrated into our global network, we are ready and available to **Search Fund** entrepreneurs and their partners to assist with greater efficiency, excellence and transparency in their strategies, processes and operations.

Grant Thornton Brazil is a member firm of **Grant Thornton International**, with a presence in over 140 countries. We have more than 1,500 professionals, who collaborate for excellence in service and provision of services to customers and partners. We are present in the 14 main business centers in Brazil, with specialists focused on developing customized solutions for all types of companies and segments, including startups, private companies, SMEs, family-owned companies, public companies and national and international public organizations.



Gloria Lucena
Due Diligence Partner
Grant Thornton Brazil



Rodrigo Nigri
Valuation Partner
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Preface

Buying a business and growing it is every day more considered an entrepreneurial path also outside of the United States. Buying and growing a business is far less risky than starting a new one from scratch, especially in Emerging Economies where capital is less available and obstacles towards entrepreneurs are higher.

Having mapped more than 100 Search Funds and 30 acquisitions in Latin America since 2010, **FGVcenn Center for Entrepreneurship and New Business** at **FGV** along with **IE University**, **Grant Thornton** and **Searchfunder.com**, carries out the Latin America Search Fund Study 2022, the first one of its kind.

What's the profile of searchers and investors in Latin America? What kind of searchers were more successful in locating and acquiring a company in the region? What's the expected growth of the traditional Search Fund industry and the main obstacles and opportunities for Search Funds in Latin America? These and more specific questions were designed and applied to explore the evolution and scenario of the **Entrepreneurship through Acquisition** industry in Latin America.

The findings of this study will hopefully help entrepreneurs and investors to better foresee the possibilities brought by Search Funds to provide liquidity to family businesses and renew the entrepreneurial spirit of Small and Medium Enterprises (SMEs) not only in Latin America but also in other Developing economies of the world.



Acknowledgments

This study would not be possible without the collaboration and dedication of many individuals and organizations. Without financial sponsorships and motivated by our pure curiosity, we, the three main authors **Dr. Newton M. Campos** (affiliated to FGV EAESP and IE University), **Paulo R. M. Abreu** (FGV alumni and current IE University student) and **Carlos Gila** (affiliated to Columbia University and IE University) as well as **Diego Mercadal** (current IE student), **Jhonathan Doria** (Insper alumni), along with **Vani Nadarajah** (Fletcher alumni), **Felipe A. Camara** (FGV alumni) and **Pedro R. Brendim** (FGV alumni) as research assistants, spent more than 600 hours designing and executing a rigorous and scientific based survey and analysis over Search Funds in Latin America.

Equivalent to more than two months of full-time equivalent work, executed by highly trained academics and professionals, our dream to contribute to this emerging field in Entrepreneurship is now a reality. We hope that entrepreneurs as well as investors, lawyers, accountants, M&A professionals, brokers, family business owners and all professionals increasingly impacted by the growth of Search Funds worldwide value our effort and count on us to push responsible entrepreneurial leadership up to a new level.

We would like to acknowledge the official support of **FGV**, its Research Committee and **Dr. Edgard Barki**, head of **FGVcenn Center for Entrepreneurship and New Business** at **FGV EAESP** who provided a safe and known rigorous research environment that allowed our Research Team to develop this study.

The Research Team

Opinions expressed in this study are the responsibility of the authors and do not necessarily reflect the opinions of FGV EAESP or its supporters.

Research Team and Supporters

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Academic Leading Research Center



Academic and Industry Supporters



[SEARCHFUNDER.COM](https://www.searchfunder.com)

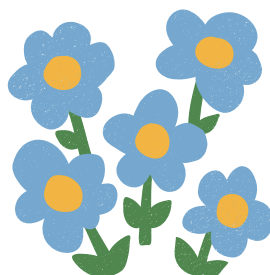
Introduction

The objective of this study is to explore the evolution and scenario of the **Entrepreneurship through Acquisition** (a specific subarea of it also known as Search Funds) industry in **Latin America**. For that purpose, the study explored the profile of searchers and investors, the kind of searchers that were more successful in locating and acquiring a company, the expected growth of the traditional Search Fund industry, the main obstacles and opportunities for Search Funds, the overall maturity status of Environmental, Social, and Corporate Governance (ESG) policies, processes and systems in place in the companies acquired by Search Funds and how the Private Placement Memorandum (PPM) could be improved for use in Latin America.

Although present in the region for almost 20 years, research directly focused on Latin American traditional Search Funds has never been formally developed other than by few dissertations at the main local business schools. The first Search Fund to be raised and have an entire life cycle in Latin America was Altos Andes, founded by Luis Felipe Lehuedé Grob in Santiago, Chile. Its operations began in 2003, and within a year, acquired Glasstech, a crystal materials manufacturer sold in 2009. Few other attempts took place in Brazil but ended up resulting in Club Deals.

IESE's studies started in 2010, addressing Latin American countries of interest to this research. According to IESE's latest survey conducted in 2022, these countries have high relevance in the sample of existing Search Funds in the world outside of the United States and Canada. **Out of the 211 traditional Search Funds established worldwide outside of the United States and Canada, 82 were in Latin America (39%)**, being 37 in Mexico (18% of the total number of traditional Search Funds in the world), 24 in Brazil (11%) and another 21 (10%) in Colombia, Chile, Dominican Republic, Argentina, Guatemala, Peru and Paraguay (Kolarova, Kelly, Simon and Johnson, IESE, 2022). If we round data up, **Europe represents approximately 50%** of the international traditional Search Fund market, followed closely by **Latin America representing approximately 40%** and the rest of the world approximately 10%.

Considering **Developing Economies** alone, traditional Search Funds in **Latin America accounts for 86% of all Search Funds in the Developing world**, according to the same IESE's study, with traditional Search Funds found in Poland, Latvia, Russia, Egypt, Ivory Coast, Kenya, Morocco, India and Indonesia, showing the relevance of this study also for a better comprehension of Search Funds in Emerging Economies in general.



Methodology

The main objectives of this study were to answer the following research questions:

- What's the profile of searchers and investors in Latin America?
- What kind of searchers were more successful in locating and acquiring a company in the region? How did they differ from non-successful ones?
- What's the expected growth of the traditional Search Fund industry in Latin America? What are the main obstacles and opportunities for Search Funds in the region?
- What's the maturity status of ESG policies, processes and systems in place in the companies acquired by Search Funds in Latin America?
- Can traditional PPM's based in North American standards be improved for Latin America? How different should they be to add more value to Search Fund investors?

The questionnaire was initially designed by the team of researchers to comply with established Search Fund studies (Stanford's and IESE's) and at the same time explore new aspects of this flourishing community, including, for example, a new improved non-americanized standard for measuring ethnicity, a complete MBTI picture over industry participants, a list of obstacles and opportunities for Search Funds in the studied region and a specific question to measure the maturity status of ESG in the companies acquired by Search Funds in Latin America.

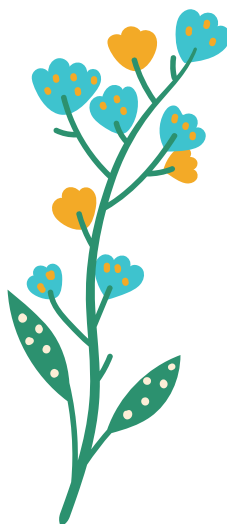
Data from Latin American participants of the Search fund Industry were collected in a number of ways: Searchfunder, LinkedIn, Search Fund WhatsApp groups, internet searches and references by searchers, investors and Search Fund professors in the region. On top of that, the research team managed to gather more than 50 PPMs used in the region from 2015 to 2022 as well as two undergraduate (FGV) and one graduate (Insper) dissertation on Search Funds.

A Qualtrics online questionnaire was then built and applied from November 2021 to February 2022. There, the participants were asked questions regarding relevant demographics, education, Search Fund and acquired business related information. The result of this survey was then compiled in a table hosted in the cloud where data was treated in a complete anonymized way before being analyzed. No member of the research team, except by the academic and executive coordinators had access to individual information on searchers, investors and other participants of the survey.

The data preparation phase was divided into the following steps:

- Data Normalization, where free-text fields from the questionnaire were transformed into processable data. In this phase country and city names for example were normalized in order to correct typos or anything else that can compromise the analysis.
- Feature Engineering, where new variables were created to help the analysis. During this phase dates were converted to ages, so then the analysis can be made with numerical variables instead of dates.
- Feature Selection, where the volume of data is analyzed and the decisions on how to use it were made. This decision took into account the volume of data for a specific variable compared with the entire population so that, if used, this variable could represent the population accordingly.

After this phase we analyzed the data, exploring correlations among them before performing a qualitative analysis to enrich the interpretation and withdrawing useful conclusions for the local and global Search Fund communities.

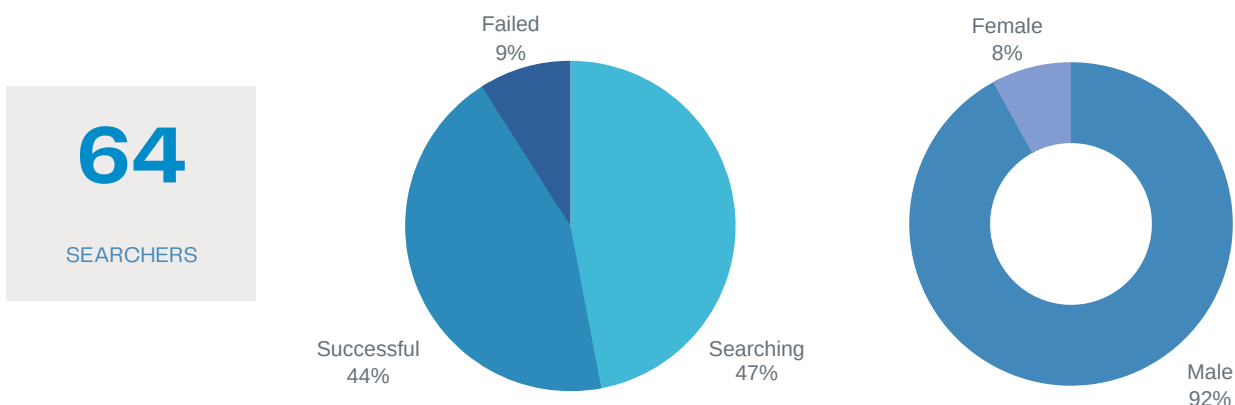


Searchers

The total amount of searchers researched consisted of 64 people in Latin America. The majority of them (more than 90%) were either at the Searching stage (47%) or could already be considered successful searchers (44%), i.e. those who found a company to acquire. A smaller fraction of the searchers surveyed failed (9%), finishing the search without an acquisition.

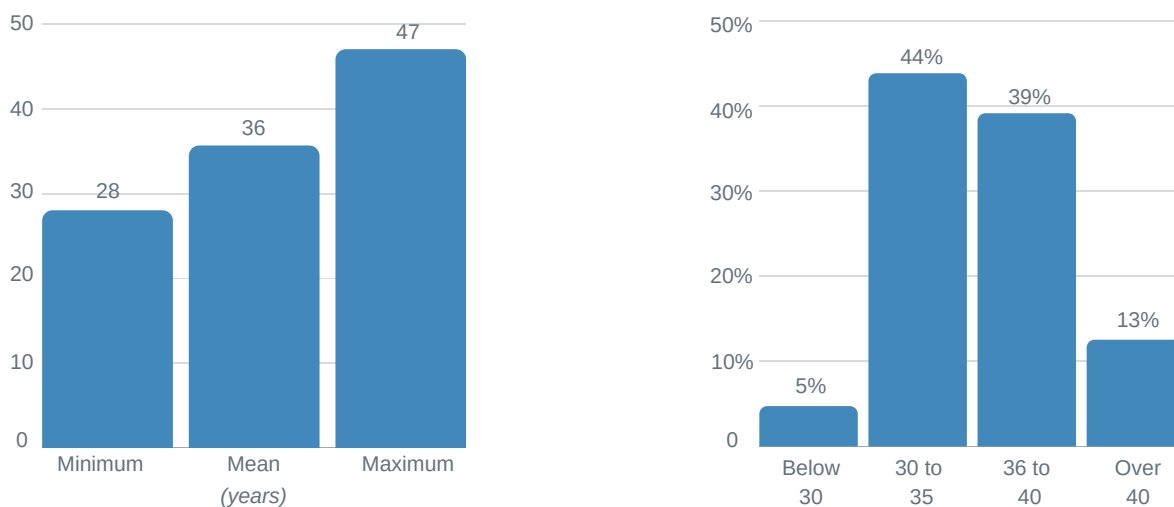
Gender

Searchers in Latin America were by far men (92%) by early 2022. Meanwhile, women represented only 8% of all the searchers surveyed in the region, majorly Brazilians (75%).



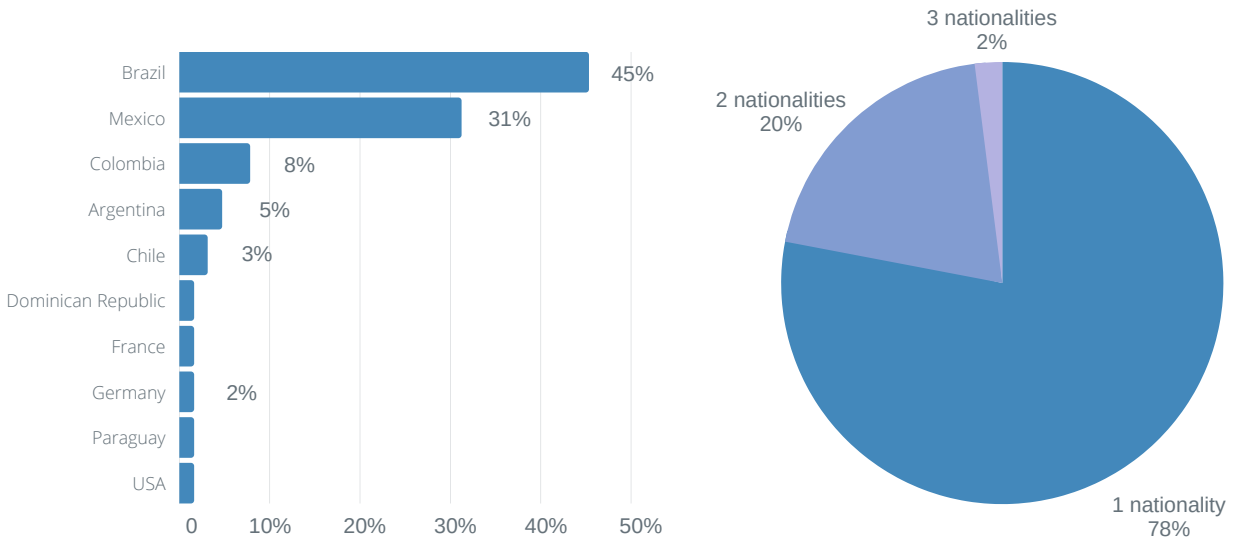
Age

The average age of a typical searcher in Latin America was 36 years old by early 2022. The age distribution ranged from 28 to 47 years old, with a standard deviation of 3.8 years. The majority of the searchers (44%) were between 30 and 35 years old. There is a second large group of searchers that are between 36 and 40 (39%), and smaller groups below 30 (5%) or above 40 (13%) years old.



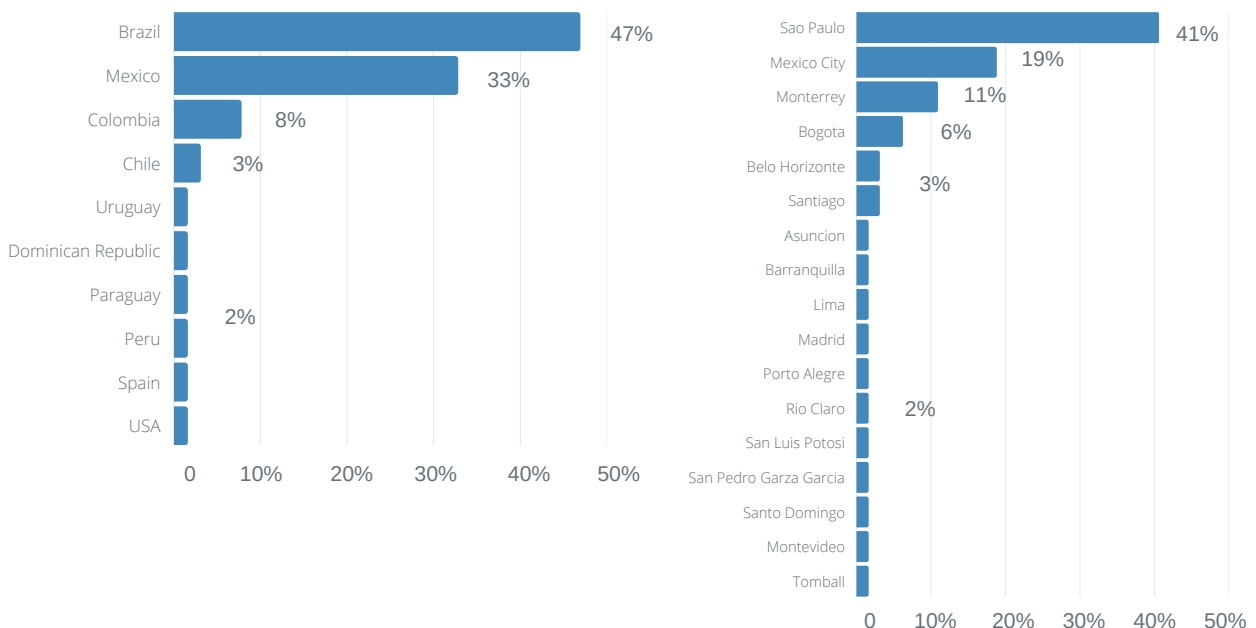
Nationality

Brazil and Mexico were by far the biggest players in Latin America in early 2022. Combined, these two countries had more than 75% of the searchers surveyed. **One out of five searchers had more than one nationality.** These second nationalities are in most part from European countries, mostly from Italy and Spain.



Fiscal Residence

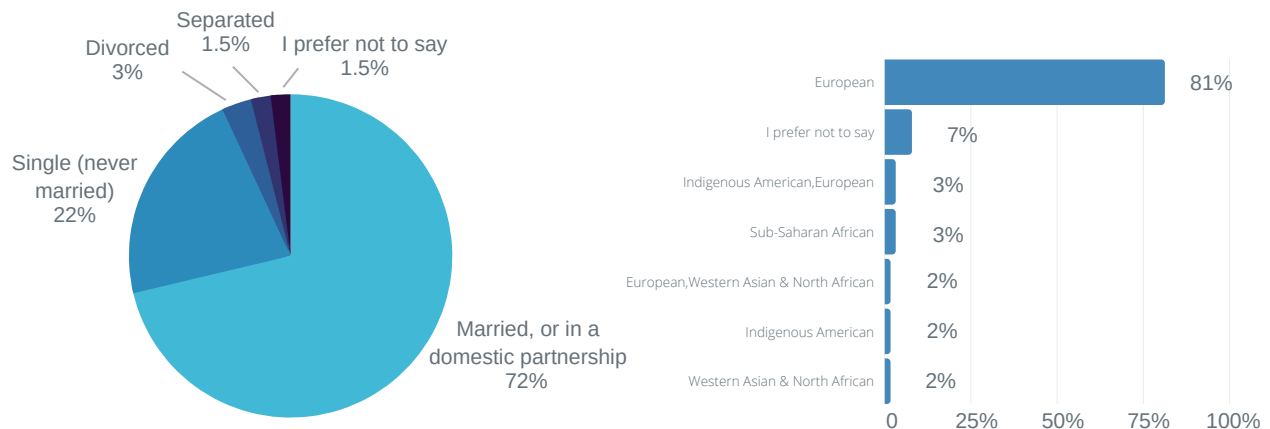
By early 2022, almost 80% of the searchers surveyed had fiscal residence in Brazil or Mexico. Colombia came third with 8% and Chile fourth with 3%. São Paulo was the main city for searchers in Latin America but Mexico City and Monterrey were also very relevant. Combined, these three cities hosted the fiscal residence of more than 70% of all the searchers in the region. In Brazil, Belo Horizonte hosted the second largest fiscal residency for searchers.



Marital Status & Ethnicity

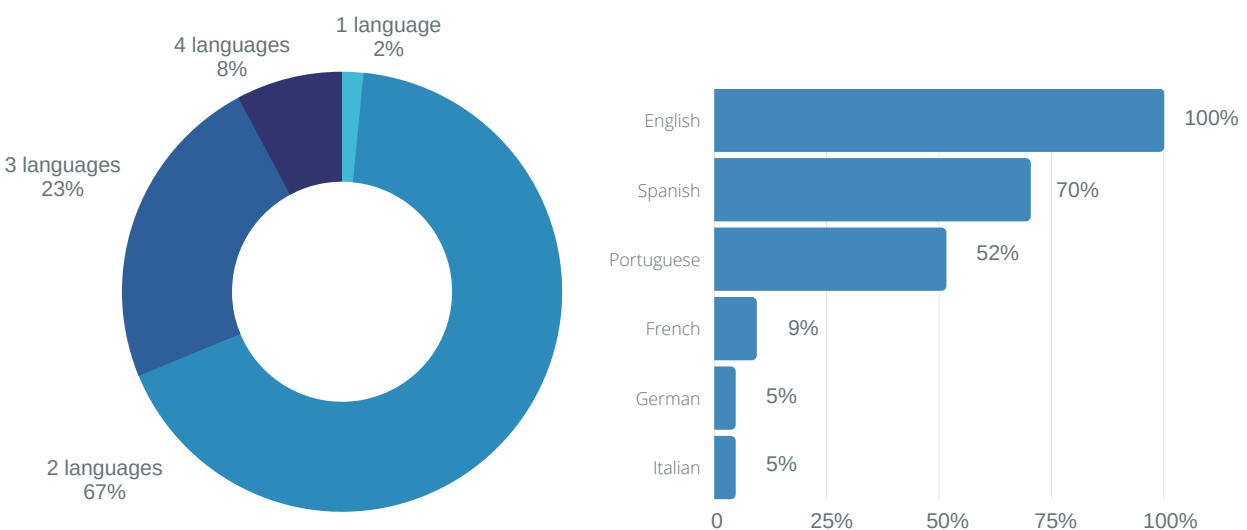
By early 2022, searchers were, in general, married or in a domestic partnership in Latin America (72%). About 22% were single while a small minority was divorced or separated, accounting for less than 5% of the total.

Ethnically speaking, more than 80% of the searchers in the region were of European descent. Other ethnic groups were not very representative, while 7% preferred not to declare their ethnicity.



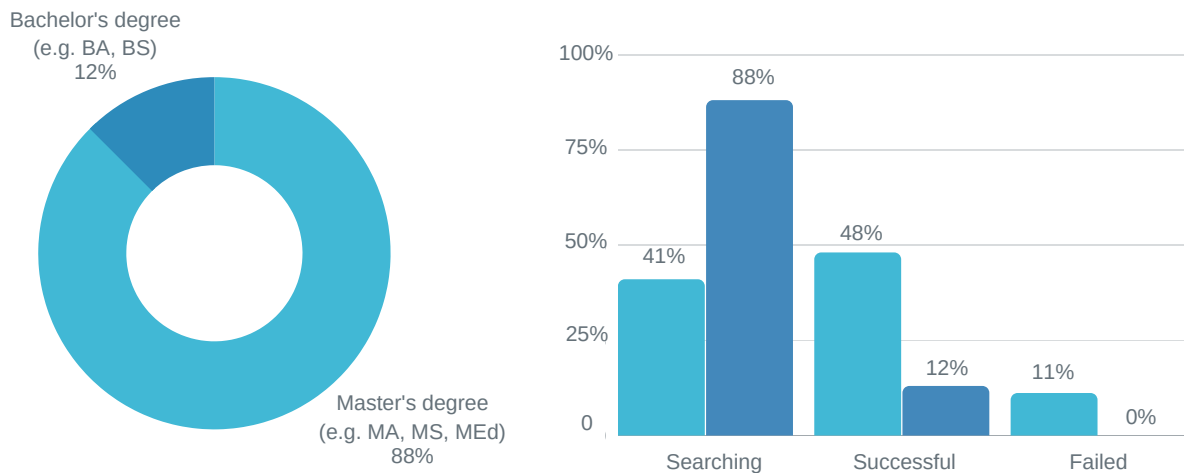
Spoken Languages

A typical searcher in Latin America speaks at least two languages (67% of them). More than 20% speak three or more and only one respondent spoke his or her native language only. English is the “official” language of searchers in the region as searchers can speak English on top of any native language. Spanish and Portuguese are the two next most spoken languages in the region.



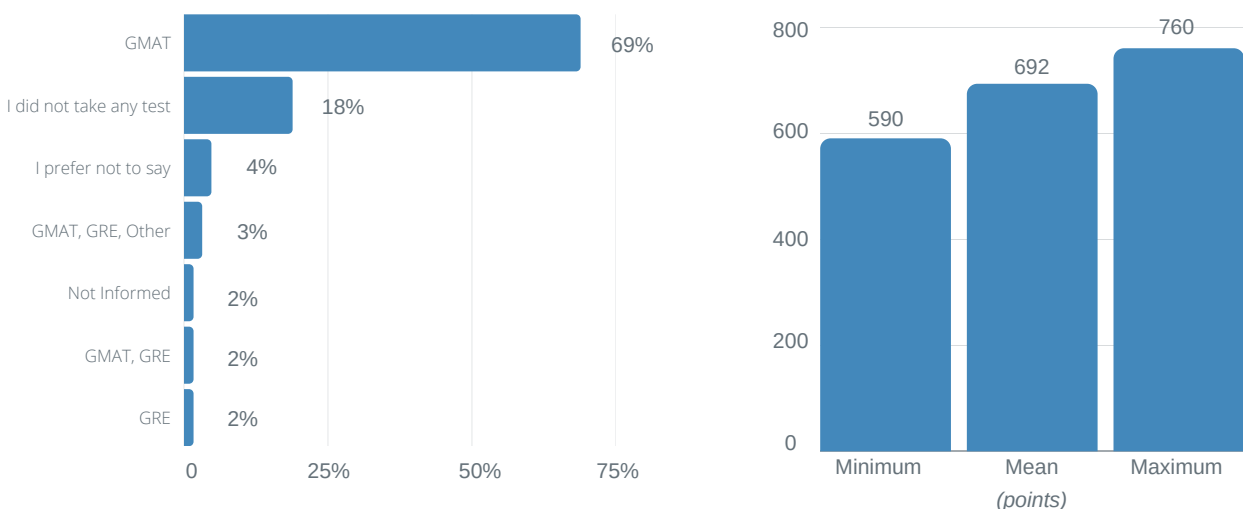
Education Level

Master's degree were almost a rule for searchers in Latin America in early 2022 (88%). Only 12% of the searchers had a Bachelor's degree as their highest degree. When analyzing successful and failed searches specifically, the ones with a Master's degree clearly stood out (48%) comparing the ones without it (12%). Most part of the searchers without a Master's degree (88%) were still in the Searching phase by early 2022.



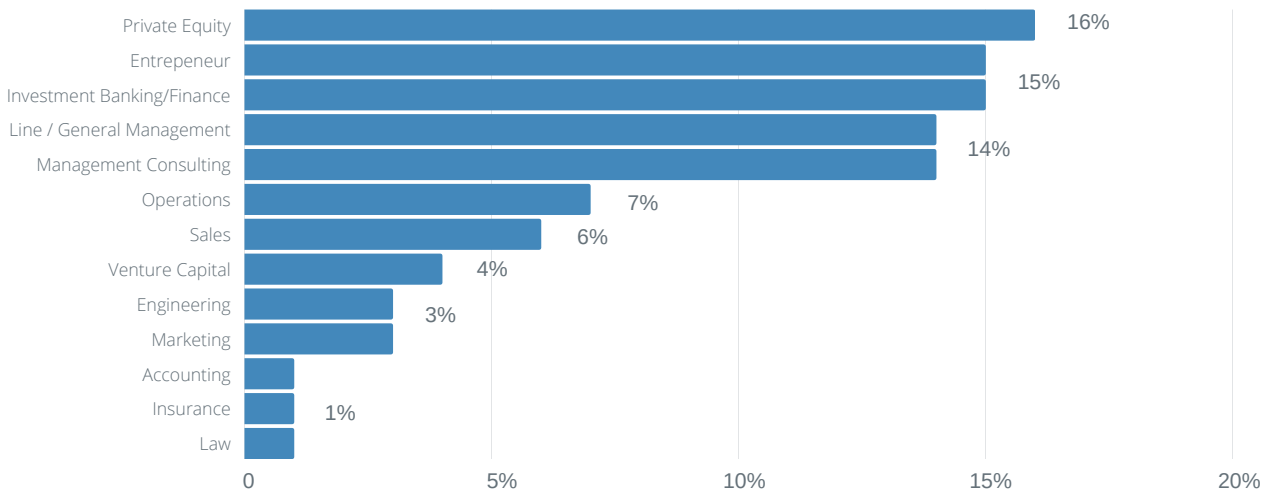
Test Performance

Most searchers in Latin America took a GMAT test at some point (69%). One out of each five of them didn't take any test or preferred not to say (22%). A typical Latin American searcher scored 692 on the GMAT test while the distribution of the grades ranged from 590 to 760.



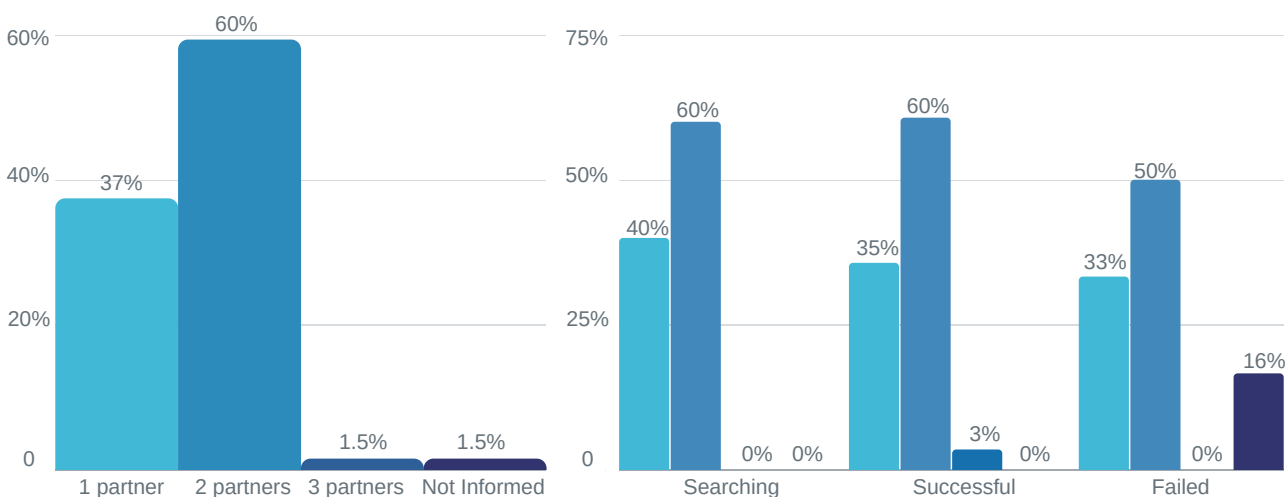
Professional Background

There was not a single clear professional career for searchers in Latin America previous to their Search Fund by early 2022. Most of them, however, came from Private Equity, which accounted for 16% of the total. Entrepreneurship, Finance, General Management and Consulting were the following main backgrounds of searchers in the region, accounting for more than 58% of the total surveyed. When adding Private Equity, these top five professional experiences accounted for almost 3/4 of the total (74%).



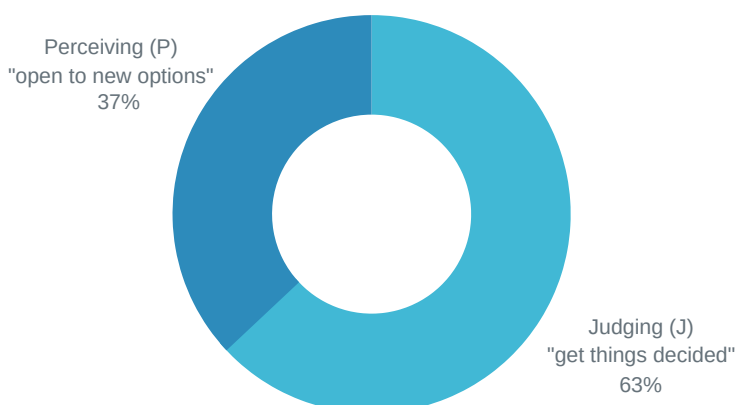
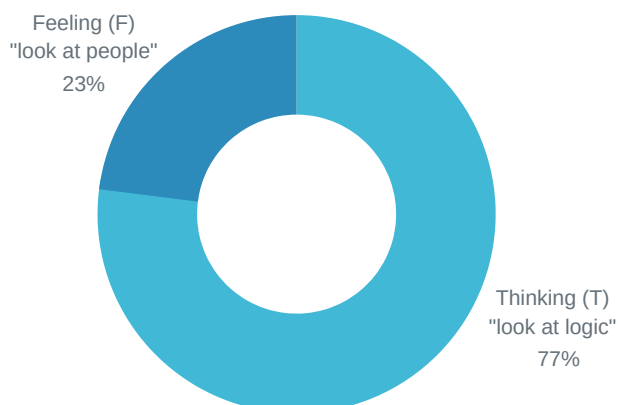
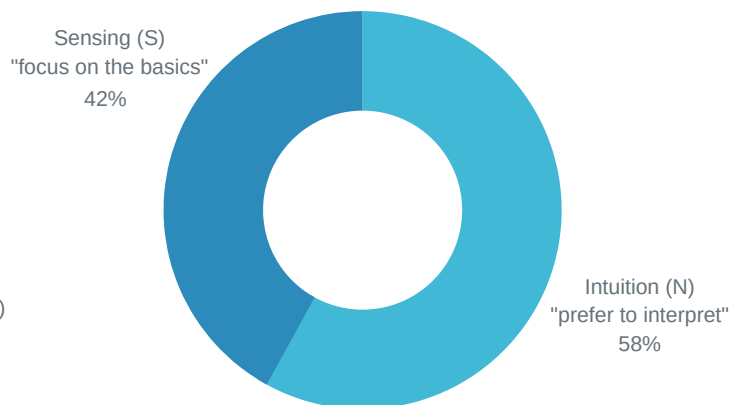
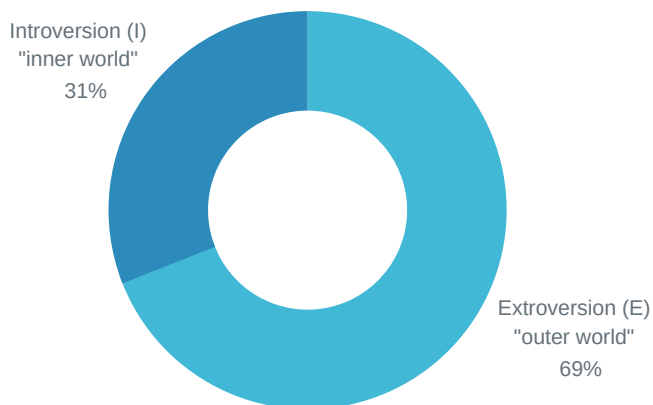
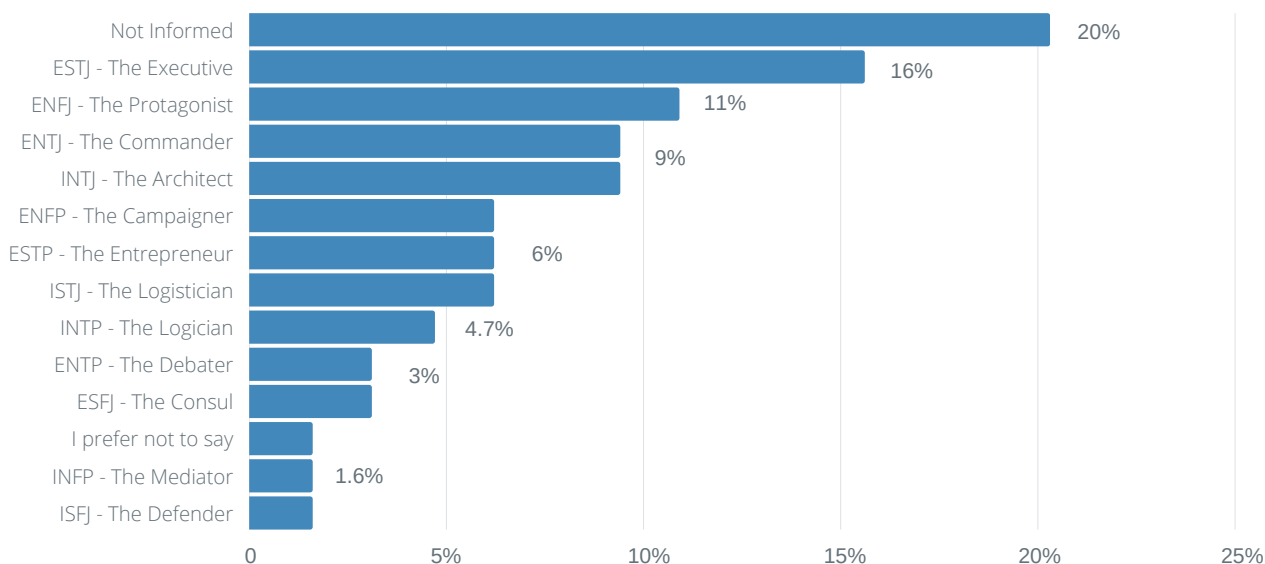
Partners

In Latin America, almost three out of five Search Funds were a two partners fund. by early 2022. Almost the same distribution was observed when comparing searches still in the Search stage with successful ones (those who located and acquired a company in the region).



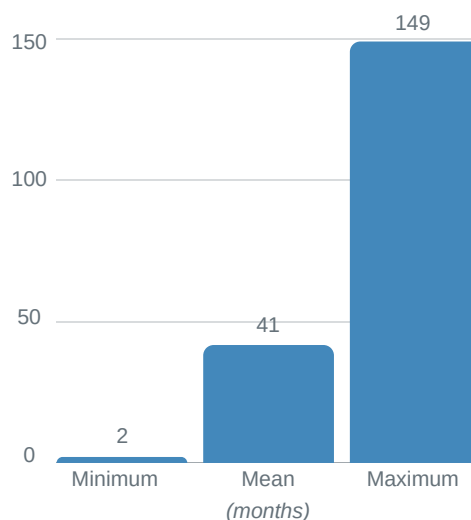
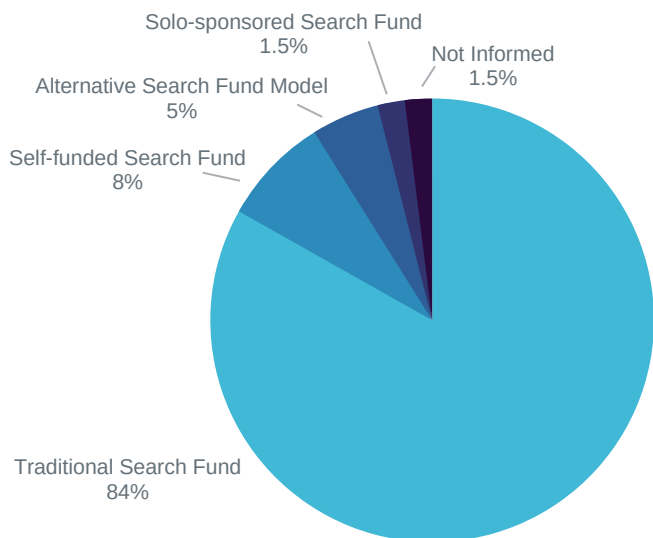
Personality Test (MBTI Myers-Briggs Type Indicator)

Four personality types represented almost half (45%) of all the searchers surveyed in Latin America by early 2022: the ESTJ "executives" representing 16% of all searchers in the region, the ENFJ "protagonists" representing 11% and the ENTJ "commanders" and INTJ "architects" representing 9% each. The extroverted E's ("outer world"), intuitive N's ("prefer to interpret"), thinking T's ("look at logic") and judging J's ("get things decided") stood out as the main combined personality trace of Latin American searchers within the 16 possible personality types of this model.



Types of Funds & PPM Age of the sample

By early 2022, Latin America was about Traditional Search Funds. The majority of the funds in the region were Traditional (84%) while other formats were still not relevant. A typical Search Fund in Latin America had a 41 months PPM age in early 2022 (approximately three years and a half old), varying from 2 to 149 months (approximately 12 years and a half). The PPM age was calculated as the time in months between the date in which the PPM was published and sent to investors and January 31st, 2022.

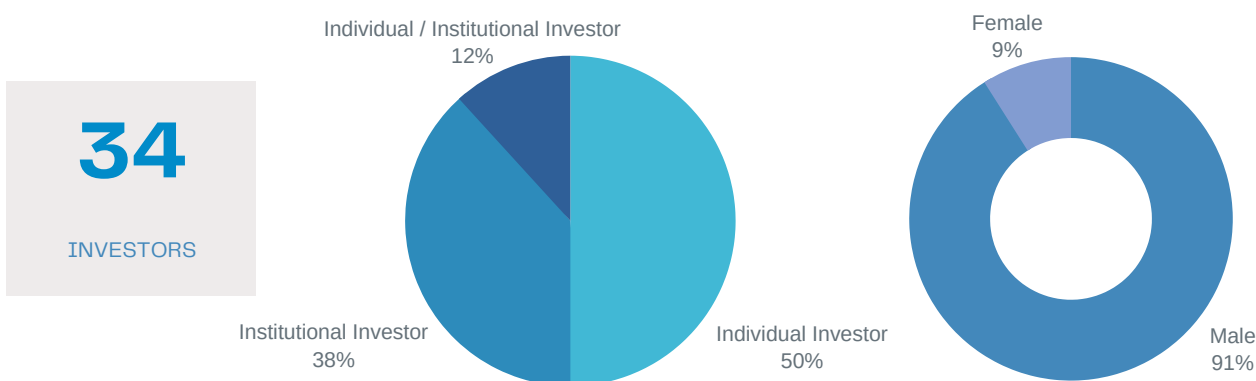


Investors

The group of investors consisted of **34 individuals** investing in Search Funds in Latin America until early 2022. Half of them were Individual investors only, with a small fraction of them playing both roles (Individual and Institutional).

Gender

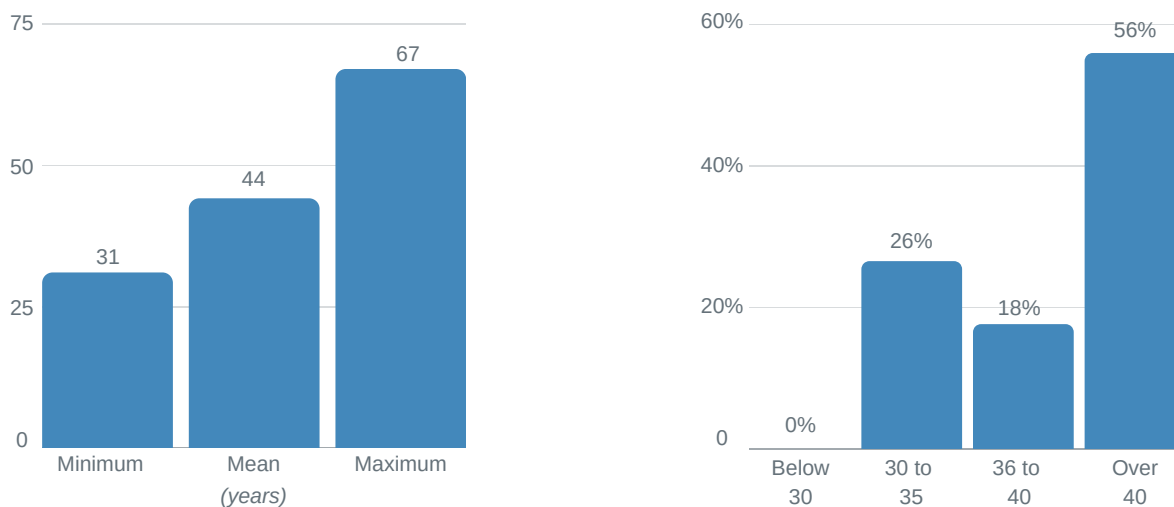
Just like searchers, investors investing in Latin America were also mostly men (91%). Women represented only 9% of the investors surveyed.



Age

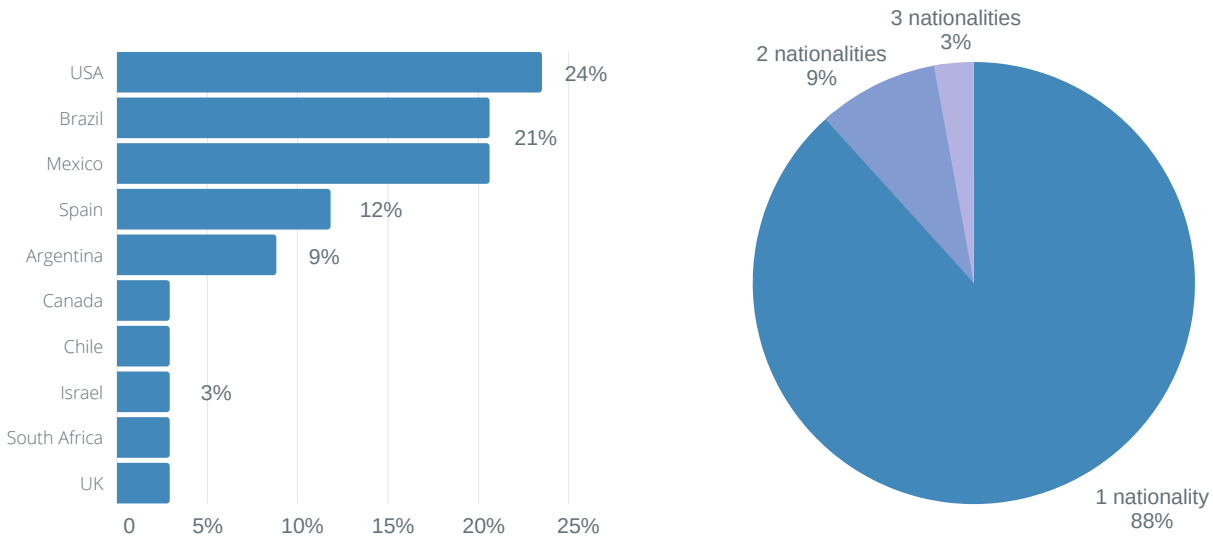
The average age of a typical investor in Latin America was **44 years old**. The age distribution ranged from 31 to 67 years old, with a standard deviation of 10 years.

Investors are generally older than searchers. The majority of them were above 40 years old. There was a second group of investors aging between 30 and 35 (26%), and a minority that were between 36 to 40 years old (18%).



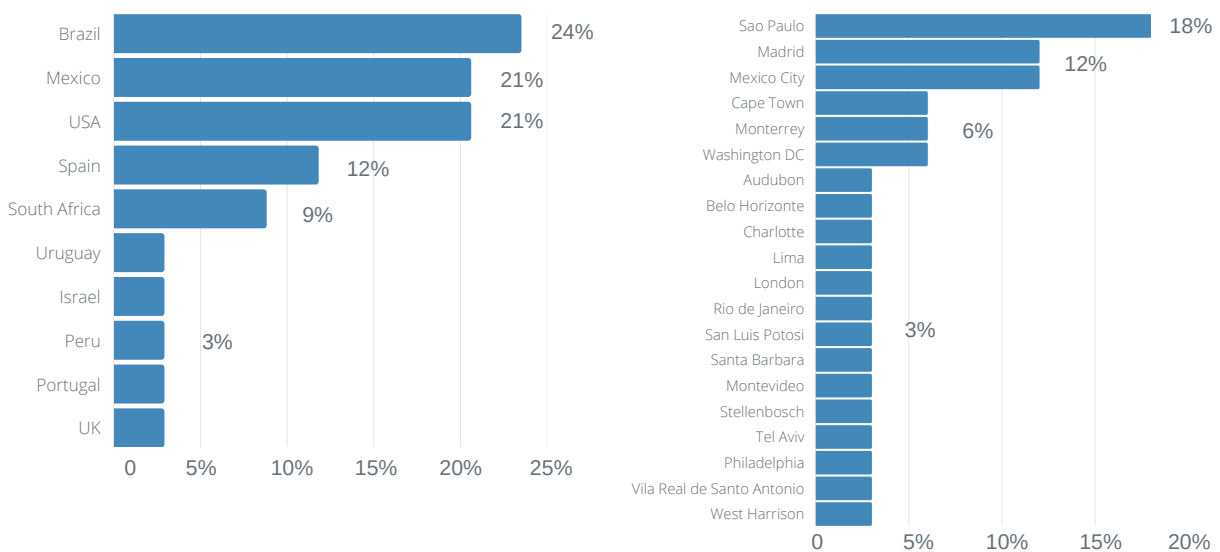
Nationality

Most investors in Latin America were from The United States, Brazil and Mexico. Combined, these three countries had more than 65% of all the investors surveyed. Approximately 88% of the investors had only one nationality. The second nationalities are in most part from European countries, mostly Italy and Spain.



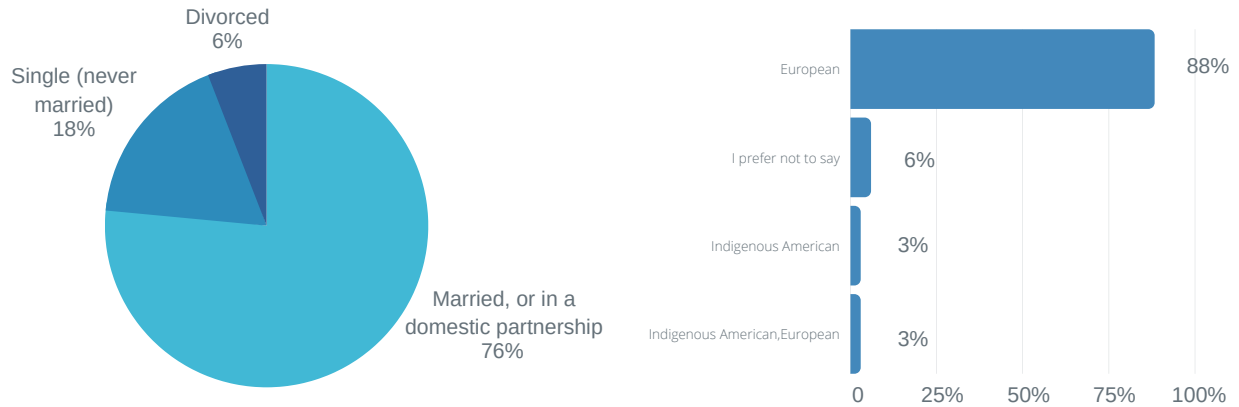
Fiscal Residence

Almost 75% of the investors had fiscal residence in the United States, Brazil or Mexico. Spain was the fourth, with 12% while all others had less than 2% each. São Paulo was also the city with most investors in Latin America, although Madrid (Spain) and Mexico City were also relevant.



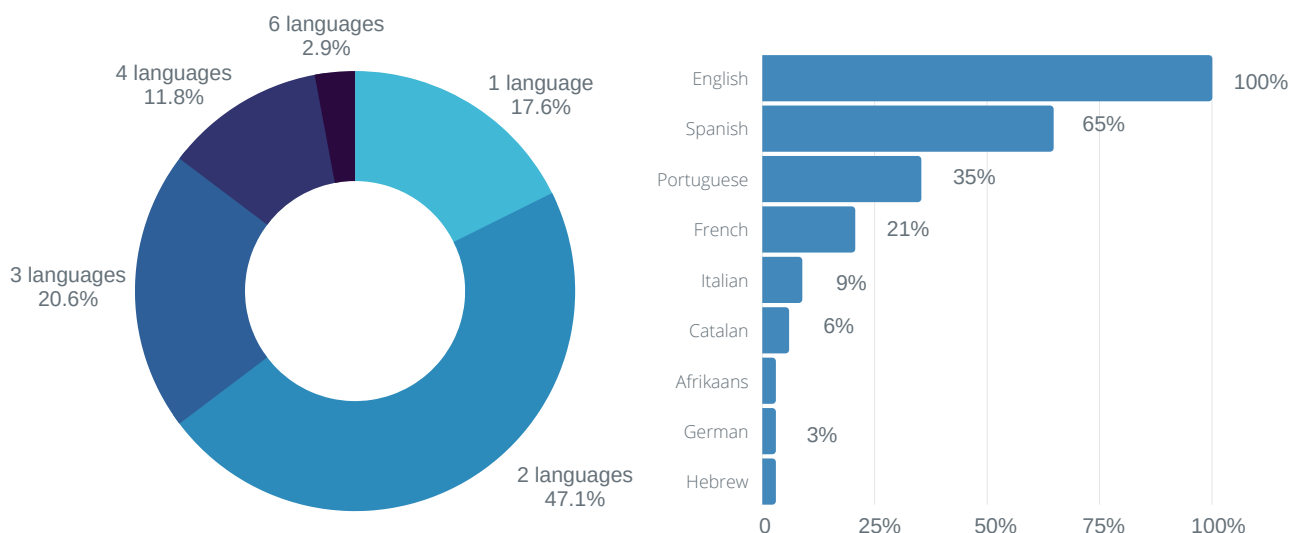
Marital Status & Ethnicity

Likewise searchers, investors were in general married or in a domestic partnership (76%). Approximately 18% were single, while a minority was divorced, accounting for less than 6% of the total. Almost 90% of the investors were of European descent. Other groups were not very representative, with 6% preferring not to say.



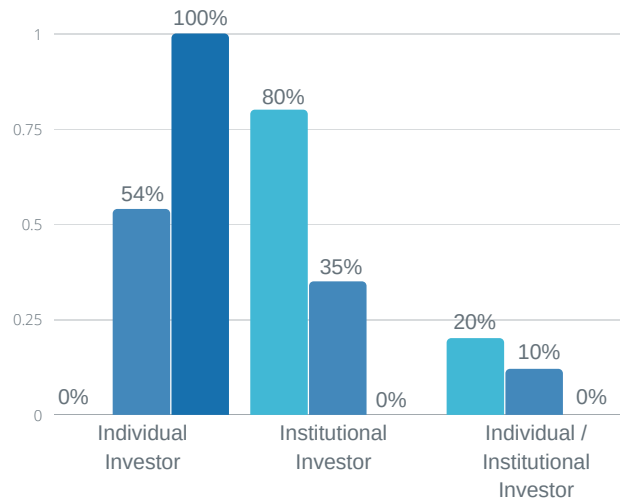
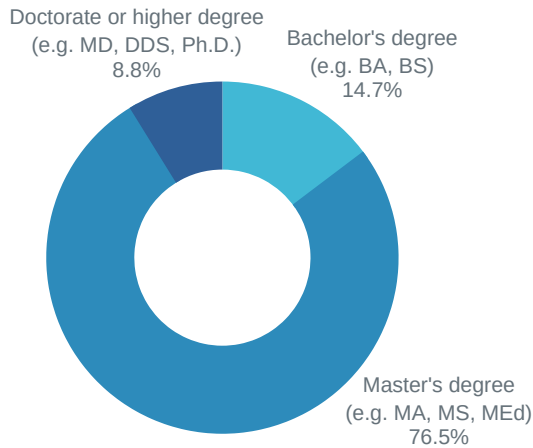
Spoken Languages

The Majority of the investors investing in Search Fund in Latin America spoke at least two languages (47%). English is the “official” language of investors. All investors can speak English besides their native language. Spanish and Portuguese were also relevant.



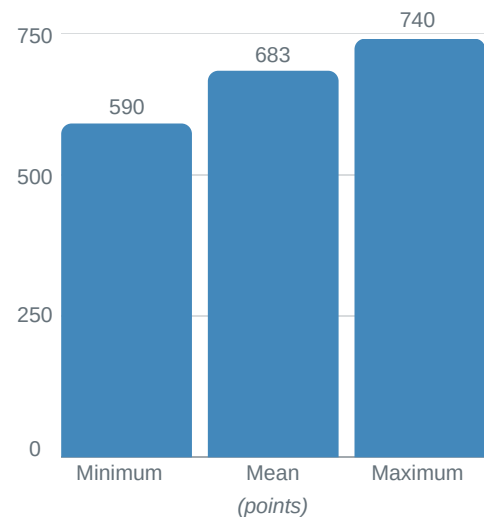
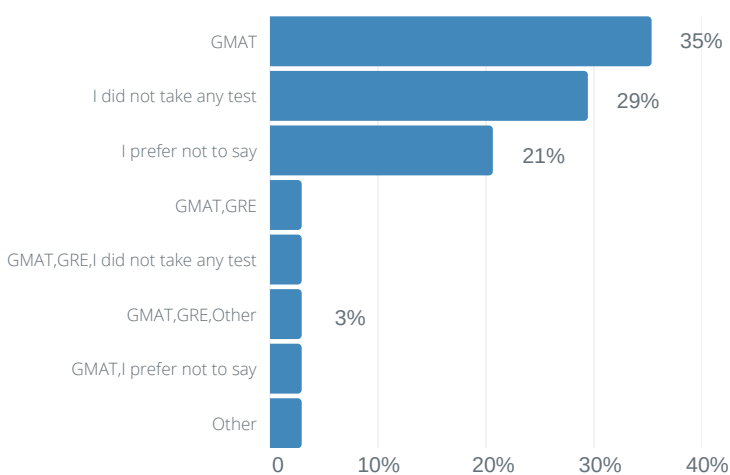
Education Level

The majority of investors investing in Latin America until early 2022 had a **Master's degree (76.5%)**. Almost 9% had a PhD (100% of the PhDs were Individual investors). Individual investors tended to have achieved higher degrees.



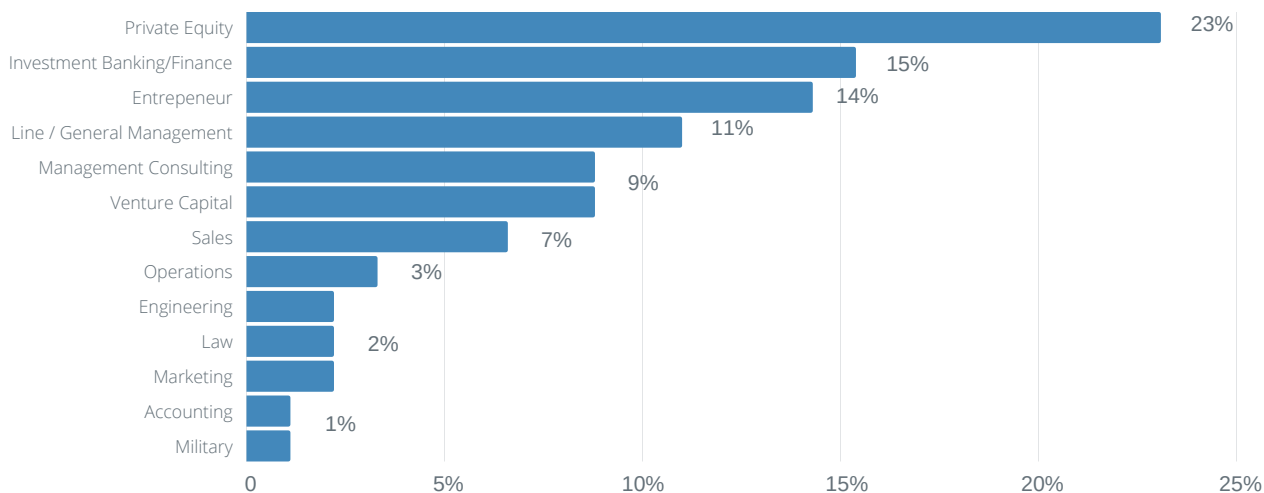
Test Performance

Half of the investors (50%) didn't take any formal education test or preferred not to say. The ones who did, usually took the GMAT. The investors who took the GMAT scored, on average, 683 on the test. The grades distribution ranges from 590 to 740, with a standard deviation of 47 points.



Professional Background

There was a single clear professional career experience for investors in Latin America by early 2022: Private Equity. Private Equity accounted for 23% of the total professional background of the sample. Finance, Entrepreneurship, General Management, Consulting and Venture Capital were the following main backgrounds of investors in the region, accounting for another 58% of the total surveyed. When adding Private Equity, these top six professional experiences accounted for more than 80% of the professional background of investors in the region.



Analysis

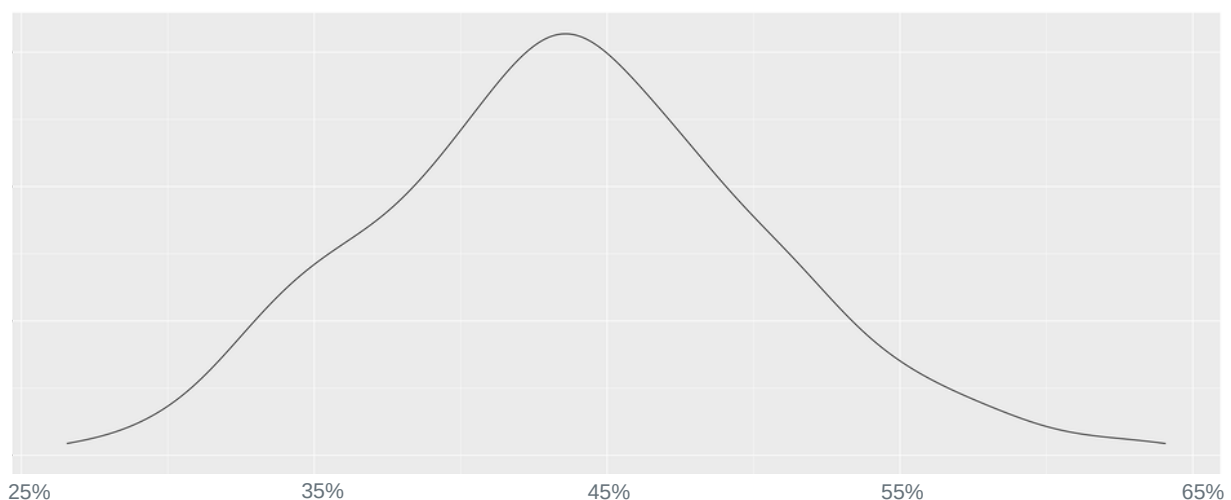
In this chapter the Research Team analyzed the data from the Searchers' sample. We started by classifying searchers between **"Successful"** and **"Non-Successful"**, with **"Successful" at this moment of the industry in the region meaning "locating and acquiring a company"** (we still don't have enough Exits in the region to test successful financial returns based on statistical findings). Then, based on the distributions, we estimated what was the true proportion of successful searchers in Latin America. To achieve that, a bootstrap statistical method was performed with 500 draws, followed by a calculation of the confidence interval at the 95% level, meaning we are 95% sure that the results represent the true population.

Then, we analyzed selected variables and tested their statistical effect on the final outcome (Searcher Successful Vs Non-Successful), by performing statistical hypothesis test, where we tried to confirm if the effect seen at the sample holds also for the entire population. The null hypothesis is always that the variables are **independent**, meaning there is no effect of that specific variable in the outcome. If the hypothesis is rejected, then we quantify the effect.

We are 95% confident that the true proportion of Successful Searchers is between 30% and 56% in Latin America. **The sample shows that 44% are successful, while the rest is either still searching or simply failed.**

95%

Confidence Interval



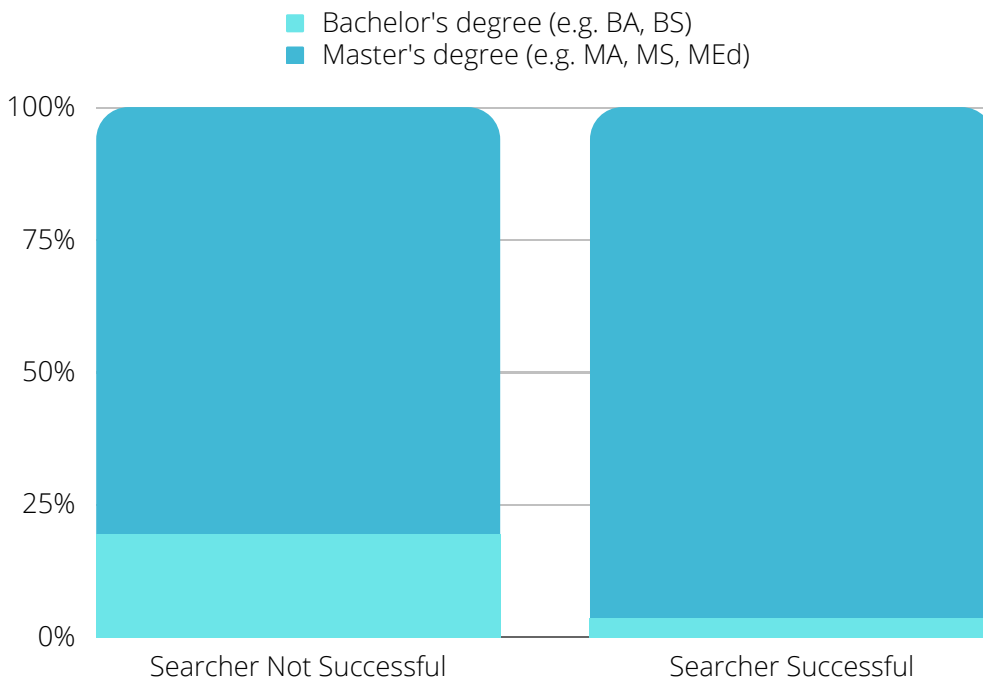
Searcher Successful vs Education

There is no evidence that having an MBA or a Master's Degree guarantees success for a searcher in Latin America.

Even though the proportion of Successful searchers with Master's is greater than in the Non-Successful searchers, in the sample (96% Vs 81%), there is no statistical evidence of dependency between the variables, meaning we can't reject the independence hypothesis.

0.12

Chi Square P-Value

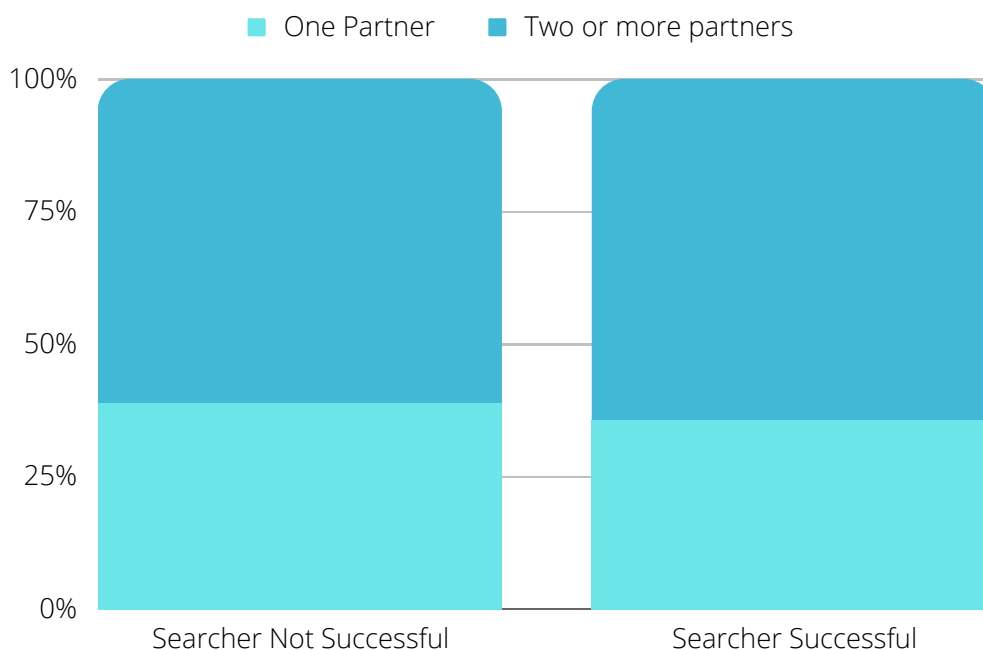


Searcher Successful vs Number of Partners

There is no evidence that the number of searching partners guarantees success for a searcher in Latin America.

The proportion of Search Funds with one or two searching partners is very close in both successful and non-successful cases (36% Vs 39% funds with only one search partner). As a consequence, there is no statistical evidence of dependency between the variables, meaning we can't reject the independence hypothesis.

1
Chi Square P-Value



Searcher Successful vs MTBI

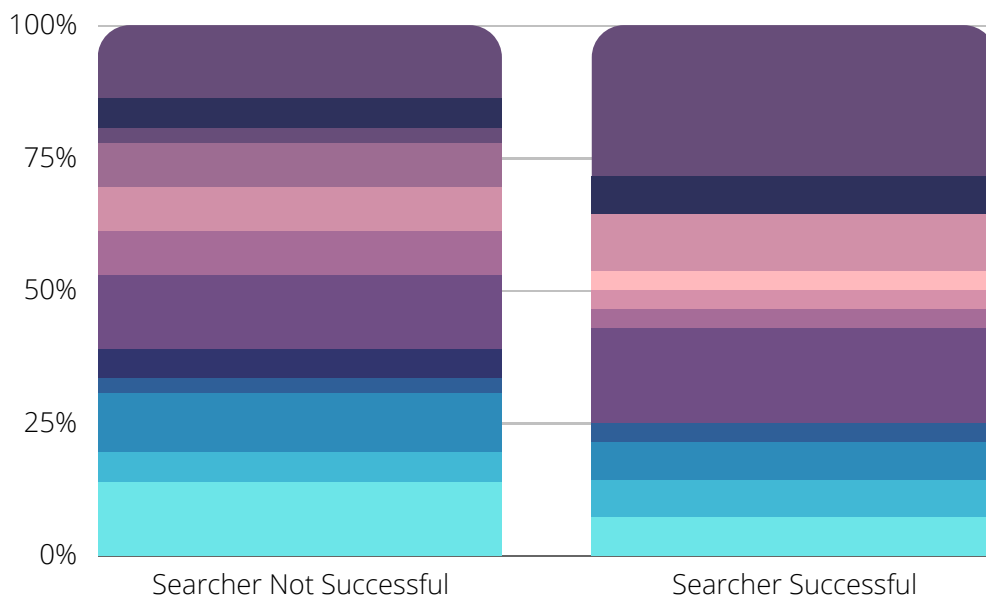
There is no evidence that Searcher's Personality guarantees success for a searcher in Latin America.

Even though the proportion of Successful searchers with "The Executive" personality is greater than in the Non-Successful searchers (17% Vs 14%), there is no statistical evidence of dependency between the variables, meaning we can't reject the independence hypothesis.

0.63

Chi Square P-Value

- ENFJ - The Protagonist
- ENTJ - The Commander
- ESFJ - The Consul
- ESTP - The Entrepreneur
- INFP - The Mediator
- INTP - The Logician
- ISTJ - The Logistician
- ENFP - The Campaigner
- ENTP - The Debater
- ESTJ - The Executive
- I prefer not to say
- INTJ - The Architect
- ISFJ - The Defender
- Not Informed



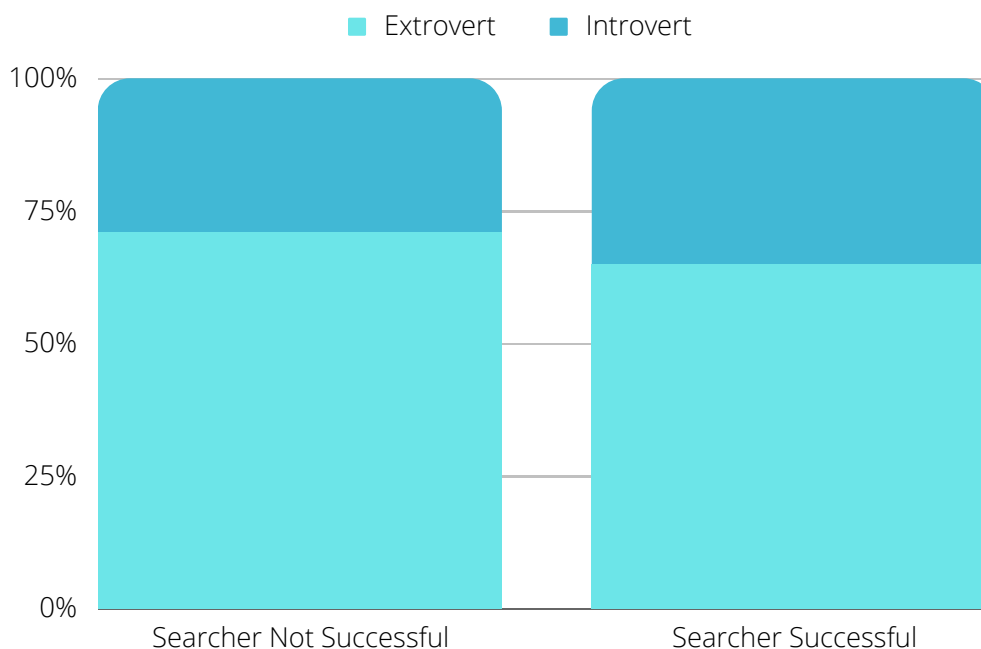
Searcher Successful vs Extrovert/Introvert

There is no evidence that Searcher's Personality guarantees success for a searcher in Latin America.

Even though the proportion of Introverted people among Successful searchers is greater than in the Non-Successful searchers (35% Vs 29%), there is no statistical evidence of dependency between the variables, meaning we can't reject the independence hypothesis.

1

Chi Square P-Value



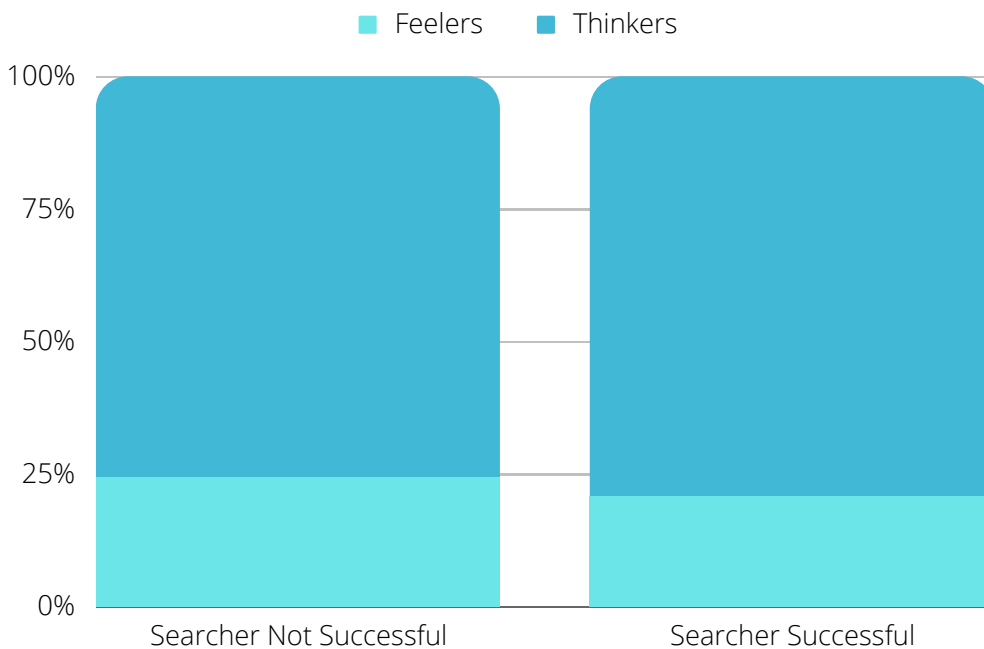
Searcher Successful vs Thinker/Feeler

There is no evidence that Searcher's Personality guarantees success for a searcher in Latin America.

Even though the proportion of Thinker people among Successful searchers is slightly greater than in the Non-Successful searchers (79% Vs 76%), there is no statistical evidence of dependency between the variables, meaning we can't reject the independence hypothesis.

1

Chi Square P-Value

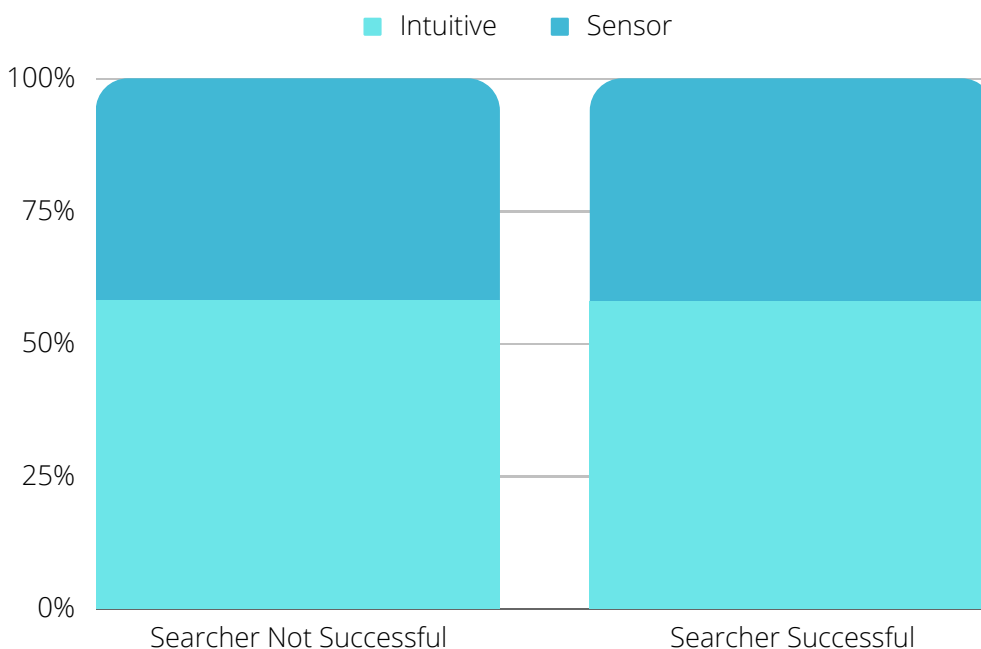


Searcher Successful vs Sensor/Intuitive

There is no evidence that Searcher's Personality guarantees success for a searcher in Latin America.

The proportion of Intuitive and Sensor personalities is the same among Successful and not successful searchers (58% Vs 58%), there is no statistical evidence of dependency between the variables, meaning we can't reject the independence hypothesis.

1
Chi Square P-Value

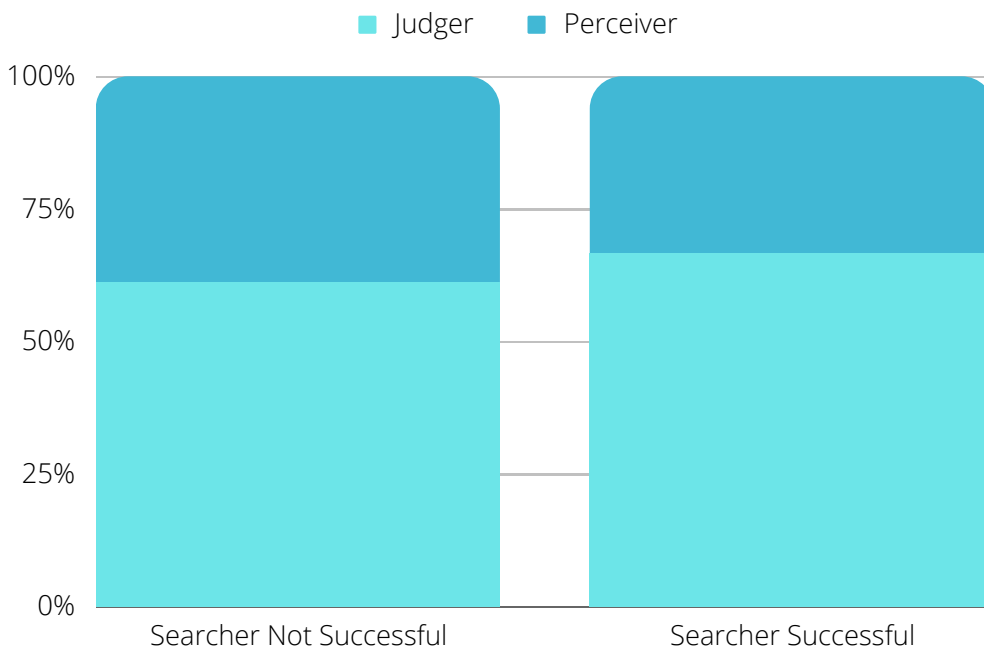


Searcher Successful vs Perceiver/Judger

There is no evidence that Searcher's Personality guarantees success for a searcher in Latin America.

Even though the proportion of Judger people among Successful searchers is slightly greater than in the Non Successful searchers (67% Vs 61%), there is no statistical evidence of dependency between the variables, meaning we can't reject the independence hypothesis.

1
Chi Square P-Value



Searcher Successful vs Age

Eureka! There is a true relationship between age and Successful searchers in Latin America! For the studied sample, the average age for successful searchers is 37 years old and equally distributed, while for non-successful ones is 35 and more widely distributed.

By performing an analysis of variance test (Anova) we concluded that there is enough evidence of the statistical effect of **age** in the final outcome for success in Latin America. That being said, all things kept equal, for every **extra year of age** of a searcher in Latin America, the odds of him or her becoming successful in locating and acquiring a company increase by 1.2 percentile points for every year above 36 years old (the average age of searchers in Latin America).

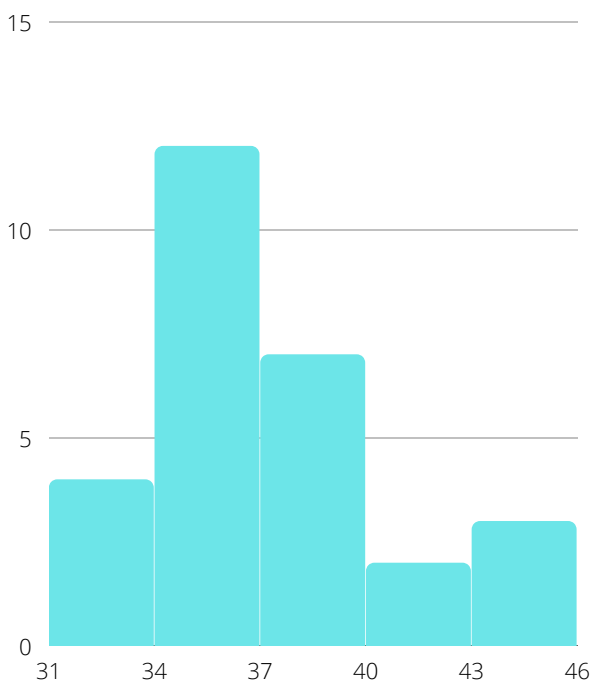
For example, in a hypothetical scenario where 2 searchers, one 32 and the other 40 years old, having the exact same attributes and the only thing that differs between them is the age (8 years old of difference), the probability of being successful for them would be:

Probability success 32 Years = Probability + (1.2% * (Searcher Age - Avg Age) * Probability)
Probability success 32 Years = 44% + (1.2% * (32-36) * 44%)
Probability success 32 Years = 42% (41.88%)

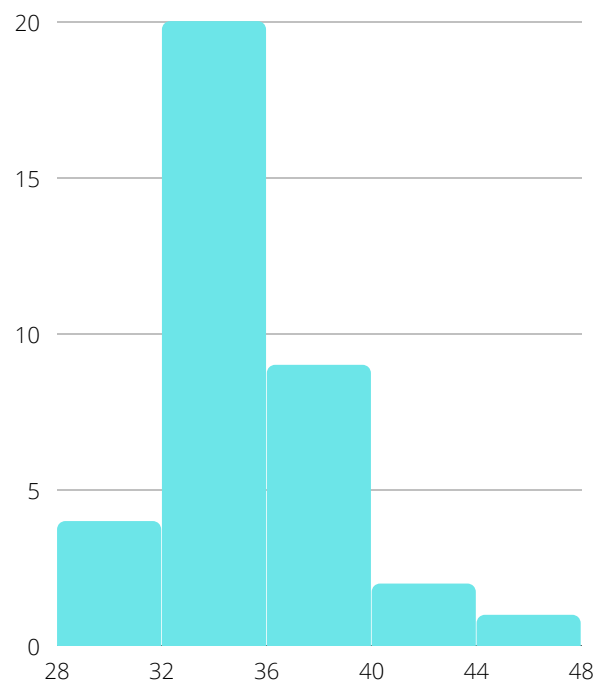
Probability success 40 Years = Probability + (1.2% * (Searcher Age - Avg Age) * Probability)
Probability success 40 Years = 44% + (1.2% * (40-36) * 44%)
Probability success 40 Years = 46% (46.11%)

0.01
 Anova p-value

Searcher Successful



Searcher Non-Successful



Searcher Successful vs GMAT

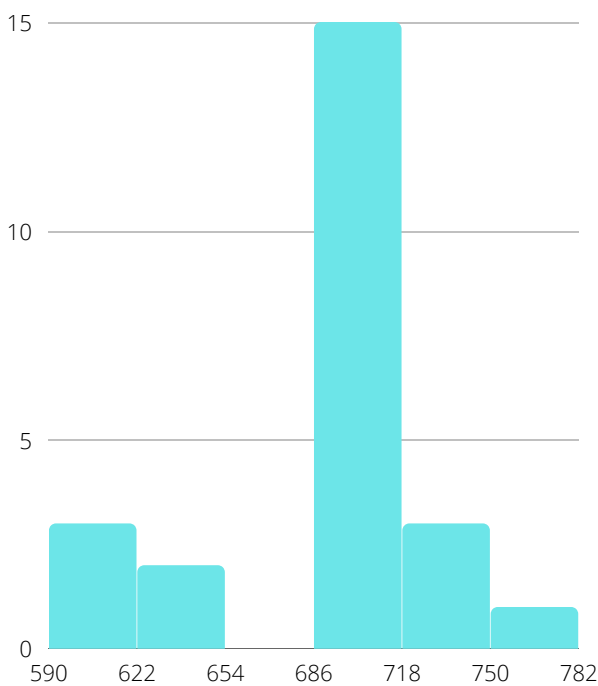
There is no evidence that GMAT grades guarantees success for a searcher in Latin America.

Even though the average GMAT grade for Successful searchers is slightly lower than for Non-Successful searchers (690 Vs 696) in the sample, there is no statistical evidence of dependency between the variables, meaning we can't reject the independence hypothesis.

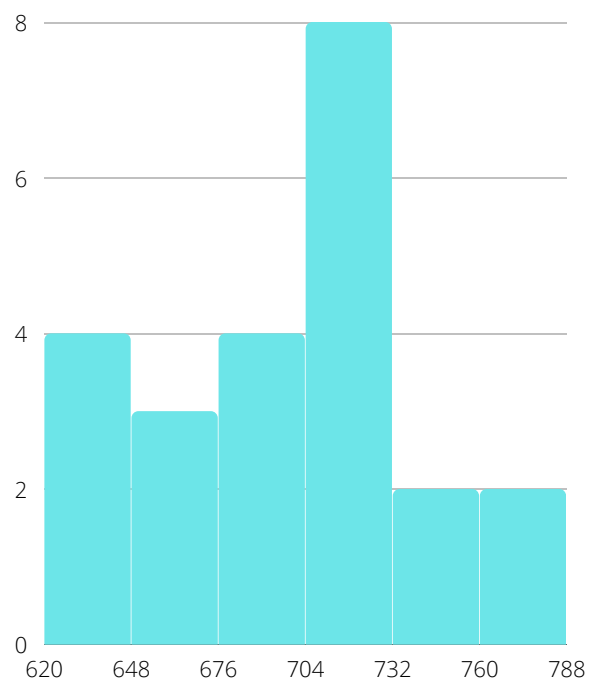
0.62

Anova p-value

Searcher Successful



Searcher Non-Successful



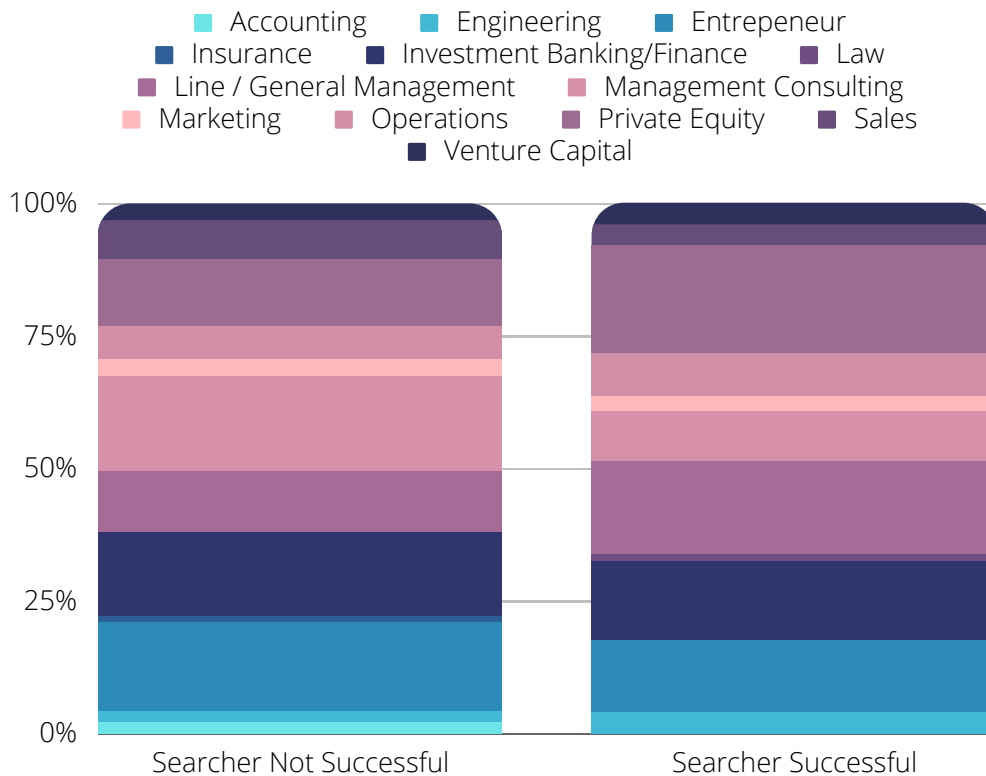
Searcher Successful vs Professional Background

There is no evidence that Searcher's Professional Background guarantees success for a searcher in Latin America.

There is no clear pattern for a leading Professional Background in the sample for both cases (Successful vs Non-Successful), therefore there is no statistical evidence of dependency between the variables, meaning we can't reject the independence hypothesis.

0.99

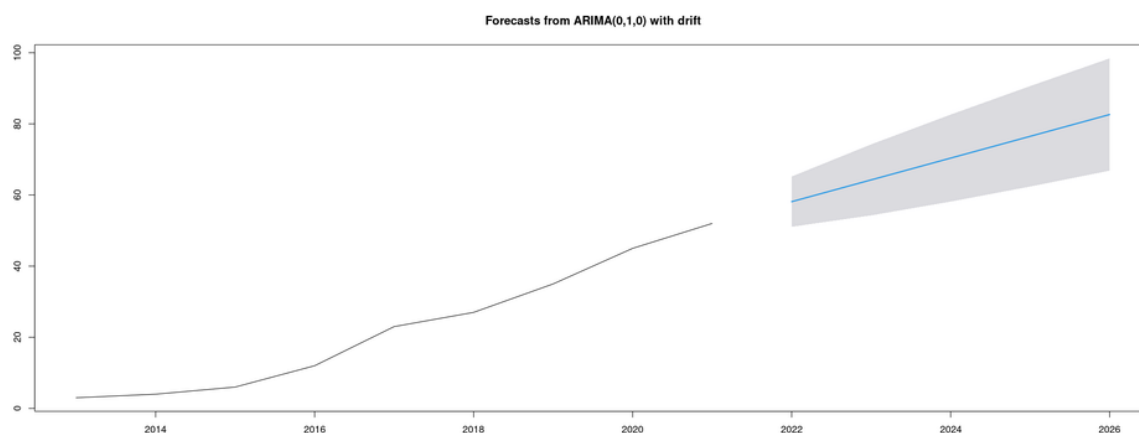
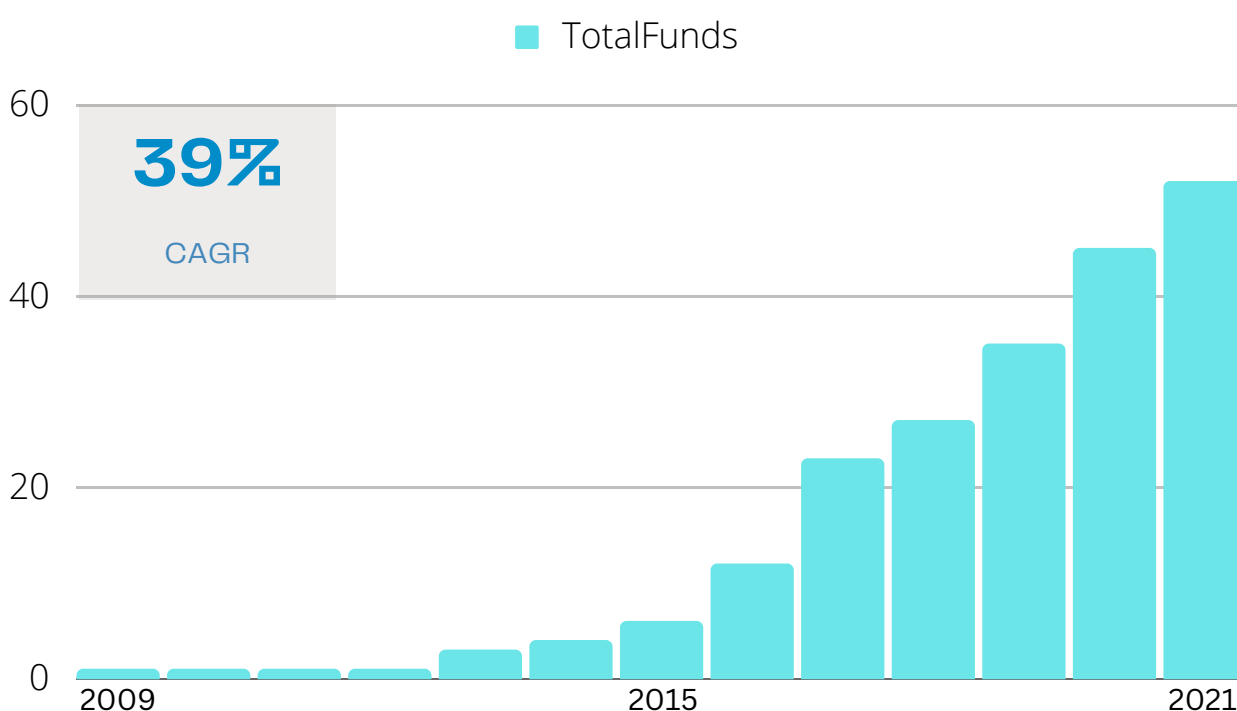
Chi Square P-Value



Search Fund Industry Aggregated Growth and Forecast

The Search Fund Industry grows at a fast pace in Latin America. The Search Fund Industry has been growing impressively in the last 11 years in Latin America, with room for more growth. The industry had a compound aggregated growth rate (CAGR) of 39% a year from 2009 to 2021.

This study forecasts that the number of Search Funds in Latin America will continue growing in a fast pace and has **95% confidence** that by **2026** the market will grow at least another **56%** in the period from 2022 to 2026, including both years (see second table).



Conclusions

These were the research questions that guided this study:

- What's the profile of searchers and investors in Latin America?
- What kind of searchers were more successful in locating and acquiring a company in the region? How did they differ from non-successful ones?
- What's the expected growth of the traditional Search Fund industry in Latin America? What are the main obstacles and opportunities for Search Funds in the region?
- What's the maturity status of ESG policies, processes and systems in place in the companies acquired by Search Funds in Latin America?
- Can traditional PPM's based in North American standards be improved for Latin America? How different should they be to add more value to Search Fund investors?

Conclusions were withdrawn from a number of sources including the applied survey, the PPMs that were revised, the undergrad and grad dissertations of researchers and unstructured interviews with key players of the industry.

Profile of searchers and investors

By early 2022, the vast majority of searchers and investors in Latin America were men (92% and 91% respectively). On average, searchers were 36 years old while investors were 44 years old. Mexicans and Brazilians were the most represented nationalities among searchers (75% of all) while Americans, Brazilians and Mexicans accounted for the most represented nationalities among investors (65% of all). Approximately 37% of Search Funds were single partnered while 60% were dual-partnered in Latin America.

Most searchers and investors were married or in a domestic partnership (72% and 76% respectively). Ethnically, 81% of searchers were of European descent while 88% of investors were of European descent. English was spoken by 100% of both searchers and investors; 98% of searchers spoke 2 to 4 languages; 82% of investors spoke 2 to 6 languages. Individual investors worked with teams of 1 to 2 partners, while institutional investors worked in teams of 2 to 4 partners, with 75% of them having started investing in Search Funds from 2017 or later.

In terms of education level and test performance, 88% of searchers in Latin America had an MBA or Master's degree, with an average GMAT of 692. Similarly, 85% of investors had an MBA, Master's or PhD degree, with an average GMAT of 683. Diversity in terms of professional background was greater within searchers; 74% of them had professional background in Private Equity (16%), Entrepreneurship (15%), Finance (15%), General Management (14%) or Management Consulting (14%). Within investors, Private Equity accounted for 23% of the total professional background of the sample, followed by Investment Banking or Finance (15%) and Entrepreneurship (14%).

To improve our understanding about the personality profiles of searchers in the region, this study obtained the MBTI (Myers-Briggs Type Indicator) test results of most searchers surveyed. The ENTJ "commander" profile, i.e. extroverted E's ("outer world"), intuitive N's ("prefer to interpret"), thinking T's ("look at logic") and judging J's ("get things decided") stood out as the main combined personality trait of Latin American searchers within the 16 possible personality types of this model. Curiously, only four personality types represented almost half (45%) of all the searchers surveyed in Latin America by early 2022: the ESTJ "executives" representing 16% of all searchers in the region, the ENFJ "protagonists" representing 11%, with ENTJ "commanders" and INTJ "architects" representing 9% each.

Successful search vs non-successful

Unfortunately, we don't have enough exits to date to statistically correlate success in terms of financial, social or environmental achievements at the end of the Search Fund cycle in Latin America. However, we could use our sample to compare those who successfully located and acquired a company versus those who didn't or were still searching for a company to acquire. Using this definition of success, we can deduct that, by early 2022, 44% of all searchers in Latin America locate and acquire a company in the region, while 66% didn't manage to find a company to acquire or are still searching.

In general, most correlations did not show scientific evidence to prove that a specific type of Search Fund (single or dual) or profile aspect like education, professional background, MBTI or GMAT could affect the success rate in locating and acquiring a company in Latin America. However, if there was one scientific finding that excited the research team when running the statistics, it was the fact that a searcher's age did correlate with the chance of a searcher locating and acquiring a company in the region: this probability was proven to increase with the searcher's age. Successful searchers were 37 years old or older while non-successful searchers were 35 years old or younger.

The Industry

The Search Fund Industry grows at a fast pace in Latin America, with room for more growth. The industry had a compound aggregated growth rate (CAGR) of 39% a year from 2009 to 2021. Based on statistical evidence, this study forecasts that the number of Search Funds in Latin America will continue growing at a fast pace and has 95% confidence that by 2026 the market will grow at least another 56% from 2022 to 2026.

This growth might depend on the exits to come and the valuation of companies owned by Search Funds. Regular exits are still something to be seen and studied in the coming years in Latin America. According to IESE's 2022 International Search Fund Study, only 8 exits were registered in the region so far: 6 in Mexico, one (arguable) in Brazil and one in Chile.

Bureaucracy and red tape, Lack of access to local capital and Exchange rate volatility were the three most cited obstacles, while Long term market growth, Room for increase in productivity and Room for copying solutions from other markets were the three most cited opportunities for creating value in companies acquired by Search Funds in Latin America.

Curiously, for a traditional Search Fund practice, by far, most of the acquisitions, estimated in between 75% and 90%, took place via brokers in Latin America, showing that searchers are actually "searching" companies that are already for sale in the region. Rarely, so far, searchers provoked the desire to sell in business owners, within the term of their search.

ESG

Sustainable development is becoming a relevant topic in Private Equity investments. Due to its potential to address environmental, social and governance (ESG) aspects of companies, especially Small and Medium Enterprises (SMEs) operating in Emerging Economies, the research team decided to include a question related to it in the study.

The overall maturity status of existing Environmental, Social, and Corporate Governance (ESG) policies, processes and systems in place in the companies acquired by Search Funds were measured in surveys to Search Fund CEOs, board members, formal and informal advisors, brokers and sellers. Surprisingly, less than 5% (only one respondent) answered to have witnessed a well established practice of ESG in the company acquired by a Search Fund. Approximately 35% answered to have witnessed a partially established ESG practice while astonishing 60% either not witnessed EGS practice in the acquired companies or didn't want to answer the question.

The answers showed that ESG is still very unknown or not practiced by a large group of the Search Fund industry in Latin America, highlighting the need for more information about the importance of ESG practices for future sustainable growth by MBA professors and Search Fund investors.

PPM

The Private Placement Memorandum (PPM) is one of the most important documents for the Search Fund industry. As a part of our quest to understand the role of PPM's in the region, we analyzed more than 50 PPMs of Latin America, comparing them to the traditional model proposed by Stanford as well as other PPMs from all over the world.

By running this exercise we realized an important information gap in many PPMs outside of the US and Canada, often overlooked by Latin American searchers when blindly following the American standard PPM: lack of information on local markets. Fair enough, American searchers don't have to showcase their economies to investors; they also don't have to explain how companies are usually sold, how the PE industry is evolving or how the currency has been steadily appreciating or devaluating against other currencies over time.

The research team concluded that strong PPMs in Latin America (and any other market outside of US and Canada) usually include much more detailed information about some key aspects of the market where the Search Fund will be established, namely: the size of the economy, number of SMEs, evolution of inflation and exchange rates, size of Search Fund and Private Equity markets, etc. For that reason, **the research team proposes the use of an International PPM format**, found in the Appendix of this study, for use by searchers from Latin America and possibly from any other non-American or Canadian geographies willing to fundraise internationally.

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Appendix

Here you find the International PPM model proposed by this study's research team for Latin American searchers or international searchers willing to fundraise internationally:

Cover (Firmname & Logo)

Table of Contents (1 page index)

Welcome Letter (4 paragraphs + scanned signature(s))

Key Fund Terms (1 page summary of key aspects of the Fund)

Investment Highlights (1 page visual executive summary)

- **The Search Team** (1 page visual with every team member involved)
 - Principal Background
 - Professional Experience (½ page text + logos of companies)
 - Education Experience (½ page text + logos of schools)
 - Networking and Social Ties (½ page text + Social Network Analysis)
 - Industry and Organizational Knowledge (½ page text)
 - Geographical Knowledge (1 page map + text)
 - Hard Skills and Soft Skills (1 page tables)
 - Personality Traits and Hobbies (1 page MBTI + hobby pictures)
 - Investment Analysts (½ page with expected profile)
 - MBA Interns (½ page with expected profile)
 - Advisory Board (1 page Advisory Board + LinkedIn + summary)
 - Team contribution during Search and Acquisition Phases (1 page including key roles and responsibilities during Search Phase for each member of the team: principals, assistants, MBA interns and board members).
 - Team contribution during Operating Phase (1 page including key roles and responsibilities during Operating Phase for each member of the team: principals, assistants, MBA interns and board members).

- **Market Opportunity**
 - a. The Economy (1 to 2 pages: Kind of economy developing or developed. Size of the economy. How is the growth expectation for this economy? How many SMEs are found in this economy? How is population aging? How is succession in SMEs? How many SMEs can be acquired by SFs in the next years? How is the exchange rate evolving?)
 - b. The Private Equity Market (1 page: How is the Private Equity market? PE, Middle Market PE and VC. Sizes of deals, trends, etc.)
 - c. The Search Fund Market (1 page: How is the Search Fund market? How many acquisitions have been done? How many are searching at the moment? How many didn't find a company to acquire, etc.)

- **Investment Opportunity** (1 page: The Overall Investment Strategy. Why a Traditional Search Fund? Why is it good for me/us at this moment of my life? My/Our motivations.)
 - Overview of Traditional Search Fund Model
 - Five Phases of the Traditional Search Fund Model
 - Phase 1: Raising the Search Fund (Right of First Refusal, Investment Step Up and Estimated Budget).
 - Phase 2: Sourcing & Evaluating Opportunities
 - Characteristics of Target Industries (½ to 1 page text + table. Ex: Business Services, IT, Healthcare, Education, etc. Mention which industries Searchers and Middle Market PEs have been successful in the country and in which one of them you could become a CEO of high performance).
 - Characteristics of Target Companies (½ to 1 page text + table. Ex: Company, Industry, Financial): the SF model vs your strategy + describe companies that have been acquired via SF in that market so far. Were they via brokers or proprietary search?
 - All kinds of sources to find a company in this market (½ to 1 page text + table. Ex: Brokers, M&A Boutiques, Small Investment Firms, PR, personal networking, cold call, etc.)
 - Phase 3: Financing & Closing a Transaction (½ to 1 page text. How to finance the acquisition? Investment structure for acquisition, investment vehicles used.)
 - Phase 4: Operating the Business (½ to 1 page text. 180 days, ESG, Technology, Geographical Expansion, etc.)
 - Phase 5: Exiting the Business (½ to 1 page text + table. Three scenarios: optimist, realist and pessimist. Tax implications for national and international investors over gains of capital, etc).
 - Investor Returns and Principal(s) Carried Interest (1 page text).
 - Investment Risks and Mitigations (1 page text).
 - Legal Information and Foreign exchange assumptions (½ to 1 page text).

Appendices

Appendix A: Principal(s) Resume.

Appendix B: Illustrative Transaction Economics.

Appendix C: Stanford GSB and IESE Selected Observations.

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Buying a business and growing it is every day more considered an entrepreneurial path also outside of the United States. Buying and growing a business is far less risky than starting a new one from scratch, especially in Emerging Economies.

Having mapped more than 100 Search Funds and 30 acquisitions in Latin America since 2010, FGVcenn Center for Entrepreneurship and New Business at FGV along with Searchfunder.com and IE University carries out the Latin America Search Fund Study 2022, the first one of its kind.

What's the profile of searchers and investors in Latin America? What kind of searchers were more successful in locating and acquiring a company in the region? What's the expected growth of the traditional Search Fund industry and the main obstacles and opportunities for Search Funds in Latin America? These and more specific questions were designed and applied to explore the evolution and scenario of Entrepreneurship through Acquisition industry in Latin America.

The findings of this study will hopefully help entrepreneurs and investors to better foresee the possibilities brought by Search Funds to provide liquidity to family businesses and renew the entrepreneurial spirit of Small and Medium Enterprises not only in Latin America but also in other Developing regions of the world.



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