

Business angels put MBA graduates on the fast-track to becoming chief executives

A little-known investment model that sees business angels fund entrepreneurs who haven't got a business – or even an idea – is winning the attention of MBA graduates looking for a fast-track to company ownership.

By James Hurley

Published: 10:33PM BST 15 Aug 2010

[Comment \(http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/7946854/Business-angels-put-MBA-graduates-on-the-fast-track-to-becoming-chief-executives.html#disqus_thread\)](http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/7946854/Business-angels-put-MBA-graduates-on-the-fast-track-to-becoming-chief-executives.html#disqus_thread)

"Search funds" see potential chief executives, typically business school graduates, receive funding from private investors to find a company to run. While the concept is established in the US, where the aggregate internal rate of return (IRR) of known search funds is an impressive 37.3pc, the UK movement is embryonic.

Simon Webster, the first entrepreneur to employ the model in the UK, hopes to change that by educating MBA students about an asset class he believes deserves wider recognition. He used a search fund to buy and grow prosthetic limbs company RSL (now RSL Steeper), acquiring it when it had a turnover of £3m and exiting when revenues hit £30m.



The idea is that a group of about 10 angels back an MBA to conduct a search for the right business
Photo: Corbis

Related Articles

[Mike Lynch on venture capital \(/finance/businessclub/business-club-video/global-business-insight-video/7877449/Mike-Lynch-on-venture-capital.html\)](/finance/businessclub/business-club-video/global-business-insight-video/7877449/Mike-Lynch-on-venture-capital.html)

["Fatigued" business angels feel the funding strain \(/finance/yourbusiness/7922798/Fatigued-business-angels-feel-the-funding-strain.html\)](/finance/yourbusiness/7922798/Fatigued-business-angels-feel-the-funding-strain.html)

[Dragons' Den boost to entrepreneurship wears off \(/finance/yourbusiness/7891667/Dragons-Den-boost-to-entrepreneurship-wears-off.html\)](/finance/yourbusiness/7891667/Dragons-Den-boost-to-entrepreneurship-wears-off.html)

[Luke Johnson warns Government not to clip business angels' wings \(/finance/businessclub/7833827/Luke-Johnson-warns-Government-not-to-clip-business-angels-wings.html\)](/finance/businessclub/7833827/Luke-Johnson-warns-Government-not-to-clip-business-angels-wings.html)

[Entrepreneurs turn to customers to finance growth \(/finance/businessclub/7883173/Entrepreneurs-turn-to-customers-to-finance-growth.html\)](/finance/businessclub/7883173/Entrepreneurs-turn-to-customers-to-finance-growth.html)

[European Under-19 Championships: three Young England Lions to watch \(/sport/football/teams/england/7897501/European-Under-19-Championships-three-Young-England-Lions-to-watch.html\)](/sport/football/teams/england/7897501/European-Under-19-Championships-three-Young-England-Lions-to-watch.html)

He has established the European Search Fund Association as a promotional body and support network for search fund investors and principals, and is holding sessions at London Business School (LBS) to tell its MBA students about the virtues of the idea as a fast-track to managing a company. He has already helped to inspire five "searchers" in the UK,

and a handful of others in Europe.

The idea is that a group of about 10 angels back an MBA to conduct a search for the right business. Funding of £300,000 or so pays for a modest salary for the searcher and the due diligence costs associated with investigating potential targets over a search period that can last as long as two years. The goal is an "under-managed" but established business with predictable revenues. Once a target is identified, investors are invited to help finance an acquisition.

With the MBA installed as chief executive alongside the founding entrepreneurs and the angels on the board as advisers, the new management aims to grow and exit the business faster than an incumbent owner-manager could. "It's a level of professional management a small business couldn't normally attract," says Mr Webster.

Traditional angel investing delivers an average IRR of 22pc in the UK, according to National Endowment for Science, Technology and the Arts research.

Ritz Steytler, an LBS graduate, has been inspired by Mr Webster to raise a £300,000 fund, Abacus Partners, to conduct a search. Abacus is currently considering buying an IT-related company. "In the old days, an MBA ended up in investment banking or some large corporate, worked for 40 years and then retired. That world doesn't exist any more," he says.

Search funds can be attractive for graduates and investors alike: "You're taking someone who's passionate and you're combining it with a solid, cash-generative company with an owner who wants to sell. Throw 10 'dragons' into the mix and there's a great opportunity for multiplying value."

Search fund led to success

Simon Webster, a former national account manager at IBM, first heard of search funds while studying for an MBA at London Business School. Excited by the idea of bringing management knowledge to bear on an existing business rather than starting one from scratch, he raised the UK's first search fund in 1992.

"The hardest part was getting the initial equity investors on board," he says. Persistence delivered an initial search budget of £80,000, including a salary of £25,000, small for an MBA graduate.

"I wanted a process I could understand, repeat revenue streams and low capital intensity," he says. He settled on the medical device sector, and after more than two years of searching and a further £40,000 from his backers, he found prosthetic limb business RSL.

"It had been started by four clinicians, who were clinically outstanding, and was turning over £3.5m. But the business side was becoming more professional."

Having raised £3m, divided equally between bank debt, equity from nine investors and a vendor loan note, the fund completed a management buy-in of the company in 1995. Over 12 years, he grew the business – now RSL Steeper thanks to an acquisition – to a £30m turnover, Ebitda from £0.4m to £3.4m and employees from 60 to more than 400. The subsequent exit achieved an IRR of 20pc for his investors.

"It was traditional stuff really; marketing, understanding your costs and being as competitive as you can in your environment."

RELATED PARTNERS

Transfer money commission free with the Telegraph (http://www.foreignexchange.telegraph.co.uk/?utm_source=tmg&utm_medium=relatdarticle&utm_campaign=moneycorp)

Search the market for saving & ISA accounts (<http://www.moneysupermarket.com/link.asp?Source=TEL3&Section=savings>)

Free Annual Reports (http://www.orderannualreports.com/?cp_code=P648&mkt_code=O030P64801)

0 comments

Add a comment