



## Buy Yourself a Company

If you are committed to buy your own company and to grow it, put all the effort into finding a great target. A good target makes adversities, such as lack of management experience, unmet milestones, currency volatility and economic slowdowns, much easier to withstand and achieve entrepreneurial goals. It also makes financing the acquisition fairly straightforward.

This summarizes what more than sixty INSEAD alumni and guests gathered at the Impact Hub in Zurich learned about acquiring a private company in Switzerland at an event in May hosted by the **INSEAD Alumni Association Switzerland**.



The sold-out event, organized and moderated by Matthias Frieden, MBA 05J, Association Treasurer, featured five speakers. Each delegate had experience in either financing or finding, buying, and running a company. The keynote speakers took different paths to acquiring a company. In the telling of their stories they candidly revealed the excitement, the challenges, the disappointments and the joys of being an entrepreneur.

The panel discussion brought even more insights from both the entrepreneur's side and the bank financing side.

It was a premium learning event, rich in knowledge and experience-driven insights. Read on for a recap of the presentations, panel discussion, lively Q&A session, event photos and takeaways.

## 5 Takeaways

There are many paths to entrepreneurship-through-acquisition. There is a well-established general approach, relying on intermediaries or brokers and personal networks.

The Search Fund model is emerging. It can work to buy a company in DACH but it is challenging.

Switzerland has thousands of small and mid-sized "hidden gems", founder owned-businesses ready for succession deals or management buy-ins.

Competition to buy Swiss companies is not as high as in neighboring countries and valuations are lower. But deal sourcing is challenging due to limited and fragmented database resources.

Financing the acquisition is surprisingly straightforward if a quality target is found. Banks and private investors in Switzerland are willing to back young entrepreneurs with a good target. It helps a lot to have experience and a network in the industry targeted.



Panelist (l to r) Tobias Raeber, Mark-Anthony Holloway, Patrick Forte, Roger Kollbrunner, Jules Grüninger

## Unique Entrepreneurial Journeys With Common Success Factors

INSEAD alumni and guests gathered in Zurich in early May to hear about entrepreneurial acquisitions. The two featured speakers, Mark-Anthony Holloway, CEO of Swiss welding automation components manufacturer, Swissfeed AG and Tobias Raeber, Managing Director of a German temporary storage and tent company, Herchenbach Industrie-Zeltebau GmbH, each took a different path to business ownership.

Raeber used the Search Fund model (see textbox below) in partnership with a former co-worker who had complementary skills. The model which comes from the US requires financing the search for a target by raising capital from investor. Holloway took a more straightforward approach. He went solo, used a broker to source potential targets and financed the search using his own resources.

Other speakers who bought ten companies between two of them took still different paths to acquiring a company. They all negotiated bank loans to finance the acquisition but differed on the percentage of the company they owned post-acquisition.

It seems that every entrepreneurial acquisition story is as unique as the profile of the would-be entrepreneur. Opinions differed on things like how to search for a target, legal costs, whether to do it alone or with a partner and whether it makes sense to only search for companies in your field of experience.

Much depends on the entrepreneur's character, professional experience, lifestyle goals, the country they live in and the network they possess. All panelists recommended quitting the corporate job to do the search. They stressed that a full commitment to the entrepreneurial journey is essential. And they all agreed that the most critical factor, more important than passion for the product, whether or not you have any personal money to invest, more important than even years of management experience, is the quality of the business being acquired.

### Definition of Search Fund

A search fund is an investment vehicle set up by an entrepreneur to enable investors to financially support his or her efforts to find, buy, manage, and grow a privately held company. The model, conceived in 1984, offers relatively inexperienced professionals with limited capital resources a quick path to managing a company in which they have a meaningful ownership position.

More information on [GSB website](#).



### Hidden Gems and Capital

All panelists agreed that the success of the entrepreneur in making an acquisition has something to do with luck, and everything to do with finding a good target. “If you have a good target financing is easy,” said Jules Grüninger, Founding Partner, Quarton International AG Zurich.

Holloway agreed. “I came close to buying a perfect match in Italy in the pharmaceuticals sector. It was in my field and profitable. Almost immediately, I received unsolicited interest from investors,” said Holloway. In the end the deal fell through because the owner was just not ready to sell.

In agreement was fellow panelist, Roger Kollbrunner, Co-owner of Artum AG, industrial holding company. “If you have a quality target, there are many wealthy individuals in Switzerland that will invest in entrepreneurs buying a business,” he said.

A good target is profitable with healthy cash flows. It has a strong market share, great margins and a sustainable business model, according to Patrick Forte, Head of KMU Advisory Switzerland & Regional Head Corporate Clients Central Switzerland, UBS Switzerland AG. Bank financing will go through if the bank believes the acquirer can deliver the same or better returns than the current owner. Good earnings trump experience in the target’s industry. Both Raeber and Holloway raised bank financing despite coming from completely different fields.

If the entrepreneur can convince the bank about his or her value-creation ability to further develop the company, ease of financing increases. “Often a business owner is content with a certain level of sales growth, and not keen at all to seize all the opportunities to grow, particularly international growth. We could define a value creation plan that the banks appreciated,” said Raeber.

Forte cautioned, however, that the banks “do not believe in hockey sticks”, referring to over-confident growth projections. The banks have knowledge, resources and data of their own to make prudent evaluations.

It is not just the banks that have to be wary of hockey-stick growth curves. Would-be entrepreneurs must also be wary. “The biggest risk is future business prospects,” said Holloway, adding that sellers want to sell the future of the business, so it is very important to base the valuation on the actual situation and not the future. “Bank financing helps because the banks are prudent institutions and they will not support overpaying,” said Holloway. An honest and rational assessment of the real path for growth in an entrepreneurial acquisition is essential.

### Passion Can Develop

Passion is important in getting the loans to buy the business. “From the banking perspective, the buyer better have some passion for the product,” said Forte. Passion is what differentiates an investor from an entrepreneur. Kollbrunner said that if he felt no passion, then he would not buy the company. “A lack of passion means that there will be no business growth,” he said.

A good target’s assets can inspire passion even if the future owner has little affinity to the target’s industry or products. One can learn to have passion about a product, according to Kollbrunner. “It takes time. It takes understanding of the complexity and innovation. But when you work with a company, over time you can develop passion for its products,” he said.

Passion for the product is not a pre-requisite to making a buying decision. “The former owner was really passionate. I was not as passionate as he was at first because I am not an engineer but I liked the company and what I saw in the business figures. I have become passionate about the product. It’s also rewarding to build relationships with our customers,” said Holloway.



Entrepreneurs can come to love a business because of its performance and profitability rather than its products. “We bought a company in an industry outside our experience so passion for the product was not the motivator. However, financial performance can make you passionate,” said Raeber.

Grüninger also was not terribly inspired by the women’s lingerie and swimwear business he acquired. He bought Beldona because he liked the financials. “It was the eighth company I looked at. It wasn’t the product, it was the level of risk and financing perspective that inspired passion,” he said.

### Getting to the Shortlist

A good target is a company that is for sale. The quick way to find a seller is to use an intermediary. The slower is to create a shortlist of companies using databases and then approach the owners to find if the venture is for sale and a viable target. There is more competition if a broker is used. But a proprietary deal sourcing strategy takes longer.

Holloway planned a one year search financed by a severance package. As a result, he chose to work with a business broker who only presented businesses for sale by their owners. He reviewed 50 companies during the 12 months search. Raeber planned a two year search relying on proprietary sourcing using a database. Kollbrunner also uses this approach.

Typically the search is a full time project. “It will not work if you’re working full time in a corporate job unless you have an amazing network and are incredibly lucky,” said Raeber. It is not absolutely necessary to quit the day job, but it helps because there’s more time to find the hidden gems, according to Jules Grüninger, “The good thing about doing a full-time search, is that you will see a lot more companies and learn a lot about different business to get a better understanding of the quality of the deal.”.

In the Search Fund model, the entrepreneur raises capital from private investors to finance a search that lasts typically one or two years. Raeber raised CHF 600K to finance two years of salary for the acquirers, legal expenses to structure the company, interns, database access and office. It was not easy to find such investors in Switzerland, despite there being several that knew the model, as well as many wealthy family offices. “Those that know the search fund model are ideal, but they are rare,” said Raeber.

Cold calling family offices to raise capital for a Search Fund is ‘pretty hopeless’, according to Kollbrunner’ “To raise finance for a search, there needs to be some kind of personal or professional connection to potential investors,” he said. Raeber eventually found investors by going to the US, UK, and Germany.

### Sourcing Targets

The Search Fund model casts a wider but less precise net than using an intermediary. To come up with the initial set, Raeber filtered results from commercial databases. A search in a commercial database might look for “rail services maintenance companies in Southern Germany”. There might be 15 such companies. Research might reveal that that 5 are owned by private equity, 5 are not profitable and 5 are good targets, according to Raeber.

With interns working on filling in holes in the commercial databases, Raeber came up with a short list. “We excluded a lot of industries and sectors that we felt were too specialized, such as biotechnology and pharmaceutical,” said Raeber. He explained that once filtering and research is complete, the only way to find out if the companies are for sale is to ask. So he wrote hundreds of letters and then met 150 business owners who were willing to show their balance sheets in the hope of selling their companies.



Depending on the country, the shortlist of potential targets can be easy or very difficult to come up with. The private company databases in Germany and UK are good for searching for acquisitions, and the resources in the US are very good. But Swiss database resources are weak. They do not have revenue and other business data points that would make the search much quicker.

The lack of commercial databases in Switzerland has some advantages, according to Kollbrunner. “There is less competition compared to Germany. Swiss companies are cheaper and if you are established here, you can play your network,” said Kollbrunner.

The advantage of a network is that the owner might know a friend or a friend of a friend. “That helps with the chemistry because if you don’t like the owner, then you should not do the deal,” he added.

### **Going Solo or Creating a Team**

Another choice that entrepreneurs make is whether to go alone or with a partner. Raeber said that it was a great asset to have a partner. It can be a very lonely process. Holloway agreed that having someone to share the journey with is an advantage, but it depends on the entrepreneur’s character. “It is like a marriage. You have to find the right partner and that is not easy and the consequences of getting it wrong can be expensive,” said Holloway.

There is no right or wrong, according to Kollbrunner, who has both bought companies on his own and with partners. Finding a partner cannot be a prerequisite, otherwise it will slow down the process. “If this is really what you want to do, you will find a partner. More important is to not take too long with the move to entrepreneurship. Do it while you’re young or when you have few responsibilities, like children and a mortgage,” he said.

Acquiring a larger company might be best done with a partner. “Beldona was a large company and it would have been good to have a partner to discuss important decisions. The investor is not really the partner. A partnership lets you challenge a deal,” said Grüniger, adding that if the goal is to buy and hold the business, then having a partner requires a lot more thought. However, if the plan is to sell after four or five years, then the decision to have a partner is less risky.

For the lenders, partnership or solo is not as relevant as having a reliable counter-party. “We look at the skill set of the buyer or the ownership team. They have to both have credible skills. For the bank, it is clearly important to have a decision-maker that we can negotiate with and trust,” said UBS.

### **Legal Costs and Risks**

Legal costs can be a risk in acquiring a business as some transactions involve multi-layered structures. There are legal costs associated with due diligence, investors, transaction and company shareholding contracts. But it is possible to keep such costs under control, according to panelists and event attendees. Kollbrunner advised finding a “cheap” lawyer, but a “good” one. About CHF 10K should cover an acquisition. He also said, “You can do a lot yourself. Structuring of the company is pretty straightforward.”

A lot of the cost control lies in the hands of the entrepreneur. “Do your job. Tell the lawyer what are the key risks. Tell him to focus on the key aspects of the contract,” said Alexander Wyss, Zurich Chapter President and a partner at Baker & McKenzie.

“You have to define the two or key three things that each side must agree upon,” said Richard Bissonnet, INSEAD Alumni Association Switzerland President and an advisor to Quarton International. These two or three points often do not conflict. “But if you leave it up to the lawyers, they will go through line by line and page because they *have* to,” added Bissonnet.



Legal costs can become a problem if the business has foreign holdings, according to Grüninger. “Beldona had businesses in 14 countries, which got a bit expensive,” he said. He also warned about costs spiralling if the counter party takes the American SPA route, referring to a sales and purchase agreement that contains complex clauses and closing requirements. “Sixty percent of an SPA is risk allocation,” said Wyss. Some of these documents are 40 pages long so it is critical to instruct the lawyer.---

## Impressions



### Keynote Speakers

**Mark-Anthony Holloway**, INSEAD MBA 98J, Owner and CEO of Swissfeed AG

In 2008 Mark-Anthony Holloway acquired the Swiss industrial company Swissfeed AG after a 12-month search for an MBI target. Previously, he led, turned around and sold a veterinary company. He holds a Doctorate in veterinary medicine.

**Tobias Raeber**, Bocconi MSc10, Co-Owner and Managing Director of Herchenbach Industrie-Zeltebau GmbH

In early 2015 Tobias acquired Herchenbach with his Search Fund, a concept for conducting an entrepreneurial acquisition. The concept, devised at Harvard and Stanford, is now taught to students at INSEAD, LBS, IESE and other business schools.

### Panelists

**Patrick Forte**, Kellogg MBA, Head of KMU Advisory Switzerland & Regional Head Corporate Clients Central, UBS

With UBS since 1998, Patrick has served corporate banking clients in the US and Switzerland, now responsible for Swiss SMEs and corporate clients in the Swiss central region. Patrick holds an Engineering MSc. from ETH Zurich.

**Jules Grüninger** INSEAD MBA 95D, Founding Partner, Quarton International AG Zurich

Jules co-founded Blue Corporate Finance AG in 2001 and recently merged it with Quarton International. Before that he was CEO and co-owner of Beldona AG, which he successfully sold to an investor. He holds an Electrical Engineering MSc. from ETH Zurich.

**Roger Kollbrunner**, INSEAD MBA 97J, Co-Owner and Partner of Novus Partners AG

Roger acquired with partners several smaller industrial companies in Switzerland via their industrial holding Artum AG. Previously, he acquired Aebi & Co AG together with Peter Spuhler and was CEO for several years. He holds a MSc. from ETH in Zurich.