

Investment management

Searching for the perfect opportunity

Australia faces an unprecedented ownership transition of private businesses as ageing baby boomers retire or die – but only a minority of them have a succession plan in place.

Australia has 65,000 or so SMEs (small-to-medium enterprises) with revenue of between \$5 and \$50 million and between 20 to 200 employees. Of these, 40 per cent are owned by baby boomers – those born in the post-war period up to about 1964.

According to Perth-based WayFinder Capital, 75 per cent of proprietors have no succession plan, and often the children are not interested in taking over the business anyway. This has created opportunities for motivated entrepreneurs to acquire long-standing, profitable businesses.

The challenge for them is to find funding sources that give them not only the requisite capital for the acquisition, but also the time and resources to enable a search of up to two years for the highest-quality businesses.

“The ecosystem is starting to build quite healthily. We are proud of our pioneering role.”
Akram Sabbagh

One answer lies with search funds, which are well known in the United States, South America and Europe but remain little understood locally.

Typically, a “searcher” will seek approximately \$625,000 from 12 to 15 investors, to fund the process of identifying and researching hundreds of prospective SME investments. The search fund is expected to cover expenses such as travel and due diligence costs, while allowing the searcher a modest salary.

Investors backing the search then have an option to invest in the unearthed gems and some also provide advice and mentorship to the searcher/chief executive through the typical five-to-seven-year period an asset is held.

Upon divestment, the proceeds are distributed to the investors and the searcher. The latter receives 25-30 per cent of the value created, depending on how well the business performed.

In an Australian first, the WayFinder Searcher Growth Fund was launched in 2022 to invest exclusively in search funds and searcher-led transactions in Australia and New Zealand. To date the fund has raised \$11 million, typically from current or past business owners, high net worth individuals and family offices.

These parties understand that the chief executive’s entrepreneurial talent is the key to creating value.

According to WayFinder’s Akram Sabbagh, the fund applies “patient capital” enabling entrepreneurs to find, acquire, operate, scale and then exit quality mid-market businesses in Australia and New Zealand.

He compares the process to backing a jockey, rather than a horse. “The searcher is the jockey,



Fund managers Akram Sabbagh (top) and Nima Sedaghat (above) back the search fund model, which involves researching hundreds of prospective SME opportunities. At left: investments include Austral Herbs, a supplier of organic herbs, spices and botanicals.

and the acquisition is the horse. Throughout the operational phase the searcher/CEO will have to guide the organisation through the many ups and downs of running and scaling a business.”

Along the way the “jockey” is mentored by the investors, which in WayFinder’s case entails tapping the principals’ 45 years of collective experience in fostering entrepreneurial talent.

Sabbagh’s colleague Nima Sedaghat says WayFinder has been surprised by the quantity and calibre of the searcher talent identified, leading to the fund’s plans being expedited.

Sedaghat says the searchers are rigorously appraised, with many of them not making the final cut.

“We do psychometric and aptitude testing and get an understanding of their mindset before making our commitment,” he says.

“We need to know they are ‘coachable’ and have the energy to raise the funds and spend up

to two years hustling to find a business. Along the way we are there to mentor and support them and also watch them grow.”

With the initial \$11 million tranche, the WayFinder fund has already backed 10 searchers with three already having acquired, and seven ongoing. WayFinder typically contributes 15-25 per cent of the equity required.

WayFinder is seeking to raise another \$14 million by March next year and is expected to be fully deployed by the end of 2026 – well ahead of original plans.

WayFinder aims ultimately to build a portfolio of 15 to 20 interests in SMEs, exclusively sourced by searchers.

So far WayFinder has backed the acquisition of the Launceston-based Inerva Software, which provides enterprise resource planning (ERP) software to the aged care sector. The fund’s other investments to date are Austral Herbs and the

New Zealand-based cybersecurity company Scientific Software and Systems.

According to the Stanford Graduate School of Business, at least \$US2.3 billion of equity capital was raised in traditional search funds (and for their acquired companies) from 1984 to 2021.

This generated \$US9.8 billion of equity value for investors and \$US2.4 billion for the searchers.

Sabbagh says five years ago, only WayFinder was familiar with the search fund concept here, but awareness is fast growing.

“Last month we had an Asia Pacific-focused forum in Sydney and more than 200 current and prospective searchers, investors, advisory services, lenders and other interested parties attended,” he says, “including delegates from New Zealand, Indonesia, Japan, South Korea, Spain and Brazil.”

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Introducing Australia’s first fund to invest exclusively in Search Funds and Searcher/CEO-led transactions in Australia and New Zealand.

The **WayFinder Searcher Growth Fund** offers unique access to talented acquisition entrepreneurs.

We source, invest in, and support that talent to grow value together in Australia and New Zealand’s Mid-Market sector.

We apply Patient Capital, investing in talented CEOs to unlock high-growth and profitable business acquisitions across asset classes.

