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What does a search fund say it does to create value?

A case study of NS Intressenter's acquisition of PriceRunner

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Abstract

In this paper we identify what a search fund says it does to create value for its investors and the relative importance of the value creating activities according to a search fund. We examine this through a case study of NS Intressenter and its acquisition of PriceRunner. Historically, search funds have been limited to the US but the phenomenon has recently started to spread internationally where NS Intressenter is the first known search fund in the Nordics. We discover that in order to create value, a search fund applies several examples of operational, financial and governance engineering. It appears that operational and governance engineering are the most important value creation levers where the choice of CEO/searcher is the most important factor. It is followed by an incentive mechanism from share ownership among management, improved IT and information system, and the use of detailed and frequently tracked KPIs, which are the three next most important factors and are roughly of equal importance. This discovery contributes to the topic of search funds, an area which is poorly researched, still in its early days, and non-existent in the Nordics. Specific research about value creation in search funds is untapped where practitioners today merely rely on practical guidelines. Despite that search funds have generated an aggregated return of 6.9x ROI / 33.7% IRR from 1984 to 2017, no research has investigated the tangible value creating levers among search funds. Thus, by exemplifying how a search fund creates value, this paper also bridges the gap between the practical guidelines on how to launch and operate a search fund made by practitioners, with the unexplained returns that search funds have achieved.

Acknowledgement: First and foremost, we would like to thank Nicklas Storåkers and Mikael Lindahl for their transparency and willingness to share their experiences in this case study. We are also thankful for the remaining participants in the case study from Nordstjernan, Philian and PriceRunner for giving a complementary perspective. Lastly, we would also like to thank Vincent Maurin and David T. Robinson, who provided us with guidance and encouragement throughout this thesis.

Keywords: search funds, private equity, acquisition entrepreneurship, entrepreneurship, entrepreneurial finance

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1. Introduction

In this chapter, the background and problem formulation are introduced. Based on this, the purpose and research question are presented. This is followed by the delimitations to define the scope of the study and its contribution. Lastly, this chapter ends with a disposition of the study.

1.1 Background

On March 21st, 2016, after three years of intensive search, Nordic's first search fund, NS Intressenter, announced its acquisition of the most well-known shopping comparison site in the Nordics, PriceRunner. NS Intressenter was a search fund founded by Nicklas Storåkers and Mikael Lindahl in May 2013. Storåkers and Lindahl raised money from two investors to finance their effort to locate, acquire and lead a small private firm as CEO and COO. In six years, they raised SEK 10 million to fund the search process for a company, acquired PriceRunner for an enterprise value of SEK 655.3 million[1] through a carve out, and executed their value creation agenda.

In recent years, search funds, a relatively unknown asset class has grown increasingly popular. A search fund is a financial vehicle created by usually one or two aspiring entrepreneurs who raise money from a group of advising investors to support their effort to locate, acquire and lead a privately held company as CEO. The entrepreneur is referred to as "searcher" and according to Wen and Wasserstein (2020), search funds offer a fulfilling career with impressive economic return both to investors and the entrepreneur. Hence, being the CEO of a small business makes people feel extremely self-satisfied since they can see the direct impact of their decisions. Also, searchers usually take no capital risk, instead investors contribute with the equity to purchase a business and the searcher earns up to approximately 25% of the stake in the business. Furthermore, Wen and Wasserstein (2020) state that it is common for successful searchers to earn mid-seven-figure to low-eight-figure paydays upon exit.

Johnson (2014), Dennis and Laseca (2016) and Yoder and Kelly (2018; 2020) show that searchers ideally target small firms (with an EBITDA of SEK 20-80 million[2] in enterprise value) with sellers that are ready to transition out of the business for personal reasons, usually to retire. An observation by Dennis and Laseca (2016) estimates that there are 220,000 companies in the small-firm space in need of succession for the next 10 years only in the US, where 51% of all business owners were above the age of 55. In Sweden specifically, similar patterns are recognized in research by The Swedish Federation of Business Owners (2017). From their research, it can be distinguished that the share of managing owners of small businesses, older than the age of 55+, amounts to 43%. In addition, 17% of the business owners have already passed the age of retirement, which amounts to 47,000 companies in absolute figures.

1.2 Problem formulation

Yoder and Kelly (2018) show that US search funds have since inception in 1984 attracted more than SEK 9.2 billion[1] in equity capital and generated impressive aggregated returns of 6.9x ROI[3] and 33.7% IRR[2]. In addition, the authors report that US search fund activity has flourished since 2012, since 44% of all search funds have been raised between 2012 to 2017.

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[1] Calculated based on cash payment of 795 million to IAC (USD/SEK exchange rate of 8.2276 as of March 18th 2016 assumed) deducted with 140 million of cash in PriceRunner Sweden AB as of 2015-12-31

[2] Assuming USD/SEK exchange rate of 10.00

[3] Calculated financial returns from the initial search investors' perspective, including both the search capital and acquisition capital.

The recent growth in search fund activity is supported by a steady stream of guidelines issued to aspiring entrepreneurs embarking on a search fund. Specifically, previous literature discovers how to launch and operate a search fund. However, despite the growth of search fund activity and its strong financial performance, there is to our knowledge no paper that identifies tangible levers for value creation among search funds. As such, academia, search fund entrepreneurs, as well as investors should direct more attention to *how* search funds are able to generate impressive returns.

1.3 Purpose

Based on the background and problem formulation, the purpose of this thesis is to identify and demonstrate how a search fund operates to create value for its investors. Therefore, this study investigates the search fund NS Intressenter and its acquisition of PriceRunner. As follows, the research question of this thesis is:

What does a search fund say it does over the fund life-cycle to create value for its investors?

This thesis also aims to provide a foundation for a case study at the Department of Finance at the Stockholm School of Economics and Duke University's Fuqua School of Business.

1.4 Expected contribution

Already in 1984, H. Irving Grousbeck professor at Stanford Business School pioneered the new investment vehicle, "search fund". Despite its history, the research on search funds is meager and has to a large extent been limited to practical guidelines on how to launch a search fund, the search process (i.e. locating a company to acquire), and how a search fund works. Research on value creation in search funds is scarce and to our awareness nonexistent in a research context. Thus, we review and analyze literature on private equity value creation theories, an adjacent research area which has to date not acknowledged search funds as a sub-area within private equity. On the basis of private equity value creation theories, we aim to discover and exemplify value creation activities in a search fund. Furthermore, this paper also seeks to identify the relative importance of the value creating activities according to a search fund. As a result, this thesis will contribute to the scarce literature on value creation activities in search funds and bridge the gap between the practical guidelines on how to launch and operate a search fund, with the unexplained returns that search funds have achieved.

Our thesis also serves as an introduction to search funds in the Nordic context as NS Intressenter is to our knowledge the first, and to date the only search fund in the Nordics. In addition, we hope to inspire Nordic entrepreneurs and equity investors to embark on the search fund model to facilitate a higher number of search funds, which would make it possible to do quantitative research on search funds in the Nordics. Lastly, we aim to provide a greater understanding of price comparison websites in a time when e-commerce is a part of the society's day-to-day life.

1.5 Delimitations

The scope of this thesis includes aspects regarding how a search fund operates to create value for its investors. Therefore, we will not address questions such as if NS Intressenter should or should not have invested in PriceRunner, or if search funds should or should not invest in price comparison websites. However, we suggest that these questions might be relevant for case writers at Stockholm School of Economics and Duke University, and we have therefore included relevant valuation comparables for PriceRunner together with historical and forecasted financials (this is shown in exhibit 10 and exhibit 22). Further, the thesis gives a thorough description of the fund life-cycle of NS Intressenter to provide a solid foundation for a case study.

1.6 Thesis disposition

This thesis is divided into six chapters. The first chapter includes an introduction to the topic. The second chapter explains the search fund model and complementary literature about value creation within private equity. The third chapter explains the scientific approach of this study and a critical discussion about the reliability and validity of this study. The fourth chapter outlines the sequence of events from the creation of NS Intressenter until the exit of one of its investors. The fifth chapter analyzes the empirical findings and its connection to previous literature. The last chapter presents a conclusion of the thesis and outlines directions for future research.

2. Literature review

In this chapter, we provide a review of the relevant literature to this case study. First, we assess the relevant literature about search funds to fully understand the concept. Second, search funds fall within the classification of traditional alternative investments, generally referred to as "private equity". Therefore, we review literature within private equity value creation, an adjacent research area which to this date does not include search funds, to connect this with our findings of value creation in a search fund.

2.1 Search funds

2.1.1 What is a search fund?

In 1984, H. Irving Grousbeck professor at Stanford Business School pioneered the new investment vehicle, *"search fund"*. A search fund has the objective to enable aspiring entrepreneurs the opportunity to search for a company to acquire, manage and grow. Grousbeck explained:

"It's the most direct route to owning a company that you yourself manage." H. Irving Grousbeck 2020-01-10, (Yoder and Kelly, 2020)

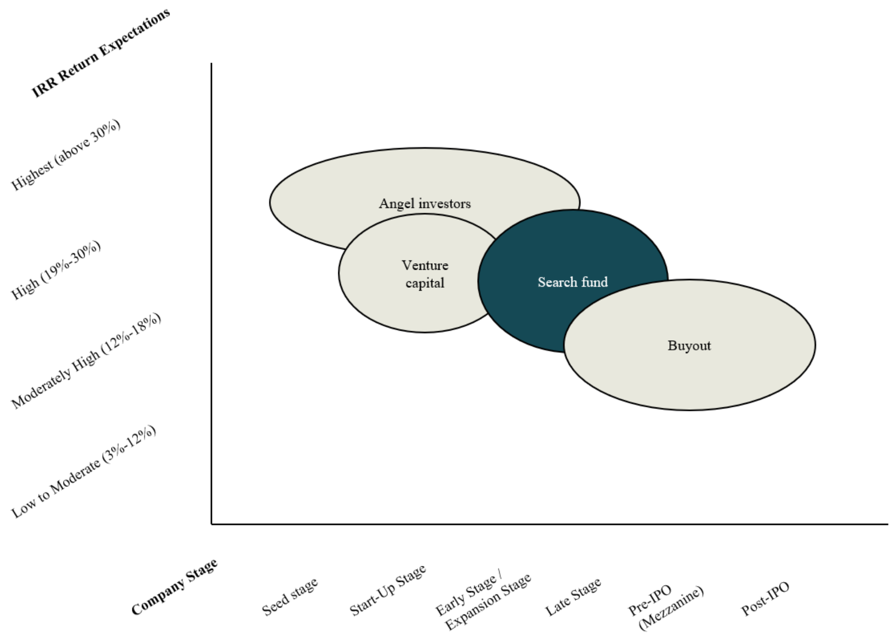
The entrepreneurs are referred to as "*searchers*" and usually work either in pairs or on their own. Subsequently, the searchers assume the role of top management in the acquired company, usually as the CEO, and therefore the term "search fund" is also referred to as *"entrepreneurship through acquisition"* or *"acquisition entrepreneurship"* (Johnson, 2014; Dennis and Laseca, 2016; Yoder and Kelly, 2018; 2020). In a study by Yoder and Kelly (2018), search funds are formally defined as; *"a financial vehicle created by one or two individuals who raise money from a group of advising investors to support their efforts to locate, acquire and lead a privately held company over the medium to long-term"*. Exhibit 1 shows a detailed overview of the search fund structure.

As we will explain in the following sections, search funds differentiate themselves from other private equity investments such as venture capital and buyout. Search funds target established and profitable companies that are smaller than the types of companies that larger private equity funds would look at (Yoder and Kelly, 2018). In addition, a searcher locates the company the search fund will acquire, takes an active role in the top management, usually as CEO, and leads the acquired company which is different from traditional private equity structures where ownership and control is separated. Private equity investors usually have passive roles in the direction of portfolio companies through the board of directors and do not take an active operational role in day-to-day decision making (Yoder and Kelly, 2018; 2020).

2.1.2 The investment classification of search funds

Morrissette and Hines (2015) argue that search funds fall within the classification of traditional alternative investments, generally referred to as "private equity", which includes other commonly known investment structures such as buyout and venture capital. The work of Morrissette and Hines (2015) defines private equity investments based on shared features such as illiquidity, high due-diligence costs, and difficult performance appraisal. However, their definition does not include certain characteristics in operations, internal rate of return expectations ("IRR"), expected risk and the company stage the different investors target. Figure 1 specifies how different sub-segments of private equity connect to one another in terms of the average IRR expectation and the maturity of the target company. As illustrated in figure 1, search fund is in the intersection between venture capital, angel investors, and buyout. Thus, this further suggests that search funds share certain characteristics with each sub-segment.

Figure 1
Average IRR Expectations by Company Stage and Investor

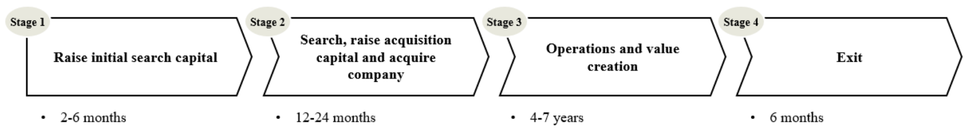


Source: Morrissette and Hines (2015)

2.1.3 The search fund's life-cycle

Dennis and Laseca (2016) and Yoder and Kelly (2018) define that the search fund life-cycle can be divided into four stages: (i) fundraising, (ii) search for and acquisition of target, (iii) operation and value creation, and (iv) exit. This is illustrated in figure 2 which summarizes the different stages of a typical search fund life-cycle and their typical length of time.

Figure 2
The search fund life-cycle



Source: Yoder and Kelly (2018)

2.1.3.1 Stage 1: Fundraising

Johnson (2014), Dennis and Laseca (2016) and Yoder and Kelly (2018) explain that the first stage of a search fund's life cycle includes the fundraising for the initial capital, which is required to finance the "*search process*". The search process is the second stage of the life-cycle and includes the identification, analysis and negotiation to acquire a company. Hence, we introduce a classification of the capital raised in stage one as the "*search capital*". Investors who commit to underwrite the search capital receive the right, but not the obligation, to participate in a subsequent round when the searcher raises capital to acquire a targeted company. Hence, we introduce a classification of the capital raised in the second fundraising, i.e. financing of the acquisition, as the *"acquisition capital"*. All in all, the search and acquisition capital make up what we call a *"two-stage funding process"*, as the search fund raises capital on two separate occasions.

Johnson (2014) shows that the first action by the searcher(s) to raise the search capital, is to write a formal private placement memorandum ("PPM"). The PPM includes an overview of the search fund's investment strategy, with a specification of the search and screening criteria to identify what type of companies to acquire. Subsequently, the searcher presents the PPM to investors, raises the search capital and starts the search process. Yoder and Kelly (2018) suggest that the fundraising process usually runs for 2 to 6 months. Yoder and Kelly (2018) and Wen and Wasserstein (2020) further explain that the search capital is often raised from investors such as angel investors, institutional search fund investors, venture capital firms, buyout firms and family offices.

2.1.3.2 Stage 2: Search process and acquisition of target

Johnson (2014), Dennis and Laseca (2016) and Yoder and Kelly (2018) explain that the second stage of the fund life-cycle includes the components; deal sourcing and screening of potential targets, assessing seller interest, evaluating and performing due diligence. All this is performed by the searcher who assumes a role in the top management of the acquired company and simultaneously replace the former CEO. This is different from "traditional" private equity firms who do not take an operational role after the acquisition, and instead operates through the board of directors.

Typically, search funds only search for companies within two to four industries. This enables the searchers to gain and use specific industry knowledge, increase the credibility with sellers and intermediaries, and build a relevant network. Consequently, this is likely to increase the efficiency in the search. Within targeted industries, research by Rozenrot (2005), Johnson (2014), Dennis and Laseca (2016) and Yoder and Kelly (2018) suggest that searchers prefer companies with a sustainable strong market position, a historical financial performance with positive and stable cash flows, high share of recurring revenues, and opportunities for growth and operational improvements. According to Dennis and Laseca (2016) and Yoder and Kelly (2018) searchers also prefer to target industries with a strong growth of at least 2x GDP, and high margins (+20% EBITDA), to mitigate both the idiosyncratic and systematic risk. Further, search funds prefer non-cyclical industries as it reduces exposure to economic downturns.

Regarding the transaction size, Johnson (2014) and Yoder and Kelly (2018) suggest that search funds normally target small-sized companies with an enterprise value between SEK 50 million to SEK 300 million[4] with revenues of SEK 100 million[4] to SEK 300 million[4], and an EBITDA of SEK 20 million[4] to SEK 80 million[4]. However, Yoder and Kelly (2018) find that historically, the size of companies acquired by search funds have varied greatly. Notably, the largest search fund acquisition made until 2017 was valued at SEK 1.2 billion[4] in enterprise value. Additionally, the largest acquisition made by a search fund in terms of revenues amounted to SEK 1 billion[4] with an EBITDA of SEK 250 million[4]. Exhibit 2 shows the aggregated historical statistics of the size for search fund acquisitions.

In the study by Yoder and Kelly (2018), they present that companies in the small-sized space, from 1985 to 2017, generally trade for 4-8x EBITDA, and a median purchase multiple of 6.0x. In 2017 specifically, the median EBITDA multiple was 6.3x. Ruback and Yudoff (2012; 2017) explain that smaller firms sell for a substantially lower EBITDA multiple than comparable larger companies, with multiples generally being half to a third as large. Ruback and Yudoff (2012) further show that the opportunity to purchase smaller companies with lower multiples is likely to be unchanged. They argue that this range is unattractive for large firms and large institutional investors because their transaction costs are too high relative to the purchase price. Their research shows that for these types of acquirers, the transaction costs

[4] Assuming USD/SEK exchange rate of 10.00

become as high as 20% of the purchase price. The authors argue that the transaction costs will remain high because they include necessary costs of finding an appropriate target company, negotiating an acquisition price, conducting business and confirmatory due diligence, and completing legal agreements. Ruback and Yudoff (2012) report that the high cost serves as a liquidity or transaction tax, thereby reducing the rate of return for the acquirer. Therefore, purchase prices within the small firm space are not experiencing an increase from more competition among buyers.

Johnson (2014) and Yoder and Kelly (2018) explain that in general, searchers prefer to focus on proprietary self-sourced deals. Johnson (2014) further explains that proprietary self-sourced deals improves the chance to buy companies at a lower price than in an auction. Nevertheless, the authors acknowledge that many searchers also review deals that are sourced from third parties, such as brokers, bankers and other professionals.

Johnson (2014) and Yoder and Kelly (2018) state that after a target is identified and due diligence has been made, the searcher negotiates the terms of the acquisition with the seller, raises the acquisition capital (debt and equity), and closes the deal. As previously mentioned, investors who commit to fund the search capital receive the right, but not the obligation, to participate in the fundraising of the acquisition capital. Rozenrot (2005), Johnson (2014), Dennis and Laseca (2016) explain that the funding for the acquisition is made with a mix of equity and debt. Yoder and Kelly (2018) specify that the equity portion typically represents 30% to 70% of the total purchase price.

During the search process, a study by Yoder and Kelly (2018) shows that searchers generally earn an annual salary between SEK 300,000[5] to SEK 1,450,000[5], with a median of SEK 1,080,000[5]. Kessler (2012) and Ruback and Yudkoff (2011) explain that the salary during the search process is usually substantially lower than the median salary of what graduates from top tier business schools in the US or other experienced professionals can earn elsewhere. Rozenrot (2005), Johnson (2014), and Yoder and Kelly (2018; 2020) report that in addition to the annual salary and bonus compensation, searchers usually earn 20-30% of common equity, based on achieving specific objectives in the acquired company. The equity stake is usually structured to vest upon achievement of operational and financial KPIs, and a common search fund vesting schedule vest one-third when the acquisition is closed, one-third over 4-5 years, and one third according to net investor IRR performance hurdles. All in all, Yoder and Kelly (2018) state that the search process usually runs for 12 to 24 months before acquiring a company.

2.1.3.3 Stage 3: Operation and value creation

Johnson (2014), Dennis and Laseca (2016) and Yoder and Kelly (2018) explain that after the acquisition, the searcher takes a role in top management as CEO, or a similar executive role, with the objective to create value between 4 to 7 years until they exit.

Li (2003) and Yoder and Kelly (2018) state that searchers usually recruit a board of directors after the acquisition, which often include a substantial representation of the initial investors. The same study also explains that in the first twelve to eighteen months after the acquisition, searchers normally make very few radical changes to the existing business. Instead, during this starting period searchers seek to gain management familiarity and become more comfortable with the business. Thereafter, searchers begin making changes they see fit.

According to Li (2003) and Yoder and Kelly (2018; 2020), search funds create value either through revenue growth, improvements in operating efficiency, appropriate use of leverage, or expansion. Thereafter, they suggest that the resulting company can be expected to be more valuable, even when sold at the same multiple for which it was purchased. However, their studies are not based on actual performance among search funds. Instead, Li (2003) and

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[5] Assuming USD/SEK exchange rate of 10.00

Yoder and Kelly (2018; 2020) present practical guidelines to aspiring search fund entrepreneurs with general suggestions on how to create value.

2.1.3.4 Stage 4: Exit

Rozenrot (2005), Johnson (2014) and Yoder and Kelly (2018) explain that a search fund usually exits its investment by selling either to a strategic player, financial sponsor, or through an initial public offering ("IPO"). The exit process usually runs for 6 months. Yoder and Kelly (2018) find that from 1984 to 2017, exited search fund investors have earned an average IRR[6] of 33.7% and a ROI[6] of 6.9x. Ruback and Yudoff (2012) suggest that the high returns are largely driven by the low purchase multiples in the small firm space, which seems to provide attractive opportunities for search funds. They argue that in the small firm space, companies can be purchased for valuation multiples as low as 4-6x EBITDA, and if debt is used to finance the acquisition, it creates favorable return on equity to the buyer.

Although search fund returns are compelling, an investment into a search fund is also associated with a risk of failure. A study by Yoder and Kelly (2018) shows that 31% of all search funds fail to acquire a company, despite significant efforts in 12-30 months. Of those successfully acquiring a company (69%), 29% are loss making investments, whereof 65% are partial losses and 35% are investments lost in full. Kessler (2012) reports that the three most common causes of failure are explained by (i) negative industry growth, (ii) complex operations, and (iii) troubled dynamics between the searcher and board. Exhibit 3a shows historical search fund outcomes from 1984 to 2017 and exhibit 3b show the most common causes of failure.

2.1.4 Development of the search fund industry

In a study by Yoder and Kelly (2018), they find that from 1984 to 2017, SEK 9.24 billion[7] equity capital was raised by search funds in the US. They further report that the equity return to investors amounts to over SEK 57 billion, with an average IRR[6] of 33.7% and an average ROI[6] of 6.9x between 1984 and 2017. By December 2017, 325 search funds have been launched since 1984, with 86 still searching, 160 that acquired a target, 73 ended their search, and 6 unaccounted for according to Yoder and Kelly (2018). Figure 3 shows the annual search fund activity in the US from 1984 to 2017.

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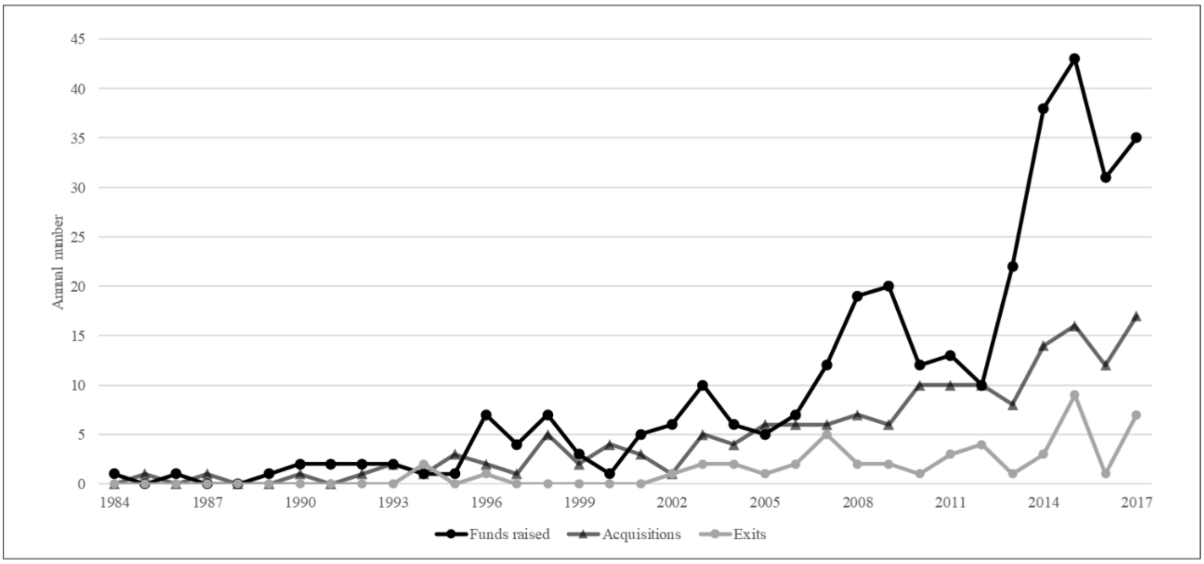
[6] Calculated financial returns from the initial search investors' perspective, including both the search capital and acquisition capital.
[7] Assuming USD/SEK exchange rate of 10.00

Figure 3

Search fund activity in the US by year from 1984 to 2017

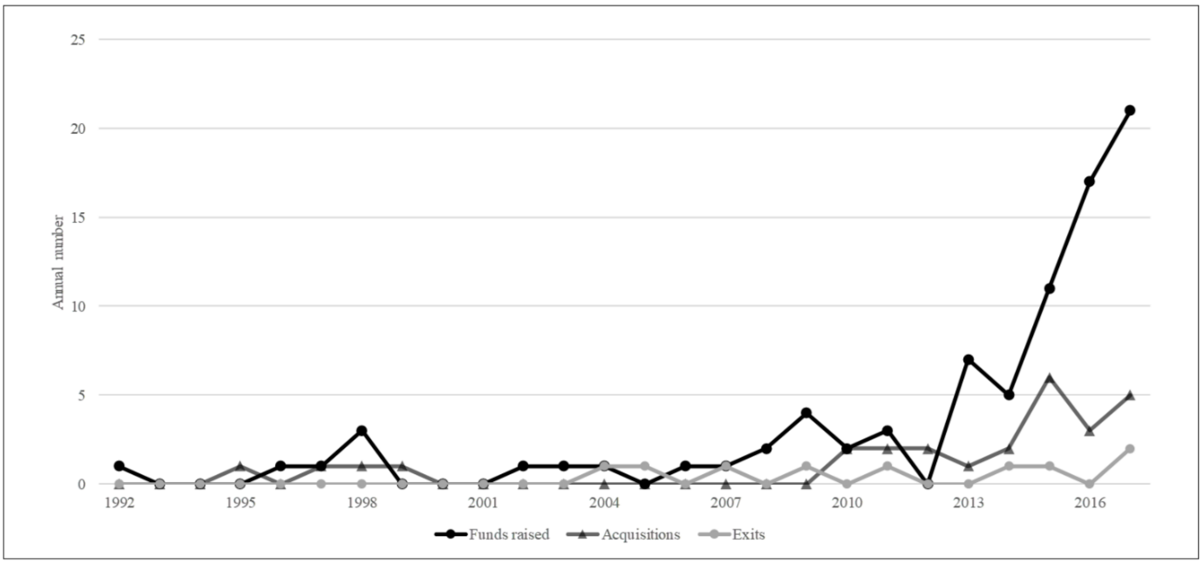


Source: Yoder and Kelly (2018)

Kalorova (2018) finds that the existence of search funds outside the US is scarce, with only 83 search funds raised since 1992, whereof 35 were in Europe. Exhibit 4 shows the geographical split of search funds outside the US. Kalorova (2018) also notes that few exits have occurred. This is a result of the relatively recent emergence of the search fund model outside the US and the 4 to 10-year lag between acquisition and exit. Consequently, only 12 search funds have exited their investments, whereof 9 achieved positive returns and 3 exited with a full loss. The average ROI[8] for these exits was 2.3x and the average IRR[8] was 33.3%. Kalorova (2018) mentions that the search fund concept is still in its early stage outside the US, and therefore more data is needed to make distinct conclusions about search fund returns outside the US. Figure 4 shows the annual search fund activity outside the US from 1992 to 2017.

Figure 4

Search fund activity outside the US by year from 1992 to 2017



Source: Kalorova (2018)

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[8] Calculated financial returns from the initial search investors' perspective, including both the search capital and acquisition capital.

2.1.5 Development of search fund models

In conjunction with the growth of the search fund phenomena over the years, different search fund models have emerged. Today, Yoder and Kelly (2018) explain that there are three types of search fund models; (i) traditional search funds, (ii) sponsored search funds, and (iii) self-funded search funds. The different models are separated based on the source of equity investment for the search capital.

2.1.5.1 Traditional search funds

Morrissette and Hines (2015) explain that traditional search funds raise capital from multiple sources, usually 12 to 18 investors, that mostly consists of angel investors and institutional search fund investors. A majority of all search funds use the traditional search fund model. In this model, investors are funding the search process and receive the pro rata investment option in the acquisition when the searcher is raising the acquisition capital.

2.1.5.2 Sponsored search funds

In contrast to traditional search funds, Morrissette and Hines (2015) show that sponsored search funds raise capital from only one to a mid-single digit number of investors. Usually, this model attracts investor profiles such as private equity buyout firms, venture capital, family offices and wealthy individuals. Morrissette and Hines (2015) state that sponsored search funds are usually raised by more experienced searchers.

2.1.5.3 Self-funded search funds

Yoder and Kelly (2018) describe that self-funded search funds do not raise money from outside investors for the search capital. Instead the search is funded by the personal funds of the searcher. However, in the acquisition phase, Morrissette and Hines (2015) explain that the searcher contacts investors to finance the acquisition capital in the same way as the other search fund models. Morrissette and Hines (2015) show that historically, self-funded search funds are the rarest search fund model.

2.1.6 Development of the searcher profile

Originally, the search fund model mainly attracted recent business school graduates that desired the entrepreneurial path after their MBA. Yoder and Kelly (2018) show that in 2004, 47% of all the new searchers launched a search fund less than a year post their MBA and the median age of searchers was 32. Also, 30% of all the new searchers were younger than 30. Morrissette and Hines (2015) report that this pattern is primarily explained by the attractiveness with the search fund model. The model offers relatively inexperienced professionals with limited financial resources a direct path to acquiring and operating a small to mid-sized business and thereby make a tangible personal impact.

Dennis and Laseca (2016) find that the search fund career path has increasingly captured the interest among more experienced professionals. The main explanation for the trend is the opportunity to embark on the entrepreneurial path and to operate and grow an existing company. The authors also explain that the search fund model offers aspiring searchers an enticing financial upside. Yoder and Kelly (2018) found in 2016 that the share of new searchers who launched a search fund less than a year post MBA had decreased to 25% vs. 47% in 2004, whereas the share of more experienced searchers increased. As of 2016, 37% of all new searchers had at least 4 years of work experience post their MBA, and 16% of all new searchers had more than 8 years of work experience. Yoder and Kelly (2018) found that the median age in 2016 was still 32 but the share of searchers younger than 30 had decreased to 26% vs. 30% in 2004. Yoder and Kelly (2018) show that founders of search funds come from diverse professional backgrounds. For 2017, their study shows that searchers with Operational Experience represented the largest (23%) pool followed by Banking/Finance (16%), Private Equity (14%) and General/Line Management (14%). Exhibit 55 shows a more detailed description to the historical statistics on the searcher's age distribution and their professional background.

2.2 Private equity

As previously mentioned and shown in figure 1, search funds share characteristics with buyout and venture capital in terms of IRR expectations and the maturity of the target companies. Buyout and venture capital firms are also common investors in search funds. Therefore, we review previous literature covering value creation theories in buyout and venture capital due to its connection with search funds and connect this with our findings about value creation in search funds.

2.2.1 Buyout vs. venture capital

As introduced in section 2.1 and figure 1, private equity has different subcategories where the company stage of the investment is one differentiator for classification according to Morissette and Hines (2015) and Døskeland and Strömberg (2018). Therefore, value creation can differ between the categories as well due to their differences. According to Morissette and Hines (2015), venture capitalists are active between the seed stage to expansion stage, buyout firms between later stage to post-IPO, and search funds between expansion stage and pre-IPO. As a result, search funds shares characteristics with buyout and venture capital, which makes them both relevant to this study.

There are several similarities between buyout firms and venture capitalists. Metrick and Yasuda (2011) explain that both types have the purpose of maximizing returns to their investors, often take an active ownership role through the board of directors, and invest in private capital. However, most research indicates that the differences outweigh the similarities between venture capital and buyout, shown by Kelly (2012), and Metrick and Yasuda, (2011). Metrick and Yasuda (2011) further explain that venture capitalists are specialized in risky early stage start-up investments. The early stage investment focus in venture capital results in slightly different challenges and ownership questions than in buyout. As such, Wasserman (2008) expresses an example that is more likely to be an aspect in venture capital due to its earlier stage investment focus. Wasserman (2008) explain that entrepreneurs oftentimes develops emotional ties to their company, refers to the business as "my baby" and new ventures become labors of love for the entrepreneur.

Kaplan and Strömberg (2009) explain that a distinct difference between investing in private equity versus venture capital is the nature of the transaction in terms of acquiring majority control. Gompers et al. (2016b) explain that venture capital firms usually take a minority stake in companies they invest in, whereas buyouts usually acquire majority control. This difference suggests that the accessible means of value creation in the categories is slightly different. More specifically, private equity firms with majority ownership in its portfolio companies, usually buyout firms, is likely to have more power to implement its own agenda for value creation. Consequently, venture capital firms are more dependent on execution from the other investors, normally a founding entrepreneur(s). Metrick and Yasuda (2011) found that this creates a principal-agent problem between the entrepreneur and the venture capital firm. Jensen and Meckling (1976), who introduced the agency problem, explain it as a situation under which one or more persons ("principal(s)") engage another person ("agent") to perform some service on their behalf which involves delegating some decision-making authority to the agent. Jensen and Meckling (1976) further explain that there is good reason to believe that the agent will not always act in the best interest of the principal ("agency problem"). Døskeland

and Strömberg (2018) report that venture capital firms often solve this problem through financial contracts and vesting of the entrepreneur's ownership. Stevenson et al. (2012) add that venture capitalists seek to reduce this risk by doing multi-stage-investments, rather than doing the investment upfront as in buyout. The rationale with multi-stage investment, is consistent with theories of real options developed by Myers (1977) who followed on the theory of financial options introduced by Black and Scholes (1973).

2.2.2 Private equity value creation theories

2.2.2.1 Deal sourcing

Gompers et al. (2016a) explain that an important determinant for value creation in private equity is the ability to source deals that are proprietary. They find that 36% of the closed deals in private equity are proactively self-generated, 7.4% are provided by management, and 8.6% come from their executive network. Gompers et al. (2016a) argue that these three deal sources, totaling 52%, have the highest probability to be proprietary. On the contrary, they explain that the remaining deal generating sources; investment banking (33%), deal brokers (8.6%), and other private equity firms (4.3%), are unlikely to be proprietary. The authors further argue that smaller private equity firms tend to source more proprietary deals, driven by smaller target deal sizes. Likewise, Gompers et al. (2016a) argue that investors in large and mega deals are less likely to make proprietary deals, given that their targets are more probable to be sold in an auction through an intermediary.

Gompers et al. (2016a) identifies a trend where private equity transactions originating from competitive auction processes (e.g. investment banks, deal brokers) is increasing. Døskeland and Strömberg (2018) explain that auctions tend to generate higher valuation multiples than proprietary deals, suggesting that purchase prices increase with more buyer competition. Døskeland and Strömberg (2018) report that in order to offset this trend, private equity firms dedicate resources to proactively generate proprietary deals, and it is now a differentiator among private equity firms to generate higher returns.

2.2.2.2 Deal selection

Gompers et al. (2016a) explain that private equity firms' approach to select deals have an impact on the value creation post acquisition. They find that the most important factors for private equity firms when they choose an investment is its business model or competitive position. The management team, the private equity investor's ability to add value, and the valuation are the next three most important factors and are roughly equal in importance. These results are notable in three ways. First, this adds color to Kaplan et al. (2012) who show that buyout funds usually target companies with a high performing CEO already in place. Second, Gompers et al. (2016a) argue that the high importance of the private equity investor's ability to add value when selecting companies to invest in, shows that operational engineering is an important source for value creation. Third, the high importance of valuation sheds light to research by Vester (2011), who shows that multiple expansion (or contraction) makes a substantial difference for value creation. Vester (2011) explains that multiple expansion can add more than 20% of incremental value growth. Additionally, Vester (2011) shows that 25% of all North American private equity deals between 2005-2010 had most of their value creation erased by multiple contraction.

2.2.2.3 The three post-investment sources of value creation

Kaplan and Strömberg (2009) introduce a categorization for the sources of value creation applied by private equity firms. More specifically, they classify the three main sources for value creation as: (i) financial engineering, (ii) governance engineering, and (iii) operational engineering. Following the work of Kaplan and Strömberg (2009), Gompers et al. (2016a) did an empirical study, which proves that private equity firms *combine* these three sources of value creation, instead of only targeting a specific source for value creation.

Operational engineering refers to improvements in operations and productivity among private equity owned firms. Gompers et al. (2016a) and Døskeland and Strömberg (2018) show that private equity investors have a greater focus on increasing revenue growth rather than reducing costs. In comparison to the aforementioned value-added categories, i.e. financial and governance engineering, Døskeland and Strömberg (2018) explain that operational engineering is somewhat more ambiguous and therefore also more difficult to replicate and produce. Nevertheless, research by Cumming et al. (2007), Acharya et al. (2010) and Cressy et al. (2007), show that buyouts on average increase value to target companies even though value-added actions related to financial engineering is removed. Harris et al. (2014), Gompers et al. (2016a), and Næss-Schmidt et al. (2017) argue that operational engineering is becoming an increasingly important differentiator among private equity firms when the competition increases, and the private equity market matures. Following this insight, Kaplan and Strömberg (2009), identify a trend among private equity firms to increasingly recruit personnel with an operational background in order to utilize value creation through operational engineering.

Financial engineering is achieved through changes in capital structure to maximize firm value. Døskeland and Strömberg (2018) explain that this usually results in substantial leverage (e.g. bank loans, mezzanine, bonds) to finance the acquisitions. Jensen (1989) shows that value creation via leverage comes from two main pockets; (i) corporate tax reduction from the deductibility of interest, and (ii) the incentive mechanism of debt leading to increased discipline among management to optimize the use of cash and reduce agency costs. Following the first pocket, Kaplan (1989b) confirms this finding. However, Graham (2000) identifies several challenges in determining how tax incentives affect corporate financial policy and firm value. Graham (2000) shows that the most common problem is the difficulty to calculate corporate tax rates due to data problems and the complexity of tax codes. Following the second pocket, Jenkinson and Stucke (2011) show that incentive benefits are more important than tax benefits due to the limited tax deductibility of interest in many countries, as well as the general decline in corporate tax rates. Jensen (1989) further explains the relationship between incentive benefits and debt by demonstrating that debt can be used as a device to create incentives. Accordingly, when the net debt level increases, it increases the interest and amortization which subsequently lowers the available cash and reduces the risk of financial slack. This in itself, reduces the risk of empire building and ensures that the management is dealing with cash flow problems as soon as they arise to avoid financial distress. Jensen (1986) and Berger et al. (1998) also show that debt has disciplinary advantages when the cash level is low, by improving the management's efficiency and cautiousness in investment decisions.

Governance engineering refers to the private equity firm's usage of board representation in their portfolio companies to create value. Døskeland and Strömberg (2018) explain that private equity investors often own a controlling stake in their portfolio companies, enabling them to design the portfolio companies' corporate governance structure. This has several implications. Research regarding board characteristics by Gertner and Kaplan (1996), Acharya et al. (2009) and Cornelli and Karakaş, (2008) show that private equity owned firms employ smaller boards and have more frequently held board meetings than comparable public companies. More specifically, Acharya et al. (2009) find that private equity-backed companies have on average twelve formal board meetings per year, and a typical board size of 7-8 members. Research by Yermack (1996) further states that smaller boards are more effective and correlates with higher shareholder return over time by creating stronger alignment and sharper more focused debates. Moreover, Døskeland and Strömberg (2018) explain that an important aspect of governance engineering in private equity owned companies is the board procedures and routines. They also mention that the improvement of processes and the use of detailed business plans are two examples of governance engineering. This can be demonstrated via operational KPIs that are continuously monitored and communicated throughout the organization, which promotes operational efficiency. Another characteristic for buyout private equity that relates to governance engineering, shown by Acharya et al. (2008), is its "top-down" approach to lead the portfolio company's strategy via its board representation. Thereafter, the management in the portfolio companies executes on the strategy, which suggests that a skilled management team is also an important ingredient to maximize value creation in private equity. Accordingly, Bloom et al. (2010; 2015) report that private equity owned firms have superior management practices, significantly better than family and entrepreneur owned firms.

Kaplan (1989a), Kaplan and Strömberg (2009), and Jensen (1989) find that private equity firms often introduce strong financial incentives to the management in its portfolio companies. This has empirical support in a study by Gompers et al. (2016a) who show that the CEO obtains on average an 8% ownership stake in the portfolio company. Further, Gompers et al. (2016a) show that private equity investors also allocate on average a 9% ownership stake to the management team other than the CEO. According to Kaplan (1989a), Cronqvist and Fahlenbrach (2013), and Gompers et al. (2016a) it creates better alignment of incentives between the management and shareholders, and reduce the risk of empire building and excessive risk taking by the management. Nevertheless, statistics prove that financial incentives are not limited to the management. Dube and Freeman (2008) find that 25% of all workers in the US have some form of employee stock option. Furthermore, research by Croucher et al. (2010), Kabst et al. (2006), Pendleton et al. (2002), Uvalic et al. (2009) and Poutsma et al. (2012) jointly show that the practices for employee stock options vary greatly between countries depending on national tax legislation and local human resources management strategies. Henrekson and Rosenberg (2001) note that tax systems differ across countries, where high tax on wage and capital penalize gains from employee options. Consequently, Henrekson and Rosenberg (2001) suggest that countries with high taxes use employee stock option programs less frequently. Overall, financial incentives can arguably be classified as an example of both governance and financial engineering.

In terms of *creating* value in private equity owned firms, Gompers et al. (2016a) investigated which group in the private equity organization that creates the post-investment source of value. They found that the deal team is the most active post deal value creator, followed by operating partners and then outside consultants.

3. Methodology

This chapter explains our choice of methodology, data collection and includes a critical discussion about the reliability and validity of the data sources and methodology.

3.1 Empirical methodology

We carry out a single qualitative case study in order to get a thorough and comprehensive understanding of what a search fund says it does to create value for its investors. The approach of using case studies as a scientific empirical method has been both criticized and praised. Historically, case studies were not recognized as a legitimate scientific method but the evolving insight that *"findings are unstable over time"*, i.e. interpretations may change depending on the context that is being considered, contributed to a revised attitude toward case studies (Dubois and Gadde, 2002; Weick, 1979, p. 37). The main argument from critics is that case studies are too specific and therefore provide limited basis for scientific generalization (Weick, 1969, p. 18; Yin, 1995). Conversely, advocates such as Dubois and Gadde (2002), argue that case studies are an ideal method to extend theory by utilizing in-depth insights of empirical phenomena and their context. In addition, Van Maanen (2002) states that theory born from deep insights is more accurate and more appropriately tentative because intricacies and qualifications of a particular context are taken into consideration. Dyer and Wilkins (1991) further praise the single case study method by arguing that a careful study of a single case can generate new theoretical relationships and question old ones, whereas the more contexts a researcher investigates, the less contextual insights can be communicated.

A case study fixated on NS Intressenter's acquisition of PriceRunner is suitable for three main reasons. First, it is to our knowledge the first search fund in the Nordics. Consequently, accessibility to public data related to search funds is non-existent in the Nordics. This further emphasizes the value-add with an in-depth and comprehensive analysis via a case study to serve as an initial source of knowledge for both academia and practitioners. Second, it can generate new theoretical insights and question the non-scientifically proven assumptions about the value creation in search funds. Third, a single case study supplies an in-depth insight to how a search fund creates value to its investors *across all* the different stages of a search fund's life-cycle.

3.2 Data

Our two main sources of data are interviews and surveys. The surveys were distributed prior to the interviews, thereby providing both quantitative and qualitative responses from the interviewees. This two-step approach resulted in a deeper understanding of the case and enabled us to observe contrasts between the answers in the surveys as well as in the interviews. The surveys had questions that were identical among interviewees, which also enabled us to compare the normalized quantitative answers between the interviewees. Consequently, we included a quantitative dimension to the qualitative case study that served as a key enabler for deeper conclusions. In the interviews, we asked complementing and follow-up questions to the survey that allowed us to verify and further understand the given answers in the surveys.

The study is also supported by public and non-public data. The non-public data consists of NS Intressenter and PriceRunner's internal research, board material, investor presentations and investment presentations. The public data is gathered from secondary and tertiary sources. It includes data collected from Capital IQ, Bain & Company, Goldman Sachs, OECD, Statista, Daedal Research, University of Wisconsin-Milwaukee, Institutet för Reklam- och Mediestatistik, Svenskarna och Internet, news articles and podcasts.

3.2.1 Survey

We took inspiration from the survey made by Gompers et al. (2016a) when we designed the survey for this study. Then we structured the survey according to the value creation channels for private equity introduced by Kaplan and Strömberg (2009). Gompers et al. (2016a) designed the survey with the intent of comparing what investors do in practice relative to what is taught in business schools. As a result, both scientific theories and practical methods are embedded in our survey as well. By using the survey made by Gompers et al. (2016a) as a guideline, it enabled us to identify and analyze similarities and differences in value creation between private equity and search funds. However, our survey is focused on a single case compared to Gompers et al. (2016a). Therefore, we added questions and adjusted the survey from Gompers et al. (2016a) to gain a more comprehensive and deeper understanding. Furthermore, we excluded some questions from Gompers et al. (2016a) because they are not applicable to this specific case and due to differences between the scope of the studies.

We conducted a pilot test of the survey on Professor David T. Robinson, Distinguished Professor of Finance at Duke University, who has expertise within entrepreneurial finance and empirical corporate finance. Thereby, we discovered misinterpretations and ambiguities which could be corrected accordingly. Additionally, feedback from Robinson allowed us to remove certain questions and identify those that were the most important. In order to interpret the survey correctly, we normalized the answers to receive an aggregated perspective.

3.2.2 Interviews

The interviews are the primary source of data. In our selection of interviewees, we considered each individual's perspective, role and area of responsibility during NS Intressenter's investment in PriceRunner, and their engagement in value creation during the stages of the search fund's life-cycle. See table 1 for a detailed overview of the interviewees. We also ensured to include the different perspectives on sources of value creation, i.e. financial, governance and operational engineering, according to Kaplan and Strömberg (2009) and Døskeland and Strömberg (2018). In addition, we selected interviewees with the intention to receive a diversified perspective, and thereby reduce the risk of bias in the responses.

The interviews were arranged as semi-structured according to Merriam (1994). In the preparation for the interviews we used the survey and combined it with public and non-public data to uncover areas of specific interest. In each section of the interview we initially asked open-ended questions, where interviewees could freely express their impressions, insights and experiences. Thereafter, we continued to ask follow-up questions that were more specific. The interviews varied between 60 minutes to 120 minutes and were all recorded and transcribed the same day as the interview was held.

Table 1

Overview of interviews

This figure reports the interviews for the case study. The column "Dependence" refers to people working at PriceRunner, representing a shareholder, or acting as a member of the board during the case.

Interviewee	Company and role during the case	Current company and role	Value creation perspective	Interview format
Nicklas Storåkers	Searcher / PriceRunner - CEO / Board member	PriceRunner - CEO / Board member / Shareholder	Universal	Interview
Mikael Lindahl	Searcher / PriceRunner - COO (Head of Growth)	PriceRunner - Head of Growth / Shareholder	Universal	Interview
Hannes Lindroos	PriceRunner - CFO	PriceRunner - CFO	Financial	Interview
Martin Andersen	PriceRunner - Head of merchants and Head of Denmark	PriceRunner - Head of merchants and Head of Denmark	Operational	Interview
Paul Fischbein	Board professional / PriceRunner - Board member	Board professional / PriceRunner - Chairman of the Board	Investor / Governance	Interview
Carolina Oscarius Dahl	Nordstjernan- Investment Manager / PriceRunner - Board member	Nordstjernan- Investment Manager	Investor / Governance	Interview
Björn Magnusson	Philian - General Manager / PriceRunner - Board member	Philian - General Manager / PriceRunner - Board member / Shareholder representative	Investor / Governance	Interview
Tomas Billing	Nordstjernan - CEO	Nordstjernan - Senior Advisor	Investor / Governance	Email correspondence

3.3 Reliability and validity

We recognize that a single case study methodology has multiple effects on the reliability of this study. We acknowledge that the interviewees might be biased towards the narrative because of their roles and relationship to NS Intressenter and PriceRunner. This is unavoidable given the chosen methodology. However, we believe the risk for any bias is reduced by having multiple interviewees and occasionally asking identical questions to different individuals. Additionally, the interviewees filled out the survey with the assurance that the answers were normalized and aggregated so individual answers cannot be identified. Thus, individuals had less incentives to report inaccurate answers. Also, considering the work of Cronbach (1951), we asked multiple questions that were comparable on each topic but phrased them differently. Then, when multiple questions on a certain topic were combined, they could prove or reject an initial hypothesis.

Despite our approach to include multiple interviewees from different perspectives, we acknowledge that the interviewees are selected based on our knowledge of their involvement in the case, which can result in selection bias. This was mitigated by confirming with the key stakeholders that we had scheduled interviews with all relevant people in the case to receive a comprehensive view and accurate reflection of the course of events.

The interviews are affected by the setting when they are held and subjects to interpretation. Therefore, we took three initiatives to mitigate the risk of subjectivity. Firstly, both of us attended all the interviews and took separate personal notes that were later compared to find any potential ambiguity in the responses. Secondly, we transcribed the interviews the same day as they were held to ensure that the impressions were preserved. Thirdly, we clearly mitigated the risk associated with interpretation by having a survey that gave quantitative responses. The quantitative survey allowed us to receive a measurable understanding and identify the relative importance between the value creating activities.

In addition, the survey itself might suffer from response bias. This builds on the fact that a scale was used in the survey that might have been interpreted differently between the respondents. It can also result in extreme responding, where respondents tend to use the extreme positive or negative ends of the scales. Brinker (2002) shows that survey respondents have a tendency to limit their responses to relatively narrow ranges in a response scale. Therefore, following Brinker (2002), we converted the raw scores to z scores, with each respondent's score for each variable standardized to their own distribution of raw scores. Accordingly, this gives a more accurate reflection of the relative rankings of all the respondents equally and improves the interpretation.

Lastly, discussions were held with Vincent Maurin, Assistant Professor at Stockholm School of Economics and David T. Robinson, in order to receive an independent perspective and advice on the research methodology. They also provided us with a second opinion and guidance to the case study.

4. The Case - NS Intressenter and its value creation over the fund's life-cycle

Section 4.1 to 4.7 provides a detailed understanding of NS Intressenter's search fund life-cycle. As mentioned in section 2.1.3, the stages of a search fund's life-cycle cover (i) fundraising, (ii) search for and acquisition of target, (iii) operation and value creation, and (iv) exit. These stages of the life-cycle are described in a chronological order from May 2013 to February 2020. However, the chapter begins with a background that leads up to the creation of the search fund. For a list of definitions and main abbreviations in this section, please see exhibit 23.

4.1 Background: From CEO of Avanza to the idea of a search fund

Nicklas Storåkers graduated from Stockholm School of Economics in 1996 and began his career as investment analyst at Custos. Custos was an investment company that merely consisted of six people (DI Weekend, 2017), yet included successful and renowned business executives such as; Sven Hagströmer, founder of the investment company Creades (Creades, 2020), Christer Gardell and Lars Förberg, who later founded Europe's largest activist hedge fund Cevian Capital (Business Insider, 2016), and Tomas Billing, previous CEO of the real estate company Hufvudstaden and later CEO of the investment company Nordstjernan (DI Weekend, 2017).

In 1999, after just two years at Custos, Storåkers was appointed CEO of Avanza Bank ("Avanza"), a Swedish online stockbroker and brokerage firm founded by his former executive Sven Hagströmer. This was startling news because Storåkers was only 25 years old and therefore became Sweden's youngest CEO of a listed company (Dagens Industri, 2000). During Storåkers' tenure at Avanza, he successfully built the company from 0 to 250 employees (Veckans Affärer, 2018), reached a market capitalization of SEK 6.7 billion (NS Intressenter, 2014), representing a staggering increase in market capitalization of 1,611%[9] (S&P Capital IQ, 2020a). Avanza's remarkable growth became a proof of Storåkers talent and capabilities, particularly as CEO and his knowledge within online stockbroking, digitalization and IT. Storåkers quickly became a reputable name in the Swedish business community (DI Weekend, 2017). It was also during this period that Storåkers developed and framed his business philosophy; always prioritize and maintain focus on customer value, it will ultimately create more value in the company (Internetworld, 2007).

On April 14th, 2011, Storåkers announced his resignation as CEO of Avanza. At that time, he had been CEO for 12 years between 1999-2011 (Avanza, 2011). The announcement came as a surprise to the market and by the end of the announcement day the stock had decreased with 3.4%[10] whereas OMX30 only decreased with 0.7%. The stock continued to fall in the following days and 7 days after Storåkers' announcement, the stock was down 9.9% whereas OMX30 increased with 0.3%[11] (Capital IQ, 2020; Nasdaq, 2020b). Sven Hagströmer, founder and chairman of the board of Avanza, commented:

"Nicklas has done a fantastic achievement. Avanza Bank, with its very strong customer focus, is still after 12 years in strong expansion." Sven Hagströmer, 2011-04-14 (Avanza, 2011)

It became evident that it was Storåkers himself who took the initiative to resign because of personal reasons. Storåkers explained why:

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9 As of September 13th, 2000 to February 28th, 2011

10 Decrease of 3.4% from opening share price to closing share price as of April 14th, 2011

11 Decrease of 9.9% from opening share price as of April 14th, 2011 to closing share price as of April 21st, 2011

“We have spoken about this the last couple of weeks. It is my initiative. I believe in the company, enjoy my role and still see challenges. I could stay for ten more years. However, you start thinking a bit after being a CEO for [a listed company] a third of your life. Today, we have a good management and I have taken a more laid-back role. In the end, it becomes an existential question.” Nicklas Storåkers, 2011-04-14 (Realtid, 2016)

Storåkers, now 37 years old, was suddenly at a crossroad in life (DI Weekend, 2017). What was he going to do next? When Storåkers was asked about the future, he answered:

“I do not know. I have always enjoyed building things, building companies. That is what I am good at. It is who I am as a person. What that means for the future, I do not know.” Nicklas Storåkers, 2011-04-11 (Realtid, 2016)

However, inwards it seems as Storåkers had a feeling what his next step would be. When Storåkers reflected back on the situation six years later, he stated:

“I had decided on three things. The first thing was that I would take a longer time off before jumping on something new again. The second was that I wanted to invest in a couple of smaller start-ups that I really believed in. And the third was that I wanted a real job again. Becoming a full-time board professional or business angel was never an option” Nicklas Storåkers, 2017-08-24 (DI Weekend, 2017)

Accordingly, Storåkers took time off after Avanza to reflect on what to do in life. During the break he took a university course about dinosaurs, taught himself how to crawl and spent the excess time with his family and friends. Unsurprisingly due to his success with Avanza, Storåkers was approached by numerous recruiting firms and estimates that he received, and declined, approximately 50 job offers when he reflected back on the period in 2017 (DI Weekend, 2017). Many of the job offers came from private equity firms and established companies with a successful track record. It was for example rumored that Storåkers was the number one choice to become the next CEO of Carnegie Investment Bank, a leading investment bank in the Nordic region (Svenska Dagbladet, 2012a; 2012b). However, during his break, Storåkers had an epiphany and realized what his requirements were for his next job. Storåkers commented:

“After a while I realized how important it is for me to do good things. I was not looking for a prestigious title, but a job that I am passionate about. The work is a big part of your life and the last time I counted; you only have one. Therefore, it is important to be careful in what you do. Now I may sound like a priest, but I want to go whole-hearted in the work that I do.” Nicklas Storåkers, 2017-08-24 (DI Weekend, 2017)

At first glance, working for a private equity firm was an attractive alternative. However, Storåkers’ view on working for a private equity firm was that most private equity firms keep their cards close to their chest, have their own view and agenda of a company, are selective in what parts they share of their analysis, and prepares and presents a finished material for the operating management to execute upon. This methodology did not fit with Storåkers ideal way of working as an entrepreneurial CEO. Storåkers enjoys playing the first fiddle and keep track of all the information. Storåkers explained:

“Firstly, I would not be as much in control as I prefer to be. That is, private equity companies control a lot of the information and planning, they sit in the driver’s seat and I like to be the one sitting in the driver’s seat. Secondly, I did an analysis showing that if you look at the value

creation over a private equity investment's life-cycle, who takes what of the created value? Private equity companies get compensated for more than what they contribute with to the value creation." Nicklas Storåkers, 2020-03-03

Storåkers elaborated on his view regarding value creation in private equity:

"Private equity in all its respect but its approach to value creation is limited. Yes, doing business is difficult and there are great values, but it is a craft that many can learn. Private equity firms are not sitting on a magic formula." Nicklas Storåkers, 2020-03-03

Consequently, Storåkers realized that he wanted a job where he would get the freedom as an entrepreneur, but he did not want to start from scratch with a new company. Instead, he desired to work at an established company and grow it. Accordingly, Storåkers wanted to search, acquire and lead a privately held company as CEO. This would allow Storåkers to create the job of his dreams rather than wait for it to come to him. However, this was a setup that was unheard of in the Nordics and Storåkers had at the time not heard about the concept "search fund".

4.2 Stage 1: The inception of NS Intressenter and raising the search capital

In order to execute his plan, Storåkers was in need of more financial strength. Even though Storåkers had strong financial resources thanks to his success with Avanza, it was not enough to acquire a suitable company. Fortunately, Tomas Billing who Storåkers worked with during his time at Custos was now CEO of the investment company Nordstjernan, that had a total turnover of more than SEK 100 billion and about 50,000 employees (including its holdings) (DI Weekend, 2017; Nordstjernan, 2020a). In addition to contacting Nordstjernan, Storåkers reached out to Karl-Johan Persson, co-owner, heir and CEO of H&M at the time. Persson had besides his role in H&M been increasingly active as a private investor through his investment company Philian (DI Digital, 2016a; Affärsvärlden, 2020). Exhibit 6 shows a more detailed biography of the key stakeholders. Storåkers explained his motive for contacting Nordstjernan and Philian (Karl-Johan Persson):

"It was quite natural to reach out to Tomas since I knew him from Custos and I also liked the investment philosophy of Nordstjernan where he served as CEO. I did however not have a super close relationship with Karl-Johan, but I like him as a person, his competence and his long-term attitude towards investments." Nicklas Storåkers, 2020-03-03

In the pitch Storåkers did for Nordstjernan and Philian, Storåkers explained his idea to raise money to support his efforts to search, acquire and lead a company. One of his main arguments was to remove the piece of the cake that private equity companies cut in between, allowing both the investors and Storåkers to receive a better return. In addition, he echoed the unproportioned value private equity receives relative to what they contribute with and emphasized the importance of the management to create value in companies. Storåkers commented:

"Skilled business executives are a more limited resource than investors. In the US for example, they have realized that it is the management, not the investors, who are in the driver's seat and create the greatest value in companies." Nicklas Storåkers, 2020-03-03

Storåkers' proposed setup was that Nordstjernan and Philian would finance the search capital, i.e. the required money to identify, analyze and negotiate a company to acquire. Next, Storåkers would present an investment proposal to Nordstjernan and Philian. If an investment proposal was successfully approved by Nordstjernan and Philian, they would together acquire a company, owning about a third each, collaborate via the board of directors, and Storåkers would take the role as CEO. It meant that Nordstjernan and Philian would not commit capital in the same way as in private equity, since they would contribute capital on two separate occasions rather than all at once. Most of the contributed capital would be invested once Storåkers presented a deal. Storåkers explained his pitch and the attractiveness with the setup:

"A key point I made to Nordstjernan and Philian when pitching the search fund model, was to cut the middleman. With this I mean that investors who prefer to do direct investments, rather investing in a traditional fund structure, would benefit from getting a larger share of the returns through the search fund structure. In a traditional private equity fund structure, a large fraction of the return is diminished by management fee and carried interest." Nicklas Storåkers, 2020-04-16

Storåkers further explained:

"The attractiveness of the search fund model to investors is also that management is decided beforehand, specifically, the idea was that I would run the company as CEO. Therefore, we had a broader set of companies that we could acquire where a new management was needed." Nicklas Storåkers, 2020-04-16

Storåkers also explained the risk associated with the investment for the investors:

"*From a risk perspective, Nordstjernan and Philian would only risk the search capital they committed during the search process, and this was a small fraction of the total purchase price of a potential acquisition. After the search, Nordstjernan and Philian could decide to invest or not when I had found a company to acquire." Nicklas Storåkers, 2020-04-16*

Conveniently, Storåkers idea fitted Nordstjernan's strategic direction. At that time, digitalization was a major business trend and Nordstjernan had a portfolio heavily focused on business to business and the construction industry and felt the urge to incorporate this trend into their holdings. Therefore, from Nordstjernan's perspective, a collaboration with Storåkers allowed Nordstjernan to capitalize on the digitalization trend through Storåkers' extensive digital expertise, use it to create spillover effects to their existent holdings, and also gain access to new business opportunities via Storåkers. Billing explained:

"The decision to fund the search was driven by the fact that Nordstjernan lacked knowledge in digitalization and the IT space, and Storåkers had strong industry expertise in this space and consequently Nordstjernan would through Nicklas be able to access deals which otherwise would be neglected." Tomas Billing, 2020-04-06

However, this was a new type of investment structure for both Nordstjernan and Philian. From Nordstjernan's perspective, their key concept is long-term value growth through active ownership and control (Nordstjernan, 2020b). Its long-term view is based on its principal owners, the Axel and Margaret Ax:son Johnson Foundations to manage its wealth and inheritance as a 4th generation family business with ancestry dating back to the 1890s (Nordstjernan, 2020e). Accordingly, Nordstjernan's oldest ownership, NCC, one of the largest construction and real estate development companies in the Nordic region goes back to 1928. Also, Nordstjernan is usually the largest owner with majority control and an active owner through its board representation (Nordstjernan, 2020c). To provide the necessary time, resources and attention to its holdings, Nordstjernan has about 30 employees providing advisory services to its portfolio companies management teams, a maximum of 20 companies in its portfolio to ensure each holding receive sufficient attention and develops an ownership plan for each company (Nordstjernan, 2020c; 2020d).

From Philian's perspective, Persson had historically invested in companies appearing through his own personal network, but when he founded Philian and asked Björn Magnusson to actively build the portfolio, he created a more structured investment approach. Consequently, Philian's investment philosophy is an expression of Persson's passion, to support entrepreneurs with new ideas. Philian usually takes a minority ownership around 5-10% in its investments, invests in early phases with follow on investments in coming rounds, and takes a passive role and no board seat. Björn Magnusson, responsible for Persson's personal investments and General Manager of Philian, stated:

"Normally, Philian is a minority owner, with a 5-10% ownership and invests in early stages. We do not buy whole companies, take control, nor take an active ownership role. In principle, we are passive but committed when it is needed and we take no board seats." Björn Magnusson, 2020-04-01

The choice of co-investors is another important consideration for Philian when they evaluate investments. A majority of their investments have been together with other investors. Magnusson explained what they look for in their co-investors:

"It is mostly about getting the right expertise to the companies. We seek co-investors who know a particular industry and understand more about it than we do." Björn Magnusson, 2020-02-19 (Affärsvärlden, 2020)

Clearly, Storåkers' proposed deal was a new type of investment structure for both Nordstjernan and Philian. Storåkers' proposed structure where Nordstjernan, Philian and Storåkers would hold a non-controlling interest of about a third each of an acquired company was different from the majority control in larger companies that Nordstjernan were used to. For Philian, the structure meant that Philian would take a larger ownership share than normal and they would be more active than usual via their board representation. Magnusson commented:

"Nicklas' proposed deal is an outlier considering our significant ownership, where I have a board position and so forth. It is not our standard way due to our approach to go broad with our investments." Björn Magnusson, 2020-04-01

Yet, Philian was attracted by Storåkers' entrepreneurial drive, track record and his deep industry expertise. Magnusson elaborated on their trust to Storåkers.

"Nicklas is very good at finance and fintech and is a typical person who we gladly ask for advice." Björn Magnusson, 2020-02-19 (Affärsvärlden, 2020)

Storåkers successfully convinced Nordstjernan and Philian and received SEK 10 million in search capital, which would finance Storåkers' search for a company to acquire. By doing so, Nordstjernan and Philian received the right, but not the obligation, to participate in a subsequent round when Storåkers would raise the acquisition capital for the takeover of a company. Unlike a normal private equity investment, Nordstjernan and Philian reserved the right to review the investment prior to contributing all the necessary capital. Together they founded NS Intressenter in May 2013, with the intention for Storåkers to locate, acquire and lead a privately held company as CEO. Consequently, without anyone being aware of it at the time, NS Intressenter became the first search fund in the Nordics.

4.3 Stage 2: From the founding of NS Intressenter to its acquisition of PriceRunner

This section covers the second stage of the search fund's life-cycle. It revolves around the search process for a company to acquire during the period between May 2013 and March 2016.

4.3.1 The search process

Storåkers had several requirements to take into consideration during the search for a company to acquire. First, the industries they decided to look at, based on Storåkers experience, were (i) information providers, (ii) software, (iii) financial services, and (iv) e-commerce (NS Intressenter, 2020a). Exhibit 7 shows a more detailed description of the selected industries with examples of companies in each industry. Second, due to Philian's ties with H&M, they did not screen for companies related to fashion which could be considered competitors to H&M. Likewise, an equivalent restriction applied to the construction industry because of Nordstjernan's presence in that industry. Third, as previously mentioned, it was crucial for Storåkers to work in a company that had a good purpose with no historical reports of misconduct. This was also critical for Nordstjernan and Philian, where the downside from potential bad publicity was far greater than any upside the venture could generate. Therefore, it was necessary that the target fulfilled corporate social responsibility (CSR) and environmental, social and governance (ESG) requirements. Fourth, the companies had to be profitable with an established business model. Fifth, in terms of geography, focus was companies with headquarters in the Nordic region including Sweden, Norway, Denmark and Finland. Sixth, there had to be an opportunity for Storåkers to take the role as CEO. Lastly, the scope included companies with an enterprise value predominantly within the range of SEK 100 million to SEK 1 billion. Storåkers explained the rationale behind the target range of enterprise value:

"There is a sweet spot between SEK 25-200 million in equity ticket that is usually too small for traditional private equity players and too large for single individuals to acquire. We saw it as; fly under the radar of mid-market private equity." Nicklas Storåkers, 2020-04-16

After a few months into the search, Storåkers realized that it was too difficult for him to do the whole search himself. Therefore, he contacted his former management trainee from Avanza, Mikael Lindahl, to assist him in his search. Storåkers also liked the idea of working with Lindahl again as they worked well together at Avanza. From Lindahl's perspective, he liked the unique setup with NS Intressenter and was happy to once again work with Storåkers and joined Storåkers as a searcher (manager of a search fund) in October 2013.

Storåkers and Lindahl knew that in the short run, they were both making an economic sacrifice. During the search process, Storåkers took a symbolic monthly salary of SEK 80,000 and Lindahl a symbolic monthly salary of approximately SEK 50,000. Their salaries were considerably lower than what they could receive from other work opportunities but over a longer horizon, this was an opportunity to potentially receive a higher upside and a more fulfilling career.

Storåkers and Lindahl realized that they had to be cost-effective during the search process because of the limited search budget of SEK 10 million. This was an initial budget that was planned to cover approximately a 2-year search horizon. Therefore, all due diligence was required to be kept cost-effective, with leeway for a number of lighter deal processes and a couple that would go more in depth. According to their budget, each deal process could cost a few SEK million and they could not do more than 6 in-depth processes in total. That was also under the assumption that Storåkers and Lindahl would do the commercial due diligence themselves with some assistance from university students, hired on a part-time basis from Stockholm School of Economics. Legal and accounting due diligence was conducted by outside consultants. They conducted their search in an office they rented from Nordstjernan's office in Stockholm for a subsidized monthly fee of SEK 5,000 per person. Exhibit 8 shows NS Intressenter's two-year projected budget. Lindahl explained the budget:

"Our view was that we would pursue cost-efficient due diligence processes. We allocated a couple of million Swedish krona for due diligence processes and consulting efforts each year. The budget required us to do the strategy part of the due diligence ourselves, i.e. the commercial due diligence, and we had to source market data and surveys from students at Stockholm School of Economics. These firms are small, usually with not too complicated operating model, where procurement and sales processes are simple and clean to get your head around. And even in the more advanced commercial due diligences we did, we could not rely on someone else to understand it all and come up with a plan, since we would have to live with the outcome we'd better do it ourselves." Mikael Lindahl, 2020-03-26

The search fund model and the search process were a contrast for both. Storåkers and Lindahl shifted from an operational environment to a more analytical role with an investment perspective. It became noticeable early on that they had to adjust their work methodology. In an operational role, they were used to a high tempo, with no focus on always producing 100% perfect material but rather on producing a lot of material. However, that was not the case where they now had to carefully manage time, do everything by themselves and be extremely effective in everything they did.

After some time, they established three sources of deal leads. First, they mapped industries and cold-called companies they found interesting and sought to work proactively ("outbound deal origination"). Second was through PR ("inbound deal origination"), where they were approached by business owners and intermediaries. For doing so, they used the personal brands of Storåkers and Persson to make interviews with newspapers, which was free of charge and a unique channel for NS Intressenter. Third was via brokers ("broker-generated"). Approximately 45 different brokers were contacted ranging from large established investment banks such as JP Morgan to smaller boutique brokers. Along the process, it became evident that the proactive approach, with market mapping and cold-calling companies was very difficult with an extremely low hit rate. In terms of generating the most leads, brokers were the best channel, but the processes were also much more competitive. All in all, the allocation for the three sources were: 70% via brokers, 20% via inbound deal-origination and 10% via outbound deal-origination. Of all the deal leads, 50% were proprietary, mostly generated from inbound and outbound deal generation. The remaining 50% were auction processes, mostly generated from brokers.

By June 2015, Storåkers and Lindahl had investigated over 400 companies and all potential targets received some sort of follow-up due diligence. The duo concluded that they had sent 20 indicative bids. Still, no company had been acquired yet and they had exceeded the initial time schedule for the search period of 2 years.

4.3.2 The pros and cons with the search fund model during the search process

There were several explanations why the search process was complex and why it took longer than expected. Not only was it difficult to identify a lucrative investment itself, but also the fact that Storåkers would take on the role as CEO. Occasionally, this created a dilemma as it appeared hostile when they reached out to companies, where the existent CEO felt threatened to lose his or her job. Another issue was related to the seller's identities. Similar to search funds in the US, NS Intressenter identified many targets that had succession problems with the existent owner. Despite the seller's need for someone to take over, they were often too personally attached to the company and reluctant to sell their life's work. Storåkers commented:

"Buying entrepreneurial owned companies is very special. When it comes down to it, founders often have a hard time saying goodbye to their life's work." Nicklas Storåkers, 2020-03-16

From time to time, they also experienced negative effects from having very strong financial investors. This resulted in being dragged into processes that at first sight seemed interesting but when they heard about the potential acquisition price, it was far higher than their scope. Brokers did not seem to consider what was relevant for NS Intressenter and contacted them regardless of the size of the deal. Also, at times when the seller realized their company could potentially be sold to a company funded by two renowned and well-funded investors such as Philian and Nordstjernan, they tried to highball and sell it for a higher price.

NS Intressenter did however identify a couple of advantages they had in their search process. Rather than using outside consultants for the due diligence, they were the ones creating the value creation plan for the potential targets. As a result, they could more efficiently utilize their operational experience and create the value creation plan according to their strengths and weaknesses. Besides, since they were the ones planning the value creation plan and would execute it themselves, they were firm believers of it. In situations when the seller was also the founder, the seller did not only meet a potential new owner but also the new management which was different from other buyers. Sometimes it gave the seller a sense of relief that their life-work would be passed over to a management they met. It was also noticed that several sellers were proud to potentially be selling their life's work to Storåkers, Philian and Nordstjernan because of their reputation. Philian in particular was highly regarded, as the Persson family was seen as an entrepreneurial role model because of its success with H&M. This created strong incentives among certain sellers to discuss with Storåkers and Lindahl. Also, in some processes, NS Intressenter flew under the radar of more competitive bidding processes with several institutional investors, due to their lower target range in company size. The smaller deals were oftentimes too small for buyout firms to generate necessary returns. Additionally, in the smaller deals the transaction costs were high in comparison to the size of the deals itself. For cost-effective investors, such as NS Intressenter, this was to their advantage.

4.3.3 A decisive moment

In June 2015, approximately 2 years since Storåkers and Lindahl began their search, they finally seemed to complete the first investment. It was a deal they had been working with for 4 months, heavily invested in terms of time, money and emotions. Unfortunately, the deal fell short at the last minute. This was a huge disappointment for Storåkers and Lindahl which made them question if they should continue or not. Lindahl took his boat the next day to Storåkers house not far away. Together they sat down on Storåkers porch with a dull and empty feeling to discuss, should they continue or quit? And if they continued, what were they doing wrong? Lindahl reflected:

"When the deal failed, it was a knockout. It felt like being back on square one after two years of work. We had to ask ourselves the question if we should round this off. Should we try one of the start-up ideas we have or take qualified jobs? One alternative in the back of our minds, was to be management in a private equity owned company, but it would mean we would not be in the driver's seat, unable to negotiate, leverage is not set by us, and it would almost be like taking a normal job but with a better deal." Mikael Lindahl, 2020-03-26

The summer of 2015 was a decisive period for Storåkers and Lindahl. It gave them time to reflect on separate ends about the search fund and if they were motivated enough to continue. The duo concluded to proceed with the meetings they had scheduled after the summer holiday. If no attractive company was found by the end of the year, they would close the search fund.

4.3.4 The Design Online opportunity

In August 2015, the duo met with PwCs Corporate Finance team in Stockholm. The PwC team handed over a confidential investment memorandum, pitching the sale of Design Online, a Swedish e-commerce company within interior design based in Kalmar, Sweden. The company offered more than 15,000 products within glass, dinnerware, storage and lightning to about 70 countries worldwide (NS Intressenter, 2015b). Design Online was looking for a new owner as the founder and CEO, Jörgen Bödmar, was planning to retire and was in need for a smooth succession. Bödmar explained the sale:

"It is part of my phasing out by broadening the ownership. I recently turned 60 years old." Jörgen Bödmar, 2015-12-04 (Breakit, 2015)

Storåkers and Lindahl were impressed by the company. However, Design Online had revenues of only SEK 89.6 million and an EBITDA of SEK 9.7 million in the last fiscal year of December 2014 (NS Intressenter, 2015a). This meant that Design Online was slightly too small for NS Intressenter. Nonetheless, after the due diligence, Storåkers and Lindahl were convinced that Design Online was an attractive opportunity. It had a scalable business model, exceptional growth (CAGR of 74% between 2012-2015e), and Design Online was forecasted by the end of 2015 to reach revenues of SEK 157 million and an EBITDA of SEK 21 million during 2015. Furthermore, Design Online was aligned with Storåkers personal philosophy about customer value (NS Intressenter, 2015b). Storåkers stated:

"Design Online's philosophy is customer satisfaction in all aspects. The company offers a well-thought-out product assortment, fast and reliable delivery, high level of customer support in eleven languages and is characterized by co-workers being highly involved in the success of the company." Nicklas Storåkers, 2015-12-05 (NS Intressenter, 2015b)

Therefore, in December 2015 after two and half years of searching for companies to acquire, Storåkers and Lindahl finally completed their first acquisition. The total enterprise value was estimated to SEK 175 million (Breakit, 2015) and NS Intressenter acquired 58% of the shares in Design Online (NS Intressenter, 2015b). Despite acquiring Design Online, it was not a perfect fit with the search fund. It was not large enough for the two to maximize their skillset and generate the desired returns. Therefore, neither Storåkers or Lindahl took the role as CEO or any other executive role, allowing them to continue the search for a larger company where both could take operational roles. Besides, NS Intressenter also identified an added value for future processes, as the problem with a hostile existent CEO was mitigated when they already had a company in their portfolio. For Design Online it meant that Bödmar stayed as CEO until a successor had been found. Bödmar commented:

"It is clear that the new owners want to develop the company at a high rate and for that, more resources are required. We are therefore adding a new CEO and I remain in the company but will change to another role in the fall." Jörgen Bödmar, 2016-05-19 (Ehandel, 2016)

4.3.5 The PriceRunner investment

During the fall of 2015, NS Intressenter heard a rumor that the online shopping comparison company PriceRunner was looking for a new owner. PriceRunner was active predominantly in Sweden and Denmark and in 2015, PriceRunner primarily compared prices of online shopping products, but it also had user reviews and product information to help consumers make the best purchase decision. Storåkers instantly felt that PriceRunner was an attractive business and contacted the investment bank Moelis & Company ("Moelis"), a global M&A boutique (Moelis, 2020), which was responsible for the sales process of PriceRunner.

4.3.5.1 The history of PriceRunner

PriceRunner was founded in 1999 in Sweden as a shopping price comparison service by Magnus Wiberg, Kristofer Arwin and Martin Alexandersson (PriceRunner, 2020). At that time, e-commerce and the internet were just starting, and its initial idea was to compare prices in physical stores (Framgångspodden, 2019a). Initially, the business model was limited to a website where retailers paid a fixed price for ads and listings on the PriceRunner website. However, when Google launched Google AdWords, Google introduced a new type of business model, where they earned money by generating traffic to merchants and had a cost-per-click ("CPC") revenue model. As a result, PriceRunner decided to revise their revenue model in the same way by selling clicks to e-retailers and receive variable revenues (Framgångspodden, 2019a). Then, PriceRunner generated revenues from merchants through the CPC revenue model, by charging a fixed CPC to online merchants.

In 1999, the market for retail was not mature enough for price transparency and PriceRunner was criticized and challenged by the merchants. Suddenly, customers had access to full price transparency and merchants could easily be compared with one another. Magnus Wiberg, co-founder of PriceRunner explained how business owners sometimes threw out PriceRunner-employees from the stores when they were gathering prices and claimed that they were so called "price agents". PriceRunner then counteracted by bringing media with them which changed the merchants' attitude, since the merchants were afraid of creating an appearance that their prices did not endure being compared. Over time when more price comparison services continued to emerge and spread to more industries, it disrupted the market for retail and squeezed its margins (Framgångspodden, 2019a).

In August 2004, the founders sold PriceRunner to the US online advertising company ValueClick, today named Conversant, for SEK 240 million (BusinessWire, 2004; ValueClick, 2005). By then, PriceRunner had experienced significant growth and spread across Europe (Framgångspodden, 2019a). After 10 years of ownership, ValueClick sold PriceRunner in 2014 to InterActiveCorp ("IAC"). IAC is a major US media and internet company listed on Nasdaq. Its most known brands in its portfolio are Match.com, Tinder, Ask.com, and Vimeo (Interactivecorp, 2015). In the deal, IAC acquired a portfolio of 6 companies including PriceRunner and Investopedia. Afterwards, it seems as if IAC was specifically targeting Investopedia because of their strategy to build online encyclopedias. The remaining companies in the acquired portfolio, including PriceRunner, were then used to finance the overall deal by cutting as many costs as possible to generate more cash flow. For PriceRunner, this meant minimum investments in customer experience and technology. As a result, PriceRunner became an extremely profitable cash-cow, but due to the lack of investments it started to fall behind the competition. Fittingly, IAC initiated the process to sell PriceRunner through the London office of Moelis in 2015.

4.3.5.2 NS Intressenter's acquisition process of PriceRunner

NS Intressenter felt that the acquisition process with PriceRunner was slightly troubling. It seemed as if IAC did not put much effort into selling the company and had not prepared it for an exit. It was clear that PriceRunner was part of a conglomerate and was functioning as an affiliate rather than on a standalone basis. PriceRunner operated via 6 separate legal entities in different countries making it a complex acquisition. It was also a process that was unfamiliar to NS Intressenter. Suddenly they were negotiating with a large US conglomerate and with a M&A boutique that was acting from London rather than Stockholm. This was distinctly different to the process with Design Online and negotiating with Bödmar over a "Swedish fika" in Kalmar. Furthermore, the geographical and cultural distance resulted in difficulties. For example, it seemed as the sellers used their upper hand in communication to negotiate and deliberately used fancy expressions to create confusion.

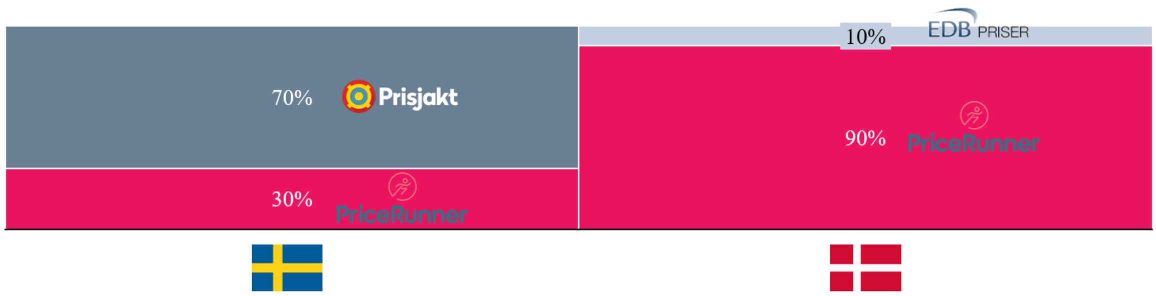
The overall concerning question was whether or not NS Intressenter was an acquirer that could own and improve a business such as PriceRunner. The general consensus in Europe was that a publisher or media house should own a company such as PriceRunner to capitalize on the generated traffic from their other websites. However, NS Intressenter identified seven decisive arguments why they believed PriceRunner was a good target:

1. The market outlook was bright. The European market for online shopping comparison was large, amounting to about SEK 2.2 billion[12] in 2015 and it was estimated to grow with a CAGR of 15% between 2016-2020 (Goldman Sachs, 2019).
2. The underlying market for online shopping comparison, i.e. e-commerce, was fragmented whereof the top 5 online merchants accounted for 17% of the total market in Sweden and 14% in Denmark (NS Intressenter, 2016b). Also, due to the rapid growth of e-commerce (growing +15% YoY, shown in exhibit 9), new online merchants continued to enter the market, suggesting that the e-commerce market will remain fragmented. Altogether, this made it increasingly difficult for consumers to navigate their purchases online, which should increase the demand for PriceRunner's service.
3. The market for online merchants was dysfunctional. The main way to attract traffic was through an auction on Google allowing players to use predatory pricing. This had created low margins for online merchants where the incentive was to pay the highest price to Google to receive exposure. Therefore, online merchants appreciated another source of traffic, such as PriceRunner, to reduce their dependence on Google. Also, PriceRunner generated qualified traffic to merchants, with a high conversion rate of purchases, since consumers who clicked via PriceRunner were further in the buying process (section 4.4.1.3 explains the buying process and PriceRunner's role within it). Overall, these two mentioned aspects created incentives for online merchants to engage with PriceRunner.
4. The competition online is only one click away. Consequently, if they could make PriceRunner a market leader, it should generate more traffic and grow the company.
5. PriceRunner had an established and familiar brand. This improved the possibility to attract new customers, as well as reduced the costs for doing so.
6. PriceRunner was a carve-out and had a scattered and chaotic organisation. Thus, it was clear that PriceRunner was a company you could not acquire without having a management determined beforehand, which suited a search fund such as NS Intressenter. Besides, it also meant less bidding competition from buyout firms. Additionally, it would be difficult for the main competitor, Prisjakt, to acquire the company due to antitrust concerns. The market was concentrated with the two largest players (Prisjakt and PriceRunner) having 100% of the market in both Sweden and Denmark (excluding Google). This is shown in figure 5. Therefore, PriceRunner was a good fit to NS Intressenter and they expected the bidding process to be less competitive, which should result in an attractive purchase price.

[12] Assuming EUR/SEK exchange rate of 11.01

Figure 5

Competitive landscape 2015, market shares %



Source: NS Intressenter (2020b)
Note: Excluding Google Shopping

7. NS Intressenter concluded that if they could successfully execute the value creation plan and make PriceRunner a standalone company, it would have more interested buyers at their exit than during the current acquisition process. Also, an initial public offering ("IPO") would become a possible exit alternative. Altogether, more interested buyers and the option to do an IPO should boost a future selling price.

In March 2016, Storåkers and Lindahl lined up their two investors, Nordstjernan and Philian to fund the acquisition capital to acquire PriceRunner. The duo had performed all necessary due diligence and Nordstjernan and Philian received an investment proposal from Storåkers and Lindahl where a decision was taken to acquire PriceRunner.

On March 18th, 2016, NS Intressenter acquired PriceRunner for an enterprise value of SEK 655.3 million[13], representing an EV/EBITDA multiple of 6.1x[13] (Interactivecorp, 2017; PriceRunner, 2016). The acquisition multiple represented a 57% discount to the key public traded comparable, Moneysupermarket, at the date of acquisition. Trading peers are shown in exhibit 10a. NS Intressenter financed the total acquisition of PriceRunner with a mix of equity and debt.

Total debt amounted to SEK 463.7 million, whereof SEK 240.0 million was bank loans, and SEK 223.7 million was shareholder loans. The bank loans had an average interest rate of 1.8%[14] and were amortized over 5 years with quarterly interest payments. On the contrary, the shareholder loans were structured as a bullet loan with 6.5% interest, where the interest accrued over time. Accordingly, the shareholder loan entailed a balloon payment when they would exit PriceRunner. The equity portion of the purchase amounted to approximately SEK 191.5 million. Consequently, the equity portion of the purchase price amounted to 29%, and debt and other debt like items to 71%. At the closing of the first annual report after the acquisition in 2016, PriceRunner recorded a net debt-to-EBITDA ratio of 8.1x.

Storåkers' ownership was 22%, Philian 36%, Nordstjernan 36%, Lindahl 3%[15] and the remaining 3% were acquired by key management. Storåkers and Lindahl only held common equity, whereas Philian and Nordstjernan hold a mix of common equity, preferred equity and shareholder loans. Exhibit 11 shows the ownership distribution. In the shareholder's agreement it was decided that Nordstjernan would have two board seats, Philian two, and Storåkers himself would have one. Nordstjernan would possess the role as chairman of the board for 3 years, and in the spring of 2019 it would pass over to Philian. Storåkers was chosen as CEO and Lindahl took a management role.

[13] Calculated based on cash payment of 795 million to IAC (USD/SEK exchange rate of 8.2276 as of March 18th, 2016 assumed) deducted with 140 million of cash in PriceRunner Sweden AB as of 2015-12-31

[14] Estimate based on market interest rates as of 2016

[15] Best estimate based on available documents

The acquisition of PriceRunner marked the end of the search process. All in all, NS Intressenter had spent 3 years searching for a company to acquire, exceeding the typical length of 1-2 years for a search fund, shown in exhibit 5 (Yoder and Kelly, 2018). During this period, NS Intressenter investigated 400 companies, performed deep evaluation of 20 companies including indicative bids, reached the stage of negotiating SPA with 5 companies, and later acquired 2 of them. It was now time for the next stage of their search fund's journey, the value creation.

4.4 The price comparison industry

The following section (4.4.1) explains how price comparison websites function, their value proposition and revenue model, and their success factors. This is followed by a section (4.4.2) that explains the growth drivers for the price comparison industry. Together, these two sections provide further understanding to *why* NS Intressenter acquired PriceRunner and *how* the operational initiatives connect to value creation in PriceRunner.

4.4.1 Understanding price comparison websites and their value proposition

A Price Comparison Website ("PCW") is defined as "*a search engine, which people use to compare prices among the same or similar products*" (Goods, 2017). In addition to comparing prices, PCWs offer comparison of other aspects related to a purchase, such as product information and features, and ratings and reviews of the product quality (Goods, 2017). Ronayne (2018) explains that PCWs enable consumers to check and compare prices of identical or comparable products and services between thousands of online merchants. Nolan (2016) argues that PCWs increase competitive pricing when merchants with the same products are displayed and ranked based on prices next to one another. Hence, PCWs act in favor of the consumers. Ronayne (2020) reports that PCWs particularly help consumers in the current e-commerce landscape where prices of homogeneous items are priced different between merchants. Ronayne (2018) further states that the rise of the internet has altered the transparency and comparability of products and services, and just in a matter of a few clicks, consumers can now compare different merchants that offer identical products. While most consumers may not be aware of all firms that offer a specific product, a PCW aggregates a comprehensive list of all suppliers. Therefore, PCWs enable customers to make informed purchase decisions. Besides comparing prices, most PCWs also display product information, features, ratings and reviews of products and the service quality (Ronayne 2018). Ronayne (2018) and Nolan (2016) state that certain PCWs compare shipment terms and costs together with stock information to further promote transparency to customers when they make their purchase.

The market for PCWs has 4 submarkets, whereupon PriceRunner belongs in the online shopping comparison category. Other sub markets include utilities (insurance, electricity and gas, loans, and personal finance), travel, and home services (NS Intressenter, 2020b). Figure 6 shows all the sub markets and established companies in each category.

Figure 6

Overview of PCWs and major brands in Sweden, Denmark and UK

Source: NS Intressenter (2020b)

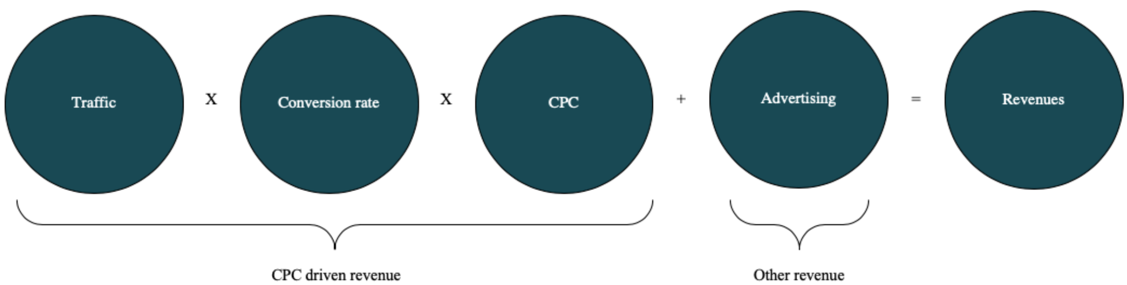
4.4.1.1 The revenue model for online shopping price comparison websites

Nolan (2016) and Fjell (2010) note that PCWs within online shopping allow consumers to use the service for free and generate revenues from merchants via a cost-per-click ("CPC") model. The authors explain that CPC is an internet advertising model that drives traffic from one website to another, where a publisher (e.g. PCWs) forwards traffic to the advertiser (e.g. merchants). For PCWs it means that they earn revenues by passing forward ("converting") consumers to the merchants' websites. Then, when the customers enter the merchant's website, they have compared prices or other components and decided which merchant to buy from. As a result, via the CPC model, the merchant only pays the PCW if the consumer actually clicks on the advertisement and proceeds to the merchant's website to buy the product (Fjell, 2010). Furthermore, Blanckenburg (2018) states that PCWs usually use a fixed cost per click, which is different to search engines (e.g. Google Ads, Amazon Advertising and Microsoft Advertising), who use a live and automated bidding system.

Another source of revenues for the PCWs is advertising on the platform (Ronayne, 2018). Ronayne (2018) explains that PCWs generate revenues from advertising banners and ads on their website, which are not necessarily related to price comparison. Figure 7 shows the breakdown of the revenue model for online shopping comparison websites (NS Intressenter, 2020b).

Figure 7

Break down of the revenue model for online shopping PCWs



Source: NS Intressenter (2020b)

4.4.1.2 Structured vs. unstructured price comparison

PCWs can use either structured or unstructured price comparison. Structured price comparison is a genuine and accurate price comparison, where the PCW ranks the retailers solely based on the product's price. Then, when the PCW converts the consumer to the merchant's website using structured price comparison, the PCW receives a fixed CPC from the merchant (NS Intressenter, 2020b).

Unlike structured price comparison, *unstructured* price comparison shows prices from merchants that have engaged in an auction and paid the PCW to be displayed. Thus, the merchant who bid the highest CPC is displayed top of the list (NS Intressenter, 2020b). Occasionally, one merchant received the exclusive right to be the only displayed merchant if they win an auction (NS Intressenter, 2020b). The downside of this from a consumer perspective, is that they cannot tell if they are witnessing the best deal from the PCW when it uses unstructured price comparison, since the displayed offering is based on the price paid by the merchant, rather than ranked based on the best deal for the customer (NS Intressenter, 2020b). Exhibit 12 illustrates an example of a structured vs. unstructured price comparison of an Apple iPhone 11 64GB. The average CPC for merchants in Sweden and Denmark for structured price comparison was SEK 1.6 vs. SEK 2.9 for unstructured price comparison in 2016 (NS Intressenter, 2020b). The difference in average CPC is due to the auction process for unstructured price comparison which increases its CPC.

4.4.1.3 The consumer journey and value chain dynamics

The consumer journey and value chain dynamics for the online shopping PCW industry can be divided into 6 stages (NS Intressenter 2020b). It follows the generally accepted marketing funnel introduced by Rogers and Valente (1995). Figure 8 illustrates the relationship between the buying process and the consumer's contact with each participant in the value chain.

Figure 8

Relationship between the buying process and the consumer's contact with each participant in the value chain

Source: NS Intressenter (2020b)

Colicev et al. (2019) explain that the "Awareness" stage refers to the period when the consumer discovers a product or looks for inspiration to buy something. Colicev et al. (2019) argue that during the second and third stage (Opinion and Consideration), the consumer familiarizes themselves with what kind of product he/she wants to buy. Also, during the second and third stage, the consumer usually asks his/her family members and friends for advice and looks for reviews online (e.g. expert product reviews) to determine which product that satisfies his/her needs and preferences (NS Intressenter, 2020b). Next, when the consumer knows which product to buy, he/she enters the "Preference" stage by using a PCW, such as PriceRunner, to find and compare alternatives from different suppliers (NS Intressenter, 2020b). Finally, the consumer selects a merchant to buy from and enters the merchant's website to purchase the product and a payment solution company supports the merchant with the payment solution.

Then, delivery companies finalize the order by shipping the purchased product to the consumer (NS Intressenter, 2020b).

All in all, PCWs are not wholesalers or decision makers that determine prices. Instead, it is an intermediary, aggregating supply and demand by redirecting buyers to the sellers. Exhibit 13 further illustrates the value chain dynamics.

4.4.1.4 Success factors for PCW players

PCWs can differentiate themselves via four main success factors. First, it is essential for a PCW to have a comprehensive platform with as many merchants as possible in order to provide the best deals to the consumers and make a thorough product comparison. Furthermore, information about prices from different merchants is not the only important information to incorporate, but also other product information such as shipping terms, reviews etc. As mentioned, customers can use a PCW for different reasons where the best deal for one customer can be the deal with the lowest price, but for another it might be the deal with the fastest shipping. Thus, a comprehensive platform is essential for a PCW. Second, creating and retaining consumer trust is crucial for PCWs. Therefore, it is important to offer a high share of structured price comparison. Then, the customer is confident that the PCW shows them the best deal, whereas this might not be the case with unstructured price comparison. Trust from the consumers generates more traffic to the PCW which also makes merchants more willing to pay PCWs to convert traffic to their website. Third, when the consumers enter a PCW, they expect an easy and good user experience. If the expectations are met, it enhances the probability to create long-lasting relationships with the consumers (NS Intressenter, 2020b). According to Bain & Company (2020), a seamless shopping experience is crucial for growth in digital channels, because it is the most important factor to consider when developing digital capabilities. Fourth, a good and well-functioning PCW with millions of products is a differentiator. At first glance, this might appear obvious however, this requires robust technology with a high quality of data collection, data sorting and data adjustments (NS Intressenter, 2020b). Bain & Company (2020) expresses the importance of tracking consumer behavior and adapt the business accordingly. An example of this specified by Bain & Company (2020), is to develop a scorecard that monitors customer experiences and generates regular reports that guides data-driven decision-making.

4.4.2 PCW industry growth drivers

Market growth of PCWs is driven by the underlying growth of the economy and some specific secular and megatrends. In the following section, we introduce the key growth drivers (i) GDP and consumer spending, (ii) internet penetration and e-commerce growth, (iii) finding information on the internet and PCWs role in the buying process, and (iv) online advertising penetration. We also outline how digitalization and a technology shift impact the growth drivers.

4.4.2.1 GDP and consumer spending

The underlying market growth for the PCW industry is driven by the growth in consumer spending which increases the usage of PCWs. Overall, the historical real GDP and consumer spending have been growing at a healthy CAGR in Sweden and Denmark. Negative growth was only observed in the 1990s due to the Nordic Bank crisis, and in 2007-2009 due to the global financial crisis. Exhibits 14a-14d show a historical overview of the real GDP and consumer spending growth from 1983 to 2019 in Sweden and Denmark (OECD, 2019; 2020).

4.4.2.2 Internet penetration and e-commerce growth

As previously explained, online merchants are the customers to PCWs. Therefore, the market for PCWs is fueled by a significant shift from in-store (offline) shopping to an e-commerce (online) experience. For instance, in Sweden, the online share of total retail sales increased from 3.9% to 6.9% between 2010-2015 (Statista, 2019f), whereas in Denmark, it increased from 6.9% to 9.3% during the same period (Statista, 2016b; 2020a). As a result of this transition, the size of the e-commerce market has shown significant growth during the past decade. Accordingly, the growth of Swedish e-commerce had a CAGR of 20% between 2004 to 2015 (Statista, 2019g). Exhibit 9 shows the historical size of the e-commerce market in Sweden.

There are several drivers for the growth in e-commerce. It includes key macro trends, such as increasing internet usage and an improving value proposition among online merchants (NS Intressenter, 2020b). Sweden and Denmark have experienced a significant increase in internet penetration among households between 2000-2019. In Sweden for example, the share of the population with access to the internet at home increased from 51% in 2000 to 98% in 2019 (Statista, 2019h). Exhibit 15 shows the historical development of internet penetration in Sweden and Denmark (Statista, 2019e; 2019h). Following the increased usage of the internet, more individuals make their purchases online (NS Intressenter, 2020b). This is observed in exhibit 16, that shows the historical development of individuals who use the internet to purchase online (Svenskarna och Internet, 2019; Statista, 2019b). Likewise, the trend to purchase online has increased the number of e-commerce merchants, which has further increased the usage of PCWs as well. Therefore, the number of PCWs increase when the addressable market size for PCWs expands (NS Intressenter, 2020b).

4.4.2.3 Finding information on the internet and PCWs role in the buying process

The Internet has dramatically increased the transparency for shopping and consumers are becoming keener on doing their pre-purchase research online (NS Intressenter, 2020b). This has increased the demand of PCWs as an online source of information ahead of a purchase. The share of individuals who use the internet to find information about products before a purchase has increased between 2007-2018 (Statista, 2019a; 2019i). This is shown in exhibit 17.

In 2015, it was found that PCWs served as the largest online channel for purchases among consumers in Sweden, accounting for as much as 7% of the total online purchases (Statista, 2016c). In Denmark, the corresponding figure amounted to 8%[16], serving as the second largest online channel for recent online purchases behind general online retailers such as Amazon (Statista, 2016d). In 2016, as much as 80% of the Swedish consumers and 85% of Danish consumers used PCWs in their buying process to find information about products prior to their purchase (Statista, 2016a; 2016f).

4.4.2.4 Online advertising penetration

Due to the consumer trend to shop more online, companies are shifting their offline advertising expenditures toward online channels such as PCWs. Therefore, the growth of investments in online advertising has also generated growth to the PCW market (Ma and Du, 2018). In 2015, online advertising was the fastest growing category of advertising (NS Intressenter, 2016a), and online advertising in Sweden and Denmark grew with a CAGR of 17.1% and 13.0% respectively between 2009-2015. In 2015, as much as SEK 22 billion[17] was invested in Swedish and Danish online advertising (Statista, 2019d; 2020b; 2020c; 2020g). Exhibit 18

[16] Excluding travel-related purchases

[17] Assuming exchange rate of DKK/SEK of 1.44

shows the historical development of online advertising expenditures and its share of total advertising expenditures between 2007-2019.

4.4.2.5 Factors impacting the industry drivers - Digitalization and shift in technology

The increased internet penetration and growing adoption of mobile devices have generated growth to the PCW industry and the underlying e-commerce market (NS Intressenter, 2020c). Also, improved mobile network connectivity has further nourished both markets (NS Intressenter, 2020c). An increased mobile device penetration, in combination with a strong network connectivity, enables the consumers to browse and shop anywhere and anytime they like (NS Intressenter, 2020c). This creates improved convenience and accessibility for consumers to shop online. Exhibit 19 shows the historical smartphone user penetration in Sweden and Denmark (Statista, 2016e; 2019k; 2020d; 2020f). It shows impressive transformations where for example the smartphone user penetration in Sweden increased from 27% to 77% between 2011-2015 (Statista, 2019k). Denmark also had impressive growth in smartphone user penetration, yet somewhat lower than Sweden, which is observed in exhibit 19. The share of consumers who used smartphones or tablets for online shopping ("m-commerce") in Sweden increased from 16% to 42% between 2012-2015 (Statista, 2019j). In Denmark the corresponding figure increased from 21% to 40% the same period (Statista, 2019c). This trend suggests that specific tools for online shopping are also under transformation.

4.5 Stage 3: Value creation in PriceRunner

Table 2 presents the outcome of the survey and shows what NS Intressenter did to create value for its investors during their ownership of PriceRunner until April 2019 and ranks the sources of value creation between one another. Additionally, the table reflects the initiatives that are explained in section 4.5.1 to 4.5.3. Consequently, this section (4.5) covers the period between March 2016 and April 2019. It explains the motives for the value creation initiatives and their results. The value creation process in PriceRunner was divided into two parts. In the first part, the plan was to heavily invest in PriceRunner with the focus on making it a great user experience. In the second part, the plan was to grow the business and focus on profitability.

Table 2
Sources of value creation.
This table shows the importance of sources of value creation. The sources of value creation are ranked by the level of relative importance using z-scores. A high number indicates a higher importance in relation to a lower number. The sources of value creation have been categorized into the three sources of value creation developed by Kapland and Strömberg (2009), using definitions from Døskeland and Strömberg (2018). IT=information technology; CEO=chief executive officer; CFO=chief financial officer; KPI= key performance indicator; R&D=research and development; WACC=weighted average capital cost.

Sources of value creation	Primary category of value creation	Rank	Mean	Median
Change CEO	Operational / Governance	1	84,4	85,2
Management buy shares in the company to increase motivation and align incentives	Governance / Financial	2	82,8	85,5
Improve IT or information system	Operational	3	81,3	83,4
The use of detailed and frequently tracked KPIs	Governance / Operational	4	80,6	85,2
Increase focus on key markets	Operational	5	78,2	77,4
Change senior management other than CEO and CFO	Operational / Governance	6	77,5	76,5
Complement current management with other executives	Operational / Governance	7	73,5	75,8
Introduce employee stock options to increase and align incentives	Governance / Financial	8	73,3	75,1
Purchase at an attractive price (buy low)	Financial	9	72,5	77,4
Expect a higher valuation multiple at exit	Financial	10	72,5	77,4
Increase revenue or improve demand factors	Operational	11	69,5	76,5
Change the organisational structure	Operational / Governance	12	68,7	68,8
Use leverage to increase return on equity	Financial	13	68,4	69,1
Investments in R&D	Operational	14	66,4	83,4
Redefine the current business model or strategy	Operational	15	65,5	68,4
Improve strategic focus by divesting/closing non-core activities	Operational	16	55,6	68,1
Purchase at an attractive price relative to the industry	Financial	17	55,4	54,0
Productivity improvements	Operational	18	52,0	59,5
Faster decision making process between CEO and the board	Operational / Governance	19	44,2	40,2
The use of a small board	Governance	20	43,5	38,8
Introduce shared / centralised services internally	Operational	21	43,1	40,2
Increased product portfolio	Operational	22	41,2	35,3
Introduce bones program, paid out depending on the performance of the overall firm	Governance	23	38,2	27,3
Follow-on acquisitions	Operational	24	33,1	26,4
Use leverage to reduce the WACC	Financial	25	32,8	19,3
Change CFO	Operational	26	31,2	25,9
Use leverage to increase discipline among management and reduce agency costs	Financial	27	29,5	13,4
Enter new markets	Operational	28	17,6	9,1
Reduce costs in general	Operational	29	9,8	9,6
Investment from strategic advisor	Operational	30	8,1	8,8
Use leverage to maximize the trade-off between tax benefits and risk of default	Financial	31	7,0	5,3
Enhance governace and control through an informal advisory board	Governance	32	4,7	5,3
Number of responses			4,0	4,0

The interviewees were also asked to rank the relative importance of the groups that actively participates in value creating activities. The result is shown in table 3.

Table 3
Value creators
This table reports the importance of value creators. The value creators are ranked by the level of relative importance, with a high number indicating higher importance in relation to a lower number. The table show percentage of responses that falls within a certain number of standard deviations from the mean that the sample respondants identify as value creators.

Value creators	Rank	Mean	Median
CEO	1	83.9	83.7
Management other than the CEO	2	83.9	83.7
R&D / tech development team	3	81.0	83.3
Board of Directors	4	61.1	59.7
Investors	5	27.8	28.8
Outside consultants	6	11.4	11.7
Outside industry experts / Advisory board	7	9.1	7.9
Number of responses		4.0	4.0

4.5.1 Operational development

4.5.1.1 Initiatives to improve the company

There were three major problems with PriceRunner when NS Intressenter acquired the company. First it was clear that PriceRunner had problems with growth prospects and no long-term perspective since it had been completely drained by the former owner. Exhibit 10b shows the historical and forecasted financials for PriceRunner as of 2015. At acquisition, PriceRunner had a turnover of SEK 269 million and an EBITDA of SEK 108 million (Interactivecorp, 2017), representing an EBITDA margin of 40.1% which was significantly higher than the industry average of 28.1% in 2015 (S&P Capital IQ 2020b; 2020c). Exhibit 10c shows the EBITDA margin for PriceRunner benchmarked to the industry's EBITDA margins. Second, it had problems with technology. It was a company highly dependent on its technology, yet there was no focus on technology. Besides, the technology department was located in China with 45 developers whereof only 5 spoke English, and the key markets were Sweden and Denmark. This meant that the developers did not use the service themselves and had no friends or family doing so either. This also contributed to the third problem which was the company culture. The organization was scattered with a management team spread across Sweden, Denmark, the United Kingdom, Germany, France and China, and since it was underinvested, most key employees had quit. Storåkers commented on the three issues:

"There was no focus on technology and it had an old technology. The technology department was located in China with 45 developers in Shanghai and 5 of these spoke English. The product was in Sweden and Denmark so you can imagine how much involvement they felt with the product when they did not use it and had no friends or family using it. I think that is important. Besides, since they had made no investments in the product, such as technology and marketing, a lot of the key employees had quit. It meant that you had growth problems, you had technology problems, and you also had cultural problems." Nicklas Storåkers, 2020-04-16

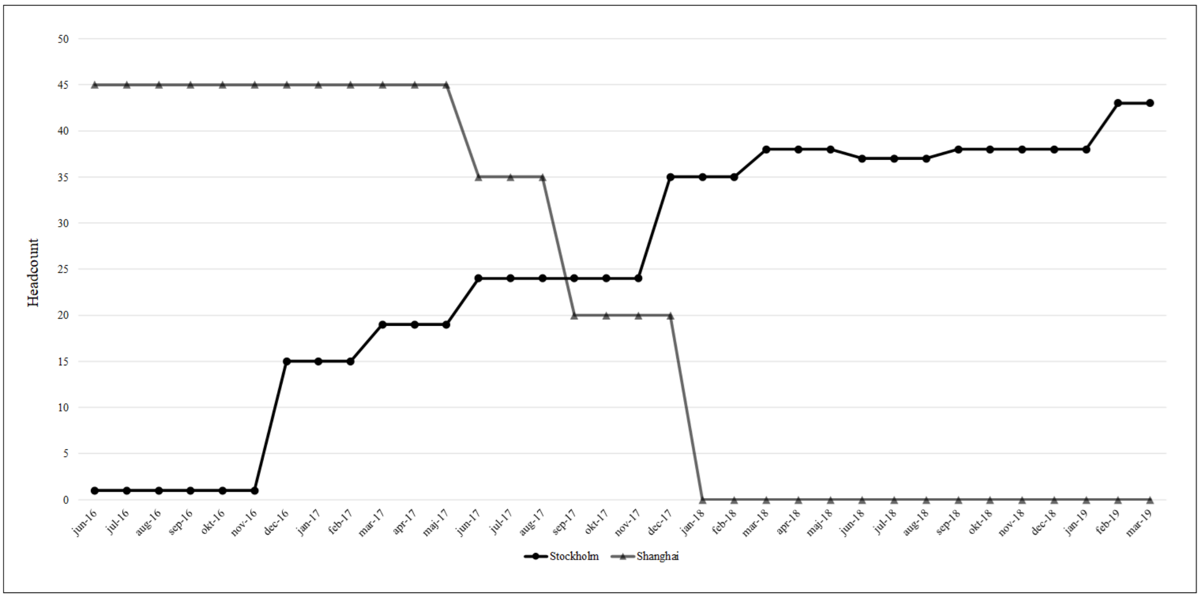
Regarding the technology problem, it had to be resolved before they could solve the growth problem. In order to create growth, PriceRunner had to generate more traffic which requires a good user experience and modern technology. This was already noticed during the due diligence but Storåkers and Lindahl realized post-acquisition that PriceRunner's technical infrastructure was more complex than expected. PriceRunner was in need of a complete reset which would be costly, difficult and time consuming. Additionally, to update the technology and improve the user experience, they needed a qualified technology team. However, the developers in China were not users of PriceRunner themselves which made it difficult for them to understand how and where to improve the platform. After the acquisition, it was also revealed that many of the developers in China had not even been working with PriceRunner in the past, but rather been serving other departments at IAC. Lindahl explained:

"Frankly, no one at the Shanghai office had used the service they were developing and consequently they did not understand how customers perceived it, nor how to improve the user experience. A lot the people working in Shanghai had barely even seen the PriceRunner code before we acquired the company. IAC carved out 60 people from the IAC groups shared tech team they had in Shanghai and told them to focus solely on PriceRunner." Mikael Lindahl, 2020-03-26

Therefore, it was decided to build and recruit a technology team based in Stockholm and phase out the Chinese technology department. This process is shown in figure 9. In May 2017, the first batch of developers in China were dismantled and 6 months later in January 2018, the technology development had been fully moved from China to Sweden.

Figure 9

Technology head-count: recruitment in Stockholm and phase out of Shanghai technology department 2016-2019



Source: NS Intressenter 2019

Once the recruitment of the Stockholm tech team started to accelerate, PriceRunner gained the capabilities to increase the number of structured products on the platform, which contributed to a better user experience. Hence, the team at PriceRunner increased the number of structured products from 420,000 to 1,830,000 between 2016-2019. Furthermore, in 2016, only 42% of all clicks were via structured products and the remaining 58% came from unstructured price comparison. In 2019, clicks via structured products had increased to 75% of all clicks. Correspondingly, the share of "CPC-revenues" (see figure 7) that came from structured products increased from 32% in 2016 to 72% in 2019. This transition also enabled PriceRunner to increase the average CPC they charged the merchants. The average CPC increased with 17% from SEK 2.26 in 2016 to SEK 2.64 in 2019.

Another initiative that improved the user experience was the increase of the number of online merchants, prices, and products in PriceRunner's catalogue. This was a fundamental KPI to attract more users. Still in 2016, PriceRunner was behind the competition in all these aspects. Therefore, the team at PriceRunner set an objective to have a more comprehensive service than all the competition. To expand their offering, they outsourced the manual back-end data collection of prices to India. Consequently, three months after the acquisition in 2016, the back-end data team in India increased from 60 to 150 people. Following their effort, PriceRunner increased the number of merchants on their platform from 6,000 to 16,200 between 2016-2019, corresponding to an increase by 270%. In Sweden specifically, the number of merchants increased from 2,100 to 5,900 during the same period, and PriceRunner simultaneously surpassed the main competitor Prisjakt who had 5,100 merchants in Sweden.

Another important source of value creation was to build structural capital by improving the set of procedures, processes and corporate structure. Before the acquisition, PriceRunner operated in silos consisting of 6 separate legal entities in different countries with no common holding company, which resulted in several problems, including the previously mentioned problem with culture. First, working in organizational silos meant that PriceRunner experienced communication problems, internal politics and turf wars, which hampered growth opportunities. Second, it resulted in a weak company culture, with no sense of unity among the employees and no clear company identity. Third, the structure made it difficult to motivate, incentivize and evaluate employees, since their output could not be measured or evaluated. Fourth, the fragmented structure prevented sufficient budget and follow-up processes and there was no consolidated financial statement. Therefore, it was a priority to build structural capital in PriceRunner, Lindahl explained:

"The first year after the acquisition was very much about building structure, both financially and technically. We had to create a united group from 6 single entities, and to achieve that we closed down the offices in the United Kingdom, Germany, China and our UK based French staff. We also moved the servers from spread across the world to Stockholm, centralized the finance function to the Stockholm office and implemented individual targets mapped to high level business targets on short and long term. Building a united group allowed us to share best practices, do financial follow-ups and increase organizational focus, efficiency and collaboration." Mikael Lindahl, 2020-03-26

Consequently, the scattered organization was centralized to Stockholm, which was a prerequisite to resolve the aforementioned issues the former structure entailed. However, to solve the cultural problem and build a strong culture, Storåkers emphasized the importance of making sure that the employees felt a connection to PriceRunner, enjoyed their work and collaborated efficiently as a team. Storåkers explained his view on why it is important with a culture that fosters team feeling:

"I speak a lot about the team, no chain is stronger than your weakest link." Nicklas Storåkers, 2019-10-17 (Framgångspodden, 2019b)

Storåkers and Lindahl also introduced a broad employee stock option program to promote a team feeling. In April 2020, PriceRunner had a total head count of 136 employees, where 121 of these (89%) were part of the employee stock option program, corresponding to a dilution of 5% if they would be executed. In addition, 5 people in the management team were shareholders but did not have any options. Consequently, 126 out of 136 employees were equity owners in one way or another. Storåkers explained the broad ownership and the connection to a team feeling:

"We have a broad ownership in the company, for me it is important with the team feeling this creates in the company." Nicklas Storåkers, 2020-04-16

In order to create an identity for PriceRunner and further reconcile the employees, the management at PriceRunner introduced a clear and appealing vision, "*to create the world's best and most loved comparison service"* (Framgångspodden, (2019b). The vision was then used as a way to motivate employees, make them feel proud about what they do, and it enabled the management to use it as a beacon of guidance to manage the company and its employees. Thereafter, they used the vision to identify how each department, team and employee contribute to the vision. Storåkers commented:

"I break down goals to every team and employee, then everyone knows how to contribute." Nicklas Storåkers, 2020-04-16

Furthermore, the management's improvement of governance, by introducing specific and concrete goals created clarity how each employee contributed, aligned everyone's incentives, and improved the operational efficiency. The management implemented the Objective and Key Results ("OKR") framework for defining and tracking objectives together with its outcomes. Storåkers elaborated on the importance of clearly defined goals:

"It is crucial to dare to use smart goals and be specific and measurable. If you only say improve the technical platform, what does that say? It does not really say anything. I have been using benchmarks to measure success and delegate specific tasks to employees for 12 years at Avanza, and I am used to operating a business with high quality of reporting and clearly defined objectives. On this note, I think PriceRunner's level of reporting and board materials are at a level where few other companies can compete with us." Nicklas Storåkers, 2020-04-16

Hannes Lindroos, part of the company since 2014 and CFO of PriceRunner, elaborated on the transformation and its connection to the financial figures:

"Much has changed since the acquisition of PriceRunner in 2016. The finance team is smaller and more efficient today than before, where we have better processes and higher granularity. We have significantly more KPIs and there is a much clearer link between the financial and operational key figures." Hannes Lindroos, 2020-04-24

All things considered, by comparing PriceRunner in March 2016 to April 2019, it is clear that the aforementioned three major issues related to growth, technology, and culture have been addressed. Storåkers explained:

"After 3 years, we had good growth and a much better user experience. We had replaced 80% of the technology. We had recruited a development department, a tech team that is absolutely fantastic with almost 70 co-workers within development, design and so forth. They work with state-of-the-art technology which is the best that exists. We created a clear mission in what we will create. It is to guide customers to find the best deals and help our online merchants to grow and our vision is to build the world's most loved shopping comparison site. Today it is a very strong culture that I am pretty cocky about since I get to work with such talented people and that you can change something that did not have a culture at all, a very negative attitude to something very, very good. There is an incredibly lovely feeling today at PriceRunner and it is the most fun I have ever done." Nicklas Storåkers, 2020-01-27

Lindahl added to Storåkers' statement, by stating that PriceRunner has become a much easier company to manage, maintained its focus on the key markets and has fulfilled the transition from being an affiliate to a standalone company. Lindahl stated:

"During our ownership, PriceRunner had a consolidated group accounting, that facilitated forecasting and financial follow-up. The company is focused on its key markets and serves them very well. This is different from before and PriceRunner is now a company that can be acquired on a stand-alone basis, where anyone can take over the keys and drive on at a high speed." Mikael Lindahl, 2020-03-26

4.5.1.2 A strategic reassessment to adapt to a changing competitive landscape

The competitive landscape for online shopping comparison changed between 2016 to 2019 which resulted in additional challenges for PriceRunner. Large platform companies such as Google and Amazon used their size to expand in the European market. During the period, Google became much more aggressive and favorized its own shopping comparison site, Google Shopping. It seemed as Google was not satisfied with sharing the European market for online shopping comparison. Naturally, this had negative consequences to PriceRunner since Google was their major source of traffic. Storåkers explained more about Google's aggressive attitude:

"American companies have a very different mindset than Swedish companies. Swedish companies want to be market leaders, do something good for their customers and sell what the

customer's demand and so forth. On the contrary, American companies have the mindset of seeking 100% of the market share. It is their ambition and they are extremely aggressive in that way." Nicklas Storåkers, 2020-01-27 (Peptalk, 2020)

Google's aggressive attitude intensified a feud between Google and the online shopping comparison sites in Europe. The European online shopping comparison sites claimed that Google used its monopoly position in online searches on the market for online shopping comparison. Consequently, in the summer of 2017, Google was fined SEK 23 billion by the European Commission for abusing its monopoly position (Business Insider, 2017; Dagens Industri, 2017; Breakit, 2019). At that point, it was the biggest fine ever imposed by the EU. Storåkers elaborated:

"Google has a 95% market share on searches in Europe, it is a monopoly. A couple of years ago they received a fine from the European commission for abusing their monopoly position in Europe by favoring their own shopping comparison site. Bottom-line, their service is also kind of bad. We did a large study with 4 other major comparison services in Europe that showed that Google in general had prices 12-13% higher than you can find with us. This means that European consumers pay tens of billion euros too much because they use Google Shopping. (...) If you have a monopoly position, it is not ok to favor an adjacent business which they did." Nicklas Storåkers, 2020-01-27 (Peptalk, 2020)

The European Commission found that Google's practices drastically reduced the traffic for rivals once Google Shopping was introduced. More specifically, the European Commission found that the traffic for rivaling shopping comparison websites dropped by 85% in the UK, 92% in Germany and 80% in France (Business Insider, 2017). Storåkers explained the effects this had to PriceRunner and the consumers:

"We are pushing really hard towards the European commission that Google should stop what they are doing. It ruins the competition, it ruins for European consumers that pay more than necessary, and it ruins the opportunity for European private equity." Nicklas Storåkers, 2020-01-27 (Peptalk, 2020)

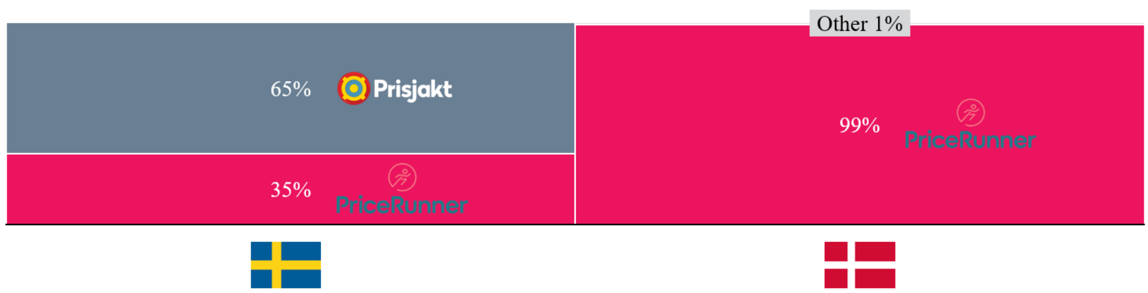
Therefore, due to the intensified competition from Google Shopping and to improve PriceRunner's value proposition, the team at PriceRunner decided to broaden PriceRunner's business model. It would not only compare prices but other features as well. The plan was to "broaden" the purchase journey, capture a larger part of the value chain, and not just generate traffic by comparing prices but also products. This is illustrated in exhibit 20. Therefore, they considered acquiring suitable companies until they had built an organization that could generate growth internally, which was possible once the organization was relocated and rebuilt. However, most potential targets in the existing and untouched market appeared to be in worse technical shape than PriceRunner, and it would be overwhelming to acquire and integrate competitors when PriceRunner were already redoing their own product. This limited the sample of companies that PriceRunner could acquire, yet they identified two suitable targets.

In September 2016, PriceRunner acquired Bäst-i-test that did product testing and quality reviews (DI Digital, 2016b). Bäst-i-test was founded in 2010, had a turnover of SEK 8 million in 2015 and was active in Sweden, Norway and Denmark (Breakit, 2016; DI Digital, 2016b). The acquisition was a first strategic attempt to broaden PriceRunner's offering from comparing prices to products as well. Additionally, Bäst-i-test generated value to PriceRunner by increasing traffic due to its strong SEO-ranking. Furthermore, it also strengthened the PriceRunner brand and had a signaling value to the customers that PriceRunner not only had expertise within pricing, but the whole shopping experience. Storåkers explained:

"This acquisition is a way of renewing PriceRunner. We do not only want to help users find the most affordable products, but also the best." Nicklas Storåkers, 2016-09-15 (DI Digital, 2016)

In July 2016, PriceRunner acquired edbpriser.dk ("EDB"). EDB was founded in 2001 and was a Danish price and product comparison site (Edbpriser, 2020). In the Danish market, PriceRunner had a strong position and wanted to consolidate the market by acquiring EDB. This also removed the risk that another competitor, such as the main competitor Prisjakt, would acquire EDB and use the platform to enter the Danish market. Figure 10 shows the competitive landscape in Sweden and Denmark in 2019 (excluding Google), accounting for acquisitions made by PriceRunner (NS Intressenter, 2020b).

Figure 10
Competitive landscape 2019, market shares %



Source: NS Intressenter (2020b)
Note: Excluding Google Shopping

4.5.2 NS Intressenter's view on capital structure during the holding period

PriceRunner was unleveraged until NS Intressenter acquired the company. Then, leverage was used to increase the return on equity and generate more value to its investors. Unlike private equity, leverage was neither used to increase discipline among management to optimize the use of cash, or to maximize the trade-off between tax benefits and risk of default. In hindsight, the management felt that the leverage was almost too high due to the costly operational improvements that took longer than expected. Lindahl explained:

"Leverage was clearly a key part of value creation to increase the return on equity, but in hindsight the debt level was almost too high. We initially put the debt level with the plan to invest heavily in operational improvements for 1.5 years, however, that journey took 3 years with hundreds of million invested in the platform to make PriceRunner the best shopping site in the world. By investing a lot of money, almost twice the budget we initially forecasted, we nearly broke debt covenants some time into the journey." Mikael Lindahl, 2020-03-26

Despite that the leverage resulted in extra uncertainty, Storåkers and Lindahl wanted to maintain the leverage ratio of 71% which they had in the acquisition. Consequently, when the bank loans were repeatedly amortized, PriceRunner did a leveraged recapitalization by raising additional debt.

The management at PriceRunner noticed that they had an advantage with having financially strong investors. During the negotiations with the banks at acquisition and when covenants were close to breach, their credibility was still high, and the banks felt reassured that the risk of lending money was low. This allowed PriceRunner to have a high leverage and utilize their investor's reputation. Lindahl further explained:

"I have never been worried about the high level of leverage, we had owners that trusted our ability to execute the plan, and if it would have been necessary to raise additional SEK 100 or

200 million we would have done so. You can never know who in a group of owners that will participated but I have always believed in the case and felt certain other would too if it had come to that point. In addition, everyone involved believed in the operational plan including the bank. They have been supportive, and as long as banks see limited downside, they like to lend out money, they earn interest on it, and that is how they make their shareholders happy." Mikael Lindahl, 2020-03-26

4.5.3 The corporate governance dynamics of a search fund

The selection of board members was decided based on ownership and expertise, shown in exhibit 21. Nordstjernan selected Peter Leimdörfer, board member at Nordstjernan, Carolina Oscarius Dahl, investment manager at Nordstjernan and later also Christopher Beselin Brinkeborn, founder of Lazada. Already during the process of acquiring PriceRunner, Storåkers reached out to Paul Fischbein and wanted him as part of the board. Fischbein had deep industry expertise in e-commerce from his experience as CEO of Qliro Group and founder of tretti.se, which both were established online merchants that experienced significant growth during his tenure. Fischbein was selected by Philian to act on their mandate as well as Mattias Miksche, angel investor and board professional. From 2016 to 2019, Fischbein was acting as member of the board and took over as chairman in 2019. Storåkers was also sitting on the board, elected by himself based on the shareholder agreement.

From the beginning, it was decided to have a small board with an average of 5 people between 2016-2019, shown in exhibit 21. Approximately six formal board meetings were held annually with around 4-6 extra meetings related to special events such as potential acquisitions and financing decisions. On top of the fiduciary duties in the board, it was the management that gave suggestions to new initiatives and the board was rather used to question, discuss and decide on the given proposals.

During the period, Nordstjernan and Philian worked closely together when monitoring PricerRunner and maintained a strong relationship exchanging insights and learnings. However, it was clear that they had different ownership profiles given how active they were when monitoring the investment in PriceRunner. Nordstjernan acted similar to a traditional private equity firm and was an active owner through the board of directors. It had employees keeping track and analyzing PriceRunner which resulted in frequent contact between Nordstjernan and Storåkers, where Nordstjernan gave advisory services to Storåkers and the management at PriceRunner. Philian on the other hand was more passive, but on the back of the close relationship with Nordstjernan they were continuously briefed about the progress from Nordstjernan's board representatives. Oscarius Dahl commented on Nordstjernan's active ownership profile:

"Nordstjernan supported PriceRunner in strategic questions through the board of directors, and the idea with the structure was that Nicklas would run the day-to-day operations independently." Carolina Oscarius Dahl, 2020-03-27

On the contrary, Philian took a passive ownership approach, which was aligned with their profile and investment philosophy. Philian treated PriceRunner as a start-up investment and did limited analysis of PriceRunner during the period, and a majority of Philian's follow-ups were made during the formal board meetings. Philian expected PriceRunner to work independently and thought of Storåkers as a founder of PriceRunner. Unlike private equity buyout, Storåkers was viewed as a partner to the investors rather than a CEO alone. Fischbein, elected based on Philian's mandate, commented:

"I think you have to consider [the search fund structure] as a partnership where Nicklas is almost like a founder in this." Paul Fischbein, 2020-03-25

This further explain the insight that the choice of searcher was the most important source of value creation in PriceRunner, shown in table 2 and 3. Magnusson elaborated on why the searcher per se was the most important factor in PriceRunner:

"There are lots of things underlying factors that makes PriceRunner an interesting investment case. However, PriceRunner with a random management would not have worked. In these types of [search fund] structures it is the entrepreneur that is the most important factor because that is the only way to lower risk. Of course, it has to be a good company, a good idea, some type of macro driver in society, and customer behavior that goes the right way, swimming downstream and not upstream. But it is the entrepreneur that is the decisive factor for sure." Björn Magnusson 2020-04-01

In PriceRunner, Storåkers acted both as CEO, board member and a large co-owner. From a corporate governance perspective, it was acknowledged that it created a two-folded relationship between the investors and the searcher. Magnusson elaborated on the dynamics by making a reference to *start-up* investments:

"Philian's view is that the investment in the search fund is like investing in a start-up. The CEO has strong incentives, and there are no better incentives than owning a large stake in the company. However, this in turn leads to a complex situation where the other owners have to accept that it is the CEO who plays first fiddle, not the investors as in the traditional private equity. If investors are not comfortable with this, or have confidence in the CEO from the start, you will end up with a very difficult situation; should you fire the CEO who owns 20-30% of the company and is critical for the search fund set up? And who do you elect instead? Investors and the CEO sit in the same boat and investors have to accept that it is the CEO who drives the boat, advised by the board until it reaches land. It is difficult to throw the CEO out of the boat during the trip. This situation is common in the start-up world and Philian is used to this kind of complicated relationship as we have been investing in start-ups for several years." Björn Magnusson, 2020-04-01

Oscarius Dahl further added, by making a reference to *buyout* investments:

"What you have to understand as an owner [in a company acquired by a search fund], is that the ownership structure is like being in a three-part marriage. It is somewhat similar to buyout cases where you have a founder still on board after the acquisition with a large ownership stake." Carolina Oscarius Dahl, 2020-03-27

Consequently, the search fund's corporate governance structure with a searcher that is both the CEO, board member and a significant owner, becomes naturally more complex, which both investors state that it is important to be aware of. For example, the ownership structure increases the complexity for the board to fulfill certain functions. Normally, a board makes decisions as a fiduciary on behalf of the shareholders and one of the main duties of the board is to elect and dismiss the CEO which naturally can be ruled out in these structures.

4.6 Stage 4: Exit opportunity

This section covers the period from April 2019 to February 2020. It begins with the situation leading up to the exit of one of the investors. Thereafter, it includes an epilogue that explains what happened to PriceRunner.

4.6.1 Background

In April 2019, PriceRunner had finished the first part of the value creation plan. It primarily involved building a unified company, improve corporate governance, and a technical reset and modernization of the IT system. It was a challenging technical turnaround that took 3 years rather than the expected 1.5 years. The total headcount was 130, where about 110 of these were newly hires under Storåkers and Lindahl's leadership. The organization was centralized to Stockholm and PriceRunner had built a platform that enabled them to quickly launch new features and observe the results. Now the second part of the value creation plan was starting, with full focus on growth and profitability in new and existing markets. Suitably, the market outlook was bright, in 2019 the European online shopping PCW market amounted to SEK 4.0 billion[18] and it was expected to continue to grow with 15% in 2020 (Goldman Sachs, 2019). Also, due to the large investments and improvement of PriceRunner's value proposition to customers and merchants, PriceRunner finally felt they had a platform that was competitive, and a strong enough foundation to build the world's best shopping comparison site.

4.6.2 Decision-making

In 2019, Nordstjernan stated that they were open to divest its shares in PriceRunner or take a passive ownership role similar to Philian. Storåkers had to examine his options. Storåkers could either keep Nordstjernan as a passive investor, ask Philian to buy Nordstjernan's shares, find a new investor, or initiate a full exit by either selling to a financial buyer, strategic buyer or proceed with an IPO.

Storåkers had to decide which alternative to proceed with, however, all options were related to the attractiveness of the PCW market and what was PriceRunner worth today? Could he get a good price and cash out together with Nordstjernan? And if so, what were the pros and cons of the different exit alternatives? Also, was there any value in Storåkers himself as CEO and Nordstjernan and Philian as investors which would make an exit difficult? Exhibit 22a shows the forecasted financials for PriceRunner as of 2019 and exhibit 22b and 22c show valuation multiples for comparable companies.

4.7 Epilogue

Storåkers and Philian decided that they did not prefer to have Nordstjernan as a passive investor. Ultimately, they felt this would reduce the usefulness of the board, limit the value a board can contribute with and create issues considering Nordstjernan's substantial ownership.

The option where Philian would buy Nordstjernan's shares was ruled out. In that scenario, Philian would become the majority owner which they did not desire considering their investment strategy to take minority positions. Having PriceRunner as an affiliate to Philian would also be complex considering Philian's structure.

Initiating a full exit was hardly discussed. During the past years, PriceRunner made large investments and the financial numbers were not yet representing the full value of the company. The investments were made too recently and needed more time to reach their full potential. This was partly due to the fact that the technical turnaround took 3 years rather than the expected 1.5 years. Lindahl explained:

"We need at least 2-3 years of positive EBITDA growth to see the large boost in value, so we have just begun the next phase of this journey. The next 3-5 years are decisive to do so."
Mikael Lindahl, 2020-03-26

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[18] Assuming EUR/SEK exchange rate of 11.01

Also, Storåkers knew that potential investors would be concerned with Google, but also Amazon, which was rumored to enter the Nordic market. Therefore, Storåkers knew that before initiating an exit, PriceRunner had to show resilience and independence from international technology giants such as Google and Amazon. Lastly, Storåkers felt he had not fulfilled his vision with PriceRunner yet, Storåkers commented:

"Since I have had the privilege to work with long term investors, we did not decide on a certain date for exit. My horizon is longer than for a private equity firm and I have full intention to and I will create the world's best shopping comparison site." Nicklas Storåkers, 2020-04-16

Finding a suitable investor was complex due to the minority post and the three-part ownership marriage. Further, Storåkers and Philian desired an investor that was active in the Nordic region with a strong industry expertise. This clearly limited the number of potential buyers. The option of contacting strategic investors was quite limited due to the concentrated market. Also, strategic investors were deemed as a difficult fit to the search fund ownership and governance model, it was likely to result in conflicts of interest. Therefore, Storåkers primarily considered 6-7 financial investors, with focus on technology companies. Conveniently, the founder of PriceRunner who exited in 2004, Magnus Wiberg, founded a private equity fund named eEquity in 2010 (DI Digital, 2020). eEquity invested in companies with an online related business model in the stages of accelerating growth (eEquity, 2020). Appropriately, this was a fit with the upcoming focus on growth and profitability at PriceRunner. As a result, eEquity invested in PriceRunner in February 2020. Storåkers commented on the transition of owners:

"We have had a great added value with Nordstjernan as one of the majority owners. We are excited to have eEquity, with extensive experience within both e-commerce and PriceRunner, to support PriceRunner's future journey." Nicklas Storåkers, 2020-02-07 (Ehandel, 2020)

From Nordstjernan's perspective, the divestment was a good fit with their ambition to concentrate their internal resources to larger companies in their portfolio. Peter Hofvenstam, appointed President and CEO of Nordstjernan following Billing's decision to step down, commented on the decision to divest its shares in PriceRunner:

"Nordstjernan has been an owner of PriceRunner alongside Nicklas Storåkers and Karl-Johan Persson. Together with the company's management, we created an independent and competitive comparison service. The company is now entering a new stage of development, and I would like to extend my deepest thanks to management and employees for their efforts. I am pleased that an experienced investor like eEquity will be a new owner of PriceRunner." Peter Hofvenstam, 2020-02-07

Clearly, it was a benefit that eEquity was focused on investments in online businesses such as PriceRunner. However, it was decisive that Wiberg returned to PriceRunner, considering his expertise about the industry and PriceRunner itself. Storåkers elaborated:

"It was a coincidence that Wiberg is one of the founders of PriceRunner but it made him see the potential. Where other investors saw question marks, he saw exclamation marks." Nicklas Storåkers, 2020-04-16

From eEquity's perspective, Wiberg commented on their investment in PriceRunner:

“Nicklas goal is to create the world’s most loved shopping comparison service. The team has already improved the quality of the website which has generated a larger customer base. Now we are ready to establish PriceRunner as the leading player within this sector and increase profitability exponentially.” Magnus Wiberg, 2020-02-07 (Ehandel, 2020)

In the deal, Nordstjernan sold 30% of their shares to eEquity and 5% to Storåkers. Philian kept its ownership at 36%. When eEquity bought 30%, Storåkers then increased his ownership to 27%. The remaining management and Fischbein also bought shares which constituted less than 1%. Exhibit 21 shows the ownership distribution. Moreover, the increased ownership stake by the management and Storåkers sent a symbolic signal to eEquity that Storåkers and the management still believed that more value could be created in PriceRunner.

5. Analysis

In this chapter, we analyze what a search fund says it does over the fund life-cycle to create value for its investors, and its resulting economic insights. We compare it to existing literature and the empirical studies among search funds. Overall, we address the critical arguments to our findings and their implications to this study.

5.1 Stage 1: Value creation in the fundraising

This section covers the fundraising stage of NS Intressenter. We acknowledge that, at first sight, it might be ambiguous how the fundraising of the search fund relates to value creation considering that a company has not yet been acquired in this stage. However, we find that already in this stage of the search fund, certain elements have an effect on the different layers of the value creation in the search fund's later stages. Therefore, the following section uncovers those elements and their relation to value creation.

5.1.1 The investors influence on the search fund's preconditions to value creation

Unlike a blind pool which is the traditional private equity fund model, investors in a search fund contribute capital on at least two separate occasions. This resembles multi-stage-investments that venture capitalists sometimes do according to Stevenson et al. (2012). During the fundraising of a search fund, we find that the investors value the two-stage funding process, i.e. the separation of capital investments. More specifically, we identify that Nordstjernan and Philian felt that the investment risk with NS Intressenter was low relative to its potential return, since they reserved the right to review each investment prior to contributing the acquisition capital. Nordstjernan and Philian felt more protected towards risk since the search fund structure offered them flexibility to opt out from investments that the searchers proposed. Besides, the initial investment of SEK 10 million was small compared to the second contribution of capital, i.e. the acquisition capital, which contributed to their perception that the risk was low. In a worst-case scenario, Nordstjernan and Philian would incur a loss of SEK 10 million, a relatively small sum compared to the total purchase price of a potential target, and subsequently decline to invest in the acquisition capital. Regarding the value add with the structure, Nordstjernan and Philian perceived the structure as transparent since they received information about the searchers' progress, could evaluate the searchers based on the targets they presented, and they could choose the most attractive investment of those that Storåkers and Lindahl proposed. This way of reducing risk and generate added value via transparency relates to the agency problem and fits the definition of real options developed by Myers (1977). Myers (1977) states that real options generate the most substantial value in situations with a great deal of uncertainty. Clearly, this applies to a search fund since it is undecided from the beginning which company the search fund will acquire. As a result, we identify that the search fund structure provides value to investors due to its two-stage setup by reducing risk and being transparent, similar to real options.

Interestingly, this study proves that investors are appealed by features in a search fund model that stretches beyond a *direct* monetary return. Despite that neither Nordstjernan nor Philian had an investment profile that was a perfect match with a search fund, they decided to invest in NS Intressenter. One of their explanations was the *indirect* value they saw in Storåkers's previous track record, industry expertise and reputation. Furthermore, Nordstjernan specifically wanted the investment to generate spillover effects to its existing holdings and give access to investment opportunities that otherwise were infeasible to them. This is distinguished in Billing's explanation why Nordstjernan provided the search capital. Accordingly, this shows that certain investors in a search fund do not exclusively seek monetary returns from the search fund itself, but also indirect value by gaining access to a new type of deal flow and capitalize on a searcher's unique expertise.

We argue that the profiles of the investors have an impact on the search fund's conditions to value creation. More specifically, we recognize that the investor's reputation can add value to the search process, which then the searcher can capitalize on. We observe this on three occasions during the search fund life-cycle. First, since both investors were highly respected and reputable it allowed the searchers to generate a unique deal flow via PR during the second stage of the life-cycle. Second, the searchers experienced a slight advantage in situations when the seller put value in who the potential acquirer would be. Wasserman (2008) finds that founders gain emotional ties to the company they founded, suggesting that not only monetary factors are important when they exit. Therefore, we suggest that investor identities can be used to create incentives for the seller to favorize a sale to a search fund if the investors have a good reputation, which we observe in this case study. However, we do not argue that this is limited to search funds, but is relevant since many search funds, such as NS Intressenter, target founder owned companies with succession problems that are more likely to value the identity of the next owner. The third aspect relates to the search fund and investor's investment horizon. Both Nordstjernan and Philian had no predetermined exit date, as Storåkers explained, *"Since I have had the privilege to work with long term investors, we did not decide on a certain date for exit. My horizon is longer than for a private equity firm".* This created conditions for the search fund to target deals that would generate returns in the long term. Accordingly, this matches the acquisition of PriceRunner due to its need for investments that were time consuming with a payoff further in the future. Hence, this meant that the search fund could target deals that would not be as attractive to other private equity firms with a specified investment horizon.

5.2 Stage 2: Value creation in the search and acquisition process

This section covers the second stage of the search fund's life-cycle. During this stage, we discuss how the search fund assessed potential opportunities to differentiate itself and subsequently retain most of the potential upside of the company's planned value creation.

5.2.1 Retaining potential upside in value creation during the search and acquisition process

Our case study shows that NS Intressenter bought PriceRunner at an attractive valuation multiple, if it is compared with valuation for comparable public companies and precedent transactions in the same industry. This is shown in the acquisition multiple of PriceRunner, which turned out to be 57% lower than the valuation multiple of the main trading comparable, Moneysupermarket, at the time of the acquisition (see exhibit 10a for comparable trading peers as of 2015 and see exhibit 22b for updated trading peers as of 2019). This result is in line with Ruback and Yudoff's (2012; 2017) explanation that small businesses trade at a significant discount compared to larger peers in the same industry. Accordingly, we find that "purchase at an attractive price", shown in table 2, was considered an important source of value in PriceRunner. We suggest this is explained by Vester (2011), who finds that valuation can make a substantial difference to value creation because of value appreciation and value contraction.

We find that NS Intressenter was able to be cost-efficient during their deal sourcing. NS Intressenter was able to locate and acquire a firm such as PriceRunner at a significantly lower budget relative to the purchase price than larger investors generally would have been. With a budget of SEK 10 million, NS Intressenter was able to identify 400 companies to investigate, performed deep evaluation of 20 companies that included indicative bids, reached the stage of negotiated SPA with 5 companies, and later acquired 2 of them. The proportion of acquisition costs amounted to merely 1.2%[19] of the total aggregated enterprise value of SEK 830 million for PriceRunner and Design Online. In this regard, our result is different to Ruback and Yodoff (2012), who state that the transaction costs as a proportion of the total purchase price is usually high, sometimes as high as 20% for small firms performed by e.g. private equity firms. Ruback and Yodoff (2012) suggest that this lowers the expected return resulting in less interest to buy small firms. Therefore, this case study proves that a search fund's cost-efficient structure creates value by offering investors a direct investment into a space with attractive valuation multiples and still maintain a low transaction cost relative to the purchase price.

We find that a search fund can generate value to its investors due to its unique characteristic, that management is already decided prior to a potential deal. In the case of PriceRunner, this was a decisive advantage for NS Intressenter. This allowed the search fund to find a deal where it was less competition from other institutional investors. This relates to research by Kaplan et al. (2012), who show that private equity funds generally target companies with a high performing CEO already in place. Considering their findings with ours, we find that a search fund can differentiate itself from private equity firms, avoid auctions that are more competitive, and retain most of the planned value creation during the negotiation. In other words, the search fund has one less obstacle to overcome in terms of recruiting management compared to other potential acquirers. This creates favorable conditions for a search fund to source deals that are less competitive, and it does not need to incorporate as much potential value add in the purchase price.

5.3 Stage 3: Value creation levers during the ownership

This thesis shows that NS Intressenter initiated value creating activities through a combination of financial, governance and operational engineering. This is shown in table 2. In this aspect, search funds and "traditional" private equity are similar to one another considering the work of Gompers et al. (2016a). The following sections elaborates on the three dimensions for value creation according to Kaplan and Strömberg (2009).

5.3.1 Operational engineering

With reference to Kaplan and Strömberg (2009), we find that operational improvements were a high priority to increase the value of PriceRunner. An example of operational improvement was to invest in PriceRunner's product, reboot it and improve its technical platform. Then, this generated a better product where new add-on features could rapidly be added. For instance, the number of merchants climbed from 6,000 to 16,200 and the number of structured products increased from 420,000 to 1,830,000. Accordingly, this was a necessary activity to execute the strategic plan to extend the existing business model, which is also an example of operational engineering. At inception in 2016, PriceRunner generated value to its customers by helping them prioritize which merchant they should purchase from, i.e. PriceRunner was exclusively active in the "preference" part of the buyer's journey. However, the technical reset allowed PriceRunner to add the "consideration" part of the buyer's journey and provide more value to its customers. Therefore, PriceRunner transformed its vision to; *"at PriceRunner we will create the world's best and most loved shopping comparison service*". This was part of the strategy to increase its competitiveness and customer value to further penetrate PriceRunner's core markets before considering an expansion to new markets. This explains table 2, where "increase focus on key markets" was an important source of value, later followed by "redefine the current business model or strategy" and lastly why "enter new markets" was not so important.

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[19] Calculated based on the aggregated enterprise value of SEK 830 million, including SEK 175 million for Design Online and SEK 655 million for PriceRunner

Another consideration related to operational improvements was PriceRunner's M&A activity by acquiring EDB and Bäst-i-test. Its acquisition of EDB in Denmark was to concentrate the market, increase the barriers to entry for competitors and simultaneously strengthen its market position. In retrospect, this appears to be correct as the market share in Denmark, excluding Google, went from 90% to 99%. Unlike the acquisition of EDB, the acquisition of Bäst-i-Test in Sweden was related to the aforementioned strategic plan to broaden the business model and service offering. As Storåkers and Lindahl gradually rebuilt and centralized the organization and recruited skilled personnel, they simultaneously shifted their focus from generating inorganic growth to organic growth. Therefore, they did two early acquisitions until they could generate value internally.

A striking result from this case study is the consistent opinion that the choice of CEO, i.e. searcher, constitutes the most important source of value creation. Following the work of Kaplan and Strömberg (2009) the value attributed with the searcher can be considered a mix of operational and governance engineering, as the searcher is responsible for the operations as CEO but is also selected by the board. Bloom et al. (2010; 2015) present that private equity owned firms have superior management practices, significantly better than family and entrepreneur owned firms. We believe the work of Bloom et al. (2010; 2015) is likely to apply to search funds as well, meaning that the searcher's management practices are likely to be superior to family and entrepreneur owned firms. We believe so because the searchers in this study share the selection criteria that a private equity firm applies when professionalizing their management. In this study, the searchers were selected, evaluated and reviewed similar to management in private equity owned firms since both Nordstjernan and Philian are private equity investors. Also, the searchers were approached by private equity firms to take management roles but declined, which strengthens the argument that the searchers were selected in the same way as private equity owned firms. In essence, this partially explain why the "choice of CEO" (searchers) is perceived as the most important source of value in this case study.

Looking from both an operational and corporate governance perspective (Døskeland and Strömberg, 2018), the searchers improved the operational KPIs by linking them to the employee's day-to-day work and the financial figures. This is demonstrated in Storåkers statement, *"I break down goals to every team and employee, then everyone knows how to contribute"* and in Lindroos' comment that *"We have significantly more KPIs and there is a much clearer link between the financial and operational key figures"*. When the operational KPIs were enhanced, it simultaneously improved governance by providing more information about trends, customer experiences, and PriceRunner's own platform and service. Hence, this facilitated and improved the decision-making that made PriceRunner more efficient and competitive, which ultimately leads to more value. We find that this source of value was considered one of the most important elements for value creation in PriceRunner.

5.3.2 Financial engineering

This case study finds that NS Intressenter used financial engineering by transitioning PriceRunner from being all-equity financed, to high leveraged financed. When the deal closed, PriceRunner was financed with 71% debt with the solitary objective to increase return on equity. This is shown when Lindahl explained the rationale behind the high leverage; "*Leverage was clearly a key part of value creation to increase the return on equity"*. Further, we show that during 2016-2019, PriceRunner maintained a high leverage ratio through a leveraged recapitalization. This allowed PriceRunner to raise more debt when debt was repeatedly amortized, and thereby maintain the financial leverage to increase return on equity. This result is consistent with "traditional" private equity considering the work of Kaplan and Strömberg (2009), who show that high leverage serves as a tool for financial engineering in private equity. Accordingly, it appears that search funds share this attribute with private equity.

We further find that NS Intressenter was able to raise the high level of debt due to the fact that Nordstjernan and Philian were the investors. This is supported by Lindahl's statement that Nordstjernan and Philian do not allow their portfolio companies to default on debt. Once again, this highlights the indirect effect investors can have on the sources of value in a search fund.

We find that NS Intressenter did not set the high level of leverage to maximize the trade-off between tax benefits and risk of default. This is clearly different to "traditional" private equity and research by Gompers et al. (2016a). Therefore, in this regard it appears that a search fund differs to private equity in their approach to create value. Despite that NS Intressenter acquired PriceRunner through a complex corporate structure, consisting of 6 separate legal entities in different countries, Storåkers and Lindahl stated that they were able to estimate the tax effect. This is inconsistent with findings by Graham (2000) who explains that there are several problems to investigate how tax incentives affect firm value, with the most common problem being the difficulty to calculate corporate tax rates due to data problems and the complexity of the tax code. However, we suggest that the motive to use leverage for tax benefits is not in line with Nordstjernan and Philian's fundamental values, since the use of leverage for tax benefits would have been controversial from a CSR aspect. We find that Storåkers agreed with Nordstjernan and Philian to only target companies that fulfilled certain CSR and ESG requirements. Therefore, this was taken into account when Storåkers and Lindahl decided the motives for high leverage.

We find that NS Intressenter used leverage to increase discipline and reduce agency cost among management, but it was not so important relative to other initiatives. This is aligned with Gompers et al. (2016a) who show that private equity firms use leverage to reduce agency costs among management. However, we suggest that the search fund structure, with the searcher having "dual titles" as both CEO and owner, suggest that the risk associated with agency costs is reduced. As such, this relates to the agency problem introduced by Jensen and Meckling (1976) where the searcher is both the agent (CEO) and the principal (owner). Consequently, we suggest there is less need to reduce agency costs by using debt when incentives between the agent and the principle already are aligned.

Following the work of Kaplan and Strömberg (2009), we find that NS Intressenter used management incentives as an important piece of financial engineering and governance engineering. This is similar to private equity. Previous work by Kaplan (1989a), Kaplan and Strömberg (2009), and Jensen (1989), state that private equity firms provide strong incentives to portfolio company management. Our study shows that the searchers owned 25% of the company (including both Storåkers and Lindahl), other key management 4%, and 89% of all employees were part of the employee stock option program. These findings are notably in two ways. First, the share of CEO ownership is significantly higher than in private equity. Gompers et al. (2016a) show that private equity investors allocate on average 17% of the company equity to the management, whereof the CEO obtains on average 8%. Nonetheless, our findings are consistent with Yoder and Kelly (2020) who show that searchers generally hold around 20-30% of common equity. We suggest that one possible explanation for a higher share of CEO/searcher ownership among search funds is that the CEO/searcher is compensated for their work during the search process, where their salary is below their market value. In the case of PriceRunner, Storåkers also had significant financial resources to money to invest which also could explain the higher ownership share. During the search process, Storåkers and Lindahl earned a salary that was considerably lower than what they could receive from other work opportunities. This finding is in line with Kessler (2012) and Ruback and Yudkoff (2018) who explain that the salary during the search process is usually substantially below the median salary of what searchers could earn elsewhere. Second, the share of employees in the stock option program in PriceRunner was considerably higher than what an average firm have. Dube and Freeman (2008) show that 25% of workers in the US are paid in part with some form of employee stock option as a way to incentives workers. We acknowledge the argument that the divergence can be explained by the differences in country tax legislation and human resource strategies (Croucher et al., 2010; Kabst et al., 2006; Pendleton et al., 2002; Uvalic, 2009; Poutsma et al., 2012). However, Henrekson and Rosenberg (2001) note that employee stock options are highly penalized by the tax system, and Sweden has higher taxes on wage income as well as capital income than the US. Therefore, we suggest that the higher share of participation in the employee stock option program in PriceRunner is not driven by differences in country tax legislation. On the other hand, we acknowledge that there is a lack of more granular data on the topic and the reason for higher employee stock option participation could also be industry specific. All in all, we show that NS Intressenter used both share ownership and employee stock options as financial and governance engineering to create value. However, we suggest that the employee stock option program creates less incentives and value than direct ownership because the current price of the options can be below the strike price.

Similar to Yoder and Kelly (2018; 2020), we find that the searchers vest their equity ownership over the fund life-cycle. This is a way to align the searchers' incentives with the investors', in order to optimize the value creation. However, we notice that the structure of equity vesting differs between our case study and Yoder and Kelly (2018; 2020). Yoder and Kelly (2018; 2020) show that a common search fund vesting schedule vest (i) one-third when the acquisition is closed, (ii) one-third vest over time (4-5 years), and (iii) one third according to net investor IRR performance hurdles. In our case study, we find that the searchers earned their full equity stake at the acquisition, but it was vested over 3 years. The main difference between our case study and Yoder and Kelly (2018; 2020) is that the searchers did not vest part of their equity based on a net investor IRR performance hurdle. In the case of PriceRunner, we suggest that the capital structure somewhat achieved the same economic meaning as IRR performance hurdles. More specifically, Storåkers and Lindahl only held common equity whereas Philian and Nordstjernan held a mix of common equity, preferred equity and shareholder loans. Consequently, Nordstjernan and Philian were senior to Storåkers and Lindahl to receive their return. Hence, this meant that Storåkers and Lindahl had to achieve a certain increase of enterprise value in PriceRunner before they would earn money, i.e. similar to an IRR performance hurdle. As a result, this aligned the searchers' incentives with the investors', in order to maximize the value creation.

5.3.3 Governance engineering

PriceRunner employed a small board which is similar to research about the size of private equity boards (Gertner and Kaplan, 1996; Acharya et al., 2009; Cornelli and Karakas, 2012). On average, PriceRunner had a board of 5 members between 2016-2019, lower than the typical number of 7-8 members in private equity according to Acharya et al. (2009). The difference suggests that the governance model in terms of board size is slightly different between private equity and a search fund. The decision to employ a smaller board size in PriceRunner was due to the consensus by the practitioners in this case that a smaller board is more efficient. This is supported by research. Yermack (1996) suggests that smaller boards are more effective and correlate with higher shareholder return over time by creating better alignment and sharper more focused debates. Yet, in relation to other sources of value, table 2 suggests that the small board itself was not an important source of value for PriceRunner.

We find that the governance model in a search fund is heavily based upon the investors' trust to the searchers. In this case study, one of the searchers had the role as CEO, board member and owner. This setup is a double-edged sword, due to its advantages and disadvantages. Clearly, the structure creates informational asymmetry between the CEO as a board member and the remaining board members. Naturally, the CEO has an informational advantage and regardless of the CEO's intention, it results in a dynamic where the CEO's arguments receive additional credibility and ethos than those of the remaining board. Therefore, the setup creates a greater risk that it becomes increasingly difficult for the remaining board members to question and challenge the proposals from the searcher. This increases the risk that decisions are made subjectively rather than objectively which deteriorates the corporate governance, and ultimately it can reduce the value of the company.

Another disadvantage with the corporate governance structure in a search fund is that the board's function to elect and remove the CEO becomes increasingly complex. This conclusion is a potential explanation to the findings of Kessler (2012) who shows that 59.1% of all failed search funds are driven by troubled dynamics between searcher and the board. In the study of NS Intressenter, we find that the two investors viewed the choice of Storåkers as searcher and CEO as definite over the whole search fund life-cycle, and indirectly accepted the fact that they would not have the option to remove the searcher as CEO. This is noticed in Magnusson's statement, "*Investors and the CEO sit in the same boat and investors have to accept that it is the CEO who drives the boat, advised by the board until it reaches land. It is difficult to throw the CEO out of the boat during the trip"*. From a corporate governance perspective, this emphasizes that the structure is heavily based on trust. Relating back to the fundraising phase of the search fund itself, this underlines the importance of two things. First, the searcher's fit and dynamic with the investors is extremely important when investors decide to invest in a search fund. Second, it is the searcher, not the investors, who will be in charge of the company even though the searcher might be a minority shareholder.

Magnusson's statement about Philian's perspective on NS Intressenter relates to an interesting aspect surrounding value creation. That is, who is the driver for the value creation in a search fund? As mentioned, we find that a search fund shares many of the different sources of value creation with private equity firms, shown in table 2. However, we find that the searcher is the main creator of value, shown in table 3. Evidently, this is contrary to the most active value creator in private equity, which is the deal team, shown by Gompers et al. (2016a).

Our case study suggests that the mix of sources of value in a search fund depend on the characteristics and background of the searcher. This is a contributing explanation to the result in table 2, where financial engineering generally was not among the top sources of value creation for PriceRunner. In this case study, the searchers had more operational industry experience rather than pure financial experience such as investment banking. It is a plausible explanation why operational engineering in general, appears to be the most important source for value creation in this case study.

5.4 Stage 4: Exit

This case study includes a partial exit by one of the investors. Therefore, we acknowledge that we are somewhat limited to make distinctive conclusions about the connection between exit and value creation. Despite this limitation, we distinguish a few interesting insights regarding the connection between exit and what a search fund does to create value.

In this case study, we find that NS Intressenter identified three plausible exit options, including selling to a financial buyer, selling to a strategic buyer and an IPO. We observe that the searchers wanted to reshape PriceRunner to a company where the transition to a potential new owner will be smooth and simple, which was different to PriceRunner in 2016. Accordingly, Storåkers and Lindahl created a structured organization where all employees had clear and specific responsibilities and individual targets via the OKRs. In addition, they improved the operations by introducing a corporate governance structure that ensured that the performance of PriceRunner can be monitored and evaluated. Both these examples relate to Lindahl's expression, "*PriceRunner is now a company that can be acquired on a stand-alone basis, where anyone can take over the keys and drive on at a high speed.*". This suggests that PriceRunner was rebuilt to be more attractive for more buyers than it was in 2016, which further increases the probability to generate higher returns.

Regarding the option of selling to a financial buyer, NS Intressenter saw an opportunity to acquire a company that was slightly too small for traditional private equity firms. This is demonstrated in Storåkers statement; *"There is a sweet spot between SEK 25-200 million in equity ticket that is usually too small for traditional private equity players and too large for single individuals to acquire. We saw it as; fly under the radar of mid-market private equity."* Thereby, if they could boost the size of the company and overcome the threshold for private equity firms, PriceRunner would be more attractive to private equity firms. Thereafter, this increases the probability for a more competitive bidding process, improves the exit multiple, and ultimately generates higher returns upon exit.

6. Concluding remarks

Over the past decade, the annual number of new search funds have been booming. Yoder and Kelly (2018) show that from 1984 to 2017, SEK 9.24 billion[20] equity capital was raised by search funds in the US, generating an aggregated return of 6.9x ROI and 33.7% IRR. In this thesis, we bridge the gap between the practical guidelines on how to start a search fund, with the unexplained return that search funds have achieved. Hence, the PriceRunner case is a pioneer, showing what a search fund says it does over the search fund cycle to create value to its investors. It further demonstrates how each stage of the search fund's life-cycle connects to the value creation.

Following Kaplan and Strömberg (2009) we find particular examples of operational, financial and governance engineering that are used by a search fund to create value for its investors. We conclude that operational and governance engineering appear to be the most important value creation levers. Specifically, we find that the searcher generates most value in a search fund by embarking the role as CEO. Value creation through management buying shares in the company to increase motivation and align incentives, improve IT and information system and the use of detailed and frequently tracked KPIs, are the three next most important factors and are roughly of equal importance.

As a result of being an untapped area of research, there are multiple fields in the topic that can be further explored. First, our thesis was a single case study to supply an in-depth insight of what a search fund says it does over the search fund life-cycle to create value to its investors. Therefore, we suggest that future research might launch a survey to all search funds raised to date to confirm and distinguish the insights that we present. Second, what is the long-term value effect of search fund ownership? It would be interesting to assess the existence of post-exit effect on operating performance for search fund owned companies. Third, future research can also benchmark search fund performance relative to its risk. Specifically, Yoder and Kelly (2018) find that search fund returns are high, but what are the risk-adjusted return on capital for search funds?

[20] Assuming USD/SEK exchange rate of 10.00

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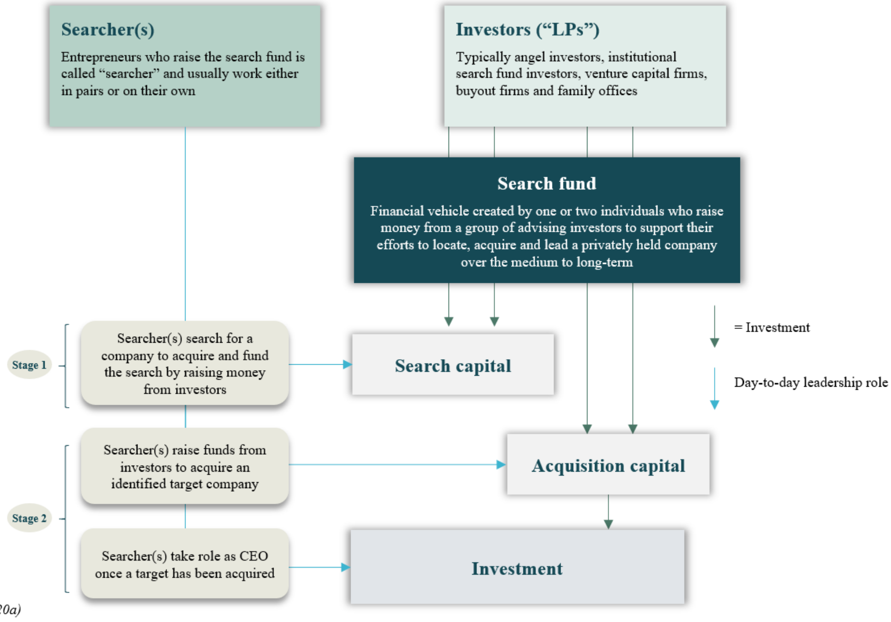
Exhibits

Exhibit 1

Fund structure of a search fund



Source: NS Intressenter (2020a)

Exhibit 2

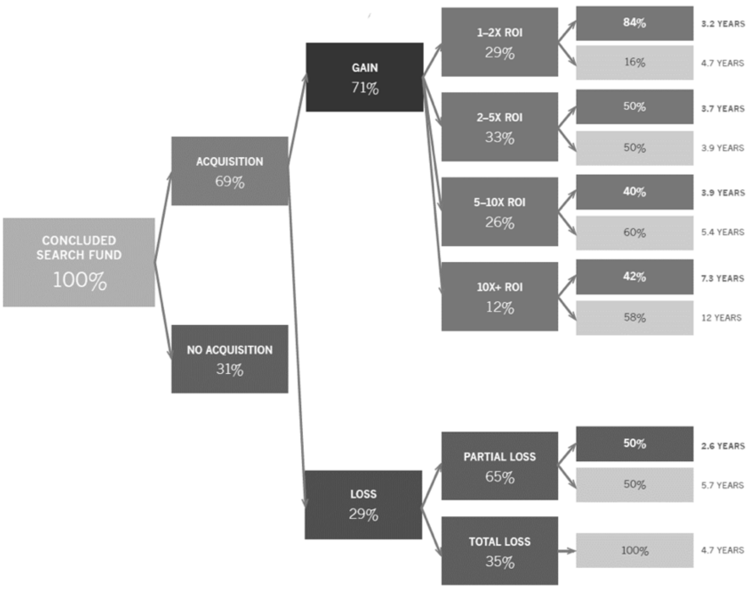
Search fund acquisition statistics between 1984 to 2017

Search fund acquisition statistics (SEK million)	**Minimum**	**Median**	**Maximum**
Company revenues at purchase	12.0	80.0	1 000.0
Company EBITDA at purchase	(16.0)	20.0	250.0
Company EBITDA margin at purchase	-18.0%	22.8%	57.0%
EBITDA growth rate at purchase	-56%	11%	300%
Revenue growth rate at purchase	-20%	10%	450%
Purchase price	19	116	1 170
Purchase price / EBITDA multiple	N/M	6.0x	114.0x
Purchase price / revenue multiple	0.1x	1.4x	4.7x
Company employees at purchase	4	49	740

Source: Yoder and Kelly (2018); USD/SEK exchange rate of 10.00 assume

Exhibit 3a

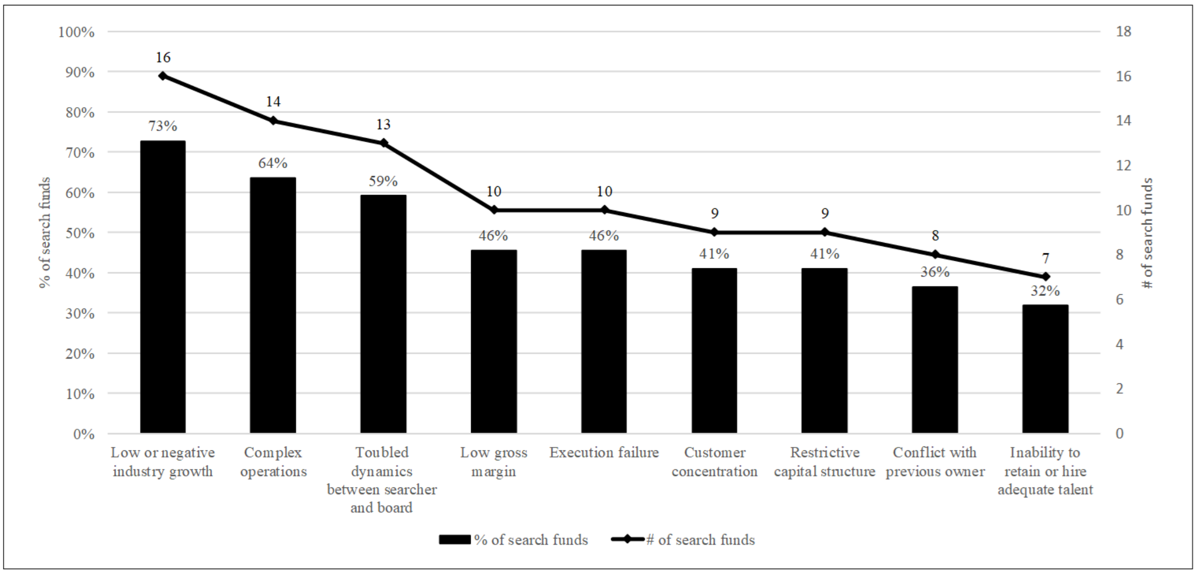
Search fund outcomes 1984 to 2017



Source: Yoder and Kelly (2018)

Exhibit 3b

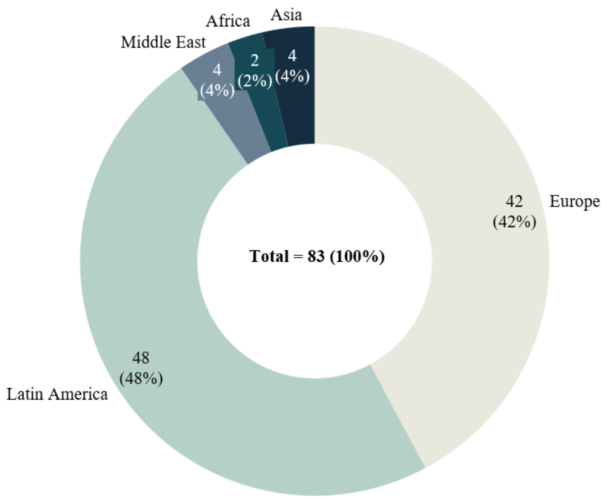
The most common causes of search fund failure (percentage represent percent of 22 acquisitions studied with common theme present)



Source: Kessler (2012)

Exhibit 4

Geographic split of search funds outside the US



Source: Kalorova (2018)

Exhibit 5

Characteristics of historical search fund principals

	2004 - 2005	2006 - 2007	2008 - 2009	2010 - 2011	2012 - 2013	2014 - 2015	2016 - 2017
Age at start of search							
Minimum	28	28	27	26	24	24	26
Median	31	32	32	30	30	32	32
Maximum	60	47	50	51	46	54	47
Under 30	12%	30%	33%	35%	49%	25%	26%
30-25	65%	53%	47%	40%	36%	49%	39%
36-40	12%	10%	10%	16%	11%	20%	32%
Over 40	12%	7%	10%	9%	4%	7%	3%
Number of post-MBA years before launching search fund							
Minimum[1]	0	0	0	0	-1	-1	-2
Median	1	1	4	2	0	1	3
Maximum	18	16	20	17	10	26	15
No MBA	0%	13	16	14	20	18	19
<1 year post-MBA	47%	33%	18%	42%	49%	35%	25%
1-3 years post-MBA	17%	27%	20%	17%	20%	24%	19%
4-7 years post-MBA	23%	20%	22%	17%	7%	12%	21%
8+ years post-MBA	13%	7%	24%	11%	4%	10%	16%

	2004 - 2005	2006 - 2007	2008 - 2009	2010 - 2011	2012 - 2013	2014 - 2015	2016 - 2017
Search fund principals' professional backgrounds							
Management consulting	10%	26%	7%	14%	16%	11%	7%
Investment banking / Finance	16%	27%	20%	11%	22%	11%	16%
Sales	3%	7%	4%	6%	4%	6%	3%
Venture capital	5%	1%	0%	0%	2%	0%	3%
Line / General management	7%	15%	11%	19%	2%	12%	14%
Marketing	4%	0%	4%	0%	0%	0%	1%
Law	2%	0%	0%	0%	7%	3%	0%
Operations	16%	1%	7%	8%	7%	5%	23%[2]
Entrepreneurship	8%	7%	13%	6%	4%	3%	4%
Accounting	3%	0%	0%	0%	0%	2%	1%
Engineering	5%	2%	0%	6%	2%	1%	4%
Military	8%	1%	0%	0%	2%	9%	3%
Insurance	0%	2%	0%	0%	0%	0%	0%
Private equtiy	11%	4%	27%	28%	31%	27%	14%
Other	2%	8%	7%	3%	0%	11%	7%

Source: Yoder and Kelly (2018)

Exhibit 6

Biography of the main stakeholders in the case

Person	Biography
Nicklas Storåkers	Started his career at the investment company Custos in 1998. Served as CEO of Avanza Bank from 1999 to 2011 and reached a market capitalisation of SEK 6.7 billion. Founded NS Intressenter in 2013 and acquired PriceRunner in 2016, became CEO and is still in the position today. Also been active in numerous board positions such as Tink and Lysa.
Mikael Lindahl	Started his career as management trainee at Avanza Bank in 2010. During his time at Avanza Bank, Lindahl held numerous positions related to business development before becoming CEO in 2013 of the video-on-demand service Film2home for a short notice and thereafter joined NS Intressenter in its search in October 2013 (PriceRunner, 2020).
Karl-Johan Persson	Started his career at H&M and served as CEO from 2009 to 2020 and became chairman of the board in 2020. Founded Philian in 2013.
Björn Magnusson	Started his career at H&M in 2003 and launched the affiliate COS in 2005 together with Karl-Johan Persson. Also had the position as head of business development for H&M and created the private equity division at H&M (CO:LAB). Today responsible for Karl-Johan Persson's private portfolio through Philian.
Paul Fishbein	Founded Tretti.se in 2003, reached SEK 500 million in revenues and did an IPO with the company in 2008. When Tretti.se was acquired in 2011 by CDON-Group, today known as Qliro Group, Fischbein served as CEO from 2011 to 2016. Today, he holds numerous board positions and serves as chairman of the investment advisory committee in EQT Ventures.
Tomas Billing	Served as CEO of Hufvudstaden from 1997 to 1999. Served as CEO of Nordstjernan from 1999 to 2019.
Carolina Oscarius Dahl	Worked at McKinsey from 2008 to 2016. Started at Nordstjernan in 2016 as Investment Manager and is still working there today. Also holds board poisitions in Dacke Industri and Lideta.
Magnus Wiberg	Co-founded PriceRunner in 1999 and sold his ownership in 2004. Co-founded eEquity in 2015 and is still active as Partner.

Exhibit 7

Description of selected sub-sectors for the search process

Industry	Sub-sectors
Information providers	Price comparison sites, Search engines
Software	E-commerce platforms, CMS tools, Logistics solutions
Marketing tools	E-mail, Marketing automation, Affiliate networks, SEO
Payments and financing	Sales financing, Payment service providers, Checkouts, Credit scoring
Market places	Market places, Aggregators, Cash-back sites, Drop-ship
Outsourced services	Warehouse and 3rd party logistics

Source: NS Intressenter (2020a)

Exhibit 8

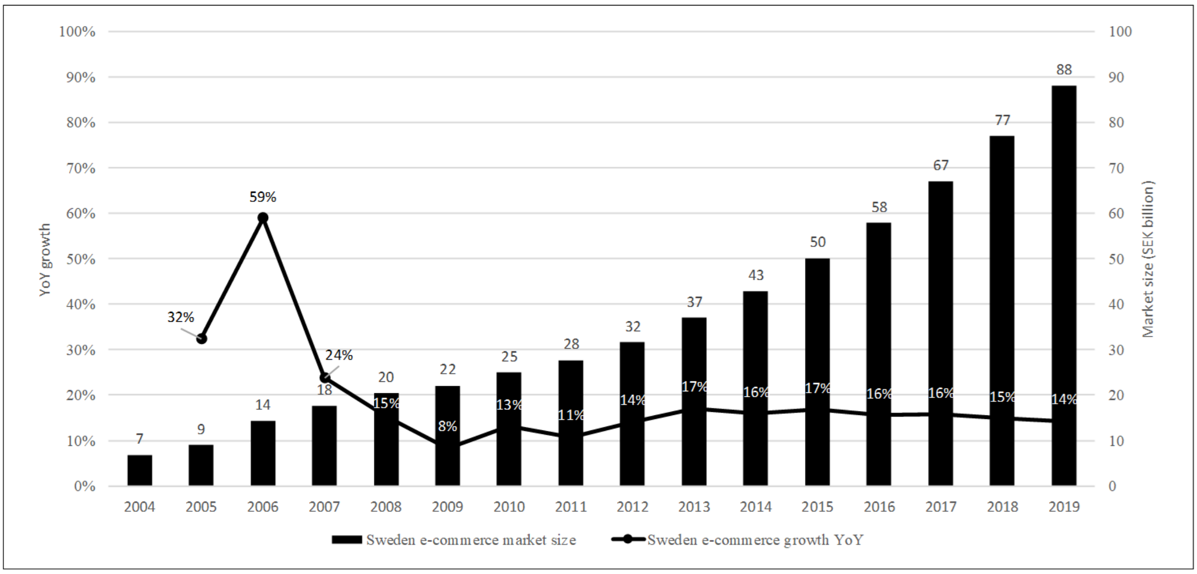
NS Intressenter's two-year projected budget (SEK million)

SEK million	Year 1	Year 2	Total
Salaries	1 560 000	1 560 000	3 120 000
Office rental	120 000	120 000	240 000
Diligence	5 000 000	5 000 000	10 000 000
Total	**6 680 000**	**6 680 000**	**13 360 000**

Source: NS Intressenter (2020a)

Exhibit 9

Timeline of e-commerce market size in Sweden from 2004 to 2019 (in SEK billion)



Source: Statista (2019g)

Exhibit 10a

Trading comparables as of March 2015

Company	P/E			EV/EBITDA			FCF yield	
	2014A	2015E	2016E	2014A	2015E	2016E	2015E	2016E
Online Price Comparison								
Moneysupermarket	22.6x	20.8x	19.0x	15.6x	14.1x	12.9x	3.1%	9.3%
Average	**22.6x**	**20.8x**	**19.0x**	**15.6x**	**14.1x**	**12.9x**	**3.1%**	**9.3%**
Median	**22.6x**	**20.8x**	**19.0x**	**15.6x**	**14.1x**	**12.9x**	**3.1%**	**9.3%**
Online Travel Agents								
Expedia Group	24.7x	25.1x	20.3x	11.7x	11.1x	9.3x	0.7%	0.7%
TripAdvisor Inc.	43.1x	37.0x	28.8x	21.7x	19.0x	14.9x	0.0%	0.0%
Average	**33.9x**	**31.1x**	**24.6x**	**16.7x**	**15.1x**	**12.1x**	**0.4%**	**0.4%**
Median	**33.9x**	**31.1x**	**24.6x**	**16.7x**	**15.1x**	**12.1x**	**0.4%**	**0.4%**
Total average	**30.1x**	**27.6x**	**22.7x**	**16.3x**	**14.7x**	**12.4x**	**1.3%**	**3.3%**
Total median	**24.7x**	**25.1x**	**20.3x**	**15.6x**	**14.1x**	**12.9x**	**0.7%**	**0.7%**

Source: Barclays (2015)

Exhibit 10b

Historical and forecasted financials as of 2015 (SEK million)

SEK million	2012A	2013A	2014A	2015E	2016E
Total revenue	181	210	254	269	236
Opex	(132)	(134)	(151)	(161)	(172)
EBITDA	**49**	**76**	**103**	**108**	**64**
Change in NWC	-4	-4	-5	-6	-5
Capex	-2	-2	-2	-2	-2
FCF	**44**	**69**	**95**	**100**	**57**

Source: NS Intressenter (2016a)

Exhibit 10c

Benchmarking of EBITDA margin among price comparison websites from 2015 to 2019 (SEK million)

Company	Revenue (SEKm)					EBITDA (SEKm)					EBITDA margin				
	2015A	2016A	2017A	2018A	2019A	2015A	2016A	2017A	2018A	2019A	2015A	2016A	2017A	2018A	2019A
Online Price Comparison															
Moneysupermarket	3 507	3 546	3 648	4 028	4 805	1 279	1 231	1 273	1 330	1 538	36.5%	34.7%	34.9%	33.0%	32.0%
Gocompare	1 480	1 593	1 651	1 728	1 886	293	250	371	505	329	19.8%	15.7%	22.5%	29.2%	17.5%
Average	2 494	2 569	2 649	2 878	3 346	786	740	822	917	934	**28.1%**	**25.2%**	**28.7%**	**31.1%**	**24.7%**
Median	2 494	2 569	2 649	2 878	3 346	786	740	822	917	934	**28.1%**	**25.2%**	**28.7%**	**31.1%**	**24.7%**

Source: S&P Capital IQ (2020b; 2020c)

Exhibit 11

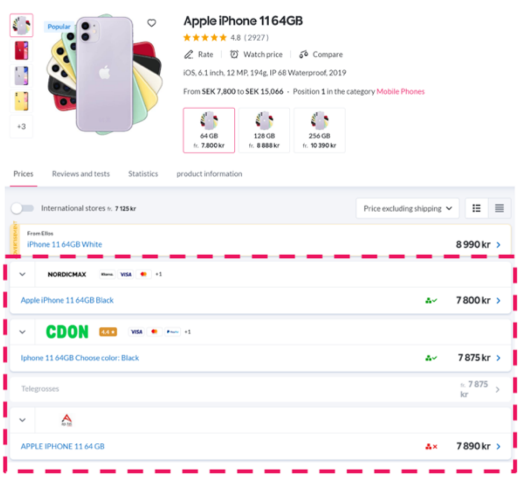
Historical ownership structure in PriceRunner from 2016 to 2020

Ownership	2016	2017	2018	2019	2020
Nicklas Storåkers	22%	22%	22%	22%	27%
Nordstjernan	36%	36%	35%	35%	0%
Philian	36%	36%	36%	36%	36%
Mikael Lindahl*	3%	3%	3%	3%	3%
Minority shareholders	3%	3%	4%	4%	4%
eEquity	0%	0%	0%	0%	30%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

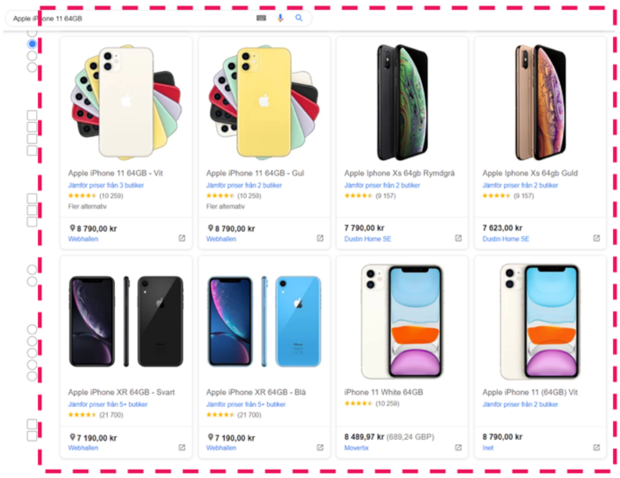
Source: NS Intressenter (2020a)
** Approximation based on internal documents*

Exhibit 12

Structured vs. unstructured price comparison



Structured



Unstructured

Source: NS Intressenter (2020b)

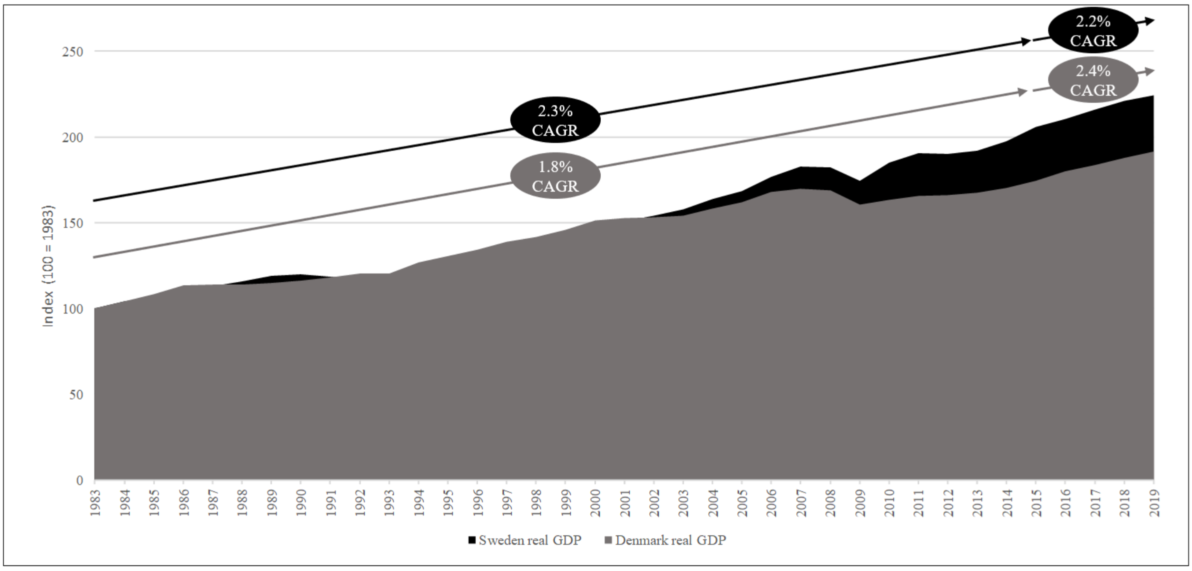
Exhibit 13

Value chain and how a price comparison website works

Source: Barclays (2015)

Exhibit 14a

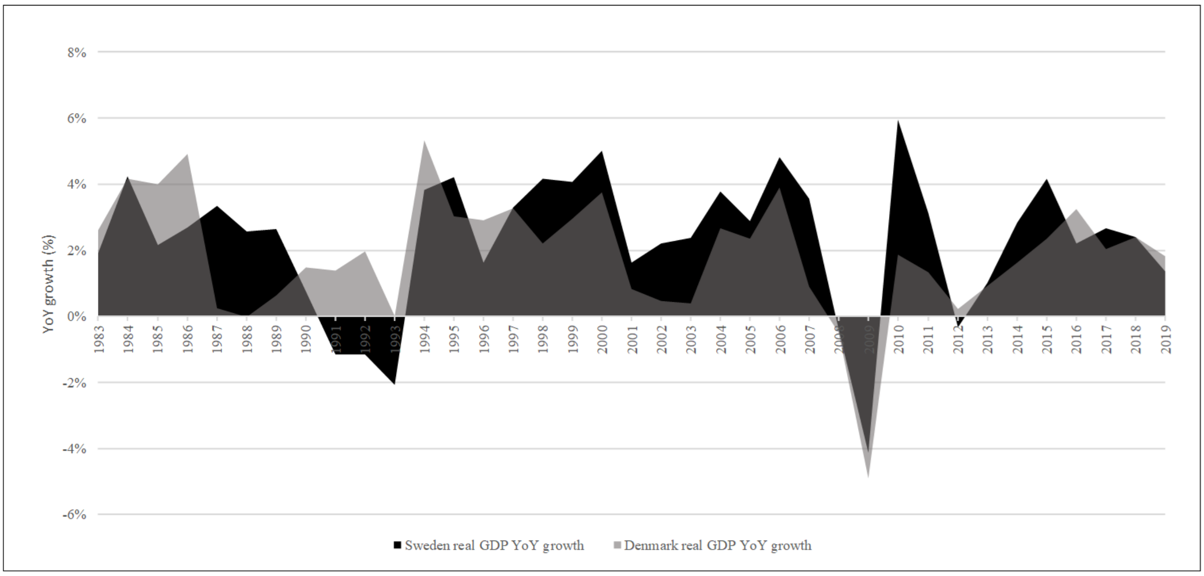
Timeline of real GDP in Sweden and Denmark between 1983 to 2019 (Index = 1983)



Source: OECD (2020)

Exhibit 14b

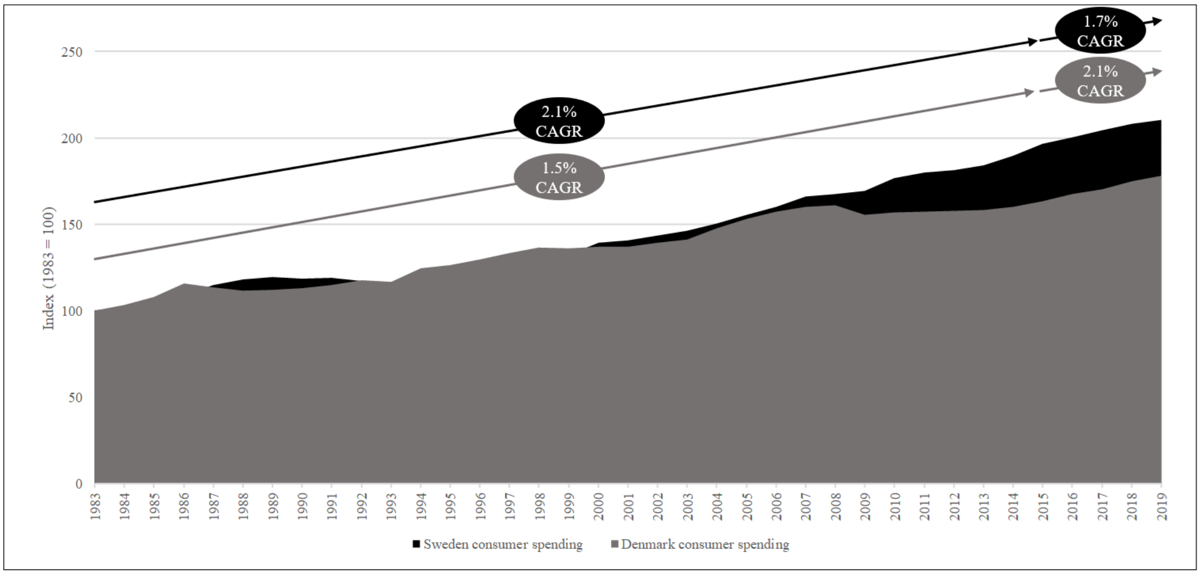
timeline of real GDP YoY growth in Sweden and Denmark between 1983 to 2019 (Index = 1983)



Source: OECD (2020)

Exhibit 14c

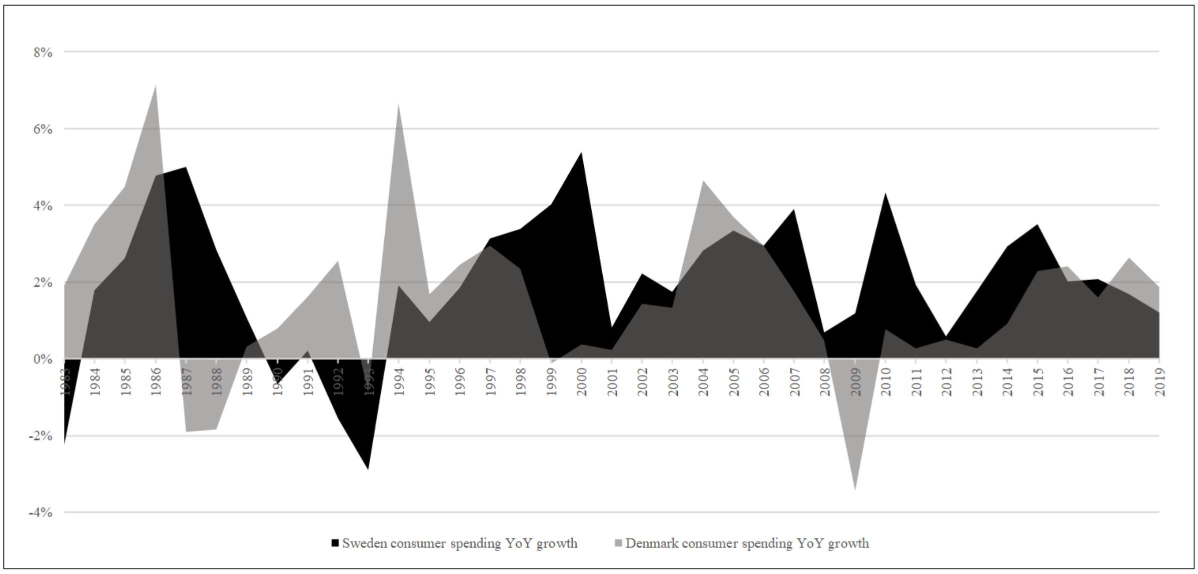
Timeline of consumer spending in Sweden and Denmark between 1983 to 2019 (Index = 1983)



Source: OECD (2019)

Exhibit 14d

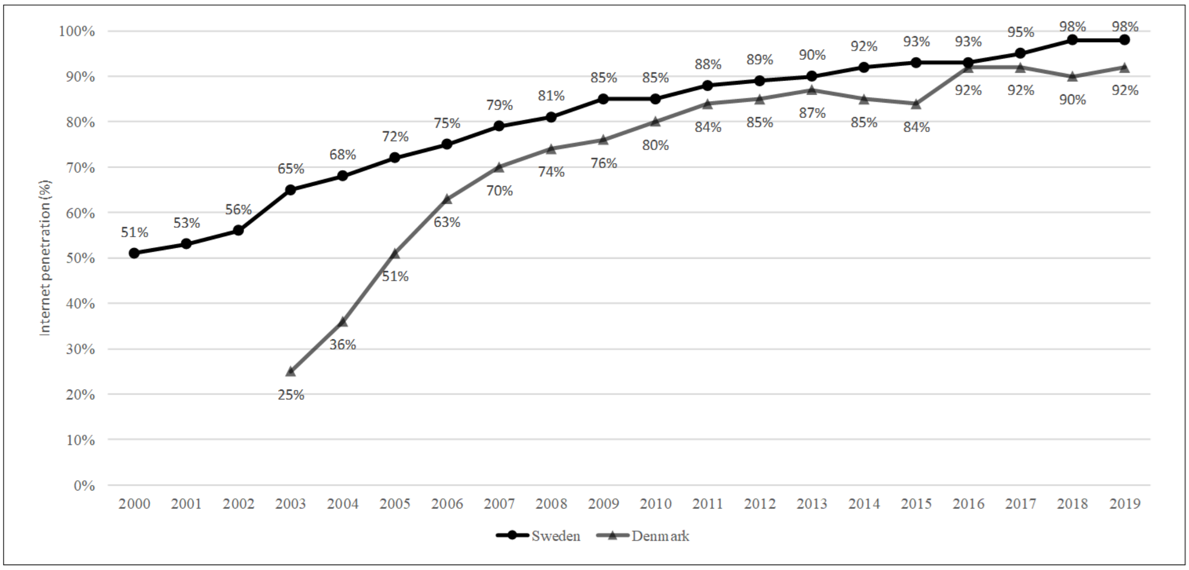
Timeline of consumer spending YoY growth in Sweden and Denmark between 1983 to 2019



Source: OECD (2019)

Exhibit 15

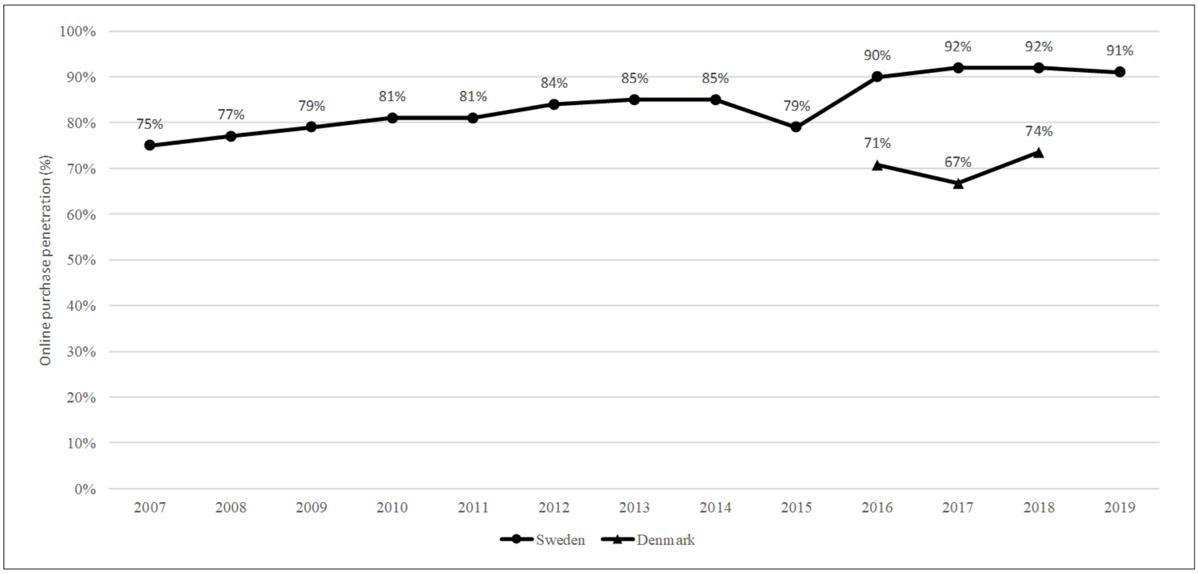
Internet penetration in Sweden and Denmark; share of households with internet access in Sweden, and Denmark from 2000 to 2019



Source: Statista (2019e; 2019h)

Exhibit 16

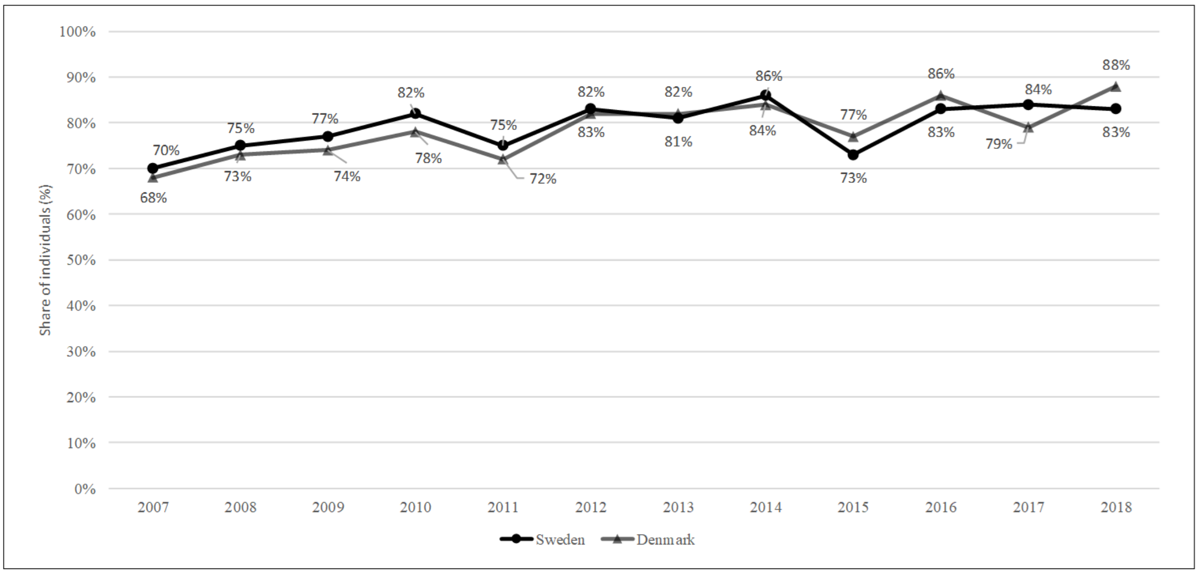
Online purchase penetration; share of individuals who use internet to purchase online in Sweden and Denmark from 2007 to 2019 (%)



Source: Svenskarna och Internet (2019), Statista (2019b)

Exhibit 17

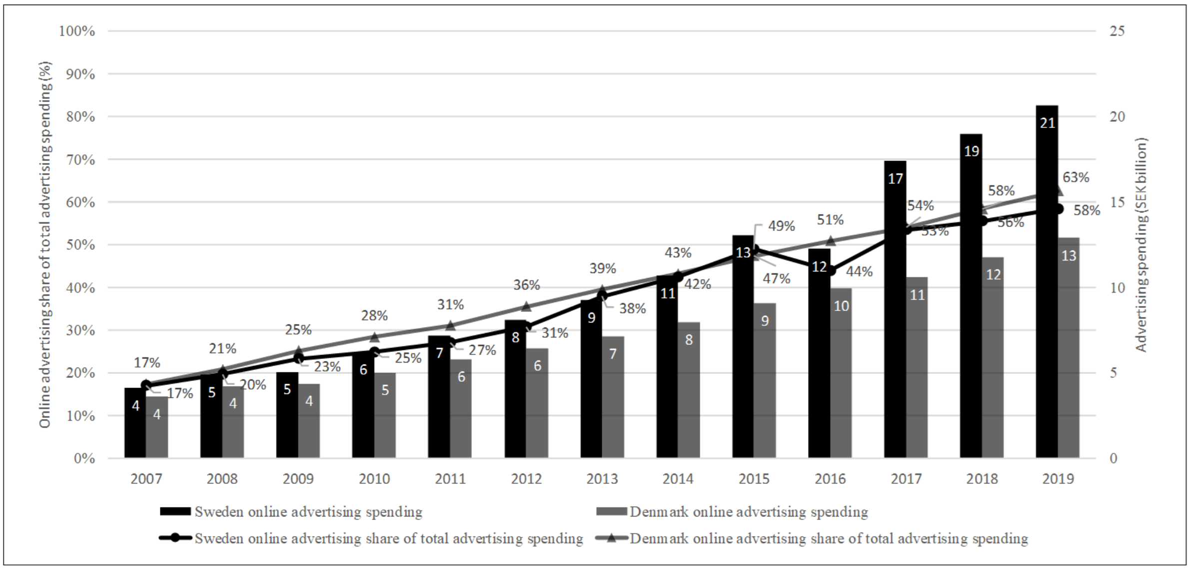
Share of individuals using the internet to find information about goods and services ahead of a purchase in Sweden and Denmark from 2007 to 2018 (%)



Source: Statista (2019a; 2019i)

Exhibit 18

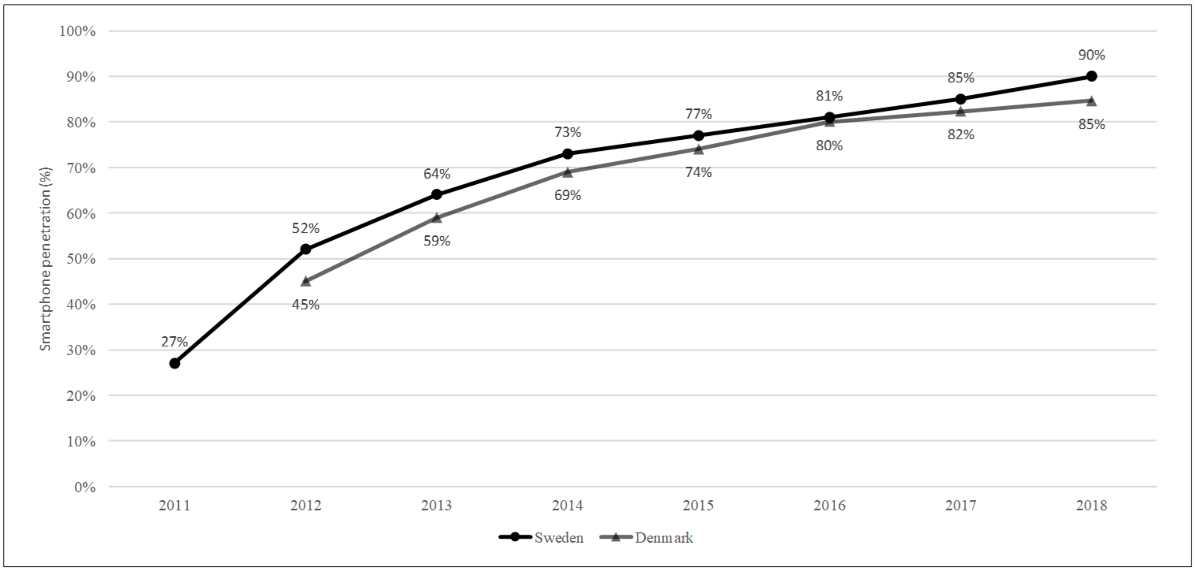
Timeline of online advertising spending and its share if total advertising expenditures in Sweden and Denmark from 2007 to 2019 (SEK billion, %)



Source: Statista (2019d; 2020b; 2020c; 2020g)

Exhibit 19

Smartphone penetration; timeline of share of individuals who had access to a smartphone in Sweden and Denmark between 2011 to 2019 (%)



Source: Statista (2016e; 2019k; 2020d)

Exhibit 20

“Broadening” of the purchase journey to capture a larger part of the value chain

Source: NS Intressenter (2020b)

Exhibit 21

Historical board composition in PriceRunner from 2016 to 2020

Name	Mandate	2016	2017	2018	2019	2020
Nicklas Storåkers	Self	■	■	■	■	■
Paul Fischbein	Philian	■	■	■	■	■
Peter Leimdörfer	Nordstjernan	■	■	■	□	□
Carolina Oscarius Dahl	Nordstjernan	■	■	■	□	□
Mattias Miksche	Philian	■	■	■	□	□
Christopher Beselin Brinkeborn[1]	Nordstjernan	□	■	■	■	□
Björn Magnusson	Philian	□	□	□	■	■
Magnus Wiberg	eEquity	□	□	□	□	■
Total number of board members		**5**	**6**	**6**	**3**	**4**

Average number of board members, 2016-2020 = 5

■ = Active as board member majority of the year

□ = Not active as board member

Note: 1) Stepped down as board member in February 2020
Source: NS Intressenter (2019)

Exhibit 22a

Forecasted financials for PriceRunner from 2019 to 2025 (SEK million)

SEK million	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Total revenue	196	216	265	339	425	528	647	784
Opex	(135)	(195)	(231)	(242)	(285)	(328)	(381)	(440)
EBITDA	**61**	**21**	**34**	**97**	**140**	**200**	**266**	**344**

Source: NS Intressenter (2019)

Exhibit 22b

Trading comparables as of April 2019

Company	P/E			EV/EBITDA			FCF yield			Net Debt/EBITDA		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Online Price Comparison												
Moneysupermarket	21.1x	20.5x	18.7x	15.2x	14.2x	13.1x	4.5%	4.9%	5.6%	-0.2x	-0.5x	-0.8x
Gocompare	15.3x	12.7x	10.5x	11.1x	9.5x	8.1x	6.6%	8.3%	10.8%	1.4x	0.8x	0.3x
Average	**18.2x**	**16.6x**	**14.6x**	**13.2x**	**11.9x**	**10.6x**	**5.6%**	**6.6%**	**8.2%**	**0.6x**	**0.2x**	**-0.3x**
Median	**18.2x**	**16.6x**	**14.6x**	**13.2x**	**11.9x**	**10.6x**	**5.6%**	**6.6%**	**8.2%**	**0.6x**	**0.2x**	**-0.3x**
Online Travel Agents												
Expedia Group	23.3x	19.7x	16.3x	9.1x	7.4x	5.8x	4.5%	9.4%	11.2%	0.2x	-0.4x	-1.1x
Booking Holdings Inc.	18.2x	17.8x	16.1x	12.9x	11.0x	9.2x	5.4%	6.3%	7.0%	-1.4x	-2.1x	-2.8x
TripAdvisor Inc.	39.4x	35.7x	31.2x	11.7x	10.0x	8.7x	5.5%	6.2%	6.9%	-2.1x	-2.6x	-3.2x
Trivago N.V	71.2x	41.8x	28.8x	14.6x	10.6x	7.5x	5.1%	3.3%	9.2%	-3.1x	-2.8x	-3.2x
Ctrip.com International	24.6x	17.6x	13.6x	22.8x	15.4x	11.7x	8.6%	7.4%	9.6%	3.3x	1.3x	0.0x
MakeMyTrip Ltd.	n.m	n.m	n.m	n.m	n.m	28.0x	-1.4%	1.8%	4.0%	n.m	-25.0x	-5.7x
Average	**35.3x**	**26.5x**	**21.2x**	**14.2x**	**10.9x**	**11.8x**	**4.6%**	**5.7%**	**8.0%**	**-0.6x**	**-5.3x**	**-2.7x**
Median	**24.6x**	**19.7x**	**16.3x**	**12.9x**	**10.6x**	**9.0x**	**5.3%**	**6.3%**	**8.1%**	**-1.4x**	**-2.4x**	**-3.0x**
Total average	**30.4x**	**23.7x**	**19.3x**	**13.9x**	**11.2x**	**11.5x**	**4.9%**	**6.0%**	**8.0%**	**-0.3x**	**-3.9x**	**-2.1x**
Total median	**23.3x**	**19.7x**	**16.3x**	**12.9x**	**10.6x**	**9.0x**	**5.3%**	**6.3%**	**8.1%**	**-0.2x**	**-1.3x**	**-2.0x**

Source: Goldman Sachs (2019)

Exhibit 22c

Precedent transaction comparables as of April 2019

Date	Acquirer	Target	Firm value (SEKm)	Deal value (SEKm)	TTM EV/Sales	TTM EV/EBITDA
Jul-18	Scout24	Finanzcheck	3 185	3 185	8.0x	
Sep-17	Zoopla	Money.co.uk	1 820	1 820	5.7x	10.0x
Jun-15	ProSiebenSat.1	Verivox	2 375	1 900	2.8x	14.9x
Apr-15	Zoopla	uSwitch	2 926	2 926	3.0x	11.7x
Average					**4.9x**	**12.2x**
Median					**4.4x**	**11.7x**

Source: Goldman Sachs (2019); USD/SEK exchange rate of 10.00 assumed

Exhibit 23 – List of Definitions

Acquisition capital: The capital that is raised by a search fund to finance the acquisition of an identified company (Introduced by the case writers).

Bullet loan: Loan requiring a balloon payment at the end of the term. This arrangement anticipates a refinancing of the loan to meet payment obligation (Preqin, 2020).

Buyout: Invests in established companies, often with the intention of improving operations and/or financials. Investment often involves the use of leverage **(**Preqin, 2020).

Conversion rate: Describes how good your marketing is at getting people to do what you want them to do, such as making a purchase (Disruptive advertising, 2020)

Corporate Social Responsibility (CSR): A self-regulating business model that helps a company be socially accountable to itself, its stakeholders, and the public (Investopedia, 2020a).

Cost-per-click (CPC): A method that websites use to bill based on the number of times a visitor clicks on an advertisement (Investopedia, 2019a).

Deal selection: The process when firms select deals to invest in based on specific criteria (Alpha Academy, 2020).

Deal sourcing / origination: The process when firms source investment prospects (Divestopedia, 2020).

Environmental, Social and Governance (ESG): A set of standards for a company's operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights (Investopedia, 2020b).

Gross Domestic Product (GDP): The total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period (Investopedia, 2020c).

Initial public offering (IPO): Refers to the process of offering shares of a private corporation to the public in a new stock issuance (Investopedia, 2020d).

Late-stage: Invests in companies towards the end of the venture stage cycle. Provides capital injections for expansion into a position of stable profit streams. Typical with venture capital deals, expansion/late-stage funds take short- to mid-term, minority positions **(**Preqin, 2020).

Objective and key results (OKR): A goal-setting framework that helps organizations define goals or objectives and then track the outcome (CIO, 2018).

OMX Stockholm 30 (OMX30): The Stockholm Stock Exchange leading share index. The index consists of the 30 most actively traded stocks on the Stockholm Stock Exchange (Nasdaq, 2020a).

Online advertising: Online advertising, also referred to as digital, internet or web advertising, allows advertisers to bring promotional content to consumers using online technologies. It includes, among others, advertisements placed on social media platforms and search engine websites, banner ads on desktop, as well as mobile websites and promotional messages delivered via email (Statista, 2020e).

Online merchant / E-commerce merchant: Someone who sells products or services over the Internet (Ecommerce Platforms, 2020).

Price comparison website (PCW): A search engine, which people use to compare prices among the same or similar products (Goods, 2017).

Private placement memorandum (PPM): Includes an overview of the search fund's investment strategy, with a specification of the search and screening criteria to identify what type of companies to acquire (Yoder and Kelly, 2018).

Sales and Purchase Agreement (SPA): A binding and legal contract between two parties that obligates a transaction between the two parties: the buyer and the seller (Investopedia, 2019b).

Search capital: The initial capital that is raised by a search fund. Its purpose is to finance the process to identify, analyze and negotiate a company to acquire (Introduced by the case writers).

Search Engine Optimization (SEO) ranking: Refers to a website's position in the search engine results page (Searchmetrics, 2020).

Search fund: A financial vehicle created by one or two individuals who raise money from a group of advising investors to support their efforts to locate, acquire and lead a privately held company over the medium to long-term (Yoder and Kelly, 2018).

Searcher: A manager of a search fund with the responsibility to search for a company to acquire, manage and grow (Yoder and Kelly, 2020).

Seed stage: Allows a business concept to be developed – perhaps involving the production of a business plan, prototypes and additional research – prior to bringing a product to market and commencing large-scale manufacturing (Preqin, 2020).

Two-stage funding process: Refers to the fundraising process in a search fund where capital is raised on two separate occasions, i.e. first the search capital and then the acquisition capital (Introduced by the case writers).

Venture Capital (General): Provides capital to new or growing businesses with perceived long-term growth potential (Preqin, 2020).