

SEARCH FUNDS: RISKS AND OPPORTUNITIES

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The logo is enclosed in a thick red square border. Inside, the text 'DOT' is in red, 'FLASH' is in red, and 'NEWS' is in blue, all in a bold, sans-serif font.

**DOT
FLASH
NEWS**

INTRODUCTION

The Firm recently took part in the completion of one of the first search fund projects in Italy, assisting Visconti Capital S.p.A. – an investment vehicle promoted by its managers Clemente di Napoli Rampolla and Carlo Luigi Fontana Giusti – in raising capital and acquiring control of ELTI S.r.l., a company operating in the lift certification and inspection sector.



SEARCH FUND



WHAT
IS?



Search funds constitute a specific asset class, part of private equity, that emerged in the 1980s in the United States, and was developed further in North America after 2000, recently making its way to Italy. It typically involves a simple investment vehicle, often structured as an S.p.A. or S.r.l., through which one or more promoters (known as “searchers”) – usually professionals from consulting or investment banking who can leverage their contacts, visibility, and credibility on the market – raise capital from investors to acquire a small or medium-sized enterprise (SME). They manage the company directly, often assuming the role as CEO or COO, with the goal of increasing its value before exiting the investment.

SEARCH FUND VS PRIVATE EQUITY

SUBSTANCE

The search fund focuses on the acquisition of a single target and is not aimed at creating a portfolio of companies to be invested in by the fund.

STRUCTURE

The searcher does not manage capital on behalf of the investors, who retain full freedom and autonomy to participate or not in the acquisition of the target.

SIMPLICITY

The search fund is not subject to the legal reserve for collective asset management, and therefore, there is no investment fund / asset management company structure.

DEVELOPMENT IN ITALY



The Italian economic-productive landscape, characterized by numerous small and medium-sized family-run businesses, that are less attractive to private equity funds and without growth prospects due to a lack of generational turnover, represents a **fertile ground** for the development of search funds.

Despite this, search funds have yet to be widely used. There are approximately **25 investment vehicles**, and less than half of them have completed an acquisition. The reasons for this are mainly related to the still limited awareness of the existence of this entity, the lack of tax incentives and the limited number of structured operators capable of “accelerating” the development of the search fund (similarly to venture capital incubators).

OPPORTUNITIES	POTENTIAL ISSUES
Opportunity to invest in targets with significant potential growth.	Convince investors to fund the project.
Benefit from the support (mentorship) and network of investors.	Identification of a target that has the characteristics agreed upon with the investors.
Full alignment of interests between the searcher and investors.	The initial search phase can be long (12-24 months), uncertain and carries the risk of losing the invested capital.
Tailor-made investments and projects structured according to the needs of the market and of the entrepreneur.	Management skills of the searchers, considering the need to combine the roles of promoters of the project, minority shareholders and CEO of the target.

Regulating the two stages of capital-raising (search capital and acquisition capital) and, in particular, the rights and obligations of initial investors in the event they participate (or not) in the acquisition capital fundraising round (step-up rights, exit rights or obligations).

The definition of an ownership mechanism that grants a minority stake (typically in the range of 25-30%) to the searcher upon achieving specific objectives, generally related to the completion of the acquisition and the achievement of certain financial results upon exit.

MAIN LEGAL ASPECTS OF ESTABLISHING A SEARCH FUND

The relationship between the searcher's expectation to hold the position of CEO throughout the investment phase and the rights of investors, in their capacity as majority shareholders, to retain a certain level of control; as well as dealing with the consequences of a potential revocation or early termination of the CEO appointment.

Identifying the right balance between the powers granted to the searcher/CEO for managing the target and the protections recognized to the investors.

CONCLUSIONS

Search funds represent an emerging opportunity in the Italian entrepreneurial landscape that can significantly contribute to the revitalization of SMEs, providing new entrepreneurial energy to entities that would otherwise face decline and promoting innovation, growth, development and, undoubtedly, employment.

Investing in training and networking, collaborating with industry experts, and introducing tax benefits for investors (similar to those for venture capital) will be crucial elements for accelerating the development of search funds in Italy.

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