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Election expected to drive some founder-owned businesses to sell, experts say

by Rachel Stone and Deborah Balshem

Summary:

- 2025 anticipated to be breakout year for M&A
- Manufacturing, services, RIA sectors may gain favor
- AI uncertainly could drive tech cos to seek partner

More family-owned businesses are likely to come to market next year once founders have had time to digest what the new administration means for them, regardless of who wins next week's presidential election, experts told Mergermarket.

“My expectation is that we’ll see that wave after the dust settles once we see who’s in charge,” said Bob Morse, co-founder and managing partner at Strattam Capital, which invests in family-owned businesses in the technology sector.

This year and last year have been the Austin, Texas-based private equity firm’s busiest two years in its 10-year history in terms of new investments, and it is expecting 2025 to be even more active.

Lower interest rates are an additional boost to M&A activity, fueling higher valuations and more availability of financing, but Morse stressed that founders who sell are looking to optimize more than just price.

COVID-19 changed many founders’ perspectives on their business ownership because the pandemic and resulting global shutdown made them realize they could lose everything in an instant, said Tony Ludlow, managing director at Baymark Partners. Dallas-based Baymark is focused on the lower-middle-market across industries including services, distribution, manufacturing and technology.

Some founders have already come to market on the perception of risk around what a change in administration could mean, regardless of whether that risk will be realized, Ludlow said on the sidelines of Mergermarket’s PE Forum in Austin this month. Some founders will go to market because they’re concerned about the future and want out, while others will go to market because they think it’s a great time to sell at a strong valuation, Ludlow said. Those who don’t sell before January will wait to see how policies are implemented, he added.

“With the election approaching, we’re still seeing deals proceed as expected, with many set to close by year-end,” said Michael Mufson, managing partner of Philadelphia-based middle-market investment bank Mufson Howe Hunter, which focuses on the business services, consumer and retail, specialty manufacturing and distribution, and technology verticals. The recent Federal Reserve rate reduction hasn't yet spurred as much new activity as anticipated, but this doesn’t appear to be due to election uncertainty, Mufson said.

Kelly Ann Winget, founder and CEO of Alternative Wealth Partners, expects founder responses to be sector-specific. Her Dallas-based practice – an alternative private equity firm that invests in founder-owned businesses in the infrastructure, manufacturing, real estate and energy sectors – is seeing owners in capital-intensive industries like restaurants scramble to try to get a deal done this year amid concerns about continued inflation pressures under another Democratic administration if Vice President Kamala Harris wins.

Industries that require less regulation or are heavily supported by government spending – such as manufacturing, home services, registered investment advisors and wealth management firms – may be better positioned to wait on making decisions about the future of their businesses until after the administration change because of potential increased demand, regardless of who gets elected, Winget said.

A Republican win could pose challenges for the clean energy sector, given candidate Donald Trump's support for oil, coal and natural gas, according to Mufson. Across-the-board tariffs would introduce market volatility, potentially increasing inflation concerns and delaying further rate cuts, which would be a setback for M&A markets and economic stability, he added.

Some sectors, especially those bolstered by the current government's funding – such as construction and civil and electrical contracting – may see continued interest, Mufson continued. If these programs face policy changes, however, investor enthusiasm could shift, he said.

In the tech sector, uncertainty around how artificial intelligence will impact business moving forward could also drive founders to bring on a capital partner, Strattam's Morse said. The pent-up demand from a depressed M&A market in the last two years also sets up 2025 to be active, regardless of election impacts.

Plus, the estate tax exemption, which was doubled during the Tax Cuts and Jobs Act of 2017, is scheduled to revert to USD 7m at the end of 2025 from USD 14m, so a certain set of people may prefer to sell next year before that takes effect, according to Morse.

"There's a big succession planning wave happening," he said, "and succession planning is typically a time [that founders] want to bring in a partner."
