

# BUSINESS BUYERS



## THE RISING TREND OF PRIVATE EQUITY IN

**FOUNDER-OWNED BUSINESSES**

# JOE

THE BUSINESS BROKER



## INTRODUCTION

The realm of private equity (PE) has seen its share of ebbs and flows. While the overarching trend indicates a slowdown in the majority of deals, a specific niche appears to be bucking the trend: founder-owned businesses, particularly within the lower middle market.

## THE STEADY PULSE OF THE LOWER MIDDLE MARKET

Although the broader PE world has seen diminished activity, a report from Institutional Investor brings to light a thriving segment. PE firms, with a keen eye on smaller enterprises, are honing in on these founder-owned companies that typically value under \$100 million.

Founder-owned entities are not just a small fraction of the global market. They constituted a commendable 61.5% of global mergers and acquisitions in the opening quarter, marking a noteworthy rise from the previous year.



## DRIVING FORCES BEHIND THE SURGE



Leigh Randall from Topspin Consumer Partners highlighted this unexpected yet substantial uptick in recent transactions. The initial market stagnation brought on by the pandemic has led to a pent-up eagerness to make up for the lost opportunities, especially in consumer-oriented sectors that bore the brunt of the pandemic's economic fallout.

Adding another layer to this narrative, Sean Mooney of BluWave points to the demographic shift of baby boomers approaching retirement. The combined effects of pent-up demand and this significant demographic transition mean the market is now ripe with opportunities.



## THE ATTRACTION TOWARDS PE FIRMS

A recent survey by UBS, cited by Institutional Investor , revealed that 21% of business owners, with revenues between \$1 million to \$10 million, are considering selling to PE firms. Yet, as Mooney suggests, this number could potentially be higher when considering the constraints employees face in purchasing businesses, leading them to collaborate with PE entities.





## THE ALLURE OF FOUNDER-OWNED BUSINESSES FOR PE FIRMS

From a PE standpoint, founder-owned businesses are gold mines waiting to be tapped. Their minimal leverage combined with vast potential for value enhancement makes them ideal candidates. Given that PE firms have been amassing significant capital reserves since 2021, targeting these businesses seems like a logical move.



## CONCLUSION

In conclusion, the landscape of PE may have its challenges, but founder-owned entities in the lower middle market are the silver lining. As businesses and investors align their strategies, the world of PE is set for a transformative journey.

**Note:** *The insights for this blog were based on an article by Hannah Zhang on Institutional Investor*