

As M&A Activity Swells, ESOPs Emerge as a Potent New Player

With global merger & acquisition activity at record levels as first-half 2026 value [surged](#) to \$2.8 trillion, middle market M&A is playing its part as private equity and corporate buyers reenter the market. Adding to this activity is a relatively new player, both as an acquirer and seller: employee stock ownership plans, or ESOPs.

The number of businesses acquired by ESOPs has roughly doubled in recent years, the National Center for Employee Ownership [estimates](#). And as we've observed, ESOP companies after decades of being ignored are [being pursued by private equity backers](#) as well as strategics.

Recently, I had the chance to sit with Stephen Morrisette, founder and president of Providence Advisors, a consulting firm that focuses on growth strategy and M&A process development, joined me to facilitate a seminar for ESOP leaders on using M&A as a growth tactic. This Q&A from my discussion with Steve, also a visiting professor on M&A strategy at the University of Chicago's Booth School of Business, explains why ESOPs are playing a bigger role in middle market M&A.

Mary: What explains this upsurge in M&A interest by and in ESOPs?

Stephen: A key to M&A success is for the acquirer to be a strong performer with a thriving core business. This describes many, if not most, ESOP companies. They're performing well and are often fully invested in value-creating projects that strengthen core operations. They also often have significant cash reserves and low debt levels. Moreover, given ESOPs' long-term, fiduciary stewardship focus, their executive teams seek healthy, safe ways to continue growing. Simply put, many ESOP companies are acquisition-ready.

I've also seen an increasing commitment by ESOP executive teams to build a professional M&A capability. I've worked with many to build their M&A process using the same best practices we see at Fortune 500 firms – and they're even adopting some best practices from the private equity playbook. Building these skills boosts executive confidence in M&A and clearly leads to better results.

Mary: What are the benefits for ESOPs to consider M&A in their growth strategies?

Stephen: Like all companies, ESOPs should include M&A as a tactic to accomplish their growth objectives. Data shows that growth at high-performing companies is often roughly a 50/50 split between organic and inorganic. Also, acquiring a non-ESOP company spreads the employee ownership mission. Typically, when an ESOP acquires a non-ESOP company, it converts the seller's employees into employee-owners. This is a fast, clean, and simple way to increase employee ownership in the country.

Mary: To what extent may the presence of ESOPs both as acquirors and as targets be reshaping middle market dealmaking?

Stephen: Middle market business owners are increasingly aware of the advantages of the ESOP approach. My recent research indicates that over 95% of middle market business owners are aware of ESOPs and almost 40% would consider the ESOP option at exit. For my non-ESOP clients, I always include going ESOP as an exit option as it often meets the objectives of the selling owner better than other alternatives. Interestingly, the same research shows that SMBs (Small and Medium-sized Businesses) are 2-3x more likely to sell to a PE firm than to convert to an ESOP.

ESOPs today are doing a better job helping sellers understand the benefits for themselves and their employees of selling to an ESOP. We recently completed an acquisition for an ESOP client and the seller got a very fair valuation. Plus, its employees are ecstatic to be employee owners. In this transaction, the ESOP buyer made an important stride forward in an adjacent industry segment key to its long-term growth strategy.

Mary: What general advice would you give to ESOP companies about exploring M&A acquisitions or reacting to interest from an acquirer?

Stephen: With the increased awareness of supply chain risk and other factors prompting reshoring back to the U.S., ESOP-owned manufacturers are in the right place at the right time, which makes them natural buyers for certain businesses. A major advantage for ESOP-owned manufacturers relates to human capital, specifically recruiting and retention. ESOPs offer a workplace culture and compensation value package that cannot be matched by other firms.

As for firms' interest in acquiring ESOPs, it's easy to see the attraction given their strong core performance and human capital advantages. However, I've seen very little ESOP-as-seller transaction volume. Given the ESOP company's mission and strong performance, they're well-positioned to be buyers rather than sellers.

Mary: What are the advantages and challenges for ESOPs in acquiring businesses?

Stephen: Most ESOP companies I know have met (J.P. Morgan Chase Chairman and CEO) Jamie Dimon's test for earning the right to do acquisitions: "When you have strong performance in your core business." As for challenges, some are internal and some external. An internal challenge often starts with an ESOP's fiduciary culture.

ESOP executives are incredibly conscientious about their fiduciary duty to their fellow employee-owners. Important strategic investments – whether to build a new plant or buy a company invites change, debt, and risk. ESOP CEOs are constantly mindful that they are owned by a retirement plan representing a significant financial foundation for their employees. Companies are bound by a fiduciary duty to act in the best interest of plan participants. This requires thoughtful and consistent communication on the long-term goal to constantly build shareholder value.

Another internal challenge: Some ESOP executive teams haven't built solid M&A capabilities, although this is very solvable and many ESOPs are in the process of doing so.

Mary: ESOP companies are very mindful of expense control, and I respect that. In this case, it makes sense to hire an outsourced advisor who can help build strategy and coach the internal team. Depending on how dedicated the company's strategy is to M&A, it may at some point make sense to build an internal team.

Stephen: On the external side, as companies seeking to be sold look for an acquirer, ESOPs still aren't well understood in the marketplace, especially by advisors and investment bankers representing these companies. With my ESOP clients looking to acquire, we work to explain how as an ESOP we can offer a unique value proposition to the seller and its employees. A one-page explanation of who we are and what ESOP means to us is a simple tactic.

More powerful tactics are case studies and testimonials from owners who have sold to an ESOP acquirer. ESOP-owned companies need to overcome the lack of familiarity and inaccurate concerns about complexity and valuation a potential target may have about ESOP companies as a buyer. Proudly promote the significant benefits of selling to an ESOP.

Mary: What is the road ahead for ESOP-driven dealmaking?

Stephen: I'm very bullish on ESOP M&A. As ESOPs increase their M&A experience, capabilities and confidence, we will see more acquisitions by them. And as valuations become more rational, ESOP companies will be very competitive as buyers. Plus, as we do a better job helping sellers grasp who we are and when we are the right choice for them, we will see more sellers select, even prioritize, selling to a current ESOP company vis a vis private equity or strategic.

Mary: We couldn't agree more. In our ESOP advisory practice, for new clients and prospects, we highlight the benefits of selling to an ESOP company alongside (1) doing your own ESOP, (2) selling to private equity, (3) selling to a strategic, (4) dividend recap, (5) management buy-out (MBO), and (6) stay the course. Selling to an existing ESOP can be a triple win for sellers, company, and employees – often generating superior alignment with seller's objectives.

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