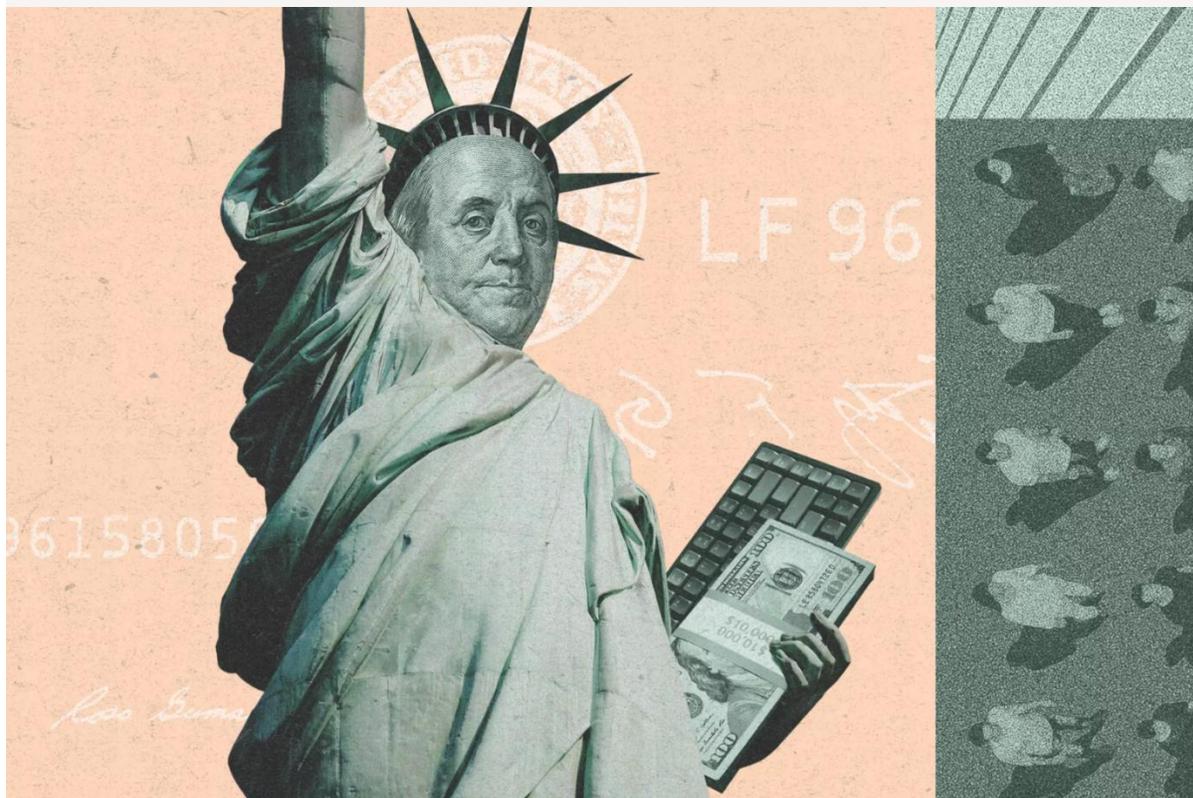


# The San Francisco Standard

## Trump's \$100K visa bomb may supercharge Silicon Valley M&A

New research points companies toward a revised strategy: If you can't recruit talent, just buy it.



By Michelle Peng

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When the Trump administration abruptly announced it was instituting a \$100,000 fee on H-1B visa applications, current visa holders had a nearly universal reaction: panic. Social media videos showed the [desperate attempts of \(opens in new tab\)passengers](#) trying to get off planes headed overseas, while tech companies [fired off urgent memos\(opens in new tab\)](#) to their staff to immediately return to the U.S. and cancel any upcoming travel.

Now, a few weeks after the initial shock, Bay Area employers are left to untangle how the policy will impact their businesses. New research indicates that a growing number of companies will look to acquire rivals or smaller businesses in the voracious hunt for scarce talent. This could be welcome news to startups hoping to get bought out by a

bigger fish and to venture capital firms and their investors, who are hungry for exits for their portfolio companies.

According to [a working paper\(opens in new tab\)](#) published in September by researchers at the University of Pennsylvania, new barriers for accessing skilled immigrant labor may turbocharge mergers and acquisitions at home.

Using data on visa applications, petition outcomes, and company acquisitions over 20 years, the study's authors show that companies whose H-1B visa petitions are rejected are far more likely to acquire another company than those that successfully hire H-1B workers.

While losing one or two new hires is unlikely to trigger an acquisition, these effects build over time. On average, companies started buying up smaller startups once they lost more than 100 potential H-1B recruits.

“Firms are hiring H-1B workers to begin with because there’s a huge shortage of U.S. workers with the skills that they need,” said Exequiel Hernandez, a professor at Penn’s Wharton School of Business who studies corporate strategy and immigration. “If you can’t hire the talent you need, you go and buy another firm that has that talent.”

One way to think about the new immigration policy is as added fertilizer for the already fertile ground, seeding so-called acqui-hire deals, in which a larger company buys a smaller one simply to hire its employees.

According to the research, an AI company that fails to hire foreign software engineers may look to buy a company that already has a high-performing software development team, whereas a biotech company that would otherwise rely on H-1B workers to make a new drug might instead buy a smaller company already developing something similar.

The study focused on a period before the Trump fee took effect, when a typical year saw 500,000 H-1B petitions for just 85,000 visas. “The policy shock is much bigger in this case,” Hernandez said. “It’s a huge fee that is meant literally, by design, to discourage firms from using the program at all. It’s much more punitive than applying for the lottery and missing out on a handful or, maybe if you’re a really large firm, a couple hundred workers.”

But beyond increasing costs, the fees could have serious consequences for American innovation, Hernandez warned. “Innovation comes from variety, and you need small firms and you need new players in industries that have new ideas,” he said.

In biotech and medicine, for example, most new innovation happens in small startups. “They’re the ones that come up with new therapies, new drugs, new medical devices, and then they get scooped up by big firms that have all the distribution capabilities,” Hernandez said.

The concern is that small, innovative firms might get acquired too early and become too much a part of the corporate machine to make that next big breakthrough.

Rohit Kapuria, a partner at the Chicago law firm Saul Ewing who specializes in immigration and foreign investment, predicts that the H-1B fee will intensify labor shortages in key sectors like tech. But the unique challenge he and his clients face is the lack of clarity in the policy.

As the rules are currently written, current H-1B visa holders will not have to pay the \$100,000 fee for renewals. It is unclear whether companies that acquire other firms' employees will have to pay a fee when they transfer existing visa holders into their own workforce.

If that's the case, Kapuria said, the policy essentially becomes a new tax on acquisitions, making them more expensive and riskier.

"Firms could respond in lots of other ways," says Hernandez. "They could offshore, they could outsource, they could hire remote workers overseas more as well."

In extreme examples, companies unable to pursue any of these options could end up shutting down hard-to-staff initiatives, creating even further job losses.

Hernandez points to the ongoing shortage of [top talent\(opens in new tab\)](#) for artificial intelligence projects. "What happens when you aren't able to hire those key engineers on an H-1B visa? You have to shut down the project," he says, "That means you also can't hire the administrative assistants and project managers and other complementary workers that you can only hire if you have the workers with the core skills to build the AI bot."

The bottom line? "You can see that the assumption that this is creating jobs or increasing wages for U.S. workers falls apart — you're doing precisely the opposite of that."