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Private Equity Is Reshaping Industrial Manufacturing

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In the ever-evolving business landscape, a notable trend has emerged: private equity firms are increasingly setting their sights on the manufacturing sector. This surge of interest marks a significant shift in investment strategies and signals a transformative period for an industry long considered the backbone of economic growth.

The intersection of private equity and manufacturing presents a fascinating crossroads. The manufacturing sector, traditionally viewed as slow to change, is now at the forefront of technological innovation and operational transformation. Meanwhile, private equity firms, armed with substantial capital and a keen eye for value creation, are seizing opportunities in this rapidly evolving space.

Several factors are driving this investment trend. The confluence of private equity's [strongest quarter](#) in two years and favorable [momentum in the manufacturing sector](#) has boosted investor optimism. The aftermath of recent global disruptions has highlighted the critical need for resilience and transformation in manufacturing. Technological advancements, particularly in smart factories and data analytics, are reshaping the industry's future. Private equity firms are uniquely positioned to capitalize on both growth opportunities and operational improvements in this shifting landscape.

Market Drivers Behind the Surge

The uncontrollable macroeconomic events of the past several years have been particularly challenging for the manufacturing sector. But this period of disruption has served to highlight the need for manufacturers, traditionally seen as slow to change, to focus on resiliency and to lay the foundation for transformation.

In fact, according to a recent [Deloitte survey, 83% of manufacturers](#) believe that smart factories will transform the sector within five years—70% are already harnessing data analytics and cloud computing into their processes. Combine that focus on transformation with [growth in the sector and improved productivity](#), and this positions industrial manufacturing as a critical focus for PE firms to capitalize on both growth opportunities and operational improvements in a rapidly shifting market landscape.

The key drivers behind this increase in private equity investment, as evidenced in the growth of deal sizes among other factors, include fragmented markets that are ripe for consolidation, the opportunities created by cost efficiency pressures, and of course, global supply chain dynamics.

PE-Driven Operational Transformation in Industrial Manufacturing

PE firms looking to the industrial sector will see opportunities for value creation across several fronts. Traditional strategies, such as operational improvements, including lean manufacturing and streamlining processes that lead to cost-cutting, are still viable. Of even greater importance will be investing in digital transformations and data analytics that are driving automation, machine-learning, and predictive robotics that create exponential efficiencies. In many cases, this pace of technological change is [influencing consolidation within the market as](#) firms seek out tech acquisitions that can enhance internal operations in their portfolio companies.

Turnaround opportunities also abound in the manufacturing sector, especially where the PE firm can leverage consolidation of portfolio companies to increase value. Examples include [Platinum Equity's investment in HWI](#), which was saddled with an abandoned factory in Fairfield, Alabama. Platinum Equity acquired HWI and a division of another manufacturer to merge them into a major player in the high-temperature conditions business. With the resources from Platinum Equity, the abandoned factory was reopened in 2022, creating 50 jobs and revitalizing the community. Furthermore, Platinum Equity realized the goal of establishing a unified global player in the industry, ushering in a new era of sustainable growth.

Consolidation and M&A Activity Led by PE in the Industrial Sector

Projections for the near horizon [indicate that industry consolidation](#) will continue to be a top trend. The disruption and challenges of the past several years have negatively affected small and medium-sized manufacturing companies, creating opportunities for PE firms to make strategic additions to optimize complementary technologies and assets within their portfolios.

In addition, the increase in deal activity in the latter part of 2024 sets the stage for portfolio reviews to identify capability gaps and/or divestiture opportunities. The forecast is for carve-out divestitures to increase in the short-term, creating a pathway for smaller buyers to acquire assets from multinationals. The market for consolidation in manufacturing will also be influenced by the focus on ESG considerations, with a shift toward greater sustainability, particularly in the automotive sector as the transition to electric advances.

Challenges and Risks for PE Firms in Industrial Manufacturing

It must be stated that geopolitical instability is the new normal. [Volatility is increasing, not decreasing](#). Geopolitical and regulatory challenges heighten risks for any investor. Trade wars, actual wars, shifting tariffs, and evolving environmental regulations impact supply chains and profitability. Regulatory changes in sustainability and carbon emissions also demand costly adjustments for manufacturers to remain compliant. The PE firm that is forward-thinking, investment-focused, and positioned to lead portfolio companies through continued challenges is one that can manage this risk and lean into value creation over the longer holding period.

In spite of the geopolitical climate, the current environment and forecasts for investment in the manufacturing segment skew toward the positive. This is especially true for PE firms with the capital and leadership assets to create transformational change in their portfolio companies, leveraging consolidation to deliver value over a long holding period. The cyclical nature of the market has to be taken into account. Manufacturing sectors like automotive and energy are sensitive to economic cycles, making them risky for PE investors. Downturns can sharply reduce demand, affecting profitability and exit opportunities. If the PE firm is well positioned to hold, the risk is diminished. If the PE firm has invested in a top-quintile CEO and CFO executives to guide the portfolio company through value creation that goes beyond cost-cutting, the risk is further diminished.

Operational complexities can also pose significant hurdles, as PE firms must scale businesses efficiently, integrate acquisitions, and navigate labor challenges. Merging diverse operations requires careful planning, and issues such as talent shortages and rising labor costs can complicate management. Again, focusing on excellence in c-suite leadership is an absolute.

The Talent Imperative: Recruiting the Right Leadership for PE-Backed Industrial Companies

As PE firms seek to optimize value creation in the manufacturing sector, the strategy has to include a renewed focus on talent, especially in c-suite roles. The [trend toward longer hold times in PE](#) has challenged traditional models for value creation. In the face of digitization, changing geopolitical dynamics, and macroeconomic trends, intentionally developing leadership excellence is paramount. The data tells the story: top-performing CEOs produce higher than average investor returns, [up to 16% higher than industry peers in sectors like automotive](#).

These changing demands on leadership in PE-backed industrial companies means recruiting for profiles that go beyond operational expertise to include a high degree of digital fluency and strategic agility, especially when consolidating portfolio companies. Furthermore, the days of a hard, fast turnaround and exit are gone. With longer holding periods, there is mounting pressure on the CEO and CFO roles to boost value creation and operational excellence. As such, PE firms are increasingly partnering with executive recruiting firms to find top talent in industrial manufacturing.

[A recent Forbes articles states](#), “PE firms are keen to ensure the success of their investment in their assets—and I think that requires a deeper emphasis on the human capital of these portfolio companies. It’s time to reconsider and re-evaluate leadership qualities through a differentiated lens.” The process of identifying, assessing, and coaching these candidates has evolved, and expanding the view beyond the resume of a validated leader to focus on intrinsic qualities is now the challenge. This challenge can best be met by partnering with an executive search firm with the network, resources, and experience to source the right leaders.

Riding the Surge

Clearly, the surge of PE investment in manufacturing is reshaping the industry, bringing with it the capital to facilitate much needed digital transformation and take the next evolutionary step toward smart manufacturing. With multinationals using this post-disruption period to review and divest underperforming assets, PE firms can acquire assets to leverage consolidation as a means to sustainable growth.

In spite of ongoing challenges, the future for both the manufacturing sector and PE firms looking to invest is bright, provided the right leadership is in place to guide portfolio companies and maximize value creation.