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2025 Manufacturing M&A Outlook: Will Private Equity Drive Industry Deals?

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Rapid innovation and growth in the sector are likely to spark a manufacturing M&A resurgence, especially as market conditions stabilize.

Private equity is poised to revitalize the manufacturing M&A landscape in 2025. Following a years-long slowdown in deal activity, which brought dry powder to record highs, a PE resurgence is finally expected—and manufacturing deals could be at the forefront of this revival.

The rapid transformation of the manufacturing industry offers ample chance to drive value creation and demand within promising companies. For private equity firms, it's prime time to invest. Yet momentum can only be sustained by innovative leaders who can navigate the still-uncertain market while capitalizing on key opportunities.

Why Private Equity Deal Activity Is Expected to Rise

A recent Wolters Kluwer report highlights three important reasons why private equity is likely to gain momentum:

1. **High Levels of Dry Powder:** Private equity firms will be under pressure from investors to deliver returns by selling off older investments and utilizing $2.1 trillion in global dry powder.
2. **Relaxed Regulations:**S. election results have sparked optimism for M&A activity. Under the Trump administration, private equity leaders expect the relaxed enforcement of antitrust laws, lower corporate tax rates, and other favorable regulations.
3. **Lower Interest Rates:** Interest rates, which previously climbed to levels that dampened financing appetites, are moderating in the U.S. market. Despite the current pause on Federal Reserve rate cuts, the lowered cost of capital could make deal financing more attractive.

The growth in private equity momentum certainly isn't guaranteed. However, McKinsey notes the encouraging rise in average deal value in 2024 could be another positive indicator for the market. As policy directions crystallize and uncertainty declines throughout this year, manufacturing sector deals are expected to accelerate further.

Innovation to Drive Manufacturing M&A

So, why could manufacturing M&A in particular see a golden year? For private equity firms, the sector presents unmatched value creation opportunities.

Here's an example of how: Currently, many manufacturers face aging equipment and outdated legacy infrastructure that require significant capital to modernize. For private equity firms—which have the cash needed for a turnaround—this creates compelling opportunities for discounted acquisitions and outsized exits. With strategic digital transformation investments, PE leaders can drive measurably greater revenue growth and profit margins within manufacturing companies.

Private equity firms may particularly seek manufacturing targets where smart technologies can drive significant operational efficiency gains. The rapid development of advanced tools—from IoT devices and robotics to AI-driven analytics—can yield substantial returns by enhancing productivity *and* quality. Of course, this opportunity is just one of many factors driving renewed interest in manufacturing-related deals.

Sustainability as a Manufacturing M&A Driver

While environmental regulations are already loosening under the Trump administration, market forces continue to drive sustainability initiatives in manufacturing. Consumer preferences, supply chain requirements, and international trade considerations all favor manufacturers with strong environmental credentials.

This could drive manufacturing M&A activity in two key ways. First, green manufacturing capabilities, like sustainable packaging or energy-efficient appliance production, represent an increasingly valuable differentiator. Private equity firms are recognizing this shift and the value that eco-conscious manufacturing companies can bring to their portfolios.

PE leaders are also recognizing sustainability as a value creation tool. According to McKinsey, sustainability is a growth accelerator, improving operational efficiency, talent retention, and employee engagement—and it can help lower the cost of capital. In the manufacturing industry, which has historically been a major polluter, the value creation potential could be particularly high.

It's no wonder why private equity firms are seeking manufacturing targets in which sustainability improvements could drive the deepest transformation. In fact, green deal volume has continued to grow across sectors despite the recent years of slowed activity—with 66% of these M&A deals valued at over $100 million.

Paired with other favorable trends, like the return to onshoring amid new tariff policies and a growing interest in supply chain diversification for organizational resilience, manufacturing M&A appears to be on the upswing.

Key Challenges for Manufacturing Deals

It certainly is not all glitz, glamour, or certainty for deals in manufacturing. Despite the largely positive outlook for both private equity and the growing manufacturing sector, significant challenges remain.

While tariff developments could drive domestic manufacturing demand, it could also negatively impact materials costs and customer purchasing behavior. Private equity leaders continue to keep a close eye on both inflation and interest rates as fluctuations persist. More certainty is also needed around corporate tax rates and any incoming M&A regulations before PE firms confidently accelerate dealmaking activity.

Labor market dynamics present ongoing challenges for manufacturing organizations, whether or not they're private equity-backed. In fact, nearly 70% of HR leaders in the manufacturing sector agree labor shortages are leading to production delays—for many, as frequently as once per week. Industrial C-suite turnover is also on the rise.

Successful private equity investments in manufacturing will require strategies to address these workforce and senior leadership challenges, potentially through:

- Training and mentorship programs
- Thorough succession planning
- Automation investments
- Refreshed employer branding strategies
- Partnerships with staffing, recruitment, and executive search firms

The Outlook for Manufacturing Leadership

The anticipated surge in private equity-driven manufacturing M&A will create significant implications for industry leadership. Leaders with experience managing manufacturing operations through ownership transitions will be increasingly valuable, as will executives with track records of successful post-acquisition integration and value creation.

Manufacturing executives with expertise in technological transformation and sustainability initiatives will be particularly sought after. However, it's the ability to navigate disruption that will emerge as a crucial leadership competency for leaders operating in this consolidationoriented landscape.

As private equity shapes the future of manufacturing through strategic acquisitions and operational enhancements, executives who can effectively align operational excellence with investor expectations will find themselves in high demand.