Threatened by geopolitical turbulence, governments are holding manufacturers close. Jo Russell reports on how M&A fits in

Bringing it home

International trade has boomed over the past few decades, and manufacturing and engineering companies have made hay while the sun shone – lowering production costs by operating in new markets. Many have built sprawling global supply chains. But the landscape has changed. Inflation, recession, conflicts, climate change, tariffs, pandemics, and energy access, have all given those companies reason to pause.

As the effect of raw material shortages and price spikes has become more acute, one response from manufacturers has been to move operations closer to home. Across aerospace, defence, chemicals and technology, protective actions – in terms of reshoring and acquiring sections of the supply chain closer to home – have become more commonplace.

And this trend towards supply chain sovereignty is playing out internationally, says Matt Vernon, partner and UK head of aerospace and defence at EY, with inbound investment rife. "There has almost been a retrace to old business models looking for a national footprint. US and European businesses are looking to [invest in facilities in] the UK, whereas before they may have looked to access that market from afar. Having supply and supply chains in your domestic markets is a strategic way of improving resilience and efficiently navigating tariffs."

On defence

In the defence sector, global OEMs such as Lockheed Martin, BAE Systems and Airbus are increasingly investing in defence-tech start-ups as they seek new technologies and greater supply-chain resilience. In the UK government's Modern Industrial Strategy announced last year, defence was identified as one of the growth sectors. According to Dealroom, defence contractors have taken in £3bn of venture capital funding rounds so far this year – the highest figure on record. Lockheed Martin has expanded its venture investment fund from $400m to $1bn, and opened a London office; its aim is to invest at least $100m in the UK and Europe.

Given the geopolitical landscape, defence is an obvious area of interest. "Historically funds have had restrictions over what they can do in defence. Those are now easing," says Vernon. And in June, the UK government announced its Defence Investment Plan, which will increase UK defence spending to £298bn over the next four years. "This makes aerospace and defence popular sectors. People are placing bets on what will be the next UK unicorn in these sectors," says Vernon.

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Cara Haffey, deals partner and head of manufacturing M&A, PwC

"Ask me which private equity firms are looking for defence deals, and it's probably every single one I'm speaking to," says Cara Haffey, deals partner and head of manufacturing M&A at PwC. "Defence, to an extent, has always been an area of interest for manufacturers and engineering companies, but clearly it's now magnified, given ongoing conflicts and increased budgets. Manufacturers are looking to either enter that market if they're not in it or focus on future technology. Drone businesses, for example, are being looked at in terms of fundraising, investment or pure M&A."

Underpinning forecasts longer-term for companies is energy transition, and that is making those businesses in that sector popular. Alongside the transition to net zero, the impacts of climate change have increased focus on water infrastructure, fire safety and HVAC (heating, ventilation and air conditioning) assets.

Safety first

Beyond defence and energy transition assets, specialist manufacturers serving regulated, safety-critical end markets are increasingly sought by acquirers, says James Wood, associate director at Buzzacott. He cites entrepreneur Will Hunnam's acquisition of Forza Doors – a UK manufacturer of timber doors, frames, fire screens, panels and partitioning for the construction market, with a specialism in fire safety – as an example.

Smart and sustainable

Rising temperatures, caused by climate change, have brought companies involved with HVAC – the technology and systems used to control indoor temperature, humidity and air purity in offices – onto PE firms' radars. Investcorp's acquisition of Smart Managed Solutions earlier this year is one such example.

Founded in 2017 and headquartered in London, Smart is a specialist provider of critical M&E maintenance services, including HVAC, electrical, fire, water and gas systems. It focuses on high-quality commercial office buildings, with clients in life sciences, education, digital infrastructure and the public sector. The company uses data analytics software to provide visibility of a client's mechanical and electrical (M&E) systems and help reduce energy usage.

Investcorp's June 2026 acquisition of Smart valued the company, which has grown annually at more than 30% in recent years, at more than $200m. The private equity firm plans to complement future organic growth with a targeted M&A strategy to expand into new end markets.

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James Wood, associate director, Buzzacott

"These subsectors are popular with investors because the customer relationships are built in," says Wood, whose firm advised on the deal. "Once you are an approved supplier and have the required accreditation, this creates barriers to entry. We spend a lot of time in diligence testing what sits behind those contracts: whether they are long-term agreements or rolling call-offs with no volume commitment, how concentrated the order book is by customer and by part, and whether there is a change-of-control clause."

Companies in manufacturing related to AI are also driving investment, whether in data centres, power generation or technical services. "The move to AI has put industrial M&A in a more positive light," says Vernon. Haffey agrees, pointing to Smiths Group's £164m acquisition of US-based DRC – a designer and manufacturer of custom heat transfer and cooling solutions for power generators used in data centres, as well as for industrial, transit, and energy markets. "Energy infrastructure and data centres are themes that we're seeing coming through strongly," she says.

AI's impact stretches beyond companies working directly within AI infrastructure, and into the workstreams of manufacturing and engineering companies across the board. As with many UK companies, automation is driving efficiencies and cost savings.

"Manufacturers that can use data analytics and AI to make themselves more efficient, become more attractive assets. That might mean predictive maintenance, quality control or process optimization – all leading to improved productivity, asset utilization, and energy efficiency," says James Atkinson, corporate finance partner at RSM.

"The enabling of AI, which is happening across every single industry

in the UK, is very much on the minds of manufacturers," says Wood. "For those businesses looking to gear themselves up for sale, enriching the businesses data capabilities will both create a more valuable and efficient business and produce the granularity a buyer will ask for in diligence – margin by customer, by part and by machine, rather than one blended gross margin."

Building up

Buy-and-build with private equity backing continues to be a popular strategy across the sector. Atkinson cites three recent deals: the sale of valve maintenance provider Control Valve Services to HIG-backed Coriant, in March 2026; the sale of Quantum Controls, a variable speed drive business, to critical engineering services provider EMK-backed March Engineering in July 2025; and LDC's November 2025 investment in ARC Building Solutions, a manufacturer of specialist residential insulation.

"In a lot of transactions, particularly in the built environment space, there is a private equity element which is either a pure PE platform or a larger group with PE investment. Adjacent industrials businesses that are feeding into the built environment are also benefiting," he says.

Carve-outs are also increasingly common, as underperforming

companies – both listed and privately owned – come under pressure to dispose of non-core elements. "The market is very busy around carve-outs," says Vernon. "Mid-market PE is adept at taking underappreciated products or solutions and putting some proper investment behind them.

"Owner manager exits are also happening, certainly in traditional sectors. There is still often a succession issue, requiring buyers to come in with a management solution."

A look at the current and future state of the manufacturing and engineering sector offers a mixed picture. Challenges and opportunities exist in almost equal measure. "It's a conviction and resilience, rather than a volume market," says Haffey. "Companies need to decide that they're committed to doing something and really take it through. In a world that's quite uncertain, they need to take a position that they can own an asset better than somebody else has or promise growth, which is difficult. One fundamental has been that businesses tend to be bought by companies within their supply or value chain that know them."

Buyers remain selective, says Vernon: "Good assets are incredibly competitive and go for very high prices. Where things are a little less secure, they are harder to get over the line. With high interest rates and uncertainty around conflict, supply chains, and political stability, there is a risk premium associated with assets in the market.

"It's a broad and fragmented sector, which tends to mean certain areas are active while others are going through a transformational period. Larger businesses need to grow and that's hard to do organically, so M&A is a strategic pillar of growth."

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James Atkinson, corporate finance partner at RSM

Making the most

Growth is likely to become increasingly differentiated across subsectors, agrees Atkinson, with some evidence of tailwinds and strong end-markets – notably defence and aerospace, and energy transition, all underpinned by government policy, and AI infrastructure.

"But navigating the geopolitical uncertainty is not easy," adds Atkinson. "There is also the cost of debt, which can have a drag on investment within a business itself. Medium-term financing is the most expensive it's been for quite some years."

Wood believes the fragmentation of the marketplace provides a lot of M&A opportunity, and sees no reason for that to slow down. "There is continual interest in the UK sector. We see a lot of PE and search fund deals coming through, particularly at the sub-£5m EBITDA end, where founder-owned businesses have never had institutional money in them. We also have a lot of quality engineering and manufacturing businesses come across our desks. They tend to look similar: single-site machining, fabrication or sub-assembly, with potentially high customer concentration – strong technical capability but usually with a minimal management layer beneath the owner."

Manufacturers like these that can incorporate new technologies into their operations stand to make big gains, says Wood, adding that the investment and risk taking that requires is "often left as the next owner's opportunity".

Innovate to accumulate

Manufacturers are doubling down on innovation in response to global uncertainty, rising costs and rapid digitisation, according to the *2026 Make UK Executive Survey*, produced in association with PwC.

"Companies want to control and own tech and mission-critical products that will give growth," explains PwC's Cara Haffey, noting that 68% of companies have firm plans to invest in new product developments in the year ahead.

Mergers and/or acquisitions were seen as a key growth strategy by just 27% of respondents. "M&A is competing with the notion that it's safer to focus on new product development and change for the future within a business," says Haffey. "Undergoing diligence while trading is quite hard, and expensive. Our survey showed more of an appetite for new product development – and changing for the future within a business."