

Brookfield

Game On: Why Industrials Are In Play

Key Sections



Article



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Key Takeaways

Many industrial companies with antiquated operations urgently need to reinvent themselves, yet many lack the capital and knowledge to transform.

In our view, two global megatrends will help drive this transformation: the growing need to secure and shorten supply chains along with the artificial intelligence revolution.

This state of play is generating significant opportunities for private capital providers, especially those with operational expertise, deep resources and a long-term track record of unlocking value and enhancing investment returns in industrial businesses.

Industrial Opportunities Rise as Markets Thaw

After three years of virtually frozen capital markets, the backlog of private equity investment opportunities continues to build. And while global markets have become increasingly unpredictable, we still see a compelling long-term opportunity for private capital to help drive a transformation of the industrials sector, particularly in the U.S. and Europe.

Industrial companies are increasingly seeking private capital as they focus on their core businesses and take aggressive steps to elevate their strategic plans and transform their operations. Many of these companies or their business units operate in mature, stable industries and are attempting to compete using antiquated computer systems, manufacturing processes and back-office functions that need to be upgraded with innovative technology and forward-thinking business plans.

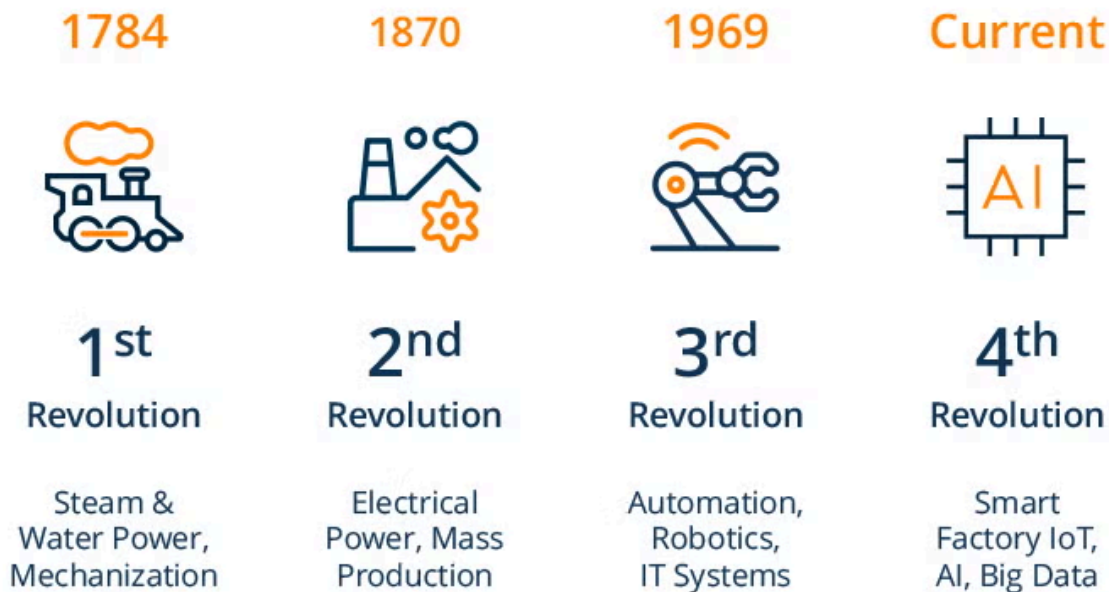
At the same time, two global megatrends are unfolding to help drive this industrial transformation:

Today's tariffs and other protectionist trade policies—combined with Covid disruptions and geopolitical tension in recent years—have reinforced the critical need for supply-chain security. Reshoring, localizing and procuring essential materials will require deep industrial expertise and significant capital expenditures.

Artificial intelligence (AI) and technological advancements such as robotics and sensors are contributing to the reindustrialization of the U.S. and Western Europe by reawakening industries that have been struggling, enabling them to be productive and competitive again. Some are calling this the Fourth Industrial Revolution (see Figure 1).

As these trends converge, the industrials sector stands at a crossroads. These companies face growing pressure to transform in order to remain competitive, yet many lack the requisite resources and capabilities to implement necessary improvements. This presents private equity managers with enormous opportunities, especially those with operational expertise and a long-term track record of unlocking value in their portfolio companies and enhancing returns for investors.

Figure 1: Capitalizing On the Next Wave of Industrial Transformation



What Are Industrials, and Why Are They Seeking Private Capital Now?

The sector spans a diverse array of companies across a variety of industries, but they typically share a common fundamental trait. In general, they combine raw materials through labor and manufacturing processes to create finished products that are sold directly to consumers or through third-party retail outlets. There are many ways to categorize industrials, but we break it down into six major sub-sectors:

- Building products
- Specialty chemicals
- Aerospace and defense
- Automotive aftermarket and services
- Distribution
- Capital goods and components

In our view, the most compelling industrial transformation candidates are those that provide essential products or services. There is no consensus definition for this term, but a key characteristic is durability of demand. Is the product or service something the end user cannot do without—such as a car battery or freeze-resistant pipe coating? If so, then it likely will demonstrate resilience throughout market cycles, even during downturns. It may not be “recession proof,” but it is almost certainly “recession resilient.”

Today, many publicly traded industrial companies are starting to realize they can no longer run their businesses as efficiently as they once did. Technology, production lines and business plans that performed well decades ago may be sputtering now, and many markets face labor shortages for industrial jobs. Growth has stagnated along with share prices, and many

companies are now willing to sell in a public-to-private transaction. In other cases, they want to remain independent and focus on their core businesses while selling noncore operations to a strategic private equity manager through a [corporate carveout](#).

When it comes to financing, private markets offer several advantages over public markets. An industrial company with outdated factories, technology and back-office operations may need to implement drastic new strategies that require significant capital and extensive corporate restructuring. As a publicly traded company, stringent or lengthy regulatory approvals may prevent quick implementation. A private owner often can act more quickly and take a long-term view outside the public market spotlight.

Securing Supply Chains as Deglobalization Unfolds

For decades, industrial companies typically opted for the lowest-cost solutions—such as just-in-time deliveries—to acquire the raw materials they needed to make their products. These preferences led to fragmented and complex supply chains that were often spread across the globe.

Then Covid arrived. The subsequent shutdown of the global economy snarled supply chains, delaying deliveries and driving up costs. Geopolitical tensions, such as Russia's invasion of Ukraine, further amplified supply-chain concerns. More recently, widespread implementation of tariffs and the threat of a global trade war have raised fears that inflation could reignite, forcing companies that import raw materials to pass along higher costs to their customers. Higher inflation would almost certainly slow global growth and reduce corporate profits.

The backbone of the global economy requires supply-chain resilience. Yet events in recent years have ushered in an era of instability that has prompted industrial companies to seriously consider reshoring their essential manufacturing processes to minimize disruptions and avoid massive price hikes (see Figure 2). After Covid, companies tended to focus on creating stable supply chains only for sectors that were critical to national sovereignty, including chips, healthcare and energy. Now, all industrial sectors are on the supply-chain security table. In our view, this trend toward deglobalization offers private equity firms a once-in-a-generation opportunity to provide the deep expertise and significant capital required to secure industrial company supply chains.

Figure 2: Key Factors Influence Supply-Chain Sourcing Decisions



Source: Deloitte, “The greenfield factory journey: Phase I,” accessed March 13, 2025; The Manufacturer, “Five points to consider when starting a manufacturing business,” accessed March 13, 2025; Deloitte analysis; Brookfield internal research.

This de-risking push begins with the need to create more redundancy when serving customers. Sometimes, the solution is straightforward, such as finding additional suppliers as a backup for single-supplier raw materials. In more complex situations—where a raw material is provided by a supplier in a politically unstable country, for example—it’s often necessary for a company to find domestic suppliers or take the much more aggressive step of building a new plant in the country where it is based.

In these more complex cases, we believe private equity managers with substantial financial resources and an established history of improving operations tend to add the most value. Brookfield, for example, can tap its vast global real estate portfolio and decades of experience developing, building and efficiently operating highly specialized real estate properties to help portfolio companies locate new facilities.

Modernizing Manufacturing Through AI

Factory floors at many industrial companies operate the same today as they did decades ago. Aging machinery often lacks the most current sophisticated technology that can enhance efficiency. Production workers methodically turn knobs and dials on these analog machines. Forklift operators move finished products from the floor to trucks outside the plants for transportation to customers.

Here’s what a factory of the future will likely look like. Robots move raw materials along production lines. Machines outfitted with sensors monitor every step of the production process. AI models use machine learning to analyze this data to calibrate the equipment,

improve product quality, reduce production time and optimize supply chains. Automated guided vehicles—essentially driverless robots—move finished products off the floor. Welcome to a “lights out factory,” where automated machines run continuously and people are trained to make the repairs that keep them running—with the added benefit of improving workplace safety.

While optimism runs deep about the potential benefits of AI and other advanced technology, the trend is still in the early innings. While 68% of manufacturing companies worldwide have started implementing AI solutions, only 16% have achieved their AI-related targets, according to the Boston Consulting Group.¹ Most industrial companies are implementing these capabilities incrementally and with varying levels of sophistication, ranging from adding sensors to machinery to installing robotic arms on production lines to optimizing manufacturing plant fleets with AI machine learning. In some cases, however, the most stagnant industrial companies must begin with software and computer system upgrades before even thinking about implementing more modern technology.

In the coming decades, AI models will play an outsize role in cutting costs, addressing labor shortages, innovating product lines and optimizing supply chains. In our view, these models have the potential to drive massive productivity gains, transforming struggling industrial companies into competitive global players. This trend presents private capital providers with significant investment opportunities, especially those with an established history of delivering operational expertise.

Over the past five years, Brookfield has focused on implementing AI and other technologies, such as robotics, at many of the industrial companies in our private equity portfolio. And in the last two years, we have seen a rapid increase in the value of these capabilities—supporting our ability to address macroeconomic challenges, create more value more quickly, and think more boldly about how to transform our companies’ value chains (see Figure 3).

Figure 3: Brookfield Leverages AI to Deliver Broad Value Creation



AI in Action at Brookfield

Operational improvements have driven an increasing share of value creation in recent decades. With AI set to become a transformational tool to improve operations, Brookfield established its **AI Value Creation Office** to drive our AI strategy and serve as a forum to share ideas, developments and lessons learned across the Brookfield Ecosystem. It partners with major technology system integrators, such as Microsoft and Amazon, to find new ways to create value at our portfolio companies. Today the office is managing a pipeline of more than 300 use cases; here are just a few examples:

GrafTech, which produces petroleum needle coke to make graphite electrodes, traditionally followed a highly specialized manufacturing process that relied on experienced engineers and operators. We helped the company develop proprietary algorithms that automated detection of anomalies and quickly adjusted the production process to meet precise product specifications. This technology reduced the analysis timetable for making these adjustments from hours to minutes, improved end product quality, reduced failure rates to near zero and improved product yields to more than 80% from the mid 70% range. (Brookfield sold its interest in GrafTech in 2023.)

Clarios, a leading global manufacturer of automotive batteries, installed sensors at its factories around the world to measure critical data such as temperature, energy consumption and machine failure rates. It then built an AI tool to track and analyze this data, which helped plant workers and managers keep machines running longer, enhance maintenance schedules, reduce waste and save energy. Clarios has also developed AI-based technology to monitor and reduce engine idling time for a commercial fleet owner in Europe, saving that client approximately €1 thousand annually for each of its trucks. Additionally, Clarios has started to use robotics and automation in its advanced production lines to reduce the number of operators by more than half.

Westinghouse, a nuclear power plant operator, rolled out a robotics automation plan at one of its largest fuel manufacturing facilities, achieving a 50% improvement in workflow efficiency—from design through development. (Brookfield's Private Equity Group sold its interest in Westinghouse in 2023.)

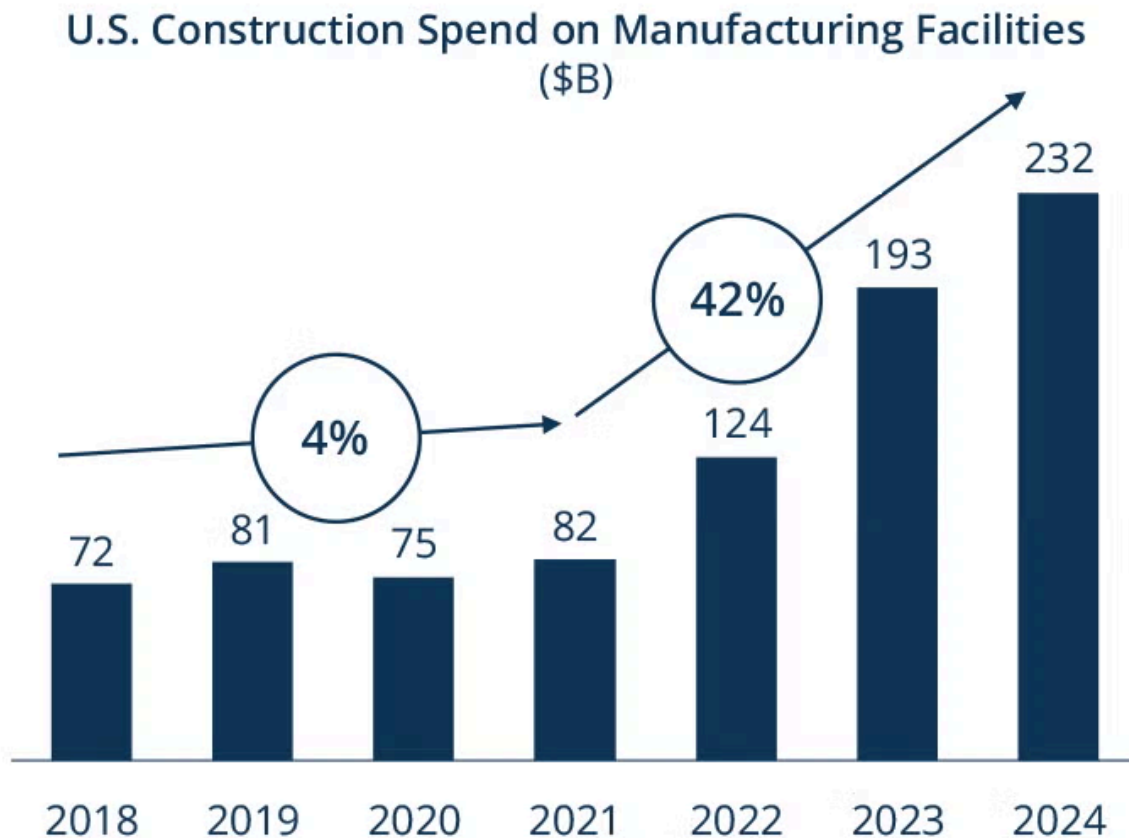
Leveraging Size and Scale in the U.S.

The U.S. remains the largest and deepest private equity market globally and presents the most opportunities across nearly every sector, particularly industrials. In fact, industrials comprise 21% of U.S. private equity transactions.²

Regardless of current trade policy headlines, companies based in the U.S. or with substantial operations there benefit from a highly favorable business environment: the world's largest economy, dominant capital markets and technology, energy self-sufficiency and an entrepreneurial spirit. As a result, they tend to have higher market share, healthier profit margins and stronger competitive positions than companies based elsewhere.

These long-term attributes, along with the recent relative thaw in private market financing, are igniting manufacturing growth. Private construction spending on U.S. manufacturing facilities has increased 42%, on average, since 2021, and hit a record high of \$232 billion in 2024 (see Figure 4). With this pace expected to continue over the next decade, many industrial businesses will likely seek capital from private market providers.

Figure 4: Industrial Tailwinds Are Driving Dramatic Investment Opportunities



Source: PwC, Strategy&, Project Keystone Phase II: U.S. Manufacturing Activity Outlook, February 2025.

While many large industrial companies with outdated operations are attracting private capital, it's also important to note that many compelling industrial opportunities in the U.S. for private equity managers are small to midsize public companies. Several decades ago, active public market investors were more than willing to allocate capital to these types of companies, but that's no longer the case. In recent years, passive index investors have effectively created an inefficient public market environment for small and midcap industrials. Many active investors have lost interest in them and instead are focusing on the short-term performance of much larger companies. We see this trend continuing for the next 10 to 20 years, opening up significant opportunities for private investors.

Finding Value in Europe

If the U.S. industrials market is all about size, scale and a traditionally favorable backdrop, then the [story in Europe](#) is all about value and opportunities to close the productivity gap. We have found that, for a variety of reasons, industrials trade at a bigger discount in Europe than they do in the U.S.

For one thing, the economy has been far less robust in recent years. In 2024, gross domestic product (GDP) growth in the U.S. was 2.8%³, nearly triple the 1% GDP growth rate in the

European Union.⁴ Europe's fragmentation also makes it a more complicated region to do business. Multiple countries, each with its own rules and regulations, often contribute to higher costs and lower efficiency for companies trying to conduct business across borders. Political instability in recent years—particularly in France, Germany and the U.K.—and a shrinking workforce are additional growth headwinds.

Given these challenges, it's imperative that industrial companies in Europe take meaningful steps to enhance productivity. In our view, the most attractive candidates for implementing effective and far-reaching productivity strategies are companies headquartered in Europe with leading positions in the region that have also built a global customer base and worldwide manufacturing operations. As the trade environment grows increasingly complex, private equity managers with deep operational expertise can provide the critical funding needed to drive significant productivity gains that can transform these regional champions into competitive global champions.

Political leaders in Europe are starting to acknowledge the need for change. Last year, for example, former European Central Bank President Mario Draghi published an acclaimed report, [*The Future of European Competitiveness*](#), that sounded an alarm about Europe's pronounced productivity slowdown in recent decades. The report highlighted three themes to ignite growth in the region: 1) close the innovation gap with the U.S. and China, 2) coordinate decarbonization policies across governments, and 3) increase security and reduce raw material dependency. The European Commission, the European Union's main executive body, followed up by identifying five key actions for achieving these goals based on the report's recommendations, including cutting red tape and simplifying rules across borders.

At the national level, German lawmakers recently approved a €1 trillion spending package—half for infrastructure and half for defense—to jump-start weakness in Europe's largest economy and its historically strong manufacturing industries.

While regions outside the U.S. and Europe also offer industrial opportunities for private capital providers, they are not nearly as compelling. In our view, the largest companies in those regions would not be considered "global champions" because they lack the entrenched market positions and well-regarded brands and products of the largest companies in the U.S. and Europe.

An Optimistic Industrials Outlook

Short-term and long-term trends have created a favorable outlook for industrials. Publicly traded industrial companies today are increasingly turning to private capital to upgrade their operations. While the long-term impact of tariffs remains unclear, the deglobalization trend is well underway and serves as a major tailwind for supply-chain security. Over the long term, the unstoppable advance of AI and other sophisticated technologies will help outdated industrial companies transform into more nimble global competitors.

In our view, this environment presents private equity managers with significant opportunities to provide operating expertise and capital to industrial businesses, along with the AI strategies and supply-chain expertise that they will require to compete for decades to come.

Endnotes:

1. [*Harnessing the AI Revolution in Industrial Operations: A Guidebook*](#), World Economic Forum whitepaper in collaboration with Boston Consulting Group, October 2023.
2. [*Renewed Optimism: Private Equity 2024 Year-In-Review and 2025 Industry Outlook*](#), Cherry Bekaert, February 12, 2025.
3. [*Bureau of Economic Analysis, U.S. Department of Commerce*](#), March 27, 2025.
4. [*Eurostat*](#), March 7, 2025.

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