Preparing Manufacturing Portfolio Companies for 2026: An Integration Strategy

After a year defined by tariff uncertainty and cautious dealmaking, manufacturing once again stands at the center of private equity (PE) interest. Shifting trade policies in 2025 created an uncertain M&A environment. Manufacturers hesitated to commit to long-term capital investments, while PE firms were reluctant to absorb policy risk. Combined with persistently elevated interest rates, the cost of capital remained high and deal activity slowed.

Yet, going into 2026, the manufacturing sector continues to offer attractive fundamentals: Stable cash flows, multiple operational levers for margin expansion, and other clear pathways for value creation. With frameworks and processes such as 80/20 analysis, roll-up and synergies opportunities, and advanced pricing strategies, PE firms can unlock meaningful performance gains. Still, ongoing tariff volatility, uneven AI adoption, and extended transformation timelines mean that realizing value will require a more integrated approach. Instead of tackling operational efficiency and growth sequentially, firms must pursue both from day one.

The PE-Manufacturing Relationship at a Glance

Manufacturing's diversified landscape of family-owned businesses and regional players creates acquisition opportunities at reasonable valuations. The capital-intensive nature of manufacturing also means predictable cash generation becomes a competitive differentiator, making manufacturers that deliver predictable cash flow especially attractive to PE firms prioritizing liquidity. Recent **BDO research** shows that predictable cash flow is a priority for 24% of manufacturing PE firms.

Beyond financial stability, manufacturing businesses often offer significant operational upside potential. PE investors in the manufacturing sector report a stronger emphasis on reducing cost of goods sold (62% versus 55% overall) than the broader market – often through supply chain rationalization, vendor consolidation, and production process improvements.

For many manufacturers, PE ownership brings the discipline and scale required to cross growth thresholds that would be difficult to achieve independently. This includes scaling production capacity to serve larger companies, expanding into adjacent markets, and professionalizing operations to support multi-site management. These improvements allow value creation through execution and integration, not simply favorable market timing or multiple expansion.

However, to fully capture this potential, PE firms must take a different approach than they have historically taken.

The Old Value Creation Playbook No Longer Works

The traditional "fix first, grow later" playbook is losing relevance. In today's environment of persistent volatility and fast-moving competitors, waiting to pursue growth until operational fixes are complete means missing the window to capture market momentum.

Leading PE firms now view operational efficiency and revenue growth as mutually reinforcing levers. For example, improving supply chain reliability at the outset of an investment can simultaneously reduce costs and improve on-time delivery, directly strengthening customer experience and, by extension, revenue performance.

Similarly, optimizing pricing models across sales lines can drive an immediate revenue lift while exposing underlying cost inefficiencies. Consolidating vendor relationships can reduce COGS while freeing capital for growth. Firms that adopt integrated data and reporting systems can directly link operational improvements to revenue outcomes, ensuring both priorities advance together and compound over time.

How PE Firms Can Realize the Full Value of Their Manufacturing Investments

PE firms that capture the full value of their manufacturing investments integrate operational and revenue initiatives from the outset, concentrating their efforts in several interdependent areas.

Extending Operational Efficiency Improvements

PE firms should examine working capital utilization, vendor renegotiation, and payment terms optimization to identify quick-win opportunities. Standardizing processes and rationalizing systems across acquisitions can support significant margin improvement that compounds across the company, and freed capital from these efficiencies can be reinvested in customer acquisition, market expansion efforts, and other growth initiatives.

Applying 80/20 Analysis to Identify Core Value Drivers

During due diligence, determining the 20% of customers, products, or markets that generate 80% of profits allows the business to focus execution where returns scale fastest. This analysis also highlights underperforming or strategically misaligned areas that can be divested or restructured.

Identifying and Capturing Synergies Across the Portfolio

Vertical integration, shared procurement, and centralized back-office services can generate both margin expansion and revenue acceleration. The most effective synergies align operational gains with customer or market advantages. For example, vendor consolidation can improve negotiating leverage while increasing supply reliability.

Considering New Pricing Models

With 24% of PE firms planning to adopt more sophisticated pricing strategies as a value creation initiative, optimizing pricing models across sales lines can lead to immediate and lasting benefits. Strategic pricing also enables a more resilient response to input cost volatility, which is important, especially in a climate of persistent inflationary pressure.

How AI Can Help Manufacturing PE Firms Attract a Sale

A widening gap exists between marketplace expectations for AI implementation and the manufacturing industry's current capabilities. While 18% of PE firms expect portcos to implement AI as a value creation priority and 37% rank technology/ERP integration as a top post-M&A challenge, most manufacturers remain in the early stages of AI adoption.

For mid-market manufacturers considering PE partnership in 2026, having AI-ready infrastructure and a strong data foundation — including clean data, established workflows, and standardized processes— can make the business significantly more attractive. This level of readiness allows PE firms to come in and more easily deploy AI and their proprietary tech stacks, as they see fit, for predictive maintenance, demand forecasting, workflow automation, and more. PE firms being able to bring in AI on their own terms helps create value from day one.

Market Outlook: What's Ahead for 2026

While the first half of 2025 saw sparks of deal activity in the middle market — particularly in notable growth areas such as energy transition and data infrastructure — the expectation from many in the industry of a record-breaking 2025 failed to materialize. Tariff uncertainty and shifting trade policies widened valuation gaps, while elevated interest rates kept borrowing costs high. As a result, many PE firms delayed acquisitions or focused on operational improvements within existing portfolios.

However, these headwinds have not eroded manufacturing's core investment thesis. For opportunistic PE buyers that identify manufacturers aligned with their interests, the horizon looks sunnier. Target manufacturers with predictable cash generation, tangible assets, and scalable operations remain powerful value drivers for buyers positioned to act.

While 2026 is unlikely to bring a rapid rebound in deal volume, the quality of transactions will improve. Buyers will seek manufacturers that demonstrate resilience, pricing sophistication, and visible digital progress. The firms that execute on both operational improvement and revenue growth simultaneously will be best positioned to command premium valuations as and when exit conditions improve.

Ready to build an integration strategy that helps capture the full value of your manufacturing investments. Contact us. ▶