RealDeals

Q&A

# Powering ahead

**The industrials sector remains alive with opportunities for switched-on investors, according to LDC investment directors Will Scales and Mark Howden**

# *Mark Howden* and *Will Scales*, investment directors at LDC, sit down with *Real Deals* to discuss how industrials businesses are taking advantage of opportunities for growth while navigating challenges, including supply chain risk and skills shortages

### What makes industrials an attractive sector for investment?

*Will Scales*: The UK industrials sector is vast, with manufacturing accounting for c.£224bn (€257bn) of output, about 50% of UK exports and employing about 2.6 million people right across the UK, according to MadeUK's 2023 analysis.

The sector is robust, with a diverse range of businesses across numerous subsectors that are well placed to benefit from private equity to support growth. As we look ahead, many industrials businesses are adopting new technologies to increase competitive advantage and unlock value creation, making it an exciting time to invest. The sector is also adapting to incorporate ESG strategies and the transition to net zero.

### How are industrials businesses meeting their ESG objectives and how are you supporting your portfolio to do so?

*Scales*: While harder for certain industries to deliver the 'E' by nature of what they do, having a clear and considered ESG strategy creates significant value – it is the direction of travel of strategy that matters.

Often the 'S' and 'G' of ESG are forgotten, but industrials businesses can contribute materially here, for example through involvement in industry associations, growing headcount, hiring locally, involvement in community initiatives, bringing in non-execs and ensuring board diversity. These are all areas where private equity can really help.

*Mark Howden*: We work closely with our portfolio companies to help them achieve their objectives. One of the ways we do this is by offering an assessment to identify ways to improve their ESG credentials.

One portfolio company that has really benefited from this approach is Midlands-based photochemical etching business Precision Micro. We backed the business in 2018, and since then it has reduced waste by 45%, increased its recycling rate to 98% and now only uses renewable energy. We also recently supported a £1.8m investment in highly efficient machinery to manufacture components used in next-generation energy technologies such as hydrogen production and storage, carbon capture, green energy buffering, electric and hydrogen electric vehicles. Precision Micro's

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*Will Scales (left) and Mark Howden*

progress was recognised by the BVCA with a 'Vision' award for ESG and innovation earlier this year.

Another great example is Sigmat, a Yorkshire-based leader in offsite light-gauge steel-frame manufacturing, which is a cost-efficient, faster and more sustainable alternative to traditional building techniques. Our five-year partnership helped Sigmat strengthen its ESG credentials, including setting up a sustainability committee and a sustainable R&D initiative. This supported a successful exit as buyer interest came from larger construction and manufacturing corporates wanting to enhance their own ESG credentials.

## How is the industrials sector, historically reliant on analogue technology, taking advantage of digitalisation?

*Scales*: The benefits of digitalisation are twofold. Firstly, it can give businesses a product-based competitive advantage through speed, agility, quality and innovation; and secondly, it can help drive efficiencies including reduced downtime, lower wastage and maintenance costs, as well as mitigating the challenges of skilled labour shortage.

The use of technologies including the Internet of Things (IoT), robotics, automation and artificial intelligence is at an early stage but adoption is increasing. For instance, businesses are starting to use digital twin simulations to simulate a new product before prototype manufacturing.

Investing in new technologies has historically been cost prohibitive for SMEs, however they are becoming more accessible. If a robotic production line is unaffordable, there are smaller-scale solutions available including sensing technology to monitor machines. Private equity investors can help here by providing capital or advice, building on their experience of having implemented technologies across their portfolio.

An example is our current investment in security products manufacturer Texecom, where we have supported the rollout of its IoT connectivity proposition, Monitor, which is adding digital recurring revenues to the existing hardware offering.

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> *Mark Howden, investment director, LDC*

## How are businesses in LDC's industrials portfolio navigating today's difficult macroeconomic environment?

*Howden*: Businesses are de-risking supply chains by reducing dependencies on single points of potential failure and considering strategies such as dual sourcing or nearshoring. We helped water pump manufacturer Stuart Turner optimise its supply chain, which lowered risk and reduced costs by more than £200,000 a year.

Skills shortages are another significant issue. During the Covid-19 pandemic, some employees of industrials businesses migrated from skilled manufacturing roles into warehousing and deliveries to capitalise on the demand-driven wage inflation. But there are ways to find and retain new skilled workers – for example, we are seeing more companies offer local apprentice schemes, including portfolio companies Precision Micro and ELE Advanced Technologies (ELE), which take on advanced manufacturing and engineering apprentices from local schools and colleges each year.

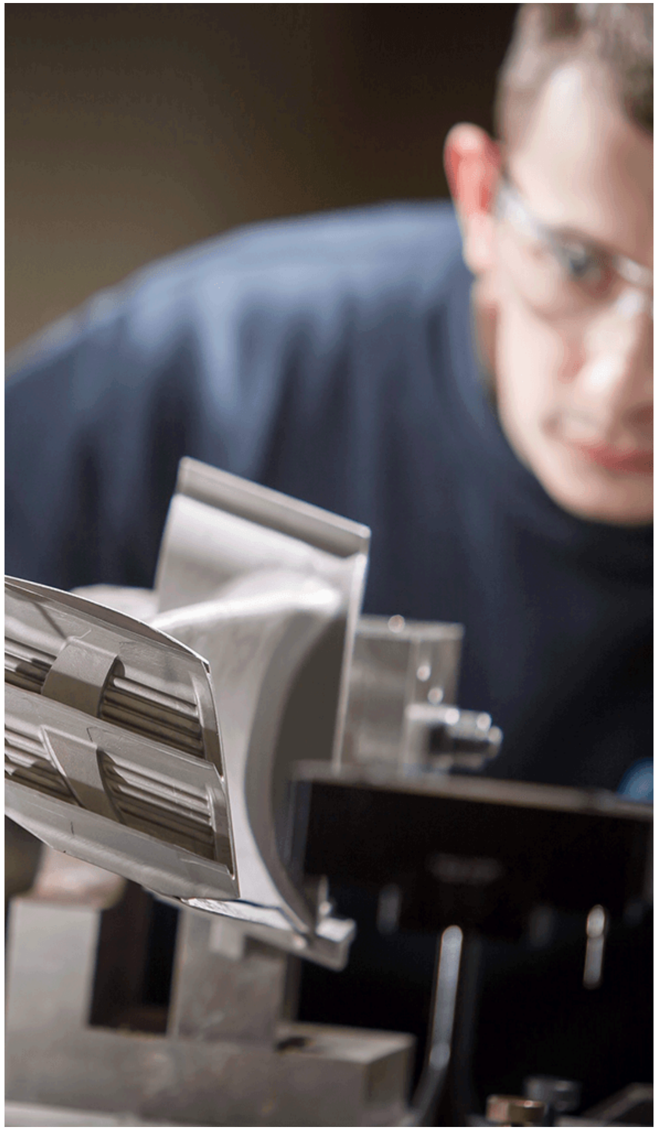
Industrials businesses have also been tackling rising costs by focusing on productivity, an area where the UK has historically lagged, and differentiating on factors other than price, such as quality.

## What growth strategies – acquisitive or organic – are LDC's industrials portfolio companies employing in the current difficult market conditions?

*Scales*: Buy-and-build continues to be popular, and there are good opportunities out there. Partnering with private equity can help businesses to scale quickly in this way.

Our portfolio company Express Engineering recently expanded its offering to the subsea market by acquiring the assets of QA Weld Tech.

*Howden*: Organic growth is also important. We recently helped ELE invest more than £12m in the business, including in its relocation to a new, larger manufacturing facility. The facility, with solar panels installed as part of its drive towards cleaner energy, increases capacity by 40%, with potential for further expansion.



Whether organic or acquisitive, domestic or international, the capital, expertise and experience that private equity brings supports successful growth.

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LDC

LDC has supported 44 industrials businesses with £835m of investment since 2012. On average the industrials businesses exited during the same period have grown by an average 334% (EV), generating £1.2bn of proceeds and a 3.3x MM and 95% IRR for LDC.

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