AlixPartners

Turning headwinds into growth levers

A practical agenda for value creation in Industrial Automation

Industrial automation is a large and growing market, driven by the convergence of AI, Industry 4.0, smart manufacturing, and clean energy investment. While hardware still dominates current revenues, software and data-centric solutions are capturing a growing share of spend and are expected to drive a disproportionate share of value creation through the decade. Long-term infrastructure and industrial capex plans, particularly in transport, energy, and digital networks, provide additional demand tailwinds.

Within this, process, factory, and warehouse automation sub-segments show strong growth potential, expected to expand at healthy rates through 2030. However, this market growth has not been evenly reflected in company performance. Many European and U.S. players combine strong margin profiles with modest recent growth, while several Asian competitors are growing faster from a lower-margin base. Benchmarking reveals that, for some established players, automation revenues have lagged behind wider market growth over the past three years, and in some cases, declined in real terms.

Long, project-based sales cycles, capital intensity, and skill shortages make it challenging to turn attractive market CAGRs into consistent, profitable top-line expansion, implying that exposure to favourable themes is no longer sufficient. This highlights the need for focused value creation plans to address structural constraints and reposition business models.

AlixPartners has developed an integrated value creation plan aimed at unlocking the sector's full potential. Our experience highlights five critical value-creation levers that consistently drive performance and should form the foundation of any comprehensive value-creation plan:

1. Strategic growth agenda and integrated go-to-market approach
2. Alleviating supply chain fragility and working capital pressure
3. Geographical footprint and capacity
4. SG&A and operating model improvements
5. Strategic M&A and portfolio management

Maintaining strong commercial performance is critical to protecting value

1 Strategic growth agenda and integrated go to market approach

Automation is central to the shift from manual processes to AI-enabled, data-driven operations. However, strong sector demand hasn't consistently translated into profitable growth.

Many companies, particularly diversified groups in Europe and the U.S., struggle to convert tailwinds into organic growth due to product-centric selling, unclear growth strategy, diffused go-to-market models, complex portfolios, and weak pricing discipline.

Customers increasingly expect integrated solutions, faster deployment, and support in managing technological and organisational change, rather than simply purchasing standalone products, making it essential to adapt commercial models and offerings.

> *"Systematically identifying and casing fields with structural pull should be the imperative as markets are changing with new growth and profit pools opening up."*
>
> Thorsten Lips, Pricing & Growth Expert, Partner

Proactive commercial strategy optimisation actions

Re-segment markets and sales coverage around priority verticals and solutions (e.g., data centres, energy, infrastructure, life sciences, intralogistics) rather than legacy product silos.

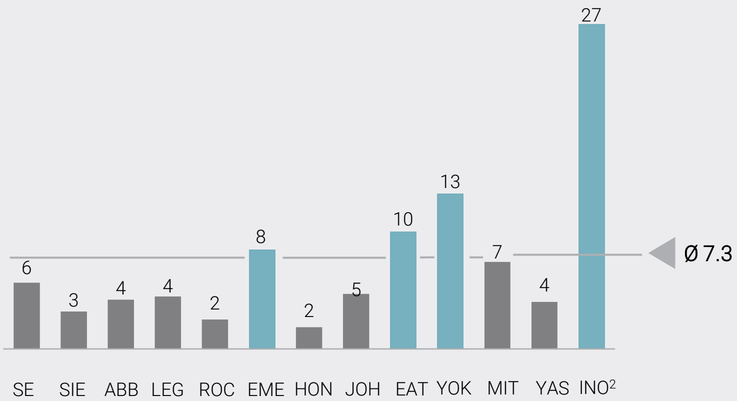
Make clear "where to play" choices by vertical, solution type, and region and include new business models/value chain plays, aligning resources to areas of genuine competitive advantage.

Strengthen pricing using detailed margin and win-rate data to manage list prices, discounts, and mix, especially for software and higher-value solutions.

Systematically mine the installed base to grow recurring service, retrofit, and upgrade revenues, deploying targeted programmes to increase attach and renewal rates.

Embed rigorous account-level profitability management, repricing or exiting unprofitable contracts and focusing resources on strategic accounts.

3-year revenue CAGR FY25[1] (%)



1. S&P Capital IQ, AlixPartners analysis 2. FY24 3-year revenue CAGR utilised for Inovance

An operational approach to supply chain management to reduce working capital and unlock cash to fund investment

2 Alleviating supply chain fragility and working capital pressure

Industrial automation businesses have invested heavily in centralised procurement, but value is often pursued narrowly through unit price negotiations. In an environment of ongoing component shortages, long lead times, and elevated working capital needs, this approach can miss structural opportunities and, in some cases, increase risk. Limited transparency on should-costs, supply criticality, and total cost of ownership leaves many organisations without a clear view of vulnerabilities and savings potential.

To maintain service levels, many vendors have increased safety stocks, tying up cash in inventory and further elevating working capital requirements. Meanwhile, global logistics disruption, reshoring, and trade tensions have added volatility and complexity to sourcing strategies and network design, making a more holistic, risk-aware approach to procurement and supply chain essential.

Selected supply chain optimisation strategies

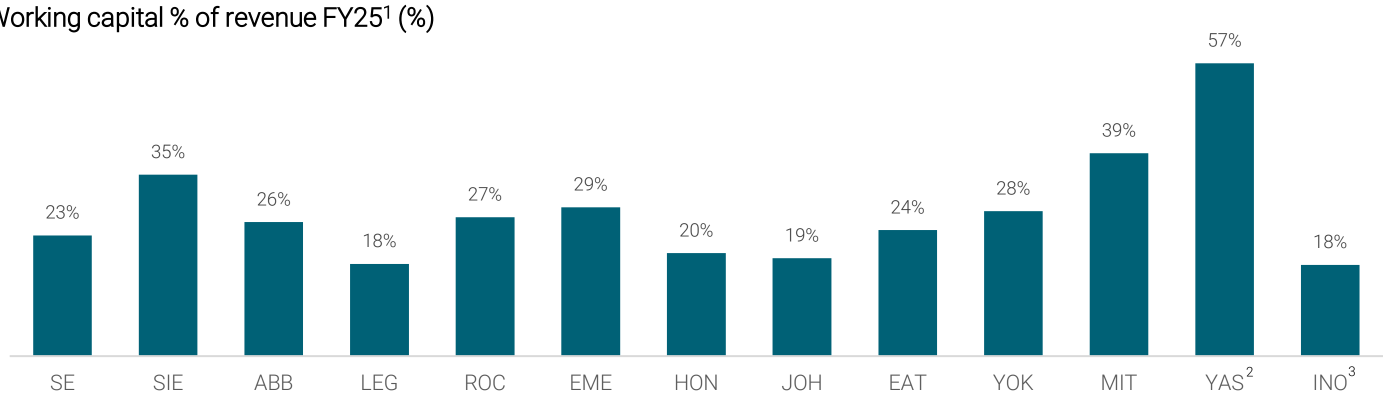
Segment suppliers and categories by criticality, risk, and innovation potential; align partnership, dual-sourcing, or competitive strategies accordingly.

Strengthen should-cost and design-to-value capabilities to address costs at the design stage and support collaborative cost-out with suppliers.

Improve planning, forecasting, and inventory policies to lower working capital while maintaining service levels.

Embed ESG and cybersecurity considerations in supplier selection and monitoring, given the convergence of operational and information technology.

Working capital % of revenue FY25[1] (%)



1. S&P Capital IQ, AlixPartners analysis 2. Yaskawa Electric shows an outlier level of working capital intensity 3. FY24 working capital balances utilised for Inovance

Optimising the network frees capacity and capital for growth

3 Geographical footprint and capacity

Many industrial automation businesses operate global manufacturing and integration footprints shaped by historical growth and acquisition patterns rather than current growth opportunities, with a long tail of smaller U.S. players and a concentration of larger European champions. As sub-segments grow at different rates and factors like regional demand, reshoring, and customer expectations shift, mismatches emerge between capacity, capability, and demand. This leaves underutilised assets in some markets, bottlenecks in others, and complex, costly logistics.

Aligning footprint and capacity to demand

Map current manufacturing, engineering, and service capacity against forecast demand by region, sub-segment and key vertical, identifying over- and under-served areas.

Define clear roles for sites (e.g., high-volume production, configured-to-order, specialist engineering, regional service hubs) to reduce duplication and complexity.

Consolidate sub-scale facilities where appropriate and invest in flexible hubs closer to growth clusters in factory and warehouse automation.

> “Companies have traditionally established their manufacturing footprint in low-cost countries (LCCs). However, with the shifting centre of gravity and rising geopolitical risks, they are now recognising the need to build resilience through a diversified footprint aligned with a 'local-for-local' strategy.”

Sudeep Suman, Strategy & Operations
Partner & Managing Director

Leaner structures and smarter deployment of AI unlock SG&A savings and agility

4 SG&A and operating model improvements

As portfolios become more software-enabled and service-intensive, demands on commercial, technical, and support functions are evolving. Many incumbents retain complex matrix structures with sizeable central functions and extensive cost allocations, which slow decision-making, dilute accountability, and hinder growth investments.

> *"The AI era doesn't reward the most complex organisation — it rewards the most responsive one. The wrong SGA and legacy structures don't just slow you down — they fund the wrong things and allocate resources in the wrong way. Most incumbents aren't losing to competitors. They're losing to their own cost allocation models and to outdated structures and slow decision-making."*
>
> Tom Gellrich, Operational Expert,
> Partner & Managing Director

Potential value creation levers

Rebalance sales efforts toward solutions and platforms, shifting technical and key account resources from small bespoke deals to larger, repeatable solution opportunities.

Streamline procurement of indirect materials and overhead services, and deploy AI in functions like R&D to improve SG&A efficiency.

Create a focused software and digital backbone, clustering product management, UX, and cloud platform teams while eliminating duplication between central and local digital groups.

Rationalise regional and segment overlays by clarifying end-to-end P&L ownership and consolidating small country organisations into lean regional hubs for support functions.

Industrialise service operations via centralised planning, tiered remote support, and better use of data to raise technician productivity and improve contract renewal and attach rates.

Preparing for consolidation through M&A activity will define the companies that lead the industry's next phase

5 Strategic M&A and portfolio management

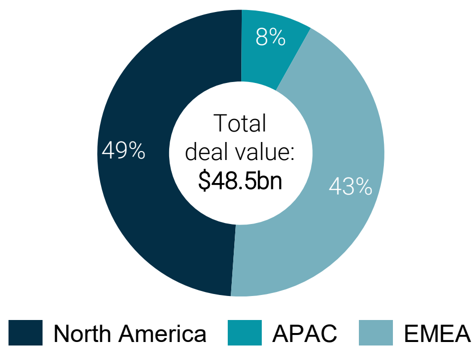
M&A remains a key feature of the industrial automation landscape, with strategic buyers and financial sponsors actively targeting assets that offer differentiated technology, strong IP, defensible niches and recurring revenues. At the same time, larger groups are reshaping their portfolios through acquisitions and selective divestments, with recent transactions highlighting shifts toward electrification and advanced controls, the build-out of precision-measurement and inspection capabilities, and the sale of non-core businesses - all against a backdrop of robust valuation multiples for high-quality automation assets.

> “*Against a backdrop of robust demand for smart factories and Industry 4.0, M&A is increasingly about building software-led platforms with recurring revenue, deepening exposure to high-growth regions such as Asia-Pacific and North America, and consolidating hardware portfolios to create scaled, end-to-end automation offerings.*”
>
> Nick Wood, Industrials M&A lead,
> Partner & Managing Director

Operational levers that establish the bedrock of a value creation plan

- Define an M&A roadmap that prioritises technologies, verticals and geographies where the business can build a defensible position over time.
- Develop a repeatable integration approach covering operations, procurement, commercial levers and support functions, with explicit cost and revenue synergy goals.
- Exit non-core or structurally weak activities to sharpen strategic focus and ensure the balance sheet and funding are set up to move quickly on attractive opportunities, including carve-outs and special situations.
- Use clear industrial logic and quantified synergy cases to select and value targets.

2025: Industrial automation deals by region (value)[1]



2025 DEAL TRENDS

- **115** deals with a financial buyer in 2025
- **8** Mega-deals[2] announced in 2025
- **Highest** # of mega-deals[2] since 2021
- **£4.5bn** Average 2025 mega-deal size

1. Mergermarket, AlixPartners analysis 2. Mega deals represent transactions where enterprise value is greater than $1 billion

Conclusion

Industrial automation is not at a cyclical low but faces structural challenges that market tailwinds alone cannot resolve. This tension creates opportunities for differentiation. Companies that act early on focused value creation plans are likely to emerge as the next generation of margin leaders and platform assets.

The companies that are prepared will shape the next phase of the industrial automation sector.

For strategic acquirers and value investors, the sector presents compelling opportunities:

- Operational targets requiring cost and efficiency turnarounds under the right playbook.
- Commercial targets with weak pricing discipline but attractive profit pools if properly managed.
- Scaled businesses with portfolio rationalisation and divestment optionality.
- Consolidation platforms where disciplined management and integration capability can unlock 15–20% cost synergies.

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