Polestar

Manufacturing & Industrial

H1 2025 Sector Review

Macro Summary: H1 2025

UK Performance

- UK economy grew 0.7% in Q1 2025, led by services, manufacturing and strong household spending; exports surged ahead of tariff changes
- Momentum slowed in Q2, with April GDP contracting 0.3% amid fiscal headwinds, labour market softness & global trade uncertainty

Global Growth Outlook

- Revised downward: The World Bank and Morgan Stanley both project global GDP growth at 2.3–2.5% in 2025, down from 3.5% in 2024
- Drivers of Slowdown:
    - Trade shocks from U.S. tariffs (10-25% baseline, with reciprocal rates up to 54% on Chinese goods) are disrupting global supply chains
    - Investment flows are weakening, particularly in developing economies reliant on export-led growth

Inflation & Monetary Policy

- Tariff-driven cost pressures remain a near-term risk, especially in sectors like electronics, automotive, and pharmaceuticals
- Policy divergence: While the BoE and ECB are cautiously easing, the Fed remains hawkish amid U.S. fiscal uncertainty and tariff-induced inflation
- Globally, inflation is predicted to ease to ~4.2% in 2025, with advanced economies returning to target faster than emerging markets – will be interesting to see how this pans out once the US's 'reciprocal' tariffs take effect in August

Sources:
Forecasts for the UK economy – a comparison of independent forecasts (HM Treasury)
World Economic Situation and Prospects 2025 – Mid-Year Update (UN
https://www.gov.uk/guidance/data-use-and-access-act-2025-data-protection-and-privacy-changes)

Sustainable Development & Inequality

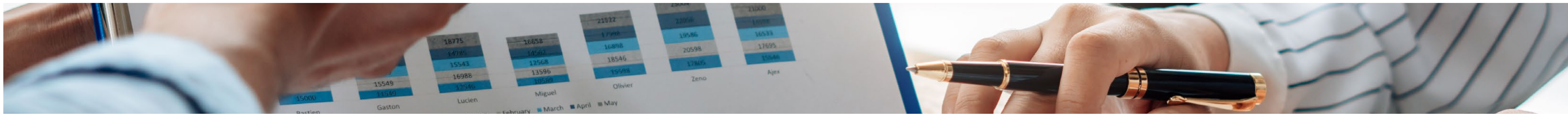
- SDG progress off track: According to the UN's 2025 SDG Progress Report, none of the 17 goals are on course to be met by 2030
    - East and South Asia show the fastest progress, while conflict-affected and fiscally constrained nations are falling further behind
- Fiscal space is a key constraint: Over half the world's population lives in countries unable to invest adequately in SDG-aligned infrastructure

Data & AI Policy Changes

- Data reform: New UK Data (Use and Access) Act 2025 (DUAA) law updates UK GDPR - requires revised privacy policies & Data Subject Access Request (DSAR) processes
- AI & automation expands opportunities across businesses but increases compliance requirements & risks
- Stricter cookie & direct marketing rules expected - prepare for consent changes
- Cross-border data provides easier international transfers, but safeguards needed. Businesses need to monitor legislation in all jurisdictions in which they operate

Strategic Implications

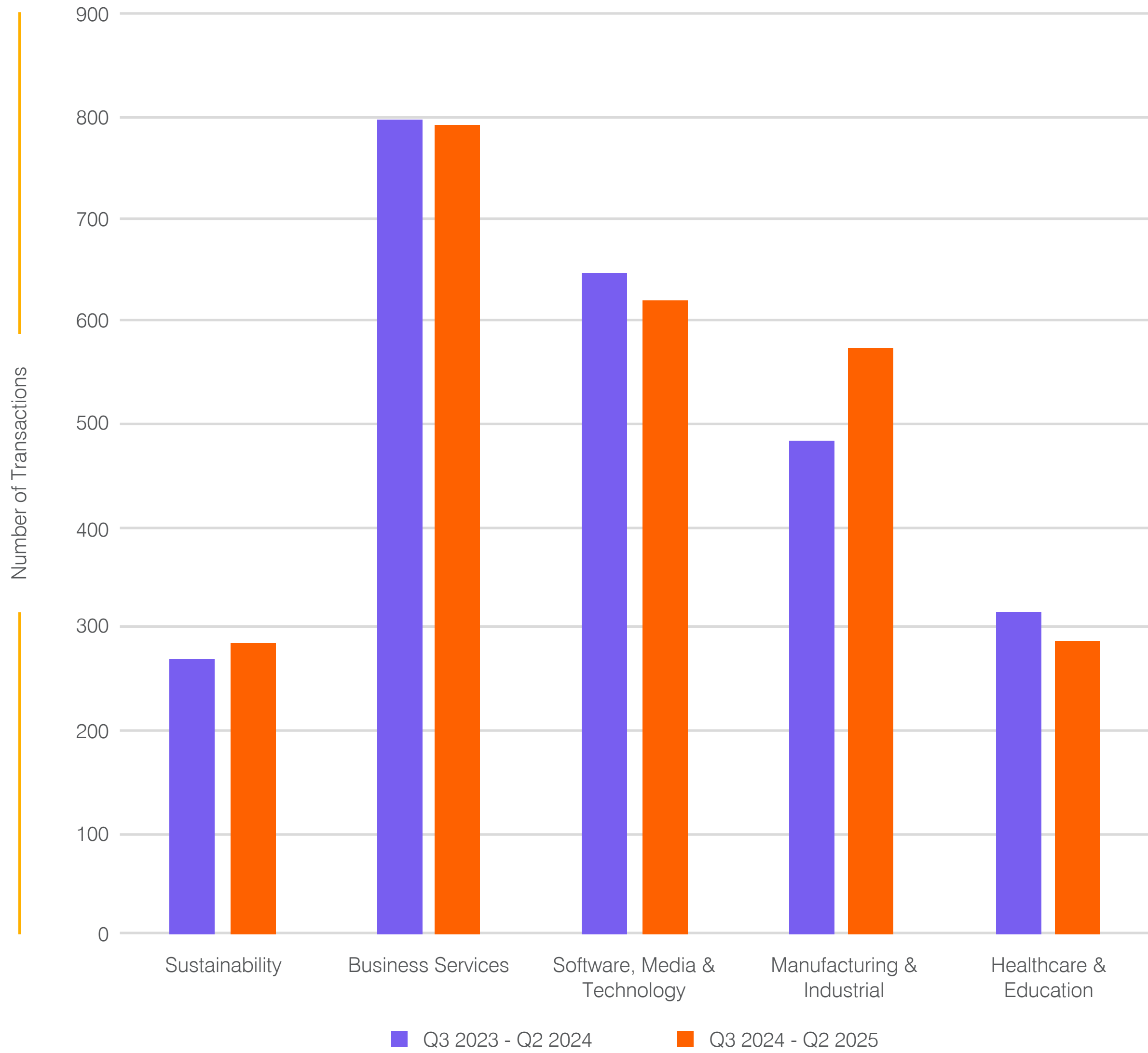
- For UK-based investors and advisors: The UK's relative macro-stability, combined with its separation from EU trade policy, may position it as a safe harbour for international capital, particularly in ESG-aligned sectors
- For legal and financial professionals: Expect heightened demand for cross-border structuring that navigates tariff regimes, and for due diligence on ESG compliance as sustainability reporting becomes a differentiator



UK M&A Overview

- Modest increase in deal activity in the UK: PE and M&A volumes saw a slight year-on-year rise overall
- Activity increased from Q1 to Q2, with momentum expected to accelerate through H2 2025
  - Boosted by rate cuts, dry powder pressure, strategic expansion, and valuation clarity
- Manufacturing & Industrial led growth: driven by tech investment, rising demand, and pro-growth policies
- Corporate buyers dominate: 62% of UK deals in H1, in line with the 2-year average of 63%
- Private Equity rebalances: Strong performance in Q1 2024 initially signalled a change in the balance across M&A landscape
  - Activity is now tracking historic norms – buyout accounts for 31% of deals in H1 with remaining 7% being follow on Growth Capital deals

UK Deal Activity Year on Year



Source: Pitchbook

Key Themes and Industry Shifts

Global Trade & Supply Chains

- U.S. tariffs of 25% on UK steel and aluminium exports have disrupted transatlantic trade
- North America drops out of UK's top 3 export markets for the first time in over a decade
- Asia and Middle East now account for over 34% of UK goods exports, up from 27% in 2023
- Firms are pivoting to EU, India, and Gulf markets to reduce tariff exposure and access stable trade terms
- Ongoing supply chain reassessment driven by tariff volatility, geopolitical risk, and cost pressures

Output & Orders

- Q1 2025 marked the first first-quarter output fall in over 10 years
- Q2 output rebounded to +9%, but new orders remain weak (–2% overall)
- Export demand improved (+7%), while UK orders stayed subdued (–1%)

Hiring & Investment

- Recruitment remains cautious: only +1% net change in headcount
- Vacancy rate fell from 2.4% to 2.0% - lowest since early 2021
- Investment intentions dropped to +2% - lowest since 2022

Inflation & Margin Pressures

- Export prices rose to +24%, UK prices held at +20%
- Profit margins remain negative for 14th consecutive quarter:
  - UK margins: - 15%
  - Export margins: - 7%

Confidence & Forecasting

- Business confidence rose to 7.1 (from 6.8) amid easing trade tensions
- Future output expectations high (+11%), but forecasts remain consistently over-optimistic

Policy & Sector Support

- Government policy (e.g. Planning & Infrastructure Bill, SME Growth Package) aims to boost key sectors
- £600m committed to train 60,000 new construction workers
- Manufacturers await new Industrial Strategy to clarify long-term support

Subsector Spotlight: Food & Drink

- Remains UK's largest manufacturing subsector—now 18.7% of GVA
- Forecast output growth of +1.6% in 2025 (vs sector average of –0.2%)

Green Transition & Net Zero Readiness

- 50% of manufacturers confident in achieving net zero
- 60% plan investment in emissions reduction; though interestingly 70% are targeting energy cost cuts
- Focus on roadmap development, risk mitigation, and green tech pivots

Sources:
https://supplychaindigital.com/logistics/uk-trade-in-2025-challenges-tariffs-and-global-expansion
https://www.usimportdata.com/blogs/us-uk-trade-deal-2025-fta-explained
https://www.britishchambers.org.uk/news/2025/07/uk-trade-stabilises-after-tariff-hit/
MAN-Report-Make-UK-BDO-Manufacturing-Outlook-Q2-2025

How are business owners navigating these current challenges?

1 **Reassess Strategic Forecasting**
- Avoid overestimating demand: Tighten forecasting models and scenario planning.
- Align output with actual orders: With output outpacing orders, avoid overproduction that could strain working capital.

2 **Protect Margins Proactively**
- Review pricing strategies: With input costs and export prices rising, ensure pricing reflects true cost pressures without alienating customers.
- Audit cost structures: Focus on energy efficiency, logistics optimisation, and supplier renegotiation to offset margin erosion.

3 **Prioritise Smart Investment**
- Pause doesn't mean paralysis: While investment intentions are low, now is the time to prioritise ROI-positive upgrades, especially in automation and digitalisation.
- Model capex scenarios: Use predictive tools to assess long-term gains from short-term capital decisions.

4 **Diversify Trade Exposure**
- Reduce reliance on the US: With North America falling out of the top three export markets, explore opportunities in Asia, the Middle East, and the EU.
- Strengthen supply chain resilience: Map critical dependencies and consider nearshoring or dual sourcing to mitigate tariff and logistics risks.

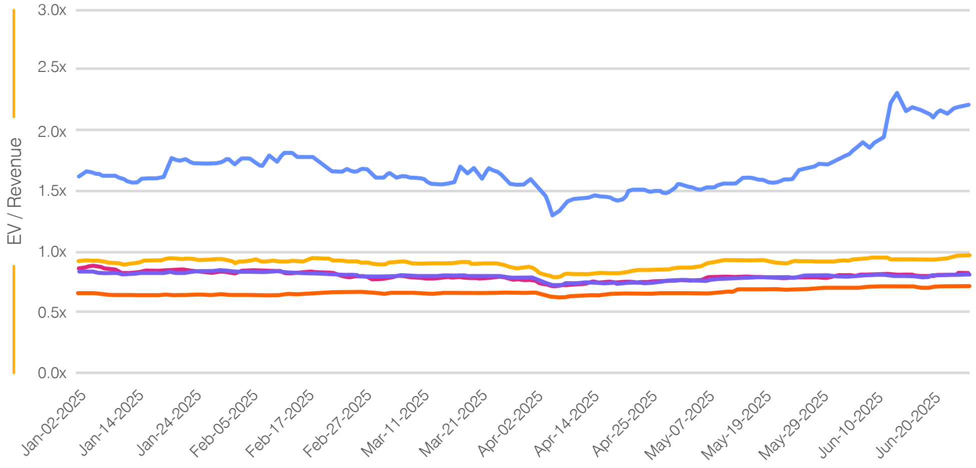
5 **Address Workforce & Skills Gaps**
- Upskill existing teams: With vacancy rates falling but skills shortages persisting, invest in training aligned with automation and green tech.
- Leverage government schemes: Tap into funding from the SME Growth Package and construction skills initiatives where relevant.

6 **Build a Net Zero Roadmap**
- Develop a clear decarbonisation plan: Even if full transition feels distant, start with low-cost wins and publish your intent. Consider the impact of terminology and focus reducing energy usage will drive both sustainability and efficiency objectives.
- Model climate-related risks: Assess exposure to regulatory, physical, and reputational risks tied to sustainability.

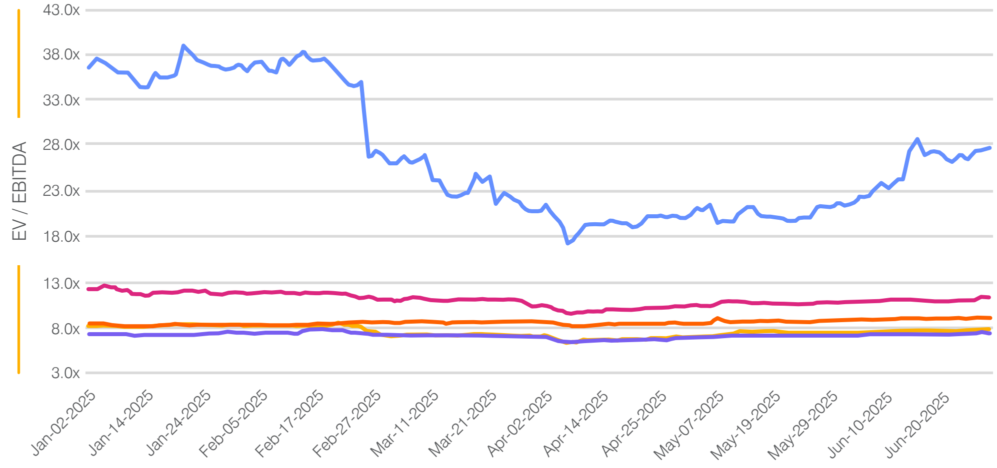
7 **Engage with Policy & Industry Bodies**
- Stay close to industrial strategy developments: The upcoming UK Government strategy could unlock support—be ready to act.
- Collaborate with peers: Join sector groups (e.g. Make UK) to share insights, influence policy, and access collective resources.

Public Markets

H1 2025 Revenue Multiples



H1 2025 EBITDA Multiples



Aerospace | Industrial Technology | Specialist Manufacturing | Food Production | Print & Packaging

Source: CapIQ

Aerospace Focus:

Aerospace Sector Volatility – Feb 2025

- Tariff Uncertainty: A 10% U.S. tariff on UK aerospace goods, with no exemption in place, triggered investor anxiety – including insider selling of shares within Polestar's tracked companies
- Ongoing UK-US negotiations for a sector-specific exemption created further uncertainty.
- Equity prices for aerospace firms dipped between Feb 24 - 26, reflecting fears of prolonged cost pressures.

Aersopace EBITDA Multiples fell more sharply than Revenue Multiples

- EBITDA is margin-sensitive: Rising input and wage costs compressed profitability.
- Revenue remained stable: Long-term contracts buffered top-line volatility.

Growth Drivers in Aerospace:

- £250M+ UK Government & Industry Investment in green aerospace tech (e.g. hydrogen flight, laser manufacturing, gas turbines)
- £975m Five-Year Plan to support innovation and high-skilled jobs in aviation
- Innovation in drones fuelling UK startup ecosystem: UK Government pledged £20M for drones to accelerate commercialisation
- Sector supports 100,000+ jobs and contributed £13.6bn to UK economy in 2024

Other Verticals:

- EBITDA multiples largely steady
- Slight decline in Specialist Manufacturing & Industrial Tech in early Q2 due to:
  - Rising input costs
  - Supply chain disruptions

  although players have now recovered.
- Food production and print & packaging revenue broadly flat over the period

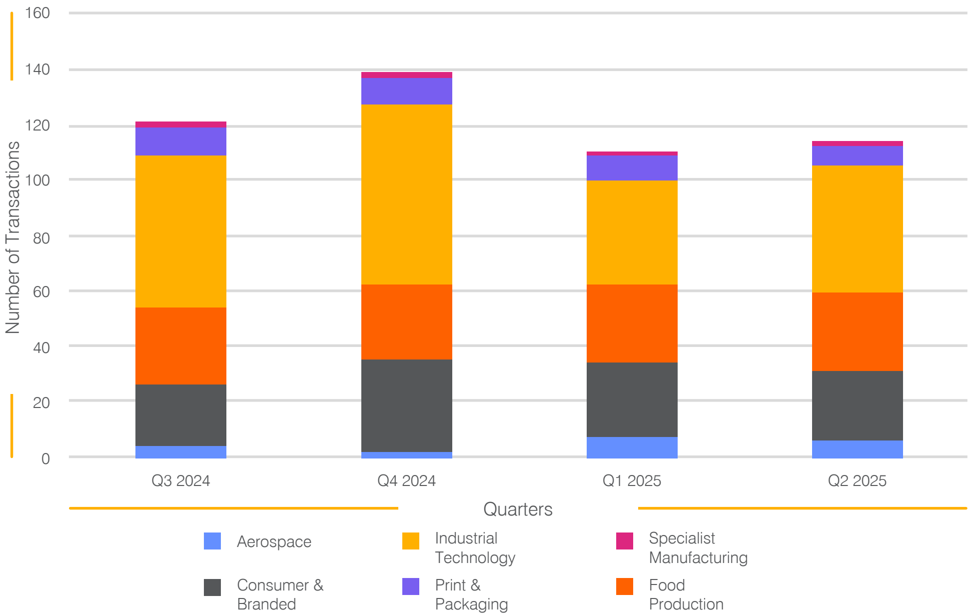
Outlook

- Trade and economic pressures suggest cautious sentiment
- Potential for further compression in valuations if tensions persist
- Strategic pricing and cost control remain critical

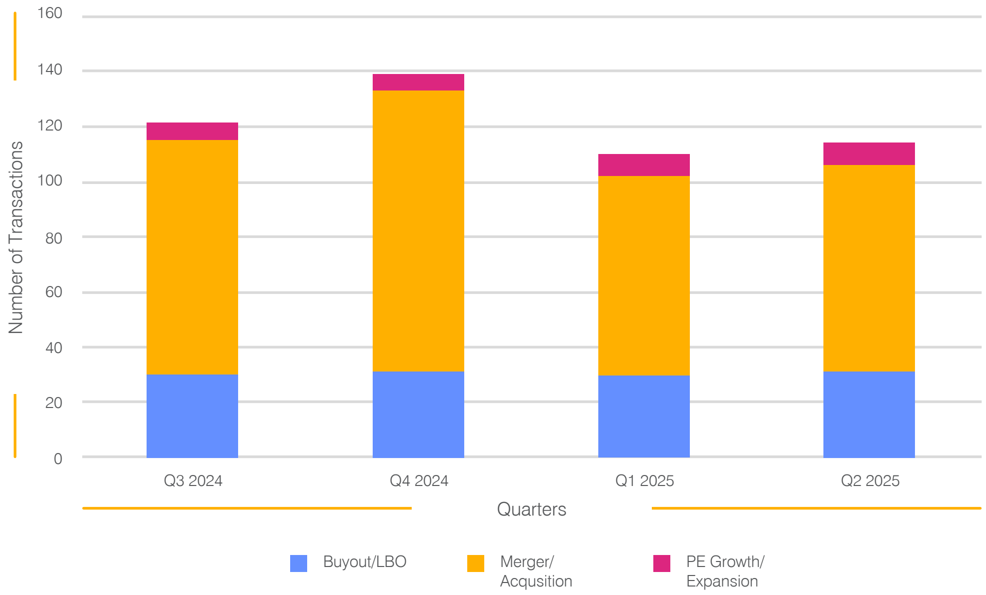
Sources:
https://www.gov.uk/government/news/british-aerospace-manufacturers-to-benefit-from-uk-us-trade-deal
https://www.ainvest.com/news/navigating-uk-trade-tariffs-sector-vulnerabilities-opportunities-volatile-landscape-2507/
https://www.adsgroup.org.uk/facts-figures/adsaerospaceoutlook2025/

M&A Activity

Manufacturing & Industrials Deals by Subsector



Deals by Type



Source: Pitchbook

- Food production companies, particularly breweries, face cost pressures and some are becoming insolvent. A total of 43 UK breweries became insolvent in the year to the end of February 2025. Many small independent craft beer producers are being snatched up by consolidators such as Keystone Brewing Group (a firm which specifically invests in breweries) - as is apparent on the following slide!
- PE firms investing in companies through platform investments to grow UK footprint and acquire new capabilities, diversify offerings, and enhance competitiveness. PE deals made up 34% of deals in Q1 2025, compared to 26% in Q4 2024
- UK manufacturing firms continue to attract significant overseas investment, particularly in food production and specialist manufacturing

Source: https://www.uhy-uk.com/insights/43-breweries-become-insolvent-2024-uk-craft-beer-market-faces-overcapacity

Active Investors & Acquirors

Active Investors

Investor(s)	Co-investor/Add-on Sponsor	Target	Acquisition Date	Deal Type	Subsector
Compliance Group Electrical Ltd.	Ansor	Abbot Fire Group	05/02/2025	Buyout/ LBO	Industrial Technology
Kaleidex Group	Ansor	Oracle Precision	28/03/2025	Buyout/ LBO	Industrial Technology
PrimeFlight	Adams Street Partners, Bain Capital, Capitol Meridian Partners, Main Street Capital, The Sterling Group	Airworld Handling	28/01/2025	Buyout/ LBO	Industrial Technology
PrimeFlight	Adams Street Partners, Bain Capital, Capitol Meridian Partners, Main Street Capital, The Sterling Group	Airbase GSE	27/02/2025	Buyout/ LBO	Aerospace
The LD Group		C Brown Steel	01/05/2025	Buyout/ LBO	Industrial Technology
The LD Group		Gills Meat Products	01/05/2025	PE Growth/ Expansion	Food Production
Literacy Capital		The Welsh Sausage Company	09/04/2025	Buyout/ LBO	Food Production
Langford's The Welsh Sausage Company	Literacy Capital	Red Sky Food Group	09/04/2025	Buyout/ LBO	Food Production

Active Acquirors

Acquiror	Target	Acquisition Date	Subsector
Heat and Control	Tek-Dry Systems	08/04/2025	Industrial Technology
Heat and Control	Hunt Heat Exchangers	08/04/2025	Industrial Technology
Heat and Control	Fabcon Food Systems	02/06/2025	Industrial Technology
OSI Food Solutions UK	Yorkshire Premier Meat	07/02/2025	Food Production
OSI Food Solutions UK	Smithfield Murray	11/02/202	Food Production
Powder Monkey Brewing Co.	Goddards Brewery	21/01/2025	Food Production
Powder Monkey Brewing Co.	Empress ALE	18/03/2025	Food Production
Powder Monkey Brewing Co.	Castle Eden Brewery	22/05/2025	Food Production
The Albex Group	Fiddes Payne	21/02/2025	Food Production
The Albex Group	Cheesegeek	17/03/2025	Food Production
Keystone Brewing Group	Fourpure Brewing	28/01/2025	Food Production
Keystone Brewing Group	Magic Rock Brewing	28/01/2025	Food Production
Keystone Brewing Group	North Brewing	06/02/2025	Food Production
Keystone Brewing Group	Wolf Pack	01/03/2025	Food Production

Source: Pitchbook

UK Deals in Manufacturing & Industrial

Target	Deal Date	Deal Size (£m)	Post Value (£m)	Valuation/EBITDA	Valuation/Revenue	Deal Type	Investor/Acquiror	Subsector
Skyral Group	04/06/2025	14.9				PE Growth/Expansion	Accrete Capital, NOIA Capital	Aerospace
Wild (Personal Products)	10/02/2025	230	230	209x	4.9x	Merger/Acquisition	Unilever	Consumer & Branded
Factor Bikes	11/03/2025	30.2	57			Merger/Acquisition	VSI Cycling Limited, Zhonglu Company	
Matalan Retail	22/04/2025	25				PE Growth/Expansion	Invesco, Man Group, Napier Park Global Capital, Tresidor Investment Management	
Staircraft Group	01/05/2025	24	24			Merger/Acquisition	Gait Consulting	
Fort Products	06/02/2025	7.8	7.8			Merger/Acquisition	Impact Acquisitions	
Jigsaw (United Kingdom)	04/04/2025	5	5		2.1x	Merger/Acquisition	Carphone Warehouse Group	
Servern Thermal Solutions	06/06/2025	4.8	4.8			Merger/Acquisition	SDI Group(Scientific Digital Imaging)	
James T.Blakeman & Co	16/05/2025	27.3	27.3	5.6x	0.4x	Merger/Acquisition	Cranswick	Food Production
Ambala Foods	12/03/2025	22	22			Merger/Acquisition	Eggfree Cake Box	
Grind (Beverages)	03/02/2025	10				PE Growth/Expansion	Undisclosed Investor	
Titanic Distillers	18/02/2025	5				PE Growth/Expansion	Whiterock Finance	
Harry Brompton's	22/04/2025	2				PE Growth/Expansion	Traditum	
The Black Farmer	15/01/2025	0.8				PE Growth/Expansion	Bibby Financial Services	
Hoxton Spirits	28/05/2025	0.3	0.3			Merger/Acquisition	Boutique Spirits Co	
Tobago Gold	15/01/2025	N/A	N/A			Merger/Acquisition	Your Success Counts	
De La Rue	15/04/2025	263	263	6.8x	1.0x	Buyout/LBO	Atlas Holdings	Industrial Technology
Renold	13/06/2025	186.7	186.7	5.2x	0.8x	Buyout/LBO	MPE Partners, Webster Industries	
FreeNow	16/04/2025	152	152			Merger/Acquisition	Lyft	
Carr's Group (Engineering Division)	15/01/2025	75	75		1.0x	Merger/Acquisition	Cadre Holdings	
FES International	24/06/2025	50	50	8.5x	1.7x	Merger/Acquisition	Hunting	
SludgeTEK	28/04/2025	6.2	6.2		1.2x	Merger/Acquisition	Marlowe	
Serinus Energy	24/03/2025	5.1	7.3		0.6x	Buyout/LBO	Xtellus Capital Partners	
Scotmas	15/01/2025	2.2	7.80			PE Growth/Expansion	Maven Capital Partners (Glasgow), Scottish Enterprise	
Inscapes	25/03/2025	0.1				PE Growth/Expansion	UK Steel Enterprise	
The Pitreavie Group	13/01/2025	18	18			Merger/Acquisition	Macfarlane Packaging	Printing & Packaging
Arrow Film Converters	01/04/2025	0.4	0.4			Merger/Acquisition	Film and Foil Solutions	

Source: Pitchbook