In June, we attended ACG's 12th Annual Industrial Conference. Here are five of our top takeaways from Jonathan Cooper's presentation on **'Future of Middle-Market Manufacturing'**

Prepared by TresVista

5 THINGS YOU MISSED –

1 **Transparency in the Middle-Market Industrials Environment:** Companies in the middle-market industrials space are becoming more transparent in terms of operations and financial disclosures. A major catalyst driving greater transparency is the shift in corporate ownership. With private equity accounting for a growing share of such businesses in the US (as opposed to publicly listed companies), and with ESG considerations a major factor for LPs, PE firms are coming under increasing pressure to disclose how returns are being derived from operating companies. Then as competition for the same pool of capital increases, the balance of power with respect to reporting requirements is shifting from GPs to LPs, resulting in increased levels of transparency.

2 **ESG Compliance:** In the past, companies were shielded from adverse publicity due to the relative obscurity of the middle-market industries, or because most of these businesses were family-owned. However, with the growing participation of private equity in ownership, LPs require more transparency to ensure that activities that could potentially damage the reputation of the institution are avoided. This is bound to create pressure on the GPs as they would also have to account for reputational risk. Therefore, the responsibility of complying with ESG considerations, in terms of energy usage, carbon footprint, diversity, and other concerns, falls on the operating company.

3 **Increasing Interest from Public Investors:** The need for greater transparency is also set to increase due to rising interest from public investors. With passive investing taking prominence in the public markets, most active management is now taking place in the private markets with public investors increasingly vying for a piece of it. The SEC is also expected to make necessary accommodations to widen private equity and accept investments from the general public. When this happens, transparency will become even more important.

4 **Shifts in the Supply Chain:** The U.S., over the next few years, is expected to become less open to international relations, indicating several implications for middle-market manufacturing. For example, China has a prominent role in the U.S. middle-market manufacturing supply chain, and any change in tariffs could result in a reconfiguration of the supply chain. Overall, managing the supply chain is expected to become more challenging, with material costs, labor costs, and freight costs all expected to rise. In addition to this, procurement as an area of focus is rising in prominence. Optimal procurement can get new products to market faster, reduce working capital/inventory requirements. With the cost of associated technology decreasing, the attendant benefits are even more compelling.

5 **Addressing Shortages in Skilled Labor:** While experts debate that the advent of technology would lead to layoffs, middle-market manufacturers are currently facing an acute shortage of qualified workers. Addressing the mismatch in required versus actual skills will be key for middle-market manufacturers. In general, while automation displaces human effort from physically demanding jobs, the requirement for higher-value work remains, and so management should be committed to upskilling workers to carry out these higher-value tasks.