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Industrials dealmakers buoyed by infrastructure spending and AI demand

16 Jul 2026 | 17:46 BST | United Kingdom | Construction/Bldg Prods-Engineering/R&D
Mergermarket | Proprietary

by Georgina Barnard and Izaz Ansari

- 1H26 deal volume surges to EUR 75.4bn
- AI spurs investment in infrastructure, heavy industrials segments
- Defence dealmaking booms, struggling automotive sector on brink of consolidation wave

European dealmaking's strong first half has boosted rainmaker optimism as capital flocks to defensive targets and the industrial build-out of power and digital infrastructure.

Deal volumes soared by 156% to EUR 75.4bn in 1H26, up from EUR 29.5bn in 1H25, the highest volume since 2022 despite the sector battling energy shocks, soft domestic demand and ever-intensifying competition from China.

The numbers are massively lifted by one deal; German lift manufacturer Kone's proposed EUR 29.4bn acquisition of sponsor-backed peer TK Elevator, following a heated dual-track process that nearly saw this stolid industrial manufacturer hit the public markets.

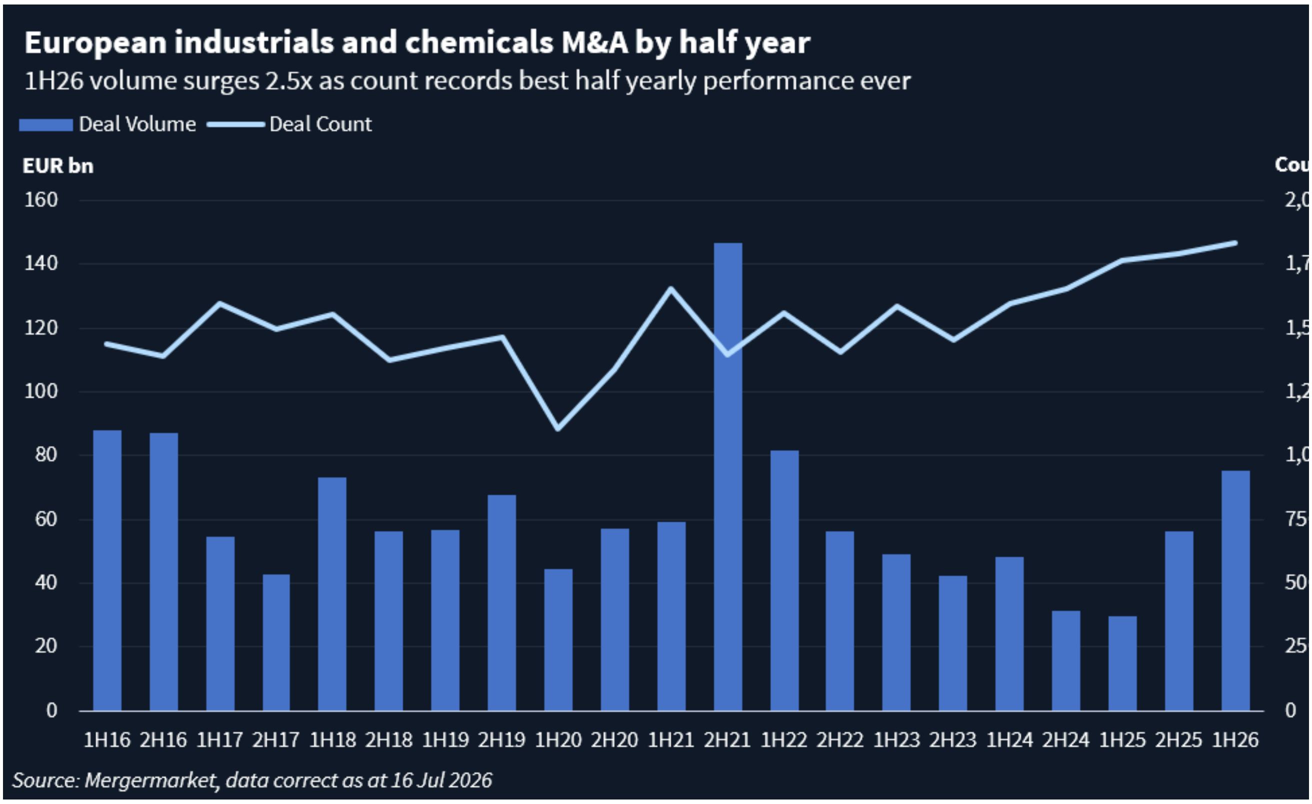
The deal led to a standout year so far for sponsor exits, which stands at EUR 39.9bn across 77 deals, the highest volume on *Mergermarket* record.

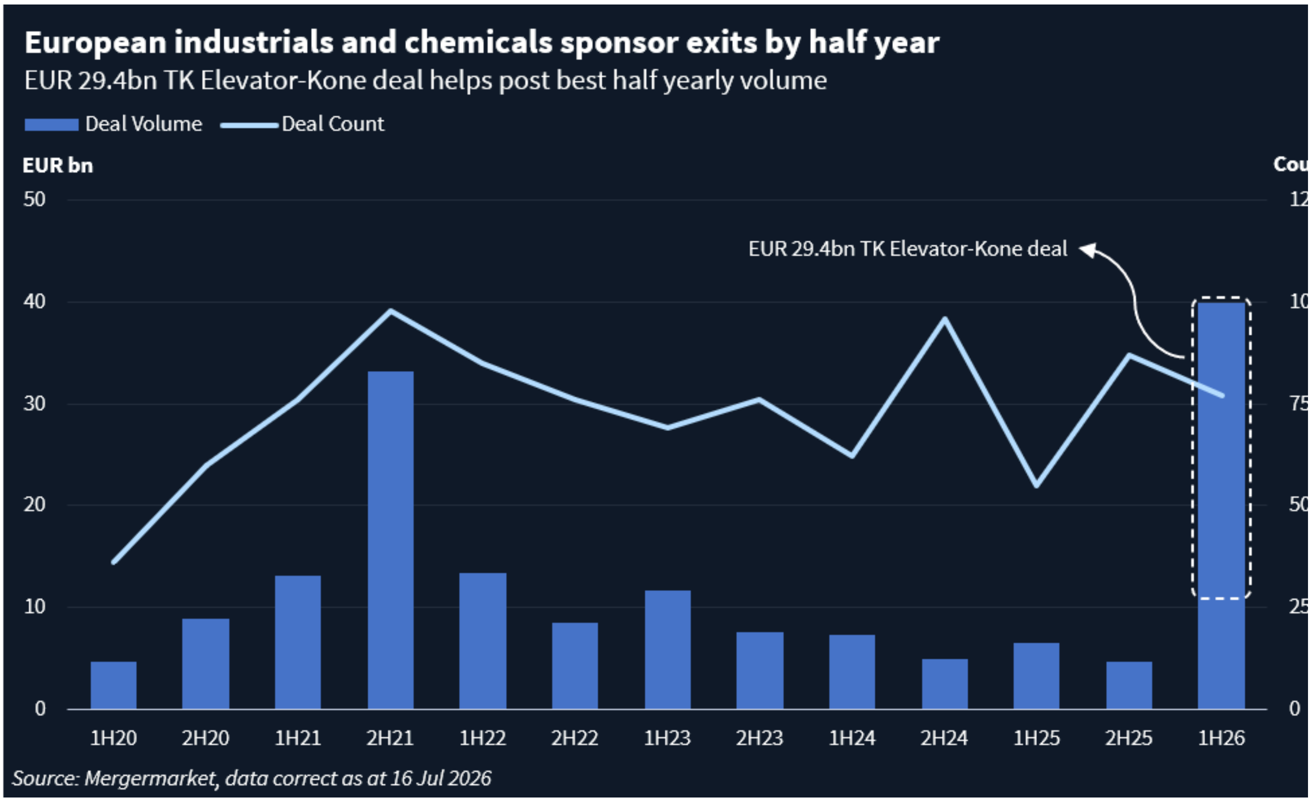
And transactions are getting bigger, with those exceeding EUR 1bn accounting for 77% of total volume YTD26, compared to 40% in 1H25, *Mergermarket* data show.

Swedish private equity giant EQT's proposed GBP 9.5bn takeover of London-listed product testing business Intertek was another a standout deal, reflecting robust private equity appetite for resilient services assets.

"So many UK players are trading below their intrinsic value which is triggering a rise in take-privates. The trend isn't going away; there's more to come, particularly US and Europe-based companies acquiring UK targets," said Spyros Svoronos, Barclays global head of industrials.

PE firms with record levels of pent-up dry powder are capitalising on a more sanguine rate environment, funnelling capital into heavy industrials segments like machinery and construction.





AI gets physical

The SaaS-pocalypse may still dominate a doomy technology sector narrative but the physical build-out of data centres and their respective demand for power and connectivity is a key reason why industrials M&A volumes and valuations remain strong.

AI is rapidly re-shaping the industrials and services space, particularly infrastructure and utilities equipment and services, as investors channel capital into grid modernisation and data centre development.

“Anything downstream from AI is benefitting. It’s a big positive for data centre construction and the materials, infrastructure, cooling, writing and electricity distribution required,” according to Svoronos.

A slew of recent transactions have attracted strong sponsor interest. In June, this news service reported that PE firm Triton was poised to launch an auction of UK-based infrastructure services contractor O’Connor Utilities (OCU). Triton is likely to seek a valuation in the GBP 1.5bn-GBP 2bn range, according to a source cited, as previously reported.

OCU peer OMERS-backed utility service provider Network Plus was recently snapped up by sponsor Warburg Pincus following a hotly contested, PE-led auction with OMERS marketing the business off an EBITDA of GBP 70m.

“It’s hard to see a sector within industrials that’s being negatively impacted by AI,” said Svoronos.

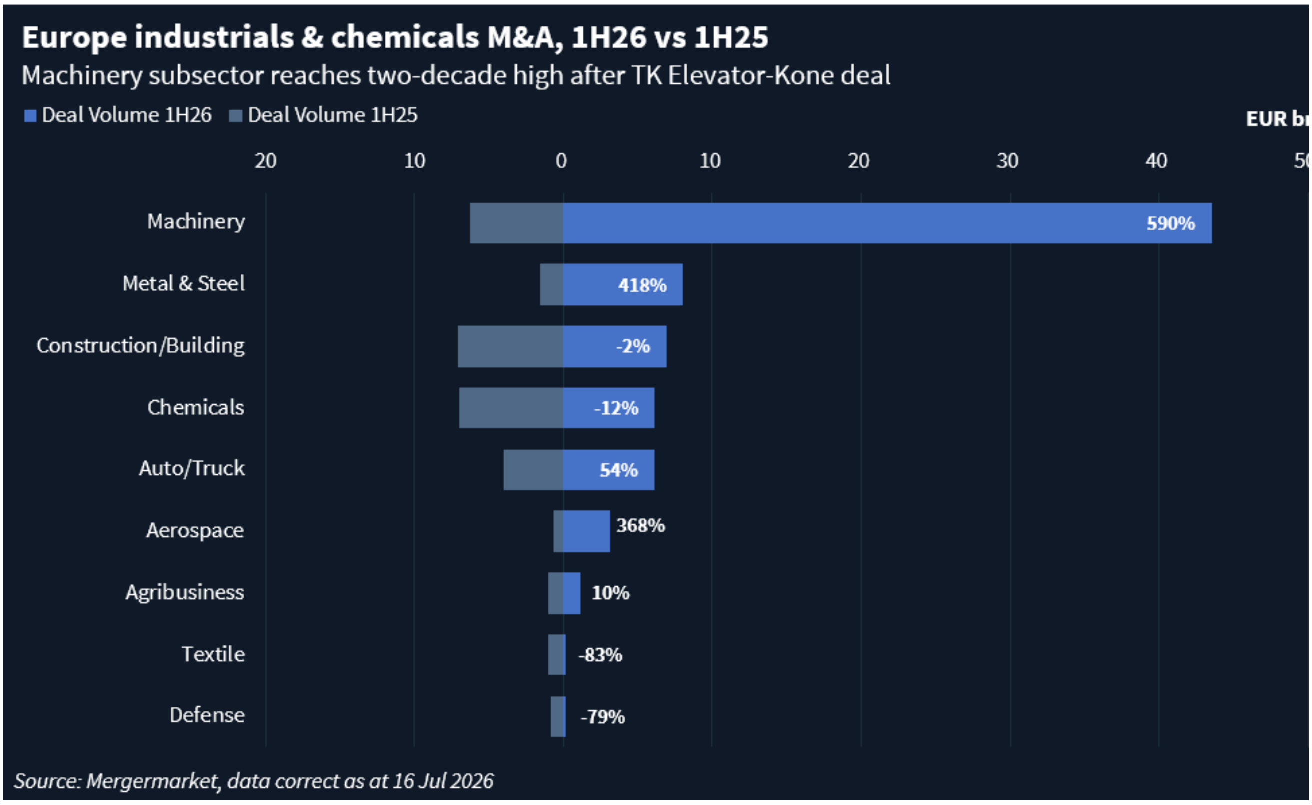
AI is fuelling dealmaking across engineering and construction verticals as incumbents scramble to secure market share, and initiatives like the European Commission’s EUR 500m smart factory roll-out, part of its EUR 2.6bn AI Innovation package, buoy public investment.

Deal volumes in the machinery segment contributed 58% to overall sector volume in 1H26, hitting its highest ever volume of EUR 43.5bn and supercharged by the TK Elevator deal.

A potential EUR 5.7bn carveout of the Siemens Energy Compressor unit reflects a growing trend of corporate right-scaling as industrial conglomerates re-calibrate portfolios in choppy markets.

Investor appetite for industrials targets related to energy security, grid infrastructure and defence remains strong and has driven a spate of mid-cap sale processes.

The sale of SCF Partners-backed valves and gas turbine solutions company Score Group, for example, has seen strong sponsor interest due to its exposure to these markets, with OrbeNovo Capital in poll position to acquire the business.



Investors bet big on small, AI defence plays

Europe's burgeoning defence sector continues its upward march amid global turmoil as record-high military budgets and pressing demand for AI-based warfare systems catapults valuations and fuels dealmaking.

European land defence giant KNDS's announcement in early July that it had postponed a highly anticipated planned IPO might have dashed market hopes, but savvy investors are betting big on smaller, AI-driven defence equipment manufacturers across Europe.

"Modern innovative defence systems are high on the investor agenda. Any asset related to electronic warfare, including innovative communication systems and, crucially, systems that continue when GPS has failed, are highly attractive," according to Richard Tall, partner at law firm Faegre Drinker's corporate team.

"Countries are having to rapidly adapt their defence systems, so any company that addresses that speed of availability is very hot right now," he said.

The drone market continues to fly, with government initiatives, such as the UK's GBP 5bn drone transformation plan, bolstering demand.

"Autonomy is the cornerstone of existing and future defence strategies, not just the equipment but how it is used as it is not as simple as plug and play," Tall said.

Emerging defence technology players across Europe are leveraging the surge in investor interest. Stark Defence, a German military drone start-up, has raised EUR 500m, valuing the loitering munitions maker at more than EUR 3.5bn. Meanwhile, reports have emerged around a potential merger between Stark and domestic peer Quantum Systems or other targets.

In the Netherlands, defence start-up Destinus has invited banks to pitch for global coordinator roles ahead of a potential listing in 2027, as reported by this news service in May.

European defence majors are also beefing up their tech offering by forging partnerships and joint ventures (JV) with tech providers. German defence and security conglomerate Rheinmetall announced in April it had struck a JV with Destinus to produce missile systems and rocket artillery.

Distressed-driven M&A expected in Europe's strained auto sector

Europe's distressed automotive sector is undergoing a seismic shift as sector majors, squeezed by high energy costs, and under pressure from the transition to EV vehicles and competition from Asia, carve out legacy assets and launch large-scale refinancing efforts to salvage balance sheets.

And the sector is primed for further consolidation as these pressures increase, according to Svoronos. "The deterioration in the automotive market, particularly in Germany and France, will prompt a wave of consolidation among auto suppliers, and possibly also OEMs in the coming year," he said.

Sector giant Volkswagen announced earlier this month a 51% stake sale in engine maker Everllence to Bain Capital for EUR 7.4bn. The move comes as the German auto maker announces plans close factories and axe hundreds of thousands of jobs.

"In many cases you're going to go from seven to three or four players - it's an area to really keep an eye on. The need to cut costs and deal with the Chinese threat will become so acute that people will have to make difficult decisions."

One beacon of hope in the strained sector is an apparent rise in investment in family-owned companies, Svoronos noted. “We are finding that PE sponsors are looking to provide liquidity to family and quasi-family-owned industrials players. It remains to be seen whether this is just episodic or a longer-term trend.”

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