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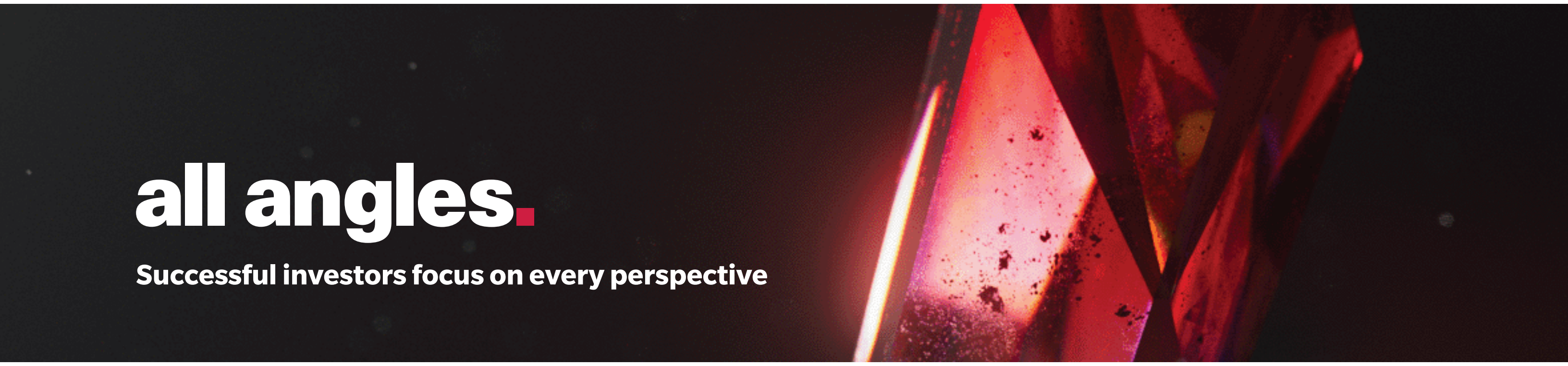

FEATURING

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PODCAST

Beyond Tech: How Innovation is Driving Growth in Industrials

Key takeaways

- **Industrials are shifting from cyclical businesses to innovation-led growth stories.** A sector once defined by lean operations and modest organic growth is being reshaped by electrification, automation, and labor shortages into a genuine growth story.
- **Durable growth drivers extend well beyond building AI datacenters.** Grid modernization, reshoring, defense and aerospace, and infrastructure investment are durable demand drivers with their own momentum.
- **A new playbook rewards speed, proximity, and recurring revenue.** Companies that localize production, invest in R&D, and prioritize customer relationships are best placed to compound over the next decade.

For years, industrial companies were viewed as slow, cyclical businesses: useful ballast for a portfolio, perhaps, but rarely a source of excitement. That picture is changing. We believe the sector is in the early stages of a genuine reappraisal, one in which artificial intelligence is an important accelerant but far from the whole story. Electrification, reshoring, defense spending, and the renewal of aging infrastructure are converging with AI-driven demand to create a broader opportunity. However, the rewards are unlikely to be distributed evenly.

Industrials are evolving from cyclical businesses to innovation-led growth stories

Industrial companies historically generated earnings growth primarily through lean manufacturing, margin expansion, and disciplined capital allocation. It was a model built to optimize existing businesses, not to invest ahead of new sources of demand. That formula is being rewritten.

Labor shortages, electrification, and the scale of AI-related capital spending are forcing companies to compete on innovation rather than cost alone. This shows up in tangible ways: order books and backlogs are inflecting in end markets that had been dormant for years, and management teams that once hesitated over capacity expansion are now approving new investment because demand finally justifies it. Companies willing to invest and adapt stand to benefit; those still optimizing for margin alone risk being left behind.

Practical application: We believe this shift changes what investors should look for in industrials. Rather than screening for cheap, asset-heavy businesses, our research prioritizes evidence of a genuine change in company culture evidenced through facility visits, management meetings, and direct conversations with segment leaders.

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Durable growth drivers extend well beyond building AI datacenters

It is tempting to treat the industrial upswing as simply an AI story, but we think that oversimplifies the narrative. Some demand, such as off-grid power generation or liquid cooling built specifically for chips, is genuinely new and AI-specific. A larger portion, however, was already being built before generative AI captured headlines and has simply been accelerated by it.

Grid hardening reflects decades of underinvestment in US electrical infrastructure. Reshoring is being driven by supply-chain resilience, national security, and the desire to sit closer to the customer. Commercial aerospace and defense are moving through what we would characterize as a genuine super-cycle of their own.

Practical application: Separating durable secular demand from an AI-specific spike requires a global, cross-sector research platform. Our industrials analysts collaborate with energy colleagues on power-capacity forecasts, work alongside technology teams to model AI-related demand, and draw on insight from analysts in Asia, where robotics and automation adoption is further along. This helps build conviction as to which end markets can sustain momentum even as headline AI narratives evolve.

A new playbook rewards speed, proximity, and recurring revenue

The old industrial playbook rewarded companies that could manufacture almost anywhere, at the lowest possible cost, and ship the finished product back to the end market. That approach is losing relevance. Today, value increasingly accrues to companies willing to spend capital closer to their customers, even where near-term returns are less compelling, in exchange for faster delivery, tighter collaboration on new products, and longer relationships. Execution now matters more than ever.

Recurring revenue is also becoming a more important marker of quality. Long-term service contracts can deliver revenues of 2 to 10 times the original equipment sale, providing higher margins and more predictable cash flow over a decade or more. We believe these continuing revenue streams deserve a premium relative to more transactional, one-time sales. At the same time, skilled labor, not capital, has emerged as a binding constraint for many businesses. Companies that have built their own training pipelines or trade-school partnerships are proving better positioned to scale.

Practical application: We look for management teams that reinvest free cash flow into capacity, R&D, and acquisitions that deepen customer relationships. We also apply the same risk-management discipline to valuation, avoiding businesses priced as though today's exceptional demand must persist indefinitely.

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Conclusion

For long-term investors, the opportunity is not simply to own the AI infrastructure trade. Instead, it is to identify the industrial companies whose products, service models, and customer relationships make them essential to the next decade of physical investment.

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