Europe: A New Era in Defence Spending

Financial and Valuation Advisory—October 2025

The European defence industry is experiencing a renewed interest from private investors, driven by the evolving political landscape and renewed strategic priorities.

The ongoing war in Ukraine, coupled with the United States' calls for increased defence spending from European NATO members, has underscored the urgency of reviewing and strengthening defence capabilities across the continent.

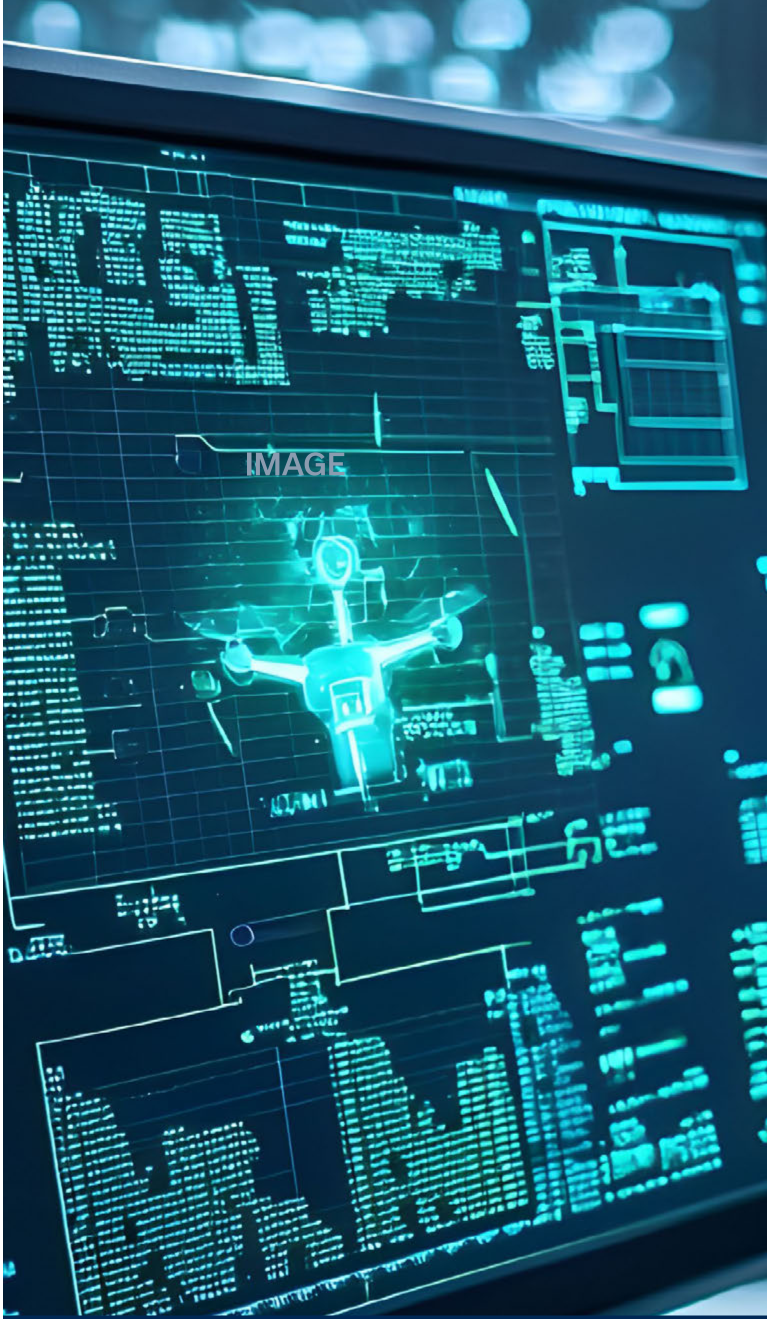
Following years of underinvestment, numerous EU member states and the United Kingdom have committed to significantly increasing their defence budgets. The European Commission launched the Readiness 2030 initiative in 2025, aiming to mobilise €800 billion for European defence over the decade.

As a result, the European defence sector is increasingly recognised as a strategic pillar of European policy. While national defence champions are expected to see direct upside from increased government spending, companies developing dual-use technologies—such as AI, drones, cybersecurity, and quantum computing—are increasingly seen as strategic assets, drawing significant interest from both financial sponsors and industry players.

For investors, Europe's evolving policy landscape presents both opportunities and challenges, particularly in reconciling investment prospects with ESG considerations and public sentiment.

Source: European Parliamentary Research Service.

The Defence Funding Gap: SMEs and Mid-Caps



One of the key findings of the 2024 Draghi Report[1] is the limited access to financing faced by the European defence sector, particularly for SMEs and mid-caps.

Defence startups in Europe can access a variety of funding instruments at both the EU and member-state levels—typically a mix of grants, venture capital, and venture debt.

However, these opportunities tend to diminish as companies grow into the SME and mid-cap range, where traditional bank financing is typically expected. For example, prior to May 2025, the EU did not have a dedicated funding category for mid-caps.

For defence-related businesses, access to such financing is often hindered by how financial institutions interpret the EU's sustainable finance and ESG frameworks. These interpretations can result in heightened reporting and monitoring obligations or, in some cases, lead to a complete refusal to provide funding to defence companies.

Moreover, the complex regulatory environment surrounding defence industrial activities and procurement processes acts as an additional barrier to entry for potential investors.

The majority of European defence mid-caps are required to comply with regulations designed for larger corporations, creating a disproportionate compliance burden.

(1) The Draghi Report, formally titled The Future of European Competitiveness, was commissioned by the EU and presented by Mario Draghi in 2024. It underscores the strategic importance of defence and security as foundational pillars of European resilience.

Barriers to Entry in the European Defence Sector

Capital Intensity:
Significant upfront investments are required for infrastructure and production.

Long Investment Horizon:
Extended development timelines for new technologies.

Confidentiality Constraints:
National security concerns limit investor access to sensitive company data.

Regulatory Fragmentation:
Each EU member state has historically maintained its own defence regulations and procurement, complicating cross-border operations and limiting exit opportunities for private equity investors.

Sustainable Finance Ambiguity:
A long-standing lack of clarity on whether defence investments align with the EU's sustainable finance framework has hindered access to capital.

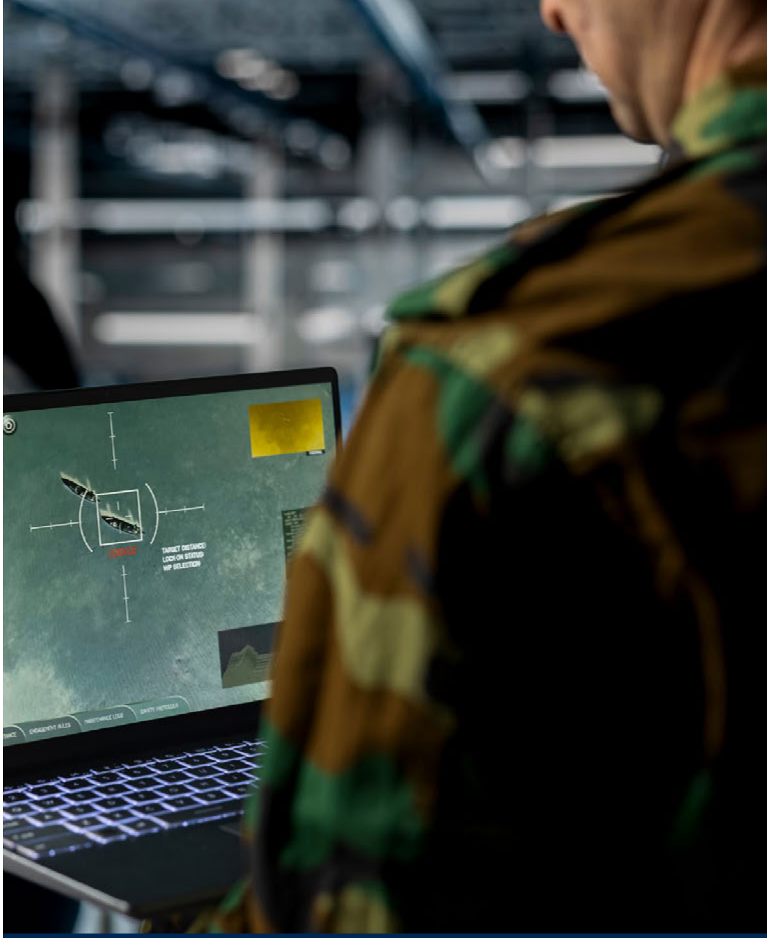
Public Perception and Banking Policies:
Negative public sentiment has led some European banks to adopt restrictive policies, or outright bans, on financing defence-related activities, including dual-use technologies.

Unlocking Capital for Defence

In March 2025, the European Commission introduced Readiness 2030,[2] a comprehensive package leveraging more than €800 billion in defence-related funding through a combination of EU funds, national budgets, and private capital.

A key component, the SAFE loan instrument,[3] aims to raise up to €150 billion from capital markets. The SAFE note incorporates a strong European preference through the "65% / 35% rule": For projects to qualify for the funds, 65% of project value must be made within EU member states, Ukraine, or the EEA. This initiative seeks to accelerate defence investment and production by streamlining regulatory processes and encouraging joint procurement among member states. It also offers guidance on sustainable investment practices within the defence sector. Complementing these efforts, the EIB has broadened its eligibility criteria for security and defence-related investments, aiming to minimise the scope of excluded activities as much as possible.

In July 2025, the European Commission presented its proposed Multiannual Financial Framework (MFF) for 2028–2034. The seven-year budget allocates €131 billion to defence and space through the European Competitiveness Fund, with a strong focus on cybersecurity, dual-use infrastructure, and defence capabilities. This represents a fivefold increase compared to the prior budget.



Bridging the Channel: The United Kingdom's Strategic Defence Review 2025

In June 2025, the U.K. government released its Strategic Defence Review (SDR), offering a comprehensive assessment of the nation's current defence and national security posture. The review places a strong emphasis on "warfighting readiness" in response to evolving global threats.

Central to the review is a renewed focus on innovation, strengthening industrial partnerships, and reforming procurement practices. These efforts aim to broaden the United Kingdom's defence supplier base and enhance the agility and resilience of its defence ecosystem. In September 2025, Britain's defence ministry published "Defence Industrial Strategy," pledging to channel £250 million into defence growth deals and allocate £400 million to the U.K. Defence Innovation, among other targeted investments.

Sources: European Parliamentary Research Service, European Commission, U.K. government.
(2) Initially named ReArm Europe, the initiative was later rebranded as Readiness 2030.
(3) Formally approved in May 2025.

A Growing List: The Rise of Europe's Defence Startups

While established European defence companies are poised to gain the most from rising defence budgets, early-stage innovators are also set to benefit from the broader spending tailwinds.

Companies like Helsing and Quantum-Systems are leveraging AI and autonomous systems to redefine battlefield intelligence and aerial data acquisition, respectively. Similarly, TEKEVER and Isar Aerospace are capitalising on dual-use technologies in unmanned systems and satellite launch services.

In addition to these front runners, there is a growing list of smaller startup companies that we continue to monitor closely. These emerging players, though currently under the radar, are developing promising technologies and capabilities. We anticipate that their valuations will rise significantly in the near future as defence investment continues to expand and innovation remains a strategic priority.

Helsing

Inc. 2021

Helsing is an AI startup that produces live maps of battlefields. Its software fuses data from infrared, video, sonar, and radio frequency sensors mounted on military vehicles to generate real-time pictures of battlefields. Helsing is expanding from its origins in AI software to produce its own drones, aircraft, and submarines.

LAST FUNDING ROUND

Date	June 2025	Valuation	Post Money: >€12B
Series	Series D	Lead Investors	Prima Materia
Amount Raised	€600M		

Quantum Systems

Inc. 2015

Quantum-Systems specialises in the development and production of advanced unmanned aerial vehicles designed for data acquisition and analysis. The company primarily serves industries such as agriculture, surveying, and defence, providing high-precision drones.

LAST FUNDING ROUND

Date	May 2025	Valuation	Post Money: >€1B
Series	Series C	Lead Investors	Balderton Capital
Amount Raised	€160M		

TEKEVER

Inc. 2001

TEKEVER specialises in providing data and intelligence services through its advanced unmanned aerial systems (UASs). TEKEVER's core product lines include mission-oriented UASs that are designed to support various maritime and land-based missions.

LAST FUNDING ROUND

Date	May 2025	Valuation	Post Money: >£1B
Series	N/A	Lead Investors	Ventura Capital
Amount Raised	Undisclosed		

Sources: Company websites, press releases.

PHYSICS X

Inc. 2019

PhysicsX is building a new engineering software platform to deliver deep AI enablement across the entire engineering lifecycle.

LAST FUNDING ROUND

Date	June 2025
Series	Series B
Amount Raised	€135M
Valuation	Est. €1B
Lead Investors	Atomico, With Participation From Temasek, Siemens, Applied Materials, and July Fund

isar aerospace

Inc. 2018

Isar Aerospace offers flexible and cost-efficient launch services for small and medium-sized satellites. Its flagship vehicle, Spectrum, is a high-performance, two-stage rocket designed for diverse mission profiles. Customers can choose between dedicated launches or shared payload options to predetermined orbits—streamlining access to space for commercial and governmental clients alike.

LAST FUNDING ROUND

Date	June 2025
Type	Convertible Bond
Amount Raised	€150M
Valuation	Post Money: €850M (c. $1B)[4]
Lead Investors	Eldridge Industries

ICEYE

Inc. 2014

Originally established to provide radar imagery of moving ice blocks to Arctic shipping routes, Iceye shifted its focus towards military applications following the imposition of Western sanctions on Russia in 2022. Today, the company operates the world's largest constellation of synthetic aperture radar (SAR) satellites.

LAST FUNDING ROUND

Date	Dec. 2024
Series	Series B
Amount Raised	€158M[5]
Valuation	Undisclosed[6]
Lead Investors	Move Capital, Blackwells Capital, Christo Georgiev, Solidium Oy, and BlackRock

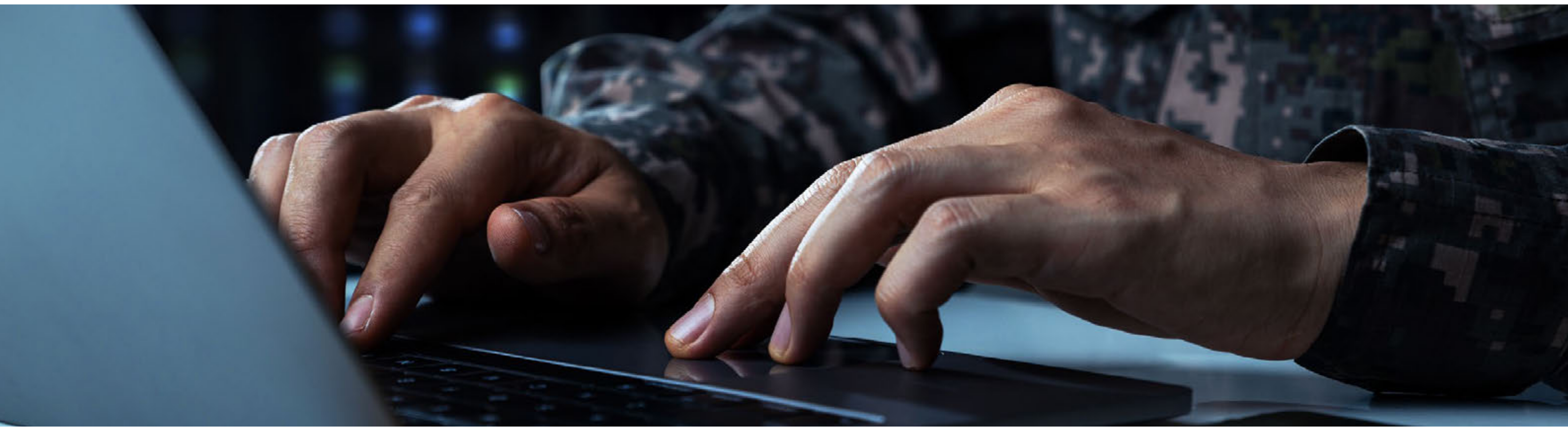
The Exploration Company

Inc. 2021

The Exploration Company is developing a modular and reusable orbital spacecraft, Nyx, to serve the growing logistical needs of space stations and space exploration. It was the first European company to sign a Space Act Agreement with NASA.

LAST FUNDING ROUND

Date	Dec. 2024
Series	Series B
Amount Raised	€160M
Valuation	Post Money: Est. €500M
Lead Investors	Balderton Capital and Plural VC



Sources: Company websites, press releases.
(4) Series C funding round (July 2024), led by NATO Innovation Fund, valued the company on a post-money basis in excess of €700 million.
(5) Iceye raised $93 million in April 2024 and an additional $65 million in December 2024, resulting in a total of $158 million in debt and equity instruments raised in 2024.
(6) As of December 2024, Iceye has raised more than $500 million to date, leading to an estimated valuation in excess of $1 billion.

Next-Gen Watchlist: Startups Set to Soar

ARGOTEC

Argotec is an aerospace engineering firm specialising in the design, development, and operation of microsatellites (up to 200 kilograms) and advanced space technologies. The company collaborates with major space agencies, including NASA, ESA, and ASI, contributing to deep space missions and sovereign satellite capabilities.

ascendance

Ascendance is an aerospace innovator focused on decarbonising aviation through hybrid-electric propulsion. Its flagship technologies include the STERNA Hybrid Pack and ATEA, a VTOL aircraft designed for urban and regional mobility. The company aims to help the aviation sector achieve carbon neutrality by 2050, offering quieter, cleaner alternatives to conventional aircraft.

Cambridge Aerospace

Cambridge Aerospace is developing a scalable and cost-effective missile defense system inspired by the "Iron Dome" concept. The company introduced its first two products—Skyhammer and Starhammer, designed to neutralise drone and missile threats—at DSEI 2025. As of September 2025, Cambridge Aerospace has secured approximately $130 million in Series A funding.

Delivering Today DRONAMICS

Dronamics is reshaping cargo logistics with its Black Swan Drone, a fixed-wing UAV capable of transporting up to 350 kilograms over 2,500 kilometres. Designed for affordability and efficiency, the platform targets middle-mile logistics, offering a faster, more sustainable alternative to traditional air freight. Dronamics entered into a strategic partnership with Kawasaki Motors in September 2025.

Frankenburg Technologies

Frankenburg Technologies develops scalable, low-cost missile systems tailored to counter emerging aerial threats such as drones and loitering munitions. Its systems integrate AI-driven situational awareness for real-time threat detection and response and are designed for rapid deployment and field assembly.

STARK

Stark specialises in AI-enabled, software-defined unmanned systems. Its flagship product, the OWE-V Virtus Drone, is a VTOL strike drone optimised for tactical missions. In August 2025, Stark secured a $62 million funding round led by Sequoia Capital, valuing the company at approximately $500 million.

THREOD SYSTEMS

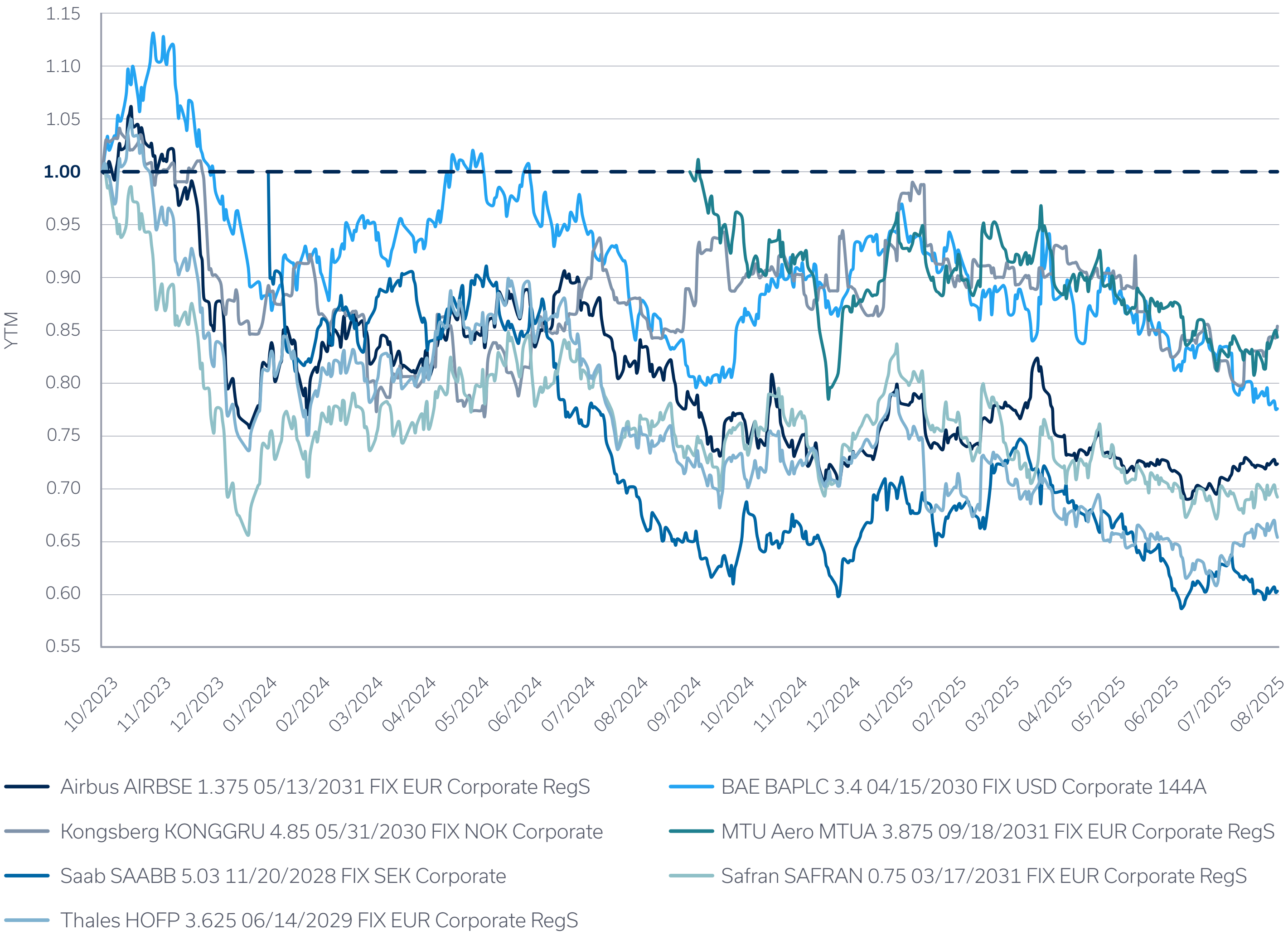
Threod Systems designs and manufactures UAS, including fixed-wing and VTOL platforms. Its offerings include Electro-Optic payloads for ISR missions as well as other critical subsystems required to successfully operate UAVs.

Sources: Company websites, press releases.

Fixed Income Markets Back Europe's Defence Surge

Bond yields have declined as issuers benefit from improved financial performance and heightened strategic importance.

BOND YIELDS DROP AS REVENUE AND STRATEGIC RELEVANCE RISE



Sources: Bloomberg, S&P Capital IQ.
Note: As of 31 August 2025. Yield to maturity (YTM) rebased to the earlier of October 2023 or the bond issuance.

Fixed Income Markets Back Europe's Defence Surge (cont.)

CSG Halves Borrowing Costs in Just Six Months

In June 2025, Czechoslovak Group (CSG) successfully priced a dual-tranche issuance of senior secured notes due 2030, with USD-denominated notes yielding 6.5% and EUR-denominated notes at 5.25%. Initially marketed at $500 million and €350 million, the offering was significantly upsized to $1 billion and €1 billion, respectively, in response to exceptional investor demand. The notes received credit ratings of Ba1 (Moody's), BB+ (S&P), and BBB- (Fitch).

Just six months earlier,[7] following its $2.2 billion acquisition of the Kinetic Group, CSG issued $775 million in senior secured floating rate notes due 2030, priced at 6M SOFR + 7.00%.[8] The issuance was unrated, but CSG's financial profile was strong, with gross leverage at 2.2x and net leverage at 1.3x.[9]

The notable reduction in yield between the two issuances reflects both CSG's robust financial performance and a shift in investor sentiment. From December 2023 to May 2025, CSG's revenue increased by 87%, rising from €3.1 billion to €5.8 billion,[10] while EBITDA margin remained stable at approximately 27%. Simultaneously, a growing pool of investors willing to provide capital contributed to heightened demand and downward pressure on yields.

In a further sign of confidence and strategic momentum, CSG announced in September 2025 that it is exploring a potential initial public offering: a move that could value the group in the tens of billions of euros.

The notable reduction in yield between the two issuances reflects both CSG's robust financial performance and a shift in investor sentiment.

Sources: Company financials, press releases.
(7) November 2024.
(8) At that time, the six-month SOFR averaged approximately 4.64%, resulting in a total yield of around 11.64%.
(9) Based on FYE 31 December 2024 EBITDA.
(10) On an unaudited pro forma basis, relates to 12-month periods.

Strategic Alliances Help Navigate Fragmented Markets

Strategic alliances and joint ventures (JVs) have become a prominent feature of Europe's defence sector, offering a strategic mechanism for companies to collaborate while navigating complex regulatory landscapes and national security considerations. Notable examples include MBDA (est. 2001), a pan-European missile systems JV between Airbus, BAE Systems, and Leonardo, and KNDS (est. 2015), formed by the merger of France's Nexter and Germany's Krauss-Maffei Wegmann to create a European land defence systems provider.

By fostering cooperation within a tightly regulated environment, strategic alliances and JVs play a critical role in advancing innovation and competitiveness across the European defence industry.

SELECTED EXAMPLES OF STRATEGIC ALLIANCES AND JOINT VENTURES

	Party 1	Party 2	Focus
2025	RHEINMETALL	VMZ	Production of gunpowder and 155mm artillery shells in Bulgaria.
2025	RHEINMETALL		Construction of a munitions ignition powder factory in Romania.
2025	CSG Czechoslovak Group	4iG	4iG Group will acquire a controlling stake in Rába, a Hungarian manufacturer of heavy vehicles and their components, and form a partnership with CSG Defence that would give CSG a minority stake in Rába.
2025	BAE SYSTEMS	PGZ	Construction of a new 155mm artillery ammunition facility in Poland.
2025	LEONARDO	EDGE	Announced a collaboration agreement in February 2025.
2025	LEONARDO	BAYKAR	Development of UASs.
2025	RENK	ARX ROBOTICS	Development of modular unmanned ground vehicles (UGVs) for logistics and reconnaissance.
2025	RHEINMETALL	ICEYE	Satellite production, starting with SAR satellites.
2025	RHEINMETALL	ANDURIL	Development of a suite of software-defined autonomous air systems and advanced propulsion capabilities.
2025	THALES	KONGSBERG	Development of secure communications systems.
2024	indra	HENSOLDT	Radar systems for FCAS.
2024	LEONARDO	BAE SYSTEMS	Sixth-generation fighter jet (Tempest) under the Global Combat Air Programme (GCAP). 3rd JV partner is Mitsubishi Heavy Industries (Japan).
2024	MBDA MISSILE SYSTEMS	SAAB	Co-development of hypersonic missile interceptors and sensors, specifically TAURUS KEPD 350 stand-off missile system.
2024	RHEINMETALL	KNDS	Development of the Main Armoured Tank of Europe (MARTE), a next-generation main battle tank system.
2024	RHEINMETALL	LEONARDO	Production of military armoured vehicles, including main battle tanks and infantry fighting vehicles.
2024	SAFRAN	MTU Aero Engines	Development of a 100% European engine for future military rotorcraft (EURA JV).
2023	KNDS	PATRIA	Development and manufacturing of armoured vehicles.
2023	SAAB	Helsing	Collaboration on AI-powered mission systems and battlefield decision support.

Sources: Company websites, press releases.

Timeline of Key European Defence and Security Initiatives

March 2021
Establishment of the **European Peace Facility (EPF)**, a €17 billion off-budget fund (2021–2027) designed to enhance the EU's capacity to prevent conflicts, support peace, and strengthen international security.

April 2021
The **European Defence Fund (EDF)**, initially launched in 2017, became a fully operational €8 billion programme to support collaborative defence research and development among EU member states.

July 2023
Adoption of the **Act in Support of Ammunition Production (ASAP)**, a regulation aimed at increasing the EU's capacity to produce ammunition and missiles, with a €500 million budget.

October 2023
Introduction of the **European Defence Industry Reinforcement Through Common Procurement Act (EDIRPA)**, a short-term emergency measure (2023–2025) to address urgent defence capability gaps, particularly in response to the war in Ukraine.

January 2024
Launch of the **Defence Equity Facility (EDF)** to stimulate investment in innovative defence and dual-use technologies.

March 2024
Establishment of the **Structure for European Armament Programme (SEAP)**, a long-term framework to enhance cooperation among EU member states, associated countries, and Ukraine in defence equipment development, procurement, and maintenance.

March 2024
Publication of the **European Defence Industrial Strategy (EDIS)**.

March 2024
Release of the **European Defence Industry Programme (EDIP)**, designed to bridge the gap between EDIRPA and the long-term strategic vision outlined in EDIS. As of July 2025, the EDIP Regulation remains under legislative review.

May 2024
Entry into force of the **Critical Raw Materials Act (CRMA)**, aimed at ensuring a secure and resilient supply of critical raw materials.

September 2024
Publication of the **Draghi Report**, officially titled "The Future of European Competitiveness."

February 2025
The U.K. Prime Minister announced the most significant sustained increase in defence spending since the Cold War, targeting 2.5% of GDP by 2027, with a potential rise to 3.0% in the next Parliament (2029).

March 2025
The European Commission unveiled the **ReArm Europe Plan/Readiness 2030**, a comprehensive €800 billion defence investment initiative, including a €150 billion SAFE note, formally approved in May 2025.

May 2025
The **European Investment Bank (EIB)** approved €9.1 billion in new financing to bolster Europe's security, defence capabilities, technological leadership, and critical infrastructure.

May 2025
Conclusion of the **U.K.-EU Security and Defence Partnership**, enabling U.K. participation in selected EU defence initiatives.

May 2025
Formal approval of the **SAFE note**.

June 2025
The United Kingdom published its **Strategic Defence Review (SDR)**, outlining 62 recommendations to be implemented through the forthcoming **Defence Investment Plan**, expected in the second half of 2025.

June 2025
EC adopted Defence Readiness Omnibus, a comprehensive package aimed at speeding up defence investments within the EU.

June 2025
German cabined passed a draft budget for 2025, with €95 billion in defence spending, expected to reach €162 billion by 2029.

July 2025
The EC presented its proposal for the 2028–2034 MFF, the EU budget.

September 2025
The United Kingdom published its **Defence Industrial Strategy.**

Sources: European Commission, European Parliament, European Investment Bank (EIB), U.K. government.

Glossary of Key Terms

ASAP	Act in Support of Ammunition Production
CRMA	Critical Raw Materials Act
EC	European Commission
EDF	Defence Equity Facility/ European Defence Fund
EDIP	European Defence Industry Programme
EDIRPA	European Defence Industry Reinforcement Through Common Procurement Act
EDIS	European Defence Industrial Strategy
EDITB	European Defence Technological and Industrial Base
EIB	European Investment Bank
EPF	European Peace Facility
FCAS	Future Combat Air System
MFF	Multiannual Financial Framework
SAFE	Security Action for Europe
SDR	Strategic Defence Review (U.K.)
SFDR	Sustainable Finance Disclosure Regulation
SEAP	Structure for European Armament Programme

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2	Duff & Phelps, A Kroll Business	1,045
3	JP Morgan	1,020
4	UBS	792
5	Morgan Stanley	698

Source: LSEG (formerly Refinitiv). Announced or completed transactions.

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3	Goldman Sachs	371
4	JP Morgan	342
5	Morgan Stanley	309

Source: LSEG (formerly Refinitiv). Excludes accounting firms and brokers.

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1	**Houlihan Lokey**	**88**
2	PJT Partners	59
3	Rothschild	48
4	Lazard	44
5	Perella Weinberg Partners	40

Source: LSEG (formerly Refinitiv).

(11) As of 30 September 2025.
(12) As of 30 June 2025.
(13) LTM ended 30 June 2025.

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