INDUSTRY CONVERSATION

European Defence M&A: A Conversation on Deals, Valuations and the New Market Landscape

Hadi Manesh (transact.digital) and
Joerg Freimund (Steen Associates)

Classic M&A is the baseline noise

HADI MANESH

Joerg, the European defence sector has been under enormous structural pressure since the new era (Zeitenwende). Higher NATO budgets, rearmament debates, and at the same time the boundaries between classical industry and defence technology are increasingly blurring. My first question: is the rise in European defence budgets already translating into concrete deal activity or is there still a significant time lag?

JOERG FREIMUND

Yes, deal activity is up, but you have to look at this in a differentiated way. The defence market was always a niche, and structurally it will remain one. Compared to the automotive sector, which is often used as a benchmark, defence can never compensate for the industrial decline in Germany. The industry is simply too small. In Germany for example, there are five or six large players, with perhaps 20 notable mid-market companies underneath. After that it becomes very fragmented. On the component side – electronics, sensors, speciality materials – many companies operate in dual use, simply because the pure defence market historically hasn't offered enough volume to amortise R&D expenditure. So deal activity compared to other sectors remains modest.

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> *Joerg Freimund, Steen Associates*

HADI MANESH

That aligns with what we see on our platform: Many mid-market companies that count defence as one of several end markets, but don't primarily see themselves as defence businesses.
You published an interesting study on this recently. The point that out of €381 billion in EU defence expenditure, only around €130 billion actually qualifies as genuine defence investment, makes the structural challenge very tangible. But you're saying there are new dynamics emerging alongside this?

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JOERG FREIMUND

Exactly. Investor interest has risen massively, on both the industrial and financial side. Industrial players want to enter defence because it offers new growth opportunities and multiples are significantly more attractive than in their traditional markets. Financial investors were largely prohibited from this market for ESG reasons until recently. That has fundamentally changed: Dedicated defence funds are being launched, many advisors who had previously stayed away are now turning to the sector. But everyone is finding the same thing: In the traditional defence segment, actual deal volume is modest. In classic mid-cap M&A, there are perhaps a handful of transactions per year in Germany. The truly strategically relevant deals are absorbed by the prime contractors. We recently advised a prime on an acquisition, financial investors were involved but quickly priced out on multiples.

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HADI MANESH
Where do you see the real momentum right now then?

JOERG FREIMUND
In two areas that are currently far more relevant than classic M&A. First: Capital markets. Previously, Germany only had Rheinmetall listed. Now we have Hensoldt, TKMS, Renk, Vincorion, Gabler and soon probably KNDS – a heavyweight potentially worth €15 to €20 billion. Going public is a dominant theme.

Second, and this is the most dynamic area: Defence tech. Over the next ten years we are moving from manned to unmanned platforms. Today all platforms – aircraft, ships, submarines, tanks – are operated by soldiers. That is changing for two reasons: There simply aren't enough personnel for a conflict scenario, and the technology now makes it possible. This applies not only to flying drones, but also to ground and underwater drones. The real challenge is connecting all these platforms securely, cyber-resilient, and interference-proof. An entirely new industry is emerging. Names like Helsing or Quantum Systems are well known, but beneath them is a large network of new companies emerging across Europe.

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> ***First a startup wave, then an IPO wave, then a consolidation wave – classic market principles.***
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> *Joerg Freimund, Steen Associates*

Private Equity in Defence: Welcome – or Structurally Disadvantaged?

HADI MANESH

That brings me to private equity as a buyer group. What we observe: many PE firms already have detailed investment theses for the sector, but no finished target lists – they're still building those. Are financial investors welcome in this market, or is it structurally difficult for them to compete?

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JOERG FREIMUND

It depends strongly on the sub-sector. There are areas that simply don't interest prime contractors – protective equipment, for example. Mehler, which makes body armour, was sold to Amira, then to DPE, experienced a major ramp-up, and is now back on the market. A financial investor will probably buy it again, because no prime contractor has strategic interest in it. Good cashflow business, but not a strategic asset.

When it comes to strategic assets in connectivity, communications or counter-UAV, however, it is extremely difficult for financial investors to compete. The industrials – driven by high capital market valuations, at least until recently – can simply pay more. Add to that: Defence is a project business. That means no stable cashflow, financing has to be structured around individual projects, and the debt multiple available for an LBO transaction is limited. And often a company depends on one or two customers and one or two products. Banks don't like that, and it puts financial investors off.

Dual Use: A Broad Term – and Not Everyone Sees It as a Compliment

HADI MANESH

That leads directly to the question of what actually constitutes a dual-use asset. On our platform we see many mid-market companies we would tag as classic industrial suppliers, even though they have defence customers. Not every company with a defence contract is automatically a dual-use asset. And not every owner takes the classification as a compliment.

JOERG FREIMUND

That's true. Historically, the defence component at classic industrial companies played a very subordinate role. Neither particularly large nor particularly high-margin. That has changed sustainably. There was even a reverse trend until 2022: Companies were actively selling off their defence units. The best example is Jenoptik with Vincorion. Sold for around €100 million at the time, today listed at a value exceeding €1 billion. It was sold because the company wanted to exit defence for ESG reasons.

Smaller and mid-sized Mittelstand companies in sensing, circuit technology or electronics always took defence business alongside their core, but without particular focus. That now carries different weight. However: This is also a catch-up story. Investments that were neglected for years are now being made up for. And once they've been made up for, growth rates will normalize. The experienced market participants know this and are careful not to get carried away by the euphoria.

Dual use as a term was coined primarily by financial investors. The thesis is: This can be deployed not just in defence but also in civilian applications. Drone countermeasures, for example, are just as relevant in critical infrastructure protection as in a conflict scenario. That's classic dual use. What matters is what it means for the business model, cashflow, and growth opportunities.

Regulation: More Routine but No Shortcuts

HADI MANESH

How often do you encounter regulatory complexity in your transaction practice? And can a buyer make a competitive difference by anticipating these hurdles well?

JOERG FREIMUND

Regulators play a role in every deal in this sector. They always have, and the relevant laws were tightened further a few years ago. At first the review procedures were very lengthy: Six, nine months or more. That has accelerated significantly. Today approvals often come within the statutory timeframe of three months.

Preparing in advance is only partially possible, however, because the official application can only be submitted after a signed purchase agreement. From there the process runs its course. If the buyer is not German – which is often the case even for financial investors, since their funds are domiciled elsewhere – they have to go through this process regardless. Non-EU buyers are scrutinised particularly critically today. Within the EU it is relatively manageable; outside the EU it becomes significantly harder. The German government has defined core competencies that it wants to keep on home soil. So the key question in every review is whether production and development will remain in Germany.

Valuations: "The Private Market Never Participated in the Peaks"

HADI MANESH

On valuations – public multiples in the sector have come down significantly recently. From an investment banking perspective, what strikes me more than the absolute level is the spread between sell-side and buy-side expectations in private mid-cap processes. So: has the peak in public multiples been reached, or is this a correction within an ongoing re-rating?

JOERG FREIMUND

You have to differentiate between public and private. German listed defence names had exceptionally high valuations for a period, even compared to US peers, which was historically never the case. European companies always traded at a significant discount. The Zeitenwende changed this massively: Rheinmetall went from €100 to €2,000. That has now corrected, because the market understood that the assumed ramp-up would take longer than expected. From 20x EV/EBITDA we are coming down to around 15x – which is more realistic.

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> ***The private market never participated in the valuation peaks. Transactions consistently came in at a significant discount to their listed peers.***
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> *Joerg Freimund, Steen Associates*

Private market transactions over the past two to three years consistently came in at a significant discount to listed valuations – somewhere between 9x and 15x, while the public market was at 15x to 25x. Those are now converging.

Whether we are at the top or the bottom? I honestly don't know. But current multiples reflect intrinsic value more accurately than what we saw at the peak. There is also a clear delta within Europe: Germany, Poland and Scandinavia are rearming seriously and have the fiscal capacity to do so. France, Italy and Spain cannot match this budgetarily – which is reflected in the valuation discounts on their defence companies. Geographic distance to the conflict plays a role too. In Spain the debate is still about whether to meet minimum NATO targets at all. The sense of urgency is completely different.

Next 12 to 24 Months: Where Will the Action Be?

HADI MANESH

Looking at the deal corridor for the next one to two years – where do you expect the most activity?

JOERG FREIMUND

IPOs for relevant companies. Helsing, Quantum Systems, Destinus and others are already preparing. Whether that happens in 2026 or 2027 – I don't know. But there will definitely be more activity there. Tech investments in startups in parallel. In classic buyout it remains lean.

HADI MANESH

And financial investors in the Mittelstand, in a dual-use context – do you think they will push harder into that space?

JOERG FREIMUND

The interest is there; the question is scale. Anyone who wants to deploy €100 to €300 million of equity in Germany in the defence sector will find it extremely difficult – there simply aren't enough targets of that size. The baseline consists of companies with €20 to €80 million in revenue: small cap, one or two customers, one product, one technology – initially high-risk from an investor perspective. In small and micro-cap there will always be transactions; in the upper mid-cap there will be far fewer. Those now entering and saying they will do big buyouts in Germany will find more opportunity in startups. That is economically positive – a great deal is happening there.

Steen Associates: What Comes Next?

HADI MANESH

To close: how is Steen Associates positioning itself in this changing market – and where do you want to be in the next few years?

JOERG FREIMUND

Our focus has always been European – with offices in London and Frankfurt we have consistently pursued international business, including for our major clients. The US and Israel for inbound business have always been key markets for us. We completed six deals in A&D in the last twelve months, all but one were cross-border. That will remain so, even if there are counter-movements like FCAS, where Germany and France originally wanted to proceed jointly and that now looks likely to go differently. Cross-border business remains central for us.

Alongside that, we are looking to expand in adjacent products. Given the wave of listings and fundraisings we expect in the sector, that is a natural next step. The underlying principle: stay in the sector, deepen the expertise, and expand the product offering in the direction the market is heading.

Joerg Freimund

Partner, Steen Associates

Joerg Freimund is a Partner at Steen Associates, an M&A boutique specialising in the defence and security sector, with offices in London and Frankfurt. He has extensive experience advising on transactions in the European defence and aerospace industry.

Hadi Manesh

Founding Partner, transact.digital

Hadi Manesh is Founding Partner of transact.digital, an AI and data analytics software company for company intelligence in private markets, with a focus on the DACH Mittelstand. He previously spent over ten years in investment banking, most recently as Vice President at Lazard.