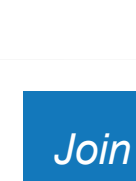


Funding investment in European defence innovation

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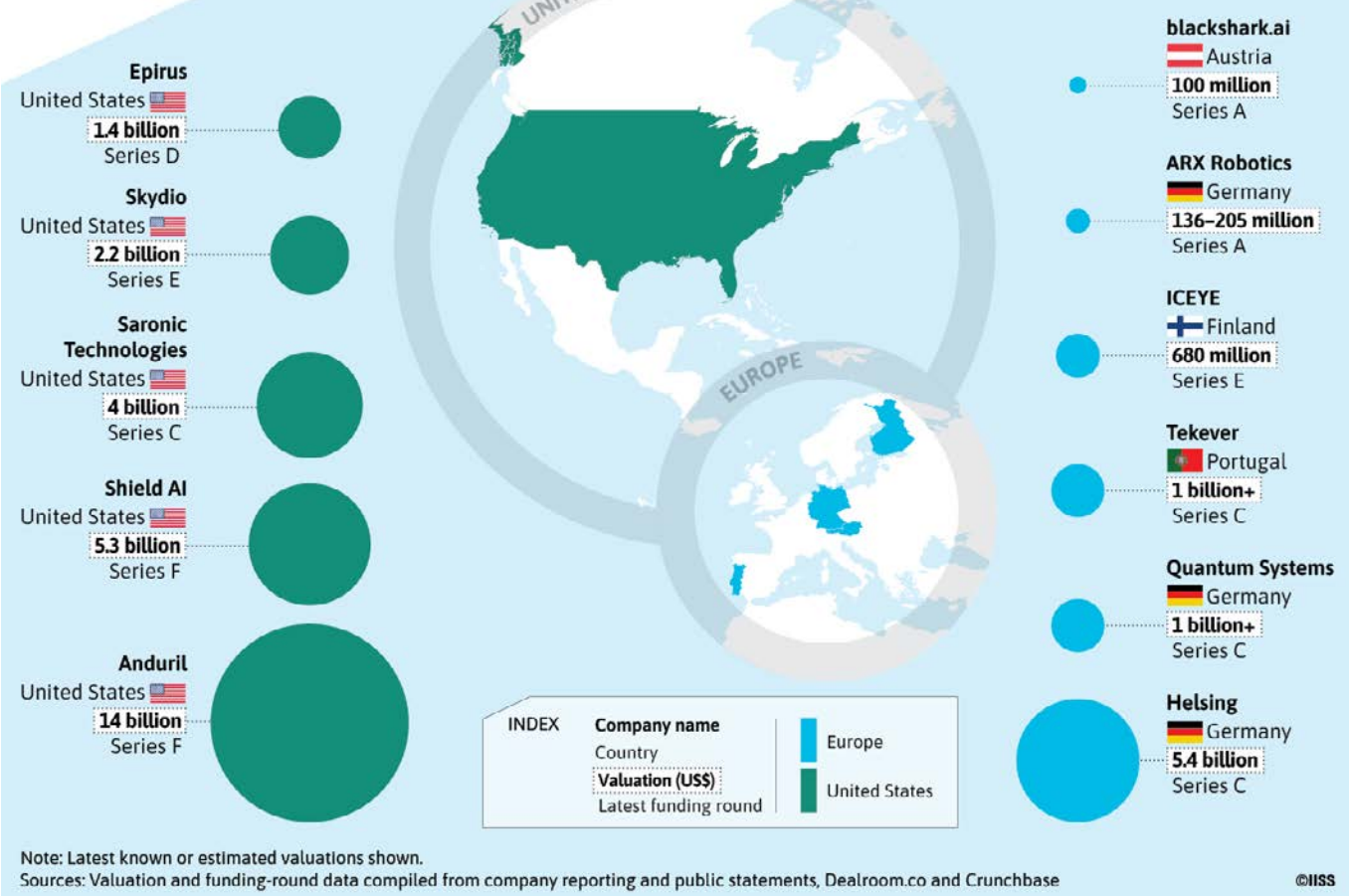
Public investment in European defence has increased significantly but concerns are mounting about the sustainment and sufficiency of funding. Given the limited fiscal headroom for further defence-spending growth in Europe, the role for the private sector in funding defence innovation is becoming ever more crucial.

- Initiatives launched in 2025 aim to bolster public and private investment in defence innovation. Their success is dependent on meaningful, effective, coordinated and targeted funding with clear demand from governments.
- Venture capital (VC) investment in the European defence-innovation ecosystem has increased significantly but still lags behind the more mature US market. Procurement reform and government support could help encourage investors and close this gap.
- Investment extends beyond VC firms, with banks and defence primes also establishing funds for defence innovation, creating further avenues to bolster the developing ecosystem.

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Europe vs United States: Defence-innovation ecosystems, selected companies



Clarion calls to start-ups and finance

Despite significant moves to bolster public investment in defence, including the European Commission's 'Readiness 2030' plan, further funding is needed, not least because the reliability of the United States underwriting European security is increasingly uncertain. Concurrently, the European Commission, NATO and national political and military leaders have intensified their calls for industry to address a variety of capability gaps identified from the conflicts in Ukraine and elsewhere much faster. A burgeoning defence-tech start-up ecosystem in Europe and its more mature counterpart in the US have responded to these demands. A sharper focus on defence-tech start-ups has led to large inflows of VC and rapid growth in the sector in Europe. Indeed, the NATO Innovation Fund and Dealroom.co concluded that VC investment in the European defence, security and resilience (DSR) sector reached US\$5.2 billion in 2024, nearly five times greater than in 2019 and outperforming other sectors.

12% EUROPEAN DEFENCE SPENDING GREW BY NEARLY 12% IN REAL TERMS IN 2024

US\$5.2 BILLION VENTURE CAPITAL INVESTMENT IN THE DEFENCE, SECURITY AND RESILIENCE SECTOR IN EUROPE REACHED US\$5.2 BILLION IN 2024

"Boosting public investment in defence is indispensable, but it will not be sufficient."

➤ White Paper for European Defence – Readiness 2030, 12 March 2025



US head start

While investment in Europe's defence start-up ecosystem has ramped up significantly, few companies match the valuation and funding of their US counterparts, where the market for such investments is more mature. Multiple defence start-ups in America have attained 'unicorn' valuations (over US\$1bn), with Anduril, Shield AI, Saronic Technologies and Skydio among the highest profile. Their products and solutions have been attractive to customers in the US and beyond.

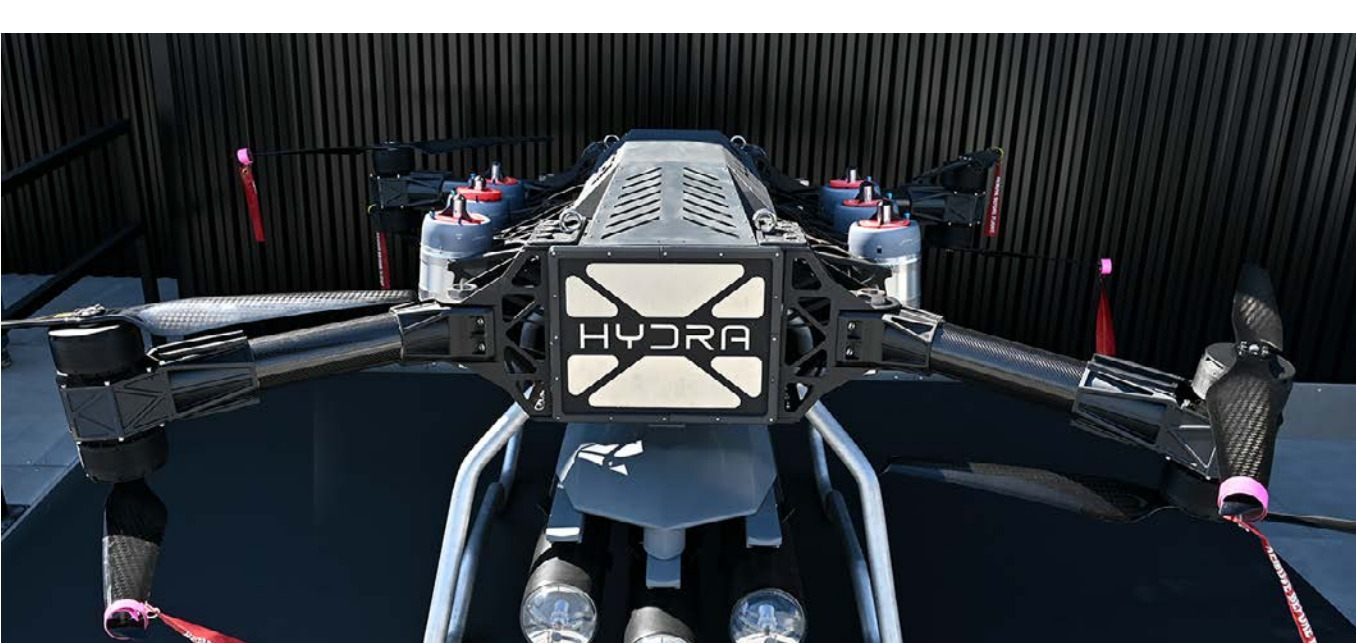
Europe's only defence unicorn until recently, German company Helsing was valued at US\$5.4bn following its US\$489 million Series C funding round in July 2024. Another German company, Quantum Systems, reportedly reached unicorn status in May 2025 after raising US\$160m in Series C funding. In the same month, Tekever, a defence-tech company established in Portugal in 2001, was also valued at over US\$1bn following its latest funding round. Although more European unicorns are likely to emerge, executives from start-ups have expressed concern that while seed funding and early-stage investors are not lacking in Europe, there are limited growth-stage VC firms in defence. This may hinder the development of the sector and lead companies to seek funding from the US and elsewhere.

This concern is supported by research that shows that in funding rounds of European defence start-ups that exceeded US\$200m between 2016 and Q3 2024, US investors accounted for 63% of the capital, versus 37% for European investors, up from only 22% in sub-US\$200m funding rounds versus 72% for European investors.

To address the disparity between early-stage and growth funding from European investors, governments could expand the initial support for defence innovation to not only include financial assistance but also a reform of military procurement processes. This would allow start-ups to get their solutions into the hands of users faster in order to receive the feedback that is crucial for further development and would go some way to provide potential investors with the confidence that Europe's defence start-ups will be able to cross the so-called 'Valley of Death' that tech companies face in their early stages.

US\$14 BILLION THE US HAS SEVERAL DEFENCE 'UNICORNS', INCLUDING ANDURIL, WHICH WAS VALUED AT US\$14 BILLION IN 2024

US\$5.4 BILLION EUROPE'S ONLY DEFENCE UNICORN UNTIL RECENTLY, GERMAN COMPANY HELSING WAS VALUED AT US\$5.4 BILLION IN 2024



Other sources of new finance

Private financing for defence start-ups does not exclusively come from VC firms. Established defence companies are also investing in the sector. Missile house MBDA, for instance, made an undisclosed investment in United Kingdom-based Hydra Drones, while Saab was a strategic investor in Helsing's Series B funding round in September 2023. The primes have also been acquiring start-ups. BAE Systems, for instance, expanded its uninhabited aircraft systems (UAS) portfolio when it acquired Malloy Aeronautics for an undisclosed sum, while French AI specialist Preligens was bought by Safran for €220m (US\$238m) in September 2024.

Other initiatives are happening at a national and regional level. The UK ringfenced 10% of the Ministry of Defence's (MoD) equipment plan for 'novel technologies' and is leading the initiative to establish the defence, Security and Resilience Bank, a defence-focused multi-lateral development bank. France has set up a new €450m (US\$485m) fund through the public investment bank Bpifrance, funded by citizens buying €500 (US\$538) 'tickets'. In April 2025, the European Commission announced that it would invest €910m (US\$980m) in European defence to target key capability gaps, including force mobility and drone defence, 'through innovation and collaboration across European science and industry'. As political attitudes to whether defence investment should still be covered by exclusionary environmental, social and governance (ESG) policies are gradually shifting, the European Investment Bank (EIB) is reforming the dual-use restriction on funding decisions. There are also calls for the US\$1.8 trillion Norwegian sovereign wealth fund to be opened up to finance defence entities.

US\$980 MILLION US\$980 MILLION WILL BE INVESTED IN DEFENCE INDUSTRY AND INNOVATION UNDER THE 2024 EDITION OF THE EUROPEAN DEFENCE FUND (EDF)

"I want to better connect investors of venture and private equity capital to our problems...if we are to deter an increasingly aligned axis of upheaval, we need to apply all our strengths as a strong democracy against the weaknesses of rigid, autocratic regimes."


➤ General Sir Roly Walker, Chief of the General Staff of the British Army

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