

On the offensive: The rise of M&A in European defense

DECEMBER 2025

AUTHORS

MANFRED HADER
Senior Partner

STEPHAN BAUR
Partner

ANDREAS GRILLE
Partner

DIETER ATZWANGER
Director

What's driving M&A activity and why it will continue its momentum toward 2030

Europe's defense landscape has transformed in the past few years. Old world assumptions of stability based on low spending, small armies, ultra-sophisticated weapons and powerful allies have been turned on their head. The continent now faces what the European Union (EU) describes as an existential threat from an adversary that is pouring money into traditional and new "smart affordable mass" weaponry: Russia.

Europe is being compelled to adapt to this new world. "Adversaries have shifted their industrial bases to wartime footing..., forcing European stakeholders to scale quickly, implement continuous upgrades and stay agile against shifting threats," says Roland Berger's "The defense imperative" report, which outlines the pathway toward European strategic autonomy.

Mergers and acquisitions (M&A) are a key instrument of this transformation and ramp-up in capacity. M&A activity has already gained momentum, and further acceleration is expected across the defense sector. This study looks at the reasons for this growth in the context of rapidly shifting market priorities and significant rises in defense budgets.

"The new geopolitical realities are transforming the defense ecosystem – prepare for increased M&A activity."



MANFRED HADER
Senior Partner

It offers a market overview and outlook, and assesses the drivers behind the growth in defense M&A transactions:

- Capital availability
- Market entrance of non-defense players
- Europe's shift to defense self-sufficiency
- New smart affordable mass technologies (namely drones)

We also derive several key takeaways about M&A activity in the sector, concluding that transaction volumes, and their respective values, will maintain a high level toward 2030.

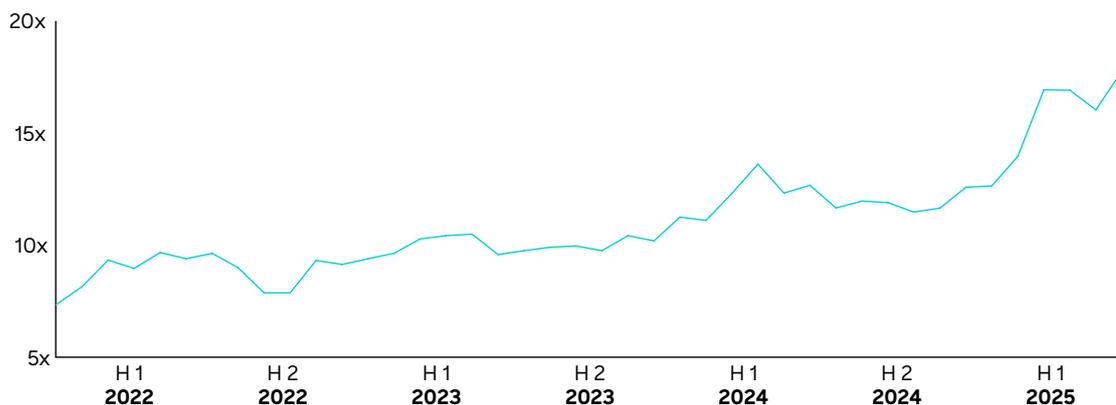
• **Market overview: Rearmament and investment driving strong growth and high valuations**

The European defense market consists of six main segments: space; air; land; naval; effectors; and cybersecurity. Each is expanding rapidly due to current geopolitical tensions – notably Russia's war against Ukraine and the wider threat from Russia – and substantial investment in innovation.

The booming market has seen defense company valuations soar. Between H1 2022 and H1 2025, the valuations of leading European defense companies more than doubled, from a median of around 7x to 17x total enterprise value over next-12-month EBITDA.

Valuation levels of leading European defense players have doubled since 2022

Roland Berger estimate - Development of defense market valuations¹, 2022-2025/06 [TEV/NTM EBITDA]



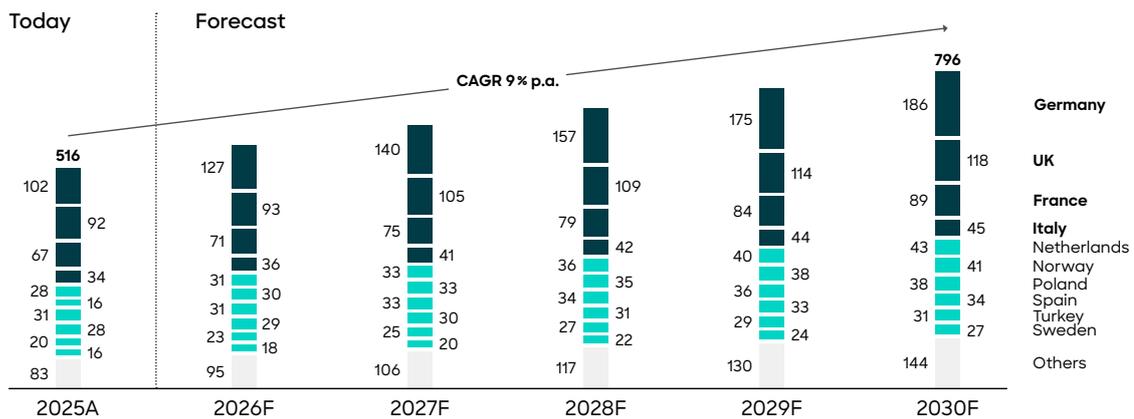
¹ Median EV/NTM EBITDA of selected peer group of leading European defense companies by revenue

Source S&P Capital IQ

The market is expected to continue to grow sharply in the coming years. Defense spending of European NATO countries is forecast to jump from approx. USD 500 billion in 2025 to approx. USD 800 billion in 2030, achieving an average CAGR of 9% p.a. France and Italy are among the biggest spenders on defense, with Germany and the UK leading in terms of absolute spending.

Germany, the UK, France and Italy represent the largest defense markets in Europe

Defense spending by European NATO countries^{1, 2} [USD bn; 2025-2030]



¹ All NATO members excl. US and Canada

² Based on announced national targets for defense expenditure; in the absence of an official commitment following the NATO June 2025 Summit, a projected trajectory reaching 3.5% of GDP dedicated to defense by 2035 has been assumed

Source: IISS Military Balance+, NATO, IMF

- ### Market drivers: Rising budgets, strategic autonomy and uncertainty powering future growth

A key factor driving market growth is the reassessment of national defense budgets in response to evolving security threats, ensuring Europe's defense readiness. This reflects the EU's primary objective: to become capable of defending itself through a more unified and professional approach. Triggered by Russia's war against Ukraine, this paradigm shift is focused on building robust, future-ready defense capabilities and achieving strategic autonomy. Many European countries are considering gradual increases to strengthen collective capabilities. In particular, NATO members agreed on a spending target of 3.5% of GDP on pure defense at the 2025 Alliance Summit. There has already been an increase in European defense orders, underlying the market trend toward increased spending.

In addition to increasing spending, Europe's other main defense objective is to strengthen its defense supply chain. By funding local defense industries and programs with EUR 800 billion in loans, the EU aims to increase its strategic autonomy and enhance its industrial base. Several factors suggest these objectives will be sustained in the long term. First, growing uncertainty in US foreign policy is highlighting the need for higher spending and strategic autonomy. Second, increased US pressure on NATO members has accelerated Europe's willingness to take on greater defense

"Building up deterrence for Europe requires an increase in Defense capabilities and capacities. We will therefore see a significant increase in M&A activities in the next 1-2 years."



STEPHAN BAUR
Partner

responsibility. And third, wider geopolitical tensions (for example, linked to China, Southeast Asia and the Middle East) underscore the need for continued military investment.

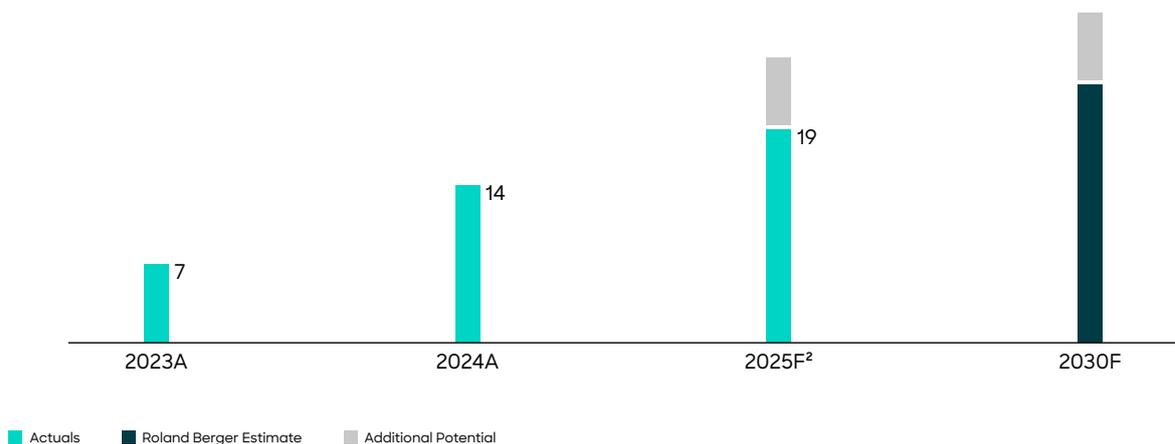
• **Impact on M&A activity: Transaction levels are surging and set to remain high over the medium term**

In line with the defense market, the overall number of M&A transactions in Europe has increased since 2023 and is forecast to hit a new high in 2025. This growth was driven by the general market uplift, primarily fueled by major public sector contracts, which in turn are attracting private investments. The increase in transaction volume, combined with the rise in company valuations, means an increase in transaction value.

We expect the strong momentum in European M&A activity to persist toward 2030. This will be the case even if there is peace in Ukraine, due to the overarching structural changes outlined above. Four key drivers will be responsible for the continued growth. Each has implications and value creation opportunities for industry stakeholders.

M&A activity targeting European defense companies is increasing, with sustained high transaction levels expected for the future

Number of major European defense transactions¹, 2023-2030 [#]



¹ European companies as transaction targets
² Jan-Sep Actuals

Source Mergermarket

• Defense M&A drivers

① Increase in capital availability

Large amounts of public funds and private investment are flowing into defense, with suppliers especially using funds to scale up through M&A.

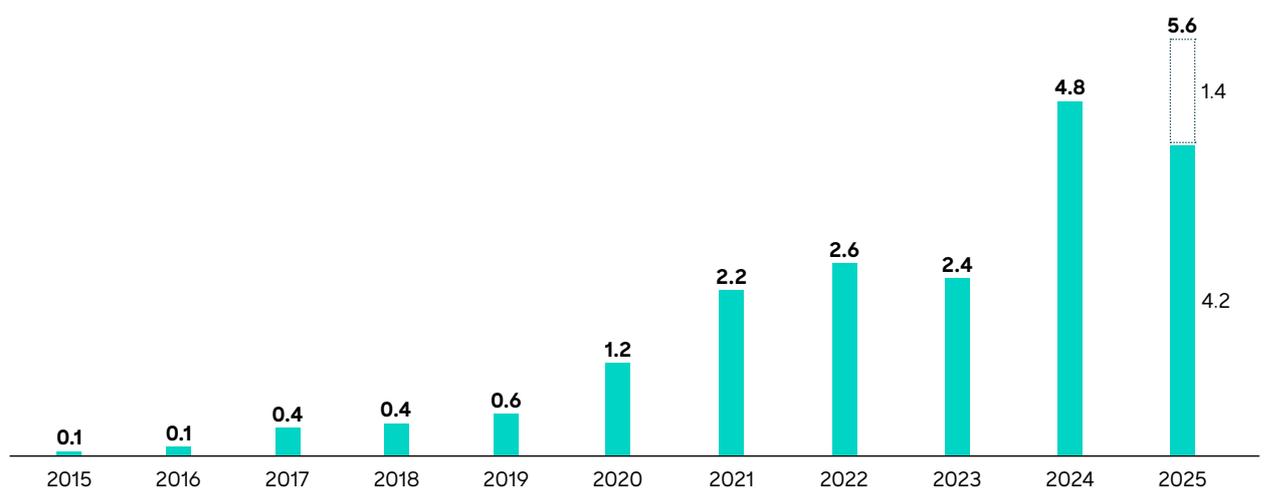
Access to capital is at a high, with significant investment funds flowing into capital markets. Public companies are leveraging the current high valuation environment and generating capital via debt or equity financing to fund growth investments. These include M&A to inorganically grow their innovation or operative capacities, for example.

Meanwhile, the defense industry's strong growth and influx of public money is creating an attractive environment for private investors in search of value creation opportunities. The result is a sharp rise in private equity and venture capital investment in defense.

Implications by stakeholder group

- Due to strong cash reserves and access to capital markets for financing, all defense players are looking to deploy capital in positive net present value projects, such as acquisitions
- A favorable market environment attracts private investors

Defence tech VC deal volumes Europe, 2015-2025¹ [USDbn]



¹ 2025 FY extrapolated based on Q1-Q3 actuals

Source Pitchbook; Roland Berger estimates

Roland
Berger

"M&A in Defense is gaining momentum, with increased activity across small to large-cap segments. This trend is likely to persist, driven by high valuations and public spending."



DIETER ATZWANGER
Director

2 *Defense production ramp-up and market entrance of non-defense players*

Surging demand for defense applications is compelling legacy players to rapidly expand capacities and capabilities, resulting in consolidation and presenting openings for new market entrants.

The unprecedented surge in demand for legacy military equipment from European governments is compelling defense manufacturers to rapidly expand their production capacities in order to reduce growing order backlogs. To meet this challenge, OEMs are increasingly leveraging manufacturing capacities in adjacent industries by forming strategic partnerships and pursuing targeted acquisitions. As OEM production scales up, order volumes of defense suppliers rise accordingly – forcing suppliers to expand their own capacities. This ripple effect across the supply chain is accelerating consolidation within the supplier landscape.

Non-defense players with relevant competencies and capabilities in defense have seen an opportunity to move into the market themselves through the acquisition of smaller defense suppliers. There have been several examples of this recently, including a traditional European engine and alternative drives manufacturer that acquired a company specializing in high-performance electric propulsion systems for defense drones.

Implications by stakeholder group

- Defense manufacturers may acquire additional production capacities and know-how to ramp up production and development of military platforms
- Suppliers need to build up capacity to enable execution of larger OEM tenders; the recent increase in consolidation of Tier-1 and Tier-2 suppliers reflects efforts to achieve this scale
- Non-defense manufacturers are entering the sector to capitalize on idle capacity and diversify end markets

3 *Geostrategic interest in protecting core European technologies*

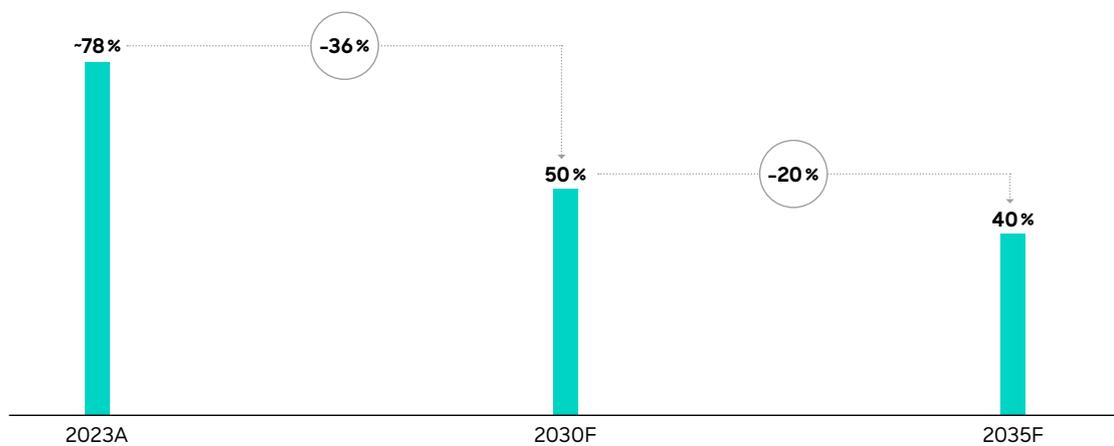
The need to build and maintain sovereign European leading-edge defense capabilities, protect core defense technologies and ensure supply chain security is driving investment in European assets.

To reduce dependence on the United States as a strategic military partner and on China as a key supplier of electronics and critical raw materials, a significant portion of the European procurement budget is being allocated to strengthening autonomous defense capabilities. For example, EU member states have increased the share of public defense spending directed toward EU-based defense equipment. As a result, pan-European transactions are becoming increasingly important for aligning investments with strategic goals, for example by creating defense leaders and enabling pan-European defense integration. Pan-European consolidation also has several operational advantages. It allows companies to improve supply chain resilience, stabilize value chains, control critical components (through vertical integration) and eliminate bottlenecks, as well as achieve economies of scale and reduce costs. Ultimately, consolidation also drives pan-European collaboration across defense segments.

M&A implications by stakeholder group

- European investors are positioned to capitalize on the rising strategic value of mission-critical defense innovations, with high future exit valuations likely
- Defense manufacturers are incentivized to invest in European assets for capacity and competency expansion
- Smaller suppliers are becoming a target, as their expertise and spare capacities offer know-how and production continuity

Share of EU member state defense procurement budget invested in non-EU equipment, 2023-2035 [%]



Source European Union

Roland Berger

4 Shift to an innovation-led "new defense" ecosystem

Startups specializing in smart affordable mass technologies (especially autonomous systems) are disrupting the defense market, creating M&A opportunities for themselves and legacy players.

The European defense industry is transforming as it adjusts to the threats posed by "new defense" technologies such as drones, cyberattacks and satellite sabotage. As outlined in our "The defense imperative" report, smart affordable mass technology – cost-effective assets that can saturate the battlespace with volume – is becoming a key development area. The new ecosystem is being driven by defense startups, which are using proven technologies from civilian sectors and battlefield insights as a base for defense solutions. They exhibit much quicker innovation cycles and agility than traditional defense companies, resulting in the rapid development of cost-effective, mass-producible and easily upgradable systems, such as loitering munitions and drones that can be deployed in swarms. They also attract top talent. Another feature of this innovative ecosystem is its evolved revenue models. Legacy defense players are dependent on customer-owned IP and procurement-driven development in long-term milestone-based projects. In contrast, new defense startups aim to drive innovation from battlefield insight and proprietary technology, retaining IP to scale solutions across programs and capture faster growth with

"We see startups with rapid innovation cycles emerging as attractive M&A targets, while more established players, fueled by strong capital inflows, are increasingly engaging in M&A themselves."



ANDREAS GRILLE
Partner

higher long-term upside. In addition, increasing private investments in defense further facilitate growth and support startups' independent development cycles.

M&A implications by stakeholder group

- Legacy defense players are acquiring new technologies and know-how in sectors such as AI, cybersecurity and electronics (which have flat integration structures) in response to the changing industry requirements
- Startups are leveraging the attractive market environment for vertical and horizontal integration to further scale capacities, accumulate knowledge and improve their supply setup

• **Key takeaways for M&A stakeholders**

Based on the analysis above, we believe that five key messages highlight the importance of M&A for European defense stakeholders and underscore why we expect transactions to continue to increase until at least 2030:

1 *New technologies are shaping a "new defense" doctrine*

Innovations in the market are driving a structural shift toward smart, affordable weapon systems. Agile startups are becoming attractive acquisition targets, while larger legacy players are pursuing vertical and horizontal integration to secure innovation and scale.

2 *Defense production ramp-up is driving consolidation*

The urgent need to scale up defense production – enabled by sharply rising defense expenditure – is intensifying the pressure for consolidation. Companies are acquiring capacity and capabilities to meet demand and reduce delivery bottlenecks.

3 *New entry opportunities for non-defense players*

The attractive defense environment is creating entry points for non-defense players through acquisitions. These companies can transfer their existing capacities and competencies into the defense sector to diversify and grow.

4 *EU strategic autonomy is fueling pan-European transactions*

The EU's goal of greater independence in defense production and supply chains is redirecting investments into Europe. This is leading to a rise in cross-border transactions and the formation of European defense champions.

5 *M&A activity in the European defense sector is surging*

The growth in both the number and value of M&A transactions is being driven by high valuations, strong capital availability, rising defense budgets and other significant structural factors.

Further reading

- [THE DEFENCE IMPERATIVE](#)
- [MERGERS AND ACQUISITIONS](#)
- [SMART AND AFFORDABLE MASS](#)

AUTHORS:

MANFRED HADER	Senior Partner manfred.hader@rolandberger.com
STEPHAN BAUR	Partner stephan.baur@rolandberger.com
ANDREAS GRILLE	Partner andreas.grille@rolandberger.com
DIETER ATZWANGER	Director dieter.atzwanger@rolandberger.com

CONTRIBUTORS:

BARRY NEAL	Senior Partner barry.neal@rolandberger.com
ERIC KIRSTETTER	Senior Partner eric.kirstetter@rolandberger.com
KAI BALDER	Senior Partner kai.balder@rolandberger.com
LEONARDO BONETTI	Partner leonardo.bonetti@rolandberger.com
FRANCESCO CAMPAGNA	Partner francesco.campagna@rolandberger.com
POL BUSQUETS	Partner pol.busquets@rolandberger.com
EYMERIC BOYER	Principal eymeric.boyer@rolandberger.com
FLORIAN AKNIN	Principal florian.aknin@rolandberger.com

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