Heligan
CORPORATE
FINANCE

Mid-Year Review 2026

Defence & National Security M&A

Noise vs Fundamental change
and what actually matters

We see things differently.

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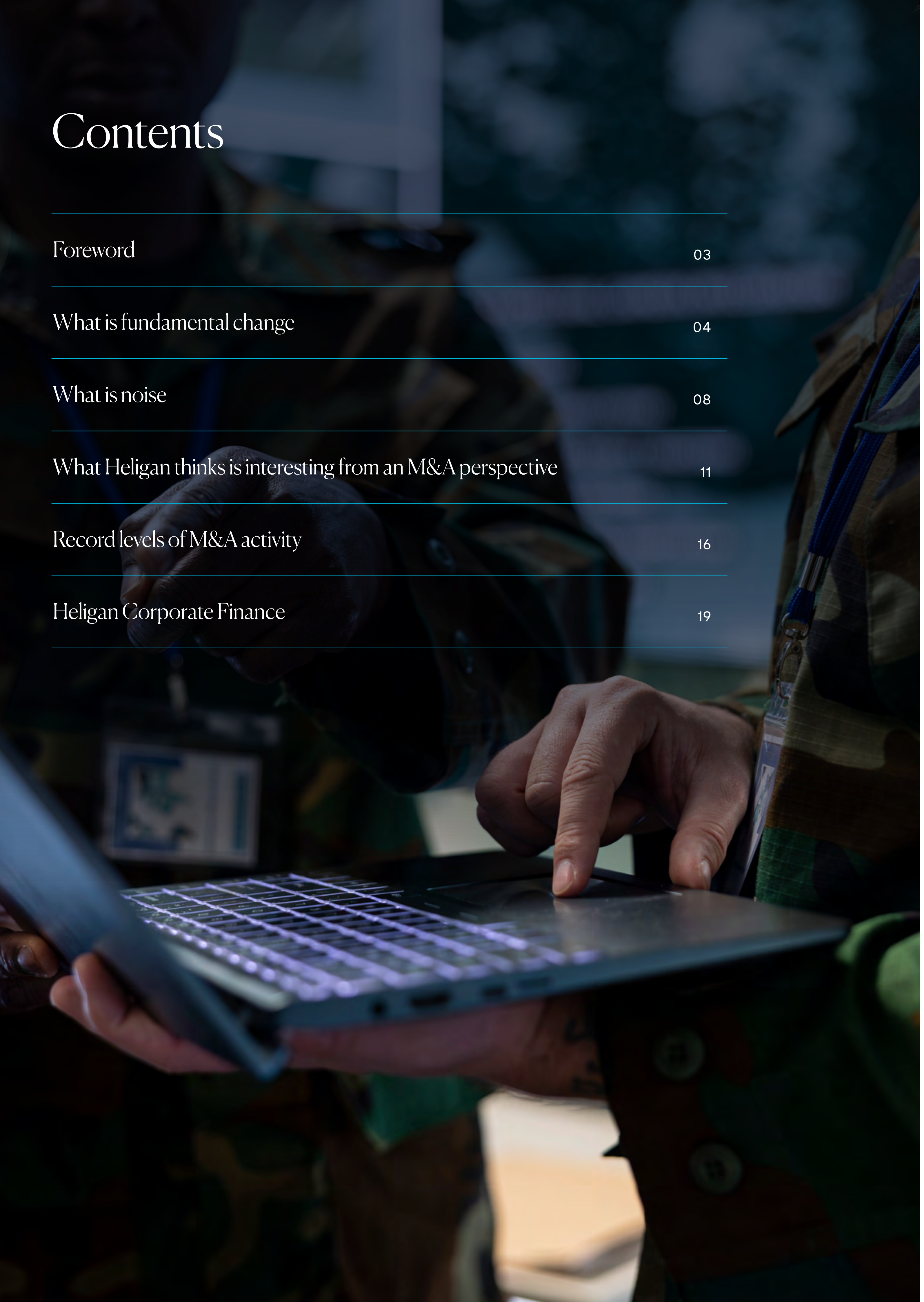

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Foreword

It's important to have an opinion and avoid being descriptive. At the start of 2026 we shared our views on where the Defence and National Security market was heading and the impact this could have on M&A. Six months on, it is good to pause and reflect on what has played out and what we can learn from this and to share a view of what is to come.

At a recent Defence and National Security panel discussion I joined, a question was posed around how to distinguish between what is "noise" and what is "fundamental change" – I now have the benefit of time to consider this fully. This forms the underlying theme of this document, and we hope not just to update on what is happening and share our opinion, but also to focus on what is actually important rather than simply adding to the noise and repetitive commentary.

The most valuable thing an advisor can do is to tell you what they actually think – not what is comfortable, not what is consensus and not what generates the most optimistic picture of their own market. Our view going into 2026 was that the sector was structurally undervalued by capital, misunderstood by most mainstream investors (and still is – not many genuinely "get it"), and on the cusp of a step-change in both deal volumes and pricing.

Six months on, that view has not just been validated but also materially compressed in timescale. What would have taken years has happened in months. That is not noise. The Defence and National Security market is repricing with valuations increasing but this fundamental change is still early in its cycle. The companies we're speaking with still need capital, and the level of fragmentation remains significant compared to other industries. Capital follows capital, and now that the Defence Investment Plan (DIP) has finally been released, a further step-up in M&A and investment activity is a near certainty.

Although I paint a rosy picture for M&A activity, all is not well throughout the supply chain.

I hope you find our latest thoughts of interest.

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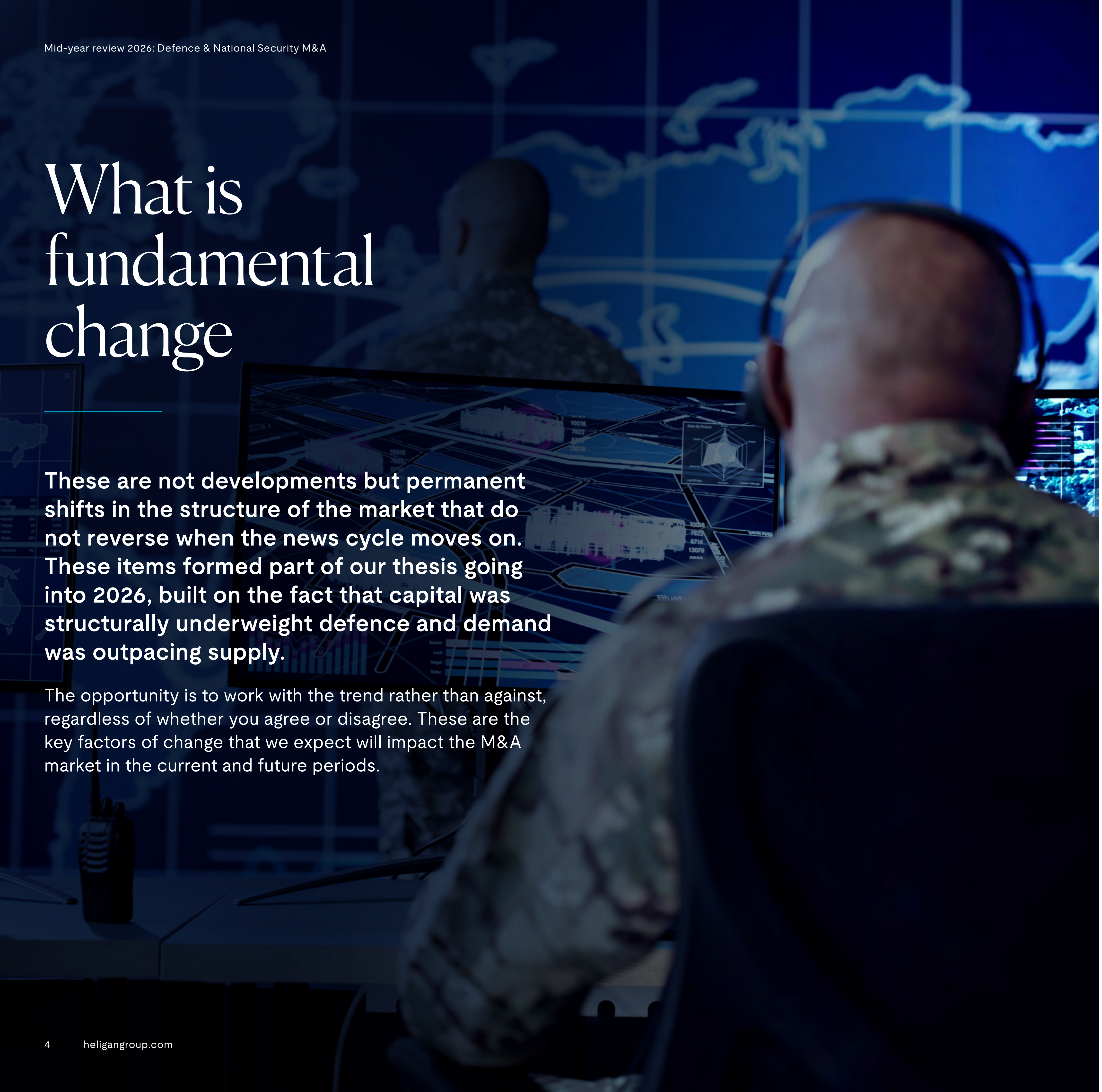
>
> **Matt Croker**
> Partner, Defence and National Security M&A



What is fundamental change

These are not developments but permanent shifts in the structure of the market that do not reverse when the news cycle moves on. These items formed part of our thesis going into 2026, built on the fact that capital was structurally underweight defence and demand was outpacing supply.

The opportunity is to work with the trend rather than against, regardless of whether you agree or disagree. These are the key factors of change that we expect will impact the M&A market in the current and future periods.

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The market is repricing Defence and National Security businesses

Dual-track processes between PE and trade buyers are now standard, and valuations in contested processes are increasing as financial buyers are willing to compete with trade acquirors. Sellers who ran a process 18-24 months ago and were disappointed should look again as the market has moved significantly (we can help you here).

PE was late to the Defence and National Security sector. Some PE funds were deploying capital early – they've bought well, are seeing the benefit now, and will do well upon exit. As we've highlighted before, the sector now has a "halo" effect. This urgency is translating into higher entry multiples. The relevant question for business owners is not "is PE interested?" but "which funds have genuine sector knowledge versus those buying exposure?" The answer materially affects deal quality and post-close experience. PE is outbidding trade in many processes, which gives you a good sense of the current market dynamics.

The downside here is that some PE and VC investors will lose money. If you don't genuinely understand the sector (or have someone close by who does), this is one sector where "you don't know what you don't know" holds true. Buyer beware.

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Dual-use has blurred the lines between civilian markets and Defence

Dual-use is no longer a buzzword but it is the primary lens through which MoD procurement is now evaluated. There have been multiple structural signals that the boundary between defence and commercial technology has permanently shifted, most notably in explicit commitments in the Strategic Defence Review.

Businesses still positioning themselves as purely "commercial" are missing a window of opportunity. However, we expect this window to remain open for only the next 18 months, after which companies become incumbents and breaking in becomes even more challenging. Making the pivot is not easy though. Some companies we know have gone from 0% defence exposure 18 months ago to 100% defence today; this is an outlier (also now not "dual-use"…!) but is a great case study in what is possible. The challenge we see is how to support companies during this transition – many seek more exposure to defence but it is a completely new route to market for them. Companies who have operated in the defence sector for years find commercialisation challenging, let alone those who don't understand how defence procurement works (and how it doesn't work…).

Regional Defence clusters are the most likely source of new connections and introductions. They are a helpful group of individuals with a common purpose – if not already involved, join your local cluster. They're highly accessible and you will find a very supportive community.

Sovereign capability is now non-negotiable and supply chain resilience

Rare earth dependencies, raw material supply chains and the accelerating push to reduce exposure to Chinese manufacturing have moved sovereign capability from a strategic preference to a necessity. The issue here (one for another day) is that the UK is reliant on allied (and non-allied) states for critical raw materials. This isn't just the UK, but also the US and wider NATO. There is no easy fix – supply chains will have to break and there will be bottlenecks.

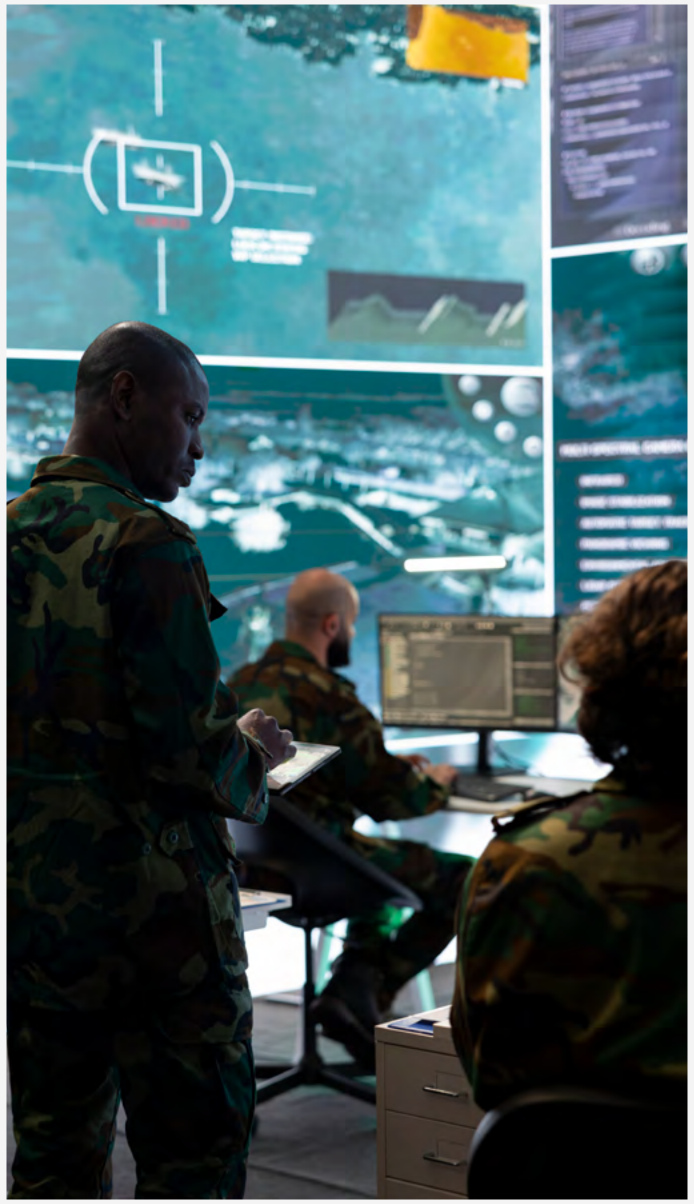
Businesses with sovereign IP, proven relationships with government customers, and UK-based manufacturing and supply chains are attracting strong interest. During early conversations with buyers and investors, the focus on supply chain partners is greater and more detailed. Acquirors will pay a strategic multiple if an acquisition can help with supply chain resilience.

Institutional capital in Defence and National Security has never been greater

The ESG reversal from major banks is more significant than the headline suggests as it unlocks leverage for PE-backed buy-and-build strategies that were previously constrained. Private debt funds are now actively seeking to enter this market. Even as recently as 2021 and 2022, raising debt finance to support a PE investment was exceptionally challenging in this sector, regardless of how good the underlying business was. This change is much welcome.

The trigger for this change was large banks being hauled in front of the parliamentary select committee and challenged on why they're not lending. The banks blamed FCA regulations and then subsequently came out slightly bruised when it was clear FCA regulations do not prohibit lending to the sector, only internal bank policies do. Since then, banks have been a much better partner for UK defence (although there is still more to be done).

For Private Equity, interest and deal activity is increasing year-on-year. Patient capital is needed as cycles can impact exits. Capital follows capital and an increase in defence spending across NATO will result in even greater Private Equity interest in the future.



What is noise

The instinct within the media is to treat every news item as a signal, which is incorrect. The best businesses have a clearly defined strategy and a goal they're working towards. This makes it "easy" to filter through the noise and focus on execution.

The points below do matter and have impacted businesses negatively and positively. Through the eyes of an M&A process or a liquidity event, have these points genuinely altered the course of strategy? Our view is no, they haven't.

The DIP

Although slightly controversial, we view the DIP as noise – our view is that nothing has fundamentally changed and there is still a significant funding gap. The MoD asked for £28 billion against the Spending Review baseline and received roughly half. This is the DIP the Treasury was willing to fund, not the DIP the Chief of Defence Staff asked for.

That underfunding is also why the plan soft-pedals into 2035 rather than being aggressive to 2030, with the post-election period explicitly left "unallocated". There simply isn't the money to move at the pace the mission requires. If the SDR was about direction, the DIP's job was to detail the funding and instead it has revealed a gap.

The DIP is a serious document with money behind it. Just nowhere near enough to meet the objectives of the SDR. Now it is released we must look forward and work with what is available. Our armed forces are world-leading, innovative and driven and have the full-support of industry. Private capital will hopefully mobilise quickly and fill the gap (and the opportunity) provided.

Ministerial Instability at the Top of Defence

Everyone wants stability and we definitely did not predict the level of political change in recent months. Ministerial churn adds friction and is at best unhelpful, but it does not reverse direction. The reaction is largely a weary "not again", reflecting the sentiment and frustration across the defence community.

Healey's resignation letter is probably the most honest public document in years. It confirms the DIP was completed in January 2026. The delay was political, not technical and the Treasury blocked it. Sometimes what is not said is just as important. What is probably not being said in the media will be the ongoing fallout between Whitehall and Defence Chiefs.

Access to finance

Five Trade Associations have jointly published a damning picture of SME sentiment across the defence supply chain. It is worth reading if you haven't already. It captures genuine distress on the ground and is a good barometer of reality – 91% of ADS member SMEs report problems raising finance and many are turning down government contracts they cannot fund. It is not, however, a signal that the structural investment thesis has changed.

As advisors, we are fortunate to work with many companies that find it relatively "easy" to raise finance. The issue is that investors and banks will only invest if there is a banking and investment case. That is solid cash generation, a clear growth strategy, a stable management team and relatively good visibility over the order book and pipeline. This is the case across all sectors, and some businesses are simply not investment-ready (for whatever reason).

The issue defence companies have is that pipeline opportunities often convert, but only after many months of moving to the right. They do have good visibility of the pipeline, just not necessarily when the contract will land. If the business has a strong P&L and balance sheet, finance can be raised easily (debt and or equity). For those with a more challenging working capital situation, the conversations need to be broader, but solutions definitely do exist, albeit they are likely to be more expensive debt/equity.

In recent months, multiple specialist Defence investors and lenders have emerged with capital available for deployment. It will always remain challenging to raise finance in any sector, not just defence, but the market is improving (albeit slowly). Raising finance is like a full-time job in itself – our guidance is to get ready early (whether with Heligan or another advisor). Being "match-fit" is critical, as it gives confidence to investors and lenders.

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Sector Intelligence

What Heligan thinks is interesting from an M&A perspective

Some sectors will always be highly active from an M&A perspective, such as Cyber (particularly differentiated SOCs and threat intelligence) along with Access Control and Secure-Comms, but we thought we'd share some emerging M&A themes.

The themes we've highlighted below are areas with historically a little less M&A activity, but where we see opportunities going forward, and where we expect M&A volumes will exceed historical levels.

Maritime Electronic Systems

Underrepresented in most M&A commentary and, as a result, underpriced by sellers who do not know what they have. The focus on submarines and naval platforms has obscured the more commercially accessible opportunity – sonar processing, electronic warfare systems, underwater communications and maritime domain awareness. These capabilities are in acute demand across NATO allies. Typical M&A valuations are disregarded here given the current high demand for these capabilities.

Strategic acquirors are actively seeking maritime electronic systems businesses and finding fewer than they expected. Businesses with existing government relationships and exportable IP are attracting buyer interest and we expect much greater activity in this sub-sector.

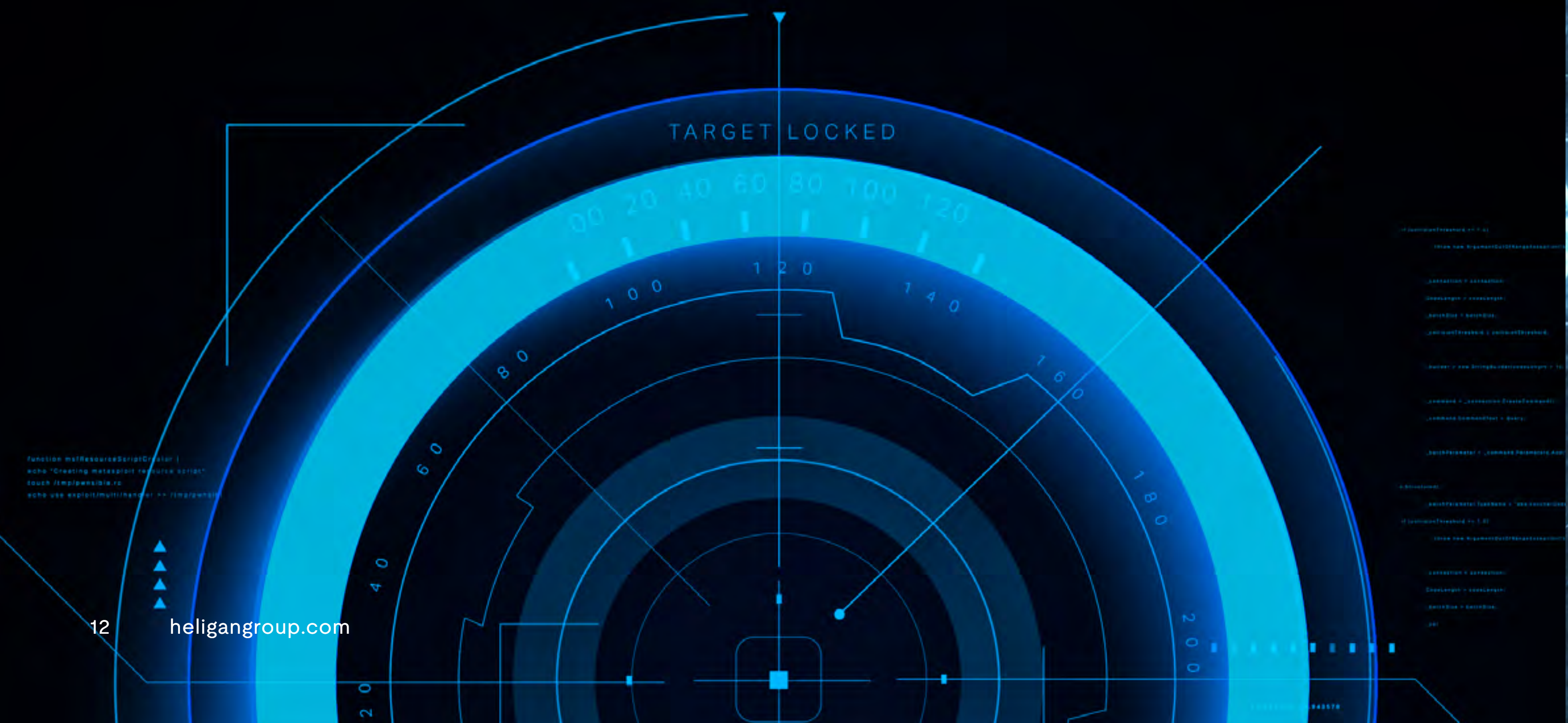
Law Enforcement Technology

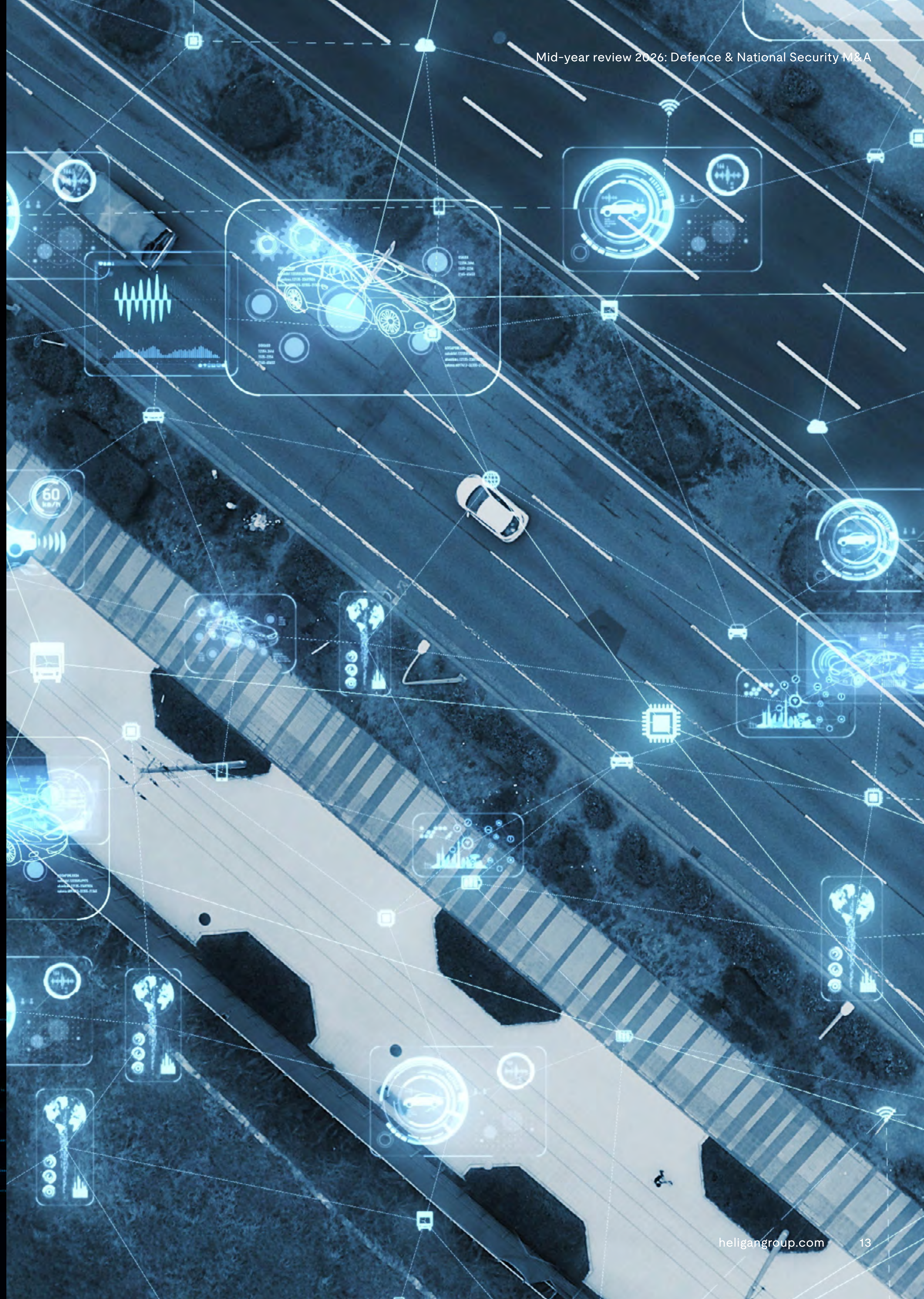
The most underpriced sub-sector in the market currently but one of the most interesting. Everyone is discussing cyber and drones but the procurement wave in police technology modernisation is receiving a fraction of the attention it deserves.

Part of the reason is structural. Procurement is fragmented across local forces, making the cost of sale exceptionally high for many businesses – particularly those without an off-the-shelf product ready to deploy.

Recognition software, biometrics and digital forensics are all attracting increased buyer focus, driven by a legislative framework that is finally catching up with operational reality. Businesses with established police relationships, even at modest scale, are substantially de-risked as acquisition targets. They provide something a new entrant cannot buy in an established platform.

Defence and National Security supply chains have dominated the conversation. Law enforcement is catching up and the businesses that have quietly built a position in this market are going to find that the M&A interest arrives faster than they anticipated.





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UAV technologies and supply chain

What began as a conflict of trenches and attrition has become a battlespace defined by drone technology - first ISR, then one-way effectors, and now drone-on-drone engagements for aerial dominance and freedom of movement over a geographic area. Capabilities are now emerging in months. The best innovation often happens in a time of need, not an abundance of finance and resources. Funding does help though…

Autonomous systems now account for up to 80% of battlefield losses in Russia-Ukraine and Ukraine's drone production (2.2 million units in 2024, rising to a 7 million target for 2026) highlights the direction of travel. That manufacturing base and the tactics built around it are now exporting into NATO procurement and commercial markets alike, which is why we expect growth to continue well beyond any single conflict.

The wider opportunity sits within the supply chain. UAV platforms have received the most funding, but counter-UAS technology is also where we see significant opportunity. Nobody has really mastered it yet but there are many interesting technologies developing. The dual-use theme of drones in Ukraine has provided significant innovation. Learnings from GPS-denied environments can be applied to the civilian market, such as how to fly a drone carrying urgent blood to a hospital. This also extends from composite manufacturing to more advanced electrical systems.

We expect much greater M&A activity in this sector going forward, as companies that have received venture and growth capital funding emerge as highly innovative, high-growth businesses.

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Precision Engineering across Defence and Aerospace supply chains

Record order books, sovereign supply chain pressures and raw material bottlenecks are creating ideal M&A conditions for precision engineering and engineering design companies operating across Defence and Aerospace.

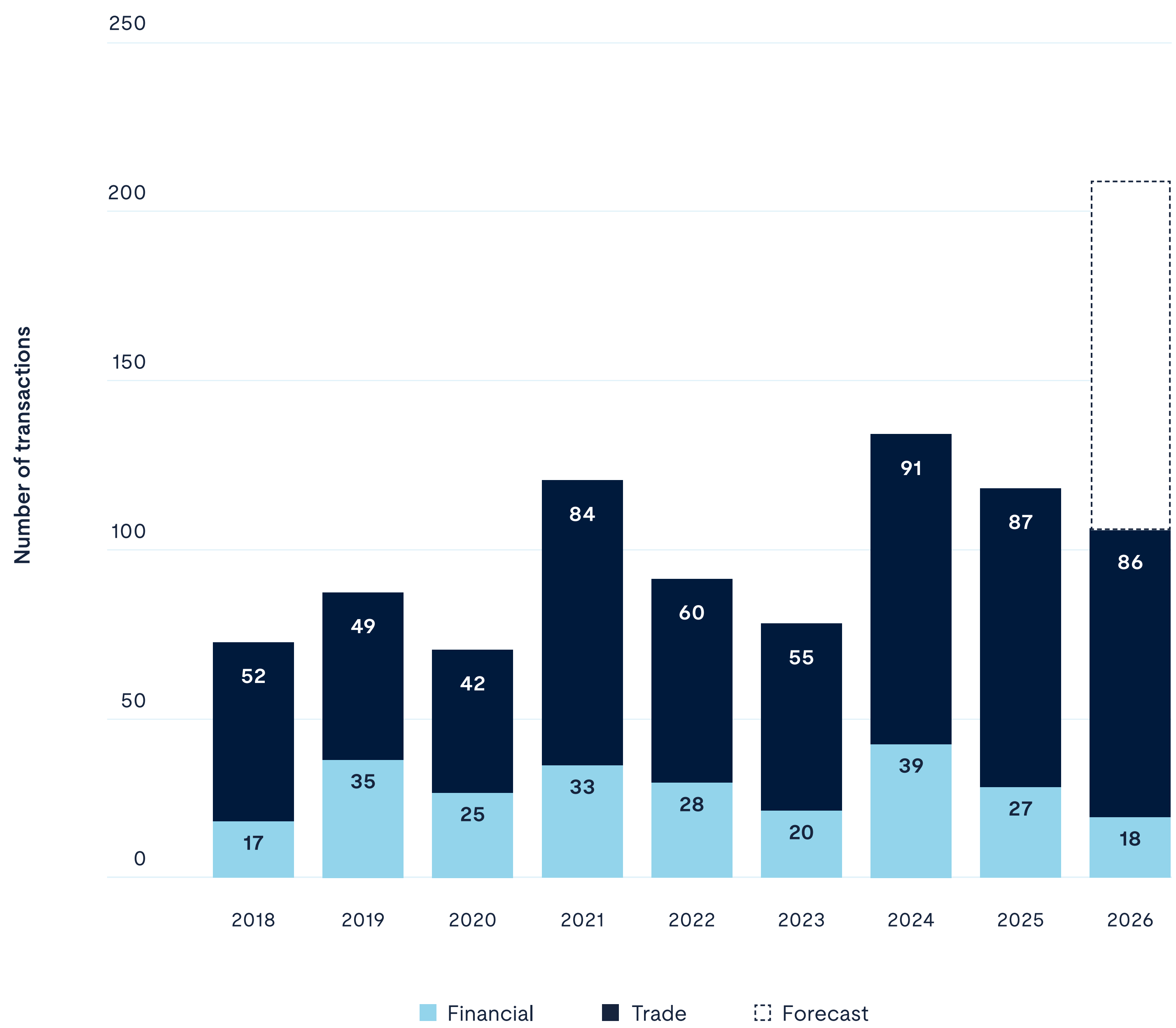
Primes cannot deliver on funded programmes without securing their supply chains and this is creating record order books. Change of control is often cited as a risk in M&A, but in this sector the dynamic is increasingly reversed. Customers with a critical dependency on a specialist provider frequently welcome the arrival of a larger, better-capitalised acquirer. One with the balance sheet to invest in capability, headcount and infrastructure in a way the incumbent could not. Being acquired by the right buyer is therefore not necessarily a threat to customer relationships.

For Private Equity, this sub-sector offers something the rest of the defence market often cannot: an industrial business that is straightforward to underwrite. Cash-generative, asset-backed, with long-term contracted revenue and a customer base that does not churn. Defence exposure without the complexity of clearances or classified programmes. That combination is attracting capital that is pushing valuations beyond where most founders currently expect them to be.

Record levels of M&A activity

> "H1 has been a record period for the sector. The interest in the sector is unprecedented and valuations are continuing to trend upwards."

Precedent transaction valuation multiples from prior years are no longer relevant and have been disregarded. If you are considering your options, the timing is good. We see this continuing into H2 and into 2027.



There has also been multiple new platform investments for PE during the period. These are detailed below. Many will have M&A as a key strategy for growth and some have already completed bolt-on acquisitions despite only recently closing the investment.

There is real optimism and excitement within the lending and investment community about the sector. This will normalise over time but currently it is where people want to allocate capital.

Date	Investor	Target	Target description
01/01/26	Growth Capital	Security HQ	Provides 24/7 managed detection and response cybersecurity services via global security operations centres.
05/01/26	Sullivan Street	Zenix Aerospace	Manufactures structural airframe and aero engine components for global aerospace and defence customers.
25/01/26	Horizon Equity	Threatscape	Provides cybersecurity services protecting endpoints, networks and cloud assets.
27/01/26	The Consello Group	Morpheus Risk	Provides risk and threat assessments with operational intelligence support.
10/02/26	LDC	Eagle Eye Innovations	Provides drone training, operations and consultancy for safe RPAS deployment.
25/02/26	Arcus Infrastructure	Wireless CCTV	Provides redeployable CCTV, live monitoring, body cameras and site security.
03/03/26	Tinicum; Blackstone	Senior plc	Supplies fluid conveyance and thermal management systems for aerospace and defence.
13/03/26	Evity Invest	Martin Precision	Manufactures and supplies precision aerospace components.
23/03/26	Rubicon	Erodex Graphite Systems	Supplies graphite electrodes, EDM consumables and carbon products for aerospace manufacturing.
31/03/26	Tiger Infrastructure	Orbis Protect	Provides vacant property security, CCTV, alarms and lone worker protection.
17/04/26	Total Capital	Radiocoms Systems	Designs and deploys mission-critical voice, video and data communication networks.
21/04/26	LDC	Daintta	Delivers technology, data, cyber and AI projects into secure environments.
13/05/26	National Wealth Fund	Rowden Technologies	Builds sensing, communications and information systems for edge national security environments.
14/05/26	LDC	Appcheck	Provides vulnerability scanning software across web, API and infrastructure assets.
20/05/26	Long Ridge	Ripjar	Provides AI-native financial crime screening and risk intelligence software.
15/06/26	Inflexion	Ranger Fire & Security	Provides fire and security services, building a national UK and Ireland platform.
17/06/26	Endless	Anochrome	Provides surface coatings and metal finishing for performance-critical components.
24/06/26	LDC	Ubds Group	Provides cloud, cybersecurity, data and AI digital transformation services.

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Heligan Corporate Finance

Focusing on the National Security, Crime Prevention and Public Safety sector, Heligan Corporate Finance helps businesses, Private Equity, founders and large corporates to:

- Undertake a formal M&A sale process;
- Buyside M&A support to PE and corporates;
- Undertake complex carve-outs of non-core divisions;
- Identify strategic targets and then advise on acquisition; and
- Raise buyout (and growth capital) debt and / or equity.

Dr Tim Grasby
Chief Executive Officer

Keith Bristow QPM
Executive Chairman

Matt Croker
Head of Defence and National Security

Simon Heath
Managing Partner

Ben Robinson
Associate Director

Azam Iqbal
Associate Director

Max Jae
Senior Analyst

Fin Bristow
Senior Analyst

Jude Miranda
Analyst

Supported by a highly experienced CF team of 22 members, four of whom hold SC clearance with some individuals holding DV clearance.

Heligan Group

Matt Croker
Head of Defence and National Security
matt.croker@heligangroup.com

Heligan Group
24 Upper Brook Street
London
W1K 7QB

St Philip's House
4 St Philip's Place
Birmingham
B3 2PP