KEYNOTE INTERVIEW

# The European defense opportunity





*The continent's renewed focus on strategic autonomy, industrial resilience and defense readiness is reshaping the defense investment landscape, say Tikehau Capital's Fabien Roualdes and Cyril Moulin*

**Q How is the geopolitical and fiscal environment impacting the European aerospace and defense opportunity?**

**Fabien Roualdes:** Since the creation of NATO in 1949, there has been an understanding that the US would play a role in Europe's security, alongside European allies' own commitments. Today, that is no longer the case. Recent US policy signals have reinforced European discussions about greater strategic autonomy and burden-sharing.

While the main consequence of this shift has been an increase in European defense budgets, it is clear that private capital also has an important role to play given government spending constraints. In addition, the increase in defense budgets is not necessarily the most significant change that we are seeing; what matters more is how countries are spending this additional money.

SPONSOR
**TIKEHAU CAPITAL**

Historically, only around 18 percent of European defense budgets have been spent on Europe-made equipment. We are now seeing greater policy attention on European industrial capacity, security of supply and production readiness. Denmark, for example, has acquired the Franco-Italian SAMP/T NG air defense system by Eurosam, which is a Thales and MBDA joint venture. Italy, meanwhile, has signed a contract with Airbus for six A330 multi-role tanker transport aircraft. We see this as the beginning of a positive trend for Europe.

Not only are European countries starting to buy more of the region's own equipment, but they have strengthened their position in export markets. The US remains the number-one exporter of defense equipment, but France is

among the leading global exporters. These export revenues can support industrial resilience across the sector.

### Q To what extent are ESG concerns constraining investor appetite?

**FR:** As long-standing players in this space, we believe that investment in defense can play a responsible role in supporting security and resilience. Prior to the covid-19 pandemic, as ESG frameworks first started to emerge, defense was often subject to exclusionary screening. That too is starting to change.

There is now growing acceptance that investment in defense has a role to play, so long as lines are carefully drawn with respect to what is and what is not acceptable (we, for example, apply a defined exclusion criteria in relation to weapons and anti-personnel mines). As a result, there is a more nuanced and sophisticated understanding of the sector. That has changed investor attitudes, and we are now seeing interest from a broad range of investors including pension funds, family offices, banks and insurers.

**Cyril Moulin:** The evolving geopolitical environment has led many investors to reassess the strategic importance of defense and aerospace.

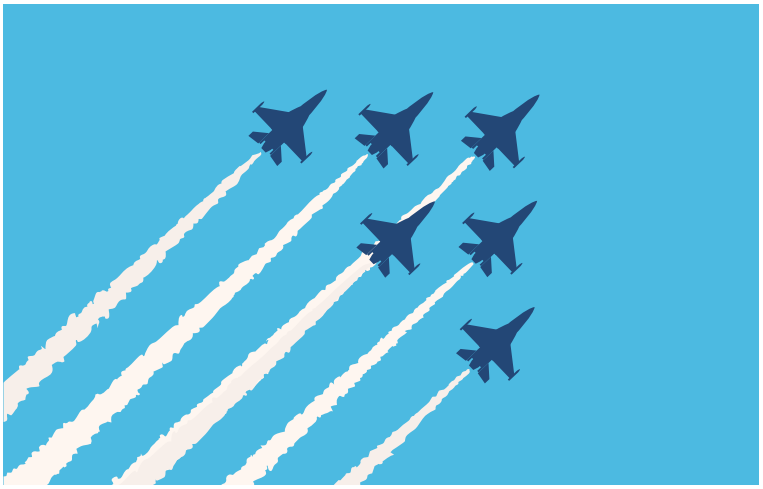
The February 2025 meeting between US president Donald Trump and Ukrainian president Volodymyr Zelenskyy in the Oval Office was one highly visible illustration of that shift. Prior to this, investors recognised the sector as high growth and benefiting from underlying mega-trends. Since then, investor interest has broadened, including among some generalist private equity firms.

### Q What impact has this hype had on competition? Does it present a risk for investors?

**FR:** A lot of the new funds are focusing exclusively on defense, which may create greater sector concentration. We have always balanced our investment in the defense sector with commercial aviation.

When I started out in this industry in the aftermath of 9/11, commercial aviation was under pressure while defense was thriving. That situation then reversed when the economy started to pick up. To this day, those differentiated cycles have continued – in fact, right now is one of the few periods in my career when both defense and commercial aviation are in an upswing. We really believe that diversification across defense and aerospace is important for portfolio resilience.

Additionally, new money coming into the sector has contributed to higher valuations. At some point, the conflict in Ukraine will end, and we believe we may see those valuations normalize. It is critical, therefore, to be



### Q What are some of the challenges and opportunities being created by tech advances in the sector?

**FR:** Recent conflicts, including in Ukraine and the Middle East, have highlighted the evolving nature of defense – in particular, the growing importance of drones and counter-drone capabilities. We have been monitoring these evolutions closely with the support of advisers from both industry and the military. What we call 'new defense' is part of the new reality, and that will have consequences for conventional platforms.

For example, the conflict in Ukraine has underscored the vulnerability of certain armored platforms to increasingly sophisticated surveillance and drone-enabled capabilities. This informs our selective and disciplined approach to ground-platform exposure. Fighter jets, however, continue to play an important role in many defense capabilities; they may become drones themselves at some point, in the sense that they could become unmanned, but may not change the supply chain where we invest. Nonetheless, we will continue to evaluate our exposure to programs that could be disrupted by technological advances to mitigate downside risk.

With respect to opportunities, we are now starting to invest in new defense ourselves. Valuations can be elevated and consolidation is possible, so we are very selective. We assess opportunities selectively across the European market. We don't, however, believe that new defense will entirely replace conventional defense, and because we manage a portfolio, we want to continue to have exposure to both.

highly disciplined about the prices you are paying.

**CM:** This is a sector with high barriers to entry. You need relationships. You need to be fully integrated into the ecosystem. You need to understand the underlying programmes and you need strong operational skills. That is what should enable you to stay ahead of the curve, originate differentiated opportunities and maintain pricing discipline.

We have made more than 40 investments in this space since 2020. We have those human connections, and we speak the language of defense and aerospace. That can be extremely reassuring for a founder or second-generation owner – this is their life's work, or their father's life's work, and they don't want to sell to just anyone.

It is important to be able to demonstrate that you have done this before. This is a sector where deep expertise is essential. Limited familiarity with its specific dynamics can increase the risk of mispricing investments and, ultimately, weigh on performance.

*"At some point, the conflict in Ukraine will end, and we believe we may see valuations normalize. It is critical, therefore, to be highly disciplined about prices"*

**FABIEN ROUALDES**

**Q How are foreign direct investment and export regulations impacting the defense sector in the current geopolitical environment?**

**FR:** It is understandable that governments seek oversight of strategic assets linked to national security. However, not everything is sensitive. It could be that only 5 percent of what a company does is deemed strategic, for example.

Equally, not all foreign buyers are off limits. It is possible to access liquidity from foreign buyers, but it does require a deep understanding of the sector and the conditions that governments can place on buyers. It adds complexity; again, this is where track record and expertise are important.

There are also – understandably – stringent export controls around the sector. Being able to navigate those is an important differentiator, and exports can be a major driver of growth for the businesses we back. In fact, the current geopolitical situation may create opportunities for Europe as an exporting region because the US has been unpredictable. In some cases, buyers in Asia and the Middle East are choosing European planes, for example, because from a diplomatic perspective, it can be seen as a neutral position to take and is therefore preferable to buying US or China alternatives.

**CM:** Some regulatory measures have also supported the sector. EU Defence Readiness 2030, for example, has been a supportive policy in the sector, while the evolution of ESG exclusion frameworks and the introduction of new financing structures have also been supportive.

Additionally, the fact that this is a highly regulated sector can support its resilience. Achieving certifications, for example, is a complex and lengthy process. This creates barriers to entry, which may help reduce substitution risk.

*"This is a sector where deep expertise is essential. Limited familiarity with its specific dynamics can increase the risk of mispricing investments and, ultimately, weigh on performance"*

**CYRIL MOULIN**

**Q Why is private equity ideally suited to financing Europe's defense build-out?**

**CM:** Private equity is agile. We are not working to multi-decade horizons – when we invest, we have a strategic plan that we seek to execute over a finite time period, which means we can take a dynamic approach alongside industrial players. We have levers that we are able to pull, accelerating organic growth, creating build-up platforms, transforming industrial footprints and cultivating sustainable business practices.

Europe's defense industry remains highly fragmented, and we believe private equity is well placed to provide the right capital, at the right time and in the right pace to strengthen that supply chain. Of course, this is an important differentiator among managers. ■

Fabien Roualdes and Cyril Moulin are co-heads of the private equity aerospace and defense strategy at Tikehau Capital

**Disclaimer:** This document is not an offer of securities for sale or investment advisory services. This document contains general information only and is not intended to represent general or specific investment advice. Past performance is not a reliable indicator of future results and targets are not guaranteed. Certain statements and forecasted data are based on current expectations, current market and economic conditions, estimates, projections, opinions and beliefs of Tikehau Capital and/or its affiliates. Due to various risks and uncertainties, actual results may differ materially from those reflected or contemplated in such forward-looking statements or in any of the case studies or forecasts. All references to Tikehau Capital's advisory activities in the US or with respect to US persons relates to Tikehau Capital North America.