



ROPES & GRAY

October 2026

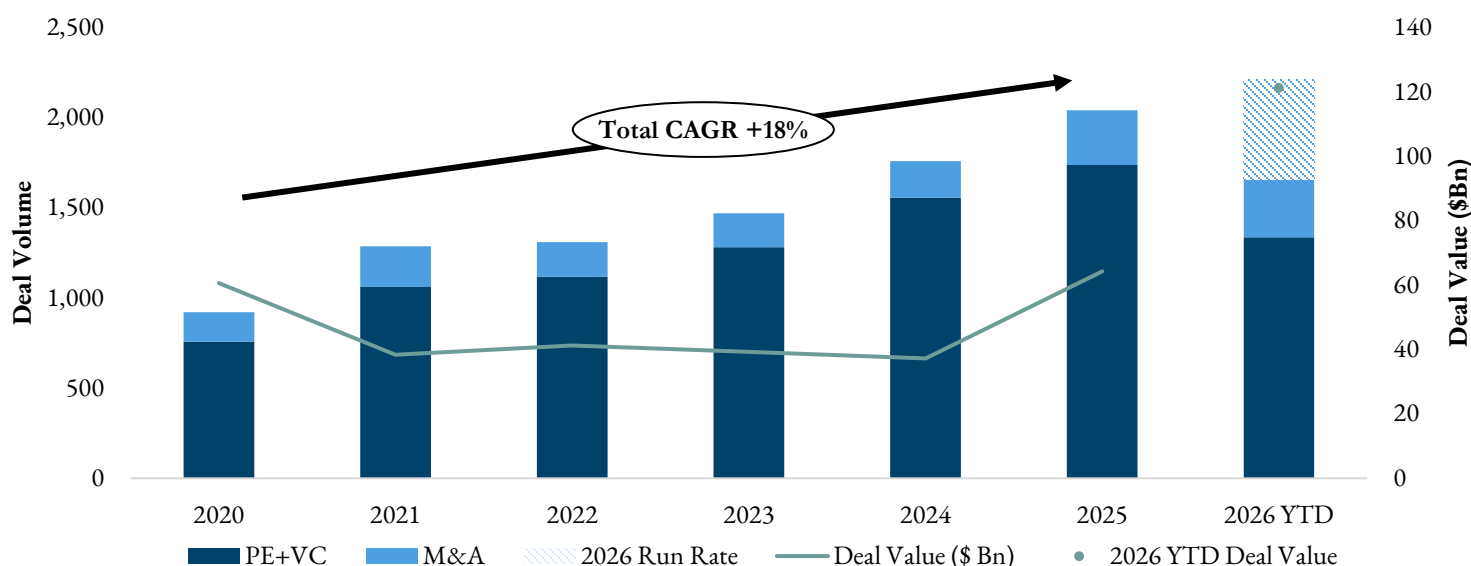
Aerospace & Defense M&A

Deal Activity, Market Trends and Outlook

Aerospace & Defense Deal Activity

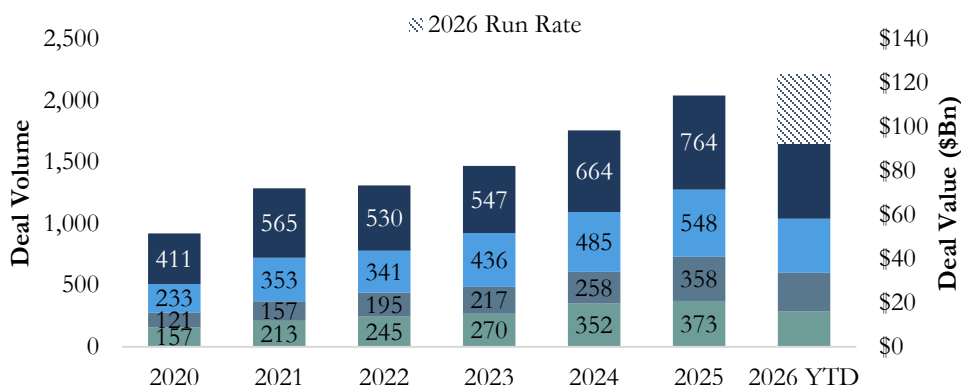
Aerospace and defense continues to be one of the most active and strategically complex sectors for private capital deployment. Rising defense budgets, prime contractor portfolio rationalization, and government demand for AI-powered solutions, autonomous platforms, and resilient supply chains are creating new platform and add-on opportunities. To win in this market, sponsors need to navigate unique structuring challenges and underwrite regulatory compliance costs, government contracting risks, and exit optionality from the outset.

Global Defense-Related Deal Volume by Deal Type



The data confirms that this trend is global, not purely U.S.-led. Europe's acceleration is the clearest proof point: NATO's 5% target, adopted at the 2025 Hague Summit, has moved from commitment to execution—at the July 2026 Ankara Summit, NATO reported that European allies and Canada had already reached a combined 4% of GDP in defense and security-related spending, representing roughly \$258B in incremental investment across 2025-2026. For sponsors, these commitments are not only increasing addressable market size; they are also accelerating domestic industrial consolidation, encouraging new defense-focused fund formation, and creating cross-border opportunities that will require careful attention to procurement rules, local-content requirements, foreign direct investment screening, and exit planning. The U.S. remains the dominant market by deal value, supported by the largest absolute defense spending base globally. China's 24% deal-count CAGR reflects domestic defense-industrial consolidation, though cross-border investment restrictions and other constraints mean this growth is largely inaccessible to Western sponsors and instead represents a competitive dynamic to monitor.

Global Defense-Related Deal Volume by Geography



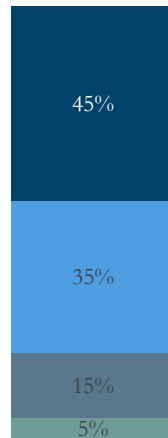
	CAGR		% Total '20-'25
	'20-'25	Count	Value
U.S.	13%	40%	66%
Europe	19%	27%	24%
China	24%	15%	6%
RoW	19%	18%	5%

Source: PitchBook. Defense figures reflect Global defense-related transactions that were announced or closed between 1 Jan 2020 and 30 Sep 2026 and are assigned to the aerospace and defense industry as defined by PitchBook. Private Capital includes PE and VC. PE deals include growth/expansion deals. M&A deals include control transactions only, and do not include joint ventures. VC deals do not include grants.

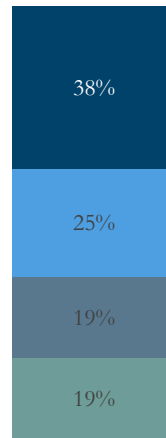
Aerospace and Defense Subsector Activity

As U.S. and allied procurement priorities shift toward AI-enabled systems, autonomous systems, software-defined defense, counter-drone and missile capabilities, and space infrastructure, investors are increasingly targeting businesses positioned at the intersection of national security demand and scalable technology platforms. That momentum has made defense tech the fastest-growing aerospace & defense subsector by deal count, even as traditional aerospace continues to represent the largest share of overall deal activity and value. For sponsors, the opportunity is not simply exposure to defense spending, but the ability to build platforms around technologies that governments are actively prioritizing, funding, and integrating into next-generation defense architectures.

2020-2025 by
Deal Count



2020-2025 by
Deal Value



	CAGR '20-'25
Aerospace	16%
Defense Tech / Services	22%
Aircraft Manufacturers Parts and Components	14%
Air Land Sea Defense	9%

Top 10 Aerospace & Defense Deals (2026 YTD)

PE-related

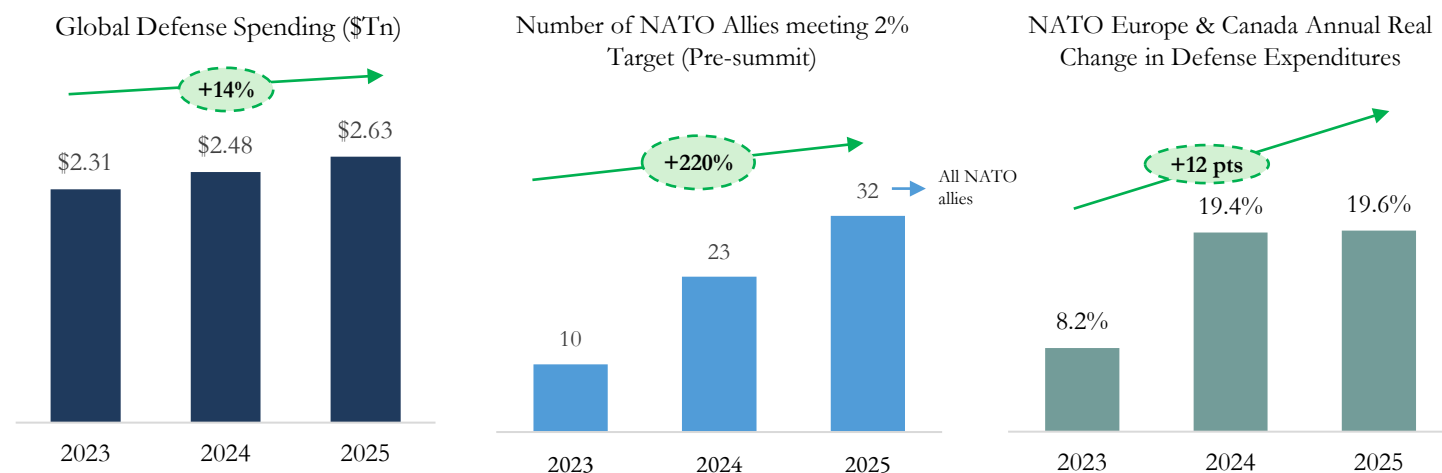
Date	Acquiror	Target (Seller)	Value (\$Bn)	Subsegment	Country
Sep-26	GE Aerospace	Consolidated Precision Products (Warburg Pincus, Berkshire Partners)	\$11.8	Aircraft Manufacturers Parts and Components	U.S.
Jul-26	Dubai Aerospace Enterprise	Macquarie Airfinance (Macquarie, PGGM, Sunsuper)	\$9.0	Aerospace	Ireland
Jun-26	KfW Group	KNDS (Wegmann family)	\$7.8	Air Land Sea Defense	Netherlands
Jul-26	Thales	Exail Technologies (Gorgé family)	\$4.5	Air Land Sea Defense	France
Jul-26	Lockheed Martin	Ultra Maritime (Advent International)	\$3.5	Air Land Sea Defense	U.S.
Jun-26	CVC Capital Partners	Smiths Detection	\$2.7	Defense Tech / Services	U.K.
Mar-26	CACI International	ARKA Group (Blackstone)	\$2.6	Aerospace	U.S.
May-26	Parker Hannifin	CIRCOR Aerospace (KKR)	\$2.6	Aircraft Manufacturers Parts and Components	U.S.
Apr-26	TransDigm Group	Jet Parts Engineering & Victor Sierra Aviation (Vance Street Capital)	\$2.2	Aircraft Manufacturers Parts and Components	U.S.
May-26	VSE	Precision Aviation Group (GeNx360)	\$2.0	Aerospace	U.S.

The subsector story is also a diligence story. Defense tech platforms offer growth exposure to priority procurement areas, but they carry diligence requirements—classified work compartmentalization, cybersecurity posture under CMMC, government data rights that may limit IP monetization, and customer concentration tied to single-agency funding lines. Traditional aerospace and components businesses may offer clearer industrial logic, but fixed-price contracting, supply chain resilience, and prime/OEM margin pressure should be reflected in quality of earnings, working capital, and financing diligence.

Source: PitchBook (accessed 30 Sep 2026). Figures reflect Global defense-related transactions that were announced or closed between 1 Jan 2020 and 30 Sep 2026 and are assigned to the aerospace and defense industry as defined by PitchBook. PE deals include growth/expansion deals. M&A deals include control transactions only, and do not include joint ventures. VC deals do not include grants.

Macroeconomic and Policy Environment

Across Europe and the United States, the defense investment environment has moved from strategic reassessment to execution. What began as a policy response to rising geopolitical risk has become a more deliberate push to rebuild industrial capacity, accelerate procurement, and draw private capital into mission-critical areas of the defense ecosystem. Recent initiatives point to a clear shift in tone: governments are no longer focused solely on higher headline spending, but on creating financing tools, demand signals, procurement reforms, and localization requirements that can translate ambition into deployable capability.



Examples of Recent Defense Initiatives

 NATO At the July 2026 Ankara Summit, NATO reported that European allies and Canada have already reached ~4% of GDP in combined direct and defense-related spending. NATO said the accompanying industry forum would yield 'tens of billions of dollars' in new procurement contracts.	 U.S. Department of War - In November 2025, the Acquisition Transformation Strategy was released to increase private capital investment and to accelerate the creation of new companies. It also calls for clearer demand signals, longer contracts, and deeper engagement with private equity and venture capital firms through tools such as purchase guarantees, loan guarantees, SBIR, STTR, STRATFI, TACFI, and APFTT. - On 21 April 2026, the President's FY2027 budget sought \$1.5T in total defense resources (a 42% increase)—\$1.1T in discretionary authority for the Department of War and \$350B in mandatory reconciliation funding, prioritizing critical munitions and industrial-base expansion. - As of September 2026, Congress has not enacted FY2027 defense appropriations; the government is under a continuing resolution and the \$350B reconciliation component remains unresolved, risking delays to contract awards.	 Germany Ministry of Defense - On 14 November 2025, Germany became one of Europe's most important rearmament markets by approving the government plan that sets aside €82.7B for defense spending in 2026. - On 15 January 2026, the Bundestag passed the Planning and Procurement Acceleration Act for the Bundeswehr. The law is intended to get equipment, material, and major systems to troops faster. Following this, Germany approved loitering munitions, space-surveillance radar, F-35 missiles, resilient tactical communications, MEKO A-200 frigate schedule-protection measures, soldier modernization, and F124 frigate upgrades.
 European Commission Security Action for Europe (SAFE): Aims to mobilize ~€800B for European defense investment, combining ~€650B of national fiscal space via the Stability and Growth Pact escape clause with a new €150B SAFE loan instrument and EIB support. SAFE generally requires at least 65% of component costs to originate within the EU, EEA-EFTA, or Ukraine.		

What Market Trends Mean for Deal Making

MARKET TREND

DEAL MAKING IMPLICATION

1 Primes are divesting non-core divisions to refocus on next-generation platforms and core mission systems.

Aerospace & defense carve-outs carry distinct execution complexity.

Transactions must be structured to protect facility security clearances, navigate government data rights that attach to divested programs, and retain a cleared workforce.

2 Investments into Europe are increasing.

Sponsors must continue to navigate European FDI screenings.

With no de minimis threshold and cross-member agreements in place, any transaction in Europe can draw scrutiny to operations in all 27 member states and through a burgeoning EU supranational process. In practice, timelines can add months to deal execution and present inconsistent conditions across jurisdictions.

3 Governments are intensifying scrutiny of supply chain nodes.

Regulators are demanding greater visibility into ownership structures, cybersecurity posture, and foreign influence for deals involving critical supply chain participants and assets.

Early engagement with regulators and longer deal timelines can help mitigate the impact.

4 FOCI coverage is expanding, and interpretations of "defense" firms are broadening.

Defense-related regulatory scrutiny is no longer confined to traditional defense contractors.

Dual-use and critical-capability businesses that never saw themselves as part of the defense sector are increasingly drawing the same level of regulatory scrutiny once reserved for traditional contractors. As the definition of defense expands, lines of business long considered commercial must be reexamined for potential exposure.

5 Congress is showing increased skepticism toward PE ownership of defense assets, including through oversight hearings and proposed disclosure requirements.

Sponsors must treat this regulatory architecture as a factor in acquisition structuring, holding-period governance, and exit planning.

Sponsors should structure acquisitions, governance, and value-creation plans to demonstrate alignment with national security objectives.

A Look Ahead

More fixed-price contracting

The U.S. Government is accelerating a shift toward fixed-price contracts. This is likely to squeeze OEMs as upstream firms seek to protect their margins. Valuation models should consider the risk of shifts in contract payment structures.

Emergent technology integration with defense infrastructure

Defense procurement is focusing on space, AI, and autonomous platforms, alongside more traditional defense technologies. Companies with a foothold in these sectors will become increasingly intertwined with national defense infrastructures and markets.

Public-Private Partnerships

The U.S. is expanding defense-sector loan facilities and buying equity in private defense firms. These are major funding opportunities, but present novel risks for private co-investors.

Exit Path Complexity

Sponsors should expect that CFIUS, FOCI, and security clearance requirements will shape exit optionality—limiting buyer pools for cleared assets, extending secondary sale timelines, and requiring early engagement with regulators on change-of-control implications.

ROPES & GRAY



Ropes & Gray Capabilities

Why Ropes & Gray

Where defense-grade M&A firepower meets national security regulatory depth.

Proven Defense & Cybersecurity Deal Flow

- 70+ defense and aerospace private equity transactions since 2015.
- Deep experience in aerospace, defense, and cybersecurity PE transactions, from Saronic's \$1.75B Series D to CIRCOR's \$1.6B take-private to McAfee's \$14B sale.
- Direct experience with defense contractors, government services contractors, autonomous systems, government IT, and national security companies.
- Trusted by clients active in this industry, including Arcline, Advent, Bain Capital, HIG, McNally Capital, and TPG on their most sensitive sector deals.

Integrated Regulatory Platform Built for This Sector

- Dedicated CFIUS, data privacy & cybersecurity, and anti-corruption & international risk teams embedded within the PE practice — not siloed.
- Five-time Law360 Privacy Group of the Year; Leading Firm in Chambers Global, Chambers USA, and Chambers UK for data/cybersecurity; GIR 30 for ten consecutive years.
- Conduct privileged cybersecurity assessments, quarterback incident response for complex network intrusions, and advise on reporting obligations to U.S. and international regulators.

National Security Expertise Meets Private Equity Execution

- 270+ PE lawyers globally with depth enhanced by industry-leading government enforcement teams, including former Under Secretary of Homeland Security, Pentagon fellow, and veteran national security practitioners.
- Highly Regarded, International Trade: Export Controls & Economic Sanctions — Chambers USA.
- Leading Law Firm, International Trade: National Security — Legal 500 U.S.
- End-to-end from fund formation through acquisition, regulatory clearance, portfolio company operations, and exit.
- AI-powered deal execution that accelerates diligence, document review, and drafting timelines.

A Dominant Private Equity Practice

PE IS WHAT WE DO

- One of the largest, most sophisticated PE practices in the world, with unmatched expertise in all the industries where our clients invest.
- Trusted to help clients gain their objectives on their terms.
- Integrated finance team of **100+** finance lawyers delivering innovative capital structures – ranked a Top 5 U.S. Borrower Legal Advisor – across leveraged loans, high yield, direct lending, and bespoke credit solutions.

BROAD CLIENT BASE

- **60+** of the top 100 largest private equity firms on 2025 PEI 300 list
- **80+** Middle-market firms
- Regularly represent over **125** private funds in their transactional and other matters

MARKET IMPACT

Private Equity Practice
Group of the Year

Recognized 10 times since 2011
Law360

Law Firm of the Year
Leveraged Buyouts &
Private Equity

Recognized six times since 2015
U.S. News & World Report

Law Firm of the Year
Private Funds

Best Lawyers 2025

1,500+

Private equity transactions
in the last 5 years

Tier 1

Legal 500

Private Equity: Worldwide

Band 1 Nationwide

Chambers USA

Private equity buyouts: mid-market

Tier 1

2025 IFLR1000

Private equity transactions

Navigating the Defense, Space & Cybersecurity Regulatory Landscape

Regulatory Coverage Across Your Portfolio

CFIUS & FOREIGN INVESTMENT REVIEW

Our integrated PE practice includes a dedicated CFIUS team that works alongside deal counsel from the outset of a transaction. We provide seamless regulatory navigation as part of the deal, not as a separate workstream.

DEFENSE-RELATED REGULATORY REVIEW

Where appropriate, we partner with preeminent specialists in government contracts, FAR/DFARS compliance, and FOCI mitigation to deliver comprehensive and customized top-tier quality counsel across the full defense regulatory spectrum.

ANTI-CORRUPTION & INTERNATIONAL RISK

Our anti-corruption and international risk practice is integrated into every cross-border PE transaction. For portfolio companies operating in government services and defense contracting across multiple jurisdictions, we advise on compliance programs, risk assessments, and enforcement defense, recognized as Government Investigations Firm of the Year (EMEA Awards 2025) and ranked in the GIR 30 for ten consecutive years.

DATA PRIVACY & CYBERSECURITY COMPLIANCE

We are a five-time Law360 Privacy Group of the Year and a Leading Firm in Chambers globally. We conduct privileged cybersecurity assessments to identify gaps and develop risk-based alternatives, design customized incident response plans, conduct tabletop exercises, and advise on reporting and disclosure obligations to law enforcement and U.S. and international regulatory bodies. We also counsel on emerging AI/ML guidance and legislation, directly relevant to portfolio companies deploying AI-native technologies.

REGULATORY INVESTIGATIONS & ENFORCEMENT DEFENSE

We represent clients in investigations and litigation by regulators in the U.S., EU, and Asia regarding the collection, use, and security of personal information. We defend against consumer class actions, securities litigation, and regulatory enforcement actions that follow data breaches or compliance failures, providing portfolio companies with a single team that handles both the compliance and enforcement defense.

Your Dedicated Team



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