

Overview of defence-related deals in 2026

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The global defence sector is undergoing its most significant structural transformation in a generation. Escalating geopolitical tensions, the industrialisation of drone and autonomous systems, and the integration of Artificial Intelligence into military capabilities are reshaping the competitive landscape, the regulatory environment and M&A activity across the sector.

Technology and the changing character of defence

Defence is increasingly dependent on software and mass-production capabilities. The ability to identify, track and neutralise targets at range through autonomous systems, electronic warfare, and AI-enabled decision support is now as strategically important as kinetic firepower. This is giving rise to a new class of defence supplier: technology and manufacturing startups operating at the intersection of commercial and military supply chains. The categorisation of an acquisition target as 'technology' or 'defence' is no longer precise and applying the wrong lens may create transaction risks.

Key takeaway: The boundary between defence and non-defence businesses is increasingly blurred. Early specialist legal advice on classification is no longer a precaution; it's a deal necessity.

A changing competitive landscape

The scale of current activity is striking. In 2025, Europe's military spending rose by 14% to US\$864 billion. The sector recorded 257 M&A transactions in 2025, while global private equity and venture capital investment in the sector reached US\$10.63 billion and the pace has quickened in 2026. Defence tech startups raised US\$12.3 billion between January and June 2026 alone – almost double the amount raised in the same period in 2025 and already surpassing 2025's full year total of US\$9.95 billion. Drone manufacturers, satellite communications firms, AI / data analytics businesses, and cybersecurity specialists are now strategic assets. Government procurement timelines have shortened, and the willingness to onboard new suppliers has increased markedly.

Key takeaway: Expect a wider and faster-moving market, with more buyers, more capital and more competition for assets.

Governmental intervention

Governments globally are increasingly prioritising defence spending. The UK's Defence Investment Plan (June 2026) commits £298 billion over the next four years, with annual spending rising to almost £80 billion by 2029 (2.7% of GDP) and over £5 billion earmarked specifically for drones and autonomous systems. At the EU level, the ReArm Europe / Readiness 2030 plan provides for an €800 billion stimulus package and the EU Defence Readiness Roadmap 2030 establishes specific objectives towards making the EU 'defence ready' by 2030, including targets to increase joint procurement to 40% of Member States' defence spending by 2027 (up from below 20% currently), and to ensure at least 55% of EU defence investment is channelled within the EU defence market.

Key takeaway: Expect sustained and significant government demand across the globe, creating real commercial opportunity.

Navigating the European M&A regulatory landscape for M&A and JVs

Merger control

Merger control reviews account for the particular nature of competition in defence-related sectors. Single government buyers and competitive tenders for long-duration contracts mean that high market shares are not necessarily an obstacle to clearance. There may also be greater scope for the clearance of defence deals given the potential compatibility of traditional competition considerations with defence-related M&A and partnerships, as well as recent industrial and defence policy objectives. Indeed, the European Commission's revised draft merger guidelines, recognise supply chain resilience and defence readiness as legitimate considerations and propose an 'Innovation Shield' for acquisitions of small innovative firms. Similar considerations apply to UK merger control, where the UK CMA have been given a steer to prioritise pro-growth and pro-investment interventions in key industrial sectors.

Key takeaway: Defence deals may benefit from greater scope for clearance, but the potential use of specific EU law rules for defence M&A, such as Article 346 TFEU (protection of essential security interests) and national merger review call-in powers (allowing authorities to review transactions which fall below the normal filing thresholds), require early strategic planning.

FDI and national security screening review

The number of FDI and national security screening regimes in Europe has increased rapidly. These regimes capture deals involving suppliers of military or dual-use products or services and, in a number of cases, extend to direct and indirect suppliers to the defence sector. They may also allow governments to intervene in transactions even if the target or interest being acquired is very small. Acquirers from friendly or allied jurisdictions

are not immune from intervention, and the nationality and government affiliation of investors (including minority co-investors and limited partners) involve a nuanced assessment and can be determining factors in whether a transaction is notifiable or give rise to public interest or national security concerns. As FDI regimes are often procedurally opaque, making it harder to predict whether concerns might be raised. The scope of FDI reviews will further expand in light of the EU's revised FDI Screening Regulation which will apply from January 2028, which sets a minimum list of sectors which national FDI regimes must cover and mandates Member States to have call-in powers for non-notified deals for at least 15 months after closing.

Key takeaway: Early and detailed diligence is essential to map possible FDI and national security screening reviews and assess any related execution risks.

State aid and subsidy control

Where a transaction involves subsidies, EU State aid clearance or compliance with the UK's subsidy control regime will usually be required, and buyers should diligence any risk of a target's exposure to State aid liabilities arising from previously granted subsidies. The EU's recent Foreign Subsidies Regulation adds a mandatory clearance requirement for certain deals involving acquirers that have received subsidies from a non-EU government (including the UK) or a related entity, but this regime has yet to be applied in a defence sector deal.

Key takeaway: Consider the application of the Foreign Subsidies Regulation at an early stage.

Public procurement rules

The award of defence contracts by governments is subject to public procurement rules under EU directives and, in the UK, the Procurement Act 2023, with exemptions available for essential national security interests and contracts below certain value thresholds. Non-compliance creates a real risk that unsuccessful bidders will challenge a contract award. Joint and collaborative procurement models are also becoming increasingly flexible, and thresholds and timelines are expected to be further simplified to accelerate defence procurement.

Key takeaway: Verify procurement compliance early, as contracts awarded in breach of the rules are vulnerable to challenge and annulment by unsuccessful bidders.

General competition rules

Partnerships, joint R&D and other collaborations between rivals that fall outside merger control rules must still be assessed for compliance with the general prohibition on anti-competitive agreements and information exchanges, which applies under EU, Member State and UK law alike. Risk areas in defence-sector collaborations include joint bidding between rivals capable of bidding independently, joint production or R&D arrangements,

sharing of competitively sensitive information within bidding or purchasing consortia, and restrictive technology licensing arrangements. Penalties for breaches can be significant.

Key takeaway: Consideration of general competition law rules must be built into deal and JV planning and execution from the outset.

Practical considerations

1. Security clearance and diligence

Security clearance should be prioritised – this can take time, and diligence of classified materials cannot begin until the relevant clearance has been obtained. In practice, diligence typically involves clean teams of cleared personnel reviewing information in secure data rooms or secure facilities, with materials often heavily redacted.

Key takeaway: Identify individuals who need to obtain clearance as soon as possible and start the process immediately after they have been identified.

2. Relationships and subcontracting

A significant proportion of a defence target's revenue is often generated through subcontracting under a prime contractor rather than through a direct government relationship. The head contract between the prime contractor and the governmental authority is typically unavailable in diligence, yet the target's subcontract will often contain extensive flow-down provisions from it. Change of ownership at subcontractor level commonly requires both the prime contractor's consent and government approval. Understanding the state of the target's relationships with primes and governmental authorities is therefore integral to the diligence process.

Key takeaway: Relationships with governmental authorities and primes, rather than pure contractual terms, may have an outsized influence on how defence companies interact with government. Examining these relationships is a critical part of diligence.

3. IT systems and cyber standards

IT diligence in defence transactions should be treated as a priority workstream rather than a sub-item of general commercial diligence, and external specialist support is typically necessary as defence contracts increasingly impose specific cyber and information security obligations.

Key takeaway: Non-compliance with IT and cyber standards carries material integration risk and remediation can be costly. Poor cyber security is not just a risk to the target business itself but may also preclude the target from bidding for future contracts.

4. Single source pricing

Where a target holds UK government contracts placed on a single source basis (i.e. without competitive tendering because the authority has determined that only one supplier can deliver the requirement), those contracts will be subject to the Single Source Contract Regulations 2014 and the oversight of the Single Source Regulations Office (SSRO), including reporting obligations and a regulated profit rate.

Key takeaway: A buyer acquiring a target with significant single source revenue needs to understand both the current pricing position and the risk of single source contract repricing post-acquisition.

5. Intellectual property

Defence targets may hold 'secret patents' and rely heavily on trade secrets. Criminal consequences under national security laws for misuse of information make defence companies particularly sensitive to the loss of trade secrets. When entering into joint venture transactions, this not only means that associated technology licensing arrangements need to be drafted with secure information sharing platforms and national security restrictions built-in, but intra-company restrictions can also mean that a company's own legal team is not permitted to access the technology that is being licensed.

Key takeaway: Negotiation of technology transfer arrangements can be cumbersome and time-consuming, and deal timetables should account for these difficulties.

New opportunities

Increased government spending, a surge in new market entrants, and the dissolution of the boundary between technology and defence mean that the regulatory, diligence and transactional landscape is fundamentally shifting. Businesses that move early and with the right advisers will be best placed to capitalise on this opportunity.

Now is the time to review your deal processes, assess your regulatory exposure and position for the opportunities ahead. If you have any questions or would like to discuss how these developments may affect your business, portfolio or M&A activity, please contact any of the Clifford Chance contacts listed below.

For an additional analysis of the topics covered, access the full report [here](#).

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