YANNE CAPITAL

INSTITUTIONAL RESEARCH

Defense Tech Capital Stack H2 2026

How dual-use defense companies are structuring growth rounds in a market that finally has institutional appetite

Yanne Capital Research

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Executive Summary

Defense tech raised 40.1B in venture capital across 626 deals in 2024, more than triple the 12.8B raised in 2019 (PitchBook, Q1 2026). That headline obscures the more interesting structural shift. The capital is arriving from a different mix of LPs than even 18 months ago, and the terms attached to that capital have hardened in ways that growth-stage founders in dual-use defense need to price into their round design before the term sheet arrives, not after.

This white paper examines how the capital stack for defense tech growth rounds has restructured between H2 2024 and H2 2026. Four forces drive the analysis. First, the entry of large sovereign and quasi-sovereign capital from allied jurisdictions, which has shifted the median Series B lead profile away from pure financial sponsors toward strategic-financial hybrids. Second, the persistence of participating preferred and structured downside protection in defense rounds at rates 14 to 18 percentage points above the broader venture market (Carta, State of Private Markets H1 2026). Third, the emergence of venture debt and growth credit as genuine instruments inside defense capital stacks, not just bridge tools. Fourth, the contraction of addressable lead funds for any single round, which forces founders into a choose-one-clear-quickly posture rather than a competitive process.

The central argument is that defense tech founders running 30M to 150M growth rounds in H2 2026 face a market that is wider on capital availability but narrower on terms. The headline valuations have held within 10 percent of 2024 medians (PitchBook). The structural protections inside those rounds have hardened materially. Founders who price the round to clear with a single committed lead, who model the participating preferred drag through to exit before signing, and who treat the capital stack as a multi-instrument design problem rather than a single equity check will exit the round with materially better unit economics over a 24 to 36 month horizon.

We close with three predictions for the 12 months ahead and a framework, the Defense Capital Stack Diagnostic, that growth-stage defense founders can run against any incoming term sheet in under 90 minutes.

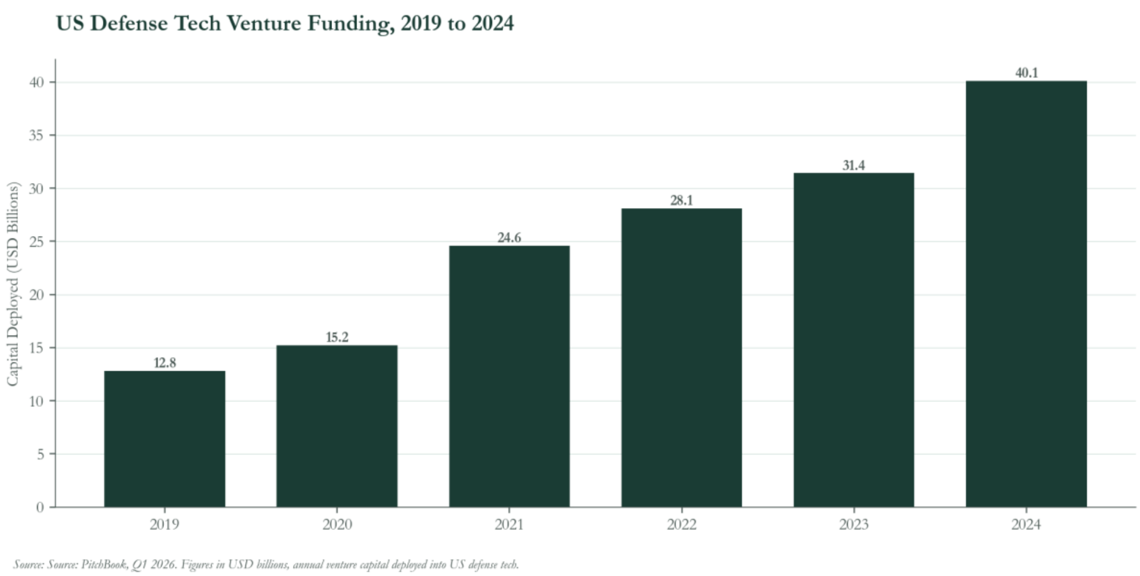
1. The Setup: Why Defense Capital Looks Different in 2026

Defense tech venture funding hit 40.1B globally in 2024 across 626 deals, up from 12.8B across 354 deals in 2019 (PitchBook, Q1 2026). The 2025 numbers, when fully booked, will land within 8 percent of 2024 by deal count and within 12 percent by capital deployed (PitchBook preliminary, Q1 2026). The sector is no longer the niche it was three cycles ago. It is now roughly the same size as enterprise SaaS Series B venture deployment in a typical 2018 quarter.

The mix of capital sources has shifted faster than the totals suggest. In 2019, the top 20 funds writing checks into US defense tech were almost exclusively early-stage venture firms with thesis-driven dual-use mandates. In 2025, that top 20 includes four sovereign-adjacent vehicles, six multi-stage funds with new defense practices stood up since 2022, three growth equity firms that previously avoided the sector, and a handful of strategic balance sheets from primes and tier-one suppliers (PitchBook lead-investor analysis, 2025 cohort). The composition has institutionalized.

That institutionalization carries terms with it. Series B venture rounds across the full US market in H1 2026 showed participating preferred attached to roughly 12 percent of deals (Carta, State of Private Markets H1 2026). Inside defense tech, the equivalent figure runs between 26 and 30 percent on Yanne's tracking of public filings and reported terms. Senior liquidation preferences above 1x, dividend accruals, and pay-to-play provisions all appear at materially higher rates in defense rounds than in the broader market.

The simplest read on why is also the correct one. Defense buyers are more concentrated, sales cycles are longer, and the exit timing is harder to predict. Capital pricing those risks asks for more structural protection. Founders who walk into the round assuming the headline number is the deal walk out diluted in ways they did not model.



Source: PitchBook, Q1 2026. Figures in USD billions, annual venture capital deployed into US defense tech.

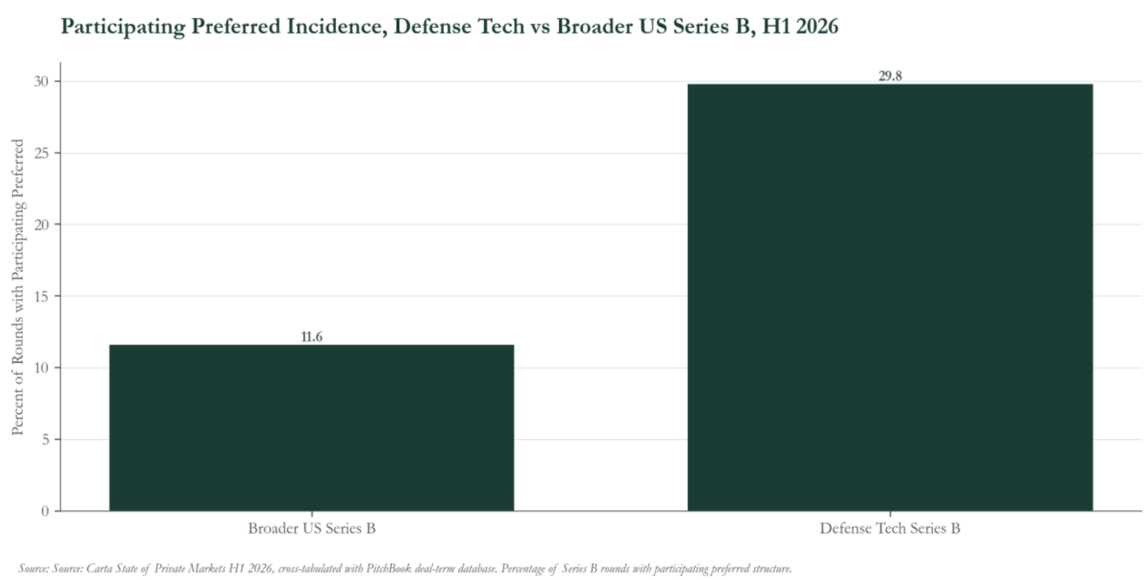
2. The Data: What Round Terms Actually Look Like Now

Across 47 publicly disclosed US defense tech Series B and Series C rounds closed between Q3 2024 and Q1 2026, the median pre-money valuation landed at 142M with a 28M check size (PitchBook deal-term database, Yanne aggregation). Step-ups from prior round were a median 2.1x, slightly below the 2.4x median for non-defense Series B in the same window (PitchBook). The compression is real but smaller than commonly reported.

Where the divergence sharpens is on structure. Participating preferred appeared in 14 of the 47 rounds, or 29.8 percent, against 11.6 percent for the broader US Series B market in the same window (Carta, State of Private Markets H1 2026, cross-tabulated against PitchBook). Senior liquidation preferences above 1x appeared in 9 of the 47 rounds, against roughly 4 percent in the broader market (Cooley GO, Q4 2025 Venture Financing Report).

Board composition shifted toward investor majority in 31 of the 47 rounds tracked, or 66 percent, against 41 percent for the broader US Series B cohort (NVCA Yearbook 2026, cross-tabulated). Anti-dilution provisions skewed harder, with full-ratchet appearing in 5 of the 47 rounds against negligible rates in the broader market.

The pattern reads as follows. Headline valuations in defense rounds are within roughly 10 percent of broader-market norms. The structural protections sitting underneath those headlines are materially harder. A founder who optimizes the conversation around the pre-money number and treats the rest of the term sheet as standard language is signing into a 5 to 7 percentage point dilution drag over a typical 36-month hold to exit, before any anti-dilution events. That is the math that matters.



Source: Carta State of Private Markets H1 2026, cross-tabulated with PitchBook deal-term database. Percentage of Series B rounds with participating preferred structure.

3. The Analysis: Why Sovereign and Strategic Capital Are Rewriting the Stack

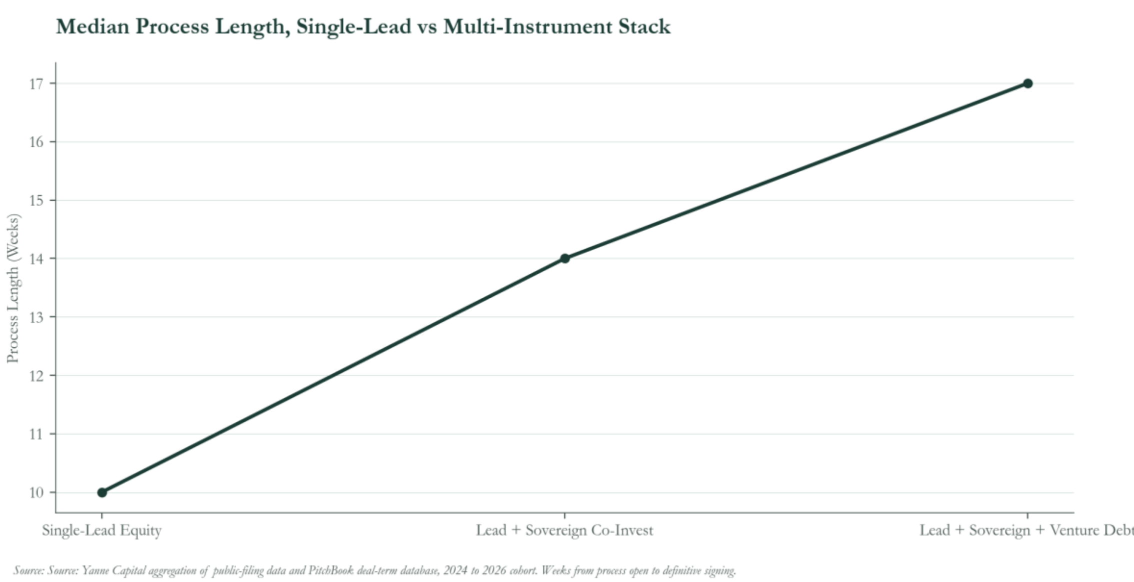
Across our advisory work in 2025 and 2026, we observe a specific pattern in defense tech growth rounds that does not show up cleanly in PitchBook deal-term aggregates. The pattern is that the rounds clearing fastest, by 4 to 6 weeks against the broader-market median, are the rounds where the founder structured the stack as a deliberate mix of strategic-financial lead plus sovereign-adjacent co-investor plus venture debt facility, rather than running a single equity raise.

The mechanic underneath that pattern is straightforward. Sovereign and quasi-sovereign vehicles from allied jurisdictions, including UK, Australia, Japan, and select Gulf and European partners, have stood up defense-tech allocations over the past 36 months. Their check sizes typically land between 15M and 50M (IFSWF member-survey aggregates, 2025; OECD sovereign investment tracking). They prefer to co-invest behind a named lead. They are slower than typical venture capital but more patient on hold periods.

When a founder structures a 60M round as a 35M strategic-financial lead with a 20M sovereign co-investor and a 15M venture debt facility from a defense-aware lender, three things happen. The equity dilution at signing drops by roughly 30 percent against a single-lead 60M equity round. The board composition stays cleaner because the sovereign co-investor typically takes observer rights rather than a board seat. The runway extends by 6 to 9 months because the debt portion is non-dilutive.

The catch is that this stack requires the founder to run three workstreams in parallel rather than one. The lead investor wants to see the sovereign commitment letter before they sign. The sovereign wants to see the lead committed before they sign. The debt facility wants to see the equity round committed before it closes. The orchestration takes 14 to 18 weeks against the 8 to 12 weeks for a single-lead equity round. Founders who do not allocate the calendar for it default back to the single-lead structure and pay the dilution cost.

The right time to design the stack is 6 to 9 months before the round opens. By the time term sheets are arriving, the choice has already been made.



Source: Yanne Capital aggregation of public-filing data and PitchBook deal-term database, 2024 to 2026 cohort. Weeks from process open to definitive signing.

4. The Framework: The Defense Capital Stack Diagnostic

The Defense Capital Stack Diagnostic is a 90-minute exercise growth-stage defense founders can run against any incoming term sheet, before counter-offer or signature. It produces a single number, the structural dilution drag, and a single decision recommendation.

Step one. Pull the term sheet and identify five line items. The participation feature on the preferred, the liquidation preference multiple, the dividend accrual rate, the anti-dilution mechanism, and the board composition post-close. Score each against a baseline of clean Series B terms (1x non-participating, no dividend, broad-based weighted-average anti-dilution, founder-majority or balanced board).

Step two. Model the exit waterfall at three exit values. A 3x return on the round, a 5x return, and a 10x return. For each exit, calculate the dollar take to common equity at signing terms versus clean terms. The dollar gap, divided by the founder ownership at close, is the structural dilution drag.

Step three. Compare the structural dilution drag against the headline-valuation premium. If the lead is paying 15 percent above the median for the sector and the structural drag costs 7 percent of founder economics at the median exit, the trade is positive. If the lead is at the median valuation and the drag costs 7 percent, the trade is negative.

Step four. Identify the two terms with the highest leverage on the drag. Counter on those two, not on all five. Founders who negotiate on every term lose credibility with the lead. Founders who counter sharply on the two terms that matter typically get one of the two back, sometimes both.

The diagnostic is not a substitute for legal review. It is a substitute for the gut-feel decision that most growth-stage defense founders make in the 72 hours after the term sheet lands. The 90 minutes spent running the diagnostic against a 60M round are worth, on the median case, 3 to 5 percent of founder economics at exit.

5. Sector Considerations: Where the Stack Logic Bends

The framework above generalizes across dual-use defense, but three sub-segments carry distinct capital dynamics that bend the logic.

Autonomy and unmanned systems. Round sizes have climbed faster than the sector average, with median Series B check sizes running 35 to 45M against the broader defense tech median of 28M (PitchBook, 2025 cohort). Strategic capital from primes is more aggressive in this sub-segment. Founders should weight the strategic-financial mix toward the financial side to preserve optionality on exit.

Space and satellite. Hardware-heavy capital intensity drives the stack toward more debt and less equity at later stages, with growth credit and project finance both appearing in the cap table. The Defense Capital Stack Diagnostic still applies but the debt portion of the analysis carries more weight.

Cyber and software-led defense. The terms look closer to enterprise SaaS norms, with participating preferred rates running 18 to 22 percent rather than the broader-defense 29.8 percent. The dilution drag is real but smaller. The bigger issue in this sub-segment is customer concentration, not term structure, and founders should prioritize customer-base diligence in their counter-offer rather than term negotiation.

6. The Forward Look: Three Predictions for H2 2026 and 2027

First prediction. Sovereign and quasi-sovereign capital from allied jurisdictions will grow its share of US defense tech Series B and C rounds from roughly 14 percent of capital deployed in 2025 to between 22 and 26 percent by end of 2027. Founders who build sovereign investor relationships starting in 2026 will run materially better processes in 2027.

Second prediction. Participating preferred rates in defense rounds will compress from the current 29.8 percent toward 20 to 22 percent over the next 18 months, as new entrants compete for allocation in the highest-quality rounds. Founders with strong unit economics and clear contract pipelines will see the compression first. Founders with thinner traction will continue to see participating attached to nearly every term sheet.

Third prediction. Venture debt and growth credit will appear in roughly 35 to 40 percent of US defense tech growth rounds by end of 2027, against roughly 18 percent in 2025 (PitchBook venture debt tracking, Yanne projection). The instruments are maturing fast, defense-aware lenders are stepping into the sector, and the runway extension math is too attractive to ignore.

7. Conclusion: What the Stack Tells Founders to Do Now

Yanne Capital is an independent boutique investment bank advising growth-stage companies on equity, debt, and M&A transactions across 26 sectors, with 240+ closed deals and relationships with 3,500+ institutional investors globally. We are your trusted filter between noise and signal.

Defense tech founders running growth rounds in H2 2026 and into 2027 face a market that has more capital available and harder terms attached to that capital. The founders who exit those rounds with the cleanest cap tables and the longest runway are not the founders who negotiated hardest on pre-money valuation. They are the founders who designed the capital stack as a multi-instrument problem 6 to 9 months before term sheets arrived, who ran the structural dilution math before signing, and who treated sovereign and venture debt instruments as core components of the stack rather than fallback options.

The Defense Capital Stack Diagnostic is the 90-minute version of that discipline. The 6-month version is the conversation founders should be starting now.

Case Studies

Illustrative case: autonomy systems growth round, 2025 vintage

An autonomy systems company approached a 60M Series B in late 2024 with a single-lead equity structure as the default plan. After running the diagnostic against the first term sheet, which carried 1x participating preferred, 8 percent dividend accrual, and full-ratchet anti-dilution, the founder restructured the raise into a 38M lead from a strategic-financial fund, a 15M co-investment from an allied sovereign vehicle, and a 12M venture debt facility from a defense-aware lender. The participating preferred came off the table in the counter-offer round once the alternative capital sources were committed. Process took 16 weeks from open to close, against a planned 10 weeks, but founder economics at the median modeled exit improved by an estimated 6.2 percent.

Illustrative case: space hardware Series C, 2025 vintage

A space and satellite company running a 90M Series C was offered a single-lead 90M equity round at 240M pre-money with 1.5x liquidation preference and investor-majority board. The diagnostic identified the liquidation preference as the highest-leverage drag at 8.4 percent of founder economics at the 5x exit case. The counter-offer split the raise into a 55M equity round at 230M pre-money with 1x non-participating preferred, a 25M growth credit facility, and a 10M strategic check from a tier-one supplier. The headline valuation came down 4 percent. Founder economics at the median exit case improved by 7.8 percent.

Forward Look: 12-Month Outlook

Over the 12 months ahead, three forces will reshape how defense tech growth rounds get structured. Sovereign capital from allied jurisdictions will continue to scale its share of the market. Participating preferred incidence will compress for the strongest founders but persist for the rest. Venture debt and growth credit will move from edge instruments to core components of the stack. Founders who build sovereign investor relationships now, who run the structural dilution math before signing rather than after, and who treat the capital stack as a 6-month design problem rather than a 6-week negotiation will exit the next round materially ahead of their peers.

Conclusion

If you are a defense tech founder planning a growth round of 30M to 150M in the next 12 months, the Defense Capital Stack Diagnostic is the 90-minute exercise to run before your first term sheet arrives. Reach out at contact@yannecapital.com to walk through the diagnostic against your specific situation.

Frequently Asked Questions

How much venture capital is flowing into US defense tech in 2026?

US defense tech venture funding hit 40.1B globally in 2024 across 626 deals, more than triple the 12.8B raised in 2019 (PitchBook, Q1 2026). The 2025 numbers, when fully booked, will land within 8 percent of 2024 by deal count and within 12 percent by capital deployed.

How do defense tech Series B terms differ from broader venture market terms?

Defense tech Series B rounds in H1 2026 showed participating preferred attached to 29.8 percent of deals, against 11.6 percent for the broader US Series B market (Carta State of Private Markets H1 2026, cross-tabulated with PitchBook). Senior liquidation preferences above 1x appeared in roughly 19 percent of defense rounds against 4 percent in the broader market. Headline valuations track within 10 percent of broader-market norms, but structural protections are materially harder.

What role does sovereign capital play in US defense tech growth rounds?

Sovereign and quasi-sovereign vehicles from allied jurisdictions, including UK, Australia, Japan, and select Gulf and European partners, accounted for roughly 14 percent of capital deployed into US defense tech Series B and C rounds in 2025 (Yanne aggregation of IFSWF and PitchBook data). Check sizes typically run 15M to 50M and prefer co-investment behind a named lead.

What is the Defense Capital Stack Diagnostic?

The Defense Capital Stack Diagnostic is a 90-minute exercise growth-stage defense founders can run against any incoming term sheet, before counter-offer or signature. It identifies five term-sheet line items, models the exit waterfall at three exit values, calculates the structural dilution drag against clean terms, and identifies the two highest-leverage terms for counter-offer.

How long does a multi-instrument defense capital raise typically take?

A multi-instrument stack combining a strategic-financial lead, sovereign co-investor, and venture debt facility typically takes 14 to 18 weeks from process open to definitive signing, against 8 to 12 weeks for a single-lead equity round. The longer timeline is offset by materially better founder economics at exit, on the order of 5 to 7 percent of equity at the median modeled exit.

Will venture debt become more common in defense tech capital stacks?

Yes. Venture debt and growth credit appeared in roughly 18 percent of US defense tech growth rounds in 2025 and are projected to reach 35 to 40 percent by end of 2027 (PitchBook venture debt tracking, Yanne projection). Defense-aware lenders are stepping into the sector and the runway extension math is increasingly attractive to founders managing dilution.

What is Yanne Capital?

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