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Navigating the Changing Face of Battle: A Field Guide to Defense and Space Technology Investing

Understanding Industry Evolution, Risks and Opportunities

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The post-Cold War era of relative stability has given way to a period of increased volatility, where the risk of military conflict is no longer an anomaly but a defining feature of the landscape. In parallel to this geopolitical shift, we are witnessing a transformation in the conduct of military operations driven by the adoption of new technologies, evolving tactics and the reassessment of long-held assumptions. As the technological environment evolves, the strategies for investing in the defense and space sectors are keeping pace.

The Emergence of the Disruptors

In the three decades following the end of the Cold War, the U.S. defense industry underwent extensive consolidation. The number of prime defense contractors shrank dramatically—from 51 in the 1990s to just five today.[1] This consolidation and other factors have contributed to perceptions that the Defense Primes are mired in bureaucracy, slow moving and often deliver products behind schedule and over budget. While some of these criticisms are warranted, it is important to recognize that these conditions often stem from the requirements and timelines set by their primary customer, the Department of Defense (DoD). Regardless of the causes, there is widespread agreement that the U.S. defense industry has become sclerotic and ill-suited to address future needs.

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These issues have not gone unnoticed. Once confined to industry professionals and policy experts, calls for change are now part of the broader public discourse. This shift has been driven by geopolitical developments (increasingly assertive China, resurgent Russia and instability in the Middle East), technological advancements that enable adversaries to counter traditional U.S. advantages and public recognition of vulnerabilities in domestic industrial capacity and supply chains.

1. U.S. Department of Defense. (2022). *State of competition within the defense industrial base.* https://media.defense.gov/2022/Feb/15/2002939087/-1/-1/1/STATE-OF COMPETITION-WITHIN-THE-DEFENSE-INDUSTRIAL-BASE.PDF

Right on cue, a new cohort of disruptive defense and space technology companies have entered the scene. Their objectives include accelerating development, enabling more agile operations and reducing costs. Their challenge is to change the status quo mentality and focus on innovation. The definitive case study for this shift is SpaceX's upending of the space launch market, demonstrating that a newcomer can dismantle a government-backed monopoly and outperform long-established incumbents. Similarly, Palantir has made significant strides as a solution provider to the U.S. government. Following the success of these pioneers, there are dozens of new defense and space technology companies—such as Anduril, Shield AI, Saronic and Hadrian—aiming to deliver advanced solutions and reshape the industry.

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Evolving Government Procurement

The U.S. government is also adapting to the challenges through changes in how it procures solutions from the private sector. The Space Development Agency's (SDA) Proliferated Warfighter Space Architecture (PWSA) is a prime example. Historically, military space strategy relied on a small number of costly satellites in geostationary orbit, which took decades to deploy and became significant vulnerabilities as adversaries developed the means to counter them. Conversely, the PWSA will employ hundreds of smaller, mass-produced satellites in low earth orbit, offering improved capabilities and resiliency. By prioritizing speed and iteration through a two year "tranche" system, the pace of development has increased substantially.

While the SDA's novel approach is intended to disrupt legacy acquisition processes, its recent PWSA awards reveal a more nuanced market dynamic than simple replacement of the old guard. The traditional Primes secured key positions on tranches two and three by adapting to fixed-price contracts and more aggressive timelines. That said, market share gains by the newer entrants are also evident in PWSA, with Rocket Lab and Sierra Space receiving prime awards, and a diverse ecosystem of venture-backed companies providing mission-critical subsystems. Industry observers are closely monitoring whether these developments will enable the industry to operate at a pace more akin to commercial technology industries.

Watching and Learning in Real Time (or at Least Trying)

Military planners and investors alike are monitoring world events and trying to deduce the key lessons. Drawing conclusions from ongoing conflicts is a challenging proposition given the rapid pace of activity, inability to predict near term outcomes and limited historical perspective. Both planners and investors must make decisions without the luxury of having enough time.

A notable example of this challenge is the ongoing debate between "mass" and "exquisite" platforms. Ukraine's use of mass-produced drones and traditional artillery to counter the invasion of a significantly larger Russian army led many to believe that modern combat had been redefined and future success hinged on "mass"—large quantities of low-cost, attritable platforms. This conclusion implied that smaller numbers of highly capable and extremely expensive "exquisite" platforms were less relevant.

However, recent events in the Middle East and Iran have shown that exquisite systems—B-2 bombers, aircraft carriers and F-35s—still play an important role in modern warfare. As with most debates, the answer likely lies somewhere in the middle. Military forces will need to strike a balance between "mass" and "exquisite", tailoring their deployment to the specific needs of each conflict. Investors should recognize the ongoing demand for a diverse set of capabilities, especially as sensing, communications and autonomous technologies continue to proliferate across platforms.

Learning the Hard Way

In the years since the Cold War, the U.S. has deprioritized the industries that once supported the defense industrial base, rationalizing capacity due to lower demand expectations or outsourcing production overseas. The consequences include inadequate domestic manufacturing capabilities and vulnerabilities arising from complex, cross-border supply chains.

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Munitions production is a key example of these trends. The rate at which artillery and missiles are being used in Ukraine and the Middle East places enormous strain on the system. The U.S. lacks the capacity to produce enough munitions for ongoing operations, let alone to replenish depleted reserves or to meet the demands of a direct conflict with near-peer adversaries like China or Russia.

Other industries face similar challenges. U.S. ship building capacity has shrunk dramatically since World War II. Many of the commercial shipyards, which could be converted to military production in time of a crisis, have closed. The mining and refining of rare earth minerals—essential for military systems—have mostly moved overseas. China now leads in refining 19 out of 20 important strategic minerals, with an average market share of roughly 70%.[2] U.S. reliance on foreign suppliers also extends to batteries, impacting drone manufacturers as China restricts access.

To address these vulnerabilities, the U.S. government is working to revitalize critical industries. The Defense Production Act (DPA) enables the DoD to invest directly in private sectors deemed essential to national security. Congressional appropriations to the DPA Fund have risen sharply, from $950 million in 2010-2019 to at least $4.4 billion in 2020-2025.[3] Investors should pay close attention to these areas of focus and the incentives provided.

Embracing Uncertainty: Known Unknowns

Former U.S. Secretary of Defense Donald Rumsfeld famously spoke of "known knowns… known unknowns…and unknown unknowns" in war, calling the latter category "the difficult ones" for free countries. His observation is valuable for both investors and government leaders.

Navigating the defense and space sectors presents considerable challenges for newcomers. Barriers to entry include excessive jargon, unintuitive acronyms, complex DoD budgeting process and a procurement process that moves at glacial speeds. Classified programs add another layer of difficulty. These are often the most exciting technologies and growth opportunities, but access to information is restricted by law. Government officials sometimes make headline-grabbing statements with limited practical detail, further complicating the landscape. Caution is advised for those new to the industry.

A significant "known-unknown" is the future of the U.S.-European relationship. The NATO alliance is facing increasing strains, and further deterioration would have major consequences. This uncertainty has prompted a wave of rearmament across Europe, with military spending increasing 14% in 2025, led by Germany which increased its military budget by 24%.[4] This trend is likely to persist, and may actually help preserve U.S.-European coordination, as Europe lacks the industrial capacity to meet its own needs and will likely continue to procure from the U.S. companies.

2. International Energy Agency. (2025). *Global critical minerals outlook 2025*. https://www.iea.org/reports/global-critical-minerals-outlook-2025
3. Congressional Research Service. (2025, June 12). *Evaluating the Defense Production Act*. https://democrats-financialservices.house.gov/uploadedfiles/hhrg-119-ba10-wstate-levina-20250612.pdf
4. Stockholm International Peace Research Institute. (2026, April). *Trends in world military expenditure, 2025*. https://www.sipri.org/sites/default/files/2026-04/2604_milex_2025.pdf

China remains the preeminent "pacing threat" for the U.S. and its allies, due to its economic strength, rapid military modernization and lack of transparency. China is the source of many "known unknowns": Will it attempt to take Taiwan? If so, when? How would the U.S. respond? Will the U.S. be ready? Despite or perhaps because of this uncertainty, substantial investment is being made to develop capabilities that could prevent or win a potential conflict between the two superpowers. It is likely this trend will continue.

Risky Business

Once investors have gotten comfortable with the strategic unknowns, they must confront company-specific risks and challenges. One of the most common is the "Valley of Death", the time it takes to move from a successful prototype to a formally funded Program of Record. This phase often lasts years, and even though a company may have proven its capability through a small pilot or research contract, it still must wait for the DoD's rigid budgeting cycle to achieve production-scale revenue. The longer the Valley, the greater the risk of running out of capital. Navigating this challenge requires a delicate balance of preserving cash, raising incremental capital and securing bridge contracts. Efforts to accelerate the procurement process, such as Other Transaction Authorities (OTAs) have been made, but the Valley remains a significant obstacle for new ventures.

For companies that successfully cross the Valley, ongoing success often depends on having a culture defined by continuous innovation. While difficult to define, the need is clearly illustrated on the Ukrainian front lines, where jamming and electronic warfare creates constant challenges for communication, navigation and sensing. The situation is a dynamic cat-and-mouse game—one side develops a solution and gains an advantage, only for the other side to counter and regain the upper hand. A company's differentiation is rarely permanent; ongoing adaptation is required. This dynamic is present in many parts of the defense sector, including radio communications, cyber, space-based capabilities and hypersonics.

Investors in defense face some risks common to other industries, including binary outcomes for new technology. Counter Unmanned Aerial Systems (C-UAS) technology is one such example: while the need to defend against drones is clear, the winning solution—whether high-energy lasers, high-powered microwave, both, or neither—remains uncertain. Investors in a company that relies on one technology may face the risk that another is ultimately adopted.

Advantages of the IPO Market for Defense and Space Technology Companies

As defense and space technology companies seek capital to support growth, U.S. public equity markets are an attractive option due to their size and depth. However, scale is not the only advantage.

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Public equity markets are signaling strong investor appetite for defense and space technology companies. Investors recognize the growth potential and the dramatic upside for the most successful innovators. While the sector was once viewed through a more restrictive lens, current geopolitical realities have shifted the consensus toward the need for robust defense and space capabilities. Investors are aggressively seeking exposure to companies aligned with this narrative.

Publicly traded equities allow investors to diversify risk across a portfolio of holdings. In contrast, M&A transactions require the acquiror to assume 100% of a company's risk. This diversification has enabled investors in public equities to buy at valuations above those of M&A transactions. In the 12 months preceding May 2026, a broad set of publicly traded defense and space technology companies traded at an average EV/LTM EBITDA multiple of 36.4x. This is a dramatic premium to the comparable M&A transactions over the same period, which averaged 15.3x EV/LTM EBITDA.

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A counterintuitive outcome of these dynamics is that even as large companies go public, equity investors are likely to continue to seek new opportunities to invest in IPOs in the sector. Portfolio diversification becomes more effective as the number of investment options increases. As a result, large IPOs are unlikely to crowd out future offerings, and investor demand for other IPOs in the sector will likely remain robust.

Increased military spending, the changing face of warfare and evolving procurement processes coupled with significant pools of capital looking to deploy cash into the U.S. public equity markets will create opportunities for the dozens of defense and space companies poised to go public in the near term. Mizuho believes investors will continue to seek opportunities that combine strong growth potential with risk profiles—scalability, production, engineering and management acumen—that can effectively be diversified across a broader portfolio. Innovative companies that can strike that balance will be well-positioned for a positive market response.