

Why Private Markets: The Case for Venture Exposure in Defence

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Key Takeaways

- A growing share of defence-relevant value creation is occurring outside of public markets, particularly in dual-use sectors where commercial innovation shapes future capability.
- Private markets are becoming a more important access point because they help finance not only early-stage innovation, but also the commercialization, scaling and industrial buildout required to bring those capabilities into the sector.
- Within the broader private-market landscape, venture capital is a necessary input to the defence ecosystem and often the most direct way to access the early inflection points that shape how new capabilities are developed and scaled.

I. Introduction

For many investors, defence exposure has long been synonymous with large public contractors and direct participation in government spending. That remains a core component of the sector, but it no longer captures the full range of where value is being created.

Many of the technologies now shaping future defence capability are emerging from a very different part of the market: earlier-stage companies working in areas such as artificial intelligence, autonomy, cyber security and advanced manufacturing, often with roots in commercial rather than purely defence applications. These businesses can spend years refining products, building traction and establishing strategic relevance before reaching public-market scale or visibility.

That shift changes where value is created and how investors are able to access it. As capability becomes more software-defined and more closely tied to dual-use technologies, a greater share of defence-relevant value creation is occurring earlier in the product lifecycle. Emerging firms develop and refine capabilities that primes later integrate, scale or

incorporate into larger systems. Private markets are now part of the mechanism through which those capabilities are developed and brought into the sector. Within that broader private-market landscape, venture capital is especially relevant because it finances companies while those capabilities are still being developed and before much of their long-term value is reflected in public-market valuations.

II. Value Creation is Moving Earlier in the Defence Lifecycle

A larger share of the sector's value creation is now taking place before companies become visible in public markets. In earlier cycles, investors gained exposure once capabilities had been integrated into procurement programs or absorbed by listed prime contractors. Today, much of the period in which a product is built, tested and commercially validated takes place outside of the listed market.¹

This dynamic can be seen in Canada. More than 17,000 scale-ups now operate in sectors with defence-relevant applications,² and federal initiatives have directed approximately C\$650 million toward the

commercialization of dual-use technologies.² A meaningful share of that innovation is being advanced well before it reaches public-market visibility.

For investors, the implication is clear: a growing share of technological and commercial value creation now occurs prior to listing, leaving public equities to capture only part of the opportunity set.

III. Private Markets Are Becoming a More Important Access Point

Private markets have become more significant because of the role they now play in funding earlier development, commercial formation and industrial scaling across the sector.

From 2020 to 2024, roughly US\$440 billion in defence- and dual-use related private capital activity was recorded, or about US\$88 billion per year. Over the same time period, venture firms accounted for approximately US\$30 billion per year of investment in dual-use companies, while the largest publicly traded defence contractors in the United States invested roughly US\$21 billion annually in capital expenditures or research and development.³ Private capital is therefore already a core part of the financing base, supporting innovation and industrial capacity at scale.

Its role is also expanding. Private capital is increasingly funding facilities, manufacturing capacity, and industrial buildout in addition to research and software development. Manufacturing-focused defence investment in the United States rose from roughly US\$0.5 billion annually in 2022 and 2023 to US\$2.6 billion in 2024 and US\$4.7 billion across 39 deals in 2025.⁴ That shift underscores the extent to which private markets are now helping finance not only innovation, but also the ability to produce and scale it.

IV. Why Venture Capital Matters in Particular

Within that broader private-market landscape, venture capital occupies a distinct role. It provides exposure at the stage where products are being refined, commercial pathways are still forming and market position is not yet established.

That timing is especially important in defence.

Many next-generation capabilities emerge first in commercial or dual-use markets rather than within traditional procurement channels. The companies developing them require capital while technology is still being refined and before formal procurement channels, scaled revenue or public-market recognition have been established. By the time a business reaches maturity, much of the formative value creation may have already occurred.

The structural change in how capability is developed also explains why venture matters to the sector. More innovation now happens in software-defined and dual-use markets where iteration cycles are faster and early demand sits outside established programs of record. Traditional prime contractors remain central to procurement, program execution and systems integration, but they are not always positioned, either commercially or contractually, to originate, iterate and scale every emerging capability at that pace. In many cases, emerging technology firms and neo-primes complement the primes, developing and commercializing capabilities that incumbent structures are not always built to advance on their own.



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Large incumbent prime contractors that lead major programs and integrate systems at scale do not always have the incentives, contracting cadence, or risk tolerance to fund the earliest phases of product development, particularly when timelines are uncertain and initial revenue is more likely to come from pilots, prototypes or commercial customers

than from scaled defence contracts.⁵ Venture capital therefore functions as a necessary input to the ecosystem: it finances early technical maturation, supports initial commercial formation and helps companies reach the credibility milestones that make adoption through formal defence procurement, or integration by primes, more feasible.

This also helps explain where venture investors may be able to generate alpha. Because defence adoption and industrial scaling tend to be milestone-driven, valuation can re-rate meaningfully when a company crosses specific inflection points. That can happen when a product moves from prototype to operationally credible performance, when early customer demand begins to translate into repeatable procurement pathways, or when dual-use commercial revenue enables economies of scale that lower unit costs for defence customers. Dual-use models can also create two independent paths to success, through commercial scale and defence relevance, while strategic acquisition demand from primes and larger technology platforms can provide competitive exit outcomes. The venture opportunity in defence is that the value-creation curve has shifted earlier. Venture is the financing mechanism for that phase.

The pace of venture activity reflects that shift. Venture investments above US\$10 million in defence-focused companies have grown fivefold in value over the past decade, while deal count has increased eightfold and reached a record 99 deals above that threshold in 2024. Over the same period, the investor base expanded from fewer than 100 firms in 2017 to more than 300 in 2024.⁶

The breadth of activity is also telling. Venture investment in defence-focused companies now spans advanced computing and software, sensing and security, biotechnology, autonomous systems and space technology. The breadth reflects a structural change in how technologies with defence applications are being financed during their formative years.⁷

For investors, the distinction is specific. Venture offers access while technical progress, customer traction and strategic relevance can still reshape the long-term value of a business, before that strategic importance is fully reflected in later-stage valuations. If these businesses go on to become critical suppliers, acquisition targets, scaled independent operators or new system-level players, a meaningful share of value creation may have occurred during the private phase rather than after public-market recognition.

V. Conclusion

The defence opportunity now extends well beyond the large listed contractors. Innovation, commercialization and industrial buildout are taking place across multiple stages of development and through multiple forms of capital.

That shift changes the access question for investors. If a growing share of value creation occurs before companies reach public markets, then private markets become increasingly important as a way to participate earlier in the cycle. Venture capital is especially relevant within that landscape because it provides exposure when technologies are being built, markets are still forming and future value remains highly sensitive to execution.

The case for venture exposure in defence is about participating earlier in a structural shift in which the value-creation curve has moved upstream, and in which emerging technology firms, neo-primes and other non-traditional players are becoming a more necessary part of how future capability is developed and scaled. Venture complements public-market defence exposure by providing access to the formative phase that public markets may capture only later. It also points to a broader question that extends beyond access alone: where, geographically and structurally, the next wave of defence investment opportunity is emerging.



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Endnotes

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