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How Defence-Tech Companies Are Valued

Why revenue quality, battle proof and deal structure matter more than the headline multiple

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Core thesis

Defence-tech valuation is not primarily a question of selecting the "right" revenue multiple. It is a question of identifying what has genuinely been de-risked, how transferable that evidence is, and how the remaining uncertainty should be shared between the company, existing shareholders and the investor.

1 | EXECUTIVE SUMMARY

Defence-tech valuation is about evidence and transferability

Traditional valuation starts with revenue, EBITDA, growth, cash flow and comparable companies. Those metrics remain relevant in defence-tech, but they rarely tell the full story. Two businesses with the same revenue and growth can have materially different values because the quality of the evidence behind that revenue is different.

In defence-tech, value typically increases as a company progresses through a sequence of commercial de-risking: technology development, battlefield validation, paid orders, repeat orders, scalable production, international qualification, NATO sales and, ultimately, recurring international business. Each step reduces a different form of risk.

Battle proof can be highly valuable because it may answer questions that a test range cannot: Does the system work under electronic warfare? Can soldiers use it effectively? Does it survive real operating conditions? Can the company adapt when the opposing side changes tactics? But battle proof is not the same as commercial proof. A product can perform exceptionally well in Ukraine and still be difficult to sell in Denmark, Germany or the United States.

The central question

How much of the company's current value is already sufficiently de-risked to price today — and how much should remain contingent on future Ukraine sales, NATO commercialisation, certification, production scale-up or other milestones?

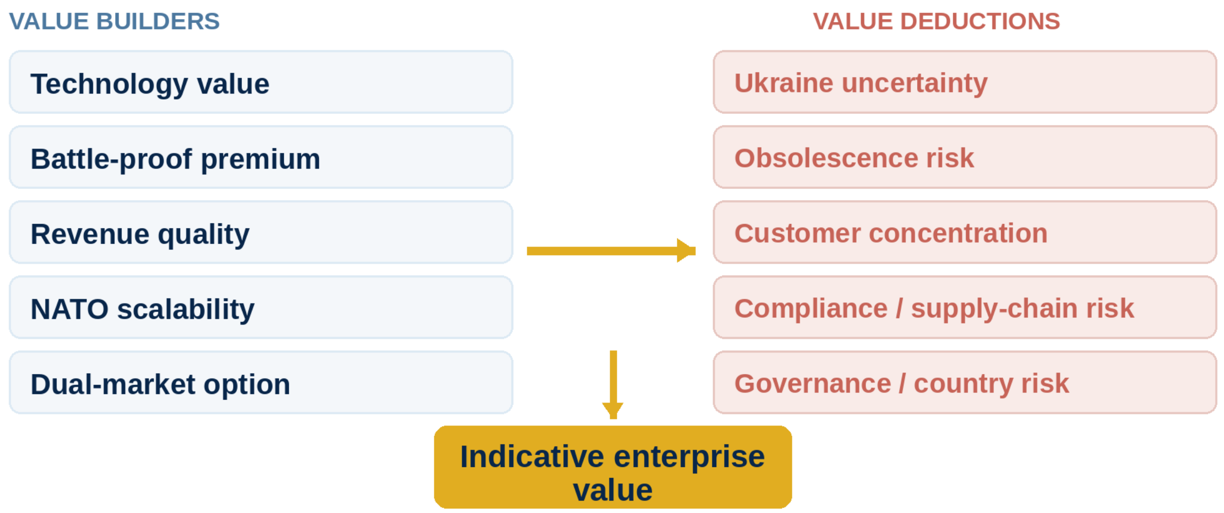
A practical valuation bridge

A useful way to frame the valuation is as a bridge rather than a single multiple. Value is built by positive evidence and reduced by risks that can prevent that evidence from translating into durable cash flow.

- Technology value and defensibility
- Battle-proof premium and operational validation
- Revenue quality and repeatability
- International and NATO scalability

- Dual-market optionality and strategic scarcity value
- Less: Ukraine revenue uncertainty, technology obsolescence, customer concentration, supply-chain/compliance risk, governance and country risk

FIGURE 1 **The Defence-Tech Valuation Bridge**



This approach also explains why a small international order can have greater valuation impact than a much larger Ukrainian order. The smaller order may reduce a more important risk: whether the product can travel from the Ukrainian battlefield into a procurement system with different standards, documentation and supply-chain requirements.

2 | BATTLE PROOF AND REVENUE QUALITY

Battle proof is valuable — but not binary

For a defence-tech company, Ukrainian battlefield validation can be one of its most valuable assets. It can demonstrate real operational relevance and compress years of technical learning into months. The strongest evidence is not that a product has simply been "used in Ukraine", but that it has repeatedly solved a funded problem for independent military users under adverse conditions.

The battle-proof ladder

Level 1 — Tested: The product has been tested close to or at the frontline.

Level 2 — Operationally used: The product has been deployed on real missions.

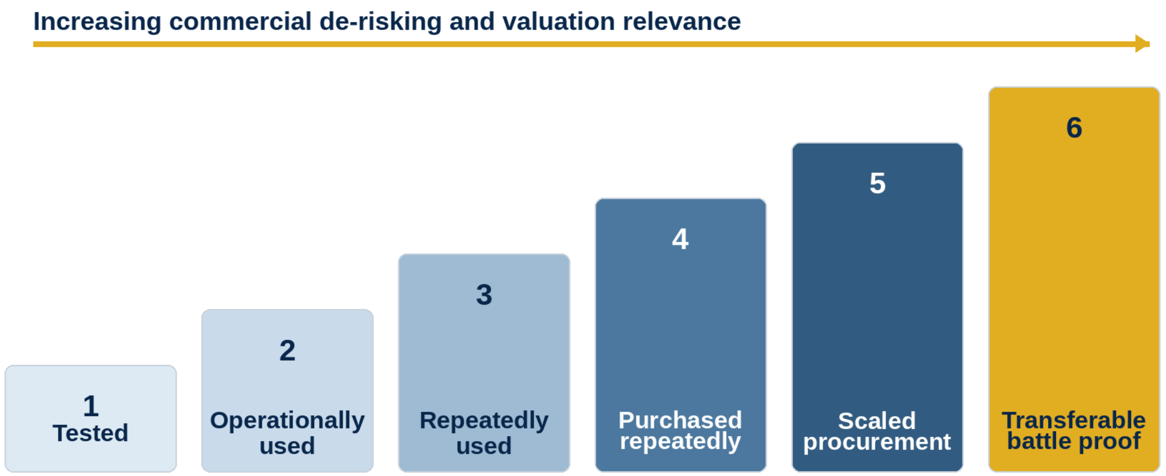
Level 3 — Repeatedly used: Multiple units have used the product more than once.

Level 4 — Purchased repeatedly: Users have chosen to spend budget on the product again.

Level 5 — Scaled: The product has been procured in meaningful volumes through organised procurement channels.

Level 6 — Transferable battle proof: Performance can be documented, replicated and credibly presented to other countries' armed forces.

FIGURE 2 **The Battle-Proof Ladder**



Not all Ukrainian revenue is equal

An investor should not stop at "How much did you sell in Ukraine?" The more valuable questions are who selected the product, who contracted the order, who financed it, who ultimately paid, and whether the purchase was repeated. Ukraine's procurement architecture contains several parallel channels, including direct funding to combat brigades, central procurement, international partner-financed programmes and NGO-funded purchases. In January 2025, the Ministry of Defence stated that UAH 2.5 billion (EUER 47.5 million) per month would be provided directly to combat brigades for UAV procurement, explicitly giving commanders flexibility to buy systems suited to their missions.

FIGURE 3 Ukrainian Revenue Quality Matrix

Channel	Order / payer	Repeatability	Revenue visibility	Valuation relevance
Brigade / unit	Small; unit budget	Low–Med	Low	Validation > financial value
Repeat – one brigade	Unit budget	Medium	Low–Med	Stronger proof; concentration
Multiple units	Unit budgets	Med–High	Medium	Broad commercial proof
Central MoD / agency	Large; state budget	High*	Med–High	Strong if contracted / paid
NGO-funded	Charity / donors	Variable	Low–Med	Depends on fundraising durability
Partner-financed	State / programme	Med–High	High	Potentially stronger credit quality

* Subject to contract terms, funding and payment history.

The distinction is important because two invoices to the same Ukrainian military end user can have very different economic quality. One may be an urgent one-off purchase financed by a charity; another may sit within a centrally funded or partner-financed programme with greater visibility.

3 | UKRAINE TO NATO AND DUAL-MARKET VALUE

From Ukrainian sales to NATO sales: the commercial re-rating

One of the most important valuation inflection points can occur when a company moves from battlefield success in Ukraine to procurement by a NATO member state. A NATO sale validates a different set of capabilities: international product-market fit, procurement compliance, cybersecurity, documentation, quality assurance, supply-chain acceptability and the ability to support customers outside the specific Ukrainian operating environment.

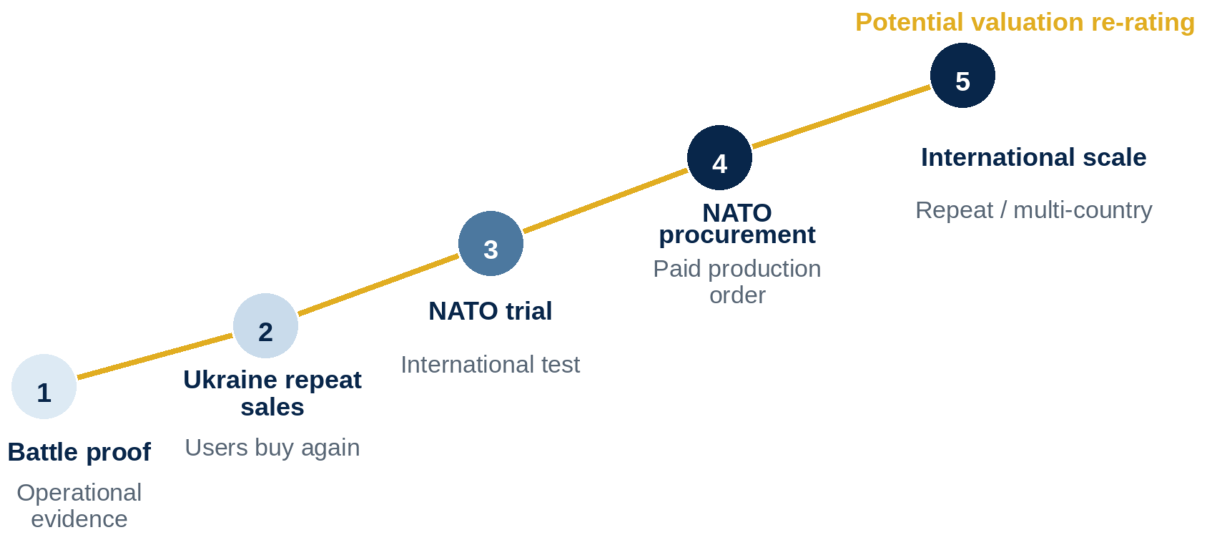
NATO has acknowledged the need to accelerate adoption. Its Rapid Adoption Action Plan, endorsed in June 2025, aims in general to move from identified need to acquisition and integration of a new technological product within 24 months. The plan also calls for iterative testing, faster procurement and greater acceptance of acquisition risk for new technologies. For investors, this matters because the route from promising technology to institutional procurement may be becoming shorter — but it is still not automatic.

Not all NATO references are equal

A company should not present a demonstration, a paid trial and a multi-year framework as equivalent evidence. The sequence normally carries increasing valuation significance:

- Invitation to demonstration
- Unpaid trial
- Paid trial
- Innovation programme
- Pilot procurement
- First production order
- Repeat order
- Multi-year framework
- Deployment across several NATO countries

FIGURE 4 **Ukraine-to-NATO Commercialisation Curve**



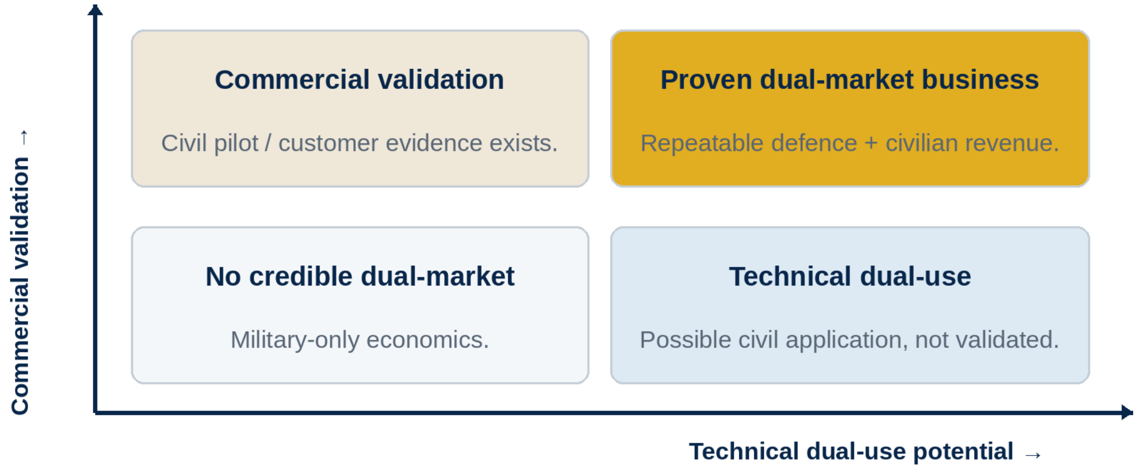
A relatively small first production order can therefore have a disproportionate impact on valuation if it materially reduces uncertainty around the company's international addressable market.

Dual-use versus dual-market

Defence-tech companies often describe themselves as dual-use. Investors should distinguish technical optionality from commercial reality. A military technology may be capable of civilian use without there being a viable civilian business.

Technical dual-use exists when technologies such as autonomy, computer vision, navigation, sensors, robotics or secure communications can be applied outside defence. Commercial dual-market exists only when the company has identified customers, a product suitable for the relevant civilian regulatory environment, evidence of willingness to pay, an effective route to market and preferably paid pilots or orders.

FIGURE 5 **Dual-Use vs Dual-Market Matrix**



Valuation implication

Commercial dual-market should have materially greater valuation relevance than theoretical dual-use. A proven second market can reduce defence-budget dependency, lower customer concentration, extend the product lifecycle and increase the number of potential acquirers.

4 | PUBLIC VS PRIVATE VALUATION AND THE UKRAINE FORECAST

Market price is not transaction value

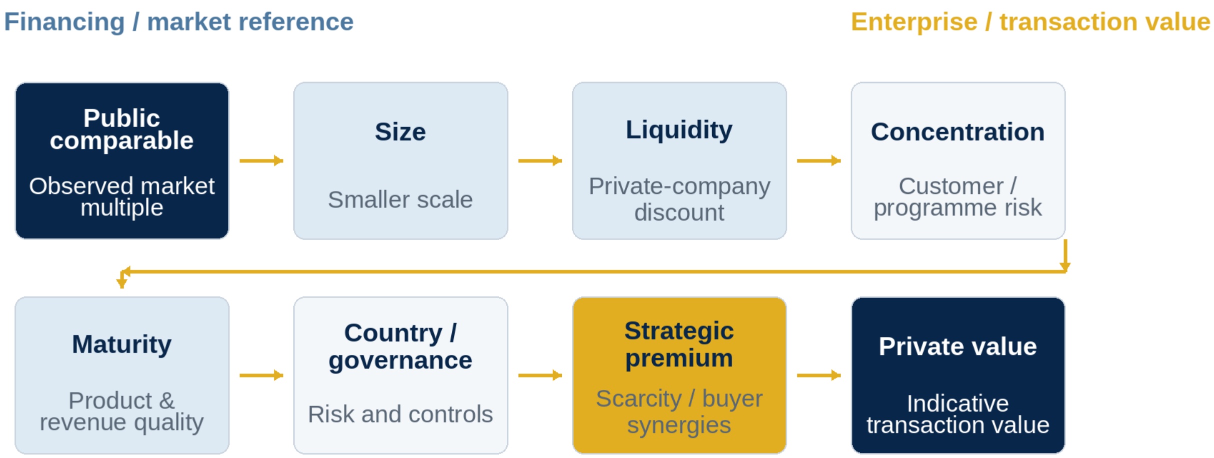
Listed defence and defence-technology companies provide useful valuation reference points through EV/Revenue, EV/EBITDA, P/E and segment valuations. Their multiples are observable and updated continuously. But the comparison is often imperfect for a smaller private defence-tech business.

A listed company may have diversified customers, a stronger balance sheet, multi-year government programmes, institutional governance, established compliance and liquidity. A private company may have faster growth and better technology but materially greater concentration, financing and execution risk. Public-market multiples therefore require adjustments for size, liquidity, governance, customer concentration, product maturity and country risk.

Financing valuation is not enterprise value

Private funding rounds must also be read carefully. A EUR 100 million pre-money valuation on preferred shares is not necessarily equivalent to a EUR 100 million cash acquisition value. Preferred investors may receive liquidation preferences, anti-dilution protection, board rights, reserved matters and other downside protections. The headline valuation can therefore overstate the value of the ordinary equity on a like-for-like basis.

FIGURE 6 Public Multiple to Private Transaction Value



The central transaction problem: future Ukraine revenue

Consider a company generating EUR 20 million of revenue, 90% of it from Ukraine. The technology is battle proven, revenue has grown rapidly, and the company has limited but promising NATO activity. Existing shareholders may argue that the company is growing at 200% and will continue to do so. The investor may argue that a ceasefire, a change in procurement priorities or reduced foreign support could cause revenue to fall sharply.

Both positions can be rational. The mistake is to force the entire disagreement into one valuation multiple.

Better approach

Split the economics into Base Value and Contingent Value. Pay or price the base value for what has already been demonstrated and is sufficiently transferable. Let contingent value depend on the uncertain assumptions actually materialising.

Revenue underwriting hierarchy

Contracted and funded backlog: Highest value, subject to cancellation, delivery and payment terms.

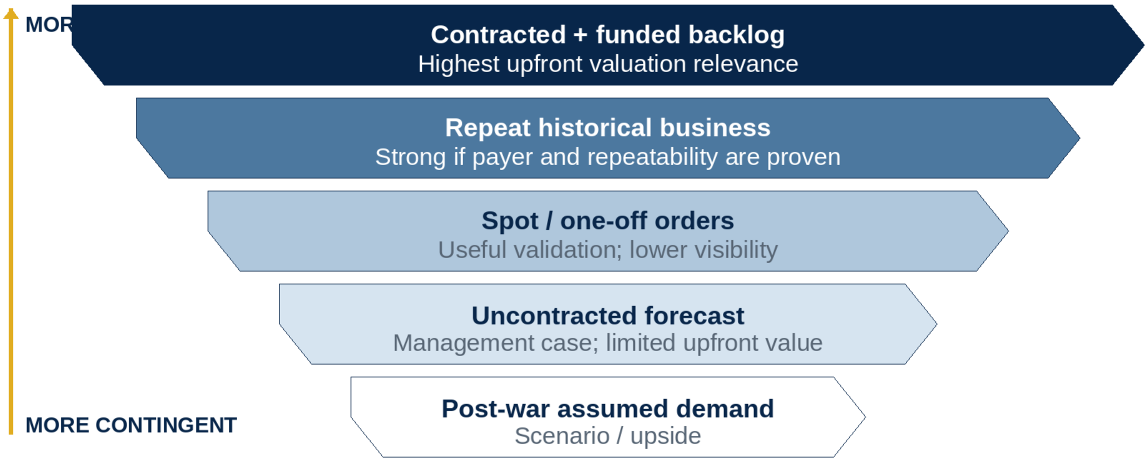
Repeat historical business: Strong evidence where multiple customers and funding channels are involved.

Spot orders: Useful validation, but lower visibility.

Uncontracted management forecast: Should carry limited upfront value.

Post-war assumed Ukraine demand: Better treated as scenario upside than as certain base-case revenue.

FIGURE 7 **Revenue Certainty Pyramid**



5 | DEAL STRUCTURES FOR DEFENCE-TECH INVESTMENTS

Do not argue about the forecast — structure around it

For companies with significant Ukraine exposure, deal structure may matter as much as headline valuation. The purpose of structuring is not to make the transaction more complicated. It is to place risk with the party best able to bear or influence it and to avoid paying today for outcomes that remain genuinely uncertain.

1. Primary investment with valuation adjustment or ratchet

The investor subscribes for new shares at closing, providing immediate capital for production, working capital, certification or international expansion. The final economic ownership can then adjust if agreed milestones are or are not achieved. Milestones might relate to Ukraine gross profit, first NATO procurement, certification, production capacity or international revenue.

A ratchet can protect the investor if the entry valuation assumes a level of performance that has not yet been demonstrated. It should, however, be calibrated carefully: an excessively punitive ratchet can damage founder motivation and make future financing more difficult.

2. Tranche-based investment

The parties agree the total commitment upfront, but funding is released in stages. This is particularly relevant when the company needs capital to reach specific de-risking milestones.

- Tranche 1 at closing
- Tranche 2 after production capacity or certification milestone
- Tranche 3 following first meaningful NATO procurement
- Tranche 4 after an agreed level of international revenue

This structure gives the company visibility on future funding while preventing the investor from fully funding a business plan before critical risks have been reduced.

3. Preferred equity

Preferred shares can allow a company to maintain a higher headline valuation while giving the investor defined downside protection. Typical rights can include liquidation preference, anti-dilution, board representation, reserved matters, information rights and pro-rata participation rights.

The economic terms matter more than the headline valuation. A EUR 50 million pre-money valuation with a strong liquidation preference can be less favourable to existing shareholders than a lower valuation on ordinary shares.

4. Ukraine revenue contingent value

Where shareholders and the investor disagree about the durability of Ukraine revenue, part of the agreed value can depend on future performance. A pure revenue test is often too crude because it can reward low-margin contracts or sales that create substantial working-capital risk.

More robust metric

Collected Gross Profit from Qualifying Ukraine Sales can be a better basis than revenue alone because it reflects volume, margin and actual cash collection.

Defining “Qualifying Ukraine Sales”

The contract should define the revenue pool precisely. Otherwise, a contingent-value mechanism can become a future dispute rather than a risk-sharing tool. The definition should address sales to brigades, central Ministry of Defence procurement, NGO-funded orders, Danish Model or other internationally funded procurement, related-party sales, bad debt, currency movements, product returns and changes in transfer pricing.

International financing deserves separate attention. Ukraine’s Ministry of Defence reported that foreign funding for the domestic defence industry reached USD 6.1 billion in 2025 through the Danish Model, direct procurement by partner states and proceeds from frozen Russian assets. Nearly USD 1.8 billion was allocated through the Danish Model. Such funding can improve the quality of a particular revenue stream, but an investor still needs to underwrite whether the relevant support mechanism will continue.

5. NATO milestone value

A portion of the economic value can be linked specifically to international commercialisation. The milestone might be the first paid trial, first production order, first order above a defined value, a framework agreement, a repeat order or revenue from more than one NATO member state.

This structure is particularly relevant because the first meaningful NATO procurement may represent a larger reduction in commercial risk than additional Ukraine revenue. It validates that the product can cross the institutional, technical and supply-chain boundary between the Ukrainian battlefield and an allied procurement system.

6. Founder and shareholder alignment

Existing owners should normally retain meaningful exposure to the future value they are expected to create. Management incentives can be linked not only to total revenue but also to internationalisation, gross profit, cash collection, governance improvements and NATO commercialisation.

A structuring principle

Two transactions at the same headline valuation can have materially different economics. An investor paying a high valuation but receiving preferred rights, staged funding and milestone protection may carry less risk than an investor entering at a lower valuation on ordinary shares with all capital funded upfront.

The appropriate structure depends on which uncertainties dominate. If the main uncertainty is the continuation of Ukrainian orders, use a Ukraine-linked contingent mechanism. If the main uncertainty is international market access, use NATO milestones. If the business is undercapitalised and needs several technical steps before it can commercialise, staged funding may be more appropriate.

Investment-banking perspective

The objective is not to maximise the number of structural protections. It is to identify the two or three uncertainties that genuinely determine value and build the transaction around them.

FIGURE 8 **Illustrative Defence-Tech Investment Structure**

Illustrative risk allocation only — actual structures depend on company, product, market and investor profile.

6 | DUE DILIGENCE AND THE FINAL VALUATION FRAMEWORK

Five questions that ultimately determine value

1. Does it work?

Assess battlefield evidence, technical performance, survivability and resilience under electronic warfare. "Battle proven" should be supported by identifiable users, missions, test records, repeat use or procurement.

2. Will customers pay for it repeatedly?

Understand the end user, contracting party, funding source, payment history, repeat orders, backlog and margin. Revenue quality matters more than the invoice total.

3. Can the product travel?

Determine whether Ukraine success can transfer into NATO and other allied markets. Review certification, documentation, cybersecurity, trusted components, export control and route to procurement.

4. Can the company scale?

Diligence production capacity, suppliers, working capital, management depth, IP ownership and governance. A successful prototype is not a scalable business.

5. How should uncertainty be shared?

Decide which value is sufficiently de-risked to price at closing and which should depend on future Ukraine sales, NATO milestones, funding tranches or other contingent mechanisms.

The Kapital Partner defence-tech valuation framework

- Technology — Does it work?
- Battle proof — Has it worked under real conditions?
- Revenue quality — Who selected it, who bought it and who paid?
- Repeatability — Will they buy again?
- Transferability — Can it move from Ukraine to NATO?
- Dual market — Does it have another genuine market?
- Scalability — Can production and the organisation support growth?
- Risk allocation — Which value is de-risked today, and which value should remain contingent?

Final conclusion

The right valuation is only half the transaction. The other half is deciding who should bear the risk that the assumptions behind that valuation prove wrong.

For defence-tech companies — particularly businesses with significant Ukraine exposure — deal structure may therefore be as important as the headline enterprise value or pre-money valuation. The central question is not "What multiple is a defence-tech company worth?" but "What has already been sufficiently de-risked to value today, and how should the remaining upside and risk be shared between the company, existing shareholders and the investor?"

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