



The future of M&A in the defense industry



Petter Kjällerström
Partner, Advokat

The defense industry is undergoing a period of rapid transformation, and Sweden is uniquely positioned to play a critical role in shaping its future. As a newly inducted member of NATO and a signatory to the Defense Cooperation Agreement (DCA) with the US, Sweden is poised to strengthen its defense capabilities through increased collaboration and integration. Combined with Sweden's growing focus on AI technology and a significant uptick in defense spending, these factors will shape the trajectory of M&A in the sector.

Sweden's NATO membership and DCA with the US

Sweden's NATO membership marks a historic shift in its defense posture, emphasizing collective security and interoperability with other NATO members. The DCA with the US further cements this relationship, facilitating technology transfers, joint ventures, and strategic alignments. These agreements not only enhance Sweden's defense capabilities but also create fertile ground for M&A activity, as Swedish companies seek to align themselves with NATO standards and requirements.

For Swedish companies, these developments create opportunities to partner with international defense contractors or position themselves as critical suppliers of cutting-edge technologies. At the same time, Swedish businesses have to navigate the complex regulatory and compliance requirements associated with defense transactions.

The role of AI technology

Sweden's leadership in AI technology presents significant opportunities for innovation in the defense sector. From autonomous systems to predictive maintenance and real-time battlefield analytics, AI is becoming a cornerstone of modern defense strategies. Swedish firms specializing in AI could become prime targets for

acquisition by larger defense contractors looking to enhance their technological edge. Conversely, these companies may also act as buyers, leveraging M&A to acquire capabilities that accelerate their R&D efforts.

The integration of AI into defense platforms is also an area where Swedish companies can collaborate with domestic and Nordic partners. This creates opportunities for Swedish clients to not only innovate but also lead consortia focused on defense modernization.

Increased defense budget: Opportunities and challenges

Sweden's commitment to increasing its defense budget to between 2.5% and 3% of GDP underscores its determination to enhance national security. This budgetary expansion presents immense opportunities for Swedish companies to supply equipment, infrastructure and services. But there are still challenges:

- **Scarcity of materiel:** Global supply chain disruptions and heightened demand have created bottlenecks in the production and procurement of defense materiel. Swedish companies will need to explore local sourcing and alternative suppliers to mitigate these challenges.
- **Productivity issues:** Labor shortages, skill mismatches, and technological gaps could hinder Swedish firms' ability to meet increasing demand. Strategic investments in workforce development and collaboration with Nordic partners could address these issues.

Buyers and sellers in the defense M&A landscape

The defense M&A market in Sweden will likely see activity from a diverse set of players:

- **Potential buyers:**
 - **Established Swedish defense contractors:** Companies looking to expand their capabilities or geographic footprint.
 - **Investment companies:** Nordic-based VC and PE firms seeking to build portfolios that capitalize on the defense sector's robust growth prospects.
 - **Domestic conglomerates:** Swedish companies outside the traditional defense space may enter the market to capture opportunities tied to defense modernization.
- **Potential sellers:**
 - **Small and Medium Enterprises (SMEs):** Particularly those specializing in niche technologies like AI, cybersecurity, and autonomous systems.
 - **Legacy firms:** Companies facing financial or operational challenges that may opt for divestitures or mergers to remain competitive.

The role of VC and PE in defense investments

While PE and VC activity in Sweden's defense sector isn't yet as prominent as in the US, there are signs of growing interest. A few Swedish and Nordic-based investment firms are beginning to explore defense opportunities, particularly in AI, cybersecurity, and autonomous systems. PE firms may also focus on consolidating fragmented segments of the industry to create more streamlined and competitive entities. For instance, acquiring multiple AI or cybersecurity firms and integrating their operations could yield significant synergies and market advantages.

DLA Piper: Your trusted legal advisor in defense M&A

At DLA Piper Sweden, we bring unmatched knowhow to the defense M&A landscape, with a particular focus on supporting Swedish clients. Our Private M&A team, supported by a robust regulatory and intellectual property (IP) practice, provides comprehensive legal solutions tailored to the unique demands of the defense industry. Whether representing Swedish sellers or buyers, we ensure transactions are seamless and address both the strategic and operational complexities of the sector. We have offices around the world, so we can help clients with both cross-border transactions and when entering new markets.

Our regulatory team ensures clients comply with intricate defense-related legislation, while our IP lawyers safeguard critical technologies and innovations – key assets in today's competitive defense market. With extensive experience advising Swedish clients on cross-border M&A, joint ventures, strategic investments, and establishing businesses in new markets, we're well-positioned to advise companies navigating the opportunities and challenges in this dynamic sector.

Conclusion

Sweden's evolving role in global defense, coupled with its focus on AI and increased defense spending, positions it as a key player in the future of the defense M&A landscape. While challenges like supply chain constraints and productivity issues have to be addressed, the opportunities for Swedish companies to grow and innovate are abundant. Strategic collaborations, investments from VC and PE firms, and cross-border acquisitions will drive the next wave of transformation in Sweden's defense industry. Buyers and sellers alike must navigate this dynamic environment with agility to capitalize on its full potential.

DLA Piper in Sweden is ready to help, using our global reach and sector-specific knowhow to deliver exceptional results for our Swedish clients in the defense industry.

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