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PODCAST

Visible Earnings: Financing the Future of Defense

Key takeaways

- **We are still early in a structurally different defense spending cycle.** Global defense budgets are increasingly policy anchored and multi year, supporting a long-duration upcycle rather than a short-term rearmament spike.
- **The key change is not just how much is spent, but how it is spent.** Longer-term contracts, multi-decade programs and procurement reform are materially improving earnings visibility and growth duration across the sector.
- **Shifting allocation of defense dollars makes selectivity critical.** New entrants and evolving supply chains are reshaping where value accrues, increasing opportunity and dispersion across the sector.
- **Innovation is accelerating, reshaping defense into a growth-oriented sector.** A new cohort of defense technology companies is emerging, evolving the sector from a historically stable cash flow industry toward a more dynamic, innovation-driven landscape.

Geopolitics is increasingly a structural force shaping policy and capital allocation, and defense sits at the center of that shift. The opportunity set looks different today as the defense spending cycle is being supported by longer-term priorities — deterrence, resilience, and capability — rather than short-term fiscal optimization.

Importantly, we believe defense exposure is best understood as a visibility-driven, long-duration area of the market — not a tactical geopolitical trade. The sector can offer durable cash flows and diversification at a time when many industries are more exposed to the economic and capital cycle.

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FEATURING



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We are still early in a structurally different defense spending cycle

In our view, defense is moving through a longer-duration cycle that is increasingly policy anchored and multi year, which can create a more durable demand backdrop than a short-term rearmament surge. Defense programs tend to be long and slow by nature, with multi-year timelines and practical limits on how quickly industrial capacity can scale. These factors can extend the duration of the upcycle and support earnings visibility for long-term investors.

Practical application:

Investors may benefit from reframing defense as a structural allocation where duration matters — prioritizing exposure tied to multi-year commitments and sustained demand visibility rather than to near-term headlines.

The key change is not just how much of the budget is spent, but how it is spent

We believe the most important change is not simply higher budgets, but evolving procurement: longer-term contracts, multi-decade programs, and reforms that can improve visibility into future awards and production. In addition, governments are increasingly supporting the system not only through long-term contracts but also by helping to finance capacity and readiness, reducing funding constraints and improving confidence in delivery and execution. Contract structure and program maturity matter for outcomes, and, in our view, the sector increasingly rewards investors who can underwrite fundamentals — including how backlog converts to production and how contract terms shape margin durability and execution risk.

Practical application:

In our view, investors might want to consider investing on aggregate spending narratives and more on earnings visibility drivers, such as contract duration, program stage, and execution capacity.

Shifting allocation of defense dollars makes selectivity critical

The defense ecosystem is widening as new technologies and entrants reshape supply chains, which means where value accrues is changing. This creates opportunity, but also increases dispersion. It is not a simple incumbents-versus-disruptors story; rather, selectivity is critical as growth does not automatically translate into profitability and as execution and capital discipline become key differentiators across evolving value chains.

Practical application:

Treat defense as a stock-picker's market: emphasize business models and positioning that can convert demand into durable cash flows, and apply discipline around profitability, execution risk and capital allocation as the opportunity set broadens.

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Visible Earnings: Financing the Future of Defense**Innovation is accelerating, reshaping defense into a growth-oriented sector**

Alongside traditional primes, a new cohort of defense technology companies (“neoprimes”) is emerging, focused on autonomy, drones, space systems, software, and data. These firms aim to deliver capabilities faster and at lower cost, challenging legacy production models and expanding the opportunity set beyond historical incumbents.

This innovation is changing both who captures growth and how value is created, reinforcing the importance of selectivity as the sector evolves from a historically stable cash flow industry toward a more dynamic, innovation driven landscape.

Practical application

Emphasize business models with clear pathways to profitability, strong execution, and the ability to convert demand into durable cash flows, whether from established primes or emerging defense technology leaders.

Conclusion

Structural policy direction, procurement reform, and an expanding ecosystem are reshaping how defense demand translates into earnings outcomes. This shift has the potential to provide investors with long-duration earnings visibility. Capturing the opportunity and managing the risks requires rigorous bottom-up analysis, an understanding of how programs translate into cash flows over time, and disciplined selectivity as the ecosystem evolves.



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