# A SPOTLIGHT ON DEFENCE

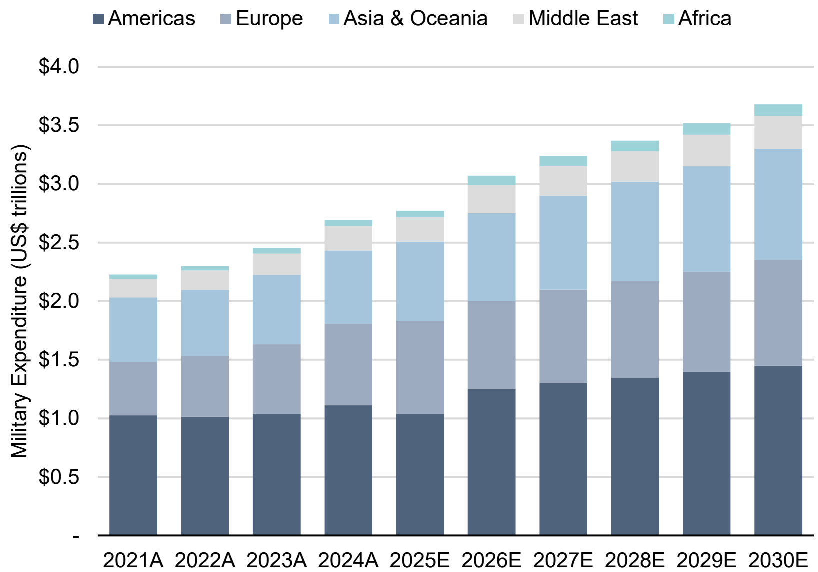
JULY 2026

The global defence industry is undergoing a generational shift, with a renewed focus on enhancing capabilities and sovereignty. Canada's 2026 Defence Industrial Strategy ("DIS") focuses on rebuilding and developing capabilities to strengthen domestic defence production and reducing reliance on foreign supply chains. The implementation of the DIS and related targets by 2035 is anticipated to result in ~$180 billion of total direct investment in defence procurement, $290 billion total investment in defence-related infrastructure, and ~$125 billion in downstream economic activity.

## CHANGING SECURITY LANDSCAPE DRIVES SUSTAINED DEFENCE INVESTMENT AND PRESENTS A GENERATIONAL CALLING TO RE-INDUSTRIALIZE & MODERNIZE CAPABILITIES

- Security, sovereignty and resilience top priorities
- Accelerated decision-making
- Nations are rebuilding defence capabilities
- Alliance-wide interoperability and standardization

### Global Military Expenditure




Source: SIPRI Military Expenditure Database and Global X ETF Defence Technology

**Following decades of under-investment, NATO is dedicating significant capital to meet 2035 readiness goals, part of a global US$3.6 trillion rearmament**

Canadian defence spending is undergoing a significant, accelerated shift to meet NATO targets, transitioning from a historically low spending ratio to one of the highest in the alliance. The surge is focused on military modernization, sovereignty, and industrial development. All future procurement will follow a *Build-Partner-Buy* framework: Canada will build domestically to strengthen sovereign capabilities and prioritize Canadian suppliers, partner with trusted allies such as the EU, UK and certain nations where it cannot build alone, and buy from allies only when necessary and only with strong domestic benefit conditions (high-wage job creation, research & development support, more resilient supply chains, significantly boosted GDP and greater capital investment).

### Major Platform Procurements Underway

**$500+ billion**

New defence budget

- Largest budget since WWII
- $290 billion in capital investment opportunities
- $32 billion in Arctic defence & infrastructure projects

- **CF-18 Fleet Replacement:** Program to acquire up to 88 aircraft to replace the aging CF-18 fleet
- **Canadian Surface Combatant:** Largest shipbuilding program in Canadian history, constructing 15 advanced surface warships for the Royal Canadian Navy
- **Canadian Patrol Submarine Project:** Replacement of the Royal Canadian Navy's current Victoria-class submarine fleet, expected to be one of the largest procurements in Canadian military history
- **Arctic and Offshore Patrol Vessels:** Fleet of six vessels designed to assert sovereignty over Canada's northern waters

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## DEFENCE INDUSTRIAL STRATEGY – KEY SOVEREIGN CAPABILITIES

The DIS has outlined an initial list of the sovereign capabilities which prioritize a *build-in-Canada* approach. The designation of sovereign capabilities will not be static and will evolve with the threat landscape, capability needs, technological change, and domestic industrial capacity.

- Aerospace
- Ammunition
- Digital Systems
- In-Service Support
- Personnel Protection
- Sensors
- Space Systems
- Specialized Manufacturing
- Training & Simulation
- Uncrewed & Autonomous Systems

The current capacity gap creates an opportunity for dual-use companies and new entrants to satisfy Canadian content requirements

- 70% of procurements are expected to be awarded to Canadian firms
- Increased volume of teaming agreements from large global primes

## SELECT HEADLINES AND RECENT DEVELOPMENTS

- **July 6, 2026:** Canada selected Germany's **Thyssenkrupp Marine Systems** as preferred supplier to begin negotiations for its next submarine fleet (the Canadian Patrol Submarine Project or "CPSP")
  - The CPSP is Canada's largest defence procurement to date, reflecting the DIS's partner approach to invest across the Canadian supply chain, create jobs and maximize benefits for Canadian industry
- **July 2, 2026: Kraken Robotics** completed its $615 million acquisition of **Covelya Group** to expand global maritime capabilities and deepen customer relationships in defence and maritime surveillance
  - The deal combines two leading subsea technology providers into a major global supplier of dual-use, mission-critical subsea systems
- **June 17, 2026: Daimler Truck AG** and **Roshel Inc.** signed an MOU to jointly develop and supply armoured vehicles for NATO, allied and partner-nation customers
  - The deal pairs a top German industrial & defence manufacturer with a Canadian defence leader to strengthen supply chains and capacity across allied nations
- **June 10, 2026: Babcock International** launches Team INSPIRE to deliver next-gen communications for the Canadian Armed Forces, backed by **Nautel**, **CCX Technologies**, **Evertz**, **WADE Antenna**, **Titan ÆX** and **COWI**
  - The group aims to deliver modernized HF, LF and VLF communications for secure connectivity anywhere, anytime
- **May 27, 2026:** Canada entered detailed discussions with **Saab** as preferred supplier for its future AEW&C, based on Saab's GlobalEye
  - **Bombardier** could manufacture 40 aircraft at its Montreal and Toronto plants, including orders for allies
- **May 13, 2026:** Canada's Strategic Response Fund invests $55.7 million in **MDS Coating Technologies'** $212.9 million project to develop protective coatings for aerospace engines
  - The investment strengthens domestic supply chains, creates jobs and advances Canada's defence sovereignty through dual-use aerospace capabilities
- **April 29, 2026:** Canada was selected to host the new **Defence, Security and Resilience Bank ("DSRB")**
  - The DSRB will provide long-term, low-cost financing for defence and security initiatives, helping SMEs address critical financing gaps

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## VALUE & POSITIONING THEMES

### Dual-use capabilities need to be fully demonstrated
- While investors and buyers are recognizing dual-use applications, fulsome credit is only provided to companies with deployment of their products & technologies into multiple end markets

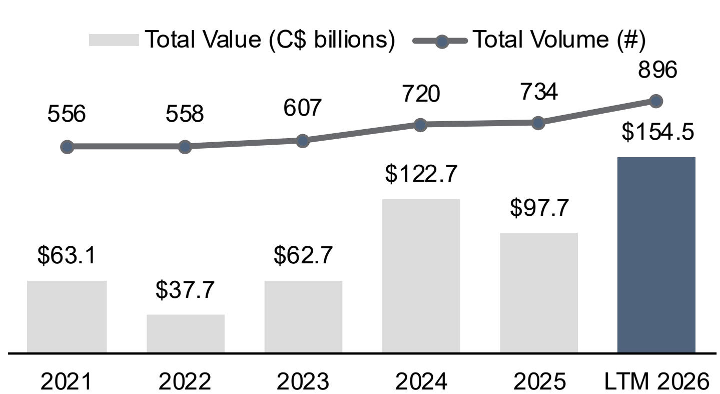
### Innovation needs to address in-field capability gaps
- While appetite for investment and M&A is accelerating broadly, more interest is garnered by companies that set a new standard instead of marginal improvement on existing technology

### Manufacturing and supply chain resilience is critical
- Ensuring supply chains remain active, without exposure to nations posing a security risk, and accessible under times of stress or elevated conflict improves positioning

### Pipelines build interest but execution drives credibility
- Demonstrating the ability to consistently build a pipeline, convert it into contracts, and recognize revenue gives investors comfort with long-term defence prospects, supporting premium multiples

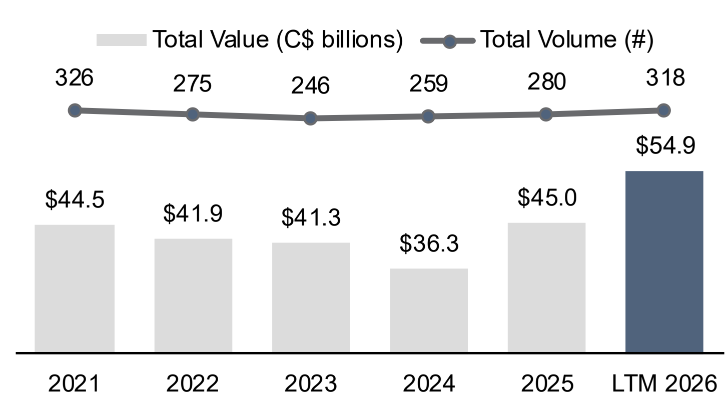
Demonstrating deployment tied to active procurement programs and a proven track record beyond a single project builds confidence and drives premium multiples

**Global Defence Financings (2021 – June 2026)**




Source: S&P Capital IQ

**Global Defence M&A Deals (2021 – June 2026)**




Source: S&P Capital IQ

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