

INTERVIEW

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Defence is a growth market with high barriers to entry

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Following 20 years in industry and eleven years at the Federal Ministry of Defence, Matthias Puschnig joins our team as Senior Advisor. In this conversation he explains why the European defence market stands at the beginning of a long growth phase, which barriers new entrants from automotive and mechanical engineering have to overcome and where cooperation with Ukraine opens concrete opportunities.

01 **What motivated you to bring your experience to S&P as Senior Advisor?**

I have 20 years of experience in industry and eleven at the Ministry of Defence. That experience meets a growth market: defence. S&P was the ideal sounding board for putting this combination to work.

02 **Which segments and sectors will you focus on at S&P?**

Defence. Years will pass before Europe regains stability and peace through a conventional balance. We are therefore at the beginning of substantial market growth in the defence industry. That is where I will concentrate fully. Where my IT experience is useful, I am glad to support my colleagues.

03 **Which developments do you see in the Mittelstand of this sector that influence the purchase or sale of companies?**

The defence business is dominated by large companies, and for good reason. The specific requirements placed on defence companies presuppose a certain corporate size in order to be met: security requirements, war-resilient supply chains, hazardous goods. The current defence boom attracts many new entrants, from the automotive supplier who sees opportunities for its know-how to the tech start-up able to test and sell its ideas in Ukraine within a few weeks. All of them have to consider growth strategies, organic or inorganic through M&A.

04 **Why are independent advice and strategic counsel so valuable for Mittelstand entrepreneurs in major decisions such as succession or growth?**

Staying in the defence sector: SMEs are above all the new entrants, so advice from people who know the industry is a given. M&A phases are always decisive. They draw the entrepreneur's attention away from operations, competitors recognise and exploit them as a sign of weakness, and their success determines the future of the company. Set against that high significance is the fact that they occur very rarely in a company's history, perhaps only once. That too calls for experienced advice.

And finally, M&A transactions have to be handled with great discretion. Industry insiders with long-standing, trusted contacts and good knowledge of the potential buyers find that easier than the entrepreneur, for whom strategic investors have so far been competitors and relevant financial investors largely unknown.

05 **What has proven particularly important for a successful transaction in your career?**

A solid basis of trust, built on personal relationships and a deep understanding of the situation.

06 What advice would you give an entrepreneur currently considering growth, partnerships or a succession solution?

To have a conversation with me about the reasons.

07 Many specialised German Mittelstand companies hold relevant technologies but have hardly been active in the defence market. Which opportunities and challenges arise for these companies?

The European defence market is roughly the size of four months of German automotive revenue. There is simply not room for everyone, and the barriers to entry are intimidatingly high. Even so, this growth market needs new capacity and new impetus from Germany's leading industries, automotive and mechanical engineering. With the right strategy, persistent key accounting, engineering quality and the insight that there is much to learn, companies can open up access and build successful defence units.

08 Through your role in the Ukraine crisis task force you know the needs and structures on the Ukrainian side particularly well. Which concrete opportunities do you see in cooperation between Germany and Ukraine, for instance in reconstruction, technology transfer or joint defence production?

Ukraine has translated 20 years of technological innovation into military practice: robotics, AI, the use of space assets. It knows exactly which products are needed and can develop them, up to around TRL 6 or 7. For us that is enough for a prototype, but not for market readiness. Ukraine's industrial base does not allow for more.

If there is one thing we do well in Germany, it is manufacturing. German industrialisation partners help Ukrainian products reach TRL 9, that is series production readiness, with quality, quantity and from factories that are not being bombed. That is the precondition for Ukraine to generate national income in the West from its young defence industry. And that will be a significant impetus for reconstruction.