

Top defence contractors set to rake in record cash after orders soar

Industry could step up share buybacks as large M&A opportunities are limited, analysts say



The leading 15 defence contractors are forecast to see free cash flow of \$52bn by the end of 2026 © Daniel Ceng/Anadolu/Getty Images

Sylvia Pfeifer and **Patrick Mathurin** in London and **Patricia Nilsson** in Frankfurt 9 HOURS AGO

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The world's largest aerospace and defence companies are set to rake in record levels of cash over the next three years as they benefit from a surge in government orders for new weapons amid rising geopolitical tensions.

The leading 15 [defence](#) contractors are forecast to log free cash flow of \$52bn in 2026, according to analysis by Vertical Research Partners for the Financial Times — almost double their combined cash flow at the end of 2021.

Five top US defence contractors are forecast to generate cash flow of \$26bn by the end of 2026, more than double the amount in 2021. The figures exclude Boeing, given its recent problems and heavy weighting towards civil aerospace.

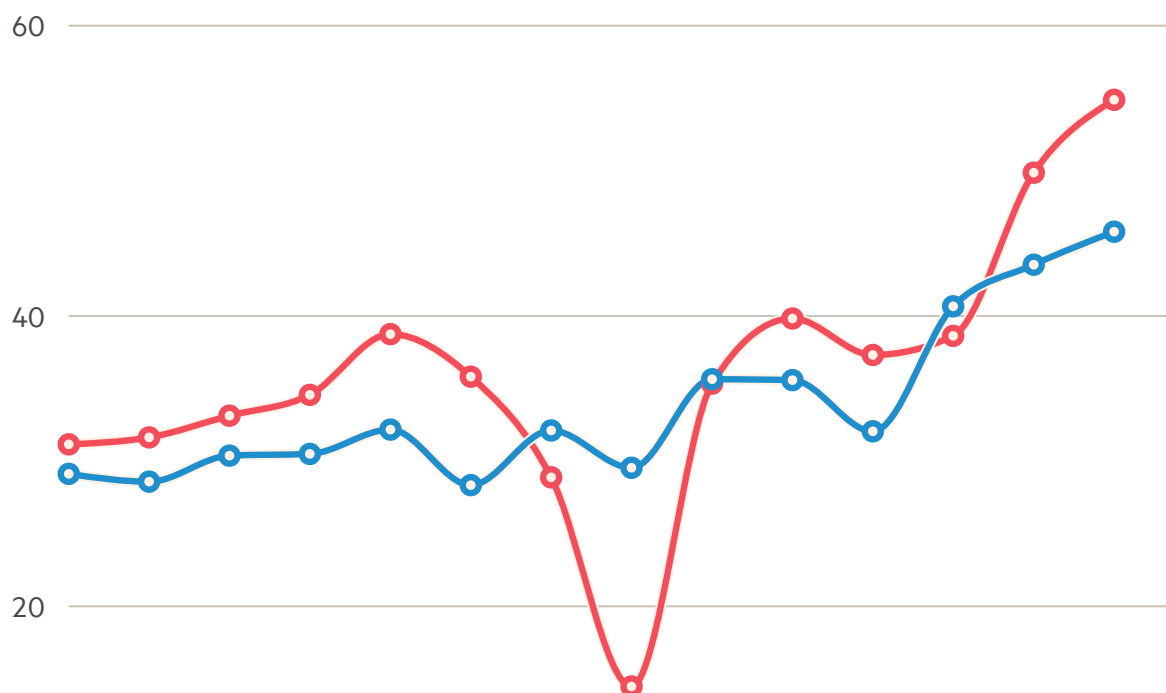
In Europe, national champions BAE Systems, Rheinmetall and Sweden's Saab, which have benefited from new contracts for ammunition and missiles, are expected to see combined cash flow jump by more than 40 per cent.

The industry is benefiting from a sharp increase in military spending as governments increase their budgets in response to Russia's full-scale [invasion of Ukraine](#) and escalating tensions in the Middle East and Asia.

In the US, [recent aid bills](#) for Ukraine, Taiwan and Israel allocated nearly \$13bn for weapons production at America's five biggest defence groups — Lockheed Martin, RTX, Northrop Grumman, Boeing and General Dynamics — and their suppliers. In the UK, the Ministry of Defence has committed £7.6bn for military aid to Ukraine over the past three years, including for stockpile replenishment.

Aerospace and defence companies are forecast to have record levels of free cashflow by 2026

Free cash flow (\$bn)



The government spending surge has already propelled [order books](#) to near record highs. It typically takes several years for new contracts to translate into higher sales — defence companies book the majority of their sales once weapons are delivered — but the growing cash flows are already prompting debate about how the industry will spend the money.

“It’s the billion-dollar question for the industry: companies typically don’t like holding large amounts of cash on their balance sheets, so what do they do with all that money if acquisitions are not that straightforward? Share buybacks and dividends are one way,” said Robert Stallard, analyst at Vertical Research.

Companies had already directed billions of dollars into share buybacks before the recent flood of new orders; some took on extra leverage to do so. Last year was the strongest for buybacks by aerospace and defence companies in both the US and Europe for the past five years, according to data from the Bank of America, although levels remain far below those of other sectors.

Lockheed Martin and RTX bought back close to \$19bn in stock between them last year. In Europe, BAE Systems this summer concluded a three-year £1.5bn buyback programme and immediately started a further £1.5bn buyback.

The large repurchases using taxpayers’ money by US contractors have [prompted criticism](#) among some lawmakers who have questioned whether companies are investing enough in new facilities and production. Executives have insisted they are boosting capital spending even as they return money to investors.

Companies will also be looking for more deals, said analysts, while cautioning that big purchases would be restricted by regulatory concerns about competition.

Aerospace and defence buybacks increased sharply in 2023

Aggregate value (\$bn)

US European and other

25

“M&A is inevitably the next stage in the cycle,” said Nick Cunningham, analyst at Agency Partners. “Given how long-cycle the industry is, it takes a while for the capacity to be created and for the money to flow but the huge growth in the market will generate activity.”

Rheinmetall earlier this month announced a \$950mn deal for the Michigan-based military vehicle parts maker Loc Performance. The German contractor said the deal would boost its chances of winning US Army contracts for combat vehicles and tactical trucks worth more than \$60bn.

Armin Papperger, chief executive, told analysts the scale of the US military and its orders made it worthwhile to adapt to the country's strict requirements for foreign defence contractors, such as maintaining a separate corporate structure with parallel management and domestic production.

"Even if we don't catch one of the big fishes, we will catch smaller fish and small fish are worth billions in the United States," he said.

Analysts at BoA noted that while Rheinmetall had not yet decided how to finance the deal, it had enough cash as well as available credit lines to move forward, adding that the company was expecting to end the year with a cash position of about €1bn.

Others that have done deals in North America recently include Renk, the tank gear box maker that was recently partially listed in Frankfurt, which last year acquired Canadian maker of suspension components General Kinetics.

Czechoslovak Group is bidding for the ammunition business of America's Vista Outdoor. BAE Systems last summer paid \$5.6bn for Ball Aerospace, a supplier of mission-critical space systems. It funded the deal through existing cash and new external debt.

More activity is expected in Europe's increasingly competitive space industry. Airbus, Thales and Leonardo are looking at merging some of their space activities. The ambition would be to create a pan-European alliance in space similar to that of MBDA, Europe's missile champion, people familiar with the talks have said.

The prospect of larger-scale consolidation is unlikely given competition concerns.

"There is still room for mid-sized companies to buy others without regulatory authorities or ministries of defence becoming terribly upset," said Byron Callan of Capital Alpha Partners, adding that some private equity-owned defence businesses may also come to market in the future.

While defence spending is likely to remain strong over the coming years, the recent jump in orders will probably tail off, especially once the war in Ukraine ends.

Callan said: "It is a cyclical business. As much as people talk about 10- year demand cycles, politics can change and security assessments can change and so too can defence demand."

Additional reporting by Emma Dunkley

