Europe's niche defence players

Published 30 May 2025

Samuel Rines

Macro Strategist, Model Portfolios

Aneeka Gupta

Director, Macroeconomic Research

Key Takeaways

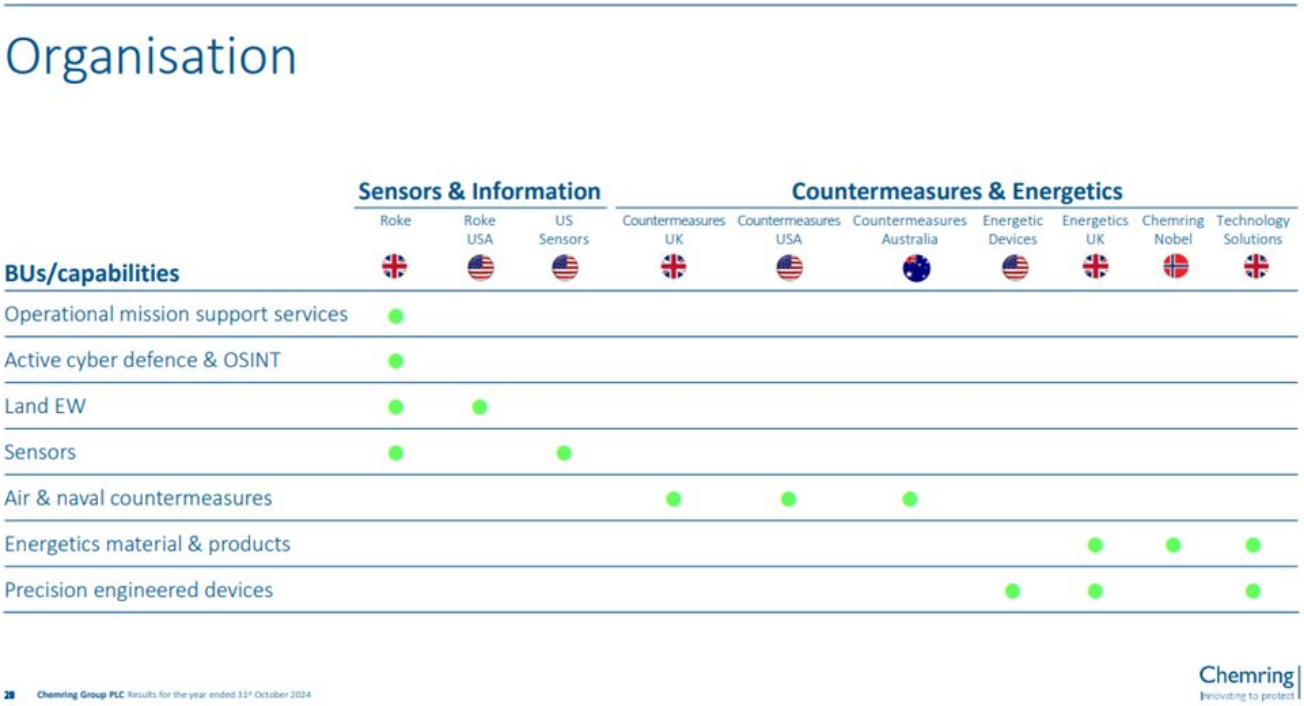
- European defence spending jumped 17% in 2024, boosting demand for modern capabilities like electronic warfare and tactical IT.
- Firms like Chemring, INVISIO, and MilDef are well-positioned to benefit from Europe's military modernisation push.
- WDEF offers targeted exposure to Europe's defence upcycle, with 70% of current holdings generating more than 50% of their revenue from the defence sector.

Russia's invasion of Ukraine sparked the beginning of a defence rethink for Europe, and the Trump Administration's threat to shift away resources lead to further urgency. After decades of restrained budgets, European military expenditure surged by 17% in 2024, reaching levels not seen since the Cold War[1]. While some of the spending is going to traditional armaments, Governments across the continent are ramping up investment in modern capabilities. In particular, niche firms aligned with Europe's modernisation priorities such as electronic warfare, soldier systems, and tactical IT, are seeing strong tailwinds. This means many small-to-mid cap players are positioned to benefit significantly from the modernisation and rearmament push.

Building the digital backbone of modern armies

One example is Chemring. The company has a specialisation in advanced plastic explosives, a segment with only one other supplier (France's state-owned Eurenco) competing in Europe. Simply, Chemring benefits from a near-duopoly in certain munitions, a "captive" market advantage as countries prefer local suppliers for sensitive ordnance. Cherming has also carved out a space in electronic warfare, signals intelligence, and cybersecurity offerings. The war in Ukraine has only served to underscore the outsized role of technology on the battlefield, elevating demand for capabilities like Chemring's electronic warfare solutions. It recently secured orders from Sweden, Lithuania, Latvia, the UAE[2], and even its first East Asian customer (Japan). In short, Chemring is leveraging Europe's defence resurgence on multiple fronts: from the resupply of traditional ordnance (for example, countermeasures) to the roll-out of cutting-edge electronic warfare systems.

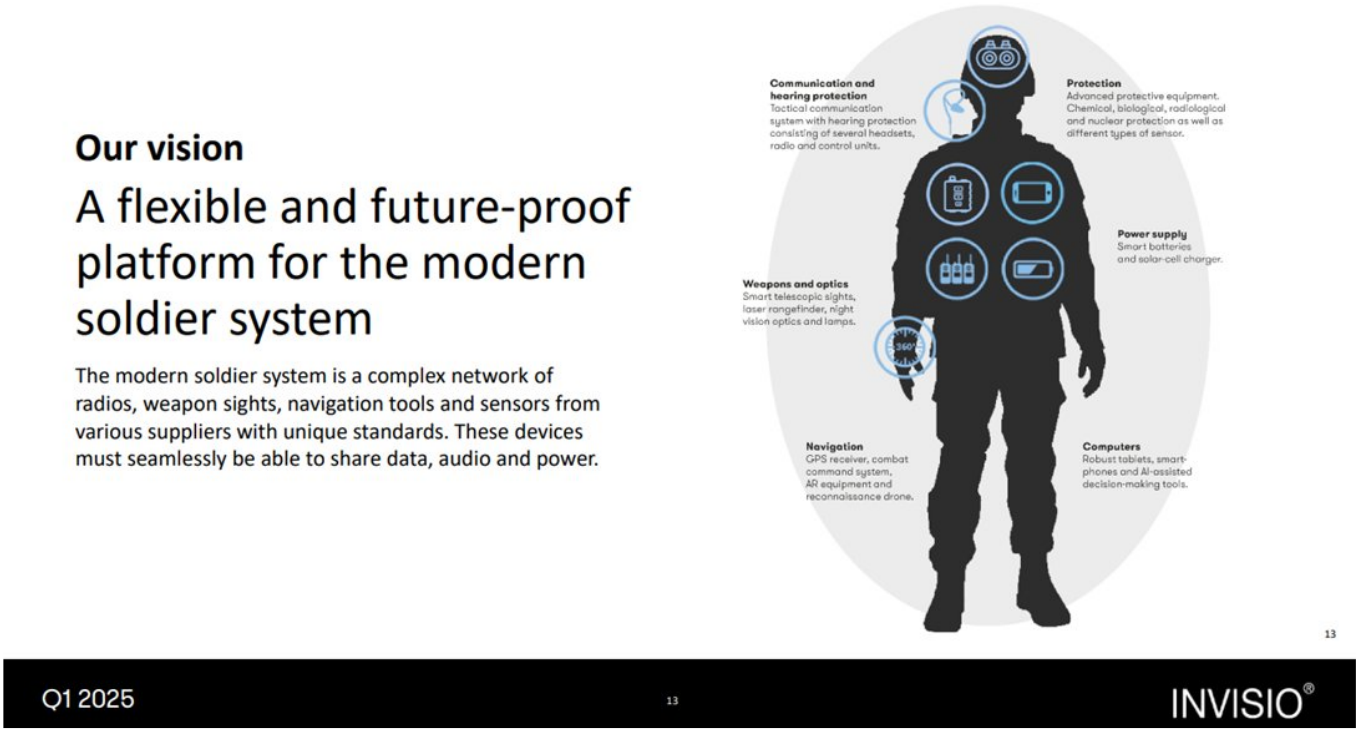
Figure 1: Chemring product pipeline—investor presentation



Source: Cherming Investor Presentation, 17 December 2024.

INVISIO is a leader in the field of soldier communication and hearing protection systems, a key modernisation area as European militaries invest in better “soldier systems”. INVISIO’s core products include advanced headset and communication kits that allow troops to communicate clearly in high-noise environments while protecting their hearing. These technologies, often incorporating artificial intelligence (AI)-enabled noise filtering and digital signal processing, enhance situational awareness and survivability for soldiers on modern battlefields. In the post-Ukraine budget environment, demand for such gear is on the rise as armies update their kit for the realities of loud, electronic-heavy warfare. With European NATO[3] members and partners racing to equip soldiers with more advanced communications gear (after witnessing coordination and noise challenges in Ukraine), INVISIO is well positioned as a specialised beneficiary of the soldier-modernisation wave.

Figure 2: INVISIO soldier systems—investor presentation



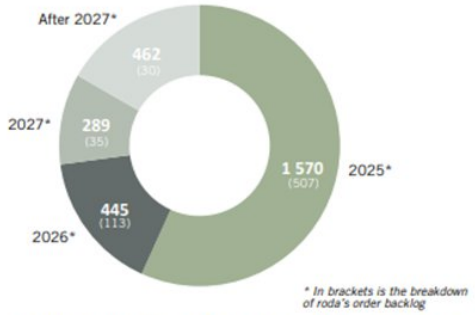
Source: INVISIO Investor Presentation 6 May 2025

MilDef Group, another Swedish-based mid-cap, provides the digital backbone for defence—rugged IT hardware, software, and networking solutions for military and security customers. In practice, MilDef's products range from hardened laptops, servers and switches to tactical communication systems that can be deployed in tanks, armoured vehicles, command posts, and naval vessels. As European forces embark on a broad modernisation (new armoured vehicles, upgraded command-and-control systems, improved cyber defence), the demand for MilDef's IT gear has been climbing. The war in Ukraine has underscored how critical robust communications and computing are to military effectiveness, and Europe's rearmament programs increasingly include significant "digitalisation" components—an area where MilDef is a seasoned expert.

MilDef's is plugging into European modernisation efforts. For example, the firm landed a SEK 200 million deal with BAE Systems to supply rugged electronics for new CV90 infantry fighting vehicles being delivered to a Central European country. It also signed hardware contracts with the Swedish Armed Forces for tactical communications equipment. To broaden its reach, MilDef has been expanding in key markets, notably acquiring a German military IT supplier in 2024 to strengthen its foothold. With NATO members like Germany committing hundreds of billions to modernise their forces, MilDef's blend of domain expertise and local presence positions it as a critical enabler of the digital transformation of Europe's militaries. Not to mention, the company's order backlog gives a sense of the longevity of the current defence spending upswing.

Figure 3: MilDef order backlog

Order backlog by planned deliveries (SEK m)



The pie chart above shows future planned deliveries by year in SEK m and is based on MilDef's order backlog at the end of the period. The actual outcome may differ significantly from the above planned deliveries, above all due to delays.

Change in order backlog January–March 2025 (SEK m)

Order backlog as of January 1, 2025	**2,055**
Order intake January–March 2025	404
Sales January–March 2025	-340
Sales January–March 2025 not impacting order backlog	10
Order backlog acquired in the period	693
Currency effect in order backlog during the period	-56
Order backlog as of March 31, 2025	**2,766**

The table above presents the development of MilDef's order backlog in SEK m during the first three months, and the size of the components included, to arrive at the difference in the order backlog as of March 31, 2025 in comparison with January 1, 2025.

INTERIM REPORT JANUARY–MARCH 2025 6 MILDEF

Source: MilDef Investor Presentation March 2025.

Investing in Europe's defence renaissance

As Chemring, INVISIO, and MilDef show how Europe's defence renaissance is lifting a cadre of smaller, agile firms that specialise in modern warfare needs. Each of these companies are aligned with a key theme—be it electronic warfare countermeasures, crucial soldier-worn tech, or secure tactical IT— that European militaries are prioritising as they spend more. Their recent growth trajectories (from Chemring's bulging order book to INVISIO's sales spike and MilDef's record orders) reflect the early stages of a sustained upcycle in European defence procurement.

For those looking beyond the giant primes, these niche players offer a focused play on Europe's defence tailwinds. As Europe rearms and modernises its forces over the coming years—supported by higher budgets, urgent operational lessons from Ukraine, and multilateral programs—companies like Chemring, INVISIO, and MilDef stand to be on the front lines of Europe's Defence supercycle.

Tapping into the European defence opportunity with WisdomTree

Europe's re-armament story is powerful. The WisdomTree Europe Defence UCITS ETF (WDEF), the world's first exchange-traded fund (ETF) dedicated to listed European defence companies, was designed to capture the evolving nature of the European defence rearmament story. Individual stocks, such as Chemring, INVISIO or MilDef, each offer a narrow slice of the opportunity, while the large primes

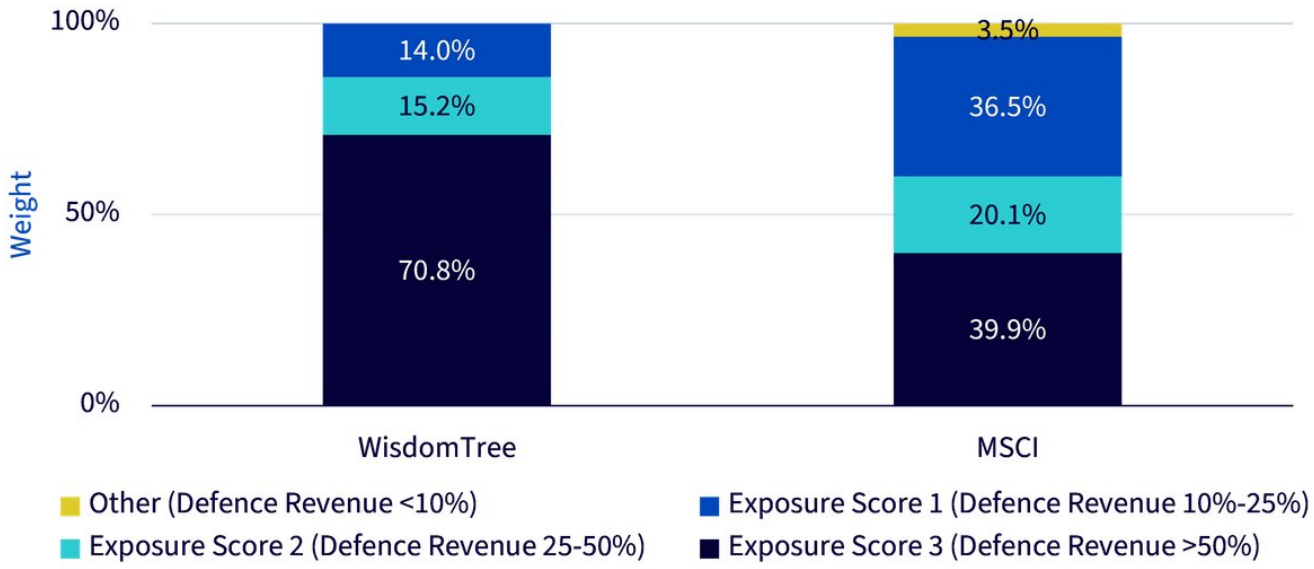
dominate single-name risk. WDEF tracks the WisdomTree Europe Defence UCITS Index (WTEUDEFN), a proprietary index built to capture only companies that derive a meaningful share of revenue from defence or dual-use technologies inside Europe.

The methodology targets companies with revenue exposure to defence, giving investors undiluted access to pure-play names driving both hardware innovation and digital resilience. WDEF prioritises companies with a higher exposure to the defence industry by assigning an exposure score:

- **Exposure Score 3:** companies with > 50% exposure to defence activities
- **Exposure Score 2:** companies with 25% to 50% exposure to defence activities
- **Exposure Score 1:** companies with 10% to 25% exposure to defence activities

Companies will then be weighted by free-float market capitalisation adjusted by the Exposure Score. The result is a concentrated portfolio of twenty-four stocks—balanced by capping rules that prevent any single stock from dominating while still allowing conviction in the leaders. Currently, 70.8% of the WisdomTree Europe Defence UCITS Index is allocated to companies with >50% defence revenue, compared to only 40% in the MSCI Europe Aerospace and Defence Index[4] .

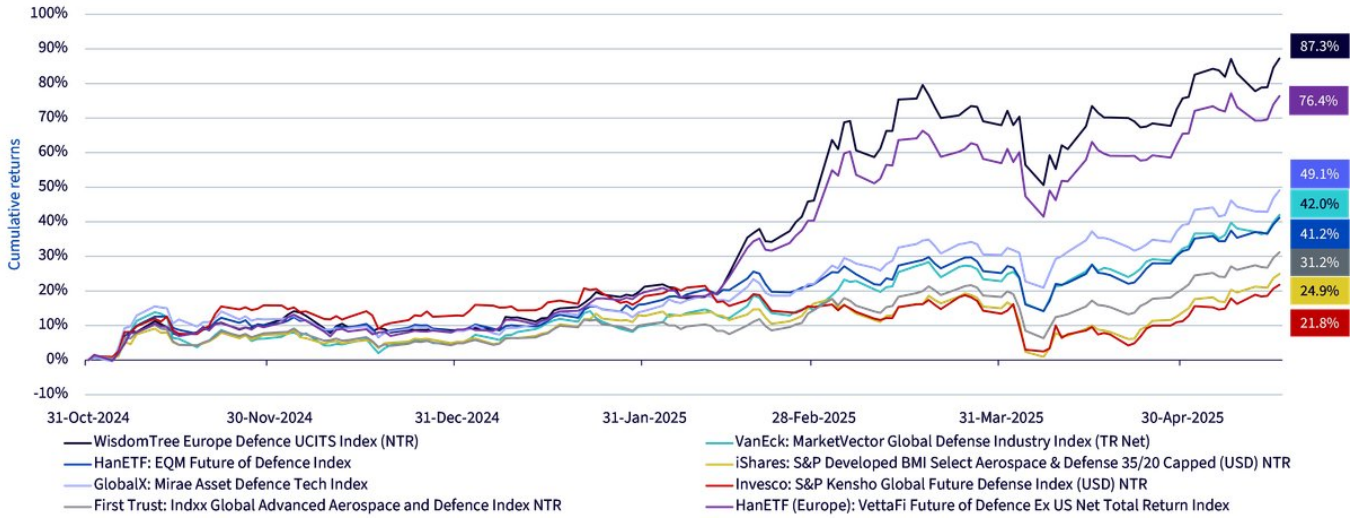
Figure 4: WisdomTree's strategy tilts towards companies with a higher revenue exposure to defence



Source: WisdomTree, Bloomberg, FactSet. Holdings as of 31 April 2025. Defence revenue exposure is sourced from multiple in-house and external sources. WisdomTree / WTEUDEFN denotes WisdomTree Europe Defence UCITS Index (NTR). MSCI/ MXEU0AD denotes MSCI Europe Aerospace & Defence Index. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

Since going live on 31 October 2024, the WisdomTree Europe Defence UCITS Index has outperformed the competitive landscape by a wide margin, illustrated in Figure 5.

Figure 5: Performance comparison since live calculation



Source: WisdomTree, Bloomberg, from 31 October 2024 to 16 May 2025. WisdomTree Europe Defence UCITS Index (WTEUDEFN) calculations include back tested data and are computed in the EUR. Historical returns of other indices are also calculated in EUR. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

Conclusion

Europe's defence budgets are locked in for years, Europe's defence budgets are locked in for years, and the winners will be on the front lines of Europe's defence supercycle. WDEF rolls that mosaic into a single, liquid ETF, letting investors tap into the continent's multi-decade rearmament cycle with a diversified, ESG-filtered portfolio.

[1] sipri.org

[2] UAE = United Arab Emirates.

[3] The North Atlantic Treaty Organization is an intergovernmental transnational military alliance of 32 member states.

[4] WisdomTree, Bloomberg, FactSet as of 31 April 2025.

Important Risks Related to this Article

IMPORTANT INFORMATION

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland. **Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority. WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request. This marketing communication has been prepared for professional investors, but the WisdomTree products set out in this document may be available in some jurisdictions to any investors, subject to applicable laws and regulations. As the product may not be authorised or its offering may be restricted in your jurisdiction, it is the responsibility of every person or entity to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdiction. Prior to any application investors are advised to take all necessary legal, regulatory, tax and investment advice on the suitability and consequences of an investment in the products. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and affer seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment. An investment in exchange-traded products ("ETPs") is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks. The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes. This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or

guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents. This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements. WisdomTree Issuer ICAV The products discussed in this document are issued by WisdomTree Issuer ICAV (“WT Issuer”). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland (“CBI”). WT Issuer is organised as an Undertaking for Collective Investment in Transferable Securities (“UCITS”) under the laws of Ireland and shall issue a separate class of shares ("Shares”) representing each fund.

The Fund is described in a Key Information Document (KID) or Key Investor Information Document (KIID) for UK investors, and the prospectus of WT Issuer (“WT Prospectus”). A copy of the WT Prospectus and the KID / KIID is available, for EEA/UK only, in English at www.wisdomtree.eu. Where required under national rules, the KID will also be available in the local language of the relevant EEA Member State. Investors should read the WT Prospectus before investing and should refer to the section of the WT Prospectus entitled 'Risk Factors' for further details of risks associated with an investment in the Shares. The summary of investor rights associated with an investment in the fund is available in English on WisdomTree Europe's website. WisdomTree Management Limited may decide to terminate the arrangements made for the marketing of its collective investment undertakings. In such circumstances, shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the fund free of any charges or deductions for at least 30 working days from the date of such notification. Notice to Investors in Switzerland – Qualified Investors This document constitutes an advertisement of the financial product(s) mentioned herein. The prospectus and the key investor information documents (KIID) are available from WisdomTree's website: https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports Some of the sub-funds referred to in this document may not have been registered with the Swiss Financial Market Supervisory Authority (“FINMA”). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent. For Investors in France:

The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto. **For Investors in Malta:** This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority. **For Investors in Monaco:** This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.