Arming for growth: Q1 2025 results validate Europe’s defence re-armament

Published 12 June 2025

Baoqi Zhu
Associate Director, Quantitative Research & Multi Asset Solutions

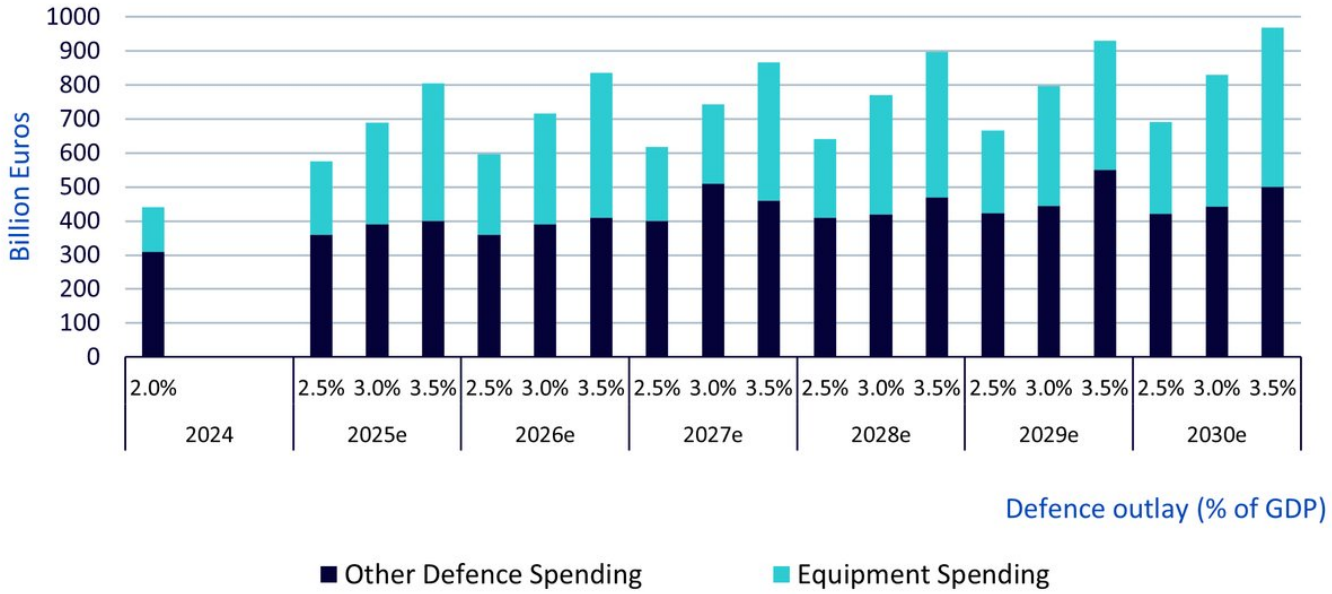
Key Takeaways

- Europe’s defence budgets are rising sharply, fuelling a “generation-long” demand curve for military contractors.
- Q1 earnings showed almost 19% weighted revenue growth and widening margins despite heavy R&D investment.
- Record-high backlogs—averaging 38× monthly sales—underscore unprecedented order visibility.
- Pure-play defence firms outperformed best, while diversified suppliers offer stability and critical subsystems.

Europe’s politicians are finally putting money where their security rhetoric is. 2024 defence outlays across NATO-Europe jumped 17% to about €326 bn[1], and Brussels now insists that at least 65% of new procurement be sourced inside Europe.[2] Germany’s €100bn Sondervermögen, Poland’s move towards 4% of GDP[3], and the UK’s pledge to reach 2.5% of GDP by 2030 collectively mark the biggest remilitarisation since the Cold War.

Charting the policy shift, NATO[4] scenarios (2.5-3.5% of GDP) imply Europe could be spending €800-950bn a year on defence by 2030, more than double 2024 levels (Figure 1). Equipment outlays—the part that flows straight to contractors—would climb fastest.

Figure 1: NATO Europe defence—spending scenarios



Source: Rheinmetall, WisdomTree as of 31 January 2025. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Industrial policy is lending further support; the European Defence Fund is conditioning grants on European content. As Europe seeks greater autonomy in defence, the leaders want tighter control of critical supply chains, from missiles to tanks. The upshot is a long, visible demand curve for Europe's defence companies.

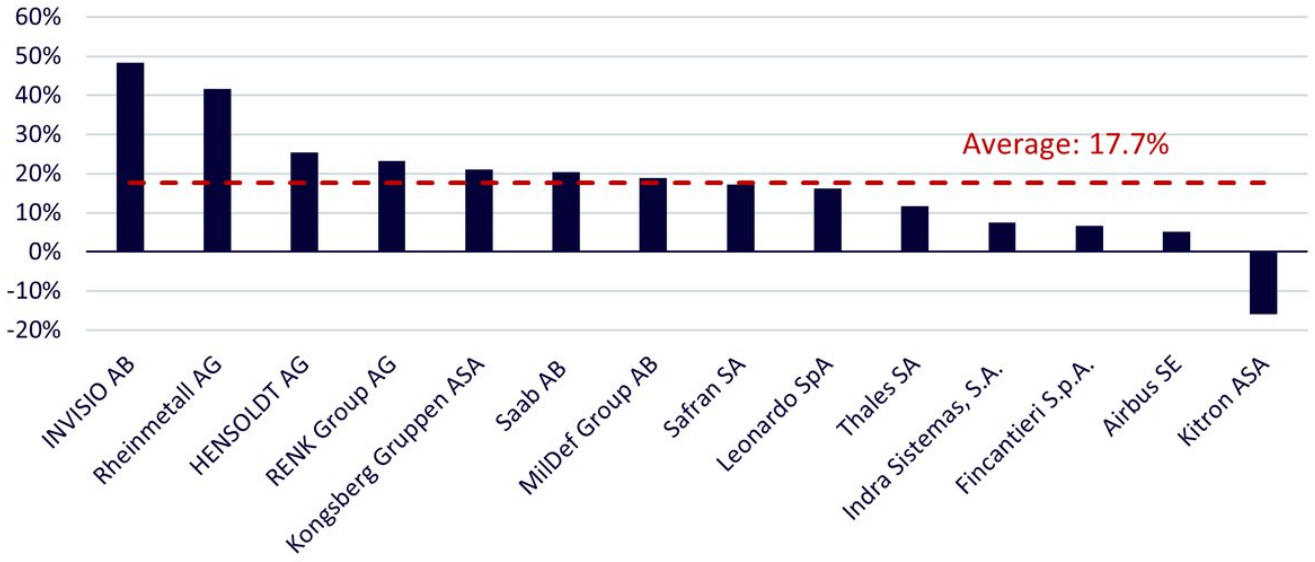
Q1 2025 earnings: what the numbers say

Focusing on the WisdomTree Europe Defence UCITS Index—designed to capture companies with meaningful revenue from the European defence megatrend—14 of 24 constituents had reported Q1 figures by 16 May. The snapshot is encouraging:

Sales growth

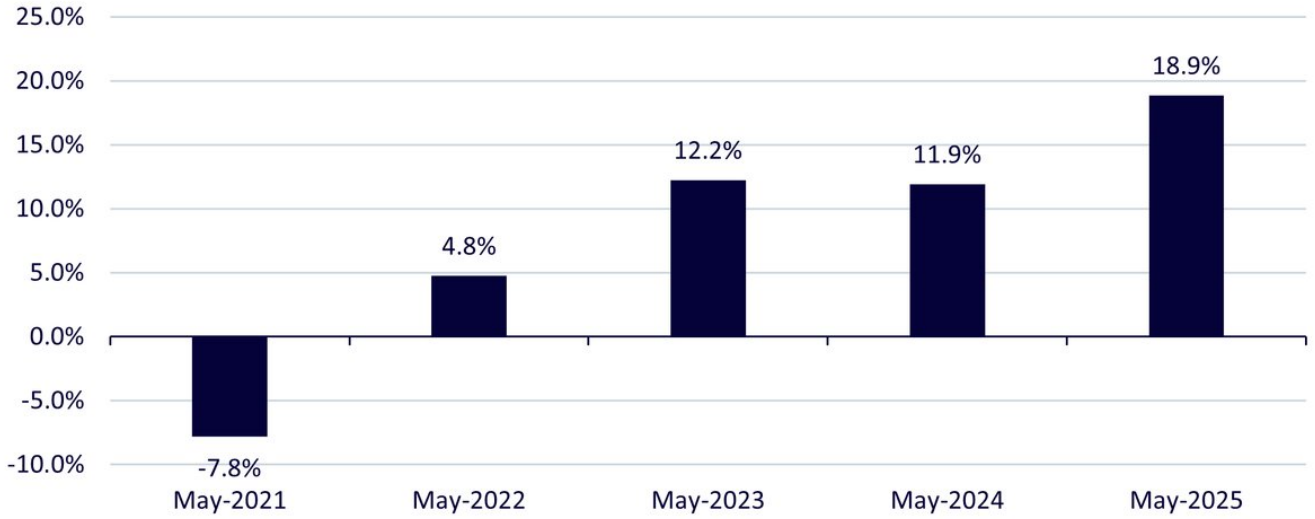
Headline growth remained robust; 13 of the 14 companies reported revenue growth in Q1, with the average sales growth rate at +17.7% (LTM[5] sales growth rate year-over-year (YoY)). Stack these data points next to the five-year trend and the trajectory is unmistakable. Weighted revenue growth has swung from a pandemic trough of -8% in 2021 to +19% in May 2025 (Figure 3). Land-systems champion Rheinmetall led the charge with a 42% jump, but momentum was widespread: HENSOLDT, Kongsberg, Safran and Leonardo all posted double-digit growth rates. Only one name, Kitron, contracted—and that was due to destocking in its non-defence connectivity arm rather than weaker military demand.

Figure 2: Year-over-year sales growth of index holdings reporting Q1 earnings as of 16 May 2025



Source: WisdomTree, Bloomberg. Year-over-year sales based on the latest twelve months (LTM) vs prior LTM as of 16 May 2025. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

Figure 3: Weighted average year-over-year sales growth of the WisdomTree Europe Defence UCITS Index



Source: WisdomTree, Bloomberg. Year-over-year sales based on the latest twelve months (LTM) vs prior LTM as of 16 May 2025. Holding weights are fixed as of 16 May 2025. All holdings in the WisdomTree Europe Defence UCITS Index with available data are included in the calculation. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

Consensus beats and management tone

Roughly half the cohort beat[6] on both revenue and EBIT. Rheinmetall, Thales and Safran cited “accelerating European demand”, whereas misses were generally idiosyncratic: supply-chain timing (Saab,

HENSOLDT) or tough comparisons (INVISIO). Crucially, no company cut 2025 guidance. CEOs repeatedly flagged EU budget trajectories and multi-year frameworks as reasons for confidence.

Order book boom

The real story, however, lies in the order books. The index's simple average ratio of backlog to monthly sales climbed to 38 times in May from around 25 times before the Russia-Ukraine War. For the five largest holdings, as of 16 May 2025, it has crossed the 40× mark. Rheinmetall booked €5 billion of orders in a single quarter, Fincantieri lifted its firm naval backlog 34% YoY to €31 billion (around 4 times of its annual revenue), and HENSOLDT, bolstered by Eurofighter radar contracts, set a new company record. Management commentary was generally confident, citing European procurement timetables, multi-year framework agreements and replenishment of munitions stocks as key tailwinds.

Figure 4: Average backlog-to-monthly-sales ratio of holdings in the WisdomTree Europe Defence UCITS Index



Source: WisdomTree, Bloomberg. For each holding, backlog to monthly sales ratio calculated as Order Backlog Value / (Trailing 12M Net Sales/12). Data as of 16 May 2025. All holdings in the WisdomTree Europe Defence UCITS Index with available data are included in the calculation. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

As both revenue growth and backlog cover have risen in recent years, we believe that the budget up-cycle is already flowing through to contracts and profitable growth—well before many of the headline programs (for example, Eurodrone, European Main Battle Tank, GCAP etc.) move into full-rate production.

Exposure intensity and market rewards

The Index groups members by exposure score—a rule in its methodology that tags how much of each company's revenue comes from defence:

- Score 3: > 50%
- Score 2: 25-50%
- Score 1: 10-25%

Figure 5: Index weight, median sales growth and median 1-year performance by exposure score

Exposure score	Index weight	Median Sales growth	Median 1-yr performance
3	70.8%	17.6%	+101%
2	15.2%	6.8%	+90%
1	14.0%	5.2%	+23%

Source: WisdomTree, Bloomberg. Data as of 16 May 2025. Sales growth is year-over-year based on the latest twelve months (LTM) versus prior LTM as of 16 May 2025. All holdings in the WisdomTree Europe Defence UCITS Index with available data are included in the calculation. You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.

Unsurprisingly, the group with high revenue exposure to defence is showing the fastest top-line gains and the strongest equity performance—Rheinmetall, RENK and HENSOLDT have all at least doubled over the past year. Such companies account for around 70% in the current portfolio. But keeping companies with a lower exposure score, such as Airbus and Rolls-Royce, makes strategic sense, as these firms supply propulsion and subsystems that sit at the heart of Europe's re-armament programmes, and their civil diversification dampens programme-specific risk. Moreover, several companies with a lower exposure score have begun expanding their defence business: Safran's acquisition of Collins Aerospace's actuation assets will lift its defence share, while Airbus's "EuropaSat" joint venture with Thales boosts secure-comms exposure. Retaining this blend balances pure-play torque with industrial breadth.

Outlook: visibility extends beyond the decade

Order books at 38× monthly sales give contractors unmatched revenue visibility. With Brussels tying funding to European content and new cross-border programmes (Eurodrone, FMBT, GCAP) entering the award phase, demand looks set to compound. Risks, such as supply bottlenecks, election noise, and tariff flare-ups, need monitoring, but no management team currently sees them derailing guidance. Even if NATO-Europe stops at 3% of GDP (middle scenario), listed defence revenues could still double by 2030. The supercycle remains alive and well.

[1]Politico: EU defense spending projected to boom to €326B
[2]Reuters: EU envoys reach deal on 150 billion euro arms fund
[3]Gross domestic product.
[4]The North Atlantic Treaty Organization is an intergovernmental transnational military alliance of 32

member states.

[5]LTM = last twelve months.

[6]“Beat" means a company reported revenue that came in above what analysts were expecting, while a "miss" means it came in below those estimates.

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 oering 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 aected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and aer 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 oer for sale nor a solicitation of an oer 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 oering 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 ailiate, nor any of their respective oicers, 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 dier 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 Factors¼ 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 Europe¼s 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 aected 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 WisdomTree¼s 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 oering, 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 oer 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