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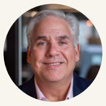

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INDUSTRY RESEARCH

The Iran War Viewed Through a PE Lens

How the Iran war affects aerospace & defense PE

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

Key takeaways

- The Iran war that began on February 28, 2026, has led to the sustained use of ballistic missiles, drones, and precision munitions, placing significant demand on US air and missile defense systems.
- Interceptors such as PAC-3 MSE, THAAD, and Standard Missile-3 cost several million to tens of millions of dollars per unit, meaning replenishment can quickly reach into the billions if usage remains high.
- The key constraint is industrial capacity. Prime contractors depend on smaller suppliers for propulsion, guidance systems, electronics, and materials, and those suppliers determine how fast production can increase.
- Inventory drawdowns typically result in supplemental appropriations and multiyear procurement commitments, providing longer-term revenue visibility across the supply chain.
- The most attractive PE opportunities are in the sub-tier ecosystem, including propulsion components, guidance electronics, composite structures, drone subsystems, and maintenance and sustainment providers tied to higher production levels.

The Iran war explained

The current round of US military action against Iran began in the early morning hours of February 28, 2026. At approximately 1:15 a.m. EST, US Central Command, the unified military command responsible for the Middle East, announced the start of Operation Epic Fury. According to public statements, the opening wave targeted Iranian command-and-control infrastructure, air defense systems, missile launch sites, and facilities associated with the Islamic Revolutionary Guard Corps. The objective was to degrade Iran's ability to coordinate and execute missile and drone attacks across the region.

In the days since the initial strikes, the conflict has expanded in both tempo and geography. Iran has responded with waves of ballistic missiles and one-way attack drones aimed at US positions and regional partners. The US and its allies have intercepted large numbers of these incoming threats using layered air and missile defense systems. Naval engagements have also occurred, including submarine and surface warfare activity, underscoring that this is not a single-night strike but a sustained exchange across air, land, and sea domains. For additional analysis on the Iran war's effect on oil & gas investment, read our latest analyst note.

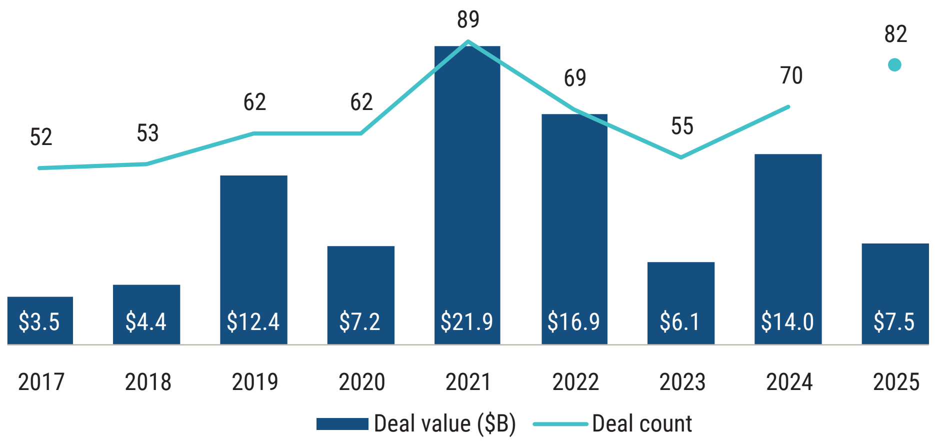
For investors, and particularly for private equity investors, the significance of this conflict lies less in the political context and more in what it reveals about weapons consumption, inventory depth, and industrial capacity.

How PE investors view the Iran war

For investors, and particularly for private equity investors, the significance of this conflict lies less in the political context and more in what it reveals about weapons consumption, inventory depth, and industrial capacity. Modern warfare consumes precision munitions and defensive interceptors at a rate that few peacetime production lines are designed to sustain. When stockpiles are drawn down quickly, replenishment becomes a multiyear procurement story. That is where capital can find opportunities.

PE investors do not typically acquire the large publicly traded prime contractors such as Lockheed Martin, RTX Corporation, or Boeing. Instead, PE firms tend to invest in the tiered supply chain that supports those primes. A typical missile or interceptor contains propulsion systems, guidance electronics, seekers, sensors, composite structures, connectors, and highly specialized test equipment. These components are often produced by midsized companies with deep technical expertise and long-standing government relationships. When demand surges, the primes cannot increase output without these suppliers increasing output first.

Defense PE deal activity



Source: PitchBook • Geography: Global • As of December 31, 2025

The Iran war has placed particular emphasis on air and missile defense systems. Iran's strategy has involved launching ballistic missiles and drones in volume.

The Iran war has placed particular emphasis on air and missile defense systems. Iran's strategy has involved launching ballistic missiles and drones in volume. A ballistic missile is a rocket-propelled weapon that follows a high-arching trajectory through the atmosphere before descending at high speed toward its target. Intercepting such missiles requires advanced defensive systems capable of tracking and destroying the incoming threat in flight.

One of the principal US systems used in this role is the Patriot Advanced Capability-3 Missile Segment Enhancement (PAC-3 MSE) interceptor. The broader Patriot system is an air and missile defense platform deployed by the US Army and allied nations. The PAC-3 MSE is a specific interceptor missile variant designed to engage ballistic missiles and advanced aerial threats.

Who makes these munitions and at what cost?

Lockheed Martin is the prime contractor for the PAC-3 MSE interceptor. The missile incorporates a two-pulse solid rocket motor, which allows it to maneuver aggressively in the terminal phase of flight. Aerojet Rocketdyne—now partly owned by AE Industrial Partners along with L3Harris Technologies—supplies the solid rocket motor. Boeing produces the missile seeker, which is the sensor assembly that guides the interceptor to its target. Each interceptor costs several million dollars, and while exact pricing varies by production lot, it is widely understood to be among the most expensive tactical missile types in production. When dozens or hundreds of interceptors are expended in a short period, replenishment funding can easily run into the billions of dollars.

Another key system is Terminal High Altitude Area Defense (THAAD). It is designed to intercept ballistic missiles at high altitude, either inside or just outside the atmosphere. Lockheed Martin serves as the prime contractor for THAAD. The system includes interceptors, mobile launchers, radar, and command-and-control elements. The interceptor component is frequently cited as costing in the range of $12 million to $13 million per missile, though actual prices depend on procurement structure and volume. The radar component associated with THAAD deployments has historically involved Raytheon, now part of RTX, as a significant contributor.

Naval ballistic missile defense has also been prominent. The Standard Missile-3 Block IIA interceptor, deployed from US Navy Aegis-equipped destroyers and cruisers, is designed to engage medium- to intermediate-range ballistic missiles in midcourse flight. RTX, through its Raytheon division, serves as the prime contractor. Japan-based Mitsubishi Heavy Industries is a major partner in the Block IIA variant. L3Harris contributes propulsion and divert-and-attitude control systems that allow the missile's kill vehicle to maneuver precisely before impact. Unit costs for the Standard Missile-3 Block IIA are often described in the tens of millions of dollars per interceptor. The financial implications of high burn rates are substantial.

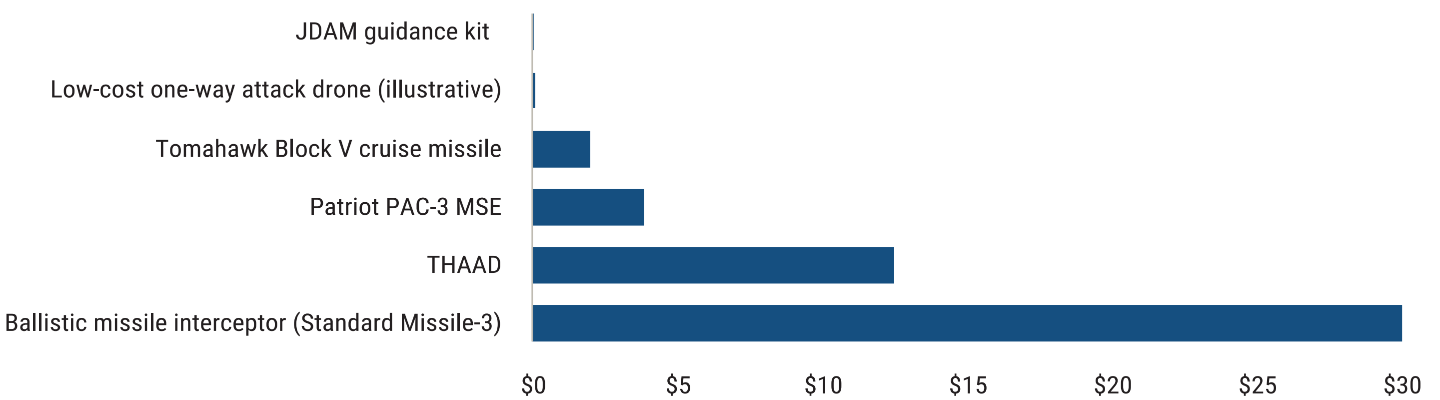
Offensive strike munitions have also been used extensively. The Tomahawk land-attack cruise missile is a long-range, precision-guided weapon launched from ships or submarines. RTX is the prime contractor for the Tomahawk. The missile uses a turbofan engine and advanced guidance systems to strike targets hundreds of miles away with high accuracy. Publicly cited figures place the cost of a Tomahawk Block V missile at approximately $1.8 million to $2 million per unit. While less expensive than ballistic missile interceptors, large-scale use still results in meaningful procurement requirements.

Carrier-based aircraft, such as the F/A-18 Super Hornet and the F-35C Lightning II, have conducted strike missions using Joint Direct Attack Munitions (JDAMs) and Small Diameter Bombs. A JDAM is a guidance kit produced by Boeing that converts a conventional unguided bomb into a precision-guided weapon using satellite navigation and inertial measurement systems. The cost of a JDAM kit is typically in the tens of thousands of dollars, depending on configuration and order size. Honeywell is a prominent supplier of inertial measurement units used in precision guidance applications. Small Diameter Bombs, also produced by Boeing, are lightweight glide bombs that allow aircraft to carry multiple precision weapons per sortie. These systems are at a comparatively lower cost per unit than cruise missiles, making them suitable for sustained air campaigns.

Land-based deep strike has included the Army Tactical Missile System (ATACMS), and Lockheed Martin is the prime contractor. ATACMS is a long-range, ground-launched precision missile fired from the High Mobility Artillery Rocket System (HIMARS). HIMARS is produced by Lockheed Martin, while General Dynamics Ordnance and Tactical Systems produces launch pod containers used to house and fire the missiles. ATACMS missiles are high-value assets with complex propulsion and guidance systems. Although exact unit prices vary, they are significantly more expensive than conventional artillery rounds and require substantial manufacturing lead time.

An important development in this conflict has been the operational use of low-cost, one-way attack drones under a US Central Command initiative known as Task Force Scorpion Strike. The specific drone system publicly referenced is called the Low-cost Unmanned Combat Attack System (LUCAS). Unlike cruise missiles or interceptors, these drones are designed to be relatively inexpensive and expendable. The manufacturer has not been publicly identified in current reporting. The operational rationale is clear: Using lower-cost platforms to strike targets reduces the financial burden compared with firing multimillion-dollar missiles for every engagement.

Key defensive and offensive munitions cost comparison ($M)



Source: PitchBook estimates • Geography: Global • As of December 31, 2025

For private equity investors, each of these munitions categories presents a different angle of participation.

How can PE invest in this space?

For private equity investors, each of these munitions categories presents a different angle of participation. In missile defense systems such as PAC-3 MSE, THAAD, and Standard Missile-3, the opportunity lies primarily in the supply chain. Propulsion manufacturers, advanced electronics providers, composite material suppliers, and specialized testing companies can experience order growth when production ramps. Many of these firms operate at Tier 2 or Tier 3 levels, meaning they supply components to the prime contractor rather than holding the prime contract themselves. These companies often have long-term contracts, high barriers to entry, and limited competition due to technical certification requirements.

Key missile defense systems

Munition/system	Prime contractor	Tier 3/4 supplier	Component area	Investable attributes
Patriot PAC-3 MSE Interceptor	Lockheed Martin	Ensign-Bickford Aerospace & Defense (EBAD)	Ignition & energetic devices	Sole-source energetic components; high switching costs
		Marotta Controls	Propulsion valves & control systems	Critical propulsion flow control; private ownership
THAAD Interceptor	Lockheed Martin	Mercury Systems	Ruggedized processing electronics	Secure embedded computing; modernization tailwinds
		Hexcel (sub-tier composites)	Composite structures	High-performance materials; capacity constrained
Standard Missile-3	RTX	Marotta Controls	Propulsion control hardware	Flight control and fluid management niche supplier
		Moog (actuation divisions)	Flight actuation systems	Precision electromechanical actuation
Tomahawk Block V	RTX	Williams International	Small turbofan engines	Sole-source propulsion; scaling constraints
		Curtiss-Wright (subsystems divisions)	Actuation & embedded electronics	Missile-rated electronics; recurring upgrade cycle
ATACMS/HIMARS	Lockheed Martin	General Dynamics OTS (launch hardware divisions)	Launch pod containers	Scalable industrial hardware tied to missile throughput
		EBAD	Energetic ignition systems	Rocket motor integration components
JDAM	Boeing	VectorNav Technologies	Inertial navigation modules	Miniaturized IMUs; high-volume precision kits
		Aitech Systems	Rugged computing boards	Embedded processing; dual-use exposure
Small Diameter Bomb	Boeing	Albany Engineered Composites	Composite bomb structures	Advanced lightweight structures

Source: PitchBook • Geography: Global • As of December 31, 2025

In cruise missiles, such as Tomahawk, PE can focus on subsystems including propulsion components, guidance electronics, and production tooling. Scaling output frequently requires investment in facilities, workforce training, and quality systems. Capital support in these areas can enable suppliers to capture incremental demand as replenishment orders are placed.

In guided bomb kits, such as JDAM and Small Diameter Bombs, the value proposition centers on high-volume, repeatable manufacturing. These products are less complex than interceptors but are consumed in greater quantities during sustained operations. Suppliers of inertial sensors, printed circuit boards, wiring harnesses, and structural components can see steady demand. PE firms that specialize in operational improvement and capacity expansion may find attractive platform opportunities.

The emerging category of low-cost, one-way attack drones may offer earlier-stage entry points. Compared with large missile programs, drone production can involve smaller firms focused on airframes, propulsion units, navigation software, or mission systems integration. The counter-drone market also deserves attention. Systems that detect, track, jam, or kinetically defeat incoming drones are becoming essential for base defense. These solutions often rely on radio frequency sensors, electro-optical cameras, electronic warfare modules, and software-defined radios. The supplier landscape is fragmented and more accessible to private capital.

An additional theme is sustainment. High operational tempo accelerates wear on aircraft engines, avionics, and mechanical components. Maintenance, repair, and overhaul providers often see increased workload following sustained deployments. These businesses can generate recurring revenue and support leveraged capital structures, making them attractive acquisition targets.

The Iran war highlights aerospace & defense investment staying power

Stepping back, the broader budget environment reinforces the investment case. US defense spending has already been trending upward, with recent appropriations exceeding $900 billion annually. Public discussion of further increases reflects recognition of global security risks and the demands placed on stockpiles by multiple theaters. When a conflict exposes the rate at which precision munitions and interceptors are consumed, lawmakers typically respond by authorizing supplemental funding and multiyear procurement contracts. Multiyear contracts provide revenue visibility for primes and, by extension, for their suppliers.

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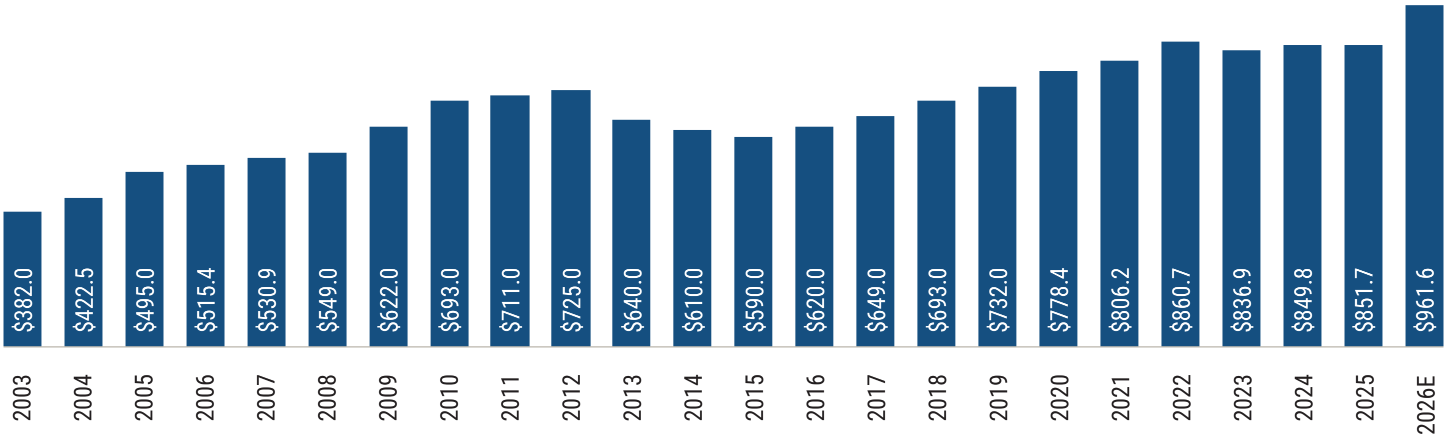
Defense base budget ($B)



Source: Department of Defense • Geography: US • As of December 31, 2025

> The Iran conflict highlights a fundamental feature of modern warfare: Precision and protection both come at a high cost and depend on deep, resilient industrial capacity. For PE investors willing to navigate regulatory complexity and develop government contracting expertise, the current environment offers a clear demand signal.

Defense markets are not without risk. Government contracting involves compliance obligations, cost accounting standards, and potential exposure to program delays or cancellations. However, when systems are combat-proven and actively deployed, the likelihood of near-term cancellation is low. Instead, the emphasis shifts to scaling and sustaining production.

The Iran conflict highlights a fundamental feature of modern warfare: Precision and protection both come at a high cost and depend on deep, resilient industrial capacity. For PE investors willing to navigate regulatory complexity and develop government contracting expertise, the current environment offers a clear demand signal. The opportunity is not limited to headline weapon systems. It extends to the propulsion units, seekers, radars, guidance electronics, launch containers, and maintenance services that enable those systems to function at scale.

In that sense, the most compelling investments may not be the most visible. They are the businesses that quietly determine how fast a missile line can ramp, how reliably an interceptor performs, and how quickly a depleted stockpile can be rebuilt. As long as geopolitical tensions persist and defense budgets reflect that reality, those capabilities are likely to remain in demand.

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