

# Building and Structuring a Defense Company

NEW DEFENSE SUMMIT

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// 62% of all new businesses in Germany fail within five years\*

# Procurement Landscape in the Defense Industry



## Highly regulated environment

- Defense budgets fluctuate with shifting political priorities and geopolitical dynamics.
- Significant entry barriers due to complex approval processes and strict NATO compliance standards.
- Continuous regulatory oversight through audits, certifications, and adherence to national and international frameworks.
- Complex and time-consuming tendering processes with extensive documentation requirements.
- Mandatory standardization and interoperability across multinational defense systems.
- Persistent reputational and ethical scrutiny from public and political stakeholders.

# Challenges for Tech Defence Startup

## Regulatory Environment

Have we thoroughly mapped all relevant national and international regulations, ensured compliance with export controls, and established a clear pathway for mandatory certifications?

## Procurement - Supply Chain

Have we built the capabilities to navigate complex tendering processes, manage long procurement cycles, and establish strategic partnerships for market access?

## Finance & Funding

Have we developed a comprehensive funding strategy that combines private investment, government grants, and contingency planning for high R&D costs?

## Legal Form

Have we selected a legal structure that supports investor requirements, liability management, and long-term scalability while securing robust IP protection?

## Governance

Have we implemented governance standards, compliance frameworks and standard processes?

## Accounting

Have we established transparent, audit-ready financial systems that meet defense-sector requirements and support long-term reporting obligations?



# Details

# Legal Form for Company in Germany



- **Sole Proprietors:**
  - Freelancers
  - SmallTrader
  - Merchant e.K



- **Partnerships:**
  - Freelancers
  - SmallTrader
  - Merchant e.K
  - GmbH & Co.OHG
  - KG
  - PartG



- **Corporates:**
  - GmbH
  - UG
  - AG

# Corporate Governance & Accounting



- Internal Compliance Programs (ICPs): *e.g. export control (e.g., AWG/AWV, BAFA licensing)*
- Audit readiness: transparency for Bundeswehr contracts, documentation, milestone tracking, cybersecurity compliance with BSI and NATO security standards for public procurement



- Transparent accounting: milestone payments, staged payments for multi-year projects, cost reporting, separate R&D, production, and compliance costs and respect of accounting standards for defence contracts



- Governance and Oversight: board oversight and early governance for risk and investor trust, ethics, strong anti-corruption and compliance policies and cybersecurity governance

# Finance & Funding



- Record VC inflows: e.g. €971M in H1 2025, 90% to German firms
- Public funds: easing restrictions, but private capital remains cautious e.g. NATO Innovation Fund, EIB
- Capital Strategy: advise on equity vs. debt mix for long-term R&D-heavy projects, prepare for foreign investment screening under AWW regulations



- Long cash cycles: Defence projects often involve multi-year contracts and late-stage payments – startups must bridge long funding gaps
- High capital lock-up: Prototyping, compliance, and certification tie up liquidity months before revenue flows in
- Runway pressure: Without disciplined cash-burn-rate control, firms risk insolvency during prototyping or approval delays



- Active cash planning: Scenario-based liquidity models and rolling forecasts essential for survival through contract gaps
- Smart cost structure: Balance between core R&D spend and flexible outsourcing to preserve optionality
- Strategic patience: Build financing buffers for slow-moving defence deals – “winning a contract ≠ getting paid.”

# Regulatory & Export Control



- Export Controls: German and EU Laws (military and dual-use goods): e.g. *EU Dual-Use Regulation (2021/821)* for software, drones, and AI systems
- Production and export licenses: e.g. *War Weapons Control Act (Kriegswaffenkontrollgesetz)*, *Foreign Trade Act (AWG/AWV)*, *BAFA*



- Foreign Investment Control: non-German investor acquiring  $\geq 10\%$  in a defence startup must notify authorities under *AWV §60*



- Sanctions & Embargoes: Compliance with EU and UN sanctions is mandatory