



Growth Equity Update

August 2025 – Edition 41

- **A deep dive into Defence:** We review the increasing commitment to defence spending in Europe and the US, the changing nature of defence spending and the new opportunities it presents for private capital.
- **End of the peace dividend.** The Stockholm International Peace Research Institute reports 2024 saw the steepest y-o-y rise in world military expenditure since 1988, up 9.4% to \$2,718bn, with its share of world GDP up to 2.5%.
- **A new type of defence spending.** The experience of the Ukraine war has shifted the focus of incremental defence spending from traditional military platforms (tanks, warships, planes) to new technologies like AI, robotics, autonomous solutions, quantum computing and cybersecurity.
- **And new companies to do it:** As the UK Ministry of Defence recently pointed out *Today, much of the best innovation is found in the private sector [and] increasing prevalence of dual-use technologies [means] there is a deep range of partners. to bring in alongside prime contractors, from technology and innovation startups and scale-ups to small and medium-sized enterprises [and] private investors.*
- **YTD global VC investment in defense businesses is up 2.5x yoy at \$28.4bn**, according to Pitchbook, after 17% growth in 2024.
- **We look at the VC investors in defence**, some of the emerging companies in this field and this year's biggest venture capital raises in defence.
- **OpenAI reopens its \$40bn round.** We look at the dynamics and at the \$116bn raised in growth equity for AI LLM businesses alone since the start of 2023.
- **July VC raises maintain the momentum:** July saw 42 US venture capital raises of \$100m or above, raising \$13.1bn up 2.2x yoy. Europe's \$4.2bn was up 15% yoy.

Coming off Defence

In defence sourcing 'business as usual is no longer an option' UK Strategic Defence Review 2025

The Russian invasion of Ukraine at the start of 2022 pitched Russia into open warfare in Europe for the first time since 1945 and has heightened geopolitical tensions around the world. In turn these have been exacerbated by the conflict in Gaza and fears of Chinese aggression against Taiwan.

Since the start of 2025, the new Trump administration has made it clear that its support for Ukraine is not unambiguous and that it expects Europe to shoulder the burden of its own defence rather than to rely on the US to pick up the tab for European security.

Responding to US Vice President JD Vance's speech at the Munich Conference in February this year, in which he affirmed the US's commitment to European security while emphasising the need for Europe to increase spending on its defence, Boris Pistorius, the German defence minister responded.

'Last year, Germany committed two percent of its GDP to defence. Within just two years, we nearly doubled our investments in procurement, other European nations have made similar successful efforts. Security guarantees the future for all of us and for the next generation. We have the responsibility to invest in the future for Germany. That means further increasing our defence spending. We need substantial financial means that cannot simply be cut out of the current budget. Excluding defence spending from our national debt limit is, therefore, inevitable. Security is not a short-term expenditure; it is a long-term commitment. That is why I am developing a ten-year program. We need to make defence spending more predictable. That means achieving next-generation security at the European level.'

The new US approach has accelerated a trend in increased defence spending already apparent since the outbreak of the Ukraine conflict.

The Stockholm International Peace Research Institute notes that world military expenditure rose 9.4% to \$2,718bn in 2024, the steepest year-on-year rise since 1988. The share of the world's GDP devoted to military expenditure increased to 2.5%.

In 2024 military expenditure by the 32 NATO members was \$1,506 billion, 55% of the total. European NATO members spent \$454bn or 30% of total NATO spending, up 8.9% yoy and up 16% on 2023, ranging from +0.4% for Spain to +43% for Romania.

In 2014 all NATO members committed to spending 2% of GDP on the military by 2024. In 2023 this guideline was revised to 'at least' 2.0% of GDP. In 2024 they spent 2.2%. Of the 32 NATO members, 18 spent at least 2% cent on their militaries in 2024, up from 11 in 2023, the highest number since the guideline was introduced.

At its 2025 Summit in The Hague, the NATO countries made a commitment to investing 5% of GDP annually on defence and security related spending by 2035 with at least 3.5% of GDP to resource core defence requirements and 1.5% of GDP annually to protect critical infrastructure, defend networks, ensure civil preparedness, innovate, and strengthen the defence industrial base. This should mean at least an additional €350bn of defence spending on the existing base of c€400bn.

Looking at spending trends in some of the key countries:

Germany's military spending rose in 2024 by 28% as it continued to implement an extra-budgetary fund of €100bn created in 2022 to boost the military budget.

The UK has pledged to spend 2.5% of GDP on the military by 2027—a change from the initial target of 2030—and has a long-term goal of raising this to 3.0%.

French military expenditure rose 6.1% in 2024, reaching \$64.7bn, equivalent to 2.1% of GDP. The increase aligned with the 2024–30 Law on Military Planning that aims to strengthen France’s strategic autonomy and adapt its arms industry to a ‘war economy’ sustained by industrial innovation.

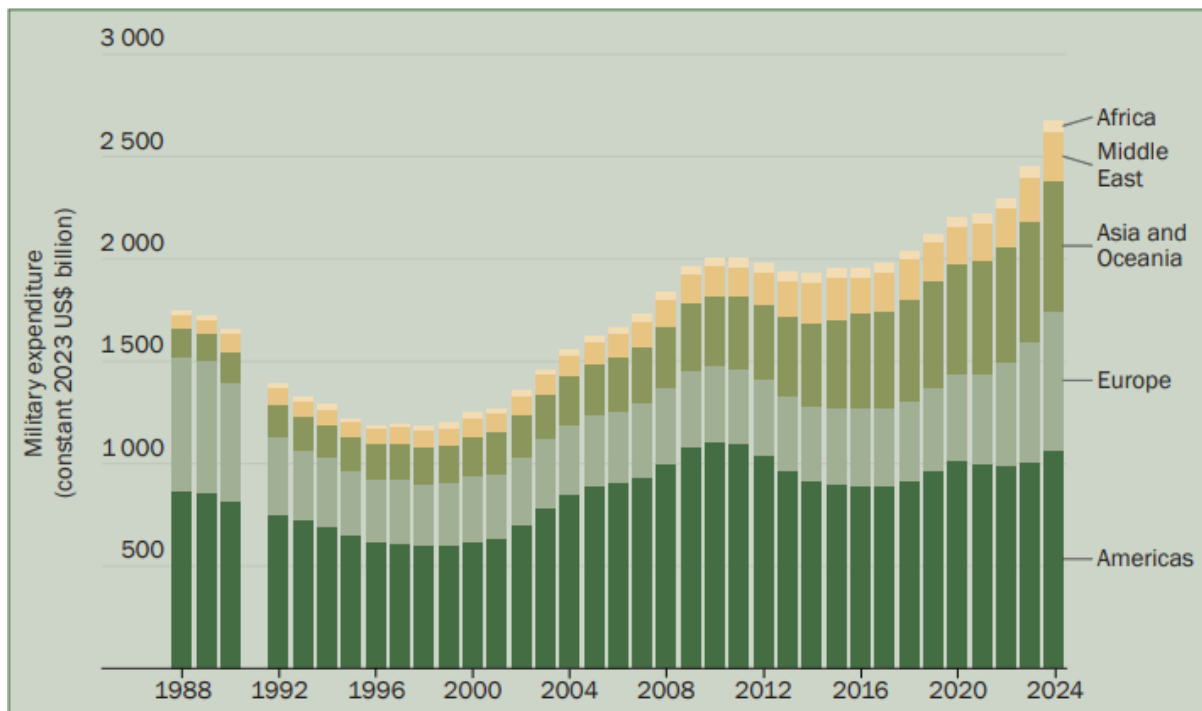
Poland’s military spending rose 31% in 2024, to \$38.0bn with the 4.2% of GDP that this represents, being the highest level in Western Europe and above the 2023 government target of 4.0%.

Sweden joined NATO in 2024 and increased its military expenditure 34% in 2024, to \$12.0bn immediately reaching 2.0% of GDP.

Ukraine’s military expenditure grew by 2.9% to \$64.7bn, 54% of total Ukrainian government spending in 2024.

The USA’s military spending rose 5.7% to \$997bn, 66 % of total NATO and 37% of world military spending in 2024.

World military expenditure, by region, 1988–2024 – 9.4% increase in 2024



Source: SIPRI Military Expenditure Database, Apr. 2025.

In June 2025, the EU issued Readiness 2030 – a white paper for European defence known as the ReArm Europe Plan. It targets €800bn as the amount Member States aim to mobilise to finance what it calls ‘a massive ramp-up of defence spending’ while giving EU countries more financial flexibility.

It aims to achieve this by:

Activating the national escape clause of the Stability and Growth Pact, allowing Member States to increase defence spending. A 1.5% GDP increase in defence budgets could create nearly €650bn in fiscal space over four years.

Launching a €150bn loan instrument - Security Action for Europe (SAFE) - that will help countries invest in key defence areas like missile defence, drones, and cyber security. The funds will be raised on capital markets.

Supporting the European Investment Bank Group in widening the scope of its lending to defence and security projects and accelerating the Savings and Investment Union to **mobilise private capital** so that the European defence industry is not reliant on public investment alone.

As well as the quantum of defence spending the way in which the money allocated is being spent is also changing. Here is an extract from the UK's 'Strategic Defence Review 2025 - Making Britain Safer'. It highlights how the experience of the Ukraine war has shifted the focus of incremental defence spending from traditional military platforms (tanks, warships, planes) to new technologies such as AI, robotics, autonomous solutions, quantum computing and cybersecurity.

Technologies that are redefining warfare

Advantage on the battlefield will not come from a single technological advance but from the combination of existing capabilities and a range of emerging technologies that include:

- **Artificial intelligence (AI), machine learning, and data science**, improving the quality and speed of decision-making, the resilience of digital networks, and operational effectiveness. Forecasts of when Artificial General Intelligence^[footnote 27] will occur are uncertain but shortening, with profound implications for Defence.
- **Robotics and autonomy**, with armed forces increasingly using uncrewed and autonomous capabilities to generate mass and lethality.
- **Enhanced precision weapons** that mean targets can be struck with greater accuracy from ever greater ranges.
- **Directed energy weapons**, such as the UK's DragonFire, which have the potential to reduce collateral damage and reliance on expensive ammunition.
- **Hypersonic missiles**, which, travelling at over five times the speed of sound, may offer greater range and greater ability to evade defences.
- **Space-based capabilities** that enable all aspects of modern operations. States are rapidly developing ways to disrupt military and civilian assets in and from space.
- **Quantum**. Advances in quantum computing offer the potential to break encryption, making secure communications much more difficult. Quantum technologies have the potential to reduce dependence on satellite-based GPS, which may be vulnerable to interference.
- **Cyber threats** that will become harder to mitigate as technology evolves, with AI, quantum technology, and the increasing dependence on satellite communications likely driving the most disruptive changes to the cyber threat landscape.
- **Engineering biology** that creates the potential to enhance the capacity of the armed forces through advances in medicine, healthcare, and wellbeing, possibilities for new energetic and explosive materials, as well as avenues for enormous harm in the shape of new pathogens and other weapons of mass destruction.

Source: UK Strategic Defence Review 2025 - Making Britain Safer' – July 2025

It observes.

Autonomous and uncrewed (land and aerial) systems are now an essential component of land warfare,
A '20-40-40' mix is likely to be necessary: 20% crewed platforms to control 40% 'reusable' platforms (such as drones that survive repeated missions), and 40% 'consumables' such as rockets, shells, missiles, and 'one-way effector' drones. Investment in attack and surveillance drones should be prioritised, along with counter-drone systems.

The report highlights that in defence sourcing 'business as usual is no longer an option' and emphasises a role for technology and innovation startups and scale-ups.

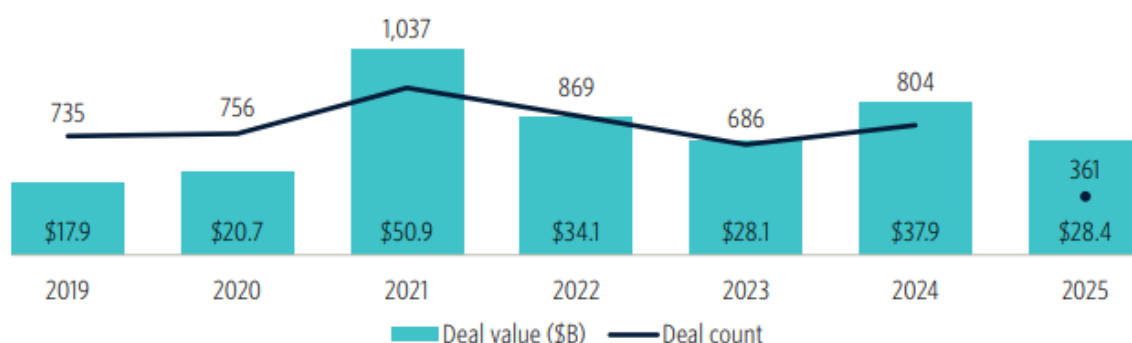
Today, much of the best innovation is found in the private sector, while the increasing prevalence of dual-use technologies has widened the net of potential suppliers that can contribute to Defence outcomes. There is a deep range of partners outside Defence that it must work to bring in alongside prime contractors, from technology and innovation startups and scale-ups to small and medium-sized enterprises, private investors, and the trade unions.

The increase in the quantum of defence spending and the shift in the nature of the spend, on the one hand to intelligent systems and on the other to lower cost, but highly effective tools like drones, presents a substantial opportunity for venture companies and their backers.

Pitchbook figures show that global defence related VC funding reached \$50.9bn as the growth equity market peaked in 2021. Along with the market it fell back sharply to \$34.1bn in 2022.

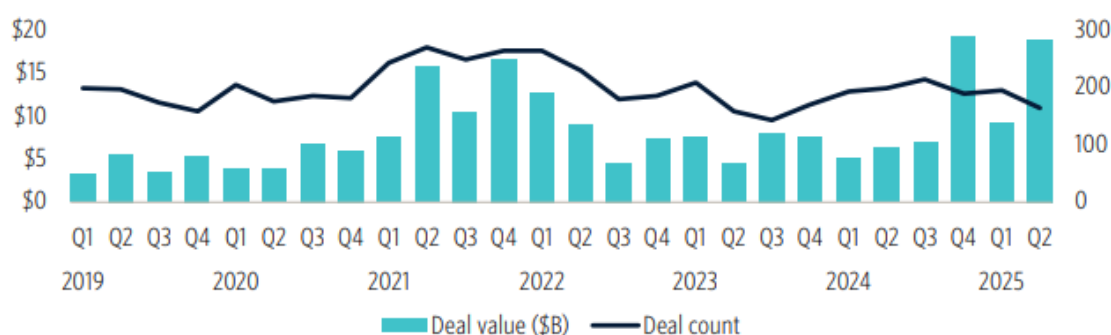
Global defence related VC funding grew 17% in 2024 and was up 2.5x yoy in H1 2025 at \$28.4bn putting it on track to exceed the 2021 levels. The \$19.1bn committed in Q2 2025 grew just over 3x yoy.

Global Defence tech VC deal activity



Source: Pitchbook- Geography Global – As of 30 June 2025

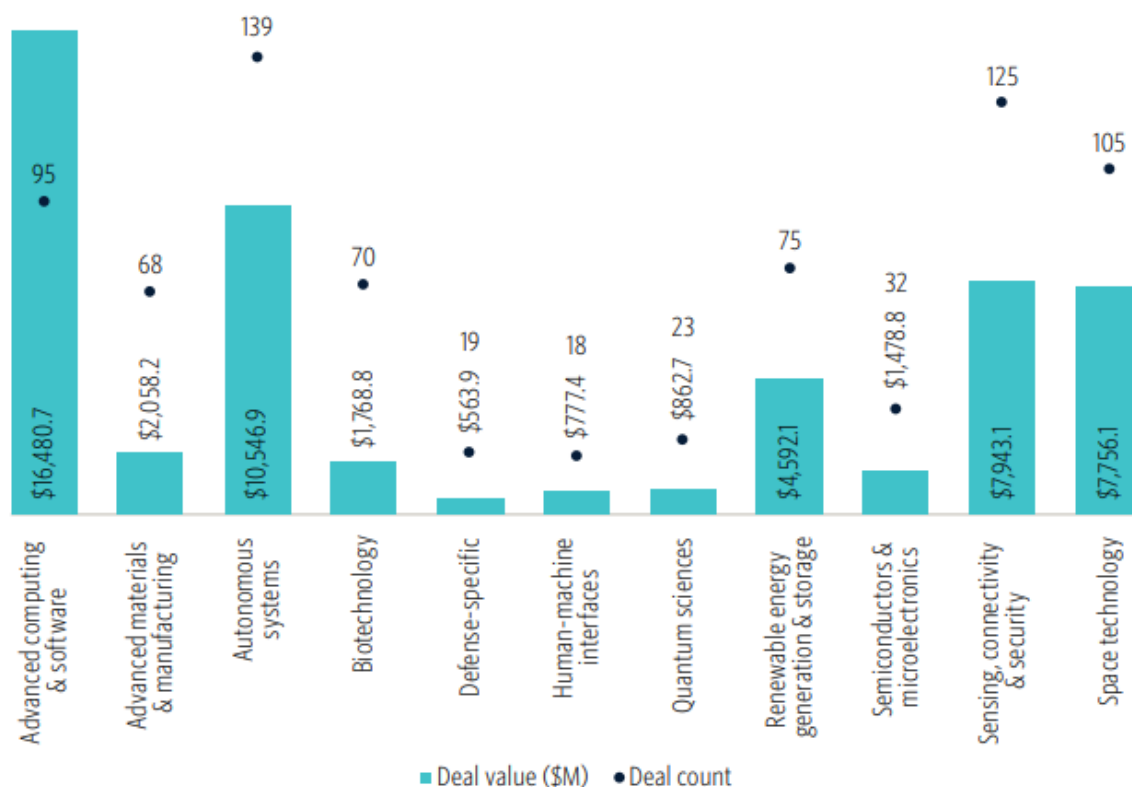
Defence Tech VC deal activity by quarter



Source: Pitchbook- Geography Global – As of 30 June 2025

The next chart gives a sense of where this money is being directed.

Defence Tech VC deal activity by segment – Software, drones, connectivity and Space



Source: Pitchbook- Geography Global – As of 30 June 2025

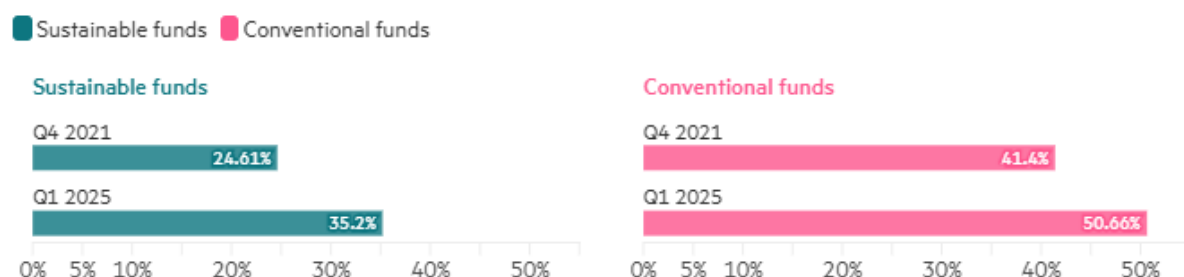
Advanced computing and software are the leading category followed by Autonomous systems with sharp growth in each of unmanned aerial vehicles (UAV), unmanned ground vehicles (UGVs) and most recently unmanned surface vessels (USVs) as well as in counter drone technologies. The growth in spend in sensing, connectivity & security demonstrates investor focus on foundation technologies behind modern defence capabilities.

With the shift in state backed priorities has come a shift in VC and growth equity investor attitudes towards defence investment.

Until recently VC funds might look to avoid defence related investments on both ethical and commercial grounds. On ESG, as well as potentially having their own concerns, funds had to be wary of restrictions by LPs and other investors on investment into defence related businesses. The new environment is leading to a shift in attitudes. The UK's FCA, for instance, declared in March 2025 that the financial sector plays a vital role in supporting all sectors, including defence.

There is nothing in our rules, including those related to sustainability, which prevents investment or finance for defence companies. There is a move to rebadge ESG as ESSG with security the additional embodiment in the formula. These figures from Morningstar indicate that 35% of Europe's ESG funds held defence stocks in Q1 2025, up from 25% four years earlier. Many funds look for 'dual use' technologies – applications with both a civil and defence capability – aerial drones typically fall neatly into this category.

European ESG funds – 35% own defence stocks



Source: Morningstar Direct, Morningstar Sustainalytics

Commercially VC funds may have eschewed defence as it was seen as a difficult sector in which to invest – suffering from the ‘peace dividend’, capex and hardware heavy, with government and institutional buyers with slow decision cycles, with heavy scrutiny of margins by the buyers of product and operating in a market dominated by big platform defence contractors.

Many of these factors are now being swept away as governments race to adopt the private sector and new technology businesses as key components of the new defence procurement environment.

Indeed, we are seeing the emergence of funds specifically oriented to defence investment. Thus, in May the European Investment Fund announced a €40m investment in the Keen Venture Partners’ European defence and security Tech fund under the Defence Equity Facility and the InvestEU Space mandate.

The Keen Ventures fund has a focus on early-stage companies within the defence and security sectors and aims to invest in information superiority, cyber defence, robotics, AI, autonomous systems and space technologies such as securing satellite communications, satellite image analysis, and defence of space assets.

Alexander Ribbink, at Keen Venture Partners commented *the opportunity to add the power of tech entrepreneurs with the full support of venture capital to the European defence ecosystem is huge.*

A new Estonian VC firm, Darkstar, is currently raising €25m with the intention of investing in purely military applications.

Amongst the most prominent funds investing in defence application is the NATO Innovation Fund. Described as ‘the world’s first multi-sovereign venture capital fund,’ at €1bn it was the biggest venture capital fund to be launched in Europe in 2023.

Its stated purpose is to invest in start-ups developing cutting-edge technological solutions, leveraging the potential for commercial innovation to address critical defence and security challenges.

The Fund will invest €1bn in early-stage start-ups and venture capital funds that are working on dual use emerging and disruptive technologies of priority to NATO. The nine priority verticals identified by the NIF are artificial intelligence; autonomy; quantum; biotechnologies and human enhancement; hypersonic systems; space; novel materials and manufacturing; energy and propulsion and next-generation communications networks.

The Fund’s Limited Partners include 24 European NATO allies at the highest levels of government, venture capital, innovation, and defence. The NIF does not, as yet, include the United States although it has not ruled

out joining at some stage. (The US already has a similar body, In-Q-Tel based in Arlington, Virginia which supports the CIA and other US intelligence agencies)

The NIF will make direct investments into start-ups located in any of the participating Allied nations and can also make indirect investments into deep tech funds with a trans-Atlantic impact. The style of the fund is that “It will provide patient capital to meet the needs and timelines of deep tech innovators and to secure an enduring future for the Alliance’s 1 billion citizens.”

The chair of the NATO Innovation Fund is Klaus Hommels, the founder and chair of Lakestar who has commented:

“As the importance of technology in all parts of our lives increases so does the need for digital and technology sovereignty. The NIF is the first multi-sovereign venture capital fund that will support emerging technologies and drive much needed innovation in areas touching the Alliance's objectives.”

The NIF will lead early-stage investments with initial cheque sizes of up to €15m. The intention is that the NATO network of c90 NATO-affiliated test centres and more than 6,000 Allied scientists will be available ‘to pressure-test solutions.’ There is an existing initiative within NATO, the existing Defence Initiative Accelerator for the North Atlantic (DIANA). The intention is that the NIF and DIANA will cooperate closely. DIANA has a network of 10 affiliated accelerator sites to support its accelerator programme.

Other prominent European defence investors include:

Project A is a Berlin based firm with AUM of €1.2bn which recently raised its fifth fund at €325m. Albeit a generalist investor, one of its key themes is ‘European Resilience -backing founders building companies for tomorrow’s European military’ – both dual-use and military equipment. It is an investor in two UAV businesses Quantum Systems and ARX Robotics as well as Vaeridion, an electric aircraft for short haul mobility. <https://www.project-a.vc/approach/european-resilience>

SmartCap based in Estonia (proximity to the Russian border clearly focuses the mind) has a €100m fund dedicated to strengthening Estonia’s defence industry by supporting the development of innovative technologies and backing high-potential defence producers that contribute to national security. It invests both through private funds and via direct investments into defence companies. It will not invest in VC firms that have restrictions on investing in weapons technology. It has invested €10m in Estonia’s Darkstar fund.

In Poland, **the Expeditions Fund** is ‘Investing in the Future of Security’ with a focus on cyber-security, defence/intelligence, autonomy, AI, quantum, privacy, communication solutions and space. It writes tickets up to €5m.

PrimaMateria the VC fund which is run by Spotify founder Daniel Ek is the largest shareholder in German defence AI business Helsing with a 16% stake. Helsing uses AI to develop applications for defence, focusing on all-domain defence innovation (air, land, sea, space, and cyber). June 2025’s \$690m raise for Helsing led by Prima Materia was supported by Lightspeed and Accel and valued the business at \$13.2bn. Helsing’s previous Series C raise in 2024 was for €450m.

PrimaMateria has backed multiple Helsing rounds. It observes *Helsing was set up to build AI to serve our democracies and play a part in protecting them from harm. We share Helsing’s conviction that liberal democratic values are worth defending and that artificial intelligence will be an essential capability to keep us safe.* <https://primamateria.com/>

Lakestar led by Klaus Hommels, an early investor in Helsing and Chair of the NATO Innovation Fund, is seeking \$250m-\$300m for a new defence fund. The fund will target companies operating in secure communications, autonomous systems, quantum sensing, and next-generation materials.

LuxCapital is raising a \$200m fund Lux Defence Leaders, focused on defence tech. The firm was an early investor in US defence business, Anduril.

Mainstream funds are providing much of the firepower in defence company raises. The next Exhibit outlines the biggest raises in defence and related application in the first seven months of 2025 and identifies their lead investors.

We identify (in our tracked universe of US raises over \$100m and European raises of \$20m+) investment of \$6.3bn on defence related businesses ytd.

US and Europe – c\$6.3bn on Defence related raises in the first seven months of 2025

Country	Date	Company	Stage	Amount \$m	Valuation \$m	Sector	Investors	What it does
USA	Jun-25	Anduril	Funding	2,500		Defense	Founders Fund	enabling detection and intercept of unmanned aircraft and drones.
Germany	Jun-25	Helsing	Series D	690	13,200	AI - Defence	Prime Materia, Lightspeed, Accel	AI defence intelligence
USA	Feb-25	Saronic Technologies	Series C	600		Autonomous ships	Elad Gil , General Catalyst , a16z	unmanned autonomous surface vehicles
USA	Jul-25	Castellon	Funding	350		Defense	Altimeter,Lightspeed	designs, tests, and manufactures next-gen military systems
USA	Feb-25	Archer	Funding	300		Aerospace	Blackrock	aerospace technology
USA	May-25	Chaos Industries	Series C	275		Defense	Accel, NEA, StepStone	detection, monitoring for defense and commercial sectors.
USA	Jul-25	Hadrian	Funding	260		Defense	Founders Fund and Lux Capital	precision parts for aerospace and defense
USA	Mar-25	Epirus	Series D	250		Defense	8VC and Washington Harbour Partners LP	counter-electronics applications
USA	Mar-25	Shield AI	Series F - 1	240	5,300	Software - Defense	L3Harris , Hanwha Aerospace , Andreessen	Software - intelligent , autonomous defence systems
Germany	May-25	Quantum Systems	Funding	176		Drones	Balderton Capital, Hensoldt, Airbus	autonomous drone platforms
USA	May-25	X-Bow Systems	Series B	105		Defense	Lockheed Martin	aerospace and defense
USA	Feb-25	Hidden Level	Funding	100	500	Defense	Lockheed Martin Ventures,DFJ Growth	passive radar systems to detect and track drones
USA	Jun-25	Mach Industries	Funding	100	470	Defense tech	Khosla, Bedrock	drones, VTOL, High altitude glider
Israel	Feb-25	Dream	Funding	100		Cybersecurity	Bain Capital Ventures	Cyber resilience for nations and critical infrastructure
Portugal	May-25	Tekever	Funding	77	1,000+	Defense	Ventura Capital, Baillie Gifford, NATO IF	unmanned aerial systems
UK	May-25	Orca AI	Series B	73		Software - fleet management	Brighton Park Capital	Maritime technology
Israel	May-25	Kela Technologies	Funding	60		Defense	Sequoia Ventures, Lux Capital,	software to modernize military infrastructure
Germany	Apr-25	ARX Robotics	Series A	34		Robotics	HV capital, Omnes Capital, NATO Innovation	AI-powered unmanned ground vehicles
Israel	Jul-25	Xtend	Series B	30		Defense - Drones	Aliya Capital, Protego Ventures	XOS software platform to operate drones with VR
Israel	Jul-25	AIR	Series A	23		EVTOL	Entrée Capital	electric vertical takeoff and landing aircraft.
Total				6,343				

Source: Rothschild & Co Deal Monitor

Amongst the backers of the biggest defence raises thus far this year are:

Peter Thiel's **Founders Fund** led the Anduril \$2.5bn raise with a \$1bn contribution, the largest single investment made by the fund. Trae Stephens is the partner who oversees defence investments at the Founders Fund and is chair of Anduril. He observes in his essay 'The Ethics of Defence Technology investment: An Investor's Perspective':

In debating the value of our investment in defence technologies, we cannot ignore the fact that if we allow others to build these technologies while we stand idle, we will lose the power to regulate their use, we will allow aggressive autocratic regimes to take the lead, we will voluntarily limit our power to deter harmful conduct (including genocide, repression, and interference with international norms), and we will cede to the most belligerent and authoritarian states the power to impose insidious legal and moral standards on the US and its allies without consequence.

<https://medium.com/@traestephens/the-ethics-of-defense-technology-development-an-investors-perspective-45c71bf6e6af>

Anduril offers a range of autonomous defence systems, and the AI based software that controls them. Its systems are powered by Lattice, an AI-based operating system that connects autonomous sensemaking and command & control capabilities with modular and scalable hardware components. Products include the Barracuda family of military drones, the Roadrunner reusable vertical take-off and landing (VTOL) Autonomous Air Vehicle (AAV) and the Dive-LD autonomous underwater vehicle.

The company raised \$2.5bn in a Series G in June 2025 which valued it at \$30.5bn, twice the valuation of its previous round. Revenues in 2024 doubled to \$1bn. In February Anduril was granted the U.S. Army's contract – with a headline value of \$22bn – for developing new AR/VR headsets.

Founders Fund also led July's \$260m Series C by the defence machine parts company Hadrian, a raise supported by Lux Capital, Andreessen Horowitz, and Altimeter Capital.

Altimeter and **Lightspeed** were also backers of July's \$350m raise by Castalion which '*designs, tests, and manufactures next-generation military systems rapidly and at massive scale to deter future wars*' and offers '*affordable hypersonic weapons, built fast.*' It previously raised a \$100m Series A that closed in January. Altimeter also led a \$110m Series B for K2 Space in January. K2 Space has designed a high-power, high-payload mass satellite platform. Its solution aims to address the increasing demand for proliferated space applications, a dual use application that has attracted interest from commercial and national security customers.

Blackrock was the lead investor in the \$300m round raised by dual use business Archer Aviation in February 2025. Archer was originally a developer of vertical take-off and landing VTOL aircraft for commercial use. In December 2024 it launched a defence division in with plans for a hybrid-propulsion VTOL aircraft aimed at military applications. Archer has a collaboration with Anduril to develop a hybrid gas-and-electric VTOL aircraft under the Archer Defence program which aims to secure DoD funding. Adam Goldstein, the founder and CEO of Archer, said "*I believe the opportunity for advanced vertical lift aircraft across defence appears to be substantially larger than I originally expected. As a result, we are raising additional capital to help us invest in critical capabilities like composites and batteries to help enable us to capture this opportunity and more.*"

Accel was one of the backers of the Helsing \$600m raise in June. It also led the May 2025 \$275m Series C for Chaos Industries alongside New Enterprise Associates. Chaos develops communications, radar and sensor technologies for military use with its core radar system Vanquish used for early warning and tracking drones, missiles, and aircraft.

General Catalyst, Elad Gil, a16z and 8VC were key backers of the \$600m raise by Saronic Technologies in February which valued the business at \$4bn, second only to Anduril in US defence start-ups. Saronic describes its mission as '*redefining maritime superiority for the United States and its allies.*' Saronic develops autonomous surface vessels and will use the funds to build a new shipyard, Port Alpha, allowing it to expand its medium and large-class autonomous vessels- effectively water-borne drones.

General Catalyst MD Paul Kwan commented that '*our mission is to help modernize our nation's defence and industrial resilience.*'

8VC, alongside Washington Partners was also a key backer in the \$250m Series D for Epirus, the counter electronics business in July. Epirus's Leonidas system is high-power microwave technology tested by the DoD as effective in countering drones, drone swarms, and other electronics. At the announcement of its new \$998m fund in July 8VC highlighted defence, *where frontiers range from the electromagnetic spectrum to next-gen materials, to advanced maritime and ground autonomy* as one of six key areas of focus.

A substantial amount of the money being raised in defence VC is for autonomous vehicles and drones. Saronic has seen the biggest raise in this field in 2025. There have been multiple other examples:

ShieldAI is a developer of software for autonomous aircraft and drones. It raised a \$240m Series F in March at a valuation of \$5.3bn with strategic investors L3Harris and Hanwha Aerospace and VC investors including Andreessen Horowitz, U.S. Innovative Technology, and Washington Harbour.

The company's Hivemind proprietary AI software allows drones to operate autonomously. Its V-BAT vertical take-off and landing drone delivers, according to the company, combat-proven, expeditionary, strategic and tactical-level ISR (intelligence, surveillance, and reconnaissance) and targeting at a fraction of both the cost and logistical footprint of larger drones. V-BATs have been used in Ukraine and Shield cites contracts worth \$100m plus for European government customers and a potential \$200m five-year V-BAT contract with the U.S. Coast Guard

Notable drone raises in Europe a €160m raise by Munich based **Quantum Systems** in May this year led by Balderton Capital, with participation from Hensoldt, Airbus, and Bullhound Capital. Quantum produces AI-powered aerial intelligence systems for defence, emergency services, and industry. Its drones are currently used by NATO-aligned forces – including those in Germany, Ukraine, Australia, New Zealand, and Spain. Commercial applications of Quantum Systems' solutions include mapping drones across mining, agriculture, and infrastructure with clients including RocketDNA and the Indian government's Department for Science and Technology.

Also, in May Lisbon based **Tekever** raised €70m in a round valuing the company at above €1bn led by Ventura Capital, the NATO Innovation Fund and Baillie Gifford.

Tekever's autonomous drone systems have been used for over 10,000 combat flight hours with the Ukrainian armed forces. It handles all aspects of its drone technology from airframe design and manufacturing to payloads, avionics, software, data, and AI. The company's customers include the UK MoD, the Brazilian Navy and Colombia's armed forces. Alongside the raise in May Tekever announced a plan to invest £400m in *"research, infrastructure, and defence technology development in the UK"*, in its Overmatch programme, on the back of its AR3 tactical UAV being commissioned as part of the RAF's new StormShroud autonomous collaborative platform. Tekever has acquired a small airport in Aberporth, West Wales to facilitate its operations.

Germany's **ARX Robotics** which raised €42m for its autonomous unmanned ground vehicles (UGVs) in a May round led by HV Capital and including Omnes Capital, the NATO Innovation Fund and Project A.

The UK's **Orca AI** operates in the autonomous navigation market. The system was originally designed for the commercial market to navigate ships more fuel efficiently by using AI aligned to LEO satellite systems like Starlink. More recently the company has extended into defence applications. Its \$73m raise in May was led by Brighton Park Capital, Ankona Capital and Hyperlink Ventures.

Israeli cargo drone company **AIR** raised \$23m in July for its uncrewed cargo eVTOL aircraft. AIR's uncrewed cargo eVTOL is designed to meet the growing demand for adaptable air transportation in industries such as cargo delivery, disaster response, contested logistics and remote access operations. AIR is involved in the U.S. Air Force's Agility Prime programme.

Space and communications are a core aspect of modern defence capabilities. With the recent shift in relations between the US and European countries in the context of defence, European space sovereignty is becoming a big issue. Alternatives such as the European controlled OneWeb to the US controlled Starlink for satellite communications and defence applications are being sought.

The next exhibit looks at recent Space related raises, many of which have defence applications as part of their make-up. The Bulgarian company Endurosat builds modular, software-defined satellites for a wide range of commercial and government applications. It raised \$49m in May led by Founders Fund. It is a typical dual use company with 350 customers including a number for defence applications. It contributes to the European

Defence Fund's REACTS project (Responsive European Architecture for Space), which aims to create a new space-based defence capability.

The NATO Innovation Fund is an investor in Germany's **Isar Aerospace** whose military customers make up c20%-30% of the demand for its space rockets.

France's **Loft Orbital**, a space infrastructure business, has a partnership with Helsing to develop a multi-sensor satellite constellation able to deliver real-time intelligence and situational awareness to European defence forces. The system is designed for critical missions such as border surveillance, troop movement tracking, and infrastructure protection.

The three largest US space raises in 2025 are all examples of dual use businesses with defence applications.

Impulse Space is a space tug business which is able to move satellites around in space. It observed when raising \$300m in June in a round led by Linse Capital that *Commercial operators need faster, more cost-effective ways to deploy and reposition satellites. Defence agencies require tactically responsive capabilities to stay ahead of evolving threats.* It has a collaboration with Anduril to supply its Mira orbital transfer vehicle to support classified mission requirements.

The United States Space Force has selected **Stoke Space** to participate in its National Security Space Launch (NSSL) Phase 3 Lane 1 program, designed to expand its capacity to deliver critical space launch capabilities. The award enables Stoke to compete for a total of \$5.6bn in national security launch contracts using its 100% reusable Nova rocket. Its \$260m Series C in January was supported by investors including Breakthrough Energy Ventures, Glade Brook Capital Partners, Industrious Ventures, Leitmotif and Point72.

True Anomaly raised \$260m in April led by Accel. The company says *'True Anomaly was founded to develop and deploy defence products that meet the needs of a modern, contested space environment.... Our mission is to design and build autonomous systems to deter conflict and protect space for humanity, and we are fielding space defence products at the forefront of modern military tactics – terrestrial or otherwise.'*

VC raises – Space and Defence applications – First 7 months of 2025

Country	Date	Company	Stage	Amount \$m	Valuation \$m	Sector	Investors	What it does
USA	Jun-25	Impulse Space	Series C	300		Space	Linse Capital	In space mobility
USA	Jan-25	Stoke Space	Series C	260		Space	Breakthrough Energy Ventures, Point 72, Y C	Reusable medium lift rocket
USA	Apr-25	True Anomaly	Series C	260		Space	Accel, Meritech Capital, Eclipse	space security
USA	Apr-25	Apex	Series C	200		Space	Point 72, BV C	satellite buses and other spacecraft
USA	Jun-25	Muon Space	Series B	134		Space	Congruent Ventures, Activate Capital	Satellite constellation production
USA	Feb-25	K2 Space	Series B	110		Space	Lightspeed Venture Partners and Altimeter C	satellite bus platform
France	Jan-25	Loft Orbital	Series C	175		Space	Tikehau Capital, Bpifrance, Temasek	satellite infrastructure as a service.
Germany	Jun-25	Isar Aerospace	Funding	172		Space	Eldridge Industries	launch service provider for small and medium- satellites
Spain	Mar-25	Satelliot	Series B	75		SpaceTech	Hyperion Fund	LEO constellation for 5G-IoT telecommunications
France	Jun-25	LookUp	Series A	55		Space	ETF Partners, EIC Fund, MIG Capital,	orbital , space infrastructure safety
Bulgaria	May-25	Endurosat	Funding	49		Space	Founders Fund, CEECAT Capital, Morphosis	satellite constellations-as-a-service
UK	May-25	Space Forge	Series A	30		Space	NATO Innovation Fund	in space manufacturing
Spain	Mar-25	Pangea Aerospace	Series A	25		Spacetechn	Hyperion Fund	Reusable micro space launchers
Total				1,845				

Source: Rothschild & Co Deal Monitor

The message is that defence spending is growing sharply and new technologies and methods of conducting warfare are offering an opportunity to young, VC backed tech led companies to take a disproportionate share of this new spending from the traditional platform led defence contractors. VC investment in defence companies is accelerating and the trend appears likely to keep gathering pace as the world adapts to the new reality of heightened geopolitical tension and the realisation that regions, like Europe, will need to shoulder more of the burden and cost of their own defence rather than relying on the U.

Open AI \$40bn round reopens

Since the November 2022 launch of Chat GPT, c\$116bn has been raised for the leading AI large language model businesses.

At the end of March ChatGPT developer OpenAI announced that it had closed a \$40bn round valuing the company at \$300bn. It was the largest ever private fundraising round. The lead investor was SoftBank, which committed up to \$30bn, with other backers including Microsoft, Coatue, Altimeter and Thrive.

OpenAI said it intended to use the new money to scale its compute infrastructure and “push the frontiers of AI research even further” as well as to support its role in the US Stargate AI investment programme.

The round is currently being fleshed out. SoftBank is committed to providing 75% of the total funding, or \$30bn. Back in March, an initial \$10bn was committed, Softbank contributing \$7.5bn with \$2.5bn coming in from other investors.

In the current phase, SoftBank has committed a further \$22.5bn with \$7.5bn being sought from other investors. Press reports suggest the strength of demand means the \$7.5bn target has been exceeded with \$8.3bn being raised, including a \$2.8bn commitment from Dragoneer, the Californian tech focused fund as well as commitments from Blackstone, TPG, FMR and T Rowe Price.

Linked to the fundraise are two structural issues at OpenAI. The first is the planned restructuring of OpenAI into a for profit entity.

In December 2024 Open AI launched proposals to ‘1. Choose a non-profit / for-profit structure that is best for the long-term success of the mission; 2. Make the non-profit sustainable. 3 Equip each arm to do its part.’

At the time it said that

‘We have a non-profit and a for-profit today, and we will continue to have both, with the for-profit’s success enabling the non-profit to be well funded, better sustained, and in a stronger position for the mission.’

The core part of the plan was to move the existing for-profit into a ‘Public Benefit Corporation’ with ordinary shares of stock and the OpenAI mission as its public benefit interest. The PBC would require the company to balance shareholder interests, stakeholder interests, and a public benefit interest in its decision making, enabling OpenAI to raise capital with conventional terms.

After opposition to the plan to reduce the control of the non-profit these proposals were amended in May 2025 with Open AI having heard ‘from civic leaders and engaging in constructive dialogue with the offices of the Attorney General of Delaware and the Attorney General of California.’ The proposals had also received objections from Elon Musk and Meta.

OpenAI announced that it would abandon plans to remove the nonprofit entity’s controlling status. Instead, the for-profit entity would still become a PBC but would remain under control of the nonprofit.

It is believed to be a requirement of the Softbank portion of the \$40bn fundraise that the shift from non-profit status should be completed by the end of calendar 2025. Without this happening the Softbank portion of the funding could fall to \$10bn. Open AI’s CEO Sam Altman has said that SoftBank remains committed to its full investment under the revised restructuring proposed in May.

Microsoft also has a substantial ownership position in OpenAI. The two companies have a contract running to 2030 which dictates the operating relationship between the two businesses encompassing revenue sharing agreements that flow both ways. Microsoft has exclusive rights to sell access to OpenAI's models. It is entitled to a 20% share of Open AI revenues up to \$92bn.

Microsoft has rights to OpenAI IP (including model and infrastructure) for use within products like Copilot. The OpenAI API is exclusive to Azure, runs on Azure and is also available through the Azure OpenAI Service.

These arrangements are currently being renegotiated. At stake is the issue of 'artificial general intelligence' (AGI) or human-like intelligence. This is the point the AI model has the ability to self-teach. At present it is understood that Open AI has the ability to end Microsoft's access to new models at the point at which the AI board declares that the company has reached AGI capability. The current negotiations, designed to extend the relationship beyond 2030 will encompass this. It is believed Microsoft will end up with a stake of c30% in Open AI.

Growth Equity investor appetite for LLM and foundation models AI raises remains substantial. The next table rounds up the investment total for LLM and related businesses since the start of 2023. It indicates that around \$116bn has been raised for such companies since the start of 2023, the wave of investment having been sparked by the November 2022 launch of Chat GPT.

In that time **Open AI** has raised \$56.6bn. A flurry of funding in the last 15 months has raised \$19bn for **xAI**. **Anthropic** has received c\$11bn of investment from a combination of Amazon and Google plus c\$3.7bn from other investors. **Scale AI** is a data annotation company which enables models to build AI applications. It has raised \$15.3bn across two rounds since May 2024, most of the funding coming from Meta.

There is a fall way in the scale of funding after that to the \$5bn raised by the two 'talent' AI raises, the \$3bn raised for **Safe Superintelligence** and the \$2bn for **Thinking Machines Labs**. Both of these companies were founded by former Open AI executives and are both pre-products.

The leading European LLM business in fundraising terms is France's **Mistral** which has raised \$1.2bn across three rounds starting with a \$113m seed round in June 2023, just a few weeks after its launch.

Sandbox AQ which uses quantum computing techniques to develop quantitative artificial intelligence models for enterprises, has raised \$950m over three rounds with the most recent round valuing it at \$5.75bn.

Perplexity, a GenAI search engine has raised \$450m in four rounds since the start of 2023. Its imputed valuation rose from \$2.5bn in its \$250m round led by NEA and IVP in April 2024, to \$18bn in its \$100m round led by Nvidia and SoftBank in July 2025.

Elsewhere **Hippocratic AI** which develops LLMs for healthcare raised \$141m in January 2025. **Runway** which has developed a range of generative AI models for media production raised \$308m in April 2025.

In Europe, the issue of data sovereignty has emerged since the second Trump administration began. German business **Aleph Alpha** announced a \$500m raise in November 2023 to develop data sovereign LLMs. It emerged subsequently that just \$110m of this was in equity with the rest in the form of research grants. The company has subsequently shifted its focus to developing a 'generative AI operating system' to sell to B2B customers, helping enterprises to roll out AI disciplines within their businesses.

French business **H** raised a \$220m seed round in May 2024 to develop 'frontier action models to boost the productivity of workers.' Three of the company's five co-founders departed three months later. The CEI Charles Kantor then left in June 2025 and was replaced by a former Palantir executive.

The appetite for LLM investment remains strong. As well as the reopening of the OpenAI round there are several more raises in the works. Not content with its four raises since May 2024, xAI is said to be seeking a further \$10bn at a \$200bn valuation with the Saudi PIF said to be the potential core investor.

Anthropic is also in the market for another raise - this time of c\$5bn at a valuation of \$170bn with ICONIQ said to be in position to lead. It was last valued at \$62.5bn in its \$3.5bn March 2025 raise.

French LLM business Mistral is said to be looking for a \$1bn raise with Abu Dhabi's AI fund MGX potentially the lead for a round which would value the business at c\$10bn. This would virtually double the funding received by the business to date. Some press reports (Business Insider, Sifted) see an alternative outcome – the acquisition of Mistral by Apple for c\$15bn – the logic being that Apple is the only major tech giant not to have yet invested in an LLM business. Apple might help with scale. OpenAI is said to be on track for \$12bn in ARR in 2025, Anthropic for c\$5bn and Mistral for c\$100m.

AI LLM businesses - \$116bn raised since the start of 2023

Country	Date	Company	Stage	Amount \$m	Valuation \$m	Sector	Investors
USA	Mar-25	OpenAI	Funding	40,000	300,000	AI - LLM	Softbank (\$30bn), MicroSoft, Coatue, Thrive, Altimeter
USA	Oct-24	OpenAI	Funding	6,600	150,000	AI - LLM	Thrive Capital, Khosla, Nvidia, Microsoft
USA	Jan-23	Open AI	Funding	10,000		AI - LLM	Microsoft
Open AI				56,600			
USA	Jul-25	xAI	Funding	2,000		AI - LLM	SpaceX
USA	Jun-25	xAI	Funding	5,000		AI - LLM	Not revealed
USA	Nov-24	xAI	Funding	6,000	50,000	AI - LLM	QIA, Valor Equity, Andreessen Horowitz, Sequoia
USA	May-24	xAI	Funding	6,000	18,000	AI - LLM	Kingdom Holding, Valor Equity Partners Vy Capital, az16, Sequoia
xAI				19,000			
USA	Mar-25	Anthropic	Funding	3,500	61,500	AI - LLM	Lightspeed
USA	Jan-25	Anthropic	Investment	1,000		AI - LLM	Google
USA	Nov-24	Anthropic	Funding	4,000		AI - LLM	Amazon
USA	Mar-24	Anthropic	Investment	2,750		AI - LLM	Amazon
USA	Jan-24	Anthropic	Funding	750		AI - LLM	Menlo Ventures
USA	Oct-23	Anthropic	Investment	2,000		AI - LLM	Google
USA	Sep-23	Anthropic	Funding	1,250		AI - LLM	Amazon
USA	May-23	Anthropic	Series C	450		AI - LLM	Google, Spark Capital, Salesforce Ventures
Anthropic				15,700			
USA	Jun-25	Scale AI	Funding	14,300	29,000	AI data foundry	Meta
USA	May-24	Scale AI	Series F	1,000	13,800	AI data foundry	Accel, Y Combinator
Scale AI				15,300			
USA	Apr-25	SafeSuperintelligence	Funding	2,000	32,000	AI - Research LLM	Greenoaks
USA	Sep-24	Safe Superintelligence	Funding	1,000	5,000	AI - Research LLM	Andreessen Horowitz, Sequoia
Safe Superintelligence				3,000			
USA	Jul-25	Thinking Machines Lab	Funding	2,000	12,000	AI - Research LLM	a16z, Nvidia, Accel, ServiceNow, Cisco, AMD, and Jane Street
Thinking Machines Lab				2,000			
France	Jun-24	Mistral AI	Funding	640	6,000	AI - LLM	General Catalyst
France	Dec-23	Mistral AI	Series A	415	2,000	AI - LLM	a16z, Lightspeed
France	Jun-23	Mistral AI	Seed	113	240	AI - LLM	Lightspeed, JCDcaux, Exor, Sofina
Mistral AI				1,168			
USA	Apr-25	Sandbox AQ	Series E+	150		AI - Large quant models	Google, NVIDIA, BNP Paribas
USA	Dec-24	Sandbox AQ	Series E	300	5,500	AI - Large quant models	Ray Dalio, Horizon Kinetics, BNP Paribas, Google, and NVIDIA.
USA	Mar-22	Sandbox AQ	Series D	500		AI - Large quant models	Breyer Capital, T Rowe Price
Sandbox AQ				950			
USA	Jul-25	Perplexity	Funding	100	18,000	AI Search engine	Nvidia, Softbank, NEA, I/P
USA	Apr-24	Perplexity	Series C	250	2,500	AI Search engine	NEA and I/P
USA	Jan-24	Perplexity	Series B	74			NEA and I/P
USA	Mar-23	Perplexity	Series A	26			NEA
Perplexity				450			
USA	Jan-25	Hippocratic AI	Series B	141		AI - Healthcare LLMs	Kleiner Perkins, General Catalyst and Andreessen Horowitz
USA	Jun-24	AlphaSense	Funding	650	4,000	AI Market Intel platform	Viking Global, BDT, MSD
Spain	Apr-25	Runway	Series D	308	3,000	AI models-Media Generation	General Atlantic, FMR, Baillie Gifford, Nvidia, SoftBank
Other US				1,099			
Spain	Jun-25	Multiverse Computing	Series B	215		AI - Quantum LLMs	Bullhound Capital, HP Tech Ventures, SETT,
France	May-24	H	Seed	220		AI - LLM	Accel, Amazon, Bpifrance
Germany	Nov-23	Aleph Alpha	Series B	500		Data Sovereignty LLMs	Innovation Park AI (ipai), Schwarz Group Bosch Ventures.
Other Europe				935			

Source: Rothschild & Co

Markets – Europe to the fore

Lower US interest rate hopes come to the fore.

Once again, despite everything thrown at them, markets remained robust in July and reverted to their 'normal' hierarchy with NASDAQ leading the way up 4.5% in the month. The S&P500 and the STOXX 600 were up 1% and the FTSE 100 up 4%.

YTD to end August, in local currency terms, NASDAQ leads the way, up 12.5%, the FTSE 100 and the S&P 500 are up 11% and the STOXX600 is up 8%. Funds flows indicate that the brief swing towards European markets and away from the US that occurred in the aftermath of Liberation Day have now reversed – the flow of funds is once again predominantly towards the US.

The **FTSE Venture Capital Index** which measures the performance of the US venture capital industry, with a strong sector weighting towards technology, fell 2% in July and to mid-August is up 19% ytd.

What is driving the most recent bout of enthusiasm as we move through August is the prospect of falling interest rates in the US. This comes from a combination of factors.

- The weak employment data that persuaded the US President that the head of the US Bureau of Labor Statistics should be replaced, appears to have been received more readily by markets, which sees weak jobs numbers as a precursor to lower interest rates.
- The July inflation number of 2.7% was lower than expected chiefly due to lower prices for oil and gas. Most of the underlying indicators – notably the Fed's preferred core inflation figure went the wrong way. The numbers also showed little discernible impact as yet from tariffs – one of the factors cited by the Fed as a reason for caution in further lowering interest rates.
- Political pressure on the Fed to cut rates, symbolised by the uneasy pictures of the President and the Fed Chair standing in white hard hats on a building site arguing over which projects had or had not been included in the estimated cost overruns of an HQ refurbishment.

The political pressure has been maintained with the appointment of Stephen Miran, the chair of the White House's Council of Economic Advisers, to a vacant seat on the Fed. Miran is a supporter of the Trump administration's tax cuts and has downplayed the risk of tariff cuts promoting inflation saying that he doesn't have 'tariff derangement syndrome.' President Trump is also considering candidates to replace Fed Chair Jay Powell when his term ends in May 2026.

There are clear indications from the administration that it thinks interest rates should be significantly lower. In mid-August, the US Treasury Secretary Scott Bessent declared that interest rates should be 150-175 basis points lower than they currently are and recommended 'we could go into a series of rate cuts here, starting with a 50-basis point rate cut in September.' President Trump has said that 'I think we should be paying one percent right now.'

This last remark was before the July 30th meeting at which the Fed kept interest rates steady at 4.25%-4.5% for the fifth meeting in a row. Unusually two of the twelve FOMC committee members voted against the decision, both backing a 25bps rate cut. The decision to hold rates came after figures showing that the US economy had grown at a robust 3% in Q2 2025 but before the disappointing July jobs number. Produced on August 1 it showed non-farm payrolls rising by just 73,000 versus market estimates of 100, 000. The May and June

numbers were also sharply downgraded (June from 147,000 to 14,000 and May from 144,000 to 19,000 – jointly a downwards revision of 258,000). The unemployment rate ticked up to 4.2% from June's 4.1%.

On August 12th, the July US inflation number came in 10bps lower than expected at 2.7%. Core inflation, which excludes energy and shelter costs, rose to 3.1% from June's 2.9%. Services inflation remains sticky (and rising) with the Fed's favoured super-core (core services ex shelter) having risen from 2.7% as recently as April to 3.2% in July. The Fed's inflation target is 2%.

Post the jobs numbers and reinforced by the headline inflation data the market is now at a 99.9% chance (FedWatch) of at least a 25bps rate cut at the Fed's September 17 meeting. Thereafter there are two more meetings this year (October 29 and December 10). The market has pencilled in a further rate cut at the October meeting (71% probability) with a 30% prospect of a third rate cut at the December meeting. Overall, this means the consensus market prediction is – as it was pre July 30th - of an expectation of two 25bps rate cuts by year end, except brought forward to September and October and with the outside chance either of a jumbo cut or a third cut in December.

The prospect of falling interest rates (cheaper money) and an economy moving along robustly has sent share prices stronger, despite concerns over the solidity of the outlook and testing valuations.

Meanwhile the market has shrugged off the impact of the imposition of tariffs on recalcitrant countries who had not reached a reciprocal trade deal by the start of August (Switzerland did particularly poorly) and the increase of secondary tariffs for countries like India deemed to be supporting Russian oil exports. The market particularly welcomed the extension of the pause on incremental tariffs on China imports by a further 90 days until November 10.

Mixed signals in the UK where June inflation rose to 3.6% versus market expectations of 3.4%. Core inflation (ex-energy and food) was at 3.7%, up 20bps from May and services inflation was 4.7%. The Bank of England has warned that inflation is likely to peak at 4% in September, twice its target rate.

Nevertheless, continued weak economic figures with GDP negative in April and May meant that the Bank of England cut interest rates by 25bps to 4% at its meeting on August 7th. It was a close call with a 5-4 second round vote after the first was tied (albeit it was four for 'no cut', four for a 25bps cut and one for a 50bps cut). These discouraged markets given the 'genuine uncertainty' according to BoE governor Andrew Bailey about the rate of future rate cuts albeit the path '*continues to be downward.*' Despite UK GDP subsequently rallying to 0.3% growth in Q2, the market still expects one more interest rate cut by the end of 2025 although with less certainty – c75% versus 90% before the BoE meeting.

In **Europe**, the ECB held interest rates at 2% at its July 24th meeting, pausing a string of rate cuts. It was a unanimous decision and appeared to express some caution ahead of the imposition of US tariffs on August 1. Inflation remained subdued at 2% in July, for the second successive month running at the ECB's target rate. Expectations, which had been for two more cuts of 25bps by the end of 2025, have moved to just one cut. The sense from the press meeting post the announcement was that the ECB sees the European economy in a good place – inflation at the target 2%, GDP growth levelling out but with a lot of uncertainty either way, casting doubt therefore on the previous assumption that interest rates would continue to fall.

Rothschild & Co strategist Kevin Gardiner summarises the current key drivers of the market in this graphic:

	GROWTH <i>Neutral</i>	Economies remain resilient Tariffs do not yet seem to be having a big impact on global business conditions: hard economic data, and forward-looking business surveys, have held up remarkably well. The higher, 'Liberation Day' levies could yet do more damage if the current postponement ends without successful bilateral deals being agreed. President Trump remains as capricious as ever, but our working assumption remains that a major economic setback can be avoided
	INFLATION <i>Neutral</i>	Above-target inflation to persist? Inflation has mostly stalled at above-target levels (>2%) across the developed world and may stay there for the next year or so. Economies remain close to full employment, and tariffs may eventually add to short-term pressures. Inflation slightly above target may not necessarily trouble businesses, particularly those with strong pricing power, but it could keep central banks on edge. The longer-term tariff impact is more likely deflationary, insofar as they will restrain growth
	POLICY <i>Positive</i>	Monetary and fiscal belts are loosening US tariff revenues are unlikely to be enough to reduce the US budget deficit: Trump's pending 'big beautiful bill' seems likely to add to it. The EU – and the wider NATO bloc – are set to boost defence spending, while Germany also announced a huge infrastructure package earlier this year. Meanwhile, a mix of economic resilience and sticky inflation may prevent interest rates from declining significantly, but rates are nonetheless still likely to fall a little further, leaving monetary as well as fiscal policy in expansionary mode
	GEOPOLITICS <i>Negative</i>	Conflict and trade uncertainty Despite US provocations, escalating tensions between Iran and Israel have given way to a fragile ceasefire. A lasting resolution may be some way off, but neither side want a protracted conflict. Aside from a modest spike in energy prices, the market response has been muted. Elsewhere, Trump's protectionist rhetoric has faded, though a baseline 10% tariff remains in place. Trade negotiations are underway – a tentative deal has reportedly been struck with China – but a more entrenched trade war is still a real risk if the 'Liberation Day' tariff hiatus ends without agreement
	VALUATIONS <i>Negative</i>	Stocks: not cheap Global stock markets continue to grind higher – reaching new levels – and, in turn, valuations have reverted to expensive territory once again. Corporate bonds are also expensive, with credit spreads relatively tight. Government bond yields however are closer to what we might consider as 'fair value', and despite recent volatility, are likely to offer useful diversification to long-term portfolios. Cash rates have been falling, and we doubt they will return to earlier emergency lows – <u>with the possible exception of Switzerland</u>
	MARKET DYNAMICS <i>Neutral</i>	Stock and bond volatility cools The sharp decline in global stocks at the start of the second quarter has given way to a vigorous recovery. Signs of stress in the US treasury market – possibly due to technical forced selling pushing longer-dated yields higher – have yet to reappear. While financial and geopolitical risk is still elevated – as noted, there is still heightened uncertainty around White House policies – markets have not been disorderly. Liquid and well-capitalised bank balance sheets provide some comfort

Source: Rothschild & Co

July – VC Momentum sustained

US up 2.2x yoy by value in July; Europe up 15%yoy

US VC raises in July 2025 up 122% on July 2024: July saw 42 US venture capital raises of \$100m or above, raising \$13.1bn versus the \$5.9bn raised in July 2024.

The two largest deals were for AI companies with xAI garnering an investment of \$2bn from SpaceX (they all count...) and LLM start up Thinking Machines Lab an initial \$2bn. In total there were ten AI deals raising \$4.99bn, 38% of the monthly total.

Another \$966m was raised for the AI related field of datacentres with the third largest raise overall being \$835m for infrastructure and data centre solutions provider, 5C Group.

Fintech continued its revival with \$1.57bn of raises led by the \$820m at a valuation of \$7.5bn for ICapital. The financial operations platform Ramp raised \$500m from ICONIQ at a \$22.5bn valuation.

Healthcare – five deals raising \$870m – and software 54 deals raising \$831m – rounded out the leading sectors.

The US – \$13bn of US venture backed raises of \$100m+ in July

Country	Date	Company	Stage	Amount \$m	Valuation \$m	Sector	Investors	What it does
USA	Jul-25	xAI	Funding	2,000		AI	SpaceX	AI LLM
USA	Jul-25	Thinking Machines Lab	Funding	2,000	12,000	AI	a16z, Nvidia, Accel, ServiceNow, Cisco, AMD, and Jane Street	AI LLM
Canada	Jul-25	5C Group	Funding	835		Data Centres	Brookfield, Deutsche Bank	infrastructure and data center solutions provider,
USA	Jul-25	iCapital	Funding	820	7,500	Fintech	T. Rowe Price and SurgoCap Partners.	range of non-traditional investment products on iCapital Marketplace
USA	Jul-25	Flexjet	Equity	800		Aviation	L Catterton	Aviation supplier
USA	Jul-25	Ramp	Series E-2	500	22,500	Fintech	ICONIQ	Financial operations platform
USA	Jul-25	Maplight Therapeutics	Equity	373		Biotech	GS Alternatives	treatments for central nervous system disorders
USA	Jul-25	Castleion	Funding	350		Defense	Airmeter, Lightspeed	designs, tests, and manufactures next-gen military systems
USA	Jul-25	Quaro	Growth Equity	300		Software - Manufacturing	Spectrum Equity	Dispute management software provider
USA	Jul-25	Hadrian	Funding	260		Defense	Founders Fund and Lux Capital	precision parts for aerospace and defense
Canada	Jul-25	Kardium	Funding	250		Medical Devices	Eventide, Janus Henderson, QIA	device for heart conditions
USA	Jul-25	Bilt	Funding	250	10,750	Fintech	General Catalyst and GID	payments and commerce network
USA	Jul-25	Ambience Healthcare	Funding	243		Healthcare	a16z, Oak HC/FT	AI administrative tools for health workers
USA	Jul-25	38 Degrees North	Growth Equity	230		ClimateTech	Climate Adaptive Infrastructure, Kimmeridge Energy	distributed generation, community solar
USA	Jul-25	Airalo	Funding	220	1,000	Telecoms	CVC	eSIM packages in 200+ countries
USA	Jul-25	Open Evidence	Series B	210	3,500	Healthcare	Sequoia Capital, Coatue, Conviction, and Thrive.	Clinical decision support platform
USA	Jul-25	Lytan	Funding	200		Compliance - Batteries	Prime Movers Lab	Manufacturer of lithium sulphur batteries
USA	Jul-25	Writer	Series C	200		AI	Premji Invest, Radical Ventures, ICONIQ Growth	AI text generation platform
USA	Jul-25	Also Inc	Funding	200		Micro-mobility	Greenoaks	Electric scooters
USA	Jul-25	Varda Space Industries	Series C	187		Biotech	Natural Capital & Shrug Capital	microgravity for pharmaceutical development
USA	Jul-25	Observe	Series C	156		Software	Sutter Hill Ventures	Software observability platform
USA	Jul-25	Anaconda	Series C	150		AI	Insight, Mubadala	Open source AI platform
USA	Jul-25	Motive Technologies	Funding	150		Fleet Management	Kleiner Perkins	Fleet tracking and driver safety
USA	Jul-25	Vianta	Series D	150		Healthcare	Wellington, GS Alternatives, Sequoia, JP Morgan, Craft Ventures, Y Combinator	AI trust management platform
USA	Jul-25	Aidoc	Funding	150		Healthcare	General Catalyst and Square Peg	assists physicians in clinical decisions
USA	Jul-25	MaintainX	Funding	150		Software - Manufacturing	Bessemer Venture Partners, Bain Capital Ventures, D. E. Shaw Ventures,	maintenance and asset management platform
USA	Jul-25	AbsoluteCare	Equity	135		Healthcare	Kinderhook, CVS Health Ventures, Pacific Light, Lexington	value-based integrated health care,
USA	Jul-25	ARTBIO	Series B	132		Healthcare	Sofinnova Investments and B Capital	clinical-stage radiopharmaceutical cancer therapies
USA	Jul-25	Airmada	Funding	131		Data centre - Edge Computing	Phlegrove, Veriten, and Glade Brook	edge computing platform for communications-challenged areas
USA	Jul-25	fall	Series C	125		AI	Meritech, Salesforce Ventures, Shopify Ventures,	AI infrastructure for generative media
USA	Jul-25	HerDev	Funding	125		Software - enterprise	PSC Equity	security and compliance tools for deprecated open source software
USA	Jul-25	Terra CO2	Funding	125		ClimateTech	Breakthrough Energy Ventures, Eagle Materials, GenZero	low-carbon building materials
USA	Jul-25	Reka	Funding	110		AI	Nvidia, Snowflake	Multimodal AI Platforms
USA	Jul-25	Genesis AI	Funding	105		Robotics - AI	Eclipse, Khosla	global physical AI lab and full-stack robotics
USA	Jul-25	Carbyne	Funding	100		Software	AT&T Ventures, Axon Enterprise, Cox Enterprises, Global Medical Response	cloud-native emergency communications and response solutions
USA	Jul-25	Noma Security	Series B	100		AI	Evolution Partners	security for agentic AI
USA	Jul-25	Oxide Computer	Series B	100		Cloud	USIT	on premise cloud computing
USA	Jul-25	Avayn Pharma	Series D	100		Biotech	Suivretta Capital, SR One	inhaled therapies to treat rare respiratory diseases
USA	Jul-25	Nudge	Series A	100		Neuroscience	Thrive Capital, Greenoaks	ultrasound technology to stimulate and image the brain
USA	Jul-25	Perplexity	Funding	100	18,000	AI	Nvidia, Softbank, NEA, IVP	LLM
USA	Jul-25	Substack	Series C	100	1,100	Media	Bond, Chernin Group	newsletter development and distribution platform
USA	Jul-25	Harmonic	Series B	100	900	AI	Kleiner Perkins, Paradigm, Ribbit Capital	AI lab developing Mathematical Superintelligence (MSI)
Total				13,122				

Source: Rothschild & Co

Europe - \$4.2bn raised in July: The Rothschild & Co Deal Monitor registered 59 raises of \$20m or more in Europe in July with a total value of \$4.2bn, up 15% yoy. There were 12 deals raising \$100m or more.

The leading sector in terms of value was Software with seven raises bringing a total of \$749m with the \$200m investment by Accel for Swedish software development platform Lovable the largest. Unusually telecoms was the second largest sector with \$709m raised, the bulk of it the \$675m funding for FTTP altnet City Fibre led by Goldman Sachs Alternatives.

Climate Tech had eight deals raising \$577m. The largest was \$162m for Swiss direct air capture carbon removal business, Climeworks. A cluster of five semiconductor raises many focused-on AI applications raised \$322m led by \$150m for supercomputing and AI focused SiPearl led by Cathay Innovation. Rounding out the top five sectors three was \$284m worth of raises in healthcare, including \$110m for Aidoc led by General Catalyst, an AI led tool for helping doctors' clinical decision making.

Reflecting its lesser role in the VC market in Europe, AI saw four raises for a total of \$180m, the seventh largest sector. The biggest raise was for Genesis AI, a full stack robotics business led by Eclipse and Khosla Ventures.

Europe – \$4.2bn of VC raises in July

Country	Date	Company	Stage	Amount \$m	Valuation \$m	Sector	Investors	What it does
UK	Jul-25	City Fibre	Funding	675		Telecoms	GS Alternatives, Antin Infrastructure , Mubadala ,	FTTP altnet
Sweden	Jul-25	Lovable	Series A	200	1,800	Software	Accel	Software development platform
Germany	Jul-25	Wefox	Funding	174		Insurtech	Searchlight Capital	digital insurance services
Switzerland	Jul-25	Clmew orks	Funding	162		ClimateTech	Not disclosed	Direct Air Capture (DAC) technology
UK	Jul-25	Xelix	Series B	160		Software	Insight Partners	Accounts payable software
UK	Jul-25	Sunsave	Series A	152		ClimateTech	Norrskén VC and IPGL	solar subscription service
Germany	Jul-25	Talon One	Funding	135		Software	Silversmith Capital Partners, Meritech	enterprise loyalty and promotion software provider
Israel	Jul-25	Aldoc	Equity	110		Healthcare- AI	General Catalyst and Square Peg.Nventures	helps medical teams make real-time clinical decisions,
France	Jul-25	SiPearl	Funding	150		Semiconductors	Cathay Venture	semiconductors
UK	Jul-25	Gridserve	Equity	135		ClimateTech	TPG, Infracapital and Mitsubishi,	on-the-go EV charge point operator,
Germany	Jul-25	Sdai	Growth	113		Software	Bain, HV Capital,High-Tech Gründerfonds (HTGF),	cloud-based administrative software for K-12 schools,
France	Jul-25	Genesis AI	Funding	105		AI - Robotics	Eclipse and Khosla Ventures,	physical AI research lab and full-stack robotics
Switzerland	Jul-25	Nuclidium	Series B	97		Biotech	Angelini Ventures, Kurma Growth , Wellington	proprietary copper-based theranostic platform
Israel	Jul-25	Exodigo	Series B	96		Data	Zeev Ventures and Greenfield Partners,	multi-sensing technology underground data
UK	Jul-25	TWL Miner	Series B	95		Crypto	Undisclosed	cloud mining platform,
Italy	Jul-25	Ekein	Series C	80		Cybersecurity	Balderton, Supernova and Lakestar,	embedded IoT cybersecurity
Germany	Jul-25	CarOnSale	Series C	80		Marketplace	Northzone, HV Capital	B2B marketplace for car dealers
Norway	Jul-25	Actithera	Series A	76		Biotech	M Ventures, Hadean, Sofinnova	fibroblast activation protein
Germany	Jul-25	Q.ANT	Series A	72		Semiconductors	Cherry Ventures, UVC Partners	Photonic processing technology
Germany	Jul-25	Makersite	Series B	70		Software	Lightrock and Partech	digital twin of a company's product and supply chain
UK	Jul-25	Numan	Series B	60		HealthTech	Big PI Ventures, Endeavor Catalyst, White Star	digital platform offering healthcare support,
Turkey	Jul-25	Good Job Games	Series A	60		Games	Menlo Ventures, Anthos Capital	Mobile game developer
Germany	Jul-25	Buena	Series A	58		Property	GV, 20VC, Stride, and Capnamic.	property management
UK	Jul-25	Ultronic	Series C	55		Healthcare	L&G, Allegis Capital, Lightrock	cardiac diseases diagnosis via echocardiograms.
Israel	Jul-25	Teramount	Funding	50		Semiconductors	Koch Disruptive Technologies,Grove Ventures , AM	fiber-to-chip interconnect solutions for AI, data centers
UK	Jul-25	Hived	Funding	42		Logistics	NordicNinja	parcel delivery service
UK	Jul-25	Professional Triathletes Org	Series C	40		Sports	Surj	T100 Triathlon World Tour
UK	Jul-25	Proxymity	Series C	36		Software	Mitsubishi, UFJ	Investor Communications platform
Israel	Jul-25	Flo Optics	Series A	35		Manufacturing	MEI Systems, SDC Technologies	coating optical lenses using digital printing technology,
UK	Jul-25	Inforcer	Series B	35		Software	Dawn Capital, E, Meritech Capital.	Microsoft multi-tenant management solution for MSPs
France	Jul-25	Unmind	Funding	35		Healthcare	TELUS global	Mental health app for enterprises
UK	Jul-25	Poothouse	Seed	34		Leisure	Pool entertainment business	Sharp Alpha, drug ventures
Switzerland	Jul-25	Impossible Cloud Network	Funding	34	470	Cloud	1kx, Protocol Labs, No Limit Holdings	data-sovereign Web3 cloud platform
Israel	Jul-25	Wonderful	Seed	34		AI - Robotics	Index Ventures, Bessemer	AI agents' platform
UK	Jul-25	GrainConnect	Equity	34		Telecoms	Equitix	Fibre altnet
France	Jul-25	BrainEver	Series B	33		Life Sciences	Critical Path Capital, European Innovation Council	major neurodegenerative diseases
Iceland	Jul-25	Laxey	Funding	32		Agri	LSR, LIVE, and Gildi	land-based salmon farming
Israel	Jul-25	Xtend	Series B	30		Defence - Drones	Aliya Capital, Protego Ventures	XOS software platform to operate drones with VR
Finland	Jul-25	Donut Lab	Seed	29		EVs	Not revealed	intercompatible components for EV manufacturing
France	Jul-25	68i	Series A	26		Climate Tech	At One Ventures and Supernova Invest	Neutron molten salt reactor
Israel	Jul-25	Qedma	Series A	26		Quantum	Giloi	Quantum Computing
France	Jul-25	Stellaria	Funding	26		Climate Tech - Nu	At One Ventures and Supernova Invest,	fast neutron molten salt nuclear reactor
Netherlands	Jul-25	Dexter Energy	Series C	26		ClimateTech	Klima, Mirova, ETF Partners,	optimization solutions for short-term power trading.
Italy	Jul-25	Tulum Energy	Seed	26		ClimateTech	TDK Ventures,CDPVC	clean hydrogen solutions for industrial applications
France	Jul-25	Arago	Seed	26		Semiconductors	Earlybird, Protagonist and Visionaries Tomorrow ,	light-powered AI chips
Poland	Jul-25	Trasti	Series B	24		Insurtech	EBRD, Triglav Group	Digital insurance platform
Switzerland	Jul-25	EviaBio	Seed	24		Healthcare	Kurma Partners	therapies for heart disease in chronic kidney disease
Switzerland	Jul-25	Candi Solar	Funding	24		Climate Tech	Norfund, Stoa	customisable solar and battery solutions
Netherlands	Jul-25	Effect Photonics	Series D	24		Semiconductors	Not disclosed	optical solutions for data centre and edge networks,
Israel	Jul-25	AIR	Series A	23		EVTOL	Entrée Capital	electric vertical takeoff and landing aircraft,
Estonia	Jul-25	Lightyear	Series B	23		Fintech	Nordic Ninja	Investing app
UK	Jul-25	Monet	Seed	23		Fintech	Force Over Mass	cashflow management platform for creative agencies,
Israel	Jul-25	Restore Medical	Series B	23		Med Tech	Pitango HealthTech, EIC Fund,	transcatheter therapies for heart failure
France	Jul-25	Spiko	Series A	22		Fintech	Index, White Star	easier for SMEs to earn interest on low-risk assets
Germany	Jul-25	4screen	Series A	21		Advertising	S4S Ventures, and Continental VC	driver interaction platform,
Spain	Jul-25	Theker	Seed	21		Robotics	Kibo Ventures, Kfund, Inditex, Jme, Itinig,	intelligent general-purpose robots for industrial sectors
Czechia	Jul-25	E2B	Series A	21		AI	Insight, Decibel,Sunflower Capital, KAYA VC	scaling AI agent infrastructure
Denmark	Jul-25	GetWhy	Series A	20		Market Research	PeakSpan Capital	AI-powered consumer insights
Germany	Jul-25	MOTOR AI	Funding	20		AI - AV	Segenia Capital and eCAPITAL,	provider of AI systems for autonomous driving
Total				4,172				

Source: Rothschild & Co

Fundraising outlook: \$28bn of potential raises in the hopper

Perhaps remarking the summer lull, as well as the still swelling enthusiasm for AI and related technologies, our monitor of impending raises has risen from c\$10bn last month to \$28bn.

Recent additions include yet another potential raise for xAI, this one said to be for \$10bn at a valuation of \$200bn led by the Saudi PIF. Not to be outdone Anthropic is said to be raising a further \$5bn in a deal led by ICONIQ at a valuation of \$170bn.

AI video generation business Luma is an addition to the list with a planned \$1.1bn raise at a valuation of \$3.2bn. Another AI video models business, Runway, joins the list with a possible \$500m raise at a \$5bn valuation to be led by General Atlantic. AI chip business Groq is seen raising \$400m at a \$6bn valuation.

A couple of interesting European additions to the list. Harmattan AI, a French battlefield drones and software business, is reportedly looking to raise US\$200m to help fund a facility to build 10,000 drones per month. German AI business N8n is said to be in a hotly contested round of c\$100m at a valuation that might be as high as \$2.75bn

Growth Equity – c\$28bn in reported upcoming raises

Company	Country	Sector	Amount \$m	Valuation \$m	Adviser	What it does	Comments
xAI	US	AI	10000	200,000		AI LLM	PIF
Anthropic	US	AI	5000	170,000		AI LLM	ICONIQ
FigureAI	US	AI	1500	39,500		Humanoid robotics	Align Ventures and Parkway Venture Capital
Luma AI	US	AI	1100	3,200		AI video generation	
Mistral	France	AI	1000			LLM company	MGX
Revolut	UK	Fintech	1000	65,000		Neobank	Greenoaks, Mubadala
Vast Data	US	AI		30,000		AI infrastructure	Capital G, Nvidia
Nscale	UK	AI Infrastructure	900			artificial intelligence infrastructure	
PsiQuantum	US	Quantum	750	6,000		Quantum	Blackrock, NVIDIA
Runway		AI - Video	500	5,000		AI video models for film studios	General Atlantic, QIA
Jane Software	Canada	Software	500	1,600		management software for health clinics	Secondary - led by TCV
Cohere	Canada	AI	500	5,500		LLM company	
Kraken	US	Crypto	500	15,000		Crypto exchange	
Agility Robotics	US	Robotics	400	1,750		humanoid warehouse robot Digit	WP Global, SoftBank Group Corp.
Groq	US	Semiconductors	400	6,000		AI chips	
N26	Germany	Fintech	400			neobank	Coatue, Thirdpoint, Dragoneer
Castellion	US	Defense	350			Series B	Lightspeed, Altimeter
TooGoodToGo	Denmark	Marketplace	345	1,000		marketplace app for nearly-expired food	
Cognition	US	AI	300	10,000		AI coding	
Indigo Technologies	US	CleanTech	300			electric delivery vans and taxis	
IQM	Denmark	Quantum	215			Quantum Computing	
Harmattan	France	AI	200			Drones	
Quince	US	Social Media	200	4,500			
Mr Beast	US	Consumer Media	200	5,000		Consumer/Media	Holding company for YouTube star.
Replit	US	AI	200	3,000		AI Coding	
Sesame AI	US	AI	200	1,000		AI voice assistants	Sequoia, Spark Capital
Focused Energy	US	Fusion energy	150			Laser fusion energy	
ZeroAvia	US	Clean aviation	150			Clean aviation	Series D
N8n	Germany	Software		1,500		workflow automation	\$1.5bn valuation
Axiom Space	US	SpaceTech	100	2,000		Space infrastructure developer	1789 Capital, Type One Ventures
Avalanche Energy	US	Fusion energy	100			compact fusion energy reactors	
Aato Atomics	US	Energy - Nuclear	100			small nuclear reactors	
Foundation	US	Robotics	100	1,000		Humanoid robotics	
Beyond Imagination	US	Robotics	100	500		Humanoid robotics	Gauntlet Ventures
Exo Imaging	US	Software	100			medical software and devices,	Sands Capital, BOLD Capital Partners
Total			27,860				

Source: Rothschild & Co; press reports

Our views on the state of the venture capital markets

The combination of global inflation, rising interest rates, and increased geopolitical risk substantially impacted the venture capital market in 2022 and 2023. 2024 saw some adaptation to the 'new normal'. The refocusing of venture backed companies to achieve a better balance of growth, profitability and cash flow and the delivery of interest rate cuts has led to increased optimism and enthusiasm for growth equity in 2025. Our summary of the outlook is:

- The deterioration in the interest rate, inflation and macro-economic environment led to a sharp impact on valuations in private markets. The scale of the fall in the **FTSE** Venture Capital Index in 2022 was much more substantial than the 33% fall on NASDAQ. This was reflected in some big valuation reductions in some high-profile VC rounds in 2023 and slow recovery in 2024.
- There is substantial interest in venture capital to fund artificial intelligence, both the foundation LLM models and the applications of AI and industries (data centres, semiconductors) supporting the development of AI.
- Outside the AI space the VC market is regaining confidence with a revival of interest in fintech, biotech and software being notable. Certain investors remain very active in the space with substantial funds to deploy. There remains substantial dry powder in the VC industry.
- The speed of the investment process has slowed since 2021-22. The level of diligence on new deals has stepped up.
- 2023 and 2024 saw more downrounds, albeit the substantial fund raising of 2021 and the ability of companies to eke out existing resources has limited the number of these.

- It seems likely that the more difficult conditions for fundraising, and the lack of a clear path in some cases to early cash positive status, will mean a flurry of venture capital backed businesses looking to sell or merge their businesses.
- Valuation priorities have shifted with investors having moved away from a pure emphasis on revenue growth and revenue multiples. There is a sharp focus instead on profitability (or a rapid path to it), on positive free cash flow and on DCF and comparative based multiples.

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