Participating Preferred Now Attaches to 29.8% of Defense Tech Series B Rounds

A new Yanne Capital research paper finds defense tech Series B rounds carry participating preferred at 29.8%, against 11.6% for the broader US market.

NEW YORK, NY, UNITED STATES, August 12, 2026 /EINPresswire.com/ -- Participating preferred appeared in 29.8 percent of US defense tech Series B rounds in the first half of 2026, roughly two and a half times the 11.6 percent rate seen across the broader Series B market, according to new research from Yanne Capital. The finding anchors the firm's H2 2026 study of the defense tech capital stack and its structural asymmetries.

> “The defense tech funding story has been read as a valuation story for two years, and it never was. The number that matters is not the pre-money, it is the participation rate.”
> *Alex Ozdemir, Managing Partner, Yanne Capital*

The headline number hides the actual story

Yanne Capital's view, drawn from live growth-stage processes across the sector, is that the defense tech funding boom has been consistently mis-read as a pricing story when it is in fact a terms story. Capital availability has expanded. The terms attached to that capital have hardened.

Defense tech venture funding reached 40.1 billion dollars globally across 626 deals in 2024, more than triple the 12.8 billion raised across 354 deals in 2019 (PitchBook, Q1 2026). Headline valuations in defense rounds continue to track within 10 percent of broader-market medians. The divergence sits underneath the valuation line, in the mechanics of the preferred stock and the composition of the board.

The 2025 print, when fully booked, is expected to land within 8 percent of 2024 by deal count and within 12 percent by capital deployed. The volume story is stable. What is moving is the structure.

Structural protections have hardened materially

The firm's read across recent term sheets is that defense investors are pricing operational and regulatory risk into structure rather than into valuation. Founders who benchmark only on pre-money and dilution are missing the exit-waterfall math that determines what the founding team actually realizes.

Participating preferred at 29.8 percent of defense Series B rounds runs 18 percentage points above the broader market. Senior liquidation preferences above 1x appeared in roughly 19 percent of defense rounds against 4 percent in the broader market (Cooley GO Q4 2025 Venture Financing Report). Investor-majority boards appeared in 66 percent of tracked defense Series B rounds, against 41 percent for the broader Series B cohort.

Stacked against each other, these three provisions compound. A round that looks priced in line with market can deliver founder proceeds 15 to 25 percent below a clean-terms comparable at a median exit, before any consideration of board control or subsequent-round consent rights.

The LP mix is turning over

The composition of capital sitting behind defense rounds has shifted meaningfully in the last 18 months. Yanne Capital's transaction desk sees a different cap-table on the other side of the table than it did in 2024, and founders building their investor lists off two-year-old references are calling the wrong rooms.

Sovereign and quasi-sovereign vehicles from allied jurisdictions accounted for roughly 14 percent of capital deployed into US defense tech Series B and C rounds in 2025, with check sizes typically running 15 million to 50 million. These vehicles behave differently from traditional venture LPs on timeline, on governance expectations, and on co-investor selection. A sovereign co-investor is rarely the lead but frequently the swing check that clears a round.

Venture debt and growth credit appeared in roughly 18 percent of US defense tech growth rounds in 2025 and, on the firm's projections, will reach 35 to 40 percent of such rounds by the end of 2027. Credit is no longer a bridge instrument in this sector. It is a genuine layer of the stack, sized against contracted government revenue and deployed alongside equity rather than after it.

The addressable lead universe has narrowed

A less visible shift, and the one Yanne Capital regards as most consequential for round design, is that the number of funds capable of leading a 50 million dollar or larger defense round with full conviction has contracted. The capital is present in aggregate. It is concentrated in fewer decision seats.

The practical consequence is that a single-lead process, which remained viable in 2023, now carries meaningful completion risk at the growth stage. Multi-instrument stacks combining a strategic-financial lead, a sovereign or quasi-sovereign co-investor, and a venture debt facility are becoming the default structure for rounds above 30 million.

These processes take longer. A multi-instrument raise typically runs 14 to 18 weeks from process open to definitive signing, against 8 to 12 weeks for a single-lead equity round. The additional weeks are not friction. They are the price of a stack that materially improves founder economics at exit, on the order of 5 to 7 percent of equity at the median modeled outcome.

What founders should do before the term sheet arrives

The firm's operating view is that most of the structural damage done to founder outcomes in defense rounds is done in the 72 hours after a term sheet is received, when the pressure to signal decisiveness overrides the discipline of modeling the waterfall. The counter-offer window is narrow and the leverage is highest before signature.

The paper closes with the Defense Capital Stack Diagnostic, a 90-minute exercise growth-stage defense founders can run against any incoming term sheet. It isolates five term-sheet line items, models the exit waterfall at three exit values, calculates the structural dilution drag against clean terms, and identifies the two highest-leverage terms for counter-offer.

Yanne Capital's projection for the 12 months ahead is that participating preferred rates in defense Series B rounds will hold near current levels, sovereign participation will expand toward 18 to 20 percent of Series B and C capital, and venture debt will move decisively into the mainstream of the stack. Founders who design for that market, rather than the 2023 one, will price their rounds correctly.

"The defense tech funding story has been read as a valuation story for two years, and it never was. The number that matters is not the pre-money, it is the participation rate and the seniority multiple sitting underneath it. Founders who close on headline price and lose 20 percent of their exit proceeds to structure have not raised well, they have raised loudly." said Alex Ozdemir, Managing Partner, Yanne Capital.

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