

Can we talk about the biggest bottleneck in the defence industry?

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The US consumed more than 150 THAAD interceptors during the first twelve days of conflict with Iran. The annual production rate is around 95. That gap, between what modern warfare consumes and what industry can replace, is a central problem in Western defence today, and something the managers of Europe's first actively traded defence fund spend a great deal of time analysing.

In this analysis from Finserve Global Security Fund's Joakim Agerback and Shayan Heidari, they walk through how modern air and missile defence works, what the production gap means for defence budgets and order books and which parts of the value chain where structural demand is most concentrated.

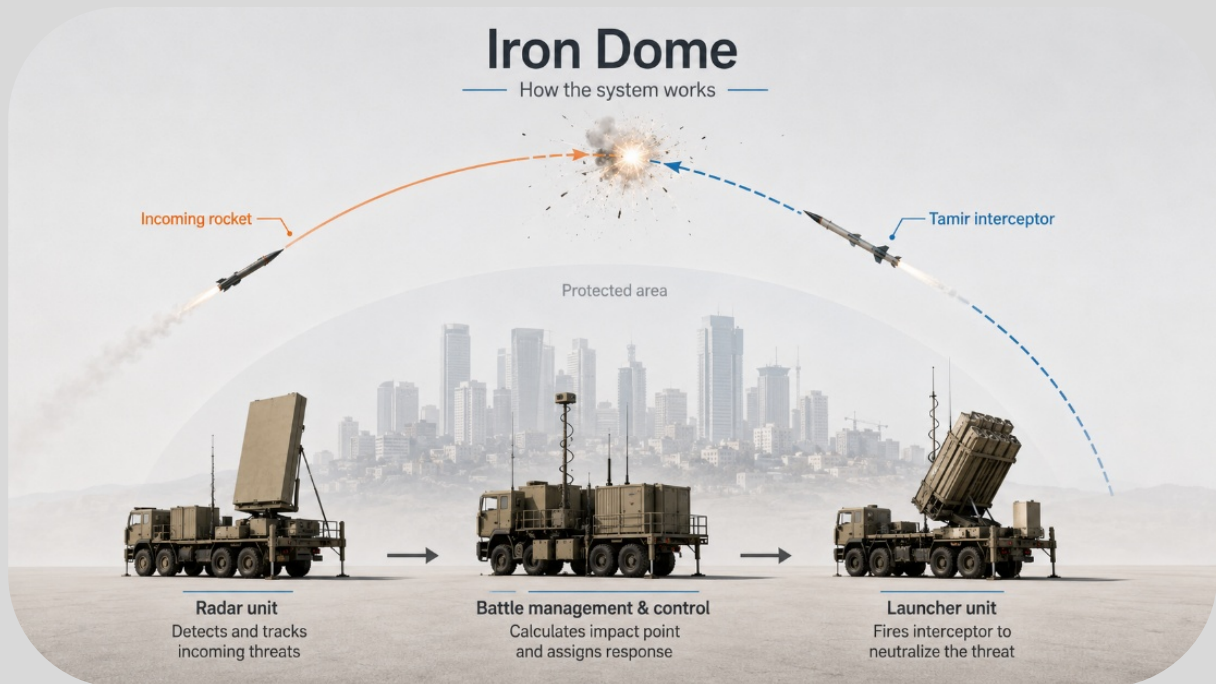
To understand the scale of the challenge, let's begin with the systems involved and explain the layers.

An interceptor is a defensive missile designed to destroy an incoming threat before it reaches its target. Because threats range from inexpensive drones to advanced ballistic missiles, modern air defence relies on multiple layers rather than a single system.



Short Range: Drones and Rockets

The innermost layer protects against drones, rockets, artillery shells and mortars. The best-known example is Iron Dome, which selectively intercepts threats heading toward populated or strategically important areas. Other systems include Stinger, Mistral and RBS 70.



Medium Range: Aircraft and Cruise Missiles

Systems such as NASAMS, IRIS-T SLM and CAMM defend against aircraft, drones and cruise missiles across larger areas. These systems are increasingly important as many modern threats fly at low altitude and can be difficult to detect.



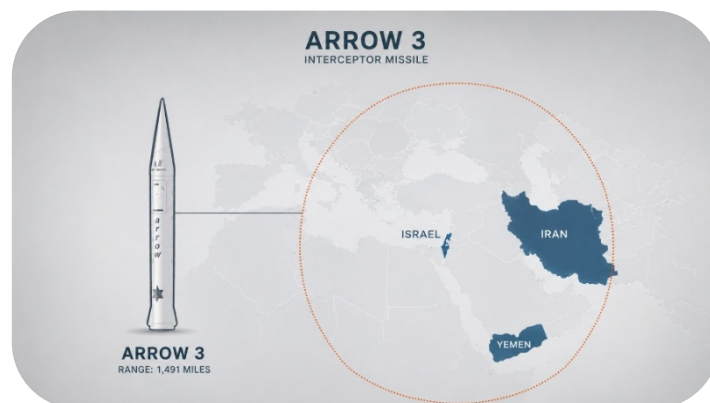
Long Range: Advanced Air Defence

Patriot and the European SAMP/T system provide protection against aircraft, cruise missiles and some ballistic missiles. At this level, the economics become more challenging, with interceptors often costing millions of dollars per round.



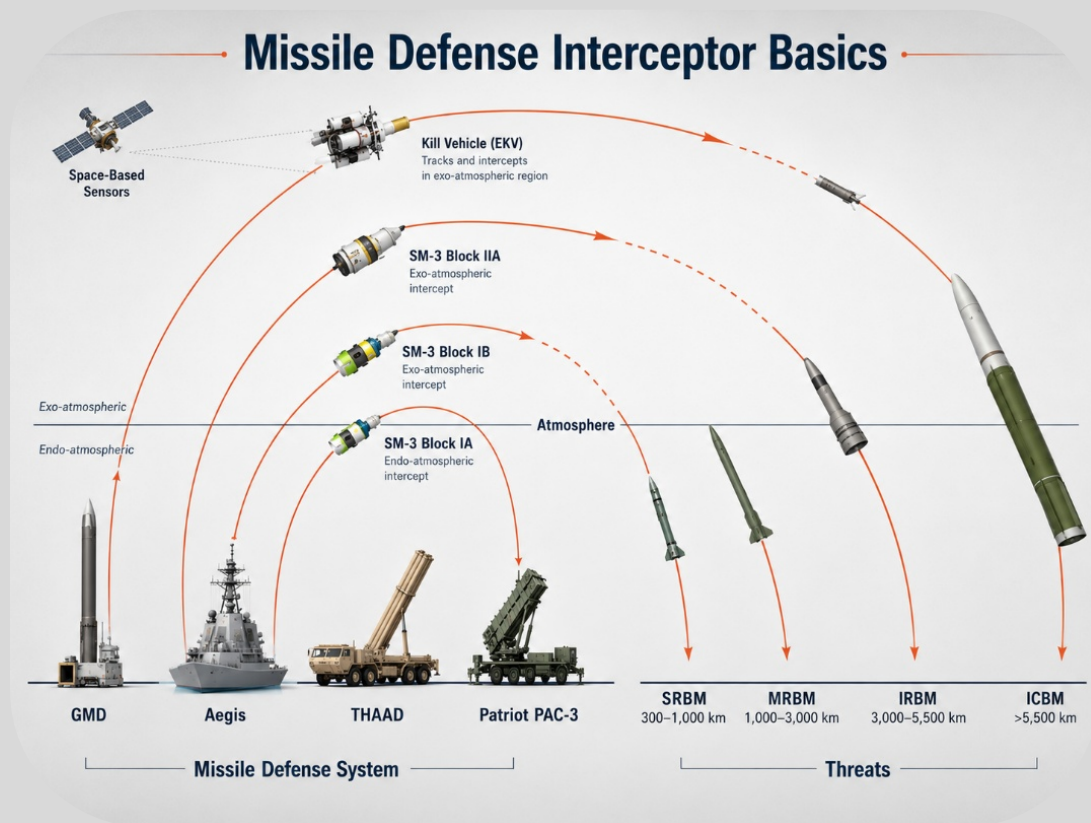
Ballistic Missile Defence

Ballistic missiles travel at extreme speeds and high altitudes, requiring specialised systems. Patriot PAC-3, THAAD and Israel's Arrow family are designed to intercept these threats during different phases of flight.



Strategic Missile Defence

The outermost layer is designed to counter long-range ballistic missiles, sometimes outside the atmosphere. Systems such as Aegis/SM-3 and the US Ground-based Midcourse Defense (GMD) represent the most advanced, complex and costly forms of missile defence.



So, what conclusions can we draw from these layers in modern air defence? We see that the latest conflicts require increasingly sophisticated interceptors, as threats become faster, more difficult to stop. This puts pressure on every layer of the architecture at the same time, exposing a common problem: inventories can be depleted in days. Replenishment can take months, or even years.

For investors, the opportunity lies less in defence spending as a whole and more in the companies that manufacture the most constrained components. Lockheed Martin and RTX are key producers of Patriot, THAAD and SM-3 interceptors. Boeing supplies critical seeker technology for PAC-3 missiles. Northrop Grumman and

Aerojet Rocketdyne provide rocket motors and propulsion systems, while BAE Systems contributes sensors and missile technologies through its stake in MBDA. Mitsubishi Heavy Industries manufactures PAC-3 interceptors under licence in Japan and has already supplied missiles to the United States, highlighting the growing importance of allied production networks.

Company	Why the company is relevant
Lockheed Martin	Direct exposure to PAC-3 MSE, THAAD, JASSM and PrSM.
RTX	Central role in SM-3, SM-6, Tomahawk and several air defence systems.
Boeing	Supplies important seekers for PAC-3, a potential production bottleneck.
BAE Systems	Exposure to sensors, seekers and ownership in MBDA.
L3Harris / Aerojet Rocketdyne	Important in rocket motors and propulsion.
Northrop Grumman	Important in solid rocket motors and advanced missile components.
Mitsubishi Heavy Industries	Manufactures PAC-3 in Japan under licence from Lockheed Martin.
Airbus and Leonardo	Indirect exposure through ownership in MBDA.

To use a USD 10+ million interceptor against a USD 10 000 drone is a losing calculation over any sustained period. This is a central challenge both for defence planners and investors. Sophisticated interceptors: expensive and hard to replace. The threats: cheap and easy to mass produce. This is the cost asymmetry.

The US tried to manage this by deploying lower-cost systems, including the laser-guided APKWS rocket and counter-drone platforms from Anduril and Raytheon, but CSIS concludes that the inventory of low-cost interceptors was insufficient, at times forcing reliance on aircraft and air-to-air missiles that are neither designed nor priced for that role.

Munition	Unit Cost (USD, Millions)	Estimated Prewar Inventory	Estimated Use in the Iran War	Delivery Timeline (Months)
Tomahawk	\$2.6	3,100	1,000+	47
JASSM	\$2.6	4,400	1,100+	48
PrSM	\$1.6	90	40-70	46
SM-3	\$28.7	410	130-250	64
SM-6	\$5.3	1,160	190-370	53
THAAD	\$15.5	360	190-290	53
Patriot	\$3.9	2,330	1,060-1,430	42

Source: CSIS, April 2026

The ceasefire came before inventories ran out. CSIS assessed that the United States had sufficient stocks to continue the conflict in the short term. But rebuilding what was consumed will take years, and the next crisis begins from a lower baseline. That pressure was already visible before the conflict: Patriot stocks had been drawn down by years of support for Ukraine. When the Pentagon opened talks with General Motors, Ford and GE Aerospace about converting civilian manufacturing capacity, it confirmed what the consumption data already suggested. The bottleneck is industrial rather than technological.

We see four paths forward for the US, and all are needed simultaneously.

The first is scaling final assembly at prime contractors such as Lockheed Martin and RTX. Pentagon contracts will triple Patriot production and quadruple THAAD output, but the ramp-up will take years.

The second is fixing the supplier base. Seekers, rocket motors and guidance systems are where the real constraints sit. The entire Western arsenal's supply of high-explosive warhead compounds runs through one facility: the Holston Army Ammunition Plant in Tennessee. Despite acute consumption during the conflict, no new production orders were placed there during the spring.

The third is allied production. Mitsubishi Heavy Industries already manufactures PAC-3 under licence in Japan and has exported interceptors back to the United States. MBDA has raised its investment plan to EUR 5 billion. These production chains are becoming structural, rather than supplementary.

The fourth is matching cost to threat. Using Patriot or THAAD against low-cost drones erodes inventories faster than any production line can compensate.

Cheaper counter-drone systems are needed to reserve the most expensive interceptors for ballistic threats.

Thirty years ago, dozens of missiles defined a campaign. Today, thousands define a week.

Conflict	Volume
Gulf War, 1991	Around 80 Scud-type missiles fired at Israel and Saudi Arabia over one month
Iran direct action, April 2024	Around 170 drones, 30 cruise missiles and 120 ballistic missiles in a single night
Operation Rising Lion, 2025	More than 550 ballistic missiles and more than 1,000 UAVs launched towards Israel
Operation Epic Fury, 2026	More than 150 THAAD interceptors and around 80 SM-3 missiles consumed by the US alone

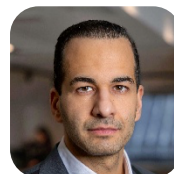
In 1991, air and missile defence was measured in dozens of projectiles over weeks. Today it is measured in hundreds or thousands over days, while the interceptors consumed are among the hardest to replace in the Western arsenal.

For investors, that shift means demand is driven not only by new system procurement, but by recurring consumption at a pace that current production capacity was not designed to meet.

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