Anduril's Fixed-Price Defense Model

Idea In Short

Anduril Industries treats weapons the way a hardware startup treats phones: it funds development privately, ships a finished product and charges a fixed price instead of billing the government for time and materials. That single change inverts the economics of the defense industry, where the traditional cost-plus model rewards contractors for running over budget and over schedule. Anduril's drones, autonomous towers, interceptors and undersea vehicles connect through Lattice, an Artificial Intelligence [AI] platform that fuses sensor data into one command picture and produces the kind of recurring, high-margin revenue usually associated with software companies rather than hardware manufacturers. Investors have priced in the shift. Anduril's valuation climbed from about $1 billion in 2019 to $61 billion in May 2026. The company still depends on a single customer, the US government and is losing money to fund a manufacturing bet that has no precedent in defense.

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A Product Company, Not a Contractor

Most defense companies get paid to attempt a solution, not to deliver one. Anduril Industries, founded in 2017 by Palmer Luckey, Trae Stephens, Brian Schimpf, Matt Grimm and Joe Chen, built its business around the opposite idea: spend its own money on research first, then sell a finished, working system at an agreed price. Luckey has drawn the distinction directly, describing Anduril as a maker of finished products rather than a firm that bills the government for effort.1

> The idea behind Anduril was to build not a defense contractor, but a defense products company

If a system fails during development, Anduril absorbs the cost rather than billing for the attempt. If it works, every efficiency the company finds along the way turns into margin instead of getting negotiated away in a follow-on contract. That incentive, more than any single piece of hardware, separates the company from Lockheed Martin, Boeing and the other long-established prime contractors it competes against.

Cost-Plus Versus Fixed-Price

For decades the largest US defense contractors, often called the Big Five, worked on cost-plus contracts. The government wrote a detailed specification, selected a contractor and paid for labor, materials and a fixed percentage of profit on top. The incentive built into that arrangement runs backward: when margin is calculated as a share of cost, running expensive and slow is good business.

Anduril inverted every part of that equation. It funds research and development (R&D) with its own capital instead of the government's, it gets paid a fixed price for a finished product instead of billing for hours and it keeps the intellectual property [IP] it develops instead of sharing or surrendering it. Anduril also does not wait for a specification. It builds systems the Pentagon has not yet requested, sometimes systems the Pentagon has treated as impractical, then delivers a working unit for evaluation. That approach compresses a sales cycle that traditionally runs five to seven years down to something closer to 12 to 18 months and it lets Anduril set its own roadmap instead of following someone else's.

Lattice and the Software Flywheel

Hardware sales are typically one-time events. A drone sold is a drone sold, with no obvious path to recurring revenue. Anduril's answer is Lattice, an AI operating system that ingests data from every sensor, drone, tower and submarine in the field and fuses it into a single real-time picture, then coordinates autonomous responses across air, land, sea and space. Each new piece of hardware Anduril fields makes the Lattice network more useful and a more useful network raises the cost of a customer ever switching away from it.

> More hardware in the field means more data feeding Lattice and a smarter Lattice makes leaving the network more expensive

On top of that, Anduril runs what it calls phasing as a service. Customers receive continuous capability updates to their existing hardware under ongoing, fixed-price contracts, so equipment does not become obsolete the way a traditional weapons platform does. That is a subscription dynamic wrapped in defense procurement language and it is the reason Anduril can post software-level margins on physical products. The closest comparison is not another defense hardware maker. It resembles Palantir's approach to government software, where a similar enterprise agreement consolidated dozens of Army contracts into one deal worth up to $10 billion.2

Revenue on a Software Curve

Anduril's growth curve looks unusual for a company that sells physical hardware. Annual revenue roughly doubled to about $1 billion in 2024, then doubled again to roughly $2.2 billion in 2025, a jump of more than 100% year over year.3 The company is projecting revenue near $4.3 billion for 2026 as its new Ohio factory ramps production. That trajectory would be notable for a software company. For one that ships submarines and interceptors, it points to the same recurring, high-margin revenue mix a subscription business would report.

Buying the Supply Chain

Anduril's margins come from owning its supply chain, not from assembling other companies' parts. Since 2021 the company has acquired capabilities in small drone technology, autonomous undersea vehicles, solid rocket motors, radar, ruggedized computing and infrared sensors, folding each purchase into the Lattice ecosystem rather than running it as a separate business line. Anduril says close to 90% of its products can be built at scale using commercially available components, a claim that underpins Arsenal-1, its roughly $1 billion, five-million-square-foot factory near Columbus, Ohio, designed to produce tens of thousands of autonomous systems a year.4 The wager is straightforward: competitors are still building prototypes and Anduril is building a factory sized for mass production, a gap that would be difficult for a rival startup to close quickly.

A Valuation That Keeps Climbing

Private investors have rewarded the model with one of the steepest valuation curves in recent memory. Anduril moved from about $1 billion in 2019 to $8.5 billion in 2022, $14 billion in August 2024 and $30.5 billion in mid-2025, before a $5 billion round led by Thrive

Capital and Andreessen Horowitz pushed it to $61 billion in May 2026.5 That climb tracks a broader shift in venture capital, where the largest private valuations increasingly go to capital-intensive, regulation-heavy businesses rather than pure software.

One Customer, One Unproven Bet

Anduril's growth depends almost entirely on one buyer: the US government, plus the allied militaries Washington permits it to sell to. In March 2026 the Army awarded the company an enterprise contract worth up to $20 billion over 10 years, folding more than 120 separate procurement programs into a single vehicle built around Lattice. That figure is a ceiling, not a guarantee. The real revenue depends on individual task orders that may or may not materialize and treating the maximum as booked revenue overstates what the company can actually count on.

The company is also losing money by design. Anduril is reportedly projecting an operating loss near $1.2 billion in 2026 as it pours capital into research and Arsenal-1, a bet that only pays off if hyperscale manufacturing works at a scale no defense startup has attempted before. Even against that backdrop, reports surfaced in late July 2026 that Anduril was already in talks to raise funding at a valuation near $100 billion, more than three times its mark from a year earlier.6 That gap, a company still absorbing large losses against a market willing to price it several multiples higher, is the clearest sign that investors are underwriting near-flawless execution on an unproven factory, serving a single customer whose priorities can shift with the next election cycle.

Key Partners

Anduril's most important partner is the US Department of Defense, followed by allied militaries in Australia, the UK and elsewhere that Washington clears the company to sell to. A network of acquired subsidiaries, including Area-I, Dive Technologies, Adranos and Blue Force Technologies, supplies drone, undersea, propulsion and aircraft technology that feeds directly into Lattice. Commercial component suppliers keep production costs low since Anduril builds most of its hardware from parts already manufactured at scale. Venture investors led by Thrive Capital, Andreessen Horowitz and Founders Fund fund the research and factory buildout that government contracts alone do not cover.

Key Activities

Anduril's central activity is self-funded research and development, building autonomous drones, towers, undersea vehicles and interceptors before a customer commits to buying them. Engineering teams maintain and expand Lattice, the software layer that fuses sensor data and coordinates every fielded system. Manufacturing has become an activity in its own right as Arsenal-1 ramps toward producing tens of thousands of units a year. The company also negotiates large enterprise contracts that consolidate dozens of smaller government procurement programs into single agreements.

Key Resources

Anduril's core resource is the intellectual property behind Lattice and its hardware line, all of which the company owns outright rather than sharing with the government. Arsenal-1, the roughly $1 billion factory near Columbus, Ohio, is becoming a resource in itself, a manufacturing base sized for mass production that rivals cannot easily replicate. Engineering and manufacturing talent pulled from software, aerospace and defense backgrounds keeps development and production moving at commercial speed. Access to large pools of private capital lets Anduril fund research years ahead of any government payment.

Value Propositions

Anduril sells finished, working defense systems at a fixed price instead of billing for research time, shifting delivery risk away from the government and onto itself. Its products reach the field in 12 to 18 months, versus the five to seven years typical of traditional procurement programs. Lattice gives customers a single command-and-control layer that fuses every sensor and platform into one real-time picture. Phasing as a service keeps fielded hardware current through ongoing updates, so equipment does not become obsolete the way legacy weapons systems do.

Customer Relationships

Anduril manages its relationship with the US government through senior program offices and direct engagement with military branches rather than through resellers or intermediaries. Multi-year enterprise agreements, like the Army's $20 billion Lattice contract, replace dozens of smaller transactional relationships with one ongoing account. Allied governments in Australia, the UK and elsewhere maintain separate but similarly direct

relationships, subject to US export approval. Because Lattice becomes embedded in a customer's operations, the relationship deepens over time rather than resetting with each new contract.

Channels

Anduril reaches customers primarily through direct engagement with defense agencies rather than through distributors or resellers. Its build-first sales model, showing up with a working prototype instead of responding to a written specification, functions as its own channel, since a finished demonstration collapses the traditional sales cycle. Enterprise contracts negotiated directly with the Army, Navy and Special Operations Command consolidate what used to be many separate purchase channels. International sales run through allied government defense procurement channels, constrained by US export regulations.

Customer Segments

Anduril's primary customer segment is the US Army, which anchors the company's largest contracts including the $20 billion Lattice enterprise agreement. Other US military branches and Special Operations Command make up a second segment, procuring drones, interceptors and mixed-reality systems suited to their own missions. Allied militaries in Australia, the UK and other US-approved partners form a smaller but growing international segment. US Customs and Border Protection and other homeland security agencies round out the customer base through Anduril's autonomous surveillance towers.

Cost Structure

Anduril's largest cost is self-funded research and development, spent before any contract guarantees payment, a structural difference from cost-plus contractors who bill research straight to the customer. Building Arsenal-1 alone represents close to $1 billion in capital spending, on top of the acquisitions the company has made to bring propulsion, sensors and radar in-house. Engineering, manufacturing and program payroll make up the remaining major cost. Those upfront costs are why Anduril is projecting an operating loss near $1.2 billion in 2026 despite gross margins estimated at 40% to 50%.

Revenue Streams

Firm-fixed-price sales of drones, towers, interceptors and undersea vehicles make up Anduril's primary revenue stream, priced to reflect finished products rather than billable hours. Lattice software, systems integration and phasing-as-a-service updates generate a smaller but higher-margin, recurring stream. Large enterprise contracts, including the Army's $20 billion vehicle and the $22 billion IVAS goggle program, consolidate dozens of individual purchases into predictable multi-year revenue. International sales to allied militaries add a geographically diversified stream within US export limits.

- 1Palmer Luckey On Building A Defense Products Company
- 2Palantir Gets $10 Billion Contract From The Army
- 3Anduril Doubles Valuation As Defense Tech Funding Boom Continues
- 4Anduril Chooses Ohio For $1 Billion Manufacturing Facility
- 5Anduril Doubles Valuation To $61 Billion In Round Led By Thrive And Andreessen
- 6Anduril In Talks To Raise Funding At $100 Billion Valuation

Summary

Anduril's real innovation sits in its incentives, not its hardware. Funding research privately and absorbing the risk of failure aligned the company's interests with the government's and turned a slow, low-margin industry into one that behaves like software. Lattice converts scattered sensors and vehicles into a network that becomes more valuable and harder to replace with every unit added to it. That model has pulled in enough capital to value Anduril near the size of established industrial companies, yet the business still concentrates around one buyer and a factory that has never operated at this scale before. Arsenal-1 in Ohio has to work close to as planned and government budgets can shift faster than a production line gets built. Anduril rewrote how defense contractors get paid. Whether it can manufacture fast enough to justify the valuation is the question the next few years will settle.