Industry Analysis: Defense

Idea In Short

Rearmament has turned a sleepy, budget-capped industry into one of the best-funded sectors in the global economy and the money is flowing unevenly. Munitions makers, sensor and software suppliers and sustainment providers are capturing outsized margin while airframe and shipbuilding primes absorb fixed-price risk on legacy platforms. The decision facing incumbents and entrants alike is where to sit in the value chain: own scarce production capacity in energetics and castings, build software-defined systems that ride existing platforms, or compete for the shrinking pool of new-start programs. Capital should follow capacity-constrained subsystems and autonomy software, not additional prime-level assembly, because government budgets reward speed and volume over integration scale. Boards evaluating entry or expansion should treat security clearance, past performance and manufacturing throughput as the real barriers, not brand.

Governments do not shop for warships, air defense radars or artillery shells the way consumers shop for cars and that basic asymmetry shapes every commercial dynamic in the defense industrial base. Demand originates almost entirely from sovereign budgets, contracts run for years rather than quarters and the customer often dictates not just price but design specifications, sourcing rules and even who is allowed to compete. Understanding this industry means understanding a market where the buyer writes the rules, the supplier base is deliberately kept narrow for security reasons and profitability depends less on classic competitive positioning than on where a company sits relative to the government's own budget priorities in any given year.

Industry at a glance

The defense industrial base encompasses the companies that design, manufacture, integrate and sustain equipment and systems used by military and security forces: land systems such as armored vehicles and artillery, naval platforms and shipbuilding, munitions and precision-guided weapons, command, control, communications, computers, intelligence, surveillance and reconnaissance systems (C4ISR), cybersecurity and electronic

warfare and space and satellite defense infrastructure. Combat and military aircraft programs sit at the boundary of this industry and the broader aerospace sector and this analysis treats them as adjacent rather than core, focusing instead on the land, naval, munitions, C4ISR and cyber segments that define the industrial base's distinct economics.

Customers are overwhelmingly government-to-government or government-to-contractor, making this one of the purest business-to-government (B2G) sectors in the global economy, with a residual business-to-business (B2B) layer where primes buy subsystems from a tiered supplier base. World military expenditure reached 2.718 trillion dollars in 2024, a 9.4% increase over 2023 and the steepest year-on-year rise since the end of the Cold War and European allies alone lifted defense spending by roughly 20% in 2025 relative to the prior year as NATO members moved toward new spending commitments of 3.5% of gross domestic product on core defense by 2035.1 Revenue models vary by contract type: cost-plus contracts reimburse allowable costs plus a negotiated fee and shift risk to the government, fixed-price contracts shift schedule and cost overrun risk to the contractor and firm fixed-price production contracts for munitions and consumables increasingly dominate replenishment spending. Capital intensity is high in shipbuilding, munitions manufacturing and armored vehicle production, where specialized tooling, test ranges and energetics-handling facilities require years to build or expand, while the C4ISR and software segments are comparatively labor- and talent-intensive. Regulatory intensity is unusually severe relative to most B2B sectors:

> security clearance requirements, export control regimes such as the International Traffic in Arms Regulations, foreign ownership restrictions and classified contracting rules together create a compliance burden that itself functions as a structural barrier to entry

Industry segmentation

Land systems cover armored vehicles, artillery, small arms and soldier equipment, a segment historically dominated by a handful of national champions per country and increasingly reshaped by demand for unmanned ground vehicles and loitering munitions. Naval systems include shipbuilding, submarines and maritime sensors, a segment defined by extraordinarily long build cycles, sovereign-only competition in most countries and heavy

dependence on specialized shipyard capacity that cannot be quickly expanded. Munitions and precision weapons span artillery shells, missiles, guided bombs and their propulsion and guidance subsystems, a segment that has moved from an afterthought in defense budgets to a central capacity-investment priority since 2022 because stockpiles were consumed faster than production lines could replace them. C4ISR and cyber cover command and control networks, radar and sensor systems, satellite communications and offensive and defensive cyber capabilities, a segment growing faster than hardware-centric segments because software and data fusion increasingly determine battlefield outcomes as much as platform quality. Sustainment and services, the fifth segment, covers maintenance, repair, overhaul, training and logistics support, which now represents a large and stable share of total lifecycle spending on any fielded system because governments operate equipment for decades after initial purchase. These segments are dimensioned primarily by value chain position and technology type rather than by customer type, since the government customer is common across nearly all of them, though export-eligible commercial and homeland security technology forms a smaller sixth segment sold to non-defense government agencies and allied nations.

Market structure

Porter's Five Forces applied to the defense industrial base reveal an industry where classic competitive intensity is muted by structural barriers, even as new entrants funded by venture capital are beginning to erode long-standing assumptions about how fast a company can move from prototype to fielded system. Buyer power is unusually concentrated because a small number of national governments set both demand and, frequently, price through negotiated or sole-source contracts. Supplier power is rising in categories such as energetics, castings, rare-earth magnets and specialized semiconductors, where capacity did not keep pace with the recent surge in orders. Rivalry among established primes is contained by long-cycle contracts and program-level incumbency, yet new entrants building software-defined and autonomous systems are forcing incumbents to defend market position on cost and speed rather than relationship alone. Entry is barred at the systems-integration level by clearance, capital and past-performance requirements, but is comparatively open in software, sensors and small autonomous platforms. Substitutes are emerging in the form of unmanned and autonomous systems that displace manned platforms for a fraction of the unit cost, changing the economics of entire mission categories.

- Porter's Five Forces analysis of the defense industry

Bargaining power of buyers

National governments function as near-monopsony buyers for most defense products and in many program categories a single defense ministry is the only viable customer in that country, which gives the buyer enormous leverage over price, delivery schedule and even design specifications. Multi-year budget appropriations and defense authorization processes mean that even a government determined to spend more is constrained by legislative timing, which can delay contract awards regardless of underlying urgency. Allied governments purchasing through foreign military sales channels have comparatively less leverage than the domestic buyer because supply security, interoperability with existing fleets and political alignment often outweigh price sensitivity in their procurement decisions. Multi-year procurement contracts and block-buy agreements for munitions and platforms have become more common since 2022, reflecting a shift in buyer behavior toward guaranteeing supplier capacity rather than negotiating the lowest unit price on each annual order, which paradoxically reduces buyer leverage in exchange for supply assurance. Export-controlled technology further limits which buyers can access which products, meaning that even a well-funded foreign government may simply be ineligible to purchase the most advanced systems regardless of its willingness to pay.

Buyer type	Primary leverage	Constraint on that leverage
Domestic ministry of defense	Sets specification, price ceiling and contract type	Legislative budget cycles and continuing resolutions delay awards
Allied government (foreign military sales)	Chooses among approved suppliers	Export licensing and interoperability requirements narrow choice
Multinational procurement consortium	Pools volume for better unit pricing	Requires political consensus across member states
Homeland security and intelligence agencies	Smaller but faster-cycle purchasing	Budget lines are a fraction of core military spending

Bargaining power of buyers

Bargaining power of suppliers

Suppliers of specialized inputs such as solid rocket motor propellant, energetic materials, precision castings and certain rare-earth-dependent components hold significant leverage because production capacity for these inputs is limited to a small number of qualified

facilities worldwide, many of which are themselves the property of a prime contractor. The semiconductor shortage that constrained multiple industries in the early 2020s exposed how dependent defense electronics are on the same commercial chip supply chains used by consumer technology, giving chip suppliers outsized influence over platform delivery schedules. Sole-source subcontractors, often the only qualified supplier of a legacy component for a decades-old platform still in service, can command premium pricing because requalifying an alternative supplier for a classified or safety-critical part is slow and expensive. Raw material suppliers of titanium, specialty steel and rare-earth magnets have gained leverage as demand from electric vehicles and consumer electronics competes with defense demand for the same constrained inputs. Labor itself functions as a scarce supplier input in this industry, since welders, machinists and cleared engineers with the specific certifications required for munitions or shipbuilding work are in short supply relative to the recent surge in order volume.

Supplier category	Source of leverage	Trend
Energetics and propellant producers	Few qualified facilities globally	Capacity investment underway but multi-year lead time
Precision castings and forgings	Long qualification cycles for alternates	Backlogs extending delivery times across platforms
Rare-earth and specialty metals	Competing demand from civilian sectors	Governments building strategic stockpiles and alternate sourcing
Cleared skilled labor	Limited pool of certified, cleared workers	Wage inflation in shipyards and munitions plants
Commercial semiconductor supply	Defense volumes are small relative to consumer demand	Dedicated trusted foundry programs emerging

Bargaining power of suppliers

Rivalry among existing competitors

Direct price competition among established primes is muted on most large platform programs because a company that wins the initial development contract typically becomes the sole source for production and decades of subsequent sustainment work, insulating it from further competitive pressure for the life of that program. Competition instead concentrates at the point of new program starts and periodic recompetitions, where the stakes are unusually high because losing a major down-select can mean the effective exit of

a business line for a generation. The emergence of venture-funded challengers has changed the character of rivalry in select categories: one autonomous systems company beat established aircraft manufacturers for a major Air Force program by offering a lower-cost, faster-to-field design, a result that would have been unthinkable a decade earlier.2 Consolidation among mid-tier suppliers continues as primes and private equity firms acquire specialized subsystem makers to secure supply and capture margin further down the value chain. Rivalry is also increasingly international, as European and Asian governments favor domestic suppliers for strategic autonomy reasons, segmenting what might otherwise be a more globally competitive market into regional blocs with limited cross-border rivalry.

> The rise of venture-backed neoprimes is not simply new entrants copying old playbooks, it is a genuine change in how fast a system can move from design to fielded capability

Competitive dimension	Established primes	Emerging challengers
Contract type preference	Cost-plus development, sole-source production	Fixed-price, commercial-style delivery
Development cycle	Often a decade or more	Frequently under three years
Capital source	Government funding and public equity	Private venture capital ahead of contract award
Competitive moat	Program incumbency and clearance depth	Speed, software architecture and lower unit cost

Rivalry among existing competitors

Threat of new entrants

Entry at the level of prime systems integration is effectively closed to companies without existing security clearances, a demonstrated past-performance record and the balance sheet to bond multi-year, capital-intensive programs, which explains why the list of true prime contractors has remained largely stable for decades. Venture capital investment in defense technology grew from under a billion dollars annually in 2018 to more than 15 billion dollars in 2025, funding a wave of entrants that bypass the traditional cost-plus development model entirely by building working products with private capital before seeking a government contract.3 This financing model has proven especially effective in autonomous systems, software and sensor categories, where hardware iteration cycles are short and the barrier is technical credibility rather than decades of program history. Export

control law adds a further entry barrier that has no equivalent in most commercial industries, since a company must obtain government registration and clearance simply to legally develop or discuss many defense technologies, well before it can compete for a contract. Munitions manufacturing presents a distinct entry opportunity because government capacity investment is actively seeking new qualified suppliers to expand a production base that proved too narrow during recent conflicts, creating openings for entrants willing to build energetics-handling facilities under close regulatory supervision.

Entry barrier	Segment where it binds hardest	Segment where it is more permeable
Security clearance and past performance	Prime systems integration	Unclassified software and commercial dual-use tools
Capital intensity	Shipbuilding and armored vehicle assembly	Sensor and autonomy startups
Export control registration	Advanced munitions and missile guidance	Homeland security and training services
Government capacity-expansion programs	N/A, this factor lowers the barrier	Munitions and energetics manufacturing

Threat of new entrants

Threat of substitutes

Unmanned and autonomous systems substitute for manned platforms across land, sea, air and undersea missions at a fraction of the acquisition and lifecycle cost and this substitution threat is the most consequential structural shift facing incumbent platform manufacturers today. Software-defined and networked sensor systems increasingly substitute for exquisite, single-purpose hardware by allowing a government to achieve a mission outcome through fused data from multiple cheaper platforms rather than one exceptionally capable and exceptionally expensive one. Commercial satellite constellations built for communications and imaging purposes now substitute for purpose-built military space assets in several intelligence and communications missions, changing the calculus of what a government needs to own outright versus what it can lease as a service. Cyber and electronic warfare capabilities substitute for kinetic force in some mission sets, allowing a government to achieve deterrence or disruption objectives without procuring additional physical platforms at all. Private commercial logistics and satellite launch providers have similarly begun substituting for government-owned sustainment and launch infrastructure, a trend that shifts spending away from traditional platform sustainment budgets and toward

service contracts with commercial space companies.

Substitute category	What it displaces	Adoption stage
Autonomous and unmanned systems	Manned combat and reconnaissance platforms	Accelerating, multiple programs of record
Commercial satellite constellations	Purpose-built military communications and imaging assets	Growing, hybrid government-commercial models
Cyber and electronic warfare	Kinetic strike and physical deterrence in some scenarios	Established, expanding scope
Commercial launch and logistics services	Government-owned launch and sustainment infrastructure	Mainstream for space, growing for terrestrial logistics

Threat of substitutes

Value chain and profit pools

The defense value chain begins with raw material and specialized input suppliers, including metals, energetics, semiconductors and optics manufacturers, who provide inputs that must meet exacting military specifications and, in many cases, domestic sourcing requirements tied to national security law. Research and development follows, often funded directly by government science and technology budgets rather than corporate research spending, which distinguishes this industry from most others where companies self-fund innovation and only later sell to government. Production and manufacturing form the next stage, spanning everything from artillery shell forging to shipyard hull assembly to software development for mission systems and this is where fixed-price contract risk is most concentrated because schedule delays and cost overruns fall disproportionately on the contractor once a firm price has been agreed. Systems integration follows, where a prime contractor assembles subsystems from a tiered supplier base into a complete platform and assumes contractual responsibility to the government customer for the performance of the whole system. Testing and qualification is a distinct and lengthy stage unique to this industry, since military systems must pass extensive government-run trials before fielding, a process that can add years to a program timeline beyond the manufacturing schedule itself. Distribution and fielding differ from commercial logistics because delivery often means transferring a classified or export-controlled asset directly into a government's operational chain of custody rather than a conventional retail or wholesale channel. Sustainment and lifecycle support closes the chain and because military platforms remain in service for

twenty to forty years, this final stage frequently generates more cumulative revenue over a platform's life than its original acquisition contract.

Profit pool

Margin has migrated markedly away from initial platform development and toward munitions production, precision subsystems and sustainment services over the past two program cycles. Development contracts, particularly fixed-price development programs that primes accepted during a period of intense cost-competition in the 2010s, have in several cases produced losses or thin margins as engineering complexity exceeded original estimates, a lesson that has made primes considerably more cautious about accepting fixed-price terms on unproven technology. Munitions manufacturing, by contrast, benefits from more predictable unit economics once a production line is qualified, multi-year block-buy contracts that guarantee volume and government urgency to rebuild stockpiles that has translated into strong pricing power for qualified suppliers.4 Sustainment and aftermarket services carry structurally higher margins than original equipment sales in most platform categories because the government has no realistic alternative supplier once a system is fielded and the contractor holds the technical data and spare parts pipeline needed to keep it operational. Software and data fusion businesses, particularly those selling government-wide platforms for intelligence analysis and mission planning, have captured a growing share of profit pool attention from investors because their marginal cost of scaling to additional users is far lower than hardware production, even though their absolute revenue remains smaller than platform manufacturing. This reallocation of profit pool has meaningfully reshaped how primes structure new business, pushing them to bid aggressively for the production and sustainment phases of programs even when development-phase economics are unattractive.

Industry economics and business models

Three business models dominate this industry and most large companies operate several simultaneously across different business units. The traditional cost-plus development model, still used for the most technically uncertain new-start programs, reimburses the contractor's allowable costs and adds a negotiated fee, shifting technical risk to the government in exchange for tighter government insight into cost and schedule. The fixed-price production and munitions model, now the dominant structure for mature systems and consumable ordnance, requires the contractor to deliver at an agreed unit price regardless

of actual cost, which rewards manufacturing efficiency and punishes underestimation and which has become the government's preferred contract type as it seeks to control long-run budget exposure. The commercial-style, product-first model pioneered by venture-funded entrants inverts the traditional sequence entirely: the company designs, builds and tests a product using private capital before a government contract exists, then sells that finished or near-finished product competitively, compressing a development cycle that might traditionally take a decade into a few years and shifting technical risk away from the taxpayer and onto private investors. A fourth pattern, platform-as-a-service software and data subscriptions sold across multiple government agencies, is smaller in absolute revenue but growing quickly because it mirrors commercial enterprise software economics, with high gross margin and low marginal cost of adding new government customers once the core platform is built.

Cost drivers and scalability

Fixed costs dominate the cost structure of shipbuilding, munitions manufacturing and armored vehicle assembly, where specialized facilities, test ranges and tooling must be built or expanded years ahead of expected order volume and then depreciated across whatever production run the government ultimately funds. This creates a strong economies-of-scale dynamic: a shipyard or munitions plant operating near full capacity utilization achieves dramatically better unit economics than one running at partial capacity, which is why governments have moved toward multi-year block-buy contracts specifically to give manufacturers the order visibility needed to invest in capacity expansion. Labor costs are a significant variable component in these same segments and the shortage of cleared, certified welders, machinists and engineers has become a binding constraint on how quickly production can actually scale even when capital and contracts are available. Software and C4ISR businesses show a fundamentally different cost structure, with the bulk of cost concentrated in cleared engineering talent rather than physical capital and with marginal cost of deploying an existing software platform to an additional government customer or use case considerably lower than the cost of the initial development. Economies of scope also matter in this industry:

> a company with clearance infrastructure, compliance systems and an existing government relationship can extend into adjacent product categories at lower incremental cost than a company building that infrastructure from scratch, which partly explains why successful defense technology entrants tend to expand their

product lines quickly once they win an initial contract rather than staying narrowly focused

Moats, advantages and strategic levers

Security clearance and facility accreditation function as one of the strongest and least commercially familiar moats in this industry, since a company cannot simply hire its way into eligibility to work on classified programs and building that infrastructure from nothing typically takes years. Regulatory and export control compliance forms a related moat, since a demonstrated track record of properly handling export-controlled technical data becomes a prerequisite the government weighs heavily when awarding new work, effectively rewarding incumbency. Scarce manufacturing capacity in constrained inputs such as energetics and precision castings creates a straightforward capacity-based moat, because a competitor cannot simply add production volume without years of facility investment and regulatory qualification. Switching costs are unusually high once a platform is fielded, because the government has typically paid the original contractor for the technical data package and sustainment infrastructure specific to that platform, making a mid-life switch to an alternate supplier both expensive and operationally risky. Data and learning advantages are emerging as a newer form of moat in the software and autonomy segments, where companies that have accumulated large volumes of real-world operational data from fielded systems can iterate their algorithms faster than a competitor starting from synthetic or limited test data. Brand and relationship capital with procurement officials still matters at the margin, but it has proven less durable than these structural moats, as demonstrated by challengers winning competitive programs against far larger incumbents purely on technical merit and cost.

Strategic levers

A company entering or expanding within this industry can pursue several distinct levers and the choice among them should be dictated by where the company's core capability actually sits rather than by industry prestige. Focusing on a specific customer segment, such as a single military branch or a particular allied government, allows a smaller company to build deep relationship and compliance infrastructure without the overhead of serving every possible buyer simultaneously. Narrowing product scope to a specific subsystem or

capability category, rather than attempting full platform integration, lowers capital requirements and allows a company to sell into multiple primes and programs simultaneously, diversifying revenue away from dependence on any single program's fate. Vertical integration into constrained inputs, such as a systems company acquiring a castings or energetics supplier, secures capacity and captures additional margin, though it requires capital commitment well ahead of confirmed demand. Geographic expansion into allied markets offers meaningful upside given the sustained increase in European and Indo-Pacific defense budgets, but it requires navigating a second country's export control, industrial offset and local content requirements, which can be as demanding as the original domestic barriers. Ecosystem orchestration, building a software platform that other suppliers plug into and that the government adopts as a standard, offers the highest potential margin and stickiness but requires unusual credibility with the government customer to be trusted as the neutral integration layer rather than just another vendor competing for the same work.

Structural risks, regulation and trends

The most significant structural risk facing this industry is budget concentration risk, since a change in government leadership, a shift in threat perception, or a sovereign debt constraint can alter demand for an entire product category within a single fiscal year and companies with a narrow customer base are disproportionately exposed. Technology disruption risk is acute for manufacturers of manned, exquisite platforms, as autonomy and software-defined systems demonstrate that a government can often achieve a comparable mission outcome at a fraction of the cost and development time. Supply chain and geopolitical risk compounds this picture, since many of the raw material and component inputs the industry depends on, particularly rare-earth elements and certain electronics, are sourced from a small number of countries whose political relationship with the buying government can change abruptly. Regulatory risk cuts in two directions: export control and foreign ownership rules protect domestic incumbents from foreign competition, but the same rules can trap a company out of lucrative allied markets if political relationships shift and evolving rules on the use of artificial intelligence in weapons systems introduce compliance uncertainty that did not exist a decade ago. The dominant secular trend shaping demand is the sustained increase in government defense budgets since 2022, driven by conflict in Europe, tension in the Indo-Pacific and a broad reassessment of stockpile adequacy across most allied militaries, a trend that shows no clear sign of reversing given multi-year budget commitments already enacted.5 A parallel trend is the entry of commercially financed technology companies into a market that was previously closed to anyone without decades

of government relationship history and this shift is forcing incumbent primes to accelerate their own development cycles and rethink how much technology they build internally versus acquire from a faster-moving supplier base.

For a company considering entry, the most durable strategy is to compete in a specific, capacity-constrained niche rather than attempting to challenge an incumbent prime head-on for full systems integration, since niches such as munitions components, autonomy software and sensor fusion offer faster paths to a first contract and lower capital requirements. Partnering with an established prime as a subcontractor is often the fastest route to a first classified program and past-performance record, though it caps upside relative to competing directly for prime contractor status once a company has built sufficient credibility. Building a regulatory strategy early, including the clearance and export control infrastructure a company will eventually need, saves years later in the process and should not be treated as an afterthought once a contract is already in hand. For incumbent primes, the defensible strategy is to deepen the moats that are genuinely structural, namely manufacturing capacity, sustainment relationships and classified program depth, while acquiring or partnering with faster-moving software and autonomy companies rather than attempting to out-innovate them internally on comparable timelines. Expansion into adjacent capacity-constrained segments, particularly munitions and critical subsystems where government capacity-investment dollars are actively seeking qualified suppliers, offers primes a growth path that plays to their existing manufacturing and compliance infrastructure rather than competing against nimbler entrants on software development speed.

Caselet: Anduril Industries and the neoprime challenge

Anduril Industries was founded in 2017 by Palmer Luckey, the creator of the Oculus virtual reality headset, alongside a group of co-founders drawn from Palantir Technologies and other technology companies, with the explicit goal of applying Silicon Valley product development practices to a defense industry it viewed as slow and risk-averse. Rather than pursuing a government research and development contract as a starting point, the company built its first products, including autonomous sentry towers and surveillance systems, using private venture capital, then sold finished systems to government customers on a commercial basis. This sequencing inverted the traditional defense acquisition model, where a government typically funds years of cost-plus development before a product exists and it allowed Anduril to field working systems on a timeline measured in months rather than

years.

The company's most consequential commercial validation came when it beat Boeing, Lockheed Martin and Northrop Grumman for the Air Force's Collaborative Combat Aircraft program, an autonomous fighter drone initiative, a result that demonstrated a venture-backed entrant with no historical prime contractor status could out-compete three of the industry's most established names on a major new-start program.6 The company has since expanded well beyond its original surveillance products into munitions, underwater autonomous vehicles, electronic warfare and a software platform called Lattice that fuses sensor data across multiple systems, illustrating the economies-of-scope logic that favors expansion once a company has built clearance infrastructure and government trust. Anduril's valuation reached 61 billion dollars in its most recent private funding round, with reports of an upcoming raise expected to value the company near 100 billion dollars, a figure that already exceeds the public market capitalization of Northrop Grumman, a company with roots stretching back nearly a century.7

The company's operating model illustrates several of the structural dynamics described throughout this analysis. Its reliance on private capital for initial product development shifted technical and schedule risk away from the government and onto its venture investors, a trade governments have increasingly welcomed given the poor track record of some cost-plus development programs on cost and schedule discipline. Its acquisition of smaller specialized suppliers, including a solid rocket motor manufacturer and an unmanned underwater vehicle company, mirrors the vertical integration strategy available to any company seeking to secure capacity in constrained inputs rather than depend entirely on external suppliers. Its software platform strategy, selling a common data fusion layer that other government systems can plug into, represents an attempt at the ecosystem orchestration lever described earlier, positioning the company as connective infrastructure across multiple weapons systems rather than merely another single-product vendor.

Anduril's rise does not signal the end of the traditional prime, since the company still depends on the same clearance infrastructure, government relationships and export control compliance that protect incumbents and it has not yet demonstrated the ability to execute a multi-decade shipbuilding or armored vehicle program at the scale of its established competitors. What it demonstrates instead is that the industry's entry barriers, while real, are permeable to a well-capitalized challenger willing to invest years and billions of private dollars before winning a first major contract and that government buyers are increasingly

willing to reward speed and cost discipline over historical relationship depth when a credible new entrant proves it can deliver.

Boards and investors evaluating this industry should treat Anduril less as an anomaly and more as a template:

> the durable moats in defense remain clearance, capacity and compliance, but the assumption that only companies with fifty years of program history can clear those moats no longer holds and capital allocation decisions across the sector are adjusting accordingly

- 1Nato defense spending tracker
- 2Silicon valley defense tech startups challenge legacy giants
- 3Vc investment in defense tech growth
- 4Raytheon adjusted operating profit patriot naval munitions
- 5World military expenditure record increase
- 6Anduril beat Boeing Lockheed Northrop Air Force program
- 7Anduril valuation exceeds Northrop Grumman market cap

Summary

The defense industrial base supplies the equipment, munitions and digital infrastructure that sovereign governments require to project and defend power, funded almost entirely by public budgets that have expanded sharply since 2022. Margin has migrated from platform assembly toward munitions, subsystems, sustainment and software, where capacity constraints and switching costs are strongest. The primes retain scale advantages in systems integration and security clearance, but venture-funded entrants are proving that software-defined, low-unit-cost systems can win competitive programs against decades-old incumbents. The strategic lever that matters most going forward is capacity: whoever can manufacture munitions, sensors and autonomous systems at volume, under classification and on fixed-price terms will capture a growing share of a budget cycle that shows no sign of reversing before the early 2030s.