Warfare Reinvented: Navigating the Next Wave of Defense Technology Investment





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Last year, we founded Center15
Capital upon the belief that we were in the first inning of a generational opportunity to invest in private companies making critical technology for national security. Twelve months later, we are revisiting our thesis. The geopolitical situation has changed dramatically, and so has the underlying interest in defense technology.

Our initial belief in the opportunity for outsized investment returns in this sector rested on five key pillars:

- 1. Global spending on national security continues to grow in a dramatic fashion.
- 2. There is a profound shift in worldwide spending towards new domains of defense.
- 3. Capital inflows are outpacing the sector's market capitalization.
- 4. The IPO market is poised to reopen.
- 5. There is a renewed sense of urgency to rapidly get the best technology into the hands of the warfighter.

We will discuss each of these tenets and other insights in detail. The bottom line is that we have increased conviction on the thesis for investing in private companies making critical technology for national security. That said, company selection is getting more difficult, as investment dollars into the sector are increasing and driving up valuations in many early-stage companies with unproven technologies and business models.





With Instability on the Rise, Global Spending on National Security Continues to Grow Dramatically

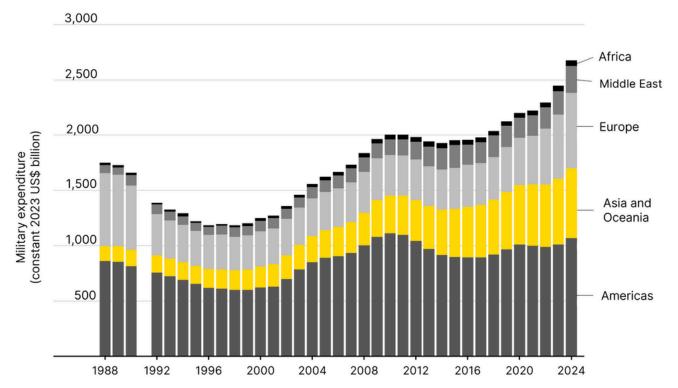
Globally, state-based military conflicts and intrastate wars were on the rise, with some conflicts having little to no path to resolution. In the last twelve months:

- 1. The war in Ukraine intensified, with increased deep attacks by both sides, while also becoming a slower, more grinding, defense-dominated fight along Ukraine's eastern front.
- 2. Israel and, to a lesser extent, the United States, exchanged fire with Iran and its proxies in Iraq, Syria, Lebanon, Yemen, Gaza, and Iran itself.
- 3. Nuclear powers Pakistan and India exchanged cruise missiles, ballistic missiles, and drone attacks in a short but fevered flare-up that also included ground combat in Kashmir.

- 4. Drones, jets, cannons, and riflemen saw action along the Cambodia-Thailand border in the most recent conflagration of a hundred-year-old dispute between the two ASEAN member states.
- 5. China's provocations against
 Taiwan were unabated. Though
 faltering, China's strategy of
 intimidation and coercion in the
 South China Sea also continued.
- 6. Rwandan proxy M23 seized control of territory in the Democratic Republic of Congo, while Sudan's civil war violence, with proxies supported by fourteen countries, spilled over borders into the Central African Republic and Chad.
- 7. With supporters Russia and Iran bogged down elsewhere, Bashar al-Assad's regime in Syria fell within two weeks to former al-Qaeda affiliate Hayat Tahrir al-Sham, beginning an uncertain future in the troubled Levantine state.



World Military Expenditure by Region, 1988-2024



Source: SIPRI Fact Sheet, April 2025

Turmoil breeds uncertainty and fear. This unsettling reality has driven the largest year-on-year increase in global military expenditure since 1988. The world spent \$2.7T in 2024 on defense, a 9.4% increase from 2023, accounting for 2.5% of global GDP. Eighteen of 32 NATO members spent at least 2% of GDP on defense in 2024, altogether totaling \$1.5T, with the US accounting for \$997B. At the 2025 NATO Summit in the Hague, the member nations committed to increase defense spending to 5% of GDP on defense by 2035.

In brief, the last twelve months in defense spending are not anomalous. The European contribution to NATO defense spending is expected to grow from \$400B to \$800B over the next five years. US allies in Asia and Oceania are just starting to upgrade materially as they witness burgeoning Chinese military spending coupled with aggressive expansionist posturing. Western-allied states in the Middle East are also expected to up defense spending as they rely less on a stabilizing US forward presence. Declining stability points to increased spending for some time to come. Center15 continues to believe we are in the early innings of a generational opportunity to invest in defense technology.



There is a Profound Shift in Defense Spending Towards New Technologies

A Revolution in Military Affairs

The combination of military robotics and cyber capabilities is increasingly viewed as a revolution in military affairs. Daily, military strategists the world over are witnessing the evolution of modern conflict.

The undeniable effectiveness of low-cost unmanned systems against large legacy platforms in Ukraine and Nagorno-Karabagh, or simply the widespread use of these systems alongside and in support of traditional firepower like artillery, has demanded that military planners consider the necessary operational and tactical changes to survive and win on the modern battlefield.

The implications extend all the way to the Pacific, where low-cost surface and subsurface drones could very well deny access to large maritime areas for once intrepid and seemingly invincible capital ships.





Guns, Viruses, and Steel

With the Global War on Terror concluded, the US military is undergoing an abrupt pivot to man, train, and equip for the next war. That next war has been imagined as something comprised of large-scale conventional operations, possibly against the conventional formations of a near peer adversary. For the land-based fight, this has resulted in regular ground formations scrambling to update everything from night vision capabilities to the combat rifle and sidearm of the everyday infantryman. Likewise, special operations forces (SOF) have deemphasized their abilities to act as independent direct-action forces to envision an integrated deterrence role, in which they provide the unique proximal physical access necessary for the success of a SOF-Space-Cyber Triad. In deterrence, this triad works together to hold enemy critical capabilities at risk. In war, SOF must be prepared to operate in denied or sensitive areas to disrupt, degrade, or destroy adversary systems and enable larger joint force operations. The shift in priorities is clear if you follow the dollars. The proposed FY26 budget for defense spending includes \$15B for cybersecurity and a 30% increase to \$40B in the budget for Space Force.

The Department of Defense is treating software as a strategic asset, shifting away from traditional hardware dominance. Industry-built software is now a vital component across all domains of defense, and we have seen the critical value of true autonomous systems. Al implementation and cloud modernization are at the forefront of this shift, with procurement reform as a top priority for the DoD. The Software Acquisition Pathway was created in 2020 to accelerate adoption from the private sector, and on March 6, 2025, Defense Secretary Pete Hegseth issued a memo with the subject of Directing Modern Software Acquisition to Maximize Lethality. Hegseth stated, "Software is at the core of every weapon and supporting system we field to remain the strongest, most lethal fighting force in the world." The recognized importance for protecting the homeland has also been pushed to the forefront of US national security priorities through the passing of the One Big Beautiful Bill. Of the \$150B defense injection, \$25B will be allocated towards a layered land and space-based missile shield, the Golden Dome, and \$16B for fully unmanned systems. New programs have since been signed into order, building upon initiatives such as Replicator and Collaborative Combat Aircraft.



Unleashing US Military Drone Dominance

On June 6th, President Trump issued Executive Order 1407 to "support the American drone industry and arm our warfighters." The DoD subsequently released a memorandum detailing its plan. The Secretary of Defense stated, "I am rescinding restrictive policies that hindered production and limited access to these vital technologies, unleashing the combined potential of American manufacturing and warfighter ingenuity." The initiative prioritizes leveraging the private sector to source low-cost, American-made drones and train the warfighter on the use of these drones. Currently, US manufacturing capabilities are not equipped to create the drones we would need if we were in direct conflict with China or Russia.

Hegseth continued, "Our adversaries collectively produce millions of cheap drones each year. While global military drone production skyrocketed over the last three years... US units are not outfitted with the lethal small drones the modern battlefield requires." Again, the FY26 budget proposal tells the story. For the first time, the budget has a dedicated line for autonomy and Al systems. A total of \$13.4B is earmarked for unmanned and remotely operated aerial vehicles (\$9.4B), autonomous ground vehicles (\$210M), maritime autonomous systems (\$1.7B), underwater capabilities (\$734M), and supporting software and crossdomain integration (\$1.2B).



Capital Inflows Are Outpacing the Sector's Market Capitalization

Private market investors have continued to pour capital into startups producing critical tech, including artificial intelligence, satellite imagery, space tech, cybersecurity, and autonomous robotics. The defense tech vertical saw companies raise \$19.1B in Q2 2025 alone, a 203.7% increase over Q2 2024. YTD funding is \$28.4B across 361 deals, putting the sector on pace to surpass the 804 deals and \$37.9B raised in 2024. Across the trailing 12 months, the sector raised \$54.8B across 769 deals, making up 7.9% of total VC funding.

Aerospace & defense tech is witnessing a swell of VC interest across the US:



Source: Pitchbook, Geography: Global

A rapid influx of new entrants into a market defined by high barriers to entry presents a twofold dynamic. On the one hand, more startups now have access to the capital required to push through the so-called valley of death, the critical phase where companies often struggle to survive long DoD sales cycles. This capital infusion increases the likelihood that new technologies will reach the warfighter, with well-capitalized startups more likely to achieve escape velocity and deliver on their mission. On the other hand, heightened investor interest is driving early-stage valuations upward, introducing inflationary pressure that can become disconnected from fundamentals.



Public market investors have flocked to defense stocks this year, driving up the market capitalizations of both incumbent defense contractors and autonomous systems providers.

Defense technology companies such as AeroVironment (AVAV, +70.6%), Kratos Defense (KTOS, +110.1%), and Palantir (PLTR, +97.1%) have all seen sharp increases in market capitalization. AeroVironment's investor confidence has been driven by demand for Al-enabled unmanned systems and expanding government contracts.

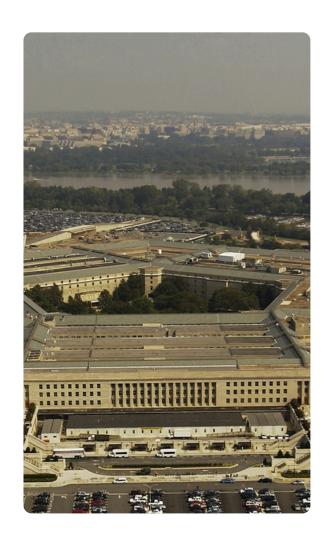
Kratos has benefited from Pentagon investment in autonomous drone swarms, while Palantir continues to grow its role as a software backbone for defense AI, with government revenue climbing nearly 40% Y/Y.

Software is at the core of every weapon and supporting system we field to remain the strongest, most lethal fighting force in the world.

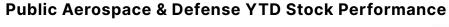
-Secretary Hegseth

Simultaneously, defense incumbents such as RTX (RTX, +28.9%) Boeing (BA, +29.1%), and GE Aerospace (GE, +55.3%) have delivered solid gains amid rising global defense budgets and a broader shift toward next-generation capabilities like collaborative combat aircraft and hypersonics.

This dual-track investor enthusiasm reflects confidence in both the disruptive growth potential of new defense technologies and the durable cash flows of established primes.









Source: Public market data sourced via Pitchbook

Defense contractors like RTX and Boeing continue to be active in the venture ecosystem. More recently, beyond just making bets on startups through their corporate venture arms, traditional defense primes are proactively partnering with agile tech startups to integrate autonomy, Al, and advanced sensing into next-generation systems. By doing so, they aim to accelerate innovation pathways and maintain competitive parity in a rapidly evolving security landscape.

These strategic crossovers help primes accelerate modernization while helping startups scale into government programs.

Historically, mergers and acquisitions in the aerospace and defense industry have closed at lower revenue and EBITDA multiples compared to the broader technology sector. This is due to the longer sales cycles and lower margin profiles of traditional defense businesses.



However, this dynamic is beginning to shift. As a new generation of Silicon Valley defense startups matures, many of which, while still operating with compressed margins, bring with them differentiated technologies in AI, autonomy, and software-defined warfare that incumbents cannot easily replicate in-house.

As these startups gain traction, their valuations are increasingly justified by strategic value rather than profitability alone. This has the potential to pressure legacy defense primes to reconsider historical valuation thresholds and prepare to pay higher multiples to secure next-generation capabilities, prevent tech lock-out, and maintain long-term competitiveness.

Importantly, for private defense tech companies, median pre-money valuations have nearly doubled in 2025 to \$115M from \$61M in 2024, whilst median deal sizes have doubled year over year from \$10M to \$20M.

This dynamic reinforces
Center15's conviction in focusing
on growth-stage opportunities,
where traction is clearer,
execution risk is reduced, and
valuation discipline can still be
applied.







The IPO Market is Poised to Reopen

After nearly three years of a dormant IPO market, companies have once again begun tapping the public capital markets.

The first half of 2025 saw numerous technology businesses list to a positive reception. In total, 168 IPOs entered the market in 1H25, up from 94 in the first half of 2024 and 75 in 2023. This is the highest number of IPOs in the first half of a year since 2001, excluding the 579 IPOs in 1H21.

High-growth tech businesses were all the buzz of the IPO market in 2021, but that craze was extinguished with the geopolitical unease brought on by the invasion of Ukraine. Investors instead flocked to safety in value stocks and commodities. As the IPO market has heated up, the NASDAQ has regained dominance with twice the IPO value of NYSE listed companies.

Notably, three tech companies, CoreWeave, Circle, and SailPoint all raised over \$1B while tech IPOs were up over 140% in 1H25. It is important to note that many of these IPOs have not experienced their lockup periods expiring (typically 6 months after listing) and YTD returns could fall with insiders selling large blocks of shares.

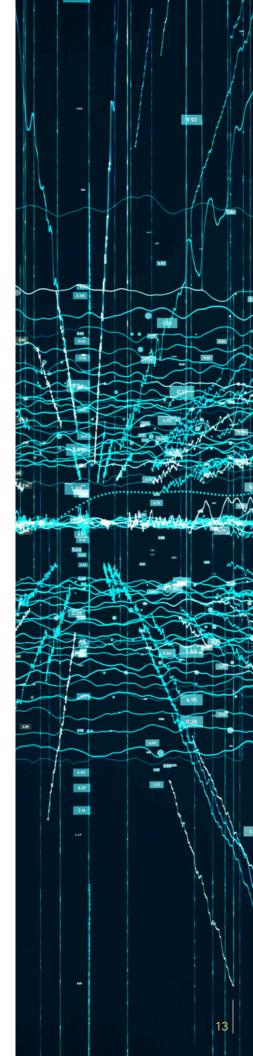
The successful public offerings of Karman Space & Defense, Firefly Space, and Voyager Technologies serve as real-time validation of Center15's thesis that critical technology companies are reaching the escape velocity needed to access public capital markets. Both firms drew strong institutional backing, posted outsized first-day gains, and now trade with multi-billion-dollar valuations, clear signals of investor demand for dual-use technologies operating in openended domains like space.



There is a Renewed Sense of Urgency to Rapidly Get the Best Technology into the Hands of the Warfighter

"China is developing military technologies, capabilities, and procedures at a pace and scale never before seen," said General Ronald Clark, commander of US Army Pacific. Clark described the Indo-Pacific as a "significantly more dangerous and complex security environment," citing China's simulated blockades and missile tests near Taiwan. General Clark stressed the Army's response through multidomain task forces: "We're putting [new capabilities] into the hands of soldiers on the ground who, as you well know, will take it, break it, tell us what we can do to fix it, to ensure that we're getting the best capability into the hands of our teammates, who are forward in our theater, in real time."

The conflict in Ukraine has only accelerated this urgency, proving that software-defined systems, autonomy, and inexpensive but adaptable technologies can yield asymmetric advantage. This includes not only Al and autonomy but also space-based assets, resilient communications, and advanced manufacturing. But Ukraine is not the only crisis driving the urgency. The diffusion of low-cost, unmanned systems technology has put military and security forces throughout the world at risk to the actions of non-state actors.





Last year, three US servicemembers were killed in Jordan by a one-way attack planned and carried out by Kataib Hezbollah. Last month, Columbian dissidents, using cheap off-the-shelf technology, took out a ~\$15mm Blackhawk helicopter and killed 12 police officers. Islamic State West African Province and resistance groups in Myanmar have also successfully employed offensive drone attacks over the last year.

These groups have an evolutionary advantage over government forces, provided by their higher tolerance for experimentation and failure and circumvention of the bureaucratic processes that states use to field new equipment. With Mexican cartels reportedly receiving drone training in Ukraine and having flown sixty thousand drone operations along the US border last year, the proliferation of non-state actors' use of attack drones is perhaps a harbinger that the counter-UAS solution will be found more quickly than a small tactical UAS will be fielded across regular army formations.



Last fall, the Department of Defense published its National Defense Industrial Strategy Implementation Plan, emphasizing the need for long-term focus on munitions, missiles, and submarine production to keep up with pacing threats as well as the importance of onshoring defense-critical production capabilities. This spring, the White House tasked the Secretary of Defense with reforming DoD's antiquated defense acquisition processes.

In April 2025, the Office of Strategic Capital (OSC) announced it had received over 200 applications requesting \$8.9B for its inaugural Domestic Manufacturing Loan Program. The program will provide up to \$984M in loans to support dual-use technologies like cybersecurity and quantum computing. The goals of the program are to strengthen US supply chains critical to national security. This aligns with the OSC's FY25 Investment Strategy focused on securing economic chokepoints, maintaining industrial leadership, and advancing long-term tech development. Funding decisions expected later this year will signal the OSC's direction in defense industrial policy, providing VC funds with a clearer lens on the wants of the Pentagon.



In 2025, the Defense Innovation Unit (DIU) continued expanding its regional presence with three new onramps. DIU added hubs in Kentucky, Minnesota, and Montana to better engage commercial tech communities.

It launched <u>Project G.I.</u>, a \$20M initiative to accelerate the adoption of small to medium-class uncrewed aerial systems by partnering operators with end users throughout development. According to the GAO, the DIU has transitioned approximately 51% of prototypes into production, underscoring progress toward scaling commercial solutions for military use.

Meanwhile. AFWERX (Air Force & Space Force) remains a core enabler of dual-use innovation.

In early 2025, it continued issuing open and topic-specific Small Business Innovation Research (SBIR) solicitations, incubator challenges, and targeted funding rounds in startups to push critical technologies into operational use.

The Army Applications Laboratory (AAL) recently released its 2025 performance report, where Executive Director Casey Perley states their commitment to "getting" the best technology to Army units faster by putting new solutions in the hands of soldiers, either through pilot programs or with units for extended experimentation." AAL transitioned 10 technologies in 2024, up 7% from the year prior and improving the lifetime transition rate of new capabilities to 52%. NATO's innovation fund, DIANA, announced its largest-ever challenge call in June 2025 for solutions to 10 strategic areas, including contested electromagnetic environments and resilient space operations. Innovators were invited to submit proposals by July 11th, 2025, and 70 companies from 20 NATO countries were selected to join the program. Participants gain access to DIANA's robust network spanning 17 accelerator sites and ~180 test facilities enabling mentoring, investor connections, and end-user engagement across the Alliance.

The consensus is clear: this new era will require thoughtful investment in both scale and speed to get the most advanced capabilities into the hands of warfighters before the next crisis arrives.



CONCLUSION: The Opportunity Remains Nascent, but It Is No Longer a Secret

Center15 Capital remains convinced that we still have significant upside to investment returns for private companies building critical technology for national security. The top-down analysis of the developments over the past year strengthened our overall thesis.

While this rising tide is currently lifting all boats, we are concerned about the valuations investors are paying for very early-stage companies with unproven technologies and unclear endmarket fit. We focus on growth-stage companies that are less than three years away from going public.

Going forward, we will have to be a lot more discerning in our company selection, ensuring that valuations still provide significant upside while market fit and existing contracts minimize downside risk.

With this in mind, Center15 believes there are two types of companies that will go public over the next three years.

The first type is a company that sees public currency as an enormous benefit to the underlying business. These companies have the backlog and visibility to forecast earnings, significant growth trajectories ahead with clear paths to margin expansion, and multiple opportunities to increase TAM. These are companies that want to go public.

The second type of companies is comprised of those that are low on cash and are only able to raise funds privately at a significant discount to the last round. They have an investor base that wants liquidity and sees a public exit as the only good option (whether via traditional IPO or SPAC). They are willing to take their chances that retail investors will get excited about the company, irrespective of its underlying prospects. These are companies that need to go public.

We are focused on the companies that fit squarely into the former category.

Contact:

office@center15capital.com



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