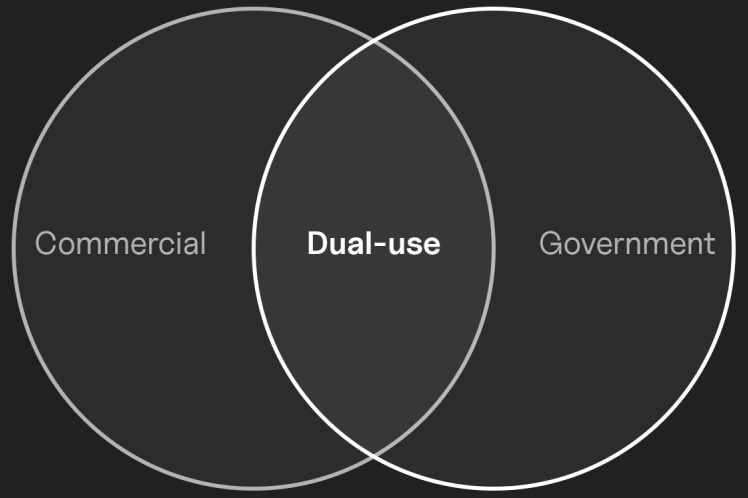
MARKET INSIGHTS

Beyond Pure-Play Defense

The investment case for dual-use technology



NESTPOINT

Private money is running far ahead of federal contracts

Companies on the 2026 NatSec100 list have raised $118.2 billion in private capital, excluding OpenAI, against $16 billion in federal obligations.

Commercial revenue is how a platform funds the climb to production.



Source: Silicon Valley Defense Group, 2026 NatSec100

Two paths to dual-use

Commercial-first

Adds government customers to a product that already sells in the private market.

Example: Databricks, an enterprise data platform, ranks sixth on the 2026 NatSec100.

Government-first

Builds a commercial business on top of federal work.

Example: Palantir's Q2 2026 U.S. commercial revenue was $764M, up 149%, against $809M from the U.S. government.

Today the market tilts defense-first: far fewer commercial-first companies made the 2026 list.

Sources: SVDG; Palantir Q2 2026 results

What separates a real dual-use platform

01

Sells the same core technology to commercial and government customers

02

Commercial customers pay commercial prices

03

No single government program dictates the roadmap

04

A U.S. entity owns or exclusively licenses the core IP

05

U.S. citizens hold key management and security roles

06

Production happens onshore

Why domestic IP matters: the compliance clock

May 2026

PROPOSED

FOCI disclosure rule

Contractors on DoD deals over $5M must disclose foreign ownership, control or influence.

30 Jun 2026

IN FORCE

Section 805, phase 1

No Pentagon contracts with entities on the Section 1260H list of Chinese military companies.

30 Jun 2027

UPCOMING

Section 805, phase 2

The ban extends to goods and services that incorporate what those companies make.

Pending

UPCOMING

Final FOCI rule

Flagged companies would get 90 days after award to mitigate the risk.

Ownership and IP structure now decide how much of the federal market a platform can reach.

Sources: businessdefense.gov; Federal Register, 7 May 2026

Domestication can move fast: Orqa U.S.

May 2026	Formed by Croatian drone maker Orqa and U.S. defense contractor By Light
U.S.-owned	A board made up solely of U.S. citizens, building in Florida
$38M	Order under the Pentagon's Drone Dominance Program, October 2026

THE MODEL

A U.S. entity that owns or exclusively licenses the core IP, U.S. citizens in key roles, and onshore production.

Sources: By Light; Tectonic Defense

Private equity is backing the industrial layer

143

PE deals in aerospace and defense, Q1 2026, more than double a year earlier

$11.3B

Total deal value, Q1 2026

9 to 44

Defense deals, Q2 2025 to Q2 2026

–58%

Total deal value, Q2 2026 vs a year earlier: more deals, smaller checks

Venture capital

Applied AI, quantum and battlefield information, contested logistics

Private equity

Defense electronics, drones, the missile supply chain, shipbuilding

Sources: PitchBook Q1 and Q2 2026 Aerospace & Defense reports; SVDG

The investment thesis

01

Diversified revenue

Fiscal 2027 began under a continuing resolution, the 38th time in 50 years. Commercial revenue keeps teams and production lines working through the delay.

02

Mission relevance

The White House requested $1.5 trillion for defense in fiscal 2027. Platforms aligned with Golden Dome, munitions and the industrial base have the clearest path to larger awards.

03

Defensibility

Clearances take six months to a year. The Army's 10-year Anduril contract, with a ceiling of up to $20 billion, shows how a platform becomes a program's default.

Sources: GAO via Air & Space Forces Magazine; White House; Defence Matters

The risks

Export controls

Once a product is “specially designed” for defense, it can move from the EAR to the stricter ITAR, shrinking the international sales a commercial business is meant to deliver.

Long sales cycles

8%

of awards to NatSec100 companies are production contracts. A prototype win can take years to become a program of record.

Geopolitical exposure

After China sanctioned Skydio in 2024 over sales to Taiwan, its battery supply was cut off and it rationed batteries to one per drone.

Sources: FAU export control guidance; SVDG; PetaPixel

What allocators should track

Production conversion

The share of awards that become production contracts. Today it is 8%, up from effectively zero.

Domestication speed

How fast foreign-origin platforms clear ownership and IP rules before Section 805’s second phase on 30 June 2027.

Policy is moving in dual-use technology’s favor. Budgets lag: the fiscal 2027 base budget may not clear Congress until spring 2027.

Sources: SVDG; Air & Space Forces Magazine

THE TAKEAWAY

Real commercial revenue, domestic IP and production capacity.

Platforms that pair all three stand to gain the most.