SECTION ONE

FY 2027 Budget Outlook & Congressional Forecast

The Trump administration is requesting $1.5 trillion in national defense spending

$1.5T

FY 2027 Request

+50%

vs. FY 2026 Request

Largest peacetime increase since Reagan. This would be a 47% increase over FY 2026 NDAA levels.

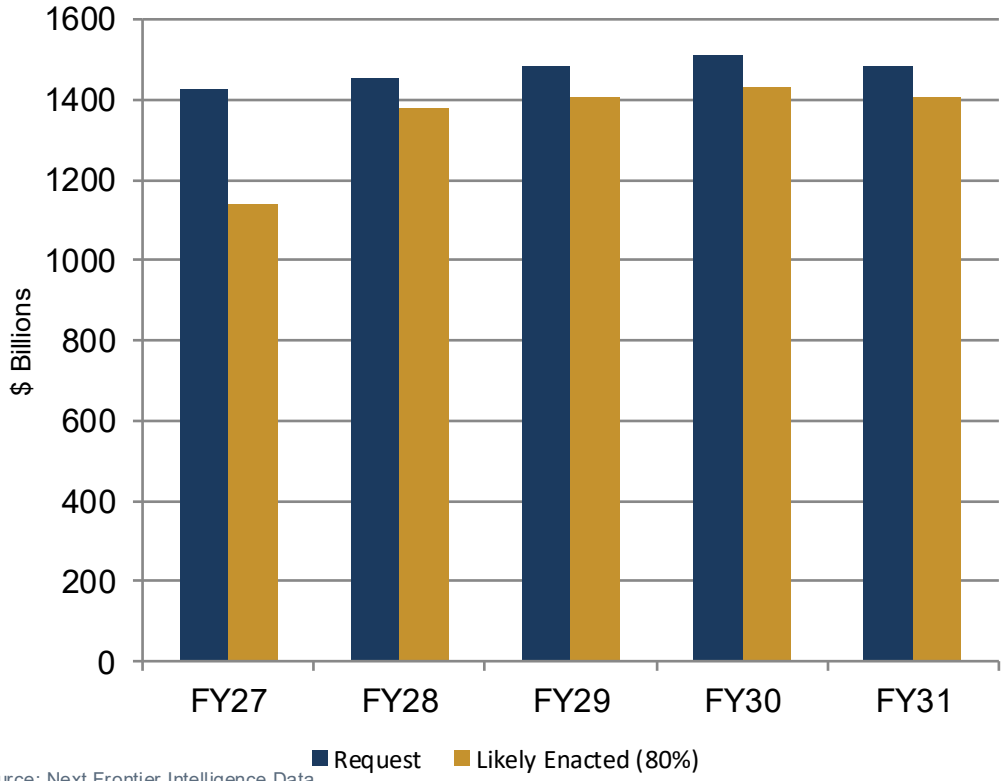
Congress will struggle to fund this. Appropriators have had difficulty at current levels—meeting this request is nearly impossible.

Expect intense lobbying. The gap between request and appropriations will force difficult prioritization decisions.

Source: Next Frontier Intelligence Data

Department of War Budget Forecast

FY 2027 request estimates vs. likely Congressional appropriations ($B)



KEY INSIGHT

Actual appropriations will likely need to cut **hundreds of billions** from requested levels.

HISTORICAL CONTEXT

Reagan averaged 94.7% of request funded. At that rate, FY27 would see $285B in cuts.

Source: Next Frontier Intelligence Data

Historical Parallel: The Reagan Buildup

The closest historical analog to the proposed Trump increase

REAGAN BUILDUP (FY 1982-1989)

25%

Peak YoY Growth (FY 1982)

94.7%

Avg. Request Funded

Reagan sustained double-digit growth for several years, but spending had already begun rising under Carter. The buildup wasn't unprecedented—it was an acceleration.

TRUMP REQUEST (FY 2027)

47%

Proposed YoY Growth

~80%

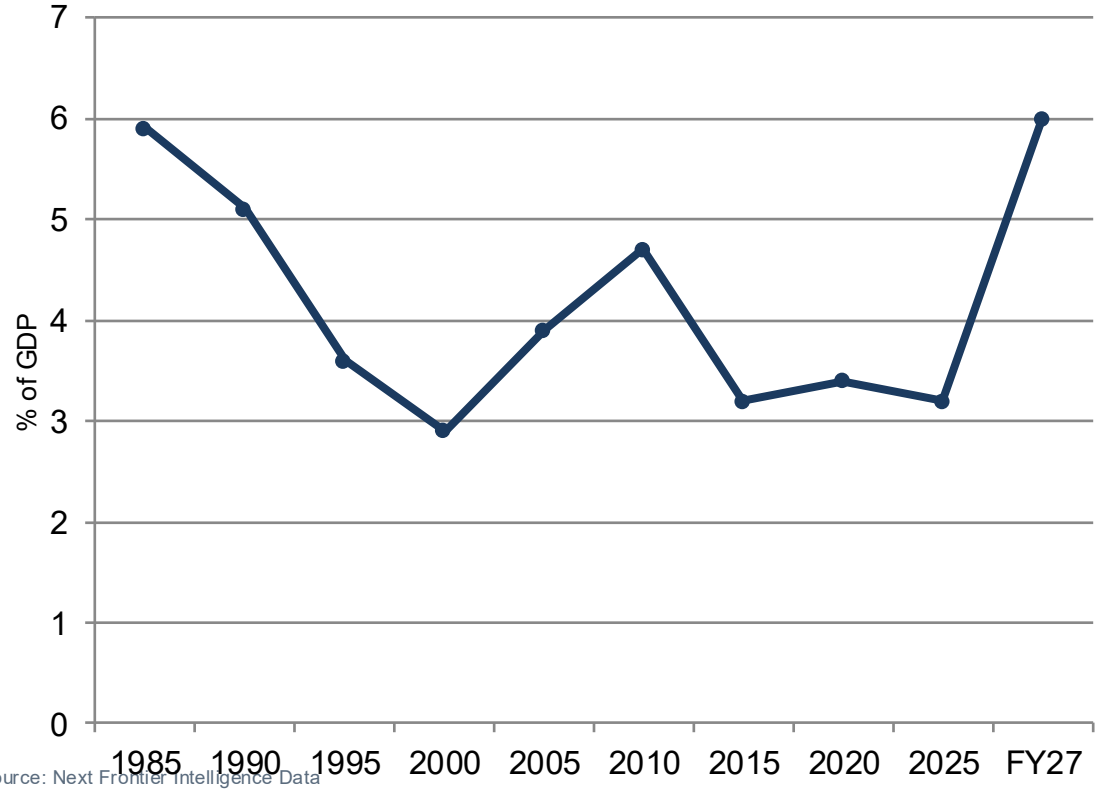
Likely Request Funded

The Trump request is nearly **double** Reagan's highest increase. Even with strong Congressional support, significant cuts are inevitable.

Note: All Reagan-era figures in current dollars

In Context: Defense Spending as % of GDP

The $1.5T request returns spending to Cold War-era levels relative to the economy



COLD WAR AVERAGE
(1948-1990)

4.8%

FY 2025 CURRENT

3.2%

FY 2027 REQUEST

~6.0%

Source: Next Frontier Intelligence Data

SECTION TWO

Spending Priorities

New Leadership, New Priorities

Defense tech and finance backgrounds signal shift from traditional primes

Steve Feinberg
Deputy Secretary of War
← Cerberus Capital

Emil Michael
USD for R&E (CTO)
← Uber

Owen West
Director, DIU
← Goldman Sachs

Cameron Stanley
CDAO
← AWS

WHAT THIS MEANS

Leadership drawn heavily from finance and non-traditional defense tech creates **headwinds for traditional primes** in the current budget environment.

President Trump has publicly criticized traditional defense firms for stock buybacks and executive compensation—signaling preference for new entrants.

New National Security Strategy

November 2025 strategy signals major shift in regional focus

KEY STRATEGIC SHIFTS

Western Hemisphere Focus

Major emphasis on hemispheric dominance, demonstrated by military action in Venezuela.

Reduced Saber-Rattling

Limited aggressive posturing toward Russia and China compared to prior administrations.

Allied Tensions

Strong language around free speech concerns in European allies.

SPENDING IMPLICATIONS

The hemispheric focus will likely drive investment in:

- Border and maritime surveillance
- Tactical strike capabilities
- Persistent ISR platforms
- Rapid deployment logistics

Five Priority Mission Areas

Where new investment and defense tech disruption will concentrate

Border Security

Tactical access, border sensing, maritime interdiction, persistent ISR

Incumbents: Textron, LMT, Boeing
Emerging: Palantir, Anduril, HawkEye

Golden Dome

Strategic air & missile defense, interceptors, space-based AMD, long-range sensing

Incumbents: NOC, RTX, LMT
Emerging: Anduril, Rocket Lab, York

Indo-Pacific

First Island Chain denial, surface combatants, long-range strike, undersea superiority

Incumbents: GD, Austal, RTX
Emerging: Saronic, Anduril, Shield AI

Industrial Base

Additive manufacturing, AI integration, nuclear power, agile contracting

Incumbents: BAH, Bechtel, Siemens
Emerging: Hadrian, Velo3D, Oklo

Cyber Operations

Network defense, C4ISR management, offensive cyber capabilities

Incumbents: L3Harris, BAH, Leidos
Emerging: Wiz, SentinelOne, Axonius

KEY INSIGHT

Defense tech entrants are positioned across **all five** priority areas—not just niche applications.

SECTION THREE

Competitive Positioning in the New Budget

A Major Increase… On Paper

The FY 2027 request will show major increases across existing programs and new starts.
But these numbers are likely illusory. Firms should brace for an extremely challenging Congressional environment.

UNLIKE PAST YEARS

Congress will **cut** investment accounts, not plus them up

New Starts at Risk

Programs without existing constituencies will be particularly vulnerable to cuts.

Intense Lobbying Ahead

Major reductions will force fierce competition for surviving funding.

Execution Skepticism

Congress will doubt DoW's ability to spend even if funds are appropriated.

Timeline & Things to Watch

1

Apr/May 2026
NDAA Markup

2

Summer 2026
Approps Process

3

Nov 2026
Election + CR

4

Late 2026
Final Resolution

NDAA Toplines

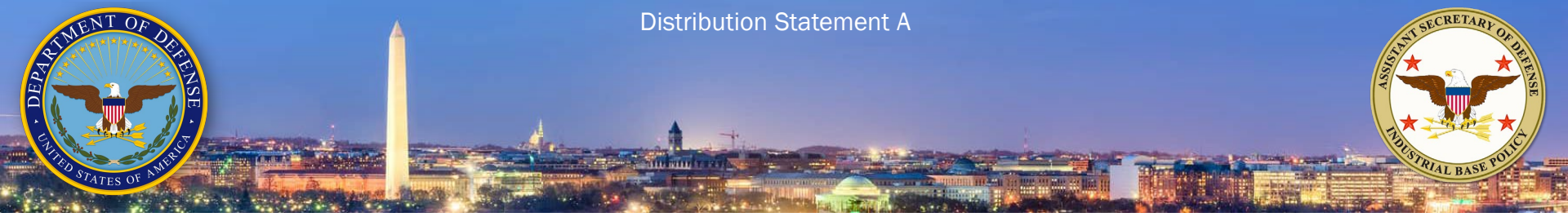
Will differ from request and signal where Congress believes negotiations will land.

Authorizers vs. Appropriators

Authorizing committees favor new entrants; appropriators have final say.

Election Year CR

Almost certain CR past election day means final resolution in late 2026.



Artificial Intelligence (AI) in Defense: A Roadmap for the Future of the Defense Industrial Base (DIB)

Strategizing Integration, Ensuring Security, and Pioneering Innovations in Defense through Artificial Intelligence

Name: Kylie Gaskins
Title: Deputy Director, Enabling Future Capabilities Transition
Organization: OUSD (A&S)/IBP/IBR/PA&T

Controlled by: OUSD (A&S), PA&T
Distribution: A
POC: Kylie Gaskins (571) 372-6380

Executive Summary

THE OFFICE OF THE SECRETARY OF DEFENSE FOR INDUSTRIAL BASE POLICY

KEY FINDINGS

- **AI Growth:** AI capabilities are expanding and maturing. Industry is applying AI to drive overall productivity and product capability.
- **DIB and Defense Use Cases:** AI is being deployed by DIB suppliers for business operations and weapons system integration. Capabilities and use cases are rapidly increasing to rebuild the military.
- **Increasing DoD Resources:** The DoD has established guidance, tools, and acquisition pathways to facilitate AI acquisition for DoD problem sets.
- **Opportunities for AI Adoption:** There is opportunity for the DoD to further improve AI adoption with short-, medium-, and long-term actions in the following categories to achieve the following objectives:

Infrastructure and Supply Chain:

Reduce reliance on foreign suppliers for AI infrastructure by investing in domestic production capabilities to promote a more reliable and resilient supply chain.

Workforce and Education:

Coordinate with the broader AI ecosystem of academia, industry, and other government partners to establish and **expand training programs and curricula for both the current and future workforce.**

Innovation:

Develop **frameworks and standards to support data sharing**, AI development, and system interoperability.

Acquisition, Policy, and Regulatory Environment:

Simplify and expedite the acquisition process for emerging technology and **leverage more rapid contracting pathways** such as Other Transaction Agreements (OTAs).

IBP is positioned to support AI adoption in the DIB by informing, influencing, and supporting the Services and across the Office of the Secretary of Defense to execute the short-, medium-, and long-term actions of the AI roadmap.

What is AI?

AI is the ability of machines to perform tasks that normally require human intelligence[1]

FOUR MAIN TYPES OF AI[2]

REACTIVE MACHINES

Programmed to respond to specific inputs with specific outputs, without the ability to learn or store memories. They are task-specific and deterministic.

LIMITED MEMORY

Uses historical data and pre-programmed information to make predictions and perform classification tasks. It does this by temporarily storing data from interactions or observations, which is then used as a reference or context for making decisions.

THEORY OF MIND

Refers to the ability of AI to understand and model the thoughts, intentions, and emotions of other agents, such as humans or other artificial intelligences. This is theoretical and not yet developed.

SELF AWARE

Represents a speculative and futuristic vision of artificial intelligence, where machines would possess consciousness, self-awareness, and even sentience. This is theoretical and not yet developed.

COMMON AI TERMINOLOGY

MACHINE LEARNING (ML)[3]

A subset of artificial intelligence that allows a machine or system to learn and improve from experience. Instead of direct programming, ML leverages algorithms to analyze large data sets, learn from the data and insights, and then make informed decisions. Machine learning algorithms can improve over time as they intake additional data.

- **Relationship to AI:** ML is an application of AI where machines extract insights from data and learn from it.
- **Examples:** Facial recognition, spam filtering

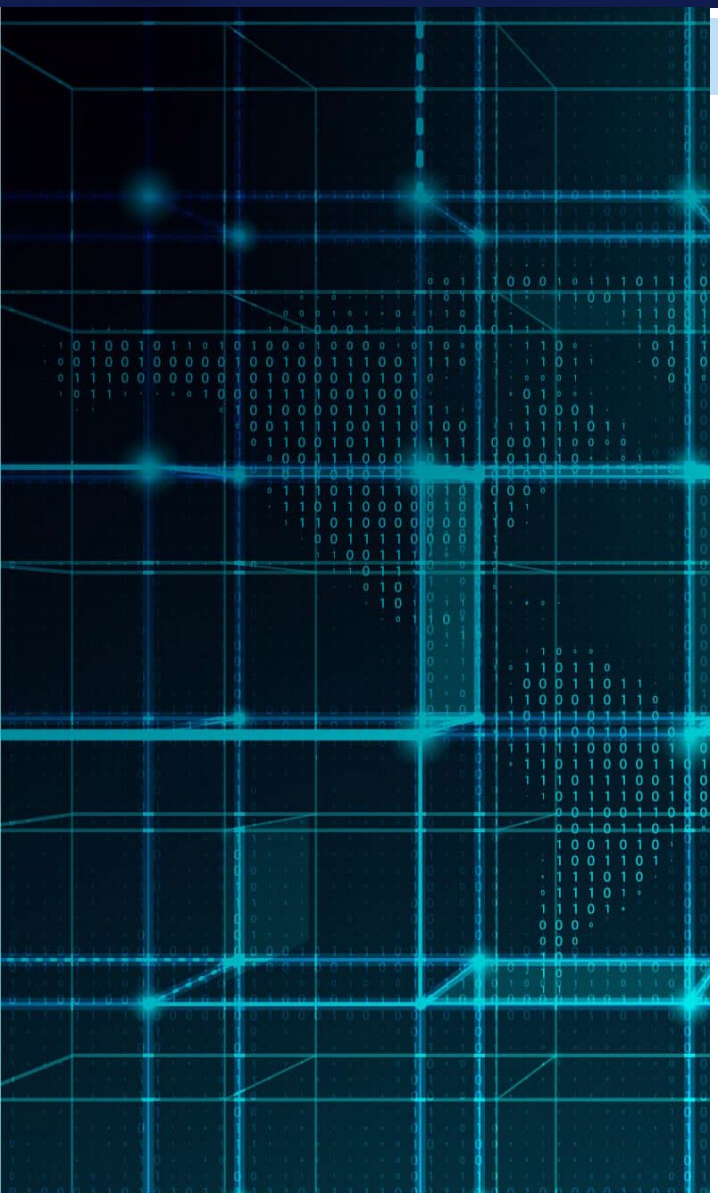
GENERATIVE AI (GEN AI)[4]

Gen AI refers to the use of AI to create new content such as text, images, and videos.

- **Relationship to ML:** Gen AI uses ML to analyze datasets of human-created content. It then detects patterns within the datasets and uses these learned patterns to generate new content.
- **Examples:** OpenAI's GPT-4 and DALL-E for generating images

1. DAU Overview of Artificial Intelligence (AI) in the DoD
2. Understanding the 4 Types of Artificial intelligence
3. Artificial Intelligence (AI) vs. Machine Learning (ML)
4. What is generative AI?

AI Trends



AI usage is surging, but faces headwinds and unknowns

RAPID GROWTH AND INVESTMENT[1]

The AI market is projected to reach $407 billion by 2027. AI investment surged in 2022 to reach $25.2 billion. Major players in the Gen AI space, such as OpenAI, have seen substantial fundraising rounds.

INDUSTRY SEEKS PRODUCTIVITY[2]

64% of businesses believe that AI will help increase their overall productivity. Additionally, 25% of companies are looking to AI solutions for labor shortages. However, semiconductor production capacity is limiting AI model progress which could delay productivity improvements.

DESIRE FOR STANDARDIZATION[1]

Research shows there is a lack of standardization in responsible AI reporting. Industry leaders such as OpenAI and Google test their models against different responsible AI benchmarks. This makes it difficult to consistently and systematically compare leading AI models.

CONSUMER SENTIMENT IS WAVERING[1]

Most consumers believe AI will dramatically affect their lives in the next three to five years. Over half of consumers expressed apprehension towards AI products and services. Similarly, over half of consumers feel more concerned than excited about AI, an increase of 13% from 2022.

1. AI Index Report 2025
2. 22 Top AI Statistics and Trends

AI Use Cases

AI use cases are expanding in reach and maturing in capability

SUPPLY CHAIN OPTIMIZATION[1]

AI and Gen AI have the potential to **positively impact aspects of supply chain resilience.** For example, identifying priorities of an organization's supply chain strategy, proactively responding to risk events, effectively driving risk mitigation, and continuous monitoring of risk profiles in complex multi-tier supply chain networks.

HEALTHCARE ADVANCEMENTS[2]

AI can improve diagnostic accuracy through image recognition technologies, assist in drug discovery, analyze complex biological data, and improve patient experience. Integrating AI in healthcare **reduces operational cost and enhances the standard of care**.

AUTONOMOUS SYSTEMS[3]

Autonomous vehicles are an example of autonomous systems that use sensor hardware to detect the location of surrounding objects. Data is then transmitted to algorithms which respond by **making decisions about vehicle actions and performance**.

NATURAL LANGUAGE PROCESSING (NLP)[4]

NLP has enabled the surge in Gen AI. Large language models (LLMs), a subset of NLP, can understand requests and generate text, image, and video responses. NLP also plays a growing role in enterprise solutions that **streamline and automate business operations.**

AI IN ACTION[5]

- In April 2024, an autonomous fighter jet, VISTA, competed against an F-16 in the **first-ever artificial intelligence-fueled dogfight**.
- The jets performed the exercise with VISTA flying at speeds of up to **1,200 miles per hour and within 2,000 feet of the manned F-16**, including nose-to-nose passes and vertical maneuvering.

1. Report: Generative AI-powered supply chain resilience
2. AI in healthcare: Use cases, applications, benefits, solution, AI agents and implementation
3. What is autonomous AI?
4. What is NLP (natural language processing)?
5. US Air Force stages dogfights with AI-flown fighter jet

AI in Defense Applications

THE OFFICE OF THE SECRETARY OF DEFENSE FOR INDUSTRIAL BASE POLICY

AI has a variety of applications for defense operations

INTELLIGENCE WITH DATA[1]

Integration of AI into the collection and interpretation of satellite and drone surveillance data feeds to provide a clearer picture of a conflict or crisis dynamic, analysis of historical mission data, environmental factors, and more. Use of autonomous vehicles, such as submarines and land machines, enhanced with reinforcement learning algorithms to **perform reconnaissance and discover targets**.

PREDICTIVE ASSET MAINTENANCE[1]

Sensor technology and assisted vision can be used to **detect flaws and system failures in equipment before they occur**. Deep learning and planning algorithms can determine maintenance schedules based on operating standards for various components, reducing accidents, and unplanned delays. AI can also **Consolidate and analyze** real estate assets to create improved management and maintenance strategies.

LOGISTICS AND MISSION PLANNING[1]

Combines environmental, asset, and historical mission data to better **predict mission scenarios and ensure resources are allocated advantageously**. Improve coordination between missions, operations, or task forces. Identifies optimal areas for camps and evacuation supply routes for both military and humanitarian efforts.

ENHANCED OPERATIONS[1]

Uses sensor technology to track troop movements and **quickly identify unknown objects** in the field, thereby better informing command decisions. **Deploys autonomous vehicles** to provide life-saving duties for wounded soldiers in the field.

1. Report: The AI advantage in defence and security

AI in Industry

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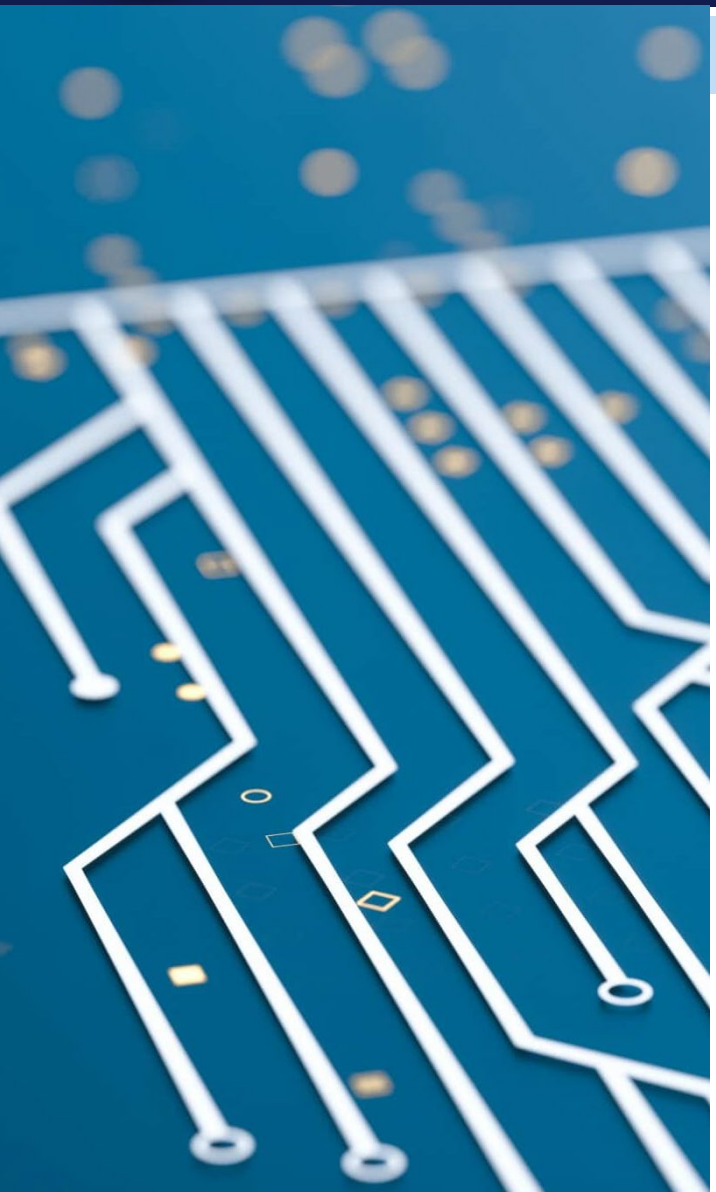


Innovation is booming but capacity, resiliency, and workforce lag

INNOVATION

China leads in AI research publications, while the U.S. leads in the practical application of research and the greatest number of significant AI models. Further, the U.S. dominates the AI startup market. Many defense contractors are also investing in AI R&D.

SUPPLY CHAIN RESILIENCE

Semiconductors are a critical component of AI infrastructure. Advanced AI chips are required for AI models to function effectively. While investments in semiconductor capacity and supply sources have improved supply chain resiliency, there are still many risks to overcome. For example, geopolitical tensions between the U.S. and China create the risk of import and export restrictions, or potential conflict, which could inhibit or stop the flow of goods supporting AI infrastructure.

MANUFACTURING CAPACITY

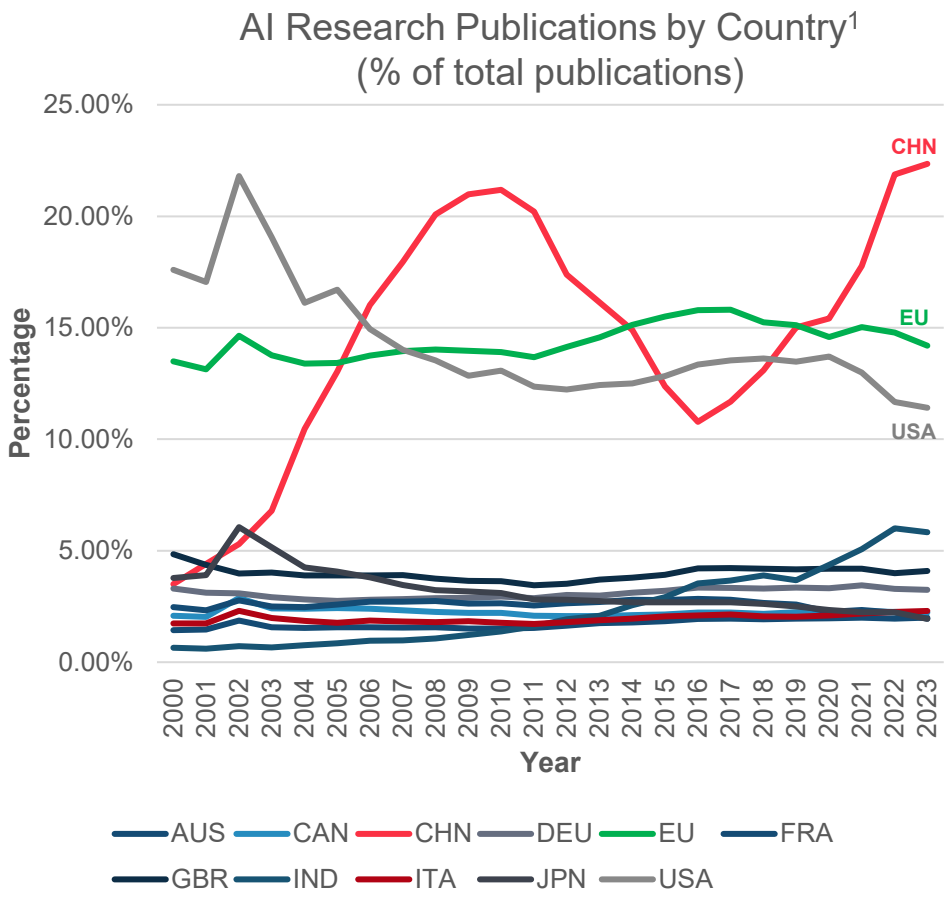
Increasing demand for AI has led to an increasing demand for AI hardware, primarily AI semiconductors. This surge has resulted in supply chain bottlenecks causing production shortages within the supply chain. Public and private investment, is fueling domestic capacity and capability expansion required to meet forecasted demand levels. AI in manufacturing can enhance data capture and Internet of Things (IoT) technologies with flexible robotics, advanced machine and process controls, automated quality control, and modular manufacturing equipment.

WORKFORCE AND EDUCATION

Talent shortages are creating challenges for the U.S. as companies rely on foreign talent and shift R&D abroad to meet their needs. Globally, AI-related degree programs and training programs are expanding to catch up with AI demand.

Innovation

China leads in AI research publications, but the U.S. leads in AI application



CHINA'S R&D PROGRESS[1]

Proliferation of research publications over time is **an indicator of a country's progress in AI development.** China increased its percentage of AI publications since 2016, **coinciding with its New Generation AI Development Plan** in 2017. In 2023, China represented 22% of global AI publications.

U.S. LEADING IN AI MODELS[2]

While China and the European Union (EU) are ahead of the U.S. in research publications, the U.S. is **leading in the practical application of research in AI models**. 61 notable AI models were created by U.S.-based organizations, outpacing both the EU (21 models) and China (15 models) in 2023.

U.S. CREATION OF AI STARTUPS[3]

From 2013 to 2023, the **U.S. produced 5,509 AI startups.** This is more than both China (1,446) and the EU (727) combined.

DEFENSE INVESTING IN AI[4]

Defense companies, such as Lockheed Martin, Raytheon, Northrup Grumman, BAE Systems, and the Thales Group are investing in AI R&D. AI in the military market is expected to **grow at a Compound Annual Growth Rate (CAGR) of 33.3% from 2023 to 2028**.

1. The Organisation for Economic Co-operation and Development Report on Artificial Intelligence
2. AI Index Report 2025
3. The Number of AI Startups by Country
4. Artificial Intelligence in Military Companies

Supply Chain Resilience

AI infrastructure requires resilient semiconductor supply chains

FUNDING AVAILABILITY[1]

Funding, primarily from the **public sources has provided much needed capital** to promote increases in domestic supply and source redundancy. Private investment has followed and further bolstered the semiconductor sector.

INVESTING IN CAPABILITIES[2]

Public and private investments are being allocated across AI semiconductor manufacturing capabilities spanning both emerging and developed markets to reduce bottlenecks. This includes capabilities across the value chain such as **fabrication, packaging, materials, assembly, and test.**

FOREIGN PARTNERSHIPS[3]

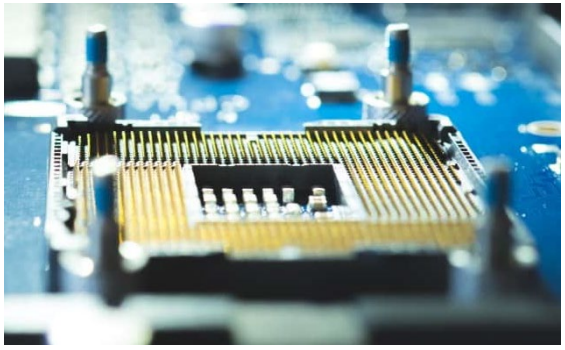
The U.S. is exploring foreign partnerships to promote more resilient and secure semiconductor value chains. For example, the **U.S. and India announced a new partnership** which will begin with analysis of India's semiconductor ecosystem, regulatory framework, workforce, and infrastructure. Outputs will provide a baseline for joint initiatives to strengthen the sector between the two countries.

GEOPOLITICAL RISKS[4]

There is a high geographic concentration of wafer fabrication operations within the semiconductor value chain, with most production occurring within East Asia. Growing geopolitical **tensions within the region and with the U.S. can lead to export restrictions** which could inhibit supply flows to the U.S. Similarly, in the event of conflict, supply of AI semiconductors could be cut off entirely.

AI CHIPS[5]

- Leading AI models are trained using graphics processor units (GPUs), a type of semiconductor or "chip."
- GPUs leverage parallel processing which enables faster training on larger data sets compared to central processing units (CPUs).
- To train the largest AI models, many chips are connected and clustered with other hardware to enable processing.



1. Emerging Resilience in the Semiconductor Supply Chain
2. Strengthening the Global Semiconductor Supply Chain in an Uncertain Era
3. United States – India Joint Leaders Statement
4. Congressional Research Service Report: Semiconductors and Artificial Intelligence
5. Many logic chips are connected in large clusters with other semiconductor hardware such as memory and networking chips to enable training of the largest AI models.

Manufacturing Capacity

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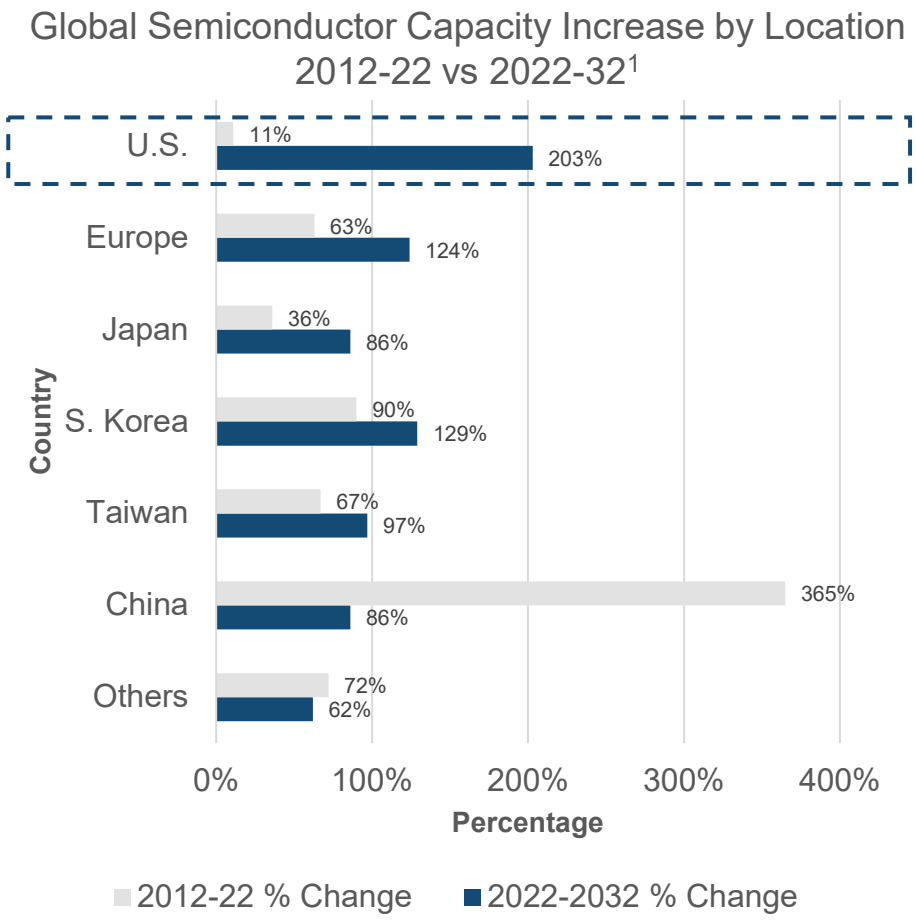
Domestic manufacturing capacity is expected to surge in the next decade to catch up to demand



NEAR TERM CHALLENGES[2, 4]

AI chips are expected to be in short supply as manufacturers face long ramp-up timelines to increase production coupled with large capital expenditures. Upstream materials, such as chip-grade silicone, and manufacturing equipment are also facing shortages.

PRODUCTION CAPACITY GROWTH[1]

U.S. production **capacity is forecast to triple** from 2022 to 2032, spurred public and private investment. For the first time in decades, the U.S. is forecast to increase its share of global fab capacity to 14% by 2032.

ADVANCED CHIP CAPACITY[1]

The U.S. has historically relied on foreign sources for advanced chips. Moving forward, the U.S. is expected to grow its share **from 0% in 2022 to 28% by 2032**.

U.S. LEADING IN AI MODELS[3]

61 notable AI models were created by U.S.-based organizations, **outpacing both the E.U. (21 models) and China (15 models)** in 2023.

1. Emerging Resilience in the Semiconductor Supply Chain
2. AI boom to keep supply of high-end memory chips tight
3. AI Index Report 2025
4. News Article: A tiny town just got slammed by Helene

Workforce and Education

THE OFFICE OF THE SECRETARY OF DEFENSE FOR INDUSTRIAL BASE POLICY

AI's growth is creating talent shortages, leading to outsourcing

WORKFORCE SHORTAGES[1]

Globally there is a shortage of AI talent, particularly in the U.S., the consequence of this shortage is that **U.S. companies are moving AI R&D abroad** which negatively effects the domestic workforce and broader economy.

GLOBAL TALENT DEPENDENCY[1]

The **U.S. relies heavily on global talent for AI-related roles**. Research shows more than 50 percent of computer scientists with graduate degrees employed in the U.S. were born abroad.

EVOLVING RELEVANT TECHNICAL SKILLS[2]

As AI becomes more prevalent, technical skills such as **prompt engineering, AI literacy, and AI ethics and responsible AI are becoming more relevant**. Conversely, technical skills such as basic programming, content creation, and data management are expected to become less relevant.

INCREASING AI DEGREE PATHWAYS[3]

Globally, colleges and universities are creating AI-focused degree programs. Since 2017, **AI-related postsecondary degree programs have tripled** with over 2,500 programs offered in English globally.

1. Strengthening the U.S. AI Workforce
2. AI and the Workforce
3. AI Index Report 2025

AI in the DoD

The DoD has developed guidance and tools for AI acquisition

DOD ETHICAL PRINCIPLES

These five principles are designed to ensure that AI is used responsibly and ethically within the DoD.

TRADEWINDS

In November 2022, Tradewinds launched the Tradewinds Solutions Marketplace to expedite the acquisition process for solutions that address the DoD's AI/ML, data and digital analytics problem sets.

AI ADOPTION STRATEGY

The DoD published the *AI Data, Analytics, and Artificial Intelligence Adoption Strategy*. It seeks to accelerate the adoption of advanced AI capabilities and provide decision advantage for the warfighter. Furthermore, the strategy outlines measures to be taken to strengthen governance and remove policy barriers.

RESPONSIBLE AI (RAI) TOOLKIT

The RAI Toolkit is a key deliverable within the broader *DoD RAI Strategy & Implementation Pathway (RAI S&I Pathway)*. The toolkit outlines a process to identify, track, and improve alignment of AI projects to RAI best practices and the DoD's AI principles.

AI RAPID CAPABILITIES CELL (AI RCC)

Established by the Chief Digital and Artificial Intelligence Office (CDAO) in December 2024, the AI RCC accelerates the DoD's adoption of cutting-edge AI capabilities by rapidly prototyping, evaluating, and scaling high-impact AI solutions.

DOD DIRECTIVE 3000.09

DoD Directive *AUTONOMY IN WEAPON SYSTEMS* establishes policy, assigns responsibilities, establishes guidelines, and establishes the Autonomous Weapon Systems Working Group.

DoD Ethical Principles

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Five ethical principles assist the DoD in upholding its legal, ethical, and policy commitments

1. RESPONSIBLE[1]

DoD personnel will exercise appropriate levels of judgment and care while remaining **responsible for the development, deployment and use** of AI capabilities.

2. EQUITABLE[1]

The Department will take deliberate steps to **minimize unintended bias** in AI capabilities.

3. TRACEABLE[1]

The Department's AI capabilities will be developed and deployed such that relevant personnel possess an appropriate understanding of the technology, development processes and operational methods applicable to AI capabilities, including with **transparent and auditable methodologies**, data sources and design procedures, and documentation.

4. RELIABLE[1]

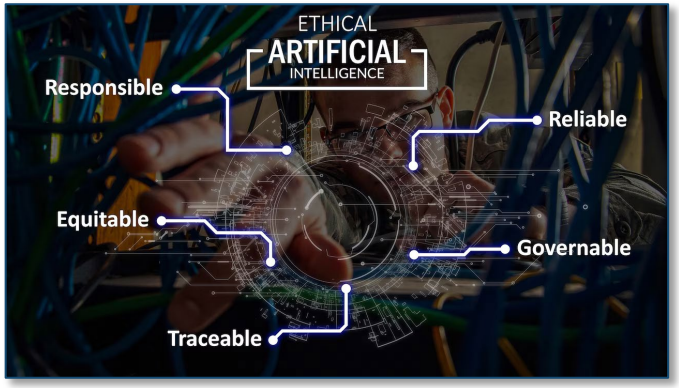
The Department's AI capabilities will have explicit, well-defined uses, and the safety, security and effectiveness of such capabilities will be subject to **testing and assurance within those defined uses** across their entire life cycles.

5. GOVERNABLE[1]

The DoD will design and engineer AI capabilities to fulfill their intended functions while possessing the ability to **detect and avoid unintended consequences. Additionally, deployed systems will be equipped with the ability to disengage or deactivate** if they exhibit unintended behavior.

ABOUT THE PRINCIPLES[1]

- The Defense Innovation Board spent 15 months developing the principles and consulted with **leading AI and technical experts**, as well as with current and former DoD leaders and the American public.
- The principles apply to both **combat and non-combat situations**.
- The adoption of AI ethical principles **aligns with the DoD AI strategy** objective directing the U.S. military lead in AI ethics and the lawful use of AI systems.



1. DOD Adopts 5 Principles of Artificial Intelligence Ethics

RFI Barriers & Recommendations

THE OFFICE OF THE SECRETARY OF DEFENSE FOR INDUSTRIAL BASE POLICY

RFI respondents identified barriers for AI adoption and recommendations for improvement

BARRIERS

DATA SHARING

Respondents highlighted challenges with decentralized and isolated data repositories. These challenges restrict access to pertinent data that the DIB requires to develop AI models. Require data sharing throughout the DIB ecosystem and make it accessible for successful development of AI models.

WORKFORCE & EDUCATION

Respondents stated that the lack of DoD AI-specific education and overall insufficient STEM education is a main contributor to the AI industry's lack of a sufficiently staffed workforce.

ACQUISITION PROCESSES

Respondents overwhelmingly stated that government acquisition processes are complicated, making it difficult to navigate the acquisition landscape-especially for small businesses.

SUPPLY CHAIN

Respondents emphasized that overreliance on foreign suppliers is a key barrier, as many inputs, including microelectronics, and rare earth elements in the upstream value chain, are heavily sourced from foreign suppliers.

INTELLECTUAL PROPERTY

Ownership and rights to AI-generated inventions and data can be complex, especially in collaboration between the DoD, prime contractors, and subcontractors. This ambiguity can lead to disputes, hinder technology transfer, and slow down innovation.

RECOMMENDATIONS

DATA SECURITY

Data integrity and security are recurring themes throughout respondent recommendations, highlighting the need for robust data governance policies, secure access controls, and privacy-preserving technologies.

WORKFORCE & EDUCATION

Respondents recommend establishing and expanding education and training programs that equip individuals with the skills needed to work on AI equities, such as data analysis and programming.

ACQUISITION PROCESSES

Respondents indicated that there is clear opportunity for AI to support DoD acquisition processes. An example opportunity is using AI to automate routine and complex acquisition tasks, like proposal evaluations to increase speed.

SUPPLY CHAIN

Respondents identify one of the first steps to securing the AI supply chain is to develop a comprehensive risk management framework to identify and mitigate potential supply chain disruptions, particularly critical AI components.

INTELLECTUAL PROPERTY

Publishing clear and transparent IP policies provides certainty to industry partners. Offering flexible licensing options allows for both government and commercial use of AI technologies.

Actions Roadmap

THE OFFICE OF THE SECRETARY OF DEFENSE FOR INDUSTRIAL BASE POLICY

Short-, medium-, and long-term actions can improve AI adoption for defense applications within the DIB

FOCUS AREA	SHORT-TERM (0-1YRS)	MEDIUM-TERM (1-3YRS)	LONG-TERM (3+YRS)
INFRASTRUCTURE AND SUPPLY CHAIN	• Invest in domestic AI chip manufacturing capacity • Invest in AI chip value chain (e.g., rare earth minerals) • Monitor and mitigate AI supply chain risks • Assess DoD's technical capacity for AI adoption	• Convene with industry to determine where to invest in emerging AI capabilities and underlying infrastructure • Reduce risks in the end-to-end AI chip value chain	• Form strategic alliances with allied nations to create a resilient and secure global AI supply chain network • Invest in synergistic capabilities that can enhance AI capability and capacity (e.g., Quantum)
WORKFORCE AND EDUCATION	• Convene with industry to identify top-priority skills gaps • Determine opportunities workforce upskilling and reskilling • Improve internal DoD AI workforce training and promote AI literacy	• Invest in workforce development programs for top-priority AI skills for both the current workforce and talent pipeline • Continue training DoD personnel on AI and emerging use cases and capabilities	• Engage with K-12 education systems to inspire and prepare the next generation of AI professionals • Develop long-term AI career pathways within the DoD to acquire and maintain AI talent
INNOVATION	• Liaise with industry to determine top-priorities for IP and data sharing standards and guidance • Begin development of updated data sharing standards and guidance	• Deploy updated data sharing standards and guidance • Create clear IP policies for industry partners • Engage with industry for areas of opportunity for standards, guidance, and policy improvement	• Position the DoD as a leader in AI standards and best practices by futureproofing its AI ecosystem • Create adaptive frameworks for IP and data sharing that can evolve with AI technology advancements and use cases
ACQUISITION, POLICY, AND REGULATORY ENVIRONMENT	• Market existing and rapid contracting pathways, such as OTAs, to AI contractors • Identify inefficient acquisition processes and policies for modification	• Increase usage of rapid contracting pathways • Update and publish agile acquisition processes and policies which emphasize transparency	• Develop acquisition processes and platforms that leverage AI to expedite and optimize procurement • Continuously monitor and refine acquisition policy as AI evolves

■ *Action where IBP could inform, influence, or support.*

Summary

IBP is positioned to support AI adoption in the DIB

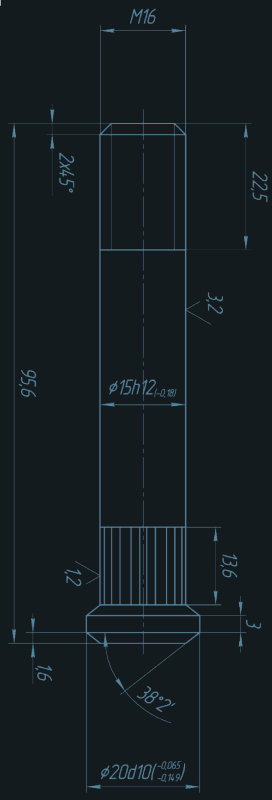
KEY TAKEAWAYS

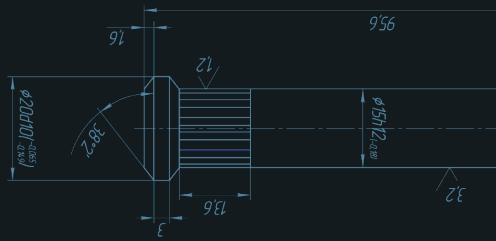
- **AI capabilities and use cases are expanding and maturing.** The DIB is deploying AI for business operations and weapon system integration.
- Safe and secure AI adoption is a top priority for the DoD and White House. **Policy and guidance will need to be continuously monitored as AI evolves.**
- **The DoD can take actions within the following four categories to promote safe and secure adoption of AI within the DIB:**
  - Infrastructure and Supply Chain
  - Workforce and Education
  - Guidance and Standards
  - Acquisition Processes and Policies
- **IBP can inform, influence, or support on the following actions:**
  - Convene with industry to determine where to invest in emerging AI capabilities and underlying infrastructure and identify top-priority skills gaps
  - Liaise with industry to determine top-priorities for standards and guidance
  - Continually engage with industry for areas of opportunity for standards and guidance improvement
  - Market existing and rapid contracting pathways, such as OTAs, to AI contractors
  - Identify inefficient acquisition processes and policies for modification
- **As AI evolves, actions may need to be revised and/or created to meet the current needs of the operating environment.**

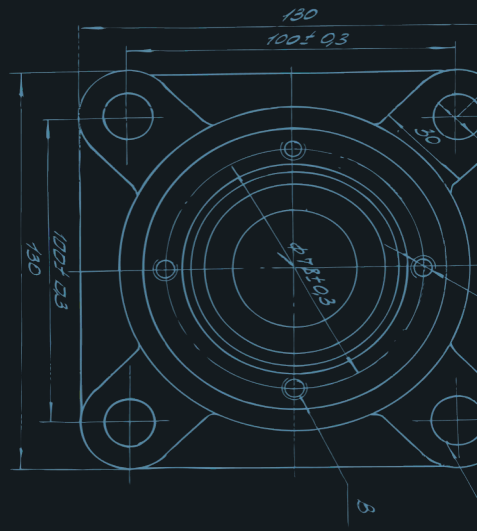
Investor Presentation

StealthPoint Fund II

Feb 9th 2026 – Draft







StealthPoint

StealthPoint invests in technologically-proven hardware and software companies. We work behind the scenes to accelerate revenues as our investments support U.S. economic and national security while maintaining viable commercial revenue pathways.

- ADVANCED COMPUTING AND SOFTWARE
- HYPERSONICS
- HUMAN MACHINE INTERFACES
- INTEGRATED SENSING AND CYBER
- ADVANCED MATERIALS
- TRUSTED AI AND AUTONOMY
- SPACE TECHNOLOGY
- MICROELECTRONICS
- QUANTUM SCIENCES
- BIOTECHNOLOGY

FUND II KEY INFORMATION

USE OF FUNDS	CAPITAL ALLOCATED AUM $50M
Phase I (12 deals)	$12M
Phase II High (4 deals)	$20M
Phase II Low (4 deals)	$10M
Phase I Defensive	$1M
Management Fee	$7M

- $50M+ across 12 deals
- Approximately 5% capital call each quarter
- European LP returns model
- First Close: June 30, 2025 (8% kicker thereafter)
- Phase 1 Investment window: Q1 2026 to Q4 2028
- Active investment pipeline: 12 logos
- SP GP Team: 5.00% of committed capital

60+ years invested in starting, building, growing, financing, and selling companies

MICHAEL SHEPHERD

Entrepreneurship, Investment Banking

- 20+ years financing and selling technology companies at GrowthPoint and Silicon Valley Bank
- Founded 5 startups with 2 IPOs: Nextera & Newspaper Publishing PLC – The Independent, London
- Management consultant at Booz Allen Hamilton and Accenture
- Board of Directors at Freight Verify and Imperial College Business School
- B.S. Imperial College, London, and MBA Stanford Graduate School of Business

GRAHAM NAPIER

Sales, Operations, & Restructuring

- Program Director of International Businesses for Cisco; divested multiple Software Product units
- President and CEO of TradeBeam, a SaaS Supply Chain and Trade Finance company
- President and COO of Fritz Companies Inc. Sold company to UPS; managed 14,000 people across a global network of 400 offices
- GM of Logistics and New Business, Allied Signal Aerospace Global AMG
- MSc. University of Birmingham, MBA University of Manchester

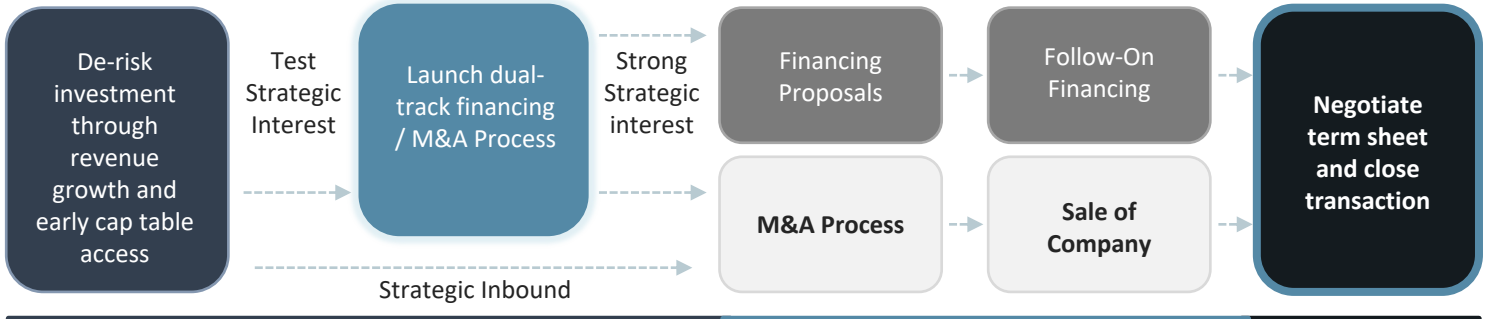
BRIAN HIBBELN

Government, Sales, and Investments

- 30+ years in Department of Defense and U.S. Intelligence Community
- Senior advisor for Blackstone Private Equity, Venture Partner for Sinewave Ventures
- Director, DoD Remote Sensing Center, managed over $8B in government contracts
- Assistant Deputy Undersecretary of Defense for Special Capabilities in OSD
- First Director of the Special Capabilities Office, overseeing over $2B in resources
- B.S. United States Air Force Academy, M.S. Air Force Institute of Technology

The fund increases its investment in derisked returns through a phased investment approach

INVESTMENT TIMELINE



1 Phase 1 activities de-risk the investment and gain early cap table access

$ **Investment Size: Up to** $1.0M

- The investment is minimized but sufficient to gain access, conduct due diligence, and identify required housekeeping activities
- Confirm the viability of a larger, capital-efficient investment
- Deploy pre-existing go-to-market capability to accelerate revenue growth
- Engage trusted partners for lead generation, revenue acceleration, and sales model maturation
- Initiate significant channel sales relationships (domestic and international)
- Assess feasibility of large project/enterprise sales
- Ensure Phase 2 investment is necessary, and the funds will be well-spent

2 Phase 2 funds investment to increase revenue momentum towards an exit

$$$ **Investment Size:** $2.5M - $5.0M

- Phase 1 investment does not preclude our fund from leading a Phase 2 investment (with a Board seat)
- Purpose of the funds are ideally to fund growth towards an exit (after go-to-market has been validated)
- Our fund brings co-investments from LPs into larger growth financings (with 10% carry)
- Side letters with debt funding partners

StealthPoint is seeking $50M+ for Fund II, leveraging its Fund 0 and Fund I track record

FUND 0

POC & Model Validation
Deployment Timeline: 2 years

$2.20M	11.09x	14.97x
Fund Size	DPI	Forecasted MOIC

TIDAL — Jan 2023 Exit
FREIGHT VERIFY — Aug 2025 Exit
JAZZWARE — Dec 2025 Exit
KNOWMADICS — Q2 2026 Exit
PRYON
riivos

1	High-potentials
3	Realizations
3	Return of Capital +
0	"Zeroes" Losers
7	Investments

FUND I

Venture Capital Firm and Fund I Set-up
Phase 1 Deployment Timeline: 2.5 years
Phase 2 Deployment Timeline: 3.25 years

$25.75M	5x to 8x	40% to 60%+
Fund Size	Estimated MOIC	Estimated IRR

+ Final Close: June 30, 2024
+ $25M+ co-invest opportunity with higher IRR returns and lower management fees

GRAY MATTERS — Dec 2024 Exit
SUPLARI — Q4 2026 Exit
ultisim
biometrica
DejaVuAI
ramona
ACUA OCEAN
NETCENTRICS

5	High-potentials
1	Realizations
3	Return of Capital +
0	"Zeroes" Losers
9	Investments

FUND II

Venture Capital Firm and Fund Strengthening
Phase 1 Deployment Timeline: 2.00 years
Phase 2 Deployment Timeline: 3.00 years

$50M+	5.33x	40%+
Target Fund Size	Target MOIC	Target IRR

+ Launch: Jan 1st 2026
+ Target First Close: Jun 30, 2026

CURRENTLY RAISING

Summary of key terms

StealthPoint

GROWTHPOINT TECHNOLOGY PARTNERS

Fund 0	Fund I LP	Fund II LP	Fund III LP
$5.33M	$25.72M	$50M+	$200M+
Launched Jan 2021	*Launched Jan 2023*	*Launching Oct 2025*	*Launching Jan 2028*

Privileged relationship:

- Provides deal flow and validates StealthPoint investments
- Validates investments' potential exits
- Sells portfolio companies
- Reduced management fee expense to LPs from M&A finder fees

General Partner	**StealthPoint GP** (>7% of LP)
Target LPs	Strategic with up to 5x pro-rata co-investment
Terms	7 plus 3, 1-year extensions; 5-year investment period with recycling
Management Fee	2% of committed capital; after 5 years, management fee reduces to 1% for years 6-7, and further reduces to 0.25% in extension years
GP Carry	20%, increasing to 25% upon returning 300% of aggregate LP capital commitments. 10% Carry (and 1% Mgt. Fee) on co-investments (Pro rata with deal-by-deal selection)

Fund I currently has eight portfolio companies spanning multiple critical tech areas

ramona

Phase 2
Co Invest

Producer of a next-generation microscope that combines proprietary imaging hardware with parallelized computation to capture dynamic systems synchronously.

ACUA OCEAN

Potential Phase 2

Uncrewed surface vessels delivering open ocean platform-as-a-service capabilities with a focus on distributed maritime operations, ocean data collection, and monitoring of critical national infrastructure.

NETCENTRICS

Potential Phase 2

Provider of advanced cybersecurity, cloud computing, and IT infrastructure solutions tailored for U.S. government agencies to enhance national security and operational efficiency.

biometrica

Phase 2

Continuous monitoring platform leveraging its proprietary database of law-enforcement sourced, multi-jurisdictional, real-time arrest and conviction data.

DejaVuAI
See Once, Remember Forever™

Potential Phase 2

Developer of a lightweight algorithmic image search technology that function regardless of image cropping, recoloring, blurring or noise, partial obscuring, or skewing.

SUPLARI

Exiting 2026

AI-automated analytics and insights for procurement optimization in large enterprises.

GRAY MATTERS

Exited

Cloud-based supply chain management platform secured by blockchain to provide greater data transparency and integrity for tracking high value assets.

ultisim

Potential Phase 2

Developer of AI and ML-augmented digital twins for simulation learning, prediction, and scenario planning.

Exiting 2026

Machine-centric imaging software hardware providing ISR solutions for mission-critical environments.

MOIC for Fund I is currently projected to reach 5x to 7x with ample co-invest opportunities Q1 2026

	Low Scenario	High Scenario
Total Fund Size (AUM)	$21.45M	$25.72M
Committed Fund	75.93%	79.72%
Fund Uncommitted Reserves	$4.67M	$4.67M
MOIC	5.14x	7.24x
IRR	50%+	80%+
% Called	70.73%	70.73%

	Company	Timeline	Status	Co-Invest Opportunity CY 2026
Planning	ramona	Q1 2026	Closing	$4M Co Invest Capital on a $25M Round StealthPoint Fund I $3.5M committed
	biometrica	Q2 2026	Planning	$10M to $15M Capital Requirement StealthPoint Fund I with $1M
	ACUA OCEAN	Q2 2026	Planning	$1M-$11M Capital Requirement
Potential	ultisim	Q4 2026	Potential	$3M to $10M Capital Requirement
	NETCENTRICS	Q1 2027	Potential	$1m to $5m Capital Requirement

Thank You

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