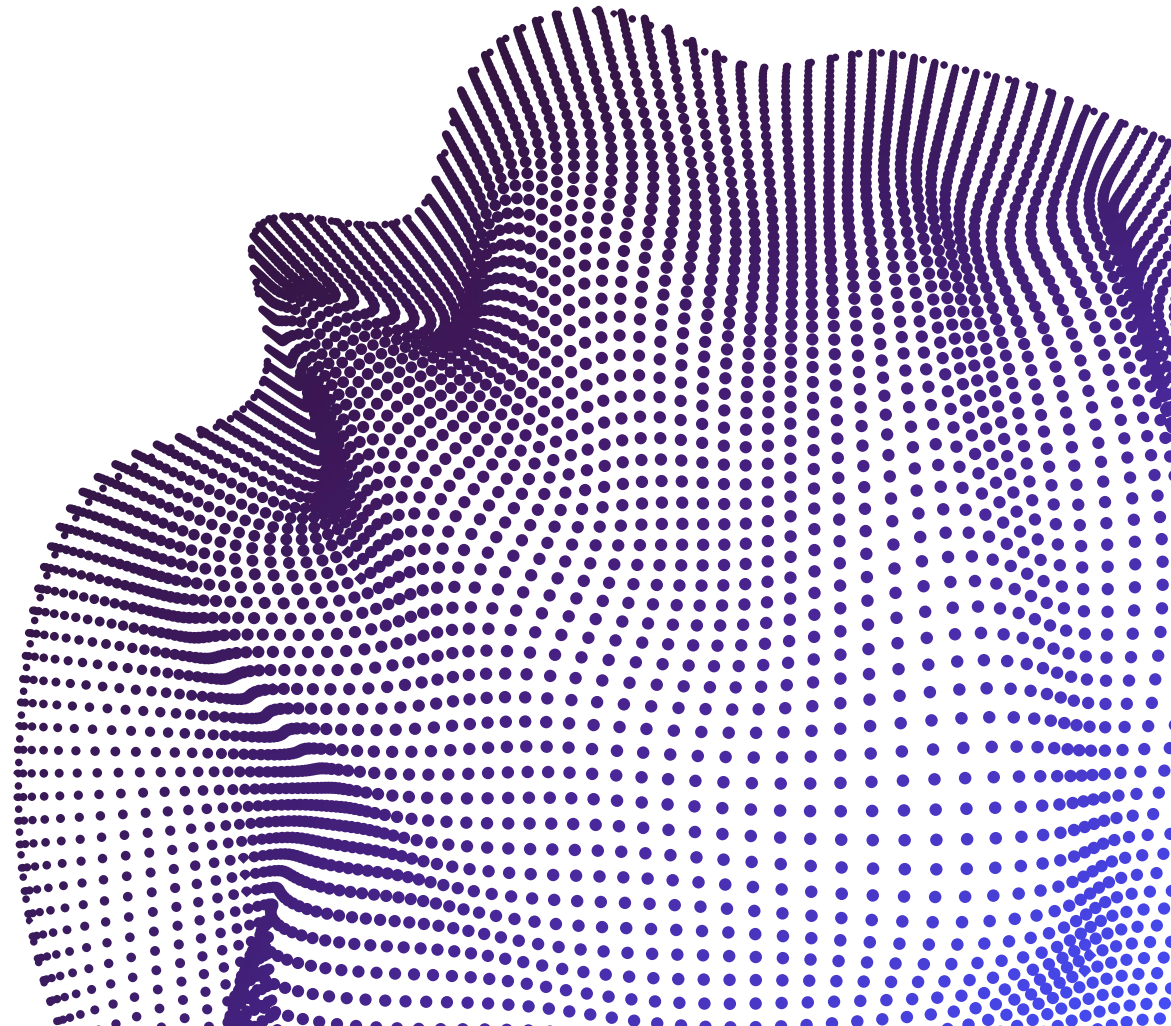
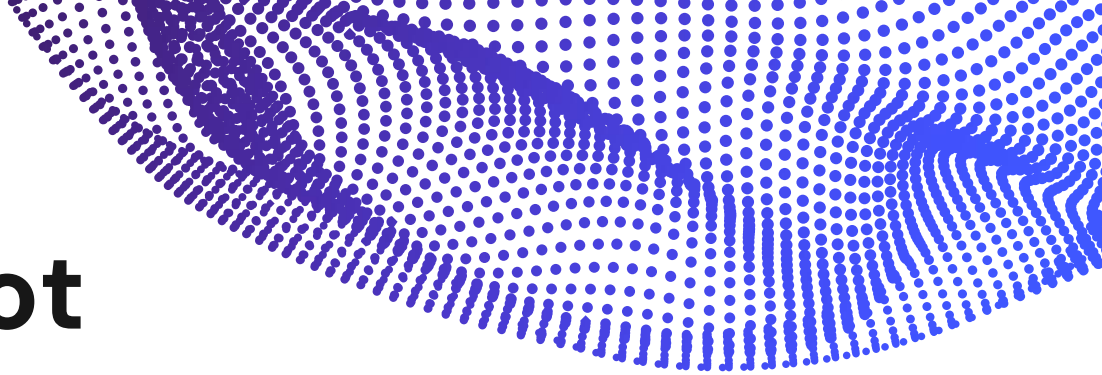


Defense Tech and the Widening Gap

Venture Capital Raised vs. Federal Contract Awards

Part 2: The gap didn't close. Here's why
that's not the whole story.





The Gap Didn't Close. It Got Bigger. And That's Not What You Think It Means.

When [Part 1](#) of TechnoMile's NatSec100 analysis was published, the number that defined the defense tech ecosystem was **\$42 billion**, the distance between what venture capital had poured into the top 100 defense startups and what the federal government had actually paid out. It was a structural problem rooted in misaligned incentives, an acquisition system not built for this moment, and three stakeholders — Defense, venture capital, and defense startups — describing the same ecosystem in fundamentally different languages.

One year later, the gap is **\$102.2 billion**.

That sounds like failure. It isn't. The gap grew because private capital moved faster than any acquisition system could match, not because demand dried up or confidence collapsed. Meanwhile, the rules of the game changed while the game was underway: new acquisition pathways opened, production became the organizing priority, and the relationship between startups and primes shifted from rivalry to dependency. The ecosystem didn't stall. It changed shape.

The question was never whether the gap would close in a single year. The question is whether the right things are happening on both sides of it. In 2026, for the first time, the answer is largely yes.

2025 was about proving defense tech could scale. 2026 is about proving it can deliver.

The Numbers: 2025 vs. 2026

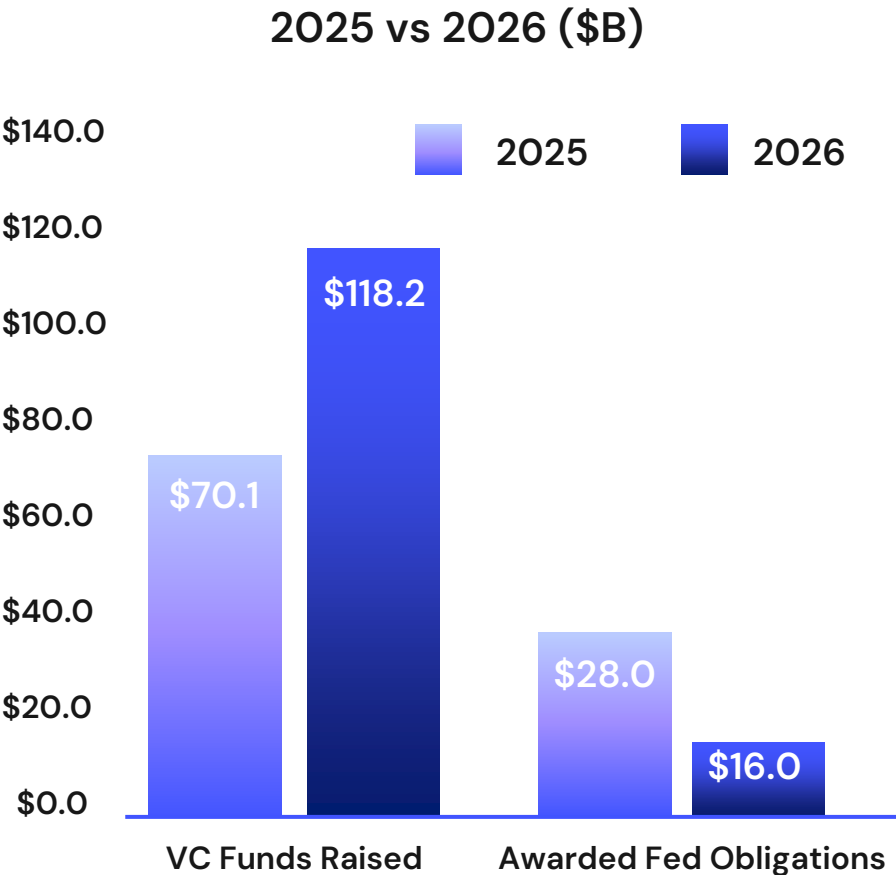
The headline figures tell one story. The context tells another.

In 2025, the top 100 venture-backed defense companies raised \$70.1B in private capital against \$28B in federal obligations, a \$42 billion gap. In 2026, VC funds raised jumped 68% to \$118.2B. Federal obligations, measured under a new Pryzm-based methodology, came in at \$16B, producing a gap of \$102.2 billion.

Two things need to be said about those federal obligations' figures. First, the methodology changed: the 2026 number uses Pryzm-based tracking and is not directly comparable to the 2025 total. The apparent decline in obligations likely reflects measurement differences as much as real-world change. Second, even accounting for that, the pipeline dynamic is real: contracting offices are not short on demand. They are short on throughput. The bottleneck has moved downstream, from convincing the government to buy, to the government's ability to award and the ecosystem's ability to deliver at scale.

What makes that gap harder to dismiss is this: every company in this cohort has cleared both bars. All 100 are venture-backed, and all 100 are federal awardees. The government isn't absent from this ecosystem. But at a **7.4:1 ratio** of private capital to federal obligations, the dollars are nowhere near proportional to the participation.

That is a maturation signal, not a distress signal. Capital is more targeted, more production-oriented, and increasingly tied to specific program outcomes rather than pure innovation bets. The ratio will close but only for the companies that understand where the bottleneck is.



At 7.4:1, private capital is outpacing federal dollars by a margin the acquisition system wasn't built to absorb.

What Actually Changed: 2025 to 2026

Part 1 of TechnoMile's NatSec100 analysis diagnosed the problem. Part 2 tracks how the ecosystem responded and where it's still stuck.

Five shifts define the move from 2025 to 2026:

1

Washington rewired the rules — acquisition reform moved from intent to policy

2

The battlefield imperative — production speed became a strategic deterrent

3

Production is now the bottleneck — only 8% of NatSec100 contracts are production contracts

4

The capital stack is being rebuilt — government capital is now meeting private capital partway

5

Primes are no longer the enemy — the industrial base is converging, not competing

Each of these shifts creates both a challenge and an opening. The companies that understand which side of each shift they're on will define the next era of national security contracting.

1

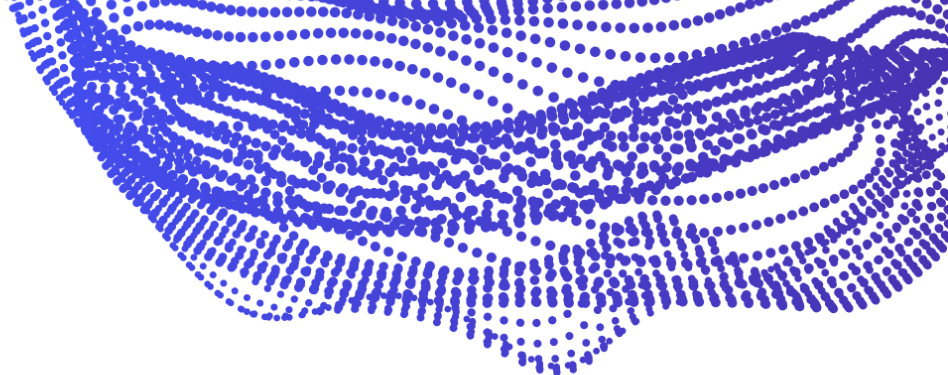
Washington Rewired the Rules

The on-ramp just got wider but wider doesn't mean it is easier to navigate.

OTA authority is now above \$18B annually. Commercial Solutions Openings have been expanded to all commercial products. The FY26 NDAA eliminated a key approval threshold above \$10M. Taken together, these changes represent the most significant rewrite of defense acquisition pathways in a generation and they happened fast, while most companies were still learning the previous rulebook.

The opportunity is real. So is the risk of missing it. These pathways are time-sensitive: vehicles open, funding moves, and windows close before many companies know they existed. For defense startups, the competitive advantage is no longer just having better technology. It's knowing which pathways have just changed and where the money is moving before your competitors do.

**The rules changed.
The question is
whether you know
what the new rules
are.**



2

The Battlefield Imperative

Ukraine changed the calculus. What the conflict demonstrated to every defense buyer watching is that production speed is now a strategic deterrent. A system that takes three years to reach the field isn't just slow. In a peer conflict, it may be irrelevant.

That imperative is showing up in contracting data long before it becomes a public solicitation. Production demand accumulates across programs, in modification patterns and delivery requirements, well ahead of any RFP. Companies like Hadrian and Machina Labs didn't get to scale by waiting for the solicitation, they tracked where manufacturing and delivery requirements were built and positioned themselves accordingly.

The defense companies that win the next generation of contracts are the ones that treat pipeline intelligence the same way the battlefield treats speed: as a tactical advantage.

Speed to field is now a strategic deterrent. Speed to pipeline should be too.

3

Production is Now the Bottleneck

Only **8%** of contracts awarded to NatSec100 companies are production contracts. That single figure explains more about the current state of the defense tech ecosystem than almost any other.

It means 92% of the companies in this cohort, companies that have collectively raised over \$118 billion in private capital are still competing for the same early-stage prototype and development dollars. The innovation pipeline is full. The production pipeline is nearly empty. And that gap is not primarily a technology problem or a demand problem. It is a transition problem: the path from "we built a working prototype" to "we are delivering at scale" remains one of the hardest crossings in federal contracting.

The companies that have made that crossing share a few traits. Hadrian built precision manufacturing capacity before defense customers formally required it, positioning themselves ahead of procurement demand rather than responding to solicitations.

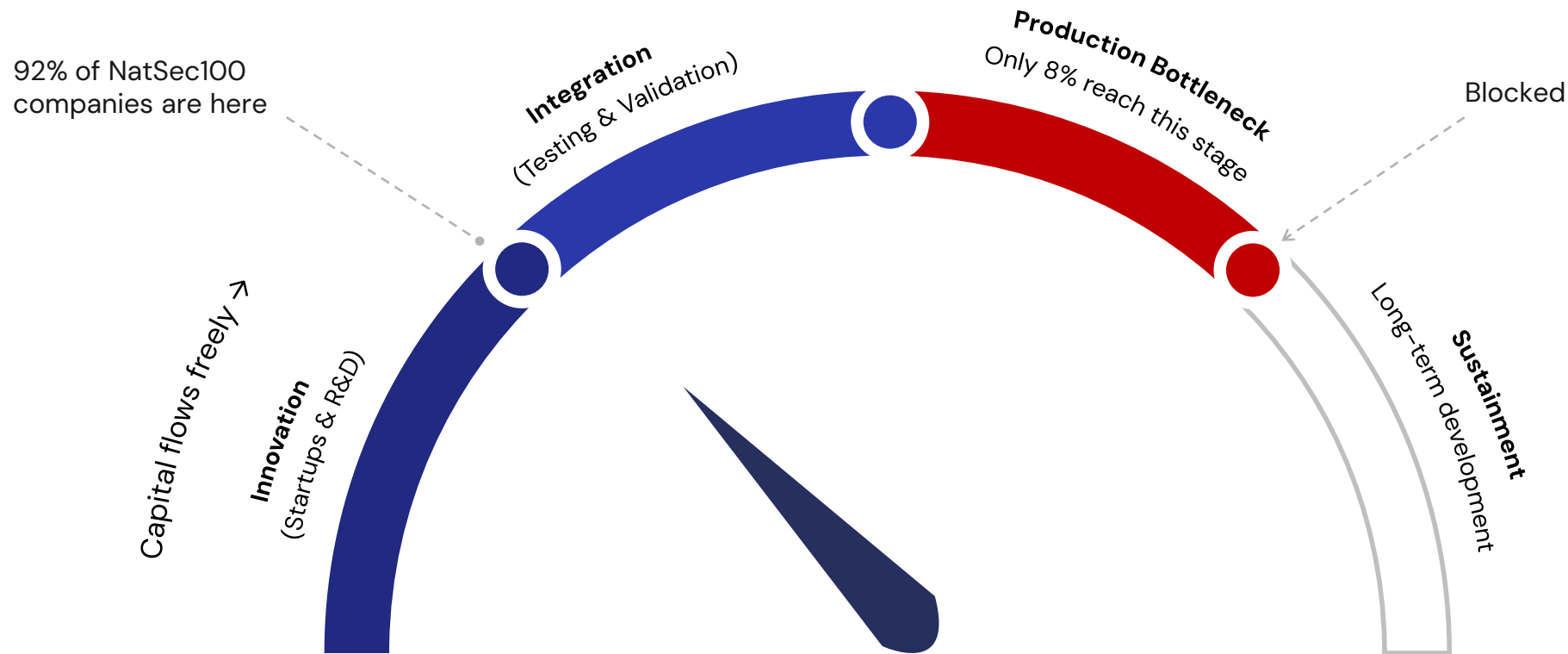
Machina Labs similarly tracked where manufacturing requirements were accumulating across programs and built toward those requirements before they became competitive RFPs. In both cases, the move to production wasn't reactive, it was the result of treating contract data as a strategic signal, not just a business development input.

The constraint is no longer generating innovation, it is scaling manufacturing, integration, and delivery. The companies that internalize that shift and build their go-to-market around production pathways rather than prototype competitions are the ones that will define the next era of national security contracting.

The bottleneck has moved — now it's execution, not innovation.

Production is Now the Bottleneck

The Problem Has Shifted: Innovation → Production



The constraint has shifted from generating innovation to scaling manufacturing, integration, and delivery.

4

The Capital Stack is Being Rebuilt

Private capital has gotten smarter. But the more consequential shift is on the government side.

New instruments are being deployed specifically to de-risk production investment: Defense Production Act-backed financing, multi-year purchase authorities, and Office of Strategic Capital programs. These aren't incremental tweaks — they're purpose-built tools designed to close the gap between prototype validation and production scale. The government is, for the first time, trying to meet private capital partway.

The catch is that these instruments are only useful to companies that know they exist and can track when they're being applied to programs relevant to their technology. A startup that can walk into an investor conversation and point to specific government capital moving toward its production timeline — against a backdrop of \$118.2B already deployed by private markets — is a fundamentally different fundraising conversation than one that can't.

Closing a 7.4:1 gap requires more than new pathways — it requires capital instruments that move at the speed of private markets. For the first time, some of them do.

Capital is moving from "can you build it?" to "can you build it at scale?" The companies that close the gap will be the ones that can answer both questions at once.

5

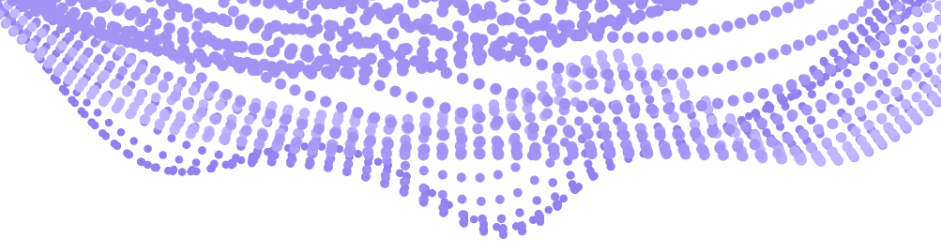
Primes Are No Longer the Enemy

The narrative of innovative startups versus slow-moving primes was always a simplification. In 2026, it's no longer even a useful one.

The data is unambiguous: primes are pivoting to Other Transaction Authority vehicles, expanding teaming activity, and actively seeking nontraditional partners. Booz Allen Hamilton increased OTA proposal submittals by **90%**, not because they suddenly became more innovative, but because non-FAR acquisition pathways are now the fastest route to new defense business for firms of any size. That's the same on-ramp nontraditionals have been using for years. The difference is that primes are showing up there, too, and they're not showing up as competitors. They're showing up as potential partners who need what startups have.

The reason is structural. Startups bring breakthrough technology, speed of iteration, and dual-use solutions. Primes bring certified manufacturing, global supply chains, export compliance infrastructure, and sustainment networks. Neither side has the full stack. The mission requires both. What's emerging is not a winner-takes-all competition but a hybrid industrial base where the bottleneck — production, integration, and delivery — sits squarely in the gap between what startups can build and what primes can scale.

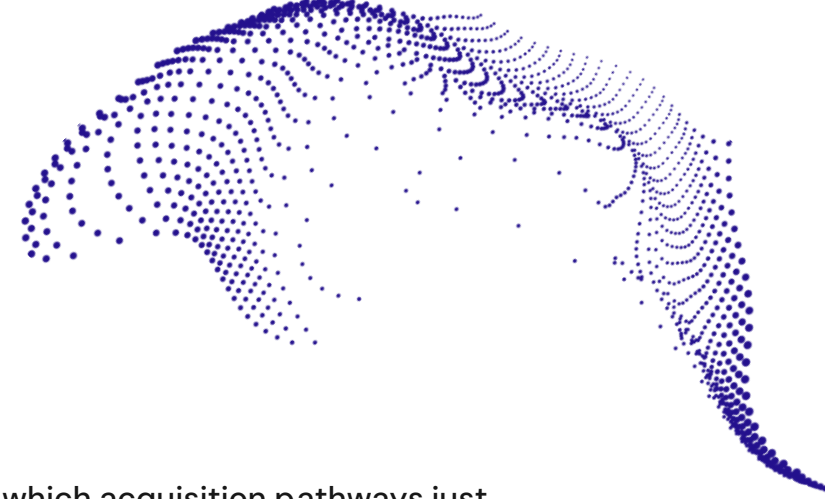
For defense startups, this reframes the strategic question. The goal is no longer to outcompete a prime for a contract. It's to be the partner a prime can't deliver without.



Defense Startups	Primes
Breakthrough Technology	Global Supply Chain
Speed of Innovation	Certified Manufacturing
Dual-Use Solutions	Export Compliance
Agility	Sustainment Network
Rapid Iteration	Past Performance

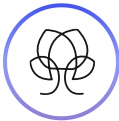
Don't try to
outmaneuver a prime.
Become indispensable
to one.

Our Next Analysis Will Not Ask Whether the Gap Closed. It Will Answer Who Closed It.



The companies that close the gap won't do it by accident. They'll do it with better intelligence, knowing which acquisition pathways just changed, where production demand is building before it becomes a solicitation, which primes are expanding teaming activity and where their capacity gaps are, and which of their existing contracts are on a trajectory toward production rather than stuck in perpetual prototype.

That is what TechnoMile is built for.



GovSearchAI helps your BD team track shifts in acquisition pathways and procurement activity before they become public solicitations.



Contracts Suite tracks the full contract lifecycle, including contract type, modification history, and option periods, so you can identify which relationships are moving toward production and manage toward the ones that will.



SIMS gives cleared organizations the operational backbone to manage classified work at scale, automating compliance, centralizing security workflows, and maintaining a complete audit trail. Less risk, faster throughput, and always inspection ready.

Together, they give defense companies and primes the visibility to navigate the contracting landscape with the speed and precision the new acquisition environment demands.

The question is whether your organization has the visibility to see where it's going.