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To Infinity and Beyond

VC investments in defense tech are surging. **Will they pay off?**

FOR DECADES, MOST VENTURE capitalist investors ignored or outright shunned defense technology. In 2020, they invested $1.6 billion in the sector.

Fast-forward to this year, and venture capitalist (VC) investments in defense tech reached $14.6 billion in just the first five months, according to Crunchbase. That is about nine times the 2020 level—with seven months to go. The effect has been both immediate and dramatic, funding sweeping technological shifts in the military sector—and altering the competitive landscape and pecking order within the defense supply chain.

So what changed? Pretty much everything. The conflict in Ukraine has altered the nature of warfare, rendering certain military hardware obsolete overnight. The war in Iran has depleted Pentagon inventories of critical weapons. Defense budgets among NATO members are rising dramatically, bolstered by Europe's scramble to reduce its dependence on the U.S. China has demonstrated its chokehold on critical rare-earth metals, magnets, batteries and agile, high-speed, first-person-view drones. Software and artificial intelligence (AI), two areas VC investors are very familiar with, have fast reached equal or greater importance than military hardware alone. The Pentagon is actively courting VCs, modifying its procurement practices and pushing for fixed-price development contracts (which defense tech companies have actively embraced) over cost-plus contracts (long favored by traditional prime contractors). Finally, the IPO market for both defense and space tech has been hot.

Although VC interest in defense tech is surging, it remains highly concentrated. The top 10 names have captured about 90% of the funding, with the rest divided among countless smaller startups. One of the big winners is Anduril Technologies, a nine-year-old startup founded 105 years after the world's largest defense contractor, Lockheed Martin. Anduril, which supplies AI software and autonomous hardware, in May raised $5 billion in its eighth funding round valuing it at $61 billion, or 30 times 2025 sales. Recently, the company announced it was in discussions with investors to raise even more money at a $100 billion valuation.

Anduril, Helsing, ShieldAI and Saronic have raised a combined $21.5 billion at ever-increasing valuations, gaining an enormous competitive advantage over traditional defense primes, which typically trade at 2-3 times sales. Should Anduril raise capital at a $100 billion valuation, it will have a higher enterprise value than Northrop Grumman ($91 billion). Should the startup raise capital in yet more VC funding rounds—or go public via an initial public offering (IPO)—its enterprise value could eclipse that of Lockheed Martin ($154 billion).

Valuations are clearly getting frothy. Anduril CEO Brian Schimpf recently warned that the IPO market was in the "middle of a hype cycle," and that some valuations are "crazy high" and dangerously overvalued. While he was referring to certain IPOs, not VCs, venture investment activity and valuations are inextricably linked to IPO activity and valuations.

An admission IPOs are in bubble territory suggests defense tech valuations may be as well. All eyes are on SpaceX, which went public on June 12, raising $75 billion at a $1.77 trillion valuation. Once the company's trading range stabilizes, a steady stream of defense tech IPOs will likely follow. Silicon Valley Defense Group estimates that nearly half of the top 100 venture-backed defense tech companies plan to go public if and when the opportunity arises.

The sizable list of VC firms betting on defense tech includes Andreessen Horowitz, Accel, Dragoneer, Founders Fund, General Catalyst, Kleiner Perkins, Lightspeed, Lux, Sequoia, Thrive, 8VC and others. One or more of the foregoing were early investors in Airbnb, Anthropic, Coinbase, DoorDash, Facebook, Google and Spotify.

Top 10 VC Investment Rounds in Defense Tech

	Company	Activity	Amount Raised*
1	Anduril Industries (U.S.)	Advanced drones and surveillance	$5
2	Anduril Industries (U.S.)	Advanced drones and surveillance	2.5
3	Helsing (EU)	AI-enabled battlefield intelligence	1.8
4	Saronic Technologies (U.S.)	Autonomous naval surface warships	1.8
5	ShieldAI (U.S.)	AI drone software	1.5
6	Helsing (EU)	AI-enabled battlefield intelligence	1.2
7	Iceye (EU)	Satellite based earth observation	1.2
8	Quantum Systems (EU)	AI-driven reconnaissance drones	1.2
9	Stark Defense (EU)	Low-cost loitering munitions	0.6
10	Chaos Industries (U.S.)	Counter drone/radar	0.5

*U.S. $ Billions

Source: Janes Capital Partners

As with other sectors that have seen investment booms—dot-com, crypto, etc.—there will be some big winners and a lot of losers. A common refrain in Silicon Valley is that 90% of returns in an investment category accrue to the top one or two players. It remains to be seen how many defense tech VC investments will become market leaders in their respective segments and whether the sky-high valuations and record inflows are a smart bet on a technological age that is still unfolding. In the interim, VC investments continue to increase, the time between funding rounds continues to drop, and valuations continue to soar.

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