



**ATLANTIC WALK RESEARCH**

**5/31/2026**

# **American Drone Dominance**

**Supply Chain Architecture, Procurement  
Landscape & Investment Framework**





## The Investment Thesis

- **Warfare has changed, and the U.S. was caught unprepared.** Operation EPIC FURY (Feb 28, 2026) proved the U.S. cannot sustain attritable OWA drone warfare at scale. CENTCOM arrived with dozens of LUCAS drones and burned through hundreds. Iran had 50,000+. The gap is the mandate.
- **Three forcing functions already in motion.** The \$54.6B DAWG FY2027 request, the January 1, 2027 NDAA hard procurement deadline, and REJTF's active emergency OTA procurement cycle. None are discretionary. All are already underway.
- **Four names, three tiers, one portfolio.** Long AVEX (multi-tier REJTF, 9,300+ systems deployed, 9 analysts), RCAT (Army PoR, 849% YoY, 3 analysts), UMAC (only public domestic motor supplier). Target AVAV (PoR depth, Red Dragon deep strike, post-EPIC FURY earnings catalyst).
- **The first signal will be an earnings surprise.** REJTF operates through OTA authority. Awards are invisible until disclosed in earnings. None of the REJTF replenishment demand is in any analyst's current model. Key dates: AVAV Q4 FY2026 (June/July), RCAT quarterly ramp, AVEX Q2 2026 (Aug 13).



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**The central thesis: warfare has fundamentally changed. The Russia-Ukraine conflict proved that cheap, autonomous drone swarms defeat expensive, conventional military hardware at scale. Every major military has absorbed this lesson, except, until very recently, the United States. Operation EPIC FURY exposed the gap in real time. The investment opportunity is the forced, accelerating modernization of the world's largest defense budget toward the new paradigm of warfare.**

## EXECUTIVE SUMMARY

The central thesis: warfare has fundamentally changed. The Russia-Ukraine conflict proved that cheap, autonomous drone swarms defeat expensive, conventional military hardware at scale. Every major military has absorbed this lesson, except, until very recently, the United States. Operation EPIC FURY exposed the gap in real time. The investment opportunity is the forced, accelerating modernization of the world's largest defense budget toward the new paradigm of warfare.

The Russia-Ukraine conflict rewrote doctrine in real time: \$400 FPV drones destroyed \$4M tanks at a 10,000:1 cost asymmetry; Geran-2 munitions (Shahed-136 clones) at \$30K/unit forced multi-million-dollar interceptors per shot. [42] Iran fielded over 50,000 one-way attack drones before EPIC FURY. [8] Many militaries adapted globally. [44] The U.S. Department of Defense did not. Operation EPIC FURY (2/28/2026) exposed this gap: U.S. carrier groups achieved early conventional success, but the asymmetric drone contest in the Strait of Hormuz produced an operational deadlock. CENTCOM arrived with "dozens" of LUCAS OWA drones and burned through hundreds; [5] Iran fielded tens of thousands of Shahed-class munitions. The cost arithmetic was unsustainable. The deadlock is the forcing function. The operational failure over Iran was diagnostic. CENTCOM entered Operation EPIC FURY with the most sophisticated air force in history and found itself rationing one-way attack drones within days, constrained by a domestic industrial base that cannot sustain attritable warfare at scale. That gap between declared capability and operational reality is now the organizing principle of U.S. defense modernization.

The \$54.6B Defense Autonomous Warfare Group (DAWG) request, the NDAA's hard January 2027 procurement deadline, and the rumors of the Office of Strategic Capital's direct investment mandate are institutional acknowledgment that the drone deficit must be closed, on a rapid timeline. This report is structured around that mandate: who gets the contracts, who can fulfill them, and where the supply chain breaks down before they do.

The investment framework is structured in three tiers:

- Tier 1 targets drone manufacturers with Programs of Record and battle-tested systems (AVAV, AVEX, RCAT, KTOS);
- Tier 2 targets AI-enabled autonomy and swarming software (PLTR for the Maven kill-chain layer, SWMR as a speculative swarm AI position — explicit extreme valuation risk);
- Tier 3 targets domestic component suppliers facing acute shortages driven by T-Motor sanctions and NDAA compliance (UMAC).



Key near-term catalysts: Announcement of any concrete Office of Strategic Capital activity, DDP Phase II at Camp Grayling (June 8–20), AeroVironment Q4 FY2026 earnings (June/July): first earnings report from the largest PoR drone manufacturer since EPIC FURY, RCAT Q2–Q4 revenue cadence against \$150–180M guidance, AVEX Q2 2026 earnings (Aug 13), Shield AI Hivemind swarm demonstration (Fall 2026), and the January 1, 2027 NDAA procurement hard deadline.

## SECTION 1: THE STRATEGIC CONTEXT - WHY WARFARE HAS CHANGED

The Russia-Ukraine conflict has been the largest real-world stress test of modern military technology since World War II. Ukrainian forces destroyed over \$40B+ of Russian armored equipment including more than 3,000 tanks using FPV drones at ~\$400/unit, representing a 10,000:1 cost asymmetry no conventional force can absorb at scale. [47] Geran-2 (Shahed-136 clones) loitering munitions at \$30K/unit forced multi-million-dollar Patriot interceptors as the response, a 100:1 cost-exchange loss per intercept. [42] Globally, many militaries began domestic OWA and counter-drone programs; NATO allies built industrial bases. The U.S. did not, constrained by procurement bureaucracy, NDAA compliance requirements, and institutional inertia optimized for the prior era. [44]

Operation EPIC FURY was the first major U.S. combat operation of the post-Ukraine era. U.S. carrier strike groups achieved conventional success, striking over 7,000 Iranian targets, destroying over 100 Iranian naval vessels, and running over 6,500 combat flights. [1] The asymmetric phase did not proceed as designed.

Iran fielded over 50,000 Shahed-series OWA drones; [8] U.S. forces intercepted over 6,000 Iranian OWA drones and 1,500 ballistic missiles, burning SM-2/SM-6 and Patriot interceptors for millions of dollars per shot. [7] CENTCOM arrived with "dozens" of LUCAS drones (Cooper, SASC May 14, 2026) and burned through hundreds in the first weeks. [5] The Strait of Hormuz remains in operational deadlock. This is the procurement mandate.

Following the humiliation in the Strait of Hormuz, CENTCOM Commander Cooper testified before Congress on May 14, 2026, stating three priorities: more electronic warfare, counter-UAS capability "on the leading edge," and capabilities against hard and buried targets. [5,6]

The result was FY2027 budget requests including unprecedented UAS/sUAS line items. [40] REJTF (Rapid Employment Joint Task Force, est. September 2025) is mandated to deploy capability in 60 days via OTA authority. [12,13] The Drone Dominance Program (\$1.1B), Army sUAS expansion (\$726M-\$1.3B), CENTCOM/REJTF replenishment requirements, and DHS procurement authority (\$3B+) collectively represent over \$5 billion in active or near-term contracting authority. [19,20,40]

This procurement is underway and represents the infancy of a multi-year modernization cycle. The cancellation of legacy Programs of Record, such as the Army's Gray Eagle and Shadow, signals the deeper shift: the DoD is dismantling the traditional PoR model that favored large primes and replacing it with OTA rapid fielding, creating a compressed window in which early PoR holders and NDAA-compliant manufacturers capture outsized contract share before the field narrows.



## SECTION 2: THE POLICY ARCHITECTURE

### Executive Order 14307 - Unleashing American Drone Dominance (June 2025)

Signed June 6, 2025. [14] Principal mechanisms:

- Federal agencies must prioritize U.S.-manufactured UAS over foreign-made alternatives 'to the maximum extent permitted by law.'
- The Federal Acquisition Security Council directed to publish a Covered Foreign Entity List within 30 days.
- Secretaries of Commerce and Defense directed to promote American drone exports internationally to counter China's global market dominance.
- BVLOS expansion established as a top national priority, with implications for FAA rulemaking.

### Department of War Memo - Unleashing U.S. Military Drone Dominance (July 2025)

Defense Secretary Hegseth's implementing memo: [15]

- Every U.S. Army squad to be equipped with small one-way attack drones by end of FY2026; Indo-Pacific units prioritized.
- Active-duty experimental drone formations established by September 2025.
- Restrictive procurement policies rescinded; authority delegated directly to warfighters.
- Drone Dominance Program structured to produce ~340,000 low-cost sUAS by 2027 at target of \$2,300/unit; \$1.1B funded by the "Big Beautiful Bill."

### Regulatory Calendar - Key Gates

Date	Requirement	Implication
Feb 28, 2026 (PAST)	Operation EPIC FURY commenced	LUCAS OWA first combat use. GARC drone boats deployed in Strait of Hormuz. Non-discretionary replenishment demand confirmed.
May 14, 2026 (PAST)	Gen. Cooper SASC posture testimony	Three stated procurement priorities: EW, counter-UAS, hard/buried targets. DoD directed to fund drone replenishment at scale.



May 20, 2026 (PAST)	OMB drone security compliance deadline	PASSED. Federal agencies updated procurement policies for NDAA-compliant systems.
June 8-20, 2026	DDP Phase II qualifier event, Camp Grayling	Hard NDAA compliance gate on motors, batteries, and radios. First enforcement test.
Nov 10, 2026	CMMC Level 2 deadline for CUI handling	Vendors handling Controlled Unclassified Information must achieve CMMC Level 2 certification.
January 1, 2027	Hard NDAA procurement deadline	Agencies legally barred from procuring drone components from covered foreign entities.

### SECTION 3: INVESTMENT FRAMEWORK

**This section is analytical research only. It does not constitute investment advice, a solicitation to buy or sell any security, or a recommendation. Past performance is not indicative of future results. All investments carry risk of loss.**

The cancellation of legacy Programs of Record such as the Army's Gray Eagle and Shadow is not a signal of reduced drone spending. It is a signal that the acquisition model itself is changing. The DoD is replacing the PoR model that favored large primes with OTA rapid fielding, DDP mass production, and REJTF emergency procurement. In this environment, the companies that established Programs of Record before the model changed carry contracted revenue as a floor while simultaneously competing in the new rapid-fielding channels. New entrants have no floor, only upside. That asymmetry is the analytical foundation of the tier structure below: Tier 1 names hold PoRs; Tier 2 and Tier 3 names are positioned to capture the new procurement channels that legacy primes cannot access at the speed or price point the DoD now requires.



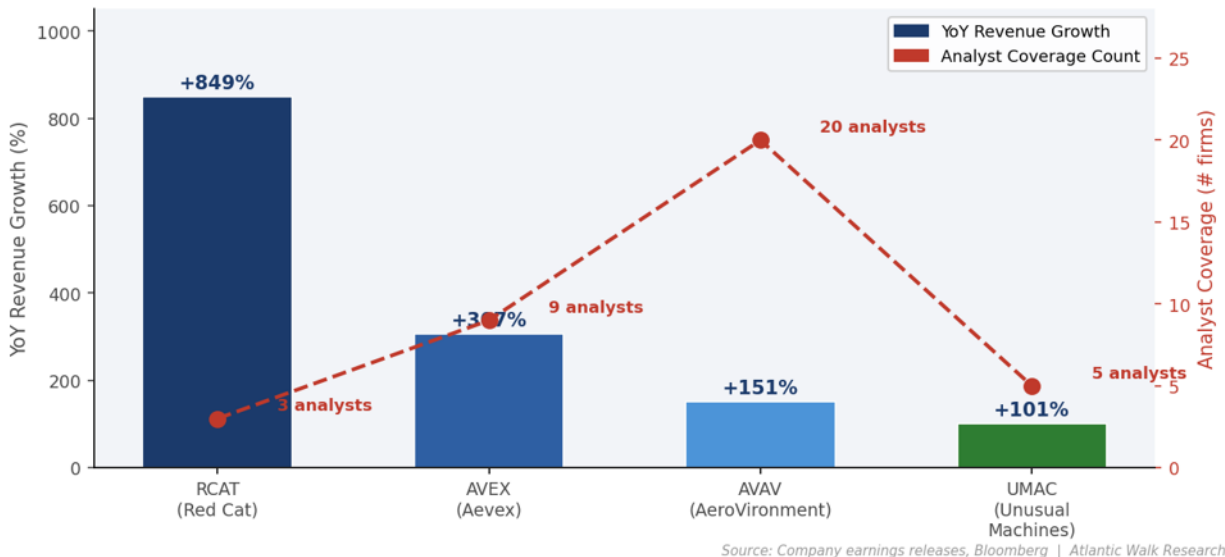
Name / Ticker	Mkt Cap	Revenue / Growth	Analysts	Conviction / Tier	Thesis Summary
<b>AeroVironment (AVAV)</b> <b>Position: Target</b>	~\$6B	Q2 FY2026: \$472.5M (+151% YoY); FY2026 guidance \$1.95–2.0B	<b>Est. 20+</b>	<b>CORE — Tier 1</b>	Switchblade loitering munition is battle-tested PoR: proven in Ukraine. \$743M additional contract ceiling + \$54.9M delivery order. VAPOR VTOL \$14.6M Army contract. 12-state production footprint with new Utah facility targeting double-digit Switchblade throughput increase. FY-26 revenue guidance implies the largest year of growth in company history. More covered than AVEX/RCAT but revenue scale and combat validation are unmatched in public markets.
<b>Aevox Aerospace (AVEX)</b> <b>Position: Long</b>	~\$2.8B	Q1 2026: \$216.7M (+307% YoY); FY2026 guidance \$600–620M; \$88–94.5M adj. EBITDA	<b>9</b>	<b>CORE — Tier 1</b>	IPO'd April 17, 2026 at \$20; currently ~\$37. Q1 2026 earnings (May 20): \$216.7M revenue, EPS \$0.22 beat vs. \$0.17 est., net income \$21M (vs. \$27.3M loss prior year). 90%+ of FY2026 revenue covered by funded backlog. Phoenix Ghost + EUCOM Deep Strike: 9,300+ systems, \$1.2B total contract value. Programs of Record in USAF and SOCOM. Group 3–4 persistent ISR combat-validated by EPIC FURY. Consensus target ~\$36 (Needham \$45, Baird \$38, JPM \$35, Goldman \$34, Jefferies \$33, RBC \$31). Risk: Madison Dearborn 75%+ voting control; lock-up expiry ~Oct 2026.
<b>Red Cat Holdings (RCAT)</b> <b>Position: Long</b>	~\$1.3B	\$15.5M Q1 2026 (+849% YoY); FY guidance \$150–180M	<b>3</b>	<b>CORE — Tier 1</b>	Army SRR Program of Record (5,880 Black Widow units, contracted revenue). FANG OWA drone in DDP. AI-enabled targeting platform. Q1 2026 gross margin turned positive (12.7% vs. -52.1% prior year). NATO ally orders via NSPA: international demand signal. Lowest analyst coverage of any CORE name. 3 analysts on a PoR company. Primary risk: manufacturing ramp execution to hit \$150–180M FY target.



<b>Kratos Defense (KTOS)</b> <b>Position:</b> <b>None</b>	~\$11.6B	\$1.3B FY2025 (+19% YoY); guidance \$1.6–1.7B	<b>Est. 15+</b>	<b>SECONDARY — Tier 1</b>	Valkyrie loyal wingman CCA Program of Record. Marine Corps \$231.5M + Space Force \$447M contracts. Most covered name in framework; lower undiscovered alpha. 2026 guidance likely conservative vs. actual contract flow. Remain as monitor.
<b>Palantir Technologies (PLTR)</b> <b>Position:</b> <b>None</b>	~\$195B	\$1.6B Q1 2026 (+85% YoY)	<b>32</b>	<b>SECONDARY — Tier 2</b>	Maven Smart System deployed in CENTCOM AOR : DoD AI targeting standard across all 32 NATO members. \$480M Army contract. Shield AI Hivemind layers swarm autonomy on top of Palantir kill-chain logic for LUCAS program. Risk: at \$195B market cap and 32 analysts, DoD re-rating is substantially priced. Retain for AI/autonomy exposure and CENTCOM revenue visibility.
<b>Swarm Inc. (SWMR)</b> <b>Position:</b> <b>None</b>	~\$580M	~\$310K FY2025 (-6% YoY)	<b>1</b>	<b>SPECULATIVE — Tier 2</b>	⚠️ EXTREME VALUATION RISK: ~1,900x revenue. Ukraine combat-proven swarm AI: 100,000+ combat missions since April 2024. STYX AI C2 system enables single operator to control hundreds of drones. MINAS autonomy software; TRIDENT OS with military-grade encryption. IPO'd March 17, 2026 . Surged ~1,000% to \$65, now ~\$53. Investment rationale: a single DoD program contract would be transformative relative to current revenue. Software-only model means margins would be exceptional at scale. Binary event stock.
<b>Unusual Machines (UMAC)</b> <b>Position:</b> <b>Long</b>	~\$550M	\$11.2M FY2025 (+101% YoY)	<b>5</b>	<b>COMPONENT TIER</b>	Only publicly traded domestic motor supplier post T-Motor OFAC sanction. ARK competes on FC/ESC but not motors. Path to cash-flow positive end 2026. Primary beneficiary of NDAA compliance forcing function. Risk: margin recovery pace, FC/ESC competition from ARK.



### Revenue Growth vs. Analyst Coverage — The Coverage Gap Thesis



## Stress Tests Applied During Research

**Key vulnerability: The Blue UAS Cleared List currently contains a loophole. DoD-approved drone platforms can still incorporate Chinese-made motors, batteries, and ESCs because domestic alternatives are not yet at sufficient scale. The DDP Phase II requirement closes this gate from the demand side, creating urgent pull for domestic component suppliers regardless of the state of Blue UAS list reform. [18]**

### The Component Tier

The OFAC sanctioning of T-Motor (Jiangxi Xintuo Enterprise Co.) in early 2025 was the pivotal supply shock for the motor sub-tier. T-Motor was the dominant global FPV drone motor supplier. [16,17] The domestic market has three principal players: Unusual Machines (UMAC, publicly traded), ePROPELLED (private), and KDE Direct (private). On flight controllers and ESCs, competition is real: ARK Electronics (private) has 13 products on the DIU Blue UAS Framework including the ARKV6X flight controller and 4IN1 ESC. UMAC's motor-specific position is more defensible than its broader component narrative, as ARK does not manufacture motors. [18]

### The ARK Electronics Challenge (FC/ESC Competition)

ARK Electronics (Salt Lake City) has 13 products on the DIU Blue UAS Framework (ARKV6X flight controller, 4IN1 ESC) and competes directly with UMAC on FC/ESC. [18] The "regulatory monopoly" characterization of UMAC is too strong for the FC/ESC sub-tier. UMAC holds the strongest public market position on motors specifically (ARK does not manufacture motors; ePROPELLED and KDE Direct are private), but faces genuine competition on FC/ESC from ARK and ModalAI.



### ***Capacity Constraints - The Whole Sector Is Undersized***

Domestic drone component manufacturing cannot currently supply 340,000 drones at DDP pace. UMAC's entire FY-25 revenue was \$11.2M. [33] The Blue UAS component loophole persists precisely because domestic alternatives aren't at sufficient scale to enforce closure without disrupting procurement. [18] This validates the demand thesis while implying the revenue ramp will be slower than procurement calendars suggest. Tier 3 is a 12-24 month thesis rather than 6-12.

## **Primary Companies in Focus**

### ***Unusual Machines (UMAC) - The Domestic Motor Monopoly***

UMAC is the only publicly traded domestic drone motor supplier following the T-Motor OFAC sanction. This is a structural position created by regulatory fiat rather than competitive merit, which is precisely why it is defensible. [16,17] The May 2026 \$75M inventory order with U.S. suppliers and the acquisition of DroneNX (Upgrade Energy) signal a deliberate vertical integration strategy, pulling battery supply in-house to reduce the single largest remaining input dependency. [33] FY-25 revenue of \$11.2M reflects the pre-EPIC FURY, pre-DDP demand environment. Path to cash-flow positive targeted by end of 2026. Primary risks: manufacturing ramp execution, FC/ESC margin compression from ARK competition, and the 12-24 month lag between procurement awards and component revenue recognition. We are long.

### ***AeroVironment (AVAV) - The Battle-Tested Anchor***

Switchblade 300/600 is one of the most combat-proven drone system in the U.S. arsenal, deployed in Ukraine. Q2-26 revenue of \$472.5M (+151% YoY, company record) reflects Ukraine-driven demand converting to DoD-funded production at scale. [27] The \$743M Switchblade contract ceiling + \$54.9M delivery order provides multi-year revenue visibility. [27] Beyond Switchblade, AVAV's Red Dragon is a 400km-range, GPS-denied OWA platform specifically architected for contested electromagnetic environments, and maps directly to the deep strike mission tier that General Cooper identified as CENTCOM's third explicit procurement priority: capability against hard and buried targets. [27] In our view, Switchblade and Red Dragon position AVAV as a candidate across REJTF's active emergency procurement cycle, in addition to its existing PoR revenue base (see **Section 4C**). AVAV carries higher sell-side coverage than RCAT or AVEX, but PoR depth, combat validation at this scale, and multi-tier REJTF exposure justify Tier 1 CORE inclusion. Q3/Q4-26 earnings (June/July 2026) will be the first results to capture a full quarter of post-EPIC FURY demand signals, including any REJTF awards that companies are permitted to disclose. We are looking for an entry.

### ***RCAT Revenue Trajectory - Q1-26 Validation***

Q1 2026: \$15.5M revenue (+849% YoY), gross margin +12.7% vs. -52.1% prior year. [25] Primary driver: Army SRR PoR (5,880 Black Widow units over five years). This is contracted, non-competitive revenue. \$150-180M full-year guidance implies ~\$45M/quarter for Q2-Q4. [25] NATO ally orders via NSPA (confirmed Q1) provide an EPIC FURY demand signal. [25] Any REJTF/CENTCOM direct order is purely additive to consensus, not modelled by any of the 3 covering analysts. We are long.



### **Aevex Aerospace (AVEX) - 9,300 Systems, 9 Analysts**

AVEX is the only publicly traded company with confirmed combat-deployed platforms across two of the three identified REJTF mission tiers. Phoenix Ghost and Atlas are the most volumetrically combat-proven OWA systems in the U.S. arsenal with 9,300+ systems delivered and committed across Phoenix Ghost and EUCOM Deep Strike, and \$1.2B total contract value. AVEX has a Big Safari rapid-acquisition relationship that is precisely the procurement channel REJTF's OTA structure is designed to use (see **Section 4C**). [28] Disruptor (372-mile range, 50-lb payload, RATO launch) maps directly to Cooper's third procurement ask: capability against hard and buried targets at meaningful standoff distance. In our view, AVEX is the most likely beneficiary of REJTF emergency procurement across the classified and deep-strike tiers simultaneously (see **Section 4C** for full analysis). Neither platform is in any analyst's current revenue model. The fundamental picture is already strong without REJTF. Q1-26: \$216.7M revenue (+307% YoY), EPS \$0.22 beat vs. \$0.17 est., net income \$21M vs. \$27.3M loss prior year. [29] 90%+ of FY-26 revenue covered by funded backlog at the time of reporting. FY-26 guidance confirmed at \$600–620M revenue, \$88–94.5M adj. EBITDA. [29] Nine analysts cover the name post-earnings: JPM \$35, Jefferies \$33, Needham \$45, consensus ~\$36, at \$432.9M FY-25 revenue. For a company this size with a funded backlog and combat-validated platforms, nine analysts is thin. That gap closes as institutional awareness catches up to the fundamental story. Primary risk: Madison Dearborn 75%+ voting control and lock-up expiry ~October 2026 supply overhang. [28] We are long.

### **Names to Avoid in This Window**

<b>Name / Ticker</b>	<b>Why Avoid</b>
Ondas Holdings (ONDS)	Already up 281% in 2025. \$5B market cap on \$50.7M revenue. Pre-profitable until 2028. Five rapid acquisitions create integration risk. The easy money is made.
Wolfspeed (WOLF)	Emerged from Chapter 11 bankruptcy September 2025. Negative gross margin. A semiconductor turnaround bet — not a drone procurement play and not positioned to capture LUCAS/DDP component demand in the 6-12 month window.
Joby Aviation (JOBY)	eVTOL play with some defense adjacency but fundamentally a commercial air taxi company. DoD contracts are small and non-core to the business model. Defense revenue recognition is 3-5 years out at best.
DJI / Chinese drone proxies	Multiple U.S. regulatory actions restricting procurement. FCC halted certification of foreign UAS component designs December 2025. Commerce Dept weighing outright sales prohibition.



## SECTION 4: THE PROCUREMENT LANDSCAPE

Active and near-term procurement across DoD, DHS, and FEMA exceeds \$3 billion in direct contracting authority through 2027. [19,20,40] This figure excludes the FY2027 Defense Autonomous Warfare Group (DAWG) request of \$54.6 billion and the OSC loan program request of \$20.2 billion. Taken together, this represents a generational step-change in autonomous warfare investment.

Program	Agency	Size	Timeline	Key Notes
LUCAS OWA Drone Replenishment (post-EPIC FURY)	CENTCOM / Navy / OSD	TBD (urgent)	Active	FIRST COMBAT USE Feb 28, 2026 (Op. EPIC FURY). 'Hundreds' of LUCAS expended per CENTCOM Commander Cooper (SASC, May 14). \$35K/unit. Up to 20 manufacturers being qualified. Shield AI Hivemind integration awarded May 2026 for swarm autonomy. Fall 2026 operational demo.
GARC Drone Boat (NAVCENT / 5th Fleet)	NAVCENT / Task Force 59	Classified / undisclosed	Active in Strait of Hormuz	BlackSea Technologies (Baltimore). In live combat ops against Iran: 450+ hours, 2,200+ nm in Operation EPIC FURY. Production ramp announced Jan 2025. UK Kraken drone boats joining coalition May 2026.
REJTF (Rapid Employment Joint Task Force)	CENTCOM CTO	OTA / undisclosed	Active, 60-day deployment cycle	Established Sept 2025. 4 component task forces: TF-39 (Army/counter-drone), TF-59 (Navy/maritime UAS), TF-99 (AFCENT/commercial drones), TF-179 (SOCOM). Submissions portal at rejtf.com. Contracts do not require SAM.gov posting due to OTA authority.
Drone Dominance Program (all phases)	DoD / Dept. of War	~\$1.1B	2026–2027	Phase II active: June 8-20 at Camp Grayling. NDAA compliance hard gate on motors, batteries, radios.
Army SUAS Procurement (FY2026)	U.S. Army	\$726M–\$1.3B	2026 active	Massive expansion from ~\$98M prior year. Covers Groups 1-3. RCAT SRR Program of Record is a contracted slice of this budget.
Anduril C-UAS Contract Vehicle	U.S. Army	\$20B ceiling	2026+ task orders	Largest single C-UAS award in DoD history. Consolidates C-UAS C2 across Department of War on Lattice platform.



AeroVironment P550	U.S. Army	\$117M	Q1 2026 awarded	Firm-fixed-price for P550 small reconnaissance drones for small-unit operations.
Mistral Thor VTOL UAS	U.S. Army	Undisclosed	By Mar 2027	VTOL UAS plus payloads to tactical formations.
JTAARS (SURVICE Engineering)	Army PM UAS	Undisclosed	2026	Joint Autonomous Aerial Resupply System: Logistics UAS for autonomous aerial resupply.
DHS UAS/C-UAS PEO Authority	DHS	\$1.86B+	2026–2027	New DHS Program Executive Office launched Jan 12, 2026. Permanent procurement organization consolidating drone acquisition across DHS components.
DHS CBP/ICE C-UAS Vehicle	DHS / CBP / ICE	\$1.5B	2026–2027 (solicitation)	Multiple-award IDIQ. Track 1: hardware/software. Track 2: C-UAS as a Service. Multiple awards expected 2026.
FEMA C-UAS Grants	FEMA / States	\$500M total	FY2026–FY2027	\$250M awarded Dec 2025 to 11 FIFA host states + NCR. Additional \$250M in FY2027. Flows to state/local procurement.
FIFA World Cup / America250 C-UAS	DHS	\$115M	2026 active	Procurement ongoing. 78 matches across 11 U.S. cities. Non-kinetic defeat technologies prioritized.

### The Drone Dominance Program (DDP)

The DDP's gauntlet structure is designed to expose supply chain vulnerabilities: each phase increases volume, decreases unit-price tolerance, and tightens compliance requirements. [20,21] The \$2,300/unit Phase III/IV target is aggressive, a quality Chinese FPV drone costs \$300-\$500 landed. However, competitive pressure is designed to compress the domestic premium through scale. [21] Vendors that cannot achieve \$2,300/unit at 150,000-unit production rates will not survive Phase IV.

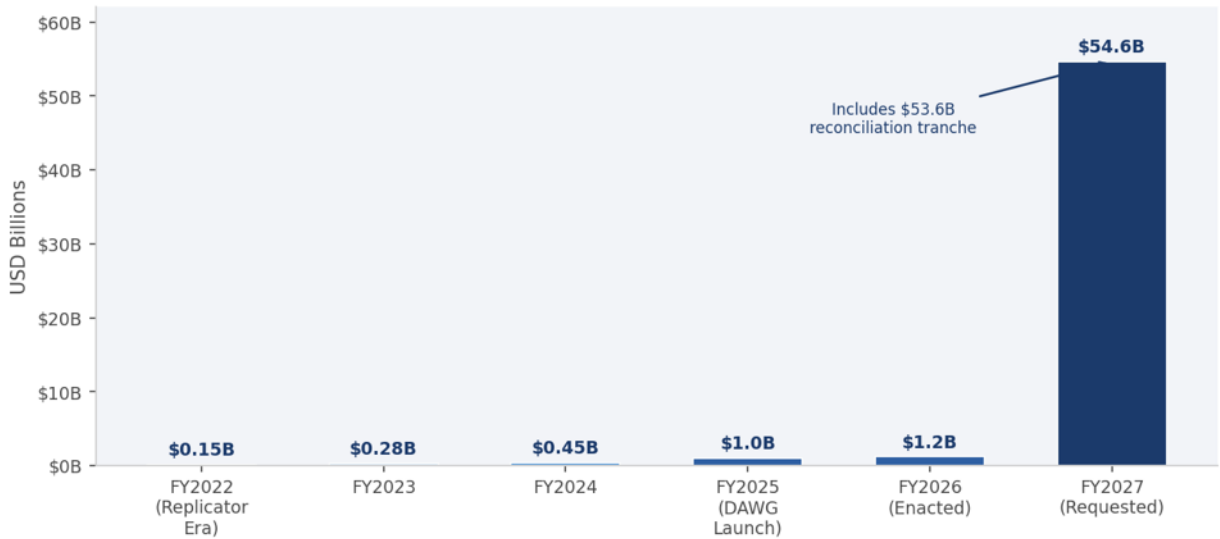
### DHS Programs - An Overlooked \$3B+ Opportunity

The DHS procurement landscape (\$1.86B PEO authority, \$1.5B CBP/ICE C-UAS IDIQ, \$500M FEMA grants, \$115M FIFA/America250) is comparably sized to the DoD programs but has received far less investor attention. [19] The \$1.5B IDIQ's C-UAS-as-a-Service track creates recurring revenue streams for vendors with cloud-based detection platforms. Dedrone (acquired by Axon) and DroneShield are the incumbent positions in this model.



## SECTION 4B: DEFENSE AUTONOMOUS WARFARE GROUP (DAWG) - THE \$54.6 BILLION MANDATE

DoD Autonomous Warfare Spending: From Replicator to DAWG



Source: Breaking Defense, DoD Budget Justification Books | Atlantic Walk Research

### What DAWG Is

The Defense Autonomous Warfare Group absorbed the Biden-era Replicator initiative in late 2025. Replicator was focused on procuring thousands of low-cost attritable drones for Pacific deterrence, but DAWG is broader: it encompasses rapid innovation across autonomous platforms at sea, on land, and in the air. Additionally, it explicitly includes the orchestration software and AI autonomy layers that coordinate them. [46] Acting Pentagon Comptroller Jules Hurst describes DAWG as a pathfinder embedded with private tech firms, providing live combat feedback on autonomous systems.

The \$54.6B FY2027 request is structured as \$1 billion in the base budget and \$53.6 billion in the reconciliation spending vehicle. The reconciliation allocation gives the Pentagon more time and flexibility to obligate funds and is designed for technologies such as drone autonomy, where capabilities change faster than traditional procurement cycles can accommodate. [46]

### Why DAWG Changes the Total Addressable Capital Calculation

The procurement figures cited throughout this report collectively represent direct near-term contract authority. DAWG is designed as the R&D and innovation engine that finances the next generation of systems being procured through those channels. In our view, companies that establish Programs of Record now are building the baseline from which DAWG-funded follow-on contracts will be awarded. The sequencing matters: DDP / REJTF contracts today will become DAWG-funded next-generation procurement in FY2027 and beyond.

Taken together, the DoD is seeking over \$74 billion in drone and counter-drone spending for FY2027 alone. This eclipses the entire defense budget of most U.S. allies. The 6-12 month investment window framed in this report sits at the front end of what DAWG implies is a decade-long modernization cycle. [46]



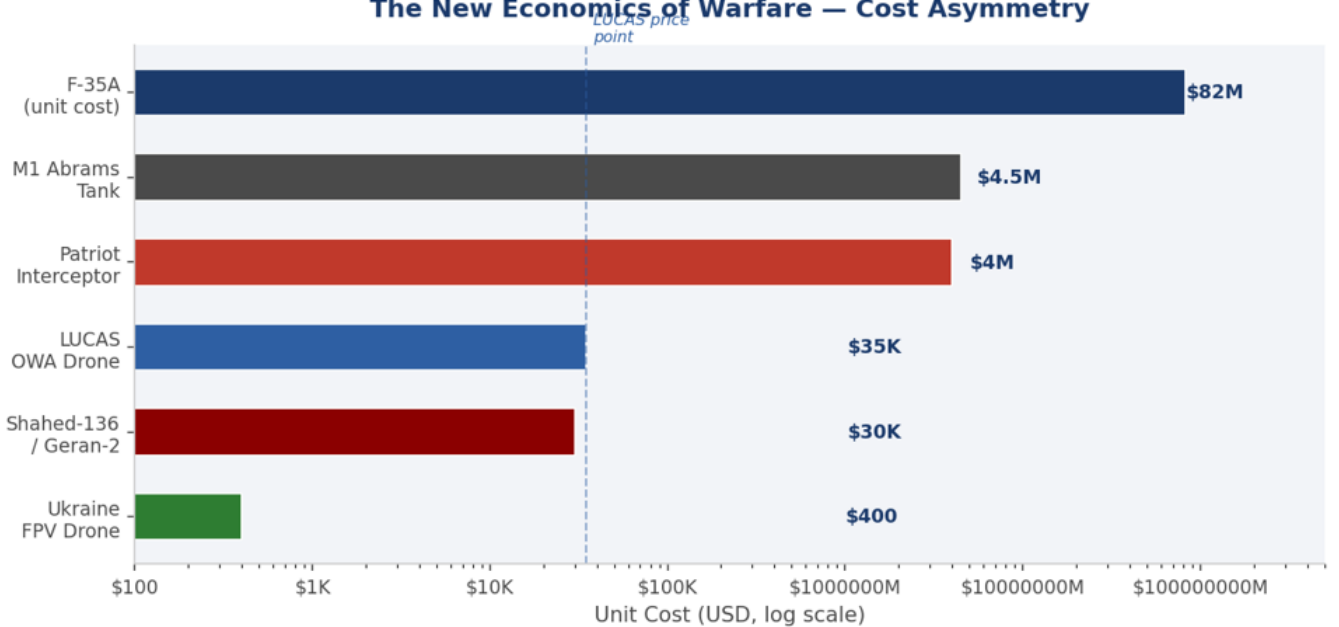
## Reconciliation Risk

The bulk of DAWG funding is contingent on reconciliation legislation passing. With midterm elections in late 2026 and the risk of Democrats reclaiming one chamber, the Pentagon's own comptroller acknowledged that FY2027 could be a one-year surge rather than a sustained appropriation. If reconciliation fails and the \$53.6B reconciliation tranche does not materialize, the base \$1B still does. This is the key risk to DAWG as an investment catalyst. [46]

## SECTION 4C: CENTCOM & NAVCENT - THE COMBAT PROCUREMENT IMPERATIVE

**INVESTMENT SIGNIFICANCE: CENTCOM is no longer a prospective buyer . It is an active combat consumer of drone inventory, with confirmed replenishment requirements that cannot be addressed through normal procurement timelines. The REJTF's 60-day deployment mandate exists precisely to compress this gap.**

The New Economics of Warfare — Cost Asymmetry





## Operation EPIC FURY - Combat Validation

February 28, 2026: U.S./Israel joint strikes on Iranian military infrastructure commenced. [1,2] LUCAS OWA drones were used in combat for the first time with "hundreds" expended per Cooper's May 14 SASC testimony. [3,4,5] GARC autonomous reconnaissance craft (BlackSea Technologies, Baltimore) logged 450+ underway hours and 2,200+ nautical miles under fire in the Strait of Hormuz. [39] Task Force Scorpion Strike, CENTCOM's first OWA squadron, began the campaign with "dozens" of LUCAS. [5] Cooper confirmed scaling to "hundreds" and beyond is an explicit near-term requirement. [5] At \$35K/unit, a 10,000-unit procurement wave = \$350M. [3] Twenty manufacturers currently being qualified. [3]

## REJTF - The Fast-Track Procurement Vehicle

The Rapid Employment Joint Task Force was established in September 2025 with a mandate to deploy capability to theater in 60 days or less via Other Transaction Authority. It was an active procurement engine already running when EPIC FURY began, and whose urgency has materially increased since. [12,13]

The operational record is unambiguous about why. Pentagon CTO Emil Michael confirmed in March 2026 that the DoD's entire LUCAS inventory at EPIC FURY's outset was "in the dozens", and that the U.S. "shipped what we had" to CENTCOM. [3] General Cooper's May 14 SASC testimony confirmed that hundreds of LUCAS were expended over the course of the operation. [5]

The arithmetic is straightforward: the United States entered its first major OWA drone combat operation with a stockpile measurable in units, against an adversary that had pre-positioned over 50,000 Shahed-class munitions. [8] An inventory measurable in dozens was consumed at a pace that required wartime replenishment within weeks of the campaign's opening. In our view, REJTF is likely conducting emergency replenishment, at scale, right now, through a contracting channel that is invisible to public databases.

REJTF operates through OTA authority, and awards do not require SAM.gov posting and will not appear on USASpending.gov until companies disclose them in earnings. [12,13] Led by CENTCOM CTO Joy Shanaberger, four component task forces sit underneath it: TF-59 (5th Fleet, maritime UAS), TF-39 (Army, counter-drone), TF-99 (AFCENT, commercial drones), TF-179 (SOCOM, ISR). Submissions portal: rejtf.com.

Twenty manufacturers are currently being qualified for LUCAS replenishment alone. [3] At \$35K per unit, a 10,000-unit replenishment wave is a \$350 million procurement event. This is a conservative floor given the scale of the operational requirement Cooper described to Congress. [3,5] None of this appears in consensus analyst models for any covered name.

REJTF's emergency OWA procurement for CENTCOM likely spans at least three mission tiers, each mapped to a distinct operational requirement. The confirmed platform is LUCAS, with active replenishment underway. The next most likely procurement is AVEX's Phoenix Ghost and Atlas systems: Group II precision strike platforms with classified SOCOM pedigree, combat-proven in Ukraine, and procured through Big Safari.



Task Force Scorpion Strike is run by SOCOM Central. Given Big Safari's established rapid-acquisition relationship with CENTCOM and SOCOM, we view Phoenix Ghost as the logical classified complement to the LUCAS replenishment track. [26] This is the exact rapid-acquisition relationship that REJTF's OTA channel is designed to leverage.

Cooper's explicit third ask to Congress was for capability against hard and buried targets. That mission profile maps to platforms with meaningful range and payload: AVEX's Disruptor (372-mile range, 50-lb payload, RATO launch, 4.5-hour endurance) and AeroVironment's Red Dragon (400km range, GPS-denied, specifically architected for contested electromagnetic environments). [26,27] Both are suited to carrier-launched operations in the Persian Gulf where standoff distance and EW resistance are non-negotiable operational requirements.

For investors, the OTA structure means none of this procurement activity is visible until companies report it. The first signal will be an earnings surprise. Given the breadth of the replenishment requirement across all three mission tiers, it is unlikely to arrive at only one company.

## Shield AI + Hivemind: The AI Autonomy Layer

May 20, 2026: Pentagon selected Shield AI's Hivemind as the AI pilot for the LUCAS drone program. [10,11] A single operator can direct swarms while it handles dynamic rerouting and autonomous execution under degraded communications. An operational swarm demonstration is scheduled Fall 2026. [10] Shield AI is private. This is a pre-IPO de-risking event. The public equity implication is for Palantir's Maven Smart System. Maven handles kill-chain targeting in the CENTCOM AOR; [36] the Palantir-Shield AI stack is the AI layer on every LUCAS mission.

## CENTCOM Procurement vs. the DDP - Two Separate Demand Signals

DDP and CENTCOM/REJTF are additive, not overlapping. DDP is designed to produce 340,000 sUAS for general-purpose Army distribution. [20] CENTCOM/REJTF is combat-urgency OTA procurement for immediate theater requirements and replenishment. [12,13]

# SECTION 4D: OFFICE OF STRATEGIC CAPITAL - FEDERAL DIRECT INVESTMENT

## What the OSC Is

The Office of Strategic Capital is a Pentagon lending unit formally enacted under Biden in the FY24 NDAA with authority to issue loans and loan guarantees to companies in critical technologies deemed essential to national security supply chains. The Trump administration has dramatically expanded its scope. The Pentagon has requested more than \$20 billion for the OSC's Defense Strategic Capital Credit Program in FY-27. This is an order-of-magnitude increase from the less than \$1.5 billion allotted in FY2026. [45]



## Why This Matters for the Thesis

The OSC mechanism upgrades the investment thesis in a structurally important way. Standard DoD procurement places the government in the role of buyer. OSC equity and debt investment places the government in the role of co-investor, with direct financial skin in the success of the domestic drone industrial base. This alignment of interest creates institutional incentive to ensure funded companies win further programs, scale manufacturing, and do not fail. [45]

The companies reportedly under consideration include Unusual Machines (UMAC), Neros (private), and Performance Drone Works (private), which supplies reconnaissance drones to the U.S. Army. [45] UMAC is the report's Tier 3 component anchor. The inclusion of Neros and Performance Drone Works confirms that OSC is targeting exactly the pre-scale, pure-play domestic manufacturers this thesis identifies as the primary beneficiaries of the procurement cycle.

Direct investment de-risks these companies to compete for larger Programs of Record. Neros and Performance Drone Works are both pre-scale operations with limited balance sheets. An OSC loan guarantee or equity injection provides the capital to staff up, build manufacturing capacity, and meet delivery timelines. These are the practical barriers that eliminate small drone companies from serious procurement competitions. OSC investment, if it closes, is most accurately read as a precursor to contract flow.

The report's current figure of "over \$5 billion in active or near-term contracting authority" [19,20,40] understates total capital flowing into the sector if the OSC FY-27 request is substantially appropriated. Even a partial appropriation of the \$20B+ request creates a dedicated federal lending facility whose mandate is to ensure domestic drone companies can execute. This is an institutional procurement accelerant with no precedent in the prior defense budget cycle.

## Post-Reprice Valuation Discipline

The May 28, 2026 market reaction to the WSJ story was significant: UMAC +57%, RCAT +33%, ONDS +23%, AVAV +18%, SWMR +17%, KTOS +14%. The thesis is more confirmed than ever. The risk is that several names have already moved materially without a closed deal. The White House, Pentagon, and named companies had not yet confirmed as of publication. [45] The OSC story is thesis-confirming, not thesis-initiating. AVAV, RCAT, and KTOS carry underlying revenue anchors that justify re-rating independent of whether OSC closes. In our view, the more defensible entry point post-reprice is in names with fundamental earnings support.



## SECTION 5: COMPETITIVE DYNAMICS

**The most common pushback on this thesis is that the DDP will commoditize the drone market, compressing margins and eliminating the competitive advantage of established manufacturers. This view misreads the structure of the procurement landscape. The DDP does not compete with Programs of Record. It is a separate acquisition track, targeting a different product category, at a different price point, for a different mission set.**

### Programs of Record Are Not at Risk from DDP New Entrants

AeroVironment's Switchblade loitering munitions (300 and 600 series) are precision strike systems in the Group 3–4 category, selected through competitive DoD evaluation over years. The DDP targets Group 1–2 one-way attack drones at a \$2,300–\$35,000 unit price range. These are not substitutes. [20,21] A DDP vendor winning a Phase IV contract does not threaten Switchblade revenue. The missions are different, the price points are different, and the qualification criteria are different. AVAV's Switchblade is a precision munition with combat-validated guidance, fusion, and terminal effects. No DDP entrant is positioned to compete in that category.

Red Cat's Army SRR contract (5,880 Black Widow units) was awarded following a formal competitive evaluation. The Black Widow won because it met specific Army requirements for a hand-launched small reconnaissance system with AI-enabled targeting. [25] That requirement is not being re-competed under DDP. The SRR is a standalone Program of Record with contracted deliveries, and generates revenue regardless of how the DDP vendor pool evolves. Any RCAT revenue from DDP or REJTF is additive to an already-contracted baseline.

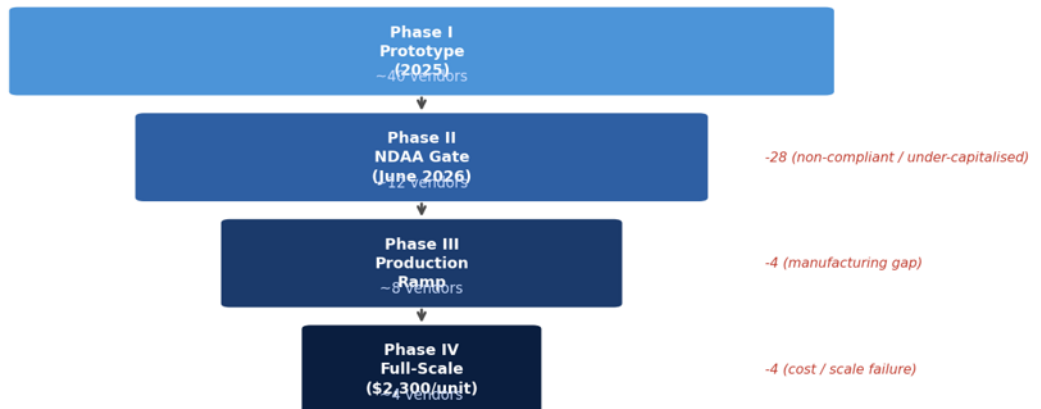
### The Manufacturing Gate Narrows the Field

The DDP Phase structure is designed to eliminate under-capitalized entrants before meaningful contract value is awarded. Phase I qualification required a working prototype. Phase II (June 2026) requires 120-unit production runs with consistent quality, NDAA-compliant bill of materials, and a demonstrated supply chain. Phase III–IV require sustained manufacturing at thousands of units per month. [21,23] The vast majority of the ~40 Phase I participants cannot meet these requirements. Pentagon planning documents suggest Phase III–IV will support three to five vendors at scale. [23]

The NDAA compliance gate is the most important filter. Vendors must demonstrate that motors, batteries, electronic speed controllers, and radios are sourced from non-covered entities. [18] The Skycutter/Skyfall (UK/Ukraine) partnership was the DDP leaderboard's top-ranked platform, and faces material NDAA bill-of-materials uncertainty entering Phase II. [26] If eliminated on compliance grounds, the field narrows further toward established domestic manufacturers and NDAA-compliant platforms. This dynamic benefits RCAT's FANG platform and the broader domestic vendor base the thesis is built around.



### Drone Dominance Program — Vendor Funnel



Source: DefenseScoop, The War Zone, DoD DDP Documentation | Atlantic Walk Research

## Large Primes Are Structurally Excluded

The DDP's \$2,300 Phase IV unit price target is explicitly designed to be below the cost floor of Tier 1 defense primes. [21] Boeing, Northrop Grumman, and L3Harris operate with program overhead structures, compliance costs, and margin requirements that make attritable volume production at \$2,300/unit economically non-viable. The DoD's intent is clear: bypass the large prime industrial base in favor of the commercial drone ecosystem. This is a structural opening for the mid-tier and pure-play manufacturers this framework identifies.

Kratos is the partial exception. Its Valkyrie XQ-58A is a loyal wingman Collaborative Combat Aircraft, a Group 5 system operating in a category entirely separate from DDP. The Marine Corps and Space Force contracts are for high-end attritable aircraft, not disposable sUAS. The competitive risk for KTOS comes from other CCA programs, not from DDP entrants. [27,28]

## The Supply Chain Constraint Protects the Qualified Domestic Base

OFAC sanctions on T-Motor (October 2023) eliminated the dominant Chinese motor supplier from the qualified vendor list for any U.S. government procurement. [33] This created an acute domestic motor shortage that cannot be resolved quickly. Motor manufacturing requires precision tooling, quality certifications, and supply chain infrastructure that takes 12–24 months to establish at scale. Unusual Machines (UMAC) is the only publicly traded domestic motor manufacturer with existing production capacity and an active DoD supplier relationship. [33] New entrants face the same barriers that make UMAC's position defensible: qualification timelines, capital requirements, and manufacturing ramp constraints.

The constraint cuts both ways. While UMAC faces component competition from ARK Electronics on FC/ESC, ARK does not manufacture motors. ePROPELLED and KDE Direct are the only other domestic motor manufacturers of note, but they are both private, and smaller than UMAC's current scale. [18] The motor supply bottleneck is not easily arbitrated by new entrants in the investment horizon this report covers.



## The Sector Is Not Winner Takes All

One winner can not take the entire market. This is a misunderstanding of how DoD procurement works. The Pentagon deliberately maintains multiple qualified vendors across every significant program to ensure supply security and prevent single-point dependency. [23] DDP will have three to five Phase III-IV vendors. LUCAS has up to 20 manufacturers being qualified simultaneously. [3] The SRR is a five-year delivery contract with one vendor. Both RCAT and Anduril were selected for LE-SR. CENTCOM REJTF is sourcing from multiple suppliers in parallel. [12,13]

The investment implication is that the framework names are not competing against each other for a single contract. AVAV wins Switchblade PoR revenue. RCAT wins SRR PoR revenue. UMAC wins motor supply revenue across all DDP and REJTF manufacturers. SWMR wins, if it wins, on AI autonomy software that sits on top of other vendors' hardware. The tier structure in this report reflects a portfolio construction view, not a single-name bet. Each name addresses a different point in the procurement architecture.

## SECTION 6: RISK FACTORS & CATALYST CALENDAR

### Risk Factors

Risk	Detail	Severity
Budget / CR Risk	If Congress operates on continuing resolutions, new contract awards slow materially. The \$1.1B DDP requires appropriated funds at each phase transition. CR environments historically delay OTA spending.	HIGH
NDAA Loophole Persistence	If FY2027 NDAA does not formally close Chinese component exemptions on the Blue UAS list, UMAC's component thesis weakens. Monitor Senate and House markup beginning Q3 2026.	MEDIUM
Manufacturing Execution	RCAT: sustaining ~\$45M/quarter to hit \$150-180M guidance. AVAV: delivery ramp at new Utah Switchblade facility. Any slip treated severely at current valuations.	MEDIUM
SWMR Valuation / Dilution	Trading at ~1,900x trailing revenue. Pre-meaningful DoD revenue and cash-burning. Any equity offering significantly dilutive. Binary outcome.	HIGH (position-specific)
Allied-Nation NDAA Exemptions	If Five Eyes or other allied-nation vendors receive NDAA exemptions, addressable market for UMAC and RCAT shrinks meaningfully. Monitor 'covered country' definition in NDAA markup.	LOW-MEDIUM
Capacity vs. Timeline Mismatch	Domestic manufacturing cannot supply 340,000 drones at DDP pace. Revenue recognition will lag procurement calendars. Tier 3 thesis timeline may exceed 6-18 months.	MEDIUM



Macro / Rate Sensitivity	Small/micro-cap names (UMAC, RCAT) carry elevated risk-off sensitivity. Broad market drawdown compresses re-rating timeline regardless of fundamental progress.	MEDIUM
Post-Reprice Entry Risk	May 28, 2026: UMAC +57%, RCAT +33%, ONDS +23%, AVAV +18%, SWMR +17%, KTOS +14% on OSC funding reports. Names with no underlying revenue anchor (UMAC, SWMR, ONDS) now carry materially compressed margin of safety. OSC talks are confirmed 'talks', not closed deals. Position sizing must reflect this. [45]	HIGH (timing-specific)

## Catalyst Calendar

Date / Timeframe	Event	Significance
<b>Feb 28, 2026 (PAST)</b>	<b>Operation EPIC FURY: First LUCAS combat use; GARC in Hormuz</b>	CONFIRMED: U.S. and Israel launched joint strikes on Iran. LUCAS OWA drones used in combat for first time ('hundreds' per Cooper). GARC drone boats conducting live patrols in Strait of Hormuz. Iranian OWA drones down 95%, ballistic missiles down 86%. Demand signal for replenishment is now acute and non-discretionary.
<b>May 14, 2026 (PAST)</b>	<b>Gen. Cooper SASC testimony: three procurement priorities confirmed</b>	CONFIRMED: Cooper testimony on record. Three asks to Congress: (1) more EW, (2) counter-UAS on leading edge, (3) hard/buried targets. EPIC FURY described as "order of magnitude" cheaper cost-per-effect than legacy platforms. Direct mandate for drone procurement at scale.
May 20, 2026 (PAST)	OMB drone security compliance deadline	PASSED. All federal agencies required to update procurement policies for NDAA-compliant systems. Compliance urgency now shifts to contract officers executing against updated policy.
May 20, 2026 (PAST)	AVEX Q1 2026 earnings: first post-IPO results beat estimates	CONFIRMED: Revenue \$216.7M (+307% YoY), EPS \$0.22 beat vs. \$0.17 est., net income \$21M (vs. \$27.3M loss). FY-26 guidance confirmed \$600–620M. 90%+ funded backlog. JPM raised PT to \$35, Jefferies to \$33, Needham initiated at \$45. Coverage gap thesis intact. 9 analysts on \$433M revenue still underlies the name.
<b>May 20, 2026 (PAST)</b>	<b>Shield AI / Pentagon: Hivemind selected for LUCAS swarm autonomy</b>	CONFIRMED: Pentagon announced Shield AI Hivemind will serve as AI pilot for LUCAS. Single operator will direct swarms. Cements Shield AI as AI autonomy layer on the primary U.S. OWA UAS program. Pre-IPO de-risking event.



June 8–20, 2026	DDP Gauntlet II qualifier event, Camp Grayling, MI	Most important near-term DDP event. Phase II NDAA gate eliminates non-compliant vendors. Skycutter BOM audit is the key watch. EPIC FURY has already validated the OWA drone concept in combat. Pressure is now on vendors to prove NDAA compliance and production readiness.
Q2/Q3 2026	RCAT quarterly revenue results	Key validation of \$150–180M FY guidance. Q1 already at \$15.5M (+849% YoY). SRR Black Widow delivery ramp + NATO NSPA orders + any REJTF/EPIC FURY replenishment orders are the upside variables.
Q3 2026	UMAC cash-flow positive target	If achieved, re-rates from speculative growth to operational supplier.
Fall 2026	Shield AI / LUCAS swarm operational demonstration	Single operator directing a swarm of LUCAS drones. Highest-profile near-term lethal AI autonomy demo in the U.S. military. Pre-IPO signal event for Shield AI; validation catalyst for Palantir Maven kill chain integration.
Q3/Q4 2026	DDP Phase II production & delivery test + Gauntlet II final	Vendors must prove manufacturing readiness at scale. ~10 vendors narrow toward Phase III. Orders for 120 drones + durable components per advancing vendor.
<b>Q4 2026 / 2027 NDAA markup</b>	<b>Chinese component loophole closure</b>	Blue UAS list reform eliminating Chinese motor/battery/ESC exemptions. Binary event for UMAC motor / battery thesis. EPIC FURY combat use strengthens political will for enforcement.
January 1, 2027	Hard NDAA procurement deadline	Agencies legally barred from procuring drone components from covered foreign entities. All 2026 supplier qualification activity is racing this deadline.
Ongoing	LUCAS replenishment orders scale-up from dozens to hundreds+	Cooper stated “dozens” of LUCAS available at EPIC FURY start. Replenishment to hundreds, then thousands, is a confirmed requirement. Up to 20 manufacturers being qualified. \$35K/unit x 10,000 = \$350M procurement wave.
May 27, 2026 (PAST)	Trump admin / OSC announcement of direct equity & debt investment in drone companies	WSJ reported Trump administration in talks to fund UMAC, Neros, Performance Drone Works and others via Office of Strategic Capital. Debt + equity structure; government ownership stakes possible. FY-27 OSC budget request: \$20.2B (vs <\$1.5B FY-26). Drone dominance called a presidential priority. Sector repriced +14 to +57% same day. OSC investment, if closed, is a precursor to contract flow, not a substitute.



FY2027 Reconciliation Vote (H2 2026)	DAWG / reconciliation: \$53.6B autonomous warfare funding vote	If reconciliation passes, unlocks the largest single-year drone R&D investment in U.S. history. \$54.6B total DAWG request (\$1B base + \$53.6B reconciliation). Failure scenario: base \$1B only. Still historically large but substantially below expectations. Binary legislative event; monitor Congressional Budget Office scoring and Senate vote timing.
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## SECTION 7: THE INVESTMENT CASE

**The central forcing function: The United States entered its first sustained drone war with an industrial base built for air superiority, not attritable warfare. Operation EPIC FURY was diagnostic. The modernization mandate that follows is bipartisan, legislatively deadlined, and now combat-proven. The investment opportunity is the gap between declared capability and operational reality, closing on a forced and accelerating timeline.**

### Three Forcing Functions That Are Already in Motion

The thesis does not depend on a single political event or a discretionary budget decision. It rests on three structural forcing functions that are simultaneously active and mutually reinforcing. The January 1, 2027 NDAA procurement deadline legally bars federal agencies from purchasing drone components from covered foreign entities, regardless of which party controls Congress. That deadline does not move. Every dollar of Chinese-sourced components currently in U.S. drone supply chains must be replaced by then. The DAWG \$54.6B FY-27 budget request represents the largest autonomous warfare investment in U.S. history by a factor of ten. [46] REJTF is conducting active emergency procurement, right now, through OTA channels that are invisible to public databases and not in any analyst's consensus model. [12,13]

This is already underway. EPIC FURY has already happened. Cooper has already testified and submitted budget requests. AVAV has already received its \$743M contract ceiling. RCAT's SRR is already delivering. AVEX has already reported \$216.7M in Q1 revenue. The market has begun to price this in selectively, and with significant coverage gaps that persist. RCAT has three analysts on a company with a Program of Record. AVEX had nine analysts at IPO on \$433M of funded revenue. Not one analyst has mentioned REJTF. The coverage gap thesis is not exhausted.

### Why the Entry Point Still Holds

The May 28 OSC repricing moved the sector materially. UMAC +57%, RCAT +33%, AVAV +18%. The question is whether that move exhausted the re-rating opportunity or marked the beginning of a sustained institutional re-discovery. The answer depends on which names you hold. For AVAV and



RCAT, the repricing was a recognition of operational momentum that the fundamental earnings trajectory will continue to validate. AVAV's FY-26 guidance of \$1.95–2.0B is the largest revenue year in the company's history, and any REJTF procurement are events that do not reprice back. [6,7] RCAT's \$150–180M FY guidance is anchored by contracted SRR deliveries, not by speculation. [25]

For UMAC the entry point calculus is more demanding post-reprice. UMAC at current levels prices in meaningful OSC investment and accelerated OWA motor qualification.

## **The Portfolio Construction Logic**

The framework is built as a portfolio, not a single-name bet. AVAV and AVEX provide PoR revenue floors with combat-validated products in active DoD use. This is the highest-confidence, lowest-variance part of the thesis. RCAT provides a contracted PoR baseline with the highest coverage-gap opportunity of any name in the framework. UMAC provides exposure to the component supply bottleneck that every DDP manufacturer and REJTF supplier, must solve. This is a structural position that benefits regardless of which drone manufacturers win at the system level. [30,31,32]

The tier structure means the portfolio has multiple paths to return. The PoR tier wins if procurement executes on schedule. The component tier wins if NDAA compliance enforcement tightens. The autonomy tier wins if the DoD AI contract cycle accelerates. All three scenarios are driven by the same underlying forcing function: the United States must close the drone gap that EPIC FURY exposed, on a legislatively mandated timeline, with an industrial base that is not yet equipped to do so at the required scale. That gap is the investment opportunity.

## **The Conviction Statement**

Warfare has changed. The \$400 drone that destroyed the \$4M tank is the new arithmetic of conflict at scale. EPIC FURY confirmed that the United States does not yet have the industrial base to fight and sustain attritable drone warfare against a peer adversary. The DoD knows this. Congress knows this. U.S. adversaries know this. The executive branch has made domestic drone dominance an explicit presidential priority. The \$54.6B DAWG request, the REJTF emergency procurement engine, the OSC direct investment mandate, and the January 2027 NDAA hard deadline are the institutional response.

AVAV, AVEX, RCAT, and UMAC are not riding a defense sector trade. They are positioned at the intersection of a generational doctrinal shift and a forced government procurement mandate with a hard legal deadline. The forcing function is structural, the timeline is compressed, and the coverage by the institutional research community remains materially incomplete for several of the highest-conviction names. Atlantic Walk Research is long the thesis.



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- [2] [USNI News - U.S., Israel Launch Operation Epic Fury Against Iran \(Feb. 28, 2026\)](#) — Operation launch reporting
- [3] [The War Zone - U.S. Military Has Used Long-Range Kamikaze Drones in Combat for the First Time](#) — LUCAS first combat use; \$35K/unit; 20 manufacturers being qualified
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- [5] [Cooper SASC Written Statement, May 14, 2026 \(Senate Armed Services Committee\)](#) — Dozens of LUCAS at start; hundreds needed; three procurement priorities
- [6] [CBS News - CENTCOM chief tells senators Iran's hold on Strait of Hormuz has weakened](#) — Cooper SASC testimony summary
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- [12] [Breaking Defense - US Military launches Rapid Employment Joint Task Force for drone procurement \(Sept. 2025\)](#) — REJTF establishment, structure, mandate
- [13] [The War Zone - Pentagon Stands Up New Joint Task Force to Rapidly Get Drones Into Operators' Hands](#) — REJTF OTA authority; four component task forces; 60-day deployment cycle

### Policy & Regulatory

- [14] [White House Executive Order 14307 - Unleashing American Drone Dominance \(June 2025\)](#) — EO 14307 full text; 60-day agency review mandate; Hegseth implementation memo
- [15] [Department of Defense - Secretary Hegseth Memo on Unleashing U.S. Military Drone Dominance \(July 2025\)](#) — Hegseth memo; DoD UAS modernization framework
- [16] [Federal Register - OMB Drone Procurement Compliance Deadline \(May 2026\)](#) — OMB drone security compliance deadline May 20, 2026
- [17] [NDAA FY2024 - Section 817 Blue UAS Procurement Requirements](#) — Blue UAS mandate; covered foreign entity prohibition; January 2027 deadline



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[19] [DHS Science and Technology Directorate - Blue UAS Cleared List and DHS UAS Procurement](#) — DHS UAS procurement framework; cleared vendor list

[20] [DoD Directive 5000.94 - Drone Dominance Program Charter](#) — DDP charter; phase structure; NDAA compliance requirements

## Drone Dominance Program

[21] [The War Zone - Pentagon Launches \\$1B Program to Rapidly Buy Hundreds of Thousands of Kamikaze Drones](#) — \$1.1B DDP budget; \$2,300/unit Phase IV target; program structure

[22] [Defense One - Pentagon Kicks Off Competition for 340,000 Cheap Drones](#) — 340,000 sUAS target; DDP Phase I vendor field

[23] [DefenseScoop - Pentagon could award just 3 vendors for biggest phase of Drone Dominance Program](#) — Phase III/IV vendor pool; \$115M per vendor projection

[24] [DDP Phase I Leaderboard - Official Scoring Results \(April 2026\)](#) — Skycutter/Skyfall 99.3/100; Phase II qualifiers

## Company Disclosures & IR

[25] [Red Cat Holdings Q1 2026 Earnings Release \(May 2026\)](#) — Q1 2026: \$15.5M (+849% YoY); SRR deliveries; \$150-180M FY guidance; gross margin recovery

[26] [Aevex Aerospace \(AVEX\) Q1 2026 Earnings Release and IPO Prospectus \(April-May 2026\)](#) — IPO \$20; Q1 \$216.7M (+307%); EPS \$0.22 beat; Phoenix Ghost 9,300 systems; \$1.2B contract value

[27] [AeroVironment FY Q2 2026 Earnings and Contract Announcements](#) — Q2 FY2026: \$472.5M (+151% YoY); \$743M contract ceiling; VAPOR VTOL \$14.6M; Utah facility

[28] [Kratos Defense FY2025 Annual Report and Q4 2025 Earnings](#) — FY2025 \$1.3B; Valkyrie Marine Corps \$231.5M; Space Force \$447M

[29] [Unusual Machines FY2025 Annual Report](#) — FY2025 \$11.2M (+101% YoY); motor factory expansion; NDAA qualification progress

[30] [Swarmer Inc. IPO Prospectus and Company Filings \(March 2026\)](#) — IPO March 17 2026; STYX AI C2; MINAS autonomy; TRIDENT OS; 100,000+ Ukraine combat missions

[31] [Swarmer Inc. FY2025 10-K](#) — FY2025 revenue \$309,920; ~1,900x P/S ratio

[32] [Palantir Q1 2026 Earnings Release](#) — Q1 2026: \$1.6B (+85% YoY); Maven Smart System CENTCOM deployment; \$480M Army contract

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