

*“Our partners in the private sector have flagged a consistent problem. Even when they can see a way to deliver a promising technology to a military customer, [...] scale is hard—and sometimes impossible. [...] Our Defense Innovation Unit is focused on identifying priority technology areas, using faster methods to get that tech into the hands of our warfighters.” ~Secretary Austin, December 2022, Reagan National Defense Forum*

## **DIU FY22 Transitions: Generating Meaningful Revenue Opportunities for Commercial Vendors**

Revenue growth, predictability and durability are the lifeblood of privately-backed, technology companies. To attract investment capital and scale rapidly, companies must demonstrate customer adoption of solutions resulting in recurring revenues, as opposed to one-time grants with little opportunity to scale. Many investors and entrepreneurs want to ensure that Department of Defense (DoD) prototyping and experiments lead to substantial production contracts with meaningful recurring revenue. In fact, investors view production contracts as the true measure of whether DoD is serious about attracting non-traditional vendors and modernizing DoD with commercial technology. This is particularly relevant since 11 of the 14 DoD critical technology priorities are commercial technologies.

This is why the Defense Innovation Unit (DIU) focuses on transitions from prototypes to fielded capabilities through follow-on, multi-year contracts—for example, Production Other Transaction (OT), Indefinite Delivery / Indefinite Quantity (IDIQ), and listings on the GSA schedule.<sup>1</sup> The investment DoD made in DIU seven years ago is bearing fruit—evidenced by the 52 transitions, representing \$4.9B in production contract ceiling (~\$95M average per transition) since 2015. These 52 transitions catalyzed billions of dollars in additional DoD revenue opportunities via non DIU-contracts, the largest example being Anduril at \$968M.

This momentum in production contracts is accelerating, with ceiling totals and averages growing substantially year-over-year. DIU’s seventeen transitions in FY22 equate to \$1.3B in contract award ceiling—more than double the eight transitions during FY21. With appropriate resourcing for DIU, we anticipate both the total transitions and contract ceilings to grow signaling increased adoption, revenue, and scale for vendors across the nation.

The ability to convert a successful prototype into a production contract is also generating greater demand from DoD partners to start more projects with DIU—*meaning newer capabilities for DoD and more prototype contract dollars to commercial vendors*. In FY22 DIU started 52 new projects, which is double the average from previous years. From a dollar perspective, DIU awarded \$203M in *prototype contracts*, across 165 commercial vendors, another increase from FY21.

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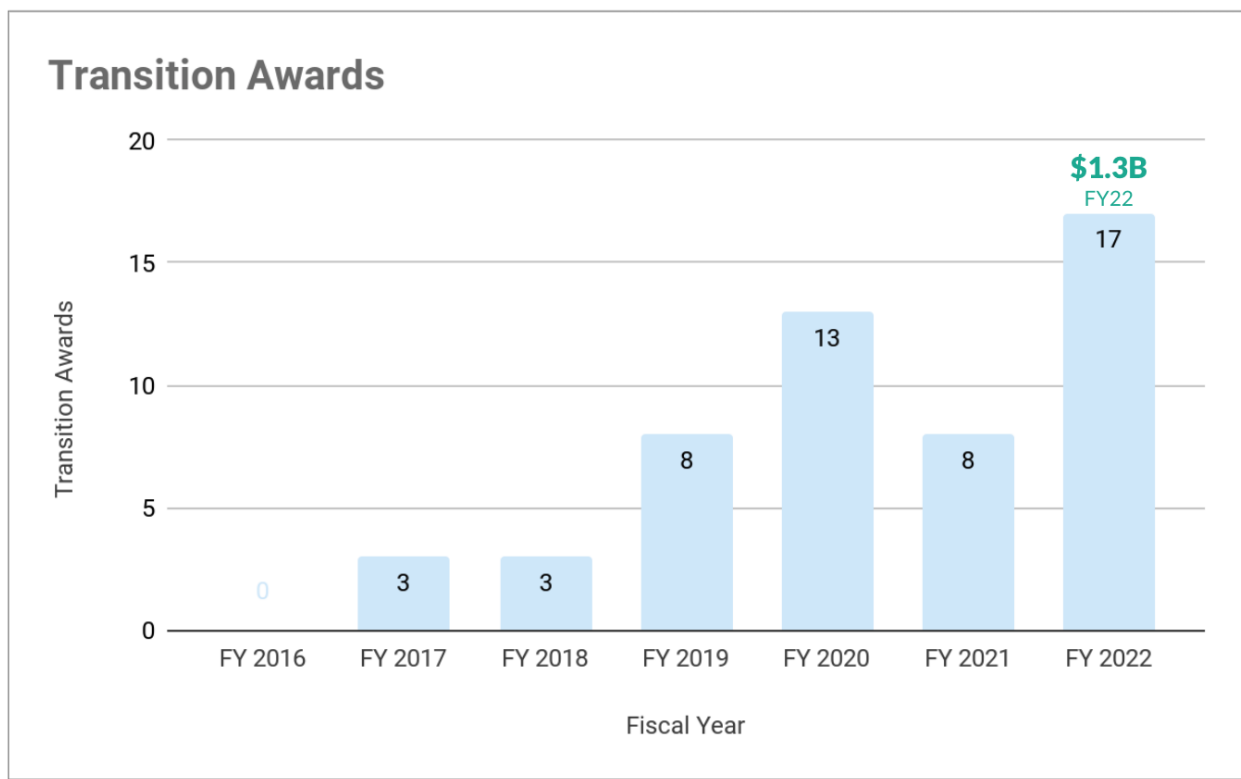
<sup>1</sup> Other short-term capital sources without a path to wide operational adoption—such as SBIR grants—do not represent the same recurring revenue opportunity, nor do they hold the same value in the eyes of private investors. DIU shares concerns raised by private investors: without a DoD-wide focus on delivering timely, sizable and recurring contracts to these growth stage companies, the DoD will not create sufficient economic incentives to stimulate private sector investment in national security technology. SBIR considers a follow-on dollar of investment as a successful transition which does not accelerate vendor success or field capability to warfighters.

These revenue outcomes—from both DIU prototype contracts and transitions to production—encourage more private companies to participate in solicitations and grow the overall national security innovation base: DIU saw a 47% increase in the total number of companies competing for a DIU contract in FY22.

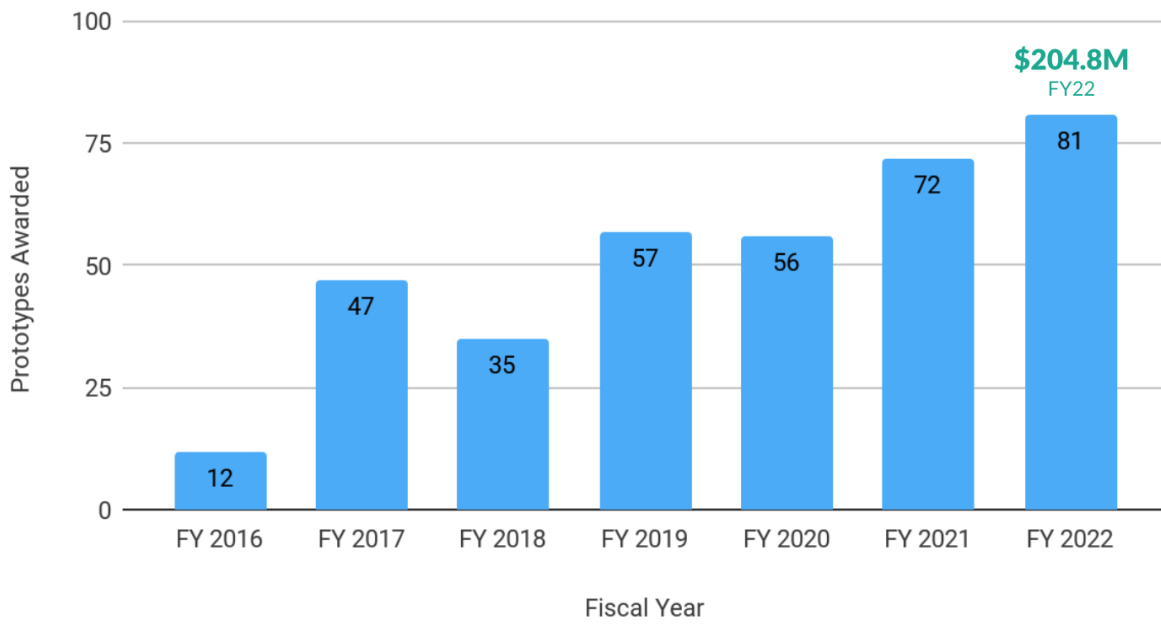
While DIU agrees with continued sentiment from venture capitalists and founders that there are not yet enough production contracts for non-traditional vendors across DoD, there *is* significant progress as more vendors introduced by DIU have won meaningful (\$500M+) follow-on contracts—and this trend is on the upswing.

Increasing DIU's resources will result in: more impactful projects, more transitions of critical tech to the field, larger production contract ceilings, and wider pathways to contracts across DoD—all providing the economic incentive to sustain continued investment from venture capitalists and other private capital sources into companies that can develop solutions for national security problem sets. But more needs to be done from within DoD and from leadership from Congress to increase velocity and scale of impact of commercial technology across the Department.

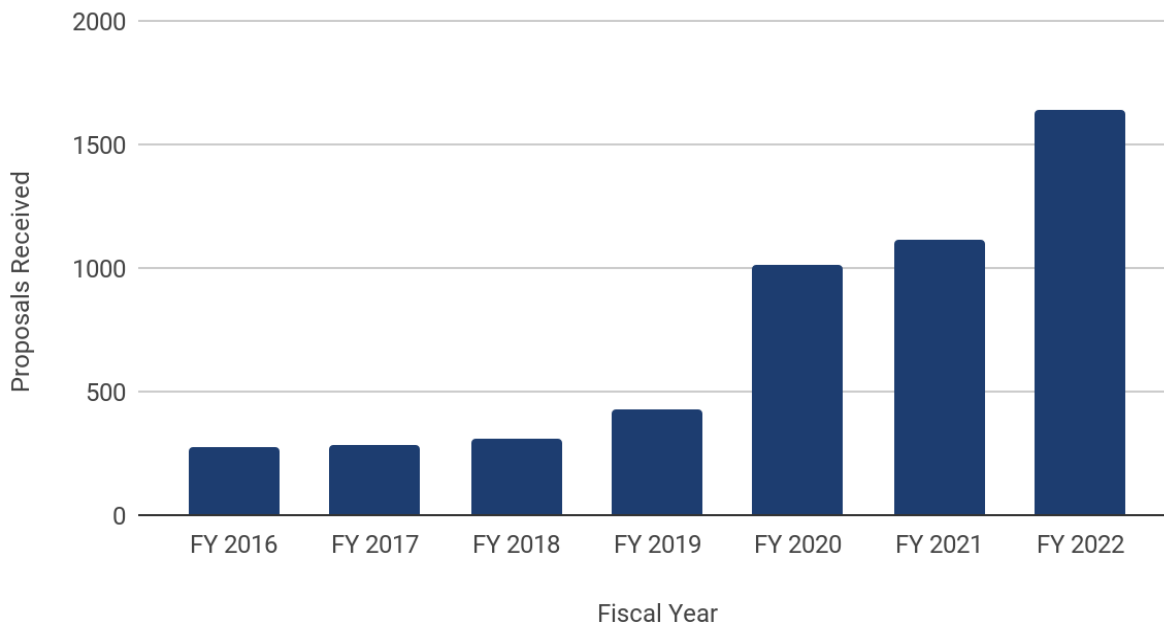
### Record-Breaking Transition Contracts for Commercial Tech in FY 2022



## Prototypes Awarded



## Proposals Received



## APPENDIX A

### 2016-2022: DIU TRANSITIONS SUMMARY

Since fiscal year 2016, DIU has directly facilitated the successful transition\* of 52 solutions onto follow-on contracts\*\* across DoD, totaling \$4.9B in contract ceiling awarded across 48 companies backed by \$18B of private capital. Of these 52 solutions, 16 commercial vendor solutions transitioned into a Program of Record, across nine PEOs.

During the past three fiscal years (FY20-22), DIU directly facilitated the successful transition of 38 solutions into follow-on contracts across the DoD, representing 69% of total transitions in DIUs seven-year history. The total ceiling value across the 38 solutions is greater than \$3.5B.

### ***DIU Contract Ceiling and Private Investment (2016-2022)***

Solutions	Production Ceiling	Private Investment Leveraged (At Last Raise)
52		
	<b>\$4.9B</b>	<b>\$18.6B</b>

### ***Portfolio Breakout: Contract Ceiling (2016-2022)***

Portfolio	Solutions	Transition Ceiling	Private Investment Leveraged (At Last Raise)
AI-ML	9	\$902.6M	\$3.0B
Autonomy	13	\$353.7M	\$4.2B
Cyber	16	\$1.5B	\$9.1B
Human Systems	5	\$44.8M	\$0.0K
Space	9	\$2.1B	\$2.3B
<b>Grand Total</b>	<b>52</b>	<b>\$4.9B</b>	<b>\$18.6B</b>

\*DIU's project transitions must meet the following criteria in order to be considered the "most significant": award of a production/follow-on contract and operational fielding and adoption, which represents significant revenue potential for commercial vendors.

\*\*Follow-on contracts under this definition include: Other Transaction (OT) agreements, Federal Acquisition Regulation-based (FAR), General Services Administration (GSA) catalog items, IDIQs, and Technology Investment Agreement (TIA).