Alabama Business Intelligence Center

THE FUTURE OF DEFENSE INVESTMENT IN ALABAMA

AL Intel

Executive Summary

October 2025

- Legacy U.S. platforms proving vulnerable to drones, AI targeting, and cyberwarfare in Ukraine and Middle East.
- DoW realignment: Executive Orders + OBBBA ($150B) shift procurement toward unmanned systems, missile defense, space tech, and cyber.
- U.S. defense budget: ~$1T; NATO raising defense spending to 5% of GDP by 2035 (market expected to double).
- Defense tech investment: $32B in 2025 YTD, more than double 2024; strongest growth in unmanned systems, space, and electronics.
- Alabama receives $10.4B in contracts (13th nationally) and $345M in grants (10th nationally); hosts Redstone Arsenal, MDA, USSPACECOM, Maxwell-Gunter.
- Major primes (Lockheed, Boeing, Raytheon, Airbus, Northrop, etc.) already established in Alabama; $6B+ private defense investment in past 25 years.
- Workforce advantage: 40% more aerospace grads per capita than U.S. average; 24 two-year colleges, four major universities, strong military-to-civilian pipeline.
- Key growth opportunities: space tech, unmanned systems (air/sea/land), cyber/AI, advanced manufacturing.
- Alabama positioned to become national leader in defense innovation if it aligns industry, workforce, and state programs with evolving DoW priorities.

Introduction

The defense industry in the United States is at a major turning point in 2025. For the better part of the last century, warfare has been defined by conflict between state actors in the physical battlespace, leveraging increasingly advanced vehicles, aircraft, ships, artillery, and munitions to overwhelm and outmanuever opponents. This era of warfare is not over, but it is evolving at a rapid pace, as shown by the Russia-Ukraine War. What began as a 20th-century-style ground war has become a showcase for drone warfare and AI-enhanced systems. The ongoing Israel-Iran Conflict provides a glimpse at what advanced counter-drone measures might look like and showing the power of cyber attacks.

As the methods of waging war adapt, so do the procurement priorities of the Department of War. As warfare evolves, it is crucial to identify the companies in a position to supply the tools, both kinetic and digital, to effectively modernize US warfighting capabilities. Identifying these companies is a key economic development priority for the state of Alabama, which has a thriving defense industrial base and is in an advantageous position to take advantage of these trends.

The Evolution of the Battlespace

In order to understand what technology will be needed for the battles of the future, it is important to understand how warfare has evolved over the past century. According to Lind, et al. (1989), manuever warfare, or 3rd Generation Warfare, emphasizes speed, decentralization, surprise, and the effective utilization of military tech, including tanks, armored vehicles, planes, artillery fire, and combined arms infantry.[1] This generation of warfighting philosophy developed in the latter stages of the First World War and is still present in military doctrine to this day.

As the maneuver warfare philosophy developed over the 20th and early 21st centuries, so did the technology surrounding the philosophy. Tanks, jetfighters, infantry fighting vehicles (IFVs), and dozens of other weapon platforms grew in complexity and lethality. Their designs were influenced by the various branches of the U.S. Military's adoption of maneuver warfare tactics, and these weapon systems are still in service across the globe today.[2]

These weapon systems enjoyed immense success on the battlefield in the late 20th and early 21st centuries. For example, the M1 Abrams Main Battle Tank (MBT) enjoyed success in the 1991 Gulf War, Operation Iraqi Freedom, and the war in Afghanistan, often destroying enemy armor from beyond visual range.[3] Some military analysts credit the M1 Abrams platform for the speed with which US forces were able to secure Baghdad in 2003.[4] The successes have not been limited to ground systems, as the F-15 Eagle provided critical air support in the previously mentioned conflicts – as well as several others – securing 104 confirmed kills with 0 losses to enemy aircraft.[5] These are two high-profile weapon systems, but the story is similar for almost all of the modern maneuver warfare-inspired equipment fielded by US forces.

With all of this success, why is there any need for change? The onset of the Russia-Ukraine War in 2022 provided a window into the future of modern warfare and a testing ground for many of the weapon systems and tactics employed by the US and NATO. Systems that once

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excelled against less sophisticated Middle Eastern adversaries struggled when fielded by Ukraine against Russia's modern military.

The decline in performance of those systems has been notable. Of the 31 M1A1 Abrams MBTs provided to Ukraine, all but 4 have now been destroyed by Russian forces.[6] Of the approximately 300 M2 Bradley IFVs provided to Ukraine, around 175 have been destroyed.[7] Ukraine also received 80 F-16 fighters from various NATO countries, with 3 confirmed lost in combat and Ukrainian military officials complaining of combat ineffectiveness.[8] A performance drop-off against a modern opponent was expected, but the methods of their defeat—often by drones and AI-enhanced systems—are cause for greater concern. With the exception of 1 confirmed loss in a tank battle with a Russian T-72B3, the majority of the M1 Abrams sent to Ukraine were destroyed by some form of unmanned system, primarily "kamikaze" drones.[9,a] At least 1 of the 3 F-16s lost in combat is speculated to have been destroyed by a Russian surface-to-air missile system with AI-integrated targeting.[10]

The Israel-Iran conflict has also driven home the evolution of the battlespace. Iran's usage of drone and missile tandem strikes represents an emerging battlefield tactic that challenges existing Israeli-American anti-ballistic missile and air defense technologies. The Iranian tactic involves saturating the airspace with drones, occupying Israel's air defense systems and allowing some of Iran's ballistic missiles to hit their targets unopposed. Some commentators believe that the Iranians adopted the tactics from similar drone-missile strikes carried out by the Russians against Ukraine.[11]

The evolving battlespace is not limited to land and air battles; naval technology and strategy are also evolving. The primary theaters of interest for the US are the South China Sea – by extension Taiwain – and the Persian Gulf. In both of these theaters, there are questions about the efficacy of current defense tech in its ability to achieve US strategic goals in the event of a conflict. The questions arise from war games conducted by the United States DoW, either directly or contracted through organizations like RAND, CSIS, or others, where the US loses or suffers heavy attrition fending off a Chinese amphibious invasion of Taiwan or attempting an amphibious invasion of Iran. Much like the real-world battlespaces in Ukraine and the Middle East, there are technological lessons to be learned from these wargames. Crucially, team red – the code name in wargames for the US's opponent – wins or inflicts damage in these simulations by utilizing unmanned systems, cyberwarfare, information warfare, and hypersonic missiles. As early as 2002, strategies involving kamikazee-style speedboat attacks – analagous to unmanned naval vehicles today – in tandem with anti-ship missile strikes were used by team red to great effect against US ships in amphibious invasion wargames.[12]

These two current conflicts, along with dozens of U.S. wargames, suggest that we are now standing on the precipice of a new generation of warfare. Maneuver warfare is no longer unchallenged; it is being reshaped by technologies specifically designed to degrade or neutralize the platforms that defined the late 20th and early 21st century battlefield. While systems like drones, UAVs, unmanned surface vessels (USVs), advanced targeting algorithms, and cyberweapons are not conceptually new, we are now witnessing, for the first time at scale, how U.S. and NATO hardware performs against them. For the past two decades, US military operations

a A kamikaze drone (also called a loitering munition or suicide drone) is an unmanned aerial vehicle (UAV) designed to loiter in the airspace near a target, then self-destruct on impact to destroy that target.

were conducted largely against technologically inferior adversaries, allowing latent vulnerabilities in legacy platforms to go untested. That era has ended. Russia, China, and Iran have all demonstrated that these vulnerabilities can and will be exploited, and the Department of War has begun to take notice.

Department of War Alignment

The results on the battlefields of today have spurred action from the Department of War to begin advancing the US's capabilities in these new weapon systems, build out the necessary defense industrial base, and streamline procurement. President Donald Trump's April 9, 2025 Executive Order titled "Modernizing Defense Acquisitions and Spurring Innovation in the Defense Industrial Base" called for changes in procurement policy and priorities.[13] The Executive Order calls on DoW to prefer commercial solutions and Other Transaction Authority (OTA) in assigning procurement contracts. Commercial solutions refer to existing private-sector products, while OTAs allow the DoW to bypass traditional procurement and contract directly with non-traditional, innovative firms. Traditional acquisions have gone through the slower Federal Acquisition Regulation (FAR) procedures. These changes are a boon to startups and innovative firms that have already built or designed modern systems without securing traditional contracts and should increase competition in the procurement process. This process is ongoing, but the DoW has already started implementing this new system for software purchases, with Secretary of Defense Pete Hegseth establishing the Software Acquisition Pathway (SWP) as the default method for software acquisition at the DoW.[14]

In alignment with other items in the Executive Order, the DoW has started including "right-to-repair" clauses across Army procurement contracts, allowing military personnel to repair their equipment without having to use repair services from the original manufacturer. The goal is to cut down on delays and costs. Moreover, the DoW was mandated to review their Major Weapons Programs (MDAPs) to check for programs that are over budget, behind schedule, or – crucially – misaligned with current mission priorities.[15] Many of these programs are incredibly expensive and have yet to deliver the promised results. For example, the F-35 Program is estimated to cost over $2 trillion over the course of its 94-year lifetime and is a decade behind schedule.[16]

Beyond the Executive Order, there are other DoW initiatives in place to help smaller, innovative firms succeed in the procurement pipeline. DoW is the largest participant in the Small Business Innovation Research and Small Business Technology Transfer (SBIR/STTR) program, awarding around $1 billion in grants annually to firms engaging in R&D for defense applications.[17] Moreover, the DoW has administered the Accelerate the Procurement and Fielding of Innovative Technologies (APFIT) program since 2022, which provides funding to companies with mature technologies that need assistance in production. The program receives about $300 million annually. In addition to supporting innovative firms directly, the Office of Strategic Capital (OSC) within the DoW has the authority to administer loan funds to projects that support advanced manufacturing, cybersecurity, decision science, edge computing, mesh networks, microelectronics, solar, and quantum computing technologies that are relevant for both defense and commercial applications. 200 companies have applied for funds under the program, and the OSC plans to distribute $984 million in funds to those selected.[18] The OSC also received an additional $1.5 billion in loan funds from the One Big Beautiful Bill Act (OBBBA).[19]

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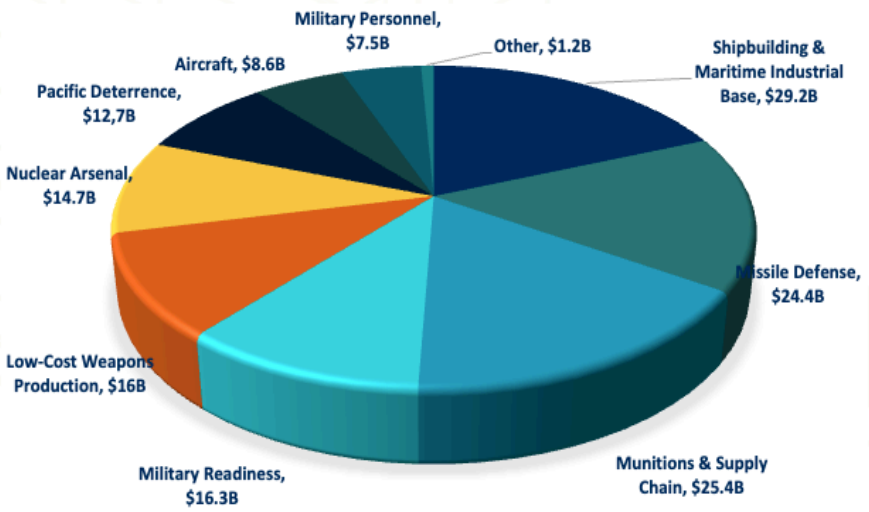
The OBBBA included additional funds and initiatives in alignment with the April Executive Order and in other key defense areas highlighted in other executive orders. In response to the executive order titled "Restoring America's Maritime Dominance," the OBBBA apportioned $29 billion for the DoW to focus on domestic shipbuilding, with the majority of the funds going towards purchasing ships within specific programs; $5 billion was set aside for unmanned vessels, advanced maritime manufacturing, maritime supplier networks, and maritime workforce development. While not specified in the bill, these funds could be of use for the existing Maritime Industrial Base Program (MIB) that the Navy launched in 2024. The OBBBA also committed $24.4 billion to integrated air and missile defense systems under "The Iron Dome for America" initiative. The funds are broken out into various buckets including military space-based sensors, space-based and boost phase intercept capabilities, military missile defense capabilities, hypersonic defense systems, air moving target indicator military satelites, and ground missile defense radars.[20]

Figure 1: Additional DoW Allocations in OBBBA 2025: $150B



Across executive orders, DoW policies and programs, and congressional activity, there is clearly a realization that US weapon systems and procurement need to be modernized to fit the modern battlespace and the challenges faced by US warfighters. Programs have been announced and funds are being apportioned, but the DoW is still onboarding these changes and launching these programs. As the DoW ramps up these programs, the key for economic developers will be to identify, support, and target the companies that are aligned with national defense priorities and are in the best position to take advantage of the changes at the Federal level.

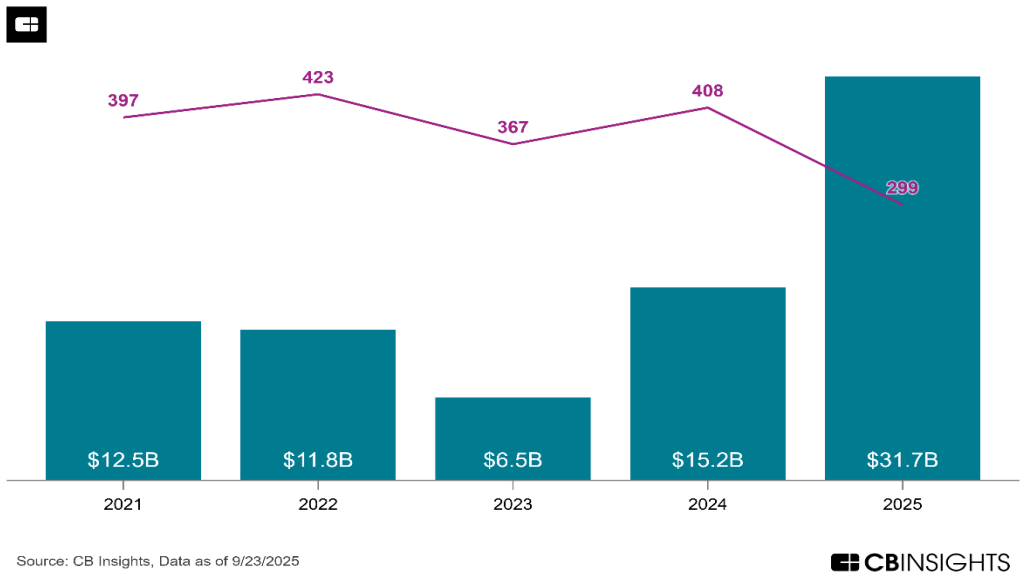
Industry Trends

The battlespace has evolved, and procurement strategy is evolving with it, but what are the trends in the defense industry – from startup firms to established players? Overall, the defense industry in the United States is experiencing serious tailwinds. The OBBBA, mentioned in the previous section, increases defense spending by $150 billion. This brings total US defense

spending to approximately $1 trillion. Moreover, NATO member states agreed in June 2025 to increase their defense spending to 5% of GDP by 2035.[21] Recent figures suggest that 60% of arms imports by NATO member states are sourced from US companies. Non-US NATO member states spent about $450 billion per year combined on defense under the previous 2% of GDP requirement, so that figure is expected to approach $1 trillion over the next decade.

Governments are set to increase their defense spending, and the same trend is replicated in private investment. Defense tech funding reached $32 billion year-to-date in 2025, more than double the $15.2 billion raised in 2024, while industry headcount has grown 3.2% since 2024.[22]

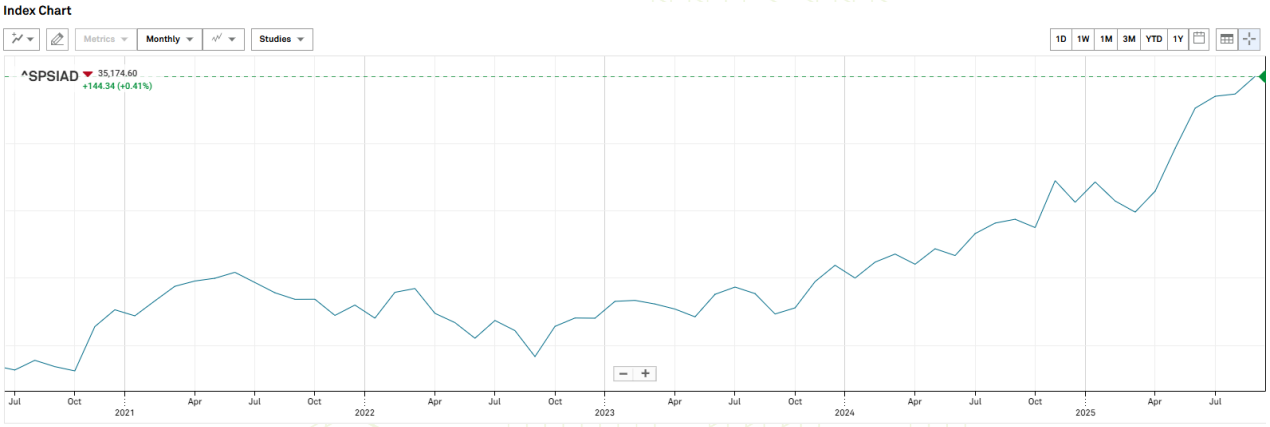
Figure 2: Defense Tech - Total Funding & Deals



Breaking defense tech down into sectors, we can see that growth has primarily resided in sectors most closely aligned with DoW priorities. All defense sectors have seen an increase in headcount in 2025, but Unmanned Vehicle firms and Space Tech firms have experienced the greatest growth, at 12.3% and 6% respectively. Moreover, those same sectors have experienced large funding growth already in 2025. Space Tech firms have already received 152% more funding in 2025 than in 2024, with Unmanned Systems and Information & Electronic Systems firms growing at 120% and 577.1% respectively.[23] Funding is broken out by sector in Figure 4.

Beyond equity funding, the publicly traded firms in the defense industry have also experienced significant growth, once again, in sectors relevant to DoW priorities. Publicly traded firms specializing in Unmanned Vehicles experienced 35.26% revenue growth from 2023 to 2024. Moreover, firms that produce Information & Electronics Systems for defense applications saw an increase in revenue of 10.42% over the same period.

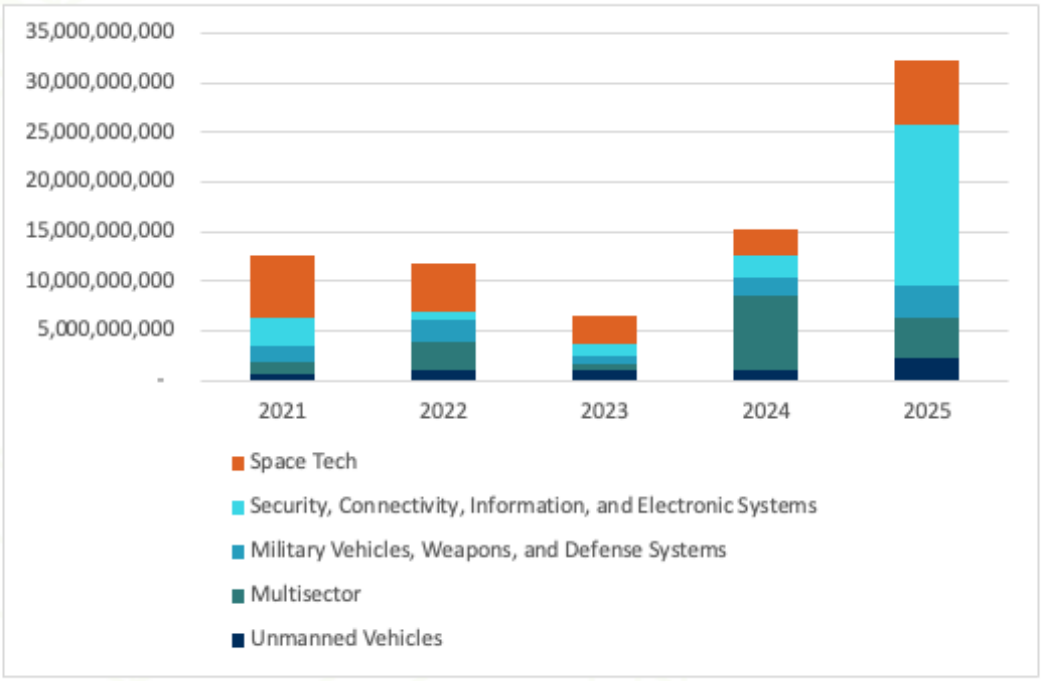
Figure 3: S&P Aerospace & Defense Select Industry Index Performance: 2020-2025



In terms of headcount, equity funding, and revenue growth, innovative firms in relevant DoW priority sectors have outpaced firms in legacy defense sectors like Military Vehicles, Weapons, Defense Systems, and Multisector Defense Contractors. This is not to say that there are not opportunities in legacy sectors, as they remain the biggest players in the industry with over $1 trillion in revenue in 2024 alone, but it does showcase the incredible momentum in future technologies for defense.

With evidence from the battlefield informing new priorities for the Department of War, both public and private markets have taken notice and there is clear alignment across the board. With federal prioritization and surging private investment, Alabama's existing strengths offer a unique opportunity to capture this growth.

Figure 4: Defense Tech - Total Funding by Sector



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Alabama's Opportunity

Alabama's defense industry is already among the strongest in the nation, anchored by Redstone Arsenal, which hosts U.S. Army Materiel Command, Army Space and Missile Defense Command (SMDC), the Missile Defense Agency (MDA), and U.S. Space Command (USSPACECOM); Maxwell-Gunter Air Force Base, home of the Air Force Cyber College; and the Anniston Army Depot. The state receives $10.4 billion annually in defense contract spending—13th nationally—and $345.3 million in defense grant spending, ranking 10th in the nation.[24] Major primes including Lockheed Martin, Boeing, BAE Systems, Raytheon, General Dynamics, Northrop Grumman, Aerojet Rocketdyne, and Airbus all maintain facilities here, supported by over $6 billion in private investment across the past 25 years.[25]

These assets indicate Alabama's clear strengths in aerospace, missile systems, and advanced manufacturing. More importantly, they align directly with the Department of War's evolving priorities. As procurement shifts toward space-based sensors, unmanned systems, cyber defense, and advanced electronics, Alabama is positioned not just to participate but to lead.

Huntsville has emerged as one of the nation's leading defense and space clusters, where federal installations, major primes, and emerging contractors operate side by side. This geographic concentration, combined with Alabama's relatively low operational costs compared to hubs like Northern Virginia or California, provides companies with both access and efficiency.

The state's institutional landscape strengthens this advantage. With USSPACECOM, the MDA, and the Air Force Cyber College all located within Alabama, firms and researchers have unique proximity to decisionmakers and missions that are driving the next generation of defense procurement. Complementing these institutions is a robust workforce pipeline, fed by leading universities with strong engineering programs such as Auburn, UAH, the University of Alabama, and Tuskegee University, as well as a steady transition of military-trained professionals into civilian roles. Moreover, the state is home to 24 two-year colleges with experience working with industry to offer apprenticeships and custom education programs. Across two and four-year institutions, Alabama produces more aerospace graduates per-capita than almost all peer states, with a rate 40% higher than the national average. In addition to a strong educational pipeline, Alabama has lower labor costs, higher laborforce growth rates, and a higher industry location quotient than most of its peer states. Statistics for various peer states are presented in Table 1.[b]

The opportunity now lies in extending these advantages into the sectors most closely aligned with future DoW growth priorities. **Space technology** represents the clearest path forward, as Alabama's historic role in rocket and missile development converges with new federal priorities around missile defense, orbital sensing, and space-based intercept capabilities. **Unmanned systems** are another natural fit for Alabama, with aerospace corridors in Huntsville, Montgomery, and Mobile, and testing infrastructure suited for aerial, ground, and underwater platforms. Moreover, underwater platforms represent an emerging cluster for areas like Mobile. **Cyberse**

b The Location Quotient (LQ) is a metric that shows how concentrated a specific industry or occupation is in a local region compared to the national average. A LQ of greater than 1 indicates a higher concentration, suggesting the region specializes in that industry, while an LQ less than 1 signifies an underrepresentation compared to the nation.

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curity and artificial intelligence provide another avenue for expansion, where Maxwell-Gunter and the Air Force Cyber College give Alabama an institutional foundation to grow expertise in digital warfare and resilient networks. Finally, the state's legacy in aerospace and missile production provides a platform to push further into advanced manufacturing, with opportunities to integrate additive manufacturing and rapid prototyping to support the Department of War's demand for speed and adaptability. Alabama also has key advantages in advanced manufacturing support with the Alabama Materials Institute (AMI) at the University of Alabama and the National Center for Defense Manufacturing and Machining (NCDMM) with a location in Huntsville.

Table 1: Alabama vs Peer States - Labor Force Statistics - 2025

Region	Avg Ann Wages per Worker	LQ	5 Year Forecast Growth Rate	5 Year % Change in Empl (4Q Mov Avg)	Yearly Aerospace Awards per 1M Residents
USA	123,721	1.00	1.2%	1.4%	512
Alabama	104,156	1.73	3.7%	15.4%	712
California	138,411	1.37	-2.6%	0.1%	430
Colorado	159,479	1.06	0.4%	11.8%	905
Florida	120,220	1.08	5.7%	27.0%	472
Texas	129,183	0.93	5.9%	0.9%	549
Virginia	144,314	0.22	3.2%	-18.8%	459

Source: JobsEQ

In order to realize this opportunity, Alabama must actively position itself as the nation's testbed for defense innovation. This requires continuing to cultivate an environment where defense startups can thrive alongside established primes, continuing to develop workforce development programs in emerging technologies, and pursuing partnerships with the Department of War that allow Alabama firms to participate in procurement pilots under Other Transaction Authority and APFIT initiatives. The state has existing resources for supporting companies involved in the SBIR/STTR programs via grant matching programs administered by Innovate Alabama, and the state has the Aviation Workforce Training Center operated by Alabama Industrial Development Training (AIDT).

Alabama has long been a critical player in the defense industrial base, but the convergence of battlefield realities, federal priorities, private investment, and institutional capacity now creates the potential for something greater. The next decade offers not just continuity but the chance for Alabama to emerge as a national leader in defense innovation, shaping the technologies and industries that will define the battlespace of the future.

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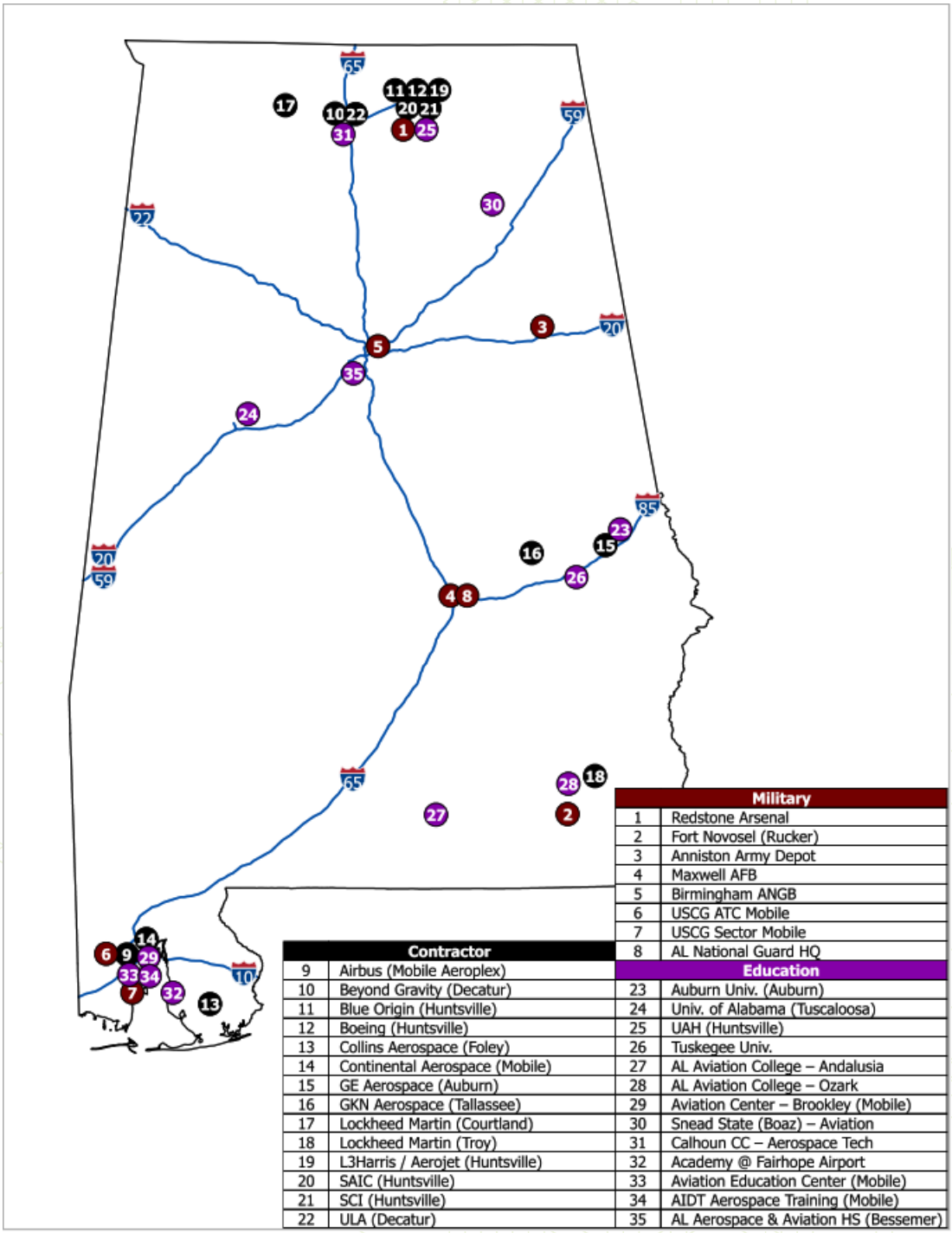
Figure 5: Alabama's Defense Ecosystem



Military	
1	Redstone Arsenal
2	Fort Novosel (Rucker)
3	Anniston Army Depot
4	Maxwell AFB
5	Birmingham ANGB
6	USCG ATC Mobile
7	USCG Sector Mobile
8	AL National Guard HQ

Contractor	
9	Airbus (Mobile Aeroplex)
10	Beyond Gravity (Decatur)
11	Blue Origin (Huntsville)
12	Boeing (Huntsville)
13	Collins Aerospace (Foley)
14	Continental Aerospace (Mobile)
15	GE Aerospace (Auburn)
16	GKN Aerospace (Tallassee)
17	Lockheed Martin (Courtland)
18	Lockheed Martin (Troy)
19	L3Harris / Aerojet (Huntsville)
20	SAIC (Huntsville)
21	SCI (Huntsville)
22	ULA (Decatur)

Education	
23	Auburn Univ. (Auburn)
24	Univ. of Alabama (Tuscaloosa)
25	UAH (Huntsville)
26	Tuskegee Univ.
27	AL Aviation College – Andalusia
28	AL Aviation College – Ozark
29	Aviation Center – Brookley (Mobile)
30	Snead State (Boaz) – Aviation
31	Calhoun CC – Aerospace Tech
32	Academy @ Fairhope Airport
33	Aviation Education Center (Mobile)
34	AIDT Aerospace Training (Mobile)
35	AL Aerospace & Aviation HS (Bessemer)

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Conclusion

The evidence is clear: the character of warfare is changing, and so too are the Department of War's priorities and the flow of public and private investment. Legacy platforms still matter, but the future belongs to systems that are unmanned, digital, and adaptive. With $150 billion in new federal defense spending, NATO doubling its defense budgets, and private capital pouring into next-generation firms, the sector is entering a period of rapid transformation.

Alabama stands at the center of this moment. Anchored by its existing defense assets and a network of major prime contractors, the state already plays a critical role in the defense industrial base. Its cost advantages, workforce pipeline, and legacy in aerospace and missile systems provide the right foundation to expand into space technology, unmanned platforms, cyber, AI, and advanced manufacturing.

The convergence of battlefield realities, federal priorities, private investment, and Alabama's institutional strengths presents a unique moment of alignment. These dynamics suggest that Alabama's role in the defense industrial base is poised to deepen. The state's existing assets and capabilities position it to benefit as defense priorities evolve, ensuring that Alabama remains a significant contributor to the modernization of U.S. defense.

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THE FUTURE OF DEFENSE INVESTMENT IN ALABAMA

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