

# Industry Update

## Technology reshapes government contractor competitiveness

### The Administration's new priorities

Government contracting has entered a period of transition. Technology is transforming procurement, setting new expectations for products and services, and equipping government contractors to compete.

The current Administration has signaled a shift toward faster procurement, increased efficiency, and a stronger reliance on advanced technology to meet mission objectives. Executive orders have asserted greater authority over the Executive branch, shaken up the bureaucracy, and further shaped it toward the Administration's priorities.

The Administration is reducing federal regulations that hinder faster and more competitive contracting. There's increased use of other transaction authorities (OTA) to enable greater acquisition flexibility.

Additionally, a technology-driven approach featuring AI development and deployment is the engine to drive contracting efficiency and direct dollars to areas of importance to the Administration. As these changes take hold, the challenges of the past year, like contract delays, stop-work orders, workforce reductions within agencies, and broader budget disruptions should start to fall away.

The contractors that will be best positioned to compete and grow will take a strategic approach, showing a willingness to modernize in line with federal priorities by investing in technology, adapting to rapid innovation cycles, and maintaining relevance in the presence of new commercial competitors.

**~\$500 Billion** increase in U.S. defense spending for FY 2027 proposed by the Administration to fund the military's growth including many technological advancements

### The new reality in contracting

Federal agencies are increasingly prioritizing speed, measurable outcomes, and innovation in their buying decisions. In many cases, this means moving away from a traditional procurement approach and preparing for more competitive selection and contracting processes. In short, contractors' proposals can't simply promise results; they must quantify and deliver them.

As you evaluate your position in this evolving landscape, consider:

- How well do your current capabilities align with the government's growing demand for **technology-driven solutions**?
- Are you investing enough in **innovation**, including Independent Research and Development (IRAD), to remain competitive?
- Can you deliver **measurable outcomes**, such as efficiency gains, cost savings, or mission impact at the speed agencies now expect?
- How are you **differentiating your business** as new, high-tech venture-backed competitors enter the market?



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# Align your business with federal technology priorities.

As agencies reshape their procurement strategies, spending is increasingly concentrated in high-impact technology areas—artificial intelligence, cybersecurity, defense technology, autonomous systems, naval ships, space, missile systems, and overall IT modernization. Look for how your capabilities map to the government’s priorities.

## Artificial intelligence

AI is rapidly becoming embedded across government operations, from analyzing large datasets (hundreds of thousands of procurement contracts) to improving administrative efficiency (scheduling military base operations) and operational planning (Venezuela incursion planning and Iran conflict targeting).

- Agencies are using AI to do more with fewer resources, creating demand for solutions that can automate workflows and enhance decision-making.
- For contractors, proprietary technology and intellectual property are key differentiators as Large Language Models (LLMs) and advanced analytic tools advance rapidly across Treasury/IRS, Social Security, VA, HHS, Education, GSA, and the Department of War.

## Cybersecurity

Cybersecurity remains a foundational requirement across all government departments and agencies. AI can identify vulnerabilities, automate threat detection and response, and strengthen cybersecurity resilience.

- Compliance standards such as Cybersecurity Maturity Model Certification (CMMC) 2.0 are raising the bar not only for prime contractors who handle sensitive data, but also for their supply chains.
- Agencies are going on the offensive against cyber-attacks. AI-enabled threat detection along with proactive security strategies like penetration testing and red teaming to simulate attacks can identify and fix vulnerabilities before they can be exploited.
- Contractors that can seamlessly integrate security into their offerings will be better positioned to be awarded work.

## Defense technology and autonomous systems

Investment continues to accelerate in autonomous systems and next-gen defense technologies.

- The range of technologies applied to advanced applications is broad: unmanned military vehicles in air, on ground, and underwater; satellites directing missiles and drones; increased surveillance and communications; robotics to build, modernize, and repair Navy ships; electromagnetic disabling capabilities; and other directed energy systems.
- Agencies are seeking innovative solutions that are delivered faster and enhance operational effectiveness to give the U.S. a competitive edge.
- A strong push toward domestic production of essential technologies such as chips, semiconductors, and rare earth minerals, creates additional opportunities for contractors that can deliver on these priorities including technologically advanced alternatives.

## Space and missile systems

As a result of the Administration's August 2025 executive order focused on space leadership, space-focused companies are experiencing investor interest.

- A top priority is a next-generation Golden Dome layered missile defense system to protect the U.S. homeland, including both ground and space detection, launch, and response aspects.
- Additional focus areas are weapons to defend or attack adversaries, including hypersonic weapons, directed energy systems (lasers/microwaves), and space-based technologies.
- A Moon to Mars goal drives a need for new technologies, including new propulsion systems, new payload delivery systems, and new landing crafts. Similarly needed are longer-lasting space supply systems such as fuel, batteries, and life support systems.

## Information technology modernization

Outdated IT systems are spread across the federal government, including civilian agencies and departments such as the IRS, Social Security Administration, and U.S. Marshals Service.

- Continued movement of IT systems to the cloud is underway.
- Application of AI to the government's internal systems is in its early to mid-level stages.
- Technology is being used for immigration monitoring, detection, and rapid responses, replacing labor-intensive work by Homeland Security.
- Faster medical monitoring and virtual care using telehealth software is being deployed by the VA.

## Strengthen your internal capabilities to stay competitive.

Delivering technology solutions externally requires building a technology-enabled organization internally. While ensuring they meet government cybersecurity and compliance requirements, many leading contractors are:

- Investing in automation and launching AI pilots to improve responsiveness and reduce costs.
- Hiring CTOs and engaging consultants capable of building out competitive strengths in the technologies that matter most.

- Recruiting cleared personnel and specialized engineering/technology talent that can add intangible value, especially for intelligence and classified programs.

At the same time, the federal government's "Tech Force" recruitment is actively targeting private-sector technologists, particularly those with AI experience. Talent retention measures are vital to holding onto the team you need to deliver.

# Evaluate your capital strategy to support growth.

The government's elevation of the importance of technology can lead to a shift in plans and capital in that direction. Legacy government contractors in particular may choose to step up their independent research and development (IRAD) spending. Along with technology investment, growth initiatives and market uncertainty can all place new demands on financing strategies and financial operations:

## Early-stage companies

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More venture-backed companies are attracted to the government contracting industry. Early-stage companies will use seed rounds, venture capital, and sometimes even private equity until they get their first major contracts and have the profile to attract other forms of capital.

## Capital for growth

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For existing contractors and new companies, there's a universal need for organic growth funding for their operations to support payroll using working capital financing. Those same sources sustain a business during government workforce reductions and shutdowns.

## Investment in capital assets

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Product contractors will continue to need long-term financing for capital assets, including specialized equipment and production facilities. Truist regularly supports growing government contractors with the organic financing that they need.

## M&A

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Acquisitive growth is common in government contracting to access new capabilities, clients, and contracts. Truist is an active provider of M&A funding.

## Treasury & Payment services

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As government contractors deploy more technology, so does Truist. Steady technology advancements in financial services help government contractors move money faster and get information quicker. Equally as important, protecting against ever-growing cybercrime threats leads Truist to constantly invest in technology to build our Payment fraud defenses.

*Combining industry insight with financial expertise, Truist helps aerospace, defense, and government services firms think through these decisions and build actionable plans. Understanding a business's growth plans and the current challenges it's facing allows Truist to help you evaluate options, identify potential risks, and position your organization to move quickly when opportunities emerge.*

## Drive your company's success in government contracting.

A knowledgeable partner like Truist can support all your banking needs, from working capital to acquisitions and long term growth strategies. Talk to your Truist relationship manager or our Aerospace, Defense & Government Services specialists to learn how we can help you position your business for what's ahead.