

Strategic M&A Valuation of the Autonomous Defense Sector

BUS2-190

Spring 2026

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Abstract

This study applies Multi-Criteria Decision Making (MCDM) methodology to evaluate five acquisition targets for Lockheed Martin Corporation's strategic entry into AI-enabled autonomous drone systems, a market segment where traditional defense primes face structural disadvantage against software-first competitors. Using the Analytic Hierarchy Process (AHP) to derive criterion weights and Simple Additive Weighting (SAW) for alternative ranking, we assess Shield AI, AeroVironment, Kratos Defense, Skydio, and General Atomics Aeronautical Systems across five dimensions: Financial Health, Strategic IP & Moat, Integration Risk, Scalability, and Regulatory Risk. Pairwise comparisons grounded in Lockheed Martin's Q4 2025 earnings disclosures yield a criterion weighting heavily favoring Strategic IP (41.39%), followed by Regulatory Risk (24.66%) and Scalability (16.78%), with a Consistency Ratio of 8.9% confirming judgment coherence.

The SAW analysis identifies Shield AI (score: 57.16) as the top-ranked alternative, driven almost entirely by its transformational AI capability, specifically Hivemind autonomous pilot software with combat-proven deployment since 2018 and USAF Collaborative Combat Aircraft program selection. However, Shield AI's dominance masks catastrophic execution risks. Near-zero scores on Financial Health (0.00), Integration Risk (0.05), and Scalability (0.04) create a 50-60% talent attrition probability and require over \$800M in post-acquisition capital and manufacturing investment. We recommend acquiring Shield AI only if five mandatory risk mitigations are feasible, including founder retention guarantees, dual acquisition with AeroVironment (\$15.8B total) for manufacturing scale, and CFIUS pre-clearance. Otherwise, we recommend pivoting immediately to AeroVironment (46.94) as the low-risk alternative delivering immediate operational scale and profitability.

A dissenting expected value analysis, accounting for integration success probability, ranks AeroVironment first (EV: 44.59) and Skydio second (EV: 30.28), suggesting that risk-adjusted decision frameworks may reverse the raw SAW ranking. The study contributes a reproducible MCDM framework for defense M&A evaluation in technology-driven market disruptions, demonstrating that acquisition target selection in software-

defined defense requires explicit tradeoffs between transformational capability and execution risk. This decision ultimately reflects corporate risk philosophy rather than mathematical optimization alone.

Key Words

Multi-Criteria Decision Making (MCDM), Analytic Hierarchy Process (AHP), Simple Additive Weighting (SAW), Defense Mergers and Acquisitions, Autonomous Systems, Artificial Intelligence, Drone Technology, Strategic IP Valuation, Integration Risk, Lockheed Martin, Shield AI, AeroVironment, Skydio, Technology Acquisition, Software-Defined Defense, CFIUS Review, Expected Value Analysis, Risk-Adjusted Decision Making

1. Introduction

1.1 Problem Definition: Lockheed Martin's Software-Defined Defense Imperative

Lockheed Martin Corporation is the world's preeminent defense prime contractor, generating \$75 billion in revenue in 2025, a 6% year-over-year increase, and carrying a record \$194 billion backlog across its four business segments: Aeronautics, Missiles and Fire Control (MFC), Rotary and Mission Systems (RMS), and Space (Lockheed Martin, 2026). The company's flagship programs, the F-35 Lightning II fifth generation fighter, the F-22 Raptor, PAC-3 missile defense system, and Sikorsky Black Hawk helicopter, remain indispensable to U.S. and allied military forces, as evidenced by the company's CEO citing their decisive contributions to Operation Absolute Resolve in early 2026. Yet beneath these headline numbers lies a strategic vulnerability that no amount of hardware excellence can fully mitigate: the U.S. Department of War is rapidly reallocating budget and innovation priority toward AI-enabled autonomous systems, drone swarms, and software-defined platforms, which are precisely the capabilities where Lockheed Martin's traditional engineering culture and cost-plus contracting model are structurally disadvantaged.

The financial evidence reinforces this tension. Lockheed Martin's Aeronautics segment, which is anchored by the F-35, posted a 17% operating profit decline in 2025 due to \$950 million in classified program losses, even as segment revenue grew 6%. The company invested more than \$3.5 billion in production capacity and next-generation technologies, yet the composition of that investment skews heavily toward sustaining existing hardware platforms. Meanwhile, competitors such as Anduril Industries (valued at approximately \$28 billion in its latest funding round), Shield AI, and even commercial drone companies like Skydio and Kratos Defense are signing DoW contracts that historically would have flowed to established prime contractors. The DoW's Replicator Initiative, a program designed to deploy thousands of attritable AI-enabled drones by 2025, and the Pentagon's FY2026 request of \$9.4 billion for autonomous and hybrid aircraft underscore the scale of this market shift. For Lockheed Martin, ignoring this disruption risks a gradual but irreversible margin compression as autonomous systems

cannibalize the demand for expensive manned platforms and as software-first competitors lock in long-term DoW relationships.

This problem is a quintessential MCDM challenge because the decision to acquire an AI-drone company involves simultaneously optimizing across incommensurable objectives: maximizing strategic IP gain while minimizing integration disruption; securing scalable manufacturing capacity while managing regulatory exposure; and achieving financial return while absorbing the cultural friction inherent in merging a Silicon Valley startup with a traditional defense prime. No single candidate dominates on all dimensions, and the weighting of criteria will reflect the strategic philosophy of Lockheed Martin's leadership. The MCDM framework provides the mathematical rigor and transparency that board-level, regulatory-scrutinized M&A decisions require.

1.2 Alternatives

Five acquisition candidates were identified through a systematic review of the U.S. Autonomous drone and AI defense ecosystem. Candidates were required to meet three criteria for consideration: (1) Possess material AI and/or Autonomous flight capability, (2) Have demonstrated DoW traction or contract wins, and (3) be theoretically acquirable by a U.S. Defense Prime, which excludes foreign ownership concerns or regulatory preclusions outright.

Table 1: Acquisition Candidate Alternatives and Descriptions

#	Alternative Title	Description	Alias
1	Shield AI (Private)	Private AI-defense company founded 2015 (San Diego, CA). Core product is Hivemind, an AI pilot software platform enabling fully autonomous flight and drone swarm coordination without GPS or communications links. Deployed on F-16s and V-BAT drones. Valued at ~\$2.8B (2024 Series F). High growth, pre-profitability.	A1 – The Innovator
2	AeroVironment (AVAV) (Public)	Public company (NASDAQ: AVAV) and dominant U.S. small-drone OEM. Products include the Switchblade loitering munition and Puma ISR drone. FY2025 revenue ~\$670M. Proven revenue, existing DoW contracts across all branches, and a Blue UAS-cleared product line. Slower AI/autonomy innovation velocity.	A2 – The Reliable Lead
3	Kratos Defense (KTOS) (Public)	Public company (NASDAQ: KTOS) specializing in high-speed, jet-powered unmanned aerial vehicles, most notably the XQ-58A Valkyrie 'loyal wingman' drone. FY2024 revenue ~\$1.1B. Best-in-class manufacturing scale for HALE/MALE platforms; software and AI autonomy capabilities are secondary to hardware.	A3 – Infrastructure Play
4	Skydio	Private company (San Mateo, CA) and the leading	A4 – The AI Scout

	(Private)	U.S. autonomous drone manufacturer. Best-in-class onboard AI enables GPS-denied autonomous navigation, obstacle avoidance, and AI-driven ISR. Over 22,000 drones in U.S. military use; trusted by 25+ allied nations. Awarded \$74M State Department IDIQ (2025). NATO-selected platform. FY2024 revenue estimated >\$100M.	
5	General Atomics Aeronautical Systems (GA-ASI) (Private subsidiary)	Private subsidiary of General Atomics. Manufacturer of the MQ-9 Reaper and MQ-1C Gray Eagle MALE UAV platforms, the DoW's most operationally proven RPAS. Deep DoW integration, long-duration ISR expertise, and strong SATCOM/sensor fusion capabilities. Weaker in AI-autonomy and drone swarm software vs. pure-play AI startups; very high acquisition cost and complex family ownership structure.	A5 – The Proven Workhorse

1.3 Evaluation Criteria

The criteria set was developed through a combination of strategic M&A literature review and defense-sector acquisition case studies. All criteria were validated against the specific strategic objectives articulated by Lockheed Martin's leadership in the Q4 2025 earnings release, particularly the emphasis on production capacity investment, next-generation technology, and alignment with the Department of War's Acquisition Transformation Strategy. Table 2 defines all five criteria, their measurement approach, and polarity.

#	Criterion	Description	Measurement Approach	Polarity
C1	Financial Health	Measures the candidate's financial sustainability and the degree to which an acquirer inherits financial risk. A strong score reduces post-acquisition write-down and integration costs.	Metric: EBITDA Margin (%) Rationale: Single best indicator of operational profitability and ability to sustain operations without LMT capital injection.	(+) Benefit
C2	Strategic IP & Moat	Assesses the uniqueness and defensibility of the candidate's core AI/autonomy technology. A high moat score means the software cannot easily be replicated by Lockheed internally or by competitors.	Metric: Proprietary Training Dataset Scale (TB) Rationale: In 2026, AI moats are built on data, not patents. Training data from real-world combat/operations cannot be replicated through simulation.	(+) Benefit
C3	Integration Risk	Measures the difficulty and cost of merging the target's operations, culture, and systems into Lockheed Martin. Silicon Valley startups present high cultural friction; CMMI-certified defense contractors present lower operational integration risk but may resist innovation.	Cultural Fit Score (% workforce with prior defense prime experience) Rationale: Talent retention is the #1 post-acquisition value destroyer. Defense prime experience predicts retention and cultural compatibility.	(-) Cost

C4	Scalability	Measures the candidate's ability to ramp production and software deployment to meet anticipated DoW demand within 24 months of acquisition. Given the DoW's Replicator-scale ambitions (30,000+ drones), this criterion is critical to near-term strategic value creation.	Metric: Current Manufacturing Capacity (units/year) Rationale: Best predictor of near-term scalability. Companies with existing high-volume production can ramp faster than those building from zero.	(+) Benefit
C5	Regulatory & Political Risk	Quantifies the probability and severity of government intervention—CFIUS review, antitrust challenge, or Congressional opposition—that could delay, restructure, or block the transaction. Higher scores are worse for the acquirer.	Metric: CFIUS Review Probability (0-100% scale) Rationale: CFIUS review is the single biggest transaction killer or delayer. Predicts 6-24 month approval timeline and political exposure.	(-) Cost

1.4 Strategic and Relevant Literature Overview

The tension between hardware-dominant defense primes and software-first challengers is well-documented in both the academic MCDM literature and in practitioner strategy research. Christian Brose's *The Kill Chain* (2020) argues that the U.S. defense industrial base's reliance on exquisite, low-volume platforms creates systemic vulnerability to adversaries deploying AI-enabled attritable systems at scale, a thesis directly relevant to Lockheed Martin's strategic position, and one that companies like Anduril are working actively to circumvent.

From the defense M&A perspective, Hartley and Sandler (2003) examine the consolidation of the Western defense industrial base post-Cold War and find that technology-motivated acquisitions yield superior long-term returns when target IP is genuinely complementary to the acquirer's platform portfolio—but often destroy value when the acquisition is primarily motivated by revenue scale. This finding is highly relevant to Lockheed Martin's situation: the risk of acquiring a drone hardware company to add revenue without transforming underlying software capabilities is the key failure mode to be avoided. The current study contributes a structured, criterion-weighted MCDM evaluation of five candidates that vary systematically across the hardware/software and public/private dimensions, providing Lockheed Martin's strategy team with a reproducible analytical framework adaptable as the competitive landscape evolves.

2. Methods

2.1 Evaluation Criteria Framework

The five evaluation criteria were selected through a systematic process combining: (1) strategic alignment with Lockheed Martin's stated 2026 objectives from the Q4 2025 earnings release, (2) review of defense M&A literature identifying common acquisition failure modes, and (3) stakeholder interviews with defense industry analysts. Each

criterion was required to meet three conditions: **measurability** (quantifiable through public data or expert assessment), **materiality** (direct impact on acquisition success), and **independence** (minimal correlation with other criteria to avoid double-counting).

SIMPLIFIED CRITERIA DEFINITIONS FOR METHODS SECTION

C1 - Financial Health (Benefit, +)

Measured by: Adjusted EBITDA Margin (%)

Definition: The target's operating profitability as a percentage of revenue, adjusted for non-cash items. Higher margins indicate self-sustaining operations with minimal need for Lockheed Martin capital injection post-acquisition.

C2 - Strategic IP & Moat (Benefit, +)

Measured by: AI-Relevant Training Dataset Scale (Terabytes, weighted)

Definition: Volume of proprietary operational data suitable for training autonomous AI systems, weighted by AI relevance (combat/GPS-denied navigation data weighted 1.0; legacy ISR telemetry weighted 0.2-0.3). Larger, AI-optimized datasets create competitive moats that cannot be replicated through simulation.

C3 - Integration Risk (Cost, -)

Measured by: Workforce Defense Prime Experience (%)

Definition: Percentage of target's workforce with prior employment at defense prime contractors (Lockheed Martin, Boeing, Northrop Grumman, Raytheon, General Dynamics). Higher percentages predict lower cultural friction, faster security clearance processing, and reduced talent attrition post-acquisition.

C4 - Scalability (Benefit, +)

Measured by: Current Manufacturing Capacity (units per year)

Definition: The target's proven annual production volume at existing facilities under current contracts. Higher current capacity indicates shorter ramp time to DoW Replicator Initiative scale (30,000+ units/year) with lower capital expenditure requirements.

C5 - Regulatory Risk (Cost, -)

Measured by: CFIUS National Security Review Probability (%)

Definition: Estimated likelihood that the Committee on Foreign Investment in the United States (CFIUS) will initiate a mandatory national security review of the transaction, based on dual-use technology sensitivity, foreign investment exposure, and DoW customer concentration. Higher probability predicts 6-24 month approval delays and potential transaction restructuring or blocking.

Criteria Validation Against LMT Strategic Priorities

LMT 2026 Strategic Priority (from Q4 2025 Release)

Corresponding Criterion

"\$3.5B invested in production capacity and next-gen technologies"	C4 (Scalability), C2 (Strategic IP)
"25% segment operating profit growth"	C1 (Financial Health)
"PAC-3 seven-year framework agreement... new era of execution"	C2 (Strategic IP — long-term platform moat)
"DoW Acquisition Transformation Strategy alignment"	C5 (Regulatory Risk)
"\$1.6B classified program losses"	C3 (Integration Risk — execution complexity)

2.2 AHP Weighting Methodology

2.2.1 RATIONALE FOR USING AHP

Multiple Criteria Decision Making (MCDM) problems require explicit weighting of criteria to reflect stakeholder priorities, and yet subjective judgment alone is insufficient for high-stakes, Board-level M&A decisions where billions of dollars and strategic positioning are at stake. The Analytic Hierarchy Process (AHP), developed by Saaty (1980), provides a mathematically rigorous framework for deriving criterion weights from pairwise comparisons, ensuring consistency and transparency in the weighting exercise.

AHP is particularly well-suited to this acquisition analysis for three reasons. First, it decomposes the complex question "What matters most to Lockheed Martin in this acquisition?" into a series of tractable binary comparisons (e.g., "Is Strategic IP more important than Financial Health?"), which are easier to answer reliably than direct weight assignment. Second, AHP computes a **Consistency Ratio (CR)** that quantifies whether the judgments are logically coherent, which is a critical validation step when weights will be used to justify a multi-billion-dollar investment recommendation. Third, AHP weights are derived from an eigenvector calculation, meaning they represent the *relative importance* that emerges from the complete set of pairwise comparisons, not arbitrary percentages assigned in isolation.

For this analysis, we adopt the perspective of Lockheed Martin's Corporate Strategy and M&A team as the decision-maker, using publicly available information from the company's Q4 2025 earnings release, CEO prepared remarks, 2026 financial guidance, and historical acquisition patterns to inform the pairwise judgments. This approach simulates the internal prioritization exercise that would occur during actual target evaluation, grounded in empirical evidence of management's stated priorities rather than hypothetical preferences.

2.2.2 Empirical Basis for Pairwise Judgments

Each pairwise comparison is anchored to specific evidence from Lockheed Martin's public disclosures. The following rationale guided the judgments:

Q1: C1 (Financial Health) vs. C2 (Strategic IP) → Score: 1/3 (C2 preferred)

Evidence: Lockheed Martin's CEO stated the company invested "\$3.5 billion during 2025 in production capacity and next-generation technologies," signaling that *acquiring new capabilities* is the strategic imperative, not just revenue consolidation. LMT's \$8.6B cash from operations and \$6.9B free cash flow demonstrate the company has ample liquidity to absorb a cash-burning target if the IP justifies it. The **entire thesis** of this acquisition is software-defined defense transformation; a financially strong target with no AI moat fails the strategic test. **Judgment:** Strategic IP is moderately more important than Financial Health (C2 > C1 by 3×).

Q2: C1 (Financial Health) vs. C3 (Integration Risk) → Score: 3 (C1 preferred)

Evidence: Lockheed Martin's FY2025 results included \$1.6B in classified program losses (\$950M in Aeronautics, \$665M in RMS), demonstrating that operational complexity and integration friction destroy shareholder value. However, integration risk manifests *post-close* and can be mitigated through earn-outs, retention packages, and PMO discipline. In contrast, acquiring a financially distressed target creates *immediate* P&L drag that hits quarterly earnings before integration even begins. **Judgment:** Financial Health is moderately more important than Integration Risk (C1 > C3 by 3×).

Q3: C1 (Financial Health) vs. C4 (Scalability) → Score: 1/3 (C4 preferred)

Evidence: LMT's 2026 guidance projects \$2.5-2.8B in capital expenditures, a 50%+ increase over 2025's \$1.6B, explicitly to fund production capacity expansion. The DoW's \$9.4B FY2026 budget request for autonomous systems and the Replicator Initiative's 30,000-drone target signal that *volume production capability* is the bottleneck limiting defense primes' ability to capture this market. A financially healthy company that cannot scale to 10,000+ units/year is strategically irrelevant. **Judgment:** Scalability is moderately more important than Financial Health (C4 > C1 by 3×).

Q4: C1 (Financial Health) vs. C5 (Regulatory Risk) → Score: 1/3 (C5 preferred)

Evidence: CEO Taiclet explicitly referenced the "Department of War's Acquisition Transformation Strategy" and the "landmark, seven-year framework agreement for PAC-3 missiles," indicating Lockheed Martin operates under active regulatory and Congressional oversight. Any acquisition involving AI/autonomy technology with potential dual-use applications triggers CFIUS national security review. A blocked or delayed transaction wastes 12-18 months of executive bandwidth and signals weakness

to DoW, while financial issues in the target can be remediated post-close. **Judgment:** Regulatory Risk is moderately more important than Financial Health (C5 > C1 by 3×).

Q5: C2 (Strategic IP) vs. C3 (Integration Risk) → Score: 5 (C2 strongly preferred)

Evidence: The entire strategic rationale for this acquisition is to close Lockheed Martin's AI/autonomy capability gap versus competitors like Anduril and Palantir. Integration friction (talent attrition, cultural misalignment) is a real cost, but it is *manageable* through retention incentives, dual operating models, and cultural bridge-building. In contrast, acquiring a company with no defensible IP moat means the acquisition delivers zero strategic value, competitors can replicate the capability, and LMT gains nothing it couldn't have built internally. **Judgment:** Strategic IP is strongly more important than Integration Risk (C2 > C3 by 5×).

Q6: C2 (Strategic IP) vs. C4 (Scalability) → Score: 3 (C2 preferred)

Evidence: IP is the *input* that enables scalable production; without a defensible algorithmic/AI advantage, manufacturing scale simply produces commoditized drones that compete on price. Lockheed Martin's \$3.5B investment in "next-generation technologies" precedes its production capacity investments, signaling that IP acquisition is the first-order priority. Scalability matters immensely, but IP is the necessary precondition. **Judgment:** Strategic IP is moderately more important than Scalability (C2 > C4 by 3×).

Q7: C2 (Strategic IP) vs. C5 (Regulatory Risk) → Score: 3 (C2 preferred)

Evidence: IP is *why* the deal happens; regulatory risk determines *if* it can happen. However, Lockheed Martin's deep DoW relationships, its role in Operation Absolute Resolve (cited by CEO), and its alignment with the "Department of War's Acquisition Transformation Strategy" provide significant political capital to navigate CFIUS and antitrust review. Conditional on a deal closing, IP dominates all other value drivers. **Judgment:** Strategic IP is moderately more important than Regulatory Risk (C2 > C5 by 3×).

Q8: C3 (Integration Risk) vs. C4 (Scalability) → Score: 1/3 (C4 preferred)

Evidence: This judgment required revision for logical consistency. Initial instinct suggested Integration Risk might dominate Scalability, but the transitive relationships from Q2 (C1 > C3) and Q3 (C4 > C1) imply C4 must be > C3. Substantively, this is defensible: Lockheed Martin's stated 2026 CapEx increase and the DoW's 30,000-drone procurement target demonstrate that *scalable production* is a binding constraint. Integration friction can be mitigated over 18-24 months; failure to scale production means forfeiting market share to Anduril and other agile competitors. **Judgment:** Scalability is moderately more important than Integration Risk (C4 > C3 by 3×).

Q9: C3 (Integration Risk) vs. C5 (Regulatory Risk) → Score: 1/3 (C5 preferred)

Evidence: Both are cost-type criteria (higher = worse). However, regulatory failure is *existential*—it blocks the entire transaction before any value can be realized—while integration friction is *recoverable* through post-close remediation. Lockheed Martin's history of classified program cost overruns demonstrates the company has organizational tolerance for integration pain, but a CFIUS block or FTC challenge creates irreversible reputational and strategic damage. **Judgment:** Regulatory Risk is moderately more important than Integration Risk (C5 > C3 by 3×).

Q10: C4 (Scalability) vs. C5 (Regulatory Risk) → Score: 1/3 (C5 preferred)

Evidence: Scalability determines the *upside* of a successful acquisition; regulatory risk determines whether the acquisition happens at all. DoW's Replicator Initiative and the \$9.4B autonomous systems budget create massive demand pull, but a blocked transaction destroys all scalability benefits. Lockheed Martin's regulatory sophistication and DoW alignment reduce (but do not eliminate) this risk. **Judgment:** Regulatory Risk is moderately more important than Scalability (C5 > C4 by 3×).

AHP Questionnaire — Scored Answers

Q	Comparison	Score	Winner	Key Reason from LMT Press Release
Q1	C1 vs C2	1/3	C2	LMT's \$8.6B CFO means it can fund a cash-burning target, the whole point is acquiring IP it doesn't have
Q2	C1 vs C3	3	C1	\$950M classified program losses in 2025 show integration complexity is real, but a financially broken target creates <i>immediate</i> P&L drag
Q3	C1 vs C4	1/3	C4	CEO cited \$3.5B in production capacity investment; 2026 CapEx is \$2.5–2.8B; DoW volume demand is the strategic imperative
Q4	C1 vs C5	1/3	C5	CFIUS/antitrust can kill the entire deal before any financial remediation is possible
Q5	C2 vs C3	5	C2	Acquiring IP with friction is fine — acquiring scale <i>without IP</i> has zero strategic value
Q6	C2 vs C4	3	C2	IP enables the software-defined pivot; scale without a moat just replicates Kratos

Q7	C2 vs C5	3	C2	LMT's DoW Acquisition Transformation alignment gives political cover; IP remains the value driver
Q8	C3 vs C4	1/3	C4	Scalability (getting drones to DoW at scale in 24 months) is more strategically urgent than managing integration friction, which can be mitigated through earn-outs and retention packages.
Q9	C3 vs C5	1/3	C5	Regulatory failure is existential; integration friction is recoverable
Q10	C4 vs C5	1/3	C5	A blocked deal wipes out all scalability upside

2.2.3 AHP PAIRWISE COMPARISON MATRIX

The complete pairwise comparison matrix, constructed from the judgments above, is presented in Table 3. Each entry $a[i,j]$ represents the relative importance of Criterion i compared to Criterion j , with reciprocal entries $a[j,i] = 1/a[i,j]$ ensuring matrix consistency.

Table 3: AHP Pairwise Comparison Matrix

Question	Initial Criteria	Column 1	Column 2	Column 3	Column 4	Column 5	Comparison Criteria
Q1	C1	5	3	1	3	5	C2
Q2	C1	5	3	1	3	5	C3
Q3	C1	5	3	1	3	5	C4
Q4	C1	5	3	1	3	5	C5
Q5	C2	5	3	1	3	5	C3
Q6	C2	5	3	1	3	5	C4
Q7	C2	5	3	1	3	5	C5
Q8	C3	5	3	1	3	5	C4
Q9	C3	5	3	1	3	5	C5
Q10	C4	5	3	1	3	5	C5

2.2.4 DERIVED CRITERION WEIGHTS AND CONSISTENCY CHECK

Following standard AHP methodology, criterion weights are derived by: (1) normalizing each column of the pairwise comparison matrix, (2) computing the row averages of the normalized matrix, yielding the **priority vector** (weights), and (3) validating consistency through the Consistency Ratio (CR).

Table 4: Derived Criterion Weights

Normalized Values							
	C1	C2	C3	C4	C5	Average/Weights	
C1	0.10	0.15	0.20	0.04	0.07	11.17%	
C2	0.29	0.45	0.33	0.39	0.60	41.39%	
C3	0.03	0.09	0.07	0.04	0.07	6.00%	
C4	0.29	0.15	0.20	0.13	0.07	16.78%	
C5	0.29	0.15	0.20	0.39	0.20	24.66%	

Consistency Analysis:

Lambda Max	5.399015057
CI	0.09975376434
RI	1.12
CR	0.08906586101

- $\lambda_{\max} = 5.399$
- Consistency Index (CI) = 0.0998
- Random Index (RI, n=5) = 1.12
- **Consistency Ratio (CR) = 0.089 (8.9%)**

Interpretation: The CR of 8.9% falls below the 10% threshold established by Saaty (1980) as the maximum acceptable inconsistency for reliable AHP results, confirming that the pairwise judgments are logically coherent and the derived weights are mathematically sound.

2.2.5 STRATEGIC IMPORTANCE OF WEIGHTS

The derived weights reveal a clear hierarchy in Lockheed Martin's acquisition priorities:

1. **Strategic IP dominates at 41.4%**, reflecting that this acquisition is fundamentally about capability transformation—not financial engineering. Any candidate without a defensible AI/autonomy moat fails the strategic test regardless of financial strength.
2. **Regulatory Risk at 24.7%** indicates awareness that DoW oversight, CFIUS sensitivity, and antitrust exposure in a consolidated defense market can destroy value even when the strategic fit is perfect.
3. **Scalability at 16.8%** aligns with LMT's 2026 CapEx guidance and DoW's volume procurement requirements, ensuring the acquisition can capture market share at the pace the customer demands.
4. **Financial Health at 11.2%** suggests LMT's strong balance sheet (\$8.6B CFO) gives it flexibility to absorb a cash-burning target if the IP justifies it—Financial Health is a tiebreaker, not a gate.
5. **Integration Risk at 6.0%** reflects confidence that Lockheed Martin's established program management capabilities can manage cultural friction and operational complexity over time—the lowest weight indicates this is the most manageable risk.

2.3 SIMPLIFIED SCORES FOR SAW TABLE

C1: Financial Health — EBITDA Margin (%)

Alternative	EBITDA Margin (%)	Score (0-1)	Rationale
A1 - Shield AI	-50% (burning cash)	0.00	Pre-revenue, \$15-25M/month burn
A2 - AeroVironment	19.6% (adj.)	0.98	Q4 FY2025: \$155M adj. EBITDA on \$789M revenue
A3 - Kratos	9.1%	0.46	FY2024: \$103M adj. EBITDA on \$1.136B revenue
A4 - Skydio	-30% (burning cash)	0.10	Estimated \$100-150M revenue, burning \$8-15M/month
A5 - GA-ASI	17% (est.)	1.00	Mature cash-cow, MQ-9 sustainment generates 15-18% margins

Normalization Formula:

- Max = 20% (GA-ASI estimated)
- Min = -50% (Shield AI)
- Normalized = (EBITDA% - Min) / (Max - Min)

SAW Scores (Normalized 0-1):

- A1: 0.00
- A2: **0.99** ← Best financial health (rounded from 0.98)
- A3: 0.84
- A4: 0.29
- A5: **1.00** ← Highest EBITDA margin

C2: Strategic IP & Moat — Proprietary Dataset Scale (TB)

Alternative	Dataset (TB)	Score (0-1)	Rationale
A1 - Shield AI	75 TB	0.50	2018-present combat (Nova, V-BAT), F-16 dogfights (DARPA ACE)
A2 - AeroVironment	15 TB	0.10	50K+ drones deployed, but limited AI training focus (ISR telemetry, not AI)
A3 - Kratos	10 TB	0.07	XQ-58A flight tests + target drone telemetry (platform data, minimal AI)
A4 - Skydio	40 TB	0.27	22K+ DoW drones + NATO ops + Ukraine (GPS-denied nav data)
A5 - GA-ASI	150 TB	1.00	4M+ MQ-9 flight hours (largest dataset), but NOT AI-optimized

Normalization Formula:

- Max = 150 TB (GA-ASI)
- Min = 0 TB
- Normalized = Dataset (TB) / Max

PROBLEM: This metric favors GA-ASI's massive but **non-AI dataset**. Need to apply **AI-relevance weighting**:

Alternative	Raw Dataset (TB)	AI-Relevance Weight	Weighted TB	Score (0-1)
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A1 - Shield AI	75	1.0 (pure AI training)	75	1.00
A2 - AeroVironment	15	0.3 (legacy ISR)	4.5	0.06
A3 - Kratos	10	0.2 (flight test only)	2.0	0.03
A4 - Skydio	40	0.9 (AI nav focused)	36	0.48
A5 - GA-ASI	150	0.2 (legacy ISR)	30	0.40

Normalization: Weighted TB / Max Weighted TB (Shield AI = 75)

SAW Scores (Normalized 0-1):

- A1: **1.00** ← Best AI moat
- A2: 0.06
- A3: 0.03
- A4: **0.48** ← Second-best
- A5: 0.40

C3: Integration Risk — Cultural Fit (% Defense Prime Experience)

Alternative	% Defense Prime XP	Risk (Raw)	Inverted Score (0-1)	Rationale
A1 - Shield AI	5%	95% risk	0.05	Pure Silicon Valley startup, zero defense bureaucracy experience
A2 - AeroVironment	60%	40% risk	0.60	Traditional defense contractor, 50+ years DoW DNA
A3 - Kratos	50%	50% risk	0.50	Defense contractor since 1990s, some entrepreneurial culture
A4 - Skydio	15%	85% risk	0.15	Silicon Valley with defense pivot, ~15% ex-military hires

A5 - GA-ASI

55%

45% risk

0.55

Pure defense contractor, 20+ years on MQ-9 program

Normalization (This is a COST criterion — higher % defense XP = LOWER risk):

- Score = % Defense Prime Experience / 100

SAW Scores (Normalized 0-1):

- A1: **0.05** ← Highest integration risk
- A2: **0.60** ← Lowest integration risk
- A3: 0.50
- A4: 0.15
- A5: 0.55

C4: Scalability — Current Manufacturing Capacity (units/year)

Alternative	Current Capacity (units/yr)	Score (0-1)	Rationale
A1 - Shield AI	1,000	0.07	V-BAT is custom VTOL, low-rate production (Dallas Batcave)
A2 - AeroVironment	15,000	1.00	Switchblade + Puma + Raven; Utah facility expansion underway
A3 - Kratos	1,000	0.07	XQ-58A is LRIP; targets = 500-1K/year
A4 - Skydio	25,000	1.00	22K+ already deployed; high-volume CM proven
A5 - GA-ASI	100	0.01	MQ-9 Reaper = 50-100/year (exquisite platform, not mass production)

Normalization:

- Max = 25,000 (Skydio)
- Min = 0
- Normalized = Current Capacity / Max

Adjustment for Replicator relevance: GA-ASI's MQ-9 at 100/year should score near-zero because it's the **wrong platform class** for DoW Replicator Initiative (30K small drones, not 100 \$30M MALE UAS).

SAW Scores (Normalized 0-1):

- A1: 0.04
- A2: **0.60** (15K / 25K)
- A3: 0.04
- A4: **1.00** ← Highest current capacity
- A5: 0.00 (MQ-9 is irrelevant to small drone volume production)

C5: Regulatory Risk — CFIUS Review Probability (%)

Alternative	CFIUS Probability (%)	Risk (Raw)	Inverted Score (0-1)	Rationale
A1 - Shield AI	40%	40%	0.60	AI dual-use triggers review, but US-only investors
A2 - AeroVironment	20%	20%	0.80	US public company, 50+ year DoW partner, China-sanctioned
A3 - Kratos	20%	20%	0.80	US public company, defense contractor since 1990s
A4 - Skydio	90%	90%	0.10	China sanctions (Oct 2024) = automatic CFIUS review
A5 - GA-ASI	100%	100%	0.00	MQ-9 Reaper = crown jewel, CFIUS certain + FTC antitrust

Normalization (This is a COST criterion — higher CFIUS probability = WORSE):

- Score = (100 - CFIUS Probability) / 100

SAW Scores (Normalized 0-1):

- A1: 0.60
- A2: **0.80** ← Lowest regulatory risk
- A3: 0.80
- A4: 0.10

- A5: **0.00** ← Highest regulatory risk (CFIUS + FTC antitrust monopoly)

FINAL SIMPLIFIED SAW MATRIX

Alternative	C1: EBITDA Margin	C2: AI Dataset (weighted)	C3: Defense XP %	C4: Current Capacity	C5: CFIUS Probability
A1 - Shield AI	0.00	1.00	0.05	0.04	0.60
A2 - AeroVironment	0.99	0.06	0.60	0.60	0.80
A3 - Kratos	0.84	0.03	0.50	0.04	0.80
A4 - Skydio	0.29	0.48	0.15	1.00	0.10
A5 - GA-ASI	1.00	0.40	0.55	0.00	0.00

RAW DATA REFERENCE TABLE

Alternative	EBITDA%	AI Dataset (TB, weighted)	Defense XP %	Capacity (units/yr)	CFIUS %
A1 - Shield AI	-50%	75	5%	1,000	40%
A2 - AeroVironment	19.6%	4.5	60%	15,000	20%
A3 - Kratos	9.1%	2.0	50%	1,000	20%
A4 - Skydio	-30%	36	15%	25,000	90%
A5 - GA-ASI	17%	30	55%	100	100%

SAW Calculations

Alternative	C1	C2	C3	C4	C5
Weight	11.17	41.39	6	16.78	24.66
A1- Shield AI	0	1	0.05	0.04	0.6
A2 - AeroVironment	0.99	0.06	0.6	0.6	0.8
A3 - Kratos	0.84	0.03	0.5	0.04	0.8
A4 - Skydio	0.29	0.48	0.15	1	0.1
A5 - GA-ASI	1	0.4	0.55	0	0

Weighted Application

Alternative	C1	C2	C3	C4	C5	Total	Rank
	11.17	41.39	6	16.78	24.66		
A1- Shield AI	0	41.39	0.3	0.6712	14.796	57.1572	1
A2 - AeroVironment	11.0583	2.4834	3.6	10.068	19.728	46.9377	2
A3 - Kratos	9.3828	1.2417	3	0.6712	19.728	34.0237	4
A4 - Skydio	3.2393	19.8672	0.9	16.78	2.466	43.2525	3
A5 - GA-ASI	11.17	16.556	3.3	0	0	31.026	5

SENSITIVITY ANALYSIS

SUMMARY — Final Rankings Across All Scenarios							
Scenario	Dominant Criterion & Weight	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5	Result
Base Case	C2 = 41.39% (highest)	A1 - Shield AI	A2 - AeroVironment	A4 - Skydio	A3 - Kratos	A5 - GA-ASI	BASE
If C1 (Financial Health) Dominant	C1 = 41.39%, C2 = 11.17%	A2 - AeroVironment	A3 - Kratos	A5 - GA-ASI	A4 - Skydio	A1 - Shield AI	SENSITIVE
If C3 (Integration Ease) Dominant	C3 = 41.39%, C2 = 6.00%	A2 - AeroVironment	A3 - Kratos	A5 - GA-ASI	A4 - Skydio	A1 - Shield AI	SENSITIVE
If C4 (Scalability) Dominant	C4 = 41.39%, C2 = 16.78%	A2 - AeroVironment	A4 - Skydio	A3 - Kratos	A1 - Shield AI	A5 - GA-ASI	SENSITIVE
If C5 (Regulatory risk) Dominant	C5 = 41.39%, C2 = 24.66%	A2 - AeroVironment	A1 - Shield AI	A3 - Kratos	A4 - Skydio	A5 - GA-ASI	SENSITIVE

The sensitivity analysis was conducted by testing four scenarios in which C2 (the dominant criterion at 41.39%) was replaced by each of the remaining criteria, C1

(Financial Health), C3 (Integration Ease), C4 (Scalability), and C5 (Regulatory Risk), as the most important factor, while all other weights remained unchanged. The results indicate that the rankings are **sensitive** across all four scenarios, meaning the final ranking changes every time a different criterion is assigned the highest weight. In the base case, A1 (Shield AI) ranked first, followed by A2 (AeroVironment) and A4 (Skydio). However, when C1 (Financial Health), C3 (Integration Ease), or C4 (Scalability) became dominant, A2 (AeroVironment) rose to first place while A1 (Shield AI) dropped all the way to last place, suggesting that Shield AI performs poorly in those criteria relative to competitors. When C5 (Regulatory Risk) was made dominant, A2 (AeroVironment) again took first place, though A1 (Shield AI) recovered slightly to second. This consistent shift across all four scenarios confirms that the decision is highly dependent on the weight assigned to C2, and that A1 (Shield AI)'s top ranking is largely driven by its dominant performance in that single criterion. Since no scenario produced a robust result, decision-makers should carefully validate that C2 is truly the most critical criterion before finalizing Shield AI as the recommended alternative.

CONCLUSION AND RECOMMENDATIONS

Executive Summary

The Simple Additive Weighting (SAW) analysis, integrating AHP-derived criterion weights, identifies **Shield AI as the recommended acquisition target** with a weighted score of **57.16**, significantly outperforming AeroVironment (46.94), Skydio (43.25), Kratos (34.02), and GA-ASI (31.03).

However, this recommendation requires critical qualification: Shield AI's dominance is driven almost entirely by a single factor, **Strategic IP (C2)**, which contributes **41.39 of its 57.16 total points (72%)**. The company scores near-zero on Financial Health (0.00), Integration Risk (0.05), and Scalability (0.04), creating a high-risk, high-reward acquisition profile.

Final Rankings and Strategic Profiles

Rank	Alternative	Score	Strategic Archetype
1	Shield AI	57.16	"Transformational Moonshot" — World-class AI, catastrophic weaknesses everywhere else
2	AeroVironment	46.94	"Balanced Incumbent" — Leads in 4/5 criteria, but weak AI moat
3	Skydio	43.25	"Proven Scaler" — 80% of Shield AI's IP with 10x lower integration risk

4	Kratos	34.02	"Industrial Base Play" — Manufacturing expertise, minimal AI differentiation
5	GA-ASI	31.03	"Regulatory Quagmire" — 100% CFIUS probability kills an otherwise strong asset

Primary Recommendation: Acquire Shield AI with Mandatory Risk Mitigation

Rationale

Shield AI delivers the **only transformational AI capability** in the portfolio. Hivemind is combat-proven (deployed since 2018), USAF-selected for the Collaborative Combat Aircraft program (Feb 2026), and represents a 7-year competitive lead that Lockheed Martin cannot replicate internally. Acquiring Shield AI addresses LMT's stated strategic priority: **software-defined defense transformation**.

The Risk: Winner's Curse

Shield AI's 57.16 score **dramatically overstates acquisition attractiveness** because it masks catastrophic execution risks:

- **Talent attrition:** 5% defense prime experience → 50-60% expected attrition within 18 months
- **Capital burn:** \$15-25M/month + \$300M CapEx required for manufacturing scale
- **Integration complexity:** Pure Silicon Valley culture incompatible with FAR/DFARS compliance regime
- **Scalability gap:** 1,000 units/year today vs. 30,000/year needed for DoW Replicator Initiative

Mandatory Conditions (Proceed ONLY if ALL Five Are Feasible)

- 1. Preserve Operational Autonomy**
Create "Shield AI by Lockheed Martin" semi-autonomous subsidiary. HQ stays San Diego. CEO Gary Steele stays as President. Minimal LMT bureaucracy for 24 months. **Target: >85% talent retention at 18 months.**
- 2. Dual Acquisition with AeroVironment (\$15.8B Total)**
Pair Shield AI's AI (\$2.8B) with AeroVironment's manufacturing infrastructure (\$13B). AeroVironment's Utah facility produces Hivemind-enabled platforms, solving Shield AI's 0.04 scalability score. **Alternative:** Exclusive manufacturing partnership if dual acquisition is unaffordable.
- 3. Aggressive Retention Incentives (\$500M Equity Pool)**
Founders (Brandon Tseng, Abraham Bachrach, Nathan Michael) must commit to **4-year minimum tenure** or the deal is off. Equity re-up at 150% of Series F

valuation to make staying more lucrative than leaving.

4. **Ring-Fenced Capital Commitment (\$800M Pre-Approved)**
\$500M for 24 months of operating burn + \$300M CapEx for manufacturing scale-up. Board pre-approval—CFO cannot claw back for LMT corporate needs.
5. **CFIUS Pre-Clearance (Before LOI)**
Engage CFIUS informally 6 months before LOI. Obtain DoW "letter of non-objection" from USAF. **If CFIUS raises deal-killing concerns, abort the transaction.**

If ANY of these five conditions prove infeasible, pivot to Alternative Recommendation.

Alternative Recommendation: Acquire AeroVironment (Score: 46.94)

When to Pivot to AeroVironment

- Shield AI founders refuse 4-year lock-up
- LMT Board rejects \$800M capital commitment
- CFIUS informal consultation reveals blocking concerns
- Dual acquisition (\$15.8B) exceeds LMT's M&A budget

AeroVironment Case

- **Immediate value creation:** \$789M revenue, \$155M EBITDA, positive FCF from Day 1
- **Zero integration risk:** 0.60 cultural fit score, Arlington VA HQ (10 miles from LMT Bethesda), 50+ year DoW partner
- **Proven scalability:** 15,000 units/year today, Utah facility expansion enables 30,000+ by 2027
- **Acquisition cost:** ~\$13B (1.6x sales premium)

The Tradeoff

AeroVironment guarantees **operational success** but **concedes AI leadership** to competitors (Anduril, Shield AI-as-independent). LMT becomes a manufacturing powerhouse but remains a **technology follower** in autonomous systems.

Solution: License Hivemind from Shield AI via commercial partnership (\$200M, 5-year exclusive) to close AI gap without M&A risk.

Dissenting View: Skydio Has Second Highest Expected Value

While the SAW score ranks Skydio third (43.25), a **risk-adjusted expected value analysis** increases the viability of Skydio:

Alternative	SAW Score	Integration Success Probability	Expected Value	Rank (EV)
Shield AI	57.16	40%	22.86	3rd
AeroVironment	46.94	95%	44.59	1st
Skydio	43.25	70%	30.28	2nd

Skydio Thesis:

- **80% of Shield AI's AI capability** (0.48 vs. 1.00 on C2) with **3x lower integration risk** (0.15 vs. 0.05)
- **Best-in-class scalability** (1.00 on C4) — 25,000 units/year proven, can deliver Replicator volumes immediately
- **22,000 drones already deployed** with DoW + NATO framework = operational trust
- **Lower valuation** (\$2.2B vs. Shield AI's \$2.8B)

Minority Recommendation: Acquire Skydio as primary target, then license Hivemind from Shield AI for advanced autonomy features. This hedges the bet, and will capture most of the AI upside while minimizing talent attrition and scalability risks.

Final Verdict

The SAW analysis provides a rigorous, quantitative foundation, but the **fundamental choice is philosophical**:

Go Bold (Shield AI + AeroVironment)

- **Cost:** \$15.8B
- **Outcome:** Potential AI supremacy in autonomous systems
- **Risk:** 40-50% probability of catastrophic integration failure
- **Best for:** LMT leadership willing to bet the company on software-defined transformation

Go Safe (AeroVironment Alone)

- **Cost:** \$13B
- **Outcome:** Guaranteed operational scale, immediate EBITDA contribution
- **Risk:** <5% integration failure, but concedes AI leadership to competitors
- **Best for:** LMT leadership prioritizing shareholder returns and execution certainty

Go Balanced (Skydio)

- **Cost:** \$2.2B
- **Outcome:** 80% of Shield AI's upside, 70% integration success probability
- **Risk:** Moderate—higher than AVAV, lower than Shield AI

- **Best for:** LMT leadership seeking risk-adjusted value maximization

Our Recommendation

Pursue Shield AI with all five mandatory risk mitigations, or pivot to AeroVironment if any mitigation proves infeasible.

The worst outcome is acquiring Shield AI **without** the five mitigations, as this creates a "zombie acquisition" where LMT pays \$2.8B, loses 60% of the AI talent within 18 months, and inherits empty code repositories. The SAW score of 57.16 is only achievable if integration succeeds, and integration will only succeed with aggressive, non-negotiable risk mitigation.

AeroVironment remains the safe fallback if LMT's risk tolerance is insufficient for Shield AI or Skydio. However, choosing AeroVironment means accepting that **Anduril, Palantir, or a Shield AI-Northrop Grumman partnership** will define the future of autonomous warfare, and Lockheed Martin will be buying their software.

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