Dual Path to Market Leadership in Military Drones

Chris Gramling (cgram14@stanford.edu)
Khang Do (vkhangdo@stanford.edu)
Benjamin Zaidel (bzaidel@stanford.ed)
Montanna Riggs (riggs00@stanford.edu)

Acknowledgement of Assistance: Assigned TA Natalie Cao

Montanna Riggs, B.S. BioE, M.S. MS&E

- I am an organizational leader. I succeed in pushing teams to execute consistently to create quality deliverables. I am a connector and a motivator.
- My background is in early stage BizDev, private equity, and consulting

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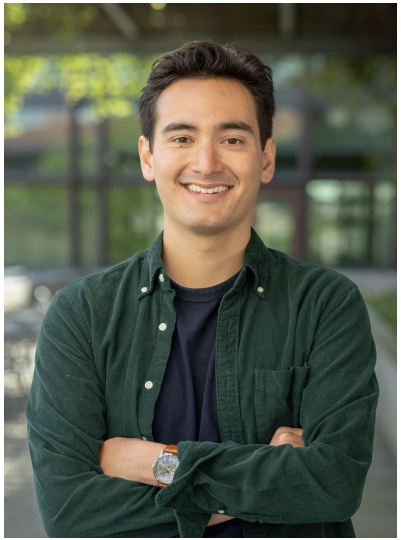
Vinh Khang Do, B.S. Math, MBA Yale, PhD MS&E

- With my experience as IT Officer and Operations Research Analyst in the US Army, I hope to bring practical knowledge in researching/ optimizing systems to solve real-world challenges.
- In personal time, I enjoy reading and playing with my children.

Benjamin Zaidel, B.S. BioE, M.S. MS&E

- Passionate about integrating technical details with big picture ideas
- Former experience with biotech start-ups, commercial engineering in the biopharma space; full time work in strategy consulting
- I believe that ambivalence is the true sign of a mature mind.



Christopher Gramling, B.S. Systems Management, M.A. Leadership Studies, MBA

- Active-Duty Army Officer - Air Defense Artillery, Space Operations
- Experience with employing the military's joint planning process to make critical decisions in high stress/pressure environments
- Passionate about leading teams to solve complex problems

Executive Summary

Company Background

Neros is a seed-stage startup specializing in **First Person View (FPV) drones** for military use, leveraging advanced engineering to achieve **market-leading technical superiority** in this segment.

Established with a goal of building a sustainable business model through **Program of Record (PoR)** contracts, which provide long-term, exclusive funding opportunities codified in the defense budget, Neros aims to secure stable revenue streams.

The current FPV drone market is largely driven by the Russo-Ukrainian conflict, generating **$400 million/year** in demand. While Neros captures a significant share, expansion remains limited by **manufacturing capacity**, and the market's long-term stability is uncertain.

Market Opportunity

Anticipated FPV PoR: Experts forecast a PoR for FPV drones in Q2 2025, with an expected value of $50 million/year, offering Neros a potential avenue for formalized DoD funding.

LASSO Program PoR (2027): The DoD's Low Altitude Stalking and Strike Ordnance (LASSO) PoR, a potential $200 million/year contract, prioritizes Fixed-Wing Loitering Munition (FW-LM) drones with advanced loitering and strike capabilities, aligning with evolving U.S. military needs.

Neros could leverage its FPV technology foundation, but significant R&D investment in airframe and powertrain upgrades would be required to meet FW-LM requirements and to position the company for LASSO.

Strategic Decision

Objective: Maximize long-term revenue and market leadership by aligning with PoR opportunities.

Key Decision (Q1 2025): Soren, as CEO, must choose between:

- Exclusive focus on FPV drones, scaling production and dominance in the current market, or
- Bifurcating resources to develop a FW-LM product line to better position for the LASSO PoR in 2027.

Challenges: Resources are constrained, and engineering hours are limited. Shifting focus could dilute immediate gains but offers a hedge for future revenue through product diversification.

Implications

Alternative 1: Focus Exclusively on FPV

- Pros: Strong short-term market leadership in FPV; potential for $50M/year in DoD funding if an FPV PoR is established in 2025.
- Cons: Limited adaptability for the 2027 LASSO PoR; risk of revenue decline if the FPV market contracts post-conflict.

Alternative 2: Diversify with FW-LM Development

- Pros: Positions Neros for LASSO's ~ $200M/year PoR, aligning with DoD priorities; establishes diversified revenue potential.
- Cons: Diluted focus on FPV may impact immediate growth; added R&D costs may stretch Series A funding and require strong justification to investors.

Executive Summary

Summary of Findings

1. Allocate 100% resources to FPV with Strategic Flexibility for FW-LM

Neros's immediate value lies in focusing on FPV technology, where an anticipated Program of Record (PoR) in 2025 could yield ~$550 million annually. This strategy allows Neros to secure short-term revenue and maintain technical superiority in a high-demand market. However, sensitivity analysis suggests that if the probability of achieving technological superiority in FW-LM reaches 49%, a pivot to FW-LM development should be considered to capture the 2027 LASSO PoR opportunity valued at ~$400 million. Periodic reassessment of this threshold will allow Neros to stay responsive to evolving defense needs and market shifts.

2. Recommendation for External Consultancy

To strengthen decision-making around the optimal balance between FPV and FW-LM investments, we recommend engaging an external consultancy with expertise in defense technology evaluation as this could be worth ~$17 million. This approach, as highlighted by the Value of Evidence (VoE) analysis, would provide critical insights into Neros' current technical positioning, helping to validate FPV superiority and assess FW-LM's potential.

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Detailed Background Information

- Neros is a **seed-stage drone startup** that specializes in manufacturing **First Person View (FPV) drones** used in military operations. The company has a goal to establish a business model and secure long term stability through winning *Program of Records (PoR)*[1] from the Department of Defense. A PoR is a long term (5+ years), winner takes all funding vehicle codified in the defense budget. This is how defense companies are funded.
- Currently, Neros dominates that FPV market both by market share and technical superiority. **The Russo-Ukrainian war has created an FPV market of $400 million/year**. Neros currently captures 10% of this market with expectations to grow rapidly with increased manufacturing capacity, but the future of the war is uncertain. There is also no PoR for FPV drones. Experts believe there will be one in Q2 of 2025, but it's uncertain. The value of this deal is estimated at $50m / year.
- The Defense Department is launching a PoR in 2027 worth $200 million / year through their Low Altitude Stalking and Strike Ordinance (LASSO)[2]. While FPV drones may be included in the ordinance, they are most interested in for a Fixed-Wing Loitering Munition (FW-LM) drones. Much of the electronics are similar, but the change will required a change of airframe and powertrain.
- Neros has the opportunity to invest engineering hours into developing a FW-LM drone alongside their FPV drone development to hedge long term net revenue. The drone industry, especially military applications, evolves rapidly and waits for no one. If they don't set up a FW-LM development vertical now, they have a low probability of winning LASSO the contract.
- The firm is at a juncture where the decision to either **continue refining their successful FPV drones or diversify into a FW-LM drone line for the imminent LASSO program**, driven by a robust DoD demand and the need to maintain technological and market leadership.
- Soren, our decision maker (DM), is the CEO and co-founder of Neros responsible for the long term fiscal viability of the company. He plans to raise a Series A in Q1 2025 to increase their employee count from 17 to ~35. With the increased FTE count, they can invest some time into FW-LM development but money and engineering hours are limited and spreading focus worries him. Soren has the power to pull engineering from FPV development, but he's in best interest for Neros. He must decide before the fundraise to accurately pitch to investors.

Notes:
1: A Program of Record (POR) is a Department of Defense (DoD) acquisition program that has been formally approved and funded, signifying a commitment to develop, produce, and sustain a system or capability to meet validated military requirements.
2: Project LASSO (Low Altitude Stalking and Strike Ordnance) is a U.S. Army initiative aimed at equipping Infantry Brigade Combat Teams (IBCTs) with loitering munitions capable of engaging non-line-of-sight targets, including armored vehicles. The program seeks to enhance IBCT lethality by providing precision strike capabilities against various threats.

Decision Maker's Concerns & Dilemmas

1. **FPV Serviceable Addressable Market**
   Neros sells only to the US military and foreign friendlies not commercial entities. Neros' current cash flows are driven by FPV sales to the Ukrainian military. This market alone is $400 million / year. This is also how they test and deploying FPV drones to maintain technical superiority which increases their probability of winning a potential FPV PoR. The future of the war is uncertain especially with the results of the recent US election. The looming FPV PoR is another concern with the potential to add $50 million / year but the launch of the PoR date is undetermined. The FPV market is robust but small, and Soren worries about Neros' long term viability relying on this volatile market.

2. **Limited Resources**
   Like all startups, Neros is resource constrained. With limited funding for research and engineering hours to complete research, Soren is acutely aware that splitting time and money diminishes Neros' likelihood to win the potential FPV contract and the LASSO contract. He also recognizes that the guaranteed value of the LASSO contract and uncertainty of a FPV contract may make the split worth it. Here, focus both in time and hours becomes a resource. Spreading the focus of the firm negatively impacts each outcome even if the outcome is worth more.

3. **Maintaining FPV Technological Superiority**
   Neros currently has technical superiority over Orqa and RedCat, but both chase at their heels. Neros' Series A raise is driven by the need to increase FTE count from 17 to 35 to continue FPV development and meet the DoD's stringent engineering requirements as well as maintain their lead ahead of competition. Technical superiority is a key determinant of winning future PoRs. With product diversification in question and given Neros' limited resources, splitting time between another project may inherently risk loss of technical FPV superiority which their team has worked hard to achieve and.

Due to the first concern, Soren feels pressure to expand Neros' product line. Due to the last two concerns, Soren worries about expanding too much, too quickly.

Exploitable Opportunities Thesis

1. **Larger Upside**
   Investing in both FW-LM and FPV drones increases the Neros' SAM from $600 million to $1 billion. FW-LM drones can fly farther and carry larger payloads. The application scope widens by introducing the new product line.

2. **Contract Timing Guarantee**
   While the FPV PoR contract is uncertain, the LASSO contract is set to launch in 2027 with an evaluation of $400 million. The guaranteed creation of this market underwrites investment in FW-LM development.

3. **Cash Flow Hedge**
   No matter the impact of spread already limited resources across 2 product lines, investing in FW-LM drones creates a hedge against two major uncertainties: 1. The existence of a FPV PoR in the next year and 2. a cease fire in the Russo-Ukrainian war. With LASSO's guaranteed funding even as far out as 2027, Neros' can more likely keep the lights on in the event the FPV market shrinks / fails to mature (i.e. become codified in the defense budget).

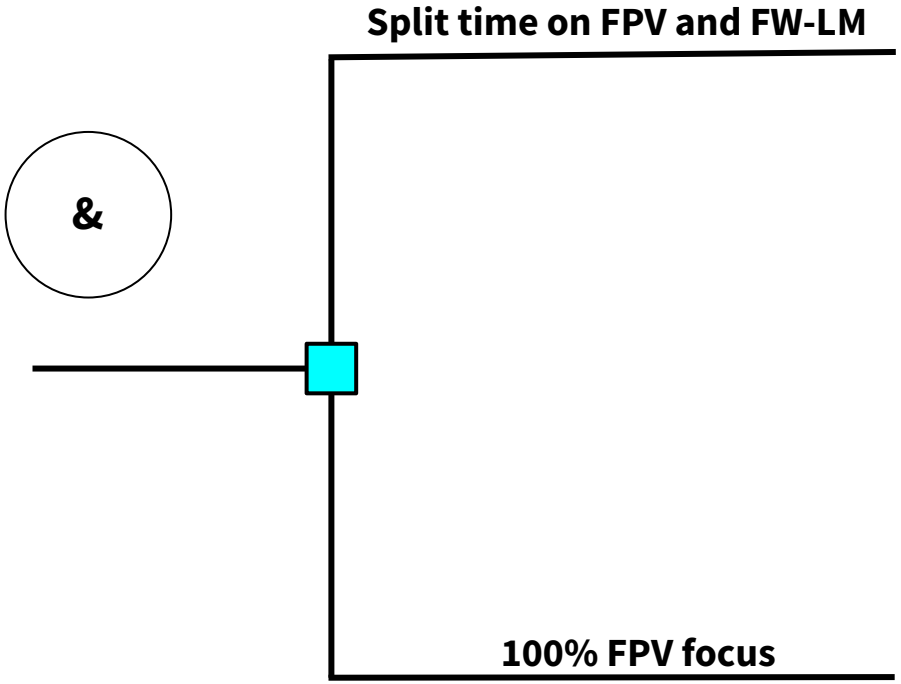
Soren could leverage the increasing DoD demand for FW-LM drones by aligning with the LASSO program's push for semi-autonomous drone capabilities.

Fundamental Decision Being Made

Before Q1 2025, Soren (DM) must decide whether to **concentrate solely on FPV drones or to allocate resources (time, employees, funding) to FW-LM drone research**. The value driving the decision is the maximization of company revenue. Because this value is tied to obtaining a 2027 Program of Record from Project LASSO, this decision can be evaluated in full in 2027.

NEROS TECHNOLOGIES

Current Decision Alternatives



Split engineering hours between FPV manufacturing and FW-LM research

Use 100% of engineering hours on FPV drone research

DM's strategic focus is market leadership and LASSO project funding

Core Priorities & Values: Soren's primary objectives are technological innovation, market dominance, and financial sustainability. His strategic focus is on securing a competitive edge through superior product offerings and positioning Neros for long-term government contracts.

Measurable Success Indicators:

- **Market Position**: Maintain or grow Neros' technical lead in FPV drones while assessing feasibility in FW-LM capabilities.
- **Contract Success**: Winning critical DoD funding through PoR contracts, particularly the 2027 LASSO program, is crucial. Success here would be defined by achieving high compatibility with DoD requirements for both FPV and FW-LM drones.
- **Revenue Growth**: Maximizing revenue by aligning with programs like LASSO that promise substantial long-term funding opportunities, essential for Neros' financial stability and investor confidence.

Long-Term Leverage: A strong position in the military drone market, especially under the LASSO initiative, enhances Neros' leverage in securing favorable terms and additional funding. Stakeholders are more likely to invest in companies that demonstrate a successful track record with government contracts and cutting-edge innovation.

Neros' Uncertainties

1. **High Market vs Low Market Payout**
   Due to the volatility of geopolitics and drone technology trends, there is uncertainty what the total value of the FPV market and FW-LM market will be. With research and insights from Soren, we've concentrated this into a high market payout and low market payout. The high market payout is some combination of FW-LM / FPV PoRs and positive drone market trends such as the continuation of the Russo-Ukrainian war. Low market payout is vice versa.

2. **Technical Superiority**
   Technical superiority in both drone classes is another consideration as it influences likelihood of winning the PoR. Technical superiority requires constant investment into drone research as well as the competitive landscape. We can measure current technical superiority through surveys of drone buyers and market share although the latter is informative not deterministic. Neros current has technical superiority in the FPV drone market, but is worried about maintaining that lead with investment in FW-LM drones without the certainty that they will ever have a proof of concept let alone technical superiority. Soren must decide the how to deploy his engineering hours at hand with his next raise in Q1 2025 and has 2 years of development time to design, test, and build an FW-LM drone. Many factors may affect his success here like talent hired and available defense operations for testing (e.g. Russo-Ukrainian War). The uncertainty of this cannot be observed by Q1 2025, but there are similarities between FPV drones and FW-LM drones that allow Soren to predict how many engineering hours may be necessary to create FW-LM proof of concept and thus their probability of developing a successful PoC by 2027. Future technical superiority cannot be observed, but by analyzing the current competitive landscape and how many engineering hours Neros assigns to each drone class, we can develop a probabilistic relationship at gaining and maintaining technical superiority.

3. **Cash Burn**
   Effective management of cash burn is critical for Neros' long-term viability, especially as it navigates the resource-intensive demands of developing dual drone capabilities. With limited funding and the need to raise additional capital, Soren must carefully balance investments in FPV production scaling and FW-LM research to avoid depleting resources prematurely. As the team ramps up R&D and manufacturing, close monitoring of cash burn will be essential to maintain investor confidence and ensure Neros has the capital runway needed to capture future Program of Record opportunities.

Implementation Challenges

- Soren is uncertain **when the Department of Defense will release a PoR for FPV drones.** He has had numerous conversations with the DoD budgeting office regarding a intermittent funding and a future PoR. From averaging information shared in these conversations and technological/defense trends, he knows it's coming but not when.

- If Neros decides to pursue the LASSO contract, Soren will face the challenge of assembling a highly skilled technical team capable of delivering a state-of-the-art FW-LM tactical drone. Even his current prowess in FPV drones and associated world-team from SpaceX and Anduril, execution here is paramount to build a proof of concept to LASSO's standards. **Without a proof of concept, they hold no chance of winning the LASSO PoR.**

- Manufacturing capacity is another challenge. While Neros may build a proof of concept and even have technological superiority, they may lack the manufacturing capacity to meet demand establish by the PoR. Hence, **Neros must increase their technological ability while building manufacturing capacity at scale.**

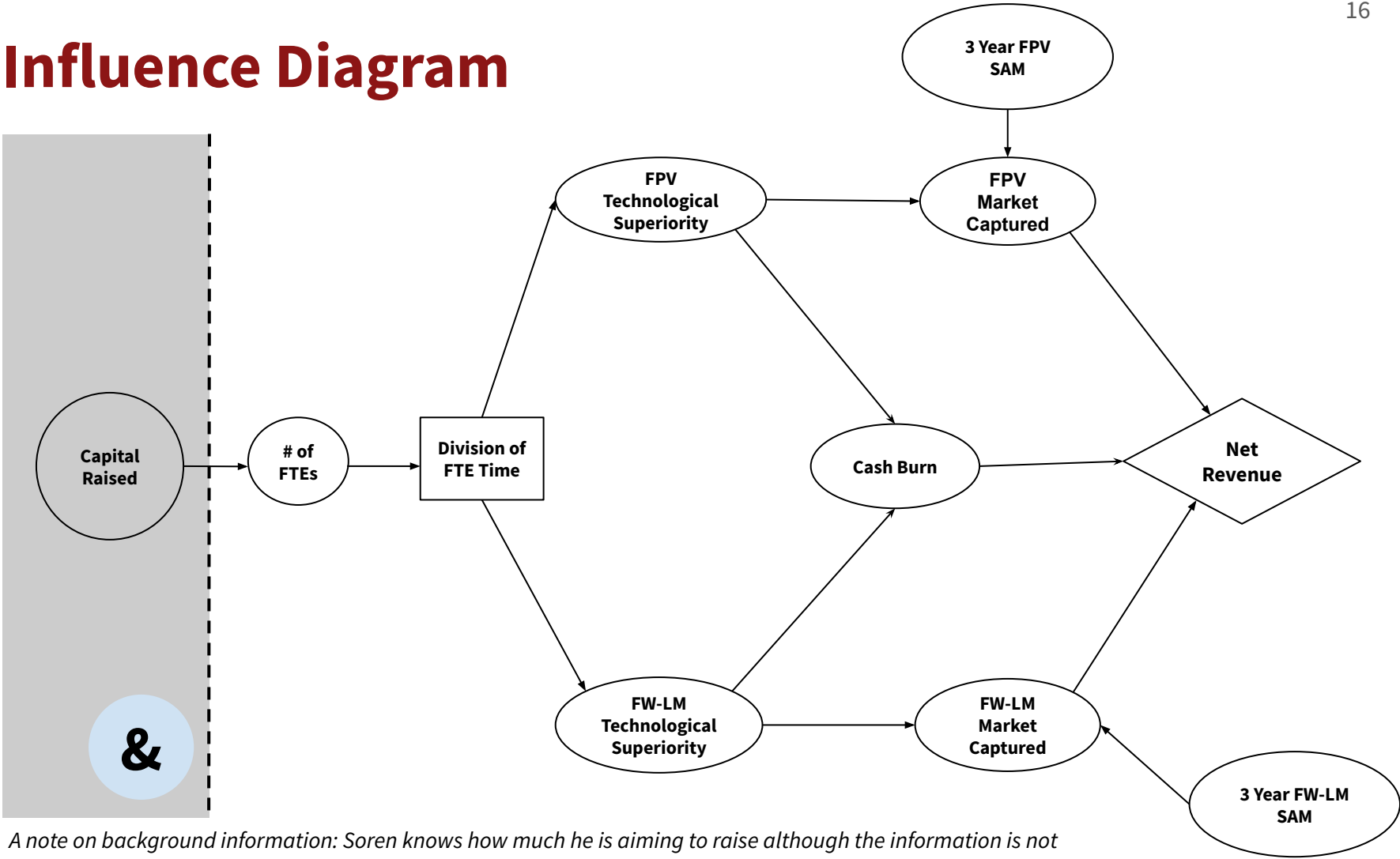
- To compete for the LASSO contract, Neros will need to secure additional rounds of funding, a difficult task in itself. In order to raise rounds, they will have to **show proof of concept drones deployed in successful military operations as well as technical expertise while appropriately managing cash burn**.

- Neros will need a **strong operations and sales team with the expertise to execute a go-to-market strategy that can secure a military program of record**. Given the bureaucratic and political nature of the military procurement process, Soren will need to surround himself with a team experienced in navigating U.S. government sales.

- The drone market is currently hot with the US military and foreign friendlies / adversaries vying for competence and superiority. The demand for both FPV and FW-LM drones is predicted to grow 13.5% CAGR over the next 5 years,[1] however, changes in drone policy / new technological disruptions could shift drone demand and drastically slow growth. Soren will need to continually assess demand for both products as he sustains his decision overtime.

[1] *https://www.fortunebusinessinsights.com/military-drone-market-102181*

Influence Diagram



A note on background information: Soren knows how much he is aiming to raise although the information is not shared with us. He doesn't know yet how he will deploy those funds.

Assessments of Critical Uncertainty Nodes

Uncertainty Nodes	Definitions
FPV Technological Superiority	Assess the probability that Neros will maintain technical superiority over competitors (Orqa, RedCat etc).
FW-LM Technological Superiority	Assess the probability that Neros will achieve technical superiority in the new FW-LM products line.
FPV Market Payout	Evaluate the probability that Neros can secure a substantial share of the FPV market.
FW-LM Market Payout	Evaluate the probability that Neros can secure a substantial share of the DoD's FW-LM military contract.

In the scenario where Neros pursues both FPV and FW-LM (Split 50/50), we assume that **technological superiority for both drone types will either be achieved together or not at all**. This assumption is grounded in the shared allocation of resources and technological overlap between the two product lines, meaning that success or failure in one area is likely to influence the other.

Further Assessments of Critical Uncertainty

We assessed the uncertainty in market demand for Neros' drone products by discussing uncertainty probabilities with our DM and conducting market research. We focused on key factors: FPV Technical Superiority, FW-LM Technical Superiority, FPV Market Payout , FW-LM Market Payout and FPV Program of Record (PoR) prospects. Each of these uncertainties is crucial in determining Neros' competitive position and long-term viability within the defense market. After discussions with Neros' founder, who reviewed and confirmed our probability estimates, we established a consensus on these assessments as accurate reflections of Neros' current position and growth potential.

- **FPV Technological Superiority**: The DM's assessed probability that Neros can maintain a technical superiority in FPV drones over competitors like Orqa and RedCat is *85%.* Neros has a strong network and technological advantage in providing FPV drones to support Ukraine in the Russo-Ukrainian conflict, which enhances both operational experience and credibility. This market edge is crucial for maintaining technical superiority over competitors and bolstering Neros' position for future DoD contracts.
- **FW-LM Technological Superiority**: The DM's estimated probability that Neros achieves technological superiority for FW-LM drones is *40%.* Achieving technical superiority in the FW-LM drone category is challenging, as it requires significant R&D investment and extensive upgrades in airframe and powertrain technology. Although FW-LM represents a high-growth area, it introduces considerable technical and developmental risk, keeping the probability moderate.
- **FPV Market Payout**: The probability that Neros can secure a substantial share of the FPV market in Ukraine and DoD's FPV program requirements are *90% given technological superiority and 40% given technology is NOT superior.* Neros has a favorable position to secure a large share of the FPV market due to its ongoing support of Ukraine. The conflict provides an opportunity to refine and enhance FPV drone technology in active combat conditions, strengthening Neros' market presence and appeal to the DoD.
- **FW-LM Market Payout**: The probability that Neros can secure a substantial share of the DoD's FW-LM program requirements is *20% given technology is NOT superior and 70% given technology is superior.* As a new product line, the FW-LM market presents both opportunity and uncertainty. Although it aligns with the upcoming LASSO Program of Record, the early stage of FW-LM development means that market share gains will be challenging. Still, this area is crucial for long-term growth.

Notes:
The values and probability estimates provided in this analysis were supplied by Neros' Decision Maker, Soren, and are based on both operational insights and strategic discussions with key stakeholders. While these figures offer valuable guidance, they are inherently subject to change based on evolving geopolitical conditions, technological advancements, and shifts in Department of Defense priorities.

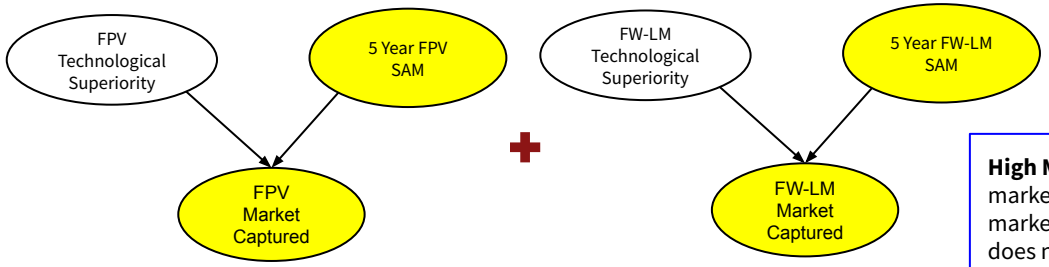
Deterministic Functions: Overview

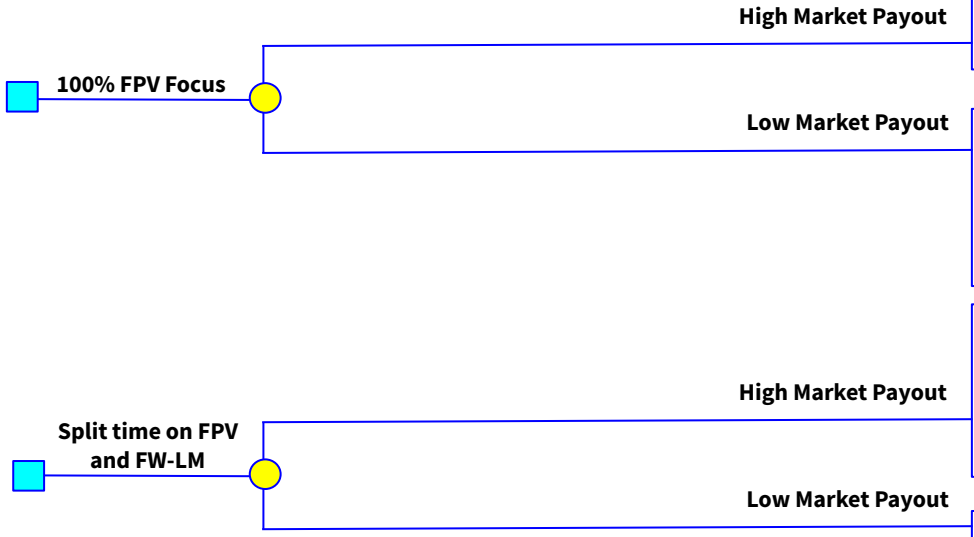
In 2024, Ukrainian authorities allocated $2 billion for drone production, with President Volodymyr Zelenskyy setting an annual production target of one million FPV drones. Assuming Neros captures 20% of Ukraine market, this amounts to ~ $400 million annually.

The U.S. Army has announced plans to formalize FPV (First-Person View) drones as part of its equipment portfolio in 2025. While exact funding details are not yet available, it is reasonable to estimate that the FPV program could be $100-200 million annually, based on the scale of similar Army programs. If Neros wins this PoR, the total high market payout will be ~$600 million annually. This figure could grow as demand and program funding increase over time, positioning Neros for substantial long-term revenue in the military FPV drone sector.

The LASSO program is projected to have significant funding; to date, the Army has already requested $120.6 million for Fiscal Year 2024, funding that covers initial production and component procurement. The program's long-term vision includes multiple increments, so total funding over several years could potentially reach $800 million if future increments are funded similarly. Assuming Neros can capture 50% of the market meaning $400 millions annually. Therefore, the combined high market payout for the FW-LM and FPV is ~ $1.0 billion.

High vs. Low Market Payout Uncertainty Nodes





High Market Payout | 100% FPV Focus represents high market capture in a best case scenario serviceable addressable market (SAM) for FPV drones i.e. the defense market (Neros does not currently sell to commercial customers) over the next 3 years. The High Market Payout is a simplification of the best case scenario for FPV drone value i.e. a US Defense PoR, positive drone technological trends, and continued US friendlies' military operations (e.g. Russo-Ukrainian War).

Low Market Payout | 100% FPV Focus represents low market capture in a low/poor outcome for FPV drones which may be driven by a cease fire Russo-Ukrainian War, negative technological trends, and a delayed US Defense PoR contract. This is a simplified SAM of the worst case scenario.

High Market Payout | Split Time represents high market capture in the combined the best case scenario SAM of the FPV market and the FW-LM markets. Including the FW-LM market, the on the books FW-LM PoR (LASSO) in 2025 with expansion in 2027, and the above noted FPV SAM.

Low Market Payout | Split Time represents low market capture in the worst case scenario for the FW-LM and FPV SAM and may be driven by the possible deterioration of LASSO and the FPV PoR as well as other unfavorable events.

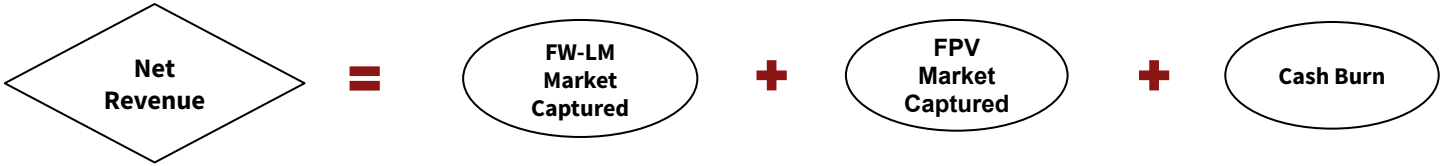
Deterministic Functions: Value Function, Risk Attitude

Market Value	SAM	Cash Burn	Strategic Impact
FPV Market Value in Ukraine	$50 million annually	$5 million annually	Reliable revenue source with high potential for continuous cash flow. Provides a strategic platform to test, refine and enhance FPV drone capabilities in real combat conditions, allowing Neros to validate its technology and gather valuable field data that can be leveraged to gain credibility with other defense clients, including the DoD.
FPV PoR – Market Value in DoD PoR	$550 million annually		Establishes Neros as a key supplier of FPV drones within the DoD, securing a stable revenue stream and solidifying its presence in the U.S. defense market. This contract would also provide an additional income stream alongside the Ukraine market, reducing dependency on a single geographic market. Long-term partnership potential with the DoD enhances brand credibility and positions Neros for future contract expansions.
FW-LM Market Value DoD PoR	$400 million annually	$5 million annually	Positions Neros as a strong contender for the DoD's FW-LM program by building technical expertise and reputation in this technology. Success in this program could enable Neros to expand its market share in advanced loitering munitions, paving the way for future large-scale defense contracts and a diversified revenue base.

The annual R&D cost is assumed to be **$5 million** for FPV drones and **$5 million** for FW-LM drones, totaling **$10 million** if both projects are pursued simultaneously. These figures are used as surrogates, as the CEO did not provide the actual R&D costs. This estimate allows us to proceed with a reasonable basis for analyzing Neros' potential investment in both product lines.

The annual market payout is estimated to be **$600 million** for FPV drones and **$400 million** for FW-LM drones, resulting in a combined market potential of **$1 billion** if both product lines are developed.

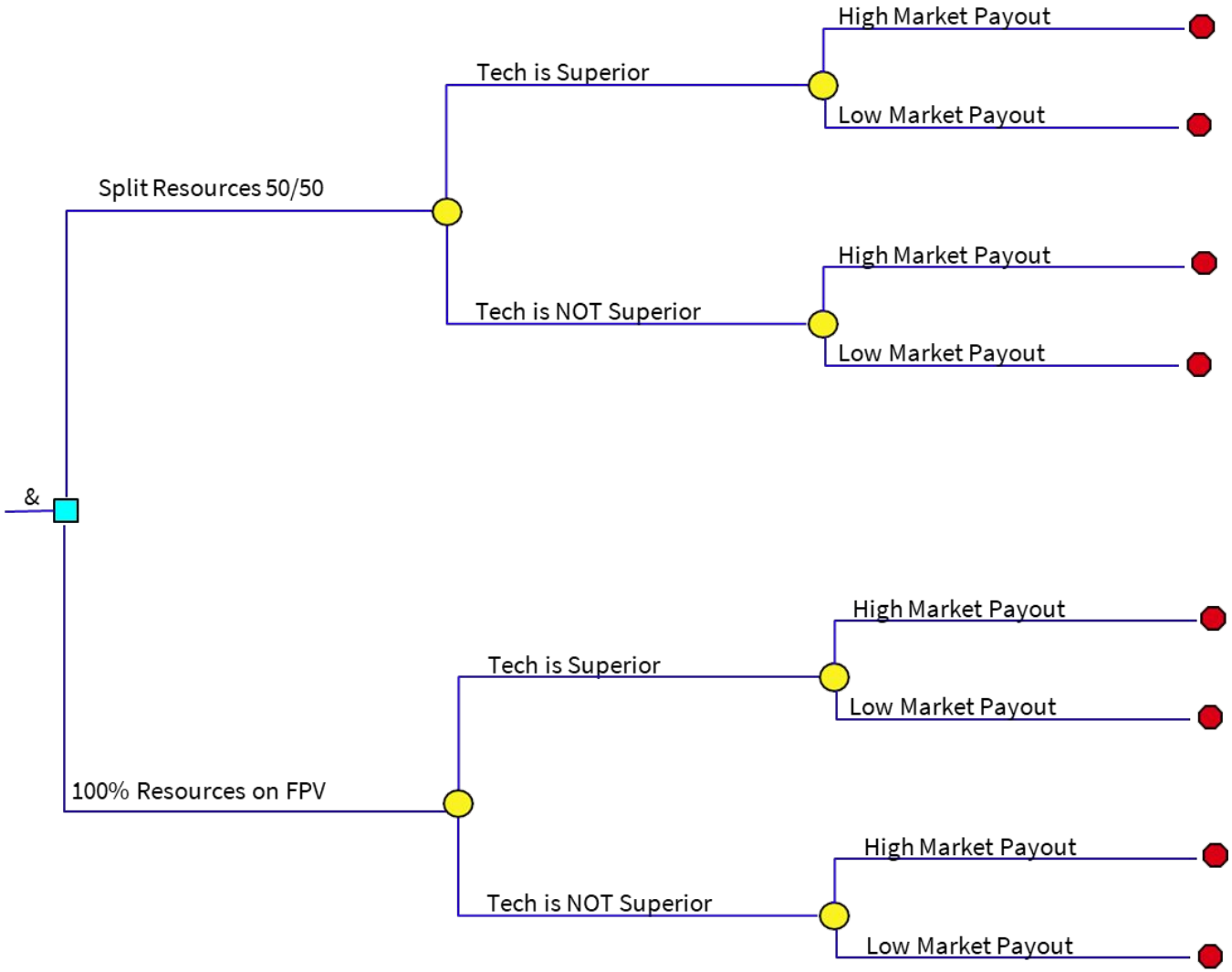
DM Value Function & Risk Profile



The prospective value of this project is represented by net revenue and is measured on the outcome of market captured for the potential 2 drone lines as well as cash burned. In an effort to simplify the decision analysis, **we have incorporated cash burn into the value of outcome** instead of as an uncertainty as Soren runs a startup and can always raise more capital. While cash efficiency is integral to a healthy business and raising is easier said than done, we believe cash burn is a less important uncertainty and more affects final valuations. We also highlight this in our challenges. The true value of the project is on a 3 year timeline to understand the future SAM of both FPV and FW-LM drone markets.

We've also determined that Soren is a **risk-neutral decision maker**. As a 21 year-old, high school graduate Series A startup founder, Soren has already taken on massive risk in his life. He's been engineering drones since the age of 12 and lives by the numbers with a penchant for blackjack, he describes himself as "RISK NEUTRAL as they come." Thus, his risk odds equal 1, and his u-value is equivalent to his dollar value.

Nero's Decision Tree



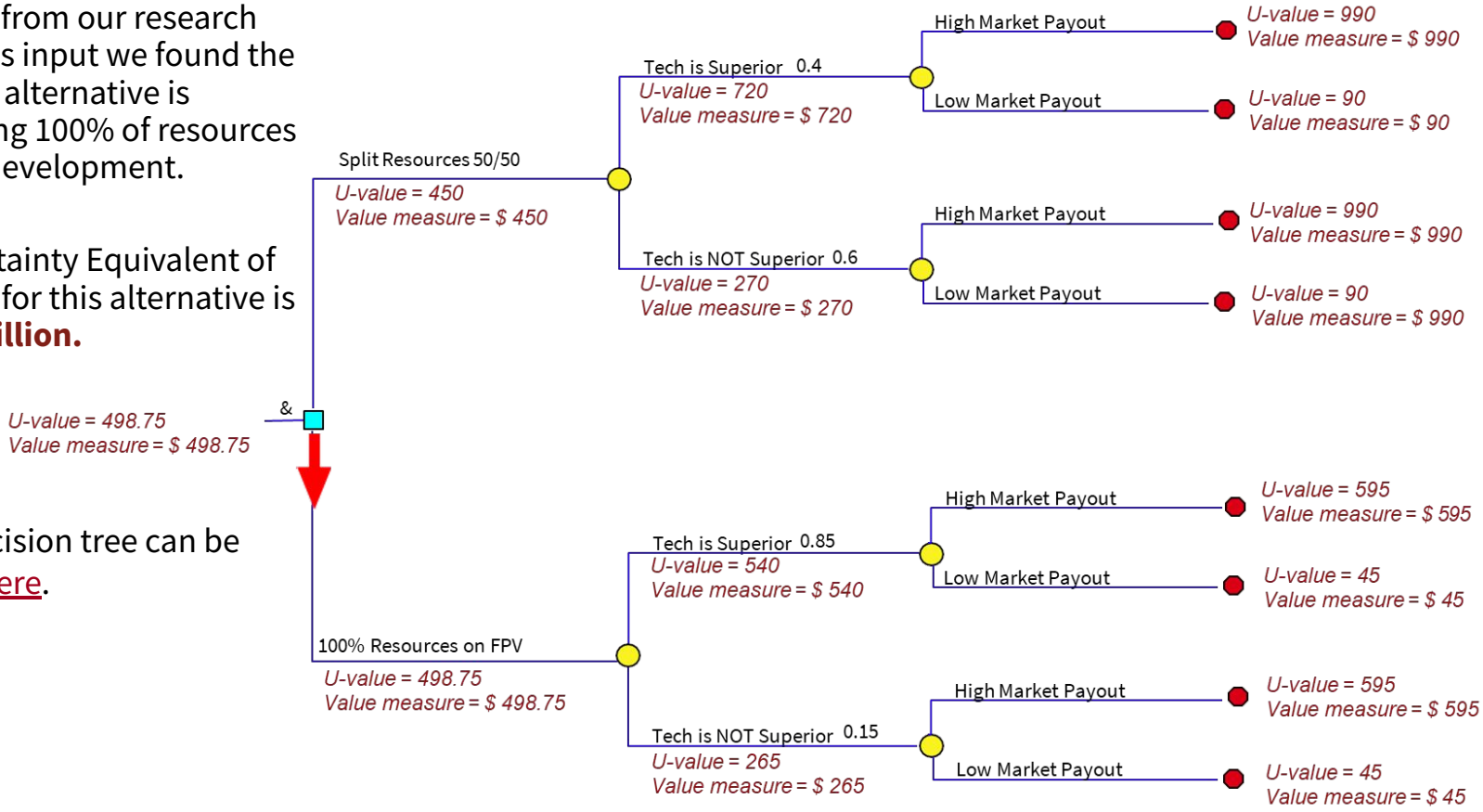
All decision trees for this analysis are found at this link.

Neros' Certain Equivalent and Appraisal

Based on the ascribed value functions, and probabilities derived from our research and DM's input we found the optimal alternative is allocating 100% of resources to FPV development.

The Certainty Equivalent of our DM for this alternative is **$498 million.**

This decision tree can be found here.



Value of Clairvoyance | FPV Tech Superiority

After calculating the value of clairvoyance for several uncertainties, we found that the decision between two alternatives—(1) splitting resources between First Person View (FPV) and Fixed Wing-Loiter Munition (FW-LM) technologies or (2) allocating 100% of resources toward the FPV market—**is largely impacted by Neros' confidence in their technical superiority in the FPV market**. Notably, our Decision Maker (DM) is particularly interested in obtaining additional information about the company's technical standing in the FPV space. To assess this, we calculated the value of clairvoyance specifically for FPV technological superiority by reordering the decision tree to place this uncertainty at the beginning (see the detailed tree on the next slide).

The value of clairvoyance for FPV technical superiority proved highly significant, with a certainty equivalent (CE) of **$153.75 million**. This insight suggests that the DM should favor a 50/50 resource split between FPV and FW-LM in scenarios where FPV technology is either superior or not superior.

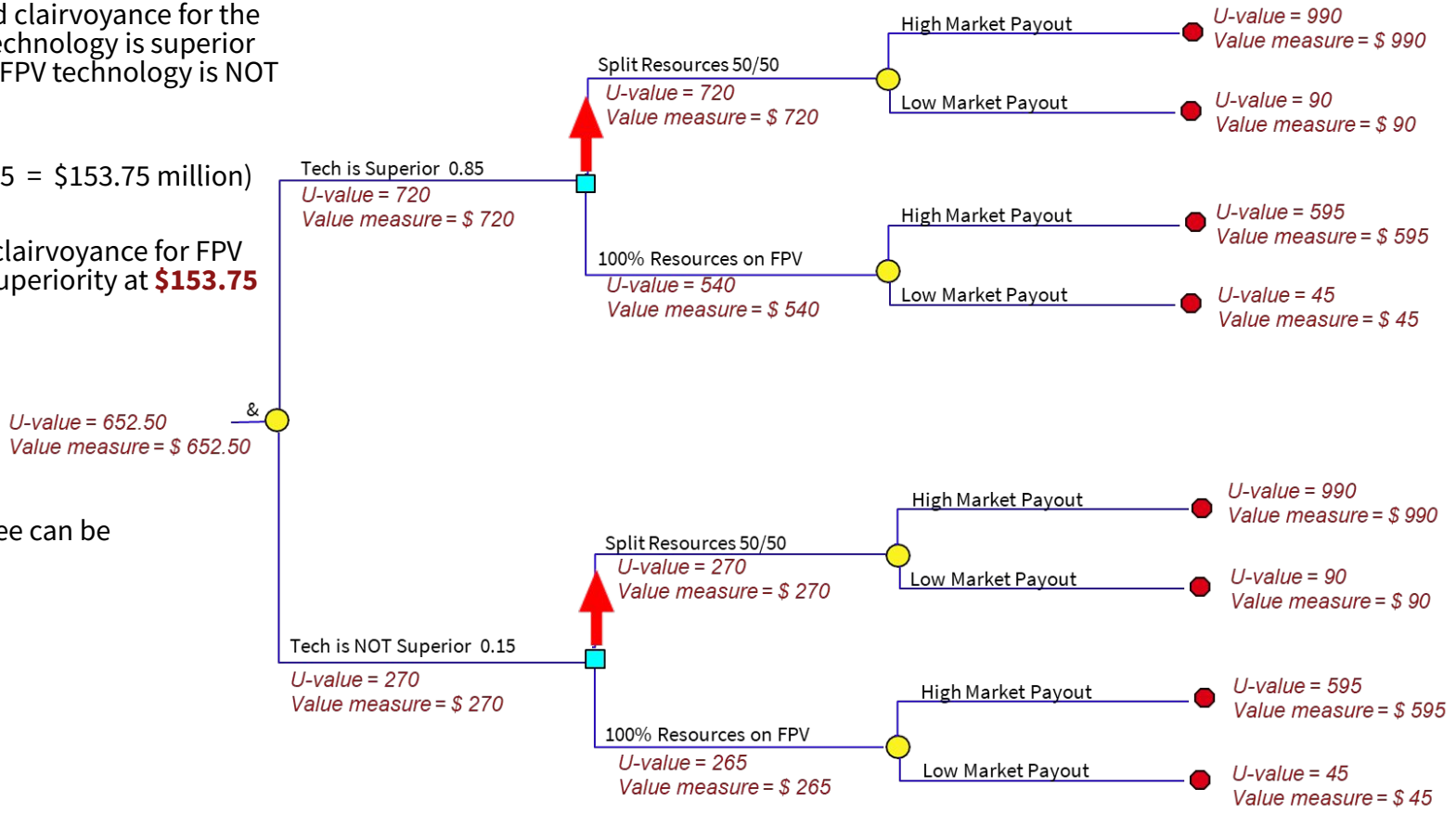
Value of Clairvoyance | FPV Tech Superiority

Our analysis shows our DM would prefer splitting his resources between the FPV and FW-LM market in the situation he had clairvoyance for the case that FPV technology is superior and in the case FPV technology is NOT superior.

($652.5 - $498.75 = $153.75 million)

Our DM values clairvoyance for FPV technological superiority at **$153.75 million.**

This decision tree can be found here.

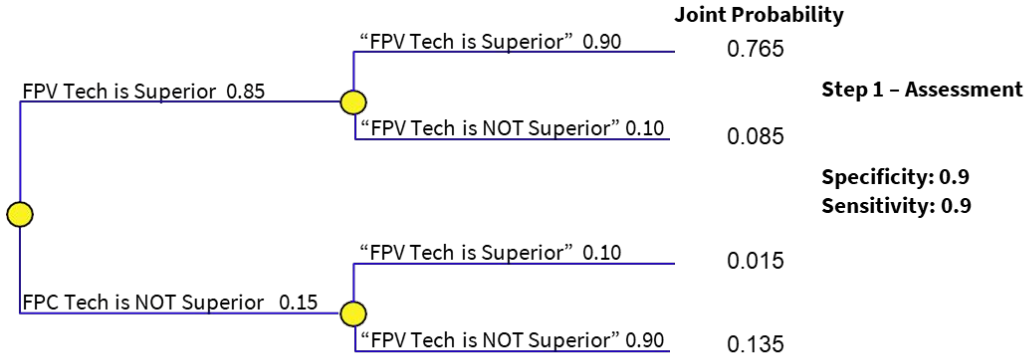


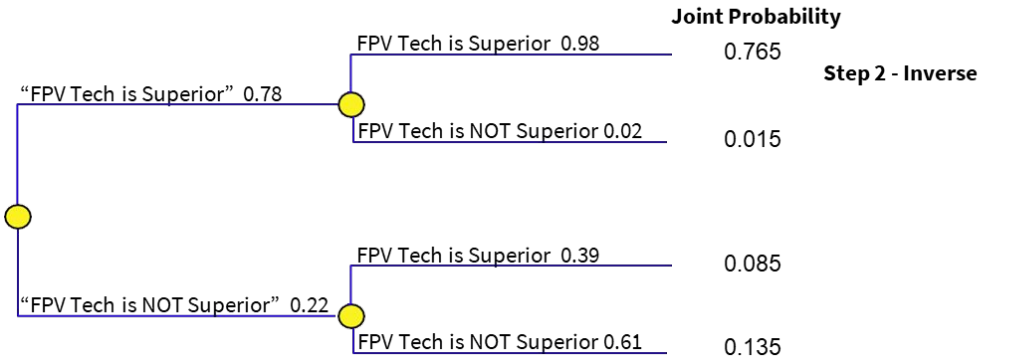
Value of Evidence | FPV Tech Superiority

Our team opted to evaluate the value of evidence (VOE) for FPV technological superiority. This analysis is in service to our DM placing the highest emphasis on evaluating the probability his FPV technology is in fact superior to other competitors. Additionally, the value of clairvoyance for this uncertainty garnered a high value.

The evidence for this scenario would be through the lens of a consultant who work closely with the FPV program office who our DM is attempting to to win a PoR from. This consultant would be able deliver a specificity of value of 90%, meaning he/she can evaluate the technology and detect with 90% certainty that Nero's FPV technology is in fact superior to its competitors. Conversely, the consultant can deliver sensitivity with value of 90%, meaning there is a 90% that Nero's FPV technology is NOT superior and either inferior or equal to its competitors.

To ascertain the VOE we must integrate our DM's probabilities of the uncertainty with our consultant's sensitivity and specificity values. This is done sequential steps as seen in the trees to the right. These calculations are found here.





FPV Tech Value of Evidence (cont.)

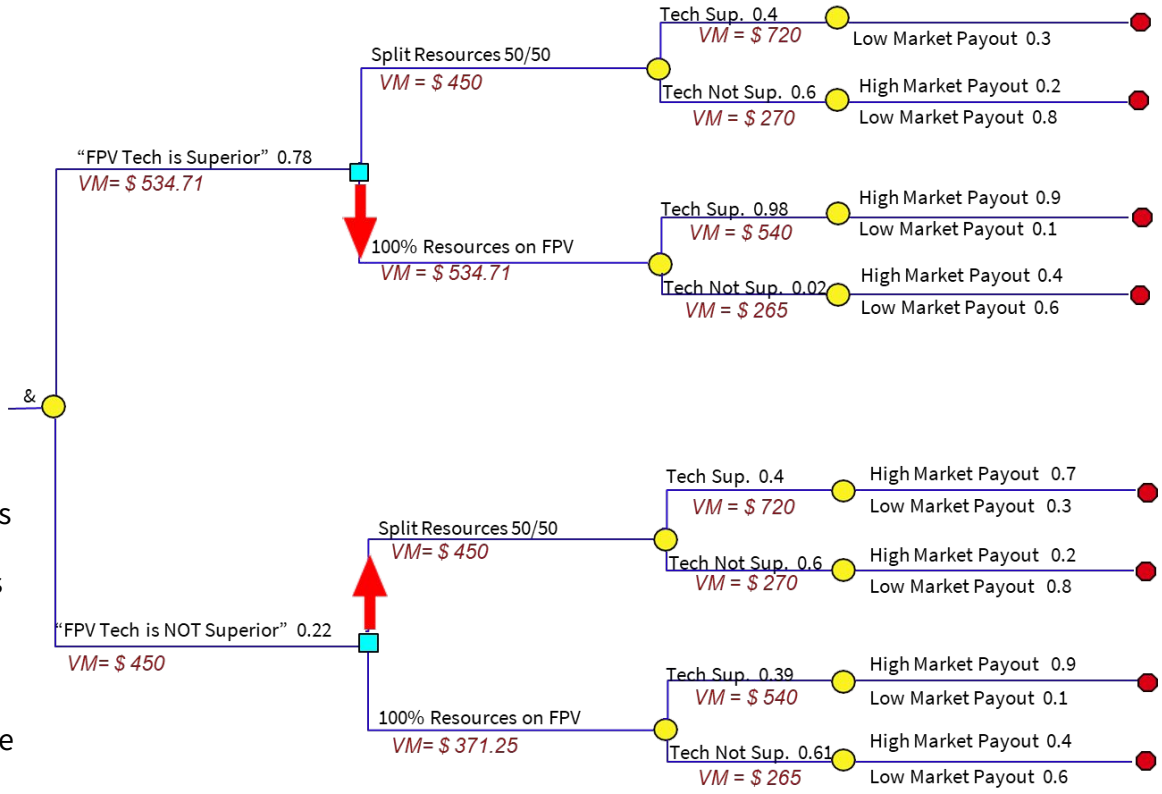
We then plugged the probabilities from the previous slide into the flipped tree seen to the right, which results in a Certainty Equivalent of $516.075 million.

As a result, the VOE for a consultant who can deliver a sensitivity of 90% and a specificity of 90% is worth **$17.325 million**. This is highly valuable and we recommend Neros pursues a consultant who can deliver these sensitivity and specificity levels.

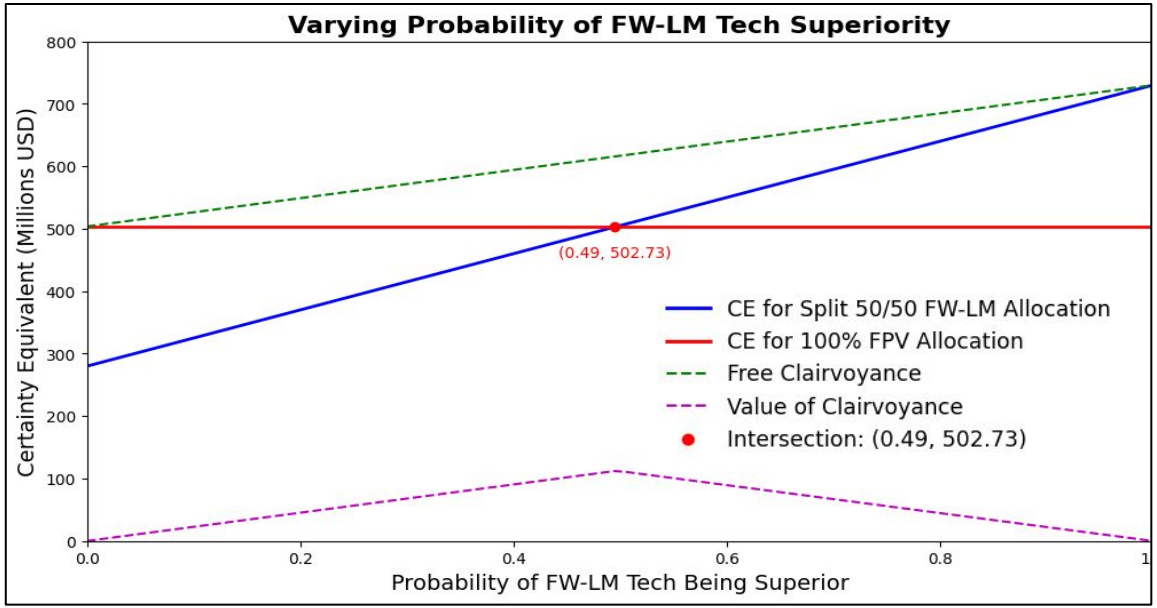
$516.075 - $498.75 = $17.325 million

These results are economic as the overall result is positive, meaning that the DM would pay to obtain this information. By extension, this makes the value of evidence both relevant and material to the DM.

This tree had to be shortened, the full tree for the VOE is found here.



Sensitivity Analysis on FW-LM Superiority



This graph models the projected certain equivalents (CEs) of a 50/50 allocation to FW-LM and FPV technologies based on the probability of that Neros' FW-LM Tech is superior. The intersection point at a probability of 0.49 indicates that **if the DM believes their FW-LM has at least a 49% chance of outperforming current technology, the mixed allocation strategy becomes the ideal alternative compared to a 100% FPV commitment.** For Neros and the team, this analysis can inform decision-making on resource allocation and risk tolerance, highlighting the threshold at which FW-LM becomes a more viable investment.

Existing R&D Capabilities: Neros' current R&D strengths in advanced materials, AI, and systems integration directly impact FW-LM's technological edge.

Client Relationships and Feedback: Strong, active client relationships allow Neros to quickly adapt FW-LM to real-time defense sector needs, ensuring ongoing relevance and competitiveness.

Shifts in Military Strategy: Evolving doctrines that favor autonomous and adaptable systems will elevate FW-LM's relevance, while shifts toward traditional munitions could reduce its priority.

Competitive Advances: Competitors' technological breakthroughs, such as in hybrid loitering munitions, could impact FW-LM's edge, necessitating continuous enhancements to remain a top choice.

Internal Steps Affecting Probability

External Factors Affecting Probability

Implications of Decision Analysis Functions

~$154 M

Value of Clairvoyance (VoC)

The VoC for achieving FPV technological superiority is $153.75 million, the maximum value of obtaining perfect certainty about the likelihood of technological superiority in the FPV market.

1. Implement **structured testing protocols** and **regular performance evaluations** to track FPV speed, maneuverability, and reliability metrics.
2. **Hire specialized consultants** to find insights into FPV speed and maneuverability, enable real time vision for the pilot, flight time, weight capacity, and ability to maintain command and control the drone for drone jamming.
3. Establish ongoing **reviews of competitor performance and market benchmarks** to continually refine resource allocation and strategy.

~$17 M

Value of Evidence (VoE)

The VoE for a consultant or provider with 90% specificity and sensitivity is $17.325 million. Soren should be willing to pay up to this amount for a consultant capable of delivering insights at the specified accuracy levels. Otherwise, hiring a consultant would not be recommended.

1. **Develop a system for vetting consultants** and tracking their deliverables to ensure alignment with the VOE threshold.
2. Use decision trees and sensitivity models to simulate the impact of various consulting outcomes on market strategy and R&D priorities.
3. **Set up periodic evaluations of consultant performance** and insights to ensure their contributions remain actionable and cost-effective.

49%

Sensitivity Analysis

The decision to split resources becomes optimal when Soren's confidence in his FPV technological superiority is at or above 49%. Therefore, the VOC is highest when Soren's confidence level in FW-LM tech superiority is at 49%.

1. **Regularly update confidence levels** by incorporating new data from testing, market feedback, and competitor analysis.
2. **Use dynamic modeling tools** to simulate scenarios as confidence shifts, ensuring investment strategies adjust accordingly.
3. Implement dashboards or KPIs that monitor key metrics like speed, loiter time, and targeting precision in real-time to **maintain focus on technological superiority**.

Strategic Insights & High Level Timeline

Focus on FPV Market Expansion

2024

As Neros capitalizes on the current demand driven by the Russo-Ukrainian conflict, 2024 should focus on **scaling FPV production capacity and reinforcing technical superiority**. This is essential for capturing immediate revenue streams and building the case for a potential Program of Record (PoR) in 2025. During this period, Soren and the Neros team should concentrate on product refinement, with an eye on **maintaining competitive distance from emerging players like Orqa and RedCat.**

Fundraising and Sensitivity Checkpoint

Q1 2025

By early 2025, Neros anticipates a Series A funding round to expand the workforce and enhance R&D capabilities. This increased capacity will allow the team to meet anticipated demand and pursue additional DoD engagements. At this juncture, it's crucial to **re-conduct a sensitivity analysis to evaluate the probability of technological superiority in FW-LM drones**. If the projected probability for FW-LM superiority reaches or exceeds 49%, this would signal a potential pivot point, suggesting a reallocation of resources toward developing a FW-LM proof of concept to prepare for LASSO opportunities.

FPV Market Leadership and Preparation for LASSO

2026

Throughout 2026, Neros should remain committed to maximizing its position within the FPV market while closely monitoring DoD developments and competitor advancements. This period also provides an opportunity to **assess early-stage FW-LM R&D efforts, ensuring Neros remains agile in responding to any shifts in military procurement trends.** As the LASSO program's 2027 PoR approaches, Neros will need to solidify its competitive readiness, particularly in FW-LM, while maintaining a strong FPV market presence to support short-term financial stability.

Decision Point and LASSO PoR Application

2027

By 2027, Neros must be ready to act decisively based on its FW-LM development progress and the competitive landscape. If FW-LM research has demonstrated sufficient viability, the team should pursue LASSO funding aggressively, positioning Neros as a frontrunner for this major DoD contract. If FW-LM development remains uncertain, the company may choose to reinforce its FPV dominance instead, leveraging existing strengths to drive revenue stability.

Expanded Decision Analysis & Insights

Most Valuable Option → Focus on FPV with Contingency for FW-LM: The analysis identifies exclusive focus on FPV as the most valuable short-term option, maximizing Neros's market position and revenue potential. However, this strategy should incorporate a contingency plan for FW-LM development if conditions favor a shift. By maintaining flexibility in resource allocation, Neros can pivot as needed to capture LASSO program opportunities if the likelihood of FW-LM tech superiority increases.

Decision Checkpoints Based on Sensitivity Analysis: Establish periodic checkpoints to reassess the probability of FW-LM tech superiority. If the probability reaches 49%, initiate a strategic reallocation of resources toward mixed FPV and FW-LM development.

Uncertain Variables in Optimal Choice

Timing and Scope of the FPV PoR: Although there is strong support for an FPV PoR in 2025, its timing and budget allocation remain uncertain.

Competitive Advances in FW-LM: Technological advancements from competitors in hybrid loitering munitions could affect Neros's ability to gain a competitive edge in FW-LM.

Unanswered Questions and Knowledge Gaps

- How likely is it that Neros can achieve a technological edge in FW-LM within the next two years?
- Will the FPV market endure as a reliable revenue stream if global conflict
- Will the DoD continue to favor autonomous FPV systems, or will shifts in military strategy reallocate funds to alternative technologies?

Practical Implementation Strategies

Allocate minimal resources to FW-LM research, sufficient to lay foundational R&D groundwork without compromising FPV objectives. This will keep Neros positioned for future pivot opportunities without diluting current technical superiority.

Sensitivity Analysis Findings and Implications

The sensitivity analysis reveals a pivotal threshold: if the probability of FW-LM technical superiority reaches 49% or higher, a re-evaluation is warranted to consider a mixed-resource approach. This threshold reflects the point at which investment in FW-LM would begin to offer comparable value to an exclusive FPV focus. This finding underscores the importance of flexibility and readiness to adapt based on evolving market and technological conditions.

Given the uncertainties around competitor advancements and DoD's strategic priorities, it is advisable for Neros to invest in further market intelligence. This includes continuous monitoring of DoD procurement trends, competitor capabilities, and geopolitical developments. Such information will enhance Neros's ability to make informed resource allocation decisions and optimize its response to shifts in the defense landscape.

Addressing Further Uncertainties & Future Areas of Analysis

In planning Neros' strategic path forward, several critical uncertainties and external factors remain that could significantly impact our decision-making framework. With additional time and resources, further in-depth research and market analysis could provide valuable insights into these areas, allowing for more refined forecasting, risk mitigation, and strategic alignment. These uncertainties encompass a range of geopolitical, technological, financial, and regulatory factors that may shape Neros' competitive positioning and financial outcomes.

Outlined below are key areas that warrant further exploration to strengthen Neros' long-term strategy and adaptability to evolving defense market demands:

1 **Geopolitical Dynamics and FPV Market Longevity**

Assessing the potential end of the Russo-Ukrainian war and political shifts (e.g., upcoming elections) would clarify future demand for FPV drones. This would refine Neros' revenue forecasts and prepare for possible market contractions.

2 **Viability and Timing of an FPV PoR**

Analyzing DoD procurement trends would help determine the likelihood and timing of an FPV PoR in 2025. This insight is essential for deciding whether to focus exclusively on FPV or diversify into FW-LM.

3 **Demand and Competitive Landscape for FW-LM**

A detailed competitor analysis and understanding of DoD requirements for FW-LM would help Neros assess its chances in the LASSO program. This would clarify market entry feasibility and competitive positioning.

4 **Technological Advancements and Regulatory Hurdles**

Monitoring advancements in autonomy, powertrain efficiency, and regulatory trends would help align Neros' R&D priorities with DoD needs and prepare for future compliance challenges.

5 **Investor Sentiment and Market Readiness for Diversification**

Understanding investor perspectives on a diversified product strategy versus exclusive FPV focus would inform Series A positioning and support a funding strategy aligned with investor expectations.

6 **Evolving DoD Priorities and Budget Allocation**

Analyzing shifts in DoD priorities and budgetary focus would allow Neros to anticipate changes in PoR funding and adjust its strategic focus early if necessary.

Thank you!