

# FINANCIAL RISK ASSESSMENT REPORT

**Polar Dynamics Robotics, Inc.**

Prepared as of January 11, 2024

## 1. EXECUTIVE SUMMARY

This Financial Risk Assessment Report (the "Report") has been prepared to evaluate material financial risks facing Polar Dynamics Robotics, Inc. (the "Company") based on analysis of financial statements, operational data, and market conditions for the period ending December 31, 2023.

## 2. SCOPE AND METHODOLOGY

1 This assessment employs standard financial risk evaluation methodologies including:

- Quantitative analysis of financial statements
- Cash flow sustainability modeling
- Market competition analysis
- Customer concentration evaluation
- Supply chain vulnerability assessment
- Working capital adequacy review

2 Primary data sources include:

- Audited financial statements FY2021-2023
- Management forecasts through FY2025
- Customer contracts and order pipeline
- Supplier agreements
- Market research reports
- Industry analyst coverage

## 3. KEY RISK FACTORS

1 **\*\*Working Capital Management\*\***

- Current ratio of 1.8x indicates adequate but not optimal liquidity
- Inventory turnover has declined 15% YoY due to component stockpiling
- DSO increased to 65 days, above industry average of 45 days

- Risk Level: MODERATE

## 2 **\*\*Customer Concentration\*\***

- Top 3 customers represent 42% of revenue
- Largest customer (ColdChain Solutions) accounts for 18% of sales
- Limited long-term contract coverage
- Risk Level: HIGH

## 3 **\*\*Supply Chain Dependencies\*\***

- Critical actuator components single-sourced from two suppliers
- 85% of semiconductor components from APAC region
- Average component lead times increased to 16 weeks
- Risk Level: HIGH

## 4 **\*\*Market Competition\*\***

- Emerging competition in cold-environment robotics
- Patent protection on key technologies expires 2027-2029
- Margin pressure from larger automation companies
- Risk Level: MODERATE

## 5 **\*\*Financial Structure\*\***

- Series C terms include 1.5x liquidation preference
- \$12M convertible note due 2025
- Covenant compliance adequate but tightening
- Risk Level: MODERATE

# 4. QUANTITATIVE RISK METRICS

## 1 **\*\*Liquidity Ratios\*\***

- Quick Ratio: 1.2x
- Current Ratio: 1.8x
- Cash Ratio: 0.4x

## 2 **\*\*Leverage Metrics\*\***

- Debt/EBITDA: 2.8x

- Interest Coverage: 4.2x
- Net Leverage Ratio: 2.1x

### 3 **\*\*Operational Metrics\*\***

- Gross Margin: 48%
- EBITDA Margin: 18%
- R&D as % of Revenue: 15%

## **5. MITIGATION STRATEGIES**

### 1 **\*\*Working Capital\*\***

- Implement supply chain financing program
- Optimize inventory management systems
- Strengthen customer payment terms

### 2 **\*\*Customer Risk\*\***

- Expand customer base in pharmaceutical sector
- Develop subscription-based revenue streams
- Strengthen contractual protections

### 3 **\*\*Supply Chain\*\***

- Qualify additional component suppliers
- Increase safety stock of critical components
- Develop alternative sourcing strategies

## **6. FINANCIAL PROJECTIONS**

### 1 **\*\*Base Case Scenario\*\***

- Revenue CAGR: 35%
- Gross Margin: 48-50%
- EBITDA Margin: 18-20%
- Cash Burn Rate: \$1.2M/month

### 2 **\*\*Downside Scenario\*\***

- Revenue CAGR: 25%

- Gross Margin: 45%
- EBITDA Margin: 15%
- Cash Burn Rate: \$1.8M/month

## **7. CONCLUSIONS AND RECOMMENDATIONS**

1 The Company faces material but manageable financial risks, primarily in:

- Customer concentration
- Supply chain dependencies
- Working capital management

2 Recommended Actions:

- Accelerate customer diversification initiatives
- Implement supply chain resilience program
- Strengthen working capital management
- Review pricing strategy and contract terms

## **8. DISCLAIMERS AND LIMITATIONS**

This Report has been prepared solely for informational purposes. No representation or warranty, express or implied, is made regarding the accuracy, completeness, or reliability of the information contained herein. Any reliance placed on this Report shall be at the sole risk of the party placing such reliance.

## **9. CERTIFICATION**

Prepared and certified by:

/s/ Katherine Wells

Katherine Wells

Chief Financial Officer

Polar Dynamics Robotics, Inc.

Date: January 11, 2024

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