Maritime vs Industrial Gross Margin Analysis

CONFIDENTIAL AND PRIVILEGED

Prepared for DeepShield Systems, Inc.

Date: January 11, 2024

Reference: FIN-2024-GM-001

1. Executive Summary

This analysis examines the comparative gross margins between DeepShield Systems, Inc.'s ("Company") Maritime Security Division and Industrial Control Systems Division for fiscal years 2021-2023. This document is prepared for internal use and potential transaction purposes, subject to confidentiality restrictions outlined in Section 7.

2. Methodology and Accounting Standards

1. All financial data presented herein has been prepared in accordance with U.S. GAAP standards and reviewed by Ernst & Young LLP, the Company's external auditor.

2. Gross margin calculations follow the formula:

- Gross Margin = (Revenue - Cost of Goods Sold) / Revenue   100%

3. Segment allocation methodology follows the Company's established cost accounting procedures as documented in Policy FIN-2021-03.

3. Maritime Security Division Analysis

1. Gross Margin Performance

- FY2021: 68.3% ($7.2M revenue)
- FY2022: 71.5% ($9.8M revenue)
- FY2023: 73.2% ($12.1M revenue)

2. Key Margin Drivers

- Proprietary DeepShield Maritime(TM) software licensing (85% margins)
- Hardware integration services (45% margins)
- Recurring maintenance contracts (72% margins)

3. Notable Trends

- Increasing software component driving margin expansion
- Reduced hardware costs through strategic supplier agreements
- Operational efficiencies in remote deployment capabilities

4. Industrial Control Systems Division Analysis

1. Gross Margin Performance

- FY2021: 62.1% ($11.8M revenue)
- FY2022: 64.7% ($15.3M revenue)
- FY2023: 65.9% ($20.4M revenue)

2. Key Margin Drivers

- ICS monitoring platform licensing (78% margins)
- On-premise installation services (42% margins)
- Security consulting services (65% margins)

3. Notable Trends

- Gradual margin improvement through automation
- Higher proportion of software vs. services revenue
- Scale benefits in deployment infrastructure

5. Comparative Analysis

1. Maritime Division Advantages

- Lower customer acquisition costs
- Higher software content
- More standardized deployment model
- Better economies of scale in support operations

2. Industrial Division Characteristics

- More complex implementation requirements
- Higher service component
- Greater customization needs

- Longer sales cycles affecting cost structure

6. Forward-Looking Considerations

1. The Company projects continued margin expansion in both divisions through:

- Increased automation of deployment processes
- Higher proportion of recurring revenue
- Improved supplier terms at scale
- Technology platform consolidation benefits

2. Target Margins for FY2024

- Maritime Security Division: 74-76%
- Industrial Control Systems Division: 67-69%

7. Legal Disclaimers and Limitations

1. This document contains forward-looking statements and projections that involve risks and uncertainties. Actual results may differ materially from those projected.

2. This analysis is provided for informational purposes only and should not be relied upon as the sole basis for any business decision.

3. All financial data is unaudited unless explicitly stated otherwise.

4. This document is subject to the Confidentiality Agreement dated March 15, 2023.

8. Document Control

Prepared by: Robert Kessler, CFO

Reviewed by: Legal Department

Document Owner: Finance Department

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9. Approval

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