

Merger and Acquisition Financial Due Diligence Report

Confidential Document

Prepared for: Prospective Acquisition Review

Subject Company: Nexus Intelligent Systems, Inc.

Date of Preparation: January 22, 2024

1. EXECUTIVE SUMMARY

1 This Financial Due Diligence Report ("Report") provides a comprehensive analysis of Nexus Intelligent Systems, Inc. ("Target Company") in connection with a potential merger and acquisition transaction.

2 The Report represents an independent assessment of the Target Company's financial position, historical performance, and potential future financial trajectories based on available documentation and management representations.

2. COMPANY OVERVIEW

1 Corporate Profile

- Legal Name: Nexus Intelligent Systems, Inc.
- State of Incorporation: Delaware
- Date of Incorporation: March 15, 2018
- Primary Business: Enterprise AI Services & Predictive Analytics
- Current Employee Count: 87
- Annual Revenue (2023): \$12,500,000

2 Leadership Team

- Chief Executive Officer: Dr. Elena Rodriguez
- Chief Technology Officer: Michael Chen
- Chief Strategy Officer: Sarah Williamson

3. FINANCIAL PERFORMANCE ANALYSIS

1 Revenue Metrics

- Compound Annual Growth Rate (CAGR): 42.7%

- Revenue Segments:
 - a) Predictive Maintenance Platforms: 55%
 - b) Machine Learning Diagnostic Tools: 30%
 - c) Digital Transformation Consulting: 15%

2 Profitability Indicators

- Gross Margin: 68.3%
- EBITDA Margin: 22.6%
- Net Profit Margin: 16.4%

3 Financial Risks and Observations

- Concentration Risk: Top 3 clients represent 47% of annual revenue
- R&D Investment: 18.5% of total revenue
- Working Capital Ratio: 2.1:1

4. FUNDING AND CAPITALIZATION

1 Funding History

- Seed Round: \$1.2M (2018)
- Series A: \$4.5M (2020)
- Series B: \$8.7M (2022)

2 Current Capitalization

- Total Preferred Shares: 2,350,000
- Common Shares Outstanding: 4,750,000
- Fully Diluted Shares: 5,200,000

5. FINANCIAL STATEMENT QUALIFICATIONS

1 Auditor Statements

- Most Recent Audit: KPMG LLP (December 31, 2023)
- Audit Opinion: Unqualified
- No Material Weaknesses Identified

2 Accounting Policies

- Accounting Standard: US GAAP

- Revenue Recognition: Contract-based, percentage of completion method
- Depreciation: Straight-line method for technology assets

6. CONTINGENT LIABILITIES

1 Identified Potential Liabilities

- Ongoing Patent Litigation: Estimated potential exposure of \$750,000
- Pending Employment Dispute: Estimated potential settlement of \$250,000

7. INTELLECTUAL PROPERTY VALUATION

1 Patent Portfolio

- Total Active Patents: 12
- Estimated IP Valuation: \$4.2M
- Key Patent Areas: Predictive Maintenance Algorithms, Machine Learning Diagnostics

8. LIMITATIONS AND DISCLAIMERS

1 This Report is prepared solely for the purpose of potential merger and acquisition evaluation. All information is based on documents provided and management representations.

2 No warranty is expressed or implied regarding the absolute accuracy of the information contained herein.

9. CONFIDENTIALITY

1 This document is strictly confidential and intended only for authorized personnel involved in the potential transaction.

10. SIGNATURE BLOCK

Prepared By:

[Signature Redacted]

Senior Financial Analyst

Date: January 22, 2024