

GROSS MARGIN ANALYSIS BY SERVICE CATEGORY

Summit Digital Solutions, Inc.

For the Period Ending December 31, 2023

CONFIDENTIAL AND PROPRIETARY

1. EXECUTIVE SUMMARY

This Gross Margin Analysis report presents a detailed breakdown of service category performance for Summit Digital Solutions, Inc. ("Company") for the fiscal year ending December 31, 2023. This analysis has been prepared in accordance with GAAP standards and the Company's established accounting policies.

2. METHODOLOGY AND DEFINITIONS

1 Gross Margin Calculation

- Revenue less direct costs of service delivery
- Excludes overhead and administrative expenses
- Calculated on a per-engagement basis and aggregated by category

2 Service Categories

- AI/ML Implementation Services
- IoT Systems Integration
- Process Automation Solutions
- Digital Transformation Consulting
- Peak Performance Platform Licensing

3. GROSS MARGIN BY SERVICE CATEGORY

1 AI/ML Implementation Services

- Total Revenue: \$28,875,000
- Direct Costs: \$15,881,250
- Gross Margin: \$12,993,750
- Margin Percentage: 45%

2 IoT Systems Integration

- Total Revenue: \$21,875,000
- Direct Costs: \$13,125,000
- Gross Margin: \$8,750,000
- Margin Percentage: 40%

3 Process Automation Solutions

- Total Revenue: \$17,500,000
- Direct Costs: \$9,625,000
- Gross Margin: \$7,875,000
- Margin Percentage: 45%

4 Digital Transformation Consulting

- Total Revenue: \$13,125,000
- Direct Costs: \$7,218,750
- Gross Margin: \$5,906,250
- Margin Percentage: 45%

5 Peak Performance Platform Licensing

- Total Revenue: \$6,125,000
- Direct Costs: \$1,837,500
- Gross Margin: \$4,287,500
- Margin Percentage: 70%

4. COST ALLOCATION METHODOLOGY

1 Direct Labor Costs

- Billable consultant hours
- Technical implementation specialists
- Project management personnel
- Subject matter experts

2 Technology Infrastructure

- Cloud computing resources
- Development environments

- Testing infrastructure
- Deployment systems

3 Third-Party Software and Services

- Licensed components
- API services
- External data sources
- Specialized tools

5. MARGIN TREND ANALYSIS

1 Year-over-Year Comparison

- AI/ML Implementation: +3% YoY
- IoT Systems Integration: +2% YoY
- Process Automation: +5% YoY
- Digital Transformation Consulting: Flat
- Platform Licensing: +8% YoY

2 Contributing Factors

- Increased automation in delivery processes
- Improved resource utilization
- Enhanced delivery methodologies
- Scale efficiencies in platform deployment

6. RISK FACTORS AND CONSIDERATIONS

1 Market Conditions

- Competitive pricing pressure in core services
- Rising labor costs in technical roles
- Technology infrastructure cost fluctuations
- Market demand variations

2 Operational Factors

- Resource utilization rates

- Project delivery efficiency
- Technical debt management
- Quality assurance costs

7. CERTIFICATION

The undersigned officers hereby certify that this Gross Margin Analysis accurately reflects the financial performance of Summit Digital Solutions, Inc. for the period specified, in accordance with generally accepted accounting principles.

DATED: January 15, 2024

By: _

Sarah Blackwell

Chief Operating Officer

By: _

David Wilson

Chief Financial Officer

8. DISCLAIMERS AND LIMITATIONS

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