

WORKING CAPITAL ANALYSIS

Q4 2023 - Polar Dynamics Robotics, Inc.

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Prepared: January 11, 2024

Reference: WCA-2023Q4-PDR

1. EXECUTIVE SUMMARY

This Working Capital Analysis examines Polar Dynamics Robotics, Inc.'s ("Company") working capital position for Q4 2023, including detailed analysis of current assets, current liabilities, and operational cash flow requirements. This analysis has been prepared in accordance with GAAP principles and the Company's established accounting policies.

2. WORKING CAPITAL COMPONENTS

2.1 Current Assets

As of December 31, 2023:

- Cash and Cash Equivalents: \$4,875,000
- Accounts Receivable: \$7,250,000
- Inventory: \$5,325,000
- Raw Materials: \$2,450,000
- Work in Progress: \$1,875,000
- Finished Goods: \$1,000,000
- Prepaid Expenses: \$725,000

Total Current Assets: \$18,175,000

2.2 Current Liabilities

As of December 31, 2023:

- Accounts Payable: \$3,875,000
- Short-term Debt: \$2,000,000
- Accrued Expenses: \$1,250,000
- Current Portion of Long-term Debt: \$750,000
- Customer Deposits: \$1,125,000

Total Current Liabilities: \$9,000,000

3. WORKING CAPITAL METRICS

3.1 Key Ratios

- Current Ratio: 2.02
- Quick Ratio: 1.43
- Working Capital Turnover: 4.2x
- Days Sales Outstanding (DSO): 45 days
- Days Inventory Outstanding (DIO): 62 days
- Days Payable Outstanding (DPO): 52 days

3.2 Cash Conversion Cycle

- Total Cash Conversion Cycle: 55 days
- Year-over-Year Improvement: 7 days

4. OPERATIONAL ANALYSIS

4.1 Seasonal Considerations

The Company's working capital requirements demonstrate seasonal variation due to:

- Q4 inventory build-up for anticipated Q1 2024 deliveries
- Customer payment timing aligned with fiscal year-end
- Strategic raw material purchases to hedge against supply chain volatility

4.2 Industry-Specific Factors

- Extended payment terms for key cold storage facility customers (Net 60)
- Inventory buffer requirements for proprietary actuator components
- Working capital impact of cold-environment testing procedures

5. WORKING CAPITAL OPTIMIZATION INITIATIVES

5.1 Current Programs

Implementation of automated accounts receivable management system

Vendor payment term standardization program

Inventory optimization through improved demand forecasting

Supply chain financing program with key suppliers

5.2 Projected Impact

- Expected DSO reduction: 5-7 days by Q2 2024
- Projected inventory efficiency improvement: 10% by year-end 2024
- Anticipated working capital release: \$1.2M-\$1.5M

6. RISK FACTORS

6.1 Identified Risks

- Supply chain disruptions affecting inventory levels
- Customer concentration in cold storage sector
- Foreign currency exposure on international component purchases
- Seasonal working capital fluctuations

6.2 Mitigation Strategies

Maintaining additional safety stock for critical components

Diversification of supplier base

Implementation of foreign currency hedging program

Enhanced cash flow forecasting procedures

7. CONCLUSIONS AND RECOMMENDATIONS

The Company maintains a healthy working capital position with sufficient liquidity to support current operations and planned growth initiatives. Key recommendations include:

Accelerate accounts receivable collection initiatives

Optimize inventory levels through improved forecasting

Evaluate supply chain financing opportunities

Implement additional working capital monitoring metrics

8. CERTIFICATION

This Working Capital Analysis has been prepared by the Finance Department of Polar Dynamics Robotics, Inc. and reviewed by the undersigned officers of the Company.

DATED this 11th day of January, 2024

Katherine Wells

Chief Financial Officer

Sarah Nordstrom

Chief Operating Officer

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9. DISCLAIMER

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