

Annual Budget vs Actual Analysis 2023

DeepShield Systems, Inc.

CONFIDENTIAL & PROPRIETARY

Date: December 31, 2023

1. Executive Summary

This Annual Budget vs Actual Analysis report presents a comprehensive review of DeepShield Systems, Inc.'s ("Company") financial performance for fiscal year 2023 compared to approved budget projections. This analysis has been prepared by the Office of the Chief Financial Officer and reviewed by the Board of Directors' Audit Committee.

2. Revenue Analysis

2.1 Core Product Revenue

- Budgeted: \$29,500,000
- Actual: \$32,500,000
- Variance: +\$3,000,000 (+10.2%)

Primary drivers of overperformance:

- Accelerated adoption of maritime security module
- Two major contract wins in offshore energy sector
- Higher than projected recurring revenue from existing clients

2.2 Professional Services Revenue

- Budgeted: \$4,200,000
- Actual: \$4,850,000
- Variance: +\$650,000 (+15.5%)

3. Operating Expenses

3.1 Personnel Expenses

- Budgeted: \$15,800,000
- Actual: \$16,200,000

- Variance: -\$400,000 (-2.5%)

Variance attribution:

- Additional engineering hires (12 FTEs vs budgeted 8)
- Increased sales compensation due to overperformance
- Partially offset by delayed executive hiring

3.2 Research & Development

- Budgeted: \$6,500,000
- Actual: \$6,800,000
- Variance: -\$300,000 (-4.6%)

3.3 Sales & Marketing

- Budgeted: \$4,200,000
- Actual: \$4,100,000
- Variance: +\$100,000 (+2.4%)

3.4 General & Administrative

- Budgeted: \$3,800,000
- Actual: \$3,750,000
- Variance: +\$50,000 (+1.3%)

4. Key Performance Metrics

4.1 Gross Margin

- Budgeted: 72%
- Actual: 74%
- Variance: +2%

4.2 EBITDA

- Budgeted: \$3,400,000
- Actual: \$4,500,000
- Variance: +\$1,100,000 (+32.4%)

4.3 Customer Acquisition Cost

- Budgeted: \$125,000
- Actual: \$118,000
- Variance: +\$7,000 (+5.6%)

5. Cash Position & Working Capital

5.1 Cash Balance

- Beginning of Year: \$18,500,000
- End of Year: \$22,800,000
- Net Change: +\$4,300,000

5.2 Working Capital Metrics

- Days Sales Outstanding: 65 (vs. budget of 70)
- Days Payable Outstanding: 45 (vs. budget of 45)
- Inventory Turnover: N/A (SaaS business model)

6. Material Variances & Explanatory Notes

1 The positive revenue variance of \$3,650,000 is primarily attributed to:

- Accelerated market adoption in maritime sector
- Earlier than anticipated contract closings
- Expansion of existing customer deployments

2 The negative variance in personnel expenses reflects:

- Strategic decision to accelerate engineering hiring
- Market-driven compensation adjustments
- Retention bonuses for key technical personnel

7. Forward-Looking Considerations

1 The analysis suggests the following adjustments for FY2024 planning:

- Increase revenue projections for maritime sector
- Adjust hiring plans to support growth trajectory
- Review R&D allocation for new product initiatives

8. Certification

The undersigned hereby certify that this analysis presents a true and accurate comparison of budgeted versus actual financial performance for fiscal year 2023.

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Robert Kessler

Chief Financial Officer

Date: December 31, 2023

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Dr. Marcus Chen

Chief Executive Officer

Date: December 31, 2023

9. Disclaimer

This document contains confidential and proprietary information of DeepShield Systems, Inc. The financial data and analysis presented herein have been prepared in accordance with generally accepted accounting principles (GAAP) and internal company policies. This document is subject to review and revision. Any projections or forward-looking statements are based on current expectations and beliefs and are subject to various risks and uncertainties.