

CFO PLAYBOOK

Cybersecurity, Sovereign Tech & Defense



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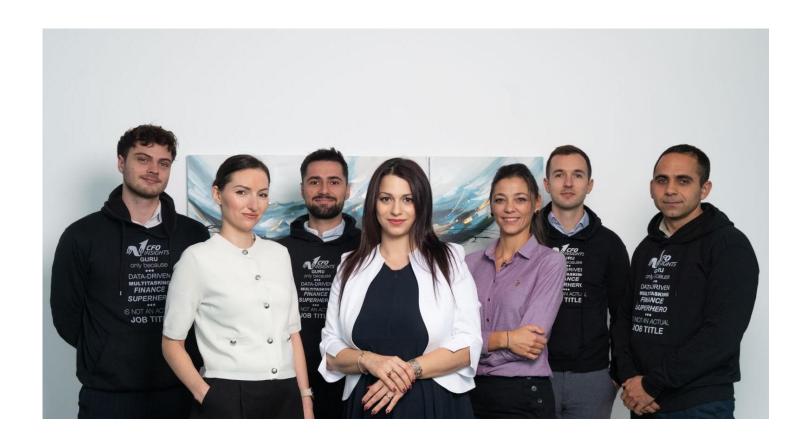
WHY WE

CFO Insights expertise Out Proven Impact





WHO WE ARE





The market leader in CFO-as-a-Service in the CEE region with expertise in over 10 industries and finance professionals with more than 60+ years combined experience.

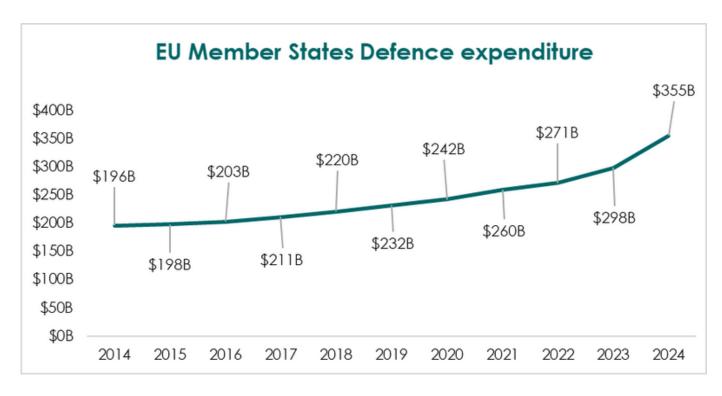
EUROPE'S RISING INVESTMENT IN DIGITAL AND NATIONAL SECURITY

Europe's Rising Investment in Digital and National Security

European technology is experiencing a **strategic pivot toward security-driven innovation**. Unlike previous funding cycles dominated by consumer tech, today's landscape prioritizes **cybersecurity**, **sovereign technologies**, **and Defense innovation**.

Key market drivers:

- **Geopolitical pressures:** Russia-Ukraine conflict and escalating cyberattacks on critical infrastructure have elevated security to boardroom priority
- **Policy acceleration:** Record budgets through European Defense Fund and national initiatives drive unprecedented public investment
- Capital convergence: VCs increasingly co-invest with governments, recognizing security tech as mainstream rather than niche



*Data taken from the Council of the European Union - <u>"EU Defence in Numbers"</u>. Numbers were converted from EUR to USD for consistency reasons, using the 31 Dec. 2024 FX rate.

The numbers tell the story: Defense expenditure reached 1.9% of EU GDP in 2024, up from 1.6% in 2023, with projections hitting 2.1% by the end of 2025. This translates to longer procurement cycles but larger, more stable contracts for startups positioned correctly.



FINANCIAL STRATEGY: A COMPETITIVE EDGE IN CYBER AND DEFENCE TECH

Success in this sector requires **financial strategy as core competency**, not back-office function:

- Complex cash management: Defense contracts pay slowly—CFOs who structure credit lines and blended grant funding create survival advantages
- **Dual-use positioning:** Requires sophisticated cap table design to attract both commercial and Defense investors
- Complex R&D Heavy Business Models: Designing pricing structures that reflect dualuse technology value, long development cycles, and cross-sector cost recovery.
- **Stakeholder scrutiny:** Government partners demand financial governance and compliance exceeding typical startup standards
- **Regulatory advantage:** Certifications like EUCC, EUCS, or ISO/IEC 27001 become strategic milestones unlocking customer bases
- **Geopolitical resilience:** Companies with robust treasury management navigate supply shocks and currency fluctuations others cannot survive



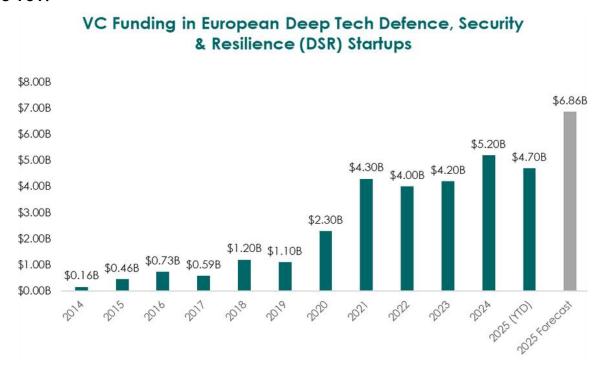
Financial leadership determines which startups achieve **scale**, **longevity**, **and strategic relevance** versus those that merely build promising technology.



MARKET GROWTH & INVESTMENT MOMENTUM

According to a research by <u>NATO Innovation Fund (NIF)</u> and <u>Dealroom.co</u>, the **Defense**, **Security & Resilience (DSR)** vertical saw approximately **USD 5.2B in VC funding in 2024**, representing a **24% increase year-over-year (YoY)**.

In 2025, European **VC Funding** in DSR is expected **to grow to USD 6.9B**, representing **a 32% increase YoY**.



DSR has emerged as one of Europe's fastest-growing VC verticals, ranking third in growth in 2024 and first over a 24 month growth period (2024 & 2023).

Vertical	Last 12 Months Growth (%)	Last 24 months Growth (%)	2024	2023	2022	2021	2020	2019
Total VC	-11%	-45%	\$54B	\$60B	\$98B	\$116B	\$48B	\$47B
Robotics	52%	15%	\$2B	\$1B	\$2B	\$2B	\$0.6B	\$0.8B
Enterprise Software	31%	-48%	\$10B	\$7B	\$199B	\$17B	\$7B	\$6B
DSR	24%	30%	\$5B	\$4B	\$4B	\$4B	\$2B	\$1B
Health	12%	-13%	\$11B	\$10B	\$12B	\$18B	\$10B	\$8B
Fintech	8%	-64%	\$9B	\$8B	\$24B	\$29B	\$11B	\$12B
Marketing	4%	-59%	\$2B	\$2B	\$6B	\$7B	\$3B	\$3B
Rest of Deep Tech*	-24%	-32%	\$10B	\$13B	\$15B	\$14B	\$7B	\$7B
Food	-26%	-49%	\$4B	\$5B	\$7B	\$12B	\$4B	\$3B
Transportation	-32%	-52%	\$6B	\$9B	\$13B	\$13B	\$6B	\$6B
Semiconductors	-38%	-1%	\$1B	\$2B	\$1B	\$1B	\$0.9B	\$0.5B
Energy	-39%	-30%	\$9B	\$16B	\$13B	\$10B	\$4B	\$3B
Real Estate	-49%	-62%	\$1B	\$3B	\$3B	\$3B	\$2B	\$2B

Source: "Defense, Security and Resilience in Europe - The state of startups and venture capital" Feb. 2025, by Dealroom.co and the NATO Innovation Fund

MARKET GROWTH & INVESTMENT MOMENTUM (Cont.)

In the Defense, Security, and Resilience sub-sectors, the core Defense vertical is seeing a significantly sharper rise in VC funding for 2025.

A more recent analysis by Dealroom & the Resilience Media from September 2025 reveals that **Defense has already reached USD 1.5B in VC funding in 2025, forecasted to grow to USD 2.3B by year-end.**

This represents 50% growth YoY in actual funding and 132% YoY growth in the forecast.

Notably, **mega-rounds** including **Helsing's USD 600M funding comprised over three-quarters of 2025 funding**, indicating institutional capital's growing comfort with the sector.

VC Investment in European Defence and Defence tech Startups



Source: "The State of Defense Tech" Sept. 2025, by Dealroom.co and Resilience Media

CFO Tip:

In the surging Defense, Security & Resilience vertical, a CFO should benchmark your Startup's valuation against the 24-month European sector growth leaders. This will position your Startup competitively ahead of the 2025 forecast.



GEOGRAPHIC DISTRIBUTION & INNOVATION HUBS

United Kingdom — Established Leader, Facing Intensifying Competition

- **DSR Market Position:** The UK is the historical leader in European DSR funding for 2019-2024, though Germany's acceleration in 2024–2025 signals a shift in momentum.
- Hubs: Five hubs Oxford, London, Cambridge, Bristol, and Reading collectively attracted an estimated ~USD 6B (2019–2024), reinforcing the UK's structural depth in dual-use and security innovation.
- **Defense Funding:** The UK remains among the top two in Defense-specific VC funding, approaching ~USD 1B raised (2019–2025).

Germany — Rapid Growth and Emerging European Hub

- **DSR Market Position:** Germany led European DSR funding in 2024 and topped Defense-specific VC inflows in early 2025, marking a structural power shift in investor focus.
- Hubs: Munich emerged as Europe's top DSR hub in 2024, securing close to USD 1B—nearly 4x growth since 2021. Helsing's USD 600M Series D (June 2025), further solidified Munich's leadership as a Defense hub.
- **Defense Funding:** Estimated ~USD 2B in Defense-oriented investment (2019–2025) highest in Europe both in absolute terms and relative share of total VC funding.

France — Solid Foundation, Needing Renewed Momentum

- **DSR Market Position**: France ranked second overall in terms of DSR VC funding raised (2019–2024) with ~USD 3.3B. Slipped to third position in 2024, attracting just under USD 0.8B for DSR.
- **Hubs: Paris** maintained a top-three position in cumulative DSR VC investment, but growth slowed in 2024–2025.
- **Defence Funding:** Approximately USD 0.47B raised since 2019, keeping France far behind Germany and the UK.

Source: "Defense, Security and Resilience in Europe- The state of startups and venture capital" Feb. 2025, by Dealroom.co and the NATO Innovation Fund and "The State of Defense Tech" Sept. 2025, by Dealroom.co and Resilience Media



DUAL-USE VENTURE CAPITAL FUNDING TRENDS

Market Context & Drivers

Regulatory constraints and partnership agreements continue to prevent many VCs from directly backing weapons systems, channeling investment instead toward dual-use technologies.

This constraint has created opportunity, forcing startups to develop technologies with broader market potential and multiple revenue streams.

European Dual-Use Ecosystem Overview

According to the 2025 Mind the Bridge report - "Dual Use Technologies - The Strategic Frontier of Innovation" - the U.S. continues to maintain global leadership with over 9,200 dual-use scaleups and USD 900B in funding, but Europe's key markets begin to show significant momentum.

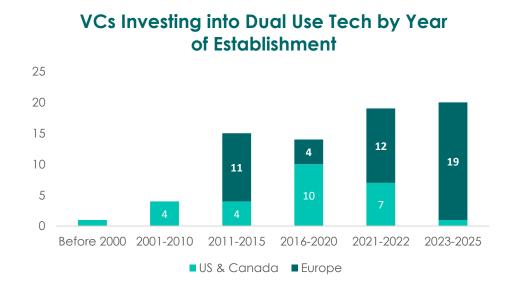
Major Markets (2024):

• UK: 1,556 dual-use scaleups, USD 61.7B raised

• France: 824 scaleups, USD 32.3B raised

Germany: 700 scaleups, USD 27.1B raised

The post-2022 period has witnessed unprecedented fund formation activity. **Of 46 identified Defense and dual-use focused funds** across NATO and allied European countries, **30 (65%)** were launched after 2022.





Source: "Dual Use Technologies - The Strategic Frontier of Innovation" July 2025, by Mind the Bridge.

DUAL-USE VENTURE CAPITAL FUNDING TRENDS (Cont.)

Dual-Use Sectors Gaining Traction

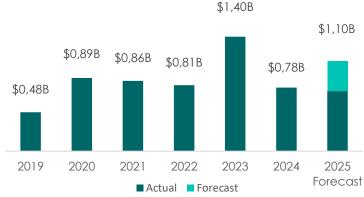
Key dual-use sectors like **Space**, **Quantum**, **and Semiconductors** have seen dramatic investment acceleration in Europe.

Quantum leads projected growth, expected to reach €2.4B by end of 2025.





Semi Conductors



Source: "The State of Defense Tech" Sept. 2025, by Dealroom.co and Resilience Media

CFO Tip:

A Dual-use CFO should segregate financial data by application - clearly **distinguishing costs**, **revenues**, and projections for **commercial versus government uses** to avoid compliance pitfalls. Using straightforward visuals like side-by-side charts in reports can effectively highlight differences in margins, funding sources, and ROI for each use-case.

"VCs are finally treating cybersecurity companies like the essential infrastructure they've always been, not just nice-to-have security add-ons. Today's smart capital flows to companies that can demonstrate tangible business outcomes, not just identify more vulnerabilities."

- Valentin Tapchev, CFO Insights

CYBERSECURITY VENTURE CAPITAL TRENDS

2024: Significant Contraction

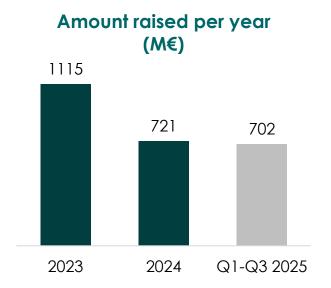
While the broader Defense and security sector experiences growth, Cybersecurity shows a more complex picture. According to Axeleo Capital's analysis on exits in the European cybersecurity ecosystem, **2024 marked a significant contraction**:

- Total funding: \$749 million (35% YoY decline from \$1.158 billion in 2023)
- **Deal volume: 113 deals** (35% decrease from 173 in 2023)

Despite the overall downturn, market dynamics revealed interesting patterns that suggest consolidation rather than collapse:

- **UK:** Maintained its position as Europe's leading cybersecurity hub, demonstrating resilience despite broader market challenges
- Germany & France: Strengthened positions as key challengers to UK dominance
- France: Experienced particularly sharp declines (37% funding decrease, 55% deal volume drop), indicating a shift toward fewer, larger deals—a sign of market maturity

This contraction should be viewed in context: cybersecurity is **transitioning from a high-growth emerging sector to a more mature market segment**, with investors becoming **more selective** and focusing on **proven business models** rather than speculative technologies.





Source: "Exits in the European Cybersecurity Ecosystem" and "Cybersecurity Index" articles, by Axeleo Capital



CYBERSECURITY VENTURE CAPITAL TRENDS (Cont.)

2025: Gradual Recovery with Strategic Shifts

European cybersecurity fundraising in 2025 demonstrates **a clear rebound trajectory**, though the recovery remains **selective and uneven** across quarters.

Based on Axeleo Capital's quarterly analyses, the market is experiencing **renewed investor confidence** while maintaining the discipline developed during the downturn.

• Total funding (Q1-Q3 2025): \$824 million

Deal volume (Q1-Q3 2025): 104 deals

The European cybersecurity landscape showed interesting **geographic dynamics** in 2025:

- **UK**: Maintained dominance in deal volume throughout the year, reinforcing its position as **Europe's cybersecurity innovation hub**
- **Germany** emerged as the **consistent regional powerhouse**, establishing itself as Europe's more reliable investment leader
- France's investment patterns contrasted quarterly in European cybersecurity.
- Italy: Surprised with Q3 surge to top position in total funding, raising \$95M across just 3 deals, demonstrating the growing maturity

European cybersecurity fundraising in 2025 demonstrates **a measured recovery**. Investors are concentrating capital into **fewer**, **larger deals** focused on **proven companies** with **strong unit economics** and **clear paths to profitability**.



CFO Tip:

As investors concentrate capital into fewer, larger deals with proven companies, competitive advantage now hinges on demonstrating strong unit economics and clear paths to profitability from day one. Structure your capital stack with blended grant and equity funding to showcase capital efficiency—the startups attracting meaningful funding are those proving financial discipline alongside technical innovation.

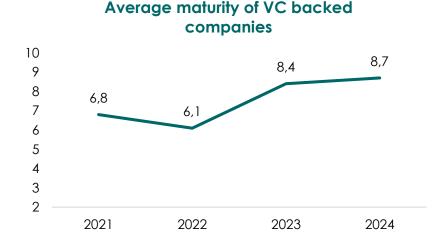


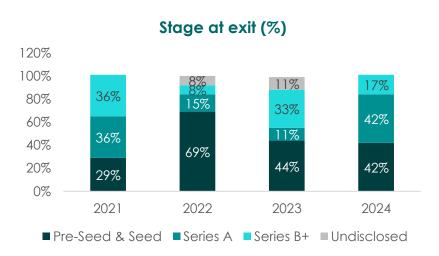
CYBERSECURITY VENTURE CAPITAL TRENDS (Cont.)

2024 Exit Activity: Delayed Recovery with Strong Q4 Rebound

After the challenging environment of 2023, European cybersecurity exit activity in 2024 demonstrated **resilience**, though recovery proved **uneven** throughout the year. According to Axeleo Capital's comprehensive analysis of exits in the European cybersecurity ecosystem, the market **returned to pre-2023 levels** driven primarily by **exceptional fourth-quarter performance**.

- Total exits: 31 acquisitions completed in 2024, matching 2021 levels and representing a significant recovery from 2023's 23 exits
- Critical finding: Over 80% of European cybersecurity companies were acquired before reaching Series B, with an average lifespan of 8.7 years for VC-backed entities specifically
- Average company age at exit: 9.3 years, up from 8.7 years in 2023, indicating slightly longer paths to acquisition
- VC-backed percentage: 40% of acquired companies had received venture capital funding, consistent with historical norms





Source: "Exits in the European Cybersecurity Ecosystem", by Axeleo Capital



CYBERSECURITY VENTURE CAPITAL TRENDS (Cont.)

2025 Q1-Q3 Exit Activity: Sustained M&A Momentum and Market Maturation

Following the strong Q4 2024 rebound, European cybersecurity exit activity in 2025 demonstrated **robust and consistent** momentum throughout the year. According to Axeleo Capital's quarterly analyses, the market experienced **renewed M&A vigor**, signaling **growing acquirer confidence** and **ecosystem maturity**.

- Total exits: 22 acquisitions completed across Q1-Q3 2025
- Cross-border M&A dominance: US and international acquirers maintained strong presence, continuing the pattern of European innovation feeding global consolidation
- Early-stage exits remained prevalent: Notable acquisitions of pre-seed and seed-stage companies, particularly in Application Security and emerging categories, suggesting acquirers are increasingly willing to buy innovation earlier in the lifecycle
- VC-backed vs. non-VC splits: Significant number of exits involved companies without traditional VC backing, indicating that bootstrapped and grant-funded paths to exit remain viable in European cybersecurity



CFO Tip:

Align your fundraising strategy with exit realities to maximize founder outcomes. Structure your capital stack to reach acquisition-readiness through blended grant and equity funding that demonstrates capital efficiency to acquirers.



GOVERNMENT & DEFENCE FUNDING PROGRAMS

NAVIGATING GOVERNMENT & INSTITUTIONAL FUNDING



1. Match funding to your stage

For European Sovereign Tech, Cybersecurity, and Dual-Use startups, success depends on aligning with programs that fit your maturity — not just chasing available grants or equity.

2. Know your funding landscape

- **EU & NATO:** Offer large, structured frameworks resembling a DARPA-style innovation pipeline ideal for deep-tech R&D and multi-stage scaling
- National programs (France, Germany, UK): Provide more direct and stage-specific entry points, though accessibility and eligibility vary

3. Assess before you apply

Each program differs in:

- Stage suitability from early prototyping to scaling
- **Difficulty of access** open calls vs. invite-only initiatives
- National restrictions eligibility tied to ownership, location, or security clearance

European union – structured pipeline across all stages



What you need to know:

- EU programs are **competitive and bureaucratically demanding**. Securing funding from the European Defense Fund (EDF) often requires being part of a consortium with other European players.
- Funds are open to all EU-based companies, but **non-EU startups face barriers** unless they partner with European entities.

Program/Fund Name	Description	Period	Annual Budget (€ Bil)	Funding per Project (~€ Mil.)	Category	Preferred Investment Round
EIB Strategic European Security Initiative (SESI)	Provides loans and financing for security and defense projects to enhance EU strategic autonomy.	2022-2027	8,00	20 - 50	Cyber, Space, AI, Quantum, Defense	Series A to Series B
European Defence Fund (EDF)	Funds collaborative defense R&D to boost EU defense capabilities and innovation.	2021-2027	1,07	10 - 50	Defense R&D, Cyber, Space	Pre-seed to Series A
EU Defence Innovation Scheme (EUDIS)	Part of the EDF. Supports defense startups with grants and equity for innovative technologies.	2022-2027	0,34	0.2 - 2	Defense Innovation, SME Support	Seed to Series A
Defence Equity Facility (DEF)	Aims at stimulating the development of an ecosystem of private funds investing in defence innovation					

CFO Tip: EU programs are ideal for companies seeking structured, milestone-driven support. Early-stage firms should look at EUDIS, while scale-ups benefit most from EDF-backed projects. SESI is best suited for mature firms with proven tech.

GOVERNMENT & DEFENCE FUNDING PROGRAMS (Cont.)

NATO - strategic alignment of dual use scaleups



What you need to know:

- NATO is not "open access" funding generally requires clear alignment with alliance security needs (AI, drones, quantum, cybersecurity)
- Applications often need strategic partnerships or endorsements, meaning startups must prepare carefully and often collaborate
- Funding is pan-European (not national), so NATO is a strong option for non-EU companies within the alliance

Program/Fund Name	Description	Period	Annual Budget (€ Bil)	Funding per Project (~€ Mil.)	Category	Preferred Investment Round
Quantum Defense Programs	Funds quantum tech for defense via NATO's DIANA initiative.	2023 - ongoing	N/A		Quantum Computing, Cryptography	Pre-seed to Series A
NATO Innovation Fund (NIF)	Venture capital for deep tech startups supporting NATO defense goals.	2022 - ongoing	1	5 - 15	Defense, Deep Tech, Alliance Tech	Seed to Series B

CFO Tip:

NATO is best for dual-use companies beyond seed stage, particularly those scaling AI, quantum, or cybersecurity, since those solutions explicitly prioritized as strategic technologies under NATO's Emerging and Disruptive Technologies (EDT) framework



MAPPING EARLY-STAGE TO SERIES B FUNDING JOURNEYS

Pre-Seed to Seed – Building the Foundation



1. Expect a slower start

For Defense, Sovereign tech, Dual use and Cybersecurity, early stages move more deliberately than consumer tech, as compliance and credibility take priority over speed and user growth.

Typical pre-seed/seed timelines can vary between 12 and 24 months.

2. Build foundations for trust

Focus early on security-by-design, technical depth, and establishing a product inspiring confidence with government and enterprise partners.

3. Navigate regulation early

Prepare for:

- Export controls: EU dual-use regulations
- Cybersecurity frameworks: EUCC, EUCS, ISO/IEC 27001, GDPR, etc.
- Trusted capital: NATO/EU filters that may affect fundraising

Seed to Series A – Proving Operational Viability



1. Shift from prototype to operations

This stage is about turning early your dual use or sovereign tech startup's technical credibility into real deployment and repeatable revenue.

Expect 18–30 months to reach Series A due to extended sales, additional certification, and procurement timelines.

MAPPING EARLY-STAGE TO SERIES B FUNDING JOURNEYS (Cont.)

2. Redefine traction.

At this stage success is measured by:

- · Signed contracts and pilots
- · Achieved security certifications
- Proven ability to integrate into sensitive ecosystems

3. Build strategic partnerships.

Align early with Defense primes or hyperscalers (for cyber startups). These partnerships unlock credibility, co-development opportunities, and customer access.

Seed to Series A – Proving Operational Viability



1. Shift from prototype to operations

This stage is about turning early technical credibility into real deployments and repeatable revenue.

2. Redefine traction

Forget vanity metrics — success is measured by:

- Signed contracts and pilots
- Achieved security certifications
- Proven ability to integrate into sensitive ecosystems

3. Plan for long cycles

Expect 18–30 months to reach Series B due to extended sales, certification, and procurement timelines.

3. Build strategic partnerships

Align early with Defense primes or hyperscalers (for cyber startups). These partnerships unlock credibility, co-development opportunities, and customer access.



FINANCIAL CHALLENGES IN CYBER & DEFENCE STARTUPS

Funding, forecasting, and financial control in cybersecurity and Defense are defined less by market volatility and more by the **rhythm of institutions with:**

- Government procurement dependency
- Prolonged regulatory cycles
- Lengthy cash conversion loops

Financial strategy here isn't about chasing growth, it's about sustaining liquidity.

Complex Procurement Cycles and Tendering

Procurement in Defense and critical infrastructure isn't linear — it's bureaucratic, compliance-heavy, and slow. **A sales cycle can exceed 12–24 months**, even for startups with strong technology and clear product—market fit.



Financial Implications

- Cash inflows are unpredictable and back-loaded — often arriving only after contract award and milestone acceptance.
- Startups face months of negative cash flow while funding pre-sales, certifications, and proof-of-concept (PoC) work.
- Missed bid windows can disrupt revenue forecasts for entire fiscal years.



Complex Procurement Cycles and Tendering

Procurement in Defense and critical infrastructure isn't linear — it's bureaucratic, compliance-heavy, and slow. A sales cycle can exceed 12-24 months, even for startups with strong technology and clear product-market fit.

How a CFO Should Navigate It

- **Tender Forecasting:** Model pipeline timing probabilities (e.g., 30%, 60%, 90%) to anticipate cash gaps
- **Bid Capitalization:** Treat pre-bid costs (R&D, compliance) as strategic investments; track their payback across multiple tenders
- **Liquidity Buffer:** Maintain 9–12 months of working capital; procurement delays are the norm, not the exception.
- **Bridge Instruments:** Explore venture debt, revenue-based financing, or milestone-linked bridge rounds to cover procurement lags



FINANCIAL CHALLENGES IN CYBER & DEFENCE STARTUPS (Cont.)

Hybrid Clients: Government, Enterprise, and Critical Infrastructure

Cyber and Defense startups often operate across three client archetypes, each with different financial behaviors and risk expectations:

- 1. Governments: Long-term, delayed payment cycles, compliance-intense
- 2. Enterprises: Faster contracting, higher margins, but shorter retention
- 3. Critical Infrastructure Operators: Hybrid terms; heavy compliance requirements and slower procurement



Financial Tension

Balancing these clients means balancing three time horizons of cash inflow. Overexposure to government contracts can trap liquidity; overreliance on enterprise clients can weaken credibility in regulated sectors.

How a CFO Should Navigate It

- Revenue Segmentation: Track P&L by client type to understand margin concentration.
- **Billing Design:** Stagger billing milestones (e.g., setup fee + operational milestones) to smooth inflows.
- Working Capital Mapping: Model payment delays by segment a 30-day invoice in enterprise may mean 120 days in Defense
- **Portfolio Balance:** Try to aim for a 40–40–20 mix across segments (gov–enterprise–infra) to stabilize cash flow.

CFO Tip:

A startup offering network anomaly detection might sustain early revenue from energy utilities (critical infrastructure) while targeting Defense agencies for long-term contracts. CFOs should structure forecasting models to reflect both cycles — steady utility payments offsetting slow Defense disbursements.



FINANCIAL CHALLENGES IN CYBER & DEFENCE STARTUPS (Cont.)

Grant Dependency & Long Cash Conversion Cycles

Cybersecurity and Defense startups rely on non-dilutive funding — government R&D grants, innovation programs, or accelerator stipends.

While these de-risk early development, they also create a false sense of liquidity.



Financial Tension



- **Strict eligibility** rules can limit the use of funds (e.g., no salaries for founders, no subcontracting outside the EU).
- Heavy reporting requirements increase overhead.

How a CFO Should Navigate It

- Cash Conversion Mapping: Model every grant as a delayed receivable, not as operating income.
- **Bridge Capital:** Use short-term debt or SAFE notes timed to grant reimbursement schedules.
- Cost Allocation Systems: Implement granular cost tracking early to ensure audit compliance and reduce clawback risk.
- Transition Planning: Treat grants as temporary scaffolding plan Series A or commercial revenue before dependency exceeds 50% of inflows.

CFO Tip:

Integrate grants, not depend on them. Build them into the financial model as delayed reimbursements, not operational revenue.

"In Defense and cybersecurity, a great technology without financial discipline is just an expensive prototype. Winning procurement timelines beats winning product cycles. Compliance unlocks contracts. Cash runway is your real competitive advantage."

- Mihail Alesov, CFO Insights



BUILDING A FINANCE FUNCTION FOR STRATEGIC TECH

A well-built finance function can turn complex funding, compliance, and capital allocation challenges into a strategic advantage, helping startups operate with the discipline and credibility expected by governments and investors.

How CFOaaS Supports Dual-Use Positioning

Dual-use startups sit in one of the most complex financial ecosystems in tech.

They must meet investor expectations for agility while satisfying government requirements for accountability, traceability, and compliance.



Financial Implications

- Dual-use models require parallel reporting frameworks GAAP or IFRS for investors, and cost-accounting compliance for Defense programs
- Contracting structures differ. One side demands rapid invoicing and flexible pricing; the other mandates fixed budgets and certified audits
- Poor alignment between these two streams can create data silos, compliance risks, and credibility gaps with stakeholders

How a CFO Should Navigate It

- Integrated Reporting: Unifies investor-ready financials with government-compliant cost reports
- Capital Allocation Discipline: Ensures civilian revenue growth doesn't undercut Defense-related cost controls
- **Financial Controls:** Introduces audit-ready systems early, reducing friction when pursuing government or NATO-linked contracts
- **Strategic Signaling:** A mature finance function signals readiness to both institutional investors and Defense primes

CFO Tip:

For dual-use companies, set up your chart of accounts early to separate "civilian" and "Defense" revenue streams — this creates clarity for future investors and avoids complex restatements when scaling.



BUILDING A FINANCE FUNCTION FOR STRATEGIC TECH (Cont.)

Balancing Grants, Equity, and Project Finance

Strategic tech startups often operate within a **multi-layered capital stack** — mixing grants, equity investment, and project-based or debt financing. The challenge for founders is not accessing capital, but sequencing it intelligently to **minimize dilution** while maintaining liquidity.

Grants: Non-Dilutive Fuel for Innovation



- Non-dilutive but slow; ideal for early R&D and certification.
- Grants support early-stage innovation but cannot fund all operational costs

Equity: Rapid Scaling with Strategic Dilution



- · Fast and flexible; best for scaling, but most expensive of the bunch
- It is inherently dilutive and should be deployed with clear ROI visibility to preserve ownership and align investor expectations

Project Finance: Asset-Backed, Predictable Growth



- Useful for infrastructure or hardware deployment, but requires predictable cash flow
- Project finance demands a mature revenue model and strong client contracts to secure favorable terms

How a CFO Should Navigate It

- Integrated Reporting: Unifies investor-ready financials with government-compliant cost reports
- Capital Allocation Discipline: Ensures civilian revenue growth doesn't undercut
 Defense-related cost controls
- **Financial Controls:** Introduces audit-ready systems early, reducing friction when pursuing government or NATO-linked contracts
- **Strategic Signaling:** A mature finance function signals readiness to both institutional investors and Defense primes

CFO Tip:

Avoid using equity capital to backfill grant delays. Structure bridge instruments or working capital facilities tied to grant receivables to preserve equity for strategic scaling.

CRITICAL KPIS FOR CYBER & DEFENCE VENTURES

In Cybersecurity and Defense ventures, traditional SaaS or startup KPIs tell only half the story. Growth metrics like **ARR** or **MRR** matter — but they must be **contextualized against regulatory compliance**, **procurement dynamics**, and **technology readiness levels** (TRLs).

ARR/MRR integrated with Security Compliance Metrics

For most tech startups, ARR and MRR measure predictable income. In Cyber and Defense, these metrics are incomplete without security and compliance context, because contracts also depend on trust and proper certification.

Why compliance metrics matter:

- Regulatory compliance increasingly drives contract eligibility
- Investors evaluate ARR quality not just for growth, but the proportion derived from compliant, high-trust clients
- Compliance readiness can materially impact valuation and procurement success

CFO Tracking Framework:

- ARR by Compliance Tier: Segment recurring revenue based on clients' regulatory environments
- Compliance Progress Index: Quantify readiness against frameworks like NIS2, ISO 27001, or SOC 2
- Revenue at Risk: Model potential churn or contract loss tied to compliance gaps
- Audit Cost per ARR: Track how much compliance maintenance costs relative to annual recurring revenue

CFO Tip:

Integrate compliance maturity into financial forecasting — for example, model NIS2 readiness as a gating factor for expanding into certain EU markets. This reframes compliance from a cost center to a growth enabler.





CRITICAL KPIS FOR CYBER & DEFENCE VENTURES (Cont.)

Government Contract Margins, Win Rates, and Pipeline Valuation

Unlike commercial SaaS, Defense and government tech revenues are non-linear and milestone-driven. Success depends less on customer count and more on contract quality — profitability, duration, and deliverability.

Three KPIs to measure the health of a Defense startup:

Gross Margin per Contract

Efficiency defines profitability when government margins are often capped

2 Bid/Win Rate

Reflects organizational credibility and proposal efficiency in competitive environments

Weighted Pipeline Value

Helps investors understand near-term visibility in volatile procurement cycles

Why are these KPIs relevant:

- Margins on government contracts are often capped, as with governments, efficiency defines profitability
- Win rate reflects the company's organizational credibility and proposal efficiency.
- Weighted pipeline valuation helps investors and boards understand near-term visibility in volatile cycles

CFO Tracking Framework:

- Bid Economics: Track cost per tender and margin after overhead absorption
- Win Rate Trends: Analyze across contract sizes and sectors to identify pricing or positioning issues
- Pipeline Weighting: Assign probabilities to forecast future cash inflows
- **Contract Mix:** Distinguish between firm-fixed-price (FFP) and cost-plus contracts each affects risk and cash timing differently

CFO Tip:

Monitor contract gross margin after audit adjustments, not just at award. Government clients often adjust claims, delay milestone acceptance, or disallow certain costs. True profitability emerges only after audit clearance.



CRITICAL KPIS FOR CYBER & DEFENCE VENTURES

Burn Rate Management Aligned with Technology Readiness Levels

Defense and Cybersecurity startups evolve through **Technology Readiness Levels (TRLs)**, from prototype to deployable systems. Financial sustainability depends on pacing spend to match each TRL's stage validation requirements.

Why this matters:

- Overspending ahead of TRL validation creates stranded costs.
- Underspending slows down technical verification, delaying revenue milestones.
- Investors and grant agencies increasingly expect TRL-linked financial plans.

CFO Tracking Framework:



Burn per TRL Stage

Measure how much cash is consumed to transition from one stage to another



Cost-to-Validation Ratio

Total R&D and prototype spend divided by successful validation outcomes



Runway by Stage

Forecast cash sufficiency until the next TRL milestone, not just a calendar date



Capital Efficiency Index

Ratio of TRL progress achieved per € spend — a proxy for innovation efficiency



Anchor fundraising and hiring plans around TRL transitions, not time intervals.

If TRL 6 (pilot demonstration) is delayed by 3 months, extend burn accordingly — avoid scaling commercial headcount before technical validation.





PRICING & PROCUREMENT MODELS

Framework Contracts & Pilot-to-Deployment Pricing

Government and critical infrastructure clients rarely buy off the shelf. They **prefer framework contracts** — multi-year agreements with pre-approved pricing structures and performance milestones — or pilot programs that gradually scale into full deployments.



Why It Matters:

- Framework contracts offer **long-term revenue visibility** but require heavy upfront compliance and tendering costs
- Lower-cost pilots to prove the tech works, but they often operate below true cost
- Multi-year pricing models can **anchor strategic partnerships** but must anticipate inflation, scope drift, and compliance updates

CFO Structuring Framework:

- Track margin at both pilot and full-deployment phases.
- Build appropriate price adjustments tied to CPI, labor cost increases, or Security Level Agreements complexity.
- Define clear milestones for IFRS or GAAP compliance to avoid recognizing pilot revenue before clients accept.
- Measure how many pilots convert into multi-year frameworks a critical early-stage growth indicator.

CFO Tip:

When bidding pilots, design pilot pricing to cover variable costs and position the follow-on contract for healthy contribution margins. A pilot that breaks even operationally but converts 50% faster than average can be strategically more valuable than one with short-term profit.

PRICING & PROCUREMENT MODELS (Cont.)

Revenue Model Strategy for Defense Tech

For cybersecurity, defense, or dual-use startups, the pricing model approach influences cash flow timing, scalability, and investor perception differently.



Licensing

Best for: Secure communication systems, encryption libraries, and hardware–software bundles

✓ Pros: Predictable recurring revenue and strong customer lock-in

X Cons: Slower adoption due to upfront commitment and procurement validation cycles; not appropriate when the company's infrastructure or operating costs increase with client usage



Per-Device Pricing

Best for: Internet of Things (IoT) security, operational technology (OT) monitoring, and edge defense platforms

√ Pros: Scales with real-world deployment; easy procurement justification

X Cons: Exposure to client-side scaling delays; unit-based revenue can fluctuate seasonally



Licensing

Best for: Cloud-native cybersecurity tools, Al inference systems, and data analytics platforms

√ Pros: Aligns cost with customer activity; scalable with adoption

X Cons: Exposure to client-side scaling delays; unit-based revenue can fluctuate seasonally



Per-Device Pricing

Best for: Managed detection and response (MDR), threat intelligence, or predictive defense AI systems

√ Pros: Strong value alignment; faster enterprise adoption; potential premium pricing

X Cons: High data dependency and variable revenue recognition; requires robust performance verification systems

CFO Structuring Framework:

- Track margin at both pilot and full-deployment phases.
- Build appropriate price adjustments tied to CPI, labor cost increases, or Security Level Agreements complexity.
- Define clear milestones for IFRS or GAAP compliance to avoid recognizing pilot revenue before clients accept.
- Measure how many pilots convert into multi-year frameworks a critical early-stage growth indicator.
- Ask yourself: "Can a procurement officer explain this pricing in two sentences?"

 Transparent pricing accelerates tender approvals and builds institutional trust.

FUNDRAISING & CAPITAL EFFICIENCY

In sovereign tech and dual-use ventures, capital strategy defines positioning — **investors look beyond growth** to how funding aligns with strategic autonomy, security compliance, and scalable tech. Traditional metrics like Total Addressable Market (**TAM**), Customer Acquisition Cost (**CAC**), and **payback period matter**, but **strategic fit** and **resilience matter more**.

Structuring Your Equity Story for Sovereign Tech

- Sovereign tech investors prioritize **strategic resilience** over short-term growth.
- Dual-use startups for example, must justify how military and civilian applications reinforce each other rather than create conflicts of interest.
- Clear equity stories reduce friction in due diligence and accelerate syndicate formation among specialized funds.

CFO Structuring Framework:

- **Dual-Use Narrative Mapping:** Clearly outline how defense R&D strengthens commercial products.
- Capital Allocation Transparency: Show how funds will be split between civilian and defense product lines critical for investors under export or compliance restrictions.
- **Metric Alignment:** Highlight KPIs that bridge commercial and defense logic (e.g., TRL progress, compliant ARR, pipeline maturity, etc.).
- **Investor Fit Audit:** Evaluate potential investors for their alignment with government contracts, ITAR, or national security sensitivities before engagement.

CFO Tip:

When bidding pilots, design pilot pricing to cover variable costs and position the follow-on contract for healthy contribution margins. A pilot that breaks even operationally but converts 50% faster than average can be strategically more valuable than one with short-term profit.



FUNDRAISING & CAPITAL EFFICIENCY (Cont.)

Managing Capital Intensity in Hardware–Security Hybrids

Cyber-physical and hardware-security startups face a structural tension: they **need deep R&D** funding but are evaluated by investors using software multiples. Managing this mismatch requires discipline in capital allocation, inventory strategy, and financial storytelling.

What is the issue at play:

Hardware-security hybrids combine physical devices (sensors, chips, gateways) with embedded or cloud-based security software. They're asset-heavy upfront, but can transition into software-like economics once deployed at scale.

Why It Matters:

- Long component lead times and certification cycles drive working capital needs.
- Hardware gross margins improve only with volume small-scale pilots can appear loss-making.
- **Poor capital sequencing**: Scaling hardware before contract lock-in, will lead to stranded inventory and cash burn.

CFO Structuring Framework:

- Working Capital Forecasting: Model supplier payment terms, production runs, and client acceptance timing to avoid liquidity bottlenecks.
- Distinguish between **variable manufacturing costs** and **fixed R&D burn** as investors tend to scrutinize both.
- Present **total contribution margin** (hardware/software/services) to better demonstrate blended profitability potential.

CFO Tip:

Position your hardware as a distribution mechanism, not a balance sheet liability. If your device enables long-term SaaS, maintenance, or intelligence subscriptions, quantify that recurring layer. This reframes capital intensity as front-loaded customer acquisition, not sunk cost — a critical shift for investor confidence and valuation.



CASE STUDIES - APPLYING THE CFO PLAYBOOK IN PRACTICE

The following case studies illustrate how CFOs in sovereign tech and defense AI startups have turned these constraints into strategic advantage — managing liquidity amid long procurement cycles, sequencing capital to TRL maturity, and transforming compliance into valuation leverage.

CASE STUDY 1: DEFENSE AI FIRM

From grant-funded R&D to institutional VC

The Challenge

Sector: Al for threat detection in defense and intelligence applications

Starting Point: Government innovation grant (€500k) and TRL 5 prototype validated in controlled environments

Challenge: Transitioning from grantdependent R&D to commercialgrade deployment required navigating export control, dual-use IP, and restricted investor pools

Funding Stack:

- €2M Defense Innovation Accelerator Grant (non-dilutive)
- €6M Series A from a dual-use VC (at €30M pre-money valuation, ~17% dilution)

CFO Playbook in Action

Grant-to-Equity Bridge: Company completed a milestone-based grant before the equity round, proving TRL 6 readiness and reducing perceived technical risk — driving a 3x uplift in pre-money valuation

Corporate Structuring for Compliance: Established dual-entity structure (Domestic IP + Export-compliant operating entity) to satisfy ITAR and EU defense investment rules

Investor Targeting: Pre-qualified VCs with prior defense exposure to minimize diligence cycle time and mitigate "dual-use hesitation"

KPI Realignment: Shifted reporting from R&D metrics to Defense-Readiness KPIs (inference latency, reliability under environmental stress, and mission-readiness compliance)

Outcome

- Closed €6M Series A within 90 days of grant completion.
- Signed co-development agreement with a Tier-1 defense prime.
- Achieved 3.2x valuation step-up from pre-grant phase to institutional funding.

Key Learnings

- → Leverage grant milestones as proof points for institutional capital
- → Anticipate export and IP compliance in early-stage corporate structuring
- Align financial reporting with defense procurement KPIs, not generic SaaS metrics

CASE STUDIES - APPLYING THE CFO PLAYBOOK IN PRACTICE (Cont.)

CASE STUDY 2: SOVEREIGN CLOUD STARTUP

Financing compliance before growth

The Challenge

Sector: Sovereign cloud infrastructure for government and critical infrastructure workloads

Starting Point: Prototype-level platform with early pilot clients; ISO 27001 in progress; not yet SecNumCloud-compliant

Timeline: 18–24 months of negative cash flow and heavy audit exposure

Challenge: Eligibility for government contracts required national security certifications costing over €1.5M — long before meaningful revenue

Funding Stack:

- €1.2M National Cybersecurity Grant (non-dilutive)
- €2.8M Seed Round from a dualuse deep tech VC (at €12M premoney valuation, ~19% dilution)

CFO Playbook in Action

Grant Sequencing: Applied for and secured grant funding before equity, reducing near-term equity burn by 40%.

Regulatory Milestones as Valuation Drivers:

structured fundraising narrative around certification progress — treating SecNumCloud audit completion as a valuation inflection point, not a cost center.

Procurement-Aware Liquidity Modeling: Modeled working capital for net-120 government payment cycles; established receivables financing through a state-backed bank to smooth cash flow.

Dual-Use Positioning: Maintained a parallel commercial SaaS line for critical infrastructure operators, providing early ARR to stabilize cash during compliance-heavy government onboarding.

Outcome

- Achieved SecNumCloud certification nine months early, unlocking eligibility for sovereign workloads
- Won a 3-year €4.5M public sector framework contract
- Extended runway by 14 months while maintaining sub-20% total dilution

Key Learnings

- > Sequence grants and compliance milestones before major equity rounds
- → Use certification progress as a valuation anchor
- Model liquidity around public procurement rhythms, not investor timelines



META-LESSONS: CORE DEEP TECH CFO COMPETENCIES

These case studies reveal consistent patterns in successful deep tech financial management. The following principles emerge as **critical competencies for CFOs** navigating the unique challenges of technology-intensive, capital-intensive businesses with long commercialization timelines.



Capital Source Sequencing

Capital sequencing is **strategic**, **not reactive** — structuring grants, equity, and project finance in the right order transforms liquidity risk into valuation leverage



Compliance milestones

Compliance milestones **double as valuation events** — certifications, TRL
transitions, and export approvals signal
readiness as strongly as revenue growth.



Procurement timing

Procurement timing defines cash strategy — modeling state payment cycles and milestone acceptance is **more critical than optimizing CAC** or burn multiple.



CFO dashboards

CFO dashboards **must track readiness**, **not vanity metrics** — linking KPIs to TRLs, certification progress, and contract maturity builds investor and institutional confidence



Capital discipline & Regulations

Regulatory and capital discipline compound — the startups that reach scale fastest are not the most aggressive fundraisers, but the ones that convert bureaucratic friction into predictable financial rhythm.



CFO INSIGHTS: STRATEGIC FINANCIAL LEADERSHIP CYBERSECURITY, SOVEREIGN CLOUD, DEFENSE

Cybersecurity, sovereign cloud, and defense startups operate in one of the most regulated and capital-constrained environments in the innovation economy. Their growth isn't limited by technology - it's gated by compliance, procurement timing, and financial endurance.

While founders are focused on building secure systems, scaling teams, and navigating accreditation, **CFO Insights provides the financial architecture** that keeps them investment-ready, compliant, and strategically aligned with both public and private funding ecosystems.

What We Do for Cybersecurity, Sovereign Tech & Defense Founders

Cash Runway Stress Tests & Grant Scenario Modeling

Procurement delays and reimbursement cycles can turn even well-funded startups into liquidity bottlenecks. Our specialized modeling tools simulate multiple funding and sales delay scenarios to maintain solvency under uncertainty.

We help you

- Run cash runway stress tests based on realistic procurement, grant, and certification timelines.
- Build **grant-to-equity sequencing plans** that minimize dilution while maintaining liquidity.
- Model dual-track fundraising (non-dilutive + equity) and bridge scenarios for long cash conversion cycles.
- Integrate **grant reimbursement lags**, delayed contract starts, and cost-audit risks into working capital forecasts.
- Develop **capital efficiency dashboards** for investors visualizing how grants, tenders, and R&D spending align with milestones.

Outcome

You gain visibility into your cash exposure under every plausible funding or sales delay, and can proactively design financing structures that protect both your cap table and operational continuity.



CFO INSIGHTS: STRATEGIC FINANCIAL LEADERSHIP CYBERSECURITY, SOVEREIGN CLOUD, DEFENSE (Cont.)

Cybersecurity & Defense-Specific KPI Dashboards

Traditional SaaS KPIs don't capture the complexity of sovereign or defense businesses — where value is defined by compliance, readiness, and contract conversion, not just recurring revenue.

Our tailored KPI frameworks bring financial clarity to regulated markets.

We build dashboards that track:

- Compliance-Linked ARR/MRR: Revenue segmented by security certification
- Grant Efficiency Ratio: R&D progress and TRL advancement per € of non-dilutive funding
- Procurement Velocity Index: Average time from bid submission to contract award a leading indicator of cash flow pressure
- Contract Conversion Rate: Pilots or PoCs converted into long-term framework contracts
- **Defense Readiness KPIs:** TRL progression, mission-readiness validation, and audit compliance metrics aligned to national defense programs

Outcome

Founders and boards gain a clear, investor-grade view of financial and technical progress — transforming complex defense metrics into actionable financial intelligence.





CFO INSIGHTS: STRATEGIC FINANCIAL LEADERSHIP CYBERSECURITY, SOVEREIGN CLOUD, DEFENSE (Cont.)

Why Partner with CFO Insights

Generic finance support cannot navigate defense audits, EU grant frameworks, or national security procurement cycles. **CFO Insights** bridges that gap with domain **expertise** and **financial technology** purpose-built for Europe's critical tech sectors.

Our differentiators:

- Deep roots in **EU innovation and defense funding** from EIC and EISMEA to national cyber programs.
- Proven frameworks for grant-to-equity sequencing and capital stack optimization.
- GDPR-compliant, EU-based delivery, ensuring data security at every financial layer.
- Integration with investor ecosystems: dual-use VCs, sovereign tech accelerators, and national funds.
- Cloud-based CFO platform combining real-time dashboards, scenario models, and automated reports tailored for regulated environments.

Our Proven Impact

9-18mth Extend runway

Through advanced scenario modeling and grant sequencing

20-35% Improved valuation

Through milestone-based capital narratives tied to TRL and compliance events

30-50% Grant utilization efficiency

Through structured financial reporting and compliance alignment

3-6mth Fundraising cycles

Through KPI-linked dashboards and audit-ready documentation





CFO INSIGHTS: STRATEGIC FINANCIAL LEADERSHIP FOR DEEP TECH (Cont.)

How We Work with You

Step 1 - Financial Diagnostic

We assess your current financial structure, capital needs, and milestone roadmap.

Step 2 - Funding Architecture Design

We build your grant + equity + corporate + debt funding stack.

Step 3 - Milestone-Linked Forecasting

We translate your TRL and R&D roadmap into actionable financial models.

Step 4 - Execution & Investor Engagement

We run your financial operations, coordinate funding events, and prepare investor updates.

Step 5 - Continuous Optimization

We adjust for delays, market shifts, and strategic opportunities in real time.

Your Next Step

If you're building an AI or deep tech company, the right financial architecture is as important as your technical architecture. Every month lost to poor capital planning or investor uncertainty is a month your competitors can catch up.

We help you move from lab to market with confidence, capital efficiency, and investor trust.

Get in touch today to discuss your roadmap, funding needs, and how we can design your financial playbook.

Explore more: insightscfo.com

Contact us: office@insightscfo.com

Pro Tip: Save this post for later!



