hypothesis

WHITE PAPER 02 · MARCH 2026

BUSINESS MODELS

Hardware-as-a-Service, Honestly

When HaaS Genuinely Unlocks Unit Economics, and When It Merely Shifts Capex onto Your Balance Sheet

A technical white paper for founders and CFOs of physical AI companies in AI infrastructure, robotics, industrial AI, and life sciences.

AI INFRASTRUCTURE · ROBOTICS · INDUSTRIAL AI · LIFE SCIENCES

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EXECUTIVE SUMMARY

HaaS is a financing decision before it is a pricing one.

Hardware-as-a-Service (HaaS) has become the default commercial model for physical AI.

Customers favor it because it converts upfront capex into operational opex, shifts technological obsolescence risk to the vendor, and bypasses corporate capital committees. Investors often endorse it because it generates contracted recurring revenue and creates a data flywheel from an installed fleet.

However, HaaS is not merely a pricing preference; it is a structured financing vehicle wrapped around an industrial hardware business, and it is governed strictly by the mathematics of structured finance. The foundational test is straightforward to formulate but demanding to satisfy:

> *HaaS unlocks unit economics when the vendor earns a positive risk-adjusted spread between the recurring margin the asset generates and the full cost of the capital tied up in that asset, over an asset life that the technology actually survives.*

FIGURE 1 THE SPREAD TEST

POSITIVE SPREAD: MARGIN > COST OF CAPITAL

HaaS compounds enterprise value.

NEGATIVE OR NEGLIGIBLE SPREAD

HaaS merely moves capex onto the vendor's balance sheet.

When that spread is positive, the HaaS model compounds enterprise value. When the spread is negative or negligible, HaaS unlocks nothing: it simply transfers capex from the customer's balance sheet to the vendor's, where the cost of capital is substantially higher, transforming an unprofitable hardware sale into an unprofitable sale with extended credit and residual-value exposure.

This paper provides the analytical framework to evaluate fleet economics before committing balance-sheet capital. *Its numerical models are illustrative: substitute your own fleet, servicing, and cost-of-capital data when evaluating deployments.*

SECTION 1

The unit economics of HaaS, stated precisely

1.1 The price floor

To achieve economic breakeven, every deployed asset must recover, per period:

FIGURE 2 THE PRICE FLOOR: FOUR COSTS EVERY UNIT MUST RECOVER

$$P_{min} = \underbrace{CAPEX \times CRF(r, n)}_{\text{CAPITAL RECOVERY}} + \underbrace{OPEX_{unit}}_{\text{SERVICING}} + \underbrace{OPEX_{fleet}}_{\text{REMOTE OPS, SOFTWARE}} + \underbrace{C_{risk}}_{\text{DEFAULT \& RESIDUAL RISK}}$$

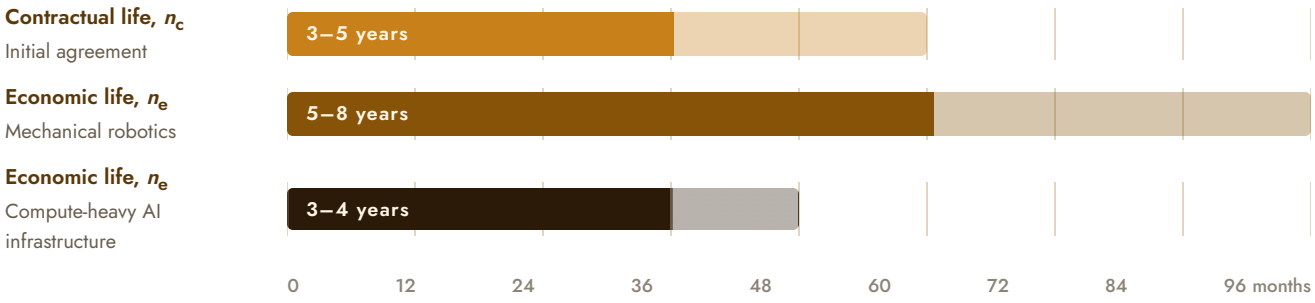
where the capital recovery factor is $$CRF(r, n) = \frac{r(1 + r)^n}{(1 + r)^n - 1}$$

Here r is the vendor's periodic cost of capital for the asset (matching the compounding period, and distinct from headline equity WACC when asset-backed debt is used), and n is the total number of compounding periods over which capital recovery must be completed.

The most critical, and most frequently conflated, variable is n. Teams must distinguish between two separate time horizons:

- **Contractual life (n_c).** The duration committed and paid for by the customer under the initial agreement (typically 3–5 years).
- **Economic life (n_e).** The duration over which the hardware reliably produces economic value across all deployments before physical degradation or technical obsolescence renders it unserviceable (often 5–8 years for mechanical robotics; frequently 3–4 years for compute-heavy AI infrastructure).

FIGURE 3 CONTRACTUAL LIFE VERSUS ECONOMIC LIFE



IF $N_C < N_E$
Full capital recovery depends on renewing the contract or refurbishing and redeploying the asset to a second customer.

IF $N_C \geq N_E$
The initial contract must fully amortize the equipment. Relying on residual value beyond economic life means slow-motion impairments.

If $n_c < n_e$, full capital recovery depends on successfully renewing the contract or refurbishing and redeploying the asset to a secondary customer. If $n_c \geq n_e$, the initial contract must fully amortize the equipment; relying on residual value beyond economic life results in slow-motion asset impairments.

1.2 Utilization as the primary operational risk

A nominal subscription price is meaningless without accounting for asset duty cycle. Under usage- or throughput-based commercial structures, periodic unit contribution is expressed as $Contribution = U \times P_{contract} - OPEX_{unit} - OPEX_{fleet}$, where U is the utilization factor (the fraction of contracted or rated capacity actively operating and generating revenue).

Industrial customers routinely contract for peak operational capacity but operate at average throughput. A warehouse robot contracted for 20 operating hours per day that runs only 11 hours per day under a variable billing structure forces the vendor to carry 100% of the fixed capital charge against only 55% of projected revenue.

Crucially, operators must distinguish **site-level utilization** (active runtime versus available hours on a specific customer floor) from **fleet-level utilization** (total revenue-generating asset-hours divided by total owned asset-hours across the entire fleet, including units in transit, staging, refurbishment, and reserve inventory). Fleet-level utilization is the single most predictive operational driver in a HaaS P&L: if fixed capital charges and baseline maintenance remain unchanged, a fleet operating at 60% fleet utilization requires an effective price per delivered hour roughly 67% higher than a fleet at 100% utilization simply to achieve identical unit contribution.

FIGURE 4 THE UTILIZATION PENALTY



Price per delivered hour needed for identical unit contribution, relative to a fully utilized fleet (1 ÷ utilization), holding fixed charges constant.

1.3 The three misaligned cash-flow clocks

Every HaaS business operates on three competing cash-flow schedules. Structural mismatch among these clocks is the classic failure mode of growing fleets:

TABLE 1 THREE CASH-FLOW CLOCKS

CLOCK	MEASUREMENT FOCUS	TYPICAL STRUCTURAL MISALIGNMENT
Contract clock	Invoiced customer revenue	Billed monthly in arrears (often on net-30 or net-60 terms); initial cash collections frequently lag physical shipment by 1–3 months due to installation, commissioning, and acceptance milestones.
Amortization clock	Accounting expense recognition	Straight-line P&L depreciation recognized evenly across an accounting useful life, regardless of physical duty cycle or billing status.
Cash clock	Actual capital outlays and debt service	Hardware capex is disbursed upfront; senior debt service and component obligations are fixed, monthly, and mandatory, irrespective of customer payment timing or operational uptime.

A HaaS enterprise can report positive accounting EBITDA while experiencing an acute liquidity crisis. A robust financial model must simulate all three clocks monthly on a cohort-by-cohort basis across the entire fleet.

SECTION 2

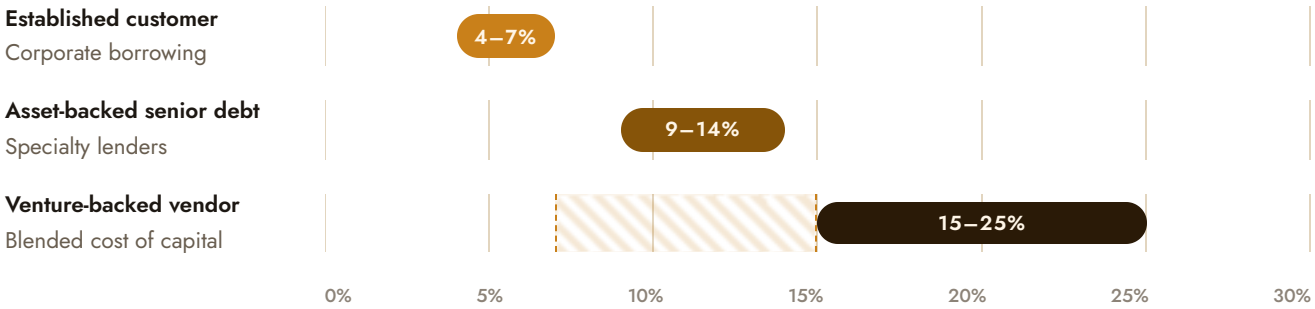
The capital structure problem

2.1 The capital spread

The fundamental challenge of HaaS is an inherent cost-of-capital asymmetry: early- and growth-stage technology vendors are ill-equipped to act as low-cost balance-sheet financiers for corporate customers.

An established customer, such as a tier-one logistics provider, manufacturer, or utility, typically accesses debt capital at corporate borrowing rates of 4–7%. Conversely, a venture-backed vendor carries a blended cost of capital of 15–25%, reflecting the return hurdles required by growth equity. When the vendor finances the asset on its own balance sheet, it incurs that higher capital hurdle. The customer's "capex avoidance" is not eliminated; it is absorbed by the vendor at a substantial financing premium.

FIGURE 5 THE CAPITAL SPREAD



The hatched band is the financing premium the vendor absorbs when it carries the customer's asset on its own balance sheet.

A HaaS model can overcome this negative financial spread only if the vendor generates tangible operational or structural advantages through at least one of four mechanisms:

FIGURE 6 FOUR WAYS TO OVERCOME THE SPREAD

Superior operating efficiency 1

The vendor maintains and operates the equipment more cost-effectively than the customer could internally, using centralized telemetry, predictive maintenance, and cross-fleet learning. The resulting reduction in direct operating expense ($OPEX_{unit}$) must exceed the cost-of-capital spread.

Multi-customer residual value capture 2

A specialized asset tailored to a single customer often holds only scrap value to them upon contract expiration. If the vendor engineers a standardized hardware platform that can be refurbished and redeployed across subsequent customers at minimal cost, the vendor captures residual value that the individual customer cannot monetize.

Software and data layer monetization 3

Hardware serves as the physical delivery mechanism for proprietary orchestration software, autonomous algorithms, or high-value operational data. These software revenue streams command software-grade gross margins (≥ 70%) that elevate overall contract profitability above the hardware capital charge.

True customer capital constraints 4

The customer faces an internal hurdle rate or capital constraint exceeding the vendor's cost of capital. While uncommon among large industrial enterprises, this condition frequently applies to early-stage life-sciences startups, biotech research labs, and academic institutions that possess operating grants but strictly lack capex budgets.

2.2 The reality of captive equipment financing

Positioning a HaaS enterprise as an "asset-light" business is fundamentally inaccurate. A HaaS balance sheet is a leveraged portfolio of physical equipment funded by expensive equity and asset-backed credit facilities. The correct operational framing is this:

> *You are operating a captive leasing company integrated with an AI product company.*

The financing arm must generate standalone economic returns. If asset yields fail to clear the cost of fleet capital, the software product business is merely subsidizing an unprofitable financing book, and scaling deployment volume will compound cash burn.

SECTION 3

When HaaS genuinely unlocks unit economics

FIGURE 7 UNLOCK OR TRAP: TWELVE CONDITIONS TO TEST

SIX CONDITIONS THAT UNLOCK (SECTION 3)

1. Short payback relative to asset life
2. High and known utilization
3. Standardized, multi-customer assets
4. Operator-cost reference point
5. Operating leverage from fleet learning
6. Recoverable, financeable collateral

SIX CONDITIONS THAT TRAP (SECTION 4)

1. Technology obsolescence inside the amortization period
2. Negative or thin spread, disguised by growth
3. Bespoke assets and custom-engineering deals
4. Weak repossession rights and concentration
5. Software margin dilution
6. Long sales cycles funded by expensive capital

3.1 Short payback relative to asset life

The contracted revenue commitments achieve complete capital recovery within 18–30 months (n_c) on an asset engineered for 60+ months of reliable economic life (n_e). This substantial spread between payback horizon and equipment durability provides the necessary buffer to absorb maintenance variances, redeployment downtime, and refurbishment outlays.

3.2 High and known utilization

Deployments are integrated into processes characterized by stable, measurable throughput: high-volume manufacturing lines, multi-shift fulfillment facilities, or continuous data-center thermal management. Site-level utilization consistently exceeds 70%, and fleet-level utilization (active billable hours across all owned units) surpasses 85%.

3.3 Standardized, multi-customer assets

The hardware is designed as a standardized, modular platform rather than a bespoke engineered system. Site deployments require software configuration rather than structural hardware redesign, keeping secondary redeployment costs under 15% of initial build capex. If each installation demands customized end-effectors, structural site welding, or proprietary firmware branches, residual value is effectively eliminated.

3.4 Operator-cost reference point

Subscription pricing is anchored against a quantifiable, recurring operational expenditure: fully burdened labor, third-party maintenance contracts, energy consumption, or material scrap. As a benchmark, the customer's annual avoided operating cost should equal at least 2–3× the annual HaaS subscription fee. Below this threshold, procurement decisions depend on discretionary innovation budgets rather than operational necessity.

3.5 Operating leverage from fleet learning

Centralized fleet telemetry, predictive component failure modeling, and regional spare-parts pooling drive down unit servicing expenses as the installed base expands. Direct cost-to-serve per deployed asset should decline by 15–30% across the first several hundred units. This operational efficiency represents an earned competitive moat.

3.6 Recoverable, financeable collateral

The equipment is modular, easily extracted without disrupting the customer's broader facility infrastructure, and possesses a viable secondary or redeployment market. Institutional asset-backed lenders are willing to extend non-recourse or limited-recourse credit facilities at 60–80% advance rates. If credit markets refuse to finance the fleet at standard commercial rates, it indicates that collateral recoverability remains unproven.

SECTION 4

When HaaS merely shifts capex onto your balance sheet

4.1 Technology obsolescence inside the amortization period

Compute-intensive edge hardware (GPUs, NPUs, advanced vision sensors) often experiences substantial performance obsolescence within 24–36 months. Amortizing hardware over a 60-month horizon while underlying AI model architectures demand next-generation compute creates severe balance-sheet impairment risks. Amortization schedules must align with rapid technology lifecycles rather than theoretical mechanical durability.

4.2 Negative or thin spread, disguised by growth

When contract contribution margins fail to clear the combined capital recovery and direct servicing charges, top-line revenue expansion can obscure underlying unit-level losses as long as new cohort originations provide cash inflows. Cohort analysis exposes this failure mode immediately: by plotting cumulative gross profit per deployment vintage against cumulative capital deployed, unviable models show curves that flatten below zero, where revenue growth merely masks capital destruction.

4.3 Bespoke assets and custom-engineering deals

When each deployment requires extensive custom engineering, specialized site fixturing, or bespoke integration, the contract functions as a loss-leading engineering, procurement, and construction (EPC) project attached to a recurring billing schedule. High non-recurring engineering (NRE) costs consume lifetime contract margins.

4.4 Weak repossession rights and concentration

Agreements that lack perfected security filings, assets that are permanently integrated into customer physical infrastructure, or customer concentration where the top three accounts represent over 40% of fleet value create acute credit risk. Under these conditions, a single customer insolvency or renegotiation impairs a disproportionate share of portfolio collateral.

4.5 Software margin dilution

If hardware capital intensity drains corporate liquidity while blended gross margins fall below software benchmarks (e.g., software ARR constitutes less than 40–50% of total revenue at < 70% gross margin), the enterprise trades at discounted equipment-leasing valuation multiples rather than physical AI software multiples.

4.6 Long sales cycles funded by expensive capital

Extended 12–18 month enterprise sales and commissioning cycles tie up capital well before revenue billing commences. Funding this pre-revenue working capital gap with expensive venture equity rather than customer milestone prepayments, deposits, or structured vendor financing severely dilutes enterprise returns.

SECTION 5

Accounting, financing, and contract mechanics

5.1 Accounting treatment (IFRS 16 / ASC 842 / ASC 606)

Most HaaS contracts qualify as leases or contain embedded lease components under international and US GAAP accounting standards. Key structural determinations include:

- **Vendor-as-lessor classification.** Determining whether agreements are classified as operating leases or sales-type/finance leases. Finance lease classification accelerates upfront revenue recognition on the hardware component but establishes balance-sheet lease receivables; operating lease treatment recognizes revenue ratably over the contract term alongside ongoing asset depreciation.
- **Embedded leases in service agreements.** Under ASC 842 and IFRS 16, if a customer controls the use of an explicitly or implicitly identified asset, the contract may contain an embedded lease. This can compel corporate customers to capitalize a right-of-use (ROU) asset and corresponding lease liability on their balance sheet, undermining the "off-balance-sheet opex" value proposition unless the agreement is structured around delivered service outcomes and flexible capacity rather than dedicated equipment control.
- **Multi-element revenue allocation (ASC 606 / IFRS 15).** Contracts bundling hardware, continuous software licensing, and ongoing maintenance require precise transaction price allocation based on standalone selling prices (SSP), dictating whether revenue components are recognized upfront or ratably as a series of distinct services.

Engage specialized accounting advisors to formalize lease classification and revenue recognition frameworks prior to scaling fleet deployment, preventing retrospective restatements and debt covenant compliance issues.

5.2 Fleet financing stack

TABLE 2 THE FLEET FINANCING STACK

LAYER	CAPITAL SOURCE	TYPICAL TERMS	KEY RISK / CONSIDERATION
Senior debt	Asset-backed lenders / specialty credit funds	60–80% advance rate, 9–14% all-in cost, 36–48 month amortization	Principal amortization schedules can be steeper than early-stage monthly contract cash flows.
Mezzanine debt	Growth credit / venture debt	Costlier (14–18%+ all-in), often paired with warrant coverage	Subordinated lien; requires careful liquidity and covenant management.
Equity	Venture capital / growth equity	Blended hurdle rate of 15–25%	Equity should fund core technology and platform development, not the long-term capex of scaled commercial fleets.
Customer capital	Prepayments, upfront integration fees, security deposits	0% or negative nominal cost	Requires precise contractual terms regarding non-refundability and performance escrow.

A common structural vulnerability arises when senior debt amortizes straight-line over a 36-month schedule while customer contracts bill over 48 to 60 months. The resulting monthly principal deficit must be funded by expensive corporate equity. Align debt amortization profiles directly with contracted net cash receipts to prevent liquidity shortfalls

during fleet expansion.

5.3 Contract terms that protect the model

- **Non-cancellable terms with early-termination remedies.** 36–48 month firm commitments structured on a take-or-pay basis, backed by an early-termination fee explicitly calibrated to recover unamortized asset capex, redeployment costs, and financing obligations.
- **Perfected security interests.** File UCC-1 financing statements (in the US) or register charges at Companies House (in the UK) upon equipment commissioning. Unperfected claims leave the vendor an unsecured creditor in customer insolvency proceedings.
- **Contractual utilization floors.** Structure pricing with a fixed monthly minimum availability fee plus variable usage tiers, ensuring baseline capital recovery regardless of customer production slowdowns.
- **Scheduled technology refresh mechanics.** Incorporate structured hardware refresh options at predefined milestones (e.g., month 36), treating generational upgrades as planned commercial extensions rather than unbudgeted fleet write-offs.
- **Mandatory redeployment and retrieval covenants.** Explicitly obligate the customer to grant site access, provide de-installation utility support, and facilitate swift asset retrieval upon contract conclusion or default.

SECTION 6

The metrics that matter

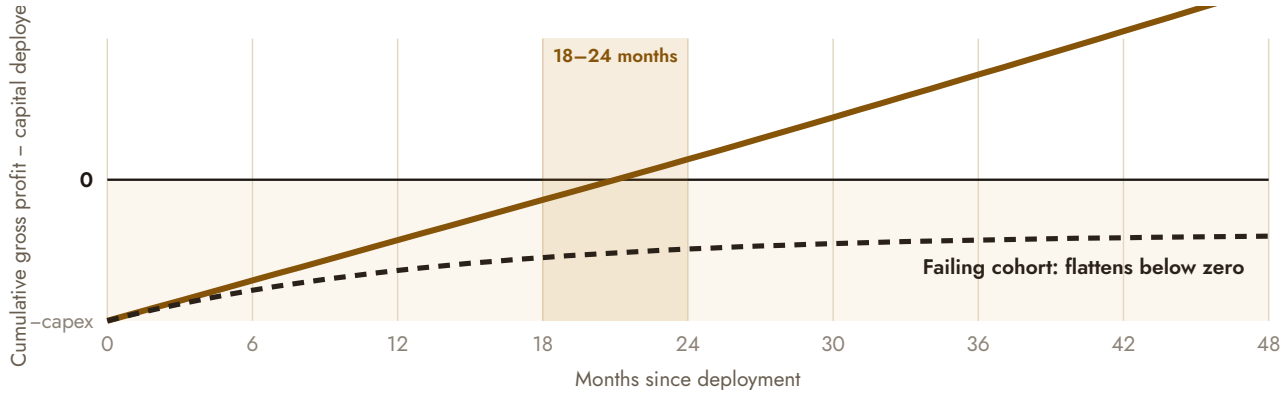
Boards and executive teams should track these metrics monthly on a cohort-level basis:

TABLE 3 BOARD-LEVEL HAAS METRICS

METRIC	CALCULATION / DEFINITION	HEALTHY BENCHMARK
Fleet ROIC	Annualized cohort net operating profit after tax ÷ average invested fleet capital	Exceeds blended cost of capital (> 16%) by month 24
Contracted payback	Net asset capex ÷ monthly recurring contribution margin	< 30 months
Fleet-level utilization	Active revenue-generating asset-hours ÷ total portfolio asset-hours owned	> 85%
Site-level utilization	Actual operating hours delivered ÷ contracted availability hours	> 70%
Residual value realization	Realized net redeployment/secondary proceeds ÷ modeled residual value assumption	> 80% of assumption
Net dollar retention (NDR)	(Beginning ARR + expansion – churn – contraction) ÷ beginning ARR	> 110% across cohorts
Marginal cost-to-serve	Direct servicing OPEX per deployed asset plotted against cumulative fleet size	Declining 15–30% per doubling of fleet
Debt service coverage ratio (DSCR)	Monthly cohort net cash flow before debt service ÷ monthly senior debt principal & interest	> 1.25× (debt service below 80% of cohort cash flow)
Software revenue mix	High-margin software ARR ÷ total recurring contract revenue	> 40–50% of revenue with ≥ 70% software gross margin

The single most important diagnostic is the **cohort convergence plot**: cumulative gross profit per deployment vintage plotted against cumulative capital deployed for that vintage. In a healthy HaaS business, mature cohorts cross zero into positive net cash generation within 18–24 months and compound thereafter. In a failing model, cumulative cohort profit flattens below zero, with negative spreads hidden only by stacking new, unseasoned cohorts on top.

FIGURE 8 THE COHORT CONVERGENCE PLOT



Illustrative shapes, not data.

SECTION 7

Worked example: one robot, full arithmetic

The following numerical model is illustrative; the purpose is to demonstrate the structured methodology.

Base inputs

$52,000
Robot build cost, the vendor's capital outlay (an outright sale would list at $80,000, a 35% gross margin)

$2,400 / month
48-month customer contract, take-or-pay with an availability floor

16%
Vendor blended cost of capital (nominal annual WACC), or 1.33% a month

$400 / month
Direct site servicing OPEX per unit

$250 / month
Fleet remote ops and software allocation per unit

$18,000
Net residual at month 48: $24,000 (30% of list) less $6,000 of refurbishment

Capital recovery and capital charge

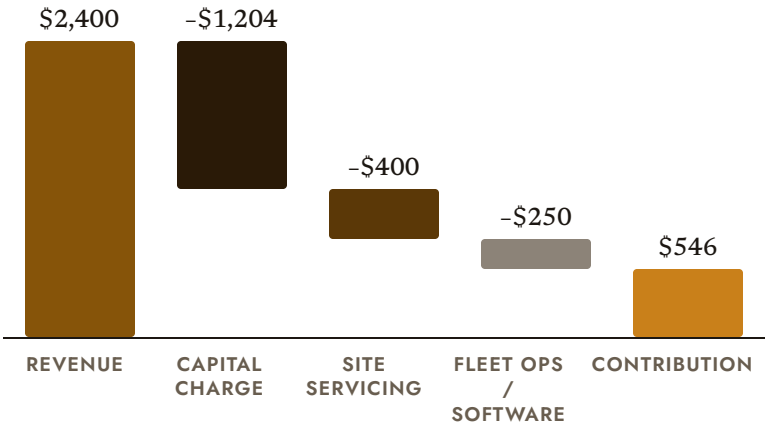
Periodic rates must match the compounding period. Monthly, with $r = 0.16 \div 12 \approx 1.33\%$ and $n = 48$:

$$CRF = \frac{0.0133 \times 1.0133^{48}}{1.0133^{48} - 1} \approx 0.0283 \text{ per month}$$

$$\text{Capital charge} \approx (\$52{,}000 - \$18{,}000 \div 1.0133^{48}) \times 0.0283 \approx \mathbf{\$1{,}204 / month}$$

The residual is discounted back to today before the charge is spread across the contract. The capital base is the build cost, because that is the cash the vendor actually ties up. Charging the full $80,000 list price instead would raise the capital charge to about $2,000 a month and put this contract into loss before any sensitivity is applied.

FIGURE 9 MONTHLY P&L PER ROBOT, AT FULL SITE UTILIZATION



Revenue	$2,400
Capital charge	($1,204)
Site servicing	($400)
Fleet ops / software	($250)
Contribution	**$546 (23%)**

Sensitivity: the honest part

TABLE 4 SENSITIVITY OF THE BASE CASE

VARIABLE	CHANGE	EFFECT ON MONTHLY CONTRIBUTION
Billing basis	Take-or-pay → billed on usage at 70% site utilization	$546 → ($174)
Residual	$24,000 → $8,000 gross on obsolescence ($2,000 net)	$546 → $306
Early termination at month 30	20% of fleet	About $21,700 per terminated unit (18 months × $1,204) left to recover through redeployment or a termination fee
Refurbishment and redeployment gap	4 months idle	About $4,800 of capital charge carried with no revenue per redeployment cycle

Read the table as the business case: billed on usage at 70% utilization and with a weak residual, this robot destroys roughly $415 of capital a month while reporting $2,400 a month of contracted revenue. Multiply by a 400-unit fleet and you have a $2.0M-a-year capital consumption machine that looks like an $11.5M ARR business.

The same robot, structured to work

- 36-month contract, $2,900/month, with a utilization floor at 75%.
- Refurbishment-ready platform, redeployment in under 6 weeks, residual realization 85%+.
- Fleet cost-to-serve falling 20% by unit 300.
- Software layer at $600/month/unit, 80% gross margin.

On the same $52,000 build cost, and assuming the same $18,000 net residual at month 36 (conservative for a younger asset), the capital charge rises to about $1,435 a month over the shorter term, but revenue rises to $3,500. Contribution rises to about $1,425 a month (41%), the unit recovers its capital on a discounted basis at around month 21, and the contract clears the 16% hurdle comfortably. That is what "HaaS unlocks unit economics" means, quantitatively.

SECTION 8

Decision framework

Before allocating balance-sheet capital into a scaled HaaS deployment, evaluate the eight core criteria:

FIGURE 10 EIGHT CRITERIA BEFORE SCALING A HAAS FLEET

1 Contracted payback horizon

Does the initial contract achieve complete capital recovery within 30 months against an asset with 60+ months of verified economic life (payback ≤ ½ of economic life)?

2 Contractual utilization protection

Is site-level utilization protected by an enforceable minimum floor, with historic operating uptime consistently exceeding 70%?

3 Standardization and redeployment cost

Is the hardware standardized across customers, keeping total refurbishment and redeployment costs below 15% of initial build capex?

4 Demonstrated operating leverage

Does direct cost-to-serve per unit measurably decline as cumulative fleet size scales?

5 Compelling customer reference point

Does the customer's quantifiable 12-month avoided operational cost exceed 2–3× the annual HaaS subscription fee?

6 Bankable collateral

Are third-party asset-backed lenders willing to advance 60–80% against the fleet at competitive commercial debt rates? (If credit markets decline, the assumed residual value is unproven.)

7 Debt-contract profile alignment

Does the debt principal amortization schedule fit comfortably within contracted net operating cash flows?

8 High-margin software contribution

Is high-margin software ARR on track to represent ≥ 40–50% of recurring revenue at ≥ 70% gross margin?

Six or more "yes"

HaaS is structurally unlocking unit economics. Proceed to scale with matched asset-backed financing.

Fewer than six

The business is operating as a negative-spread captive leasing entity, where accelerating deployment volume will compound cash consumption.

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ABOUT HYPOTHESIS

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Hypothesis advises founders and corporate innovation teams bringing frontier technology into complex, regulated markets, across AI infrastructure, robotics, industrial AI, and life sciences. We help teams pressure-test foundational assumptions, sharpen their commercial narrative, and turn working prototypes into scalable businesses.

We work from the factory floor up, not the model down: starting with the operators who must buy, deploy, and trust a system, then working backward to the product, pricing architecture, and go-to-market strategy. Many engagements begin with our operator-grade diagnostic, an evaluation of commercial readiness before a company commits capital, headcount, or manufacturing capacity.

70+	15+	3
Deep tech startups advised on landing first customers	Years bringing frontier technology to market	Founder exits across the team

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Weighing a hardware-as-a-service model?

Start with one conversation. No pitch and no obligation, just a candid view of whether your fleet economics hold up.

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