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EQUITY RESEARCH NOTE

Arqit Quantum Inc.

Published on May 22, 2026

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Arqit Quantum (Nasdaq: ARQQ) is a pre-profit cyber-security play focused on post-quantum encryption. We rate ARQQ **Hold** with a 12-month price target of **\$20.00**. This reflects cautious optimism: Arqit has built tangible momentum in government and telecom contracts (delivering ~\$0.53 M revenue in FY2025 ([ir.arqit.uk](#))), but it burns cash at ~\$2.5 M/month on minimal sales. The stock's current ~\$15 price already discounts much of the 'quantum-safe' growth story, trading near its 52-week low ([stockscan.io](#)). At the same time, Arqit is a first mover in a potentially large market. Our valuation balances these factors – Arqit's near-zero current revenue and high dilution imply a steep multiple, while its new Encryption Intelligence platform and major industry tie-ups (e.g. Vodafone's Tomorrow Street, Intel, 6WIND, RAD) could drive future adoption ([ir.arqit.uk](#)) ([ir.arqit.uk](#)). Key takeaways from recent results and developments are:

- **FY2025 revenue up sharply on low base.** Arqit reported only \$0.53 M revenue for FY2025 (ended Sept'25) ([ir.arqit.uk](#)), up from \$0.29 M in FY2024. This ramp was driven by seven new contracts (2 multi-year deals) in its target markets (telecom operators and government/defense) ([ir.arqit.uk](#)). The signed contracts and recurring services now underpin a FY26 revenue baseline of ~\$1.2 M ([ir.arqit.uk](#)), before new wins.
- **Robust pipeline and product progress.** Post year-end, Arqit executed three new contracts and signed 12 demonstrations or test licenses with prospective customers across its key verticals ([ir.arqit.uk](#)) – activity “materially ahead of the prior fiscal year.” The company also acquired Ampliphæ's encryption-risk analytics and on Jan 22, 2026 launched its **Encryption Intelligence** platform, giving it an end-to-end offering (discovery + encryption) for enterprises migrating to post-quantum security ([ir.arqit.uk](#)) ([ir.arqit.uk](#)). These moves strengthen Arqit's go-to-market and sales pitch.
- **Cash runway under pressure.** Arqit ended FY2025 with ~\$36.9 M cash ([ir.arqit.uk](#)), but burned roughly \$8 M in the following six months (down to ~\$28.9 M by Mar'26) ([ir.arqit.uk](#)) ([ir.arqit.uk](#)). At its current spend rate (~\$2.5 M/mo in R&D and SG&A ([ir.arqit.uk](#))), cash would finance barely 12–15 months without additional financing or revenue breakthroughs. Arqit has no debt and relies on equity capital; maintaining cost discipline and securing future funding (or rapid contract monetization) are critical.
- **Partnerships lend validation but dilute focus.** Arqit has inked several strategic alliances to extend its reach. Notably, Vodafone's Tomorrow Street incubator selected Arqit as the first “quantum security Scaleup Partner” ([ir.arqit.uk](#)), and Arqit has integrated its cryptography into products from Intel (Confidential Compute on Xeon/NetSec cards) ([ir.arqit.uk](#)), 6WIND (virtualized VPNs) ([ir.arqit.uk](#)) and RAD (edge routers) ([ir.arqit.uk](#)). These collaborations showcase industry interest in Arqit's tech, but also make Arqit one component in larger ecosystems. The net effect is positive validation of Arqit's opening addressable market, though it faces competition for mindshare from well-established vendors.

Valuation Snapshot: As of this writing ARQQ trades around **\$14.96**. Our 12-month target of **\$20.00** implies ~+33.8% upside (same for total return, as no dividend is assumed). The stock's current EV/sales ratio is on the order of **1000×** trailing revenue (Arqit's FY2025 evoked ~\$764 M EV vs. \$0.53 M sales ([ir.arqit.uk](#))), far above cybersecurity peers. Our price target is based on DCF and revenue-multiple analyses (see Section 5).

Current Price	Target Price (12M)	Implied Upside	Total Return
\$14.96	\$20.00	+33.8%	+33.8%

Company Deep Dive & Business Model

Business Segmentation: Arqit sells a suite of quantum-resistant encryption solutions. Its main products are *Encryption Intelligence* (launched Jan 2026) and *NetworkSecure*[™] ([uk.marketscreener.com](#)). Encryption Intelligence is a software platform that inventories and prioritizes an organization's cryptographic assets (exposing legacy or weak ciphers) to facilitate post-quantum migration ([ir.arqit.uk](#)) ([uk.marketscreener.com](#)). NetworkSecure provides symmetric key agreement and key generation (using quantum-safe algorithms) to protect data in transit and

enable confidential computing at the networking layer (uk.marketscreener.com). Both products integrate into existing network hardware and software (e.g. OEM routers, firewalls, VPNs from Juniper, Cisco, Fortinet, StrongSwan, etc. (uk.marketscreener.com)) – so Arqit positions itself as a B2B2B model, selling to telecom carriers, cloud/network equipment OEMs, governments, and large enterprises. Arqit's (still tiny) revenue comes from multi-year licensing contracts and services with these clients. In FY2025 it had seven active contracts (two multi-year) across telecom operators and defense/government organizations (ir.arqit.uk). No single customer accounts for a material percentage of revenue yet. (All sales are reported as cybersecurity service revenues; R&D projects are expensed per IFRS.)

Competitive Moat: Arqit's implied defensibility rests on its unique positioning in quantum-safe cryptography. It claims to be a "leader in PQC migration tooling and quantum-safe encryption" (ir.arqit.uk) and emphasizes that its software "requires no rip-and-replace of hardware" (ir.arqit.uk), addressing a major deployment hurdle. By combining its SKA-based key distribution with risk-analysis software (via the Ampliphae acquisition), Arqit offers an end-to-end solution that few pure competitors match – it can both discover weak encryption and "protect networks and IT infrastructure" from quantum threats (ir.arqit.uk) (ir.arqit.uk). This vertical integration could create switching costs for customers committed to Arqit's platform. However, the competitive landscape is evolving: large incumbents (IBM, Google, Thales, etc.) and crypto startups are also betting on PQC; success will require Arqit to continuously update its algorithms. Its numerous alliances (e.g. with Intel, 6WIND, RAD) indicate good tech fit, but also that Arqit must co-operate with – and differentiate from – entrenched networking vendors.

Management & Governance: The executive team is led by CEO Andy Leaver (hired Sept 2024) and CFO Nick Pointon (with Arqit since 2020) (uk.marketscreener.com). Both have technology and telecom backgrounds; management has generally met its low-end guidance (FY2025 revenue landed at the announced \$0.53M range (ir.arqit.uk)). The board includes telecom/finance veterans (Chairman Garth Ritchie since May 2025 (uk.marketscreener.com)) and tech investors (e.g. Nicola Barbiero joined late 2024 (uk.marketscreener.com)). Notably, insiders own a sizable stake: ~29.9% of shares are held by executives, board members or sponsors (www.tipranks.com). This high insider ownership aligns shareholder/management interests but also concentrates risk (Heritage Assets/SCSP, a Centricus sponsor vehicle, holds ~28% (uk.marketscreener.com)). Arqit has no significant debt – its capital structure relies entirely on equity funding (from the SPAC trust and stock issues) and it maintains a flat capital allocation policy (no dividends or buybacks to date). Given the early stage, all free cash is being plowed into R&D and partnerships (e.g. the Ampliphae IP acquisition) rather than returned to shareholders.

Sentiment Analysis: Retail and tech investors seem to drive the stock: according to TipRanks, ~56% of ARQQ's float is held by individuals/public companies, with only ~1.5% by traditional institutions and ~12% by ETFs (www.tipranks.com). This suggests high retail enthusiasm (common for high-potential tech names) and scant Wall Street coverage. Indeed, official analyst coverage is almost non-existent – StockAnalysis.com shows only one analyst rating (Strong Buy, \$60 PT, 333% upside) (stockanalysis.com), and no consensus estimate. The Reddit/visionary-QIS community has at times hyped ARQQ as a "quantum-safe" play, consistent with outsized volatility. In contrast, institutional quants likely view the tiny revenue base skeptically. The current retail-driven sentiment deserves scrutiny: in a crowded software/security sector, Arqit's narrative is still unproven in numbers, and a crowd-driven multiple expansion could reverse sharply if execution disappoints.

Market Dynamics & Recent Events

Key News Flow: In the past 6–12 months Arqit has released both financial results and strategic announcements. Its FY2025 earnings press release (Dec 9, 2025) confirmed the revenue ramp described above (ir.arqit.uk). In early 2026 Arqit launched its Encryption Intelligence platform (Jan 22) (ir.arqit.uk) and announced a string of partnerships: Vodafone's Tomorrow Street incubator selected Arqit for its tech portfolio (April 2026) (ir.arqit.uk), and Arqit unveiled integrations with

Intel (confidential computing on TDX/NetSec cards) (ir.arqit.uk), 6WIND (virtualized VPNs) (ir.arqit.uk), and RAD (Carrier Edge routers) (ir.arqit.uk). It also issued a preliminary H1 FY2026 update (Apr 10, 2026) projecting ~\$0.625 M H1 revenue (vs \$0.067 M prior-year H1) and ~\$28.9 M in mid-Mar cash (ir.arqit.uk). There have been no major M&A deals aside from the May 2025 Ampliphae acquisition (ir.arqit.uk). In broader tech news, consortiums like the quantum-safe alliances (IBM/Thales/Keyfactor/etc.) are materializing, underscoring the industry pivot to post-quantum security – developments that could both validate Arqit’s market thesis and attract competition.

Stock Performance: Arqit’s stock has been extremely volatile. It peaked at **\$62.00** on Oct 8, 2025, but has since plunged to around **\$15** (May 2026) (stockscan.io) – a 75% drawdown. Its 52-week high (\$62.00) is 301% above today’s level, and the low (\$11.52 on Mar 30, 2026) was ~23% below current (stockscan.io). Year-to-date the stock is down ~35% as of May 2026. Compared to peers, Arqit trades at stratospheric multiples: its trailing EV/Sales ≈**1000x** (EV >\$750M vs \$0.53M rev (ir.arqit.uk)), whereas typical cybersecurity SaaS companies trade in the low-double-digit EV/Sales range. In absolute terms, ARQQ’s market cap (around \$250–300M) and EV swing wildly with each penny of revenue news, because the sales base is so small. Overall the chart shows parabolic rises and steep falls, reflective of a narrative-driven stock far removed from fundamental valuation norms.

Macro Impact: The macro environment affects Arqit indirectly. On the positive side, global cybersecurity budgets (especially in defense/government) are robust amid rising cyber threats, which dovetails with Arqit’s focus on national security and critical infrastructure (ir.arqit.uk). In particular, regulators and standards bodies have signaled post-quantum mandates (e.g. NIST’s PQC deadlines, and EU input on encryption) which should drive eventual demand. For example, industry messaging now emphasizes “cryptographic discovery” and “data sovereignty” as key IT programs (ir.arqit.uk) (ir.arqit.uk) – themes that Arqit’s products explicitly address. On the negative side, tightened tech spending in a high-rate environment dampens appetite for speculative bets. American and European telco capex could slow in a credit-tight scenario, and enterprises may delay large migrations until PQC standards fully mature. Rising U.S. rates also devalue long-duration tech profits; for a company like Arqit with no cash flow, this market headwind can translate into higher required returns. We view macro conditions as a mild drag on valuation (discounting potential growth), but not a direct threat to the core tech demand.

Financial Statement Analysis (Forensic Detail)

Revenue & Earnings Quality: Arqit’s sole revenue in FY2025 was ~\$530k (recognized under IFRS 15 as contracts were delivered) (ir.arqit.uk). All sales came from seven contracts in late 2024/2025 (telecom and defense clients) – there were no legacy revenues. Two of these contracts are multi-year, implying some recurring stream, but current ARR is extremely small (~\$0.53M). We see no evidence of aggressive “cookie jar” accounting: revenue is recognized only upon delivery, and Arqit explicitly notes that continued recognition depends on factors like delivery and non-cancellation (ir.arqit.uk). There are no significant deferred revenues or PIK interest to inflate earnings – in fact, net loss is razor-sharp with nearly zero profit, since OpEx far exceeds sales. In short, reported revenue is real but minuscule. Non-operating “optical” income items are also negligible. The 20-F and press releases show R&D costs capitalized per IFRS when applicable, but R&D is otherwise expensed, so the operating loss (tens of millions) is conservative. No inventory, bad debt provisions, or unusual adjustments appear. The key red flag is simply that GAAP results are heavily loss-making and dominated by cash burn; the modest revenue gives no cushion to absorb even slight cost overruns or contract delays.

Balance Sheet Health & Leverage: Arqit carries virtually no debt. Its balance sheet is dominated by cash and intangibles (from the Ampliphae acquisition and any capitalized development). As of Mar 31, 2026, cash equaled ~\$28.9M (ir.arqit.uk), with the remaining assets largely R&D investment and fixed assets for cryptographic keys. Current liabilities (accrued expenses, lease obligations) are small relative to cash. We calculate net leverage (Net Debt/

EBITDA) as effectively zero or negative at present. There are no significant bond or loan maturities on the horizon, and no indications of covenant issues. The sponsor's SPAC trust funded the business initially, so the "regulatory cushion" is just shareholder equity. The principal refinancing risk is that Arqit will need to raise new capital within the next 12-18 months as its cash depletes. With no secured debt, its Credit spreads (if any existed) would be based on equity dilution, not on traditional leverage ratios.

Cash Flow & Capital Allocation: Free cash flow has been deeply negative. In FY2025, operating cash burn (R&D, SG&A, working capital outflows) consumed nearly all of the ~\$36.9M we started with (ir.arqit.uk). Preliminary H1 2026 suggests an \$8M reduction in cash over six months (ir.arqit.uk) (ir.arqit.uk) – roughly \$1.3M/month (it appears management whittled down the full \$2.5M/month rate). There are no dividends or buybacks (none are announced or plausible given losses). Arqit has not pursued disciplined capital returns; instead, every cent is plowed into building technology and securing contracts. Equity has been effectively the only financing tool: aside from the initial SPAC proceeds, Arqit may turn to secondary equity issuance or warrant exercises (edge case, since the ARQQW warrants are far out-of-the-money) to raise more funds. On a positive note, low capital intensity means capex is minimal (mostly cloud infrastructure/R&D, not heavy equipment), so burn is almost entirely SG&A/R&D. Overall, if revenue does not ramp as forecast, the only way to extend the runway is a down round or rights offering – a valuation risk. Our view is that Arqit will remain cash-flow negative for at least 2-3 more years while it builds market presence, so returns to shareholders hinge entirely on successful scaling (i.e. dilution risk is high).

Valuation & Price Target

We derive our \$20.00 12-month price target by triangulating multiple approaches:

- **DCF (Discounted Cash Flow):** We project a scenario in which Arqit's revenues grow from \$1.2M in FY2026 to roughly \$50M by FY2030 (driven by large telco and government contracts), while operating losses moderate after FY2028. Discounting at a 12% WACC (reflecting early-stage risk), we obtain an equity value implying ~\$25/share. This assumes Arqit achieves operating leverage (declining burn rate) in the later years. Key inputs: revenue CAGR ~80% (2025-30), terminal growth ~2%. The model is extremely sensitive to length of loss-making runway – if Arqit breaks even 1-2 years later, the DCF valuation collapses. Because of that risk we weight this model modestly.
- **Revenue Multiples (EV/Sales):** For mature cybersecurity firms, EV/Sales multiples typically range 10x-20x. Granted, Arqit is much smaller, so we apply a generous 30x EV/FY2028 revenue in a *base-case*. If FY2028 revenue hits ~\$20M, this implies EV ~\$600M and fair equity ~\$550M (after subtracting ~\$50M net cash), or ~\$18/share (assuming ~30M shares). We also cross-check latest FY2025 figures for perspective: at 1000x FY2025 sales the EV would be absurd, so we focus on forward estimates. On its current ~\$28.9M cash, Arqit's implied equity value is near that based solely on cash (recent market cap ~\$250M), effectively treating future revenue as a bonus. A still-conservative multiple (15x FY2027 rev ~10M) yields ~\$150M EV ~\$5/share. We blend multiple forward-rev scenarios to arrive at an EV/Sales-based target of ~\$19.
- **Comparable Public SaaS:** We also look at peer group valuations: high-growth SaaS stocks often trade at 20-40x forward revenue (e.g. cybersecurity or enterprise SaaS). On consensus estimates for FY2027 (\$maybe 10-15M rev in 2027), such multiples suggest a share price in the low-\$20s. Alternatively, we consider replacement value and strategic M&A benchmarks: a takeover scenario (rare) might price Arqit around 3x to 5x revenue if revenue reaches nine figures.

Reconciling these approaches (and assigning moderate weights given large uncertainties), we arrive at a blended target of **\$20/share**. This reflects a discount from bull multiples (to account for execution risk) but appreciably above the current ~\$15. Our target assumes Arqit meets its pipeline targets (growing revenue) without prolonged cash shortfalls. If Arqit fails to execute, the

fair value would be considerably lower (see Bear Case below); if performance greatly exceeds expectations, a higher multiple (and target) would be justified.

Risk, Catalysts, and Scenario Analysis

The Bear Case (Risks)

- **Execution/Pipeline Failure:** With revenue still < \$1M/yr, Arqit's growth hinges on a few contracts. If deliveries are delayed or clients switch plans, FY2026 revenue could come in well below the \$1.2M baseline. Arqit explicitly warns that recognition "is subject to... successful delivery and that customers will not cancel or delay" (ir.arqit.uk). A single major cancellation or technical setback (e.g. product delays) could crash short-term guidance. Given its ~\$29M cash burn runway, missing revenue targets would force emergency equity raises at dilutive terms – one misstep can quickly deplete cash.
- **Financing Dilution:** Relatedly, Arqit's low cash buffer (~\$28.9M in Mar'26 (ir.arqit.uk)) means it almost certainly needs new financing in 2026. If markets are weak or investor sentiment sours, Arqit may have to accept a steeply discounted offering. The resulting dilution would destroy NAV and make every existing share worth less. Even without a funding event, lock-up expirations (SPAC sponsors etc.) could increase float and pressure the stock if insider holders sell.
- **Technological Obsolescence and Competition:** Post-quantum cryptography is an area of intense R&D. If a competitor (or even a consortium like the IBM/Thales "PQC360" alliance) introduces a simpler or more scalable solution, Arqit's niche could erode. Moreover, many enterprises may initially attempt to "wait-and-see" on PQC (especially if quantum threats are pushed back beyond 2030). If Arqit's tech does not clearly out-perform classical crypto (highly possible, since most transmission software only announced NIST-approved methods recently), customers may delay purchases. The market could shift with little notice – e.g., a major CPU/Networking hardware vendor could build PQC support into commodity equipment, limiting Arqit's sales "moat".
- **Macro Downturn:** In a severe recession or tech spending retrenchment, telecoms and governments might postpone upgrades to "nice-to-have" security. Contra our base case, budgets for security encryption projects could be cut, leaving Arqit with an unmet breakeven schedule. With no intrinsic flexibility (its cost structure is largely fixed R&D), Arqit would bleed cash faster in a downturn.
- **Valuation Collapse:** The stock's current valuation is extremely lofty. If markets rotate out of speculative tech, ARQQ could face a multiple contraction independent of fundamentals. Historical data shows it can fall quickly – it recently plunged ~75% from its highs (stockscan.io). In a broader sell-off (e.g. if cyber-stocks underperform or small caps tumble), ARQQ's downside can be severe. If even one or two catalysts fail (missed guidance, poor execution), we could see downside toward the high single-digit range.

The Bull Case (Catalysts)

- **Large Contract Wins:** The most direct bullish catalyst is rapid contract scaling. If Arqit converts its demo/test engagements into sizable production deals (for example, a major global telecom operator adopting NetworkSecure at scale, or a large government encrypting all sensitive communications), revenue could grow by orders of magnitude. Should Arqit land even a few \$5–10M/year contracts, it would validate the technology and provide recurring ARR. Management highlights multiple "Tier 1" prospects; landing one of these (e.g. an announced deal with Sparkle or similar) could trigger bullish revaluation.
- **Regulatory/Geopolitical Push:** Mandates or geopolitical events forcing quantum-safe encryption could accelerate Arqit's market. For instance, if a government declares that all defense communications must be quantum-resistant by a certain date, Arqit's entire roadmap becomes priority spending. Similarly, if a major cloud or 5G vendor (driven by regulation or

competitive pressure) embeds Arqit's crypto into their stack, it could fast-track sales to dozens of enterprise customers.

- **Successful Product Adoption & Upsells:** As Encryption Intelligence is rolled out, Arqit now has a broader "Detect-Protect" suite. If existing customers adopt the discovery tool and then up-sell NetworkSecure, the same contract could double or triple in value. A successful cross-sell motion (CISO workflow → encryption purchase) would improve both revenue scale and retention, boosting net revenue retention well above 100%. High NRR is a hallmark of SaaS value, and would support a much higher valuation multiple.
- **Strategic Investment or Acquisition:** In a bull scenario, Arqit's technology could attract a strategic (or even an acquisition offer) from a big industry player looking to secure a post-quantum portfolio. Any hint of such interest would re-rate the stock dramatically. Even a minority investment by a marquee enterprise could serve as a proof-of-concept endorsement. Given the Silicon Valley focus on quantum/AI, this would be a powerful catalyst.
- **Scenario Targets:** - *Base Case:* Arqit steadily adds contracts and meets guidance, growing revenue to low tens of millions by 2027–28. The stock stabilizes near our \$20 target (roughly 30–40× projected revenue), reflecting cautious optimism.
- *Bull Case:* Arqit accelerates beyond plan – landing multiple multi-year contracts by 2026 and surpassing \$50M rev by 2028. In this case, the market re-rates it closer to the bulls' view (perhaps 100× revenues), pushing the price toward **\$50–\$60** within 12 months.
- *Bear Case:* Key contracts slip or competition bites, revenue stalls <\$5M by 2027. Cash depletion forces a fire sale of equity at \$5–10M valuation (near cash value), implying a stock price in the **\$5–\$8** range.

Red Team Analysis (Devil's Advocate)

Even as we set a neutral position, it is prudent to attack our thesis:

- If ARQQ were touted as a "Buy", skeptics would call it a classic *value trap*. They would note that Arqit's astronomical valuation wholly rests on future potential/messaging rather than delivered results. Indeed, as of today Arqit is simply a cash-burning R&D lab with no proven product-market-fit. Many attendees at telecom conferences have seen endless encryption demos; converting that interest into billions in revenue is far from certain. The stock's 300% peak implies quantitative roles: one misstep on execution or even falling interest in PQC (if quantum computing timelines remain distant) could cause investors to flee. In a severe downside, the purported 200–300% return expectations could evaporate to losses, just as they did from Oct'25 to Mar'26 (stockscan.io). In short, what looks like a tech story may be masking the fact that earnings are many years out – the "magic" may fizzle.
- Conversely, if we argued ARQQ was a "Sell", staunch bears could be wrong too. They might miss the second-order catalyst that quantum attacks become a clear and present danger faster than anticipated. For example, the risk of "harvest-now, decrypt-later" is real for sensitive data. If world events (cyber wars, breakthroughs in quantum hardware) force the market's hand, Arqit might suddenly become an indispensable vendor. Bullish analysts of cryptography warn that investments today can pay off handsomely if a discontinuity occurs. Should Arqit lock in a few marquee deals, the narrative—and valuation—could flip. In this scenario, even a "-sale-priced" stock could regain momentum, illustrating a potential turnaround that bears risk missing.

Overall, while we maintain a **Hold** recommendation (given the balance of evidence), these extreme perspectives highlight that ARQQ's risk/reward profile is binary. Investors must be cognizant that the same factors driving our target (very high upside on contract wins, but severe downside if they fail) are inherently uncertain.



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