

## H1 '22 results: delivery on contracts and initial US\$12.3m revenue stream

17 May 2022

Specialist in quantum-encrypted and satellite-based cybersecurity, Arqit Quantum Inc., reported H1 '22 revenue of US\$12.3m comprising: US\$5.3m from four Quantum Cloud™ contracts, including Virgin Orbit and AUCloud, and US\$7.0m from project work for the European Space Agency. The period-end cash position was US\$82.2m (on 30 September 2021 it was US\$86.9m). The adjusted operating loss for the period was US\$14.4m (US\$5.5m a year earlier), with 1.85033m warrants exercised realising cash of US\$21.3m.

With QuantumCloud™ released during the period, the Group highlighted many significant developments, notably:

- Progress in integrating QuantumCloud™ software with the security products of a major enterprise grade vendor. On 9 May at CYBERUK 2022, Arqit successfully demonstrated integration of QuantumCloud™ into Fortinet's cybersecurity architecture, resulting in an effective *quantum-secure* firewall.
- Successful demonstration of a quantum secure data communications service with Blue Mesh Solutions Ltd., a UK-based sensors and Internet of Things specialist, for an industrial IoT application. The demonstration was associated with the UK Government's Department for Digital, Culture, Media and Sport (DCMS) 5G Trials and Testbeds programme. Arqit had previously announced participation with DCMS on a programme to secure a new wideband solution for 5G cellular Open RAN platforms.
- A Cooperative Research and Development Agreement with the US Air Force's Research Laboratory to prove viable quantum encryption services from a commercial platform to US Department of Defense infrastructure for the US Air Force and wider DoD use cases.
- An additional 145 patent claims on 5 patents were filed in the first half of FYE 2022, bringing Arqit's total to 1,580 patent claims on 26 patents filed or granted in the UK. Arqit also added senior sales and other personnel, taking the total to 109 employees worldwide.

### FY22 outlook – spurred by revenue milestone and 'cyber-war' urgency

Arqit established the milestone of deployment of QuantumCloud™ as a commercially-viable offering during the course of H1 22 as outlined in the go-to-market strategy described in [our report of 3 February 2022](#) : for governments and major corporations, selected Channel Partners, and subsequently for open access via a Platform-as-a-Service. We are all reminded of the urgency of establishing a viable alternative to Public Key Infrastructure-based data encryption on an almost daily basis, with BBC News reporting on 11 May on the need for corporations and key institutions to remain vigilant to cyber-attacks originating from the conflict in Ukraine ([BBC News "Don't underestimate Russian cyber-threat, warns US"](#) , citing remarks by US Senate Intelligence Head, Mark Warner).

### Outlook and valuation

We maintain our FY22 forecast of revenue of US\$32m. The pace of expansion now indicates an EBITDA loss of US\$(7.0m), whilst we estimate reported PBT, including financial income, of US\$63m and a full year cash balance of US\$42.2m. Valuations in the cybersecurity sector have contracted 29.5% from 20.8x revenue to 14.7x. Applying this adjustment to our benchmarked valuation indicates a **fair value EV / share of US\$26.0** (previously US\$37.5).

#### Company Data

NASDAQ quote	ARQQ
Share price (last close)	\$6.4
Market cap	\$775m
ED Fair Value EV per share	\$26.0

#### Share Price, US\$



Source: ADVFN

#### Description

Arqit Quantum Inc. is an innovative developer and provider of quantum-based encryption services based on expertise in the combined fields of quantum cryptography, cyber security software and satellite technology.

Arqit has turned deep tech into a platform-as-a-service offering which is software-light and highly scalable, with worldwide distribution capability.

Its online sales model targets a wide range of verticals, initially in the defence, telecommunications, autonomous vehicles, and financial services sectors.

Arqit has assembled a management team with depth in technology and contacts with top-level decision takers in leading companies and government bodies.

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## Revised valuation

Our valuation is based on the combination of three factors:

- The projected value of the cybersecurity market in 2025, at US\$228.0bn (source: Arqit Quantum Inc., Form 20-F No. 001-40777 pp29).
- Arqit projected FY2025 revenue (source: Arqit Quantum Inc., presentation 8 September 2021, p17) of US\$660.0m.
- The market cap-weighted average EV/Revenue of 21 quoted representative cybersecurity providers. On 22 February 2022 this stood at 20.8x and has subsequently contracted by 29.5% to 14.7x.

Using this methodology indicates a fair value for Arqit Quantum Inc., of US\$3.173bn or US\$26.0 per share based on 135.83m estimated fully diluted shares in issue.

### Arqit Quantum Inc. revised valuation

Company	Symbol	Mkt cap. (US\$m)	EV/Rev
Fortinet	FTNT	46,304	13.3x
Palo Alto Networks	PANW	47,578	10.5x
CrowdStrike	CRWD	34,008	25.5x
Zscaler	ZS	21,396	29.1x
Cloudflare	NET	19,780	34.0x
Okta	OKTA	12,446	10.9x
Splunk	SPLK	16,130	6.3x
Akamai Technologies	AKAM	16,088	5.0x
Check Point Software	CHKP	17,141	7.4x
F5 Networks	FFIV	10,292	3.7x
CyberArc Software	CYBR	5,134	9.7x
Rapid7	RPD	3,624	7.6x
Tenable	TENB	4,242	7.6x
BlackBerry	BB	3,256	3.3x
SolarWinds	SWI	4,037	5.0x
Varonis Systems	VRNS	3,585	10.4x
SailPoint Tech	SAIL	5,430	13.1x
Ping Identity	PING	1,528	5.3x
Radware	RDWR	1,115	3.0x
OneSpan	OSPN	480	1.7x
Sumo Logic	SUMO	390	N.A.
Tufin Software	TUFN	464	3.5x
<b>Market cap weighted average</b>			<b>14.7x</b>
Previous Mkt cap weighted avge			<b>20.8x</b>
Projected market value 2025, US\$bn			228.0
Arqit projected FY25 revenue, US\$m <sup>1</sup>			660.0
Valuation in US\$m based on market revenue multiple, discounted at 20% p.a.			<b>3,173</b>
Per share (US\$)			<b>26.0</b>

<sup>1</sup> Arqit investor presentation 8 Sept 2021 p17

Source: Company data, Equity Development estimates, Market prices 16 May 2022.

## Summary financial data

P&L					
Yr to 30 Sep (US\$m)	2020	H1 21	H2 21	2021	H122
<b>Revenue</b>	<b>0.00</b>	<b>0.00</b>	<b>0.05</b>	<b>0.05</b>	<b>12.25</b>
<b>Gross Sum</b>	<b>1.96</b>	<b>0.00</b>	<b>0.05</b>	<b>0.05</b>	<b>12.25</b>
Sum operating costs	(2.77)	(5.45)	(9.11)	(14.56)	(26.60)
EBIT Reported	(0.81)	(5.45)	(167.11)	(172.56)	(14.35)
<b>EBIT Adjusted</b>	<b>(0.81)</b>	<b>(5.45)</b>	<b>(9.06)</b>	<b>(14.51)</b>	<b>(14.35)</b>
Depreciation	(0.00)			(0.05)	
EBITDA Reported	(0.80)			(172.51)	
<b>EBITDA Adjusted</b>	<b>(0.80)</b>			<b>(14.46)</b>	
Financial income	0.06	0.00	0.00	0.00	72.46
Financial expense	(0.39)	(0.58)	(0.49)	(1.08)	(0.07)
PBT Reported	(1.14)	(6.03)	(265.69)	(271.73)	58.05
<b>PBT Adjusted</b>	<b>(1.14)</b>	<b>(6.03)</b>	<b>(9.55)</b>	<b>(15.59)</b>	<b>58.05</b>
Tax	0.57	0.00	0.00	0.00	0.00
PAT Reported	(0.57)	(5.84)	(265.89)	(271.73)	58.30
<b>PAT Adjusted</b>	<b>(0.57)</b>	<b>(5.84)</b>	<b>(9.75)</b>	<b>(15.59)</b>	<b>58.30</b>
Basic wtd. av. shares (m)	59.26	59.26	59.26	68.33	68.33
Diluted wtd. av. shares (m)	59.26	59.26	59.26	68.33	68.33
EPS Reported Basic (\$c)	(1.0)	(10.2)		(397.7)	48.2
EPS Reported Diluted (\$c)	(1.0)	(10.2)		(397.7)	48.0

Source: Company data. Form 20F and Form 6-K, Commission File No. 001-40777.

## Summary cashflow

Yr to 30 Sep US\$m	2020	H1 21	H2 21	2021	H122
<b>Cash from operations</b>	<b>(2.14)</b>	<b>(1.60)</b>	<b>(22.71)</b>	<b>(24.30)</b>	<b>(13.22)</b>
Net cash from operations	(1.33)	(1.60)	(22.44)	(24.03)	(13.22)
<b>Investing activities</b>					
PPE	(0.03)	(0.09)	(0.13)	(0.22)	(0.61)
Intangibles	(4.54)	(4.19)	(4.89)	(9.08)	(12.88)
<b>Net cash used in investing</b>	<b>(4.57)</b>	<b>(4.28)</b>	<b>(5.03)</b>	<b>(9.31)</b>	<b>(13.49)</b>
<b>Net OpFCF</b>	<b>(5.90)</b>	<b>(5.87)</b>	<b>(27.47)</b>	<b>(33.34)</b>	<b>(26.71)</b>
<b>Financing activities</b>					
Convertible loans	0.65	0.00	14.15	14.15	0.00
Borrowing/Leases	1.03	13.28	(8.24)	5.04	(0.28)
Borrowing repaid	0.00	0.00	(6.12)	(6.12)	0.00
Funds acquired	0.00	0.00	107.04	107.04	0.00
Net cash from financing	1.68	13.28	106.83	120.11	21.00
Forex	0.19	0.10	(0.09)	0.01	0.90
<b>Net increase in cash</b>	<b>(4.03)</b>	<b>7.50</b>	<b>79.27</b>	<b>86.77</b>	<b>(4.81)</b>
Cash at beginning of year	4.23	0.19	7.70	0.19	86.97
<b>Cash at year end</b>	<b>0.19</b>	<b>7.70</b>	<b>86.97</b>	<b>86.97</b>	<b>82.16</b>

Source: Company data. Form 20F and Form 6-K, Commission File No. 001-40777.

**Summary balance sheet**

Yr to 30 Sep US\$m	2020	2021	H122
<b>Fixed Assets</b>			
Intangible assets	8.78	18.24	30.00
PPE net	0.03	0.20	7.89
Investments	0.03	0.03	0.03
Other	0.00	5.00	7.53
<b>Sum Fixed Assets</b>	<b>8.84</b>	<b>23.47</b>	<b>45.45</b>
<b>Current Assets</b>			
Trade receivables	0.28	3.29	15.61
Tax assets	0.00	0.00	0.00
Cash, Equivalents	0.19	86.97	82.16
<b>Sum Current Assets</b>	<b>0.48</b>	<b>90.26</b>	<b>97.77</b>
Total Assets	9.31	113.73	143.23
<b>Current Liabilities</b>			
Trade payables	(2.39)	(17.07)	(18.95)
Borrowings/Leases	(5.46)	0.00	(1.07)
Tax, Other	0.00	0.00	0.00
<b>Sum Current Liabilities</b>	<b>(7.85)</b>	<b>(17.07)</b>	<b>(20.02)</b>
Total Assets less Current Liabilities	1.47	96.66	123.21
<b>Long-term Liabilities</b>			
Warrants	0.00	(128.04)	(55.57)
Payables/Leases	0.00	0.00	(3.75)
Leases	(0.53)	(2.46)	(8.00)
<b>Sum Long-term liabilities</b>	<b>(0.53)</b>	<b>(130.50)</b>	<b>(67.33)</b>
Total liabilities	(8.38)	(147.57)	(87.35)
Net Assets	0.93	(33.84)	55.88
<b>Capital &amp; Reserves</b>			
Share Capital	0.00	0.01	0.01
Convertible loans, other	1.41	166.80	166.80
Currency translation / other reserves	(0.13)	0.26	0.51
Share Premium	0.00	71.00	92.28
Share option reserve	0.13	0.30	10.44
Retained earnings	(0.49)	(272.21)	(214.17)
<b>Equity</b>	<b>0.93</b>	<b>(33.84)</b>	<b>55.88</b>
Net cash/(debt)	0.19	86.97	82.16

Source: Company data. H1 21 data N.A. Form 20F and Form 6-K, Commission File No. 001-40777.



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