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UPDATE

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## Xanadu Quantum Technologies Limited | North America

# Quantum Computing: Intel's Classiq Deal Highlights Software Opportunity

Intel's reported $2.3bn Classiq deal underscores the strategic value of quantum software alongside hardware. Xanadu is the clearest readthrough in our coverage, with PennyLane offering significant future monetization potential.

### Key Takeaways

- Intel agreed to acquire Classiq for a reported $2.3bn, potentially the largest acquisition of a quantum computing acquisition to date.
- The deal underscores the strategic importance of quantum software alongside hardware capabilities.
- Xanadu is the clearest readthrough among our pure plays: PennyLane leads in developer adoption in our coverage, offering future software monetization potential.

**Intel's acquisition of Classiq highlights the potential value of quantum software, with Xanadu's PennyLane the clearest readthrough in our coverage.** On October 26, Intel announced an agreement to acquire quantum software developer Classiq for a reported $2.3bn, potentially the largest acquisition of a quantum computing specialist to date. Financial terms were not officially disclosed (transaction price was reported by Bloomberg and Calcalist; Intel and Classiq did not comment on the reports), and closing is expected in 1H27. Quantum stocks rose broadly following the announcement after a sector selloff over the past month, led by XNDU (+15%) and INFQ (+13%), followed by QNT and IONQ (+7% each).

Intel has been developing quantum computing technology since 2015, focusing on silicon spin qubits manufactured using conventional 300mm semiconductor processes and cryogenic control electronics. It released its 12 qubit Tunnel Falls research chip in 2023 and has demonstrated strong device uniformity, although its quantum program remains relatively early stage. Classiq would add a critical software layer, transforming Intel's hardware efforts into a broader quantum computing platform.

Classiq's software aims to make quantum programming substantially easier. Rather than manually designing each quantum circuit, developers describe quantum functions and their requirements at a higher level, and Classiq's synthesis engine automatically generates optimized circuits that meet those constraints. Intel compares this approach to electronic design automation software for conventional semiconductors. Classiq is hardware agnostic, and Intel intends to maintain

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**Xanadu Quantum Technologies Limited (XNDU.O, XNDU US)**

Semiconductors | Canada

| | |
|---|---|
| **Stock Rating** | **Equal-weight** |
| **Industry View** | **Attractive** |
| **Price target** | **$3.75** |
| Shr price, close (Oct 27, 2026) | $2.94 |
| Mkt cap, curr (mm) | $878 |
| 52-Week Range | $42.44-2.50 |

| Fiscal Year Ending | 12/25 | 12/26e | 12/27e | 12/28e |
|---|---|---|---|---|
| EPS ($)** | (1.07) | (0.28) | (0.38) | (0.47) |
| Prior EPS ($)** | - | - | - | - |
| P/E | - | - | - | - |
| EPS ($)§ | - | (0.52) | (0.40) | (0.46) |
| Div yld (%) | - | - | - | - |

framework
** = Based on consensus methodology
§ = Consensus data is provided by Refinitiv Estimates

**QUARTERLY EPS ($)**

| Quarter | 2025 | 2026e Prior | 2026e Current | 2027e Prior | 2027e Current |
|---|---|---|---|---|---|
| Q1 | (0.20) | - | (0.23)a | - | (0.09) |
| Q2 | (0.26) | - | (0.08) | - | (0.09) |
| Q3 | (0.28) | - | (0.07) | - | (0.10) |
| Q4 | (0.33) | - | (0.08) | - | (0.10) |

investors should be aware that the firm may have a conflict of

Research as only a single factor in making their investment decision.

**For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.**

compatibility with other quantum computing architectures.

**Where does Classiq fit in the quantum software landscape?** Quantum software spans several overlapping layers, with companies in our coverage offering different capabilities across the stack:

- **High level programming and automated synthesis (Classiq, HQ):** Classiq automatically generates circuits from high-level algorithm descriptions. Horizon Quantum (HQ, not covered), a publicly listed quantum software specialist, is perhaps the closest comparison. Its Triple Alpha environment uses its proprietary Beryllium language and compilers to build complex quantum programs, including converting functions written in classical languages such as C and C++ into quantum circuits.
- **Programming frameworks (IBM, XNDU, QNT):** These provide tools for developers to build, test and execute quantum algorithms directly. IBM's Qiskit (covered by Erik Woodring) and Xanadu's PennyLane ranked first and second in the Unitary Foundation's 2025 quantum software survey, and both are hardware agnostic. Qiskit provides a broad toolkit for building, optimizing and executing quantum circuits, with strong integration into IBM's hardware ecosystem. PennyLane is particularly focused on hybrid quantum and classical computing, including integration with machine learning frameworks. Quantinuum's Guppy is a newer language designed for its Helios system and future machines.
- **Compilers (QNT, INFQ, XNDU):** These optimize quantum programs for execution on specific hardware. Quantinuum's TKET and Infleqtion's Superstaq support multiple hardware architectures, with Superstaq also incorporating lower level hardware optimization. Xanadu's Catalyst compiles and optimizes PennyLane programs. Its Backline extension, developed with AMD, provides the low-latency links between quantum and classical hardware needed for real-time error correction.
- **Execution and system software (QNT, IONQ):** These platforms manage how workloads run on quantum computers. Quantinuum's Nexus provides cloud access and workload management across its own and third-party hardware, with about 180 organizations using it as of 2Q26. IonQ's Quantum OS controls its hardware, and Hybrid Services supports workloads combining quantum and classical computing.

**Readthrough to PennyLane: Xanadu's PennyLane is the most widely used quantum programming framework among the pure plays in our coverage.** The reported $2.3bn acquisition price (if it is accurate), against press reports suggesting annual revenue in the tens of millions, would suggest Intel is paying for technology, enterprise relationships and long term strategic opportunity. This is particularly relevant for Xanadu, which has already built a substantial developer ecosystem around PennyLane, with approximately 1.1mn monthly software package installs across its platform family and compatibility with 40+ hardware and simulator devices.

PennyLane's commercial opportunity is still emerging. The platform is primarily open source today and does not yet generate meaningful recurring software



revenue. However, Xanadu has outlined plans for a paid enterprise version and complementary developer tools, alongside opportunities in enterprise training, application development and, over time, cloud services and hardware sales. Importantly, PennyLane allows Xanadu to build developer relationships today that could translate into software revenue and future hardware demand. We view Intel's acquisition as an encouraging signal of the strategic value investors and acquirers may assign to quantum software, although PennyLane's potential monetization and valuation will depend on its ability to convert developer adoption into commercial revenue.

**Thoughts on the stocks:** For Xanadu (EW, $3.75 PT), PennyLane represents meaningful upside optionality in our bull case. Its established developer ecosystem could support software monetization ahead of the company's own hardware commercialization, while also helping build a customer base for future systems. On the hardware side, Xanadu's photonic architecture offers potential scaling advantages, but it remains the earliest of our four pure plays on our technical framework. We see PennyLane as a potentially strategic asset, with the Classiq transaction reinforcing that opportunity.

For the rest of our coverage, the readthrough varies. Quantinuum (OW, $62 PT) has one of the industry's broadest software portfolios through TKET, Nexus, and Guppy, complementing its leading hardware position and reinforcing our preferred exposure to the group. Infleqtion (EW, $12 PT) could benefit from greater recognition of Superstaq's value, although commercial adoption remains relatively limited. IonQ (EW, $43 PT) has less direct exposure to independent software platforms, but participated in Classiq's November 2025 financing. Overall, we see software becoming an increasingly valuable part of the quantum ecosystem, even as the timing and scale of monetization remain uncertain.

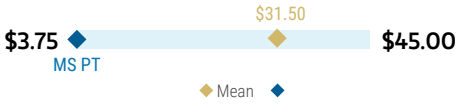
# Risk Reward – Xanadu Quantum Technologies Limited (XNDU.O)

Promising technology, but much left to prove

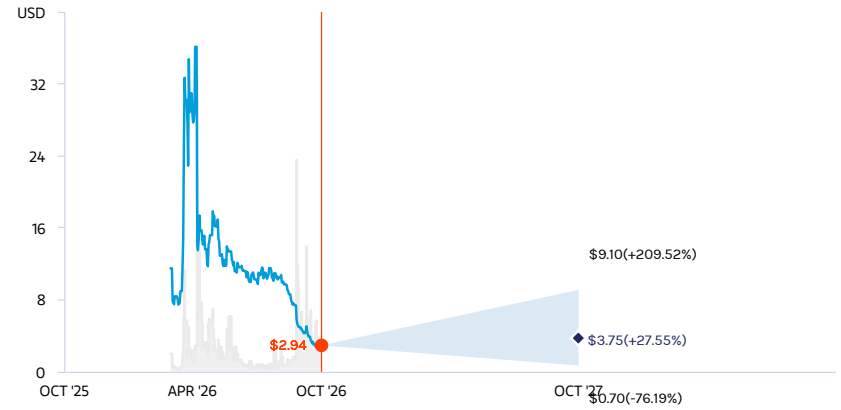
## PRICE TARGET $3.75

- We value Xanadu based on its long-term revenue potential rather than near-term earnings, reflecting the opportunity in photonic quantum computing and the uncertainty around commercialization
- We apply a 12.5x risk-adjusted multiple to 2030E computing revenue, based on a 25x success multiple and a 50% visibility factor reflecting its early technical maturity, execution risk and funding needs

**Consensus Price Target Distribution**




## RISK REWARD CHART

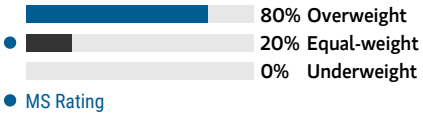



Key: Historical Stock Performance Current Stock Price Price Target

## EQUAL-WEIGHT THESIS

We see long-term potential in its photonic approach, which could offer advantages in manufacturing and scalability. The company has made progress in connecting photonic modules, producing encoded qubit states on a chip, and building a software ecosystem through PennyLane. However, it has yet to demonstrate reliable error correction on logical qubits, while reducing photon loss remains a major technical challenge. Recent roadmap revisions also raise questions about execution, and continued cash burn and the need for additional funding add to the risk.

**Consensus Rating Distribution**




**Risk Reward Themes**

**Technology Diffusion:** *Positive*

View descriptions of Risk Rewards Themes here

## BULL CASE $9.10

**Bull Case**

**25x 2030E computing EV/Sales on $195mn of revenue**

- Faster progress in reducing photon loss and demonstrating fault tolerance
- Qubit Factory scales production ahead of expectations
- 2030E computing revenue 30% above base case

## BASE CASE $3.75

**Base Case**

**12.5x 2030E computing EV/Sales on $150mn of revenue**

- Qubit Factory completed within the 2026–27 target window
- Progress toward fault tolerance in 2028–29
- Commercial revenue ramp begins in 2029

## BEAR CASE $0.70

**Bear Case**

**8.5x 2028E computing EV/Sales on $15mn of revenue**

- Two-year delay to commercialization
- Photon loss and error correction challenges persist
- Continued cash burn increases funding needs

# Risk Reward – Xanadu Quantum Technologies Limited (XNDU.O)

## KEY EARNINGS INPUTS

| Drivers | Dec 2025 | Dec 2026e | Dec 2027e | Dec 2028e |
|---|---|---|---|---|
| Revenue ($M) ($, 000s) | 4,617 | 9,365 | 10,750 | 15,427 |
| Non-GAAP Gross Margin (%) (%) | 94.6 | 92.4 | 90.0 | 77.3 |
| Non-GAAP EBITDA ($, 000s) | (50,774) | (81,325) | (117,605) | (142,605) |
| Non-GAAP Net Income ($M) ($, 000s) | (59,725) | (84,346) | (121,224) | (155,108) |
| Non-GAAP EPS ($) ($, mm) | (1) | (0) | (0) | (0) |

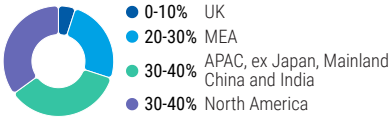
## INVESTMENT DRIVERS

**Technology:** Reducing photon loss and demonstrating error correction

**Commercialization:** First customer deployments and progress toward a quantum data center

**Manufacturing:** Qubit Factory completion and scalable production

## GLOBAL REVENUE EXPOSURE




View explanation of regional hierarchies here

## RISKS TO PT/RATING

**RISKS TO UPSIDE**

- Faster-than-expected progress toward fault tolerance.
- Earlier manufacturing scale-up.
- Commercial revenue above forecasts.

**RISKS TO DOWNSIDE**

- Delays in error correction and commercialization.
- Slower reduction in photon loss.
- Higher funding needs and dilution.

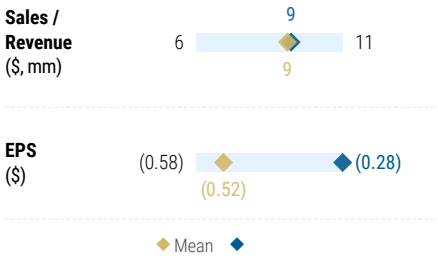
## OWNERSHIP POSITIONING

| | |
|---|---|
| **Inst. Owners, % Active** | 79.4% |
| **HF Sector Long/Short Ratio** | 2.2x |
| **HF Sector Net Exposure** | 30.6% |

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

## MS ESTIMATES VS. CONSENSUS

*FY Dec 2026e*



# Valuation Methodology and Risks

**Infleqtion, Inc. (INFQ.N)**

- We value Infleqtion on its long-term revenue potential rather than near-term performance, reflecting the commercial opportunity and significant technology and execution risks.
- We apply a 13.8x risk-adjusted multiple to 2030E computing revenue, based on a 25x success multiple and a 55% visibility factor reflecting technical and execution risk. We value sensing separately at 7x 2030E sales, in line with IonQ's sensing and networking businesses.

**Risks to Upside**

- Faster progress toward fault tolerance
- Earlier commercial adoption
- Industry consolidation
- Additional government funding

**Risks to Downside**

- Technology roadmap delays
- Competition from other modalities
- Weaker commercial adoption
- Higher cash burn and dilution risk

**Intel Corporation (INTC.O)**

~42x EPS CY2027 EPS of $2.00, 42x is above the high end of the large cap logic semi peer group, reflecting high leverage potential on numbers that are still depressed, and foundry optionality, despite our longer term skepticism

**Risks to Upside**

- Foundry partnerships de-risk the story and further improve the multiple
- The company regains lost share in desktop and server following CPU shortages

**Risks to Downside**

- AMD competition increasingly becomes more significant, which could lead to further share losses in processors and pressure on ASPs
- Minimal success in foundry leads to an inflated cost structure

**IonQ Inc (IONQ.N)**

Our $43 PT applies 11.9x (17x growth multiple × 70% visibility ) to ~$1.8bn of 2030E computing revenue. We discount this back to present at a 14.6% WACC, then add SkyWater at 3.9x sales, acquired networking, sensing and space businesses at 7x sales, and 2027E net cash.

**Risks to Upside**

- Faster than expected improvement of quantum hardware
- Stronger than forecasted adoption from public cloud users

- Increased use of quantum computing resources from large enterprise and government customers

**Risks to Downside**

- Improvements to quantum hardware lag expectations
- Public cloud use stagnates
- Budgets for quantum resources decline materially if the macroeconomic environment worsens

**Quantinuum (QNT.O)**

- We apply 12.8x sales (17x × 75% visibility) to ~$2.0bn of 2030E computing revenue, assuming Sol launches in 2H27 and Apollo in 2029. Our visibility factor reflects Quantinuum's leading technology and execution. We discount EV at a 14.6% WACC, then add 2027E net cash.

**Risks to Upside**

- Technology roadmap execution
- Commercial adoption
- Third party validation
- Industry development

**Risks to Downside**

- Delays in roadmap
- Competition
- Weaker commercial adoption
- Capital intensity

# Risk Reward Reference links

1. View explanation of Options Probabilities methodology - Options_Probabilities_Exhibit_Link.pdf

2. View descriptions of Risk Rewards Themes - RR_Themes_Exhibit_Link.pdf

3. View explanation of regional hierarchies - GEG_Exhibit_Link.pdf

4. View explanation of Theme/Exposure methodology - ESG_Sustainable_Solutions_External_Link.pdf

5. View explanation of HERS methodology - ESG_HERS_External_Link.pdf