

Nexa Cloud Solutions Inc. (Meridex: NXCL)

Scaling the Next-Gen Enterprise AI Fabric

Initiating coverage with BUY rating and \$245 Target Price driven by multi-year cloud migration tailwinds, proprietary AI orchestration margins, and expanding net expansion rate.

INVESTMENT RATING

BUY

Target Price: \$245.00

Current Price: \$182.50

Implied Upside: +34.2%

Risk Profile: Moderate / Core

52-Wk High / Low: \$195.40 / \$124.10

Market Cap (\$B): \$42.85

Enterprise Value (\$B): \$40.12

Shares Outstanding (M): 234.8

Free Float (%): 88.4%

30D Avg Vol (M): 4.15

Dividend Yield (%): 0.0%

Net Debt / EBITDA: -1.2x (Net Cash)

Beta (3Y Monthly): 1.18

Fiscal Year End: December 31

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Executive Summary & Investment Thesis

Nexa Cloud Solutions Inc. (NXCL) has established itself as the leading hybrid enterprise AI orchestration fabric. As Fortune 500 organizations transition from experimental LLM deployments to production-grade distributed architectures, Nexa’s proprietary *NexaSphere OS* provides critical multi-cloud governance, automated telemetry, and sub-millisecond inference routing.

Key Drivers for Outperformance:

• **High-Margin ARR Acceleration:** Subscription Annual Recurring Revenue (ARR) grew 38.4% YoY in Q1 2026 to \$1.42B, driven by 132% Net Retention Rate (NRR) among enterprise accounts (>\$1M ARR).

• **Expanding Operating Leverage:** Gross margins reached 78.2% (+240 bps YoY), reflecting structural efficiencies in custom silicon cluster integration and declining compute unit costs.

• **Defensible Moat in Data Privacy:** Nexa’s zero-trust data plane prevents proprietary data leakage across public hyperscaler models, creating a high-switching-cost lock-in for banking and healthcare clients.

Valuation Summary & Target Price Derivation

Our **\$245 Target Price** is derived using a 50/50 blend of a 10-year Discounted Cash Flow (DCF) model and a Sum-of-the-Parts (SOTP) multiple approach:

• **DCF Model (\$252 Value):** Assumes a 5-year revenue CAGR of 24.5%, terminal FCF margin of 28.0%, WACC of 9.2%, and a 3.5% perpetual growth rate.

• **SOTP Multiple (\$238 Value):** Applies a 14.5x EV/CY27E Sales multiple to the core Cloud SaaS segment and a 22.0x EV/EBITDA multiple to the high-growth AI Services unit.

Financial Summary & Forecast Highlights (FY2023A – FY2027E)

Financial Metric (\$M, except EPS)	FY2023A	FY2024A	FY2025E	FY2026E	FY2027E
Total Revenue	\$845.2	\$1,140.6	\$1,520.4	\$1,985.0	\$2,510.0
YoY Revenue Growth (%)	42.1%	34.9%	33.3%	30.6%	26.4%
Gross Profit	\$625.4	\$864.5	\$1,185.9	\$1,568.2	\$2,008.0
Gross Margin (%)	74.0%	75.8%	78.0%	79.0%	80.0%
EBITDA (Non-GAAP)	\$126.8	\$205.3	\$334.5	\$496.3	\$677.7
EBITDA Margin (%)	15.0%	18.0%	22.0%	25.0%	27.0%
Diluted EPS (\$)	\$0.42	\$0.78	\$1.35	\$2.10	\$2.95
Free Cash Flow (\$M)	\$112.5	\$188.2	\$312.0	\$475.0	\$652.6
EV / Revenue (x)	47.5x	35.2x	26.4x	20.2x	16.0x
EV / EBITDA (x)	316.4x	195.4x	119.9x	80.8x	59.2x
P / E Ratio (x)	434.5x	234.0x	135.2x	86.9x	61.9x

Detailed Investment Catalyst Analysis

Catalyst 1: NexaSphere OS 4.0 Rollout

The upcoming release of **NexaSphere OS 4.0** in Q3 2026 introduces zero-code agent orchestration. Internal benchmarks show a 40% reduction in enterprise model deployment cycles.

Key revenue impact:

- Upselling existing customer base with custom AI agents.
- Expansion into Tier-1 regional banks with strict compliance requirements.
- Projected ARR contribution: \$140M in FY26.

Catalyst 2: Hyperscaler Channel Partnerships

Nexa recently finalized expanded co-sell agreements with leading global cloud providers. Enterprise buyers can now apply pre-committed cloud spending towards Nexa licenses.

Key commercial impact:

- Decreases customer acquisition cost (CAC) by 22%.
- Accelerates sales cycle duration from 90 days to 42 days.
- Unlocks government and healthcare procurement channels.

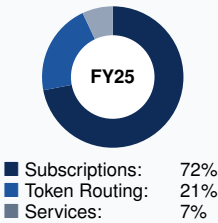
Segment Performance & Revenue Mix

Nexa operates across three primary revenue streams:

- Enterprise Cloud Subscription (72% of FY25 Revenue):** Multi-tenant and dedicated cloud hosting with tier-based seat and throughput pricing.
- AI Orchestration & Token Routing (21% of FY25 Revenue):** Usage-based billing tied to API calls, compute volume, and specialized vector index queries.
- Professional Services & Managed Advisory (7% of FY25 Revenue):** High-touch implementation services for global systems integrators.

The structural shift toward usage-based token routing provides uncapped revenue potential as enterprise LLM consumption scales exponentially over the 2026-2028 horizon.

Revenue Contribution (FY25)



Margin Profile & Cash Generation Trajectory

Operational Efficiency Gains: Nexa's R&D intensity (R&D as % of Revenue) is expected to normalize from 32% in FY24 to 22% by FY27 as foundational platform core stability is achieved. At the same time, Sales & Marketing efficiency continues to improve due to strong inbound enterprise demand and partner co-selling.

Free Cash Flow Conversion: Capital expenditure requirements remain modest (CapEx < 3.5% of Revenue) due to Nexa's asset-light cloud architecture model. We project FCF conversion from EBITDA to reach 96% by FY27E.

Operating Margin Progression (% of Rev)

Metric	FY24A	FY25E	FY26E	FY27E
Gross Margin	75.8%	78.0%	79.0%	80.0%
R&D / Rev	31.5%	27.0%	24.0%	22.0%
S&M / Rev	36.2%	32.0%	28.5%	25.0%
G&A / Rev	10.1%	9.0%	8.0%	7.5%
EBIT Margin	-2.0%	10.0%	18.5%	25.5%

Valuation Scenario Analysis & Sensitivity

Scenario	Bull Case	Base Case (Our Target)	Bear Case
Target Price	\$310.00	\$245.00	\$135.00
Implied Upside / Downside	+69.9%	+34.2%	-26.0%
FY25–28 Revenue CAGR	34.0%	28.5%	18.0%
Terminal EBITDA Margin	32.0%	27.0%	20.0%
Target EV/Sales Multiple	18.0x	14.5x	9.0x
Key Assumptions	Accelerated global enterprise adoption; 140% NRR; compute costs decline 25% YoY.	Steady enterprise migration; 130% NRR; linear margin expansion as modeled.	Macro IT budget freeze; increased price competition from cloud incumbents.

Target Price Sensitivity Matrix (WACC vs. Perpetual Growth Rate)

WACC \ Term Growth	2.5%	3.0%	3.5% (Base)	4.0%	4.5%
8.2%	\$268.40	\$282.10	\$298.50	\$318.20	\$342.00
8.7%	\$242.10	\$253.20	\$266.30	\$282.00	\$301.10
9.2% (Base)	\$224.50	\$233.80	\$245.00	\$258.40	\$274.60
9.7%	\$209.10	\$217.00	\$226.20	\$237.10	\$250.20
10.2%	\$195.80	\$202.50	\$210.40	\$219.70	\$230.80

Key Investment Risks

- **Hyperscaler Competition:** Cloud providers could bundle native AI routing software into core cloud subscriptions.
- **Concentration Risk:** Top 10 customer accounts represent 28% of total subscription revenues.
- **Talent Acquisition Costs:** High demand for specialized engineers could inflate compensation expenses.

ESG & Governance Overview

- **Environmental (B+):** Carbon-neutral data center routing protocols prioritize green-energy clusters.
- **Social (A-):** Strong employee retention rate (91%); industry-leading data privacy standards.
- **Governance (A):** Independent Board Members; split CEO/Chairman structure.

ANALYST CERTIFICATION & IMPORTANT DISCLOSURES:
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RATING DEFINITIONS:
BUY: Expected total return of >15% over the next 12 months. **HOLD:** Expected total return between -5% and +15% over the next 12 months. **SELL:** Expected total return of <-5% over the next 12 months.

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