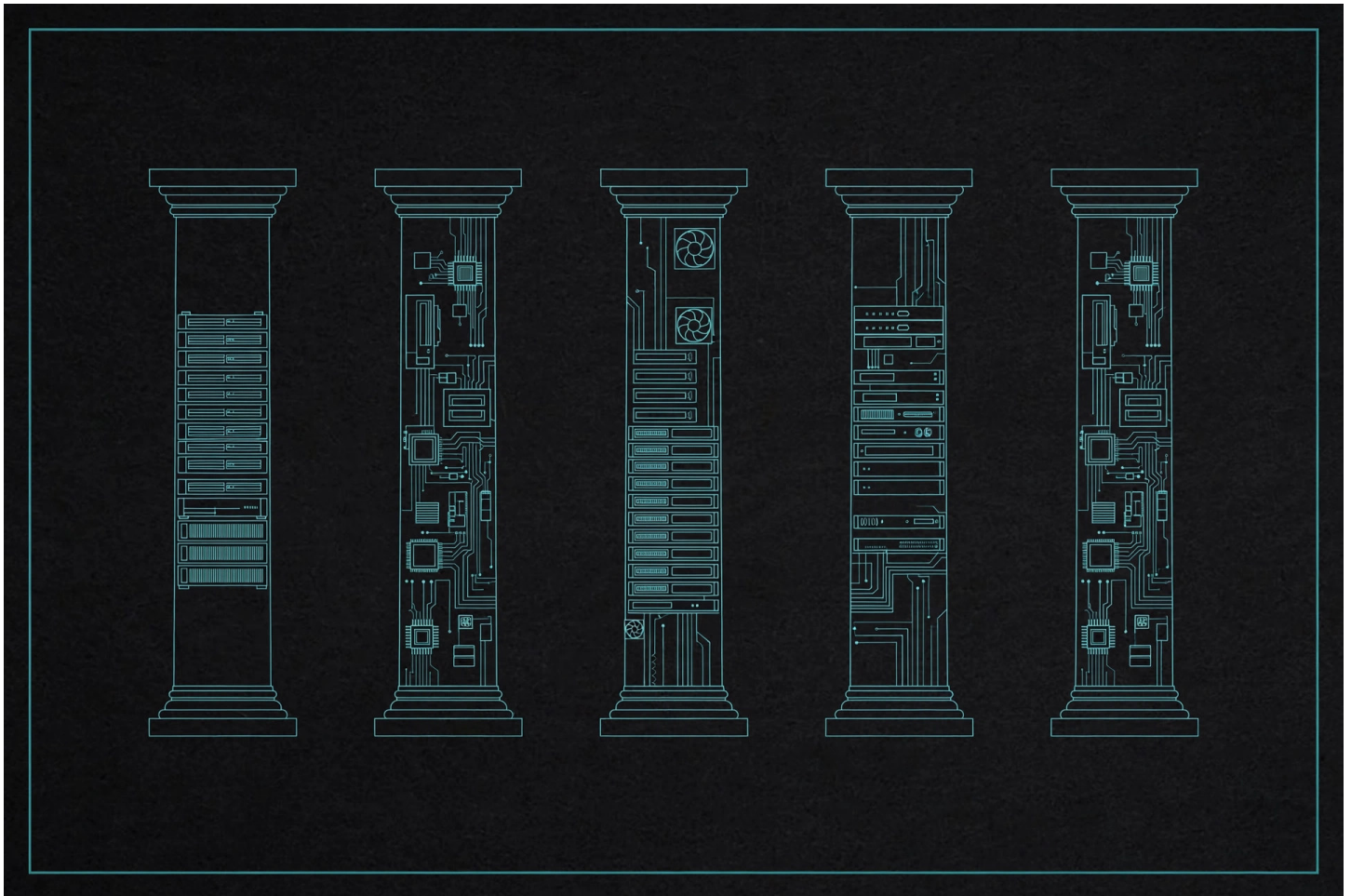




Nebius Group

Five-Pillar Analysis

Sunrise and leadership pass; the moat is scarcity rent, the fortress is the backlog, and free cash flow fails for now.

DalalBytes Research · October 7, 2026 · Reference price \$249.87 (October 6, 2026 close) · NASDAQ: NBIS

DALALBYTES VERDICT

Partial fit · 2 pass, 2 partial, 1 fail

The sunrise and the operator are genuine; the moat is scarcity rent, the fortress is the backlog, and the cash flow is still on the drawing board. Score 70/100. FY2029 targets (DalalBytes estimates): bear \$120, base \$460, bull \$800.

How the engine grades

The five-pillar analysis grades a business on five questions: is the sector a sunrise, can the leadership execute, does a moat protect returns, is the balance sheet a fortress, and does the free cash flow show up. Each pillar passes, partially passes, or fails on evidence.

Pillar	Grade	One line
1. Sunrise industry	PASS	Neocloud ~\$25B to \$200-300B by 2031; Nebius sold out, raising prices.
2. Leadership	PASS	Volozh built Yandex; funds growth with customer prepayments.
3. Moat	PARTIAL	Real advantages, but scarcity rent on commoditized GPUs.
4. Iron fortress	PARTIAL	Balance sheet neutral; the real fortress is the \$40B backlog.
5. Free cash flow	FAIL (for now)	Q2 true FCF ~-\$3.4B on \$5.66B capex; clearest upgrade path.

Pillar 1: Sunrise industry (PASS)

William Blair estimates global neocloud revenue grows from about \$25B in 2026 to \$200-300B by 2031 on roughly 20 GW of new data center capacity (September 30, 2026). Nebius is sold out as fast as it builds, raised GPU prices twice in three months including on 2022-vintage H100s, and guides ARR from \$3B to \$7-9B in six months. Demand outrunning supply across every silicon generation is the definition of a sunrise; the constraint sits on Nebius's side (power, delivery), not the customer's. The stress this pillar deserves: sunrises attract capital (Crusoe, Nscale, Lambda, the hyperscalers themselves), so scarcity rent is real today but not permanent.

Pillar 2: Leadership (PASS)

Arkady Volozh co-founded Yandex in 1997 (~\$30B peak, ~\$9B annual earnings 2023), executed the \$5.4B Russia divestiture (July 2024), and rebuilt the remnant into a neocloud in under two years. The bench: CFO Dado Alonso, COO Nave Ophir, CTO Danila Shtan, infra chief Andrey Korolenko, all Yandex infrastructure veterans. Capital allocation reads like owners: 50-60% prepayment coverage on capex, asset-backed debt against contracted cash flows, \$5.75B converts at a ~\$313 premium, the \$2.8B ATM at ~\$224 near the highs. Honest discount: the share count keeps rising, and early-October 2026 insider sales are optically unhelpful against 21% short interest.

Pillar 3: Moat (PARTIAL)

Real advantages: above 75% owned data centers, custom racks and ODM chassis, full software stack (Aether, Token Factory inference), InfiniBand to 3.2 Tbit/s, gigawatt-scale power contracting, NVIDIA as a 9.3% owner securing allocation. Structural weaknesses: GPUs are commoditized inputs, NVIDIA holds the spigot, hyperscalers own deeper balance sheets and the end customer, and two customers dominate the backlog. Pricing power today is scarcity rent, real but not a moat. Upgrades to PASS only if Token Factory and inference become the reason customers stay rather than the megawatts.

Pillar 4: Iron fortress (PARTIAL)

\$8.04B cash at June 30, 2026 against \$8.50B non-current debt is roughly neutral before the August \$5.75B converts; \$5.98B of deferred revenue is contracted cash already collected. The asterisk is scale: \$20-25B annual capex is 6-8x revenue, and the real fortress is the \$40B+ backlog and \$9B+ of expected 2026 prepayments, not equity. If contracts hold, the fortress holds; if a landmark customer retrenches, the funding stack transmits the pain straight to shareholders. The rare case where the balance sheet is fine and the business model is the leverage.

Pillar 5: Free cash flow (FAIL, for now)

Q2 2026 operating cash flow was +\$2.25B, but that is customer prepayments, not earnings conversion. Against \$5.66B of quarterly capex, true FCF was roughly negative \$3.4B. The grade reflects today: the company consumes cash to grow. The upgrade path is the clearest of any pillar: 41% group and 50% AI-cloud adjusted EBITDA margins, \$20-25M annual contract value per MW, and ~36% of backlog converting over the 24 months ending June 2028. If 2027 capacity converts at guided margins with prepayments intact, this pillar upgrades on evidence within two years.

What would change each grade

Sunrise holds unless AI compute demand disappoints broadly or GPU rental prices deflate durably. Leadership holds unless funding discipline breaks or Vineland execution slips. Moat upgrades if inference becomes the retention reason; downgrades if hyperscalers win the workloads in-house. Fortress holds unless the backlog cracks; upgrades if a full capex cycle funds without the ATM. FCF upgrades on positive true FCF with prepayments intact; stays failed while capex runs 6-8x revenue.

Bottom line

Two pillars pass on evidence: a sunrise market with Nebius sold out and raising prices, and a founder-operator team funding growth with customer money. The moat is partial (scarcity rent, not structure), the fortress is partial (the backlog, not the balance sheet), and free cash flow fails for now at roughly negative \$3.4B a quarter, with the clearest upgrade path in the file.

DalalBytes score: 70/100. Verdict: Positive, with a funding watch. FY2029 targets (DalalBytes estimates): bear \$120, base \$460, bull \$800. While prepayments, debt markets, and equity markets stay open together, the backlog converts and the score moves up. If any leg of the funding tripod wobbles, the equity feels it first.

Sources

Nebius Group Forms 6-K: Q3 2025, Q4 2025, Q1 2026, Q2 2026 exhibits; Microsoft 6-K (Sept 8, 2025); Meta 6-K (Mar 16, 2026).

Q2 2026 earnings call transcript (Aug 12, 2026); NVIDIA Schedule 13G (Jul 20, 2026); SEC Form 4 filings (Oct 2026).

TIKR consensus; BNP Paribas (Sept 24, 2026); William Blair (Sept 30, 2026); Motley Fool; Reuters; tradingview.com; stockanalysis.com.

Market data as of October 6-7, 2026. All scores and targets are DalalBytes research estimates.

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