TMT

November 7, 2026
Global Equity Research

Backblaze, Inc. (BLZE)

Initiation of Coverage

More Data, Dearer Drives: Initiating Neutral on Backblaze

BLZE: Neutral, PT $10.00 (+19%). Backblaze's margins have never been higher and B2 storage growth has re-accelerated to 47% (35% excluding May's price rise), with $400M of contracted backlog. Yet the stock is 59% below its August high. That was not Backblaze news: October was a sell-off across AI infrastructure, and since the CoreWeave deal the stock has traded with a beta of 2.8 to the Nasdaq-100. At $8.38 it trades on 2.4x 2027E sales, against 4.4x current-year sales for capital-light peers. Our Dec-27 PT weights base $10.04 (50%), bull $19.89 (20%) and bear $3.75 (30%); the weighted $10.12 sits just below our Overweight threshold.

The catch is the cash. Each new dollar of ARR needs about $2 of drives and servers, bought from makers that have sold out their output and raised prices per TB by 28%. At the 62% incremental margin Backblaze earned over the past year excluding price, that build pays back in 3.2 years; at our 2027E incremental margin of 41% it takes 4.9. We expect free cash flow of -$38M in 2027 and net debt of $119M at end-2027. If capex stays at the 4Q26 rate through 2027, the cash runs out and our base value falls to $7.40.

Key Points

AI demand is real, and the CFO's 40% is a low bar

AI customers brought over a third of new bookings in 1Q26 and three of the four $500K-plus deals in 3Q26, and FY26 revenue guidance has been raised three times, from $157.5M to $178.0M (Exhibit 2). With organic B2 flat at its 4Q26 level, the CoreWeave ramp alone would lift 2027 B2 revenue by 39%, close to the CFO's "40% plus" outlook. Our base adds 3% a quarter of organic growth, for B2 growth of 48% (Exhibits 1 and 18).

The drive makers, not the cloud, have the pricing power

Hard-drive supply is sold out through 2026; Western Digital's price per TB rose 28% y/y and Seagate's non-GAAP operating margin is 51%. Backblaze said in May that its equipment cost 30% more per unit than a year earlier, and it passed the cost on: May's +16% list-price rise brought less churn than expected. We find no evidence of the "special allocation" in the brief; US hyperscalers take about 60% of nearline drives. Over 12 months Seagate returned +130% and Backblaze -20% (Exhibits 6 and 14).

October was an AI-infrastructure sell-off, not Backblaze news

From 30 September to 2 November Backblaze fell 47%, CoreWeave 42%, Nebius 40%, Seagate 36% and DigitalOcean 33%, against 8% for QQQ. After the deal Backblaze's correlation with QQQ rose to 0.63; controlling for QQQ, its correlation with CoreWeave fell from 0.25 to 0.17 (Exhibit 7). We value the CoreWeave contract at $1-2 a share, or about $6 if its loss came with a bear-case de-rating.

Do not chase the results-day jump

Across 21 results since the IPO, the average day-0 move was 18%. After jumps above 10%, the next five days averaged -5.7% against QQQ (1 of 7 positive); after falls below -10%, the next 20 days averaged -9.5% (Exhibit 11). The 3Q26 release showed how fast the move fades: up 40% after hours on 2 November, the stock closed only 13% higher on 3 November.

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Symbol	PT (Previous)	Rating (Previous)	Price
BLZE	• $10.00 (NA)	Neutral (NA)	$8.38

Source: Yahoo Finance and K2 Capital. Prices at the 3-Nov-26 close, the latest available; Dec-27 PT.

Price action	Mkt cap	Week	YTD	1 year
BLZE	$0.53bn	(9.4%)	80%	(20%)
CRWV	$29.6bn	(9.8%)	(25%)	(57%)
STX	$139.2bn	(9.2%)	121%	130%
QQQ	-	(5.0%)	12%	9%

Week: 27 Oct to 3 Nov. BLZE market cap on 63.2M Class A shares at 26 Oct 2026 (10-Q). From the 13-Aug high: (59%).

K2 estimates	2026E	2027E	2028E
Revenue ($M)	178.0	231.0	267.1
Growth	22%	30%	16%
B2 growth	42%	48%	23%
Adj. EBITDA margin	31%	33%	35%
Capex / revenue	60%	49%	-
EV / sales	3.1x	2.4x	2.1x

Consensus revenue: 2026E $178.0M, 2027E $222.0M. Broker PT mean $21.50 (6 Buy, 1 Hold).

Strategy	Verdict
Chase a results-day jump	Avoid
Hold through results	Use selectively
Buy after a results-day fall below -10%	Avoid
Own BLZE with a market hedge	Use selectively
Own BLZE with a CoreWeave hedge	Avoid
Long BLZE, short drive makers	Avoid

See Exhibit 20 for the evidence behind each verdict.

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Forty per cent, once

The brief's headline is true of May. The stock rose +64% on 5 May after the 1Q26 beat and raise (up 81% intraday). After 2Q26 it rose +27% on 4 August, having already gained 13.6% on 3 August before the after-close release. After the 3Q26 release on 2 November it traded up 40% after hours, opened at $9.67 and closed at $8.38, up 13%. Between the 13 August peak of $20.43 and the 2 November close it fell 64%: first on the convertible (19 August, -12%), then in October's AI-infrastructure sell-off.

What AI adds, and what it does not

The brief's history is wrong; its acceleration is right. Revenue grew 20-26% a year in 2021-24 and B2 36-59%. Growth slowed to 14% in 2025, and the stock fell 34% on 6 November 2025 when the 4Q25 B2 outlook of 25-28% missed the 30%-plus target and a large customer cut usage. Since then B2 growth has risen from 24% in 1Q26 to 47% in 3Q26, with the CFO pointing to about 60% in 4Q26 and a "40% plus" outlook for B2 in 2027. Excluding the 1 May price rise from $6.00 to $6.95 per TB, B2 grew 35% in 3Q26, up from 26% in 2Q26. AI is the marginal buyer: over a third of new bookings in 1Q26 and three of four $500K-plus deals in 3Q26, including a $4M-plus expansion by an AI training-data provider. IDC expects data created to grow 27% a year to 2030 and installed storage 19%, and 74% of organisations in its survey keep data longer because of AI.

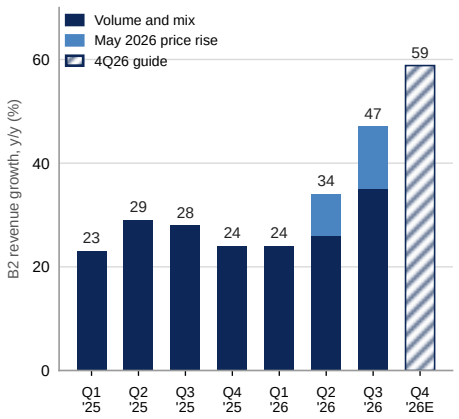
Drive Stats buys goodwill, not supply

Backblaze has published Drive Stats, quarterly failure data on the hard drives it runs, since 2015 (data since April 2013; 354,415 drives in the 2Q26 report). In 2019 it wrote that its volumes and that visibility leave makers "motivated to give us their best possible product", with early samples and roadmaps, while describing its buying power as much smaller than tier-one data centres'. We find no evidence that this earns supply priority today. The suppliers are hard-drive makers, not memory companies, and Western Digital spun off its flash business in February 2025. Backblaze says it has "secured the necessary hardware allocations" with lead times of four to five months, but at higher prices.

CoreWeave: a sixth of 2028, not the cause of October

The June agreement is worth about $335M over five- and seven-year order forms with committed minimum ramps, and CoreWeave received warrants over up to 4.19M shares at $7.60 (1.14M of them only with further contracted capacity). About 70% is capacity in Backblaze's own data centres, ramping from 1Q27 to full in 3Q27; 30% is storage it manages inside CoreWeave's, which ramps later. Net of about $22M of warrant cost, we assume $52M a year at full run rate; with managed storage still ramping, CoreWeave is 17% of our 2028E revenue. If CoreWeave paid nothing, our base value would fall by $1.00 a share if Backblaze also avoided the capex, or $2.07 if the capacity were already bought.

Exhibit 1 - Volume Led, Price Helped



Price contribution per the CFO: about 8 points in 2Q26 and 12 in 3Q26. 4Q26E: guidance midpoint.

Source: Company releases and calls, K2 Capital.

Exhibit 2 - Three Raises in 2026

FY26 guide	Revenue ($M)	Adj. EBITDA
23 Feb	156.5-158.5	19-21%
4 May	161.5-163.5	23-25%
3 Aug	172.0-174.0	27-29%
2 Nov	**177.8-178.2**	**30-31%**

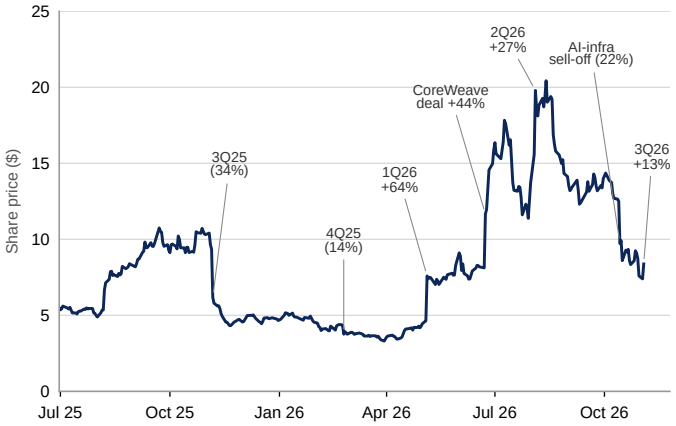
Source: Backblaze results releases.

Exhibit 3 - CoreWeave Deal Terms

Term	Detail
Signed / announced	16 Jun / 22-23 Jun 2026
Contract value	~$335M
Order forms	5 and 7 years
Mix	70% own sites, 30% managed
Warrants	Up to 4.19M sh, $7.60
Ramp	From 1Q27; platform full 3Q27
K2 run rate, net	**~$52M a year**

Source: Backblaze 8-K, 10-Q and calls; K2 Capital.

Exhibit 4 - Three Jumps, Most of It Given Back



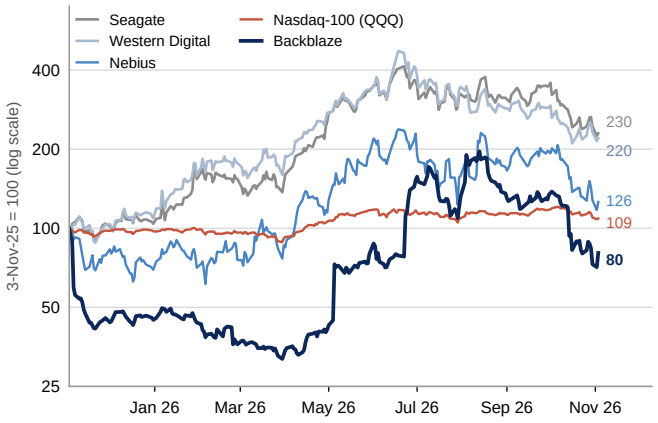
Source: Yahoo Finance, company releases, K2 Capital. Labels: day-0 close-to-close move.

Exhibit 5 - Price Target Scenarios (Dec-27)

Dec-27	Bull	Base	Bear
Organic B2 growth a quarter	6%	3%	0%
Neocloud revenue, 2028E ($M)	60	46	0
Revenue, 2028E ($M)	310	267	184
EV / 2028E sales	5.0x	3.0x	1.6x
Net debt, Dec-27E ($M)	169	119	44
Shares, Dec-27E (M)	69.6	68.0	66.9
Value per share	**$19.89**	**$10.04**	**$3.75**
vs price	137%	20%	(55%)
Probability	20%	50%	30%
Dec-27 PT (weighted)		**$10.00**	

Source: K2 Capital estimates. Weights: base 50%, bull 20%, bear 30%. Weighted value $10.12, rounded to $10.00.

Exhibit 6 - Drive Makers Took the AI Storage Trade



Source: Yahoo Finance, K2 Capital. Twelve months to 3 Nov 2026.

Exhibit 7 - October Hit All of AI Infrastructure

Daily returns	Before deal	After deal
Correlation with QQQ	**0.44**	**0.63**
Correlation with CoreWeave	0.39	0.52
Same, controlling for QQQ	**0.25**	**0.17**
Beta to QQQ	1.14	2.76
Beta to CoreWeave, with QQQ	0.13	0.16
Trading days	154	89
Price change	**30 Sep-2 Nov**	**23 Jun-2 Nov**
Backblaze	**(47%)**	**(37%)**
CoreWeave	(42%)	(53%)
Nebius	(40%)	(49%)
Seagate	(36%)	(43%)
DigitalOcean	(33%)	(43%)
Nasdaq-100 (QQQ)	(8%)	(4%)

Results days, the deal day, 3 Aug and the convertible day excluded. Before: 4 Nov 2025 to 22 Jun 2026; after: 24 Jun to 2 Nov 2026. Beta with QQQ: two-factor regression.

Source: Yahoo Finance, K2 Capital.

Exhibit 8 - A Discount to Capital-Light Peers, Narrower Once Funded

Company	Quarter	EV ($bn)	EV / FY26E sales	Latest growth	Margin	Margin basis	Growth + margin	12-month return
Backblaze	**3Q26**	**0.55**	**3.1x**	**26%**	**33%**	**adj. EBITDA**	**59**	**(20%)**
Backblaze, funded*	**3Q26**	**0.66**	**3.7x**	**26%**	**33%**	**adj. EBITDA**	**59**	**-**
Fastly	2Q26	3.42	4.6x	23%	21%	adj. EBITDA	44	154%
Akamai	2Q26	18.42	4.1x	5%	38%	adj. EBITDA	43	16%
Box	2Q FY27	6.01	4.7x	9%	29%	non-GAAP op.	38	33%
Dropbox	2Q26	10.46	4.2x	1%	40%	non-GAAP op.	41	18%
Median of the four above			**4.4x**					
DigitalOcean	3Q26	11.85	9.8x	40%	45%	adj. EBITDA	85	118%
CoreWeave	2Q26	75.71	5.9x	112%	59%	adj. EBITDA	172	(57%)

*Funded: EV plus the $103M we expect Backblaze to consume funding its build to end-2027 (capex and lease interest less EBITDA). Backblaze: FY26 guidance midpoint, 3Q26 growth and margin. Peers: FY26 revenue guidance midpoints (Box: year to Jan-27), latest-quarter growth and margin; market value, debt (including leases) and cash per Yahoo Finance at 3 Nov 2026.

Source: Company releases (DigitalOcean 3Q26; others 2Q26), Yahoo Finance, K2 Capital.

Exhibit 9 - Backblaze Select Financials

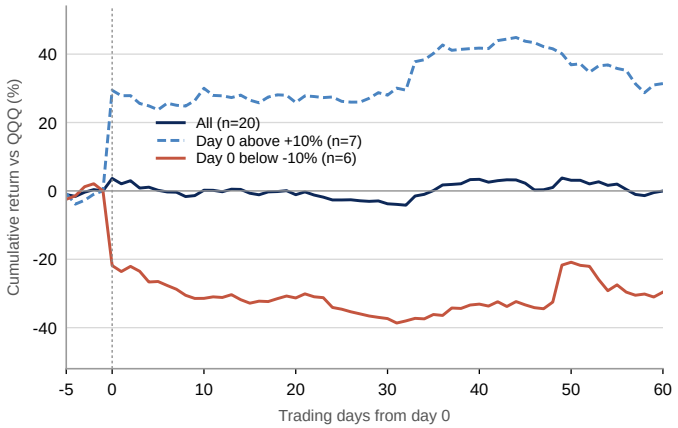
Quarterly Results and Operating Metrics ($M unless stated)

	Q1'25	Q2'25	Q3'25	Q4'25	Q1'26	Q2'26	Q3'26
Revenue	34.6	36.3	37.2	37.8	38.7	42.7	46.7
% growth	*15%*	*16%*	*14%*	*12%*	*12%*	*18%*	*26%*
B2 Cloud Storage	18.0	19.8	20.7	21.3	22.4	26.6	30.5
% growth	*23%*	*29%*	*28%*	*24%*	*24%*	*34%*	*47%*
Computer Backup	16.6	16.5	16.5	16.5	16.2	16.1	16.2
Adj. gross margin	79%	79%	79%	80%	79%	80%	81%
GAAP gross margin	56%	63%	62%	62%	61%	63%	64%
Adj. EBITDA	6.4	6.6	8.4	10.4	10.1	12.8	15.2
% margin	*18%*	*18%*	*23%*	*28%*	*26%*	*30%*	*33%*
Adj. free cash flow	(2.1)	(3.9)	(3.5)	4.1	(1.8)	3.2	0.5
ARR	140.8	145.9	147.2	154.4	158.2	177.3	190.7
B2 ARR	73.8	80.7	81.8	88.9	93.0	113.3	126.8
B2 net revenue retention	105%	114%	116%	n/a	110%	113%	115%

ARR from 1Q26 on the new method (average daily revenue of the last month x 365). B2 NRR on the single-quarter basis, with 2025 as recast in the 2026 releases; 4Q25 was not recast. GAAP gross margin rose in 2Q25 when drive lives were extended to six years.

Source: Backblaze 8-K results releases and 3Q26 investor presentation.

Exhibit 10 - After the Jump, the Drift Is Down



Source: Yahoo Finance, K2 Capital. Events with a full 60-day window; cumulative from the close before day 0.

Exhibit 11 - Results-Day Statistics

vs QQQ	All	t-stat	Day 0 > +10%	Day 0 < -10%
Days -5 to -1	(0.3%) (10/21)	-0.1	(0.6%) (4/8)	0.0% (4/6)
Day 0	4.1% (12/21)	0.8	27.3% (8/8)	(21.8%) (0/6)
Days +1 to +5	**(3.5%) (7/20)**	**-1.6**	**(5.7%) (1/7)**	**(4.7%) (2/6)**
Days +1 to +20	(4.8%) (7/20)	-1.0	(3.6%) (3/7)	(9.5%) (2/6)
Days +1 to +60	(3.7%) (9/20)	-0.4	2.0% (4/7)	(7.8%) (2/6)
Median, all events	2.7% (day 0)			
Average absolute day 0	18.1%			

BLZE minus QQQ, close to close, summed over the window; in brackets, events above zero out of the total. Day 0 is the first session able to react.

Source: K2 Capital calculations.

Results days: large, two-way and not worth chasing

We measured Backblaze against the Nasdaq-100 (QQQ) around all 21 results releases since the November 2021 IPO, using release times to set day 0. The average day-0 abnormal return was +4.1% (median +2.7%), but with a t-statistic of 0.8 and an average absolute move of 18%, holding through results is a coin toss with very large stakes. What follows is clearer: the next five days averaged -3.5% (7 of 20 positive), and -5.7% after jumps above 10% (1 of 7 positive). The samples are small (t below 2 throughout), the 60-day windows overlap later events and QQQ understates the stock's market beta, so we read this as a reason not to chase, not as a short signal. Large falls have tended to extend: days +1 to +20 averaged -9.5% after drops below -10%.

Exhibit 12 - Every Results Release Since the IPO

Quarter	Released	Day 0	BLZE day 0	vs QQQ: day 0	Days -5 to -1	+1 to +5	+1 to +20	+1 to +60
3Q21	13-Dec-21, after close	14-Dec-21	(3.8%)	(2.8%)	(5.6%)	(8.4%)	(31.3%)	(38.6%)
4Q21	**17-Feb-22, after close**	**18-Feb-22**	**(28.7%)**	**(27.6%)**	**(2.8%)**	**14.4%**	**16.6%**	**(22.4%)**
1Q22	**05-May-22, after close**	**06-May-22**	**(19.3%)**	**(18.1%)**	**4.6%**	**(18.2%)**	**(24.7%)**	**(23.6%)**
2Q22	09-Aug-22, after close	10-Aug-22	5.5%	2.7%	16.0%	5.9%	(4.0%)	(20.5%)
3Q22	**10-Nov-22, after close**	**11-Nov-22**	**12.3%**	**10.5%**	**(12.1%)**	**(12.0%)**	**8.1%**	**23.1%**
4Q22	15-Feb-23, after close	16-Feb-23	4.2%	6.1%	(3.6%)	(9.4%)	(30.9%)	(45.4%)
1Q23	09-May-23, after close	10-May-23	1.7%	0.6%	(1.3%)	5.5%	(8.5%)	10.8%
2Q23	08-Aug-23, after close	09-Aug-23	(10.7%)	(9.6%)	(4.5%)	1.5%	48.9%	27.9%
3Q23	08-Nov-23, after close	09-Nov-23	(5.3%)	(4.5%)	9.8%	9.4%	29.3%	32.9%
4Q23	**15-Feb-24, after close**	**16-Feb-24**	**45.2%**	**46.1%**	**(6.9%)**	**(18.4%)**	**(13.0%)**	**(45.2%)**
1Q24	**08-May-24, after close**	**09-May-24**	**(24.3%)**	**(24.5%)**	**1.9%**	**(5.4%)**	**(26.2%)**	**(35.7%)**
2Q24	**08-Aug-24, after close**	**09-Aug-24**	**24.5%**	**23.9%**	**(14.2%)**	**(0.7%)**	**(10.8%)**	**6.4%**
3Q24	**07-Nov-24, after close**	**08-Nov-24**	**(13.7%)**	**(13.8%)**	**3.9%**	**(5.2%)**	**1.2%**	**2.7%**
4Q24	25-Feb-25, after close	26-Feb-25	5.5%	5.3%	(11.2%)	(6.1%)	(16.9%)	(7.7%)
1Q25	**07-May-25, after close**	**08-May-25**	**16.2%**	**15.1%**	**1.1%**	**(4.9%)**	**0.5%**	**(10.0%)**
2Q25	**07-Aug-25, before open**	**07-Aug-25**	**24.9%**	**24.5%**	**4.5%**	**11.9%**	**26.2%**	**36.8%**
3Q25	**06-Nov-25, before open**	**06-Nov-25**	**(33.8%)**	**(32.0%)**	**(9.7%)**	**(18.2%)**	**(22.4%)**	**(35.5%)**
4Q25	**23-Feb-26, after close**	**24-Feb-26**	**(14.0%)**	**(15.0%)**	**2.4%**	**4.6%**	**(1.3%)**	**68.0%**
1Q26	**04-May-26, after close**	**05-May-26**	**63.6%**	**62.3%**	**8.9%**	**(11.3%)**	**(2.2%)**	**72.6%**
2Q26	**03-Aug-26, after close**	**04-Aug-26**	**26.9%**	**23.5%**	**22.9%**	**(4.5%)**	**(33.7%)**	**(69.9%)**
3Q26	**02-Nov-26, after close**	**03-Nov-26**	**13.2%**	**12.6%**	**(9.2%)**	**-**	**-**	**-**
Mean (all)				**4.1%**	**(0.3%)**	**(3.5%)**	**(4.8%)**	**(3.7%)**
Median (all)				**2.7%**	**(1.3%)**	**(5.0%)**	**(6.3%)**	**(8.8%)**

Blue: day-0 abnormal return above +10%; peach: below -10%. Release dates and times from company releases, call times and the Yahoo Finance calendar (2021-23); 3Q26 windows after day 0 are not yet complete. 2Q26: the stock also rose 13.6% on 3 Aug, before the after-close release.

Source: Company releases, Yahoo Finance (earnings calendar and prices), K2 Capital.

Exhibit 13 - B2 Is Still the Cheap Shelf After Its Rise

US standard tier	$/TB-month	vs B2	Egress
Backblaze B2	**$6.95**	**1.0x**	**Free up to 3x data stored**
Wasabi	$7.99	1.1x	Free (90-day minimum)
Cloudflare R2	$15.00	2.2x	Free
Google Cloud Storage	$18.19	2.6x	$0.08-0.12/GiB
Azure Blob (Hot LRS)	$20.80	3.0x	$0.05-0.087/GB
AWS S3 Standard	$23.00	3.3x	$0.05-0.09/GB

Pay-as-you-go list prices at 3 Nov 2026, per decimal TB; Google $20 per TiB (Iowa). B2 egress free up to 3x average data stored.

Source: Vendor price lists and notices, K2 Capital.

Exhibit 14 - The Drive Makers Set the Price

Drive market, latest quarter	Reading
Western Digital price per TB, y/y	+28%
Western Digital exabytes shipped, y/y	+22%
Seagate revenue, y/y	+61%
Seagate non-GAAP operating margin	51%
Nearline HDDs sold to US hyperscalers	about 60%
HDD contract prices, 2Q26 q/q	about +10%
Backblaze equipment cost per unit, y/y (May)	**+30%**
Backblaze hardware lead time (Nov)	**4-5 months**

Western Digital and Seagate quarters to 2 Oct 2026.

Source: Seagate and Western Digital results (Oct 2026), Nikkei (Jun 2026), Backblaze calls (May, Nov 2026).

Exhibit 15 - New ARR Pays Only at High Margins

Margin on $1 of ARR	Cash/yr	Payback	IRR	At $2.50
Adj. gross margin, 3Q26, 81%	$0.81	2.5 yrs	33%	23%
Incremental, past year ex price, 62%	**$0.62**	**3.2 yrs**	**22%**	**13%**
Incremental, our 2027E, 41%	**$0.41**	**4.9 yrs**	**6%**	**(1%)**
Average EBITDA, 3Q26, 33%	$0.33	6.1 yrs	0%	(6%)

$2 of capex per $1 of new ARR (CFO, 3Q26 call), six-year drive life; cash a year = margin x $1; no price escalation or residual value. Last column: $2.50 of capex. Incremental: adj. EBITDA; past year = 3Q26 vs 3Q25, removing the price rise from revenue and EBITDA.

Source: Backblaze releases and 3Q26 call, K2 Capital.

Exhibit 16 - The Build Consumes Cash Through 2027

Base case ($M)	4Q26E	2027E
Adjusted EBITDA	16.5	76.2
Capex incl. finance leases	(74.2)	(112.7)
Lease interest less interest income	0.3	(1.6)
Free cash flow	**(57.4)**	**(38.0)**
Net debt, end of period	**80.6**	**118.7**
Cash, end of period	172.8	134.8
Memo: capex at the 4Q26 rate		cash (52.6)

Starting net debt $23.2M at 30 Sep 2026: $201.25M convertible plus $52.2M of leases less $230.2M of cash. All capex paid in cash; finance leases would raise cash and debt equally. Capex: $2 per $1 of new ARR plus 8% of revenue (K2 assumption).

Source: Backblaze 10-Q and 3Q26 call, K2 Capital estimates.

The economics of a terabyte

Each new dollar of ARR costs about $2 of hardware up front (CFO), on drives depreciated over six years. Over the past year, excluding the price rise, Backblaze earned an incremental adjusted EBITDA margin of 62%: at that rate a new dollar pays back in 3.2 years, an IRR of 22% (Exhibit 15). Our own 2027E incremental margin is 41%, which stretches payback to 4.9 years and the IRR to 6%; at the average margin of 33% the build does not pay back within the drives' six-year life. The investment case therefore rests on operating leverage, and on Backblaze passing drive inflation through. At $2.50 of capex per dollar of ARR, the past year's IRR falls to 13%. May's price rise, the first since 2023, shows it can pass costs on: B2 still lists at 30% of S3, and the expected churn did not materialise. Wasabi raised its price by a similar amount in July, citing hardware costs.

What today's price assumes, and where we differ from the Street

At $8.38 Backblaze trades on 3.1x FY26E sales against a 4.4x median for four capital-light internet infrastructure peers (Exhibit 8). Adding the $103M of cash still needed for the build narrows the discount (3.7x). Our base case returns today's price at 2.6x 2028E sales in December 2027, and at 2.8x if CoreWeave pays nothing. We use 3.0x, above today's 2.4x forward multiple and below the peers' current-year median. Our revenue is above consensus; our PT is not. The Street's mean of $21.50 needs 6.1x 2028E sales on our base case, about 2.5 times today's forward multiple, and five of the six broker targets behind it predate October. Needham cut its target from $23 to $15 after the results.

Exhibit 17 - Above the Street on Revenue, Half Its Multiple

	K2 Capital	Consensus	Difference
Revenue, FY26E ($M)	178.0	178.0	0.0%
Revenue, FY27E ($M)	231.0	222.0	4.0%
Price target ($)	**10.00**	**21.50 (mean)**	**(53%)**
Price target range ($)	3.75-19.89	15.00-25.00	
Ratings	Neutral	6 Buy, 1 Hold	
EV / 2028E sales needed	**3.0x**	**6.1x**	

Consensus: Yahoo Finance revenue and Finviz broker PTs, 3 Nov 2026. Last row: EV to 2028E sales needed on our base case for each PT.

Source: Finviz, Yahoo Finance, MarketBeat, K2 Capital.

Price Target Calculation and Key Risks
Backblaze, Inc. (BLZE)

Investment Thesis

We initiate at Neutral with a Dec-27 PT of $10.00 (+19%), against a broker mean of $21.50. Backblaze sells object storage at about a third of the hyperscalers' list price, and AI builders and neoclouds have helped take B2 growth from 24% to 47% this year, with $400M of contracted backlog; 12 points of 3Q26's growth was price. We do not share the brief's case: Backblaze has no edge in buying drives, its growth needs about $2 of capex per dollar of ARR, and the stock trades as high-beta AI infrastructure rather than as a storage annuity. The shares look cheap against capital-light peers, but less so once the build is funded. Our weighted value of $10.12 is just below the $10.13 that would make the stock Overweight on our rules. Moving five points of probability from bull to bear gives $9.32, and each 0.5x on the base multiple moves the PT by about $0.94.

Base Case/PT

4Q26 at the guidance midpoint ($50.0M; B2 +59%) gives FY26E revenue of $178.0M. From the 4Q26 exit we grow organic B2 by 3% a quarter (13% a year), add CoreWeave revenue of $26M in 2027E and $46M in 2028E, and let Computer Backup decline 3% a year. B2 grows 48% in 2027E, above the CFO's "40% plus". Revenue is $231.0M in 2027E (consensus $222.0M) and $267.1M in 2028E, with adjusted EBITDA margins of 33% and 35%. Capex of $113M in 2027E leaves free cash flow of -$38M and net debt of $119M at end-2027; shares rise to 68.0M with stock-based pay and the CoreWeave warrants. At 3.0x 2028E sales, the EV is $801M and the value $10.04. Weighting base 50%, bull 20% and bear 30% gives $10.12, which we round to $10.00.

Bull Case/PT

Organic B2 grows 6% a quarter in 2027 and 5% in 2028, and neocloud revenue runs 30% above the CoreWeave contract alone (the second neocloud and new contracts). Revenue reaches $310M in 2028E at a 38% margin. At 5.0x sales, below the 9.8x current-year multiple DigitalOcean trades on, the value is $19.89. The faster build consumes $88M of cash in 2027, leaving $84M, so this case would probably need new funding.

Bear Case/PT

CoreWeave stops paying, the 4Q26 build earns nothing, and organic B2 is flat in 2027 and falls 2% a quarter in 2028 as the price rise laps and AI customers churn. Revenue is $184M in 2028E at a 27% margin. At 1.6x forward sales, two-thirds of today's 2.4x, the value is $3.75. With capex cut to maintenance, net debt falls to $44M.

Risks

Upside risks: (1) a second CoreWeave-size neocloud contract, which we estimate would add about $1.00 to our base value; (2) organic B2 growth nearer the 35% ex-price pace of 3Q26 than our 13%; (3) a return of the AI-infrastructure multiples of August. Downside risks: (1) capex: the CEO expects capex to rise by "something like a factor of 10" over about a year, and at the 4Q26 rate through 2027 our base value falls to $7.40 with the cash exhausted; (2) CoreWeave's credit: its five-year CDS reached a record 1,194.5bp intraday on 15 October and its unsecured bonds yield about 15%; (3) concentration: two customers were 24% of receivables at 30 September; (4) the 2024 former-employee lawsuits behind the 2025 short report: their status is not disclosed in the filings we could review, and the company says an Audit Committee review with an independent law firm and forensic accountants found no wrongdoing; (5) volatility: 114% annualised over the past year.

Exhibit 18 - Dec-27 Value Build by Scenario

Dec-27 value build	Bull	Base	Bear
Organic B2 growth a quarter, 2027E	6%	3%	0%
Revenue, 2027E ($M)	250.0	231.0	194.0
Revenue, 2028E ($M)	310.4	267.1	184.4
of which neocloud, 2028E ($M)	60.3	46.4	0.0
B2 growth, 2027E	64%	48%	16%
Adj. EBITDA, 2027E ($M)	87.5	76.2	52.4
Capex, 2027E ($M)	(173.4)	(112.7)	(15.5)
Free cash flow, 2027E ($M)	(88.4)	(38.0)	36.6
EV / 2028E sales	5.0x	3.0x	1.6x
Enterprise value ($M)	1,552	801	295
Less: net debt, Dec-27E ($M)	(169.0)	(118.7)	(44.1)
Equity value ($M)	1,383	683	251
Shares incl. warrants, Dec-27E (M)	69.6	68.0	66.9
Value per share	**$19.89**	**$10.04**	**$3.75**
Probability	20%	50%	30%
Dec-27 PT (weighted)		**$10.00**	

Source: K2 Capital estimates. Weights: base 50%, bull 20%, bear 30%.

Exhibit 19 - CoreWeave Is Worth $1-6 a Share

Paid / EV to sales	2.0x	2.5x	3.0x	3.5x	4.0x
100% of contract	**$6.21**	**$8.17**	**$10.04**	**$11.92**	**$13.80**
50% of contract	$6.03	$7.83	$9.54	$11.26	$12.97
0% of contract	**$5.84**	**$7.49**	**$9.04**	**$10.59**	**$12.14**

Dec-27 value per share; rows: share of the CoreWeave contract paid; columns: EV to 2028E sales. Base case otherwise unchanged; without CoreWeave revenue, 2027 capex also falls. Today's price $8.38.

Source: K2 Capital estimates.

Three ways to value CoreWeave

At our base multiple, losing CoreWeave costs $1.00 a share if Backblaze also avoids the 2027 capex, and $2.07 if the capacity has already been bought. If its loss came with our bear case, the gap is $6.29. The multiple matters as much: 0.5x on it is worth about $1.87.

What Would Make Us Wrong?

We would revisit our rating if any of the following occur:

1. **CoreWeave stops paying.** If CoreWeave misses a payment or a coupon, or its five-year CDS stays above 1,500bp through 1Q27, our bear case ($3.75) becomes the base and we would move to Underweight.
2. **Organic growth stalls.** If B2 ARR additions fall below $5M in any quarter of 1H27 ($13.5M in 3Q26), organic B2 is not growing at our 3% a quarter and we would move to Underweight.
3. **Organic growth beats us.** If B2 ARR additions excluding CoreWeave exceed $15M a quarter in 1H27, or Backblaze signs a second neocloud contract of CoreWeave's size (about $1.00 on our base value), we would move to Overweight.
4. **Capex outruns revenue.** If February's 2027 guidance puts capex above 75% of revenue, or capex per dollar of new ARR exceeds $2.50 over 4Q26-2Q27 (CFO: about $2); at the 4Q26 capex rate our base value is $7.40.
5. **Margins slip.** If the adjusted EBITDA margin falls below 30% in 1H27 (33% in 3Q26; 32-34% guided for 4Q26), the operating leverage the build needs is not arriving.
6. **Customers leave.** If B2 gross retention falls below 87% or B2 net revenue retention below 110% in any 2027 quarter (89% and 115% in 3Q26), the price rise has cost more than it earned.
7. **Accounting questions return.** An adverse ruling in the former-employee suits, a restatement or a change of auditor would lead us to suspend the rating.

Signposts

CoreWeave 3Q26 results (around 10 November on Finviz's calendar, not confirmed by the company) and Nebius 3Q26 (around 12 November, same caveat), the next read on sector credit fears. Through 4Q26: Backblaze's $65-83M of 4Q26 capex, mostly funded by the convertible. February 2027: 4Q26 results and the first formal 2027 guidance, including capex. 1Q27-3Q27: the CoreWeave and second-neocloud ramps (platform full by 3Q27). 1 May 2027: the price rise drops out of growth. 1H27: the guided 3-6 point dip in GAAP gross margin as depreciation runs ahead of revenue. Every quarter: 5% of the initial CoreWeave warrant vests.

Exhibit 20 - Strategy Scorecard

Strategy	Evidence	Verdict
Chase a results-day jump (buy the close after day 0 above +10%)	Days +1 to +5 averaged -5.7% vs QQQ (1 of 7 positive, t -1.6, weak)	**Avoid**
Hold through results	Day 0 averaged +4.1% vs QQQ (median +2.7%, t 0.8, 12 of 21 positive) on an average absolute move of 18%; small positions only	**Use selectively**
Buy after a results-day fall below -10%	Days +1 to +20 averaged -9.5% vs QQQ (2 of 6 positive)	**Avoid**
Own BLZE with a market hedge (short 2.8x QQQ)	Since 23 Jun: -15% hedged vs -28% unhedged; volatility 78% vs 103%; drawdown -55% vs -64% (in sample, before borrow costs)	**Use selectively**
Own BLZE with a CoreWeave hedge	Two-factor CoreWeave beta only 0.16; partial correlation with CoreWeave 0.17 after the deal vs 0.25 before	**Avoid**
Long BLZE, short the drive makers (the brief's 'not a hardware maker' edge)	-77% over 12 months, daily rebalanced; max drawdown -87%	**Avoid**

Verdicts: Implement (adds value after costs), Use selectively (in defined circumstances only), Avoid. Small samples; hedge results in sample, before borrow costs.

Source: Yahoo Finance, K2 Capital calculations.

Exhibit 21 - The Brief's Claims, Checked

Claim in the brief	Verdict	Evidence
Backblaze is up over 40% after earnings	**Once**	+64% on 5 May (1Q26); 2Q26 +27% on the day; 3Q26 +40% after hours but +13% at the 3 Nov close
More AI means more data stored	**Directionally right**	IDC: data created +27% a year to 2030, installed storage +19%; AI was over a third of Backblaze's new bookings (1Q26), not of revenue
Not making storage hardware is an advantage	**True, but a cost**	Buys drives from Seagate, Western Digital and Toshiba; equipment +30% per unit y/y (May); Western Digital price per TB +28%
Pure play, around for over 20 years	**Partly**	B2 and backup are substantially all revenue; incorporated in 2007, so 19 years; IPO November 2021 at $16
Modest growth for most of its life, then an AI acceleration	**Partly**	History wrong: revenue +20% to +26% a year in 2021-24, then +14% in 2025. Acceleration real: B2 24% to 47% in 2026, 12 points of it price
Drive Stats earns special allocation from 'memory companies'	**No evidence**	Quarterly HDD failure data since 2013; makers give early samples and roadmaps (2019 blog), but no supply priority is disclosed; suppliers are HDD, not memory, makers
Recurring revenue makes it the Nebius of storage	**Partly**	Recurring: ARR $190.7M, RPO $400M; but it buys drives at rising prices, and since June has traded at a beta of 2.8 to QQQ
Too small to be a fraud	**Not an argument**	Market value $0.53bn; a 2025 short report alleged 'sham accounting'; the company says an Audit Committee review found no wrongdoing

Source: Backblaze filings, releases and blog; Seagate and Western Digital results; IDC via Western Digital; Morpheus Research; Yahoo Finance; K2 Capital.

Important Disclosures

Analyst Certification

The research analysts of K2 Capital Limited responsible for this report certify that (1) the views expressed in this report accurately reflect their personal views about the subject companies and their securities, and (2) no part of their compensation was, is or will be directly or indirectly related to the specific ratings or views expressed in this report.

Rating Definitions

Overweight: over the duration of the price target, we expect the stock to outperform the total return of the relevant benchmark, which in this report is the S&P 500. **Neutral:** we expect the stock to perform in line with it. **Underweight:** we expect the stock to underperform it. Price targets are set for the period stated and are based on the methodology and risks described in this report. Strategy verdicts: Implement (we expect the strategy to add value after costs), Use selectively (beneficial in defined circumstances only), Avoid (we do not expect it to add value after costs). We treat an expected total return within 10 percentage points of our S&P 500 assumption (11% to December 2027) as in line.

Rating Distribution

(As of November 7)	% of coverage	Companies
Overweight	0.00%	0
Neutral	100.00%	1
Underweight	0.00%	0

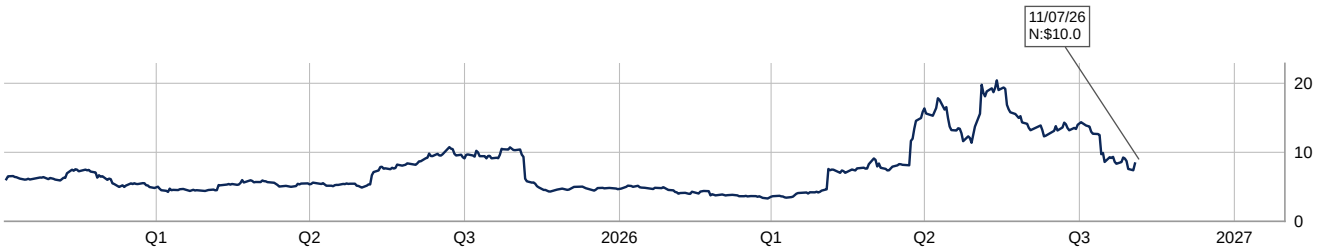
Rating History

Date	Company	Rating	Price ($)	Price Target ($)
07-Nov-26	Backblaze, Inc. (BLZE)	Neutral (initiation)	8.38	10.00

Positions and Conflicts

K2 Capital Limited, its principals and employees may hold positions in, and may trade, the securities of the companies discussed in this report or related instruments, including positions inconsistent with its ratings.

Rating and Price Target History for: Backblaze, Inc. (BLZE) as of 11-07-2026



Created by: K2 Capital

Sources and Methodology

Prices are as of the close on 3 November 2026, the latest available when this report was prepared; the report is dated 7 November 2026 and uses no information published after 3 November. Daily prices for Backblaze, the Nasdaq-100 (QQQ), the S&P 500, CoreWeave, Nebius, NVIDIA, Seagate, Western Digital and the peers in Exhibit 8 are from Yahoo Finance; intraday prices for 3 November from Yahoo Finance and StockAnalysis. Company information is from Backblaze's 3Q26 Form 8-K and investor presentation (2 November 2026), Form 10-Q to 30 September 2026, results releases from 2021 to 2026, the FY2024 and FY2025 Form 10-K, the CoreWeave Form 8-K (23 June 2026), the convertible releases (18-19 August 2026), the IPO and follow-on releases, and the company's blog. Call commentary is from the 3Q25, 4Q25, 1Q26, 2Q26 and 3Q26 call transcripts (Motley Fool, MarketBeat, Investing.com). Peer data are from DigitalOcean, Fastly, Akamai, Box, Dropbox, CoreWeave, Seagate and Western Digital results releases and calls. Storage prices are from vendor price lists and notices (Backblaze, Wasabi, Cloudflare, Google Cloud, Microsoft Azure, AWS). Industry data are from IDC (via Western Digital, September 2026), TrendForce, Nikkei, The Register and SiliconANGLE. Consensus estimates and analyst actions are from Finviz, StockAnalysis (S&P Global), Yahoo Finance and MarketBeat; the short report is Morpheus Research (24 April 2025). Market reactions are from Dow Jones, Barron's, Motley Fool, Stocktwits, 24/7 Wall St, SiliconANGLE, Panabee and Global Banking & Finance Review as dated. Event-study returns are Backblaze less QQQ, close to close, with day 0 the first session able to react (after-close releases react the next session). Correlations and betas use daily returns over the stated windows, excluding results days, the CoreWeave deal day, 3 August 2026 and the convertible day; the partial correlation and two-factor betas control for QQQ. Market capitalisation uses the 63.2M Class A shares on the 10-Q cover. Revenue, EBITDA, capex, free cash flow, net debt, share counts, scenarios and price targets are K2 Capital estimates; CoreWeave revenue is our estimate from the disclosed contract value. Estimates are K2 Capital's and are subject to change without notice.

General

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