Zacks Small-Cap Research

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Marla Backer
312-265-9211
mbacker @zacks.com

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

Sysorex Global (SYRX-NASDAQ)

SYRX: *Leveraging New Technologies to Cross-Promote Services and Generate Synergies*

Current Recommendation	**Outperform**
Prior Recommendation	
Date of Last Change	06/29/2015
Current Price (08/14/15)	$1.44
Six- Month Target Price	**$3.00**

OUTLOOK

Sysorex's Professional Service segment, which enjoys higher average margins than the company's legacy business, recorded a revenue advance of nearly 38% y/y in 2Q15. Management expects its strategy to shift its revenue mix towards higher margin services and products to have a positive impact on consolidated gross margins over time. The company also believes that a recent deal with Gilead Sciences illustrates its ability to successfully cross-sell services, as Gilead has been a customer for several years and has begun to leverage more of its services.

SUMMARY DATA

52-Week High	**$4.45**
52-Week Low	**$0.98**
One-Year Return (%)	**-64.80**
Beta	**-0.65**
Average Daily Volume (sh)	**86,866**
Shares Outstanding (mil)	**20**
Market Capitalization ($mil)	**$28**
Short Interest Ratio (days)	**5.40**
Institutional Ownership (%)	**3**
Insider Ownership (%)	**38**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2015 Estimate	**N/A**
P/E using 2016 Estimate	**N/A**

Risk Level	**High,**
Type of Stock	**Small-Value**
Industry	**It Services**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	5 A	15 A	14 A	16 A	51 A
2014	16 A	17 A	14 A	15 A	63 A
2015	14 A	17 A	16 E	17 E	64 E
2016					70 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	-$0.04 A	-$0.04 A	-$0.02 A	-$0.04 A	-$0.09 A
2014	-$0.02 A	-$0.03 A	-$0.11 A	-$0.08 A	-$0.24 A
2015	-$0.15 A	-$0.09 A	-$0.13 E	-$0.07 E	-$0.44 E
2016					-$0.28 E

Zacks Projected EPS Growth Rate - Next 5 Years % NA

Disclosures begins on page 12

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KEY POINTS

- Sysorex recently reported 2Q15 revenue of $17.7 million, up 3.4% year-over-year, and a pro-forma net loss of ($225,000) or ($0.01) per share compared to $265,000 or $0.01 recorded in 2Q14. While there was no gross margin improvement in the quarter, management expects its strategy to shift its revenue mix towards higher margin services and products to have a positive impact on consolidated gross margins over time.

- The company believes that several of the deals it has signed thus far in 2015 illustrate its growing traction in cross-selling its extended service offerings. These include a new deal with Gilead Sciences, two contracts that management believes will allow it to extend Lilien into the federal sector and deals to provide location based technology to an upscale mall in Saudi Arabia and to a workers' housing community in Qatar.

- The company's goal is to expand its high margin, high growth businesses. Its focus on the Professional Services segment, which generated a margin of 54% in 2Q15, resulted in a 37.7% year-over-year revenue improvement in 2Q15.

- The deal with Gilead Sciences represents the company's largest Professional Services contract to-date. Gilead has been a Sysorex customer for several years and has begun to leverage more of Sysorex' services, as the company has expanded the breadth of services and products it offers. The company believes that the Gilead contract illustrates its ability to successfully cross-sell services to existing and potential clients.

2Q15 HIGHLIGHTS

Sysorex (SYRX-NASDAQ) reported second quarter 2015 results on August 5, 2015, with revenue of $17.7 million up 3.4% year-over-year from $17.1 million reported for the second quarter of 2014. The increase primarily reflected higher Professional Services and Storage and Computing revenues. Professional Services revenue advanced 37.7% year-over-year to $3.1 million and represented 18% of total revenue compared to 13% in last year's second quarter. Storage and Computing revenue increased 4.7% compared to 2Q14. The segment accounted for the majority of total revenue, with a 75% contribution in both years. These improvements were partially offset by declines in the Mobile, IoT & Big Data Products and SaaS segments.

Storage and Computing revenue came in at $13.4 million compared to $12.8 million registered in 2Q14. SaaS revenue was $987,000, down 2.1% from $1.0 million registered in 2Q14. The segment accounted for 6% of total second quarter revenue in both years. Sysorex's Mobile, IoT and Big Data Products segment generated $233,000 of revenue, down 78.9% from $1.1 million registered in the comparable period of 2014. The Mobile, IoT & Big Data Products segment accounted for 1% of total revenue, down from a 6% contribution in 2Q14.

Sysorex Segment Comparisons, 2Q15 vs. 2Q14 ($ Thousands)

	Mobile, IoT & Big Data Products	Storage & Computing	SaaS Revenues	Professional Services	Consolidated
2Q15					
Net revenues	$233	$13,363	$987	$3,114	$17,697
Cost of net revenues	(68)	(10,292)	(206)	(1,435)	(12,001)
Gross profit	165	3,071	781	1,679	5,696
Gross margin %	71%	23%	79%	54%	32%
Depreciation and amort	24	30	23	1	78
Amortization of intangibles	672	192	136	-	1,000
2Q14					
Net revenues	$1,106	$12,768	$1,008	$2,262	$17,144
Cost of net revenues	(126)	(10,021)	(198)	(1,120)	(11,465)
Gross profit	980	2,747	810	1,142	5,679
Gross margin %	89%	22%	80%	50%	33%
Depreciation and amort	30	45	7	4	86
Amortization of intangibles	921	192	136	-	1,249

Source: Company reports

Gross Profit

The company's total gross profit of $5.7 million was flat compared to the same period of 2014, while the gross profit margin of roughly 32% was down slightly from 33% reported for 2Q14. The SaaS and Mobile, IoT & Big Data segments enjoy higher margins than the Storage and Computing and Professional Services units. We believe consolidated gross margins were impacted by the year-over-year revenue decline in the Mobile, IoT & Big Data segment, as well as some margin compression at that segment.

The company reported a net loss attributable to stockholders of ($1.7) million, which was narrower than ($2.4) million registered in 2Q14. This was primarily related to acquisition costs of AirPatrol that the company recognized in 2Q14. The company did not recognize any such costs in 2Q15.

On a pro-forma basis excluding stock based compensation, amortization of intangibles and one-time charges, Sysorex recognized a net loss of ($225,000) or ($0.01) per share in 2Q15 compared to net income of $265,000 or $0.01 recorded in 2Q14. 2Q15 adjusted EBITDA was $34,000 compared to $455,000 for 2Q14.

Balance Sheet

Sysorex had cash and equivalents of $2.2 million at the end of 2Q15, down from $2.7 million at the end of 1Q15. The company expanded its borrowing capacity, increasing its credit limit to $10 million from $6 million. Bridge Bank also extended Sysorex a new $2 million term loan. We would like to see the company reduce its use of cash from operations.

OUTLOOK

With most of the pieces in place following the company's strategic M&A strategy designed to transform Sysorex into a data analytics company focused on enterprise customers, the company believes that clients will increasingly leverage multiple services that the consolidated company now offers.

In fact, the company believes that several of the deals it signed in 2015 thus far illustrate growing traction of its extended Big Data analytics solution, including the Crowdstar deal discussed below. Sysorex also won two contracts in April 2015 that management believes will allow Sysorex to extend Lilien into the federal sector. At the same time, the company expects that location based data from AirPatrol can be used to grow Big Data revenue. As more devices become connected, management expects to be able to capture data from any device and incorporate it into its data analytics platform. LightMiner's in-memory database makes it a rapid and scalable solution to address the Big Data analytic needs of enterprise customers, according to Sysorex, which believes that all of its business units will be able to leverage the LightMiner assets.

CrowdStar

In May of 2015, the company was selected by California-based mobile game developer CrowdStar to build a real-time analytics solution to enable CrowdStar to improve its customer analysis and retention. Sysorex is developing a big data analytics system to allow CrowdStar to process data in real time from millions of players and then make real-time adjustments to games in order to improve the in-game experience.

Hearst Corporation

Hearst Corporation renewed its contract with Shoom for Shoom eTearsheets for three years. Hearst owns 15 daily and 34 weekly newspapers, including the *Houston Chronicle, San Francisco Chronicle, San Antonio Express-News* and *Albany Times Union*. This is the third renewal Hearst has made with Shoom for its eTearsheets. Shoom eTearsheets is an advertising proof-of-publication and competitive analysis service designed for newspaper publishers. It is a SaaS Big Data platform that provides proof-of-publication, ad archive and competitive market analysis to advertisers and agencies, enabling newspapers and advertisers to search more than 95 million ads across over 40 categories for competitive insight and analysis on ad rates, reach and other key metrics.

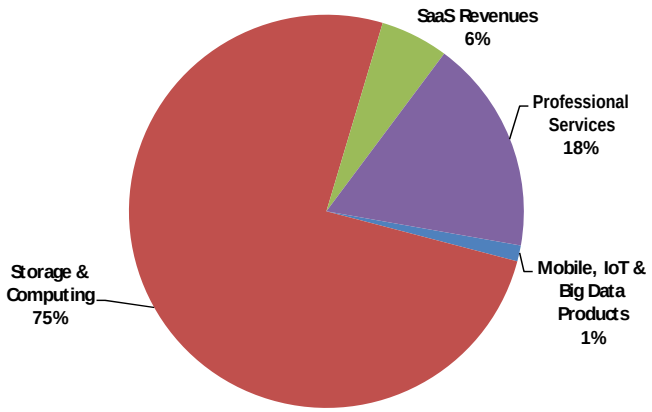
Government Contracts

On April 7, 2015, Sysorex announced that it had been awarded a contract in NASA's fifth Solutions for Enterprise-Wide Procurement (SEWP) contract vehicle. On April 23, 2015, Sysorex announced that its Lilien Systems subsidiary had been selected as one of the 65 Prime Contract Holders under the CIO-CS contract by NITAAC. The CIO-CS contract was the third contract win year-to-date. The company continues to pursue opportunities on both the NASA SEWP contract and the NIH CIO-CS contract and is responding to task orders.

GOAL TO DRIVE HIGHER MARGIN BUSINESS

The company's goal is to continue to expand its high margin, high growth businesses in order to drive growth. Shifting its sales mix towards higher margin segments while simultaneously also growing its legacy business at the same time are key goals for management. As the higher margin segments begin to make a more meaningful contribution to total revenue, it is likely to have a positive impact on overall gross margins, we believe, all else remaining equal.

Sysorex 2Q15 Revenue Breakdown



Source: Company reports

If Sysorex can further drive synergies among its newly acquired businesses and momentum in the higher margin ones, we believe it could enhance the combined entity's revenue growth. The company's focus on the Professional Services segment, which generated a 54% quarterly margin, resulted in the above-noted 37.7% year-over-year revenue improvement in 2Q15. Moreover, the company also signed its largest Professional Services contract during 2Q15 with Gilead Sciences, Inc. (GILD-not rated), a Fortune 500 research-based biopharmaceutical company.

Sysorex will design and deploy an advanced systems architecture that will connect Gilead's systems nationwide and help ensure that mission critical business and healthcare information is available in a secure manner that is compliant with corporate security and disaster recovery standards, as well as state and federal government mandates. The company recognized a portion of revenue from the Gilead contract in 2Q15 and expects the balance of the $5 million aggregate contract value to be recognized over the next nine months, as work is completed, although we believe the margins may be on the low side.

Gilead has been a Sysorex customer for several years, according to management, and has begun to leverage more of Sysorex's offerings, as Sysorex has expanded the breadth of services and products it offers. The company believes that the Gilead contract therefore illustrates its ability to successfully cross-sell its extended services and that many cross-selling opportunities exist to leverage the combined analytics / location based / Big Data capabilities.

CROSS-PROMOTING SERVICES / DRIVING SYNERGIES

Combining Cyber Technology and Big Data Analytics with Cloud Capabilities

Management expects that as it continues to transition to technology based businesses, consolidated revenues and margins will expand. Sysorex hopes to leverage Lilien's technology and expertise into the government space, offer its legacy products, as well as products from Shoom and AirPatrol to Lilien's legacy customer base. Additionally, the company expects that location based data from AirPatrol can be used to grow Big Data revenue. The company believes that two new deals – with the World Cup and a Saudi Mall – point to the traction that this strategy is beginning to enjoy.

Qatar Housing Community

After the quarter, the company announced a $2.5 million contract to provide real-time employee location-based security, asset tracking and management, and Big Data analysis in newly constructed communities for workers on the 2022 World Cup infrastructure projects. This contract leverages AirPatrol mobile device locationing and Sysorex analytics.

In preparation for the 2022 FIFA games, Qatar expects to attract a significant number of workers to assist on World Cup-related projects. Qatar-based developer Daruna Development intends to construct and operate a turn-key community that will include living accommodations, recreation, healthcare and retail facilities for 6,500 workers in Qatar, in preparation for the World Cup. Approximately $1.1 million of the $2.5 million is billable at installation of work on the new worker's housing community under development in Qatar. Sysorex expects the revenue to be recorded in 4Q15 and 1Q16, in preparation of workers moving in beginning in February of 2016. The remaining $1.4 million balance will be recognized over eight years as maintenance and warranty.

Upscale Mall in Saudi Arabia

Sysorex also recently announced a deal to provide retail analytics for a large Saudi retail shopping center using AirPatrol location based products. Initially, this deal is for the mall's common areas, which comprise approximately 35,000 square feet. The company expects its technology will eventually be used within the overall shopping, dining and entertainment complex, as well. The center is located north of Riyadh in Saudi Arabia. Sysorex technology will be used to collect data and provide insights into key metrics such as visitor counts, foot traffic, store performance and customer engagement. The company expects to help the mall and individual retail store operators assess data real-time and near real-time actionable insights.

The company believes its solution leveraging Air Patrol combined with its Big Data analytics capabilities represents a significant improvement over the technology that malls have traditionally used. According to management, malls have generally relied on a network of cameras, motion detectors and other independent devices that do not provide the same level of accuracy that Sysorex's multi-technology platform enables. Moreover, legacy technologies also generally require significantly more manual input that cannot match the Sysorex platform, in terms of gathering and analyzing critical data, according to management. Even technologies that use Wi-Fi or beacons provide proximity rather than precision locationing, according to management, and typically capture 25% to 50% of devices. In comparison, AirPatrol captures 99% of devices, according to Sysorex. The Saudi Arabian mall will be Sysorex's first AirPatrol retail center installation in the Middle East.

RECENT LIGHTMINER ACQUISITION

In April 2015, the company purchased the assets of LightMiner Systems for roughly $3.78 million, acquiring a big data analytics software platform and its two patent pending applications. What Sysorex found attractive about LightMiner is its high-speed database technology, which management believes could be a significant competitive advantage in the nascent field of managing and analyzing Big Data. LightMiner's founder Chris Baskett joined Sysorex as Vice President of Engineering.

The company believes that as more devices become connected, it will be able to capture data from any device and incorporate it into its data analytics platform using LightMiner. LightMiner's in-memory database makes it a rapid and scalable solution to address the Big Data analytic needs of enterprise customers, according to Sysorex. The company believes that all of its business units will be able to leverage the LightMiner assets. Moreover, with the LightMiner transaction, the company can utilize proprietary technology for Big Data analytics, rather than relying on third party technology. Management believes that LightMiner can accelerate database performance and statistical analysis significantly.

Big Data Drives Demand for Analytics and Security

We believe the importance of cyber security technologies is illustrated by security breaches such as those involving Edward Snowden, LexisNexis and Target (TGT-not rated), among other recent examples. Moreover, as the storage of Big Data continues to expand, we believe it will drive demand for both cyber-security technologies and Big Data analytics. The volume of big data – datasets too large for general software tools to manage and analyze – continues to grow dramatically, as businesses and individuals digitalize their information and data. For example, Wal-Mart (WMT-not rated) processes more than one million customer transactions every hour, according to *The Economist*, with that data stored in an expanding database. The rapid increase in information collection and storage for business and personal usage is fueling the growth of Big Data and is also driving the need for better tools to analyze it and maintain its security.

With LightMiner, the company no longer needs to rely on third-party Big Data analytics technology and management believes that LightMiner can accelerate the data analytics processing. In our view, if management executes this strategy, it can enhance the value of each subsidiary's separate area of expertise.

RECENT NEWS

On July 29, 2015, the company announced that Hearst Corporation had renewed its existing contract with Sysorex's Shoom division.

On July 23, 2015, the company announced that AirPatrol had been selected to provide foot traffic, store performance and customer engagement analysis to a 540,000 square foot upscale shopping and entertainment complex located in Saudi Arabia.

On July 6, 2015, Sysorex announced a new IT infrastructure development contract with Gilead.

On July 1, 2015, the company announced that AirPatrol had won a contract to provide employee and asset tracking in communities housing workers on infrastructure projects for the 2022 World Cup.

On June 16, 2015, Sysorex announced that AirPatrol was named a new XenMobile partner of Citrix Systems (CTXS-not rated).

RISKS

- We believe the company faces competitive risk from other, larger and better capitalized players that also operate in the sector.
- Government budgetary constraints have often delayed or reduced expenditures from Sysorex's public sector customer base and could in the future.
- Despite the broader offerings resulting from the company's acquisitions, Sysorex might not be able to cross-sell its various service and product offerings as easily as management anticipates.
- Sysorex could need additional funding to support its growth.
- It could take longer than we anticipate for Sysorex to convert strong revenue into positive EPS and cash flow.
- The company is highly dependent on CEO Nadir Ali, who is driving its growth strategy, in our view.

PROJECTED INCOME STATEMENT & BALANCE SHEET

Sysorex Global Holdings Income Statement & Projections ($000s)

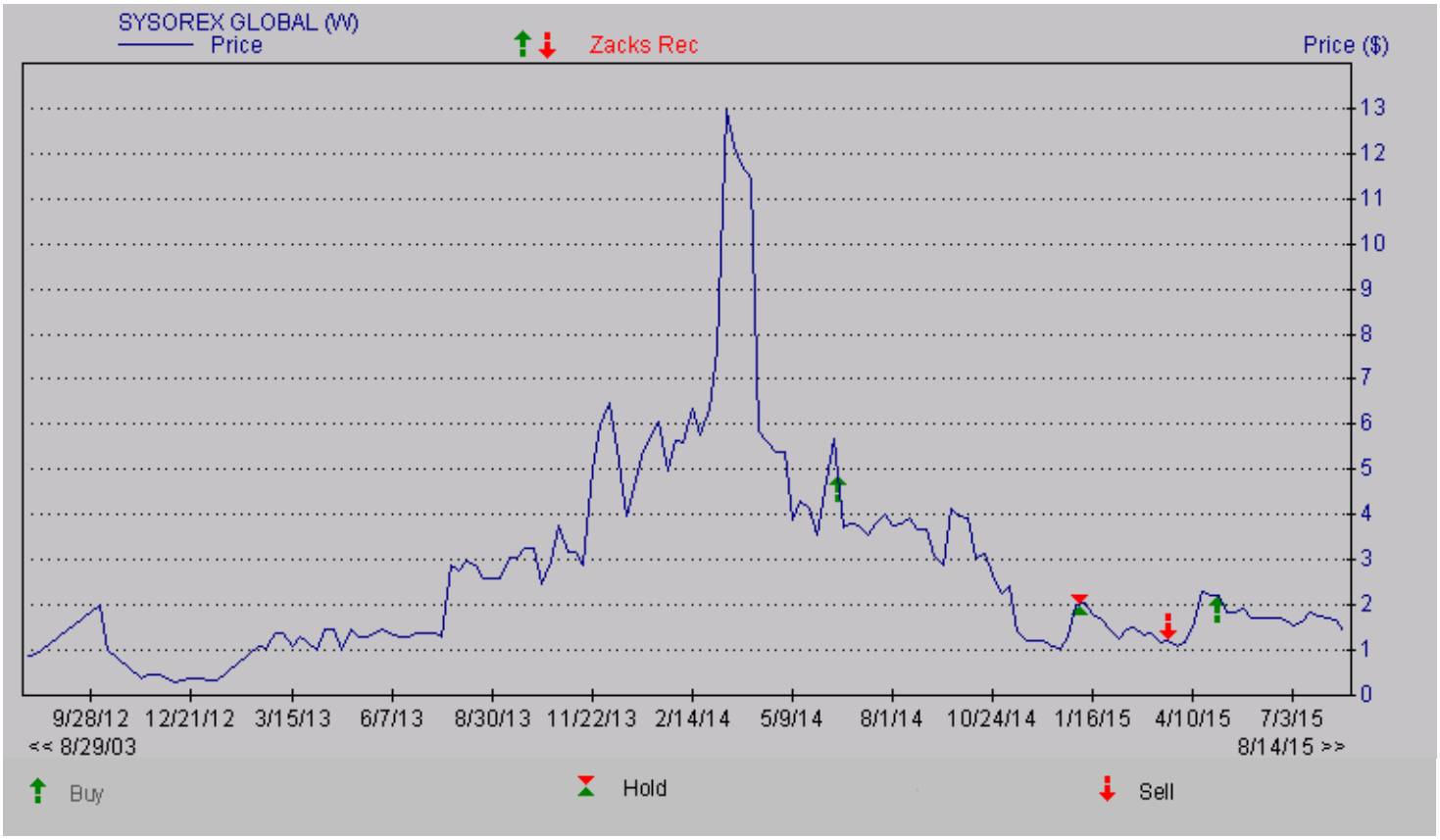
	1Q14	2Q14	3Q14	4Q14	2014	1Q15A	2Q15A	3Q15E	4Q15E	2015E	2016E
Revenues											
Mobile, IoT, Big Data						143	233	163	183	722	938
Storage and Computing						10,306	13,387	11,726	11,980	47,400	49,770
SaaS						973	987	1,107	1,408	4,475	5,728
Professional Services	-	-	-	-	-	2,700	3,090	3,072	3,530	12,392	13,941
Total Revenues	**$16,320**	**$17,145**	**$14,283**	**$15,201**	**$62,949**	**$14,122**	**17,697**	**$16,068**	**$17,101**	**$64,989**	**70,377**
Products	10,708	-	-	-	-	8,650	10,349	9,733	9,932	38,664	40,811
Services	1,262	-	-	-	-	1,425	1,652	1,650	1,920	6,647	7,625
Total Cost of Revenues	11,970	11,465	10,008	10,766	44,209	10,075	12,001	11,383	11,852	45,311	48,436
Gross Profit	4,350	5,680	4,275	4,435	18,740	4,047	5,696	4,685	5,249	19,678	21,941
R&D	-					163	251	150	150	714	693
Sales and marketing	2,297	4,496	1,511	9,955	18,259	2,463	3,075	1,481	9,756	16,774	16,271
General& administrative	2,315	1,213	4,782	(4,052)	4,258	3,274	2,953	4,686	(3,971)	6,942	6,734
Acquisition related costs	104	1,091	-	(179)	1,016	76	112	-	(176)	12	12
Amort. of intangibles	328	1,249	443	893	2,913	882	1,000	882	875	3,639	3,529
Total Operating Expenses	5,044	8,050	6,736	6,616	26,446	6,858	7,391	7,199	6,634	28,081	27,239
Loss from Operations	(694)	(2,370)	(2,461)	(2,181)	(7,706)	(2,811)	(1,695)	(2,513)	(1,384)	(8,404)	(5,298)
Other Income / (Expense)		12		(12)							
Interest expense	(108)	(104)	(95)	(80)	(387)	(99)	(121)	(93)	(87)	(401)	(397)
Other	14	-	7	420	441	5	32	7	5	49	50
							89				
Total Other Income (Exp	(94)	(92)	(88)	328	54	(94)	-	(86)	(82)	(352)	(347)
Pretax loss	(788)	(2,462)	(2,549)	(1,853)	(7,652)	(2,905)	(1,695)	(2,599)	(1,467)	(8,755)	(5,644)
Taxes	(35)		-		-	-	-				
Net Loss	(823)	(2,462)	(2,549)	(1,853)	(7,652)	(2,905)	(1,695)	(2,599)	(1,467)	(8,755)	(5,644)
Non-controlling Interest	(43)	(56)	(6)	(11)	(116)	(5)	2	(5)	(5)	(13)	(20)
Shareholders Net Loss	(780)	(2,407)	(2,543)	(1,841)	(7,536)	(2,900)	(1,697)	(2,594)	(1,462)	(8,742)	(5,624)
LPS	**($0.05)**	**($0.13)**	**($0.13)**	**($0.11)**	**($0.42)**	**($0.15)**	**($0.09)**	**($0.13)**	**($0.07)**	**($0.44)**	**($0.28)**
Avg. shrs out (FD)	14,245	18,642	19,624	19,934	18,111	19,766	19,807	19,837	19,867	19,819	19,770
Margins (est.)											
Products	19%					17%	17%	17%	17%	-11%	18%
Services / other	59%					62%	62%	62%	63%	62%	63%
Consolidated gross mgn	27%	33%	30%	29%	30%	29%	32%	29%	31%	30%	31%

Sysorex Global Holdings Balance Sheet ($000s)

	31-Dec-13	31-Mar-14	30-Jun-14	30-Sep-14	31-Dec-14	31-Mar-15	30-Jun-15
Cash & equivalents	2,229	3,335	4,933	2,729	3,228	2,695	2,242
Restricted cash	71	71	161	-	-	-	-
Accounts receivable	9,581	9,675	11,860	8,545	8,225	9,069	9,315
Notes receivable related part	-	-	90	90	90	90	0
Note receivable	1,130	1,130	130	2,130	1,294	1,702	1,856
Inventory	75	127	428	444	610	542	892
Prepaid expenses	382	1,030	1,043	6,398	7,151	7,179	7,300
Other	6,120	5,925	6,464	1,390	1,463	1,490	1,753
Total Current Assets	**19,588**	**21,293**	**25,108**	**21,726**	**22,061**	**22,767**	**23,358**
Property and Equipment	291	265	610	660	1,308	1,227	1,478
Software dev costs	57	123	190	256	278	357	615
Prepaid Licenses & Maint. Co	4,268	5,917	5,983	5,906	6,200	5,818	6,296
Intangible assets	7,328	7,000	11,496	18,579	17,676	16,794	19,274
Goodwill	5,708	5,767	10,516	13,157	13,166	13,166	13,166
Other assets	1,635	1,315	19,247	1,270	1,371	1,350	1,350
Total Assets	**38,874**	**41,680**	**73,150**	**61,554**	**62,060**	**61,479**	**65,537**
Accounts payable	8,435	8,739	7,932	6,374	7,468	8,282	7,660
Accrued expenses	1,219	1,093	1,403	3,492	3,299	2,811	3,025
Accrued compensation	2,622	2,605	1,932				
Deferred revenue	7,402	7,167	7,907	7,863	8,689	8,888	8,969
ST debt (inc'd related)	7,039	6,522	13,341	6,134	5,418	7,272	7,570
Acquisition liability - LightMiner							3,596
Advances payable	722	722	722	-	-	-	-
Total Current Liabilities	**$27,440**	**$26,848**	**$33,238**	**$23,863**	**$24,874**	**$27,253**	**$30,820**
Deferred revenue	4,845	6,840	6,788	6,810	7,181	6,781	7,274
Long term debt	292	250	225	100	100	100	1,729
Other	-	-	167	167	684	650	615
Total Liabilities	**$32,577**	**$33,938**	**$40,418**	**$30,940**	**$32,839**	**$34,784**	**$40,438**
Non- controlling Interest	(1,480)	(1,523)	(1,578)	(1,584)	(1,596)	(1,601)	(1,599)
Stckhldrs' Equity / (Def)	6,297	7,742	32,732	30,614	29,221	26,695	25,099
Total Liabs & Stockholders' Eq	**$38,874**	**$41,680**	**$73,150**	**$61,554**	**$62,060**	**$61,479**	**$65,537**

Source: Company reports, Zacks.

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Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters.
Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters.
Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution is as follows: Buy/Outperform- 28.1%, Hold/Neutral- 54.0%, Sell/Underperform – 14.9%. Data is as of midnight on the business day immediately prior to this publication.