Zacks Small-Cap Research

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Sysorex Global Holdings (SYRX-NASDAQ)

SYRX: *Leveraging Synergies From Recent M&A; Initiating Coverage with a Buy Rating on the Shares*

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	06/25/2014
Current Price (6/17/14)	$4.07
Six- Month Target Price	**$9.00**

OUTLOOK

Three recent acquisitions have transformed Sysorex from a government sector IT services provider with $7M in revenue to an estimated $74M revenue generator with diversified technology offerings that include cyber / mobile security and Big Data analytics – technologies expected to outpace general tech growth – as well as cloud capabilities. By combining these businesses, SYRX expects to generate **synergies, operational efficiencies and significant cross-selling opportunities, in turn accelerating growth** for the combined entity.

SUMMARY DATA

52-Week High	**$13.00**
52-Week Low	**$1.30**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**38,922**
Shares Outstanding (mil)	**19.5**
Market Capitalization ($mil)	**$79**
Short Interest Ratio (days)	**1.0**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**52%**
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 2013 Estimate	**N/A**
P/E using 2014 Estimate	**N/A**
Zacks Rank	**2**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**It Services**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	1.1 A	1.1 A	1.0 A	1.1 A	4.2 A
2013	5.4 A	14.8 A	13.9 A	16.5 A	50.6 A
2014	16.3 A	17.6 E	18.4 E	21.7 E	74.1 E
2015					92.6 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	-$0.01 A	-$0.00 A	-$0.03 A	-$0.04 A	-$0.08 A
2013	-$0.16 A	-$0.05 A	-$0.08 A	-$0.12 A	-$0.35 A
2014	-$0.05 A	-$0.07 E	-$0.07 E	-$0.01 E	-$0.19 E
2015					$0.11 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

Disclosures begins on page 18

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KEY POINTS

- ***Transformation*** California based Sysorex Global Holdings Corp. (SYRX-Nasdaq) provides cybersecurity, data analytics, cloud capabilities and mobile solutions. Since March 2013, the company has made three acquisitions that have transformed it from a $7 million IT services provider to a $74 million (estimated for 2014) revenue generator with diversified technology offerings and a roughly 90% private sector customer base.

- ***Synergies*** Management is focused on integrating and growing the companies Sysorex has acquired. Combining cyber technology and Big Data analytics with cloud capabilities could enhance the revenue growth for Sysorex overall, in our view, through synergistic cross-promotional opportunities to a broad customer base.

- ***Operating in Rapid Growth Niches*** As data collection and storage proliferates, the need for Big Data analytics and security is expected to grow rapidly. Similarly, as mobile device penetration and BYOD continue to rise, demand for location-based mobile security and services (LBS), a market currently estimated at more than $12 billion globally, is expected to expand. Commercial potential for LBS also includes geo-targeted advertising, which McKinsey estimates could comprise 5%+ of total global ad spending by 2020.

- ***Shares Attractive*** SYRX shares trade at under 1x revenue, based on our 2015 forecast, compared to an average multiple of 1.8x for peers. We initiate coverage with a Buy rating and $9 price target, which equates to 1.9x on an EV/ 2015E revenue basis.

- ***Interests Aligned*** Sysorex has retained management from each transaction and incentivized them with SYRX shares to grow the overall company. In total, insiders hold a combined 34.6% of Sysorex shares. We believe this aligns their interests with those of public shareholders and gives them significant incentive to drive company growth.

- ***Risks*** We believe risks include that the company is highly dependent on its CEO, faces competitive and integration risk and has not yet converted strong revenue growth into positive EPS.

OVERVIEW

Sysorex Global Holdings Corp. is a California based systems integration and consulting company that offers a broad range of information technology (IT) services and products. Through an ambitious M&A strategy, the company has grown its revenue about 10-fold over the past year and diversified into several complementary businesses including **cybersecurity, data analytics, cloud and mobile solutions.**

History Dates Back to 1972

Sysorex was originally established over 40 years ago. Founder and Chairman Abdus Salam Qureishi launched a predecessor company in 1972, Sysorex Information Systems (SIS), which became a large provider of IT solutions to the U.S. Federal government. In 1997, Texas-based Vanstar Corporation acquired SIS for $52 million. At the time, Sysorex had annual revenue of $150 million.[1] When management's non-compete with Vanstar expired – at about the same time that Vanstar itself was acquired by Inacom – the principals of the former Sysorex founded the current company as Sysorex Consulting.

[1] *Vanstar Buys Sysorex Information for $52.9 Million*, New York Times, July 9, 1997

In 2011 Sysorex Consulting completed a reverse merger of its subsidiaries (100% of Sysorex Federal and 50.2% of Sysorex Arabia) into an OTC listed company for 14.6 million restricted shares and subsequently changed the name of the company to Sysorex Global Holdings. Sysorex's services enable clients to manage and protect their data in the cloud, on-premise and on mobile devices. The company's customer base is comprised primarily of U.S. clients. Sysorex Arabia, its operation in the Middle East, accounts for less than 1% of consolidated revenue.

In April 2014, Sysorex completed a $20.0 million equity offering, up-listing its shares to the Nasdaq in conjunction with a 1 for 2 reverse stock split and completed the acquisition of AirPatrol.

STRATEGY: DRIVING GROWTH THROUGH ACQUISITIONS

With three key acquisitions, Sysorex has already made strong strides towards its goal of **transitioning from a services company to a technology company.** The company's strategy is to integrate and grow the companies it has acquired. Sysorex might also consider future acquisitions that add complementary technologies and IP and broaden its existing offerings. Management's M&A focus has been on companies with technologies in **cyber security and Big Data analytics.** These technologies are generally expected to outpace the growth of the overall IT sector in the near-term.

The last 15-months have been transformational for Sysorex; the company has completed three acquisitions, as noted. In turn, this has boosted annual revenue roughly 10-fold. In March 2013, Sysorex acquired privately-held Lilien LLC for $3.0 million in cash and 3.0 million shares (split-adjusted). In August 2013, the company acquired Shoom Inc. for $2.5 million in cash and 1.38 million shares (split-adjusted). In April 2014, Sysorex completed the acquisition of Air Patrol for $10 million in cash and 1.8 million shares. The deal also has an earn-out if AirPatrol generates more than a cumulative $3.5 million in the five quarters ending in March of 2015.

In seeking acquisition candidates, the company's criteria has included growing its backlog in order to enhance revenue visibility, purchasing established companies that have an existing client base, minimizing upfront cash outlays and potentially adding to its patent portfolio. Lilien and AirPatrol advanced the company's strategy to focus on cyber security and Big Data.

Recent Acquisitions

Company	Expected Revenue ($M)	Technologies
Shoom	$4	Cloud based solutions
Lilien	$40	Big Data analytics
AirPatrol	$8 - $10	Mobile cyber security
Total Added Revenue	$52-$54	

Source: Company reports

Backlog If Sysorex makes additional accretive acquisition, it will seek companies with complementary technologies. The company analyzes the candidate's contract backlog as a means of growing its consolidated backlog and increasing its base of committed revenue. With Sysorex's government business, contracts are generally in backlog for multiple years, giving management visibility into committed revenues generally for three to five years. With Lilien and Shoom, projects generally range from one to two years, on average. Lilien has a high rate of additional orders from its existing customer base and about 25% of its revenue is recurring. Shoom has 95% recurring revenue.

Established Companies Moreover, the company seeks IT companies that are established. Lilien, for example, has been in business for nearly thirty years and has made the CRN list of top-40 domestic VARS for several years. Shoom has been in business for over 15 years and AirPatrol for nearly ten.

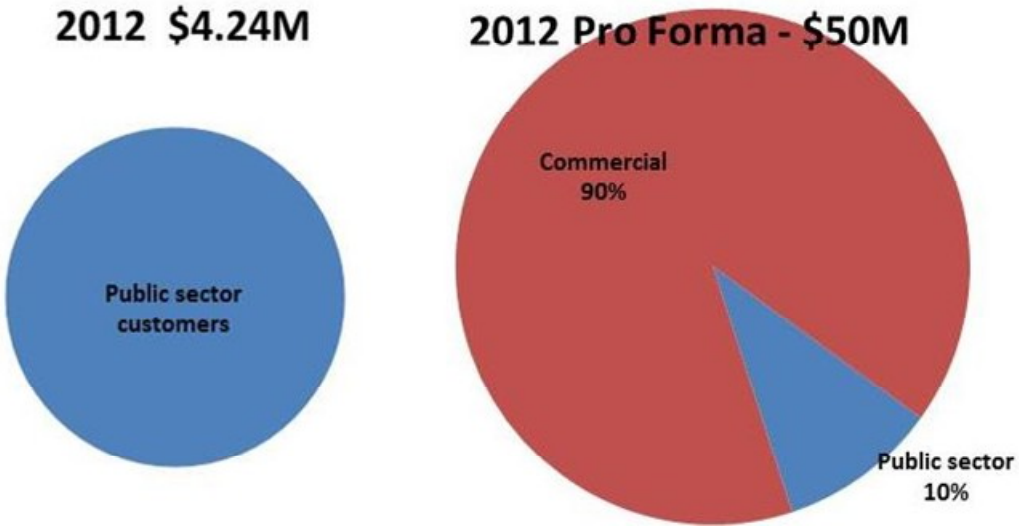
Minimizing Cash Outlays As it has with the three recent acquisitions, the company intends to use a combination of restricted shares, cash and debt to finance any future transactions and to minimize its upfront cash outlays. Sysorex kept the out-of-pocket cash component for Lilien and Shoom to only $3.0 million for the addition of about $45 million in revenue.

Patents The company might also consider an acquisition that will augment its IP position. AirPatrol, for example, has 15 patents pending globally.

Lilien Systems

In March 2013, Sysorex purchased Lilien Systems, a California based enterprise IT infrastructure solutions provider. Sysorex paid $3 million in cash and 3.0 million shares (split-adjusted) for Lilien. Founded in 1984, Lilien generated roughly $42 million in revenues in 2012. It serves about 700 commercial businesses in California, Oregon, Washington and Hawaii, according to management. Lilien's expertise is in Big Data and analytics.

Sysorex Revenue and Customer Base, 2012 Reported and Pro Forma



Source: Company reports.

With Lilien, Sysorex's customer base changed dramatically. Sysorex now derives roughly 90% of its revenue from the private sector. We expect both companies to grow their respective businesses through synergistic cross-promotional opportunities and organically.

Lilien management continues to run Lilien as a subsidiary of Sysorex and Lilien founder and CEO Geoffrey Lilien is a member of Sysorex's board. By combining the Sysorex and Lilien businesses, management of both companies believe they can accelerate growth for the combined entity. Sysorex has a long history of successfully bidding on government contracts and is on the GSA schedule. The company recently was one of 13 small businesses that won a Navy contract award that could be worth as much as $250 million[2] and which has begun to release task orders. Sysorex hopes to leverage Lilien's technology and expertise in the government space and, at the same time, tap into Lilien's 700 plus customer base itself.

Lilien is a premier partner with many of its technology partners. In addition, Lilien has made the CRN list of 50 fastest-growing VARs (value added resellers) for the past several years. VARs assemble computer components in order to build complete systems. Many companies, particularly small and medium size businesses that do not have a broad and sophisticated in-house IT staff, use VARs to design, set up and install customized computer systems. In addition, many VARs also offer other services such as strategic planning, system design, training, technical support and database development, among others. Roughly 25% of Lilien's revenue is recurring, with contract durations that are up to about five years. This gives management visibility into the committed portion of revenue. Moreover, Lilien has a diversified revenue base, with no customer accounting for more than 15% of total revenue.

Restricted Shares: Incentive and Downside Protection

We believe Sysorex protected its downside with the terms of the acquisition, while providing **incentive to the Lilien team to help grow the combined business.** Sysorex paid $9.0 for Lilien, through a combination of $3.0 of cash and $6.0 million in restricted shares. The shares are locked-up for six-months following the recent equity offering except for $1 million of shares that Geoffrey Lilien sold in the offering. Post-offering, he still owns nearly 9% of the company's shares, which we believe confers substantial incentive to grow Sysorex. Geoffrey Lilien has a 2-year contract to remain at Sysorex as CEO of its Lilien Systems subsidiary.

In addition, Sysorex guaranteed the Lilien restricted shares at $2.00 / share (split-adjusted) for two years following the close of the recent offering. At the end of the two years, the Lilien holders will have an option to put all of their SYRX shares to Sysorex for $2.00 / share. If Lilien's 2013 and 2014 gross profit is more than 20% below expectations, Sysorex's guarantee will be reduced proportionate to the shortfall.

When the Lilien acquisition was completed, Lilien executives Geoffrey Lilien, Bret Osborn and Dhruv Gulatui were elected to Sysorex's board. However, the recent uplisting to the Nasdaq also mandates that a majority of the board be independent. Therefore, Bret Osborn and Dhruv Gulatui will be replaced by independent directors. The two companies also agreed to jointly elect an independent seventh director who has not yet been selected.

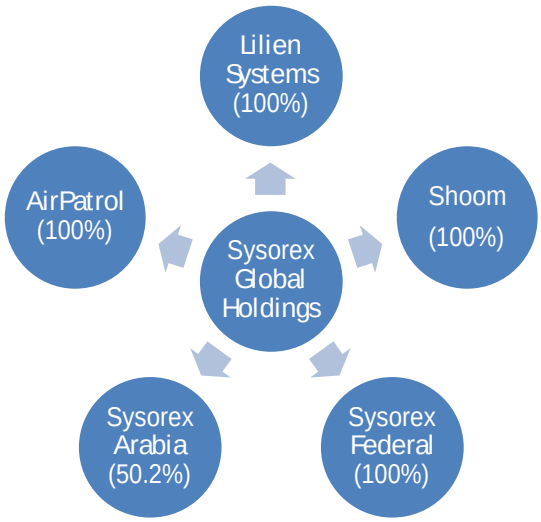
Shoom

The company acquired Shoom in August, 2013 for $2.5 million of cash funded from Shoom's balance sheet and 1.38 million shares (split-adjusted). Founded in 1998, California based Shoom provides cloud based data analytics and enterprise solutions to the media, publishing and entertainment industries. Management believes cloud based analytics offers substantial growth opportunities. As with Lilien, Sysorex anticipates significant synergies and cross-promotional opportunities. Management plans to leverage Shoom's team of cloud solution engineers for the other businesses. At the same time, the combined entity will sell Lilien's Big Data expertise and advanced analytics to Shoom customers.

[2] *13 small businesses tapped for $250M Navy contract*, Washington Technology, Feb 01, 2013

Sysorex expects Shoom to add approximately $4 million in revenues with 25% net income in 2014. Thereafter, management anticipates 10% annual pre-synergy growth. The Shoom acquisition also boosted Sysorex's consolidated margins, as Shoom historically has generated gross margins in the 75% range. Shoom's software-as-a-service (SaaS) contracts generally last for at least one year or longer, which we believe helps backlog and revenue visibility. Shoom also has a high customer retention rate, according to management. Shoom executives signed employment agreements and are managing Shoom as a Sysorex subsidiary.

Sysorex Organizational Structure



Source: Company reports

AirPatrol

In April 2014, Sysorex acquired Maryland-based AirPatrol, which operates in the mobile cyber-security niche. AirPatrol's technologies detect any wireless signal (cellular, wi-fi, Bluetooth, RFID, etc.) and its existing customer base includes government agencies, the military and large corporations. AirPatrol is expected to add about $8-10 million in revenue. Founded in 2005, AirPatrol has 15 patents pending globally on its proprietary IP. Its flagship product is *ZoneDefense,* which detects mobile devices within a monitored area to enforce no wireless zones and mitigate the risk of a security breach by managing the security controls on detected devices. For example, *ZoneDefense* can disable the camera function on unauthorized devices and turn the camera function on again once the device has left the sensitive area. This essentially erects a virtual electronic barrier to protect the sensitive area.

ZoneDefense technology is accurate to within a few feet, which provides some 10x greater accuracy compared to competitors' products, according to management. Even if the device is not in use, *ZoneDefense* can detect it as long as it is on. *ZoneDefense* can also connect with other software from MDM companies such as AirWatch, FireEye, Good, MobileIron and others to better monitor security within the detection zone.

Commercial Opportunities

ZoneDefense connects to apps on the mobile device to offer location-based discounts and services and can be used to drive revenue opportunities. For example, *ZoneDefense* could offer a discount to a restaurant that is close to the device's current location. For retailers, it could offer a discount for an item, as well as suggestions for matching that item to accessories.

McKinsey notes that:

> Compared with more traditional forms of advertising such as TV or print, geo-targeted campaigns appear to have higher relevance to the consumer at the moment when a purchase decision is likely to be made and therefore boost the potential for an actual sale…. Geo-targeted advertising is emerging as a highly effective marketing vehicle that could represent more than 5 percent of total global advertising spending by 2020.

Sysorex management believes this company can generate more than $8-10 million in 2014 revenue as noted, with a gross margin of roughly 75%, and achieve 50% annual growth in 2015. The recent capital raise was used to fund the AirPatrol acquisition.

INDUSTRY OUTLOOK

Big Data Drives Demand for Analytics and Security

Sysorex has earmarked cyber security and big data analytics as the linchpins of its growth strategy. The growth in demand for these technologies is expected to outpace general demand for IT services.[3] 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.

Big Data Growing Exponentially

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*,[4] 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.

McKinsey estimates that the U.S. healthcare industry could reduce healthcare expenditures by 8% by using big data effectively and that the retail sector could improve operating margins by 60% or more. The firm cited 16 Big Data actions that retailers can use to improve their revenue and margin profile, ranging from marketing – importantly, including location based marketing – to merchandising enhancements.

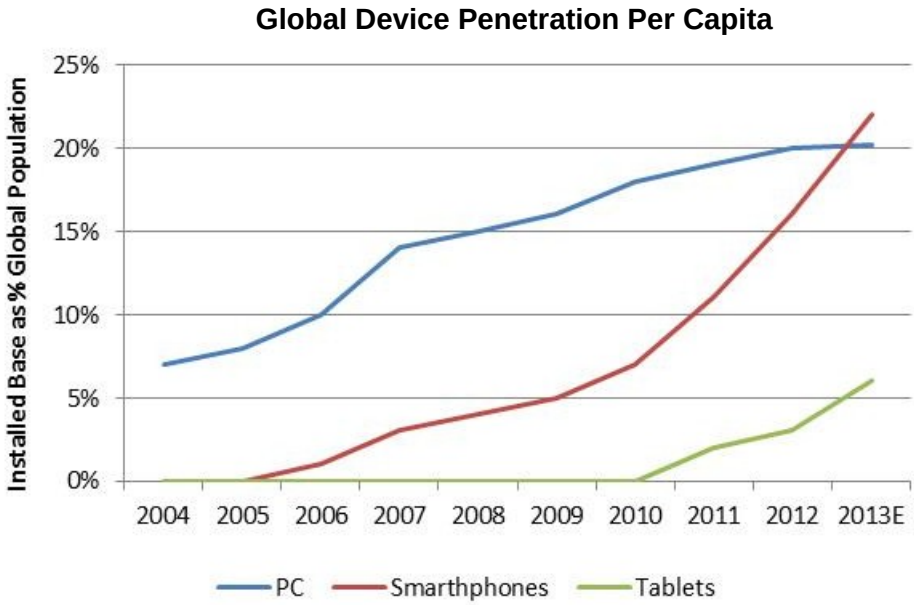
According to a study by McKinsey and Gartner, 79% of businesses that employ 500 to 1,000 people view Big Data as challenging. McKinsey also estimates that by 2018, the U.S. could face a shortage of analysts with the expertise to analyze and maximize the use of Big Data.[5]

Cyber Security More Important Than Ever

Mobile technology penetration has grown dramatically over the past decade. Adoption rates of mobile devices such as smartphones and tablets are tracking significantly ahead of that of other technology platforms such as PCs or broadband. There were 1.2 billion smartphones and tablets shipped in 2013 according to IDC, with 218 million designated for business use. Smartphone penetration reached 65.2%

[3] Market Research Media - U.S. Federal Cyber-Security Market Forecast 2013, dated April 12, 2013
[4] *Data, data everywhere*, The Economist Magazine, February 27, 2010
[5] McKinsey, Big data: the next frontier for innovation, competition, and productivity, 2011

of the U.S. mobile subscriber market during the fourth quarter of 2013, according to comScore, up more than 11% points from the same time frame a year earlier. Smartphones took only 8-years to reach 20+% penetration globally.



Source: BI Intelligence, Gartner, IDC, Strategy Analytics, World Bank 2013

With increased mobile penetration, there has been a growing trend towards BYOD (bring your own device), whereby employees bring their personal devices into the work environment for business and personal applications. Mobile apps have become an important way that users conduct commerce and access content both personally and professionally.

These changes have placed greater challenges on corporate IT teams. IT's control over the company's wired network has become much more difficult in a BYOD work environment, creating challenges to maintain the benefits of mobility while concurrently monitoring security needs. In turn, this has driven demand for security to monitor mobile devices. The market for MDM (mobile device monitoring) technology is estimated at over $780 million, with more than 125 providers. Gartner predicts that it will reach $1.6 billion this year. Many of these MDM providers have sought partnerships with vendors of other mobile technologies in order to customize their mobile security offerings.

The location-based mobile security and services (LBS) market is estimated at more than $12 billion globally.[6] Customers for LBS services include large bricks-and-mortar retailers, healthcare facilities, malls, hotels and resorts, gaming operators and government agencies, among others.

Moreover, as more data storage and IP traffic moves to the cloud, cloud based business analytics and business intelligence is expected to grow. Gartner expects strong demand for all types of cloud services offerings. Market research firm Markets and Markets predicts that the cloud analytics market could reach $16.52 billion by 2018, which represents a 25.8% 2013-2018 CAGR.[7] Shoom has provided cloud solutions for over four years.

[6] Jupiter Research, 2013
[7] PRWeb, *Cloud Analytics Market is Growing at an Estimated CAGR of 25.8% & to Reach $16.52 Billion by 2018,* New Report by Markets and Markets, April 2, 2013.

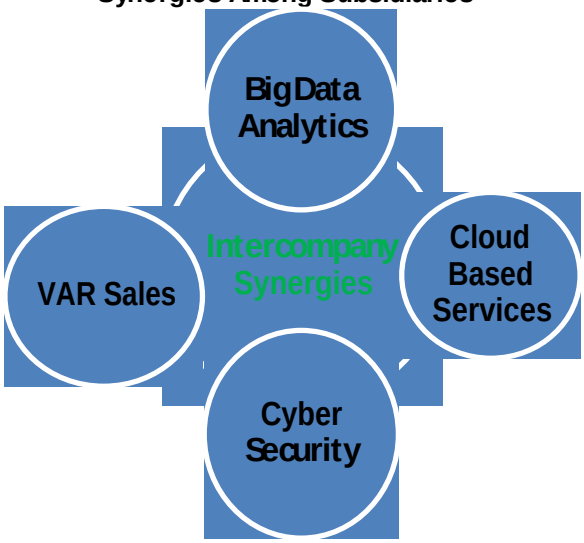
SYNERGIES

Combining Cyber Technology and Big Data Analytics with Cloud Capabilities

If Sysorex can create synergies among its newly acquired businesses by cross promoting its services and products, we believe it could enhance the combined entity's revenue growth. Management expects that as it continues to transition to technology based businesses, consolidated revenues and margins will continue to improve. Sysorex hopes to leverage Lilien's technology and expertise into the government space and at the same time, tap into Lilien's 700 plus customer base to offer its legacy products, as well as products from Shoom and AirPatrol. Additionally, the company expects that location based data from AirPatrol can be used to grow Big Data revenue.

Management plans to leverage Shoom's team of cloud solution engineers for both the Lilien and legacy Sysorex businesses. At the same time, the combined entity will sell Lilien's Big Data expertise and advanced analytics to a growing customer base. With Shoom, Sysorex can allow its customers to use all of these technologies in the cloud, as well as to deploy them on-premise. In our view, if management **executes this strategy, it can enhance the value of each subsidiary's separate area of expertise.**

Synergies Among Subsidiaries



Source: Company reports, Zacks

Changing Customer Base

The acquisitions of Lilien and Shoom have had a transformational impact on Sysorex. Lilien's revenue run rate was roughly ten times that of the legacy Sysorex business. Therefore, on a pro forma basis,[8] the company's 2012 revenue would have been roughly $50 million compared to the $4.2 million that Sysorex reported.

Historically Sysorex' customer base was comprised largely of Federal governmental agencies. With the recent acquisitions, the make-up of its customer base has changed substantially. In fact, the majority (roughly 90%) of the company's revenues are derived from commercial enterprises at this point. The remaining roughly 10% comes from government agencies.

[8] If the deals had closed in 2012.

Not only does the combined company have a broader customer base, it also has a significantly broader scope of IT offerings, including **big data services and cloud-based advanced analytics**. The Lilien purchase gave Sysorex access to partnerships with leading IT vendors such as Oracle (ORCL-not rated), Dell (DELL-not rated) and Cisco (CSCO-not rated), among others. Shoom also provides Sysorex with secure cloud-based software products that carry higher gross margins. Management intends to introduce these technologies to its U.S. Federal government contracts and to leverage Lilien's salesforce to help cross-sell all technologies available to the combined company.

INDUSTRY POSITION

Although the company is a relatively small player in the overall IT industry, reflecting its long history of work for government agencies, the company believes it remains well-positioned in terms of its cyber security and Big Data analysis initiatives for U.S. Government customers. According to management, the government sector is less competitive than the overall IT sector, as few companies: 1) understand how to navigate the bidding process to win sizable government awards and 2) have obtained the necessary clearance to bid for such awards.

Management believes its more than 40 years of experience illustrates its understanding of the skills needed to compete in the public sector for IT contracts. Moreover, in the U.S. Federal Government market, Sysorex often partners with large systems integrators. For example, Sysorex has acted as a subcontractor to companies such as Lockheed Martin (LMT-not rated), Northrop Grumman (NOC-not rated), SAIC (SAIC), General Dynamics (GD-not rated) and others. Moreover, the broad scope of IT offerings Sysorex now has enables the company to provide bundled services to customers.

RECENT NEWS

Capital Raise In April 2014, Sysorex completed the issuance of 3.2 million shares of common stock, raising roughly $17.7 million. A portion of the funds were used to finance the AirPatrol acquisition, with the remainder earmarked for additional acquisitions. Simultaneous with the offering, the company also implemented a 1:2 reverse split and uplisted its shares to the Nasdaq.

AirPatrol Acquisition In April 2014, the company also completed its acquisition of AirPatrol.

Operating Results Show Benefits of Acquisitions

Sysorex's consolidated revenue for the quarter ending March 31, 2014 more than doubled to $16.3 million from $5.4 million in the prior year quarter, largely reflecting the consolidation of revenue from Lilien and Shoom. Gross margins were roughly flat at 27%, although management expects Shoom's traditional roughly 75% gross margin to contribute to improvements at the consolidated level over time. In fact, the Shoom business – which Sysorex will classify as eSolutions going forward – achieved a gross margin of 79.2% during the quarter. However, this business represented only 6% of total revenue and therefore did not have a significant impact on the consolidated margin. Moreover, IT Government, which is Sysorex's legacy business, achieved a lower gross margin year-over-year (41.0% compared to 45.4%), primarily reflecting the product mix.

The company's operating loss narrowed to $695,000 versus $962,000 recorded in the prior year quarter, partially driven by lower M&A costs. On the lower operating loss, the LPS (loss per share) narrowed to ($0.05) versus ($0.16). Although adjusted EBITDA was positive, it fell by 50% to $51,000 compared to $102,000.

Sysorex 1Q14 Result Highlights ($ millions)

	1Q13	1Q14	y/y % Chg
IT Commercial/ Lilien	4.28	13.97	227%
eSolutions /Shoom	-	0.97	
IT Government /Sysorex Lega	1.09	1.38	27%
Consolidated revenues	5.36	16.32	204%
Cost of Revenues	3.91	11.97	206%
Gross Profit	1.46	4.35	199%
Gross Margin	*27.2%*	*26.7%*	
Comp & related benefits	1.09	3.25	198%
Professional & legal fees	0.05	0.39	719%
Consulting expenses	0.07	0.14	104%
Occupancy	0.04	0.15	317%
Acquisition costs	0.91	0.10	-89%
Public offering related costs	-	0.04	
Amortization of intangibles	0.06	0.33	422%
Other administrative	0.21	0.64	212%
Total Operating Expenses	2.42	5.05	109%
% of revenue	*45.1%*	*30.9%*	
Loss from Operations	(0.96)	(0.69)	

Source: Company reports

INSIDER TRADING AND OWNERSHIP

Sysorex - Insider Ownership		
Beneficial Ownership	**Shares (Mns)**	**% Stake**
Abdus Salam Qureishi	2.2	12.4%
Nadir Ali	1.0	5.9%
Wendy Loundermon	0.3	1.8%
Geoffrey Lilien	1.5	8.7%
Bret Osborn	0.6	3.3%
Dhruv Gulati	0.4	2.5%
Len Oppenheim	0.0	*
Directors and Executives combined	6.2	34.6%
SyHoldings Corporation	2.2	12.3%
1998 Qureishi Family Trust	0.9	5.1%
Total Insider Holdings	**9.3**	**52.0%**

Source: Company reports

Insiders hold a combined 34.6% of Sysorex shares. We believe this aligns their interests with those of public shareholders and gives them significant incentive to drive company growth. In total, 52% of shares are held by insiders or related parties. Nevertheless, the trading volume of SYRX shares has improved substantially since the recent equity offering.

VALUATION

Sysorex shares trade at under 1x revenue, based on our 2015 forecast. By comparison, other IT companies command an average multiple of 1.8x, excluding Splunk (SPLN-not rated) and Tableau Software (DATA-not rated). Given the potential upside if Sysorex management successfully executes its strategy to extract synergies and value from the combined company, we would expect share price appreciation and believe the risk / reward ratio is attractive at this level. We initiate coverage with a Buy rating and $9 price target. Even at $9, SYRX shares would still trade at only 1.9x on an EV/ 2015E revenue basis.

Sysorex Peer Analysis

Company	Ticker	6/23/2014 Price	52-Week High	52-Week Low	Revenue ($M) 2013A	Revenue ($M) 2014E	Revenue ($M) 2015E	EPS 2013A	EPS 2014E	EPS 2015E
Amdocs Ltd.*	DOX	47.23	48.99	35.34	3,350	3,570	3,730	2.92	3.17	3.41
Booz Allen Hamilton**	BAH	21.57	25.32	16.54	5,480	5,240	5,320	1.63	1.56	1.60
CDW Corporation	CDW	31.98	32.28	17.38	10,770	11,550	12,240	1.83	2.22	2.48
Citrix	CTXS	65.06	77.16	51.18	2,920	3,190	3,490	3.02	3.09	3.63
Infosys**	INFY	53.47	63.20	38.91	8,250	8,950	9,770	3.06	3.30	3.61
MobileIron	MOBL	10.24	11.74	9.75	106	-	-	(0.59)	-	-
SAP	SAP	77.67	87.42	69.71	16,900	17,580	18,790	3.37	3.46	3.80
Science App Inter'l***	SAIC	44.52	44.83	29.40	4,120	3,870	3,900	2.27	2.88	3.22
Splunk***	SPLK	52.49	106.15	39.35	303	411	547	0.03	-	0.11
Tableau Software	DATA	69.31	102.37	51.99	232	353	477	(0.03)	(0.10)	0.11
Teradata	TDC	42.83	65.96	37.66	2,690	2,790	2,940	2.76	2.85	3.15
Unisys	UIS	24.94	36.05	20.04	3,460	3,440	3,490	2.08	1.50	3.51
Sysorex	*SYRX*	*4.05*	*12.80*	*0.65*	*51*	*74*	*93*	*($0.35)*	*($0.19)*	*$0.11*

Company	Mkt Cap ($M)	EV / Revenue 2013A	EV / Revenue 2014E	EV / Revenue 2015E	P/E 2013A	P/E 2014E	P/E 2015E
Amdocs Ltd.*	7,556	2.0x	2.1x	2.0x	16.2x	14.9x	13.9x
Booz Allen Hamilton**	3,125	0.8x	0.6x	0.6x	13.2x	13.8x	13.5x
CDW Corporation	5,502	0.8x	0.5x	0.4x	17.5x	14.4x	12.9x
Citrix	10,661	3.6x	3.3x	3.1x	21.5x	21.1x	17.9x
Infosys**	30,553	3.2x	3.4x	3.1x	17.5x	16.2x	14.8x
MobileIron	764	7.2x	nm	nm	nm	nm	nm
SAP	92,427	5.2x	5.3x	4.9x	23.0x	22.4x	20.4x
Science App Inter'l***	2,137	0.6x	0.6x	0.5x	19.6x	15.5x	13.8x
Splunk***	6,224	17.6x	15.1x	11.4x	nm	nm	nm
Tableau Software	4,710	19.2x	13.4x	9.9x	nm	nm	630.1x
Teradata	6,754	2.3x	2.4x	2.3x	15.5x	15.0x	13.6x
Unisys	1,275	0.2x	0.4x	0.4x	12.0x	16.6x	7.1x
Sysorex	*79*	*1.6x*	*1.1x*	*0.9x*	*nm*	*nm*	*37.6x*
Average		4.9x	4.0x	3.3x			

*FY ends Sept. **March ***Jan. 15

Source: Company reports, Yahoo Finance, Zacks

RISKS

- The company is highly dependent on CEO Nadir Ali, who is driving its growth strategy, in our view.
- 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. However, we believe the company's recent diversification mute the impact of a potential government slowdown somewhat.
- As noted, the company has made three important acquisitions over the past 18 months and faces integration risk as it merges them into the Sysorex parent company.
- Sysorex could need additional funding to support its growth.
- It could take longer than we anticipate for Sysorex to convert strong revenue growth into positive EPS.

MANAGEMENT

Chairman Salam Qureishi founded the original Sysorex in 1972. Under his management, Sysorex reached $150 million in revenue and became a leading, IT solutions provider to U.S. Federal government customers.

CEO Nadir Ali, who was one of the executives with the original Sysorex Information Systems (SIS), has been CEO since September 2011. Before that, he was president of Sysorex Consulting. He has more than 15 years of experience in the consulting and high tech industries. He was VP of Strategic Programs at SIS until it was acquired by Vanstar, having worked closely to complete that transaction. He co-founded Tira Capital, which invested in early stage technologies, and was a managing director there from 1998-2001. Before Tira Capital, he served as VP of Strategic Planning for e-commerce software start-up Isadra, Inc. From 1989 to 1994 he was a management consultant, with much of that experience at Deloitte & Touche LLC. Abdus Salam Qureishi, the company's chairman, is his father-in-law.

CFO Wendy Loundermon has held that position since 2002. Prior to that, she was a Tax Manager at Thomson Reuters and is a CPA.

CEO - Lilien Systems Geoffrey Lilien founded Lilien in 1984 and was named as CEO of Sysorex subsidiary Lilien Systems once the merger with Lilien was completed on March 20, 2013. He is credited with driving Lilien's growth to the $40 million level and offices in four states with over 50 employees.

President - Lilien Systems Bret Osborn Lilien's president since 2005. Under his tenure at Lilien as VP of Sales, Lilien quadrupled its revenue, has doubled the number of employees it had and was added to the CRN list of Top 50 fastest growing VARs. Before Lilien, he was Regional VP for BlueArc. Corp. from 2003-2004 and Area VP for EMC Corporation from 1997-2002.

CEO – AirPatrol Cleve Adams joined AirPatrol in 2012. He has extensive experience in the software, mobile and network security sectors and was VP of Sales and one of the co-founders of Websense.

PROJECTED INCOME STATEMENT & BALANCE SHEET

Sysorex Global Holdings Income Statement & Projections ($)

	1Q13	2Q13	3Q13	4Q13	2013A	1Q14A	2Q14E	3Q14E	4Q14E	2014E	2015E
Revenues	**$5,361,544**	**$14,788,950**	**$13,941,114**	**$16,479,949**	**$50,571,557**	**$16,319,813**	**$17,624,177**	**$18,445,814**	**$21,713,144**	**$74,102,948**	**$92,628,685**
Cost of Revenues	3,905,733	11,789,904	10,159,003	12,462,606	38,317,246	11,969,345	12,865,649	13,280,986	15,199,201	53,315,181	62,987,506
Gross Profit	1,455,811	2,999,046	3,782,111	4,017,343	12,254,311	4,350,468	4,758,528	5,164,828	6,513,943	20,787,767	29,641,179
Gross profit margin	*27.2%*	*20.3%*	*27.1%*	*24.4%*	*24.2%*	*26.7%*	*27.0%*	*28.0%*	*30.0%*	*28.1%*	*32.0%*
Comp & benefits	1,088,640	1,982,460	2,769,236	3,018,586	8,858,922	3,245,142	3,894,170	4,127,821	4,375,490	15,642,623	17,989,016
Prof & legal fees	47,375	423,840	598,598	(42,053)	1,027,760	387,970	445,032	628,528	634,813	2,096,343	2,201,160
Consulting expenses	68,932	225,628	235,403	141,810	671,773	140,930	248,191	247,173	212,715	849,009	891,459
Occupancy	36,939	103,923	126,468	149,723	417,053	153,989	184,787	186,635	188,501	713,911	749,607
M&A costs	907,865		316,388	589,020	1,813,273	103,861	100,000	100,000	100,000	403,861	424,054
Public offering costs			-	542,819	542,819	44,717	20,000	-	-	64,717	-
Amort intangibles	62,857	193,334	236,073	329,388	821,652	328,035	331,315	334,629	337,975	1,331,954	1,398,551
Other admin	205,242	500,205	512,570	798,946	2,016,963	640,602	750,000	750,000	750,000	2,890,602	3,324,192
Total Op'g Expenses	2,417,850	3,429,390	4,794,736	5,528,239	16,170,215	5,045,246	5,973,495	6,374,785	6,599,494	23,993,020	26,978,041
Inc / (Loss) from Ops	($962,039)	($430,344)	($1,012,625)	($1,510,896)	($3,915,904)	($694,778)	(1,214,968)	(1,209,957)	(85,551)	(3,205,253)	2,663,139
Other Income			12,234	17,939	30,173	13,827	10,000	10,000	10,000	43,827	44,265
Interest expense	(27,538)	(58,577)	(92,731)	(136,453)	(315,299)	(107,954)	(110,000)	(110,000)	(110,000)	(437,954)	(442,334)
Amort Debt Disct	(16,667)		16,667	-						-	-
Chg Fair Value	(489,168)		-	-	(489,168)					-	-
Gain on settlement	-	14,762	139,974	-	154,736	-	-	-	-	-	-
Total Other	(533,373)	(43,815)	76,144	(118,514)	(619,558)	(94,127)	(100,000)	(100,000)	(100,000)	(394,127)	(398,068)
Pretax Gain / (Loss)	($1,495,412)	($474,159)	($936,481)	($1,629,410)	($4,535,462)	($788,905)	($1,314,968)	($1,309,957)	($185,551)	($3,599,380)	$2,265,070
Taxes						(35,000)				(35,000)	-
Net Loss	(1,495,412)	(474,159)	(936,481)	(1,629,410)	(4,535,462)	(823,905)	(1,314,968)	(1,309,957)	(185,551)	(3,634,380)	2,265,070
Non-control'g int	(37,041)	(38,408)	(28,601)	(168,008)	(272,058)	(42,588)	(20,000)	(20,000)	(20,000)	(102,588)	(103,614)
Net Sysorex Global	(1,458,371)	(435,751)	(907,880)	(1,461,402)	(4,263,404)	(781,317)	(1,294,968)	(1,289,957)	(165,551)	(3,531,792)	2,368,684
LPS	($0.16)	($0.05)	($0.08)	($0.12)	($0.35)	($0.05)	($0.07)	($0.07)	($0.01)	($0.19)	$0.11
Avg shrs out	9,372,342	9,372,342	10,753,342	12,287,778	12,287,778	14,244,699	19,500,000	19,500,000	19,500,000	18,186,175	22,250,000

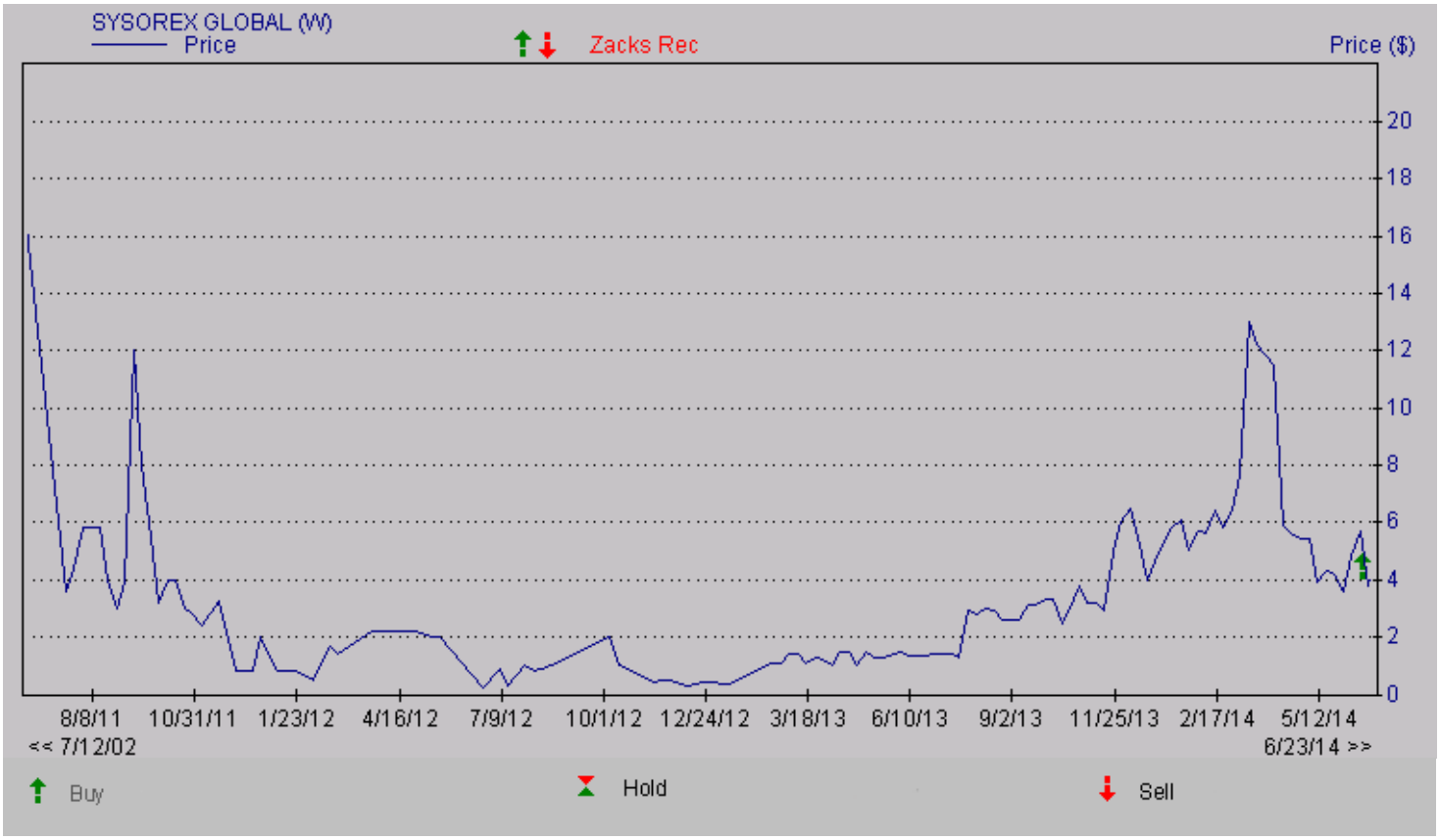
Source: Company reports, Zacks estimates

Sysorex Global Holdings Balance Sheet ($)

	30-Dec-11	31-Dec-12	31-Mar-13	30-Jun-13	30-Sep-13	31-Dec-13	31-Mar-14
Cash & equivalents	225,134	8,301	1,192,415	640,479	4,398,153	2,228,708	3,334,514
Restricted cash						71,429	71,429
Accounts receivable		386,720	5,495,933	11,439,273	8,774,704	9,581,041	9,068,579
Note receivable					1,000,000	1,130,000	1,130,000
Other receivables							606,454
Inventory			60,276	267,660	103,815	74,929	126,602
Prepaid expenses		31,762	135,357	121,173	203,417	381,583	1,029,968
Prepaid Licenses / other	-	-	-	6,071,506	6,583,811	6,120,261	5,925,320
Total Current Assets	**682,971**	**426,783**	**6,883,981**	**18,540,091**	**21,063,900**	**19,587,951**	**21,292,866**
Due from related parties			1,250				
Property and Equipment	144,921	49,238	208,760	258,760	256,752	290,665	265,073
Software dev costs						56,840	123,287
Deposits		749,227	749,227	919,894	890,560	749,227	749,227
Restricted cash						428,571	428,571
LT contract receivable		369,804		414,492	414,492	-	
Prepaid Licenses & Maint. Contracts				4,279,417	4,272,057	4,268,010	5,916,538
Other assets		20,060	679,878	707,564	770,536	456,752	137,437
Intangible assets	784,824	-	7,043,453	5,123,810	7,557,736	7,328,331	7,000,296
Goodwill	-	-	-	4,544,053	5,788,012	5,707,580	5,766,901
Total Assets	**$1,612,716**	**$1,615,112**	**$15,566,549**	**$34,788,081**	**$41,014,045**	**$38,873,927**	**$41,680,196**
Accounts payable		1,075,311	5,348,080	10,642,167	7,981,465	8,435,100	8,739,189
Accrued expenses		503,634	2,957,889	1,001,759	1,088,677	1,219,196	1,092,983
Accrued compensation		1,078,330	473,360	1,915,096	2,224,654	2,622,356	2,604,527
Deferred revenue		236,291	236,291	7,596,693	7,825,221	7,402,149	7,166,934
Due to factor'g		46,426	-	-	-	-	
Due to related parties		1,829,141	62,912	237,798	264,465	160,331	160,331
Advances payable		722,156	207,313	722,156	722,157	722,157	722,157
Notes payable		391,181	342,495	288,566	2,735,233	723,042	587,195
Notes payable related party		35,050	18,350	11,050	2,597	-	
Convertible note payable		88,333	-	-	-	-	
Revolving Line of Credit		-	4,181,393	5,013,391	5,000,000	5,697,590	5,274,473
Term loan					333,336	458,337	500,004
Derivative Liability	-	177,100	-	-	-	-	-
Total Current Liabilities	**5,598,619**	**$6,182,953**	**$13,828,083**	**$27,428,676**	**$28,177,805**	**$27,440,258**	**$26,847,793**
Deferred revenue		-	-	4,985,509	4,989,375	4,845,138	6,840,462
Term loan	-	-	-	-	416,664	291,663	249,996
Total Liabilities	**$5,598,619**	**$6,182,953**	**$13,828,083**	**$32,414,185**	**$33,583,844**	**$32,577,059**	**$33,938,251**
Non- controlling Interest	(1,117,378)	(1,208,157)	(2,441,928)	(1,283,606)	(1,312,207)	(1,480,215)	(1,522,803)
Stckhldrs' Equity / (Def)	**($3,985,903)**	**($4,567,841)**	**$1,738,468**	**$2,373,895**	**$7,430,201**	**$6,296,868**	**$7,741,945**
Total Liabs & Stockholders' Eq	**$1,612,716**	**$1,615,112**	**$15,566,551**	**$34,788,080**	**$41,014,045**	**$38,873,927**	**$41,680,196**

Source: Company reports

HISTORICAL ZACKS RECOMMENDATIONS



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