Zacks Small-Cap Research

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Sysorex Global (SYRX-NASDAQ)

SYRX: *Positive Impact of New Contract Signings Expected Going Forward*

Current Recommendation	**Hold**
Prior Recommendation	
Date of Last Change	11/6/2015
Current Price (11/5/15)	$0.84
Six- Month Target Price	**$1.00**

OUTLOOK

Sysorex reported third quarter 2015 total revenue of $14.9 million, up 4.1% y/y. The gross profit came in at $4.388 million compared to $4.275 million. Management expects its strategy to shift revenue mix towards higher margin business to have a positive impact on gross margins and that 3Q15 metrics mask strong recent contract wins that are expected to boost results over time. For example, the company has won two contracts with Qatar-based Daruna Development, with one contract expected to generate over $6M / annum over a 15 year period.

SUMMARY DATA

52-Week High	**$3.07**
52-Week Low	**$0.82**
One-Year Return (%)	**-60.19**
Beta	**1.49**
Average Daily Volume (sh)	**162,608**
Shares Outstanding (mil)	**25**
Market Capitalization ($mil)	**$21**
Short Interest Ratio (days)	**1.2**
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	15 A	17 E	64 E
2016					69 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	-$0.16 E	-$0.07 E	-$0.47 E
2016					-$0.31 E

Zacks Projected EPS Growth Rate - Next 5 Years % NA

Disclosures begins on page 9

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KEY POINTS

- Sysorex reported third quarter 2015 total revenue of $14.9 million, up 4.1% year-over-year from $14.3 million reported in the third quarter of 2014. The increase primarily reflected higher Professional Services revenues, which came in at $3.2 million and represented 22% of total revenue. The company's total gross profit of $4.388 million was up slightly compared to $4.275 million registered in the same period of 2014.

- The SaaS and Mobile, IoT & Big Data segments enjoy higher margins than the Storage and Computing and Professional Services units but accounted for only a combined 9% of total 3Q15 revenue. Management expects the anticipated growth of these higher margin businesses to have a positive impact on consolidated gross margins over time.

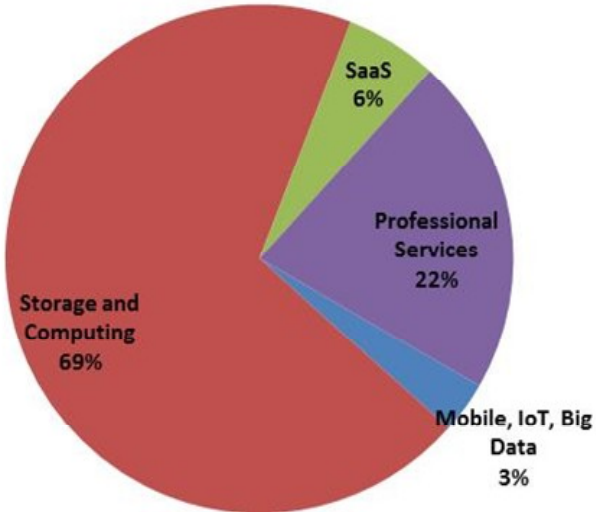
- Sysorex raised $5.25 million during the quarter through the issuance of shares. We would expect the company's cash burn rate to decline over time, as higher margin businesses grow.

- Management believes that 3Q15 metrics mask strong recent contract wins that are expected to lead to improving results over time. For example, the company has won two contracts with Qatar-based Daruna Development, with one contract expected to generate over $6 million per annum over a 15 year period. Overall, the company believes that several of the deals it has signed in 2015 thus far illustrate growing traction of its extended Big Data analytics solution.

3Q15 HIGHLIGHTS

Sysorex (SYRX-NASDAQ) reported third quarter 2015 results on November 4, 2015. Total revenue of $14.9 million was up 4.1% year-over-year from $14.3 million reported in the third quarter of 2014. The increase primarily reflected higher Professional Services revenues, which came in at $3.2 million. Professional Services revenue represented 22% of revenue, up from 18% last quarter. Storage and Computing revenue represented 69% of total revenue, while SaaS and IoT and Big Data Products revenue comprised 6% and 3%, respectively.

Sysorex 3Q15 Revenue Breakdown



Source: Company reports

Gross Profit

The company's total gross profit of $4.388 million was up slightly compared to $4.275 million registered in the same period of 2014. The gross profit margin was roughly 29.5% versus 29.9% reported in 3Q14. The SaaS and Mobile, IoT & Big Data segments enjoy higher margins than the Storage and Computing and Professional Services units. With the two higher margin units accounting for only a combined 9% of total revenue, we believe they did not have a meaningful impact on consolidated margins during the quarter. However, management expects the anticipated shift of revenue mix towards these higher margin businesses to have a positive impact on consolidated gross margins over time.

The company reported a net loss attributable to stockholders of ($3.2) million compared to ($2.5) million registered in 3Q14. The pro forma net loss was ($1.8) million or ($0.09)/share versus ($1.7) million or ($0.08)/share for the same period in 2014. Adjusted EBITDA generated in 3Q15 was ($1.464) million compared to ($1.501) million in 3Q14.

Balance Sheet

Sysorex had cash and equivalents of $5.4 million at the end of 3Q15 compared to $2.2 million at the end of 2Q15. Sysorex raised $5.25 million during the third quarter through the issuance of shares. The company has also expanded its borrowing capacity recently, increasing its credit limit to $10 million from $6 million. We would expect the company's cash burn rate to decline over time as higher margin businesses comprise a growing portion of the total revenue mix.

OUTLOOK

Management believes that the company's third quarter 2015 results mask strong recent contract wins that are expected to lead to improving results over time. For example, on the contract with Qatar-based Daruna Development that Sysorex announced in July 2015, the company expects the revenue to be recorded in 4Q15 and 1Q16. Moreover, the company also cited a recent second Daruna contract as an example of the growing momentum it expects in the adoption of AirPatrol products.

Specifically, in July 2015, Sysorex announced an initial $2.5 million contract with Daruna. In preparation for the 2022 FIFA games, Qatar expects to attract a significant number of workers to assist on World Cup-related projects. Daruna Development plans to construct and operate a turn-key community that will include living accommodations, recreation, healthcare and retail facilities for 6,500 workers, in preparation for the World Cup. As noted, Sysorex expects to record this revenue in 4Q15 and 1Q16, as the work is done in preparation of FIFA workers moving in beginning in February of 2016.

Daruna subsequently signed a new contract with Sysorex, expanding their agreement and, according to management, extending Sysorex's involvement into most aspects of the World Cup community's management and operation. The new agreement, which the company announced last month, represents $91 million over a 15 year period, for expected revenue of roughly $6.1 million per annum. Sysorex will operate as the community's intelligent infrastructure provider, delivering a broad range of services including IT, AirPatrol location-based security products, data analytics and cashless payment systems, among others. The project is expected to commence in the second quarter of 2016.

Overall, the company believes that several of the deals it has signed in 2015 thus far illustrate growing traction of its extended Big Data analytics solution. In another example, the company recently announced a new $1+ million AirPatrol cyber security contract with a U.S. governmental agency that will use AirPatrol's ZoneDefense mobile device detection and locationing system to keep its facilities secure against threats and data theft from mobile devices. The company also expects the agency to introduce AirPatrol to its other locations, which would result in more revenue to Sysorex. The initial installation is expected to begin this month and be completed by year-end.

The company recently announced a new system development contract with the Gemini Observatory in Hawaii. Sysorex will develop and deploy a new advanced next-gen computer systems architecture that will provide high availability, security and compliance with the computer systems that Gemini currently has under development. The company expects work on the Gemini project to be completed in the first quarter of 2016.

The company also recently announced an approximately $900,000 contract with a leading global aerospace technology company to provide computing systems that will be a part of work on NASA's Orion multi-purpose crew transport deep space craft.

Management remains optimistic about its ability to cross-promote its broad range of offerings to existing and new clients. The above contract wins follow announcements in in April 2015 that Sysorex won two contracts that management believes will allow it 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.

Driving Higher Margin Businesses

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 are key goals. 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.

We are optimistic about the company's ability to boost revenue and drive higher margins going forward. In the near-term, however, we believe investors may remain on the sidelines until there is greater revenue momentum and margin expansion. In turn, this may overhang the shares in the near-term and, as a result, we are revising our rating to Hold and lowering our price target to $1.00.

RECENT NEWS

On October 30, 2015, Sysorex announced that it had been selected by Driscoll's, which is a leading agricultural company, to upgrade Driscoll's enterprise resource planning (ERP) systems. This represents Sysorex's fourth project for Driscoll's in 2015.

On October 27, 2015, the company announced a new roughly $1 million AirPatrol cybersecurity contract with a U.S. government agency.

On October 22, 2015, Sysorex announced a new contract with the Gemini Observatory in Hawaii.

On October 14, 2015, the company announced a partnership with AMP Technologies to jointly provide asset management and analytics for real estate property managers.

Sysorex appointed a new CFO, Kevin Harris, on October 13, 2015. He has more than 20 years of experience in senior financial positions.

Sysorex announced that it had signed a new $91 million contract with Daruna on October 06, 2015.

on September 28, 2015, Sysorex announced a new $893,000 order to provide high performance computers that will be used in the development of the NASA Orion spacecraft project.

On September 25, 2015, the company raised $5.25 million through the issuance of equity.

RISKS

- It could take the company longer than it anticipates to convert strong deal flow into improving revenue, EPS and cash flow.
- 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.
- 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)

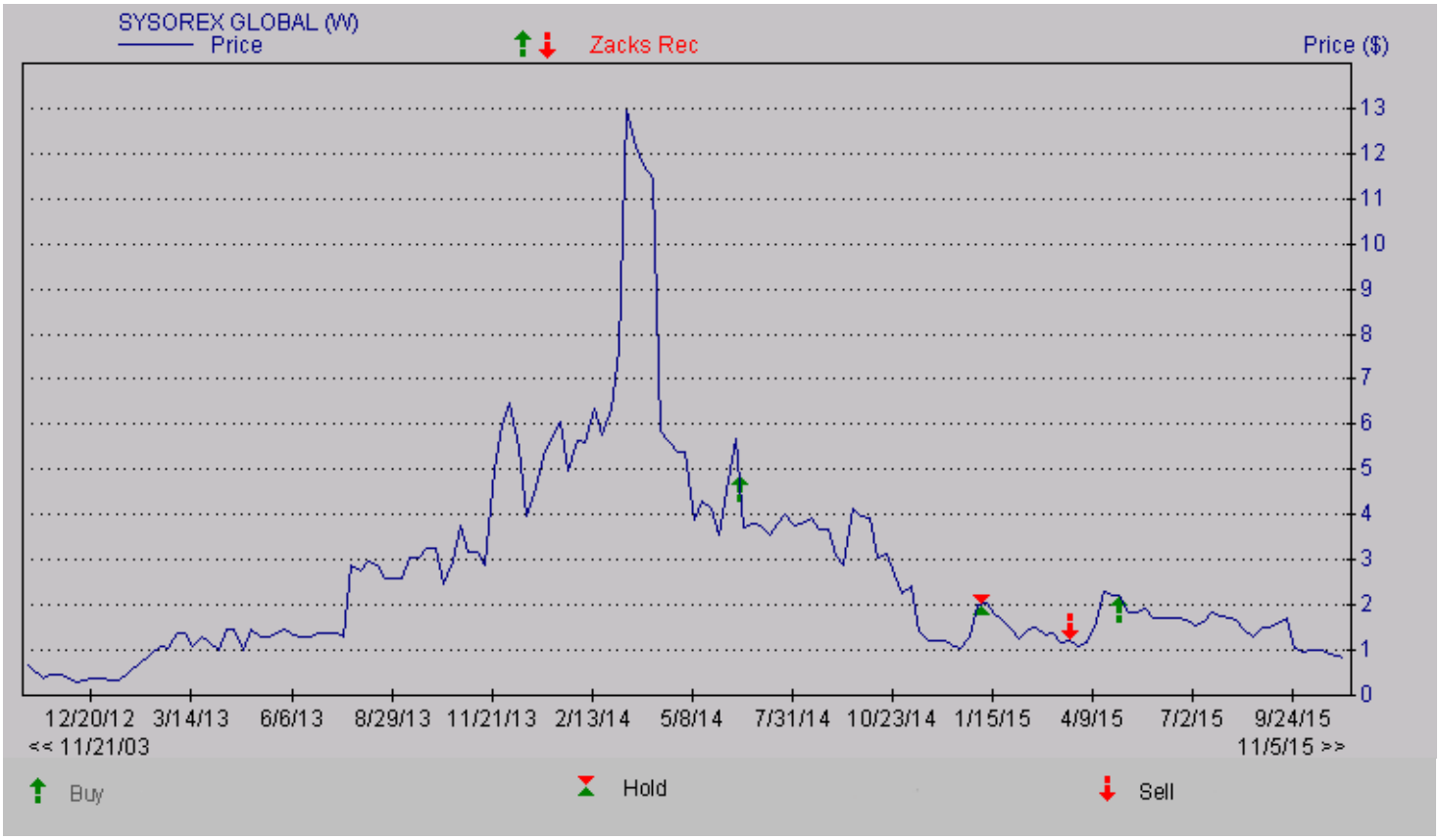
	1Q14	2Q14	3Q14	4Q14	2014	1Q15A	2Q15A	3Q15A	4Q15E	2015E	2016E
Revenues											
Mobile, IoT, Big Data						143	233	487	183	1,046	1,360
Storage and Computing						10,306	13,387	10,300	11,980	45,973	48,272
SaaS						973	987	871	1,408	4,239	5,426
Professional Services	-	-	-	-	-	2,700	3,090	3,216	3,530	12,536	14,103
Total Revenues	**$16,320**	**$17,145**	**$14,283**	**$15,201**	**$62,949**	**$14,122**	**17,697**	**14,874**	**$17,101**	**$63,794**	**69,161**
Products	10,708	-	-	-	-	8,650	10,349	8,601	9,932	37,532	39,583
Services	1,262	-	-	-	-	1,425	1,652	1,885	1,920	6,882	7,729
Total Cost of Revenues	11,970	11,465	10,008	10,766	44,209	10,075	12,001	10,486	11,852	44,414	47,312
Gross Profit	4,350	5,680	4,275	4,435	18,740	4,047	5,696	4,388	5,249	19,380	21,849
R&D	-					163	251	207	150	771	748
Sales and marketing	2,297	4,496	1,511	9,955	18,259	2,463	3,075	2,693	9,756	17,987	17,447
General& administrative	2,315	1,213	4,782	(4,052)	4,258	3,274	2,953	3,542	(3,971)	5,798	5,624
Acquisition related costs	104	1,091	-	(179)	1,016	76	112	13	(176)	25	25
Amort. of intangibles	328	1,249	443	893	2,913	882	1,000	1,056	875	3,813	3,699
Total Operating Expenses	5,044	8,050	6,736	6,616	26,446	6,858	7,391	7,511	6,634	28,394	27,542
Loss from Operations	(694)	(2,370)	(2,461)	(2,181)	(7,706)	(2,811)	(1,695)	(3,123)	(1,384)	(9,013)	(5,693)
Other Income / (Expense)		12		(12)							
Interest expense	(108)	(104)	(95)	(80)	(387)	(99)	(121)	(120)	(87)	(427)	(423)
Other	14	-	7	420	441	5	32	2	5	44	50
Change in fair value of shares to be issued								69			
Total Other Income (Exp	(94)	(92)	(88)	328	54	(94)	89 -	(49)	(82)	(383)	(373)
Pretax loss	(788)	(2,462)	(2,549)	(1,853)	(7,652)	(2,905)	(1,695)	(3,172)	(1,467)	(9,397)	(6,066)
Taxes	(35)		-		-	-	-				
Net Loss	(823)	(2,462)	(2,549)	(1,853)	(7,652)	(2,905)	(1,695)	(3,172)	(1,467)	(9,397)	(6,066)
Non-controlling Interest	(43)	- (56)	(6)	(11)	(116)	(5)	2	(4)	(5)	(12)	(20)
Shareholders Net Loss	(780)	- (2,407)	(2,543)	(1,841)	(7,536)	(2,900)	(1,697)	(3,168)	(1,462)	(9,385)	(6,046)
LPS	**($0.05)**	**($0.13)**	**($0.13)**	**($0.11)**	**($0.42)**	**($0.15)**	**($0.09)**	**($0.16)**	**($0.07)**	**($0.47)**	**($0.31)**
Avg. shrs out (FD)	14,245	18,642	19,624	19,934	18,111	19,766	19,807	19,833	19,863	19,817	19,770

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	30-Sep-15
Cash & equivalents	2,229	3,335	4,933	2,729	3,228	2,695	2,242	5,363
Restricted cash	71	71	161	-	-	-	-	
Accounts receivable	9,581	9,675	11,860	8,545	8,225	9,069	9,315	9,073
Notes receivable related part	-	-	90	90	90	90	0	0
Note receivable	1,130	1,130	130	2,130	1,294	1,702	1,856	1,511
Inventory	75	127	428	444	610	542	892	569
Prepaid expenses	382	1,030	1,043	6,398	7,151	7,179	7,300	7,515
Other	6,120	5,925	6,464	1,390	1,463	1,490	1,753	1,729
Total Current Assets	**19,588**	**21,293**	**25,108**	**21,726**	**22,061**	**22,767**	**23,358**	**25,760**
Property and Equipment	291	265	610	660	1,308	1,227	1,478	1,436
Software dev costs	57	123	190	256	278	357	615	800
Prepaid Licenses & Maint. Co	4,268	5,917	5,983	5,906	6,200	5,818	6,296	6,091
Intangible assets	7,328	7,000	11,496	18,579	17,676	16,794	19,274	18,217
Goodwill	5,708	5,767	10,516	13,157	13,166	13,166	13,166	13,166
Other assets	1,635	1,315	19,247	1,270	1,371	1,350	1,350	1,283
Total Assets	**38,874**	**41,680**	**73,150**	**61,554**	**62,060**	**61,479**	**65,537**	**66,753**
Accounts payable	8,435	8,739	7,932	6,374	7,468	8,282	7,660	8,219
Accrued expenses	1,219	1,093	1,403	3,492	3,299	2,811	3,025	3,443
Accrued compensation	2,622	2,605	1,932					
Deferred revenue	7,402	7,167	7,907	7,863	8,689	8,888	8,969	9,177
ST debt (inc'd related)	7,039	6,522	13,341	6,134	5,418	7,272	7,570	6,279
Acquisition liability - LightMiner							3,596	3,528
Advances payable	722	722	722	-	-	-	-	
Total Current Liabilities	**$27,440**	**$26,848**	**$33,238**	**$23,863**	**$24,874**	**$27,253**	**$30,820**	**$30,646**
Deferred revenue	4,845	6,840	6,788	6,810	7,181	6,781	7,274	7,032
Long term debt	292	250	225	100	100	100	1,729	1,493
Other	-	-	167	167	684	650	615	597
Total Liabilities	**$32,577**	**$33,938**	**$40,418**	**$30,940**	**$32,839**	**$34,784**	**$40,438**	**$39,768**
Non- controlling Interest	(1,480)	(1,523)	(1,578)	(1,584)	(1,596)	(1,601)	(1,599)	(1,603)
Stckhldrs' Equity / (Def)	6,297	7,742	32,732	30,614	29,221	26,695	25,099	26,985
Total Liabs & Stockholders' Eq	**$38,874**	**$41,680**	**$73,150**	**$61,554**	**$62,060**	**$61,479**	**$65,537**	**$66,753**

Source: Company reports, Zacks.

HISTORICAL ZACKS RECOMMENDATIONS



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