Zacks Small-Cap Research

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InterCloud Systems Inc. (ICLD-OTCBB)

ICLD: Potential, With Two Concerns- Neutral

Current Recommendation	**Neutral**
Prior Recommendation	N/A
Date of Last Change	02/18/13
Current Price (04/12/13)	$3.17
Six- Month Target Price	**$3.50**

OUTLOOK

InterCloud Systems, Inc. is a global single source provider of value added services for both corporate enterprises and service providers The firm is made up of four operating subsidiaries and two pending acquisitions that will likely mold the firm into a significant player in both cloud and managed services as well as telecom infrastructure with revenues north of $85 million. The growth of the cloud and the outsourcing of services by telecom providers will act as a tail wind for the firm. Their unique combination of services sets them apart from competition. While we like growth story, investors should be aware that the firm faces the twin tasks of bringing the six firms together under one company and the prospect of an offering will add dilution to the shares.

SUMMARY DATA

52-Week High	**$3.40**
52-Week Low	**$3.25**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**3,087**
Shares Outstanding (mil)	**1.8**
Market Capitalization ($mil)	**5.9**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**N/A**
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	**3.0**
P/E using 2014 Estimate	**2.2**
Zacks Rank	**3**

Risk Level	**High**
Type of Stock	**Growth**
Industry	**Software/Services**

ZACKS ESTIMATES

Revenue

(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011					79.0 A
2012					85.9 A
2013					115.6 E
2014					132.9 E

Earnings per Share

(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011					-$3.53 A
2012					$0.09 A
2013					$1.12 E
2014					$1.55 E

(Based on pro forma)

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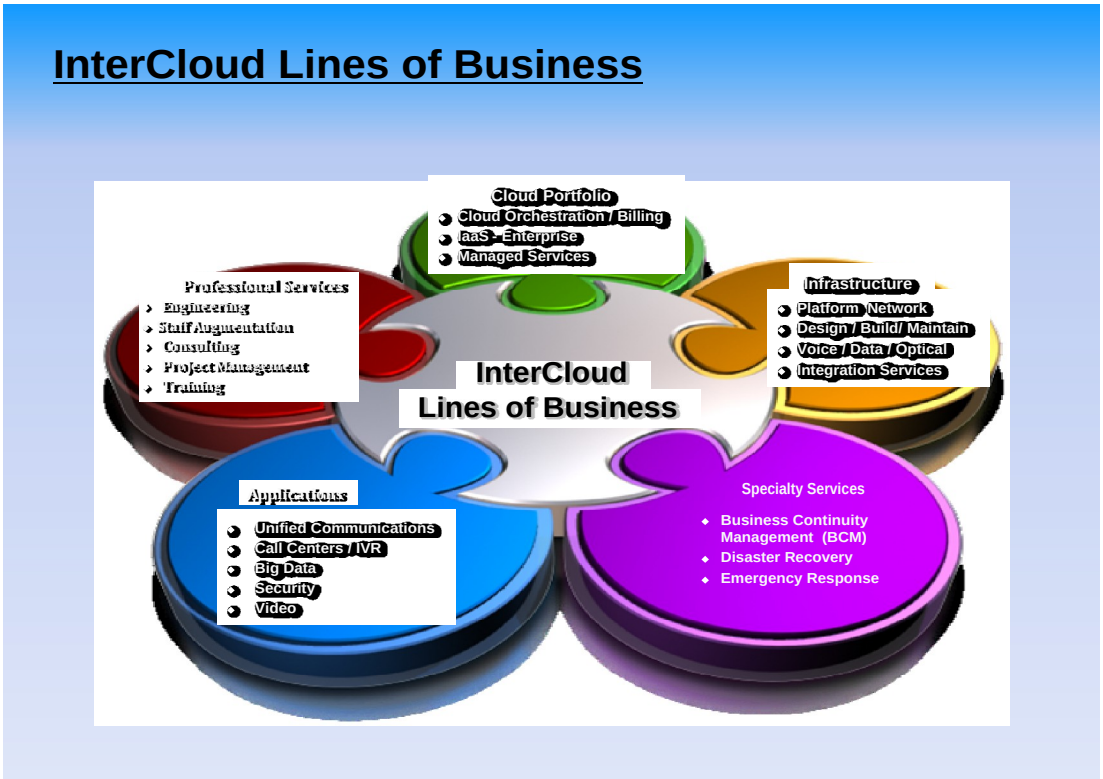
KEY POINTS

- The firm is made up of four completed and two pending acquisitions that will likely mold the firm into a significant player in the cloud and managed services universe.
- The trend of outsourcing by telecom providers will likely continue and will significantly benefit InterCloud.
- There appears to be no other significant player that offers the array of services of InterCloud.
- Cisco Global Cloud Index expects Global cloud traffic to account for nearly two-thirds of total data center traffic by 2016
- According to IDC By 2020, a significant portion of the Digital Universe will be centrally hosted, managed, or stored in public or private repositories that today we call 'cloud services.' And even if a byte in the Digital Universe does not 'live in the cloud' permanently, it will, all likelihood, pass through the cloud at some point in its life.

OVERVIEW

InterCloud Systems, Inc. is a global single source provider of value added services for both corporate enterprises and service providers markets. InterCloud offers bundled voice, data, and optical products, cloud and managed services, and professional consulting and staffing to assist our customers in their transition to meet their ever changing technology demands. of their customers The Company's engineering, design, construction, , installation, maintenance and project staffing services support the build-out, maintenance, upgrade and operation of some of the most advanced fiber optic, Ethernet, copper, wireless and satellite networks primarily in the United States and Caribbean .



The Company also offers turn-key telecommunications infrastructure solutions and “one-stop” capabilities including project development, procurement, design, engineering, construction management, and on-going maintenance and operation services for telecommunications networks and cable providers.

For example, the Company has established relationships with many leading telephone companies, cable television multiple system operators, OEMs and others, including Ericsson Inc., Verizon Communications Inc., Alcatel-Lucent USA Inc., Century Link, Inc., AT&T Inc., Comcast Corporation, Hotwire Communications, Alpha Technologies Inc. and Miami Dade Public Schools, to name a few.

InterCloud’s four subsidiaries, (ADEX, a leading provider of permanently outsourced network infrastructure services to OEMs and wireless and wireline carriers, offers customers a broad portfolio of services that encompass the major elements of any network buildout; Rives-Monteiro Engineering, which provides specialized maintenance, consultation and project management; TNS, an integrator of commercial communication system infrastructure specializing in the design, installation, and maintenance of structured cabling systems; and Tropical Communications, which offers any and all types of communications wiring, low voltage and underground utility contracting as well as fiber fusion splicing, testing and wireless capabilities; in addition to electrical services) allow customers services on an as needed basis in order to augment existing processes or outsource entire projects or operational functions by leveraging the InterCloud Group’s turn-key solutions.

Likewise, the 353% and 117%, increase in the Company’s year over year revenues during the three and nine month periods ended September 30, 2012 was primarily a result of the inclusion of revenues from the acquisitions of Tropical Communications, Inc. and Rives-Monteiro Engineering in 2011 and the ADEX and TNS acquisitions in 2012 with the four subsidiaries accounting for approximately all of the increase in revenues. Also, due to the acquisitions and current business model, management expects to have achieved profitability in the year ending December 31, 2012.

InterCloud has a fully scalable platform and as a result of the recent acquisitions, InterCloud Systems has become a multi-faceted company with an international platform that is expected to allow the Company to leverage its corporate and other fixed costs and capture gross margin benefits.

Additionally, given the worldwide popularity of telecommunications and wireless products and services, the Company anticipates selectively pursuing international expansion, which management believes represents a compelling opportunity for additional long-term growth.

ADEX Corporation. In September 2012, ICLD acquired ADEX Corporation, an Atlanta-based provider of staffing solutions and other services to the telecommunications industry. ADEX’s project staffing solutions diversified the firm’s ability to service customers domestically and internationally throughout the project lifecycle

T N S, Inc*.* In September 2012, InterCloud also acquired T N S, Inc., a Chicago-based structured cabling company and DAS installer that supports voice, data, video, security and multimedia systems within commercial office buildings, multi-building campus environments, high-rise buildings, data centers and other structures. T N S further extends the company’s geographic reach to the Midwest area and client reach to end-users such as multinational corporations, universities, school districts and other large organizations that have significant ongoing cabling needs.

InterCloud’s legacy businesses includes Tropical Communications and a 49% stake in Rives-Monteiro Engineering.

Tropical Communications, Inc., is a Miami-based provider of services to construct, install, optimize and maintain structured cabling for commercial and governmental entities in the Southeast.

Rives-Monteiro Engineering LLC, is a certified Women Business Enterprise (WBE) cable firm based in Tuscaloosa, Alabama. The firm performs engineering services in the Southeastern United States and internationally. It also acquired 100% of Rives-Monteiro Leasing, LLC, an equipment provider for cable-engineering services firms.

In November 2012, InterCloud Systems executed a definitive agreement to acquire the Telco Professional Services and Handset Testing business divisions of Tekmark Global Solutions, LLC, as well as a definitive agreement to acquire Integration Partners Corp-NY a New York based cloud and managed services business, with professional services and applications capabilities.

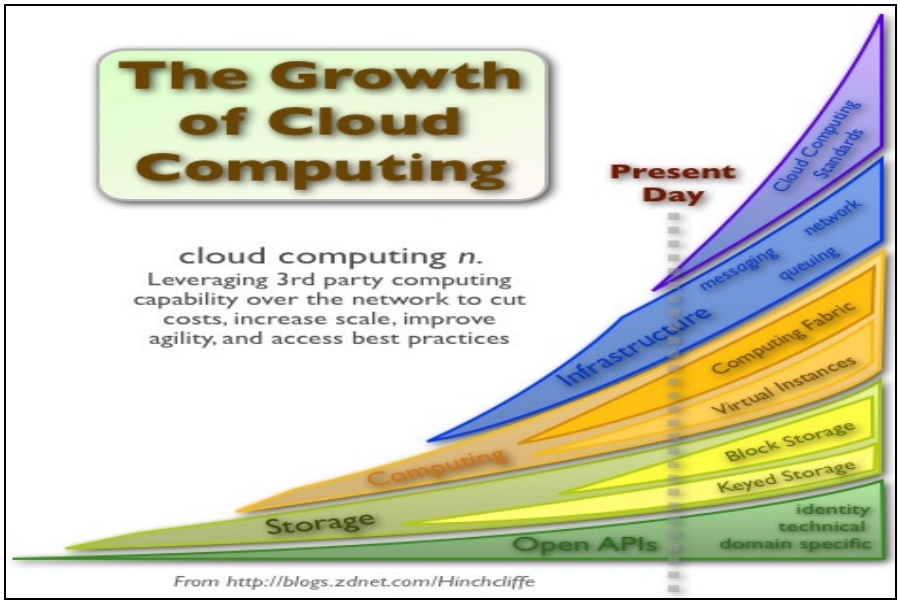
The Company, which is based out of Boca Raton, Florida, was formerly known as Genesis Group Holdings, Inc., and changed its name to InterCloud Systems, Inc. in January 2013.

Cloud Computing Tailwind

Cloud Computing is the use of computing resources that are delivered as a service over a network. Cloud computing entrusts remote services with a user's data, software and computation and is offered by providers according to three fundamental models including infrastructure as a service (IaaS), platform as a service (PaaS), and software as a service (SaaS) where IaaS is the most basic and each higher model abstracts from the details of the lower models. **(Source: infoworld, Cisco)**

IaaS providers offer computers - physical or virtual machines - and other resources while SaaS or "on-demand software" providers supply access to application software and databases where the software and associated data are centrally hosted on the cloud. PaaS providers offer a computing platform and a "solution stack" as a service or a set of software subsystems or components needed to deliver a fully functional solution.

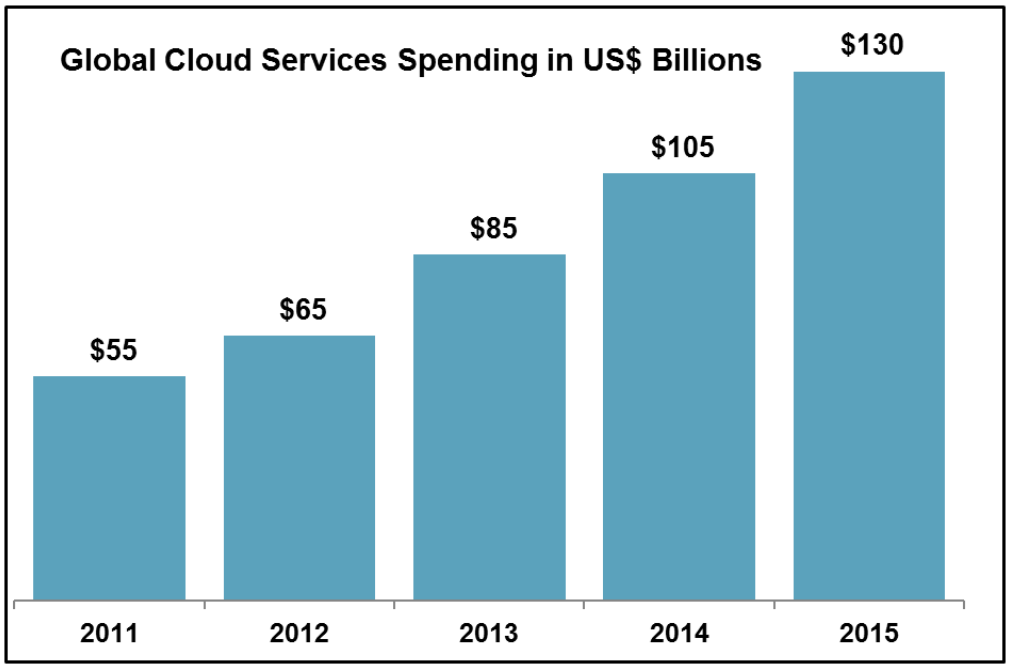
Additional types of Cloud Computing include API as a service (APIaaS); Backend as a service (BaaS); Data as a service (DaaS); Database as a service (DBaaS); Desktop as a service (DaaS); Integrated development environment as a service (IDEaaS); Integration platform as a service (IPaaS); Network as a service (NaaS); Security as a service (SECaaS); Storage as a service (STaaS) and Test environment as a service (TEaaS).



It is believed the Cloud Computing name comes from the use of a cloud-shaped symbol as an abstraction denoting networks in diagrams of computing and communications systems. Still, the fast-growing, high-tech smartphone services industry has contributed to strong growth and job creation in

cloud computing in the past and is expected to continue its rapidly increasing trend in the future.

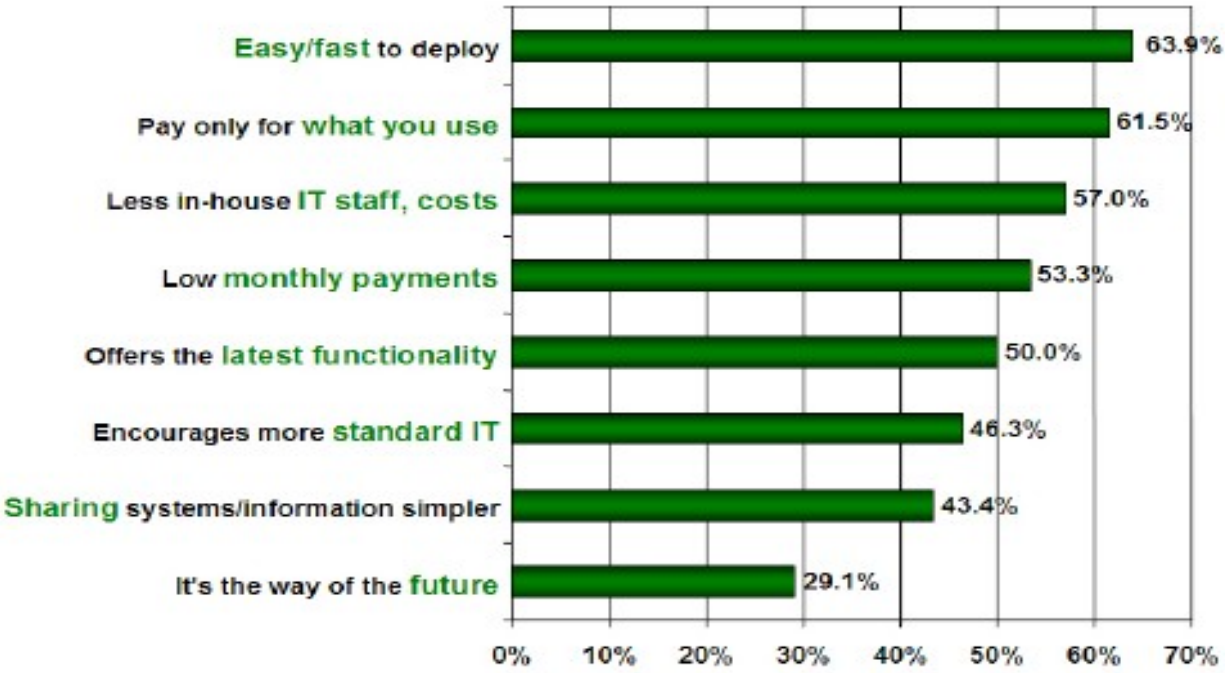
IDC reports that enterprise cloud application revenues reached $22.9B in 2011 and expects it to reach $67.3B by 2016, attaining a CAGR of 24%. Furthermore, IDC anticipates that $1 of every $5 will be spent on cloud-based software and infrastructure by 2106.Similarly, Cisco Global Cloud Index expects Global cloud traffic to account for nearly two-thirds of total data center traffic by 2016 while total data center traffic is anticipated to grow from 39% in 2011 to 64% in 2016. Likewise, Cisco predicts that by 2016, three out of five data center workloads will be processed in the cloud.



Equally, Gartner is predicting Infrastructure-as-a-Service (IaaS), cloud management & security devices, and Platform-as-a-Service (PaaS) to grow from $7.6B in 2011 to $35.5B in 2016, at a CAGR of 36%.

Finally, Software as a Service (SaaS) and cloud-based business application services are anticipated to grow from $13.4 billion in 2011 to $32.2 billion in 2016, a five-year CAGR of 19.1%.

Enterprise CIO's are more often demanding dynamically scalable and virtualized resources to support their business. (Source: Infosys Technologies Limited– Rahavan Subramanian.) This Infosys survey of CIO's show the many reasons CIO's incur resources.

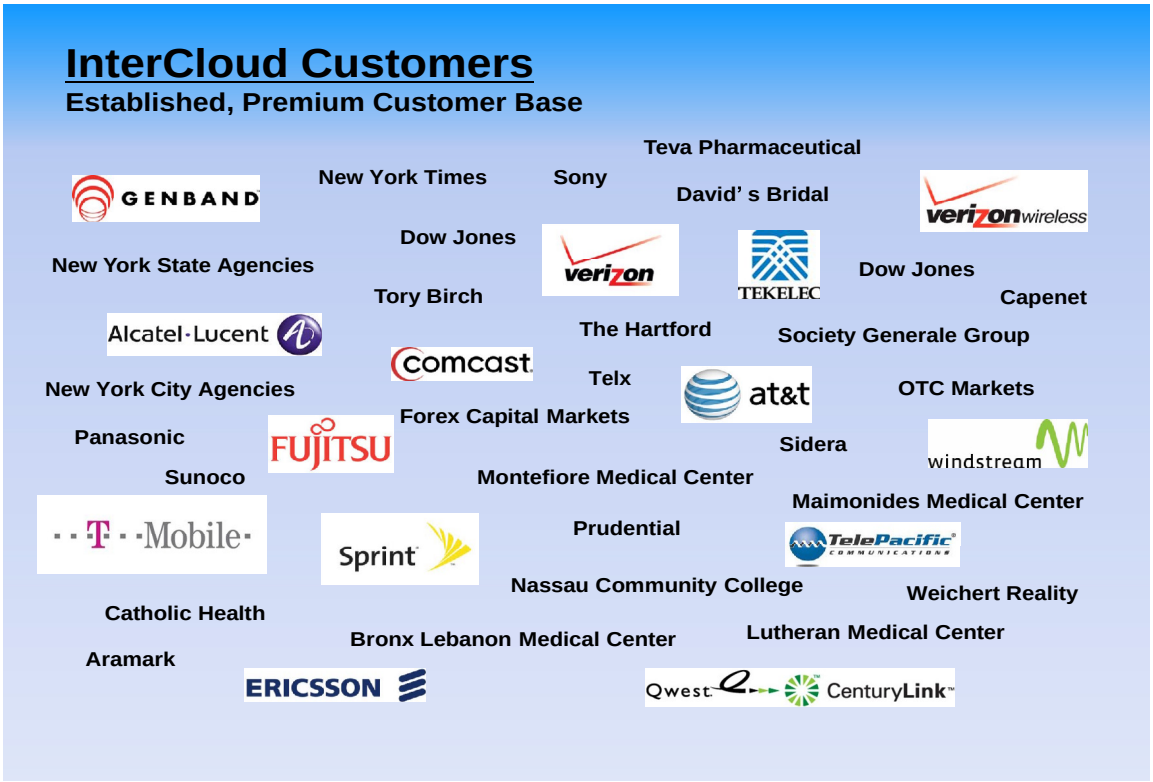


Telecom Service Outsourcing continues

As telecom service providers continue to operate in a low single-digit revenue and capped capex environment, they will be forced to outsource more and more tasks until only customer care, sales, marketing, and branding become their core business. Outsourcing is the only avenue left for them to cut operating expenses and beef up their margins, so we expect the outsourcing market to continue to grow. (Source Infonetics)

- Worldwide, telecom service providers paid network equipment vendors $50.4 billion in 2009 for outsourced services
- Infonetics Research forecasts this segment of the outsourced services market to grow to $73.2 billion by 2014
- The biggest revenue-generating tasks that equipment manufacturers provide for telecom service providers are network maintenance, network build, network planning and design, and application service delivery
- Much of the growth in outsourced services is coming from EMEA (Europe, Middle East, Africa) and Asia Pacific

Intercloud's blue chip customer portfolio is impressive and will serve to diversify revenue.



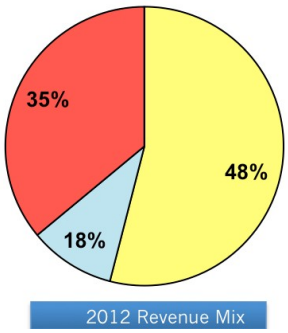
The new firm will act as an end-to-end solution provider of cloud and managed service based platforms, professional services, applications and infrastructure to both the telecommunications industry and corporate enterprises. It will operate three divisions.

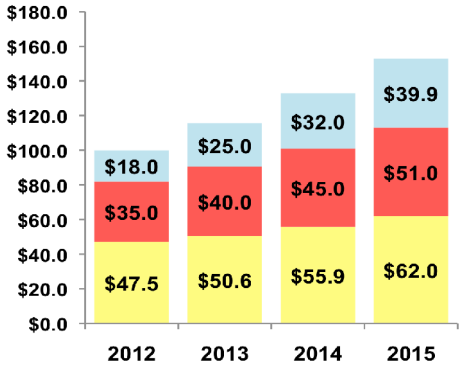
- ***Cloud and Managed Services.*** *InterCloud's services offerings include platform as a service (PaaS), infrastructure as a service (IaaS), database as a service (DbaaS), and software as a service (SaaS). The Company's experience in system integration and solutions centric services helps its customers to quickly migrate and adopt cloud based services. Managed services offerings include network management, 24x7x365 monitoring, security monitoring, storage and backup services. Cloud-based and managed services, which include both hardware solutions and professional services, enable corporate enterprises to integrate their applications and migrate various services into a web-hosted environment, as well as extend the ability of telecommunications and broadband service providers to provide cloud-based services.*

- ***Applications and Infrastructure.*** *InterCloud provides an array of applications and services, including unified communications, interactive voice response (IVR) and SIP based call centers. , as well as structured cabling and other field installations throughout North America and internationally. The Company will design, engineer, install and maintain various types of WiFi and wide-area networks, distributed antenna systems (DAS), and small cell distribution networks for incumbent local exchange carriers (ILECs), telecommunications original equipment manufacturers (OEMs), cable broadband multiple system operators (MSOs) and enterprise customers large end-users. Service and applications teams support the deployment of new networks and technologies, as well as expand and maintain existing networks. They also design, install and maintain sell hardware solutions for the leading OEMs that support voice, data and optical networks.*

- ***Professional Services.*** *InterCloud provides consulting and professional staffing solutions to the service provider and enterprise market in support of all facets of the telecommunications business, including project management, network implementation, network installation, network upgrades, rebuilds,*

maintenance and consulting services. The Company leverages a recruiting database, which includes more than 70,000 professionals, for the rapid deployment of professional services. On a weekly basis, Intercloud deploy's hundreds of professionals in support of network infrastructure deployments worldwide. Skilled recruiters assist telecommunications companies, cable broadband MSOs and enterprise clients throughout the project lifecycle of network deployments and maintenance.





Professional Services
Applications/Infrastructure
Cloud & Managed Services

From a margin standpoint the division expected to grow the fastest (Cloud and Managed Services) has the highest corporate margin ranging from 45-50%. Applications and infrastructure is next with a margin range of 30-33% and Professional Services is the lowest margin business at 19-21%. Looking at expected growth rates margin expansion should be a part of the story.

	% Current Revenue	Growth Rate	Gross Margin Range
Professional Services	48%	Slower	19-21%
Applications/Infrastructure	35%	Moderate	30-33%
Cloud & Managed Services	18%	High	45-50%

Concerns

Investors should be aware that integrating six companies into one firm is no small task. Wharton School of business has conducted hundreds of studies on the long-term results of mergers. The range for failure is between 50% and 80%. Of course the term failure does not imply these firms will go bankrupt just that the

end result is not what was expected from day one. The kinds of problems companies face with mergers range from poor strategic moves, such as overpayment, to unanticipated events, such as a particular technology becoming obsolete.

An offering later in the quarter should provide the necessary capital to position the firm to profit from legacy telecom as well as international markets. While we feel in the long run the capital raise will be a benefit, in the short run the shares are likely to see negative impact from dilution.

INDUSTRY OUTLOOK

The Software and Services Industry outlook over the next year is positive with strength in cloud computing and mobility offsetting the fiscal cliff turmoil that clouded 2013's outlook. CompTIA's consensus forecast projects a growth rate of 3 percent for the global IT industry in 2013, with upside potential of 5.2 percent. The U.S. forecast is slightly lower – 2.9 percent with upside potential of 4.9 percent.

IT industry executives view the IT services (3.4 percent growth forecast, 5.6 percent upside) and software segments (3 percent forecast, 5 percent upside) as holding the most promise in 2013. Hardware sales – with many categories experiencing high unit growth, but downward pressure on prices – are expected to grow by just 1.8 percent (3.6 percent upside).

Reaching the upside of the forecast range will require macroeconomic stability, steady business confidence and healthy customers. There is good reason to believe the IT industry will hit the upside of growth projections, but there is still enough uncertainty to warrant caution."

CompTIA sees 2013 as another transitional year, where incremental advances in a number of areas make their marks on the IT industry and the broader economy.

INDUSTRY POSITION

The business of providing infrastructure and managed services to telecommunications companies and enterprise clients is highly fragmented and the business is characterized by a large number of participants, including several large companies as well as a significant number of small, privately held, local competitors.

Current and potential larger competitors include ePlus, Arrow Electronics, Inc., Black Box Corporation Dimension Data, Dycom Industries, Inc., Goodman Networks, Inc., TeleTech Holdings, Inc., , Unitek Global Services, Inc. and Synacor.

The firm competes on the basis of

- Price
- Quality
- Reputation
- Range of Services offered
- Geographic Area

RECENT NEWS

On Nov. 26, 2012 Genesis Group Holdings Inc., announced that it has signed a definitive agreement to acquire Integration Partners-NY Corporation (IPC-NY). IPC-NY serves both corporate enterprises and service providers. The acquisition of IPC-NY will support the Company's cloud and managed services, systems integration and applications capabilities. Annual sales revenue generated from IPC-NY is expected to exceed $24 Million in 2012 with similar revenues in 2013.

VALUATION

With its blue chip portfolio of telecom clients, the new firm will act as an end-to-end solution provider of cloud and managed service based platforms, professional services, applications and infrastructure to both the telecommunications industry and corporate enterprises. The firm should enjoy a tailwind from the strength of cloud services as well as from the fact that Telecom service outsourcing will continue. It is reasonable for investors to expect some margin expansion as the higher margin businesses (Cloud and Managed Services) will likely grow at a faster rate than some lower margin business. Despite a solid outlook for growth InterCloud faces the task of integrating all of the firms acquired into one firm.

Looking Price to Sales and Enterprise Value to Sales using the actual trailing twelve month numbers the firm is reasonably priced (at .98x sales and 3.8x EV/Sales) If the S1 pro forma top-line is included those numbers look much better. Investors should be aware that an offering will dilute the current shareholders and the price could fall. Our price target of $3.50 is in line with the current valuation and places a value on the stock before the offering.

RISKS

- The firm competes directly and indirectly with well healed larger firms that have more flexibility.
- InterCloud faces the challenge of integrating the acquired company’s into one firm.
- The offering will dilute the current shareholders

PROJECTED INCOME STATEMENT

INCOME STATEMENT ($ Mil)	FY 2010	FY 2011	FY 2012	FY 2013 E	FY 2014 E	FY 2015 E
REVENUE						
Net Revenue	**61.79**	**79.02**	**85.87**	**115.60**	**132.90**	**152.90**
Sequential Growth						
OPERATING EXPENSES						
Cost of Revenues	43.75	57.93	63.29	82.00	93.00	105.00
% of Revenue						
Gross Profit -	**18.04**	**21.09**	**22.58**	**33.60**	**39.90**	**47.9**
Proforma Gross Margin	*29.2%*	*26.7%*	*26.3%*	*29.1%*	*30.0%*	*31.3%*
SG&A	10.5	11.9	19.9	20.0	24.0	28.0
% of Revenue	*16.9%*	*15.1%*	*23.2%*	*17.3%*	*18.1%*	*18.3%*
Depreciation and Amort	5.42	10.36	-	8.00	8.50	9.50
% of Revenue	*8.8%*	*13.1%*	*0.0%*	*6.9%*	*6.4%*	*6.2%*
Stock Comp	0.9	*5.0*	-	*2.0*	2.5	*3.00*
% of Revenue						
Total Operating Expenses	16.76	27.27	19.90	30.00	35.00	40.50
% of Revenue	*27.1%*	*34.5%*	*23.2%*	*26.0%*	*26.3%*	*26%*
Operating Income -	**1.28**	**(6.18)**	**2.68**	**3.60**	**4.90**	**7**
Operating Margin	*2%*	*-8%*	*3%*	*3%*	*4%*	*5%*
NON-OPERATING ITEMS						
Non operating Income/Expense	$ (1.92)	$ (1.08)	$ (2.19)	$ (1.50)	$ (2.00)	$ (3.96)
% of Revenue	*-3.11%*	*-1.37%*	*-2.54%*	*-1.30%*	*-1.50%*	*-2.59%*
Tax Provision	0.00	0.00	-2.65	0.00	0.0	0.0
Effective Tax Rate	*0%*	*0%*	*-99%*	*0%*	*0%*	*0%*
Prf Div			*$ (0.44)*			
Net Income -	**(0.64)**	**(7.26)**	**2.70**	**2.10**	**2.90**	**3.4**
Net Income Margin	*-1.0%*	*-9.2%*	*3.1%*	*1.8%*	*2.2%*	*2%*
EARNINGS PER SHARE						
EPS - Basic	-$0.34	-$3.53	$0.10	$1.12	$1.55	$1.84
EPS - Diluted	-$0.34	-$3.53	$0.09	$1.12	$1.55	$1.84

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HISTORICAL ZACKS RECOMMENDATIONS

Initiating at Neutral on 2/19/13

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