



**InterCloud Systems, Inc.**  
(NASDAQCM: ICLD)

**November 14, 2014**  
**Target Price: \$19.40**  
**Recent Price: \$3.50**

**Market Data**

|                          |             |
|--------------------------|-------------|
| Fiscal Year              | December 31 |
| Industry                 | IT Services |
| Market Cap               | \$59.7M     |
| Price/Earnings (ttm)     | N/A         |
| Price/Book (mrq)         | 1.7x        |
| Price/Sales (ttm)        | 0.9x        |
| Institutional Ownership  | 4.8%        |
| Insider Ownership        | 17.9%       |
| Shares Outstanding       | 17.0M       |
| Float                    | 11.4M       |
| Avg. Daily Vol. (3 mos.) | 257,663     |

*As of November 14, 2014*

**Income Snapshot**

|         |           |
|---------|-----------|
|         | TTM       |
| Revenue | \$64.3M   |
| EBITDA  | (\$10.6M) |

**Balance Sheet Snapshot**

|       |          |
|-------|----------|
|       | ProForma |
| Cash  | \$2.6M   |
| Debt* | \$50.6M  |

\*Includes debt following VaultLogix acquisition

**Record Revenue of \$20.5 million in 3Q14; SDN/NFV and VaultLogix Expected to Accelerate Growth**

**Revenue increases 37% YoY to record \$20.5 million.** InterCloud Systems reported 3Q14 revenue of \$20.5 million, up from \$15.0 million in 3Q13. Gross profit increased 17% to \$5.4 million for 3Q14, compared to \$4.7 million for 3Q13. Gross margins in 3Q14 were 26.4% as compared to 31.0% in 3Q13. Our adjusted net loss for 3Q14 was (\$5.7 million). Our figure was adjusted for goodwill impairment, intangible asset impairment, change in fair value and loss on contingent consideration, change in fair value of derivative instruments, and charges related to the conversion of debt and extinguishment of debt. Management stated on its earnings call that it has the flexibility to scale expenses up or down, and that losses at the present time are related to investment in its sales team and its cloud development team. Given the Company's aggressive growth strategy, we are projecting ICLD to run losses in 4Q14 and 2015, although we believe the Company will show strong revenue growth over this period.

**Business practice offering with Juniper Networks SDN/NFV solutions represents a potential multibillion market.** On October 1, 2014, ICLD announced a business practice with Juniper, which focuses on combining ICLD's cloud-based solutions with Juniper's Software-Defined Networking (SDN) and Network Functions Virtualization (NFV) technologies. According to telecom market research firm Infonetics, the global cloud services market is projected to be over \$200 billion by 2018, with growth driven by SDN and NFV. Through this business practice, ICLD has identified at least 10 opportunities so far with major corporations, some of which spend \$1B+ each year on their legacy networks. This partnership represents a major potential source of long-term growth for ICLD, and ICLD began dialog with these carriers in early September.

**Integration of VaultLogix acquisition going well, cross-selling already underway.** ICLD closed the VaultLogix acquisition in early October. VaultLogix generated approximately \$12 million in revenue and over \$4.3 million in adjusted EBITDA over the past 12 months. Cross-selling from the acquisition has already begun to occur. VaultLogix brought strong technology solutions to ICLD, including disaster recovery, storage, and common file elimination, along with a significant network of potential customers (10,000 users; over 600 channel partners) that could drive additional revenue for ICLD products.

**New sales team has grown pipeline of opportunities to over \$140 million (up from \$20 million last year).** ICLD has grown its sales team to 15 individuals (goal of 18 individuals by end of 2014). This team has grown the potential sales pipeline to over \$140 million of opportunities. The Company anticipates that each sales team member should generate an additional \$4 million in new annual revenue.



**Applying a 4.0x EV/S multiple to our FY15 revenue projection of \$109.6 million derives a target price of \$19.40.** Our FY15 revenue projection implies YoY growth of approximately 44%. This growth could be considered conservative; if some of the opportunities listed above (SDN/NFV, VaultLogix cross-selling, sales pipeline) begin to gain serious traction, sales growth could be significant. A 4.0x EV/S multiple takes into account the significant long-term growth potential for ICLD. We also note that the majority of common stock used to complete the VaultLogix acquisition was valued at \$16.50, which we believe serves to validate our \$19.40 target price.

|  | 1Q13               | 2Q13               | 3Q13             | 4Q13                | 2013                | 1Q14               | 2Q14               | 3Q14               | 4Q14               | 2014E               | 1Q15E              | 2Q15E              | 3Q15E              | 4Q15E              | 2015E               |
|--|--------------------|--------------------|------------------|---------------------|---------------------|--------------------|--------------------|--------------------|--------------------|---------------------|--------------------|--------------------|--------------------|--------------------|---------------------|
| <b>REVENUES</b>  |                    |                    |                  |                     |                     |                    |                    |                    |                    |                     |                    |                    |                    |                    |                     |
| Service Revenue  | 12,401,933         | 13,313,000         | 15,009,000       | 8,491,086           | 51,407,544          | 14,075,000         | 17,838,000         | 20,548,000         | 23,630,200         | 76,091,200          | 25,048,012         | 26,550,893         | 28,143,946         | 29,832,883         | 109,575,434         |
| Product Revenue  | 12,401,933         | 13,313,000         | 15,009,000       | -                   | 9,876,000           | 9,876,000          | 12,926,000         | 17,430,000         | 20,085,270         | 60,317,670          | 21,416,050         | 22,833,768         | 24,344,514         | 25,954,347         | 94,548,679          |
| Service as % of rev  | -                  | -                  | -                | -                   | 41.99%              | 70.2%              | 72.5%              | 84.8%              | 85.0%              | 15.7%               | 85.5%              | 86.0%              | 86.5%              | 87.0%              | 15,036,755          |
| Product as % of rev  | 71.6%              | 84.9%              | 40.9%            | -2.5%               | 1.98%               | 29.8%              | 27.5%              | 15.2%              | 15.0%              | 84.3%               | 14.5%              | 14.0%              | 13.5%              | 13.0%              | 44%                 |
| YoY Revenue Growth   | 9%                 | 7%                 | 13%              | -4.3%               | -                   | 7%                 | 7%                 | 27%                | 15%                | 48%                 | 6%                 | 6%                 | 6%                 | 6%                 | 6%                  |
| QoQ Revenue Growth   | -                  | -                  | -                | -                   | -                   | -                  | -                  | -                  | -                  | -                   | -                  | -                  | -                  | -                  | -                   |
| <b>OPERATING EXPENSES</b>  |                    |                    |                  |                     |                     |                    |                    |                    |                    |                     |                    |                    |                    |                    |                     |
| Cost of Revenues   | 8,766,303          | 9,539,000          | 10,354,000       | 7,747,538           | 37,280,044          | 10,141,000         | 12,168,000         | 15,115,000         | 16,033,639         | 53,447,639          | 16,734,577         | 17,605,897         | 18,521,531         | 19,543,235         | 72,405,330          |
| Gross Profit   | 3,635,630          | 3,774,000          | 4,655,000        | 7,433,488           | 14,127,500          | 3,934,000          | 5,670,000          | 5,433,000          | 7,606,561          | 22,643,561          | 8,313,435          | 8,944,996          | 9,622,415          | 10,289,648         | 37,170,104          |
| Gross Margins  | 29.32%             | 28.35%             | 31.01%           | 8.76%               | 27.48%              | 27.95%             | 31.79%             | 26.44%             | 32.19%             | 29.76%              | 33.19%             | 33.69%             | 34.19%             | 34.49%             | 33.92%              |
| Depreciation and Amortization  | 197,610            | 283,000            | 306,000          | 302,714             | 1,120,404           | 518,000            | 868,000            | 585,000            | 590,850            | 2,561,850           | 596,759            | 602,736            | 608,753            | 614,841            | 2,423,079           |
| Salaries and Wages   | 1,661,769          | 1,605,000          | 1,771,000        | 3,156,460           | 8,341,011           | 3,560,000          | 4,090,000          | 5,195,000          | 5,978,441          | 18,823,441          | 6,337,147          | 6,717,376          | 7,120,418          | 7,547,644          | 27,722,585          |
| S&W as % of Revenue  | 13.4%              | 12.1%              | 11.8%            | 37.2%               | 16.2%               | 25.3%              | 22.9%              | 25.3%              | 25.3%              | 24.7%               | 25.3%              | 25.3%              | 25.3%              | 25.3%              | 25.3%               |
| Change in Fair Value and loss on Contingent Consideration                | -                  | -                  | -                | -                   | 3,131,130           | -                  | -                  | 860,000            | -                  | 860,000             | -                  | -                  | -                  | -                  | -                   |
| Goodwill impairment charges  | -                  | -                  | -                | -                   | -                   | -                  | -                  | 1,369,000          | -                  | 1,369,000           | -                  | -                  | -                  | -                  | -                   |
| Intangible asset impairment charges                                      | -                  | -                  | -                | -                   | -                   | -                  | -                  | 2,392,000          | -                  | 2,392,000           | -                  | -                  | -                  | -                  | -                   |
| Selling, General and Administrative                                      | 1,170,766          | 1,502,000          | 1,771,000        | 2,903,691           | 7,875,723           | 2,587,000          | 3,045,000          | 2,625,000          | 2,599,322          | 10,856,322          | 2,630,041          | 2,655,089          | 2,673,675          | 2,684,932          | 10,643,738          |
| G&A as % of Revenue  | 9.4%               | 11.3%              | 11.8%            | 34.2%               | 15.3%               | 18.4%              | 17.1%              | 12.8%              | 11.0%              | 14.3%               | 10.5%              | 10.0%              | 9.5%               | 9.0%               | 9.7%                |
| <b>TOTAL OPERATING EXPENSES</b>  | <b>3,030,148</b>   | <b>3,354,000</b>   | <b>3,195,000</b> | <b>10,288,753</b>   | <b>20,468,268</b>   | <b>6,665,000</b>   | <b>8,003,000</b>   | <b>13,026,000</b>  | <b>9,168,613</b>   | <b>36,682,613</b>   | <b>9,975,191</b>   | <b>10,402,847</b>  | <b>10,847,417</b>  | <b>10,847,417</b>  | <b>40,789,402</b>   |
| <b>Operating Income</b>  | <b>605,485</b>     | <b>420,000</b>     | <b>1,460,000</b> | <b>(9,545,205)</b>  | <b>(6,340,768)</b>  | <b>(2,731,000)</b> | <b>(7,593,000)</b> | <b>(7,593,000)</b> | <b>(1,562,051)</b> | <b>(14,219,051)</b> | <b>(1,250,512)</b> | <b>(1,030,195)</b> | <b>(780,431)</b>   | <b>(558,159)</b>   | <b>(3,619,297)</b>  |
| Operating Margin   | 4.88%              | 3.15%              | 9.73%            | -112.11%            | -12.33%             | -19.40%            | -13.08%            | -36.95%            | -6.61%             | -18.69%             | -4.99%             | -3.88%             | -2.77%             | -1.87%             | -3.30%              |
| <b>OTHER (INCOME) EXPENSES</b>   |                    |                    |                  |                     |                     |                    |                    |                    |                    |                     |                    |                    |                    |                    |                     |
| Unrealized gain on fair value of derivative                              | 15,629             | (910,000)          | 483,000          | (13,744,353)        | (4,156,361)         | 20,978,000         | 1,813,000          | 2,141,000          | -                  | 24,932,000          | -                  | -                  | -                  | -                  | -                   |
| Interest Expense   | (1,336,579)        | (754,000)          | (1,061,000)      | (2,455,238)         | (5,574,228)         | (3,277,000)        | (3,358,000)        | (2,755,000)        | (3,387,523)        | (12,787,523)        | (3,529,124)        | (3,529,124)        | (3,529,124)        | (3,529,124)        | (14,116,496)        |
| Commission Income  | -                  | -                  | -                | 1,823,838           | 1,823,838           | -                  | -                  | -                  | -                  | (1,960,000)         | -                  | -                  | -                  | -                  | -                   |
| Loss on conversion of debt   | -                  | -                  | -                | (992,000)           | (992,000)           | (5,740,000)        | (4,513,000)        | 78,000             | -                  | (10,175,000)        | -                  | -                  | -                  | -                  | -                   |
| Loss on extinguishment of Debt   | -                  | -                  | -                | -                   | -                   | (2,385,000)        | -                  | -                  | -                  | (2,385,000)         | -                  | -                  | -                  | -                  | -                   |
| Loss on Debt Discount  | -                  | -                  | -                | -                   | -                   | -                  | -                  | -                  | -                  | 194,000             | -                  | -                  | -                  | -                  | -                   |
| Goodwill Impairment/other  | -                  | -                  | -                | (256,113)           | (176,000)           | -                  | -                  | -                  | -                  | -                   | -                  | -                  | -                  | -                  | -                   |
| <b>TOTAL OTHER (INCOME) EXPENSE</b>                                      | <b>(1,320,950)</b> | <b>(1,584,000)</b> | <b>(578,000)</b> | <b>(15,624,366)</b> | <b>(19,074,751)</b> | <b>9,576,000</b>   | <b>(7,422,000)</b> | <b>(938,000)</b>   | <b>(3,397,523)</b> | <b>(2,181,523)</b>  | <b>(3,529,124)</b> | <b>(3,529,124)</b> | <b>(3,529,124)</b> | <b>(3,529,124)</b> | <b>(14,116,496)</b> |
| Income (Loss) from Continuing Operations before Income Taxes             | (715,465)          | (1,164,000)        | 882,000          | (25,169,771)        | (25,415,519)        | 6,845,000          | (9,755,000)        | (8,931,000)        | (4,959,574)        | (16,400,574)        | (4,779,636)        | (4,559,320)        | (4,309,555)        | (4,087,283)        | (17,735,794)        |
| Provision for (benefit from) Income Taxes                                | -                  | (90,000)           | (225,000)        | (340,832)           | (587,662)           | 137,000            | 190,000            | 127,000            | -                  | 454,000             | -                  | -                  | -                  | -                  | -                   |
| Income from Discontinued Operations including Gain on Sale of Subsidiary | -                  | 70,000             | 404,000          | 549,922             | 549,922             | -                  | -                  | -                  | -                  | -                   | -                  | -                  | -                  | -                  | -                   |
| <b>NET LOSS</b>  | <b>(404,765)</b>   | <b>(1,004,000)</b> | <b>1,511,000</b> | <b>(24,288,817)</b> | <b>(24,277,935)</b> | <b>6,708,000</b>   | <b>(9,445,000)</b> | <b>(8,658,000)</b> | <b>(4,959,574)</b> | <b>(16,854,574)</b> | <b>(4,779,636)</b> | <b>(4,559,320)</b> | <b>(4,309,555)</b> | <b>(4,087,283)</b> | <b>(17,735,794)</b> |
| Net Margin   | -4%                | -8%                | 10%              | -286%               | -47%                | 48%                | -56%               | -42%               | -21%               | -22%                | -19%               | -17%               | -15%               | -14%               | -16%                |
| Net Loss Attributable to Non-Controlling Interest                        | 34,982             | (47,000)           | (45,000)         | 133,379             | 76,169              | 53,000             | (20,000)           | 16,000             | -                  | 49,000              | -                  | -                  | -                  | -                  | -                   |
| Net Loss Attributable to ICD   | (459,783)          | (1,051,000)        | 1,466,000        | (24,307,776)        | (24,354,104)        | 6,761,000          | (9,565,000)        | (8,642,000)        | (4,959,574)        | (16,805,574)        | (4,779,636)        | (4,559,320)        | (4,309,555)        | (4,087,283)        | (17,735,794)        |
| Less Dividends on Preferred Stock  | (591,085)          | (263,000)          | (157,000)        | (63,550)            | (1,084,314)         | -                  | -                  | -                  | -                  | -                   | -                  | -                  | -                  | -                  | -                   |
| Net Loss Attributable to ICD Common Shareholders                         | (1,050,868)        | (1,314,000)        | 1,299,000        | (24,371,226)        | (25,438,418)        | 6,761,000          | (9,585,000)        | (8,642,000)        | (4,959,574)        | (16,805,574)        | (4,779,636)        | (4,559,320)        | (4,309,555)        | (4,087,283)        | (17,735,794)        |
| Adjusted net Income  | (1,066,497)        | (484,000)          | 163,000          | (5,452,972)         | (6,982,927)         | (6,992,000)        | (5,892,000)        | (5,653,000)        | (4,959,574)        | (22,596,574)        | (4,779,636)        | (4,559,320)        | (4,309,555)        | (4,087,283)        | (17,735,794)        |
| <b>LOSS PER COMMON SHARE</b>   |                    |                    |                  |                     |                     |                    |                    |                    |                    |                     |                    |                    |                    |                    |                     |
| Basic  | (0.50)             | (1.33)             | 0.26             | (3.83)              | (8.02)              | 0.72               | (0.82)             | (0.65)             | (0.30)             | (1.30)              | (0.28)             | (0.23)             | (0.21)             | (0.20)             | (0.92)              |
| Diluted  | (0.50)             | (1.33)             | 0.12             | (3.83)              | (7.85)              | (1.52)             | (0.96)             | (0.81)             | (0.30)             | (1.30)              | (0.28)             | (0.23)             | (0.21)             | (0.20)             | (0.92)              |
| Adjusted EPS   | (0.51)             | (0.49)             | 0.02             | (0.86)              | (2.16)              | (0.64)             | (0.48)             | (0.42)             | (0.30)             | (1.74)              | (0.28)             | (0.23)             | (0.21)             | (0.20)             | (0.92)              |
| Basic Weighted Avg number of Common Shares                               | 2,103,957          | 989,125            | 4,947,737        | 6,367,820           | 3,240,230           | 9,449,622          | 12,199,393         | 13,313,973         | 16,777,239         | 12,922,557          | 17,046,419         | 20,046,419         | 20,046,419         | 20,046,419         | 19,296,419          |
| Diluted Weighted Avg number of Common Shares                             | 2,103,957          | 989,125            | 6,852,448        | 6,367,820           | 3,240,230           | 9,449,622          | 12,265,746         | 13,376,539         | 16,789,805         | 12,970,428          | 17,108,985         | 20,108,985         | 20,108,985         | 20,108,985         | 19,358,985          |

## Additional Information

Legal: Pryor Cashman LLP

Auditor: BDO USA, LLP

Transfer Agent: Corporate Stock Transfer

### Company Information

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