

INTERCLOUD SYSTEMS: NO DIFFERENCE IN ITS BUSINESS FROM BEFORE ITS 150% RUNUP

May 5, 2015

RESEARCH SUMMARY

It's a crazy market we're in. Hot money has pushed InterCloud Services (ICLD), an IT and network solutions provider, from a close of \$1.52 on April 30th, to over \$4.00 today, for no fundamental reason whatsoever! In time, the share price will return to below \$2 per share, because the company hasn't improved to any degree to merit a higher share price.

Two PRs the company released have fueled this 150%+ rally. It started on May 1st, when ICLD [announced](#) that its backlog has reached an all-time high of over \$36 million. This is not an improvement in the company's fundamentals. It had [announced](#) on December 17th, 2014 that its backlog was over \$32 million. Another \$4 million in backlog is no big deal. Backlog is not the same as future revenues. Backlog is just potential revenue, and often doesn't ever convert to revenues. Capstone Turbine (CPST) is a good example of a company that boasts large, increasing backlogs that has trouble converting into timely business deals.

To fuel the hype even more, the very next business day, on May 4th, ICLD [announced](#) the launching of its NFVGrid, a Network Functions Virtualization Orchestration Platform. It was well known in advance that this product would be launched. It was discussed at length in ICLD's [latest earnings call](#) on March 20th. ICLD has already been selling its NFV to its customers. NFVGrid is an upgrade to its NFV, but isn't a big development change.

Catalysts That Will Knock ICLD Shares Back To Earth

Time. In time, as the hot money cools off and leaves ICLD, it will naturally revert to its correct price of below \$2 per share. Nature will take its course as trading volume returns to a few hundred thousand shares per day. This shouldn't take longer than a week or two.

Equity raise. On April 8th, ICLD filed a \$100M mixed securities shelf. Now is the time for ICLD to use this shelf and issue equity with the stock's current high volume and monster share price rally. Don't expect the company to wait very long and let this opportunity pass.

Earnings report. ICLD will report its Q115 earnings soon. Expect it to be lousy. For the [past two quarters](#), the more revenues ICLD receives, the lower its gross profit becomes. ICLD has huge losses every quarter. Expect this quarter to be no different, as its CEO declined to issue any form of guidance in its [Q414 earnings call](#) on March 20th.

Why ICLD Likely Won't Be Another VLTC

We have read often in social media people saying they are buying ICLD because they think it's the next VLTC. VLTC rose from under \$2 to \$21 last month. There are a few reasons why ICLD likely won't repeat VLTC's performance. First, VLTC was a wild card, a misunderstood company that legendary investor Carl Icahn increased his stake in. Crazy things can happen in a stock like that. Whereas ICLD is a well known IT network company that has been pumped and dumped many times before, and doesn't have the backing of a great investor. Second, VLTC started its rally with a market cap of only about \$15M, whereas ICLD had a market cap of \$50M, which is harder to make rally. Third, VLTC is a once in a year anomaly. Nobody expected it to happen, and if you expect it to happen with a stock, like people are with ICLD, then it won't happen.

It's a crazy market we're in. Hot money has pushed InterCloud Services (ICLD), an IT and network solutions provider, from a close of \$1.52 on April 30th, to over \$4.00 today, for no fundamental reason whatsoever! In time, the share price will return to below \$2 per share, because the company hasn't improved to any degree to merit a higher share price.

Two PRs the company released have fueled this 150%+ rally. It started on May 1st, when ICLD [announced](#) that its backlog has reached an all-time high of over \$36 million. This is not an improvement in the company's fundamentals. It had [announced](#) on December 17th, 2014 that its backlog was over \$32 million. Another \$4 million in backlog is no big deal. Backlog is not the same as future revenues. Backlog is just potential revenue, and often doesn't ever convert to revenues. Capstone Turbine (CPST) is a good example of a company that boasts large, increasing backlogs that has trouble converting into timely business deals.

To fuel the hype even more, the very next business day, on May 4th, ICLD [announced](#) the launching of its NFVGrid, a Network Functions Virtualization Orchestration Platform. It was well known in advance that this product would be launched. It was discussed at length in ICLD's [latest earnings call](#) on March 20th. ICLD has already been selling its NFV to its customers. NFVGrid is an upgrade to its NFV, but isn't a big development change.



Catalysts That Will Knock ICLD Shares Back To Earth

Time. In time, as the hot money cools off and leaves ICLD, it will naturally revert to its correct price of below \$2 per share. Nature will take its course as trading volume returns to a few hundred thousand shares per day. This shouldn't take longer than a week or two.

Equity raise. On April 8th, ICLD filed a \$100M mixed securities shelf. Now is the time for ICLD to use this shelf and issue equity with the stock's current high volume and monster share price rally. Don't expect the company to wait very long and let this opportunity pass.

Earnings report. ICLD will report its Q115 earnings soon. Expect it to be lousy. For the [past two quarters](#), the more revenues ICLD receives, the lower its gross profit becomes. ICLD has huge losses every quarter. Expect this quarter to be no different, as its CEO declined to issue any form of guidance in its [Q414 earnings call](#) on March 20th.

Why ICLD Likely Won't Be Another VLTC

We have read often in social media people saying they are buying ICLD because they think it's the next VLTC. VLTC rose from under \$2 to \$21 last month. There are a few reasons why ICLD likely won't repeat VLTC's performance. First, VLTC was a wild card, a misunderstood company that legendary investor Carl Icahn increased his stake in. Crazy things can happen in a stock like that. Whereas ICLD is a well known IT network company that has been pumped and dumped many times before, and doesn't have the backing of a great investor. Second, VLTC started its rally with a market cap of only about \$15M, whereas ICLD had a market cap of \$50M, which is harder to make rally. Third, VLTC is a once in a year anomaly. Nobody expected it to happen, and if you expect it to happen with a stock, like people are with ICLD, then it won't happen.



Independent institutional-grade research focused on identifying asymmetric risks in small and micro-cap equities.

LEGAL DISCLAIMER

As of the publication date of our reports, White Diamond Research, along with its clients, affiliates, and related entities, may have a short position in the securities discussed and stand to realize significant gains in the event that the price of the stock declines. Use White Diamond Research at your own risk. You should do your own research and due diligence before making any investment decision. No information contained in our reports should be interpreted as financial advice.

