

## Research Report – Update

*Investors should consider this report as only a single factor in making their investment decision.*

### DecisionPoint Systems, Inc.

**Speculative Buy**

John Nobile

November 17, 2022

**DPSI \$6.00 — (NYSE American)**

	<u>2020A</u>	<u>2021A</u>	<u>2022E</u>	<u>2023E</u>
Sales (millions)	\$63.4	\$65.9	\$90.5	\$96.2
Earnings (loss) per share	\$0.37	\$0.19*	\$0.36	\$0.43

52-Week range	\$12.98 – \$3.34	Fiscal year ends:	December
Common shares out a/o 11/4/22	7.4 million	Revenue per share (TTM)	\$11.94
Approximate float	5.4 million	Price/Sales (TTM)	0.5X
Market capitalization	\$44.4 million	Price/Sales (FY2023)E	0.5X
Tangible book value/share	\$0.18	Price/Earnings (TTM)	24.0X
Price/tangible book value	33.3X	Price/Earnings (FY2023)E	14.0X

*All per share amounts reflect 1 for 2 split on 12/20/21. \*Includes a \$0.16 per share gain from the extinguishment of debt.*

*DecisionPoint Systems, headquartered in Irvine CA, is a provider of enterprise mobility solutions and services. The company partners with hardware and software companies to combine enterprise-grade handheld computers, printers, tablets, and smart phones into solutions aimed at improving an enterprises productivity and competitiveness.*

#### **Key investment considerations:**

***Reiterating our Speculative Buy rating and raising our 12-month price target to \$10.00 per share from \$9.00 based on our increased 2023 EBITDA projection.***

***DecisionPoint operates in the high growth enterprise mobility market. A report published by Allied Market Research projects the global market for Enterprise Mobility to grow to approximately \$151.5 billion by 2027 from \$19.7 billion in 2019 for a CAGR of 29.3%. The report observed that the surge in data and mobile devices in organizations along with an increase in cloud and mobile applications in various industries should drive growth in the global enterprise market.***

***The company has supplemented its organic growth by identifying and then acquiring and integrating those businesses which has resulted in a broader and more sophisticated portfolio of product offerings. DPSI is working to diversify and expand its customer base and the markets it serves.***

***We project 2022 sales growth of 37.3% to \$90.5 million and EPS of \$0.36 compared to \$0.03 after excluding a \$0.16 per share gain in 2021 associated with the forgiveness of PPP loans. We previously projected revenue of \$88.5 million and EPS of \$0.24. Our revised projections reflect 3Q22 results and guidance.***

***We project 2023 growth of 6.2% to \$96.2 million and EPS of \$0.43 per share compared to our projected EPS of \$0.36 in 2022. We previously projected revenue of \$94 million and EPS of \$0.29. Our revised projections reflect continued growth of the company's product and service offerings within the enterprise mobility market.***

***DPSI reported (on 11/14/22) 3Q22 sales increased 41.1% to \$25.7 million and EPS of \$0.15 versus \$0.08 in 3Q21. We projected revenue of \$21 million and EPS of \$0.02.***

***\*Please view our disclosures on pages 13 - 15.***

### ***Recommendation and Valuation***

We are reiterating our **Speculative Buy** rating of DecisionPoint Systems, Inc. and raising our 12-month price target to \$10.00 per share from \$9.00 based on our increased 2023 EBITDA projection.

DecisionPoint operates in the high growth enterprise mobility market. A report published by Allied Market Research projects the global market for Enterprise Mobility to grow to approximately \$151.5 billion by 2027 from \$19.7 billion in 2019 for a CAGR of 29.3%. The report observed that the surge in data and mobile devices in organizations along with an increase in cloud and mobile applications in various industries should drive growth in the global enterprise market.

The company has supplemented its organic growth by identifying and then acquiring and integrating those businesses which has resulted in a broader and more sophisticated portfolio of product offerings. DPSI is working to diversify and expand its customer base and the markets it serves.

DPSI trades at an EV/EBITDA multiple of approximately 12.3X while the industry trades at an average multiple of 16.5X. DPSI's multiple should trade near the industry average based on our growth forecast. Applying an EV/EBITDA multiple of 14X to our 2023 EBITDA projection of \$5.2 million (prior was \$4.7 million) or \$0.67 per share (prior was \$0.61) implies a market capitalization of approximately \$84.6 million or \$10.99 per share based on 7.7 million shares and our forecasted 2023 cash balance of \$11.8 million or \$1.54 per share. Discounting for execution risk, we derive a twelve-month price target of \$10.00 per share.

### ***Recent Development***

**In September 2022**, DecisionPoint announced it added two Senior Account Executives in order to generate new US sales across all major aspects of the company's operations. These two executives will report directly to the CEO and be located in Arizona in order to strengthen DecisionPoint's West Coast presence and support capabilities.

### ***Business***

Headquartered in Irvine CA, DecisionPoint Systems is a provider of enterprise mobility solutions and services. The company partners with hardware and software companies to combine enterprise-grade handheld computers, printers, tablets, and smart phones into solutions aimed at improving an enterprises productivity and competitiveness.

DecisionPoint's software portfolio includes its Mobile Conductor Platform which provides a direct store delivery solution to the wholesale distribution market via its proof-of-delivery and route accounting applications. DPSI's ViziTrace platform provides customers with the ability to integrate radio frequency identification (RFID) technology into existing workflows. The company's managed services provide customers a way to implement, manage, monitor, and maintain all these technologies for the lifetime of the implementation, while supporting and augmenting customer's IT teams.

Acquisitions have played a significant part in DPSI's growth strategy. In June 2018, DPSI acquired Royce Digital Systems, Inc., a provider of enterprise print and mobile technologies, deployment services and on-site maintenance. In December 2020, DPSI acquired ExtenData Solutions, LLC, a provider of software product development, mobile computing, identification and tracking solutions, and wireless tracking solutions for enterprise mobility. In 1Q22, DPSI acquired Advanced Mobile Group, LLC, and Boston Technologies. These acquisitions strengthen DPSI's position in the transportation and direct store delivery markets.

### ***Products and Services***

DecisionPoint offers mobile data collection devices such as tablets, computers, and vehicle mount computers (see picture at top right on next page), which can help organizations significantly improve efficiency to help meet

customer expectations for speed and accuracy. The company also offers ruggedized mobile data collection solutions designed to perform in the most demanding environments.

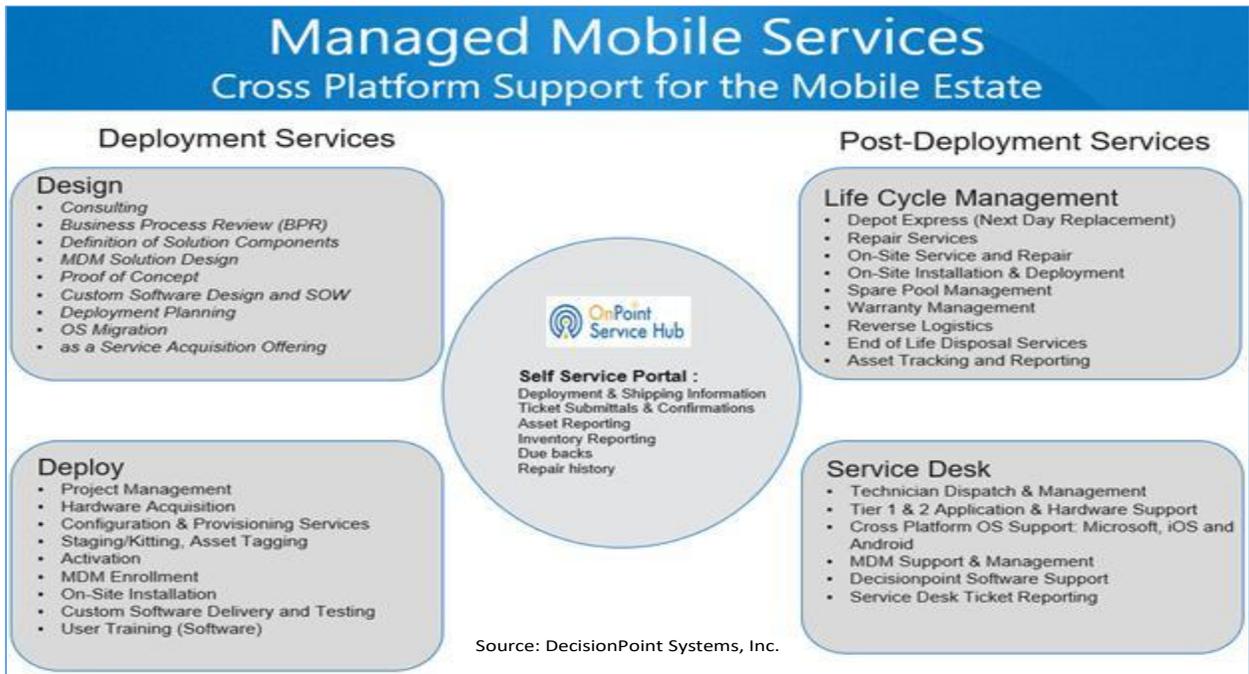
DecisionPoint offers wearable computers, barcode scanners, and accessories that enable hands-free operation for increased operational flexibility, improved ergonomics, and safety. The company's barcode equipment, systems, and supplies are designed to work even with damaged barcode labels.



The company's offerings include software for direct store delivery management, electronic proof of delivery, and yard management to effectively track, monitor, and manage cargo from when it enters a location to when it leaves. DecisionPoint also offers custom mobile application software to meet the unique requirements a customer may have.

The company's professional services include consulting, staging, deployment, installation, repair and customer specified software customization. DecisionPoint also offers hardware and software maintenance support.

DecisionPoint's Mobile Device Management offering allows for remote management of thousands of devices in a single interface and provides full visibility and reporting of those devices, including barcode equipment and systems. The company's OnPoint™ Service Hub is a real-time asset management and tracking information portal that provides customers with a 24/7 view of their technology assets being managed by DecisionPoint (see example below). DecisionPoint also offers "as a service" models that include devices, services, software and consulting in which customers pay a recurring monthly fee.

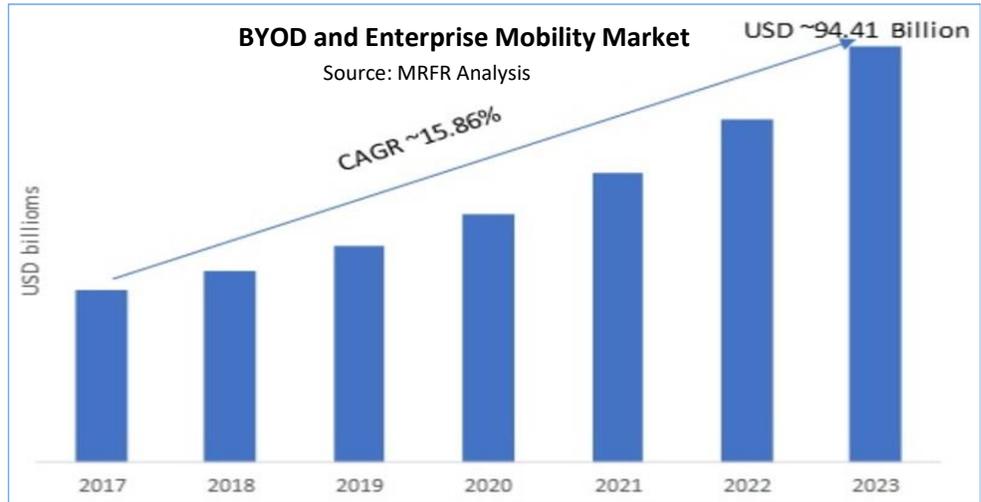


### Enterprise Mobility Market

According to a report by Market Research Future<sup>1</sup>, the global market for BYOD and Enterprise Mobility is expected to grow from \$39 billion in 2017 to \$94.4 billion by 2023, for a compound annual growth rate (CAGR)

of approximately 15.9% during the forecast period (see chart at top right on next page). The BYOD (bring your own device) & enterprise mobility market enables employees to use their personal devices such as tablets, smartphones, and laptops for professional purposes. Increased productivity, employee satisfaction, and reduced hardware costs are considered to positively impact a company, its employees and drive overall market growth.

The Market Research Future report projects the global BYOD and Enterprise Mobility market is likely to show significant growth, as small and medium size enterprises adopt cloud-based services. Reduced hardware costs, increased penetration of smartphones and the rising demand for enterprise mobility software in large enterprises are also driving growth in the BYOD and enterprise mobility market.



High demand for BYOD and Enterprise Mobility solutions from various sectors such as energy and utility, healthcare and life sciences, media and entertainment, retail and consumer goods, IT and telecommunication, and transportation and logistics are expected to help drive strong growth. Significant opportunities in this market are expected in North American and Europe, attributed to the growing cloud-based applications in these regions. Also, the Asia-Pacific region is expected to account for a major share of growth during the forecast period.

A report published by Allied Market Research<sup>2</sup> estimates that the global market for Enterprise Mobility was approximately \$19.7 billion in 2019 and is projected to grow to approximately \$151.5 billion by 2027 for a CAGR of 29.3%. The report observed that the surge in data and mobile devices in organizations along with an increase in cloud and mobile applications in various industries should drive growth in the global enterprise market.

The outbreak of the COVID-19 pandemic increased the trend towards remote working systems across the globe which in turn has accelerated the demand for enterprise mobility solutions among organizations. North America had the greatest market share in 2019 with more than one-third of the global enterprise mobility market.

A report published by Research and Markets<sup>3</sup> stated that user identity verification is important as corporate content and data is being accessed by multiple mobile devices. Enterprise Mobility Management (EMM) is emerging as a one stop solution for encryption, user authentication, anti-virus controls, and remote data/device access. EMM will play a major role in managing, streamlining, viewing, tracking, monitoring and securing all content, devices and apps of an organization ensuring that only authorized employees are able to access devices from anywhere at any time to enhance company productivity.

1. <https://www.marketresearchfuture.com/reports/byod-enterprise-mobility-market-6699>
2. <https://www.prnewswire.com/news-releases/enterprise-mobility-market-to-reach-151-51-bn-globally-by-2027-at-29-3-cagr-allied-market-research-301469571.html>
3. <https://www.researchandmarkets.com/reports/4804695/byod-and-enterprise-mobility-global-market#src-pos-1>

## ***Competition***

DecisionPoint's business is involved in automatic identification and data capture technology which refers to the methods of automatically identifying objects, collecting data about them, and entering them directly into computer systems.

The automatic identification and data capture (AIDC) business is one that is highly fragmented and covered by many competitors that range from a one-man shop to multi-billion-dollar companies. DecisionPoint attempts to separate itself from the competition with its expertise and ability to help a customer manage an entire project vs. buying a product.

The following companies are examples of competitors in the AIDC Industry: CDW, a provider of thousands of products as a general IT supplier, and Denali Advanced Integration, a full system integration company with services ranging from IT Consulting, Managed Services and Enterprise Mobility Solutions. Other competitors in the US are catalog and online equipment resellers that offer end-users deeply discounted, commodity-oriented products; however, they typically offer limited or no maintenance support beyond the manufacturer's warranty.

## ***Strategy***

Acquisitions have been an important element of DecisionPoint's growth strategy and are expected to be in the future. The company has supplemented its organic growth by identifying, and then acquiring and integrating those businesses which has resulted in a broader, more sophisticated portfolio of product offerings while simultaneously diversifying and expanding its customer base and markets.

In 2019, much of DPSI's revenue growth was fueled by its June 2018 acquisition and integration of Royce Digital Systems and the company's increased focus on developing a complete managed services portfolio. The Royce acquisition expanded DecisionPoint's product portfolio with mission critical printers, consumables, and custom labels and a wide array of on-site professional services. Additionally, Royce provided new opportunities in healthcare which is incremental to the company's existing retail and logistics markets.

In December 2020, DecisionPoint acquired ExtenData Solutions whose products and services are synergistic and complimentary to those provided by the company. In January 2022, DecisionPoint acquired Advanced Mobile Group in an effort to expand its mobility-first enterprise solutions and service offerings, and to grow its capabilities in the mid-Atlantic region. In March 2022, the company acquired the customer lists and relationships of Boston Technologies, a provider of mobile order management and route accounting software for direct store delivery operations.

## ***Economic Outlook***

In October 2022, the International Monetary Fund (IMF) revised its global economic growth estimates to an increase of 3.2% for 2022 and 2.7% for 2023, down from its July 2022 projection calling for 3.2% growth in 2022 and 2.9% growth in 2023. The forecast reflects worldwide inflation that triggered tighter financial conditions (i.e. higher interest rates), an economic slowdown in China, as well as negative effects from the war in Ukraine.

The IMF revised its economic growth estimate for the US to an increase of 1.6% for 2022 and 1% for 2023. In July 2022, the IMF projected US economic growth of 2.3% and 1% for 2022 and 2023, respectively.

The advanced estimate of US GDP growth (released on October 27, 2022) showed the US economy increased at an annual rate of 2.6% in 3Q22, up from the 0.6% decrease reported in 2Q22. The 3Q22 US GDP estimate reflects increases in exports, consumer spending, nonresidential fixed investment, federal government spending, and state and local government spending, partly offset by decreases in residential fixed investment and private inventory investment.

**3Q22 and 9M22 Financial Results**

**3Q22** – Net sales increased 41.1% to \$25.7 million primarily due to higher hardware sales to three large enterprise customers and a \$2.7 million increase in overall net sales associated with Advanced Mobile Group (AMG) which was acquired on January 31, 2022. Net income was \$1.1 million or \$0.15 per share versus net income of \$162,000 or \$0.08 per share. The results for 3Q22 included income tax expense of \$409,000 or a 26.9% income tax rate compared to an expense of \$249,000 for a 28.9% income tax rate. We projected revenue of \$21 million and net income of \$143,000 or \$0.01 per share.

Gross profit increased to \$5.8 million from \$4.2 million. Gross margins decreased to 22.4% from 23% due to the sales mix shift toward lower margin hardware sales. SG&A expenses increased to \$4.2 million from \$3.3 million to support revenue growth. Operating income was \$1.5 million versus \$878,000.

Interest expense decreased to \$7,000 from \$17,000 as a result of decreased debt levels.

**9M22** – Net sales increased 47.5% to \$59.3 million primarily due to two significant equipment orders by two of DPSI's large enterprise customers and a \$6.8 million increase in overall net sales from AMG.

Gross profit increased to \$16.8 million from \$11.5 million. Gross margins decreased to 23% from 23.3% due to a shift in mix to hardware sales with lower profit margins while SG&A expenses increased to \$13 million from \$10.2 million. Operating income was \$3.8 million versus \$1.3 million. The results for 9M21 included a gain on the extinguishment of debt of \$1.2 million in connection with the forgiveness of PPP loans.

Interest expense decreased to \$12,000 from \$67,000 as a result of decreased debt levels.

**Liquidity** - As of September 30, 2022, the company had \$9.4 million cash, \$146,000 of debt (\$3,000 short-term), and shareholder's equity of \$16 million.

	9M Income Statements (in thousands \$)	
	9M22A	9M21A
Product	59,259	37,846
Service	13,681	11,614
Net sales	72,940	49,460
Product	47,213	29,948
Service	8,971	7,990
Cost of sales	56,184	37,938
Gross profit	16,756	11,522
Sales and marketing	6,850	5,611
General and administrative	6,155	4,592
Operating income (loss)	3,751	1,319
Other income (expense)	(42)	(67)
Interest expense	(17)	1,211
Income (loss) before taxes	3,692	2,463
Income taxes / (benefit)	1,008	348
Net income (loss)	2,684	2,115
EPS	0.36	0.29
Shares Outstanding	7,510	7,274
<b>Margin Analysis</b>		
Gross margin	23.0%	23.3%
Sales and marketing	9.4%	11.3%
General and administrative	8.4%	9.3%
Operating margin	5.1%	2.7%
Net margin	3.7%	4.3%
Tax rate	27.3%	14.1%
<b>Year / Year Growth</b>		
Total Revenues	47.5%	

Source: Company filings

In the first nine months of 2022, cash provided by operations was \$13.9 million consisting of \$5.3 million cash earnings and an \$8.7 million decrease in working capital. Cash used in investing was \$5.8 million consisting of \$4.5 million cash paid for acquisitions and \$1.3 million of capital expenditures. Cash used in financing of \$1.34 million was primarily for taxes paid on cashless exercises of stock options. Cash increased by \$6.9 million to \$9.4 million at September 30, 2022.

DecisionPoint has a \$9 million line of credit with MUFG Union Bank with a maturity date of July 31, 2024. The line of credit bears interest at the LIBOR rate plus 2.5% or a base rate offered by the bank. As of September 30, 2022, the company had no outstanding borrowings under the line of credit.

In August 2020, DecisionPoint received \$150,000 in connection with a promissory note from the SBA under the Economic Injury Disaster Loan (EIDL) program pursuant to the CARES Act. Under the terms of the EIDL promissory note, interest accrues on the outstanding principal at an interest rate of 3.75% per annum with a term of 30 years with equal monthly payments of principal and interest of \$731 beginning on August 27, 2021. As of September 30, 2022, the company had \$146,000 outstanding under this loan.

## ***Projections***

### Operations 2022

We project sales growth of 37.3% to \$90.5 million and net income of \$2.8 million or \$0.36 per share compared to EPS of \$0.03 after excluding a \$0.16 per share gain in 2021 associated with the forgiveness of PPP loans. We previously projected revenue of \$88.5 million and net income of \$1.8 million or \$0.24 per share. Our revised projections reflect 3Q22 results and guidance.

Gross margins are projected to increase to 23.4% from 23.2% reflecting the January 2022 acquisition of Advanced Mobile Group.

SG&A expenses should increase to \$17.3 million from \$14.9 million to support sales growth. We project SG&A expense margins of 19.1% in 2022 compared to 22.7% in 2021.

We project interest expense of \$41,000 compared to \$79,000 last year due to lower debt balances. We project a \$1 million in income taxes for a rate of 27.2%.

### Finances 2022

We project \$14.5 million cash provided by operations that should be derived from cash earnings of \$6.1 million and an \$8.4 million decrease in working capital. Cash used in investing of \$6.2 million should consist of \$1.7 million of capital expenditures and \$4.5 million cash paid for acquisitions. Cash should increase by \$6.9 million to \$9.5 million at December 31, 2022.

### Operations 2023

We project sales growth of 6.2% to \$96.2 million driven by continued growth of the company's product and service offerings within the enterprise mobility market. We project net income of \$3.3 million or \$0.43 per share. We previously projected revenue of \$94 million and net income of \$2.2 million or \$0.29 per share.

Gross margins are projected to improve to 23.8% compared to an estimated 23.4% in 2022 due to a sales growth of higher margin service offerings.

SG&A expenses should increase to \$18.4 million from \$17.3 million to support sales growth. We project SG&A expense margins to remain flat at 19.1%.

We project no interest expense as the company should have no debt. Taxes are estimated at a rate of 26.5%.

### Finances 2023

We project \$3.9 million cash provided by operations that should be derived from cash earnings of \$6 million and a \$2.2 million decrease in working capital. Cash used in investing of \$1.5 million should consist of capital expenditures. Cash should increase by \$2.4 million to \$11.8 million at December 31, 2023.

## ***Risks***

In our view, these are the principal risks underlying shares of DPSI.

COVID-19 –The COVID-19 pandemic has impacted and may continue to impact DPSI's business operations, including its employees, customers, partners, and communities, and there is substantial uncertainty in the nature and degree of its continued effects over time.

Supply chain issues – The company's 2021 and 9M22 results were impacted by supply chain issues which adversely affected product availability and resulted in supply-chain related hardware cost increases. While this has had an adverse impact on DPSI's short-term financial results, there can be no assurance that this will not adversely impact long-term financial results.

Technological obsolescence – Customer requirements for mobile computing products and services are rapidly evolving and technological changes in the industry occur rapidly. To keep up with new customer requirements and distinguish DPSI from its competitors, the company must frequently introduce new products and services and enhancements to its existing products and services. The company may not be able to launch new or improved products or services before its competition which could cause the company’s business to suffer.

Competition – DPSI competes primarily with well-established companies, many of which have greater resources. Barriers to entry are not significant and start-up costs are relatively low, so competition may increase in the future. New competitors may be able to launch businesses similar to DPSI’s and current competitors may replicate the company’s business model. If the company is unable to effectively compete, it will lose sales to its competitors and revenues will decline.

DPSI’s competitors include CDW, Denali Advanced Integration, and other companies in the automatic identification and data capture (AIDC) industry.

Dependence on a small number of customers - A significant portion of DPSI’s revenue is dependent upon a small number of customers. The company had two customers who represented 24% of its revenue for 2021. The loss of a significant customer could have a material adverse impact on the company.

Dependence on key wireless carrier relationships – DPSI has established key wireless carrier relationships with Sprint, T-Mobile, and Verizon. The company has an informal arrangement with these carriers pursuant to which they provide DPSI referrals of end users interested in field mobility solutions, and DPSI, in turn, provides solutions which require cellular data networks. The company does not have any binding agreements with these carriers. If these carriers were to terminate or materially reduce their business relationships with DPSI, its operating results would be materially harmed.

Liquidity risk - Shares of DecisionPoint have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 5.4 million shares in the float and the average daily volume is approximately 25,000 shares.

Miscellaneous risk - The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

## DecisionPoint Systems, Inc.

Consolidated Balance Sheets  
(in thousands \$)

	2019A	2020A	2021A	9/22A	2022E	2023E
Cash	2,620	2,005	2,587	9,447	9,450	11,822
Accounts receivable	8,710	16,438	12,302	14,483	16,348	18,700
Inventory	3,825	884	2,111	1,415	1,157	1,222
Deferred costs	2,201	1,744	1,998	2,422	1,867	1,867
Prepaid expenses and other	268	67	336	184	516	516
<b>Total current assets</b>	<b>17,624</b>	<b>21,138</b>	<b>19,334</b>	<b>27,951</b>	<b>29,337</b>	<b>34,126</b>
Operating lease assets	516	583	329	2,784	2,924	2,924
Property and equipment, net	239	751	834	1,764	2,134	3,132
Deferred costs	1,258	2,097	1,492	2,346	2,051	2,051
Deferred tax assets	2,659	1,973	1,999	1,539	1,410	1,410
Intangible assets	2,394	4,663	3,564	4,711	4,623	3,423
Goodwill	6,990	8,128	8,128	10,012	10,012	10,012
Other assets	19	22	50	16	41	41
<b>Total assets</b>	<b>31,699</b>	<b>39,355</b>	<b>35,730</b>	<b>51,123</b>	<b>52,532</b>	<b>57,119</b>
Accounts payable	10,589	12,852	10,273	18,044	16,385	15,269
Accrued expenses and other	2,222	2,807	3,220	4,098	4,074	3,847
Deferred revenue	3,630	4,617	4,599	6,664	8,885	10,000
Line of credit	3,177	1,206	-	-	-	-
Current portion of debt	144	-	3	3	-	-
Due to related parties	124	34	-	-	-	-
Current portion of operating lease liabilities	140	261	257	421	452	452
<b>Total current liabilities</b>	<b>20,026</b>	<b>21,777</b>	<b>18,352</b>	<b>29,230</b>	<b>29,796</b>	<b>29,568</b>
Deferred revenue	1,979	3,140	2,510	2,872	3,271	3,271
Long-term debt	390	1,361	146	143	-	-
Operating lease liabilities	388	340	83	2,639	2,747	2,747
Other	-	873	381	221	221	221
<b>Total liabilities</b>	<b>22,783</b>	<b>27,491</b>	<b>21,472</b>	<b>35,105</b>	<b>36,035</b>	<b>35,807</b>
<b>Total stockholders' equity (deficit)*</b>	<b>8,916</b>	<b>11,864</b>	<b>14,258</b>	<b>16,018</b>	<b>16,497</b>	<b>21,313</b>
<b>Total liabilities &amp; stockholders' equity</b>	<b>31,699</b>	<b>39,355</b>	<b>35,730</b>	<b>51,123</b>	<b>52,532</b>	<b>57,119</b>

Source: Company filings, Taglich Brothers' estimates

DecisionPoint Systems, Inc.

Income Statements for the Fiscal Years Ended  
(in thousands \$)

	<u>2019A</u>	<u>2020A</u>	<u>2021A</u>	<u>2022E</u>	<u>2023E</u>
Product sales	31,990	50,673	50,480	71,660	73,900
Service sales	<u>11,899</u>	<u>12,687</u>	<u>15,463</u>	<u>18,880</u>	<u>22,270</u>
Net sales	43,889	63,360	65,943	90,540	96,170
Cost of product sales	25,866	40,129	39,943	57,122	59,120
Cost of service sales	<u>7,267</u>	<u>8,413</u>	<u>10,696</u>	<u>12,273</u>	<u>14,170</u>
Cost of sales	<u>33,133</u>	<u>48,542</u>	<u>50,639</u>	<u>69,395</u>	<u>73,290</u>
Gross profit	10,756	14,818	15,304	21,145	22,880
Sales and marketing	4,907	5,587	7,354	9,150	9,575
General and administrative	<u>3,999</u>	<u>5,203</u>	<u>7,552</u>	<u>8,132</u>	<u>8,825</u>
Operating income (loss)	1,850	4,028	398	3,863	4,480
Other income (expense)	-	213	1,211	(17)	-
Interest expense	<u>(649)</u>	<u>(319)</u>	<u>(79)</u>	<u>(41)</u>	<u>-</u>
Income (loss) before taxes	1,201	3,922	1,530	3,805	4,480
Income taxes / (benefit)	<u>310</u>	<u>1,061</u>	<u>116</u>	<u>1,035</u>	<u>1,187</u>
Net income (loss)	<u>891</u>	<u>2,861</u>	<u>1,414</u>	<u>2,771</u>	<u>3,293</u>
EPS	<u>0.12</u>	<u>0.37</u>	<u>0.19</u>	<u>0.36</u>	<u>0.43</u>
Shares Outstanding	7,671	7,811	7,593	7,660	7,691
EBITDA		5,129	2,996	6,176	6,680
Adjusted EBITDA		5,003	2,788	6,651	7,230
<u>Margin Analysis</u>					
Gross margin - product	19.1%	20.8%	20.9%	20.3%	20.0%
Gross margin - service	38.9%	33.7%	30.8%	35.0%	36.4%
Gross margin	24.5%	23.4%	23.2%	23.4%	23.8%
Sales and marketing	11.2%	8.8%	11.2%	10.1%	10.0%
General and administrative	9.1%	8.2%	11.5%	9.0%	9.2%
Operating margin	4.2%	6.4%	0.6%	4.3%	4.7%
Net margin	2.0%	4.5%	2.1%	3.1%	3.4%
Tax rate	25.8%	27.1%	7.6%	27.2%	26.5%
<u>Year / Year Growth</u>					
Total Revenues	24.8%	44.4%	4.1%	37.3%	6.2%

Source: Company filings, Taglich Brothers' estimates

DecisionPoint Systems, Inc.

2021A - 2023E Quarterly Income Statements  
(in thousands \$)

	<u>1Q21A</u>	<u>2Q21A</u>	<u>3Q21A</u>	<u>4Q21A</u>	<u>2021A</u>	<u>1Q22A</u>	<u>2Q22A</u>	<u>3Q22A</u>	<u>4Q22E</u>	<u>2022E</u>	<u>1Q23E</u>	<u>2Q23E</u>	<u>3Q23E</u>	<u>4Q23E</u>	<u>2023E</u>
Product sales	11,925	11,574	14,349	12,634	50,480	15,580	22,692	20,988	12,400	71,660	16,000	20,000	19,900	18,000	73,900
Service sales	<u>4,147</u>	<u>3,595</u>	<u>3,870</u>	<u>3,849</u>	<u>15,463</u>	<u>4,141</u>	<u>4,814</u>	<u>4,725</u>	<u>5,200</u>	<u>18,880</u>	<u>5,250</u>	<u>5,500</u>	<u>5,720</u>	<u>5,800</u>	<u>22,270</u>
Net sales	16,072	15,169	18,219	16,483	65,943	19,721	27,506	25,713	17,600	90,540	21,250	25,500	25,620	23,800	96,170
Cost of product sales	9,451	9,208	11,267	9,995	39,943	12,422	17,869	16,923	9,908	57,122	12,800	16,000	15,920	14,400	59,120
Cost of service sales	<u>2,783</u>	<u>2,465</u>	<u>2,764</u>	<u>2,706</u>	<u>10,696</u>	<u>2,625</u>	<u>3,310</u>	<u>3,036</u>	<u>3,302</u>	<u>12,273</u>	<u>3,360</u>	<u>3,465</u>	<u>3,575</u>	<u>3,770</u>	<u>14,170</u>
Cost of sales	<u>12,234</u>	<u>11,673</u>	<u>14,031</u>	<u>12,701</u>	<u>50,639</u>	<u>15,047</u>	<u>21,179</u>	<u>19,959</u>	<u>13,210</u>	<u>69,395</u>	<u>16,160</u>	<u>19,465</u>	<u>19,495</u>	<u>18,170</u>	<u>73,290</u>
Gross profit	3,838	3,496	4,188	3,782	15,304	4,674	6,327	5,754	4,390	21,145	5,090	6,035	6,125	5,630	22,880
Sales and marketing	1,889	1,910	1,812	1,743	7,354	2,175	2,384	2,291	2,300	9,150	2,350	2,400	2,450	2,375	9,575
General and administrative	<u>1,620</u>	<u>1,474</u>	<u>1,498</u>	<u>2,960</u>	<u>7,552</u>	<u>2,261</u>	<u>1,960</u>	<u>1,936</u>	<u>1,975</u>	<u>8,132</u>	<u>2,125</u>	<u>2,175</u>	<u>2,300</u>	<u>2,225</u>	<u>8,825</u>
Operating income (loss)	329	112	878	(921)	398	238	1,983	1,527	115	3,863	615	1,460	1,375	1,030	4,480
Other income (expense)	1,211	-	-	-	1,211	4	(21)	-	-	(17)	-	-	-	-	-
Interest expense	<u>(29)</u>	<u>(21)</u>	<u>(17)</u>	<u>(12)</u>	<u>(79)</u>	<u>(25)</u>	<u>(9)</u>	<u>(7)</u>	<u>-</u>	<u>(41)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (loss) before taxes	1,511	91	861	(933)	1,530	217	1,953	1,520	115	3,805	615	1,460	1,375	1,030	4,480
Income taxes / (benefit)	<u>178</u>	<u>(79)</u>	<u>249</u>	<u>(232)</u>	<u>116</u>	<u>(637)</u>	<u>1,232</u>	<u>409</u>	<u>31</u>	<u>1,035</u>	<u>163</u>	<u>387</u>	<u>364</u>	<u>273</u>	<u>1,187</u>
Net income (loss)	<u>1,333</u>	<u>170</u>	<u>612</u>	<u>(701)</u>	<u>1,414</u>	<u>854</u>	<u>721</u>	<u>1,111</u>	<u>85</u>	<u>2,771</u>	<u>452</u>	<u>1,073</u>	<u>1,011</u>	<u>757</u>	<u>3,293</u>
EPS	<u>0.17</u>	<u>0.02</u>	<u>0.08</u>	<u>(0.10)</u>	<u>0.19</u>	<u>0.11</u>	<u>0.09</u>	<u>0.15</u>	<u>0.01</u>	<u>0.36</u>	<u>0.06</u>	<u>0.14</u>	<u>0.13</u>	<u>0.10</u>	<u>0.43</u>
Shares Outstanding	7,894	7,604	7,230	7,003	7,593	7,664	7,691	7,593	7,691	7,660	7,691	7,691	7,691	7,691	7,691
EBITDA					2,996					6,176					6,680
Adjusted EBITDA					2,788					6,651					7,230
<u>Margin Analysis</u>															
Gross margin - product	20.7%	20.4%	21.5%	20.9%	20.9%	20.3%	21.3%	19.4%	20.1%	20.3%	20.0%	20.0%	20.0%	20.0%	20.0%
Gross margin - service	32.9%	31.4%	28.6%	29.7%	30.8%	36.6%	31.2%	35.7%	36.5%	35.0%	36.0%	37.0%	37.5%	35.0%	36.4%
Gross margin	23.9%	23.0%	23.0%	22.9%	23.2%	23.7%	23.0%	22.4%	24.9%	23.4%	24.0%	23.7%	23.9%	23.7%	23.8%
Sales and marketing	11.8%	12.6%	9.9%	10.6%	11.2%	11.0%	8.7%	8.9%	13.1%	10.1%	11.1%	9.4%	9.6%	10.0%	10.0%
General and administrative	10.1%	9.7%	8.2%	18.0%	11.5%	11.5%	7.1%	7.5%	11.2%	9.0%	10.0%	8.5%	9.0%	9.3%	9.2%
Operating margin	2.0%	0.7%	4.8%	(5.6)%	0.6%	1.2%	7.2%	5.9%	0.7%	4.3%	2.9%	5.7%	5.4%	4.3%	4.7%
Net margin	8.3%	1.1%	3.4%	(4.3)%	2.1%	4.3%	2.6%	4.3%	0.5%	3.1%	2.1%	4.2%	3.9%	3.2%	3.4%
Tax rate	11.8%	(86.8)%	28.9%	24.9%	7.6%	NMF	63.1%	26.9%	26.5%	27.2%	26.5%	26.5%	26.5%	26.5%	26.5%
<u>Year / Year Growth</u>															
Total Revenues	(12.1)%	(3.1)%	63.9%	(9.9)%	4.1%	22.7%	81.3%	41.1%	6.8%	37.3%	7.8%	(7.3)%	(0.4)%	35.2%	6.2%

Source: Company filings, Taglich Brothers' estimates

Taglich Brothers, Inc.

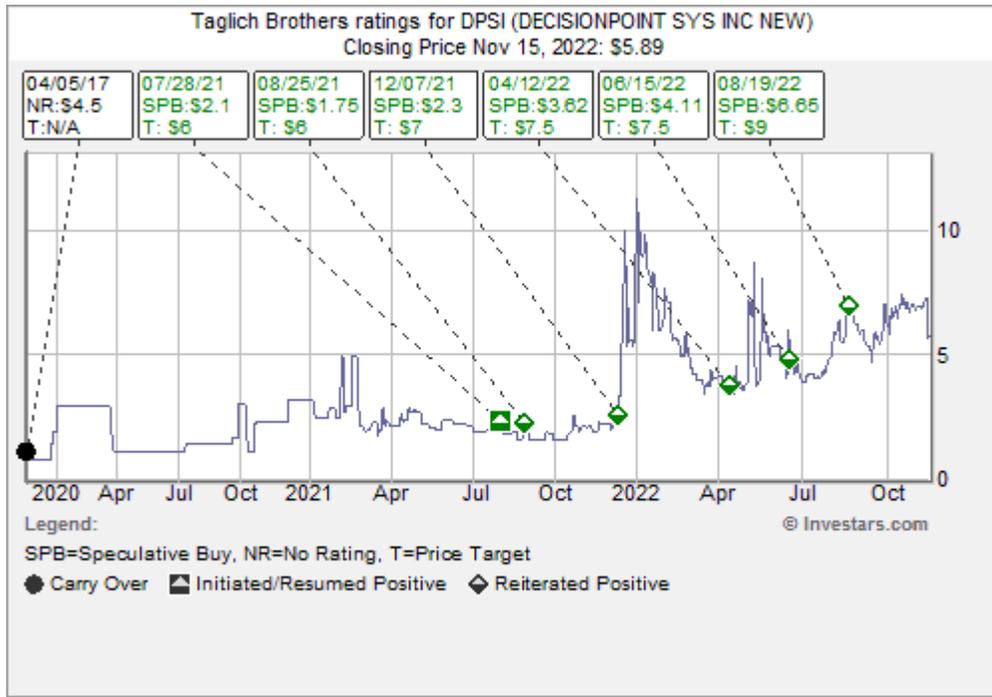
DecisionPoint Systems, Inc.

Statement of Cash Flows for the Periods Ended  
(in thousands \$)

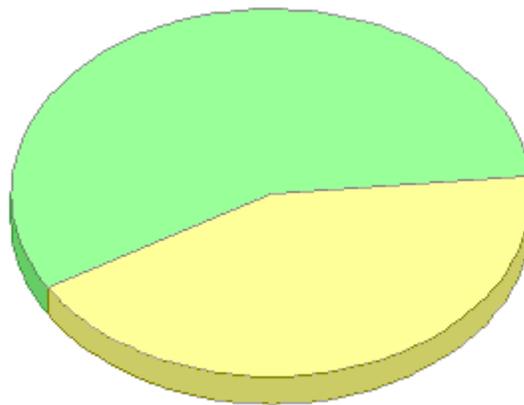
	2019A	2020A	2021A	9M22A	2022E	2023E
Net income (loss)	891	2,861	1,414	2,684	2,771	3,293
Depreciation & amortization	809	888	1,387	1,750	2,330	2,200
Loss on fixed asset disposal	-	-	-	22	22	-
Gain on extinguishment of debt	-	-	(1,211)	-	-	-
Amortization of deferred financing costs	304	157	24	-	-	-
Share-based compensation	324	87	1,003	325	475	550
Acquisition earn-out adjustment	(110)	-	(187)	-	-	-
Deferred taxes	265	686	(26)	460	460	-
Allowance for doubtful accounts	5	25	-	32	32	-
Cash earnings (loss)	2,488	4,704	2,404	5,273	6,090	6,043
<i>Changes in assets and liabilities</i>						
Accounts receivable	(503)	(5,853)	4,136	(811)	(4,046)	(2,352)
Inventory	(3,469)	2,945	(1,227)	825	954	(65)
Deferred costs	(746)	(382)	351	(1,155)	(428)	-
Prepaid expenses and other	(148)	254	(294)	186	(180)	-
Other assets	21	(8)	(28)	-	9	-
Accounts payable	4,047	585	(2,579)	7,213	6,112	(1,116)
Accrued expenses and other	275	294	277	(139)	662	248
Due to related parties	16	(90)	(34)	-	-	-
Operating lease liabilities	(163)	6	(7)	265	264	-
Deferred revenue	717	1,738	(648)	2,279	5,047	1,115
(Increase) decrease in working capital	47	(511)	(53)	8,663	8,395	(2,170)
<b>Net cash provided by (used in) operations</b>	<b>2,535</b>	<b>4,193</b>	<b>2,352</b>	<b>13,936</b>	<b>14,485</b>	<b>3,873</b>
Purchases of property and equipment	(175)	(93)	(371)	(1,299)	(1,700)	(1,500)
Cash paid for acquisitions	(500)	(3,409)	(170)	(4,525)	(4,525)	-
<b>Net cash provided by (used in) investing</b>	<b>(675)</b>	<b>(3,502)</b>	<b>(541)</b>	<b>(5,824)</b>	<b>(6,225)</b>	<b>(1,500)</b>
Repayment of term debt	(1,636)	(646)	-	(3)	(149)	-
Line of credit	(19)	(1,971)	(1,206)	-	-	-
Proceeds from issuance of term debt	-	1,361	-	-	-	-
Debt issuance costs	(36)	(53)	-	-	-	-
Taxes paid in lieu of shares issued	-	-	(25)	(1,403)	(1,403)	-
Proceeds from exercise of stock options	1	-	2	154	155	-
<b>Net cash provided by (used in) Financing</b>	<b>(1,690)</b>	<b>(1,309)</b>	<b>(1,229)</b>	<b>(1,252)</b>	<b>(1,397)</b>	<b>-</b>
<b>Net change in cash</b>	<b>170</b>	<b>(618)</b>	<b>582</b>	<b>6,860</b>	<b>6,863</b>	<b>2,373</b>
<b>Cash - beginning of period</b>	<b>2,450</b>	<b>2,620</b>	<b>2,002</b>	<b>2,587</b>	<b>2,587</b>	<b>9,450</b>
<b>Cash - end of period</b>	<b>2,620</b>	<b>2,002</b>	<b>2,587</b>	<b>9,447</b>	<b>9,450</b>	<b>11,822</b>

Source: Company filings, Taglich Brothers' estimates

**Price Chart**



**Taglich Brothers' Current Ratings Distribution**



57.14 % Buy | 42.86 % Hold

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	5	26
Hold		
Sell		
Not Rated		

### **Important Disclosures**

As of November 16, 2022, Michael Taglich, President of Taglich Brothers, Inc. and a Director of DecisionPoint Systems, Inc. owns or has a controlling interest in 791,568 shares of DPSI common stock, options to buy 11,000 shares of DPSI common stock, and 157,555 warrants to acquire shares of DPSI common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 405,458 shares of DPSI common stock, and 157,555 warrants to acquire shares of DPSI common stock. William Cooke, Vice President - Investment Banking of Taglich Brothers, Inc. and a Director of DecisionPoint Systems, Inc. owns or has a controlling interest in 2,000 shares of DPSI common stock, options to buy 2,000 shares of DPSI common stock, and warrants to acquire 17,153 shares of DPSI common stock. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 3,458 shares of DPSI common stock and warrants to purchase 68,610 shares of common stock. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in warrants to purchase 16,250 shares of DPSI common stock. John Nobile, the research analyst of this report, owns or has a controlling interest in 607 shares of DPSI common stock and warrants to purchase 7,600 shares of DPSI common stock. Other employees at Taglich Brothers, Inc. also own or have controlling interests in warrants to purchase 109,405 shares of DPSI common stock. Taglich Brothers, Inc. had an investment banking relationship with the company mentioned in this report. In December 2012, and November 2013, Taglich Brothers Inc. served as the placement agent in private placements of convertible preferred stock for the company. In March 2016, Taglich Brothers Inc. served as the placement agent in a private placement of secured notes for the company. In June 2018, Taglich Brothers Inc. served as the placement agent in a private placement of common stock for the company. In October 2018, Taglich Brothers Inc. served as the placement agent in private placements of notes and common stock for the company.

All research issued by Taglich Brothers, Inc. is based on public information. The company will pay a monthly monetary fee of \$1,500 (USD) for the creation and dissemination of research reports for a minimum of twelve months after publication of the initiation report.

### **General Disclosures**

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Axos Clearing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from Compliance.

### **Analyst Certification**

**I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.**

Public companies mentioned in this report:

Datalogic (OTC: DLGI)  
Extreme Networks (Nasdaq: EXTR)  
Honeywell (Nasdaq: HON)  
VMWare (NYSE: VMW)  
Zebra Technologies (Nasdaq: ZBRA)

### **Meaning of Ratings**

**Buy** – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

**Speculative Buy** – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

**Neutral** – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

**Sell** – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

**Discontinued** – Research coverage discontinued due to the acquisition of the company, termination of research services (includes non-payment for such services), diminished investor interest, or departure of the analyst.

### **Some notable Risks within the Microcap Market**

**Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.**

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From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.