

Research Report – Update

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

DecisionPoint Systems, Inc.

Speculative Buy

Howard Halpern

April 6, 2023

DPSI \$5.52 — (NYSE MKT)

	<u>2021A</u>	<u>2022A</u>	<u>2023E</u>	<u>2024E</u>
Sales (millions)	\$65.9	\$97.4	\$102.5	\$112.2
Earnings (loss) per share	\$0.19*	\$0.41	\$0.28	\$0.50

52-Week range	\$12.98 – \$3.34	Fiscal year ends:	December
Common shares out a/o 3/24/22	7.4 million	Revenue per share (TTM)	\$12.88
Approximate float	5.6 million	Price/Sales (TTM)	0.4X
Market capitalization	\$40.8 million	Price/Sales (FY2024)E	0.4X
Tangible book value/share	\$0.21	Price/Earnings (TTM)	13.5X
Price/tangible book value	26.3X	Price/Earnings (FY2024)E	11.4X

*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 Laguna Hills CA, is a provider of enterprise mobility solutions and services. DPSI partners with hardware and software companies to combine enterprise-grade handheld computers, printers, tablets, and smart phones into solutions and services aimed at improving productivity and competitiveness.

Key investment considerations:

Reiterating our Speculative Buy rating and raising our 12-month price target to \$11.00 per share from \$10.00 based on our initial 2024 EBITDA projection.

DecisionPoint operates in the high growth enterprise mobility market. A report published by Precedence Research projects the global enterprise mobility market to grow to approximately \$182.6 billion by 2030 from an estimated \$32.7 billion in 2022 for annualized growth of nearly 24%. 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 supplements its organic growth by identifying, acquiring, and integrating businesses that provide it with an opportunity to expand into new market verticals, as well as enhance cross-selling opportunities.

On April 3, 2023, DPSI acquired North Carolina based Macro Integration Services (MIS). This accretive acquisition expands the company's operations into food services, as well as scales its grocery, quick-service restaurant, and convenience stores verticals. MIS should contribute sales of at least \$10 million in 2023.

DPSI reported (on 3/29/23) 2022 sales increased 47.7% to \$97.4 million and EPS of \$0.41 versus \$0.19 in 2021. We projected sales of \$90.5 million and EPS of \$0.36.

We project 2023 EPS of \$0.28 on sales growth of 5.2% to \$102.5 million. We previously projected sales of \$96.2 million and EPS of \$0.43. Our revised projections reflect the acquisition of Macro Integration, higher than anticipated operating expenses, and interest expense stemming from increased borrowings.

We project 2024 sales growth of 9.5% to \$112.2 million and EPS of \$0.50 per share. Our projections reflect a full year of Macro Integration sales, organic growth from new and existing customers, and operating expense margin improvement to 21.8% from 22.2% in 2023, as well as gross margin expanding to 27.3% from 25.9% in 2023.

****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 \$11.00 per share from \$10.00 based on our initial 2024 EBITDA projection.

DecisionPoint operates in the high growth enterprise mobility market. A report published by Precedence Research projects the global enterprise mobility market to grow to approximately \$182.6 billion by 2030 from an estimated \$32.7 billion in 2022 for annualized growth of nearly 24%. 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.

Supporting rating is the company continually supplementing its organic growth by identifying, acquiring, and integrating new businesses that provide the opportunity to expand DPSI's operations into new market verticals, as well as enhancing cross-selling opportunities within its existing and new customer bases.

Our 12-month price target of \$11.00 per share implies shares have the potential to double over the next twelve months. DPSI trades at an EV/EBITDA multiple of approximately 10.9X while the industry trades at an average multiple of 15.9X. DPSI's multiple should trade near the industry average based on our EBITDA growth forecast. Applying an EV/EBITDA multiple of 12X to our 2024 EBITDA projection of \$8.9 million or \$1.15 per share implies a market capitalization of approximately \$107.7 million (adjusted for projected outstanding debt and cash) or \$13.98 per share based on over 7.7 million shares. Discounting for execution risk, we derive a twelve-month price target of approximately \$11.00 per share.

We believe DecisionPoint Systems, Inc. is suitable for risk tolerant investors seeking exposure to a company expanding its footprint within the enterprise mobility market.

Recent Development

On April 3, 2023, DPSI acquired North Carolina based Macro Integration Services. This accretive acquisition expands the company's operating into food services, as well as scales its grocery, quick-service restaurant, convenience stores verticals. This acquisition is expected to generate revenue of at least \$10 million and EBITDA of \$1 million for the remaining three quarters of 2023.

This acquisition enhances the company sales mix toward higher margin service offerings and provides capabilities for digital signage and video systems, as well as point of sale, payments, mobility, and self-service offerings. Service sales accounts for approximately 70% of Macro Integration Services total sales.

The synergies this acquisition should bring to DPSI's operations is the expansion of services into the Southeastern region of the US, providing warehousing capacity on the East Coast, and cross-selling opportunities.

While terms were not disclosed, our projections assume the company paid for the acquisition in cash via borrowings and future contingent consideration.

Business

Headquartered in Laguna Hills 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 and services 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. In 2Q23, the company acquired Macro Integration Services, which expands the company’s operating into food services, as well as scales its grocery, quick-service restaurant, convenience stores verticals.

The company has built a significant roster of high profile customers (pictured on the right from the company’s 1Q23 presentation) that utilize its hardware deployments, as well



more recently is recurring revenue service offering.

Products and Services

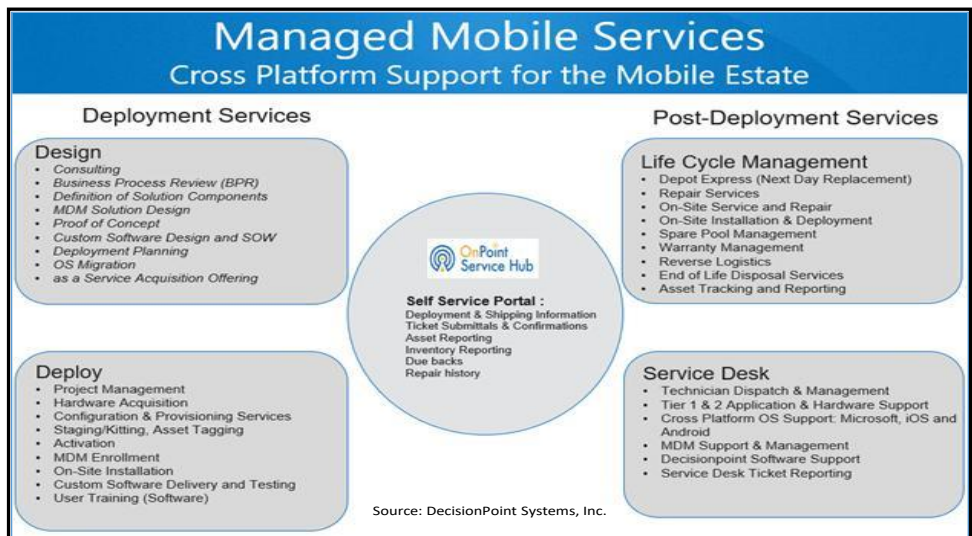
DecisionPoint offers mobile data collection devices such as tablets, computers, and vehicle mount computers, which can help organizations significantly improve efficiency to help meet customer expectations for speed and accuracy. The company also offers ruggedized mobile data collection solutions designed to perform in the most demanding environments. DPSI also offers hardware and software maintenance support.

The company 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.

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 professional services include consulting, staging, deployment, installation, repair and customer specified software customization.

The company’s OnPoint™ Service Hub offered by the company 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 chart on the right).

DecisionPoint also offers “as a service” models that include devices, services, software and consulting in which customers pay a recurring monthly fee.

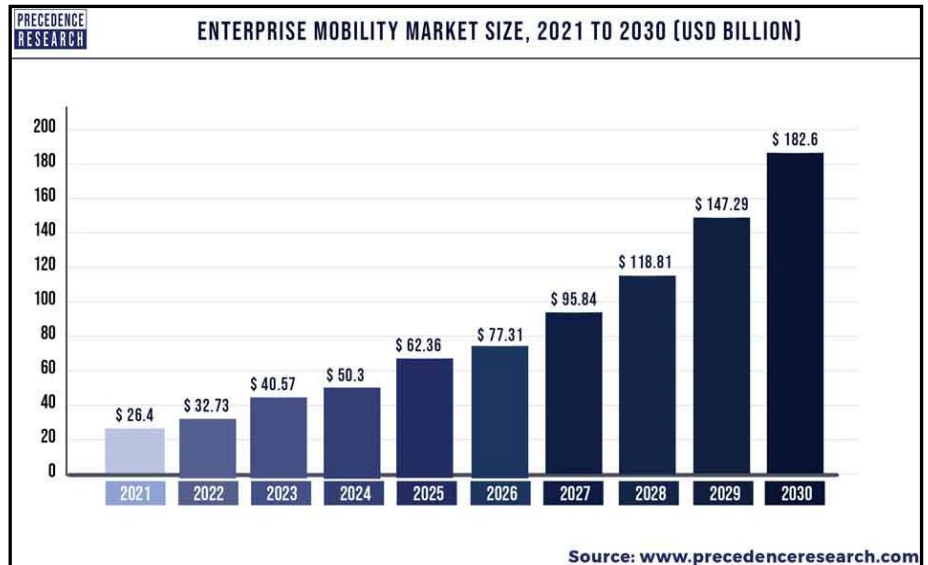


The company’s offerings include software for direct store delivery management, electronic proof of delivery, and yard management to effectively track, monitor, and manage cargo from when it enters a location to when it leaves. DPSI also offers custom mobile application software to meet a customers unique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

Enterprise Mobility Market

In October 2022, strategic market insights firm Precedence Research issued a report on the global enterprise mobility market, which indicates the market could reach \$182.6 billion by 2030 from an estimated \$32.7 billion in 2022 for annualized growth of nearly 24%.

The report observed that growing mobile workforce and enterprise adoption of bring-your-own-devices initiatives to improve worker productivity, permitting employees to work from anyplace, at any time, and obtaining corporate information on the go. This has surged the demand for enterprise mobility solutions.

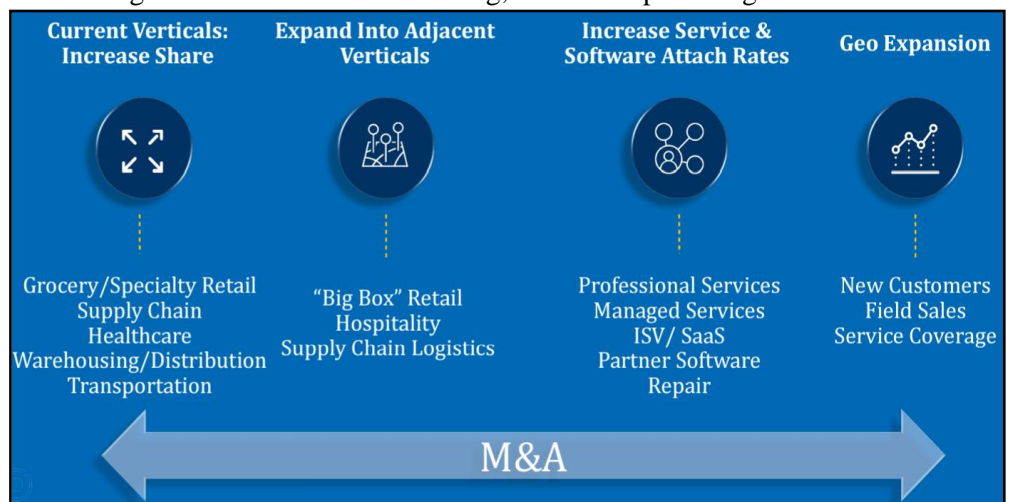


The bring-your-own-devices and enterprise mobility market is likely to be driven by small and medium size enterprises that continue to adopt cloud-based services. Reduced hardware costs, increased penetration of smartphones and the rising demand for enterprise mobility software in large enterprises are 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.

Growth Strategy

The company’s growth strategy includes increasing market share into existing market verticals, expand into adjacent verticals, and increase recurring service and software offering, as well as providing customers with new service offerings. Growth will organically through the coordination of the company’s existing sales and business development teams. Overlaying the company’s strategy is making an annual acquisition to expand into new verticals and obtain cross-selling opportunities.



In 2023, the company added to its team of sales business development professionals in order to enhance its reach within exiting verticals in order to increase its customer base.

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 1Q22, DPSI acquired Advanced Mobile Group, LLC, and Boston Technologies and Macro Integration Services was acquired in 2Q23.

A new offering called VISION was developed in 2022. This new offering is intended to offer customers a customizable solution for monitoring actions on everything in their information technology (IT) infrastructure. DPSI can manage a customer's entire lifecycle of mobility and IT infrastructure in one view by providing real-time visibility to manage the health, location, and status of mission-critical IT assets by enabling clients to monitor the progress in major rollouts. This offering was developed to enable its customers to minimize downtime and simplifying the management of a large, distributed enterprise.

In 2023, the VISION portal offering will be launched to approximately 30 existing customers.

Projections

In 2023, we anticipate product sales will likely decrease by 5.2% to \$73.4 million due primarily to market condition in 1H23, but should rebound and grow 9.5% in 2024 as market condition improve and acquisition of Macro Integration Services will make a full year contribution compared to a three quarter contribution in 2023. We expect the April 2023 acquisition of Macro Integration Services will contribute approximately \$10 million to net sales in 2023 with 79% occurring in services, which should drive those sales to nearly \$29.2 million compared to \$18.3 million in 2022. In 2024, we anticipate service sales growth of 23.6% to \$36 million.

On April 3, 2023, the company announced it acquired Macro Integration Services but did not disclose the terms of the deal. Therefore, we made broad based assumptions as to the funding and expense profile impact to our forecasts. Those assumption are likely to be adjusted once terms of the deal and the expense profile of Macro Integration are determined. Our current forecasts assumes the company paid approximately 1.3X sales. The company funded the acquisition through cash and borrowings that should result in interest expense being recorded during the final three quarters of 2023 and all four quarters of 2023. In addition, we anticipate operating expense margin in 2023 increasing to 22.2% compared to 19.1% in 2022 as the integration and leveraging process is unlikely to be realized until 4Q23. In 2024, we anticipated operating expense margin improving to 21.8%.

Economy

In January 2023, the International Monetary Fund (IMF) revised its global economic growth estimates to an increase of 2.9% for 2023 and 3.1% for 2024. In October 2022, the IMF's prior projections called for growth of 2.7% in 2023 and 3.2% growth in 2024. The forecast reflects a rise global interest rates to fight inflation, particularly in in advanced economies, as well as negative effects from the war in Ukraine.

The IMF revised its economic growth estimate for the US to an increase of 1.2% for 2023 and 1.4% for 2024. In October 2022, the IMF projected US economic growth of 1.1% and 1.6% for 2023 and 2024, respectively.

The third estimate of US GDP growth (released on March 30, 2023) showed the US economy increased at an annual rate of 2.6% in 4Q22, down from growth of 3.2% reported for 3Q22. The 4Q22 US GDP estimate reflects a downward revision to exports and consumer spending.

Operations 2023

We project sales growth of 5.2% to \$102.5 million (prior was \$96.2 million) driven primarily by the April 2023 acquisition of Macro Integration Services that should contribute at least \$7 million to service sales over the last three quarters of the year. Excluding the acquisition, our forecast anticipated service sales growth of 20.8% to approximately \$22.2 million.

Gross profit should increase 14.8% due primarily to service sales growth and gross margins improving to 25.9% from 23.7% in 2022.

We anticipate operating income decreasing to \$3.8 million from \$4.4 million last year due primarily to the initial costs associated with the acquisition of Macro Integration Services over 2Q23 and 3Q23. As the integration process proceeds those costs should have less of an impact entering 4Q23. Our forecast anticipates G&A and sales and marketing expenses of \$12.6 million and \$10.1 million, respectively, compared to \$9.4 million and \$9.2 million, respectively in 2022.

We project interest expense of \$825,000 compared to \$15,000 in 2022 due to higher average debt balance that we anticipate were used to acquire Macro Integration Services, as announced on April 3, 2023.

We project net income of \$2.2 million or \$0.28 per share. We previously forecast net income of \$3.3 million or \$0.43 per share. The reduction in our forecast reflects a reduction in our prior product sales forecast and initial and likely one-time costs to acquire Macro Integration Services.

Finances 2023

We project \$6.3 million cash provided by operations that should be derived from cash earnings of \$6.9 million and a \$639,000 increase in working capital. We anticipate cash from operations and borrowing are unlikely to cover cash used to acquire Macro Integration Services and capital expenditures of \$2.5 million. Cash should increase by \$977,000 to \$6.7 million at December 31, 2023.

Operations 2024

We project sales growth of 9.5% to \$112.2 million driven by an additional quarter of sales from the acquisition of Macro Integration Services that occur last year and organic growth of the company's product and service offerings within the enterprise mobility market.

Gross profit should increase 15.3% to \$30.6 million from an estimated \$26.5 million in 2023. The increase in gross profit should be driven by sales growth and gross margins improving to 27.3% from an estimated 25.9% in 2023 stemming from a sale mix shift to higher margin recurring offerings.

We anticipate operating income increasing to \$6.1 million from an estimate \$3.8 million in 2023 as the integration process and cost rationalization related to the Macro Integration Services acquisition should be completed by 4Q23. Our forecast anticipates G&A and sales and marketing expenses of \$13.8 million and \$10.7 million, respectively, compared to estimates of \$12.6 million and \$10.1 million, respectively in 2023.

We project interest expense flat at \$825,000 due primarily to the company incurring an extra quarter of interest expense compared 2023. However, by the end of 2024 we anticipate the company will have repaid approximately \$5 million borrowing related to the acquisition of Macro Integration Services.

We project net income of \$3.9 million or \$0.50 per share after applying an estimated tax rate of 26.5%.

Finances 2024

We project \$8.7 million cash provided by operations that should be derived from cash earnings of \$7.4 million and a \$1.3 million decrease in working capital. We anticipate cash from operations should cover capital expenditures of \$1.5 million and repayment of approximately \$5 million in debt, as well as a contingent consideration payment related to the acquisition of Macro Integration Services. Cash should increase by \$1.2 million to \$7.9 million at December 31, 2024.

2022 and 4Q22 Financial Results

2022 Results

Net sales increased 47.7% to \$97.4 million primarily due to higher hardware sales to two large enterprise customers by approximately 23.1 million and an \$8.9 million increase in overall net sales associated with Advanced Mobile Group (AMG) which was acquired on January 31, 2022. Service sales increase 18.6% to \$18.3 million from \$15.5 million in 2021.

DecisionPoint Systems, Inc.

Gross profit increased 50.9% to \$23.9 million from \$15.3 million last year due primarily to sales growth and gross margin improvement to 23.7% from 23.2%. Gross margin improve due primarily to service sales expanding to 34% compared to 30.8% last year.

Operating income reached \$4.4 million from \$398,000 in 2021 as operating expense margin improved to 19.1% from 22.6% last year. Sales and marketing expense increase to \$9.2 million from \$7.4 million due primarily to a \$1 million increase in commissions on higher sales volume along with \$1.1 million in additional expenses related to the AMG operations (acquired on January 31, 2022), partly offset by a \$200,000 decrease in salary expense. G&A expense increased to \$9.4 million from \$7.6 million due to a \$2.4 million increase associated with the AMG acquisition, partly offset by a \$400,000 decrease in stock compensation expense.

Non-operating expense was \$71,000 compared to non-operating income of \$1.1 million. The current period included interest expense of \$56,000 compared to \$79,000 last year. Last year included a \$1.2 million gain on extinguishment of debt, which did not reoccur in the current period.

Net income was \$3.1 million or \$0.41 per share versus net income of \$1.4 million or \$0.19 per share. The results for 2022 included income tax expense of nearly \$1.3 million or a 28.9% income tax rate compared to an expense of \$116,000 last year. We projected sales of \$90.5 million and net income of \$2.8 million or \$0.36 per share.

4Q22 Results

Net sales increased 48.5% to \$24.5 million from \$16.5 million in 4Q21 due primarily to hardware sales reaching \$19.8 million from \$12.6 million last year stemming from increased equipment orders by large enterprise customers.

Gross profit nearly doubled to \$6.3 million from \$3.8 million in the year-ago period due to revenue growth and gross margins expansion to 25.9% from 22.9% in 4Q21. Gross margin expansion reflects a positive sales mix shift.

Operating income improved to \$699,000 from a loss of \$921,000 in the year-ago period, as operating expense margin improved to 23% compared to 28.5% in 4Q21. Net income was \$425,000 or \$0.06 per share compared to a loss per share of (\$0.10).

Liquidity - As of December 31, 2022, the company had \$7.6 million cash, \$146,000 of debt (\$3,000 short-term), and shareholder's equity of \$16.6 million.

In 2022, cash provided by operations was \$12.3 million consisting of \$6.7 million cash earnings and a \$5.6 million decrease in working capital. Cash used in investing was \$6 million consisting of \$4.5 million cash paid for acquisitions and nearly \$1.5 million of capital expenditures. Cash used in financing of \$1.3 million was primarily for taxes paid on cashless exercises of stock options. Cash increased by nearly \$5.1 million to \$7.6 million at September 30, 2022.

Subsequent to December 31, 2022, DecisionPoint amended its line of credit with MUFG Union Bank to \$10 million from \$9 million with a maturity date of July 31, 2026. The line of credit bears interest at the Secured Overnight Financing Rate (SOFR) plus 2.5% or a base rate offered by the bank. As of December 31, 2022, the company had no outstanding borrowings under the line of credit. However, we assume the company used this facility to help pay for the acquisition of Macro Integration Services.

On March 27, 2023, the company entered into a \$5 million promissory note agreement with MUFG. Principal and interest payments on this note are due in quarterly installments of \$250,000 commencing June 30, 2023, with an interest rate based on Term SOFR. This note matures March 31, 2028. We assume the company used the cash from this borrowing to help pay for the acquisition of Macro Integration Services.

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 December 31, 2022, the company had \$146,000 outstanding under this loan.

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.

Risks

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

Supply chain issues – Operations have been or could be in the future impacted by supply chain issues or inflation which adversely affect product availability and may result 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 28% and 24% of its net sales for 2022 and 2021, respectively. 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

DecisionPoint Systems, Inc.

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 5.6 million shares in the float and the average daily volume is approximately 34,100 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.

Consolidated Balance Sheets
(in thousands \$)

	<u>2020A</u>	<u>2021A</u>	<u>2022A</u>	<u>2023E</u>	<u>2024E</u>
Cash	2,005	2,587	7,642	6,665	7,853
Accounts receivable	16,438	12,302	17,085	19,931	21,822
Inventory	884	2,111	4,417	4,469	4,082
Deferred costs	1,744	1,998	2,729	2,000	1,000
Prepaid expenses and other	67	336	399	450	465
Total current assets	21,138	19,334	32,272	33,515	35,221
Operating lease assets	583	329	2,681	2,681	2,681
Property and equipment, net	751	834	1,817	2,900	2,925
Deferred costs	2,097	1,492	2,868	2,868	2,868
Deferred tax assets	1,973	1,999	848	848	1,850
Intangible assets	4,663	3,564	4,531	9,000	8,000
Goodwill	8,128	8,128	10,499	20,000	20,000
Other assets	22	50	41	41	41
Total assets	39,355	35,730	55,557	71,853	73,586
Accounts payable	12,852	10,273	19,755	17,940	17,007
Accrued expenses and other	2,807	3,220	5,357	6,150	5,611
Deferred revenue	4,617	4,599	6,021	8,500	10,000
Line of credit	1,206	-	-	-	-
Current portion of debt	-	3	3	3	3
Due to related parties	34	-	-	-	-
Current portion of operating lease liabilities	261	257	529	452	452
Total current liabilities	21,777	18,352	31,665	33,045	33,074
Deferred revenue	3,140	2,510	4,331	5,000	6,000
Promissory note	-	-	-	4,512	3,512
Revolving credit facility	-	-	-	9,250	5,250
Long-term debt	1,361	146	143	-	-
Operating lease liabilities	340	83	2,706	2,747	2,747
Other	873	381	130	221	221
Total liabilities	27,491	21,472	38,975	54,775	50,804
Total stockholders' equity (deficit)*	11,864	14,258	16,582	17,079	22,782
Total liabilities & stockholders' equity	39,355	35,730	55,557	71,853	73,586

Source: Company filings, Taglich Brothers' estimates

DecisionPoint Systems, Inc.

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

	<u>2020A</u>	<u>2021A</u>	<u>2022A</u>	<u>2023E</u>	<u>2024E</u>
Product sales	50,673	50,480	79,079	73,350	76,200
Service sales	<u>12,687</u>	<u>15,463</u>	<u>18,336</u>	<u>29,150</u>	<u>36,025</u>
Net sales	63,360	65,943	97,415	102,500	112,225
Cost of product sales	40,129	39,943	62,214	57,895	59,685
Cost of service sales	<u>8,413</u>	<u>10,696</u>	<u>12,106</u>	<u>18,085</u>	<u>21,950</u>
Cost of sales	<u>48,542</u>	<u>50,639</u>	<u>74,320</u>	<u>75,980</u>	<u>81,635</u>
Gross profit	14,818	15,304	23,095	26,520	30,590
Sales and marketing	5,587	7,354	9,218	10,100	10,685
General and administrative	5,203	7,552	9,430	12,625	13,765
Total operating expenses	<u>10,790</u>	<u>14,906</u>	<u>18,648</u>	<u>22,725</u>	<u>24,450</u>
Operating income (loss)	4,028	398	4,447	3,795	6,140
Other income (expense)	213	1,211	(56)	-	-
Interest (expense) income	<u>(319)</u>	<u>(79)</u>	<u>(15)</u>	<u>(825)</u>	<u>(825)</u>
Income (loss) before taxes	3,922	1,530	4,376	2,970	5,315
Income taxes / (benefit)	<u>1,061</u>	<u>116</u>	<u>1,265</u>	<u>780</u>	<u>1,410</u>
Net income (loss)	<u>2,861</u>	<u>1,414</u>	<u>3,111</u>	<u>2,190</u>	<u>3,905</u>
EPS	<u>0.37</u>	<u>0.19</u>	<u>0.41</u>	<u>0.28</u>	<u>0.50</u>
Shares Outstanding	7,811	7,593	7,562	7,710	7,748
EBITDA	5,129	2,996	6,856	7,255	8,940
Adjusted EBITDA	5,003	3,117	7,845	8,505	9,625
<u>Margin Analysis</u>					
Gross margin - product	20.8%	20.9%	21.3%	21.1%	21.7%
Gross margin - service	33.7%	30.8%	34.0%	38.0%	39.1%
Gross margin	23.4%	23.2%	23.7%	25.9%	27.3%
Sales and marketing	8.8%	11.2%	9.5%	9.9%	9.5%
General and administrative	8.2%	11.5%	9.7%	12.3%	12.3%
Operating margin	6.4%	0.6%	4.6%	3.7%	5.5%
Net margin	4.5%	2.1%	3.2%	2.1%	3.5%
Tax rate	27.1%	7.6%	28.9%	26.3%	26.5%
<u>Year / Year Growth</u>					
Total Revenues	44.4%	4.1%	47.7%	5.2%	9.5%
Product sales	58.4%	(0.4)%	56.7%	(7.2)%	3.9%
Service sales	6.6%	21.9%	18.6%	59.0%	23.6%

Source: Company filings, Taglich Brothers' estimates

DecisionPoint Systems, Inc.

Quarterly Income Statements 2022A - 2024E (in thousands \$)

	1Q22A	2Q22A	3Q22A	4Q22A	2022A	1Q23E	2Q23E	3Q23E	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E
Product sales	15,580	22,692	20,988	19,819	79,079	14,000	17,900	21,450	20,000	73,350	14,200	19,000	22,000	21,000	76,200
Service sales	4,141	4,814	4,725	4,656	18,336	5,000	7,150	8,050	8,950	29,150	8,550	8,250	9,250	9,975	36,025
Net sales	19,721	27,506	25,713	24,475	97,415	19,000	25,050	29,500	28,950	102,500	22,750	27,250	31,250	30,975	112,225
Cost of product sales	12,422	17,869	16,923	15,000	62,214	10,850	14,320	17,125	15,600	57,895	11,360	15,000	17,175	16,150	59,685
Cost of service sales	2,625	3,310	3,036	3,135	12,106	3,150	4,485	4,990	5,460	18,085	5,275	5,050	5,600	6,025	21,950
Cost of sales	15,047	21,179	19,959	18,135	74,320	14,000	18,805	22,115	21,060	75,980	16,635	20,050	22,775	22,175	81,635
Gross profit	4,674	6,327	5,754	6,340	23,095	5,000	6,245	7,385	7,890	26,520	6,115	7,200	8,475	8,800	30,590
Sales and marketing	2,175	2,384	2,291	2,368	9,218	2,350	2,525	2,625	2,600	10,100	2,575	2,635	2,725	2,750	10,685
General and administrative	2,261	1,960	1,936	3,273	9,430	2,650	3,175	3,300	3,500	12,625	3,225	3,465	3,550	3,525	13,765
Total operating expenses	4,436	4,344	4,227	5,641	18,648	5,000	5,700	5,925	6,100	22,725	5,800	6,100	6,275	6,275	24,450
Operating income (loss)	238	1,983	1,527	699	4,447	-	545	1,460	1,790	3,795	315	1,100	2,200	2,525	6,140
Other income (expense)	4	(21)	-	(39)	(56)	-	-	-	-	-	-	-	-	-	-
Interest (expense) income	(25)	(9)	(7)	26	(15)	-	(280)	(275)	(270)	(825)	(235)	(215)	(190)	(185)	(825)
Income (loss) before taxes	217	1,953	1,520	686	4,376	-	265	1,185	1,520	2,970	80	885	2,010	2,340	5,315
Income taxes / (benefit)	(637)	1,232	409	261	1,265	-	70	310	400	780	20	235	530	625	1,410
Net income (loss)	854	721	1,111	425	3,111	-	195	875	1,120	2,190	60	650	1,480	1,715	3,905
EPS	0.11	0.09	0.15	0.06	0.41	-	0.03	0.11	0.14	0.28	0.01	0.08	0.19	0.22	0.50
Shares Outstanding	7,664	7,691	7,593	7,691	7,562	7,695	7,705	7,710	7,730	7,710	7,740	7,745	7,750	7,755	7,748
EBITDA					6,856					7,255					8,940
Adjusted EBITDA					7,845	910	1,645	2,785	3,165	8,505	1,140	1,950	3,075	3,460	9,625
<u>Margin Analysis</u>															
Gross margin - product	20.3%	21.3%	19.4%	24.3%	21.3%	22.5%	20.0%	20.2%	22.0%	21.1%	20.0%	21.1%	21.9%	23.1%	21.7%
Gross margin - service	36.6%	31.2%	35.7%	32.7%	34.0%	37.0%	37.3%	38.0%	39.0%	38.0%	38.3%	38.8%	39.5%	39.6%	39.1%
Gross margin	23.7%	23.0%	22.4%	25.9%	23.7%	26.3%	24.9%	25.0%	27.3%	25.9%	26.9%	26.4%	27.1%	28.4%	27.3%
Sales and marketing	11.0%	8.7%	8.9%	9.7%	9.5%	12.4%	10.1%	8.9%	9.0%	9.9%	11.3%	9.7%	8.7%	8.9%	9.5%
General and administrative	11.5%	7.1%	7.5%	13.4%	9.7%	13.9%	12.7%	11.2%	12.1%	12.3%	14.2%	12.7%	11.4%	11.4%	12.3%
Operating margin	1.2%	7.2%	5.9%	2.9%	4.6%	0%	2.2%	4.9%	6.2%	3.7%	1.4%	4.0%	7.0%	8.2%	5.5%
Net margin	4.3%	2.6%	4.3%	1.7%	3.2%	0.0%	0.8%	3.0%	3.9%	2.1%	0.3%	2.4%	4.7%	5.5%	3.5%
Tax rate	NMF	63.1%	26.9%	38.0%	28.9%	0.0%	26.4%	26.2%	26.3%	26.3%	25.0%	26.6%	26.4%	26.7%	26.5%
<u>Year / Year Growth</u>															
Total Revenues	22.7%	81.3%	41.1%	48.5%	47.7%	(3.7)%	(8.9)%	14.7%	18.3%	5.2%	19.7%	8.8%	5.9%	7.0%	9.5%
Product sales	30.6%	96.1%	46.3%	56.9%	56.7%	(10.1)%	(21.1)%	2.2%	0.9%	(7.2)%	1.4%	6.1%	2.6%	5.0%	3.9%
Service sales	(0.1)%	33.9%	22.1%	21.0%	18.6%	20.7%	48.5%	70.4%	92.2%	59.0%	71.0%	15.4%	14.9%	11.5%	23.6%

Source: Company filings, Taglich Brothers' estimates

DecisionPoint Systems, Inc.

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

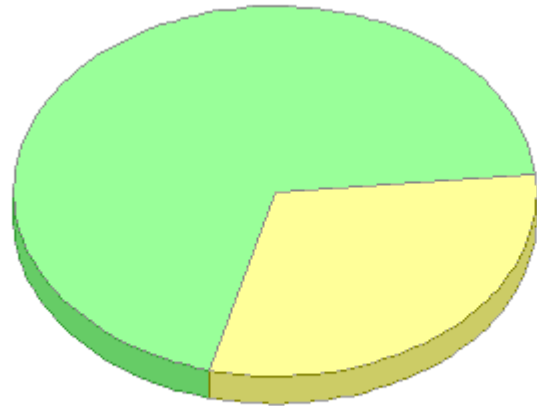
	2020A	2021A	2022A	2023E	2024E
Net income (loss)	2,861	1,414	3,111	2,190	3,905
Depreciation & amortization	888	1,387	2,465	3,460	2,800
Loss on fixed asset disposal	-	-	22	-	-
Gain on extinguishment of debt	-	(1,211)	-	-	-
Amortization of deferred financing costs	157	24	-	-	-
Share-based compensation	87	1,003	577	850	685
Acquisition earn-out adjustment	-	(187)	-	-	-
Deferred taxes	686	(26)	254	-	-
Provision for doubtful accounts	25	-	249	400	-
Cash earnings (loss)	4,704	2,404	6,678	6,900	7,390
<i>Changes in assets and liabilities</i>					
Accounts receivable	(5,853)	4,136	(3,630)	(2,846)	(1,891)
Inventory	2,945	(1,227)	(2,177)	(52)	388
Deferred costs	(382)	351	(1,984)	729	1,000
Prepaid expenses and other	254	(294)	(54)	(51)	(15)
Other assets	(8)	(28)	-	-	-
Accounts payable	585	(2,579)	8,924	(1,815)	(932)
Accrued expenses and other	294	277	914	248	248
Due to related parties	(90)	(34)	-	-	-
Operating lease liabilities	6	(7)	543	-	-
Deferred revenue	1,738	(648)	3,095	3,148	2,500
(Increase) decrease in working capital	(511)	(53)	5,631	(639)	1,297
Net cash provided by (used in) operations	4,193	2,352	12,309	6,261	8,687
Purchases of property and equipment	(93)	(371)	(1,477)	(2,500)	(1,500)
Cash paid for acquisitions	(3,409)	(170)	(4,525)	(17,500)	-
Net cash provided by (used in) investing	(3,502)	(541)	(6,002)	(20,000)	(1,500)
Repayment of term debt	(646)	-	(3)	-	-
Line of credit - revolving	(1,971)	(1,206)	-	10,000	-
Payment on revolving line of credit	-	-	-	(750)	(4,000)
Proceeds from issuance of promissory note	-	-	-	5,000	-
Payment on promissory note	-	-	-	(488)	(1,000)
Payment on contingent consideration	-	-	-	(1,000)	(1,000)
Proceeds from issuance of term debt	1,361	-	-	-	-
Debt issuance costs	(53)	-	-	-	-
Taxes paid in lieu of shares issued	-	(25)	(1,403)	-	-
Proceeds from exercise of stock options	-	2	154	-	-
Net cash provided by (used in) Financing	(1,309)	(1,229)	(1,252)	12,763	(6,000)
Net change in cash	(618)	582	5,055	(977)	1,187
Cash - beginning of period	2,620	2,002	2,587	7,642	6,665
Cash - end of period	2,002	2,587	7,642	6,665	7,853

Source: Company filings, Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



69.57 % Buy | 30.43 % Hold

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

Important Disclosures

As of April 5, 2023, Michael Taglich, President of Taglich Brothers, Inc. and a Director of DecisionPoint Systems, Inc. owns or has a controlling interest in 791,564 shares of DPSI common and restricted common stock, options to buy 11,000 shares of DPSI common stock, and 78,778 warrants to acquire shares of DPSI common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 408,997 shares of DPSI common and restricted common stock, and 78,778 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 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 34,305 shares of common stock. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in warrants to purchase 6,941 shares of DPSI common stock. Howard Halpern, the research analyst of this report, owns or has a controlling interest in 3,853 shares of DPSI common stock. Other employees at Taglich Brothers, Inc. also own or have controlling interests in 21,387 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, Howard Halpern, 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)
VMWare (NYSE: VMW)

Extreme Networks (Nasdaq: EXTR)
Zebra Technologies (Nasdaq: ZBRA)

Honeywell (Nasdaq: HON)

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.

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.