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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
August 17, 2023

DPSI $5.66 — (NYSE MKT)

	2021A	2022A	*2023E*	*2024E*
Sales (millions)	$65.9	$97.4	***$112.1***	***$119.8***
Earnings (loss) per share	$0.19*	$0.41	***$0.35***	***$0.54***

52-Week range	$11.27 – $4.04	Fiscal year ends:	December
Common shares out a/o 8/7/23	7.6 million	Revenue per share (TTM)	$13.95
Approximate float	5.6 million	Price/Sales (TTM)	0.4X
Market capitalization	$43.0 million	Price/Sales (FY2024)E	0.4X
Tangible book value/share	($1.92)	Price/Earnings (TTM)	13.2X
Price/tangible book value	NMF	Price/Earnings (FY2024)E	10.5X

*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 increasing our 12-month price target to $11.00 per share from $10.00 due primarily to increases in sector valuations and our 2024 EBITDA forecast.

DecisionPoint operates in the high growth enterprise mobility market. The global enterprise mobility market is forecast to reach approximately $182.6 billion by 2030, up from an estimated $32.7 billion in 2022 for annualized growth of nearly 24%. The near-term outlook is likely to be challenging, as the industry is facing tighter enterprise customer capital spending and project deferrals due to an uncertain economic environment.

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. These actions should mitigate any short-term challenges within the enterprise mobility market.

In 2Q23, DPSI acquired 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 $16 million to sales in 2H23 with gross margins exceeding 30%.

DPSI reported (on 8/14/23) 2Q23 EPS of $0.11 on sales growth of 12.4% to $30.9 million versus EPS of $0.09 in 1Q22. We projected sales of $29.5 million and EPS of $0.04.

We project 2023 EPS of $0.35 (prior was $0.28) on sales growth of 15% to $112.1 million (prior was $110.2 million). Our revised projections reflect 1H23 results, 3Q23 guidance, and integration of the newly acquired MIS operations that should enhance operating leverage.

We project 2024 sales growth of 6.9% to $119.8 million (prior was $115.5 million) and EPS of $0.54 (prior was $0.50). Our projections reflect a full year of MIS operations, gross margin expanding to 25.4% from an estimated 24.5% in 2023, and lower interest expense as the company should pay down a large portion of outstanding debt.

****Please view our disclosures on pages 14 - 16.***

Recommendation and Valuation

Reiterating our Speculative Buy rating and increasing our 12-month price target to $11.00 per share from $10.00 due primarily to increases in sector valuations and our 2024 EBITDA forecast.

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 near-term outlook is likely to be challenging, as the industry is facing tighter enterprise customer capital spending and project deferrals due to an uncertain economic environment.

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. These actions, which includes the 2Q23 acquisition of MIS, should mitigate any short-term challenges within the enterprise mobility market.

Our 12-month price target of $11.00 per share implies shares have the potential to appreciate nearly 95% over the next twelve months. DPSI trades at an EV/EBITDA multiple of approximately 4.5X while the industry trades at an average multiple of 15.7X (prior was 15.4X). DPSI's multiple should trade near the industry average based on our EBITDA growth forecast. Applying an EV/EBITDA multiple of 11.2X (prior was 11X) to our 2024 EBITDA projection of $9 million (prior was $8.9 million) implies a market capitalization of approximately $99 million (adjusted for projected outstanding debt and cash) or $12.85 per share based on over 7.9 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

In 2Q23, DPSI acquired North Carolina based Macro Integration Services (MIS). This accretive acquisition expands the company's operating into food services, as well as scales its grocery, quick-service restaurant, convenience stores verticals. In 2H23, MIS should contribute $16 million to sales with gross margins exceeding 30%.

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.

The company paid $13 million in cash and over the next two years there are potential earn-outs payments of up to $10 million if certain milestones are achieved.

This acquisition provides the company with significant cross-selling opportunities. In 3Q23, there are active sales campaigns ongoing in which existing customers that could benefit from what DecisionPoint has to offer and what MIS has to offer have been identified. The goal is to get deeper and wider within those customers.

Business

Headquartered in 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, 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.

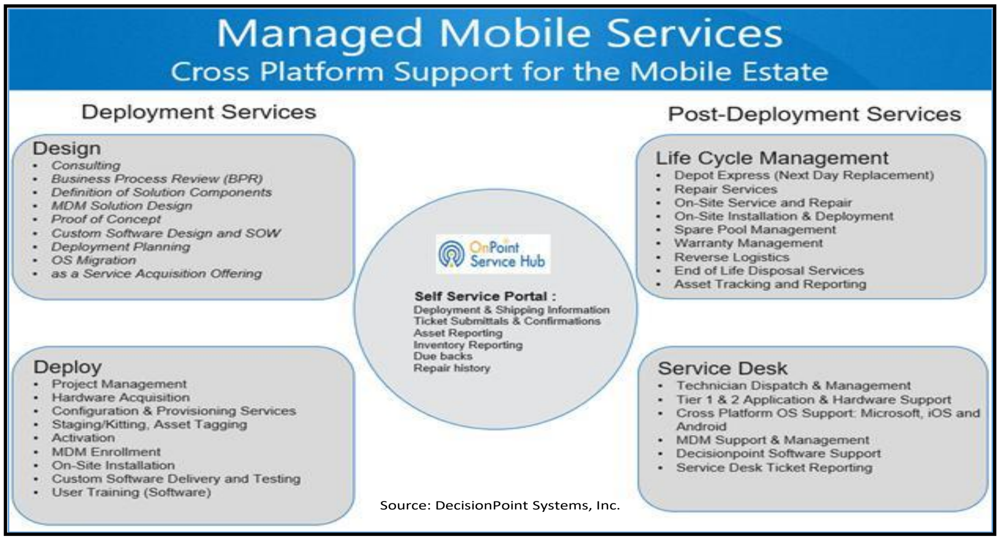
Products and Services

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).

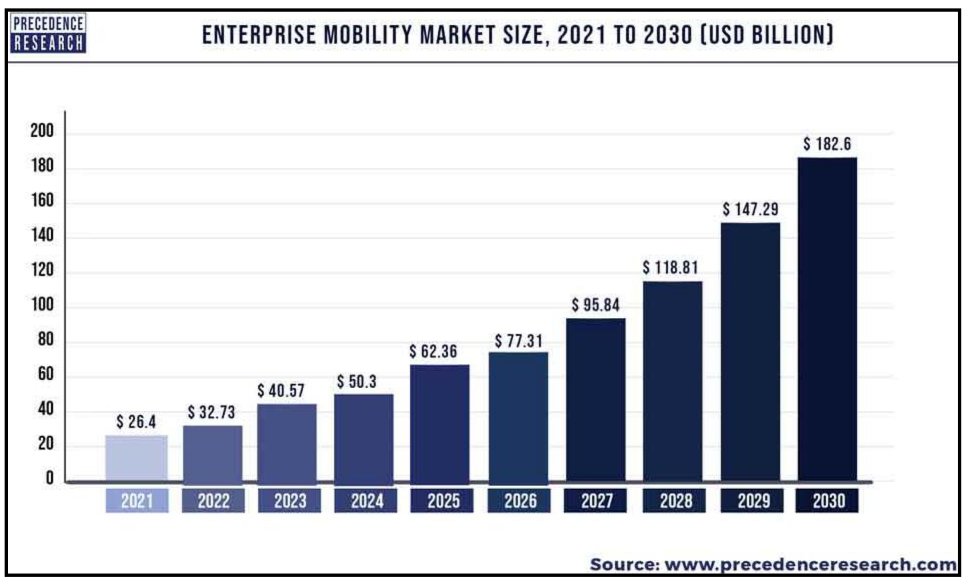


DecisionPoint also offers "as a service" models that include devices, services, software and consulting in which customers pay a recurring monthly fee.

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 customer's 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.

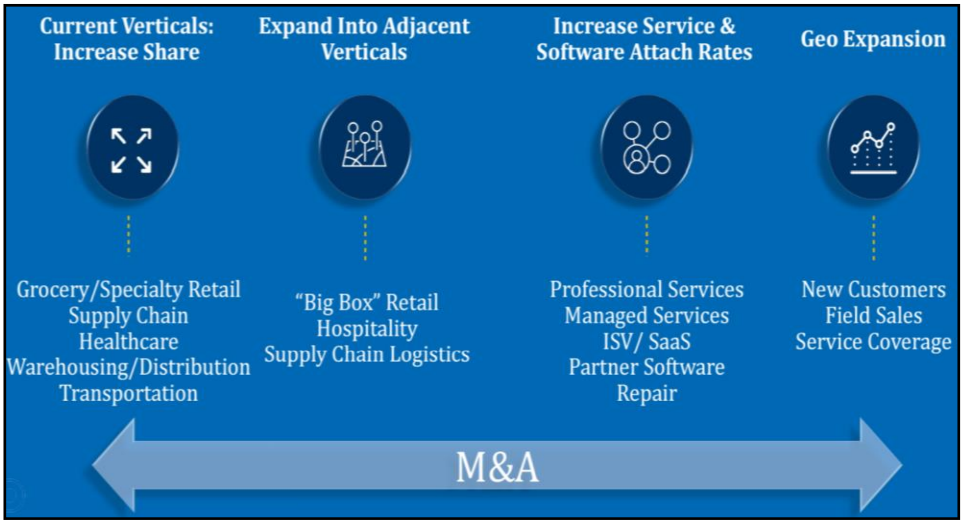
The bring-your-own-devices and enterprise mobility market is likely to be driven by small and medium size enterprises that continue to adopt cloud-based services. Reduced hardware costs, increased penetration of smartphones and the rising demand for enterprise mobility software in large enterprises are 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. As the Macro acquisition was slightly larger, the company should be back seeking additional acquisition by the end of 2023. Typically, DPSI is targeting to execute on one to two acquisitions per year that will add $2 million or more in EBITDA.

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 April 2023, the VISION portal offering was launched to approximately 30 existing customers.

Projections

<u>Basis of Forecast</u>
While we anticipate industry conditions to be challenging in the short-term due primarily to companies within the sector acknowledging in 1H23 that there is tighter enterprise customer capital spending and project deferrals due to an uncertain economic environment, DPSI is likely to continue to grow primarily due to the 2Q23 acquisition of MIS.

In 2023, we anticipate product sales to decrease 2.6% to $77 million due primarily to 1H23 results and 3Q23 guidance, as well as sector headwinds. However, the MIS acquisition should drive a 91.1% increase in higher margin service sales to $35 million from $18.3 million in 2022.

In 2024, product sales should experience a modest increase of 2.5% to nearly $79 million as a weak 1H24 in customer deployments should be more than offset by a stronger 2H24. We project growth of 16.5% for the company's service sales segment to $40.8 million from an estimated $35 million in 2023.

Economy

In July 2023, the International Monetary Fund (IMF) revised its global economic growth estimates to an increase of 3% for 2023 and 3% for 2024. In April 2023, the IMF's prior projections called for growth of 2.8% in 2023 and 3% growth in 2024. The forecast reflects reduced inflation outlook but higher interest rates.

The IMF revised its economic growth estimate for the US to an increase of 1.8% for 2023 and 1% for 2024. In April 2023, the IMF projected US economic growth of 1.6% and 1.1% for 2023 and 2024, respectively.

The advance estimate of US GDP growth (released on July 27, 2023) showed the US economy increased at an annual rate of 2.4% in 2Q23, up from growth of 2% reported for 1Q23. The 2Q23 US GDP estimate reflects increases in consumer spending, federal government spending, state and local government spending, nonresidential fixed investment, and private inventory investment, partly offset by decreases in exports and residential fixed investment.

Operations 2023

We project sales growth of 15% to $112.1 million (prior was $110. million) driven primarily by 1H23 results, 3Q23 guidance, and the April 2023 acquisition of Macro Integration Services, that will likely be restrained by reduced 2H23 product sales due to sector headwinds.

Gross profit should increase 18.9% to $27.5 million from $23.1 million in 2022, due primarily to service sales growth and total gross margins improving to 24.5% from 23.7% in 2022.

We anticipate operating income decreasing $68,000 to $4.4 million due primarily to the initial costs associated with the acquisition of Macro Integration Services over the final three quarters of 2023, which should be nearly offset by sales growth and gross margin improvement. Our forecast anticipates G&A and sales and marketing expenses of $13.3 million and $9.8 million, respectively, compared to $9.4 million and $9.2 million, respectively in 2022. In 1H23, business acquisition related costs amount to $410,000.

We project interest expense of $593,000 compared to $15,000 in 2022 due to higher average debt balance to a acquire Macro Integration Services on April 3, 2023.

We project net income of $2.8 million or $0.35 per share, after income tax expense of $1 million for a rate of 26.7%. We previously projected net income of $2.2 million or $0.28 per share, after income tax expense of $787,000 for a rate of 26.2%.

Finances 2023

We project $7.6 million cash provided by operations that should be derived from cash earnings of $6.7 million and a $961,000 decrease in working capital. We anticipate cash from operations and borrowing are unlikely to cover cash used to acquire Macro Integration Services, capital expenditures of $2 million, as well as repayment of debt. Cash should decrease by $130,000 to $7.5 million at December 31, 2023.

Operations 2024

We project sales growth of 6.9% to $119.8 million (prior was $115.5 million) driven by an additional quarter of sales from the acquisition of MIS that occur at the start of 2Q23 and growth of the company's recurring managed service offerings within its existing customer based.

Gross profit should increase 11% to $30.5 million from an estimated $27.5 million in 2023. The increase in gross profit should be driven by sales growth and gross margins improving to 25.4% from an estimated 24.5% in 2023 stemming from a sale mix shift to higher margin recurring service offerings.

We anticipate operating income increasing to $6.2 million from an estimated $4.4 million in 2023 due primarily to sales growth and gross margin improvement, as well as a modest improvement in operating costs from the integration and rationalization for Macro Integration Services that was acquired in 2Q23. Our forecast anticipates G&A and sales and marketing expenses of $14 million and $10.3 million, respectively, compared to estimates of $13.3 million and $9.8 million, respectively in 2023.

We project interest expense decreasing to $450,000 from an estimated $593,000 due primarily to lower average debt balances stemming from the company repaying a significant portion of borrowings used to acquire MIS.

Our net income forecast is nearly $4.3 million or $0.54 per share after applying an estimated tax rate of 26.3%. We previously projected net income of $3.9 million or $0.50 per share after applying an estimated tax rate of 26.6%.

Finances 2024

We project $8.4 million cash provided by operations that should be derived from cash earnings of $7.8 million and a $616,000 decrease in working capital. We anticipate cash from operations is unlikely to cover capital expenditures of $1.3 million and repayment of approximately $2.5 million in debt, as well as a contingent consideration payment of an estimated $5.5 million related to the acquisition of MIS. Cash should decrease by $834,000 to $6.7 million at December 31, 2024.

2Q23 and 1H2023 Financial Results

2Q23 Results

Net sales increased 12.4% to $30.9 million from $27.5 million in 2Q22. The increase reflects service sales more than doubling to nearly $11.2 million from $4.8 million stemming from the acquisition of Macro Integration on April 1, 2023, which contributed $6.3 million to topline results. Partly offsetting the increase in service sales was a decline in product sales (includes hardware, software, and consumables) to $19.7 million from nearly $22.7 million in the year-ago period. The decline in product revenue reflects a lag in customer installations that are expected to be completed by the end of 2023 and lower sales of consumable stemming from the impact of one existing customers and the year-ago period including a one-time transaction of approximately $500,000 that did not occur in the current period.

Gross profit increased 22.5% to $7.7 million from $6.3 million last year due primarily to sales growth and gross margins expansion to 25.1% from 23% in 2Q22. Gross margin improvement reflects a sales mix shift to service offerings reflecting the acquisition of Macro Integration that contributed $6.3 million to service sales. Higher gross margin (35.7%) service segment comprised 36.1% of total revenue compared to 17.5%. Last year service gross margin was 31.2%. Gross margin from product sales was 19.1% compared to 21.3% in the year-ago period.

Operating income was $1.3 million compared to $2 million in the year-ago period as operating expense margin increased to 20.7% from 15.8% last year due primarily to the April 1, 2023 acquisition of Macro Integration. Sales and marketing expense increased to $2.5 million from $2.4 million. G&A expense increased to $3.9 million from $2 million due to a $144,000 increase in legal and accounting fees stemming from the acquisition of Macro Integration, an increase in warehouse personnel, and an incremental increase in depreciation and amortization expense, as well as a $1.6 million increase in costs to support the operations of Macro Integration.

Interest expense increased to $210,000 from $9,000 in the year-ago period due to higher average debt balance used to fund the acquisition of Macro Integration. Other income was $9,000 compared to a loss of $21,000 in 2Q22.

Net income was $835,000 or $0.11 per share, after income tax expense of $310,000. In the year-ago period, the company reported net income of $721,000 or $0.09 per share, after recording income tax expense of $1.2 million. We projected sales of $29.5 million and net income of $295,000 or $0.04 per share.

1H23 Results

Net sales increased 22.7% to $58 million from $47.2 million in 1H22 due to increased service sales to $16 million from $9 million, as well as product sales reaching $41.9 million from $38.3 million in the year-ago period.

Gross profit increased 25.4% to $13.8 million from $11 million last year due primarily to sales growth and gross margins improving to 23.8% from 23.3% in 1H22.

Operating income increased to $2.5 million from $2.2 million in 1H22 due to sales growth and gross margin improvement, partly offset by sales and marketing expenses increasing to $4.9 million from $4.6 million and G&A expenses increasing to $6.4 million from $4.2 million.

Interest expense was $223,000 compared to an expense of $35,000 last year. The increase reflects higher debt balance stemming from the Macro Integration acquisition on April 1, 2023.

Net income was $1.7 million or $0.22 per share, after income tax expense of $619,000. In the year-ago period, the company reported net income of $1.6 million or $0.20 per share, after income tax expense of $598,000.

	6M Income Statements (in thousands $)	
	6M23A	6M22A
Product	41,912	38,272
Service	16,039	8,955
Net sales	57,951	47,227
Product	33,865	30,290
Service	10,287	5,935
Cost of sales	44,152	36,225
Gross profit	13,799	11,002
Sales and marketing	4,859	4,560
General and administrative	6,406	4,220
Operating income (loss)	2,534	2,222
Other income (expense)	9	(16)
Interest expense	(223)	(35)
Income (loss) before taxes	2,320	2,171
Income taxes / (benefit)	619	598
Net income (loss)	1,701	1,573
EPS	0.22	0.20
Shares Outstanding	7,869	7,720
Margin Analysis		
Gross margin	23.8%	23.3%
Sales and marketing	8.4%	9.7%
General and administrative	11.1%	8.9%
Operating margin	4.4%	4.7%
Net margin	2.9%	3.3%
Tax rate	26.7%	27.5%
Year / Year Growth		
Total Revenues	22.7%	
Source: Company filings		

In 1H23, cash from operations was $5 million from $3.2 million in cash earnings and a $1.8 million decrease in working capital. Cash used in investing was $13.4 million consisting of $12.8 million to pay for the acquisition of Macro Integration and $579,000 in capital expenditures. Cash from financing was $7.9 million consisting of $8 million in borrowings. Cash decreased by $417,000 to $7.2 million at June 30, 2023.

Liquidity - As of June 30, 2023, the company had cash of $7.2 million, $7.9 million of debt ($1 million was short-term, and shareholder's equity of $18.7 million.

On March 27, 2023, 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. At June 30, 2023 the interest rate was 7.4%. As of June 30, 2023, the company had $7 million of borrowings under the line of credit.

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, which was 7.4% at March 31, 2023. The note matures March 31, 2028. In 2Q23, the company repaid $4 million on the line of credit and had $3 million outstanding on June 30, 2023.

At June 30, 2023, DPSI was in compliance with all of its covenants.

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 June 30, 2023, the company had $144,000 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 – Operation 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 one customer who represented 34% of its net sales in 1H23 compared to two customer accounting for 29% of sales in the year-ago period. 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 5.5 million shares in the float and the average daily volume (over the last three month to August 16, 2023) was approximately 14,100 shares.

Miscellaneous risk - Financial results and equity values of DPSI 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 $)

	2020A	2021A	2022A	2Q23A	**2023E**	**2024E**
Cash	2,005	2,587	7,642	7,225	**7,512**	**6,678**
Accounts receivable	16,438	12,302	17,085	16,566	**18,675**	**17,634**
Inventory	884	2,111	4,417	2,446	**4,230**	**4,580**
Deferred costs	1,744	1,998	2,729	3,184	**3,184**	**3,000**
Prepaid expenses and other	67	336	399	397	**400**	**425**
Total current assets	21,138	19,334	32,272	29,818	**34,001**	**32,316**
Operating lease assets	583	329	2,681	3,778	**3,778**	**3,778**
Property and equipment, net	751	834	1,817	2,920	**2,900**	**2,890**
Deferred costs	2,097	1,492	2,868	2,744	**2,744**	**2,744**
Deferred tax assets	1,973	1,999	848	-	**-**	**-**
Intangible assets	4,663	3,564	4,531	8,993	**8,000**	**7,000**
Goodwill	8,128	8,128	10,499	24,379	**24,379**	**24,379**
Other assets	22	50	41	105	**105**	**105**
Total assets	39,355	35,730	55,557	72,737	**75,907**	**73,212**
Accounts payable	12,852	10,273	19,755	12,628	**14,099**	**14,636**
Accrued expenses and other	2,807	3,220	5,357	6,283	**7,844**	**8,025**
Deferred revenue	4,617	4,599	6,021	7,367	**8,000**	**9,500**
Line of credit	1,206	-	-	-	**-**	**-**
Current portion of debt	-	3	3	1,003	**1,003**	**1,003**
Due to related parties and earnout consideration	34	-	-	5,520	**5,520**	**4,316**
Current portion of operating lease liabilities	261	257	529	866	**866**	**866**
Total current liabilities	21,777	18,352	31,665	33,667	**37,331**	**38,346**
Deferred revenue	3,140	2,510	4,331	3,724	**5,000**	**8,000**
Deferred tax liabilties	-	-	-	1,909	**1,909**	**1,909**
Earnout consideration	-	-	-	4,316	**4,316**	**-**
Long-term debt - includes promissory note and credit facility	1,361	146	143	6,891	**5,891**	**3,391**
Operating lease liabilites	340	83	2,706	3,516	**3,516**	**3,516**
Other	873	381	130	6	**6**	**6**
Total liabilities	27,491	21,472	38,975	54,029	**57,969**	**55,168**
Total stockholders' equity (deficit)	11,864	14,258	16,582	18,708	**17,937**	**18,044**
Total liabilities & stockholders' equity	39,355	35,730	55,557	72,737	**75,907**	**73,212**

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

	2020A	2021A	2022A	**2023E**	**2024E**
Product sales	50,673	50,480	79,079	**77,012**	**78,950**
Service sales	12,687	15,463	18,336	**35,039**	**40,825**
Net sales	63,360	65,943	97,415	**112,051**	**119,775**
Cost of product sales	40,129	39,943	62,214	**61,950**	**62,545**
Cost of service sales	8,413	10,696	12,106	**22,643**	**26,760**
Cost of sales	48,542	50,639	74,320	**84,593**	**89,305**
Gross profit	14,818	15,304	23,095	**27,458**	**30,470**
Sales and marketing	5,587	7,354	9,218	**9,794**	**10,250**
General and administrative	5,203	7,552	9,430	**13,285**	**13,980**
Total operating expenses	10,790	14,906	18,648	**23,079**	**24,230**
Operating income (loss)	4,028	398	4,447	**4,379**	**6,240**
Other income (expense)	213	1,211	(56)	**9**	**-**
Interest (expense) income	(319)	(79)	(15)	**(593)**	**(450)**
Income (loss) before taxes	3,922	1,530	4,376	**3,795**	**5,790**
Income taxes / (benefit)	1,061	116	1,265	**1,014**	**1,520**
Net income (loss)	2,861	1,414	3,111	**2,781**	**4,270**
EPS	0.37	0.19	0.41	**0.35**	**0.54**
Shares Outstanding	7,811	7,593	7,562	**7,906**	**7,975**
EBITDA	5,129	2,996	6,856	**7,388**	**9,040**
Adjusted EBITDA	5,003	3,117	7,845	**8,485**	**9,440**
Margin Analysis					
Gross margin - product	20.8%	20.9%	21.3%	**19.6%**	**20.8%**
Gross margin - service	33.7%	30.8%	34.0%	**35.4%**	**34.5%**
Gross margin	23.4%	23.2%	23.7%	**24.5%**	**25.4%**
Sales and marketing	8.8%	11.2%	9.5%	**8.7%**	**8.6%**
General and administrative	8.2%	11.5%	9.7%	**11.9%**	**11.7%**
Operating margin	6.4%	0.6%	4.6%	**3.9%**	**5.2%**
Net margin	4.5%	2.1%	3.2%	**2.5%**	**3.6%**
Tax rate	27.1%	7.6%	28.9%	**26.7%**	**26.3%**
Year / Year Growth					
Total Revenues	44.4%	4.1%	47.7%	**15.0%**	**6.9%**
Product sales	58.4%	(0.4)%	56.7%	**(2.6)%**	**2.5%**
Service sales	6.6%	21.9%	18.6%	**91.1%**	**16.5%**

Source: Company filings, Taglich Brothers' estimates

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

	1Q22A	2Q22A	3Q22A	4Q22A	2022A	1Q23A	2Q23A	3Q23E	4Q23E	**2023E**	1Q24E	2Q24E	3Q24E	4Q24E	**2024E**
Product sales	15,580	22,692	20,988	19,819	79,079	22,166	19,746	18,100	17,000	**77,012**	15,450	19,750	22,750	21,000	**78,950**
Service sales	4,141	4,814	4,725	4,656	18,336	4,873	11,166	10,000	9,000	**35,039**	8,750	10,750	11,750	9,575	**40,825**
Net sales	19,721	27,506	25,713	24,475	97,415	27,039	30,912	28,100	26,000	**112,051**	24,200	30,500	34,500	30,575	**119,775**
Cost of product sales	12,422	17,869	16,923	15,000	62,214	17,885	15,980	14,570	13,515	**61,950**	12,050	15,600	18,200	16,695	**62,545**
Cost of service sales	2,625	3,310	3,036	3,135	12,106	3,104	7,184	6,550	5,805	**22,643**	5,815	7,095	7,575	6,275	**26,760**
Cost of sales	15,047	21,179	19,959	18,135	74,320	20,989	23,164	21,120	19,320	**84,593**	17,865	22,695	25,775	22,970	**89,305**
Gross profit	4,674	6,327	5,754	6,340	23,095	6,050	7,748	6,980	6,680	**27,458**	6,335	7,805	8,725	7,605	**30,470**
Sales and marketing	2,175	2,384	2,291	2,368	9,218	2,368	2,491	2,500	2,435	**9,794**	2,475	2,525	2,650	2,600	**10,250**
General and administrative	2,261	1,960	1,936	3,273	9,430	2,494	3,911	3,480	3,400	**13,285**	3,430	3,475	3,550	3,525	**13,980**
Total operating expenses	4,436	4,344	4,227	5,641	18,648	4,862	6,402	5,980	5,835	**23,079**	5,905	6,000	6,200	6,125	**24,230**
Operating income (loss)	238	1,983	1,527	699	4,447	1,188	1,346	1,000	845	**4,379**	430	1,805	2,525	1,480	**6,240**
Other income (expense)	4	(21)	-	(39)	(56)	-	9	-	-	**9**	-	-	-	-	**-**
Interest (expense) income	(25)	(9)	(7)	26	(15)	(13)	(210)	(190)	(180)	**(593)**	(150)	(125)	(100)	(75)	**(450)**
Income (loss) before taxes	217	1,953	1,520	686	4,376	1,175	1,145	810	665	**3,795**	280	1,680	2,425	1,405	**5,790**
Income taxes / (benefit)	(637)	1,232	409	261	1,265	309	310	215	180	**1,014**	75	440	635	370.00	**1,520**
Net income (loss)	854	721	1,111	425	3,111	866	835	595	485	**2,781**	205	1,240	1,790	1,035	**4,270**
EPS	0.11	0.09	0.15	0.06	0.41	0.11	0.11	0.07	0.06	**0.35**	0.03	0.16	0.22	0.13	**0.54**
Shares Outstanding	7,664	7,691	7,593	7,691	7,562	7,789	7,935	7,945	7,955	**7,906**	7,960	7,970	7,980	7,990	**7,975**
EBITDA					6,856					**7,388**					**9,040**
Adjusted EBITDA	1,096				7,845	2,169	2,471	2,000	1,845	**8,485**	1,230	2,605	3,325	2,280	**9,440**
Margin Analysis															
Gross margin - product	20.3%	21.3%	19.4%	24.3%	21.3%	19.3%	19.1%	19.5%	20.5%	**19.6%**	22.0%	21.0%	20.0%	20.5%	**20.8%**
Gross margin - service	36.6%	31.2%	35.7%	32.7%	34.0%	36.3%	35.7%	34.5%	35.5%	**35.4%**	33.5%	34.0%	35.5%	34.5%	**34.5%**
Gross margin	23.7%	23.0%	22.4%	25.9%	23.7%	22.4%	25.1%	24.8%	25.7%	**24.5%**	26.2%	25.6%	25.3%	24.9%	**25.4%**
Sales and marketing	11.0%	8.7%	8.9%	9.7%	9.5%	8.8%	8.1%	8.9%	9.4%	**8.7%**	10.2%	8.3%	7.7%	8.5%	**8.6%**
General and administrative	11.5%	7.1%	7.5%	13.4%	9.7%	9.2%	12.7%	12.4%	13.1%	**11.9%**	14.2%	11.4%	10.3%	11.5%	**11.7%**
Operating margin	1.2%	7.2%	5.9%	2.9%	4.6%	4%	4.4%	3.6%	3.3%	**3.9%**	1.8%	5.9%	7.3%	4.8%	**5.2%**
Net margin	4.3%	2.6%	4.3%	1.7%	3.2%	3.2%	2.7%	2.1%	1.9%	**2.5%**	0.8%	4.1%	5.2%	3.4%	**3.6%**
Tax rate	NMF	63.1%	26.9%	38.0%	28.9%	26.3%	27.1%	26.5%	27.1%	**26.7%**	26.8%	26.2%	26.2%	26.3%	**26.3%**
Year / Year Growth															
Total Revenues	22.7%	81.3%	41.1%	48.5%	47.7%	37.1%	12.4%	9.3%	6.2%	**15.0%**	(10.5)%	(1.3)%	22.8%	17.6%	**6.9%**
Product sales	30.6%	96.1%	46.3%	56.9%	56.7%	42.3%	(13.0)%	(13.8)%	(14.2)%	**(2.6)%**	(30.3)%	0.0%	25.7%	23.5%	**2.5%**
Service sales	(0.1)%	33.9%	22.1%	21.0%	18.6%	17.7%	131.9%	111.6%	93.3%	**91.1%**	79.6%	(3.7)%	17.5%	6.4%	**16.5%**

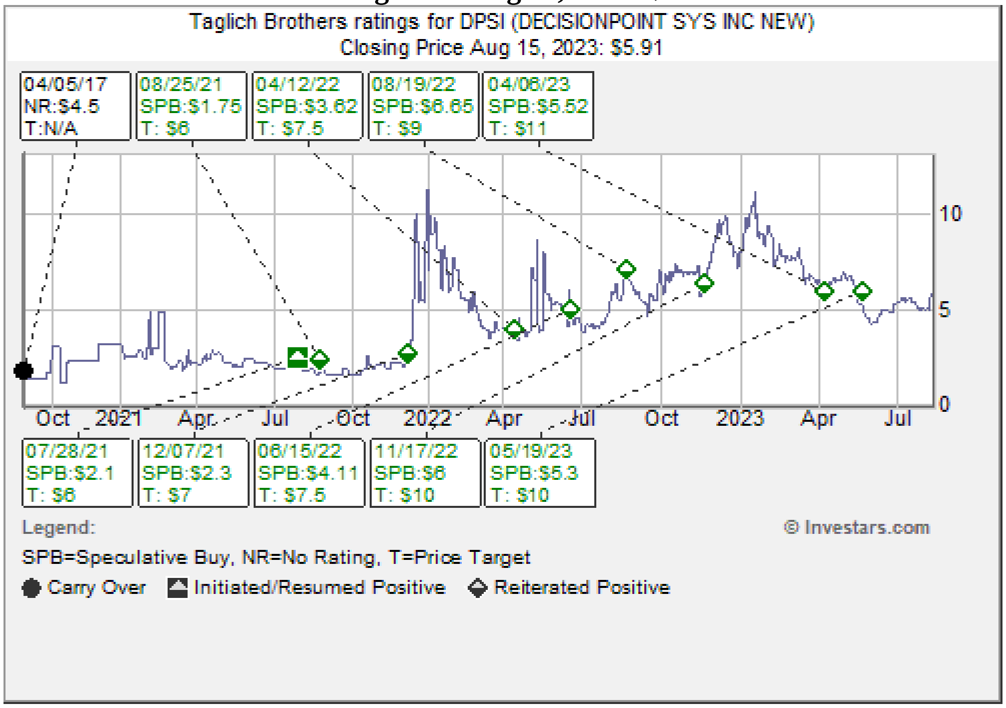
Source: Company filings, Taglich Brothers' estimates

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

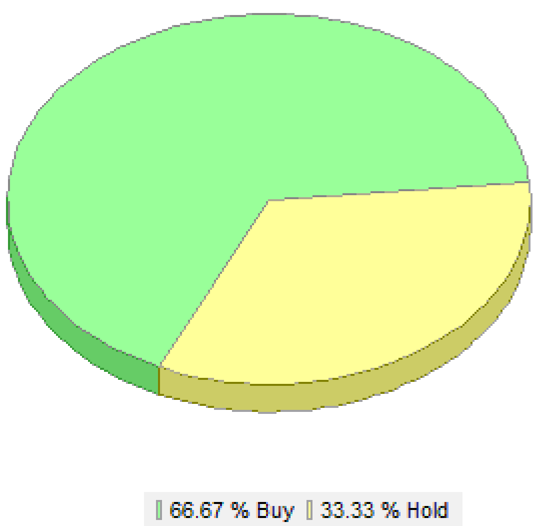
	2020A	2021A	2022A	6M23A	**2023E**	**2024E**
Net income (loss)	2,861	1,414	3,111	1,701	**2,781**	**4,270**
Depreciation & amortization	888	1,387	2,465	1,297	**3,000**	**2,800**
Loss on fixed asset disposal	-	-	22	235	**235**	**-**
Gain on extinguishment of debt	-	(1,211)	-	-	**-**	**-**
Amortization of deferred financing costs and inventory valuation	157	24	-	120	**120**	**120**
Share-based compensation	87	1,003	577	216	**750**	**400**
Acquisition earn-out adjustment	-	(187)	-	-	**-**	**-**
Deferred taxes	686	(26)	254	(447)	**(447)**	**-**
Provision for doubful accounts and inventory obsolesence	25	-	249	120	**240**	**200**
Cash earnings (loss)	4,704	2,404	6,678	3,242	**6,679**	**7,790**
Changes in assets and liabilities						
Accounts receivable	(5,853)	4,136	(3,630)	10,525	**(1,590)**	**1,042**
Inventory	2,945	(1,227)	(2,177)	4,479	**187**	**(350)**
Deferred costs	(382)	351	(1,984)	(331)	**(331)**	**184**
Prepaid expenses and other	254	(294)	(54)	93	**(1)**	**(25)**
Other assets	(8)	(28)	-	-	**(64)**	**-**
Accounts payable	585	(2,579)	8,924	(9,936)	**(5,656)**	**537**
Acrrued expenses and other	294	277	914	(2,596)	**248**	**248**
Due to related parties	(90)	(34)	-	5,520	**5,520**	**(5,520)**
Operating lease liabilites	6	(7)	543	(63)	**-**	**-**
Deferred revenue	1,738	(648)	3,095	(405)	**2,648**	**4,500**
(Increase) decrease in working capital	(511)	(53)	5,631	7,286	**961**	**616**
Net cash provided by (used in) operations	4,193	2,352	12,309	10,528	**7,640**	**8,406**
Purchases of property and equipment	(93)	(371)	(1,477)	(579)	**(2,000)**	**(1,250)**
Cash paid for acquisitions	(3,409)	(170)	(4,525)	(12,794)	**(12,794)**	**-**
Net cash provided by (used in) investing	(3,502)	(541)	(6,002)	**(13,373)**	**(14,794)**	**(1,250)**
Repayment of term debt	(646)	-	(3)	(252)	**(1,000)**	**(2,500)**
Proceeds from term loan - in the form a a promissory note	-	-	-	5,000	**5,000**	**-**
Line of credit - revolving	(1,971)	(1,206)	-	3,000	**3,000**	**-**
Payment on contingent consideration	-	-	-	-	**-**	**(5,520)**
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 warrants and stock options	-	2	154	200	**24**	**30**
Net cash provided by (used in) Financing	(1,309)	(1,229)	(1,252)	7,948	**7,024**	**(7,990)**
Net change in cash	(618)	582	5,055	5,103	**(130)**	**(834)**
Cash - beginning of period	2,620	2,002	2,587	7,642	**7,642**	**7,512**
Cash - end of period	2,002	2,587	7,642	12,745	**7,512**	**6,678**

Source: Company filings, Taglich Brothers' estimates

Price Chart
Closing Price Aug 16, 2023: $5.65



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	**4**	**22**
Hold		
Sell		
Not Rated		

Important Disclosures

As of August 16, 2023, Michael Taglich, President of Taglich Brothers, Inc. and a Director of DecisionPoint Systems, Inc. owns or has a controlling interest in 797,127 shares of DPSI common and restricted common stock, options to buy 11,000 shares of DPSI common stock, and 78,777 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 17,152 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 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 31,387 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)
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.

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.