

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

November 27, 2023

DPSI \$5.64 — (NYSE MKT)

	<u>2021A</u>	<u>2022A</u>	<u>2023E</u>	<u>2024E</u>
Sales (millions)	\$65.9	\$97.4	\$111.9	\$118.2
Earnings (loss) per share	\$0.19*	\$0.41	\$0.42	\$0.52

52-Week range	\$11.27 – \$4.04	Fiscal year ends:	December
Common shares out a/o 11/7/23	7.7 million	Revenue per share (TTM)	\$14.35
Approximate float	5.7 million	Price/Sales (TTM)	0.4X
Market capitalization	\$43.4 million	Price/Sales (FY2024)E	0.4X
Tangible book value/share	(\$1.72)	Price/Earnings (TTM)	13.8X
Price/tangible book value	NMF	Price/Earnings (FY2024)E	10.4X

*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:

Maintaining our Speculative Buy rating but reducing our 12-month price target to \$10.50 per share from \$11.00 due primarily to a decrease in 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 some of the short-term challenges within the enterprise mobility market.

In 2Q23, the accretive acquisition of Macro Integration Services (MIS) was completed, which expands DPSI's operations further into the grocery, food services, quick-service restaurant, and convenience stores verticals.

DPSI reported (on 11/14/23) 3Q23 EPS of \$0.13 on sales growth of 5.5% to \$27.1 million versus EPS of \$0.15 in 3Q22. We projected sales of \$28.1 million and EPS of \$0.07.

We project 2023 EPS of \$0.42 (prior was \$0.35) on sales growth of 15% to \$111.9 million (prior was \$112.1 million). Our revised projections reflect 3Q23 results and full year guidance provided issued in November 2023.

We project 2024 sales growth of 5.6% to \$118.2 million (prior was \$119.8 million) and EPS of \$0.54 (prior was \$0.54). Our projections reflect a full year of MIS operations and persistence of industry headwinds during 1H24. We anticipate gross margin expanding to 26.8% from an estimated 25.3% in 2023 due to higher margin service sales accounting for 41% of revenue compared to an estimated 35.3% in 2023. We project higher than previously anticipated operating expenses reflecting infrastructure spending to support its team of sales professionals.

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

Recommendation and Valuation

Maintaining our Speculative Buy rating but reducing our 12-month price target to \$10.50 per share from \$11.00 due primarily to a decrease in 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. In 3Q23, the company has begun to execute on active sales campaigns that has led to meetings with CIOs and C-level personnel. These actions, which includes the 2Q23 acquisition of MIS, should help to mitigate any short-term challenges within the enterprise mobility market.

Our 12-month price target of \$10.50 per share implies shares have the potential to appreciate in excess of 85% over the next twelve months. DPSI trades at an EV/EBITDA multiple of approximately 6.7X (prior was 4.5X) while the industry trades at an average multiple of 15.6X (prior was 15.7X). DPSI's multiple should trade near the industry average based on our EBITDA growth forecast. Applying an EV/EBITDA multiple of 11.1X (prior was 11.2X) to our 2024 EBITDA projection of \$8.7 million (prior was \$9 million) implies a market capitalization of approximately \$97 million (adjusted for projected outstanding debt and cash) or \$12.46 per share based on 7.8 million shares (prior was 7.9 million shares). Discounting for execution risk, we derive a twelve-month price target of approximately \$10.50 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

During October 2023, DPSI announced it completed the rebranding process related to the acquisition of Advanced Mobile Group (AMG). The former AMG brand has been fully integrated into the DecisionPoint identity, reflecting the company's unified vision and strategy for the future. The strategic acquisition of AMG strengthens the company's position as a leading provider of mobile computing, printing, and barcode scanning solutions in North America.

During August 2023, the company announced it hired Brian Bukowski to lead its managed mobile services operations. Mr. Bukowski, has over 30 years of sales and services experience working for Motorola, Stratix Corporation, Riverbed Technology and Gigamon, will be tasked with driving higher margin recurring revenue growth within in the company's managed mobile services segment.

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, 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 (MIS), which expands the company’s operating into food services, as well as scales its grocery, quick-service restaurant, convenience stores verticals.

The MIS acquisition is expected to enhance 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. The synergies of this acquisition include bringing DPSI’s operations into the Southeastern region of the US and providing warehousing capacity on the East Coast.



Products and Services

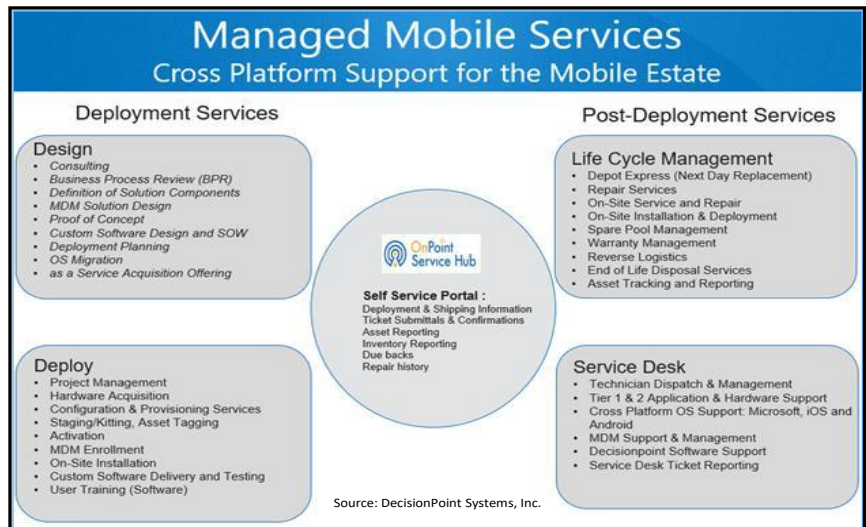
DecisionPoint offers mobile data collection devices such as tablets, computers, and vehicle mount computers, which can help organizations significantly improve efficiency to help meet customer expectations for speed and accuracy. The company also offers ruggedized mobile data collection solutions designed 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).

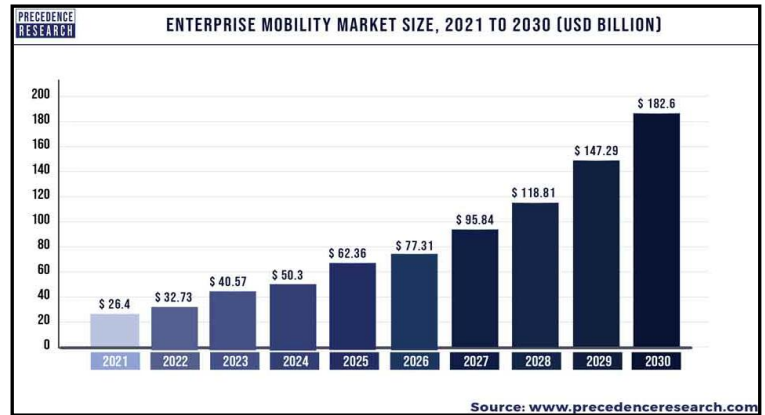
DecisionPoint also offers “as a service” models that include devices, services, software and consulting in which customers pay a recurring monthly fee.



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 2H23, 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

Basis of Forecast

While we anticipate industry conditions to be challenging in the short-term (4Q23 thru 1H24) due primarily to companies within the sector acknowledging there is tighter enterprise customer capital spending and project deferrals due to an uncertain economic environment, DPSI is likely to continue to grow albeit at a slightly slower pace than previously anticipated, primarily due to the 2Q23 acquisition of MIS.

In 2023, we anticipate product sales to decrease 8.5% to \$72.3 million due primarily to 3Q23 results and 4Q23 sector headwinds. However, the MIS acquisition should drive a 115.7% increase in higher margin service sales to \$39.5 million from \$18.3 million in 2022.

In 2024, product sales should experience a modest decrease of 3.6% to nearly \$69.8 million as a weak 1H24 in customer deployments should be partly offset by a rebound in 2H24. We project growth of 22.5% for the company's service sales segment to \$48.5 million from an estimated \$39.5 million in 2023.

Economy

In September 2023, the International Monetary Fund (IMF) revised its global economic growth estimates of 3% for 2023 and 2.9% for 2024. In July 2023, the IMF's prior projections called for growth of 3% in both 2023 and 2024.

The IMF revised its economic growth estimate for the US to an increase of 2.1% for 2023 and 1.5% for 2024. In July 2023, the IMF projected US economic growth of 1.8% and 1% for 2023 and 2024, respectively. The increase reflects stronger than anticipated consumption amid tight labor markets.

Operations 2023

We project sales growth of 14.9% to \$111.9 million (prior was \$112.1 million) driven primarily by 9M23 results, that includes the April 2023 acquisition of Macro Integration Services, that will likely be restrained by reduced 4Q23 product sales due to sector headwinds.

Gross profit should increase 22.7% to \$28.3 million from \$23.1 million in 2022, due primarily to service sales growth and total gross margins improving to 25.3% from 23.7% in 2022.

We anticipate operating income increasing 10.3% to \$4.9 million from \$4.4 million due primarily to sales growth and gross margin expansion, partly offset by the initial costs associated with the acquisition of Macro Integration Services over the final three quarters of 2023. Our forecast anticipates G&A and sales and marketing expenses of \$14.1 million and \$9.3 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 \$535,000 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 \$3.3 million or \$0.42 per share, after income tax expense of \$1.1 million for a rate of 25.8%. We previously projected net income of \$2.8 million or \$0.35 per share, after income tax expense of \$1 million for a rate of 26.7%. The increase in our net income and EPS forecast reflects better than anticipated gross margin reported in 3Q23 of 27.6% compared to our forecast of 24.8%.

Finances 2023

We project \$5.3 million cash provided by operations that should be derived from cash earnings of \$5.9 million and a \$590,000 increase in working capital. We anticipate cash from operations and borrowing are unlikely to cover cash used to acquire Macro Integration Services, capital expenditures of \$1 million, as well as repayment of debt. Cash should decrease by \$2.6 million to \$5 million at December 31, 2023.

Operations 2024

We project sales growth of 5.6% to \$118.2 million (prior was \$119.8 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, restrained by a reduction in customer hardware deployments in 1H24.

Gross profit should increase 11.9% to \$31.7 million from an estimated \$28.3 million in 2023. The increase in gross profit reflects sales growth and gross margins improving to 26.8% from an estimated 25.3% in 2023 due to higher margin service sales accounting for 41% of total sales compared to an estimated 35.3% in 2023.

We anticipate operating income increasing 19.9% to \$5.9 million from an estimated \$4.9 million in 2023 due primarily to sales growth and gross margin improvement, partly offset by operating expense margin increasing to 21.8% from an estimated 20.9% in 2023. We projects operating costs to increase by 10.2% compared to sales growth of 5.6% reflecting infrastructure spending to support its team of sales professionals that is designed to fuel future sales growth beyond 2024. Our forecast anticipates G&A and sales and marketing expenses of \$15.5 million and \$10.3 million, respectively, compared to estimates of \$14.1 million and \$9.8 million, respectively in 2023.

We project interest expense decreasing to \$360,000 from an estimated \$535,000 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 \$4.1 million or \$0.52 per share after applying an estimated tax rate of 26%. We previously projected net income of \$4.3 million or \$0.54 per share after applying an estimated tax rate of 26.3%. The reduction in our net income and EPS forecast reflects higher than anticipated operating expense and lower than anticipated product, partly offset by higher than anticipated gross margins.

Finances 2024

We project \$7.9 million cash provided by operations that should be derived from cash earnings of \$7.6 million and a \$254,000 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 \$1.4 million to \$3.7 million at December 31, 2024.

3Q23 and 9M23 Financial Results

3Q23 Results

Net sales increased 5.5% to \$27.1 million from \$25.7 million in 3Q22. The increase reflects service sales increasing by 147.7% to \$11.7 million from \$4.7 million stemming from the acquisition of Macro Integration on April 1, 2023, which contributed \$6 million to topline results along with a \$300,000 increase from the company's largest customer. Partly offsetting the increase in service sales was a decline in product sales (includes hardware, software, and consumables) to \$15.4 million from nearly \$21 million in the year-ago period. The decline in reflects a \$6.6 million decrease in hardware sales to one of its largest customers and an approximately \$300,000

DecisionPoint Systems, Inc.

decrease in consumables, partly offset by a \$1.7 million increase in hardware sales from the acquisition of Macro Integration.

Gross profit increased 30% to \$7.5 million from \$5.8 million last year due primarily to sales growth and gross margins expansion to 27.6% from 22.4% in 3Q22. Gross margin improvement reflects a sales mix shift to service offerings (gross margin of 37.5%) reflecting the acquisition of Macro Integration that contributed \$6 million to service sales. Service segment revenue comprised 43.1% of total revenue compared to 18.4% in 3Q22. Last year service gross margin was 35.7%. Gross margin from product sales was 20.1% compared to 19.4% in 3Q22.

Operating income was flat at \$1.5 million as sales growth and gross margin improvement was offset by operating expense margin increased to nearly 22% from 16.4% last year due primarily to the April 1, 2023 acquisition of Macro Integration. G&A expense increased to \$3.8 million from \$1.9 million due primarily to inclusion of the operations of Macro Integration. Sales and marketing expense decreased \$162,000 to \$2.1 million from \$2.3 million in 3Q23 due primarily to reduced commission expense.

Interest expense increased to \$162,000 from \$7,000 in the year-ago period due to higher average debt balance used to fund the acquisition of Macro Integration. Other income was \$15,000 compared none last year.

Net income was \$1.1 million or \$0.13 per share on average shares outstanding of 7.8 million. In the year-ago period, the company reported net income of \$1.1 million or \$0.15 per share on average shares outstanding of nearly 7.6 million. We projected sales of \$28.1 million and net income of \$595,000 or \$0.07 per share.

9M23 Results

Net sales increased 16.7% to \$85.1 million from \$72.9 million in 9M22 due to increased service sales to \$27.7 million from \$13.7 million due to the MIS acquisition. Partly offsetting service sales growth was a decrease in product sales to \$57.3 million from \$59.3 million in the year-ago period.

Gross profit increased 27% to \$21.3 million from \$16.8 million last year due primarily to sales growth and gross margins improving to 25% from 23% in 9M22.

Operating income increased to \$4.1 million from nearly \$3.8 million last year due to sales growth and gross margin improvement, partly offset by sales and marketing expenses increasing to \$7 million from \$6.9 million and G&A expenses increasing to \$10.2 million from \$6.2 million.

Interest expense was \$385,000 compared to an expense of \$42,000 last year. The increase reflects higher debt balance stemming from the Macro Integration acquisition on April 1, 2023.

Net income was nearly \$2.8 million or \$0.36 per share on average shares outstanding of nearly 7.7 million. In the year-ago period, the company reported net income of nearly \$2.7 million or \$0.36 per share on average shares outstanding of 7.5 million.

	Income Statements (in thousands \$)	
	9M23A	9M22A
Product sales, includes consumables	57,348	59,259
Service	27,743	13,681
Net sales	85,091	72,940
Product	46,205	47,213
Service	17,604	8,971
Cost of sales	63,809	56,184
Gross profit	21,282	16,756
Sales and marketing	6,988	6,850
General and administrative	10,242	6,155
Operating income (loss)	4,052	3,751
Other income (expense)	23	(17)
Interest expense	(385)	(42)
Income (loss) before taxes	3,690	3,692
Income taxes / (benefit)	935	1,008
Net income (loss)	2,755	2,684
EPS	0.36	0.36
Shares Outstanding	7,659	7,510
<u>Margin Analysis</u>		
Gross margin	25.0%	23.0%
Sales and marketing	8.2%	9.4%
General and administrative	12.0%	8.4%
Operating margin	4.8%	5.1%
Net margin	3.2%	3.7%
Tax rate	25.3%	27.3%
<u>Year / Year Growth</u>		
Total Revenues	16.7%	
Source: Company filings		

In 9M23, cash from operations was \$2.8 million from \$4.3 million in cash earnings and a \$1.5 million increase in working capital. Cash used in investing was \$13.5 million consisting of \$12.9 million to pay for the acquisition of Macro Integration and \$546,000 in capital expenditures. Cash from financing was \$6.7 million consisting of \$6 million in net borrowings (after repayments). Cash decreased by \$4 million to \$3.6 million at September 30, 2023.

Liquidity - As of September 30, 2023, the company had cash of \$3.6 million, \$6.6 million of debt (\$1 million was short-term, and shareholder's equity of \$19.7 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 September 30, 2023 the interest rate was 7.9%. As of September 30, 2023, the company had \$8.2 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 7.9% at September 30, 2023. The note matures March 31, 2028. During 2Q23 and 3Q23, the company repaid \$4 million on the line of credit.

At September 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 September 30, 2023, the company had approximately \$100,000 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 one customer who represented 18% of its net sales in 9M23 compared to one customer accounting for 18% 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.

Shareholder Control

DPSI’s officers and directors (includes Michael Taglich President of Taglich Brothers, Inc. as a director of DPSI) owns or has a controlling interest of approximately 23.1% of the outstanding voting stock as of the company’s November 2023 proxy filing. One shareholder Robert Taglich (Managing Director of Taglich Brothers, Inc.) owns or has a controlling interest of 6.3% of the company’s outstanding voting stock. Significant ownership interests could potentially influence the outcome of matters requiring stockholder approval, which decisions may or may not be in the best interests of the other shareholders.

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 5.7 million shares in the float and the average daily volume (over the last three month to November 24, 2023) was approximately 12,100 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.

DecisionPoint Systems, Inc.

Consolidated Balance Sheets
(in thousands \$)

	2020A	2021A	2022A	3Q23A	2023E	2024E
Cash	2,005	2,587	7,642	3,645	5,045	3,669
Accounts receivable	16,438	12,302	17,085	18,939	18,648	18,715
Inventory	884	2,111	4,417	3,002	3,798	4,436
Deferred costs	1,744	1,998	2,729	3,443	3,400	3,000
Prepaid expenses and other	67	336	399	259	400	425
Total current assets	21,138	19,334	32,272	29,288	31,292	30,245
Operating lease assets	583	329	2,681	3,586	3,586	3,778
Property and equipment, net	751	834	1,817	2,980	2,975	2,890
Deferred costs	2,097	1,492	2,868	3,365	3,365	2,744
Deferred tax assets	1,973	1,999	848	-	-	-
Intangible assets	4,663	3,564	4,531	8,404	7,900	5,900
Goodwill	8,128	8,128	10,499	24,555	24,555	24,555
Other assets	22	50	41	140	140	140
Total assets	39,355	35,730	55,557	72,318	73,813	70,252
Accounts payable	12,852	10,273	19,755	12,848	13,462	13,696
Accrued expenses and other	2,807	3,220	5,357	5,826	5,595	7,919
Deferred revenue	4,617	4,599	6,021	6,886	7,500	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	870	866	866
Total current liabilities	21,777	18,352	31,665	32,953	33,945	37,300
Deferred revenue	3,140	2,510	4,331	4,845	5,000	8,000
Deferred tax liabilities	-	-	-	1,451	1,451	1,451
Earnout consideration	-	-	-	4,316	4,316	-
Long-term debt - includes promissory note and credit facility	1,361	146	143	5,693	4,946	2,446
Operating lease liabilities	340	83	2,706	3,315	3,516	3,516
Other	873	381	130	6	6	6
Total liabilities	27,491	21,472	38,975	52,579	53,180	52,719
Total stockholders' equity (deficit)	11,864	14,258	16,582	19,739	20,633	17,533
Total liabilities & stockholders' equity	39,355	35,730	55,557	72,318	73,813	70,252

Source: Company filings, Taglich Brothers' estimates

DecisionPoint Systems, Inc.

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

	2020A	2021A	2022A	2023E	2024E
Product sales, includes consumables	50,673	50,480	79,079	72,348	69,750
Service sales	12,687	15,463	18,336	39,543	48,450
Net sales	63,360	65,943	97,415	111,891	118,200
Cost of product sales	40,129	39,943	62,214	58,280	55,800
Cost of service sales	8,413	10,696	12,106	25,275	30,700
Cost of sales	48,542	50,639	74,320	83,555	86,500
Gross profit	14,818	15,304	23,095	28,336	31,700
Sales and marketing	5,587	7,354	9,218	9,313	10,275
General and administrative	5,203	7,552	9,430	14,118	15,545
Total operating expenses	10,790	14,906	18,648	23,431	25,820
Operating income (loss)	4,028	398	4,447	4,905	5,880
Other income (expense)	213	1,211	(56)	24	-
Interest (expense) income	(319)	(79)	(15)	(535)	(360)
Income (loss) before taxes	3,922	1,530	4,376	4,394	5,520
Income taxes / (benefit)	1,061	116	1,265	1,135	1,435
Net income (loss)	2,861	1,414	3,111	3,259	4,085
EPS	0.37	0.19	0.41	0.42	0.52
Shares Outstanding	7,811	7,593	7,562	7,839	7,834
EBITDA	5,129	2,996	6,856	7,882	8,680
Adjusted EBITDA	5,003	3,117	7,845	8,953	9,280
<u>Margin Analysis</u>					
Gross margin - product	20.8%	20.9%	21.3%	19.4%	20.0%
Gross margin - service	33.7%	30.8%	34.0%	36.1%	36.6%
Gross margin	23.4%	23.2%	23.7%	25.3%	26.8%
Sales and marketing	8.8%	11.2%	9.5%	8.3%	8.7%
General and administrative	8.2%	11.5%	9.7%	12.6%	13.2%
Operating margin	6.4%	0.6%	4.6%	4.4%	5.0%
Net margin	4.5%	2.1%	3.2%	2.9%	3.5%
Tax rate	27.1%	7.6%	28.9%	25.8%	26.0%
<u>Year / Year Growth</u>					
Total Revenues	44.4%	4.1%	47.7%	14.9%	5.6%
Product sales	58.4%	(0.4)%	56.7%	(8.5)%	(3.6)%
Service sales	6.6%	21.9%	18.6%	115.7%	22.5%

Source: Company filings, Taglich Brothers' estimates

DecisionPoint Systems, Inc.

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

	<u>1Q22A</u>	<u>2Q22A</u>	<u>3Q22A</u>	<u>4Q22A</u>	<u>2022A</u>	<u>1Q23A</u>	<u>2Q23A</u>	<u>3Q23A</u>	<u>4Q23E</u>	2023E	<u>1Q24E</u>	<u>2Q24E</u>	<u>3Q24E</u>	<u>4Q24E</u>	2024E
Product sales, includes consumables	15,580	22,692	20,988	19,819	79,079	22,166	19,746	15,436	15,000	72,348	14,800	17,900	19,000	18,050	69,750
Service sales	4,141	4,814	4,725	4,656	18,336	4,873	11,166	11,704	11,800	39,543	11,050	11,900	12,500	13,000	48,450
Net sales	19,721	27,506	25,713	24,475	97,415	27,039	30,912	27,140	26,800	111,891	25,850	29,800	31,500	31,050	118,200
Cost of product sales	12,422	17,869	16,923	15,000	62,214	17,885	15,980	12,340	12,075	58,280	11,840	14,320	15,200	14,440	55,800
Cost of service sales	2,625	3,310	3,036	3,135	12,106	3,104	7,184	7,317	7,670	25,275	7,050	7,500	7,850	8,300	30,700
Cost of sales	15,047	21,179	19,959	18,135	74,320	20,989	23,164	19,657	19,745	83,555	18,890	21,820	23,050	22,740	86,500
Gross profit	4,674	6,327	5,754	6,340	23,095	6,050	7,748	7,483	7,055	28,336	6,960	7,980	8,450	8,310	31,700
Sales and marketing	2,175	2,384	2,291	2,368	9,218	2,368	2,491	2,129	2,325	9,313	2,425	2,500	2,650	2,700	10,275
General and administrative	2,261	1,960	1,936	3,273	9,430	2,494	3,911	3,838	3,875	14,118	3,835	3,885	3,900	3,925	15,545
Total operating expenses	4,436	4,344	4,227	5,641	18,648	4,862	6,402	5,967	6,200	23,431	6,260	6,385	6,550	6,625	25,820
Operating income (loss)	238	1,983	1,527	699	4,447	1,188	1,346	1,516	855	4,905	700	1,595	1,900	1,685	5,880
Other income (expense)	4	(21)	-	(39)	(56)	-	9	15	-	24	-	-	-	-	-
Interest (expense) income	(25)	(9)	(7)	26	(15)	(13)	(210)	(162)	(150)	(535)	(115)	(110)	(85)	(50)	(360)
Income (loss) before taxes	217	1,953	1,520	686	4,376	1,175	1,145	1,369	705	4,394	585	1,485	1,815	1,635	5,520
Income taxes / (benefit)	(637)	1,232	409	261	1,265	309	310	316	200	1,135	150	385	475	425	1,435
Net income (loss)	854	721	1,111	425	3,111	866	835	1,053	505	3,259	435	1,100	1,340	1,210	4,085
EPS	0.11	0.09	0.15	0.06	0.41	0.11	0.11	0.13	0.06	0.42	0.06	0.14	0.17	0.15	0.52
Shares Outstanding	7,664	7,691	7,593	7,691	7,562	7,789	7,935	7,812	7,820	7,839	7,825	7,830	7,835	7,845	7,834
EBITDA					6,856					7,882					8,680
Adjusted EBITDA	1,096				7,845	2,169	2,471	2,333	1,980	8,953	1,550	2,445	2,750	2,535	9,280
<u>Margin Analysis</u>															
Gross margin - product	20.3%	21.3%	19.4%	24.3%	21.3%	19.3%	19.1%	20.1%	19.5%	19.4%	20.0%	20.0%	20.0%	20.0%	20.0%
Gross margin - service	36.6%	31.2%	35.7%	32.7%	34.0%	36.3%	35.7%	37.5%	35.0%	36.1%	36.2%	37.0%	37.2%	36.2%	36.6%
Gross margin	23.7%	23.0%	22.4%	25.9%	23.7%	22.4%	25.1%	27.6%	26.3%	25.3%	26.9%	26.8%	26.8%	26.8%	26.8%
Sales and marketing	11.0%	8.7%	8.9%	9.7%	9.5%	8.8%	8.1%	7.8%	8.7%	8.3%	9.4%	8.4%	8.4%	8.7%	8.7%
General and administrative	11.5%	7.1%	7.5%	13.4%	9.7%	9.2%	12.7%	14.1%	14.5%	12.6%	14.8%	13.0%	12.4%	12.6%	13.2%
Operating margin	1.2%	7.2%	5.9%	2.9%	4.6%	4%	4.4%	5.6%	3.2%	4.4%	2.7%	5.4%	6.0%	5.4%	5.0%
Net margin	4.3%	2.6%	4.3%	1.7%	3.2%	3.2%	2.7%	3.9%	1.9%	2.9%	1.7%	3.7%	4.3%	3.9%	3.5%
Tax rate	NMF	63.1%	26.9%	38.0%	28.9%	26.3%	27.1%	26.5%	28.4%	25.8%	25.6%	25.9%	26.2%	26.0%	26.0%
<u>Year / Year Growth</u>															
Total Revenues	22.7%	81.3%	41.1%	48.5%	47.7%	37.1%	12.4%	5.5%	9.5%	14.9%	(4.4)%	(3.6)%	16.1%	15.9%	5.6%
Product sales	30.6%	96.1%	46.3%	56.9%	56.7%	42.3%	(13.0)%	(26.5)%	(24.3)%	(8.5)%	(33.2)%	(9.3)%	23.1%	20.3%	(3.6)%
Service sales	(0.1)%	33.9%	22.1%	21.0%	18.6%	17.7%	131.9%	147.7%	153.4%	115.7%	126.8%	6.6%	6.8%	10.2%	22.5%

Source: Company filings, Taglich Brothers' estimates

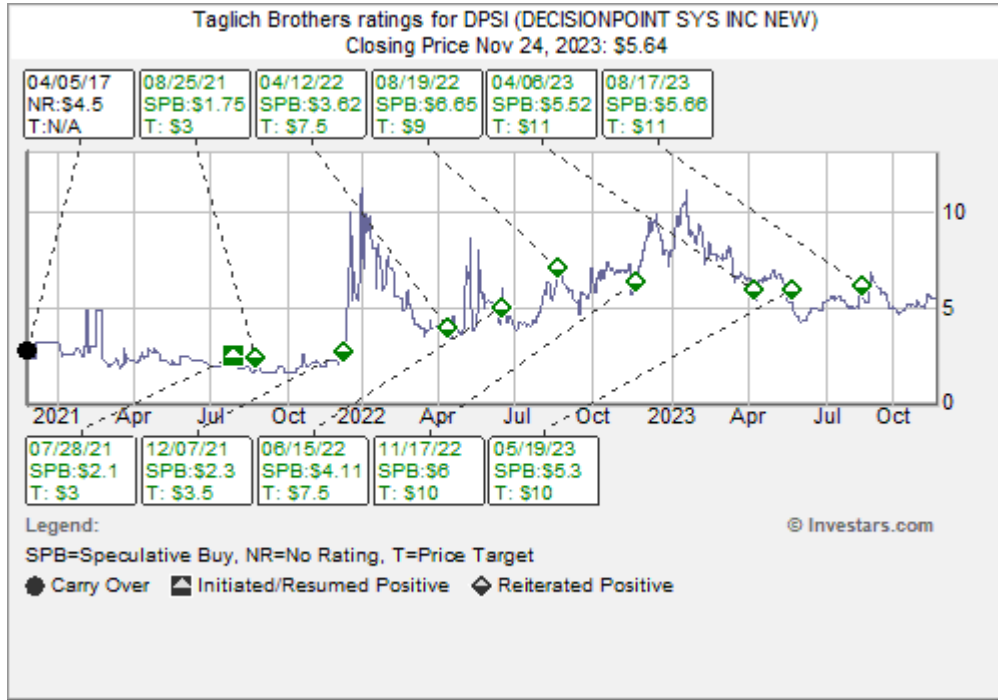
DecisionPoint Systems, Inc.

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

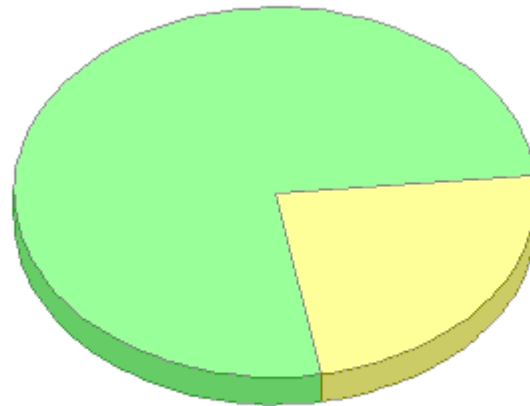
	2020A	2021A	2022A	9M23A	2023E	2024E
Net income (loss)	2,861	1,414	3,111	2,755	3,259	4,085
Depreciation & amortization	888	1,387	2,465	2,028	2,953	2,800
Loss on fixed asset disposal	-	-	22	120	120	-
Gain on extinguishment of debt	-	(1,211)	-	-	-	-
Amortization of deferred financing costs and inventory valuation	157	24	-	-	-	-
Share-based compensation	87	1,003	577	261	450	525
Acquisition earn-out adjustment	-	(187)	-	-	-	-
Deferred taxes	686	(26)	254	(958)	(958)	-
Provision for doubtful accounts and inventory obsolescence	25	-	249	84	100	200
Cash earnings (loss)	4,704	2,404	6,678	4,290	5,924	7,610
<i>Changes in assets and liabilities</i>						
Accounts receivable	(5,853)	4,136	(3,630)	8,193	(1,563)	(66)
Inventory	2,945	(1,227)	(2,177)	3,918	619	(638)
Deferred costs	(382)	351	(1,984)	(1,211)	(1,168)	1,021
Prepaid expenses and other	254	(294)	(54)	196	(1)	(25)
Other assets	(8)	(28)	-	-	(99)	-
Accounts payable	585	(2,579)	8,924	(9,716)	(6,293)	234
Accrued expenses and other	294	277	914	(3,054)	248	248
Due to related parties	(90)	(34)	-	-	5,520	(5,520)
Operating lease liabilities	6	(7)	543	(68)	-	-
Deferred revenue	1,738	(648)	3,095	235	2,148	5,000
(Increase) decrease in working capital	(511)	(53)	5,631	(1,507)	(590)	254
Net cash provided by (used in) operations	4,193	2,352	12,309	2,783	5,334	7,864
Purchases of property and equipment	(93)	(371)	(1,477)	(546)	(1,000)	(1,250)
Cash paid for acquisitions	(3,409)	(170)	(4,525)	(12,917)	(12,917)	-
Net cash provided by (used in) investing	(3,502)	(541)	(6,002)	(13,463)	(13,917)	(1,250)
Repayment of term debt	(646)	-	(3)	(253)	(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)	-	1,803	1,803	-
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)	(67)	(67)	-
Proceeds from exercise of warrants and stock options	-	2	154	200	250	30
Net cash provided by (used in) Financing	(1,309)	(1,229)	(1,252)	6,683	5,986	(7,990)
Net change in cash	(618)	582	5,055	(3,997)	(2,597)	(1,376)
Cash - beginning of period	2,620	2,002	2,587	7,642	7,642	5,045
Cash - end of period	2,002	2,587	7,642	3,645	5,045	3,669

Source: Company filings, Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



76.47 % Buy | 23.53 % Hold

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	11
Hold		
Sell		
Not Rated		

Important Disclosures

As of November 24, 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 23,000 shares of DPSI common stock, and 78,778 warrants to acquire shares of DPSI common stock (at the transfer agent). Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 410,993 shares of DPSI common and restricted common stock, and 78,778 warrants to acquire shares of DPSI common stock (at the transfer agent). 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 14,000 shares of DPSI common stock, and warrants to acquire 17,152 shares of DPSI common stock (at the transfer agent). 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 (at the transfer agent). 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 16,387 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.