Zacks Small-Cap Research

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DecisionPoint Systems Inc. (DNPI-OTC)

DNPI: Mobile Bar Code is Soaring - OUTPERFORM

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	03/03/2011
Current Price (04/09/11)	$0.39
Six- Month Target Price	**$2.00**

OUTLOOK

DecisionPoint designs, sells, installs and services voice and data communications products and systems for private networks and wireless broadband systems to a wide range of enterprise markets, including retail, transportation and logistics, manufacturing, wholesale and distribution. The combination of its blue chip portfolio of customers as well as the reverse merger combination that should close in the second quarter of 2011 has the firm projecting the top-line to nearly double to $100 million. We see value in the shares.

SUMMARY DATA

52-Week High	**$0.55**
52-Week Low	**$0.03**
One-Year Return (%)	**670**
Beta	**N/A**
Average Daily Volume (sh)	**57,773**
Shares Outstanding (mil)	**31**
Market Capitalization ($mil)	**$12**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**20**
Insider Ownership (%)	**60**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**31**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2010 Estimate	**N/A**
P/E using 2011 Estimate	**5.5**
Zacks Rank	**3**

Risk Level	**HIGH**
Type of Stock	**GROWTH**
Industry	**Business Software**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2009	$11.6 A	$12.0 A	$11.5 A	$13.1 A	$48.3 A
2010	$11.1 A	$13.3 A	$16.4 A	$15.5 A	$56.3 A
2011	$14.5 E	$16.5 E	$18.5 E	$18.5 E	$68.0 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2009	-$0.08 A	$0.00 A	$0.01 A	$0.04 A	$0.02 A
2010	-$0.05 A	-$0.04 A	$0.00 A	$0.00 A	-$0.09 A
2011	$0.00 E	$0.01 E	$0.02 E	$0.04 E	$0.07 E

Zacks Projected EPS Growth Rate - Next 5 Years % **15**

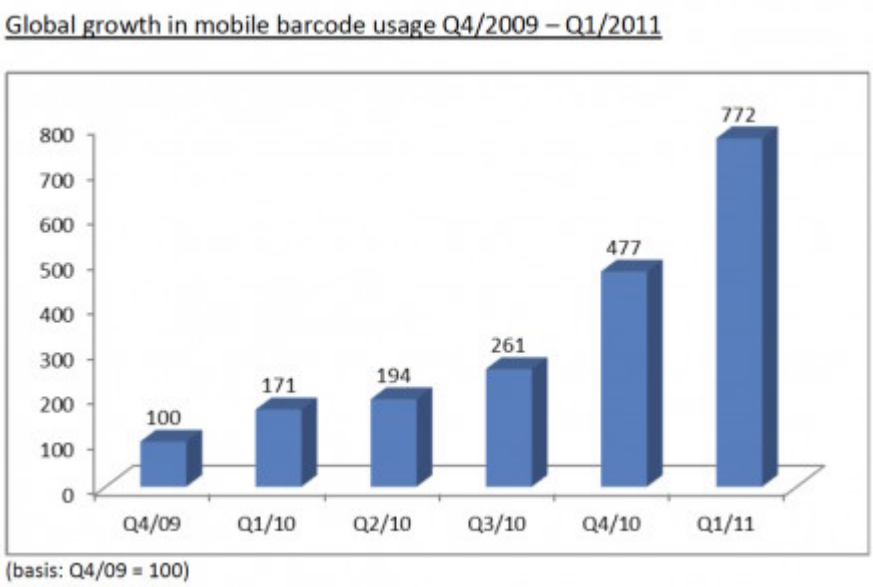
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OVERVIEW

Growth in Mobile Bar Code is Soaring.
Over the past several years several of the key technologies in the mobile computing industry have matured and improved. This has allowed the bar code industry to naturally grow from printed bar codes to bar codes on mobile devices or mobile bar codes. The growth in this segment is significant and the numbers bear that out.

- The number of bar code scans around the world in Q1 2011 is 61.9% higher than it was during the same period last year.

- The world leader in bar code scans, the USA, saw growth of 181.1% this quarter compared to Q4 last year and 630% over Q1 2010.



Sources: Motorola, 3GVision.

Printed Versus Mobile Bar Codes
Unlike printed bar codes that reflect and absorb light, mobile bar codes displayed on an LCD actively emit light. Because mobile bar codes emit rather than reflect light, readers based on imaging technology are usually required. Problems associated with mobile phone features can also arise when moving from printed bar codes to mobile bar codes. Technology in the cell such as such as backlighting, pixel size, and screen size must be addressed when designing and rendering the bar code.

The Next Growth Leg: Marketing
Brands, agencies and traditional media have been using mobile bar codes as coupons and as effective means of passing product information in-store, bringing static ads to life and engaging with customers through contests or loyalty reward systems. There is a long list of brands experimenting with mobile codes, but there is also a list of challenges they have to face in order to interact with customers in innovative and effective ways.

Vertical Markets Shifting

Historically the company's largest vertical markets were retail, warehousing, and manufacturing. This is intuitive since each had a large amount of goods in motion which needed to be tracked. While these markets are still attractive to DecisionPoint, new markets have emerged such as Transportation and logistics, and field services such as repair and maintenance, and delivery and inspections. This new group of markets, which cuts across multiple industries and business applications, is referred to as "Field Mobility." Meaning goods or services are being tracked by field based workforces rather than workers at a single location.

DecisionPoint Mobile Point of Sale Solution Functionality

Credit card transaction/batch processing

Queue/line busting

Cross-sell and up-sell

Real-time product look-ups

Check inventory availability

Bar code scanning

Coupon processing

Voiding

Leverage existing POS business rules

Benefits

Reduce "perceived" wait time for checkout

Minimize lost sales due to line abandonment

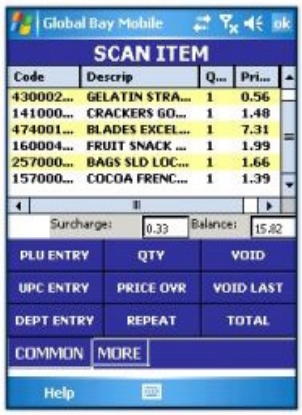
Increase conversion and reduce checkout at front of store

Increase satisfaction and allow checkout anywhere in store

Create a modern store by providing mobile innovation

Capture information to boost marketing (ex: email addresses)





DecisionPoint remains well positioned to achieve solid revenue growth and operating leverage given the trend toward to mobile communications with machines that communicate from the field. We feel the company's competitive advantage is twofold. It connects a growing number of businesses beyond traditional industries as well as incorporating higher margin services beyond being a reseller.

We value the company based on the average of our P/E multiple (28.5x 2011 estimated EPS) and our two stage intrinsic model.

The intrinsic value is essentially a sum of the company's future earnings, minus any long-term debt. Dividing the intrinsic value by the number of shares outstanding yields an intrinsic stock price. We used the following inputs:

- A 10-year period with an earnings growth rate of 12.0% (average forecast) and a discount rate of 10%.

- A continuing period assumed to go on forever, with earnings growing at 6% and a discount rate of 12%.

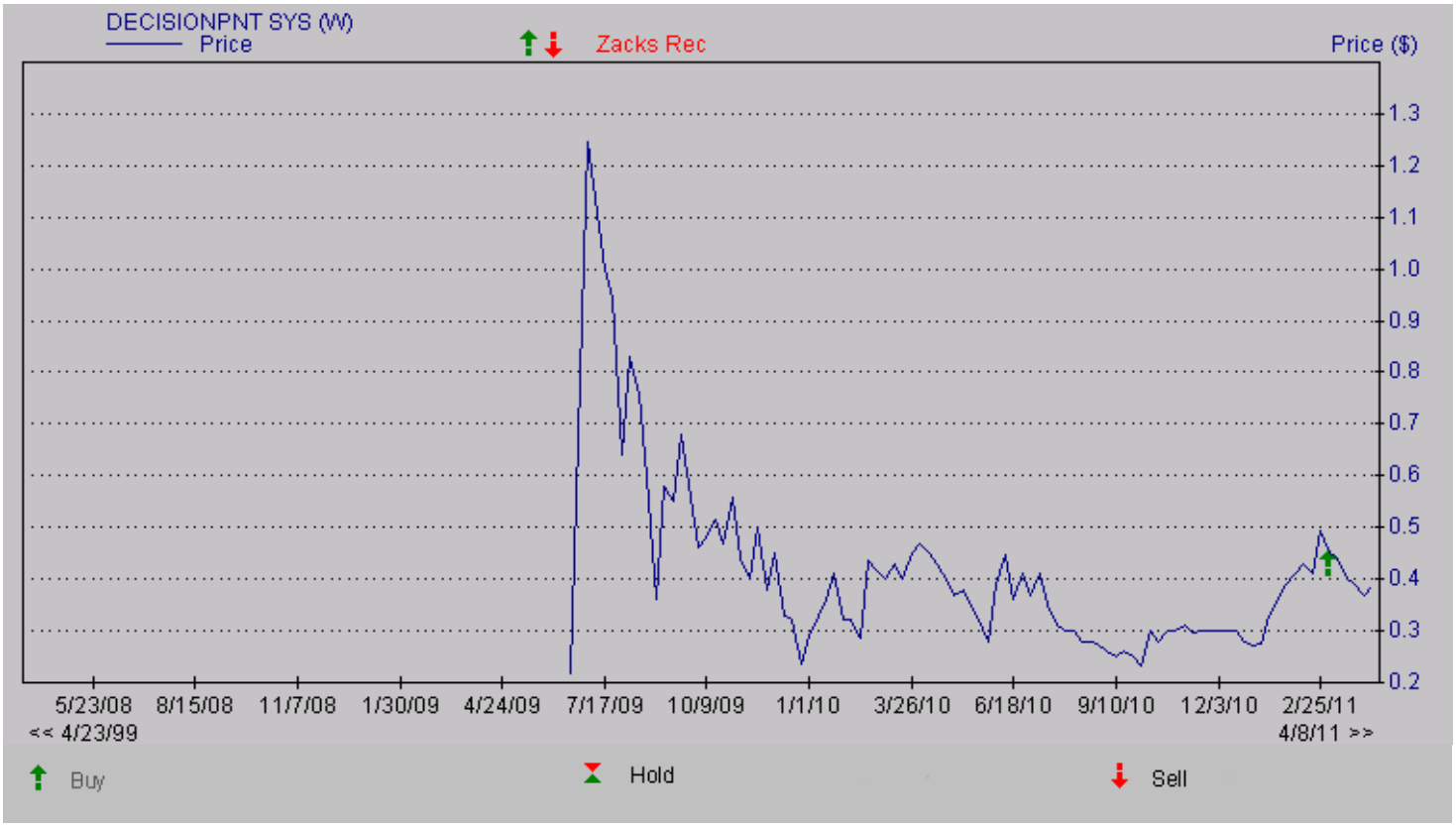
With these inputs we arrive at a target price of $2.00.

PROJECTED INCOME STATEMENT

INCOME STATEMENT ($ Millions)	Dec-09 Q4 09	Mar-09 Q1 10	Jun-10 Q2 10	Sep-10 Q3 10	Dec-10 Q4 10	Mar-11 Q1 11 E	FY 2008	FY 2009	FY 2010 E	FY 2011 E
REVENUE										
Net Revenue	**13.08**	**11.07**	**13.29**	**16.4**	**15.5**	**14.5**	**53.31**	**48.31**	**56.24**	**68.00**
Sequential Growth		*-15%*	*20%*	*23%*	*-6%*	*-6%*				
OPERATING EXPENSES										
Cost of Revenues	10.07	9.04	10.76	13.46	12.13	11.50	43.21	38.57	45.39	54.1
% of Revenue	*77.0%*	*81.6%*	*81.0%*	*82.0%*	*78.4%*	*79.3%*				
Gross Profit -	**3.01**	**2.04**	**2.53**	**3.0**	**3.3**	**3.0**	**10.10**	**9.74**	**10.9**	**13.9**
Proforma Gross Margin	*23.0%*	*18.4%*	*19.0%*	*18.0%*	*21.6%*	*20.7%*	*18.9%*	*20.2%*	*19.3%*	*20.5%*
R&D + Engg	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.0	0.0	0.0
% of Revenue	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
SG&A	2.06	2.44	2.48	2.47	2.23	2.25	9.15	7.97	9.61	10.70
% of Revenue	*15.7%*	*22.0%*	*18.7%*	*15.0%*	*14.4%*	*15.5%*	*17.2%*	*16.5%*	*17.1%*	*15.7%*
GW Amort, Restructuring, other	-	-	-	-	-	-	-	-	-	-
% of Revenue										
Total Operating Expenses	2.06	2.44	2.48	2.47	2.23	2.25	9.15	7.97	9.61	10.70
% of Revenue	*15.7%*	*22.0%*	*18.7%*	*15.0%*	*14.4%*	*15.5%*	*17.2%*	*16.5%*	*17%*	*16%*
Operating Income -	**0.96**	**-0.40**	**0.04**	**0.5**	**1.1**	**0.8**	**0.95**	**1.78**	**1**	**3**
Operating Margin	*7.3%*	*-3.6%*	*0.3%*	*2.9%*	*7.2%*	*5.2%*	*2%*	*4%*	*2%*	*5%*
NON-OPERATING ITEMS										
Non operating Income/Expense	-0.3	-0.8	-0.9	-1	-1	-1	(1.88)	-1.4	-3.37	-1
% of Revenue	*-2.21%*	*-7.14%*	*-6.63%*	*-3.42%*	*-7.37%*	*-6.90%*	*-3.53%*	*-2.81%*	*-6.00%*	*-1.03%*
Tax Provision	0.0	0.0	0.0	0.0	0.0	0.0	-0.046	0.071	0.079	0.300
Effective Tax Rate										
Net Income -	**0.62**	**-1.23**	**-0.85**	**-0.10**	**-0.03**	**-0.25**	**(0.89)**	**0.35**	**-2.2**	**2.2**
Net Income Margin	*4.7%*	*-11.1%*	*-6.4%*	*-0.6%*	*-0.2%*	*-1.7%*	*-1.7%*	*0.7%*	*-4%*	*3%*
EARNINGS PER SHARE										
EPS - Basic	$0.04	-$0.05	-$0.04	$0.00	$0.00	$0.00	-$0.18	$0.02	-$0.09	$0.07
EPS - Diluted	$0.04	-$0.05	-$0.04	$0.00	$0.00	$0.00	-$0.18	$0.02	-$0.09	$0.07

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