Zacks Small-Cap Research

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DecisionPoint Systems Inc. (DNPI-OTC)

DNPI: Zacks Company Report - OUTPERFORM

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	03/03/2011
Current Price (03/07/11)	$0.45
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 first quarter of 2011 has the firm projecting the top-line to nearly double to $100 million. We see value in the shares and initiate our outperform rating.

SUMMARY DATA

52-Week High	**$0.58**
52-Week Low	**$0.23**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**57,773**
Shares Outstanding (mil)	**37**
Market Capitalization ($mil)	**$17**
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	**6.4**
Zacks Rank	**N/A**

Risk Level	**N/A,**
Type of Stock	**N/A**
Industry	**Business Softwa**
Zacks Rank in Industry	**N/A**

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	$16.0 E	$57.8 E
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 E	-$0.09 E
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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KEY POINTS

- The mobile computing industry has matured and this has opened the firm up to new vertical markets.
- DecisionPoint has been repositioning itself to focus more on providing higher margin, customer-driven, mobile wireless and RFID solutions.
- Within the commercial enterprise market, there continues to be long-term opportunity for growth as the global workforce continues to become more mobile.
- The firm recently closed a deal with CMAC, which is a logistics consulting and systems integration provider headquartered in Alpharetta, Georgia. The purchase price was $3.15 million
- The Firms reverse merger agreement with Comamtech is on pace to close in the first quarter of 2011. This should build balance sheet strength as well as

OVERVIEW

DecisionPoint delivers to its customers the ability to make better, faster, and more accurate business decisions by implementing industry-specific, enterprise wireless and mobile computing systems for their front-line employees. It is these systems which provide the information to improve the hundreds of individual business decisions made each day. The "productivity paradox" is that the information remains locked away in their organization's enterprise computing system, accessible only when employees are at their desk. DecisionPoint solves this productivity issue. The result for its customers is they are able to move their business decision points closer to their own customers whom in turn, drive their own improved productivity and operational efficiencies.

DecisionPoint does this by providing customers with everything they need through the process of achieving their enterprise mobility goals starting with the planning of their systems, to the design and build stage, to the deployment and support stage, and finally to achieving their projected Return On Investment ("ROI"). DecisionPoint's business 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, as well as other commercial customers (which are referred to as the "commercial enterprise market").

Target Markets

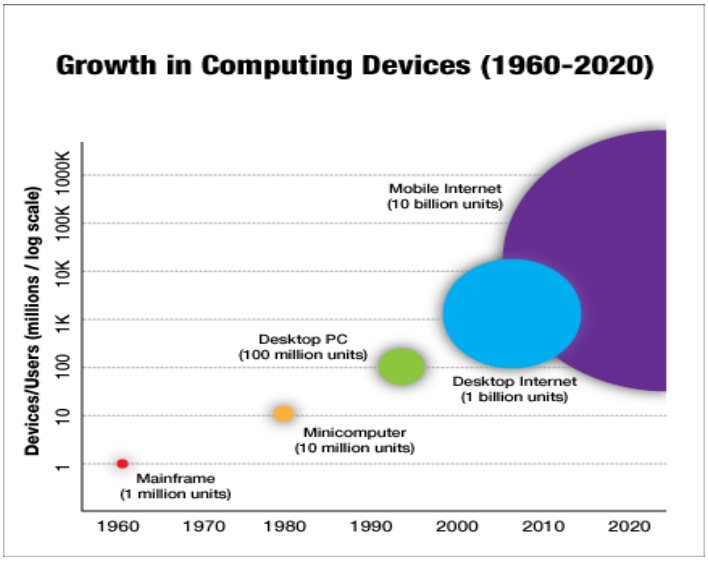
The markets for enterprise wireless and mobile computing are very fragmented while also being extremely complex in nature. But generally they can be characterized by the following attributes:

- Vertical market industries which require specific domain expertise. (Traditionally retail, warehousing, and manufacturing)

- Industries which track goods or deliver a service in the field (or both).
- Industries which have a significant group of mobile workers, whether they operate primarily in one place or in the field.

Backdrop of Growth

Over the past several years several of the key technologies in the mobile computing industry have matured and improved. Several key technologies have been standardized such as Windows mobile operating systems, Wifi wireless local area networks, and the building out of nationwide wireless data networks such as HSDPA technology and EVDO technology. DecisionPoint designs applications that tailor to that firm's specific industry. An example would be proof-of-Delivery (POD) system for couriers.



Rather than simply providing hardware and customized software the firm has been shifting its focus to providing higher margin consulting services along with customer driven mobile wireless and RFID solutions. This has the effect of increasing profitability and the acquisition of CMAC should help.

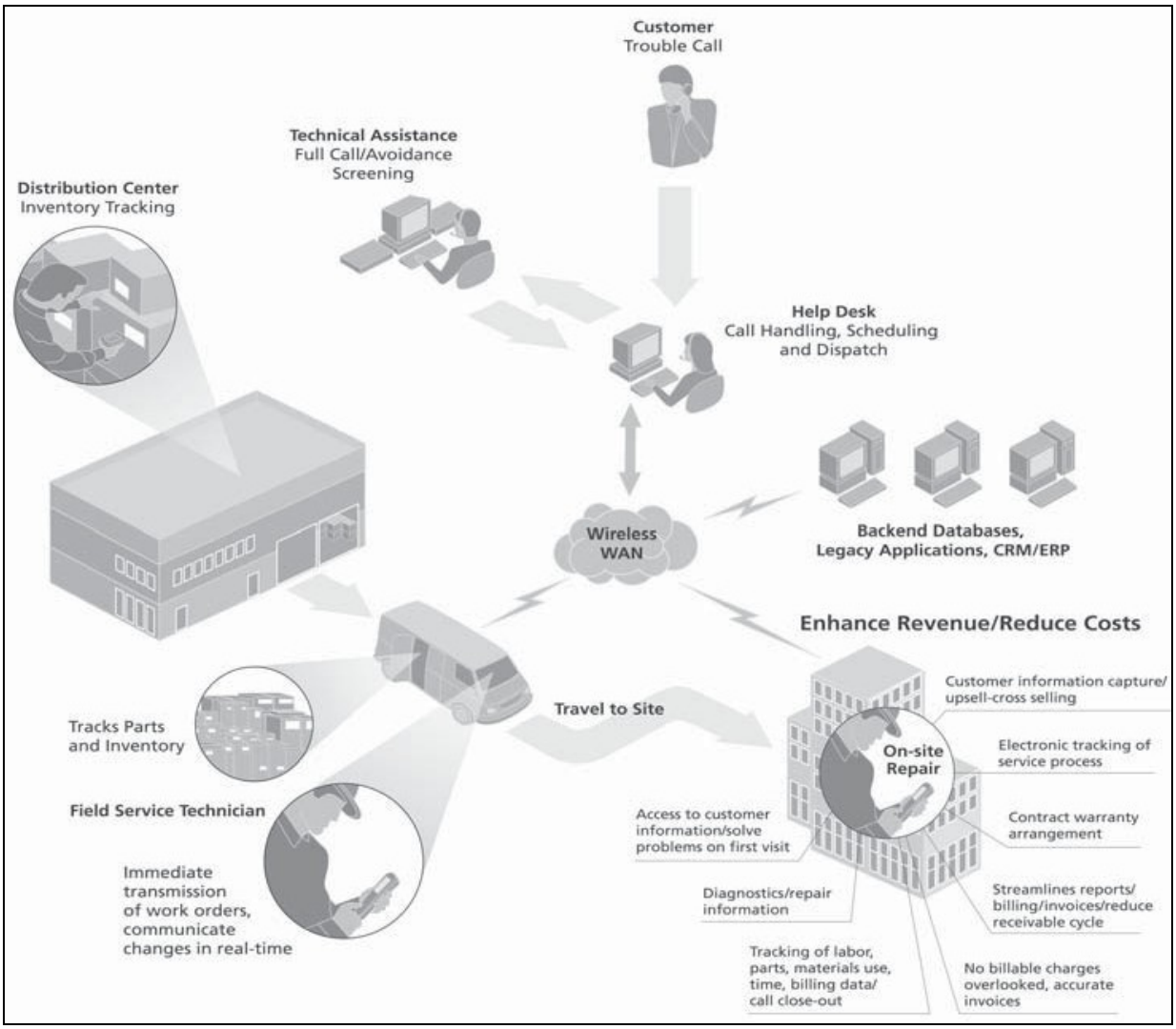
CMAC is a logistics consulting and systems integration provider headquartered in Alpharetta, Georgia. The purchase price of $3.15 million was paid 70% in cash and 30% in stock. The transaction is expected to be accretive to DecisionPoint's 2011 earnings by $0.02 to $0.03 per share fully-diluted. Management feels CMAC offers complementary services to similar end markets and is a good fit with DecisionPoint. Combining with CMAC will shift DecisionPoint's revenue mix more in favor of services and software, resulting in expected incremental gross margin expansion of 100 to 200 basis points in 2011. Further CMAC's strong presence in the Southeast complements geographic service presence in the U.S. to that important and fast growing region.

Vertical Markets Shifting

Historically the firm'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 DNPI, 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.

Example of Field Service Management (*Source Symbol Technologies White Paper)

In a day and age when service offerings have become a key competitive differentiator, mobile computing solutions deliver the power to change field service operations from a typical 'cost of doing business' to a strategic business unit that contributes heavily to the overall profitability of the company and a dramatic improvement in its competitive position.



Through a combination of technology such as bar code scanning, image capture devices, mobile handhelds and wireless networking, mobile computing solutions reveal a wealth of strategic information that can be used at all levels in a company—from the analysis of an individual services call to planning for a more effective field service operation and identification of repair patterns that can lead to uncovering unknown product weaknesses and better manufacturing. How much impact can a mobile computing solution have on a field service organization? One company shaved one hour of labor off of the workday for each of its 800 field service workers. The total 800 hours in labor savings daily translated into 200,000 hours per year (or 250 workdays). With an average fully loaded cost per hour of $100 per field worker, the company realized a savings of approximately $20 million per year, easily justifying the investment in mobile computing technology.

Professional Services
DecisionPoint's professional services offerings fall into one of three categories: business consulting, technical consulting and technical development. Business consulting is where DNNPI engage with the customer to help them understand the potential ROI of implementing mobile computing, or supply chain services as examples, for a particular business process. Technical consulting services help determine the technology to be used and how it is to be implemented. DNPI utilizes proven evaluation techniques, tools, and experience to recommend the optimal technology solution that provides organizational, operational, and systems improvements to its customers. The firm takes advantage of its database and assessment methodology to quickly identify viable solutions for client operations. Technical development includes actual software programming and configuration of the mobile computing, WMS and TMS application solutions as well as interface software needed to connect to customer's existing back-office systems.

Hardware
DecisionPoint's hardware reseller sales strategy is designed to avoid competing for hardware sales based solely on low cost provider status. Throughout the sales cycle, DecisionPoint is diligent to point out to a customer that hardware is only one component of the complete solution they are looking for. By bundling the software and services, mentioned above together with the hardware, DecisionPoint positions itself as the value-added solution provide and generally helps margins. This positioning differentiates DecisionPoint from the low-price, 'discount' hardware resellers who do not have this capability.

DecisionPoint offers the following types of enterprise wireless and mobile computing hardware on a cost competitive basis:

- Handheld and vehicle-mounted, ruggedized mobile computers
- 802.11 a/b/g wireless LAN ("Wi-Fi") infrastructure
- Mesh networking wireless infrastructure, such as the Motorola Canopy product line
- RFID tag readers and related infrastructure
- GPS receivers
- Two-way radios
- Handheld bar code scanners
- Bar code label and RFID tag printers and encoders.
- Ruggedized laptops for industrial environments.

Reverse Merger

On October 20th 2010 DNPI announced a merger agreement with Comamtech, the successor company of Copernic Inc. The firm intends to divest all of its operating businesses, resulting in $3.5 million cash and installment payments due of $5.5 to $6.0 million, or a total of $8.9 million of mainly cash and receivables which will be transferred into Comamtech; and currently outstanding shares of Copernic will be exchanged one-for-one for new publicly traded shares in Comamtech.

After the merger, the resulting legal entity will be named DecisionPoint Systems, Inc. and it is intended that the merged company will apply to have its common stock listed on the Nasdaq Capital Market. The entire management team of DecisionPoint will become the management team of the merged company,

On January 20th 2011 The Canadian court approved the solicitation of Comamtech shareholders for the purpose of voting on Comamtech's merger agreement with DecisionPoint. Comamtech's special shareholder meeting is expected to take place on February 18, 2011.

INDUSTRY OUTLOOK – Positive

The outlook for the software industry is positive. The last few quarters have shown signs of demand stabilization and cost cutting initiatives. While areas like enterprise resource planning systems, supply chain management software, and customer relationship management software have been hit hard by weak IT spending, other niches have held up relatively well. These include gaming, video editing and security software. Government spending also has been supportive to the software industry.

With several important software categories reaching maturity, top-line growth for the industry is likely to remain below historical levels, even after the industry recovers. Nevertheless, long-term growth prospects are still modestly above average. In addition, several of the group's top companies possess stellar fundamentals, including high profit margins, pristine balance sheets and cash flow well in excess of capital requirements.

According to market research firm Forrester Research, following a 2010 during which the US tech sector grew about twice as fast as the US economy, the 2011 outlook is for more of the same. Unfortunately, with the end of economic stimulus programs and a politically divided US government unlikely to provide another boost to the economy, US GDP will be hard-pressed to grow faster than 3% or so in real terms (4% or so in current dollars) in 2011. Nonetheless, the US tech industry will still grow about twice as fast as nominal GDP in 2011, at 7.4%, as investments in cloud and Smart Computing solutions provide the IT tools for companies to grow profits despite weak revenue increases. (The government market for IT will lag, though, as federal, state, and local governments struggle with high deficits.) The computer restocking and replacement boom that propelled the tech market in 2010 will slow to 5.9% growth in 2011, but software and IT consulting services will pick up the slack, with growth of 8.4% and 8.2%, respectively.

INDUSTRY POSITION

The business in which DecisionPoint operates in is highly competitive. Continued evolution in the industry, as well as technological migration, will continue to open up the market to increased competition. Key competitive factors associated with this business include: technology offered; price; availability of financing; product and system performance; product features, quality, availability and warranty; the quality and availability of service; company reputation; relationship with key customers and time-to-market.

DecisionPoint competes with other VAR's and system integrators/engineering organizations ("SI's") in system design, integration and maintenance arenas. However, as a Tier-1 reseller for major equipment vendors including Motorola and Zebra, we encounter fewer than ten competitive Tier-1 VARs and SIs representing these manufacturers in the marketplace.

DecisionPoint typically wins business from such competitors based on its turnkey software engineering skills and one-stop-shop technical capabilities. Recognizing DecisionPoint as a significant VAR within its universe of Tier-1 partners, Motorola has granted DecisionPoint variable pricing applicable to specific major customers. These price discounts give us an edge in the marketplace through greater margin flexibility. As a result, we do not typically lose contracts due to price sensitivity.

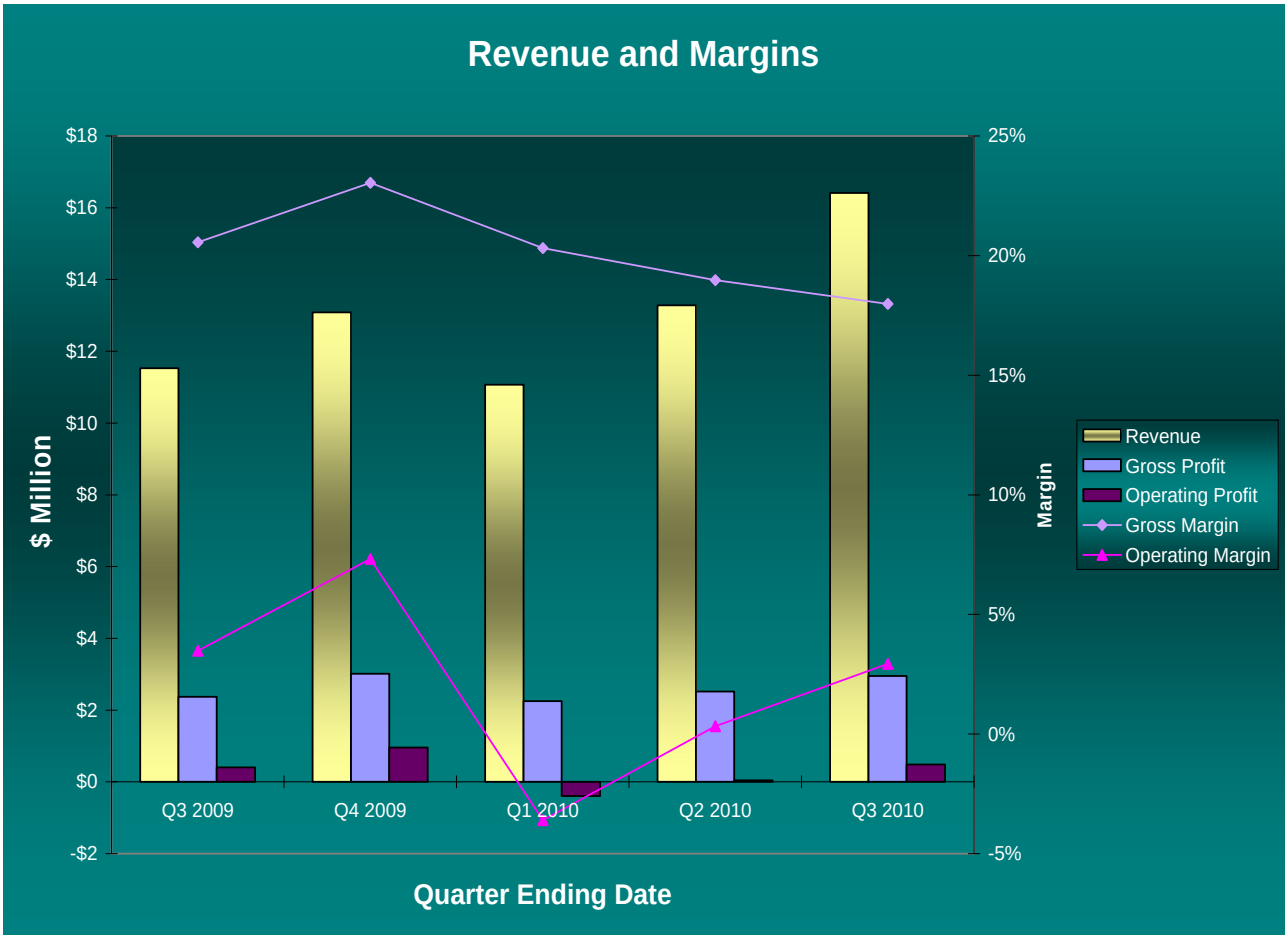
Large system integrators are seeking to move further into the segment that DNPI competes in. Competitors in this segment, may also serve as subcontractors to large system integrators and are selected based on a number of competitive factors and customer requirements.

The firm competes with the following public companies as well as several private firms such as Sedlak Management Consultants, Peak Technologies Inc., Catalyst International Inc., Stratix Inc., Miles Technologies Inc., Acis Inc., InfoLogix Inc., and Barcoding Inc.

Firm	Industry	Comment
Agilysys, Inc.	Computer	One divison
IBM	Computer/Various	Only one of several divisions dedicated.
Accenture plc	Consulting	Significant Resources

RECENT NEWS

On February 17th 2011 DNPI announced that the Silicon Valley Bank has renewed the company's credit line for two years. The company's credit facility now totals $13.0 million consisting of a $10.0 million line of credit and a $3.0 million term loan. The company's original 2010 credit facility of $8.5 million was increased to a total facility of $10.0 million in December, in order to provide funding for the acquisition of CMAC, Inc., which was completed on December 30, 2010.


Revenue and Margins
$18
$16
$14
$12
$10
$8
$6
$4
$2
$0
-$2
$ Million
25%
20%
15%
10%
5%
0%
-5%
Margin
Q3 2009
Q4 2009
Q1 2010
Q2 2010
Q3 2010
Quarter Ending Date
Revenue
Gross Profit
Operating Profit
Gross Margin
Operating Margin

VALUATION

DecisionPoint remains well positioned to achieve solid revenue growth and operating leverage given the trend toward to mobile communications with machines that communicate with one another. We feel the company's competitive advantage is two fold. 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.

RISKS

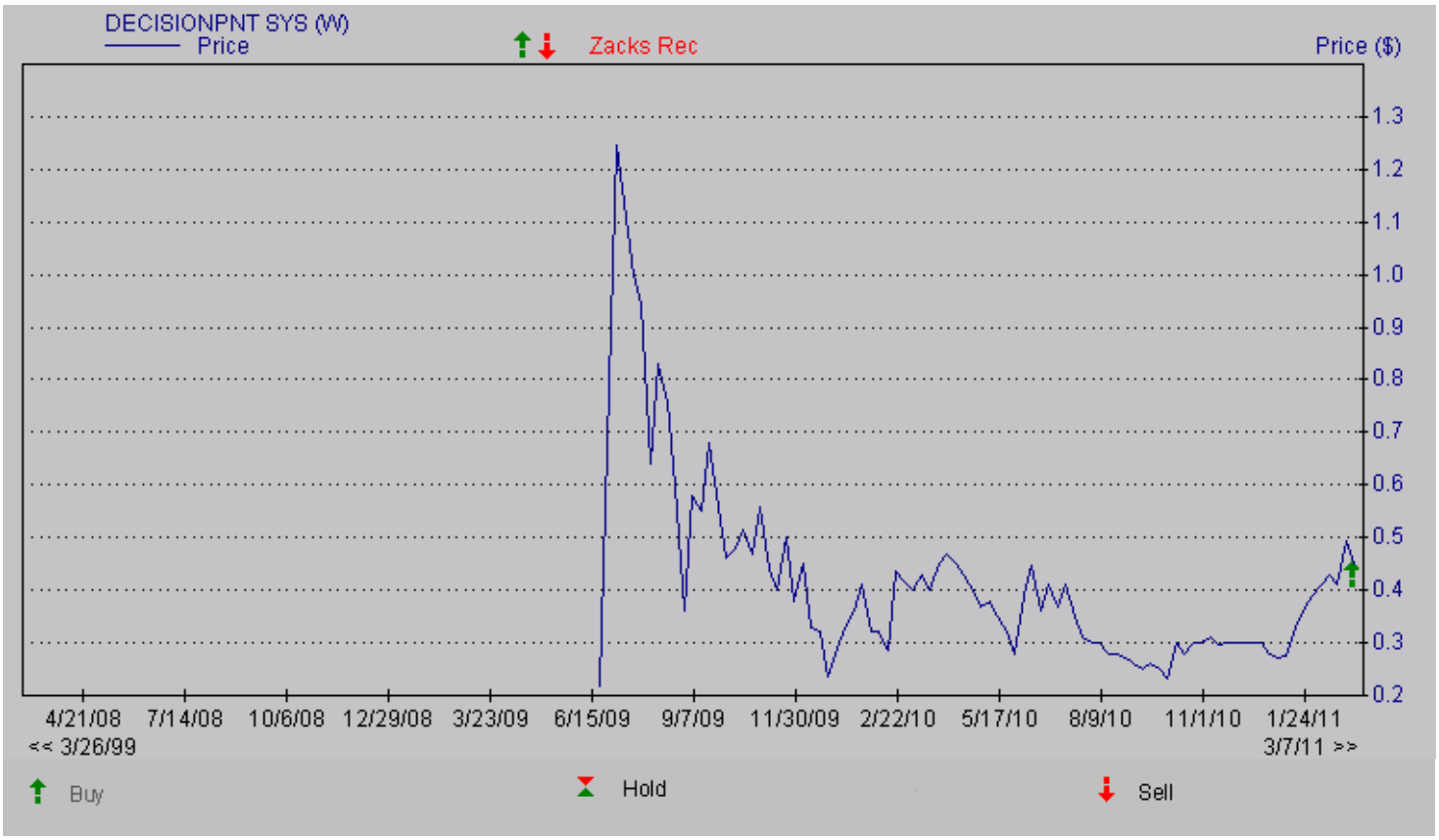
- A significant portion of the firm's revenue is dependent upon a small number of customers and the loss of any one of these customers would negatively impact operations.
- The prospect of a double dip recession or another lengthy downturn could impact the company.
- DecisionPoint face competition from numerous sources and competition may increase, leading to a decline in revenues.

PROJECTED INCOME STATEMENT & BALANCE SHEET

INCOME STATEMENT ($ Millions)	Sep-09 Q3 09	Dec-09 Q4 09	Mar-09 Q1 10	Jun-10 Q2 10	Sep-10 Q3 10	Dec-10 Q4 10 E	FY 2008	FY 2009	FY 2010 E	FY 2011 E
REVENUE										
Net Revenue	**11.53**	**13.08**	**11.07**	**13.29**	**16.4**	**16.0**	**53.31**	**48.31**	**56.77**	**68.00**
Sequential Growth		*13%*	*-15%*	*20%*	*23%*	*-2%*				
OPERATING EXPENSES										
Cost of Revenues	9.15	10.07	9.04	10.76	13.46	13.50	43.21	38.57	46.76	54.1
% of Revenue	*79.4%*	*77.0%*	*81.6%*	*81.0%*	*82.0%*	*84.4%*				
Gross Profit -	**2.4**	**3.01**	**2.04**	**2.53**	**3.0**	**2.5**	**10.10**	**9.74**	**10.0**	**13.9**
Proforma Gross Margin	*20.6%*	*23.0%*	*18.4%*	*19.0%*	*18.0%*	*15.6%*	*18.9%*	*20.2%*	*17.6%*	*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	1.98	2.06	2.44	2.48	2.47	2.55	9.15	7.97	9.94	10.70
% of Revenue	*17.1%*	*15.7%*	*22.0%*	*18.7%*	*15.0%*	*15.9%*	*17.2%*	*16.5%*	*17.5%*	*15.7%*
GW Amort, Restructuring, other	-	-	-	-	-	-	-	-	-	-
% of Revenue										
Total Operating Expenses	1.98	2.06	2.44	2.48	2.47	2.55	9.15	7.97	9.94	10.70
% of Revenue	*17.1%*	*15.7%*	*22.0%*	*18.7%*	*15.0%*	*15.9%*	*17.2%*	*16.5%*	*18%*	*16%*
Operating Income -	**0.40**	**0.96**	**-0.40**	**0.04**	**0.5**	**0.0**	**0.95**	**1.78**	**0**	**3**
Operating Margin	*3.5%*	*7.3%*	*-3.6%*	*0.3%*	*2.9%*	*-0.3%*	*2%*	*4%*	*0%*	*5%*
NON-OPERATING ITEMS										
Non operating Income/Expense	-0.3	-0.3	-0.8	-0.9	-1	-1	(1.88)	-1.4	-3	-1
% of Revenue	*-2.51%*	*-2.21%*	*-7.14%*	*-6.63%*	*-3.42%*	*-5.00%*	*-3.53%*	*-2.81%*	*-5.34%*	*-1.03%*
Tax Provision	-0.1	0.0	0.0	0.0	0.0	0.0	-0.05	0.1	0	0
Effective Tax Rate										
Net Income -	**0.17**	**0.62**	**-1.23**	**-0.85**	**-0.10**	**-0.87**	**(0.89)**	**0.35**	**-3.1**	**2.2**
Net Income Margin	*1.4%*	*4.7%*	*-11.1%*	*-6.4%*	*-0.6%*	*-5.5%*	*-1.7%*	*0.7%*	*-5%*	*3%*
EARNINGS PER SHARE										
EPS - Basic	$0.01	$0.04	-$0.05	-$0.04	$0.00	$0.00	-$0.18	$0.02	-$0.09	$0.07
EPS - Diluted	$0.01	$0.04	-$0.05	-$0.04	$0.00	$0.00	-$0.18	$0.02	-$0.09	$0.07

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HISTORICAL ZACKS RECOMMENDATIONS



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The current distribution of Zacks Ratings is as follows on the 1026 companies covered: Buy/Outperform- 15.6%, Hold/Neutral- 78.1%, Sell/Underperform – 5.5%. Data is as of midnight on the business day immediately prior to this publication.