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March 25, 2019

WidePoint Communications (NYSE/WYY)
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BUY Gov't Shutdown Over, 2019 Looks Strong
WidePoint Communications manages wireless devices for large government and corporate customers using a cloud SaaS model
Investment Highlights

1) **WidePoint recently reported excellent financial results for their Q4/2019, including revenues of \$24.8 million, up 24% from the prior year period, and adjusted EBITDA of positive \$1.0 million, compared with a positive EBIDTA of \$270,000 one year ago.** Revenue growth in the fourth quarter was led by new contracts signed in 2018 including contract extensions with the US Customs and Border Protection agency, Centers for Disease Control, US Coast Guard, Department of Defense and Department of Homeland Security. Results for the fourth quarter were also boosted by slightly improved gross margins, to 18.1% from 18.0% in the prior year, and lower operating expenses. In actuality, without a large income tax adjustment provision in the quarter, WidePoint Q4/2019 would have witnessed a net income of over \$730,000, or about \$0.01 per share. For the year, the company posted revenues of \$83.7 million, an increase of 10% year-over-year, after reporting decreasing revenues in the prior two years. Operating cash burn was approximately \$1.0 million in the quarter, due primarily to an increase in accounts receivable (stemming in part from the US Federal agency shutdown and the aforementioned income tax provision). At the end of the year the Company had \$2.4 million in cash, down from \$5.3 million at the start of the year, with no long-term debt.

2) **The Company also provided the financial outlook for their current 2019 year, including revenues between \$90.0-\$93.0 million, and adjusted EBITDA of \$1.9-\$2.0 million.** Thus, we are projecting that WidePoint will post revenues of \$92.5 million in 2019E, up 10.5% from 2018, a net loss of \$160,000 or (\$0.00) per share, and adjusted EDITDA of \$0.02 per share or \$1.96 million. Revenue growth in 2019 for WidePoint is expected to be led by new contracts and contract extensions, both in the federal (NASA, CBP, CDC, US Coast Guard) and commercial sectors. Our estimates for 2019E include gross margins of 17.9%, slightly below the 18.2%

Current Price \$0.45
Price Target \$1.00

Estimates	F2017A	F2018A	F2019E
Revenue(\$000s)	\$75,884	\$83,679	\$92,500 E
1Q March	18,612	20,080 A	
2Q June	18,881	17,544 A	
3Q September	18,464	21,294 A	
4Q December	19,928	24,761 A	
EPS	(\$0.04)	(\$0.02)	(\$0.00) E
1Q March	(0.01)	(0.01) A	
2Q June	(0.02)	(0.01) A	
3Q September	(0.00)	(0.00) A	
4Q December	(0.01)	(0.00) A	
P/E (x)	N/A	N/A	N/A

EBITDA/Share	(\$0.01)	\$0.02	\$0.02
EV/EBITDA (x)	N/A	N/A	N/A
Stock Data			
52-Week Range	\$0.40-\$0.66		
Shares Outstanding (mil.)	83.8		
Market Capitalization (mil.)	\$37.7		
Enterprise Value (mil.)	\$35.4		
Debt to Capital (12/18)	0.0%		
Book Value/Share (12/18)	\$0.29		
Price/Book	1.5 X		
Average Trading Volume (10-day)	237,000		
Insider Ownership	7.8%		
Institutional Ownership	24.0%		
Short interest	93,000		
Dividend / Yield	\$0.00/0.0%		



Price target and ratings changes over the past 3 years:
 Initiation - December 3, 2018 – Buy - Target \$1.00

Please find Important Disclosures beginning on Page 5.

achieved in 2018, and slightly higher operating expenses of \$16.6 million, or about 7% greater than the same expense items in 2018. The positive adjusted EBITDA forecast for the year, a good indication of operating cash flow, is expected to allow WidePoint adequate financial resources for expected growth.

3) Looking forward, WidePoint has weathered the recent federal government shutdown, which had little effect on the Company's short-term or long-term operations, and is poised to continue its growth as more opportunities present themselves. Key business development initiatives targeted by WidePoint for 2019 and beyond include next-generation product development and additional government/commercial certifications and authorizations, for example FedRAMP certification to move onto GovCloud, partnerships with large system integrators, for example the recent Leidos (LDOS, Not Rated)/NASA Nest collaborative agreement, new proposal/partnership opportunities overseas, and potential acquisitions. Among the Company's smaller competitors in certain distinct areas are telesoft, asentinel, Calero, DMI, Amdocs (DOX, Not rated), brite:bill, globys, Entrust Datacard, Xtec Systems, and IdenTrust, all of which offer products in only one of three service areas (Telecom Lifecycle Management, Telecom Bill Presentment & Analytics, or Identity Management), and could potentially benefit from a full suite of product offerings such as WidePoint's new Trusted Mobility Management (TM2). Also key for the Company will be contract renewal for its major contract through the Department of Homeland Security's Blanket Purchase Agreement, which expired in December 2018 and was extended through June 2019.

Conclusion/Stock Valuation

With a new management team, several recent new contracts and contract extensions signed, a solid, debt-free balance sheet, a history and forward projections of positive operating EBTDA, and recent new partnerships announced, both short-term and long-term investors have much to be excited about WYY shares. Therefore, we are maintaining our BUY rating on WYY and our 12-18-month price target of \$1.00, based on average price revenue multiples for future years for a group of comparable companies in the government technology services market. (For a more complete analysis of our stock valuation methodology on WYY shares please refer to our Initiation Report dated December 3, 2018).

Risk Factors

In addition to normal economic and market risk factors that impact most equities and the common risks shared by WidePoint with other companies in the industry, we believe an investment in WYY involves the following risks:

- **Reliance on key management** – At present, WYY relies on several key members of its management team who have been in key executive positions for an extended period of time. Should one or more of these key executives leave the Company, WYY could find it difficult to replace their long-standing knowledge of operations and industry expertise.
- **Reliance on customers and collaborations** – To date, WYY has signed a number of business and development partnerships for its technologies and services. Thus, in the future certain factors related to sales and new product development may be determined by third parties and out of the control of Company management.
- **Limited stock liquidity** – Trading volume in WYY stock is comparatively light and these shares have a relatively limited history of trading on major US stock exchanges compared with other technology stocks. As such, news regarding WYY, its target market, partners and/or competitors could lead to significant volatility in the stock price.

- **Competitive Markets** – The Company and its partners compete in its target government/commercial technology services markets with a number of companies, many of which are considerably larger than the Company. There can be no assurance that the Company and its partners will be able to successfully compete and launch new products into these competitive markets in the future.
- **Lack of historic profitability** - WYY has not historically achieved operating profitability, and according to our forecasts is projected to do so in the near future only a very limited basis. Although the Company maintains adequate cash reserves at the present time, there can be no assurance the Company will not need to raise additional working capital in the future should operating losses resume.
- **Need to defend intellectual property** – WYY currently relies on a combination of trade secrets, nondisclosure and other contractual arrangements, and copyright and trademark laws to protect its intellectual proprietary rights. The Company may be required to defend its intellectual property rights in the US and overseas in the future, and there can be no assurance these defenses will be successful.

WidePoint, Inc.
Consolidated Statements of Operations
 (In 000s, except per share data)

Robert M. Wasserman

FY/ December	2016	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2Q18	3Q18	4Q18	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2019E
		March	June	Sept	Dec		March	June	Sept	Dec		March	June	Sept	Dec	
Revenues	\$78,421	\$18,612	\$18,881	\$18,464	\$19,928	\$75,884	\$20,080	\$17,544	\$21,294	\$24,761	\$83,679	\$23,500	\$20,000	\$23,500	\$25,500	\$92,500
Cost of Revenues	64,410	15,183	15,589	15,088	16,335	62,194	16,528	13,997	17,609	20,275	68,409	19,300	16,300	19,400	20,900	75,900
Gross Profit	14,010	\$3,430	\$3,291	\$3,376	\$3,593	13,690	\$3,552	\$3,547	\$3,685	\$4,485	15,270	\$4,200	\$3,700	\$4,100	\$4,600	16,600
Operating Expenses:																
Sales and marketing	2,668	549	628	533	493	2,203	535	445	387	377	1,744	450	460	470	480	1,860
General and administrative	14,448	3,832	3,790	3,046	3,724	14,393	3,353	3,427	3,257	3,263	13,301	3,500	3,550	3,600	3,650	14,300
Product development	699	151	56	11	0	219	0	0	0	0	0	0	0	0	0	0
Depreciation and amortization	359	72	71	70	125	338	97	110	105	103	415	100	100	100	100	400
Total operating expenses	18,174	4,604	4,546	3,660	4,343	17,153	3,985	3,983	3,750	\$3,742	15,460	\$4,050	\$4,110	\$4,170	\$4,230	16,560
Income (loss) from operations	(4,163)	(1,175)	(1,255)	(284)	(750)	(3,463)	(433)	(436)	(65)	743	(190)	150	(410)	(70)	370	40
Other Income (Expense)																
Interest income	15	7	3	2	4	15	3	2	1	0	7	0	0	0	0	0
Interest expense	(72)	(10)	(13)	(14)	(16)	(52)	(26)	(24)	(22)	(8)	(80)	(20)	(20)	(20)	(20)	(80)
Other income (expense)	14	4	(1)	(2)	2	4	(0)	0	0	(0)	(0)	0	0	0	0	0
Income (loss) before tax	(\$4,207)	(1,173)	(1,266)	(297)	(760)	(\$3,496)	(456)	(457)	(85)	735	(\$263)	130	(430)	(90)	350	(\$40)
Provision for income taxes	(73)	(19)	34	17	5	38	6	15	25	1,148	1,193	30	30	30	30	120
Net income (loss)	(\$4,134)	(\$1,154)	(\$1,300)	(\$315)	(\$765)	(\$3,534)	(\$462)	(\$472)	(\$110)	(\$412)	(\$1,456)	\$100	(\$460)	(\$120)	\$320	(\$160)
Basic income per share	(\$0.05)	(\$0.01)	(\$0.02)	(\$0.00)	(\$0.01)	(\$0.04)	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.00)	(\$0.02)	\$0.00	(\$0.01)	(\$0.00)	\$0.00	(\$0.00)
Diluted income per share	(\$0.05)	(\$0.01)	(\$0.02)	(\$0.00)	(\$0.01)	(\$0.04)	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.00)	(\$0.02)	\$0.00	(\$0.01)	(\$0.00)	\$0.00	(\$0.00)
Basic shares outstanding	82,688	82,842	82,845	82,947	83,011	82,912	83,042	83,082	83,178	83,789	83,274	83,800	83,900	84,000	84,100	83,950
Diluted shares outstanding	82,688	82,842	82,845	82,947	83,011	82,912	83,042	83,082	83,178	83,789	83,274	83,800	83,900	84,000	84,100	83,950
Key ratios:																
Revenue growth	-24.9%					-3.2%	7.9%	-7.1%	15.3%	24.3%	10.3%	17.0%	14.0%	10.4%	3.0%	10.5%
Gross margin	17.9%	18.4%	17.4%	18.3%	18.0%	18.0%	17.7%	20.2%	17.3%	18.1%	18.2%	18.0%	18.5%	17.5%	18.0%	17.9%
Sales & Marketing/Revenues	3.4%	2.9%	3.3%	2.9%	2.5%	2.9%	2.7%	2.5%	1.8%	1.5%	2.1%	1.9%	2.3%	2.0%	1.9%	2.0%
G & A/Revenues	18.4%	20.6%	20.1%	16.5%	18.7%	19.0%	16.7%	19.5%	15.3%	16.1%	15.9%	18.1%	21.8%	18.6%	17.5%	15.5%
Depreciation, amort, non-cash comp	\$1,877	\$439	\$500	\$307	\$1,175	\$2,421	\$517	\$564	\$627	\$283	\$1,991	\$500	\$500	\$500	\$500	\$2,000
Cash Flow/share	(\$0.03)	(\$0.01)	(\$0.01)	(\$0.00)	\$0.00	(\$0.01)	\$0.00	\$0.00	\$0.01	(\$0.00)	\$0.01	\$0.00	(\$0.01)	(\$0.00)	\$0.00	\$0.02
EBITDA/share	(\$0.03)	(\$0.01)	(\$0.01)	\$0.00	\$0.00	(\$0.01)	\$0.00	\$0.00	\$0.01	\$0.01	\$0.02	\$0.01	\$0.00	\$0.00	\$0.01	\$0.02

Balance Sheets

(\$000s)

Assets:	12/31/17	12/31/18
Current Assets:		
Cash and equivalents	\$5,272	\$2,432
Accounts receivables, net	8,131	11,089
Unbilled accounts receivable	8,131	9,566
Other current assets	768	1,087
Total current	\$22,303	\$24,174
Other Assets:		
Property and equipment	1,318	1,013
Intangible assets, net	3,672	3,104
Goodwill	18,556	18,556
Other long-term assets	45	209
TOTAL ASSETS	\$45,893	\$47,055
Liabilities:		
Current Liabilities:		
Accounts payable	\$7,266	\$7,364
Accrued expenses	9,796	10,716
Deferred revenue	2,349	2,072
Current portion of capital leases	102	107
Current portion of other long-term	203	192
Total current	\$19,716	\$20,452
Deferred revenue	264	467
Other long-term liabilities	703	1,720
TOTAL LIABILITIES	20,683	22,638
Stockholders' equity (deficit)	25,210	24,417
TOTAL LIAB & EQ	\$45,893	\$47,055

Quarterly Earnings Comparisons

Revenues (in \$000s)	March	June	Sept	Dec	Total
	2016				
2017	18,612	18,881	18,464	19,928	75,884
2018	20,080	17,544	21,294	24,761	83,679
2019E	23,500	20,000	23,500	25,500	92,500
Earnings per Share					
2016					\$0.00
2017	(0.01)	(0.02)	(0.00)	(0.01)	(0.04)
2018	(0.01)	(0.01)	(0.00)	(0.00)	(0.02)
2019E	0.00	(0.01)	(0.00)	0.00	(0.00)

Revenues by Segment (\$000s)

	2016	2017	2018E	2019E
Carrier Services	\$44,277	\$45,003	\$50,050	\$55,500
Managed Services:				
Managed Service Fees	22,737	22,810	25,232	27,500
Billable Service Fees	5,052	3,258	1,838	2,000
Reselling Service Fees	6,355	4,813	6,559	7,500
Consolidated total	\$78,421	\$75,884	\$83,679	\$92,500

Source: Dawson James Securities, Inc. estimates; Company documents

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:

Initiation - December 3, 2018 – Buy – Price Target \$1.00

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	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	36	88%	10	28%
Market Perform (Neutral)	5	12%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	41	100%	10	24%

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