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WidePoint Communications (NYSE/WYY)
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BUY Q1/19 Results Positive; Raising Forecast
WidePoint Communications manages wireless devices for large government and corporate customers using a cloud SaaS model
Investment Highlights

1) **WidePoint recently reported strong financial results for their Q1/2019, including revenues of \$21.9 million, up 9% from the prior year period, net income of \$384,000 or \$0.005 per share, and adjusted EBITDA of positive \$1.0 million, compared with a net loss and negative EBITDA one year ago.** The positive GAAP net income marked the first quarterly earnings in six years for WidePoint. Revenue growth in the first quarter was led by recently signed contracts including ones with the US Customs and Border Protection (CBP) agency, Center for Naval Analyses (CNA), Centers for Disease Control (CDC), US Coast Guard, and other agencies. Results for the first quarter were also boosted by improved gross margins, to 19.4% from 17.7% in the prior year, and lower operating expenses as the Company's recent move to a new headquarters and other initiatives helped pare operating costs. Gross margin improvements this year have been led by a greater reliance on Managed Service revenues as opposed to Reselling transactions and other services. Reduced operating costs this year have been achieved despite higher depreciation and amortization charges and interest costs mandated by the Company's recent adoption of new lease accounting treatment. Operating cash flow was approximately \$2.4 million in the quarter, slightly above the \$2.3 million cash flow in the previous year quarter. Q1 has historically been the slowest quarter for the company. At the end of the quarter the Company had \$4.6 million in cash, up from \$2.4 million at the start of the year, with no long-term debt.

2) **The Company also updated their financial outlook for the current 2019 year, keeping revenue forecasts in the \$90.0-\$93.0 million range, but increasing estimated adjusted EBITDA quite a bit, to \$2.75-\$3.5 million from \$1.9-\$2.0 million previously.** Thus, although we are reducing our 2019E revenue forecast for WidePoint from \$92.5 million to \$90.9 million, still representing a positive 8.6% increase from 2018, we are increasing our estimated 2019E bottom-

Current Price \$0.50
Price Target \$1.00

Estimates	F2017A	F2018A	F2019E
Revenue(\$000s)	\$75,884	\$83,679	\$90,917 E
1Q March	18,612	20,080	21,917 A
2Q June	18,881	17,544	20,000 E
3Q September	18,464	21,294	23,500 E
4Q December	19,928	24,761	25,500 E
EPS	(\$0.04)	(\$0.02)	\$0.01 E
1Q March	(0.01)	(0.01)	0.00 A
2Q June	(0.02)	(0.01)	(0.00) E
3Q September	(0.00)	(0.00)	0.00 E
4Q December	(0.01)	(0.00)	0.01 E
P/E (x)	N/A	N/A	N/A

EBITDA/Share	(\$0.01)	\$0.02	\$0.04
EV/EBITDA (x)	N/A	21.8 X	10.9 X

Stock Data	
52-Week Range	\$0.38-\$0.63
Shares Outstanding (mil.)	83.8
Market Capitalization (mil.)	\$41.9
Enterprise Value (mil.)	\$37.8
Debt to Capital (3/19)	0.0%
Book Value/Share (3/19)	\$0.30
Price/Book	1.7 X
Average Trading Volume (10-day)	167,000
Insider Ownership	7.8%
Institutional Ownership	24.0%
Short interest	59,000
Dividend / Yield	\$0.00/0.0%



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

line to net GAAP income of \$760,000 or \$0.01 per share and adjusted EDITDA of \$0.04 per share or \$3.4 million, as compared to our previous forecast of \$2.0 million or \$0.02 per share in adjusted EBITDA for 2019E. 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 now include gross margins of 18.4%, slightly above the 18.2% achieved in 2018, and slightly higher operating expenses of \$15.6 million, just 1% 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. For the upcoming Q2/19 quarter, we also are forecasting positive financial comparisons, including revenue growth of 14% year-over-year to \$20.0 million, and a reduced net loss of \$270,000 as compared to \$470,000 in the prior year period in this seasonally slow fiscal quarter. Later quarters of fiscal 2019E are forecast to show positive year-over-year revenue growth as well, but also positive net income and adjusted EBITDA, similar to results for the first quarter of 2019E.

3) Longer-term, WidePoint is focusing its development efforts on migrating its proprietary Intelligent Telecommunications System Platform (ITMS) to the AWS GovCloud (US). To that effect, earlier this Spring the Company announced its first implementation of its ITMS technology to the GovCloud, which is the first step in obtaining a FedRAMP (Federal Risk and Authorization Management Program) certification. The AWS GovCloud is an AWS (Amazon Web Services) Region designed to meet regulatory and compliance requirements of government agencies, as well as those of contractors and educational institutions that run sensitive workloads in the cloud. FedRAMP is the new standard for government-wide secure and cost effective cloud-based IT solutions, and WidePoint's initial implementation represents the first in its industry and is expected to give the Company a distinct competitive advantage in the future. In addition, FedRAMP certification is expected to provide certain operating efficiencies, and once this certification is complete and the Company is able to migrate all of its federal clients to the new platform, WidePoint will be able to use the single FedRAMP Authority to Operate (ATO) designation rather than be forced to obtain separate ATO's with each individual agency. Another key upcoming milestone 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 recently 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 GAAP net income, 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 only recently 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

FYE December	2016	2017	1Q18 March	2Q18 June	3Q18 Sept	4Q18 Dec	2018	1Q19 March	2Q19E June	3Q19E Sept	4Q19E Dec	2019E
Revenues	\$78,421	\$75,884	\$20,080	\$17,544	\$21,294	\$24,761	\$83,679	\$21,917	\$20,000	\$23,500	\$25,500	\$90,917
Cost of Revenues	64,410	62,194	16,528	13,997	17,609	20,275	68,409	17,663	16,300	19,300	20,900	74,163
Gross Profit	14,010	13,690	\$3,552	\$3,547	\$3,685	\$4,485	15,270	\$4,254	\$3,700	\$4,200	\$4,600	16,754
Operating Expenses:												
Sales and marketing	2,668	2,203	535	445	387	377	1,744	393	410	430	450	1,683
General and administrative	14,448	14,393	3,353	3,427	3,257	3,263	13,301	3,135	3,200	3,250	3,300	12,885
Product development	699	219	0	0	0	0	0	0	0	0	0	0
Depreciation and amortization	359	338	97	110	105	103	415	241	250	250	250	991
Total operating expenses	18,174	17,153	3,985	3,983	3,750	\$3,742	15,460	\$3,769	\$3,860	\$3,930	\$4,000	15,559
Income (loss) from operations	(4,163)	(3,463)	(433)	(436)	(65)	743	(190)	485	(160)	270	600	1,195
Other Income (Expense)												
Interest income	15	15	3	2	1	0	7	4	0	0	0	4
Interest expense	(72)	(52)	(26)	(24)	(22)	(8)	(80)	(78)	(80)	(80)	(80)	(318)
Other income (expense)	14	4	(0)	0	0	(0)	(0)	0	0	0	0	0
Income (loss) before tax	(\$4,207)	(\$3,496)	(456)	(457)	(85)	735	(\$263)	412	(240)	190	520	\$882
Provision for income taxes	(73)	38	6	15	25	1,148	1,193	28	30	30	30	118
Net income (loss)	(\$4,134)	(\$3,534)	(\$462)	(\$472)	(\$110)	(\$412)	(\$1,456)	\$384	(\$270)	\$160	\$490	\$764
Basic income per share	(\$0.05)	(\$0.04)	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.00)	(\$0.02)	\$0.00	(\$0.00)	\$0.00	\$0.01	\$0.01
Diluted income per share	(\$0.05)	(\$0.04)	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.00)	(\$0.02)	\$0.00	(\$0.00)	\$0.00	\$0.01	\$0.01
Basic shares outstanding	82,688	82,912	83,042	83,082	83,178	83,789	83,274	83,812	83,900	84,000	84,100	83,953
Diluted shares outstanding	82,688	82,912	83,042	83,082	83,178	83,789	83,274	83,815	83,900	84,000	84,100	83,953
Key ratios:												
Revenue growth	-24.9%	-3.2%	7.9%	-7.1%	15.3%	24.3%	10.3%	9.1%	14.0%	10.4%	3.0%	8.6%
Gross margin	17.9%	18.0%	17.7%	20.2%	17.3%	18.1%	18.2%	19.4%	18.5%	18.0%	18.0%	18.4%
Sales & Marketing/Revenues	3.4%	2.9%	2.7%	2.5%	1.8%	1.5%	2.1%	1.8%	2.1%	1.8%	1.8%	1.9%
G & A/Revenues	18.4%	19.0%	16.7%	19.5%	15.3%	16.1%	15.9%	17.7%	19.6%	16.8%	15.8%	14.2%
Depreciation, amort, non-cash comp	\$1,877	\$2,421	\$517	\$564	\$627	\$283	\$1,991	\$570	\$570	\$570	\$570	\$2,280
Cash Flow/share	(\$0.03)	(\$0.01)	\$0.00	\$0.00	\$0.01	(\$0.00)	\$0.01	\$0.00	(\$0.00)	\$0.00	\$0.01	\$0.04
EBITDA/share	(\$0.03)	(\$0.01)	\$0.00	\$0.00	\$0.01	\$0.01	\$0.02	\$0.01	\$0.00	\$0.01	\$0.01	\$0.04

Balance Sheets

(\$000s)

Assets:	12/31/18	3/31/19
Current Assets:		
Cash and equivalents	\$2,432	\$4,567
Accounts receivables, net	11,089	11,220
Unbilled accounts receivable	9,566	8,233
Other current assets	1,087	1,200
Total current	\$24,174	\$25,220
Other Assets:		
Property and equipment	1,013	738
Operating lease asset		5,970
Intangible assets, net	3,104	2,959
Goodwill	18,556	18,556
Other long-term assets	209	233
TOTAL ASSETS	\$47,055	\$53,676

Liabilities:

Current Liabilities:	12/31/18	3/31/19
Accounts payable	\$7,364	\$9,374
Accrued expenses	10,716	9,676
Deferred revenue	2,072	1,691
Current portion of capital leases	107	482
Current portion of other long-term	192	88
Total current	\$20,452	\$21,311
Deferred revenue	467	351
Other long-term liabilities	1,720	7,153
TOTAL LIABILITIES	22,638	28,815
Stockholders' equity (deficit)	24,417	24,861
TOTAL LIAB & EQ	\$47,055	\$53,676

Quarterly Earnings Comparisons

	March	June	Sept	Dec	Total
	Revenues (in 000s)				
2016					\$78,421
2017	18,612	18,881	18,464	19,928	75,884
2018	20,080	17,544	21,294	24,761	83,679
2019E	21,917	20,000	23,500	25,500	90,917
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	(0.00)	0.00	0.01	0.01

Revenues by Segment (\$000s)

	2016	2017	2018E	2019E
Carrier Services	\$44,277	\$45,003	\$50,050	\$56,500
Managed Services:				
Managed Service Fees	22,737	22,810	25,232	27,500
Billable Service Fees	5,052	3,258	1,838	4,400
Reselling Service Fees	6,355	4,813	6,559	2,500
Consolidated total	\$78,421	\$75,884	\$83,679	\$90,900

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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Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	36	84%	10	28%
Market Perform (Neutral)	7	16%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	43	100%	10	23%

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