

## WidePoint Corporation

### WYY (NYSE American) - Buy \$6 Price Target

#### Initiation Report – WidePoint is an Undiscovered, Under-Valued SaaS Stock – June 24, 2024

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We initiate coverage of WidePoint Corporation with a Buy Rating and a \$6 12-month Price Target

- WidePoint is a cybersecurity-focused SaaS (software as a service) company serving mainly highly sensitive government agencies such as the DoD and DHS.
- The company has just completed a major CAPX cycle including product refreshes and a backup data center, and is in the process of completing the hiring of several experienced senior sales executives.
- These initiatives are already wielding major contract wins such as the May 2024, ten-year, \$2.67 billion U.S. Navy Spiral 4 contract in which WidePoint was named as one of seven prime contractors.
- A key near-term catalyst is the expected award of FedRAMP certification status for its ITMS (Intelligent Telecommunications Management System), which could come at any day and make it much easier to compete for future, major government contracts.
- While its business is largely a SaaS its stock does not trade like a SaaS company with an 84% discount to the average of 81 publicly traded SaaS companies. Our \$6 target assumes that this discount narrows to just 60% as WidePoint's results make it look more SaaS-like.
- It has no debt, cash equal to 19% of its market cap, is free cash flow positive, and would make an ideal acquisition for some of the larger private equity-backed competitors in its space.

Rating	Buy	<b>Earnings Per Share</b>	<b>Normalized to exclude unusual items</b>			
Target Price	\$6.00	<b>FYE - December</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Ticker Symbol	WYY	1Q - March	(\$0.11)	(\$0.07)	(\$0.11)	(\$0.06)
Market	NASDAQ	2Q - June	(\$0.10)	(\$0.08)	(\$0.04)	\$0.01
Stock Price	\$3.02	3Q - September	(\$0.10)	(\$0.11)	(\$0.07)	(\$0.02)
52 wk High	\$3.49	4Q - December	(\$0.15)	(\$0.10)	(\$0.04)	\$0.03
52 wk Low	\$1.60	<b>Year</b>	<b>(\$0.46)</b>	<b>(\$0.37)</b>	<b>(\$0.25)</b>	<b>(\$0.04)</b>
Shares Outstanding:	9.3 M	<b>Revenue (\$mm)</b>	<b>106.0</b>	<b>124.3</b>	<b>138.6</b>	<b>154.9</b>
Public Market Float:	7.4 M	EV/Rev	0.2X	0.2X	0.2X	0.1X
Avg. Daily Volume	74,078	<b>EBITDA (\$mm)</b>	<b>0.8</b>	<b>2.2</b>	<b>3.4</b>	<b>4.4</b>
Market Capitalization:	\$28.1 M	EV/EBITDA	28.9X	10.4X	6.7X	5.2X
Institutional Holdings:	10.1%					
Dividend Yield:	0.0%					

<b>Senior Executives</b>		<b>Common Ownership Profile</b>		
		<b>Shareholder</b>	<b>Shares ('000)</b>	<b>% of Total</b>
Jin Kang	President and CEO	The Vanguard Group, Inc.	377.7	4.1%
Jason Holloway	Chief Revenue Officer	Renaissance Technologies LLC	90.6	1.0%
Bob George	Chief Financial Officer	Bridgeway Capital Management LLC	89.1	1.0%
Ian Sparing	COO - International	Geode Capital Management LLC	57.0	0.6%
Todd Dzyak	Chief Operating Officer	Susquehanna Financial Group LLLP	48.3	0.5%
		Directors and Officers	1,459	15.7%

#### Risks/Valuation

- The key risk we see is cyber security risks as nearly all of the company's services are provided over the internet and it serves some high visibility customers such as the DoD and DHS.
- We value WYY shares on an EV/EBITDA multiple basis and assume that the current wide valuation gap with larger SaaS comps will narrow as WidePoint's results look more SaaS-like.

**Company description:** WidePoint is a Fairfax, Virginia-based SaaS company with 80% of its revenue from the U.S. government and 20% from commercial, state, and local customers. Its four product categories are telecom lifecycle management, identity management, telecom billing analytics, and IT as a service.

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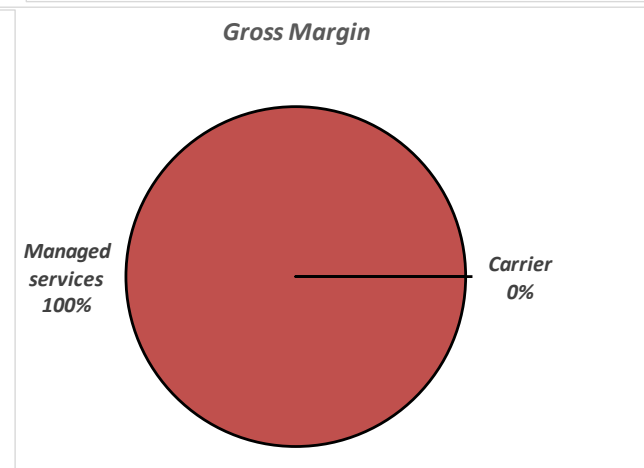
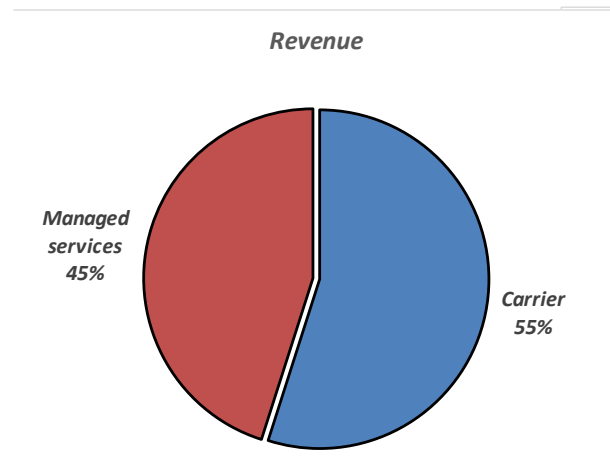
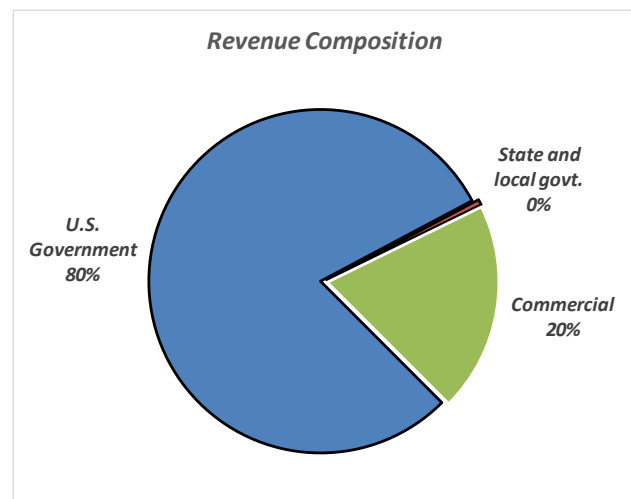
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## WidePoint is an Undiscovered SaaS Stock

We initiate coverage of WidePoint Corporation shares with a Buy rating and a \$6 price target. WidePoint is essentially a SaaS company that provides highly secure services to U.S. Government customers with the Department of Homeland Security (DHS) as its anchor customer. In total, U.S. government customers comprised 80% of revenue last year, up 14% while commercial customers comprised 20%, up 9%. Its managed services business comprised 45% of revenue last year and carried a gross margin of 32.7%. The wrinkle is that DHS requires WidePoint to buy cell phone and data services on its behalf, under the terms of its contract, and then charge it for these services. Since the services are passed through to DHS at cost, they carry a zero margin, bringing the consolidated gross margin to just 14.8%. One benefit of these carrier services revenues is that they push revenue above \$100 million, making WidePoint look larger than it is. We provide a glossary of terms on page 15 to assist investors unravel the many abbreviations used in this report.

## WidePoint Provides Highly Secure SaaS Services to the US Government and Corporates

2023 data	<u>Percent of Revenue</u>	<u>Gross Margin</u>
Carrier Services	55%	0.0%
Managed Services	45%	32.7%
<b>Total</b>	<b>100%</b>	<b>32.7%</b>
<u>Customer Breakdown</u>	<u>Pct. Of Rev.</u>	<u>Growth</u>
U.S. Government	80%	14%
State and local governments	1%	36%
Foreign governments	0%	-46%
Commercial	20%	9%
<b>Total</b>	<b>100%</b>	<b>13%</b>



Source: Litchfield Hills Research and Company reports



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Essentially the company provides cloud-based services to government and corporate customers to 1) Manage wireless devices, 2) Manage very smart, very secure employee ID cards and 3) Manage telecom billing and the customer analysis thereof. All three fall under the umbrella of the company's Trusted Mobility Management (TM2) product set. The products do two things for clients: save them money and protect them from security threats. It also provides IT services, which can include TM2 services, via the 2021 acquisition of IT Authorities to corporate and local government customers.

SaaS stocks are in favor since they carry less operational risk and very high gross margins. The average trailing 12-month (TTM) gross margin was 71.3% for the 81 SaaS companies we use as comps. WidePoint does not have nearly the scale of these comps with TTM revenue just 4% the average of comps, so it does not have the scale or the gross margin. Its gross margin of 32.7% for managed services is just 45% of comps. If we value WYY shares at 45% of the multiple of SaaS comps – (45% x 42.0x = 18.9x) we arrive at a valuation of \$7.40 per share. As the company grows, and sheds its microcap illiquidity discount, perhaps it will approach this value. For now, we haircut the valuation number we arrived at to assign a \$6.00 12-month price target.

### Catalysts – One is Imminent

We see several catalysts for the stock:

- First, the company should soon obtain FedRAMP (Federal Risk and Authorization Management Program) certification for its ITMS (Intelligent Telecommunications Management System) service. The company submitted its application in 2021 and the Bureau of Alcohol, Tobacco, and Firearms (part of DoJ) became its sponsoring agency in 2022. The FedRAMP program management office completed its review in September 2023 and Kratos is the independent assessor. Management has received encouraging feedback from the GSA and has stated that it expects to receive this certification by June 30, 2024, which is almost upon us. There are three stages in the process and WidePoint has passed the FedRAMP-ready stage and is now in the in-process stage with the next and final step being FedRAMP authorized. FedRAMP is a government-wide program to approve cloud-based services so once WidePoint receives it, they will no longer need to obtain separate ATOs (authority to operate) from each government agency they submit bids. FedRAMP is used by agencies ranging (alphabetically) from the Administrative Office of the U.S. Courts to the Universal Service Administration Company. Management has stated that they believe this certification will be a major milestone. There are only 337 currently approved services and several large tech companies have approvals, including Adobe, Amazon, Cisco, Google, IBM, and Microsoft, and most with multiple approvals for individual services.
- Second, the company made several major investments in the last few years in product upgrades, a backup data center, and personnel. The capital spending process is winding down dropping by over 50% this year (per guidance). The backup data center is part of something called COOP for continuity of operations plan. Simply put, if its main data center at corporate headquarters goes down, it will cut over to the new one. The backup data center went live earlier this year. The spending also includes senior sales hires with one each in commercial sales, government sales, and vendor sales.
- Lastly, WidePoint has already announced wins for several new contracts, the most recent being its participation in the U.S. Navy's Spiral 4 telecom contract. WidePoint was not in Spiral 3. We believe it is poised to secure a good portion of the TLM (telecom lifecycle management) business.

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#### Risk Factors

We see two key risk factors toward achieving our forecast:

- The first involves the business. As a cyber security provider to highly secure government agencies, it is itself a cyber target. But cyber security is its business and it is at the tail end of an in-depth government audit to obtain FedRAMP status, so we believe that the company is about as secure as modern technology allows. Even the CEO carries a separate electronic authentication card to allow him to enter the building and log into his computer.
- The other risk is in the shares themselves and, unlike cyber risks, there is little protection. As a microcap, WYY shares are primarily owned and traded by quantitative funds, which are subject to the momentum swings of the sector. So even if WidePoint is outperforming from a fundamental basis, its shares are likely to suffer from any negative change in sentiment such as we saw recently the so-called microcap winter when WYY shares traded as low as \$1.75. The key to our thesis is that WidePoint will come to be viewed more as a SaaS stock, than a low-margin government contractor. Failure of the market to recognize this will impede achieving our target.

#### WidePoint Started in 1996 with the Current CEO Taking Over in 2017

WidePoint was started in 1996 as a SPAC (special purpose acquisition company) and made its first acquisition in 1996 acquiring Y2K consulting firm Zmax. With the Y2K crisis successfully weathered, the company went on an acquisition spree acquiring numerous Washington, D.C. area IT services companies and rebranding itself as WidePoint. On July 15, 2017, Jin Kang was promoted from COO to CEO. Kang had joined WidePoint with the 2008 acquisition of iSYS, which he founded in 1999. Since Kang was promoted to CEO TTM revenue has gone from \$44.6 million to \$114.6 million, a 157% increase. EBITDA has gone from a loss of \$2.6 million to positive \$1.3 million.

Kang quickly set his sights on deleveraging the balance sheet – it now has no debt – and bringing expenses in line with revenue. As a result, the company has now had six consecutive years of positive EBITDA, reporting positive EBITDA every full year since he took over. When he joined, the company had only reported positive EBITDA in 10 of the prior 21 years, and the trend of losses was worsening. We don't think this is an accident, in the numerous meetings we have had with him over the years he has always stressed cost control. Despite this fundamental progress, the shares are actually down 26% during his tenure, so in this case, the market has hardly been efficient.

WidePoint reports two key revenue lines: carrier services at 55% of revenue in 2023 but a 0% gross margin and its core managed services business at 45% of revenue with a 32.7% gross margin. Carrier services are mobile services WidePoint purchases for the Department of Homeland Security under its Cellular Wireless Managed Services (CWMS) 2.0 contract and bills the customer at cost, resulting in no margin. This has the negative effect of reducing the company's consolidated, reported gross margin, making it look less like the SaaS company it is, and we believe, hurting valuation. Conversely, with this revenue, WidePoint is now reporting more than \$100 million in annual revenue, making it look larger than it is, benefitting its valuation.

The core business is its managed services business which provides four core services:

- Telecom Lifecycle Management
- Mobile and Identity Management
- Digital Billing Analytics Solutions
- IT as a Service

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### WidePoint Serves Markets with Over \$45 Billion in Annual Revenue

WidePoint's Trusted Mobility Management (TM2) product set serves a market that Verified Market Research estimates to be \$48 billion globally, growing 35% annually to an estimated \$433 billion in 2031. TM2 consists of three services. The global telecom lifecycle management market was roughly \$17.9 billion in 2023 growing to \$43.1 billion in 2029 representing a CAGR of 13%. Statista estimates that the global mobile and identity management market was \$16 billion in 2022, growing to \$43 billion by 2029. Global Market Insights estimates that the digital billing analytics market was \$13.3 billion in 2022, with an estimated 9% CAGR over the next decade. For WidePoint's fourth service, IT as a Service, The International Market Analysis Research and Consulting Group (IMARC) estimates that the global market was \$6.5 billion globally in 2023 with an estimated 19% CAGR through 2032. WidePoint is the only company offering all four services and looks at cross-selling to existing customers to accelerate growth.

If we step back and look at the macro picture there are over 8.9 billion mobile phones in use in the world today on a planet with a population of 8.1 billion. There are billions more tablet computers and the Internet of Things (IoT) market today encompasses tens of billions of devices, growing exponentially. Many of the mobile devices in use today are used and paid for by corporate and government entities. In fact, for many jobs, a wireless device is now a prerequisite. Additionally, many individuals use their personal devices for work as well as personal use. This may appear to many employers to save them money, but as we explain later, it creates enormous data security problems when an employee leaves their employer and the employer's data is still saved on the employee's personal phone.

Mobile phones have a relatively short life span of less than three years in personal use and less than two years in business and government use as they are more willing to spend to equip their workers with the latest devices. But issuing, updating, recapturing, wiping, and securely disposing of devices is a massive and growing necessary task for employers. That's where WidePoint comes in.

### Telecom Lifecycle Management

Under its Telecom Lifecycle Management (TLM) services, it acquires the devices on behalf of the employer, manages which carrier and which service plan will serve the device, installs the correct software and user settings, delivers it to the employee, and provides 24/7/365 support when the inevitable issues occur. When the employee leaves the company or is ready to upgrade to a new device, WidePoint handles that, managing the return of the old phone, wiping confidential and in some cases classified data, and disposing of the device either through recycling or resale. So, in effect, WidePoint manages the entire lifecycle of the device.

This is by far its largest product category at around 80% of revenue with DHS as its anchor customer. We estimate that this service carries a gross margin in the high 40%*s*. While there is a large SaaS component to it, WidePoint does need to staff distribution centers for the manual handling of devices, both outgoing and incoming for secure recycling.

While other companies perform some of these services, for the most part, companies and government agencies handle the process internally with homegrown solutions, which can be as simple as paper records or Excel spreadsheets. Predictably, these informal processes often lead to up to 15% losses with departing employees taking their phones with them or just throwing them in a desk drawer.

A hot topic for management is the trend toward employers allowing employees to bring their own devices (BYOD) so they can have the same cell phone for work and personal use. WidePoint believes this is a very bad, expensive, and risky idea. First, employers pay their employees who use their own phones to compensate them for their expenses. But the amount employers generally pay to employees is more than what they would pay buying the service in bulk directly and managing the services and handsets with WidePoint. The risk comes in when an employee leaves the firm. If the phone belongs to the employer, WidePoint can wipe the phone disabling it remotely, so the employee no longer has access to confidential, and in the case of some of its government





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customers, classified, information stored on the phone. If the employee owns the device the employer has no right to access it and any confidential information stored on the phone stays on the phone accessible to the now former employee who may be going to work for a competitor.

#### **Identity and Access Management**

WidePoint's next service is Identity and Access Management (IAM). WidePoint has been providing secure credentials to U.S. government agencies since 1995. It was the first company certified to do so by the Department of Defense and is still one of only two DoD-certified IAM providers. It typically provides smart card ID cards for government or corporate employees. A smart card is typically a plastic card, sometimes with the employees' picture, name, and other information on it, that contains a computer chip. The chip looks like the chip on nearly every credit card and the SIM card in cell phones.

We estimate that this product line is about 5% of revenue, with very high gross margins in the 75% range as it is largely a SaaS service. One innovation is that this secure identity chip can now be embedded in many new models of smartphones, so the employee can use their phones as their ID. Notable WidePoint customers of this service include Lockheed Martin and Southwest Airlines in the private sector and the FCC and FTC in the government sector.

#### **Digital Billing and Analytics**

The company's telecom Digital Billing and Analytics (DB&A) service interfaces with the billing systems of the major wireless carriers and presents billing information to its customers in a clear format, overlaying analytics. It is headquartered in Dublin, Ireland. The company can detect errors in bills or billing for devices that are no longer in use. As a result, this service can save customers significant amounts of money. Because this business is located in Europe, it has a strong customer base of European carriers such as Vodafone, O3, and Telefonica. On the commercial side, notable customers have included McDonalds and Goodyear which both use WidePoint to manage and analyze the wireless bills they receive from carriers.

We estimate that this business is also around 5% of revenue and also carries roughly 75% gross margins as it is a SaaS service.

#### **IT as a Service**

WidePoint entered this market in 2021 with the \$8.0 million acquisition of Tampa-based IT Authorities. Its services include cybersecurity, cloud, network operations, and professional services. Since the deal, management has discussed contract wins for small businesses such as soft drink bottlers and school districts. We view WidePoint's highly secure services as ideal for this market. ITA was a \$10 million revenue business in 2021 and it now has access to the same highly secure services as WidePoint sells to the DHS, NASA, and the U.S. Navy. We are particularly enthusiastic about the prospect of selling identity management to school districts, who face the daunting task of securing their premises against school shooters and their networks against hackers who then decrypt their data and demand ransoms. We estimate that this business comprises about 10% of revenue with a typical IT services gross margin of around 30%. Both of the founders of ITA, Jason Caras, and Jason Pollner, still run it. The warrants issued to them have an exercise price of \$5.53, nearly double the current share price, but the last ones won't expire until October 2028, so we think there is a good chance that at least some will be in the money.



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#### **WidePoint Has Become Adept at Winning Complex Government Contracts**

Information on government contracts is publicly available, but this information is not always decipherable especially since the government uses the word contract differently than the common usage.

#### **Department of Homeland Security for Cellular Wireless Managed Services 2.0 ID/IQ Contract (DHS CWMS 2.0 IDIQ).**

By far WidePoint's most important contract is its contract with the Department of Homeland Security to manage its cellular services. The contract is called Cellular Wireless Managed Services or CWMS. This contract includes telecom lifecycle management but also includes the underlying telecom services, which WidePoint acquires and bills back to DHS at cost. DHS was solely responsible for the \$58.2 million in carrier services revenue in 2023.

The first contract was announced in the second quarter of 2013 as a \$600 million CWMS Blanket Purchase Agreement or BPA in which WidePoint was the sole awardee. This award, and subsequent awards, are structured as five one-year contracts. After an unsuccessful protest delayed implementation, WidePoint received its first task order for \$2.3 million from the Federal Protective Service (FPS) in 2014.

DHS delayed renewing the contract in 2019 due partially to the advent of COVID-19 but kept doing business with WidePoint under multiple short-term extensions. In November 2020, WidePoint was awarded CWMS 2.0 with a total value expected at \$500 million, again structured as five one-year contracts extending through November 2025. DHS has now spent the full \$500 million under CWMS 2.0 and is working on mechanisms to extend it. Given that the near-term alternative is for its staff to not have cell phones, we view one or more extensions as highly likely.

We also believe that WidePoint will retain this contract for the foreseeable future, likely at least through CWMS 3.0 and 4.0. WidePoint has developed a proprietary, trademarked SaaS platform for DHS called ITMS or Intelligent Telecommunications Management System, which is pending FedRAMP certification. Multiple DHS units, including headquarters, are trained on this platform and can easily order new mobile devices shipped out to DHS employees correctly configured, upgrade the devices as needed, and reclaim them also when needed. WidePoint has been successfully competing on price and DHS appears satisfied with its performance. The switching costs for DHS would be enormous in wasted personnel hours as any replacement vendor implemented their own SaaS solution and trained DHS staff.

DHS is a wide-ranging bureaucracy and WidePoint serves its many units:

- Customs and Border Patrol (CBP)
- DHS Headquarters
- Federal Emergency Management Agency (FEMA)
- Federal Protective Service (FPS)
- Immigration and Customs Enforcement (ICE)
- Transportation Security Administration (TSA)
- U.S. Citizenship and Immigration Services (USCIS)
- United States Coast Guard (USCG)
- United States Secret Service (USSS)

#### **Department of Justice (DOJ) Enterprise Standard Architecture V (ESA V)**

ESA V is a six-year, \$850 million ceiling contract awarded to Leidos to provide IT-managed services. WidePoint is a subcontractor to Leidos. This contract includes DoJ agencies the Bureau



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of Alcohol, Tobacco, Firearms and Explosives (ATF), the Drug Enforcement Administration (DEA), the Antitrust Division, the Justice Management Division, and the Office of the Inspector General

#### **General Services Administration (GSA) Alliant 2**

This contract vehicle allows all federal agencies to purchase IT services from multiple vendors, including WidePoint. It was originally created in 2018, increased from \$50 billion to \$75 billion in 2022, and has now been extended through 2032.

#### **GSA Connections II**

This GSA contract vehicle is for network services inside government buildings and has the tagline "Great government through technology".

#### **GSA Enterprise Infrastructure Solutions (EIS)**

EIS is a \$50 billion GSA contract vehicle that allows federal agencies to purchase IT services including voice, VPN, managed services, and ethernet. It was created in July 2017 and can run through 2032 with extensions.

#### **NASA End-User Services and Technologies (NEST)**

NEST is a \$2.0 billion NASA contract awarded to Leidos in 2019 for end-user IT services. With extensions, the contract can be extended through 2029. WidePoint is a subcontractor to Leidos under this contract.

#### **NASA Solutions for Enterprise-Wide Procurement (SEWP)**

SEWP is a government-wide contract vehicle, managed by NASA for information technology and audio-visual services. NASA has the authority to act as an Executive Agent by the OMB under the authority of the 1996 Clinger-Cohen Act. WidePoint is not one of the listed 140 prime contract holders but is rather a subcontractor.

#### **National Institutes of Health Chief Information Officer Solutions and Partners (CIO-SP3)**

CIO-SP3 is a government-wide contract vehicle run by the National Institutes of Health for IT services under 10 specific task areas including IT services for biomedical research, health services, and healthcare. Public databases show that WidePoint has won contracts for several government healthcare entities including, the Centers for Disease Control (CDC), the National Science Foundation (NSF), and the National Institutes of Health (NIH), all presumably under this contract vehicle.

#### **U.S. Navy Spiral 4**

In May 2024 WidePoint was announced as one of seven prime contractor winners of the new 10-year U.S. Navy Spiral 4 contract which is expected to be worth around \$2.67 billion. The big three U.S. wireless carriers continued their participation in the program. Under Spiral 3, they were awarded roughly 91% of the contract value as the underlying telecom services are worth more than ancillary services such as provisioning handsets, which is an area WidePoint excels at. So, we see it as a potential \$240 million pool, which WidePoint will compete with three other contractors. This is smaller than the headline \$2.67 billion but still a massive potential win for WidePoint. The other recipients were MetTel, which competes with WidePoint in telecom lifecycle management but is also a SpaceX Starlink reseller and a WidePoint systems integrator partner, Hughes Network





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Systems which is more of a satellite services provider, and Real Mobile, Inc. The Real Mobile name is generic, and used by dozens of companies including a SIM card reseller in Fort Lauderdale and a telecom services company in Sweden. So, we expect WidePoint to garner the bulk of the telecom lifecycle management portion of this contract.

The Federal Procurement Data Services (FPDS) lists 346 contracts for WidePoint since January 2023, totaling \$169.8 million. Reported revenue for the last five quarters was \$140 million, of which we estimate \$113 million was government revenue, suggesting the company still has significant revenue potential from already granted awards. The reported backlog at the end of 2023 was \$359 million but this represents all contracts and some of this may have been awarded before the January 2023 start date of our search. The \$359 million is for all awarded contracts, with revenue out over multiple years, not just 2024.

Interestingly, the database search turned up several new customers WidePoint has not been as vocal about. These include the Patent and Trademark Office (USPTO), the Federal Communications Commission (FCC), the District of Columbia Courts, the Federal Highway Administration (FHA), and the Federal Aviation Commission (FAA).

One issue we have seen for investors is that government “contracts” have a very different meaning than civilian contracts. In the civilian world, if company ABC reports that it has won a \$1 billion contract from company XYZ, investors can expect that ABC will see an incremental \$1 billion in revenue. Not so for government contracts. A government IDIQ (indefinite delivery, indefinite quantity) contract for \$1 billion in revenue does not guarantee any revenue whatsoever. It merely qualifies the company to bid on subsequent task orders, which can be numerous. As noted, according to the FPDS.gov website, over the last year and a half, WidePoint has been awarded 346 task orders worth \$169.8 million. For the CWMS contract, WidePoint was the sole winner so it has been awarded the full contract value of \$500 million. But for the recently announced U.S. Navy Spiral 4 contract, it was one of seven prime contractor winners of a planned ten-year, \$2.67 billion contract vehicle.

One notable past contract was the \$238 million contract awarded to CDW in 2017 to support the Census Bureau’s 2020 decennial census. Verizon served as a subcontractor to provide the underlying service and WidePoint was the vendor for telecom lifecycle management activating, shipping, and later recycling 680,000 devices to 10,000 locations. According to press accounts, this included 56,000 Windows laptops, 21,000 tablets, and over 500,000 iPhone 8s. WidePoint provisioned the software on each device so it was ready for each user, shipped it out, provided support, and when the census was over, sent prepaid boxes for the return of the devices which were then wiped and recycled. As a result, managed services revenue surged 29.5% in 2020, driving EBITDA up 58.4% to a record \$5.7 million.

The company has also called out one private sector contract valued at \$1.4 million via ITA for IT and cybersecurity services. The customer is a major Florida tourist attraction and research center, which we assume to be SeaWorld in Orlando.

### **Most Revenue Comes from the U.S. Government, which is Still Largely Untapped**

As noted, even though the company’s services have equal applicability for large corporate users as they do for government agencies, to date WidePoint has had more success cracking the government market which generates about 80% of revenue. The good news is that the company still has numerous arms of the government which it has not yet penetrated. Of the fifteen cabinet-level departments, WidePoint’s best customer is the Department of Homeland Security. It recently secured a major new contract with the Coast Guard that had been eagerly awaited by shareholders. Other departments where it has strong reach include Defense, Justice, Commerce, and Health and Human Services (HHS). For Commerce, WidePoint managed the wireless devices all census takers used nationally for the constitutionally mandated decennial census in 2020. WidePoint worked as a sub-contractor to CDW under this contract.

While the commercial sector is a lesser contributor at roughly 20% of revenue, WidePoint has scored several wins with well-known customers, notably Microsoft, General Dynamics, Southwest Airlines, and



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Cisco Systems. What each of these have in common is that they employ thousands of employees who need to travel around in their daily work, and who use wireless devices to manage their workflow. This increasingly describes the global workforce, thus our optimism for WidePoint's prospects with large global corporations. WidePoint discloses 21 commercial customers in its investor deck.

In 2018 it also announced a major new customer relationship with telecommunications systems integrator, CSG International. CSG is one of the largest and most well-known providers of billing systems in the telecom industry. Its customers include AT&T, Cox Communications, and DISH Network. Under this contract, WidePoint provides billing analytics and presentment, displacing the current provider of these services. In November 2023, WidePoint called out a new contract win with CSG for an Irish telecom carrier.

### Works Well with Others

















In addition to its own sales team, WidePoint works with systems integrators and strategic partners in healthcare, telecom, and transportation. Its investor deck lists 21 systems integrator partners, most of whom are large, well-known companies such as IBM, Cisco, and Microsoft. Among the major contracts won with larger systems integrators were the Census Bureau with CDW, the Patent and Trademark Office with General Dynamics, the Army Corps of Engineers with SAIC, the Bureau of Alcohol, Tobacco, and Firearms, and NASA with Leidos. WidePoint has already completed, or is in the process of, hiring three senior sales executives one each to cover commercial sales, federal sales, and vendor sales.

As noted, WidePoint is the only company offering all four of its services, although most customers opt to split their purchasing separately for each. However, winning one gives it a foot in the door to win further service contracts. WidePoint identifies 15 key competitors in each of its four product areas in its 10-K. Analyzing WidePoint's competitors is a bit complex as the same customers are listed on the websites of multiple companies and the same partners. Large government agencies utilize numerous contractors and large systems integrators maintain large collections of potential partners, so they can select the best one for each contract. So, this overlap of customers and partners is understandable. Only two, Amdocs and HPE are public, and only one, BMC has a FedRAMP-certified product. Many are private-equity backed, presumably with adequate access to capital. Many are also acquisitive and we would expect that they have looked at WidePoint as an acquisition.

# WidePoint Corporation

## WYY (NYSE American) - Buy \$6 Price Target

**Competitors Range from Tiny to Very Large, But Only One Has a FedRAMP Certification**

Company	Headquarters	Employee:	Ownership	FedRAMP	Company	Headquarters	Employee:	Ownership	FedRAMP
<b>Telecom Lifecycle Management</b>					<b>Identity Management</b>				
 <b>WidePoint Inc.</b> <a href="http://www.widepoint.com">www.widepoint.com</a>	Fairfax, VA	206	Public - NYSE - American	In process	 <b>Entrust Corp.</b> <a href="http://www.entrust.com">www.entrust.com</a>	Minneapolis, MN	3287	Private	No
 <b>MDSL/Calero Software LLC</b> <a href="http://www.calero.com">www.calero.com</a>	Rochester, NY	805	Private-equity	No	 <b>IdenTrust</b> part of HID Global <a href="http://www.identrust.com">www.identrust.com</a>	Salt Lake City, UT	384	Sub of HID Global	No
 <b>Tangoe, Inc.</b> <a href="http://www.tangoe.com">www.tangoe.com</a>	Indianapolis, IN	2339	Private-equity	No	 <b>Xtec Inc.</b> <a href="http://www.xtec.com">www.xtec.com</a>	Miami, FL	69	Private	No
 <b>Brightfin</b> <a href="http://www.brightfin.com">www.brightfin.com</a>	Englewood, CO	210	Private-equity	No	<b>Digital Billing and Analytics</b>				
 <b>Digital Management Holdings, LLC</b> <a href="http://www.dminc.com">www.dminc.com</a>	McLean, VA	2100	Private-equity	No	 <b>Amdos Briteball</b> <a href="http://www.amdocs.com">www.amdocs.com</a>	St. Louis, MO	29000	DOX - NASDAQ	No
 <b>A&amp;T Systems, Inc.</b> <a href="http://www.ats.com">www.ats.com</a>	Silver Spring, MD	125	Private	No	 <b>Globys Inc.</b> <a href="http://www.globsys.com">www.globsys.com</a>	Seattle, WA	300	Private	No
 <b>Turning Point Global Services, LLC</b> <a href="http://www.tpqi.com">www.tpqi.com</a>	Rockville, MD	300	Private	No	<b>IT as a Service</b>				
					 <b>BMC Software</b> <a href="http://www.bmc.com">www.bmc.com</a>	Houston, TX	6000	Private-equity	Yes
					 <b>Hewlett Packard Enterprise Co.</b> <a href="http://www.hpe.com">www.hpe.com</a>	Spring, TX	62000	HPE - NYSE	No
					 <b>StrataCore</b> <a href="http://www.stratacore.com">www.stratacore.com</a>	Seattle, WA	100	Private	No
					 <b>Next Level Technologies</b> <a href="http://www.nextleveltech.com">www.nextleveltech.com</a>	Columbus, OH	10	Private	No

Source: Litchfield Hills Research and Company reports



## WidePoint Corporation

WYY (NYSE American) - Buy \$6 Price Target

### Revenue Growth Should Get WidePoint to Meaningful EBITDA Margins

For 2024 we forecast that WidePoint will generate \$124.3 million in revenue, \$2.2 million in EBITDA, and \$2.1 million in free cash flow (EBITDA minus CAPX). As noted, WidePoint breaks reported revenue out into two main categories: carrier services and managed services. Carrier services revenue is all pass-through revenue for buying cellular phone and data services for DHS and billing them for roughly the same amount. This line item surged in 2020 as the same thing applied to the Census Bureau contract, but since then it has posted an 8% CAGR. In the first quarter, it increased 42.5% versus 1Q23, but we forecast 7.0% growth through 2026. Carrier services revenue is the main driver of revenue but is immaterial to EBITDA or EPS as it carries no margin.

For the higher managed services business, we forecast 17.3% revenue growth this year, versus 12.7% in 2023. The company hit the ground running in 1Q with 27.0% growth, and most of its revenue is recurring, so we are probably too conservative.

We expect significant expansion in the EBITDA margin, to 1.8% this year from just 0.7% last year, increasing to 2.8% in 2026. Our \$2.20 million estimate is just below the \$2.25 midpoint of guidance. Even with the margin expansion, WidePoint's margin is still below that of its larger SaaS comps. We think the reason is simple: at \$124 million in revenue, WidePoint lacks sufficient scale. Even at our \$155 million 2026 million revenue estimate, it will still be subscale. We see three possible cures: 1. Winning more "whale" contracts on the order of DHS. FedRAMP should help. 2. Securing acquisitions. While we view the 2021 acquisition of IT Authorities as successful, it was just \$10 million in revenue, and government revenue continues to outgrow private sector revenue. Plus, valuations are probably too high for management's conservative taste, and 3. A takeover of WidePoint by one of the competitors listed in its 10-K and in this report. WidePoint would bring the unique DHS TLM contract, the unique DoD IAM contract, and, hopefully soon, FedRAMP certification. Many of its competitors are private-equity backed and so could presumably afford WidePoint even at several times the current share price.

The midpoint of guidance for 2024 is revenue of \$126.5 million, EBITDA of \$2.25 million, and free cash flow of \$2.15 million. Notably, first-quarter results represented 27.0%, 25.4%, and 26.3% of these numbers, respectively. So WidePoint is tracking ahead of the midpoint of guidance.

We also note that WidePoint now carries no debt and \$5.3 million in cash or 57 cents per share which is about 18% of its market cap. Its buyback program is on hold, presumably to wait for an acquisition.

Our full income forecast is on page 16 of this report.



# WidePoint Corporation

## WYY (NYSE American) - Buy \$6 Price Target

### By Closing the Valuation Gap with SaaS Comps, WYY Shares Should Double

As noted, our 12-month price target is \$6 per share. WYY shares trade at 7.5x our 2025 EBITDA estimate of \$3.4 million. We view this as low for any company which, according to our forecast, should generate 178% EBITDA growth this year, and 54% next year. SaaS comps trade at even richer valuations, with the 81 comps we use trading at 42.0x or six times greater than WidePoint. WidePoint does generate a lower gross margin than these large-cap SaaS comps in its managed services business, at 32.7% in 2023 versus 71.3% due to largely, we believe, its much smaller scale. But if we value WYY shares at a lower 15.0x multiple, versus the 42.0x for SaaS comps, we arrive at a \$6 price target. WidePoint's managed services business is already a SaaS business. Given the spate of new contracts, more senior sales reps, and FedRAMP certification, both our estimates and management guidance suggest that WidePoint will start to perform financially more like a SaaS business. If it does, the next step is for the market to recognize WidePoint for what it is. The shares are already up 31% this year, so maybe this is starting to occur.

### Near-term Technical Support and Resistance are \$2.00 and \$3.50, Respectively

At the recent closing price near \$3.03, WYY shares are performing reasonably well lately, up 31% year-to-date. Last summer, they found support around the \$1.75 level, which per technical theory is a support level. The more recent April low around \$2 looks like an even stronger support level, also because round numbers tend to be better support levels due to human nature. The January 2024 high does suggest at least near-term resistance of around \$3.50, but that still represents 17% upside.



Source: FactSet Research Systems, Inc.







## WidePoint Corporation

WYY (NYSE American) - Buy \$6 Price Target

### Glossary

**ABaaS** - Analytics & Billing as a Service

**BPA** – Blanket purchase agreement. A U.S. government contract term that allows the contract agency a blanket agreement to purchase goods or services.

**COOP** – Continuity of Operations Plan

**DB** – digital billing

**DB&A** – digital billing and analytics

**DHS** – Department of Homeland Security

**DoJ** – Department of Justice

**FedRAMP** – Federal Risk and Authorization Management Program is a standardized government program run by the General Services Administration for security assessment, authorization, and continuous monitoring of cloud services provided to government agencies. The GSA established the FedRAMP management office in 2012 to create a unified government standard and disparate programs at individual agencies.

**IAM** - Identity and Access Management

**IDIQ** – Indefinite delivery, indefinite quantity. A government term for contract vehicles that allow the agency to buy as much of the good or service they want, on any schedule they want.

**IdM** – Identity management

**ITA** – IT Authorities – Tampa-based IT services company acquired in October 2021 for \$8.0 million.

**ITaaS** - IT as a Service

**ITMS** – a trademarked term for the Intelligent Telecommunications Management System WidePoint provides to the Department of Homeland Security

**MMS** - Managed Mobility Services

**TLM** – telecom lifecycle management

**TM2** – trusted mobility management

**TaaS** – technology management as a service. It allows customers to securely manage the entire lifecycle of their mobile communications assets such as laptops, smartphones, and tablets.

**UCA** – unified communications analytics

## WidePoint Corporation

### WYY (NYSE American) - Buy \$6 Price Target

#### WidePoint Corporation – Income Forecast

Dollars in thousands, except per share data

Fiscal years ended December 31

	2024E					2025E					2026E				
	1QA	2Q	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR	1Q	2Q	4,358	4Q	YEAR
Carrier services	19,382,669	15,237,929	15,673,943	16,848,958	67,143,499	20,739,456	16,304,584	16,771,119	18,028,385	71,843,544	22,191,218	17,445,905	17,945,098	19,290,372	76,872,592
YoY growth	42.5%	7.0%	7.0%	7.0%	15.3%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Managed services	14,824,610	14,400,072	12,969,581	15,011,370	57,205,633	17,048,302	16,560,083	15,174,410	18,013,644	66,796,438	19,605,547	19,044,096	17,754,059	21,616,373	78,020,075
YoY growth	27.0%	15.0%	17.0%	20.0%	19.7%	15.0%	15.0%	17.0%	20.0%	16.8%	15.0%	15.0%	17.0%	20.0%	16.8%
<b>Revenue</b>	<b>34,207,279</b>	<b>29,638,001</b>	<b>28,643,524</b>	<b>31,860,328</b>	<b>124,349,133</b>	<b>37,787,757</b>	<b>32,864,667</b>	<b>31,945,529</b>	<b>36,042,029</b>	<b>138,639,983</b>	<b>41,796,764</b>	<b>36,490,000</b>	<b>35,699,157</b>	<b>40,906,745</b>	<b>154,892,667</b>
YoY growth	35.3%	10.7%	11.3%	12.8%	17.3%	10.5%	10.9%	11.5%	13.1%	11.5%	10.6%	11.0%	11.8%	13.5%	11.7%
Seq growth	21.1%	-13.4%	-3.4%	11.2%		18.6%	-13.0%	-2.8%	12.8%		16.0%	-12.7%	-2.2%	14.6%	
Cost of services															
Carrier	19,382,669	15,237,929	15,673,943	16,848,958	67,143,499	20,739,456	16,304,584	16,771,119	18,028,385	71,843,544	22,191,218	17,445,905	17,945,098	19,290,372	76,872,592
Gross margin %	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Managed services	10,158,719	9,864,050	8,884,163	10,282,788	39,189,720	11,592,845	11,260,857	10,318,599	12,249,278	45,421,578	13,331,772	12,949,985	12,072,760	14,699,134	53,053,651
Gross margin %	31.5%	31.5%	31.5%	31.5%	31.5%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
Total cost of revenue	29,541,388	25,101,978	24,558,106	27,131,747	106,333,219	32,332,301	27,565,440	27,089,718	30,277,663	117,265,122	35,522,990	30,395,890	30,017,858	33,989,506	129,926,243
As a percent of revenue	86.4%	84.7%	85.7%	85.2%	85.5%	85.6%	83.9%	84.8%	84.0%	84.6%	85.0%	83.3%	84.1%	83.1%	83.9%
Gross margin	4,665,891	4,536,023	4,085,418	4,728,582	18,015,913	5,455,456	5,299,227	4,855,811	5,764,366	21,374,860	6,273,775	6,094,111	5,681,299	6,917,239	24,966,424
Sales and marketing	611,893	740,950	716,088	796,508	2,865,439	944,694	821,617	798,638	901,051	3,466,000	1,044,919	912,250	892,479	1,022,669	3,872,317
As a percent of revenue	1.8%	2.5%	2.5%	2.5%	2.3%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
General and administrative	4,448,483	4,149,320	4,010,093	4,460,446	17,068,343	5,101,347	4,436,730	4,312,646	4,865,674	18,716,398	5,433,579	4,743,700	4,640,890	5,317,877	20,136,047
As a percent of revenue	13.0%	14.0%	14.0%	14.0%	13.7%	13.5%	13.5%	13.5%	13.5%	13.5%	13.0%	13.0%	13.0%	13.0%	13.0%
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation and amortization	256,534	300,000	300,000	300,000	1,156,534	300,000	300,000	300,000	300,000	1,200,000	300,000	300,000	300,000	300,000	1,200,000
<b>Operating Income</b>	<b>(651,019)</b>	<b>(654,247)</b>	<b>(940,763)</b>	<b>(828,373)</b>	<b>(3,074,402)</b>	<b>(890,585)</b>	<b>(259,120)</b>	<b>(555,473)</b>	<b>(302,359)</b>	<b>(2,007,537)</b>	<b>(504,724)</b>	<b>138,161</b>	<b>(152,070)</b>	<b>276,694</b>	<b>(241,940)</b>
Operating margin	-1.9%	-2.2%	-3.3%	-2.6%	-2.5%	-2.4%	-0.8%	-1.7%	-0.8%	-1.4%	-1.2%	0.4%	-0.4%	0.7%	-0.2%
Interest income	49,426	25,000	25,000	25,000	124,426	25,000	25,000	25,000	25,000	100,000	25,000	25,000	25,000	25,000	100,000
Interest expense	(58,737)	(55,000)	(55,000)	(55,000)	(223,737)	(55,000)	(55,000)	(55,000)	(55,000)	(220,000)	(55,000)	(55,000)	(55,000)	(55,000)	(220,000)
Other income	(34,781)	(35,000)	(35,000)	(35,000)	(139,781)	(35,000)	(35,000)	(35,000)	(35,000)	(140,000)	-	-	-	-	-
Pretax Income	(695,111)	(719,247)	(1,005,763)	(893,373)	(3,313,494)	(955,585)	(324,120)	(620,473)	(367,359)	(2,267,537)	(534,724)	108,161	(182,070)	246,694	(361,940)
Taxes	(42,091)	-	-	-	(42,091)	-	-	-	-	-	-	-	-	-	-
tax rate	6.1%	0.0%	0.0%	0.0%	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Net income to common</b>	<b>(653,020)</b>	<b>(719,247)</b>	<b>(1,005,763)</b>	<b>(893,373)</b>	<b>(3,271,403)</b>	<b>(955,585)</b>	<b>(324,120)</b>	<b>(620,473)</b>	<b>(367,359)</b>	<b>(2,267,537)</b>	<b>(534,724)</b>	<b>108,161</b>	<b>(182,070)</b>	<b>246,694</b>	<b>(361,940)</b>
Net income margin	-1.9%	-2.4%	-3.5%	-2.8%	-2.6%	-2.5%	-1.0%	-1.9%	-1.0%	-1.6%	-1.3%	0.3%	-0.5%	0.6%	-0.2%
Diluted shares outstanding	8,897,819	8,897,819	8,897,819	8,897,819	8,897,819	8,897,819	8,897,819	8,897,819	8,897,819	8,897,819	8,987,819	9,077,819	9,167,819	9,257,819	9,122,819
Seq change	(87,071)	-	-	-	-	-	-	-	-	-	90,000	90,000	90,000	90,000	-
<b>EPS diluted - continuing</b>	<b>(\$0.07)</b>	<b>(\$0.08)</b>	<b>(\$0.11)</b>	<b>(\$0.10)</b>	<b>(\$0.37)</b>	<b>(\$0.11)</b>	<b>(\$0.04)</b>	<b>(\$0.07)</b>	<b>(\$0.04)</b>	<b>(\$0.25)</b>	<b>(\$0.06)</b>	<b>\$0.01</b>	<b>(\$0.02)</b>	<b>\$0.03</b>	<b>(\$0.04)</b>
<b>EBITDA</b>															
<b>Net loss</b>	(653,020)	(719,247)	(1,005,763)	(893,373)	(3,271,403)	(955,585)	(324,120)	(620,473)	(367,359)	(2,267,537)	(534,724)	108,161	(182,070)	246,694	(361,940)
Depreciation and amortization	833,300	900,000	900,000	900,000	3,533,300	900,000	900,000	900,000	900,000	3,600,000	900,000	900,000	900,000	900,000	3,600,000
Income tax	(42,091)	-	-	-	(42,091)	-	-	-	-	-	-	-	-	-	-
Interest income	(49,426)	(25,000)	(25,000)	(25,000)	(124,426)	(25,000)	(25,000)	(25,000)	(25,000)	(100,000)	(25,000)	(25,000)	(25,000)	(25,000)	(100,000)
Interest expense	58,737	55,000	55,000	55,000	223,737	55,000	55,000	55,000	55,000	220,000	55,000	55,000	55,000	55,000	220,000
Other income	-	35,000	35,000	35,000	105,000	35,000	35,000	35,000	35,000	140,000	-	-	-	-	-
<b>EBITDA</b>	<b>147,500</b>	<b>245,753</b>	<b>(40,763)</b>	<b>71,627</b>	<b>424,117</b>	<b>9,415</b>	<b>640,880</b>	<b>344,527</b>	<b>597,641</b>	<b>1,592,463</b>	<b>395,276</b>	<b>1,038,161</b>	<b>747,930</b>	<b>1,176,694</b>	<b>3,358,060</b>
Loss on factoring receivables	7,282	-	-	-	7,282	-	-	-	-	-	-	-	-	-	-
Stock based comp	417,800	450,000	450,000	450,000	1,767,800	450,000	450,000	450,000	450,000	1,800,000	250,000	250,000	250,000	250,000	1,000,000
<b>Adjusted EBITDA</b>	<b>572,582</b>	<b>695,753</b>	<b>409,237</b>	<b>521,627</b>	<b>2,199,199</b>	<b>459,415</b>	<b>1,090,880</b>	<b>794,527</b>	<b>1,047,641</b>	<b>3,392,463</b>	<b>645,276</b>	<b>1,288,161</b>	<b>997,930</b>	<b>1,426,694</b>	<b>4,358,060</b>
EBITDA margin	1.7%	2.3%	1.4%	1.6%	1.8%	1.2%	3.3%	2.5%	2.9%	2.4%	1.5%	3.5%	2.8%	3.5%	2.8%
YoY growth	2776.6%	395.4%	80.7%	29.0%	177.9%	-19.8%	56.8%	94.1%	100.8%	54.3%	40.5%	18.1%	25.6%	36.2%	28.5%
CAPX	6,494	25,000	25,000	25,000	81,494	100,000	20,000	20,000	20,000	160,000	100,000	20,000	20,000	20,000	160,000
<b>Free Cash Flow</b>	<b>566,088</b>	<b>670,753</b>	<b>384,237</b>	<b>496,627</b>	<b>2,117,705</b>	<b>359,415</b>	<b>1,070,880</b>	<b>774,527</b>	<b>1,027,641</b>	<b>3,232,463</b>	<b>545,276</b>	<b>1,268,161</b>	<b>977,930</b>	<b>1,406,694</b>	<b>4,198,060</b>

Source: Company reports and Litchfield Hills Research LLC

## WYY (NYSE American) - Buy \$6 Price Target

### Disclosures:

#### Analyst Certification

We, the Litchfield Hills Research Department, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company and the underlying securities.

#### FINRA Compliant Research Report

We, the Litchfield Hills Research Department, hereby certify that this report is compliant with FINRA research rules 2241, 3110.

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#### Litchfield Hills Research LLC Rating System

**BUY:** We expect the stock to provide a total return of 15% or more within a 12-month period.

**HOLD:** We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.

**SELL:** We expect the stock to have a negative total return of more than 15% within a 12-month period.

Total return is defined as price appreciation plus dividend yield.

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