

WidePoint Corporation

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

3Q Results – February 21, 2025

Reiterate Buy as WidePoint Wins Major FedRAMP Approval

Analyst: Barry M. Sine, CFA, CMT

- This week, after a long wait, WidePoint received U.S. government cybersecurity FedRAMP certification status for its ITMS (Intelligent Technology System) service. The Department of Homeland Security (DHS) was already a major customer for this service, now WidePoint can sell it more easily across the entire federal government. Despite this news reported by the government, WYY shares are down 6% today as the company has not yet issued a press release.
- DOGE is WidePoint's ally. ITMS reduces costs and improves security. WidePoint also offers telecom billing auditing services that do the same things. Thus it is a natural ally for the DOGE staff now work their way through the federal government to root out fraud.
- The company said in its press release this week "We've been working closely with members of the new presidential administration to help identify federal-related fraud, waste, and abuse."
- In a press release earlier this week, WidePoint announced that it would likely exceed its 2024 revenue guidance and meet or exceed EBITDA and FCF guidance. Given that the first nine months were already trending in this direction, we are not surprised, but it's nice to see the company report it. We expect a significant positive impact on the stock when these results are reported. Last year it reported on March 26, and we expect it to similarly report 4Q results this year.
- More importantly, we think this sets the company up to issue robust guidance for 2025. It has already announced several major contract wins that should start turning into revenue in 2025, including the U.S. Navy Spiral 4 contract.

Rating	Buy	Earnings Per Share				Normalized to exclude unusual items			
Target Price	\$6.00	FYE - December				2023	2024E	2025E	2026E
Ticker Symbol	WYY	1Q - March	2Q - June	3Q - September	4Q - December	Year	Revenue (\$mm)	EV/Rev	EBITDA (\$mm)
Market	NASDAQ	(\$0.11)	(\$0.10)	(\$0.10)	(\$0.15)	(\$0.46)	106.0	0.3X	0.8
Stock Price	\$3.78	(\$0.07) A	(\$0.05) A	(\$0.04) A	(\$0.07)	(\$0.24)	136.0	0.2X	2.3
52 wk High	\$6.25	(\$0.03)	(\$0.03)	(\$0.13)	(\$0.00)	(\$0.20)	150.9	0.2X	3.5
52 wk Low	\$1.83	(\$0.01)	(\$0.01)	(\$0.10)	\$0.05	(\$0.01)	167.9	0.2X	4.6
Shares Outstanding:	9.8 M	EV/EBITDA	39.6X	13.9X	8.9X	6.8X			
Public Market Float:	7.7 M								
Avg. Daily Volume	77,286								
Market Capitalization:	\$37.0 M								
Institutional Holdings:	13.7%								
Dividend Yield:	0.0%								

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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WidePoint is Now FedRAMP Authorized



Intelligent Technology Management System (ITMS)

Now Authorized

The U.S. government just announced that WidePoint received FedRAMP (Federal Risk and Authorization Management Program) certification for its ITMS (Intelligent Telecommunications Management System) service. WidePoint has long provided this service to the Department of Homeland Security. FedRAMP is used by most government agencies ranging from the Administrative Office of the U.S. Courts to the Universal Service Administration Company to certify cybersecurity products. Management has stated that they believe this certification will be a major milestone. There are only 370 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.

Intelligent Technology Management System

Under its Telecom Lifecycle Management (TLM) services, it acquires smartphone or tablet devices on behalf of an 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 employer 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. Now, with FedRAMP certification, WidePoint can more easily sell this service across the U.S. government and not just to DHS. Given the efficiencies and security improvements this service brings, we think it is consistent with the new administration's priorities.

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



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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 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.

With an Earnings Beat Likely, 2024 Results Likely to be a Major Catalyst for the Shares in Late March

WidePoint is on track to exceed 2024 revenue guidance. Last year, it reported 4Q results on March 26 and we expect it to do so around that date this year. This week the company said it expects to exceed revenue guidance. For the first nine months, it had already earned 79% of the \$133 million it guided to, so it is on track to exceed guidance. Our estimate is for revenue of \$136 million, compared to the high end of guidance of \$133 million. Our EBITDA estimate is \$2.3 million versus guidance of \$2.7 million while management this week said it will meet or exceed guidance. Earnings beats generally drive shares higher in the market as the quant trading models respond, but they tend to ignore press releases. So we expect a solid rally in the stock once earnings are released.

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WidePoint Corporation – Income Forecast

Dollars in thousands, except per share data

Fiscal years ended December 31

	2024E					2025E					2026E				
	1QA	2QA	3QA	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR	1Q	2Q	4,618	4Q	YEAR
Carrier services	19,382,669	20,403,280	22,412,970	17,321,359	79,520,278	20,739,456	21,831,510	23,981,878	18,533,854	85,086,697	22,191,218	23,359,715	25,660,609	19,831,224	91,042,766
YoY growth	42.5%	43.3%	53.0%	10.0%	36.6%	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	15,637,493	12,207,463	13,760,423	56,429,989	17,048,302	17,983,117	14,282,732	16,512,507	65,826,657	19,605,547	20,680,584	16,710,796	19,815,008	76,811,936
YoY growth	27.0%	24.9%	10.1%	10.0%	18.1%	15.0%	15.0%	17.0%	20.0%	16.7%	15.0%	15.0%	17.0%	20.0%	16.7%
Revenue	34,207,279	36,040,773	34,620,433	31,081,782	135,950,267	37,787,757	39,814,627	38,264,610	35,046,361	150,913,355	41,796,764	44,040,300	42,371,405	39,646,232	167,854,702
YoY growth	35.3%	34.7%	34.5%	10.0%	28.2%	10.5%	10.5%	10.5%	12.8%	11.0%	10.6%	10.6%	10.7%	13.1%	11.2%
Seq growth	21.1%	5.4%	-3.9%	-10.2%		21.6%	5.4%	-3.9%	-8.4%		19.3%	5.4%	-3.8%	-6.4%	
Cost of services															
Carrier	19,382,669	20,403,280	22,412,970	17,321,359	79,520,278	20,739,456	21,831,510	23,981,878	18,533,854	85,086,697	22,191,218	23,359,715	25,660,609	19,831,224	91,042,766
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	10,744,269	7,515,097	9,494,692	37,912,777	11,592,845	12,228,520	9,640,844	11,145,942	44,608,151	13,135,716	13,855,992	11,196,233	13,276,056	51,463,997
Gross margin %	31.5%	31.3%	38.4%	31.0%	32.8%	32.0%	32.0%	32.5%	32.5%	32.2%	33.0%	33.0%	33.0%	33.0%	33.0%
Total cost of revenue	29,541,388	31,147,549	29,928,067	26,816,051	117,433,055	32,332,301	34,060,029	33,622,722	29,679,796	129,694,848	35,326,934	37,215,707	36,856,843	33,107,280	142,506,763
As a percent of revenue	86.4%	86.4%	86.4%	86.3%	86.4%	85.6%	85.5%	87.9%	84.7%	85.9%	84.5%	84.5%	87.0%	83.5%	84.9%
Gross margin	4,665,891	4,893,224	4,692,366	4,265,731	18,517,212	5,455,456	5,754,597	4,641,888	5,366,565	21,218,506	6,469,830	6,824,593	5,514,563	6,538,953	25,347,939
As a percent of revenue	13.6%	13.6%	13.6%	13.7%	13.6%	14.4%	14.5%	12.1%	15.3%	14.1%	15.5%	15.5%	13.0%	16.5%	15.1%
Sales and marketing	611,893	559,926	530,391	621,636	2,323,846	755,755	796,293	765,292	700,927	3,018,267	835,935	1,101,007	1,059,285	991,156	3,987,384
As a percent of revenue	1.8%	1.6%	1.5%	2.0%	1.7%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.5%	2.5%	2.5%	2.4%
General and administrative	4,448,483	4,542,769	4,352,980	4,040,632	17,384,864	4,723,470	4,976,828	4,783,076	4,380,795	18,864,169	5,015,612	5,284,836	5,084,569	4,757,548	20,142,564
As a percent of revenue	13.0%	12.6%	12.6%	13.0%	12.8%	12.5%	12.5%	12.5%	12.5%	12.5%	12.0%	12.0%	12.0%	12.0%	12.0%
Impairment															
Depreciation and amortization	256,534	252,112	259,980	300,000	1,068,626	300,000	300,000	300,000	300,000	1,200,000	300,000	300,000	300,000	300,000	1,200,000
Operating income	(651,019)	(461,583)	(450,985)	(696,536)	(2,260,123)	(323,768)	(318,523)	(1,206,481)	(15,158)	(1,863,930)	318,283	138,749	(929,291)	490,249	17,991
Operating margin	-1.9%	-1.3%	-1.3%	-2.2%	-1.7%	-0.9%	-0.8%	-3.2%	0.0%	-1.2%	0.8%	0.3%	-2.2%	1.2%	0.0%
Interest income	49,426	51,725	59,882	50,000	211,033	50,000	50,000	50,000	50,000	200,000	25,000	25,000	25,000	25,000	100,000
Interest expense	(58,737)	(72,331)	(52,911)	(55,000)	(238,979)	(55,000)	(55,000)	(55,000)	(55,000)	(220,000)	(55,000)	(55,000)	(55,000)	(55,000)	(220,000)
Other income	(34,781)	(1,534)	99	(2,000)	(38,216)	(2,000)	(2,000)	(2,000)	(2,000)	(8,000)	-	-	-	-	-
Pretax income	(695,111)	(483,723)	(443,915)	(703,536)	(2,326,285)	(330,768)	(325,523)	(1,213,481)	(22,158)	(1,891,930)	288,283	108,749	(959,291)	460,249	(102,009)
Taxes	(42,091)	15,828	(18,705)	-	(44,968)	-	-	-	-	-	-	-	-	-	-
Tax rate	6.1%	-3.3%	4.2%	0.0%	1.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income to common	(653,020)	(499,551)	(425,210)	(703,536)	(2,281,317)	(330,768)	(325,523)	(1,213,481)	(22,158)	(1,891,930)	288,283	108,749	(959,291)	460,249	(102,009)
Net income margin	-1.9%	-1.4%	-1.2%	-2.3%	-1.7%	-0.9%	-0.8%	-3.2%	-0.1%	-1.3%	0.7%	0.2%	-2.3%	1.2%	-0.1%
Diluted shares outstanding	8,897,819	9,390,154	9,485,508	9,485,508	9,314,747	9,485,508	9,485,508	9,485,508	9,485,508	9,485,508	9,575,508	9,665,508	9,755,508	9,845,508	9,710,508
Seq change	(87,071)	492,335	95,354	-	-	-	-	-	-	-	90,000	90,000	90,000	90,000	90,000
EPS diluted - continuing	(\$0.07)	(\$0.05)	(\$0.04)	(\$0.07)	(\$0.24)	(\$0.03)	(\$0.03)	(\$0.13)	(\$0.00)	(\$0.20)	\$0.03	\$0.01	(\$0.10)	\$0.05	(\$0.01)
EBITDA															
Net loss	(653,020)	(499,551)	(425,210)	(703,536)	(2,281,317)	(330,768)	(325,523)	(1,213,481)	(22,158)	(1,891,930)	288,283	108,749	(959,291)	460,249	(102,009)
Depreciation and amortization	833,300	906,900	821,700	800,000	3,361,900	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)	15,800	(18,700)	-	(44,991)	-	-	-	-	-	-	-	-	-	-
Interest income	(49,426)	(51,725)	(59,882)	(50,000)	(211,033)	(50,000)	(50,000)	(50,000)	(50,000)	(200,000)	(25,000)	(25,000)	(25,000)	(25,000)	(100,000)
Interest expense	58,737	72,400	52,900	55,000	239,037	55,000	55,000	55,000	55,000	220,000	55,000	55,000	55,000	55,000	220,000
Other income	-	-	-	2,000	2,000	2,000	2,000	2,000	2,000	8,000	-	-	-	-	-
EBITDA	147,500	443,824	370,808	103,464	1,065,596	576,232	581,477	(306,481)	884,842	1,736,070	1,218,283	1,038,749	(29,291)	1,390,249	3,617,991
Loss on factoring receivables	7,282	1,666	-	-	8,948	-	-	-	-	-	-	-	-	-	-
Stock based comp	417,800	365,900	202,600	200,000	1,186,300	450,000	450,000	450,000	450,000	1,800,000	250,000	250,000	250,000	250,000	1,000,000
Adjusted EBITDA	572,582	811,390	573,408	303,464	2,260,844	1,026,232	1,031,477	143,519	1,334,842	3,536,070	1,468,283	1,288,749	220,709	1,640,249	4,617,991
EBITDA margin	1.7%	2.3%	1.7%	1.0%	1.7%	2.7%	2.6%	0.4%	3.8%	2.3%	3.5%	2.9%	0.5%	4.1%	2.8%
YoY growth	2776.6%	477.8%	153.1%	-25.0%	185.7%	79.2%	27.1%	-75.0%	339.9%	56.4%	43.1%	24.9%	53.8%	22.9%	30.6%
CAFX	6,494	11,507	62,701	50,000	130,702	100,000	20,000	20,000	20,000	160,000	100,000	20,000	20,000	20,000	160,000
Free Cash Flow	566,088	799,883	510,707	253,464	2,130,142	926,232	1,011,477	123,519	1,314,842	3,376,070	1,368,283	1,268,749	200,709	1,620,249	4,457,991
As a percent of revenue	1.7%	2.2%	1.5%	0.8%	1.6%	2.5%	2.5%	0.3%	3.8%	2.2%	3.3%	2.9%	0.5%	4.1%	2.7%

Source: Company reports and Litchfield Hills Research LLC



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