

SilverSun Technologies Inc.

SSNT: Acquisition and Strategic Partnership with CyberHat

SilverSun Technologies announced Q1 earnings last week and announced the acquisition of a software solutions provider, Info Sys Management Inc. They also announced their entry into the Security-as-a-Service business, with a strategic partnership through CyberHat, an emerging leader in the Cybersecurity space. SSNT's revenues for 1Q18 were \$9.3M, a 16% Y/Y increase, and GAAP EPS were \$0.01. For 1Q18, we were expecting topline of \$8.7M and EPS of \$0.03. We believe SSNT's Management is executing very well as demonstrated by the success of the Master value-added (VAR) program which has led to growth in customer base by 25%. We are encouraged by the acquisition as well as the entry into the Cybersecurity space via CyberHat. We maintain our \$7 PT on SSNT.

- Robust revenue growth.** SSNT's revenue in 1Q18 was \$9.3M, a 16% Y/Y increase, and GAAP EPS was \$0.01. Software sales increased 80% to \$1.6 million, driven by the success of its Master VAR program, and services revenue grew 8% to \$7.6M. Management stated that it was the best quarter for the sales of Sage Enterprise Management and the Acumatica product offerings. SSNT's Partner Success Program (PSP) has grown the customer base by over 25%. The company's managed services business grew revenues 21% in 1Q18. SSNT's gross margins increased to 42.3% during the 1Q18 (vs 4Q17 GM of 47.5%). The company has been successful in adding ~3,000 new customers as a result of the PSP, and will enable the company to cross-sell to these new customers with its ~35 application software products and services.
- Acquisition of ISM; New strategic partnership with CyberHat.** SilverSun announced earlier this week that the company has acquire Portland, Oregon-based software reseller, Info Sys Management Inc. (ISM) for \$1.7 million. ISM is a reseller of Sage Software and Acumatica solutions, and it also provides hosting services for business applications in the West Coast as well as nationally. ISM's F'17 revenues were in excess of \$4.5 million. We believe ISM will be a valuable addition and integrate into SSNT's business because it is a reseller of Sage Software and Acumatica Solutions both of which are key services for SilverSun. The company also struck a partnership with CyberHat, an emerging leader in the Cybersecurity space. This partnership will enable SSNT to provide a Fortune 500-level security service to the mid-market at reasonable prices, and also enable the company to pursue larger sized customers than its core SMB customer base especially on the Managed Service Provider side. We note that more advanced managed services will enable SSNT to grow its recurring revenues from current levels of ~41%. The services offered by SilverSun and CyberHat will include security operations center, incident response, cybersecurity assessments, and hacking simulations.
- We increase our F'18 estimates.** Our prior F'18 revenue estimate was \$38.4 million. Our new topline estimate for F'18 now stands at \$39.6 million, which incorporates partial year revenues from the company's Info Sys Management acquisition as well as the new Security-as-a-Service business entry. We are optimistic regarding the company's prospects, as management is executing their strategy very well. We lift our F'18 EPS estimates to \$0.24 from our prior EPS estimate of \$0.21.
- Our PT remains at \$7.** Our PT for SSNT is based on an EV/Sales multiple of 0.9x applied to the company's 2018 revenue estimate of \$39.6 million. Value added resellers tend to trade at an EV/NTM sales multiple of 1x-3x, whereas subscription software vendors tend to trade at an EV/NTM sales multiple of 3x-5x based on topline growth rates. The company is currently trading at 0.5x EV/Sales and should trade at a higher multiple.

See page 4 for analyst certification and important disclosures.

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Earnings Outperform

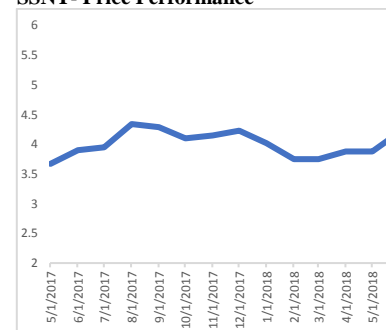
SilverSun Technologies Inc.
 Price: \$4.09

Target Price: \$7.00

Software

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SSNT- Price Performance



SilverSun Technologies Inc. (SSNT)

	F'2017	F'2018E
EPS Reported (\$)		
Q1 (March)	0.03	\$0.01
Q2 (June)	0.03	\$0.07
Q3 (Sep)	0.07	\$0.07
Q4 (Dec)	(0.24)	\$0.08
FY	(0.11)	0.24

Source: Company Data, WestPark Capital Estimates

Company Data

Price (\$)	4.09
Date of Price	22-May-18
52-week range	5.22-2.90
Market Cap (US\$ m)	18.41
Shares Outstanding (M)	4.50
Dividend (Special)	0.08
Fiscal year	31-Dec
Dividend Yield	N/A
Target Price (\$)	\$7.00

Exhibit 1: SSNT- Comparable Companies (as of May 22, 2018)

Company Name	Symbol	Price	Market Cap (in US\$M)	Enterprise Value	Cash	Debt	TTM			Valuation Metrics		
							Sales	EBITDA (in \$M)	EPS	EV/Sales	EV/EBITDA	TTM P/E
<u>Software and IT Services</u>												
Edgewater Technology Inc.	EDGW	\$5.59	\$80	\$82	8	10	\$102	(\$3)	(\$2.14)	0.8x	N/A	N/A
NetSol Technologies Inc.	NTWK	\$5.95	\$68	\$68	10	10	\$60	\$4	(\$0.20)	1.1x	17.6x	N/A
Wayside Technology Group Inc.	WSTG	\$14.20	\$64	\$59	6	0	\$449	\$8	\$1.13	0.1x	7.1x	12.6x
Park City Group Inc.	PCYG	\$7.35	\$145	\$136	15	5	\$21	\$4	\$0.14	6.5x	36.5x	52.5x
Upland Software Inc.	UPLD	\$31.59	\$680	\$771	22	113	\$98	\$16	(\$1.02)	7.9x	48.6x	N/A
ClearOne Inc.	CLRO	\$5.80	\$48	\$41	7	0	\$43	(\$1)	(\$1.34)	1.0x	N/A	N/A
PCM Inc.	PCMI	\$12.40	\$147	\$390	9	252	\$2,190	\$29	\$0.24	0.2x	13.3x	51.7x
RCM Technologies Inc.	RCMT	\$4.97	\$61	\$92	0	32	\$191	\$8	\$0.17	0.5x	12.3x	29.2x
GSE Systems Inc.	GVP	\$3.15	\$62	\$43	19	0	\$71	\$3	\$0.27	0.6x	16.4x	11.7x
Intelligent Systems Corp.	INS	\$7.50	\$66	\$51	14	0	\$9	(\$1)	\$0.05	5.5x	N/A	150.0x
Asure Software Inc.	ASUR	\$16.52	\$208	\$299	26	117	\$63	\$10	(\$0.53)	4.7x	31.0x	N/A
Datawatch Corporation	DWCH	\$9.10	\$116	\$111	15	10	\$38	(\$5)	(\$0.21)	2.9x	N/A	N/A
SilverSun Technologies Inc.	SSNT	\$4.09	\$18	\$17	2	0	\$36	\$1.33	(\$0.11)	0.5x	12.8x	N/A
Average (ex-SSNT)										2.7x	22.9x	51.3x

Source: Company Data, Thomson, Capital IQ, WestPark Capital Estimates

- **Valuation disparity with comp group widened during 2Q18.** The companies peer group of 12 publicly-traded companies operating in the Software and IT Services under a market cap of \$1 billion is now trading at an average EV/Sales multiple of 2.7x (vs. 2.3x in 1Q18). SilverSun currently trades at only 0.5x EV/Sales, and we believe this valuation disparity should close over time and SSNT should trade more in line with its VAR peers. Our price target of \$7 is based on an EV/Sales multiple of 0.9x. The company's growth initiatives including acquisitions of other smaller software VARs as well as its Master VAR program have shown early signs of success. We are encouraged by management's execution, and we remain optimistic on the prospects of SSNT.

Financial Model

Exhibit: SSNT- Income Statement (in US\$ 000s, except for per share data)

Details	2016	2017	1Q18	2Q18E	3Q18E	4Q18E	2018E	2019E	2020E
Revenues:									
Software products	\$4,708	\$5,275	\$1,635	\$1,822	\$2,012	\$1,615	\$7,084	\$8,443	\$9,245
Y/Y Growth	11%	12%	80%	27%	25%	22%	34%	19%	10%
Services	29,414	\$29,577	\$7,675	\$7,781	\$8,854	\$8,247	32,558	35,326	37,975
Y/Y Growth	26%	1%	8%	10%	11%	11%	10%	9%	8%
Total Revenues	34,122	34,852	9,310	9,603	10,867	9,862	39,643	43,768	47,220
Y/Y Growth	23.4%	2.1%	16.3%	12.9%	13.4%	12.7%	13.7%	10.4%	7.9%
Cost of Revenues:									
Software Products	2,485	\$2,600	878	865	953	767	3,463	4,036	4,410
Services	18,910	\$18,387	4,491	4,786	5,401	4,932	19,611	21,372	22,899
Total Cost of revenues	21,395	20,987	5,369	5,652	6,354	5,699	23,074	25,408	27,309
Gross Profit	12,727	13,865	3,941	3,952	4,513	4,163	16,569	18,361	19,911
Gross Margin	37.3%	39.8%	42.3%	41.1%	41.5%	42.2%	41.8%	41.9%	42.2%
Operating Expenses:									
Selling and marketing	4,358	\$4,850	1,596	1,294	1,505	1,347	5,743	5,966	6,139
G&A	6,374	\$7,354	2,060	2,029	2,343	2,105	8,537	8,801	9,113
Stock-based comp (SBC)	43	\$102	54	38	43	39	175	182	189
Depreciation and amortization	685	\$620	143	159	185	166	652	799	803
Total Operating Expenses	11,460	12,926	3,852	3,521	4,077	3,658	15,107	15,748	16,244
Operating Income (EBIT)	1,267	939	88	431	436	506	1,461	2,613	3,667
EBIT Margin	3.7%	2.7%	0.9%	4.5%	4.0%	5.1%	3.7%	6.0%	7.8%
Interest expense	(65)	(\$31.7)	(\$7)	(\$11)	(\$11)	(\$11)	(\$40)	(\$39)	(\$34)
Other income (loss)	10	\$0	0	0	0	0	0	0	0
Total Other Expense	(55)	(32)	(7)	(11)	(11)	(11)	(40)	(39)	(34)
Pre-tax Earnings (EBT)	1,213	908	82	420	425	495	1,422	2,574	3,633
EBT Margin	4%	3%	1%	4%	4%	5%	4%	6%	8%
Income tax benefit (expense)	2,224	(\$1,394)	(23)	(105)	(106)	(124)	(358)	(644)	(908)
Net Income	3,436	(486)	58	315	319	371	1,063	1,931	2,725
Net income Margin	10.1%	-1.4%	0.6%	3.3%	2.9%	3.8%	2.7%	4.4%	5.8%
Diluted EPS	\$0.77	(\$0.11)	\$0.01	\$0.07	\$0.07	\$0.08	\$0.24	\$0.43	\$0.60
Y/Y Growth								81%	41%
Diluted Shares (in M)	4,473	4,489	4,494	4,514	4,525	4,546	4,498	4,510	4,519
Dividends per share	\$0.06	\$0.08	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
EBIT	1,267	939	88	431	436	506	1,461	2,613	3,667
Depreciation and Amortization	685	620	143	159	185	166	652	799	803
EBITDA	\$1,952	\$1,560	\$231	\$590	\$621	\$671	\$2,113	\$3,412	\$4,470
EBITDA Margin	6%	4%	2%	6%	6%	7%	5%	8%	9%

Source: WestPark Capital Estimates, Company Data

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