

## SilverSun Technologies Inc.

### SSNT: Growth in SMB Customers is Key Focal Point; Maintain our \$7 PT.

SilverSun Technologies announced Q4 earnings earlier this week, with topline growth ahead of our expectations. Revenues for 4Q17 were \$8.8 million, a 6% Y/Y increase, and a GAAP EPS loss of (\$0.24), which was driven by one time deferred tax impairment charges from the change in the tax code during Q4. For 4Q17, we were expecting revenues of \$8.5 million and EPS of \$0.05. We believe SSNT will continue to add more SMB and Enterprise software clients through its Master value-added reseller (VAR) program. Management hopes to add an additional ~3,000 customers, and grow its recurring revenue base from current levels of ~41% by offering more SaaS solutions and advanced managed services to its SMB clients. We maintain our Outperform rating and \$7 PT.

- Growing SMB customers a big positive.** The company's topline in Q4 2017 was \$8.8 million, a 6% Y/Y increase, and GAAP EPS loss of (\$0.24). The company's GAAP EPS loss was driven by one-time deferred tax impairment charges due to the 2017 Fed Tax Code changes as well as one-time increases in certain operating costs. The company's EBITDA stood at \$1.56 million for F'17, below our estimate of \$1.99 million driven by increase in OpenX. The major positive of the company has been the company's Master VAR program which will enable SSNT to add as much as ~3,000 customers from the consolidation of the reseller channel. The company currently resells and implements ~35 third-party application software products that serves ~3,300 SMBs and ~100 Enterprise clients, and this growth in the Master VAR program could potentially double its customer count. Silver Sun's recurring revenue was ~41% in F'17, and management expects it to grow even more in the future as it offers more advanced managed services and SaaS solutions to its SMB clients. The company's balance sheet remains healthy with \$2.2 million in cash and a deferred revenue balance of \$2.2 million at the end of 2017.
- Master VAR program and consolidation are key drivers.** The company has been executing on its business plans as evidenced by the preliminary results of its Master VAR program, under which it will be able to participate in the consolidation of its reseller channel, and increase the number of customers served by ~3,000 in F'18. Worth noting, SilverSun is already one of the top resellers of Sage's ERP offerings. The revenue mix for SSNT is skewed towards Services revenue, which made up 85% of its total revenues in F'17. The success of its Master VAR program will enable the company to grow its software sales and increase the service revenues as well. Management expects top and bottom line growth from the Master VAR program, and grow recurring revenues to even higher levels. The company has been acquisitive in the past, and will continue to look at buying smaller software resellers and managed services providers.
- Our F'18 estimates change slightly.** Our prior F'18 revenue estimate was \$38 million. Our topline estimate for F'18 now stands at \$38.4 million. We remain optimistic about SSNT's growth prospects from its three business segments. Our EPS estimate for F'18 now stands at \$0.21, down from our prior EPS estimate of \$0.29 to take into account a slightly lower gross margin and marginally higher OpEx.
- Maintain our Outperform Rating and \$7 PT.** Our PT is based on an EV/Sales multiple of 0.9x applied to the company's 2018 revenue estimate of \$38.4 million. Value added resellers (VARs) tend to trade at a multiple of 1x-3x, whereas subscription software vendors tend to trade at an EV/NTM sales of 3x-5x based on their revenue growth rates. In our view, the company's current EV/Sales multiple of 0.5x is relatively low, and should trade at a higher multiple.

See page 4 for analyst certification and important disclosures.

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## Earnings Outperform

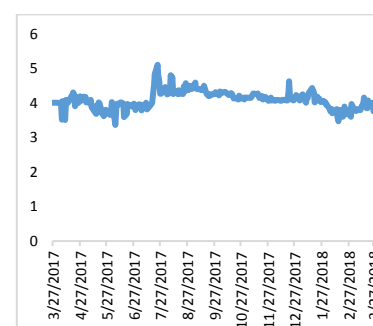
SilverSun Technologies Inc.  
 Price: \$3.85

**Target Price: \$7.00**

## Software

**Ishfaque Faruk<sup>AC</sup>**  
 (347) 429-8375  
 ifaruk@wpcapital.com

## SSNT- Price Performance



## SilverSun Technologies Inc. (SSNT)

	F'2016	F'2017
EPS Reported (\$)		
Q1 (March)	0.02	0.03
Q2 (June)	0.12	0.03
Q3 (Sep)	0.61	0.07
Q4 (Dec)	0.01	(0.24)
FY	0.77	(0.11)

Source: Company Data, WestPark Capital Estimates

## Company Data

Price (\$)	3.85
Date of Price	29-Mar-18
52-week range	5.22-2.90
Market Cap (US\$ m)	17.29
Shares Outstanding (M)	4.49
Dividend (Special)	0.08
Fiscal year	31-Dec
Dividend Yield	N/A
Target Price (\$)	\$7.00

**Exhibit 1: SSNT- Comparable Companies** (as of March 27, 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	\$5.52	\$77	\$70	13	5	\$114	\$7	(\$0.54)	0.6x	9.7x	N/A
NetSol Technologies Inc.	NTWK	\$4.65	\$53	\$54	9	10	\$65	\$6	(\$0.46)	0.8x	9.7x	N/A
GlobalScape Inc.	GSB	\$3.52	\$76	\$50	26	0	\$34	\$7	\$0.19	1.5x	7.6x	18.5x
Wayside Technology Group Inc.	WSTG	\$13.10	\$59	\$55	4	0	\$435	\$9	\$1.35	0.1x	6.2x	9.7x
Park City Group Inc.	PCYG	\$8.80	\$171	\$158	15	2	\$19	\$4	\$0.14	8.1x	38.4x	62.9x
Upland Software Inc.	UPLD	\$28.67	\$596	\$634	53	92	\$89	\$12	(\$0.95)	7.1x	52.0x	N/A
ClearOne Inc.	CLRO	\$7.55	\$64	\$40	23	0	\$43	(\$1)	(\$1.34)	0.9x	N/A	N/A
PCM Inc.	PCMI	\$8.10	\$95	\$293	8	206	\$2,220	\$38	\$0.79	0.1x	7.7x	10.3x
RCM Technologies Inc.	RCMT	\$5.69	\$68	\$77	1	9	\$180	\$8	\$0.13	0.4x	10.2x	44.4x
GSE Systems Inc.	GVP	\$3.26	\$63	\$47	16	0	\$62	\$2	\$0.05	0.8x	19.1x	65.3x
Intelligent Systems Corp.	INS	\$5.06	\$44	\$28	17	0	\$9	(\$1)	\$0.12	3.0x	N/A	42.2x
Asure Software Inc.	ASUR	\$13.53	\$169	\$217	28	76	\$49	\$7	(\$0.43)	4.4x	32.4x	N/A
Datawatch Corporation	DWCH	\$8.55	\$105	\$74	30	0	\$36	(\$3)	(\$0.33)	2.1x	N/A	N/A
SilverSun Technologies Inc.	SSNT	\$3.83	\$17	\$15	2	0	\$35	\$2	(\$0.11)	0.5x	10.4x	N/A
Average (ex-SSNT)										2.3x	19.3x	36.2x

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

- **SSNT is still trading at a steep discount to Software and IT Services comps.** In our initiation report on Jan 2018, we highlighted a peer group of 13 publicly-traded companies operating in the Software and IT Services space under a market cap of \$500 million. This group currently trades at an EV/Sales multiple of 2.3x. Whereas, SilverSun trades at only 0.5x EV/Sales. We argue for a complete collapse of this valuation disparity, and thus we believe over time SSNT will trade in-line with these publicly traded comps. Our PT of \$7 is predicated on an EV/Sales multiple of 0.9x. In addition, if the company makes sizable acquisitions in the Value-added reseller (VAR) space, the company can drive its revenues and EPS growth higher. We are optimistic about the company's organic growth prospects of its software applications, technology solutions and managed services business as well.

## Financial Model

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

Details	2016A	1Q17	2Q17	3Q17	4Q17	2017	1Q18E	2Q18E	3Q18E	4Q18E	2018E	2019E	2020E
<b>Revenues:</b>													
Software products	\$4,708	\$907	\$1,435	\$1,610	\$1,324	\$5,275	\$1,043	\$1,664	\$1,848	\$1,532	\$6,087	\$6,870	\$7,509
Y/Y Growth	11%	5%	21%	-6%	-6%	12%	15%	16%	15%	16%	15%	13%	9%
Services	29,414	7,096	7,074	7,977	7,430	\$29,577	\$7,699	\$7,704	\$8,727	\$8,151	32,280	35,024	37,581
Y/Y Growth	26%	2%	-4%	2%	2%	1%	9%	9%	9%	10%	9%	9%	7%
<b>Total Revenues</b>	<b>34,122</b>	<b>8,003</b>	<b>8,509</b>	<b>9,587</b>	<b>8,754</b>	<b>34,852</b>	<b>8,742</b>	<b>9,368</b>	<b>10,575</b>	<b>9,682</b>	<b>38,367</b>	<b>41,894</b>	<b>45,090</b>
Y/Y Growth	23.4%	2.8%	-0.6%	0.6%	6.2%	2.1%	9.2%	10.1%	10.3%	10.6%	10.1%	9.2%	7.6%
<b>Cost of Revenues:</b>													
Software Products	2,485	435	789	761	615	\$2,600	493	790	875	728	2,885	3,284	3,582
Services	18,910	4,181	4,316	5,038	4,853	\$18,387	4,809	4,739	5,323	4,874	19,745	21,189	22,661
Total Cost of revenues	21,395	4,616	5,105	5,799	5,467	20,987	5,301	5,529	6,198	5,602	22,630	24,473	26,243
<b>Gross Profit</b>	<b>12,727</b>	<b>3,387</b>	<b>3,404</b>	<b>3,788</b>	<b>3,286</b>	<b>13,865</b>	<b>3,440</b>	<b>3,839</b>	<b>4,377</b>	<b>4,081</b>	<b>15,737</b>	<b>17,421</b>	<b>18,847</b>
Gross Margin	37.3%	42.3%	40.0%	39.5%	37.5%	39.8%	39.4%	41.0%	41.4%	42.1%	41.0%	41.6%	41.8%
<b>Operating Expenses:</b>													
Selling and marketing	4,358	1,147	1,275	1,182	1,246	\$4,850	1,211	1,262	1,465	1,323	5,261	5,548	5,862
G&A	6,374	1,705	1,779	1,903	1,967	\$7,354	1,843	1,980	2,280	2,067	8,169	8,373	8,702
Stock-based comp (SBC)	43	76	8	8	8	\$102	35	37	42	39	153	168	180
D&A	685	171	149	146	155	\$620	147	155	180	163	644	772	767
Total Operating Expenses	11,460	3,099	3,212	3,238	3,377	12,926	3,235	3,434	3,967	3,591	14,228	14,860	15,511
<b>Operating Income (EBIT)</b>	<b>1,267</b>	<b>288</b>	<b>192</b>	<b>549</b>	<b>(90)</b>	<b>939</b>	<b>205</b>	<b>405</b>	<b>410</b>	<b>490</b>	<b>1,509</b>	<b>2,560</b>	<b>3,336</b>
EBIT Margin	3.7%	3.6%	2.3%	5.7%	-1.0%	2.7%	2.3%	4.3%	3.9%	5.1%	3.9%	6.1%	7.4%
Interest expense	(65)	(8)	(9)	(8)	(6)	(\$31.7)	(\$11)	(\$11)	(\$11)	(\$11)	(\$44)	(\$39)	(\$34)
Other income (loss)	10	0	0	0	0	\$0	0	0	0	0	0	0	0
Total Other Expense	(55)	(8)	(9)	(8)	(6)	(32)	(11)	(11)	(11)	(11)	(44)	(39)	(34)
<b>Pre-tax Earnings (EBT)</b>	<b>1,213</b>	<b>280</b>	<b>183</b>	<b>541</b>	<b>(97)</b>	<b>908</b>	<b>194</b>	<b>394</b>	<b>399</b>	<b>479</b>	<b>1,465</b>	<b>2,521</b>	<b>3,302</b>
EBT Margin	4%	3%	2%	6%	-1%	3%	2%	4%	4%	5%	4%	6%	7%
Income tax benefit (expense)	2,224	(126)	(63)	(223)	(982)	(\$1,394)	(68)	(138)	(139)	(168)	(513)	(883)	(1,156)
<b>Net Income</b>	<b>3,436</b>	<b>154</b>	<b>120</b>	<b>318</b>	<b>(1,079)</b>	<b>(486)</b>	<b>126</b>	<b>256</b>	<b>259</b>	<b>311</b>	<b>953</b>	<b>1,639</b>	<b>2,146</b>
Net income Margin	10.1%	1.9%	1.4%	3.3%	-12.3%	-1.4%	1.4%	2.7%	2.4%	3.2%	2.5%	3.9%	4.8%
<b>Diluted EPS</b>	<b>\$0.77</b>	<b>\$0.03</b>	<b>\$0.03</b>	<b>\$0.07</b>	<b>(\$0.24)</b>	<b>(\$0.11)</b>	<b>\$0.03</b>	<b>\$0.06</b>	<b>\$0.06</b>	<b>\$0.07</b>	<b>\$0.21</b>	<b>\$0.36</b>	<b>\$0.47</b>
Y/Y Growth												72%	31%
<b>Diluted Shares (in M)</b>	<b>4,473</b>	<b>4,490</b>	<b>4,494</b>	<b>4,494</b>	<b>4,494</b>	<b>4,489</b>	<b>4,498</b>	<b>4,514</b>	<b>4,525</b>	<b>4,546</b>	<b>4,498</b>	<b>4,510</b>	<b>4,519</b>
Dividends per share	\$0.06	\$0.02	\$0.02	\$0.00	\$0.04	\$0.08	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
EBIT	1,267	288	192	549	(90)	939	205	405	410	490	1,509	2,560	3,336
D&A	685	171	149	146	155	620	147	155	180	163	644	772	767
<b>EBITDA</b>	<b>\$1,952</b>	<b>\$459</b>	<b>\$341</b>	<b>\$695</b>	<b>\$64</b>	<b>\$1,560</b>	<b>\$352</b>	<b>\$560</b>	<b>\$589</b>	<b>\$652</b>	<b>\$2,154</b>	<b>\$3,332</b>	<b>\$4,102</b>
EBITDA Margin	6%	6%	4%	7%	1%	4%	4%	6%	6%	7%	6%	8%	9%

Source: WestPark Capital Estimates, Company Data

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