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Initial Research Report

Investors should consider this report as only a single factor in making their investment decision.

Phunware, Inc.

Rating: Speculative Buy

Howard Halpern

PHUN $0.68 — (NASDAQ)

May 19, 2020

	2017 A	2018 A*	2019 A	***2020 E***	***2021 E***
Revenue (in millions)	$26.7	$22.5	$19.2	***$12.3***	***$16.0***
Earnings (loss) per share	($1.06)	($0.38)	($0.35)	***($0.33)***	***($0.30)***

52-Week range	$6.09 – $0.54	Fiscal year ends:	December
Shares outstanding a/o 05/12/20	41.0 million	Revenue/shares (ttm)	$0.42
Approximate float	32.3 million	Price/Sales (ttm)	1.6X
Market Capitalization	$27.9 million	Price/Sales (2021) E	1.7X
Tangible Book value/shr	($0.61)	Price/Earnings (ttm)	NMF
Price/Book	NMF	Price/Earnings (2021) E	NMF

**Excludes $8.4 million in one-time revenue stemming from the company becoming publicly traded in 2018.*

Phunware Inc., headquartered in Austin, Texas, designed and developed the Multiscreen-as-a-Service (MaaS) platform, a fully integrated enterprise cloud platform for mobile to its customers. MaaS platform provides customers with the products, solutions, data and services needed to build, manage, and monetize their mobile application portfolios at scale. PHUN's MaaS technology platform includes its patented location based services technology and service offerings.

Key Investment Considerations:

Initiating Phunware, Inc., with a Speculative Buy rating and a 12-month price target of $1.50 per share based on our 2021 revenue forecast.

Phunware has substantial growth potential for its Multiscreen-as-a-Service (MaaS) technology platform that includes its patented location based service technology and service offerings within markets such as healthcare, smart cities, and corporate campuses. Analysts project the mobile healthcare and smart cities markets could generate revenue of nearly $214 billion in 2025 and $464 billion in 2027, respectively.

Supporting our forecast to 2021 is PHUN's nearly $11 million (approximately 18-month) backlog of projects and deferred revenue that was supported by recent deployments of its MaaS technology platform and services.

Through May 2020, healthcare customer deployments included one of the largest US teaching hospitals located in New York and one of the largest health systems in the US. The NY hospital deployed PHUN's mobile healthcare solution offering to enhance the patient experience and address COVID-19 pandemic challenges. The health system deployed the patented location based services offering to over 30 facilities covering more than 22 million square feet to assist with the customer's digital front door, to engage patients with their care, and to optimize operational and staff efficiencies.

In April 2020, Phunare announced the addition of a global multinational customer that intends to leverage the MaaS technology platform to manage its room bookings, enable positioning, wayfinding and navigation throughout its facilities, as well as enable employee location sharing.

For 2020, we project a net loss of $13.6 million or ($0.33) per share on revenue of $12.3 million. Our revenue forecast reflects reduced expectations in 1H20 due to the impact of COVID-19 pandemic conditions.

For 2021, we project a net loss of $12.1 million or ($0.30) per share on 30.5% revenue growth to $16 million, reflecting COVID-19 conditions easing and new customer deployments of higher margin recurring revenue.

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Appreciation Potential

Initiating Phunware, Inc., with a Speculative Buy rating and a 12-month price target of $1.50 per share based on our 2021 revenue forecast. Our price target should be supported by the company growing its customer-base of higher margin recurring revenue to 2021. Recurring quarterly revenue has grown to $2.4 million in 1Q20, up from approximately $700,000 in 1Q18. The company has accomplished recurring revenue growth through increasing its average customer contract length by 50% to 18-months and average contract value by 250% to $250,000. We anticipate recurring quarterly revenue could reach at least $3.5 million in 4Q21. Our revenue forecasts does not include the potential for its offering to penetrate additional markets (entertainment, aviation, hospitality, etc.) or one-time project work for political campaigns during the 2020 election cycle.

Our rating reflects the recent deployments of the company's MaaS technology platform in March/April/May 2020 even during the COVID-19 pandemic environment. In March 2020, its location based services technology and service offering was deployed by one of the largest US health systems within 30 facilities covering more than 22 million square feet. In April 2020, a global multinational customer plans to use the company's technology to manage its room bookings, enable positioning, wayfinding and navigation throughout its facilities, as well as enable employee location sharing. In May 2020, one of the largest US teaching hospitals located in New York deployed PHUN's mobile healthcare solution.

We also anticipate the company will continue to enhance its portfolio of service offerings based on its MaaS technology platform and patented location based service technology, as it strives to become an integral part of the cloud-based big data mobile apps infrastructure.

Our 12-month price target of $1.50 per share implies shares could more than double over the next twelve months. According to finviz, the average trailing twelve-month price-to-sales multiple for companies in the Software – Applications and Infrastructure sectors is 4.6X. PHUN's trailing twelve-month price-to-sales multiple is 1.7X. We anticipate investors are likely to accord PHUN the sector multiple given that PHUN's forecasted sales growth of 30.1% for 2021 exceeds the estimated 13% sales growth for the industry. We applied the current trailing twelve-month price-to-sales multiple of 4.6X to our 2021 sales per share forecast of $0.39, discounted for execution and COVID-19 risks, to obtain a year-ahead price target of approximately $1.50 per share.

A higher valuation of Phunware is likely to be supported by quarterly sequential sales growth that should begin in 2H20, a narrowing of operating losses, reduced cash burn, and an increase in its recurring revenue customer-base. In 2021, we forecast PHUN's operating losses narrowing to $11.1 million from an estimated loss of $13 million in 2020. The company's cash burn should narrow to $8.8 million in 2021 from $10.3 million in 2020.

We believe Phunware, Inc. is most suitable for high-risk tolerant investors that seek exposure to a micro cap company providing an integrated enterprise cloud MaaS technology platform for mobile to its customers.

Overview

Phunware Inc., headquartered in Austin, Texas, is a provider of the Multiscreen-as-a-Service (MaaS) platform, which is a fully integrated enterprise cloud platform for mobile infrastructures in order to provide companies the products, solutions, data, and services needed to build, manage, and monetize their mobile application portfolios at scale. PHUN's technology includes its patented location based service technology that provides in real-time unique features that include indoor and offshore tracking (as well as outdoor and onshore tracking) on the ground, in large buildings, and in the air. The offering meets the needs of the hearing and visually impaired and people that are in wheelchairs.

The company's mission is to assist customers in defining their brands, as well as to create, launch, promote, monetize and scale their mobile identities as a means to anchor consumers brand interactions. PHUN's MaaS technology platform of service offerings provides the entire mobile lifecycle of applications, media and data in one login through one procurement relationship at scale.

Phunware is striving through its development of technologies and services to become an integral part of the cloud-based big data mobile apps infrastructure. Over time, the company aims to dominate the intersection of mobile, cloud, and big data, enabling consumers to take control over how their data is used, shared and monetized.

History

Phunware, Inc. was incorporated in February 2009. On February 27, 2018, Phunware entered into an agreement and plan of merger with Stellar Acquisition III, Inc. On December 26, 2018, Stellar became a domestic Delaware corporation and, upon the consummation of the business combination, Stellar changed its corporate name to Phunware, Inc. and all outstanding securities of Stellar were deemed to constitute outstanding securities of Phunware. Upon completion of the reverse merger, Phunware Inc., became a publicly traded corporation with its common stock and warrants of the registrant trading on the Nasdaq Capital Market as PHUN and PHUNW, respectively, prior to the end of 2018.

Technology Platform

The company's technologies have evolved into its Multiscreen-as-a-Service (MaaS) cloud-based technology platform and service offerings, which are designed for the licensing and creation of category-defining mobile experiences for brands and their application users worldwide at scale. Phunware is transitioning its technology and service offering to generate a stream of recurring revenue (a Software-as-a-Service model) through the licensing of its technology platforms and service offerings. The higher margin recurring revenue subscription model is offered to customers typically on one-to-three year contracts. The MaaS cloud-based platform, which operates at scale for its customers is comprised of software development kits (SDKs), vertical solutions, a mobile application framework, data products, and location-based services.

Software Development Kits (SDKs)

SDKs are a collection of software development tools in one installable package and ease the creation of applications. Phunware offers SDKs for organizations developing their own applications, via customized development services and prepackaged solutions. The company's MaaS platform is built on technological components that include SDKs, application programming interfaces, scripts, portals, integrations, interfaces and other software tools, solutions and services in order to address and provide application use and engagement analytics. Most importantly, it provides content management that allows application administrators to create and manage app content in a cloud-based portal, as well as alerts, notifications and messaging that enables brands to send messages to users. The company's MaaS platform and service offerings include a marketing automation tool that enables a customer to send messages (based on consumers location) as well as monitor workflow within an enterprise. The platform can also allow for location-based advertising within an app.

Vertical Solutions

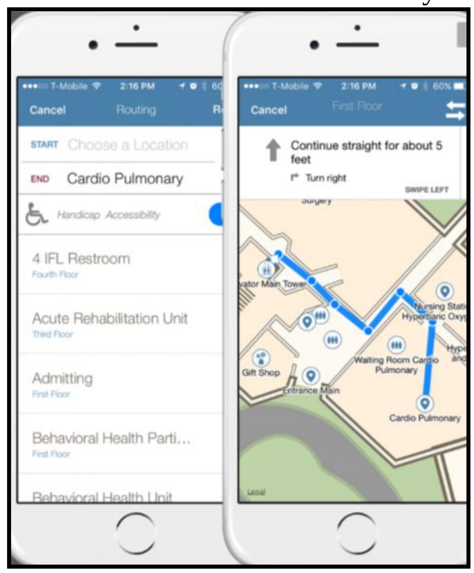
The cloud-based vertical solutions offered by the company within its MaaS platform provide customers pre-integrated operating systems (iOS and Android) for its mobile application portfolio within the healthcare, media, retail, real estate, hospitality, sports, and aviation sectors. The company's MaaS offering is designed to enhance the end-user experience. In healthcare, the company's MaaS offering is designed to enhance the patient experience, or the experience a fan has in a sports stadium or arena. The chart above and on the right (sourced from the company's Web-site) shows current and past customers that have deployed PHUN's technologies and services.

Mobile Application Framework and Data

The company's mobile application framework and data products offer real-time mobile audience targeting, reach, engagement, and monetization for insights and interactions globally at scale, as well as pre-integration of all the company's software technology modules for use within mobile application portfolios, solutions, and services. The data module incorporates tracking application transactions, including reoccurring and one-time transactional media purchases, application discovery for user acquisition and audience building, as well as audience engagement and monetization. Data collected also includes reoccurring and one-time application transaction media campaigns and recurring data licensing for one-to-one, indoor and outdoor, consumer targeting across global position systems, high- and low-density WiFi, and physical and virtual beacons. A long-term goal of Phunware is to empower and enable consumers or end users of mobile applications to own, control and be rewarded for the use of their personal data and information.

<u>Location-based Services</u>

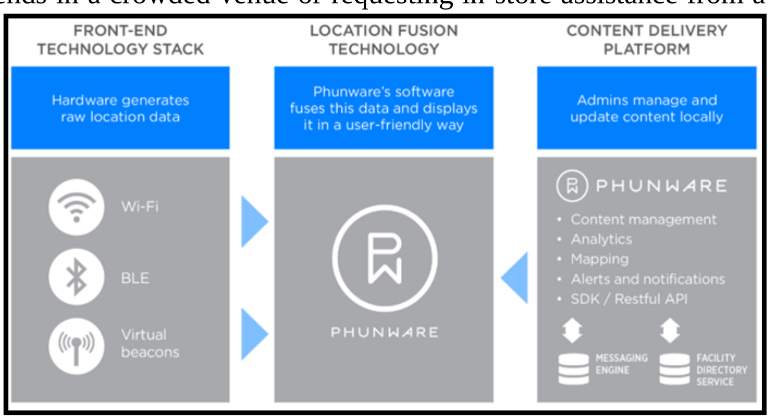
A critical element for the company's future deployments and customer growth is its location-based services technology and service offerings. This module includes mapping, navigation, wayfinding, workflow, asset management and policy enforcement. A key differentiator of Phunware's location-based services is the ability to track (a mobile device) indoors and offshore within a hospital, buildings, stadiums/arenas, cruise ships, and airplane. The company's real-time blue-dot position uses Bluetooth Low Energy beacons, or Wi-Fi, GPS and/or Li-Fi (wireless communication utilizing light to transmit data and position between devices). Its location-based services comply with the Americans with Disability Act (i.e., for the wheelchair bound and visually impaired).



Facility-wide navigation (as pictured on the right) enables users to navigate to, from, and throughout a large facility that includes dynamic points of interest, has customizable mapping elements and landmark based routing with intuitive, natural language. Overall, the company's offering allows for the leveraging of a users' location to enable step-by-step navigation to or from a facility with a routing experience that starts outside of the facility and continues indoors, between floor levels and throughout buildings.

Wayfinding allows the end-user to receive real-time navigation instructions to their destination based on their current location.

Location sharing enables users to share, view and route to another person's location. This part of the company's location-based services allows for the finding of friends in a crowded venue or requesting in-store assistance from a retail associate directly to a user's real-time location.



An overall view of Phunware's location-based service technology flowchart is pictured on the right. The maps are easy to edit, manage and update directly within the Cloud, as well as configure and display points of interest (restroom facilities, restrict access areas, or wheelchair-accessible routes). The company anticipates being able to leverage its location-based service module within its MaaS technology platform to provide smart campuses for corporations and higher educational customers since this technology has the capability to potentially improve internal workflows and increase operational efficiency. It can make such improvement by taking advantage of location awareness to track employees, equipment and assets, as well as trigger customer workflows based on proximity alerts and gather valuable data on traffic patterns and more.

With the current COVID-19 pandemic environment of social distancing, location-based services are likely to be used by corporations and cities to assist in maintaining social distancing, tracking and identifying where medical equipment is located such as ventilators, and aid in contact tracing for individuals that contract COVID-19. Most importantly, this service in the current and post pandemic environment can provide assistance in handling real-time emergency response scenarios on mobile devices by contacting and dynamically routing people to safety, while simultaneously guiding first responders to an identified threat or emergency.

Growth Strategy

Phunware's mission is to expand not only its technology and service offering capabilities in order to become an integral part of the cloud-based big data mobile apps infrastructure, but to use those capabilities and service offerings to increase its higher margin recurring platform subscriptions and services customer-base.

Technology and services offerings

The company is taking advantage of their investments in research and development since its founding in 2009 in order to continually extend the technology within and functionality of its service offerings. A key to future growth was when the company expanded its technological capabilities to include location-based services, which was solidified in April 2019, when a patent award was granted for a component of the technology. Phunware's patented location-based services software and management solution technology should provide it with a competitive market differentiator for customers deploying its MaaS platform. This technology should enable the company to obtain new customers in the healthcare industry, corporations looking to develop smart campuses to manage workers and workflow in the current and post COVID-19 environment, as well as cities and municipalities looking to develop smart city applications.

The company launched new services on its Maas technology platform. In May 2020, the company launched Gather Safe, a mobile application designed to assist customers as employees are brought back to corporate work environments and facilities. In April 2020, the company launched its Smart City Pandemic Response Solution on mobile for government officials and in March 2020, a national ventilator registry was launched to assist in identifying and tracking medical equipment for healthcare professionals.

Customer Base

The company aims to grow its customer base by primarily developing indirect channel relationships and partnerships, as well as developing an internal staff to support existing customer and the sales process for obtaining new customers. Phunware should be able to leverage its mobile expertise and capabilities to compete effectively for new customers both directly and indirectly.

In 2020 (as of May 15, 2020) the company increased its customer base by eight through new engagements for its technology platform and services. The sectors were healthcare (five), for its mobile corporate campus offering (two), and a MaaS enterprise deployment (1). Also, the company announced it has engaged twelve new application transactions customers from the start of the year to May 15, 2020. Most of these new customer wins should enable the company to grow its base of recurring revenue. The company's high margin recurring revenue reached $2.2 million in 4Q19, up from $700,000 in 1Q18.

Partnerships

By expanding the number of partnerships and achievements, the company should be able to have its MaaS technology platform service offering marketed to a broad base of potential new customers. The company's partners should be able to use and leverage the mobile expertise Phunware's support professionals have developed over the last ten years. The table on the right shows the partnerships and achievements the company has garnered in 2020.

2020 Partnerships/Achiements to Drive Future Customer Growth

Date	Company	Partners Business	Services to be Marketed
May	Noviant	IT Soultions Consulting	Pandemic Response Soutions
	Diversified	Technology Provider	Mobile Digital Transformation Globally
	Red River	End-to-End Technology Support	Smart Cities - State, Local, and Education Gov't Agencies
March	AVIA	Digital Health Consulting Services	Badge for Digital Frontdoor Mobile App
February	CISCO-Merak	Cloud controled wifi, routing/security marketplace	Location-based Services
	CISCO	Technology	Corporate Campus Solutions

Source: Company press releases

Healthcare

We anticipate the mobile and virtual healthcare market is likely to be a key growth vertical for the company. In May 2020, Phunware announced the deployment of its MaaS platform to provide an integrated health system in New York with its mobile healthcare solution to enhance the patient experience, but also to address critical challenges clinicians face in responding to the COVID-19 pandemic. This is the first deployment of the company's pandemic response solution for healthcare to an existing customer.

In April 2020, the company launched a mobile telemedicine solution for new and existing healthcare customers of its MaaS technology platform. This new service offering should find a place within the virtual healthcare segment of the marketplace as during the COVID-19 pandemic environment telemedicine experienced a 106% increase in adoption, with more than 40% of physicians using this type of technology in March 2020 versus 18% in 2019.

In March 2020, Phunware announced the deployment of its MaaS technology platform in support of a custom mobile application for one of the nation's largest health systems. This customer is one of the three largest health systems in the US. The technology deployment is across 30 facilities covering more than 22 million square feet. This comprehensive integration of the company's patented location based services offering will enhance the customer's digital front door by engage patients on mobile across the continuum of care, while optimizing both operational and staff efficiencies.

Technology

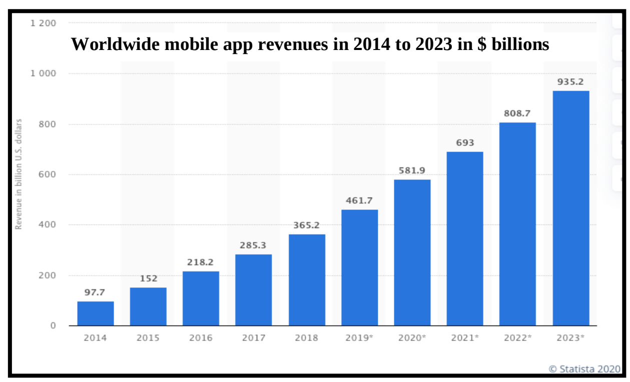
The company's technology portfolio and associated applications supports its growth initiatives. The company grows and supports its technology portfolio through patent, pending patents, and United States Patent and Trademark Office (USPTO) issuance of a Notice of Allowance for a patent application. Phunware has a portfolio of intellectual property that includes 16 US issued patents and 6 pending patent applications. In April 2020, the USPTO issued a Notice of Allowance for PHUN's patent application – Systems and Methods for Enterprise Branded Application Frameworks for Mobile and Other Environments. The new patent allowance should support, expand, and protect its core patent portfolio underlying its Multiscreen-as-a-Service (MaaS) platform. The company's fully integrated services platform enables brands to engage, manage and monetize users on mobile.

PhunCoin

The company has developed and plans to eventually monetize its PhunCoin and Blockchain-enabled data exchange and mobile loyalty ecosystem. This technology can allow for consumers to own, control and be rewarded for the use of their personal data and information.

Mobile Markets

Mobile Applications Market



In December 2019, Comscore issued a report that indicated that US consumers spent 77% of their time online on a mobile device with 89% spent in mobile apps compared to mobile Websites. Comscore reported that in June 2019, US consumers spent 63% of their mobile minute's time using smartphone apps, up from 50% in June 2017. All other categories were flat to down with desktop usage falling to 23% compared to 34% in June 2017. Comscore's data show that the share of mobile time spent is significant in certain US industries with gaming leading the way at 94%. Some of the key verticals Phunware's technology and service offerings seek to penetrate are at 77% mobile for healthcare, 63% for corporations, and 28% and 23% for government and education, respectively. The latter two categories are likely to increase due to the COVID-19 pandemic environment.

The chart above (source: Statista 2020) shows that the mobile apps market could reach $935 billion in 2023, up from $365 billion in 2018 for annualized growth of approximately 20.7%. Growth is driven by increased paid downloads and in-app advertising.

In November 2019, market research and advisory company Allied Market Research forecasted the global mobile application market size to reach $407 billion, up from $106.3 billion in 2018 for an annualized growth of approximately 18.4% from 2019 to 2026. According to Allied Market Research, mobile applications are the different types of software applications that are designed to run on smartphones, tablets, and computer tablets. The trends that should support its growth forecast include increasing adoption of devices and a rise in customer base for the e-commerce industry. Additional growth drivers are increasing usage of enterprise apps, as well as the increasing focus on apps specifically used for healthcare, fitness, and gaming. These latter drivers are likely to be enhanced during the COVID-19 pandemic, as well as when pandemic conditions ease and a new normal for the US population is established.

Location-based Services

In March 2020, ResearchAndMarkets.com published a report projecting the global location-based services market to reach $126.4 billion in 2025, up from $36.2 billion in 2019 for annualized growth of 23.2%. Primary drivers are expected to be increased smartphone usage as the United Nations reported that approximately 41.5% of the total world population used a smartphone in 2019. As technology advances, industries seem to be willing to adopt new systems, primarily to improve their efficiency. With the development of cloud computing and Internet of Things systems, corporations have the ability to automate a significant portion of their operations. Driving location-based services growth should be increased usage within the healthcare sector. An example provided in the report was a Texas healthcare system saving $412,000 using a real-time location-based system for medical equipment as it is now easy to locate and be maintained. Additional data in the report that should support future grow was as of October 2018, there were more than 9.1 billion mobile connections, and nearly 5.2 billion unique mobile subscribers.

In October 2019, Allied Market Research published a report projecting the global location-based services market could reach $157.3 billion by 2026 for annualized growth of grow 26.7% from $23.7 billion in 2018. The report indicates that growth should be supported by ongoing technological advancements in software and hardware and especially their adoption in navigation solution, as well as improvements in remote sensing technology, GPS technology, and cloud services. Location-based services have been used in traditional sectors such as energy, construction, agriculture, media and entertainment. We anticipate location-based services are likely to expand into mobile and virtual healthcare, aid in government's smart cities technology initiatives, and mobile corporate campus technology infrastructure due primarily to the COVID-19 pandemic.

Healthcare

In February 2020, MarketandMarket published a report indicating that the mHealth (mobile) Solutions Market could grow annually by 33% reaching $213.6 billion by 2025 from an estimated $50.8 billion in 2020. The mHealth market should be driven by the increases in the adoption of smartphones, penetration of 3G/4G networks, utilization of connected devices, and mHealth apps for the management of chronic diseases, as well as a rising focus on cost containment in healthcare delivery. North America should dominate the mHealth solutions market, followed by Europe and the Asia Pacific region.

In 2019, consulting firm Grandview Research issued a report on the global mHealth apps market, which it projects, could reach $238 billion in 2026 from $12.4 billion in 2018. The 44.7% annualized growth rate projected for the global mHealth apps market should be supported by increased usage of smartphones to keep track of one's well-being. Mobile applications are expected to enhance treatment outcomes while minimizing the incidence of chronic diseases. New apps are expected to be designed to enhance a patient experience and help access health information.

In 2019, the Journal of mHealth reported that healthcare technology with a focus on healthcare apps for smartphone devices is a rapidly growing field with vastly different targets and purposes. Continuous improvements in both tablets and smartphones should drive growth. The benefit of mobile healthcare apps includes the ability to make clinical decisions within a home healthcare management setting. The Journal of mHealth wrote that the purposes of the apps are incredibly diverse, with some apps providing in-hospital clinical support, while other apps aim to provide healthcare services to developing countries that lack medical devices for proper patient care.

Smart Cities

In February 2020, Grandview Research projects that the global smart cities technology market could grow annually by 24.7% reaching nearly $464 billion in 2027 from approximately $84 billion in 2019. The report by Grandview Research indicates that smart cities include a number of different domains and application areas that are enhanced with technological advancements and their effective use to provide services to people. This should fit well with Phunware's technology platform and services that includes its patented location-based services offering. Since smart cities technologies address a diverse set of problems, such as efficient transportation, smart and enhanced buildings and homes, optimum energy utilization, and better administrative services, as well as healthcare during and post the COVID-19 pandemic.

Projections

Basis of Forecast
The company's revenue growth should be driven primarily by new higher margin recurring platform subscriptions and services revenue customers for its MaaS technology platform and service offering. The company has built its recurring revenue of platform subscriptions and services to $2.4 million in 1Q20, up from $700,000 in 1Q18. Entering 2Q20, the company has increased its average customer contract length by 50% to 18-months and grown its average contract value nearly 250% to $250,000.

While we anticipate 2Q20 recurring revenue to be flat or slightly lower due to COVID-19 pandemic conditions, 2H20 recurring revenue should show growth. Growth in revenue in 2H20 should be supported by the company's customers returning to work, as well as $3.1 million of deferred revenue entering 2Q20, up from $1 million in 2017. Our overall revenue forecast should be supported by the company's total backlog of nearly $11 million.

Application transaction revenue should decrease in 2Q20. A rebound in application transactions and recurring revenue customers should occur in 2H20 and in 2021 as technology companies could have the ability to rebound faster than industrial or service orientated organizations.

Gross margin should expand during our forecast period as the company maintains its higher margin recurring platform subscriptions and services sales of at least 80% of total sales. We project by 4Q21, gross margin should approach 70%, up from 53% in 4Q19.

Operations – 2020
We project revenue decreasing to $12.3 million compared to $19.2 million in 2019, due primarily to a loss of its largest customer in 3Q19 and COVID-19 pandemic conditions in 1H20. Gross profit should decrease to $7.1 million from $10.1 million due primarily to lower sales, partly offset by gross margin improving to 57.6% compared to 52.9% in 2019.

We project the operating loss increasing to nearly $13 million compared to a loss of $12.3 million due primarily to lower sales, partly offset by gross margin improvement and operating expenses decreasing to $20 million from $22.4 million in 2019. Our operating expense forecast includes nearly $3.1 million in non-cash stock-based compensation compared to $1.8 million in 2019. The decrease in operating expense is due to cost reductions made in 1Q20 that should translate into approximately $3.3 million in annualized savings. We anticipate G&A expense decreasing $1.2 million to nearly $14.2 million stemming from workforce reductions (37 professionals) compared to 2019. Sales and marketing expenses are expected to decrease by $376,000 to $2.3 million reflecting rationalization of costs in 1H20 due to the COVID-19 pandemic. We anticipate R&D expenses decreasing $842,000 to $3.5 million.

Non-operating expense consists of an increase in interest expense to $626,000 from $387,000 in 2019 due primarily to higher debt balances.

We project a net loss of $13.6 million or ($0.33) per share, on an estimated 40.7 million average outstanding shares compared to a loss of $12.7 million or ($0.34) per share, on nearly 36.9 million average outstanding shares.

At December 31, 2019, the company had federal net operating loss carryforwards of $106.6 million, of which $21 million will never expire and $85.7 million will expire at various dates beginning in 2030. State and local net operating loss carryforwards were $53.2 million.

Finances – 2020
We project cash burn of nearly $10.3 million and a decrease in working capital of $5.3 million. The decrease in working capital is due primarily to increases in payables, accruals, and deferred revenue. Borrowings are unlikely to

cover cash used in operations of $5 million, capital expenditures, and repayment of the company's receivable factoring agreement. Cash should decrease by $71,000 to $291,000 at December 31, 2020.

Operations – 2021
We project revenue increasing 30.5% to $16 million due primarily to the company's recurring revenue customers for its MaaS technology platform and service offerings expanding within the healthcare, smart cities, and corporate campus sectors and modest growth of application transaction revenue. Gross profit should increase 46.8% to nearly $10.4 million due to sales growth and gross margin expanding to 64.8% compared to an estimated 57.6% in 2020. The improvement in gross margin reflects increasing higher margin platform subscriptions and services sales.

We project the operating loss narrowing to $11.1 million compared to an estimated loss of $13 million in 2020 as operating expense margin improves to 134% from an estimated 163% in 2020. We anticipate operating expenses increasing 7% to nearly $21.4 million which includes approximately $3.2 million in non-cash stock-based compensation. We project a 4.1% increase in G&A expense to nearly $14.8 million due primarily to support customer growth. Sales and marketing expense should increase by 26.6% to nearly $3 million as the company will be spending on marketing initiatives to increase the company's customer base. We anticipate R&D expenses of $3.7 million, up from an estimated $3.5 million in 2020 as spending continues to enhance PHUN's technology portfolio.

We project non-operating interest expense increasing to $1.1 million compared to $626,000 due to higher debt balances. We project a net loss of $12.1 million or ($0.30) per share.

Finances – 2021
We project cash burn of nearly $8.8 million and a decrease in working capital of $7.2 million. The decrease in working capital is due primarily to increases in payables, accruals, and deferred revenue. Borrowings are unlikely to cover cash used in operations of $1.7 million, capital expenditures and repayment of debt. Cash should decrease $21,000 to $270,000 million at December 31, 2021.

1Q20 and 2019 Results

1Q20
Revenue decreased to $2.6 million compared to $5.3 million, reflecting lower platform subscriptions and services sales stemming from the company completing its statement of work for Fox Networks Group in 3Q19 and application transactions decreasing $245,000 to $249,000 due to decreased/ceased advertising campaigns. Excluding the revenue from Fox, which was approximately $3.3 million in 1Q19, platform subscriptions and services sales, would have increased approximately $870,000 due primarily to the fulfillment of new contracts.

Gross profit was $1.5 million compared to nearly $2.7 million reflecting lower sales, offset in part by gross margin expansion to 58.7% from 50.8% in the year-ago period. Operating expenses decreased to $5.4 million from $6 million in 1Q19. The decrease in operating expenses was driven by lower sales and marketing and R&D expenses, which decreased a combined $567,000 to nearly $1.5 million. G&A expenses decrease by $30,000 to $3.9 million.

Non-operating interest expense was $101,000 compared to $188,000 in the year-ago period. The decrease in interest expense was due primarily to reduced usage of the company's factoring financing arrangement, partially offset by higher debt balances.

Net loss was nearly $4 million or ($0.10) per share on nearly 40.1 million outstanding average shares, compared to a net loss of $3.5 million or ($0.12) per share on nearly 30.3 million outstanding average shares.

Finances
In 1Q20, cash burn of nearly $3.3 million and a nearly $1.4 million decrease in working capital resulting in cash used in operations of $1.9 million. The decrease in working capital was due primarily to a decrease in receivables and increases in payables and accruals. Borrowings covered cash used in operations and payments of the company's factoring agreement. Total cash and restricted cash combined increased $562,000 to $924,000 million at March 31, 2020. On the balance sheet non-current restricted cash was $91,000.

Capital Structure – At March 31, 2020

At March 31, 2020 the company had total outstanding debt of nearly $4.1 million, of which nearly $2.9 million is long-term (a combination of convertible debt of $2.1 million and related party promissory notes of $755,000) and nearly $1.2 million is short-term. The company also has $1.2 million PhunCoin rights listed as short-term deposits on the company's balance sheet.

In 1Q20, related parties loaned the company $560,000 at a 10% annual interest rate maturing on November 14, 2024. On March 19, 2020, PHUN entered into a securities purchase agreement for the sale of a senior convertible note with an institutional investor with an initial principal amount of $3 million for a gross cash purchase price of nearly $2.8 million (net was nearly $2.4 million) in a private placement. The senior convertible notes bear 7% annual interest, have a conversion price of $3.00 per share, and mature December 31, 2021. Upon any conversion or redemption, the senior convertible note shall include a make-whole of interest. In addition, the purchaser was granted participation rights in future equity and equity-linked offerings of securities during the two years after closing in an amount of up to 30% of the securities being sold in such offerings.

The company's senior convertible notes are subject to certain customary affirmative and negative covenants regarding the incurrence of indebtedness, the existence of liens, the repayment of indebtedness, the payment of cash in respect of dividends, distributions or redemptions, and the transfer of assets. The company is also subject to a financial covenant that requires it to maintain available cash in the amount of $200,000 at the end of each fiscal quarter.

2019

Net revenue was $19.2 million compared to $30.9 million in the year-ago period. However, the year-ago period included $8.4 million from one-time revenue adjustments stemming from an application transaction partner releasing PHUN from a liability of $6.3 million, $1.6 million from the expiration of a platform subscription and services partner arrangement, and $500,000 related to a platform subscription and services customer contract settlement. Excluding the 2018 adjustments, revenue decreased $3.3 million to $19.2 million.

Platform subscriptions and services revenue decreased $2.2 million to $17.2 million due primarily to completing its statement of work with Fox Network on September 30, 2019 that resulted in a $3.3 million decrease in revenue, and a one-time revenue adjustment of $1.4 million related to the expiration of a partner arrangement in 2018. The decreases were partially offset by revenue growth related to two customers, Houston Methodist and American Made Media.

The decrease in application transaction revenue to $1.9 million from $11.5 million reflects one-time revenue recognition being recorded in 2018, as well as a decrease or cessation of advertising campaigns.

Gross profit was $10.1 million compared to $19.1 million. The decrease reflects gross margins contracting to 52.9% from 61.8% in the year-ago period. The decrease in gross margin stems from an application transaction partner release of the company from its liability to them in the amount of $6.3 million in 2018, as well as a change in the sales mix.

Operating expenses decreased to $22.4 million from $25.9 million in 2018. The decrease was due primarily to a reduction in sales and marketing expenses to $2.7 million from $5.4 million stemming from lower employee compensation costs due to reduced headcount and decreases in marketing events, outside contractors, and travel. R&D expense decreased to $4.3 million from $7 million in year year-ago period stemming from an approximate $2.7 million decrease in employee headcount and contract spend (net of stock-based compensation expense).

Partly offsetting the decreases in G&A and R&D expenses was a $1.8 million increase in G&A expense to $15.4 million due primarily to increases in stock-based compensation expense (a $1.1 million increase) and legal fees (a $900,000 increase) stemming from the company's litigation with Uber Technologies, as well as higher consulting fees and increased insurance costs related to director and officers insurance for public company coverage and franchise tax. The increase in G&A expense was partially offset by a $1.4 million reduction in merger related costs that occurred in 2018 but not in 2019.

The operating loss increased to $12.3 million from $6.9 million due primarily to the inclusion of $8.4 million in one-time revenue in 2018 that did not reoccur in 2019.

Non-operating expense decreased to $554,000 compared to $3.3 million in 2018. The decrease was due primarily to expenses related to the company's 2018 business combination that enabled it to become a publicly traded company. Included in non-operating expense was interest expense of $581,000 compared to $724,000 in 2018.

The net loss was $12.9 million or ($0.35) on average shares outstanding of 36.9 million compared to a loss of $9.8 million or ($0.38) per share in 2018 on average shares outstanding of 25.6 million.

Competitive Landscape

The mobile applications technology and solutions market is highly competitive and fragmented. The introduction of new technologies and the potential entry of new competitors into the market would result in increased competition. PHUN competes primarily with companies offering cloud-based software solutions for location-based services, mobile marketing automation, content management, analytics and audience monetization, as well as data and campaign management for audience building and engagement. Also, competition includes in-house mobile teams and products developed by software providers that allow customers to build and scale new mobile applications. Primary publicly trading competitors include Adobe and Oracle, along with private companies such as Urban Airship, Chaotic Moon, and Adroll.

Phunware's competitors are likely to have the ability to devote greater resources to the development, promotion and sale of their products and services. To be competitive in the mobile applications technology market a company needs to have established marketing relationships, access to large customer bases, and major distribution agreements with consultants, system integrators and resellers. Also companies in this market may establish cooperative relationships among themselves or with third parties that would enhance their own product offerings. The major competitive factors in this market include product features and functionality, location accuracy, customer satisfaction, deployment options and hardware flexibility, functionality, implementation services and customer support, as well as total cost of ownership.

Many of PHUN's competitors have significantly greater financial, research and development, and sales and marketing resources. These competitors could potentially use their greater financial resources to acquire other companies to gain and develop additional technologies and market share, as well as enhance systems and analytical capabilities and/or products or features that could effectively compete with Phunware's technology and applications that provide mobile application technology services.

Management

Alan Knitowski – CEO since the company's 2009 inception. He co-founded the company and serves on its board of directors. Mr. Knitowski previously served as President of Strategic Investments and Managing Director for Trymetris Capital Management. Earned a B.S. in Industrial Engineering from The University of Miami, an M.S. in Industrial Engineering from the Georgia Institute of Technology and an M.B.A from the Haas School of Business at the University of California, Berkeley.

Luan Dang – CTO since February 2018 and is a co-founder of the company. He previously served as President of Alternative Investments for Trymetris. Earned a B.S. in Computer Engineering from the University of California at San Diego and an M.S. in Computer Science from Stanford University.

Randall Crowder – COO since February 2018 and a co-founder of the company. In September 2017, he founded and continues to serve as the Managing Partner at Nove Ventures. Since August 2009, Mr. Crowder co-founded and serves as Managing Partner at TEXO Ventures, which focuses on investing in tech-enabled health service companies. Earned a B.S. in General Management from the United States Military Academy at West Point and an M.B.A. from the McCombs School of Business at the University of Texas at Austin.

Matt Aune – CFO since August 2013. He previously served as the company's director of finance and accounting. Prior to joining Phunware, Mr. Aune served in a senior business finance and operations position at Sony Computer Entertainment America. Previously served in various rolls at Midway Games, a video game developer and publisher, including serving as a senior manager of financial planning and analysis for Worldwide Product Development. Earned a B.A. in Economics from the University of California, San Diego and an M.B.A. from San Diego State University.

Risks

In our view, these are the principal risks underlying the stock.

Operating Losses – Going Concern
Phunware Inc. has yet to generate an operating profit. At March 31, 2020, the company's accumulated deficit was nearly $127.6 million, up from $102 million in 2017. Losses are likely to continue but diminish through our forecast period. The lack of operating profits could result in the company's inability to execute its growth strategy and diminish its operations.

The company's ability to continue as a going concern will depend upon the availability and terms of future funding, sales growth, improved operating margins, and the ability generate profits. If PHUN is unable to achieve these goals, its business could be jeopardized and may not be able to continue.

Customer Concentration
In 1Q20, PHUN had two customers accounting for 42% of net sales compared to two customers accounting for 76% of net sales in the year-ago period. In 1Q20, three customers accounted for 63% of receivables compared to four customers accounting for 49% in 1Q19.

In 3Q19, the Company completed its contractual obligations to the one customer that accounted for 50% of net sales. While the underlying master services agreement remains in place, PHUN does not have any active statements of work with them. Since there is likely not to be additional sales in the foreseeable future from this customer it could have a negative impact of the company's operations.

COVID-19 Global Pandemic
A potential disruption of US economic conditions lies in the global spread of COVID-19 that is likely to cause supply chain and demand issues which could adversely impact corporate operating results.

Workforce Reductions
PHUN has been implementing certain initiatives to improve the performance of its business; however, during 2019, two workforce reductions occurred (44 persons combined). In 1Q20, in response to the COVID-19 outbreak, the company furloughed 37 workforce professionals. The workforce reductions could prevent the company from engaging in certain initiatives to improve the performance of its business, due to an insufficiency of workforce size or an insufficiency of certain required skills that could have an adverse effect overall operations.

Legal Proceedings
The company and its CEO are parties to the legal proceedings with Uber and also the company and executive officers and former and current board members are parties to legal proceedings with Wild Basin Investments, LLC. The company is unable to predict with certainty the outcomes of the legal proceedings. The outcomes could require the company to take, or refrain from taking, actions which could negatively affect its operations. Legal proceedings could involve substantial costs, including the costs associated with investigation, litigation and possible settlement, judgment, penalty, or fine. An adverse ruling in respect of the Uber or any other litigation could have a significant impact of the company's financial condition and operations.

Delisting
On April 17, 2020, PHUN was notified by the Nasdaq Stock Market LLC that the closing bid price for its common stock had been below $1.00 for the last 30 consecutive business days and was not in compliance with the minimum bid price requirement for continued inclusion on the Nasdaq Capital Market listing rules. Under the Nasdaq Listing Rules, the company has 180 calendar days from the date of the notice to regain compliance. However due to COVID-19 pandemic market conditions, Nasdaq will allow the company until December 28, 2020 to regain compliance with the minimum bid price Requirement.

Also, pursuant to Nasdaq Listing Rule 5550(b), the company must maintain a stockholders' equity balance of at least $2.5 million. On March 31, 2020, the company's stockholders' equity totaled approximately $1.4 million, thereby potentially resulting in a stockholders' equity deficiency.

Intellectual Property
The company protects its intellectual property through trade secrets law, patents, copyrights, trademarks and contracts, as well as the establishment of business procedures designed to maintain the confidentiality of proprietary information such as the use of its licenses with customers and use of confidentiality agreements and intellectual property assignment agreements with employees, consultants, business partners, etc.

In the US, PHUN has 16 patents issued and 6 non-provisional patent applications. The issued patents expire between 2027 and 2036.

Third parties may infringe on or misappropriate IP rights, or otherwise independently develop substantially equivalent products and/or services. The loss of intellectual property protection or the inability to secure or enforce intellectual property protection could harm its business and/or ability to compete.

Cyber Security
Phunware, Inc. operates large and complex technology networks and systems to process, transmit and securely store electronic information and to communicate among locations and customers that contain significant amounts of client data. Unauthorized third parties could attempt to gain entry to its computer systems for the purpose of stealing data or disrupting the systems. The company believes appropriate measures are in place to protect client data from intrusion, and will constantly work to improve and enhance its computer systems. However, if its systems prove not to be secure, the company could suffer significant harm since client contracts typically contain provisions that require their data to remain confidential.

Shareholder Control
All executive officers and directors as a group, own 12.9% of the outstanding voting stock (April 2020). Two investors own 9.9% of the company's outstanding voting stock. These owners could greatly influence the outcome of matters requiring stockholder approval, which decisions may or may not be in the best interests of the other shareholders.

Miscellaneous Risk
The company's financial results and equity values are subject to other risks and uncertainties, including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Trading Volume
Based on our calculations, the average daily-volume in 2019 was 503,800 shares. During the three months to May 18, 2020, volume increased to nearly 1.2 million. The company has a float of 32.3 million shares and shares outstanding of 41 million as of May 12, 2020.

Phunware, Inc.
Consolidated Balance Sheets
FY2017 – FY2021E
(in thousands)

	FY17A	FY18A	FY19A	1Q20A	**FY20E**	**FY21E**
ASSETS						
Current assets:						
Cash	$ 308	$ 844	$ 276	$ 833	**$ 291**	**$ 270**
Accounts receivable, net	6,206	3,606	1,671	913	**1,021**	**1,110**
Prepaid expenses and other current assets	385	272	368	475	**429**	**400**
Total current assets	6,899	4,722	2,315	2,221	**1,740**	**1,780**
Property and equipment, net	128	66	24	16	**16**	**16**
Goodwill	25,886	25,821	25,857	25,784	**25,714**	**25,705**
Intangible assets, net	901	521	253	212	**89**	**45**
Deferred tax asset - long term	-	64	241	241	**241**	**241**
Restricted cash	-	5,500	86	91	**91**	**91**
Other assets	187	187	276	276	**276**	**276**
Total assets	$ 34,001	$ 36,881	$ 29,052	$ 28,841	**$ 28,167**	**$ 28,154**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	3,548	9,890	10,159	10,670	**11,203**	**13,203**
Accrued expenses	8,796	3,028	4,035	4,404	**5,784**	**8,155**
Deferred revenue	1,044	2,629	3,360	3,132	**4,348**	**5,598**
PhunCoin deposits	-	-	1,202	1,202	**1,202**	**1,202**
Factored receivables payable	1,816	2,434	1,077	450	-	-
Notes payable - related party	-	1,993	-	1,195	**1,195**	**1,195**
Total current liabilities	15,204	19,974	19,833	21,053	**23,731**	**29,353**
Debt	-	-	910	2,104	**2,721**	**5,221**
Debt - related party	-	-	195	755	**755**	**1,355**
CARES Act loan	-	-	-	-	**2,850**	**1,425**
Deferred tax liabilities	387	64	241	241	**241**	**241**
Deferred revenue	7,165	5,622	3,764	3,200	**4,702**	**6,302**
Deferred rent	98	17	83	135	**135**	**135**
Investor deposits	3,243	-	-	-	-	-
Redeemable convertible preferred stock, $0.0001	-	5,377	-	-	-	-
Stockholders' equity:						
Common stock,$.0001 par value; authorized 1,00,000,000 shares;	3	3	4	4	**4**	**4**
Additional paid-in capital	110,265	118,062	128,008	129,370	**131,093**	**134,293**
Accumulated other comprehensive income	(347)	(418)	(382)	(454)	**(878)**	**(878)**
Retained earnings (accumulated deficit)	(102,017)	(111,820)	(123,604)	(127,567)	**(137,187)**	**(149,297)**
Total stockholders' equity	7,904	5,827	4,026	1,353	**(6,968)**	**(15,878)**
Total liabilities and stockholders' equity	$ 34,001	$ 36,881	$ 29,052	$ 28,841	**$ 28,167**	**$ 28,154**
SHARES OUT	24,560	27,253	39,818	40,400	**40,975**	**41,000**

Source: Company reports and Taglich Brothers estimates

Phunware, Inc.
Annual Income Statement
FY2017 – FY2021E
(in thousands)

	FY17 A	FY18 A*	FY19 A	**FY20 E**	**FY21 E**
Net revenues	$ 26,722	$ 30,883	$ 19,150	**$ 12,250**	**$ 15,990**
Cost of sales	15,714	11,802	9,020	**5,191**	**5,625**
Gross Profit	11,008	19,081	10,130	**7,059**	**10,365**
Operating Expenses:					
Sales and marketing	10,721	5,417	2,706	**2,330**	**2,950**
General and administrative	14,795	13,562	15,403	**14,195**	**14,775**
Research and development	11,108	6,965	4,333	**3,491**	**3,700**
Total Operating Expenses	36,624	25,944	22,442	**20,016**	**21,425**
Operating Income (loss)	(25,616)	(6,863)	(12,312)	**(12,957)**	**(11,060)**
Interest (expense) income	(397)	(724)	(581)	**(626)**	**(1,050)**
Fair value adjustment for warrant liabilities	-	(54)	-	-	-
Impairment of digital currencies	-	(334)	-	-	-
Other income (expense)	(13)	(2,202)	27	-	-
Total Other Income (expense)	(410)	(3,314)	(554)	**(626)**	**(1,050)**
Pre-Tax Income (loss)	(26,026)	(10,177)	(12,866)	**(13,583)**	**(12,110)**
Income Tax Expense (Benefit)	(88)	(374)	5	-	-
Net income (loss)	(25,938)	(9,803)	(12,871)	**(13,583)**	**(12,110)**
Earning (loss) per share	$ (1.06)	$ (0.38)	$ (0.35)	**$ (0.33)**	**$ (0.30)**
Avg Shares Outstanding	24,519	25,556	36,879	**40,744**	**40,978**
Adjusted EBITDA	$ (24,060)	$ (5,978)	$ (10,201)	**$ (9,676)**	**$ (7,788)**
Margin Analysis					
Gross margin	41.2%	61.8%	52.9%	**57.6%**	**64.8%**
Sales and marketing	40.1%	17.5%	14.1%	**19.0%**	**18.4%**
General and administrative	55.4%	43.9%	80.4%	**115.9%**	**92.4%**
Research and development	41.6%	22.6%	22.6%	**28.5%**	**23.1%**
Operating margin	(95.9%)	(22.2%)	(64.3%)	**(105.8%)**	**(69.2%)**
Pre-tax margin	(97.4%)	(33.0%)	(67.2%)	**(110.9%)**	**(75.7%)**
Tax rate	0.3%	3.7%	(0.0%)	**0.0%**	**0.0%**
YEAR / YEAR GROWTH					
Total Revenues	N/A	15.6%	(61.3%)	**(36.0%)**	**30.5%**

*Includes $8.4 million in one-time revenue stemming from the company becoming publicly traded in 2018.

Source: Company reports and Taglich Brothers estimates

Phunware, Inc.
Income Statement Model
Quarters FY2019A – 2021E
(in thousands)

	Q1 19 A	Q2 19 A	Q3 19 A	Q4 19 A	FY19 A	Q1 20 A	Q2 20 E	Q3 20 E	Q4 20 E	**FY20 E**	Q1 21 E	Q2 21 E	Q3 21 E	Q4 21 E	**FY21 E**
Net revenues	$ 5,315	$ 5,510	$ 5,637	$ 2,688	$ 19,150	$ 2,640	$ 2,445	$ 3,350	$ 3,815	**$ 12,250**	$ 3,400	$ 3,450	$ 4,355	$ 4,785	**$ 15,990**
Cost of sales	2,617	2,722	2,418	1,263	9,020	1,091	1,200	1,375	1,525	**5,191**	1,350	1,365	1,425	1,485	**5,625**
Gross Profit	2,698	2,788	3,219	1,425	10,130	1,549	1,245	1,975	2,290	**7,059**	2,050	2,085	2,930	3,300	**10,365**
Operating Expenses:															
Sales and marketing	724	665	705	612	2,706	605	400	625	700	**2,330**	700	725	750	775	**2,950**
General and administrative	3,975	3,970	3,754	3,704	15,403	3,945	3,350	3,400	3,500	**14,195**	3,450	3,650	3,775	3,900	**14,775**
Research and development	1,309	1,077	1,052	895	4,333	861	855	875	900	**3,491**	875	900	950	975	**3,700**
Total Operating Expenses	6,008	5,712	5,511	5,211	22,442	5,411	4,605	4,900	5,100	**20,016**	5,025	5,275	5,475	5,650	**21,425**
Operating Income (loss)	(3,310)	(2,924)	(2,292)	(3,786)	(12,312)	(3,862)	(3,360)	(2,925)	(2,810)	**(12,957)**	(2,975)	(3,190)	(2,545)	(2,350)	**(11,060)**
Interest (expense) income	(188)	(151)	(145)	(97)	(581)	(101)	(150)	(175)	(200)	**(626)**	(225)	(250)	(275)	(300)	**(1,050)**
Fair value adjustment for warrant liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Impairment of digital currencies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income (expense)	4	13	11	(1)	27	-	-	-	-	-	-	-	-	-	-
Total Other Income (expense)	(184)	(138)	(134)	(98)	(554)	(101)	(150)	(175)	(200)	**(626)**	(225)	(250)	(275)	(300)	**(1,050)**
Pre-Tax Income (loss)	(3,494)	(3,062)	(2,426)	(3,884)	(12,866)	(3,963)	(3,510)	(3,100)	(3,010)	**(13,583)**	(3,200)	(3,440)	(2,820)	(2,650)	**(12,110)**
Income Tax Expense (Benefit)	-	5	-	-	5	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(3,494)	(3,067)	(2,426)	(3,884)	(12,871)	(3,963)	(3,510)	(3,100)	(3,010)	**(13,583)**	(3,200)	(3,440)	(2,820)	(2,650)	**(12,110)**
Earning (loss) per share	$ (0.12)	$ (0.08)	$ (0.06)	$ (0.10)	$ (0.35)	$ (0.10)	$ (0.09)	$ (0.08)	$ (0.07)	**$ (0.33)**	$ (0.08)	$ (0.08)	$ (0.07)	$ (0.06)	**$ (0.30)**
Avg Shares Outstanding	30,264	38,810	39,027	39,415	36,879	40,095	40,955	40,960	40,965	**40,744**	40,970	40,975	40,980	40,985	**40,978**
Adjusted EBITDA	$ (3,037)	$ (2,597)	$ (1,529)	$ (3,038)	$ (10,201)	$ (3,178)	$ (2,411)	$ (2,126)	$ (1,961)	**$ (9,676)**	$ (2,157)	$ (2,372)	$ (1,727)	$ (1,532)	**$ (7,788)**
Margin Analysis															
Gross margin	50.8%	50.6%	57.1%	53.0%	52.9%	58.7%	50.9%	59.0%	60.0%	**57.6%**	60.3%	60.4%	67.3%	69.0%	**64.8%**
Sales and marketing	13.6%	12.1%	12.5%	22.8%	14.1%	22.9%	16.4%	18.7%	18.3%	**19.0%**	20.6%	21.0%	17.2%	16.2%	**18.4%**
General and administrative	74.8%	72.1%	66.6%	137.8%	80.4%	149.4%	137.0%	101.5%	91.7%	**115.9%**	101.5%	105.8%	86.7%	81.5%	**92.4%**
Research and development	24.6%	19.5%	18.7%	33.3%	22.6%	32.6%	35.0%	26.1%	23.6%	**28.5%**	25.7%	26.1%	21.8%	20.4%	**23.1%**
Operating margin	(62.3%)	(53.1%)	(40.7%)	(140.8%)	(64.3%)	(146.3%)	(137.4%)	(87.3%)	(73.7%)	**(105.8%)**	(87.5%)	(92.5%)	(58.4%)	(49.1%)	**(69.2%)**
Pre-tax margin	(65.7%)	(55.6%)	(43.0%)	(144.5%)	(67.2%)	(150.1%)	(143.6%)	(92.5%)	(78.9%)	**(110.9%)**	(94.1%)	(99.7%)	(64.8%)	(55.4%)	**(75.7%)**
Tax rate	0.0%	(0.2%)	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%**
YEAR / YEAR GROWTH															
Total Revenues	NA	NA	NA	NA	(61.3%)	(50.3%)	(55.6%)	(40.6%)	41.9%	**(36.0%)**	28.8%	41.1%	30.0%	25.4%	**30.5%**

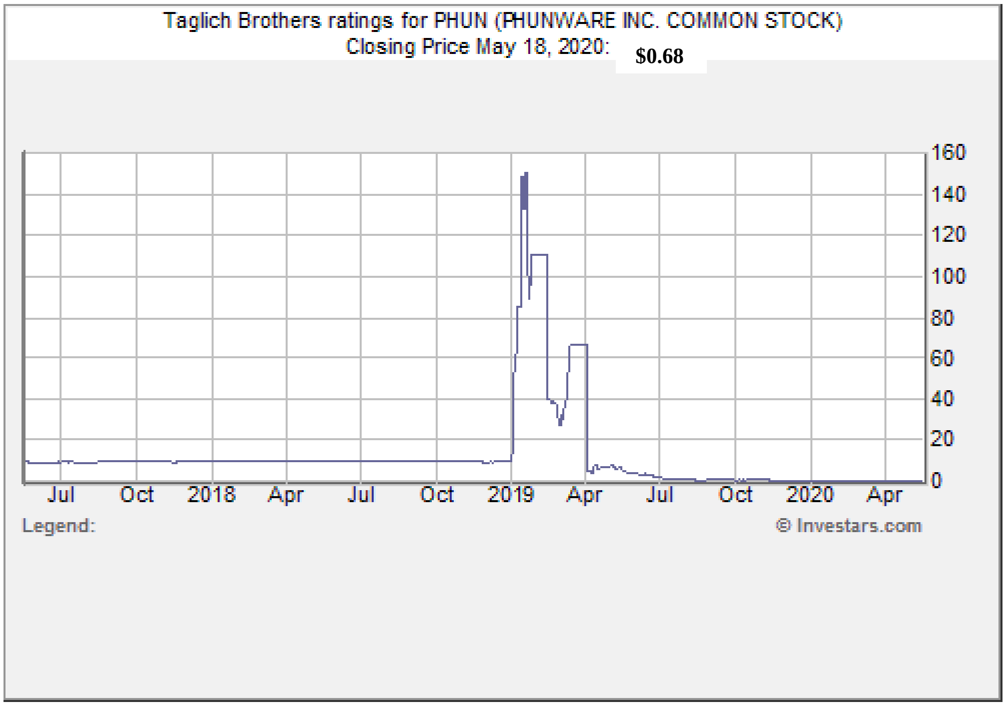
Source: Company reports and Taglich Brothers estimates

Phunware, Inc.
Cash Flow Statement
FY2017 – FY2021E
(in thousands)

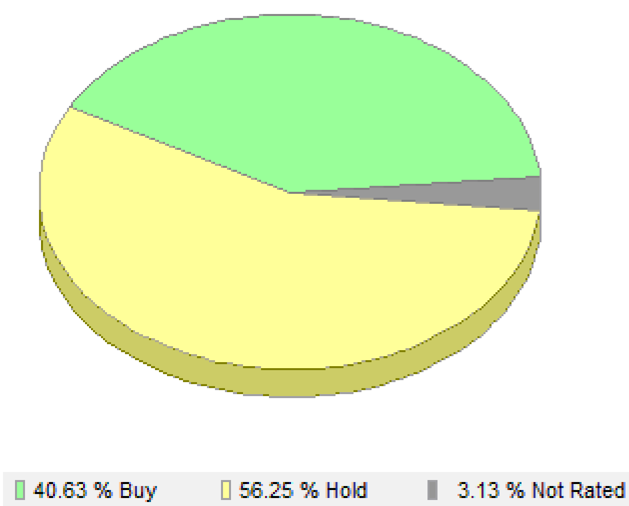
	FY2017A	FY2018A	FY2019A	1Q20A	**FY2020E**	**FY2021E**
Cash Flows from Operating Activities						
Net Income (loss)	$ (25,938)	$ (9,803)	$ (12,871)	$ (3,963)	**$(13,583)**	**$(12,110)**
Depreciation	154	62	59	8	**32**	**28**
Loss on sale of digital currencies	-	21	4	41	-	-
Bad debt expense (recovery)	3,101	167	114	(16)	-	-
Amortization of acquired intangibles	1,284	372	268	13	**164**	**45**
Change in fair value of warrants	-	1,329	-	-	-	-
Impairment of digital currencies	-	334	-	-	-	-
Stock-based compensation	118	450	1,784	635	**3,085**	**3,200**
Defered income taxes	(93)	(387)	-	-	-	-
Cash earnings (burn)	(21,374)	(7,455)	(10,642)	(3,282)	**(10,302)**	**(8,837)**
Changes In:						
Accounts receivable	(1,243)	2,439	1,817	783	**650**	**(90)**
Prepaid expenses and other assets	46	15	184	(108)	**(61)**	**29**
Accounts payable	(903)	4,156	740	851	**1,044**	**2,000**
Accrued expenses	2,993	(5,789)	1,133	643	**1,749**	**2,371**
Deferred revenue	3,491	42	581	(792)	**1,926**	**2,850**
(Increase)/decrease in Working Capital	4,384	863	4,455	1,377	**5,308**	**7,161**
Net cash provided by Operations	(16,990)	(6,592)	(6,187)	(1,905)	**(4,994)**	**(1,676)**
Cash Flows from Investing Activities						
Proceeds received from sale of digital currencies	-	913	88	-	-	-
Payments for note receivable	-	(536)	-	-	-	-
Capital expenditures	(27)	-	(18)	-	**(20)**	**(20)**
Cash Flows from Investing Activities	(27)	377	70	-	**(20)**	**(20)**
Cash Flows from Financing Activities						
Payment on capital lease obligation	(83)	-	-	-	-	-
Net proceeds (payment) from factoring agreement	1,036	618	(1,357)	(627)	**(1,077)**	-
Proceeds from convertible notes, net	-	-	1,105	2,595	**2,595**	**2,500**
Bridge loans - related parties	-	-	-	560	**560**	**600**
CARES Act loan	-	-	-	-	**2,850**	**(1,425)**
Proceeds from PhunCoin deposits	-	-	212	-	-	-
Proceeds from common stock, net of issuance costs	410	-	-	-	-	-
Proceeds from common stock subscriptions, net of issuance costs	3,243	5,448	-	-	-	-
Proceeds from warant exercise	-	-	6,092	-	-	-
Proceeds from exercise of options to purchase common stock	10	152	287	15	**15**	-
Issuances of and redemptions/dividend payments Series A preferred stock	-	6,000	(6,240)	-	-	-
Proceeds from Business combination	-	98	-	-	-	-
Net cash provided (used) by Financing	4,616	12,316	99	2,543	**4,943**	**1,675**
Effect of exchange rates	80	(65)	36	(76)	-	-
Net change in Cash and restricted cash	(12,321)	6,036	(5,982)	562	**(71)**	**(21)**
Cash and restricted cash Beginning of Period	12,629	308	6,344	362	**362**	**291**
Cash (and restricted) End of Period	$ 308	$ 6,344	$ 362	$ 924	**$ 291**	**$ 270**

Source: Company reports and Taglich Brothers estimates

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	1	5
Hold		
Sell		
Not Rated	1	50

Important Disclosures

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I, Howard Halpern, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Public Companies mentioned in this report:

Adobe, Inc.	(NASDAQ: ADBE)	CISCO Systems, Inc.	(NASDAQ: CSCO)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long-term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Discontinued – Research coverage discontinued due to the acquisition of the company, termination of research services (includes non-payment for such services), diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company-specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.