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Research Report – Update

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

Phunware, Inc.

Rating: Speculative Buy

Howard Halpern

PHUN $1.62 — (NASDAQ)

April 5, 2021

	2018 A*	2019 A	2020 A**	*2021 E*	*2022 E*
Revenue (in millions)	$22.5	$19.2	$10.1	***$13.0***	***$19.8***
Earnings (loss) per share	($0.38)	($0.35)	($0.40)	***($0.26)***	***($0.09)***

52-Week range	$3.34 – $0.54	Fiscal year ends:	December
Shares outstanding a/o 03/21/21	71.2 million	Revenue/shares (ttm)	$0.23
Approximate float	42.0 million	Price/Sales (ttm)	7.0X
Market Capitalization	$113.9 million	Price/Sales (2022) E	5.7X
Tangible Book value/shr	($0.50)	Price/Earnings (ttm)	NMF
Price/Book	NMF	Price/Earnings (2022) E	NMF

**Excludes $8.4 million in one-time revenue from becoming publicly traded ** Excludes an ($0.10) legal settlement charge*

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:

Maintaining Speculative Buy rating and increasing 12-month price target to $2.75 per share from $1.30 due primarily to our 2022 sales forecast and increased sector valuation.

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 see 2020 revenue quadruple to $214 billion in 2025 and $464 billion in 2027, respectively.

The company is gaining customer acceptance as its backlog of projects/deferred revenue for its MaaS technology and service offerings has grown to $9.1 million entering 2021, up from $8.6 million entering 4Q20. In 2H21, we anticipate sales and backlog growth to accelerate as the company is expected to expand its go-to-market strategy with new indirect sales and channel partners, including an anchor distribution partner.

In 2Q21, the company expects to launch its blockchain ecosystem. The company anticipates this ecosystem should complement and supplement its core MaaS offerings by offering enterprise customers additional capabilities to identify and engage their target audiences.

PHUN reported a 4Q20 loss (on 03-25-21) of ($0.12) per share on revenue of $2 million. In 4Q19, the loss per share was ($0.10) on sales of $2.7 million. We projected a loss of ($0.09) per share on revenue of $3.1 million.

For 2021, we project a loss of ($0.26) per share (prior was ($0.31) per share) on 30% revenue growth to $13 million (prior was $15.5 million). Our reduced forecast reflects slower than anticipated sales growth in 1H21.

For 2022, we project a loss of ($0.09) per share on 52.3% revenue growth to $19.8 million. Our forecast reflects accelerated customer acceptance of PHUN's portfolio of MaaS offerings.

Please view our Disclosures pages 14 – 16.

Appreciation Potential

Maintaining Speculative Buy rating and increasing 12-month price target to $2.75 per share from $1.30 due primarily to our 2022 sales forecast and increased sector valuation. Our price target should be supported by the company's growing customer base of higher margin recurring revenue to 2022. We anticipate revenue growth of 52.3% in 2022, up from an estimated 30% growth in 2021 with recurring quarterly revenues reaching at least $5 million in 4Q22 compared to $1.8 million in 4Q20.

Our rating reflects the company gaining customer acceptance as its backlog of projects/deferred revenue for its MaaS technology and service offerings has grown to $9.1 million entering 2021, up from $8.6 million entering 4Q20. In 2H21, we anticipate sales and backlog growth to accelerate due to the engagement of new indirect sales and channel partners that include an anchor distribution partner that will be announced in 2Q21. Additionally, the company expects to launch its blockchain ecosystem in 2Q21 that should complement and supplement the company's core MaaS offerings by offering enterprise customers additional capabilities to identify and engage their target audiences.

Our 12-month price target of $2.75 per share implies shares could appreciate approximately 65% over the next twelve months. According to finviz (a/o 4/01/21), the average trailing twelve-month price-to-sales multiple for companies in the Software – Application and Infrastructure sectors is 11X (prior was 5.1X). PHUN's trailing twelve-month price-to-sales multiple is 7X (prior was 2.7X). We anticipate investors are likely to accord PHUN the sector multiple given our forecasted sales growth of 52.3% for 2022. We applied a price-to-sales multiple of 11X (prior was 5.1X) to our 2022 sales per share forecast of $0.28, discounted for execution risks, to obtain a year-ahead price target of approximately $2.75 per share.

A higher valuation of Phunware is likely to be supported by quarterly sequential sales growth that should begin in 1Q21, a narrowing of operating losses, reduced cash burn, and an increase in its recurring revenue customer-base. In 2022, we forecast PHUN's operating losses narrowing to $6.3 million from an estimated loss of $10 million in 2021. PHUN's cash burn should narrow to $785,000 in 2022 from an estimated $7.1 million in 2021 and $14.3 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 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 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.

Technology Platform

PHUN'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, three, or five year contracts. The MaaS cloud-based platform, which operates at scale for its customers is comprised of software development kits, vertical solutions, a mobile application framework, data products, and location-based services. The cloud-based offering 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.

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. 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.

Mobile Application Framework and Data

PHUN'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. 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. That long-term goal will take its first step in 2Q21 with the expected launch it's the company's blockchain ecosystem.

Location-based Services

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 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. The offering allows for the leveraging of a users' location to enable step-by-step navigation with a routing experience that starts outside of a facility and continues indoors, between floor levels and throughout buildings.

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.

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 improvements 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.

The COVID-19 pandemic has brought to the forefront the need for location-based services, which are likely to be used by corporations and cities to assist in maintaining social distancing, tracking and identifying where medical equipment and people are located. Cities and private and public entities will be able to use the company's technology offering as it relates to the handling of real-time emergency response scenarios on mobile devices.

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 the expansion of 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.

Customer Base
The company aims to grow its customer base through an expansion of its go-to-market strategy with indirect sales and channel partners, including an anticipated 2Q21 announcement of an anchor distribution partner. A growing customer base will be driven by an increasing backlog, which stands at $9.1 million entering 1Q21, up $8.6 million entering 4Q20.

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. In 4Q20, the company announced a partnership with GAIN Innovation for government contract bids in Texas. Also, in 4Q20, the company signed a partnership agreement with Vizza Technologies that should enable PHUN to expand its mobile digital front door healthcare offering in 2021 and 2022.

Healthcare
We anticipate the mobile and virtual healthcare market is likely to be a key growth vertical for the company. In 3Q20, the company announced four new MaaS platform contract deployments for hospitals in Florida and Baltimore, as well as a leading pediatric hospital in the US. In 4Q20, the company was selected by Dignity Health Yavapoia Regional Medical Center for the deployment of its location based services software, as well as the doubling of the square footage covered by this solution from an existing customer (Baptist Health South Florida). Also, Virginia Hospital Center selected PHUN's comprehensive mobile healthcare solution for deployment.

Technology
The company's technology portfolio and associated applications supports its growth initiatives. Phunware has a portfolio of intellectual property that includes 17 US issued patents and 4 non-provisional patent applications. In August 2020, the USPTO issued a US Patent Covering – 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.

Projections

Basis of Forecast
PHUN'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. We anticipate recurring quarterly revenues could reach at least $5 million in 4Q22, compared to $1.8 million in 4Q20 driven by customer acceptance and accelerated sales growth starting in 2H21 due to the engagement of indirect sales and channel partners that include an anchor distribution partner in 2Q21.

Operations – 2021

We project revenue increasing 30% to $13 million (prior was $15.5 million) due primarily to the company's recurring revenue customers for its MaaS technology platform and service offerings. The reduction from our prior forecast reflects slower than anticipated sales growth in 1H21. Gross profit should increase 46% to $9.7 million due to higher margin subscriptions and services sales growth and gross margin of 74.4%, up from 66.4% in 2020.

We project the operating loss narrowing to $10 million compared to $13 million in 2020 (excludes a $4.5 million legal settlement charge) as operating expense margin improves to 151% from 196% in 2020 (excludes settlement charge). We anticipate operating expenses essentially flat at $19.7 million which excludes the $4.5 million legal settlement charge in 2020. We project a 24% increase in sales and marketing expense to nearly $2.1 million to support marketing initiatives to increase the company's customer base and R&D expense of $2.7 million compared to $2.6 million in 2020. We anticipate G&A expense decreasing to $14.9 million from $15.4 million as the company continues to control costs.

We project non-operating interest expense increasing to $2.3 million compared to $3.4 million due to lower average debt balances and amortization of debt issuance and discount costs. We estimate a $5.7 million loss on extinguishment of debt compared to $2.2 million in 2020. We project a net loss of $17.9 million or ($0.26) per share on average shares outstanding of 68.4 million. We previously projected a net loss of $16.5 million or ($0.31) per share on average shares outstanding of nearly 52.8 million.

Finances – 2021

We project cash burn of $7.1 million and a decrease in working capital of $1.1 million. The decrease in working capital is due primarily to an increase in deferred revenue. Net proceeds of $29.7 million from the issuance of common stock should cover cash used in operations of $6 million and repayment of debt and a legal settlement. Cash should increase by $11.1 million to $15.1 million at December 31, 2021.

Operations – 2022

We project revenue increasing 52.3% to $19.8 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, as well as a return of hospitality and real estate customers. Gross profit should increase 58.6% to $15.3 million due to sales growth and gross margin improving to 77.4% compared to an estimated 74.4% in 2021.

We project the operating loss narrowing to $6.3 million compared to an estimated loss of $10 million in 2021 as operating expense margin improves to 109% from an estimated 151% in 2021. We anticipate operating expenses increasing 10% to $21.6 million. We project a 7.7% increase in G&A expense to $16.1 million to support customer growth. Sales and marketing expense should increase 40.2% to nearly $2.9 million to support marketing initiatives to increase the company's customer base. We anticipate R&D expenses to be flat at $2.7 million.

We project no non-operating interest expense compared to $2.3 million due to the elimination of debt by the end of 2021. We project a net loss of $6.3 million or ($0.09) per share on average shares outstanding of 71.3 million.

Finances – 2022

We project cash burn of $785,000 and a decrease in working capital of $821,000. The decrease in working capital is due primarily to an increase in deferred revenue. Cash from operations of $36,000 and exercise of stock options is unlikely to cover capital expenditures. Cash should decrease $14,000 to $15.1 million at December 31, 2022.

2020 and 4Q20 Results

2020

Revenue decreased 47.8% to $10 million compared to $19.2 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 to $893,000 from $1.9 million due to decreased/ceased advertising campaigns. In 2020, platform subscriptions and services sales was $9.1 million compared to $17.2 million in 2019.

Gross profit was $6.6 million compared to $10.1 million reflecting lower sales, offset in part by gross margin expansion to 66.4% from 52.9% in the year-ago period. Gross margin expansion reflects the company's shift in focus to high margin software and data sales. Operating expenses (excluding a $4.5 million legal settlement charge) decreased to $19.6 million from $22.4 million in 2019 due primarily to reduced headcount and a reduction in professional fees, partly offset by an increase in stock-based compensation and legal fees.

Non-operating expense increased to $4.7 million from $554,000 in 2019. The increase was due to higher interest expense to $3.4 million compared to $581 in 2019 reflecting higher debt balances, as well as a loss of $2.2 million on extinguishment of debt compared to none in 2019. 2020 includes an $872,000 gain on change in fair value of warrants, which did not occur in 2019.

The net loss was $22.2 million or ($0.50) per share on 44.3 million outstanding average shares, compared to a net loss of $12.9 million or ($0.35) per share on 36.9 million outstanding average shares. Excluding the legal settlement charge of $4.5 million, we estimate the loss per share was ($0.40) in 2020.

<u>4Q20 Results</u>
Revenue decreased 24.9% to $2 million compared to $2.7 million due primarily to revenue recognition timing on customer contracts. In 4Q20, platform subscriptions and services sales was $1.8 million and application transaction sales was $184,000 compared to nearly $2.2 million and $510,000, respectively in 4Q19.

Gross profit was flat at $1.4 million as lower sales was offset by gross margin expansion to 70.3% from 53% in the year-ago period. Operating expenses decreased to $4.6 million from $5.2 million in 4Q19. The reduction in operating expenses was due primarily to reduced headcount and a reduction in professional fees.

Non-operating expense was $3 million compared to $98,000 in the year-ago period due to a $1.4 million increase in interest expense to $1.5 million and a loss of $1.1 million on extinguishment of debt, as well as a $372,000 loss on change in fair value of warrants.

The net loss was $6.2 million or ($0.12) per share on 50.8 million outstanding average shares, compared to a net loss of $3.8 million or ($0.10) per share on 39 million outstanding average shares.

<u>Finances</u>
In 2020, cash burn of $14.3 million and a $3.3 million decrease in working capital that resulted in cash used in operations of $11 million. The decrease in working capital was due primarily to a decrease in receivables and an increase in accruals. Borrowings and proceeds from the issuance of common stock covered cash used in operations and payments of the company's factoring agreement. Total cash and restricted cash combined increased $3.7 million to $4 million at December 31, 2020. On the balance sheet, non-current restricted cash was $91,000.

<u>Capital Structure</u>
At December 31, 2020 the company had total outstanding debt of nearly $8.4 million, of which nearly $4 million is long-term (a combination of convertible debt of approximately $1 million, paycheck protection program (PPP) loan of nearly $2.9 million, and related party promissory notes of $195,000) and $4.4 million is short-term. The company also has $1.2 million PhunCoin rights listed as short-term deposits on its balance sheet. The company will apply for forgiveness of its PPP loan that is allowable under SBA guideline.

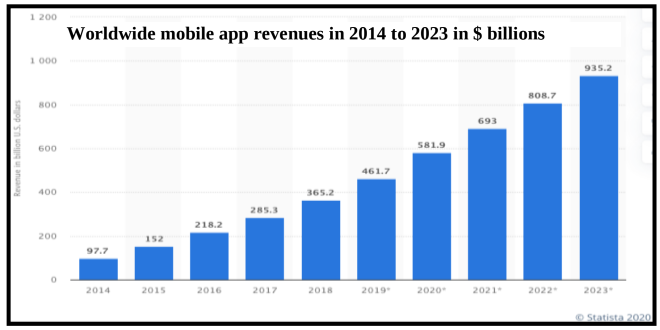
In February 2021, the company completed a common stock offering through the issuance of nearly 11.8 million common share for net proceeds of approximately $24.7 million. In January 2021, the company issued nearly 2.7 million shares for net proceeds of nearly $5.1 million from its at-the-market offering and sales agreement with Ascendiant Capital. On March 18, 2021, PHUN delivered a written notice to Ascendiant Capital that it elected to terminate the previously announced at-the-market issuance sales agreement effective March 28, 2021. The company will not incur any material early termination penalties in connection with the termination of the sales agreement.

We anticipate based on the capital raised during 1Q21 that the company will be reducing its debt and by year end 2021, should be debt free. We have included in our forecast a loss on extinguishment of debt of approximately $5.7 million.

Mobile Markets

Mobile Applications Market

In November 2020, Comscore issued a report that indicated that US consumers spent 79% of their time online on a mobile device and that total time spent viewing videos on a mobile device increased 65% from August 2017 to August 2020. 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 chart on the right (source: Statista March 2021) 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.

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. Driving location-based services growth should be increased usage within the healthcare sector.

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, MarketsandMarkets 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.

Smart Cities

In February 2020, Grandview Research projects that the 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. The company's smart cities service offering, which is based on its MaaS platform, addresses a diverse set of problems, such as efficient transportation, smart and enhanced buildings and homes, optimization of energy utilization, as well as providing state and local government agencies with tools to improve administrative services such as healthcare given COVID-19 pandemic conditions.

In September 2020, MarketsandMarkets published a report indicating that the the global smart cities market could reach nearly $821 billion in 2025, up from an estimated $411 billion in 2020 for annualized growth of 14.8%. The report anticipates global smart cities market growth should be driven be the increasing demand for public safety, rising urban population, and growing government initiatives.

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 advocacy solution offerings for audience building and engagement used for political or other types of rallies. 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. 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.

Risks

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

<u>Operating Losses</u>
Phunware Inc. has yet to generate an operating profit. At December 31, 2020, the company's accumulated deficit was nearly $146 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. However, the February 2021 common stock offering of over 11.8 million shares for net proceeds of $24.7 should allow for the company to execute its growth strategy during our forecast period.

<u>Customer Concentration</u>
In 2020, PHUN had three customers accounting for 56% of net sales compared to one customer accounting for 55% of net sales in 2019. In 2020, three customers accounted for 47% of receivables compared to two customers accounting for 60% in 2019.

<u>COVID-19 Global Pandemic</u>
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.

<u>Legal Settlement</u>
On October 9, 2020, PHUN entered into a legal settlement agreement and mutual general release with Uber and certain other parties and other parties within a cross-complaint. Phunware and its insurance carriers will pay $6 million to Uber. The company will pay $4.5 million with its insurance carrier paying $1.5 million. The court will retain jurisdiction over the case until the terms of the settlement agreement have been fully satisfied. The court has set a dismissal review hearing for November 16, 2021.

On September 29, 2020, PHUN signed a settlement agreement and general release with Ellenoff Grossman & Schole (EGS) under which the company will pay $600,000 to EGS in a series of installments beginning by October 15, 2020, and ending no later than October 15, 2023.

<u>Legal Proceedings</u>
In April 2020, Sha-Poppin Gourmet Popcorn, individually and on behalf of a class of similarly situated parties filed a lawsuit against certain defendants, including the PHUN. The Popcorn Company alleges PHUN was unjustly enriched by JPMorgan Chase for a loan made pursuant to the CARES Act. PHUN filed a motion to dismiss the single claim

against it and disputes the court's jurisdiction and the basis of the claim. The company intends to defend the matter vigorously, but there can be no guarantees that a favorable resolution will be successful.

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 17 patents issued and 4 non-provisional patent applications that 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
PHUN 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
Executive officers and directors combined, own 13.6% of the outstanding voting stock (October 2020). 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, which increased to 3.4 million in 2020. During the three months to April 1, 2020, volume increased to 15 million. The company has a float of 42 million shares and shares outstanding of 71.2 million as of March 21, 2021.

Phunware, Inc.
Consolidated Balance Sheets
FY2018 – FY2022E
(in thousands)

	FY18A	FY19A	FY20A	**FY21E**	**FY22E**
ASSETS					
Current assets:					
Cash	$ 844	$ 276	$ 3,940	**$ 15,129**	**$ 15,115**
Accounts receivable, net	3,606	1,671	664	**867**	**990**
Prepaid expenses and other current assets	272	368	304	**422**	**545**
Total current assets	4,722	2,315	4,908	**16,418**	**16,649**
Property and equipment, net	66	24	13	**13**	**15**
Goodwill	25,821	25,857	25,900	**21,711**	**21,711**
Intangible assets, net	521	253	111	**75**	**50**
Deferred tax asset - long term	64	241	537	**537**	**537**
Restricted cash	5,500	86	91	**91**	**91**
Other assets	187	276	276	**276**	**344**
Total assets	$ 36,881	$ 29,052	$ 31,836	**$ 39,121**	**$ 39,397**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	9,890	10,159	8,462	**6,475**	**6,201**
Accrued expenses	3,028	4,035	5,353	**5,850**	**5,940**
Accrued legal settlement	-	-	3,000	-	-
Deferred revenue	2,629	3,360	2,397	**3,500**	**4,250**
PhunCoin deposits	-	1,202	1,202	**1,202**	**1,202**
Factored receivables payable	2,434	1,077	-	-	-
Current portion of long-term debt, net	1,993		4,435	-	-
Warrant liability	-	-	1,614	**2,000**	**2,000**
Total current liabilities	19,974	19,833	26,463	**19,027**	**19,593**
Debt	-	910	3,762	-	-
Debt - related party	-	195	195	-	-
Deferred tax liabilities	64	241	537	**537**	**537**
Deferred revenue	5,622	3,764	2,678	**4,500**	**5,000**
Deferred rent	17	83	180	**200**	**200**
Redeemable convertible preferred stock, $0.0001	5,377	-	-	-	-
Stockholders' equity:					
Common stock,$.0001 par value; authorized 1,00,000,000 shares;	3	4	6	**9**	**9**
Additional paid-in capital	118,062	128,008	144,156	**178,936**	**184,436**
Accumulated other comprehensive income	(418)	(382)	(338)	**(338)**	**(338)**
Retained earnings (accumulated deficit)	(111,820)	(123,604)	(145,803)	**(163,750)**	**(170,040)**
Total stockholders' equity	5,827	4,026	(1,979)	**14,857**	**14,067**
Total liabilities and stockholders' equity	$ 36,881	$ 29,052	$ 31,836	**$ 39,121**	**$ 39,397**
SHARES OUT	27,253	39,818	56,380	**71,750**	**72,800**

Source: Company reports and Taglich Brothers estimates

Phunware, Inc.
Annual Income Statement
FY2018 – FY2022E
(in thousands)

	FY18 A*	FY19 A	FY20 A	**FY21 E**	**FY22 E**
Net revenues	$ 30,883	$ 19,150	$ 10,001	**$ 13,000**	**$ 19,800**
Cost of sales	11,802	9,020	3,357	**3,330**	**4,465**
Gross Profit	19,081	10,130	6,644	**9,670**	**15,335**
Operating Expenses:					
Sales and marketing	5,417	2,706	1,653	**2,050**	**2,875**
General and administrative	13,562	15,403	15,361	**14,900**	**16,050**
Research and development	6,965	4,333	2,628	**2,700**	**2,700**
Legal settlement	-	-	4,500	**-**	**-**
Total Operating Expenses	25,944	22,442	24,142	**19,650**	**21,625**
Operating Income (loss)	(6,863)	(12,312)	(17,498)	**(9,980)**	**(6,290)**
Interest (expense) income	(724)	(581)	(3,413)	**(2,250)**	**-**
Loss os extinguishment of debt	-	-	(2,158)	**(5,717)**	**-**
Fair value adjustment for warrant liabilities	(54)	-	872	**-**	**-**
Impairment of digital currencies	(334)	-	-	**-**	**-**
Other income (expense)	(2,202)	27	-	**-**	**-**
Total Other Income (expense)	(3,314)	(554)	(4,699)	**(7,967)**	**-**
Pre-Tax Income (loss)	(10,177)	(12,866)	(22,197)	**(17,947)**	**(6,290)**
Income Tax Expense (Benefit)	(374)	5	2	**-**	**-**
Net income (loss)	(9,803)	(12,871)	(22,199)	**(17,947)**	**(6,290)**
Earning (loss) per share	$ (0.38)	$ (0.35)	$ (0.50)	**$ (0.26)**	**$ (0.09)**
Avg Shares Outstanding	25,556	36,879	44,269	**68,445**	**71,295**
Adjusted EBITDA	$ (5,978)	$ (10,201)	$ (8,353)	**$ (4,580)**	**$ (390)**
Margin Analysis					
Gross margin	61.8%	52.9%	66.4%	**74.4%**	**77.4%**
Sales and marketing	17.5%	14.1%	16.5%	**15.8%**	**14.5%**
General and administrative	43.9%	80.4%	153.6%	**114.6%**	**81.1%**
Research and development	22.6%	22.6%	26.3%	**20.8%**	**13.6%**
Operating margin	(22.2%)	(64.3%)	(175.0%)	**(76.8%)**	**(31.8%)**
Pre-tax margin	(33.0%)	(67.2%)	(221.9%)	**(138.1%)**	**(31.8%)**
Tax rate	3.7%	(0.0%)	(0.0%)	**0.0%**	**0.0%**
YEAR / YEAR GROWTH					
Total Revenues	15.6%	(61.3%)	(47.8%)	**30.0%**	**52.3%**

*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 FY2020A – 2022E
(in thousands)

	Q1 20 A	Q2 20 A	Q3 20 A	Q4 20 A	FY20 A	Q1 21 E	Q2 21 E	Q3 21 E	Q4 21 E	**FY21 E**	Q1 22 E	Q2 22 E	Q3 22 E	Q4 22 E	**FY22 E**
Net revenues	$ 2,640	$ 2,213	$ 3,130	$ 2,018	$ 10,001	$ 2,130	$ 2,885	$ 4,000	$ 3,985	**$ 13,000**	$ 3,800	$ 4,500	$ 6,000	$ 5,500	**$ 19,800**
Cost of sales	1,091	768	898	600	3,357	630	775	975	950	**3,330**	900	1,025	1,275	1,265	**4,465**
Gross Profit	1,549	1,445	2,232	1,418	6,644	1,500	2,110	3,025	3,035	**9,670**	2,900	3,475	4,725	4,235	**15,335**
Operating Expenses:															
Sales and marketing	605	277	383	388	1,653	425	500	550	575	**2,050**	650	700	725	800	**2,875**
General and administrative	3,945	3,760	4,276	3,380	15,361	3,450	3,600	3,900	3,950	**14,900**	3,900	4,000	4,100	4,050	**16,050**
Research and development	861	378	572	817	2,628	675	675	675	675	**2,700**	675	675	675	675	**2,700**
Legal settlement	-	-	4,500	-	4,500	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	5,411	4,415	9,731	4,585	24,142	4,550	4,775	5,125	5,200	**19,650**	5,225	5,375	5,500	5,525	**21,625**
Operating Income (loss)	(3,862)	(2,970)	(7,499)	(3,167)	(17,498)	(3,050)	(2,665)	(2,100)	(2,165)	**(9,980)**	(2,325)	(1,900)	(775)	(1,290)	**(6,290)**
Interest (expense) income	(101)	(460)	(1,362)	(1,490)	(3,413)	(1,500)	(750)	-	-	**(2,250)**	-	-	-	-	-
Loss os extinguishment of debt	-	(81)	(950)	(1,127)	(2,158)	(5,717)	-	-	-	**(5,717)**	-	-	-	-	-
Fair value adjustment for warrant liabilities	-	-	1,244	(372)	872	-	-	-	-	-	-	-	-	-	-
Total Other Income (expense)	(101)	(541)	(1,068)	(2,989)	(4,699)	(7,217)	(750)	-	-	**(7,967)**	-	-	-	-	-
Pre-Tax Income (loss)	(3,963)	(3,511)	(8,567)	(6,156)	(22,197)	(10,267)	(3,415)	(2,100)	(2,165)	**(17,947)**	(2,325)	(1,900)	(775)	(1,290)	**(6,290)**
Income Tax Expense (Benefit)	-	-	-	2	2	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(3,963)	(3,511)	(8,567)	(6,158)	(22,199)	(10,267)	(3,415)	(2,100)	(2,165)	**(17,947)**	(2,325)	(1,900)	(775)	(1,290)	**(6,290)**
Earning (loss) per share	$ (0.10)	$ (0.08)	$ (0.19)	$ (0.12)	$ (0.50)	$ (0.17)	$ (0.05)	$ (0.03)	$ (0.03)	**$ (0.26)**	$ (0.03)	$ (0.03)	$ (0.01)	$ (0.02)	**$ (0.09)**
Avg Shares Outstanding	40,095	41,869	44,304	50,809	44,269	60,000	71,250	71,260	71,270	**68,445**	71,280	71,290	71,300	71,310	**71,295**
Adjusted EBITDA	$ (3,178)	$ (1,817)	$ (1,258)	$ (2,100)	$ (8,353)	$ (1,700)	$ (1,315)	$ (750)	$ (815)	**$ (4,580)**	$ (850)	$ (425)	$ 700	$ 185	**$ (390)**
Margin Analysis															
Gross margin	58.7%	65.3%	71.3%	70.3%	66.4%	70.4%	73.1%	75.6%	76.2%	**74.4%**	76.3%	77.2%	78.8%	77.0%	**77.4%**
Sales and marketing	22.9%	12.5%	12.2%	19.2%	16.5%	20.0%	17.3%	13.7%	14.4%	**15.8%**	17.1%	15.6%	12.1%	14.5%	**14.5%**
General and administrative	149.4%	169.9%	136.6%	167.5%	153.6%	162.0%	124.8%	97.5%	99.1%	**114.6%**	102.6%	88.9%	68.3%	73.6%	**81.1%**
Research and development	32.6%	17.1%	18.3%	40.5%	26.3%	31.7%	23.4%	16.9%	16.9%	**20.8%**	17.8%	15.0%	11.2%	12.3%	**13.6%**
Operating margin	(146.3%)	(134.2%)	(239.6%)	(156.9%)	(175.0%)	(143.2%)	(92.4%)	(52.5%)	(54.3%)	**(76.8%)**	(61.2%)	(42.2%)	(12.9%)	(23.5%)	**(31.8%)**
Pre-tax margin	(150.1%)	(158.7%)	(273.7%)	(305.1%)	(221.9%)	(482.0%)	(118.4%)	(52.5%)	(54.3%)	**(138.1%)**	(61.2%)	(42.2%)	(12.9%)	(23.5%)	**(31.8%)**
Tax rate	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%**
YEAR / YEAR GROWTH															
Total Revenues	(50.3%)	(59.8%)	(44.5%)	(24.9%)	(47.8%)	(19.3%)	30.4%	27.8%	97.5%	**30.0%**	78.4%	56.0%	50.0%	38.0%	**52.3%**

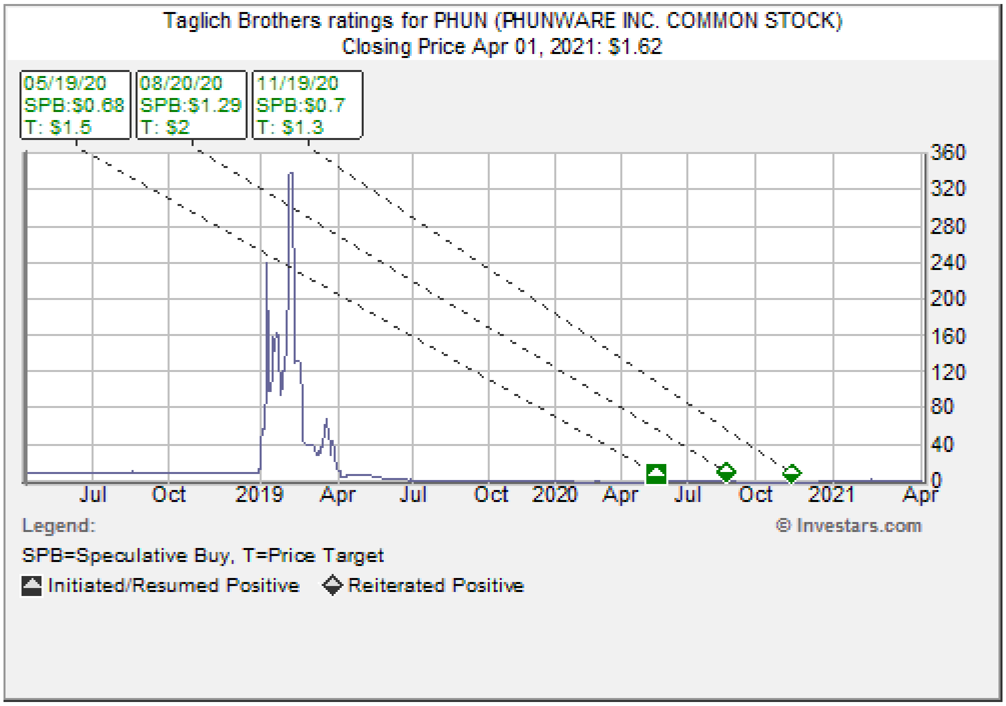
Source: Company reports and Taglich Brothers estimates

Phunware, Inc.
Cash Flow Statement
FY2018 – FY2022E
(in thousands)

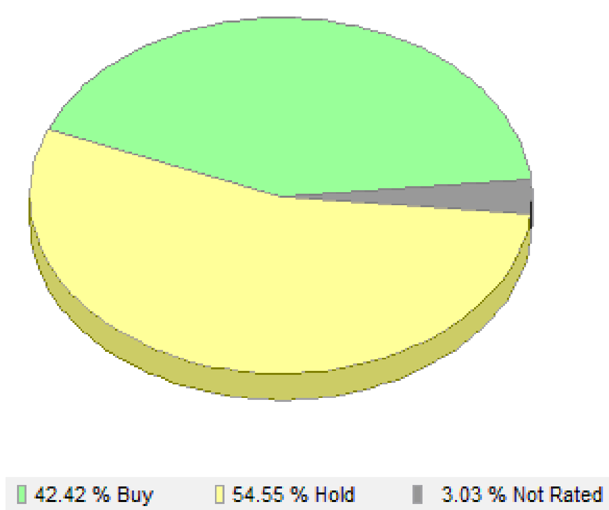
	FY2018A	FY2019A	FY2020A	**FY2021E**	**FY2022E**
Cash Flows from Operating Activities					
Net Income (loss)	$ (9,803)	$ (12,871)	$ (22,199)	**$ (17,947)**	**$ (6,290)**
Depreciation	62	59	11	**8**	**5**
Loss on sale of digital currencies	21	4	-	-	-
Bad debt expense (recovery)	167	114	205	-	-
Amortization of acquired intangibles	372	268	142	**75**	-
Amortization of debt discount and deferred financing costs	-	-	2,185	-	-
Loss on extinguishment of debt	-	-	2,158	**5,717**	-
Non-cash interest expense	-	-	55	-	-
Change in fair value of warrants	1,329	-	(872)	-	-
Impairment of digital currencies	334	-	-	-	-
Settlement of accounts payable	-	-	(453)		
Stock-based compensation	450	1,784	4,492	**5,000**	**5,500**
Defered income taxes	(387)	-	-	-	-
Cash earnings (burn)	(7,455)	(10,642)	(14,276)	**(7,147)**	**(785)**
Changes In:					
Accounts receivable	2,439	1,817	796	**(203)**	**(123)**
Prepaid expenses and other assets	15	184	65	**(118)**	**(122)**
Accounts payable	4,156	740	427	**(1,987)**	**(274)**
Accrued expenses	(5,789)	1,133	1,064	**497**	**90**
Accrued legal settlement	-	-	3,000	-	-
Deferred revenue	42	581	(2,049)	**2,925**	**1,250**
(Increase)/decrease in Working Capital	863	4,455	3,303	**1,114**	**821**
Net cash provided (used in) Operations	(6,592)	(6,187)	(10,973)	**(6,033)**	**36**
Cash Flows from Investing Activities					
Proceeds received from sale of digital currencies	913	88	-	-	-
Payments for note receivable	(536)	-	-	-	-
Capital expenditures	-	(18)	-	**(100)**	**(150)**
Cash flow provided (used in) Investing Activities	377	70	-	**(100)**	**(150)**
Cash Flows from Financing Activities					
Net proceeds (payment) from factoring agreement	618	(1,357)	(1,077)	-	-
Proceeds (payment) on debt net	-	1,105	14,815	**(9,649)**	-
Bridge loans - related parties	-	-	560	-	-
Payments on senior convertible note	-	-	(8,418)	-	-
Payments on related party notes	-	-	(560)	-	-
Payment on legal settlement	-	-	-	**(3,000)**	-
Proceeds from PhunCoin deposits	-	212	-	-	-
Proceeds from common stock, net of issuance costs	-	-	-	**24,722**	-
Proceeds from common stock subscriptions, net of issuance costs	5,448	-	9,177	**5,058**	-
Proceeds from warant exercise	-	6,092	-	-	-
Proceeds from exercise of options to purchase common stock	152	287	99	**100**	**100**
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	12,316	99	14,596	**17,231**	**100**
Effect of exchange rates	(65)	36	46	-	-
Net change in Cash and restricted cash	6,036	(5,982)	3,669	**11,098**	**(14)**
Cash and restricted cash Beginning of Period	308	6,344	362	**4,031**	**15,129**
Cash (and restricted) End of Period	$ 6,344	$ 362	$ 4,031	**$ 15,129**	**$ 15,115**

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	3	16
Hold		
Sell		
Not Rated		

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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.

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