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 $1.40 — (NASDAQ)

November 14, 2022

	2019 A	2020 A	2021 A	*2022 E*	*2023 E*
Revenue (in millions)	$19.2	$10.0	$10.6	***$22.5***	***$29.3***
Earnings (loss) per share	($0.35)	($0.50)*	($0.71)**	***($0.49)**** **	***($0.27)***

52-Week range	$4.18 – $1.00	Fiscal year ends:	December
Shares outstanding a/o 11/7/22	102.6 million	Revenue/shares (ttm)	$0.23
Approximate float	94.7 million	Price/Sales (ttm)	6.1X
Market Capitalization	$143.6 million	Price/Sales (2023) E	5.0X
Tangible Book value/shr	($0.03)	Price/Earnings (ttm)	NMF
Price/Book	NMF	Price/Earnings (2023) E	NMF

** Includes ($0.10) per share legal settlement ** Includes ($0.43) per share in net charges from extinguishment of debt, impairment of digital currencies and warrant liabilities*
**** Includes approximately ($0.22) per share in impairment of digital currencies and a $0.03 per share gain from fair value warrant liabilities adjustment*

Phunware Inc., headquartered in Austin, Texas, designed and developed the Multiscreen-as-a-Service (MaaS) platform, a fully integrated enterprise cloud platform that facilitates one-to-one engagements and interactions between brands and individuals on mobile. This technology resides at the intersection of mobile, cloud, big data and blockchain in order to help any brand in any industry better engage, manage and monetize their global audiences and communities. The company's Lyte by Phunware operations provides customers with high performance computer systems.

Key Investment Considerations:

Maintaining our Speculative Buy rating but reducing our 12-month price target to $2.50 per share from $3.00 per share due primarily to a reduction in our 2023 sales per share 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, hospitality, smart cities, and corporate campuses. Analysts project the worldwide mobile apps market could reach $140 billion in 2030, up from $59.7 billion in 2021 for annualized growth of 13.4%.

In 4Q22, the 4Q21 acquisition of Lyte Technology by PNUN should be completely integrated and relocated to Texas. We anticipate Lyte revenue contributing approximately $16 million and $21.4 million respectively, to our 2022 and 2023 forecasts.

PHUN reported (on 11-10-22) a 3Q22 loss of ($0.08) per share on 120.3% revenue growth to nearly $4.8 million that was driven by a $3.5 million contribution from its Lyte operations. In 3Q21, EPS was $0.01 on revenue of $2.2 million. We projected a ($0.07) per share loss on revenue of $5.8 million.

For 2022, we project a loss of ($0.49) per share from our prior forecast of ($0.47) per share on 111.4% revenue growth to $22.5 million (prior was $25 million). Our revised forecasts reflect 3Q23 results.

For 2023, we project a loss of ($0.27) per share from our prior forecast of ($0.23) per share on 39% revenue growth to $29.3 million (prior was $33 million). The increase in our loss per share forecast is due primarily to a slower than anticipated expansion of gross margin due to a slower ramp of the company's high margin platform subscriptions and services segment.

Please view our Disclosures pages 14 – 16.

Appreciation Potential

Maintaining our Speculative Buy rating but reducing our 12-month price target to $2.50 per share from $3.00 per share due primarily to a reduction in our 2023 sales per share forecast. Our price target should be supported by the company's October 2021 acquisition of Lyte Technology, Inc., which we anticipate should contribute revenue of $16 million and $21.4 million, respectively in 2022 and 2023. We also anticipate a growing customer base of higher margin recurring platform (that includes the company's MaaS technology, application transaction, and blockchain technology offerings) revenue through 2023. In 2023, this segment should contribute $7.8 million (prior was $11.2 million) to total revenue.

Our rating reflects the company's MaaS technology offerings gaining enterprise customer acceptance. Entering 4Q22, the company's backlog stood at nearly $8 million, up from $5.2 million entering 3Q22. We anticipate sales and backlog growth should accelerate due to the engagement of new indirect sales and channel partners. In 2022, the company launched its blockchain ecosystem (with gross margin that should exceed 90%) that should complement and supplement the company's core offerings in its MaaS, application transaction, and Lyte operations.

Our 12-month price target of $2.50 per share implies shares could appreciate approximately 70% over the next twelve months. According to finviz (a/o 11/11/22), the average trailing twelve-month price-to-sales multiple with equivalent market capitalizations for companies in the Software – Application/Infrastructure and Information Technology Services sectors is 11.4X (prior was 11X). PHUN's trailing twelve-month price-to-sales multiple is 6.1X (prior was 6.3X). We anticipate investors are likely to accord PHUN a multiple approaching that of the sector. We applied a price-to-sales multiple of 10X (unchanged) to our 2023 sales per share forecast of $0.28 (prior was $034), discounted to account for execution risk to obtain a year-ahead price target of approximately $2.50 per share.

A higher valuation of Phunware is likely to be supported by revenue growth, a narrowing of operating losses, a reduction in cash losses, an increase in its recurring revenue customer-base, as well as growth of the operations of Lyte. In 2023, we forecast PHUN's operating losses narrowing to $24.6 million from an estimated loss of $28.3 million in 2022. PHUN's cash loss of an estimated $25.4 million in 2022 should narrow to an estimated cash loss of $22 million in 2023.

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 deploy technology at the intersection of mobile, cloud, big data, and blockchain in order to help any brand in any industry improve the engagement, management and monetization of their global audiences and communities. PHUN's long-term vision is to create a Phunware ID for every person that has a device touching a computer network through their favorite brands, venues, and applications that interface or intersect with PHUN's MaaS software solutions or application transaction infrastructure.

In October 2021, PHUN completed the acquisition of Lyte Technology that provides customers' high performance computer systems. The company should complete the integration of this new Lyte by Phunware segment.

Recent Developments

In October 2022, the company's co-founder and CEO, Alan Knitowski, submitted notice of resignation effective the expiration of his employment contract on December 26, 2022. PHUN's board of directors has formed a leadership transition committee and engaged a consulting firm to commence a search for new leadership candidates. The company will need to be focused on executing a timely and orderly transition and successfully integrate a new executive into the company's leadership team.

Technology Platform

PHUN's Multiscreen-as-a-Service (MaaS) cloud-based technology platform and service offerings are designed for the licensing and creation of category-defining mobile experiences for brands and their application users worldwide at scale. Phunware offerings should generate a stream of recurring revenue through the licensing of its technology platforms and services. The higher margin recurring revenue subscription model is offered to customers typically on one, three, or five year contracts. The company's MaaS offering is designed to enhance the end-user experience.

<u>Software Development Kits (SDKs)</u>
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.

<u>Mobile Application Framework and Data</u>
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.

<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).

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.

<u>Lyte by Phunware</u>
In October 2021, the company acquired privately-held Lyte Technology, Inc., which provides its customers with high performance computer systems. Lyte, founded in 2018, is a profitable, system integrator that specializes in marketing and distributing custom, high-end computer systems (off-the-shelf) with advanced graphic processing units for gaming, streaming and cryptocurrency mining. Its customer base are gamers, developers, content creators and crypto enthusiasts who should support the adoption, scale and infrastructure required for Phunware to deploy its decentralized data economy powered by PhunCoin and PhunToken.

<u>Blockchain Ecosystem</u>
In 2019, the company launched PhunToken that acts as a medium of exchange within its blockchain technology enabled rewards marketplace and data exchange. In May 2021, PHUN began selling PhunToken through its Phun Token International subsidiary. Sales are recorded with the company's platform revenue generating segment.

Growth Strategy

The company's growth strategy is built upon its core vision to transform the digital human experience worldwide by leveraging personal, corporate, and government data to better inform, facilitate and improve interactions and engagements between brands and individuals in the real and virtual worlds.

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 and partnerships. It is anticipated that PHUN's MaaS technology offerings will be sold by those distribution partners to their already established customer bases. By expanding its 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.

Lyte
In 1H22, the company had two strategic supplier relationships that should mitigate supply chain constraints for Lyte compared to many of its competitors. These relationships should support the increased demand the company is experiencing at the start of 2022 in the US and globally for Lyte's offering. The increased demand is being driven by newly initiated spending on social media marketing initiatives. The ability to meet the increased demand and to manage future costs was enabled by obtaining a new warehouse in Texas that opened in 4Q22 and doubles the size of Lyte's old warehouse in Illinois.

Healthcare
We anticipate the mobile and virtual healthcare market is likely to be a key growth vertical for the company. In 3Q21, the company announced it delivered the digital front door on mobile for that Virginia Hospital Center that covers more than 850,000 square-feet of indoor medical space. In 4Q21, PHUN announced its mobile digital front door solution for healthcare is available on the Epic App Orchard marketplace. EPIC controls one-third of the electronic health record market.

Projections

Basis of Forecast
We anticipate PHUN's 2022 and 2023 revenue growth should be driven primarily by the October 2021 acquisition of Lyte and higher margin recurring platform revenue from new MaaS technology customers, restrained in part by slower than anticipated sales of the company's PhunToken for its blockchain technology offering.

In 2022 and 2023, we anticipate Lyte should contribution revenue of at $16 million and $21.4 million, respectively, from customer growth for its high performance gaming computer systems through implementation of a sales and marketing effort. Prior to being acquired by PHUN, Lyte's sales were primarily through word-of-mouth.

Operations – 2022
We project revenue more than doubling to $22.5 million (prior was $25 million) from $10.6 million in 2021, due primarily to the October 2021 acquisition of Lyte. The reduction from our prior forecast reflects slower than anticipated deployments from the company's recurring revenue MaaS technology platform customers.

Gross profit should increase 37.3% to nearly $5 million from $3.6 million in 2021 due to revenue growth, partly offset by gross margin contraction to 22% from 33.9% in 2021. Gross margin contraction reflects a full year of lower margin Lyte operations that should provide gross margin of 8.6%. We anticipate gross margin from the company's platform subscriptions and services decreasing to 55.1% from to 70% in 2021, due to initial deployment services that initially restrain margins but should ease in future periods.

We project an operating loss of $28.3 million compared to a loss of $16.8 million in 2021. The increase is due primarily to gross margin contraction, partly offset by revenue growth and operating margin expense decreasing to 147.6% from 192.2% in 2021.

We anticipate operating expenses increasing 62.4% to $33.2 million from $20.5 million last year. We project a 50.5% increase in G&A expense to $19.9 million to support customer growth for the company's platform subscriptions and service offerings, blockchain technology, and Lyte operations. Sales and marketing expense should more than double to $7.1 million from $3 million last year in order to support marketing initiatives. We anticipate R&D expenses increasing to $6.2 million from $4.2 million in 2021.

We project interest expense decreasing to $2.6 million from $4.5 million in 2021 due to lower average debt balances. We anticipate a $21.5 million impairment of digital currencies and a $3.3 million positive adjustment to a change in the fair value of warrant liabilities, both were reported by the company in 9M22. In 2021, the company reported a $5.1 million loss on the extinguishment of debt (includes gain from CARES Act loan forgiveness), as well as an $18.1 million charge from fair value adjustment for warrant liabilities, and a $9.4 million impairment charge of digital currencies.

We project a net loss of $48.8 million or ($0.49) per share. We previously projected a net loss of $45.7 million or ($0.47) per share. Our current forecast includes the $21.5 million charge related to the non-cash impairment of digital currencies.

Finances – 2022
We project cash loss of $25.4 million and an increase in working capital of $270,000. Proceeds from borrowings and issuance of common stock of approximately $16.1 million is unlikely to cover cash used in operations of $25.6 million and payments on debt to acquire Lyte. We anticipate cash decreasing by $16.9 million to $6.2 million at December 31, 2022.

Operations – 2023
We project revenue increasing 30% to nearly $29.3 million (prior was $33 million) due primarily to a growing customer base for the company's computer hardware products from its Lyte operations and recurring revenue platform segment offerings. The revenue decrease from our prior forecast is due primarily to slower than anticipated platform subscription services sales stemming from customer project delays. Gross profit should increase 92.6% to nearly $9.6 million from an estimated $5 million due to revenue growth, gross margin improving to 32.7% compared to an estimated 22% in 2022. Gross margin improvement should be due to sustained recurring revenue growth, as well as the company's Lyte operations achieving gross margin of 19.7% from an estimated 8.6% in 2022. The gross margin improvement in Lyte's operations should stem from a full year of consolidated and streamlined production at its new warehouse in Texas.

We project the operating loss narrowing to $24.6 million compared to an estimated loss of $28.3 million in 2022 due primarily to revenue growth, gross margin expansion and operating margin expense decreasing to 116.7% from an estimated 147.6% in 2022. We anticipate operating expenses increasing $900,000 to $34.1 million, as the nearly $830,000 increase in G&A expense to $20.8 million and $293,000 increase in sales and marketing expenses to $7.4 million will be spent to support revenue growth. Partly offsetting the increases should be a $219,000 decrease to $6 million in R&D expense.

We project interest expense increasing to $4 million from an estimated $2.6 million in 2022 due to an increase in average debt balances. We are not recording any change in warrant liabilities or impairment of digital currencies compared to $21.5 million impairment of digital currencies and a $3.3 million positive change in fair value of warrant liabilities in 2022.

We project a net loss of $28.6 million or ($0.27) per share. We previously projected a net loss of nearly $22.6 million or ($0.23) per share.

Finances – 2023
We project cash loss of $22 million and a decrease in working capital of $6.3 million. We anticipate the company's issuance of debt and common stock is unlikely to cover cash used in operations of $15.6 million and capital expenditures of $275,000. Cash should decrease by $5.5 million to $713,000 at December 31, 2023.

3Q22 and 9M22 Results

3Q22 Results
Revenue increased 120.3% to nearly $4.8 million from nearly $2.2 million in 3Q21 due primarily to the October 2021 acquisition of Lyte Technologies that contributed nearly $3.5 million in revenue, partly offset by a 41.7% decrease in platform revenue to $1.3 million from nearly $2.2 million in the year-ago period. The decrease in

platform revenue was primarily due to projects worked on with two customers in 3Q21 that did not reoccur in the current period.

The decrease in gross profit to $795,000 from $1.1 million in 3Q21 was due primarily to gross margin contraction to 16.7% from 52.5% in 3Q21. The reduction in gross margin reflects platform margin of 46.5% compared to 52.5% in 3Q21 and Lyte segment gross margin to 6%, which was a sequential decrease from 12% in 2Q22.

Operating expenses increased 67.7% to nearly $8.7 million compared to nearly $5.2 million in the year-ago period. The increase in operating expenses was due primarily to the inclusion of Lyte's operations and higher compensation to existing employees. Sales and marketing and G&A expenses increased to $1.8 million and nearly $5.2 million, respectively, from $715,000 and $3.3 million in the year-ago period. R&D expense increased 43.5% to nearly $1.7 million from $1.2 million in 3Q21 due to increased headcount dedicated to research and development projects.

Non-operating expense was $140,000 compared to income of $4.4 million in 3Q21. In the current period, the company reported interest expense of $991,000, partly offset by a $797,000 positive change related to the fair value adjustment for warrant liabilities and other income of $54,000. In 3Q21, the company reported interest income of $7,000, nearly $2.9 million gain on extinguishment of debt (PPP loan forgiveness), and a $1.5 million positive change in the fair value adjustment for warrant liabilities along with other income of $51,000.

The net loss was $8.1 million or ($0.8) per share on 98.8 million outstanding average shares. Excluding warrant liabilities, the loss per share was ($0.07). We forecast a net loss of $7.1 million or ($0.07) per share on revenue of $5.8 million.

9M22 Results

Revenue increased 224.7% to $17 million from $5.2 million in 9M21 due primarily to the October 2021 acquisition of Lyte Technologies that contributed $11.6 million in revenue, as well as a 2.6% growth in platform revenue to $5.4 million from $5.2 million in the year-ago period.

The increase in gross profit to nearly $4.1 million from $2.4 million in 9M21 was due primarily to revenue growth, partly offset by gross margin contraction to 24% from 45.8% in the year-ago period. The gross margin decrease reflects the company's lower margin Lyte segment (8.8% in 9M22) accounting for 68.4% of total revenue.

Operating expenses increased 74.6% to $24.5 million compared to $14 million in the year-ago period. The increase in operating expenses was due to the inclusion of Lyte's operations. Sales and marketing and G&A expenses increased to $5.2 million and $14.7 million, respectively, from $1.9 million and $9.1 million in the year-ago period. R&D expense was $4.5 million compared to $3.1 million in 9M21.

Non-operating expense was $19.6 million compared to $10.1 million in the year-ago period. In the current period, the company reported interest expense of $1.6 million and a $21.5 million impairment of digital currency, partly offset by a $3.3 million positive change related to the fair value adjustment for warrant liabilities and other income of $318,000.

In 9M21, the company reported interest expense of $4.1 million, an $8 million loss on extinguishment of debt, and a $776,000 charge related to the impairment of digital currency, as well as a $148,000 negative change in the fair value adjustment for warrant liabilities, partly offset by gain on forgiveness of PPP loan of nearly $2.9 million and other income of $15,000.

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Total Revenue	$ 17,021	$ 5,242	**224.7%**
Total Cost of Sales	12,935	2,842	**355.1%**
Gross Profit	$ 4,086	$ 2,400	**70.3%**
Total Operating Expenses	24,521	14,043	**74.6%**
Operating Income	(20,435)	(11,643)	**75.5%**
Total Other Income (Expense)	(19,571)	(10,068)	**NMF**
Pre-Tax Income	(40,006)	(21,711)	**84.3%**
Income tax expense	-	-	
Net Income (loss)	$(40,006)	$(21,711)	**39.9%**
Earnings (loss) per share	($0.41)	($0.31)	
Avg Shares Outstanding	97,803	70,185	
Margins			
Gross margin - combinded	24.0%	45.8%	
Operating Margin	(120.1%)	(222.1%)	
Pre-Tax Margins	(235.0%)	(414.2%)	
Tax Rate	0.0%	0.0%	

Source: company reports

The net loss was $40 million or ($0.41) per share on 97.8 million outstanding average shares. Excluding net charges of ($0.21) per share stemming from impairment of digital currency and warrant liabilities, the loss per share was ($0.20).

Finances
In 9M22, cash loss of $17.9 million and a $5 million increase in working capital resulted in cash used in operations of $22.9 million. Proceeds from the issuance of common stock and borrowings was more than offset by cash used in operations, repayment of debt, and the purchase of digital currency. Cash decreased by $14.6 million to $8.5 million at September 30, 2022.

Capital Structure
At September 30, 2022, the company had total outstanding debt (all short-term) of $12.7 million. The company also has $1.2 million PhunCoin rights listed as short-term deposits on its balance sheet. At September 30, 2022, the company had a digital currency asset balance of $12.6 million (compared to $32.6 million at December 31, 2021) based on owning approximately 653 Bitcoin and 790 Ethereum.

In February 2022, the company's prospectus was declared effective by the SEC, pursuant to which PHUN may issue up to $200 million in common stock, preferred stock, warrants and units. It is a supplement to its prior commitment to sell up to $100 million of common stock in an at the market offering pursuant to an At Market Issuance Sales Agreement entered into with H.C. Wainwright on January 31, 2022. As of September 30, 2022, the company sold nearly 2.2 million shares of common stock for net proceeds of $3.3 million. Subsequent to the end of 3Q22, the company sold 430,000 common shares for net proceeds of $628,000 as of November 10, 2022.

In July 2022, the company completed the sale of an unsecured promissory note (original principal amount of $12.8 million with a $634,000 debt discount) in a private placement. Net proceeds after transaction fees was $11.8 million. No interest will accrue on the promissory note unless and until the occurrence of an event of default. Beginning November 1, 2022 the company is expected to make monthly amortization payments of $1.6 million, subject to adjustment for any payment deferrals. The company may prepay the promissory note with a prepayment premium of 110%. The company can also defer payments that could extend the start of payments by a year.

Mobile Markets

Mobile Applications Market
Grandview Research forecasts that the global mobile apps market could approach $140 billion in 2030, up from $59.7 billion in 2021 for annualized growth of approximately 13.4%. Growth should driven by the rapid increase in global Internet usage, as well as the arrival of 5G and the introduction of advanced mobile capabilities.

Location-based Services
In July 2022, Meticulous Research published a report projecting the global location-based services market to reach $239.7 billion in 2029, up from an estimated $89 billion in 2022 for annualized growth of 15.1%. 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.

Healthcare
In 2022, Precedence Research (a market intelligence firm) published a report indicating that the global mHealth (mobile) Solutions Market could grow annually by 18.2% reaching $243.6 billion in 2030 from nearly $54.3 billion in 2021. The mHealth market should be driven by the increases in the adoption of smartphones, penetration of 3G/4G networks, as well as the adoption of 5G technology, utilization of connected devices, and mHealth apps for the management of chronic diseases.

High-End PC Gaming Hardware Segment

In June 2022, market research firm Technavio published a report projecting the gaming computer market reaching $50 billion by 2026 from $24.5 billion in 2021 for estimated annual growth of approximately 15.7%.

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. 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. 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.

Operating Losses

Phunware Inc. has yet to generate an operating profit. At September 30, 2022, the company's accumulated deficit was approximately $239.3 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. Common stock offerings in 2021 provided proceeds of $93.5 million and the July 2022 promissory note offering for net proceeds of $11.8 million, as well as projected issuances of common stock and debt, should allow for the company to execute its growth strategy during our forecast period.

Digital Assets

As of September 30, 2022, there was no clearing house for the company's digital assets, including its bitcoin holdings, nor is there a central or major depository for the custody of those digital assets. There is a risk that some or all of the company's digital asset holdings could be lost or stolen since there can be no assurance that the custodians will maintain adequate insurance or that such coverage will cover losses. Stolen or incorrectly transferred digital assets may be irretrievable. As a result, any incorrectly executed transactions could adversely the company's financial condition. The aggregate cost basis of the company's digital asset holdings was nearly $42.3 million at September 30, 2022 compared to $12.6 million recorded on its balance sheet for a paper loss of $29.7 million.

Legal Proceedings

On February 18, 2022, certain stockholders filed a lawsuit against Phunware. The plaintiffs invested in various early rounds of financing while the company was private and claim Phunware should not have subjected their shares to a 180-day lock up period. Plaintiffs allege that Phunware's stock price dropped significantly during the lock up period and seek damages, costs and professional fees. PHUN filed a motion to dismiss the complaint and Plaintiffs filed their answering brief in opposition to the motion to dismiss and a partial motion for summary judgement. The court has not yet set a date for hearing on the motions. PHUN will defend against this lawsuit and any appeals.

On March 30, 2021, PHUN filed an action (a single cause of action for negligence) against its former counsel Wilson Sonsini Goodrich & Rosati, PC. PHUN is seeking compensatory and consequential damages, attorney's fees and costs, interest and other relief the court deems just and proper. Both cases are in the early stages of litigation and the outcomes are uncertain.

In April 2020, Sha-Poppin Gourmet Popcorn, individually and on behalf of a class, filed a lawsuit against certain defendants, including PHUN with regards to being unjustly enriched pursuant to the CARES Act.

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 18 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.

Internal Controls
At September 30, 2022, the company identified material weaknesses in its internal controls. The company identified a material weakness in its internal control over financial reporting related to the accounting for a certain adjustment provision that triggered in February 2021 pursuant to a warrant issued in conjunction with its 2020 Convertible Notes offering. The company is working to remediate the reporting weakness.

Shareholder Control
Executive officers and directors combined, own 4.8% of the outstanding voting stock (June 30, 2022). All of these owners could 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 2020 was 3.4 million shares, which increased to 14.3 million in 2021. During the three months period ending November 11, 2022, volume decreased to 3.4 million. The company has a float of 94.7 million shares and shares outstanding of 102.6 million.

Phunware, Inc.
Consolidated Balance Sheets
FY2019 – FY2023E
(in thousands)

	FY19A	FY20A	FY21A	3Q22A	**FY22E**	**FY22E**
ASSETS						
Current assets:						
Cash	$ 276	$ 3,940	$ 23,137	$ 8,538	**$ 6,247**	**$ 713**
Accounts receivable, net	1,671	664	967	1,714	**1,250**	**1,462**
Inventory	-	-	2,636	3,236	**3,500**	**4,000**
Digital currencies	-	-	32,581	12,617	**12,617**	**12,617**
Prepaid expenses and other current assets	368	304	686	809	**844**	**877**
Total current assets	2,315	4,908	60,007	26,914	**24,457**	**19,670**
Property and equipment, net	24	13	-	207	**210**	**215**
Goodwill	25,857	25,900	33,260	33,058	**33,058**	**33,058**
Intangible assets, net	253	111	3,213	2,691	**2,481**	**1,298**
Deferred tax asset - long term	241	537	1,278	1,278	**1,278**	**1,278**
Restricted cash	86	91	-	-	-	-
Right-of-use asset	-	-	1,260	3,929	**3,025**	**2,025**
Other assets	276	276	276	402	**402**	**225**
Total assets	$ 29,052	$ 31,836	$ 99,294	$ 68,479	**$ 64,911**	**$ 57,769**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	10,159	8,462	6,589	7,514	**8,039**	**10,942**
Accrued expenses	4,035	5,353	9,621	5,599	**6,750**	**8,775**
Accrued legal settlement	-	3,000	-	-	-	-
Lease liability	-	-	399	949	**949**	**949**
Deferred revenue	3,360	2,397	3,973	1,650	**2,000**	**3,000**
PhunCoin deposits	1,202	1,202	1,202	1,203	**1,203**	**1,203**
Factored receivables payable	1,077	-	-	-	-	-
Current portion of long-term debt, net		4,435	4,904	12,691	**11,795**	**11,795**
Warrant liability	-	1,614	3,605	338	**338**	**338**
Total current liabilities	19,833	26,463	30,293	29,944	**31,074**	**37,002**
Debt	910	3,762	-	-	-	**8,000**
Promisory note, net	-	-	-	-	-	-
Debt - related party	195	195	-	-	-	-
Deferred tax liabilities	241	537	1,278	1,278	**1,278**	**1,278**
Deferred revenue	3,764	2,678	1,299	1,158	**5,900**	**7,000**
Deferred rent	83	180	-	-	-	-
Lease liability	-	-	1,147	3,316	**3,316**	**3,316**
Redeemable convertible preferred stock, $0.0001	-	-	-	-	-	-
Stockholders' equity:						
Common stock,$.0001 par value; authorized 1,00,000,000 shares;	4	6	10	10	**10**	**10**
Additional paid-in capital	128,008	144,156	264,944	272,657	**271,977**	**278,377**
Accumulated other comprehensive income	(382)	(338)	(352)	(553)	**(553)**	**(553)**
Retained earnings (accumulated deficit)	(123,604)	(145,803)	(199,325)	(239,331)	**(248,091)**	**(276,661)**
Total stockholders' equity	4,026	(1,979)	65,277	32,783	**23,343**	**1,173**
Total liabilities and stockholders' equity	$ 29,052	$ 31,836	$ 99,294	$ 68,479	**$ 64,911**	**$ 57,769**
SHARES OUT	39,818	56,380	96,752	101,321	**102,700**	**106,700**

Source: Company reports and Taglich Brothers estimates

Phunware, Inc.
Annual Income Statement
FY2019 – FY2023E
(in thousands)

	FY19 A	FY20 A	FY21 A	**FY22 E**	**FY23 E**
Net revenues	$ 19,150	$ 10,001	$ 10,643	**$ 22,501**	**$ 29,250**
Cost of sales	9,020	3,357	7,030	**17,540**	**19,695**
Gross Profit	10,130	6,644	3,613	**4,961**	**9,555**
Operating Expenses:					
Sales and marketing	2,706	1,653	3,022	**7,057**	**7,350**
General and administrative	15,403	15,361	13,256	**19,945**	**20,775**
Research and development	4,333	2,628	4,179	**6,219**	**6,000**
Legal settlement	-	4,500	-	-	-
Total Operating Expenses	22,442	24,142	20,457	**33,221**	**34,125**
Operating Income (loss)	(12,312)	(17,498)	(16,844)	**(28,260)**	**(24,570)**
Interest (expense) income	(581)	(3,413)	(4,481)	**(2,580)**	**(4,000)**
Gain (loss) on extinguishment of debt (PPP forgiveness)	-	(2,158)	(5,102)	-	-
Fair value adjustment for warrant liabilities	-	872	(18,139)	**3,266**	-
Impairment of digital currencies	-	-	(9,383)	**(21,511)**	-
Other income (expense)	27	-	1	**319**	-
Total Other Income (expense)	(554)	(4,699)	(37,104)	**(20,506)**	**(4,000)**
Pre-Tax Income (loss)	(12,866)	(22,197)	(53,948)	**(48,766)**	**(28,570)**
Income Tax Expense (Benefit)	5	2	(426)	-	-
Net income (loss)	(12,871)	(22,199)	(53,522)	**(48,766)**	**(28,570)**
Earning (loss) per share	$ (0.35)	$ (0.50)	$ (0.71)	**$ (0.49)**	**$ (0.27)**
Avg Shares Outstanding	36,879	44,269	75,447	**99,102**	**104,250**
Adjusted EBITDA	$ (10,201)	$ (8,353)	$ (11,662)	**$ (24,138)**	**$ (19,570)**
Margin Analysis					
Gross margin	52.9%	66.4%	33.9%	**22.0%**	**32.7%**
Sales and marketing	14.1%	16.5%	28.4%	**31.4%**	**25.1%**
General and administrative	80.4%	153.6%	124.6%	**88.6%**	**71.0%**
Research and development	22.6%	26.3%	39.3%	**27.6%**	**20.5%**
Operating margin	(64.3%)	(175.0%)	(158.3%)	**(125.6%)**	**(84.0%)**
Pre-tax margin	(67.2%)	(221.9%)	(506.9%)	**(216.7%)**	**(97.7%)**
Tax rate	(0.0%)	(0.0%)	0.8%	**0.0%**	**0.0%**
YEAR / YEAR GROWTH					
Total Revenues	(61.3%)	(47.8%)	6.4%	**111.4%**	**30.0%**

Source: Company reports and Taglich Brothers estimates

Phunware, Inc.
Income Statement Model
Quarters FY2021A – 2023E
(in thousands)

	Q1 21 A	Q2 21 A	Q3 21 A	Q4 21 A	FY21 A	Q1 22 A	Q2 22 A	Q3 22 A	Q4 22 E	**FY22 E**	Q1 23 E	Q2 23 E	Q3 23 E	Q4 23 E	**FY23 E**
Net revenues	$ 1,646	$ 1,436	$ 2,160	$ 5,401	$ 10,643	$ 6,778	$ 5,485	$ 4,758	$ 5,480	**$ 22,501**	$ 7,000	$ 6,100	$ 6,350	$ 9,800	**$ 29,250**
Cost of sales	692	1,124	1,026	4,188	7,030	5,007	3,965	3,963	4,605	**17,540**	5,535	4,310	3,840	6,010	**19,695**
Gross Profit	954	312	1,134	1,213	3,613	1,771	1,520	795	875	**4,961**	1,465	1,790	2,510	3,790	**9,555**
Operating Expenses:															
Sales and marketing	556	639	715	1,112	3,022	1,485	1,928	1,819	1,825	**7,057**	1,800	1,825	1,850	1,875	**7,350**
General and administrative	2,758	3,021	3,296	4,181	13,256	4,305	5,251	5,189	5,200	**19,945**	5,100	5,150	5,225	5,300	**20,775**
Research and development	1,052	846	1,160	1,121	4,179	1,003	1,876	1,665	1,675	**6,219**	1,500	1,500	1,500	1,500	**6,000**
Legal settlement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	4,366	4,506	5,171	6,414	20,457	6,793	9,055	8,673	8,700	**33,221**	8,400	8,475	8,575	8,675	**34,125**
Operating Income (loss)	(3,412)	(4,194)	(4,037)	(5,201)	(16,844)	(5,022)	(7,535)	(7,878)	(7,825)	**(28,260)**	(6,935)	(6,685)	(6,065)	(4,885)	**(24,570)**
Interest (expense) income	(2,219)	(1,845)	7	(424)	(4,481)	(381)	(273)	(991)	(935)	**(2,580)**	(1,000)	(1,000)	(1,000)	(1,000)	**(4,000)**
Gain (loss) on extinguishment of debt (PPP forgiveness)	(5,768)	(2,184)	2,850	-	(5,102)	-	-	-	-	-	-	-	-	-	-
Fair value adjustment for warrant liabilities	(885)	663	1,501	(19,418)	(18,139)	(213)	2,682	797	-	**3,266**	-	-	-	-	-
Impairment of digital currencies	-	(776)	-	(8,607)	(9,383)	(9,353)	(12,158)	-	-	**(21,511)**	-	-	-	-	-
Other income (expense)	(79)	43	51	(14)	1	52	213	54	-	**319**	-	-	-	-	-
Total Other Income (expense)	(8,951)	(4,099)	4,409	(28,463)	(37,104)	(9,895)	(9,536)	(140)	(935)	**(20,506)**	(1,000)	(1,000)	(1,000)	(1,000)	**(4,000)**
Pre-Tax Income (loss)	(12,363)	(8,293)	372	(33,664)	(53,948)	(14,917)	(17,071)	(8,018)	(8,760)	**(48,766)**	(7,935)	(7,685)	(7,065)	(5,885)	**(28,570)**
Income Tax Expense (Benefit)	-	-	-	-	(426)	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(12,363)	(8,293)	372	(33,664)	(53,522)	(14,917)	(17,071)	(8,018)	(8,760)	**(48,766)**	(7,935)	(7,685)	(7,065)	(5,885)	**(28,570)**
Earning (loss) per share	$ (0.19)	$ (0.12)	$ 0.01	$ (0.37)	$ (0.71)	$ (0.15)	$ (0.17)	$ (0.08)	$ (0.09)	**$ (0.49)**	$ (0.08)	$ (0.07)	$ (0.07)	$ (0.06)	**$ (0.27)**
Avg Shares Outstanding	64,587	71,620	74,347	91,235	75,447	96,844	97,742	98,822	103,000	**99,102**	103,500	104,000	104,500	105,000	**104,250**
Adjusted EBITDA	$ (2,403)	$ (2,743)	$ (2,474)	$ (4,042)	$ (11,662)	$ (4,220)	$ (6,602)	$ (6,741)	$ (6,575)	**$ (24,138)**	$ (5,685)	$ (5,435)	$ (4,815)	$ (3,635)	**$ (19,570)**
Margin Analysis															
Gross margin	58.0%	21.7%	52.5%	22.5%	33.9%	26.1%	27.7%	16.7%	16.0%	**22.0%**	20.9%	29.3%	39.5%	38.7%	**32.7%**
Sales and marketing	33.8%	44.5%	33.1%	20.6%	28.4%	21.9%	35.2%	38.2%	33.3%	**31.4%**	25.7%	29.9%	29.1%	19.1%	**25.1%**
General and administrative	167.6%	210.4%	152.6%	77.4%	124.6%	63.5%	95.7%	109.1%	94.9%	**88.6%**	72.9%	84.4%	82.3%	54.1%	**71.0%**
Research and development	63.9%	58.9%	53.7%	20.8%	39.3%	14.8%	34.2%	35.0%	30.6%	**27.6%**	21.4%	24.6%	23.6%	15.3%	**20.5%**
Operating margin	(207.3%)	(292.1%)	(186.9%)	(96.3%)	(158.3%)	(74.1%)	(137.4%)	(165.6%)	(142.8%)	**(125.6%)**	(99.1%)	(109.6%)	(95.5%)	(49.8%)	**(84.0%)**
Pre-tax margin	(751.1%)	(577.5%)	17.2%	(623.3%)	(506.9%)	(220.1%)	(311.2%)	(168.5%)	(159.9%)	**(216.7%)**	(113.4%)	(126.0%)	(111.3%)	(60.1%)	**(97.7%)**
Tax rate	0.0%	0.0%	0.0%	0.0%	0.8%	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	(37.7%)	(35.1%)	(31.0%)	167.6%	6.4%	311.8%	282.0%	120.3%	1.5%	**111.4%**	3.3%	11.2%	33.5%	78.8%	**30.0%**

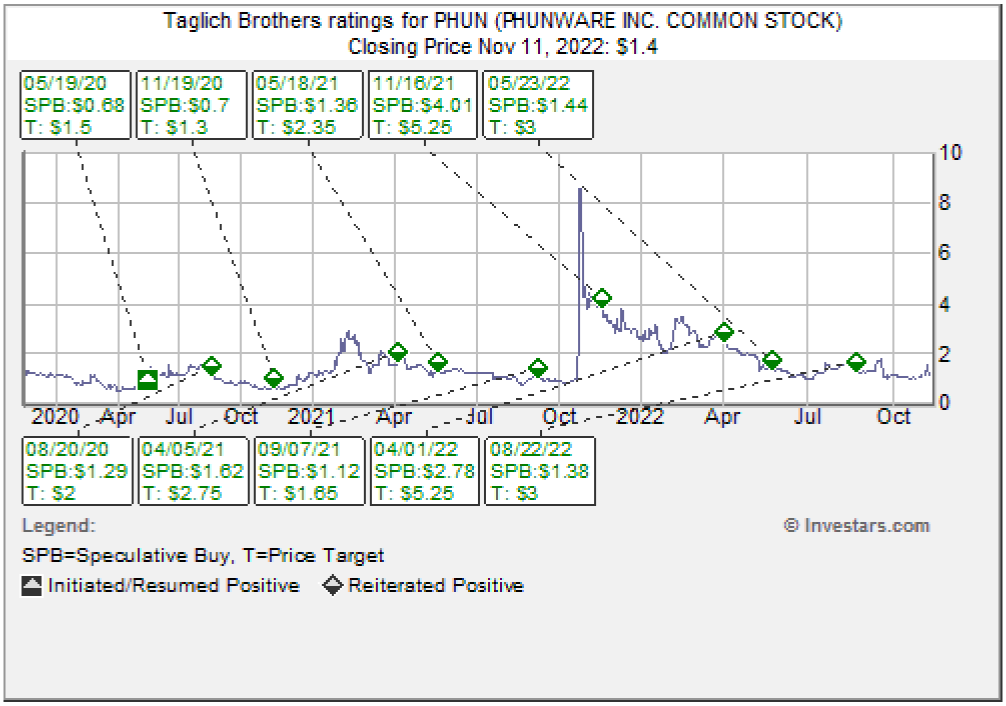
Source: Company reports and Taglich Brothers estimates

Phunware, Inc.
Cash Flow Statement
FY2019 – FY2023E
(in thousands)

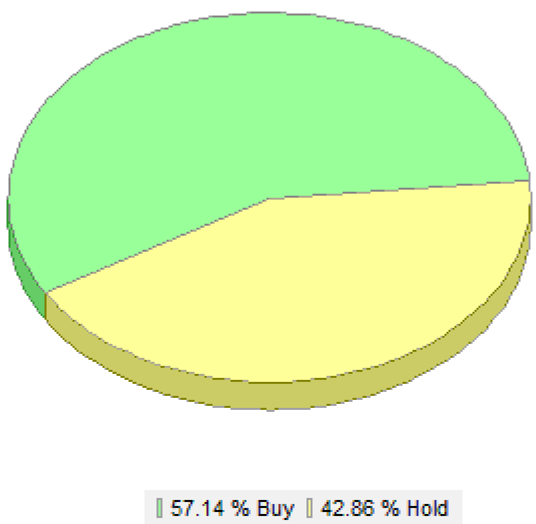
	FY2019A	FY2020A	FY2021A	9 Mos22A	**FY2022E**	**FY2023E**
Cash Flows from Operating Activities						
Net Income (loss)	$ (12,871)	$ (22,199)	$ (53,522)	$ (40,006)	**$ (48,766)**	**$ (28,570)**
Depreciation and amortization	59	11	-	-	**740**	**850**
Loss on sale of digital currencies	4	-	9,383	-	-	-
Bad debt expense (recovery)	114	205	-	-	-	-
Amortization of intangibles and right-of-use asset	268	142	-	-	-	-
Amortization of debt discount and deferred financing costs	-	2,185	2,942	690	**690**	**690**
Loss on extinguishment of debt	-	2,158	7,952	-	-	-
Gain on forgiveness of PPP Loan	-	-	(2,850)	-	-	-
Non-cash interest expense	-	55	-	-	-	-
Change in fair value of warrants	-	(872)	18,139	(3,267)	**(3,267)**	-
Impairment of digital currencies and right-of-use asset	-	-	-	21,511	**21,511**	-
Settlement of accounts payable	-	(453)	-	-	-	-
Stock-based compensation	1,784	4,492	4,941	2,169	**2,750**	**4,000**
Defered income taxes and other adjustments	-	-	(478)	990	**990**	**990**
Cash earnings (burn)	(10,642)	(14,276)	(13,493)	(17,913)	**(25,352)**	**(22,040)**
Changes In:						
Accounts receivable	1,817	796	(16)	(723)	**(283)**	**(212)**
Inventory	-	-	(949)	(731)	**(864)**	**(500)**
Prepaid expenses and other assets	184	65	(383)	(254)	**(158)**	**(34)**
Accounts payable	740	427	(1,568)	925	**1,450**	**2,902**
Accrued expenses	1,133	1,064	(1,131)	(1,118)	**(2,871)**	**2,025**
Accrued legal settlement	-	3,000	(3,000)	-	-	-
Lease liability	-	-	(802)	(594)	**(173)**	-
Deferred revenue	581	(2,049)	(1,172)	(2,464)	**2,628**	**2,100**
(Increase)/decrease in Working Capital	4,455	3,303	(9,021)	(4,959)	**(270)**	**6,281**
Net cash provided (used in) Operations	(6,187)	(10,973)	(22,514)	(22,872)	**(25,622)**	**(15,759)**
Cash Flows from Investing Activities						
Proceeds received from sale of digital currencies	88	-	-	-	-	-
Purchase of digital currencies	-	-	(41,284)	(923)	**(923)**	-
Acquistitions, net of cash acquired	-	-	(5,101)	(1,125)	**(1,125)**	-
Capital expenditures	(18)	-	-	(238)	**(250)**	**(275)**
Cash flow provided (used in) Investing Activities	70	-	(46,385)	(2,286)	**(2,298)**	**(275)**
Cash Flows from Financing Activities						
Net proceeds (payment) from factoring agreement	(1,357)	(1,077)	-	-	-	-
Proceeds (payment) on debt net	1,105	14,815	14,711	11,795	**11,795**	**8,000**
Bridge loans - related parties	-	560	-	-	-	-
Payments on senior convertible note	-	(8,418)	(26,243)	(4,698)	**(4,904)**	-
Payments on related party notes	-	(560)	-	-	-	-
Proceeds from PhunCoin deposits	212	-	-	-	-	-
Proceeds from common stock, net of issuance costs	-	9,177	94,737	-	-	-
Proceeds from common stock subscriptions, net of issuance costs	-	-	-	3,655	**4,283**	**2,400**
Proceeds from warant exercise	6,092	-	4,635	-	-	-
Proceeds from exercise of options to purchase common stock	287	99	179	16	**65**	**100**
Issuances of and redemptions/dividend payments Series A preferred stock	(6,240)	-	-	-	-	-
Net cash provided (used) by Financing	99	14,596	88,019	10,768	**11,239**	**10,500**
Effect of exchange rates	36	46	(14)	(209)	**(209)**	-
Net change in Cash and restricted cash	(5,982)	3,669	19,106	(14,599)	**(16,890)**	**(5,534)**
Cash and restricted cash Beginning of Period	6,344	362	4,031	23,137	**23,137**	**6,247**
Cash (and restricted) End of Period	$ 362	$ 4,031	$ 23,137	$ 8,538	**$ 6,247**	**$ 713**

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	5	26
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.

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.