

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

August 17, 2023

PHUN \$0.33 — (NASDAQ)

	2021 A	2022 A	2023 E	2024 E
Revenue (in millions)	\$10.6	\$21.8	\$16.0	\$18.8
Earnings (loss) per share	(\$0.71)*	(\$0.51)**	(\$0.18)	(\$0.12)
52-Week range	\$1.96 – \$0.33		Fiscal year ends:	December
Shares outstanding a/o 8/11/23	120.4 million		Revenue/shares (ttm)	\$0.17
Approximate float	100.6 million		Price/Sales (ttm)	1.9X
Market Capitalization	\$39.7 million		Price/Sales (2024) E	2.1X
Tangible Book value/shr	(\$0.13)		Price/Earnings (ttm)	NMF
Price/Book	NMF		Price/Earnings (2024) E	NMF

* Includes (\$0.43) per share in net charges from extinguishment of debt, impairment of digital currencies and warrant liabilities

** Includes approximately (\$0.23) 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, offers a fully integrated software platform that equips companies with the products, solutions and services necessary to engage, manage and monetize their anytime, anywhere users worldwide through its location-based software-as-a-service platform that provides an entire mobile lifecycle of applications and media in one login through one procurement relationship. Lyte by Phunware provides high performance computer systems.

Key Investment Considerations:

Maintaining our Speculative Buy rating but reducing our 12-month price target to \$0.75 per share from \$1.20 per share due primarily to reductions our 2024 sales per share forecast and reduced sector valuations.

Phunware has growth potential for its location-based and wayfinding software-as-a-service 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%.

The company is focusing on the hospitality vertical for its recurring revenue offerings. In June 2023, PHUN attended its first hospitality tradeshow and gained 50 new leads that if converted should drive revenue growth in 2024.

PHUN reported (on 8-10-23) a 2Q23 loss of (\$0.06) per share on a 36.4% revenue decrease to \$3.5 million from nearly \$5.5 million in 2Q22. The loss per share was (\$0.17) in 1Q22. The current period included a \$2.1 gain on sale of digital assets. We projected a (\$0.06) per share loss on revenue of \$4.7 million.

For 2023, we project a loss of (\$0.18) per share on revenue of \$16 million. We previously projected a loss per share of (\$0.21) on revenue of \$20 million. The decrease in our revenue forecast reflects 2Q23 results. The improvement in our loss per share forecast reflects initiatives to reduce operating expenses through an over 30% reduction in staff and steps to streamline operations. Annualized savings could approximate \$5 million.

For 2024, we project a loss of (\$0.12) per share on revenue growth of 17.5% to \$18.8 million. We previously projected a loss of (\$0.20) per share on revenue of \$24.6 million. Our improved loss per share outlook reflects a full year of initiatives to reduce operating expenses and streamline operations, as well as paying off debt.

Please view our Disclosures pages 15 – 17.

Appreciation Potential

Maintaining our Speculative Buy rating but reducing our 12-month price target to \$0.75 per share from \$1.20 per share due primarily to reductions our 2024 sales per share forecast and reduced sector valuations. Our rating and price target should be supported by the company's ability to drive higher margin revenue growth and reduce operating costs by at least \$5 million in 2024. We anticipate a growing customer base of higher margin recurring platform (that includes the company's location-based technology platform, application transaction, and blockchain technology offerings) revenue through 2024. In 2024, this segment should contribute \$6.4 million to total revenue, up from an estimated \$5.4 million in 2023.

Our 12-month price target of \$0.75 per share implies shares could more than double over the next twelve months. According to finviz, the average trailing twelve-month price-to-sales multiple with equivalent market capitalizations for companies in the Software – Application and Infrastructure sectors is 7.1X (prior was 8.6X). PHUN's trailing twelve-month price-to-sales multiple is 2.1X (prior was 3X). We anticipate investors are likely to accord PHUN a multiple approaching that of the sector. We applied a price-to-sales multiple of 6X (prior was 7X) to our 2024 sales per share forecast of \$0.15 (prior was \$0.22), discounted for execution risks to obtain a year-ahead price target of approximately \$0.75 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, and an increase in its recurring revenue customer-base. In 2024, we forecast PHUN's operating losses narrowing to \$14.8 million from an estimated loss of \$24 million in 2023. PHUN's cash loss of an estimated \$15.6 million in 2023 should narrow to an estimated cash loss of \$7.7 million in 2024.

We believe Phunware, Inc. is most suitable for highly risk tolerant investors seeking exposure to an emerging growth company that provides a location-based recurring revenue mobile technology platform to its customer base.

Overview

Phunware Inc., headquartered in Austin, Texas, offers a fully integrated software platform that equips companies with the products, solutions and services necessary to engage, manage and monetize their anytime, anywhere users worldwide through its location-based software-as-a-service platform that provides an entire mobile lifecycle of applications and media in one login through one procurement relationship. 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 software solutions and 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

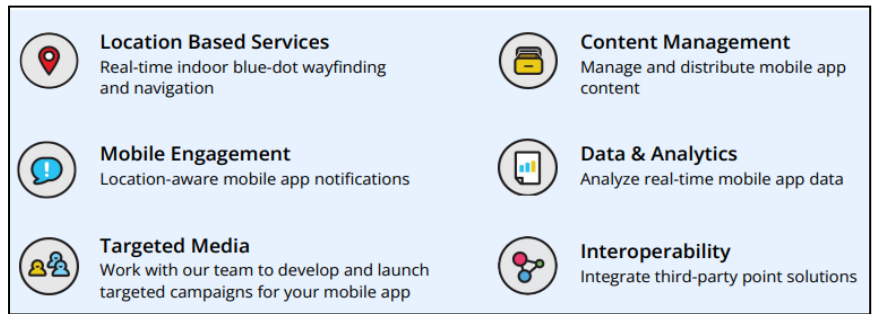
In August 2023, PHUN announced it licensed its multi-dwelling unit solution to Parkside Residences at Discovery Green, a 43-story residential tower in downtown Houston, Texas, in partnership with MKT Consulting. The mobile application portfolio being deploy should enable to easily manage every activity they do around the property from a single interface. In addition to booking amenities, other features include requesting work orders and valet services, tracking deliveries, viewing property maps, and receiving alerts, notifications and messages. The offering will also

include SALTO’s smart lock integration that will allow residents to manage door access without physical keys and to add visitor information and inform property management that residents are expecting a guest.

In July 2023, the company announced its smart hospitality solution was launched at Thumper Pond Resort in Minnesota. The technology being deployed should redefine the guest experience by offering personalized services and digital amenities that seamlessly integrate with and enhance the existing infrastructure across Thumper’s property.

Technology Platform

PHUN’s location-based software-as-a-service cloud-based technology platform and services are designed for its customer to engage, manage and monetize their anytime, anywhere users worldwide throughout an entire mobile lifecycle of applications and media in one login through one procurement relationship. Pictured on the right (company’s April 2023 presentation) are the key elements of the company’s value proposition. These modules are designed to assist PHUN’s customers in better understand their users, by providing the tools to engage them at the right time and in the right context.



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.

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).

Lyte by Phunware

In October 2021, the company acquired privately-held Lyte Technology, Inc., which provides its customers with high performance computer systems. In August 2023, the company announced its will strive to optimize Lyte's performance in order to bring it toward profitability. However, PHUN will also begin evaluating strategic options for Lyte over the medium and long in order to maximize shareholder value.

Blockchain Ecosystem

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 reflects the new CEO vision of improving the features and scalability of PHUN’s offerings to not only increase customer adoption and shorten sales cycle, but enhance the overall margin profile of each technology deployment.

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. The company is seeking more active partnerships.

The company's has three significant reference customers, Gaylord Hotels by Marriott, Atlantis Resort in the Bahamas, and Thumper Pond Resort in Minnesota.

By expanding its number of partnerships and achievements, the company should be able to have its location-based technology platform and service offerings marketed to a broad base of potential new customers.

Hospitality

Phunware, as part of a revamped sales and marketing strategy for its hospitality offerings exhibited for the first time at the Hospitality Financial and Technology Professionals Annual Hospitality Industry Technology Exposition and Conference Show in Toronto, Canada in June 2023. The initial results were promising as there were 6,000 attendees meeting with 325 technology companies. PHUN generated more than 50 direct leads from hotels, casinos and resorts, who are primarily interested in its wayfinding and guest messaging solutions.

Healthcare

We anticipate the mobile and virtual healthcare market is likely to be a key growth vertical for the company. In 1Q23, PHUN announced a contract expansion to extend its Location Based Services offering to the 250,000 square foot Outpatient Pavilion at VHC Health and integrate TIBA Parking Systems with VHC Health's mobile digital front door. In August 2023, the company indicated that is pipeline for new deals, as well as expansion within existing customers remain strong with announcement likely to occur in 2H23.

Projections

Basis of Forecast

We anticipate PHUN's focus through 2024 will be to drive higher margin revenue growth in its recurring location-based technology platform offerings and accelerate initiatives to reduce operating costs that commenced in 3Q23.

Operations – 2023

We project revenue of nearly \$18 million (prior was \$20 million) compared to nearly \$21.8 million in 2022. Our forecast reflects 1H23 results and slower than anticipated efforts by the company to build a committed pipeline of new customer deployments due in part to a longer sales cycle and revamping its sales and marketing strategy to an account based approach.

Gross profit should decrease to \$2.6 million from nearly \$5.1 million due primarily to lower sales and gross margin compression to 16.6% compared to 23.3% in 2022. Gross margin compression reflects 1H23 results. Lyte, which had negative gross margin of 3.6% in 2Q23 drove 1H23 gross margin to 9.9% compared to 26.8% in 1H22.

We project the operating loss narrowing to \$24 million compared to a loss of \$29.5 million in 2022 due primarily to the cost saving initiatives that began in 3Q23. We anticipate operating expenses decreasing \$7.9 million to \$26.7 million stemming from lower revenue and the company implementing cost saving initiatives to streamline operations in 3Q23. We project G&A expense decreasing by \$3.9 million to \$15.7 million, sales and marketing expenses decreasing by \$2 million to \$4.8 million, and R&D expense decreasing by \$1.7 million to \$5 million. Also, the current period includes \$1.2 million compared to nearly \$2.1 million related to the impairment of goodwill in 2022.

We project interest expense increasing to \$2.2 million from \$2.4 million in 2022 due to a lower average debt balance, nearly offset by higher interest rates. Based on 1H23 results, we anticipate the company recording a \$5.5 million gain on sale of digital assets and other, as well as a \$256,000 positive change in fair value adjustment for warrant liabilities, partly offset by a \$50,000 digital currencies impairment. In 2022, the company reported a \$22.9 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 \$20.5 million or (\$0.18) per share on average shares outstanding of 106 million. We previously projected a net loss of \$22.5 million or (\$0.21) per share on average shares outstanding of 105.4 million.

Finances – 2023

We project a cash loss of \$15.6 million and a decrease in working capital of \$2.5 million. We anticipate proceeds from the sale of digital currencies and issuance of nearly \$6.5 million in common stock is likely to cover cash used in operations of \$13.2 million and repayment of debt. Cash should increase \$84,000 to \$2 million at December 31, 2023.

Operations – 2024

We project revenue increasing 17.5% to \$18.8 million (prior was \$24.6 million) from an estimated \$16 million due primarily to a growing customer base for the company's recurring location-based revenue platform segment offerings and a rebound in the company's Lyte operation in 2H24. We anticipate recurring platform sales growth of 18.4% to \$6.4 million driven by an increase in customer deployments, along with a 17% increase in hardware sales to \$12.4 million.

Gross profit should more than double to \$5.9 million from an estimated \$2.6 million due to revenue growth, gross margin improving to 31.7% compared to an estimated 16.6% in 2023. Gross margin improvement should be due to sustained recurring revenue growth (we are not anticipated a quarterly mismatch of cost of goods sold to revenue), as well as the company's Lyte operations achieving gross margin of 14.4% from an estimated 5.7% in 2023.

We project the operating loss narrowing to \$14.8 million compared to an estimated loss of \$24 million in 2023 due primarily to revenue growth, gross margin expansion and operating margin expense improving to 110.7% from an estimated 167.2% in 2023. We anticipate operating expenses decreasing by approximately \$5.9 million to \$20.8 million from an estimated \$26.7 million. We anticipate the cost reduction program initiated in 3Q23 and streamlining of operations including a revamped sales and marketing effort should lead to the building of a sustained pipeline of recurring revenue projects.

We project interest expense of \$375,000 compared to an estimated \$2.2 million in 2023 due primarily to repaying in full debt obligation by the end of 1H24. We are not recording any change in warrant liabilities, impairment of digital currencies, or proceeds from sale of digital currencies.

We project a net loss of \$15.2 million or (\$0.12) per share on average shares outstanding of 126.7 million. We previously projected a net loss of \$22 million or (\$0.20) per share on average shares outstanding of 111.1 million.

Finances – 2024

We project a cash loss of \$7.7 million and a decrease in working capital of \$4.6 million. We anticipate the company's issuance of common stock is unlikely to cover cash used in operations of \$3.1 million and repayment of debt obligations in full. Cash should decrease by \$666,000 to \$1.4 million at December 31, 2024.

2Q23 and 1H23 Results

2Q23

Revenue decreased 36.4% to \$3.5 million from \$5.5 million in 2Q22. Platform revenue decreased 20.5% to \$1.3 million from \$1.6 million in the year-ago period stemming from PhunToken sales last year that did not occur in the current period. Hardware sales from the company's Lyte operations decreased 42.2% to \$2.2 million from \$3.9 million last year due primarily to lower orders volumes.

Gross profit decreased to \$456,000 from \$1.5 million in 2Q22 due primarily gross margin contraction to 13.1% from 27.7% last year stemming from negative hardware gross margin of (3.6%) reflecting obsolete inventory charges. Also, gross margin from the platform segment decreased to 41.4% from 64.9% due to a mismatch of cost of goods sold and associated revenue associated recognized in the quarter.

Phunware, Inc.

Operating expenses decreased to \$8.7 million compared to \$9.1 million in the year-ago period. G&A expenses decreased to \$4.8 million from \$5.3 million in the year-ago period due primarily to reductions in compensation and legal fees. R&D expense decreased to \$1.2 million from \$1.9 million last year reflecting lower compensation costs and outside contract labor. Sales and marketing expenses decreased to \$1.5 million from \$1.9 million in 2Q22 reflecting reduced marketing expenditures for its Lyte operations. In the current period the company recorded \$1.2 million charge related to the impairment of goodwill. No such charge was recorded in the year-ago period.

Non-operating income was \$1.7 million compared to an expense of \$9.5 million in 2Q22. In the current period, PHUN reported a \$2.2 million gain on sale of digital assets and other, as well as a \$3,000 positive change in fair value adjustment for warrant liabilities, partly offset by interest expense of \$555,000. In the year-ago period, the company reported interest expense of \$273,000 and \$12.2 million impairment of digital currency, partly offset by a \$2.7 million positive adjustment related to the fair value adjustment for warrant liabilities and \$213,000 gain on sale of digital assets.

The net loss was \$6.5 million or (\$0.06) per share on 105.1 million outstanding average shares. We forecast a net loss of \$6.3 million or (\$0.06) per share on revenue of \$4.7 million.

1H23

Revenue decreased 32.9% to \$8.2 million from \$12.3 million in 1H22. Platform revenue decreased 35.9% to \$2.6 million and hardware sales from the company's Lyte operations decreased 31.3% to \$5.6 million.

Gross profit decreased to \$817,000 from \$3.2 million in 1H22 due primarily gross margin contraction to 9.9% from 26.8% last year. Gross margin contraction reflects a mismatch of cost of goods sold and associated revenue associated recognized in the period along with a charge related to obsolete inventory.

Operating expenses increased 2.6% to \$16.2 million compared to \$15.8 million in the year-ago period. The increase reflects higher 1Q23 expenses that were reduced in 2Q23.

Non-operating income was \$4.7 million compared to an expense of \$19.4 million in 1H22. In the current period, PHUN reported a \$5.5 million gain on sale of digital assets and other, as well as a \$256,000 positive change in fair value adjustment for warrant liabilities, partly offset by interest expense of \$1.1 million and a \$50,000 digital currencies impairment. In the year-ago period, the company reported interest expense of \$654,000 and \$21.5 million impairment of digital currency, partly offset by a \$2.5 million positive adjustment related to the fair value adjustment for warrant liabilities and \$265,000 gain on sale of digital assets and other.

The net loss was \$10.8 million or (\$0.10) per share on 104.2 million outstanding average shares. In the year-ago period the company reported a net loss of nearly \$32 million or (\$0.33) per share.

Finances

In 1H23, cash burn of \$10.4 million and a \$2.2 million increase in working capital resulted in cash used in operations of \$12.6 million. Proceeds of \$15.4 million from the sales of digital currencies and \$995,000 from issuance of common stock did not cover cash used in operations and repayment of debt. Cash decreased by \$850,000 to \$1.1 million at June 30, 2023.

	in \$ thousands		
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Total Revenue	\$ 8,234	\$ 12,263	(32.9%)
Total Cost of Sales	7,417	8,972	(17.3%)
Gross Profit	\$ 817	\$ 3,291	(75.2%)
Total Operating Expenses	16,265	15,848	2.6%
Operating Income	(15,448)	(12,557)	23.0%
Total Other Income (Expense)	4,655	(19,431)	NMF
Pre-Tax Income	(10,793)	(31,988)	(66.3%)
Income tax expense	-	-	
Net Income (loss)	<u>\$(10,793)</u>	<u>\$(31,988)</u>	39.9%
Earnings (loss) per share	(\$0.10)	(\$0.33)	
Avg Shares Outstanding	104,151	97,293	
Margins			
Gross margin - combined	9.9%	26.8%	
Operating Margin	(187.6%)	(102.4%)	
Pre-Tax Margins	(131.1%)	(260.8%)	
Tax Rate	0.0%	0.0%	
Source: company reports			

Capital Structure

At June 30, 2023, the company had total outstanding debt (all short-term) of \$6.1 million. The company also has \$1.2 million PhunCoin rights listed as short-term deposits on its balance sheet. At June 30, 2023, the company had a digital currency asset balance of \$71,000 (compared to \$10.1 million at December 31, 2022). PHUN has essential sold nearly of its digital assets.

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 June 30, 2023, \$94.4 million common shares remains issuable pursuant to the sales agreement with Wainwright. Subsequent to the end of 2Q23 to August 14, 2023, approximately 13.1 million shares of common stock were sold pursuant to the terms of the At Market Issuance Sales Agreement with Wainwright for aggregate net cash proceeds of nearly \$5.5 million.

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.

On August 14, 2023, PHUN entered into an amendment to the 2022 promissory note, which extends the maturity date to June 1, 2024 and provides that effective August 1, 2023, a requirement to make monthly amortization payments of at least \$800 commencing on August 31, 2023 until the note is paid-in-full. The company granted the note holder certain limited conversion rights, subject to advance payment and volume conditions. The amendment also provides that the outstanding balance shall accrue interest at a rate of 8% beginning on August 1, 2023, and payment deferrals are no longer permitted.

On January 5, 2023, a stock repurchase program was approved for the repurchase of up to \$5 million worth of the company's outstanding common shares. In 1H23, 506,500 shares of PHUN's common stock was repurchased at an aggregate price of \$502,000.

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 be 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 June 30, 2023, the company's accumulated deficit was approximately \$261 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, 2022, and so far in 2023 provided proceeds of approximately \$100 million and the July 2022 promissory note offering for net proceeds of \$11.8 million, as well as projected issuances of common stock and/or debt, should allow for the company to execute its growth strategy during our forecast period.

Delisting/Default

On April 13, 2023, PHUN was notified that the closing bid price of its common stock had been below \$1.00 for the last 30 consecutive business days meaning it was not in compliance with the minimum bid price requirement for continued inclusion on the Nasdaq Capital Market. The company until October 10, 2023 to regain compliance with the minimum bid price requirement, which call for the closing bid price of PHUN's common stock to be at least \$1.00 for a minimum of ten consecutive business days. To regain compliance the company may have to implement a reverse stock split, subject to approval of its board of directors and stockholders. If a delisting were to occur it would likely negatively impact trading volume, the number and type of investors willing to hold or acquire stock in the company, as well as ability to raise additional capital.

Also, if PHUN's common stock were to be removed from listing on NASDAQ, it would trigger a default under its 2022 Promissory Note, and the outstanding balance would be immediately due and payable in cash at the mandatory default amount.

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. On June 16, 2023, the court ruled on the motions without filing a written opinion and granted Phunware's motion to dismiss on the Texas law-based claims and denied both the motion to dismiss and partial motion for summary judgment on the Delaware law claims. The parties engaged in mediation in July 2023 and are scheduled for further mediation in late August 2023. PHUN will defend against this lawsuit and any appeals.

On March 31, 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.

Intellectual Property

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

In the US, PHUN has 16 patents issued and 5 non-provisional patent applications that expire between 2027 and 2037.

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 4.2% of the outstanding voting stock (February 28, 2023). 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 2021 was 14.3 million shares, which decreased to 6.2 million in 2022. During the three months period ending August 16, 2023, volume decreased to 2.4 million. The company has a float of 101 million shares and shares outstanding of 120.4 million as of August 14, 2023.

Phunware, Inc.
Consolidated Balance Sheets
FY2020A – FY2024E
(in thousands)

	FY20A	FY21A	FY22A	2Q23A	FY23E	FY24E
ASSETS						
Current assets:						
Cash	\$ 3,940	\$ 23,137	\$ 1,955	\$ 1,105	\$ 2,039	\$ 1,374
Accounts receivable, net	664	967	958	863	702	677
Inventory	-	2,636	2,780	2,168	2,000	2,300
Digital currencies	-	32,581	10,137	71	71	71
Prepaid expenses and other current assets	304	686	1,033	624	559	400
Total current assets	4,908	60,007	16,863	4,831	5,370	4,822
Property and equipment, net	13	-	221	188	180	175
Goodwill	25,900	33,260	31,113	29,956	29,956	29,956
Intangible assets, net	111	3,213	2,524	2,190	1,756	586
Deferred tax asset - long term	537	1,278	-	-	-	-
Restricted cash	91	-	-	-	-	-
Right-of-use asset	-	1,260	3,712	3,258	1,000	500
Other assets	276	276	402	367	149	149
Total assets	\$ 31,836	\$ 99,294	\$ 54,835	\$ 40,790	\$ 38,411	\$ 36,188
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	8,462	6,589	7,699	8,350	10,167	10,679
Accrued expenses	5,353	9,621	2,895	1,542	3,192	5,625
Accrued legal settlement	3,000	-	-	-	-	-
Lease liability	-	399	954	968	968	961
Deferred revenue	2,397	3,973	2,904	1,092	1,500	2,500
PhunCoin deposits	1,202	1,202	1,202	1,202	1,202	1,202
Current portion of long-term debt, net	4,435	4,904	9,667	6,094	2,094	-
Warrant liability	1,614	3,605	256	-	-	-
Total current liabilities	26,463	30,293	25,577	19,248	19,123	20,967
Debt	3,762	-	-	-	-	-
Debt - related party	195	-	-	-	-	-
Deferred tax liabilities	537	1,278	-	-	-	-
Deferred revenue	2,678	1,299	1,274	1,050	1,250	2,000
Deferred rent	180	-	-	-	-	-
Lease liability	-	1,147	3,103	2,584	2,500	2,500
Stockholders' equity:						
Common stock, \$.0001 par value; authorized 1,00,000,000 shares;	6	10	10	11	11	11
Treasury stock at cost	-	-	-	(502)	(502)	(502)
Additional paid-in capital	144,156	264,944	275,562	279,837	287,646	297,646
Accumulated other comprehensive	(338)	(352)	(472)	(426)	(882)	(500)
Retained earnings (accumulated deficit)	(145,803)	(199,325)	(250,219)	(261,012)	(270,735)	(285,935)
Total stockholders' equity	(1,979)	65,277	24,881	17,908	15,538	10,720
Total liabilities and stockholders' equity	\$ 31,836	\$ 99,294	\$ 54,835	\$ 40,790	\$ 38,411	\$ 36,188
SHARES OUT	56,380	96,752	103,153	107,565	121,000	131,000

Source: Company reports and Taglich Brothers estimates

Phunware, Inc.
Annual Income Statement
FY2020 – FY2024E
(in thousands)

	<u>FY20 A</u>	<u>FY21 A</u>	<u>FY22 A</u>	<u>FY23 E</u>	<u>FY24 E</u>
Net revenues	\$ 10,001	\$ 10,643	\$ 21,794	\$ 15,959	\$ 18,750
Cost of sales	<u>3,357</u>	<u>7,030</u>	<u>16,718</u>	<u>13,309</u>	<u>12,815</u>
Gross Profit	<u>6,644</u>	<u>3,613</u>	<u>5,076</u>	<u>2,649</u>	<u>5,935</u>
Operating Expenses:					
Sales and marketing	1,653	3,022	6,814	4,825	4,635
General and administrative	15,361	13,256	19,554	15,678	11,950
Research and development	2,628	4,179	6,149	4,984	4,175
Legal settlement / impairment of goodwill	4,500	-	2,061	1,203	-
Total Operating Expenses	<u>24,142</u>	<u>20,457</u>	<u>34,578</u>	<u>26,690</u>	<u>20,760</u>
Operating Income (loss)	(17,498)	(16,844)	(29,502)	(24,041)	(14,825)
Interest (expense) income	(3,413)	(4,481)	(2,406)	(2,220)	(375)
Gain (loss) on extinguishment of debt (PPP forgiveness)	(2,158)	(5,102)	-	-	-
Fair value adjustment for warrant liabilities	872	(18,139)	3,349	256	-
Impairment of digital currencies	-	(9,383)	(22,911)	(50)	-
Other income (expense) includes sale of digital assets	<u>-</u>	<u>1</u>	<u>580</u>	<u>5,539</u>	<u>-</u>
Total Other Income (expense)	<u>(4,699)</u>	<u>(37,104)</u>	<u>(21,388)</u>	<u>3,525</u>	<u>(375)</u>
Pre-Tax Income (loss)	(22,197)	(53,948)	(50,890)	(20,516)	(15,200)
Income Tax Expense (Benefit)	<u>2</u>	<u>(426)</u>	<u>4</u>	<u>-</u>	<u>-</u>
Net income (loss)	<u>(22,199)</u>	<u>(53,522)</u>	<u>(50,894)</u>	<u>(20,516)</u>	<u>(15,200)</u>
Earning (loss) per share	<u>\$ (0.50)</u>	<u>\$ (0.71)</u>	<u>\$ (0.51)</u>	<u>\$ (0.18)</u>	<u>\$ (0.12)</u>
Avg Shares Outstanding	44,269	75,447	98,982	112,638	126,700
Adjusted EBITDA	\$ (8,353)	\$ (11,662)	\$ (23,506)	\$ (16,109)	\$ (8,025)
Margin Analysis					
Gross margin	66.4%	33.9%	23.3%	16.6%	31.7%
Sales and marketing	16.5%	28.4%	31.3%	30.2%	24.7%
General and administrative	153.6%	124.6%	89.7%	98.2%	63.7%
Research and development	26.3%	39.3%	28.2%	31.2%	22.3%
Operating margin	(175.0%)	(158.3%)	(135.4%)	(150.6%)	(79.1%)
Pre-tax margin	(221.9%)	(506.9%)	(233.5%)	(128.6%)	(81.1%)
Tax rate	(0.0%)	0.8%	(0.0%)	0.0%	0.0%
YEAR / YEAR GROWTH					
Total Revenues	(47.8%)	6.4%	104.8%	(26.8%)	17.5%

Source: Company reports and Taglich Brothers estimates

Phunware, Inc.
Income Statement Model
Quarters FY2022A – 2024E
(in thousands)

	Q1 22 A	Q2 22 A	Q3 22 A	Q4 22 A	FY22 A	Q1 23 A	Q2 23 A	Q3 23 E	Q4 23 E	FY23 E	Q1 24 E	Q2 24 E	Q3 24 E	Q4 24 E	FY24 E
Net revenues	\$ 6,778	\$ 5,485	\$ 4,758	\$ 4,773	\$ 21,794	\$ 4,747	\$ 3,487	\$ 3,325	\$ 4,400	\$ 15,959	\$ 5,425	\$ 3,800	\$ 4,025	\$ 5,500	\$ 18,750
Cost of sales	5,007	3,965	3,963	3,783	16,718	4,386	3,031	2,562	3,330	13,309	4,170	2,610	2,535	3,500	12,815
Gross Profit	1,771	1,520	795	990	5,076	361	456	762	1,070	2,649	1,255	1,190	1,490	2,000	5,935
Operating Expenses:															
Sales and marketing	1,485	1,928	1,819	1,582	6,814	1,128	1,472	1,100	1,125	4,825	1,135	1,150	1,165	1,185	4,635
General and administrative	4,305	5,251	5,189	4,809	19,554	4,712	4,766	3,200	3,000	15,678	2,900	2,950	3,025	3,075	11,950
Research and development	1,003	1,876	1,665	1,605	6,149	1,772	1,212	1,000	1,000	4,984	1,025	1,035	1,050	1,065	4,175
Legal settlement / impairment of goodwill	-	-	-	2,061	2,061	-	1,203	-	-	1,203	-	-	-	-	-
Total Operating Expenses	6,793	9,055	8,673	10,057	34,578	7,612	8,653	5,300	5,125	26,690	5,060	5,135	5,240	5,325	20,760
Operating Income (loss)	(5,022)	(7,535)	(7,878)	(9,067)	(29,502)	(7,251)	(8,197)	(4,538)	(4,055)	(24,041)	(3,805)	(3,945)	(3,750)	(3,325)	(14,825)
Interest (expense) income	(381)	(273)	(991)	(761)	(2,406)	(537)	(553)	(555)	(575)	(2,220)	(250)	(125)	-	-	(375)
Gain (loss) on extinguishment of debt (PPP forgiveness)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fair value adjustment for warrant liabilities	(213)	2,682	797	83	3,349	253	3	-	-	256	-	-	-	-	-
Impairment of digital currencies	(9,353)	(12,158)	-	(1,400)	(22,911)	(50)	-	-	-	(50)	-	-	-	-	-
Other income (expense) includes sale of digital assets	52	213	54	261	580	3,316	2,223	-	-	5,539	-	-	-	-	-
Total Other Income (expense)	(9,895)	(9,536)	(140)	(1,817)	(21,388)	2,982	1,673	(555)	(575)	3,525	(250)	(125)	-	-	(375)
Pre-Tax Income (loss)	(14,917)	(17,071)	(8,018)	(10,884)	(50,890)	(4,269)	(6,524)	(5,093)	(4,630)	(20,516)	(4,055)	(4,070)	(3,750)	(3,325)	(15,200)
Income Tax Expense (Benefit)	-	-	-	4	4	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(14,917)	(17,071)	(8,018)	(10,888)	(50,894)	(4,269)	(6,524)	(5,093)	(4,630)	(20,516)	(4,055)	(4,070)	(3,750)	(3,325)	(15,200)
Earning (loss) per share	\$ (0.15)	\$ (0.17)	\$ (0.08)	\$ (0.11)	\$ (0.51)	\$ (0.04)	\$ (0.06)	\$ (0.04)	\$ (0.04)	\$ (0.18)	\$ (0.03)	\$ (0.03)	\$ (0.03)	\$ (0.03)	\$ (0.12)
Avg Shares Outstanding	96,844	97,742	98,822	102,520	98,982	103,169	105,133	121,000	121,250	112,638	121,500	126,600	126,700	132,000	126,700
Adjusted EBITDA	\$ (4,246)	\$ (6,602)	\$ (6,741)	\$ (5,917)	\$ (23,506)	\$ (5,599)	\$ (5,217)	\$ (2,888)	\$ (2,405)	\$ (16,109)	\$ (2,105)	\$ (2,245)	\$ (2,050)	\$ (1,625)	\$ (8,025)
Margin Analysis															
Gross margin	26.1%	27.7%	16.7%	20.7%	23.3%	7.6%	13.1%	22.9%	24.3%	16.6%	23.1%	31.3%	37.0%	36.4%	31.7%
Sales and marketing	21.9%	35.2%	38.2%	33.1%	31.3%	23.8%	42.2%	33.1%	25.6%	30.2%	20.9%	30.3%	28.9%	21.5%	24.7%
General and administrative	63.5%	95.7%	109.1%	100.8%	89.7%	99.3%	136.7%	96.2%	68.2%	98.2%	53.5%	77.6%	75.2%	55.9%	63.7%
Research and development	14.8%	34.2%	35.0%	33.6%	28.2%	37.3%	34.8%	30.1%	22.7%	31.2%	18.9%	27.2%	26.1%	19.4%	22.3%
Operating margin	(74.1%)	(137.4%)	(165.6%)	(190.0%)	(135.4%)	(152.7%)	(235.1%)	(136.5%)	(92.2%)	(150.6%)	(70.1%)	(103.8%)	(93.2%)	(60.5%)	(79.1%)
Pre-tax margin	(220.1%)	(311.2%)	(168.5%)	(228.0%)	(233.5%)	(89.9%)	(187.1%)	(153.2%)	(105.2%)	(128.6%)	(74.7%)	(107.1%)	(93.2%)	(60.5%)	(81.1%)
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	311.8%	282.0%	120.3%	(11.6%)	104.8%	(30.0%)	(36.4%)	(30.1%)	(7.8%)	(26.8%)	14.3%	9.0%	21.1%	25.0%	17.5%

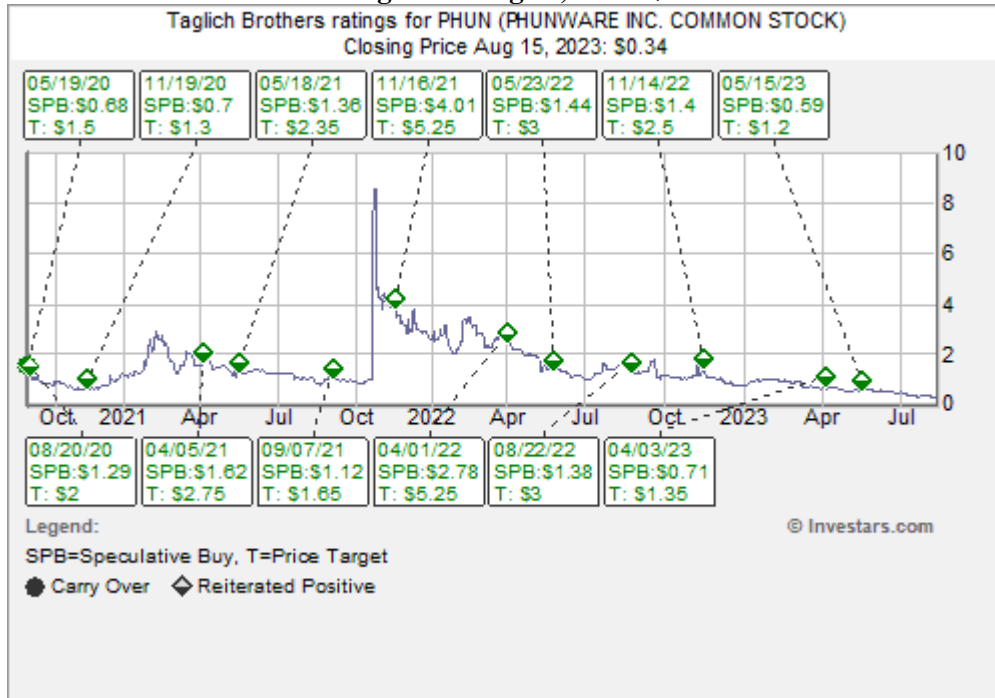
Source: Company reports and Taglich Brothers estimates

Phunware, Inc.
Cash Flow Statement
FY2020 – FY2024E
(in thousands)

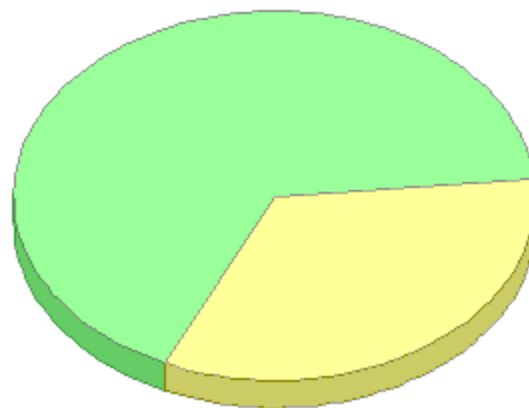
	<u>FY2020A</u>	<u>FY2021A</u>	<u>FY2022A</u>	<u>6 Mos23A</u>	<u>FY2023E</u>	<u>FY2024E</u>
<i>Cash Flows from Operating Activities</i>						
Net Income (loss)	\$ (22,199)	\$ (53,522)	\$ (50,894)	\$ (10,793)	\$ (20,516)	\$ (15,200)
Depreciation and amortization	11	-	-	-	-	-
Impairment of goodwill	-	-	2,061	1,203	1,203	-
Bad debt expense (recovery)	205	-	-	-	-	-
Amortization of intangibles and right-of-use asset	142	-	-	-	-	-
Amortization of debt discount and deferred financing costs	2,185	2,942	1,034	697	2,400	2,000
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	(3,349)	(256)	(256)	-
Impairment of digital currencies and right-of-use asset	-	9,383	22,911	50	50	-
Settlement of accounts payable	(453)	-	-	-	-	-
Stock-based compensation	4,492	4,941	3,009	2,824	5,600	5,500
Deferred income taxes and other and sale of digital assets	-	(478)	1,466	(4,130)	(4,130)	-
Cash earnings (burn)	(14,276)	(13,493)	(23,762)	(10,405)	(15,649)	(7,700)
<i>Changes In:</i>						
Accounts receivable	796	(16)	4	57	256	24
Inventory	-	(949)	(412)	417	780	(300)
Prepaid expenses and other assets	65	(383)	(476)	444	474	159
Accounts payable	427	(1,568)	1,111	651	2,468	512
Accrued expenses	1,064	(1,131)	(1,258)	(997)	297	2,433
Accrued legal settlement	3,000	(3,000)	-	-	-	-
Lease liability	-	(802)	(905)	(691)	(345)	-
Deferred revenue	(2,049)	(1,172)	(1,129)	(2,036)	(1,428)	1,750
(Increase)/decrease in Working Capital	3,303	(9,021)	(3,065)	(2,155)	2,503	4,578
Net cash provided (used in) Operations	<u>(10,973)</u>	<u>(22,514)</u>	<u>(26,827)</u>	<u>(12,560)</u>	<u>(13,146)</u>	<u>(3,122)</u>
<i>Cash Flows from Investing Activities</i>						
Proceeds received from sale of digital currencies	-	-	1,282	15,390	15,390	-
Purchase of digital currencies	-	(41,284)	(923)	-	-	-
Acquisitions, net of cash acquired	-	(5,101)	(2,375)	-	-	-
Capital expenditures	-	-	(271)	(9)	(20)	(50)
Cash flow provided (used in) Investing Activities	<u>-</u>	<u>(46,385)</u>	<u>(2,287)</u>	<u>15,381</u>	<u>15,370</u>	<u>(50)</u>
<i>Cash Flows from Financing Activities</i>						
Net proceeds (payment) from factoring agreement	(1,077)	-	-	-	-	-
Proceeds (payment) on debt net	14,815	14,711	11,795	-	-	-
Bridge loans - related parties	560	-	-	-	-	-
Payments on senior convertible note	(8,418)	(26,243)	(8,066)	(4,270)	(8,270)	(2,094)
Payments on related party notes	(560)	-	-	-	-	-
Proceeds from common stock, net of issuance costs	9,177	94,737	4,298	995	6,484	4,500
Proceeds from warrant exercise	-	4,635	-	-	-	-
Proceeds from exercise of options to purchase common stock	99	179	28	58	100	100
Payment for stock repurchase	-	-	-	(502)	(502)	-
Net cash provided (used) by Financing	<u>14,596</u>	<u>88,019</u>	<u>8,055</u>	<u>(3,719)</u>	<u>(2,188)</u>	<u>2,506</u>
Effect of exchange rates	46	(14)	(123)	48	48	-
Net change in Cash and restricted cash	3,669	19,106	(21,182)	(850)	84	(666)
Cash and restricted cash Beginning of Period	<u>362</u>	<u>4,031</u>	<u>23,137</u>	<u>1,955</u>	<u>1,955</u>	<u>2,039</u>
Cash (and restricted) End of Period	<u>\$ 4,031</u>	<u>\$ 23,137</u>	<u>\$ 1,955</u>	<u>\$ 1,105</u>	<u>\$ 2,039</u>	<u>\$ 1,374</u>

Source: Company reports and Taglich Brothers estimates

Price Chart
Closing Price Aug 16, 2023: \$0.33



Taglich Brothers Current Ratings Distribution



66.67 % Buy | 33.33 % Hold

Investment Banking Services for Companies Covered in the Past 12 Months		
<u>Rating</u>	<u>#</u>	<u>%</u>
Buy	4	22
Hold		
Sell		
Not Rated		

Important Disclosures

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Analyst Certification

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.