

Research Report – Update

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

Phunware, Inc.

Rating: Speculative Buy

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PHUN \$7.08 — (NASDAQ)

	2022 A	2023 A	2024 E	2025 E
Revenue (in millions)	\$6.5	\$4.8	\$6.0	\$10.0
Earnings (loss) per share	(\$22.95)*	(\$17.62)	(\$1.25)	(\$1.02)
52-Week range	\$33.50 – \$3.50		Fiscal year ends:	December
Shares outstanding ^{a/o 5/7/24}	8.3 million		Revenue/shares (ttm)	\$1.25
Approximate float	8.0 million		Price/Sales (ttm)	5.7X
Market Capitalization	\$58.8 million		Price/Sales (2025) E	5.9X
Tangible Book value/shr	\$1.77		Price/Earnings (ttm)	NMF
Price/Book	4.0X		Price/Earnings (2025) E	NMF

All per share figures reflect a 1 for 50 reverse stock split effective February 27, 2024 - Revenue excludes the discontinued operations of Lyte Technologies

** Includes approximately (\$11.57) per share in impairment of digital currencies and a \$5.33 per share gain from fair value warrant liabilities adjustment*

*** Includes approximately (\$10.85) per share impairment of goodwill*

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.

Key Investment Considerations:

Maintaining our Speculative Buy rating but reducing our twelve-month price target to \$15.00 per share from \$17.00 per share due primarily to a reduction in sector valuation, partly offset by an increase in our 2025 sale per share forecast.

Phunware has growth potential as it transitions operations to a software-as-a-service revenue technology platform model utilizing its location-based and wayfinding offerings. The company's patented location based service technology and service offerings are primarily focused on penetrating the healthcare and hospitality, markets. 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 1Q24, the company reported new bookings were in excess of 60% of the total generated in all of 2023. Based on initial 1Q24 bookings and an implementation process of approximately thirty days, the company anticipates it could generated full year revenue of at least \$6 million.

PHUN reported (on 4-9-24) a 1Q24 loss of (\$0.33) per share on revenue of \$921,000 compared to a loss per share from continuing operations of (\$1.80) on revenue of \$1.3 million in 1Q23. We forecast a loss per share of (\$0.35) on revenue of \$950,000.

For 2024, we project a loss of (\$1.25) per share on revenue of nearly \$6 million. We previously projected a loss of (\$1.39) per share on revenue of \$4.2 million. Our revised forecast reflects 1Q24 results.

For 2025, we project a loss of (\$1.02) per share on revenue of \$10 million. We previously projected a loss of (\$1.20) per share revenue of \$7 million. Our revised revenue growth forecast reflects increased bookings from PHUN's sales team. Our improved loss per share forecast reflects gross margin improvement to 58% from an estimated 56.2% in 2024.

Please view our Disclosures pages 13 – 15.

Appreciation Potential

Maintaining our Speculative Buy rating but reducing our twelve-month price target to \$15.00 per share from \$17.00 per share due primarily to a reduction in sector valuation, partly offset by an increase in our 2025 sale per share forecast. Our rating and price target reflects the company's focus on rapidly building a customer base for its recurring revenue platform offerings that utilizes its patented location-based and wayfinding technologies. Our forecasts through 2025 should be supported by the company focusing on its high margin recurring revenue technology platform offerings and reduction in operating cost to align revenue and expenses. The company reduced its workforce to 25 professionals from 81 earlier in 2023. Entering 2Q24, PHUN is posed to increase customer deployments of its technology offerings after announcing new bookings were in excess of 60% of the total generated in all of 2023. We anticipate based on a growing pipeline of potential new customer deployments and expansion within existing customers, by 4Q25, the company's annual revenue run-rate should approach \$12 million, up from an estimated \$9.6 million in 4Q24.

Our 12-month price target of \$15.00 per share implies shares could more than double over the next twelve months. According to finviz, the average trailing twelve-month price-to-sales multiple for similar market capitalization companies in the Software – Application sectors is 17X (prior was 24.1X). PHUN's trailing twelve-month price-to-sales multiple is 5.9X. We anticipate investors are likely to accord PHUN a multiple approaching that of the sector due to our forecasted revenue growth of 66.8% for 2025. We applied a price-to-sales multiple of 14X to our 2025 sales per share forecast of \$1.20 (prior was \$0.87), discounted for execution risks to obtain a year-ahead price target of approximately \$15.00 per share.

A higher valuation of Phunware is likely to be supported by revenue growth from its recurring revenue customer-base, a narrowing of operating losses, and a reduction in cash losses. In 2025, we forecast PHUN's operating losses should narrow to \$8.5 million from an estimated loss of \$10.5 million in 2024. In 2023, the operating loss was \$19.9 million (excluding goodwill impairment charge of \$25.8 million). In 2025, we estimate PHUN's cash loss narrowing to \$7.3 million from a cash loss was \$25.9 million in 2023.

We believe Phunware, Inc. is most suitable for high-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 develop an ecosystem where digital interactions enable a more engaged, interactive, and valuable experience for its growing customer base and their consumers. PHUN is working towards redefining connectivity by ensuring the widespread adoption of its technologies for brands, mobile consumers, partners, digital asset holders, and market participants.

In October 2021, PHUN completed the acquisition of Lyte Technologies, which it classified as a discontinued operations during December 2023.

In November 2023, a new management team was appointed to focus on developing and expanding the sales of the company's recurring revenue cloud-based platform offerings to hospitality, healthcare, connected workplace, and luxury residential customers. PHUN is also focusing on the monetization of its patent portfolio in ways other than embedding it in its software technology offerings. Over the longer-term, management anticipates executing on a

digital asset strategy that will capitalize on PhunCoin, PhunToken and those assets' ability to return control of their data and use to consumers.

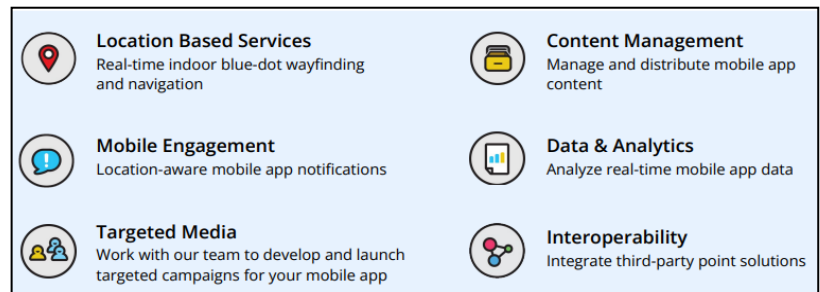
Recent Developments

During May 2024, the company announced it appointed Paul Ruffino as a strategic advisor to guide Phunware's hospitality offering. Most recently, Mr. Ruffino led the development and launch of Hospitality Management's NOLA Hospitality in New Orleans. In his forty year career he has held executive positions at well-known properties such as The Excelsior in Rome and The Park Lane in Manhattan. He bring to Phunware access to the decision makers in the global hospitality market, as well as insight as to how the company's product offerings should evolve.

Also, PHUN hired a dedicated sales professional with over twenty-five years of experience in hospitality related events. This hiring will focus the company's technology platform to support the in-event experience for convention attendees.

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).

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 November 2023, PHUN began evaluating the evolving business and regulatory landscapes to determine the appropriate evolution and expansion of its digital asset ecosystem for contextual engagements.

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. Entering 2024, PHUN's deferred revenue backlog was \$4.8 million with a growing pipeline of potential new customer deployments from its channel partners such as Cox Business, Siemens Connect, and others. The company anticipates its pipeline and partner strength are good indicators of future bookings.

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. In February 2024, the company announce a new customer multi-year partnership with Escapades Memphrémagog,

Hospitality

In 1Q24, the company announced it has entered into a multi-year partnership with Escapades Memphrémagog, part of PAL+, creator of original touristic experiences in the Eastern Townships of Quebec. The offering will provide guests of PAL+'s two hotel properties, Espace 4 Saisons and Verso, with experiences customized to each brand. Phunware's Location-Based Services module will offer guests mapping and routing functionality for the Grand Cru cruise boat, Espace 4 Saisons Hotel, Verso Hotel, as well as the surrounding Lake Memphrémagog area.

In 3Q23, Phunware announced it negotiated an outcome with Marriott about the branding of the Wailea Beach Resort on Maui, which should provide a strategic opportunity for additional business within Marriott branded properties. At the end of 2023, PHUN was conducting pilot programs with a couple of large resorts and expect those deals to consummate in 2024. Also, PHUN was in the late stages of negotiations with certain large resort properties under major hospitality brands, and smaller regionally managed properties.

Healthcare

We anticipate the mobile and virtual healthcare market is likely to be a key growth vertical for the company. In 2H23, PHUN announced a customer renewal of the Virginia Hospital Center a member of the Mayo Clinic Care Network for a five-year term and a renewal at Mayo Clinic in Rochester through the company's HID partner. Going forward the company healthcare customer pipeline is solid with substantial upsell potential as existing customers request deployment of PHUN's solution into new buildings or wings, and to create new integrations into other software used to operate their businesses.

Patent Monetization

On March 12, 2024, the company reiterated that it is committed to protecting PHUN's rights against any patent infringement that can be identified and will engage in efforts for recovery of damages. The patent portfolio of 16 with 8 pending was built over the last 15 years and covers some of the most fundamental methods of the way data is managed and distributed on the Internet and in mobile. The company has seen the first progress on holding infringers accountable as a jury in the US District Court in Los Angeles found one of its patents was infringed upon by Netflix video streaming services. While that specific patent was sold to GoTV Streaming, LLC, PHUN retains an economic interest in all future enforcement licensing and other recoveries related to this patent, including damages.

During May 2024, PHUN executed a term sheet to engage a partner to work on its to assert the company's rights and to monetize some or all of these assets.

Projections

Basis of Forecast

We anticipate PHUN's focus through 2025 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. The company is able to focus on recurring and a reduced overall cost structure after the elimination of revenues and expenses from the company's Lyte Technologies subsidiary. Entering 2Q24, PHUN's deferred revenue and backlog

was \$4.4 million with a growing pipeline of potential new customer deployments as new booking in 1Q24 were 60% of the total generated in all of 2023. We anticipate by 4Q25, the company's annual revenue run-rate should approach \$12 million, up from an estimated \$9.6 million in 4Q24.

At December 31, 2023, PHUN had federal and state (local) net operating loss carryforwards of \$236.7 million and \$133.1 million, respectively with a portion beginning to expire in 2030.

Operations – 2024

We project revenue (exclusively recurring platform sales) nearly of \$6 million (prior was \$4.2 million) compared to \$4.8 million in platform sales in 2023. The increase in our revenue forecast reflects 1Q24 results and guidance that the company based on bookings trends could generate revenue in a range of \$6 million to \$8 million with the majority of revenue occurring in 2H24. We anticipate recurring platform sales increasing sequentially each quarter as new customer deployments occur.

Gross profit should increase to nearly \$3.4 million, up from \$1.7 million in 2023, due to revenue growth and gross margin improving to 56.2% compared 34.9% in 2023. Gross margin improvement should be due to sustained recurring revenue growth and alignment of costs with actual customer deployments.

We project the operating loss narrowing to \$10.5 million from \$19.9 million (excluding \$25.8 million goodwill impairment charge) based on gross margin improvement and operating expense margin of 232% compared to 446% in 2023. We anticipate operating expenses of \$13.9 million based on a 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 platform projects. In 2023, operating expenses excluding goodwill impairment charge was \$21.5 million.

We project interest expense of \$108,000 compared to \$1.7 million in 2023 due to the elimination of debt obligations through the issuance/conversion into common stock by the end of 1Q24. The elimination of debt resulted in recording a gain of \$535,000 in 1Q24, along with recording a \$56,000 charge related to impairment of digital currencies. Other income was \$211,000. Last year, total other income was \$3.8 million.

We project a net loss of \$9.9 million or (\$1.25) per share on average shares outstanding of 7.9 million. We previously projected a net loss of \$11.2 million or (\$1.39) per share on average shares outstanding of 8 million.

Finances – 2024

We project a cash loss of \$7.6 million and an increase in working capital of nearly \$2.3 million. We anticipate proceeds from the sale of \$23.2 million in common stock, is likely to cover cash used in operations of \$9.9 million and repayment of debt. Cash should increase by \$13.3 million to \$17.2 million at December 31, 2024.

Operations – 2025

We project revenue growth of 66.8% to \$10 million (prior was \$7 million) from an estimated \$6 million in 2024 for the company recurring platform offerings. We anticipate recurring platform sales growth to be driven by a rapid increase in customer deployments during the 2H24 and throughout 2025 as the company builds a team of sales professionals that will target the hospitality customers including conventions and events, as well as healthcare companies.

Gross profit should increase 72.2% to \$5.8 million from an estimated \$3.4 million in 2024 due to revenue growth and gross margin improving to 58% compared to 56.2% in 2024. Gross margin improvement should reflect continued rapid customer deployments of the company's higher margin offerings.

We project the operating loss narrowing to \$8.5 million from an estimated \$10.5 million based on revenue growth, gross margin improvement, and operating expense margin of 143% compared to an estimated 232% in 2024. We anticipate operating expenses of \$14.3 million compared to an estimated \$13.9 in 2024. The modest increase in operating expenses should support revenue growth through a sustained sales and marketing program to develop a sustained pipeline of recurring revenue platform projects.

We project no interest expense in 2025 compared to \$108,000 in 2024, as the company paid its debt obligations by the end of 1Q24.

We project a net loss of \$8.5 million or (\$1.02) per share on average shares outstanding of 8.3 million. We project a net loss of \$9.7 million or (\$1.20) per share on average shares outstanding of 8.1 million.

Finances – 2025

We project a cash loss of \$7.3 million and a decrease in working capital of \$3.7 million. Cash used in operations of \$3.5 million should result in cash decreasing to \$13.7 million at December 31, 2025.

1Q24 Results

1Q24

Revenue decreased 31.5% to \$921,000 compared \$1.3 million (both periods reflects the elimination of the discontinued operations of Lyte Technologies). The decrease in revenue stems from \$300,000 related to customer contract termination and \$200,000 decline in customer reimbursable expenses. Partly offsetting the decrease was an increase in advertising campaign sales.

Gross profit increased to \$524,000 from to \$73,000 in 1Q23 due primarily to gross margins improving to 56.9% from 5.4% in the year-ago period, partly offset by a decrease in revenue. The improvement stems from a misalignment of deployments and costs for the company's core recurring revenue platform sales in the year-ago period.

Operating expenses decreased to \$4 million from \$6.8 million last year. G&A expenses decreased to \$2.5 million from \$4.1 million last year due primarily to due lower payroll and related expenses stemming from a reduced headcount, a decrease in consulting expenses, and lower stock-based compensation expense. R&D expense decreased to \$484,000 from \$1.8 million in the year-ago period reflecting lower headcount. Sales and marketing expenses decreased to \$443,000 from \$856,000 in 1Q23 reflecting lower sales and marketing personnel headcount.

Non-operating income was \$582,000 compared to income of \$3 million in 1Q23. In the current period, PHUN recorded interest expense of \$108,000 and \$56,000 charge related to impairment of digital currencies, which was more than offset by a gain on extinguishment of debt of \$535,000 and other income of \$211,000. The year-ago period reflects interest expense of \$537,000 and \$50,000 impairment of digital currencies that was more than offset by other income that includes sale of digital assets of \$3.3 million and positive adjustment to fair value for warrant liabilities of \$253,000.

Net loss was \$2.3 million or (\$0.33) per share on average shares outstanding of 6.9 million. In the year ago period, the loss from continuing operations was \$3.7 million or (\$1.80) per share on nearly 2.1 million outstanding average shares. Discontinued operations of Lyte Technologies was \$577,000 or (\$0.27) per share in 1Q23. We forecasted a loss per share (\$0.35) on revenue of \$950,000.

Finances

In 1Q24, cash burn of \$1.9 million and a \$3.5 million increase in working capital, as well as a negative \$205,000 of discontinued operation resulted in cash used in operations of \$5.5 million. Proceeds of \$23.2 million from the issuance of common stock covered cash used in operations. Cash increased by \$17.6 million to \$21.6 million at March 31, 2024.

Capital Structure

At March 31, 2024, the company had no outstanding debt. The company had \$1.2 million PhunCoin rights listed as short-term deposits on its balance sheet. At March 31, 2024, the company had a digital currency asset balance of \$19,000 (compared to \$75,000 at December 31, 2023). In 1Q24, , the company issued 336,550 shares of common stock to the holder of its 2022 promissory note with conversions also being made that resulted in the note being paid-in-full.

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. During 1Q24, 245,000 shares of common stock were sold under this agreement for gross cash proceeds of more than \$2.5 million, leaving \$85.5 million common shares remains issuable pursuant to the sales agreement with Wainwright.

On August 22, 2023, PHUN entered into a common stock purchase agreement with Lincoln Park Capital Fund, LLC, where the company has the right, but not the obligation, to sell to Lincoln Park up to \$30 million in value of shares of common stock from time to time over the 24-month term. Lincoln Park's committed obligation under any single regular purchase is subject to certain exceptions, and cannot exceed \$1 million. Pursuant to the agreement, Phunware entered into a registration rights agreement with Lincoln Park. At March 31, 2024, \$30 million in value of shares of common stock remains issuable pursuant to the Lincoln Park purchase agreement. No shares were issued in 1Q24.

In 1Q24, in a series of equity financings, PHUN sold nearly 2.7 million common shares and issued pre-funded warrants to purchase up to 974,000 shares of common stock. The gross proceeds were nearly \$22.6 million before placement agent transaction costs of approximately \$1.8 million.

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

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

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.

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 March 31, 2024, the company's accumulated deficit was approximately \$305 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 and continue as a going concern. Common stock offerings in 2021, 2022, 2023, and 1Q24 provided proceeds approaching \$125 million should provide a runway for the company to execute its growth strategy through our forecast period.

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 which failed to produce a resolution. PHUN will defend against this lawsuit and any appeals.

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 8 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.

Competition

PHUN operates in markets that are highly competitive, with relatively low barriers to entry for some software, product or service organizations. Competitors could be larger and have greater name recognition, much longer operating histories, larger marketing budgets and significantly greater resources. Competition may also could come from a variety of vendors of software and products that address only a portion of Phunware's technology platform offerings. As new technologies and market entrants occur, the expectation is competition is likely to intensify in the future, which could diminish future operations.

Customer Growth

Customer growth will depend of expanding sales and renewals of sales of the company's recurring revenue offering and services to new and existing customers. Customers may not continue to purchase its technology offerings and/or reduce their purchase rate if PHUN does not demonstrate the value proposition for their investment. In addition, customers renew rates may not be sufficient to sustain sequential growth. If customers do not renew their contracts or the company obtains new customer contracts operations may diminish.

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

As of March 31, 2024, a material weaknesses in the company's internal controls were identified over financial reporting stemming from the design of information technology general controls related to user access, program change, and appropriate segregation of duties for certain IT applications. Also, cost cutting measures and headcount turnover in the company's accounting department resulted in business process controls were not effectively designed and implemented due to a lack of segregation of duties between preparer and reviewer.

Management is seeking to update the company's processes and/or provide sufficient resources toward the proper mitigation of these material control weaknesses. Management is committed to continuously improving the internal control over financial reporting and will work diligently to review financial reporting controls and procedures. However, there can be no assurance that these remediation efforts will be successful or that internal controls over financial reporting will be effective as a result of those efforts.

Shareholder Control

Executive officers and directors combined, own 0.2% of the outstanding voting stock (February 27, 2024).

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 including the wind-down of the discontinued operations of Lyte Technologies. These risks may cause actual results to differ from expected results.

Trading Volume

Based on our calculations, the average daily-volume in 2022 was 193,700 shares, which decreased to 41,200 in 2023. During the three months period ending May 13, 2024, volume increased to 2.5 million. The company has a float of 8 million shares and shares outstanding of nearly 8.3 million as May 7, 2024.

Phunware, Inc.
Annual Income Statement
FY2022 – FY2025E
(in thousands)

	FY22A*	FY23A	1Q24A	FY24E	FY25E
ASSETS					
Current assets:					
Cash	\$ 1,955	\$ 3,934	\$ 21,567	\$ 17,208	\$ 13,663
Accounts receivable, net	835	550	637	916	1,111
Current assets of discontinued operations	3,328	28	28	28	-
Digital currencies	10,137	75	19	19	19
Prepaid expenses and other current assets	608	374	385	400	500
Total current assets	<u>16,863</u>	<u>4,961</u>	<u>22,636</u>	<u>18,571</u>	<u>15,293</u>
Property and equipment, net	192	40	35	35	35
Goodwill	25,766	-	-	-	-
Non-current assets of discontinued operations	9,388	-	-	-	-
Right-of-use asset	2,301	1,451	1,325	1,000	900
Other assets	325	276	276	253	200
Total assets	<u>\$ 54,835</u>	<u>\$ 6,728</u>	<u>\$ 24,272</u>	<u>\$ 19,859</u>	<u>\$ 16,428</u>
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	7,278	7,836	5,070	5,108	5,833
Accrued expenses	2,741	437	239	300	500
Lease liability	696	629	656	656	656
Deferred revenue	1,531	1,258	1,012	1,500	3,000
PhunCoin deposits	1,202	1,202	1,202	1,202	1,202
Current portion of long-term debt, net	9,667	4,936	-	-	-
Warrant liability	256	-	-	-	-
Current liabilities of discontinued operations	2,206	205	-	-	-
Total current liabilities	<u>25,577</u>	<u>16,503</u>	<u>8,179</u>	<u>8,766</u>	<u>11,191</u>
Deferred revenue	1,274	651	611	1,400	3,000
Lease liability	1,928	1,031	857	823	642
Non-current liabilities of discontinued operations	1,175	-	-	-	-
Stockholders' equity:					
Common stock, \$.0001 par value; authorized 1,00,000,000 shares;	-	-	1	1	1
Treasury stock at cost	-	(502)	(502)	(502)	(502)
Additional paid-in capital	275,572	292,467	320,840	322,730	323,980
Accumulated other comprehensive	(472)	(418)	(418)	(418)	(418)
Retained earnings (accumulated deficit)	<u>(244,750)</u>	<u>(303,004)</u>	<u>(305,296)</u>	<u>(312,941)</u>	<u>(321,466)</u>
Total stockholders' equity	<u>30,350</u>	<u>(11,457)</u>	<u>14,625</u>	<u>8,870</u>	<u>1,595</u>
Total liabilities and stockholders' equity	<u>\$ 60,304</u>	<u>\$ 6,728</u>	<u>\$ 24,272</u>	<u>\$ 19,859</u>	<u>\$ 16,428</u>
SHARES OUT	2,063	3,851	8,272	8,285	8,325

* Restated for the discontinued operations of Lyte Technologies

Source: Company reports and Taglich Brothers estimates

Phunware, Inc.
Income Statement Model
Quarters FY2023A – 2025E
(in thousands)

	Q1 23 A	Q2 23 A	Q3 23 A	Q4 23 A	FY23 A	Q1 24 A	Q2 24 E	Q3 24 E	Q4 24 E	FY24 E	Q1 25 E	Q2 25 E	Q3 25 E	Q4 25 E	FY25 E
Net revenues	\$ 1,344	\$ 1,295	\$ 1,253	\$ 939	\$ 4,831	\$ 921	\$ 975	\$ 1,700	\$ 2,400	\$ 5,996	\$ 2,200	\$ 2,300	\$ 2,500	\$ 3,000	\$ 10,000
Cost of sales	1,271	759	622	494	3,146	397	410	765	1,055	2,627	945	970	1,035	1,250	4,200
Gross Profit	73	536	631	445	1,685	524	565	935	1,345	3,369	1,255	1,330	1,465	1,750	5,800
Operating Expenses:															
Sales and marketing	856				3,329	443	475	525	550	1,993	535	500	550	600	2,185
General and administrative	4,142				13,780	2,471	2,465	2,475	2,490	9,901	2,500	2,515	2,525	2,600	10,140
Research and development	1,769				4,449	484	495	500	515	1,994	500	500	500	500	2,000
Impairment of goodwill	-	1,203	13,188	11,428	25,819	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	6,767	1,203	13,188	11,428	47,377	3,398	3,435	3,500	3,555	13,888	3,535	3,515	3,575	3,700	14,325
Operating Income (loss)	(6,694)	(667)	(12,557)	(10,983)	(45,692)	(2,874)	(2,870)	(2,565)	(2,210)	(10,519)	(2,280)	(2,185)	(2,110)	(1,950)	(8,525)
Interest (expense) income	(537)	(553)	(264)	(379)	(1,733)	(108)	-	-	-	(108)	-	-	-	-	-
Gain (loss) on extinguishment of debt (PPP forgiveness)	-	-	(237)	-	(237)	535	-	-	-	535	-	-	-	-	-
Fair value adjustment for warrant liabilities	253	3	-	-	256	-	-	-	-	-	-	-	-	-	-
Impairment of digital currencies	(50)	-	-	-	(50)	(56)	-	-	-	(56)	-	-	-	-	-
Other income (expense) includes sale of digital assets	3,316	2,223	62	(61)	5,540	211	-	-	-	211	-	-	-	-	-
Total Other Income (expense)	2,982	1,673	(439)	(440)	3,776	582	-	-	-	582	-	-	-	-	-
Pre-Tax Income (loss)	(3,712)	1,006	(12,996)	(11,423)	(41,916)	(2,292)	(2,870)	(2,565)	(2,210)	(9,937)	(2,280)	(2,185)	(2,110)	(1,950)	(8,525)
Income Tax Expense (Benefit)	-				29	-	-	-	-	-	-	-	-	-	-
Net income (loss) - continuing operations	(3,712)	1,006	(12,996)	(11,423)	(41,945)	(2,292)	(2,870)	(2,565)	(2,210)	(9,937)	(2,280)	(2,185)	(2,110)	(1,950)	(8,525)
Discontinued operations (loss)	(557)				(10,841)	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(4,269)				(52,786)	(2,292)	(2,870)	(2,565)	(2,210)	(9,937)	(2,280)	(2,185)	(2,110)	(1,950)	(8,525)
Earning (loss) per share - continuing operations	\$ (1.80)				\$ (17.62)	\$ (0.33)	\$ (0.35)	\$ (0.31)	\$ (0.27)	\$ (1.25)	\$ (0.27)	\$ (0.26)	\$ (0.25)	\$ (0.23)	\$ (1.02)
Discontinued operations	(0.27)				(4.56)	-	-	-	-	-	-	-	-	-	-
Earning (loss) per share	\$ (2.07)				\$ (22.18)	\$ (0.33)	\$ (0.35)	\$ (0.31)	\$ (0.27)	\$ (1.25)	\$ (0.27)	\$ (0.26)	\$ (0.25)	\$ (0.23)	\$ (1.02)
Avg Shares Outstanding	2,063	2,103	2,400	2,700	2,380	6,864	8,275	8,285	8,295	7,930	8,325	8,330	8,335	8,340	8,333
Adjusted EBITDA	\$ (5,217)	\$ 2,313	\$ 1,719	\$ (9,733)	\$ (10,918)	\$ (2,028)	\$ (2,090)	\$ (2,065)	\$ (1,710)	\$ (7,893)	\$ (1,755)	\$ (1,660)	\$ (1,585)	\$ (1,425)	\$ (6,425)
Margin Analysis															
Gross margin	5.4%	41.4%	50.4%	47.4%	34.9%	56.9%	57.9%	55.0%	56.0%	56.2%	57.0%	57.8%	58.6%	58.3%	58.0%
Sales and marketing	63.7%	0.0%	0.0%	0.0%	68.9%	48.1%	48.7%	30.9%	22.9%	33.2%	24.3%	21.7%	22.0%	20.0%	21.9%
General and administrative	308.2%	0.0%	0.0%	0.0%	285.2%	268.3%	252.8%	145.6%	103.8%	165.1%	113.6%	109.3%	101.0%	86.7%	101.4%
Research and development	131.6%	0.0%	0.0%	0.0%	92.1%	52.6%	50.8%	29.4%	21.5%	33.3%	22.7%	21.7%	20.0%	16.7%	20.0%
Operating margin	(498.1%)	(51.5%)	(1002.2%)	(1169.6%)	(945.8%)	(312.1%)	(294.4%)	(150.9%)	(92.1%)	(175.4%)	(103.6%)	(95.0%)	(84.4%)	(65.0%)	(85.3%)
Pre-tax margin	(276.2%)	77.7%	(1037.2%)	(1216.5%)	(867.6%)	(248.9%)	(294.4%)	(150.9%)	(92.1%)	(165.7%)	(103.6%)	(95.0%)	(84.4%)	(65.0%)	(85.3%)
Tax rate	0.0%	0.0%	0.0%	0.0%	(0.1%)	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	(80.2%)	(76.4%)	(73.7%)	(80.3%)	(25.9%)	(31.5%)	(24.7%)	35.7%	155.6%	24.1%	138.9%	135.9%	47.1%	25.0%	66.8%

The 2Q23 and 3Q23 will be restated for the discontinued operations of Lyte Technologies upon quarterly results being reported in 2024

Source: Company reports and Taglich Brothers estimates

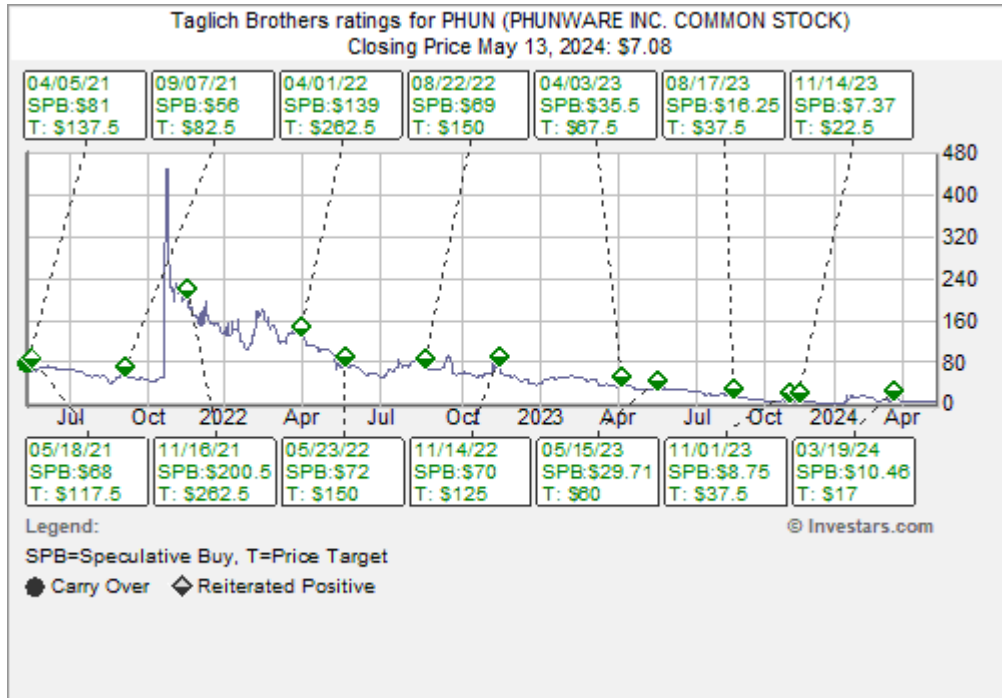
Phunware, Inc.
Cash Flow Statement
FY2022 – FY2024E
(in thousands)

	<u>FY2022A*</u>	<u>FY2023A</u>	<u>1Q24A</u>	<u>FY2024E</u>	<u>FY2025E</u>
<i>Cash Flows from Operating Activities</i>					
Net Income (loss) from continuing operations	\$ (45,425)	\$ (41,944)	\$ (2,292)	\$ (9,937)	\$ (8,525)
Net loss from discontinued operations	(5,469)	(10,841)	-	-	-
Impairment of goodwill and other long lived assets	-	25,887	-	-	-
Accretion of debt discount and deferred financing costs	1,034	1,136	-	-	-
Gain on extinguishment of debt	-	-	(535)	(535)	-
Change in fair value of warrants	(3,349)	(256)	-	-	-
Impairment of digital currencies	22,911	50	-	-	-
Other adjustments	441	1,285	329	329	-
Stock-based compensation	3,009	4,071	630	2,520	1,250
Gain on sale of digital currencies	(367)	(5,310)	-	-	-
Cash earnings (burn)	<u>(27,215)</u>	<u>(25,922)</u>	<u>(1,868)</u>	<u>(7,623)</u>	<u>(7,275)</u>
<i>Changes In:</i>					
Accounts receivable	2	235	(82)	(366)	(195)
Prepaid expenses and other assets	26	283	(11)	(26)	(100)
Accounts payable	726	558	(2,893)	(2,728)	725
Accrued expenses	(987)	(1,246)	-	(137)	200
Lease liability	(794)	(959)	(185)	-	-
Deferred revenue	(318)	(896)	(286)	991	3,100
(Increase)/decrease in Working Capital	<u>(1,345)</u>	<u>(2,025)</u>	<u>(3,457)</u>	<u>(2,266)</u>	<u>3,730</u>
Cash flows from (used) operating activities - continuing operations	<u>(28,560)</u>	<u>(27,947)</u>	<u>(5,325)</u>	<u>(9,889)</u>	<u>(3,545)</u>
Cash flows from (used) operating activities - discontinued operations	<u>1,704</u>	<u>9,512</u>	<u>(205)</u>	<u>-</u>	<u>-</u>
Net cash from (used) from operating activities	<u>(26,856)</u>	<u>(18,435)</u>	<u>(5,530)</u>	<u>(9,889)</u>	<u>(3,545)</u>
<i>Cash Flows from Investing Activities</i>					
Proceeds received from sale of digital currencies	1,282	15,390	-	-	-
Purchase of digital currencies	(923)	-	-	-	-
Capital expenditures	(242)	-	-	-	-
Investing Activities - continuing operations	117	15,390	-	-	-
Investing Activities - discontinued operations	(2,375)	(8)	-	-	-
Cash flow provided (used in) Investing Activities	<u>(2,258)</u>	<u>15,382</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Cash Flows from Financing Activities</i>					
Proceeds (payment) on debt net	11,795	-	-	-	-
Payments on senior convertible note	(8,066)	(5,057)	-	-	-
Proceeds from common stock, net of issuance costs	4,298	10,476	23,204	23,204	-
Proceeds from exercise of options to purchase common stock	28	58	-	-	-
Payment for stock repurchase	-	(502)	-	-	-
Net cash provided (used) by Financing	<u>8,055</u>	<u>4,975</u>	<u>23,204</u>	<u>23,204</u>	<u>-</u>
Effect of exchange rates	(123)	57	(41)	(41)	-
Net change in Cash and restricted cash	(21,182)	1,979	17,633	13,274	(3,545)
Cash and restricted cash Beginning of Period	<u>23,137</u>	<u>1,955</u>	<u>3,934</u>	<u>3,934</u>	<u>17,208</u>
Cash (and restricted) End of Period	<u>\$ 1,955</u>	<u>\$ 3,934</u>	<u>\$ 21,567</u>	<u>\$ 17,208</u>	<u>\$ 13,663</u>

* Restated for the discontinued operations of Lyte Technologies

Source: Company reports and Taglich Brothers estimates

Price Chart



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	3	18
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.

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

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