

COMPANY NOTE | EQUITY RESEARCH | March 17, 2022

Internet, Media & Enabling Technologies: Digital Assets and Blockchain

Corporate Access Event

Phunware, Inc. | PHUN - \$2.59 - NASDAQ | Buy

Stock Data

52-Week Low - High	\$0.82 - \$24.04
Shares Out. (mil)	96.83
Mkt. Cap.(mil)	\$250.79
3-Mo. Avg. Vol.	15,936,430
12-Mo.Price Target	\$4.00
Cash (mil)	\$65.8
Tot. Debt (mil)	\$5.9

Revenue (\$ millions)

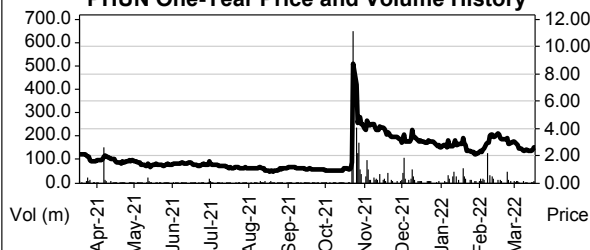
Yr Dec	—2021E—	—2022E—	—2023E—
		Curr	Curr
1Q	1.6A	5.1E	-
2Q	1.4A	5.8E	-
3Q	2.2A	6.8E	-
4Q	5.0E	7.2E	-
YEAR	10.3E	25.0E	32.0E

EPS \$

Yr Dec	—2021E—	—2022E—	—2023E—
		Curr	Curr
1Q	(0.19)A	(0.05)E	-
2Q	(0.12)A	(0.05)E	-
3Q	0.01A	(0.04)E	-
4Q	(0.05)E	(0.04)E	-
YEAR	(0.34)E	(0.18)E	(0.15)E
P/E	NM	NM	NM

Diluted

PHUN One-Year Price and Volume History



PHUN: 34th Annual ROTH Conference Takeaways

We recently hosted PHUN CEO Alan Knitowski and CFO Matt Aune for a series of presentations, panels and 1x1 meetings. Our key takeaways can be found below.

MaaS business improving as ad budgets begin to open up. We believe PHUN is beginning to see better traction across its core MaaS platform, especially in verticals like healthcare and hospitality. While offices remain mixed, our broad takeaway is that as the year has progressed, budgets have begun to open back up and allowed for greater traction across areas like travel, hospitality and government. On the direct-to-consumer side, it appears its Lyte technology acquisition has been better integrated (especially on the supply chain side), and while supply chain issue for parts still lingers, it is recovering and demand in that segment remains strong, including geographical expansion.

Blockchain initiatives update. On Phuncoin and Phuntoken, PHUN is continuing to gather more and more IDs and application traction, which is leading to more brands showing interest in the various technologies. While this is still in the very early days, we believe we could hear more about the respective initiatives on PHUN's upcoming earnings call, including ideas around facilitating the trading, liquidity and incentivization of users to share their data for these rewards. Since PHUN is a trailblazer in regard to being a publicly-traded company with its own cryptocurrency and blockchain technology, we believe these assets could become highly attractive off-balance sheet arrangements beyond traditional equity and enterprise value.

PHUN Intraday Price: \$5.61 at 10:40am ET

VALUATION

Utilizing our FY22 revenue estimate of ~\$25M, we apply a ~13x multiple to arrive at our price target of \$4. This multiple assigned takes into account the issuance of its registered/secured PhunToken, which is estimated to be tradable in early FY22, providing proceeds directly to PHUN once it is sold. We also believe this aspect of its business provides a unique element, that could be hugely valuable, that is a far cry from public companies simply buying cryptocurrencies.

Factors that could impede PHUN from reaching our price target include new business risk, increased competition, limited indirect sales traction, data privacy and litigation risks, customer concentration, history of operating losses, and cryptocurrency adoption.

RISKS

Customer concentration: PHUN has historically derived a large portion of its revenue from a limited group of customers. In FY20, PHUN's top customer accounted for ~32% of sales, and the top two combined for ~44% of sales. Loss of either of these top customers, reduced rates, or inability to replace these customers could have a material impact on PHUN's revenue.

Data privacy and data regulation: PHUN has built its offering upon its ability to aggregate consumer data in a way that makes it marketable to brands and PHUN's technology services like location-based offerings. For instance, PHUN collects data about the user's IP address, device, mobile location, and some demographic characteristics. Changes to Federal, state and international laws and regulations that oversee the collection, use, processing, retention, sharing, and security of data could limit PHUN's competitive position and ability to operate its solutions going forward or be held liable for data breaches and privacy concerns.

Litigation: PHUN has been involved in litigation in the past. Future potential litigation could be adverse to its business, require additional cash resources, or be harmful to the company's reputation.

History of losses and previous going concern: PHUN currently operates under a "Going Concern" notice on its latest 10-K with a history of operating losses and there are no guarantees PHUN can achieve profitability.

Risk of new businesses and cryptocurrency regulation: PHUN has begun to invest in the crypto token and blockchain vertical, which is a new, highly competitive vertical from a consumption, utilization, and regulatory standpoint. There is a limited precedent for these businesses in terms of adoption, use case, and financial accounting. The risk of increased regulatory requirements or limited customer adoption could limit the expected return on these businesses and adversely affect PHUN's profitability and operations.

Inability to profitably acquire customers and brands through indirect sales efforts: PHUN relies on channel partners to help with the selling and marketing of its MaaS solutions to new customers. If PHUN is unable to attract more partners, renew existing partners or partners negotiate less favorable terms for PHUN, it could have an adverse impact on PHUN's operations. In addition, partners could begin to compete with PHUN.

COMPANY DESCRIPTION

Company Description: Phunware Inc., is a leading Multiscreen-as-a-Service (MaaS), industry-agnostic enterprise cloud platform. Phunware offers companies an array of out-of-the-box and custom products, solutions, and data services that leverage its location-based technology and acquired consumer data to help customers better engage, manage and monetize their mobile applications and audiences. Phunware is headquartered in Austin, TX.

Phunware, Inc. (PHUN)
Fiscal year end - December
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(\$ in thousands except per share data)

	2017A	2018A	2019A	1Q20A	2Q20A	3Q20A	4Q20A	2020A	1Q21A	2Q21A	3Q21A	4Q21E	2021E	1Q22E	2Q22E	3Q22E	4Q22E	2022E	2023E
Income Statement																			
Platform subscriptions and services - MaaS	16,488	19,409	17,243	2,391	2,023	2,860	1,834	9,108	1,521	1,180	1,771	2,714	7,186	2,707	3,221	3,896	4,171	13,996	18,520
Application transactions/PHUN Token sales	10,234	11,474	1,907	249	190	270	184	893	125	256	389	267	1,037	250	320	428	416	1,414	1,556
Lyte												2,050	2,050	2,100	2,300	2,500	2,649	9,549	11,936
Total revenue	\$26,722	\$30,883	\$19,150	\$2,640	\$2,213	\$3,130	\$2,018	\$10,001	\$1,646	\$1,436	\$2,160	\$5,031	\$10,273	\$5,057	\$5,841	\$6,824	\$7,236	\$24,958	\$32,011
Total cost of revenue (GAAP)	15,714	11,802	9,020	1,091	768	898	600	3,357	692	1,124	1,026	2,438	5,280	2,422	2,657	2,905	3,068	11,053	13,364
Gross profit (GAAP)	11,008	19,081	10,130	1,549	1,445	2,232	1,418	6,644	954	312	1,134	2,593	4,993	2,635	3,184	3,919	4,168	13,906	18,647
Operating expenses (GAAP)																			
Sales and marketing	10,721	5,417	2,706	605	277	383	388	1,653	556	639	715	891	2,801	986	1,081	1,228	1,375	4,670	6,597
General and administrative	14,795	13,562	15,403	3,945	3,760	4,276	3,380	15,361	2,758	3,021	3,296	3,522	12,597	3,540	3,680	3,787	3,835	14,843	15,856
Research & development	11,108	6,965	4,333	861	378	572	817	2,628	1,052	846	1,160	1,399	4,457	1,416	1,577	1,726	1,737	6,456	7,773
Legal settlement							4,500	4,500					0					0	0
Stock-based compensation			1,784	635	1,115	1,708	1,034	4,492	1,055	1,383	1,495	1,500	5,433	1,505	1,510	1,515	1,520	6,050	6,130
Total operating expenses (Non-GAAP)*	36,624	25,944	20,330	4,727	3,262	3,490	8,018	19,497	3,278	3,098	3,659	4,271	14,306	4,399	4,790	5,189	5,389	19,767	23,943
Total operating expenses (GAAP)	22,442	22,442	22,442	5,411	4,415	5,231	9,085	24,142	4,368	4,506	5,171	5,811	19,854	5,942	6,338	6,742	6,947	25,969	30,225
Adj. EBITDA	(24,073)	(16,997)	(10,173)	(3,178)	(1,817)	(1,258)	(2,100)	(8,353)	(2,403)	(2,743)	(2,474)	(1,678)	(6,448)	(1,764)	(1,606)	(1,270)	(1,221)	(5,861)	(5,296)
Operating income/(loss) (GAAP)	(25,616)	(6,863)	(12,312)	(3,862)	(2,970)	(2,999)	(7,667)	(17,498)	(3,412)	(4,194)	(4,037)	(3,218)	(14,861)	(3,307)	(3,154)	(2,823)	(2,779)	(12,063)	(11,578)
Interest (expense)	(397)	(724)	(581)	(101)	(460)	(1,362)	(1,490)	(3,413)	(2,219)	(1,845)	7	(1,429)	(5,486)	(1,429)	(1,429)	(1,429)	(1,272)	(5,559)	(3,288)
Other income (expense), net	(13)	(2,202)	27	0	0	0	0	0	(79)	43	2,901	0	2,865	0	0	0	0	0	0
Income (loss) before taxes (GAAP)	(26,026)	(10,177)	(12,866)	(3,963)	(3,511)	(8,567)	(6,156)	(22,197)	(12,363)	(8,293)	372	(4,647)	(24,931)	(4,736)	(4,583)	(4,252)	(4,051)	(17,622)	(14,866)
Provision for income taxes	88	374	(5)	0	0	0	2	2	0	0	0	0	0	0	0	0	0	0	0
GAAP Net income/(loss)	(25,938)	(9,803)	(12,871)	(3,963)	(3,511)	(8,567)	(6,158)	(22,199)	(12,363)	(8,293)	372	(4,647)	(24,931)	(4,736)	(4,583)	(4,252)	(4,051)	(17,622)	(14,866)
Cumulative translation adj.	127	(71)	36	(72)	(3)	47	72	44	10	5	(33)		(18)					0	0
GAAP Net income/(loss) - comprehensive	(25,811)	(9,874)	(12,835)	(4,035)	(3,514)	(8,520)	(6,086)	(22,155)	(12,353)	(8,288)	339	(4,647)	(24,949)	(4,736)	(4,583)	(4,252)	(4,051)	(17,622)	(14,866)
GAAP EPS - diluted	(\$1.06)	(\$0.38)	(\$0.35)	(\$0.10)	(\$0.08)	(\$0.19)	(\$0.13)	(\$0.50)	(\$0.19)	(\$0.12)	\$0.01	(\$0.05)	(\$0.34)	(\$0.05)	(\$0.05)	(\$0.04)	(\$0.04)	(\$0.18)	(\$0.15)
Weighted avg. shares - basic	24,519	25,556	36,879	40,095	41,869	44,304	46,000	44,269	64,587	71,620	72,620	87,200	74,007	96,200	97,200	98,200	99,200	97,700	101,700
Weighted avg. shares - diluted																			
Margin analysis:																			
Gross profit (GAAP)	41.2%	61.8%	52.9%	58.7%	65.3%	71.3%	70.3%	66.4%	58.0%	21.7%	52.5%	51.5%	48.6%	52.1%	54.5%	57.4%	57.6%	55.7%	58.3%
Sales and marketing	40.1%	17.5%	14.1%	22.9%	12.5%	12.2%	19.2%	16.5%	33.8%	44.5%	33.1%	17.7%	27.3%	19.5%	18.5%	18.0%	19.0%	18.7%	20.6%
General and administrative	55.4%	43.9%	80.4%	149.4%	169.9%	136.6%	167.5%	153.6%	167.6%	210.4%	152.6%	70.0%	122.6%	70.0%	63.0%	55.5%	53.0%	59.5%	49.5%
Research and development	41.6%	22.6%	22.6%	32.6%	17.1%	18.3%	40.5%	26.3%	63.9%	58.9%	53.7%	27.8%	43.4%	28.0%	27.0%	25.3%	24.0%	25.9%	24.3%
Stock compensation	0.0%	0.0%	9.3%	24.1%	50.4%	54.6%	51.2%	44.9%	64.1%	96.3%	69.2%	29.8%	52.9%	29.8%	25.8%	22.2%	21.0%	24.2%	19.1%
Total operating expenses (Non-GAAP)	0.0%	0.0%	106.2%	179.1%	147.4%	111.5%	397.3%	195.0%	199.1%	215.7%	169.4%	84.9%	139.3%	87.0%	82.0%	76.0%	74.5%	79.2%	74.8%
Total operating expenses (GAAP)	137.1%	84.0%	117.2%	205.0%	199.5%	167.1%	450.2%	241.4%	265.2%	313.8%	239.4%	115.5%	193.3%	117.5%	108.5%	98.8%	96.0%	104.0%	94.4%
Adj. EBITDA	(90.1%)	(55.0%)	(53.1%)	(120.4%)	(82.1%)	(40.2%)	(104.1%)	(83.5%)	(146.0%)	(131.0%)	(114.5%)	(33.4%)	(62.8%)	(34.9%)	(27.5%)	(18.6%)	(16.9%)	(23.5%)	(16.5%)
Operating income/(loss) (GAAP)	(95.9%)	(22.2%)	(64.3%)	(146.3%)	(134.2%)	(95.8%)	(379.9%)	(175.0%)	(207.3%)	(292.1%)	(186.9%)	(64.0%)	(144.7%)	(65.4%)	(54.0%)	(41.4%)	(38.4%)	(48.3%)	(36.2%)
Tax rate	0.3%	1.2%	(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%	0.0%	0.0%
Net income/(loss)	(97.1%)	(31.7%)	(67.2%)	(150.1%)	(158.7%)	(273.7%)	(305.2%)	(222.0%)	(751.1%)	(577.5%)	17.2%	(92.4%)	(242.7%)	(93.7%)	(78.4%)	(62.3%)	(56.0%)	(70.6%)	(46.4%)
GAAP EPS	(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%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)
Y/Y Growth:																			
Platform subscriptions and services - MaaS		17.7%	(11.2%)	(50.4%)	(60.3%)	(44.5%)	(15.8%)	(47.2%)	(36.4%)	(41.7%)	(38.1%)	48.0%	(21.1%)	78.0%	173.0%	120.0%	53.7%	94.8%	32.3%
Application transactions/PHUN Token sales		12.1%	(83.4%)	(49.6%)	(54.5%)	(44.3%)	(63.9%)	(53.2%)	(49.8%)	34.7%	44.1%	45.0%	16.1%	100.0%	25.0%	10.0%	56.0%	36.4%	10.0%
Total revenue		15.6%	(38.0%)	(50.3%)	(59.8%)	(44.5%)	(24.9%)	(47.8%)	(37.7%)	(35.1%)	(31.0%)	149.3%	2.7%	207.3%	306.8%	215.9%	43.8%	143.0%	28.3%
Gross profit (GAAP)		73.3%	(46.9%)	(42.6%)	(48.2%)	(30.7%)	(0.5%)	(34.4%)	(38.4%)	(78.4%)	(49.2%)	82.9%	(24.9%)	176.2%	920.6%	245.6%	60.7%	178.5%	34.1%
Sales and marketing		(49.5%)	(50.0%)	(16.4%)	(58.3%)	(45.7%)	(36.6%)	(38.9%)	(8.1%)	130.7%	86.7%	129.5%	69.4%	77.4%	69.1%	71.8%	54.4%	66.8%	41.3%
General and administrative		(8.3%)	13.6%	(0.8%)	(5.3%)	13.9%	(8.7%)	(0.3%)	(30.1%)	(19.7%)	(22.9%)	4.2%	(18.0%)	28.4%	21.8%	14.9%	8.9%	17.8%	6.8%
Research and development		(37.3%)	(37.8%)	(34.2%)	(64.9%)	(45.6%)	(8.7%)	(39.3%)	22.2%	123.8%	102.8%	71.2%	69.6%	34.8%	86.4%	48.8%	24.2%	44.3%	20.4%
Stock-based compensation				5,672.7%	168.0%	149.7%	53.6%	151.8%	66.1%	24.0%	(12.5%)	45.1%	20.9%	42.7%	9.2%	1.3%	1.3%	11.4%	1.3%
Total operating expenses (Non-GAAP)				(20.0%)	(37.4%)	(26.5%)	79.7%	(4.1%)	(30.7%)	(5.0%)	4.8%	(46.7%)	(26.6%)	34.2%	54.6%	41.8%	26.2%	38.2%	21.1%
Total operating expenses (GAAP)		(29.2%)	(13.5%)	(9.9%)	(22.7%)	(5.1%)	74.3%	7.6%	(19.3%)	2.1%	(1.1%)	(36.0%)	(17.8%)	36.1%	40.7%	30.4%	19.5%	30.8%	16.4%
Adj. EBITDA		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Operating income/(loss) (GAAP)		(73.2%)	79.4%	16.7%	1.6%	30.8%	102.5%	42.1%	(11.7%)	41.2%	34.6%	(58.0%)	(15.1%)	(3.1%)	(24.8%)	(30.1%)	(13.7%)	(18.8%)	(4.0%)
Net income/(loss)		(62.2%)	31.3%	13.4%	14.5%	253.1%	58.5%	72.5%	212.0%	136.2%	(104.3%)	(24.5%)	12.3%	(61.7%)	(44.7%)	(1,243.1%)	(12.8%)	(29.3%)	(15.6%)
GAAP EPS		(63.7%)	(9.0%)	(14.4%)	6.1%	211.1%	34.7%	43.7%	93.7%	38.1%	(102.6%)	(60.2%)	(32.8%)	(74.3%)	(59.3%)	(945.3%)	(23.4%)	(46.5%)	(19.0%)

Source: SEC Filings, ROTH Capital Partners Estimates

*Non-GAAP defined as GAAP plus stock-based compensation and D&A

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Each box on the Rating and Price Target History chart above represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first note written during the past three years. **Distribution Ratings/IB Services** shows the number of companies in each rating category from which Roth or an affiliate received compensation for investment banking services in the past 12 month.

Distribution of IB Services Firmwide

Rating	Count	Percent	IB Serv./Past 12 Mos. as of 03/17/22	
			Count	Percent
Buy [B]	348	82.86	234	67.24
Neutral [N]	45	10.71	24	53.33
Sell [S]	0	0.00	0	0
Under Review [UR]	27	6.43	17	62.96

Our rating system attempts to incorporate industry, company and/or overall market risk and volatility. Consequently, at any given point in time, our investment rating on a stock and its implied price movement may not correspond to the stated 12-month price target.

Ratings System Definitions - ROTH employs a rating system based on the following:

Buy: A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return of at least 10% over the next 12 months.

Neutral: A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return between negative 10% and 10% over the next 12 months.

Sell: A rating, which at the time it is instituted and or reiterated, that indicates an expectation that the price will depreciate by more than 10% over the next 12 months.

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