



Phunware, Inc. (NASDAQ: PHUN) Q3 2019 Earnings Audiocast (Pre-Recorded)

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Company Participants

[Alan S. Knitowski](#) – President, CEO and Co-Founder

[Randall Crowder](#) - COO

[Matt Aune](#) - CFO

[Marcus Chan](#) – Vice President, Finance

Marcus Chan

Greetings and welcome to Phunware's Third Quarter 2019 Earnings Audiocast presenting our financial results for the third quarter of 2019. I am Marcus Chan, Phunware's Vice President of Finance. This call has been pre-recorded, so there will be no question and answer session upon its completion.

Joining me today are Alan Knitowski, President, Chief Executive Officer and Co-Founder; Randall Crowder, Chief Operating Officer; and Matt Aune, Chief Financial Officer. The format today will include prepared remarks by Alan, Randall and Matt.

Today's discussion will include forward-looking statements. These forward-looking statements reflect our current views as of today and are based on various assumptions that are subject to risks and uncertainties disclosed in the Risk Factors section of our SEC filings. Actual results may differ materially, and undue reliance should not be placed on them.

Additionally, the matters we will be discussing today may include Non-GAAP financial measures. Reconciliation of GAAP to Non-GAAP financial information is set forth in our earnings press release, which is available on the investor relations section of our website at investors.phunware.com. I further encourage you to visit investors.phunware.com to access not only our earnings press release, but also our current investor presentation, our SEC filings, this pre-recorded Earnings Audiocast and other information about Phunware.

At this time, I would like to turn things over to Alan. Please go ahead.

Alan S. Knitowski

Thank you, Marcus. Good afternoon everyone and thank you for listening in to our Third Quarter 2019 Earnings Audiocast. Today, I will provide some brief comments about the company, including our market and customer focus, the evolution of our enterprise cloud platform for mobile and some strategic highlights specific to our third quarter financial performance. I will close with a few notable customer wins and some additional commentary around our efforts to better acquaint institutional investors with Phunware.

As a reminder, Phunware is the pioneer of Multiscreen-as-a-Service, or MaaS, a fully integrated [enterprise cloud platform](#) for mobile that provides companies with the products, solutions, data and services necessary to engage, manage and monetize their mobile application portfolios and audiences at scale. Phunware helps the world's most respected brands create category-defining mobile experiences, with approximately one billion active devices touching our platform each month. Since inception, we have focused on creating a Phunware ID for every human being on Earth that has a device touching a network through their favorite mobile applications and brands that just happen to include our MaaS software. While this likely seemed aspirational to many of our private investors early on, or even audacious to those outside of our business later on, we can now proudly say that our scale and reach to a global population of mobile application users is currently on par with properties owned by the likes of Facebook and Google.

Founded more than a decade ago, Phunware helps brands transition from the web to mobile by enabling enterprise-level mobile applications through its MaaS platform, including the software, data and infrastructure needed to support these mobile application portfolios on Apple iOS and Google Android devices, including smartphones, tablets, wearables, smart televisions and digital signage. Our target customer is a Fortune 1000 brand that standardizes on our MaaS offerings for all of their mobile initiatives and needs, much like they would standardize on Microsoft Office for their office productivity software or Salesforce for their CRM. Phunware provides Fortune 1000 brands everything they need to succeed on mobile.

As we have suggested repeatedly, we focus our competitive efforts globally at the intersection of mobile, cloud, big data and blockchain through four key differentiators:

1. Building robust mobile ecosystems for enterprises that can't afford to fail at scale.

2. Locating and engaging mobile devices and mobile application users both indoors and outdoors, both onshore and offshore, and both on the ground and in the air, in real-time.
3. Curating disparate, real-time data sets to make big data actionable, while enabling 1:1 interactions between brands and consumers anywhere and anytime globally.
4. Leveraging blockchain technology to optimize media spend, reduce fraud, enhance transparency, drive profitable behaviors and maintain an immutable, auditable public record of brand interactions with consumers worldwide.

We continue to have a diverse enterprise customer base across multiple verticals because we offer a comprehensive platform with products and solutions for mobile that are seamless, flexible, cost-effective and proven at production scale globally. In our most recent quarter, contract awards were highlighted by a new Fortune 500 customer win with [Verizon Communications](#), in addition to new and existing customer wins including [American Made Media Consultants \(otherwise known as "Trump-Pence 2020" and the "Keep America Great" Campaign\)](#), [Atlantis Paradise Island Bahamas](#), [Baptist Health South Florida](#), [Buffalo Heights](#), [Cedar-Sinai](#), [Datum Tech](#), [Freefire Media](#), [Macerich](#), [Parkview Health](#) and [PriceWaterhouseCoopers](#).

Notably, our MaaS win with PriceWaterhouseCoopers sets the path for addressing the mobile needs of a global network of firms currently operating in more than 150 countries, with more than 700 locations and more than 250,000 full-time employees worldwide. This direct sales win comes on the heels of a similar win in Israel last quarter for a Fortune 50 company currently exceeding a quarter billion dollars in market capitalization and more than 100,000 full-time employees worldwide. In both instances, these new MaaS customers have created potential anchors for Phunware rolling forward in a brand new market segment specific to smart corporate campuses. As with consumers on mobile over the past decade, we see dramatic scaling and growth opportunities over the coming decade as the needs and expectations of employees and their partners and customers in professional environments begin to more similarly resemble what all of us have become so accustomed to in our personal lives.

In parallel, our win with Verizon Communications was foundational to our indirect channel strategy and represents our first joint win with one of its largest retail customers and their recent entry into healthcare. While we have worked with Verizon in the media and real estate verticals over many years previously, this particular win marks our first-ever deal specific to Verizon's healthcare practice. Key determinants of this win were our longstanding track record of delivering, managing and evolving the mobile application portfolios of the world's largest brands and events, our speed and reliability of delivery execution and our off-the-shelf-ready use cases and feature sets unique to physical and virtual

engagement environments on mobile, including retail-specific and healthcare-specific environments alike.

Our short-term focus remains on organic growth, growing our balance sheet through new MaaS customer wins and achieving cash neutrality by the end of 2019. While our CFO Matt Aune will provide further financials details shortly in his section, summary highlights from the third quarter included:

1. Net revenues totaled \$5.6 million, of which platform subscriptions and services revenue was \$5.2 million, increasing 19% year-over-year, while comprising 91% of net revenues.
2. Gross margin improved to 57.1% compared to 48.1% in the comparable quarter last year.
3. Adjusted EBITDA improved 53% over the comparable quarter last year.

Importantly, on both a year-over-year and a sequential quarter-over-quarter basis, we dramatically reduced our cash usage and are approaching financial self-sufficiency through the achievement of operational cash neutrality. Specifically, last quarter our business only used \$33,000 of net cash, which was down 98% sequentially quarter-over-quarter throughout the last 90 days of operations. As we have said many times, and over both the mid and long term, our ideal operating scenario is to achieve and maintain cash neutrality while reinvesting excess cash and profit for growth, both organically and inorganically. In our opinion, this is what the market should consider a technology unicorn. Similarly, and as suggested previously, we intend to accelerate our top line growth in the coming quarters ahead, ultimately getting back to our goal of 30% or more year-over-year net revenue growth.

As was the case last quarter, we have no intention to issue equity or convertible debt at the current stock price or valuation, whether for organic operations or inorganic acquisitions. We will, however, continue to explore and consider traditional debt and working capital options should any viable alternatives present themselves with attractive terms we deem complementary to our operational growth initiatives. To that end, the Board of Directors has recently approved a five-year debt financing instrument for up to \$20 million, which provides our Executive Team with both flexibility and optionality in support of our efforts to strengthen our balance sheet over time. Equity issuances may be revisited in future periods when we feel our underlying stock price and valuation represent what we believe to be fair market value.

We remain committed to driving awareness of everything Phunware has to offer while also increasing institutional exposure to our stock. During the quarter, we were excited to have been added to several more indexes, including the Fidelity Small Cap Index Fund, the Fidelity Nasdaq Composite Index Fund, the Northern Small Cap Index Fund and two of the EQ Advisors Trust Funds. We were similarly

excited to have been added to numerous new investment portfolios, including funds from Blackrock, Morgan Stanley, Bank of America, State Street and the New York State Common Retirement Fund amongst others. Large institutional stock ownership remains a high priority for both our Board and our Executive Team and these new index and managed fund additions are a welcome development towards achieving that goal.

In conclusion, I want to again express our sincere gratitude to our public investors, partners, customers, employees and their families for their continued assistance and support in all that we do to execute and scale both operationally and financially. To now discuss our business operations in further detail, I will turn things over to our Chief Operating Officer, Randall Crowder.

Randall Crowder

Thanks, Alan. In the third quarter, we continued to improve on our operational efficiencies. As Alan suggested, our ideal operating scenario is to achieve and maintain cash neutrality while reinvesting excess cash and profit for growth, both organically and inorganically.

In the quarter, we reduced operating expenses by 6% to \$5.5 million, which is down from \$5.8 million for the same period last year. As highlighted, our cash used in operations improved 98% quarter-over-quarter sequentially as we continue our efforts to streamline operations and reach break-even on both operating cash and Adjusted EBITDA. It's important to note that some of these improvements can be attributed to our business model in which we may ramp up headcount to support certain projects based on requisite skill sets and subsequently ramp back down upon project completion. For example, we successfully completed our most recent Statement of Work (SOW) with Fox, but did not retain the entire project team even though our Master Services Agreement (MSA) with Fox remains in place to cover potential SOWs in the future.

We also intend to accelerate our top line growth in the coming quarters, ultimately targeting 30% or more year-over-year net revenue growth. Leading this effort is [Jeff Friedman](#), our new Vice President of Sales who was previously the Director of Digital Sales and Marketing at Ford Motor Company. We do not intend to build and finance a large direct sales force, so a specific focus for Jeff will be our indirect channel strategy where we sell through hardware vendors, software vendors, system integrators and carrier service providers who already have direct relationships with our target customers. A great example of this is our [strategic distribution partnership with Tech Data](#), a Fortune 100 company that is well-positioned to "lend its expertise and help a new set of users uncover the benefits of Phunware," according to its Director of IOT Solutions.

As a reminder, we are focused on higher margin business such as platform subscription and services deals that require one to five years for forward revenue recognition against contract wins and terms. We currently have approximately \$14 million of backlog that remains to be recognized and our gross margin is up 9 percentage points from the same period last year to 57.1%.

As we discussed at the [Fall Investor Summit](#) in September, our ability to drive new business is because we are at the forefront of the emerging trend in digital transformation. It's no longer good enough to just have a mobile application and mobile web fails to properly engage and retain consumers. Digital transformation in a mobile-first world requires the integration of digital technology into a native mobile experience to fundamentally change how businesses operate and deliver value to consumers. From mixed use developments like [Buffalo Heights](#) to reimagined shopper experiences like [All Access Scottsdale](#), our fully-integrated [enterprise cloud platform](#) enables digital transformation by giving brands access to all of the proven features and capabilities in MaaS that we have developed over the past decade to not only be hardware agnostic, but also deliver everything you need to succeed on mobile.

Perhaps one of the most exciting opportunities for our platform to enable true digital transformation, however, is in healthcare. We offer healthcare providers a [digital front door](#) such as the one we recently announced for a [leading U.S. nonprofit medical center](#). Our feature-rich platform better engages patients across the continuum of care while optimizing operational and staff efficiencies, lowering costs and boosting revenue. Through MaaS, we are able to provide patients with appointment scheduling, access to forms, express check-in, test results, prescription refills, parking reminders and wait times all within a native mobile experience. Similarly, healthcare providers have access to patient and staff tracking, visitor experience feedback, user base broadcasts and location-specific communications to engage seamlessly with patients, visitors and staff. We are also excited to announce Application Programming Interface (API) integrations with Amwell, Epic and MyChart in order to deliver the most advanced telemedicine, electronic health record (EHR) and patient scheduling capabilities possible.

A key feature of our ability to drive better engagement across industry verticals is our proprietary [location-based services software](#) and [beacon management solution](#) that effectively delivers sub one-second, real-time blue dot mapping, navigation and wayfinding capabilities across any campus while simplifying and streamlining beacon deployment and management for facility staff and administrators.

Privacy is also an important tenet of what we deliver at Phunware. With the integration of our [blockchain initiatives](#) into MaaS, we are building a foundation for consumers to not only own their data, but also be compensated fairly for the use of their data as well as their engagement with brands. Unlike other solutions, we do not require consumers to change their behavior or download a new browser, nor do

we require brands to have any knowledge or in-house expertise of blockchain. We can provide brands with a turn-key platform that delivers Blockchain-as-a-Service (BaaS), all within the broader umbrella of MaaS which is already in use by Fortune 1000 companies worldwide, and operating currently at hundreds of thousands of transactions per second across more than four billion transactions per day.

With [PhunCoin](#) and our MaaS Data Software Development Kit (SDK), we intend to compensate consumers for their data with a regulated security token, which is available to select accredited investors through a Regulation D 506(c) offering. Holders of PhunCoin will also be entitled to receive a PhunCoin dividend based on the profits of our data exchange. As we work to make the data exchange more accessible, we were excited to announce the introduction of [U.S. Congressional District and Language targeting](#). Digital marketers and advocates can now select from one to many of the 435 congressional districts, add them into a custom audience and then further refine that audience using device language information. In addition, we [integrated our blockchain-enabled data exchange](#) with leading advertising platform [Beeswax](#) to allow brands to deliver targeted media using [Phunware's data](#) and receive transparent reporting. These features expand our ability to deliver high margin, data-enriched application transaction campaigns so brands can get the right content to the right consumer on the right screen at the right time in the right place.

With the [Phun utility token](#) and our MaaS Loyalty SDK, we intend to compensate consumers for engaging in profitable behavior. Phun has been approved for an [Initial Exchange Offering](#) (IEO) on leading global exchange [Liquid](#), with an official launch date still pending. However, Phun is currently [available for purchase](#) by select members of the international community outside of the United States and Canada.

To ensure the highest quality experience, security and privacy, our engineers are developing the MaaS PhunWallet, a first-of-its-kind mobile application that we expect to release by the end of the year to serve as the nerve center for our blockchain ecosystem where consumers can hold both PhunCoin and Phun, manage their data, engage with brands and discover new opportunities. Now I'd like to turn things over to Matt, who will discuss our third quarter financials in more detail.

Matt Aune

Thanks, Randall and good afternoon everyone. I'd like to thank you for joining us today for a review of our Q3 financial performance, and our progress on key strategic initiatives. As a note, I will be discussing GAAP financial measures unless otherwise noted. Our press release, 8-K, and website provide a reconciliation of GAAP to non-GAAP financial results.

Net revenues for the third quarter totaled \$5.6 million, of which platform subscriptions and services revenue was \$5.2 million, increasing 19% year-over-year, while comprising 91% of net revenues. We are excited that our platform subscriptions and services revenue increased for the 7th consecutive quarter.

Gross margin was 57.1% compared to 48.1% in the same period last year. As I mentioned on the previous audiocast, we have made a conscious decision to focus the business toward higher margin software and data deals and away from lower margin legacy application transactions. I am pleased to see the benefits of those decisions along with the improvements we have made to our product offerings that allow us to capture more margin dollars as illustrated by our Q3 results.

Total operating expense was \$5.5 million, down from \$5.8 million for the same period last year. I'd like to point out, stock-based compensation and amortization of intangibles made up \$0.6 million this quarter compared to \$0.1 million in the prior year quarter. By excluding these non-cash charges, adjusted operating expense was \$4.9 million, down from \$5.7 million for the same period last year.

Non-GAAP adjusted EBITDA loss was (\$1.5) million, a \$1.7 million, or 53% improvement compared to last year's (\$3.2) million.

Net loss for the quarter was \$2.4 million, or \$0.06 per share, a 25% improvement quarter-over-quarter sequentially and a 57% improvement over the same period last year.

Moving to the Balance Sheet, ending cash for the quarter was \$68 thousand, with \$33 thousand of cash used in operations. We are pleased to see that our operational cash burn is decreasing in line with our expectations. While we did receive some benefit from the timing of payables, our efforts to improve margins while lowering operational expenses continue to push us closer to zero operational cash burn by the end of the fiscal year.

Looking ahead, we are well positioned with our SaaS, data and blockchain offerings to deliver true digital transformation for our customers. As we continue to win deals and help customers enhance their mobile experiences, we intend to drive revenue and gross margin expansion to reduce our operational cash burn to zero by the end of 2019 and move toward break-even on an adjusted EBITDA basis in the first half of 2020. With that, I'll turn things back over to Marcus for closing remarks.

Marcus Chan

We have reached the end of today's prepared remarks. As a reminder, there will be no question and answer session. We look forward to updating you on our full year 2019 performance in late March.

Please visit and monitor investors.phunware.com for the latest information on the Company.

Thank you.