

Phunware, Inc. (NASDAQ: PHUN) Q220 Earnings Transcript (No Audiocast)

August 14, 2020, 4:30 PM Eastern

Company Participants

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

[Randall Crowder](#) - COO

[Matt Aune](#) - CFO

[Marcus Chan](#) - VP of Finance

Marcus Chan

Greetings and welcome to Phunware's Q2 2020 Earnings Transcript presenting our financial results for the second quarter of 2020. I am Marcus Chan, Phunware's Vice President of Finance. This transcript has been pre-prepared and pre-loaded to the investor relations section of our website at investors.phunware.com, so there will be no question and answer session upon its completion.

Joining me today are Alan S. 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-prepared Earnings Transcript 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. Today, we are pleased to update shareholders on our quarterly progress at Phunware both operationally and financially. While I will touch on many of the high level activities and themes that we have been seeing with our customers, partners and employees across our products, solutions, data and services, our COO Randall Crowder and our CFO Matt Aune will follow me with more specific granularity on what this has meant to our business operations and our financial results during the second quarter of 2020.

Importantly, and independent of the ongoing COVID-19 pandemic, we continue executing our operational model and business strategy to become the premier digital transformation source for mobile initiatives worldwide. Our latest quarter closed with nearly \$10 million in Backlog and Deferred Revenue for our [Multiscreen-as-a-Service \(MaaS\)](#) platform, while most of our corporate customers remained in either a lockdown or remote, work-from-home operational status. While we do not expect our customers or partners to be back to normal operations until a COVID-19 vaccine becomes widely available, we are already seeing much more business activity with each passing week and month and believe that there is a lot of pent up demand tied to pending MaaS bookings that will be released throughout the balance of the year.

The Net Revenues composition specific to the use of our MaaS platform for mobile continues to account for more than 90% of our Net Revenues. These results continue to represent a dramatic year-over-year revenue transformation from one-time, non-recurring application transactions revenue to annual and multi-year recurring platform subscriptions and services revenue tied to the licensing and use of the software and infrastructure underlying our [enterprise cloud platform](#). Anecdotally, and during the underlying transformation period highlighted for the customer set of core interest to the Company, we have seen our average customer contract length expand approximately 50% to 18 months while our average contract value has increased approximately 250% to \$250,000 in parallel.

Our team is continuing to execute against our existing customer contracts and Backlog and is aggressively pursuing new business opportunities and partnerships where our mobile, cloud, big data and remote expertise intersects directly with the needs of our Fortune 1000 customers. This includes, but is not limited to remote telehealth and telemedicine triage for healthcare patient capacity management, virtual rallies for political advocacy during a Presidential election year, remote work optimization and back-to-work initiatives for corporate campuses and social distance policy enforcement, engagement and asset tracking for smart cities and government organizations at the local, state and federal level.

For those who are new to our story, I'd first like to give a quick overview and summary of what Phunware does, including the capabilities of our MaaS platform and our overall business model and strategy. Phunware is the pioneer of MaaS, a fully-

integrated [enterprise cloud platform](#) for mobile that provides the world's most respected brands with the products, solutions, data and services necessary to build, manage and monetize their mobile application portfolios and audiences globally, at scale. Founded more than 11 ½ years ago in February 2009, 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 ideal 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 productivity software, Salesforce Marketing Cloud for their CRM or Oracle NetSuite for their ERP. Throughout our history as both a private and public company, Phunware has successfully raised over \$115 million in debt and equity financing from notable investors including [Cisco Systems](#), [Samsung](#), [PLDT](#), [WWE](#), [Firsthand Technology Value Fund](#), [Wavemaker Partners](#), [Maxima Ventures](#), [Fraser McCombs Ventures](#), [Khazanah](#) and the [Central Texas Angel Network](#) amongst many others, while providing Fortune 1000 brands everything they need to succeed on mobile.

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, including the unique requirements and challenges associated with both live events and remote engagement.
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, including the needs of the hearing impaired, visually impaired and wheelchair bound.
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, including geofence-based policy enforcement, workflow optimization and process compliance.
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 have a diverse enterprise customer base across multiple verticals because we offer a comprehensive digital transformation platform with products and solutions for mobile that are seamless, flexible, cost-effective and proven at production scale globally. While we have historically supported the Healthcare, Media & Entertainment, Hospitality & Real Estate, Retail, Aviation and Sports verticals as a

core focus, we expect our COVID-19 vertical focus to remain much more specific during Q3 and the balance of the year within the Healthcare, Enterprise / Corporate Campus, Government / Smart City and Political Advocacy environments, consistent with the needs of patients and clinicians, remote workforces, elections and government bodies and agencies that are interacting with and managing our country's citizens at the local, state and federal level. While we expect to see engagements and contracts continuing across all of our customer types in each vertical, including MaaS renewals, we also expect that market and economic pressures will remain heightened for an extended timeframe within the (Live-Event) Media & Entertainment, Hospitality & Real Estate, Retail, Aviation and Sports verticals, potentially well in to the second half of 2021 should a COVID-19 vaccine either remain elusive to researchers or not widely available to populations worldwide.

Our short-term focus remains centered on operational stability and continuity, including the continued strengthening of our balance sheet, the achievement of operational self-sufficiency and the deployment of our MaaS infrastructure with our customers and partners in order to address the technological and data needs underlying COVID-19 specific products and solutions for communities worldwide. Examples of this new focus area include [MaaS Pandemic Responses for Smart Cities, Healthcare and Education](#), [MaaS Mobile Engagement Software Developer Kits \(SDKs\) for Small and Medium Businesses \(SMBs\)](#), [Rapid Application Programming Interface for Devices \(RAPID\) Solutions for SMBs Using MaaS](#) and [Safer Gathering Solutions for Companies, Groups and Organizations via "Healthy Spaces" Branded Mobile Applications and SDKs](#). In parallel, we continue to find success with new MaaS customer contracts and partnerships, including [Cisco Meraki](#), [HID](#), [SALTO](#), [Sirius](#), [Anyplace MD](#), [Humm Systems](#), [TrustArc](#), [Tech Data Corporation](#), [Parkview Health](#), [Atlantis Paradise Island The Bahamas](#), [American Made Media Consultants \(Trump-Pence 2020\)](#), [Baptist Health South Florida](#), [City of Pasadena \(Texas\)](#) and [a myriad of application transaction customers](#) from a variety of industries and verticals for mobile engagement and monetization.

Over the mid and long term, our ideal operating scenario is to achieve and maintain cash neutrality and operational self-sufficiency while reinvesting excess cash and profit for growth, both organically and inorganically. To that end, and post pandemic, we intend to accelerate our top line growth to 30% or more year-over-year Net Revenues growth. Notably, and in the interim, we expect an acceleration of Net Revenues total for both the coming quarter and the balance of the year sequentially, and also believe that the most recent quarter represents a quarterly, annual and historic bottom for our revenue recognition as a public company.

At this time, we expect to remain extremely judicious with our balance sheet improvements, focusing only on equity, structured debt, debt and government-

specific alternatives wherever they might make sense, including our existing S-3 shelf registration facility and any post [Coronavirus Aid, Relief and Economic Security \(CARES\) Act](#) legislation that may provide additional long-term, low interest rate debt directly from the United States government. Beyond our previously announced [\\$4.3 million structured debt refinancing](#) and [\\$2.8 million Small Business Administration \(SBA\) Paycheck Protection Program \(PPP\) loan](#), we continue to believe that our share price is undervalued when one considers widely accepted trading multiples for enterprise software companies like ours, including the strong volume and liquidity in our stock. As such, and in order to maximize our optionality to both capitalize our operations and support our long-term financial health, we have established an At-The-Market (ATM) equity offering program against our existing S-3 shelf registration statement. ATMs have become an increasingly popular tool for raising capital due to the efficiency and flexibility provided and our ATM will allow us to take advantage of increases in trading volume and stock price due to positive news and market-driven events, all while minimizing dilution as compared to other fixed price offerings and alternatives.

As has been the case previously, we remain committed to driving awareness of everything Phunware has to offer and also to increase the institutional exposure to our stock. To that end, yesterday we participated in [Canaccord Genuity's 40th Annual Growth Conference](#), including both a stand-alone corporate presentation and six one-on-one fund presentations. In parallel, during the quarter we continued to maintain our investor relations partnerships with [BUYINS.NET](#) and [Hayden IR](#) to facilitate these efforts, as large institutional stock ownership remains a high priority for both our Board and our Executive Team alike. While we remain actively engaged with [Canaccord Genuity](#) as our mid-market investment bank for institutional outreach to Wall Street, we have also successfully achieved new research coverage for our stock via [Taglich Brothers](#) and [Ascendant Securities](#).

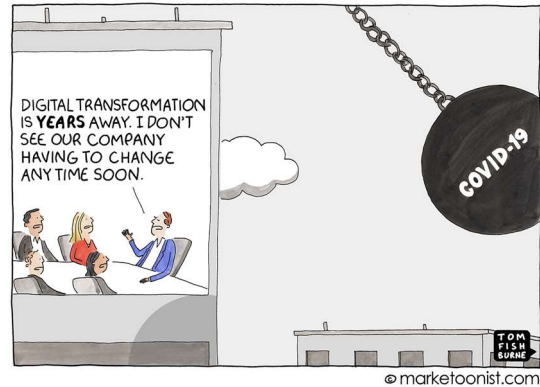
I want to conclude my remarks today by expressing a very sincere and special thank you to both our employees and their families. Not only have they supported us tirelessly despite "shelter-in-place" and "work-from-home" mandates tied to COVID-19, but they have also done so despite a complete upheaval to both their personal and professional lives and routines in material, unexpected and still evolving ways. In parallel, I also want to thank our customers and partners, who are not only our biggest advocates, but also trust us with their most valued assets and needs in these extremely turbulent times as we jointly prepare for a reopening the economy and getting back to work and life in as safe and responsible a manner as possible. Importantly, I want to express our sincere gratitude and indebtedness to both our public and private investors for their continued assistance and support in all that we do daily as we continue to execute operationally and financially on their behalf. Finally, I want to humbly thank our government leaders, healthcare professionals and the citizens of the world for collectively contributing to humanity's

efforts to unify and persevere together now that we appear to have “flattened the curve” and ultimately prepare for business and life in a post pandemic environment.

To now discuss our business operations, I will turn things over to our Chief Operating Officer, Randall Crowder.

Randall Crowder

Thanks, Alan. Our hearts go out to all those affected by not only the ongoing pandemic, but also the unparalleled disruption to the global economy. Never before have we faced such complex challenges in the modern world and recovery will demand modern solutions. Digital transformation is now a must-have and leaders must act with a sense of urgency to adopt and implement solutions like our [Multiscreen-as-a-Service \(MaaS\)](#) enterprise cloud platform for mobile.



“For many years, business owners and leaders have known that digital transformation was essential; however, COVID-19 made the urgency to deploy digital solutions necessary, as opposed to a luxury.” - Rishi Khanna ([Forbes](#))

Although we developed MaaS to be an industry-agnostic platform, we are seeing considerable interest in deployments of MaaS that we have optimized to tech-enable a [Smart Workplace](#) for corporations, [Smart Campus](#) for higher education, [Smart City](#) for government officials and [Digital Front Door](#) for healthcare. To learn more about Phunware, MaaS and how our unique solutions are driving digital transformation strategies in a mobile-first world, register for these upcoming webinars:

- August 19: [Digital Front Door](#)
- August 20: [Smart City](#)
- August 26: [Smart Campus](#)
- NOTE: A webinar on [Smart Workplace](#) was held on August 13 and a recording will be made publicly available in the coming days [online](#).

We also just [announced](#) the launch of our [“Healthy Spaces”](#) mobile application on [iOS](#), which will be accompanied by an Android release by the end of our current quarter. Healthy Spaces is an exciting new addition to MaaS that can help people and businesses to not only track and monitor personal health information, but also

to gather together more safely by tech-enabling pre-screening, health and safety protocols.

While anyone can take advantage of the standalone mobile application, our enterprise customers will have access to a more comprehensive and seamlessly integrated featureset through our Healthy Spaces software development kit (SDK), which we plan to release later this year. Capabilities of MaaS with the addition of the Healthy Spaces SDK will include, but will not be limited to:

- Providing individuals and groups with pre-screening guidelines and questions upon arrival at a location.
- Tracking important health, habits and risk information among individuals and groups through user profiles.
- Reviewing and determining if an individual or group is approved to gather based on health attributes and potential risks associated.
- Managing and enforcing social distancing and health protocols, including proactive and reactive messaging, reminders and notifications.
- Monitoring and tracing movements and activities – subject to facility readiness and integration of Phunware’s [MaaS Location Based Service \(LBS\)](#) SDK.

We also strengthened our MaaS intellectual property (IP) portfolio with our [latest patent issuance](#) by the United States Patent and Trademark Office (USPTO), which covers additional functionality provided through MaaS to promote brand extension and support a plurality of users within a dynamic mobile ecosystem. For a complete list of the 17 issued patents and 4 patents pending, please visit [here](#). In addition, we were thrilled to receive our [TRUSTe attestation](#) for successfully satisfying the Data Collection Certification Assessment Criteria requirements as assessed by [TrustArc](#) against its Data Collection Certification standards.

This kind of commitment to IP protection and security is important and underscores the competitive advantage that our enterprise cloud platform offers our direct and indirect channel partners, including [Cisco Meraki](#). Last month, we [announced](#) the addition of our [COVID-19 mobile solutions](#) to the Cisco Meraki Marketplace, including Phunware’s [Healthcare Pandemic Response Solution](#) and [Smart City Pandemic Response Solution](#). The [Cisco Meraki Marketplace](#) is an exclusive catalog of technology partners that showcases applications developed on top of the Cisco Meraki platform, allowing customers and partners to view, demo and deploy commercial solutions. During the quarter, and as mentioned previously above by Alan, we also announced partnerships with [HID Global](#), [SALTO Systems](#), [Sirius Computer Solutions](#), [Humm Systems](#), [AnyPlace MD](#) and [Tech Data Corporation](#).

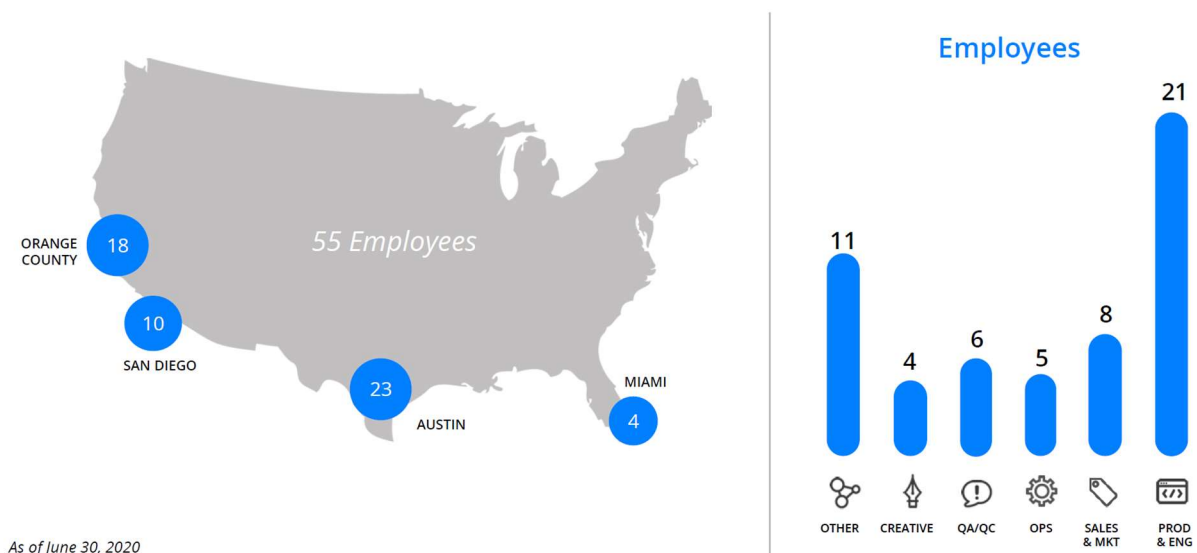
In order to effectively support our partners and their customers, we offer comprehensive [webinars](#), [case studies](#), [articles](#), [eBooks](#) and additional training

opportunities. The [Phunware Phenom Certified Developer Program](#) is also available to provide on-demand courses and live training sessions remotely to learn more about MaaS and how it helps brands better execute their digital strategy and establish a true mobile presence. In parallel, we provide full MaaS documentation and software portals via the [Phunware Documentation Portal](#) and [GitHub](#), respectively.

By partnering with and supporting larger companies and their global distribution networks, we seek to scale faster without incurring the heavy expense of a direct sales force. However, the underlying revenues for any new business will be recognized over the course of a 12-month to 60-month contract period. As a result, we will continue to point to our recent [press releases](#), [video interviews](#) and Backlog as important indicators of our success in sales, which closed last quarter at just under \$10 million.

Looking internally, the operational decisions we made during the first quarter to further streamline operations due to COVID-19 helped drive a reduction of our OPEX spend quarter-over-quarter by 23% on a GAAP basis and 37% on a Non-GAAP basis. Our Gross Margin also improved to 65% during the quarter, representing nearly a 1,500 basis point improvement over last year as we continue our efforts to reach break-even in terms of both operating cash and Adjusted EBITDA.

At this time, we currently have 55 employees across four offices with an average tenure of over 4 years, exceeding the average retention benchmark set in tech by over 64% according to Paysa.



We have maintained 100% continuity and effectiveness while taking prudent steps to maximize our operational efficiency and ensure our long-term financial health.

In fact, we have seen a 38% increase in employee productivity this year, which we measure as a function of revenue per employee.

During the quarter, we were thrilled to have the opportunity to unfurlough several Phunware employees. In parallel, we also currently have plans in place to not only unfurlough additional Phunware employees, but also to begin making new hires in order to meet the renewed customer demand for MaaS offerings as our business begins to scale again sequentially. To learn more about working at the cutting edge of digital transformation and mobile, please visit [Phunware Careers](#). We are especially interested in identifying and sourcing new sales executives who have deep experience in both enterprise software sales and channel development amongst other needs in the areas of software and infrastructure engineering.

Despite this exciting increase in demand and activity, we expect to work remotely for the foreseeable future until we receive more definitive guidance from government officials in Texas, California and Florida, where we have our physical offices. We are more easily able to work remote than most companies, but do expect to reopen our physical facilities in a safe, responsible and auditable way through the use of our new [Smart Workplace](#) solution powered by our new [Healthy Spaces](#) functionality.

I will now turn things over to our Chief Financial Officer, Matt Aune, who will discuss our second 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 second quarter 2020 financial performance, and our progress on key strategic initiatives. For clarity, I will be discussing GAAP financial measures unless otherwise specifically noted. Our press release, 8-K and website provide a reconciliation of all GAAP to Non-GAAP financial results.

Net Revenues for the second quarter 2020 totaled \$2.2 million, of which Platform Subscriptions and Services Revenue was \$2.0 million. Our focus continues to be on higher margin longer term software customers and we are pleased to see that we are continuing to follow this strategy through the first half of 2020, with over 90% of our Net Revenues derived from our MaaS Platform Subscriptions and Services customers.

Gross Margin was 65.3% compared to 50.8% last year. On a Non-GAAP adjusted basis, Gross Margin was 68.4% compared to 51.2% in the previous year. That is over a 1,700 basis point improvement year-over-year on a Non-GAAP adjusted basis and it not only validates the conscious decisions we made earlier in the year to focus on higher margin software and data deals and away from lower margin

legacy application transactions, but it also gives Phunware a launching pad for more profitable and predictable revenues in the future.

Total Operating Expense was \$4.4 million, down from \$5.7 million last year, a 23% improvement year-over-year. I'd like to point out, though, that Stock-Based Compensation and Amortization of Intangibles made up \$1.1 million this year compared to just \$452 thousand in the prior year. By excluding these non-cash charges, Adjusted Operating Expense was \$3.3 million, down from \$5.3 million for the same period last year, or a 37% improvement year-over-year.

Non-GAAP Adjusted EBITDA loss was (\$1.8) million compared to (\$2.4) million loss last year. Although we may have reached what we believe to be the low point in revenues for the year amidst the pandemic, we have strategically focused on profitable behaviours to increase margins and manage operating expenses.

Net Loss for the quarter was \$3.5 million, or \$0.08 per share, compared to \$3.1 million, or \$0.08 per share, in the same period last year.

Moving to the balance sheet, ending cash for the quarter was \$154 thousand, with \$2.8 million of cash used in operations for the quarter. Shortly after the quarter came to a close, we refinanced our Senior Convertible Notes, receiving \$1.75 million in gross cash proceeds. By doing this, our refinancing provided us with further runway and flexibility as we and our customers continue settling in to our "new normal" for pandemic business operations.

Looking ahead, and as we manage through the ongoing uncertainties of COVID-19, we continue to position ourselves for success in the future by strengthening our balance sheet and lowering our operational expenses. We intend to continue this process during the quarter to further bolster our balance sheet as needed and also to extend our operational runway for maximum stability and flexibility as business demand continues to return more broadly.

For the second half of 2020, we will continue to execute against our existing customer contracts and Backlog and will aggressively pursue new business and partner opportunities as outlined above by Alan and Randall. As we continue to win deals and help customers enhance their mobile application experiences, we intend to drive Net Revenues and Gross Margin expansion to reduce our operational cash burn and move toward break-even on an Adjusted EBITDA basis.

In parallel, and as highlighted previously by Alan, we will continue expanding our [IR-related activities](#) in order to introduce Phunware to more institutional investors. With that, I will turn things back over to Marcus for his 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 third quarter 2020 performance and financial results in mid-November.

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

Thank you.