Transcript of
Phunware, Inc.
Fourth Quarter and Full Year 2020 Earnings Call
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Participants

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Matt Aune - Chief Financial Officer
Randall Crowder - Chief Operating Officer

Analysts

Austin Moldow - Canaccord Genuity
Howard Halpern - Taglich Brothers
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Presentation

<u>Operator</u>
Good afternoon, ladies and gentlemen, and welcome to Phunware's 2020 Investor Conference
Call. Currently all participants are in a listen-only mode. 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 and Matt and Randall, followed by a question-and-answer session.

As a reminder, today's discussion will include forward-looking statements. These forward-
looking statements, including any such statements referring to the potential effects or impact of
the COVID-19 pandemic reflect 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 being discussed today may include non-GAAP financial measures.
Reconciliation of GAAP to non-GAAP financial information is set forth in the earnings press
release, which is available on the Investor Relations section of the Phunware's website at
investors.phunware.com. I further encourage you to visit investors.phunware.com to access not
only the earnings press release, but also the current investor presentation, SEC filings and
additional collateral on Phunware.

At this time, I would like to turn things over to Phunware's CEO, Alan Knitowski. Sir, please
proceed.

<u>Alan S. Knitowski - President, Chief Executive Officer and Co-Founder</u>
Thank you very much and welcome to our full year 2020 investor conference call. As a
reminder, Phunware is a 12-year old enterprise software company focused on the intersection of

mobile, cloud and big data with business-to-business and business-to-government customers worldwide.

Our mission is to provide everything you need to succeed on mobile, by providing our customers with the products, solutions, data and services for their digital transformation needs on Apple iOS and Google Android devices and applications. Central to this effort is our enterprise cloud platform for mobile, called MaaS or Multiscreen-as-a-Service which is available for licensing under a SaaS business model over one-year to five-year contract periods worldwide.

This past year with a genesis of an inflection point in our company's history as we shifted from a non-recurring low margin transaction business to a far stickier, more scalable recurring and high margin SaaS licensing business for our MaaS platform. In addition to continued enterprise interest in our mass MaaS digital front door solution for healthcare, and our MaaS Smart Workplace solution for corporations, we have resumed conversations with customers from sectors that were hit hard by the pandemic, including the hospitality and real estate verticals.

In conjunction with our growing portfolio of direct customers, we intend to expand our footprint globally by amplifying our go-to-market strategy with indirect sales and channel partners, including an anchor distribution partner that will be formally announced during Q2. In parallel, we are excited about the completion of PhunWallet next month, as we launch our blockchain ecosystem powered by PhunCoin and Phun Token. We are on schedule to commercialize, scale and monetize this part of our business and look forward to the accelerated global adoption of our blockchain-enabled MaaS customer data platform and MaaS mobile loyalty ecosystem alike.

As with most businesses worldwide, our team at Phunware was materially affected by the COVID-19 pandemic, and was in no way immune to the operational challenges that resulted from widespread domestic and international stay-at-home orders and lockdowns. Many of our customers and partners were forced to operate remotely and are still in the process of reopening their venues, facilities and offices as vaccines become more widely available and herd immunity is achieved throughout the balance of 2021 across cities, states, regions and countries.

In our case, we have seen specific examples of customers throughout North America that are still working actively to get back to a new state of normal. These include Mount Sinai in New York, which still has stringent travel restrictions and health protocols and requirements for their medical operations. Atlantis in the Bahamas, which just reopened the resort in the past 30 days after an extended closure. Norfolk Southern in Atlanta, which is still finalizing its return to work scheduled for its corporate employees, contractors and support staff and PricewaterhouseCoopers in San Francisco, which is still finalizing its return-to-work schedule accompanying the grand opening of its new corporate headquarters for worldwide operations.

We are completely focused on the future and what a post-pandemic environment is going to look like for our business. But we also recognize and appreciate that 2020 represented a very interesting and unique challenge for all of us. We saw on multiple months without strong bookings in the middle of last year during the heart of the pandemic, as many of our customers and partners simply shutdown their in-person operations and shifted to either remote-centric or remote-only environments.

Going forward, however, and especially in light of the scale of vaccinations being delivered right now, globally, we are assuming that each month and each quarter for the balance of 2021 will have the world beginning to accelerate to a more normal and predictable operating environment. Fundamentally, we do not expect to have to face such a problem again for the foreseeable future, and are extremely comforted by our operating performance during this difficult period. We not only made the most of the opportunity by streamlining our cost structure, but we also enhanced our MaaS product and solution offerings, capitalized on the needs of the healthcare sector, facilitated enterprise customers getting back to work more safely and supported the 2020 Presidential Election on mobile.

While we saw a decline in annual revenue recognition associated with these initiatives when looking backwards at 2020, we expect to see a rebound here in 2021 as the operational downtime provided by COVID-19 allowed us more time to foster and improve our existing relationships, while also establishing and bolstering brand new indirect sales channels and partnerships in parallel.

As always, we will continue our core go-to-market strategy centered on direct and indirect agreements and contracts with Fortune 5000 customers, especially in the Fortune 100 size range, and governments ranging from local and county to state and federal. Importantly, and independent of the pandemic, we are extremely excited by a number of developments that have occurred over the past several quarters during lockdown and even more excited by what we see coming in the coming quarters ahead.

First, we were able to complete three core customer and partner portals for scaling our business through indirect channels. These included a MaaS software repository on GitHub at www.github.com/phunware. A MaaS documentation repository at docs.phunware.com, and a MaaS training in Phunware Phenom certification repository at training.phunware.com.

Second, we were able to add to our MaaS bookings backlog and deferred revenues for future revenue recognition over one-year to five-year contract periods that will ultimately provide SaaS revenue recognition over the coming 12 months to 60 months rolling forward. While these efforts do not provide instant or near-term gratification on revenue recognition for our P&L, they importantly demonstrate the ongoing health and expansion of our business and will be broken down in further detail by our CFO, Matt Aune in his section of the earnings broadcast.

As a reminder, and with our MaaS sales cycles typically representing two months to four months on average, recent intending customer wins will start appearing on our P&L in the coming reporting periods ahead.

Third, we have expanded our install base of Phunware IDs on MaaS to more than 15 billion devices worldwide, including MaaS platform scalability capable of supporting up to 5 billion transactions per day, 500,000 transactions per second and 1 billion unique devices per month.

With more than one petabyte of data, typically growing at more than 5 terabytes per day. Our MaaS platform now provides a robust customer data platform, inclusive of both a detailed data ontology and a comprehensive knowledge graph for one-to-one interactions and engagements.

And fourth, we will commercially launch our PhunWallet mobile applications on Apple iOS and Google Android next month, in conjunction with our new MaaS blockchain ecosystem, all powered by our PhunCoin and Phun Token cryptocurrencies. Importantly, while PhunCoin security tokens will not necessarily appear in our financials when live, Phun Token utility tokens will actually flow transactionally through our P&L as net new and virtually 100% gross margin revenue.

As an analogy rolling forward, please consider our core MaaS licensing activities akin to Amazon, which is what we are reporting today, while considering our new MaaS blockchain activities akin to Amazon AWS, which is what we will begin reporting incrementally rolling forward, beginning with our 10-Q for Q2 2021 in mid-August.

At this time, our CFO Matt Aune will go deeper into our 2020 financial performance as reported, and also highlight the dramatic improvement made to our balance sheet throughout the first quarter of 2021, including our recently announced institutional financing of more than $25 million. Matt?

<u>Matt Aune - Chief Financial Officer</u>
Thanks, Alan and good afternoon, everyone. I'd like to thank you all for joining us today for a review of our full year 2020 financial performance and our progress on key strategic initiatives. For clarity, I'll 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 full year 2020 totaled $10 million, of which, platform subscriptions and services revenue was $9.1 million. Our focus continues to be on higher margin, longer-term software customers and we are pleased to have continued to follow this strategy in 2020. With over 91% of our net revenues derived from our MaaS platform, subscriptions and services to customers.

Gross margin was 66.4% compared to 52.9% last year. On a non-GAAP adjusted basis, gross margin was 69.4% compared to 53.8% in the previous year. That is more than a 1,500 basis point improvement year-over-year on a non-GAAP adjusted basis. This result continues to validate the decisions that we made to focus on higher margin software and data deals and away from lower margin legacy application transactions and gives Phunware a launching pad for more profitable and predictable revenues in the future.

Total operating expense was $24. 1 million, up from $22.4 million last year. As mentioned on our previous earnings call, operating expenses for 2020 include a $4.5 million legal settlement that we view as one time in nature. Other non-cash operating expense items were stock-based compensation and amortization of intangibles making up $4.3 million this year compared to $1.9 million in the prior year. By excluding these one-time and non-cash charges, full year 2020

adjusted operating expense was $15.3 million down from $20.6 million last year, or a 26% improvement year-over-year.

As we continue to navigate through the ongoing COVID-19 pandemic, we have made a priority to improve operational efficiency by cutting back operating expenses without sacrificing our ability to deliver to our customers and grow in the future.

Non-GAAP adjusted EBITDA loss was $8.4 million compared to $10.2 million last year. I'm pleased with the progress we've made year-over-year despite the challenges we faced in the midst of the global pandemic. Our strategic focus on profitable behaviors to increase margin and manage operating expenses have continued to show its effects. Net loss for the year was $22.2 million or $0.50 per share, compared to $12.9 million or $0.35 per share last year. I'd like to remind everyone that this loss is inclusive of a $0.10 net loss per share from the extraordinary expense for legal settlements previously mentioned.

Moving to the balance sheet, ending cash for the year was $3.9 million with just under $11 million used in cash from operations. In Q1 2021, we raised an additional $29.8 million, with $5.1 million from our aftermarket offering and $24.7 million from our underwritten public offering. These 2021 capital raising events have put us in a position to control our own destiny without the needs to raise additional capital and removed any doubt as to whether or not we carry a going concern designation. That being said, we are always looking for ways to opportunistically raise debt and/or equity if it will help accelerate growth and help us to achieve our objectives faster.

As we look at our debt obligations, we now have the ability to initiate a payoff of our 2020 convertible notes should we decide to do so prior to December 31st, 2021 maturity date. We intend on applying for partial forgiveness of our PPP loan that is allowable under SBA guidelines in coming months and anticipate starting making monthly payments later this year. We're also working to reduce our accrued expenses and accounts payable balances, which will be reflected in our Q1 2021 and Q2 2021 results.

Backlog and deferred revenue at the end of the year totaled $9.1 million. This is an encouraging time, as a growing backlog means several things for our business, including one, businesses coming back from the closures caused by the pandemic. Two, this is with first quarter backlog has grown since being a public company. And three, it is a key indicator for our future revenues and predictability.

Closing up the year and in the beginning of 2021, we have attended several financial conferences and that with many accredited institutional investors in our efforts to further strengthen our corporate profile in the capital markets. We'll continue to tell our story and build a strong base of investors that will join us on the Phunware journey.

With that, I would like to turn the call over to Randall.

<u>Randall Crowder - Chief Operating Officer</u>

Thanks, Matt. I don't think anyone expected a year like 2020. But with disruption comes opportunity. At Phunware our opportunity is to do for mobile engagement what Amazon did for cloud computing. By standardizing on our platform, enterprises can seamlessly drive digital transformation in a mobile-first world that quickly becoming mobile-only.

And COVID-19 has only accelerated both the need for and the adoption of technology like ours. In fact, the recent McKinsey and Company reports how COVID-19 has pushed companies over the technology tipping point and transformed the business forever found that companies have accelerated the digitization of their customer interactions and of their internal operations by three years to four years. Although we specifically designed our MaaS platform to be industry-agnostic, it excels in industries that struggle to manage complex customer journeys, such as healthcare, hospitality and property management.

However, 2020 has generated increased interest in our cutting-edge MaaS Smart Workplace solution for corporations returning to work and our MaaS Advocacy solution for politicians seeking to better engage their constituencies. Regardless of industry, a critical aspect of engagement and a competitive advantage for Phunware is being able to identify and locate your target audience in real-time.

While some customers were forced to temporarily delay software deployments, others took the opportunity to invest in true digital transformation. Over the next few years, we expect this financial commitment to accelerate. In fact, the same McKinsey and Company report found that 80% fewer executives now rank cost savings as one of the most important priorities for their digital strategies. As more than half say they're investing in technology for competitive advantage or refocusing their entire business around digital technologies.

To ensure our customers achieve a competitive advantage by licensing our MaaS software, we have made considerable progress across not only our products and solutions, but also our data and blockchain offerings. For example, we launched our modular application framework in 2020 to support the kind of rapid deployment of feature-rich mobile application portfolios that makes it easier for our indirect channel partners to sell MaaS offerings through our global reseller network.

One of our most compelling solutions that have been gaining traction through our network of partners is our MaaS Digital Front Door to tech enable the patient experience. It has always been a challenge to navigate the continuum of care. But COVID-19 has made the patient journey even more complex, as patients became reluctant to visit hospitals for the types of elective procedures that drive critical revenue streams.

Our MaaS Digital Front Door can not only provide reassuring on-site navigation capabilities and seamless access to health records, bill pay and testing, but also a virtual care if a patient is not yet ready to visit a healthcare facility in person. Our most recent deployments of our cutting-edge platform include Greater Baltimore Medical Center and Virginia Hospital Center.

The tech-enabled employee experience also became a pressing issue for corporations in 2020, as they wrestle with how to plan a safe return to work. Our MaaS Smart Workplace solution allows

corporations to not only manage a safer return to the office with critical features like contactless check-in, contact tracing and density management, but also improves operational efficiency with mobile room booking, parking management and campus-wide navigation.

We were thrilled to announce that Norfolk Southern is deploying this comprehensive solution to drive true digital transformation at its new headquarters in Atlanta. We also announced that our Smart Residential Solution was deployed by Property Management Group for Society Las Olas in Fort Lauderdale, which is the largest co-living development in the United States. Luxury residents have grown to expect the kind of features our solution delivered out of the box, including keyless entry, payments, guest access control, thermostat monitoring and delivery management all through their mobile devices.

Lastly, we established a new vertical by designing, developing and deploying the Official Trump 2020 mobile application portfolio and setting a new standard for constituency engagement on mobile. Our MaaS Advocacy Solution is now available to politicians both domestically and abroad, with one of the key features of this new political vertical being the ability to support live rallies, which takes advantage of our proprietary MaaS location-based services, and MaaS mobile engagement software.

As I've said in the past, you can't monetize what you can't engage and you can't engage what you can't locate. MaaS LBS software is a key competitive advantage for us because we have to do more than just static way finding to drive true digital transformation. Our software enables high-precision, indoor positioning and that's why it now covers 6 million square feet of Baptist Health South Florida and over 22 million square feet across Dignity Health Network with our latest deployment at Yavapai Regional Medical Center in Arizona. Of note, both of these latest LBS deployments were delivered through our partner network, which is critical to our success.

Indirect channel sales will allow us to scale faster and more efficiently in 2021, because our MaaS offerings are such an accretive upsell opportunity for channel partners, including hardware vendors, system integrators, software providers and carriers to enhance mobile engagement. A key strategic initiative for us is to get our software bundled into offerings that are already being deployed by our channel partners.

Before I wrap up, I want to highlight the importance of data, because identification is an important aspect of engagement that provides important contextual information when LBS software is being used. Data is another competitive advantage for Phunware as we've not only generated over a petabyte of data and 15 billion Phunware IDs, but also develop the knowledge graph that curates actionable data from approximately 1 billion active devices a month at scale.

In 2020, we were thrilled to announce the launch of our MaaS customer data platform to further commercialize our persistent, unified customer databases and help brands engage the right consumer in the right place, at the right time with the right content. Leveraging information of virtual world to inform real world experiences is the future of mobile engagement, and it's a future we are well positioned to dominate. To further enhance our position in the market, we are officially launching our blockchain ecosystem next quarter, which will not only help address the

value of a consumer's digital identity, but also the value of a consumer's engagement with the brand.

For more on that, I'd like to turn things back over to Alan.

Alan S. Knitowski, President, Chief Executive Officer and Co-Founder
Thanks, Randall. As highlighted throughout today's call, we are all extremely excited by the pending commercial launch of our MaaS blockchain ecosystem. What it means to me is that, our decade plus of MaaS platform building across mobile, cloud and big data, accompanied by our years of researching the benefits of blockchain and cryptocurrencies, has resulted in the culmination and convergence of massive global addressable markets and trends that can act as wind at our backs and accelerate growth. We expect this ecosystem to complement and supplement our core MaaS offerings as we offer our enterprise customers additional capabilities to identify and engage their target audiences.

Well, many corporations and individuals are newly familiar with blockchain and cryptocurrencies, both Phunware and our executives have a long and distinguished history within the global digital asset community. As such, we expect to be a trusted bridge for Fortune 500 corporations and governments looking to leverage blockchain. Please look for additional announcements in the coming weeks and months ahead, as we enable consumers to not only regain control of their data with PhunCoin, but also reward them for their engagement with Phun Token.

In parallel, and as we have suggested previously, and would again reiterate here, we intend to complement and supplement our core organic growth activities through direct and indirect channels worldwide, with opportunistic inorganic, mergers and acquisitions. While we have nothing yet to formally announce on this front, we expect to focus our merger and acquisition activity on accretive deals in areas that will provide more customers, more partnerships and more distribution for our MaaS platform, especially in the international markets such as Europe, Asia, and South America. Finally, and importantly, rolling forward, we fully expect to maintain a laser focus on our core operating and financial model, which includes top line growth of 30% or more year-over-year, and blended gross margins of 75% or greater.

With that, and in conjunction with a sincere thank you for your ongoing interest and support in all of our activities on behalf of the entire Phunware family worldwide, I would now like to open up the call for questions to the operator. Go ahead, please.

Operator
Thank you. Ladies and gentlemen, the floor is now open for questions. [Operator Instructions] And the first question is coming from Austin Moldow. Austin, your line is live. Please announce your affiliation and pose your question.

Q: Yeah, hi. Thanks for taking my questions. Can you put in the context that how meaningful an expansion is with a current customer like Baptist Health South Florida versus signing a new customer?

Alan S. Knitowski, President, Chief Executive Officer and Co-Founder
Yeah, I'd be happy to do that. So when we actually see these, it's usually two types of engagements we see with the healthcare companies that focus on patient experiences. Typically, the initial engagement will be something that'll be mid six-digits in size, that will be typically tied not to their whole health system at step one, but usually they do a tiered rollout.

So what we often see which has been the case in places like Baptist Health, Dignity Health Care, Mount Sinai, Greater Baltimore, many of the other ones that we've been announcing recently, typically see something ranging in the 400,000 to 600,000, and usually about three-year contract period. So you're kind of talking about $20,000 to $30,000 per month of MaaS licensing. And then typically, as they expand it to their other facilities and expand it to more square footage, we typically arrive at the low seven-digit, and then it expands up from there.

Q: Okay, great. Thanks for that. And can you just sort of speak to your channel partner pipeline for 2021 a little more?

Alan S. Knitowski, President, Chief Executive Officer and Co-Founder
Yeah, absolutely and great question. You know, for the most part leading up to the pandemic, we did mostly all direct selling, digital transformation was still net new. There wasn't always that compelling reason for governments, especially and even large corporations, which we sell to, to accelerate their digital transformation initiatives and needs.

As it turned out for us, what the pandemic did is, it forced companies to relook at how they operated, both on-site and remote. And they realized that digital transformation and especially the way in which they engaged on mobile, became a matter of survival. What we've seen is, you know, as you might expect, a lot of 2020 was showcased by healthcare engagements, because pandemic or no pandemic, healthcare was essential, it just got broken into that which supported COVID and that which supported elective surgeries and all the other normal care. They initially started diving into remote telehealth that became critical for them to be able to focus on triage, and actually focusing on what they wanted to do remote versus who they wanted to show up, and then how to separate COVID and non-COVID patients.

So when we see this going forward as it relates to channels, the channels we have are in four areas. We have hardware companies that typically take our software as a mobile activation layer, they'll bundle it with their routers, their switches or access points. And they'll provide a package to a venue or an office where they can get not just faster Wi-Fi and more interactivity, but they have all the software they need to be able to tie those into those mobile applications for their employees, their partners or their consumers.

In the area of our second partnerships that you'll expect to see will be in the service provider domain, where they're bundling voice, video and data with our software to again give venues activation for digital transformation on this mobile applications. The final two are very traditional for software companies. They are software channels and they're system integrator channels. And in both of those cases, they're trying to provide digital transformation solutions to their customers and they're licensing the Phunware software to help them engage, manage and monetize.

While our key is that we're here in Q2 upcoming, we already have a signed global distribution deal that we'll be providing details to, we have not yet publicly done an announcement or broken out how that go-to-market will work. But now that it's been signed, you should expect to see in Q2, a formal announcement, a formal rollout that will really shine all the work that we've done in the last several quarters to activate these channels. And we'll expect to see the benefits of those rolling forward.

Q: All right, great. Thanks very much.

Operator
Thank you. And the next question is coming from Howard Halpern. Howard, your line is live. Please announce your affiliation and pose your question.

Q: Sure. Howard from Taglich Brothers. Hi, guys. Congratulation on navigating the year.

Randall Crowder - Chief Operating Officer
Appreciate that. Good talking to you, Howard.

Q: Yeah. First question is with regards to, I think my understanding what you sort of said in the beginning. From a modeling perspective, we can expect sequential quarterly growth going forward in 2021?

Alan S. Knitowski, President, Chief Executive Officer and Co-Founder
Matt, go ahead and –

Matt Aune - Chief Financial Officer
Yeah, I know. I can take that. Hey, Howard. Yeah. So we weren't providing guidance, you know, for this year, at least yet. Obviously, there's a lot of factors that go into what we're doing in terms of timing and deliverables to customers and you know getting customers to sign up for deals.

So, you know, our reaching focus, as Alan mentioned, is to try to grow 30% year-over-year. You know, you've seen in the last, you know, last several quarters, there's been some few dips here and there and that's really just been as a result of timing issues. And so, you know, our focus for the full year will be the growth, you know, how that grows between quarter – between quarters, still we're working through that. But obviously, as we get more certainty into that, we'll you know, we'll share that as we get to that point.

Q: Okay. And can you guys talk a little bit about the activity or pent-up demand you're seeing in Q1 as compared to the second half of last year?

Alan S. Knitowski, President, Chief Executive Officer and Co-Founder
Yeah, let me start with that and then I'm going to have Randall finish up. So I'll take it at the, you know, strategic level with the things that we've been seeing and then Randall can dive into some of the tactical things that we're seeing in parallel.

So when we look across, we – our platform can be sold to all Fortune 5000 customers, inclusive of governments. When you deal with carving out healthcare specifically, and you carve out government specifically, both of those verticals are fully active. So independent of the pandemic, looking backwards, and independent of coming out of the pandemic, post-vaccine, elimination of lockdowns and shutdowns, those two verticals will be extremely active and will stay similar to what we were seeing a year ago, so that'll be point one.

Point two would be, those verticals that we saw that were really devastated by the pandemic, things in the areas of travel, live sports, live music and a lot of the hospitality-oriented things that were very much affected by all of us not being able to travel for either work or pleasure. And so we are seeing a lot more activity now. On our call we highlighted where literally, the Wynn Hotel in Vegas has been open, Macau has been open, when you go into Boston, they're still in the process of expanding that opening.

However, if you take another customer that we highlighted, Atlantis, they were shut down literally until about 30 days ago. So anything touching hospitality and travel, I think you're going to see, we've already seen a big uptick in Q1 of the activity. And I think as they're opening those facilities in full, travel is going up, more people are on more flights. And I think that we're going to see that progressively get better throughout the balance of the year.

In terms of other areas like media entertainment, I think we've seen that any of the one doing distribution across their companion television applications, their networks, their shows and their content. Obviously, a lot of us have been consuming that. And that's been no different in the past through the pandemic, if anything has accelerated because we were all trapped at home and not really out and about the way we normally are.

I think that the final comment I'll make before giving it to Randall, would be as we get into areas as I said that look like aviation and deal, especially with corporate campuses, we're seeing a big uptick in the activity around the corporate campus as people are getting work to, you know, accustomed to back to work initiatives. We highlighted Norfolk, but what I want to do is, hand over to Randall and he can give you some very specific customer examples to supplement the vertical areas that we're seeing.

<u>Randall Crowder - Chief Operating Officer</u>
Okay, you know. Thanks, Alan. Yeah, okay, you know the best way you know and for me to answer that is to, try to reinforce something that I think is getting lost. At the end of the day, you know, we have two primary competitive advantages. One, we can deploy feature-rich mobile application portfolios faster and more you know scalable than pretty much anybody, because we've been doing this since before mobile applications recourse. So that's our modular application framework.

Now when I say that you think, well, hey, doesn't most of the world have mobile applications? So that cuts us out of you know, certain businesses like media, you know NBC is not going to come to us and say, "We want your modular application framework to build a mobile application"

But in healthcare and for corporation who have never had a mobile application, because they never needed one until now, that's wildly beneficial to them. So hospitals have gotten by with, you know, responsive – you know mobile responsive websites, they've gotten by with using, for example, MyChart, which is a mobile application provided by Epic, which is just access to an EHR.

And then you know, every corporation who traditionally has been going to the office, you know, what do they need a mobile application for? Right, you know, you go to the office, and if you really need to try to figure out something about the company, you log in, you know, you go to ww. whatever that office is, and you get an about a page and a contact form and that's it. The world is changing. So now every corporation trying to figure out how to manage the workforce. So Fortune 500, large corporation, trying to figure out how to bring people back into the office activities off the charts. Everybody, you know nobody is, you know, forget this idea that everyone's just going to go remote forever.

We know, you know, people said they would never fly after 9/11. And sure enough, a couple years later, it was back to normal. This is happening right now, everyone's struggling with that. So our most active sectors right now are corporations, trying to come back into the office who also need a mobile application in order to do that well. Healthcare systems that are trying to turn back on elective procedures, because that's literally their lifeblood, they absolutely have to fall for digital transformation to make that happen beyond the operational efficiencies, that's just the mobile side of it. Now take that, put it – and put a pin in it.

What's even more exciting is the location-based services are other major competitive advantage. If you want to have smart venue, if you want to have smart spaces, you have to have software that connects the mobile device to all these access points that were never designed in order to provide contextual location that was Phunware does out of the box. So we are that middleware between a mobile device and you know, whether it's Wi-Fi, Smart Lighting, you know, anything else that you might have, that actually sends out a signal, we make sense of all that, so that you can identify a human being inside the way we can use GPS to identify a device, you know, outside.

And so a lot of activity around that, where it's just, I want to create smart spaces. Now, the future of mobile engagement is going to be contextual. And so anywhere you have, like, you know, so I remember, we talked about Society Las Olas that's the largest, you know, co-living development in the US at Fort Lauderdale. So everybody wants to do that now, everybody wants to live, work and play in the same space.

And so as you start having this density, I mean as you started having people want to have grocery and restaurants and bars and you know resident – luxury, high-rise residential all in one place. Those kinds of customer journeys have to be managed by an application and location-based services like Phunware has. So a lot of activity around that. And those folks have five-year development timeline, you know, they understand that COVID hit in 2020, but they're building these large developments, and they're not going to abandon them. So we're seeing a lot of

activity in that respect as well. So healthcare, smart workplace and kind of mixed use residential, really exciting.

Q: Okay. Have you seen any near-term in like, you know, when the stadiums are opening up across the country?

Randall Crowder - Chief Operating Officer
You know, the challenge with that we've done – yeah, so we did AT&T Stadium in Dallas, you know, the challenge with that is actually just business use cases, you know, you have the NFL teams, you know, who pays for it, right? So you have, you know, somebody that owns a stadium, but then you have a team that owns it, then you have a sponsor who wants to put their name on it, and everybody's pointing at each other in order to pay for it. At the end of the day, we're an enterprise software company, we can deploy anywhere. But we're also very judicious about, you know, where is the low-hanging fruit.

So if all we did was to dominate, you know, we're getting people to return to work, getting people to have a tech-enabled patient experience, you know, really dominating, you know, luxury, residential and even what we're doing on our political vertical, we did that well, we'd be a Fortune 100 company. So, you know, going and trying to target stadiums, you know, we'll let them we have some conversations going on. But you know, that's not necessarily a major sweet spot for us to be honest.

Alan S. Knitowski, President, Chief Executive Officer and Co-Founder
And to actually supplement that a little bit, Howard. Just to your point, what you might expect is, it's state-by-state if you're talking domestic, and it's still subject to the lockdown and shut down differences. So if you actually said stadiums and arenas, and we're dealing with March Madness right now, obviously, for the NCAA.

If you're in Texas, you're in Florida, things are pretty wide open. Then they're just managing, you know, are we going to allow full capacity or half capacity. If you're in New York, if you're in California, you're just not having these sporting events at all. Even I think the UFC is relocating itself back to the United States opening up stuff in Florida.

So I think what you're seeing is, it's not so much a holistic thing across these stadiums and arenas across the country, it's still which states are open, which ones are not. And the states that are open are being flooded with not just professional sports, but going down into collegiate sports and use sports as well. But I think over the next two quarters, as California, New York and other parts of the country start behaving more like Texas and Florida, we're going to see an acceleration of that.

Q: Okay. And one last one with regarding the blockchain launch. Is there going to be any meaningful incremental cost to that or to your current infrastructure based on, you know, that launch going forward?

Randall Crowder - Chief Operating Officer

I'll take that one. It's actually, you know, that's a really intuitive question, it's great. And what differentiates us from I would say, 95% of the rest of the blockchain you know cryptocurrency world, you know, after everybody got burned in the late '17, everyone is looking for who is real, who has the gumption and the wherewithal to get this done, because decentralization for me oftentimes means a rudderless ship. And so, you need people who have this as a part of their product roadmap, who have this as a part of their go-to-market strategy, who can push this forward or these things are never going to be adopted by the mainstream.

And so for us, our existing you know engineers who are world-class, our existing infrastructure supports the entire thing. We don't have to go out and hire new people and build new features, because we've been building mobile engagement tools for enterprise for more than a decade. And so there's no additional, you know, major material incremental costs that we need to you know kind of incur. But that being said, obviously, as we grow as a company, as our market cap expands, and as we grow both organically and inorganically, you know, we'll continue to build out that team, so we can deliver even more, you know, more features, more capability. And so it will just be a natural progression. But we don't have a separate, you know, engineering team for our blockchain initiative, that, you know, incur some additional liability. Our engineers have been working on that, because we're building it for the same enterprises that we built mobile applications for, where you have the exact same design-led thinking. And that's why it's actually going to be successful.

Alan S. Knitowski, President, Chief Executive Officer and Co-Founder

And one thing I'd want to highlight here that I think it's super important about this, as much like people got familiar with Red Hat as the safe on-road for open-source in Linux, if you were a corporation or government, the trust that we've earned in working on mobile applications at scale, and controlling up to a billion devices every month with our software and using you know literally hundreds of thousands of transactions per second.

What we're going to be able to do is a couple of interesting things. One, we'll be able to provide a safe onboard for these enterprise customers, government customers, that want to tie into data and mobile loyalty in a safe way, bridging through Phunware, to get into this new ecosystem in a way that they actually can trust, as Randall said, very directly and very accurately.

The other thing is that, we're not aware and maybe you all know, but we believe that our launch of our full ecosystem tied to Phun Token and PhunCoin next month, will represent the first ever crypto ecosystem ever launched by a public company that trades. We know there's people that buy Bitcoin with corporate treasury as an example. We know there's people that are doing Bitcoin Mining, we know that there are financial groups offering you know, ETFs or funds or other things like that to try to get exposure. We even see some that are dealing with the trading aspects of security tokens or utility tokens.

What we've yet to see and what we think we're going to be the first, is a credible NASDAQ trading listed company, fully audited with the pristine components of governance and everything that goes around this ecosystem, launching an entire ecosystem to take advantage of what we're doing and to allow others to use it in a safe, responsible, compliant way, according to all the laws, regulations and everything in between.

So we're really excited by that. We've been doing this for years, and now we finally get to hit the proverbial GO button. And that'll be something that as I said, in my portion, will start having successes in the second quarter of those Phun Token that will actually flow through our P&L. That will be net new, and then you'll start seeing those that we report in I believe mid-August for the second quarter.

Q: Okay. I look forward to that. Keep up the good work guys.

Randall Crowder - Chief Operating Officer
Thanks. Appreciate, Howard.

Operator
Thank you. [Operator Instructions] The next question is coming from Ed Woo. Ed, your line is live. Please announce your affiliation and pose your question.

Q: Sure. Ascendiant Capital. Well congratulations on managing through what was a very challenging year. My question is, as things get back to normal, do you think your sales lead time as well as your implementation software time is going to get back to normal and you know get and be faster?

Alan S. Knitowski, President, Chief Executive Officer and Co-Founder
Yeah, so I'll take that one. I think what we've seen and what Randall highlighted, we actually have in our vertical solutions, the ability to provision solutions extremely quickly. The two months to four months, we typically talk about that you see in an average sales cycle that may be in the engagement that may be an RFI, RFQ, RFP responses. And then back and forth of the papering of deals that you win. So we think that that cycle is going to stay very consistent.

What we expect though, to overlay that, is actually two things. One, is all this pent-up demand, where companies really were deferring budget and deferring initiatives, deferring rollouts of their solutions, even for their employee basis, in addition to consumers, till their facilities were reopening. And we see that that acceleration that we are highlighting the delays that we've seen in some of our customers and partners, we expect, you know, there's going to be a lot of pent-up demand that's going to go with that.

The other thing is that, we see all the work that we put into creating a full software repository on GitHub, a full documentation, training and certification set of repositories. All that work, we set up for our indirect channels, we're really looking forward to making those announcements in Q2, to show where that's going to be a one too many deployments, where it's not even an upsell or cross sell, but we'll have our software bundled with products. And every time those products shipped, we're going to actually, you know, receive a license of one, three, five years across those venues and that square footage to Randall's point across those venues in those facilities that they're trying to activate for digital transformation on mobile.

Q: That sounds great. And then my last question is that, in terms of you know average deal size, as well as average duration, I know you guys have done a very good job to, you know, get bigger

deals and for longer time periods. Is there a specific target that you guys want to get your average duration of new contracts going forward?

Alan S. Knitowski, President, Chief Executive Officer and Co-Founder
So I'll take the contract duration – go ahead, Matt, actually you can take this, sorry we're talking over each other –

Matt Aune - Chief Financial Officer
Yeah, I can take that. Yeah, so typically, you know like as we said before, we typically look at one year to five years. You know, for us, we want to, you know, we want to have people sign up for as long as possible. Our, you know, our typical deals and the verticals that we've been focused on over the last, you know, kind of 6 months to 12 months, have been three years long.

And, you know, deal sizes are you know anywhere from $700,000 of well over $1 million. And so, you know, for us, the three years is a good timeframe for us, a lot of the customers we're dealing with, are you know, we're talking about big healthcare customers, you know they don't want to sign up for a year and then have to go through the whole process again.

And so typically, we're, you know, we're able to sign up for three, five years without a problem. And then from there, really our next focus is, how do we expand that, you know, in like we talked about with Baptist Health and you know some of our other customers, we start with initial engagement and then we really focus on pushing with the customer and getting more and more and extending that overall timeline in terms of how long they're engaged for.

Q: Great. Well, thanks for answering my questions. And I wish you guys good luck.

Randall Crowder - Chief Operating Officer
Thanks, Ed.

Operator
Thank you. The next question is coming from Mike Latimore. Mike, your line is live. Please announce your affiliation and pose your question.

Q: Hi guys. This is [indiscernible] [ph] on for Mike. Could you give me an update on how much of pipeline includes location-based services? And how are the revenue retention rates?

Randall Crowder - Chief Operating Officer
We can probably talk that we haven't been breaking out – that out in the past. I think we had that question before –

Matt Aune - Chief Financial Officer
We missed the first part of the question, could you repeat that? Apologies.

Q: Yeah. So Yeah. So how much of your pipeline includes location-based services?

Randall Crowder - Chief Operating Officer

Let me start, Matt and let's see if we can kind of clean it up. You know, one important point that I kind of note, you know, when we deploy you know our platform, it's kind of like Microsoft Office, you know, just because I think nobody on this call has ever used Access doesn't mean you still don't get it.

You know and so there's a lot of you know our platform, I think people have misconceptions about, you know, we're deploying MaaS and MaaS is fully feature-rich. Now, certain customers, you know, will choose to turn on certain features, but you know, they're licensing that base platform. And so we've never actually you know had the need to kind of break out, you know, okay, well, you're only using, you know, using that same analogy, you're only you know using Access versus this customer is using PowerPoint versus this customer is using only Outlook.

And so I don't think we have those numbers. Matt, I know we were going to look at it, and maybe we can do it in a follow-up with Mike's. I know, we have a couple of calls with Northland that we need to hold. But you know, is there anything that we have shared before that gets to that point a little bit. And for example, you know, Baptist Health South Florida, they already had a mobile application. And so they only licensed our location-based services software. So that one's easy.

You know, that's 6 million square feet, it's $1 million you know total contract value. And, you know, we love that business, because, you know, that's, you know, a lot higher margin, because now they're just licensing our location-based services software. And there's not that kind of integration and design component that we normally have with mobile applications that we help out with. But do we have any numbers tied to similar – you know ones that are similar to Baptist Health, Matt?

Matt Aune - Chief Financial Officer
Yeah, it's not something that we're sharing right now. We do have some numbers, we can go back and take a look with the team and see if there's something we can pull up to help better represent you know the portion that's utilizing the LBS portion. So let me take that down and see if there's something I can pull up on that. And we can certainly get back to you.

I did want to address the second part of the question, I believe that it was related to churn. And so you know, for us, as we've said before, you know, we're selling to customers now and in kind of a three-year to five-year contract. This is really a culmination of a lot of development. You know we've been around over the years, but you know our platform is fully ready now. And it's really over the last year plus that we've been selling these types of deals.

And so for us, it's a little bit early to say, you know, "Hey, the churn rate is this when we're signing customers up at, you know, three-year to five-year terms. You know, for us, if we look at you know one layer deeper, and how we approach churn, you know, our typical LTV on initial engagements is going to be greater than our cost to acquire that customer. And so for us, you know, where the MaaS works for us going out and getting customers, you know, we feel that you know our deal size is more than we cover, how much it costs to get these customers.

But for us, really, as I mentioned earlier, you know, the focus then becomes on customer success. And, you know, customers like BHSF or expanded – as Randall said, you know expanded 3 million to over 6 million square feet in total. You know, this is just another example where the customer comes stick here, and the churn window is pushed out, and the LTV is extended. And so those are the types of things we look at now.

And as we, you know, over time, we're going to get better idea on how things churn. But just to be clear, this isn't you know, our business is in a business where we're going to see customers having an opportunity to turn on and off every month, you know, we're signing up for longer-term deals. And you know, we're cognizant of, you know, how much it cost to get that customer and, you know, what's the lifetime value of that customer.

Randall Crowder - Chief Operating Officer
And Mike, yeah, I think what you're getting at and what is important, and what I'd like to reframe the question just a little bit so we can get you the right answer. It's not you know, who's getting location-based services, it's kind of who's getting that plus something else. And so, you know, the reason you come to Phunware is because of our ability to contextually engage and that's location. And so, you know, we're not out there selling a bunch of, you know, non-location-enabled mobile software to hospitals, every single hospital we're working with, is working with us, because we can make things contextual with that location-based services software.

And so there's almost, I guarantee, the number right now will be, you know, pretty much 90% or more of our revenue is, you know, licensing our location-based services software. The question is, how many of them are also doing a full feature-rich mobile application portfolio using a modular application framework. So, Baptist Health South Florida is only licensing the location-based services software, Virginia Hospital Center and Greater Baltimore Medical Center, they're also licensing location-based services software. But in addition to that, they also needed us to build their digital front door. So everyone gets location services software, you know only some people need us to actually also build them the mobile application. Does that make sense?

Q: Yeah, all right. And how many salespeople do you have now? And how many more will you add this year?

Alan S. Knitowski, President, Chief Executive Officer and Co-Founder
Randall, you want to –

Randall Crowder - Chief Operating Officer
Yeah, sorry, it's coming off in the end of the year. Five right now, we're actively hiring more. And so you know, where that is the you know primary use of funds. So, you know, obviously, we announced the $25 million round, you know, from Northland and ROTH. And so, you know, that's not to address a lot of tech that's to address, you know, a very small sales and marketing team. You know, our ideal operating model is kind of a 4 to 1 LTV to CAC. We really – and when I say sales, a lot of it is tied more around kind of this idea of engaging these channel partner relationships, not direct selling.

So we're – these folks are experienced sales executive, we're not buying the kind of a young team of people just hammer and the horn, you know, these are 20-year veterans of you know selling enterprise software through channel so that we're getting orders of magnitude from their participation. So five now and we are aggressively hiring right now more, you know, I can tell you what we're going to end at the end of the year, it'll also depend on how fast we activate some of these channels. Because some of these sales folks will also be working those channels to kind of, you know, further, you know, activate new customers within those channels. So, you know, five, now I'd like to get another five by you know at the end of the first half of this year, and then we'll kind of scale from there.

Q: All right. And the last one, so deferred revenue grows faster than revenue this year?

<u>Randall Crowder - Chief Operating Officer</u>
Repeat that question again, Mike?

Q: Yeah, so the deferred revenue grows faster than the revenue this year?

<u>Randall Crowder - Chief Operating Officer</u>
I'm not hearing the first part of it, cutting out for me. Matt, can you hear the –

<u>Matt Aune - Chief Financial Officer</u>
Yeah –

<u>Randall Crowder - Chief Operating Officer</u>
You're referring to deferred revenue growth this year – for this year in terms of how it's going to grow versus revenue? Got you. Matt, go ahead and take that one. Yeah, we certainly are, it already seems like we're turning the corner. And then we feel like, you know, we're at an inflection point to begin, you know, adding back to backlog and deferred revenue.

<u>Matt Aune - Chief Financial Officer</u>
Yeah, no, I think that deferred revenue growth we've said it before, you know deferred revenue backlog are key indicators for us. And certainly, our focus is to build that as much as possible. You know, that being said, I think that on a deferred revenue basis, you know, we are able to deploy quicker and faster now. So you're not going to see projects that are held up for several months, because of maybe in the past might have been development issues upfront, you know, with our customer. You know, now we have a fully capable platform and products that we can deliver quicker.

But that being said, we're continuing to invoice annual in advance, and to build that, and so we do expect to see growth there. And, you know, we'll see how things play out with our strategy in terms of obviously, we're continuing our direct sales that we've been doing for years, but really, this indirect sales that we're focusing on this year, could have a, you know, a fairly big impact on that. And so, you know, we'll update everybody as we kind of get through that. As Alan mentioned, we've got you know, we've got some partners we're working with and, you know, there could be some opportunities there where we're going to be able to scale up our revenue and backlog.

Randall Crowder - Chief Operating Officer

And remember, that's going to be the biggest differentiator, we think last year and even the previous year to this year, you know, as we grow that our ability to generate revenue both, you know, Alan already you know made a good point that I hope everybody understand, you know, what we're doing around blockchain actually showing up as revenue because we have a live product and a live ecosystem with our PhunWallet, that you know, now it's just like selling digital goods.

So, you know, for us, it's no different, selling a Phun Token than it would be selling, you know, location-based services software. That's to be very compelling, you know, from a shareholder perspective of saying, "Okay, you know, how do we really begin ramping revenue a lot faster", that's one. The other and I want to hammer this point home, these indirect you know channel partner relationships. And so you'll see a big move over the next couple of years to this idea of usage-based pricing. And, you know, for us, that means square footage.

And so you know, our usage-based pricing with square footage, you know, you depending on, you know, the complexities of your, you know, venue that you want to become a smart venue, you know, once we're bundled in someone else's offering, and they already have access to that customer and the doors already wide open, and they're just you know upselling them or turning on additional features and capabilities. You know, we're just collecting revenue at that point, great margins. And you know, it's priced based on square footage.

And so that is a totally different thing. I think still a lot of people feel like we have to you know engage in these yearlong sales cycles to sell some large brand like Fox, and then it's the slow roll of trying to develop the actual engine that they want. And then we finally get to recognize revenue. We've done that very well in the past. We've done it very well in the passion verticals. And we still will do that. A little bit faster clip that will do it for hospitals and corporations. But when we start bundling things like our location software and other people's offering, you know, it will fundamentally change you know, our revenue ramp.

Q: Got it, got it. Thank you.

Operator

Thank you, ladies and gentlemen. At this time, this concludes the company's question-and-answer session. If your question was not taken, you may contact Phunware's Investor Relations team at phun, that's phun at gatewayir.com. Thank you all for joining us today for Phunware's 2020 earnings conference call. You may now disconnect.