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## Smith Micro Software, Inc. (NASDAQ: SMSI)

May 12, 2023

### Buy: Q1 Review.

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*Q1 revenue was in line with our estimate and EBITDA was better than we modeled. The company has implemented an aggressive cost-cutting program and we expect positive EBITDA in the second half and full year 2024 despite the loss of Verizon. We maintain our Buy recommendation.*

Q1 revenue of \$10.9 million was in line with our estimate and the EBITDA loss was better than we had modeled. The company implemented an aggressive cost-cutting program in the wake of Verizon's termination of its family safety solutions agreement with Smith. Cash opex will fall at least 25% in Q2 and with cuts in COGS the company will reach its goal of a \$4 million reduction in quarterly expenses.

Q2 revenue is expected to be flat to down 4% relative to Q1 as the attrition of the Sprint customer base continues, not yet offset by T-Mobile marketing the family safety service aggressively to its customer base. The migration of AT&T to the SafePath platform is still expected to begin in Q3. The timing and aggressiveness of that roll-out will determine revenue growth in the second half. We have taken a modestly optimistic stance in our projections.

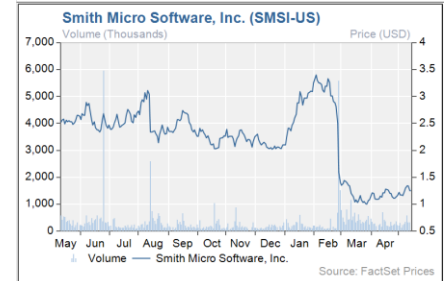
Q1 2024 revenue is expected to decline as the Verizon business ceases, but we expect sequential growth to resume in Q2. EBITDA for the year is expected to be positive but there is significant leverage to higher revenue levels as costs are mostly fixed. The company is pursuing additional family safety and ViewSpot customers, domestically and abroad, but we have not included new wins in our model.

At quarter end the company had \$9 million in cash and the scale and pace of the cost-cutting puts the company in a solid position to meet its cash needs internally. The convertible note obligation amortizes through the end of the year and we expect the company to make payments on this obligation with stock resulting in an increased share count.

**Valuation:** Our price target of \$3.50 is based on an EV/Sales multiple of 4x on our Q4 2024 run rate revenue estimate of \$54 million. Our target multiple is a premium to the group median EV/Sales multiple of 3.6x.

**Risks:** Risks to achieving our price target include declines in the CommSuite product line, disruptions from the T-Mobile acquisition of Sprint, integration of the Family Safety business, continuing impacts of the COVID pandemic and customer concentration.

Current Price				\$1.25
Price Target				\$3.50
<b>Estimates</b>	<b>F2022A</b>	<b>F2023E</b>	<b>F2024E</b>	
<b>Revenues (\$M's)</b>	\$ 48.5	\$ 43.5	\$ 43.6	
1Q March	\$ 12.7	\$ 10.9	\$ 8.3	
2Q June	\$ 12.7	\$ 10.6	\$ 10.0	
3Q September	\$ 11.7	\$ 10.8	\$ 11.7	
4Q December	\$ 11.4	\$ 11.1	\$ 13.5	
	<b>F2022A</b>	<b>F2023E</b>	<b>F2024E</b>	
<b>EBITDA (\$M's)</b>	\$ (16.4)	\$ (4.0)	\$ 0.9	
1Q March	\$ (3.9)	\$ (3.4)	\$ (1.9)	
2Q June	\$ (4.2)	\$ (0.5)	\$ (0.4)	
3Q September	\$ (4.9)	\$ (0.2)	\$ 1.0	
4Q December	\$ (3.6)	\$ 0.1	\$ 2.1	
EV/Sales	1.7 x	1.9 x	1.9 x	
EV/EBITDA	NM	NM	91.0 x	
<b>Stock Data</b>				
52-Week Range	\$0.95	-	\$3.47	
Shares Outstanding (mil.)				60.6
Market Capitalization (mil.)				\$76
Enterprise Value (mil.)				\$81
Debt to Capital				15%
Cash (mil.)				\$9
Cash/Share				\$0.14
Average Three Months Trading Volume (K)				81
Insider Ownership				13.2%
Institutional Ownership				17.4%
Short interest (mil.)				3.6%
Dividend / Yield				\$0.00/0.0%



**Actual v Estimates**

\$ in 000's except per share	Actual	Estimates	Delta
Revenue	\$ 10,930	\$ 10,925	0%
COGS	3,282	3,078	
Gross Profit	7,648	7,847	-3%
SG&A	3,554	2,875	
R&D	5,868	5,835	
G&A	3,475	3,282	
Amort. of Intangible asset	1,686	1,469	
Opex	14,583	14,333	2%
Operating Income	\$ (6,935)	\$ (6,486)	-7%
Interest Income	0	0	
Other Income (Expense)	(667)	25	
Pretax Income	(6,878)	(6,686)	
Taxes	9	25	
Net Income	(6,887)	(6,711)	
Diluted Shares	61,646	59,274	
Diluted EPS	\$ (0.11)	\$ (0.11)	
Operating Income	(6,935)	(6,486)	
Depreciation & Amortization	1,699	1,729	
Stock Comp	945	1,099	
Other	873	0	
EBITDA	\$ (3,418)	\$ (3,659)	7%
Margin	-31.3%	-33.5%	

Source: Smith Micro Software, Inc. and Dawson James Securities estimates

Past the loss of Verizon, Smith will benefit will be a resumption of revenue growth. With all development and migration work complete we expect Smith and its carrier customers to begin actively marketing the family safety services to its customer base. This is a large opportunity for Smith and the carriers. Before Sprint's acquisition by T-Mobile, Smith was generating \$30 to \$35 million in annualized revenue from Sprint, the smallest of the then-major carriers. Since then, Smith has consolidated the industry and will serve two of the three major domestic carriers, whose combined post-paid subscriber base is 5x the number of post-paid subscribers served by Sprint. This suggests an annual revenue opportunity of \$150 million.

Smith estimates the number of multi-line accounts served by each of the three carriers at between 15 and 20 million and the number of accounts that could be served by Smith at between 3 and 5 million per carrier. This equals 9 to 15 million accounts each paying on average \$10 per month, or a revenue contribution to the carriers of between \$1.1 and \$1.8 billion annually. Smith's contract terms with its carrier customers are proprietary but we estimate Smith takes between 25% and 50% of the total revenue. At 25%, this is a revenue opportunity of \$270 million to \$450 million annually. For the two remaining carrier customers this is a potential market of \$180 million to \$300 million This is consistent with the revenue opportunity estimate derived by comparing Smith's revenue from Sprint and applying that to the much larger base now served.

We believe Verizon will attempt to develop its own family safety platform, and it is unlikely to offer it as a competitive solution leaving Smith as the dominant provider of family location and safety services to the U.S. wireless carrier market. We expect the SafePath platform can expand into the home and international markets that are at least equal in size to the domestic market.

**Outlook**

Our revenue estimate for 2023 reflects the roll-out of SafePath 7 to AT&T and T-Mobile and stable revenues at Verizon. T-Mobile will begin marketing this year and we expect AT&T growth to begin Q3. Assuming lags between marketing and subscription as

well as trial periods common to the industry, we expect modest SafePath Q/Q revenue growth beginning Q3 and a more aggressive growth rate in 2024, adjusted for the absence of Verizon in Q1.

EBITDA and margins should follow revenue growth. Gross margin is modeled to improve near year-end and is estimated to achieve 80% by mid-year 2024. EBITDA and EBITDA margin should grow as revenue scales, and we expect EBITDA margin to exceed 15% by the end of 2024.

### Valuation

Our price target of \$3.50 is based on an EV/Sales multiple of 4x on our Q4 2024 run-rate revenue estimate of \$54 million. This multiple is a premium to the peer group with a median multiple of 3.6x.

		Price	FTM EPS	P/E	TEV (in M's)	FTM Sales (in M's)	EV/ Sales	FTM EBITDA (in M's)	EV/ EBITDA
ADBE	Adobe Incorporated	\$ 341.58	\$ 16.42	20.8	\$155,155.7	\$ 20,304.1	7.6x	\$ 9,818.2	15.8 x
ASAN	Asana, Inc. Class A	17.53	(0.50)	NM	3,540.6	678.0	5.2x	(95.2)	NM
TEAM	Atlassian Corp Class A	135.68	2.08	65.2	34,549.2	4,104.6	8.4x	757.6	45.6 x
DOCU	DocuSign, Inc.	49.44	2.48	20.0	9,838.8	2,759.8	3.6x	697.6	14.1 x
DBX	Dropbox, Inc. Class A	21.72	1.94	11.2	8,490.5	2,525.3	3.4x	970.3	8.7 x
HUBS	HubSpot, Inc.	461.47	5.26	87.7	22,219.4	2,251.3	9.9x	384.6	57.8 x
NTNX	Nutanix, Inc. Class A	24.20	0.43	56.3	5,627.7	1,994.2	2.8x	196.5	28.6 x
ONTF	ON24, Inc.	7.84	0.01	623.6	54.9	161.5	0.3x	(3.7)	NM
RNG	RingCentral, Inc. Class A	28.74	3.40	8.5	4,348.0	2,281.0	1.9x	511.0	8.5 x
SMAR	Smartsheet, Inc. Class A	41.02	0.43	95.9	5,046.2	1,002.8	5.0x	76.0	66.4 x
TWLO	Twilio, Inc. Class A	47.48	1.58	30.0	6,067.5	4,317.4	1.4x	635.2	9.6 x
WDAY	Workday, Inc. Class A	178.32	5.42	32.9	43,303.6	7,542.0	5.7x	2,141.1	20.2 x
ZM	Zoom Video Communications, Inc. Class A	64.45	4.25	15.2	13,608.5	4,517.9	3.0x	1,779.3	7.6 x
	Median			31.4			3.6x		15.8 x
SMSI	Smith Micro Software, Inc.	\$ 1.25	\$ (0.05)	NM	\$ 72.7	\$ 43.5	1.7x	\$ (2.2)	NM

Source: FactSet and Dawson James Securities estimates.

### Risk Analysis

Risks to achieving our price target include declines in the CommSuite product line, disruptions from the T-Mobile acquisition of Sprint, integration of the Family Safety business, continuing impacts of the COVID pandemic and customer concentration.

**Exhibit 1. Income Statement**

\$ in 000's	2020	2021	2022	Q1 23 A	Q2 23 E	Q3 23 E	Q4 23 E	2023 E	2024 E
Revenue	\$ 51,300	\$ 58,422	\$ 48,513	\$ 10,930	\$ 10,630	\$ 10,830	\$ 11,110	\$ 43,500	\$ 43,588
COGS	5,190	12,698	14,210	3,282	2,976	2,816	2,778	11,852	9,251
Gross Profit	46,110	45,724	34,303	7,648	7,654	8,014	8,333	31,648	34,337
	89.9%	78.3%	70.7%	70.0%	72.0%	74.0%	75.0%	72.8%	78.8%
SG&A	9,090	11,581	12,887	3,554	2,636	2,636	2,636	11,463	10,743
R&D	17,759	26,197	29,870	5,868	4,111	4,111	4,111	18,200	16,750
G&A	12,801	17,920	16,161	3,475	2,645	2,645	2,645	11,409	10,777
Amort. of Intangible asset	2,920	8,100	6,312	1,686	1,686	1,686	1,686	6,744	5,874
Restructuring/Other	19	12,864	0	0	0	0	0	0	0
Opex	42,589	76,662	65,230	14,583	11,078	11,078	11,078	47,816	44,144
Operating Income	\$ 3,521	\$ (30,938)	\$ (30,927)	\$ (6,935)	\$ (3,424)	\$ (3,063)	\$ (2,745)	\$ (16,167)	\$ (9,808)
Interest Income	96	34	0	0	0	0	0	0	0
Interest Expense	0	(2)	(2,680)	(2,260)	(188)	(113)	(38)	(2,598)	(563)
Change in Warrant Liability	0	0	4,669	2,984	0	0	0	2,984	0
Other Income (Expense)	708	78	(115)	(667)	(667)	(667)	(667)	(2,668)	100
Pretax Income	4,325	(30,828)	(29,053)	(6,878)	(4,278)	(3,843)	(3,450)	(18,449)	(10,270)
Taxes	160	215	226	9	25	25	25	84	100
Net Income	4,165	(31,043)	(29,279)	(6,887)	(4,303)	(3,868)	(3,475)	(18,533)	(10,370)
Diluted Shares	42,764	51,232	55,422	61,646	66,278	67,414	68,223	65,890	72,114
Diluted EPS	\$ 0.10	\$ (0.61)	\$ (0.53)	\$ (0.11)	\$ (0.06)	\$ (0.06)	\$ (0.05)	\$ (0.28)	\$ (0.14)
Stock Comp	3,063	4,848	4,370	945	945	945	945	3,780	3,780
Amortization	2,920	8,100	6,312	1,700	1,686	1,686	1,686	6,744	5,874
Other	918	15,852	(201)	633	0	0	0	633	0
Non-GAAP Net Income	11,066	(2,243)	(18,798)	(3,609)	(1,672)	(1,237)	(844)	(7,376)	(716)
Non-GAAP EPS	\$ 0.26	\$ (0.04)	\$ (0.34)	\$ (0.06)	\$ (0.03)	\$ (0.02)	\$ (0.01)	\$ (0.11)	\$ (0.01)
Operating Income	3,521	(30,938)	(30,927)	(6,935)	(3,424)	(3,063)	(2,745)	(16,167)	(9,808)
Depreciation & Amort.	3,582	9,338	7,556	1,699	1,946	1,946	1,946	7,537	6,914
Stock Comp	3,064	4,848	4,948	945	945	945	945	3,780	3,780
Other	927	15,447	2,015	873	0	0	0	873	0
EBITDA	\$ 11,094	\$ (1,305)	\$ (16,408)	\$ (3,418)	\$ (533)	\$ (172)	\$ 146	\$ (3,977)	\$ 886
Margin	21.6%	-2.2%	-33.8%	-31.3%	-5.0%	-1.6%	1.3%	-9.1%	2.0%

Source: Smith Micro Software, Inc. and Dawson James Securities estimates



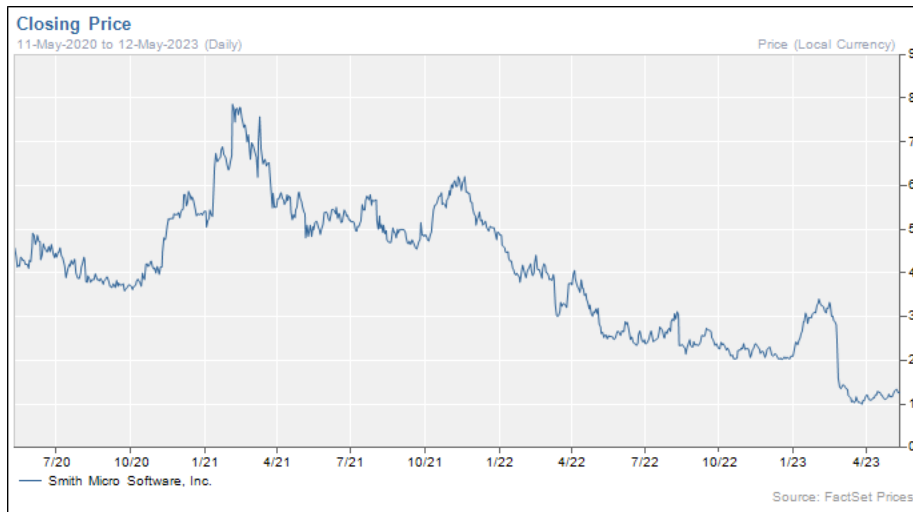
**Exhibit 2. Balance Sheet and Cash Flow Statement**

(\$ in 000's)	2020	2021	2022	2023 E	2024 E
Cash	25,754	16,078	14,026	7,830	6,623
A/R	12,347	10,590	10,501	8,523	10,355
Prepaid Expenses & Other	1,189	1,988	1,983	3,378	4,104
<b>Current Assets</b>	<b>\$ 39,290</b>	<b>\$ 28,656</b>	<b>\$ 26,510</b>	<b>\$ 19,731</b>	<b>\$ 21,081</b>
Equipment & Improvements	2,170	2,698	1,498	1,242	1,202
Right-of-use asset	5,785	5,710	3,722	3,378	3,378
Other	694	620	490	487	487
Intangible Assets	12,698	42,631	36,320	29,789	23,915
Goodwill	12,266	35,041	35,041	35,041	35,041
<b>Total Assets</b>	<b>\$ 72,903</b>	<b>\$ 115,356</b>	<b>\$ 103,581</b>	<b>\$ 89,668</b>	<b>\$ 85,104</b>
A/P	2,282	3,301	3,236	3,170	3,852
Accrued Payroll & Benefits	2,867	4,055	3,883	4,026	4,892
Operating Lease	1,433	1,400	1,441	1,452	1,452
Other Accrued Liab.	216	436	1,589	1,587	1,928
Deferred Revenue	1,572	176	0	0	0
Convertible Note payable	0	0	9,007	0	0
Derivative liabilities	0	0	1,575	0	0
<b>Current Liabilities</b>	<b>\$ 8,370</b>	<b>\$ 9,368</b>	<b>\$ 20,731</b>	<b>\$ 10,235</b>	<b>\$ 12,123</b>
Warrant Liability	0	0	3,317	0	0
Lease Liabilities	4,805	4,467	2,976	2,594	2,594
Other LT Liabilities	125	117	178	181	220
<b>Equity</b>	<b>\$ 58,716</b>	<b>\$ 100,560</b>	<b>\$ 76,379</b>	<b>\$ 76,657</b>	<b>\$ 70,167</b>
<b>Total Liabilities &amp; Equity</b>	<b>\$ 72,903</b>	<b>\$ 115,356</b>	<b>\$ 103,581</b>	<b>\$ 89,668</b>	<b>\$ 85,104</b>
	2020	2021	2022	2023 E	2024 E
Net Income	4,165	(31,043)	(29,279)	(18,533)	(10,370)
Depreciation & Amortization	3,582	9,338	7,556	7,537	6,914
Stock Comp	3,064	4,848	4,948	3,780	3,780
Working Capital & Other	(2,887)	3,941	(2,486)	1,662	(631)
<b>Operating CF</b>	<b>\$ 7,924</b>	<b>\$ (12,916)</b>	<b>\$ (19,261)</b>	<b>\$ (5,554)</b>	<b>\$ (307)</b>
Capx	(1,323)	(830)	(49)	(747)	(1,000)
Acquisitions	(13,500)	(56,865)	0	0	0
Other	142	192	164	0	0
<b>Investing Activities</b>	<b>\$ (14,681)</b>	<b>\$ (57,503)</b>	<b>\$ 115</b>	<b>\$ (747)</b>	<b>\$ (1,000)</b>
Equity	4,214	60,743	3,000	75	100
Debt	0	0	14,036	30	0
Other	29	0	58	0	0
<b>Financing</b>	<b>\$ 4,243</b>	<b>\$ 60,743</b>	<b>\$ 17,094</b>	<b>\$ 105</b>	<b>\$ 100</b>
<b>Change in Cash</b>	<b>\$ (2,514)</b>	<b>\$ (9,676)</b>	<b>\$ (2,052)</b>	<b>\$ (6,196)</b>	<b>\$ (1,207)</b>

Source: Smith Micro Software, Inc. and Dawson James Securities estimates

**Important Disclosures:**

**Price Chart:**



**Price target and ratings changes over the past three years:**

Initiated – Buy – May 4, 2021 – Price Target \$11.10  
 Price Target Change – Buy – May 6, 2021 – Price Target changed from \$11.10 to \$11.40  
 Update – Buy – July 21, 2021 – Price Target \$11.40  
 Update – Buy – August 5, 2021 – Price Target \$11.40  
 Update – Buy – November 11, 2021 – Price Target \$11.40  
 Price Target Change – Buy – March 11, 2022 – Price Target changed from \$11.40 to \$8.30  
 Update – Buy – April 4, 2022 – Price Target \$8.30  
 Update – Buy – May 5, 2022 – Price Target \$8.30  
 Update – Buy – August 12, 2022 – Price Target \$8.30  
 Update – Buy – October 10, 2022 – Price Target \$8.30  
 Update – Buy – November 7, 2022 – Price Target \$8.30  
 Update – Buy – November 10, 2022 – Price Target \$8.30  
 Update – Buy – January 18, 2023 – Price Target \$8.30  
 Price Target Change – Buy – February 28, 2023 – Price Target changed from \$8.30 to \$3.50  
 Update – Buy – March 10, 2023 – Price Target \$3.50  
 Update – Buy – May 12, 2023 – Price Target \$3.50

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Current as of 1-May-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	26	72%	2	6%
Market Perform (Neutral)	10	28%	1	3%
Market Underperform (Sell)	0	0%	0	0%
Total	36	100%	3	9%

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