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

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### Buy: AT&T Launches Secure Family on SafePath Platform

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Smith Micro announced a Tier 1 wireless carrier has launched its family safety service on Smith's SafePath platform. We believe this carrier is AT&T and a successful launch could spur Smith's other Tier 1 wireless carrier customer, T-Mobile, to become more aggressive in its roll-out of its family safety service. We reiterate our Buy recommendation.

Smith estimates the number of multi-line accounts served by each of the three major domestic wireless 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 \$8 to \$10 per month, or a revenue contribution to the carriers of between \$0.9 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 \$216 million to \$450 million annually. For the company's two carrier customers, this is a potential market of \$144 million to \$300 million annually.

Revenue can grow rapidly when carriers market the product. For instance, revenues from Sprint increased from \$3.3 million to \$18 million in 12 months and increased again to \$28 million in the following 12 months before its acquisition by T-Mobile. It is reasonable to expect a similar trajectory with AT&T and T-Mobile assuming similar marketing support. But the two existing carrier customers have a postpaid subscriber base five times larger than Sprint when it was Smith's customer.

The company assumed AT&T's launch this quarter in its guidance of a 4% to 8% sequential increase in revenue in Q3, the first Q/Q increase since Q3 2021. With the launch late in the quarter, the lower end is probably the safer bet. The increase in revenue, lower costs and improved gross margin will benefit EBITDA. We forecast positive EBITDA in Q3 from higher revenue, growing gross margin and continuation of the company's rapid, and aggressive cost-cutting program.

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.

**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 modest discount to the group median EV/Sales multiple of 4.2x.

**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	\$1.74		
Price Target	\$3.50		
Estimates	F2022A	F2023E	F2024E
Revenues (\$M's)	\$ 48.5	\$ 43.3 E	\$ 43.9
1Q March	\$ 12.7	\$ 10.9 A	\$ 8.4
2Q June	\$ 12.7	\$ 10.3 A	\$ 10.1
3Q September	\$ 11.7	\$ 10.8 E	\$ 11.7
4Q December	\$ 11.4	\$ 11.2 E	\$ 13.6
	F2022A	F2023E	F2024E
EBITDA (\$M's)	\$ (16.4)	\$ (2.9)E	\$ 2.8
1Q March	\$ (3.9)	\$ (3.6)A	\$ (1.4)
2Q June	\$ (4.2)	\$ (0.5)A	\$ 0.1
3Q September	\$ (4.9)	\$ 0.4 E	\$ 1.4
4Q December	\$ (3.6)	\$ 0.8 E	\$ 2.7
EV/Sales	2.4 x	2.7 x	2.7 x
EV/EBITDA	NM	NM	41.3 x
Stock Data			
52-Week Range	\$0.95	-	\$3.47
Shares Outstanding (mil.)	65.2		
Market Capitalization (mil.)	\$113		
Enterprise Value (mil.)	\$118		
Debt to Capital	13%		
Cash (mil.)	\$6		
Cash/Share	\$0.10		
Average Three Months Trading Volume (K)	138		
Insider Ownership	11.7%		
Institutional Ownership	14.3%		
Short interest (mil.)	2.8%		



## Outlook

Our revenue estimate for 2023 reflects the roll-out of SafePath 7 to AT&T and T-Mobile and stable revenues at Verizon. We expect AT&T growth to begin Q3 and this is likely to spur T-Mobile to follow. 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 through 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 approach 20% by the end of 2024.

Past the loss of Verizon, Smith will benefit from 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.

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.

Additional customer wins are expected in all three product segments over the coming quarters. This will likely impact revenue in the second half of 2024 and combined with the increase in revenue from AT&T should result in Q/Q and Y/Y revenue growth in the second half of next year.

At quarter end, the company had \$6.4 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.

## 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 modest discount to the peer group with a median multiple of 4.2x.

		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	\$ 545.36	\$ 17.27	31.6	\$243,903.8	\$ 21,058.9	11.6x	\$ 10,139.2	24.1 x
ASAN	Asana, Inc. Class A	21.45	(0.40)	NM	4,382.8	712.5	6.2x	(70.0)	NM
TEAM	Atlassian Corp Class A	202.26	2.26	89.6	50,636.6	4,320.2	11.7x	868.7	58.3 x
DOCU	DocuSign, Inc.	48.88	2.63	18.6	9,291.1	2,833.3	3.3x	730.0	12.7 x
DBX	Dropbox, Inc. Class A	27.57	2.00	13.8	10,744.5	2,568.1	4.2x	1,003.4	10.7 x
HUBS	HubSpot, Inc.	530.80	6.07	87.5	25,533.9	2,417.5	10.6x	432.3	59.1 x
NTNX	Nutanix, Inc. Class A	30.81	0.74	41.5	7,230.5	2,094.2	3.5x	265.3	27.3 x
ONTF	ON24, Inc.	6.80	0.04	168.5	62.9	148.5	0.4x	(3.3)	NM
RNG	RingCentral, Inc. Class A	29.62	3.39	8.7	4,441.2	2,348.2	1.9x	540.0	8.2 x
SMAR	Smartsheet, Inc. Class A	41.19	0.55	75.1	5,110.8	1,059.7	4.8x	93.7	54.5 x
TWLO	Twilio, Inc. Class A	61.99	2.02	30.7	8,490.6	4,316.8	2.0x	722.8	11.7 x
WDAY	Workday, Inc. Class A	243.14	6.14	39.6	59,917.1	7,940.7	7.5x	2,182.8	27.4 x
ZM	Zoom Video Communications, Inc. Class A	68.67	4.58	15.0	14,754.1	4,597.3	3.2x	1,836.2	8.0 x
	Median			35.6			4.2x		24.1 x
SMSI	Smith Micro Software, Inc.	\$ 1.74	\$ (0.08)	NM	\$ 113.8	\$ 43.7	2.6x	\$ 0.9	125.6 x

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 A	Q3 23 E	Q4 23 E	2023 E	2024 E
Revenue	\$ 51,300	\$ 58,422	\$ 48,513	\$ 10,930	\$ 10,338	\$ 10,825	\$ 11,205	\$ 43,298	\$ 43,858
COGS	5,190	12,698	14,210	3,282	2,589	2,652	2,689	11,212	9,311
Gross Profit	46,110	45,724	34,303	7,648	7,749	8,173	8,516	32,086	34,547
	89.9%	78.3%	70.7%	70.0%	75.0%	75.5%	76.0%	74.1%	78.8%
SG&A	9,090	11,581	12,887	3,554	2,628	2,536	2,536	11,254	10,334
R&D	17,759	26,197	29,870	5,868	3,705	3,575	3,575	16,724	14,569
G&A	12,801	17,920	16,161	3,475	3,040	2,934	2,934	12,382	11,954
Amort. of Intangible asset	2,920	8,100	6,312	1,686	1,620	1,620	1,620	6,546	5,874
Restructuring/Other	19	12,864	0	0	0	0	0	0	0
Opex	42,589	76,662	65,230	14,583	10,993	10,665	10,665	46,906	42,732
Operating Income	\$ 3,521	\$ (30,938)	\$ (30,927)	\$ (6,935)	\$ (3,244)	\$ (2,492)	\$ (2,149)	\$ (14,820)	\$ (8,185)
Interest Income	96	34	0	0	0	0	0	0	0
Interest Expense	0	(2)	(2,680)	(2,260)	(2,037)	(113)	(38)	(4,447)	(563)
Change in Warrant Liability	0	0	4,669	2,984	429	0	0	3,413	0
Other Income (Expense)	708	78	(115)	(667)	(811)	(811)	(811)	(3,100)	100
Pretax Income	4,325	(30,828)	(29,053)	(6,878)	(5,663)	(3,416)	(2,998)	(18,954)	(8,648)
Taxes	160	215	226	9	2	25	25	61	100
Net Income	4,165	(31,043)	(29,279)	(6,887)	(5,665)	(3,441)	(3,023)	(19,015)	(8,748)
Diluted Shares	42,764	51,232	55,422	61,646	62,453	70,181	71,425	67,959	75,527
Diluted EPS	\$ 0.10	\$ (0.61)	\$ (0.53)	\$ (0.11)	\$ (0.09)	\$ (0.05)	\$ (0.04)	\$ (0.28)	\$ (0.12)
Stock Comp	3,063	4,848	4,370	945	1,030	1,030	1,030	4,035	4,120
Amortization	2,920	8,100	6,312	1,700	1,633	1,620	1,620	6,546	5,874
Other	918	15,852	(201)	633	2,368	0	0	3,001	0
Non-GAAP Net Income	11,066	(2,243)	(18,798)	(3,609)	(634)	(791)	(373)	(5,433)	1,246
Non-GAAP EPS	\$ 0.26	\$ (0.04)	\$ (0.34)	\$ (0.06)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.08)	\$ 0.02
Operating Income	3,521	(30,938)	(30,927)	(6,935)	(3,244)	(2,492)	(2,149)	(14,820)	(8,185)
Depreciation & Amort.	3,582	9,338	7,556	1,700	1,633	1,880	1,880	7,093	6,914
Stock Comp	3,064	4,848	4,948	945	1,030	1,030	1,030	4,035	4,120
Other	927	15,447	2,015	690	84	0	0	774	0
EBITDA	\$ 11,094	\$ (1,305)	\$ (16,408)	\$ (3,600)	\$ (497)	\$ 418	\$ 761	\$ (2,918)	\$ 2,849
Margin	21.6%	-2.2%	-33.8%	-32.9%	-4.8%	3.9%	6.8%	-6.7%	6.5%

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

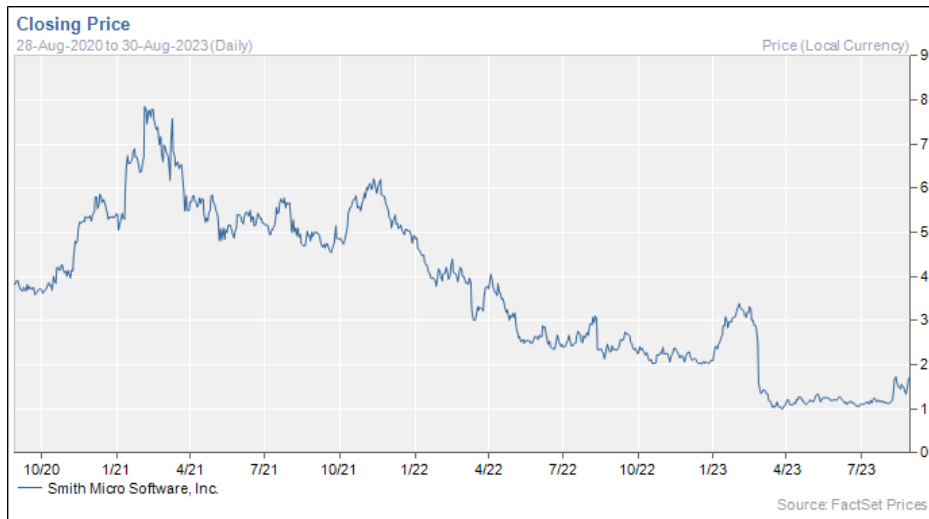
**Exhibit 2. Balance Sheet and Cash Flow Statement**

(\$ in 000's)	2020	2021	2022	2023 E	2024 E
Cash	25,754	16,078	14,026	11,932	12,574
A/R	12,347	10,590	10,501	8,596	10,428
Prepaid Expenses & Other	1,189	1,988	1,983	3,632	4,406
<b>Current Assets</b>	<b>\$ 39,290</b>	<b>\$ 28,656</b>	<b>\$ 26,510</b>	<b>\$ 24,160</b>	<b>\$ 27,407</b>
Equipment & Improvements	2,170	2,698	1,498	1,097	1,057
Right-of-use asset	5,785	5,710	3,722	3,033	3,033
Other	694	620	490	485	485
Intangible Assets	12,698	42,631	36,320	30,115	24,241
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>\$ 93,931</b>	<b>\$ 91,264</b>
A/P	2,282	3,301	3,236	3,623	4,396
Accrued Payroll & Benefits	2,867	4,055	3,883	2,935	3,561
Operating Lease	1,433	1,400	1,441	1,454	1,454
Other Accrued Liab.	216	436	1,589	1,982	2,405
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>\$ 9,995</b>	<b>\$ 11,815</b>
Warrant Liability	0	0	3,317	0	0
Lease Liabilities	4,805	4,467	2,976	2,196	2,196
Other LT Liabilities	125	117	178	193	234
<b>Equity</b>	<b>\$ 58,716</b>	<b>\$ 100,560</b>	<b>\$ 76,379</b>	<b>\$ 81,547</b>	<b>\$ 77,019</b>
<b>Total Liabilities &amp; Equity</b>	<b>\$ 72,903</b>	<b>\$ 115,356</b>	<b>\$ 103,581</b>	<b>\$ 93,931</b>	<b>\$ 91,264</b>
	2020	2021	2022	2023 E	2024 E
Net Income	4,165	(31,043)	(29,279)	(19,015)	(8,748)
Depreciation & Amortization	3,582	9,338	7,556	7,092	6,914
Stock Comp	3,064	4,848	4,948	4,035	4,120
Working Capital & Other	(2,887)	3,941	(2,486)	3,424	(745)
<b>Operating CF</b>	<b>\$ 7,924</b>	<b>\$ (12,916)</b>	<b>\$ (19,261)</b>	<b>\$ (4,464)</b>	<b>\$ 1,542</b>
Capx	(1,323)	(830)	(49)	(497)	(1,000)
Acquisitions	(13,500)	(56,865)	0	0	0
Other	142	192	164	71	0
<b>Investing Activities</b>	<b>\$ (14,681)</b>	<b>\$ (57,503)</b>	<b>\$ 115</b>	<b>\$ (426)</b>	<b>\$ (1,000)</b>
Equity	4,214	60,743	3,000	50	100
Debt	0	0	14,036	2,746	0
Other	29	0	58	0	0
<b>Financing</b>	<b>\$ 4,243</b>	<b>\$ 60,743</b>	<b>\$ 17,094</b>	<b>\$ 2,796</b>	<b>\$ 100</b>
<b>Change in Cash</b>	<b>\$ (2,514)</b>	<b>\$ (9,676)</b>	<b>\$ (2,052)</b>	<b>\$ (2,094)</b>	<b>\$ 642</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  
 Update – Buy – August 10, 2023 – Price Target \$3.50  
 Update – Buy – August 31, 2023 – Price Target \$3.50

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Current as of 22-Aug-23

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	23	65.70%	3	8.60%
Market Perform (Neutral)	12	34.30%	3	8.60%
Market Underperform (Sell)	0	0%	0	0.00%
<b>Total</b>	<b>35</b>	<b>100%</b>	<b>6</b>	<b>17.20%</b>

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