

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

February 23, 2024

### Buy: Q4 Results.

**James McIlree, CFA**
**561-237-2709**
**jmcilree@dawsonjames.com**

*Q4 revenue was slightly lower than our estimate and operating expenses higher resulting in lower-than-expected EBITDA. We expect sequential growth in revenue to begin in Q2 as the Secure Family service from AT&T ramps. However, we have modified the pace of growth we expect and lowered our estimates and price target.*

Growth this year will be driven by the expansion of AT&T's Secure Family service and potentially T-Mobile later in the year. We expect a modest contribution from the new carrier in Europe. The company is also introducing three new versions of Safe Path: 1) a new platform, SafePath Global, to target smaller carriers that do not have the resources to develop a customized SafePath implementation, 2) SafePath Premium targeted to families seeking even greater control of their digital lives. 3) SafePath OS, a software solution on Android devices allowing parents to supervise and control their children's digital lives.

The outlook for Q1 is lower than we had forecasted, as the ramp in revenue from AT&T we had expected has been pushed to the right. We expect a stronger ramp in the second half of the year from AT&T as marketing programs are implemented. We believe sequential revenue growth can be significant when marketing is in full swing. As a point of comparison, sequential revenue growth in 2019, when Sprint was actively marketing the service was \$1.5 million and more per quarter. AT&T has more than double the subscriber base of Sprint at that time and we believe revenue growth can at least match and likely double the ramp Smith experienced with Sprint. The major question is the timing of when that ramp begins.

Smith recently announced a multiyear contract with a Tier 1 European Mobile Operator for SafePath. We expect this to have an initial modest impact in the second half of 2024 and meaningful revenue contribution in 2025. The signing of this contract is a significant accomplishment for the company and we expect meaningful revenue contribution in 2025.

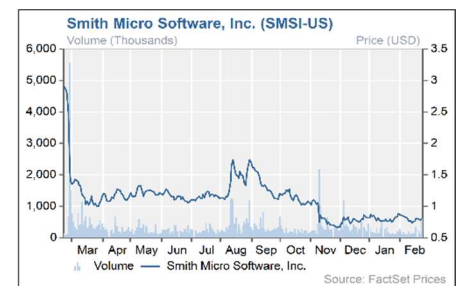
New product introductions and a more active marketing campaign are expected to drive further growth in 2025. With all of the major platform transitions complete Smith can focus on revenue growth and margin expansion, in a field where it dominates the market.

The shares are trading at an EV/Sales of 1x our 2025 revenue estimates and offer compelling value at current levels. We expect as we move into the second half, with revenue accelerating sequentially and margins improving, the stock can move much higher.

**Valuation:** Our new price target is \$2.50, down from \$3.50. Using a 4.4x EV/Sales multiple on our 2025 revenue estimate yields a target of \$3.10. Using the same multiple on the Q4 2024 run rate revenue yields a target of \$1.90. We have used the midpoint of these two to arrive at our \$2.50 price target. The target EV/Sales multiple is comparable to the group median EV/Sales multiple of 4.4x.

**Risks:** Risks to achieving our price target include declines in the CommSuite product line, scaling the business with its two major domestic customers, customer concentration, and expanding its customer base in Europe.

Current Price	\$0.82		
Price Target	\$2.50		
<b>Estimates</b>	<b>F2023A</b>	<b>F2024E</b>	<b>F2025E</b>
Revenues (\$M's)	\$ 40.9	\$ 29.1	\$ 56.4
1Q March	\$ 10.9	\$ 5.7	\$ 9.8
2Q June	\$ 10.3	\$ 6.6	\$ 11.8
3Q September	\$ 11.0	\$ 8.0	\$ 15.5
4Q December	\$ 8.6	\$ 8.8	\$ 19.3
	<b>F2023A</b>	<b>F2024E</b>	<b>F2025E</b>
EBITDA (\$M's)	\$ (4.9)	\$ (10.7)	\$ 1.6
1Q March	\$ (3.6)	\$ (4.2)	\$ (3.8)
2Q June	\$ (0.5)	\$ (3.2)	\$ (1.8)
3Q September	\$ 0.7	\$ (2.0)	\$ 1.8
4Q December	\$ (1.5)	\$ (1.4)	\$ 5.4
EV/Sales	1.4 x	2.0 x	1.0 x
EV/EBITDA	NM	NM	36.4 x
<b>Stock Data</b>			
52-Week Range	\$0.65	-	\$2.91
Shares Outstanding (mil.)	74.8		
Market Capitalization (mil.)	\$61		
Enterprise Value (mil.)	\$57		
Debt to Capital	4%		
Cash (mil.)	\$7		
Cash/Share	\$0.10		
Average Three Months Trading Volume (K)	252		
Insider Ownership	11.1%		
Institutional Ownership	13.8%		
Short interest (mil.)	2.1%		



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.

## Q4 Results

<b>Q4 23</b>			
<b>\$ in 000's except per share</b>	<b>Actual</b>	<b>Estimates</b>	<b>Delta</b>
Revenue	\$ 8,593	\$ 8,805	-2%
COGS	2,159	2,421	
Gross Profit	6,434	6,384	1%
SG&A	2,458	2,481	
R&D	3,868	3,755	
G&A	3,331	2,967	
Depreciation & Amort.	2,473	1,567	
Opex	12,130	10,770	13%
Operating Income	\$ (5,696)	\$ (4,387)	-30%
Interest Income	0	0	
Other Income (Expense)	(996)	(1,200)	
Pretax Income	(6,578)	(5,624)	
Taxes	133	25	
Net Income	(6,711)	(5,649)	
Diluted Shares	72,689	73,530	
Diluted EPS	\$ (0.09)	\$ (0.08)	
Operating Income	(5,696)	(4,387)	
Depreciation & Amortization	2,483	1,827	
Stock Comp	1,519	1,341	
Other	155	0	
EBITDA	\$ (1,539)	\$ (1,219)	-26%
Margin	-17.9%	-13.8%	

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

## Outlook

Q1 revenue is expected to decline to \$5.7 million from \$8.6 million in Q4 as the final impact of the Verizon termination is felt. Verizon ceased its contract with Smith in December and the Q/Q impact in Q1 will be double, accounting for the overwhelming majority of the decline. The legacy Sprint customers continue to migrate off the platform but the numbers are modest and expected to be offset by the ramp in AT&T. We expect the ramp in AT&T will accelerate as the year progresses and we have modeled the uptake based on Sprint's roll-out in 2018 and 2019.

EBITDA and margins should follow revenue growth. Gross margin will fall in Q1 with the decline in revenue but is modeled to improve through the rest of the year as revenue scales and is estimated to achieve 80% by the second half of 2025. EBITDA and EBITDA margin should grow as revenue scales, and we expect EBITDA margin to improve substantially.

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.

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.

At quarter end, the company had \$7.1 million in cash but the slower than anticipated ramp of AT&T will pressure the balance sheet and we have modeled an equity raise in the second half.

### Valuation

The shares trade at a significant discount to the group and about 1x our 2025 revenue estimate. We expect the multiple to improve sharply as revenue growth accelerates in the second half.

		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 Inc.	\$ 537.57	\$ 18.46	29.1	\$ 239,649.0	\$ 22,051.3	10.9x	\$ 10,795.9	22.2 x
ASAN	Asana, Inc. Class A	17.90	(0.18)	NM	3,624.7	726.3	5.0x	(35.6)	NM
TEAM	Atlassian Corp Class A	205.43	2.89	71.2	52,607.1	4,804.4	10.9x	1,093.0	48.1 x
DOCU	DocuSign, Inc.	50.14	2.91	17.2	9,458.2	2,920.1	3.2x	814.3	11.6 x
DBX	Dropbox, Inc. Class A	23.26	2.04	11.4	8,883.1	2,558.2	3.5x	1,013.7	8.8 x
HUBS	HubSpot, Inc.	600.35	7.17	83.7	29,258.5	2,628.8	11.1x	509.7	57.4 x
NTNX	Nutanix, Inc. Class A	58.34	1.13	51.7	12,991.4	2,322.0	5.6x	396.8	32.7 x
ONTF	ON24, Inc.	7.70	0.07	114.5	116.2	146.1	0.8x	0.3	410.2 x
RNG	RingCentral, Inc. Class A	30.22	3.62	8.3	4,553.0	2,413.1	1.9x	600.3	7.6 x
SMAR	Smartsheet, Inc. Class A	42.03	0.96	43.9	5,133.4	1,153.8	4.4x	141.2	36.3 x
TWLO	Twilio, Inc. Class A	56.52	2.77	20.4	7,469.0	4,428.5	1.7x	847.0	8.8 x
WDAY	Workday, Inc. Class A	306.62	6.69	45.9	75,010.1	8,541.6	8.8x	2,246.8	33.4 x
ZM	Zoom Video Communications, Inc. Class A	62.12	4.66	13.3	12,256.4	4,647.9	2.6x	1,871.1	6.6 x
	Median			36.5			4.4x		27.5 x
SMSI	Smith Micro Software, Inc.	\$ 0.82	\$ (0.04)	NM	\$ 55.5	\$ 33.0	1.7x	\$ (9.0)	NM

Source: FactSet and Dawson James Securities estimates.

### Risk Analysis

Risks to achieving our price target include declines in the CommSuite product line, scaling the business with its two major domestic customers, customer concentration, and expanding its customer base in Europe.

**Exhibit 1. Income Statement**

\$ in 000's	2021	2022	2023	Q1 24 E	Q2 24 E	Q3 24 E	Q4 24 E	2024 E	2025 E
Revenue	\$ 58,422	\$ 48,513	\$ 40,862	\$ 5,693	\$ 6,625	\$ 8,025	\$ 8,775	\$ 29,118	\$ 56,350
COGS	12,698	14,210	10,558	1,936	2,036	2,186	2,336	8,492	10,842
Gross Profit	45,724	34,303	30,304	3,757	4,589	5,839	6,439	20,626	45,508
	78.3%	70.7%	74.2%	66.0%	69.3%	72.8%	73.4%	70.8%	80.8%
SG&A	11,581	12,887	11,089	2,512	2,412	2,412	2,412	9,748	9,559
R&D	26,197	29,870	17,145	3,957	3,957	3,957	3,957	15,829	16,194
G&A	17,920	16,161	12,780	2,964	2,964	2,964	2,964	11,854	12,086
Depreciation & Amort.	8,100	6,312	7,346	1,584	1,584	1,584	1,584	6,334	6,095
Restructuring/Other	12,864	0	0	0	0	0	0	0	0
Opex	76,662	65,230	48,360	11,016	10,916	10,916	10,916	43,764	43,934
Operating Income	\$ (30,938)	\$ (30,927)	\$ (18,056)	\$ (7,259)	\$ (6,327)	\$ (5,077)	\$ (4,477)	\$ (23,139)	\$ 1,574
Interest Income	34	0	0	0	0	0	0	0	0
Interest Expense	(2)	(2,680)	(6,354)	0	0	0	0	0	0
Change in Warrant Liability	0	4,669	4,214	0	0	0	0	0	0
Other Income (Expense)	78	(115)	(4,042)	25	25	25	25	100	100
Pretax Income	(30,828)	(29,053)	(24,238)	(7,234)	(6,302)	(5,052)	(4,452)	(23,039)	1,674
Taxes	215	226	158	25	25	25	25	100	100
Net Income	(31,043)	(29,279)	(24,396)	(7,259)	(6,327)	(5,077)	(4,477)	(23,139)	1,574
Diluted Shares	51,232	55,422	64,916	78,511	78,884	79,337	79,899	79,158	#DIV/0!
Diluted EPS	\$ (0.61)	\$ (0.53)	\$ (0.38)	\$ (0.09)	\$ (0.08)	\$ (0.06)	\$ (0.06)	\$ (0.29)	#DIV/0!
Stock Comp	4,848	4,370	4,835	1,519	1,519	1,519	1,519	6,076	0
Amortization	8,100	6,312	7,346	1,584	1,584	1,584	1,584	6,334	6,095
Other	15,852	(201)	6,882	0	0	0	0	0	0
Non-GAAP Net Income	(2,243)	(18,798)	(5,333)	(4,156)	(3,224)	(1,974)	(1,374)	(10,729)	7,669
Non-GAAP EPS	\$ (0.04)	\$ (0.34)	\$ (0.08)	\$ (0.05)	\$ (0.04)	\$ (0.02)	\$ (0.02)	\$ (0.14)	#DIV/0!
Operating Income	(30,938)	(30,927)	(18,056)	(7,259)	(6,327)	(5,077)	(4,477)	(23,139)	1,574
Depreciation & Amort.	9,338	7,556	7,396	1,584	1,584	1,584	1,584	6,334	0
Stock Comp	4,848	4,948	4,835	1,519	1,519	1,519	1,519	6,076	0
Other	15,447	2,015	929	0	0	0	0	0	0
EBITDA	\$ (1,305)	\$ (16,408)	\$ (4,896)	\$ (4,156)	\$ (3,224)	\$ (1,974)	\$ (1,374)	\$ (10,729)	\$ 1,574
Margin	-2.2%	-33.8%	-12.0%	-73.0%	-48.7%	-24.6%	-15.7%	-36.8%	2.8%

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

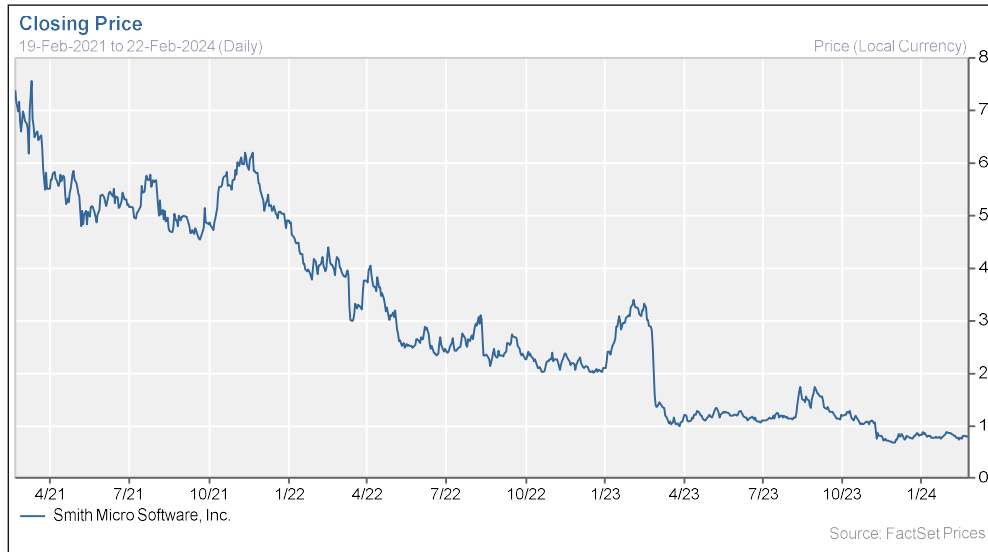
**Exhibit 2. Balance Sheet and Cash Flow Statement**

(\$ in 000's)	2021	2022	2023	2024 E	2025 E
Cash	16,078	14,026	7,125	1,578	11,469
A/R	10,590	10,501	7,912	7,800	17,133
Prepaid Expenses & Other	1,988	1,983	1,843	1,882	4,134
<b>Current Assets</b>	<b>\$ 28,656</b>	<b>\$ 26,510</b>	<b>\$ 16,880</b>	<b>\$ 11,260</b>	<b>\$ 32,736</b>
Equipment & Improvements	2,698	1,498	883	523	163
Right-of-use asset	5,710	3,722	2,759	2,759	2,759
Other	620	490	482	482	482
Intangible Assets	42,631	36,320	29,532	23,658	18,023
Goodwill	35,041	35,041	35,041	35,041	35,041
<b>Total Assets</b>	<b>\$ 115,356</b>	<b>\$ 103,581</b>	<b>\$ 85,577</b>	<b>\$ 73,723</b>	<b>\$ 89,204</b>
A/P	3,301	3,236	2,522	2,575	5,657
Accrued Payroll & Benefits	4,055	3,883	2,500	2,553	5,608
Operating Lease	1,400	1,441	1,483	1,483	1,483
Other Accrued Liab.	436	1,589	1,137	1,161	2,550
Deferred Revenue	176	0	0	0	0
Convertible Note payable	0	9,007	0	0	0
Derivative liabilities	0	1,575	0	0	0
<b>Current Liabilities</b>	<b>\$ 9,368</b>	<b>\$ 20,731</b>	<b>\$ 7,642</b>	<b>\$ 7,772</b>	<b>\$ 15,298</b>
Warrant Liability	0	3,317	0	0	0
Lease Liabilities	4,467	2,976	1,780	1,780	1,780
Other LT Liabilities	117	178	168	172	377
<b>Equity</b>	<b>\$ 100,560</b>	<b>\$ 76,379</b>	<b>\$ 75,390</b>	<b>\$ 63,999</b>	<b>\$ 71,749</b>
<b>Total Liabilities &amp; Equity</b>	<b>\$ 115,356</b>	<b>\$ 103,581</b>	<b>\$ 84,980</b>	<b>\$ 73,723</b>	<b>\$ 89,204</b>
	2021	2022	2023	2024 E	2025 E
Net Income	(31,043)	(29,279)	(24,396)	(23,139)	1,574
Depreciation & Amortization	9,338	7,556	7,395	6,334	6,095
Stock Comp	4,848	4,948	4,835	6,076	6,076
Working Capital & Other	3,941	(2,486)	5,193	207	(3,854)
<b>Operating CF</b>	<b>\$ (12,916)</b>	<b>\$ (19,261)</b>	<b>\$ (6,973)</b>	<b>\$ (10,522)</b>	<b>\$ 9,891</b>
Capx	(830)	(49)	(4)	(100)	(100)
Acquisitions	(56,865)	0	0	0	0
Other	192	164	136	0	0
<b>Investing Activities</b>	<b>\$ (57,503)</b>	<b>\$ 115</b>	<b>\$ 132</b>	<b>\$ (100)</b>	<b>\$ (100)</b>
Equity	60,743	3,000	0	5,075	100
Debt	0	14,036	(60)	0	0
Other	0	58	0	0	0
<b>Financing</b>	<b>\$ 60,743</b>	<b>\$ 17,094</b>	<b>\$ (60)</b>	<b>\$ 5,075</b>	<b>\$ 100</b>
<b>Change in Cash</b>	<b>\$ (9,676)</b>	<b>\$ (2,052)</b>	<b>\$ (6,901)</b>	<b>\$ (5,547)</b>	<b>\$ 9,891</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  
 Update – Buy – November 9, 2023 – Price Target \$3.50  
 Update – Buy – December 6, 2023 – Price Target \$3.50  
 Update – Buy – January 12, 2024 – Price Target \$3.50  
 Price Target Change – Buy – February 22, 2024 – Price Target changed from \$3.50 to \$2.50.

Dawson James Securities, Inc. (the "Firm") is a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC").

The Firm does not make a market in the securities of the subject company(s). The Firm has not engaged in investment banking relationships with the subject company in the prior twelve months, as a manager or co-manager of a public offering and has not received compensation resulting from those relationships. The Firm may seek compensation for investment banking services in the future from the subject company(s). The Firm has not received other compensation from the subject company(s) in the last 12 months for services unrelated to managing or co-managing of a public offering.

Neither the research analyst(s) whose name appears on this report nor any member of his (their) household is an officer, director, or advisory board member of these companies. The Firm and/or its directors and employees may own securities of the company(s) in this report and may increase or decrease holdings in the future. As of January 18, 2024, the Firm as a whole did not beneficially own 1% or more of any class of common equity securities of the subject company(s) of this report. The Firm, its officers, directors, analysts, or employees may affect transactions in and have long or short positions in the securities (or options or warrants related to those securities) of the company(s) subject to this report. The Firm may affect transactions as principal or agent in those securities.

Analysts receive no direct compensation in connection with the Firm's investment banking business. All Firm employees, including the analyst(s) responsible for preparing this report, may be eligible to receive non-product or service-specific monetary bonus compensation that is based upon various factors, including total revenues of the Firm and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.

Although the statements in this report have been obtained from and are based upon recognized statistical services, issuer reports or communications, or other sources that the Firm believes to be reliable, we cannot guarantee their accuracy. All opinions and estimates included in this report constitute the analyst's judgment as of the date of this report and are subject to change without notice.

**Information about valuation methods and risks can be found in the "Valuation" and "Risk Analysis" sections of this report.**

The securities of the company discussed in this report may be unsuitable for investors depending on their specific investment objectives and financial position. This report is offered for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such would be prohibited. Additional information is available upon request.

**Ratings Definitions:**

- 1) **Buy:** The analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months;
- 2) **Neutral:** The analyst believes the price of the stock is fairly valued for the next 12-18 months;
- 3) **Sell:** The analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

The following chart reflects the range of current research report ratings for all companies, followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

Current as of 20-Feb-24

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	19	55.88%	4	11.80%
Market Perform (Neutral)	15	44.12%	2	5.90%
Market Underperform (Sell)	0	0%	0	0.00%
<b>Total</b>	<b>34</b>	<b>100%</b>	<b>6</b>	<b>17.70%</b>

**Analyst Certification:**

The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his (their) personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) all Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service-specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment



vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.