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Zacks Small-Cap Research

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M. Marin
312-265-9211
mmarin@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

Landstar, Inc. (LDSR-OTC)

LDSR: Growth of Digital Data Drives Need for Cyber-Security Solutions

Data443 believes that the need for external cyber-security services is sizable and growing. Given the myriad high-profile data breaches, ensuring online security is crucial for enterprise, as well as personal users. Moreover, expanding amounts of digital data could make corporations more vulnerable to data breaches.

OUTLOOK

Data443 is a technology company that is developing an ambitious portfolio of cyber-security products and service offerings for blockchain, cyber data security, personal privacy and general data protection regulation and data compliance governance capabilities. The company aims to provide a broad range of solutions and is conducting an aggressive M&A campaign to complement its internally developed technologies.

Current Price (12/07/18)	$0.00
Valuation	$0.01

SUMMARY DATA

52-Week High	**$0.03**
52-Week Low	**$0.00**
One-Year Return (%)	**900**
Beta	**-21.57**
Average Daily Volume (sh)	**18,359,448**
Shares Outstanding (mil)	**4,448**
Market Capitalization ($mil)	**$15**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2018 Estimate	**N/A**
P/E using 2019 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High**
Type of Stock	**Small-cap**
Industry	**Technology**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	0.0A	0.0A	0.0A	0.0A	0.0A
2017	0.0A	0.0A	0.0A	0.0A	0.0A
2018	0.0A	0.0A	0.0A	0.0E	0.0E
2019	NA	NA	NA	NA	1.6E

Per Share Earnings

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	0.00A	0.00A	0.00A	0.00A	0.00A
2017	0.00A	0.00A	0.00A	0.00A	0.00A
2018	0.00A	0.00A	0.00A	0.0E	-0.00E
2019	NA	NA	NA	NA	-0.00E

*2019 revenue and per share represent low end of forecast range

Disclosures begin on page 20.

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KEY POINTS

- Data443 is a technology company that is developing an ambitious portfolio of cyber-security products and service offerings for blockchain, cyber data security, personal privacy and compliance governance capabilities.

- Data443 aims to provide a broad range of data security offerings, services and solutions. To enhance its products and services portfolio, the company is conducting an ambitious M&A campaign to complement its internally developed technologies.

- 2018 has been a transformational year, in our view, as the company has completed two significant acquisitions, with others in the near- and medium-term pipeline. Management expects that its overall M&A pipeline will produce an aggregate annual revenue run-rate of roughly $8-$10 million.

- The company believes that the need for external cyber-security services is sizable and growing. According to AT&T Cybersecurity Insights, “Small businesses don't usually have access to the resources they need to create and maintain a cohesive cybersecurity strategy. Instead, they should rely on a provider that can plan and roll out the strategy affordably and efficiently.”

- Given a myriad of high-profile data breaches, ensuring online security is crucial for enterprise, as well as personal users, particularly with the rising use of mobile technology. Moreover, the expanding amount of digital data is also expected to drive demand for security solutions. According to IDC, “by 2025 the global datasphere – the amount of data created in the world – will grow to 163 zettabytes… ten times the 16.1ZB of data generated in 2016.”

- The growth in the amount of critical data that needs to be stored, shared and used will drive demand for maintaining the privacy of sensitive information and, at the same time, is expected to make corporations more vulnerable to data breaches.

OVERVIEW

Raleigh, North Carolina-based Data443 Risk Mitigation, a wholly owned subsidiary of LandStar, Inc. (OTCPK: LDSR), is a technology company that is developing an ambitious portfolio of cyber-security products and service offerings for blockchain, cyber data security, personal privacy and GDPR (General Data Protection Regulation), the California Consumer Privacy Act (CCPA) that takes effect on January 1, 2020, and data compliance governance capabilities. In addition to products and services the company develops on its own, Data443 is also conducting an aggressive M&A campaign to complement its internally developed technologies. It has accessed the expertise of several advisors to help conduct this strategy in a timely and cost sensitive way.











Data443 aims to provide a broad range of data security offerings, services and solutions. 2018 has been a transformational year, in our view, as the company has completed two significant acquisitions, with others in the near- and medium-term pipeline. Although Data443's ClassiDocs is pre-revenue at this early stage, management expects that its overall M&A pipeline will produce a combined annual revenue run-rate of roughly $8-$10 million. Moreover, the terms of the acquisitions are designed to both protect the company's downside and provide incentive to the acquired management teams to help grow the combined business.

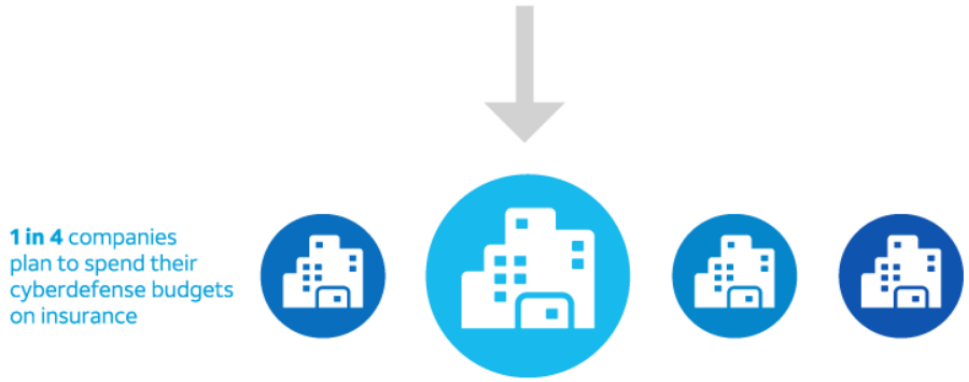
The company is pursuing a roll-up strategy within the cyber-security space and has announced several completed or pending transactions. Currently, the company's product offerings include ARALOC and ClassicDocs, among other products. In addition to these, the company is launching a personal privacy platform for the medical cannabis industry and, according to management, has been working with a major player within the sector. Citing The Hemp Business Journal, Forbes notes that the CBD market is estimated to reach $2.1 billion in consumer sales by 2020. By comparison, the total CBD market was $202 million in 2015, according to Forbes. Overall, the legal global marijuana market is expected to reach $146.4 billion by the end of 2025, according to a Grand View Research report, driven by regulatory liberalization in a growing number of markets and rising use of marijuana for medical applications, including treatment of cancer, mental disorders, multiple sclerosis and chronic pain, among others. The report notes that "the number of conditions treated using medical marijuana is growing rapidly, as new patients are added to the market, the demand for medical marijuana is expected to increase multiple folds."

The company was formed by CEO Jason Remillard in 2017 and has accomplished much in a short time. The CEO has more than 25 years of experience in the IT field, developing technology solutions for both start-ups and Fortune 500 companies. His prior experience includes serving as VP of Security Architecture at Deutsche Bank, where he was responsible for Big Data, Security Architecture, Engineering and Analytics and as a product manager with Dell Software spearheading the development of the Enterprise Identity and Access Management portfolio. He has successfully operated several software security startups with previous exits.

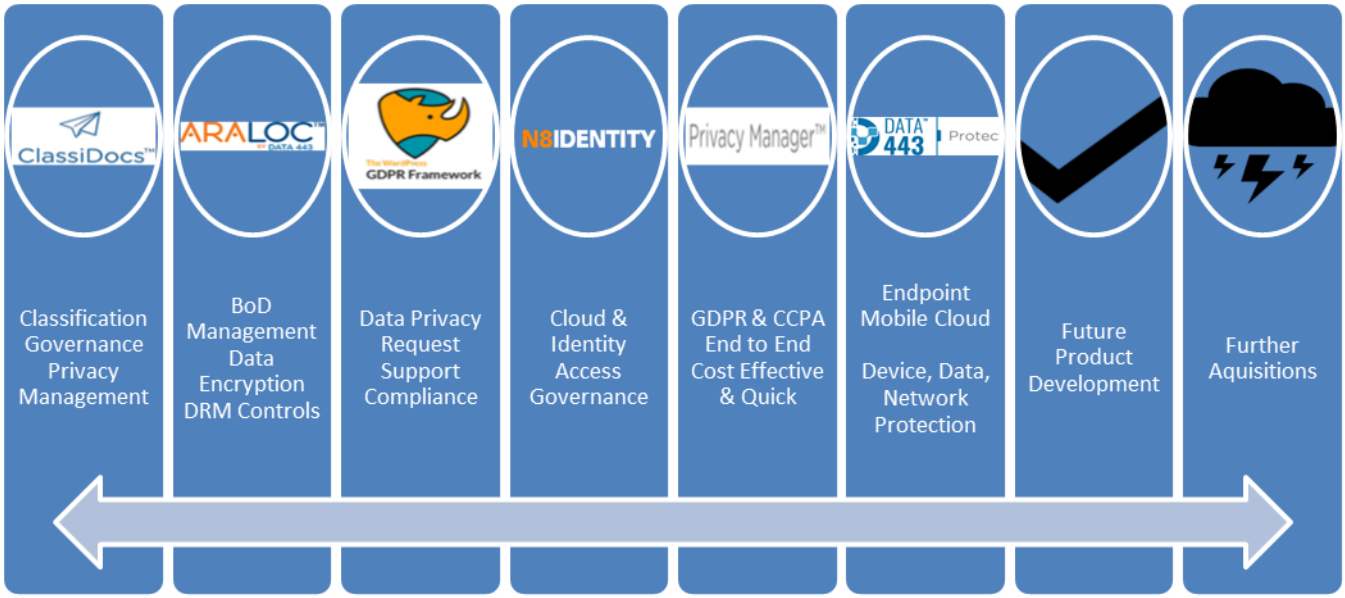
MULTI-SOLUTION IT COMPANY

Towards the goal of becoming a multi-solution IT company, Data443 acquired ClassiDocs, a data classification, governance, and GDPR-compliance company that Data443's CEO had founded. In the 2018 Cybersecurity Excellence awards, ClassiDocs was awarded honors for GDPR compliance, data classification and governance. GDPR regulation mandates that companies protect the personal data and privacy of European citizens for transactions that occur within EU member countries. Companies that do business in Europe will need to comply with GDPR, which could create significant opportunities for Data443. Another example of regulation that could drive Data443's business is the soon-to-be effective CCPA, which illustrates many of the requirements placed on businesses throughout the US. Data443 believes that it is positioned to leverage this market opportunity with a broad array of products and services, according to management.

The company believes that the need for external cyber-security services is sizable and growing. According to AT&T Cybersecurity Insights, "Small businesses don't usually have access to the resources they need to create and maintain a cohesive cybersecurity strategy. Instead, they should rely on a provider that can plan and roll out the strategy affordably and efficiently."



Source: AT&T 2017 Global State of Cybersecurity, Mind the Gap: Cybersecurity's Big Disconnect.



ClassiDocs provides solutions for GDPR compliance, as noted, including for reporting and technical control capabilities. It provides Data Subject Access Requests (DSAR) management, enabling clients to respond to DSAR demands. According to the company, failure to comply with DSARs can lead to penalties of up to 4% of global net sales or €20 million. ClassiDocs also allows clients to maintain an accurate and current data inventory across over130 database types and, importantly, leading cloud SaaS services like Salesforce, QuickBooks, Microsoft Dynamic, Facebook and others, according to management. There are a myriad small companies that cannot maintain internal IT controls and need to rely on third-party solutions such as those provided by Data443.

Recently, the company acquired the WordPress GDPR Framework with more than 10,000 active installations and more than 100,000 downloads, with downloads continuing to grow. This is an open-source plugin that addresses the EU's GDPR compliance requirements. WordPress is "the world's leading web hosting and content management ecosystem," according to management, powering more than 50% of the global content management and e-commerce sites. Approximately 500 new WordPress sites are constructed each day, according to the company. The company views this relationship as a crucial step in its ability to reach smaller companies that are subject to data privacy laws but do not have significant internal compliance resources. This is complementary to the solutions that ClassiDocs provide. The company has already released an upgrade to its WordPress GDPR capability and intends to leverage the large network of WordPress users to provide new offerings.

The company has a growing internal sales team. However, to further assist with the expansion of its footprint and sales efforts, the company has also focused on its partner and distributor channel. Covering over 40 countries at this point, with nearly 300 sales and technology representatives, management believes the company is well-positioned to offer a growing number of products and services through this expanding channel. The company is also working on several major global distribution agreements with large cloud services and reseller organizations, combined with new partnerships in the US and Asia regions, to enhance the heavy concentration in the EU and South America.

Importantly, the company continues to execute its stated goals by closing the ARALOC transaction, which brings what management describes as a highly secure digital content distribution and communication platform with well-recognized and long-term renewing customers. According to management, ARALOC generates existing recurring monthly revenues, with operating income of roughly $500,000 in 2017. Moreover, while focusing on integrating and growing the companies it has acquired, management believes that combining cyber technologies could yield synergistic cross-promotional opportunities to a broad and growing customer base.

To further assist with the execution of its strategy, the company engaged law firm Whiteford, Taylor & Preston for advice on potential business transactions, consulting and reflecting its expertise. Whiteford, Taylor & Preston is one of the largest law firms in Maryland, with more than 170 lawyers. Moreover, primarily based on its acquisitions, the company is gaining new and different advisors. The company's goal is to retail the services of the selling vendor – often including its CEO – at least on a consultancy basis.

Blockchain

Working initially with the Ripple Framework the company intends to be integral to blockchains, which is a decentralized and encrypted ledger that offers a secure method to store records and other information in a way that can be verified. Each block in the blockchain contains a hash – a digital fingerprint or unique identifier – and timestamped batches of prior transactions, as well as the hash of the previous block. The hash connects the blocks and prevents any block from being altered or inserted between two existing blocks. Each new block reinforces the verification of the previous block and therefore the overall blockchain. This characteristic is also believed to make it transparent if an attempted hacking tries to alter any part of the blockchain. According to IBM, blockchain architecture gives participants the ability to share a ledger that is updated, through peer-to-peer replication, every time a transaction occurs. Peer-to-peer replication means that each participant (node) in the network acts as both a publisher and a subscriber. Each node can receive or send transactions to other nodes, and the data is synchronized across the network as it is transferred.

Blockchain is viewed as a secure option for financial transactions that also provides flexibility and scalability. Blockchain technology also has broader applications beyond cryptocurrencies. Among other features, it can be used to process transactions, manage medical records, and verify and confirm proof of ownership. Blockchain can also record and track intangible assets such as intellectual property, patents, copyrights, or branding. In discussing blockchain, an article in the Harvard Business Review notes that, "Contracts, transactions, and the records of them are among the defining structures in our economic, legal, and political systems. They protect assets and set organizational boundaries…. With blockchain, we can imagine a world in which contracts are embedded in digital code and stored in transparent, shared databases, where they are protected from deletion, tampering, and revision."

"Blockchain is a public ledger technology that uses digital signatures and cryptographic hashing to provide a record of secure transactions that cannot be altered," according to TechRepublic. Specifically, blockchain is thought to be safe, immutable and transparent because no single person or party within the chain can alter the record without the agreement of all parties in the chain. Leading companies such as IBM and Mastercard have already adopted blockchain technology to protect transactions and American Express has launched instant blockchain payments for cross-border business-to-business payments. The blockchain market is forecast to grow to $7.683 billion by 2022, up from $241.9 million in 2016, according to a December 2017 study by market research firm Markets and Markets, a compound annual growth rate of 79.6%, reflecting rising demand for blockchain and valuation of cryptocurrencies. Increased regulatory oversight of cryptocurrency could drive demand for cryptocurrency accounting software and services.

Competition

There has been ongoing consolidation within the sector in which Data443 operates. For instance, funds manager Blackstone purchased a majority stake in data classification and categorization solutions provider Titus in December 2017, which Blackstone called "a critical component of data-centric protection."

Data443 segments its product lines based on historic industry segments, as illustrated in the figure below. Importantly, management believes that the breadth of its various product and services portfolio

and ability to cross-promote and cross-sell to its customer base creates a meaningful competitive advantage for Data443.

The Competition – ClassiDocs

Name	Ticker	Market Cap
Varonis	VRNS	$1.7 Billion
Titus	N/A	Blackstone Acquired in 2017
Boldon James	N/A	QinetiQ plc Acquired in 2017
Spirion	N/A	PE Acquisition 2018
Watchful Software	N/A	Symantec Acquired in 2018
SecureIslands	N/A	MSFT Acquired in 2016

The Competition – GDPR/CCPA/LGPD

Name	Ticker	Market Cap
OneTrust	N/A	VC Financed
BigId	N/A	Raised $30m Series B in June 2018

The Competition - ARALOC

Name	Ticker	Market Cap
Dilligent	N/A	Taken Pvt ('16) for $624M
NASDAQ Boardvantage	NASD	$200M purchase by NASDAQ
BoardPaq	N/A	Unknown

The Competition – N8 Identity

Name	Ticker	Market Cap
Okta, Inc.	OKTA	$5.9 Billion
SailPoint Technologies	SAIL	$2.1 Billion

Source: Company reports

CYBERSECURITY

According to a recent study conducted by research firm Ponemon Institute, *2017 Cost of a Data Breach Study*, many cybersecurity breaches are the result of intentional or negligent employee behavior. In fact, roughly two-thirds of the companies surveyed in earlier Ponemon research believe that employees are

the “weakest link” in the fight to maintain cybersecurity. Citing this study, Experian notes that “employees and other insiders inadvertently exposing sensitive or confidential information” can lead directly to data breaches. According to the earlier Ponemon study, data breaches cost U.S. companies $204 per compromised customer in 2009. While the average global cost per each stolen record appears to have decreased to $141 in 2017, partially the result of a strong U.S. dollar and because the cost of a data breach varies from one nation to another with highest costs in the U.S. and Canada, according to the 2017 updated study, “despite the decline in the overall cost, companies in this year’s study are having larger breaches. The average size of the data breaches in this research increased 1.8 percent.”

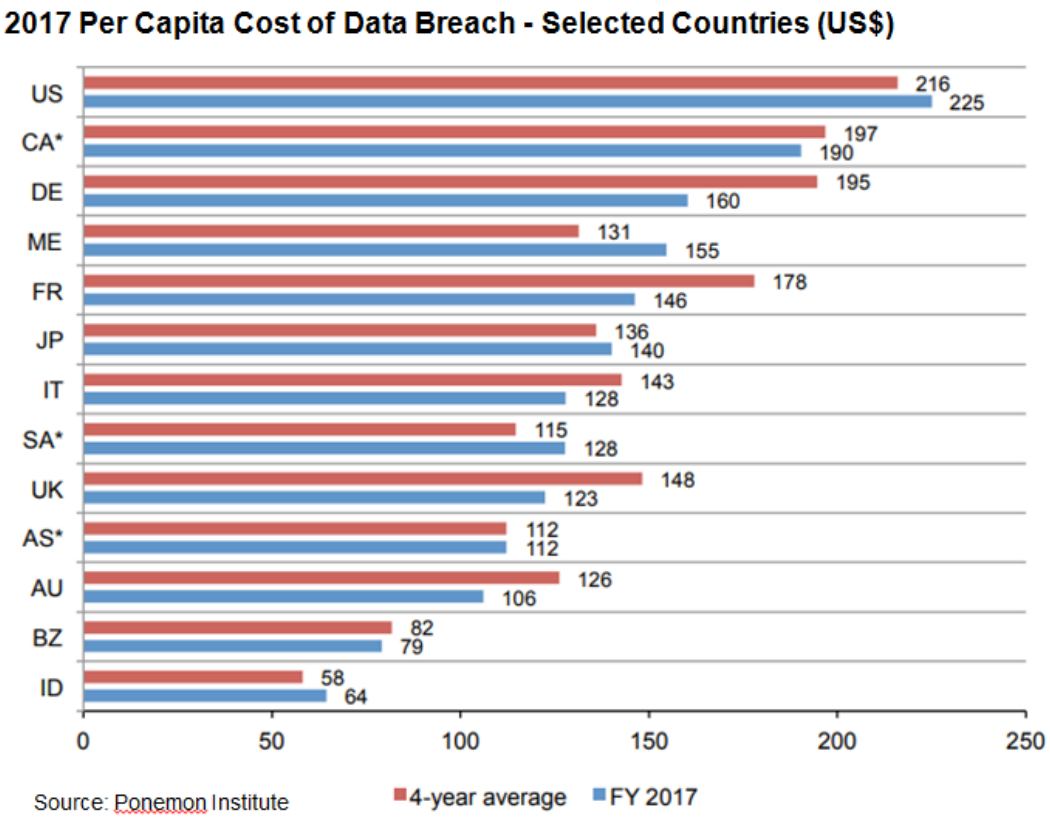
The average cost of a data breach also varies from one industry to another. For example, within the healthcare industry, organizations experience an average cost of $380 per individual data breach (see below) versus the above-noted overall $141.

Average Data Breach Cost in Certain Industries

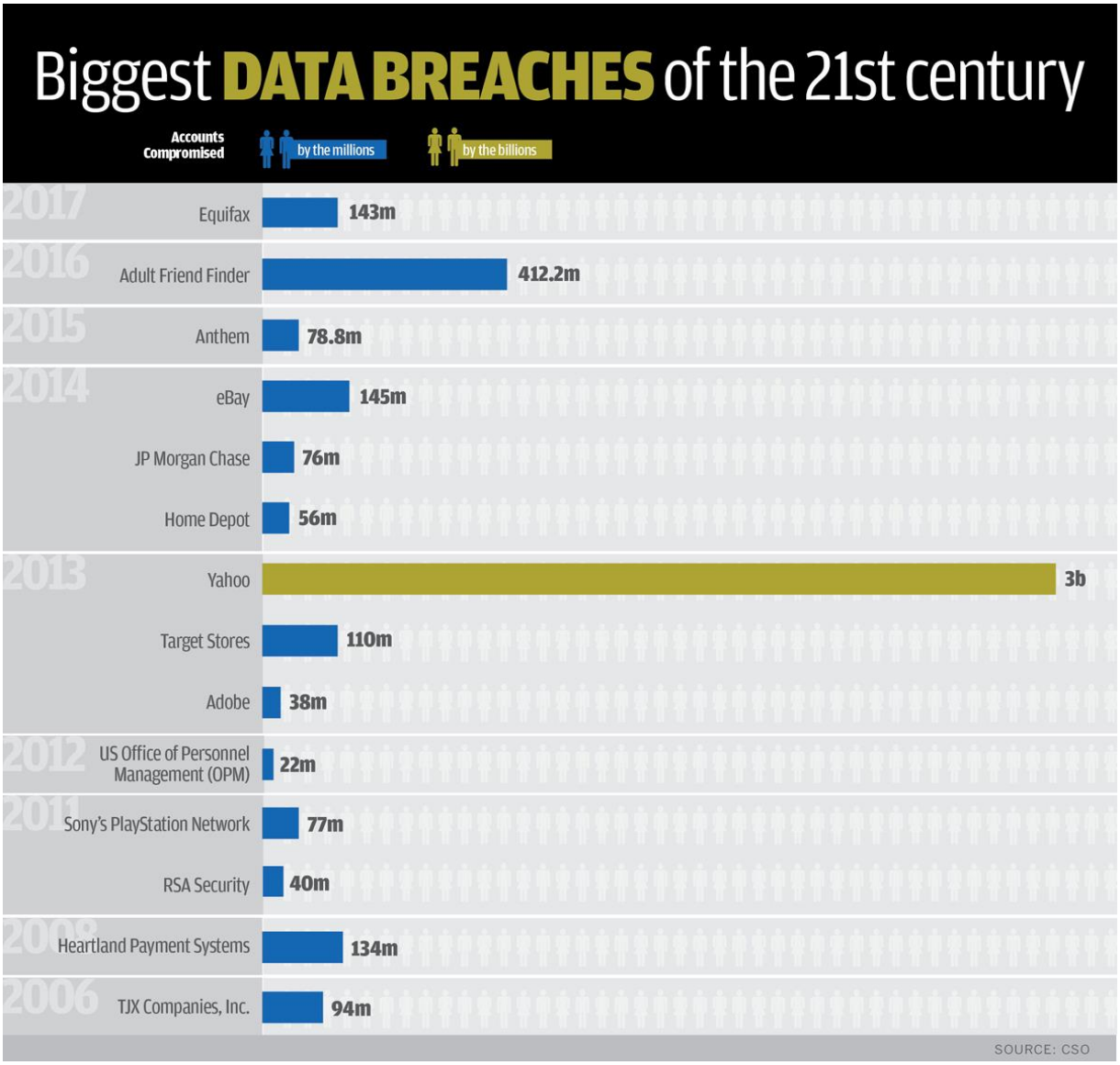
	Avg cost / record
Healthcare	$380
Financial services	$245
Media	$119
Research	$101
Public sector	$71

Source: Ponemon Institute

All in all, the study notes a multitude of problems that follow in the wake of a data breach, including the loss of customers, cost and inconvenience of notifying customers about the compromise of their sensitive data, and the time to contain and address the security breach. Importantly, “The inability to retain customers has serious financial consequences,” according to Ponemon Institute.



As enterprise and individuals rely increasingly on digital data, the opportunities for security breaches multiply. There are myriad examples of high-profile cybersecurity breaches, such as the Equifax breach that impacted an estimated upwards of 143 million consumers, as illustrated in the figure below. Sensitive data that was stolen included Social Security numbers and driver's license numbers, among other metrics.



Source: CSO

In addition, eBay, JP Morgan Chase and Yahoo have all experienced data breaches that have impacted billions of consumers. According to the 2017 Ponemon Cost of Data Breach study, the average cost of a data breach globally is $3.62 million. A 2017 Verizon Data Breach Investigations report concluded that 75% of breaches were perpetrated by outsiders, with 62% involving hacking. The Verizon report further found that 81% of the breaches leveraged stolen or weak passwords and 51% included malware. While some 24% of the companies breached were in the financial services sector, a sizable 61% of the companies were businesses that employ fewer than 1,000 people – in other words many were mid-size to small companies.

Ensuring online security is therefore crucial for enterprise, as well as personal users, particularly with the rising use of mobile technology. Mobile technology penetration has grown dramatically over the past decade. Adoption rates of mobile devices such as smartphones and tablets have tracked significantly ahead of that of other technology platforms such as PCs or broadband. Smartphones took only eight years to reach 20+% penetration globally and, according to comScore, exceeded 80% of the U.S. mobile subscriber market by 2016.

With increased mobile penetration, there has also been a growing trend towards BYOD (bring your own device), whereby employees bring their personal devices into the work environment for business and

personal applications. Mobile apps have become an important way that users conduct commerce and access content both personally and professionally. The United Nations information and communication technologies agency, ITU, notes that over the last five years, mobile-broadband subscriptions have grown more than 20% per annum and reached an estimated 4.3 billion worldwide by 2017.

Control over companies' wired networks has also become much more difficult in a BYOD work environment and with the many technology changes, creating challenges to maintain the benefits of mobility while concurrently monitoring security needs. In turn, this has driven demand for security to monitor mobile devices. At the same time, the volume of data has increased dramatically as individuals, corporations and government organizations access content from multiple connected devices. IDC forecasts that by 2020 the volume of digital information will have grown 300-fold when compared to 2005, boosting the need for storage and content management solutions.

The dramatic increase in content and data being transmitted over the internet and stored in the cloud is also placing burdens on enterprises and increasing concerns about security. Moreover, as more data storage and IP traffic moves to the cloud, cloud-based business analytics and business intelligence is also expected to grow, increasing the need for greater security, we believe. Gartner expects strong demand for all types of cloud services offerings. Market research firm Markets and Markets predicts that the cloud analytics market could reach $16.52 billion this year, which represents a 25.8% 2013-2018 CAGR. Overall, these changes have also made it that much more difficult to ensure internet privacy.

Reflecting strong satisfaction with the company's products and services, Data443 recently announced a contract renewal for its Araloc™ Board Management product. The company has not disclosed the customer's name, but has noted that it "manages billions of dollars in assets."

Data443 also signed a LOI to purchase N8 Identity, which had trailing 12-month revenues of $2.6 million and EBIT of roughly $700,000, for $3.2 million in cash and restricted stock. N8 Identity was established in 2000 and currently manages more than one million employee and customer identities via its Azure platform. According to management, N8's customer base includes "some of the world's largest organizations in the financial, insurance, telecommunications, government, retail, utilities, and manufacturing sectors."

In order to drive expansion in the rapidly growing Latin American market, Data443 has partnered with leading South American-based value-added reseller RAN Security, which has operations throughout South America in Argentina, Chile, Peru, Paraguay, Colombia, and Mexico. According to company documents, RAN Security delivers IT security solutions and professional management services to more than 500 companies in Latin America.

MARKET OPPORTUNITY

According to IDC (International Data Corporation) predictions, "by 2025 the global datasphere – the amount of data created in the world – will grow to 163 zettabytes (that is a trillion gigabytes). That's ten times the 16.1ZB of data generated in 2016." IDC estimates that almost one fifth of that data will be critical to our daily lives and almost one tenth will be hypercritical.

The growth in the amount of critical data that needs to be stored, shared and used will drive demand for maintaining the privacy of sensitive information. At the same time, it will lead corporate entities to become more and more vulnerable to data breaches.

Industry insiders believe that there is substantially more sensitive data being produced and stored currently than the amount of sensitive data that is being secured. Importantly, this gap is expected to widen. In fact, IDC estimates that nearly 90% of all data created in the global datasphere will require some level of security by 2025, but not even half will be secured. That, in turn, creates strong

opportunities for companies such as Data443, management believes, as public and private entities require cybersecurity technology to protect and manage a growing amount of data.

Market research firm Gartner forecasts that global spending on information security technologies and services will exceed $114 billion this year, representing a 12.4% advance compared to 2017. Gartner forecasts that the market will reach $124 billion in 2019, an 8.7% year-over-year increase. Gartner estimates that privacy concerns about sensitive data will fuel 10% or more of market demand for security services through 2019, impacting several segments of the economy.

MANAGEMENT

CEO and Founder

As noted, founder and CEO Jason Remillard has more than 25 years of experience in the IT field, developing technology solutions for both start-ups and Fortune 500 companies. His prior experience includes serving as VP of Security Architecture at Deutsche Bank, where he was responsible for Big Data, Security Architecture, Engineering and Analytics and as a product manager with Dell Software spearheading the development of the Enterprise Identity and Access Management portfolio. He has successfully operated several software security startups with previous exits.

Head of Sales

Robert Mercer has experience as a consultant at several rapidly growing SaaS companies, including as Chief Sales and Marketing Officer at Sydney, Australia-based 3P Learning and Senior Vice President of Global Sales and Services at Arlington, Virginia-based Rosetta Stone.

INSIDE OWNERSHIP

Not surprisingly, Data443 shares are closely held. In exchange for contributing the assets of Data443, which was owned by its founder Jason Remillard, he is expected to receive 100 million LDSR shares plus an additional 100 million earn-out shares if Data443 has a minimum of $1.0 million in revenue by that time. Thus, he will be the company's largest shareholder, with roughly 22.62% of LDSR outstanding common shares, once the shares of common stock owed to him are transferred. Jason Remillard also holds all 1.0 million shares of LDSR preferred stock. No shares have been transferred or sold by the CEO to-date, according to management.

FINANCIAL OVERVIEW

As of the third quarter 2018, Data443 has recorded no revenue to-date. However, given the combined revenue of the company's that Data443 has acquired, including Araloc and N8, the annual revenue run-rate is roughly $3.2 million, according to management. Moreover, the company has other potential acquisitions in the pipeline and a high degree of confidence that these transactions will close in 2019.

2018 has been a transformational year, in our view, as the company has completed two significant acquisitions, with others in the near- and medium-term pipeline. In fact, the company expects to add another roughly $3.0+ million through M&A transactions that management has identified at this point. Overall, management expects that its overall M&A pipeline will produce an aggregate annual revenue

run-rate of roughly $8 million to $10 million, with a pro forma run-rate of roughly $6.8 million expected by the end of 2019.

Moreover, management believes that additional acquisitions plus the ability to cross-market products and services are also likely to yield growth, as is the growing need globally for privacy compliance solutions, as mirrored by regulations implemented in the EU and state of California (GDPR and CCPA, respectively).

VALUATION

Management believes that the company offers investors operating transparency, including its practice of conducting quarterly conference calls to keep investors updated. During 2018, Data443 implemented a strategic debt restructuring that it completed in October 2018 and which management believes makes the company well-positioned financially. The company has also completed a financial audit and filed amended financial statements and expects, we believe, to file on a quarterly basis going forward. At the same time, Data443 has hired Hughes Pittman & Gupton, LLP (HPG), a professional CPA firm and IR firm Porter, LeVay & Rose to communicate the company's prospects to the investment community.

We believe Data443 shares represent an option on management's ability to execute its strategy in a cost effective way and capitalize on the expected growth of demand for cyber security and data protection and compliance products and services. At this early stage of the company's development, it is difficult to compare Data443 to more established companies, in our view. Specifically, we would expect Data443 to have a higher growth rate in these early years *in success* than many other players with longer histories. Thus, more established companies such as those in the figure below likely would not be *direct* benchmarks, although they provide some guidance as to valuation metrics, in our view.

As noted, management believes the annual revenue run-rate is expected to grow as the Data443 marketing and sales effort – with heavy social media emphasis and engagement – ramps. From M&A transactions alone, the company expects to achieve a pro forma run-rate of roughly $6.8 million by the end of 2019, with a pro forma EBIT run-rate of roughly $3.5 million. Our 2019 projections encompass a range, with the potential that the revenue ramp slips and relative expenses offset the expected EBIT at the low end of the projected range. If Data443 can achieve the $6.8 million annual revenue run-rate by the end of 2019 and obtain the 5.2x multiple of forward revenue that Varonis enjoys, it implies a market capitalization of roughly $30 million.

Moreover, 2018E and 2019E revenue do not fully reflect Data443's medium-term potential, in our view, as the company will have just recently launched the its product and services portfolio. If Data443 can begin to generate revenue in the fourth quarter of 2018 and shows rising revenue throughout 2019, we would anticipate share price appreciation.

Data443 Peer Analysis

Company	Ticker	12/7/2018 Price	Revenue ($M) 2017A	2018E	2019E	EPS 2017A	2018E	2019E
Avalara, Inc.	AVLR	29.82	213	266	318	(0.96)	(0.23)	(0.17)
Okta, Inc.**	OKTA	62.38	160	na	na	(1.16)	-	-
SailPoint Technologies	SAIL	23.95	186	na	na	(0.33)	na	na
Varonis Systems*	VRNS	56.60	217	270	318	(0.47)	(0.08)	0.05
Data443	LDSR	0.00	-	-	0.4	$0.00	$0.00	$0.00

	52-Week High	Low	Mkt Cap ($M)	Price / Revenue 2017A	2018E	2019E	P/E 2017A	2018E	2019E
Avalara, Inc.	59.40	28.09	65,510	307.3x	246.4x	205.9x	-30.9x	na	na
Okta, Inc.**	75.49	24.93	6,151	38.4x	na	na	-53.8x	na	na
SailPoint Technologies	34.60	14.86	2,103	11.3x	na	na	-73.3x	na	na
Varonis Systems*	83.10	47.00	1,667	7.7x	6.2x	5.2x	-121.7x	na	na
Data443	0.03	-	9	na	na	22.2x	na	na	na

FYs ends in *June and **January
Source: Company reports, Yahoo Finance, Thomson Reuters, Zacks

We believe the risk / reward ratio could be attractive for investors who want exposure to the sector and have a higher than average risk tolerance and longer time horizon. Moreover, there are only a few ways for investors to gain exposure to the cyber security and data protection and compliance space and we believe Data443 represents one of the few pure plays. In the near-term, however, we would not be surprised to see potential investors remain on the sidelines until there is greater evidence that the company's strategy is gaining traction.

RECENT NEWS

Data443 announced that it had partnered with Cortelco Systems Puerto Rico, Inc. on December 7, 2018 with a new reseller agreement.

On December 6, 2018, the company's ClassicDocs subsidiary launched an online trial and ordering engine.

On December 4, 2018, the company's Araloc subsidiary launched an online trial and ordering engine.

Data443 announced on December 3, 2018 that it had partnered with an established security VAR, Business Partner Solutions, in the U.S.

On November 19, 2018, Data443 announced that Araloc had renewed a contract with a major existing customer.

On November 15, 2018, the company completed the audit for fiscal 2016 and fiscal 2017.

On November 8, 2018, Data443 signed a LOI to acquire N8.

Data443 signed an agreement with a Latin American reseller on November 7, 2018.

Data443 completed its third acquisition in October 2018.

RISKS

We believe risks include those outlined below, among others.

- The biggest risk, in our view, is that the Data443 achieves traction more slowly than the company expects, which leads to slower than anticipated revenue ramp.
- The company is under-capitalized and could incur unanticipated costs associated with its roll-up strategy and for marketing to promote new products and services that it expects to launch.
- Additional M&A transactions that the company anticipates might take longer than expected to close or might not close at all.
- Given the expected expansion of the cyber security solutions market reflecting growing need for data protection and cyber security, competition could increase.

CONCLUSION

If Data443 can execute on its ambitious growth strategy, the company has a sizable market opportunity, as there is growing need and demand for cybersecurity services and solutions. That 61% of the companies that experienced data breaches in 2017 employ fewer than 1,000 people underscores, we believe, the opportunity that a start-up such as Data443 might have in success. The company's founder and CEO has significant IT experience, which the company likely can leverage to promote and grow its technology products. As noted earlier, there are many small and mid-sized companies that cannot maintain internal IT controls and need to rely on third-party solutions such as those that Data443 provides.

The company has accomplished a lot in a short period of time, but likely is not on the radar screen yet for most investors. If Data443 can deliver on the revenue run rate of $8 million to $10 million and continue to grow the company from that base, we would expect more investors to notice.

PROJECTED INCOME STATEMENT

Data443 Income Statement & Projections ($)

	2016	2017	3Q18	9-mos-2018	4Q18E	2018E	2019E Range estimated	
Revenue	-	-	-	-	400,000	400,000	1,600,000	6,800,000
Research & development			37,262	104,732	44,714	149,446	164,391	164,391
General & administrative expenses	6,808	13,227	514,058	1,714,372	616,870	2,331,242	2,914,052	2,914,052
Sales and marketing expenses	-	1,000	11,518	34,947	13,822	48,769	53,645	53,645
Total operating expenses	6,808	14,227	562,838	1,854,051	675,406	2,529,457	3,132,089	3,132,089
Profit /(loss) from operations	(6,808)	(14,227)	(562,838)	(1,854,051)	(275,406)	(2,129,457)	(1,532,089)	3,667,912
Interest expense			(13,408)	(22,115)	(16,090)	(38,205)	(15,282)	(15,282)
Other income		19,140	-	10,462		10,462	4,185	4,185
Chg in fair value derivative liability	-	(276,100)	3,396,150	(2,966,450)	100,000	(2,866,450)	(1,146,580)	(1,146,580)
Total other expense	-	(256,960)	3,382,742	(2,978,103)	83,910	(2,894,193)	(1,157,677)	(1,157,677)
Net loss	(6,808)	(271,187)	2,819,904	(4,832,154)	(191,495)	(5,023,649)	(2,689,766)	2,510,234
LPS	($0.00)	($0.00)	$0.00	($0.00)	($0.00)	($0.00)	($0.00)	$0.00
FD avg shrs out (000s)	3,947,677	3,947,677	5,700,729	4,161,876	4,650,000	5,175,364	4,912,682	4,912,682

Source: Company reports and Zacks estimates

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BALANCE SHEET AND CASH FLOW STATEMENT

Data443 Balance Sheet ($)

	2016	2017	Sep-18
Cash	-	-	17,555
Prepaid expenses & other	-	-	2,662
Total current assets	-	-	20,217
Intellectual property	-	-	46,800
Deposits	-	-	50,000
Total long-term assets	-	-	96,800
Total assets	-	-	117,017
Accounts payable	65,740	52,837	403,529
Accrued consulting expense	-	-	78,500
Convertible notes payable	125,000	125,000	100,000
Derivative liability	19,700	295,800	3,088,000
Due to related party	-	7,990	315,409
Total current liabilities	210,440	481,627	3,985,438
Convertible notes payable	-	-	829,680
Derivative liability	-	-	174,250
Total long-term liabilities	-	-	1,003,930
Total liabilities	210,440	481,627	4,989,368
Total stockholders' deficit	(210,440)	(481,627)	(4,872,351)
Total liabilities & stockholders' deficit	-	-	117,017

September 2018 is not pro forma for the recent restructuring.
Source: Company reports

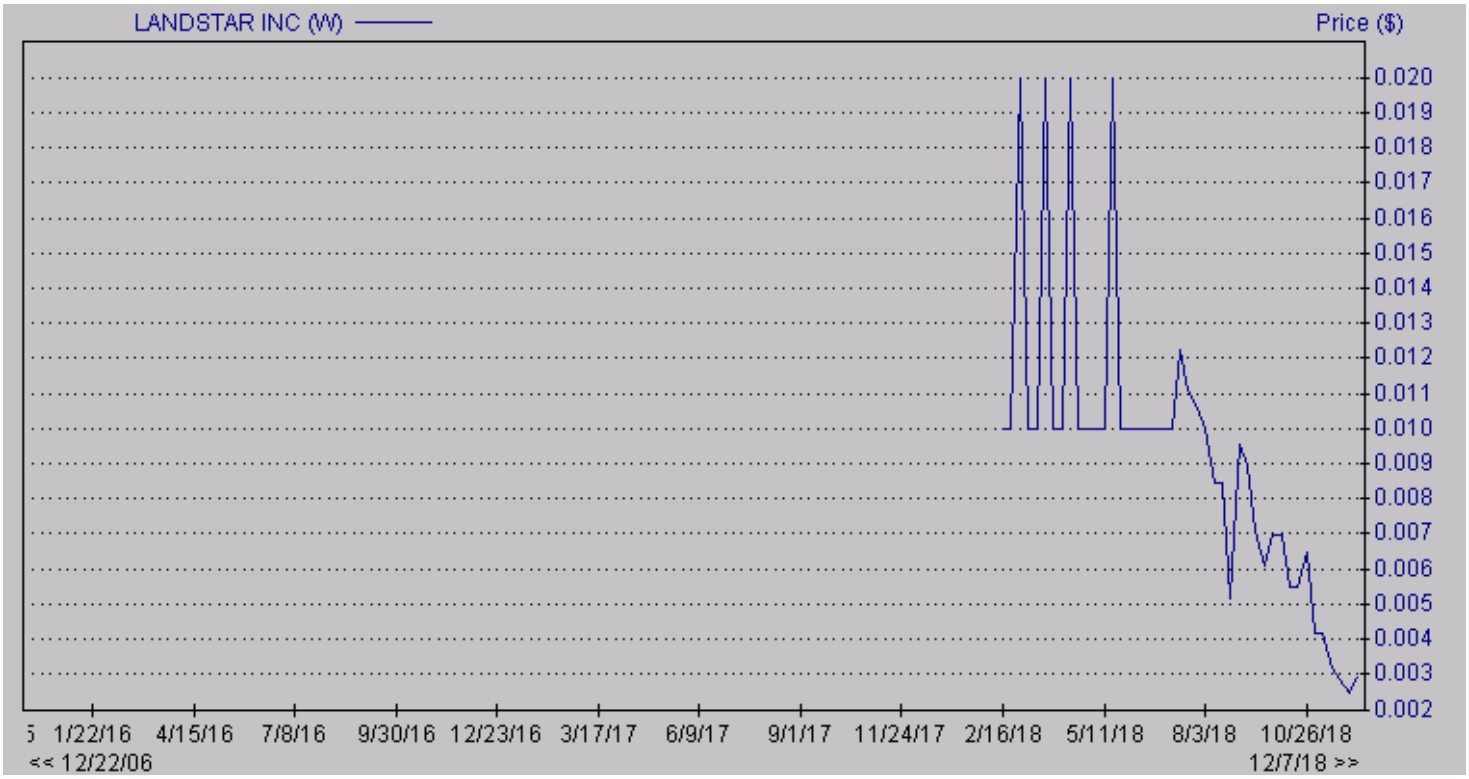
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Data443 Statement of Cash Flow ($)

	2016	2017	Sep-18
Cash flows from operating activities			
Net loss	(6,808)	(271,187)	(4,832,154)
Chg in fair value derivative liability	-	276,100	2,966,450
Consulting fees via shares			407,322
Share-based compensation expense			469,950
Changes in working capital	6,808	(4,913)	243,878
Cash used in operating activities	-	-	(744,554)
Cash from Myriad Software acquisition			4,478
Deposit on Modevity acquisition	-	-	(50,000)
Cash from investments	-	-	(45,522)
Proceeds from convertible notes issuance			829,680
Distributions to shareholders	-	-	(22,049)
Cash from financings	-	-	807,631
Net change in cash	-	-	17,555

Source: Company reports

HISTORICAL STOCK PRICE



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