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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: Benefits of New DataExpress Acquisition

Data443 recently acquired DataExpress. Management believes the deal will enable key new business segments, including the financial services and retail sectors.

OUTLOOK

The DataExpress acquisition, which is accretive, is another example of Data443 moving its growth strategy forward. DataExpress generates more than $1.4 million in revenue and more than $0.8 million of adjusted cash flows annually.

Current Price (9/26/19)	$0.00
Valuation	$0.01

SUMMARY DATA

52-Week High	**$0.03**
52-Week Low	**$0.00**
One-Year Return (%)	**-86.15**
Beta	**-10.46**
Average Daily Volume (sh)	**11,949,987**
Shares Outstanding (mil)	**7,367**
Market Capitalization ($mil)	**$7**
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	0.0A	0.0A
2019	0.1A	0.4A	0.5E	0.6E	1.6E

Per Share Data

	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	-0.00A	-0.00A
2019	-0.00A	-0.00A	-0.00E	-0.00E	-0.00E

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

Disclosures begin on page 9.

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KEY POINTS

- Data443 recently completed the acquisition of DataExpress™, a company that management describes as having a long-term, proven track record of innovation and success that will strengthen Data443's core offerings and help expand its customer base.

- The company also continues to launch new products and services through organic development or acquisitions and partnerships.

- For instance, in February 2019, the company signed a two-year exclusive partnership agreement with ArcMail, which Data443 expects to contribute revenue of about $2 million over the next year. Since the partnership started, ArcMail has won two significant contract wins or renewals. On April 1, 2019, Data443 announced that ArcMail had renewed a contract for a growing US-based hospital and clinics network and on April 15, 2019, Data443 closed its first deal for hybrid cloud ArcMail archiving services.

- Data443 Hybrid Cloud ArcMail Archiving Services is the company's latest service offering. The company believes that upcoming product enhancements will allow it to provide significant privacy compliance services to its clients. Data443 intends to offer all customers who renew access to this program.

- To support its acquisition strategy, Data443 also intends to implement a reverse stock split to make it easier for the company to access the capital markets, pending regulatory approval.

- The company recently completed the refinancing of existing debt at extended terms and also obtained agreements from its note holders not to convert debt-to-equity before March 31, 2020.

- Data443, which is now fully reporting, announced Q2 2019 financial results last month, registering total revenue of $359,000 and net billings of $483,000 compared to no revenue or net billings in the prior year second quarter. Data443 also appointed a new CFO who has over eighteen years of experience.

BENEFITS OF NEW TRANSACTION

Technology company Data443 Risk Mitigation, a wholly owned subsidiary of LandStar, Inc. (OTCPK: LDSR) recently acquired DataExpress™, a company with 28 years of operating history that management describes as having a long-term, proven track record of innovation and success that will strengthen Data443's core offerings and help expand its customer base. Management believes the deal, which closed earlier this month, adds additional options for Data443's existing customer base, including data privacy, sensitive data delivery, storage and transparent data transport services, as well as a hybrid cloud architecture that will enable key new business segments, including the financial services and retail sectors.

The company notes that the acquisition is accretive, as DataExpress™ generates more than $1.4 million in revenue and more than $0.8 million of adjusted cash flows annually. The deal is valued at $2.8 million in cash, note payable, stock and assumed liabilities.

EXPANDING PRODUCT & SERVICES PORTFOLIO

Data443 continues to launch new products and services through organic development or acquisitions and partnerships. Several recent initiatives are aimed at advancing its strategy to develop 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), and data compliance governance capabilities.

For instance, in February 2019, the company signed a two-year exclusive partnership agreement with ArcMail, which offers enterprise information and email archiving solutions. Importantly, Data443 expects this partnership to contribute revenue of about $2 million over the next year. The partnership also expands the product line that Data443 can offer. Thus, the company expects to cross-promote the ArcMail products to its overall customer base and VAR network. In particular, ArcMail's focus has been largely on the domestic market. By comparison, Data443 is developing an extensive International customer and reseller base.

ArcMail was established in 2005 and provides a wide array of solutions that users can customize for their specific needs and which offer secure, compliant email, file, and other electronic data retention, storage, and retrieval solutions. According to Data443, the ArcMail solution features "full-text indexing, granular retention rules, secure and customizable access and permissions, basic and advanced Boolean search, litigation and legal holds, and extensive import and export capabilities" that management notes can accelerate and simplify eDiscovery requests and compliance audits.

Since the partnership with ArcMail started, ArcMail has won two significant contract wins or renewals. On April 1, 2019, Data443 announced that ArcMail had renewed a contract for a growing US-based hospital and clinics network and on April 15, 2019, Data443 closed its first deal for hybrid cloud ArcMail archiving services.

Data443 Hybrid Cloud ArcMail Archiving Services is the company's latest service offering. The Hybrid Cloud Archiving services lets customers leverage Data443's hardware on-site platform to span local and cloud network services, thereby supporting rapid scaling. In turn, this enables large scale searches and a native bridge to the company's Amazon AWS-based Defender offering.

Upcoming New Offering Launch

The company plans a new Hardware platform OEM partnership to offer same day or next business day hardware maintenance and replacement to customers globally. Data443 is marketing this offering to upgrade existing legacy hardware that is deployed and migrate fully or partially to the cloud.

The company believes that upcoming product enhancements will allow it to provide significant privacy compliance services to its clients. Data443 intends to offer all customers who renew access to this program. The company also recently expanded its platform with the addition of new integrations that include support for social media channels such as Twitter, Facebook, Instagram and LinkedIn.

RECENT RESULTS

Data443 reported second quarter 2019 results last month. The company registered total revenue of $359,000 and net billings of $483,000 compared to no revenue or net billings in the prior year second quarter. Deferred revenue came in at $427,000, up from $29,000.

General and administrative expenses of $1,211,000 declined 33% year-over-year. A gain on change in fair value of derivative liability of $2,421,000, associated with convertible notes payable and gross margin of $353,000 contributed to a net gain of $1,194,000 versus a loss of ($1,460,000) in the prior year second quarter.

MOVING THE ACQUISITION STRATEGY FORWARD

The ArcMail partnership is consistent with Data443's goal to provide a broad range of data security offerings, services and solutions. Management expects that its overall M&A pipeline will produce a combined annual revenue run-rate of roughly $8-$10 million.

For instance, the recent DataExpress acquisition adds more than $1.4 million in revenue and more than $0.8 million of adjusted cash flows annually, according to management.

To support its acquisition strategy, Data443 also intends to implement a reverse stock split to make it easier for the company to access the capital markets. Specifically, the company seeks shareholder authorization to implement a reverse 1:750 stock split.

BALANCE SHEET

The company recently completed the refinancing of existing debt at improved terms. As of June 19, 2019, three of the company's note holders had agreed to extend terms as follows:

- Two convertible notes due in July 2019 will be extended to April 15, 2020
- Blue Citi notified the company that it intends to convert its $125,000 note into equity, which eliminates the company's derivative liability
- Subject to Data443 continuing its listing and share reserve obligations
    - No conversions from two holders until April 15, 2020
    - Blue Citi will waive its conversion rights until March 31, 2020, other than the above-noted $125,000 note
- Share reserve requirements were reduced
- In exchange for these modifications, Data443 agreed to pay a 10% premium on its existing note balances to these holders

In the first quarter 2019, the company raised $500,000 by issuing 418,451,781 shares and warrants to acquire 218,413,977 shares. The company also repaid $225,000 on an existing note.

RECENT NEWS

Data443 completed the acquisition of DataExpress on September 17, 2019

Data443 reported second quarter 2019 results on August 14, 2019

On July 18, 2019, the company expanded its multiplatform data privacy and security archiving & ediscovery solutions, with the integration of data privacy and archive sources such as Twitter, Facebook, Instagram and LinkedIn

On June 27, 2019, Data443 announced a new contract with a global NYC-based $1.4 billion market cap NYSE-traded organization following a successful pilot

On June 26, 2019, Data443 announced its intent to acquire DataExpress™

Data443 announced enterprise productivity connector framework for ClassiDocs and ArcMail on June 20, 2019

Data443 announced favorable new terms on its existing debt and also completed the conversions for 2019 on June 20, 2019

Data443 appointed a new Chief Financial Officer, Steven Dawson, who has over eighteen years of experience in corporate finance, treasury, financial planning and analysis, according to the company

Data443 closed a new deal for hybrid cloud managed data archiving service on April 25, 2019

Data443 announced on April 24, 2019, that it would explore joint business opportunities, with cyber defense company IronClad Encryption Partners

Data443 closed its first deal for hybrid cloud ArcMail archiving services, its latest service offering, on April 15, 2019

RISKS

We believe risks include those outlined below, among others.

- Among the biggest risks, in our view, is that the Data443 is under-capitalized and might continue to access the capital markets for funding.
- Another risk is that the company achieves traction more slowly than management expects, which leads to slower than anticipated revenue ramp.
- The company 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.

PROJECTED INCOME STATEMENT

Data443 Income Statement & Projections ($)

	2016	2017	1Q18	3Q18	9-mos-2018	4Q18	2018A	1Q19	2Q19	2019E Range estimated	
Revenue	-	-	-	-	-	28,772	28,772	142,791	358,612	785,351	6,800,000
Cost of goods sold			-					4,781	5,153		
Gross margin			-	-	-			138,010	353,459		
Research & development			24,872	37,262	104,732	(325)	104,407	4,205	-	114,848	114,848
General & administrative expenses	6,808	13,227	275,938	514,058	1,714,372	(646,471)	1,067,901	691,269	1,210,618	1,601,852	1,601,852
Sales and marketing expenses	-	1,000	281,290	11,518	34,947	1,022,770	1,057,717	225,687	155,907	1,163,489	1,163,489
Total operating expenses	6,808	14,227	582,100	562,838	1,854,051	375,974	2,230,025	921,161	1,366,525	2,880,188	2,880,188
Profit /(loss) from operations	(6,808)	(14,227)	(582,100)	(562,838)	(1,854,051)	(347,202)	(2,201,253)	(783,151)	(1,013,066)	(2,094,837)	3,919,812
Interest expense			(1,644)	(13,408)	(22,115)	(260,368)	(282,483)	(299,899)	(363,928)	(1,229,586)	(1,229,586)
Other income		19,140	10,477	-	10,462	49	10,511			4,204	4,204
Loss on impairment of asset						(46,800)	(46,800)				
Gain on contingent liability						700,000	700,000	300,000	150,000	300,000	
Chg in fair value derivative liability	-	(276,100)	(5,631,700)	3,396,150	(2,966,450)	(10,304,858)	(13,271,308)	6,813,153	2,420,622	(5,308,523)	(5,308,523)
Total other expense	-	(256,960)	(5,622,867)	3,382,742	(2,978,103)	(9,911,977)	(12,890,080)	6,813,254	2,206,694	(6,233,905)	(6,233,905)
Net loss	(6,808)	(271,187)	(6,204,967)	2,819,904	(4,832,154)	(10,259,179)	(15,091,333)	6,030,103	1,193,628	(8,328,742)	(2,314,093)
LPS	($0.00)	($0.00)	($0.00)	$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	3,947,677	5,700,729	4,161,876	4,262,019	4,362,163	5,828,054	7,370,381,670	5,918,054	5,918,054

Source: Company reports and Zacks estimates

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BALANCE SHEET

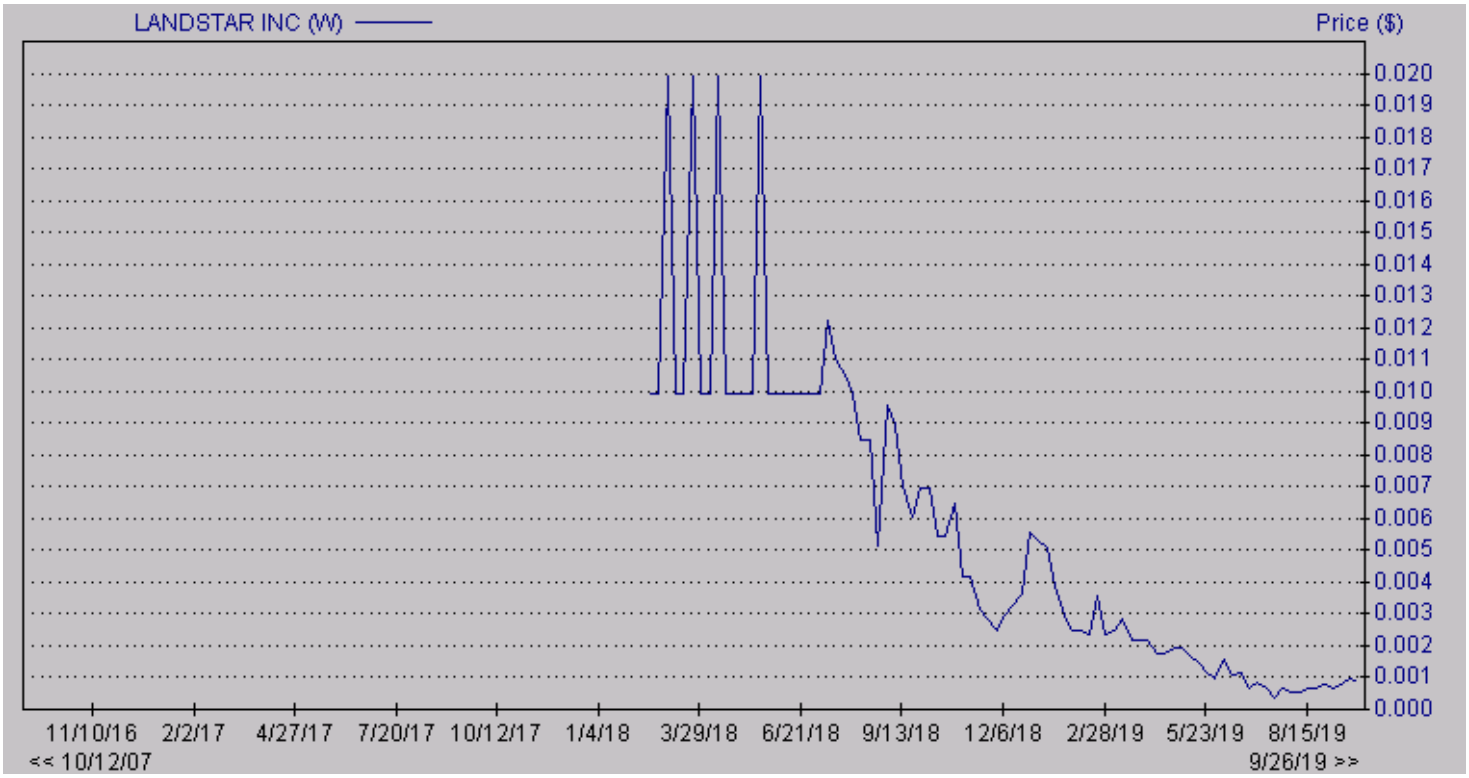
Data443 Balance Sheet ($)

	2016	2017	Sep-18	Dec-18	Mar-19	Jun-19
Cash	-	-	17,555	324,935	15,740	240,757
Accounts receivable				-	301,067	494,740.00
Inventory				-	192	8,301.00
Prepaid expenses & other	-	-	2,662	1,500	3,333	18,097
Total current assets	-	-	20,217	326,435	320,332	761,895
Property and equipment, net					3,825	64697
Operating lease right-of-use assets					450,588	432317
Intellectual property	-	-	46,800	1,788,333	2,980,277	2,646,944
Deposits	-	-	50,000	-	10,000	18,456.00
Total long-term assets	-	-	96,800	1,788,333	3,444,690	3,924,309
Total assets	-	-	117,017	2,114,768	3,765,022	3,924,309
Accounts payable	65,740	52,837	403,529	88,627	215,324	297,591
Payroll liabs	-	-	78,500	87,500	16,525	17,368
Accrued consulting exp					87,500	87,500
Deferred revenues				28,951	302,682	426,818
Interest payable				43,394	69,551	23,986
Note payable				600,000	375,000	150,000
Convertible notes payable	125,000	125,000	100,000	161,227	245,018	1,531,498
Derivative liability	19,700	295,800	3,088,000	12,447,109	4,131,500	
Due to related party	-	7,990	315,409	287,084	295,071	307,854
License fee payable					355,000	405,000
Operating lease liability					40,039	61,012
Finance lease liability					-	22,233
Contingent liability	-	-	-	520,000	220,000	70,000
Total current liabilities	210,440	481,627	3,985,438	14,263,892	6,353,210	3,400,860
Convertible notes payable	-	-	829,680	158,250	323,201	
License fee payable					855,000	775,000
Finance lease liability					438,419	38,303
Operating lease liability						417,046
Derivative liability	-	-	174,250	-	-	
Total long-term liabilities	-	-	1,003,930	158,250	1,616,620	1,230,349
Total liabilities	210,440	481,627	4,989,368	14,422,142	7,969,830	4,631,209
Total stockholders' deficit	(210,440)	(481,627)	(4,872,351)	(12,307,374)	(4,204,808)	(706,900)
Total liabilities & stockholders' deficit	-	-	117,017	2,114,768	3,765,022	3,924,309

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

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HISTORICAL STOCK PRICE



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